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Ideas with impact

3 innovative real estate opportunities to watch in 2020

30 years ago, a telephone was expected to perform a singular function. It had only one job: It placed calls that allowed two parties to speak directly to each other.

Fast forward to today and compare how vastly different our modern expectations are.

In addition to the ability to place calls, we now expect our phones to take photos, access email, send texts, surf the web, play music, and countless other actions, all while travelling around with us in our pocket. If you woke up tomorrow and your Smartphone lost all its functionality except for voice calling, you would assume it was broken. You might even rush out to buy a new one.

When we consider this example, we can begin to similarly understand how our demands on real estate housing have changed over the last several years. Sky high real estate prices, an aging population, digital requirements, and the sharing economy have all left their imprint on our real estate expectations. As a society, our definition of "home" is changing, and the real estate industry is quickly developing new, multi-purpose solutions to meet expanding needs.

For current and prospective real estate investors and developers, the key to a successful ROI lies in understanding these changing expectations, and choosing projects that support the direction of the next decade and beyond. To gauge which properties will stand the test of time, it's helpful to gain an understanding of the trends shaping the opportunities of tomorrow.

1: Multi-purpose spaces and the sharing economy

As consumers begin to demand more from their spaces, the distinctions between specific use functions (i.e. work/home), and ownership (i.e. mine/yours) are being blurred. Businesses like Uber and AirBnB have paved the way for this revolution, thrusting the sharing economy into the mainstream, with 2016 seeing $1.31

billion[1] spent by Canadians domestically and abroad on ride sharing and accommodation sharing services.

Where 20 years ago, traditional home ownership was viewed as a "must" and an important rite of passage, 2016 saw the first decline in Canadian home ownership rates since 1971[2]. Similarly, the social cache of "going to an office" has been replaced by the allure of a remote working configurations. Between 2000 and 2008, the number of paid employees working from home has risen by 23%[3].

In essence, as our values are changing, the spaces within which we spend our days are taking new shape as well. The values-based evolution of real estate is taking the form of three key trends:

Co-Living

A blend of an apartment, a hotel, and a dorm room, co-living arrangements have been popping up across the world in recent years, and has landed in Canada within the last few months. In a co-living model, individuals pay much lower rent, and have a personal space that shares communal spaces like kitchen and laundry. For investors, co-living provides impressive ROI given that more renters can occupy the space than in a traditional configuration. For renters, the lower cost of living and increased communal vibe is an adequate draw.

Dream Unlimited Corp. has recently released plans to develop a 24-storey tower in Ottawa[4], that will feature co-living and traditional living arrangements. The building will offer programs like rooftop yoga and comedy shows. Units are fully furnished, which appeals to the millennial market, for whom the accumulation of possessions has taken a backseat to the ability to travel and live more flexibly.

Co-Working

Tech tools have grown to be infinitely more democratic. We live in an era where we carry more technology in our pocket- a Smartphone- than existed at the NASA headquarters 50 years ago. As long as a property has a strong WiFi connection, it can be made into an office.

2.9 million[5] Canadians are now self-employed; a drastic increase as compared to the 1.2 million in 1976. Self-employment makes working from home an enticing solution. But there still exist certain situations where a home office won't suffice. For instance, a new business development meeting looks far more professional when conducted in a boardroom than a living room. Further, many entrepreneurs feel that having a flexible out-of-home workspace keeps them motivated and engaged.

Co-working arrangements fill this gap by providing flexible office space solutions that can be rented per use or for a specified contract term and can be attained in accordance with the needs of the business. For instance, a certain entrepreneur may need only an office with a desk and a door that can be shut. Or they may prefer to work in a social environment alongside other entrepreneurs. Or they may simply need to borrow a boardroom for a few hours.

If you think co-working is relegated to the small business set, think again. Big corporations are using co-working spaces as an adaptive method to gain traction within today's just-in-time[6] hiring trend. Flexible contracts allow a company to scale their space up or down easily depending on how busy they are.

Need more proof? WeWork, one of the most well-known co-working companies, recently released the results from their London location in 2018. The businesses at the location experienced[7]:

- *38% cost savings*
- *34% increase in revenue*
- *Increased head count of 5.8 persons*
- *80% reported increased productivity*

Multi-functionality

Similar to co-living and co-working, multi-functional real estate spaces make use of underutilized assets by enabling their use in a new context. Two such examples are:

Retail/Food Services

As bricks-and-mortar storefronts lose profitability, and restaurants experience the traditional ebbs and flows of

an inherently risky line of business, many businesses are opening their underutilized space for co-working events and programs. For example, a shopping mall struggling to rent all their square footage may open a co-working space inside a storefront. Or a restaurant, bar, or café may leverage their slowest hours by offering a co-working membership.

Particularly in the food services realm, the furniture infrastructure (tables and chairs) already exists, and thus can be leveraged without incurring any up-front capital costs. This allows those co-working programs to undercut competitors by keeping prices low.

Staples Business Depot[8] has notably launched a co-working strategy as a way to leverage empty or low-profit retail currently under their portfolio.

Laneway Housing

Though familiar to other housing markets, Laneway Housing is new to Toronto. In the summer of 2018, Toronto council passed regulations that allow homeowners to convert garages and lane space into self-contained spaces to be rented out or used as personal housing. It's yet another way that property owners can better utilize the space they have- particularly in hot markets like Toronto. In addition, from an income tax point of view, laneway housing can still qualify for the Principle Residence Exemption, adding to it's appeal for homeowners and developers.

Interestingly, laneway housing must have a 1.5 metre setback from the property line, as compared to garages which have a 1 metre setback[9]. In theory, as laneway housing is further developed, the lanes could turn into a hub for pedestrians and cyclists akin to a small, historical, European destination.

2: Service-oriented real estate

As the paradigm of home ownership shifts, it's critical for real estate investors to understand how this changes the priorities of renters and buyers. Particularly for the millennial market (but also true for the aging population), accessibility of services is now an essential selling factor. Gone are the days where condominium amenities like a pool or gym are "nice to have". Today's consumers demand a host of services available to them within close proximity to their primary residence.

Transit

Transit Oriented Development (TOD)[10] is a movement that focuses development on areas with high transit accessibility. The goal is to create more walkable, healthier communities that offer value through efficiency and quality of life. TODs enable residents to lead a less stressful life by cutting out their busy and time-consuming commute.

Health and wellness

Access to green space like parks, and expansive fitness facilities like rooftop yoga studios offer residents the ability to easily integrate health and fitness goals into their daily life. Offering service-based wellness options like personal training, fitness classes, and peer workout groups that are communicated through a development-wide calendar make it easy for residents to opt-in.

Technology

In addition to arguably "cost-of-entry" fiber optic internet, developers are now seeking ways to expand their tech service offering. These include[11] smart home appliances, electric vehicle charging stations, and robotic platforms that assist with storage. Given the ever-increasing number of individuals who work from home, technology takes centre stage to enable the more flexible schedules of a modern workforce.

Entertainment

The availability of options like dining, shopping, and social event spaces is paramount in new developments. These facilities enhance the feeling of community for residents, while making it easier to conduct basic weekly tasks like grocery shopping and meal planning.

3: Beds and Sheds

In today's real estate market, it is increasingly common for commercial land to be swallowed up by residential development. And while there is an undeniable demand for more housing (and in particular, more affordable housing), there exists an equal demand for warehouse space for retailers, manufacturers, and delivery services.

Retail logistics are evolving. As bricks-and-mortar storefronts lose their foothold and online shopping continues to dominate, home delivery is becoming an entire market unto itself. Storing and facilitating orders requires ample space.

In London, UK the challenge to cater to the needs of both residential and commercial occupants has been addressed by the introduction of the "beds and sheds" model; a mixed-used development that offers both affordable housing for residents, and warehouse space for commercial occupants. London commercial developers have seen an average of 60 to 70% of commercial sites lost to residential use. Combine this with the ever-increasing population density of the city, and it's easy to see how the two markets might be able to happily co-exist side-by-side.

Beds and Sheds presents a new model for housing, which we are starting to see in Canada and will require a new way of thinking from developers, planners, and occupants. In order to influence successful ROI, properties should meet the needs of the first two trends we've discussed in this article, while also addressing the unique challenges of this new model:

Noise

If shipments are coming and going throughout the night, proper precautions will need to be in place to ensure that residents aren't awoken to the sound of trucks coming and going during sleeping hours.

Emissions

Similarly, the traffic generated from delivery trucks naturally produces emissions. Beds and Sheds commercial occupants will need to address this, potentially through the use of electric vehicles.

Leasing Strategy

In order to be a sound investment, it will be critical to choose the correct commercial occupant, and developers will need to have stringent leasing plans. If a commercial occupant leaves, there need to be safeguards in place to ensure that the development can sustain the loss. It is also important to note, mixed use properties require detailed knowledge of Canadian tax laws, as only part of the rent is subject to HST/GST.

Industry players take note

Real estate is transitioning from being a tangible item into a set of principles for how to better serve individuals and communities in the years to come. The concept of real estate fracking (monetizing existing assets in new ways) is presenting us with a new world of options. Underutilized assets like parking spaces, desks, and conference rooms can all be leveraged by these new real estate models to create new revenue streams.

The introduction of Property Technology, or Proptech, has been rapid across all real estate sectors, and is expected to intensify alongside competitive conditions. Developers carry some uncertainty around emerging technologies and their potential impact, even when these tech advances are experiencing success. In the global market, Proptech solutions are being used to:

- *Digitize onerous processes*
- *Streamline funding*
- *Connect with stakeholders*
- *Present virtual reality capabilities*

It goes without saying that certain elements of the latest real estate trends must be carefully considered to maintain and enhance ROI. For instance, the short-term leases necessary for co-working arrangements can affect

property valuations and add to costs when a tenant changes more frequently.

Considering which parts of the supply chain you want to own and serve directly, versus which you could assign to someone else will enable you to minimize the number of layers between your company and the end consumer so that you can maintain control of an important asset.

Although institutionalization of both the developer and investor universes generally lends itself to a more conservative market-wide approach to risk, there are signs of some participants venturing out on the risk spectrum. Higher development volumes, cap rate compression in secondary/tertiary markets, and a focus on opportunistic/value-add investment all point to a more risk tolerant approach.

In order to ride the wave of change created by shifts in demand and supply, proximity to consumer populations and insulation from new competitive product are critical for continued outperformance. At the same time, modern supply is needed, especially considering the potential for new technologies to alter the way that warehouse work is done. Increasingly, investors and operators are focused on both disruption potential and ESG integration throughout the entire supply chain; for example, a shift toward renewable energy sources and fleet electrification can change the utility requirement for tomorrow's buildings.

Speak to the experts

To be successful in the real estate markets of the future, it's essential to have a big picture understanding of where the industry is headed, as some of the new trends in the real estate industry can have very significant accounting and income tax implications. At Zeifmans, our team of real estate experts have assisted clients in choosing, maintaining, and deciding to sell their real estate investments for over 60 years. To learn more about how Zeifmans can assist your company, contact us today.

Let's Talk

To speak to one of our acquisition experts, contact our office today at 416.256.4000 or e-mail us at info@zeifmans.ca

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