



Emerging Trends in Real Estate® 2023

New opportunities to create value as financial,
environmental and social pressures converge

November 1, 2022





Capital

Rents

Returns





And then came 2022...

Geopolitical uncertainty

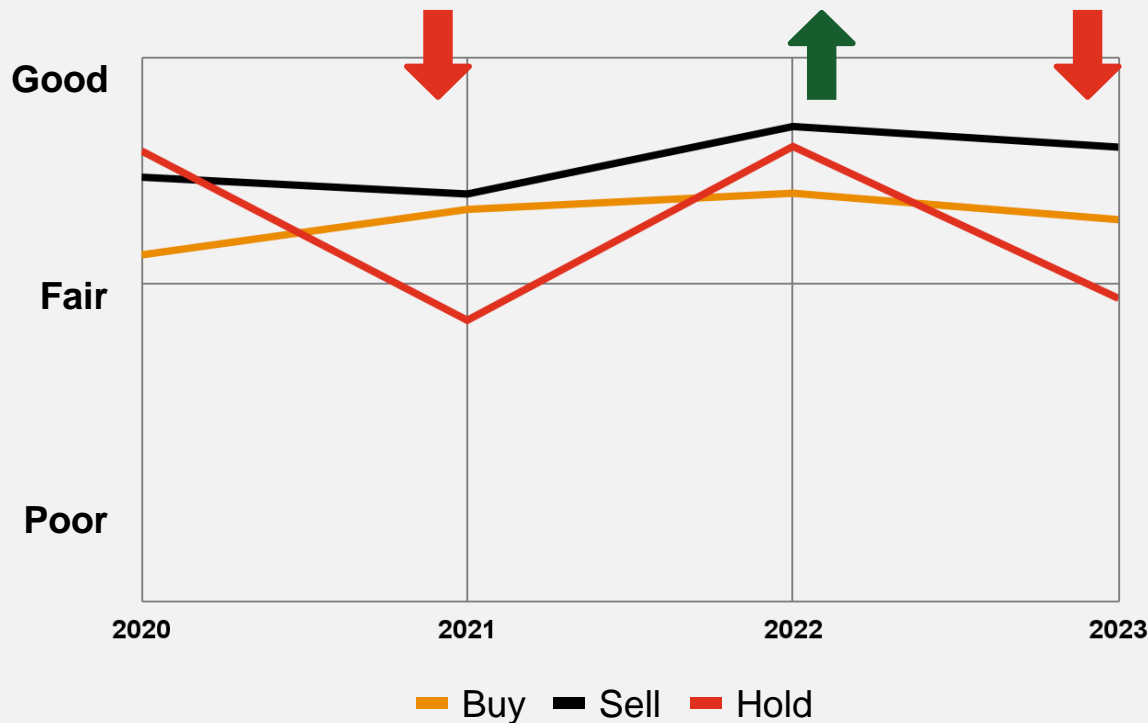
Rising interest rates

Higher inflation

Uncertainty



Emerging Trends Barometer



“

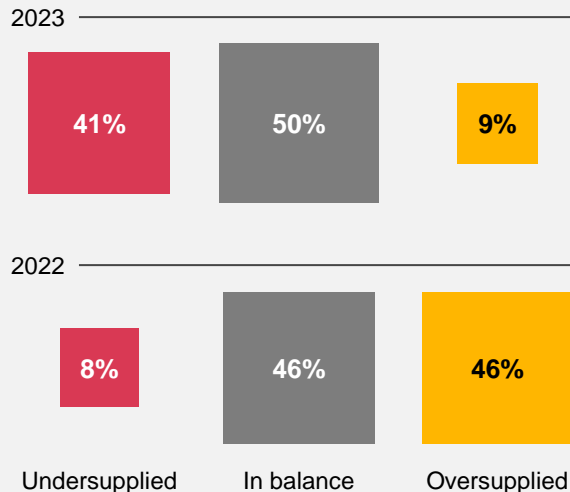
We should be clear-eyed about what we are heading into... It's a storm, not a hurricane. That's the way I would put it.

Mark Carney, former Bank of Canada and England Governor

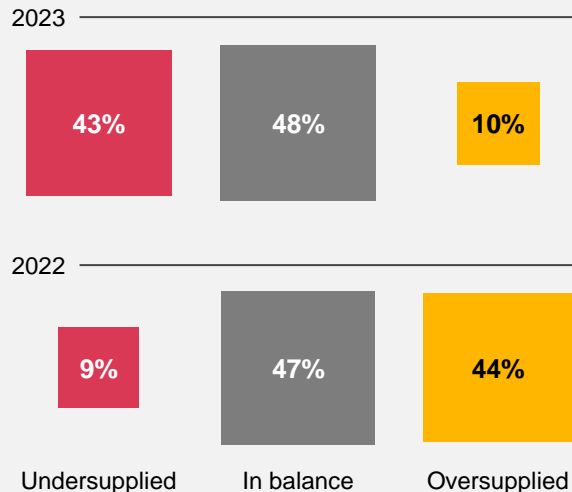
Undersupplied amount of debt and equity capital

Real Estate Capital Market Balance Forecast, 2023 versus 2022

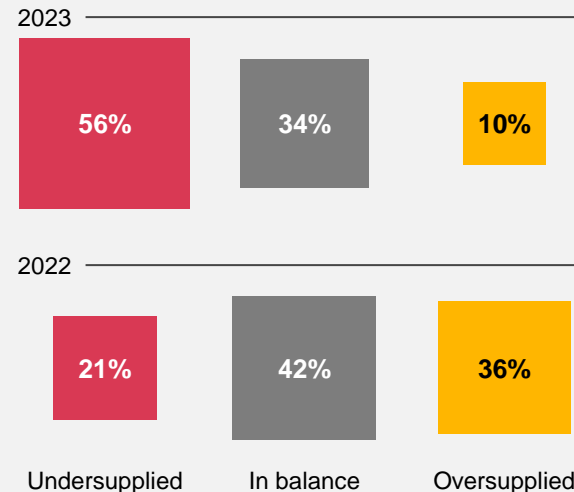
Debt capital for acquisitions






Debt capital for refinancing



Debt capital for development/redevelopment

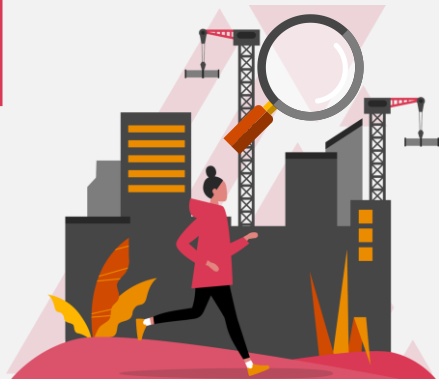


Importance of issues for Real Estate in 2023

	Canada	US
 Economic/financial issues	<ul style="list-style-type: none">• Interest rates and cost of capital• Qualified labor availability• Job and income growth• Inflation	<ul style="list-style-type: none">• Interest rates and cost of capital• Availability of qualified labor• Job and income growth• Inflation
 Social/political issues	<ul style="list-style-type: none">• Housing costs and availability• Geopolitical conflicts• Epidemics/pandemics• Climate change	<ul style="list-style-type: none">• Housing costs and availability• Geopolitical conflicts• Political extremism• Immigration policy
 Real estate/development issues	<ul style="list-style-type: none">• Construction labor availability• Construction labor costs• Construction material costs• Land costs	<ul style="list-style-type: none">• Construction labor costs• Construction material costs• Construction labor availability• Land costs

Key trends

1



Price discovery amid rising challenges around costs and capital availability

2



ESG performance

3



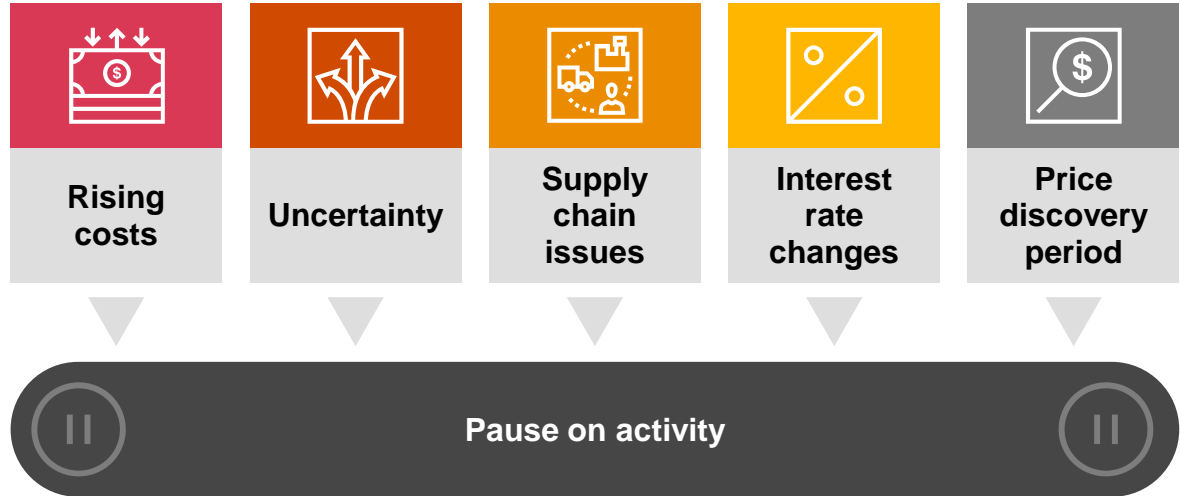
Accelerating concerns around housing affordability

Price discovery amid rising challenges around costs and capital availability



Things are changing so quickly...

Developers are not panicking, just pausing.



ESG performance

Regulators

Investors

Lenders

Employees

ESG agenda



The “E” is driving a surge in focus on real estate

GHG Emissions



~ 70%

of global GHG emissions are emitted in cities (i.e. built environment).

2.48t sf

of new space added by 2060 (double what it is today).

Investor demand



\$35tn+

of AuM committing to portfolio decarbonization targets and/or investing in low carbon funds and holdings).

ESG investing more than a third of the \$95tn global equity market in 2020.

Country targets & carbon taxes



100+

countries have Net Zero targets.

450+

cities have Net Zero targets.

46+

countries have mandatory carbon pricing.

Policy, regulation & initiatives



SEC



EU Taxonomy



SFDR / SECR



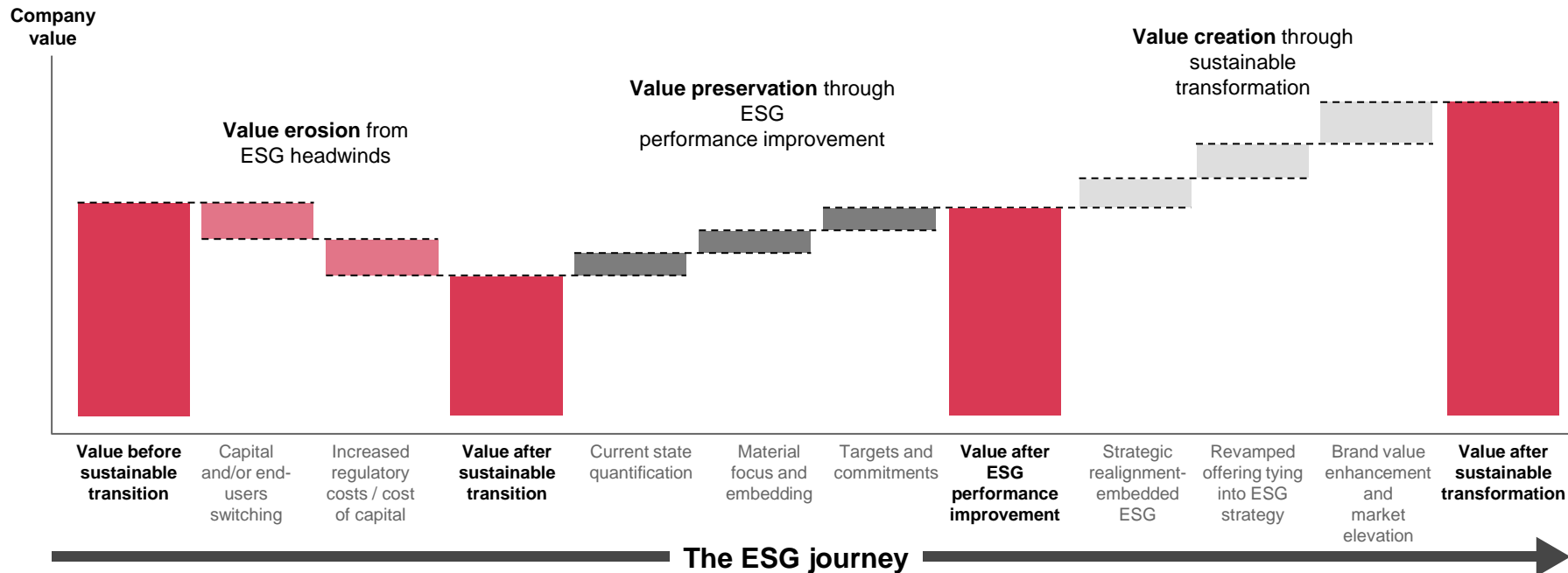
\$28.5tn

Assets of Net Zero Banking Alliance members (43 banks, 23 countries).

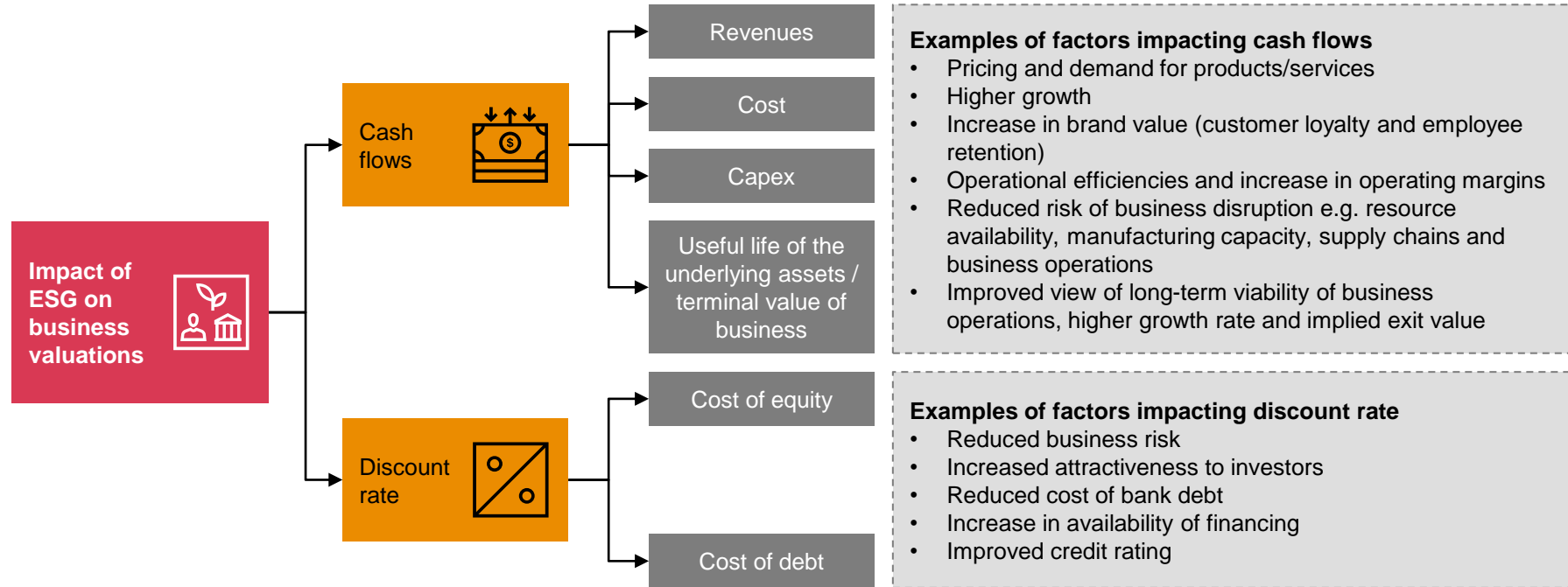


Real estate ESG is a value creation play

“ You can do ESG, and you can get a return.”



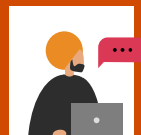
Discounted cash flow remains the key tool to prioritize and quantify ESG initiatives and levers



Housing affordability



Housing supply is at the heart of the affordability issue and needs to be addressed.



5.8 million homes need to be built between 2021 and 2030 to restore housing affordability

2.3 million units projected to be built between 2021 and 2030

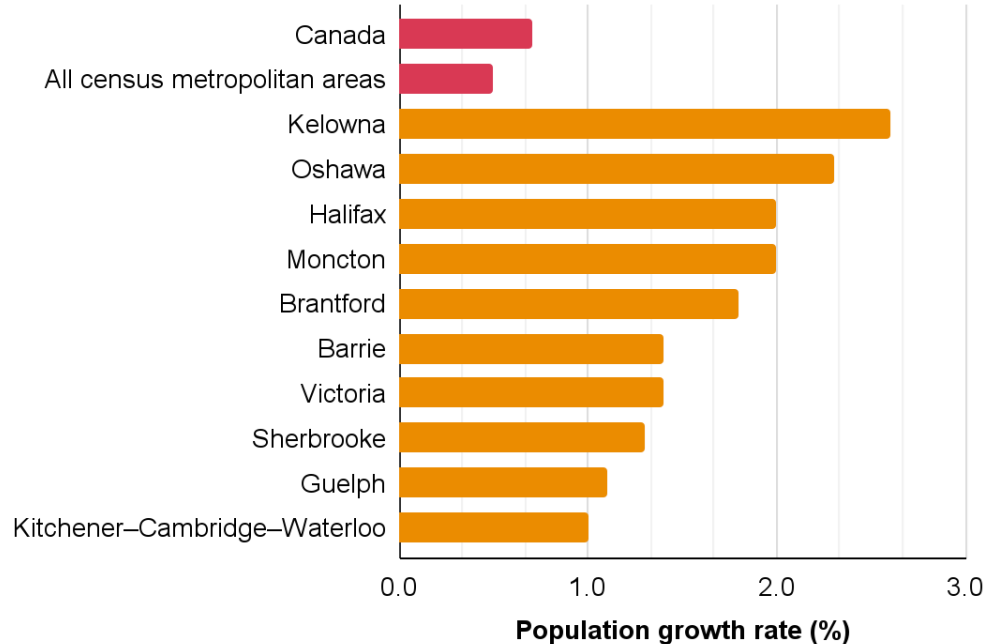
Fewer than **300,000** housing starts in Canada in 2021

Housing costs and availability ranked as top social/political issue

Migration of population to more affordable cities

Population Growth Rate by Census Metropolitan Area, 2020-2021

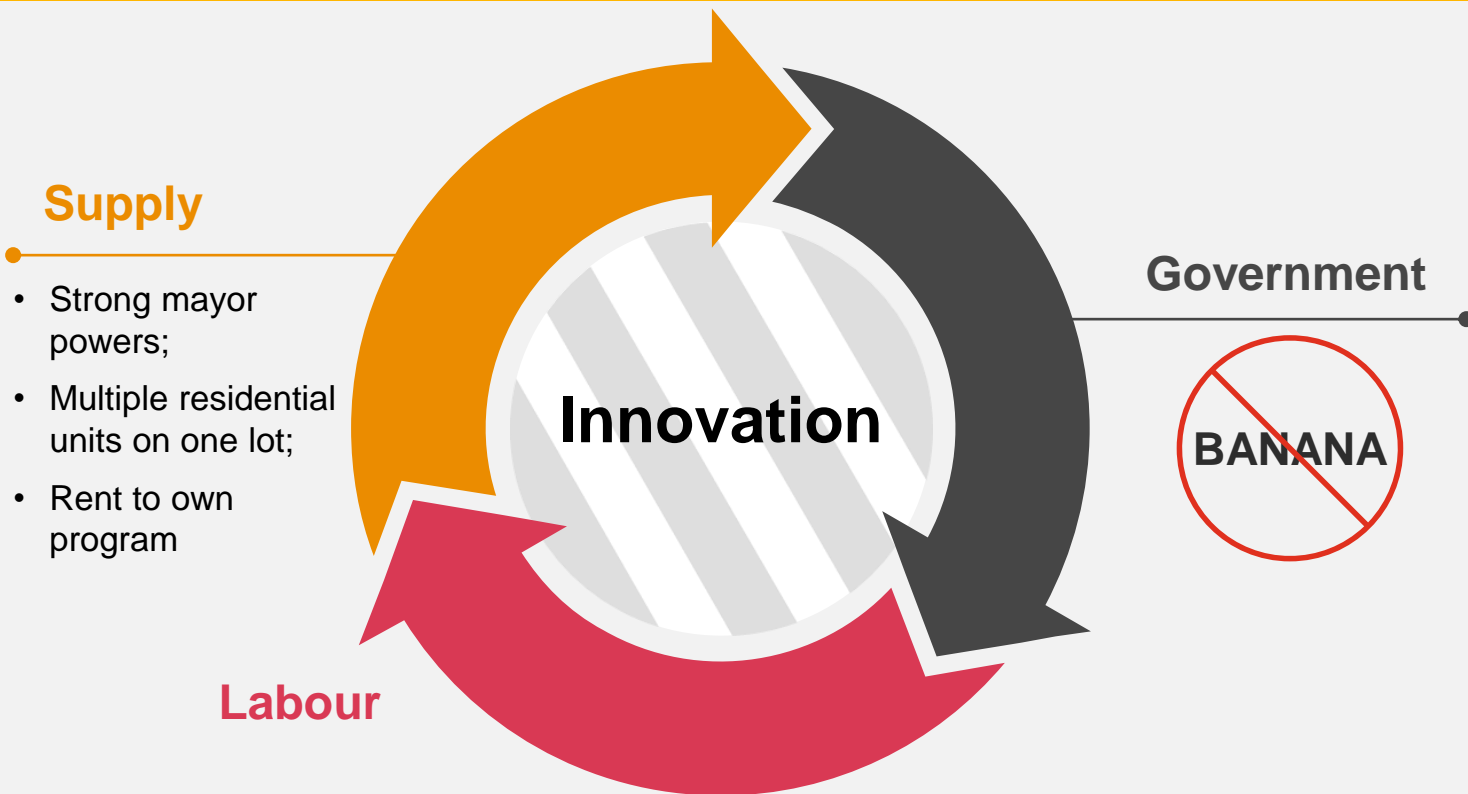
Top 10 census areas



Source: Statistics Canada, accessed August 11, 2022.



Addressing the supply issue from all angles



Reset for Canadian real estate companies

So what's the path forward to sustained outcomes and growth?

1



Investing in technology that enables the business

2



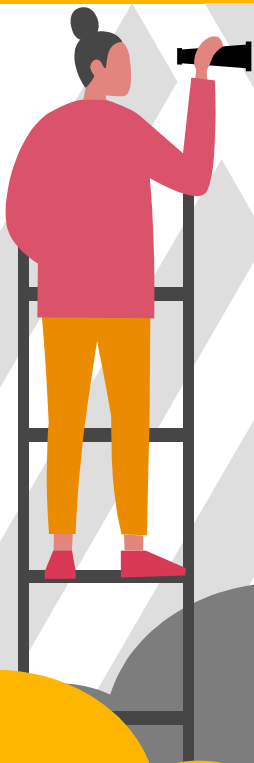
Capitalizing on new opportunities amid a reset for real estate

3



Focusing on the long-term

Focusing on the long-term



Global mega trends:



Rapid urbanization



Demographic pressures



Polarization



Social inequality



Disruption caused by technology and climate change

Property types



Industrial



Industrial market continues to see strong demand, though there are concerns the market is overheated

Overall, industrial property remains a best bet for many interviewees

↓ 1%

Vacancy rate fell below 1% nationally

Key trends driving industrial demand

- Onshoring of manufacturing activities and the need for space for last-mile recovery
- Fulfillment
- Flexible office uses



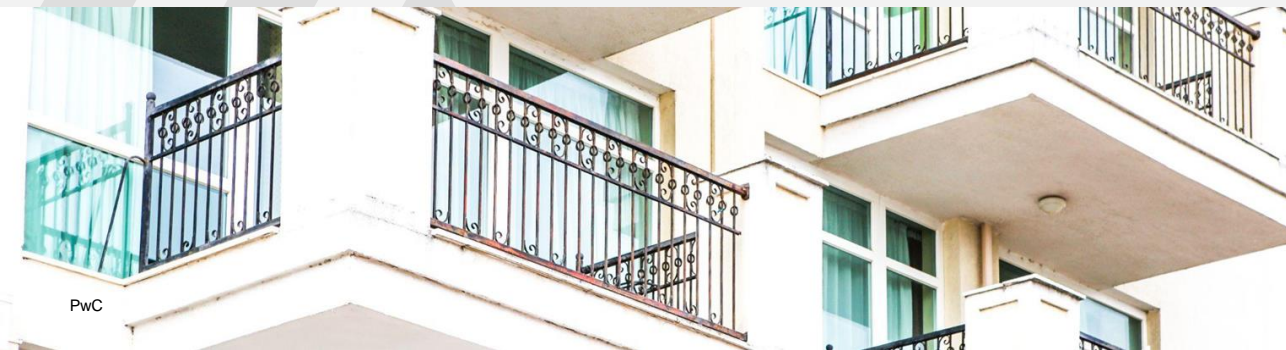
Purpose-built rental housing



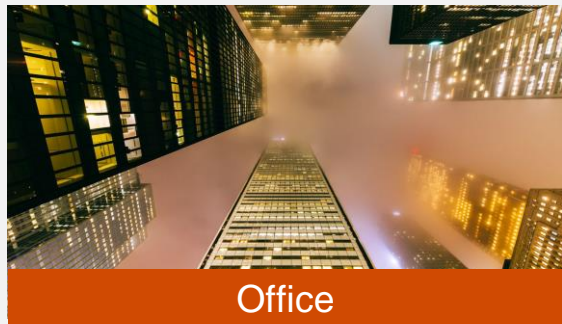
Here's what to expect overall:

- Higher rents impact overall affordability
- Affordability challenges will continue to impact a growing number of communities across Canada—not just most expensive cities like Toronto and Vancouver
- Demand will be especially strong given trends in the ownership market

Rental demand has recovered from 2020 lows and vacancy rates have tightened



Understanding reset asset classes



Uncertainty

- Continued uncertainty in the office market
- Some are moving forward with plans to offload significant amounts of office space
- Key issue is a changing world of work



Mixed results

- Continuing to rebound from effects of pandemic lockdowns
- Vacancy rates are starting to recover
- Not all real estate created the same with certain segments showing resilience and others challenged

Housing



Growth

- Growing area of housing market
- Things remain positive for this asset class
- Desire from some buyers for bigger unit sizes to accommodate home offices



Shifting landscape

- Outlook is mixed
- High prices and interest rates are putting damper on the market
- Market is evolving as it shifts to more affordable forms of low-rises like duplexes and townhouses

Looking ahead

Markets to watch



Vancouver | Toronto | Montreal
Calgary | Edmonton

Best bets



Industrial | Multifamily
Life sciences

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