2021 CANADIAN ECONOMIC OUTLOOK AND MARKET FUNDAMENTALS SECOND QUARTER UPDATE

23RD ANNUAL EDITION

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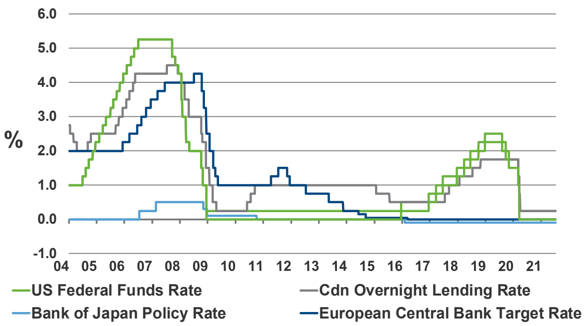
TABLE OF CONTENTS

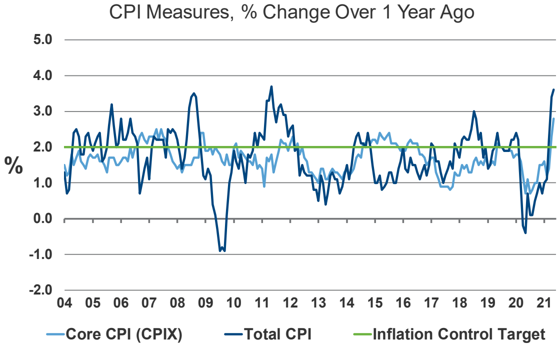
Financial Report	3
Investment Report	4
Leasing Report	5
Economic Report	6
Transactions	7
Acknowledgements / Works Cited	8

Official Policy Rates
International Monetary Conditions



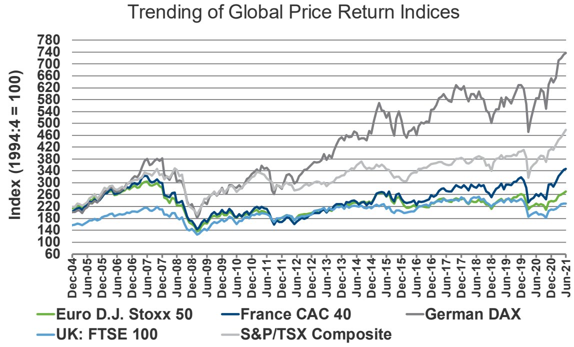
Source: Bank Of Canada, Federal Reserve Board, European Central Bank, Bank of Japan

National Inflation
CPI Measures, % Change Over 1 Year Ago



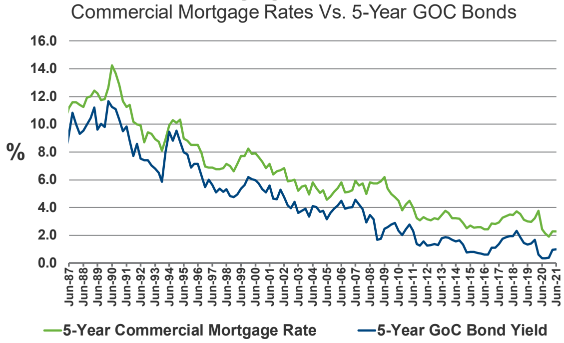
Source: Bank Of Canada, Statistics Canada

Global Indices
Trending of Global Price Return Indices



Source: RBC Capital Markets

Mortgage Spreads
Commercial Mortgage Rates Vs. 5-Year GOC Bonds



Source: RBC Capital Markets, Bank of Canada

AS EXPECTED, BANK OF CANADA'S POLICY STANCE WAS LARGELY UNCHANGED

The Bank of Canada (BofC) maintained its accommodative monetary policy stance during the second quarter, in keeping with the expectations of most experts. The bank announced it would hold its overnight target rate and Bank Rate at 0.25% and 0.5%, respectively on June 9th. Coincidentally, the Bank's decision to maintain its extraordinary forward guidance on the path for the overnight rate was reinforced and supplemented by a quantitative easing (QE) program to the tune of at least $3.0 billion per week. In April, the bank had tapered its QE program from $4.0 billion per week, given an improved economic and financial outlook. However, the bank's Governing Council (GC) cited excess economic capacity as justification for the maintenance of extraordinary monetary policy support. Canadian economic activity was forecast to strengthen significantly in the second half of the year, thereby absorbing some of the slack. At the same time, the nation's labour market recovery was expected to have firmed, especially in sectors hardest hit by pandemic restrictions. The strength of the recovery was expected to be a key consideration in the bank's monetary policy normalization schedule, following a prolonged period of extraordinary support.

INFLATION PRESSURE INCREASED

Upward pressure on consumer prices increased substantially during the second quarter, after an extended period of muted growth. Canada's Consumer Price Index (CPI) rose 3.6% year-over-year in May, up 20 bps from the previous month. The rise represented the largest annual increase since May 2011, although partially driven by base-year effects on the gasoline, furniture and beef product sectors. In May 2020, prices generally began to recover from the declines racked up during the pandemic's initial phase. However, averages remained significantly below pre-pandemic levels and were the basis for the May 2021 year-over-year pricing comparison. A marked increase in consumer prices was reported in most spending categories tracked. Rising costs of shelter and passenger vehicles were key drivers of the year-over-year upward pricing trend. Year-over-year gasoline prices surged by 62.5% and 43.4% in April and May 2021, respectively. On a month-over-month basis, the average price of gasoline was up 3.2% in May, due in large part to pipeline disruptions in the U.S. and production cuts by international producers. The second quarter inflation pressure was thought to be temporary, with forecasts calling for more moderate price growth in the second half of the year. However, by the end of the second quarter, it increased upward pressure on consumer prices could last longer than expected.

EQUITY MARKET RUN-UP PERSISTED

The Global equity market run-up persisted during much of the second quarter, driven by strong upward earnings revisions and positive economic momentum. Global equity markets rose to a new record high in May and early June. In the second quarter, the MSCI ACWI surged by a stellar 5.3% and was up 11.0% year-over-year by early June. Earnings were expected to continue to rise over the subsequent year, surpassing pre-pandemic levels by a substantial margin. Canada's S&P/TSX posted strong results during the second quarter, driven by healthy advances in the energy, materials and banks sectors. Canadian equity market gains have been supported by a surge in economic output year-to-date and increased momentum forecast for the second half buoyed by quicker-than-expected vaccine roll out. A stronger global economy was expected to boost demand for Canadian exports, which should push commodities sector pricing and values higher. More broadly, global economic momentum will drive positive equity market performance over the near term, in keeping with the second-quarter trend.

INVESTMENT DEMAND CHARACTERISTICS FIRMED

Canada's commercial property sector investment demand characteristics firmed during the second quarter, against a backdrop of rising economic optimism. Investors continued to target multi-suite residential rental and industrial property acquisitions more frequently, given the current and forecast performance expectations for both sectors. In the office sector, buyers were generally more cautious, focusing largely on stabilized assets with strong tenant profiles in prime locations. Demand for retail properties with defensive attributes, especially those with grocery, drug store, financial services and liquor store tenants remained relatively stable and positive. Purchasers of properties with largely non-essential and aspirational tenants continued to stand on the sidelines while assessing the impacts of pandemic lockdowns and waiting the return of shoppers to physical stores. Investment demand characteristics continued to have somewhat of an impact on cap rates during the second quarter. Multi-suite residential and industrial asset class cap rates continued to hold at benchmark low levels for the cycle, as demand outdistanced supply. Cap rates for stabilized class A office and essential retail held close to cycle-low levels as well. Conversely, higher risk retail property cap rates were generally higher than those recorded before the pandemic. Looking ahead, commercial real estate fundamentals are forecast to strengthen over the near term, which will impact investment decisions in the post-pandemic era.

INDUSTRIAL SECTOR'S IMPRESSIVE RUN CONTINUED

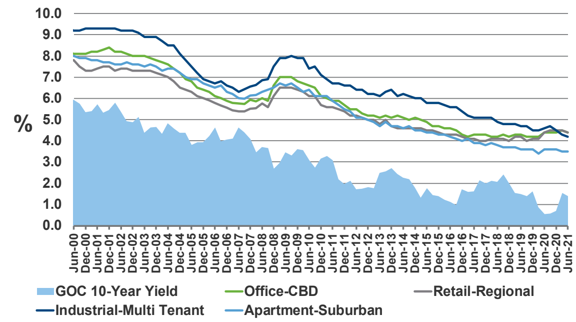
Canada's industrial investment property sector continued its impressive run during the second quarter. Transaction closing activity remained brisk, with offerings receiving strong interest from institutional, private and public capital groups. Generally, investors bid aggressively on functional warehouse and distribution and logistics product across the country and often competed with owner/users for limited supply. In some cases, investors looked to acquire and improve older, less functional properties to meet their investment objectives. Several significant sales were completed between the beginning of April and the end of June in the country's major markets. The combination of robust demand and limited supply resulted in continued downward pressure on already benchmark-low cap rates. Upward pressure on rents continued to drive property values moderately higher. Some owners looked to capitalize on current and forecast market conditions by bringing properties to the market for sale. In turn, they were generally able to achieve their pricing objectives. In short, the Canadian industrial property sector continued its impressive run during the second quarter, a trend that is expected to continue in the second half of the year and into 2022.

INVESTMENT ACTIVITY IS EXPECTED TO INCREASE

Canadian commercial property sector investment activity is expected increase over the near term. The forecast is predicated on a markedly improved economic outlook, due to the brisk roll out of the nation's vaccine program and resulting uptick in domestic demand. The brighter outlook is expected to positively impact the commercial real estate sector in several ways. Retail and office market fundamentals will improve as workers return to their offices and shoppers return to physical stores in greater numbers with the wind down of pandemic restrictions. At the same time, industrial sector fundamentals will remain strong and stable. The return of foreign students and international immigrants will boost multi-suite residential rental property market performance, as ground lost due to the pandemic is regained. Gradually, investors are expected to increase capital allocations to the Canadian commercial real estate sector with the strengthening of the national economy and resulting increase in demand for rental space. In turn, investor confidence will increase, thereby boosting investment sales over the near term.

Yield Spreads

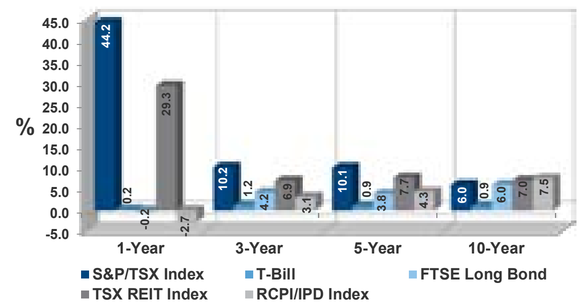
Cap Rates vs. 10-Year GOC Bonds



Source: AltusInSite, Bank of Canada

Relative Performance

Comparing Annualized Returns To March 2021



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

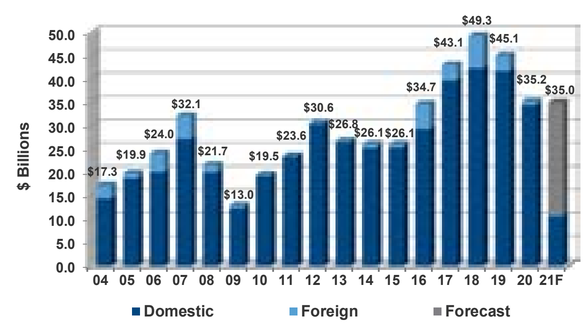
MSCI Returns

Annualized Returns By Property Type To March 2021

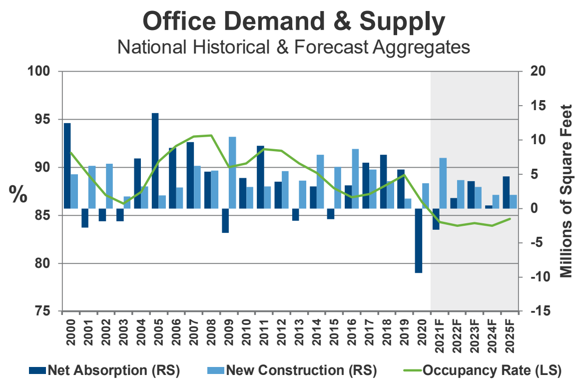
Source: © MSCI Real Estate

Investment Activity

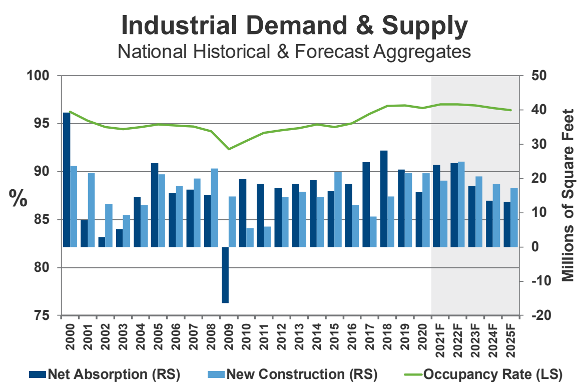
Total Investment Volume



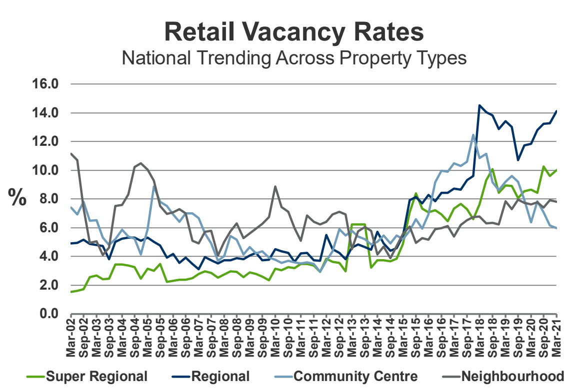
Source: CBRE Limited; Morguard



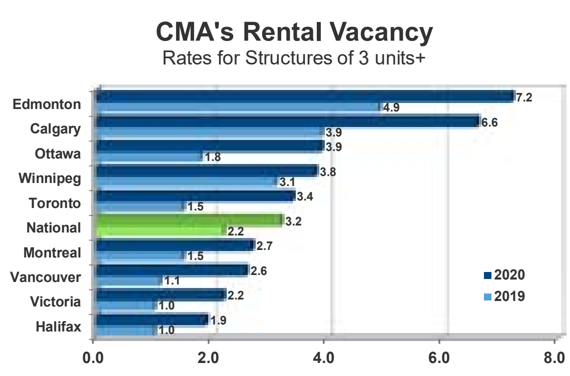
Source: CBRE Limited; CBRE Econometric Advisors



Source: CBRE Limited; CBRE Econometric Advisors



Source: © MSCI Real Estate



Source: CMHC (Jan 2021 release)

LEASING ACTIVITY WILL STRENGTHEN

Canadian commercial real estate sector leasing activity will increase over the near term. The impetus for the increase in leasing activity levels is the recent surge in vaccinations and the relaxing of restrictions on social interaction and businesses expected to unfold in the summer and fall. National economic growth is forecast to increase in the second half of the year, which will support improved business confidence. At the same time, workers will return to their workplaces. In the office sector, leasing activity will pick-up, a trend that began to emerge during the second quarter. The relaxing of pandemic restrictions will support the return of international students and international immigrants to Canada. As a result, multi-suite residential rental demand will increase substantially. Retailer leasing commitments will increase, as malls re-open and operators look to capitalize on the return of the consumer to physical stores. In short, leasing activity levels will increase significantly over the near term, due in large part to the relaxing of restrictions on consumers and businesses in the second half of the year.

EARLY SIGNS OF OFFICE LEASING MARKET RECOVERY OBSERVED

Early signs of recovery were observed in Canada's office leasing market during the second quarter, as an indication of increased business confidence. On aggregate, activity levels picked up between the beginning of April and the end of June. Renewal discussions increased in several markets, particularly in the nation's downtown business districts. In addition, tour activity also surged, as private sector office tenants dusted off plans for longer-term premises decisions that were shelved during much of the past year. Changes in the sublease market during the second quarter was another early sign of recovery. Demand for sublease space increased for the first time in the past year, especially for offerings that included furniture. At the same time, an increasing number of tenants removed sublease space from the market for their own needs. Early signs of recovery were also evidenced in the market's vacancy trend. Vacancy levels rose at a more modest pace than was reported through much of the past year. The national downtown vacancy rate rose by a modest 50 bps to 14.9% over the second quarter. Over the previous 12-month period, downtown vacancy had risen by a quarterly average of 128 bps. In summary, early signs of recovery were observed in Canada's office leasing market in the second quarter, due to a more optimistic economic and public health outlook.

INDUSTRIAL LEASING DEMAND CONTINUED TO OUTSTRIP SUPPLY

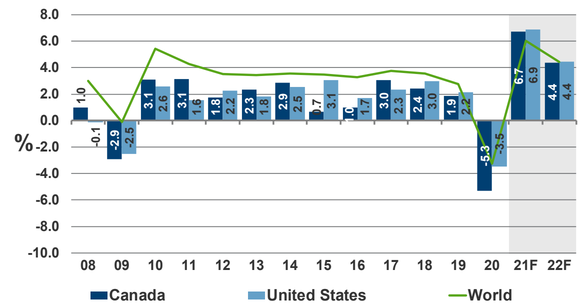
Industrial leasing market demand outstripped supply in the second quarter, as conditions tightened once again. The national availability rate fell 60 bps over the three-month period to just an all-time low of 2.3%. Moreover, the national average availability rate was down 120 bps year-over-year. Availability of less than 5.0% was reported in the country's major markets, except for the prairie region. Available space remained in very short supply in several markets. Functional warehouse and distribution and logistics space was in particularly short supply for users looking to expand or relocate to higher quality premises. In some cases, industrial users turned to new construction to try to meet their needs. However, newly constructed space was absorbed prior to or shortly after completion. Therefore, users found little relief from the shortage of available space in the nation's existing building stock. Developers continued to face rising construction and land costs, which resulted in construction delays. The combination of very limited supply and stable and healthy demand has been consistent upward pressure on rents for both new supply and existing properties. Landlords have commanded higher rents when negotiating new leases, renewals, and extensions. The upward pressure due to the market's second-quarter demand supply imbalance was expected to prevail for the foreseeable future.

THIRD-WAVE RESTRICTIONS ERODED ECONOMIC OUTPUT

Restrictions on businesses and consumers designed to combat the third wave of the pandemic eroded economic output during the second quarter. In April, Canada's economy contracted for the first time in a year. Gross Domestic Product slipped 0.3% month-over-month, as several business sectors were forced to cease operations or operate at reduced capacity. Economic output remained 1.1% below the pre-pandemic level reported for February 2020. Statistics Canada's early estimate called for another 0.3% month-over-month contraction in May, with restrictions continuing to curtail economic activity. Unsurprisingly, the second-quarter economic weakness was concentrated in the services sector, which was the most heavily impacted by the pandemic restrictions. Retail trade and food services output declined 5.5% and 4.6%, respectively in April. By contrast, goods production output rose by a modest 0.5% in the same month. April was also a rough month for the country's manufacturing sector, which contracted by 1.0%, due largely to the global semiconductor shortage. Economic output was forecast to improve substantially during the second half of the year. The Canadian consumer was expected to drive the second-half economic recovery, following the second-quarter contraction.

Economic Growth

Real GDP Growth - Historical & Forecast



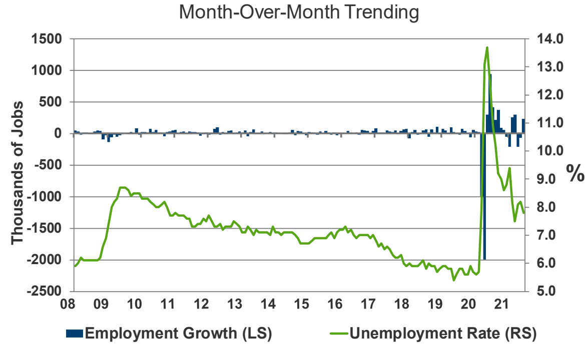
Source: Conference Board Of Canada (June 2021); International Monetary Fund (April 2021)

LABOUR MARKET VOLATILITY REPORTED

Labour market volatility was reported during the second quarter, due in large part to public health measures which limited economic activity and eroded business confidence. National employment declined for a second consecutive month in May, as a total of 68,000 jobs were lost. The decline came on the heels of a 54,000 drop in the previous month. The nation's employment level stood 3.0% below the pre-pandemic level of February 2020, according to Statistics Canada's May 2021 Labour Force Survey. In June, Canadian employment rose by 231,000 or 1.2%, with the loosening of pandemic restrictions and rapid increase in vaccines distributed. In the second half of the year, a strengthening of labour market conditions is forecast. A firmer economic growth trend will support increased business confidence levels and hiring. Growth will steadily improve with the quicker-than-expected rollout of the nation's vaccine program and relaxing of pandemic restrictions. However, it may take time to fill some positions, particularly in the high-touch industries that lost the largest share of workers during the pandemic. In the second half of the year, Canada's labour market will continue to strengthen, after a relatively volatile second quarter.

Labour Market

Month-Over-Month Trending



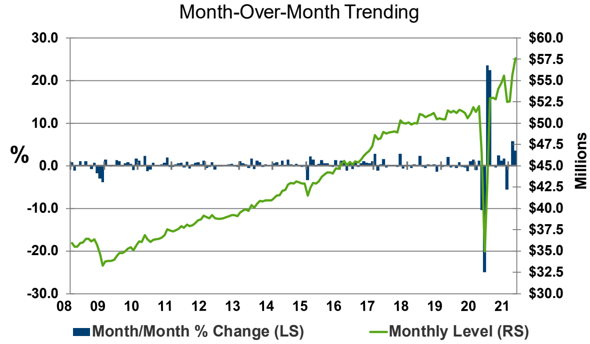
Source: Statistics Canada

EXISTING HOME SALES MARKET REMAINED BRISK

The Canadian existing home sales market remained brisk during the second quarter, in keeping with the trend of the past year. In April, existing home sales had reached an all-time high. In the following month, sales slowed slightly but remained close to 20.0% higher than the level recorded during the most recent market peak in 2016. The brisk sales pace continued to support tight conditions in most of the country's major urban and suburban locations. The national supply of listing inventory stood well below the long-term average at just 2.1 months in May, up slightly from the record-low set a month earlier. Tight conditions continued to push prices higher during the second quarter. Single family home prices rose 1.2% month-on-month in May and multi-suite residential prices were up 1.9%, according to the MLS home price index. Condo pricing has improved substantially over the past several months, having declined during much of the past year. The national benchmark average price for a condo was up 10.6% year-over-year as of May, which was the strongest gain recorded since 2018. While existing home sales slowed during the second quarter, activity levels remained well above the long-term average a trend that will continue over the second half of the year.

Retail Sales

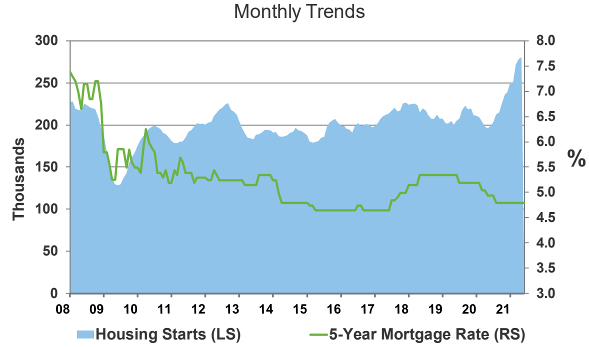
Month-Over-Month Trending



Source: Statistics Canada

Housing Market

Monthly Trends



Source: Statistics Canada, CMHC, Bank of Canada

INVESTMENT MARKET TRANSACTIONS

OFFICE

Property	Date	Price	SF	PSF	Purchaser	City
5255 Satellite Dr	Jun-21	$22.0 M	72,000	$306	Rathcliffe Capital	Toronto
100 Gough Rd	May-21	$47.5 M	111,840	$425	BentallGreenOak	Toronto
2350 Cohen St	Apr-21	$15.0 M	44,340	$338	Northwest Value Partnrs.	Montreal

INDUSTRIAL

Property	Date	Price	SF	PSF	Purchaser	City
390 Orenda Rd	Jun-21	$38.0 M	170,311	$223	Lark Investments	Toronto
Saand Portfolio Etobicoke	Jun-21	$38.1 M	226,035	$169	Redstone Group	Toronto
5700-6150 Henri-Bourassa Blvd W	Jun-21	$46.0 M	243,761	$189	Canadian Urban Limited	Montreal
5501 Trans-Canada Highway	May-21	$26.0 M	303,738	$86	Groupe Montoni	Montreal
8350 Lawson Rd	May-21	$90.6 M	321,028	$282	GWL Realty Advisors	Toronto
1645 Aimco Blvd	May-21	$17.0 M	110,070	$154	Ironwood Bay	Toronto
2481, 2529 Royal Windsor Dr	May-21	$18.1 M	83,000	$218	Nicola Wealth	Toronto
Invar Portfolio Pickering	May-21	$72.8 M	372,711	$195	Soneil Investments	Toronto
Summit REIT Portfolio Ottawa	Apr-21	$49.2 M	283,495	$174	ProREIT	Ottawa
240 Summerlea Rd	Apr-21	$17.7 M	87,254	$203	Pure Industrial REIT	Toronto

RETAIL

Property	Date	Price	SF	PSF	Purchaser	City
Bayshore Shopping Ctr (50%)	Jun-21	$193.5 M	882,200	$439	KingSett Capital	Ottawa
Oakwoods Ctr	May-21	$42.4 M	75,000	$565	Accu Holdings Ltd.	Toronto
Chinook 58	May-21	$26.0 M	37,351	$696	Elevate Development	Calgary
Keswick Marketplace (75%)	May-21	$22.7 M	159,396	$190	First National	Toronto
2912 Granville St	Apr-21	$17.9 M	12,150	$1,473	B.A. Robinson C. Ltd.	Vancouver

MULTI-SUITE RESIDENTIAL

Property	Date	Price	# Units	/Unit	Purchaser	City
Sunset Valley Apartments	Jun-21	$25.0 M	128	$195,000	Firm Capital	Edmonton
Park Lane Towers	Jun-21	$37.3 M	90	$414,444	Mayfair Properties	Vancouver
3434 Eglinton Ave E	Jun-21	$61.5 M	216	$284,722	MetCap Living	Toronto
920 Inverhouse Dr	Jun-21	$33.0 M	95	$347,379	InterRent REIT	Toronto
Montreal Portfolio	May-21	$30.6 M	151	$202,318	CAPREIT	Montreal
Borges & Raynar Portfolio Oshawa	May-21	$103.7 M	485	$213,720	CAPREIT	Toronto
26 Park St E	Apr-21	28.1 M	82	$342,073	Canahahns Company	Toronto
135 Allan St	Apr-21	$31.5 M	70	$450,000	Realstar Group	Toronto
30 Saint-Joseph Blvd E	Apr-21	$41.1 M	89	$461,798	Akelius	Montreal
251-285 The West Mall	Apr-21	$25.3 M	66	$382,576	NJS Capital	Toronto
Plaza Investment Portfolio GTA	Apr-21	$56.0 M	210	$266,667	Golden Equity Properties	Toronto
7555 Goreway Dr	Apr-21	$68.0 M	272	$250,000	Siteline Group	Toronto

* share sale

FORWARD-LOOKING STATEMENTS DISCLAIMER

Statements contained herein that are not based on historical or current fact, including without limitation statements containing the words “anticipates,” “believes,” “may,” “continue,” “estimate,” “expects” and “will” and words of similar expression, constitute “forward-looking statements.” Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, events or developments to be materially different from any future results, events or developments expressed or implied by such forward-looking statements. Such factors include, among others, the following: general economic and business conditions, both nationally and regionally; changes in business strategy; financing risk; existing governmental regulations and changes in, or the failure to comply with, governmental regulations; liability and other claims asserted; and other factors. Given these uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. The publisher does not assume the obligation to update or revise any forward-looking statements.

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ABOUT MORGUARD

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 nearly $15 billion.

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