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INPUT

LAND AND REAL ESTATE
ISSUES IN BRITISH COLUMBIA

Industry
Update
2021



RI The
Real Estate
Institute of
British Columbia



COVER: Freighters on the west coast, Port of Vancouver (2021). istock/Don White

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POST-PANDEMIC OUTLOOK ON OFFICE SPACE

Eugen Klein, RI



istock/monkeybusinessimages

The commercial real estate market, like many others, was hit hard in 2020 following the COVID-19 outbreak. We saw overall office availability rates rise as a result of the surge in remote work across the country. However, commercial real estate has continued to grow and bounce back much faster than other markets in 2021. Despite pandemic closures and restrictions still in place across Canada, commercial real estate experienced a strong start this year as the return of investor confidence saw investments rebound much quicker and stronger than expected.

Positive growth in this year's market is a sign of optimism for the rest of the year. With the continued easing of restrictions, the successful rollout of the vaccine, and more capital available due to investor confidence, things now look much more promising.

WHAT DOES THE DATA SHOW?

Office Leasing

Last year was certainly difficult for many of us, and office leasing was no exception, with retail and office space hit the hardest following the COVID-19 outbreak. Many trends appeared to accelerate dramatically in 2020 with the rapid adoption of technology that has quickly changed the way people work, shop, and live.

As businesses were forced to close and adopt remote work-friendly options, industries were hit hard. Over the course of 2020, thousands of people across Canada lost their jobs in the fields of finance, insurance, and real estate. These were the largest increases in job losses seen by these industries for many years and, as a result, they severely affected the commercial real estate market.

The third quarter of 2020 saw Canada record a 10.8% total office vacancy rate, which is the highest recorded in over a decade. Overall office availability has steadily increased since early 2020, and this has prompted an increase in sublet space. First quarter 2021 saw national office availability reach 15%, which is up from 11.3% from the same quarter last year.¹

The rise in office sublet space has contributed to the hikes in overall availability, with sublet space growing in all major cities aside from Calgary and Vancouver.

Compared to office space sentiments last year, businesses this year are less likely to abandon offices and more likely to focus on restructuring their current office space.

Commercial Property Transactions

This year we have seen a rebound in investment volume transactions with a 25% increase in Q1 2021 versus Q1 2020. The industrial sector notably had a robust first quarter in 2021 with \$3.5 million in transaction volume, making an impressive 46% increase compared to Q1 2020 as reported by Altus Group. Industrial, commercial, and institutional (ICI) land and residential land sectors also reported substantial growth in Q1 2021, up 49% and 54% respectively, in comparison with the same quarter of 2020.²

WHAT HAS SHIFTED?

The effects of 2020 were seen by many as a paradigm shift in the way we all live and work. Regarding commercial real estate, it's fair to say there will be changes, but at the same time, some things may remain the same.

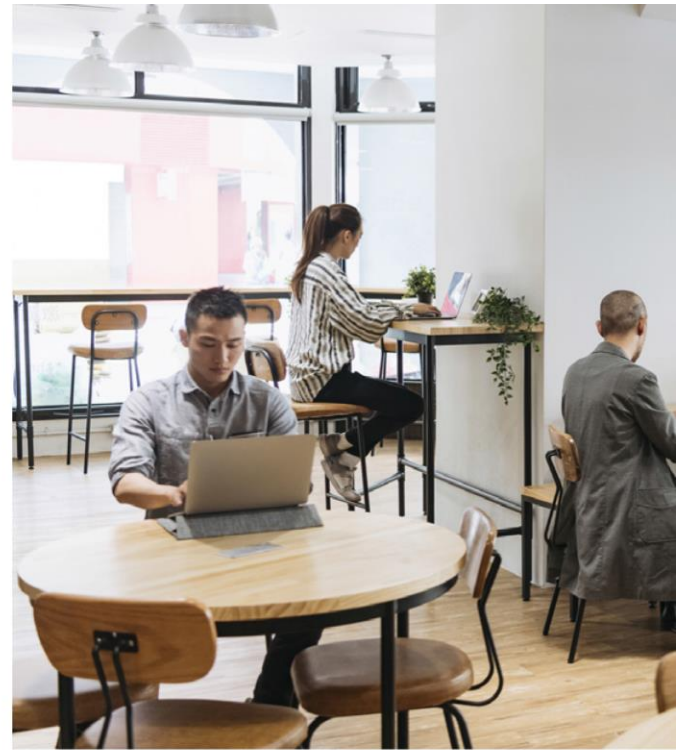
What are the big changes? We will see lenders and investors exercising more patience in the market, realizing that it is better to find mutually beneficial solutions with borrowers rather than quickly jumping to foreclose. Retail will certainly be changed permanently following the events of last year as, according to VOX, online sales represented around 20% of all retail purchases by the end of 2020. Though consumers are eager to return to browsing sales racks in person, the statistics show that the way we all shop will never be the same again.³

Some trends will likely revert to how they were pre-pandemic. We will see people wanting to gather in person again, especially so after more than a year of social distancing and loss of in-person interactions. Working from home may become the new norm but that doesn't mean the office is dead—there will still be a place for offices, physical retail, and hospitality in the post-pandemic world. Cities will surely bounce back as many people crave the lifestyle that cities and urban centres offer.

This year so far has seen optimism and growth throughout the commercial real estate market. Following the success of the vaccine rollout and return of investor



istock/RichLegg



confidence, we appear to be experiencing an economic recovery (at the time of writing) as we head towards the fall. Overall, the commercial real estate outlook is looking much healthier in 2021 compared to 2020, and this looks to be growing in momentum for the rest of the year and beyond.

The Commercial Lending Indicator is up by 15% over this time last year. While this looks great on paper, we must remember that the data can be a bit misleading; COVID-induced health and safety regulations emptied out most offices in 2020.

The increase in commercial leasing is different from previous years, as there has now been a shift in the types of office spaces being purchased or leased. We are seeing many businesses move out of their urban office spaces to find office spaces in suburban areas, and many others are seeing this as an opportunity to relocate their offices out of cities and towns to rural places.

The financial benefits of renting cheaper offices away from the city and downsizing offices are believed to be key drivers in this shift. According to Altus Group, 57% of respondents to their November 2020 Key Assumptions Survey expected office space tenants to downsize as a result of the pandemic and work-from-home mandate, with 62% expecting an average downsize of less than 20%.⁴

EMERGING OFFICE TRENDS

Flexibility, Connection, and Collaboration

In trying to understand the future of the office environment, it's important to first understand the needs and wants of employees. This way we can understand to what degree the workplace might differ from pre-pandemic offices.

It is clear that employees now desire the continued flexibility to work outside of the office post-pandemic, with many commercial real estate experts predicting a shift from the need for traditional office space to more collaborative spaces in the future. Boston-based Stantec conducted a survey of their client's employees during the early stages of the pandemic to gain insight into the future of the workplace. The Workplace Transformation Survey was conducted on clients across a wide range of industries to help understand what the workplace may look like post-pandemic. Following up on this survey in November 2020, Stantec conducted the BlueSky Survey.⁵ The key findings from the BlueSky Survey showed that 96% of employees anticipate working outside of the office in the future, with over 43% surveyed expecting to work remotely at least two days per week. It is clear to see that there is still a strong need for the office environment among employees, with 89% reporting they now wish to get back to working in the office in the near future, 73% stating that they miss the face-to-face collaboration of the office, and 63% looking forward to the social interaction that the office provides.



istock/JohnnyGreig

In terms of office design in the future, it's clear that employees want more dynamic office spaces that allow them to collaborate with others. Of employees surveyed, 47% stated they currently have formal conference rooms and 82% wanted more informal meeting spaces. The dynamic workplace design is what employees now demand, allowing them to work in an environment that supports a mobile workforce. A dynamic office design allows employees to have choice and flexibility in their work, while the office hub provides for connection and collaboration.

Coworking and Hybrid Working

The commercial real estate market is also noticing a new trend of coworking spaces, where employees from different companies share office space in the same building. This allows employees to have an office space on the days they require it, while employers do not have to pay for and maintain a large building on their own.

The options of working from home or working from the office will likely change in the near future to a hybrid model, with the combination of home office, local office hubs, and head office. Many workers crave the social interaction that the office brings, and companies know the importance of employees being located in the same physical location. This can allow companies to boost collaboration in the workplace and help build a strong company culture.

For example, rather than a company accommodating all 100 staff members at their office as in pre-pandemic times, it is now able to downsize the office space to suit perhaps 10 or 15 staff members, with the potential rotation of staff to attend the office one or two days per week. As this shift continues to grow in popularity post-pandemic, companies in Canada will be looking to break their leases in large offices located in urban areas. This will likely become more apparent later this year and beyond with the introduction of hybrid working.

THE RESTART PLAN AND BEYOND

Step 3 of the BC Restart plan signaled the end of the longest state of emergency in BC's history. Effective July 1, 2021, the emergency was lifted and new government guidelines implemented. Businesses across British Columbia gradually transitioned to new communicable disease plans. As for offices, Step 3 continued the return to the workplace, with seminars and large meetings allowed. Many businesses across BC fully reopened with staff returning to the office. On August 23, 2021, the province announced the order for vaccine cards for non-essential services across BC. The effects this will have on businesses and commercial real estate is still unknown.

The events of COVID-19 have been a reminder to us all that we must always be prepared for the unexpected. The great news is that, finally, the real estate market is recovering at fluctuating levels most notable in the commercial sector. A level of optimism has returned when it comes to retail and office assets, and with the workforce slowly moving away from remote work and back to the office, the outlook for the rest of the year for commercial real estate looks promising.

Sources

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5. The BlueSky Executive Summary provides a detailed overview of these findings relating to employees' needs and wants for the future. See https://www.stantec.com/en/ideas/topic/buildings/what-do-employees-want-in-the-office-of-the-future-see-what-they-told-us?utm_source=BlueSky%20Summary&utm_medium=BlueSky-Summary&utm_campaign=Blue-Sky&utm_content=what-do-employees-want-in-the-office-of-the-future-see-what-they-told-us