MARKET ALERT

Insights to help occupiers and investors navigate extreme uncertainty – and set the stage for eventual recovery

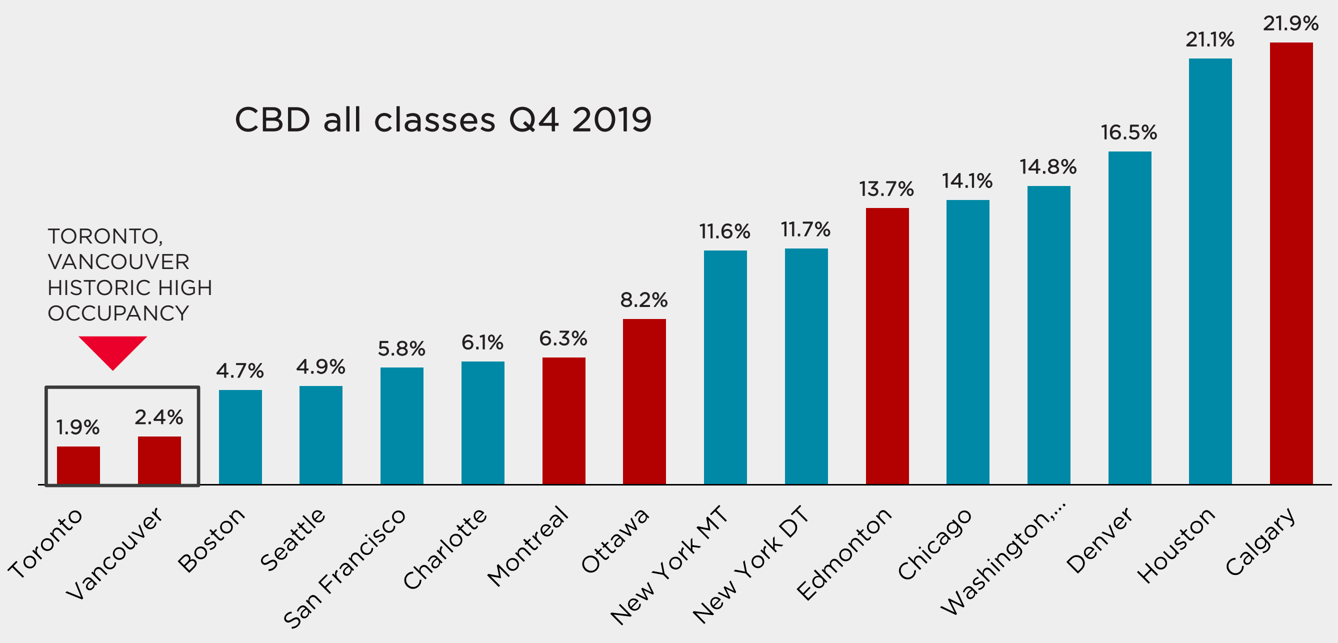
CUSHMAN & WAKEFIELD

How Shock Proof are Canadian Office Markets?

While it's too early to know what ultimate impact the pandemic will have on the way we live, work and shop — and how long it will take to recover — at this point, we can turn to pre-crisis starting points to get a sense of how well positioned Canadian office markets are to withstand this storm.

GAUGING OFFICE MARKET STABILITY

A look at where top performing North American markets stood before the crisis



The positive news in this difficult time is that many markets in Canada saw tremendous positive momentum between 2015 and 2019. As the chart shows, CBD Toronto and Vancouver ranked as the tightest markets in North America in Q4 2019, with all class availability rates of 1.9% and 2.4%, respectively.

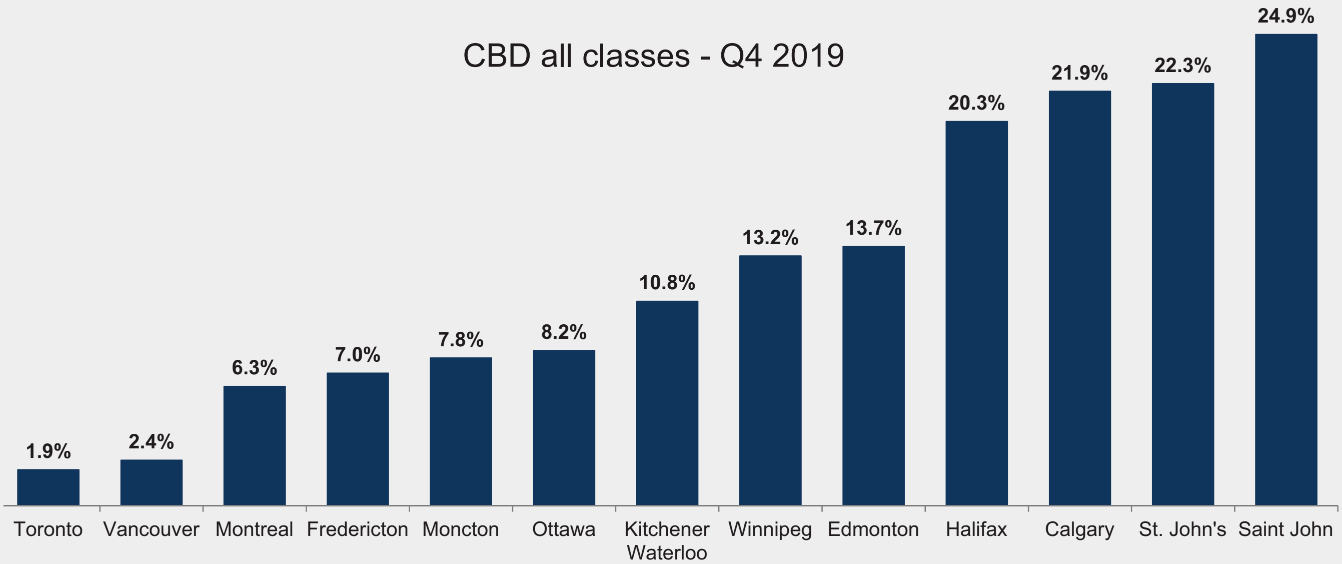
On a national level, when you exclude Calgary (which was still recovering from the last oil price decline), Canada's overall CBD office availability rate stood at a low 5.9% in Q4 2019 - the lowest since Q2 2013.

Technology was the number-one driver of transformative growth, not just in Vancouver and Toronto but also in Montreal and numerous other markets across the country. In many cases technology surpassed traditional office demand leaders such as the resource and banking sectors by a wide margin.

The underlying strength of these markets bodes well for their ultimate recovery. Office markets that entered the pandemic with lower availability and disciplined development activity are better positioned for recovery, a point that we will expand on in upcoming Market Alerts.

The ecosystem supporting the growth of technology is well established across Canadian markets. This, along with a deep pool of diversified talent and continued high-tech advancements, will enable the sector to restore its position as a dominant office demand leader.

FOCUS ON CANADIAN OFFICE MARKETS
A look at the fundamentals underpinning eventual recovery: inventory, availability, new supply



	Toronto	Vancouver	Montreal	Fredericton	Moncton	Ottawa	Kitchener Waterloo	Winnipeg	Edmonton	Halifax	Calgary	St. John's	Saint John
CBD Inventory (MSF)	89.7	34.0	56.9	2.0	3.0	18.7	4.3	10.6	17.9	6.1	50.8	1.6	2.3
CBD New Supply	10.0 MSF	4.8 MSF	1.8 MSF		90K	184K	277K	36K	105K				

Weighing the Factors that will Make a Difference

1. **While availability is not a definitive differentiator** of market performance, it does speak to the strength of fundamentals which is a good starting point. Occupied space reflects the commitments of tenants who have signed leases for periods of between five and 10 years.

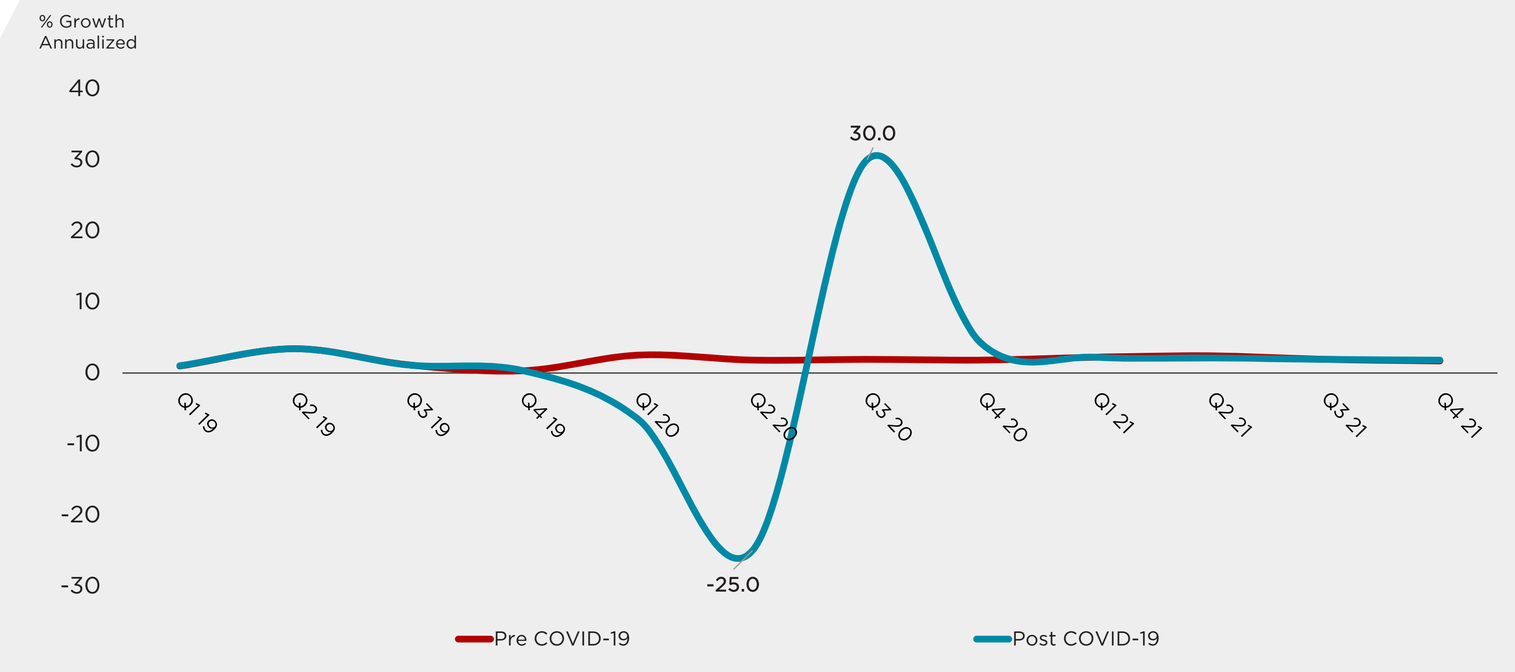
2. **The size of a given market also plays a role** in both the impact of the crisis and eventual recovery from a continued economic downturn. The larger the market, the greater the size of the economic engine that will drive growth post crisis.

3. **The profile of the demand drivers** within a market is another crucial element. As businesses stabilize, growth sectors such as technology and banking are likely to recover first. Given the intense focus on e-commerce and the priority to ensure remote workers are fully supported by digital platforms, it follows that the technology sector will continue to drive jobs and office growth.

4. **Without a clear sense of how long recovery will take and what strategies occupiers will adopt** to resume operations, markets with the deepest development pipelines — CBD Vancouver and Toronto — will see availability rise higher than originally projected. As we gain clarity, we will assess the impact of record new supply in upcoming Market Alerts.

Light on the Horizon

CANADA: THE WORST IS YET TO COME...
yet, at this point, an economic rebound is forecast for Q4 2020



Source: BMO Capital Markets Economic Research

Fast Shifting Dynamics:
9 Observations

As the COVID-19 health crisis upends our lives and economy, Cushman & Wakefield professionals are communicating with our clients every day to answer questions, provide assistance and begin shaping post-crisis solutions. Here are some early "insider" observations, which we will continue to update:

1. **Globally, we are in the midst of a long-run technology super cycle** and are confident that this sector will rebound relatively quickly once economies start to move forward.

2. **Canada's major suburban office markets are in pretty good shape** after seeing stronger growth in recent years, led by Vancouver and Montreal. As of Q4 2019, the national availability rate was 10.7%, the lowest since Q1 2014. This puts the markets on a firmer footing for recovery.

3. **Canadian developers are highly disciplined.** As in past downturns, this restraint should go a long way in maintaining market balance and expediting recovery.

4. **Owners of Canadian office buildings are well financed** with very deep pockets. This reduces the threat of financial insolvency and allows owners greater flexibility in dealing with the needs of tenants on a case-by-case basis throughout this crisis period.

5. **Major landlords in Canada are for the most part holding back on extending office rent deferrals** or abatements at this point as they continue to assess the needs of specific tenants and understand the crisis timeline. Landlords are, however, actively working to provide relief to hard-hit retail tenants.

6. **Portfolios with high occupancy** and strong covenants are better positioned to weather the storm. Given that we will be in a low interest-rate environment for the long term, this will also support recovery and continued office investment.

7. **Coworking is a question mark.** Coworking companies that cater to start ups or smaller companies will feel more pain than those that have a more established or varied tenant mix. How people return to offices after prolonged periods of remote work is an issue that most employers and landlords will face, particularly where it pertains to highly densified workplaces.

8. **On the leasing front, it's mostly wait and see.** It's too early to know the impact of job losses on Canadian office markets. Anecdotally, our advisors anticipate that more tenants will look closer at shorter lease terms, given longer-term economic uncertainty.

9. **How will workplace strategies change post-crisis?** Will more organizations embrace work-at-home flexibility and enhanced health & wellness policies? Given the nature of the crisis, it is conceivable that densification metrics will be revised whereby more space per workstation will become a comfortable norm. Workplace health & wellness will be a priority for all occupiers as they work to quell the anxiety of returning workers.

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