Canadian cap rate and investment trends

January 2024

AVISON YOUNG

What is happening with cap rates?

What direction are cap rates trending? These questions echo consistently in discussions throughout the commercial real estate industry, gaining heightened importance during periods of market uncertainty. It's a query on everyone's mind, as individuals seek insights into the prevailing investment trends. However, answering this question isn't always straightforward, particularly amid a scarcity of recent investment trades. Professional valuations take on increased importance, and so does investor sentiment.

Beginning with this first edition of Avison Young's quarterly Canadian cap rate and investment trends report, we pledge to deliver comprehensive market insights to navigate in this period of limited transaction activity and uncertain market conditions. Key indicators of this report are based on results from our proprietary cap rate and market sentiment survey involving experts across all markets and service lines at Avison Young. The seamless collaboration among our internal groups is a daily occurrence, and witnessing the dedication individuals and teams have shown in sharing their insights and commentary instills a high level of confidence in presenting this information to you.

Our dedicated teams have placed a strong emphasis on not only presenting cap rate data but also enriching readers with a deeper understanding of what's happening behind the figures presented within the report.

Our ongoing analysis will focus on the driving factors behind cap rates in multi-residential, industrial, office, and retail investment properties across Canada.

We look forward to providing you with the wealth of market intelligence gathered from Avison Young's experts, accompanied by their insightful commentary on a quarterly basis.

I want to underscore the exceptional contributions of **Marie-France Benoit**, Principal, Director Market Intelligence, Canada; **Tim Loch**, Principal, Senior Vice President and Practice Leader, Investment Valuation and Advisory, Canada; **Antonio Balogh**, National Market Intelligence Lead, Valuation and Advisory Services; as well as **Amy Erixon**, Principal and President, Avison Young Investment Management. Their visionary leadership and unwavering commitment have played a pivotal role in bringing this release to fruition for the market. We hope you enjoy it!

Matthew McWatters, AACI, P. App.
Principal, Managing Director &
Canadian Leader, Valuation,
Advisory & Property Tax Services

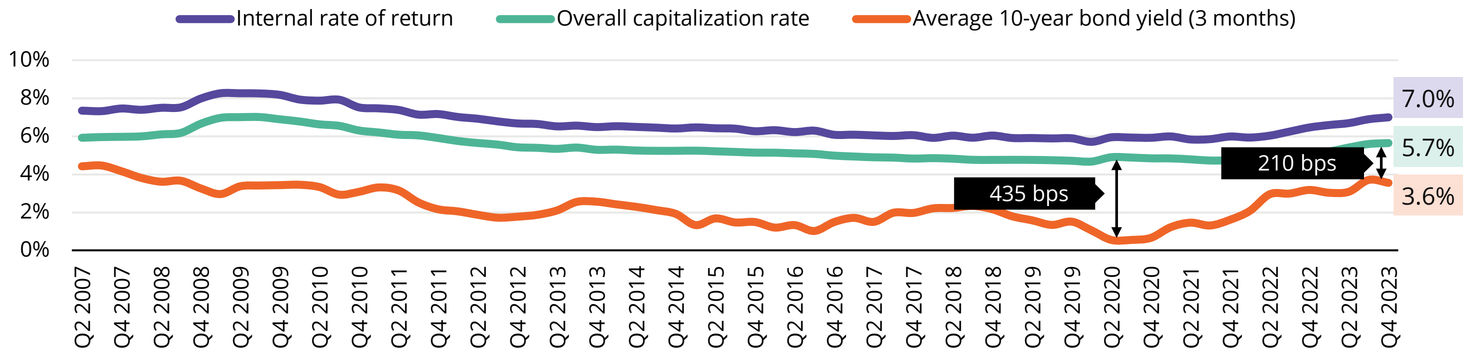
Investment market trends

After a series of 10 incremental rate hikes spread over a period of 18 months, the current overnight rate is at its highest level since 2001. Transaction velocity in 2023 dropped sharply while investors took a pause for prices to adjust. As is typical in a hiking cycle, market data tends to lag for some time, indicative of the possibility of better buying opportunities in 2024.

This lagged response is indicated in the graph below, as average cap rate and internal rate of return spreads over 10-year Canada bond yields have trended narrower since 2020. While interest rates have appeared to stabilize for now, owners with near term debt expiries are feeling the pain and it is likely that the tighter credit conditions will precipitate more assets coming to market, this year and over time. The historical spread of the overall cap rate over the 10-year bond yield has averaged 312 bps since 2007. The current spread of 210 bps is likely higher under current market conditions, and as more transactions reveal the “true” cap rate, this spread will likely equilibrize at a wider gap, consistent with the long-term trend.

“Average” national cap rates smooth over underlying pricing challenges as market conditions vary considerably between jurisdictions, between property types and by building quality; especially the durability of the rent roll. The cap rates have been trending higher, and depending on upcoming rate decisions, may trend higher yet, providing more room for real estate premiums over the 10-year Canada bond yields.

Historical rate of returns trends



Source: Altus ITS and Bank of Canada

Canadian cap rate trends

Asset class	Benchmark cap rate	Variation
	Q4 2023	ΔQ/Q
Multi-residential		
High density in urban centre	4.70%	+10 bps
Low density in urban centre	5.00%	+15 bps
High density suburban	5.05%	+20 bps
Low density suburban	5.40%	+5 bps
Industrial		
New single-tenant	5.70%	+10 bps
Old single-tenant	6.25%	+10 bps
New multi-tenant	5.75%	+10 bps
Old multi-tenant	6.30%	+10 bps
Office		
Downtown class A	7.15%	+10 bps
Downtown class B	8.00%	+15 bps
Suburban class A	7.65%	+15 bps
Suburban class B	8.35%	+15 bps
Retail		
Regional mall	6.25%	+5 bps
Enclosed community mall	7.05%	+5 bps
Neighbourhood strip mall	6.25%	+5 bps
Single-tenant retail	6.10%	+5 bps
Street-front retail	5.95%	+10 bps

Source: Avison Young Q4 2023 Cap Rate Survey

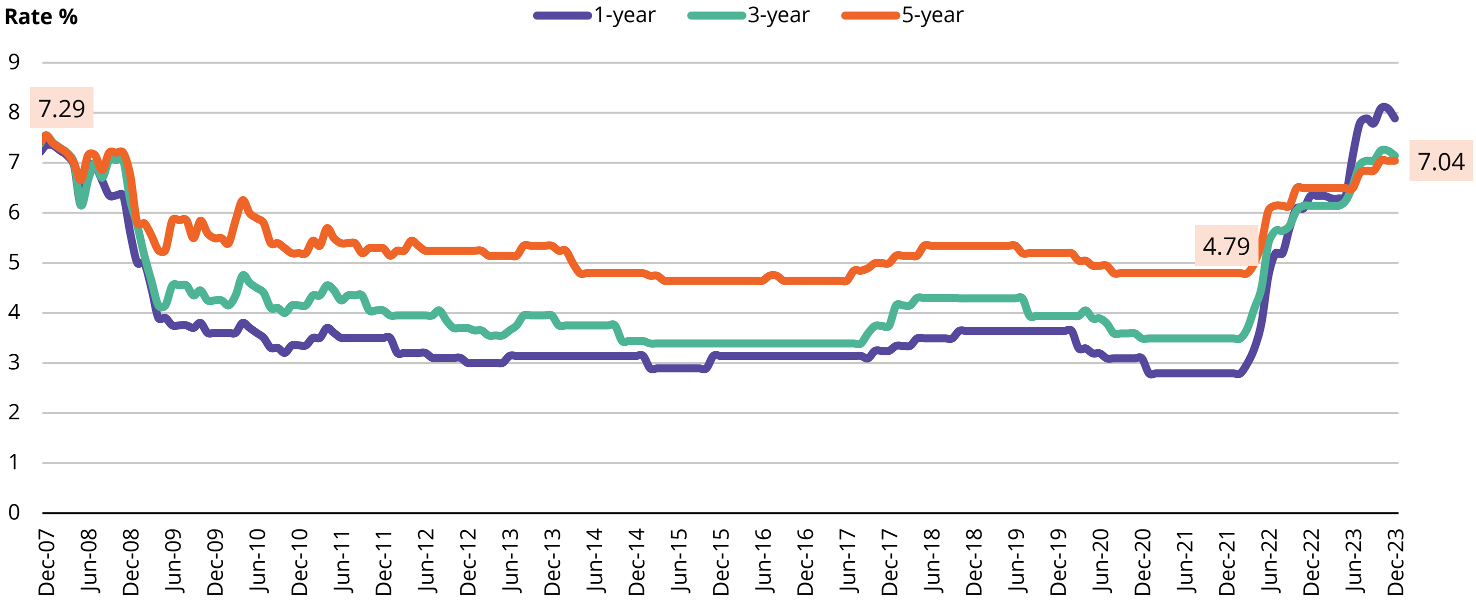
Investment market trends

Current market conditions have altered lenders' approach to prioritize the protection of capital. 2024 is expected to bring continued economic slowdown, and lenders will remain conservative until further notice.

Nevertheless, capital from lenders remains strong for qualified assets and strong borrowers, and industrial is the preferred asset class. As bond yields continue to decline interest rates will become more appealing to investors.

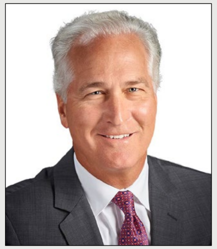
Bond yields tend to be a leading indicator of the market and have started to price in rate decreases. As bond rates stabilize, and the Bank of Canada's expected cut in policy rate materializes, investors will feel confident again. Until then, investors tend to stay sidelined, awaiting more price discovery, better financing conditions and more selection.

Monthly conventional mortgage rate from December 2007 to December 2023



Source: Bank of Canada

"Tightening credit conditions and CMHC financing delays were complicating factors for deals in 2023. Nevertheless, debt is available to qualified buyers of quality assets. If 2024 restores interest rate stability, the outlook on deals will be more favourable for the investors waiting on the sidelines."



Mark Fieder
Principal and President, Canada

"These are the most interesting Canadian market conditions in 30 years, where shrewd buyers willing to step up in the face of considerable uncertainty have the opportunity to make very attractive deals."

Amy Erixon
Principal and President, Avison Young Investment Management

Debt market trends

Current first or second mortgage lending conditions				
Maximum LTV	**Conventional:** 75% **CMHC MLI:** 95%	75%	70%	75%
Spread over 10-year bond yield	+75 bps	+175 bps	+250 bps	+200 bps
Preferred term	5 years	5 years	5 years	5 years
Longest amortization	50 years	30 years	30 years	30 years
Premium/discount to appraisal cap rates*	+25 bps	+25 bps	+50 bps	+25 bps
Cause of discrepancy from appraisal values	Cap rate	Rents	Vacancy	Cap rate
Cost of non-recourse debt	+0 bps	+75 bps	+100 bps	+50 bps
Change from previous quarter lending conditions				
Loan applications	▲	▼	▼	=
Mortgages in arrears	=	=	▲	=
Mortgages in default	=	=	▲	=
Expected next quarter lending conditions				
Debt cost outlook	▼	=	▲	=

Multi-residential | Industrial | Office | Retail

*Average premium (+) or discount (-) applied by underwriters to the cap rates seen in appraisal reports completed by accredited appraisers.
Source: Avison Young Q4-2023 Cap Rate Survey

"Investment volumes slowed significantly in the second half of 2023 due to the volatility in the debt capital markets. However real estate fundamentals remain sound, and it is anticipated that investment volumes will rebound in 2024."

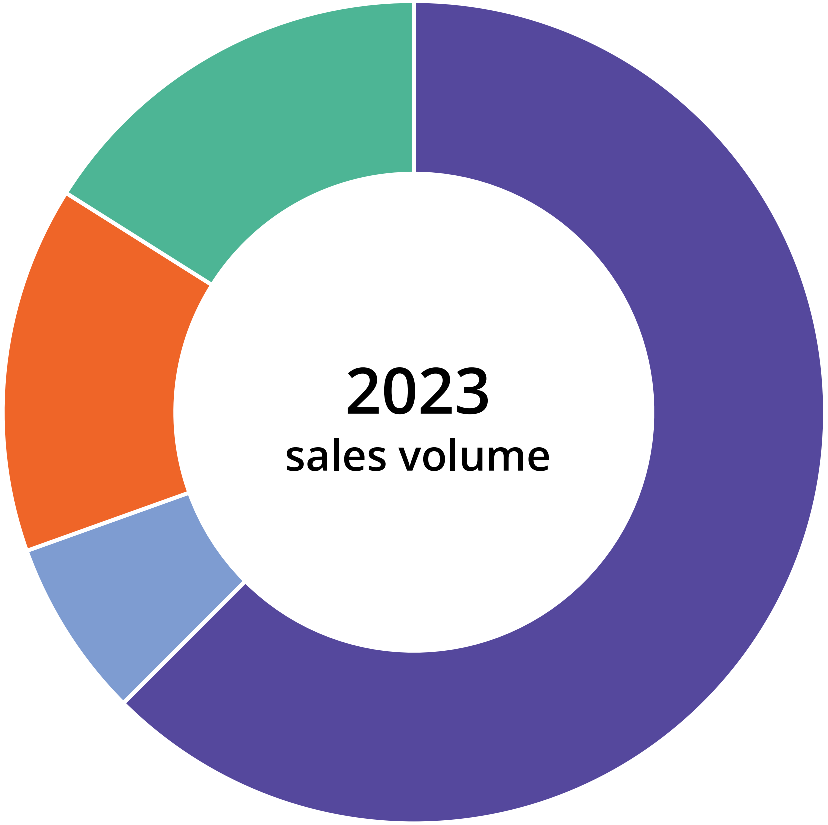
Mark Sinnett
Principal,
Capital Markets Group
Montreal, QC

"The debt market was dominated by CMHC multi-residential demand through 2023 as conventional deals dried up, and we expect conventional deals to return in 2024. Lenders have switched their mandate from growth to maintain until they see where the economy is headed this year."

Myles Strilchuk
Principal,
Debt & Equity Finance
Edmonton, AB

Overall sales activity

Sales volume by buyer profile – income properties only



Canadian private investors
63%

Other (developers, users, government)
16%

Foreign investors
14%

Canadian institutional investors
7%

47%

of Q4 2023 investment sales were industrial properties.

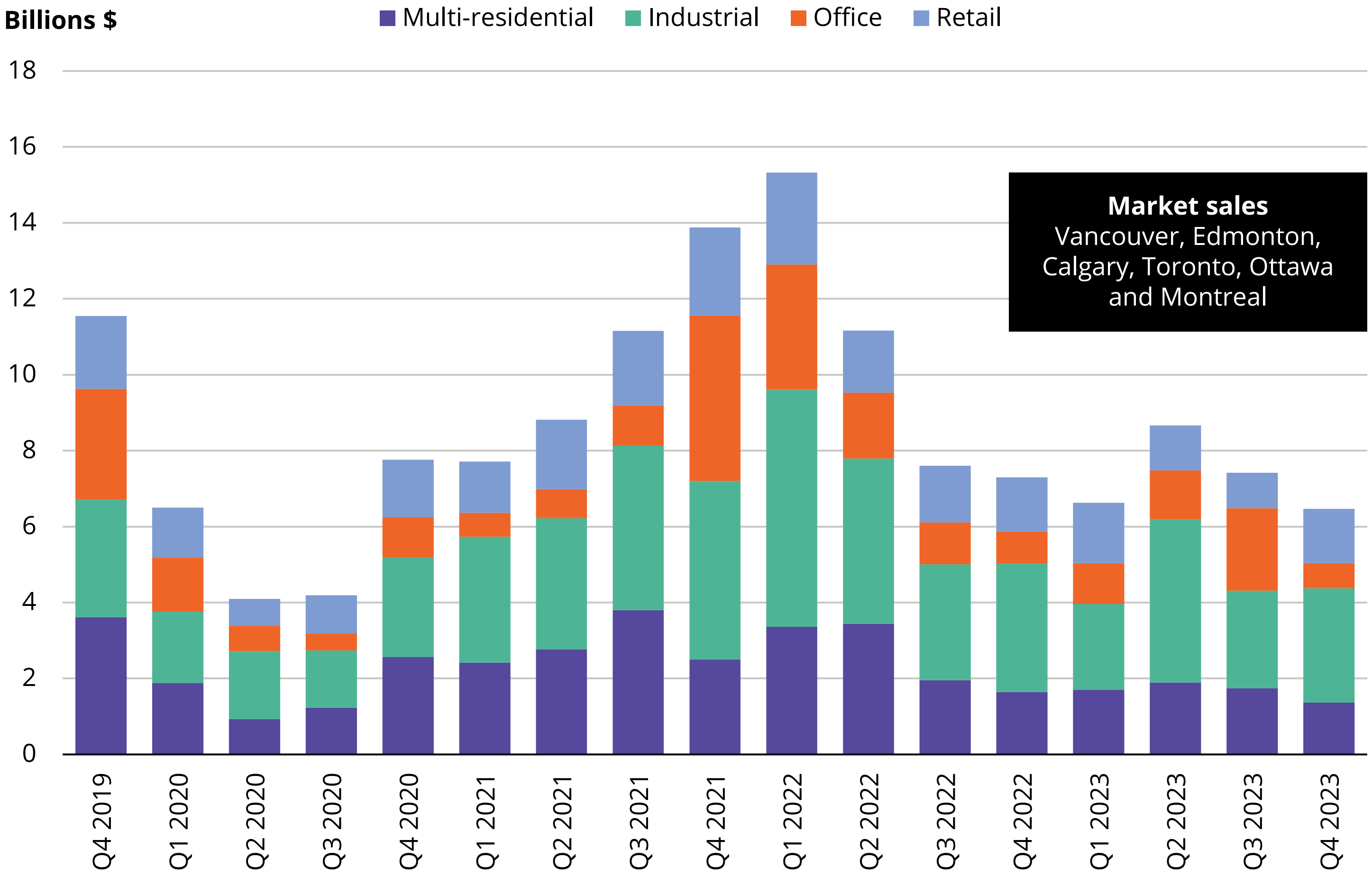
"2023 was not an easy year for property owners in Canada, but compared to the situation in the US, the property investment market in Canada was reasonably liquid. Private buyers moved into the void left by institutional investors; while not replicating the dollar volumes of previous years when institutional investors were buying, private buyers consummated a very large number of transactions. That trend is continuing into the early part of 2024 where we're seeing even stronger interest from the private market and for deal sizes approaching those that used to be the exclusive domain of the institutions."

Bob Levine
Principal,
Capital Markets Group
Vancouver, BC

Source: Altus Data Studio

Overall sales activity

National investment sales volumes



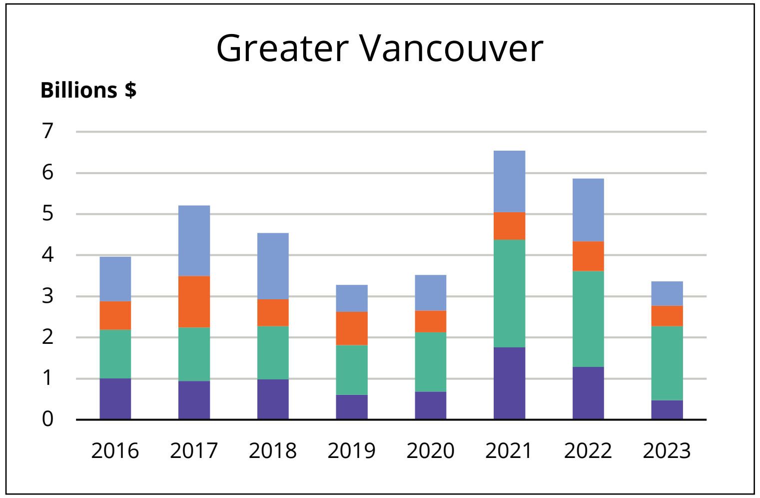
"2023 sales activity overall returned to more normalized transaction levels from previous elevated volumes. Investors are adjusting to a new reality of higher costs of capital and uncertain leasing trends. I see price discovery a continuing theme through 2024 with an uncertain timeline for the bid/ask spread to narrow enough to gain momentum. We have been here before, and while acknowledging the difficulties, transactions continue, investment capital is available, and a new cycle is just getting started."

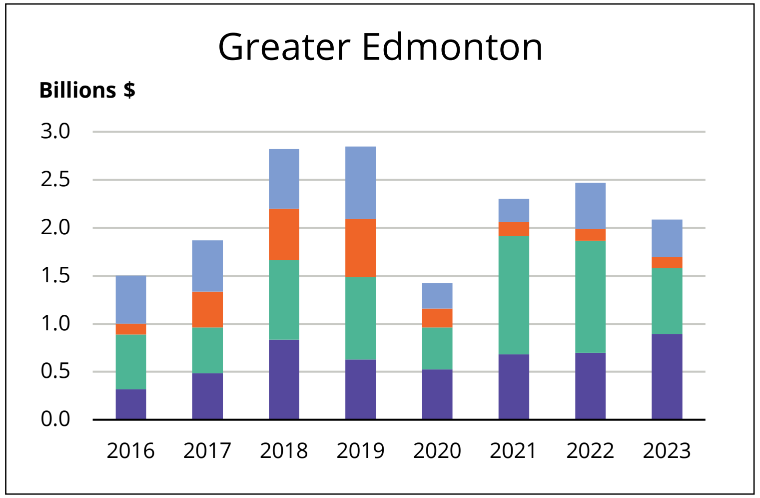
Richard Chilcott
Principal,
Capital Markets Group
Toronto, ON

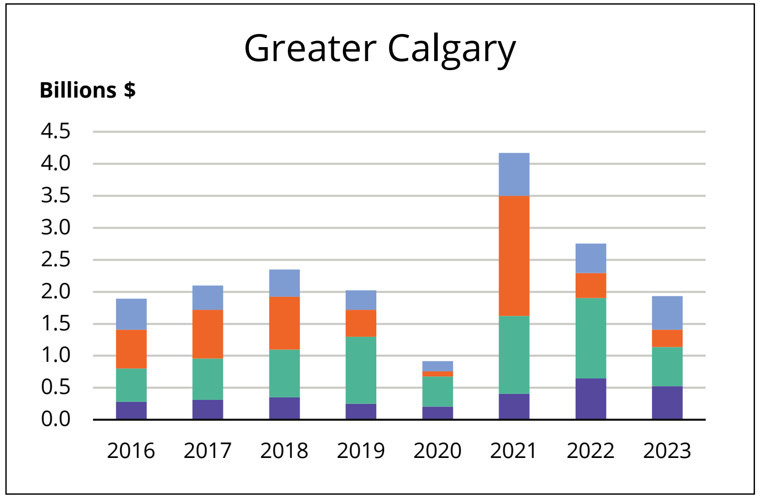
Source: Altus Data Studio

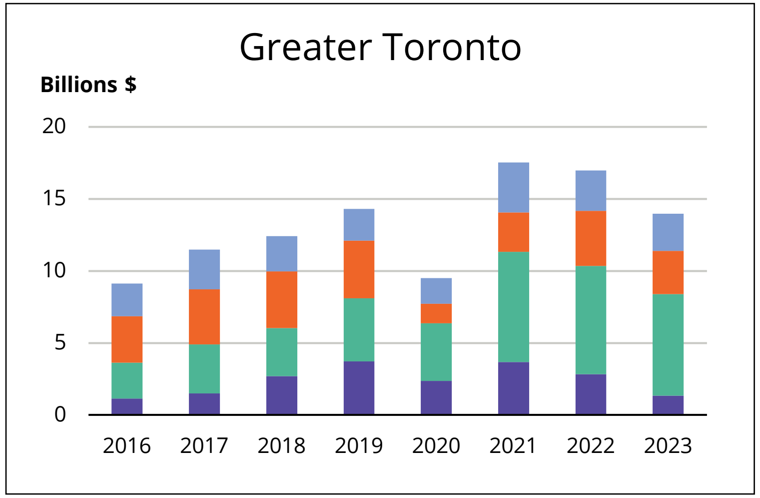
Market sales volumes by geography

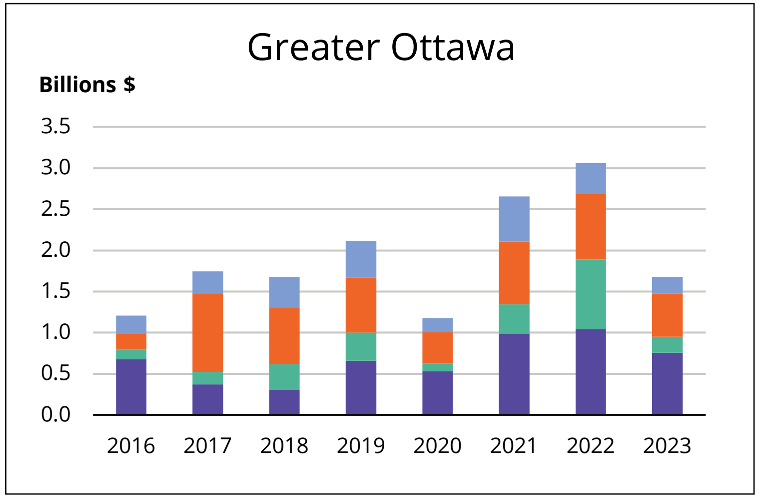
Multi-residential Industrial Office Retail

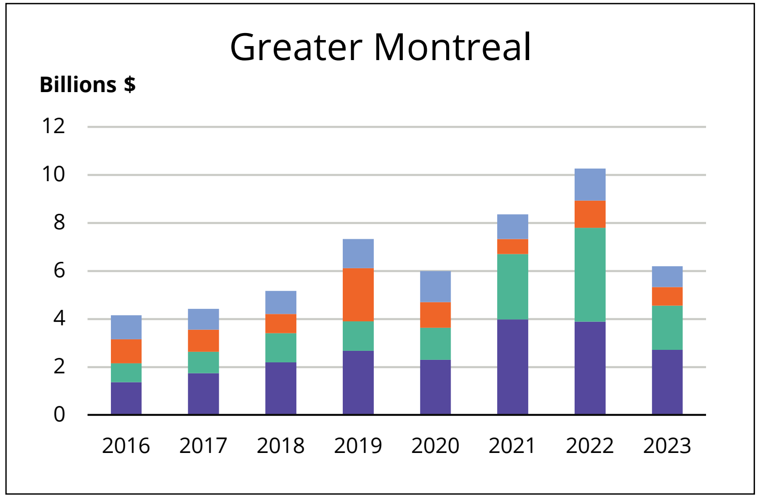












Source: Altus Data Studio

Sector cap rate and investment trends

Analysis of benchmarks and drivers of cap rates for multi-residential, industrial, office and retail investment properties across Canada.

Multi-residential trends to watch

Flight to affordability

Peaking rental growth rates and sticky inflation effects on operating expenses are **headwinds to NOI upside**. Markets with affordable living costs and rents offer upside on the demand-side and potential savings on operating costs, which makes for attractive proformas. Immigration and inter-provincial migration is likely to drive **cap rate volatility**. This includes compression of cap rates in **affordable markets** with rental upside.

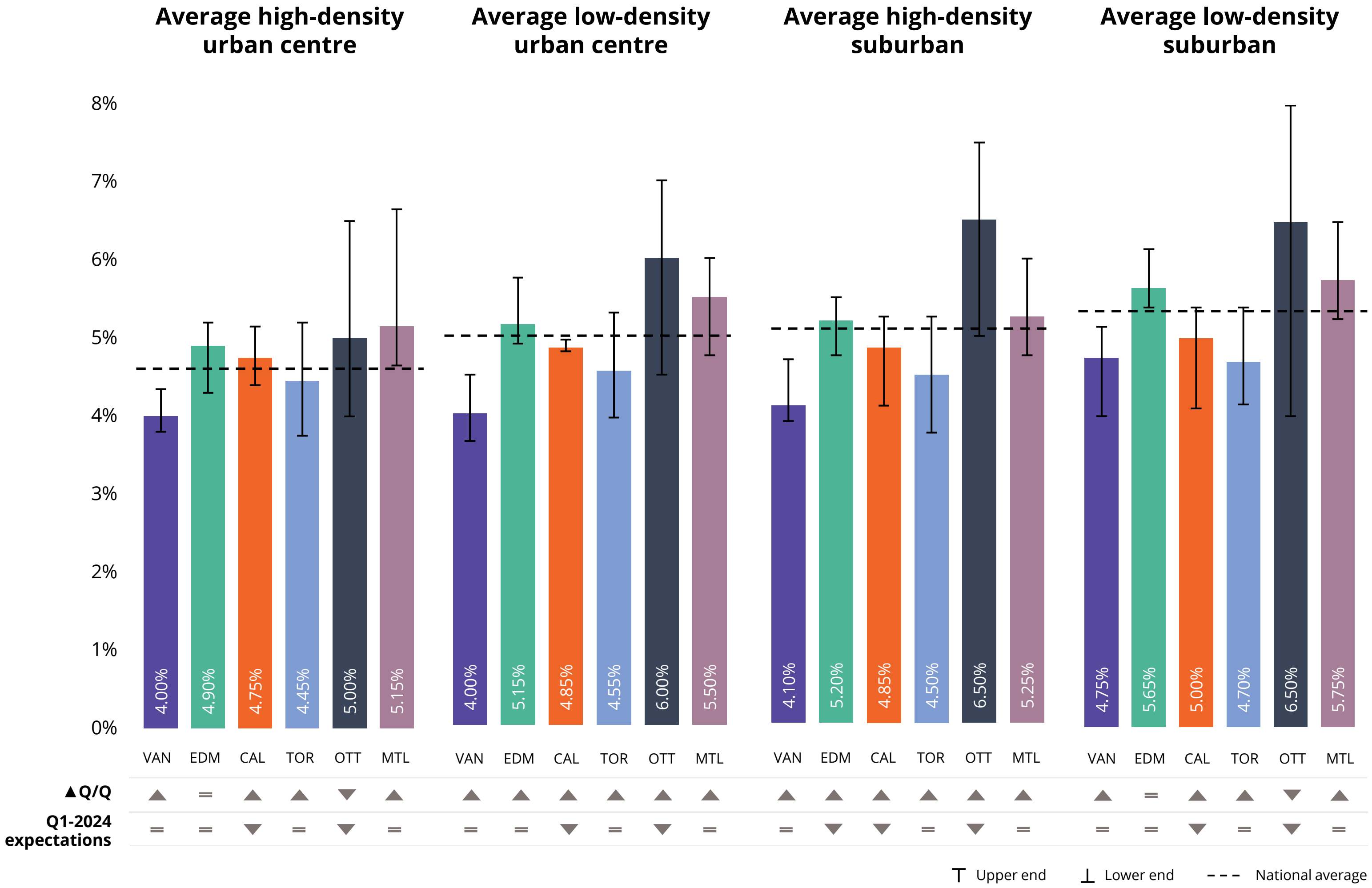
CMHC financing

CMHC **approval timelines** for financing and insurance products have improved heading into 2024, in terms of catching up on backlog and minimizing the review times on new applications to increase the velocity of underwriting. The federal government has increased the Canada Mortgage Bond issuance limit by **$20 billion annually**, and pledges **$15 billion** in new loan funding starting in 2025-26 under the Apartment Construction Loan Program. Access to **favourable financing** via CMHC is instrumental with current interest rates to make the numbers work on new purpose-built rental product.

Housing politics

Rent controls, short-term rentals, upzoning and development cost charges are just some of the actively **debated policy issues**. Investors who can navigate the competing interests and intended/unintended consequences of housing politics will be able to identify markets to get the best return on their dollar. This likely means **heightened sensitivity of cap rates to housing policy news and speculation** to price-in the impacts on rent growth potential, absorption/vacancy, and operating cost projections.

Multi-residential cap rate survey results



“With aggressive interest rate hikes in 2023, cap rates expanded to the highest levels since the beginning of 2020. As we enter 2024, continued downward pressure on bond rates coupled with potential interest rate cuts from the Bank of Canada, should see cap rates start to trend lower. We project a banner year in the multi-residential sector, with a record amount of capital on the sidelines and pent-up demand from investors that have stayed out of the market over the last two years.”

Jonathan Hittner
Principal, Multi-Residential
Capital Markets Group
Toronto, ON

Multi-residential cap rate survey results

Market sentiment meter

Sale pitches compared to previous quarter

Active market participants

Top prospective buyers

1. Pension funds
2. Private equity funds
3. Private individuals

Top active sellers

1. Developers
2. Private equity funds
3. Private individuals

Motivations of acquisitions

1. Speculating for future capital gain
2. Gain on tenant lease renewals or expirations
3. Long-term income production

Motivations for dispositions

1. Mortgage renewal/due
2. Liquidity
3. Developer selling product

Dealmakers and dealbreakers

General

✓
1. Motivational seller
2. Property fundamentals
3. Multi-family sentiment

✗
1. Inflated list price
2. Capital inadequacy
3. Financing delays (CMHC)

Property fundamentals

✓
1. Immediate and long-term rent growth potential
2. Condition of the building
3. Property location

✗
1. Condition of the building
2. Increasing operating expenses
3. Underperforming rents with low tenant turnover

"Cap rates have steadily risen in response to interest rates. However, there is a downward bias on the long-term outlook for multi-residential cap rates, considering the strong demographic fundamentals, pace of rent growth and expectations of falling yields."

Andrew Bisnar, AACI, P. App.
Senior Vice President,
Valuation and Advisory Services
Vancouver, BC

Industrial trends to watch

Rents take a breather

Momentum behind the rise in rents is exhausted, exacerbated by economic challenges for businesses. Short-term expectations are for **stagnating rents,** awaiting the market to confirm continuation of the **long-term uptrend**. Stagnant or declining rents place upward pressure on cap rates, especially on lease-ups and expiries/turnovers. Focus shifts to existing leases locked in longer terms at higher rents to weather short-term volatility. Markets emerging as industrial hubs and offering lower rents continue to attract investors with the upside on asking rents as end users migrate to affordable regions.

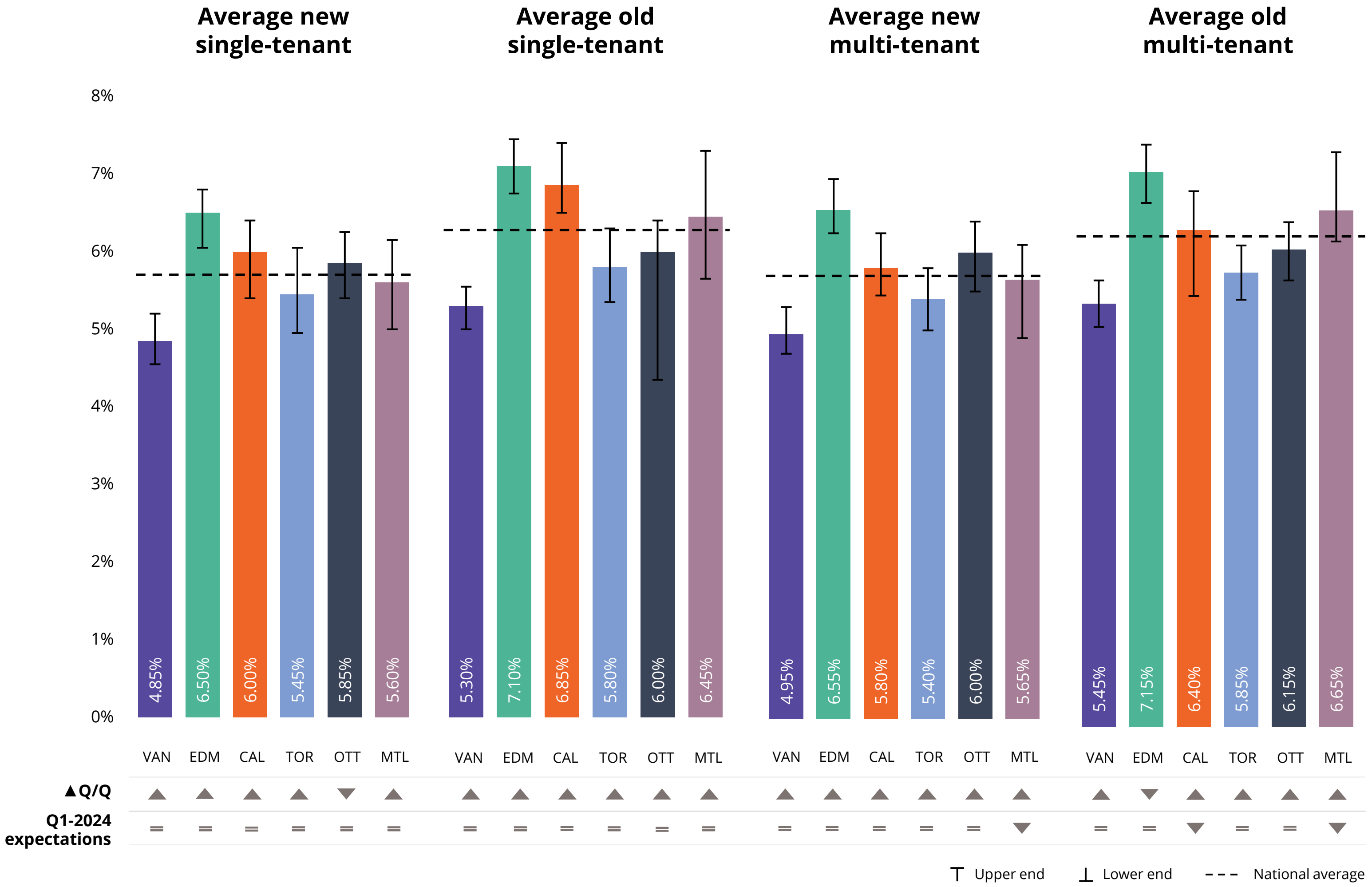
Playing defense

As businesses face stress in today's geopolitical and economic climate, **quality of tenants** is top of mind for investors. Tenant quality may be reflected in their **credit rating, longer lease terms** or a business in a **defensive sector**. Investors are hunting for high quality tenants in-place and will pay a premium, even if that means concessions on rental rates to entice these tenants. Deals involving vacancies, expiries or lower credit-rated tenants will likely require upward revisions to cap rates to price-in the risk of vacancy or default. Accordingly, higher cap rate volatility is expected in the attempt to price-in "tenant quality".

Versatile spaces

In a risk-off market, investors are hesitant to the heightened **idiosyncratic risk of** one sector/business in terms of specialized/single-use spaces. Flexible building specifications catered to warehouse/logistics uses are more defensive to vacancy risk. Preference for these holdings will likely **expand the cap rate spread** of specialized over general-use spaces. Cap rates of specialized spaces will be more volatile and correlated to the performance of their sector. A trend to watch will be which owners of higher vacancy assets can withstand the attrition in hopes of a rebound, versus those who divest at higher cap rates.

Industrial cap rate survey results



"In the post-COVID industrial landscape, demand has softened amid rising interest rates and stabilized consumer spending, following the pandemic-induced boom. As tenants adapt to higher net rents in a slowing economy, there is a flight to quality to drive cost savings. Consequently, rental rates are leveling off, revealing a net rent pricing gap across A, B, and C class assets. Therefore, compression of cap rates for higher quality product is a trend to watch if interest rates decline."

Ben Sykes
Principal, Industrial
Capital Markets Group
Toronto, ON

Industrial cap rate survey results

Market sentiment meter

Sale pitches compared to previous quarter

Active market participants

Top prospective buyers

1. Private individuals
2. Private equity funds
3. REITs

Top active sellers

1. Private individuals
2. Private equity funds
3. Pension funds

Motivations of acquisitions

1. Gain on tenant lease renewals or expirations
2. Speculating for future capital gain
3. Long-term income production

Motivations for dispositions

1. Mortgage renewal/due
2. Other non-financial reasons
3. Take profit on property value

Dealmakers and dealbreakers

General

✓
1. Motivated seller
2. Property fundamentals
3. Industrial sentiment

✗
1. Inflated list price
2. Capital inadequacy
3. Property fundamentals

Property fundamentals

✓
1. Rent growth from lease expiry or rollover
2. Long-term market rent growth potential
3. Condition of the building

✗
1. Condition of the building
2. Below-market rents locked in a long-term lease
3. Increasing operating expenses

"Metrics such as market rent growth and in term rental escalations are likely to pull back in the new year as new construction space continues to be added to the market as well as sublease space, and overall demand returns to a more normalized level. This could have a potential impact on valuations and market underwriting moving forward."

Tim Loch, AACI, P. App.
Principal, Senior Vice President and Practice Leader, Investment Valuation and Advisory, Toronto, ON

Office trends to watch

Return to office

Canadian office markets are witnessing a tremendous **paradigm shift** post-pandemic, with the market recognizing that remote work could offer flexibility and productivity. Today, some employers are encouraging their people to return to office in a flexible or hybrid work environment, while others anticipate mandatory in-office requirements anywhere from 1-4 days/week. With the War for Talent, work-life balance is a key criteria to join or remain with an employer. All this considered, we are seeing a **bifurcation** in the office market and cap rates as tenants are moving to high quality buildings to attract employees with a myriad of amenities and benefits within the office and workplace.

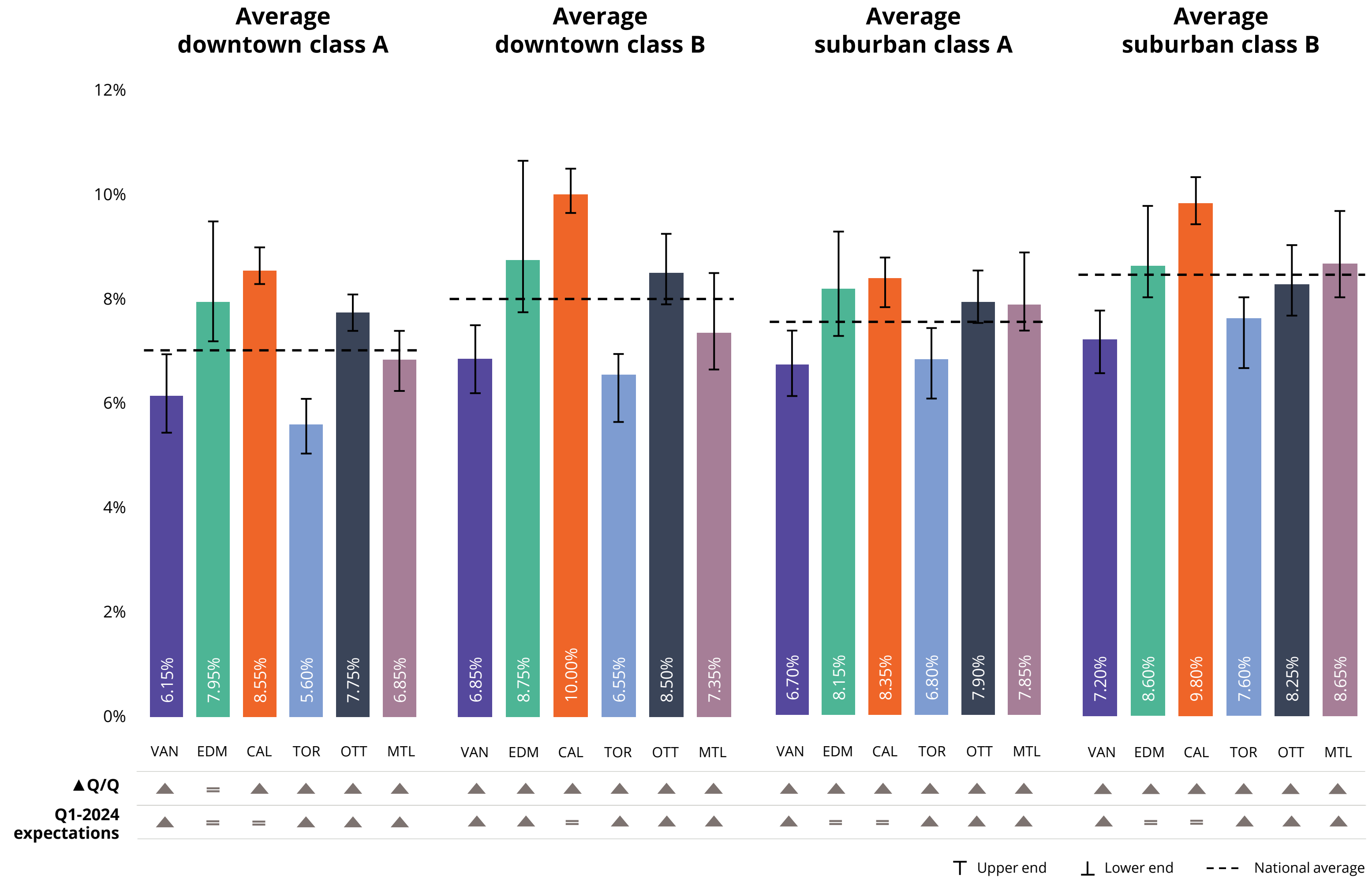
Institutional portfolios

Downtown office buildings are predominately owned by institutional investors. Given the large deal sizes involved, and the prohibitive financing costs required by lenders, only the largest investors are in the mix to buy these assets. **The market is frozen** because these institutions are both the buyer and seller but looking to divest their overweight positions. If a deal gets done, this will likely result in a cascade of write-downs at higher cap rates of portfolios. All eyes are on the **cap rates of office transactions in 2024** to set off a series of more transactions as institutional investors re-evaluate their portfolios.

Office conversions

Calgary has been the national leader in experimenting with **office-to-residential conversions** through the **Downtown Development Incentive Program**. Markets are monitoring the results trickling in from Calgary but remain tepid to jump onboard. In addition to typical variables in development proformas, questions surrounding feasibility are top-of-mind. These include buy-in from urban planning, reliance on generous subsidies, and prohibitive building re-engineering. While mere speculation of conversions may **lift values and drive down cap rates**, the potential is still highly hypothetical in most markets.

Office cap rate survey results

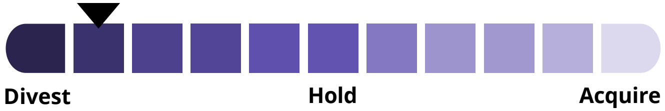


"Office space in the short to medium term will be challenged as the market wrestles with both employee and corporate demand for workplace. But this too shall pass, and long-term investors should be rewarded for holding premium office buildings."

Sheila Botting
Principal and President Americas, Professional Services

Office cap rate survey results

Market sentiment meter



Sale pitches compared to previous quarter

Active market participants

Top prospective buyers

1. Private individuals
2. Private equity funds
3. Public sector

Top active sellers

1. Pension funds
2. REITs
3. Private equity funds

Motivations of acquisitions

1. Hold for redevelopment to an alternative use
2. Speculating for future capital gain
3. Long-term income production

Motivations for dispositions

1. Mortgage renewal/due
2. Other non-financial reasons
3. Liquidity

Dealmakers and dealbreakers

General

1. Motivated seller
2. Adjusting the list price
3. Favourable financing (VTB)

1. Office sentiment
2. Obtaining financing
3. Capital inadequacy

Property fundamentals

1. Class/quality of the building
2. Property location
3. Condition of the building

1. Increasing vacancy rates
2. Expected fall in rents from lease expiry or rollover
3. Onerous tenant improvements

"

While deals have gotten more challenging as interest rates rise, it has presented a unique opportunity for private buyers to obtain properties that would traditionally be traded between institutions."

Graeme Webster
Principal,
Capital Markets Group
Ottawa, ON

Retail trends to watch in 2024

Sentiment rebound

The pendulum is swinging back in favour of retail after the sentiment over-corrected due to pandemic restrictions coinciding with the rise of e-commerce. Consumer spending patterns indicate an increasing priority among Canadians towards spending in-person versus online. There are **opportunities to create value** with brick-and-mortar spaces by investing in creating thoughtfully designed 'destinations' enriched by amenities and in-person experiences. Brokers indicate an **uptick in leasing momentum** into the end of 2023, and the supply remains tight for high-quality retail space in primary trade areas.

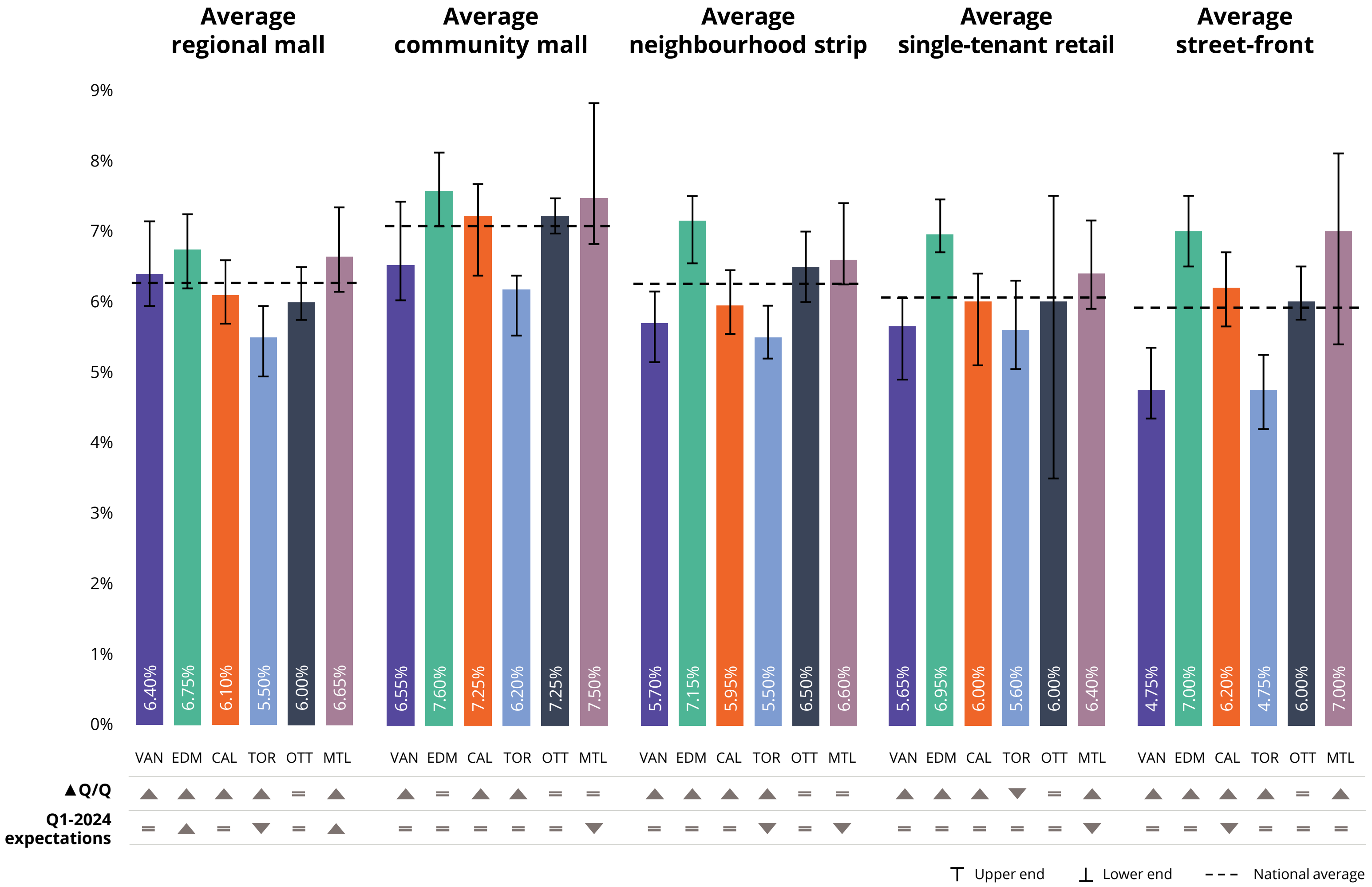
Neighbourhood shopping

With many Canadian markets registering record population growth to absorb the federal government's policy of adding 500,000 permanent residents annually, **fundamentals are strong** for neighbourhood retail properties in denser neighbourhoods. This is especially the case for retail incorporated into mixed-use residential developments, as well as grocery-anchored and other neighbourhood shopping centres serving **communities experiencing population growth**.

Consumer spending

With a potential recession on the horizon in 2024, retailers are exposed to an increasing risk of **reduced discretionary spending**. Signs of the trend are evidenced in retail spending data from Q4 2023. **Income elasticity of demand** for the goods or services of tenants are a critical metric in assessing vacancy risk. Retail spaces tenanted by grocers, fast food chains and other defensive sectors are seen as safer bets.

Retail cap rate survey results

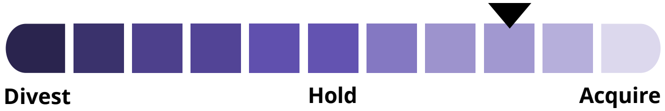


"Healthy annual lease rate increases attributed to improving sales volumes and limited new inventory, coupled with a restricted supply of investment opportunities, is keeping a lid on retail property cap rate increases even with a higher cost of capital."

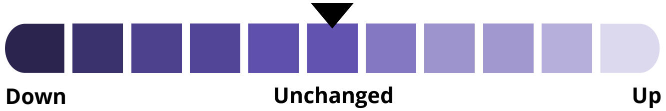
Cameron Lewis
Principal,
Capital Markets Group
Toronto, ON

Retail cap rate survey results

Market sentiment meter



Sale pitches compared to previous quarter



Active market participants

Top prospective buyers

1. Private individuals
2. Private equity funds
3. Pension funds

Top active sellers

1. REITs
2. Pension funds
3. Private individuals

Motivations of acquisitions

1. Long-term income production
2. Investment portfolio strategy
3. Speculating for future capital gain

Motivations for dispositions

1. Mortgage renewal/due
2. Other non-financial reasons
3. Liquidity

Dealmakers and dealbreakers

General

Dealmakers:
1. Motivated seller
2. Retail sentiment
3. Adjusting the list price

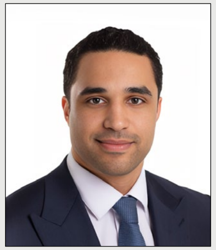
Dealbreakers:
1. Inflated list price
2. Capital inadequacy
3. Property fundamentals

Property fundamentals

Dealmakers:
1. Class/quality of the building
2. Property location
3. Condition of the building

Dealbreakers:
1. Condition of the building
2. Increasing operating expenses
3. Expected fall in rents from immediate tenant turnover

"Retail investments were a bright spot of the capital markets, with cap rates and pricing holding up despite the rapidly rising interest rate environment."



Yann Charles
Principal,
Capital Markets Group
Montreal, QC

"2023 involved more price finding between vendors and purchasers due to fluctuating debt markets, but retail remained a sought-after property type."

Walsh Mannas
Principal,
Capital Markets Group
Calgary, AB

Summary cap rates by asset class and geography

Asset class	Vancouver			Edmonton			Calgary			Toronto			Ottawa			Montreal		
	Q4 2023	**▲Q/Q**	**▲Y/Y**	**Q4 2023**	**▲Q/Q**	**▲Y/Y**	**Q4 2023**	**▲Q/Q**	**▲Y/Y**	**Q4 2023**	**▲Q/Q**	**▲Y/Y**	**Q4 2023**	**▲Q/Q**	**▲Y/Y**	**Q4 2023**	**▲Q/Q**	**▲Y/Y**
Multi-residential																		
High density in urban centre	**4.00%**	+15 bps	+50 bps	**4.90%**	+0 bps	+25 bps	**4.75%**	+5 bps	+15 bps	**4.45%**	+45 bps	+95 bps	**5.00%**	-50 bps	+150 bps	**5.15%**	+40 bps	+90 bps
Low density in urban centre	**4.00%**	+15 bps	+55 bps	**5.15%**	+15 bps	+20 bps	**4.85%**	+15 bps	+20 bps	**4.55%**	+15 bps	+95 bps	**6.00%**	+15 bps	+200 bps	**5.50%**	+15 bps	+100 bps
High density in suburban area	**4.10%**	+20 bps	+55 bps	**5.20%**	+20 bps	+55 bps	**4.85%**	+20 bps	+55 bps	**4.50%**	+20 bps	+55 bps	**6.50%**	+20 bps	+55 bps	**5.25%**	+20 bps	+55 bps
Low density in suburban area	**4.75%**	+20 bps	+55 bps	**5.65%**	+0 bps	+40 bps	**5.00%**	+5 bps	+5 bps	**4.70%**	+25 bps	+80 bps	**6.50%**	-50 bps	-200 bps	**5.75%**	+40 bps	+90 bps
Industrial																		
New single-tenant	**4.85%**	+10 bps	+85 bps	**6.50%**	+0 bps	+40 bps	**6.00%**	+5 bps	+55 bps	**5.45%**	+10 bps	+55 bps	**5.85%**	+15 bps	+75 bps	**5.60%**	+20 bps	+80 bps
Old single-tenant	**5.30%**	+10 bps	+60 bps	**7.10%**	+0 bps	+45 bps	**6.85%**	+10 bps	+80 bps	**5.80%**	+20 bps	+40 bps	**6.00%**	+15 bps	+75 bps	**6.45%**	+15 bps	+60 bps
New multi-tenant	**4.95%**	+5 bps	+75 bps	**6.55%**	+5 bps	+50 bps	**5.80%**	+5 bps	+55 bps	**5.40%**	+15 bps	+45 bps	**6.00%**	+15 bps	+75 bps	**5.65%**	+10 bps	+90 bps
Old multi-tenant	**5.45%**	+10 bps	+85 bps	**7.15%**	-10 bps	+50 bps	**6.40%**	+10 bps	+65 bps	**5.85%**	+15 bps	+35 bps	**6.15%**	+15 bps	+75 bps	**6.65%**	+15 bps	+85 bps
Office																		
Downtown class A	**6.15%**	+20 bps	+155 bps	**7.95%**	+0 bps	+65 bps	**8.55%**	+5 bps	+15 bps	**5.60%**	+20 bps	+75 bps	**7.75%**	+25 bps	+90 bps	**6.85%**	+60 bps	+115 bps
Downtown class B	**6.85%**	+25 bps	+165 bps	**8.75%**	+5 bps	+65 bps	**10.00%**	+5 bps	+5 bps	**6.55%**	+25 bps	+85 bps	**8.50%**	+25 bps	+90 bps	**7.35%**	+50 bps	+100 bps
Suburban class A	**6.70%**	+25 bps	+140 bps	**8.15%**	+5 bps	+65 bps	**8.35%**	+5 bps	+20 bps	**6.80%**	+25 bps	+85 bps	**7.90%**	+25 bps	+85 bps	**7.85%**	+60 bps	+115 bps
Suburban class B	**7.20%**	+20 bps	+160 bps	**8.60%**	+5 bps	+90 bps	**9.80%**	+0 bps	+35 bps	**7.60%**	+30 bps	+100 bps	**8.25%**	+25 bps	+85 bps	**8.65%**	+60 bps	+115 bps
Retail																		
Regional mall	**6.40%**	+5 bps	+100 bps	**6.75%**	+5 bps	+55 bps	**6.10%**	+5 bps	+30 bps	**5.50%**	+15 bps	+45 bps	**6.00%**	+0 bps	+25 bps	**6.65%**	+15 bps	+15 bps
Enclosed community mall	**6.55%**	+15 bps	+95 bps	**7.60%**	+0 bps	+40 bps	**7.25%**	+5 bps	+20 bps	**6.20%**	+20 bps	+40 bps	**7.25%**	+0 bps	+50 bps	**7.50%**	+0 bps	+35 bps
Neighbourhood strip mall	**5.70%**	+5 bps	+85 bps	**7.15%**	+5 bps	+65 bps	**5.95%**	+5 bps	+20 bps	**5.50%**	+5 bps	+20 bps	**6.50%**	+0 bps	+25 bps	**6.60%**	+0 bps	+25 bps
Single-tenant retail	**5.65%**	+10 bps	+85 bps	**6.95%**	+5 bps	+55 bps	**6.00%**	+5 bps	+20 bps	**5.60%**	-5 bps	+15 bps	**6.00%**	+0 bps	+25 bps	**6.40%**	+15 bps	+40 bps
Street-front retail	**4.75%**	+5 bps	+65 bps	**7.00%**	+5 bps	+55 bps	**6.20%**	+5 bps	+20 bps	**4.75%**	+20 bps	+45 bps	**6.00%**	+0 bps	+25 bps	**7.00%**	+25 bps	+75 bps

Source: Avison Young Q4-2023 Cap Rate Survey

Benchmark property descriptions

Multi-residential

High density urban centre: Downtown high-rise apartment building at the middle of its economic life with some renovations/modernizations. Typically, >6 storeys, in good condition with no deferred maintenance, and average finishing, amenities and tenant turnover for Downtown product. Considered based on a stabilized NOI.

High density suburban: High-rise apartment building at the middle of its economic life with some renovations/modernizations. Located in a major suburban municipality served by neighbourhood amenities and public transit. Typically, >6 storeys, in good condition with no deferred maintenance, and average finishing, amenities and tenant turnover for product in the same suburb. Considered based on a stabilized NOI.

Low density urban centre: Downtown low-rise apartment building at the middle of its economic life with some renovations/modernizations. Typically, ≤6 storeys, in good condition with no deferred maintenance, and average finishing, amenities and tenant turnover for Downtown product. Considered based on a stabilized NOI.

Low density suburban: Low-rise apartment building at the middle of its economic life with some renovations/modernizations. Typically, ≤6 storeys, in good condition with no deferred maintenance, and average finishing, amenities and tenant turnover for product in the same suburb. Considered based on a stabilized NOI.

Benchmark property descriptions

Industrial

New single-tenant: Concrete tilt-up warehouse ≤5 years old in a suburban industrial park 40 km from downtown and 10 km from rail, air and/or sea terminal(s). Access to a major highway. GLA of 100,000 sf, excess yard space, 32 ft clear height, 15% office buildout and several dock/grade doors. Considered based on a stabilized NOI.

Old single-tenant: Concrete block warehouse >20 years old in a suburban industrial park 40 km from downtown and 10 km from rail, air and/or sea terminal(s). Access to a major highway. GLA of 30,000 sf, excess yard space, 22 ft clear height, 20% office buildout and a few grade doors. Considered based on a stabilized NOI.

New multi-tenant: Concrete tilt-up warehouse ≤5 years old in a suburban industrial park 40 km from downtown and 10 km from rail, air and/or sea terminal(s). Access to a major highway. Units 10,000-20,000 sf (160,000 sf total GLA). Clear height 28 sf, 20% office buildout and 1-3 doors/unit. Considered based on a stabilized NOI.

Old multi-tenant: Concrete block warehouse >20 years old in a suburban industrial park 40 km from downtown and 10 km from rail, air and/or sea terminal(s). Access to a major highway. Units 2,000-8,000 sf (48,000 sf total GLA). Clear height 22 sf, 30% office buildout and 1-3 doors/unit. Considered based on a stabilized NOI.

Benchmark property descriptions

Office

Downtown class A: Located in the Downtown financial district, leased at above-average market rents to good covenant tenants. Typically, a newer and larger high-rise tower in good condition, with high-quality finish and amenities, reputable property management and in a premium location. Considered based on a stabilized NOI.

Downtown class B: Located in the Downtown financial district, leased at average or below market rents. Typically, an older mid- to high-rise tower in fair condition with few to no AAA-rated tenants. Tenants are typically seeking functional space at discounted rental rates. Considered based on a stabilized NOI.

Suburban class A: Located in the central business district of a major suburban municipality within 35 km of Downtown. Leased at above-average market rents to good covenant tenants. Typically, a newer low to mid-rise building in good condition, with high-quality finish and amenities, reputable property management and in a premium suburban location. Considered based on a stabilized NOI.

Suburban class B: Located in the central business district of a major suburban municipality within 35 km of Downtown. Leased at average or below market rents. Typically, an older low-to mid-rise building in fair condition and does not comprise AAA-rated tenants. Tenants are seeking functional space at discounted rental rates outside of the downtown core. Considered based on a stabilized NOI.

Benchmark property descriptions

Retail

Regional mall: Located in a high-density mixed-use residential and commercial neighbourhood in the urban core. Primary trade area of ±20 km with excellent parking and access via arterial road(s). Comprises 3 anchor tenants and a mix of national and local brands. Considered based on a stabilized NOI.

Community mall: Located at the intersection of 2 arterial roads in the central business district of a major suburban municipality. Primary trade area of ±10 km with excellent parking and good access via arterial road(s). Anchored by a major chain supermarket and at least one department/discount store with a mix of national and local brands. Considered based on a stabilized NOI.

Neighbourhood strip mall: Located at the intersection of 2 arterial roads in the central business district of a major suburban municipality. Primary trade area of ±5 km with good parking and access via arterial road(s). Anchored by a supermarket with a mix of regional and local brands. Considered based on a stabilized NOI.

Single-tenant retail: Fronting an arterial road within the urban core. Primary trade area of ±10 km with ample surface parking and multiple points of ingress/egress. The tenant is of investment grade covenant strength (e.g., Home Depot, Loblaws). Considered based on a stabilized NOI.

Street-front: Fronting a high street in a residential neighbourhood in the urban centre, but outside the Downtown core. Primary trade area of ±2 km with street parking and a few stalls at the rear via a laneway. Tenant is a local business (e.g., clothing boutique, café, salon). Considered based on a stabilized NOI.

For more market insights and information visit **avisonyoung.ca**

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