2021 CANADIAN ECONOMIC OUTLOOK AND MARKET FUNDAMENTALS FOURTH QUARTER UPDATE

23RD ANNUAL EDITION

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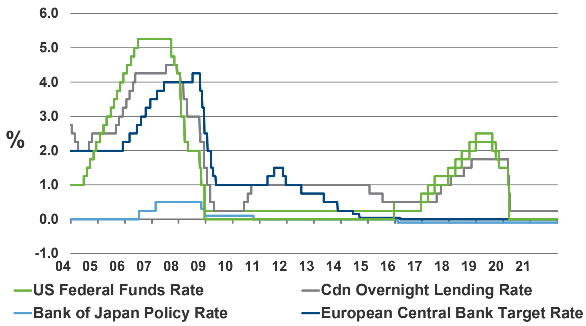

Source: Bank Of Canada, Federal Reserve Board, European Central Bank, Bank of Japan

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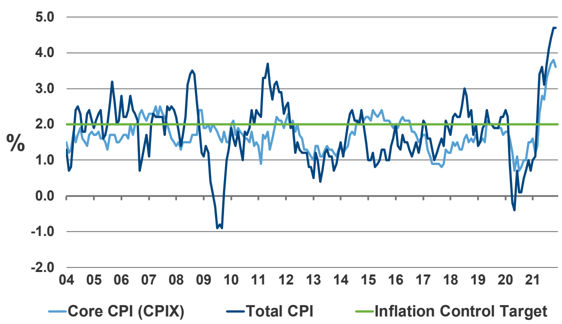

Source: Bank Of Canada, Statistics Canada

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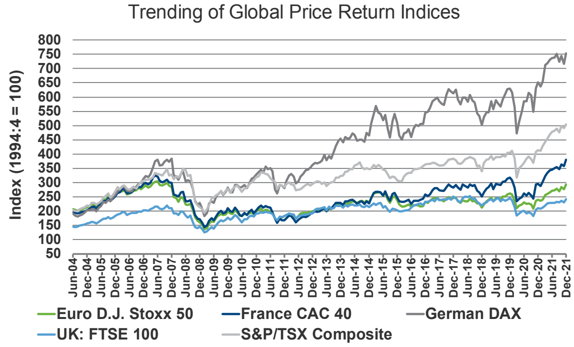

Source: RBC Capital Markets

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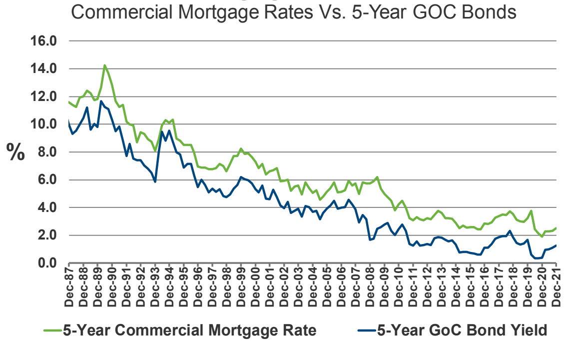


Source: RBC Capital Markets, Bank of Canada

MONETARY POLICY SUPPORT WAS SUSTAINED

The Bank of Canada (BofC) maintained its broader program of monetary policy support during the fourth quarter, against a backdrop of increased economic risk. In its December 8, 2021 release, the bank reiterated the need for continued support in light of material economic slack and elevated inflation. The bank also indicated policy support would remain in place until the slack was absorbed and the target inflation rate of 2.0% was maintained over an extended period of time. As a result, the bank held its target policy rate at 0.25%, the Bank Rate at 0.5%, and the deposit rate at 0.25%. In addition, the bank also indicated its Government of Canada bond holdings would be unchanged. Overall, the bank stuck to its forward guidance message from October 27, 2021, despite better-than-expected labour market progression. In the October release, the bank announced an end to its quantitative easing program and transition to reinvestment, with the purchase of Government of Canada bonds solely to replace maturing bonds. The BofC is forecasting Canada's economy will continue to require considerable monetary policy support over the near term, in keeping with the fourth-quarter trend.

CONSUMER PRICE GROWTH REMAINED ELEVATED

Canadian consumer price growth remained elevated during the fourth quarter, continuing the near-term trend. Canada's Consumer Price Index (CPI) rose 4.7% year-over-year as of November, according to Statistics Canada. The November rise matched the October 2021 result. Wages increased by roughly 2.8% over the same 12-month period according to the most recent Labour Force Survey, indicating purchasing power has declined. Overall, prices increased in all eight major components of the CPI in November. Prices for Canadian goods rose more sharply year-over-year at 6.9% as of November and 6.5% for October. Ongoing supply chain challenges have been the main driver of higher goods prices over the past several months. Services price inflation has generally been more moderate, with inflation of 2.9% and 3.2% year-over-year as of November and October, respectively. The CPI rose 3.6% in both October and November, excluding gasoline. Gasoline, furniture, and food prices rose sharply year-over-year as of November, at 43.6%, 8.7%, and 4.4% respectively. Gasoline prices continued to rise during the quarter, with production remaining below pre-pandemic levels. Higher prices at Canadian grocery stores has been a headline grabber of late. Year-over-year, grocery store food prices rose 4.7% as of November, which was the steepest rise since January 2015 according to Statistics Canada data. Over the near term, Canadian families will be forced to contend with elevated consumer goods and services prices, due largely to ongoing supply chain challenges and increased demand.

EQUITY MARKET GAINS CAPPED OFF BANNER YEAR

Additional gains were registered in Canada's benchmark equity market index in the fourth quarter, capping off a banner year. The S&P/TSX Composite posted a 5.7% lift over the final quarter of 2021, despite a modest decline from the all-time November high. In total, the composite rose 21.7% over 2021, which represented the best annual performance dating back to 2009's roughly 31.0% rise. Energy stocks were the main drivers of the composite's strong performance of the past year. Crude oil prices and demand have strengthened significantly from the pandemic-driven downturn. Previously, the oil sector had underperformed for several years. In addition, natural gas prices helped boost performance over the past year. Financial and real estate stocks contained in the S&P/TSX Composite also registered gains during the fourth quarter. In the coming year, relatively modest gains were forecast for Canada's benchmark equity market index, after a solid performance in the fourth quarter and strong year overall.

INVESTMENT PROPERTY SOLD AT RECORD PACE

Canadian commercial investment property transacted at a record pace during the final few months of 2021, continuing the recent trend. Investment transaction volume was on pace to surpass the record annual high of $49.3 billion total set in 2018. Sales tallied in Canada's major urban centres had already eclipsed the $40.5 billion mark as the fourth quarter got underway. In addition, several significant sales were slated to close between October and the end of the year, which was expected to push the 2021 annual total past the $50.0 billion mark. Industrial and multi-suite residential rental properties remained the prime targets of many investors as 2021 came to a close, along with stabilized lower risk office and retail assets. The investor emphasis on income security was unlikely to change over the near term, given heightened uncertainty due to the surge in COVID-19 Omicron variant infections. The industrial sector continued to outperform during the fourth quarter, with rents reaching record high levels in several markets amid critically low availability patterns. Continued leasing market progress, along with the sector's healthy outlook supported rising industrial property valuations. Multi-suite residential rental sector values also edged higher while office property values were relatively flat. In the retail sector, uncertainty increased with renewed restrictions on brick-and-mortar capacity levels, which were expected to hamper progress over the near term. Despite increased economic and commercial real estate sector headwinds investment sales activity is expected to remain robust over the near term, following the record pace of the past year.

RETAIL INVESTMENT SALES ACTIVITY REMAINED MUTED

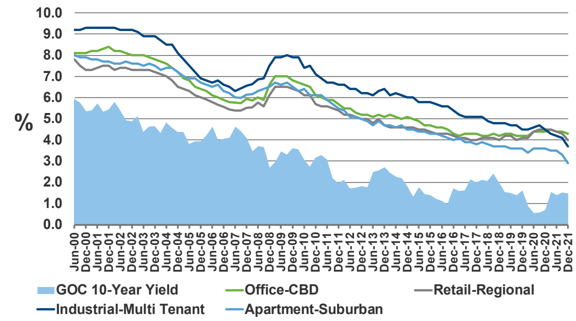
Sales of retail investment property remained relatively muted during the fourth quarter. Retail sector investment transaction volume for 2021 looked to be in line with the five-year annual average of just short of $7.3 billion as the fourth quarter began, however, the 2021 forecast volume was substantially below the 2018 $9.5 billion peak. The relatively muted activity levels of the past few years can be attributed to broader retail industry uncertainty and weaker brick-and-mortar property performance patterns due to changing shopping behaviour and the prominence of online shopping platforms. The pandemic has added to the uncertainty by further eroding market fundamentals. The market has been especially thin for bulky fashion-oriented assets but has been much more robust for smaller, stabilized assets with essentials-based rent rolls. Generally, however, there have been relatively few significant transactions reported in 2021, given the reluctance of vendors to sell during the down phase of the cycle. Despite the hesitance, a few significant asset sales were completed during the fourth quarter. A private investor acquired Kennedy Commons in Toronto, Ontario for $215.0 million, and Junction Shopping Centre in Mission, British Columbia was acquired by the Anthem Properties/Crestpoint joint venture for $96.0 million. Despite these fourth-quarter closings, retail property sales activity remained relatively muted.

SECTOR HEADWINDS TO PERSIST

Canadian property sector investment market headwinds are expected to persist over the near term. The most prominent near-term sector headwind will be the restrictions imposed to combat the spread of the COVID-19 Omicron variant. Restrictions on business and consumer interactions will erode both economic and commercial real estate performance over the next several months. Additionally, ongoing supply chain challenges and inflation will hamper progress. The industrial and multi-suite residential sectors will outperform, in line with the trend of the past couple of years. Office leasing activity will slow while retail fundamentals will remain soft, with the persistence of broader economic and investment market headwinds over the near term.

Yield Spreads

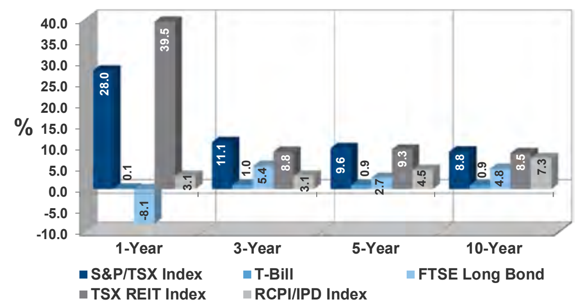
Cap Rates vs. 10-Year GOC Bonds



Source: AltusInSite, Bank of Canada

Relative Performance

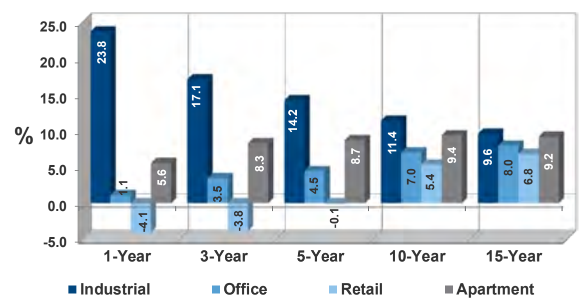
Comparing Annualized Returns To Sept 2021



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

MSCI Returns

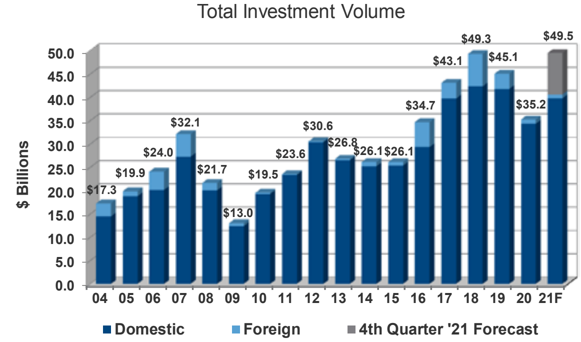
Annualized Returns By Property Type To Sept 2021



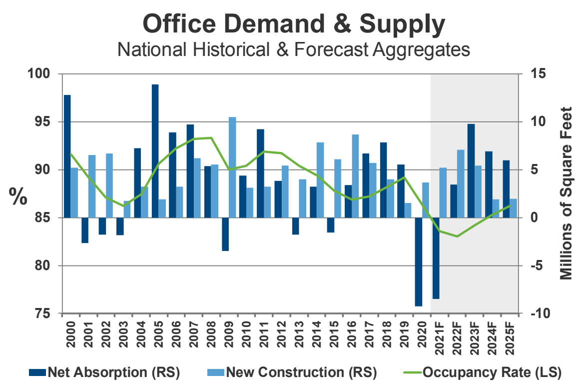
Source: © MSCI Real Estate 2021

Investment Activity

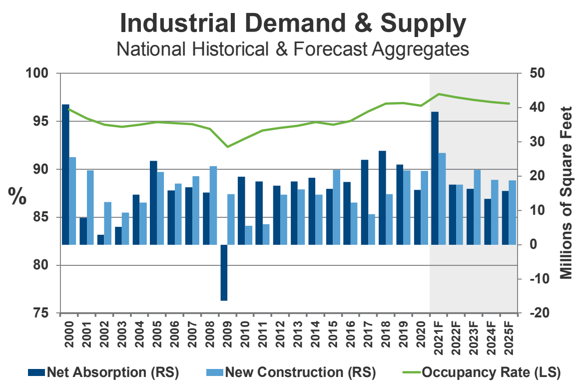
Total Investment Volume



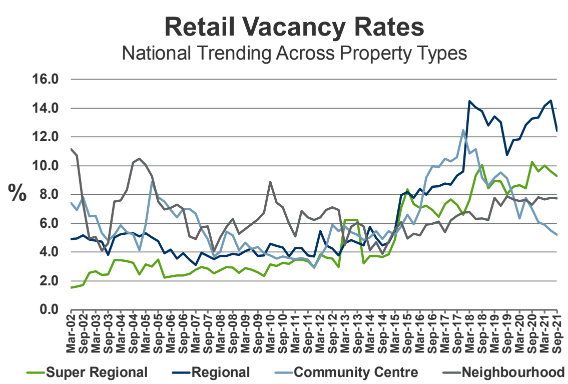
Source: CBRE Limited; Morguard



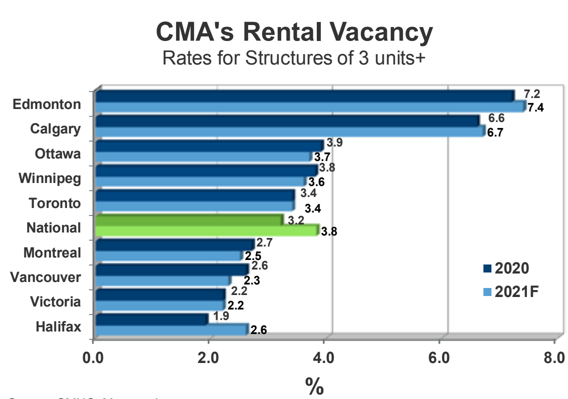
Source: CBRE Limited; CBRE Econometric Advisors



Source: CBRE Limited; CBRE Econometric Advisors



Source: © MSCI Real Estate 2021



Source: CMHC; Morguard

OFFICE MARKET VACANCY STABILIZED

National office market vacancy stabilized during the fourth quarter, having increased significantly over the past year and a half with the unfolding of the pandemic. The national average vacancy rate edged just 10 bps higher to 15.8% during the final three months of 2021. The average for the country's major downtowns increased from 15.5% to 15.7% or just 20 bps, between the end of September and the end of 2021. Somewhat surprisingly, the national suburban vacancy average fell 20 bps over the quarter, from 16.0% to 15.8%. Class A vacancy was also relatively flat quarter-over-quarter. National class A vacancy held steady at 14.3% and the downtown average of 13.0% was also unchanged quarter-over-quarter. Suburban class A vacancy fell 10 bps to 16.2%. Previously, vacancy levels had increased sharply over the past year and a half, a trend that unfolded with the onset of the pandemic in the late spring of 2020. The national vacancy rate increased 540 bps over an 18-month period ending September 30, 2021. Downtown vacancy rose 560 bps over the same time-period and the suburban average by a more modest 400 bps. During this period, many tenants postponed long-term leasing decisions and chose to offload excess space. However, much of the sublease space offered in downtown Toronto has been leased. Office leasing market uncertainty increased once again with the spike in COVID-19 Omicron infections in the last few weeks of 2021, indicating the fourth-quarter vacancy stabilization may be short lived.

INDUSTRIAL LEASING MARKET DYNAMIC WAS UNCHANGED

Canada's industrial leasing market dynamic was unchanged during the fourth quarter, in keeping with the trend of the past several quarters. On the supply side of the ledger, availability remained critically low. The national average availability rate rested at an all-time low of just 1.8% at the end of 2021, down 20 bps quarter-over-quarter and 150 bps from the end of 2020. Functional space continued to be in very short supply in most of the country's major industrial regions and parks. The shortfall was observed in all size and property sub-types. New supply delivered in several markets was leased in short order, offering little relief from the shortage of expansion and relocation space across much of the country. To some extent, the lack of available space has stunted growth in the nation's industrial heartland over the past year. Leasing demand continued to outdistance supply in the fourth quarter. Companies operating in the e-commerce, warehouse, logistics, and distribution sectors were the main demand-drivers for industrial space. In some cases, users were forced to expand their leased portfolios due to increased demand for consumer goods as a result of the pandemic. The demand pressure continued to drive rental rates to new heights in the fourth quarter. The consistency of the rent growth trend of the fourth quarter was in keeping with the broader market theme.

GREATER TORONTO AREA RENTS EDGED HIGHER

Greater Toronto Area (GTA) multi-suite residential rents edged slightly higher during the fourth quarter, after an extended period of erosion. The average GTA rent increased by 0.5% year-over-year as of November 2021, according to a recent Rentals.ca report. The average monthly rent for all rental property types combined rose by a healthy 4.3% over the same time period. The more modest year-over-year purpose-built multi-suite residential property rent increase was due largely to the preference over the past year for landlords to offer incentives to lure tenants rather than reduce rents. Over the past few months, this subset of landlords have offered incentives significantly less frequently. Owners of other types of rental property tended to reduce their asking price over the past year. GTA rents will rise at a faster rate over the near term, tighter conditions, healthy demand fundamentals, and the expiry of the moratorium on rent increases, having edged slightly higher during the fourth quarter.

ECONOMIC RECOVERY CONTINUED AMID SURGE IN COVID-19 CASES

Canada's economic recovery continued to unfold during the fourth quarter, as COVID-19 cases surged across the country. National Gross Domestic Product (GDP) was expected to rise by roughly 0.3% in November, according to Statistics Canada's preliminary estimate. The November gain will represent a six consecutive monthly increase in economic output. In October, GDP rose by a more robust 0.8%. Economic output was almost back to the pre-pandemic February 2020 level by October. Growth was relatively broad based during the quarter, with the automotive production accounting for the largest share of the increased output. Transportation equipment manufacturing, for example, was up 9.3% in October, following a 7.5% decline in the previous month. Stronger commodities demand was also a key growth driver in the fourth quarter. The loosening of pandemic restrictions in the fall of 2021 boosted services output. However, downside economic risk was once again on the rise in the final few weeks of the year with the spike in COVID-19 Omicron variant infections. Renewed restrictions instituted by some provinces were expected to dampen services sector growth. As a result, Canada's economic recovery may begin to slow during the first few months of 2022, following a solid fourth-quarter performance.

LABOUR MARKET STRENGTHENING RECORDED

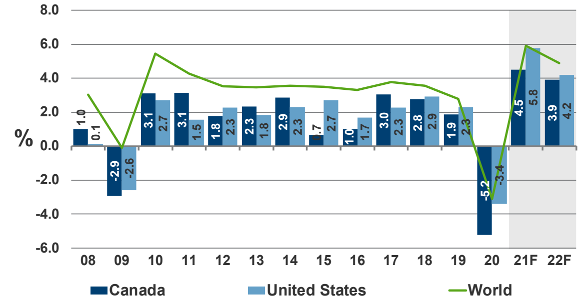
Canada's labour market strengthened significantly during the fourth quarter, with progress recorded across most industries and regions. National employment increased by a robust 154,000 positions in November 2021, and 55,000 in December according to Statistics Canada's Labour Force Survey. Most of the December employment gains were in the goods-production sector, while the November lift was split evenly between services and goods-producing industries. The fourth-quarter employment growth rise pushed the total employment figure to roughly 1.1% higher than the February 2020 level prior to the onset of the pandemic. The December employment increase drove the national unemployment rate down 10 bps to 5.9%, just 20 bps higher than the pre-pandemic average. The accommodation and food services sector remained a labour market laggard, with employment levels down 16.9% from the pre-pandemic level. Average hourly wages were up 2.7% year-over-year as of December, which was in line with the average annual increase of 2.6% reported from 2017 to 2019. The fourth-quarter labour market strengthening is expected to ease somewhat over the next several months, given the expected adverse economic impacts of the recent spike in COVID-19 infections and subsequent restrictions implemented in some provinces.

EXISTING HOME SALES ACTIVITY REMAINED ELEVATED

Sales of existing homes remained elevated during the fourth quarter, despite supply constraints that have characterized the market for some time. Sales increased by 0.6% month-over-month in November, building on October's strong showing. A reported 54,200 existing homes were sold during November, according to the Canadian Real Estate Association (CREA). Sales volume has consistently surpassed the pre-pandemic average over the past year, driven by healthy demand fundamentals. Demand has been bolstered by low interest rates, population growth, stronger labour market conditions, and elevated savings rates. In some cases, buyers have chosen to purchase homes early, anticipating higher borrowing costs in the near future. The combination of constrained supply and robust demand continued to push existing home prices higher during the fourth quarter. CREA's MLS Home Price Index rose 2.7% month-over-month in November and was up a record 25.3% year-over-year. Existing home sales prices continued to rise during the fourth quarter, as sales activity remained elevated and supply constraints persisted.

Economic Growth

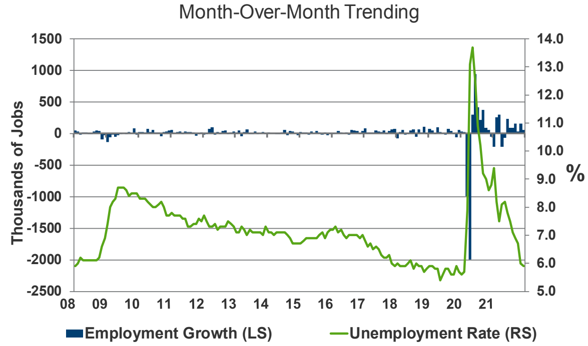
Real GDP Growth - Historical & Forecast



Source: Conference Board Of Canada (Dec 2021); International Monetary Fund (October 2021)

Labour Market

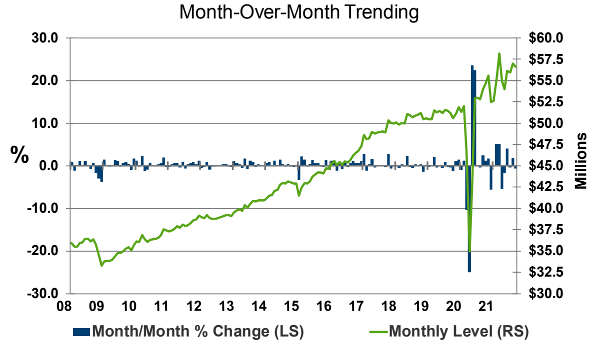
Month-Over-Month Trending



Source: Statistics Canada

Retail Sales

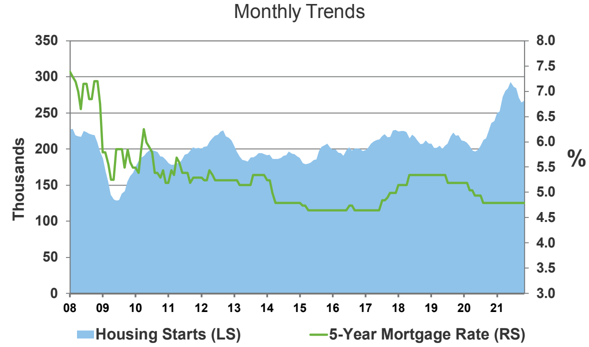
Month-Over-Month Trending



Source: Statistics Canada

Housing Market

Monthly Trends



Source: Statistics Canada, CMHC, Bank of Canada

INVESTMENT MARKET TRANSACTIONS

OFFICE

Property	Date	Price	SF	PSF	Purchaser	Market
4950 Yonge St	Dec-21	$118.0 M	445,000	$265	Europro/WFCU	Toronto
Place de Ville	Nov-21	$350.0 M	1,175,433	$298	Crown/Crestpoint	Ottawa
207 W Hastings St	Nov-21	$65.0 M	72,305	$899	Allied REIT	Vancouver
Allstate Corporate Centre	Nov-21	$179.5 M	577,214	$311	Groupe Mach	Toronto
99 Atlantic Ave/40 Hanna Ave	Nov-21	$240.0 M	259,234	$926	Blackstone/Kevric	Toronto
Tour KPMG/Promenade Cathedrale	Nov-21	$195.5 M	643,026	$300	Groupe Petra	Montreal
Meadowvale Ct I & II	Oct-21	$49.0 M	143,975	$340	CanFirst Capital	Toronto
1595 Telesat/1600 James Naismith	Oct-21	$40.6 M	333,944	$121	Crux Capital	Ottawa

INDUSTRIAL

Property	Date	Price	SF	PSF	Purchaser	Market
2410, 2460, 2500 Tedlo St	Dec-21	$32.5 M	127,154	$256	KingSett Capital	Toronto
1725 McPherson Crt	Nov-21	$35.1 M	147,950	$237	Dream REIT	Toronto
208-220 Wyecroft Rd	Nov-21	$34.7 M	112,179	$309	Nicola Wealth	Toronto
14-16 Arnold, 350-364 Evans Ave	Nov-21	$65.0 M	180,399	$360	Tonlu Properties	Toronto
TCAN GMA Portfolio	Oct-21	$27.1 M	168,106	$161	Federal Industrial	Montreal
251-255 Attwell Dr	Oct-21	$25.2 M	86,601	$305	KingSett Capital	Toronto
1100 Parent St	Oct-21	$16.0 M	96,634	$166	Crestpoint JV Loracon	Montreal
1 Provost St	Oct-21	$24.8 M	348,018	$71	Groupe MK	Montreal
Dominion Centre	Oct-21	$19.7 M	210,750	$93	Nobel REIT	Edmonton

RETAIL

Property	Date	Price	SF	PSF	Purchaser	Market
Kennedy Commons	Dec-21	$215.0 M	412,000	$522	Private	Toronto
Haney Place Mall	Dec-21	$67.5 M	226,874	$298	Lorval Developments	Vancouver
Avalon Centre	Nov-21	$25.9 M	85,630	$303	Hazelview/Trinity	Ottawa
I.G. Wealth Portfolio	Oct-21	$68.3 M	233,932	$292	Royop/KingSett	Calgary
The Junction Shopping Ctr*	Oct-21	$96.0 M	300,612	$319	Anthem/Crestpoint	Vancouver
4099 Erin Mills Parkway	Oct-21	$31.0 M	62,801	$494	Queenscorp Group	Toronto

MULTI-SUITE RESIDENTIAL

Property	Date	Price	# Units	/Unit	Purchaser	Market
2051 Prospect St	Dec-21	$110.0 M	224	$491,072	BentallGreenOak	Toronto
85, 101, 165, 185 Bloor St W Osh.	Dec-21	$27.9 M	162	$172,284	Golden Equity	Toronto
Le Hill-Park	Dec-21	$80.1 M	261	$306,897	Minto Apt. REIT	Montreal
110 Nonquon Rd	Nov-21	$26.1 M	114	$228,947	Starlight Investments	Toronto
919 Dufferin St, 30 Edith Dr	Oct-21	$125.0 M	285	$438,596	InterRent REIT	Toronto
345 Sentinel Rd	Oct-21	$23.7 M	79	$300,000	Reserve Properties	Toronto
2, 4 Greentree Crt, 31 Clearview H	Oct-21	$28.6 M	115	$248,696	QMW	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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