

CANADIAN CAP RATE REPORT

QUARTERLY REPORT ON
COMMERCIAL REAL ESTATE CAP
RATES IN MAJOR CANADIAN
MARKETS

Q4 2022

2023 CAPITAL MARKETS OUTLOOK

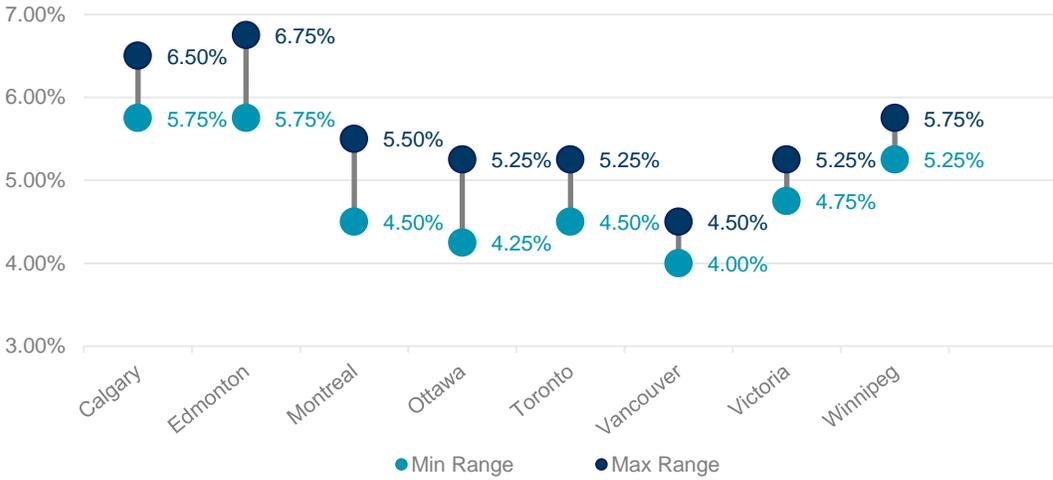
We characterize this next chapter as one of delicate rebalancing and recalibration of all elements (debt, yields, fundamentals, and pricing of risk). Think about it this way: in past cycles (even if we just take the pandemic as the most recent example), the capital markets disruption came about largely as a result of uncertainty surrounding fundamentals, income and growth. We had central banks propping up liquidity, we had low interest rates and accommodative monetary policy. The uncertainty was concentrated in fundamentals: could tenants pay their rent? What would the post-pandemic economy look like? Was this the end to fitness, to theatre, to entertainment, to hospitality? If the asset offered strong income growth prospects, the thesis was there, and the capital was there.

While growth is downshifting, the outlook for most CRE institutional investment sectors is still firm. The chapter we are facing right now is an adjustment chapter, it is a painful adjustment for many, but the financial, debt and equity markets are already recalibrating, responding and adjusting. Fortunately, outside of a handful of cases, the supply-side will help to insulate the effects of slowing demand. And on the investment side, investors and lenders have been prudent in deploying capital this cycle.

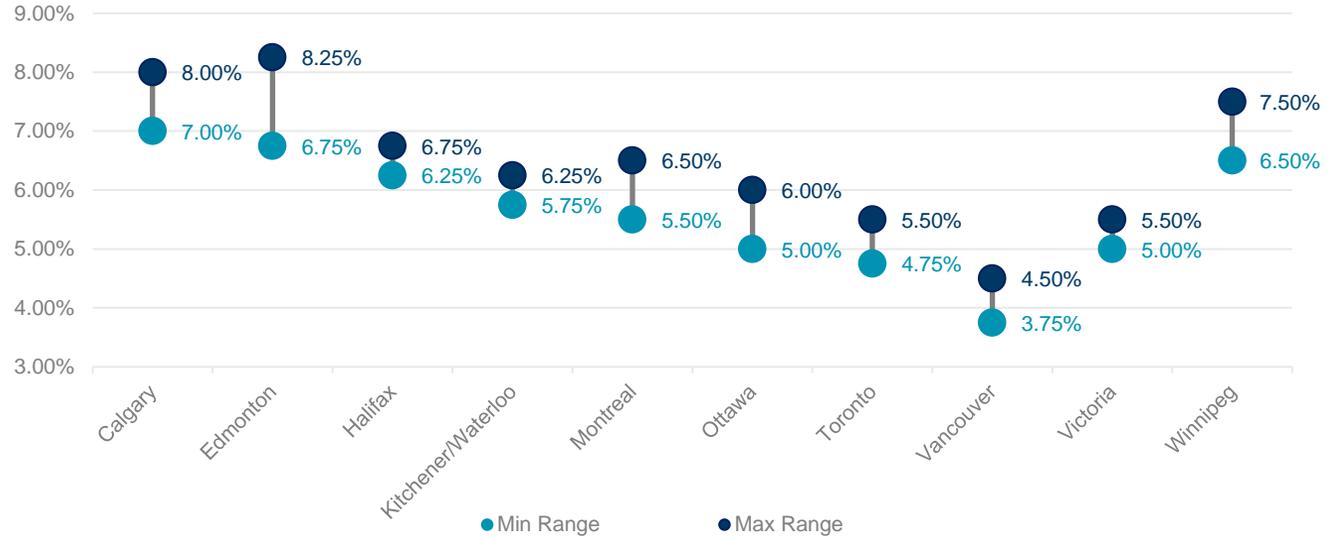
We are still positioned for a challenging year ahead as the market adjusts to both a higher rate environment and a moderating growth backdrop. Yet, such an adjustment is not going to upend the CRE capital markets entirely. CRE fundamentals are relatively well-positioned to weather the oncoming slowdown. The modern-era economy continues to offer CRE with numerous structural and secular shifts that invites the CRE industry to respond with innovation, development, and investment. This comes in the form of structural factors supporting multifamily demand (single-family housing lack of affordability), industrial demand (long-term e-commerce growth), retail (necessity-based consumer spending habits and experiential consumer patterns), office (high-quality, amenitized product), and numerous niche sectors such as seniors housing and student housing in between. Moreover, the conservatism and risk-aversion that we are seeing amid the investment environment will help to act as a backstop to any larger, unnecessary disruption in the future.

DOWNTOWN OFFICE CAP RATES

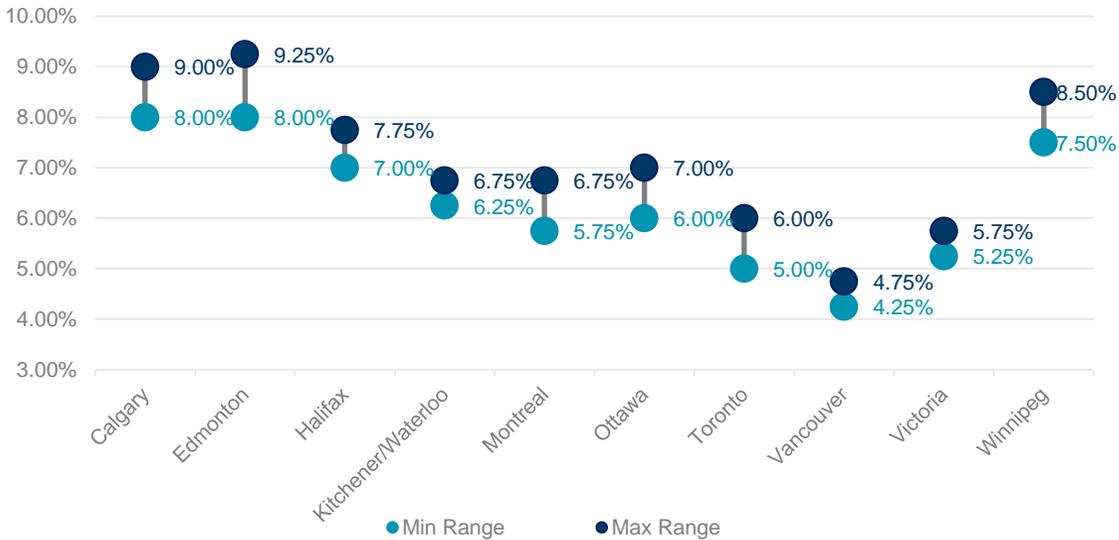
DOWNTOWN OFFICE AA



DOWNTOWN OFFICE A

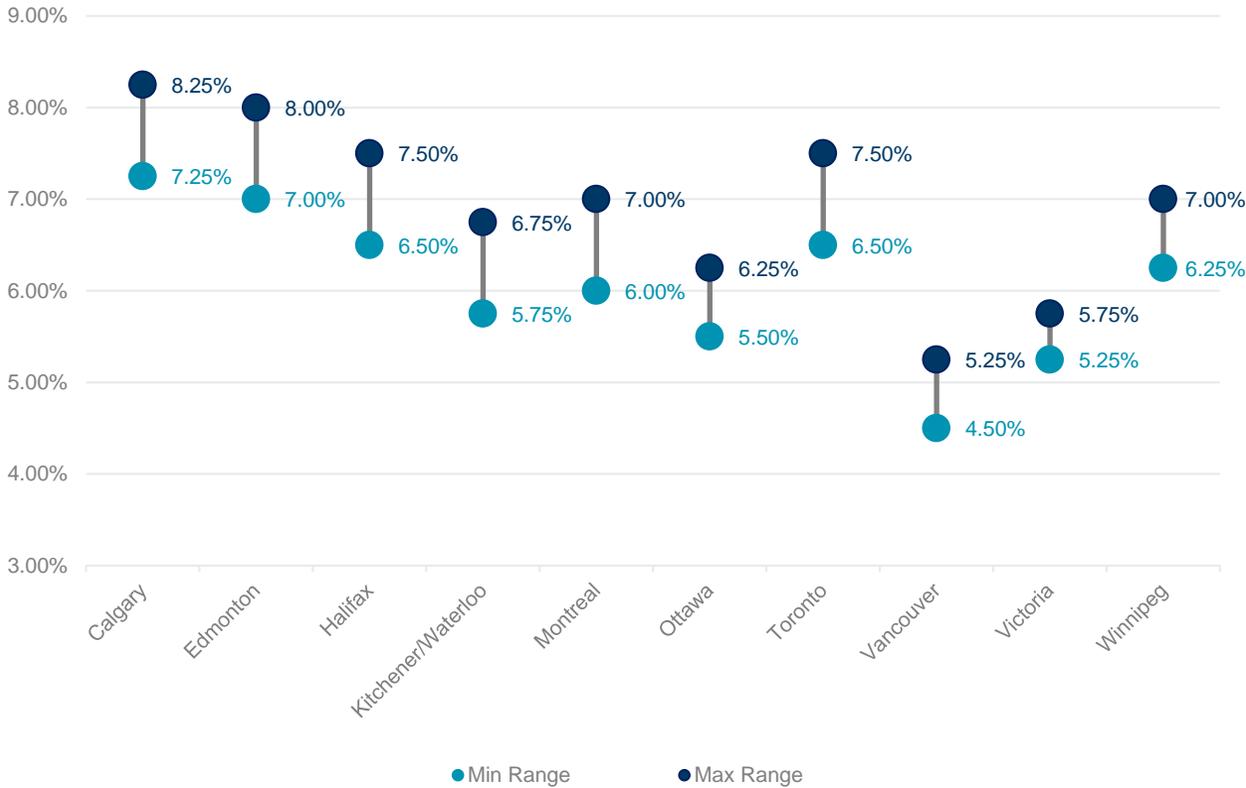


DOWNTOWN OFFICE B

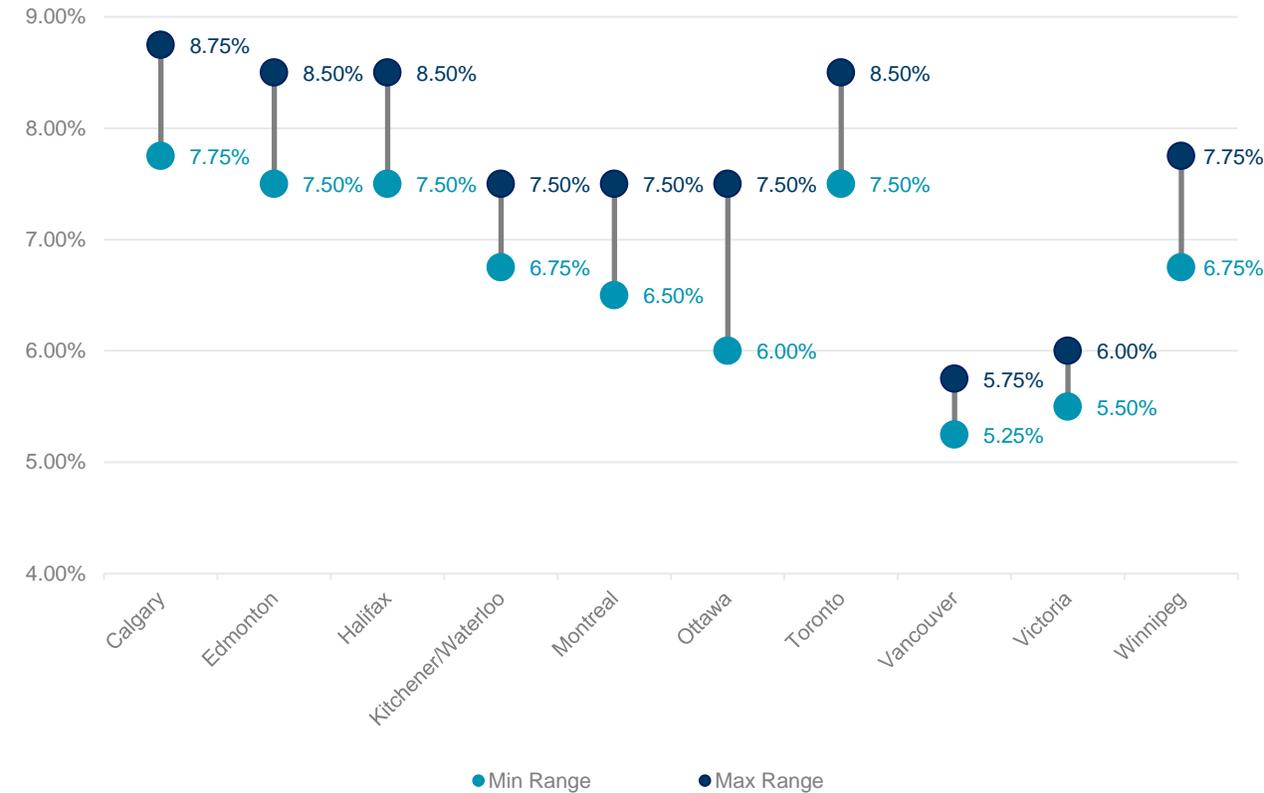


SUBURBAN OFFICE CAP RATES

SUBURBAN OFFICE A

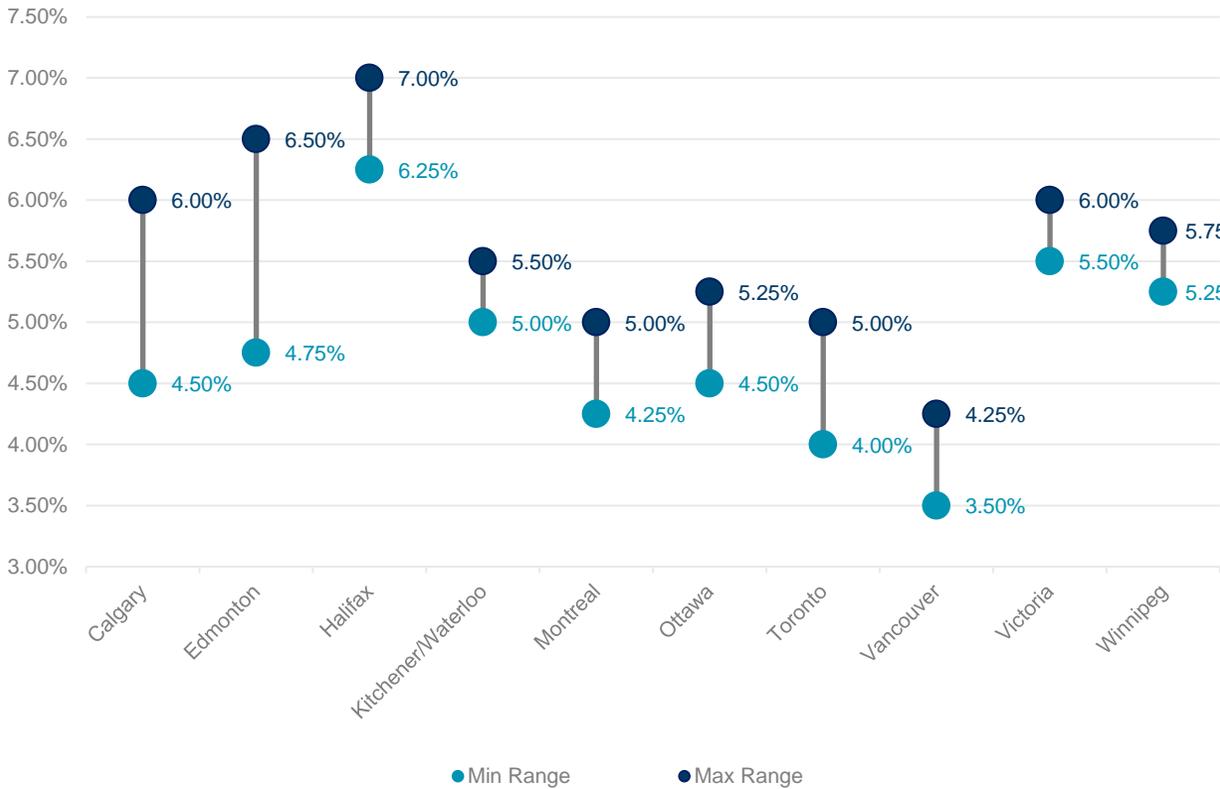


SUBURBAN OFFICE B

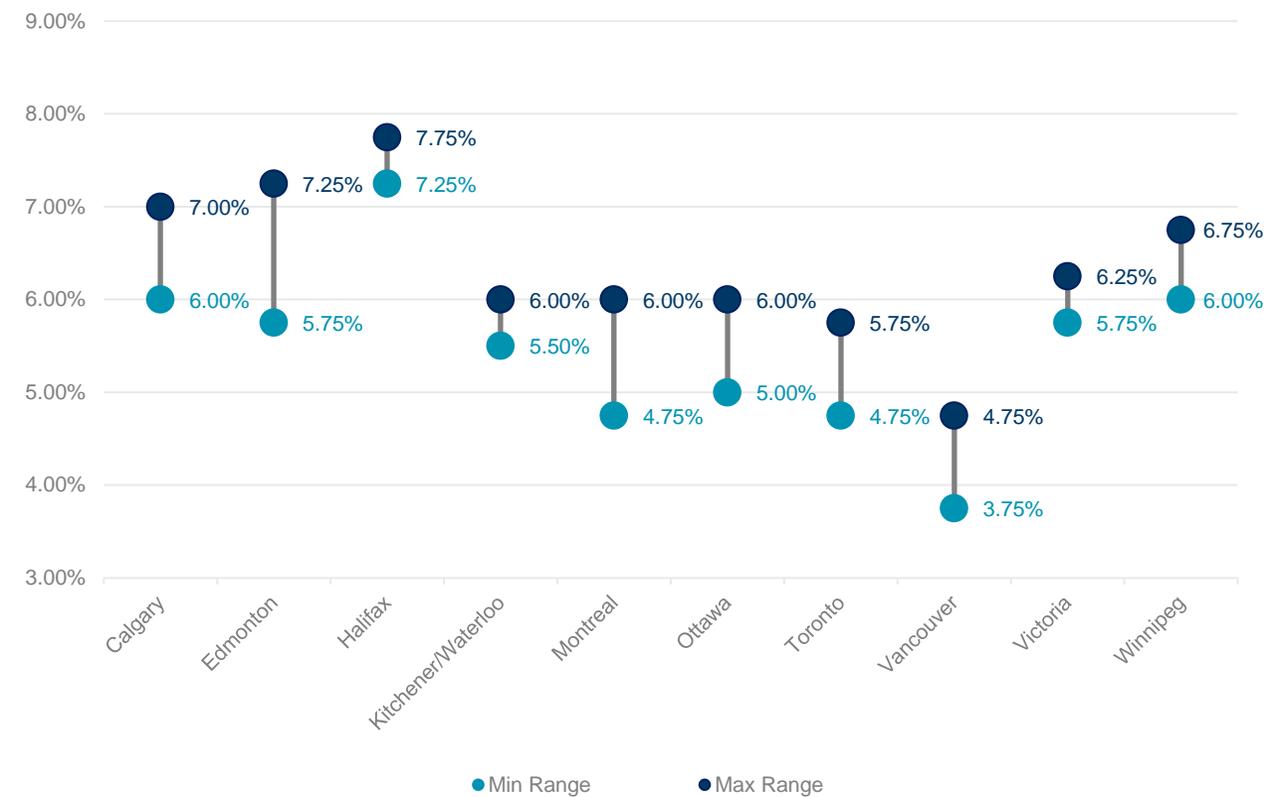


INDUSTRIAL CAP RATES

INDUSTRIAL CLASS A

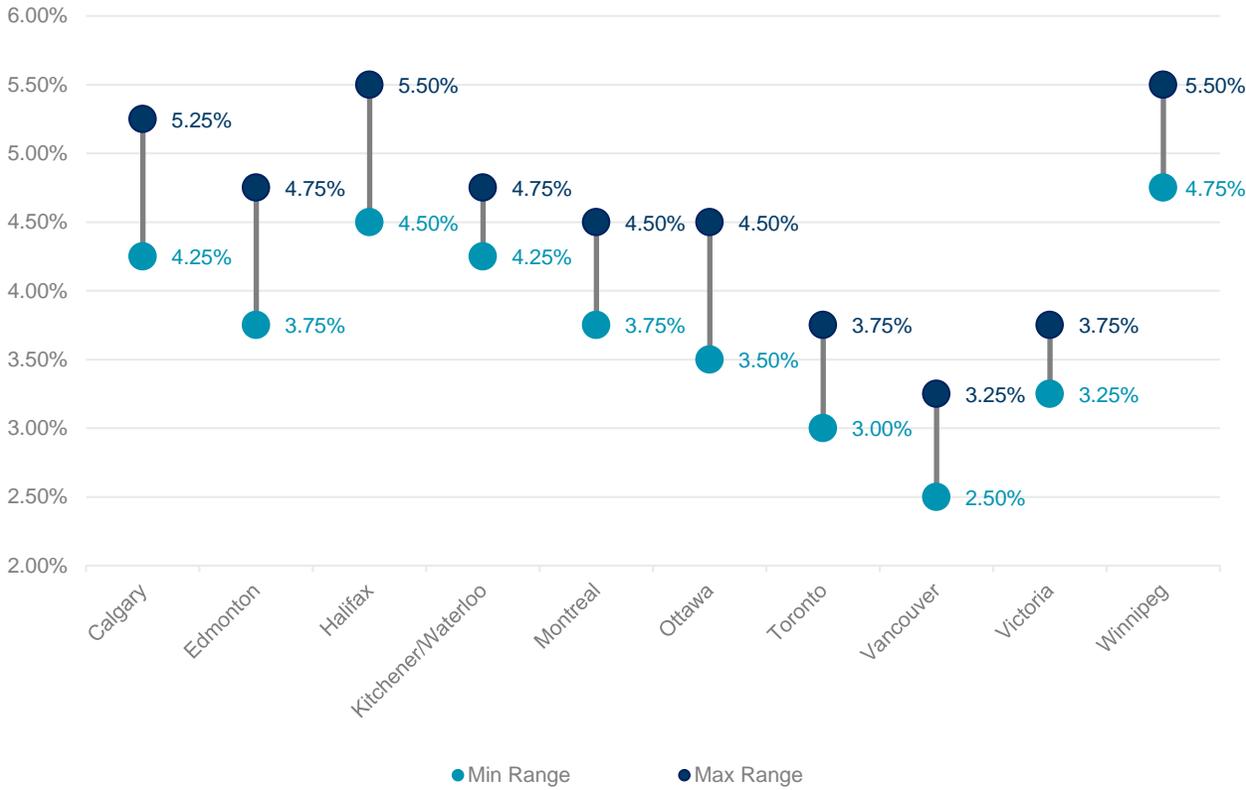


INDUSTRIAL CLASS B

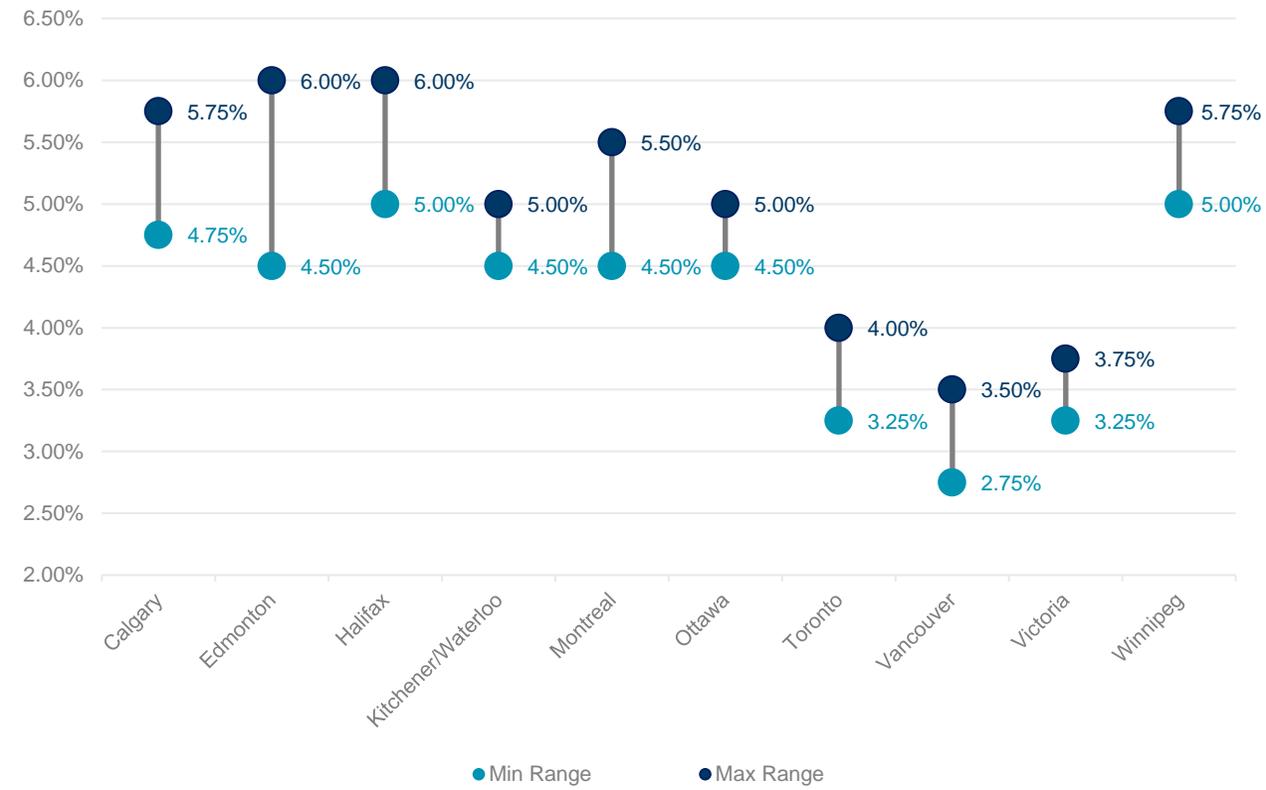


MULTI-RESIDENTIAL CAP RATES

HIGH RISE

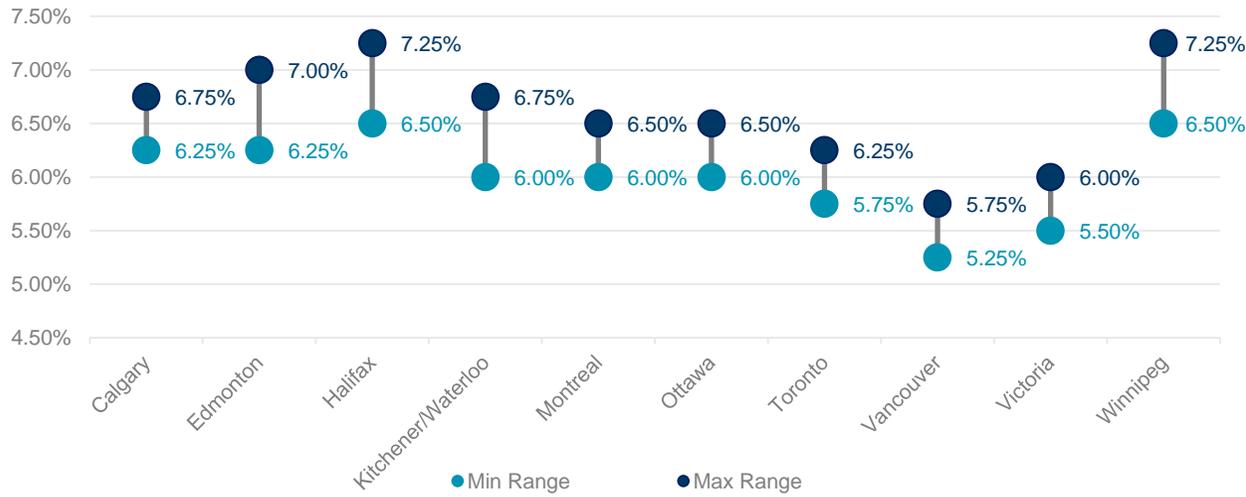


LOW RISE



SENIORS HOUSING CAP RATES

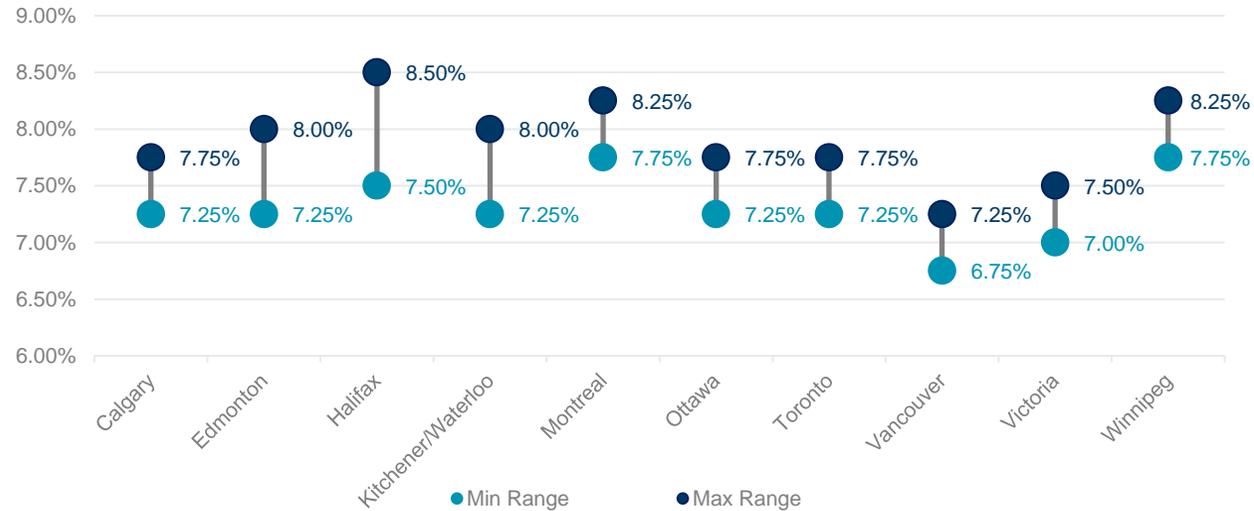
SENIORS HOUSING “A”



SENIORS HOUSING “B”

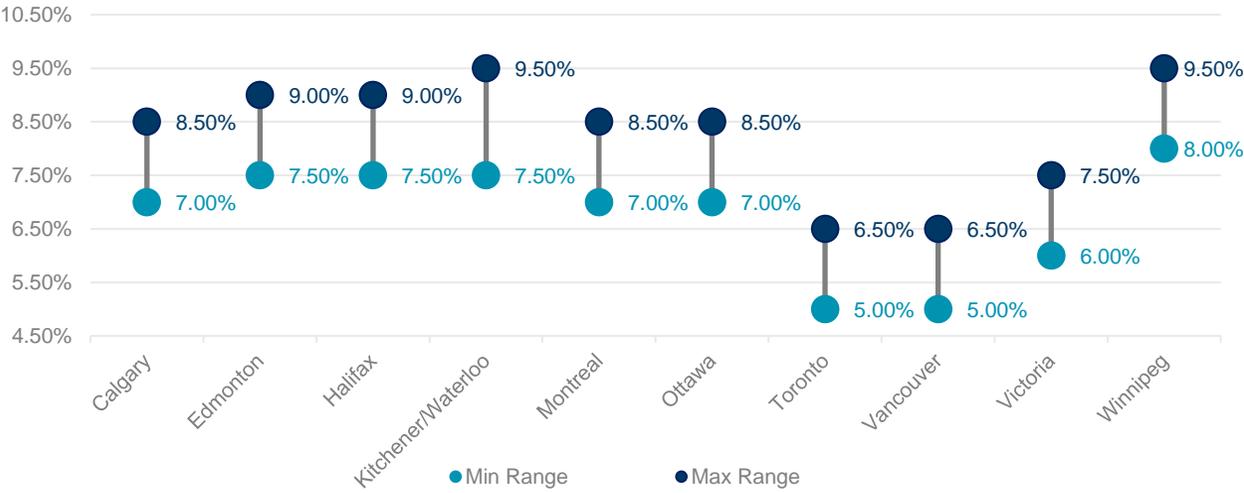


LONG TERM CARE “A”



HOTEL CAP RATES

FULL-SERVICE DOWNTOWN



SELECT SERVICE

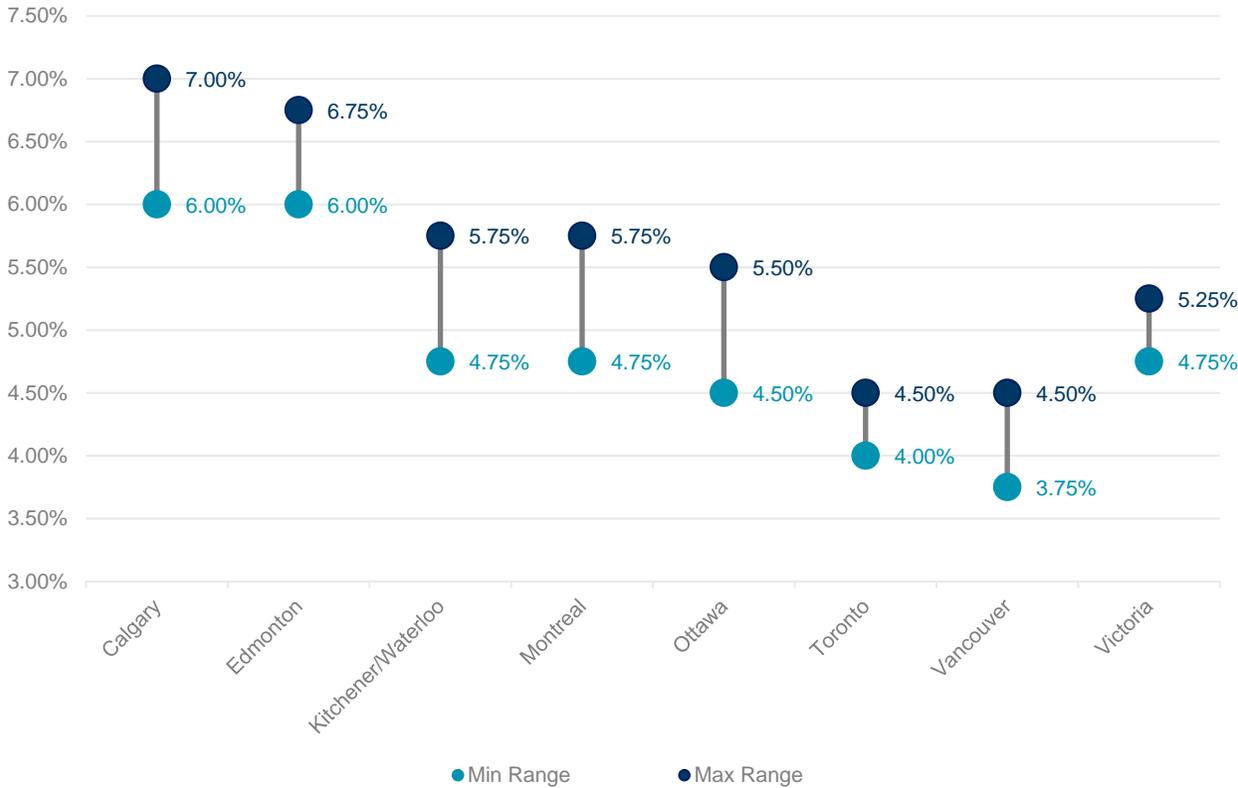


LIMITED-SERVICE SUBURBAN

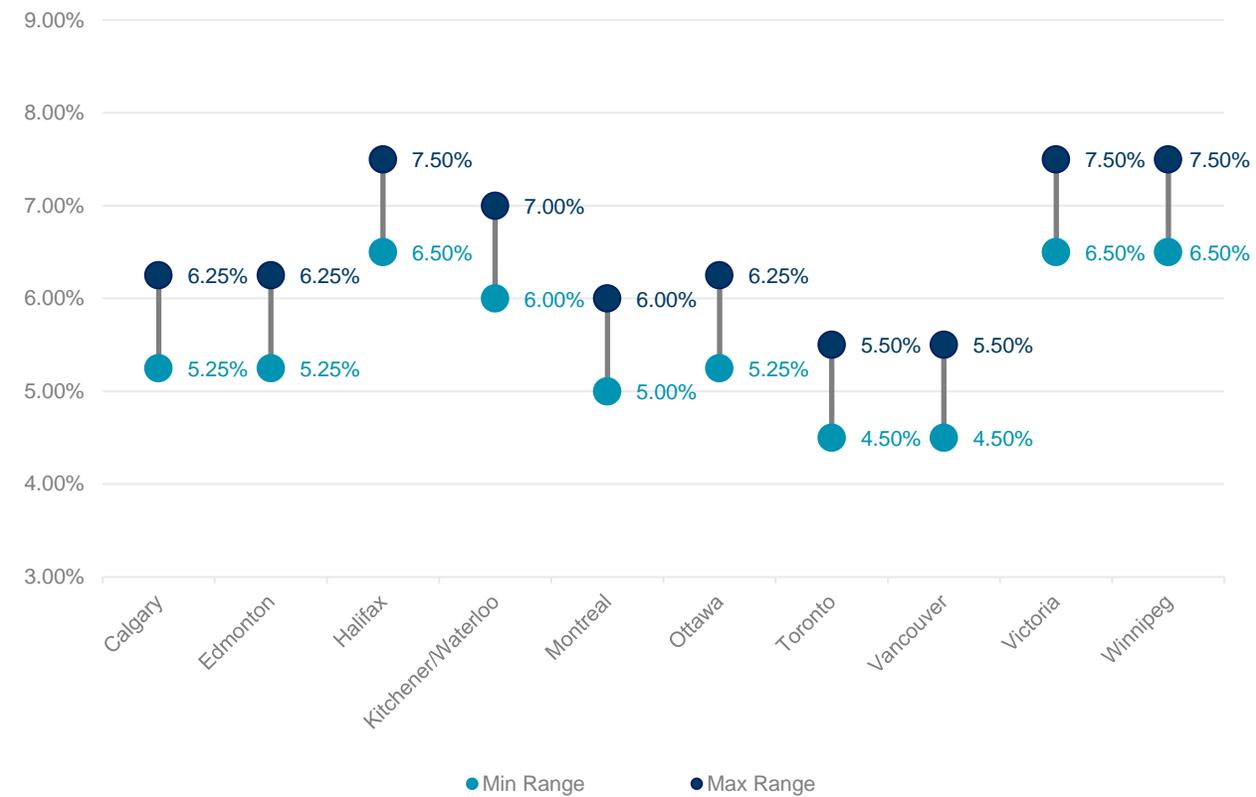


RETAIL CAP RATES

STREET FRONT TOP PERFORMER

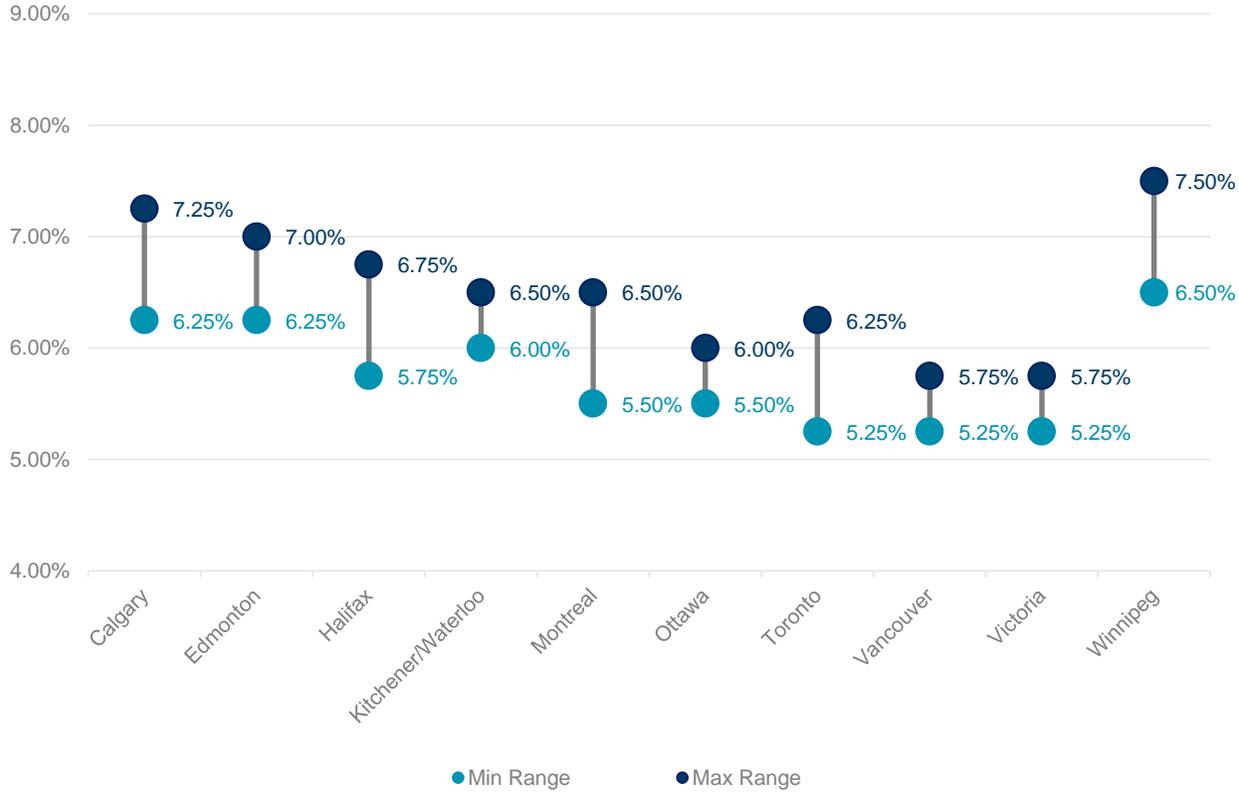


REGIONAL MALL TOP PERFORMER

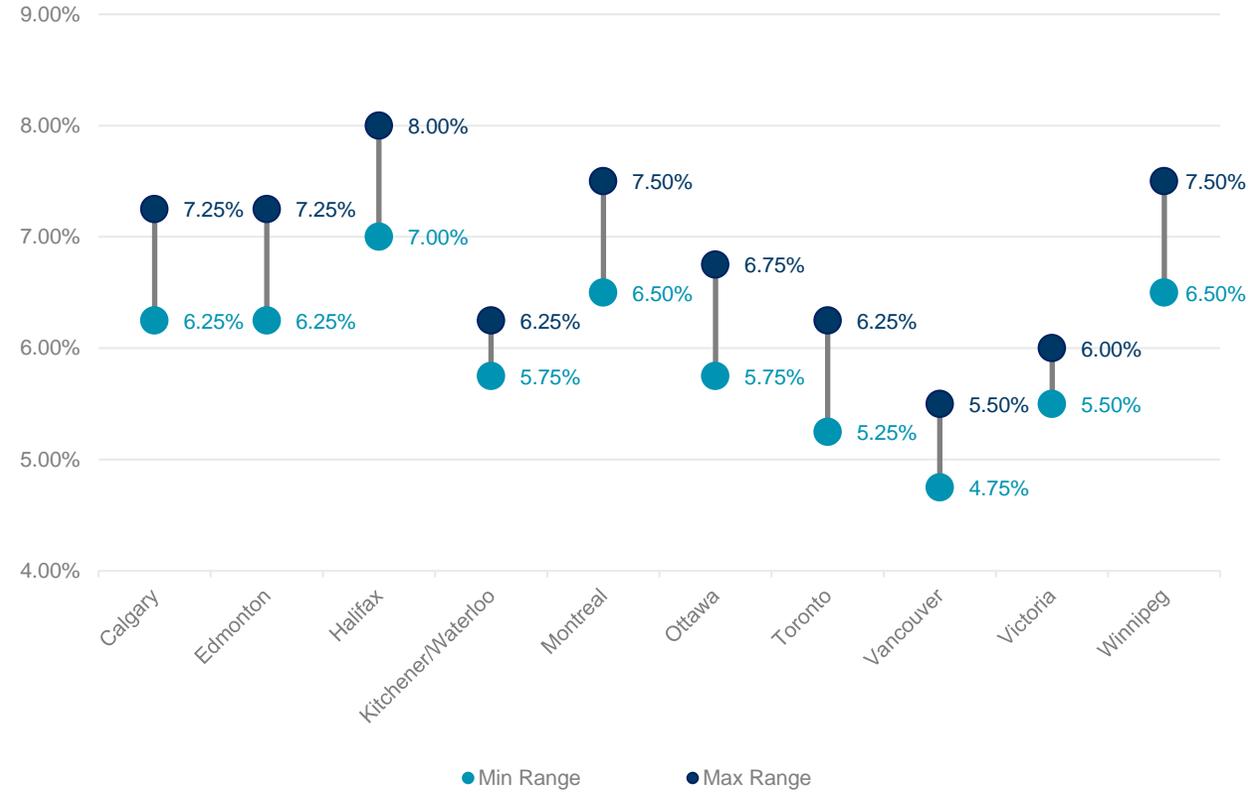


RETAIL CAP RATES

POWER CENTRE

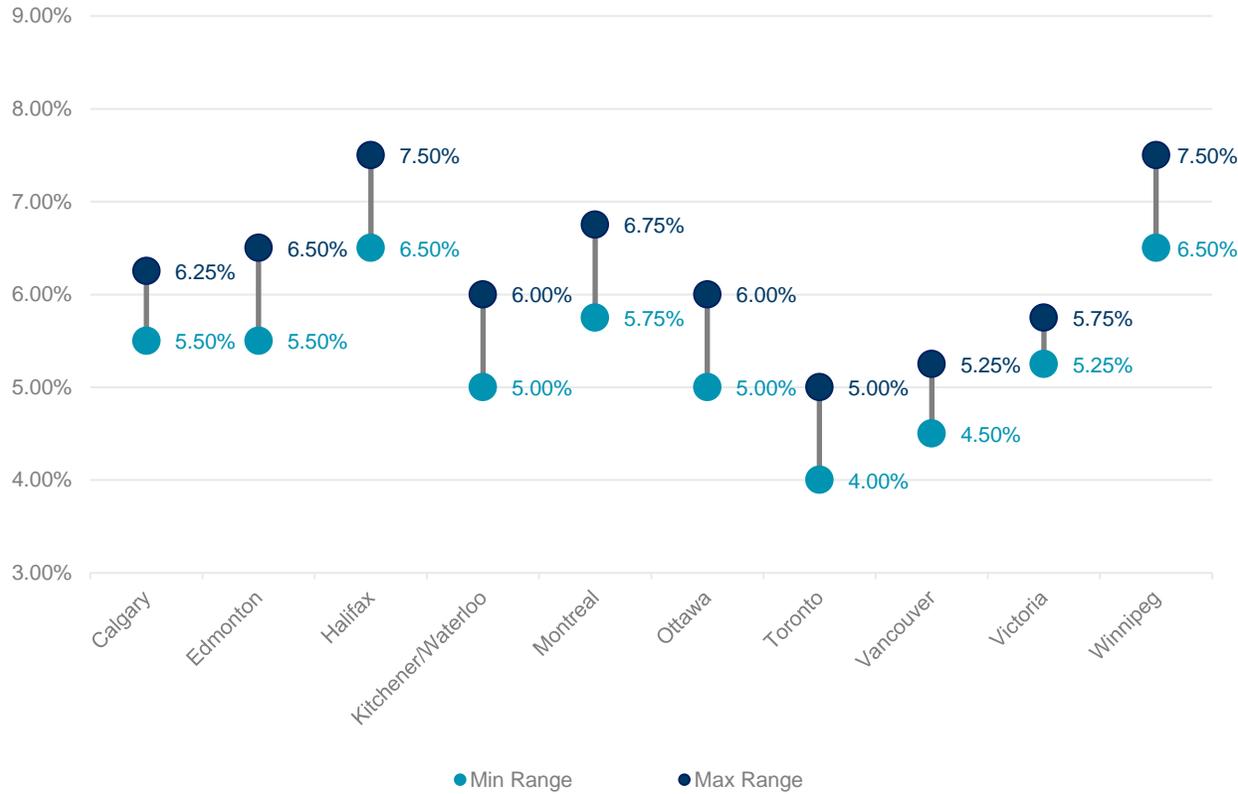


COMMUNITY COMMERCIAL CENTRE

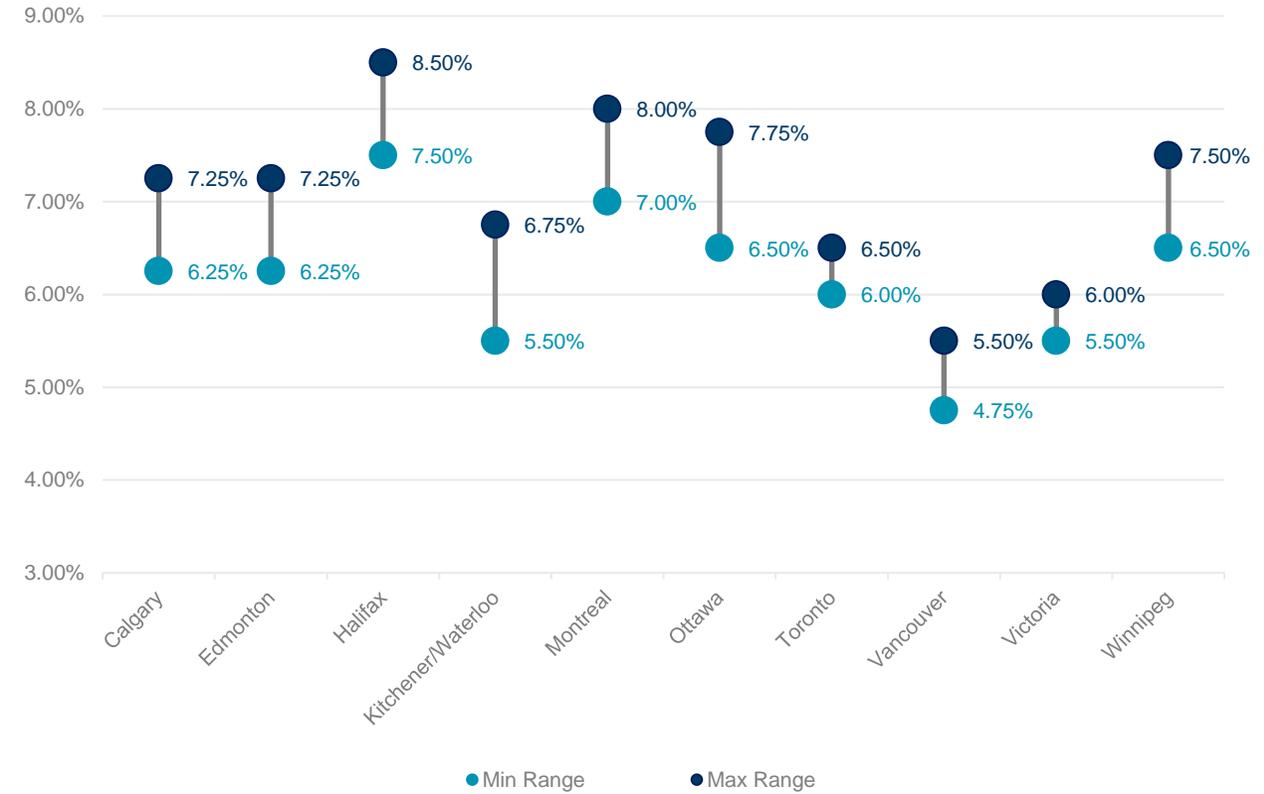


RETAIL CAP RATES

STRIP PLAZA ANCHORED



STRIP PLAZA NON-ANCHORED



Q4 2022 CAP RATE SURVEY REPORT

Commercial Real Estate Cap Rates Across Canadian Markets

	VICTORIA			VANCOUVER			CALGARY			EDMONTON			WINNIPEG			KITCHENER/WATERLOO			TORONTO			OTTAWA			MONTREAL			HALIFAX		
RANGE:	LOW	HIGH	↔	LOW	HIGH	↔	LOW	HIGH	↔	LOW	HIGH	↔	LOW	HIGH	↔	LOW	HIGH	↔	LOW	HIGH	↔	LOW	HIGH	↔	LOW	HIGH	↔			
DOWNTOWN OFFICE																														
AA	4.75%	5.25%	◀▶	4.00%	4.50%	▲	5.75%	6.50%	▲	5.75%	6.75%	▲	5.25%	5.75%	▲	N/A	N/A	N/A	4.50%	5.25%	▲	4.25%	5.25%	▲	4.50%	5.50%	▲	N/A	N/A	N/A
A	5.00%	5.50%	◀▶	3.75%	4.50%	▲	7.00%	8.00%	▲	6.75%	8.25%	▲	6.50%	7.50%	▲	5.75%	6.25%	◀▶	4.75%	5.50%	▲	5.00%	6.00%	▲	5.50%	6.50%	▲	6.25%	6.75%	◀▶
B	5.25%	5.75%	◀▶	4.25%	4.75%	▲	8.00%	9.00%	▲	8.00%	9.25%	▲	7.50%	8.50%	▲	6.25%	6.75%	◀▶	5.00%	6.00%	▲	6.00%	7.00%	▲	5.75%	6.75%	◀▶	7.00%	7.75%	◀▶
SUBURBAN OFFICE																														
A	5.25%	5.75%	◀▶	4.50%	5.25%	▲	7.25%	8.25%	▲	7.00%	8.00%	▲	6.25%	7.00%	▲	5.75%	6.75%	◀▶	6.50%	7.50%	▲	5.50%	6.25%	▲	6.00%	7.00%	◀▶	6.50%	7.50%	◀▶
B	5.50%	6.00%	◀▶	5.25%	5.75%	▲	7.75%	8.75%	▲	7.50%	8.50%	▲	6.75%	7.75%	▲	6.75%	7.50%	◀▶	7.50%	8.50%	▲	6.00%	7.50%	▲	6.50%	7.50%	◀▶	7.50%	8.50%	◀▶
INDUSTRIAL																														
A	5.50%	6.00%	◀▶	3.50%	4.25%	▲	4.50%	6.00%	▲	4.75%	6.50%	▲	5.25%	5.75%	▲	5.00%	5.50%	▲	4.00%	5.00%	▲	4.50%	5.25%	◀▶	4.25%	5.00%	▲	6.25%	7.00%	◀▶
B	5.75%	6.25%	◀▶	3.75%	4.75%	▲	6.00%	7.00%	▲	5.75%	7.25%	▲	6.00%	6.75%	▲	5.50%	6.00%	▲	4.75%	5.75%	▲	5.00%	6.00%	◀▶	4.75%	6.00%	▲	7.25%	7.75%	◀▶
APARTMENT																														
High Rise	3.25%	3.75%	◀▶	2.50%	3.25%	▲	4.25%	5.25%	▲	3.75%	4.75%	▲	4.75%	5.50%	▲	4.25%	4.75%	▲	3.00%	3.75%	◀▶	3.50%	4.50%	◀▶	3.75%	4.50%	▲	4.50%	5.50%	▲
Low Rise	3.25%	3.75%	◀▶	2.75%	3.50%	▲	4.75%	5.75%	▲	4.50%	6.00%	▲	5.00%	5.75%	▲	4.50%	5.00%	▲	3.25%	4.00%	◀▶	4.50%	5.00%	◀▶	4.50%	5.50%	▲	5.00%	6.00%	▲
SENIORS HOUSING																														
Seniors Housing "A"	5.50%	6.00%	▲	5.25%	5.75%	▲	6.25%	6.75%	▲	6.25%	7.00%	▲	6.50%	7.25%	▲	6.00%	6.75%	▲	5.75%	6.25%	▲	6.00%	6.50%	▲	6.00%	6.50%	▲	6.50%	7.25%	▲
Seniors Housing "B"	6.75%	7.75%	▲	6.50%	7.50%	▲	7.50%	8.50%	▲	7.75%	8.75%	▲	8.00%	9.00%	▲	7.25%	8.50%	▲	7.00%	8.00%	▲	7.50%	8.50%	▲	7.25%	8.50%	▲	8.00%	9.00%	▲
Long-Term Care "A"	7.00%	7.50%	▲	6.75%	7.25%	▲	7.25%	7.75%	▲	7.25%	8.00%	▲	7.75%	8.25%	▲	7.25%	8.00%	▲	7.25%	7.75%	▲	7.25%	7.75%	▲	7.75%	8.25%	▲	7.50%	8.50%	▲
HOTEL																														
Full-Service Downtown	6.00%	7.50%	▲	5.00%	6.50%	▲	7.00%	8.50%	▲	7.50%	9.00%	▲	8.00%	9.50%	▲	7.50%	9.50%	▲	5.00%	6.50%	▲	7.00%	8.50%	▲	7.00%	8.50%	▲	7.50%	9.00%	▲
Select Service	7.25%	8.50%	▲	6.00%	8.00%	▲	7.50%	9.50%	▲	8.00%	9.50%	▲	8.00%	9.50%	▲	7.50%	9.50%	▲	6.25%	7.50%	▲	7.50%	9.00%	▲	7.50%	9.00%	▲	8.00%	10.00%	▲
Limited-Service Suburban	7.50%	9.00%	▲	6.50%	8.50%	▲	8.00%	10.00%	▲	9.00%	10.50%	▲	8.50%	10.00%	▲	8.00%	10.00%	▲	6.75%	8.00%	▲	8.00%	10.00%	▲	8.00%	10.00%	▲	9.00%	10.50%	▲
RETAIL																														
Street Front - Top Performer	4.75%	5.25%	▲	3.75%	4.50%	▲	6.00%	7.00%	▲	6.00%	6.75%	▲	N/A	N/A	N/A	4.75%	5.75%	◀▶	4.00%	4.50%	◀▶	4.50%	5.50%	▲	4.75%	5.75%	◀▶	N/A	N/A	N/A
Regional Mall - Top Performer	6.50%	7.50%	▲	4.50%	5.50%	▲	5.25%	6.25%	▲	5.25%	6.25%	▲	6.50%	7.50%	▲	6.00%	7.00%	▲	4.50%	5.50%	▲	5.25%	6.25%	▲	5.00%	6.00%	▲	6.50%	7.50%	▲
Power Centre	5.25%	5.75%	▲	5.25%	5.75%	▲	6.25%	7.25%	▲	6.25%	7.00%	▲	6.50%	7.50%	▲	6.00%	6.50%	◀▶	5.00%	6.00%	◀▶	5.50%	6.00%	▲	5.50%	6.50%	▲	5.75%	6.75%	▲
Community Commercial Centre	5.50%	6.00%	▲	4.75%	5.50%	▲	6.25%	7.25%	▲	6.25%	7.25%	▲	6.50%	7.50%	▲	5.75%	6.25%	◀▶	5.25%	6.25%	▲	5.75%	6.75%	▲	6.50%	7.50%	▲	7.00%	8.00%	▲
Strip Plaza Anchored	5.25%	5.75%	▲	4.50%	5.25%	▲	5.50%	6.25%	▲	5.50%	6.50%	▲	6.50%	7.50%	▲	5.00%	6.00%	◀▶	4.00%	5.00%	◀▶	5.00%	6.00%	▲	5.75%	6.75%	▲	6.50%	7.50%	▲
Strip Plaza Non-Anchored	5.50%	6.00%	▲	4.75%	5.50%	▲	6.25%	7.25%	▲	6.25%	7.25%	▲	6.50%	7.50%	▲	5.50%	6.75%	◀▶	6.00%	6.50%	▲	6.50%	7.75%	▲	7.00%	8.00%	▲	7.50%	8.50%	▲

LEGEND

- ↔ Outlook
- ▲ Up
- ▼ Down
- ◀▶ Flat

The arrow direction indicates if there was an outlook change &/or a cap rate ± bps change from the previous quarter

Outlook represents a forecast for the next 3-6 months

Green font indicates rising cap rate

CAPITALIZATION RATE

Cushman & Wakefield provides quarterly estimates of capitalization rates for the asset classes contained in this report based on our market expertise. The cap rate ranges are based on transaction data where possible, as well as demand and supply dynamics in the region. These estimates are meant to encompass the majority of assets within each class and may not represent outlier transactions or deals relating to assets with specific attributes that would significantly differentiate them. Particularly during periods of uncertainty, such as since the initial impact of COVID-19, transactions have been limited and best estimates of cap rates have been provided factoring in the expertise of local market participants.

Q4 2022 INVESTMENT GLOSSARY

DOWNTOWN OFFICE

CLASS AA

A best-in-class office product, with more elaborate common areas, modern construction and building efficiencies, that commands the highest rents and tends to attract stronger covenant tenants, such as banks, government, insurance companies, etc. These buildings tend to be situated close to the core within their respective markets and have excellent access to major public transit hubs. Buildings are typically larger than 750,000 SF, with 5 to 10-year tenancies and some 15-year leases for inbound tenants. Occupancy levels assumed to stabilize at close to 95% of comparable market net rates.

CLASS A

A strong-performing asset, typically between 400,000 and 700,000 SF, which is well located, and may have smaller floor plate sizes, solid amenities and less elaborate common areas. The majority of the tenants have 5 to 10-year lease commitments. Occupancy levels assumed to stabilize at close to 95% of comparable market net rates.

CLASS B

Older office product, typically in the range of 100,000 to 250,000 SF. Buildings tend to be occupied with a diversified tenant mix but lack a large anchor tenant. Shorter lease commitments occur in this asset class with the average term ranging between 5 and 10 years. Average floor plate size can be significantly smaller. Generally, not connected to the subway.

SUBURBAN OFFICE / INDUSTRIAL

CLASS A

Newer high-quality suburban product, typically between 100,000 and 300,000 SF. Attracts good covenant tenants for 5 to 10-year lease terms.

CLASS B

Older suburban product that attracts a wider range of tenants and covenants for lease terms ranging between 3 and 10 years.

APARTMENT

HIGH RISE

An apartment building greater than 4 storeys in height or having more than 80 units.

LOW RISE

Any apartment complex having fewer than 80 units.

SENIORS HOUSING

A retirement residence that provides independent, assisted living and/or memory care services and accommodation. As part of the monthly fee, access to meals and other services, such as housekeeping, transportation, and social and recreational activities, may be provided to residents. Assisted living and memory care service levels include assistance with activities of daily living and personal care support. Typically, 100% of the cost of accommodation and related service is paid for privately by the resident.

LONG-TERM CARE

Also referred to as nursing homes, long-term care homes provide accommodation and care services

for adults requiring access to 24-hour nursing and personal care. This includes help with most or all daily activities. Typically, long-term care homes in Canada receive reimbursement via government subsidies for the care services provided to residents. Residents are most often responsible for a co-payment to offset the cost of 'room and board'.

HOTEL

FULL-SERVICE

A hotel with extensive dining and meeting facilities. Quality ranges from upscale to luxury. Examples include Hilton, Westin, Hyatt, etc.

SELECT-SERVICE

A hotel that offers the fundamentals of limited-service properties blended with a selection of features found in full-service properties. Typically, this involves a limited presence of food, beverage and meeting space.

LIMITED-SERVICE

A room-focused hotel with minimal facilities. Quality ranges from economy to mid-scale. Examples include Comfort Inn and Super 8.

RETAIL

STREET FRONT – TOP PERFORMER

Typically considered the street or section thereof where the greatest dollar value psf is generated from street front retail stores within each market.

REGIONAL MALL – TOP PERFORMER

Top-performing fully enclosed mall. These buildings tend to be greater than 800,000 SF and have a

wide product offering, featuring destination retailers and 2 to 3 anchor tenants. Often located near large transit hubs and serve a trade area between 10 and 30 kilometres.

POWER CENTRE

Large format, category dominant retailers in an open-air configuration that may include "club" or discount department stores. Total GLA is typically between 100,000 and 1,000,000 SF.

COMMUNITY COMMERCIAL CENTRE

An enclosed centre anchored by a smaller department store, servicing a local community. Tenants may include general merchandise and convenience offerings, including a grocery store. Total GLA is typically between 100,000 and 400,000 SF.

STRIP PLAZA – ANCHORED

An open-air configuration of attached retail stores that may include retail PAD sites. They are often anchored by a food or drug store tenant. Tenants are generally servicing residents in the neighbourhood. These would include dry cleaners, take-out food stores, convenience stores, etc.

STRIP PLAZA – NON-ANCHORED

An open-air configuration of attached retail stores, not anchored by a grocer or drug store, that may include retail PAD sites. Tenants are generally servicing local neighbourhood residents.

LIFE IS WHAT WE MAKE IT

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About Cushman & Wakefield

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 50,000 employees in over 400 offices and approximately 60 countries. In 2021, the firm had revenue of \$9.4 billion across core services of property, facilities and project management, leasing, capital markets, and valuation and other services.

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