



National Land Report

Colliers Canada | 2023 In Review

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Accelerating success.



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Overview

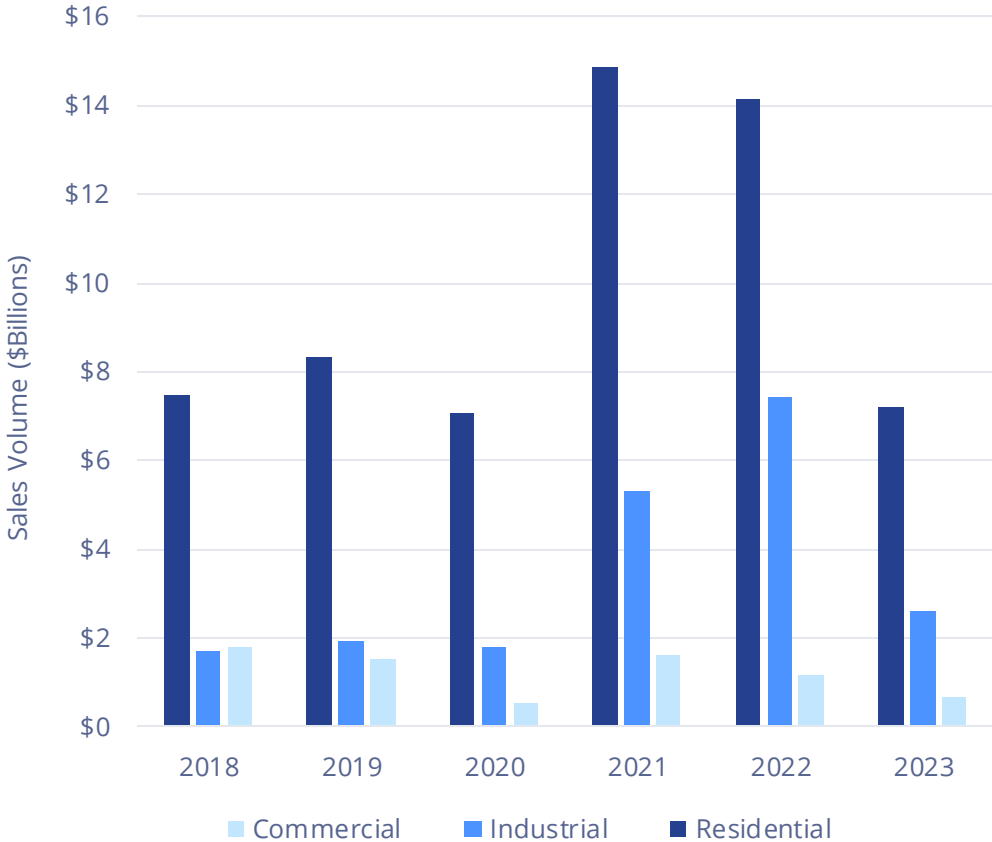
Coming off record sales volume years in 2021 & 2022, the return to pre-Pandemic normalcy was evident in 2023. Economic uncertainty and the stagnant interest rate were the key factors to the significant drop. The regression in industrial sales (down approximately 65% from 2022 to 2023) will mean less new supply in the future. We can anticipate low development volume for 2024 into the first half of 2025, which will mostly impact affordable housing and industrial rents. With the immigration targets set by the federal government, we could see an increase in sales activity given the need for affordable and attainable housing in the future.

“Everyone has a role to play in encouraging a strong investment climate that will help boost productivity.”

Senior Deputy Governor Carolyn Rogers

Source: Colliers, Altus, Bank of Canada

Land Sales Volume

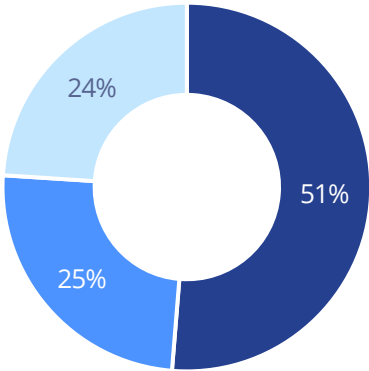


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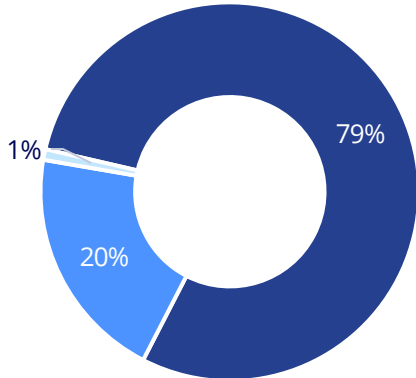
Sale Transactions Volume 2023

- Developers in Montreal showed preference towards industrial which made up 63% of transactions.
- Vancouver and Toronto are focused on purpose-built rentals as residential land represented 64% and 71% of transactions, respectively.
- Calgary had 94% of residential land sales in areas zoned for medium and low density, which will offer more diverse housing options compared to other major cities.
- Commercial land sales are down 11% in the last five years as developers look to incorporate commercial in mixed-use residential projects instead of stand-alone commercial.

2023 Multifamily Breakdown



2023 ICI Breakdown



■ High Density ■ Low Density ■ Medium Density ■ Industrial ■ Commercial ■ Office

Land Sales Volume

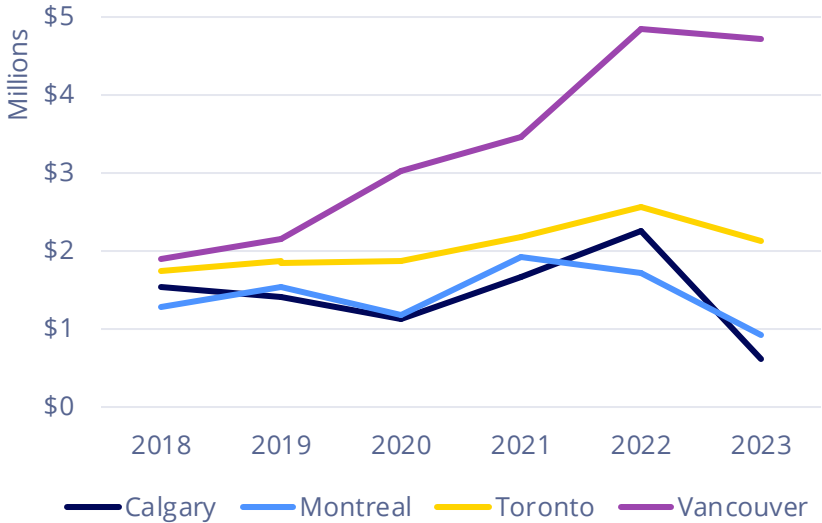
	Calgary	Vancouver	Toronto	Montreal
Industrial	\$155 million	\$397 million	\$1.3 billion	\$720 million
Commercial	\$76 million	\$121 million	\$500 million	\$194 million
Residential	\$481 million	\$1.6 billion	\$3.9 billion	\$354 million

Source: Colliers, Altus

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Industrial Overview

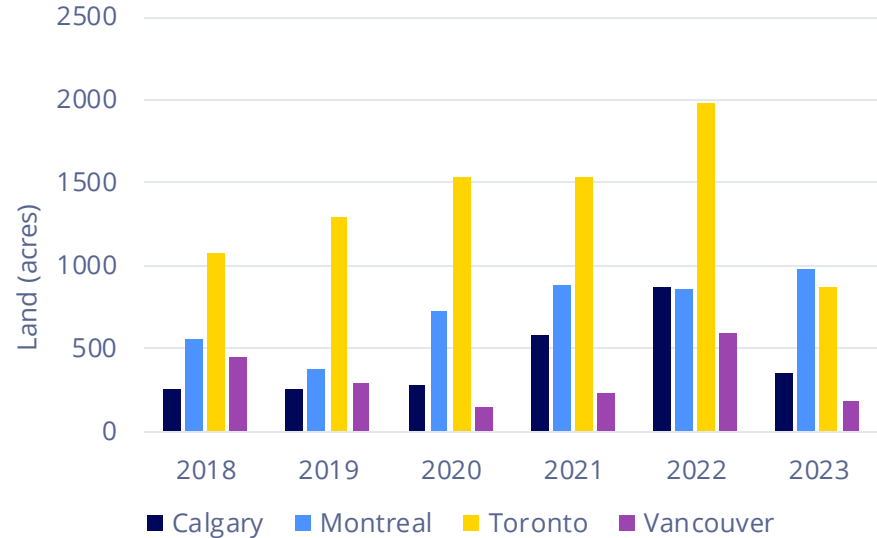
Price per Acre



The price per acre came down across most markets after the record highs in 2022. Given the steady incline since 2020, it is not surprising to see this cooling period, which has led to a more cautious approach on both the buying and selling side. Demand still exists, especially for serviced land, but the question remains whether buyers can meet the seller expectations.

*Minimum 1 acre threshold

Industrial Land Sales



Year-over-year (YoY), outside of Montreal, saw sales volume decline by 50% or greater. With some stability in the interest rate, buyers who plan to develop need to assess if the opportunity cost outweighs the lending cost to proceed. If the price per acre continues to come down and new supply is absorbed, we could see more transaction activity in 2024.

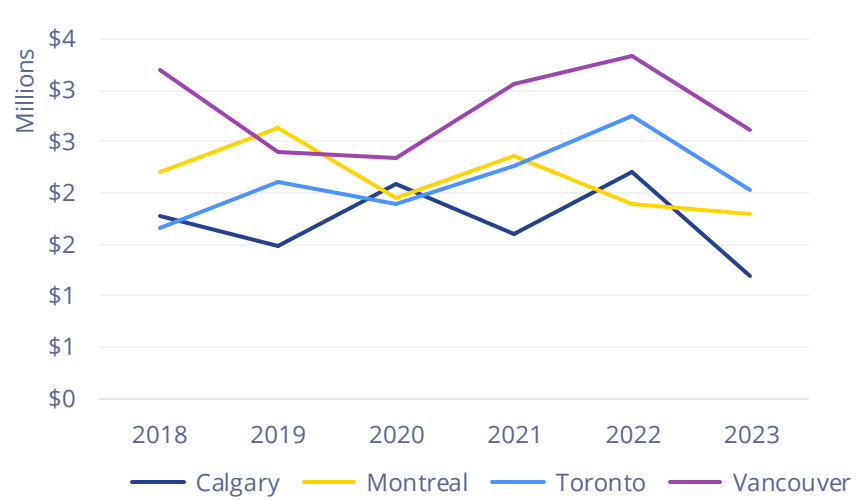
Source: Colliers, Altus

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Commercial Overview

Price per Acre

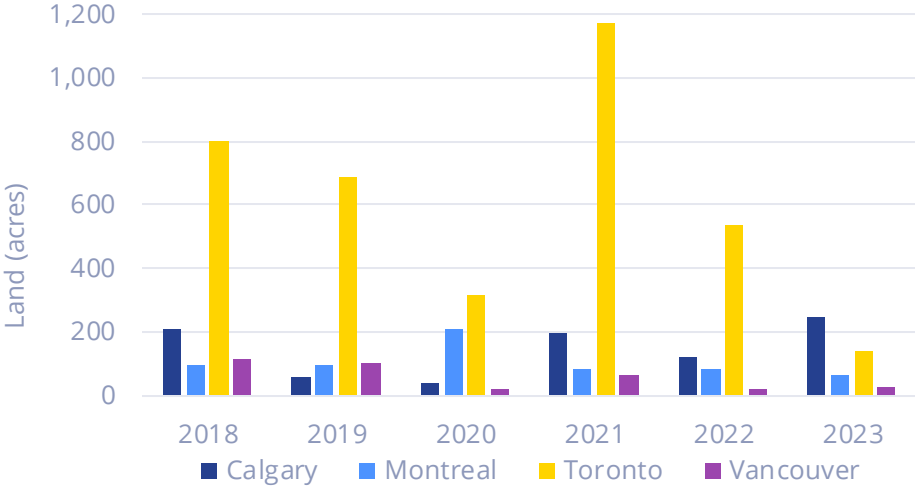


Price per acre values declined YoY in major markets due to high interest rates. Montreal was the only exception, with 5% growth, as it attracted owner-occupiers in a less competitive setting.

Since 2018, average acre prices fell in all markets except Toronto, which grew by 22%. Developers are optimistic about the potential opportunity in the Greater Toronto Area (GTA) because of strong immigration and consumer spending.

*Minimum 1 acre threshold

Commercial Land Sales



The total sum of acres acquired by developers has decreased by 62% since 2018. This shift is due to developers focusing more on mixed-use settings, like apartments or office spaces, rather than standalone retail developments.

The significant decline in transactions suggests that the GTA’s commercial land market has likely reached saturation. Total acres sold decreased from 1,753 acres in 2021 to 138 acres in 2023. The focus has shifted to a “wait-and-see” approach, as the market needs to absorb projects planned from the 2021 spike.

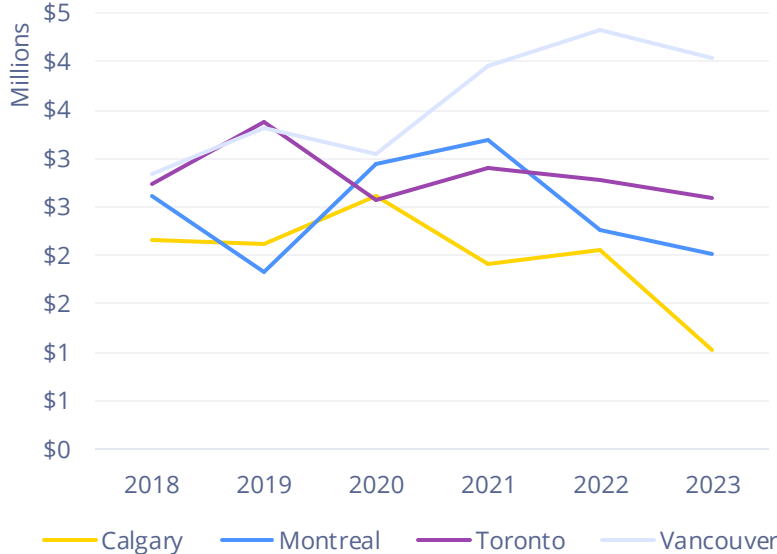
Source: Colliers, Altus

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Residential Overview

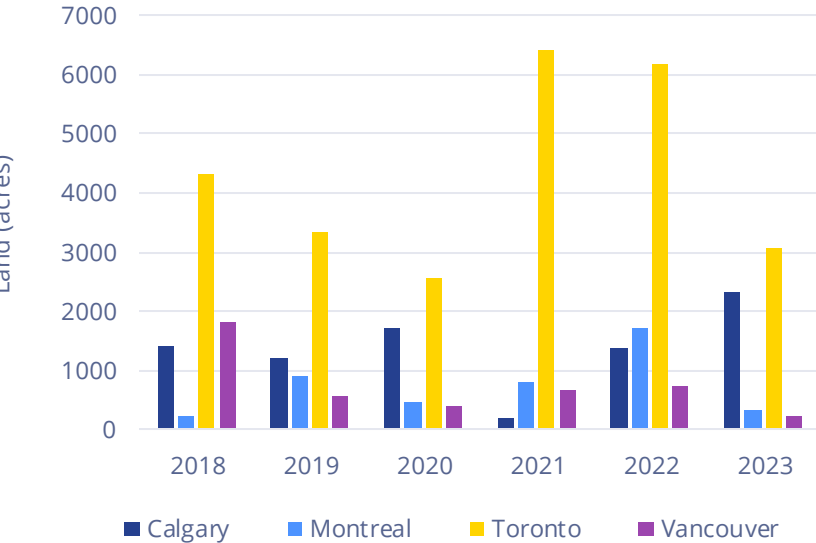
Price per Acre



Residential land activity took a pause in 2023 as there is a pricing disconnect between buyers and sellers. Sellers know vacancies are at all-time lows and recognize the value in maintaining the prices of 2021 and 2022. Buyers have stayed on the sidelines as cost of land, labor, and financing makes it difficult to inject capital into projects. For example, Vancouver has seen the price per acre rise 33% since 2020 to over \$4 million.

*Minimum 1 acre threshold

Residential Land Sales



This increase in cost, in tandem with long wait periods from acquisition to development, has led to only 218 acres sold in 2023. Calgary is the only major market to experience an increase in acres sold as developers shifted focus to low and medium density. The decline in price per acre to just over \$1 million is a response accounting for the economies of scale in purchasing larger lots.

Source: Colliers, Altus

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Office-to-Residential Conversion

Factors to Consider

Structural modifications: The costs associated with internal partitioning, re-shaping plumbing and electric, re-configuring HVAC, and light exposure that meet residential building standards.

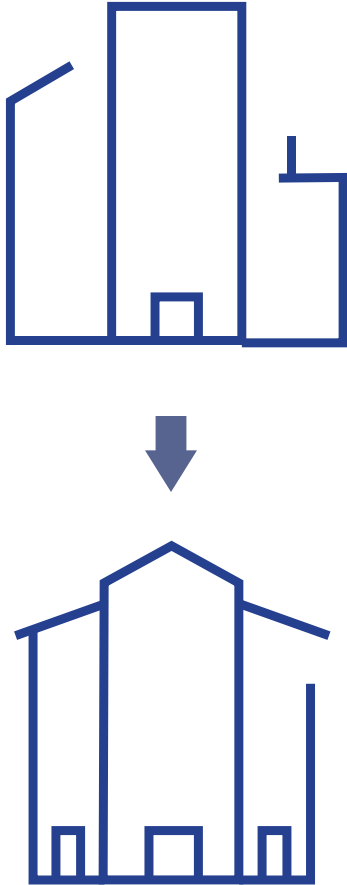
Amenities: Residents would be looking for internal amenities that may differ from those currently available in the office layout. Additionally, external amenities that make a neighborhood desirable to live in might not already exist in the area.

Opportunity Cost: Would there be a higher opportunity cost associated with a complete tear down or redevelopment? In certain circumstances, it may be more financially sound to demolish the existing structure and re-build.

Zoning: Even in the case of viable projects, re-zoning challenges may delay or restrict an investor's initial strategy. Appropriate zoning is a crucial element in a project's viability. Re-zoning is a difficulty in and of itself; ideally, appropriate zoning would already be in place or part of an investor's long-term plans.

Highest & Best Use: When weighing the prospect of conversion, prospective developers will likely consider the potential net operating income (NOI) as well as the property value differentials between office and multi-family spaces. The cost of conversion may exceed the combined value of the NOI and property value increase.

Funding: The lack of data regarding conversions makes trends difficult to establish and more anecdotal. Banks and traditional lending sources may consider this lack of precedent and proven track record when evaluating risk.



Source: Colliers, Altus

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Office-to-Residential Conversion

Calgary Case Study

In 2021, Calgary embarked on a program to bolster downtown and remove six million square feet of vacant office space by 2031. The program grants \$75 per square foot (once completed) to approved office-to-residential conversions. There are a variety of factors playing a role in why certain buildings are selected for Calgary’s development incentive program. Generally speaking, the buildings targeted are primarily comprised of Class C office space with high vacancy, and located in the west end of downtown, which can be converted economically. The best suited properties have a floorplate suitable for the new use, as well as a functional elevator layout, and adaptable plumbing and HVAC infrastructure that wouldn’t require significant re-design.



Project Highlight: 909 – 5th Avenue SW (The Cornerstone)

Scope of Conversion: 129,000 SF

Number of Units: 112

Municipal Investment: \$7,800,000

Conversion Type: Residential

Source: Colliers

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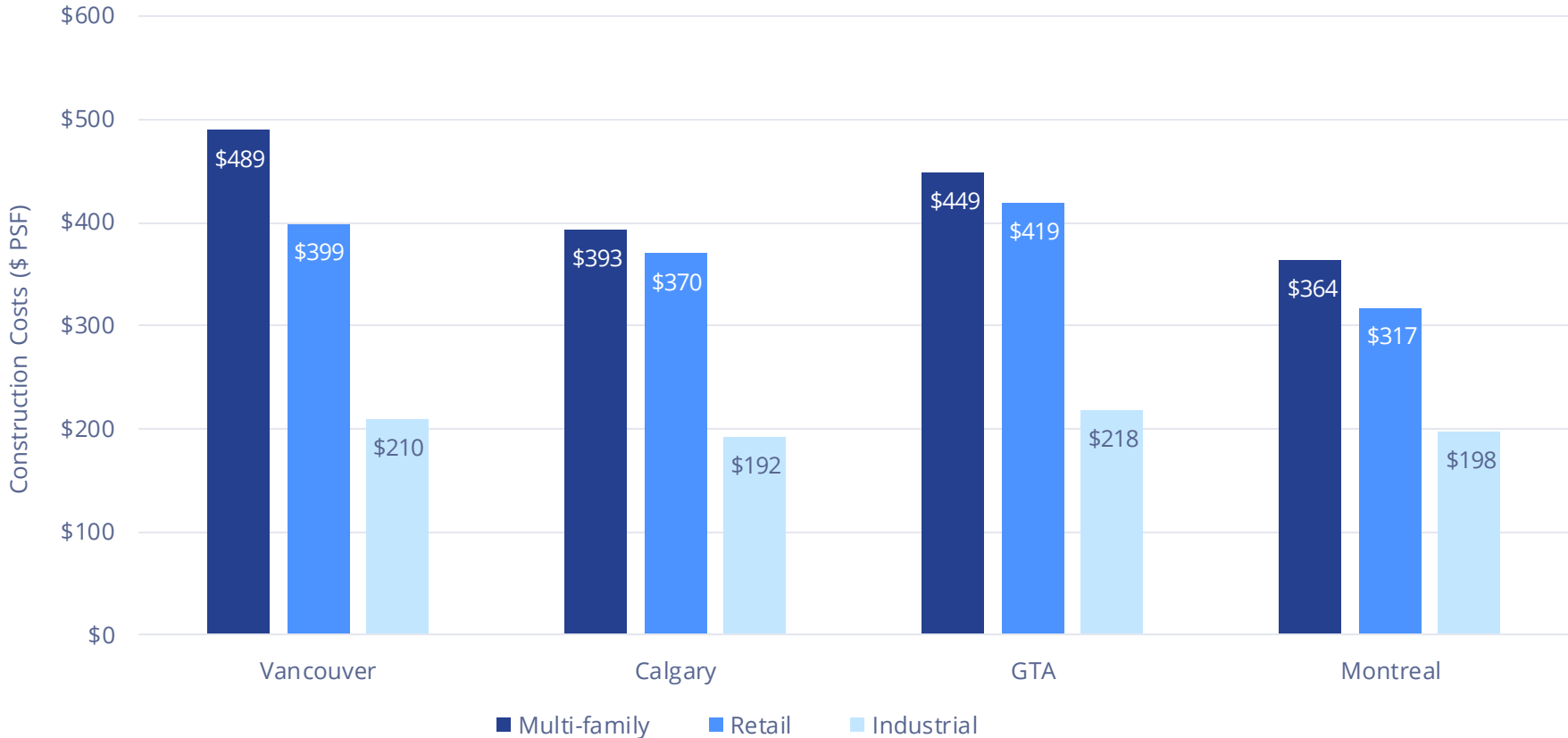
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Building Costs

2024 Construction Costs Across Asset Classes*



*Building cost excluding regional development charges
Source: Colliers, Altus

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Supply and Demand

Office

In line with expectations, office absorption experienced a moderate drop this year. Given the stark contrast in both lending environment and economic outlook between 2022 and 2023, it would have been unrealistic to expect similar performance.

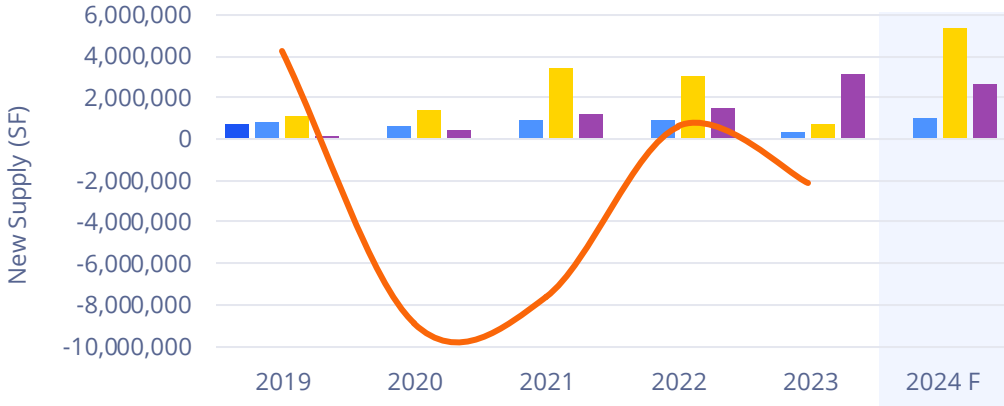
While most major markets saw a decrease in new supply delivered this year, Vancouver actually experienced a healthy 113% bump in new space. Vancouver has one of the lowest office vacancy rates of all major Canadian cities and is still seeing fully pre-occupied new builds like Amazon’s The Post building, which delivered over 1.1 million square feet.

Industrial

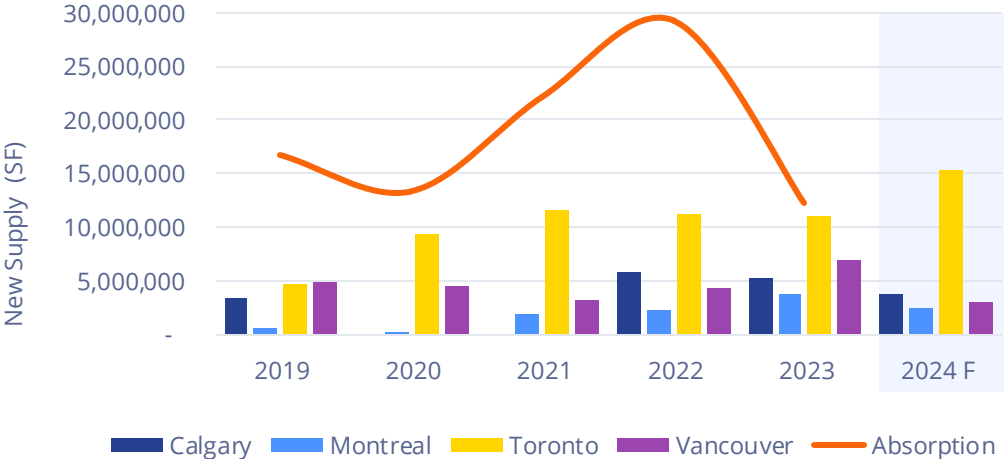
It’s clear that the industrial market saw a significant decrease in absorption YoY, however, the severity of that drop is misleading. Though 12 million square feet in absorption may seem notably low, its perception is skewed by comparison to the record 30 million seen in 2022.

The volume of new supply delivered in 2023 is similar to last year’s volume and this high level helps explain the lower absorption; that much available and unoccupied space coming to market would ultimately drag absorption down. In spite of the notable drop, absorption was similar to that of 2019 and 2020, around 14 million square feet, which may be an indication that levels are normalizing rather than plummeting.

Office



Industrial



Source: Colliers, Altus

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Immigration Targets & Housing Affordability

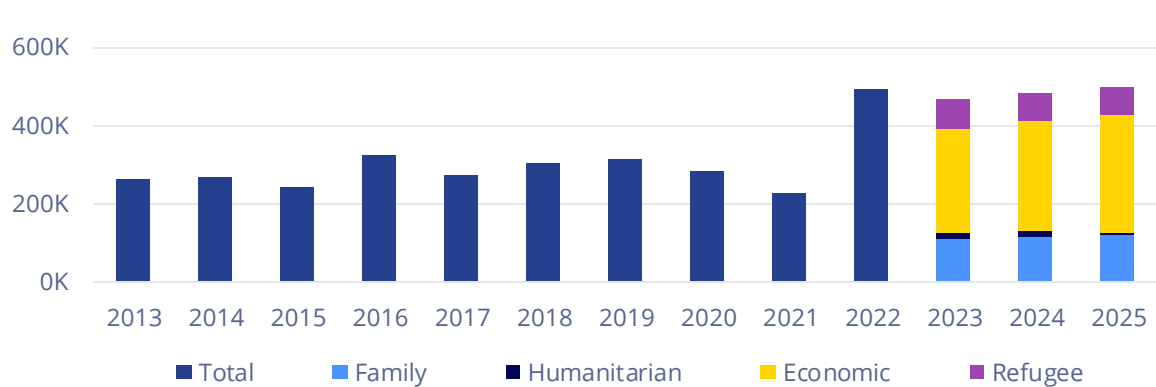
Residential Analysis

In 2023, Canada reached an important milestone – the country’s population surpassed 40 million people. Between Q2 and Q3 2023, Canada’s population increased by over 430,000 people; a 1.1% increase and the second highest quarterly growth rate since 1957

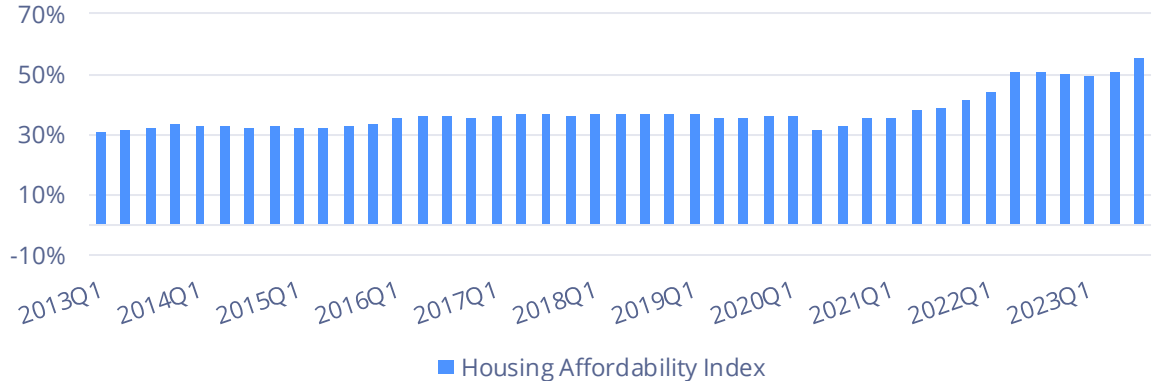
Meanwhile, the Bank of Canada’s housing affordability index, a measure which tracks the proportion of income households put towards housing, has climbed to 54%. The historic average sits around 35%.

With affordability out of reach for most Canadians and lofty immigration targets set for the next few years, the housing imbalance has reached a boiling point, which has pushed all levels of government to intervene.

Immigration to Canada, 2013-2025 (Projected)



House Prices & Affordability



Source: Oxford Economics, Bank of Canada, Statistics Canada

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Residential Starts & Completion

Residential Analysis

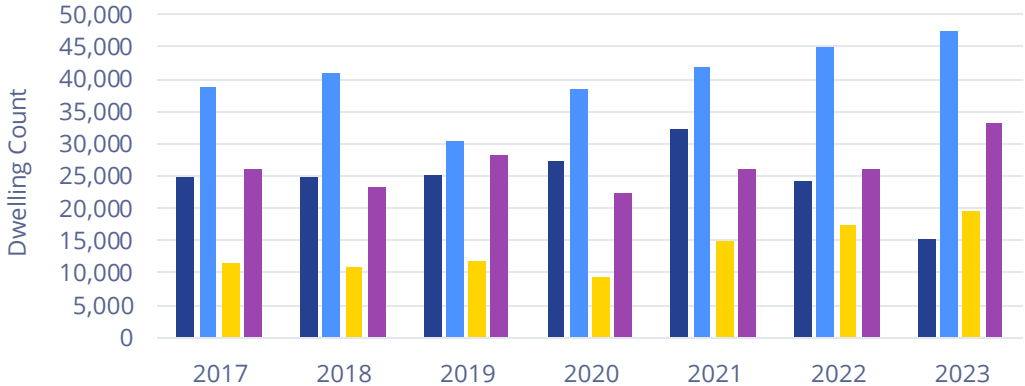
Affordability is the buzzword of residential real estate. All levels of government have designed policies and programs to address affordability, which will help the lowest-income Canadians secure housing, but construction starts in 2023 illustrate that the push is at the expense of developing suitable homes that target a variety of needs.

The concept of attainable housing refers to households' ability to enter and move up within the local housing market. There needs to be a variety of housing options (single-family, semi-detached, and row) to enable households at different income levels to find and progress to higher levels of housing.

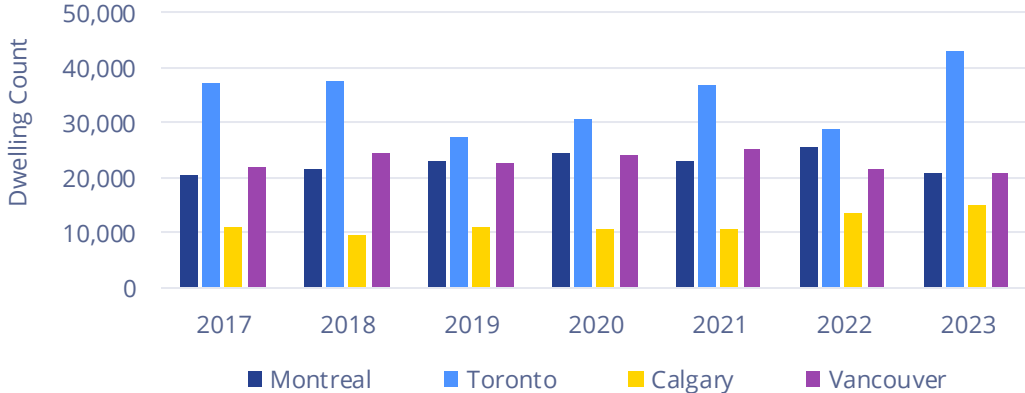
Across the four major Canadian markets in 2023, Calgary has the most diversified new housing options, with only 46% geared for apartments. In contrast, Montreal is the least diversified major metropolis, with 90% of developments catered to apartments, followed by Vancouver with 83% and Toronto with 79%. As it stands, Calgary is the “attainable” housing market for households to climb the ownership ladder.

Source: CMHC

Construction Starts



Construction Completions



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Notable Transactions



271 Reidel Drive GGH

Sale Price: \$155,000,000 **Asset Class:** Residential
Size: 204 acres **Purchaser:** Activa



De la Piniere Boulevard West GMA

Sale Price: \$85,000,000 **Asset Class:** Commercial
Size: 55 acres **Purchaser:** Rosefellow



1527 Main Street GVA

Sale Price: \$80,000,000 **Asset Class:** Residential
Size: 1.2 acres **Purchaser:** Greystar Developments



11670 Woodbine Avenue GTA

Sale Price: \$62,000,000 **Asset Class:** Commercial
Size: 92 acres **Purchaser:** Kingsdale Development

Source: Colliers, Altus



Colliers Research

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