



AltusGroup

Q3 2023

Commercial Real Estate Industry Conditions & Sentiment Survey

Canada results and analysis



Table of contents

Introduction	3
Survey size and methodology	4
Current focus	6
Competition and pricing	7
Expected operating environment	8
Capital availability and property outlooks	9
Ranked expected performance	10
Anticipated direction and conviction	11
Priority issues over the next 12 months	12
What's next	13

Introduction

Q3 2023

Commercial Real Estate Industry Conditions & Sentiment Survey

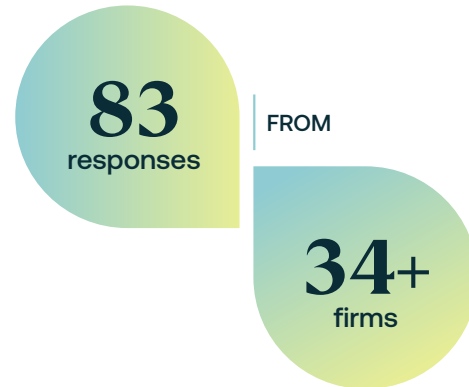
Market uncertainty is a prevalent fixture of the current cycle for commercial real estate (CRE) in Canada. To provide insights into the market sentiment, conditions, metrics, and issues affecting CRE, the Altus Research Team has conducted a CRE industry survey across Canada.

As this is the first time in 2023 that we have conducted the CRE Industry Conditions and Sentiment Survey, it represents a snapshot of individual practitioners' perspectives, representing various functions across the capital stack.

Survey size and methodology

Altus Research Team surveyed industry participants across Canada from June 28th to July 25th. There were 83 respondents, representing at least 34 different firms¹.

Questions in the survey were optional and explored two main topics: current conditions and future expectations. Percentages represent the share of all responses received for each question, excluding “blank” or “not applicable” responses.



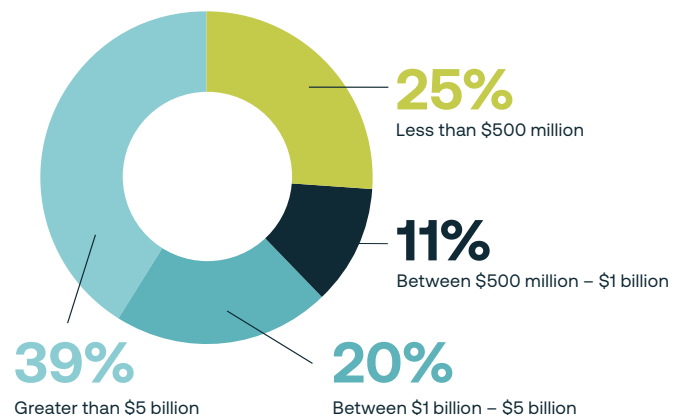
Organizational type

Service provider	36%
Private equity or REIT	10%
Asset management company	10%
Developer	10%
LifeCo or Pension	9%
Investment manager	8%
Lender	5%
Other	12%

Functional area

Appraisals / valuation	23%
Asset or property management	20%
Investments / fund / portfolio management	19%
Brokerage	16%
Capital markets / financing / lending	8%
Research / economic consulting	5%
Other	9%

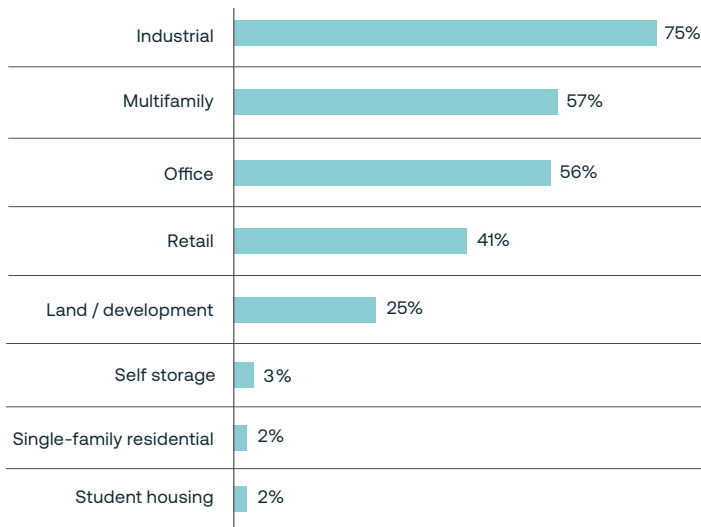
Firm CRE exposure



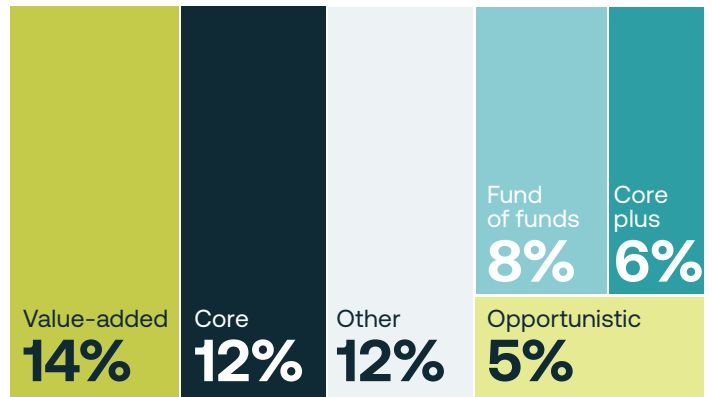
¹ Firm count based on participants who chose to identify themselves.

Respondent characteristics

What property types does your firm primarily target?

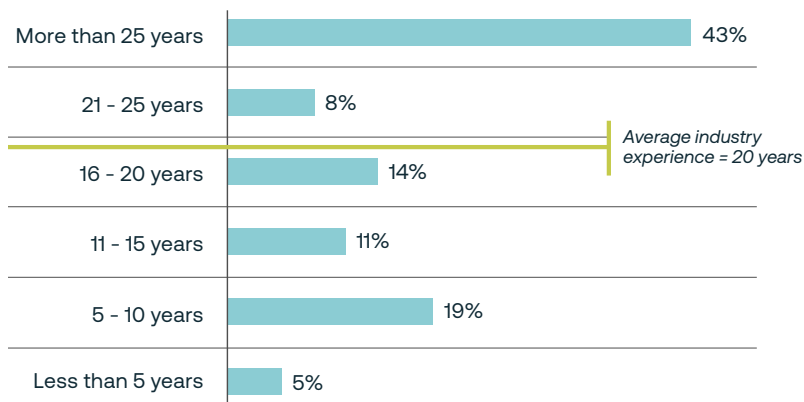


How would you describe your firm's primary investment strategy?



Respondent experience

How many years of experience do you have in the industry?



Current focus

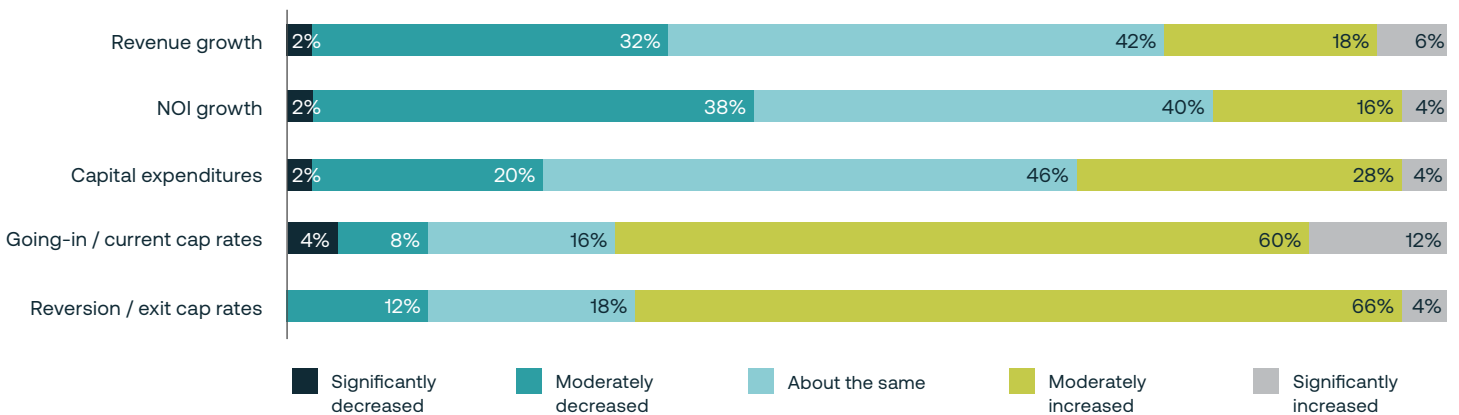
What do you think your team’s primary focus will be over the next 6 months?

Canadian CRE pros focus on managing current exposures. The primary focus for the Canadian CRE industry for the next six months will be managing their current exposures. Forty-two (42%) of respondents answered that they are managing their existing portfolio, while an additional 19% answered that they are de-risking, divesting, or reassessing over the next six months.

Raising capital / fundraising	12%
Deploying capital	8%
Managing existing portfolio / exposures	42%
De-risking portfolio / divesting / on-pause / reassessing	19%
Other	19%

How have your expectations for your portfolio changed compared to 12 months ago?

Expectations dim moderately, pricing in less favorable reality. Despite the Canadian economy’s demonstrated resilience, the CRE industry’s expectations dimmed over the last 12 months. A third (34%) of respondents noted deteriorating revenue growth expectations and 40% have lowered their NOI growth expectations. Expectations for cap rates have also shifted – with 72% of respondents noting increased going-in / current cap rates and 70% noting higher reversion / exit cap rates.



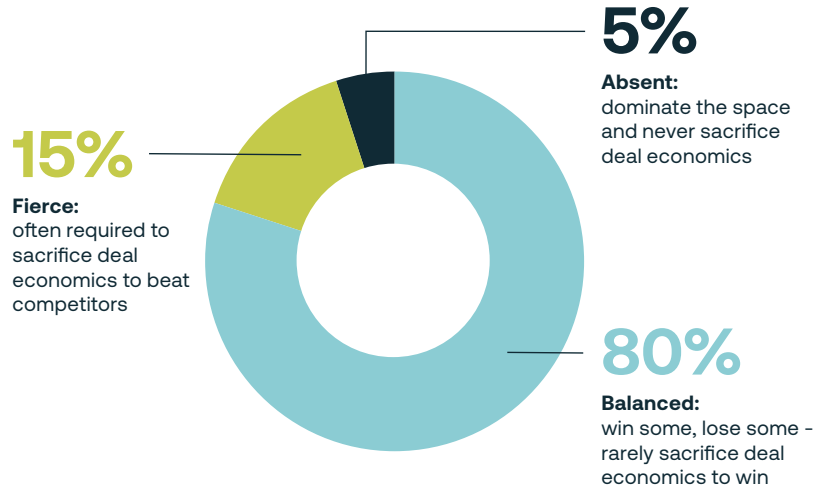
Competition and pricing

How would you describe the level of competition among your firm’s peer group?

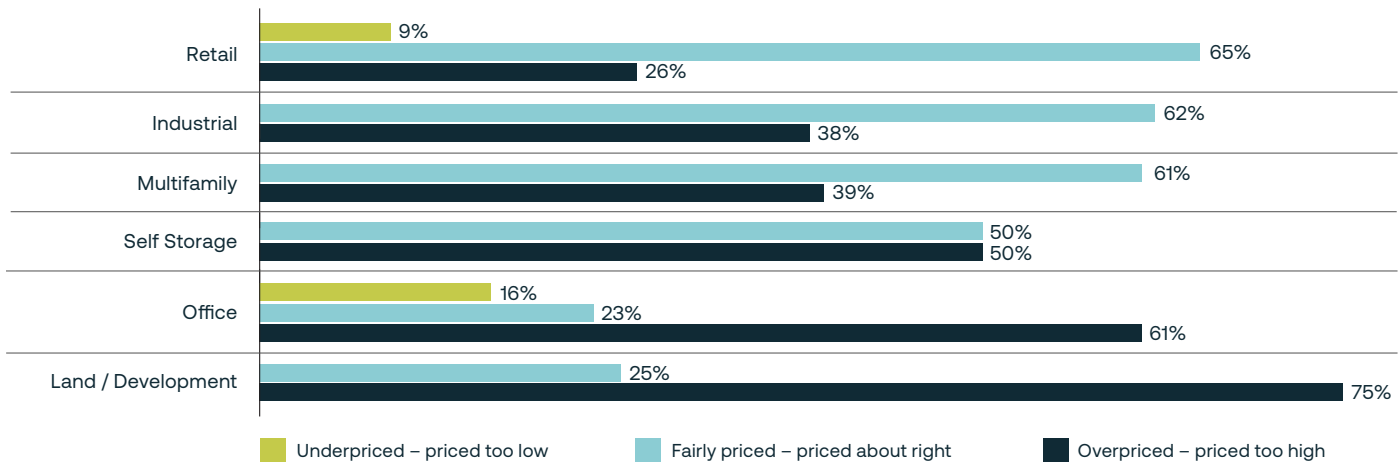
Competition heating up for select property types.

More than one in seven respondents (15%) described the current market competition as “fierce”, while four-fifths (80%) described it as “balanced: win some, lose some”. One interpretation of this data is that the market remains competitive, despite the recent dearth of transactions caused by high costs of capital.

While respondents noted many sectors being overpriced, aggregate results suggest that there are still plenty of “Fairly priced” property sectors. The most notable “overpriced” property types included: land / development (75% respondents said “Overpriced”) and office (61%). The majority of aggregate responses indicated retail (65%), industrial (62%), and multifamily (61%) remain fairly-priced.



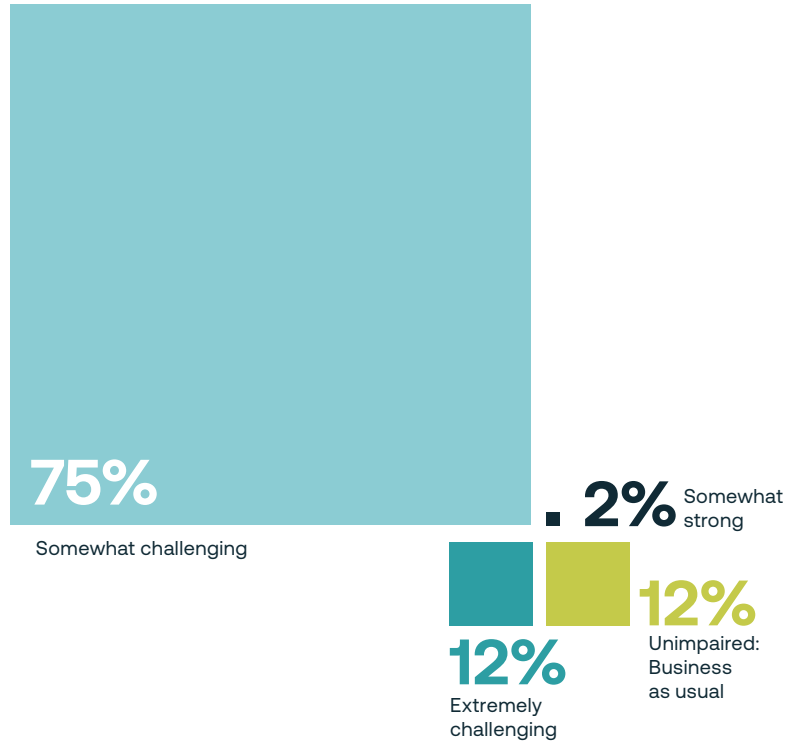
How would you characterize current pricing for the following property types?



Expected operating environment

What best describes your expectations for the operating environment over the next 12 months?

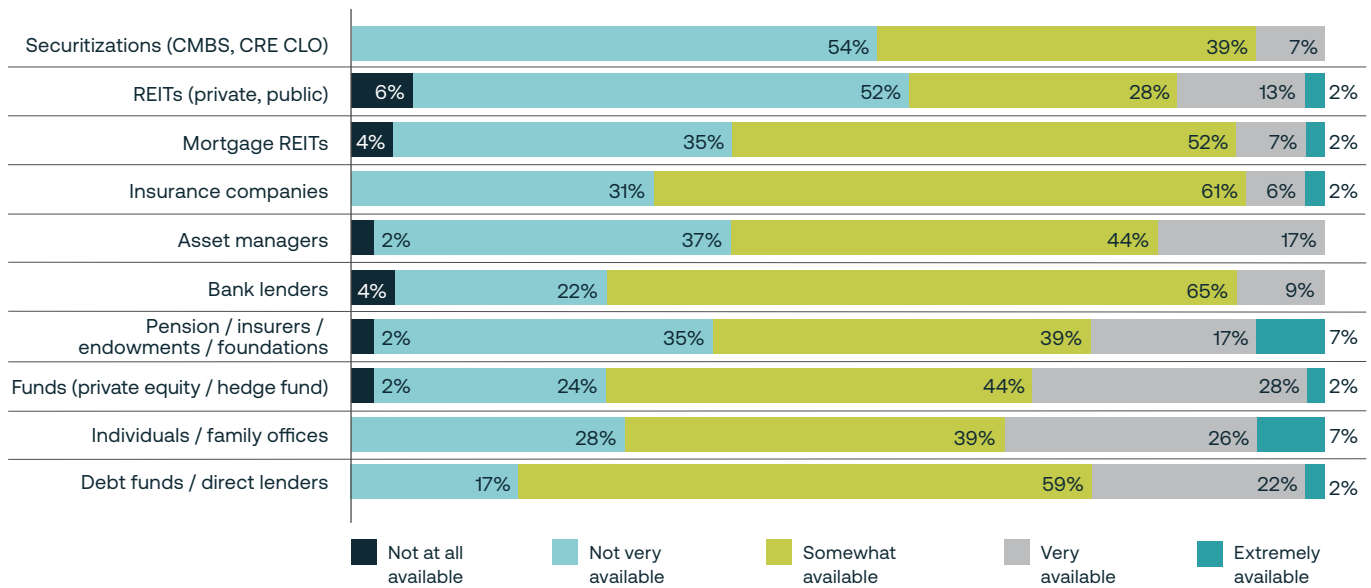
Majority sees next 12 months as “somewhat challenging.” A total of 87% of respondents anticipate the coming months to be more difficult, posing some degree of challenge. While only one in eight (12%) anticipates the coming months to be “extremely challenging”, 75% anticipate a more manageable “somewhat challenging” environment. One in seven (12%) respondents have a brighter outlook for the next 12 months, expecting either an “unimpaired: business as usual” (12%) or “somewhat strong” (2%) operating environment.



Capital availability and property outlooks

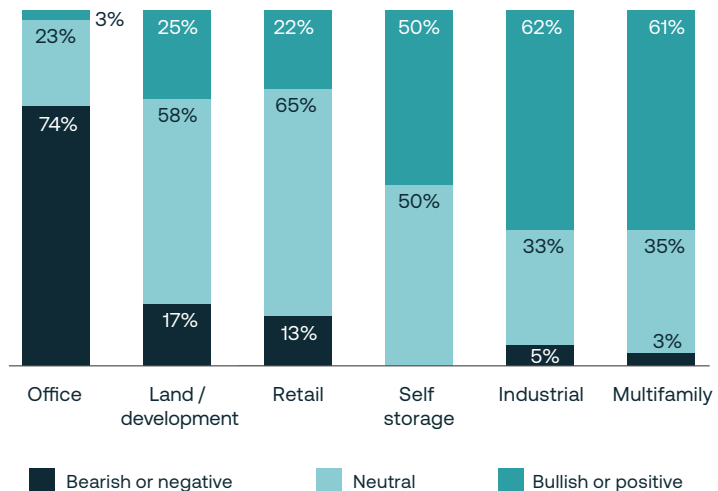
What are your expectations for the availability of capital over the next 12 months?

Less certainty around near-term capital availability. Respondents collectively expect less availability of capital from many top capital sources over the coming 12 months. More than one third of respondents indicated that they expect many of the top sources of capital to be constrained to varying degrees (“Not available” or “Not very available”), including: securitizations, REITs (mortgage and equity), asset managers, and pensions / insurers / endowments / foundations. However, the collective responses show that CRE professionals expect increased capital availability from funds (private equity, hedge funds, debt funds) and individuals / family offices.



What is your current outlook for the following property types?

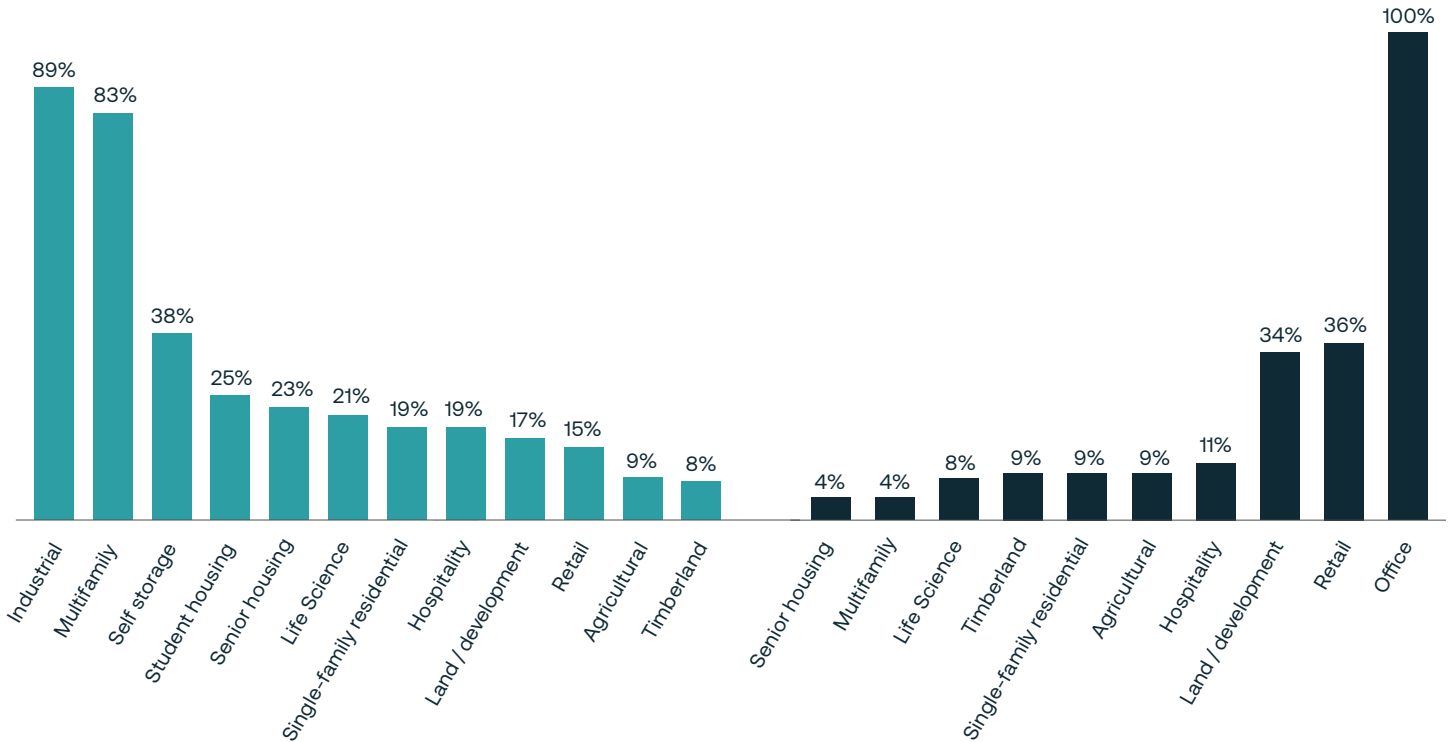
Selective (sector) optimism. CRE respondents remain bullish on industrial (62%), multifamily (61%), and self-storage (50%), but are less so for other property types. While outlooks for retail and land / development remain mixed – 65% and 58% neutral, respectively – the respondents’ collective office outlook is notably bearish, 74%.



Ranked expected performance

Property types you expect to be the best performing in the next 12 months.

Property types you expect to be the worst performing in the next 12 months.



Industrial, multifamily expected to lead; office expected to lag. Survey responses suggest that participants expect recent trends in strong performance from industrial and multifamily to continue, while office is expected to underperform over the next 12 months. Industrial and multifamily were ranked as expected top-performers by more than 80% of respondents, while an impressive 100% of respondents expected office to underperform.



Anticipated direction and conviction

What changes do you anticipate to the following key metrics over the next 12 months?

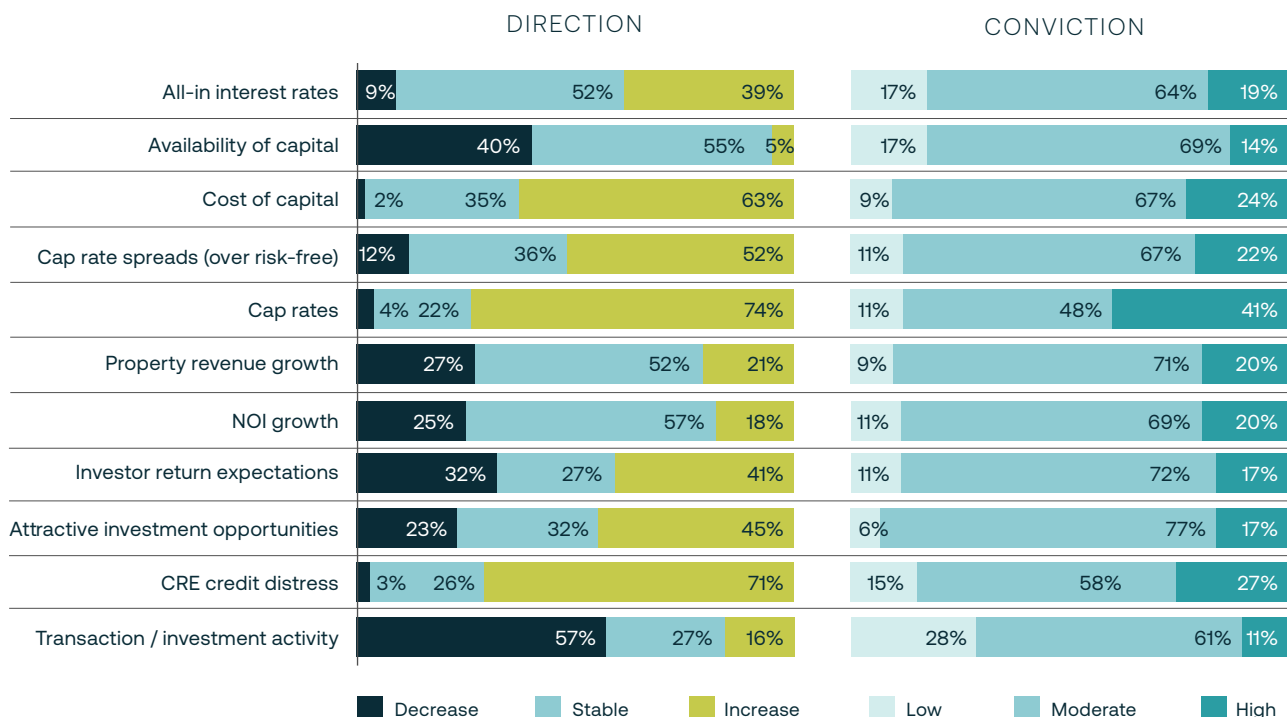
Capital (cost, availability) remains front and center for CRE professionals. In assessing the survey responses indicating direction and conviction for the next 12 months, respondents indicated that in aggregate rates are expected to rise and capital will become less available – however, the conviction was weak - to moderate, suggesting collective uncertainty.

Lack of conviction, except for cap rate increases, cost of capital, and distress. On average, 66% of respondents had “moderate” conviction in their corresponding directional expectations. The highest net conviction (high conviction % less low conviction % = net conviction %), was exhibited with expected cap rate moves over the next 12 months. A net 30% of survey participants expect cap rates to move higher in the next 12 months. The next highest conviction calls were increased cost of capital (net 15%) and CRE credit distress (net 12%).

Loosely held expectations for deteriorating conditions.

While survey participants indicated their collective expectation for deteriorating conditions (higher cost of capital, lower availability of capital, increased investor return expectations, decreased transaction volume), overall conviction for these directional calls was notably low.

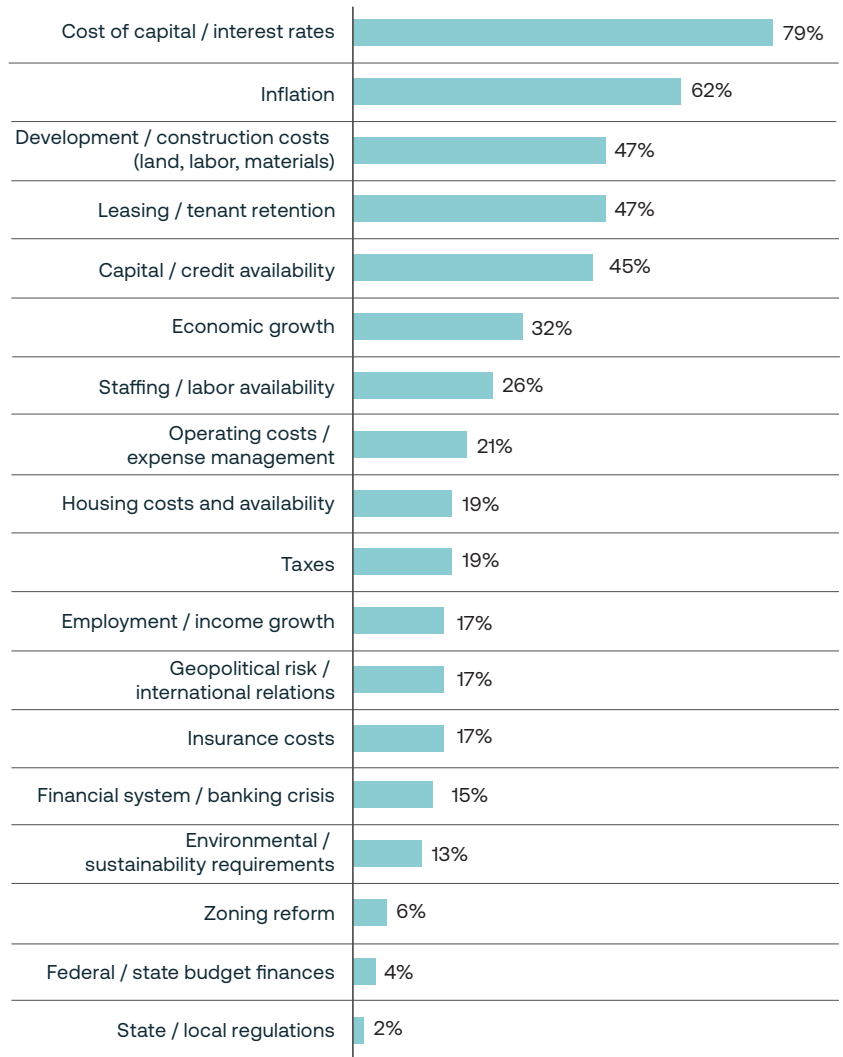
Conflicting expectations. A majority of respondents expect property revenue (52%) and NOI (57%) to be stable, transaction / investment activity (57%) to decrease, and investor return expectations (41%) to increase over the next 12 months – together, if these expectations prove true, it could mean a particularly challenging environment for managers / owners. That said, 77% respondents expect there to be attractive investment opportunities – stable (32%) or increased (45%).



Priority issues over the next 12 months

Which of the following do you expect will be high-priority issues for you professionally in the next 12 months?

Continued cost burdens. Participants indicated that costs (cost of capital, inflation, and development / construction costs) will remain top priorities for the coming 12 months. While cost of capital is expected to remain a top priority for 79% of participants, inflation was a close top-priority for 62% of respondents.



What's next

Quarterly surveys

Altus Group's "North America CRE Industry Conditions and Sentiment Survey" marks the beginning of an ongoing survey program. While our initial Q3 2023 results capture a moment in time, we're committed to conducting this survey quarterly so we can share how perspectives on the questions covered in this report trend over time.

A request for your participation

Our ability to share valuable market insights depends on the active participation of industry professionals like you. As we gather a diverse range of voices, the richness of the data deepens, allowing us to segment responses and paint a more detailed portrait of the industry's collective outlook.

Your participation is instrumental in shaping the narrative of the commercial real estate landscape, please support this survey program by sharing your perspective on our next installment of the CRE Industry Conditions and Sentiment survey.

[Participate in our survey](#)



Altus Group

Altus Group (TSX: AIF) is a leading provider of asset and fund intelligence for commercial real estate. We deliver our intelligence as a service to our global client base through a connected platform of industry-leading technology, advanced analytics and advisory services.

Trusted by the largest CRE leaders, our capabilities help commercial real estate investors, developers, proprietors, lenders and advisors manage risk and improve performance throughout the asset and fund lifecycle.

Altus Group is a global company headquartered in Toronto with approximately 2,900 employees across North America, EMEA and Asia Pacific.

altusgroup.com