



# Top 10 Real **INSIGHTS**

2018 Real Estate Forum

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**AltusGroup**

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For further details on these top trends please visit the Real Estate Forums Portal at [realestateforums.com](http://realestateforums.com)

**1. TODS EXPLODING IN MAJOR CITIES**

Transit Oriented Development proliferates as billions of dollars are being spent on new transit projects in Canada's largest CMAs

Vancouver, Edmonton, Calgary, Toronto, Québec City and Montréal are all in the throws of major LRT projects that are sparking a new wave of Transit Oriented Development.

**Toronto**

In Toronto, the new Eglinton Crosstown LRT is triggering development in a way that did not occur along the Bloor Danforth Line. Traveling east of Yonge Street there are large development projects slated for Leslie, Don Mills, on both sides of Victoria Park – all along the new LRT route. Development applications have been submitted for sites located at Pharmacy and just past Warden. There are 129 developments within 500 metres of the LRT proposing more than 25,000 new condos.

SmartREIT & Centre Court have partnered on the development of Transit City, a 55 storey condo to be located by TTC's new Vaughan Metropolitan Centre subway station. It will be the tallest tower in York Region. The condo will be the first part of the eponymous Transit City development that will include 17 MM SF of mixed used space and a 9 acre park.

Bombardier is vacating its Downsview manufacturing site leaving a redevelopment opportunity of 375 acres. Proximity to the Sheppard West, Downsview and York U subway stations will make it a prime TOD site. Public Sector Pension Investment Board, which bought the property for \$825 MM earlier this year, will be looking to develop the lands over the next 3 to 5 years.

**Montréal**

Montréal's transit agency, the Société de transport de Montréal, is developing a parking lot it owns across from the Frontenac Métro station. The four building complex will include 298 residential units - 60 subsidized apartments for low-income residents, 109 affordable condo units and 129 market-priced condos – as well as office space that the STM will either occupy itself or lease out. Building heights range from 2 to 12 storeys. An underground parking space will have room for 213 cars and 175 bicycle stalls. Construction is set to start next year.

Devimco Immobilier has plans for two TOD real estate projects:

- Construction has started on the 1.2 MM SF, \$1.3 BB mixed-use Solar Uniquartier, which will include a hotel, office and retail space, condos and rental units, along with a public square. Devimco modified its plans to include a direct pedestrian link to the REM station.
- In the planning phase is the \$3 BB project in the Griffintown area of Montréal. It will be serviced by the Bassin Peel station.

**Vancouver**

In Vancouver, developers are offering to help pay for transit stations that are adjacent to their development projects. Onni offered \$20 million to help pay for a new Canada Line station at Cambie & West 57th Avenue. Cressey & Morguard REIT paid approximately the same amount of money for the Lincoln station of the SkyTrain Millennium Line.

In Richmond, there has been a lot of development along the Canada Line since it opened in 2009. By 2040, Richmond anticipates that an additional 30,000 people will be living along its corridor.

Vancouver is also seeing a lot of development activity along its end of the Canada Line specifically along the Cambie Street Corridor where densification has been mandated by the city. The Canada Line's Marine Drive station connects Marine Gateway, a 820,000 SF mixed use project by PCI Developments.

**Edmonton**

The proposed Strathearn Heights redevelopment is estimated to have up to 1,900 residential units on 24 acres with a mix of retail and residential development right beside the new LRT station. It would replace the 500 units of 1950s' walk-up apartments there now. The city rerouted the LRT, putting a station at 88 Street and 95 Avenue, specifically because of this redevelopment potential.

The City of Edmonton is partnering with Brookfield Residential to develop land on the Capital Line by the Commonwealth Station. Edmonton and Brookfield will invest a total of \$14 million to prepare a 7.5 acre parcel of land to sell to condo developers. Partnering with the private sector is a new approach the city has taken on transit-oriented development. Brookfield is in advanced talks with a developer to build on the site, which could support as many as 1,400 units as well as a significant retail component.

Regency Developments is in negotiations with the City for its proposed Holyrood Gardens project. The residential project will be located right at the new Valley Line LRT station on 85th Street.

**Ottawa**

In a JV between Trinity Developments, InterRent REIT and PBC Real Estate Advisors, 900 Albert Street will include the tallest building in the city and one of the tallest buildings east of Toronto on the 3.5 acre site. The plan includes three towers 65, 56 and 27 storeys that will contain 1,241 residential units 115,000 SF of retail space, 365,000 SF of office space. The site is adjacent to the Bayview O-Train Station.

Council approved the Official Plan and zoning amendments for five high-rise buildings next to the Pimisi light-rail-transit station, on the east end of LeBreton Flats. The Claridge Homes multi-phase project will include towers between 25 and 45 storeys. The development will include a variety of apartment sizes, affordable housing and a child-care facility, as well as a range of commercial uses, including restaurants and a grocery store. The fully built development will feature about 1,600 dwellings.

In cities like Vancouver, Chicago, and Portland, property values for homes and commercial real estate within a 15-minute walk of a commuter rail station started to rise around two years before completion. This boost in real estate values isn't just due to the building of the station itself, but also how the neighborhood develops around it.

**2. PROPAGATION OF PROPTech**

Proptech is changing the way space is being rented, bought & managed

Proptech refers to the class of start ups that are creating innovative products or new business models to improve the way real estate is bought, sold, leased, designed, constructed and managed.

JLL estimates that US \$7.8 BB has been raised globally for proptech start ups between 2013 and 2017.

Brookfield has created a fund that will invest \$200 MM to \$300 MM into disruptive real estate technology.

Brookfield Ventures first deal was a \$15 MM investment in BuildingConnected. The company is a networking and preconstruction management site for owners, general contractors and subcontractors.

JLL Spark announced a US\$100 MM global venture fund for proptech investment.

At the beginning of this year, Colliers launched a real estate accelerator with Techstars. The program intends to identify and mentor startups around the globe that are developing industry-disrupting technologies in the property and real estate industry.

Earlier this month, RXR Realty partnered with CBRE Group Inc and Cushman & Wakefield to back MetaProp Ventures II LP, a \$40 MM venture capital fund that will invest in early-stage real estate technology firms alongside more traditional real estate companies. New technologies that the fund is reported to be investing in include augmented reality, 3D printing, co-working and blockchain.

One of the verticals of PropTech is Smart Buildings. Propelled by The Internet of Things IoT (in which a network of physical devices, appliances and software connect and exchange data to support automation) this class of PropTech assists with asset management in a variety of ways:

**Building Maintenance** – Sensors measure and report on equipment usage, changes or any points of failure. Sensors in supply rooms can let facilities managers know when inventory needs to be stocked

**Energy Management** - Energy represents 19% of the total expenditures for the typical building in the US. Smart sensors decrease building operation costs by automatically adjusting lighting, ventilation and temperatures based on the number of occupants and building usage patterns. According to Energy Star, even a 10% decrease in energy use can lead to a 1.5% increase in net operating income.

**Space Utilization** - Smart sensors can detect building occupants' locations, count, and movements with extreme precision. Based on the data, CRE companies can reconfigure building layout or plan for changing demand. They can also help tenants make data-based decisions to adjust office layouts, add or subtract meeting rooms, or implement hotdesking strategies.

Examples of some of the most innovative companies in this industry:

**Oakland startup Comfy**, allows employees to control temperature, lighting, book meeting rooms and desks and submit work requests via an app. It has led to a 20% decrease in HVAC energy use and a 30% potential increase in space utilization. Comfy is used in 25 MM SF of space including in the Oxford owned Cisco Innovation Centre in Toronto. Comfy has just been acquired by Siemens.

**NestReady**, a Canadian company, has raised \$5.7MM from investors that include the National Bank of Canada. It is a platform that leverages property data with location trends to allow homebuyers to explore homes and neighborhoods, with access to on-demand real estate and financing support when they need it.

**Enertiv** uses data to enhance building operations in commercial real estate portfolios, with a focus on office and multifamily buildings. They use a highly granular data set to design tools for making buildings easier to operate, healthier to occupy and increases their profitability.

**Shepherd Network**, which uses predictive analytics and machine learning to monitor connected building systems and alert users to potential losses. The SaaS platform offers anomaly detection and a predictive maintenance service that can be connected to any assets & infrastructure.

Powered by big data, **Bowery** is redefining the commercial appraisal space. Bowery powers its appraisers with a cloud based commercial appraisal writing software and mobile application, allowing them to write full appraisal reports in record time.

**Ravti** tracks, manages, and procures HVAC for large property owners. It has the world's largest organized HVAC database.

**SEEABLE** aims to make 3D & Building Information Models (BIM) asset information visible and accessible to a wider audience, creating easy, non-technical access to key information. The 2D and 3D applications are delivered across multiple platforms.

### 3. INDUSTRIAL VACANCY AT ROCK BOTTOM ACROSS THE COUNTRY

Spurred on by e-commerce, developers cannot keep pace with demand for industrial space

Availability of industrial property across the country fell to the historic low level of 3.9% in 2018, while supply tightened in eight of the 10 major commercial real estate markets, according to CBRE.

At the end of Q2, four cities had sub 5% vacancy rates according to CBRE:

Vancouver – 2.4%

Winnipeg – 3.2%

Ottawa – 4.0%

Montreal – 4.3%

In Q2 of 2018, approximately 6.5 MM SF of industrial space was under construction in the GTA, and more than half preleased, compared to almost 4 MM SF of industrial space under construction in the GVA.

A 2015 Metro Vancouver report found “a notable amount” of conversions of industrial land to other uses had taken place between 2010 and 2015, resulting in a net reduction of 865 acres.

CBRE has predicted that the GVA could run out of its industrial land supply entirely by the early 2020s. The scarcity of land is pushing the cost of industrial land to over \$1 MM per acre. Industry experts warn that the health of the economy is in jeopardy if there is no room for businesses to locate and expand.

In response to the cost of land, developers are building multi level strata projects.

**Chard Developments** has converted a warehouse in Mount Pleasant into a four storey commercial strata development of 48,000 SF. At-grade units are intended for light industrial users.

**Conwest** is developing similar projects in Mount Pleasant and in Port Coquitlam. Once its mixed-use Ironworks project is complete in 2019 it will contain two buildings with ground-floor light industrial and warehouse space – complete with 26-foot-high ceilings and loading docks – and showrooms, with office space above. The buildings are divided into units that range from 3,000 SF to 14,000 SF. Prices ranged from \$330 to \$600 psf.

With multi storey distribution facilities being developed in other tight industrial markets such as Shanghai, Seattle and New York, it may not be long before this model makes its debut in Vancouver.

**Cushman & Wakefield** estimates that 25% to 30% of industrial leasing can be traced to e-commerce needs. On a global basis, e-commerce enterprises take up 20% of new leases, up from less than 5% five years ago, according to Prologis Inc.

**Amazon** announced this summer that it will open its fourth fulfillment centre in the GTA. A new 1 MM SF facility will be built in Caledon. This is the sixth facility in Ontario and the ninth in Canada. **Broccolini** has begun construction on Amazon's new 1.02 MM SF warehouse in Ottawa which is set for completion in the second half of 2019. Construction has just finished on the 600,000 SF warehouse in Balzac, Alberta.

#### 4. LANDLORDS & TENANTS GETTING WISE TO SMART BUILDING BENEFITS

Smart Buildings increase productivity, lower costs and reduce environmental impact.

Smart buildings leverage IoT connectivity, sensors and the cloud to remotely monitor and control a range of building systems from heating and air conditioning, to lighting and security systems. They provide greater efficiency, safety and comfort, while delivering cost savings for property owners, managers and tenants.

A smart building uses sensors, actuators and microchips, in order to collect data and manage it according to a business' functions and services. This infrastructure helps owners, operators and facility managers improve asset reliability and performance, which reduces energy use, optimizes how space is used and minimizes the environmental impact of buildings.

Smart buildings make occupants more productive by optimizing lighting, thermal comfort, air quality, physical security and sanitation.

One such building is Deloitte's Amsterdam HQ, said to be one of the smartest buildings in the world. A smartphone app which was developed with Deloitte, checks your schedule, recognizes your car when you arrive and directs you to a parking spot. The Edge as the building is named, is based on the 'hot desking' concept. It has about 2,500 employees sharing 1,000 desks, so the app will also direct you to an available desk. Wherever you go, the app knows your preferences for light and temperature and tweaks the environment accordingly. If you order a coffee from a machine, it remembers how you drink it.

The building is a net zero energy building and was awarded a sustainability score of 98.4% by British rating agency BREEAM. The building's southern wall and roof is covered with solar panels. Thick load-bearing concrete helps regulate heat, and deeply recessed windows reduce the need for shades, despite direct exposure to the sun. The building's developer OVG installed additional solar panels on adjacent buildings so that the Edge actually produces more energy than it consumes. Some of the exercise stations in the gym harness the energy created by a workout and sends that energy back to the grid.

The New York Times' 52-story, 1.5 MM SF HQ in Manhattan was designed to use 1.28 watts of lighting power psf. The company implemented a management system that aligned lighting controls, motorized window shades, sensors, digital ballasts and LED drivers, all under a single software umbrella underpinned by a web-based interface. The system cut usage to approximately 0.4 watts per square foot resulting in a 70% energy savings.

Retailers have started incorporating information on the patterns shoppers travel in their stores with POS data to analyze customer traffic patterns, opening up opportunities to charge for product placement, or to notify customers of sales or specials near them within the stores.

Kroger, the US's largest supermarket chain, is rolling out an "intelligent shelf" system in 117 stores. The shelves display pricing and product information, as well as video ads and coupons. In tests, the shelves helped boost sales, according to Forbes. They have enabled immediate price updates for items on the shelves, a process that can take days when done manually.

Navigant Research estimates that the smart building technology market will generate global revenue of \$8.5 BB in 2020, up from \$4.7 BB in 2016, growing at a compound annual growth rate of 15.9% over the forecast period.

A study commissioned by Dell and Intel reports that 82% of millennials claim that workplace technology would influence them when deciding to take a new job.

#### 5. DEVELOPERS DOUBLING DOWN ON OFFICE SECTOR

New product can't be built fast enough as tenants scramble for space

According to Altus Group, Toronto's downtown office vacancy rate slightly increased to 5.5% in Q2 2018 and approximately 7.2 MM SF of office space was under construction (or 9.5% of the existing inventory). The lowest vacancy rate in the downtown core was in the southern area at 2%, however almost 3.6 MM SF was under construction in Q2. The King and Dufferin area had the highest vacancy rate at 7.6% in Q2 with very few projects under construction.

In a report released this summer by CBRE, Toronto was the fastest growing tech-jobs market in 2017. Last year, Toronto created more jobs than the San Francisco Bay area, Seattle and Washington, D.C., combined. 28,900 tech jobs were created, 14% more than in 2016, for a total of more than 241,000 workers, up 52% over the past five years, CBRE said. Downtown, tech accounted for more than a third of demand for office space.

In September, Microsoft announced the expansion of its Canadian operations. It will be taking 132,000 SF over four floors at 81 Bay Street (CIBC Square) which is currently under construction. Its new HQ will be ready for occupancy in September 2020.

Shopify will more than triple their office space by leasing 434,000 SF at The Well Tower at 8 Spadina Avenue. The new 15 year lease will start in 2022. It currently leases 160,000 SF from Allied at King Portland. The Well tower is expected have 80% of its office space occupied with rent commencing in 2022. When it is complete in late 2021, The Well, a RioCan – Allied JV, will contain approximately 1.067 MM SF of office space, 425,000 SF of retail space, 700 underground commercial parking spaces and 1.46 MM SF of residential space across six buildings, comprising about 1,800 rental and condominium units.

Cadillac Fairview and the Investment Management Corporation of Ontario are ready to begin construction on 160 Front Street West. The 46 storey office tower will have 1.2 MM SF of office space, 339 parking stalls, 12,290 SF of retail space and is slated to open in the fall of 2022. The cost is projected to be \$800 million. The Ontario Teachers' Pension Plan was announced as the first anchor tenant. The OTPP, which also owns CF, will take nine floors of the tower, or about 21% of the total office space.

Cadillac Fairview has \$1.5 BB of major office projects under development, including:

\$479-million building at 16 York Street in Toronto

\$200-million BMO Campus at CF Toronto Eaton Centre

\$60-million revitalization of 2 Queen Street West

Brookfield is starting construction on the third and final tower of the Bay Adelaide Centre. The office building will be 32 storeys, 820,000 SF and is scheduled for completion by early 2022. ScotiaBank has signed on as the anchor tenant signing a commitment to lease 420,000 SF for 15 years.

Earlier this year, Brookfield sold a 50% interest in the West and East towers to VPMA Bay Adelaide Property Ltd., a UK buyer, for \$850 MM.

## 6. COWORKING HERE TO STAY

Office landlords are getting in on the action as coworking penetrates the market with new product offerings

The Instant Group estimates there is approximately 47.8 MSF of coworking space in the 87 US markets tracked by Cushman and Wakefield.

The growth in coworking inventory has accelerated over the past three years according to a report by Cushman & Wakefield. Half of all current US coworking space has opened since early 2015, with over 5 MM SF of new space coming online each of the past three years. Another 3 MM SF of new space has opened in the first half of 2018. WeWork has consistently been the largest leasee of new space, accounting for over 8 MM SF between 2015 and 2017.

The Amsterdam coworking company Spaces, announced in June that it had an aggressive growth plan to be the leading coworking company in Canada. It plans to open three new Toronto locations in the next year: Spaces Yorkville (20,000 SF at 99 Yorkville Ave.), Spaces Liberty Village (20,000 SF at 80 Atlantic Ave.) and Spaces North York (40,000 SF at 5200 Yonge St.)

In order to capitalize on the coworking trend, landlords are designing buildings with a flex/coworking component. "Coworking is now becoming the new amenity," said Kay Sargent, senior principal and director of WorkPlace practice at HOK, who focuses on workplace design and strategy.

In June, Blackstone Group LP's EQ Office announced a license agreement deal with Industrious, a Brooklyn coworking firm that would partner the companies at one of its office complexes in LA. This follows similar deals made by Brookfield and Tishman Speyer.

EQ Office and Industrious' new deal forms a partnership for the 1.3 MM SF Howard Hughes Center. Industrious will operate coworking facilities of up to 140,000 SF for teams of up to 200 people as well as maintain the common area on the ground floor of the six-building office complex. Industrious, will provide amenities not just directly to coworking customers but all other tenants or visitors to the office campus as well.

Landlords are also becoming interested in providing coworking spaces without having a middleman.

Tishman Speyer rolled out a pilot series of amenities and services for its tenants at Rockefeller Center in New York City last year. Called Zo, the suite of services provides access to everything from back-up childcare and rideshare services to medical services and food service to Tishman's tenants and their employees.

"Zo represents a shift in the mindset of how we run our business and our portfolio," said Rob Speyer, chief executive of Tishman Speyer. "Our most important job is to serve the 250,000 people who work in our buildings each and every day. Instead of defining ourselves by the square feet we own, we will define ourselves by the quarter million people who use the square feet and how well we tend to them."

In August, WeWork launched "HQ by WeWork". This new product offering is aimed at giving companies with between 11 and 250 employees WeWork-designed, managed and leased space. The offices would be private, flexible and offer fewer services than a traditional WeWork, but have the benefit of being exclusive to one company.

Rather than a month-to-month lease for small offices at a traditional WeWork, HQ by WeWork will provide spaces WeWork leases with a landlord and will be designed as the member company chooses from a menu of features. The spaces are offered to companies that commit to two-year membership agreements, and won't have the concierge services, fully stocked pantries and kegs associated with coworking. However, they will have access to WeWork's global network of coworking facilities.

HQ by WeWork has started with six locations in Manhattan, all of which are committed to undisclosed tenants. WeWork plans to grow the platform more in New York and to soon offer it in Toronto, San Francisco and London.

7. MULTI RES VACANCIES BOTTOMS OUT IN  
MAJOR CANADIAN CITIES

Demand for all kinds of rental housing – senior, student and multi family – continues to grow

At the end of last year, CMHC reported that the average rent for a two bedroom apartment units increased by 2.7% to \$989, while the national average vacancy rate fell 70 bps to 3.0%.

Six Canadian cities have sub 2.0% vacancy rates: London (1.8%), Ottawa (1.7%), Toronto (1.0%), Vancouver (0.9%), Victoria (0.7%) and Kelowna (0.2%).

In the GTA, vacancy rate is sitting at 1.1% - the lowest rate in 16 years.

While the average rental rate for a one bedroom purpose built apartment unit in the GTA was at \$1,191, the rents that are charged for condos are much higher at \$1,789 according to the CMHC.

Across Canada, the stock of purpose built rental apartments grew by only 1.2% (23,000 units) between 2016 & 2017.

Some relief to the supply side is coming. As of Q4 2017, 27,569 rental units are proposed and 6,305 units are under construction in Toronto.

As of January 2018, there are an estimated 17,229 new rental units in 166 buildings, in the pipeline in Vancouver – an 82% increase from the year before.

## Senior Housing

By 2036, seniors aged 65 and over will account for 25% of Canada's population, compared with 14% in 2011, according to CMHC.

Over the next 18 years, it is estimated that 600,000 new retirement and long term care suites will be needed.

In September, Chartwell and Welltower Inc. will invest in the development of Chartwell Guildwood Retirement Residence in Toronto. The \$72 MM project will have 172 suites and is expected to open in early 2020.

"Chartwell Retirement Residences has twenty four projects at an estimated investment of \$1.4 BB in its development pipeline across Ontario, Alberta, British Columbia and Quebec" said Teresa Fritsch, SVP Real Estate & Investments.

Réseau Sélection is Quebec's second largest provider of senior's housing. The company is on the verge of expanding outside Quebec, with projects for Toronto and Ottawa, British Columbia, the US and China, in the coming years.

A key element of their growth strategy is to export Réseau Sélection's trademark "Montreal Style" – a focus on hotel-like, à-la-carte services and choices on offer to residents. More common in the rest of Canada is the package approach, which can come at a higher cost.

Réseau Sélection also develops intergenerational complexes. One such project is District Union in Terrebonne, northeast of Montreal. Phase One includes an 18-storey tower for active seniors over 55. Plans also call for younger residents to be housed in apartment units clustered around common areas.

**Student Housing**

More than 1.5 MM full-time students are currently enrolled in Canadian universities and colleges generating a huge demand for rental housing. Although the number of Canadian students enrolled in Bachelor's or equivalent programs increased by only 2% between 2011 and 2015, the number of international students studying in Canada increased by 52% during the same period. In Manitoba and British Columbia, the international student population grew by 88% and 74% respectively.

SVN Rock Advisors estimates that the unmet demand for student housing in Canada is more than 416,000 beds. The current number of on-campus beds is 121,164. The current number of purpose-built off-campus beds across Canada is 39,178, almost half of which are in the Kitchener-Waterloo area according to their estimates.

Many universities are unable to meet the demand for residence space. The sector is attracting capital especially as students are increasingly willing to spend more money on rents. Private partnerships allow universities to use their debt capacity for academic purposes.

CPPIB has invested almost \$4 BB in student housing since 2015. It purchased Liberty Living, a Britain-based student-housing operator with 24,636 spaces under management, and owns 45% of US-based joint-venture company Scion Student Communities LP, which has 46,555 university-residence beds under management.

McMaster is planning two new residence buildings to be constructed with private-sector partners: one is a partnership with Knightstone to build an undergraduate residence with as many as 1,400 beds in two phases, and the second is a 500-bed graduate-student residence located off-campus in downtown Hamilton.

A recent report in the Economist revealed that student housing attracted US\$16 BB worldwide investment in 2016, as sovereign wealth funds increasingly target the sector.

**8. CAPITAL IS FLOWING**

REITs and foreign buyers showing healthy appetite for prime assets

In the first half of 2018, Canadian commercial investment volume slightly increased to \$22.5 BB, according to Altus Group. More than 50% was attributed to Toronto at \$11.4 BB in transactions, a 25% increase compared to the first half of 2017, followed by Vancouver which represented 30% of transaction volume at \$6.7 BB.

Choice Properties' acquisition of Canadian REIT, and Blackstone Property Partners' purchase of PIREIT composed the bulk of the activity. Together the deals accounted for 45% of the total.

Industrial sales outperformed all other assets, largely due to Blackstone's acquisition of more than 25 MM SF of industrial properties across Canada and the US. Deals in this segment represented 37% of investment volume which was \$6 BB, another record.

Summit Industrial Income REIT purchased two properties in Markham in Q2 2018: 56 Steelcase Road West and 2601 Fourteenth Avenue. These two buildings totaled 321,028 SF and sold for a combined value of \$70 MM.

True North Commercial REIT closed on a 122,000 SF Class A office building in Richmond Hill for \$33 MM in Q3. The property, located at 6 Staples Avenue, is on 10.33 acres of land and is 100% occupied by Staples with a 15 year lease.

One of the largest office transactions of the first half of 2018 was the sale of Parkway Place by Agellan Commercial REIT to Tigra Vista Inc., an Asian investor for \$256.25 MM.

Blackstone continues to increase its Canadian real estate holdings by acquiring a six-property, multi-family portfolio in a JV with Starlight Investments. The properties, which are located in Montreal and Toronto, were acquired for \$222.5 MM from private individuals.

**9. CANADA'S SECONDARY MARKETS OFFER ATTRACTIVE OPPORTUNITIES**

Investors scouting out new opportunities and less competition are looking to secondary markets

As demand for both residential and commercial space in Canada's primary markets remain fierce, demand is spilling over into secondary markets where lower rents and cheaper land can be found.

As an example, of the 6 Canadian cities with sub 2% apartment vacancy rates, three of them are in secondary markets - London (1.8%), Victoria (0.7%) and Kelowna (0.2%).

In CBRE's 2018 Southwestern Ontario Market Outlook report, it is forecasted that London will see \$283 MM in investment largely in industrial and commercial real estate this year, up 12.3% from last year.

The Kitchener-Waterloo area is home to Google's Canadian engineering HQ and has more than 1,000 startups in their tech cluster. Perimeter Development Corp. recently broke ground for a six-storey office building at 345 King Street West. It is the first office building to be constructed in the city's core in more than a generation. National law firm Gowling will be the anchor tenant.

By the end of February 2019, the city expects to issue \$1.2 BB in building permits for more than a dozen, multi-residential developments in the downtown.

Kelowna was recently named as the top western city for real estate investors by Western Investor. 12 new condominium buildings are either under construction or about to start in downtown Kelowna. Concrete tower condos are selling, on average, in the \$450 to \$600 psf range, with wood-frame projects priced from \$370 to \$525 psf.

With a population of 127,800, Kelowna has seen 9.9% growth in population since 2011. At \$73,630, it has a higher median household income than Vancouver (\$71,140), but its average home price, at \$492,000, is less than half that of the GVA.

Tech is also helping to fuel this boom. The \$35MM Okanagan Centre for Innovation recently opened at the centre of the industry which has grown to over \$1.3 BB in 3 years with over 260 tech companies.

Québec City has one of the lowest unemployment rates in Canada and a GDP that continues to grow thanks to a healthy pharmaceutical industry.

Cominar REIT has planned a shopping district around the new IKEA store in the Duplessis neighbourhood. The development will contain approximately 30 retailers in 13-14 buildings totaling 500,000 SF. The first phase will open next spring and will also include Québec City's second location of French sporting good retailer Décathlon. The first Canadian location of this chain opened this year to better than expected sales.

## 10. RETAIL EVOLUTION

Landlords finding innovative ways to fill vacant and underutilized space

In Canada, online shopping still represents a small but growing percent of retail sales. Out of the \$352 BB in retail sales generated across the country in 2016, approximately 7% were made online. This proportion is expected to grow to 10% by 2020, according to a 2018 report by Canada Post. That said, there is no doubt that the retail landscape is in the middle of rapid change.

Landlords are reconfiguring vacant space to include offices and residential developments. Transforming retail centres into live-work-play spaces.

RioCan says that there are a total of 43 projects within its portfolio that can be converted over the longer term to mixed use properties. One of these projects is their Yonge Sheppard Centre which will have 305,000 SF of retail space topped by 400,000 SF of office space. It is scheduled for a spring 2019 completion. The development also includes Pivot, a 36-storey rental residential tower consisting of 361 units, which should be finished in the Spring of 2020. KingSett Capital is a 50% partner.

CF plans to spend about \$2 BB to add residential units at four of its malls, in addition to one under construction in Toronto, said Finley McEwen, its senior vice president for development.

Pop-up shops have become a \$50 BB USD industry in the US and is becoming a permanent fixture in the retail. It has become a way for online retailers to grow their customer base or test a bricks-and-mortar store without having to commit to a long term lease.

A study by the National Retail Federation and Forrester revealed that 24% of brick-and-mortar retailers are testing pop-up stores. According to its website, even Amazon operates at least 72 pop-up shops across the country.

Storefront, a company that finds and leases space for pop-up shops, receives \$22 MM USD worth of leasing demand for pop-ups every month.

The traditional mall food court concept is getting a facelift. They are being transformed into Food Halls – spaces that offer a wider variety of food and even grocery items and a variety of seating configurations. Food Halls often serve alcohol and emphasize local restaurateurs and healthier eating options.

Oxford Properties Group opened Market & Co. in Upper Canada Mall in Newmarket, a first-of-its-kind food market concept in Canada situated within a premium shopping centre. Oxford aims to enhance the centre's food offerings and create a diverse culinary experience. Market & Co. is a 40,000 SF space which took over part of the mall's former Target store. The market features an artisanal mix of best-in-class local merchants focusing on fresh, local fare, full-service restaurants, built-in demonstration kitchen, as well as the opportunity for guests to purchase quality groceries and specialty items to take home. Market & Co. is Oxford's third food market announcement in 2018.

Ivanhoe Cambridge are also adding food markets to their pipeline in 2019 with the recent announcement of a 36,000 SF Time Out Marketplace to anchor Montreal's Eaton Centre.

40% of consumers today will pick a mall to visit primarily based on the restaurants located there, according to a report from Jones Lang LaSalle. Shoppers who eat at the mall will then spend 35 minutes more there and spend 12% more money at stores there, JLL found.

"Food halls are about so much more than just real estate," said Garrick Brown, the US national retail research director at Cushman & Wakefield. "No other retail category has generated as much aggressive expansion over the past few years as food-related retail. ... food halls offer consumers a definitive experience — and for that reason, they're largely e-commerce-proof."

Cushman & Wakefield is predicting that by 2020, there will be three times as many food halls across the U.S. at retail properties. The firm is currently tracking more than 200 existing and planned food halls.

New brands are expanding into the Canadian market while other brands are looking to increase the number of their locations.

Value priced Chinese retailer MINISO is opening stores in Canada at a faster rate than was originally anticipated. It anticipates having about 100 locations coast-to-coast by the end of 2018 and 500 stores in three years.

Mastermind Toys is expanding its footprint across the country at the fastest pace in its history — aiming to grow from 56 to 60 stores by the end of the year and 90 by the end of 2020.

Ottawa based food retailer Farm Boy opened its 25th location in this year and plans to open another 12 to 15 stores in southwestern Ontario and the GTA in the next three years.

Co-founder of Sporting Life, David Russell says that the closing of Target and Sears has made it easier for them to expand into some locations. It plans to open eight more stores across the country.

Best Buy has reduced the size of its stores from 45,000 SF to 36,000 SF. It is also changing their format. Last December it launched its new concept "Experience Store" at 460 Saint Catherine West. Cutting edge tech from leading brands is displayed using live demos and high-impact vendor displays. This location is one of 30 stores the company has renovated recently. Shares in Best Buy are up 40% this year where many thought this chain was headed for bankruptcy.

H&M plans to invest in analytics and technology to help its supply chain become more flexible and faster. It will use big data and AI to help them analyze receipts, returns and loyalty card data to help them stock their stores to match local demand. H&M stock price is down and it plans to open fewer stores in 2018.



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