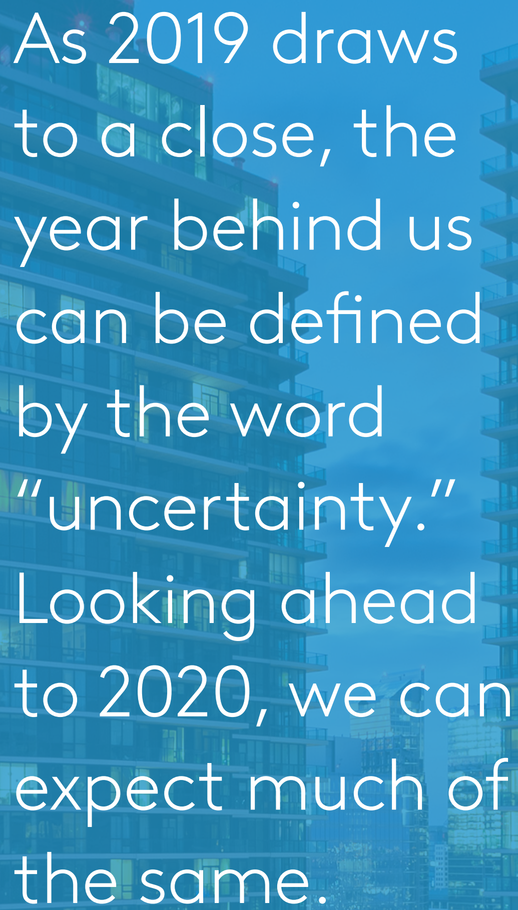
2020 Economic Outlook Whitepaper



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ECONOMIC OVERVIEW

As 2019 draws to a close, the year behind us can be defined by the word "uncertainty." Looking ahead to 2020, we can expect much of the same. This uncertainty, among other things, has led to lackluster business investment, fluctuating yet weak consumer confidence and ultimately slowing economic growth globally as well as in Canada. On the global stage, the same culprits at play at the end of 2018, although evolved, remain in play today, including: trade wars, particularly the U.S. and China trade war that is now even more complicated with the Hong Kong protests; the global populist movement; the constant potential threat of a Trump impeachment and now the upcoming U.S. election; the fear of fake news and misinformation; Brexit; and climate change. All of these issues and the fear of an upcoming recession continue to infiltrate the psyche of consumers and company executives, who consider balancing budgets and cutting spending as high priority items, which could result in a good old fashioned self-fulfilling prophecy.

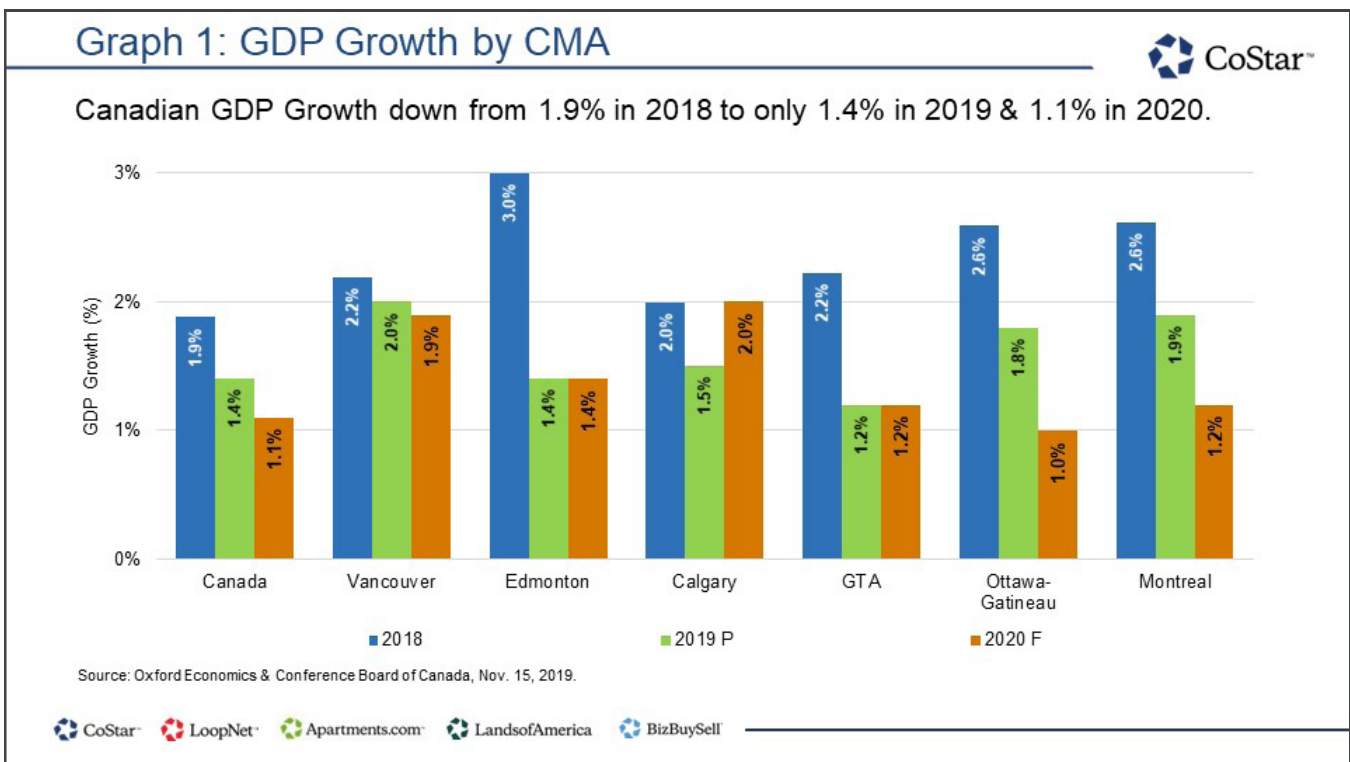
The Canadian economy is not immune to these global trends. The Bank of Canada (BoC) sites much of these concerns in the October 2019 Monetary Policy Report, which highlights a slowing global economy due to trade conflicts, slowing growth in the U.S., EU and China, and weak commodity pricing. Of particular interest is the price of oil and the spread between West Texas Intermediate (WTI) and Western Canadian Select (WSC). Despite easing of mandatory production cuts, the spread between WTI and WCS has remained at approximately USD$15 per barrel since June, and although there are no new pipelines to ship the oil, it has been cited that a pickup in oil shipments by rail has allowed for this spread to remain. However, CN rail is highlighting a drop in rail freight as the reason for a drop in earnings and layoffs.

The outlook for oil globally is equally concerning, especially considering the oil demand forecasts that were included in Aramco's IPO prospectus, which included two scenarios for peak oil demand, the first showing peak oil demand in approximately 20 years, with the second showing it arriving as early as the late 2020s. This is corroborated by the International Energy Agency (IEA)'s own forecasts showing peak demand arriving in the 2030s. This does not bode well for Canada and Alberta specifically, and poses the question as to whether Canada has missed the proverbial "tanker" boat even if we built the desired pipelines tomorrow.

These concerns from Western Canada were clearly evident in the October 2019 Federal election, where the Liberal majority was downgraded to a minority government. Discontent regarding the

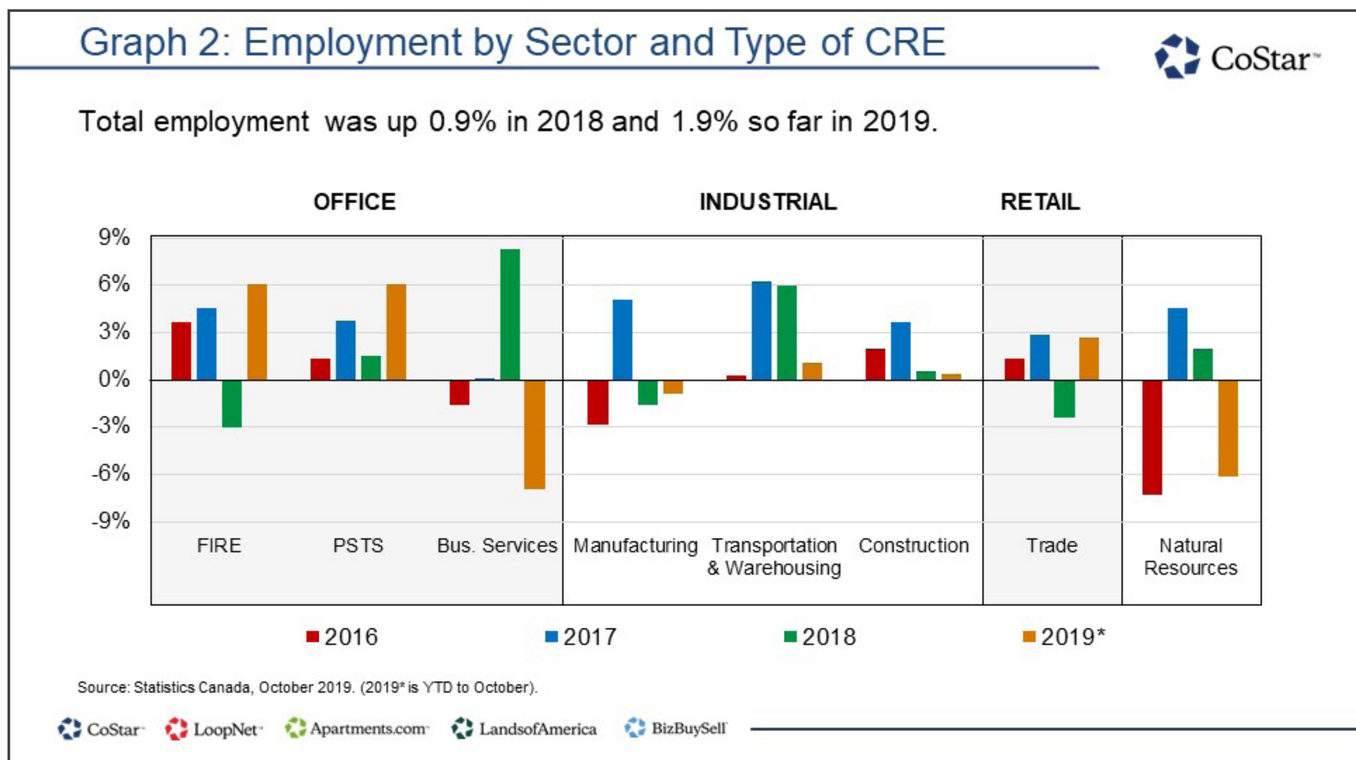
perceived inaction from Ottawa on pipelines has resulted in a new, albeit small, separatist movement in the west dubbed "Wexit." The movement is most popular in Alberta, the epicentre of the previous oil recession in Canada; however, Jason Kenney, the Premier of Alberta, despite being a staunch critic of the Trudeau Liberals, is a federalist and believes in working with the rest of Canada for the greater good. Unfortunately, Alberta has suffered the most since 2015 among any province in Canada, and provincial budget cuts, the departures of many multinational energy companies from the province and continued bad press about the "dirty" oil-sands stigma means the province continues to face an uphill battle. Alberta Finance Minister Travis Toews indicated that they "are working to ensure that the facts are known and clear about the Canadian energy industry," especially when compared to other energy sources such as Russia and the Middle East.

Clearly the Federal Liberal government also has an uphill battle on its hands, and the fact that it is now a minority government means that there will a lot more deal brokering between parties in order to remain in power. Despite many promises made during the election campaign, and although we expect government spending to be less robust than promised, the federal budget will remain in deficit until at least 2025. As for economic growth, despite a resurgence in the first half of 2019, Oxford Economics predicts that Canada as a whole will perform below potential growth in the second half of 2019 and throughout 2020, with annual GDP growth for 2019 at just 1.4%, followed by only 1.1% in 2020. The BoC and Parliamentary Budget Officer (PBO) are more positive, expecting 1.5% and 1.7%, respectively. Although most markets will slow from 2019, Calgary, Vancouver, Edmonton and Toronto will lead the pack in 2020 with GDP growth of 2.1%, 1.9%, 1.4% and 1.2%, respectively.



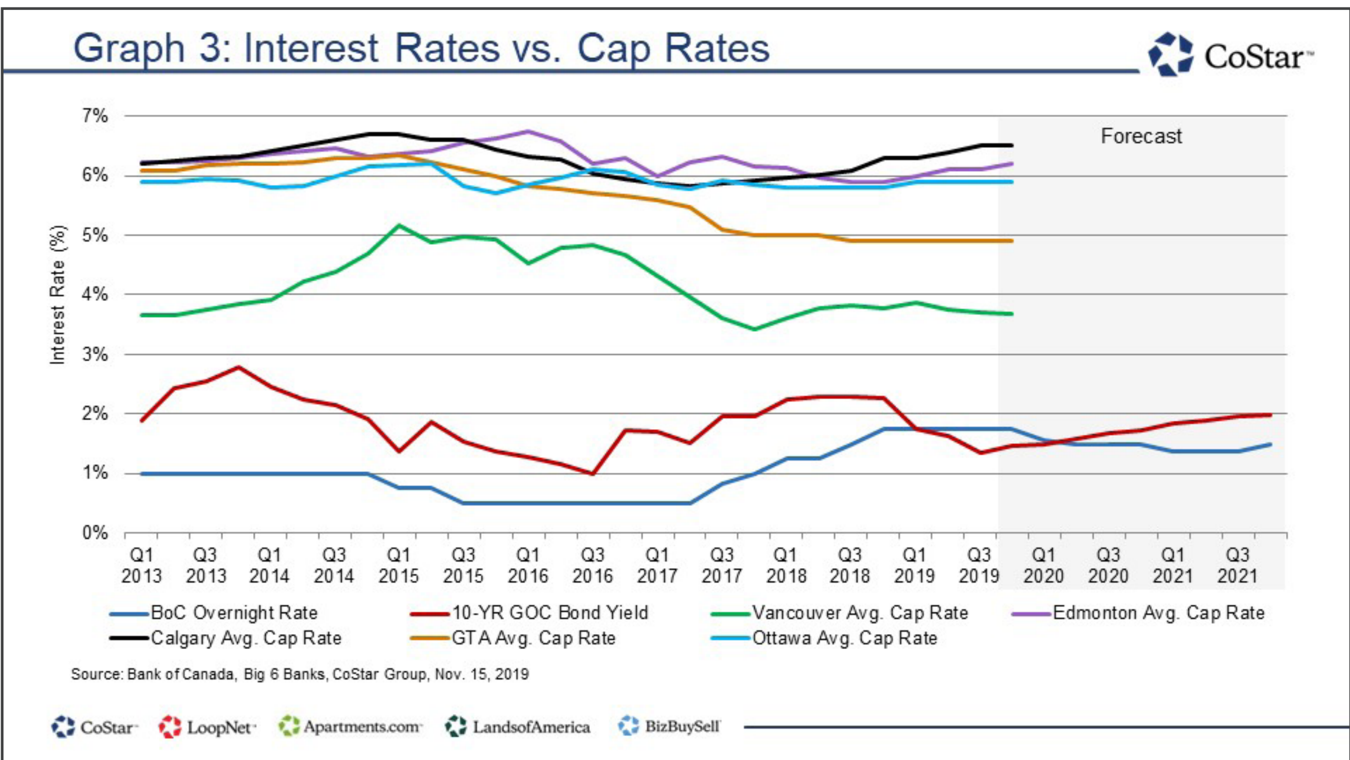
On the employment front, with the unemployment rate at 5.5% as of October 2019, the question is how much lower can it go, and more importantly why hasn't wage growth been stronger? The employment sectors that use offices, specifically Finance, Insurance and Real Estate (FIRE) and Professional, Scientific and Technical Services (PSTS), were mixed in 2018. However, both are up by 6.0% in 2019, up to October. Many of the FIRE sector job losses in 2018 can be attributed to the slowdown in the residential real estate market; however, with the residential market stabilizing and advancing again in 2019, the sector has returned to a demand driver in the office market.

The industrial market continues to be driven by transportation and warehousing and distribution activity for retail (both bricks and mortar and e-commerce). As a result, Canada has seen strong employment growth of 6.0% in 2018. That being said, year-to-date in 2019 this sector is only up 1.0%. Manufacturing, on the other hand, has lost approximately 20,000 jobs in 2019 year-to-date, resulting in -0.9% in employment growth. This sector continues to face hardships, due to high energy costs in Canada, specifically in Ontario, and Canada's relative uncompetitiveness in productivity, which has been one of the victims of the reluctance of corporations to invest in equipment and machinery first due to the uncertainty of the NAFTA 2.0 (aka USMCA or CUSMA) renegotiations in 2018 and now the global economic slowdown and trade wars.



The housing market leading into 2019 was looking rather dismal as a result of rising interest rates in 2017 and 2018, followed by political policies aimed at cooling speculative domestic and international investment. However, after price corrections in the primary target markets of Vancouver and Toronto, the tides have begun turn, with national housing prices and activity picking up in late 2019. The Greater Toronto Area (GTA) has seen both activity and pricing pick up, whereas Vancouver has just begun to see activity pick up. The pause in interest movement from the BoC has been welcomed by consumers despite being a sign of economic uncertainty. Unlike many other global reserve banks, the BoC has resisted the urge to drop its overnight rate. However, many economists expect the BoC to cut rates at least once and maybe twice between Dec. 4, 2019 and Q2 2020, to between 1.25% and 1.50%, before pausing once again. The PBO, being more optimistic on the Canadian and global economies, expects the BoC to actually increase rates twice in 2020 and again in 2021, ultimately reaching a "neutral" rate of 2.50%. Despite this relatively optimistic economic outlook from the PBO, it is actually a downgrade from their earlier outlook.

Ultimately if Oxford Economics and the economists from most of the big six banks are correct and the BoC cuts rates, it will be good news for consumers and households who continue to struggle balancing their budgets and would welcome lower debt servicing costs, the question is, with default rates up in Canada, will a rate cut actually have the desired impact of boosting Canada's economy?



So What About Commercial Real Estate?

Much like the end of 2018, commercial real estate markets across Canada continue to experience strong fundamentals, or at least stabilizing fundamentals in the case of much of Alberta. Even though construction activity has picked up in many markets, the supply and demand dynamics in play seem to be balanced or skewed to too much demand with not enough supply for many markets.

The office development pipeline, specifically in Vancouver and Toronto, continues to pick up steam. There is currently 21.1 million SF of office space currently under construction, 17.5 million SF of which is occurring in Toronto and Vancouver as a result of demand from the high-tech, co-working and FIRE sectors. Even though much of the recent office space demand has come from the high-tech and co-working sectors, driving both vacancy down and kicking off many construction projects, the co-working sector has lost some of its luster due to the problems experienced by WeWork. This is not an indictment of co-working spaces and providers as much as an issue with the WeWork model. WeWork has been very aggressive in securing space in several market across Canada, and their absence will give tenants more time to work on their offers during lease negotiations; however, with market conditions so tight in many markets, it won't give them much more breathing space. Canada is becoming a high-tech mecca, specifically for Artificial Intelligence and Autonomous Vehicles, partially because of our lower cost of labour, but also due to our continued high immigration numbers. Expect this to continue driving demand for office space in 2020 and beyond.

Industrial real estate has been a top performer in 2019 due to demand from the transportation and warehousing sector. Industrial space is the new retail, as retailers continue to react to the transition of consumers to e-commerce. The industrial development pipeline, specifically in Vancouver and Toronto, continues to pick up steam, which continues to also drive up construction costs and the cost of land. There is currently 29 million SF of industrial space under construction, 22.5 million of which is in Toronto and Vancouver, with many more projects expected to kick up construction in 2020. Ultimately, with record low vacancy and exceptionally strong rental rate growth in most markets, construction will remain strong. However, it is also leading to new formats of industrial space. We have seen several mixed-use light industrial projects already, with Oxford Properties announcing the first large format multi-storey industrial distribution type project, at over 700,000 SF in Burnaby. With the rent growth and demand levels expected in Vancouver and Toronto, combined with the rising cost of land and construction, expect more multi-storey industrial projects in the future.

On the retail side, the impact of e-commerce as well as higher interest rates and weak consumer confidence on retail sales cannot be understated. Rising interest rates in 2017 and 2018 increased debt servicing costs, and this has not only impacted retail sales, but also increased default rates in Canada. Although the BoC is expected to cut interest rates, this may not provide the boost to

economic activity that the BoC is hoping for. To extend this into retail performance, other than premier retail destinations, which are expected to continue to see strong performance, same-store retail sales in areas that are attracting new immigrant households will likely see stronger same-store sales growth compared to areas that do not. Large format retailers continue to fumble under the weight of increasing rents in large spaces, with the likes of Forever 21 exiting from the Canadian market, and the industry is reminded that for traditional retailers, experience and quality are the driving forces for consumers.

The investment market for most asset types in markets across Canada remains robust, however, capital availability drops off as the tier of market and quality of asset drops off. Much of the premier office stock remains closely held by Canadian institutions, and rarely trades. The biggest concern most investors have about these markets is simply finding a way in. On the other hand, investors continue to shun office space in Calgary, whereas Edmonton office space continues to find bidders. For industrial assets, much of the problem is lack of available product on the market, as many investors are reluctant to give up assets that are performing so well, with record low vacancy rates and strong rent growth. Retail is the one sector that is suffering from continued bleak news and a weak outlook, despite seemingly strong vacancy fundamentals. As a result it is not surprising that some retail properties that come to market do not sell, as buyer and seller expectations are not completely aligned, however, there is demand for well-located retail assets in these markets, particularly if the properties are candidates for either redevelopment or intensification.

Looking Forward to 2020

The storm clouds on the horizon at the beginning of 2019 remain, and as we head into 2020 it will be important to pay attention to the following economic indicators:

- Cloudy Global Economic Outlook: We continue to experience fallout from geopolitical issues, including the impact of the U.S. vs. China Trade War, the global populist movements and U.S. impeachment and election proceedings.
- Minority Federal Government to Focus on Deal Making, Including Pipelines: Expect the now minority Liberal government to be deeply focused on deal-making with the Conservatives, NDP and Bloc. As such, there will be increased and renewed pressure on the Liberals, from the Conservative party specifically, to build pipelines or risk stalling economic growth in Alberta even further and empowering the Wexit movement. However, the Liberals will also need to make concessions to the other parties to keep them onside. Don’t expect a balanced budget any time soon.

- Interest Rate Cuts: Although the Bank of Canada (BoC) has been widely expected to cut interest rates, the economic data to date has not proven the need for cuts so far. Expect a potential rate cut at the end of 2019, followed by another rate cut in early 2020, but also be aware that high consumer debt levels and debt servicing costs are resulting in increased default rates and impacting retail sales and consumer confidence. As a result, don't expect these rate cuts to provide the boost to economic activity that the BoC is hoping for.
- Landlord Market Leaves Tenants with Limited Options: Limited available space is causing the risk of stunting tenant expansion plans. However, a wall of new supply is expected to hit many Canadian markets over the coming years. This new supply is welcomed, but will likely require capital investment by owners of older buildings that will see higher vacancy. Expect higher and more intensive use of land going forward with intensification of retail properties and mixed-use and multi-storey industrial.
- Return "OF" Investment on the Minds of Global Investors: Global instability usually results in increased interest in Canadian commercial real estate as foreign investors focus on ROI, return-of-investment as opposed to return-on-investment. Canadian commercial real estate, specifically in gateway markets like Toronto, Vancouver and Montreal, are prime targets for foreign investors due to the performance and stability they offer; however, as always, the problem is getting into the market and finding sizeable assets to buy.

Although the Canadian economy is expected to only grow by 1.4% in 2019, and 1.1% in 2020, British Columbia (BC) is once again expected to be one of the stronger performers across the nation.

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British Columbia & Vancouver Economic Overview

As 2019 comes to a close both domestic and global growth forecasts are expected to be lower than initially predicted. Although the Canadian economy is expected to only grow by 1.4% in 2019, and 1.1% in 2020, British Columbia (BC) is once again expected to be one of the stronger performers across the nation. In fact, the province is expected to close out 2019 with GDP growth at 1.8% and will likely maintain a similar level in 2020, growing by 1.7%. To encourage growth across the nation the Bank of Canada (BoC) is expected to cut the benchmark interest rate by 25 basis points (bps) before the end of 2019, followed by a another potential rate cut in early 2020 to provide the necessary economic stimulus to overcome a slowing global economy.

Moreover, as the Liberals begin their second term on Parliament Hill, Justin Trudeau and his team will have a lot of work to do to regain the trust of British Columbians as the party lost six seats in the province, allowing the Conservatives to gain further traction across the province. With the west blanketed in blue, the minority government will need to bridge the gap between the east and west to ensure that concerns from BC and Alberta residents are taken into consideration. This is especially true in relation to the ongoing delays for the Trans Mountain Pipeline and the continued decline of the softwood lumber industry in the province. With the United States still imposing large import duties and limits on softwood lumber, BC's exposure to trade actions by its neighbour to the south will continue to pose great risks for the overall well=being of the provincial economy.

With that being said, BC is in a better position to weather the potential storm ahead as the province is expected to post surpluses for the next three fiscal years. Specifically, the province is expected to post surpluses of $274 million, $287 million and $585 million over the next three fiscal budgets, respectively. The province has taken a stance on incorporating significant reserves into its budgetary planning process while also ensuring that it continues its practice of forecasting economic growth at a lower rate than the private sector to be able to handle any unforeseen external shocks to the economy. Due to these measures, British Columbia is the only province in the nation to receive an "AAA" rating by all three international credit rating agencies.

Looking at the Greater Vancouver market, GDP growth is expected to outperform the province. With major infrastructure projects either underway or about to begin, the economy is expected to grow by 2.0% by the end of the year and 1.9% in 2020. Part of this growth will be associated with the $5.6 billion expansion of the Vancouver International Airport and the $2.8 billion extension of the Millennium Line to Arbutus. Furthermore, the $1.4 billion, four-year Pattullo Bridge replacement project is expected to increase the level of inter-provincial migration to the region, ultimately placing further pressure on the rental market within the Lower Mainland. These major projects will likely keep the unemployment rate in Greater Vancouver well below 5.0% while the employment growth rate will remain above 1.0% well into 2023.

The continued expansion of the tech sector in Metro Vancouver will also play a major role in the contribution of jobs and thus will offset potential losses in other sectors of the economy. In fact, office-based employment is expected to grow by 8.7% in 2019 before returning to an average annual growth rate of 2.6% between 2020 and 2023. The introduction of Canada's Global Skills Strategy

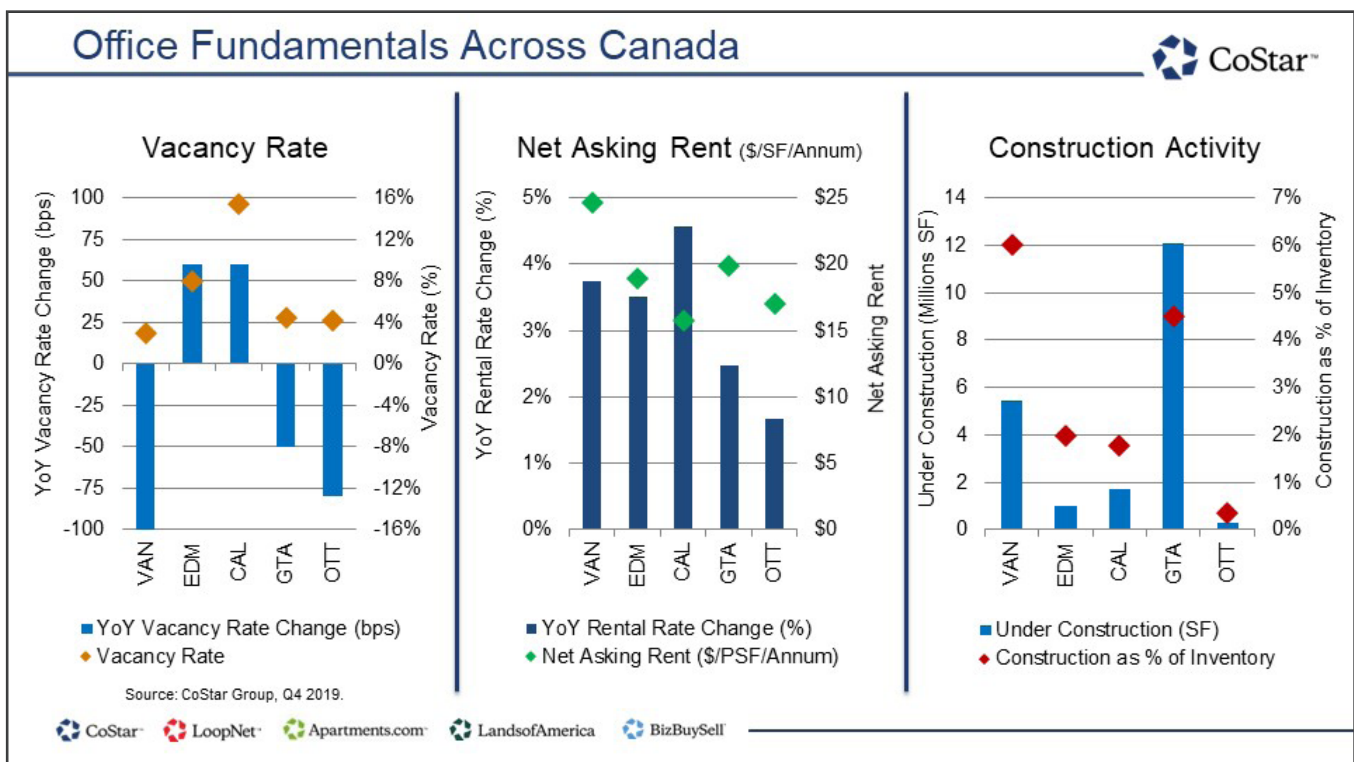
program has been highly successful over the past year, allowing tech firms in the United States to overcome challenges faced by their stringent immigration laws. More and more firms are now looking to Vancouver to open up satellite offices or by having their foreign staff operate remotely from the region.

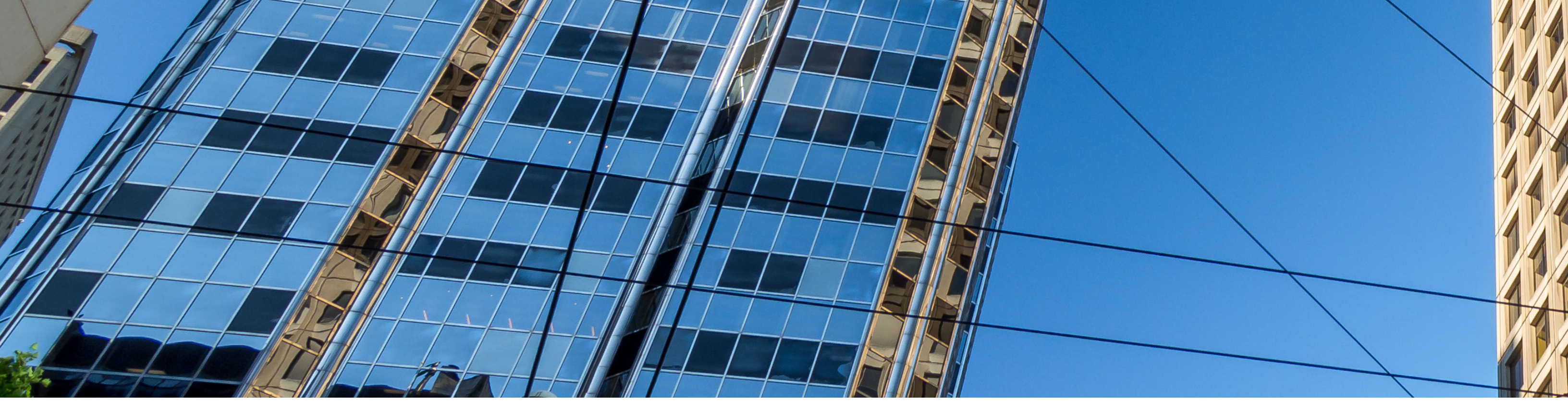
Overall, BC and Vancouver are vulnerable to external shocks just as any other province or city in Canada. However, with heavy investment in infrastructure projects, one of the lowest debt-to-GDP ratios across the nation, continued growth in both residential and non-residential construction, growing wages, and healthy provincial surpluses over the medium-term will provide the province with strong fundamentals throughout 2020.

Vancouver Office Overview

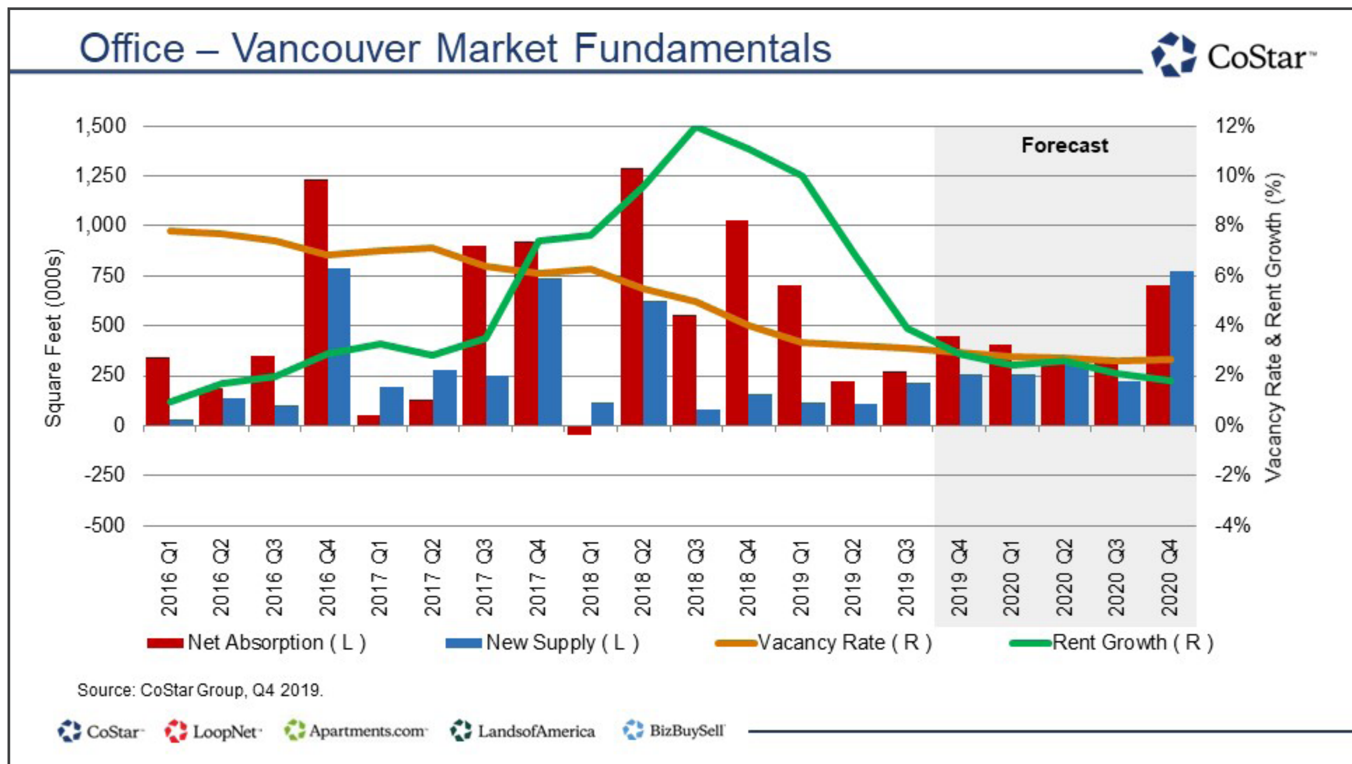
The Greater Vancouver office market is expected to post another stellar year in 2019, and is considered one of the strongest office markets across North America. Even with limited available space in the market, the Lower Mainland is forecasted to see the vacancy rate decline by 100 bps to close 2019 at an extremely low rate of 3.0%. With vacancy even tighter within the downtown core at 2.0% much of the leasing activity extended away from the core and into suburban markets such as Burnaby and Surrey, where major developments are underway to accommodate the growing demand from both domestic and international firms. This is expected to bring the suburban vacancy rate down by 180 bps to a historic low of 3.6% by the end of 2019 and close to 3.0% by the end of 2020.

With the increased influx of demand across Metro Vancouver, net asking rates have continued on an upward trend, expected to grow by 3.7% to $24.66/SF by the end of 2019. Even with the highest average office rental rates across the country, international demand is not expected to die down anytime soon as absolute rents in the market are relatively inexpensive compared them to other markets such as San Francisco and Seattle, notwithstanding the lower Canadian dollar.

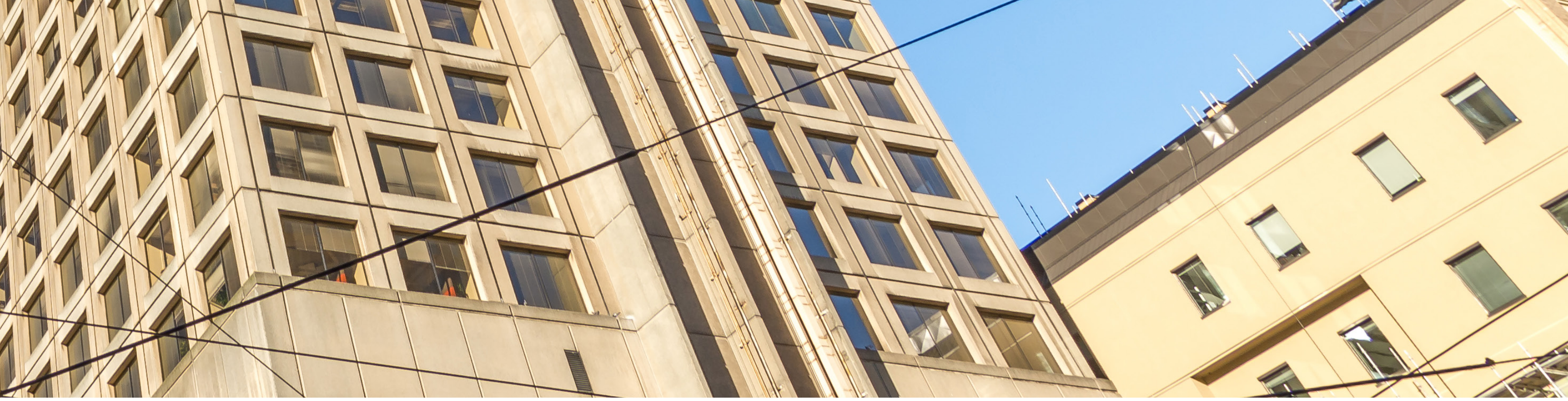




To keep up with demand, developers have responded with 5.4 million SF of new office construction across the region; however, it should be noted that over 77% of these new projects will be focused within the downtown core. Although prospective tenants hope that this will place downward pressure on rents, much of the new space expected to arrive on the market in 2021 and 2022 is heavily pre-leased. Therefore, opportunities may arise within the empty space vacated by tenants moving into these new flagship offices spaces once they arrive on the market. Expect to see co-working firms actively engage in securing additional space as demand in this segment is the strongest across Canada. Firms such as IQ Office Suites have already announced the addition of a new location and have also secured an additional floor within the strategically located Royal Centre. This, coupled with an array of boutique co-working firms looking to gain market share, will increase the competitiveness in the leasing market, especially in the downtown core.



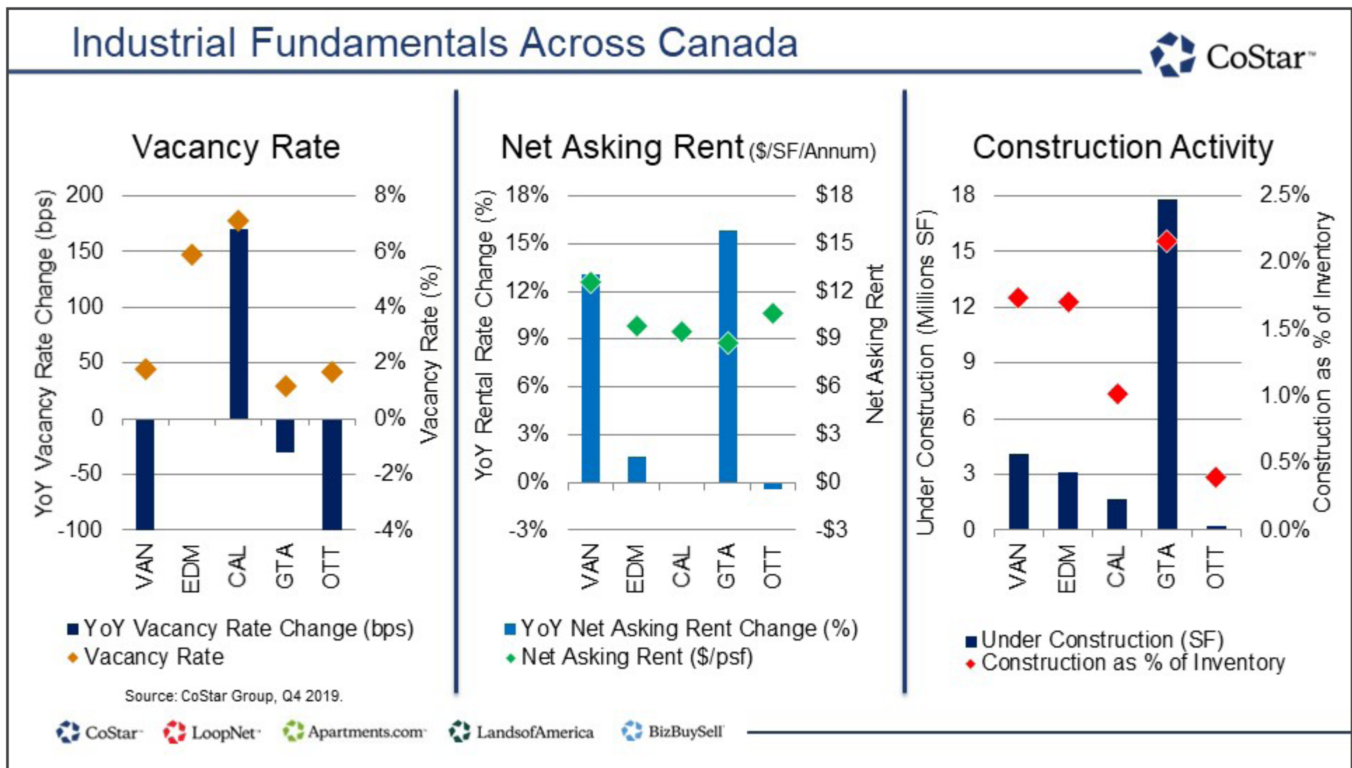
Moving into 2020, the outlook remains much the same as it did during 2019. Vacancy across the region will continue to trend downward while rent growth will likely reach an additional 2.0% by the end of 2020, and much higher downtown. Prospective tenants will continue to have limited say in the negotiation process and will have to make do with what is available on the market unless they are willing to wait an extended amount of time. For those that have leases due for renewal, expect existing tenants to start renewal negotiations early to lock in rates well before their expiry. Even



on the investment front, institutional buyers will need to be willing to sign blank cheques to secure premier office assets. Average market prices per square foot are expected to increase an additional 5.7% to $616/SF across Metro Vancouver in 2020, ultimately maintaining an average cap rate of 3.9%.

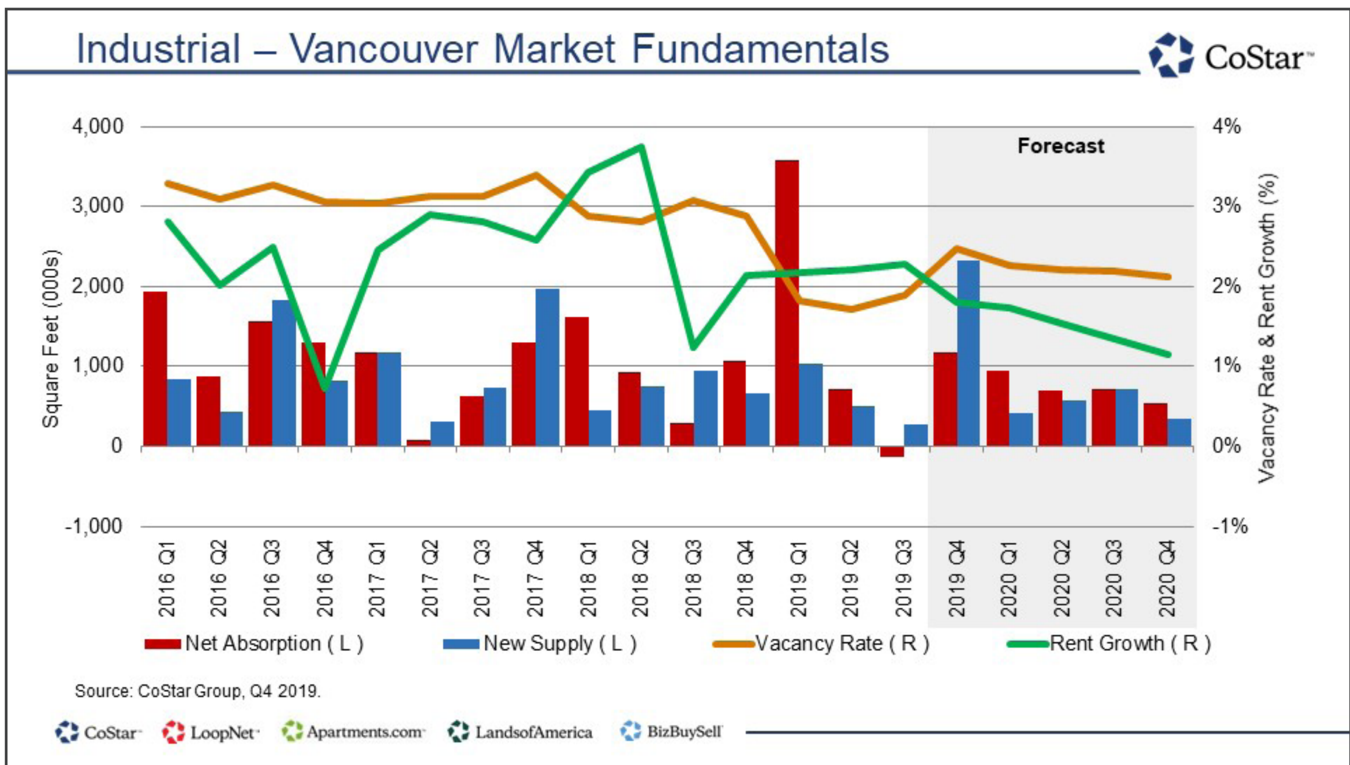
Vancouver Industrial Overview

Just like the office market, Metro Vancouver's industrial market is expected to post another phenomenal year. At its peak, the industrial market was able to achieve a historically low vacancy. Vacancy has decreased by 100 bps since year-end 2018 to finish 2019 at 1.8%; however, this is up slightly from 1.7% at mid-year 2019. This uptick in vacancy should not be a cause for concern as it is mainly due to a large amount of deliveries arriving on the market before the end of the year. Keep in mind that for any space that is not already spoken for, it will likely be leased at a rapid rate as the number of months on market has decreased to only four months.



Overall, net asking rents are up 13% in 2019 to $12.56/SF. This is the second strongest growth rate after Toronto, however in terms absolute dollars, Greater Vancouver is the priciest location for industrial tenants across the nation. Much of the growth in rents across the region was the result of increased demand for logistics and distribution space. Firms such as Amazon and Canadian Alliance have been quick to lease state-of-the art facilities. In fact, executives from Canadian Alliance secured 250,000 SF within the Delta iPort well ahead of their lease expiry across four different facilities as they recognized the scarcity of first tier options across the region. Additionally, with the Port of Metro Vancouver plans to further expand the port capacity to handle additional container traffic, demand for logistical space is only expected to rise further.

Even with 4.1 million SF of industrial space under construction in Metro Vancouver, there does not seem to be any relief in sight for tenants as pre-leasing activity continues to play a dominant role in the leasing game. In fact, pre-leasing on product that will be delivered over 2020 is at 82.2%, indicating that once new properties arrive on the market, there is little to no available space for lease. The tight market has even led many existing tenants to remain where they are as the 24-month lease renewal rate is also above the 82% mark. Many of those tenants looking for larger facilities are unable to identify appropriate spaces and thus have decided to remain where they are. Under such a tight market, prospective tenants will likely need to alter their operational, technical, and manufacturing plans to adapt to available spaces on the market or to potentially explore the build-to-suit options.



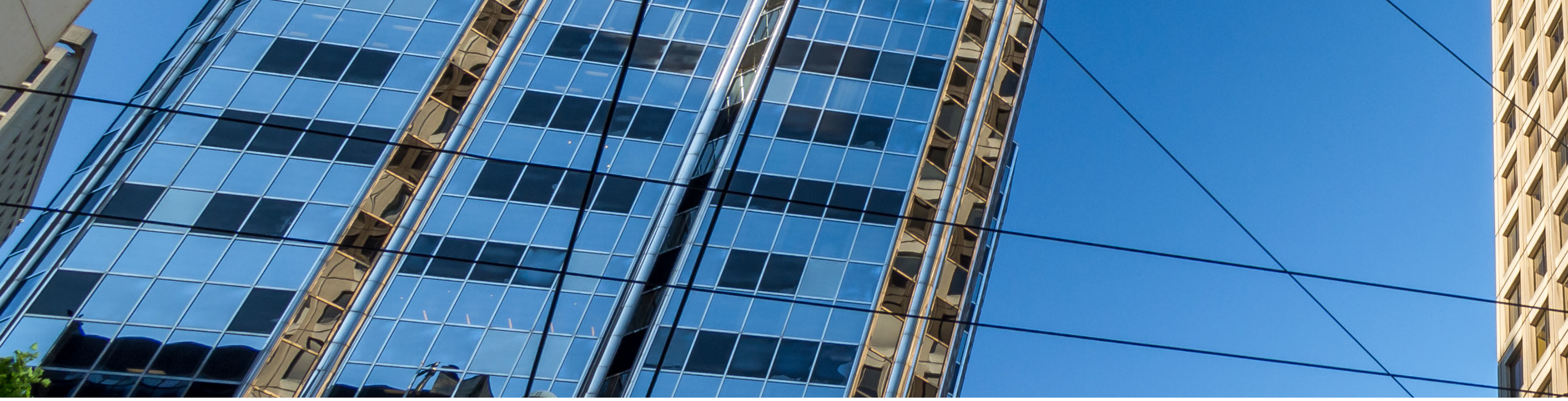
With the industrial sector in dire need of assistance, an Industrial Lands Strategy Task Force was established in December 2018 to explore the future outlook and use of industrial land in Metro Vancouver. Based on the recent study it was noted that only about 20% of the regions remaining 28,000 acres of land dedicated to industrial land use is available for use after accounting for land that is earmarked for the Port of Vancouver and the Vancouver International Airport. As a result, there is only 3,200 acres of land available for future development, and based on the fact that the region is absorbing industrial land at a rate of 200 acres per year, it is estimated that Metro Vancouver will run out of industrial land within the next 15 years. Because of this, the market is expected to see vacancy remain low throughout the 2020s despite new supply, resulting in sustained rent growth.

Going forward, industrial development will likely adapt to changing dynamics and Metro Vancouver will likely begin to see more stacked industrial developments, such as Oxford's recently announced 707,000 SF two-storey facility on the former Paperboard Milling site in Riverbend Business Park in south Burnaby. Unfortunately, this will not help keep rents down as it can cost up to three times as much to design and build a multi-storey industrial building. Additionally, more land would be required to accommodate ramps to access higher levels. With the costs elevating, prospective tenants may rather look at other markets such as Calgary and Edmonton, where access to land is more widely available and lease rates are lower. For those smaller owner/occupiers, industrial strata units will continue to gain in popularity locally as occupiers can use this form of ownership to regain control of their operating expenses and avoid the possibility of eviction due to redevelopment.

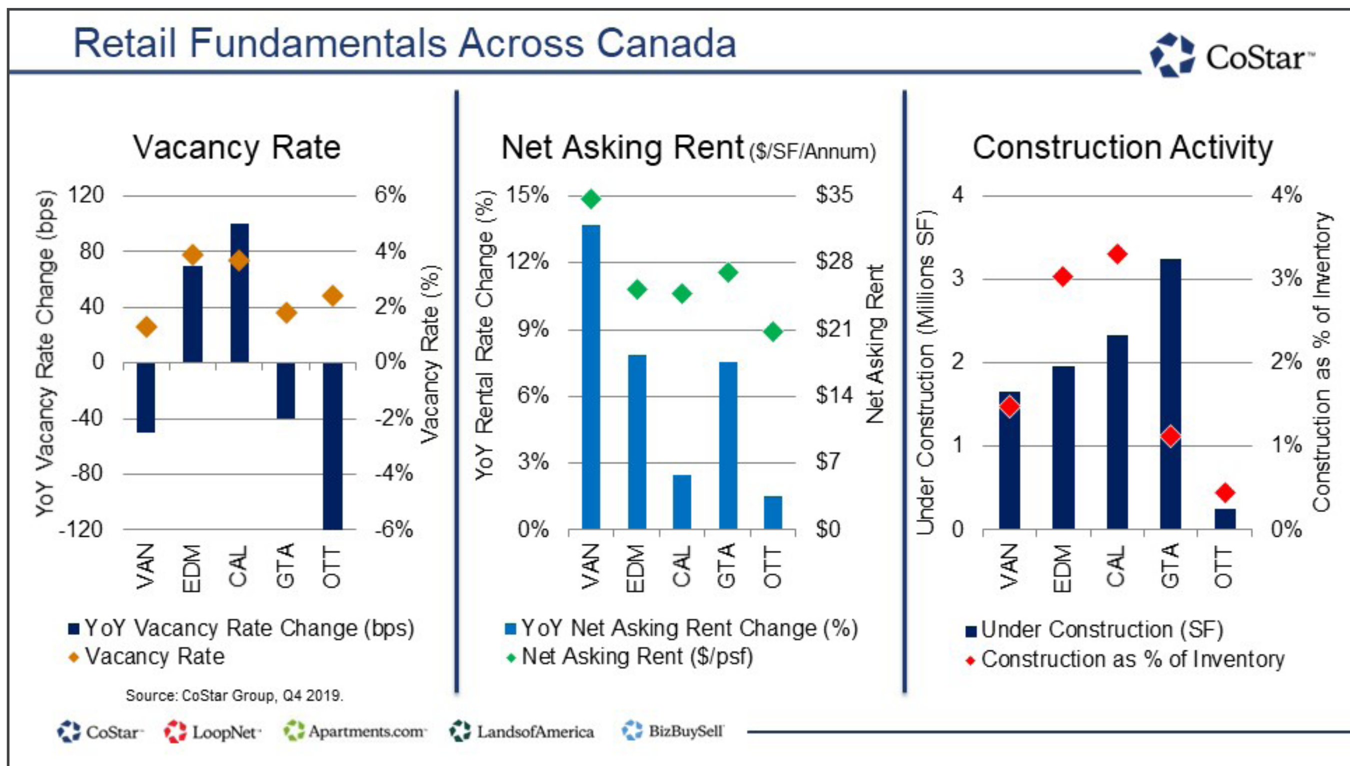
Vancouver Retail Overview

Unlike the retail market in the United States, Canadian retail markets, and Metro Vancouver specifically, are performing well. Metro Vancouver entered 2019 with a retail vacancy rate of just 1.9%, and has tightened to 1.3% in 2019, bolstered by spending from tourism traffic. Even with retail sales trending downward in Vancouver, it is not deterring retailers from entering or expanding in the Greater Vancouver market. In fact, net asking rents are forecasted to see the largest growth across Canada, with average net rents at $34.64/SF at the end of 2019.

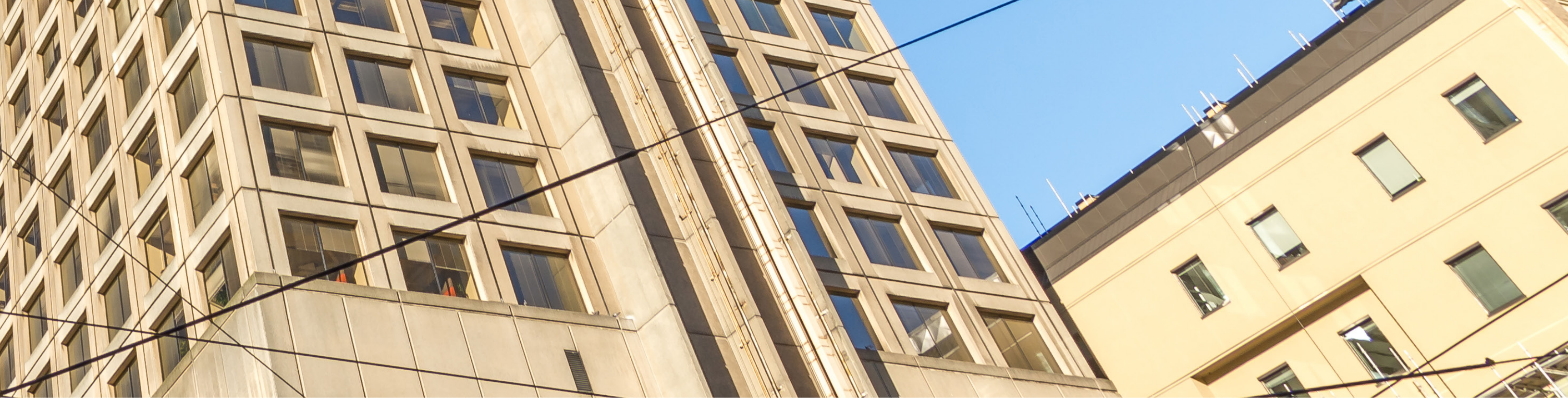
Results from the 2019 holiday season will be the true test for the retail sector. Forecasts predict that consumer spending will likely end 2019 growing by 2.0% and will grow by 2.2% in 2020. The upcoming opening of the Amazing Brentwood will hopefully convince consumers to open up their wallets and contribute to increased demand especially due to the fact that the new development is planned to welcome luxury and premium brands. Luxury retailers have performed well in the region especially in the downtown core along Alberni and Robson Street. Foot traffic along these streets has justified



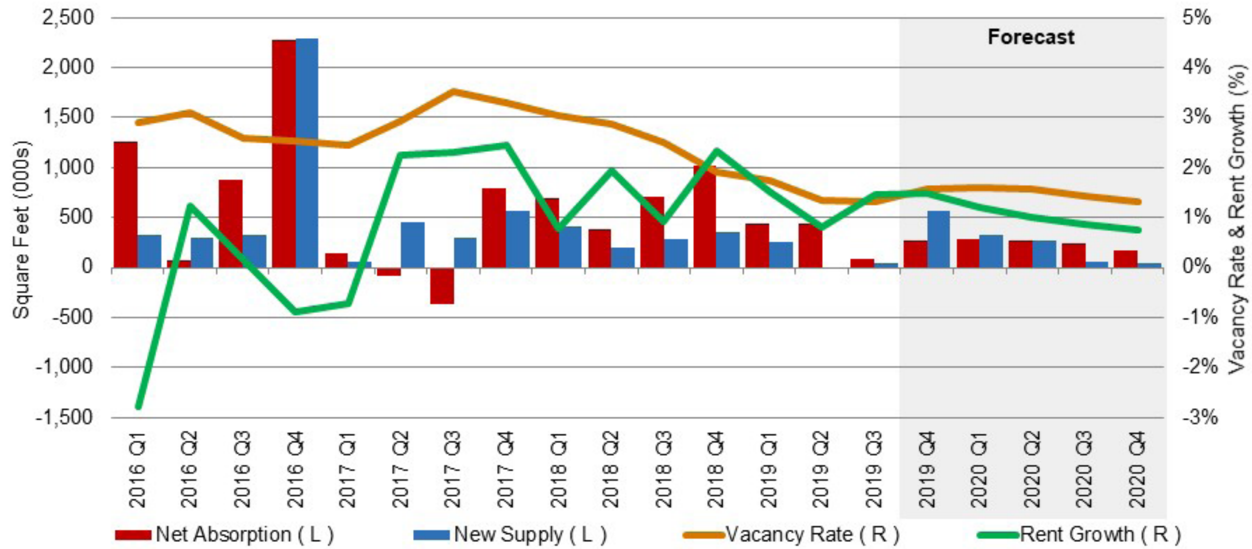
the exceptionally high rents, and luxury retailers looking to enter the market have found it increasingly difficult to secure space in these high demand zones and those on the strip have benefited from the increased tourism levels particularly from the record breaking 288 cruise ships that arrived in 2019. It is estimated that each ship that arrives in port brings in $3 million in additional spending, much of it going to the retail and restaurant sectors.



Moving into 2020, much of the 1.6 million SF of construction activity currently underway will be integrated into larger mixed-used developments. Although leasing activity is expected to decline compared to previous years, it is not reflective of a decline in demand but rather a lack of available space for lease. Although many major malls are posting zero vacancy, there are still opportunities, especially within the Tsawwassen Mills Shopping Centre. Due to the distance from the urban core, prospective tenants would likely have a better chance of securing favourable rates, however, they must realize that foot traffic will be nowhere close to what one would expect at Metrotown @ Metropolis or Oakridge Centre. Smaller retailers will also likely have better luck securing space within older strip centres as vacancy in this segment will be the highest in Metro Vancouver at 2.5%. Overall, retail vacancy is expected to remain low in 2020 while rents are forecasted to continue to grow.



CoStar



Retail – Vancouver Market Fundamentals
Forecast
Square Feet (000s)
2,500
2,000
1,500
1,000
500
0
-500
-1,000
-1,500
5%
4%
3%
2%
1%
0%
-1%
-2%
-3%
Vacancy Rate & Rent Growth (%)
2016 Q1
2016 Q2
2016 Q3
2016 Q4
2017 Q1
2017 Q2
2017 Q3
2017 Q4
2018 Q1
2018 Q2
2018 Q3
2018 Q4
2019 Q1
2019 Q2
2019 Q3
2019 Q4
2020 Q1
2020 Q2
2020 Q3
2020 Q4
Net Absorption (L)
New Supply (L)
Vacancy Rate (R)
Rent Growth (R)
Source: CoStar Group, Q4 2019.

CoStar
LoopNet
Apartments.com
LandsofAmerica
BizBuySell

Alberta's budget is expected to see a 2.8% cut in spending over the next four years, which will hopefully bring Alberta back to a balanced budget.

ALBERTA

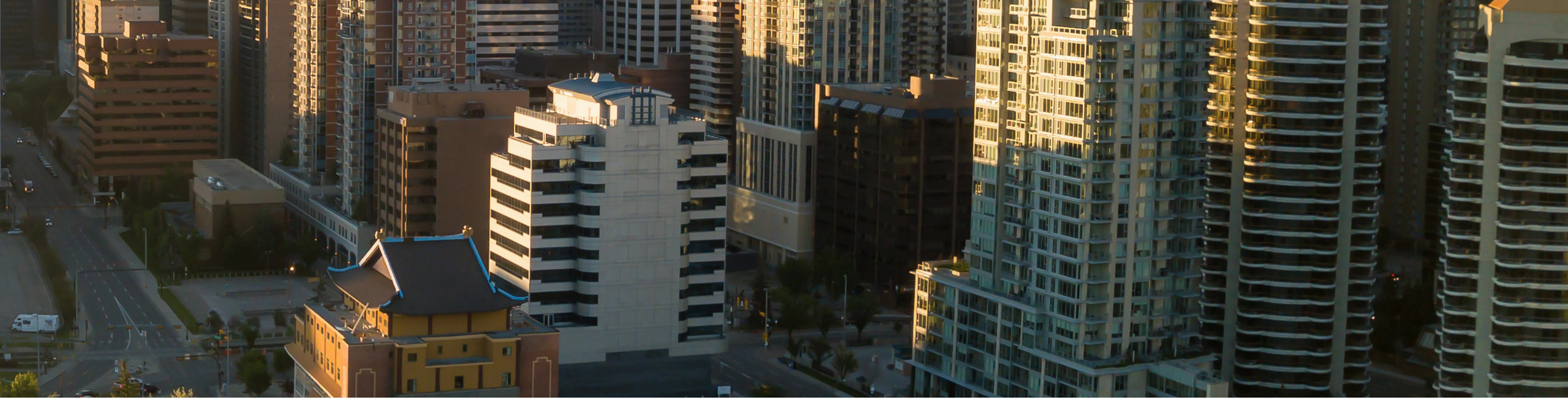
Alberta Economic Overview

With new Members of Parliament heading to Ottawa after the recent federal election, Albertans saw the release of the dreaded provincial United Conservative Party (UCP) budget for the upcoming fiscal year. Jason Kenney's budget is expected to see a 2.8% cut in spending over the next four years, which will hopefully bring Alberta back to a balanced budget. Although they have floated the idea of provincial employees taking pay cuts, this budget will definitely come at a cost to property owners as well, as property taxes are expected to increase by approximately one percent in Calgary come next year. Calgary Mayor Naheed Nenshi noted that the province has prided itself on cutting taxes; however, the increase in property taxes results in a most unfair regressive tax that every homeowner has to pay.

Overall, the cities of Calgary and Edmonton have given up approximately 40% of their tax revenue and are now being subjected to an additional nine percent cut. Major infrastructure projects, like the Green Line, will become a major challenge for Calgary. The LRT's promised funding of $555 million over the next four years has been cut to only $75 million, and will inevitably put further jobs at risk if the project does not go ahead as planned. The City of Edmonton will also face tough challenges ahead as the city council will have to make do with an approximate $150 million loss over the next four years. This will likely have an immediate impact on funding slated for the Terwillegar Drive expressway conversion and the Stadium LRT station rehabilitation. Mayor Don Iverson noted that council will make every effort to avoid increasing property taxes, but it will be extremely difficult if the city plans to implement the various projects it had in place prior to the release of the budget. There is no doubt that the mayors of both cities will have to look for economic efficiencies without impacting the most vulnerable.

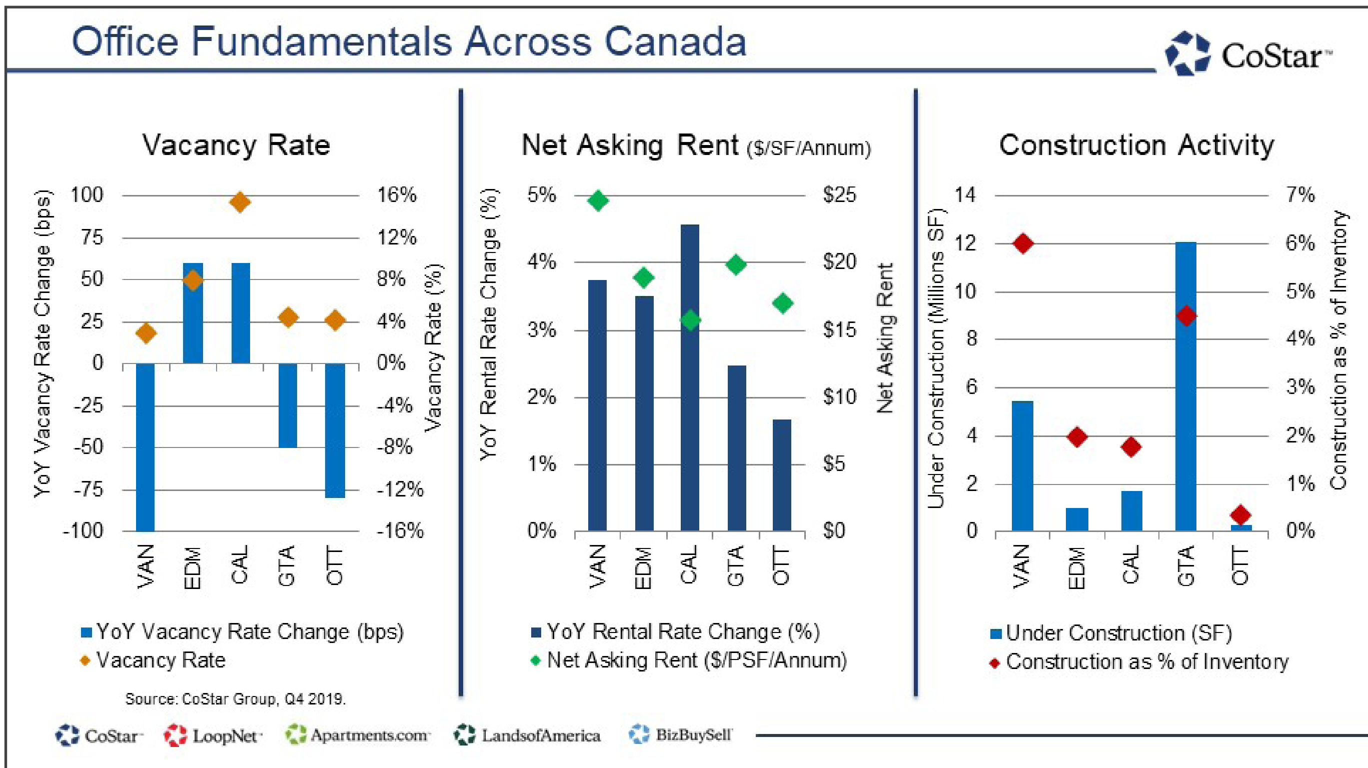
As the outlook for Alberta remains gloomy, GDP is only expected to grow by 1.2% in 2019 before increasing to 1.8% in 2020. Between the two major cities in the province, Calgary will be the better performing in 2020 growing by 2.0% compared to a weaker 1.4% for Edmonton. However, with the recent announcement of Encana transitioning its headquarters from Calgary to the United States, the move is symbolically devastating as it indicates that being located in Alberta has become a disadvantage due to weak business investment and investor confidence as well as pipeline constraints. This, coupled with the recent layoffs at Husky, does not bode well for the future of the oil and gas sector in the province. Interestingly, on the same day that Encana announced its move, the provincial government announced that it would be modifying its oil curtailment program, allowing companies with additional crude-by-rail capacity to produce more than their allowable quotas. This should encourage growth to return to the sector over the short-term.

Hopefully, the provincial government anticipates that the reduction of the corporate income tax rate from 12% to 8% by 2022 will generate demand from other industries and will create sufficient incentive for firms to relocate to the province. However, with unemployment in Calgary and Edmonton at 7.1% and 6.1%, respectively, the Trans Mountain Pipeline is the only economic hope in sight for the province. It is important to realize that although Edmonton's economy is much more diversified than Calgary's, the oil and gas sector still accounts for 20% of the total economic output and supports a range of industries, such as housing corporate headquarters and managerial operations that support extraction within the energy sector. Overall, employment growth in Alberta will remain negligible, growing by 0.7% in 2020 while Calgary is expected to see total employment grow by 1.8% versus a meagre 0.3% in Edmonton in 2020. Unfortunately, there is still a long way to go before the Alberta economy can fully regain its former glory as a powerhouse across Canada.

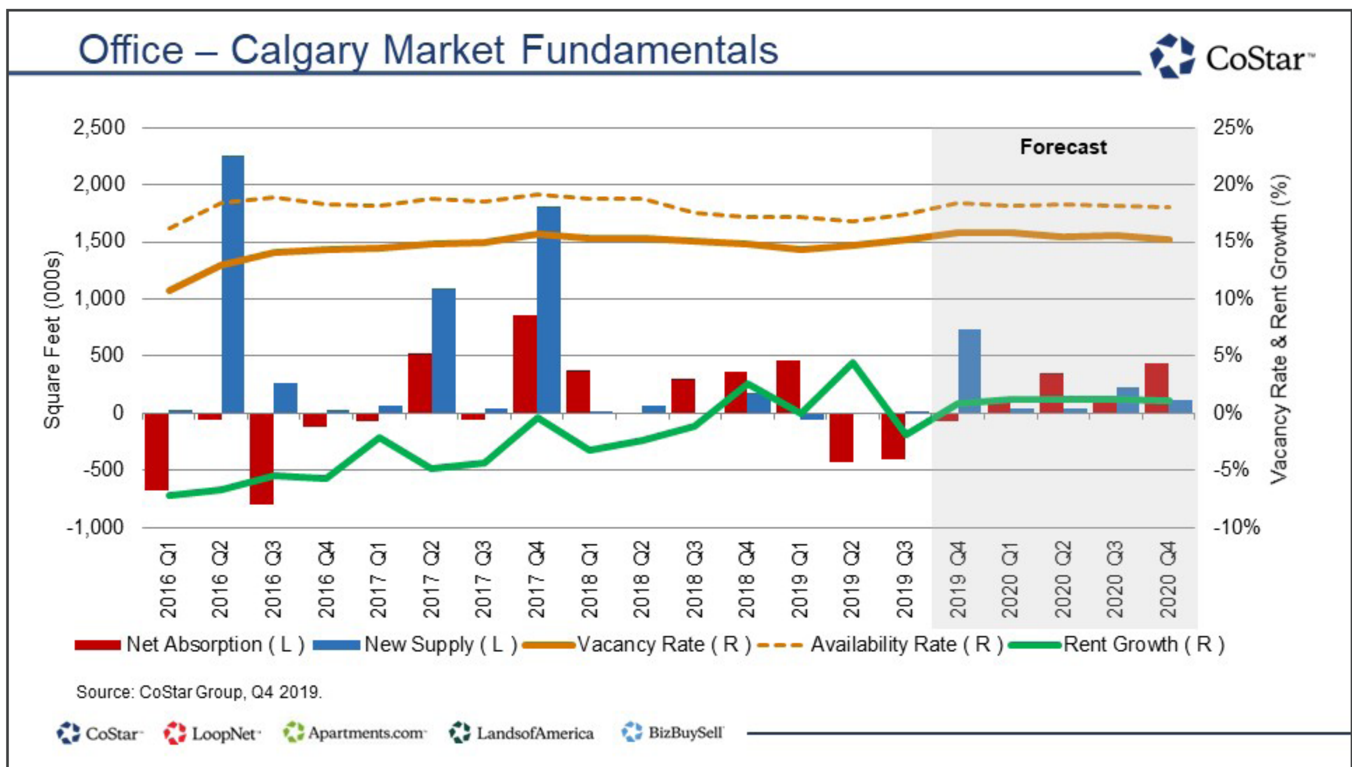


Calgary Office Overview

The Calgary office market has faced more than its fair share of challenges over the past few years; however, with 2019 coming to an end, the market is starting to show slight signs of improvement, albeit at a slow rate. Vacancies have remained stubbornly high, with the vacancy rate up 60 bps year-over-year to end 2019 at 15.4%. When looking at the downtown office market, the severity of the problem is heightened by the fact that vacancy is still hovering in the 20% range, compared to the suburban office market where vacancy is expected to close the year at 11.0%. Landlords have attempted to combat the issue by converting office assets into multifamily buildings in the downtown core rather than waiting for the market to pick up. On the bright side, average net asking rates in Calgary have started to recover and have posted positive rent growth of 4.6% to close out 2019 with a net rent of $15.80/SF. Although average net asking rents have increased, this does not take into consideration the significant tenant inducements that are part of all lease negotiations, particularly downtown, and as such expect net effective rents (NERs) downtown to remain in the single digits at best.



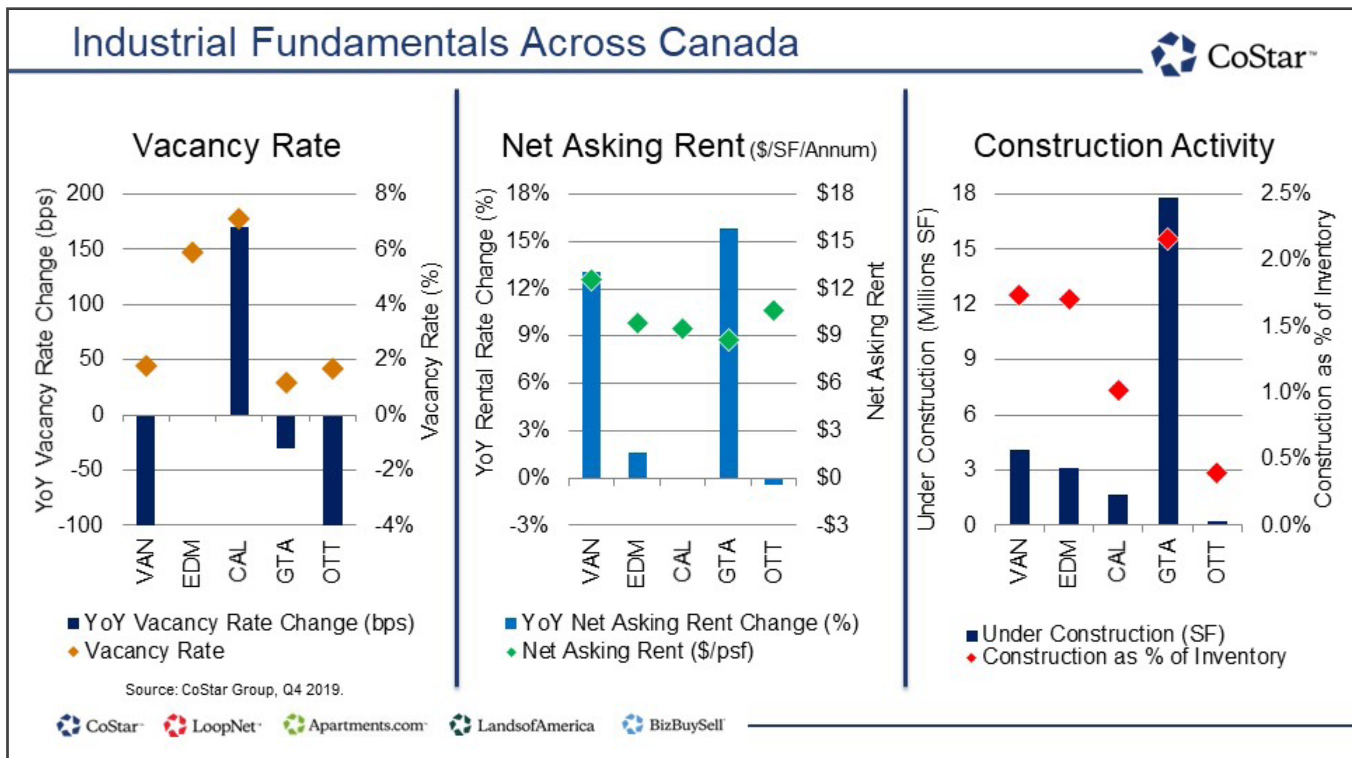
With the last significant downtown office project of the cycle delivered in 2019, construction activity is expected to slow and be restricted to the suburbs in 2020. Combined with the progressive reduction in the corporate tax rate from 12% to 8% over the coming years, leasing activity is expected to transition back to positive absorption by late 2020. This will ultimately contribute to the reduction in vacancy to close to 15% by the end of 2020. The recent announcement of WeWork securing two locations within the city will also support the development of smaller scale firms and will serve as a an optimal location before such firms transition to larger permanent space, and although there are clouds over the future of WeWork, coworking space is undoubtedly here to stay.



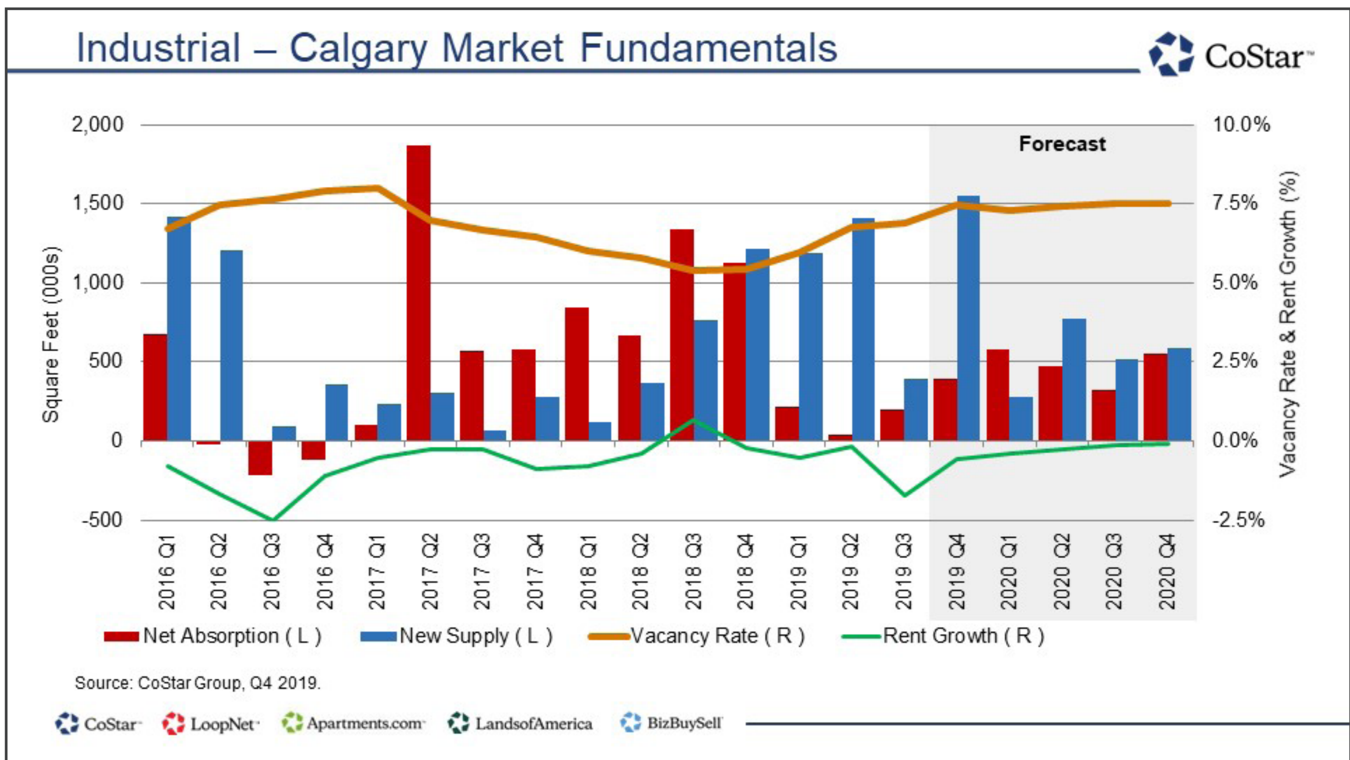
For those prospective tenants considering a relocation to Calgary, now is the most optimal time to take advantage of leasing opportunities as the rental growth rate is expected to increase by 5.0% throughout 2020. Rent growth within the 4 & 5 star segment is expected to recover at an even faster rate, topping over 8.0% growth next year. Moreover, 2020 would be an optimal time for investors to acquire office assets in Calgary as average market prices are expected to bottom out at $220/SF before gradually increasing over the medium-term. Office cap rates are averaging 8.4% in Calgary, which leaves substantial room for investors to create value-addition if they are willing to invest long-term.

Calgary Industrial Overview

The industrial market in Calgary is in a much better condition than its office market. This is primarily due to Calgary's strategic location in Western Canada, allowing the city to serve as a distribution hub for western markets. This was evident after the opening of Amazon's 600,000 SF fulfillment centre in Balzac in 2018, which generated more than 1,000 permanent jobs in the region. Demand for distribution and logistics space did not stop there, as Calgary welcomed Home Depot's 418,000 SF distribution centre while Fed Ex Ground secured 91,000 SF over the past year. Furthermore, compared to cities such as Vancouver, Calgary provides potential tenants a wider array of options at a fraction of the cost. With that being said, Calgary saw vacancy increase by about 210 bps year-over-year to close 2019 at 7.5%. The drastic increase in vacancy was primarily due to the 4.5 million SF of new industrial space delivered to the market throughout 2019.



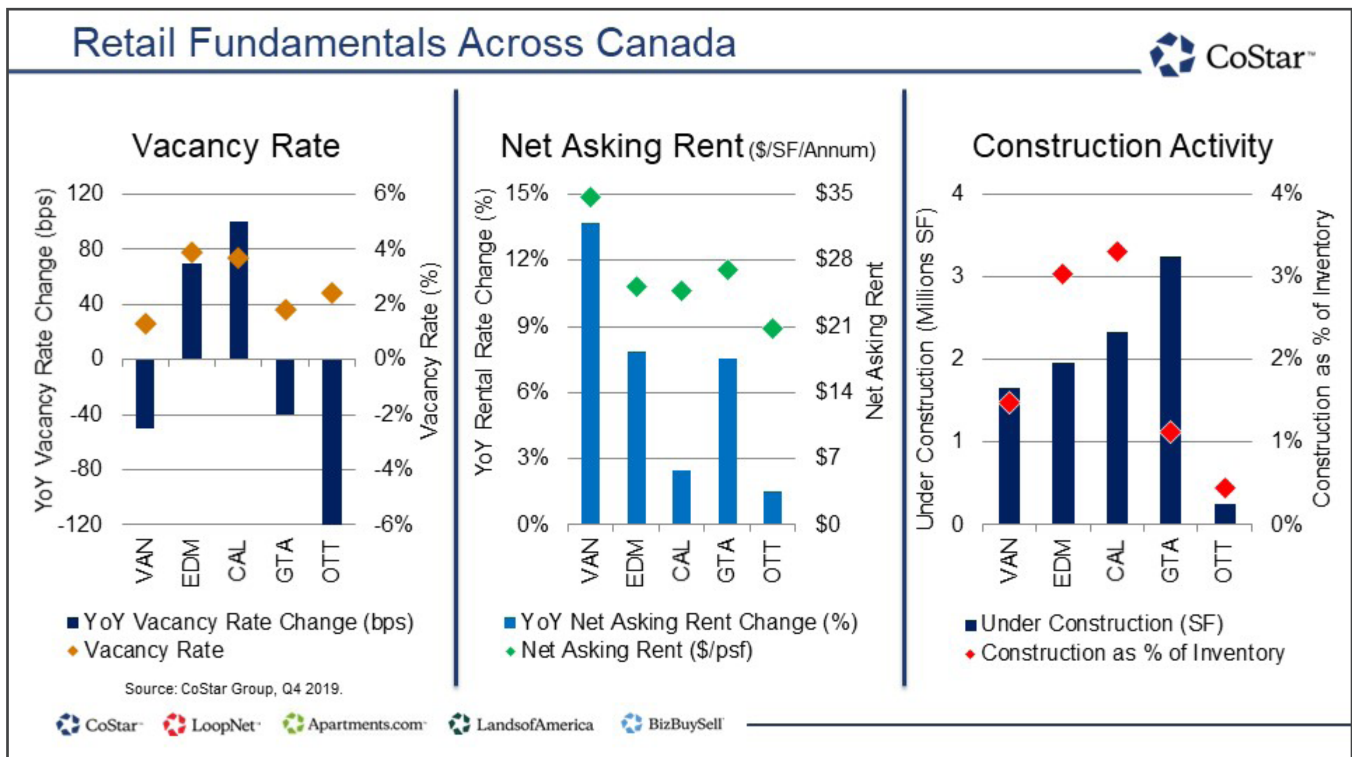
With the fairly large amount of new space that was delivered in 2019, it was no surprise rents were little changed year-over-year, at about $9.50/SF. This may be lucrative for potential tenants not only from domestic firms in Calgary, but for international firms looking to set up manufacturing or distribution space, as these rates are the lowest in Western Canada.



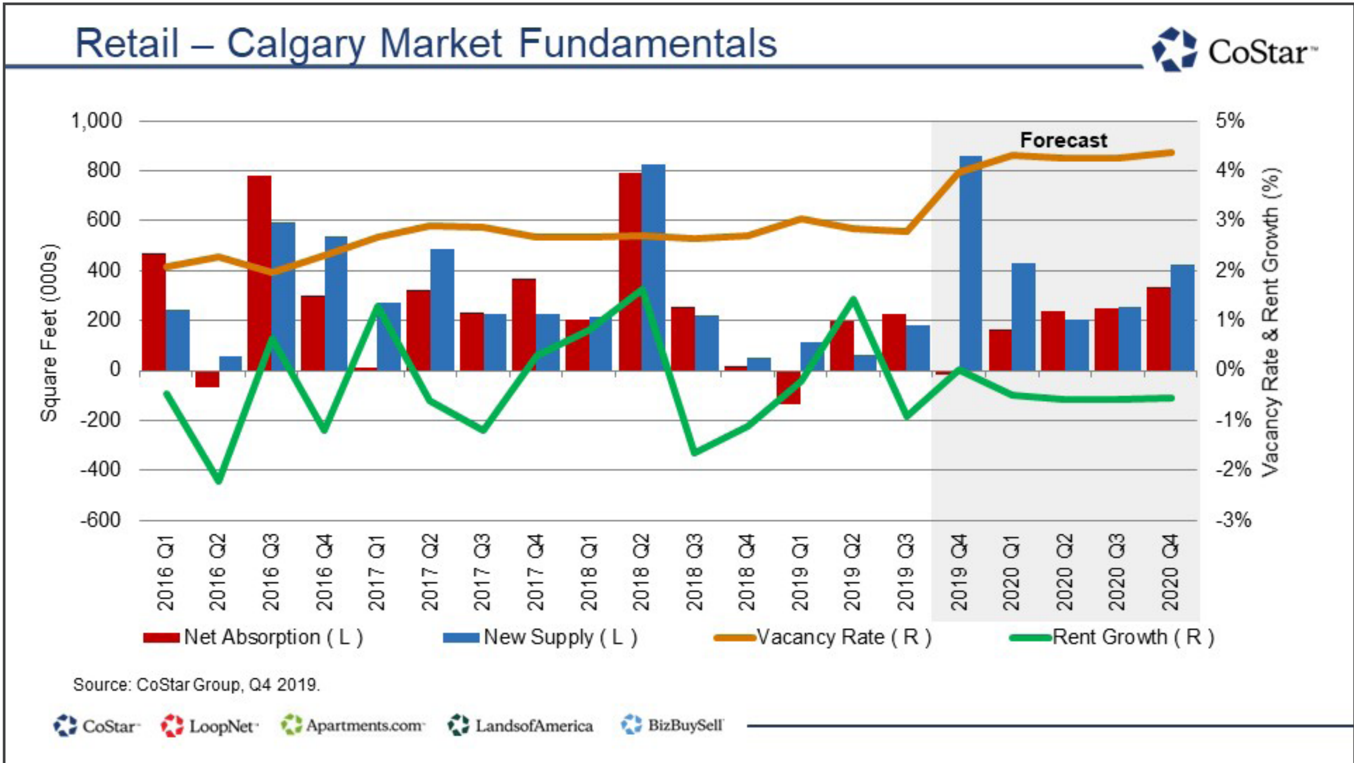
Even with the flood of new supply that came to market in 2019, Calgary is still expected to see an additional 2.1 million SF of industrial space delivered in 2020. Absorption levels will pick up over the next year, ultimately maintaining the overall vacancy at its current rate of 7.5%. As new space hits the market, many tenants in the city will be looking to move into newer and more efficient space, and thus the market will likely see rents decline by approximately 1% over the coming year, with older stock seeing the biggest declines. Prospective tenants looking for logistics space will likely have the greatest selection to choose from, while those looking for specialized industrial and manufacturing spaces will find it somewhat more challenging as the vacancy rate in this segment is expected to fluctuate between the 4% to 5% range over the coming year.

Calgary Retail Overview

Although seemingly relatively stable, the Calgary retail market has seen vacancy increase by 100 bps year-over-year to end 2019 at 3.7%. Similar to the situation in the industrial sector, developers are finally delivering new retail projects to the market. The final quarter of 2019 is expected to welcome over 800,000 SF of new supply alone, bringing the total completions in 2019 to just over 1.2 million SF. Unfortunately, absorption levels have not been able to keep pace with the influx of new supply, and placing further upward pressure on vacancy as construction activity represents 3.1% of overall retail stock. Despite this increase in vacancy, net asking rents were relatively flat in 2019, up 2.5% year-over-year to $24.77/SF. The upcoming year will continue to see new deliveries arrive on the market, reaching another 1.3 million SF of net new supply, which will push rental rates down slightly in 2020.



Even with the province's tough economic situation, Calgary residents are still expected to continue shopping, with consumer spending expected to grow by 1.9% in 2020. Spending will most likely focus on lower cost goods and services rather than the luxury segment over the coming year, as weak consumer confidence will likely remain low, especially after continued hits to the oil and gas sector. Unfortunately, these worries will translate into many retailers thinking twice before signing long-term leases and thus will likely keep retail spaces on the market for longer periods.

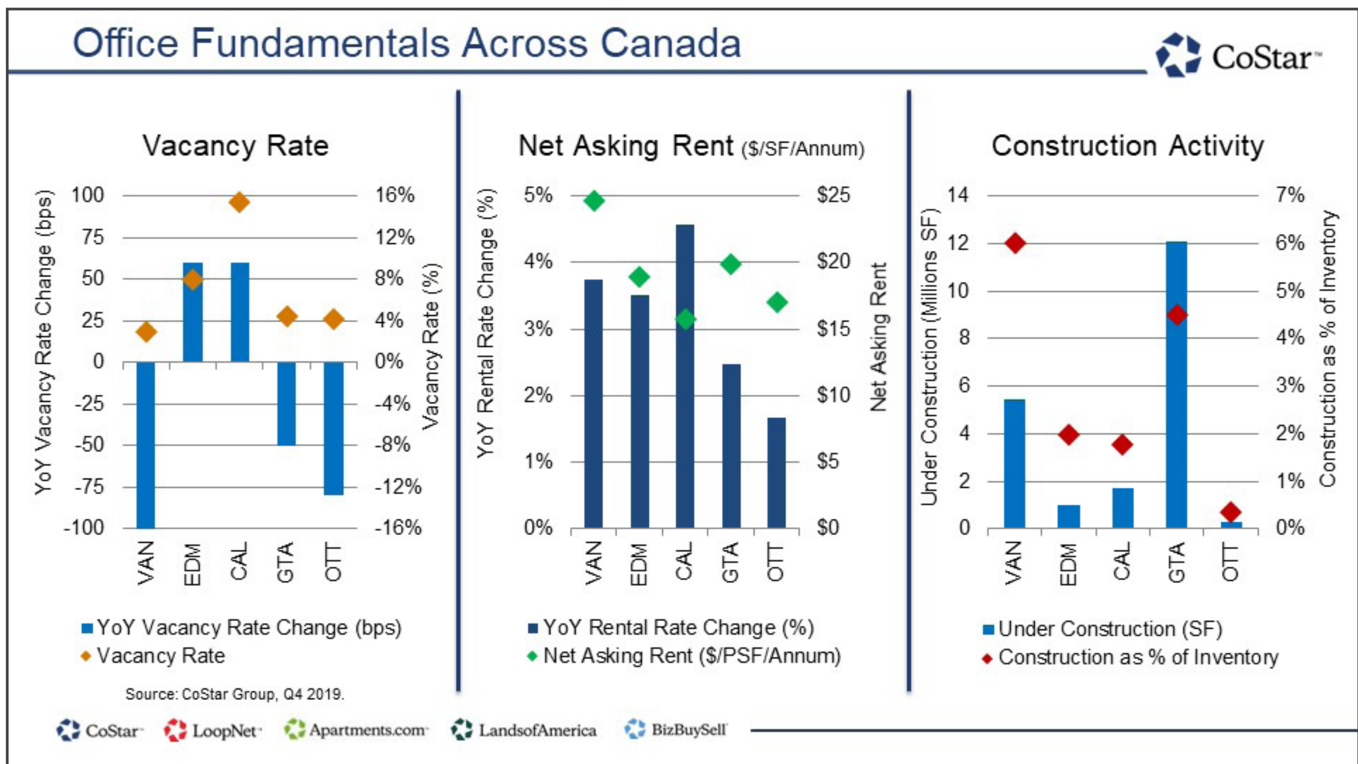


One of the major reasons for the relatively strong retail performance not only in Alberta but across the country is due to the fact that the Canadian retail segment is not overly saturated compared to our friends south of the border. In particular, major malls do not face cannibalization from other major shopping centres and thus are able to achieve respectable productivity levels. This may not be the same situation for the cannabis industry in Calgary as city officials have now approved 222 stores, nearly half the number of liquor stores in the city.

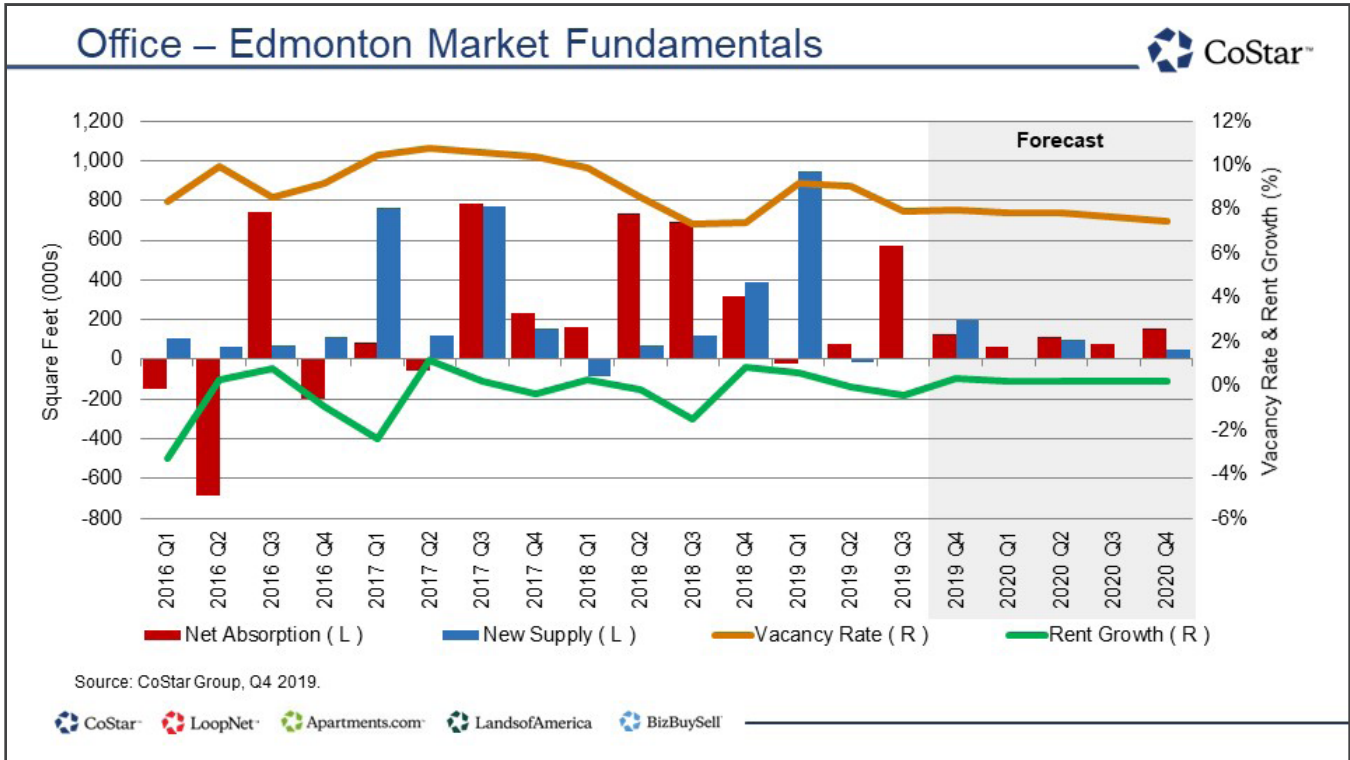
On the bright side, Calgary's cannabis sector is proving to be one of the strongest in Canada. In fact, Calgary has more stores than any other city in Canada with 66 currently operating. With the additional 156 licenses approved, leasing demand, especially within the strip and neighbourhood retail segments, should remain somewhat robust. City officials may feel there is more room to grow as Canadian cannabis sales finally surpassed the $100 million mark in July, indicating that there is an insatiable appetite for more stores. Interestingly, with demand for cannabis as strong as it is in the province, government officials expect Alberta to top $99 million in sales within Alberta by 2021. At the provincial level, Alberta Gaming Liquor and Cannabis has approved 306 cannabis stores and is expected to increase to more than 500 by 2021.

Edmonton Office Overview

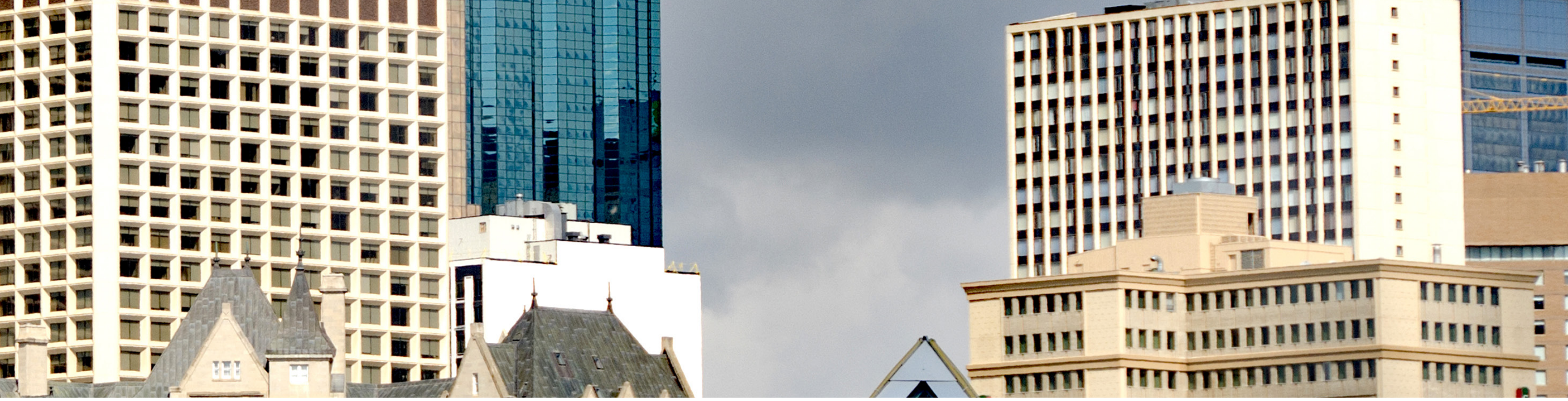
Although the Edmonton office market is partially dependent on the oil and gas sector, it has faced less impact than its provincial neighbour to the south due to government offices filling the void. In fact, vacancy only increase by 60 bps year-over-year to end of 2019 at 8.0%. After major improvements to the office market in 2018, this year has seen a marked decline in leasing activity. This, coupled with the 1.1 million SF of new deliveries in 2019, will keep upward pressure on net asking rents, which are up 3.5% year-over-year to $18.92/SF.



Construction activity in Edmonton has been subdued as of late, with just over 1.0 million SF currently under construction, representing 2.0% of total existing office stock in the market. Much of the under construction stock will not hit the market in 2020 and thus will allow the city to make further traction on absorbing existing stock. Although there is only expected to be approximately 410,000 SF of positive net absorption in 2020, it will still contribute to a reduction in vacancy, which is expected to decrease by 50 bps to close 2020 at 7.5%. However, with decreased demand comes stubbornly flat rental rate growth over the coming year.

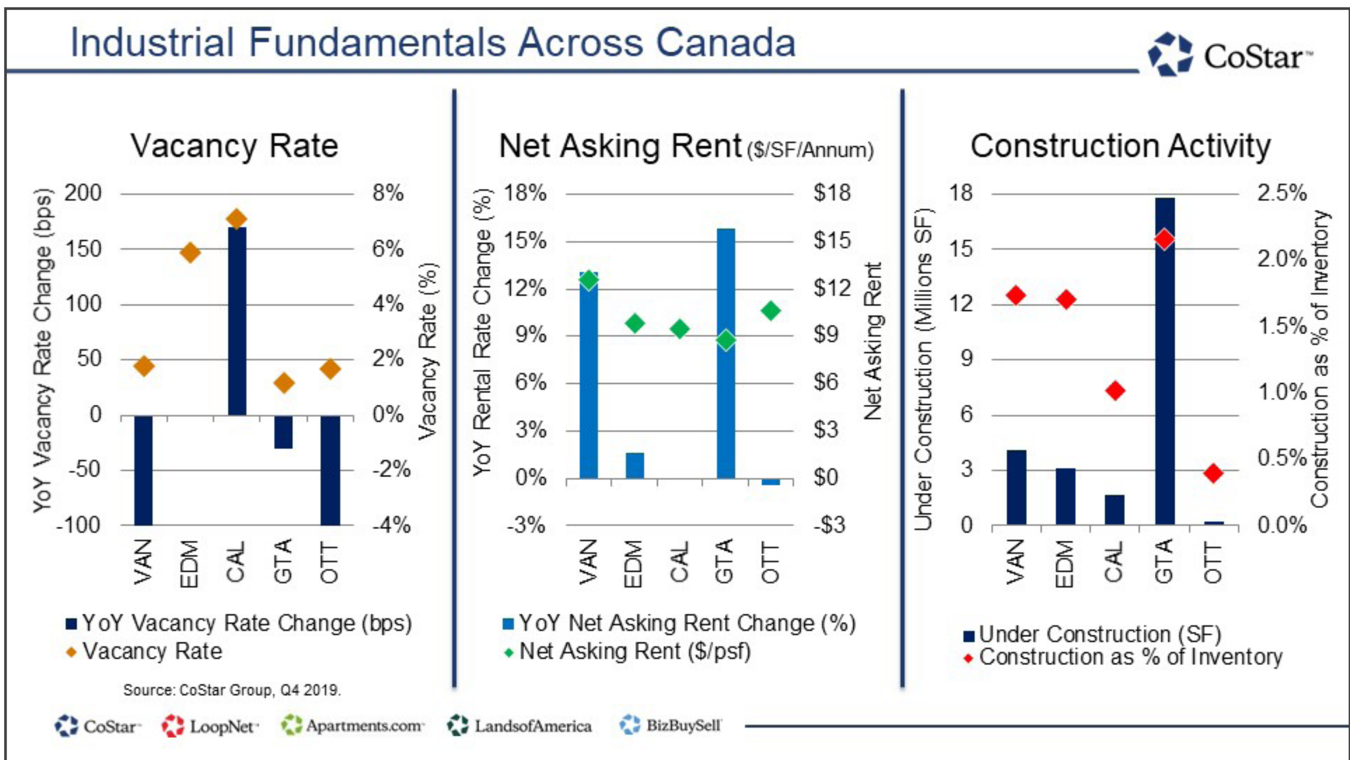


With leasing activity expected to be weaker than normal over the coming year, it is expected that landlords will continue to improve their office offerings by renovating spaces to be more in-line with today's standards. Additionally, landlords will also focus on improving amenities within their buildings to gain further interest from prospective tenants. Vacancy within the downtown core is expected to trend upward from 7.2% to 7.7% at year-end 2020. Conversely, Edmonton is expected to see its suburban office vacancy rate decline from 7.6% to 7.3% over the same time frame. By the new year, the corporate tax rate will be reduced from 12% to 10% and will hopefully entice larger firms to return to the downtown core in 2020.

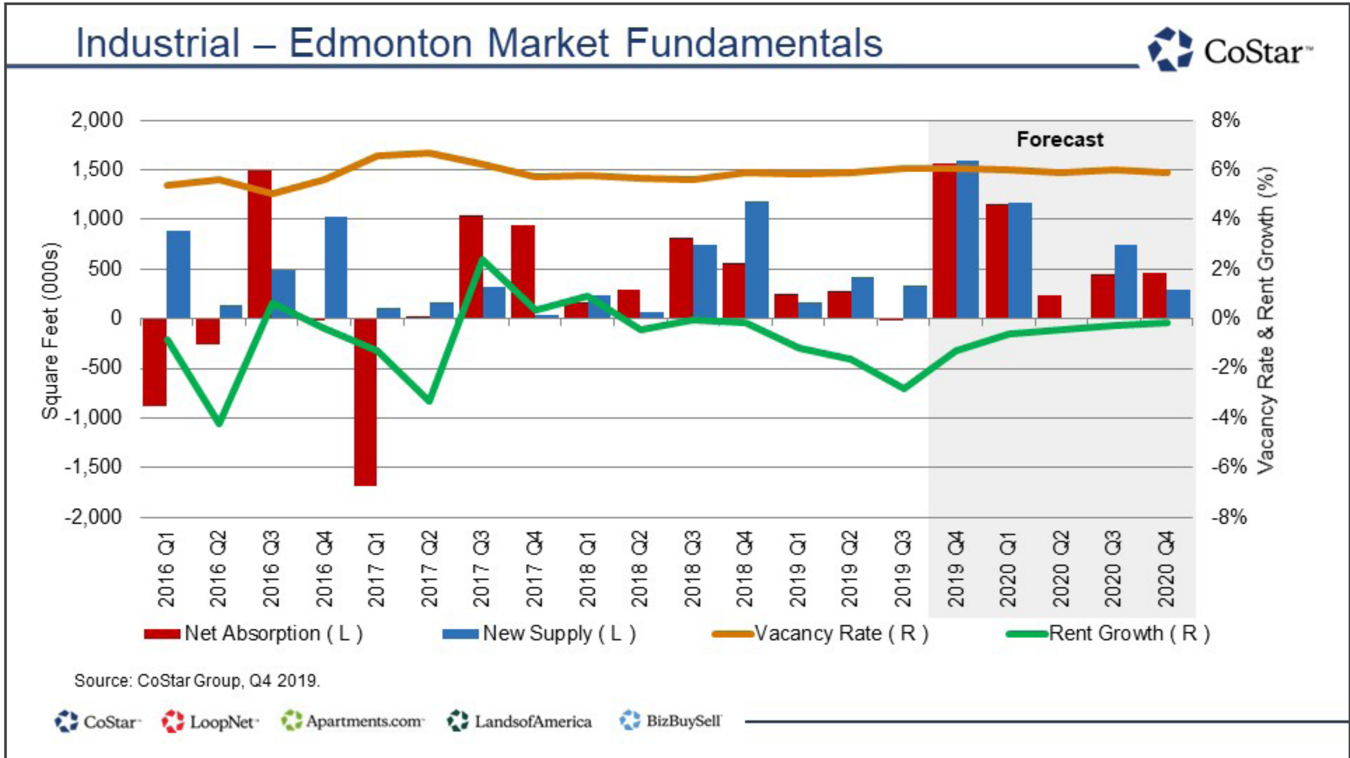


Edmonton Industrial Overview

The industrial market in Edmonton has been relatively stable compared to 2018, as vacancy was unchanged year-over-year to close 2019 at 5.9%. Even with 2.5 million SF of new industrial supply delivered in 2019, absorption levels remained healthy and thus greatly impacted the overall performance of the market. With that being said, with the influx of new supply hitting the market, net asking rents increased by a meagre 1.7% in 2019, to close the year at $9.83/SF.



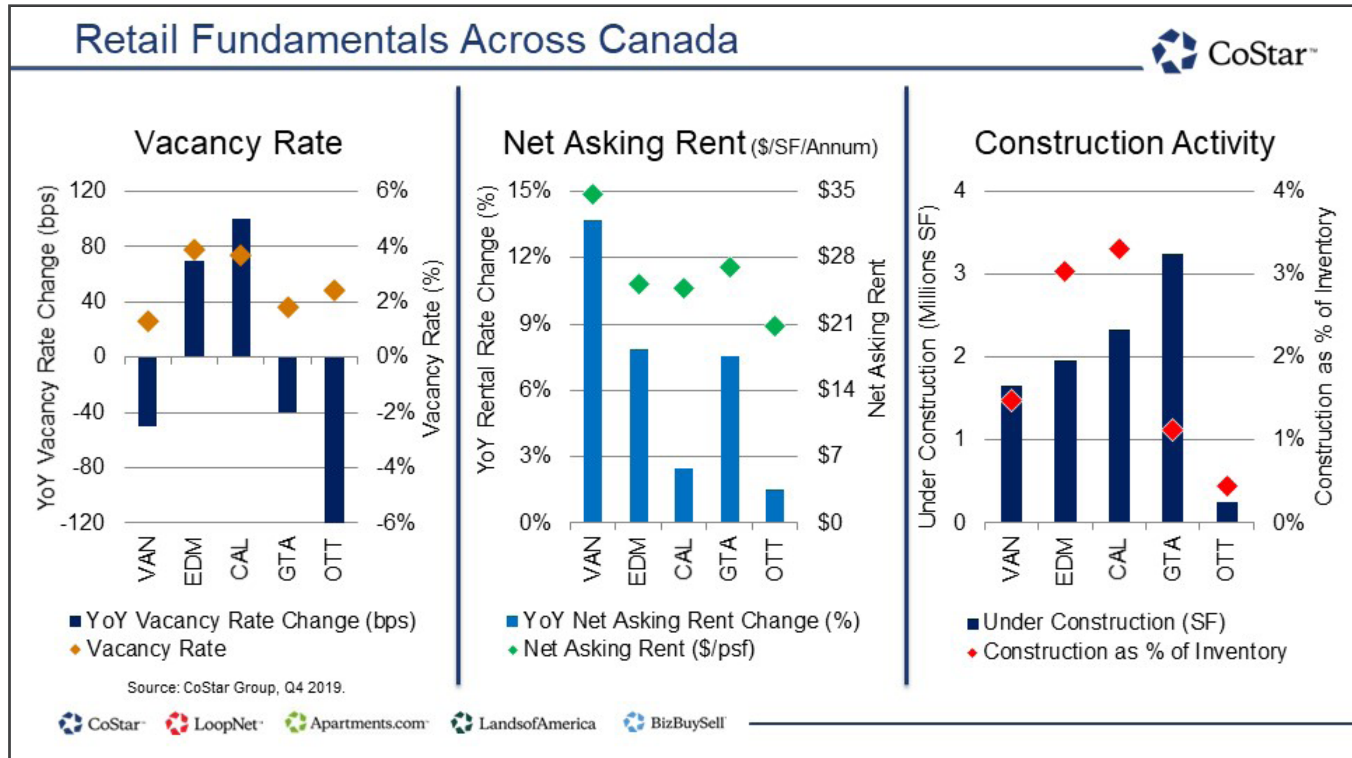
Currently, Edmonton has just over 3.0 million SF of industrial space under construction, representing 1.8% of total industrial stock. Approximately 66% of this space will be delivered by the end of 2020, but similar to 2019, leasing activity will likely keep pace with the new supply hitting the market. Net asking rates are expected to decline further but at a much slower pace, while the vacancy rate is forecasted to drop by 10 bps to 5.8%.



Keep in mind that there are currently 50 proposed developments in the pipeline, and if approved Edmonton would welcome another construction wave amounting to 4.4 million SF. Additionally, 18 of the 50 proposed developments would be larger than 100,000 SF. These projects are not expected to roll out all at once, but their entrance to the market will likely place further downward pressure on rents in the existing older stock. The strength of the pre-leasing market will definitely have an impact on how fast these new projects roll out to market. On the investment front, average market prices are expected to remain relatively flat throughout 2020, averaging just under $140/SF along with an average cap rate of 6.3%.

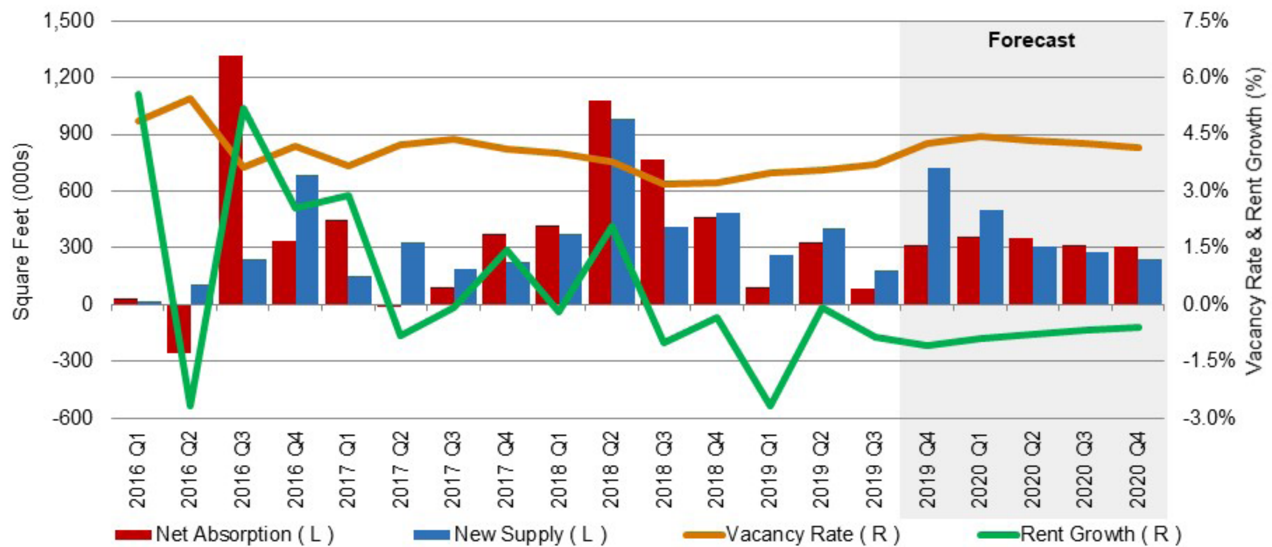
Edmonton Retail Overview

Out of the three major commercial asset types, the retail market is the strongest performer in Edmonton. However, the retail vacancy rate has increased by 70 bps year-over-year to close 2019 at approximately 4.0%. This was primarily due to the fact that net absorption levels are only expected to reach 52% of the 1.5 million SF of retail new supply that was delivered in 2019. Furthermore, consumer spending in Edmonton is only expected to grow to by 0.9% in 2019, well below the national average of 1.1%. Fortunately, consumer confidence is expected to increase in 2020, and thus consumer spending is forecasted to grow by 1.6% over the coming year.



Although net asking rates are up year-over-year, due to the lack of leasing activity, market rents declined by approximately 1% in 2019. Absorption levels are expected to pick up in 2020, ultimately offsetting the 1.3 million SF of new supply coming to market, and thus the vacancy rate is expected to remain relatively unchanged just above the 4.0% mark. Despite the relative stabilization in the retail market fundamentals, high profile departures in 2020, such as Holt Renfrew's previously announced closure of their Edmonton location, will weigh on the perceived performance of the retail market. With the economy not expected to perform as well as it should, market rental rates are forecasted to continue trending downwards throughout 2020. Like Calgary, Edmonton will gladly welcome further developments on the cannabis retail front as this industry will likely have a positive impact on retail leasing in the strip and neighbourhood mall segments. Currently, Edmonton has 48 locations operating in the city, however, this is expected to balloon over the next three years and therefore it is imperative that the flood of new locations do not cannibalize each other, ultimately resulting in retail units coming back on the market.

Retail – Edmonton Market Fundamentals



Source: CoStar Group, Q4 2019.

Edmonton's retail market is expected to remain stable, even with Holt Renfrew's planned move-out next year. The potential influx of 29,000 square feet placed back on the market should be easily offset by Walmart, Cabela's and Home Depot securing space within the 1.2 million SF development at Windermere Shopping Centre. Much of the development occurring in Edmonton will be focused on the suburban market with a concentration on big-box store development. Additionally, West Edmonton Mall will continue to attract the attention of international and premium retailers due to the heavy foot traffic in North America's largest mall. Retailers such as Louis Vuitton and Canada Goose have recently opened new locations within the mall and have brought unique experiences to shoppers including Canada Goose opening its largest cold room in North America. It is hoped that these new additions will be able to increase the malls productivity as it currently ranks 30th across the nation, generating sales of $767/SF. This is a far cry from Edmonton's top performer, Southgate Centre, which was able to achieve sales of $1,128/SF in 2018 making it the fifth strongest shopping centre across the nation.

With 2019 approaching its end, Ontario's economic growth for 2019, at just over 1%, is forecasted to underperform the national average of 1.4%, with 2020 only expected to see about 0.75% growth compared to Canada's 1.1%.

ONTARIO

Ontario Economic Overview

With 2019 approaching its end, Ontario's economic growth for 2019, at just over 1%, is forecasted to underperform the national average of 1.4%, with 2020 only expected to see about 0.75% growth compared to Canada's 1.1%. The Greater Toronto Area (GTA) and Ottawa-Gatineau regions are expected to see stronger growth than the province as a whole, at 1.2% and 1.0%, respectively in 2020. To encourage growth across the nation the BoC is expected to cut the benchmark interest rate before the end of 2019, followed by a another potential rate cut in early 2020 to provide the necessary economic stimulus to overcome a slowing global economy. However, headwinds are building, with slower U.S. expansion and elevated trade policy uncertainty likely to weigh on growth in 2020. The housing market in Ontario is the silver lining, as this sector weighed on economic growth in 2018 and early 2019, specifically in the GTA, however, it sprung to life in the spring and continues to show increased in both sales activity and pricing.

Ontario's labour market remains strong as a healthy influx of immigrants continues to help companies secure workers amid tight labour market conditions. With the unemployment rate at 5.8% at the beginning of 2019, employment growth in the province ramped up and by the end of October, the unemployment rate had decreased to 5.1%. Along with a thriving tech sector in the GTA, Ottawa and the Kitchener-Waterloo regions, much of the employment growth has occurred in the FIRE sector, which is once again benefiting from the recovery of the residential real estate market. On the industrial space-using side, the Transportation and Logistics sector continues to experience steady growth with the rise of e-commerce services like fulfillment centres and distribution facilities. Ontario is expected to see employment grow by 2.7% in 2019 and 1.0% in 2020. However, there is a disconnect between strong job markets and consumer spending. With inflation in Ontario for 2019 expected to come in at 1.9%, highly indebted households are keeping a tighter grip on their wallets with very little savings to fall back on. Furthermore, business activity indicators are showing some cracks with an abatement of U.S. and U.K.-bound exports. The downgraded profile for U.S. GDP and weakness in the U.K., the two largest Canadian export markets along with elevated political uncertainty could continue to hamper business investment in Canada and Ontario.

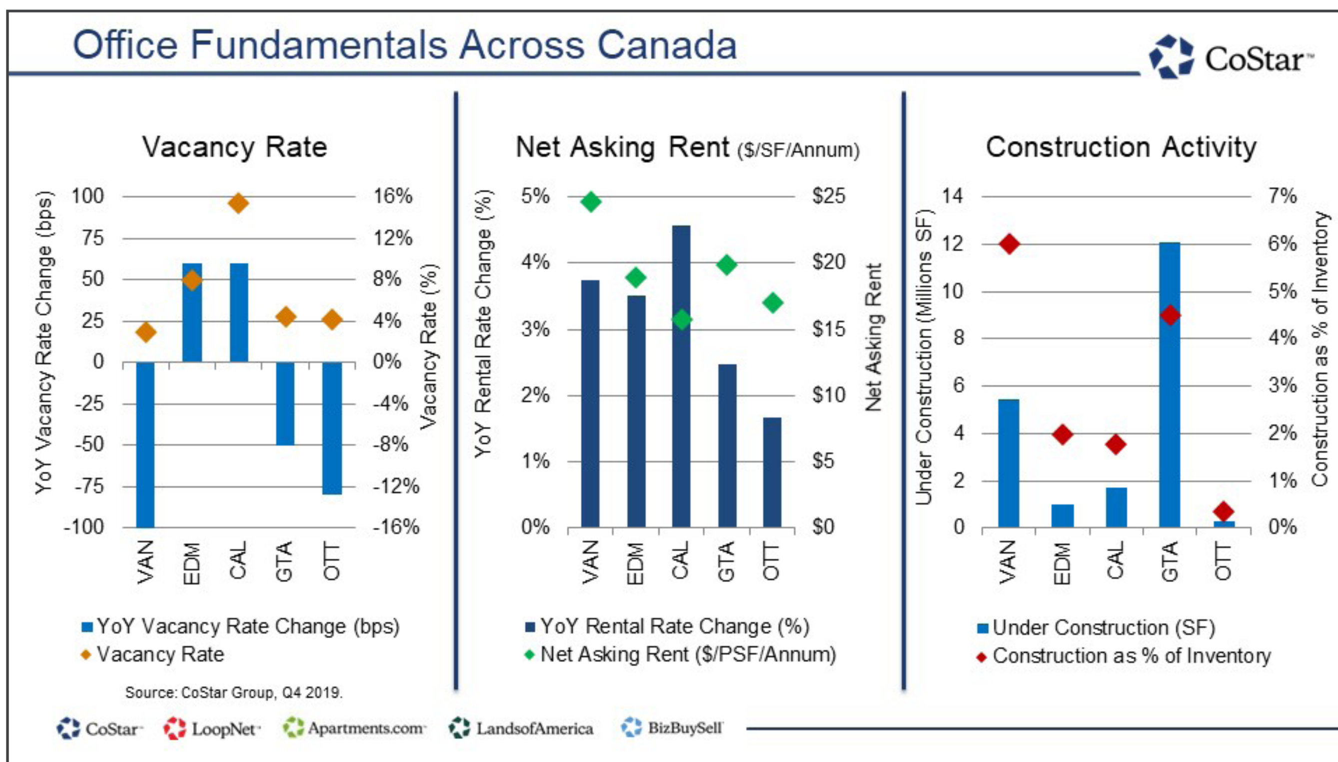
As the Liberals begin their second term on Parliament Hill, the public administration sector is expected to slow as a result of Federal government spending plans, which will impact Ottawa specifically, however, the high-tech sector is expected to continue growing, driving demand for space. Expect much of the federal government's attention to be on the West coast of Canada, specifically Alberta, as the Liberals attempt to quell the Wexit movement and appease the Conservatives, while also attempting to create alliances with the NDP and Bloc.

The continued concerns about high consumer debt and newer concerns about inflationary pressures being brought on by trade wars could weigh down the performance of commercial real estate. However, with heavy investment in infrastructure, continued growth in both residential and non-residential construction and growing labour markets, Ontario is poised for a steady conclusion to 2019 with strong fundamentals throughout 2020.

GTA Office Overview

The GTA's office market had a record year in 2019, while being recognized as one of the strongest office markets in North America. Deeply entrenched in landlord control, the market saw its overall market vacancy rate drop 50 bps year-over-year to end 2019 at 4.5%, with the average net asking rental rate up 2.5% year-over-year to $19.85/SF per annum.

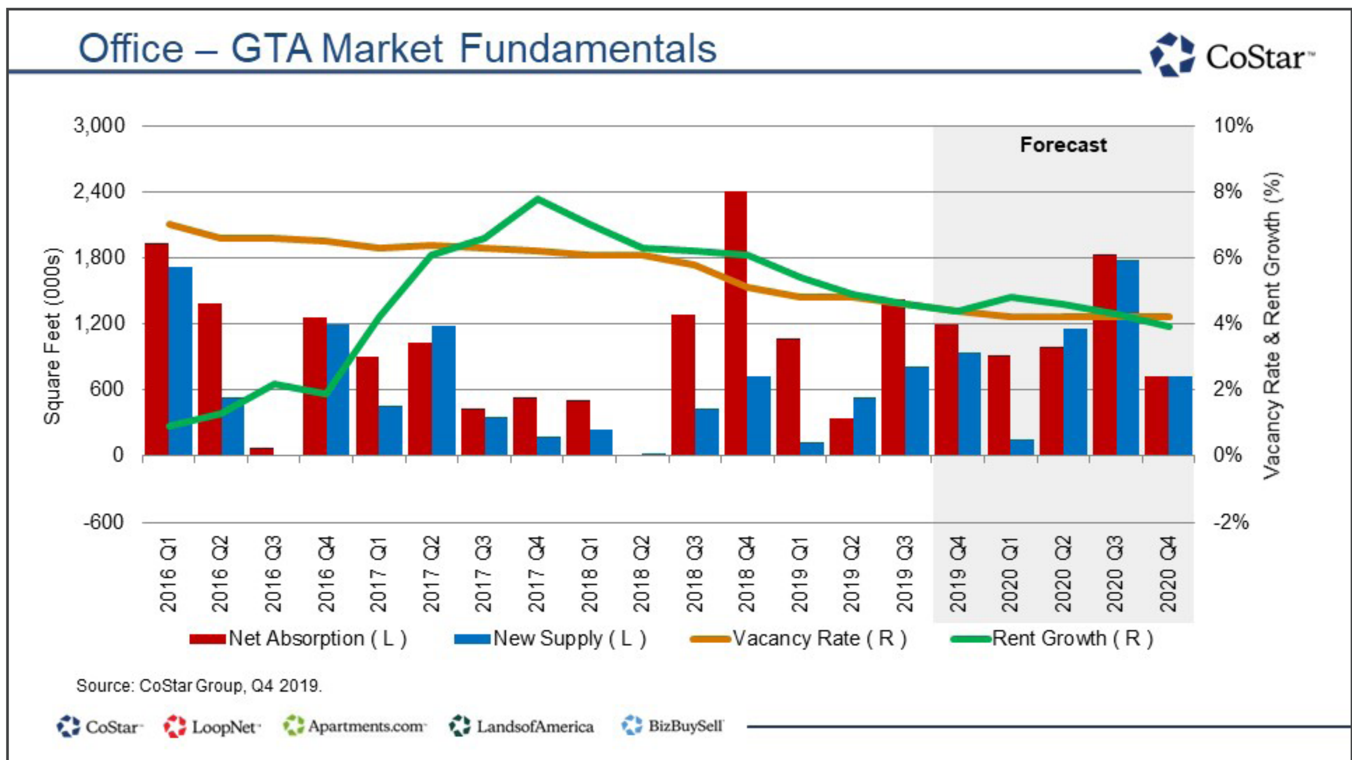
The good news on the supply front is that construction activity continues to increase, with 12.1 million SF now under construction, representing 4.5% of existing inventory. This includes CIBC Square at just under 1.6 million SF with CIBC as the lead tenant; the 1.2 million SF office project at 160 Front St. W., by Cadillac Fairview with the Ontario Teachers' Pension Plan as the lead tenant; as well as the 879,000 SF project at 16 York St. also developed by Cadillac Fairview with HSBC slated to be the lead tenant. Furthermore, Oxford Properties continues to market their proposed 1.4 million SF (60-storey) office tower, The HUB, at 30 Bay St. Along with these projects, Cadillac Fairview's mixed-use East Harbour development is planned to be Toronto East's flagship destination with exceptional transit connectivity.



With strong demand from finance and technology companies continuing to drive vacancy down, rental rates are expected to continue increasing, and this new supply will not help alleviate the tightening market conditions until they start being delivered between 2020 and 2022. As a result, there are only three blocks of contiguous space 30,000 SF or larger in tech dominated submarkets such as Downtown West and Liberty Village, and currently only 12 existing properties in the entire GTA that can accommodate a tenant looking for 100,000 SF or more of contiguous space.

Downtown vacancy remains exceptionally tight as overall vacancy decreased to 2.1%, the lowest downtown vacancy rate in North America. Landlords are keenly observant of this fact and are increasingly selective in the types of tenants they are choosing for their space. In light of the strong fundamentals supporting the Downtown market, landlords are looking for tenants with time-tested

sustainable operations and strong covenants before committing to a lease. While downtown vacancy is moving down, suburban vacancy also experienced a drop of 190 bps year-over-year and the delta between downtown and suburban vacancy rates has shrunken to 290 bps from a whopping 470 bps at this time last year. As a result of the tight downtown market with limited options, tenants will likely need to pay more attention to the suburban markets if they need a large amount of space in 2020. The delta between downtown and suburban net asking rental rates is equally impressive. Downtown rents ended 2019 at $31.71/SF, whereas suburban rents are around $16.31/SF, representing a difference of $15.40/SF per annum. This is not indicative of the suburbs being in peril, as there remains strong demand for space in the more urbanized suburban locations, such as Mississauga City Centre, Vaughan Metropolitan Centre and Downtown Markham. With demand remaining strong, and new supply limited in the short term, expect rental rates to continue edging up across the city.

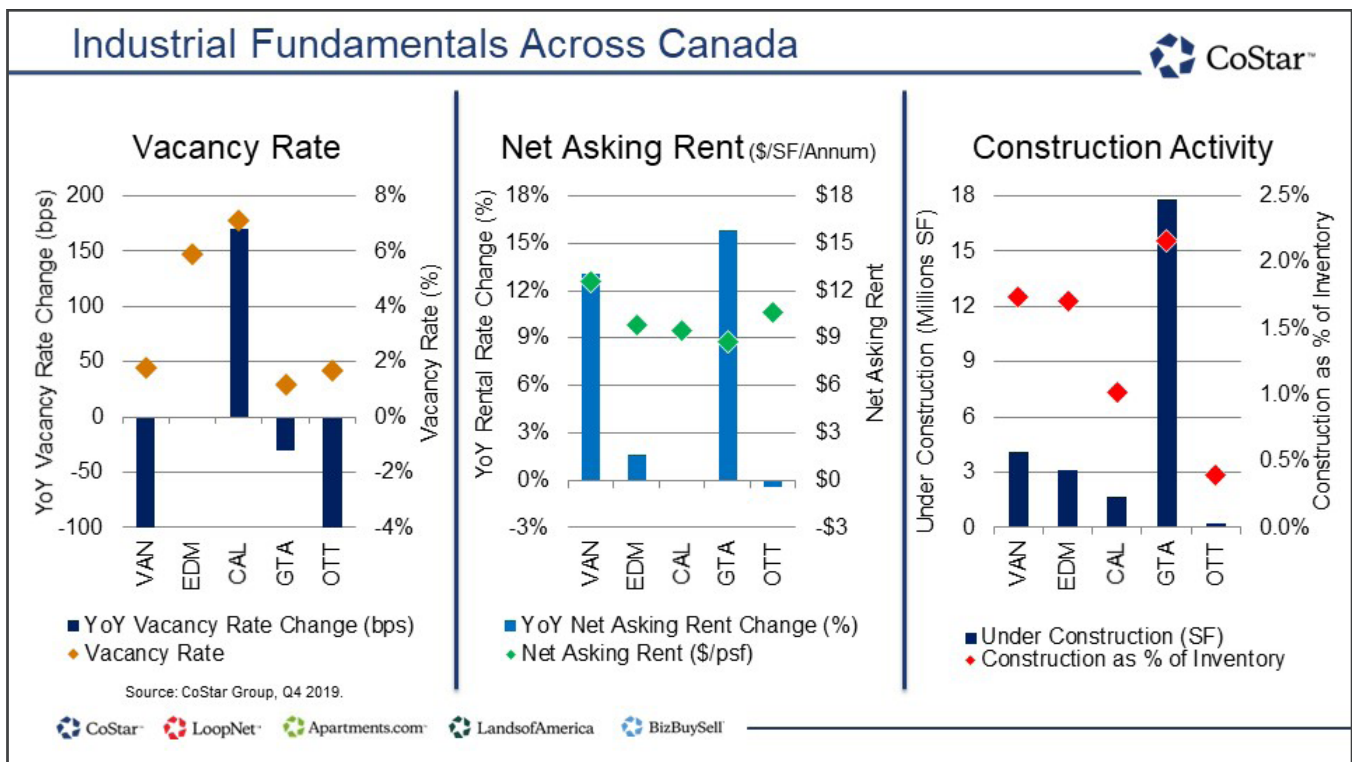


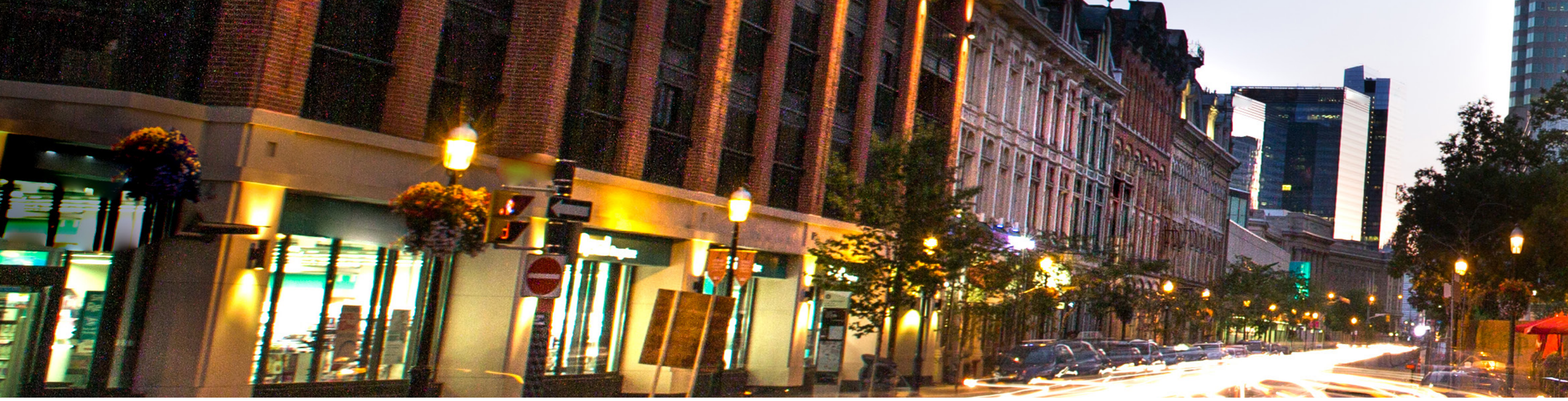
The wild card for the GTA office market outlook will be the progression of Google's Sidewalk Labs project. The proposed 'smart city' development slated for the Port Lands on Toronto's eastern waterfront is generating controversy in terms of privacy of personal data, methodology behind information gathering and how the development will be financed and managed. With 3.3 million SF of office and retail space, the smart city is the largest attempt to integrate technology with urban planning in North America. If the project were to get underway to the scope initially unveiled by

Sidewalk Labs, it would immediately impact the office, housing and employment markets. The GTA receives approximately 100,000 new immigrants (international and domestic) to the area each year, and the GTA economy is more than capable of providing the skilled talent at the quantity needed for this project, as well as providing housing for them to live, without the increased demand upending either the labour or housing markets.

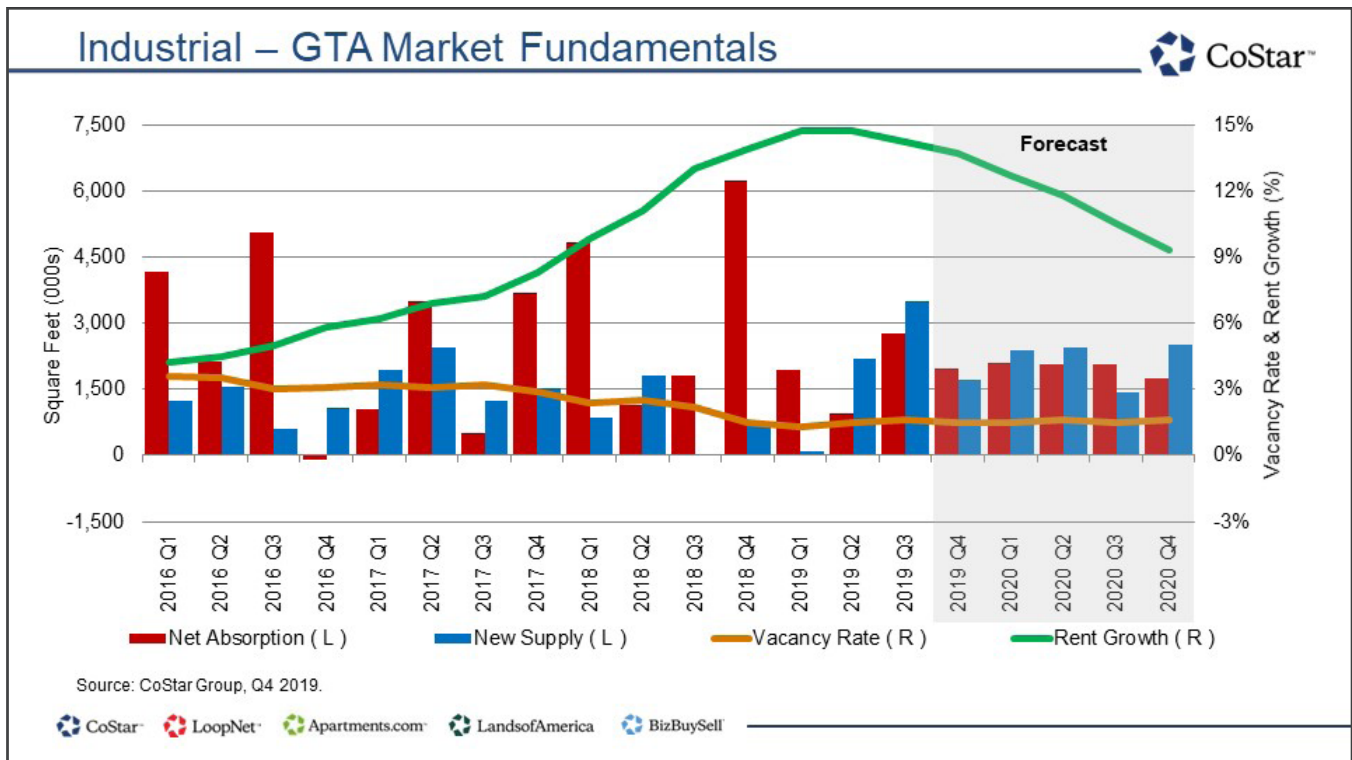
GTA Industrial Overview

Despite the strong rhetoric regarding trade wars and weak retail sales, the GTA industrial market has experienced continued strong demand. Industrial is the new retail, and much of the industrial demand in the GTA is primarily driven by transportation, warehousing and logistics tenants, whereas manufacturing did see a decline in the past year. The high cost of energy is one of the reasons being cited for the pullback in manufacturing. The PC party pledged to reduce energy costs in their provincial election campaign last year, however the benefits from lower energy costs will likely not result in a wholesale return to manufacturing the GTA.

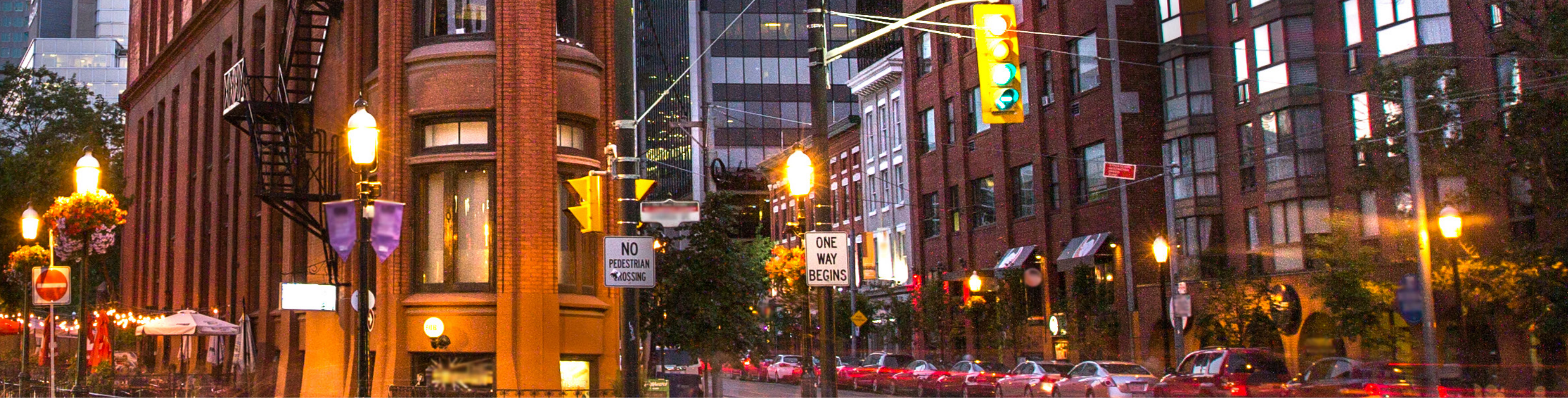




Approximately 9.3 million SF of industrial space was delivered throughout 2019; however, this had minimal impact in satisfying the demand of new and expanding tenants in the GTA. Due to the lack of options within existing inventory, there is a growing number of tenants who have opted to extend their leases 12-18 months prior to expiry. This, coupled with strong pre-leasing activity in the properties under construction, has led to GTA's vacancy rate to contract to an unprecedented record low of 1.2%, which is down 30 bps year-over-year. As a result, the average net asking rental rate has climbed to a record-high $8.78/SF, representing a year-over-year increase of almost 16%. Even with the industrial development pipeline ballooning to 17.8 million SF across the GTA, supply constraints are expected to persist in 2020, which should result in a further increase in rental rates. The new supply is also started to appear in newer areas of the GTA, with Amazon announcing their fifth GTA fulfillment centre in Scarborough and several spec developments occurring in Durham Region.

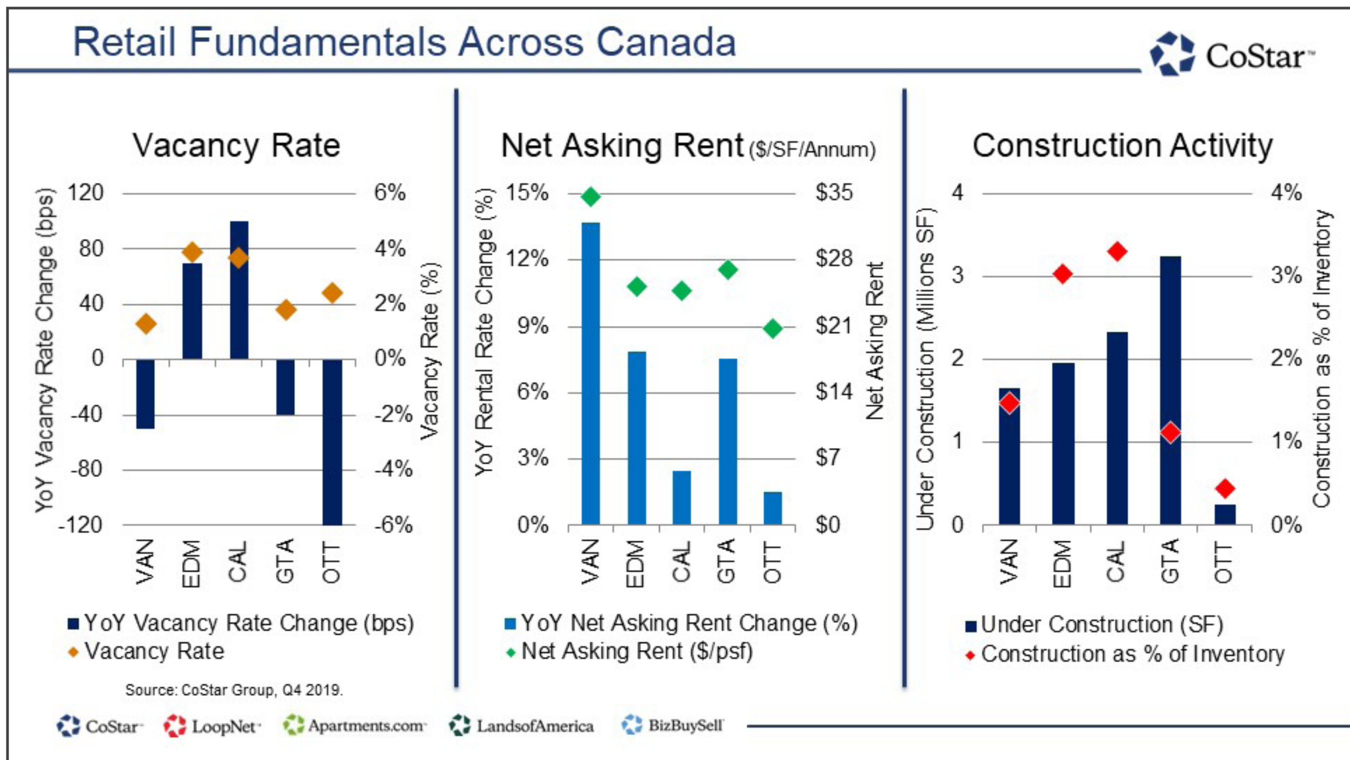


Along with the insatiable demand and limited supply, the GTA is now facing land shortages, which will impact the velocity and costs of future construction activity. Projections show that the GTA industrial vacancy rate will continue edging down below 1.0% in 2020, before starting to climb slightly back above the 1.5% range by 2021. Such incredibly tight conditions will continue to exert upward pressure on the overall average asking net rental rates, with expectations for rents to reach approximately $9.45/SF in 2020 and eclipsing $10.00/SF in 2021.



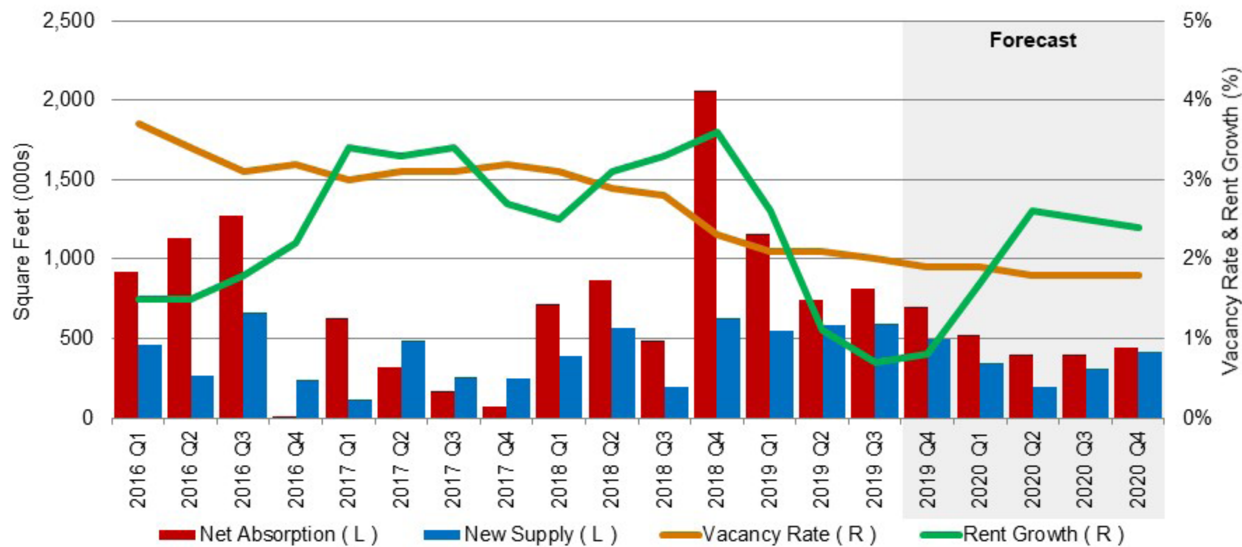
GTA Retail Overview

The GTA retail market continues to receive new international retailers who are either looking to enter the GTA market, or are using the GTA as a launching pad to the rest of Canada. The newly opened Eataly, which opened its doors in November at the Manulife Centre in Toronto, is a perfect example of this. The retail markets vacancy rate edged down 40 bps year-over-year to end 2019 at an impressive 1.8%, with the average net asking rent up 7.5% over the same period to $26.97/SF per annum. However, market rent growth has been slightly weaker, reflecting concerns about the retail market in relation to weak retail sales and retailer performance.



Construction activity has been relatively slow, with only 2.2 million SF of new supply delivered since Q3 2017, and construction activity has moved down from 3.7 million SF last year to 3.2 million SF at year-end 2019, representing only 1.1% of existing inventory, with much of this construction activity being part of mixed-use projects, or expansions to existing malls. Despite the new vacant space that came to the market as a result of Sears Canada closing in Q1 2018, the limited amount of new supply has not been enough to satisfy the demand from tenants who are struggling to find space amid low vacancy and increasing rents. However, with recently announced store closures, and street front and even mall vacancies creeping back onto the market, expect vacancy rates to rise over the coming year to end 2020 at 2.4%.

Retail – GTA Market Fundamentals



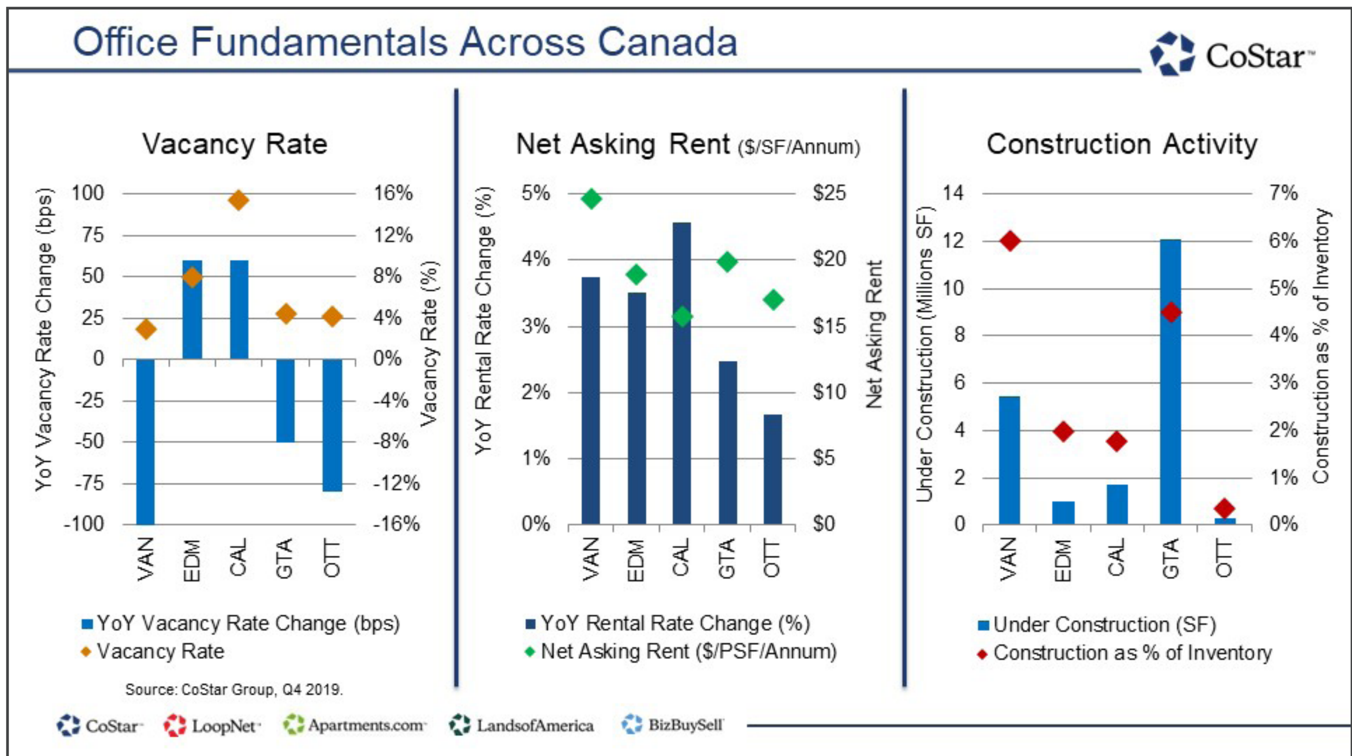
Source: CoStar Group, Q4 2019.

Despite the impressive fundamentals, the economic forecast could prove detrimental to the retail landscape. The latest national GDP data indicates that retail activity has come off the boil. Furthermore, retail sales have been showing weakness for some time, with much of the total increase in retail sales has been the result of inflation and population growth. Although retail sales growth is expected to remain positive, high consumer debt is expected to hinder retail sales going forward, despite any expectations for the BoC to cut interest rates. However, GTA retail sales are expected to increase by over 2.0% each year out to at least 2025, but much of that growth will be captured by e-commerce as opposed to brick and mortar retail.

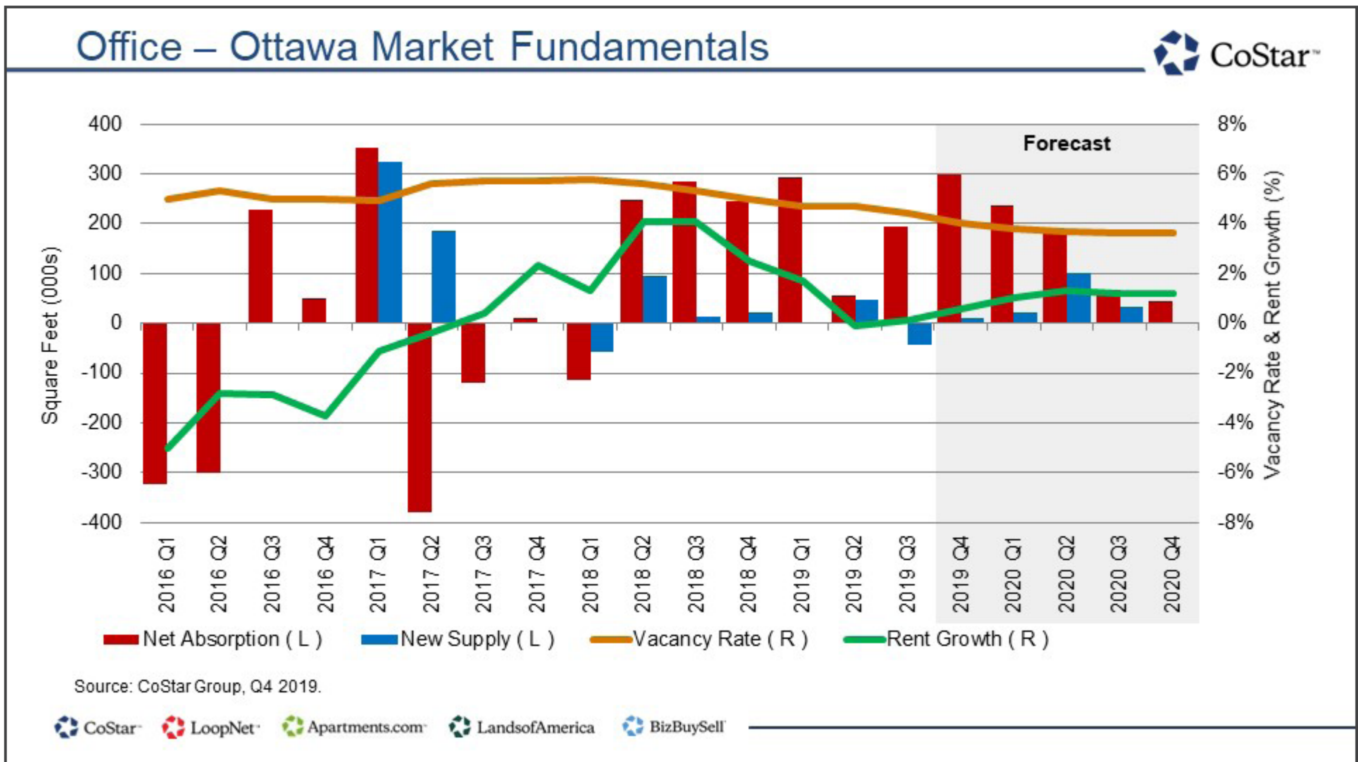
In order to combat the effects of e-commerce on the retail market, landlords of premier quality properties continue to work on improving their properties, making them experiential destinations. The making of an experiential destination goes beyond just having more restaurants and services in malls, and can include ventures such as Ivanhoe Cambridge and Cirque du Soleil teaming up to offer family entertainment centres in shopping centres, which is due to launch early 2020. Landlords are looking at ways to further differentiate themselves from the rest of the pack in order to attract more shoppers as well as new and better retailers. Expect to see this, along with more intensification of retail properties and repurposing of parking lots in suburban malls, as seen at properties such as Yorkdale Mall, and Aoyuan's redevelopment plans for Newtonbrook Plaza.

Ottawa Office Overview

Ottawa commercial real estate is experiencing a renaissance with renewed interest along the LRT line and other well-located properties for the purpose of redevelopment or development. Occupancy gains were attributed to leasing by technology and federal government tenants throughout 2019 with the now fully operational phase 1 of the LRT line acting as the biggest demand driver. The LRT has made well-positioned buildings winners in the office market, particularly properties that have stops integrated into their buildings. The LRT's completion will secure higher rental rates in buildings in close proximity and become a main feature in retaining old tenants and attracting new ones. Easier accessibility outside of the Downtown Core could also continue lowering vacancy rates in both the western and eastern submarkets. Furthermore, with federal spending likely to curb due to the election outcome, government leasing is likely to slow down; however, this will allow private sector tenants to either expand or move into the market with less competition.



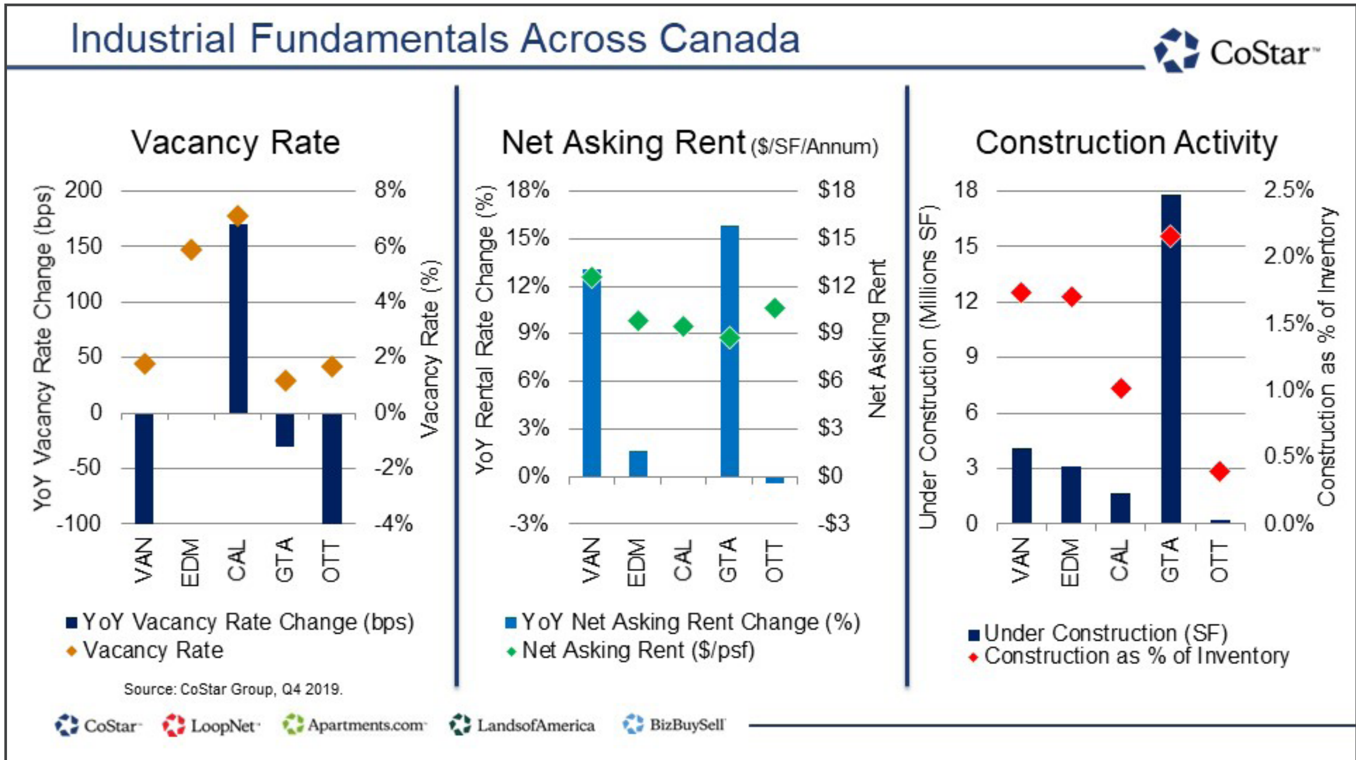
Overall vacancy in Ottawa is down 80 bps year-over-year to end 2019 at 4.2%; however, net asking rents were up only 1.7% over the same period, to $16.98/SF/annum. Construction activity has been underwhelming over the past years but a handful of projects should begin to change the narrative across the city. Of the projects that are under construction, most are larger mixed-use projects, with only a portion slated to be office space. The largest example of this being the waterfront development Zibi, expected to bring approximately 240,000 SF of office space to the market. Close behind is 900 Albert St., a mixed-use and transit oriented development comprised of 200,000 SF of office space. Like many of these projects, 900 Albert St. is located along the new LRT Line. However, other projects, such as Taggart's 153,000 SF design build in the Kanata West business Park for Kinaxis, a supply chain planning software company, should kick off shortly.



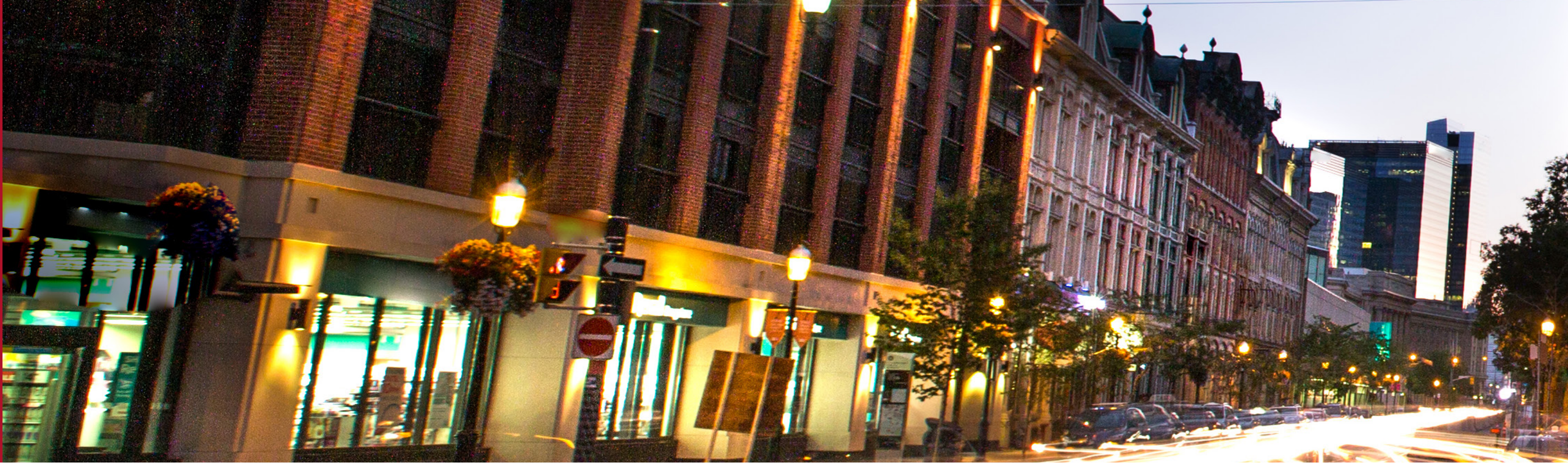
Although high-tech companies and the Federal government have long been part of the office market tenant mix in Ottawa, the Federal government is beginning to embrace the concept of flexible work space and choosing to occupy more space in the suburban markets over the last few years, which has resulted in higher vacancy downtown. This has created opportunities for high-tech tenants who might be looking for more urban locations with access to public transit. Expect demand to outstrip supply in 2020 and beyond, with vacancy continuing to edge down.

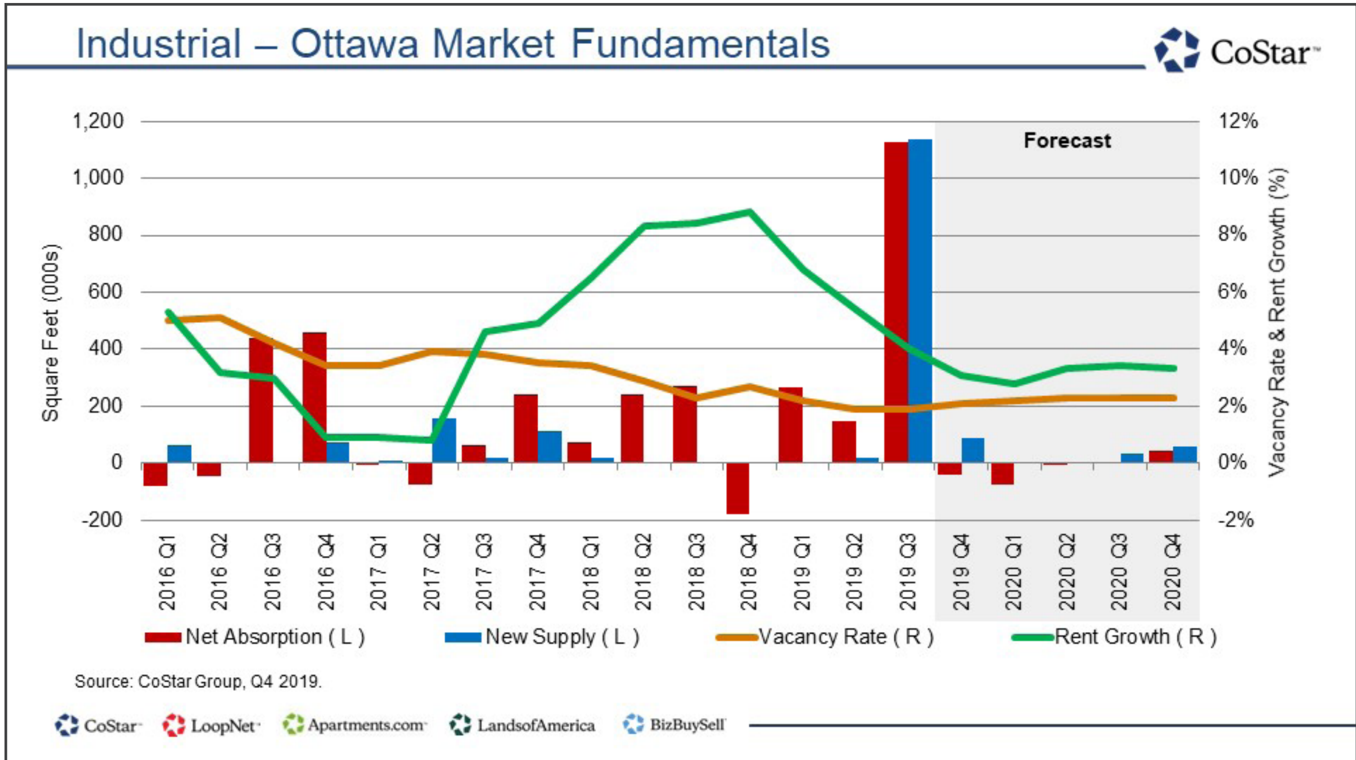
Ottawa Industrial Overview

The Ottawa industrial market has experienced relatively strong demand throughout 2019, with vacancy down 100 bps to end 2019 at 1.7%. As a result of tightening market conditions market rents continue to increase, despite asking net rental rates appearing flat year-over-year at $10.63/SF per annum at the end of 2019. This continues to raise the question of whether tenants are willing to wait for new space or pay record high rental rates for existing older stock.

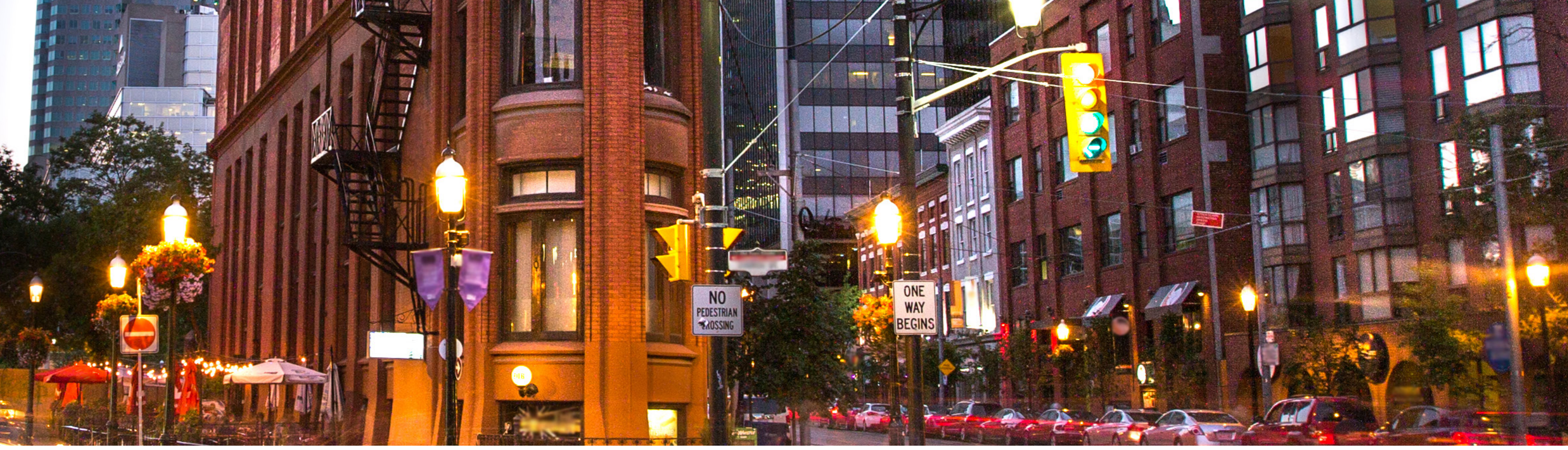


Although the market experienced significant new supply in 2019, 1.0 million SF of the 1.2 million SF delivered in 2019 was the result of the new Amazon fulfilment centre, resulting in no real alleviation to continuously tightening conditions. Both the developer and the City of Ottawa hope that this project will breathe new life to the city's industrial development pipeline and kick off more new speculative construction in the region.



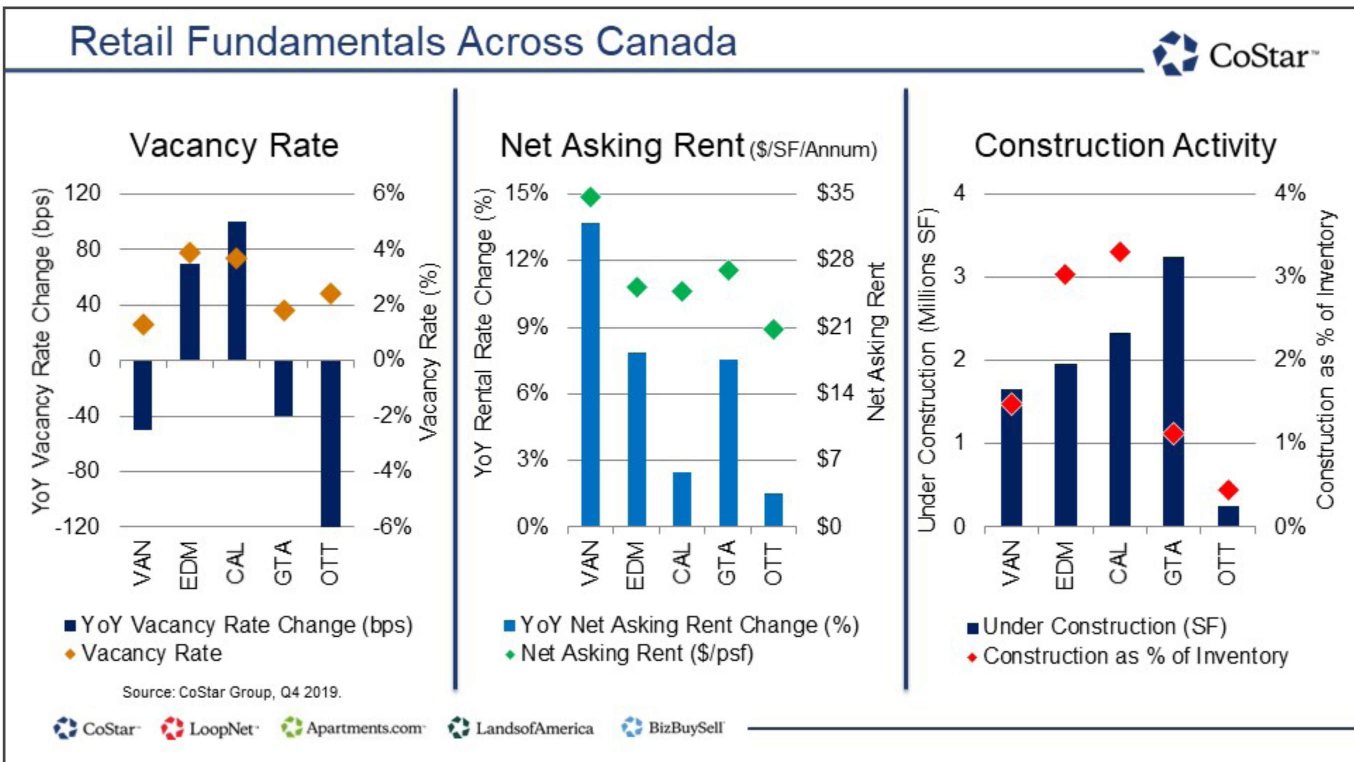


Looking forward, there is currently only one major project to speak of that could satiate demand from new or expanding tenants in the Ottawa market. Broccolini's proposed 700,000 SF speculative development is interesting not only because of its size, but also because they have applied to the City to raise the height of the building from just under 50 feet to almost 100 ft. The question is, what would you do with a 100-foot tall single storey industrial building? Despite this potential project, the lack of new supply and availability of quality space, in particular large blocks, will contribute to continued tight market conditions and higher asking rental rates.



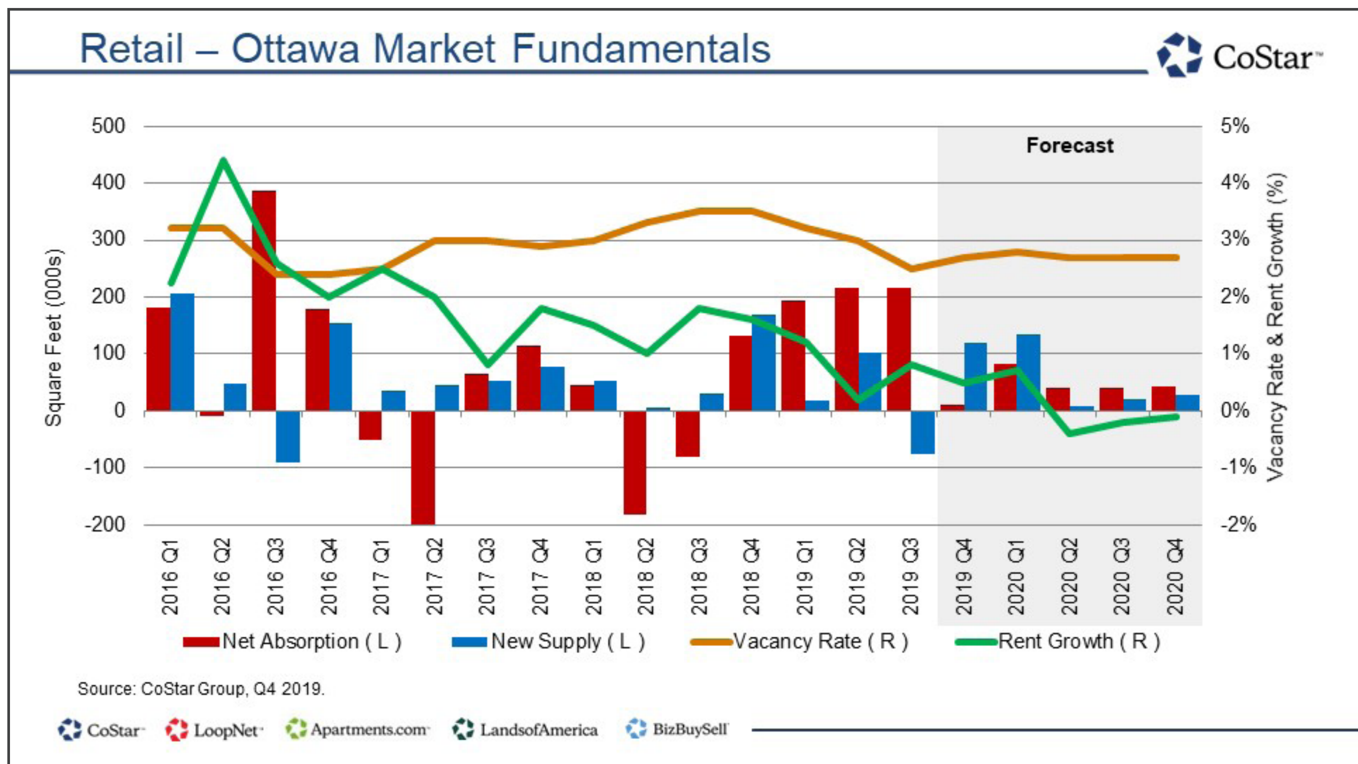
Ottawa Retail Overview

The Ottawa retail market has experienced a 120 bps year-over-year drop in vacancy to 2.7% at the end of 2019. This drop is partially the result of retailers opening new locations at the Cadillac Fairview Rideau Centre earlier this year and the slow rollout of legal cannabis brick-and-mortar stores. As a result, average net asking rental rates have steadily increased, however, they are only up 1.5% year-over-year to end 2019 at $20.96/SF per annum.



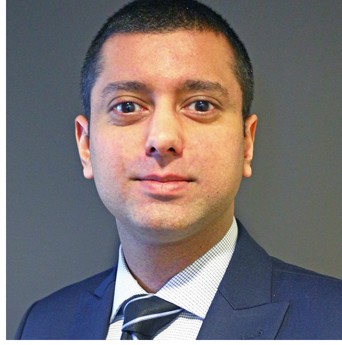
Construction activity has been relatively slow as well with only 534,000 SF of new supply delivered since Q2 2017 and only another 252,000 SF currently under construction, mainly as part of the podiums of mixed-use residential projects along the new LRT lines. Given the forecast of demand for space along the LRT lines, this construction activity will likely not meet demand over the coming years, and redevelopment of the areas adjacent to the new transit line seems likely.

Ottawa's retail sales growth is expected to remain strong in 2020, at 2.1% growth, however, as the potential for pullbacks in the public administration sector weigh on the outlook, retail sales growth is expected to fall below 2.0% for the foreseeable future thereafter. Furthermore, high debt service costs and competition from the rise of e-commerce, especially now that Amazon is in town, will take a bite out of retail sales activity. Developers will look to give buildings in close proximity to the LRT a facelift while retailers in older buildings, in less than ideal locations, may have to close their doors due to increased costs and lackluster sales growth. The upside of this shift would be new and fresh retail space available upon completion, leading to continued interest from diversified international retailers.



Landlords continue to look for ways to differentiate their properties and make them more experiential destinations in order to combat the effects of e-commerce on the retail market, and the Ottawa market has not been immune to this. Expect to see more intensification of retail properties and repurposing of parking lots, specifically along the LRT lines in the coming years.

Roelof Van Dijk
Director of Market Analytics



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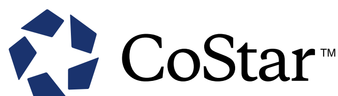

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