Commercial rents in key Canadian economic markets, analytical supplement for the fourth quarter of 2021

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Commercial rents up in the fourth quarter

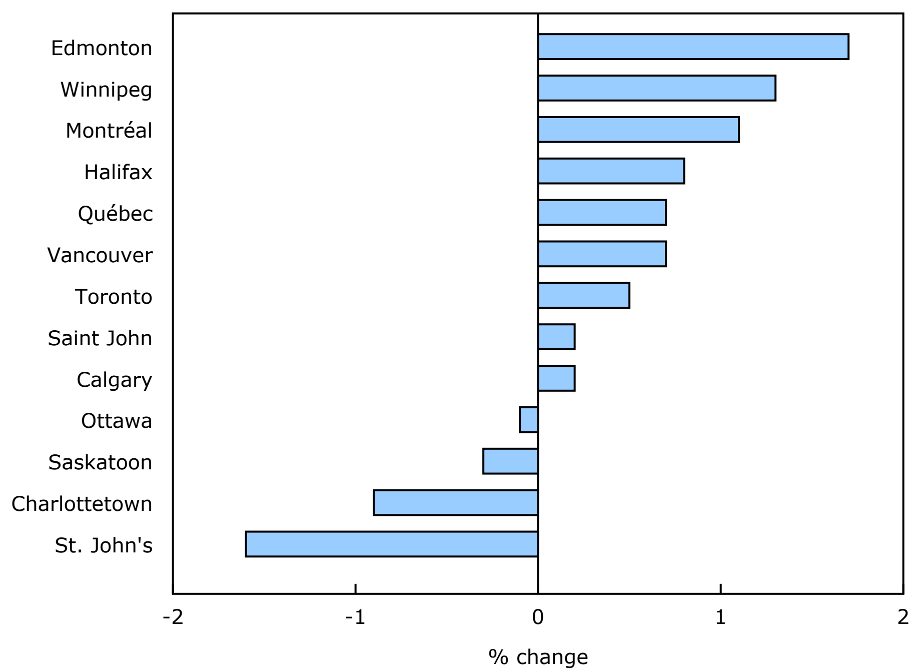
Commercial rents rose 0.8% in the fourth quarter of 2021, following an identical increase (+0.8%) in the third quarter. The increase was shared among all three building types, led by higher rents for industrial buildings and warehouses (+1.0%), followed by retail buildings (+0.9%) and office buildings (+0.5%).

Despite the restrictions quickly put in place amid the spread of the Omicron variant of COVID-19 in the latter half of December, the momentum of economic and employment growth, along with the Christmas holiday effect, contributed to the fourth quarter movement.

Commercial rents post increases in 9 of the 13 census metropolitan areas

Among the 13 census metropolitan areas (CMAs) surveyed, 9 posted overall commercial rent increases, with decreases observed for the other 4 CMAs.

Chart 1
Commercial rents by census metropolitan area level, Q3 2021 to Q4 2021



Source(s): Table 18-10-0260-02.

The four largest CMAs contributed to the quarterly increase, led by Montréal (+1.1%) and followed by Vancouver (+0.7%), Toronto (+0.5%) and Calgary (+0.2%).

Among the four largest CMAs, declines were confined to office building rents in Calgary (-0.6%), whereas increases were seen across all other building types. The growth in office building rents was led by Vancouver (+1.2%), while retail building rent gains were led by Toronto (+1.3%), amid a robust holiday shopping season (a portion of retail building rents was tied to retail sales). Montréal (+1.8%) led the increase in rents for industrial buildings and warehouses, driven by record demand and a historically low availability rate.

For Calgary, the CMA with the most office space per capita in Canada, leasing activities continued to improve. Although its fourth-quarter office building rents remained below 2019 and 2020 levels, it recorded its first positive quarter with downward vacancy in two years.

Commercial rents up year over year in the fourth quarter

Compared with the fourth quarter of 2020, commercial rents were up 3.3%, supported by increases across all building types: industrial buildings and warehouses (+4.2%), retail buildings (+3.8%), and office buildings (+1.8%).

The year-over-year change reflected sustained rent normalization across the board. It also coincided with the tapering off of the rent subsidies and lockdown supports offered under the Canada Emergency Rent Subsidy (CERS).

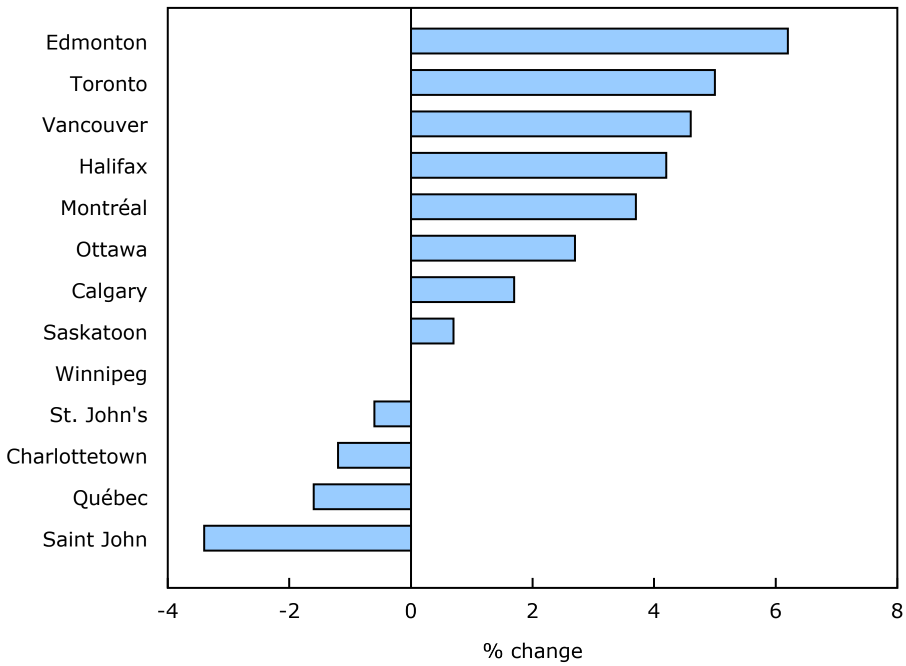
More than half of CMAs show year-over-year increases

Toronto (+5.0%), Vancouver (+4.6%) and Montréal (+3.7%) contributed the most to the year-over-year increases in commercial rents.

Higher industrial building and warehouse rents were responsible for growth in Montréal (+4.9%) and Vancouver (+7.2%). Toronto's year-over-year increase was driven by much stronger performance in retail building rents (+13.3%).

Benefiting from buoyant energy prices and strong employment growth in the natural resource sector, Calgary's (+1.7%) increase was driven by rents for both retail buildings, and industrial buildings and warehouses.

Chart 2
Commercial rents by census metropolitan area level, Q4 2020 to Q4 2021



Source(s): Table 18-10-0260-02.

Canada Emergency Rent Subsidy

On October 24, 2021, the CERS was replaced by two new rent support programs: the Tourism and Hospitality Recovery Program (THRP) and the Hardest-Hit Business Recovery Program (HHBRP).

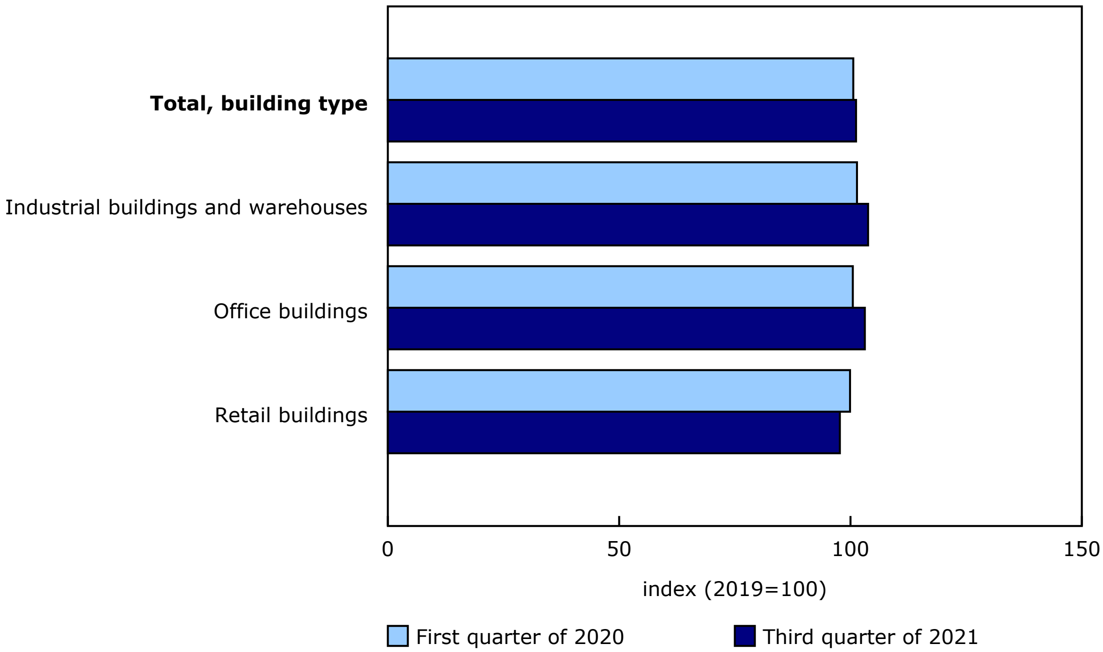
The THRP and HHBRP have the same eligibility and calculation rules as the CERS. The coverage period has been extended to March 12, 2022.

Commercial rents during COVID-19: 2020 and 2021 in review

Looking back, 2020 was an unprecedented year for the commercial rental and leasing industry. It was one of the hardest-hit industries at the start of the pandemic, as lockdowns and restrictions on social activities paralyzed the economy. This situation led to permanent closures for some tenants, while others negotiated rent concessions and deferrals. Despite the rent subsidy program that was rolled out in April, the record first-quarter loss drove down the Commercial Rents Services Price Index (CRSPI) in 2020 overall.

In 2021, vaccines were successfully rolled out, and the country continued to experience various waves of COVID-19 and related public health measures. This was accompanied by widespread economic recovery. Thanks to continued support from rent subsidy programs (the CERS, THRP and HHBRP), the CRSPI saw consecutive quarterly increases throughout the year. By the end of the third quarter, the overall CRSPI had already exceeded the level seen in the first quarter of 2020, before the pandemic.

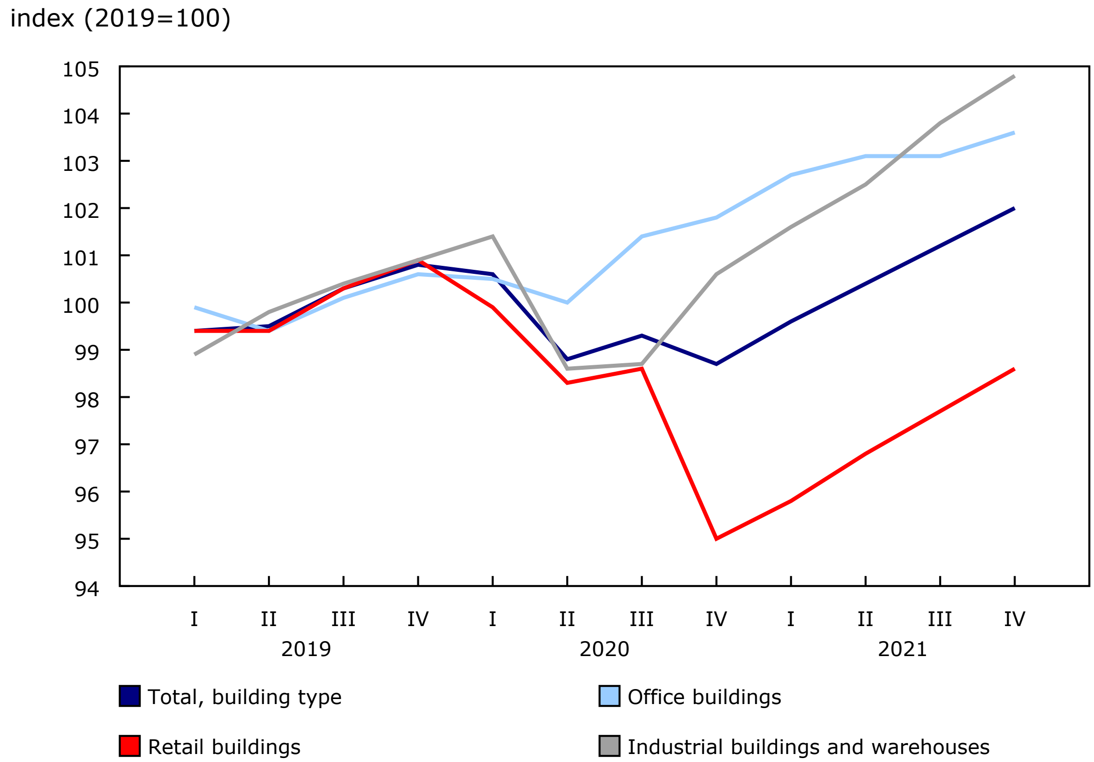
Chart 3
Commercial rents at the national level, by building type



Source(s): Table 18-10-0260-01.

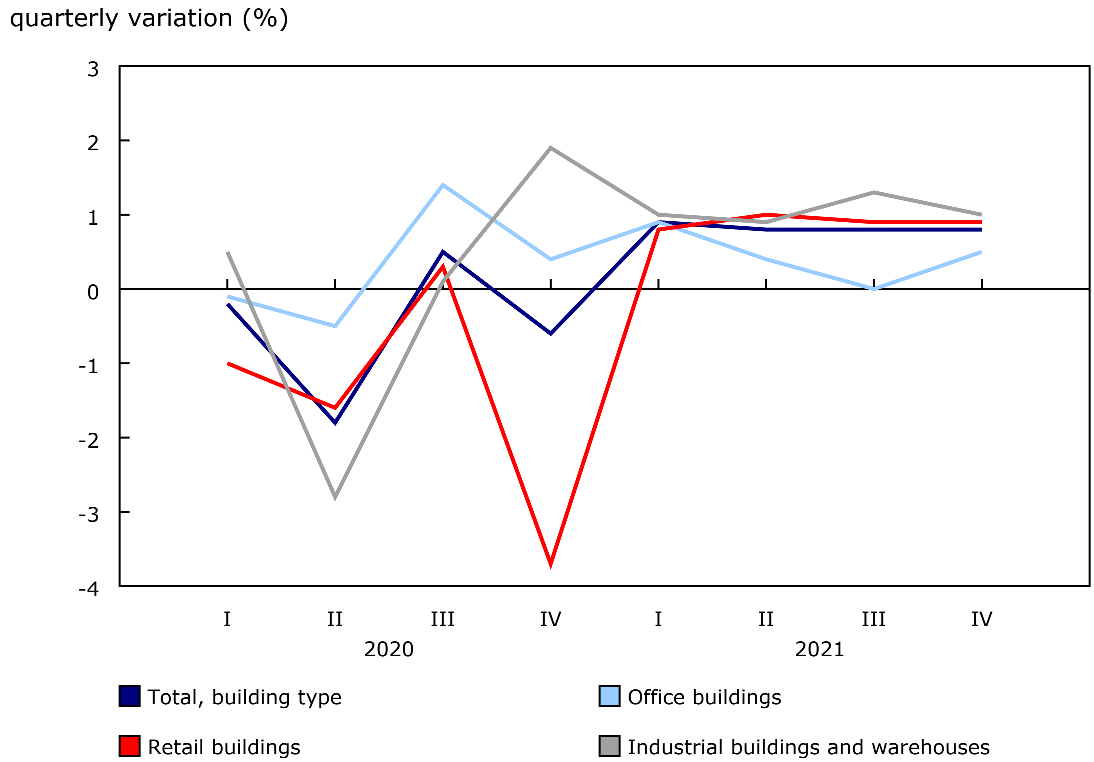
At the national level, rents for industrial buildings and warehouses, and office buildings outperformed those for retail buildings in 2020. All three building types experienced recovery in 2021, although rents for retail buildings lagged behind their pre-pandemic levels. This was mostly attributable to the nationwide public health restrictions that have limited Canadians' access to malls and stores since the onset of the pandemic. With a resulting surge in e-commerce, consumers adjusted their spending behaviour and mostly shifted to online shopping platforms. However, access to COVID-19 vaccines and changes in the public health policies of governments allowed Canadians greater access to retail stores in 2021 than in 2020, contributing to a rebound in retail building rents.

Chart 4
Commercial rents at the national level, by building type



Source(s): Table 18-10-0260-01.

Chart 5
Commercial rents at the national level, quarterly variation, by building type



Source(s): Table 18-10-0260-02.

The increase in e-commerce retail sales, coupled with global supply chain constraints, led to exceptionally strong demand for industrial and warehouse space across Canada. Because of this demand and limited supply, Canadian industrial building and warehouse rents mostly rose throughout 2020 and 2021. Because of the ongoing supply chain disruptions, Canadian retailers obtained excess inventory in the last two quarters of 2021 to avoid shortages during the holiday season, putting further upward pressure on industrial building and warehouse rents.

Although rising COVID-19 case counts delayed the return-to-office plans of many businesses in Canada, office building rents have continued to grow at a varying pace since the second quarter of 2020. Canadian businesses in major cities increased their demand for high-quality office buildings, thus contributing to growth in rental rates.

In particular, Vancouver's office market remained resilient throughout the pandemic and recorded the highest quarterly growth rate (+1.2%) among all CMAs in the fourth quarter of 2021. The technology sector in Vancouver continued to grow during the pandemic and continued to occupy office space.

Among the four largest CMAs, Toronto's retail building rents exhibited strong recovery in 2021. In this CMA, rents for this building type were up 1.3% in the fourth quarter of 2021, compared with the previous quarter. Because of the large market size, along with the easing of restrictions, Toronto retail rents rebounded in 2021.

Outlook: commercial rents in Canada in 2022

As one of the most developed economies in the world, Canada has weathered the pandemic relatively well.

Going into 2022, rents for industrial buildings and warehouses will continue to thrive, fuelled by strong demand for storage space, with the growth of e-commerce. As businesses switch to hybrid work (in offices and remote), office building vacancy rates and subleasing activities will affect the rental rate. With the economy reopening, excess office space will be absorbed, and some will be repurposed to alleviate supply pressures. However, high-quality office buildings in major CMAs are expected to remain in demand. Flexibility is the key for retail buildings. As sales at brick-and-mortar retail stores remain under pressure, sales-based shorter lease terms are on the rise. More excess retail space will likely be leased out for storage. More essential retailer-anchored shopping centres will evolve and reshape the retail landscape.

Note to readers

The Commercial Rents Services Price Index (CRSPI) measures the change over time in the net effective rent for occupied commercial building space in Canada. Estimates are produced on a quarterly basis. Prices collected are the average rents, measured in price per square foot, of a sample of commercial buildings. The price index for the industry can be used in conjunction with other service price indexes to monitor inflation. It is also used by the Canadian System of National Accounts to deflate this sector of the economy.

The aggregation of retail, office and industrial building and warehouse data is available for 13 selected census metropolitan areas across Canada, for all provinces and for the three territories combined. Indexes by building type are available at the national level and for the four largest provinces (Ontario, Quebec, Alberta and British Columbia), as well as for Montréal, Toronto, Calgary and Vancouver.

Net effective rent is defined as the price charged to all tenants to physically occupy space in the building each month, including any inducements and excluding all operating costs, taxes and additional rents.

To ease data reporting, the CRSPI monthly net effective rent is calculated as the monthly total net effective rent revenue, on an accrual basis, over the tenant-occupied space at the start of the month for the commercial buildings in the sample.

With each release, data for the previous quarter may be revised.

The CRSPI is not seasonally adjusted.

Products

A Methodology of the Commercial Rents Services Price Index is available in the Prices Analytical Series.

Statistics Canada launched the Producer Price Indexes Portal as part of a suite of portals for prices and price indexes. This webpage provides Canadians with a single point of access to a variety of statistics and measures related to producer prices.

The video "Producer price indexes" is available on the Statistics Canada Training Institute webpage. It provides an introduction to Statistics Canada's producer price indexes—what they are, how they are produced, and what they are used for.

Definitions, data sources and methods: survey number 5123.

For more information, or to enquire about the concepts, methods or data quality of this release, contact us (toll-free 1-800-263-1136; 514-283-8300; **infostats@statcan.gc.ca**) or Media Relations (**statcan.mediahotline-ligneinfomedias.statcan@statcan.gc.ca**).