Q2 2021

# Canada Cap Rate Report

Accelerating success.

# National Investment Trends

## Q2 2021

Although the majority of Canada experienced a strong surge in COVID-19 cases in Q2 2021, by the end of May the vaccine rollout, as well as diminishing COVID-19 case counts, meant that public health restrictions were eased and the economy began to reopen across the country. Despite Statistics Canada reporting that the number of people working from home decreased dramatically between May and June of 2021, this combined with a decrease in sublet offerings across the country as companies took back space in anticipation of using it later this year, uncertainty about the timing and completeness of the return to the office remains. The reduced office attendance over the previous 16 months has dramatically impacted retailers that rely on daytime foot traffic and commuter patterns, however, as people return to old commuting patterns, even if only three days per week, conditions for these retail properties and retailers should improve. Furthermore, high-profile experiential retail will improve as public health measures are reduced. Many of these properties are destinations that will attract consumers who are looking for some retail therapy. Another potential tailwind for retail in the second half of 2021 will come from those who are starting to return to the office and need to update their wardrobes to new styles and new sizes, as many Canadians have changed shape during the pandemic. Despite this potentially optimistic outlook for both the office and retail sectors, cap rates in most markets for both these sectors have increased year-over-year and have been virtually unchanged over the past two quarters. Many investors are not actively searching out office assets, but are looking at underutilized retail assets for redevelopment and intensification opportunities.

Throughout the pandemic most investors have been looking for “beds, sheds and redevs”, and these assets remained in high demand in Q2 2021. Despite rising multifamily vacancy rates due to reduced demand from young professionals, new immigrants and students, particularly foreign students, the tide is turning. Young professionals and those in the entertainment sector are looking at securing apartments as they return to the office or return to work, and with the anticipation of in-person classes returning this fall, demand from students has started to pick up once again. Demand for industrial space from tenants remains exceptionally strong, with vacancy rates continuing to drop and rental rates experiencing strong growth across the country. As such, investors and developers are keen to increase their industrial holdings to take advantage of this dynamic. Demand for industrial space from e-commerce fulfillment, manufacturing, film production, and warehousing users as companies shift their supply chains from just-in-time (JIT) to just-in-case delivery, among others, means that developers will have a hard time keeping up with demand over the coming years. This will keep vacancy rates low and rent growth strong. As a result, cap rates in most markets for both industrial and multifamily assets have decreased convincingly year-over-year and continued to compress in Q2 2021.

Despite the added risk associated with certain commercial real estate asset types due to the pandemic, investors continue to search for yield and commercial real estate remains attractive. The national all asset average cap rate edged down from 5.54% at mid-year 2020 to 5.53% in Q1 2021 and dropped again to 5.48% at mid-year 2021. During the same period, the Government of Canada 10-year bond yield increased from 0.52% at mid-year 2020, but decreased from 1.50% in Q1 2021, to 1.39% at mid-year 2021. As a result, the risk premium for commercial real estate in Canada decreased from 502 bps at mid-year 2020, to 403 bps in Q1 2021, before increasing again to 409 bps in Q2 2021, due to falling bond yields and despite a 5 bps drop in the average cap rate. This cap rate compression occurred while the average 10-year commercial mortgage rate increased from 2.67% at year-end 2020 to 3.14% in Q2 2021, highlighting the strong demand from well-capitalized investors.

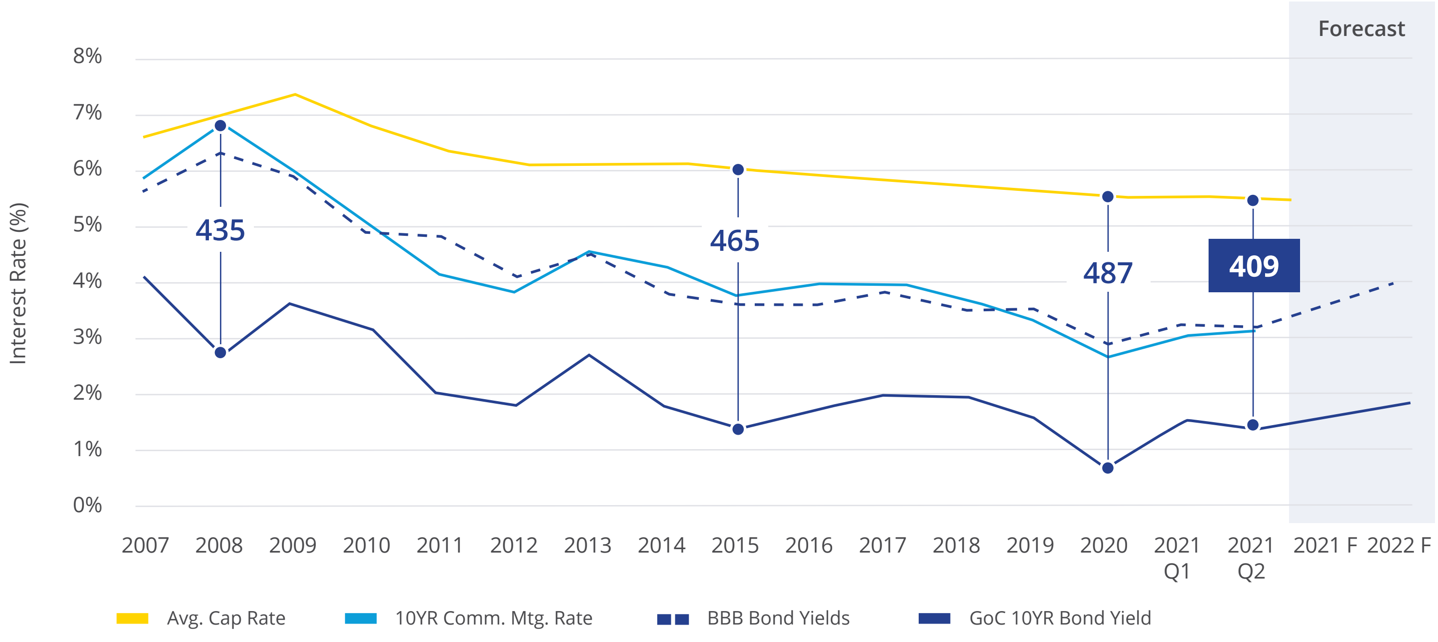
## Hotels Q2 Cap Rate Report

Following a quiet start to the year, hotel transaction activity picked up materially with nearly $500 million of closed volume in the second quarter. The increase in trading pushed first half volume to approximately $700 million, well above the $470 million tracked for the first half of 2020 as the impacts of COVID-19 took hold. While most transaction volume remains related to acquisitions for alternate use/redevelopment, traditional hotel transactions are increasing, however for the most part with slight discounts to pre-COVID values.

Despite tremendous progress in Canada's vaccine rollout, lingering travel restrictions and border closures continue to constrain hotel operating fundamentals with national hotel occupancy through May trending several points lower than in 2020. Due to a lack of operational cashflow, reporting of cap rates will remain suspended at this time. A mid-year update on hotel transactions and operating trends will be available in the upcoming Q2 2021 INNvestment Canada Report to be launched in July.

## Interest Rates vs Cap Rates

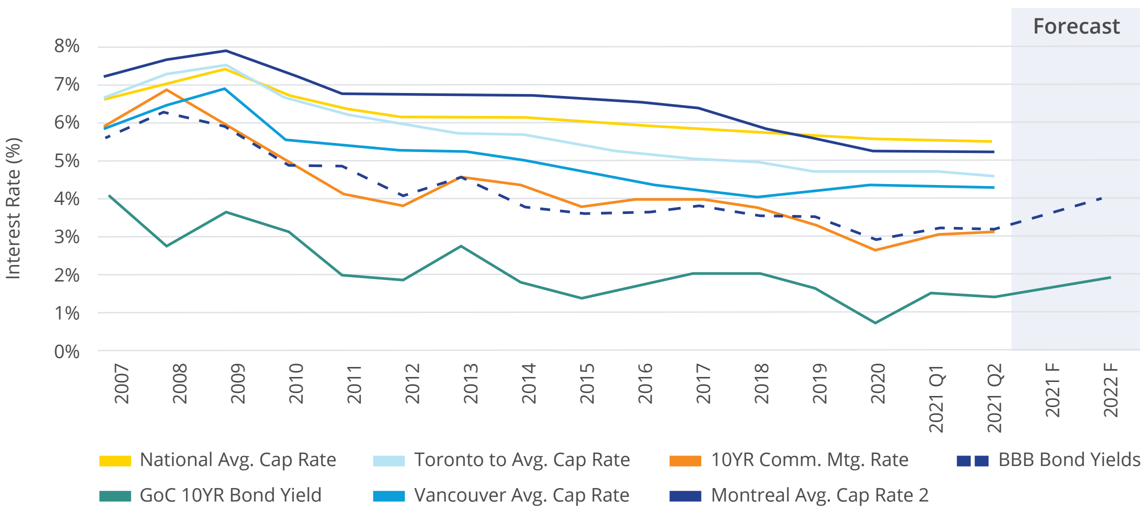
**Spread between bonds & cap rates is now only 15 bps above the 15-yr avg. of 388 bps!**




Source: Colliers Cap Rate Report, Q2 2021, Bank of Canada and Big 6 Banks, July 09, 2021.

## Interest Rates vs Cap Rates

### Major Canadian markets are below or near all-time lows




**Vancouver spread:**
291 bps, **6** bps above 15-yr avg.

**Toronto spread:**
320 bps, **40** bps below 15-yr avg.

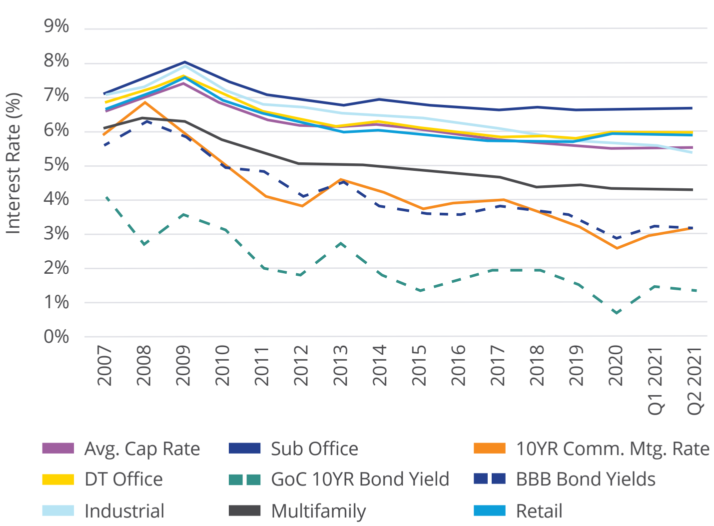
**Montreal spread:**
381 bps, **59** bps below 15-yr avg.

Source: Colliers Cap Rate Report, Q2 2021, Bank of Canada and Big 6 Banks, July 09, 2021.

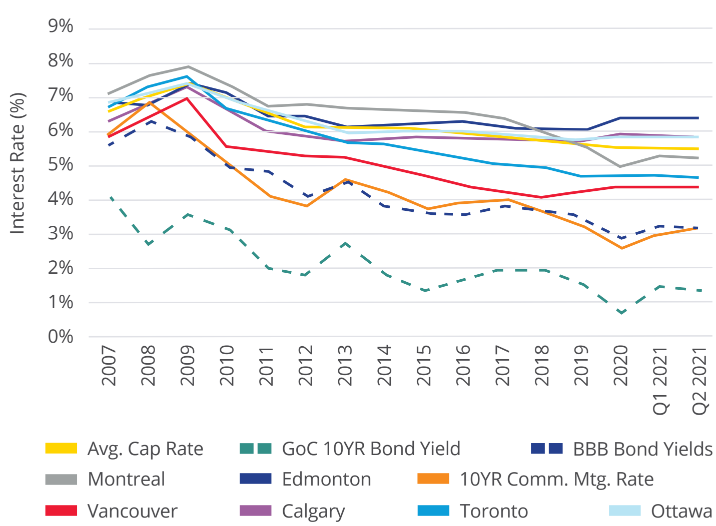
## Key Findings

- Despite the added risk associated with certain commercial real estate asset types due to the pandemic, and even though some asset specific and market cap rates edged up, the national all asset average cap rate continues to edge down.
- During the same period the Government of Canada (GoC) 10-year bond yield dropped dramatically in 2020, from 1.59% at year-end 2019, ending 2020 at 0.67%. In Q1 2021 this trend reversed, with the 10-year yield increasing back to 1.50% before falling again to 1.39% in Q2.
- BBB corporate bonds and commercial mortgage rates also decreased in 2020. As of Q2 2021 the 10-year GOC bond yield has increased by 72 bps since year-end 2020, dramatically reducing the risk premium back down from 487 bps at year-end 2020 to 409 bps in Q2 2021.
- Despite spreads between bond yields and commercial mortgage rates tightening, the rise in bond yields means that commercial mortgage rates are also on the rise.

### Average National Cap Rate by Asset Type




### Average National Cap Rate by Market




Source: Colliers Q2 2021, Bank of Canada.

# Toronto

Q2 2021

## What's Trending?

- The industrial investment market throughout the GTA continues to push the boundaries of both prices per foot and cap rates with each new major transaction. Of particular note is the sale of 2300 North Park Drive in Brampton, which has set new market records for both of these metrics. Amazon occupies this newly constructed building on a long-term lease.
- Artis REIT also recently announced the disposition of their entire 28 building GTA industrial portfolio for a total price of $750 million dollars or $297 per square foot. The portfolio was comprised of 2.5 million square feet throughout the GTA.
- Smaller suburban office sales have remained strong, as several buildings have closed this quarter in Mississauga and Markham. In total, there were six sales in these two markets totaling nearly $116 million across 410,000 square feet.
- Multi-family sales increased by roughly 25% quarter over quarter as the sector continues to see very robust demand from both institutional and private capital throughout the GTA. Total sales volume in the quarter was approximately $805 million with an average price per door of just over $350,000. The majority of the sales this quarter were small to midsized investments with fewer large-scale transactions.
- While well located retail assets that have longer remaining lease expiries coupled with good tenants are still in demand for investors who understand this sector and the changes.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**Downtown Office**

| Class A | | Class B | | Q3 Prediction | |
|---|---|---|---|---|---|
| Low | High | Low | High | A | B |
| 3.75% | 4.75% | 4.50% | 5.50% | ◄► | ◄► |

**Suburban Office**

| Class A | | Class B | | Q3 Prediction | |
|---|---|---|---|---|---|
| Low | High | Low | High | A | B |
| 5.75% | 6.75% | 6.25% | 7.25% | ◄► | ◄► |

**Industrial**

| Class A | | Class B | | Q3 Prediction | |
|---|---|---|---|---|---|
| Low | High | Low | High | A | B |
| 3.75% | 4.25% | 4.00% | 4.75% | ▼ | ▼ |

**Retail**

| Regional/ Power | | Grocery/ Community | | Neighbourhood/ Strip | | Q3 Prediction | | |
|---|---|---|---|---|---|---|---|---|
| Low | High | Low | High | Low | High | R | G | N |
| 4.50% | 5.50% | 5.25% | 6.25% | 4.75% | 6.00% | ▲ | ◄► | ▲ |

**Multi-Family Apartment**

| High-Rise | | Low-Rise | | Q3 Prediction | |
|---|---|---|---|---|---|
| Low | High | Low | High | H | L |
| 3.00% | 3.75% | 2.75% | 3.75% | ◄► | ◄► |

# Montréal

Q2 2021

## What's Trending?

- Montreal's industrial market has continued its strong growth in terms of both values and rents. Cap rates have steadily declined. In the past six months, average rents in the industrial sector have seen additional pressure, moving up by as much at $0.50/SF in just a short period. Recent transactions include the sale of a three-building portfolio along the Trans-Canada Highway leased to a single tenant at a cap rate of 4%.
- In Q2 a major Downtown office transaction was negotiated and the rumor is that it shall trade at a cap rate in the low 6% range, and a price per foot of about $320. Suburban office transactions have been a little slower as most landlord/owners are waiting to see the spinoff effect of COVID and the increased need for suburban office space.
- In terms of multi-family transactions, there has been quite a lot of small-scale transactions. Cap rates have continued to decline with rates now in the low 3% range for mid to high-rise product. A recent high-rise transaction includes the sale of a 182-unit apartment building with a cap rate of 3.6% and a price per unit of $255,000.
- Retail properties are continuing to show transactional interest. There have been several transactions in the past three months of smaller community sized malls. These transactions have taken place in both the GMA as well as two transactions in secondary markets such as Granby, Quebec. Cap rates are stable for these well-tenanted assets with rates in the low 6% range.


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**Downtown Office**

| Class A | | Class B | | Q3 Prediction | |
|---|---|---|---|---|---|
| Low | High | Low | High | A | B |
| 4.50% | 5.50% | 5.25% | 6.00% | ◀▶ | ▲ |

**Suburban Office**

| Class A | | Class B | | Q3 Prediction | |
|---|---|---|---|---|---|
| Low | High | Low | High | A | B |
| 6.00% | 7.00% | 6.75% | 7.50% | ◀▶ | ◀▶ |

**Industrial**

| Class A | | Class B | | Q3 Prediction | |
|---|---|---|---|---|---|
| Low | High | Low | High | A | B |
| 3.75% | 4.50% | 4.00% | 4.75% | ◀▶ | ◀▶ |

**Retail**

| Regional/ Power | | Grocery/ Community | | Neighbourhood/ Strip | | Q3 Prediction | | |
|---|---|---|---|---|---|---|---|---|
| Low | High | Low | High | Low | High | R | G | N |
| 5.25% | 6.50% | 6.00% | 7.00% | 7.00% | 7.75% | ◀▶ | ◀▶ | ◀▶ |

**Multi-Family Apartment**

| High-Rise | | Low-Rise | | Q3 Prediction | |
|---|---|---|---|---|---|
| Low | High | Low | High | H | L |
| 3.00% | 4.25% | 4.00% | 5.00% | ◀▶ | ◀▶ |

# Vancouver

Q2 2021

## What's Trending?

- Larger scale retail closed deals were quiet in the Lower Mainland through Q2. The Junction in Mission is on the market, as is Valley Fair Mall in Maple Ridge and Southgate Shopping Centre in Chilliwack. The largest retail transaction in BC was Ivanhoe's sale of Mayfair Shopping Centre in Victoria.
- Industrial was active in Q2 with notable deals including Mayfair Square in Coquitlam for well over $40 million and a sub-4% cap rate, five industrial buildings near Harbourside Business Park in North Vancouver for $44 million and a cap rate in the mid 3% range, and the sale-leaseback of the Wesgar portfolio in Port Coquitlam for $26.5 million and a cap rate in the upper 3% range.
- Notable office transactions include two adjacent office buildings in Downtown Vancouver sold by Manulife to a private investor in excess of $230 million and a cap rate in the low 3% range, 815 Hornby Street, a Class C office building with Robson Street retail frontage and excellent redevelopment potential for $93 million and a cap rate also in the low 3% range.
- Multi-family activity continues to grow in Q2 2021. Martello Tower was the largest single-property sale, with 220 rental units and a large site with expansion potential. Starlight Investments also continued to acquire properties, with Park Lane Towers for $37.3 million and a low 2% range cap rate, as well as acquiring the Lachman family apartment portfolio which consists of 465 units in five buildings in the West End and West Vancouver.

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**Downtown Office**

| Class A | | Class B | | Q3 Prediction | |
|---|---|---|---|---|---|
| Low | High | Low | High | A | B |
| 3.25% | 4.50% | 3.50% | 4.50% | ◀▶ | ◀▶ |

**Suburban Office**

| Class A | | Class B | | Q3 Prediction | |
|---|---|---|---|---|---|
| Low | High | Low | High | A | B |
| 5.00% | 6.25% | 5.50% | 6.50% | ◀▶ | ◀▶ |

**Industrial**

| Class A | | Class B | | Q3 Prediction | |
|---|---|---|---|---|---|
| Low | High | Low | High | A | B |
| 3.75% | 4.50% | 3.75% | 5.00% | ◀▶ | ◀▶ |

**Retail**

| Regional/ Power | | Grocery/ Community | | Neighbourhood/ Strip | | Q3 Prediction | | |
|---|---|---|---|---|---|---|---|---|
| Low | High | Low | High | Low | High | R | G | N |
| 4.00% | 6.00% | 4.00% | 5.75% | 3.50% | 5.50% | ◀▶ | ◀▶ | ◀▶ |

**Multi-Family Apartment**

| High-Rise | | Low-Rise | | Q3 Prediction | |
|---|---|---|---|---|---|
| Low | High | Low | High | H | L |
| 2.75% | 3.50% | 2.75% | 4.00% | ▼ | ▼ |

# Calgary

Q2 2021

## What's Trending?

- Investor sentiment in Calgary continues to be optimistic as noted in the prior quarter. Fueling this optimism is the success in COVID vaccinations and the gradual increase in WTI pricing which ended the second quarter at over $73 per barrel.
- Persistent high vacancy in the office market continues to keep investment interest muted as some corporations have announced the continued adoption of a flexible work plan. No notable office properties transacted this quarter.
- With a light at the end of the tunnel now visible with the pandemic, there have been more transactions within the Retail sector in 2021. This quarter provided four larger transactions at values of over $10 million with two of these transactions over $20 million. Local investors purchased all four.
- The industrial market continues to lead real estate transactions with over 30 transactions over $1 million in value and four transactions over $10 million. Demand for logistics and distribution warehouses continues to be strong as e-commerce trends further strengthened during the pandemic. This demand is expected to push lease rates higher and the perception of future growth has pushed capitalization rates lower.
- The multi-family market has been flat in the second quarter with no significant transactions. Low mortgage rates have pushed demand for detached homes.

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**Downtown Office**

| Class A | | Class B | | Q3 Prediction | |
|---|---|---|---|---|---|
| Low | High | Low | High | A | B |
| 6.00% | 7.00% | 7.00% | 9.00% | ▲ | ▲ |

**Suburban Office**

| Class A | | Class B | | Q3 Prediction | |
|---|---|---|---|---|---|
| Low | High | Low | High | A | B |
| 6.25% | 7.00% | 7.00% | 8.50% | ▲ | ▲ |

**Industrial**

| Class A | | Class B | | Q3 Prediction | |
|---|---|---|---|---|---|
| Low | High | Low | High | A | B |
| 4.50% | 5.75% | 5.25% | 7.00% | ◄► | ◄► |

**Retail**

| Regional/ Power | | Grocery/ Community | | Neighbourhood/ Strip | | Q3 Prediction | | |
|---|---|---|---|---|---|---|---|---|
| Low | High | Low | High | Low | High | R | G | N |
| 5.25% | 6.00% | 5.25% | 6.00% | 5.50% | 6.50% | ▲ | ▲ | ▲ |

**Multi-Family Apartment**

| High-Rise | | Low-Rise | | Q3 Prediction | |
|---|---|---|---|---|---|
| Low | High | Low | High | H | L |
| 4.25% | 4.75% | 4.50% | 5.25% | ◄► | ◄► |

# Edmonton

Q2 2021

## What's Trending?

- The Edmonton office market appears to have stabilized after a difficult 2020. There has been positive net absorption in the Downtown market and negative net absorption in the Suburban markets thus far in 2021. Rents appear to have plateaued. The largest office sale in the Second Quarter was the transfer of the 50th Street Atria to Edmonton Catholic Schools for $9.8 million.
- The industrial market continues to be the strongest property sector in Edmonton. There was positive absorption of over one million square feet in the metro area during the First Quarter and a similar performance is expected to be reported for the Second Quarter. Capitalization rates appear to be decreasing in response to low interest rates and declining vacancy levels.
- The retail market in Edmonton is poised for significant growth this year. The pandemic damage during 2020 was lighter than expected and a full reopening of the economy occurred on July 1. Still, it will be several quarters before the sector fully recovers and capitalization rates appear to have plateaued due to minimal investor demand.
- The multi-family market also appears to be in full recovery. Although net interprovincial migration turned negative this year, international migration remained buoyant and energy prices hit three-year highs in the Second Quarter of 2021. Capitalization rates remain stable. The largest Second Quarter apartment sale was for Sunset Valley, a 128-unit project that sold for $195,000 per unit.

**Downtown Office**

| Class A | | Class B | | Q3 Prediction | |
|---|---|---|---|---|---|
| Low | High | Low | High | A | B |
| 6.75% | 8.00% | 7.25% | 8.75% | ◀▶ | ◀▶ |

**Suburban Office**

| Class A | | Class B | | Q3 Prediction | |
|---|---|---|---|---|---|
| Low | High | Low | High | A | B |
| 6.75% | 7.75% | 7.25% | 8.50% | ◀▶ | ◀▶ |

**Industrial**

| Class A | | Class B | | Q3 Prediction | |
|---|---|---|---|---|---|
| Low | High | Low | High | A | B |
| 5.75% | 6.75% | 6.25% | 7.50% | ▼ | ▼ |

**Retail**

| Regional/ Power | | Grocery/ Community | | Neighbourhood/ Strip | | Q3 Prediction | | |
|---|---|---|---|---|---|---|---|---|
| Low | High | Low | High | Low | High | R | G | N |
| 5.75% | 6.75% | 5.75% | 6.75% | 6.00% | 7.50% | ◀▶ | ◀▶ | ◀▶ |

**Multi-Family Apartment**

| High-Rise | | Low-Rise | | Q3 Prediction | |
|---|---|---|---|---|---|
| Low | High | Low | High | H | L |
| 4.00% | 5.00% | 4.50% | 5.75% | ◀▶ | ◀▶ |

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# Ottawa

Q2 2021

## What's Trending?

- Commercial real estate activity in Ottawa continued to pick up pace in Q2. Many assets that were planned to be listed in 2020 are now being actively marketed for sale. Demand remains high for good quality industrial and retail product and availability remains low. Demand for office product remains moderate though capitalization rate expectations from buyers are higher.
- There has been limited sales activity of institutional grade new apartment rental product in Ottawa though speculation from brokers and owners is that capitalization rates for new fully leased multi-residential asset in Ottawa are below 4.0%. To date no transactions of new built multi-family assets have occurred that support a sub 4.0% capitalization rate. Owners are not selling these assets given the time / cost associated with developing and leasing up apartment rental buildings. However, tenant demand over the last 12 months has been softer with some owners experiencing extended lease up periods. Demand from tenants is anticipated to increase substantially in the near term as universities reopen and students return to the city.
- The Ottawa industrial market remains very strong with a number of new developments planned throughout the City. Numerous buyers are actively seeking to acquire fully leased assets but supply remains low, which is forcing users to explore tertiary markets surrounding Ottawa (i.e. Cornwall, Brockville, Kingston, Kemptville, Pembroke). Capitalization rates are generally more attractive in these markets given higher perceived risk of vacancy though vacancy remains low in these markets.


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**Downtown Office**

| Class A | | Class B | | Q3 Prediction | |
|---|---|---|---|---|---|
| Low | High | Low | High | A | B |
| 5.25% | 6.50% | 6.50% | 7.25% | ▲ | ▲ |

**Suburban Office**

| Class A | | Class B | | Q3 Prediction | |
|---|---|---|---|---|---|
| Low | High | Low | High | A | B |
| 6.50% | 7.25% | 7.00% | 7.75% | ▲ | ▲ |

**Industrial**

| Class A | | Class B | | Q3 Prediction | |
|---|---|---|---|---|---|
| Low | High | Low | High | A | B |
| 5.00% | 6.50% | 5.50% | 6.50% | ▼ | ▼ |

**Retail**

| Regional/ Power | | Grocery/ Community | | Neighbourhood/ Strip | | Q3 Prediction | | |
|---|---|---|---|---|---|---|---|---|
| Low | High | Low | High | Low | High | R | G | N |
| 5.75% | 6.75% | 6.00% | 6.75% | 6.00% | 7.00% | ▲ | ▲ | ▲ |

**Multi-Family Apartment**

| High-Rise | | Low-Rise | | Q3 Prediction | |
|---|---|---|---|---|---|
| Low | High | Low | High | H | L |
| 4.00% | 4.75% | 3.75% | 4.75% | ◀▶ | ◀▶ |

# Winnipeg

Q2 2021

## What’s Trending?

- Demand for good quality industrial property has increased, leading to a cap rate decrease this quarter.
- Transaction volume for industrial/multi-family has returned to pre-pandemic levels, with office/retail sales being on the slower side.
- Office and retail transaction volume remains low with very few significant transactions occurring throughout 2020 and into 2021. Vacancy for these property types will be what drives cap rates on a case by case basis.
- Multi-family transactions have been steady with owners taking a buy/renovate approach to increase rental rates. New construction has also been active.

**Downtown Office**

| Class A | | Class B | | Q3 Prediction | |
|---|---|---|---|---|---|
| Low | High | Low | High | A | B |
| 5.50% | 6.25% | 6.00% | 6.75% | ◀▶ | ◀▶ |

**Suburban Office**

| Class A | | Class B | | Q3 Prediction | |
|---|---|---|---|---|---|
| Low | High | Low | High | A | B |
| – | – | 6.00% | 6.75% | ◀▶ | ◀▶ |

**Industrial**

| Class A | | Class B | | Q3 Prediction | |
|---|---|---|---|---|---|
| Low | High | Low | High | A | B |
| 5.75% | 6.50% | 6.00% | 6.75% | ◀▶ | ◀▶ |

**Retail**

| Regional/ Power | | Grocery/ Community | | Neighbourhood/ Strip | | Q3 Prediction | | |
|---|---|---|---|---|---|---|---|---|
| Low | High | Low | High | Low | High | R | G | N |
| 6.00% | 6.50% | 6.00% | 6.75% | 6.00% | 6.75% | ◀▶ | ◀▶ | ◀▶ |

**Multi-Family Apartment**

| High-Rise | | Low-Rise | | Q3 Prediction | |
|---|---|---|---|---|---|
| Low | High | Low | High | H | L |
| 5.00% | 6.00% | 5.00% | 6.00% | ▼ | ▼ |

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# Halifax

Q2 2021

## What's Trending?

- The COVID-19 situation continues to improve in Nova Scotia as the Third Wave appears to be at an end and vaccination rates lead the country. The Atlantic Bubble permitting free travel without need to quarantine was reinstated on July 3, albeit with varying requirements based on vaccination status in each province.
- Consistent with last quarter, multifamily residential and industrial properties have emerged as the asset class of choice, while retail assets with National tenancies (pharmacy, grocery, bank) remain highly coveted.
- Market activity with respect to investment sales has remained strong with sales volumes limited by supply availability in many instances.
- Optimism has increased due to the accelerated rollout of the vaccine with a growing a sense of pent up demand building across many areas of the economy which ultimately will benefit commercial real estate as uncertainty is reduced.
- Continued growth is expected in the industrial sector – rents are rising, a function of reduced availability of space and land for new development along with rising construction costs. Downward pressure on cap rates is evident. High quality, defensive retail also remains in high demand with downward pressure on cap rates. Multi-residential assets remain in high demand with cap rates continuing to trend lower as investors are attracted by the strong underlying fundamentals.

**Downtown Office**

| Class A | | Class B | | Q3 Prediction | |
|---|---|---|---|---|---|
| Low | High | Low | High | A | B |
| 6.50% | 7.25% | 7.25% | 8.25% | ◀▶ | ◀▶ |

**Suburban Office**

| Class A | | Class B | | Q3 Prediction | |
|---|---|---|---|---|---|
| Low | High | Low | High | A | B |
| 6.50% | 7.25% | 7.25% | 8.25% | ◀▶ | ◀▶ |

**Industrial**

| Class A | | Class B | | Q3 Prediction | |
|---|---|---|---|---|---|
| Low | High | Low | High | A | B |
| 5.50% | 6.25% | 6.00% | 7.00% | ▼ | ▼ |

**Retail**

| Regional/ Power | | Grocery/ Community | | Neighbourhood/ Strip | | Q3 Prediction | | |
|---|---|---|---|---|---|---|---|---|
| Low | High | Low | High | Low | High | R | G | N |
| 5.50% | 6.25% | 7.00% | 7.75% | 6.00% | 7.25% | ◀▶ | ◀▶ | ◀▶ |

**Multi-Family Apartment**

| High-Rise | | Low-Rise | | Q3 Prediction | |
|---|---|---|---|---|---|
| Low | High | Low | High | H | L |
| 4.25% | 4.50% | 4.50% | 4.75% | ▼ | ▼ |

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# Victoria

Q2 2021

## What's Trending?

- During the first half of 2021, general investment sentiment remained strong, with minimal market disruption due to the COVID-19 pandemic, and positive indicators in the office, industrial and multifamily sectors.
- COVID-19 concern waned during the second quarter, with vaccine distribution accelerating, and government restrictions loosening during subsequent phases of the reopening plan. Business activity has progressed across most sectors, with offices and restaurants slowly reopening and travel restrictions starting to be lifted.
- Although vacancy in the office sector increased, rents have offset this trend with marginal increases on net asking rates. A return to office program has been initiated by many companies.
- Industrial sector vacancy remains at records lows, with limited available supply and upward pressure on net rental rates.
- Demand for multifamily product continues with investors attracted to the low interest rate environment and proven stability of the market. Market rents are on an upward trend and rental defaults continue to be very limited.
- During Q2, a notable office investment transaction was the approximately $13M sale of 31 Bastion Square, representing a market typical low/mid-5% capitalization rate.

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**Downtown Office**

| Class A | | Class B | | Q3 Prediction | |
|---|---|---|---|---|---|
| Low | High | Low | High | A | B |
| 5.00% | 5.75% | 5.25% | 6.00% | ◂▸ | ◂▸ |

**Suburban Office**

| Class A | | Class B | | Q3 Prediction | |
|---|---|---|---|---|---|
| Low | High | Low | High | A | B |
| 5.25% | 6.00% | 5.50% | 6.25% | ◂▸ | ◂▸ |

**Industrial**

| Class A | | Class B | | Q3 Prediction | |
|---|---|---|---|---|---|
| Low | High | Low | High | A | B |
| 4.25% | 5.25% | 4.50% | 5.50% | ◂▸ | ◂▸ |

**Retail**

| Regional/ Power | | Grocery/ Community | | Neighbourhood/ Strip | | Q3 Prediction | | |
|---|---|---|---|---|---|---|---|---|
| Low | High | Low | High | Low | High | R | G | N |
| 5.00% | 5.75% | 5.25% | 6.00% | 5.25% | 6.00% | ▲ | ▲ | ▲ |

**Multi-Family Apartment**

| High-Rise | | Low-Rise | | Q3 Prediction | |
|---|---|---|---|---|---|
| Low | High | Low | High | H | L |
| 3.50% | 4.25% | 3.75% | 4.50% | ◂▸ | ◂▸ |

# Waterloo

Q2 2021

## What's Trending?

- Institutional Capital has come roaring back to the market, specifically for Industrial and Multi-family assets. Private Capital continues to be very active, but they are no longer the only active buyers.
- Just as buyers are fighting to purchase investment assets, lenders are competing to lend on them as well. This competition and the continuing low interest rates are keeping upward pressure on prices.
- Office properties are still on the sidelines with few transactions to point to. Buyers and Sellers are looking for more direction from the underlying leasing market to determine where pricing is. We expect more activity once more companies return to the office later this year.
- On the top of everyone's wish list is industrial properties. The competition to win bidding wars is pushing cap rates lower. Even secondary and tertiary markets are fetching record prices. Values could continue to hit new highs with vacancy rates dropping below 2% and drastically increasing rental rates.
- There were not a lot of retail transactions in Q2, which was likely due to investors' concerns regarding the long-term viability of many tenants. However, the potential of redevelopment and change of use for retail assets may spur more activity later in the year.


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**Downtown Office**

| Class A | | Class B | | Q3 Prediction | |
|---|---|---|---|---|---|
| Low | High | Low | High | A | B |
| 5.75% | 6.50% | 6.25% | 7.00% | ↔ | ↔ |

**Suburban Office**

| Class A | | Class B | | Q3 Prediction | |
|---|---|---|---|---|---|
| Low | High | Low | High | A | B |
| 5.75% | 6.50% | 6.00% | 6.75% | ↔ | ↔ |

**Industrial**

| Class A | | Class B | | Q3 Prediction | |
|---|---|---|---|---|---|
| Low | High | Low | High | A | B |
| 4.50% | 5.00% | 5.00% | 5.50% | ▼ | ▼ |

**Retail**

| Regional/ Power | | Grocery/ Community | | Neighbourhood/ Strip | | Q3 Prediction | | |
|---|---|---|---|---|---|---|---|---|
| Low | High | Low | High | Low | High | R | G | N |
| 5.50% | 6.25% | 5.25% | 6.00% | 6.25% | 7.50% | ▲ | ▲ | ▲ |

**Multi-Family Apartment**

| High-Rise | | Low-Rise | | Q3 Prediction | |
|---|---|---|---|---|---|
| Low | High | Low | High | H | L |
| 3.50% | 4.25% | 3.75% | 4.50% | ▼ | ▼ |

# Canada Cap Rates

Q2 2021

| Downtown Office | | | | | | |
|---|---|---|---|---|---|---|
| Market | Class A | | Class B | | Q3 2021 Prediction | |
| City | Low | High | Low | High | Class A | Class B |
| Toronto | 3.75% | 4.75% | 4.50% | 5.50% | ◀▶ | ◀▶ |
| Montréal | 4.50% | 5.50% | 5.25% | 6.00% | ◀▶ | ▲ |
| Vancouver | 3.25% | 4.50% | 3.50% | 4.50% | ◀▶ | ◀▶ |
| Calgary | 6.00% | 7.00% | 7.00% | 9.00% | ▲ | ▲ |
| Edmonton | 6.75% | 8.00% | 7.25% | 8.75% | ◀▶ | ◀▶ |
| Ottawa | 5.25% | 6.50% | 6.50% | 7.25% | ▲ | ▲ |
| Winnipeg | 5.50% | 6.25% | 6.00% | 6.75% | ◀▶ | ◀▶ |
| Halifax | 6.50% | 7.25% | 7.25% | 8.25% | ◀▶ | ◀▶ |
| Victoria | 5.00% | 5.75% | 5.25% | 6.00% | ◀▶ | ◀▶ |
| Waterloo | 5.75% | 6.50% | 6.25% | 7.00% | ◀▶ | ◀▶ |

| Suburban Office | | | | | | |
|---|---|---|---|---|---|---|
| Market | Class A | | Class B | | Q3 2021 Prediction | |
| City | Low | High | Low | High | Class A | Class B |
| Toronto | 5.75% | 6.75% | 6.25% | 7.25% | ◀▶ | ◀▶ |
| Montréal | 6.00% | 7.00% | 6.75% | 7.50% | ◀▶ | ◀▶ |
| Vancouver | 5.00% | 6.25% | 5.50% | 6.50% | ◀▶ | ◀▶ |
| Calgary | 6.25% | 7.00% | 7.00% | 8.50% | ▲ | ▲ |
| Edmonton | 6.75% | 7.75% | 7.25% | 8.50% | ◀▶ | ◀▶ |
| Ottawa | 6.50% | 7.25% | 7.00% | 7.75% | ▲ | ▲ |
| Winnipeg | – | – | 6.00% | 6.75% | ◀▶ | ◀▶ |
| Halifax | 6.50% | 7.25% | 7.25% | 8.25% | ◀▶ | ◀▶ |
| Victoria | 5.25% | 6.00% | 5.50% | 6.25% | ◀▶ | ◀▶ |
| Waterloo | 5.75% | 6.50% | 6.00% | 6.75% | ◀▶ | ◀▶ |

# Canada Cap Rates

Q2 2021

**Industrial**

| Market | Class A | | Class B | | Q3 2021 Prediction | |
|---|---|---|---|---|---|---|
| **City** | **Low** | **High** | **Low** | **High** | **Class A** | **Class B** |
| **Toronto** | 3.75% | 4.25% | 4.00% | 4.75% | ▼ | ▼ |
| **Montréal** | 3.75% | 4.50% | 4.00% | 4.75% | ◀▶ | ◀▶ |
| **Vancouver** | 3.75% | 4.50% | 3.75% | 5.00% | ◀▶ | ◀▶ |
| **Calgary** | 4.50% | 5.75% | 5.25% | 7.00% | ◀▶ | ◀▶ |
| **Edmonton** | 5.75% | 6.75% | 6.25% | 7.50% | ▼ | ▼ |
| **Ottawa** | 5.00% | 6.50% | 5.50% | 6.50% | ▼ | ▼ |
| **Winnipeg** | 5.75% | 6.50% | 6.00% | 6.75% | ◀▶ | ◀▶ |
| **Halifax** | 5.50% | 6.25% | 6.00% | 7.00% | ▼ | ▼ |
| **Victoria** | 4.25% | 5.25% | 4.50% | 5.50% | ◀▶ | ◀▶ |
| **Waterloo** | 4.50% | 5.00% | 5.00% | 5.50% | ▼ | ▼ |

**Retail**

| Market | Regional/Power | | Grocery/Community | | Neighbourhood/Strip | | Q3 2021 Prediction | | |
|---|---|---|---|---|---|---|---|---|---|
| **City** | **Low** | **High** | **Low** | **High** | **Low** | **High** | **R** | **G** | **N** |
| **Toronto** | 4.50% | 5.50% | 5.25% | 6.25% | 4.75% | 6.00% | ▲ | ◀▶ | ▲ |
| **Montréal** | 5.25% | 6.50% | 6.00% | 7.00% | 7.00% | 7.75% | ◀▶ | ◀▶ | ◀▶ |
| **Vancouver** | 4.00% | 6.00% | 4.00% | 5.75% | 3.50% | 5.50% | ◀▶ | ◀▶ | ◀▶ |
| **Calgary** | 5.25% | 6.00% | 5.25% | 6.00% | 5.50% | 6.50% | ▲ | ▲ | ▲ |
| **Edmonton** | 5.75% | 6.75% | 5.75% | 6.75% | 6.00% | 7.50% | ◀▶ | ◀▶ | ◀▶ |
| **Ottawa** | 5.75% | 6.75% | 6.00% | 6.75% | 6.00% | 7.00% | ▲ | ▲ | ▲ |
| **Winnipeg** | 6.00% | 6.50% | 6.00% | 6.75% | 6.00% | 6.75% | ◀▶ | ◀▶ | ◀▶ |
| **Halifax** | 5.50% | 6.25% | 7.00% | 7.75% | 6.00% | 7.25% | ◀▶ | ◀▶ | ◀▶ |
| **Victoria** | 5.00% | 5.75% | 5.25% | 6.00% | 5.25% | 6.00% | ▲ | ▲ | ▲ |
| **Waterloo** | 5.50% | 6.25% | 5.25% | 6.00% | 6.25% | 7.50% | ▲ | ▲ | ▲ |

# Canada Cap Rates

Q2 2021

| Multi-Family Apartment | | | | | | |
|---|---|---|---|---|---|---|
| Market | High-Rise | | Low-Rise | | Q3 2021 Prediction | |
| City | Low | High | Low | High | Class A | Class B |
| **Toronto** | 3.00% | 3.75% | 2.75% | 3.75% | ◀▶ | ◀▶ |
| **Montréal** | 3.00% | 4.25% | 4.00% | 5.00% | ◀▶ | ◀▶ |
| **Vancouver** | 2.75% | 3.50% | 2.75% | 4.00% | ▼ | ▼ |
| **Calgary** | 4.25% | 4.75% | 4.50% | 5.25% | ◀▶ | ◀▶ |
| **Edmonton** | 4.00% | 5.00% | 4.50% | 5.75% | ◀▶ | ◀▶ |
| **Ottawa** | 4.00% | 4.75% | 3.75% | 4.75% | ◀▶ | ◀▶ |
| **Winnipeg** | 5.00% | 6.00% | 5.00% | 6.00% | ▼ | ▼ |
| **Halifax** | 4.25% | 4.50% | 4.50% | 4.75% | ▼ | ▼ |
| **Victoria** | 3.50% | 4.25% | 3.75% | 4.50% | ◀▶ | ◀▶ |
| **Waterloo** | 3.50% | 4.25% | 3.75% | 4.50% | ▼ | ▼ |

# Glossary

## Cap Rate

A capitalization rate is a property's net operating income for the 12 months following the date of sale divided by the purchase price. Cap rate range estimates in this report are provided by appraisers in their respective markets and take into consideration recent transactions, as well as investor sentiment.

## Office

### Downtown Class A
Office buildings, predominantly high-rise, situated within the Central Business District (CBD), that offer high-quality construction and amenities; large floor plates; modern, efficient systems; and superior accessibility. These buildings typically compete for larger, top-tier tenants and command among the highest rental rates.

### Downtown Class B
Office buildings, commonly high-rise, in the CBD, that offer average to good-quality construction and amenities, but tend to be more dated, with fewer features and less prominent locations. These buildings tend to compete for smaller to mid-size tenants seeking average to good-quality space at more economical rent rates.

### Suburban Class A
Office buildings located outside of the CBD offering high-quality construction and amenities that appeal to mid-size to larger, upper-tier tenants seeking non-central locations

### Suburban Class B
Office buildings outside of the CBD offering average to good-quality construction and amenities appealing to smaller to mid-size tenants seeking peripheral locations and discounted rent rates

## Industrial

### Class A
Newer, fully-featured industrial buildings of high-quality steel and concrete construction, with modern, efficient mechanical and electrical systems; high ceilings; good loading capability; air-conditioned offices; and extensive yard storage/truck marshalling areas

### Class B
Average to good-quality industrial buildings, typically of somewhat dated construction, providing good- quality functional space, but with less extensive features. These buildings are usually characterized by lower clear heights and fewer shipping doors.

## Retail

### Regional Shopping Centre
Larger enclosed malls characterized by multiple anchors (typically including department stores and/or larger discount stores/mini-anchors) complemented by numerous smaller retailers (CRUs). The CRUs are generally oriented inwardly with stores connected by internal walkways (malls) and with numerous common entrances. They tend to reflect a high proportion of national tenants, with a broad mix of categories.

### Power Centre
Larger "open air" centres, typically in arterial locations, comprising a cluster of mostly freestanding, large-format "big box" stores, with ample surface parking adjacent to the stores and throughout the centre. Tenant mixes tend to reflect anchors such as discount department stores, furniture/ home furnishings, home improvement/ hardware, electronics, office supplies, cinemas, fashion outlets, etc., with few smaller CRUs.

### Grocery or Community Centre
Mid-size to larger enclosed or unenclosed centres with a community-oriented focus, offering products and services for daily needs, but with an expanded soft goods and services component. Anchors often include supermarkets, drugstores, discount department stores and similar outlets, but can also include "big box" outlets in categories such as apparel, home improvements, electronics and others.

### Neighbourhood or Strip Centre
Smaller to mid-size unenclosed centres, intended for convenience shopping for the residents of the surrounding neighbourhood. These centres are often anchored by smaller supermarkets, drugstores, discount stores, etc., with a mix of smaller, attached retailers.

## Multi-Family

### High-Rise
Multifamily residential buildings with comparatively high densities, typically exceeding four stories in height and including elevators. These commonly offer concrete construction and can have amenities such as underground parking, fitness rooms, indoor or outdoor pools, tennis courts, social rooms, etc.

### Low-Rise
Lower-density multifamily residential buildings, typically comprising four stories or fewer, with or without elevators. These can offer concrete or wood frame construction and generally have surface parking with few building amenities.

## Hotels

### Urban Full Service
Fully-featured branded hotels offering an extensive suite of services and amenities, such as food and beverage services, conference centres/meeting rooms, fitness/ activity centres, and valet and concierge services

### Select Service
Hotels that offer mid-range accommodations with a selection of added services and amenities, but to a notably lower extent compared to full service facilities

### Limited Service
Hotels that offer affordable accommodation with comparatively limited additional features and amenities, typically excluding food and beverage services

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