FOURTH QUARTER UPDATE

21ST ANNUAL EDITION

2019 CANADIAN ECONOMIC OUTLOOK

AND MARKET FUNDAMENTALS

Morguard

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FORWARD-LOOKING STATEMENTS DISCLAIMER

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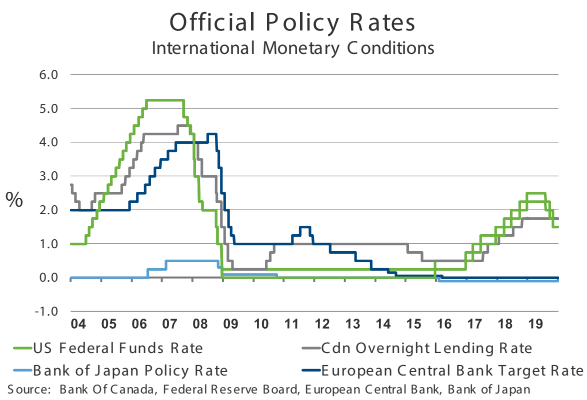
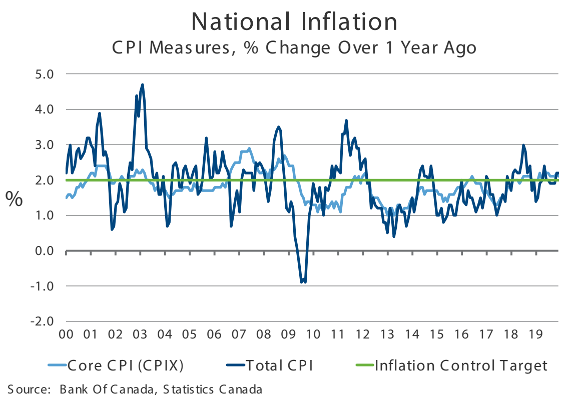
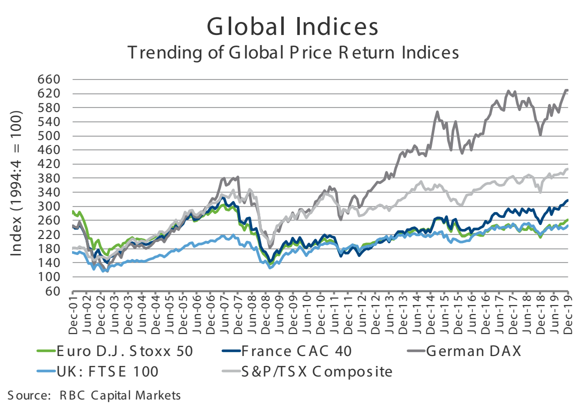
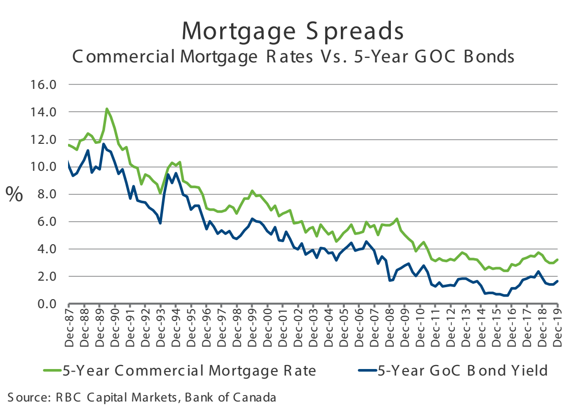
TABLE OF CONTENTS









BANK OF CANADA HELD OFF ON MONETARY POLICY CHANGE

The Bank of Canada (BofC) continued to hold the line on interest rates during the fourth quarter of 2019. The bank announced it would leave the overnight rate at 1.75% on December 4th. This was the ninth consecutive announcement of no change in the overnight rate for the bank. The bank acknowledged the slowdown in Canada's economic growth rate in the second half of the year, a wider national output gap and several "special factors", including strikes and poor weather as justification for the decision. Additionally, the re-emergence of geopolitical risks and continuing uncertainty surrounding global trade disputes were also factored into the bank's decision. Furthermore, the bank indicated it would monitor house price trends and mortgage credit growth over the medium term as indicators of the financial vulnerability of Canadian households. Several other factors were expected, at least partially, to determine monetary policy over the near term. The duration of the economic slowdown that emerged in the second half of 2019 will be monitored closely. Consumer spending patterns and business investment trends will also factor into interest rate decision-making over the near term. It remains to be seen whether the bank adjusts its overnight rate over the near term, having held the line on changes in the fourth quarter.

CONSUMER PRICE INFLATION PRESSURE INCREASED

Core inflation reached a decade-high level during the fourth quarter. The year-over-year Canadian Consumer Price Index (CPI) rose to 2.2% in November of 2019, up from the 1.9% reported for each of the preceding three months. Core inflation hit a decade high in November, driven by increased shelter and vehicle costs from a year ago. Energy pricing rose 1.5% year-over-year contrasting the 6.7% dip in October. In November of 2019, oil prices dropped as a result oversupply and international political uncertainty. Increased availability of higher-priced 2020 vehicles in November drove prices of passenger vehicles 2.9% higher compared with a year ago. The price of Canadian meat also increased significantly year-over-year as of November. In terms of regional trends, all provinces except British Columbia (B.C.) saw prices rise on a year-over-year basis compared with October. Quebec and B.C. registered headline annual inflation above the national average whereas Alberta and Ontario were slightly below at 2.1% and 1.9%, respectively. The fourth-quarter uptick in inflationary pressure was expected to be a short-term trend and return to the Bank of Canada's target level by the end of the first half of 2020 driven by more stable gasoline prices.

SOLID FOUR QUARTER EQUITY MARKET PERFORMANCE CAPPED OFF STRONG YEAR

Global equity markets finished 2019 on solid footing, which helped push the annual total return to a decade high. Canada's S&P-TSX composite surged to an all-time high on December 24, in support of an energy, materials and IT driven 22.9% total return in 2019. The MSCI ACWL global composite index registered a 7.8% return during the fourth quarter, in boosting the 2019 total annual return to 26.9%. Double-digit returns were posted across all of the index's main regions, with the U.S., Europe and Canada outperforming. The main drivers of the 2019 surge included the first phase of a China-U.S. trade deal which was subsequently ratified in January 2020 and policy rate cuts by several central banks. A more moderate earnings environment was forecast for 2020. An earnings per share gain of 9.8% was projected by equity analysts for the MSCI ACWI composite for the coming year, moderately healthier than the expected gain for the S&P-TSX composite. The most prominent threat to the outlook, as of the end of 2019, was the unfolding of the coronavirus in China. As 2019 came to an end, it was unclear as to how the outbreak would impact the global equity markets and economy in the aftermath of a healthy 2019 performance.

STABILIZATION CHARACTERIZED FINAL QUARTER OF THE YEAR

There was no material change in Canadian commercial real estate investment market conditions recorded during the fourth quarter. Investment demand for industrial, office and multi-suite residential properties remained brisk through to the end of December 2019. In the retail sector, demand for service-oriented properties with grocery, liquor and bank tenants outpaced supply. Investors continued to exercise caution when assessing shopping centre acquisitions that were more vulnerable to the broader industry transformation that has taken place over of the past few years. Office properties in most major markets continued to be a popular choice for investors. The stability of the market's demand backdrop coincided with the continuation of a significant level of market risk. The leading sources of this risk included a weakened global economic growth outlook, mixed signals from financial markets and geopolitical instability. Investment market supply patterns were also largely unchanged during the fourth quarter. Availability of high-quality assets in prime markets fell short of demand. For the most part, core properties offered for sale garnered interest from multiple parties. This dynamic ensured properties values held firm, although continued rent growth in the multi-suite residential rental and industrial sectors resulted in modest cap rate compression. The stabilization of investment property values on an aggregate basis was in keeping with the broader investment market consistency of the fourth quarter.

RETAIL INVESTMENT SLOWDOWN CONTINUED TO UNFOLD

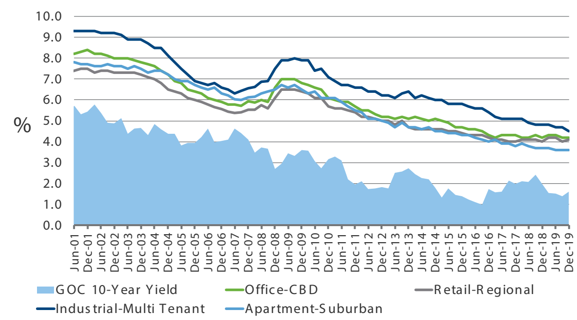
The slowdown in retail investment property market activity continued to unfold during the final quarter of 2019. Evidence of the slowdown was contained in recent sales volume data. During the final three months of 2019, four retail sales were reported in the Vancouver, Calgary, Toronto, Ottawa and Montreal markets combined with a minimum price of $25.0 million. A year earlier, nine properties were sold during the same time period. The slowdown in retail investment sales began to emerge in the second half of 2019. The weakened sales pace was the result of increased sector risk associated with the ongoing transformation of the broader retail industry. More specifically, changes in consumer shopping habits, e-commerce and demographic trends have had various impacts on retail property performance over the past few years. Some investors have chosen to reduce their exposure to a sector with a less-than-certain outlook. Others have chosen to hold off on acquiring properties until the industry stabilizes. Some have invested capital into their existing portfolios in order to enhance performance over the long term. These investments have included adding or making changes to the density or use of properties. Some have configurated space to accommodate non-traditional retail uses. Increasingly, investors have focused on improving portfolio performance, during a period of reduced retail property investment market activity.

VARIATION IN MARKET CONDITIONS WILL BE MODEST AT BEST

Minor changes in commercial property investment market conditions are forecast over the near term. The market's demand supply dynamic will continue to see acquisition opportunities fall short of robust demand. Consequently, properties in prime locations with strong tenant rosters will continue to generate high levels of interest. Consistently healthy demand will be strongest in the multi-suite residential rental and industrial property sectors, given the prospect of continued rent growth. The resulting cap rate compression will mirror the trend of the past year in 2020. Office properties will also remain highly coveted by investors, as was the case over the past few years. Investment activity will remain muted in resource-driven Prairie provinces. Consistently elevated risk will result in muted activity in the retail sector. The broader real estate sector risk backdrop will also closely resemble that of the recent past. In short, conditions in the commercial property investment market will mirror those of the past year over the near term.

Yield Spreads

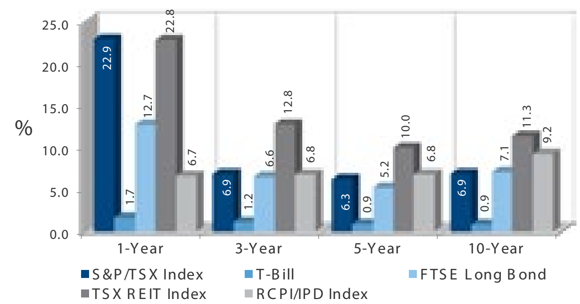
Cap Rates vs. 10-Year GOC Bonds



Source: AltusInSite (Dec 2019), Bank of Canada (Dec 2019)

Relative Performance

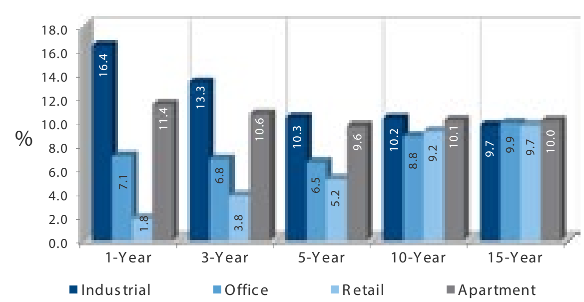
Comparing Annualized Returns To Dec 2019



Source: © MSCI Real Estate; RBC CM; TSX Datalinx; SCM; PC Bond Analytics (Dec 2019)

RCPI/IPD Returns

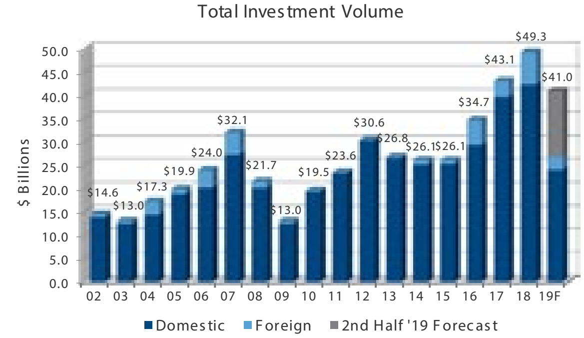
Annualized Returns By Property Type To Dec 2019



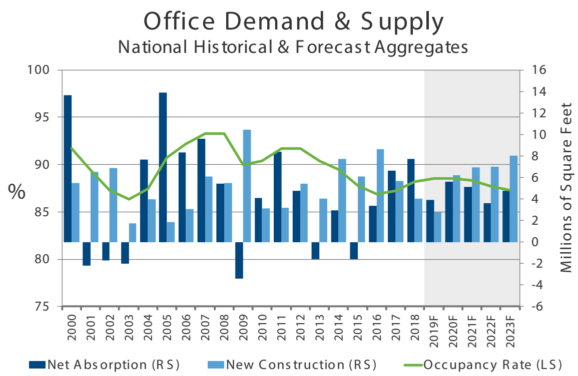
Source: RCPI; © MSCI Real Estate (Dec 2019)

Investment Activity

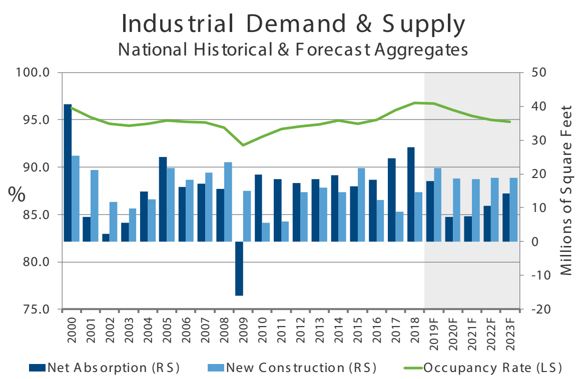
Total Investment Volume



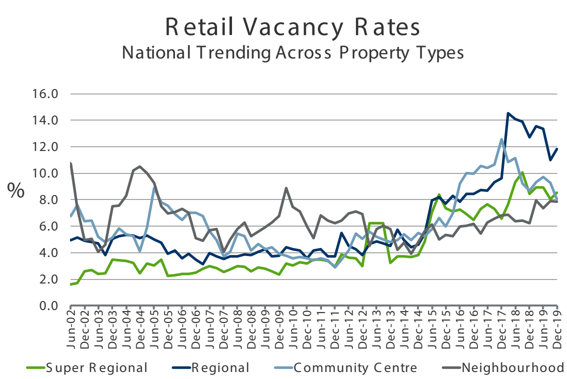
Source: CBRE Limited; Morguard



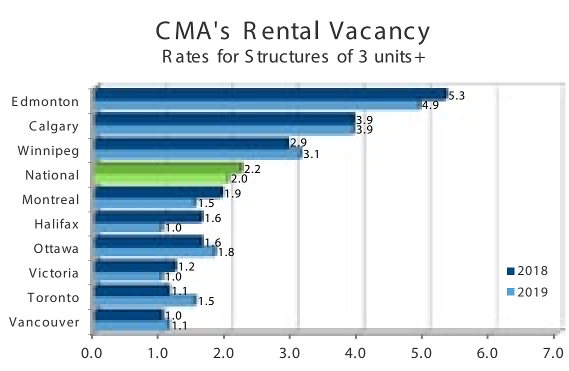
Source: CBRE Limited; CBRE Econometric Advisors



Source: CBRE Limited; CBRE Econometric Advisors



Source: © MSCI Real Estate



Source: CMHC Rental Market Report Data Tables

FURTHER OFFICE LEASING MARKET TIGHTENING UNFOLDED

Canadian office leasing market conditions tightened further during the final quarter of 2019, in keeping with the recent trend. The national average market vacancy rate stood at 10.9% as of the end of the year, which marked a five-year low for all building classes combined. The national average fell 100 bps year-over-year, as tenant options to relocate and expand dwindled. Leasing market conditions were tightest in the country's class A inventory, which registered a rate of 9.8% at the end of December. Geographically, Vancouver, Toronto and Ottawa posted the lowest average vacancy rates in the country, by a significant margin. Fourth quarter rates of 3.7%, 6.7% and 6.3% were posted, respectively. Winnipeg was the only other market with a sub-10.0% vacancy rate of 9.9%. Edmonton and Calgary continued to suffer through the harshest leasing market correction on record, with fourth quarter vacancy resting at 19.5% and 24.7%, respectively. In these two markets, tenants looking to expand, relocate or consolidate operations have been able to source a multitude of low-priced options. However, in markets like Vancouver, Toronto and Ottawa, options were scarce to moderately scarce and rents held at the peak for the cycle through to the last days of 2019. Looking ahead to 2020, leasing market conditions were expected to remain tight, particularly in the downtown submarket and in the nation's class A inventory. New supply scheduled for completion over the next few years will push vacancy moderately higher in a few markets but will fail to materially impact market fundamentals.

INDUSTRIAL AVAILABILITY STABILIZED AT 20-YEAR LOW

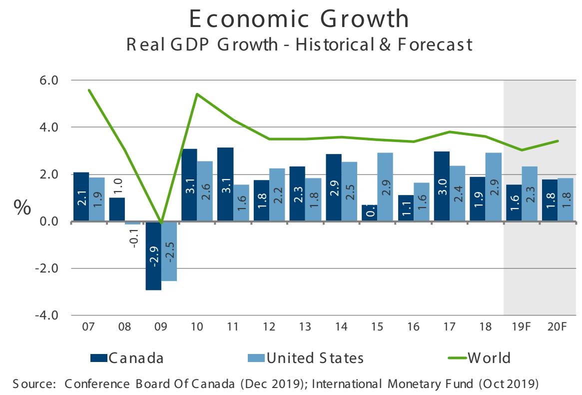
National industrial availability stabilized at a 20-year low during the fourth quarter. The national average availability rate rested at 3.0% as of the end of 2019. The rate had edged down 20 bps year-over-year and fluctuated by 20 bps or less over a 15-month period ending December 31, 2019. Seven out of 10 major Canadian industrial markets registered an availability rate of less than 5.0% at the end of the fourth quarter. Waterloo Region and Toronto posted the lowest availability levels of 1.9% and 1.4%, respectively. Tightness characterized the Vancouver, Ottawa and Montreal markets with rates of 2.4%, 2.8% and 2.7%, respectively. At these levels, space was in very shortly supply across these regions. At the same time, upward pressure on rents commanded by landlords persisted. In 2020, industrial availability is expected to remain at the cycle-low across much of the nation. More balanced conditions were forecast for Edmonton and Calgary. Despite a forecast surge in new construction activity in 2020, availability was expected to remain low resulting in further upward pressure on rents.

MULTI-SUITE RESIDENTIAL RENTAL FUNDAMENTALS STRENGTHENED

Data released by the Canada Mortgage and Housing Corporation (CMHC) in October of 2019 was indicative of the continued strengthening of multi-suite residential rental market fundamentals. The national average vacancy rate edged 20 bps lower to 2.2% as of October, down 20 bps year-over year. Moreover, the rate was the lowest since 2002. During the same 12-month period strong rent growth was recorded. The national average monthly rent for a two-bedroom unit in major urban centres was up 3.9%, year-over-year. This represented the fastest same-sample rent growth since 2001, according to the CMHC. Vancouver and Toronto posted above-average year-over-year increases 4.9% and 6.1%, respectively. Coincidentally, these two markets also boasted the highest average two-bedroom monthly rents as of October of 2019 at $1,748.0 and $1,562.0, respectively. Of the country's largest major urban centres, Montreal, posted the lowest average monthly rent at $855.0. In summary, the Canadian multi-suite residential sector exhibited healthier rental market fundamentals over the recent past, in keeping with the medium-term trend.

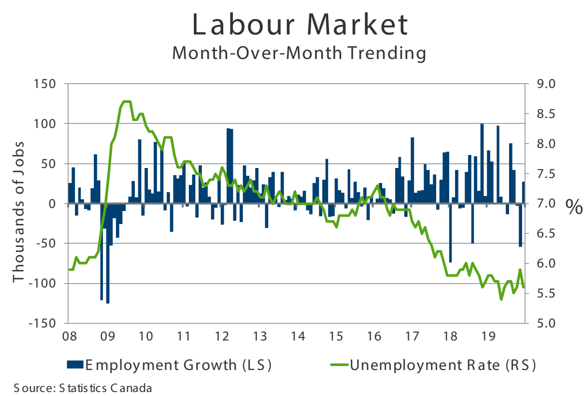
ECONOMIC GROWTH STALLED

Canadian economic growth stalled during the fourth quarter, which was in line with most projections. The Bank of Canada had predicted a 0.3% rise in national Gross Domestic Product (GDP) for the fourth quarter. Even with a stronger than expected increase of 0.1% month-over-month in November, most banks and other economic prognosticators were forecasting a sluggish fourth-quarter result. Several temporary factors combined to produce the weak fourth-quarter performance. The transportation sector suffered through labour disruptions and pipeline outages, according to a recent RBC report. Additionally, some manufacturing sectors also faced challenges rooted in the transportation sector. Finally, the Coronavirus had a negative impact on fourth -quarter economic activity, the extent to which is largely unknown. A moderate forming of Canada's economic growth trend was forecast for the second half of 2020, after a weak ending to 2019.



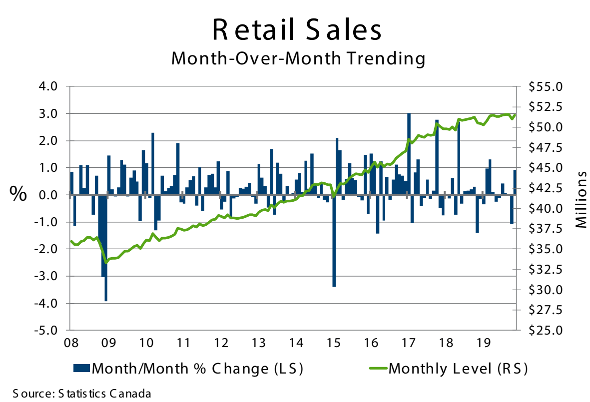
UNEVEN LABOUR MARKET PERFORMANCE TALLIED

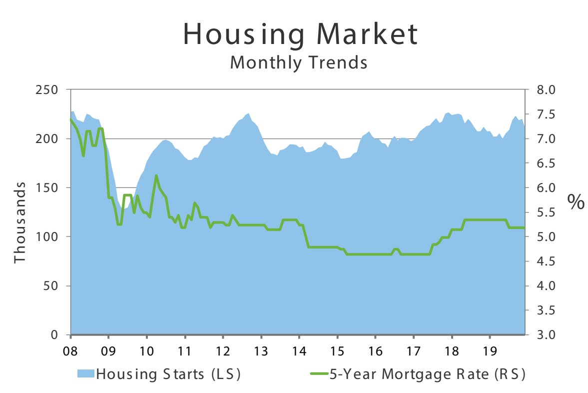
Canada's fourth quarter labour market performance was uneven, following a prolonged period of strength. In October, the national employment was unchanged, with the unemployment rate holding steady at 5.5%. In November, a moderate drop in total employment pushed the rate 40 bps higher to 5.9%. In the final month of the 2019, an increase in employment of 35,000 was recorded and the unemployment rate was pulled back down to 5.6%. The uneven employment trend of the fourth quarter was a reflection of a markedly weaker economic growth trend that prevailed in the second half of 2019. The weaker employment trends of the fourth quarter followed a period of sustained strength. National employment increased by a robust 320,000 or 1.7% in 2019, according to Labour Force Survey figures. This growth was substantially more robust than the 1.1% increase tallied in 2018. The strength of the 2019 employment market performance was driven by healthy gains in full-time work. Full-time employment increased by roughly 283,000 or 1.9% nationwide. Much of this 2019 progress was in Ontario, where employment levels increased by 243,000 or 3.3%. The annual gain was the strongest on record since 1987. Additionally, the national unemployment rate had dropped to 5.4% by May of 2019, which marked a low dating back to 1976. By the fourth quarter of 2019, however, employment market trends had become markedly more uneven compared with the first half of the year.



POSITIVE HOUSING MARKET MOMENTUM REPORTED

The Canadian housing market registered continued positive momentum during the fourth quarter. Fourth quarter resale activity represented the strongest three-month period on record dating back to May 2017, according to Canadian Real Estate Association (CREA) data. In total, 489,000 homes were sold in 2019, up 6.5% year-over-year. The positive sales momentum of 2019 resulted in increasingly tight market conditions. Across much of the country, demand exceeded the supply of available homes except for the Prairies and Newfoundland and Labrador. Most regions remained in sellers' territory during the fourth quarter due to the demand supply dynamic. Supply characteristics remained tight in the final three months of the year, with national listings dipping to a low for the decade. Consequently, sales activity slowed. The combination of low supply and healthy demand continued to pressure prices to the upside. Once again, the Prairies was the exception to the rule. By the end of December, the national average home price had increased 9.6% year-over-year. Monthly gains began in the early spring of 2019 and carried through to the end of November. Moreover, the 2019 year-over-year price growth rate had returned to levels observed prior to the B-20 implementation and Bank of Canada rate increases. Looking ahead, the 2020 upward pressure on housing prices was expected to continue, building on the positive market momentum observed in the final quarter of 2019.





INVESTMENT MARKET TRANSACTIONS | Q4 2019

OFFICE

Property	Date	Price	SF	PSF	Purchaser	City
Mississauga City Ctr (50%)	Dec-19	$94.0 M	810,870	$232	Morguard	Toronto
Trillium Executive Ctr	Dec-19	$117.8 M	368,933	$319	True North REIT	Toronto
York Mills Ctr	Dec-19	$240.0 M	567,268	$423	First Capital Realty	Toronto
Place du Canada	Dec-19	$105.5 M	384,000	$275	Redbourne/Crestpoint	Montreal
111 Peter St	Dec-19	$185.0 M	252,192	$734	iA Financial Group	Toronto
6925 Century Ave	Dec-19	$87.5 M	252,480	$347	True North REIT	Toronto
5001 Yonge St	Dec-19	$132.1 M	296,188	$446	Europro/WFCU	Toronto
101 McNabb St	Nov-19	$90.0 M	315,433	$285	True North REIT	Toronto
ATB Calgary Campus	Nov-19	$100.5 M	209,454	$480	True North REIT	Calgary
5500 North Service Rd	Nov-19	$52.0 M	225,264	$231	Soneil Investments	Toronto
Stantec Tower	Oct-19	$517.5 M	708,676	$730	Deka Immobilien	Edmonton

INDUSTRIAL

Property	Date	Price	SF	PSF	Purchaser	City
2200 Yukon Crt	Dec-19	$180.1 M	1,099,520	$164	GWL Realty Advisors	Toronto
1160 & 1170 Birchmount Rd	Dec-19	$45.6 M	362,682	$126	North Bridge Investmt.	Toronto
8265 Huntington Rd (50%)	Dec-19	$95.9 M	794,000	$242	Crombie REIT	Toronto
70 & 80 Van Kirk Dr	Nov-19	$50.0 M	338,440	$148	Triovest	Toronto
AIMCo Calgary (50%)	Oct-19	$230.8 M	3,239,260	$142	Crestpoint	Calgary

RETAIL

Property	Date	Price	SF	PSF	Purchaser	City
Halton Hills Village	Dec-19	$42.2 M	111,746	$378	GWL Realty Advisors	Toronto
McLaughlin Corners West	Nov-19	$38.1 M	105,452	$361	Ashiba Property	Toronto
First Capital Portfolio (50%)	Oct-19	$105.2 M	670,872	$313	BMO Life Assurance	Montreal

MULTI-SUITE RESIDENTIAL

Property	Date	Price	# Units	/Unit	Purchaser	City
2333 Taunton Rd	Dec-19	$164.0 M	286	$573,427	Realstar Group	Toronto
65 & 75 Paisley Blvd W	Dec-19	$47.2 M	155	$304,516	Equiton Partners	Toronto
Continuum REIT Ontario Portfl.	Dec-19	$1,734 M	6,271	$276,116	Starlight Investments	Various
Rez Boisbriand	Nov-19	$33.3 M	121	$275,413	CAPREIT	Montreal
Quadreal Montreal Portfolio	Nov-19	$281.1 M	529	$531,380	Minto	Montreal
85 & 95 Gamble Ave	Oct-19	$59.9 M	175	$342,357	Q Residential	Toronto
Boutique Apartments	Oct-19	$96.6 M	243	$397,613	BentallGreenOak JV	Montreal
Surrey Gardens	Oct-19	$43.5 M	223	$195,067	Primex Investments	Vancouver
1110 Caven St	Oct-19	$67.5 M	214	$315,421	Starlight Investments	Toronto

* share sale

ACKNOWLEDGEMENTS & CITED RESEARCH RESOURCES

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