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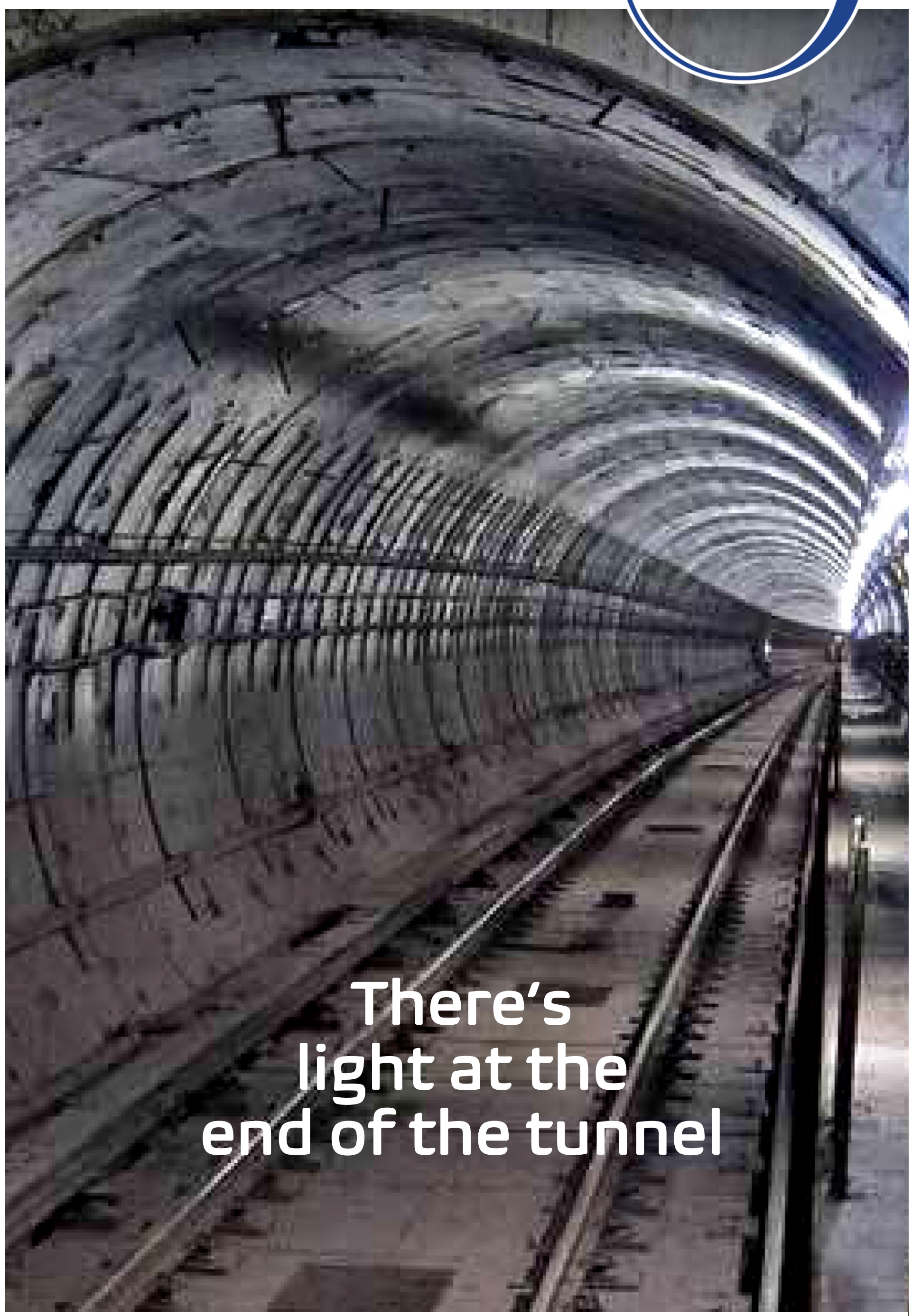
The Land Economist

FEATURES



… and possibly lots more development around Major Transit Station Areas, even in Provincially Significant Employment Zones. The Ford government has introduced a number of measures to help smooth the way for new transit lines and associated development at and around stations. See the Legislative Beat on page 17 for info and links.

PROFESSIONAL JOURNAL

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NEWS BRIEFS

87-STOREY TOWER PROPOSAL

Globe and Mail architecture critic Alex Bozikovic hailed it June 3 as something that "could reshape the downtown Toronto Skyline". If approved by the City without amendment, the proposed super tall and super thin tower from Dutch real estate companies Kroonenberg Groep and Pro-Winko would stand 324 metres high at Bay and Bloor streets. There are no higher buildings in Canada at the moment.

Renowned Swiss architects Herzog & de Meuron are on board, with Toronto's Quadrangle. The project would demolish the existing12-storey office/retail building constructed in 1968, and replace it with a base containing 16 floors of office and retail space, and one of amenities, topped by 322 residential condominiums. Plus, says HdG's press release "a large restaurant, sky lounge and rentable (event) spaces occupy the highest three floors of the building with spectacular panoramic views over the city of Toronto". A linear core on the western side plus agreed setbacks on this project and the neighbouring 80 Bloor West for the condominium levels should give privacy. Reactions to the project range from *Yay sexy!* to *Just like every other boring new box, but taller* to *Does anyone really believe this will be approved by the City as is?* For a sample, see 1200 Bay on Urban Toronto.com

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MAY NEW HOME SALES "LOWEST ON RECORD" - BILD GTA

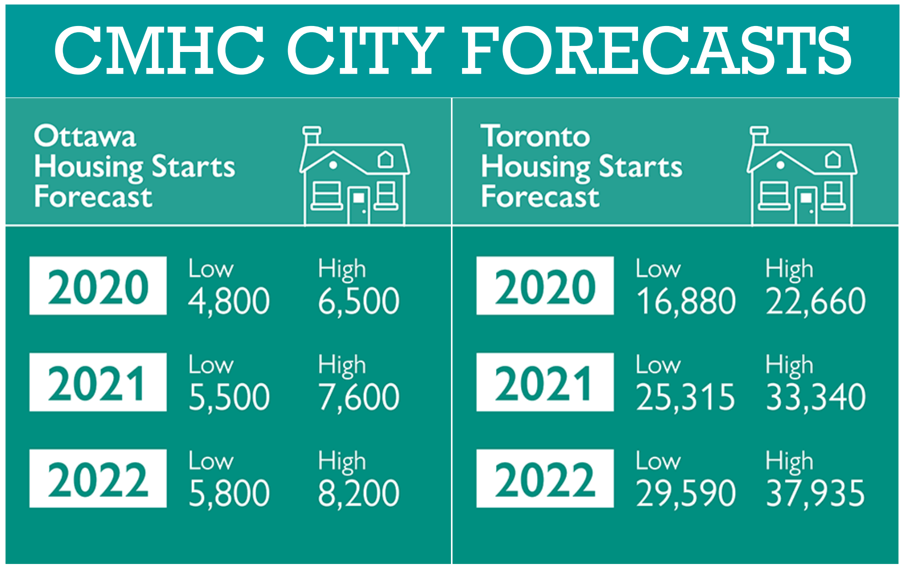
On June 25, BILD GTA and Altus Group reported that total May new home sales in the GTA clocked in at 866, down 80% from May 2019, and the lowest since they began reporting in 2000. Single family home sales, excluding stacked townhouses, were 438, down 55% from last May. New condominium sales including stacked townhouses were 428, down 88%. With few projects launching in May, total inventory of new homes completed and in the pipeline dipped slightly to 13,647 units.

The fiscal impact of construction delays due to the pandemic include loss or delay of some $850 million in government revenues, the group says.

....

JUNE MLS HOME SALES REBOUND

After alarming drops in the number of sales in the past couple of months, the number of residential resales in June were back to - or close to - those of June 2019. There were 8,701 sales in Toronto, down 1. 4 % from a year earlier. Ottawa had 2,052, also almost on par with June 2019. In London/St. Thomas, the equivalent numbers were 1,188 and 13.8%. All three have seen listings increase, but not as fast as sales, and prices are up over a year ago.



CMHC published a Housing Outlook for Canada's major markets in late June, with a caution that it is "subject to unprecedented uncertainty due to the pandemic". The spread of upper to lower boundaries in the predictions to the end of 2022 is particularly large. Starts predictions are above. Here are some other highlights:

In **Ottawa**, housing starts are expected to trend lower this year due to both the uncertainty over COVID-19 and possible labour and equipment shortages caused by the high level of industry under construction. The average MLS house price reached an historic high of just over $498,000 in Q 1 of this year. CHMC predicts the average price will bottom in 2021 between $452,000 in Q2 (upper) and $402,000 in Q3 (lower). By the end of 2022, it will stand between $508,354 (upper) and not quite $429,000 (lower). Neither scenario suggests MLS sales, which reached 18,420 in Q1 2020, will regain that level during the forecast period. Upper bound would reach 17,700; lower only 14,214. Demand for rental accommodation will be tempered in 2020, but "should remain robust" over the rest of the period. On balance, the rental market in 2022 could look a lot like pre-pandemic, with new supply of purpose-built rental and some short-term rentals being added back to the long-term market, potentially easing the low vacancy rate.

In the **Greater Toronto Area**, strong pre-construction sales in the pre-pandemic period will keep starts slightly higher than in the rest of the province, the report says. The average MLS house price, which reached just over $892,200 in Q 1 this year will bottom in Q2 2021 between somewhat under $831,100 (upper) and somewhat over $735,400 (lower). By the end of 2022, they will stand between slightly over $912,800 (upper) and not quite $796,300 (lower). Neither scenario suggests MLS sales, which reached 94,844 in Q1 2020, will regain that level during the forecast period. Upper bound predicts 90,804; lower is 77,873, despite the high white collar workforce's ability to maintain income with work from home. The historically tight rental vacancies may ease because of the new supply of purpose-built apartments and rented condominiums, millennials staying at home or sharing, and lower domestic and international in-migration.

Total GTA Office Vacancy Rates, Absorption & New Supply

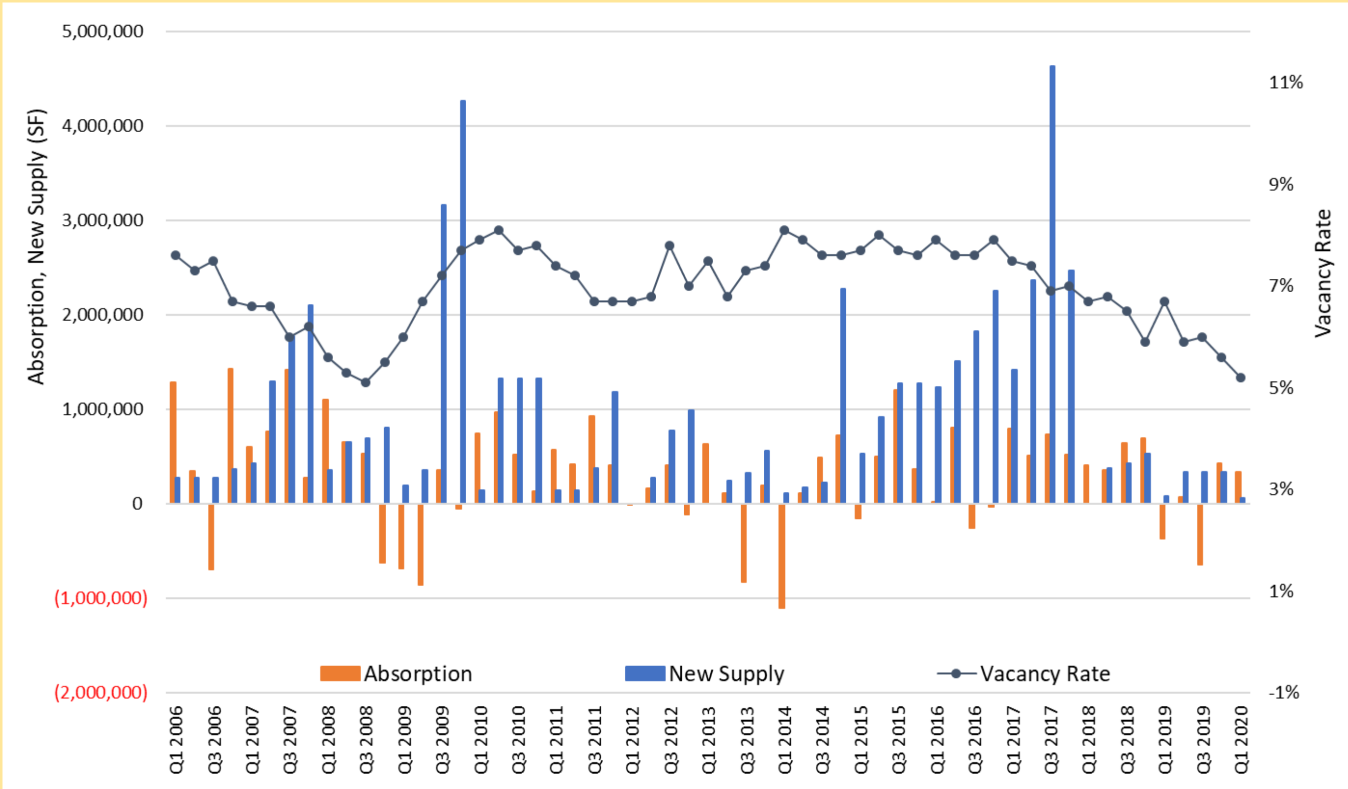


CHART: Dorsay Development Corp. DATA: Cushman & Wakefield Statistical Summary Office Market Overview

Office Market - Full of Questions

by Ayres Gonsalves, CPA, CMA

In these unprecedented COVID-19 times, where governments have been shutting down global economies, and spending huge amounts of money to limit the damage, what can we expect for the office market?

Changes will come out of this crisis and the moves to promote social distancing, especially from the working from home experience. They may hamper office demand, but it is still too early to draw any conclusions.

I am cautiously optimistic that the demand for office space will suffer in the short term but recover in the medium to longer term.

Starting from a good place

Fortunately, as of Q1-2020, office vacancy in the Greater Toronto Area (GTA) was 5.2%, as can be seen from the above graph. The last time office vacancy was this low was eleven and a half years ago in Q3-2008, when the vacancy was 5.1%.

The vacancy rate increased from there as the global recession caused by the 2008 financial crisis impacted the GTA. Twenty one months later, in Q2-2010, the office vacancy finally peaked at 8.1%. Compared to the economic turmoil south of the border, the 3.0% vacancy increase over a year and three quarters was not terrible.

The current vacancy rate of 5.2% is a good level to enter what will undoubtedly be another spike up. The Q2-2020 vacancy has not been reported so far, but we are in a recession-induced economy and vacancy always tends to move higher in a recession.

How high and how long?

This recession in the GTA economy is very widespread. Based on employment numbers, it is the worst recession since the Great depression in the 1930s.

However, it was self induced and not caused by an economic correction. Also it is still ‘young’, with activity starting to open up again. This may mean that the vacancy rate will not take as long to hit its high point and start to ‘return to normal’.

But what is normal in the post pandemic office market? The longer office tenants remain under lock down with most people working at home, the worse it will be for office demand.

Immediate damage control

Over the past three and a half months, most people have been concentrating on the immediate issues. Some tenants have been trying, unsuccessfully, to sublet their space. But very few tenants are willing to make major decisions during these uncertain times.

Some tenants are experiencing serious financial hardship. Luckily, government programs like the Canada Emergency Commercial Rent Assistance (CECRA) offer some hope of relief for some of these businesses. Landlords have also stepped in to help other tenants who did not qualify for the CECRA.

All this is an effort to help preserve the demand for office space and keep the vacancies from rising even faster.

Cont’d on page 4

Office *Cont'd from page 3*

Rental income

Rent collections in our portfolio of office buildings range between 89% to 93% between April to June. Other landlords have also reported similar results. Considering that buildings are operating at an exceptionally low physical occupancy, this is a particularly good level of rent collection. A positive indication of the commitment tenants have for their office space, at least in the short term.

'Welcome back!'

Getting people back to the office will be landlords' biggest priority. Tenants and their employees have been experiencing high levels of anxiety, and they need to know their landlords are taking all safety precautions necessary.

Accommodating social distancing is the pressing issue and will be the new norm in office buildings.

Landlords are looking at the bottlenecks carefully and coming up with rules to help encourage social distancing. In places where there is high foot traffic, the flow of people will be important. For just one example, as in grocery stores, directional signs are being placed on common area floors and walls to help keep people apart and moving well.

Elevators and washrooms are also natural bottlenecks in office buildings. We are limiting access to four people at a time in elevators and washrooms, and masks are to be worn in both these areas.

Cleaners are the front-line workers in office buildings as shared facilities need to be regularly cleaned. Extra cleaning will be done to help prevent the spread of the virus. This will require cleaning staff to be trained properly and it may also require additional cleaners to be hired. Our office cleaning contractors are up to the challenge of these changing times, but the costs have increased.

We all hope that, if they feel safe coming to the buildings, people will want to return to their traditional office environment.

In some of our office buildings we do have the ability to take people's temperature. This would be done strictly on a voluntary basis. However, its effectiveness is questionable as the results can be misleading and lead to more anxiety than benefit. If, for example, temperature readings are elevated, it does not definitively mean that you have the COVID virus, but it can cause tenants to feel unsafe in the office building for no good reason.

Dorsay has installed see-through partitions on cubicles in its own offices to allow both collaboration and physical distancing. PHOTO courtesy Dorsay Development Corp.

In our own office, Dorsay has installed tempered glass partitions on the cubicle walls to help employees practice social distancing but still allow a collaborative environment.

Some larger and medium sized tenants have established Q3-2020+ dates for when they will start returning to the office. Many have plans to have half their employees continue to work remotely when the other half return. This will help people to social distance within their office space and it will also help address the building's bottleneck areas.

Timing the recovery

How long will it take before vacancies peak and how long to get back down to a 5.2% vacancy rate in the GTA?

During the financial crisis it took 21 months to reach the peak, and eleven and a half years to get back to the low vacancy levels we enjoyed in 2008.

Will it take longer this time as office tenants have shown that they can operate remotely? Nobody really knows. Much may depend on when a vaccine is developed, and on the impact of teleworking.

Working from Home?

The biggest question still on everyone's minds is: if office tenants have been working effectively remotely - and without all that commuting - why do they need office space?

According to a survey released by business publishing company getAbstract, 43% of full-time American employees say they want to work remotely more often even after the economy has reopened. This is an alarming statistic that would hamper the demand for office space.

In a crisis, employees and employers make do, but most employees are just not set up physically to work from home on a long-term basis. For example, in a traditional office environment, there are usually high quality printers, scanners, other equipment and additional security that all employees can access.

Duplicating this at home for the same level of productivity and consistency would be very expensive. Who would be responsible for the cost and maintenance?

Will most if not all employees have the space at home to work effectively? Probably not as increased home prices and rents in the GTA have forced people to live in smaller living spaces that are not conducive to working at home.

In a crisis, these questions do not come up as much but on a longer-term basis they will.

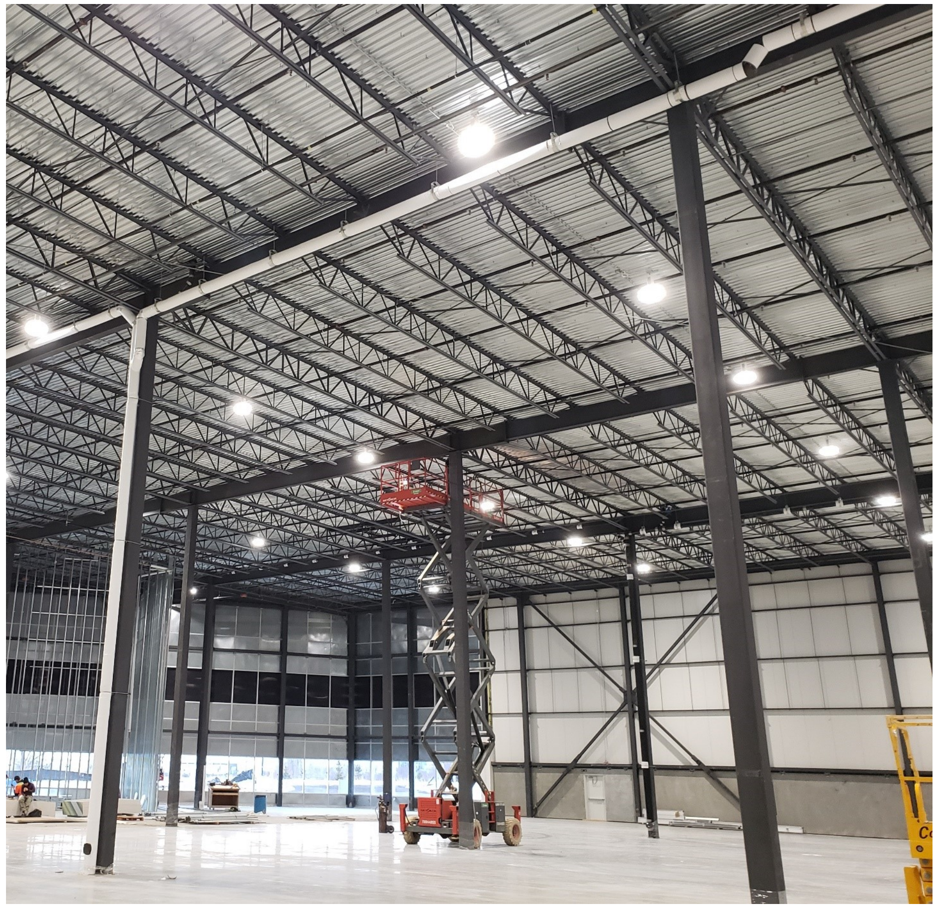
A corporate office provides a real community experience for people - something most of us have been missing terribly. It creates an environment to foster culture and the sharing of ideas through collaboration. It also contributes towards a company's brand.

Those are big advantages. And they keep me cautiously optimistic for the mid- to longer term.

Ayres Gonsalves is Vice President, Commercial, at Dorsay Development Corporation, a real estate development and investment company focused in both residential and commercial real estate.

Blair Wolk on the Industrial Outlook+

In late June, Rowena Moyes, editor of The Land Economist Journal, had a long written and phone interview with Blair Wolk, MBA, PEng, Vice President of Orlando Corporation. As VP, Wolk oversees all land development, leasing and marketing activities for the company's expanding portfolio. He also served on the Board of BILD GTA for more than seven years. The following is a lightly edited version of that Q and A.



Construction under way at 200 Edgeware. PHOTO courtesy Orlando Corporation

Industrial sector pre-COVID

TLE: *How would you characterize the state of manufacturing and warehousing in southern Ontario before COVID-19 hit?*

BW: You're asking about two very different aspects of our business. Manufacturing in Ontario, specifically manufacturing jobs, has been steadily declining over the past two decades whereas warehousing and distribution has been expanding. The number of jobs relating to warehousing and distribution in southern Ontario is higher per capita than anywhere else in the country, meaning the GTA and surrounding areas continue to be the primary distribution centre for Canada, with smaller local hubs located throughout the country.

Impact of the lockdown

TLE: *After the state of emergency lockdown and border restrictions, the IHS Markit Manufacturing PMI plunged to a record low of 33 in April, but regained about half of that loss in May (40.6). How has that shown up on the ground in the industrial sector?*

BW: The Manufacturing PMI is an indicator of the general health of the economy. When the state of emergency was implemented, few understood the extent of the impact on the economy and most people feared the worst.

On the ground, and in the absence of sales, most companies looked to preserve cash. Companies slashed costs in the form of cancelling orders for new inventory, reducing staff and asking for rent relief.

We also saw inventory levels creeping up to the point where we have now had many requests for temporary warehouse space as an overflow to deal with an over supply of goods, particularly in fashion retail where much of the spring and summer fashions couldn't be shipped nor sold in the stores, and pre-ordered inventory continued to flood warehouses.

TLE: *And how has it affected industrial lands and business parks, and your company so far?*

BW: Fortunately, most industrial tenants have been getting through the most challenging part of the lock down, and we are pleased to see the vast majority of companies ramping up operations again. Our industrial vacancy rate is under 1%.

From a new development standpoint, not much has changed. The lead time to kick off a new business park is measured in years, not months. For our industrial speculative construction program, we committed to build-out any projects already under way but pressed pause on pulling any new permits until we had a clearer outlook on the future; we weren't sure if vacancy levels would spike.

We haven't had anyone back out of new space. There is one large project we just signed in January. Then COVID hit, and we were wondering whether they would pull out of the deal, but they confirmed they are all in. Everything is going ahead for delivery in January 2022. We are also now proceeding with our pre-COVID spec building program.

TLE: *What about rents and deferrals?*

BW: Through the months of April and May, we spent the majority of time working with tenants in very dire situations and looked to assist where and when we could. We also had to manage our own cash flow and were mindful of what the future looked like.

Our rent receipt numbers are generally consistent with those of the market, which is seeing around 65% of contract rents for retail, and 95-100% for industrial and office.

The situation with deferrals varies a lot. Where people needed assistance we asked them to pay April's rent, and then generally agreed to defer May and June. Repayments generally start in January 2021, to be paid off by mid year. Among

Cont'd on page 6

non-retail tenants, there are only a small handful who still need rental assistance.

TLE: *Are any of your tenants/clients or your buildings able to benefit from government emergency programs? Do you have any advice for governments?*

BW: The CECRA program unveiled by the federal government was generally well-intentioned but unnecessarily complicated. On the surface, several tenants in our portfolio would qualify for it. However, the details surrounding the requirements of the program continue to be unclear and, notwithstanding our requests for more clarity, we have not received any from the government or CMHC.

When you look at the FAQs for that program on how the funds can be used, it says expenses, mortgages, etc., but not net rent owed. We decided to design our own program following most of the CECRA qualification rules without relying on government funding. Qualifying tenants get the same financial benefit as if it were the CECRA program. This is to help those small companies who if not for COVID-19, would be just fine.

TLE: *How do you see your own company changing?*

BW: I don't see our company changing all that much. We responded very quickly and efficiently when we pivoted to a work from home (WFH) policy and have proven we can work remotely for relatively short periods of time without too much disruption to the business. If needs change, we can re-institute a full WFH policy. We plan to maintain a level of PPE in the office at all times, and have established protocols to help avoid an outbreak in our office or on our job sites.

Looking at the Future

TLE: *What changes do you anticipate in globalization?*

BW: Globalization will continue and there will be further diversification of product manufacturing around the world. For example, companies will be thinking about producing the critical widgets for their products in a few more locations around the world, such that if production is impacted in one location they can relatively easily ramp it up elsewhere to make up for any shortfalls.

TLE: *What big changes do you see for the manufacturing sector here in Ontario in three years, 10 years, etc?*

BW: This is a tough question to answer. As mentioned, the pandemic has focused attention on the security of global supply chains. All indications point to some level of on-shoring the production of certain critical items such as PPE.

I am hopeful that, with many multinational companies looking for further global diversification of production, we see some level of manufacturing back in Ontario. However, the high hydro and labour costs here make it difficult to compete. That cost may be offset to a certain extent by the risk of not manufacturing locally. That's one place where governments really could be of assistance. Funding investment in research and development and automation might help drive new manufacturing investment here.

TLE: *What are the implications of COVID-19 for development and land use if 'just in time' delivery and warehousing is seen to be too high risk a strategy?*

BW: North American markets were generally under served by industrial warehouse space pre-COVID-19. Post pandemic we will likely see this gap widen even further as availability of shovel-ready land is critically low, particularly in the GTA, and the need to warehouse more locally will increase. There will be increased pressure on (and an opportunity for) municipalities to provide approvals for shovel-ready employment lands.

TLE: *What do you think of the planning policy change to facilitate rezoning of lands in provincially significant employment zones near major transit stations?*

BW: I have not gone through the latest release just yet but I believe PSEZs should be protected from conversion in most cases. Having said that, there are pockets in most municipalities where industry has moved on and the area is going through gentrification. In those cases, it may make sense to permit some residential, in addition to employment uses where mixed use developments can exist. Doing so works towards creating complete communities whereby people have the opportunity to live, work and play in close proximity to each other.

It's not a one size fits all solution across the Greater Toronto Area and Hamilton. Each municipality needs to identify which parcels make the most sense to broaden the permitted uses. This should be a public process which could be initiated by either the landowner or the municipality.

Cont'd on page 7

RENDERING courtesy Orlando Corporation,

Orlando continued work on projects which were already under way when COVID-19 arrived, and has just restarted its pre-Covid spec building program. This rendering shows the building under way at 50 Capston Drive, scheduled for completion in Q2 2021.

Blair Wolk *Cont'd from page 6*

TLE: *Orlando's portfolio also includes retail and offices. What do you see for them?*

BW: Both sectors are being impacted but in very different ways.

Clearly retail struggled through April, May and June and is only just picking up the pieces. However, with on-going restrictions and people becoming much more comfortable ordering online as a result of the lock-down, sales at traditional bricks and mortar stores will suffer for the foreseeable future.

In the office sector, employers with a vast reliance on office space for their workers are seeing just how well (or not) WFH policies can be deployed on a more regular basis.

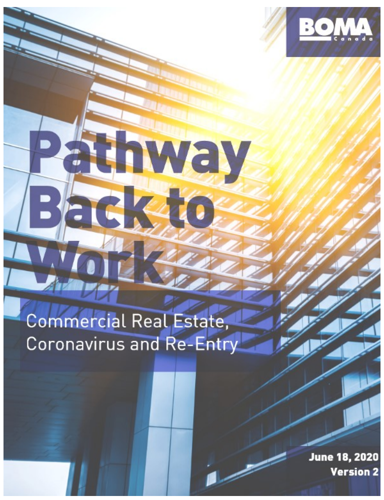
Our office buildings continue to see limited daily activity, although that is changing every day. Employers seem to be reluctant to bring employees back on a full-time basis, so they are either continuing WFH or are staggering it with work from the office. Orlando's own head office employees are working from home every other day.

There's no doubt employers will be analyzing their overall space needs. For those employers who feel work from home achieves their deliverable objectives, they are likely to increase or stick with some form of a WFH policy and by extension will reduce their long-term office needs.

On the other hand, for a variety of reasons, other companies will require workers to return, but will need more space to effectively spread out employees within the work area. This will drive demand up for office space.

Generally speaking, I do not believe there will be a large enough swing in either direction to change availability rates GTA-wide as a result of COVID-19.

Thanks to Stefan Krzeczunowicz, Associate Partner at Hemson Consulting and AOLE Treasurer, and to Michael Cane, President of Michael Cane Consultants and AOLE Board member, for their input into the interview questions. RM



BOMA CANADA'S 66-PAGE GUIDE TO RENTRY

It has been almost four months since 'non-essential' staff shifted to work-from-home. This book, updated in mid June, provides guidance for commercial building owners and managers for the phased re-opening after this period of 'hibernating'. It has sections on building operations, vendors and supplies, tenant and building communications and human resources. While general principles are well-known, there are nuggets throughout. Among the many topics are planning for deliveries to tenants, fire drills, water systems safety, HVAC, ventilation and filters, PPE disposal, crisis management, training and cleaning, talking to tenants, setting up and maintaining protocols, and contact tracing. The book is available online in pdf here.

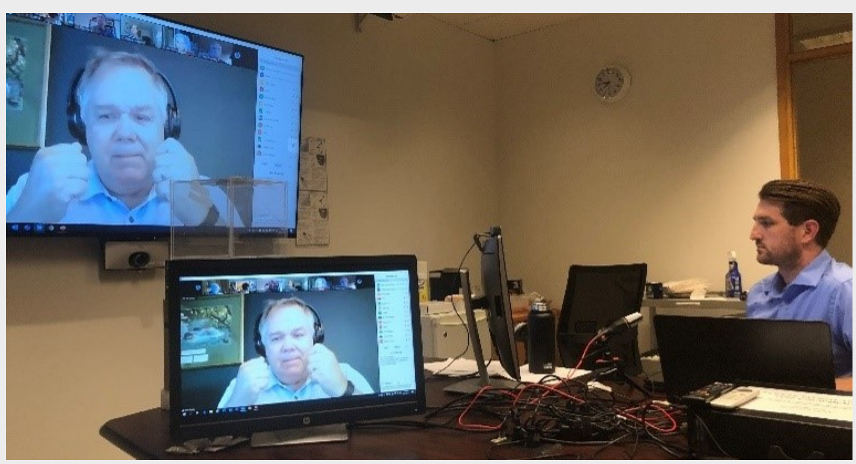
Virtual public meetings

While digital has been making advances in municipal government processes for some time, COVID-19 has spurred new leaps. That now even includes holding 'virtual' statutory public meetings in front of Council - the kind that you have to attend to preserve later appeal rights.

"Personally, I had never heard of or seen anyone doing a virtual statutory public meeting in Southern Ontario prior to March 17, when the Premier announced the state of emergency," says Mark Conway, President and Senior Partner at N. Barry Lyon Consultants. "But now we're doing it here by necessity. Even the smaller municipalities … Springwater near Barrie will be having its first one in August."

Including online participants has advantages, he said. "Many more people can have access. It's much easier to just open up the computer and tune in than get down to City Hall." Most people, industry and government have adapted to online 'virtual' meetings - even technophobes. But those without reliable internet or equipment need an option to tune in by phone, see documents offline and send comments.

A recent OPPI webinar heard senior staff from Barrie, Sudbury and Ottawa discuss adapting to virtual engagement under the Planning Act. Among many interesting points, they stressed having a separate moderator for the technology, getting people to sign up to talk, and lots of practice.



Councillor Jean Cloutier (Ward 18-Alta Vista) and City staff host Ottawa's first virtual development application statutory public meeting on June 11.

Telework and urban real estate

by Murtaza Haider, PhD

A big shift, albeit temporary, has already taken place in the way knowledge economy workers are discharging their responsibilities during COVID-19. Gone are the commutes on congested roads and crowded public transit. Office towers, which once bustled with workers, have remained mainly empty. The retail and hospitality businesses around office towers have also been mostly shut.

These changes are likely to impact the bottom line of landlords who hold large portfolios of office and commercial real estate. If working from home becomes the new norm, even realizing at a much lower rate in the future than during the pandemic, the demand for office and commercial real estate is likely to decline. This could result in higher vacancies and ultimately lower rents, especially in urban areas served predominantly by public transit.

SHAKING BUSINESS MODELS

Technological advances to facilitate working from home (telework) had existed for some time. Over the past 10 years, smartphones, virtual private networks, cloud computing, big data storage, software as a service, and teleconferencing have been transformative.

However, it took a pandemic to shake the traditional business models that were founded on urban land economic theories of the past in which downtown centrality dictated how land uses were allocated over the urban space. (Primarily, variants of William Alonso's Bid Rent Theory implied that the land nearest to the Central Business District would be used for an industry sector willing to pay the highest rent. Other land uses emerged as they outbid the rest to occupy space at a certain distance from the CBD.)

In the modern metropolis, the CBD is occupied predominantly by high rise office and residential towers. A variety of retail and hospitality businesses exist to support the primary land users in office and residential towers. Because of reliable and efficient accessibility by public transit, other recreational land uses, e.g., sports arenas, are also found in or near CBDs.

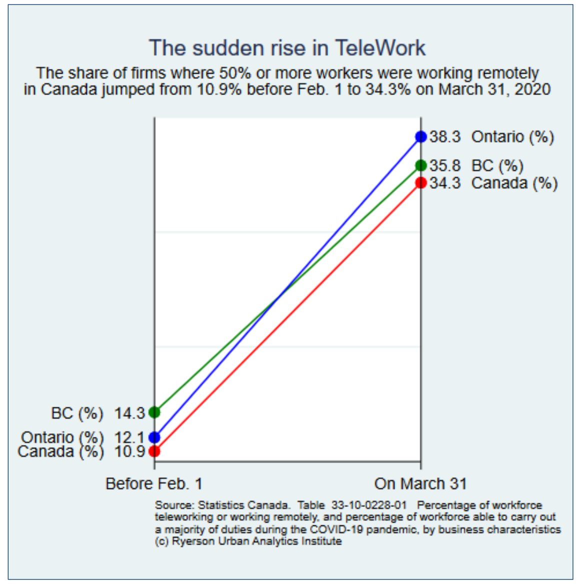
Knowledge economy firms employing mostly white-collar workers have been willing to outbid others by paying top dollars to rent the most expensive commercial real estate in and around CBDs. In return, they get ready access to a concentrated pool of talent that is easy to attract or poach from neighbouring businesses.

The underlying belief has been that the high-density of talent creates opportunities for spillovers and innovation that would not be possible otherwise. Put differently, innovation is accelerated in the high-density urban core.

If high-density employment hubs were the necessary accelerators for innovation, then it must also hold, at least partially, that innovation may realize at a slower pace in low-density suburban office parks. And by extension, working from home should threaten the very idea of speed in innovation.

The technological innovations alone have not been sufficient to challenge the accepted models of agglomeration and urbanization economies. Employment hubs, over the years, have packed even more workers in even taller towers employing tens of thousands of workers.

The downtown employment hub in Toronto employs 450,000 workers who have been bussed (*subwayed* and *streetcar'd*) to and from downtown until the pandemic hit. Since mid-March, the transit ridership in Toronto, like many other populous cities, has been down by 80 per cent or more. Social distancing



issues seem likely to keep ridership low for some time.

Office leases are intact, though physical occupancy is a fraction of pre- COVID-19 levels. Businesses, large and small, have shipped the knowledge economy workers to their homes, allowing them to take their office computers, stationery, and even paper shredders with them.

MASSIVE SHIFT TO HOME

In our late May report Telework during COVID-19 Lockdown, using the recently released data from Statistics Canada, Ryerson's Urban Analytics Institute documented the massive shift in the work culture. See charts above and on the next page. Interestingly, the industry sectors with the highest share of employees teleworking are the ones who usually occupy space in office real estate.

Another survey by Statistics Canada revealed that since the lockdown almost 40 percent of employees were working from home, another 20 percent were home and not working, and the remaining 40 percent continued to commute to their out- of-home work locations.

The news coverage of the three-month telework experience has been positive. Businesses have noted that their employees were equally productive working from home. (Also reported is 'working-from-home fatigue', where some employees felt they were working for longer hours now than before. The change in perception, though, is noticeable.)

Cont'd on page 9

Telework *Cont'd from page 8*

Managers who confused presenteeism with hard work now realize that they may not have to peek over employees' shoulders to ensure work is being done. This has opened new possibilities for a hybrid future where white-collar workers could split their time between the office and home.

Some experts are of the view that working from home is a fad that will dissipate once the pandemic related restrictions are relaxed or removed. However, the recent embrace of telework by leading businesses suggests that a significant shift has already taken place. Twitter, Shopify, Citibank, Facebook, and many more have advised their employees to continue working from home until such time they feel safe to return to work, board public transit, or ride the elevators.

LONG LEASES

Time is, fortunately, on the side of landlords. Commercial leases often last for five or more years, and tenants are not in a hurry to cancel them. The prevailing uncertainty will continue at least until a reliable vaccine becomes available, which could take months, even years. Commercial tenants would hold and watch and continue evaluating the need to rent large swaths of costly real estate in the urban core, which has been the most desirable place to be until the pandemic upended the trusted business models.
It will be some time before most commercial leases come up for renewal. This provides landlords with the opportunity to determine the likely future demand for office and commercial real estate, especially in the high-density, transit-dependent urban cores.

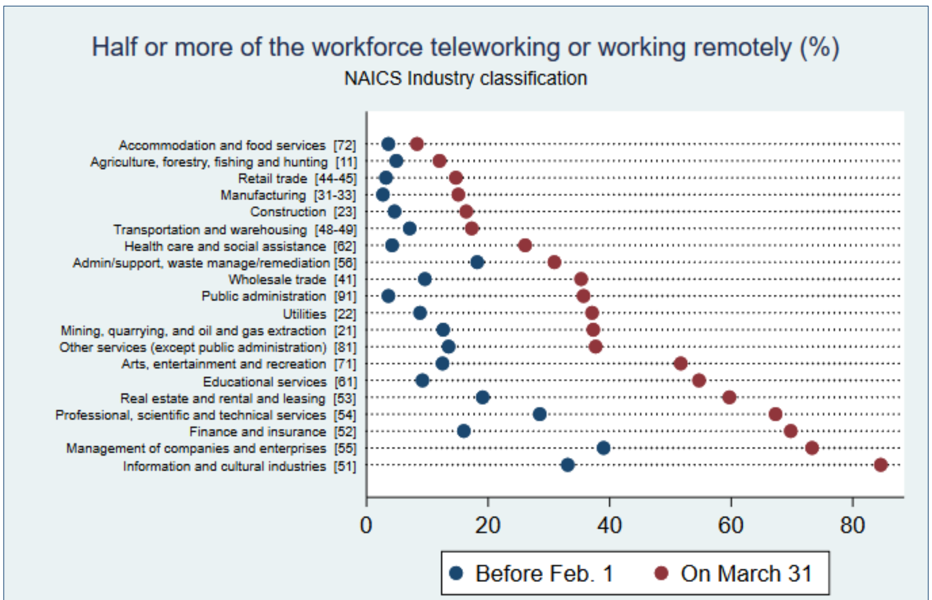
If the economy seems to return to the pre-pandemic norms in a few months or a year, no need to hit the panic button. However, if working from home becomes a more permanent fixture of the post-pandemic work culture, it will be wise for the landlords to start generating ideas for alternative uses of space that may become redundant in the future.

OTHER IMPLICATIONS

Of course, office landlords aren't the only ones potentially affected. The existence of those employment hubs supports a large number of retail, service and entertainment businesses as well.

Municipalities also have a vested interest in ensuring the financial viability of these hubs. Already, municipalities across Canada are facing budgetary shortfalls of between 3.5% to 17% or higher. A decline in commercial real estate valuations would have a long-term adverse impact on municipal revenues. At the same time, one could expect at least one large year-over-year decline in municipal revenue because of lower land transfer taxes.

Murtaza Haider is a professor of Real Estate Management at the Ted Rogers School of Management at Ryerson University.



Source: Statistics Canada. Table 33-10-0228-01 Percentage of workforce teleworking or working remotely, and percentage of workforce able to carry out a majority of duties during the COVID-19 pandemic, by business characteristics
(c) Ryerson Urban Analytics Institute

Welcome New Members

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NEWS BRIEF

CONTACT TRACING APP

Individuals, employers and labour groups are being urged to support the very simple, voluntary opt-in *COVID Alert* app set to launch within a month in Ontario The app doesn't replace Public Health's contact tracing process after someone has tested positive for the virus. Neither does it replace an employer's obligation to carry out contact tracing. What it does have is a huge potential to notify more individuals much more quickly, and anonymously, that they may have been exposed - think store customers and bus riders. But it has to get downloaded and used very widely to work.

To address privacy concerns, the app uses Bluetooth technology rather than GPS. A representative of the Ontario Digital Service explained that it does not create information about your location, just that you were within about 2 metres of another alert-using cell phone for 15 minutes or more. No individualized information is kept. The data is downloaded to and resides on your own cell phone, and you are the one who triggers the notifications if you test positive. When you do, those people will receive a notification, but there's no information about who, where and when. All data gets scrubbed after 21 days.

GTA Condo Pre-Sales: Down but by No Means Out

by C. Hunter Milborne

Where are we with respect to the GTA preconstruction Condo Market and what do we see for the future? In order to fully appreciate our present-day perspective, a brief historical summary is in order.

For the last few years, the GTA's preconstruction condominium market sold 136,000 units (see Chart at right). 2020 was on target for a record year, having sold almost 10,000 units in Q1. When the lockdown happened in mid-March, sales offices closed and all selling became remote, contact-less and virtual. It is estimated that sales volumes dropped 75-85% from mid-March to end of May.

Some Bright Spots

Building Two of Lanterra's 'Notting Hill Condos' launched for sale on March 10. Two hundred suites were released for this multi-phased community on Eglinton Avenue West near Royal York Road (a future transit stop). Under normal conditions, most of the 200 suites would be spoken for in a few weeks.

If the launch had been scheduled a week or so later, it would have been cancelled for sure. However, once launched, virtual, electronic and digital platforms got ramped up quickly. During the balance of March and up till June 30, virtually all of that initial release had been sold. Not bad considering the circumstances and limitations.

On June 1, Marlin Spring launched 'The Tailor', a 10-storey, 142-suite building at 1197 The Queensway. By June 30 all 142 suites had been sold. Two thirds of them went in the first month. Again, not bad considering the semi-lock - down and the pan-demic mode still in the GTA. It is somewhat remarkable when you think about it!

GTA Pre-Construction Condo Sales (High Rise)

Year	Sales	*Average Price*	*Avg. Size (sf)*	*Avg. Price / sf*
2016	25,000	*$435,000*	*670*	*$ 650*
2017	36,000	*$495,000*	*660*	*$ 750*
2018	22,000	*$535,000*	*648*	*$ 825*
2019	27,000	*$610,000*	*642*	*$ 950*
2020*	*26,000*	*$640,000*	*606*	*$ 1,050*

Sources: 2016-19 Sales - Altus Group; *others - H Milborne, estimates*

This project, Tailor, has no sales office. All promotion, presentations, legal agreements, and everything else was done virtually. It was a bit slower, but everyone got used to it and the program worked very well!

Demand and Supply

CMHC has stated that roughly 50,000 to 55,000 new housing units are needed on the supply side to stay balanced with the relentless demand.

According to BILD GTA/Altus, the total number of new homes sold in the GTA in the last five years is:

2020 – 12,561 (Jan-May)
2019 – 36,335
2018 – 24,678
2017 – 41,860
2016 – 44,102
2015 – 41,090

Presales at Marlin Spring's The Tailor condo in Etobicoke started June 1. Two thirds of the 142 suites sold in the first four weeks.

Why the shortfall? The Greenbelt legislation enacted in 2005 froze almost 800,000 acres around the GTA. Prices began to increase more rapidly as demand really began to exceed supply.

In 2012, CIBC came out with a study that stated that the most expensive real estate in the world is on the islands of Hong Kong, Singapore, and Manhattan, and that the **creation of the Greenbelt had essentially made the GTA an island**.

It is projected that the GTA's 6.5 million people will grow to 8.5 million in 10 years. In 2019, natural increase plus domestic and foreign immigration added 340,000 new residents to Canada – a good percentage choosing the GTA. The appetite for home ownership is insatiable.

Slow municipal approved times and selective NIMBYism, do not help the supply side. For example, '7 Dale Avenue', a pair of boutique ravine side four-storey buildings in Rosedale, consisting of just 26 new residences, took almost five years to secure approvals. The Toronto and Region Conservation Authority, potential Heritage arguments, ratepayers (SRRA) and rogue militants all contributed to an overburdened municipal process in slowing approval times.

Sales slowdown won't last

It is my expectation that, because of the significant disequilibrium between demand and supply, the current slowdown in sales volume will be short lived.

A quick look at the resale market for April and May tells an interesting tale. According to TREB, April 2020 sales volume was down 67% from 2019; however, new listings were down 64% and average prices inched up 0.1%. May was a similar story, but prices rose 3%.

Who would have predicted that, during a Global Pandemic amidst significant decreases in volume, the housing prices in the GTA would not fall, but simply stop rising as much? Unbelievable!

Cont'd on page 11

Condo Pre-Sales *Cont'd from pg 10*

Cancelled projects?

Following the spate of cancelled pre-construction projects in 2018 and 2019, many people have asked if the Covid-19 crisis will contribute to more cancellations. I do not think so because in the life cycle of these preconstruction projects, one or two quarters does not change much.

The main reason why new projects were cancelled is that the developer went to market too soon and the approval period took much longer. That fixed revenues while costs continued to escalate, so financing became unavailable.

In a recent BILD GTA survey, builders reported that 65% of projects in the pre-construction stage were facing delays of three to six months and 32% expected six plus months. Our experience is that the sales launches that we had scheduled for March, April, and May are happening in June, July, and August, so most of our sales openings have been delayed for two to four months. Occupancies have been delayed one to two months so far.

Recovery

Economists talk of the different outlines of recovery: V-shaped, U-shaped, etc. Recovery here will probably look much different for different industries (restaurants, hotels, and hospitality in general will probably have a U-shaped recovery).

One thing is almost certain: for the short to medium term, interest rates will be at historic lows assisting with housing affordability.

Parts of Canada will no doubt be slower to recover; but no other city in Canada or North America or Europe for that matter has Toronto's unique set of conditions.

Was Siddall right?

This brings me to the recent statement by Evan Siddall, President of CMHC where he said that, "Average home prices could drop between 9 per cent and 18 per cent over the coming 12 months… Mortgage deferrals could jump from 12 per cent to 20 per cent by September…. One fifth of all mortgages could be in arrears if the Canadian economy has not recovered sufficiently. The resulting combination of higher mortgage debt, declining house prices and increased unemployment is cause for concern for Canada's longer-term financial stability."

I am not sure where he was referring to, but certainly NOT in Toronto!

C. Hunter Milborne is President and CEO of the Milborne Group, a well-known marketer and promoter of mixed-use condominium communities.

Thanks for 27 great years!

The first issue of The Ontario Land Economist was published in March of 1966. And my first one as editor was in the summer of 1993. Which leads me to the startling conclusion that I've been 'at the helm' of the Journal for half of its life. Wow!

Rowena Moyes

By 1993, I had become a busy freelance writer/editor, drawing on skills and contacts made while being a reporter at the Daily Commercial News, staff member at the Ontario Home Builders' Association and first editor of the Ontario Home Builder magazine. It was a privilege to add AOLE to my client roster. And fun to make cross links between your interests and those of my other association, government and corporate clients.

What a range of topics and expert authors have appeared in these Journals. What great events.

I've been semi-retired for several years now and my emphasis has been shifting away from the 'semi' part and more towards the 'retired' end. So this is my last issue.

I want to thank all of the Board members, who have been so supportive, especially Keith Hobcraft, long-time chair of the Journal committee, and John Blackburn, who took over that position last year. And all of you dedicated PLEs.

Hope to see you all in person at events, once those start up again!

NEWS BRIEFS

TERMINATION CLAUSES CAN TRUMP BAD FAITH

A June decision in the Ontario Superior Court of Justice clearly states that early termination clauses in agreements of purchase and sale can protect the developer against liability for damages, opportunity costs, loss of bargain, etc. even if it did not act in good faith.

In a posting on its website, Aird & Berlis, solicitors for the developer, delve into the issues behind *Ritchie et al. v. Castlepoint Greybrook Sterling Inc.*, 2020 ONSC 3840. The judge "agreed with the developer's position that the exclusion clause applies even where there has been a breach of the obligation to take commercially reasonable efforts" to proceed.

Given the spate of cancelled condominium projects in the past several years, Tarion has required (effective Jan 1 2020) an information sheet at the front of condo agreements of purchase and sale outlining key risks - including possible early termination conditions and limits on liability, the firm said.

Commonly, these refer to reaching a certain sales threshold, obtaining necessary approvals or obtaining financing. Often, they include 'exculpatory' wording specifically limiting amounts purchasers can receive, and blocking liability for various damages.

It appears that they work. "The decision's enforcement of the exclusion clause will likely have broader implications for other cancelled developments as most pre-construction condominium agreements include comparable clauses," the Aird & Berlis article concluded.

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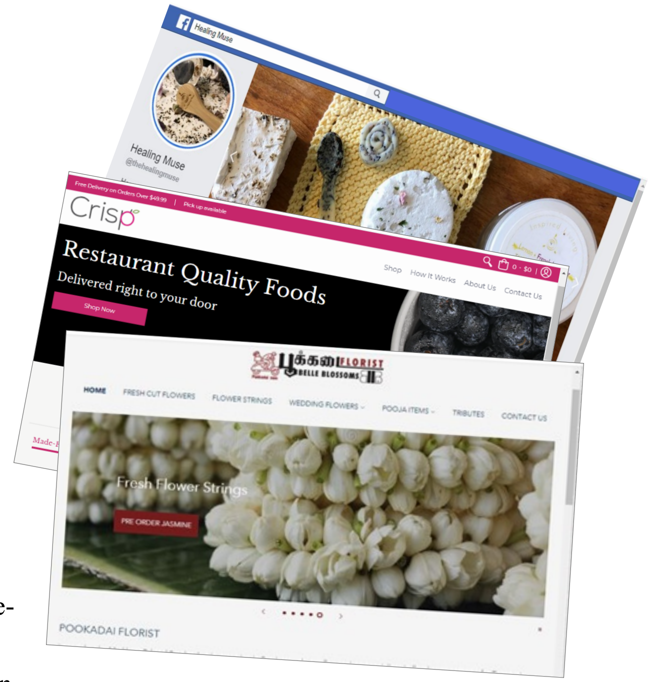
MODERNIZING THE COURTS

Among the positives of the pandemic, it looks like one will be dragging Canada's antiquated justice system into the 21st Century. A three-part series in The Lawyers' Daily gives a look at the speed at which things have been changing -- and the deep need.

For example, Canada has a shameful performance (#100 out of 190 countries) in the World Bank's ranking of time to enforce contracts. Its average 910 days is more than twice that of Australia, the U.S., and the U.K. See Julius Melnitzer's Justice and the Pandemic series, starting with The new gold standard.

Main Street merchants and the pandemic

by Peter Thoma, MCIP, RPP, PLE



In June 2018, six months before his untimely death, Anthony Bourdain, the host of popular CNN-series *No Reservation, Parts Unknown,* and my personal favourite, *the Layover* famously said, “there's really no worse, or lower human being than an elite Yelper. They're universally loathed by chefs everywhere. They are the very picture of entitled, negative energy.”

Popular food and leisure apps like Yelp, Open Table, Ritual and Trip Advisor, have always occupied prominent real estate on my smartphone. Pre-COVID-19, these apps were indispensable in planning day-to-day life: exploring leisure options near and far and booking reservations. But they have long been criticized for their ability to over-hype mediocrity and – worse – nullify the efforts of well-intentioned entrepreneurs.

Countless restaurant start-ups for example have been sunk by overly zealous customers with an axe to grind. It doesn’t take much. With really low margins (typically 2-3%), 65 to 75% of all restaurants don’t live long enough to see their fifth anniversary.

Yelp’s back-end data

While the front-end of Yelp provides a platform for customers and businesses to engage through critical reviews and glowing recommendations, the back-end of Yelp, as it turns out, delivers some pretty rich and tasty market insights.

On June 25, the company’s analytics team dropped an alarming report that is currently being digested by industry-watchers, policy-makers and commercial landlords. While data is only available (at least for now) for the US - and also coincides with massive protests following George Floyd’s death - the results will certainly challenge the intestinal fortitude of anybody considering a new business venture which depends on face-to-face transactions.

It’s also a wake-up call to anybody who thinks retail and restaurants are an expendable part of our economy.

Yelp’s COVID Economic Impact Report takes a deep dive on the stability of restaurants and other services such as shops, salons and fitness studios by tracking the status of operations over three specific time-stamped dates in 2020: March 1 (pre-lockdown), April 19 (lockdown) and June 15 (post-lockdown).

Compared to the peak in April, by June 15 the number of US businesses that were closed had fallen by nearly 20%. While nearly 140,000 US businesses were still closed in the wake of the pandemic, the number is far lower than the nearly 177,000 reported closed in mid April.

However, as COVID cases begin to surge across a majority of states, hotspots such as Arizona and Texas are reordering the closure of bars, restaurants, salons and fitness studios.

Now for the bad news: the data shows that, of the commercial shutterings listed on Yelp since March 1, more than 40% are now earmarked as *permanent*. These are businesses that have closed for good.

Interestingly, Yelp’s data shows that the largest spikes of permanent closures actually occurred early on in the pandemic (in late March/early April), indicating that many businesses across the US were already struggling or had little cash on hand to make it through.

While restaurants have seen the highest share of permanent business closures (53%), other businesses including retail shops, salons and fitness facilities also posted alarmingly high rates of permanent closure.

As if business wasn’t tough enough, the pandemic now presents owners with an existential crisis: pivot or die.

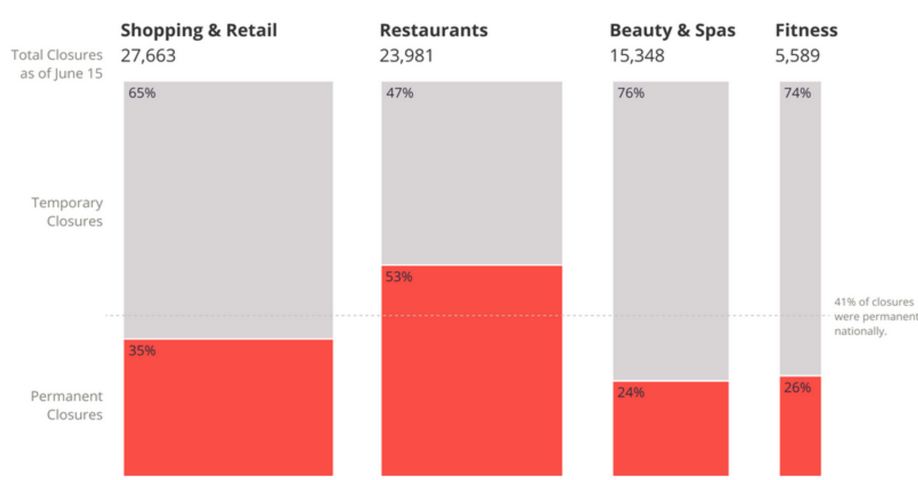
Ramping up online

For Alison Graham, owner of Toronto-based kitchenware store, Cookery, the lockdown resulted in a massive surge in customers baking and gourmet cooking. Updating her online inventory plus brisk curb-side pickup really paid off – Graham says sales during COVID are tracking about 50% over the same period in 2019. Her two outlets have never seen mid-week sales volumes like April, May and June.

And there’s help for newbies. Last month, the Government of Canada and the Province of Ontario committed $57 million to help support small businesses and merchants accelerate their digital sales platforms as a counterbalance to the lockdown.

Cont’d on page 13

US Business Continuity Patterns: March 1 to June 15 2020



Source: Yelp Coronavirus Economic Impact Report

Main Street *Cont'd from page 12*

The Digital Main Streets (DMS) program which was initially launched a few years ago as a partnership initiative between the Toronto Association of Business Improvement Areas (TABIA), Mastercard Canada and Shopify, has been rapidly scaled-up during the pandemic with the addition of Google Canada as a new corporate partner.

The DMS|ShopHERE program pairs small businesses with young tech-savvy students from the Schulich School of Business to create sales-enabled websites and new digital payment capabilities.

Thus far, the COVID-combatting program in Toronto has supported over 7,000 new online market entrants, many of which were established small businesses with little or no digital profile. The ShopHERE program has targeted the creation of upwards of 50,000 new online businesses across Canada. Calgary, Markham, Vaughan, Brampton, Hamilton, Kitchener and Stratford have formalized their participation in the program, with many more jurisdictions expressing an interest.

Future considerations

While the Canadian response to COVID has taken a dramatically different approach in terms of coordinated public health policy, financial stimulus for business, wage supports and political tone, the US data lays bare the importance of public safety messaging in rebuilding trust between customers and business operators.

Governments certainly play a key role in helping to mediate these relationships. They also need to double down on deeply enshrined planning policies (i.e. commercial avenues, mixed use nodes and corridors and major transit station areas) that recognize the import-ant contribution that small businesses play in building heathy, liveable communities.

There are still many more questions than answers about the fallout from this pandemic - even before we talk about a second wave. Can commercial real estate bounce back? Will there be a new generation of mom-and-pops? Will failed business models be reinvented in new ways? Can small business ever truly compete against Amazon, Walmart and Loblaws? Ultimately, consumer confidence and on-going access to credit will dictate whether we are able to steer clear of the massive economic cliff that is in plain view for all to see.

In the absence of a vaccine, shopping local, hand washing, and praying for leadership change in the upcoming US election are the only tools we have to return us to anything close to normal.

Peter Thoma is a Partner in urbanMetrics inc., providing advice and expert opinion on infrastructure, land, commercial real estate and housing.

NEWS BRIEFS

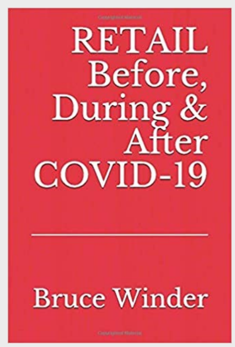
COMMERCIAL EVICTIONS BANNED IF LANDLORDS WON'T USE CECRA

On June 17, 2020, the Ontario government passed the *Protecting Small Business Act*, temporarily banning or reversing evictions of commercial tenants and protecting them from being locked out or having their assets seized during COVID-19. Aimed at encouraging landlords to use the Canada Emergency Commercial Rent Assistance program (CECRA), the legislation applies to small businesses that are eligible for that program, and restricts evictions for non-payment of rent from May 1 until August 31, 2020. See details in this article from Fasken.

The CECRA offers landlords partial payments towards rent of qualifying commercial tenants: landlords would agree to forgive at least 25% of the tenant's total rent, tenants would pay up to 25% and the federal and provincial governments provide the remaining 50%. It was estimated the program would provide more than $900 million in support for small businesses and their landlords in Ontario. But takeup was slow. The program has recently been extended to cover July rents, and amended to address some criticisms. See this Globe and Mail article from July 2.

TWO INTERVIEWS IN *RETAIL INSIDER*

Retail Insider's articles are a good resource for anyone trying to keep up with Canada's retail industry. In late June, it carried interviews with two Toronto-based Canadian retail analysts that are well worth checking out.



The June 22 article ***Retail Before, During and After COVID-19: An Analysis*** talked to Bruce Winder, President of Bruce Winder Retail and author of the recently published book shown above. That book explores the rapid pace of change in the retail industry, including analysis of more than 70 key North American retailers, his top 80 retail trends as of February, a detailed account of how the pandemic impacted retail in the US and Canada and forecasts for its short, medium and long term effects. Among key areas, he told writer Mario Tonneguzzi, are technology and real estate. Not just online technology, he said; there will be more augmented reality and touchless retail. And "there's going to be a reckoning for malls". Tier three malls and some tier two will close and become mixed use. See the full article here. The book is available here.

On June 24, Retail Insider ran a more detailed ***Q&A with Retail Expert Anthony Karabus on the Future of Retail in Canada***. The CEO of HRC Retail Advisory talked about the digital transformation in the industry, the disheartening realization that a lot of digital sales were just cannibalizing store sales, and the impact of Amazon. He discussed the mixed impacts of the pandemic on different retailers, winners and losers, and some of the less visible challenges it has created and trends it has undermined (e.g., experiental retail, at least for the next couple of years).

The list of store closures in 2020 is already large, with many distinguished names on it: "I am sure there will be many, many more, even amongst healthy retailers." Karabas and Tonneguzzi went on to explore more agile business models, the increasing importance of inventory management, the outlook for consumer spending, and the steps retailers need to take for the future. See the full article here. If interested, sign up for RI's daily newsletter here.

RM

Updated growth figures still positive to 2051

by Stefan Krzeczunowicz, BA, PLE

The COVID-19 pandemic is the most severe shock to Ontario's economy since the Great Depression. But how will it affect long-term population and employment growth?

Our recently issued report *Greater Golden Horseshoe: Growth Forecasts to 2051* suggests the answer is 'Not Significantly' — at least not in the Greater Toronto Area (GTA) and the broad "Outer Ring".

The report forecasts growth in the Greater Golden Horseshoe (GGH) will rise from the current 10.0 million people and 4.9 million jobs to 14.9 million people and 7.0 million jobs by 2051.

To be sure, the immediate effects of the crisis are profound, even as we emerge from the state of emergency and business starts to reopen.

Immigrant arrivals, that great wellspring of population growth in the GGH, are effectively frozen at the moment. And although the early experience of reopening the economy in the US and in Quebec suggest an initial bounce back in jobs in some sectors, there is a long tough road ahead to get back to where we were in February. Job losses in our region remain acute: 660,000 in the Toronto Census Metropolitan Area alone between January and May, compared to only 95,000 during the 2008-09 recession. However, Ontario's employment rose by 378,000 in June, the first increase since the COVID-19 lockdown.

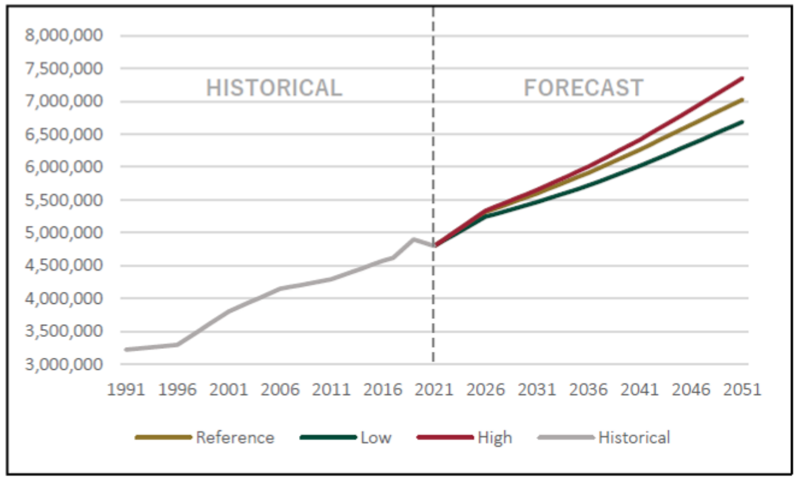
RESILIENCE

Demographic change is typically slow and this pandemic, serious as it is, will likely have little impact on population fertility and mortality in the Greater Golden Horseshoe overall.

More important for population growth is that southern Ontario's dynamism, good governance, and planning, will continue to be attractive to international migrants. This is particularly true of our stable immigration system, which offers a number of pathways to permanent settlement.

In recent years, the easy route to employment and permanent residency for international students and their families has become much more popular. International student numbers have almost doubled in the last seven years. There is little reason to suspect that our colleges and universities, which are heavily concentrated in the GGH, won't continue to be successful in their recruiting efforts once international travel becomes possible again.

GGH Employment Forecast: Reference, High & Low - 1991-2051



Source: Hemson Consulting

Migration patterns will also remain relatively unaffected once restrictions on movement are lifted. Immigrants will continue to settle overwhelmingly in the Greater Toronto Area (GTA) - primarily Toronto and Peel and York Regions - with not insignificant numbers settling in the Ottawa and Kitchener-Waterloo regions. The major migratory flows from the GTA to the smaller urban centres in the Outer Ring will also continue, fueled by an ongoing desire for housing that is appropriate, affordable, and relatively close to the location of jobs.

We are seeing shifts in migration within Ontario and between Ontario and other provinces arising from economic losses: unemployed young adults moving back in with their parents or using the opportunity to seek their fortunes elsewhere; and some older adults taking earlier retirement. However, if history is any indication these patterns will reverse once the economy returns to full health.

COVID IMPACT

The long-term impact of COVID-19 on employment in the Greater Golden Horseshoe is much more uncertain for three reasons:

- First, the speed at which job growth returns to pre-pandemic expectations largely depends on when a vaccine is found and how it is distributed.
- Second, the business lockdown could well be a catalyst for far-reaching change in specific economic sectors—there has been much discussion of the destructive effects on travel, tourism, conventions, retail, restaurants, and print media.
- Thirdly, any sustained change to the way people work could disrupt the structure of the labour force and the distribution of jobs. For example, even a small shift from travel by transit to automobile or bicycle travel for public health reasons could undermine plans for concentrating jobs in urban centres. As well, if the mass working-from-home experiment is found to have been productive that could reduce the need for new office space and free up road space for drivers. Finally, there has been speculation that some shifts in the need for industrial lands may be afoot. (See article on page 5-7)

However, notwithstanding the dramatic change that could hit specific firms, industries or economic sectors, the region's economy remains robust and diverse and will continue to be the primary economic engine of Ontario. More importantly, the structural changes taking place in the regional economy, even if disrupted by COVID-19, are longstanding, gradual, and relatively well understood.

So, our forecasts assume that overall employment growth in the GGH will return to pre-pandemic levels within, at most, three years.

In short, we should take comfort in our situation. Our region's current economic and demographic conditions point to substantial population and employment growth over the long-term. Many of our neighbouring states to the south might wish they were so fortunate.

Stefan Krzeczunowicz is an Associate Partner at Hemson Consulting, with experience in growth management, municipal finance and adjudication. He is also the Treasurer of the AOLE.

Housing & COVID: Manageable Disruption

by Peter Norman, MA, PLE

The global pandemic has indisputably been a major disruptive factor in all facets of life. Changed behaviour and government-imposed containment measures have led to major changes in the spending patterns of Canadians, millions of job losses and have plunged the economy into a sudden and deep recession.

In Ontario, the housing and development sector has been an important driver of economic activity over the past several years, but the patterns leading up to the pandemic will be important guideposts to understanding what the market may be like as we continue to emerge from the crisis.

LEADING UP TO MARCH

In the past five years housing starts in Ontario averaged almost 75,000 units per year, up 14% (or close to 10,000 units per year) over the previous five-year period.

Housing construction creates jobs, both directly and through upstream economic effects, and the extra 10,000 units per year in Ontario account for an extra 23,000 net new jobs and an extra contribution of close to $3 billion in GDP each year.

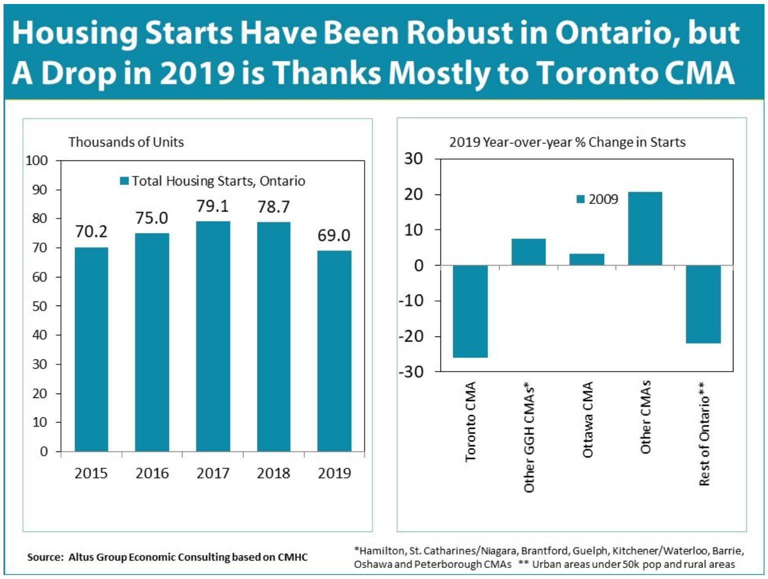
This momentum in new construction is paralleled in other aspects of the housing market. The rental market has seen recent increases in new construction, lower vacancies and rising rents.

WHY THE 2019 DIP?

Recent patterns, however, are cautionary. Even though housing starts were higher on average over the past five years, they did fall some 12% in 2019, and that overall decline was almost entirely driven by a sharp 26% decline in the Toronto CMA (see chart above).

By contrast, 2019 saw a surge in construction in many other Greater Golden Horseshoe (GGH) cities, in Ottawa and other major cities across the province.

Toronto's weakness in construction in 2019 likely related to supply shortages as new project launches slowed down. It wouldn't be obviously driven by economic or demographic conditions.



In fact, population growth in the Greater Toronto Area surged in each of 2018 and 2019 adding some 130,000 net new people a year – some 55% higher than the 10-year average growth. Most of this is caused by international in-migration, and in particular the recent surge in study- and job-based net temporary migration.

Stellar job growth through this period also provides contrast to the weakness in housing starts. Toronto's economy generated some 140,000 net new jobs last year compared to about 50,000 in a typical year.

CONSIDERABLE MOMENTUM

But despite the puzzling weakness in residential construction in 2019, there was considerable momentum building in the housing market in the months prior to the onset of the pandemic. In particular, home sales rallied strongly. In Q1 2020, new home sales more than doubled from a year ago and resales rose 23% in the same period at the same time as listings were drying up.

By March there were one-third fewer listings available than a year before. Shelter at home measures during April and May exacerbated the supply shortage, but there remained some activity on the sales side.

Housing prices are now clearly reflecting the shortage of listings. For June, the Toronto and Region Real Estate Board reports that average prices were some 12% above year-before levels. June's strong showing in terms of both sales and price suggest that any impact from COVID on the resale market may be limited to access and supply problems rather than any significant diminution in demand.

EFFECTS OF THE PANDEMIC

In terms of effects of the pandemic on new housing construction, there are a lot of factors to consider. There are short-term factors stopping or slowing new construction projects, including government-imposed workplace closures, reduced municipal planning approvals and disruptions in supply chains.

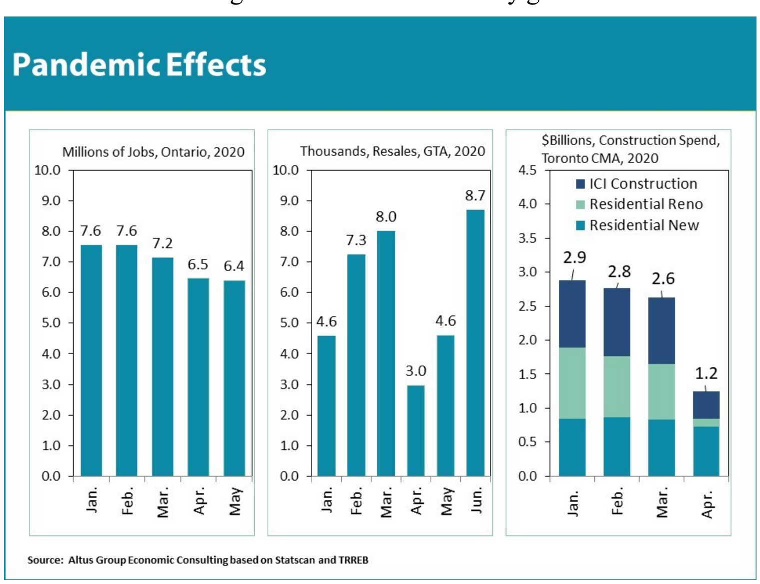


BILD GTA conducted a survey of its multi-family members in May and found that a majority of development projects in the City of Toronto faced delays due to the COVID-19 crisis.

Cont'd on page 16

Housing *Cont'd from page 15*

Among projects under construction, over 8 out of 10 projects were delayed by at least three months and many by well over 6 months. The survey also found that many planned projects in the pre-construction phase also faced significant delays due to issues surrounding project approvals or building permit issuances during the pandemic. This suggests that these short-term factors may well prove to be much longer lasting beyond the emergency measures period.

There are economic factors too. With the loss of over a million jobs in Ontario between Feb and May (see chart on previous page), and lost hours of work among millions more, the economy is contracting at an unprecedented rate.

CONTRASTING FACTORS

The effects of this recession will be felt in the housing market and affect housing starts in the medium to longer term, but the question is to what extent? The answer to that question lies in the contrasting factors affecting conditions later this year and into 2021.

On the positive side, the massive government income relief programs will mitigate some of the financial impacts of the recession on households. Also, the recession is expected to be short lived: estimates have the pace of job growth recovering strongly over the second half of the year and through 2021 as social distancing measures are relaxed and more workplaces open up.

But the negatives will certainly linger, including reduced household incomes, drawn down household savings, insolvencies, tighter credit conditions and mortgage rules etc. All affect potential home buyers' ability to save, borrow and purchase a home.

Furthermore, there is short to medium term uncertainty about the continued pace of international migration and its effect on the population growth in Toronto and through the rest of Ontario. As Ontario has been particularly dependent on migration in recent years for fuel needed for construction investment, the uncertainty over this sector going forward poses an important risk.

The wildcard in all forecasts these days is the future path of the health crisis:

- Will there be a second (or more) wave(s)? and
- Will the economic reactions be similar to the first?

For the first question, we'll leave that to the epidemiologists. For the second, the answer is likely no.

Ontario was caught off guard by the first wave and needed to take extreme measures to address it. Our social distancing practices and infrastructure are now increasingly in place and the need to shut so much of the economy down during subsequent waves will surely be dramatically reduced.

All told, in the short term, housing starts will turn in a weak performance for 2020 as a whole at about 62,000 units and play some catch up next year rising to about 75,000 units.

The global pandemic is disrupting all facets of life and Ontario depends on the economic boost from construction. So let's hope that disruption is shorter rather than longer.

Peter Norman is Vice President & Chief Economist, Altus Group

LEGISLATIVE BEAT *Cont'd from page 17*

BUILDING TRANSIT FASTER ACT

Transportation minister Caroline Mulroney tabled Bill 171 in the spring and it went into effect on July 1. The Act allows early works to be performed to speed up transit projects in Toronto: the Ontario Line subway, Scarborough and North York subway extensions and the Eglinton Crosstown West extension. For example, certain utility works can be undertaken before an environmental assessment process has been completed.

Further, certain provincial highway, transit and housing projects will be exempt from Hearings of Necessity. On average, these hearings occur five to 10 times per year for highway projects and each hearing can result in delays of up to 12 months. Each hearing for a transit project can add delays of up to five months.

As government finances are tight due to COVID, RCCAO released a report which provides insights as to how transit can be delivered more cost effectively. This includes the use of cut-and-cover rather than deep tunneling, wherever possible.

Station design is also an important factor for author Stephen Wickens, who wrote that functionality and aesthetics can co-exist but that "designs need not be monuments to architects'egos" (think of the standalone and individually-designed stations along the Toronto-York-Spadina Subway Extension).

Transit-oriented communities will be built through the use of commercial agreements with developers who would contribute to the cost of building transit stations. If successful, these mixed-use developments would help to increase ridership, and offer amenities such as daycare centres and recreational spaces.

GROWTH PLAN

The Ontario Government is consulting on a proposed amendment to A Place to Grow: Growth Plan for the Greater Golden Horseshoe. This update includes changes to the population and employment forecasts, the horizon year for planning, and other policies to increase housing supply, create jobs, attract business investment and better align with infrastructure. A link to the posting on the Environmental Registry can be found here.

The government is also consulting on a new Land Needs Assessment Methodology for the Greater Golden Horseshoe which supports the implementation of A Place to Grow: Growth Plan for the Greater Golden Horseshoe. Information on this proposed update can be found on the Environmental Registry website here

The deadline to provide input for both items is July 31, 2020.

Another amendment was passed in June which will result in more security for new aggregate supply that is close to market. See details here.

Andy Manahan is Executive Director of the Residential and Civil Construction Alliance of Ontario, and a member of AOLE's Board of Directors

The Legislative Beat

by Andy Manahan, PLE

PREMIER FORD'S RISING POPULARITY

Well, take it from Steve Paikin, host of TVO's The Agenda, who exclaimed in an article early during the pandemic's outbreak that even though "Ontario's premier had perhaps the worst first year on the job of anyone who's ever had it," that "Ford has performed well above and beyond most observers' expectations."

This view of an empathetic leader has been repeated by other pundits. Indeed, an Angus Reid poll conducted in May found that 69 per cent of Ontario residents indicated approval of Ford's handling of his job, up from only 31 per cent just three months prior.

CONSTRUCTION SECTOR

An overwhelming concern with the health and safety of residents led to an approach where only 'essential businesses' would remain open.

Ontario's construction industry, which represents eight per cent of provincial GDP, was allowed to build important projects such as long-term care homes and transit lines, and to complete new residential developments already under construction.

In a letter to finance minister Rod Phillips, who was appointed to chair a jobs and recovery committee, the Construction and Design Alliance of Ontario wrote in mid-May that new build construction is not public facing (as restaurants are, for example) and that there are better controls in place to ensure that proper sanitary procedures and protocols are adhered to.

Physical distancing can be accomplished by staggering shifts so that there would be fewer skilled trades on site at any one time. While this promotes safety, it also potentially results in a longer period to finish projects. During a press conference in the spring, Premier Ford praised the construction industry for doing "an incredible job."

FORCE MAJEURE

Contractual relief for contractors, release of holdbacks, and the application of Force Majeure have been important issues for the construction sector. Typically, an extension to a contract would be allowed for events beyond the control of the builder. For example, there could be health impacts on site or supply chain issues due to COVID-19 which could result in significant delays.

With P3 contracts such as major transit projects there are often huge penalties when certain target dates are missed. We have heard stories of owners who recognize that these are unprecedented times but still insist that the project must be finished as per pre-COVID agreements. For one project related to Highway 427, parts are to be delivered from Quebec but the contractor has been told that the work must be completed by the end of 2020.

This DCN story by my friend Steve Bauld is a good summary of the issues.

CHALLENGES

While COVID might be considered a fortuitous event for Ford's popularity, there have been unexpected challenges and criticism of the government's handling of certain issues.

A lightning rod has been the situation in long-term care facilities - which account for over 80 per cent of all COVID deaths (over 1,800). The Canadian Armed Forces were called in to assist at five facilities and delivered a scathing report about terrible conditions, as reported in this Macleans magazine article.

More recently, the situation in agricultural communities shows that migrant workers are at greater risk. In June, the Province permitted farms to keep COVID-19 positive workers on the job if they are asymptomatic. Essex MPP Taras Natyshak called for the Premier to reverse that policy, with more than 700 healthcare workers signing an open letter supporting that position.

OPPORTUNITIES

One silver lining as a result of the pandemic, according to the Residential Construction Council of Ontario, is that new ways of processing development applications will have to be seriously considered by municipalities. For example, e-permitting and approvals would speed up the process where many building departments still rely on a paper-based system.

If an inspector is unable to go to a site, can digital alternatives such as remote inspections be done? Drone technology is well advanced and could be used for live streaming and documentation purposes.

MUNICIPAL EMERGENCY ACT

Legislation was enacted in March which allows municipalities to fully conduct council, local board and committee meetings electronically during the state of emergency. Following the requisite amendment to local bylaws, meetings can then be held and people can attend 'virtually' using videoconferencing tools.

OMNIBUS BILL - ECONOMIC RECOVERY ACT

Municipal Affairs and Housing Minister Steve Clark confirmed on July 8 that this legislation, if passed, would allow municipalities and local boards to continue to hold meetings electronically, if they so choose.

A new community benefits charge to help municipalities pay for infrastructure and services has been proposed. One of these services is a charge for long-term care homes. This is potentially a massive cost that is inappropriate for new home buyers to be saddled with.

More importantly, Minister Clark confirmed that the Province will push for a joint funding program with Ottawa to assist municipalities with recovery.

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