Morguard

# 2020 CANADIAN ECONOMIC OUTLOOK AND MARKET FUNDAMENTALS

22ND ANNUAL EDITION

## FORWARD-LOOKING STATEMENTS DISCLAIMER

22[ND] ANNUAL EDITION

# 2020 CANADIAN ECONOMIC OUTLOOK AND MARKET FUNDAMENTALS

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# TABLE OF CONTENTS

## NATIONAL ECONOMIC & REAL ESTATE OUTLOOK



## METROPOLITAN ECONOMIC & REAL ESTATE OUTLOOK

# 2020 NATIONAL ECONOMIC & REAL ESTATE OUTLOOK

## HIGHLIGHTS

- Canada's economy was tracking expansion of approximately 1.4% for 2019, following a moderately more robust 1.8% rise in Real Gross Domestic Product (GDP) in 2018.
- Canada's labour market outperformed during 2019, a period that included a historically low unemployment rate, robust job growth and increased wages.
- Retail sales growth was relatively tepid during 2019, due in large part to high levels of household debt.
- Canada's economy expanded at a moderate rate over the past year, against a backdrop of heightened risk levels related to socio-political events, technology, government policy, tariffs and global economic and financial uncertainty.

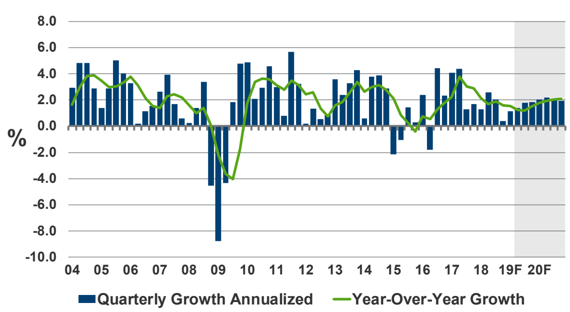
## NATIONAL ECONOMIC PULSE

| FUNDAMENTALS | Δ YTD | 1-YEAR OUTLOOK |
|---|---|---|
| Real GDP Growth* | ▼ | — |
| Unemployment | — | — |
| Retail Sales Growth* | ▼ | — |
| Housing Starts* | ▼ | — |
| Trade Balance* | ▼ | — |
| Total Inflation | — | — |

*The trend indicators do not necessarily represent a positive or negative value (i.e., real GDP growth could be +/-, yet indicate a growing/shrinking trend).

### Canadian Real GDP Growth

% Change




Source: Conference Board Of Canada

### ECONOMIC GROWTH MODERATED

The unfolding of a moderately positive growth trend characterized Canada's economic performance of the past year. Output was expected to increase by approximately 1.4% during 2019, following advances of 3.0% and 1.8% in 2017 and 2018, respectively. After a sluggish end to 2018 and start to 2019, the national economic growth trend firmed during the second quarter. Between April and the end of June, national Gross Domestic Product (GDP) increased by an annualized rate of 4.0%. However, a return to a more moderate growth rate was anticipated for the second half of 2019. There were several factors that impacted Canada's economic growth trend of the past year. The highest profile of these was the ongoing trade dispute between the U.S. and China, which eroded Canadian business confidence. The dispute increased the risk of a global economic downturn, which would have a materially negative impact on Canadian business activity. Tariffs imposed by both sides had already reduced global trade volume and Canadian export volumes in 2019. Canada's housing market correction was another factor in the economic growth moderation of the past year. Various government policies implemented over the past couple of years reduced housing sector and economic output. Additionally, a tepid retail sales growth trend over the past year added to the downward pressure on Canada's economic growth trend. Retail sales growth has been underwhelming in all categories over the past year, due largely to concerns related to high levels of household debt. The moderate economic growth that unfolded over the past year was expected to persist over the near term.

### LABOUR MARKET CONDITIONS WERE TIGHT AND HEALTHY

Canada's labour market was generally tight and healthy over the past year. Employment growth was surprisingly robust. Canada's business sector continued to add new positions in spite of an increasingly risky global economic environment. Through much of the past year, jobs were created at the strongest pace since 2013. Hiring increased by 2.5% year-over-year as of the end of August. On average, roughly 39,000 new jobs were created monthly over the eight-month period. Increased employment levels drove the national unemployment level down to a low point for the past half century. The national unemployment rate has rested in the mid-to-high 5.0% range over the past year. In addition to job growth, the labour market tightness of the past year was a byproduct of rising labour market participation and population growth. In some business sectors available positions have been hard to fill, which was in keeping with an economy operating at close to full capacity. A tight labour market, to some extent, was a catalyst for wage growth. Canadian wages increased 4.3% year-over-year as of August of 2019. This wage growth was a function of the overall tightness and health of Canada's labour market of the recent past.

### RETAIL SPENDING GROWTH PATTERN WAS TEPID

Canada's retail spending growth pattern was relatively tepid over the recent past, despite indications of improved performance. By the end of July of 2019, total retail sales had increased by a modest 1.2% year-over-year. Excluding automobiles and gasoline, the figure was only moderately better at 1.9%. Retail sales volume data also underwhelmed. Stripping out the impact of prices, sales volume has been effectively flat over the past year. The national retail sales growth pattern has been largely quite tepid, despite largely positive performance-drivers. A healthy labour market backdrop, including higher wages, was expected to support stronger retail sales growth. Low interest rates and unemployment levels were also expected to boost performance. However, economic uncertainty and close-to-record-high household debt levels have dampened retail sales growth over the past year.

## HOUSING MARKET RECOVERY UNFOLDED

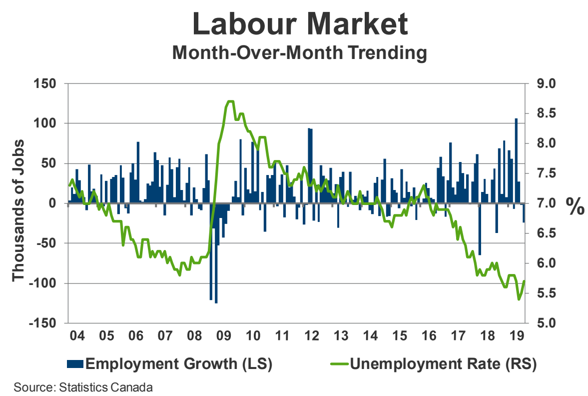
A modest recovery phase of the Canadian housing market cycle unfolded recently, following a corrective period that lasted approximately two years. The recovery phase was evidenced in both the resale and new home construction sectors. Resale values increased in six consecutive months from March to August of 2019. By the late summer, the sales-to-new-listings ratio hit 0.6, indicating a sellers' market was upon us. Increased activity in the resale market during the past year coincided with significant upward pricing pressure. In the third quarter of 2019, resale home benchmark pricing increased at an annualized rate of 7.5%, according to the MLS/RBC national price index. Moreover, the average resale sale price had increased in six consecutive months ending in July. Gains were strongest in Ontario and Quebec, with more modest growth recorded in British Columbia. In Vancouver, there were signs of housing market stabilization, as downward pricing pressure began to ease. Further evidence of the national housing market recovery was observed in the new home construction sector. Positive momentum carried through to the summer of 2019. The market was tracking 226,600 unit starts on an annualized basis, as of the end of August. Single-detached housing starts steadily increased over the period, with condominium volume remaining elevated. The strength of the new construction market of the recent past was indicative of the housing market recovery that continued to unfold over the recent past. This activity supported the modest recovery that unfolded in the broader housing market over the past year.

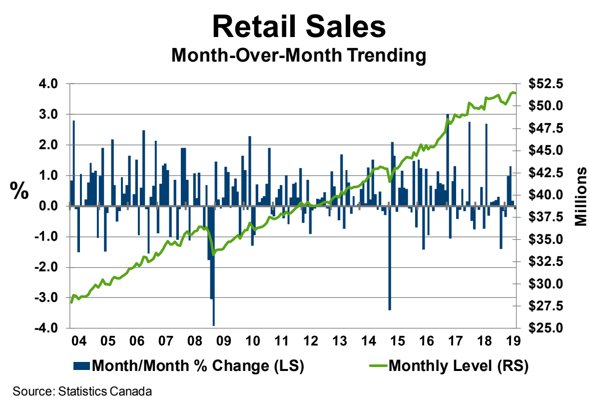
## EXPORT SECTOR GAINS WERE MODEST

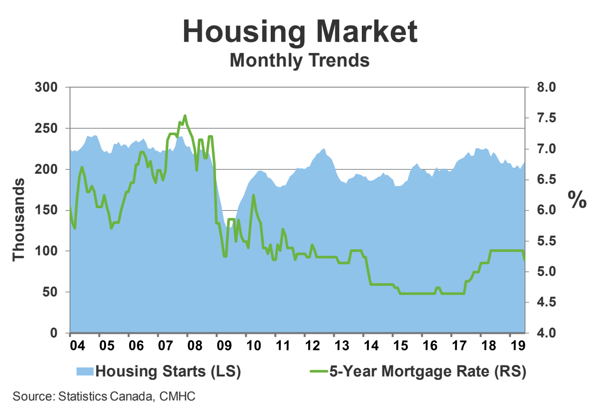
Canadian export volume remained relatively modest during the past year, due to weaker global demand. Export volume was projected to rise by roughly 2.5% in 2019, following a more robust 3.2% advance in 2018. The moderate growth outlook was, in part, predicated on reduced U.S. manufacturing sector demand. By the late summer of 2019, the U.S. Automotive industry strike began to have a negative impact on Canada's exporters. Additionally, the intensification of the U.S.-China trade dispute reduced demand for Canada's agricultural exports. This has eroded economic output in western Canada, which was already suffering the effects of weaker global energy export demand. Limitations on pipeline capacity had also negatively impacted western Canadian economic output. Over the near term, export volume was expected to increase, albeit at a moderate pace.

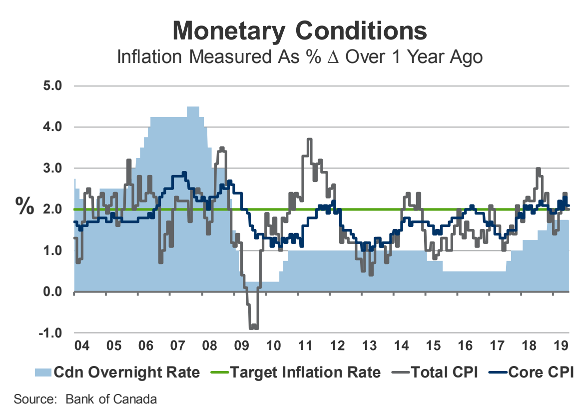
## ECONOMIC FUNDAMENTALS HAVE BEEN LARGELY POSITIVE

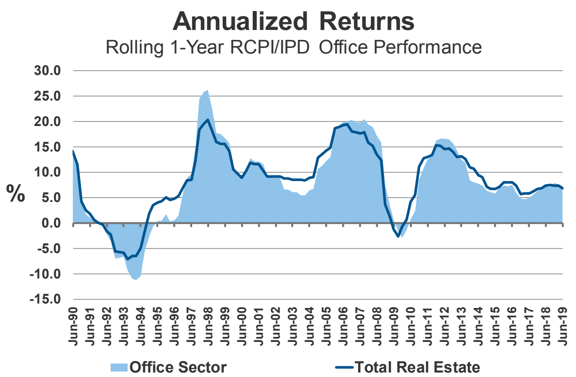
Canadian economic fundamentals remained largely positive over the past year, despite an environment of heightened risk. After a slow start to 2019, economic growth firmed. Real GDP was projected to increase by a moderately healthy level. While economic growth moderated, the national job market continued to outperform. Robust employment growth outdistanced most projections, even as labour market participation steadily rose. Tight labour market conditions pushed wages materially higher, supporting a modest housing market recovery and steady household credit growth. Household spending patterns were boosted by low interest rates. Over the past year, Canada's economic fundamentals remained largely positive despite heightened risk levels. The ongoing U.S-China trade dispute was a source of concern for the Canadian business sector. Global demand for Canadian exports declined, which continued to negatively impact the country's energy sector. In July of 2019, the Bank of Canada (BofC) noted the U.S.-China conflict was "weighing more heavily on global economic momentum". Reduced Chinese demand for agricultural products eroded export volume. The threat of a U.S. economic slowdown dampened Canadian business confidence. Despite the heightened risk backdrop, Canadian economic fundamentals remained generally positive over the recent past.



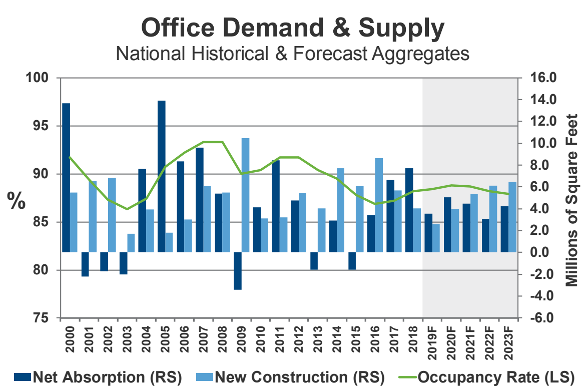



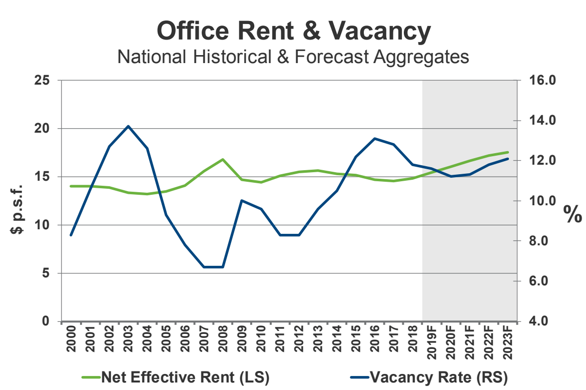


Source: RCPI; © MSCI Real Estate (June 2019)

Source: CBRE Limited (June 2019)



Source: CBRE Limited; CBRE Econometric Advisors



Source: CBRE Limited; CBRE Econometric Advisors (Jun 2019)

## LEASING MARKET FUNDAMENTALS STRENGTHENED

Canadian office leasing market fundamentals continued to strengthen over the past year against a backdrop of regional disparity. The national vacancy rate rested at 11.0% at the end of the third quarter of 2019, down 140 bps from 12.4% a year earlier. The downtown average dropped 210 bps to 9.8% and the suburban rate fell 210 bps to 12.6% over the same 12-month period. Oversupply remained a challenge for most landlords in Calgary and Edmonton, as vacancy levels continued to hold near the record high. In downtown Vancouver and Toronto, tenants struggled to source expansion space due to record-low vacancy. Leasing market conditions tightened in Ottawa as well. The downward vacancy trend recorded in most Canadian urban centres was the result of generally positive demand patterns. The market's most prominent demand-drivers were the technology sector, various shared work space companies, and growth in most traditional office-using business sectors. Canadian cities provided technology companies with a relatively cost-effective alternative when compared with major U.S. urban centres. Largely positive demand characteristics resulted in upward pressure on average rents. This pressure was strongest in the downtown areas of Toronto and Vancouver, where available space was in the shortest supply. Rents were generally flat or rose slightly in the suburbs, where vacancy levels were markedly higher. The aggregate upward rental rate trajectory reflected the broader office leasing market strength of the past year.

## INVESTMENT ACTIVITY REMAINED CLOSE TO RECORD HIGH

Sales of investment office property in Canada's major cities continued at a record pace recently. A total of $5.5 billion in transaction volume was reported for the first six months of 2019, slightly ahead of the 2018 record pace. The pace was indicative of the high level of confidence investors maintained when placing investment capital into the nation's office market at prevailing yields. A range of groups responded positively when properties were available for acquisition. Generally, bids for high-quality assets were aggressive. Moreover, there was often more than one bidder exhibiting interest, resulting in a competitive environment. Downtown properties in major markets, and those located at or near major transit hubs were highly sought after. However, there was also a distinct market for lower-quality properties with solid tenant rosters in both downtown and suburban locations. In general, investors continued to target to office sector as a source of attractive yields and stable income. To some extent, this was evidenced in recent investment performance. Office properties contained in the MSCI Index generated an attractive annual average total return of 7.3% for the year ending June 30, 2019. The health of the sector's recent performance patterns was one of several factors that supported the record sales pace of the recent past.

## RECENT PERFORMANCE TRENDS WILL BE REPEATED

A repeat of recent office property performance trends is projected over the near term. Leasing market fundamentals will mirror those of the recent past. Conditions will be tight in most cities, except for Edmonton and Calgary where vacancy levels will hold near the record high. Downtown vacancy in most regions will remain close to the cycle-low, offering few alternatives for tenants. Upward pressure on rents will also continue, given shortages of high-quality space. New construction is coming, although completions will fall short of demand for at least the next 12 months. Rent growth will drive investment performance and attract investors. Investment demand will continue to surpass supply, resulting in modest upward value pressure. There may be modest upward pressure on values, especially for premium-quality assets. In short, Canadian office sector fundamentals will generally stabilize over the near term, in keeping with the mature phase of the cycle.

## INVESTMENT MARKET TRANSACTIONS

### MONTREAL

| Property | Date | Price | SF | PSF | Purchaser |
|---|---|---|---|---|---|
| O Mile-Ex | Aug-19 | $153.0 M | 372,577 | $411 | Spear St Capital |
| National Bank Tower | Jul-19 | $187.0 M | 762,890 | $245 | Kevric JV PSP |
| 700 de la Gauchetière | Jul-19 | $322.5 M | 935,866 | $345 | Allied REIT |
| 1250 René-Lévesq. W | May-19 | $605.0 M | 1,061,820 | $570 | Sun Life/Bentall |
| 2425 Pitfield Blvd | May-19 | $11.9 M | 65,625 | $181 | BTB REIT |
| 14 Pl. du Commerce | Mar-19 | $16.0 M | 87,718 | $182 | GCA |
| 950 Beaumont (50%) | Jan-19 | $18.8 M | 120,305 | $312 | Montez |

### OTTAWA

| Property | Date | Price | SF | PSF | Purchaser |
|---|---|---|---|---|---|
| 150 Metcalfe St | Aug-19 | $40.5 M | 110,071 | $368 | Northam Realty |
| 99 Metcalfe St | Jul-19 | $52.0 M | 157,315 | $331 | Morguard |
| 99 Bank St (50%) | Apr-19 | $207.5 M | 947,854 | $438 | Bentall Kennedy |
| 360 Laurier Ave W | Feb-19 | $24.5 M | 107,067 | $229 | True North REIT |
| 219 Laurier Ave W | Feb-19 | $51.2 M | 186,950 | $274 | GWL Realty Adv. |

### TORONTO

| Property | Date | Price | SF | PSF | Purchaser |
|---|---|---|---|---|---|
| 101 McNabb St | Nov-19 | $90.0 M | 315,433 | $285 | True North REIT |
| 2323 Yonge St | Sep-19 | $54.1 M | 67,367 | $803 | Minett Capital |
| Lumsden Building | Sep-19 | $45.5 M | 52,865 | $861 | Dream Office REIT |
| 2476 Argentia Rd | Sep-19 | $38.1 M | 101,710 | $375 | Concert Properties |
| 220 King St W | Aug-19 | $25.0 M | 24,968 | $1,001 | Dream Office REIT |
| 30 Eglinton Ave W | Jul-19 | $70.9 M | 164,731 | $430 | Crown Realty |
| 225 Duncan Mill Rd | Jul-19 | $26.7 M | 155,872 | $171 | AZVB Inc. |
| North Service Rd W | Jun-19 | $30.0 M | 185,340 | $162 | Crown Realty |
| Atrium on Bay | Jun-19 | $640.0 M | 1,079,870 | $593 | KingSett/TD Greyst |
| Aerocentre | May-19 | $163.4 M | 623,440 | $262 | Fiera Properties |
| 140 Allstate Pkwy | Apr-19 | $17.0 M | 84,037 | $202 | Davpart Inc. |
| Slate Portfolio (25%) | Apr-19 | $131.8 M | 1,957,868 | $269 | Wafra Inc. |
| Warden City Ctr | Feb-19 | $26.5 M | 127,602 | $208 | Davpart Inc. |
| Dynamic Funds Tower | Feb-19 | $473.0 M | 650,000 | $728 | GWL/IG/OpTrust |
| 4085 Palladium Way | Feb-19 | $23.5 M | 34,000 | $692 | Talisker Corp. |
| 56 Wellesley St W | Feb-19 | $98.0 M | 215,677 | $454 | GWL Realty Adv. |
| 507 King St E | Jan-19 | $21.8 M | 49,076 | $443 | Hullmark |
| 320 Bay St (20%) | Jan-19 | $17.7 M | 275,000 | $323 | Menkes |

### CALGARY

| Property | Date | Price | SF | PSF | Purchaser |
|---|---|---|---|---|---|
| Sherwin Block | Apr-19 | $12.2 M | 30,949 | $394 | Allied REIT |
| Parke at Fish Creek | Jan-19 | $15.3 M | 61,219 | $249 | Simplex |

### EDMONTON

| Property | Date | Price | SF | PSF | Purchaser |
|---|---|---|---|---|---|
| 10220 103 Ave NW | Oct-19 | $517.5 M | 708,676 | $730 | Deka Immobilien |

### VANCOUVER

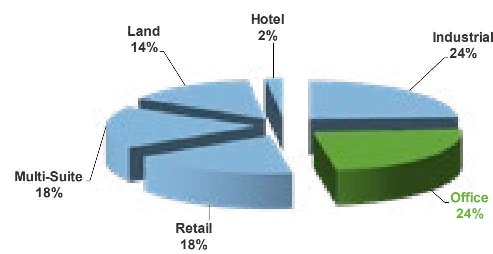
| Property | Date | Price | SF | PSF | Purchaser |
|---|---|---|---|---|---|
| Renfrew Business Ctr* | Apr-19 | $73.5 M | 81,662 | $900 | Molnar Group |
| 1075 West Georgia St* | Mar-19 | $274.0 M | 348,799 | $786 | Relia./KingSt/Cprt |
| Metrotown Place I & III | Mar-19 | $95.0 M | 250,800 | $379 | Slate Asset Mgt. |
| Airport Executive Pk | Jan-19 | $208.0 M | 707,809 | $294 | Fiera Properties |

*share sale

## HIGHLIGHTS

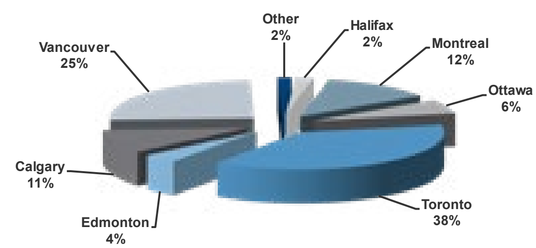
- Office sector investment transaction activity continued at a record pace recently, with $5.5 billion in sales reported during the first six months of 2019.
- Aggregate leasing fundamentals continued to strengthen over the recent past, highlighted by record-low vacancy levels, healthy demand patterns, upward pressure on rents in several markets and increased construction activity.

**Total Sales By Product**
18 Months to June 2019



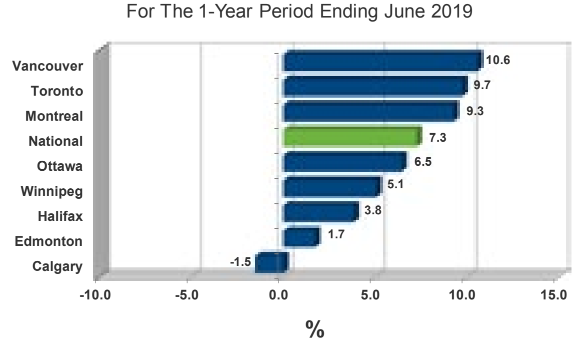

Source: CBRE Limited

**Office Sales By CMA**
18 Months to June 2019

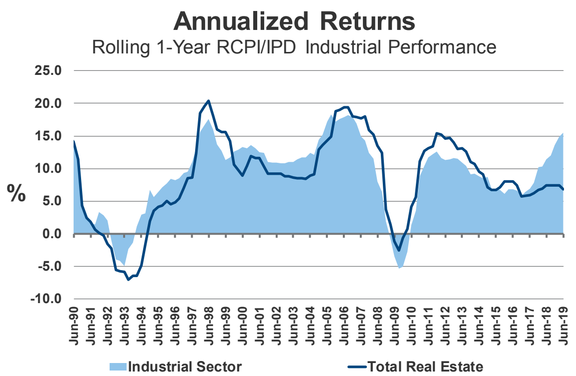



Source: CBRE Limited

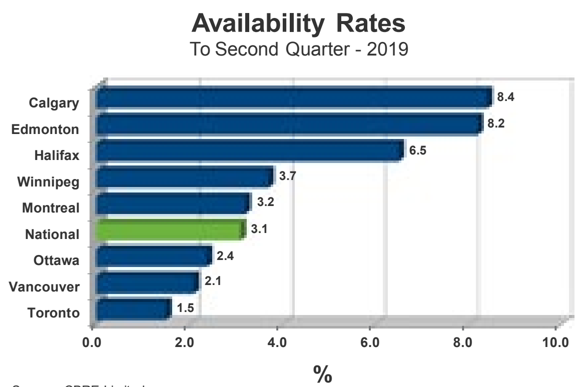
**Office Total Returns**
For The 1-Year Period Ending June 2019



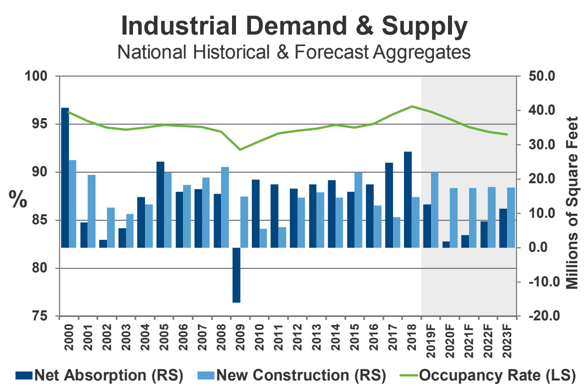

Source: © MSCI Real Estate 2019



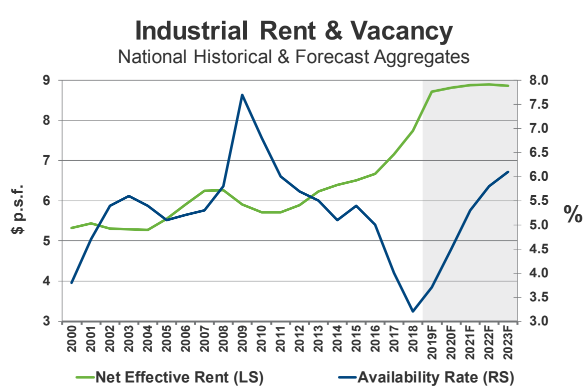

Source: RCPI; © MSCI Real Estate (June 2019)




Source: CBRE Limited




Source: CBRE Limited; CBRE Econometric Advisors




Source: CBRE Limited; CBRE Econometric Advisors (Jun 2019)

## CONSTRAINED SUPPLY CHARACTERIZED LEASING MARKET

Canada's industrial leasing market was characterized by supply constraints over the recent past. The national availability rate rested at a 20-year low of just 2.9%, as of the end of the third quarter of 2019. The rate was 40 bps lower than a year earlier. At this level, occupiers of industrial space found it difficult to source options for expansion and relocation across most of the country. Available supply was highly constrained in the country's three largest markets, Toronto, Montreal and Vancouver. Conditions were somewhat more balanced in Calgary and Edmonton where availability stood at 8.7% and 8.0%, respectively at the three quarter mark of 2019. Despite a more balanced market position, space was in short supply for larger users in Alberta. Throughout much of the nation, demand for industrial space outdistanced supply by a significant margin. Warehouse and distribution, consumer goods and e-commerce-related businesses were the main space demand-drivers. Manufacturing sector expansion in some regions added to the demand-pressure. Although construction activity has increased, much of the space delivered over the past few years has been built for specific uses. Therefore, new speculative development provided little relief from the space shortfalls. In many cases, users were forced to make do with their existing space. At the same time, the cost of renting had reached a record high, both for existing and newly constructed space. This upward rent pressure was a function of constrained supply, which was a common characteristic of the market over the recent past.

## BULLISH PHASE OF THE INVESTMENT CYCLE WAS EXTENDED

The bullish phase of Canada's industrial property investment cycle was extended over the past year, resulting in broadly positive market characteristics. The lengthening of the cycle's phase was evidenced in recent investment performance characteristics. An average annual total return of 15.5% was generated by properties contained in the MSCI Index for the year ending June 30, 2019. The return was the highest on record since 2007 and bested the broader index all-sector average by more than nine percentage points. The recent performance strength was a byproduct of continued cap rate compression and healthy income growth. To some extent, the performance was also a byproduct of robust investment demand. Investors bid aggressively on market opportunities, in anticipation of forecast rental growth and positive leasing market performance patterns. Investors exhibited a high degree of confidence when placing capital in to the sector. This sentiment resulted in a sharp rise in investment sales. Transaction volume spiked to a record annual high of $12.7 billion in 2018. A modest slowdown unfolded in the first half of 2019, due to reduced availability rather than any change in demand. The strength of the demand cycle of the past few years was in keeping with the bullish phase of the cycle that was extended recently.

## RECENT SECTOR PERFORMANCE TRENDS WILL PERSIST

There are few changes in industrial property sector performance forecast over the near term. A moderately positive economic growth trend will continue to support leasing demand. Warehouse and distribution operators, consumers goods and manufacturers in certain regions will remain the most significant demand-drivers across the country. Generally, demand will outstrip supply, despite a material increase in new construction volume. Therefore, supply will be constrained across the country, although conditions in Alberta will be more balanced. Tenants will face the continued challenge of sourcing expansion space and options to relocate. Landlords will be able to continue to command higher rents, on average. Rent growth will draw investment to the sector, resulting on an above-average sales pace. Bidding will remain brisk, given high levels of competition. In short, industrial property sector conditions will mirror those of the recent past over the near term.

# INVESTMENT MARKET TRANSACTIONS

## MONTREAL

| Property | Date | Price | SF | PSF | Purchaser |
|---|---|---|---|---|---|
| 1212 32nd Ave | Sep-19 | $13.5 M | 162,310 | $83 | Montoni |
| HOOPP GMA Porfolio | Sep-19 | $259.0 M | 1,533,924 | $169 | Pure REIT JV |
| 6000 Transcanada | Sep-19 | $25.5 M | 218,338 | $117 | Alliacon Prop. |
| 1600 Transcanada | Apr-19 | $26.0 M | 301,520 | $86 | Camco Realties |
| 2751 Transcanada | Mar-19 | $23.0 M | 236,144 | $97 | Summit Ind REIT |

## OTTAWA

| Property | Date | Price | SF | PSF | Purchaser |
|---|---|---|---|---|---|
| Amazon Bldg. (90%) | Sep-19 | $156.1 M | 1,023,250 | $169 | Concert Prop. |
| 1250-1280 Humber Pl | Jul-19 | $32.8 M | 233,411 | $141 | Dream Ind. REIT |
| 2001 Bantree St | May-19 | $29.3 M | 258,000 | $113 | Regional Group |

## TORONTO

| Property | Date | Price | SF | PSF | Purchaser |
|---|---|---|---|---|---|
| 10 Auction Ln | Oct-19 | $17.8 M | 99,614 | $179 | Pure Ind REIT |
| 41 Citation Dr | Oct-19 | $12.7 M | 60,700 | $210 | Rinomato Group |
| Cristall Mississauga | Sep-19 | $47.7 M | 261,817 | $182 | KingSett Capital |
| 99-105 Brisbane/Flint | Aug-19 | $22.6 M | 219,364 | $103 | Shelborne Capit |
| 1100-1150 Caledonia | Aug-19 | $71.5 M | 310,275 | $230 | Oxford Prop |
| 12333 Airport Rd | Jul-19 | $89.3 M | 568,000 | $157 | Pure Ind REIT |
| 35 Dynamic Dr | Jul-19 | $11.4 M | 133,802 | $85 | KingSett Capital |
| 2650-60 Meadowvale | Jul-19 | $14.6 M | 90,000 | $162 | SixFive GP Inc. |
| 2500 Williams Pkwy E | Jul-19 | $24.3 M | 132,402 | $184 | Berkshire Axis |
| 195 Harry Walker | Jul-19 | $26.5 M | 290,000 | $91 | Davpart Inc. |
| 999 Boundary Rd | Jun-19 | $26.9 M | 313,500 | $86 | Pure Ind REIT |
| 7270-90 Torbram/Drew | Jun-19 | $26.2 M | 150,696 | $174 | Pure Ind REIT |
| 1121 Walkers Line | May-19 | $30.8 M | 288,161 | $107 | CanFirst Capital |
| Wingold Vaughan Portf | May-19 | $28.2 M | 268,450 | $105 | Berkshire Axis |
| 1602 Tricont Ave | Apr-19 | $35.8 M | 258,000 | $139 | Dream Ind REIT |
| 2562 Stanfield Rd | Apr-19 | $38.0 M | 361,800 | $105 | Pure Ind REIT |
| ICBC Stanfld/Cranfld | Apr-19 | $42.2 M | 345,094 | $122 | Bentall Kennedy |
| 390 Orenda Rd | Apr-19 | $18.7 M | 156,769 | $119 | KingSett Capital |
| ICBC GTA Portfolio | Mar-19 | $67.7 M | 579,497 | $117 | CanFirst Capital |
| 205 Market Dr | Mar-19 | $49.8 M | 241,596 | $206 | GWL Realty Adv. |
| 2301-11 Royal Windsor | Feb-19 | $25.8 M | 204,330 | $126 | Menkes |
| 185 William Smith Dr | Feb-19 | $27.5 M | 217,901 | $126 | Bentall Kennedy |

## CALGARY

| Property | Date | Price | SF | PSF | Purchaser |
|---|---|---|---|---|---|
| AIMCo Portfolio (50%) | Oct-19 | $230.8 M | 3,239,260 | $142 | Crestpoint |
| Hopewell Business Pk | Aug-19 | $26.5 M | 172,054 | $154 | Canadian Urban |
| 48th SE & 72nd SE | Jan-19 | $77.2 M | 622,754 | $124 | Triovest |
| bcIMC Portfolio | Jan-19 | $79.6 M | 849,338 | $94 | Summit Ind REIT |

## EDMONTON

| Property | Date | Price | SF | PSF | Purchaser |
|---|---|---|---|---|---|
| 11755 108 Ave | Jan-19 | $24.5 M | 218,126 | $112 | GPM |

## VANCOUVER

| Property | Date | Price | SF | PSF | Purchaser |
|---|---|---|---|---|---|
| 15050 54A Ave | Sep-19 | $66.2 M5 | 315,128 | $210 | CanFirst Capital |
| 11511 No. 5 Rd* | Apr-19 | $21.9 M | 95,983 | $228 | Pure REIT/Blckst |

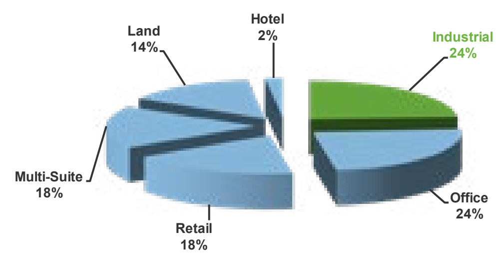
*share sale

## HIGHLIGHTS

- Sales of industrial investment property soared during 2018, with a record-high $6.1 billion in transaction volume reported in the second quarter alone.
- Supply constraints characterized much of the Canadian industrial leasing market over the past year, as the supply of functional space fell short of demand in most jurisdictions except for Calgary and Edmonton.

### Total Sales By Product

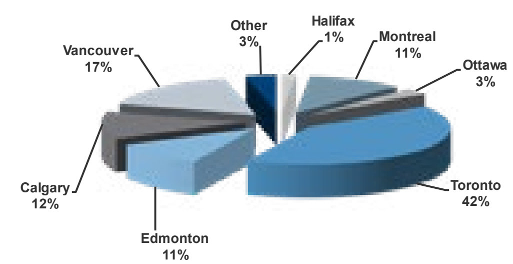
18 Months to June 2019




Source: CBRE Limited

### Industrial Sales By CMA

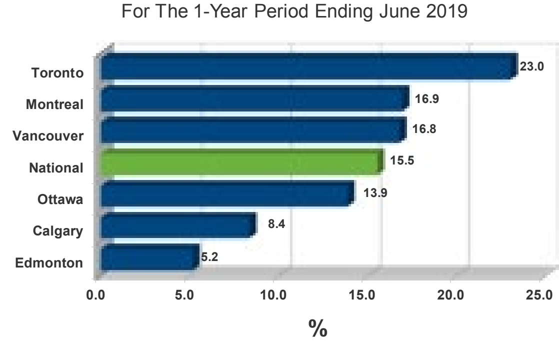
18 Months to June 2019



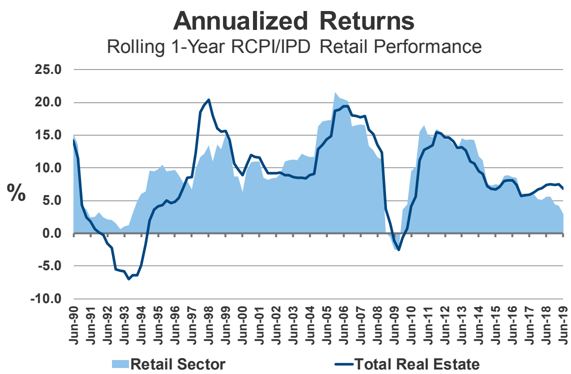

Source: CBRE Limited

### Industrial Total Returns

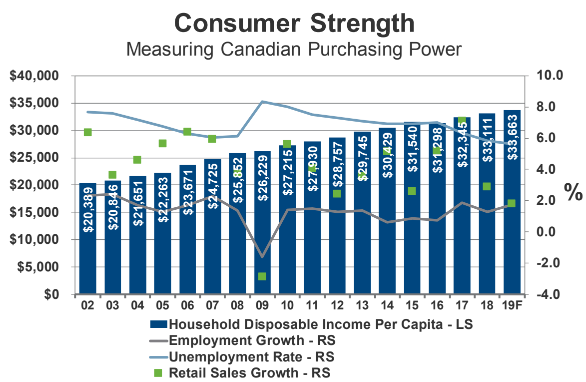
For The 1-Year Period Ending June 2019



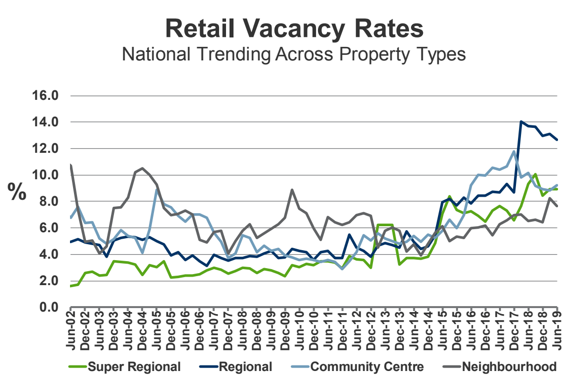

Source: © MSCI Real Estate 2019



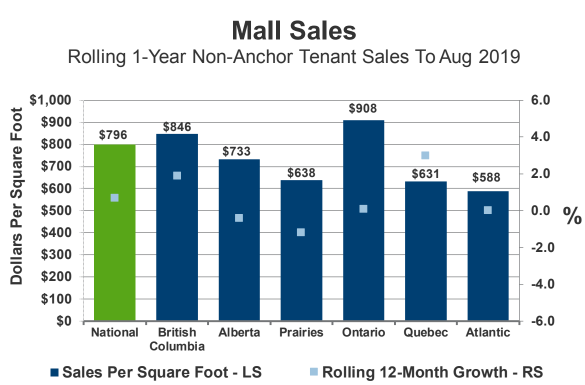

Source: RCPI; © MSCI Real Estate (June 2019)




Source: Conference Board of Canada




Source: © MSCI Real Estate (Jun 2019)




Source: International Council of Shopping Centres, Industry Insights

## LEASING MARKET EXHIBITED SIGNS OF STABILIZATION

Canada's retail property leasing market exhibited signs of stabilization recently, against a backdrop of ongoing broader industry change. Vacancy edged 100 bps lower to 5.8% as of the end of the first half of 2019. Previously, downsizing activity and store closures, driven in part by changing consumer shopping habits, pushed vacancy to a cycle-high of 6.8%. Over the previous five-year period, vacancy had ranged between a low of 4.2% and a high of 4.7%. Early signs of demand stabilization were also observed over the recent past, after a period of significant weakness. Experience-driven brands have been relatively active in filling some of the previously vacated space in centres across the country. Food-related uses, fitness and the self-care market segments have an increased market presence. Discounters and luxury brands have also continued to expand. Several brands have opened their first brick and mortar stores, having previously operated exclusively online. In contrast, demand for power centre space and smaller strips remained weak. Vacancy has remained elevated in some market segments. On balance, the demand cycle has started to stabilize, which has impacted the rental cycle. Rents for prime street fronts and landmark malls have generally stabilized. Whereas, the loss of department store anchors and other store closures resulted in continued downward pressure in some centres. In short, the Canadian retail leasing market performance of the recent past included a measure of stabilization, despite continued broader industry changes.

## INVESTMENT PERFORMANCE CONTINUED TO SLIDE

Canadian retail property investment performance continued to soften over the recent past, while transaction activity remained brisk. Properties tracked in the MSCI Index posted a modest annual average return of 2.9% for the year ending June 30, 2019. The income component was positive and stable, while the capital cycle continued to weaken. Investment performance has deteriorated over the past few years, given a material rise in broader sector risk. Increased online sales and changing consumer shopping habits continued to impact sales in many of the country's malls. A range of retail brands have disappeared and/or suffered reductions in sales performance. At the same time, however, some market segments have performed well. While retail sector investment performance has slipped, transaction activity has been relatively brisk. A total of $3.1 billion of retail investment property was sold during the first half of 2019. While down from the previous year's record pace, sales remained above the long-term average. To some degree, activity was driven by groups looking to sell assets with a less-than-certain outlook, during a period of weaker sector investment performance.

## SECTOR RISK TO REMAIN ELEVATED

An elevated level of retail investment property sector risk is forecast over the near term. The combination of shifts in consumer spending behaviour, the continued emergence of online and omnichannel shopping and demographic trends will continue to impact the broader industry. As a result, landlords and retailers will be forced to adapt. This process will impact landlords and tenants over the next several years. Vacancy levels will remain elevated and average rents will, at best, stabilize. Some segments of the market will suffer the effects of excess vacancy on property revenue. Others will be forced to re-purpose space for non-traditional uses to stabilize property income. The loss of anchor tenants will continue to be a challenge for some landlords. To some extent, the retail sector investment performance outlook is uncertain. To be sure, investment performance will remain below the broader sector average. Lower quality assets will see weaker results. Despite heightened risk and weakened performance characteristics, investors will continue to look to Canada's retail sector to meet their investment objectives.

# INVESTMENT MARKET TRANSACTIONS

## MONTREAL

| Property | Date | Price | SF | PSF | Purchaser |
|---|---|---|---|---|---|
| Centre de la Concorde | Oct-19 | $16.0 M | 109,449 | $146 | Private |
| Place Newman | Oct-19 | $25.3 M | 189,026 | $ | Mondev |
| Cominar GMA Portfolio | Jun-19 | $62.6 M | 494,327 | $127 | BTB REIT |
| Cominar GMA Portfolio | May-19 | $28.0 M | 129,881 | $216 | Q-Mont Prop. |
| 4256-4300 de Liesse | May-19 | $18.0 M | 80,720 | $223 | Jadco Construct. |
| 1700 du Fer-A-Cheval | Mar-19 | $11.8 M | 56,233 | $210 | Trigone |
| Plaza Delson | Jan-19 | $22.5 M | 144,669 | $153 | Groupe Quint |

## OTTAWA

| Property | Date | Price | SF | PSF | Purchaser |
|---|---|---|---|---|---|
| Hazeldean Mall | Aug-19 | $14.3 M | 223,566 | $64 | Regional Group |
| 1102-1108 Klondike Rd | Apr-19 | $14.9 M | 37,440 | $397 | Mark Properties |

## TORONTO

| Property | Date | Price | SF | PSF | Purchaser |
|---|---|---|---|---|---|
| 770 Lawrence Ave W | Oct-19 | $10.5 M | 16,840 | $624 | Choice REIT |
| 312 Queen St W | Aug-19 | $20.0 M | 10,440 | $1,916 | Memnon |
| 349 Queen St W | Jun-19 | $13.3 M | 10,666 | $1,242 | Kevin Fu Holding |
| Burnhamthorpe Mall | Jun-19 | $35.0 M | 70,621 | $496 | Zoran Realty |
| Church St/Front St E | Jun-19 | $15.7 M | 13,278 | $1,179 | DH Management |
| 220 King St E | May-19 | $10.7 M | 19,782 | $541 | Silvercore Prop. |
| 60 Colborne St (80%) | May-19 | $15.5 M | 8,328 | $1,861 | Freed Devts. |
| 2122 Queen St E | May-19 | $12.3 M | 24,484 | $502 | SPI Queen Hldgs. |
| Stock Yards Vill. (50%) | May-19 | $88.5 M | 504,179 | $351 | RioCan REIT |
| 1780 Markham Rd | Apr-19 | $21.5 M | 38,717 | $555 | Private |
| 401 Yonge St | Apr-19 | $19.8 M | 13,632 | $1,449 | Halmont Prop. |
| Milton Mall | Apr-19 | $35.6 M | 299,104 | $119 | Paradise Homes |
| Shops at Wilson Stn. | Apr-19 | $36.0 M | 49,508 | $727 | Manulife Fin. |
| Iroquois Ridge Ctre | Jan-19 | $34.3 M | 65,301 | $524 | Abel Capital |

## KITCHENER/WATERLOO/GUELPH

| Property | Date | Price | SF | PSF | Purchaser |
|---|---|---|---|---|---|
| Lackner Shopping Ctr | Nov-19 | $25.5 M | 76,140 | $335 | Sitzer Group |

## CALGARY

| Property | Date | Price | SF | PSF | Purchaser |
|---|---|---|---|---|---|
| 3310 29th St NE | May-19 | $12.5 M | 56,084 | $222 | Melcor Devlpmts |
| Foothills Crossing | Mar-19 | $10.8 M | 40,480 | $266 | Lansdowne Eqty |
| 3320-3430 Sunridge | Jan-19 | $13.0 M | 60,514 | $215 | Young's Capital |
| 222-232 8th Ave SW | Jan-19 | $18.5 M | 35,439 | $521 | Slate Asset Mgt. |

## EDMONTON

| Property | Date | Price | SF | PSF | Purchaser |
|---|---|---|---|---|---|
| Broadview Plaza | Sep-19 | $13.2 M | 36,599 | $361 | Synergy Prop. |
| Market at Magrath | Sep-19 | $36.3 M | 77,967 | $465 | Manulife Financial |
| Heritage Hills Crossing | Jun-19 | $11.9 M | 24,198 | $490 | Sheron Capital |
| 10358 82 Ave | Feb-19 | $12.5 M | 26,931 | $464 | 4 Plus 1 Holdings |

## VANCOUVER

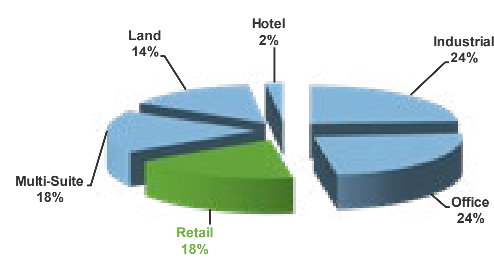
| Property | Date | Price | SF | PSF | Purchaser |
|---|---|---|---|---|---|
| Fraser 206 | Jun-19 | $14.6 M | 28,385 | $515 | Wanson Group |
| Cambie Hostel | May-19 | $22.0 M | 24,920 | $883 | Living Balance |
| Cottonwood Mall* | Feb-19 | $73.0 M | 358,890 | $204 | PCI Group |

*share sale

## HIGHLIGHTS

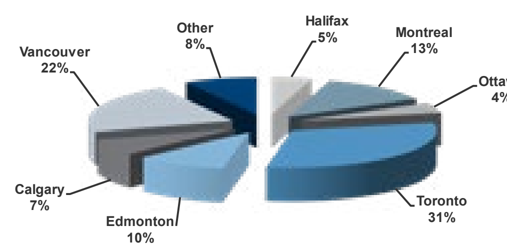
- Canada's retail leasing market exhibited signs of stabilization recently, national vacancy falling 100 bps year-over-year as of the midway mark of 2019.
- Retail property investment sales were brisk over the past 18-month period, with transaction volume of $3.1 billion recorded during the first six months of 2019 and a record annual high of $9.5 billion in 2018.

**Total Sales By Product**
18 Months to June 2019



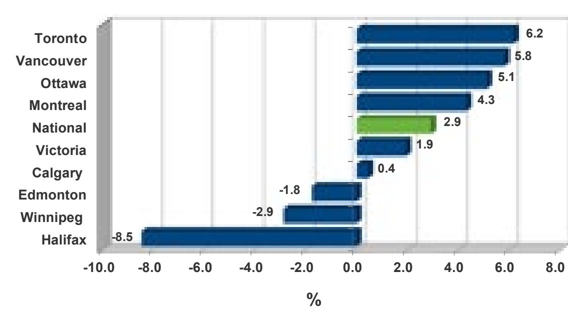

Source: CBRE Limited

**Retail Sales By CMA**
18 Months to June 2019

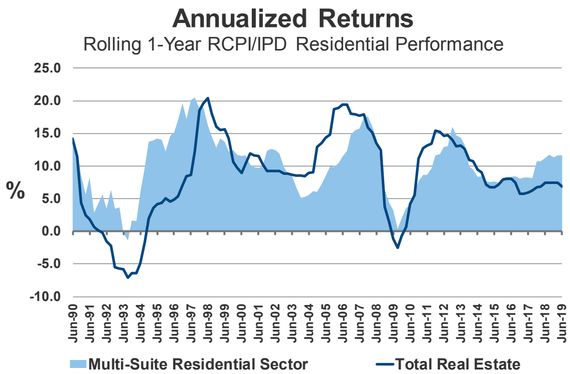



Source: CBRE Limited

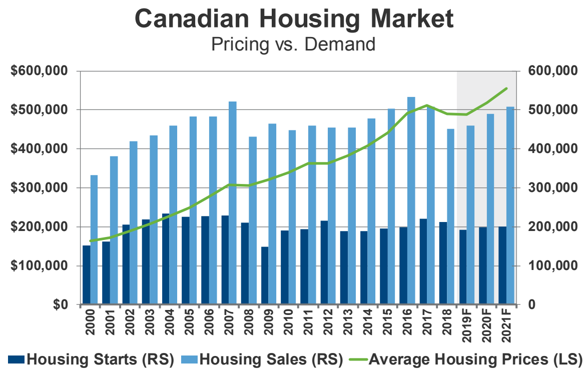
**Retail Total Returns**
For The 1-Year Period Ending June 2019



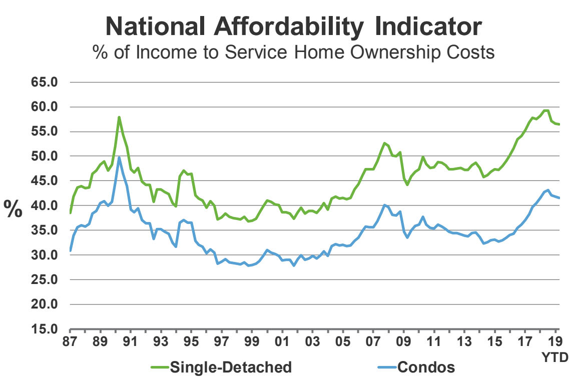

Source: © MSCI Real Estate 2019



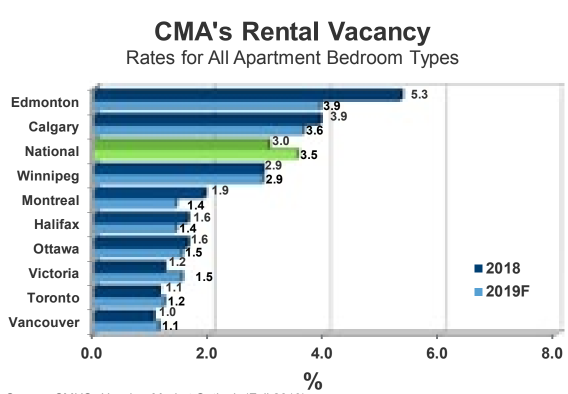

Source: RCPI; © MSCI Real Estate (June 2019)




Source: Conference Board Of Canada; CREA; CMHC




Source: RBC Economics - RBC Housing Affordability Measure




Source: CMHC, Housing Market Outlook (Fall 2019)

## DEMAND CYCLE SUPPORTED RENTAL MARKET STRENGTH

Robust demand fundamentals were supportive of strong healthy multi-suite residential rental market conditions over the recent past. Economic and employment growth, demographic patterns and housing market affordability were key demand-drivers across much of the country. The combined impact of this demand-pressure and supply constraints resulted in significant levels of imbalance. The national average vacancy rate was projected to edge slightly higher in 2019 to 3.0% by the end of the year. Conditions were markedly tighter the country's two largest markets Montreal and Toronto, respectively. Families looking to enter, relocate or more to higher-quality rental accommodation struggled to source availability. Moreover, they were also faced with cycle-high rents in most cases. To some extent, rental inflation was capped by provincial legislation. However, increasingly landlords were able to push rents to new highs. Rent growth was characteristic of the rental market strengthening of the past year, driven by a healthy demand cycle.

## INVESTMENT MARKET RELATIVE STRENGTH EXHIBITED

The relative strength of the multi-suite residential rental investment sector was displayed over the recent past. Properties contained in the MSCI Index posted an attractive annual average return of 11.7% for the year ending June 30, 2019. This performance bested the broader index average, for all property classes combined by 490 bps and finished second to industrial over the same time period. Positive results were tallied for both the income and capital components of the performance. The outperformance coincided with a record pace of multi-suite residential investment activity. Transaction volume totalled $4.0 billion over the first half of 2019. This pace was only slightly below the record annual-high pace of $8.3 billion in 2018. The strong activity pace was supported by a healthy demand backdrop. A range of buyer groups combed the country's larger metropolitan areas for opportunities to increase their exposure to a sector with a strong track record of performance. Additionally, the sector's record of downside protection was also a driver of robust activity. Product offerings received aggressive bids and generally met vendor price expectations. Multi-suite residential rental properties were highly coveted by investors, which was partially driven by the sector's recent performance strength.

## BULLISH PHASE OF THE CYCLE WILL BE EXTENDED

The bullish phase of the multi-suite residential rental property cycle will be extended over at least the near term. Rental demand fundamentals will continue to impress, driven by moderate economic and employment growth over the next few years. Demographic trends will also boost demand. Aging baby boomers will help drive rental demand, as they look for rental accommodation as an alternative to home ownership and retirement living. Rising home prices will also be supportive of rental demand, as some families will be unable to afford to buy homes. Finally, Canada's strong record as a draw for international migrants and students will continue to have a positive impact on the rental demand cycle. Demand will surpass supply, despite an uptick in construction activity. New units will be absorbed at a healthy pace and have little impact on market vacancy. The national vacancy position will remain close to the 2018-2019 level. The resulting landlord's market will mean higher rents for prospective tenants and limited choice. The anticipation of further rental growth over the near term will remain an attraction for various investor groups. In Alberta, where rental growth will be relatively modest, investors continue to pursue opportunities. As a result, investment demand will be stable and healthy. Furthermore, bids on available properties will be aggressive. The resulting competition for a limited number of opportunities will be commensurate with the extended bullish phase of the multi-suite residential rental property cycle.

# INVESTMENT MARKET TRANSACTIONS

## MONTREAL

| Property | Date | Price | Suites | P.S. | Purchaser |
|---|---|---|---|---|---|
| Boutique Apartments | Oct-19 | $96.6 M | 243 | $397,613 | BentallGreenOak |
| D Sisso Portfolio | Jul-19 | $132.0 M | 544 | $234,458 | InterRent REIT |
| Hampstead Towers | Jun-19 | $38.4 M | 121 | $247,279 | InterRent REIT |
| La Voile Boisbriand | May-19 | $57.2 M | 149 | $384,013 | Realstar Group |
| Le Sommet | May-19 | $82.0 M | 290 | $282,759 | Timbrcrk/LaSalle |
| La Voile and Le Lib | May-19 | $70.0 M | 197 | $355,122 | Realstar Group |
| Le Rockhill | May-19 | $268.0 M | 1,004 | $266,932 | Investors/Minto |
| Sovima Portfolio | Apr-19 | $84.2 M | 261 | $322,605 | Realstar Group |
| Linmarc Portfolio | Feb-19 | $59.0 M | 253 | $233,202 | InterRent REIT |
| 900 Rockland Ave | Jan-19 | $25.0 M | 72 | $347,222 | Akelius Canada |

## OTTAWA

| Property | Date | Price | Suites | P.S. | Purchaser |
|---|---|---|---|---|---|
| 1825 Russell Rd | Sep-19 | $23.0 M | 104 | $221,154 | Aera Investmts |
| 1971, 1975 St Laurent | Sep-19 | $96.0 M | 500 | $192,000 | Starlight Invstmts |
| 518 Rochester St | May-19 | $48.9 M | 144 | $339,583 | Realstar Group |

## TORONTO

| Property | Date | Price | Suites | P.S. | Purchaser |
|---|---|---|---|---|---|
| 1110 Caven St | Oct-19 | $67.5 M | 214 | $315,421 | Starlight Invstmts |
| 85, 95 Gamble Ave | Oct-19 | $59.9 M | 175 | $342,357 | Q Residential |
| Akelius Portfolio | Sep-19 | $176.8 M | 628 | $281,529 | Starlight Invstmts |
| 41 Roehampton (50%) | Sep-19 | $114.1 M | 466 | $489,772 | RioCan REIT |
| 41 Dundonald St | Aug-19 | $35.0 M | 101 | $346,535 | Timbercreek |
| 190 Dudley Ave | Jun-19 | $54.0 M | 148 | $364,865 | Homestead |
| 570 Birchmount Rd | Jun-19 | $33.3 M | 112 | $296,875 | Starlight Invstmts |
| Rossland Park | Jun-19 | $220.0 M | 911 | $241,493 | Q Residential |
| Erinwood Estates | May-19 | $42.0 M | 146 | $287,671 | Timbercreek |
| 697 Eglinton Ave W | May-19 | $28.0 M | 93 | $301,075 | Shaughnessy |
| 1320-1330 Danforth | Apr-19 | $27.6 M | 115 | $240,250 | Starlight Invstmts |
| 501-503 Balmoral Dr | Apr-19 | $23.8 M | 106 | $224,057 | Golden Equity |
| 1531-1539 Bathurst St | Apr-19 | $66.0 M | 224 | $294,643 | Starlight Invstmts |
| Starlight GTA | Apr-19 | $39.9 M | 144 | $277,083 | Siteline Group |
| 15 Walmer Rd | Feb-19 | $30.0 M | 78 | $384,615 | Belgrove Capit. |

## CALGARY

| Property | Date | Price | Suites | P.S. | Purchaser |
|---|---|---|---|---|---|
| The Quarters | Jan-19 | $63.8 M | 199 | $320,352 | Minto Group |
| Kaleidoscope | Jan-19 | $20.3 M | 70 | $290,000 | Minto Group |

## EDMONTON

| Property | Date | Price | Suites | P.S. | Purchaser |
|---|---|---|---|---|---|
| Signature 3 | Apr-19 | $35.6 M | 124 | $287,177 | Boardwalk REIT |
| Portofino | Jan-19 | $55.9 M | 240 | $232,734 | Skyline Residential |

## VANCOUVER

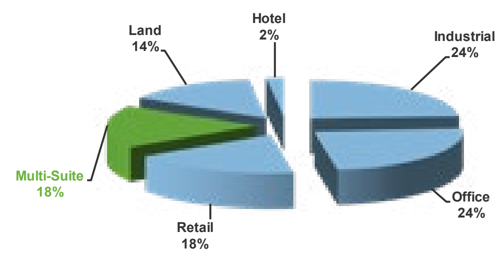
| Property | Date | Price | Suites | P.S. | Purchaser |
|---|---|---|---|---|---|
| Surrey Gardens | Oct-19 | $43.5 M | 223 | $195,067 | Primex Invstmts |
| Fusion | Sep-19 | $56.0 M | 146 | $383,562 | Centurion REIT |
| Montecito Towers | Aug-19 | $90.0 M | 252 | $357,143 | Starlight Invstmts |
| Oceania Crt* | Aug-19 | $32.5 M | 117 | $277,778 | Western Prop. |
| The Point Apartments* | Jun-19 | $39.9 M | 98 | $397,959 | CAPREIT |
| Willoughby Walk* | Apr-19 | $69.6 M | 191 | $364,398 | CAPREIT |

*share sale

## HIGHLIGHTS

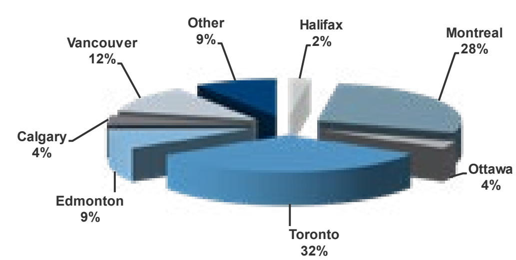
- Bullish investment market characteristics were reported over the recent past, punctuated by record-high transaction volume and attractive investment performance.
- Demand outdistanced supply across much of the national multi-suite residential rental market over the past year, resulting in upward pressure on rents and near cycle-low vacancy.

**Total Sales By Product**
18 Months to June 2019



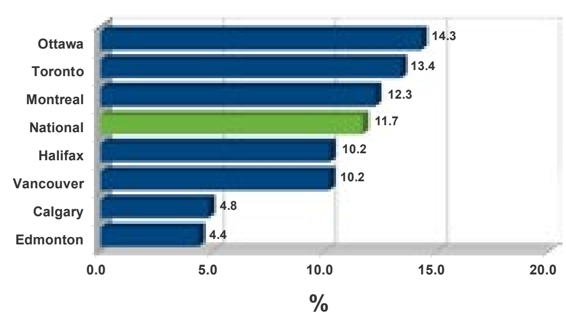

Source: CBRE Limited

**Multi-Suite Sales By CMA**
18 Months to June 2019




Source: CBRE Limited

**Multi-Suite Total Returns**
For The 1-Year Period Ending June 2019

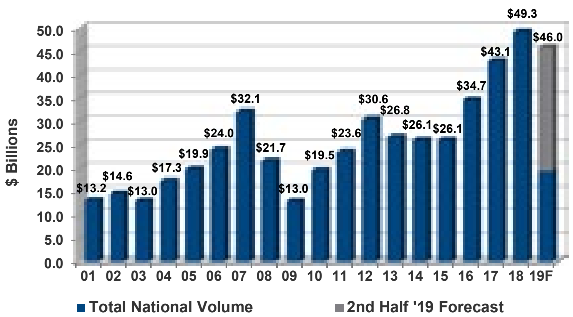



Source: © MSCI Real Estate 2019

## HIGHLIGHTS

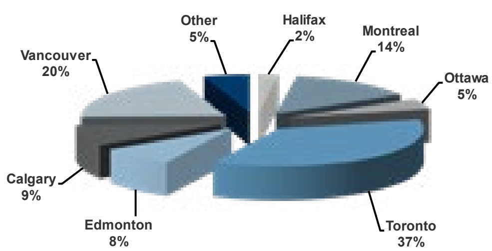
- Investors placed capital into the Canadian commercial property market with confidence during the past 18 months, which drove investment activity levels to an historic high.
- Core properties with strong tenant profiles in major markets were highly sought after, with development and those with value-add attributes also attracting investment capital.

**Investment Activity**
Total Investment Volume



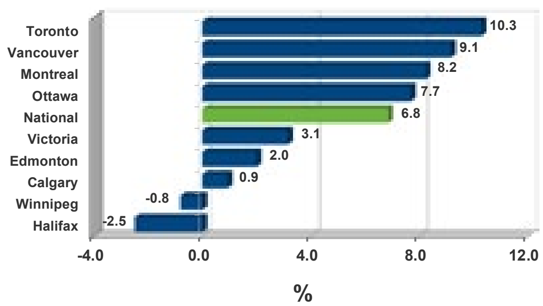

Source: CBRE Limited; Morguard

**National Sales By CMA**
18 Months to June 2019




Source: CBRE Limited

**All Property Total Returns**
For The 1-Year Period Ending June 2019




Source: © MSCI Real Estate 2019

### INVESTMENT MARKET CONDITIONS STEADIED

Canadian commercial investment property market conditions steadied over the past year, against a backdrop of increased sector risk. Debt and equity capital continued to flow into the sector at a healthy rate. Consequently, transaction closing volume held at the historic high. The broader investment market purchaser profile included pension funds, private groups, institutions and a range of joint venture and partnership arrangements. On the sell side, non-core assets were offered for sale and portfolio pruning exercises ensured a healthy supply of available properties of varying quality for acquisition. Some groups sold assets on a selective basis, in order to reallocate funds for development or alternative property markets. Demand for prime assets in the country's major centres remained brisk, resulting in upward value in specific instances. Stabilized office properties continued to achieve peak-pricing and strong interest from a range of domestic and international parties. Values increased for industrial and multi-suite residential rental properties, which coupled with the anticipation of rent growth, resulted in modest cap rate compression. Modest cap rate decompression was reported for regional malls and power centres in early 2019, although values exhibited signs of stabilization in the second half of the year. On balance, aggregate investment performance remained attractive. The MSCI Index all property return of 6.8% recorded for the year ending June 20, 2019 was down a modest 60 bps year-over-year. The stable performance pattern was in keeping with the largely consistent commercial investment property market conditions reported recently, during a period of heightened sector risk.

### STRONG CAPITAL FLOW TREND PREVAILED

Investment capital flowed into the Canadian commercial property sector at a near-record pace recently. During the first six months of 2019, a total of $19.5 billion in commercial property transaction volume was reported for the country's major urban centres. Previously, investment property sales peaked during 2018, when transaction volume of $26.5 billion was reported over the same time period. The strong transaction pace of the recent past was indicative of confidence investors continued to have in the commercial property sector. Investors continued to target defensive assets, including real estate, during a time of heightened economic, geopolitical and financial market uncertainty. This mindset supported a healthy demand cycle for prime office, multi-suite residential and industrial properties in Canada. Investors also continued to target retail properties with solid tenant rosters and sales performance records. From a geographic viewpoint, primary targets for investors were Toronto, Vancouver and Montreal, followed by Ottawa. Properties in smaller markets like Victoria and Winnipeg were also popular. Buyers were more selective when acquiring assets in oil and gas sector driven markets. In Edmonton and Calgary, for example, multi-suite residential and industrial properties were most highly sought after. Over the near term, investment capital was expected to continue to flow into the Canadian commercial property sector at an above-average pace.

### INVESTMENT PERFORMANCE WAS POSITIVE BUT VARIABLE

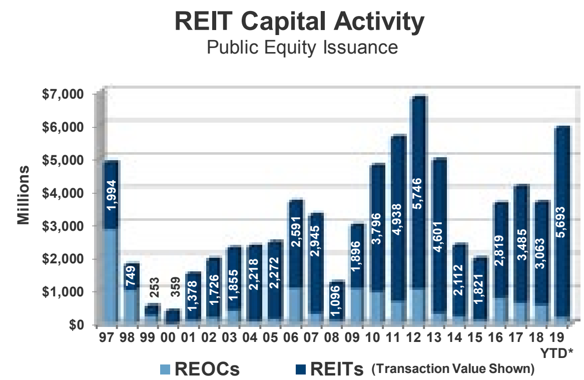
Canadian commercial property investment performance has been generally positive but varied over the recent past. The broader sector registered an attractive total return of 6.8% in the MSCI Index for the year ending June 30, 2019, for all property classes combined. By property asset class, there was a significant degree of variation. The industrial and multi-suite residential property classifications outperformed the broader index by a wide margin over the same time period. Rent growth and cap rate compression supported a 15.5% industrial return, which was 350 bps higher year-over-year and bested the remaining property classifications. Multi-suite residential placed second with an 11.7% return, unchanged from the previous year. The office sector performance was relatively stable at 7.3%, up slightly from a year ago. Retail sector performance continued to slide. A return of just 2.9% was tallied, down from 5.6% over the previous period. Commercial property investment performance also varied by location. In the industrial sector, for example, the country's major markets outperformed. Montreal, Toronto and Vancouver returns bested the broader index and national industrial averages. The balance of the country's largest urban centres posted positive results that were markedly lower than the industrial sector average. A similar geographic performance pattern was evidenced when comparing all property class returns by region. Calgary and Edmonton have continued to underperform, due largely to the ongoing oil sector malaise. In short, the Canadian commercial property sector continued to generate positive investment performance characteristics over the recent past, a period that included a measure of variability.

### HEIGHTENED SECTOR RISK CONTINUED

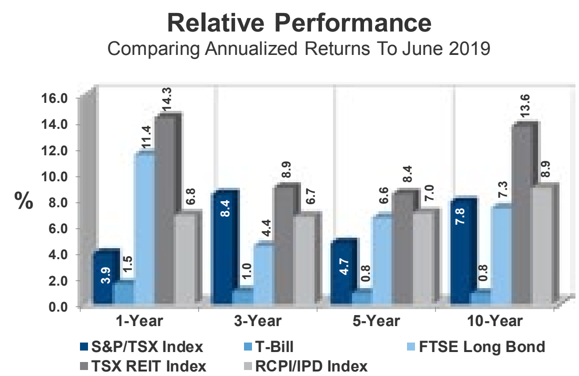
A heightened level of commercial property sector risk continued to unfold over the recent past. Sector risk was generally divided into two main categories. Near-term risk included the ongoing trade dispute between the U.S. and China. The dispute had already reduced trade activity and increased the threat of a global economic meltdown. As a result, Canadian export volume and business confidence were eroded. Several other near-term risks continued to unfold recently. Geopolitical events, such as the social unrest in Hong Kong, ongoing Brexit negotiations and the ongoing refugee crisis were sources of near-term risk. Another near-term sector risk was the mixed financial-market signals observed over the recent past. For example, equity market volatility threatened to erode Canadian household and business confidence, which could negatively impact spending and hiring activity. Several longer-term factors were also viewed as significant commercial property sector risks. For example, the shift to real estate as a service was viewed as a longer-term issue for owners and managers of commercial real estate. Shared workspace and living concepts are prime examples of the kinds of changes that the sector will need to address. The broader impact of technology on the commercial property sector, was another concern. Various demographic trends were also cited as major issues for investors and operators of commercial real estate related to the ongoing relevance of properties over the long term. In short, a heightened level of commercial investor property sector risk was observed recently, driven by several near and long-term factors.

### STABILIZATION WILL BE DOMINANT NEAR-TERM SECTOR THEME

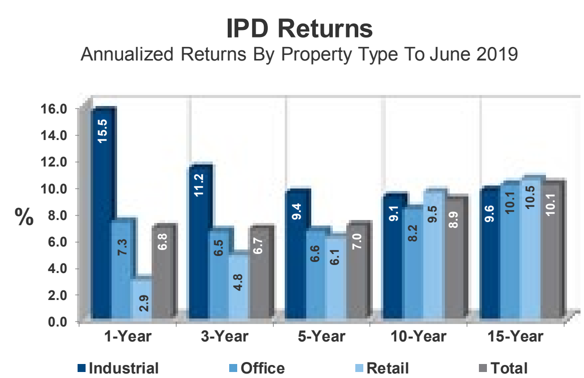
The probability of significant changes in commercial property investment market conditions over the near term is low. Investors will continue to confidently place investment capital into Canada's commercial property sector at a healthy rate at prevailing yields. As in the past, transaction closing volume will be dependent on availability. Regardless, investors will target prime assets in the country's major markets. Competition levels will be high, resulting in aggressive bidding scenarios. Investors will look to the Canadian commercial real estate as a defensive strategy, given equity market volatility and ongoing concerns related to the global economic outlook. Industrial and multi-suite residential rental properties will be the most highly sought-after asset types, given a high probability of continued rent growth. As a result, cap rates for these assets may compress slightly. Office rates will likely hold steady, although compression may take place for exceptional or strategic assets. Retail property yields will stabilize, having risen modestly over the recent past. Value-add properties and development opportunities will continue to attract investors given intense competition for stabilized assets. For the most part, property values will hold steady. In short, we are anticipating few material changes in Canadian commercial investment property market conditions over the near term.



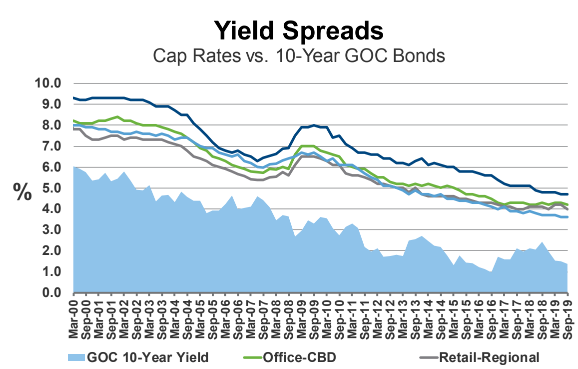

Source: RBC Capital Markets *July 2019



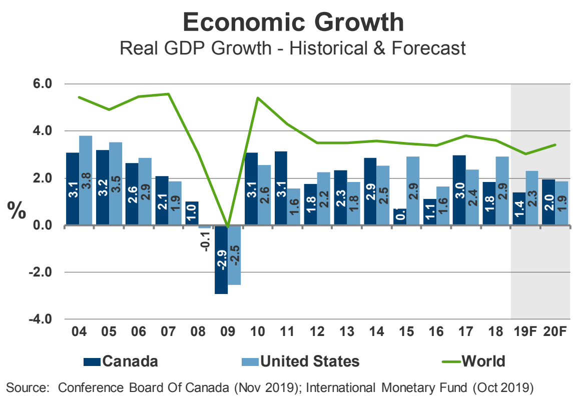

Source: © MSCI Real Estate; RBC CM; TSX Datalinx; SCM; PC Bond Analytics

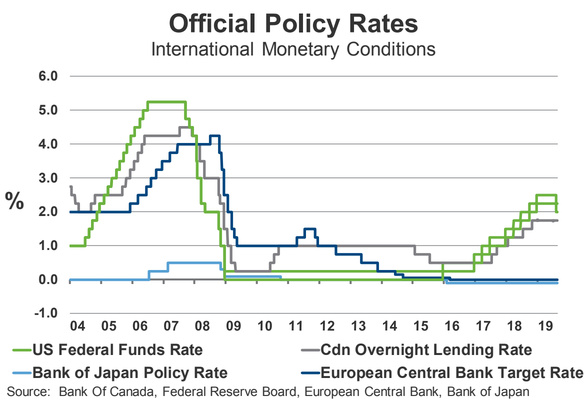


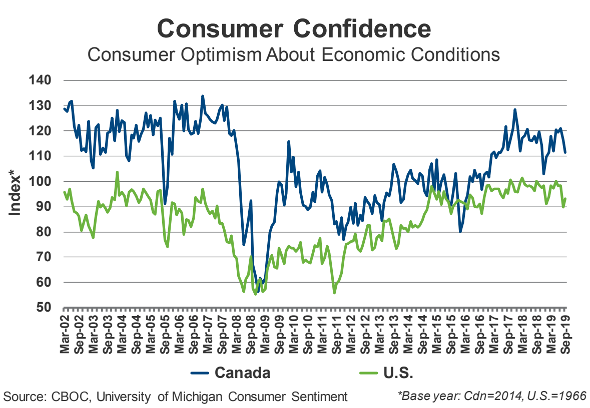

Source: © MSCI Real Estate

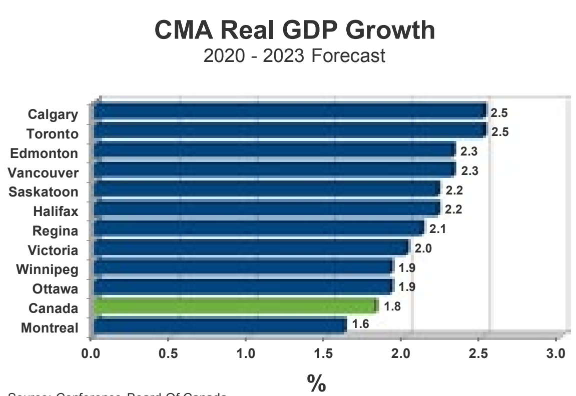



Source: AltusInSite, Bank of Canada




## ECONOMIC GROWTH TREND TO STABILIZE

Canadian economic growth will stabilize over the near term, representing the continuation of a trend that unfolded in the latter half of 2018. National output is projected to increase by roughly 1.5% in 2020, with some forecasts calling for an advance closer to the 2.0% mark. To a large extent, the 2020 progression will be dictated by moderate investment in various sectors of the economy. Consumer spending growth is expected to firm in the coming year, driven by continued wage growth, low interest rates and healthy labour market trends. Investment in the residential housing sector is also projected to rise, with buyers having adjusted to tighter mortgage rules and other public sector policy changes. Both the resale and new home market recoveries will, as a result, continue to unfold over the near term. Prospects for the country's beleaguered energy sector are also expected to brighten somewhat next year. In 2020, investment will rise significantly, marking the first positive performance since 2014. The healthier energy sector outlook will be fuelled by large-scale investments including the LNG Canada project, the Aspen oil sands project and the Bay du Nord offshore oil project. Lastly, business investment is projected to support economic growth, rising an average of 2.8% annually between 2020 and 2023. In short, a relatively consistent growth trend will characterize Canada's near-term economic performance, driven by increased investment volumes.

## CONTINUED JOB MARKET STRENGTH FORECAST

The continued strength of Canada's job market is forecast for the near term, following one of the strongest annual performances on record in 2019. Conditions will remain tight across much of the country. The unemployment rate will rise as much as 30 bps in 2020, from the 5.5% rate reported in the fall of this year. The national labour force will increase over and above the number of jobs created, resulting in modest upward pressure on the unemployment rate. The national job growth trend will remain positive, though less robust than the 358,100 new positions created year-to-date as of the end of September of 2019. The moderate near-term job growth trend will be consistent with an economy operating at near capacity. Ongoing labour market tightness will continue to support wage growth. Total hours worked is also forecast to rise over the near term. In summary, the health of Canada's labour market will persist over the near term, driven by a moderately positive economic growth trend.

## MODEST HOUSING MARKET RECOVERY TO CONTINUE

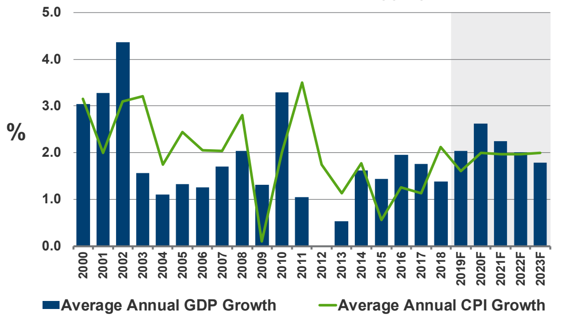
Canada's housing market recovery will continue at a moderate pace over the near term. Resale market activity will firm, resulting in modest upward pricing pressure. Previously, the implementation of various government policies had a cooling effect on the market, which culminated in a soft landing. Activity and pricing will continue to steadily rise over the near term, a trend that emerged in early 2019. As was the case this year, Vancouver will continue to lag behind the broader market over the near term. After a modest rebound, new home construction activity will stabilize, along with demand. Low interest rates, a strong job market and demographics trends will continue to support a modest housing market recovery over the next couple of years.

## MODERATE RETAIL SALES GROWTH TREND FORECAST

Canadian retail sales growth will be relatively moderate over the next few years. Consumer spending is expected to rise by a modest 2.0% annually in each of 2020 and 2021. The forecast is a function, in part, of an uncertain global economic outlook and high consumer debt levels. The disconnect between a strong labour market, including wage growth, and spending patterns will continue to generate modest advances over the next 12 to 24 months.

# 2020 METROPOLITAN ECONOMIC & REAL ESTATE OUTLOOK

### Economic Growth
Halifax Historical & Forecast Aggregates

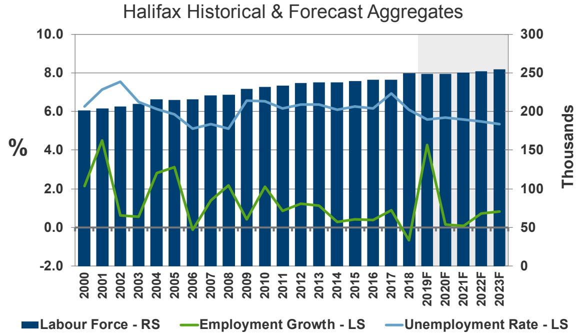



Source: Conference Board Of Canada    Note: GDP at Basic Prices based on 2012 dollars, CPI base year

## ECONOMIC SNAPSHOT

The Halifax Census Metropolitan Area (CMA) was expected to generate slightly stronger economic growth in 2019, after a somewhat underwhelming performance last year. The improvement was to be driven by increased ship yard output. The region's manufacturing and construction sectors were also expected to support the slightly stronger expansion pace this year and in 2020. Widespread services sector growth was also forecast. Increased international demand for the CMA's seafood products was also anticipated. Immigration-driven housing demand was another positive outlook.

### Labour Market
Halifax Historical & Forecast Aggregates

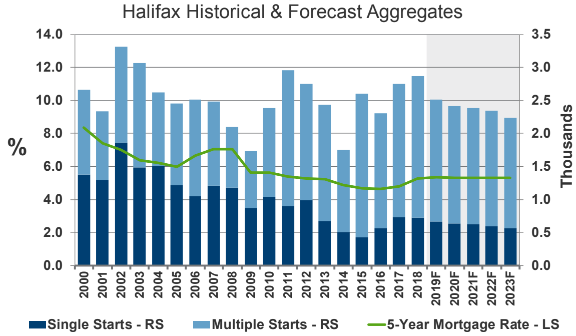



Source: Conference Board Of Canada

### HEALTHY LABOUR MARKET CONDITIONS FORECAST

Halifax CMA labour market conditions were expected to remain healthy over the near term. A modest increase in total regional employment was forecast, for this year and for 2020, following record-high job growth of 9,600 positions in 2018. The wholesale and retail trade, construction, and accommodation and food sectors were all expected to see increased employment levels. Employment increases were expected to support tighter overall labour market conditions. The region's unemployment rate was forecast to edge lower this year and in 2020, due in part to a decline in the region's labour force. By the end of 2020, the unemployment rate was expected to dip below the 6.0% mark. The tightening trend was in keeping with the labour market's healthy forecast over the near term.

### Housing Sector
Halifax Historical & Forecast Aggregates

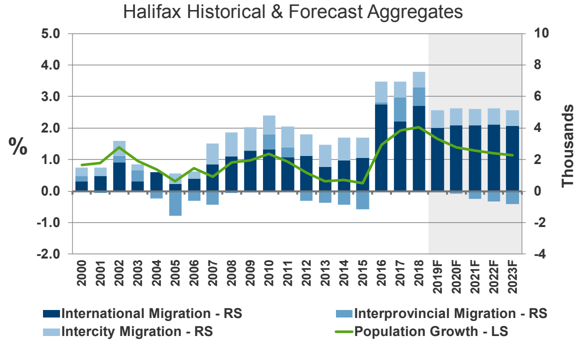



Source: Conference Board Of Canada

### SHIP BUILDING-RELATED MANUFACTURING BOOSTED OUTPUT

Ship building activity has boosted economic output levels for the Halifax CMA over the past few years, with a similar trend forecast over the near term. Since 2015, work on the Arctic patrol ships for the Royal Canadian Navy supported the manufacturing sector's position as a growth leader. In 2018, sector output surged by 6.0%. The CBOC projected a more moderate increase in 2019, at just over 1.0%. Next year activity was projected to support a 2.9% increase in sector output. The federal government's recent decision to purchase an additional Arctic ship offered some assurance that sector layoffs were unlikely over the near term. Additionally, sector output was expected to remain a key driver of regional economic expansion.

### Demographic Trends
Halifax Historical & Forecast Aggregates




Source: Conference Board Of Canada

### ECONOMIC GROWTH TREND TO STRENGTHEN

The regional economic growth trend will strengthen over the near term. Between 2019 and 2021, output will rise by an average of almost 2.4%, annually. This pace will represent the strongest annual performance of the past decade. The strengthening of the region's economic growth trend will drive employment levels steadily higher. At the same time, retail sales growth will firm up in 2020, after a brief pause this year when sales increased by less than 1.0%. The improved retail sales growth trend will be driven by tightness in the region's labour market and rising income levels. The stronger economic growth trend will boost the performances of the region's broader services sector, including the finance, insurance and real estate industries. Construction activity will increase in 2020, following the winding down of several major projects in 2019. Projects on the horizon that will support increased sector output include the Queen's Marque, upgrades to Mic Mac Mall and various non-residential expansion and renovation projects. While housing starts are expected to slow, levels will remain healthy. Finally, the continued influx of immigrants will bolster the strengthening of the region's economic growth trend forecast over the next couple of years.

### LEASING MARKET GAINS WERE MODERATE

The GHA office leasing market posted largely modest advancement over the recent past, which was in keeping with its long-term performance history. Moderately healthier supply-side fundamentals were reported recently. The market average vacancy rate drifted 10 bps lower to 15.9% year-over-year, as of the third quarter of 2019 according to CBRE statistics. A similar vacancy trajectory was reported in two other prominent market surveys. While the market has tightened over the past 12 to 24 months, vacancy levels continued to range well into the double-digits. The lease up of new supply over the recent past provided evidence of the market's advancement. The 120,000 square feet of office space under construction at the Armour Group's Queens Marque was reportedly 98.0% pre-leased, as of the end of the second quarter of 2019. Progress was also evidenced in recent absorption patterns. CBRE reported 49,206 square feet of net absorption during the second quarter of 2019. Colliers International indicated 256,252 square feet of space was absorbed during the first half of 2019. Absorption was driven by the region's energy, financial and technology sectors. Positive absorption patterns and solid demand characteristics reported over the recent past were supportive of the GHA's modest leasing market advancement.

### STABILIZATION WAS THE DOMINANT INVESTMENT MARKET THEME

Stabilization was the dominant theme in the GHA office property investment market over the past year, which was in line with the medium-term trend. Recent investment performance patterns provided evidence of the theme of stabilization. Returns have been moderately positive over the past couple of years. Properties tracked in the MSCI Index generate an average annual return of 3.8% for the year ending June 30, 2019. This followed another moderately positive result over the previous 12-month period, when a return of 5.5% was posted. There was also a measure of consistency in the market's investment demand characteristics. Historically, local investors have been the most active market participants, which was also the case over the recent past. Institutional buyers looked for suitable and large-scale investment opportunities in the region, however, there were few options. This has also been the case historically. Recent investment activity has involved the sale of smaller assets, which are most plentiful in this market. In general, product availability has been limited over the long term. Despite this limitation, transaction closing volume has been surprisingly brisk. A total of $214.4 million in office property sales was reported in 2018, which represented a record annual high. This was followed by $83.5 million in the first six months of 2019. Consistently strong activity levels over the past few years was in keeping with the broader investment market theme of the recent past.

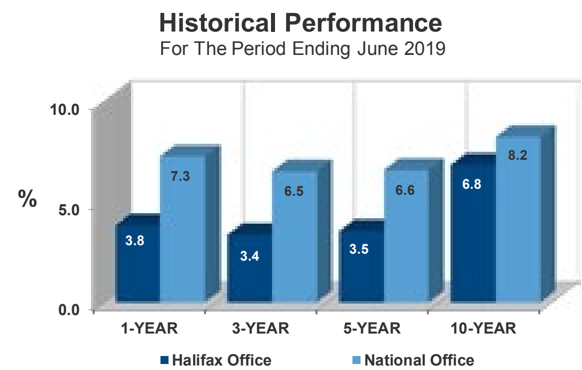
### PROGRESS WILL BE SLOW BUT SURE

The GHA office sector will continue to progress at a relatively modest pace over the near term. The regional economy is projected to expand by roughly 2.0% this year and a more robust 2.6% in 2020. This should support a positive office space demand environment. The region's largest sector, FIRE (Finance Insurance and Real Estate), will most certainly be the market's main demand-driver. Expansion activity anticipated next year will support a modest downward vacancy trend, particularly for space in prime towers. Minimally, average rents will stabilize, with the potential for modest upward pressure. The positive rental market outlook will attract investors to the region. Local groups will continue to drive investment activity, although institutional investors will keep an eye out for larger assets. Investment performance will remain moderately healthy, driven largely by income growth. Assuming availability activity levels will remain healthy, against a backdrop of modest sector progression.

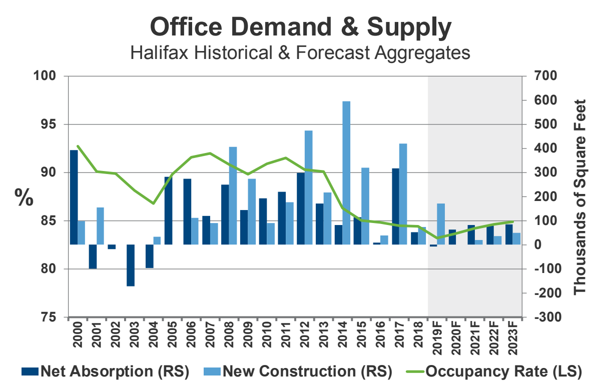
### TRENDING STATISTICS

| FUNDAMENTALS | Δ YTD | 1-YEAR OUTLOOK |
|---|---|---|
| Vacancy Rate | — | ▼ |
| Net Absorption | — | ▲ |
| Lease Rates | — | — |
| New Supply | — | — |

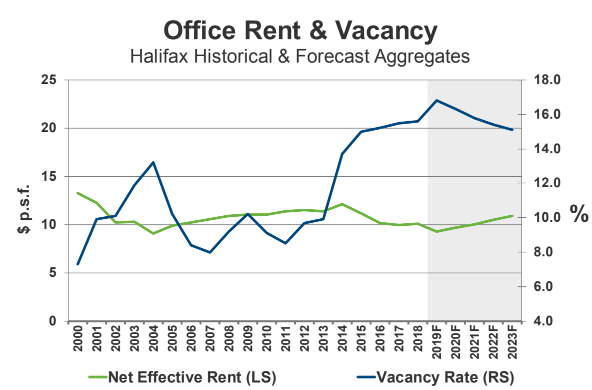
The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).




Source: © MSCI Real Estate 2019




Source: CBRE Limited; CBRE Econometric Advisors




Source: CBRE Limited; CBRE Econometric Advisors

## TRENDING STATISTICS

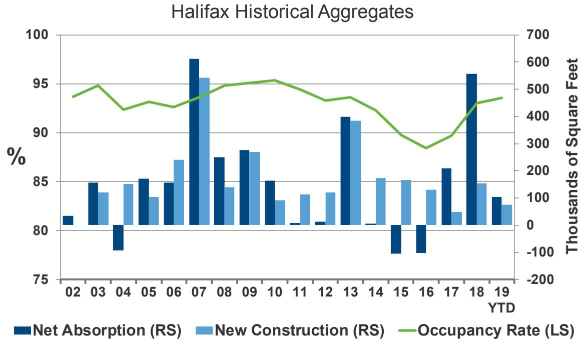
| FUNDAMENTALS | Δ YTD | 1-YEAR OUTLOOK |
|---|---|---|
| Vacancy Rate | ▼ | ▼ |
| Net Absorption | ▲ | — |
| Lease Rates | — | ▲ |
| New Supply | — | ▲ |

The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).

### Historical Performance
For The Period Ending June 2019

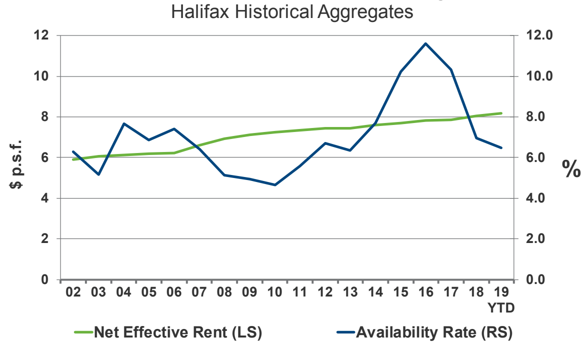

Source: © MSCI Real Estate 2019 *1, 2, 3 and 4-year for period ending June 2019

### Industrial Demand & Supply
Halifax Historical Aggregates




Source: CBRE Limited

### Industrial Rent & Vacancy
Halifax Historical Aggregates




Source: CBRE Limited

## POSITIVE LEASING MARKET MOMENTUM EXHIBITED

Positive momentum was reported in the GHA industrial leasing market over the past year. This momentum was driven, in large part, by the continued health of the market's demand cycle. Owner/occupant and tenants continued to absorb space at a record pace recently. The region's manufacturing and warehouse sector expansion activity has been robust over the past 12 to 18 months. In the first half of 2019, expansions helped absorb 154,432 square feet of industrial space across the market. This followed the record annual high of 557,176 square feet of space absorbed in 2018. Additional evidence of the market's positive momentum has been the rate at which newly constructed buildings have been leased. In the second quarter of 2019, for example, two new buildings were completed for a total of 75,000 square feet, all of which was fully occupied. The Stevens Group's 82,577 square foot development on Trider Crescent slated for completion in the fall of 2019 was 80.0% pre-leased as of the end of June of this year. Leasing activity in the market's existing building inventory and the resulting decrease in availability provided further evidence of the market's recent strength. A market average availability rate of 6.4% was registered as the end of the third quarter of 2019, which was down 100 bps year-over-year and marked a six-year low. As conditions tightened upward pressure on rents increased, which was another indicator of the market's positive momentum.

## INVESTORS CONFIDENCE WAS DISPLAYED

Investors continued to exhibit confidence in the GHA industrial property sector recently. Local and institutional investors continued to look for opportunities in the market, given a stable economic outlook and strong rental market conditions. The most tangible evidence of investor confidence was the recent sale of Dream Industrial REIT's Maritime portfolio. The offering generated strong interest from multiple parties. KingSett Capital's bid was successful. The 2.7 million square foot portfolio reportedly garnered at $271.0 million sale price and was scheduled for closing in the third quarter of 2019. The health of the market's investment demand cycle supported strong transaction volume. Annual sales volume will reach a record-high in 2019 for a second consecutive year. The record sales pace of the past couple of years followed a five-year period when annual sales exceeded the $100.0 million mark. To some extent, investors have continued to be attracted by the market's recent record of performance. Properties tracked in the MSCI Index generated an annual average total return of 5.5% for the year ending June 30, 2019. The return was up 30 bps year-over-year, due largely to slightly stronger income performance. To some extent, the sector's recent performance pattern helped boost investor confidence levels with regard to investing in this market.

## SOLID PERFORMANCE PATTERN FORECAST

A solid performance pattern is forecast for the GHA industrial property sector over the near term. Economic growth will strengthen in 2020, which should boost industrial leasing market activity. As a result, demand for industrial space will remain healthy. The region's industrial base will continue to expand and keep availability levels at the cycle-low. At the same time, leasing demand will allow landlords to command higher rents as conditions tighten. New construction activity will provide state-of-the-art options to tenants looking to upgrade. However, demand will continue to outpace the supply of newly constructed space. Tenants will be forced to compete with owner/occupiers looking for industrial space in which to operate their businesses. Healthy rental market fundamentals draw investment to this market. Investment demand will remain brisk, with local groups leading the way. The demand pressure will support a stable value trend and a solid sector performance pattern overall.

## LEASING FUNDAMENTALS STABILIZED

GHA retail leasing fundamentals were generally stable over the recent past, while vacancy levels continued to hold at the cycle-high. Demand for retail space was moderately healthy, as retailers looked to capitalize on the regions' record-high job growth in 2018 and steady population growth. To some extent, however, expansion activity was offset by the continued closure of stores that has hampered the broader industry over the past few years. Prime locations and productive malls across the region continued to draw retailers in the market to expand. As a result, rents for these types of properties stabilized. Despite the moderately positive demand cycle, the market's supply-side remained relatively soft. The market's average vacancy rate held at the cycle high over the past year. An average market vacancy of 10.4% was reported by CBRE at the end of 2018, while properties in the MSCI Index posted the same average at the end of the second quarter of 2019. Both averages represented the first double-digit vacancy reported for this market in more than a decade. This position of oversupply was the result of the closure of Sears and others stores over the past few years. Previously, single-digit vacancy was the norm for this region dating back more than 15 years. However, more recently, market fundamentals have stabilized.

## VARIATION IN INVESTMENT MARKET TRENDS WAS REPORTED

There was some variation in GHA retail investment property market conditions reported over the recent past. Investment demand characteristics were generally stable and healthy. Properties with grocery anchors and those with solid performance records continued to generate strong interest on the part of investors. However, in some cases investors exercised caution when underwriting assets due to the ongoing broader industry changes. Local groups were the most active market participants, especially when value-add properties were made available. While investment demand patterns were relatively stable, investment performance characteristics were somewhat mixed. Properties tracked in the MSCI Index generated a negative annual average return of 8.4% for the year ending June 30, 2019. The negative result was due entirely to a significant drop in capital value over the period. The income component was stable and healthy. Properties tracked in the MSCI Index registered a capital loss that exceeded the national retail asset class average over the same time period. While the sector investment performance turned decidedly negative, transaction volume surged. In 2018, a record $476.3 million in retail properties traded in this market, a total that will be difficult to match this year. The contrast between investment performance and sales activity of the recent past was in keeping with the broader market theme.

## NEAR-TERM STABILIZATION FORECAST

Conditions in the GHA retail sector will largely mirror those of the recent past over the near term. Leasing market characteristics will be relatively stable. Retailers will continue to look to the region for expansion opportunities, given its healthy economic, labour market and population growth outlooks. The moderate positive demand trend will support a relatively stable vacancy pattern. At the same time, store closures will continue to offset at least some of the growth activity. The combination of a moderate demand trend and cycle-high vacancy will translate into a relatively stable rental rate outlook. Despite the absence of a firm rent growth trend, investors will continue to look to acquire assets with healthy long-term prospects. Properties with grocery, liquor or drug stores will be most popular. Riskier assets will also generate interest from buyers looking for higher yields. Investment performance will continue to underwhelm. In summary, GHA retail property sector market conditions will mirror those of the recent past over the near term.

## TRENDING STATISTICS

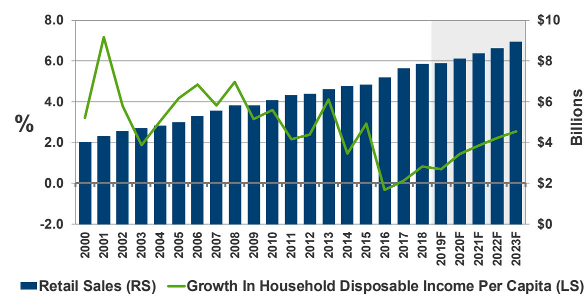
| FUNDAMENTALS | Δ YTD | 1-YEAR OUTLOOK |
|---|---|---|
| Vacancy Rate | ▲ | — |
| Net Absorption | ▼ | — |
| Lease Rates | — | — |
| New Supply | ▲ | ▲ |

The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).

**Historical Performance**
For The Period Ending June 2019

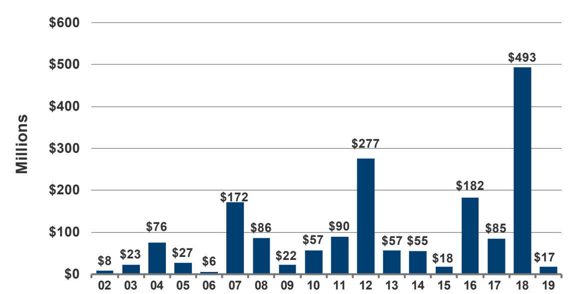

Source: © MSCI Real Estate 2019

**Retail Conditions**
Halifax Historical & Forecast Aggregates




Source: Conference Board Of Canada

**Investment Activity**
Halifax Retail Investment Volume To June 2019




Source: CBRE Limited

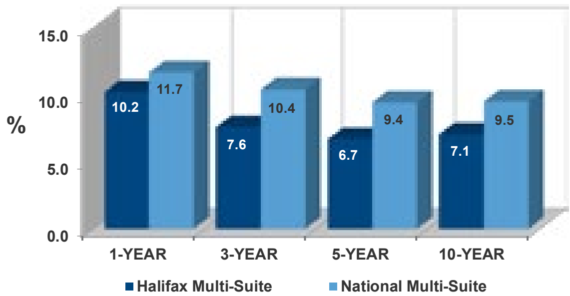
## TRENDING STATISTICS

| FUNDAMENTALS | Δ YTD | 1-YEAR OUTLOOK |
|---|---|---|
| Vacancy Rate | ▼ | — |
| Net Absorption | — | — |
| Lease Rates | ▲ | ▲ |
| New Supply | ▲ | — |

The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).

### Historical Performance

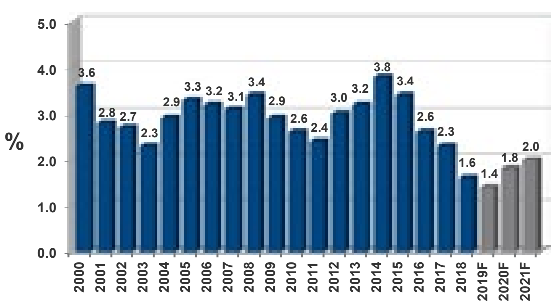
For The Period Ending June 2019




Source: © MSCI Real Estate 2019

### Average Rental Vacancy

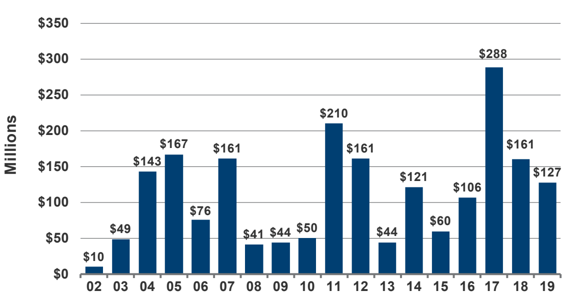
Halifax Apartment Structures Of Three Units & Over




Source: CMHC

### Investment Activity

Halifax Multi-Suite Investment Volume To June 2019




Source: CBRE Limited

### POSITIVE RENTAL MARKET PERFORMANCE POSTED

Generally healthy rental market characteristics were reported in the GHA multi-suite residential rental sector over the recent past. The market's average vacancy rate rested at just 1.6% in the late stages of 2018, which represented a low dating back to the late 1980s according to the CMHC. The strength of the market's vacancy profile was maintained despite the addition of 1,700 units of new supply over a two-year period ending in the fall of the same year. Moreover, vacancy levels have steadily declined in the face of increased competition from the secondary rental condominium market. The overall health of the market's vacancy trend was a function of strong rental demand patterns over the past few years. Increased immigration volume, demographic trends and a healthy economy have been supportive of the region's demand cycle. Nearly 12,000 people set up new permanent residency across the region over the 24-month period ending in August of 2018, many of which have historically rented accommodation upon arrival. The market's demand cycle helped drive rents higher. The average market rent had increased by roughly 2.0% in 2018, with a similar result forecast for 2019. This rent growth was indicative of the market's overall health.

### INVESTMENT FUNDAMENTALS WERE STABLE AND HEALTHY

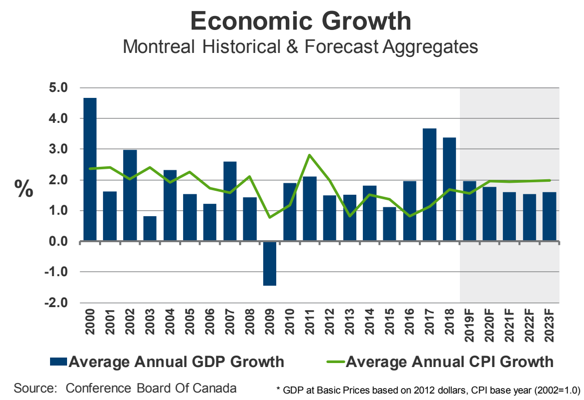
GHA multi-suite residential rental property investment market fundamentals were largely stable and healthy over the recent past. Investment demand patterns were largely unchanged over the past year, with local private equity continuing to be the most active of buyer groups. Institutional investors continued to monitor the market for larger-scale opportunities. In all cases, investors were drawn to the region's healthy economic growth outlook and its long-standing record of stable rental market performance. Assets brought to market were generally well-received. Properties brought to the market had little trouble attracting a buyer, however, demand generally outdistanced the availability. The resulting competition resulted in upward pressure on values. This upward value pressure was evidenced in recent investment performance patterns. Properties tracked in the MSCI Index posted an annual average return of 10.2% for the year ending June 30, 2019. The attractive return was divided evenly between income and capital growth. The strength of this performance was in line with the broader health of the sector's investment fundamentals of the past year.

### RECENT SECTOR STRENGTH WILL BE PROLONGED

The outlook for the GHA multi-suite residential rental sector is one of persistent strength and stability. Rental market fundamentals are expected to continue to favour the region's owners. Vacancy levels will rest close to the record low of the past 12 to 18 months. As a result, tenants will have difficulty accessing vacant units in which to relocate, upgrade or set up their first household. For landlords, this scenario will be a boon, as they continue to be able to command higher rents. The average market rent, therefore, will range near the record high of the recent past. At the same time, landlords will benefit from largely full occupancy over the near term. Positive rental demand patterns will add to downward pressure on vacancy and upward pressure on rents over the near term. Immigration, a healthy economy and labour market and demographic trends will continue to drive rental demand. Additionally, healthy rental market fundamentals will support positive investment market trends. Sector returns will remain attractive, due to continued rent growth and modest increases in value. Investment demand will continue to outpace supply, resulting in aggressive bids. A range of investor groups will look to capitalize on the region's rental market strength and fundamental outlook. In short, the outlook for the GHA multi-suite residential rental property sector is generally positive for the near term, with the extension of the current phase of the cycle.

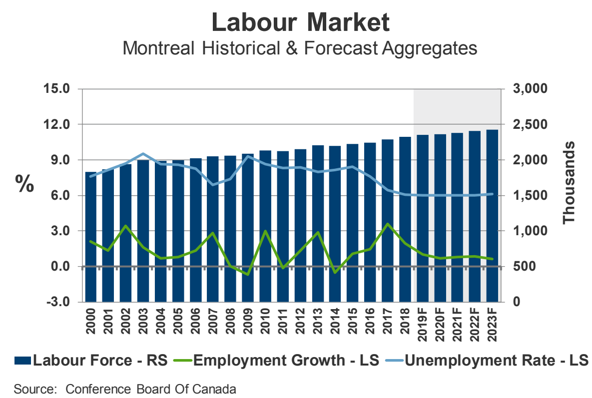
## ECONOMIC SNAPSHOT

The Greater Montreal Area (GMA) has outperformed expectations recently. The region was tracking a 3.0% rise in economic output for 2019, following an even stronger 3.4% increase last year. The strength of the region's economic growth trend supported continued labour market advancement over the same time period. The unemployment rate has dipped to a 20-year low, driven by steady employment growth. Household income has also risen steadily, which boosted retail sales growth. Housing demand pushed new home starts to the cycle peak, which helped drive economic growth.



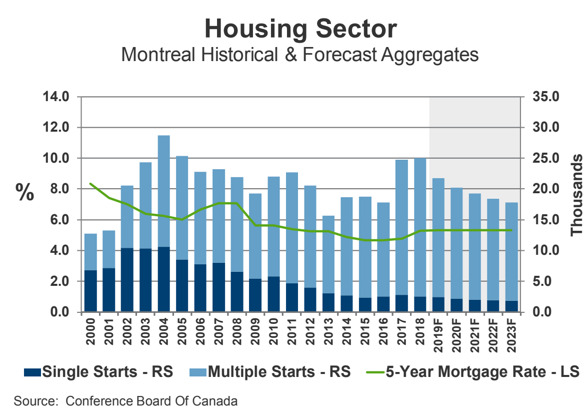

### POSITIVE LABOUR MARKET CHARACTERISTICS REPORTED

Solid labour market characteristics were reported across the GMA recently, which included modest employment growth. In its spring forecast, the CBOC predicted the creation of 22,600 net new jobs in 2019, followed by a more moderate 14,700 positions in the following year. The regional unemployment rate was expected to hold close to the 30-year low levels of 6.0% over the two-year period. The increased number of baby-boomers retiring over the recent past has limited labour force growth. Despite the shortfall, the GMA continued to exhibit largely positive employment market conditions.



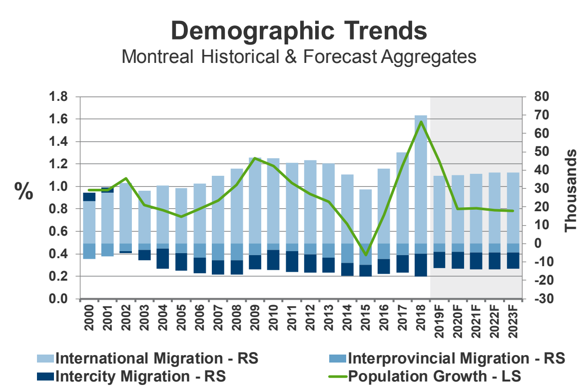

### CONSTRUCTION SECTOR GROWTH WAS SUSTAINED

Growth was sustained in the GMA construction sector over the past year, following a period of outperformance. A modest advance of roughly 2.0% was forecast for 2019, which represented a gearing down from the stellar 3.0% gain tallied in each of 2017 and 2018. Infrastructure projects, including the Champlain Bridge and the Turcot Interchange, bolstered the growth trend of 2017 and 2018. Both projects were slated for completion in June of 2019 and 2020, respectively. The REM light-rail project and the new National Bank building were expected to at least partially fill the void over the near term, in support of the sector's sustained growth outlook.




### MANUFACTURING RECOVERY MODERATED

The GMA manufacturing sector recovery moderated in 2019, following a two-year period of stronger results. Sector output was projected to rise 2.2% this year, with a 1.8% advance in 2020. The more moderate growth trend was the result of the delay in the ratification of the Canada-United States-Mexico Agreement and a reduction in output by Bombardier, according to the CBOC. Previously, manufacturing output had increased 4.0% in each of 2017 and 2018. This followed a 1.4% average annual sector contraction between 2000 and 2016. Looking ahead, the sector recovery was expected to continue at a relatively conservative pace.




### SOLID GROWTH TREND FORECAST

A solid rate of economic expansion is forecast for the GMA over the near term. In 2020, Real GDP is expected to increase by just short of 2.0%. Previously, low interest rates, consumer demand and a low Canadian dollar had powered the region to the top of the major urban centre rankings for growth. However, consumer demand is expected to moderate, due to high levels of debt. As a result, consumption levels will cool, along with economic growth. Construction activity will also moderate, resulting in more modest increases in output and weaker job growth. Labour market conditions will strengthen over the near term, but advances will be conservative. Broader services output will improve, but not enough to impact the region's near-term economic growth trend.

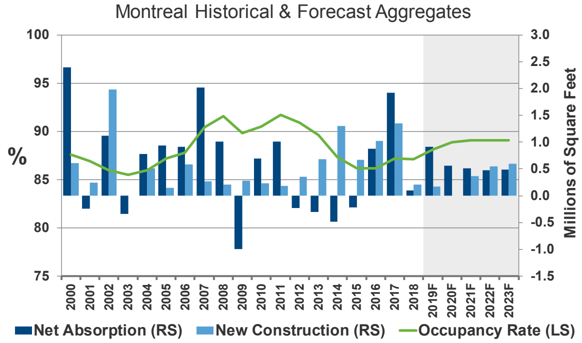
| TRENDING STATISTICS | | |
|---|---|---|
| **FUNDAMENTALS** | **Δ YTD** | **1-YEAR OUTLOOK** |
| Vacancy Rate | ▼ | ▼ |
| Net Absorption | ▲ | ▲ |
| Lease Rates | ▲ | ▲ |
| New Supply | — | — |

The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).

**Historical Performance**
For The Period Ending June 2019

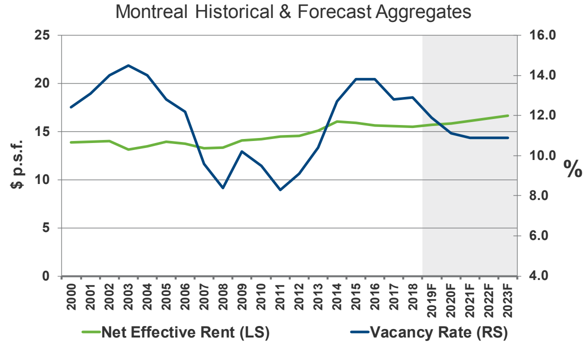

Source: © MSCI Real Estate 2019

**Office Demand & Supply**
Montreal Historical & Forecast Aggregates




Source: CBRE Limited; CBRE Econometric Advisors

**Office Rent & Vacancy**
Montreal Historical & Forecast Aggregates




Source: CBRE Limited; CBRE Econometric Advisors

## LEASING MARKET STRENGTHENING RECORDED

The GMA office leasing market exhibited positive performance characteristics over the recent past. Leasing demand outpaced supply resulting in the absorption of a significant volume of vacant space. Technology, business services and research companies were the market's main demand-drivers over the past few years. Demand was strongest in the downtown area, while expansion activity was more moderate in the midtown and suburban building inventories. In the first half of 2019, slightly more than 1.2 million square feet of space was absorbed market wide, which was the highest total on record according to CBRE statistics. The market's demand strength drove vacancy levels steadily lower in 2018 and much of this year. By the end of the third quarter of 2019, the market's average vacancy rate rested at 11.0%, down from 13.0% a year earlier. Tighter conditions were reported in the downtown area where vacancy dropped to 7.5%, from 9.5%, year-over-year. Downward pressure on vacancy and healthy demand characteristics pushed rents moderately higher, particularly for newer class A space. The strengthening of the rental market, a healthy regional economy and average rents supported a modest development cycle. A total of 2.2 million square feet of new supply was underway as of the third quarter of 2019. The uptick in development activity was emblematic of the market's recent and continued strengthening.

## INVESTMENT MARKET WAS ACTIVE AND VIBRANT

The GMA office investment property investment market maintained its vibrancy and healthy activity levels over the recent past. The vibrancy of the market was evidenced in recent demand patterns. Pension funds, directly or through their advisors, and institutions were active in their pursuit of core assets. Downtown properties were most highly sought after. A range of buyer groups were also active across the broader market. For many, Montreal represented an attractive alternative to the more expensive and highly competitive Toronto and Vancouver. Increasingly, properties in this market were also becoming expensive and harder to acquire. The health of the GMA demand trend resulted in multi-bid scenarios for prime offerings. The investment demand-pressure of the recent past boosted sales activity to the peak for the cycle. In the first half of 2019, a total of $5.5 billion in sales was recorded, which was in keeping with the record pace of the past couple of years. While investors looked to these acquisitions as a source of attractive yields, they were also drawn by the market's recent performance record. GMA properties tracked in the MSCI Index recorded an attractive annual average total return of 9.3% for the year ending June 30, 2019. The return was the highest dating back to 2012, as the GMA finished third behind Toronto and Vancouver over the same time period. Moreover, the result was in keeping the with GMA's investment property market's performance characteristics of the recent past.

## SECTOR'S FUNDAMENTAL HEALTH WILL PREVAIL

The health of the GMA office sector will persist over the near term. Economic growth of roughly 2.0% in 2020 and 2021 will drive office space demand, led by the technology, research and business services sectors. The market's traditional office using sectors will also continue to boost demand. As a result, vacancy will continue to range near the cycle-low. Average rents will hold close to the cycle-high, given ongoing demand supply imbalance in certain market segments. Rental growth will help drive investment performance, keeping returns in an attractive range. Positive performance trends will continue to attract investors. The resulting demand pressure will ensure a competitive bidding environment, especially given limited availability. Cap rates may compress slightly, given the potential for some groups to stretch on pricing for exceptional or strategic assets. In short, there is a strong possibility that the health of GMA office property sector will continue to unfold over the near term.

## LEASING MARKET FIRED ON ALL CYLINDERS

GMA industrial leasing market activity kicked into overdrive over the past year, resulting in some of the strongest sector fundamentals on record. Demand outpaced supply by a significant margin, which resulted in a record absorption pace. A range of business sectors expanded their footprints in 2018 and the first half of 2019. The Cannabis warehouse and distribution and manufacturing sectors were the most active in seeking out space in which to expand across the region. A total of just under 1.5 million square feet of industrial space was absorbed in the first half of 2019, following a record annual high of 8.9 million square feet in 2018. Increasingly, options for expansion and/or relocation became fewer and farther between as availability levels declined. By the end of the third quarter of 2019, market availability rested at a cycle-low of 2.8%, which represented the lowest level dating back to 2001. Recently constructed state-of-the-art space was often fully leased prior to, or shortly after, completion. This scenario added to the pressure tenants were under when trying to secure high-quality space in which to carry out their business activities. Those that were able to source functional space were faced with significantly higher rents. Cycle-low availability and healthy demand afforded landlords the opportunity to command higher rents both for new tenants and in renewal scenarios. Against a backdrop of higher rents and low availability, the GMA industrial leasing market continued to fire on all cylinders.

## INVESTMENT MARKET TRENDS WERE DECIDEDLY BULLISH

GMA industrial investment property market trends were decidedly bullish recently, in keeping with the national trend. Demand outdistanced the supply of properties brought to market for acquisition. The market's rental growth outlook and cycle-low availability attracted a range of investment groups in their search for attractive yields. High-quality investment offerings were generally met with strong interest from multiple parties and garnered aggressive bids. As a result, there was modest upward pressure on valuations. The recent strength of the market's demand profile translated into healthy transaction closing volume. A total of $412.2 million in industrial property sales was reported for the first half of 2019, which followed a record annual high of $1.4 billion in 2018. Recent investment performance was also quite bullish. GMA industrial properties tracked in the MSCI Index posted an annual average return of 16.9% for the 12-month period ending June 30, 2019. The result was the second highest next to Toronto, of the eight largest Canadian industrial markets tracked. The return was comprised of healthy doses of income and capital growth and was the highest on record for the region since 2006. This strong performance was in line with the bullish phase of the current cycle that prevailed over the recent past.

## FEW CHANGES IN PERFORMANCE PATTERN FORECAST

There are few changes in GMA industrial property sector performance patterns forecast for the near term. Economic growth will continue to support demand for industrial space across the region. Therefore, the market's average availability rate will continue to range at, or even below, the all-time lows set in 2019. The continued demand-pressure will likely push rents to a new benchmark high next year, given ongoing supply constraints. Newly constructed and highly functional space will be highly coveted by tenants in the market to expand or relocate. As a result, this space will likely increase in price. The ongoing strength of the region's leasing market fundamentals and rent growth will drive investment performance. Investors will continue to acquire properties in a region that boasts a positive economic growth outlook and healthy leasing fundamentals. In short, GMA industrial property sector performance fundamentals forecast over the near term will mirror those of the past few years.

### TRENDING STATISTICS

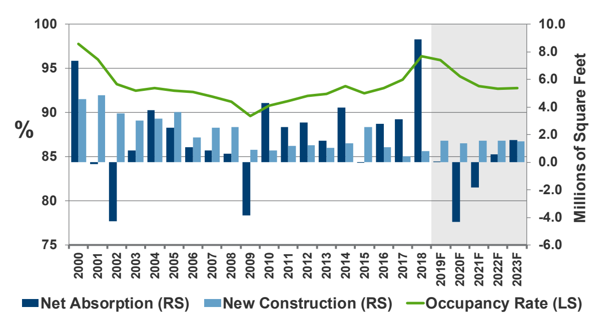
| FUNDAMENTALS | Δ YTD | 1-YEAR OUTLOOK |
|---|---|---|
| Vacancy Rate | ▼ | — |
| Net Absorption | ▲ | — |
| Lease Rates | ▲ | ▲ |
| New Supply | ▲ | ▲ |

The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).

**Historical Performance**
For The Period Ending June 2019

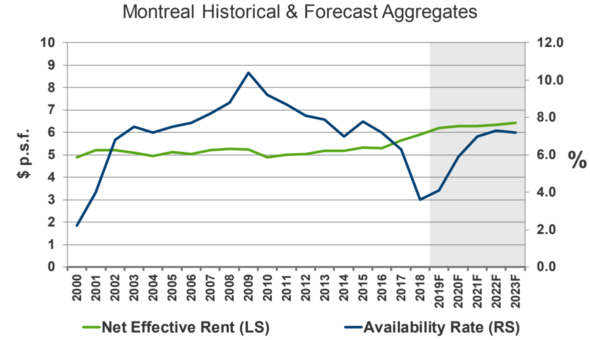

Source: © MSCI Real Estate 2019

**Industrial Demand & Supply**
Montreal Historical & Forecast Aggregates




Source: CBRE Limited; CBRE Econometric Advisors

**Industrial Rent & Vacancy**
Montreal Historical & Forecast Aggregates




Source: CBRE Limited; CBRE Econometric Advisors

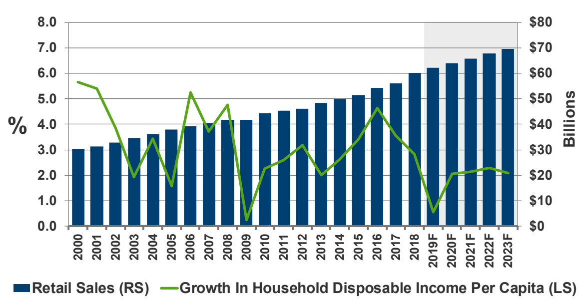
| TRENDING STATISTICS | | |
|---|---|---|
| FUNDAMENTALS | Δ YTD | 1-YEAR OUTLOOK |
| Vacancy Rate | ▼ | ▼ |
| Net Absorption | ▲ | — |
| Lease Rates | — | — |
| New Supply | — | — |

The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).

**Historical Performance**
For The Period Ending June 2019

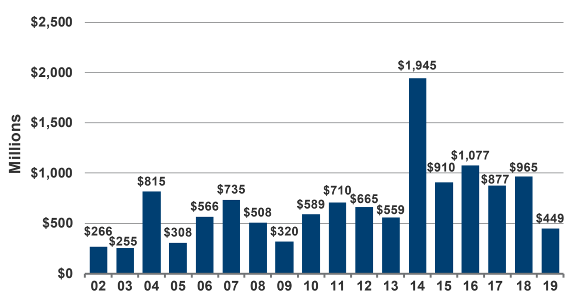

Source: © MSCI Real Estate 2019

**Retail Conditions**
Montreal Historical & Forecast Aggregates




Source: Conference Board Of Canada

**Investment Activity**
Montreal Retail Investment Volume To June 2019




Source: CBRE Limited

## LEASING MARKET RESILIENCE WAS OBSERVED

The resilience of the GMA's retail leasing market was displayed over the past year. Evidence of this resilience was contained in recent supply-side characteristics. The average market vacancy stood at 7.3%, as of the end of June 2019 according to CBRE. The rate dropped 70 bps from the end of 2018 and 90 bps year-over-year. The modest decline represented a quick return to a more stable trend, following a sharp rise in vacancy in 2017 due in part to the closure of Sears. Through the balance of this year and into 2020, vacancy was expected to gradually fall during a period of continued market resilience. Demand characteristics of the past year contained additional evidence of the market's resilience. A range of retailers expanded across the region, including both domestic and international brands. To some extent, expansion activity offset some of the additional store closures and downsizing that took place recently. The strength of the market's demand profile of the recent past supported the absorption of a significant volume of space. In the first half of 2019, 271,000 square feet of retail space was absorbed across the GMA. This was the second highest half-year total recorded since 2015, which was a further indication of the market's resilience. New construction activity was also an indication of leasing market buoyancy. The merging of the Eaton Centre and Les Ailes complex downtown, as well as several large suburban construction projects were set for completion in 2019. Developer confidence was a byproduct of the recent leasing market resilience.

## INVESTMENT MARKET CONDITIONS WERE MODERATELY POSITIVE

Conditions observed in the GMA retail property investment market were moderately positive. Recent investment performance was moderately positive. Properties tracked in the MSCI Index posted an annual average return of 4.3% over the 12-month period ending June 30, 2019. While largely income-driven, the return bested the national retail average. Investment demand characteristics were moderately positive as well, compared with the most recent market peak. A range of buyer groups exhibited varying degrees of interest in acquiring retail investment properties in this market. In keeping with the broader retail market, buyers were more cautious in underwriting potential acquisitions, given broader industry uncertainty. High-quality assets generated strong interest, while value-add properties were underwritten more conservatively than in the past. In general, investors expressed a willingness to acquire properties made available. A total of $674.3 million of retail properties transacted in the first half of 2019, after the second highest annual total on record of $965.2 million in 2018. This activity was in keeping with the moderately positive market conditions observed over the recent past.

## MODEST ADVANCEMENT FORECAST

GMA retail sector advancement will be relatively modest over the near term. The region's economic and labour market growth will support a moderately healthy retail sales trend. Retailers will, in turn, look to capitalize on this growth. The resulting demand will gradually reduce market vacancy. Despite the downward trend, however, vacancy will remain well above the long-term average. Therefore, the probability of rental rate growth over the next 12 to 18 months is low. The modest progression forecast for the region's leasing market will positively impact investment performance. To some extent, the promise of moderately attractive returns will draw investment capital to the market. Properties offered for sale will continue to generate interest. However, investors will continue to exercise caution in light of persistent headwinds across the broader industry. Buyers will exhibit confidence when acquiring assets in this market at prevailing yields. This demand pressure will support the modest advancement forecast for the sector over the near term.

## RENTAL MARKET TIGHTENED AS DEMAND OUTPACED SUPPLY

The GMA multi-suite rental market continued to tighten recently, as demand outpaced supply. Market vacancy steadily declined over the past couple of years. The market average vacancy rate of 1.9% reported at the end of 2018 was down 90 bps year-over-year and represented an 11-year low. Market vacancy was expected to hold at the year-end 2018 level in 2019 and into 2020. While conditions tightened in the GMA rental market, tenants found it increasingly difficult to upgrade or relocate in an environment with few available options. In general, demand outpaced supply across much of the region over the past couple of years. The healthy demand backdrop was attributable, in part, to an increased volume of international migrants relocating to the GMA area. An increased number of young workers moving out of their family homes was also a driver of rental demand. Older residents of the GMA were also more likely to rent accommodation, rather than continue to own. The demand pressure of the past few years coincided with a robust development cycle. According to CMHC data, 7,500 newly constructed rental units were added to inventory over the past year, which was up significantly over much of the past decade. Despite these additions rental market conditions continued to tighten over the past year, which drove rents higher and bolstered the bottom lines of the market's landlords.

## INVESTMENT MARKET HEALTH PREVAILED

Generally healthy investment market conditions were reported in the GMA multi-suite residential sector over the past year. Demand for income-producing properties was brisk, with offerings receiving strong interest from a range of investment groups. In most cases, vendors were able to assess the merits of more than one potential buyer, which was true of the broader multi-suite residential rental sector across much of the country. Vendors were generally able to achieve their pricing objectives, which translated into mild upward pressure on values. The prospect of continued rental growth over the near term was supportive of the health of the market's overall demand trend. While demand characteristics were generally healthy, the supply of available properties fell somewhat short. This, to some degree, placed a limit on transaction volume totals. In the first six months of 2019, robust sales volume of $1.5 billion was reported, which was well ahead of last year's pace. The record transaction pace of the past 18 months occurred during a period of healthy investment performance. A total return of 12.3% was tallied for the year ending June 30, 2019. This attractive result was in keeping with the market's overall health.

## PERSISTENT SECTOR STRENGTH FORECAST

The strength of GMA multi-suite residential sector fundamentals reported over the recent past will continue over the near term. An impressive run of record-low, or near record-low vacancy will persist. Tenants in the market for rental units will continue to struggle with low availability. Additionally, tenants will often be forced to pay cycle-high rents for both older and more recently built units. A moderately healthy economic growth trend, complimentary demographics and increased youth employment levels will add more potential rental households to an already competitive market. The strong rental market outlook, and especially rent growth, will be a major draw for investors. Properties offered for sale will be well received and garner aggressive bids. In turn, cap rates will likely compress further. This compression will boost investment performance, along with anticipated rent growth. Returns are likely to range in the double digits, which will also draw investors to the market. Assuming availability, the pace at which properties are sold will be brisk. The competitive environment will be commensurate with the overall strength of the market forecast over the near term.

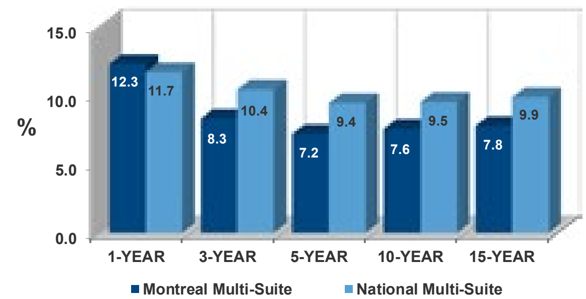
## TRENDING STATISTICS

| FUNDAMENTALS | Δ YTD | 1-YEAR OUTLOOK |
|---|---|---|
| Vacancy Rate | ▼ | — |
| Net Absorption | ▲ | — |
| Lease Rates | ▲ | ▲ |
| New Supply | ▲ | — |

The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).

### Historical Performance

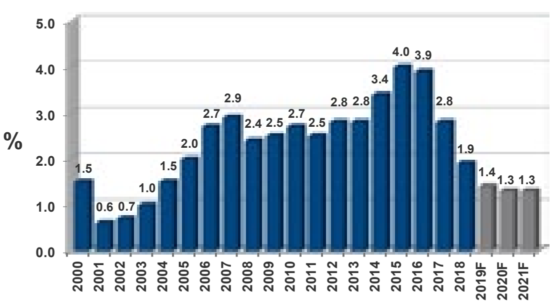
For The Period Ending June 2019




Source: © MSCI Real Estate 2019

### Average Rental Vacancy

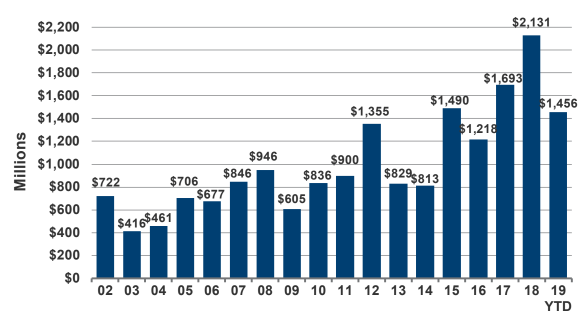
Montreal Apartment Structures Of Three Units & Over




Source: CMHC

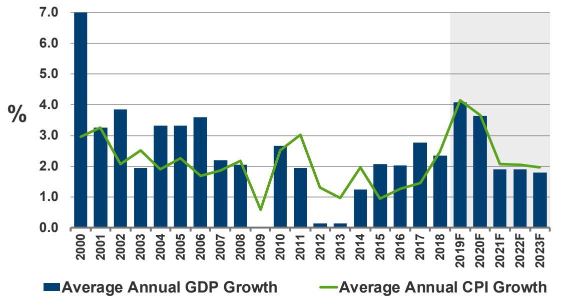
### Investment Activity

Montreal Multi-Suite Investment Volume To June 2019




Source: CBRE Limited

### Economic Growth
Ottawa Historical & Forecast Aggregates

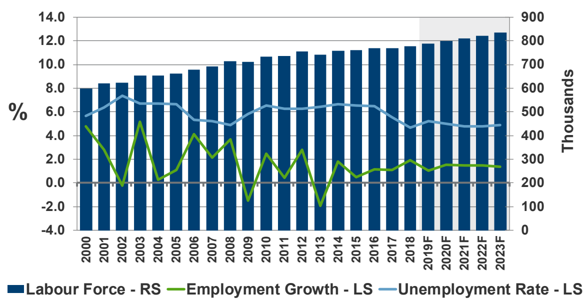



Source: Conference Board Of Canada * GDP at Basic Prices based on 2012 dollars, CPI base year (2002=1.0)

## ECONOMIC SNAPSHOT

The Ottawa-Gatineau economic growth rate moderated during 2019, in keeping with the broader national trend. Output was projected to increase by approximately 1.5% this year, following a healthier 2.3% advance in 2018. The moderation was tied to the region's largest employer, the public sector, in keeping with the region's history. More moderate economic growth was expected to unfold across the various sub-sectors of the economy. The region's construction sector was expected to post a healthier expansion rate in 2020, with the scheduled start of several large infrastructure projects.

### Labour Market
Ottawa Historical & Forecast Aggregates




Source: Conference Board Of Canada

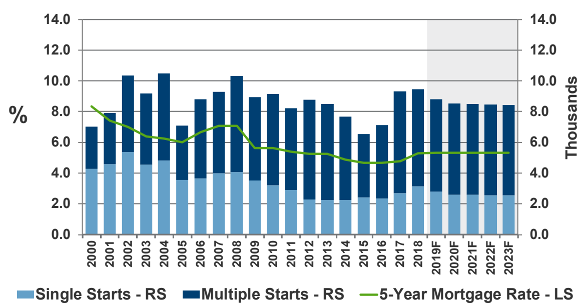
### JOB MARKET CONTINUED TO ADVANCE

Job market conditions in the Greater Ottawa Area (GOA) remained tight during 2019, driven by a steady increase in employment. Employment was projected to increase by roughly 1.0% in 2019, which was close to the 30-year trend, according to the CBOC. Slight upward pressure on the regional unemployment rate was forecast, due to labour force growth. Tight conditions have driven household income levels higher. The region's economic growth trend of the past few years supported population growth and has brought a healthy number of immigrants to the area looking for employment.

### PUBLIC SECTOR EXPANSION HAS COOLED

The GOA public sector expansion rate slowed during 2019, after a prolonged period of above-average growth. Sector output was projected to rise by less than 1.0% this year, with only a slight strengthening forecast for 2020. In its 2019 budget, the federal government served notice of its intention to curtail spending and exercise fiscal restraint. As a result, administration employment was expected to rise at a modest rate. The CBOC forecast called for an increase in employment of roughly 1.4% annually between 2019 and 2023. Previously, employment had increased by an annual average of 2.9% between 2016 and 2018. The moderation of the public sector growth rate was in keeping with the broader regional economic trend.

### Housing Sector
Ottawa Historical & Forecast Aggregates

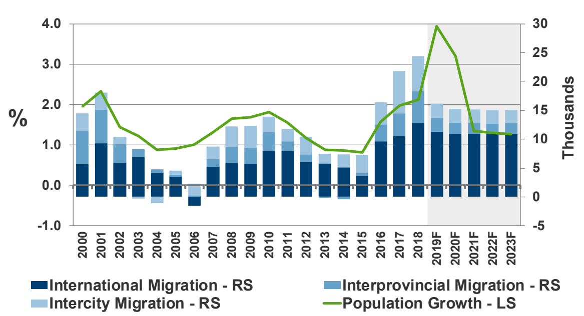



Source: Conference Board Of Canada

### CONSTRUCTION SECTOR GROWTH EASED

Construction sector growth eased during 2019, following a period of rapid expansion. Sector output was expected to rise by 1.2% in 2019, having advanced by an annual average of 3.5% during the five-year period ending in 2017. Last year, output rose by a solid 2.9%. Sector activity was expected to rise significantly in 2020, with output surging by 3.9%. The continued development of the region's LRT was cited as a key growth factor over the forecast period.

### Demographic Trends
Ottawa Historical & Forecast Aggregates




Source: Conference Board Of Canada

### MEDIUM-TERM OUTLOOK IS SOLID

The medium-term outlook for the GOA economy is solid. The regional economy is projected to expand by just short of the 2.0% mark through to 2023. The stability of the growth trend will drive moderately healthy employment growth over the forecast period. Additions to the labour force will offset some of this progress, resulting in an unemployment rate ranging close to the 5.0% mark over the next few years. The region's public, IT and services sectors will be key drivers of increased economic output. Construction activity will also continue to boost output and employment. The region's solid economic outlook will attract more immigrants and support housing demand. In short, the region will continue to post solid economic performance characteristics over the medium term.

### LEASING MARKET FORGED AHEAD

The GOA office leasing market continued to gain ground over the recent past. The market's demand cycle was a determining factor in this progression. Private sector demand was rooted, to some extent, in the region's expanding technology and broader business services sectors. Expansion of the region's public sector footprint also supported the market's demand cycle. Broadly stable and healthy demand patterns resulted in the absorption of a significant volume of vacant space. More than 1.0 million square feet of space was absorbed in 2018, followed by a further 446,232 square feet during the first three quarters of 2019. The 2018 total represented an annual high dating back to 2006. Although the pace slowed in the first half of 2019, it was still above average. The healthier demand trend of the past 18 months resulted in modest upward pressure on average rents, particularly downtown. The upward pressure was driven by the steady absorption of the sub-market's highest quality space. The market average vacancy rate fell to 7.0% by the end of the third quarter of 2019, down 180 bps year-over-year. The class A average plunged 230 bps over the same time period to an 11-year low of 5.2%. The downward vacancy trend was bolstered by the absence of significant new development activity. As conditions tightened over the past year, the market steadily gained momentum.

### INVESTMENT DEMAND OUTSTRIPPED AVAILABILITY

GOA office properties sector investment demand outdistanced the supply of high-quality properties available for acquisition. Various investment groups targeted the GOA office sector as a source of attractive yields. Downtown properties were highly sought after, particularly those occupied by government uses. However, there was a limited number of properties with these attributes made available to investors. When downtown assets were made available, there were multiple bids at peak pricing. Despite the availability shortfall, broader market investment activity levels were above the long-term average. During the first half of 2019 a total of $348.3 million in sales volume was reported. This followed the $634.9 million in annual sales in 2018, which was the fourth highest total over the past 19 years. The health of the market's investment demand cycle was a function of several factors, one of which was attractive investment performance patterns. GOA properties contained in the MSCI Index registered an annual average total return of 6.5% for the year ending June 30, 2019. Investment performance has been solid dating back to 2010, which at least partially explained why demand has consistently outdistanced supply in this market over the past several years.

### THE SECTOR OUTLOOK IS GENERALLY HEALTHY

The GOA office sector is expected to exhibit generally healthy fundamentals over the near term. A steady and moderate economic growth rate will support leasing demand. The market's demand cycle will continue to be driven, to a large extent, by the region's technology sector. Demand will remain buoyant both downtown and in suburban areas. The positive demand pattern will continue to drive vacancy gradually downward. The absence of a significant development cycle will effectively reduce the risk of a vacancy spike over the next few years. The forecast tightening in the downtown submarket will likely result in upward rent pressure. The market's larger tenants are expected to find the going difficult when looking to expand or relocate. Broadly stable and healthy rental market fundamentals will continue to support positive investment performance patterns. The combination of attractive yields and strong leasing market fundamentals will continue to draw capital to the market. Once again, however, there will be a limited number of prime downtown and suburban properties available for acquisition. Therefore, the investment market will remain competitive against a backdrop of improving leasing market fundamentals.

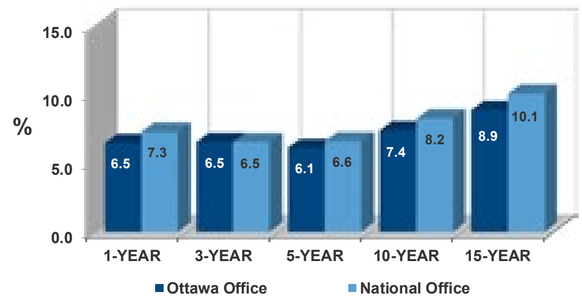
## TRENDING STATISTICS

| FUNDAMENTALS | Δ YTD | 1-YEAR OUTLOOK |
|---|---|---|
| Vacancy Rate | ▼ | ▼ |
| Net Absorption | ▲ | ▲ |
| Lease Rates | ▲ | ▲ |
| New Supply | — | — |

The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).

### Historical Performance

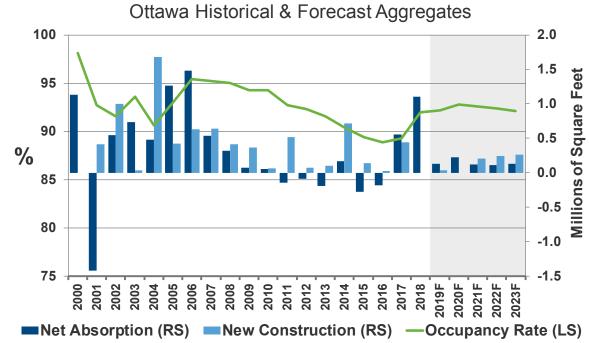
For The Period Ending June 2019




Source: © MSCI Real Estate 2019

### Office Demand & Supply

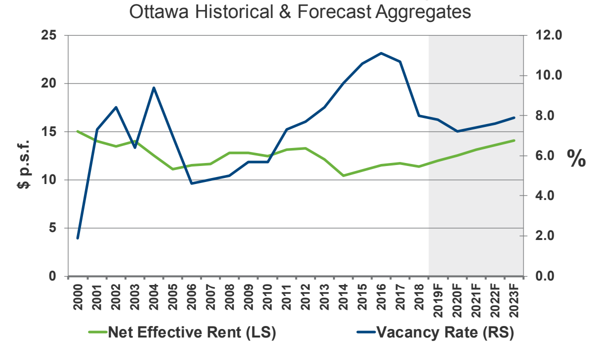
Ottawa Historical & Forecast Aggregates




Source: CBRE Limited; CBRE Econometric Advisors

### Office Rent & Vacancy

Ottawa Historical & Forecast Aggregates



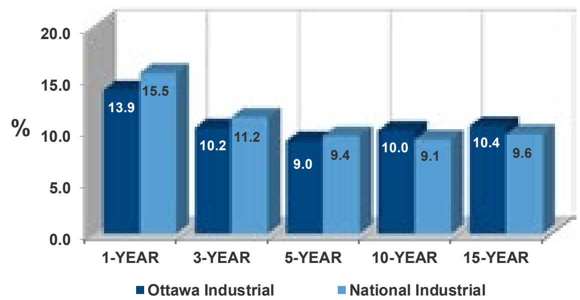

Source: CBRE Limited; CBRE Econometric Advisors

## TRENDING STATISTICS

| FUNDAMENTALS | Δ YTD | 1-YEAR OUTLOOK |
|---|---|---|
| Vacancy Rate | ▼ | — |
| Net Absorption | — | — |
| Lease Rates | ▲ | ▲ |
| New Supply | ▼ | — |

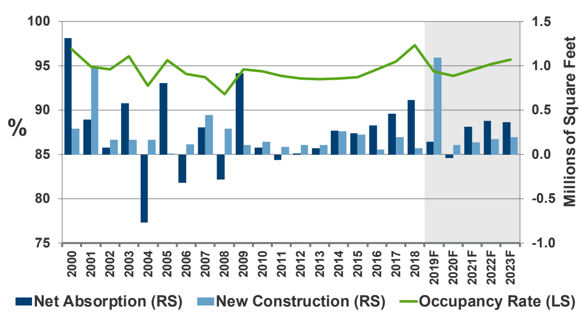
The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).

**Historical Performance**
For The Period Ending June 2019



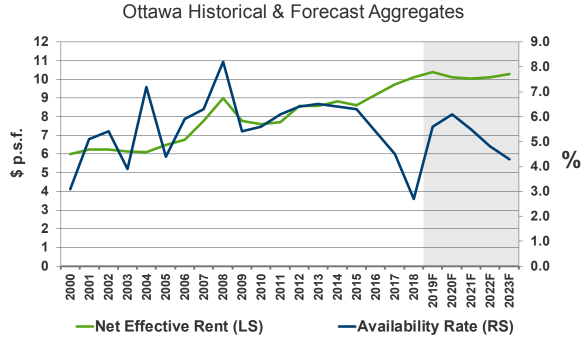

Source: © MSCI Real Estate 2019

**Industrial Demand & Supply**
Ottawa Historical & Forecast Aggregates




Source: CBRE Limited; CBRE Econometric Advisors

**Industrial Rent & Vacancy**
Ottawa Historical & Forecast Aggregates




Source: CBRE Limited; CBRE Econometric Advisors

### LEASING DEMAND CONTINUED TO OUTSTRIP SUPPLY

Leasing demand continued to outstrip supply in the GOA industrial property leasing market over the recent past. Demand characteristics have been stable and positive, driven in part by a moderate economic growth trend. The market's main industrial demand-drivers were the warehouse and distribution and niche manufacturing and technology sectors. Demand was steady for most unit size categories and in most sub-markets. While demand was generally healthy, tenants generally had difficulty sourcing suitable space in which to expand or relocate. Options were few and far between and often inadequate for their operational needs. The struggle was a function of cycle-low availability in the GOA industrial leasing market. Market availability rested at just 2.3% as of the end of the third quarter of 2019. At the end of March of the same year the availability rate stood at a low point dating back to 2002. Availability had been driven steadily lower over the past several years by a combination of healthy demand characteristics and a tepid development cycle. Few speculative developments have been completed over the past several years, offering little relief from the availability shortfall. As leasing market conditions tightened over the recent past, demand has consistently outpaced supply.

### BULL PHASE OF INVESTMENT CYCLE WAS EXTENDED

The bull phase of the GOA industrial property investment cycle was extended recently. Properties tracked in the MSCI Index registered an attractive annual average total return of 13.9% for the 12-month period ending June 30, 2019. The result was the strongest on record dating back to 2012. The extension of the bull phase of the cycle was also evidenced in transaction volume characteristics. Last year, investment sales reached a record annual high, with $356.3 million in sales reported. This was followed up by an above-average $99.6 million in sales during the first six months of 2019. The record activity pace was the result of broadly positive demand characteristics. Strong investment demand has been driven by the prospect of upward income potential, as rents continued to rise and leasing market conditions tightened. Demand generally surpassed the supply of properties available for acquisition, which was common in the industrial asset class across the country. The shortfall was even more pronounced in this market, given its relatively small size. When properties were offered for sale on the market, there was no shortage of interested parties. The bidding environment was competitive and bids were aggressive. This aggression supported modest cap rate compression. The downward pressure on cap rates was consistent with the extension of the bullish phase of the investment cycle.

### MINIMAL VARIATION IN SECTOR CONDITIONS FORECAST

Variation in GOA industrial sector conditions will be minimal over the near term. Leasing demand will remain moderately healthy, driven by expansion activity in the region's warehouse and distribution and niche manufacturing sectors. The region's burgeoning technology sector will add to the demand pressure over the near term. Coincidentally, availability will continue to rest at the cycle-low. Tenant expansion options will continue to fall short of demand. The market's development cycle will continue to underwhelm, which will add to the struggles of tenants looking for space in which to expand. The market's demand supply dynamic will support rental growth and attract investors. Investment demand will remain relatively robust, however, the supply of properties available for acquisition will remain low. To some degree, product availability will be reflected in transaction closing volume totals, which will likely fall short of the 2018 record levels. Investors will continue to compete aggressively, which could push values slightly higher. In summary, the bullish phase of the GOA industrial property sector cycle will continue to unfold over the near term, in keeping with the trend of the recent past.

### LEASING FUNDAMENTALS STABILIZED

GOA retail leasing market fundamentals exhibited signs of stabilization recently. Demand fundamentals remained relatively mixed. On the positive side of the ledger, several retail brands increased their presence in various location across the region. Grocery, cannabis and various restaurant concepts have opened new locations recently. Examples of this type of activity included a new East Side Mario's location at Trinity Common at Citigate. Costco and Marshalls also opened new stores at the same location. Additionally, Farm Boy opened a new grocery outlet in the city's downtown core. Several food-related uses also set up shop at 160 Elgin Street and at Queen Street Fare. While there were several new store openings, a significant volume of space previously occupied by Sears and Target remained vacant or was scheduled for redevelopment. In addition, there were several store closures announced across the region. The net impact of the recent store openings and closures was the stabilization of the market's vacancy trend. Vacancy rested at 6.3%, as of the end of the first half of 2019. The market's vacancy trend looked to have stabilized, following a sharp increase during 2018. The market's rent cycle also exhibited signs of stabilization in 2019, which was in keeping with the broader GOA leasing market performance.

### INVESTMENT MARKET RESILIENCE WAS DISPLAYED

Resilience characterized the GOA retail property investment market over the recent past, against a backdrop of elevated risk. Investment performance reported in the MSCI Index provided evidence of the market's resilience. Properties contained in the index generated a moderately attractive total return of 5.1% for the year ending June 30, 2019. The result was the third highest of the retail markets tracked and was 220 bps higher than the national retail sector average. There were other indications of GOA investment market's resilience exhibited over the recent past. The rate at which properties were acquired was one such indication. Transaction volume reached a peak in 2018, with a record annual high of $376.4 million in sales recorded. While activity slowed in 2019, acquisition demand remained robust. National and local groups continued to look for properties with stable tenant rosters and solid performance records in the GOA. The market's value cycle offered further evidence of its resilience of the recent past. Values generally stabilized, while broader investment market risks increased. Against this risk backdrop, the GOA retail property sector continued to display a measure of resiliency.

### NEAR-TERM OUTLOOK IS POSITIVE

The near-term GOA retail property sector is moderately positive. The Ottawa-Gatineau economy is projected to expand by roughly 1.5% in 2019, with a slightly more robust performance forecast for 2020. The economic growth trend will support retail sales increases of 4.3% and 3.2% in 2019 and 2020, respectively. Consumer spending patterns will bolster retailer revenues and drive leasing market expansion activity. However, ongoing store closures will offset at least some of this progress. As a result, vacancy levels may increase slightly but remain relatively stable. With demand largely keeping pace with supply, average rents will stabilize. The broader leasing market stabilization will be a consideration for investors. To some degree this will translate into more careful underwriting on potential acquisitions. Regardless, investment demand will remain positive, with buyers focusing on assets with strong performance records and stable tenants. Assets with grocery, drug and liquor stores will continue to attract investment capital. Properties with value-add attributes will also command the attention of groups looking for higher yields. Further, assets with development potential will generate interest. In summary, the GOA retail property sector will continue to register moderately positive performance characteristics over the near term, against a backdrop of heightened sector risk.

**TRENDING STATISTICS**

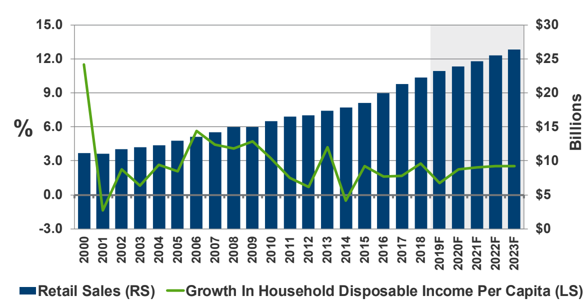
| FUNDAMENTALS | Δ YTD | 1-YEAR OUTLOOK |
|---|---|---|
| Vacancy Rate | — | — |
| Net Absorption | ▼ | — |
| Lease Rates | — | — |
| New Supply | — | — |

The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).

**Historical Performance**
For The Period Ending June 2019

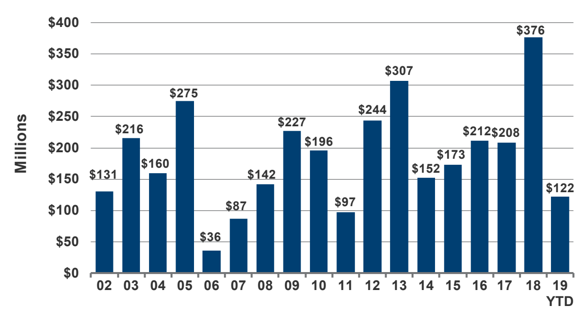

Source: © MSCI Real Estate 2019

**Retail Conditions**
Ottawa Historical & Forecast Aggregates




Source: Conference Board Of Canada

**Investment Activity**
Ottawa Retail Investment Volume To June 2019




Source: CBRE Limited

## TRENDING STATISTICS

| FUNDAMENTALS | Δ YTD | 1-YEAR OUTLOOK |
|---|---|---|
| Vacancy Rate | — | — |
| Net Absorption | — | — |
| Lease Rates | ▲ | ▲ |
| New Supply | ▲ | — |

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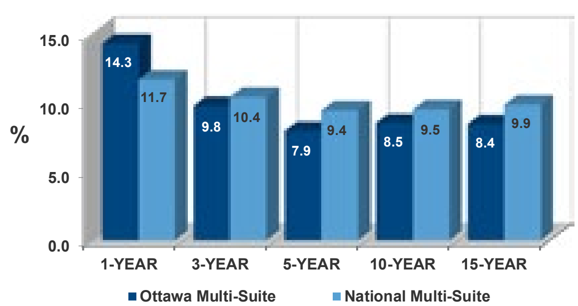
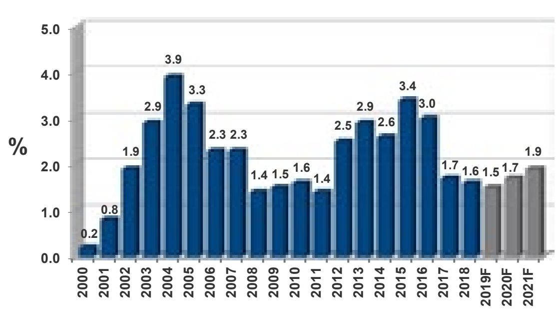
**Historical Performance**
For The Period Ending June 2019



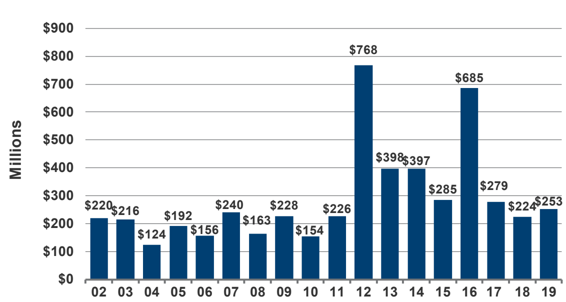

Source: © MSCI Real Estate 2019

**Average Rental Vacancy**
Ottawa Apartment Structures Of Three Units & Over




Source: CMHC

**Investment Activity**
Ottawa Multi-Suite Investment Volume To June 2019




Source: CBRE Limited

### RENT GROWTH CYCLE PEAKED

The GOA multi-suite residential rental rent growth cycle peaked recently, which was an indication of the market's overall health. The benchmark two-bedroom average monthly rent increased 5.8% over the 12-month period ending in the fall of 2018. The rate exceeded the Ontario guideline increase of 1.8% for 2018 by a significant margin. Market rents have increased steadily over the past few years in all unit size categories. The strong rental growth cycle was a byproduct of the market's overall health. Since 2012, the market average vacancy rate has steadily declined, resting just above the 1.5% mark in 2017 and 2018. As conditions tightened over this period, the rental growth trend firmed. Healthy rental demand fundamentals over the recent past reflected the market's broader stability. For the most part, demand has outstripped supply, despite the continued completion of new construction projects. An increased number of young workers leaving their family homes boosted rental demand. Increased immigration, the high cost of home ownership and international students coming to the GOA added to the rental demand pressure. Additionally, demand was bolstered by the movement of retirees from their homes to smaller rental accommodation. The combination of stable and positive demand patterns and low vacancy drove the market's rent growth cycle to a peak range.

### INVESTMENT MARKET CONDITIONS STABILIZED

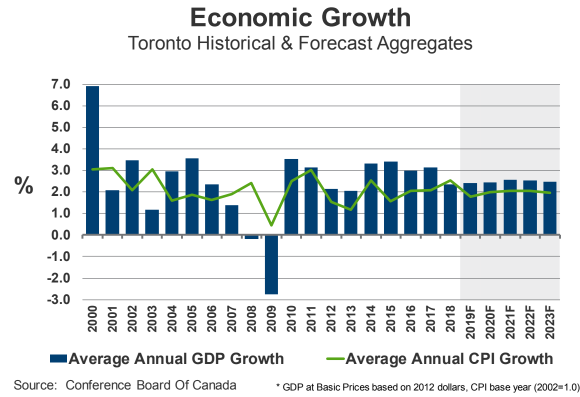
The GOA multi-suite residential rental property investment market was largely stable and healthy over the past year. A second consecutive year of attractive investment performance was registered recently. Properties tracked in the MSCI Index registered an average annual return of 14.3% for the 12-month period ending June 30, 2019. This followed another attractive outcome over the previous period. The most recent performance was driven by a strong capital advance and stable income growth. The strong performances tallied during this two-year period coincided strong investment demand patterns. Institutions and private capital groups demonstrated their confidence in this market by actively pursuing properties for investment purposes. This confidence supported strong transaction closing volume. In the first half of 2019, $252.7 million in property sales was reported. The total surpassed the $224.5 million in sales reported in 2018. The strength of the market's demand cycle resulted in modest upward pressure on values. Competition for stable properties was intense, as investors looked to capitalize on the market's overall fundamental stability.

### MINOR VARIATION IN MARKET PERFORMANCE FORECAST

GOA multi-suite residential property sector trends forecast for the near term will mirror those of the recent past. Rental market conditions will remain some of the strongest in the country, driven by a stable and strong demand cycle. Economic, labour market, demographic and migration trends will continue to drive strong interest in rental accommodation across the region. Consequently, market vacancy will rest at or near the cycle low of less than 2.0%. New supply may push the average market vacancy rate slightly higher. However, demand will likely keep pace with new supply resulting in stable vacancy trend. Average rents will continue to rise, although growth will ease from the record pace of the past year. The overall strength of the rental market will continue to draw investment capital to the region. Competition for a limited number of properties offered for sale will remain brisk. Off-market opportunities will be highly valued. Properties with upside potential will also find an audience. Investors will seek to capitalize on the market's rent growth cycle and recent performance strength. Investment returns will continue to be attractive, which will add to the rationale for investment in this market. In summary, leasing and investment market conditions will continue to stabilize over the near term, which will drive investment activity.

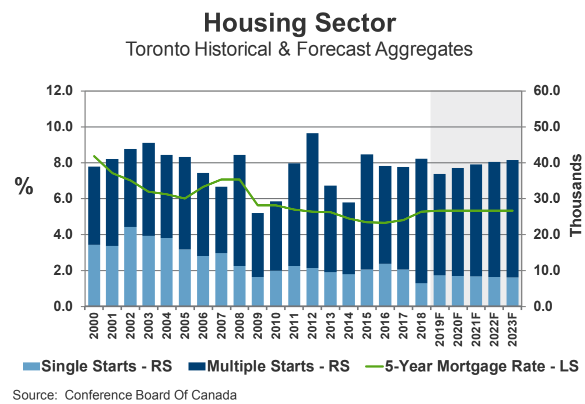
## ECONOMIC SNAPSHOT

The GTA economic growth trend has slowed steadily over the past two years, following a four-year run of robust expansion. Output was projected to rise by roughly 2.0% this year, following a slightly stronger performance in 2018. Prior to 2018, economic growth had averaged 3.2% annually from 2014 to 2017. While growth moderated in 2018 and 2019, job market conditions remained tight and generally healthy. The health of the local job market supported positive retail sales and household income growth trends. In 2020, economic growth was expected to stabilize.



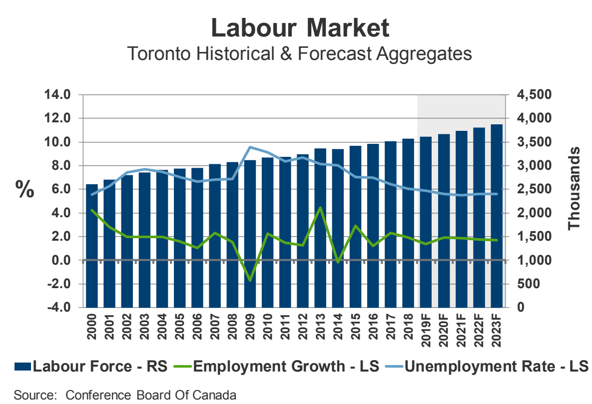

### MODERATELY HEALTHIER LABOUR MARKET CONDITIONS OBSERVED

The GTA labour market exhibited moderately healthier fundamentals over the recent past, a performance that built on an already solid foundation. Job creation activity was surprisingly robust through the first three quarters of 2019. Total employment was projected to rise roughly by 2.5% over the full year, up from a still healthy 1.9% in 2018. The 2019 gains were expected to drive the regional unemployment rate down below 6.0% mark. The tightening was in keeping with the broader labour market performance theme of the recent past.




### MANUFACTURING GROWTH WAS MODEST

Manufacturing sector output continued its modest rise recently. Sector output was forecast to rise 1.8% in 2019, only slightly ahead of the 1.7% average annual advance recorded between 2015 and 2018. The moderate growth trend was a byproduct of the reluctance of manufacturers to invest in their operations. Manufacturing investment levels have been relatively weak for several years, despite strong U.S. demand for Canadian exports and a low dollar. Looking ahead, expansion was expected to remain relatively muted, given disruptions in the global trade market and weaker automotive sector performance.

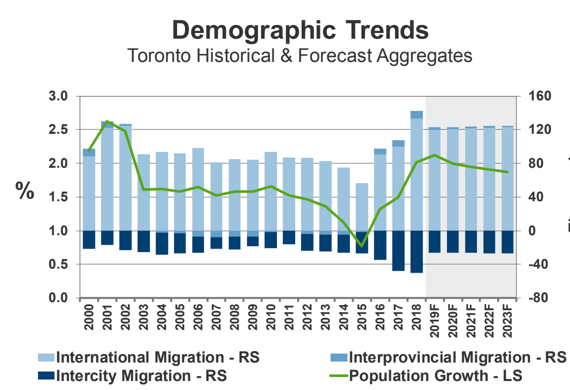



### POSITIVE CONSTRUCTION SECTOR MOMENTUM PREVAILED

Positive momentum continued to characterize the GTA's construction sector during the past year. The sector was tracking an increase in output of 2.4% in 2019, which was only moderately lower than the decade average. Next year, output was projected to surge by 3.4%, given a plethora of projects expected to begin. Non-residential construction will continue to be the sector's growth leader, driven by several office buildings in the region's pipeline of projects. Positive construction sector momentum was expected to continue to unfold over the next few years.

### STABLE GROWTH TREND FORECAST

A stable economic growth trend is forecast for the GTA over the next few years. The CBOC is projecting average annual growth of approximately 2.5% between 2020 and 2023. This expansion will support employment growth of just shy of 2.0% annually over the same time period. The unemployment rate should rest below the 6.0% mark. Tight conditions will drive wages and retail sales moderately higher over the forecast period. Housing demand will also gradually strengthen, which will support increased new construction activity. The health of the region's economic outlook will attract immigrants, thereby increasing rental demand. In short, a stable and positive economic growth outlook is forecast for the GTA over the next few years.



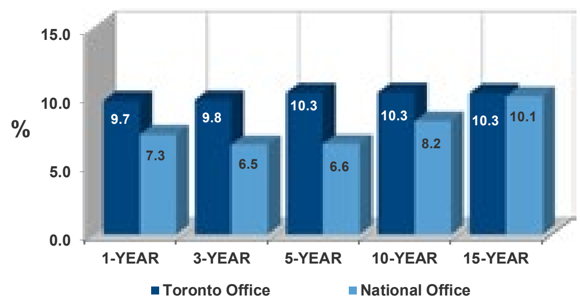
## TRENDING STATISTICS

| FUNDAMENTALS | Δ YTD | 1-YEAR OUTLOOK |
|---|---|---|
| Vacancy Rate | ▼ | — |
| Net Absorption | ▲ | — |
| Lease Rates | ▲ | ▲ |
| New Supply | ▲ | — |

The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).

### Historical Performance

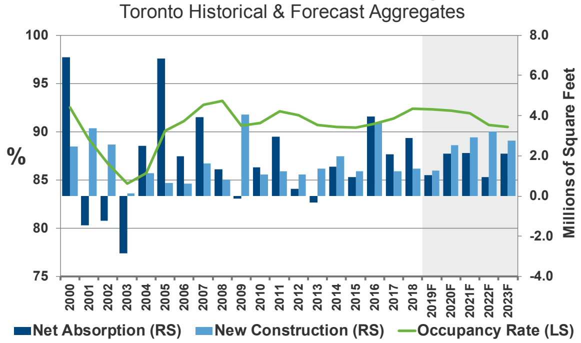
For The Period Ending June 2019




Source: © MSCI Real Estate 2019

### Office Demand & Supply

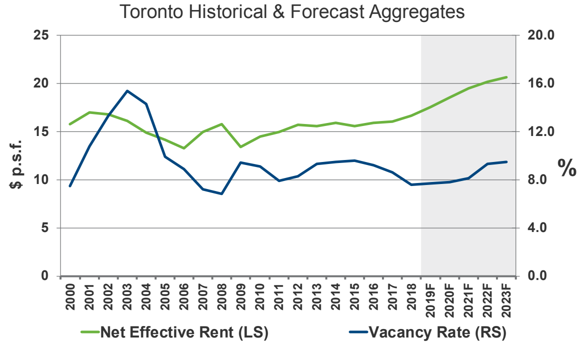
Toronto Historical & Forecast Aggregates




Source: CBRE Limited; CBRE Econometric Advisors

### Office Rent & Vacancy

Toronto Historical & Forecast Aggregates




Source: CBRE Limited; CBRE Econometric Advisors

## SUPPLY BECAME INCREASINGLY CONSTRAINED

Available supply has become increasingly constrained across much of the GTA office leasing market. In the downtown submarket, vacancy decreased 80 bps year-over-year to 2.3%, as of the third quarter of 2019. Over the same 12-month period, class A options dwindled as vacancy dropped 70 bps to a cycle-low of 6.5%. Supply also became more constrained in the suburbs, with a 190-bps vacancy rate decline reported to 11.9%. Over the past few years, supply constraints have been driven by the market's healthy demand cycle. Expansion activity was commonplace during this period. Shared workspace and technology companies were most active in gobbling up space initially downtown and then in midtown and the suburbs. The only GTA region with a reasonable supply of available space was GTA West, where vacancy stood at 13.5% as of the end of the third quarter of 2019. Increasingly constrained supply over the past few years has driven rents progressively higher. Rents have reached record highs in most GTA submarkets. Rents have more than reached levels to justify new development. There was 9.2 million square feet of new supply under construction as of the end of the third quarter of 2019. At some point over the next few years, these new developments will provide additional space for lease in a market where supply has become increasingly constrained.

## BULLISH PHASE OF THE CYCLE WAS PROLONGED

The bullish phase of the GTA office property investment market cycle was prolonged over the recent past. Recent performance characteristics indicated the bullish phase of the cycle had been extended. GTA office properties contained in the MSCI Index registered an attractive annual average return of 9.7% for the year ending June 30, 2019. The return was the second highest of the eight markets tracked and bested the broader index by a wide margin. Further evidence that the bullish phase of the cycle had been prolonged was the overall strength of the market's demand patterns. Core properties across the region were some of the most highly valued by the investment community. When core properties were offered on the open market for sale, a range of groups expressed interest. Institutions and private capital competed intensely to increase their exposure to this market. Downtown properties were the most popular, given recent and projected rent growth patterns. Generally, there was more than one bid submitted, while vendors had little trouble achieving their pricing objectives. The broader strength of the market's demand trend was evidenced in recent transaction volume totals. During the first half of 2019 a total of $1.9 billion in sales was reported. Previously, new benchmark transaction volume annual highs were set at $4.2 billion and $4.3 billion in 2017 and 2018, respectively. The 2019 transaction pace was a further indication that bullish phase of the cycle had been prolonged over the recent past.

## VARIATION IN SECTOR CHARACTERISTICS WILL BE MINIMAL

There will be minimal change in GTA office property sector characteristics over the near term. Supply constraints will continue to hold firm across the market. Downtown space will be in short supply and suburban options will also gradually dwindle. At the same time, leasing demand will outdistance supply. This dynamic will continue to support peak rents in most nodes. Landlords will be able to dictate lease terms, given an advantaged negotiating position. Leasing market strength and the market's depth and breadth will attract investors. Investors will be eager to increase their GTA portfolios, given the market's position as the nation's business driver. Therefore, investment activity will be robust, as groups compete for core properties offered for sale. The demand pressure and forecast rent growth will create a competitive bidding environment. In short, there will be few changes in sector performance characteristics over the near term.

### LEASING MARKET DEVELOPMENT ACTIVITY SPIKED

There was a sharp increase in construction activity in the GTA industrial leasing market reported recently. By the three quarter mark of 2019, 15.4 million square feet of industrial space was under construction across the GTA, compared with a modest 5.6 million square feet a year ago. The uptick in activity was in part driven by the lack of availability in the market's existing inventory of buildings. Availability levels have held at or near to record-low levels across the market over the past year. The GTA East, GTA West, GTA Central and GTA North districts registered availability rates of less than 2.0%, as of the end of the third quarter of 2019. At these levels, tenants found it extremely difficult to source space in the existing building inventory in which to expand or relocate. As a result many organizations were forced to look at new construction as an alternative. The availability shortfall was more pronounced for tenants in the market for a minimum of 150,000 square feet of space. The availability shortfall drove rents to new benchmark highs over the recent past. GTA rents had reached levels required to justify the current economics of new construction. Developers were not only confident that rents would justify investing in new construction projects, they also believed market demand would lead to the successful lease up of the newly-built vacancy. Over the past few years, warehouse and distribution and consumer goods companies had increased their footprints. The strength of the market's demand cycle supported the GTA development activity spike of the past year.

### INVESTMENT MARKET STRENGTH REPORTED

The GTA industrial investment property market continued to build on its recent strength over the past year. The market continued to generate strong investment performance patterns. A stellar 23.0% average annual return was posted in the MSCI Index over the 12-month period ending June 30, 2019. The return was 750 bps better than the national industrial property class average and was more than three times higher than the total index average over the same time period. To a large extent, the performance was boosted by cap rate compression in addition to healthy income growth. The rate at which GTA industrial investment properties were sold was an indication of the market's ongoing strength. During the first half of 2019, a total of almost $1.7 billion of industrial property was sold. Previously, $5.1 billion in sales was reported for 2018, which was an historic high. This activity was a function of strong demand patterns. Institutions and private capital continued to pour funds into a sector with defensive characteristics and a healthy rental growth outlook. Competition for high-quality assets was relatively fierce, resulting in multiple and aggressive bid scenarios. Competition between investors was another indication of the market's recent strength.

### SUCCESSFUL RUN TO CONTINUE

The GTA industrial sector is expected to continue to outperform over the near term. Leasing market conditions will remain very tight, with availability rates holding below the 2.0% threshold. With few available options, tenants will be forced to contend with the rising cost of real estate. New supply will provide options for a relatively small number of larger users. However, the volume of square feet built will fall short of demand. Rent growth will continue to boost investment performance, as will modest upward pressure on values. The strong leasing outlook will draw investors to a market with considerable depth and breadth, as well as a long track record of positive performance. A range of investment groups will look to this market as a safe place to invest at relatively attractive yields. Assuming product availability, transaction volume will remain brisk. However, matching the record pace of 2018 may prove to be difficult. Bidding will remain aggressive, given the belief within the investment community in the market's long-term strength and near-term expectation of outperformance.

### TRENDING STATISTICS

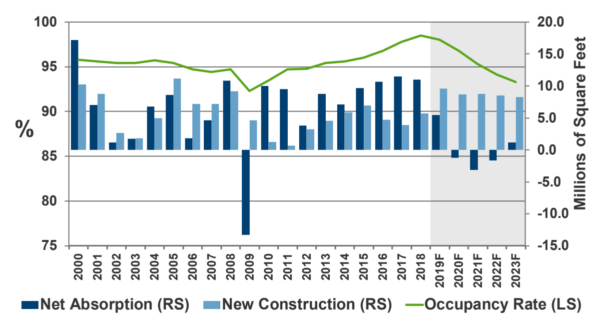
| FUNDAMENTALS | Δ YTD | 1-YEAR OUTLOOK |
|---|---|---|
| Vacancy Rate | — | — |
| Net Absorption | — | — |
| Lease Rates | ▲ | ▲ |
| New Supply | — | ▲ |

The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).

**Historical Performance**
For The Period Ending June 2019

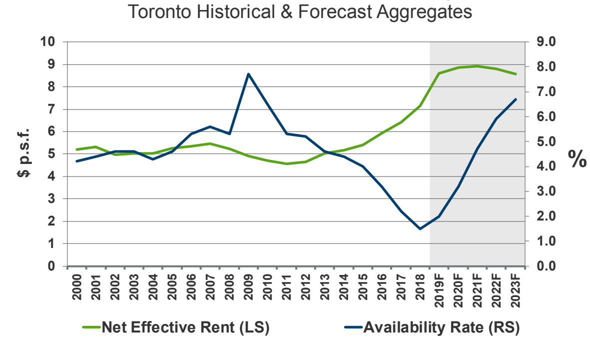

Source: © MSCI Real Estate 2019

**Industrial Demand & Supply**
Toronto Historical & Forecast Aggregates




Source: CBRE Limited; CBRE Econometric Advisors

**Industrial Rent & Vacancy**
Toronto Historical & Forecast Aggregates




Source: CBRE Limited; CBRE Econometric Advisors

## TRENDING STATISTICS

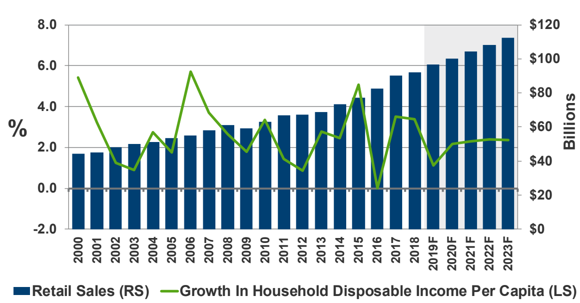
| FUNDAMENTALS | Δ YTD | 1-YEAR OUTLOOK |
|---|---|---|
| Vacancy Rate | ▼ | — |
| Net Absorption | ▲ | — |
| Lease Rates | — | — |
| New Supply | — | — |

The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).

**Historical Performance**
For The Period Ending June 2019

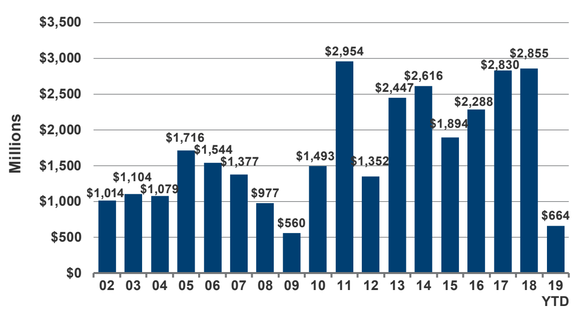

Source: © MSCI Real Estate 2019

**Retail Conditions**
Toronto Historical & Forecast Aggregates




Source: Conference Board Of Canada

**Investment Activity**
Toronto Retail Investment Volume To June 2019




Source: CBRE Limited

### LEASING MARKET SHOWED SIGNS OF STABILITY

The GTA retail leasing market has exhibited several signs of stabilization recently, despite continued industry uncertainty. During the second half of 2018, market vacancy began to stabilize. As 2018 ended, the average vacancy rate for almost 109.0 million square feet of space tracked by CBRE was 5.0%, down 120 bps over the preceding six-month period. This marked an end to an upward vacancy trend that stretched 12 months ending at the midway mark of 2018. During this period, vacancy climbed 170 bps to 6.2%. A further 50-bps decline was recorded during the first half of 2019. The emergence of a more stable leasing demand trend unfolded over the recent past. Several retailers expanded in this market recently, a trend that included a range of new concepts. Discounters and luxury brands also continued to expand, albeit at a more moderate pace. Various grocery stores also increased their footprint to service new markets. A variety of fast food restaurant chains opened new outlets. The market's demand supply stabilization impacted the rental rate cycle. Averages were largely unchanged year-over-year for prime sites. Modest downward pressure on more challenged locations remained a market constant. In short, GTA leasing market characteristics observed over the past year mirrored those of the recent past.

### INVESTMENT MARKET POSITIVES OBSERVED DESPITE HEADWINDS

The GTA retail sector performance of the past year included several positive aspects, despite continued broader industry headwinds. Demand for prime assets remained relatively positive. Investors exhibited interest in centres with solid performance track records. However, most exercised increased caution when underwriting acquisitions. Lower quality assets across the region generated relatively low levels of interest, when compared with much of the post-recession period. Despite some hesitation on the part of investors, transaction volume remained brisk. Over the first six months of 2019 a total of $1.1 billion in investment sales was recorded. This pace was moderately slower than the first half of 2017 and 2018, when transaction volume averaged $2.9 billion annually. The GTA retail sector's recent investment performance was another market positive reported recently. Properties contained in the MSCI Index posted an annual average return of 6.2%, for the 12-month period ending June 30, 2019. The result was the strongest of the nine Canadian cities tracked and was well above the retail sector average. To some extent, investment market performance was dampened by broader industry trends that have been in place for the past few years. However, despite these headwinds the market has continued to exhibit positive characteristics over the recent past.

### FLUCTUATION IN PERFORMANCE TRENDS WILL BE MINIMAL

There are few changes in market performance anticipated over the near term, against a backdrop of broader retail industry evolution. Leasing market demand will remain inconsistent. On the one hand expansion activity will boost demand, with store closures offsetting some of this progress. The net impact of these two trends will be a modest downward vacancy trend, which was also the case over the past year. On average, the rental rate trajectory will be flat, with some downward pressure observed in smaller strip centres. Stable leasing market fundamentals will help drive investment performance. As was the case over the recent past, returns are expected to continue to range at or near the mid-single digits. Income will be the main driver of this performance. Investors will target the highest quality assets in this market, with lower quality properties garnering more modest interest levels. In all acquisition scenarios, income performance and the long-term asset viability of most assets will be scrutinized more closely. In short, material change in market performance is unlikely over the near term.

## LANDLORDS HELD THE UPPER HAND

Conditions in the GTA multi-suite residential rental market continued to favour its landlords over the recent past. The strength of the market's demand cycle ensured landlords were able to rent out their vacant units relatively easily. In most cases, landlords had plenty of options when securing tenants for their properties. Conversely, tenants had few available units from which to choose when looking to relocate or find their first home. Landlords were also able to dictate lease terms, given a very low vacancy environment. GTA average vacancy continued to range below the 2.0% level in 2019, having steadily declined over the past couple of years. Landlords faced minimal competition from the rental condominium sector, as vacancy was also low in this segment of the market. In addition to being able to dictate terms and having several prospective tenants from which to choose, landlords were able to command higher rents. The market average rent continued to climb in 2019, due largely to the demand supply imbalance. As a result, landlords were able to bolster their bottom lines. In summary, GTA multi-suite rental market conditions reported over the past year were more favourable to the sector's landlords.

## INVESTMENT MARKET CONTINUED ITS IMPRESSIVE RUN

The GTA multi-suite residential rental sector continued to register largely stable and positive characteristics over the recent past, in extending the current phase of the cycle. The recent trend of healthy investment performance was sustained. Properties tracked in the MSCI Index posted an annual average return of 13.4% for the 12-month investment horizon ending June 30, 2019. Though down from the previous period, the result was attractive nonetheless. Another indicator of the market's continued strength was its recent investment demand pattern. Institutional and private equity groups competed intensely in order to increase their exposure to the region and sector. Properties made available were generally well-received by multiple parties. The prospect of continued rent growth and the sector's reputation as a defensive investment resulted in aggressive bids at cycle-low cap rates. The market's demand cycle supported above-average sales activity. In the first half of 2019, a total of $1.1 billion in transaction volume was reported, on the heels of a stellar $2.7 billion during the 2018 calendar year. The 2018 figure represented a 19-year annual high. In summary, stable and healthy market characteristics registered over the recent past represented an extension of the current phase of the cycle.

## RECENT SECTOR STRENGTH WILL CONTINUE

The recent strength of the GTA multi-suite residential rental sector will continue over the near term. Rental market conditions will remain tight, with vacancy continuing to hover close to the 2.0% mark. Prospective tenants will struggle to source suitable rental accommodation across the region. The secondary condominium rental market will provide little competition, as availability in this segment of the market remains low. Demand will outdistance supply by a wide margin, which will continue to support market imbalance. The demand-pressure will persist, driven by strong migration patterns, an influx of international students, and demographic trends. The combined impact of healthy demand and low vacancy will drive rents moderately higher. Landlords will continue to enjoy record-high occupancy and rental income growth. At the same time, investors will continue to compete for assets with stable income and defensive characteristics. Assuming availability, transaction volume will remain well above the long-term average. High-rise buildings on mass transit lines will be highly sought after, while medium and low-rise properties will have little trouble finding buyers. As in the past, competition levels among investors will remain high. In some cases, buyers will push pricing higher, resulting in modest cap rate compression. This potential is indicative of the broadly positive and stable market outlook forecast over the near term.

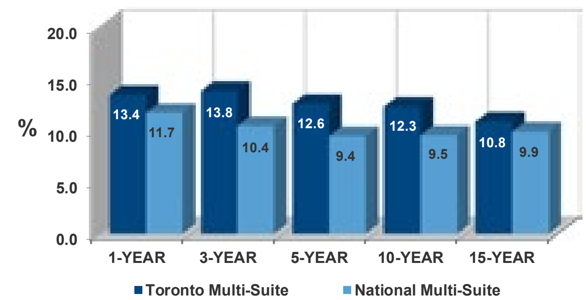
## TRENDING STATISTICS

| FUNDAMENTALS | Δ YTD | 1-YEAR OUTLOOK |
|---|---|---|
| Vacancy Rate | — | — |
| Net Absorption | — | — |
| Lease Rates | ▲ | ▲ |
| New Supply | ▲ | ▲ |

The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).

### Historical Performance

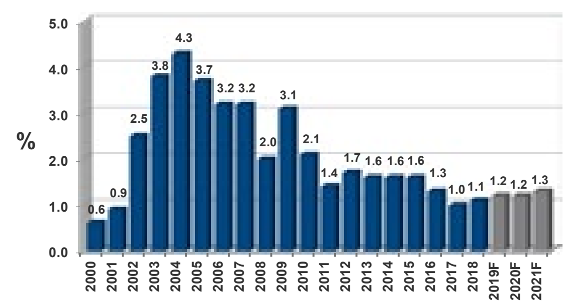
For The Period Ending June 2019




Source: © MSCI Real Estate 2019

### Average Rental Vacancy

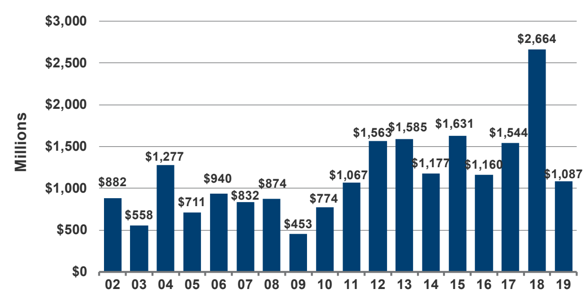
Toronto Apartment Structures Of Three Units & Over



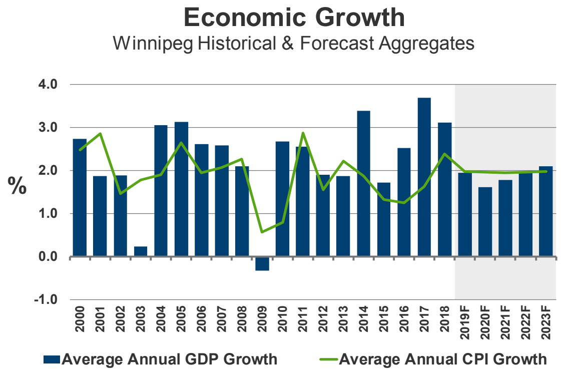

Source: CMHC

### Investment Activity

Toronto Multi-Suite Investment Volume To June 2019



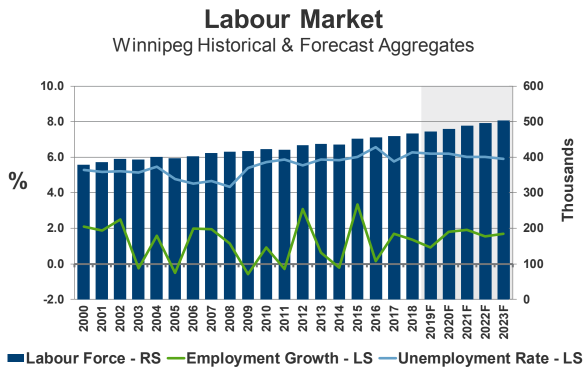

Source: CBRE Limited



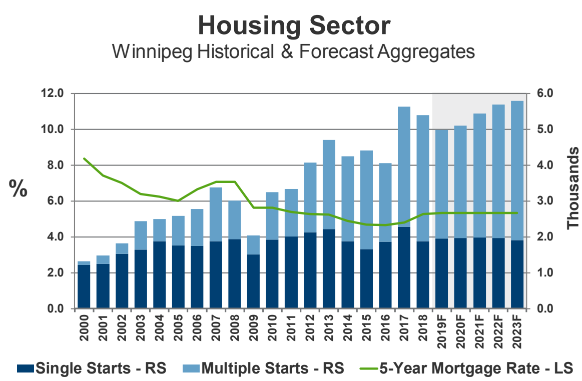

Source: Conference Board Of Canada * GDP at Basic Prices based on 2012 dollars, CPI base year (2002=1.0)

## ECONOMIC SNAPSHOT

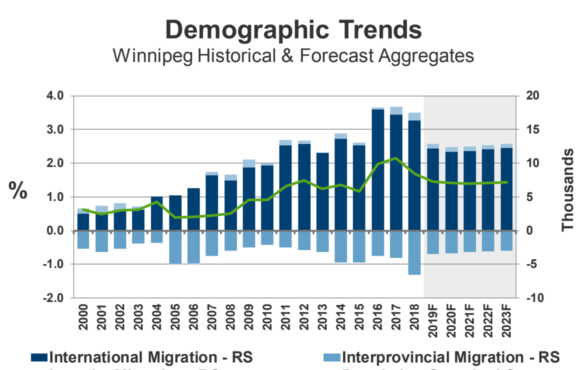
GWA economic growth slowed during 2019, following a two-year period when Real GDP increased by more than 3.0% on an annual basis. Despite the moderation, a respectable increase in output of 1.7% was projected. The construction sector was a growth leader in 2019, led by the non-residential activity. The broader services and manufacturing sectors were also important sources of economic expansion. By the end of 2019, economic expansion was expected to have bolstered the region's labour market, retail sales growth trend and increased housing demand.




Source: Conference Board Of Canada




Source: Conference Board Of Canada




Source: Conference Board Of Canada

### LABOUR MARKET PERFORMANCE PATTERNS WERE HEALTHY

Consistently positive labour market conditions were generated over the past year, in extending the trend of the past few years. The CBOC projected the creation of an additional 12,000 jobs during 2019-2020. In 2019, the construction and primary and utilities sectors were expected to generate the strongest increases in employment at 4.5% and 17.3%, respectively. Growth will be relatively muted for the region's largest employment sectors. Labour market conditions were expected to tighten further in 2019, with the unemployment rate falling below the 5.5% mark. The downward trend was in line with labour market performance patterns reported over the past few years.

### CONSTRUCTION SECTOR GROWTH MODERATED

The GWA construction sector growth trend moderated over the past year, following a period of robust expansion. Sector output was expected to increase by a solid 3.1% in 2019. Previously, the sector had fired on all cylinders, resulting in a 7.3% and 11.3% gain in 2017 and 2018, respectively. Both the residential and non-residential sectors contributed to this period of outperformance. Recently, however, residential construction activity slowed sharply. In 2019, multi-family construction was expected to decline sharply, thereby more than offsetting a modest rise in single-detached activity. Over the next few years, residential construction was expected to remain well below recent levels, while non-residential activity surged. In 2019, the moderation of the construction sector growth rate was in keeping with the national trend.

### MATURE PHASE OF THE ECONOMIC CYCLE TO CONTINUE TO UNFOLD

The mature phase of the GWA economic cycle will continue to unfold over the near term. As a result, economic output will increase at a more moderate pace over the next few years. The CBOC is projecting Real GDP will expand by an annual average of 2.0% between 2020 and 2022. Growth had peaked in 2017, when economic output surged by 3.7%. Subsequently, the region's growth rate dipped 60 bps to 3.1% in 2018 and is tracking a further slide of a full percentage point this year. To some degree, the more moderate growth trend forecast over the next few years will impact the region's labour market performance. Job growth will also moderate over the forecast period, following a relatively long period of healthier results. In addition, retail sales growth will begin to ease this year and next, before a stronger trend emerges. Housing construction activity will follow a similar path to that of the broader economy the next few years, as the sector gradually stabilizes. Housing demand will be supported by above-average immigration volume, driven by the ongoing success of the Manitoba Provincial Nominee Program. This activity will coincide with the maturing of the region's economic cycle.

### LEASING MARKET GAINS HAVE BEEN MODEST

Leasing market gains in the GWA office sector have been relatively modest, following the completion of the first new downtown office tower in well over a decade. Demand patterns have been moderately healthy, driven in large part by a moderate economic growth trend. Broader services sector growth has been a major demand-driver, which supported a relatively moderate positive absorption pattern over the recent past. According to CBRE figures, a modest 99,655 square feet of office space was absorbed in the first three quarters of 2019. This followed the 116,153 square feet absorbed during the 2018 calendar year. Much of this activity was focused in suburban locations, where tenants were able to secure lower cost premises. Generally, tenants have been able to secure space at discounted rates with free rent and other concessions across much of the market. Healthy absorption patterns translated into a more stable vacancy trend. The market average vacancy rate rested at 10.6% for all classes of space combined at the end of the third quarter of 2019. The rate was up just 20 bps from the end of 2018. Previously, vacancy had spiked almost 300 bps in the second half of 2018, due in large part to backfill space resulting from the relocation of tenants to the newly constructed 365,000 square foot True North Square building. This vacancy was expected to be gradually absorbed over the near term, a period that will be characterized by continuous and moderate leasing market progress.

### DOMINANT INVESTMENT MARKET THEME WAS STABILIZATION

The dominant GWA office property investment market theme of the recent past was stabilization. Demand fundamentals remained generally positive, with investors showing a willingness to invest in this market at prevailing yields. Institutional and private groups continued to look to the GWA office sector as a stable and attractive investment. Despite the positive investor sentiment, buyers struggled to source properties with strong tenant rosters in prime locations. Generally speaking, demand continued to outdistance supply. Despite the shortfall, activity levels have been relatively strong recently. Colliers International reported $44.9 million in sales of office buildings in the GWA during the first six months of 2019. This followed the $120.6 million in 2018, which represented a four-year annual high. Recent transaction volume totals were indicative of the sector's stable demand trend. The broader market theme of stabilization was also evidenced in recent investment performance patterns. Properties contained in the MSCI Index registered an annual average total return of 5.1% for the year ending June 30, 2019. This result represented a third consecutive period of moderately attractive performance. Income growth was the main performance-driver over this period, as valuations have been generally flat. The value trend of the recent past was in keeping with the broader investment market theme.

### LEASING CONDITIONS WILL FAVOUR THE MARKET'S TENANTS

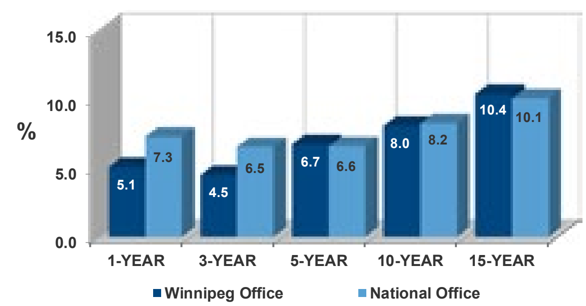
Leasing market conditions will continue to favour the region's tenants over the next few years. The opening of the True North Square development in the fall of 2018 added a significant volume of newly built and existing vacant space to the downtown market. As a result, vacancy levels will continue to range in the double-digits through the balance of this year and into 2020. Looking further into the future, Wawanesa's consolidation into a new 300,000 square foot tower at 228 Carlton Street in 2023 will add even more new vacancy to the market. Therefore, it is reasonable to expect average market rents will be discounted over the next few years. Inducements and free rent periods will be offered to tenants in order to lease some of the excess space in the market. Landlords will be forced to compete in order to secure tenants in their properties over the next few years. For the most part, however, leasing market conditions will favour the region's tenants.

**TRENDING STATISTICS**

| FUNDAMENTALS | Δ YTD | 1-YEAR OUTLOOK |
|---|---|---|
| Vacancy Rate | — | — |
| Net Absorption | — | — |
| Lease Rates | — | — |
| New Supply | — | ▼ |

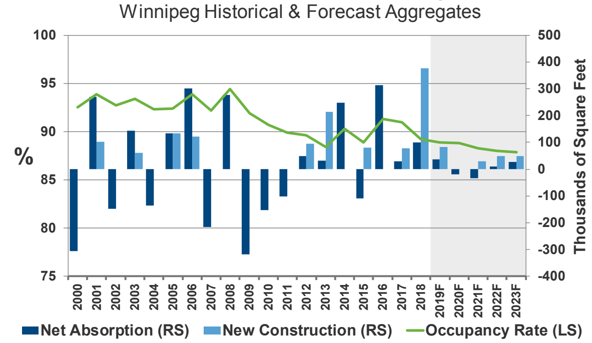
The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).

**Historical Performance**
For The Period Ending June 2019



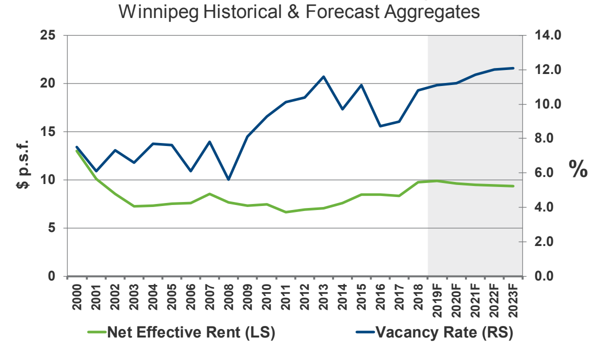

Source: © MSCI Real Estate 2019

**Office Demand & Supply**
Winnipeg Historical & Forecast Aggregates




Source: CBRE Limited; CBRE Econometric Advisors

**Office Rent & Vacancy**
Winnipeg Historical & Forecast Aggregates




Source: CBRE Limited; CBRE Econometric Advisors

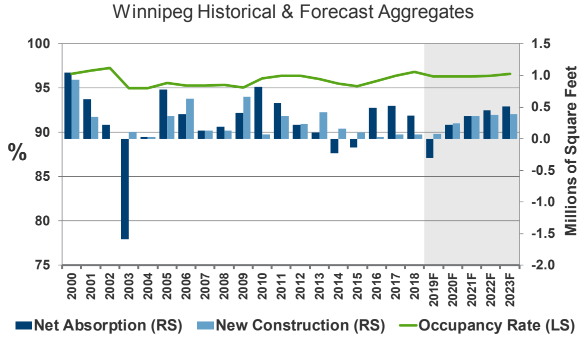
| TRENDING STATISTICS | | |
|---|---|---|
| FUNDAMENTALS | Δ YTD | 1-YEAR OUTLOOK |
| Vacancy Rate | ▲ | ▲ |
| Net Absorption | — | — |
| Lease Rates | ▲ | ▲ |
| New Supply | — | ▲ |

The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).

### Historical Performance
For The Period Ending March 2019*

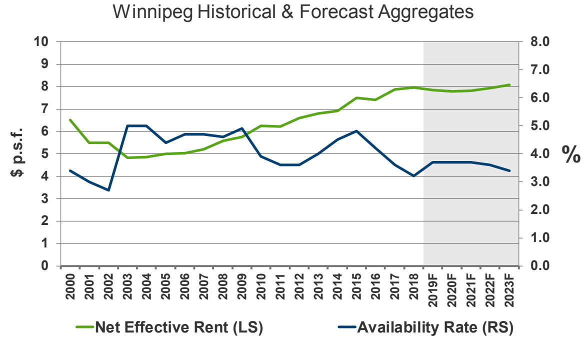

Source: © MSCI Real Estate 2019 *latest data available

### Industrial Demand & Supply
Winnipeg Historical & Forecast Aggregates




Source: CBRE Limited; CBRE Econometric Advisors

### Industrial Rent & Vacancy
Winnipeg Historical & Forecast Aggregates




Source: CBRE Limited; CBRE Econometric Advisors

## DEMAND-CYCLE FUELLED NEW CONSTRUCTION SURGE

The health of the GWA industrial leasing market demand-cycle of the past few years has fuelled a surge in new construction activity. Approximately 600,000 square feet of new industrial space was under construction across the region scheduled for completion in the second half of 2019, according to Colliers International figures. Major projects included Quadreal's Northwest Business Park and Brookside Industrial Park. The uptick in development activity was the result of a robust demand-cycle that has been a market fixture since early 2017. A broad range of warehouse and manufacturing businesses expanded during this period. In some cases, these tenants secured newer, state-of-the-art premises. The expansion of the region's economy fuelled much of this activity. The prolonged period of healthy leasing demand resulted in the absorption of a significant volume of available industrial space across the region. This activity drove market availability down to a cycle-low of 3.2% at the end of 2018. The rate edged slightly higher to 3.6%, as of the end of the third quarter of 2019. As 2019 progressed, there were indications that the demand-cycle had begun to soften. However, demand remained sufficiently robust to justify the surge in construction activity that unfolded in this market over the past year.

## INVESTMENT ACTIVITY SPIKED

An accelerated pace of industrial investment property sales was reported in the GWA recently, which was in keeping with the national sector trend. Transaction activity spiked in 2018, resulting in annual sales volume of $288.1 million. The total represented an annual high dating back 19 years. Activity slowed significantly in the first half of 2019, due to low availability levels rather than a demand downturn. The 2018 spike was the result of a small number of large transactions. While transaction volume spiked, there were few significant changes in market dynamics recorded over the recent past. National and local investment groups continued to look to the GWA industrial sector as a source of attractive yields and stable income. Local groups were more successful in acquiring properties in this market, given the volume of smaller properties made available. Institutional buyers were less active, as fewer bigger ticket properties were brought to market. However, in most cases product offerings received strong interest and generally sold quickly. At the same time, vendors were able to achieve their pricing objectives. In general, property values stabilized, although some buyers exhibited a willingness to bid aggressively on properties that offered a measure of downside protection and stable income performance. The overall stability of the GWA industrial investment market of the recent past coincided with an accelerated pace of property sales.

## INVESTMENT ACTIVITY WILL REMAIN ELEVATED

Investment sales activity in the GWA industrial property market will remain elevated through the balance of this year and into 2020. This forecast assumes product availability. Investors will continue to exhibit confidence in acquiring assets in the GWA industrial sector at prevailing yields. The near-term leasing outlook will add to the rationale for investing in this market. Leasing market conditions are expected to remain tight, with vacancy holding close to the cycle-low in to 2020. Leasing demand will remain healthy, driven by a solid economic growth trend. Warehouse, logistics and manufacturing companies will absorb space at a relatively healthy rate, including newly constructed offerings. New construction projects will be absorbed prior to or shortly after completion. Minimally, rents will continue to hold at 2018 levels, although moderate growth is a more likely scenario given ongoing shortages of functional space. In short, investment activity is expected to remain brisk over the near term, with investors looking to acquire properties in a market with a solid outlook and attractive yields.

## LEASING MARKET PROGRESSION RECORDED

Progress was reported in the GWA retail leasing market recently, driven in part by a moderately positive demand trend. The market's average vacancy rate has fallen over the past year, having risen sharply in 2017 and 2018. The market average of 7.4% recorded at the midway mark of 2019 was markedly healthier than the 10.5% cycle-high reported a year earlier. The vacancy decline was concentrated in the community and neighbourhood centre market segment. Both power and regional centre vacancy was relatively stable over the same time period. The improvement in the market's vacancy profile of the recent past was a byproduct of moderately positive leasing demand patterns. Leasing activity in some of the space previously occupied by Sears was a positive for this market. The former Sears space at Garden City Shopping has been leased recently. A 43,000 square foot Seafood City grocery store and Michael's were scheduled to open shortly. At Kildonan Place, the former Sears space was expected to be transformed into a grocery store, movie theatre and an expanded food court. The leasing market demand cycle was also boosted by expansion in a number of other retail sub-categories. Dollar stores and fitness centres have expanded in this market recently. In short, progress recorded in the GWA leasing market over the recent past was a byproduct of a moderately positive demand trend.

## INVESTMENT MARKET TRENDS VARIED

There was significant degree of variation in GWA retail property sector investment market trends observed over the recent past. One of the more positive trends was the rate at which retail properties transacted. During the first half of 2019, a total of $53.3 million in retail property sales was reported. In 2018, sales reached a four-year annual high of $135.4 million, according to Colliers International figures. These totals indicated investors were willing to invest capital in this market. Institutional investors continued to target core properties with strong performance histories, as well as those with grocery, drug and liquor store tenants. In keeping with the historic trend, local private capital groups tended to target smaller assets, often with value-add attributes. In general, properties brought to market were sold to a willing buyer. While there were several positive investment market trends observed recently, there were also signs of weakness. The most obvious of these was markedly weaker investment performance. Properties contained in the MSCI Index generated a negative annual average total return of 2.9%. The negative result was a product of a cumulative capital decline of 7.7% over the period. This performance weakness unfolded during a period of significant variation in market trends.

## LEASING MARKET PROGRESS WILL BE MODEST

GWA leasing market conditions will continue to strengthen at a relatively modest pace over the near term. Regional economic expansion, while modest, will support positive job and retail sales growth trends. The resulting increase in spending will benefit the region's retailers. As a result, a modest number of new store openings will continue to characterize the market over the near term. Retailers will seek out expansion opportunities, thereby driving market vacancy gradually lower. The continued lease up and redevelopment of space formerly occupied by Sears will be another positive for this market. As 2020 progresses, rents will begin to stabilize. Slight upward pressure on prime space rents is not out of the question, as availability dwindles. The stability of the market's leasing trends will continue to draw investors. Some groups will look to acquire properties at a discount as values continue to erode. However, vendors with deep pockets will hold off on selling in a down cycle. Some owners will choose to reposition or redevelop properties to capitalize on the ongoing evolution of the broader retail industry. In the meantime, GWA leasing conditions will slowly improve.

## TRENDING STATISTICS

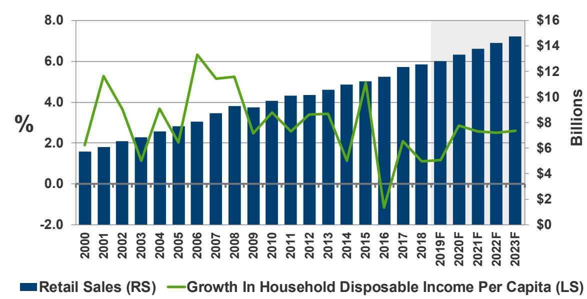
| FUNDAMENTALS | Δ YTD | 1-YEAR OUTLOOK |
|---|---|---|
| Vacancy Rate | ▼ | — |
| Net Absorption | ▲ | — |
| Lease Rates | — | — |
| New Supply | — | — |

The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).

**Historical Performance**
For The Period Ending June 2019

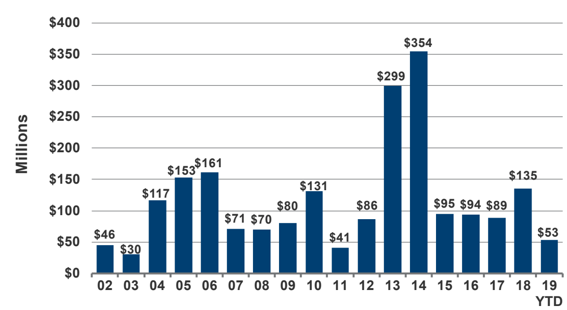

Source: © MSCI Real Estate 2019

**Retail Conditions**
Winnipeg Historical & Forecast Aggregates




Source: Conference Board Of Canada

**Investment Activity**
Winnipeg Retail Investment Volume To June 2019

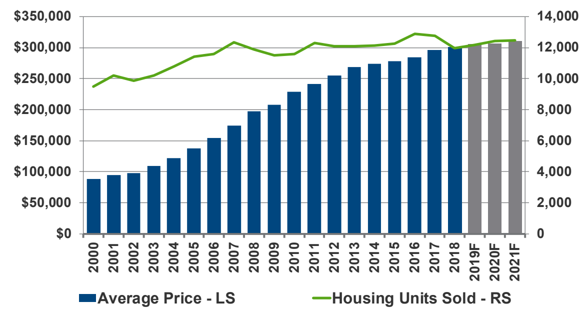



Source: Colliers International

| TRENDING STATISTICS | | |
|---|---|---|
| FUNDAMENTALS | Δ YTD | 1-YEAR OUTLOOK |
| Vacancy Rate | — | — |
| Net Absorption | — | — |
| Lease Rates | ▲ | ▲ |
| New Supply | — | — |

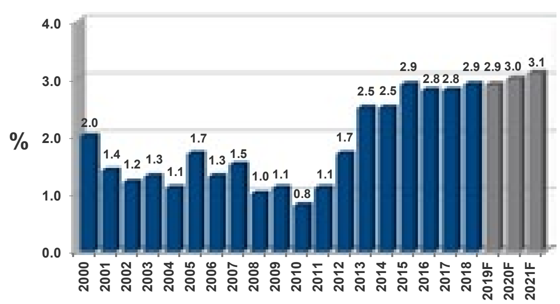
The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).

**Housing Market**
Pricing vs. Demand



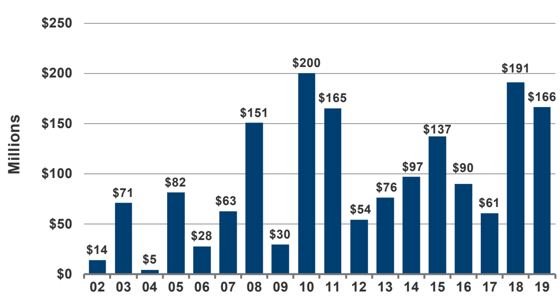

Source: CREA (MLS®); CMHC

**Average Rental Vacancy**
Winnipeg Apartment Structures Of Three Units & Over




Source: CMHC

**Investment Activity**
Winnipeg Multi-Suite Investment Volume To June 2019




Source: Colliers International

## RENTAL MARKET STRENGTH AND STABILITY WAS SUSTAINED

A period of sustained strength and stability was reported in the GWA multi-suite residential rental market. This strength and stability was evidenced in recent vacancy characteristics. The market average vacancy rate of 2.9% posted at the end of 2018 was unchanged from a year earlier. By unit size category, the two-bedroom rate edged higher, while all other unit size averages were largely stable. A stable and healthy vacancy rate trend was forecast for this region for the next couple of years as well. The health of the market's supply-side fundamentals of the recent past was driven by strong demand characteristics. Growth in the market's 65-plus and 20-34 age cohort populations was supportive of the rental demand cycle. Tighter mortgage rules and rising interest rates added to the rental demand pressure through 2018. In general, rental demand and supply balance in this market has been sustained during a period of elevated new construction activity. This balance continued to drive average rents higher. The CMHC's same-sample average rent increased 4.0% year-over-year as of October 2018, following a 3.9% rise over the previous 12-month period. While bolstering the bottom lines of property owners, this rent growth also offered further evidence of the market's strength and stability.

## INVESTMENT MARKET ACTIVITY SURGED

GWA multi-suite residential rental property sector investment sales peaked over the recent past, mirroring the national trend. A total of $191.4 million in property sales volume was reported in 2018, which represented the second highest annual total dating back to 2000. The first-half 2019 pace was even stronger, with a reported $166.2 million in transaction volume. The surge was driven by a vibrant and healthy demand cycle. Investors, both national and local, exhibited a willingness to acquire properties in a sector and market that they expected to provide a measure of downside protection and stable performance characteristics. Private equity was most active of buyer groups, which was in keeping with the region's long-term history. Most properties offered on the open market were transacted at near-peak pricing levels. In keeping with the national trend, concrete high-rise properties were the most highly coveted and expensive. Medium and low-rise properties were also popular, regardless of location. Investors were attracted to the market's rent growth outlook and long-term income stability. The strength of the broader sector outlook also supported the near-record pace of sales activity reported in 2018 and much of 2019.

## EXTENDED PERIOD OF STABILIZATION PREDICTED

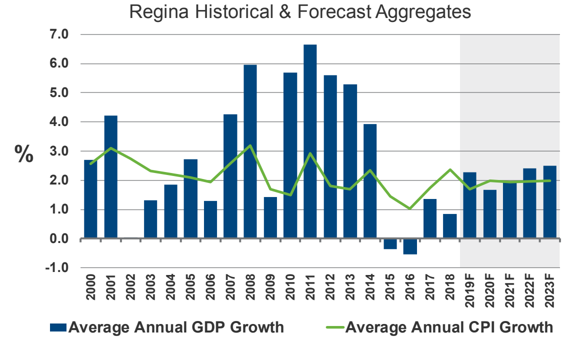
An extended period of stabilization is projected for the GWA multi-suite residential rental sector. In general, rental market conditions will remain favourable for the market's landlords over the next couple of years. Strong occupancy patterns and rent growth will solidify income streams and support positive investment performance characteristics. Vacancy will be absorbed relatively quickly and at peak pricing when units are vacated. This scenario will be the result of continuously healthy rental demand patterns. Rental demand will be driven by job market progression, increased immigration volume and demographic trends. The demand-pressure will support a low and stable vacancy rate. Rental market fundamentals will attract investors to the market. Investment sales activity will remain brisk. As in the past, private, local groups will be the market's main drivers. However, institutional groups will continue to look to the region for bigger ticket acquisitions. The demand cycle forecast over the near term will ensure property values continue to range near the cycle peak. Similarly, minor fluctuations in market cap rates are forecast. In short, the GWA multi-suite residential sector will continue to stabilize over the next few years, resulting in the extension of the current phase of the cycle.

## ECONOMIC SNAPSHOT

The GRA's (Greater Regina Area) Real GDP was projected to expand by 2.3% in 2019, after a modest 0.8% lift in 2018. Low commodity prices and China's decision to block canola exports from Canada limited growth and eroded regional business confidence. The firming of the region's growth trend over the past year had a positive impact on its labour market. Employment was forecast to rise by an above-average rate of almost 2.0% in 2019. Stronger employment patterns were expected to support solid retail sales and housing sector growth over the near term.

### Economic Growth

Regina Historical & Forecast Aggregates




Source: Conference Board Of Canada

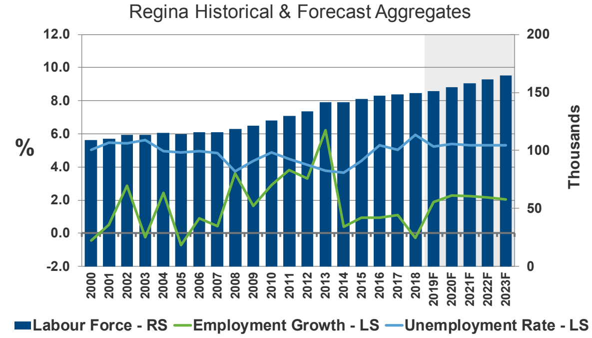
* GDP at Basic Prices based on 2012 dollars, CPI base year (2002=1.0)

### JOB MARKET CONDITIONS IMPROVED

GRA job market conditions improved during the past year, following a weak 2018 performance. A material rise in total regional employment of 1.9% was forecast for 2019. Previously, employment had contracted by 0.3% in 2018. The 2019 advance was expected to drive the regional unemployment down 60 bps to 5.3%, from 5.9% at the end of last year. Household income was also projected to increase in 2019, driven by the forecast improvement in the regional job market conditions.

### Labour Market

Regina Historical & Forecast Aggregates



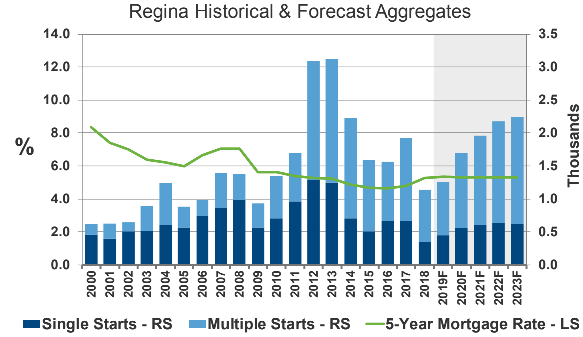

Source: Conference Board Of Canada

### MANUFACTURING SECTOR PERFORMANCE WAS POSITIVE

The GRA manufacturing sector performance of the past year was generally positive. In 2019, sector output was tracking a 2.6% advance, following a more robust 3.3% gain last year. The modest gearing down of the sector's growth cycle followed an eight-year period of rapid expansion. Between 2010 and 2018, sector output surged by an annual average of 4.6%. Sector employment was expected to stabilize this year. Previously, sector employment had spiked by 30.0% in 2017 and then contracted by 15.0% in 2018. The stable employment trend forecast for this year was in keeping with the positive broader sector outlook.

### Housing Sector

Regina Historical & Forecast Aggregates




Source: Conference Board Of Canada

### CONSTRUCTION SECTOR GROWTH CONTINUED

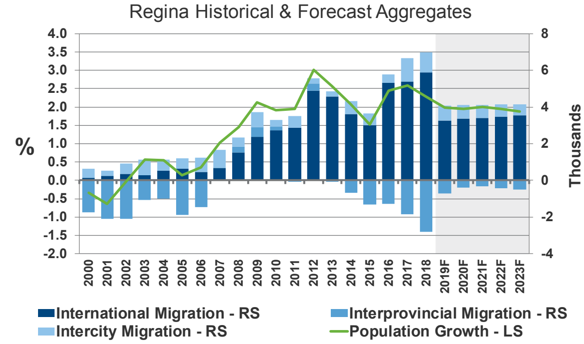
The construction sector's growth cycle was extended recently. Growth was projected to moderate in 2019, with forecast sector expansion of 2.5%. In 2018, a 3.5% advance was recorded. The gains of the past few years were a byproduct of ongoing work on the Regina Bypass. The project was set for an October 2019 opening, after which sector output was expected to decline. Oversupply in the residential market was also expected to reduce construction activity beginning in 2020. This could mean the end of the region's construction sector growth cycle, after its extension through most of 2019.

### FIRM EXPANSION TREND FORECAST

The GRA economy is projected to expand at a solid rate over the next few years. The CBOC is projecting output will rise by between 1.7% and 2.5% annually from 2020 to 2023. To some extent, growth will be limited by ongoing weakness in the commodities sector and an uncertain global trade outlook. Despite these challenges, retail sales growth will firm and housing starts will gradually strengthen. Employment trends are also expected to improve. The ranks of the employed will increase by an above-average 2.0% or greater over the forecast period. Labour market growth will offset much of this progress, ensuring the unemployment rate stabilizes. Job market tightness will persist, driven largely by a firm economic growth trend.

### Demographic Trends

Regina Historical & Forecast Aggregates

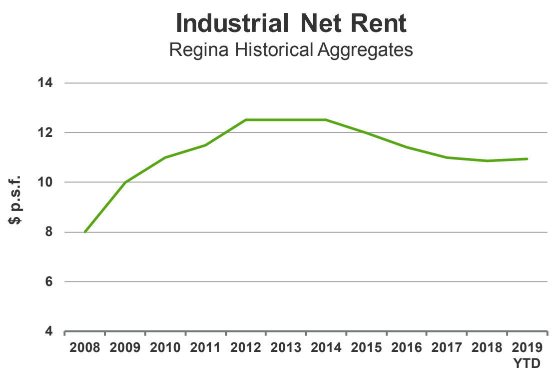



Source: Conference Board Of Canada

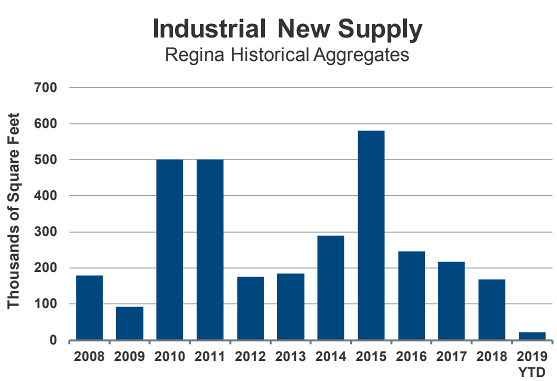
## TRENDING STATISTICS

| FUNDAMENTALS | Δ YTD | 1-YEAR OUTLOOK |
|---|---|---|
| Vacancy Rate | ▲ | ▲ |
| Net Absorption | ▼ | ▲ |
| Lease Rates | ▼ | — |
| New Supply | — | ▲ |

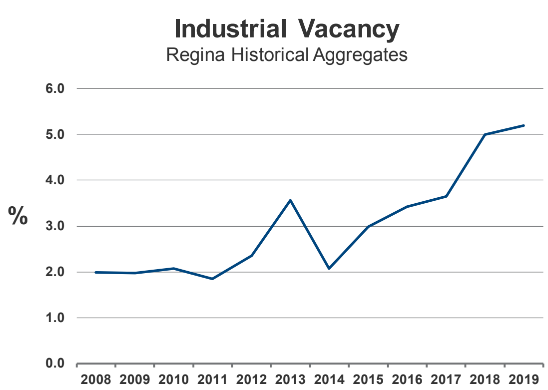
The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).




Source: Avison Young




Source: Avison Young




Source: Avison Young

### LEASING ACTIVITY SLOWED

Industrial leasing activity has slowed substantially across the GRA, due largely to increased regional economic uncertainty. Increasingly, industrial tenants and owner/occupiers have put expansion plans on hold. Many groups have chosen to wait until commodity prices rise and/or the trade dispute between China and the U.S. comes to an end. Lease renewals have been the main driver of leasing market activity during 2019, while expansion activity slowed. The tepid demand trend of the past year has impacted broader leasing market fundamentals. Market average vacancy has risen year-over-year, as a function of the muted demand backdrop. In the spring of 2019, two separate market surveys reported a market average vacancy of approximately 5.0%, which was slightly higher year-over-year. On balance market vacancy has been relatively stable over much of the past two years, as the demand cycle eased. The demand moderation resulted in modest downward pressure on average market rents. In some cases, landlords have been forced to offer incentives and lower their asking rents in order to entice the relatively low number of tenants in the market for space. In addition, the softer demand trends have also impacted the market's construction cycle. Most projects required a lead tenant before commencing over the past couple of years. In short, the slowdown in leasing activity that unfolded in this market over the past couple of years was a byproduct of regional economic uncertainty.

### INVESTMENT MARKET WAS CHARACTERISTICALLY STABLE

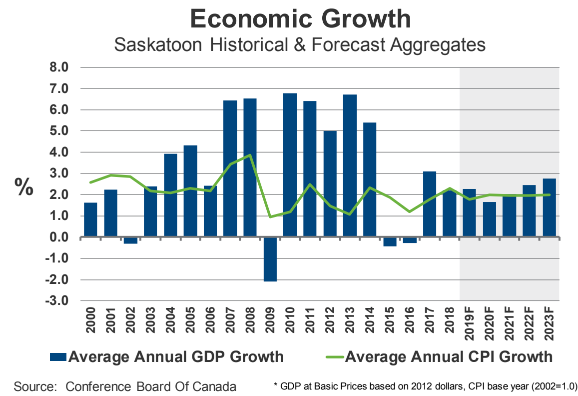
The GRA industrial property investment market was characteristically stable over the past year. Investment demand was comprised largely of local private groups. Larger institutional investors concentrated on major urban centres like Toronto and Vancouver for industrial acquisitions. For the most part, institutional groups were unable to source bigger ticket acquisitions in this market over the past few years. Therefore, recent investment activity continued to be driven by local groups pursuing smaller assets. The stability of the market's demand cycle and shortage of available product supported a stable phase of the capital cycle. Cap rates have stabilized within a narrow range over the past couple of years, given the absence of a material rent growth cycle. In general, GRA property yields remained superior to those reported in the nation's major industrial markets. Investors displayed confidence in their decision to invest in this market, at current yield levels. For the most part, properties traded fairly rapidly when offered for sale. Vendors and purchasers were able to come to terms on value, indicating the market was relatively liquid. The consistency of this dynamic was a common theme for the broader GRA investment market over the recent past.

### LITTLE CHANGE IN SECTOR PERFORMANCE FORECAST

There is little change in GRA industrial sector performance characteristics anticipated over the near term. Leasing demand will continue to underwhelm, given the ongoing trade dispute between China and the U.S. and low commodity prices. As a result, moderate downward pressure on lease rates for older buildings will persist. At the same time, vacancy levels will slowly rise and edge closer to the 6.0% mark. Additionally, the weak demand cycle will force owners to continue to offer a range of incentives to entice new tenants to their buildings or renew existing leases. The lack of a firm leasing demand trend will continue to ensure most new construction projects require a lead tenant before breaking ground. To some extent, this will reduce the probability of a sharp rise in vacancy levels. Despite an underwhelming leasing outlook, local groups will continue to invest in this market. The highest quality properties will find a buyer with relative ease. Whereas, lower quality properties will sell at moderately higher cap rates. Product offerings will be somewhat limited, which is typical for this market. In short, few changes in the GRA industrial sector performance are forecast over the near term.

## ECONOMIC SNAPSHOT

The GSA (Greater Saskatoon Area) economy was on pace to outperform in 2019, with output forecast to rise 2.3%. The health of the regional economic growth trend was expected to continue to boost employment. Employment was projected to increase by 1.5% in 2019, building on an even stronger 2.8% rise last year. Additionally, healthy economic fundamentals were expected to boost housing demand and, by extension, a recovery in the new home construction market. Regional economic expansion was also expected to boost household income levels.




### LABOUR MARKET FUNDAMENTALS HAVE STRENGTHENED

GSA labour market fundamentals strengthened over the recent past, driven by a positive economic performance. Regional employment was expected to rise a further 1.4% in 2019, following an above-average increase last year. The 2.8% rise in 2018 represented the strongest annual advance since 2014. Moreover, it was 70 bps better than the 20-year average. The strong employment growth trend has driven the regional unemployment rate lower. By the end of 2019, the rate was expected to drop to the 6.0% mark, which is a three-year low. In summary, the recent strengthening of GSA labour market fundamentals was expected to persist over the near term.

### MANUFACTURING SECTOR GROWTH EASED

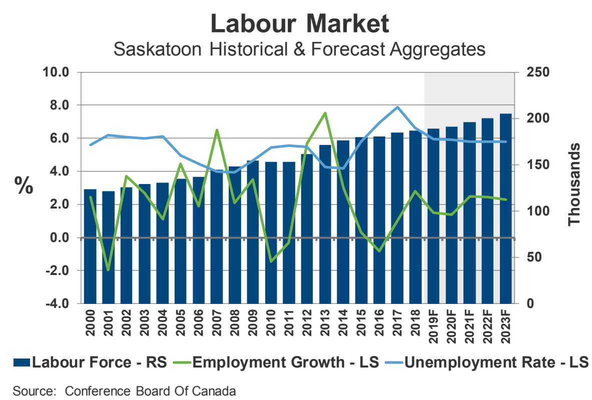
The manufacturing sector's growth trend slowed recently, after a period of robust expansion. The CBOC forecast called for a 2.6% advance in 2019, followed by a similar result next year. For much of the past decade, the sector has outperformed, when compared with the national trend. In 2018, output increased 7.1%, which followed a 4.2% rise over the previous year. By all accounts, Saskatoon's manufacturing sector was projected to continue to thrive. However, a slight reduction in sector employment was forecast this year and next, after the 25.0% spike in 2018. This forecast was a byproduct of the easing of the sector's growth trend that began to emerge in 2019.

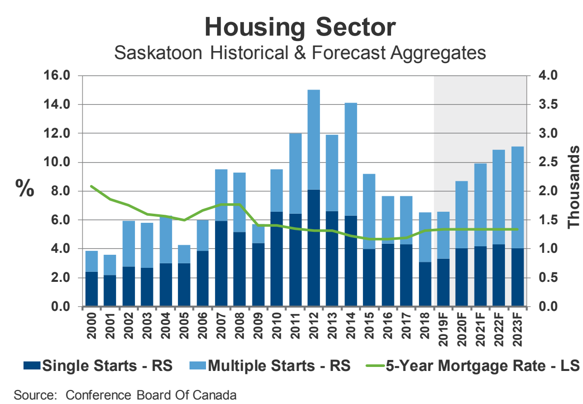
### SOLID GAINS IN SERVICES OUTPUT EXPECTED

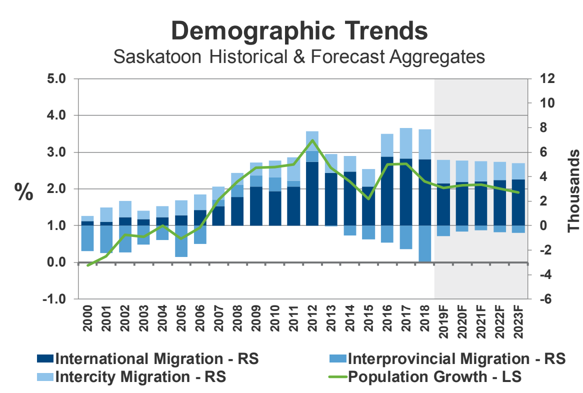
Saskatoon's services-producing industries were expected to generate solid output gains over the near term. The CBOC forecast called for a 2.5% and 2.2% increase in 2019 and 2020, respectively. This performance represented a continuation of the solid sector performance of the past several years. The largest services industry, finance, insurance and real estate, was tracking a modest increase in output for 2019, when compared with the past few years.

### RECOVERY PHASE OF CYCLE TO REMAIN MODEST

The recovery phase of Saskatoon's economic cycle will remain modest over the next couple of years. Real GDP is forecast to advance 1.7% in 2020, with a slightly healthier 2.0% increase over the following year, according to the CBOC. While not spectacular, this rate of expansion will support increased employment levels and a gradual downward unemployment rate trend. Additionally, modest increases in retail sales and housing starts will unfold, driven by the solid economic and employment growth trends. Eventually, the Chinese ban on canola exports will be lifted, which could support a stronger growth trajectory. Moreover, better-than-expected commodities price inflation could also have a positive impact on the regional economy. However, the most likely forecast scenario is a modest recovery phase over the near term.



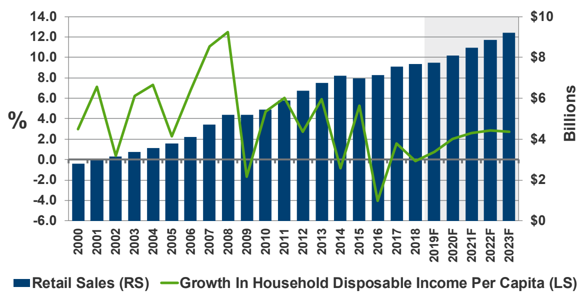
## TRENDING STATISTICS

| FUNDAMENTALS | Δ YTD | 1-YEAR OUTLOOK |
|---|---|---|
| Vacancy Rate | — | — |
| Net Absorption | ▼ | — |
| Lease Rates | — | — |
| New Supply | — | — |

The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).

### Retail Conditions

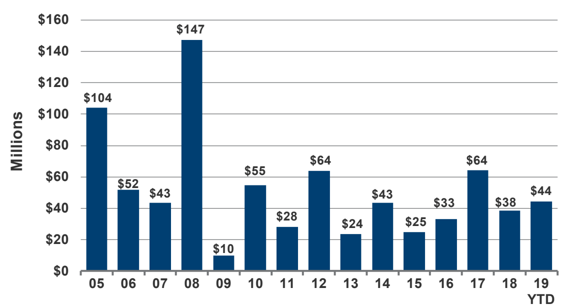
Saskatoon Historical & Forecast Aggregates




Source: Conference Board Of Canada

### Investment Activity

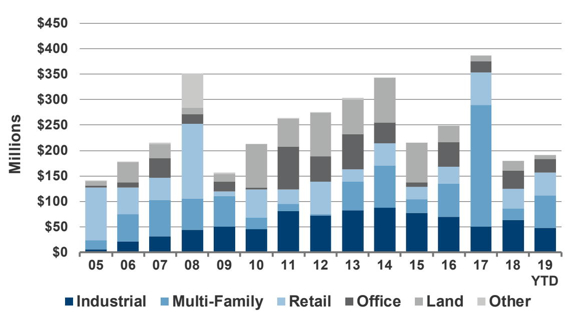
Saskatoon Retail Investment Volume To June 2019




Source: Colliers International

### Investment Activity

Volume of Total Saskatoon Sales To June 2019




Source: Colliers International

### LEASING MARKET RESILIENCE PERSISTED

Resilience was the overriding Greater Saskatoon Area (GSA) retail leasing market theme of the recent past, Recent supply-side characteristics provided evidence of the market's resilience. In general, leasing market conditions have remained relatively tight. The market's average vacancy rate stood at just 3.3%, as of the end of the first quarter of 2019. The rate had fallen a modest 10 bps year-over-year and was just 30 bps higher than the 2017 cycle-low of 3.0%, according to ICR Commercial statistics. At the end of 2018, Colliers International posted an average retail vacancy rate of 5.2% for the market, which was also a relatively healthy ratio. Vacancy levels have increased recently, however, this was largely the result of the closure of Sears rather than a broader market trend. GSA vacancy has rested well below the national average for several years. Further evidence of the market's resilience was the rate at which newly constructed space has been absorbed in the region's 'emerging neighbourhoods'. For the most part, new inventory has been leased up prior to, or shortly after, completion. Demand has been somewhat weaker in some of the city's existing retail nodes, resulting in modest downward pressure on rents. Compared with other markets, however, retail demand has been buoyant overall. Food and entertainment retailers have been most active in this market, which was another indicator of the market's resilience.

### INVESTMENT MARKET CONDITIONS WERE GENERALLY STABLE

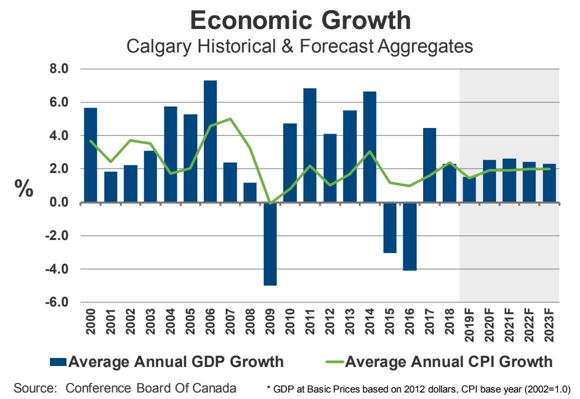
GSA retail sector investment market trends were generally stable over the past year, which represented an extension of the medium-term trend. Local private capital groups were the most active purchaser category, which has been a constant throughout the market's history. Institutional groups also monitored the market for larger-scale opportunities, however, these opportunities were limited. Although there were few large-scale properties sold recently, investments in smaller retail assets by local groups continued at a solid pace. In the first half of 2019, $44.5 million in retail property was sold across the region. This followed a more moderate $38.5 million in sales recorded during the 2018 calendar year. Investors were attracted by the region's economic outlook and track record of strong performance. In some cases, investors were willing to take on the added risk for certain properties with upside potential. Additionally, properties with grocery, drug and liquor stores attracted strong investor interest, which has been the case for several years. Generally, vendors were able to successfully dispose of properties at acceptable pricing levels. Values were relatively stable over the past year, which was also in keeping with the broader market theme.

### CONTINUED STABILITY TO CHARACTERIZE OUTLOOK

The probability of material change in GSA retail sector performance over the near term is low. The GSA economy is projected to expand 2.3% this year and a less robust 1.7% in 2020. Despite the more modest advance, growth will continue to support solid retail sales advances and retailer productivity over the two-year period. Therefore, leasing demand will continue to range close to recent levels. This will ensure minimal change in average market vacancy. Certain existing retail nodes will continue to struggle with excess vacancy, whereas new developments will attract retailers in the market to expand. Downward pressure on average rents will persist in pockets of the city where there is excess vacancy. However, rents in most other areas of the city will hold close to recent ranges. Additionally, there are few changes forecast for the GSA retail property investment market. Local private groups will continue to account for the lion's share of activity. Available properties will be sold with relative ease, against a backdrop of stable valuations. In short, there are few changes in market conditions forecast for GSA retail sector over the near term, which is in keeping with the longer-term trend.

## ECONOMIC SNAPSHOT

A more moderate economic growth trend was forecast for the Greater Calgary Area (GCA) in 2019. Output was expected to increase by a modest 1.5%, with a similar performance projected for 2020. This advance was in line with the national average. The softening of the regional growth trend was directly attributable to the ongoing oil and gas sector malaise. At the same time, several other sub-sectors were also expected to see more moderate advancement. As a result, retail sales and job growth trends were forecast to remain moderate through 2019 and much of 2020.



Source: Conference Board Of Canada

### ENERGY SECTOR SLUMP CONTINUED

Alberta's energy sector downturn continued to negatively impact the GCA economy over the past year. Oil prices and global demand for Alberta's oil continued to underwhelm. As a result, GCA economic growth continued to range below the historic average. The growing gap between the West Texas Intermediate benchmark oil price and the Western Canadian Select Alberta heavy crude oil price forced mandated provincial production cuts. These cuts continued to erode oil sector output and regional economic growth during 2019.

### CONSTRUCTION SECTOR UNDERPERFORMED

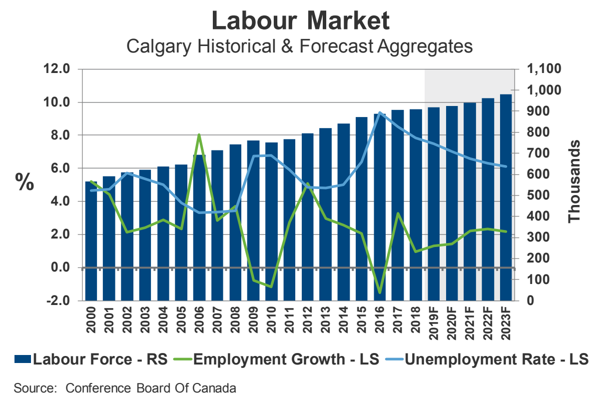
Calgary's construction sector continued to under perform over the past year, as a result of reduced investment in the region's energy sector. Construction sector output was expected to decline for a fifth consecutive year in 2019. In addition, weakened housing demand and a sharp drop in large-scale office building development activity dampened sector results. The only source of construction sector optimism recently was the infrastructure projects already underway. However, several of these projects were scheduled for completion in 2019. As a result, construction sector output was expected to continue to underwhelm over the near term, barring a significant improvement in the regional economic outlook.

### MODEST GAIN IN SERVICES OUTPUT RECORDED

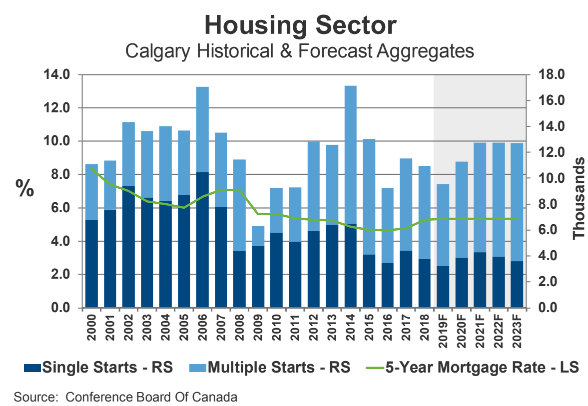
A moderate increase in services sector output was recorded over the past year. In 2019, output was forecast to increase by 1.9%, with all industry categories posting advances. One of the weaker performances was expected in the retail trade sector, due primarily to the uncertain regional economic growth outlook. A slowdown in public sector spending was also expected to dampen broader services growth. In short, services sector output has increased modestly over the past year, a performance that was in line with the broader economic trend.

### RECOVERY PACE TO REMAIN MODERATE

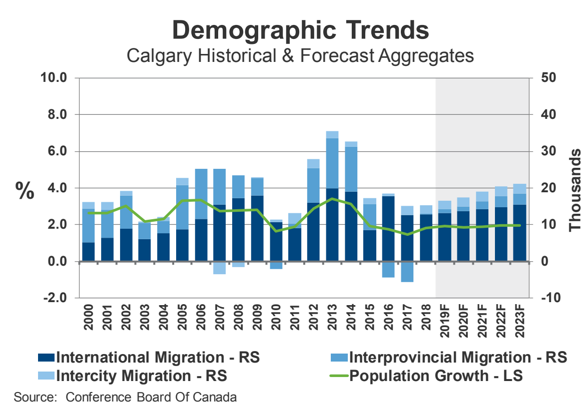
The pace at which the GCA economic recovery will be moderate. Economic growth will remain fairly modest over the near term. The CBOC forecast included a modest 1.5% rise in GDP in 2019, followed by a 2.5% increase in 2020. This forecast is predicated on continued weakness in the region's energy sector. Low prices and weak global demand will continue to limit energy sector growth, along with ongoing pipeline capacity limitations. The ongoing energy sector weakness will dampen labour market gains. Housing market demand will also continue to fall short of the long-term trend. Consumer confidence levels will remain below par, which will also moderate the rate at which the regional economy recovers.



Source: Conference Board Of Canada



Source: Conference Board Of Canada



Source: Conference Board Of Canada

## TRENDING STATISTICS

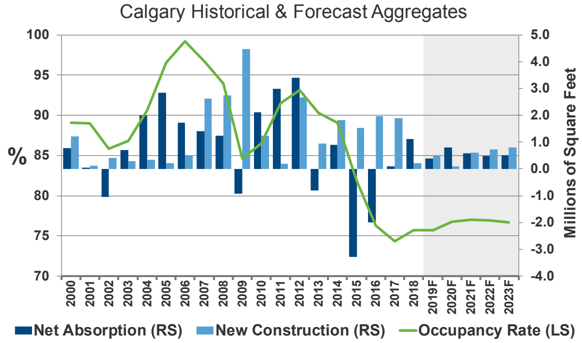
| FUNDAMENTALS | Δ YTD | 1-YEAR OUTLOOK |
|---|---|---|
| Vacancy Rate | ▲ | ▲ |
| Net Absorption | — | — |
| Lease Rates | ▼ | — |
| New Supply | — | — |

The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).

**Historical Performance**
For The Period Ending June 2019

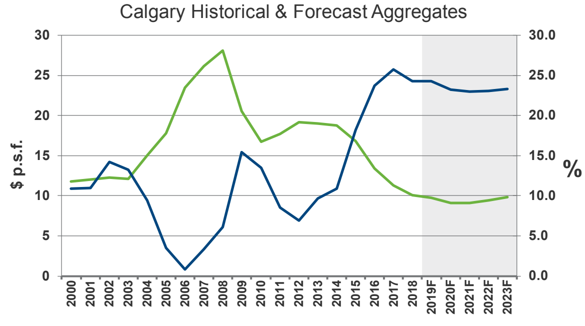

Source: © MSCI Real Estate 2019

**Office Demand & Supply**
Calgary Historical & Forecast Aggregates




Source: CBRE Limited; CBRE Econometric Advisors

**Office Rent & Vacancy**
Calgary Historical & Forecast Aggregates




Source: CBRE Limited; CBRE Econometric Advisors

### LEASING MARKET MALAISE PERSISTED

The Greater Calgary Area (GCA) office leasing market continued to underperform over the past year. Leasing demand patterns remained weak, due largely to the ongoing struggles of the region's energy sector. Relocations and renewals were the main activity drivers of the past year. Tenants looked to secure higher-quality space in prime locations or renew their existing leases during a period when rents were at a low-point for the cycle. There was a relatively low number of tenants in the market for expansion space. As a result, competition between landlords increased as they tried to fill vacant space in their portfolio. In some cases, landlords offered free rent and other incentives to induce tenants to lease space. The absence of a firm tenant expansion trend over the past year ensured aggregate market vacancy hovered close to the cycle-high. An average vacancy rate of 24.3% was reported at the end of the third quarter of 2019. This rate was indicative of a market that was substantially oversupplied. This oversupply was even more pronounced in the downtown submarket, where a rate of 26.6% was reported. The combination of oversupply and a weak demand cycle ensured market rents held at the cycle-low over the past year. This dynamic was representative of the GCA leasing market's continued underperformance.

### INVESTORS REMAINED CAUTIOUS

Investors remained cautious in their approach to investing in the GCA office property sector. This approach was a direct response to the prolonged GCA office leasing market downturn that has extended into a fifth consecutive year in 2019. During this period, vacancy has reached a record-high, rents have dipped to a cycle-low and demand has fallen far short of supply. Investors have exhibited confidence in the market's prime office buildings with stable long-term tenant rosters. In a few cases, investors have also been willing to acquire riskier well-located properties with the potential for improved performance over the long-term. However, there have been a very limited number of sales of properties with leasing risk or those in secondary locations. Recent transaction activity characteristics reflected the cautious approach taken by investors. In 2018, transaction volume reached a record annual high of close to $1.5 billion. The spike in activity was somewhat misleading, as a couple of large-scale transactions accounted for a significant share of the total rather than a demand increase. The first half of 2019 was far more indicative of the current demand backdrop. Sales activity plunged during this six-month period, when just $167.6 million in sales was recorded. The decline reflected the increasingly cautious approach investors had taken with regard to investing in the GCA office property sector.

### SLOW RECOVERY CYCLE FORECAST

A slow recovery pace is forecast for the GCA office property sector over the next few years. A moderate economic growth trend will continue to unfold over the next few years. This will include a modest recovery in the region's energy sector. This will result in a gradual strengthening of the region's office leasing demand trend. Consequently, it will likely be several years before the GCA leasing market normalizes. Therefore, market rents will remain at or near the cycle-low over the next two-to-three years. Landlords will continue to struggle with excess vacancy and reduced income. Gradually leasing demand will improve, which will reduce vacancy in the market's newest and highest quality buildings. Subsequently, a new wave of development will eventually unfold. As leasing market conditions improve, investors view the market in a more favourable light. Property values will eventually stabilize, along with investment performance. At some point in the future, the GCA office property sector will become a prime investment target once again. However, this could take a few years, given a relatively slow forecast recovery pace.

## LEASING DEMAND WAS MODERATELY HEALTHY

A moderately healthy demand trend was observed in the GCA industrial leasing market over the past year. The 1.3 million square feet of space absorbed during the first three quarters of 2019 was indicative of this trend. This performance was in keeping with the previous two-year period when an average of 2.8 million square feet of space was absorbed on an annual basis. The region's warehouse and distribution sector has been the most consistent leasing demand-driver in the GCA over the past few years. New market entries and existing businesses in this sector looked to capitalize on the region's growing role as western Canada's key distribution hub. Companies active in storage and delivery of consumer goods for e-commerce retailers were also drivers of industrial demand. Over the past few years, large bay users have absorbed a significant volume of space in this market. The highest profile of these was Amazon. In 2019, small-to-medium sized tenant demand has surged, while large bay leasing activity has slowed. For the most part, leasing market conditions have been relatively balanced over the recent past. As a result, market rents have stabilized. Additionally, market availability has also been relatively stable. The moderate health of the GCA leasing market demand cycle was expected to continue to unfold through to the end of this year and much of 2020.

## INVESTMENT DEMAND OUTSTRIPPED SUPPLY

Investment demand outdistanced the supply of available industrial properties in the GCA over the past year, a market dynamic that was common throughout the country. Institutional and private groups combed the region for properties to acquire in a sector that offered downside protection and rental growth over the near term. Single tenant buildings built recently were most popular, difficult to acquire and expensive. Multi-tenant and older properties were also in demand. Additionally, properties with expansion potential generated aggressive bids when made available. For the most part, the volume of properties offered for sale fell short of demand. Despite this dynamic, investment property sales activity was brisk. In the first half of 2019, a total of $397.2 million in industrial property sales was reported. This followed up a record annual high of $1.6 billion in sales during 2018. Generally, available properties received aggressive bids, in some cases from more than one investor. Aggressive bidding pushed values slightly higher. This trend resulted in upward pressure on sector returns. GCA properties contained in the MSCI Index generated an attractive annual average return of 8.3% for the year ending June 30, 2019. The return was comprised of stable and positive income growth and modest capital appreciation. This attractive return was generated during a period when investment demand outpaced supply.

## SECTOR STABILIZATION FORECAST

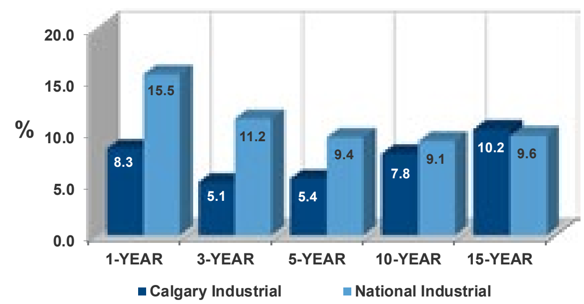
Largely stable GCA industrial sector fundamentals are forecast for the near term. The region's moderate economic growth trend will continue to drive demand for industrial space across the region. The warehouse and distribution sector will lead the way in absorbing space in established business parks. At the same time, the market's construction cycle will remain robust. The market will see the addition of more than 3.0 million square feet of new supply in 2019. It is possible that demand may fall short of supply over the near term, which could drive availability levels higher. Moderately positive leasing market performance will coincide with generally healthy investment market conditions. Investment demand will remain brisk and surpass available supply. Investors will place capital in this market with confidence, given a healthy long-term outlook. As a result, property values will stabilize and potentially rise slightly if the regional economy strengthens. In short, the dominant GCA industrial sector near-term performance theme will be stabilization, which is in keeping with the recent trend.

| TRENDING STATISTICS | | |
|---|---|---|
| FUNDAMENTALS | Δ YTD | 1-YEAR OUTLOOK |
| Vacancy Rate | ▼ | ▼ |
| Net Absorption | ▲ | — |
| Lease Rates | — | — |
| New Supply | ▲ | ▲ |

The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).

**Historical Performance**

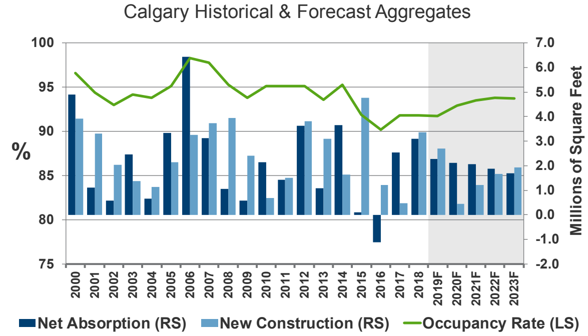
For The Period Ending June 2019




Source: © MSCI Real Estate 2019

**Industrial Demand & Supply**

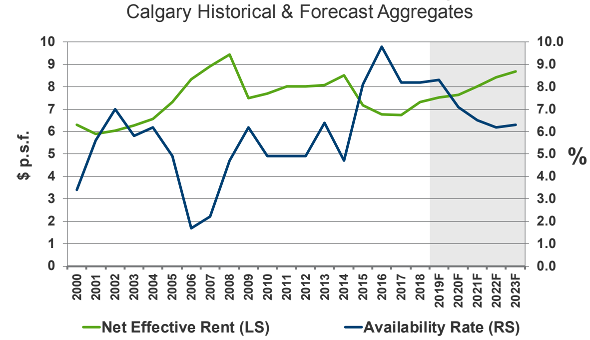
Calgary Historical & Forecast Aggregates




Source: CBRE Limited; CBRE Econometric Advisors

**Industrial Rent & Vacancy**

Calgary Historical & Forecast Aggregates




Source: CBRE Limited; CBRE Econometric Advisors

## TRENDING STATISTICS

| FUNDAMENTALS | Δ YTD | 1-YEAR OUTLOOK |
|---|---|---|
| Vacancy Rate | — | — |
| Net Absorption | — | — |
| Lease Rates | ▼ | — |
| New Supply | — | — |

The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).

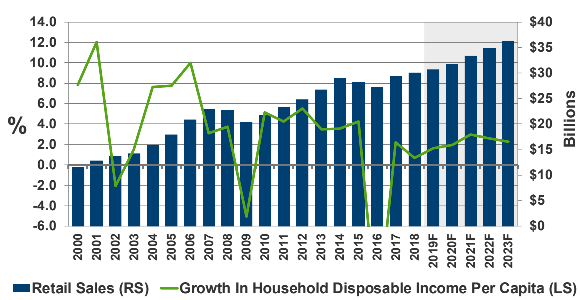
### Historical Performance

For The Period Ending June 2019


Source: © MSCI Real Estate 2019

### Retail Conditions

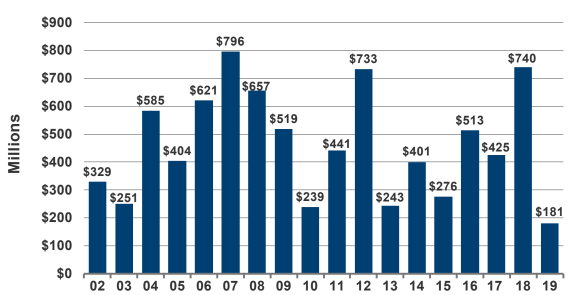
Calgary Historical & Forecast Aggregates




Source: Conference Board Of Canada

### Investment Activity

Calgary Retail Investment Volume To June 2019




Source: CBRE Limited

## LEASING MARKET RISK REMAINED ELEVATED

An elevated level of leasing market risk was observed in the GCA retail sector over the recent past. A steady stream of store closures was one of the main sources of the elevated risk levels of the past year. Well-known retail brands including Gymboree, Town Shoes and Lowe's closed stores during January of 2019 alone. Payless ShoeSource shuttered 10 GCA locations later in the year. Home Outfitters closed four locations in the first six months of the year as well. Several smaller independent stores in street front locations also closed, due to increases in property taxes or failure to adapt to the changing shopping habits of today's consumer. Store closures added several significant vacancies to the market and increased leasing market risk. This was on top of the Sears additions as a result of the closure of Sears. Another source of increased leasing market risk was the continued evolution of the broader retail sector. Changing consumer spending habits, demographic shifts and increased online shopping continued to impact retailer sales performance and occupancy patterns. However, the GCA retail leasing market has exhibited a measure of resilience during this period of increased sector risk. Market vacancy stabilized at 5.2% and leasing activity at the region's 16 new developments had been brisk. Despite this resilience, leasing risk was expected to remain elevated over the new few years.

## INVESTMENT MARKET CHARACTERISTICS WERE VARIED

GCA retail property investment market characteristics varied over the recent past. Investment demand was surprisingly robust in 2018, although activity slowed the first half of 2019. In 2018, retail sales totalled $740.5 million, which represented the second highest total on record. During the first six months of 2019, a total of $181.3 million in transaction volume was reported. Institutional and private groups continued to acquire properties at a healthy rate. However, most investors were more selective in targeting acquisitions than they were previously. Riskier properties were closely scrutinized, given elevated retail sector risk. However, properties with solid performance records and strong demographics remained attractive. Competition for available properties was relatively healthy, although the demand cycle had clearly softened. In some cases, buyers looked to acquire properties to either reposition them, add alternative uses or increase density in order to enhance longer-term performance. While there were positive demand characteristics observed in the GCA retail investment market over the recent past, performance patterns were disappointing. Properties contained in the MSCI Index generated an annual average total return of 0.4%, for the year ending June 30, 2019. Over the 12-month period, a cumulative capital decline of 4.0% was tallied while the income performance was solid. This variation mirrored GCA retail property market characteristics observed over the recent past.

## SECTOR TRENDS WILL MIRROR THOSE OF THE RECENT PAST

GCA retail sector trends forecast for the near term will mirror those of the recent past. A moderate economic growth forecast will continue to support modest retail sales gains. To some degree, this will drive positive retail sales performance for many of the region's retailers. However, the steady stream of store closures and downsizing will continue to erode occupancy in some centres and retail nodes. Conversely, tenant expansion activity will continue to offset much of these losses. Therefore, market vacancy will continue to stabilize. Newly built retail space will be absorbed as a healthy rate, as retailers look to service new trade areas. Investment market conditions are also expected to stabilize over the near term. Investors will target properties with solid sales performance records. A few will continue to look for value-add opportunities with longer-term upside. Retail sector risk will remain elevated, while broader market trends mirror those of the recent past.

## RENTAL MARKET STRENGTHENING RECORDED

A marked improvement in multi-suite residential rental market fundamentals was recorded in the GCA recently, after an extended period of weakness. The improvement was evidenced in the market's recent vacancy trend. The average vacancy rate dropped 240 bps year-over-year as of the end of 2019. A rate of 3.9% was reported by the CMHC. The downward vacancy trend was reported across all unit size categories over the same time period. Healthier vacancy characteristics began to unfold in 2017. Previously, the Census Metropolitan Area's average vacancy rate had increased to a 25-year high of 7.0% in 2016. The strengthening of the market's vacancy trend was a direct result of a markedly stronger demand cycle. Interprovincial and international migration patterns improved in 2018, which coincided with a sharp increase in rental demand. A stronger employment growth trend also fuelled an increase in rental demand during 2018 and 2019. Uncertainty related to the region's economic recovery reduced purchasing activity in the housing market. In many cases, renters chose to continue renting rather than purchase a home. A healthier demand cycle combined with a lower vacancy rate drove average market rents moderately higher after two consecutive years of decline. This rent growth was a boon for owners of multi-suite residential rental property in the GCA, during a period when market fundamentals continued to improve.

## HEALTHY INVESTMENT DEMAND FUNDAMENTALS REPORTED

Consistently healthy multi-suite residential rental sector investment demand fundamentals were reported in the GCA, in keeping with the national trend. Quality offerings were often met with high levels of interest from more than one party. National and regional investors looked to the region as a source of stable performance and forecast rental growth. Generally, however, investment demand surpassed the supply of suitable assets brought to the market. Aggressive bids on the limited number of properties made available translated into largely stable property values. There was, however, a modicum of cap rate compression for properties of exceptional quality or those with strong rental rate upside. Vendors were able to achieve their pricing objectives when selling properties. Investment demand supported healthy transaction activity levels, in keeping with the national trend. During the first six months of 2019, a total of $211.0 million in property sales was recorded. This followed the highest sales volume total dating back to 2012 in 2018, at $365.6 million. In summary, stable and positive investment demand fundamentals were observed in the GCA multi-suite residential rental sector over the recent past, which was also the case in the nation's larger urban centres.

## NEAR-TERM OUTLOOK IS MODERATELY POSITIVE

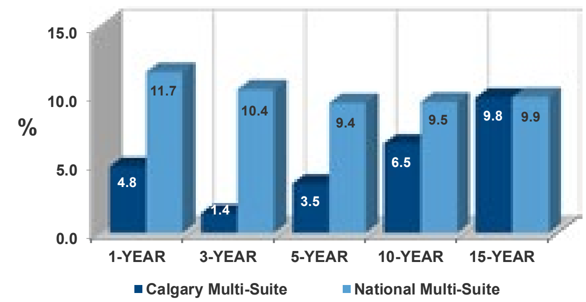
A generally positive outlook is forecast for the GCA multi-suite residential rental sector over the near term. Rental demand will remain stable and healthy. The region's moderate economic growth cycle and resulting job market improvement will continue to boost rental demand. According to the CBOC, the GCA economy will expand by an average of roughly 2.0% annually between 2020 and 2023. Economic conditions will continue to attract migrants to the region, although the numbers will be somewhat more modest than 2018 and 2019. Despite this moderation, rental demand will continue to result in modest downward vacancy pressure. On the other hand, however, the delivery of 6,000 units of new supply in 2019 and another 13,000 units either under construction or being planned may push vacancy levels moderately higher. Despite this potential, investment demand will remain robust and outpace supply. Investors will try to source properties with solid performance records across the region. Minimally, property values will, therefore, stabilize. Broadly positive investment market conditions forecast over the near term will continue to unfold against a backdrop of healthy rental market conditions.

## TRENDING STATISTICS

| FUNDAMENTALS | Δ YTD | 1-YEAR OUTLOOK |
|---|---|---|
| Vacancy Rate | ▼ | ▼ |
| Net Absorption | ▲ | — |
| Lease Rates | ▲ | ▲ |
| New Supply | ▲ | — |

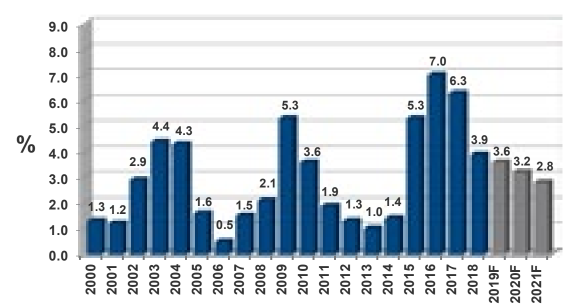
The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).

### Historical Performance
For The Period Ending June 2019



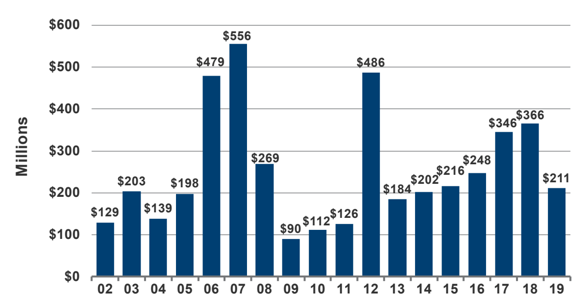

Source: © MSCI Real Estate 2019

### Average Rental Vacancy
Calgary Apartment Structures Of Three Units & Over



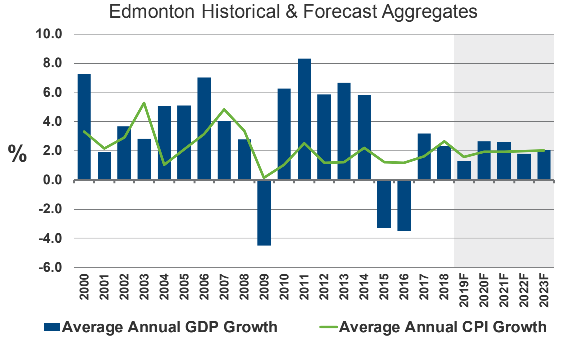

Source: CMHC

### Investment Activity
Calgary Multi-Suite Investment Volume To June 2019



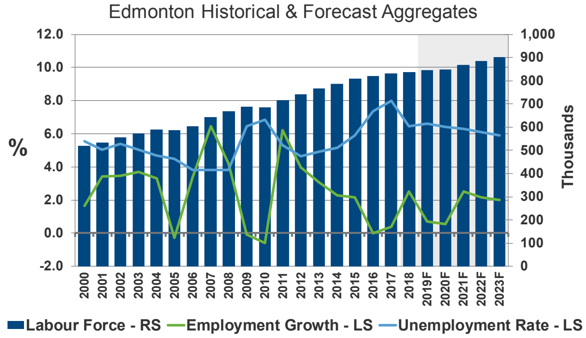

Source: CBRE Limited

### Economic Growth
Edmonton Historical & Forecast Aggregates



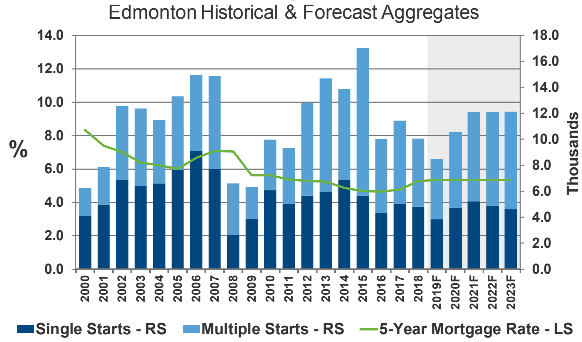

Source: Conference Board Of Canada * GDP at Basic Prices based on 2012 dollars, CPI base year (2002=1.0)

### Labour Market
Edmonton Historical & Forecast Aggregates



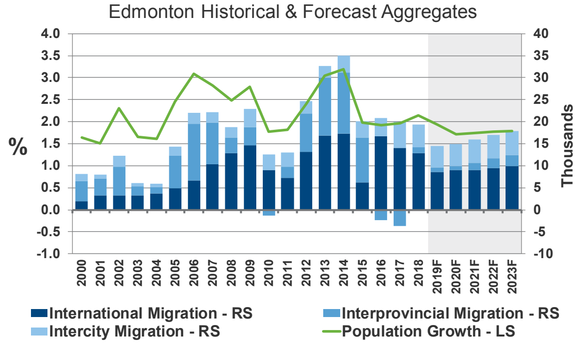

Source: Conference Board Of Canada

### Housing Sector
Edmonton Historical & Forecast Aggregates




Source: Conference Board Of Canada

### Demographic Trends
Edmonton Historical & Forecast Aggregates




Source: Conference Board Of Canada

## ECONOMIC SNAPSHOT

The GEA's economic growth trend weakened significantly over the recent past, following a relatively brief period of stronger performance. As a result, the regional economic growth forecast was downgraded to 1.3% for 2019. Like its neighbour to the south, the slowdown was directly related to the persistent struggles of the oil and gas sector. The weakened economic growth trend was expected to temper employment growth. At the same time, the regional unemployment was expected to stabilize. The forecast for consumer-driven industries in the GEA was also downgraded recently, given an uncertain regional economic outlook.

### CONSTRUCTION SECTOR STRUGGLES CONTINUED

The struggles of the GEA construction sector continued this year. Sector output was on pace to contract by 5.1% in 2019, which will represent a fifth consecutive annual decline. The contraction was, in part, the result of a significant reduction in construction activity in the region's oil and gas sector. Activity slowed with the winding down of several oil sands projects. Residential construction activity also slowed during 2019, due to a relatively soft housing demand trend and an increased number of unabsorbed homes constructed recently. Tighter mortgage rules and an uncertain economic outlook also reduced residential construction volume. The GEA construction sector was expected to continue to underperform over the near term.

### MODERATELY POSITIVE LABOUR MARKET PERFORMANCE TALLIED

The GEA labour market exhibited moderately positive performance patterns over the recent past. Total regional employment was expected to increase by a modest 0.7% in 2019, following a stronger 2.5% rise posted in 2018. In 2019, the strongest employment growth was forecast for the public administration and transportation and warehousing sectors. The regional unemployment rate was expected to remain relatively stable in 2019, edging up just 10 bps to 6.6% by the end of the year. Moderate gains in the region's labour force and employment level were expected to support this stabilization.

### HEALTHIER ECONOMIC PERFORMANCE PATTERNS FORECAST

Healthier economic performance patterns are forecast for the GEA over the near term. A moderately stronger economic growth trend is projected for 2020, with Real GDP increasing by a solid 2.6%. The energy sector will contribute to the healthier outlook, however, progress will remain relatively modest. Primary and utilities output will rise 2.6% in 2020, up from 1.9% in 2019. Professional, scientific and technical services output will also strengthen over the near term, as a result of increased energy sector activity. In 2020, sector output will rise by 2.7%, up from the 1.9% gain forecast for 2019. The region's construction sector is expected to see better days over the next couple of years. Several large-scale road construction projects will boost output. Additionally, the redevelopment of the CapitalCare Norwood and a new south Edmonton hospital will drive increased sector output. The region's services sector will also generate increased output over the near term. A gain of 2.4% is forecast for 2020, following a more modest rise of 1.9% this year. Consumer confidence levels will be largely unchanged over the near term, despite healthier economic performance. Consumers will continue to have concerns related to the global economic outlook and region's oil and gas sector near-term prospects. As a result, retail sector output will be relatively tepid. Despite the uncertainty, the regional economy is expected to generate healthier economic performance patterns over the near term.

## LEASING MARKET SLUMP CONTINUED

The GEA office leasing market slump continued over the recent past, driven to a large extent by the ongoing oil and gas sector downturn. On aggregate, leasing demand remained depressed. Tenant expansion activity was marginal, as the region's largest tenants remained in a holding pattern awaiting positive news related to the oil and gas industry. A few technology-driven businesses and public sector uses increased their footprints, however, the continued shedding of space by oil and gas companies more than offset this growth. The weakness of the market's demand cycle was reflected in recent absorption patterns. A small volume of space was absorbed in four out of seven quarters between the start of 2018 and the end of the third quarter of 2019. However, these gains were negligible when compared to the negative absorption pattern of the past few years. The market's demand slump was also evidenced in the market's vacancy trend. Average vacancy had climbed to a 25-year high of 20.1% by the end of the third quarter of 2019. The upward trend was, in part, a byproduct of backfill space brought to market when the Stantec building was completed in 2018. The market's position of oversupply ensured rents held at the cycle-low. Tenants have been able to secure high-quality space in the prime towers at discounted rates. At the same time, landlords have been forced to offer incentives to entice the relatively few tenants in the market for space. Increased sublease availability added to the downward rent pressure. Cycle-low rental rate averages were indicative of the GEA leasing market's ongoing malaise of the recent past.

## INVESTORS FOCUSED ON QUALITY

The main focus for investors looking for acquisition in the GEA office property sector over the past year was quality. Class A properties with strong tenant rosters and a solid long-term outlook were most highly sought after. However, these opportunities were limited over the recent past. Lower quality assets were less popular with investors and sold less frequently, a less-than-rosy near-to-medium-term performance outlook. The market's demand dynamic was reflected in recent transaction closing volume totals. Just $44.9 million in sales volume was reported during the first half of 2019. The 2018 sales volume total represented the second highest annual total in 19 years. This activity level was somewhat misleading. The $400.0 million sale of the recently constructed Edmonton Tower in the ICE District accounted for a large portion of the total. Setting this sale aside, the remaining $150.5 million in sales was well below the five-year market average. While activity levels have been relatively weak, so too has GEA office property sector investment performance. MSCI Indexed properties registered an annual average return of 1.7% for the year ending June 30, 2019. The income component was stable and positive, while the capital component continued to depreciate. Income performance has, and is expected to continue to, offset the negative capital trend over the near term. Against a weak performance backdrop and ongoing sector uncertainty, investors were expected to continue to focus their attention on the market's highest quality properties.

## PROGRESS WILL BE SLOW

The pace at which GEA office property sector fundamentals improve will be slow. The oil and gas sector outlook remains uncertain. Oil and gas companies will continue to shed space and employees. As a result, leasing demand is expected to remain weak. Oversupply will, therefore, continue to characterize the market for the foreseeable future, along with cycle-low rents. Landlords will suffer the effects of reduced income and be forced to continue to offer incentives to lease excess vacancy. Eventually leasing market conditions will firm, however, this progression will take time. In short, the GEA leasing market recovery will remain slow, given a moderate economic outlook and ongoing weakness in the regional oil and gas sector.

### TRENDING STATISTICS

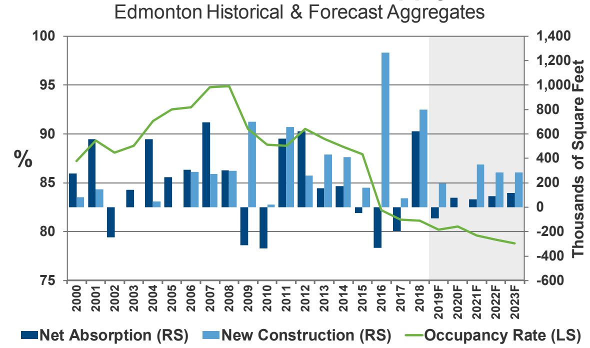
| FUNDAMENTALS | Δ YTD | 1-YEAR OUTLOOK |
|---|---|---|
| Vacancy Rate | ▲ | — |
| Net Absorption | — | — |
| Lease Rates | ▼ | — |
| New Supply | ▼ | — |

The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).

**Historical Performance**
For The Period Ending June 2019

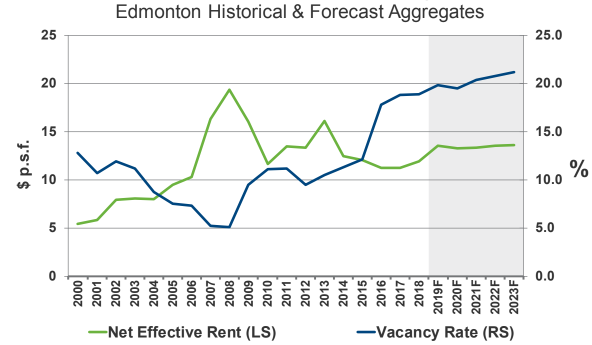

Source: © MSCI Real Estate 2019

**Office Demand & Supply**
Edmonton Historical & Forecast Aggregates




Source: CBRE Limited; CBRE Econometric Advisors

**Office Rent & Vacancy**
Edmonton Historical & Forecast Aggregates




Source: CBRE Limited; CBRE Econometric Advisors

| TRENDING STATISTICS | | |
|---|---|---|
| FUNDAMENTALS | Δ YTD | 1-YEAR OUTLOOK |
| Vacancy Rate | — | — |
| Net Absorption | — | — |
| Lease Rates | — | — |
| New Supply | ▲ | — |

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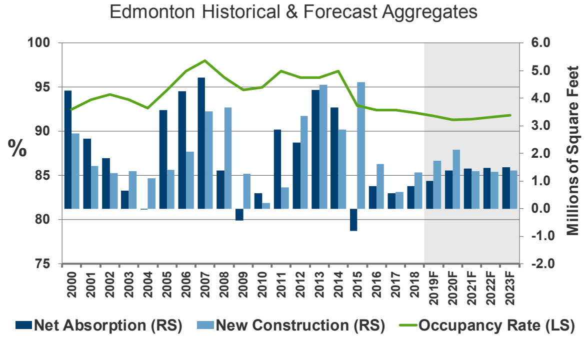
**Historical Performance**
For The Period Ending June 2019

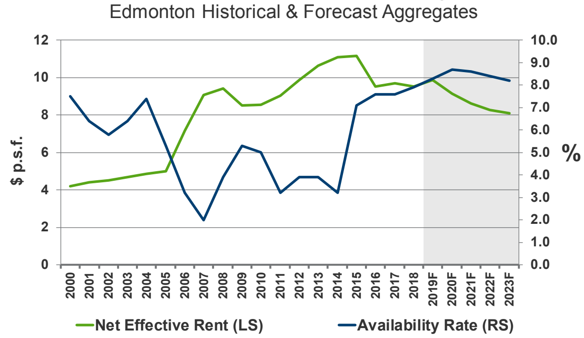

Source: © MSCI Real Estate 2019

**Industrial Demand & Supply**
Edmonton Historical & Forecast Aggregates




Source: CBRE Limited; CBRE Econometric Advisors

**Industrial Rent & Vacancy**
Edmonton Historical & Forecast Aggregates




Source: CBRE Limited; CBRE Econometric Advisors

## SLUGGISH LEASING DEMAND TREND REPORTED

Industrial leasing demand across the GEA was generally sluggish over the past year, due partly to an uncertain economic and political climate. While growth in the big box warehouse and distribution market segment has been recorded, leasing activity has been comprised largely of renewals and relocations. Often, tenants have moved to higher quality and more functional space, while maintaining their existing footprints. Some tenants were able to take advantage of market conditions to secure space at or near cycle-low rents. In some cases, tenants were able to reduce their overall real estate costs upon lease expiry. The less-than-firm leasing demand trend of the past year was reflected in market absorption patterns. In 2018 for example, 809,007 square feet of space was absorbed, which marked a third consecutive year of absorption of less than 1.0 million square feet. The absorption pace remained moderate during much of 2019 as well. The relatively weak leasing demand cycle of the recent past was also reflected in market availability characteristics. The market average availability rate stood at 8.0%, as of the end of the third quarter of 2019. This was just below the cycle-high of 8.5% reported two years earlier. While availability ranged close to the cycle-high, rents generally held close to the cycle-low. This dynamic was a byproduct of the weak demand cycle reported over the recent past.

## ROBUST INVESTMENT DEMAND CYCLE CONTINUED

Demand for industrial investment property in the GEA outdistanced supply, in keeping with the national trend. Investors exhibited confidence in acquiring income-producing properties across the region at prevailing yields. Institutional and local groups combed the region for properties with strong tenant rosters in the region's established industrial parks. The strength of the demand-cycle resulted in a sharp increase in the volume of properties sold recently. In 2018, a record annual high of $1.5 billion in investment property sales volume was recorded. A further $267.7 million in sales was reported during the first six months of 2019. Availability was more limited during this period, as demand remained healthy. The record-setting transaction pace coincided with moderately attractive investment performance. GEA properties contained in the MSIC Index generated an annual average total return of 5.2% for the year ending June 30, 2019. The result was 140 bps higher than the previous 12-month period. The return's capital component was essentially flat, whereas the income performance remained stable and healthy. The performance was indicative of a market that had exhibited signs of emerging from a prolonged slump. There was little doubt that investors were keenly aware of the improved performance trend. This awareness, along with several other factors, supported an investment market dynamic that saw demand outdistance supply.

## MARKET TRENDS WILL MIRROR THOSE OF THE RECENT PAST

We anticipate few changes in GEA industrial market conditions over the near term, when compared with those reported over the recent past. Having slowed in late 2018 and early 2019, economic growth will stabilize at some point next year. As a result, leasing market characteristics will stabilize, including demand. The warehouse sector will once again be the main leasing demand-driver. However, new supply will largely keep pace with demand, thereby driving market availability gradually lower. Despite the availability downdraft, rents will continue to range near the cycle-low. Tenants will be able to secure functional space at low rents, as was the case during 2018 and early 2019. Despite the largely flat rent curve, investment activity will remain robust. Investors will continue to comb the market for opportunities, given their perceptions of a healthier medium-term outlook. In short, GEA industrial property sector trends will continue to mirror those of the past couple of years.

## LEASING MARKET RESILIENCE CONTINUED

A measure of resilience was observed in the GEA retail leasing market over the recent past. Demand characteristics provided considerable evidence of this resilience. Several retailers already present in this market have expanded in various locations. New market entrants have also opened up new outlets over the recent past. One of the market's recent arrivals was H-Mart, a Korean supermarket chain. Two new locations were secured at College Plaza and South Park Centre. Boston Pizza recently opened a two-storey location in the ICE District. Construction was well underway on a new GoodLife Fitness Centre at Commerce Place downtown. The recent demand pressure supported a generally stable vacancy trend. An average vacancy rate of 4.9% was recorded for the GEA, as of the end of 2018. The rate had fallen 60 bps year-over-year, before a further 40-bps drop in the first half of 2019. During this same time period, vacancy was either higher or stable in most other major Canadian retail markets. In general, leasing market conditions have remained balanced. The health of the GEA retail sector's development cycle provided further evidence of the market's broad-based resilience. A range of new developments were under construction during 2019. One of the more significant projects was phase 1 of a new development on the Edmonton International Airport lands. The site attracted Sleep Country and several fast-food brands. Newly constructed space in this market has been leased at a healthy pace. This activity was further evidence of the market's resilience.

## INVESTMENT MARKET TRENDS LACKED CONSISTENCY

Recent GEA retail property investment market trends were largely inconsistent. Investors selectively acquired properties in this market and the broader retail property class, given increased industry uncertainty. Properties boasting strong tenant rosters and track records of healthy productivity continued to generate interest. Institutional and local private investors scrutinized income streams more closely, given a steady flow of store closures over the past few years. Even with the increased scrutiny and uncertainty GEA retail property investment sales activity reached a 19-year high in 2018. Just short of $1.1 billion in retail investment property transacted during 2018, although sales slowed sharply with $265.5 million reported during the first half of 2019. In some cases, vendors decided to sell non-core assets. Others simply chose to reduce their exposure to a sector with an uncertain future. The sales surge and subsequent slowdown unfolded during a period of weakened investment performance. GEA retail properties contained in the MSCI Index generated a negative annual return of 1.8%, for the year ending June 30, 2019. The performance was significantly weaker than the broader index and the national retail sector average. Over the 12-month period, income performance has been stable and healthy, while the capital component continued to depreciate. The performance inconsistency was in keeping with the recent retail investment property market theme.

## MARKET OUTLOOK IS MIXED

The GEA retail sector outlook is largely mixed. An improved economic growth trend is expected to emerge in 2020, which will support solid retail spending growth. Retailers will look to capitalize on the spending growth. Discounters and food-related brands will continue to forge ahead, accounting for a significant share of expansion activity over the near term. Leasing demand and supply will continue to stabilize. Investment region's market conditions are also expected to stabilize. Buyers will continue to target assets with healthy productivity records and solid tenant rosters. On balance, investment demand will continue to surpass supply, as investors look for opportunities to re-position or redevelop properties. Investment performance will remain below average, while broader market performance remains uneven.

### TRENDING STATISTICS

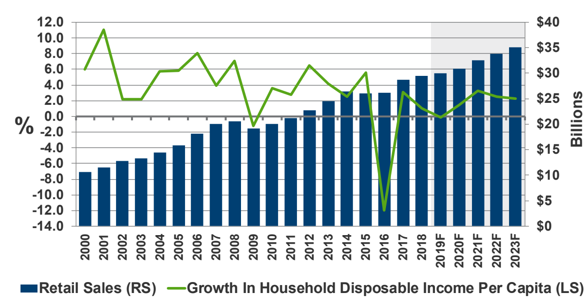
| FUNDAMENTALS | Δ YTD | 1-YEAR OUTLOOK |
|---|---|---|
| Vacancy Rate | ▼ | — |
| Net Absorption | ▲ | — |
| Lease Rates | — | — |
| New Supply | — | — |

The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).

**Historical Performance**
For The Period Ending June 2019

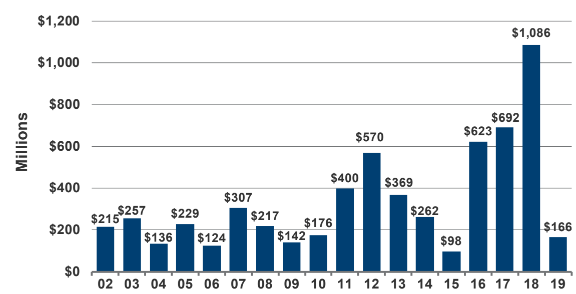

Source: © MSCI Real Estate 2019

**Retail Conditions**
Edmonton Historical & Forecast Aggregates




Source: Conference Board Of Canada

**Investment Activity**
Edmonton Retail Investment Volume To June 2019



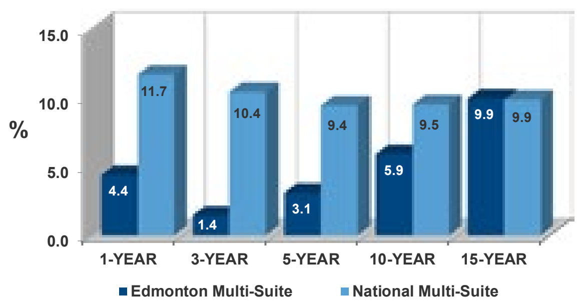

Source: CBRE Limited

## TRENDING STATISTICS

| FUNDAMENTALS | Δ YTD | 1-YEAR OUTLOOK |
|---|---|---|
| Vacancy Rate | ▼ | ▼ |
| Net Absorption | ▲ | ▲ |
| Lease Rates | ▲ | ▲ |
| New Supply | — | — |

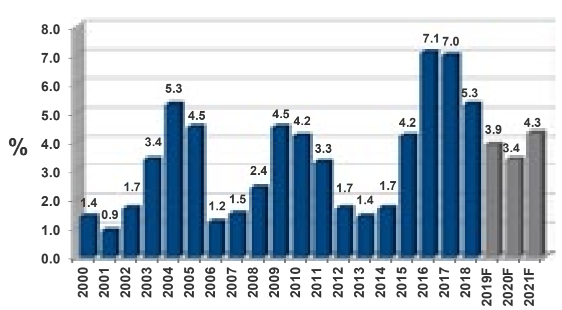
The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).

### Historical Performance
For The Period Ending June 2019



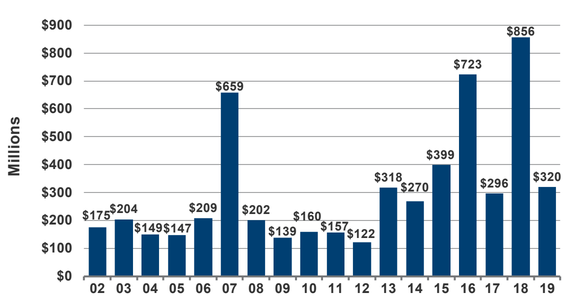

Source: © MSCI Real Estate 2019

### Average Rental Vacancy
Edmonton Apartment Structures Of Three Units & Over




Source: CMHC

### Investment Activity
Edmonton Multi-Suite Investment Volume To June 2019




Source: CBRE Limited

### RENTAL DEMAND FIRMED

Multi-suite residential rental demand firmed over the past year after a two-year period of moderation. The healthier demand environment was rooted in stronger migration flow and employment growth. Both interprovincial and international migration supported the stronger demand trend that emerged in 2018 and continued through much of 2019. This contrasted the trend of 2016 and 2017, when a significant number of people left the province after another sharp drop in oil prices. Employment growth also boosted rental demand across the Edmonton CMA recently. The increase was most prominent in the educational services and public administration services sectors. A total of 16,000 new jobs were created in the first 10 months of 2018 across the CMA, according to CMHC figures. Stronger rental demand positively impacted market fundamentals. A marked reduction in market vacancy was reported for the 12-month period ending October 2018. A rate of 5.3% was posted, as of October 2018 down 170 bps over the period. During the same time-period, the average market rent increased for the first time in three years for the CMHC's same-sample properties. The average rent for a two-bedroom unit increased 1.3%, contrasting the 1.3% decline a year earlier. The overall improvement in market fundamentals was the direct result of a firmer demand trend that unfolded in 2018 and 2019.

### INVESTMENT MARKET TRENDS WERE MODERATELY HEALTHY

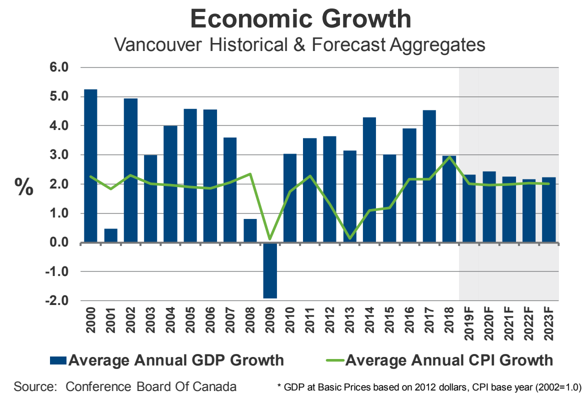
GEA multi-suite residential investment market trends reported over the recent past were moderately healthy. Investment demand patterns were stable and positive. Investors exhibited confidence in acquiring properties across the region at recent yield levels. Demand outdistanced the supply of properties made available, in keeping with the national multi-suite residential sector trend. National and regional groups continued to scour the region for assets that have historically stable and attractive performance records. Despite the supply shortfall, transaction closing activity has been robust of late. Transaction volume reached a 19-year high of $855.8 million in 2018, followed by a solid $319.7 million in sales recorded during the first half of 2019. Healthy transaction activity coincided with moderately positive investment performance. Properties tracked in the MSCI Index registered an attractive 4.4% annual average total return the year ending June 30, 2019. The result was attractive despite falling significantly short of the multi-suite residential rental sector average. Despite the underperformance, investors bid aggressively on available properties. This activity ensured property values were generally flat. The valuation stability was in keeping with the market's moderately healthy trends of the recent past.

### FURTHER PROGRESSION FORECAST FOR THE NEAR TERM

The recent run of positive performance in the GEA's multi-suite residential sector will persist through the late stages of 2019 and into 2020. Rental demand will continue to outpace supply, given a moderately positive economic and labour market outlook. Market vacancy will edge lower, resulting in a largely stable rental rate trend. This outlook will depend on continued recovery in the oil and gas sector. The anticipated improvement in rental market conditions will continue to draw investment to the region. As a result, investment demand will continue to surpass the supply of core properties offered for sale. Bidding will remain aggressive, in keeping with the trend of the past couple of years. Local groups will continue to source value-add properties. Investment performance will remain moderately attractive, driven by income growth. Property value should hold steady. The defensive attributes of the asset class and positive leasing market will draw capital to the market. Transaction volume will remain healthy, against a backdrop of continued and moderate multi-suite rental sector progression.

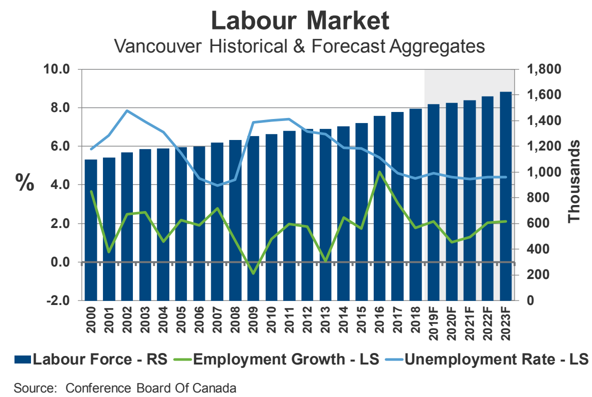
## ECONOMIC SNAPSHOT

The Vancouver CMA economy was tracking a solid rate of expansion during 2019. An increase in Real GDP of 2.3% was projected, with a similar advance anticipated for 2020. Economic expansion slowed during the latter half of 2018, due to a significant correction in the regional housing market. The brightest economic light was the professional, scientific and technical services sector, which has been the region's fastest growing industry. The solid rate of economic expansion reported over the past few years resulted in a firm employment growth trend and tight labour market conditions.



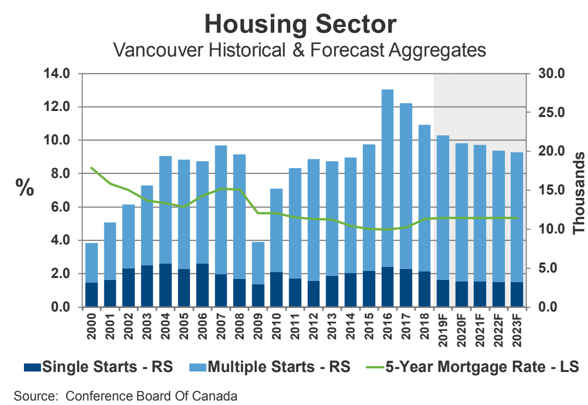

### MATURE PHASE OF GVA EMPLOYMENT GROWTH CYCLE UNDERWAY

The mature phase of the GVA employment growth cycle got underway recently, resulting in more moderate labour market performance characteristics. The maturation of the growth cycle was expected to result in a 2.1% rise in total regional employment in 2019. Previously, growth had reached a 17-year high in 2016 at 4.7%, with a subsequent 3.1% rise in 2017 and a modest 1.8% last year. The moderation of the employment growth trend was a function of slower economic growth. Labour market conditions have, however, remained tight. The regional unemployment rate ranged close to the 4.5% mark in both 2018 and 2019, a trend that was expected to persist for the next couple of years. Over the same time period, the region's employment growth trend was expected to continue to mature.



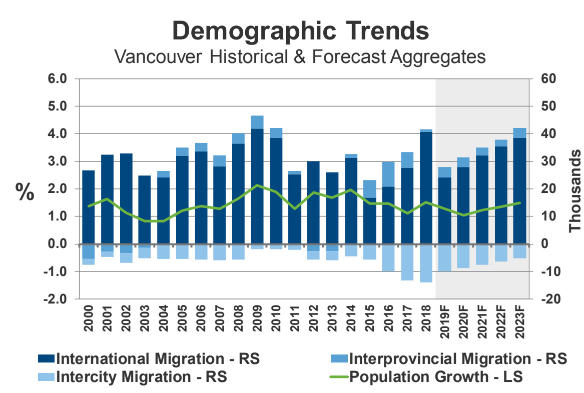

### SERVICES SECTOR GROWTH STEADIED

GVA services sector output has grown steadily during 2019, following a period of above-average performance. Aggregate services sector output was expected to rise by a solid 2.5% in 2019, according to the CBOC. This growth was slightly below the 2.8% average in 2018 and was more than a full percentage point below the most recent peak. The region's housing market slowdown of the past couple of years was the main reason for the services sector growth trend softening. This dynamic was expected to continue over the near term, which will reduce broader services sector output.




### MODERATION WILL REMAIN THE DOMINANT ECONOMIC THEME

A moderate rate of economic expansion is projected to the Vancouver CMA over the next few years. Real GDP will increase by between 2.2% and 2.4% annually between 2020 and 2023. Previously, output had increased by an average of between 3.0% and 4.5% from 2016 through to 2018, on an annual basis. The region's economic growth moderation is in keeping with the national trend. Similarly, employment growth will follow a more moderate growth path over the next few years. Between 2020 and 2023, the ranks of the employed will increase by a low of 1.0% to a high of 2.1%, annually. This growth trend will contrast the period between 2016 and 2018, when regional employment expanded by an average of between a low of 1.8% and a high of 4.7% on an annual basis. The moderation of the region's economic and employment growth trends forecast over the next few years reduced retail sales growth and housing start volume. A more moderate retail spending pattern is predicated on concerns related to high levels of household debt. The slow housing market recovery will result in a relatively modest volume of new housing starts. In summary, the Vancouver CMA's economy will continue to expand over the next few years, although the rate of expansion will be more in keeping with the national trend.

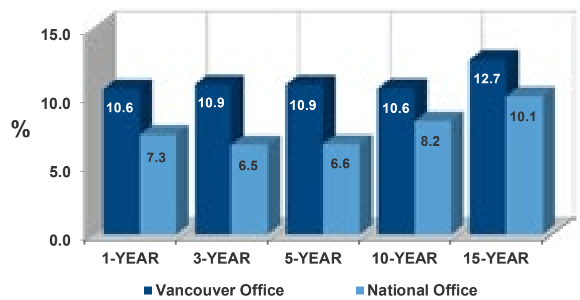


## TRENDING STATISTICS

| FUNDAMENTALS | Δ YTD | 1-YEAR OUTLOOK |
|---|---|---|
| Vacancy Rate | ▼ | ▼ |
| Net Absorption | ▲ | — |
| Lease Rates | ▲ | ▲ |
| New Supply | ▲ | ▲ |

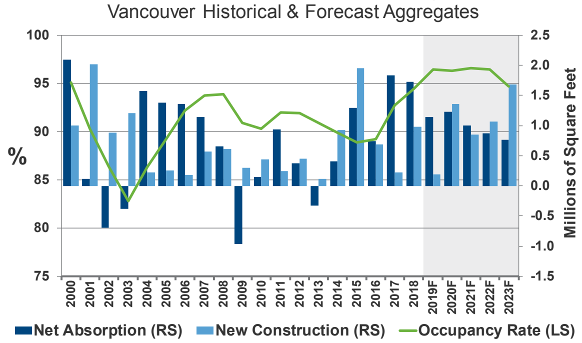
The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).

**Historical Performance**
For The Period Ending June 2019



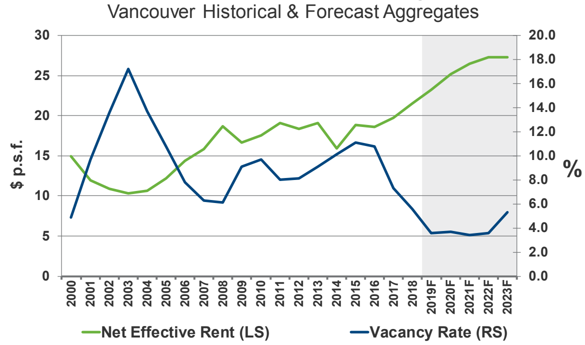

Source: © MSCI Real Estate 2019

**Office Demand & Supply**
Vancouver Historical & Forecast Aggregates




Source: CBRE Limited; CBRE Econometric Advisors

**Office Rent & Vacancy**
Vancouver Historical & Forecast Aggregates




Source: CBRE Limited; CBRE Econometric Advisors

### SUPPLY CONSTRAINTS CONTINUED

Constrained supply has been the dominant GVA leasing market theme of the past few quarters and years. The market average vacancy rate rested at just 3.8%, at the end of the third quarter of 2019. Supply was even more constrained downtown, where a vacancy rate of 2.4% was recorded. Tenants looking for a full floor of space in the downtown submarket were faced with few options. More broadly, tenants were often unable to upgrade their premises downtown, given a shortage of class A availability. When tenants were able to source higher quality space they were forced to pay cycle-high rents. Moreover, landlords were generally unwilling to offer incentives to prospective tenants. Demand characteristics have been strong enough over the past several quarters that landlords had confidence in their ability to quickly lease vacant space. Leasing market demand has come from a variety of sources. The technology sector was the leading demand-driver, however, as has been the case across much of the North American continent. Tenants were expected to continue to find it difficult to source available space options through to the end of 2019 and next year. Development sites have been in high demand over the recent past, given developer confidence in the market's long-term outlook. The next wave of new development completions was expected in 2020 and 2021, which could see some relief from the supply constraints of the past few years.

### BULLISH INVESTMENT MARKET CONDITIONS REPORTED

The GVA office property investment sector recorded largely bullish performance characteristics over the past year. Properties contained in the MSCI Index generated an attractive annual average total return of 10.6%, for the period ending June 30, 2019. This performance was the strongest of the major Canadian office markets tracked. In addition, the performance bested the office sector average by 330 bps and the broader index average by 380 bps, over the same time period. The bullish performance coincided with a strong investment demand cycle. Institutional and private capital groups scoured the region for investment opportunities. Downtown properties were the most highly sought after and most expensive. Properties at or near mass-transit hubs were also highly coveted. The prospect of cycle-low yields did little to dissuade investors. The strength of the market's demand cycle supported near-record high transaction volume. In the first six months of 2019, a total of $2.1 billion in sales was recorded. The 2019 pace was ahead of the near-record high annual transaction volume of $2.4 billion reported for 2018. The close-to-record high pace of sales reported over the recent past was in keeping with the largely bullish market conditions of the recent past.

### RECENT PERFORMANCE PATTERNS WILL BE REPEATED

Recent GVA office property sector performance patterns will be repeated over the near term. The forecast is generally predicated on an above-average economic growth trend and increased output and employment in key office user business sectors. The continued emergence of the region's technology sector will also have a positive influence on the office sector. Economic fundamentals will continue to support positive leasing demand patterns. On balance, demand should continue to outdistance supply, resulting in continued imbalance. The demand-pressure will ensure average market rents hold at the peak for the cycle, particularly for downtown space. Tenant options will be in short supply, potentially for the next couple of years. While there are a number of new buildings scheduled for completion over the next few years, close to half of this space is already pre-leased. Near-term leasing market conditions will boost investment performance and attract investment funds from a variety of sources. Investors will continue to covet the region and its office sector over the next few years. In short, a repeat of recent sector performance patterns will continue over the near term.

## LEASING MARKET TIGHTNESS HELD FIRM

GVA industrial leasing market conditions remained very tight over the recent past, resulting in a significant degree of imbalance. The market average availability rate rested at 2.5%, as of the end of the third quarter of 2019. The average was just 60 bps higher than the decade low of 1.9% reported six months earlier. The rapid lease up and absorption of available space continued to support the near record-low availability average. This included the modest volume of available space in the existing building inventory and in newly constructed properties. The rate at which space was absorbed during the first three quarters of was slightly stronger than that of the past several years. Between 2015 and 2018 annual net absorption averaged 4.7 million square feet annually. The continued strength of the market's demand cycle over the recent past resulted in additional upward pressure on already cycle-high average rents. Cycle-high rental averages were recorded in all market segments. Near-record low availability and cycle-high rents supported significant leasing market imbalance. Tenants had difficulty sourcing for expansion and relocation, despite a robust development cycle. There was roughly 5.2 million square feet of new supply underway in this market at the end of the third quarter of 2019. Despite the continued delivery of new supply to the region, leasing market conditions remained tight over the recent past.

## INVESTMENT MARKET OUTPERFORMED

The GVA industrial property investment market outperformed over the recent past. MSCI Index results were indicative of the sector's strength. GVA properties tracked in the index posted an attractive annual total return of 16.8% for the year ending June 30, 2019. The return was the highest reported since 2008 and was up 100 bps year-over-year. Moreover, the result was the third highest of the major markets tracked in the index and was substantially higher than the average for all property classifications combined. The market's outperformance was also reflected in transaction activity levels. In the first half of 2019, a healthy $634.5 million of industrial property was sold across the GVA. The total followed a record annual high of $2.0 billion in 2018. The pace at which properties transacted during this period was indicative of a strong demand cycle. Investors acquired properties in this market with confidence at prevailing yields. As with the broader industrial asset class, buyers were attracted by the market's rental growth and leasing outlook , as aggressive bids supported peak valuations. Multi-bid scenarios were common. Condominium properties have also attracted investment capital. Vendors achieved their pricing objectives. The competitive bidding environment was in keeping with the market's recent record of outperformance.

## SOLID SECTOR PERFORMANCE TRENDS FORECAST

Another period of solid performance pattern is forecast for the GVA industrial sector over the near term. Leasing fundamentals will remain among the strongest of the country's major markets, driven by an above-average demand cycle and economic outlook. The GVA economy is projected to expand by 2.3% and 2.4% in 2019 and 2020, respectively. This rate of expansion will support positive leasing demand patterns. As a result, availability will continue to hold close to the record low reported in early 2019. Tenants will continue to struggle to source space in which to expand or relocate. At the same time, they will be forced to pay benchmark-high rents. The strong leasing outlook will attract investors looking for stable and rising income. Properties offered for sale will continue to receive strong interest and strong bids. Assuming availability, transaction activity will remain brisk. At a minimum, property values will hold at the peak, although further cap rate compression is not out of the question. In summary, the GVA industrial property sector will exhibit consistently positive performance patterns over the near term, with the extension of the current phase of the cycle.

### TRENDING STATISTICS

| FUNDAMENTALS | Δ YTD | 1-YEAR OUTLOOK |
|---|---|---|
| Vacancy Rate | ▼ | — |
| Net Absorption | ▼ | — |
| Lease Rates | ▲ | ▲ |
| New Supply | — | ▲ |

The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).

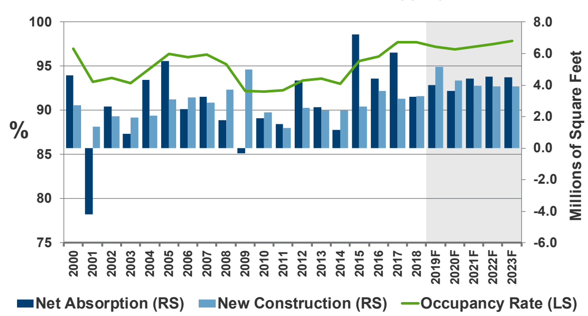
### Historical Performance

For The Period Ending June 2019


Source: © MSCI Real Estate 2019

### Industrial Demand & Supply

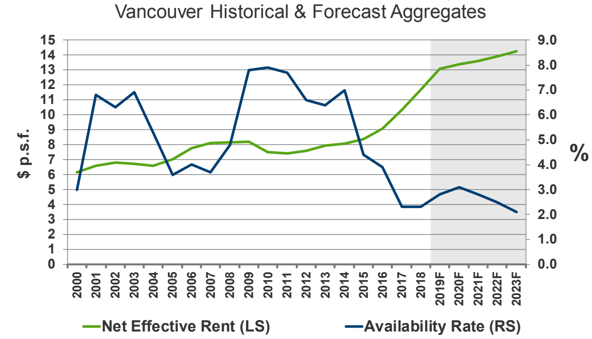
Vancouver Historical & Forecast Aggregates




Source: CBRE Limited; CBRE Econometric Advisors

### Industrial Rent & Vacancy

Vancouver Historical & Forecast Aggregates




Source: CBRE Limited; CBRE Econometric Advisors

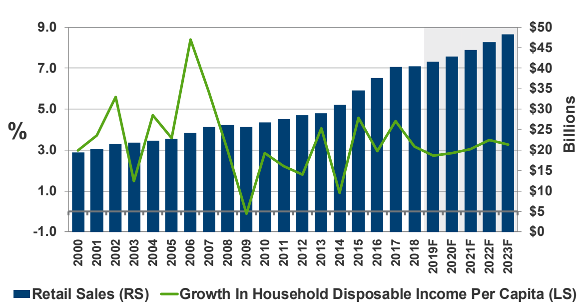
| TRENDING STATISTICS | | |
|---|---|---|
| FUNDAMENTALS | Δ YTD | 1-YEAR OUTLOOK |
| Vacancy Rate | ▲ | — |
| Net Absorption | — | — |
| Lease Rates | ▼ | — |
| New Supply | — | — |

The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).

**Historical Performance**
For The Period Ending June 2019

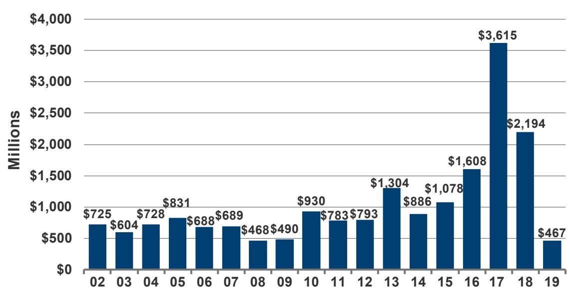

Source: © MSCI Real Estate 2019

**Retail Conditions**
Vancouver Historical & Forecast Aggregates




Source: Conference Board Of Canada

**Investment Activity**
Vancouver Retail Investment Volume To June 2019




Source: CBRE Limited

## LEASING FUNDAMENTALS SOFTENED

A slight softening of GVA leasing market fundamentals was recorded recently. Supply-side fundamentals softened, as evidenced by recent vacancy patterns. The GVA's average retail vacancy rate rested at 7.4%, as of the midway mark of 2019. This rate represented a 20-year high, having risen one full percentage point year-over-year. The market's rising vacancy trend had an impact on rental rates in certain segments of the market. Properties and nodes with excess vacancy exhibited downward rental rate pressure. In some centres, store closures forced landlords to offer lower rents to prospective tenants. In some cases, incentives were also provided in order to entice tenants into leasing space. Downward rental rate pressure was strongest for lower quality space, often in smaller strip centres. Rental averages were generally stable in shopping centres with strong productivity characteristics in established nodes. Downward rent pressure was the result of more moderate demand cycle and increased vacancy. The vacancy rise was a result of a steady stream of store closures that have taken place in this market and much of the country over the past couple of years. Well-known brands like Home Outfitters and Payless ShoeSource have closed stores in the GVA recently. Several independent street front stores have also closed their doors. Some of these were the result of rising property taxes. While there have been store closures in this market reported recently, expansions at least partially offset these losses. However, this activity was not enough to fully offset the softening of GVA leasing fundamentals over the recent past.

## INVESTMENT MARKET RESILIENCE CONTINUED

The resiliency of the GVA retail property investment market was displayed recently. This resiliency was reflected in moderately positive investment performance patterns. Properties contained in the MSCI Index generated a total average annual return of 5.8% for the 12-month period ending June 30, 2019. The return was the second highest, next to the GTA, of the country's largest retail markets. Moreover, the result was 290 bps better than the national average for the retail sector. The income component remained stable and healthy, while the capital growth trend eased substantially. There was a measure of resilience in the market's demand cycle. Both institutional and private groups have continued to acquire properties in this market at a relatively brisk pace. During the first six months of 2019, a total of $467.2 million in retail investment property sales was reported. While down from the previous year's pace, when $2.2 billion in sales was recorded, investors continued to place capital into this market with some degree of confidence. This confidence was emblematic of the broader GVA retail investment market's resilience that was displayed over the recent past.

## STABILIZATION WILL BE OVERRIDING SECTOR THEME

Stabilization will be the overriding GVA retail property sector theme over the near term. Leasing market conditions are expected to stabilize. Demand characteristics will be somewhat mixed. On the one hand, luxury brands and international retailers will continue to view the market favourably. Necessities-based retailers, including grocery, drug and liquor stores, will also seek out expansion opportunities. On the other hand, store closures will continue to reduce occupancy levels. The uneven demand cycle will continue to support near record-high vacancy. As a result, rents will hold at recent levels. Older strips will see increased downward rental pressure given an expectation of higher vacancy levels. Investment market conditions will also stabilize over the near term. Demand for stabilized properties with strong performance attributes will continue to attract investors. Those with upside potential will also find a willing audience. However, investors will more closely scrutinize the income streams of riskier properties. Increased scrutiny will be a constant in this market, during a period of continued stabilization over the near term.

## RENTAL MARKET IMBALANCE WAS SUSTAINED

A sustained period of imbalance was reported in the GVA multi-suite residential over the past year, a trend that has been in place for several years. Cycle-low vacancy levels supported the market's imbalance. The market average vacancy rate rested at just 1.0% as of the end of 2018, with a similar rate forecast for the end of 2019. A similar vacancy rate average was recorded in all unit-size categories. Market imbalance was also the result of healthy rental demand characteristics. The relatively high cost of the region's residential real estate prevented many families from transitioning from renting to home ownership, which helped stabilize rental demand. The bullish rental demand cycle was also a function of above-average economic and resulting job growth trends. Rental demand was also driven by the arrival of international and interprovincial migrants looking for work and a place to live. Lastly, the region's population growth trend also boosted rental demand. The strength of the market's demand cycle coupled with very low vacancy rates pushed rents steadily higher. In general, rents have continued to range at the peak for the cycle for several years. Families looking to rent accommodation in this region were faced with few alternatives and some of the highest rents in the country. This was a clear indication of the market's position of imbalance that had been sustained over the past few years.

## THE BULLISH PHASE OF THE CYCLE WAS EXTENDED

The bullish phase of the GVA multi-suite residential rental sector investment cycle was extended recently. Demand for prime properties with a history of healthy performance continued to outpace supply. National and regional investment groups scoured the region for opportunities, which were often in short supply relative to the volume of available capital. Against this backdrop, however, transaction volume continued to range close to the historic high. In 2018, a total of nearly $1.2 billion in sales volume was recorded, which represented the third highest annual total of the preceding 10-year period. This was followed by a further $204.8 million in sales during the first half of 2019. While sales activity slowed, investor sentiment remained bullish. Forecast rent growth was one of several investor motivations for acquiring properties in this market. Concrete high-rises in central locations were the most highly coveted properties in this market and received aggressive bids. Low rise and older product were also highly sought after, given a broadly positive performance outlook. The extension of the bullish phase of the GVA multi-suite residential investment sector was contained in recent performance patterns. Properties tracked in the MSCI Index registered an annual average total return of 10.9% for the year ending June 30, 2019. The return was both attractive and an indication that the bullish phase of the cycle had continued to unfold.

## RENTAL MARKET IMBALANCE WILL PERSIST

The GVA multi-suite residential rental sector will continue to be characterized by a significant level of imbalance over the near term. Families and individuals looking to rent accommodation will be faced with very few available options in which to relocate or upgrade. In general, rental demand will outdistance supply, in keeping with the long-term trend. Market vacancy will near to the cycle-low. The combination of stable and positive demand characteristics and very low supply will continue to drive rents progressively higher over the near term. The upward pressure on rents will be strongest downtown, although some measure of inflation will be the norm across much of the region. For owners this will mean stronger income performance and rising property values. Income growth will help drive investment sales. Investors will continue to pursue opportunities in this market, against a backdrop of rental market imbalance.

## TRENDING STATISTICS

| FUNDAMENTALS | Δ YTD | 1-YEAR OUTLOOK |
|---|---|---|
| Vacancy Rate | — | — |
| Net Absorption | — | — |
| Lease Rates | ▲ | ▲ |
| New Supply | — | ▲ |

The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).

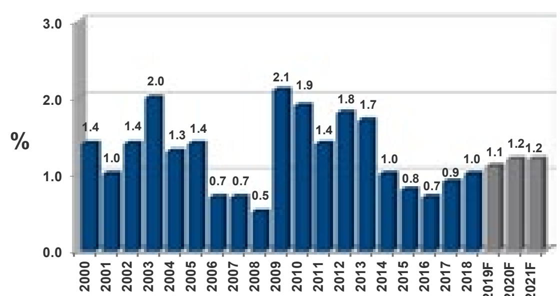
### Historical Performance

For The Period Ending June 2019


Source: © MSCI Real Estate 2019

### Average Rental Vacancy

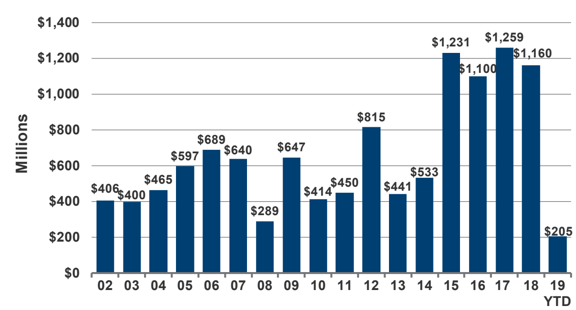
Vancouver Apartment Structures Of Three Units & Over



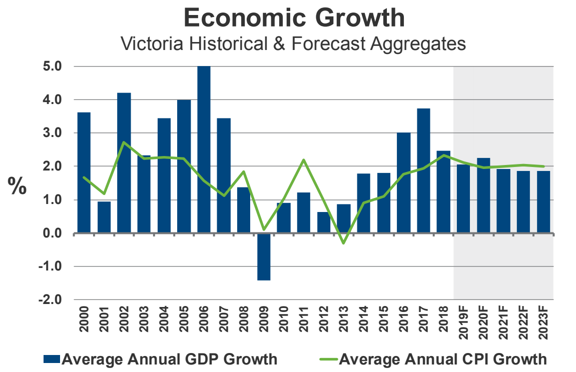

Source: CMHC

### Investment Activity

Vancouver Multi-Suite Investment Volume To June 2019



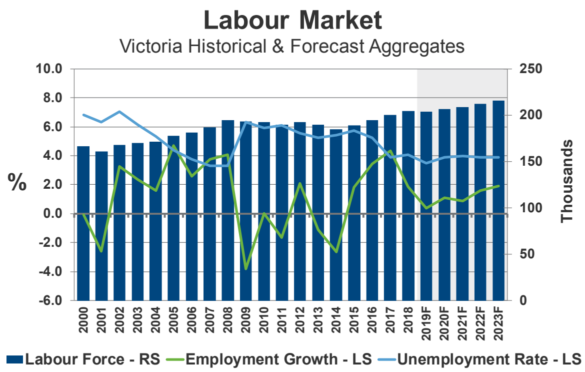

Source: CBRE Limited




Source: Conference Board Of Canada * GDP at Basic Prices based on 2012 dollars, CPI base year (2002=1.0)

## ECONOMIC SNAPSHOT

The Greater Victoria Area's economic growth rate of the recent past bested the long-term average by a significant margin. In 2019, output was forecast to rise by roughly 2.0%, 60 bps higher than the 10-year average of 1.4%. After successive periods of underperformance and outperformance the regional economy appeared to have settled into a moderate expansion pace. The economic growth trend supported largley stable and healthy labour market characteristics. Job growth has slowed, but gains continue to be made. Similarly, retail sales growth was forecast for 2019, albeit at a slower pace than the 2016-2017 peak period.



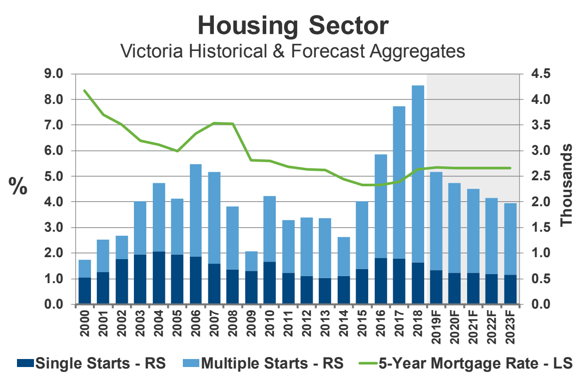

Source: Conference Board Of Canada

### JOB GROWTH TREND SOFTENED

The Greater Victoria Area job growth trend softened over the past year, after a period of healthy gains. The region's economy was expected to generate a 0.4% rise in total employment in 2019, down from a firmer 1.8% increase in 2018. To some extent, the growth eased as labour market conditions tightened. This scenario was common for most of the larger Canadian urban centres. Despite the weaker job growth trend, the regional unemployment rate was projected to fall to 3.5% in 2019, from 4.1% at the end of last year.

### STEADY GROWTH FORECAST FOR SERVICES INDUSTRY

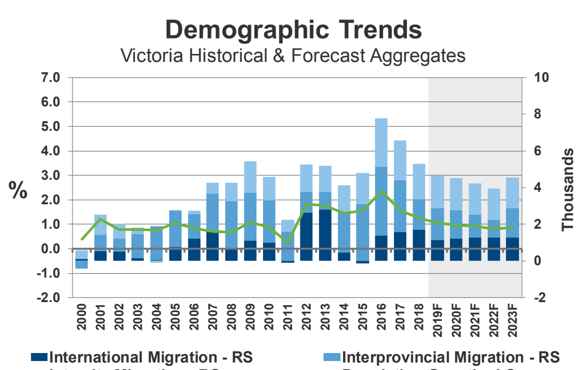
Steady growth characterized the region's near-term services sector performance, which was in keeping with the overall economic trend. A 2.3% advance in sector output was forecast for 2019, after a 2.1% rise was recorded last year. Historically, the region's economic fortunes have been tied to government-funded sub-sectors. The outlook for these sub-sectors was generally positive, given provincial government's fiscal surplus. The public administration, education and medical industries were all expected to post increased output this year. Aggregate services output was also forecast to steadily rise over the near term.




Source: Conference Board Of Canada

### EXPORT ACTIVITY BOOSTED MANUFACTURING OUTPUT

The strength of the region's manufacturing sector of the recent past was attributable to healthy export activity. Manufacturing sector output was projected to increase by 2.0% in 2019, down modestly from the 2.5% rise of 2018. Shipbuilding contracts at Seaspan's Victoria Shipyards were also expected to boost manufacturing output. Various projects were expected to keep workers on site for up to 20 years. However, increased export volume was expected to remain the most significant driver of manufacturing sector growth over the near term.




Source: Conference Board Of Canada

### GROWTH WILL SURPASS LONG-TERM AVERAGE

The Greater Victoria Area economic growth rate will continue to outpace the long-term average over the next few years. The CBOC is projecting Real GDP will rise by an annual average of just short of 2.0% between 2020 and 2023. The provincial government's surplus fiscal position will support increased sector output, by providing funding for various services industries. The moderate growth trend will result in higher employment levels, which will boost retail spending. Household income growth will also add to the upward pressure on retail consumption patterns. Labour market conditions will remain tight, which should push average wages higher. Employment opportunities, though less plentiful, will draw migrants to the region. In short, the regional economic growth rate forecast for the next few years will outdistance the long-term average.

## LEASING MARKET TIGHTENING REPORTED

Greater Victoria Area office market conditions tightened over the recent past, due to an increase in leasing demand. The market's average vacancy rate for all classes of space combined dropped 80 bps to 5.8% during the first six months of 2019 alone. Conditions tightened even more in the downtown submarket during the same time period. Downtown vacancy fell to 4.7%, while the suburban average increased 60 bps to 7.3%. The market's aggregate downward vacancy trend was expected to ease in late 2019, with the delivery of new supply. The Greater Victoria Area office market tightening was driven by an increase in leasing demand. Several private and public sector expansions were completed recently. In the private sector, flexible workplace provider Regus recently expanded its office space footprint by 39,015 square feet. This included space in both the downtown and suburban submarkets. Additionally, approximately 51,300 square feet of space was pre-leased at phase 2 of the new Capital Park development by the public sector for occupancy later this year, according to Colliers International. These two lease commitments, in addition to several other smaller expansions, resulted in the absorption of a significant volume of office space. Despite this activity, however, market rents stabilized during the second half of 2018 and through much of 2019. This period of stabilization persisted as leasing market conditions tightened.

## STABILIZATION WAS THE DOMINANT INVESTMENT MARKET THEME

Stabilization was the overriding Greater Victoria Area office property investment market theme over the recent past. The stabilization of the market's demand cycle was reported over the recent past. Institutional groups have continuously combed the market for property acquisition opportunities. Often, the end game was to diversify beyond the country's largest population centres. The most popular investment targets were properties with long-term government tenancies in central locations. In keeping with the historic trend, the availability of properties with these attributes was very limited. Local investors continued to target downtown properties with longer-term upside potential. Investors exhibited confidence in this market and strong interest in acquiring properties with yields superior to those of the nation's major business centres. The stable and positive investment demand trend continued to support healthy transaction activity levels. In the first half of 2019, a total of $34.7 million in office property sales was reported across the Greater Victoria Area. Previously, $123.3 million in transaction volume was reported in 2018, which was slightly higher than the five-year annual average. Stable and positive transaction activity was in keeping with the broader market theme.

## SECTOR FUNDAMENTALS TO REMAIN HEALTHY

Greater Victoria Area office property market fundamentals will remain relatively healthy over the near term. The sector outlook is predicated on continuously positive office space demand patterns. Private sector demand will be driven by a solid economic trend, with expansion of 2.0% and 2.2% forecast for 2019 and 2020, respectively. The public sector is also expected to add to the leasing demand pressure, give a position of fiscal surplus. The resulting downward vacancy pressure will be offset, to some extent, by the delivery of newly constructed space to the market over the near term. This dynamic will support a balanced market and stable rents. Stable and positive leasing market conditions draw investment capital to the region. Institutional and local private groups will continue to source opportunities in a market with a solid track record of performance. However, in keeping with the market's long-term history, availability will be limited. Bidding on available assets will remain aggressive, especially for assets with long-term government tenants. Downtown assets and high-quality suburban properties will be highly coveted. In summary, the continued health of Greater Victoria office sector fundamentals is forecast over the near term.

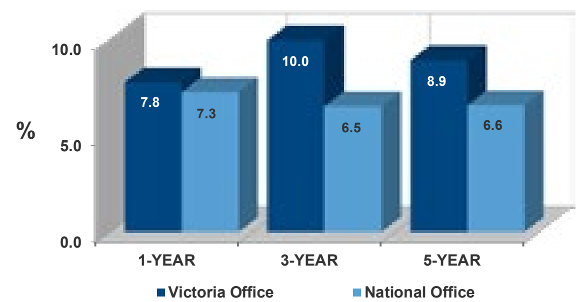
## TRENDING STATISTICS

| FUNDAMENTALS | Δ YTD | 1-YEAR OUTLOOK |
|---|---|---|
| Vacancy Rate | ▼ | ▲ |
| Net Absorption | ▼ | — |
| Lease Rates | — | — |
| New Supply | — | ▲ |

The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).

### Historical Performance

For The Period Ending Dec 2018*

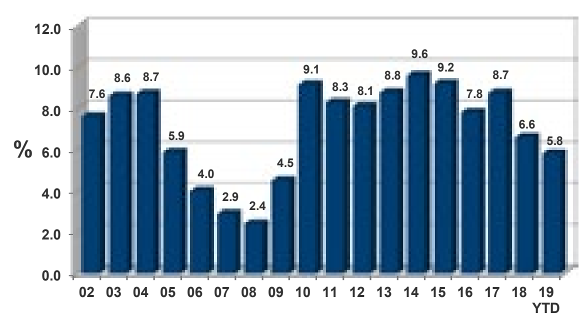



Source: © MSCI Real Estate 2018

*2019 Data unavailable due to confidentiality rules applied based on the market size

### Office Vacancy

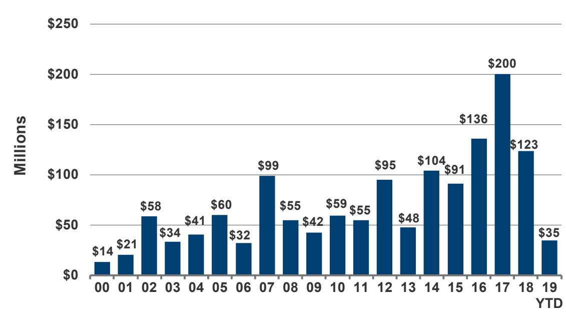
Victoria Historic Aggregates - To June 2019




Source: Colliers International

### Investment Activity

Victoria Office Investment Volume To June 2019



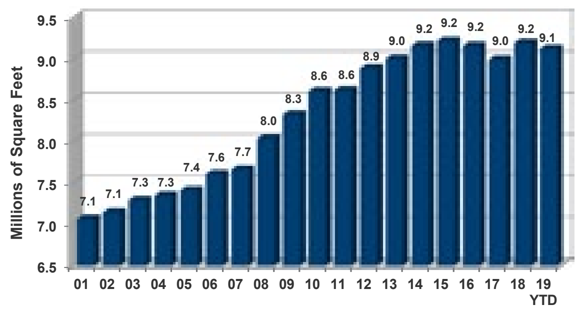

Source: Colliers International; RCA

| TRENDING STATISTICS | | |
|---|---|---|
| FUNDAMENTALS | Δ YTD | 1-YEAR OUTLOOK |
| Vacancy Rate | ▼ | — |
| Net Absorption | ▲ | — |
| Lease Rates | ▲ | ▲ |
| New Supply | — | ▲ |

The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).

**Industrial Inventory**

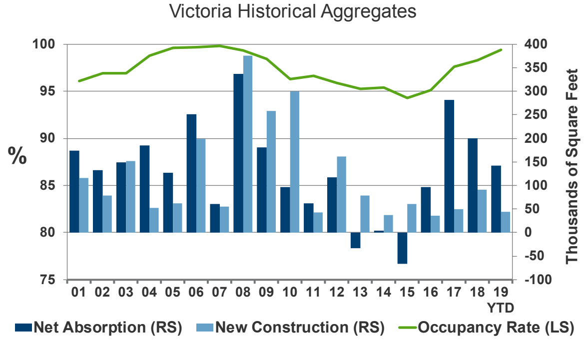
Victoria Historic Aggregates - To June 2019




Source: Colliers International

**Industrial Demand & Supply**

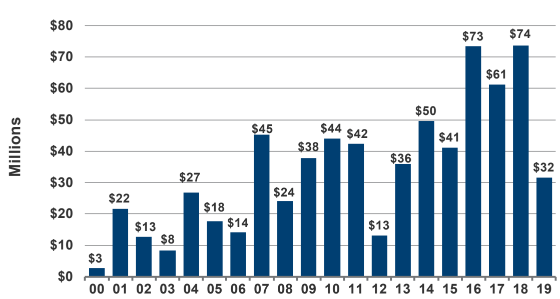
Victoria Historical Aggregates




Source: Colliers International

**Investment Activity**

Victoria Industrial Investment Volume To June 2019




Source: Colliers International; RCA

## LEASING DEMAND CONTINUED TO OUTSTRIP SUPPLY

Industrial leasing demand continued to outstrip supply in the Greater Victoria Area over the recent past. Leasing demand was driven by a moderately healthy economic growth trend. The region's technology and manufacturing sectors have outperformed. As well, shipyard activity bolstered demand for industrial space. Leasing demand continued to drive market availability lower over the past year as tenant options dwindled. The market average availability rate rested at just 0.6%, as of the end of the first half of 2019. A year earlier, the average availability rate was 1.1%, according to Colliers International figures. In both cases, the supply of available space was very low. Tenants and owner occupiers struggled to source available space alternatives in which to expand, relocate or open new businesses. For the most part, all submarkets were operating at full, or close to full, capacity. Often, businesses were forced to make do with their existing space. Demand continuously outstripped over the past few years, resulted in the setting of new benchmark-high rents across the region. This included both asking net rents and those achieved when space was leased. In addition, the demand supply imbalance drove industrial development land prices to a high for the cycle. The strength of the market's demand cycle supported a significant increase in development activity. A total of 400,000 square feet of new supply was in various stages of development planning stages at the midway mark of 2019. The increase in development activity was a direct result of a market dynamic whereby demand has consistently outdistanced supply.

## INVESTMENT MARKET TRENDS WERE GENERALLY BULLISH

Trends observed in the Greater Victoria industrial property investment market have been bullish over the past year. Investment demand patterns were generally healthy. The most active of buyer groups was local private capital, which has been the case through most of the market's recent history. Nationally focused largely institutional groups also pursued acquisitions in this region over the recent past. However, the emphasis has typically been on large bay properties of which there are relatively few in this market. On balance, investors were bullish on the market's performance outlook. As a result, investment activity has been relatively strong over the recent past. During the first six months of 2019, $31.6 million of industrial property sales was recorded. The pace was in keeping with the 2018 trend, when a 19-year high $73.5 million in sales was reported. In general, when properties were placed on the market for sale, bids were representative of the peak of the valuation cycle. Investors were anxious to increase their portfolio in a market with a healthy rent growth outlook and very low availability. In summary, largely bullish investment market trends were evidenced in the Greater Victoria Area industrial property sector over the past year.

## LEASING MARKET TRENDS WILL POSITIVELY IMPACT PERFORMANCE

The ongoing strength of the Greater Victoria industrial leasing market will have a positive impact on investment performance over the near term. Leasing market imbalance will continue to apply upward pressure on average market rents. At the same time, most properties will be fully or close to fully occupied. The combination of rent growth and full to near-full occupancy will support healthy income performance characteristics for owners of industrial property in this market. Minimally, property values will continue to hold at the peak for the cycle, although minor increases may be tallied. Moving forward, landlords will also be able to command higher rents when renewing tenant leases, given a shortage of relocation options. Despite the delivery of newly built space supply constraints will remain a market constant over the next 12 to 24 months. Leasing market trends forecast over the near term will continue to draw investors and have a positive impact on investment performance.

## LEASING MARKET PERFORMANCE WAS MIXED

The Greater Victoria Area leasing market performance of the recent past was somewhat uneven. In the downtown area, largely positive leasing market trends were reported. Downtown leasing demand firmed over the past year. Several new stores have opened their doors recently on several downtown streets. Anytime Fitness and several restaurants and bars have opened their doors in various locations. Leasing demand has also been brisk for newly built retail space on the lower floors of new condominium developments. The recent improvement in leasing demand in the downtown area resulted in modest upward pressure on rents. Coincidentally, retailers have also had to contend with higher operating costs, as employee wages have risen. While downtown leasing demand firmed, shopping centre leasing activity was more muted. This disparity was reflected in vacancy characteristics over the recent past. The market average shopping centre vacancy rate rested at 7.7%, as of the end of 2018, up from 4.4% a year earlier according to Colliers' data. However, in much of the rest of the market vacancy was relatively stable. Downtown vacancy edged just 30 bps higher over the same time period. The uneven vacancy trend was symptomatic of the broader leasing market performance of the recent past.

## INVESTMENT MARKET VARIATION WAS MODEST

Variation in Greater Victoria Area retail property investment sector market conditions was relatively minor over the past year. Demand for prime retail assets outdistanced available supply. This dynamic has been in place through much of the market's recent history. Institutional investors have had little success in sourcing high-quality properties. Local groups have been more successful in acquiring assets with smaller price points and riskier profiles. The market's stable demand pattern was reflected in recent transaction closing volume characteristics. Investment transaction activity has been consistently healthy over the past couple of years. During the first half of 2019, a total of $124.8 million in retail property sales was reported. The first-half total was markedly higher than the $70.7 million total for the 2018 calendar year and was indicative of the market's healthy investment demand trend. While the market's demand cycle has remained stable and positive, investment performance has been relatively weak. A 1.9% average total return for the 12-month period ending June 30, 2019 was registered for properties contained in the MSCI Index. The mildly positive result was entirely income driven, which was also the case during the prior period. The absence of significant variation in investment performance over the recent past was in keeping with the broader market theme.

## EXTENDED PERIOD OF STABILITY FORECAST

An extended period of stabilization is forecast for the Greater Victoria Area retail sector. A tight labour market and moderate economic growth will advance retail sales by an average of roughly 2.0% during 2019 and 2020. The positive economic and labour market outlook will continue to drive retailer productivity and leasing demand over the near term. Increased tourist traffic will also boost retailer productivity. Expansion activity, while modest, will result in continued tightness in Victoria's retail leasing market. Vacancy rates will rest near the averages of the past year, for both the region's shopping centres and downtown street front market segment. The stable and healthy leasing market outlook will continue to attract investors, despite broader industry headwinds. Local private groups will target smaller and value-add properties. Institutional groups will continue to try to access the region's highest-quality and generally larger properties. Property values will continue to decline, following the trend of the past year. In short, there is minimal variation in Greater Victoria retail sector conditions forecast over the near term.

### TRENDING STATISTICS

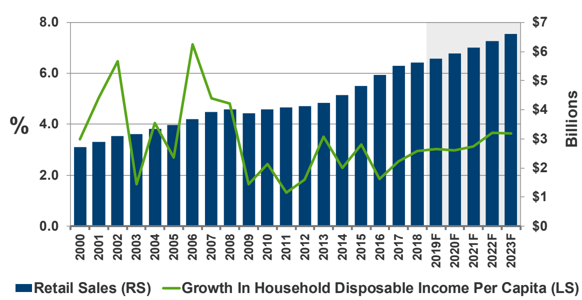
| FUNDAMENTALS | Δ YTD | 1-YEAR OUTLOOK |
|---|---|---|
| Vacancy Rate | ▲ | ▲ |
| Net Absorption | ▼ | — |
| Lease Rates | — | — |
| New Supply | — | — |

The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).

**Historical Performance**
For The Period Ending June 2019

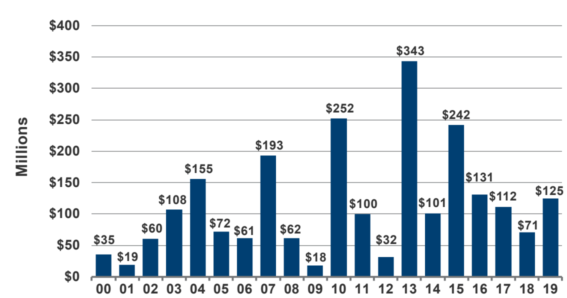

Source: © MSCI Real Estate 2019

**Retail Conditions**
Victoria Historical & Forecast Aggregates




Source: Conference Board Of Canada

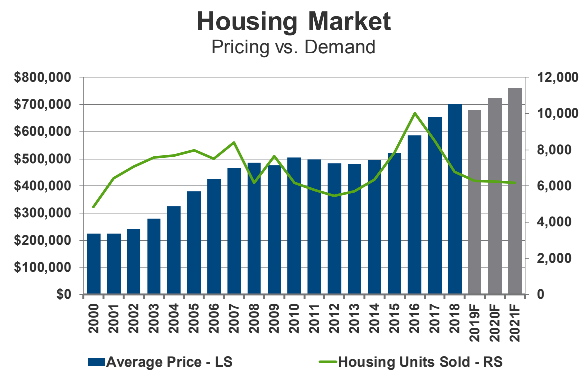
**Investment Activity**
Victoria Retail Investment Volume To June 2019




Source: Colliers International; RCA

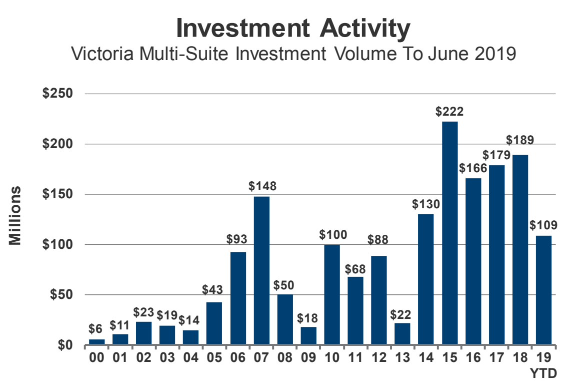
| TRENDING STATISTICS | | |
|---|---|---|
| FUNDAMENTALS | Δ YTD | 1-YEAR OUTLOOK |
| Vacancy Rate | — | — |
| Net Absorption | — | — |
| Lease Rates | ▲ | ▲ |
| New Supply | ▲ | — |

The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).




Source: CREA (MLS®); CMHC


Source: CMHC




Source: Colliers International; RCA

## RENTAL MARKET CONDITIONS WERE TIGHT AND STABLE

Conditions in the Greater Victoria Area multi-suite residential rental market were tight and stable over the recent past, in keeping with the national trend. Vacancy levels continued to hover close to 1.0% over a four-year period to the end of 2018. The market average vacancy rate was 1.2% at the end of 2018. Similar vacancy levels were reported for both the City of Victoria and the surrounding submarkets combined. Recently, there was a slight increase in the Greater Victoria Area average vacancy rate due to an increase in new construction completions. However, the rise was negligible. Tight rental market conditions reported across the region over the past few years was a byproduct of generally stable and positive demand characteristics. Demand moderated in 2018 but the overall trend remained positive. The moderately positive demand trend of 2018 and 2019 drove rents higher in all submarkets of the Greater Victoria Area market. The Victoria CMA's average monthly rent increased to $1,170 from $1,022, year-over-year as of October 2018 for the CMHC's same-sample properties. Barring a material change in rental market conditions rents were expected to continue to steadily climb through 2020. In keeping with the trend of the past 12 to 24 months, rental market conditions were expected to remain tight and stable.

## STABILIZATION WAS PROMINENT INVESTMENT MARKET THEME

The Greater Victoria Area's most prominent investment market theme of the recent past was stabilization. The market's demand cycle remained strong, mirroring the national trend. Institutional investors looked to the region for stabilized properties in order to increase the geographic diversification of their portfolios. Local private groups looked to secure properties that provided stable income streams and rent growth. The yields premium offered in this market also attracted investors. However, the volume of properties brought to market remained limited, which was a function of the relatively small inventory of properties in this region. The overall strength of the market's demand cycle supported healthy transaction activity levels over the recent past. A total of $109.0 million in multi-suite residential rental property sales was reported during the first half of 2019. The 2019 pace was slightly ahead of the activity reported during the same time period in 2018. Additionally, the 2019 first-half total was in line with the peak period that began in 2015. During this period, property values have ranged at the peak for the cycle. This consistency was in line with market's most prominent theme of the recent past.

## SECTOR OUTLOOK IS GENERALLY POSITIVE

The Greater Victoria Area multi-suite residential rental sector near-term outlook is generally positive. Rental market vacancy will rise over the next 12 to 24 months. However, levels will continue to remain near the cycle-low. The modest upward trend will unfold as a result of increased new construction activity. Broadly positive demand fundamentals will continue to characterize the rental market over the near term. A moderate economic growth trend and labour market trends will continue to support rental demand. The high cost of home ownership in the region will also bolster the region's demand trend. The combination of low vacancy and healthy demand will push rents moderately higher. However, rent growth will be tied to inflation. In the past, the allowable annual rent increase had been inflation plus 2.0%. The limitation on allowable rent increases will moderate income growth for owners of properties in this market. However, rents will continue to rise, which will continue to attract investors looking for growth. National and local groups will continue to increase their exposure to a market that will provide higher yields than those offered in larger markets. The opportunity to increase geographic diversification within existing real estate portfolios will also entice investors. In short, the market's recent run of positive performance will persist over the near term.

ACKNOWLEDGEMENTS

## RESEARCH RESOURCES

In the course of compiling the statistical information and commenting on real estate markets, nationally, regionally and across Canadian metropolitan areas, we acknowledge the assistance and feedback from the following parties in completing this report:

The Altus Group, Avison Young, Bank of Canada, Bank of Japan, BMO Economics, BMO Nesbitt Burns, British Bankers' Association, Brunsdon Martin & Associates, Canada Newswire, Canada Mortgage and Housing Corporation (CMHC), The Canadian Real Estate Association (CREA), CBRE Econometric Advisors, CBRE Limited, CIBC World Markets, Colliers International, Commercial Edge, Conference Board of Canada (CBOC), Cushman & Wakefield, Developers & Chains e-news, Economy.com, European Central Bank, The Federal Reserve Board, Frank Russell Canadian Property Index (RCPI), The Globe and Mail, ICR Commercial Real Estate, Altus-Insite Research, International Council of Shopping Centers (ICSC), International Monetary Fund, JLR Land Title Solutions, The Johnson Report (Winnipeg), Jones Lang LaSalle, Monday Report on Retailers, MSCI, The Network, Ottawa Business Journal, PC Bond Analytics, PricewaterhouseCoopers, RBC Capital Markets, RBC Economics, Real Capital Analytics, RealNet Canada Inc., RealTrack Inc., Rogers Media, Scotia Capital, Statistics Canada, TD Economics, Toronto Star, Torto Wheaton Research, TSX Datalinx, United States Department of the Treasury, Urban Land Institute, York Communications

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| North America, Office, Industrial, Retail, Residential, Hotel | Investment Management, Asset Management, Property Management, Ownership | Performance, Growth, Governance, Risk Management, Sustainability, Community |
|---|---|---|

Morguard's core strength is real estate ownership, management and investment. With a strategic focus on high-quality assets and diversification, we realize the potential of real estate through consistent investment performance. Our primary business strategy is to generate stable and increasing cash flow and asset value by improving the performance of the real estate investment portfolio and by acquiring and developing real estate properties in sound economic markets. We have developed a broad and efficient real estate platform in North America to manage our own real estate portfolio, as well as invest and manage real estate on behalf of institutional clients. Today, our owned and managed Real Estate Portfolio is valued at $16.3 billion.

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