

Is Real Estate Still King???

By: Farha P. Sohani

At the Economic Developers Council of Ontario 2021 annual conference “EvolveOn”, Farha Sohani, a student in the post-graduate Public Administration Program at Seneca College summarized the workshop entitled “Is Real Estate Still King?”. The speakers included panel moderator Bill Argeropoulos, Principal and Practice Leader, Research (Canada) from AVIS Young; Chris Rickett, Director of Municipal and Stakeholder Relations at Municipal Property Assessment Corporation (MPAC); Brennan Kenney, Economic Development Champion - Town of Innisfil

Abstract

The EDCO conference, “Is Real Estate Still King” provided highlights as to what to expect in terms of real estate in the future. Bill Argeropoulos presented an overview of corporate real estate. Chris Rickett explained market observations and its impact on the economic development and the bottom line of what to expect in the coming years. Brennan Kenney gave insight into economic development as the economy advances from the pandemic.

Keywords: *COVID-19 recovery, real estate, commercial, office-space, coworking, sale prices and volumes, main street businesses, flexible space, economic development, Municipal Property Assessment Corporation (MPAC), EDCO EvolveON,*

Introduction

Bill Argeropoulos who works at Avison Young as a Principal and Practice Leader for the research department is an expert in commercial real estate. His overview about the “tug-of-war between working from home and returning to the office” is compelling enough to really consider that the real estate might be going through a structural change. Chris Rickett, who works for MPAC, explained that the tourism, retail, restaurant outlets, major cities, and main streets will all suffer in 2021. The pandemic caused an abrupt disruption in business operations from urban to major cities. Brennan Kenney gave insight into the initiatives and tools from an economic development perspective.

Commercial Real Estate

Argeropoulos stressed that COVID-19 caused an abrupt disruption in business operations, resulting in direct or temporary loss of employment and a shift to working from home (WFH). The commercial real estate sector continues to feel the impacts from reduced economic activity and uncertainty to delay business investment or expansion plans. Canada’s office market has been impacted significantly, though not as much as retail. Office employees find it effective and convenient to work from home, as the pandemic has revealed that flexible work is feasible, practical, and increasingly

desirable. Advancements in technology and digitization have broadened how, when, and where work can take place.

Despite efforts by landlords and employers to provide safe working environments, the return to office has been slower than expected and the real estate market is being impacted. It is speculated that even when the pandemic ends, traditional workplace models may not return. Workplace strategies may start to shift from a headquarters to a “hub-and-spoke” mindset with footprint optimization and human experience/sense of community as key considerations. The “hub” would be a central location where some employees could work full-time, facilitating an environment of “culture creation, internal collaboration and engagement”. The “spoke” would include flexible workspaces and partial or full-time work-from-home.

Argeropoulos considered the impact this will have; whether tenants will require more, less, or the same amount of office space. He also mentions that the pandemic has challenged the coworking model and brought “lofty expectations for this sector” down to earth. In terms of Canada’s industrial market, industrial vacancy remained near record-low levels across Canada. Industrial rents stabilized or continued to rise across Canada’s major cities through 2020 and the consensus is that rents will rise through 2021. Canadian industrial vacancy is anticipated to remain virtually unchanged in 2021. Argeropoulos stated that the retailers had to face a variety of challenges, such as, mandatory closures and less operating hours.

Challenges also gave rise to new trends and the concept of the “15-minute neighbourhood” has developed, where communities may provide residents with all the amenities they need to live, work, and play within a 15-minute walking distance. This model of local shopping and working resulting from COVID-19 could be harnessed to promote longer-term regeneration.

Sale Prices and Volumes

Rickett announced the Ontario government has publicised that the 2020 assessment update has been postponed and that the property assessments for the “2021 property tax year will continue to be based fully on the January 1, 2016 current values”. This means that value is defined as the price of the property may still be sold for in its “current state and condition” as on January 1, 2016. Also, the impacts to the four-year assessment cycle are still unknown. In Canada, major cities are experiencing a shift of people as the urbanites are moving to smaller communities in search of affordable homes. In 2020 urban-dwellers moved to the suburbs, smaller towns, and rural areas. Residential housing forecast overviews for Canada’s major urban centres showed that the sales and volumes have dropped. Housing prices will likely fall because of uncertainty over the economy and the impact of COVID-19. There is significant vacancy rate increases in the rental market and the recovery in major markets is highly uncertain and will vary considerably. Rickett mentioned it is also speculated that the increase in the supply of condominium apartments may lead to the relaxing of prices

next year. Regardless, the uncertain job market and the economy may likely affect millennials and may result in a staying-at-home with parents longer than in the past.

Rickett emphasized helping main street businesses in order to survive COVID-19 related impacts that they have been facing for almost a year. According to him it is now, more than ever, that main street businesses need the support of their communities. Post-pandemic is going to mean reinvesting in the main streets. Infrastructure investments in community facilities should be directed towards main streets to help drive people toward local businesses. Rickett also mentioned that main street businesses need an online way to sell and interact with their local customers, giving them more options than before to boost sales and business profit.

Coworking Space

Kenney claimed that real estate is implementing and adjusting with flexible and coworking office spaces, hub and spoke model, and attracting remote workers. With more people favouring the growing rural/suburb opportunities and infrequent commute due to work-from-home schedules, the number of coworking spaces have significantly increased. This is also because coworking companies may be expecting an arrival of new clients looking to downsize and save costs from traditional office space with long-term leases and move into more flexible spaces. The uncertainty the pandemic brings could cause more companies to look for flexible space that can accommodate rapid changes in their needs. Coworking spaces can also provide office environments for remote workers. Kenney highlights that this crisis shows why flexibility is valuable for companies and remote workers. However, coworking will have to change to survive and accommodate more to meet the needs and attract remote workers. Remote workers need internet connection, affordable and adequate transit, education, safety, and a viable community to grow into.

Conclusion

The three panellists emphasized the model of community development and economic development by local shopping and working spaces that could be harnessed to promote longer-term regeneration. Most of all, it was advised to rethink shopping habits. Rickett urged the need to value the main streets and helping neighbourhood businesses. Argeropoulos recognized there is now a growing platform for companies to get more flexible office space but the working-from-home trend is most likely to increase, which will impact the real estate significantly. Spaces that offer a measure of control and flexibility during the recovery of the economy will be most in demand. The panellists are hopeful for those who do return to their office jobs following the pandemic. The office space will look different and be functional for the future. Expectantly, location and demographics will make the concept more viable for some areas than others, but this idea could influence redevelopment plans and have an impact on the long-term environment for years to come.