KEY REAL ESTATE TRENDS

CANADA URBAN INSTITUTE – MARCH 4, 2021

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CENTRIPETAL OR CENTRIFUGAL?

• **1890 TO 1950 – CENTRIPETAL FORCES DOMINATE**
  – Manufacturing tends to cluster
  – Wages are low – families need cheap high-density housing – retail centralized
  – Transport costs are high – commuting expensive

• **1950 TO 1990 – CENTRIFUGAL FORCES DOMINATE**
  – Manufacturing disperses
  – Wages rise – families want more space – retail disperses
  – Transport costs fall – commuting less expensive

• **1990 TO 2020 - CENTRIPETAL FORCES DOMINATE**
  – Services grow and cluster
  – Wages rise – families need less space, but more time – retail reinvented
  – Transport costs rise – commuting more expensive

• **2020 TO WHEN – CENTRIFUGAL FORCES……**
  – Services jobs disperse - Zoom
  – Wages rise – families want more space – retail decentralizes
  – Transport costs fall – commuting less expensive
84% OF BUSINESSES PLAN TO ACCELERATE THE DIGITALIZATION OF WORK PROCESSES (E.G. USE OF DIGITAL TOOLS, VIDEO CONFERENCING)

### OFFICE – SECULAR SHIFT IN WORK PATTERNS
32% Fall in Days in the Office, 9% Drop in Demand for Space

**Example: Firm with 10,000 SF lease**

<table>
<thead>
<tr>
<th>#1 Average Days Per Week In the Office</th>
<th></th>
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<tbody>
<tr>
<td>2019</td>
<td>4.29</td>
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<tr>
<td>Future</td>
<td>3.25</td>
</tr>
<tr>
<td>Impact (= 3.25/4.29)</td>
<td>0.76</td>
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<tr>
<td>Footprint</td>
<td>7,600 SF</td>
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</table>

| #2 Efficiency Factor                  | 0.55 |

Net Effect of changing working patterns = \((1.00) - [(1.00 - 0.76) \times (0.55)]\)  
0.87

| #3 De-Densification Effect            | 0.05 |

Overall Net Impact = \((0.87) \times (1.05)\)  
0.91

| Overall Net Impact: Footprint         | 9,100 SF |

Source: CBRE Econometric Advisors, February 2021.
OFFICE – CYCLICAL PEAK IN COMPLETIONS – NOT SO BAD

U.S. Office Completions (Thousands of SF)

Source: CBRE Research, CBRE Econometric Advisors, Q4 2020.
OFFICE – CYCLICAL DOWNTURN IN DEMAND NOT SO BAD

U.S. Office Rent vs. Office Employment Growth

Source: CBRE Research, CBRE Econometric Advisors, Q4 2020.
RENTS STAGNANT FOR 3 TO 4 YEARS – VACANCY ELEVATED
U.S. Office Baseline Forecast for Vacancy Rate and Rents

Source: CBRE Econometric Advisors, Q4 2020.
INDUSTRIAL & LOGISTICS CONTINUES TO FLY

U.S. Industrial Rent vs. Total Employment Growth

Source: CBRE Research, CBRE Econometric Advisors, Q4 2020.
PHYSICAL RETAIL TAKES ANOTHER BLOW

U.S. Retail Rent vs. Total Employment Growth and Retail Sales

Source: CBRE Research, CBRE Econometric Advisors, Q4 2020.
POWER MALLS HAVE BEEN AFFECTED
U.S. Retail Availability Rate by Retail Type

Source: CBRE Research, CBRE Econometric Advisors, Q4 2020.
NO NEW RETAIL SUPPLY
U.S. Retail Completions by Retail Type

Source: CBRE Research, CBRE Econometric Advisors, Q4 2020.

Average 6.4 MSF Per Quarter in the Past 10 Years

Source: CBRE Research, CBRE Econometric Advisors, Q4 2020.
RETAIL BANKRUPTCIES ELEVATED IN 2020
U.S. Retail - National & large regional bankruptcies (excl. small business)

Approx.
12,130 announced & 6,352 actual retail store closures as of December 31th.

Source: CBRE Research, Creditintell, as of January 2021.
HOTELS IMPROVED BUT GOING SIDEWAYS
U.S. Hotel Occupancy, ADR, and RevPAR (YoY Change)

Note: Covers Kalibri Weekly Sample, not scaled to full U.S. Hotel Industry Representation
APARTMENT – CYCLICAL HEADWIND, SECULAR TAILWIND

U.S. Apartment Rent vs. Total Employment Growth

Source: CBRE Research, CBRE Econometric Advisors, Q4 2020.
APARTMENT VACANCY HAS REMAINED RELATIVELY LOW

U.S. Apartment Historical Vacancy - Annual Averages

Source: CBRE Research, CBRE Econometric Advisors, Q4 2020.
CLASS A VACANCY HAS RISEN BUT NOT BY MUCH
U.S. Apartment Historical Vacancy by Class

Source: CBRE Research, CBRE Econometric Advisors, Q4 2020.
HIGH-RISE MOST AFFECTED
U.S. Apartment Vacancy by Community Type: High-Rise vs. Garden

Source: CBRE Research, CBRE Econometric Advisors, Q4 2020. Mid-rise is a separate category not included in these statistics. Garden = 1-2 stories, mid-rise = 3-5 stories, high-rise = 6+. 
BIG CITY CORES THE WEAKEST
U.S. Apartment Urban Core vs. Suburban Submarkets – Vacancy

Source: CBRE Research, CBRE Econometric Advisors, Q4 2020.
CENTRIPETAL OR CENTRIFUGAL?

• **2020 TO 2025 – CENTRIFUGAL FORCES MILDLY INCREASE**
  - Services jobs disperse – Zoom – (long term)
  - Wages rise – families want more space (short term) – retail decentralizes (long term)
  - Transport costs fall – commuting less expensive (long term)

• **2020 TO 2025 – CENTRAL AREAS NEED A SHOT IN THE ARM**
  - Focus on mass transit
  - Temporary cuts to property taxes
  - Events, festivals, arts, leisure and sport
THANK YOU!

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