Canadian CRE Recovery: On the Up, Up North

Commercial real estate (CRE) professionals and investors in Canada are describing the medium-term outlook as“rosy”, according to a trends analysis. A new survey from data and advisory firm Altus Group shows year-on-year improvements in cap rates across the CRE sectors of office, industrial, as well as retail and multi-residential – but argues that investors continue to show a “strong preference” for the former two.

Research Backed

This tracks with a number of other recent analytical reports and what we’re hearing more broadly: that there is optimism for broad recovery in the sector, but higher returns expectations in office and industrial.

The latest Emerging Trends in Real Estate report – produced by PwC in collaboration with Urban Land Institute (ULI) – found that 83% of Canadian respondents were anticipating a good to excellent year in 2021, much higher than the 55% who felt the same in the US.

Stellar Asset Classes

The PwC/ULI report authors told Canada’s Real Estate News Exchange (Renx.ca) that the strength seen in the industrial asset class was expected to continue, calling it “the best bet for real estate investment in 2021” as e-commerce and fulfillment needs expand.

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Swings and Roundabouts

However, another recurring theme is that retail and hospitality are still sources of concern in CRE and that is unlikely to abate just yet.

The future of office space, too, seems less certain but medical offices may be a niche on an upward trajectory. The report author told RENX: "It's not going anywhere and demographics are a good tailwind for it," said Warren."We're seeing a need to put it where the people are, so we're going to need more of it in different places."

They also identify rental housing, life sciences, self-storage, data centers and production studios as niche assets with promise.

Housing Demand

On the residential front, an April 2021 report from Moody's Analytics shows that the Canadian housing market is demonstrating particular resilience, despite the complications of the Covid-19 pandemic and associated stressors.

Moody's economist Abhilasha Singh writes that the market "continues to weather the storm from the COVID-19 pandemic much better than originally expected at the start of the crisis" – in spite of continued challenges from elevated unemployment and curtailed business activity. Upward driving forces identified in the report include "record low mortgage rates and the work-from-anywhere phenomenon".