Building the future
Real Estate 2020

The Canadian perspective

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As confidence returns to real estate globally, the industry faces several fundamental shifts that will shape its future.

In Real Estate 2020, Building the future, we look at likely changes in the global real estate market in the coming years—and identify key trends that we believe will have profound implications for Canadian real estate investment and development.

Looking ahead: Key global trends in real estate

1 *Huge expansion in cities, with mixed results.*

As fast-growing countries see their cities swell, developed western nations have been experiencing their own urbanization, presenting a wider range of risk and return opportunities.

2 *Unprecedented shifts in population drive changes in demand for real estate.*

New real estate subsectors will emerge as populations grow and age, though office, industrial, retail and residential will remain dominant.

3 *Emerging markets' growth ratchets up competition for assets.*

Maturing emerging markets and new, powerful real estate investors will intensify competition for assets worldwide.

4 *Sustainability transforms design of building and developments.*

By 2020, sustainability will be the norm in new developments. But concerns over retrofits of older assets and "brown discounts" remain.

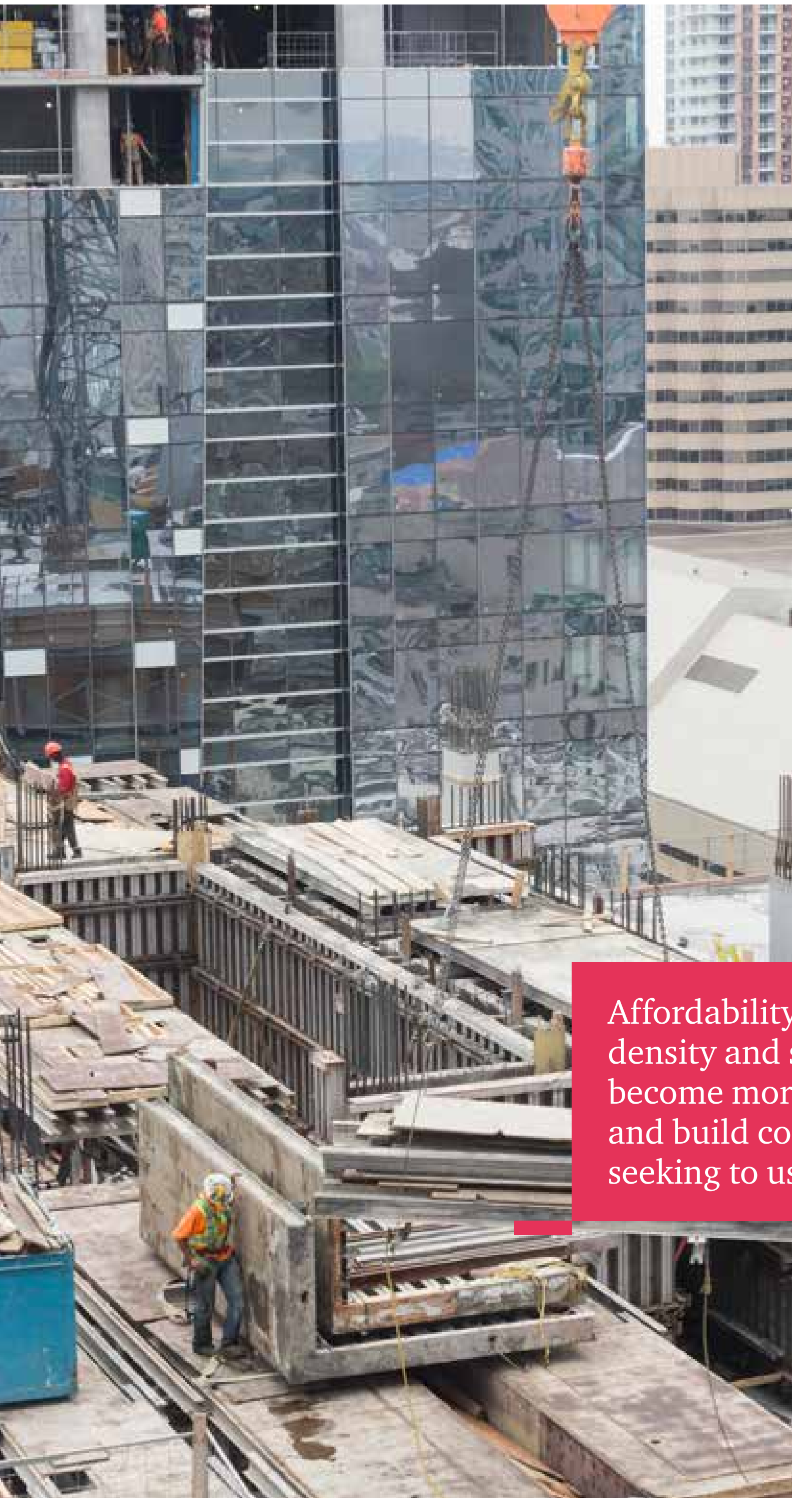
5 *Technology disrupts real estate economics.*

Technology will alter the economics of entire subsectors and will continue to change how real estate developers and investors operate.

6 *Real estate capital takes financial centre stage.*

Available capital will swell as the need to finance urbanization grows. Organizations will need to leverage a range of financing possibilities to take on new types of risk.

Canadian perspectives on global trends



The Canadian real estate industry has seen unprecedented growth in the past decade and only recently has the level of general transaction activity slowed in pace.

Regardless, we can see many of these global trends already at play in the Canadian real estate market today and we expect that they will continue to generate momentum in this sector. We've explored them, as well as their consequences, elsewhere, in *Emerging Trends in Real Estate® 2014*, a report we produced in partnership with the Urban Land Institute.

Resurgent cities, especially in the west

Canadians are returning to cities across the country, and this increasing urbanization is driving rapid intensification in our urban cores. This is especially true in the Greater Toronto Area where there's a never ending sea of cranes creating residential and office towers. This increasing density in cities is creating new challenges and opportunities, as developers strive to bring downtown populations the services and amenities they demand. Multi-use developments will become more popular, while retail spaces shrink to fit into any nook and cranny that can be found. Opportunities will be especially strong in western Canada: Calgary, Edmonton, Saskatoon and Vancouver top our "markets to watch" list in 2014.

Affordability will fall, leading to greater urban density and smaller apartments. Developers will become more innovative about how they design and build commercial and residential real estate, seeking to use space more efficiently.

Investors and tenants embrace sustainability

Sustainability has gone mainstream in commercial real estate in Canada. Pension funds and many other investors that own major commercial properties across the country have incorporated sustainability into their business strategy, and they've made it a priority to drive sustainability through their property portfolios. Further demand for sustainable building design is coming from tenants themselves. Companies are eager to demonstrate their "green credentials" in order to attract young, educated talent. They're looking for buildings that enable them to offer a bright, open work environment that supports creative collaboration—while minimizing the ecological footprint.

Technology changing the nature of real estate

Advances in technology are having a profound impact on the Canadian real estate market. More and more people are foregoing the daily commute, working from home, on the go or otherwise offsite instead. This is prompting companies to move into smaller spaces with more flexibility—and bandwidth. The rise of online commerce is affecting both retail and industrial real estate needs. Retailers are rethinking their traditional real estate strategies in favour of smaller stores, and investing in distribution centres in key markets in order to better serve an increasingly online customer base. The demand for distribution centres, as well as the decline in light manufacturing, is driving new needs in industrial spaces. Logistics, not manufacturing, is now at the forefront, creating sizeable demand for larger spaces, higher ceilings and superb digital connectivity.

Real estate capital power continues to shift

Pension funds are exerting more and more influence over the real estate sector in Canada—and in international markets as well. Pension funds continue to increase their allocations for real estate investment, but with few new assets available in Canada, funds are searching for opportunities in other countries. The REIT's insatiable appetite for product has been more tempered for now, as rising bond rates forced them to pull back and focus on their existing portfolios. Private capital, on the other hand, is readily available—and as equity markets improve, we can expect to see more of that capital redirected into real estate.

With a fast-growing population, by 2030 we'll need:

50% more energy **40%** more water **35%** more food[1]

In 2017, the global social network audience will total 2.55 billion,

up more than **70%** from 1.47 billion in 2012[2]

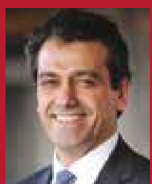
The global stock of institutional-grade real estate will expand by more than

55% from 2012 to 2020[3]

1 PwC/ULI's Emerging Trends 2014 presentation. For Americas, November 2013.
2 PwC Real Estate 2020 research, February 2014.
3 eMarketer, 'Worldwide Social Network Users: 2013 Forecast and Comparative Estimates'.

An industry perspective:

George Carras



How do industry players view these trends shaping the future of real estate in Canada? To get an insider's perspective, we spoke with George Carras, president of RealNet Canada Inc. RealNet is a leading real estate information services company delivering valuable market data and insights to over 45,000 commercial and residential real estate professionals.

Time to evaluate urban intensification?

Market demand is a key driver of intensified development in Canada's urban cores—but so is public policy. Governments at all levels, especially provincial and municipal ones, are trying to manage budgets and control spending. Intensification helps them do this, in theory, because it means it costs less to provide transit, fire, utilities and other services.

But this focus on intensification comes at a cost: the growing affordability gap in some markets. With intensification, you gain density—but space comes at a premium. Lack of supply is driving up the price of traditional ground units, and rising costs are compelling developers to make smaller and smaller units.

The question to ask now, he suggests, is whether the push for more urban density is having the desired impact. Has intensification helped? Now would be a good time to look at how we've done in terms of our goals.

Low-rise developers will need to look elsewhere—or up—to grow

Years of urban intensification are putting pressure on some developers, particularly those focused on low-rise buildings. In an intensified market, if you don't have land resources, or you can't acquire them, you have to look elsewhere.

Some are looking to new markets across Canada and even the US to find land on which to build. But you need the resources and knowledge to do that well, because real estate development is a local business.

The other option is to evolve and move into high-density development—which can open up other opportunities. High-density doesn't have to mean high-rise, though that's the most common form it takes. And once companies move in that direction, they discover that high density residential development is tightly interwoven with the commercial real estate property market.

Keep an eye on tomorrow's technology

Online commerce, ubiquitous broadband and mobile technology continue to reshape how we look at commercial real estate. Three emerging technologies will profoundly change how we live and work, and affect real estate along the way.

Nanotechnology—for example, incredibly small machines that can treat disease inside the body—has the potential to revolutionize healthcare. People will be living even longer and of course they'll need places to live and places to work.

As well, 3D printing is poised to cause major disruption in supply chains, and this will spill over into real estate. Today's supply chains are based on a 'make it, ship it, store it, sell it and ship it again.' What happens when you don't need to store lots of inventory because items can be printed as needed?

We also have to keep an eye on artificial intelligence. Ray Kurzweil—inventor, futurist and now Google's director of engineering—predicts that by 2027, it'll be impossible to tell if you're talking to a person or a computer. Imagine the impact of this technology on call centres alone. It'll transform how we work, where we work, and the kind of spaces we need.

Sustainability is here to stay

Developers that invest heavily in sustainable properties will reap the rewards of doing so. But those who choose not to invest in upgrading older properties won't suffer unduly.

Markets are wonderful things. We'll see a market emerge for those who want to buy or rent sustainable space, and another one emerge for those who don't want to pay quite so much. Companies will refine their strategies, he says. Some will put a 'B' building next to their 'A' building to give prospective tenants a choice.

Sustainability will also make more inroads in residential over time. Again, we'll see the market drive it. If you can show buyers the economic impact or value of sustainable building, it'll be an easier sell—especially when we're talking about single-family or low-rise units.

Prospering amid change

As these and other trends reshape the real estate sector in Canada and around the world, how should real estate investors, asset managers and developers respond?

First, it's critical to develop partnerships that can share the massive costs—and potentially significant risks—of modern real estate investment. Nurture relationships with the banks, pension and sovereign wealth funds, developers and asset managers in Canada and globally that will drive your success. Not only will these partners help you achieve domestic ambitions, they can also open the door to opportunities in new markets.

Second, flexibility and adaptability will be defining characteristics of successful real estate players in the years to come. Real estate organizations will need to broaden their perspective to consider a wider range of opportunities—while continuing to maintain an intimate understanding of local markets. Doing so will better enable organizations to move in new directions, whether in terms of markets or types of projects, in order to continue to grow.

You'll find a more in-depth look at where the Canadian and global real estate markets are heading—and the steps real estate organizations can take now to prepare—in both *Emerging Trends in Real Estate 2014* and *Real Estate 2020: Building the future—global report*.

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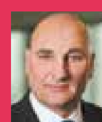

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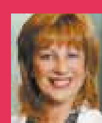

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