PERSPECTIVE

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

Q2 2022

CUSHMAN & WAKEFIELD

Q2 2022 CAP RATES AND 2022 PERSPECTIVE

Industrial & Multi-Family

Demand for industrial space continues to be extremely strong, with historically low vacancy levels across Canada (Q2 2022 national vacancy declined to 1.2%, a new record low). Absorption was slightly lower than in Q1 2022 but asking and achieved rental rates continue to rise. While development is taking place, there continues to be a scarcity of development sites, with land pricing in several cities hitting record levels. 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. However, participants are watching how the recent increase in interest / lending rates will impact demand and pricing for both industrial and multi-family properties, with most expecting some caution to enter the market. We also expect to see a “flight to quality” as investors look to best in class assets as their preferred investment choice. This may put some upward pressure on achieved rates for secondary assets. In addition, we may also see less transaction activity over the balance of 2022.

Office

The overall vacancy rate for the country continued on an upward trajectory increasing to 15.5% as of Q2 2022 with Central markets accounting for nearly 75% of the space that came back to the market this quarter. Absorption remained in negative territory this quarter with more than 1.4 million sf coming back across the country. That being said, not counting the blip in Q4 2021 where absorption was positive due to high amounts of new supply, negative absorption has steadily improved over the last six quarters. Investment demand has softened as compared to three months ago as a result of sharp increases to interest rates. We expect to see a continued “flight to quality” for the remainder of the year, given best in class buildings will be the first to recover from both an occupancy and rent potential standpoint.

Retail

Necessity based retail continues to perform well and is currently favored by investors, while enclosed malls are seeing improvements in pedestrian traffic levels and retailer sales performance. Although urban enclosed retail will take longer to see improvements due to the hybrid work model and the slower than anticipated return to work, it is anticipated that these centres will continue to perform well in the long run. Underperforming retail assets in secondary markets will continue to struggle and could be prime candidates for redevelopment or repositioning opportunities. With interest rates expected to continue to rise over the remainder of the year, we anticipate upward pressure on yields moving forward.

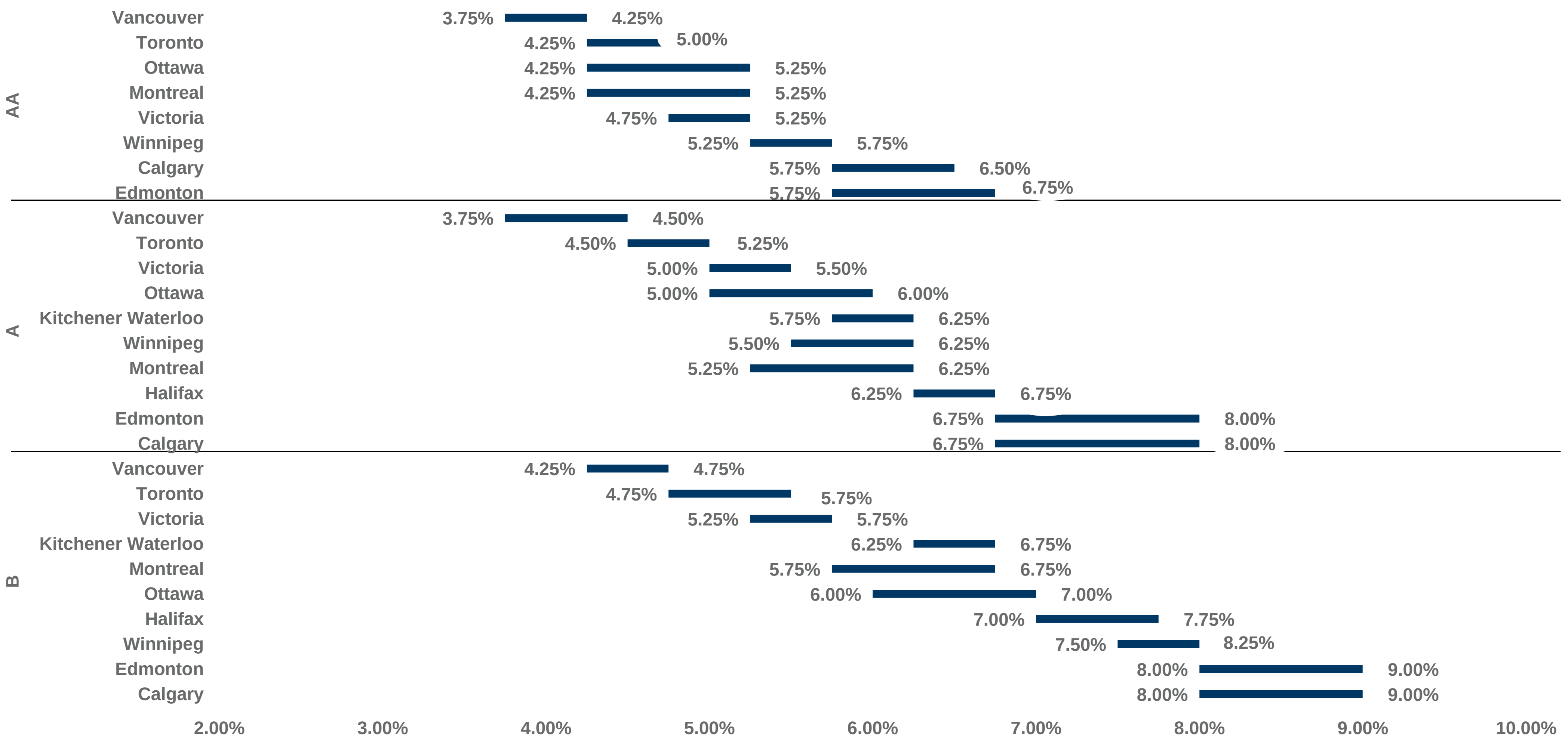
Seniors Housing

As investors look for places to shelter from the inflation and interest rate headwinds which picked up in the second quarter, the seniors housing business model offers a strong ability to hedge, underpinned by a needs-driven demand. Demographic factors and a slowing pace of development activity support a tightening market over the mid-term, which will manifest in accelerating rent growth and declining vacancy. Given the economic backdrop, long-term investors are identifying any softening in the spot market as an opportunity to add exposure to this increasingly critical component of the national housing supply, with a number of Class “A” trades confirming this commitment in Q2 2022. Among all other real estate sub-sectors, the publicly traded Canadian seniors housing names held up the best in the first half of 2022, which we partially attribute to the wider cap rate spreads to debt costs and investor’s appreciation of the real growth potential of the asset class.

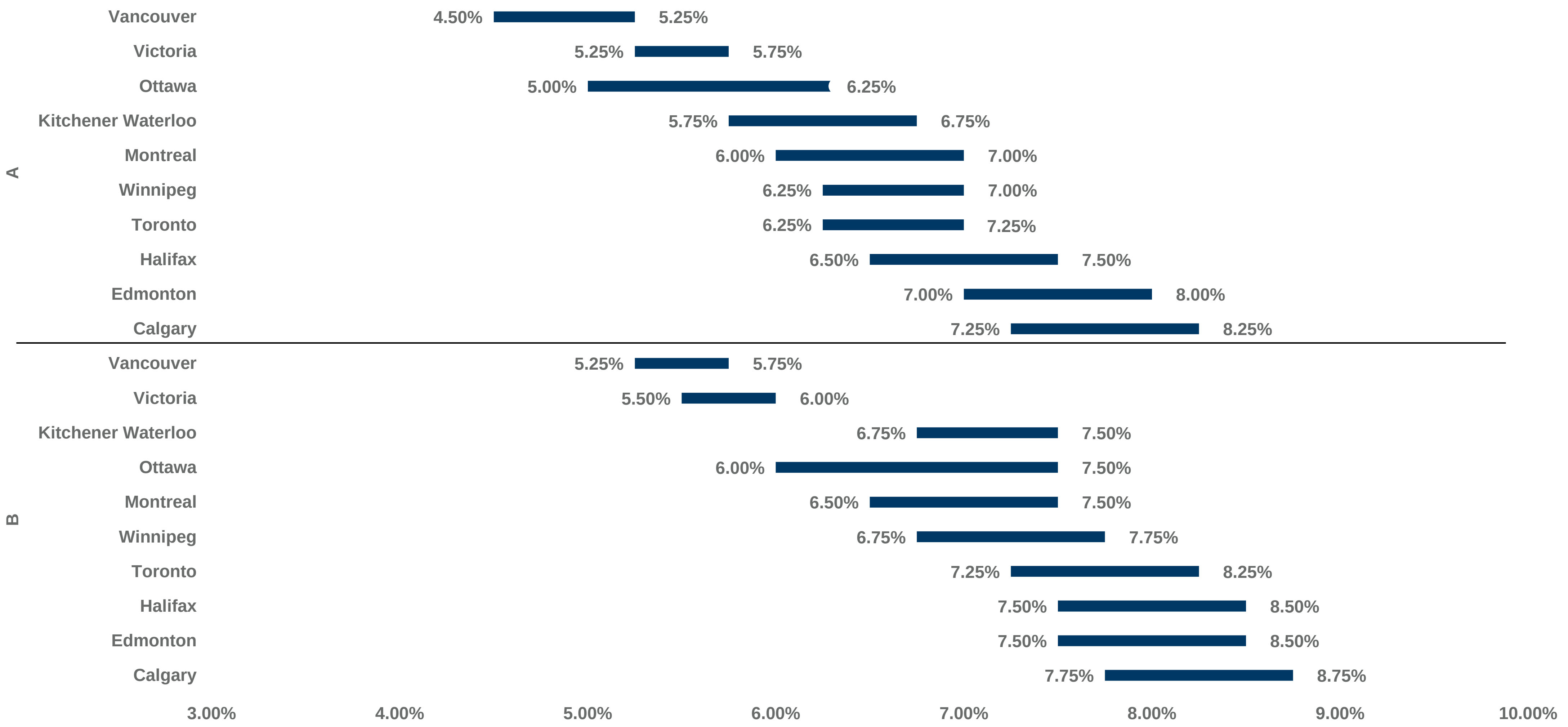
Hotel

Hotel performance continues to improve nationally with large increases in YOY room demand and strong gains in ADR. The outlook for Q3 2022 is for continued high leisure demand with corporate and group demand gaining momentum. While the rise in interest rates and the outlook for the economy are of concern in the short term, investor demand remains reasonably strong at this time. We do anticipate some impact on pricing will occur as a result of the increase in the cost of financing. However, hotels do provide a good hedge against inflation given their ability to adjust pricing.

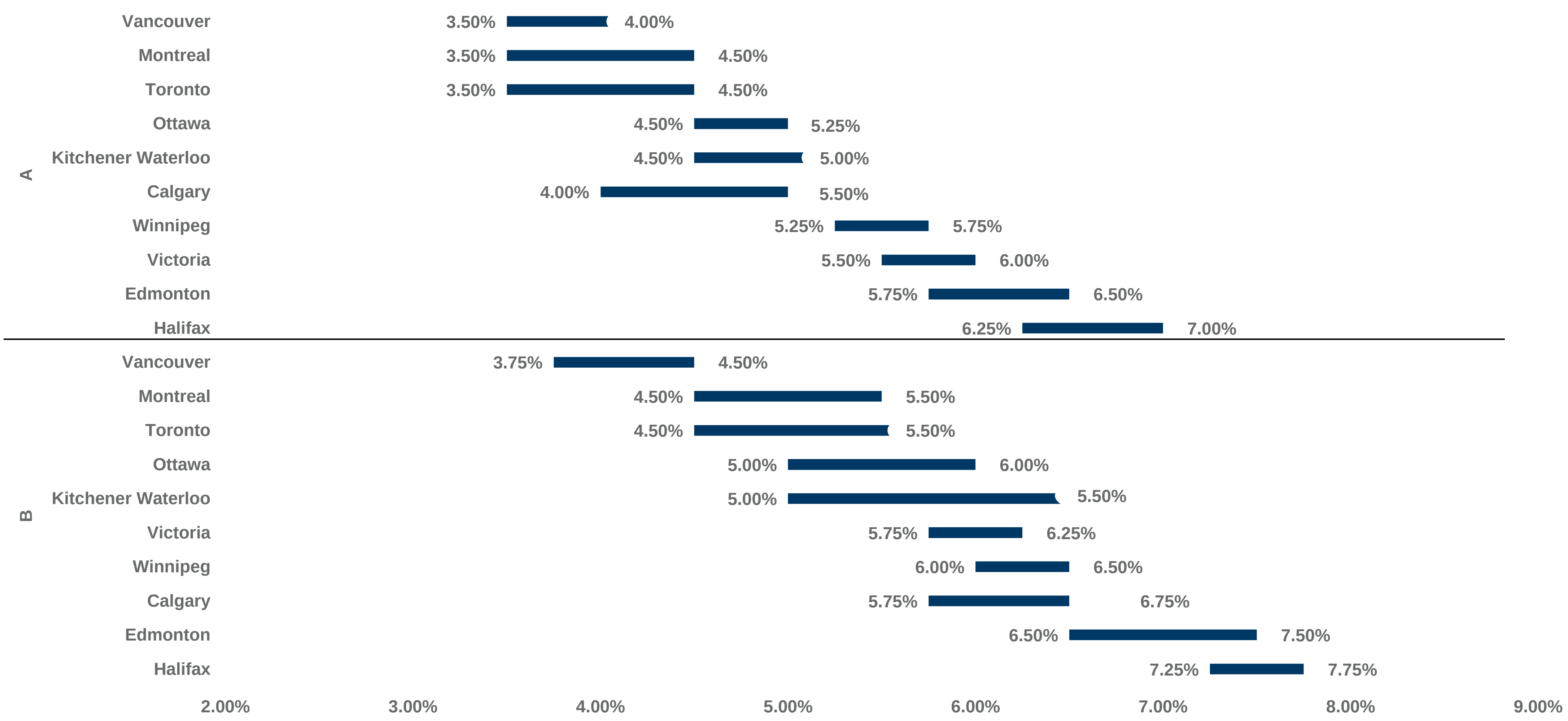
DOWNTOWN OFFICE CAP RATES



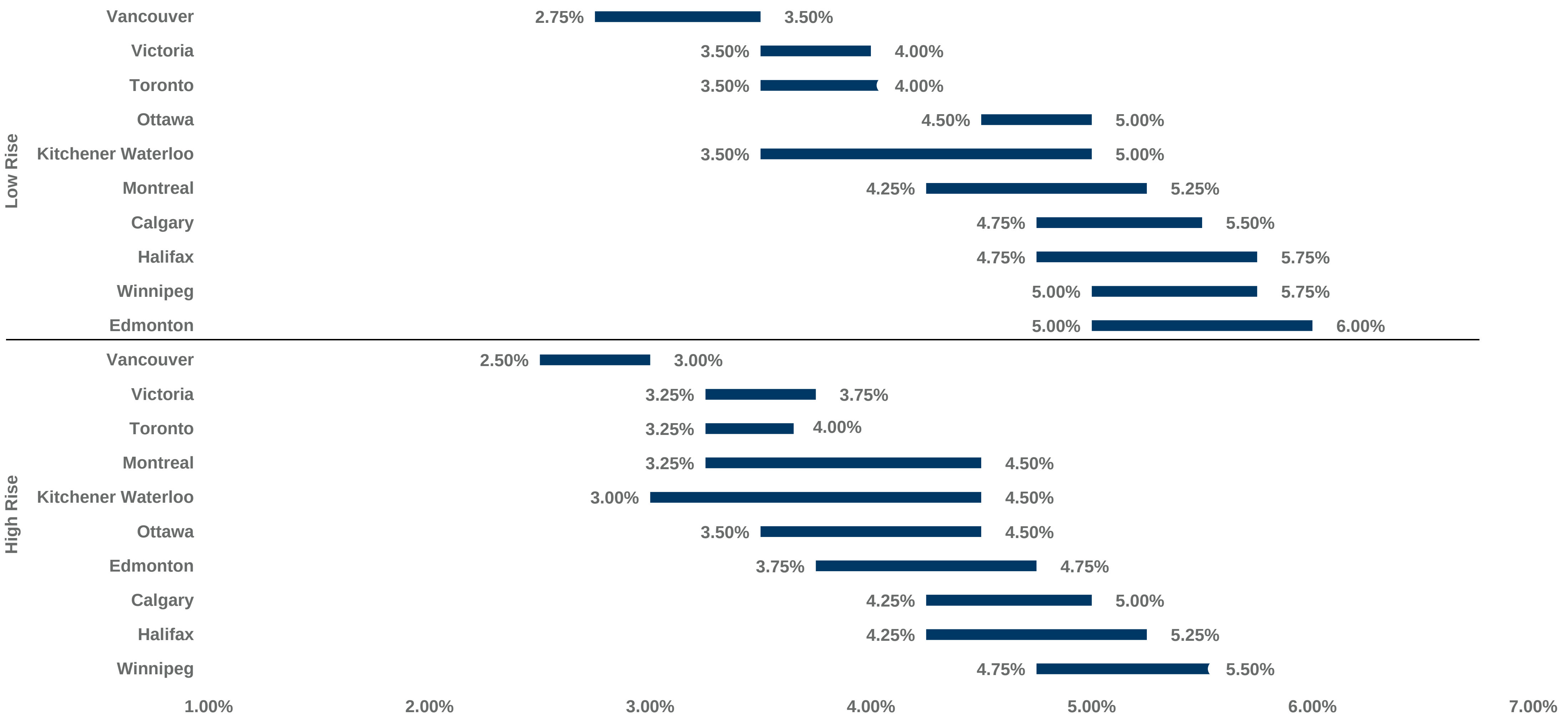
SUBURBAN OFFICE CAP RATES



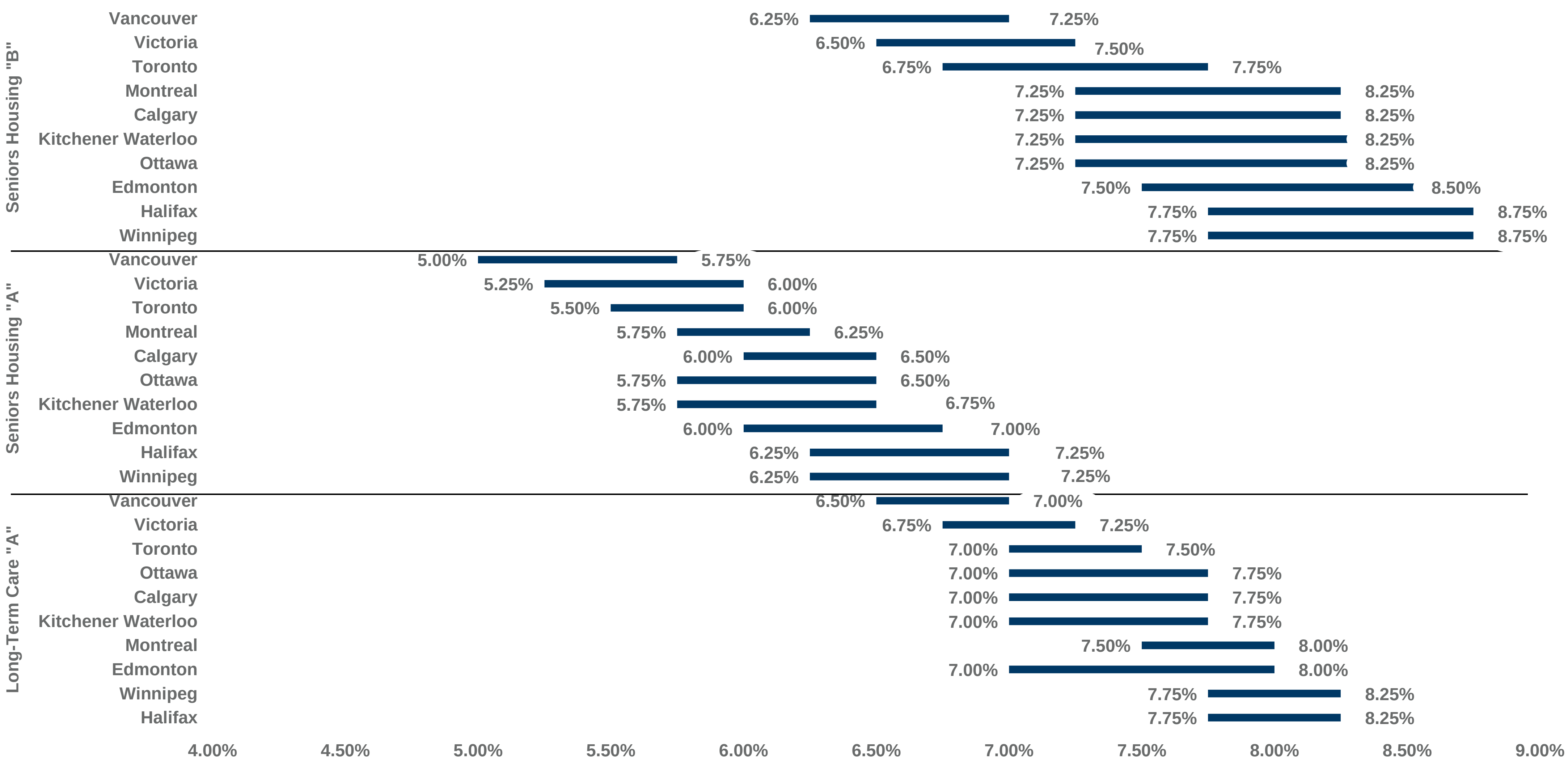
INDUSTRIAL CAP RATES



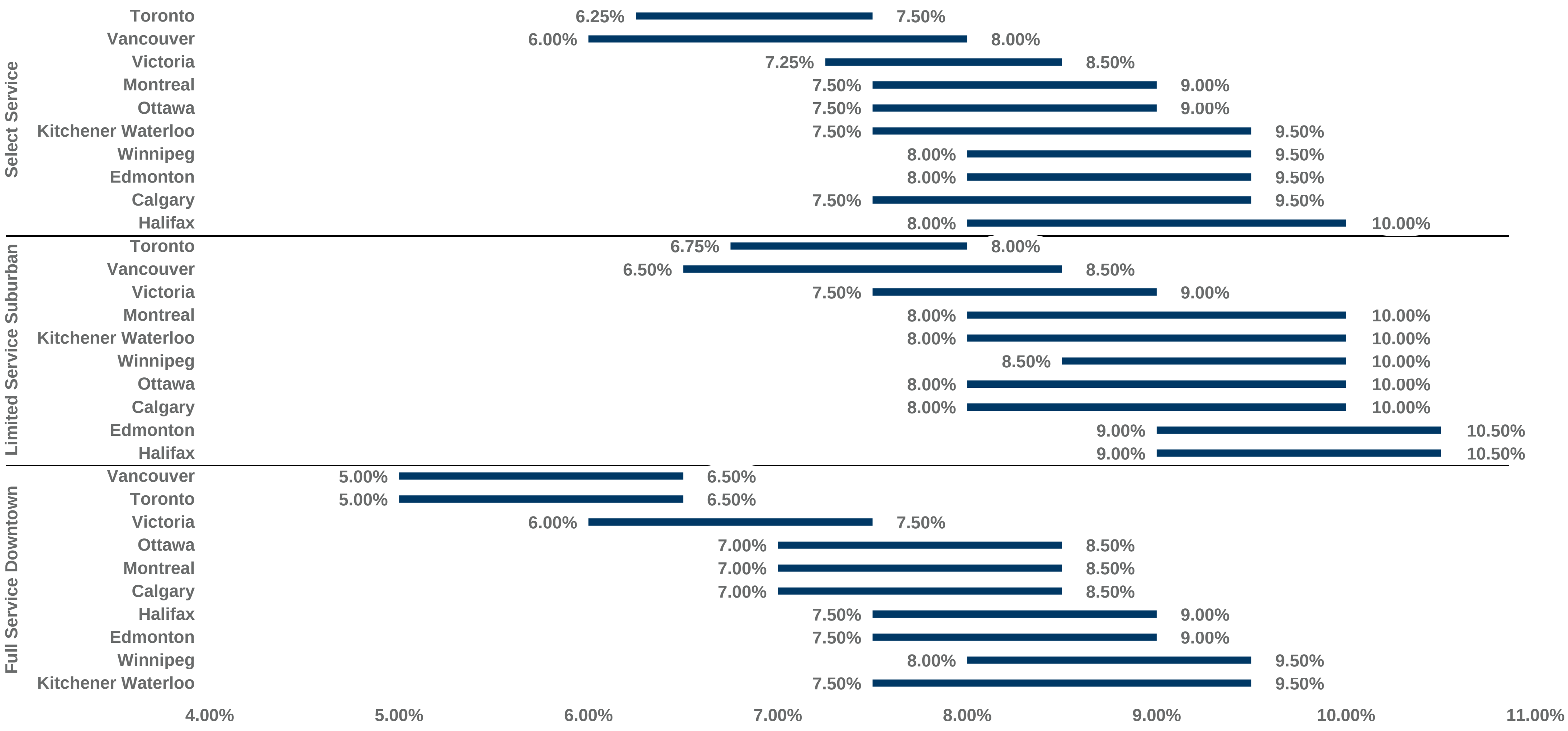
MULTI-RESIDENTIAL CAP RATES



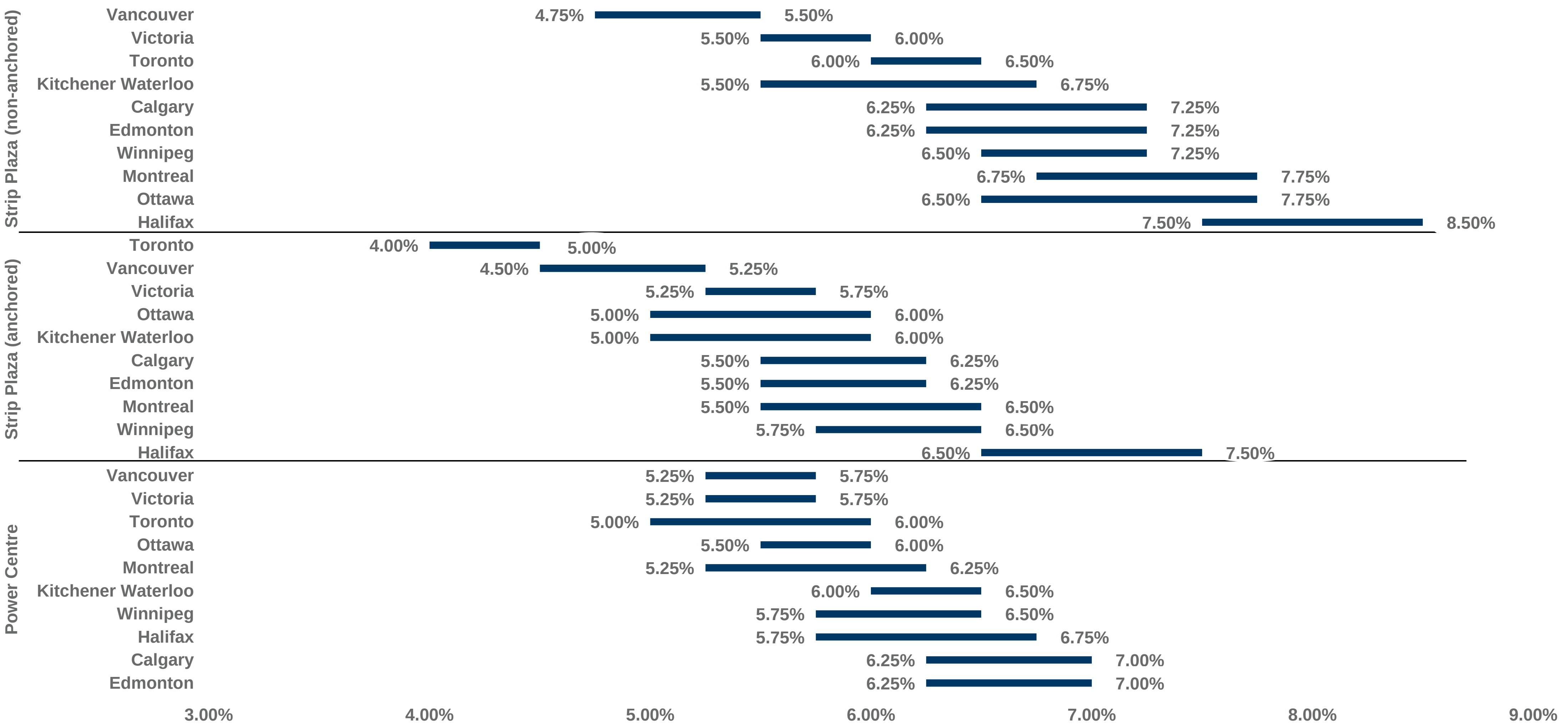
SENIORS HOUSING CAP RATES



HOTEL CAP RATES



RETAIL CAP RATES



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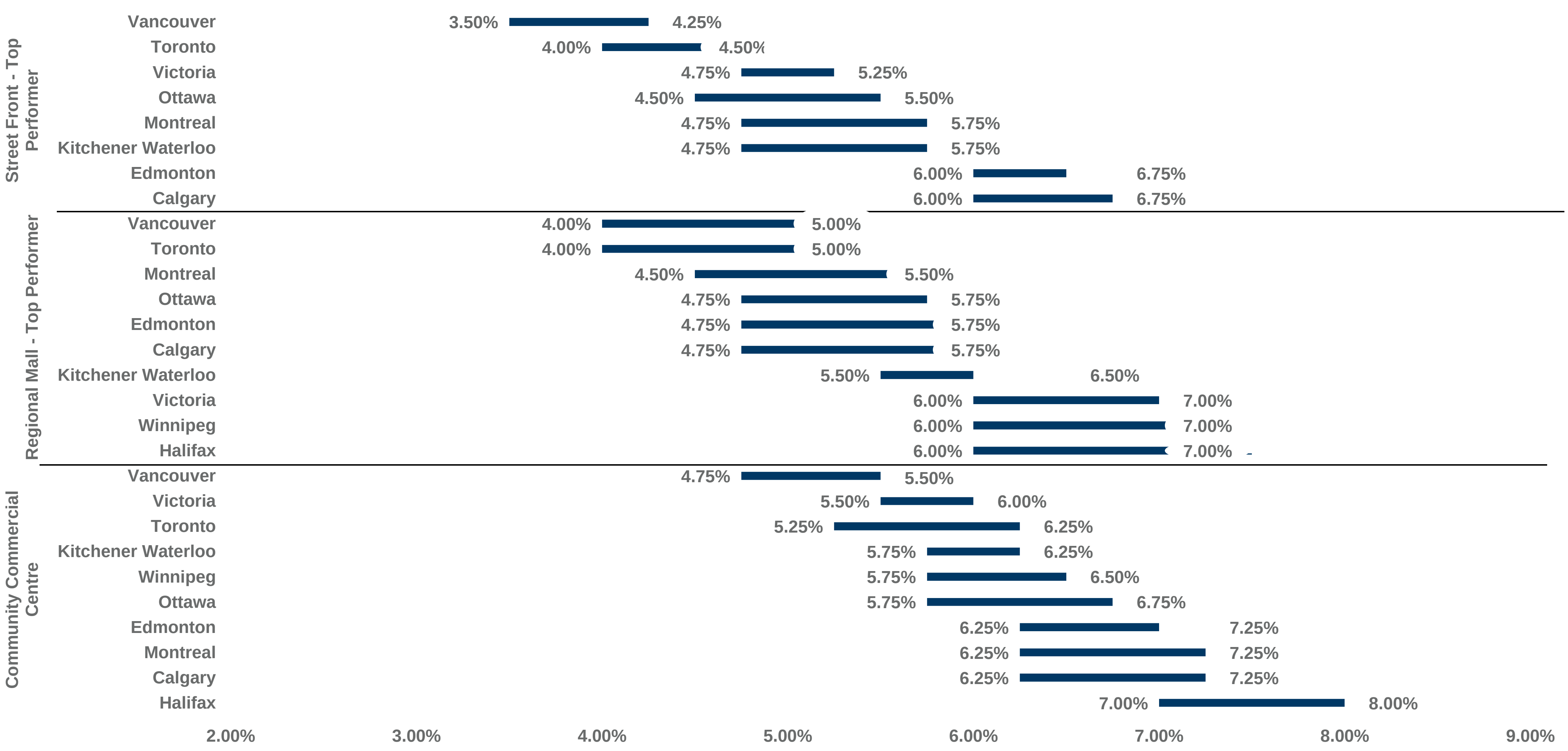

Q2 2022 CAP RATE SURVEY REPORT

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	👁	LOW	HIGH	👁
DOWNTOWN OFFICE																														
AA	4.75%	5.25%	◀▶	3.75%	4.25%	▲	5.75%	6.50%	▲	5.75%	6.75%	◀▶	5.25%	5.75%	◀▶	N/A	N/A	N/A	4.25%	5.00%	▲	4.25%	5.25%	▲	4.25%	5.25%	▲	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%	◀▶	4.50%	5.25%	▲	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%	▲	7.50%	8.25%	▲	6.25%	6.75%	◀▶	4.75%	5.75%	▲	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%	◀▶	6.25%	7.25%	▲	5.00%	6.25%	▲	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%	◀▶	7.25%	8.25%	▲	6.00%	7.50%	▲	6.50%	7.50%	◀▶	7.50%	8.50%	◀▶
INDUSTRIAL																														
A	5.50%	6.00%	◀▶	3.50%	4.00%	▲	4.00%	5.50%	▲	5.75%	6.50%	◀▶	5.25%	5.75%	◀▶	4.50%	5.00%	▲	3.50%	4.50%	◀▶	4.50%	5.25%	◀▶	3.50%	4.50%	◀▶	6.25%	7.00%	◀▶
B	5.75%	6.25%	◀▶	3.75%	4.50%	▲	5.75%	6.75%	▲	6.50%	7.50%	◀▶	6.00%	6.50%	◀▶	5.00%	5.50%	▲	4.50%	5.50%	◀▶	5.00%	6.00%	◀▶	4.50%	5.50%	◀▶	7.25%	7.75%	◀▶
APARTMENT																														
High Rise	3.25%	3.75%	◀▶	2.50%	3.00%	▲	4.25%	5.00%	▲	3.75%	4.75%	◀▶	4.75%	5.50%	▲	3.00%	4.50%	◀▶	3.25%	4.00%	◀▶	3.50%	4.50%	◀▶	3.25%	4.50%	◀▶	4.25%	5.25%	▲
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%	◀▶	3.50%	4.00%	◀▶	4.50%	5.00%	◀▶	4.25%	5.25%	◀▶	4.75%	5.75%	▲
SENIORS HOUSING																														
Seniors Housing “A”	5.25%	6.00%	◀▶	5.00%	5.75%	◀▶	6.00%	6.50%	◀▶	6.00%	7.00%	◀▶	6.25%	7.25%	◀▶	5.75%	6.75%	◀▶	5.50%	6.00%	◀▶	5.75%	6.50%	◀▶	5.75%	6.25%	◀▶	6.25%	7.25%	◀▶
Seniors Housing “B”	6.50%	7.50%	◀▶	6.25%	7.25%	◀▶	7.25%	8.25%	▲	7.50%	8.50%	▲	7.75%	8.75%	▲	7.25%	8.25%	▲	6.75%	7.75%	◀▶	7.25%	8.25%	▲	7.25%	8.25%	▲	7.75%	8.75%	▲
Long-Term Care “A”	6.75%	7.25%	▲	6.50%	7.00%	▲	7.00%	7.75%	▲	7.00%	8.00%	▲	7.75%	8.25%	▲	7.00%	7.75%	▲	7.00%	7.50%	▲	7.00%	7.75%	▲	7.50%	8.00%	▲	7.75%	8.25%	▲
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%	6.75%	◀▶	N/A	N/A	N/A	4.75%	5.75%	◀▶	4.00%	4.50%	◀▶	4.50%	5.50%	▲	4.75%	5.75%	▲	N/A	N/A	N/A
Regional Mall - Top Performer	6.00%	7.00%	▲	4.00%	5.00%	▲	4.75%	5.75%	▲	4.75%	5.75%	▲	6.00%	7.00%	▲	5.50%	6.50%	▲	4.00%	5.00%	▲	4.75%	5.75%	▲	4.50%	5.50%	▲	6.00%	7.00%	▲
Power Centre	5.25%	5.75%	▲	5.25%	5.75%	▲	6.25%	7.00%	▲	6.25%	7.00%	◀▶	5.75%	6.50%	▲	6.00%	6.50%	◀▶	5.00%	6.00%	◀▶	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%	▲	6.25%	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%	◀▶	4.00%	5.00%	◀▶	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%	▲

LEGEND

👁 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

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.

Q2 2022 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.

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