

Dead or Alive: the future of commercial real estate in Saskatchewan: Will we need more or less space to accommodate business and employees in the future?

COVID-19 has underscored the fact that being in close physical contact with others can make us more susceptible to disease. As a result, people in this COVID era may continue to practice physical distancing measures to reduce the risk of infection and to remain healthy.

Employers and employees are already working to navigate a complicated web of safety and caution to return to work. The Canada Emergency Response Benefit is set to run out in September which will trigger a significant wave of people heading back to work and the continued preference for physical distance could prompt a change in occupational health and safety (OHS) regulations and building codes to help support safe physical distancing guidelines developed in response to COVID.

Even though it could take some time for new regulations to be put in place, employees and customers may demand that employers and businesses put additional measures in place to protect their own health and safety going forward. We're already seeing this happen with a number of places now [considering mandatory mask/face covering legislation](#).

Office

Physical distancing measures will likely reduce demand for open-concept office spaces (which has already happened in some work spaces and which are increasingly being criticized for their [negative impact on employee productivity](#)) while increasing demand for closed-concept spaces that help to keep people more physically isolated from each other.

The added barriers imposed by closed-concept offices would decrease the amount of physical space available to accommodate employees, suggesting that more office space will be needed in order to ensure that employees have sufficient space available and that allows them to continue to physically distance from each other.

Physical distancing poses a challenge for high-rise office towers. The limited number of elevators that are available to move people from floor to floor, combined with the number of employees in a high-rise tower could make it "logistically impossible" to

get employees to their workspaces under current physical distancing guidelines.¹ This suggests we will see a move away from high-rise office towers to low-rise office complexes that allow for greater employee mobility. Furthermore, because high-rise office towers tend to be in high-density downtown cores, we are likely to see greater demand for office space in less densely populated areas where horizontal expansion is easier and [prices are typically lower](#).

While continued physical distancing measures are likely to shift demand from high-rise to low-rise office complexes, another important factor likely to change demand for office space is an increasing ability to work from home.

[Global Workplace Analytics](#) estimates that 56% of the US workforce is made up of jobs that are at least partially compatible with remote work (and the Canadian workforce should be similar), although pre-COVID, only 3.6% to 7.0% of employees worked remotely at least half-time or more.

During the pandemic, however, [52% of those currently employed were working from home](#),² and it's estimated that 25% to 30% of the workforce will continue working from home for at least part of the week moving forward.

Thus, COVID is demonstrating that people can work from home and that they don't necessarily need to be in an office environment to be productive.³

Furthermore, given that employees are only at their desks [40% to 50% of the time](#), employers are paying for space that is idle a significant amount of time. They could incur savings by allowing employees to work from home and reduce their need for [idle] office space.

One of the unexpected "benefits" of COVID and the resulting lockdown imposed to limit the spread of the virus was a significant reduction in air pollution due, in large part, to a reduced work commute).

¹ Even with staggered starting times, the limited number of elevators available to move people will make it nearly impossible to have employees return to work while physical distancing measures are still in place. Anecdotally, it's been suggested that employees in some office towers in Regina won't be returning to work for at least a year due to physical distancing concerns, and this slow return to large offices could occur in other centres as well.

² Prior to COVID, [surveys](#) suggested that 80% of employees would like to work from home at least some of the time, and 33% of employees were willing to accept a pay cut to do so.

³ The pandemic has demonstrated the effectiveness of technology to allow people to continue to work remotely. Video conferencing platforms such as Microsoft Teams and Zoom have allowed employees to hold virtual meetings and continue to collaborate "face-to-face" while continuing to practice physical distancing, and shown that many meetings don't actually need to be face-to-face, thus reducing the need for travel/commuting (which could negatively impact demand for hotels). These platforms have also demonstrated, however, the need for improved data security and privacy measures, as well as the need for increased bandwidth (which will require a greater number of communications towers that are placed closer together). As 5G networks continue to be deployed, however, bandwidth issues should diminish, and [the range of services and applications](#) that are available will increase.

It's estimated that global air pollution cuts life expectancy [up to three years](#) and is [associated with other diseases including various forms of cancer, diabetes, and dementia](#), in addition to cardio-respiratory diseases. This suggests that by reducing the volume of commuting (for work purposes), we could see a strong improvement in people's health.

Working from home can also help to improve employees' work-life balance and reduce a number of out-of-pocket expenses (helping to boost disposable income⁴ and possibly make housing a little more affordable) while also reducing employers' costs as they may not need as much space to accommodate employees.

Given the potential health benefits and cost savings of working from home,⁵ we could see a shift to a larger number of people working from home (even on a part-time basis), significantly reducing the volume of space that employers need, thus reducing demand for office space.

While it's hard to determine exactly how the market for office real estate will be affected, it does seem quite likely that with people's increased desire for physical distancing, combined with a shift to closed-concept low-rise office configurations that the demand for downtown high-rise office real estate will fall while the demand for suburban low-rise office real estate will rise. This could also have an effect on residential markets as employees who are able to work remotely may opt to move to smaller centres to take advantage of lower population density (i.e., increased physical distancing) and lower housing prices/increased affordability.

Even though employers will likely need less space due to a smaller physical headcount as they adapt to employees working from home, this is not to say that the demand for office space will disappear entirely. One of the challenges with remote work, for instance, is that it can make it [harder to collaborate with coworkers and reduce employee engagement](#). Also, there are some employees that will want to work from a traditional office environment rather than from home despite the need for physical distancing. As a result, even though the type and overall configuration of office space is likely to change and fall in certain areas, demand is also likely to rise in others.

⁴ Under [current](#) Canada Revenue Agency (CRA) regulations, employees are permitted to deduct expenses related to electricity, heating, maintenance, property taxes, and home insurance for a workspace in their homes. While these regulations are unlikely to change in the near-term, this favourable tax treatment (combined with work-life balance benefits) may encourage more employees to seek to work from home on a more permanent basis. This could also have significant impacts on residential housing as employees begin to demand dedicated spaces within their private homes for the sole purpose of working. This is particularly significant given that 26% of employees working from home noted that they [did not have a dedicated workspace](#) at the moment.

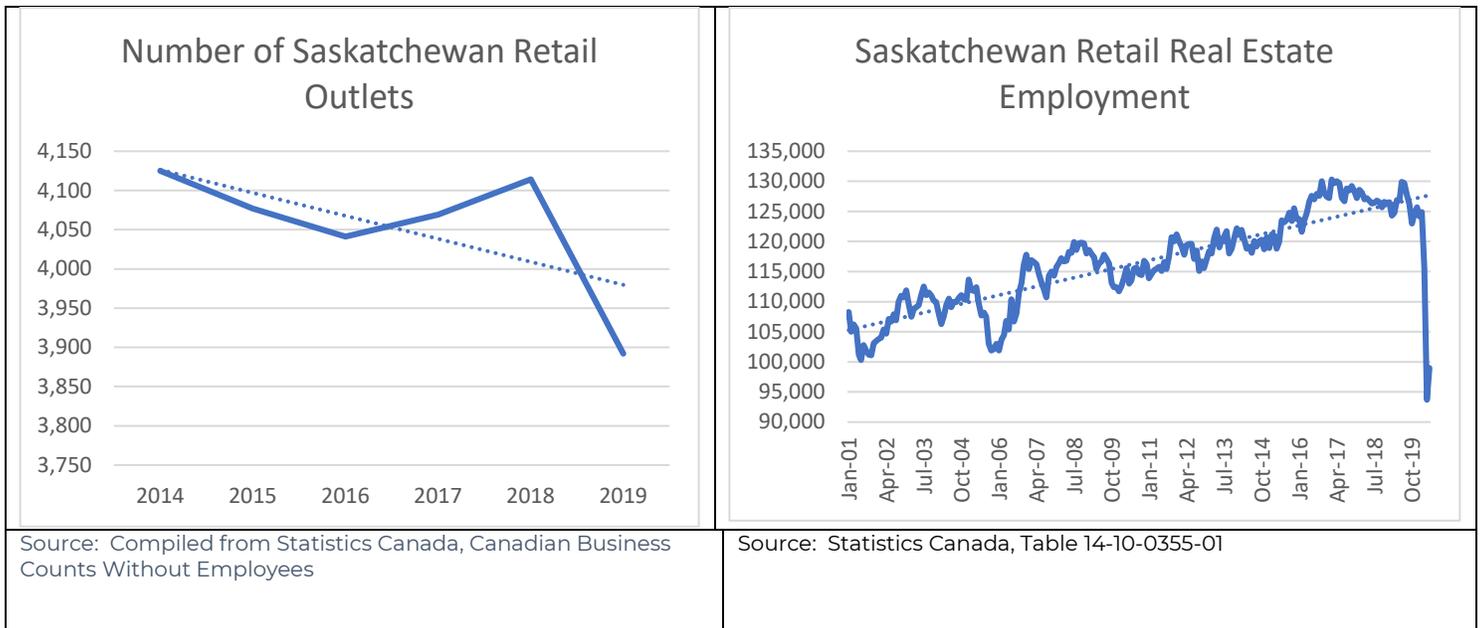
⁵ [According to Global Workplace Analytics](#), "a typical employer can save about \$11,000/year for every person who works remotely half of the time. Employees can save between \$2,500 and \$4,000 a year (working remotely half the time) and even more if they are able to move to a less expensive area and work remotely full time."

Retail

Just as office space needs are evolving, physical distancing measures will likely increase the demand for retail space to safely accommodate customer volumes. However, the pandemic could also help hasten recent trends in the retail sector and lead to a relatively large drop in demand for retail space.

Even before the pandemic hit, we saw a number of national and global retailers reduce the number of physical stores they operated ([or go out of business completely](#)) and began to use online shopping channels. Despite a 2018 uptick in the number of retail outlets in Saskatchewan, they continue to disappear across the province,⁶ even as retail employment levels rise.⁷

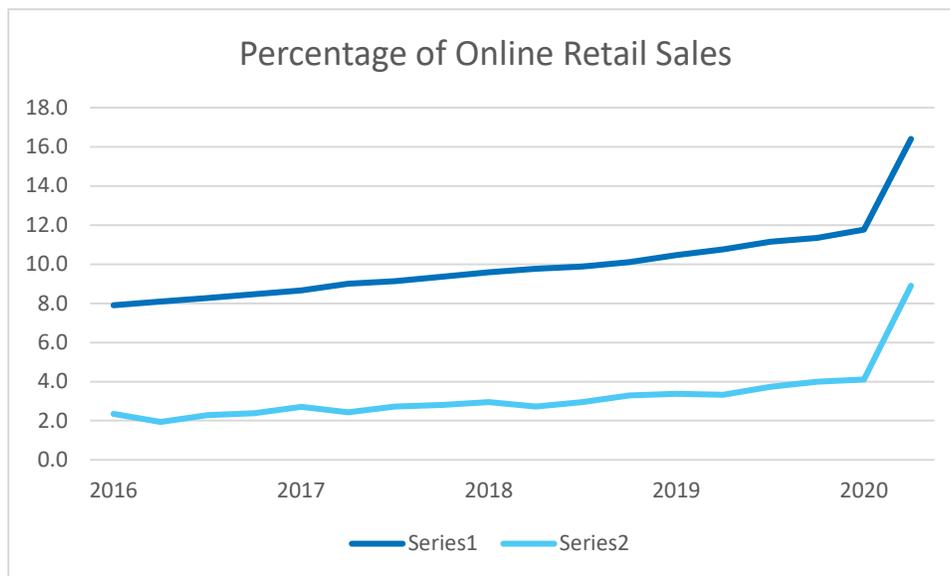
Although Canadians currently purchase most products from a physical retailer, the use of online channels continues to increase. And with COVID leading to lockdowns and stopping people from shopping in a physical location, consumers (and retailers) became reliant on online channels for products. As a result, online sales jumped almost 5% in Canada and the US in April compared to Q1 2020. While this may be a



⁶ The number of retail outlets includes wholesale trade, retail trade, and food and accommodation services.

⁷ While retail employment levels have been increasing, these data do not distinguish between full-time and part-time employees. In addition, there is an increasing trend of retailers using self-checkout kiosks which would allow customers to avoid contact with others and will likely have a negative impact on retail employment levels as fewer cashiers are needed to service customers. Wal-Mart is [currently](#) testing a location without cashiers, and Amazon Go has [cashier-less grocery shopping](#) in New York City and is beginning to face competition from other retailers.

temporary spike, online sales will likely fall as economies continue to re-open. The pandemic has shown how quick and easy online retailing can be, and this will likely spur greater adoption of online channels, further reducing the need for physical retail space.



Source: Statistics Canada, Table 20-10-0072-01 and United States Census Bureau Latest Quarterly E-Commerce Report

While an increasing volume of online sales is likely encouraging retailers to close some physical locations, [prohibitive property taxes are also cited](#) as a factor. The prospect of physical distancing measures remaining well into the future, be it publicly mandated or consumer choice), likely means retail operations that have not already closed⁸ may find the cost of maintaining a physical presence cost-prohibitive (particularly as consumers continue to move their purchases online) and decide to significantly reduce their physical presence, leading to a fall in demand for retail spaces. Less demand for retail space will almost certainly be offset by the sector’s growing need for industrial and warehouse space to store and ship product.

Restaurants were also being transformed prior to the pandemic, and some of those changes could be exacerbated going forward. For example, before COVID, we saw a

⁸ In response to a declining number of retail outlets, a number of shopping centre properties were being adapted into “[food halls](#)” that brought together a number of restaurant outlets in one location, giving consumers convenient access to a variety of cuisines. Although this trend may continue and maintain demand for shopping centres, concerns about future pandemics and the desire to physically distance (combined with increasing use of food delivery services) may help to undermine this trend and ultimately reduce demand.

rise in the number of people using food delivery platforms (e.g., Skip the Dishes and UberEats), forgoing restaurant dining.⁹ If this trend continues (as it may because some people will still want to physically distance and reduce their risk of [contracting diseases in restaurants](#)), restaurants will have less need for space due to a lower volume of dine-in customers.

While it's challenging to say for sure how the retail real estate market will be affected, as consumers continue to shift to purchasing goods online while retailers continue to close physical locations (creating conditions that encourage even more online shopping and more store closures) and as food delivery platforms continue to gain in popularity and convenience, it's likely we'll see a significant fall in demand for physical retail locations.¹⁰

This does not mean that physical locations will cease to exist, however. While the physical layout and characteristics of the space will likely change to accommodate physical distancing measures, many people will still want to shop or eat in a physical location. Furthermore, certain types of retail operations (e.g., primary grocery and pharmacy) have been relatively immune to the pandemic as they provide necessities¹¹ that consumers need "immediately" and may not be able to wait for.

Multi-Family

Physical distancing will likely change how buildings are configured to ensure people can remain more isolated from each other. These configuration changes could add to the physical space needed to safely house residents. Demands for physical distancing will also likely reduce demand for high-rise multi-family units as the limited number of elevators available would make it hard for occupants to safely get to and from their homes in a timely manner.

While continued physical distancing measures are likely to shift demand from high-rise to low-rise multi-family units, an imbalance between demand and supply of

⁹ Complementing food delivery platforms are ghost kitchens which exist solely to produce menu items from a variety of restaurants and that are only available as delivery items. Because ghost kitchens do not directly serve customers, they can set up operations in commercial locations with the [lowest rents](#), reducing demand for prime retail space.

¹⁰ The decline in retail locations and likely fall in retail employment could also have a significant impact on the residential housing market, and the multifamily market. While average weekly earnings have been increasing, weekly earnings are relatively low, with the average retail employee earning \$33,148 per year, while the average food and accommodation service worker earns \$20,079 per year (excluding tips). This level of earnings, combined with the rising residential housing prices ensures that single-family housing is likely to remain unaffordable for these workers and increase demand for multifamily units..

¹¹ Even though primary grocery and pharmacy are likely to remain fairly resilient, with the rise in delivery applications, some people may opt for grocery and pharmacy delivery as well (out of concern for physical distancing, convenience, etc.) which could prompt an increase in [demand for cold storage facilities](#).

housing and declining housing affordability are likely to increase demand for multi-family real estate.

The imbalance in demand supply is due to the pace of population growth being higher than the pace of housing starts. Saskatchewan’s population has been steadily increasing since Q3 2006, driven principally through immigration—a trend which is likely to continue.¹² Before the pandemic emerged and the country went into lockdown, Canada planned to [allow 341,000 immigrants into the country](#) in 2020, and increase that to 351,000 in 2021, and to 361,000 in 2022.

		Economic	Family	Refugees	Humanitarian	Total
2020	Target	195,800	91,000	49,700	4,500	341,000
	Percentage	57.4	26.7	14.6	1.3	100.0
2021	Target	203,050	91,000	51,950	5,000	351,000
	Percentage	57.8	25.9	14.8	1.4	100.0
2022	Target	212,050	91,000	52,950	5,000	361,000
	Percentage	58.7	25.2	14.7	1.4	100.0

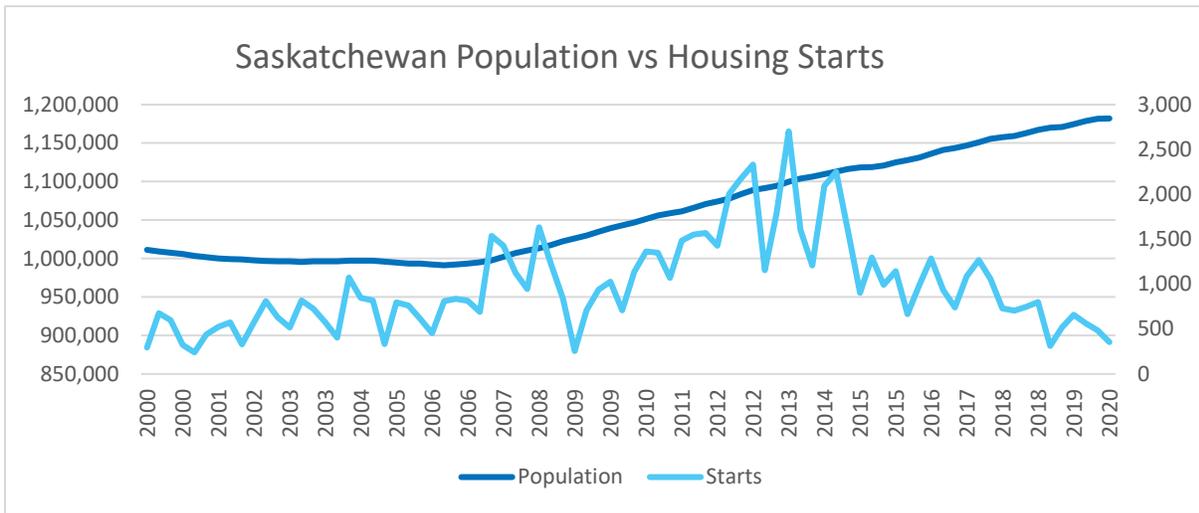
Based on the average proportion of immigrants (by class) that have come to Saskatchewan from 2015 to 2019, we expect the following number of immigrants if the federal government is able to achieve its targets:

	Economic	Family	Refugees	Humanitarian	Total
2020	12,886	2,228	1,374	30	16,518
2021	13,264	2,294	1,414	31	17,003
2022	13,641	2,359	1,455	32	17,487

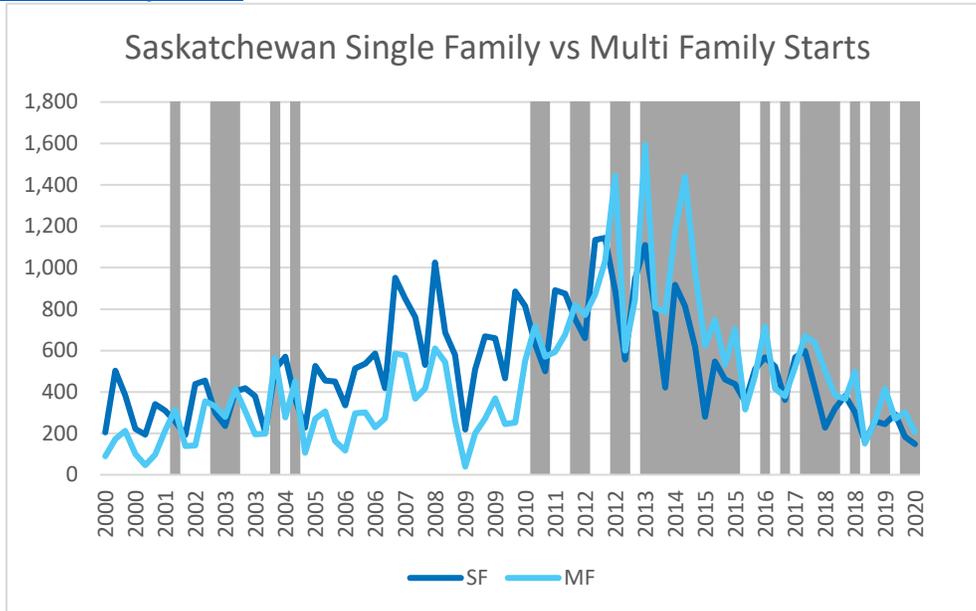
The average household is between [2.5 and 3.4](#), so this represents an increase in the demand for housing in the province of an average of 4,700 to 7,000 units per year from immigration alone—well above the number of housing starts that we’ve seen since 2016,¹³. That suggests the demand for housing exceeds supply, placing upward pressures on prices.

¹² Canada’s total fertility rate [is only 1.5](#) and needs to be 2.1 just to maintain our current population level (and continue to maintain the current tax base to fund government services). Since Canadians aren’t having enough children to reach this fertility rate, it is quite likely that immigration will continue to be a policy goal and that population growth will continue to be driven by immigration.

¹³ While natural increase also puts some upward pressure on demand, the level of natural increase is comparatively low and would not have as much of an impact until children are older and seeking their own homes. And while the birth of a child could necessitate a larger home, the demand associated with this would likely occur at some point in the future (i.e., long-term) rather than in the short-term like the increase in demand due to newly-landed immigrants (and their families) who need housing in the immediate present.

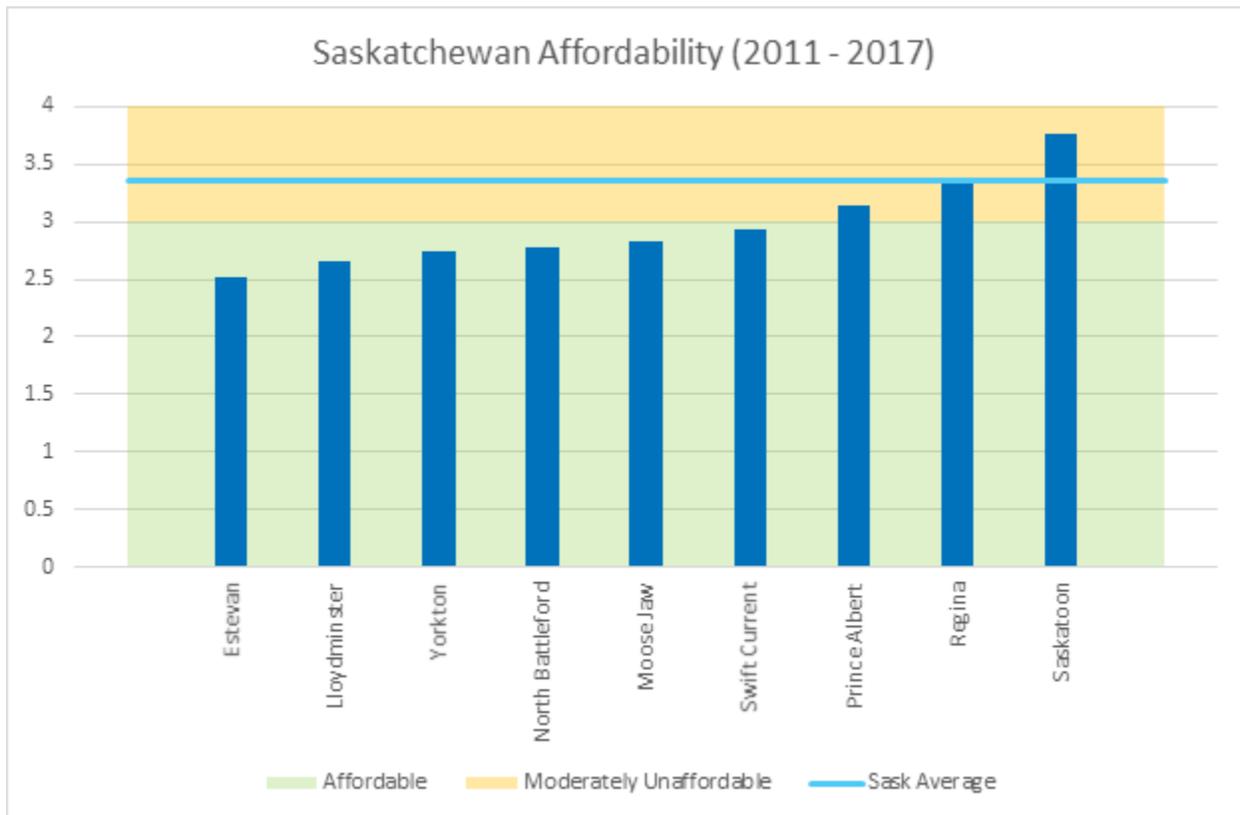


While the imbalance between demand and supply is helping to fuel a rise in home prices, household incomes have generally lagged the rising prices, making homes more unaffordable for some portions of the population, and forcing them into [lower-priced multifamily units](#).¹⁴



¹⁴ Using the Median Multiple, Demographia International has found that [Canadian cities have some of the least affordable housing markets](#) in the world. The Median Multiple (Median House Price / Median Annual Gross Pre-Tax Household Income) considers any value above 3.1 to indicate an unaffordable market. The Median Multiple (and similar measures) is used by a number of institutions including the World Bank and the UN, the OECD, the IMF, international credit rating services, and media outlets like *The Economist* to compare affordability across different markets.

And as Saskatchewan's population has continued to grow, we've seen a shift from a higher number of single-family starts to a higher number of multi-family starts (indicated by the gray columns), suggesting an increased demand for lower-cost multi-family housing. While affordability has been improving in Saskatchewan, single-family homes continue to be regarded as unaffordable in Prince Albert, Regina, and Saskatoon. As a result, we would expect to find an increase in demand for multifamily properties in these three centres as single-family homes continue to be unaffordable for many. With the possibility of an increased number of employees working from home in order to continue with physical distancing, however, we may see some of this demand moderate if employees are able to move to and work from smaller centres which are more affordable.



Expect to see housing prices rise as population levels outpace available housing inventory. House prices also outpace wage growth, which makes a home more unaffordable and could force people to find lower-cost housing options.

Multi-family units are a lower-cost housing option for many households, which suggests there will be an increased demand for this type of housing in the longer-term. Multi-family units may need to be reconfigured, however, to better comply with physical distancing guidelines. The demand for multi-family units—particularly in Regina and Saskatoon—could also moderate to an extent as employees and employers adapt to the possibility of increased remote working.

Hotels

Hotel configurations will not be immune to physical distancing needs either. Demand for high-rise hotels will likely drop, while low-rise hotels, which can make it easier for people access rooms will likely see a rise in demand.

While physical distancing guidelines are likely to have a continued impact on demand for hotel real estate, COVID has revealed that the demand for hotels in general is highly dependent on business travel and tourism—two segments that are unlikely to have much demand in the short-term. This drop in demand could force several hotels to close permanently due to lack of business.

The pandemic has left Canadian hotels [with an occupancy rate of less than 10%](#) and with staff cuts of 50% to 80%. The Hotels Association of Canada further estimates that more than 50% of hotels will be forced to close, resulting in at least 150,000 lost jobs.

And while economies are beginning to re-open, the pandemic showed that a number of business transactions can be performed virtually which will reduce the demand for business travel, and with calls for continued physical distancing, reports of new outbreaks due to people on “vacation” and fears of a potential second wave, hotels face the prospect of reduced consumer demand as people have less need or desire to travel.

In addition to reduced demand from businesses and tourists, hotels are facing increasing competition from short-term rentals (e.g., Airbnb) which may not only be

less expensive than a hotel room¹⁵ while providing many of the same amenities,¹⁶ short-term rentals may also be perceived as making it easier to physically distance from others (and may be the only option available as hotels are forced to close), thus helping to [further reduce demand for hotel spaces](#).

There are hopes that people will want to travel again when it is safe, but COVID has demonstrated that travel isn't absolutely necessary and a number of people may opt to forego travel and remain "close to home" or seek out destinations that are more isolated and away from others in order to help with physical distancing. Both outcomes would have a significant impact on the demand for hotel spaces.

While some people may want to travel more once the pandemic is over,¹⁷ it is quite unlikely that business travel or tourism will recover quickly. [New York City](#), for example, took five years to recover from its 19% drop in tourism post 9/11 while countries impacted by SARS took [three years](#) for their tourism sectors to return to pre-epidemic levels, even though people were [willing to travel](#). The airline [industry isn't expected to recover before 2024](#).

While 9/11 and SARS were different from the current pandemic, both events suggest that tourism post-COVID will also take time to return to pre-pandemic levels. Another potential threat to the tourism industry that could further reduce demand for hotels is virtual tours. During the pandemic, a number of institutions allowed visitors to [explore their spaces online](#).¹⁸ Although the experience of a virtual tour wouldn't be the same as being there in person, as technology continues to improve, consumers could become more accepting of these offerings given the potential cost savings while allowing continued physical distancing.

While it's hard to determine exactly how the market for hotel real estate will be affected, it does seem quite likely that business travel and tourism will not return to pre-pandemic levels anytime soon. COVID showed that while virtual reality technology (e.g., Microsoft Teams and Zoom) isn't able to perfectly mimic being there

¹⁵ The Saskatchewan Hotel & Hospitality Association (SHHA) continues to advocate for short-term rental units being limited to principal residences, that operators be licenced, and that units comply with municipal bylaws. Airbnb also [reached an agreement](#) with the province to collect and remit the 6% PST to the government (which Airbnb hosts were not required to do) beginning April 1, 2020. This should help to raise prices of short-term rentals and allow hotels to be more competitive while at the same time ensuring that the province collects revenues. Municipalities also have regulatory options, with many jurisdictions requiring that operators obtain a business license and requiring that hosts only operate one unit rather than providing multiple units for rent.

¹⁶ The move towards more short-term rentals could also impact demand in the residential market as home buyers may look for units that feature amenities that can be positioned in such a way to make the residence more attractive as a short-term rental unit and provide homeowners with an added stream of income.

¹⁷ Even though people may want to travel, other countries may be "unwelcoming" to tourists and require them to remain in quarantine for a certain period before being able to enter a country. Were this to happen, most people would be unable to have the vacation time necessary to allow for travel to foreign countries, further reducing the need for hotels (or short-term rentals).

¹⁸ While these tours are [currently] free, organizations could charge a modest fee for these tours that would still be considerably less expensive than visiting the location in real life.

in person, it can allow us to get much of the experience with less cost and greater convenience. And as the technology continues to improve, the virtual experience is likely to improve considerably, leading to decreased business travel and demand for hotel accommodations. And with the continued threat of short-term rentals (which may be the only viable option with the potential closing of hotel spaces), the hotel industry could face significant challenges going forward, considerably reducing demand for hotels.

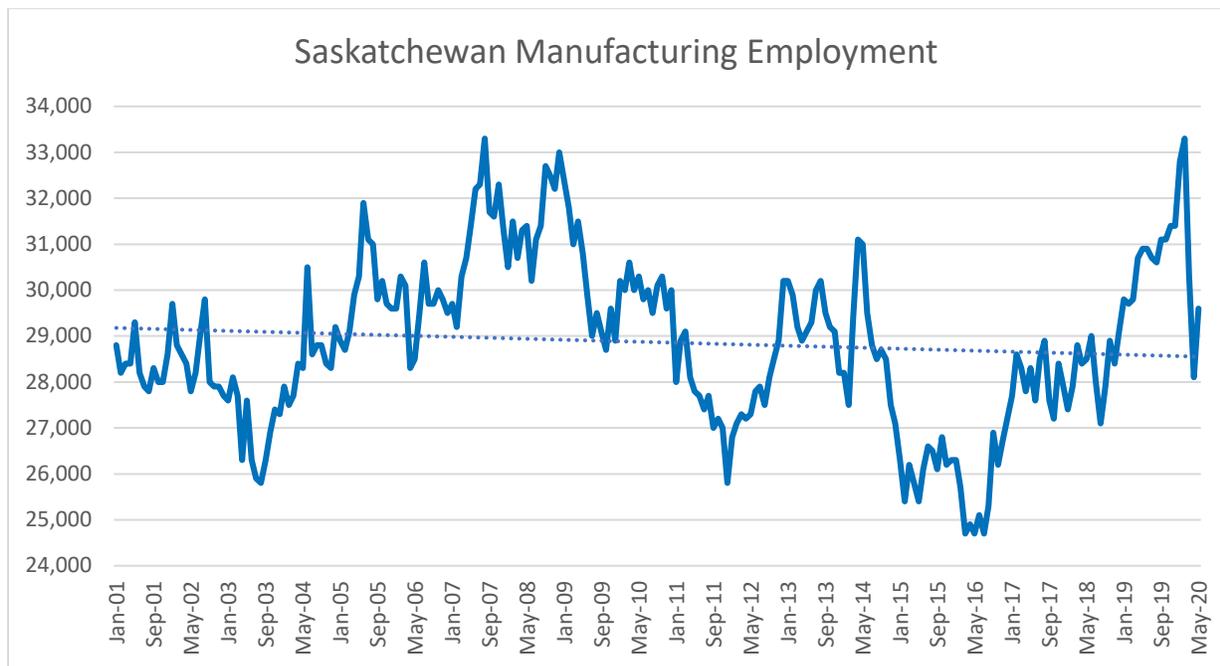
Industrial

Industrial real estate is less likely to be impacted by social distancing and economic consequences. Although spatial configurations may need to change somewhat to accommodate physical distancing guidelines, warehousing facilities don't need a large number of people in close physical contact for instance, and employees in manufacturing facilities were already using personal protective equipment to ensure their physical safety. Broader economic trends and their impacts on other types of commercial real estate, however, are likely to increase demand for industrial space.

Although past decisions to move manufacturing facilities into foreign markets helped lower the cost of goods, we now see that these decisions have also made us more susceptible to [global supply disruptions](#).

For instance, during the early phases of COVID, Chinese manufacturers' inventories were depleted and manufacturers were unable to replenish stock (Colliers International - Industrial Impacts), and [approximately 10% of intermediate goods are sourced from China](#) (Colliers International) to make finished products in Canada, meaning that there could be shortages of finished goods.

As a result, the trend of "re-shoring" manufacturing jobs and producing more goods domestically is likely to continue. And we see this trend happening in Saskatchewan, with manufacturing employment steadily rising, also suggesting increased demand for manufacturing facilities.



Source: Statistics Canada, Table 14-10-0355-01

Despite this rise in manufacturing employment, however, industrial robots are increasingly being used in manufacturing settings because they lead to improved quality and lower costs. [The price of robots expected to fall 50%](#) over the next five years. And in response to COVID, industrial robots have the additional advantage of increasing human safety and enabling physical distancing since people can be taken out of much of the manufacturing process and simply coordinate the robots (which may be done from a physically distanced location). As a result, we should expect greater adoption of industrial robots over the next few years and a subsequent increase in demand for production facilities that are compatible with automation.

Another trend that is likely to increase demand for industrial space is the drop in demand for retail space. Although the jump in the percentage of online sales due to COVID is likely to fall once the pandemic is over, consumers and retailers are increasingly turning to online channels and physical retail locations continue to close.

Even using online channels,¹⁹ however, retailers still need to be able to store goods and ship to consumers. Because consumers have come to expect “immediate” delivery for

¹⁹ Using online channels, retailers are also able to provide more product diversity since they are not constrained by the limits of a physical store location. This broader array of products may encourage greater sales, further incentivizing retailers to use online channels to reach consumers, and thus reducing demand for retail locations while increasing demand for industrial space.

online orders and because of wider product diversity, online retailers [need twice as much warehouse space](#) as a physical retailer, suggesting increased demand for industrial space.

While it's hard to conclude with certainty how the industrial real estate market will be affected, it does seem quite likely that with rising [automated] domestic manufacturing and with retail sales increasingly moving online that demand for industrial real estate will increase in the near-term. Although space will likely need to be reconfigured for use post-pandemic, because industrial space supports physical distancing efforts and allows for greater product diversity and quality while allowing people to “return to normal”, there are strong incentives to make greater use of industrial real estate.

Conclusion

As disruptive and damaging as COVID has been, it has also shown that we don't necessarily need to be physically present to do many of the things that we previously thought we did. This “freedom” from place doesn't mean that we'll simply stop going places, however. Rather, it gives us more options—we can choose to participate in real-life if it is convenient for us, or we can choose to participate virtually if that serves us better in the moment.

And this ability to choose will undoubtedly change how people use different types of spaces and the real estate where activities happen.

Thus, the pandemic will certainly have an impact on the different subclasses of commercial real estate. In most cases, however, it will likely only accelerate changes that were already underway.

Before COVID hit, more employees were making the move to work remotely; physical retailers were closing as they continued to lose sales to online retailers; housing was becoming more unaffordable, pushing more people into multi-family housing; and hotels were already losing business to short-term rentals like Airbnb. And after we return to “normal”, these things will continue to happen. The pandemic has simply helped bring these changes to our attention and forced us to begin adapting more quickly than we may have wanted to.