SPECIAL REPORT
PSAC STRIKE

IPA INSTITUTIONAL PROPERTY ADVISORS
A DIVISION OF MARCUS & MILLICHAP, BROKERAGE

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Limited Impact of Public Sector Strike on Economy, but Far-Reaching Implications for CRE

Over 150,000 public sector workers staged walkout. In April, workers from the Treasury Board and the Canada Revenue Agency, both represented by the Public Service Alliance of Canada (PSAC), participated in a legal strike after the union and the government failed to reach an agreement last year on several key labour disputes. The strike revolved around compensation, remote work arrangements, and other issues in the workplace environment. As these employees walked off the job, several key public services — including tax returns, passport renewals and immigration — were impacted with processing delays. With 250 picket lines set up across the country, this was the largest strike against any single employer in Canada's history.

Strike ended in May with tentative agreements. Roughly two weeks after the strike began, PSAC reached tentative agreements with the federal government. Highlights of the deal on compensation include a 12.6 per cent compounded wage increase from 2021 to 2024, plus a pensionable one-time lump sum payment of $2,500. The federal government's original one-size-fits-all plan for return to the workplace, which required at least two days of in-office work, will also be revised. The new arrangement will allow managers to assess remote work on a case-by-case basis. Additionally, CRA employees will be able to start work as early as 6 a.m. in order to better fulfill other responsibilities. Furthermore, PSAC also secured protections against contracting out. Its members will be given preference over outside contractors and will not lose jobs if they can perform the duties of a contractor already working with the federal government. Improvement in work environment related to employment equity and better vacation policies were also included in the deal.

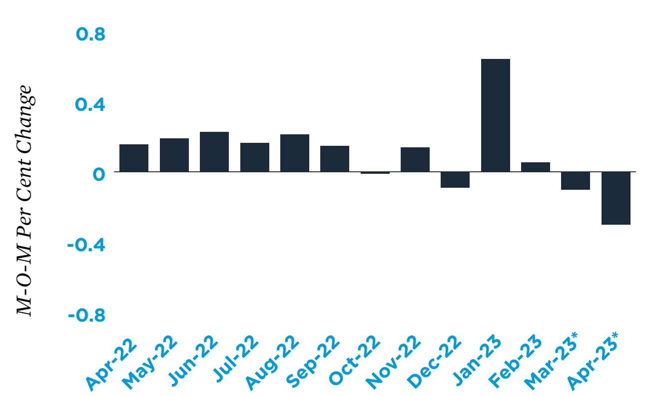
Impact on GDP growth likely to be minimal. Canada's economy got off to a good start in 2023. GDP is estimated to register 2.5 per cent annualized growth in the first quarter. Nevertheless, most gains were front-loaded in January, as growth began to flatten thereafter. Furthermore, economic growth in March may have already fallen into contractionary territory, due to a softening in manufacturing activity and consumer spending. This will be further complicated by the two-week PSAC strike, which will likely lead to a 0.2 to 0.3 percentage reduction in April's GDP growth. As the labour disputes appeared to have been resolved, however, employees will return to work, which should lead to a one-time boost to hours worked in May. This will result in a temporary improvement in GDP growth, neutralizing the drop in economic activity in the previous month.

PSAC strike could give rise to more job actions in other industries. As inflation reached a multi-decade high over the past year, cost-of-living rose significantly, outpacing wage increases for many workers in Canada. Due to this, one of the key demands for PSAC members was higher compensation to offset the living cost increase. As the union successfully negotiated a higher wage, workers in other bargaining groups may follow suit if their income adjustment cannot keep pace with inflation. This could lead to more protests and work stoppages in other industries, putting further downward pressure on the national economy that is already slowing. However, declining inflation rates and looming recession fears may have a psychological effect that discourages union activity. Some of the PSAC strike demands related to return to office, such as better remote work arrangements, are also less relevant in other sectors with non-office jobs.

Highlights of Tentative Agreement Between PSAC and Government

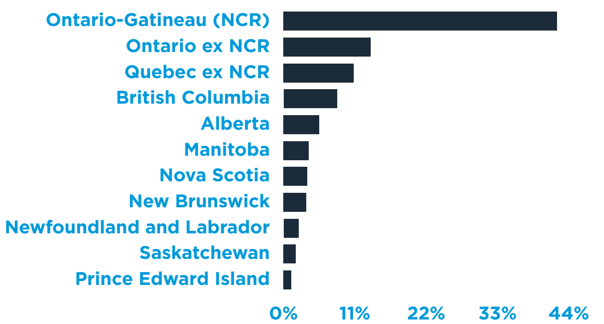
- Compounded wage raise of 12.6 per cent from 2021 to 2024
- One-time lump sum payment of $2,500 to employees
- Managers' case-by-case decision on remote work
- More flexible hours of work for CRA employees
- Protections against contracting out
- Enhanced employment equity, diversity and inclusion
- Improvement on vacation accrual for CRA workers

Canada Real GDP Growth



* *Estimates*
Sources: IPA Research Services; PSAC; RBC; Statistics Canada; TD

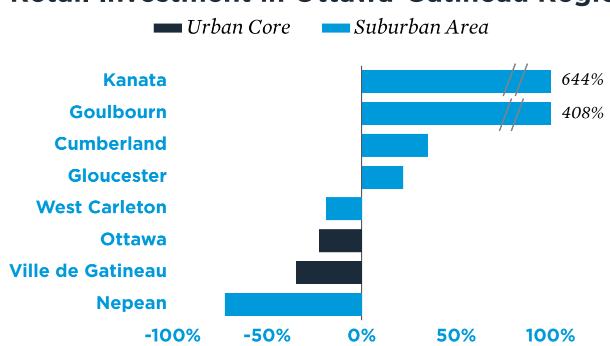
Distribution of Federal Government Workers



Per Cent of Total Government Workers

Ottawa Office Vacancy Rate

Retail Investment in Ottawa-Gatineau Region



2021-2022 Per Cent Change

* *Forecast*

Further risks arise for office sector. A key gain for the union is that now managers will be allowed to make independent decisions for remote work arrangements, instead of the mandated two- to three-day in-office work week. While a boon for the workers, this change will have a notable impact on the office sector, particularly in the Ottawa-Gatineau area as 42 per cent of federal workers are based in the National Capital Region. With an already elevated office vacancy rate, this new arrangement may result in 10 per cent of the metro's inventory being left unoccupied by the end of 2023. Any recovery in Ottawa's office sector expected over the coming years will also likely be delayed. As a result, the government may be prompted to accelerate its divestment plan in order to reduce its office footprint across the country. Additionally, institutionalized remote work agreements have the possibility of spilling over to the private sector. This could create further downside risks to Canada's office sector, which already lags in comparison to the international community.

Office conversion programs may offer a solution. While a well-performing economy and return of in-office work are crucial in driving an office sector recovery, there are other options to counter diminishing office demand in today's post-pandemic world. Calgary's Downtown Development Inventive Program provides one such example, which attempts to reduce office vacancy by downsizing total inventory. Currently, 10 underutilized downtown office buildings in Calgary have been approved for conversion into over 1,200 residential units. This will eliminate 1.3 million square feet of office space, which makes up roughly 10 per cent of the current unoccupied inventory. With a fast-growing population due to elevated levels of immigration, programs like this will not only help provide relief to Canada's tight housing market, but also revitalize the country's urban cores.

Subdued demand to persist for Ottawa's downtown retail market. A byproduct of high office vacancy was a lagged recovery for downtown retailers, which will likely be further delayed due to the government's pullback on its original return-to-office mandate. Compared to other urban cores, retail leasing activity in Downtown Ottawa may remain muted for longer. On the other hand, suburban operators will likely continue to enjoy elevated consumer demand as residents live and shop locally. Coupled with looming recession fears due to the current high interest rate environment, investors may delay their downtown investment plans and resort to suburban areas to shield from this emerging risk and capitalize on evolving consumer demand.

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Sources: IPA Research Services; Altus Data Solutions; PSAC; RBC; Statistics Canada; Treasury Board of Canada Secretariat; TD