

PERSPECTIVE

QUARTERLY REPORT ON
COMMERCIAL REAL ESTATE CAP RATES Q4 2021
IN MAJOR CANADIAN MARKETS

Q4 2021 CAP RATES AND 2021 PERSPECTIVE

Industrial & Multi-Family

Despite continuing challenges surrounding COVID-19, including the emergence of a new variant, the demand for industrial space continues to be extremely strong, with historically low vacancy levels across Canada (fourth quarter national vacancy declined to 1.4%, a new record low). This, combined with restrained supply in most markets, has resulted in rental rates increasing at a rapid pace. While development is taking place, there continues to be a scarcity of development sites, with land pricing in several cities hitting record levels. Investor demand has also resulted in downward pressure on investment metrics as good quality offerings, including several large industrial portfolios, are seeing multiple bidders and strong pricing. Regarding multi-family, a wide range of investors continue to look for opportunities to increase their holdings due to the long-term stability of the asset class, record low rates and the Federal Government's plan to continue welcoming immigrants at a rate of about 1% of the population of Canada post-COVID-19.

Office

Despite an increase in the overall vacancy rate, the fourth quarter marked the first quarter that the Canadian office market experienced positive absorption since the beginning of the pandemic. While vacancy rose by 40 basis points from the previous quarter, this quarter's increase was the smallest quarter-over-quarter increase since the onset of the pandemic. However, the arrival of the Omicron variant may put a damper on activity for the first quarter of 2022 as many provincial governments have reinstated restrictions in an attempt to control the spread of the new variant. Once again, many companies have reverted to the work-from-home strategy for their employees thereby resulting in reduced pedestrian traffic in many of Canada's downtown cores. While it is still unclear what the full impact of Omicron will be on the market, rising vaccination levels will provide assurance and help to bring employees back to the office once again.

Retail

All eyes were once again on the retail industry in the fourth quarter, largely due to the presence of the Omicron variant. The arrival of the new variant led to increased COVID-19 cases across the country, with many jurisdictions reinstating government restrictions with respect to capacity limits and physical distancing. Many were anticipating a strong holiday shopping season, which was likely muted given the influx of COVID-19 cases throughout December. While it is still too early to assess the impact of Omicron, necessity-based retail will likely continue to perform well and be favored by investors, while enclosed retail assets may experience more challenges in the short term. However, we expect the top Regional malls will continue to get stronger as retailers will want to be in the best locations. Although vaccination levels continue to be high, the next few quarters are viewed as a risk as we wait to see the impact that Omicron has on the retail industry.

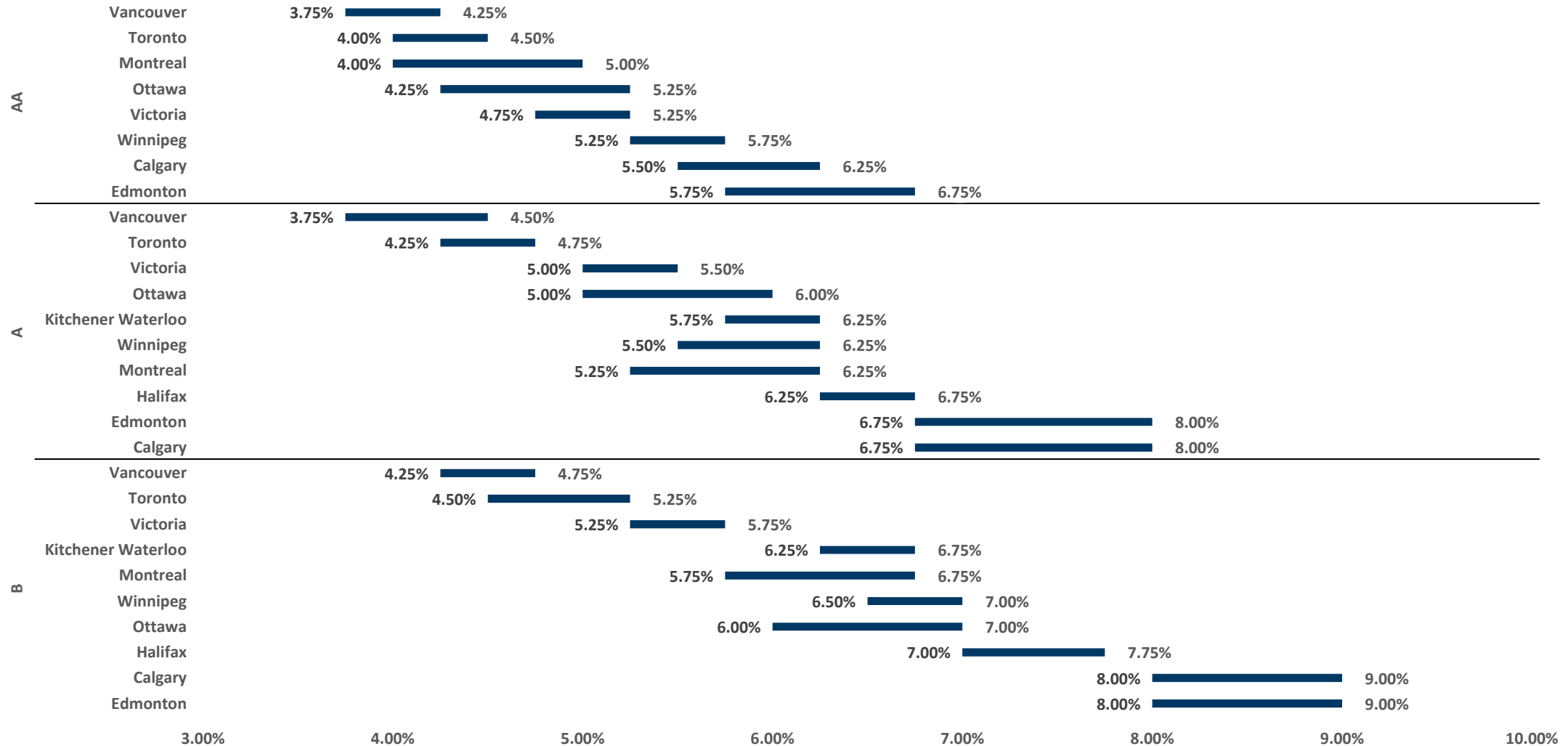
Hotel

The hospitality sector saw the beginnings of a recovery take hold in the second half of 2021 only to be interrupted by the arrival of the latest COVID-19 wave at year-end. While Omicron will stall the recovery in the first quarter of 2022, we still believe the overall market will continue to improve over 2021 levels. There continues to be a strong appetite for better quality hotels in most parts of the country with several significant transactions completed at year-end and several in progress going into 2022.

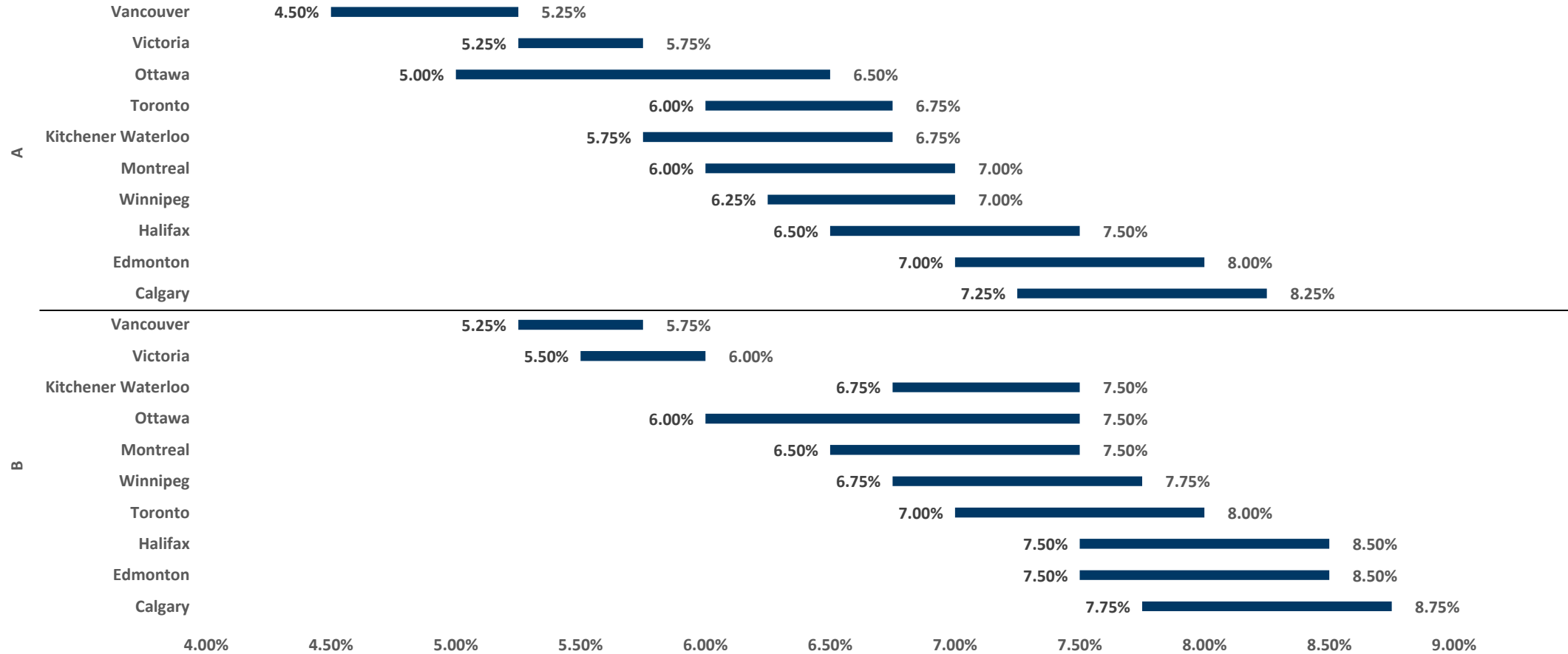
Seniors Housing

Building off the momentum from major transaction announcements in the third quarter, activity in the direct property investment market continued to increase to close out the year, with prospects of more deal announcements to come in early 2022. The improving outlook for the investment market was tempered by the emergence of the highly transmissible Omicron variant of concern, which sparked a resurgence of concerns regarding COVID-19 related outbreaks, labour shortages and increased pandemic related expenses. The latest wave of the pandemic could potentially weigh on the leasing momentum and the occupancy recovery which continued to show progress during the fourth quarter of 2021. Notwithstanding the current challenges associated with the pandemic, some infectious disease experts are looking beyond the 'fifth wave' and are hopeful that the new year could see a downgrade from pandemic to endemic disease status in most parts of North America. The emergence of new variants that manage to evade vaccine-induced immunity could pose a risk to this hopeful outlook.

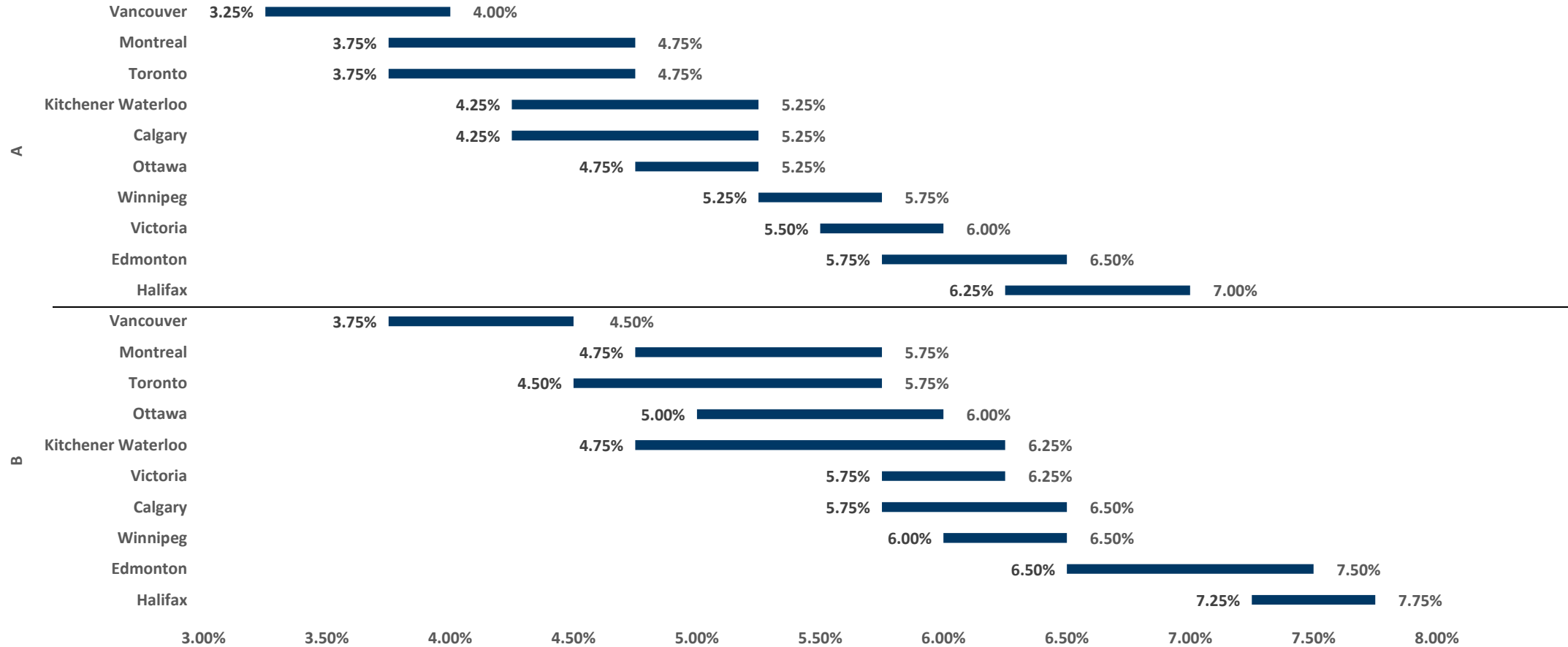
DOWNTOWN OFFICE CAP RATES



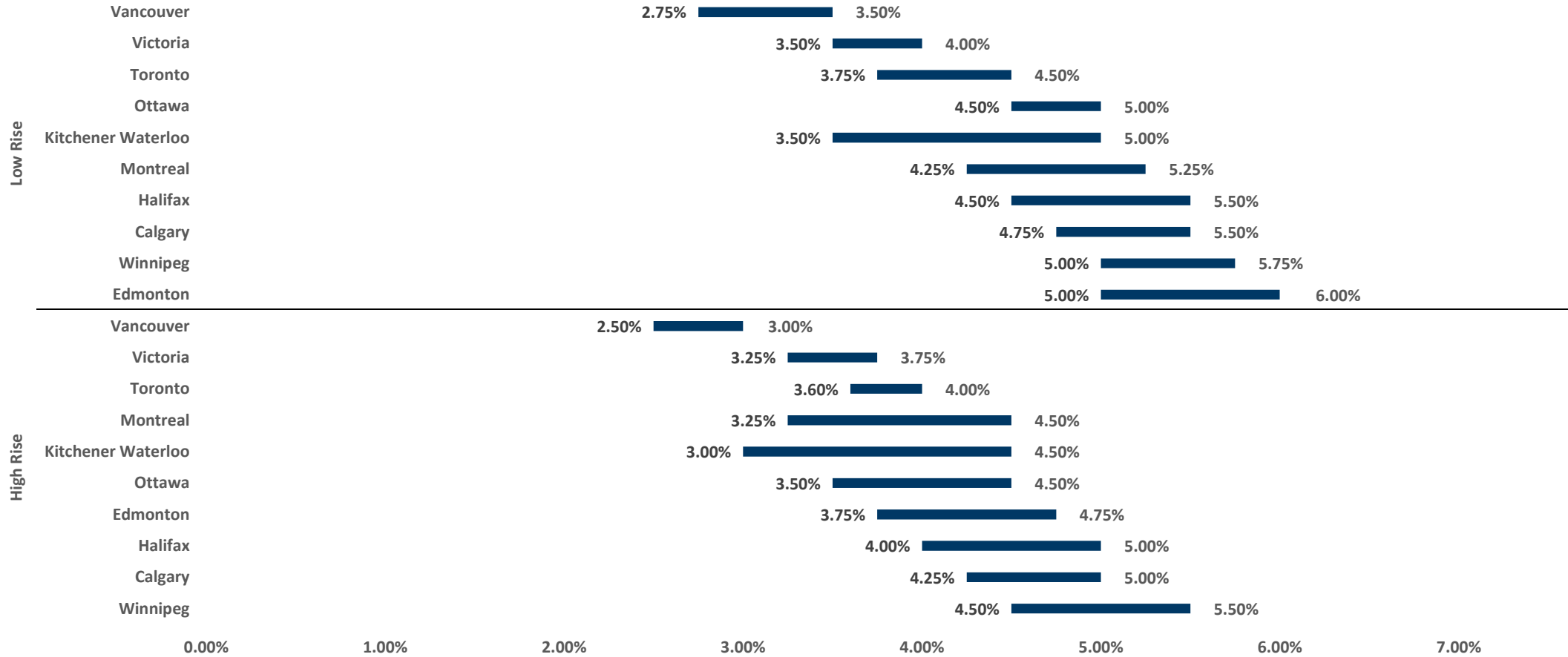
SUBURBAN OFFICE CAP RATES



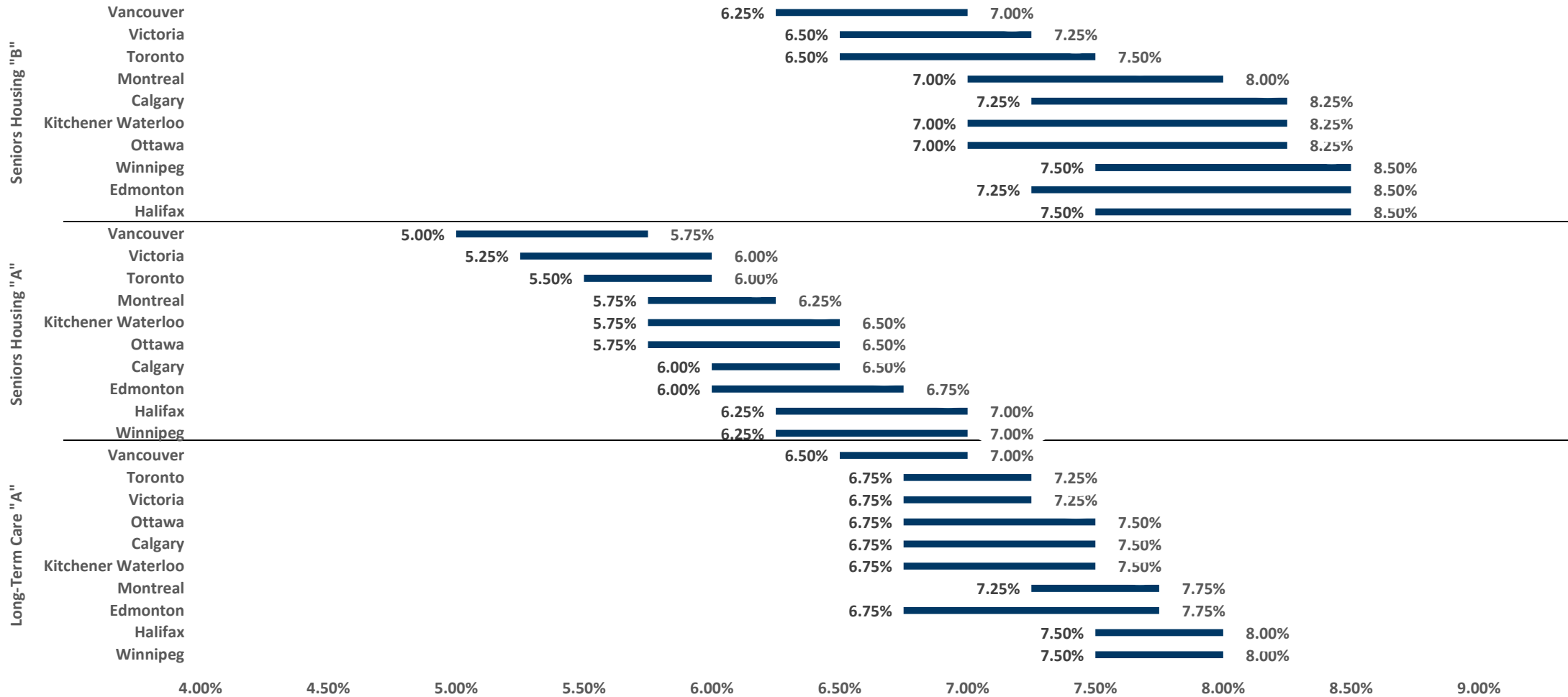
INDUSTRIAL CAP RATES



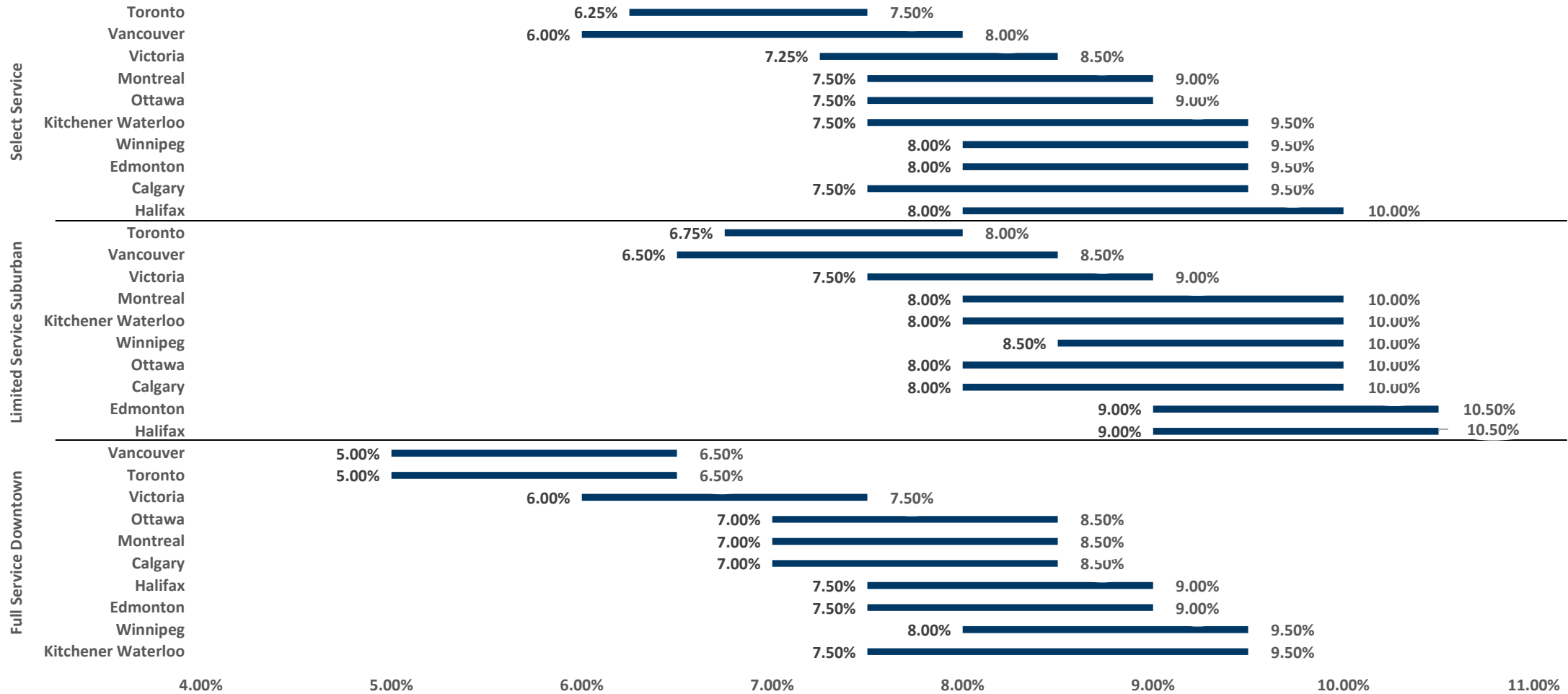
MULTI-RESIDENTIAL CAP RATES



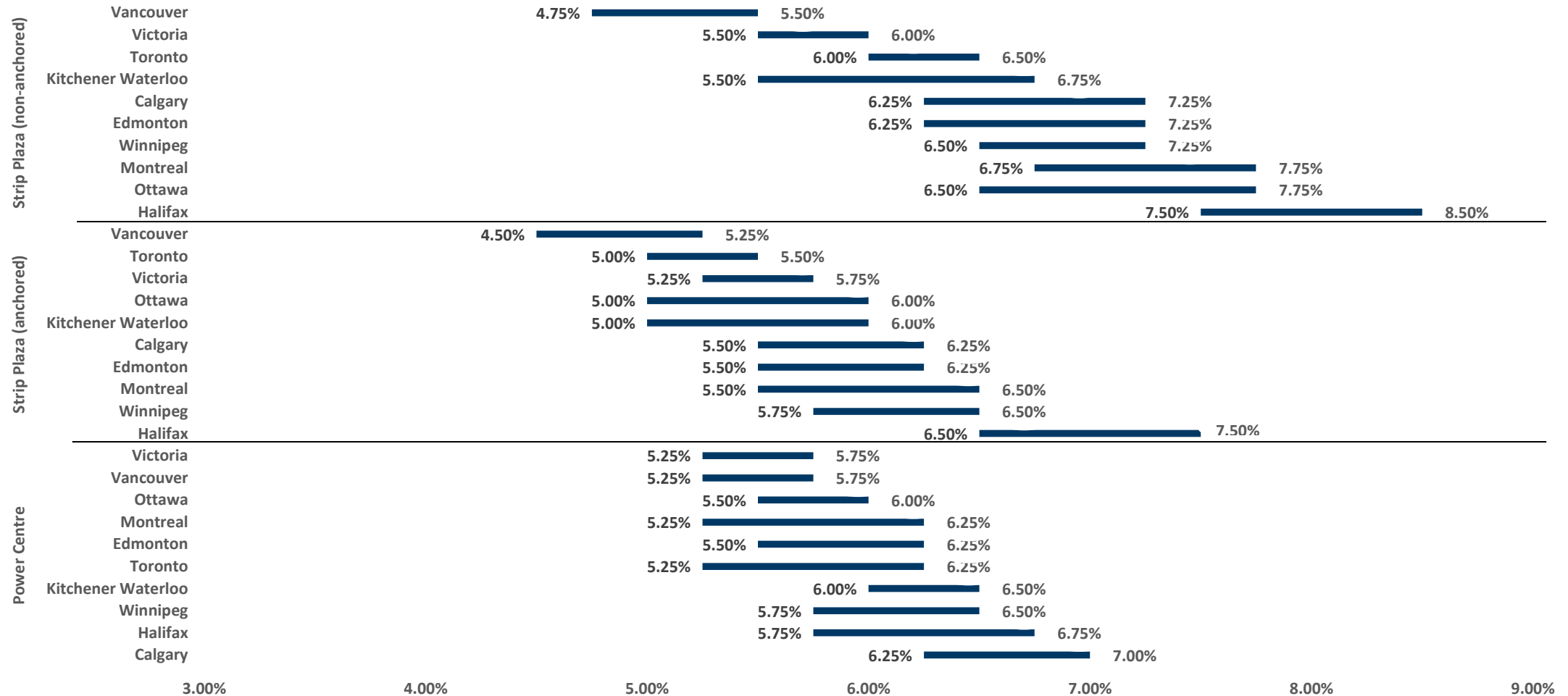
SENIORS HOUSING CAP RATES



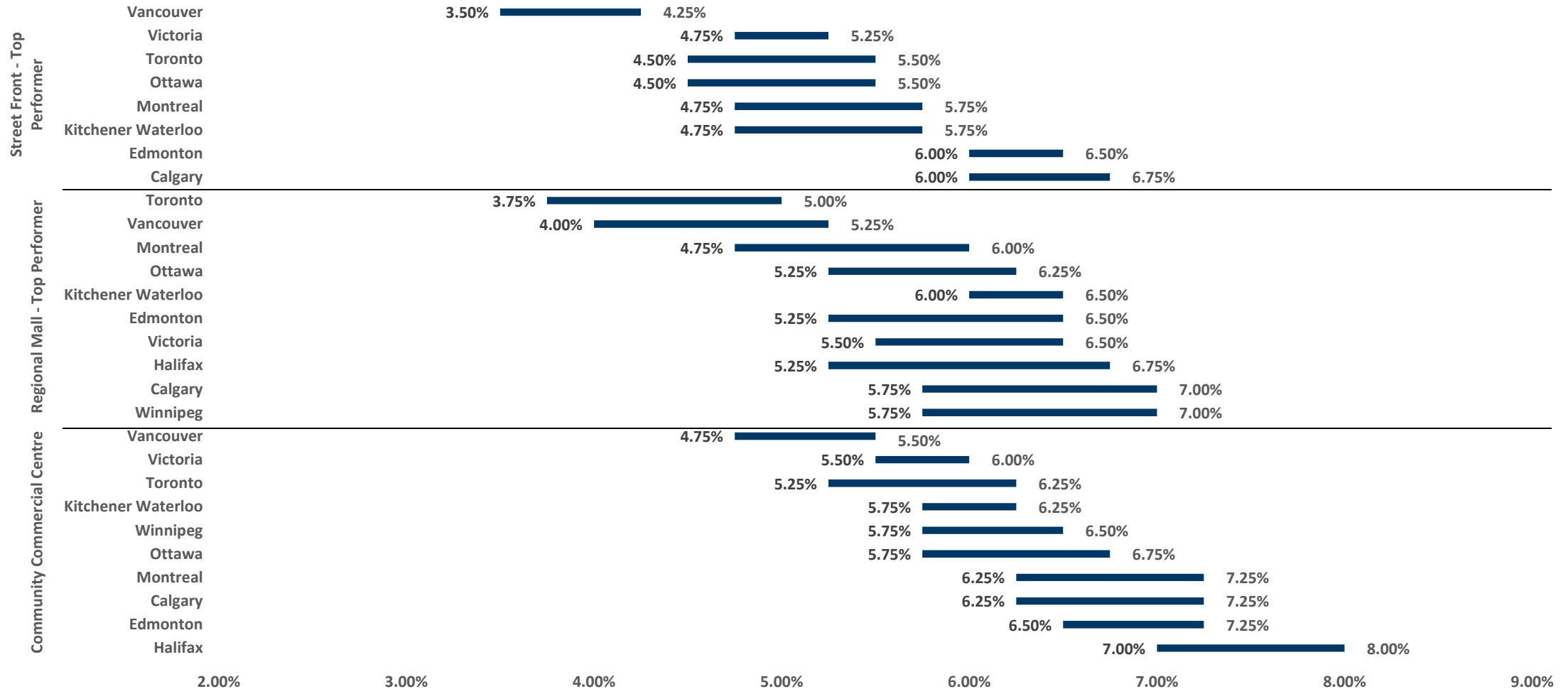
HOTEL CAP RATES



RETAIL CAP RATES



RETAIL CAP RATES



Q4 2021 CAP RATE SURVEY REPORT

Commercial Real Estate Cap Rates Across Canadian Markets

	VICTORIA			VANCOUVER			CALGARY			EDMONTON			WINNIPEG			KITCHENER/WATERLOO			TORONTO			OTTAWA			MONTREAL			HALIFAX		
	RANGE:	LOW	HIGH	👁	LOW	HIGH	👁	LOW	HIGH	👁	LOW	HIGH	👁	LOW	HIGH	👁	LOW	HIGH	👁	LOW	HIGH	👁	LOW	HIGH	👁	LOW	HIGH	👁		
DOWNTOWN OFFICE																														
AA	4.75%	5.25%	◀▶	3.75%	4.25%	◀▶	5.50%	6.25%	▲	5.75%	6.75%	◀▶	5.25%	5.75%	◀▶	N/A	N/A	N/A	4.00%	4.50%	◀▶	4.25%	5.25%	◀▶	4.00%	5.00%	◀▶	N/A	N/A	N/A
A	5.00%	5.50%	◀▶	3.75%	4.50%	◀▶	6.75%	8.00%	▲	6.75%	8.00%	▲	5.50%	6.25%	◀▶	5.75%	6.25%	◀▶	4.25%	4.75%	▲	5.00%	6.00%	◀▶	5.25%	6.25%	◀▶	6.25%	6.75%	◀▶
B	5.25%	5.75%	◀▶	4.25%	4.75%	◀▶	8.00%	9.00%	◀▶	8.00%	9.00%	▲	6.50%	7.00%	▲	6.25%	6.75%	◀▶	4.50%	5.25%	▲	6.00%	7.00%	◀▶	5.75%	6.75%	◀▶	7.00%	7.75%	◀▶
SUBURBAN OFFICE																														
A	5.25%	5.75%	◀▶	4.50%	5.25%	◀▶	7.25%	8.25%	◀▶	7.00%	8.00%	▲	6.25%	7.00%	◀▶	5.75%	6.75%	◀▶	6.00%	6.75%	▲	5.00%	6.50%	◀▶	6.00%	7.00%	◀▶	6.50%	7.50%	◀▶
B	5.50%	6.00%	◀▶	5.25%	5.75%	◀▶	7.75%	8.75%	◀▶	7.50%	8.50%	▲	6.75%	7.75%	◀▶	6.75%	7.50%	◀▶	7.00%	8.00%	▲	6.00%	7.50%	◀▶	6.50%	7.50%	◀▶	7.50%	8.50%	◀▶
INDUSTRIAL																														
A	5.50%	6.00%	◀▶	3.25%	4.00%	▼	4.25%	5.25%	▼	5.75%	6.50%	▼	5.25%	5.75%	▼	4.25%	5.25%	▼	3.75%	4.75%	▼	4.75%	5.25%	◀▶	3.75%	4.75%	▼	6.25%	7.00%	◀▶
B	5.75%	6.25%	◀▶	3.75%	4.50%	▼	5.75%	6.50%	▼	6.50%	7.50%	◀▶	6.00%	6.50%	◀▶	4.75%	6.25%	▼	4.50%	5.75%	▼	5.00%	6.00%	◀▶	4.75%	5.75%	▼	7.25%	7.75%	◀▶
APARTMENT																														
High Rise	3.25%	3.75%	◀▶	2.50%	3.00%	◀▶	4.25%	5.00%	◀▶	3.75%	4.75%	◀▶	4.50%	5.50%	◀▶	3.00%	4.50%	◀▶	3.60%	4.00%	◀▶	3.50%	4.50%	▼	3.25%	4.50%	◀▶	4.00%	5.00%	◀▶
Low Rise	3.50%	4.00%	◀▶	2.75%	3.50%	◀▶	4.75%	5.50%	◀▶	5.00%	6.00%	◀▶	5.00%	5.75%	◀▶	3.50%	5.00%	◀▶	3.75%	4.50%	◀▶	4.50%	5.00%	◀▶	4.25%	5.25%	◀▶	4.50%	5.50%	◀▶
SENIORS HOUSING & HEALTHCARE																														
Seniors Housing "A"	5.25%	6.00%	◀▶	5.00%	5.75%	◀▶	6.00%	6.50%	◀▶	6.00%	6.75%	◀▶	6.25%	7.00%	◀▶	5.75%	6.50%	◀▶	5.50%	6.00%	◀▶	5.75%	6.50%	◀▶	5.75%	6.25%	◀▶	6.25%	7.00%	◀▶
Seniors Housing "B"	6.50%	7.25%	◀▶	6.25%	7.00%	◀▶	7.25%	8.25%	◀▶	7.25%	8.50%	◀▶	7.50%	8.50%	◀▶	7.00%	8.25%	◀▶	6.50%	7.50%	◀▶	7.00%	8.25%	◀▶	7.00%	8.00%	◀▶	7.50%	8.50%	◀▶
Long-Term Care "A"	6.75%	7.25%	◀▶	6.50%	7.00%	◀▶	6.75%	7.50%	◀▶	6.75%	7.75%	◀▶	7.50%	8.00%	◀▶	6.75%	7.50%	◀▶	6.75%	7.25%	◀▶	6.75%	7.50%	◀▶	7.25%	7.75%	◀▶	7.50%	8.00%	◀▶
HOTEL																														
Full-Service Downtown	6.00%	7.50%	◀▶	5.00%	6.50%	◀▶	7.00%	8.50%	◀▶	7.50%	9.00%	◀▶	8.00%	9.50%	◀▶	7.50%	9.50%	◀▶	5.00%	6.50%	◀▶	7.00%	8.50%	◀▶	7.00%	8.50%	◀▶	7.50%	9.00%	◀▶
Select Service	7.25%	8.50%	◀▶	6.00%	8.00%	◀▶	7.50%	9.50%	◀▶	8.00%	9.50%	◀▶	8.00%	9.50%	◀▶	7.50%	9.50%	◀▶	6.25%	7.50%	◀▶	7.50%	9.00%	◀▶	7.50%	9.00%	◀▶	8.00%	10.00%	◀▶
Limited-Service Suburban	7.50%	9.00%	◀▶	6.50%	8.50%	◀▶	8.00%	10.00%	◀▶	9.00%	10.50%	◀▶	8.50%	10.00%	◀▶	8.00%	10.00%	◀▶	6.75%	8.00%	◀▶	8.00%	10.00%	◀▶	8.00%	10.00%	◀▶	9.00%	10.50%	◀▶
RETAIL																														
Street Front - Top Performer	4.75%	5.25%	▲	3.50%	4.25%	◀▶	6.00%	6.75%	◀▶	6.00%	6.50%	▲	N/A	N/A	N/A	4.75%	5.75%	◀▶	4.50%	5.50%	▲	4.50%	5.50%	◀▶	4.75%	5.75%	▲	N/A	N/A	N/A
Regional Mall - Top Performer	5.50%	6.50%	▲	4.00%	5.25%	◀▶	5.75%	7.00%	◀▶	5.25%	6.50%	▲	5.75%	7.00%	▲	6.00%	6.50%	◀▶	3.75%	5.00%	▲	5.25%	6.25%	◀▶	4.75%	6.00%	▲	5.25%	6.75%	▲
Power Centre	5.25%	5.75%	▲	5.25%	5.75%	◀▶	6.25%	7.00%	▲	5.50%	6.25%	▲	5.75%	6.50%	▲	6.00%	6.50%	◀▶	5.25%	6.25%	▲	5.50%	6.00%	◀▶	5.25%	6.25%	▲	5.75%	6.75%	▲
Community Commercial Centre	5.50%	6.00%	▲	4.75%	5.50%	◀▶	6.25%	7.25%	◀▶	6.50%	7.25%	▲	5.75%	6.50%	▲	5.75%	6.25%	◀▶	5.25%	6.25%	▲	5.75%	6.75%	◀▶	6.25%	7.25%	▲	7.00%	8.00%	▲
Strip Plaza Anchored	5.25%	5.75%	▲	4.50%	5.25%	◀▶	5.50%	6.25%	◀▶	5.50%	6.25%	▲	5.75%	6.50%	▲	5.00%	6.00%	◀▶	5.00%	5.50%	▲	5.00%	6.00%	▼	5.50%	6.50%	◀▶	6.50%	7.50%	▲
Strip Plaza Non-Anchored	5.50%	6.00%	▲	4.75%	5.50%	◀▶	6.25%	7.25%	◀▶	6.25%	7.25%	▲	6.50%	7.25%	▲	5.50%	6.75%	◀▶	6.00%	6.50%	▲	6.50%	7.75%	◀▶	6.75%	7.75%	▲	7.50%	8.50%	▲

- 👁 Outlook
▲ Up
▼ Down
◀▶ Flat

The arrow direction indicates if there was an outlook change &/or a cap rate ± bps change from the previous quarter
Outlook represents a forecast for the next 3-6 months
Green font indicates rising cap rate
Red font indicates falling cap rate

LEGEND

CAPITALIZATION RATE

Cushman & Wakefield provides quarterly estimates of capitalization rates for the asset classes contained in this report based on our market expertise. The cap rate ranges are based on transaction data where possible, as well as demand and supply dynamics in the region. These estimates are meant to encompass the majority of assets within each class and may not represent outlier transactions or deals relating to assets with specific attributes that would significantly differentiate them. Particularly during periods of uncertainty, such as since the initial impact of COVID-19, transactions have been limited and best estimates of cap rates have been provided factoring in the expertise of local market participants.

Q4 2021 INVESTMENT GLOSSARY

DOWNTOWN OFFICE

CLASS AA

A best-in-class office product, with more elaborate common areas, modern construction and building efficiencies, that commands the highest rents and tends to attract stronger covenant tenants, such as banks, government, insurance companies, etc. These buildings tend to be situated close to the core within their respective markets and have excellent access to major public transit hubs. Buildings are typically larger than 750,000 SF, with 5 to 10-year tenancies and some 15-year leases for inbound tenants. Occupancy levels assumed to stabilize at close to 95% of comparable market net rates.

CLASS A

A strong-performing asset, typically between 400,000 and 700,000 SF, which is well located, and may have smaller floor plate sizes, solid amenities and less elaborate common areas. The majority of the tenants have 5 to 10-year lease commitments. Occupancy levels assumed to stabilize at close to 95% of comparable market net rates.

CLASS B

Older office product, typically in the range of 100,000 to 250,000 SF. Buildings tend to be occupied with a diversified tenant mix but lack a large anchor tenant. Shorter lease commitments occur in this asset class with the average term ranging between 5 and 10 years. Average floor plate size can be significantly smaller. Generally, not connected to the subway.

SUBURBAN OFFICE / INDUSTRIAL

CLASS A

Newer high-quality suburban product, typically between 100,000 and 300,000 SF. Attracts good covenant tenants for 5 to 10-year lease terms.

CLASS B

Older suburban product that attracts a wider range of tenants and covenants for lease terms ranging between 3 and 10 years.

APARTMENT

HIGH RISE

An apartment building greater than 4 storeys in height or having more than 80 units.

LOW RISE

Any apartment complex having fewer than 80 units.

SENIORS HOUSING

A retirement residence that provides independent, assisted living and/or memory care services and accommodation. As part of the monthly fee, access to meals and other services, such as housekeeping, transportation, and social and recreational activities, may be provided to residents. Assisted living and memory care service levels include assistance with activities of daily living and personal care support. Typically, 100% of the cost of accommodation and related service is paid for privately by the resident.

LONG-TERM CARE

Also referred to as nursing homes, long-term care homes provide accommodation and care services

for adults requiring access to 24-hour nursing and personal care. This includes help with most or all daily activities. Typically, long-term care homes in Canada receive reimbursement via government subsidies for the care services provided to residents. Residents are most often responsible for a co-payment to offset the cost of 'room and board'.

HOTEL

FULL-SERVICE

A hotel with extensive dining and meeting facilities. Quality ranges from upscale to luxury. Examples include Hilton, Westin, Hyatt, etc.

SELECT-SERVICE

A hotel that offers the fundamentals of limited-service properties blended with a selection of features found in full-service properties. Typically, this involves a limited presence of food, beverage and meeting space.

LIMITED-SERVICE

A room-focused hotel with minimal facilities. Quality ranges from economy to mid-scale. Examples include Comfort Inn and Super 8.

RETAIL

STREET FRONT – TOP PERFORMER

Typically considered the street or section thereof where the greatest dollar value psf is generated from street front retail stores within each market.

REGIONAL MALL – TOP PERFORMER

Top-performing fully enclosed mall. These buildings tend to be greater than 800,000 SF and have a

wide product offering, featuring destination retailers and 2 to 3 anchor tenants. Often located near large transit hubs and serve a trade area between 10 and 30 kilometres.

POWER CENTRE

Large format, category dominant retailers in an open-air configuration that may include "club" or discount department stores. Total GLA is typically between 100,000 and 1,000,000 SF.

COMMUNITY COMMERCIAL CENTRE

An enclosed centre anchored by a smaller department store, servicing a local community. Tenants may include general merchandise and convenience offerings, including a grocery store. Total GLA is typically between 100,000 and 400,000 SF.

STRIP PLAZA – ANCHORED

An open-air configuration of attached retail stores that may include retail PAD sites. They are often anchored by a food or drug store tenant. Tenants are generally servicing residents in the neighbourhood. These would include dry cleaners, take-out food stores, convenience stores, etc.

STRIP PLAZA – NON-ANCHORED

An open-air configuration of attached retail stores, not anchored by a grocer or drug store, that may include retail PAD sites. Tenants are generally servicing local neighbourhood residents.

AT THE CENTRE OF WHAT'S NEXT



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