2022 CANADIAN ECONOMIC OUTLOOK

AND MARKET FUNDAMENTALS FIRST QUARTER UPDATE

24TH ANNUAL EDITION

MORGUARD

Q1

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Q1

ABOUT

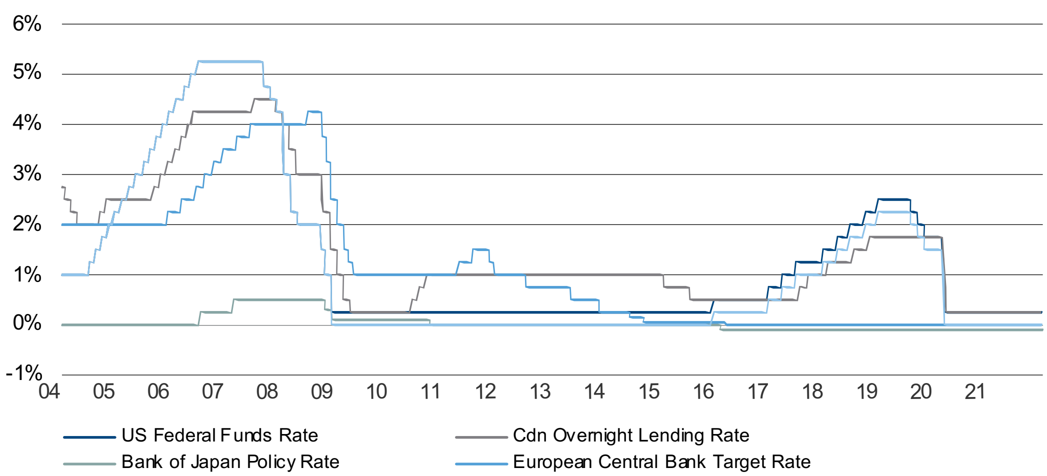
FINANCIAL REPORT

POLICY TIGHTENING COMMENCED

The Bank of Canada (BofC) began to reduce its emergency-level policy support during the first quarter, a move that the broader capital and futures markets had been anticipating for several months. The BofC raised the overnight rate to 0.5% on March 2nd while maintaining its Government of Canada (GofC) bond holdings on its balance sheet.

OFFICIAL POLICY RATES

International Monetary Conditions



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

The Bank's Governing Council indicated additional interest rate increases were likely forthcoming over the balance of 2022, against a backdrop of continued economic expansion and elevated inflation pressure. In addition, the Council expected to look at an eventual wind down of GofC bond holdings over roughly the same time period. The BofC's decision to raise the overnight policy rate was driven by two main factors. The first was the absorption of Canada's economic slack, driven in large part by stronger-than-expected fourth quarter growth. The national economy expanded by a robust 6.7% on an annualized basis in the final quarter of 2021. The second factor was the persistence of elevated inflation pressure, which was expected to last longer than initially forecast. Over the next several months, the BofC is expected to continue to raise interest rates. However, the rate of increase is somewhat uncertain, given the potentially negative impacts of Russia's invasion of Ukraine and inflation on global trade and economic growth.

CONSUMER PRICE GROWTH ACCELERATED

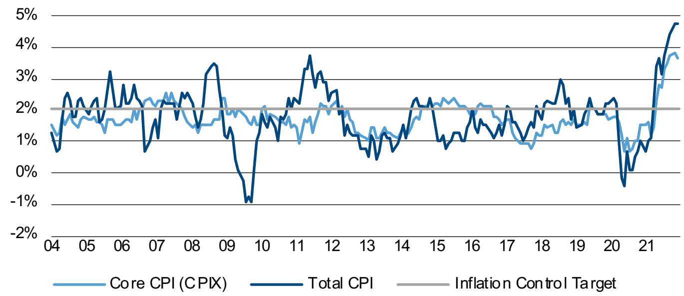
Consumer price growth accelerated in the first quarter of 2022, reaching a 30-year high level. The price of goods and services in Canada's Consumer Price Index (CPI) rose 5.7% year-over-year in February, up sharply from 5.1% average of the previous month. Energy and food prices continued to climb at a robust rate in the first quarter. Energy price growth of 24.1% was recorded year-over-year in February, up 100 bps from the previous month. Consumers continued to face rising food costs, with the rate of year-over-year inflation rising to 7.4% from 6.5% in January, which was the highest rate in over a decade. The home and automotive sectors were also big price inflation drivers during the first quarter. Consumer price growth accelerated in most other CPI spending categories. Price inflation rose to 3.9% year-over-year for all spending categories combined in February, excluding energy and food. The average was up 50 bps from January. Clothing and footwear were the only two spending categories with slight declines in pricing reported year-over-year in February. Consumer price inflation is expected to continue to accelerate over the near term, led by the commodities sector. The war in Ukraine will continue to drive commodity prices higher. Consumer demand will add to the upward pricing pressure over the balance of the year. More broadly, inflation will outdistance income and wage growth, in keeping with the accelerated price inflation of the first quarter.

EQUITY MARKET VOLATILITY INCREASED

Global equity market volatility increased substantially during the first quarter, following a largely positive performance pattern over the past year. Several factors contributed to increased volatility, the most prominent of which was the war in Ukraine. The various sanctions placed on Russia by North American Treaty Organization (NATO) and European Union (EU) negatively impacted economic activity and trade in the region. The potential for the negative economic impacts of the conflict to spread to the rest of Europe and the world eroded investor confidence. In turn, some investors assumed an equity market risk-off position. Another significant driver of the first-quarter equity market volatility was the U.S. Federal Reserve's (Fed) 25-bps hike of its benchmark interest rate and indication that further increases were likely in the coming months to reduce 30-year high inflation. The rate at which the Fed raises rates over the next several months will reverberate through the world's largest economy and global equity markets. The combination of the crisis in Ukraine, near record-high inflation, and the emerging sixth wave of the pandemic will likely continue to drive equity market volatility over the next few months.

NATIONAL INFLATION

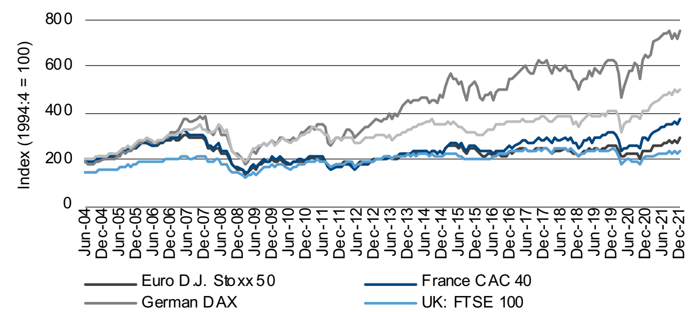
CPI Measures, % Change Over 1 Year Ago



Source: Bank Of Canada, Statistics

GLOBAL INDICES

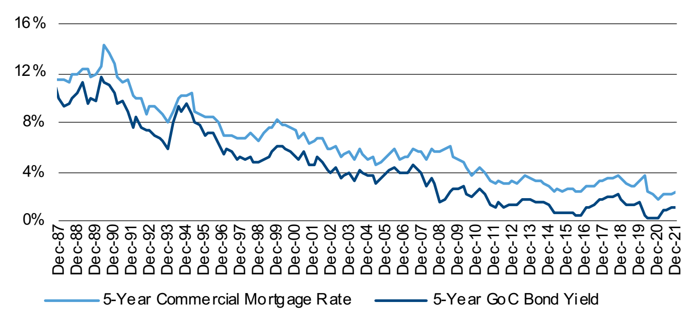
Trending of Global Price Return Indices



Source: RBC Capital Markets

MORTGAGE SPREADS

Commercial Mortgage Rates Vs. 5-Year GOC Bonds



Source: RBC Capital Markets, Bank of Canada

Canada's Consumer Price Index rose sharply during the first quarter, with 5.7% year-over-year growth in February.

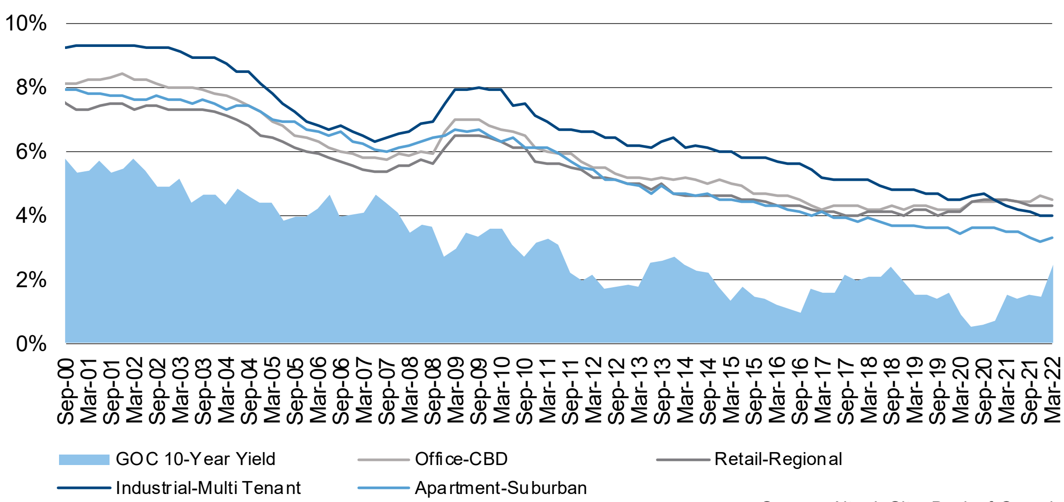
INVESTMENT REPORT

SALES ACTIVITY HELD AT PEAK LEVEL

Canadian investment property sales activity continued at a peak level during the first quarter, driven in large part by the industrial and multi-suite residential rental sectors. Just shy of $3.4 billion of investment transaction volume was reported for the industrial, office, multi-suite residential, office, and retail property sectors as of the start of the final week of the quarter for the Vancouver, Calgary, Toronto, Ottawa, and Montreal metros combined.

YIELD SPREADS

Cap Rates vs. 10-Year GOC Bonds



Source: AltusInSite, Bank of Canada

Industrial remained the most active of the four main investment property sectors to start the year. Approximately $2.9 billion of industrial property was sold, matching the decade-high pace of a year ago. A broad range of investment groups continued to focus on the sector, given stellar leasing fundamentals and forecast rent growth. Office sector transaction volume increased significantly during the first few months of 2022, having trended markedly lower over the past year. Transaction volume totaled $2.2 billion with one week to go in the first quarter. The total was close to double the figure reported for the first quarter of 2021 and represented a four-year high for the period. Investors have exhibited a propensity for acquiring properties with solid long-term performances in established nodes. Multi-suite residential rental sector investment sales activity surpassed the long-term average by a wide margin in the first quarter. Just over $2.0 billion in transaction volume was tallied, with one week to go in the quarter. In contrast, retail sector activity levels remained relatively muted, with a modest $1.2 billion in sales posted. Investment property sales activity is expected to continue to range at or near a record-high level over the balance of 2022, in keeping with the recent trend.

MONTREAL INDUSTRIAL WAS PRIME TARGET

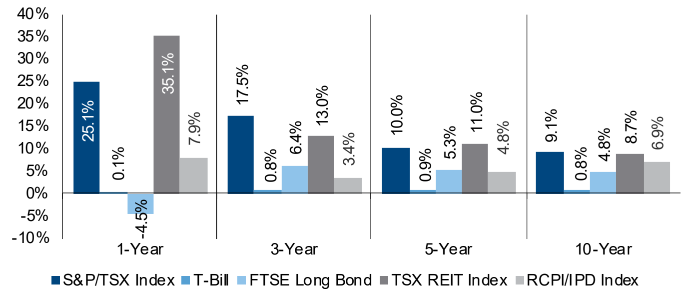
Montreal's industrial property sector was a prime target of a range of investment groups during the first quarter, in keeping with the trend of the past few years. Investment sales activity continued at a blistering pace during the first three months of 2022, resulting in record-high transaction volume. More than $752.1 million of investment property sales had already been completed in the quarter with one week remaining. The total for the full three months of the quarter will most certainly surpass the $754.4 million in sales reported in the first quarter 2021. Investors looked to the Greater Montreal Area (GMA) industrial property sector as a source of stable and growing income and capital appreciation. Generally, demand for GMA industrial investment opportunities has outdistanced supply by a significant margin over the past couple of years. In some cases, investors turned to older properties with redevelopment or repositioning potential to increase their exposure to the market. The demand supply imbalance resulted in continued downward pressure on capitalization rates during the third quarter, which were already at record low levels. At the same time, investors looked to capitalize on the outsized rent growth that had characterized the sector over the past year, which was expected to persist over the near term. The forecast rent growth and fundamentally sound outlook will continue to position the GMA's industrial sector as a prime investor target over the near term.

INVESTORS EXHIBITED CONFIDENCE IN OFFICE SECTOR

Investors continued to exhibit confidence in Canada's office sector in the first quarter, despite a measure of uncertainty. Several significant transactions closed or were scheduled to close during the three-month period or shortly after. The most prominent of these was the sale of Royal Bank Plaza in Toronto for $1.2 billion. Additionally, a couple of significant portfolio sales were also consummated. Allied Properties Real Estate Investment Trust (REIT) finalized the acquisition of a 1.2 million square foot six-property portfolio in Toronto, Montreal, and Vancouver for $794 million from Choice REIT. Crown Realty Partners acquired a 1.2 million square foot portfolio of properties in Mississauga's Heartland Business Community. The confidence investors exhibited in the office sector during the first few months of 2022 came during a period of elevated leasing market uncertainty. Much of the uncertainty is related to the emergence of various work-from-home programs instituted by some tenants in the aftermath of the pandemic.

RELATIVE PERFORMANCE

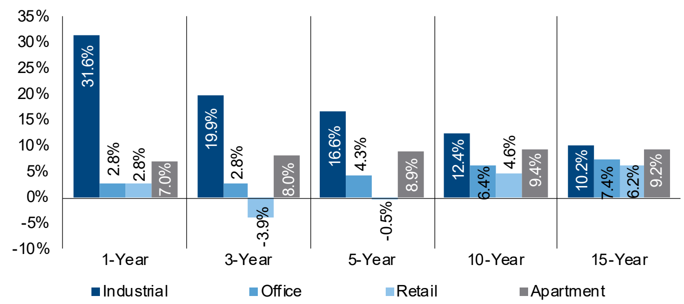
Comparing Annualized Returns To Dec 2021



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

MSCI RETURNS

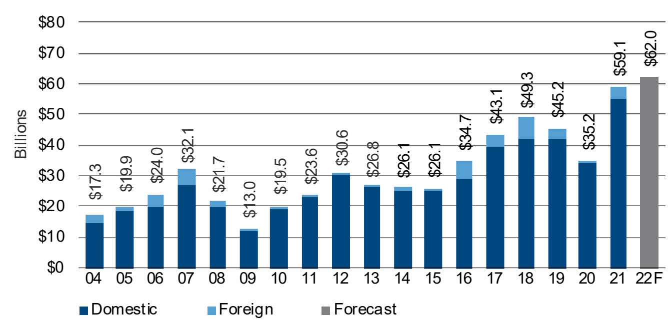
Annualized Returns By Property Type To Dec 2021



Source: © MSCI Real Estate 2022

INVESTMENT ACTIVITY

Total Investment Volume



Source: CBRE Limited; Morguard

Investors continued to exhibit confidence in the Canada office sector, resulting in several significant transaction closings in the first quarter.

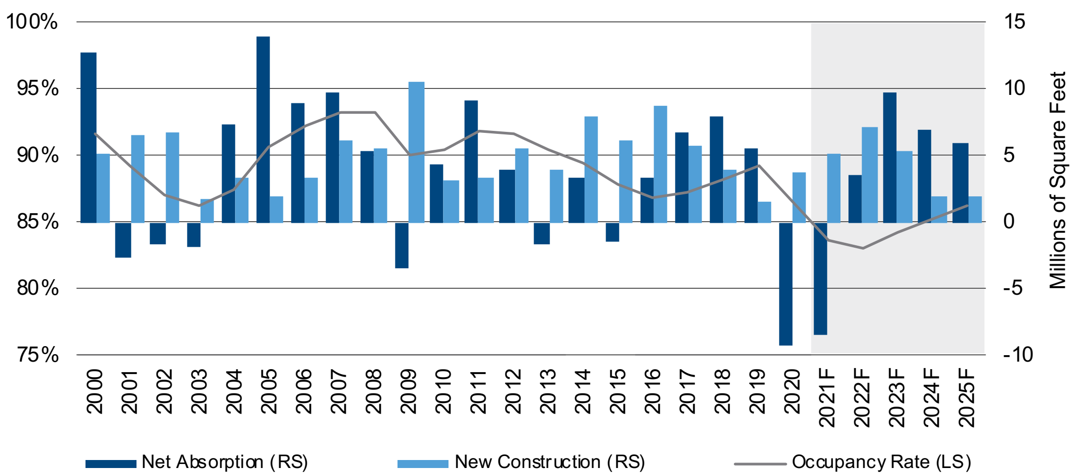
LEASING REPORT

OFFICE LEASING PERFORMANCE WAS MIXED

Canada's first-quarter office leasing market performance was somewhat mixed. There was a significant degree of variation in absorption patterns across the country. Modest gains were recorded in the four Western Canadian metros tracked by CBRE. Conversely, materially negative results were posted in four of the six eastern Canadian metros tracked, with a slight negative and positive total for Halifax and London, respectively.

OFFICE DEMAND & SUPPLY

National Historical & Forecast Aggregates



Source: CBRE Limited; CBRE Econometric Advisors

Toronto and Montreal saw significant reductions in occupied space over the first three months of 2022. More than 1.0 million square feet of space was returned to the market in the Greater Toronto area and just over 815,000 square feet in the Greater Montreal area. In addition, Ottawa and Waterloo region posted declines in occupied space of 167,866 square feet and 116,851 square feet, respectively. In Western Canada, all four metros registered modest increases in occupied space over the first quarter. Nationally, tenants continued to adjust to changes in how space is utilized, due primarily to the ongoing impacts of the pandemic. As a result, vacancy levels continued to rise. The national vacancy rate rose another 40 bps to 16.3% over the first quarter. The downtown national average moved 70 bps higher to 16.6%, while the suburban average edged 30 bps higher to 16.1%. Leasing market conditions were tightest in Vancouver and Ottawa, which boast averages of 7.0% and 8.6%, respectively. Over the balance of 2022, vacancy levels may continue to rise. The delivery of new supply will result in additional upward vacancy pressure and likely downward pressure on rents.

AVAILABLE SUPPLY REMAINED CRITICALLY LOW

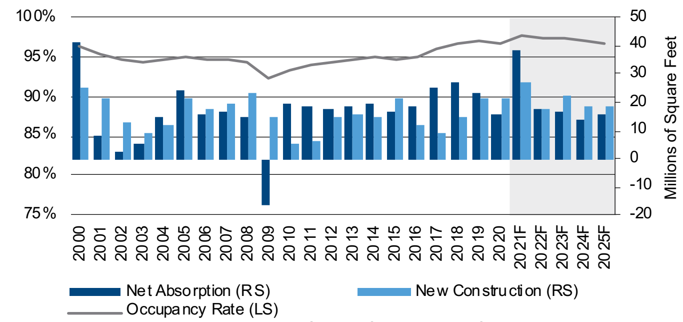
Industrial supply remained critically low in the first quarter, in keeping with the recent trend. The national availability rate rested at an all-time low of 1.6% as of the end of March 2022. The rate had dipped 20 bps quarter-over-quarter and was down 130 bps from a year ago. The country's three largest metros boasted availability rates of 1.0% or lower as of the end of the first quarter. Vancouver, Toronto, and Montreal posted average availability rates of 0.9%, 0.8%, and 1.0%, respectively. Availability was also critically low in the country's smaller markets, with London, Waterloo, Ottawa, and Halifax posting rates of 2.0% or lower. Despite the availability shortfall, a significant volume of space was absorbed across the country during the first three months of 2022. Demand outdistanced supply, resulting in the absorption of approximately 8.6 million square feet. Vancouver, Calgary, Edmonton, Winnipeg, London, and Toronto registered healthy increases in occupied space. For many users, however, expansion and/or relocation options were hard to come by in most regions of the country. Coincidentally, users have faced record-high rents. A modicum of relief from the shortage of available space is anticipated with the roughly 36.0 million square feet of new supply underway across the country.

MODEST UPWARD PRESSURE ON RENTS REPORTED

Modest upward pressure on purpose-built multi-suite residential rental sector rents was reported in the first quarter, a trend that emerged in the fall of last year. The national average monthly rent increased by 2.7% and 2.1% year-over-year in January and February 2022, respectively, according to Rentals.ca data. Moreover, the average rent increased by $10.0 month-over-month. The modest upward rent pressure of the past several months was a byproduct of improved demand patterns. The continued economic recovery, job market gains, and the recent rise in immigration volume were supportive of the demand uptick. On a national basis, rental demand has kept pace with new supply in most regions of the country. Of the nation's larger urban centres, Toronto, Winnipeg, and Abbotsford-Mission were exceptions to this rule. As a result, vacancy rose modestly in each of the three metros, although rents continued to rise. Previously, some landlords in several of the nation's largest metros offered free rent periods and other incentives to entice renters. However, as the pandemic's impacts eased these perks were offered markedly less frequently. By the first quarter of 2022, national rental market conditions had improved, fueling modest upward rent pressure and increased landlord optimism.

INDUSTRIAL DEMAND & SUPPLY

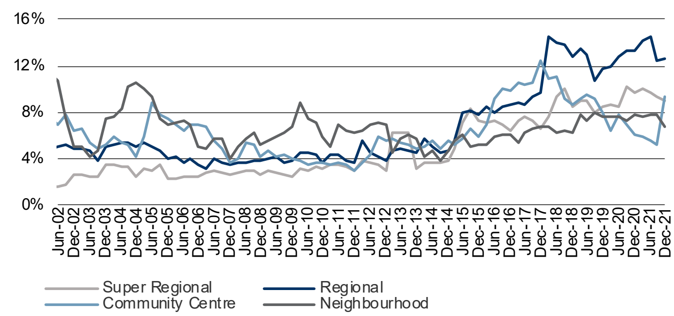
National Historical & Forecast Aggregates



Source: CBRE Limited; CBRE Econometric Advisors

RETAIL VACANCY RATES

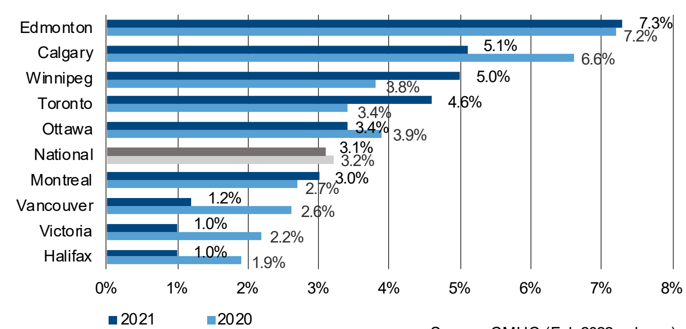
National Trending Across Property Types



Source: © MSCI Real Estate 2022

CMA'S RENTAL VACANCY

Rates for Structures of 3 units+



Source: CMHC (Feb 2022 release)

Industrial supply remained critically low in the country's three largest markets, with Vancouver, Toronto, and Montreal boasting availability rates of less than 1.0%.

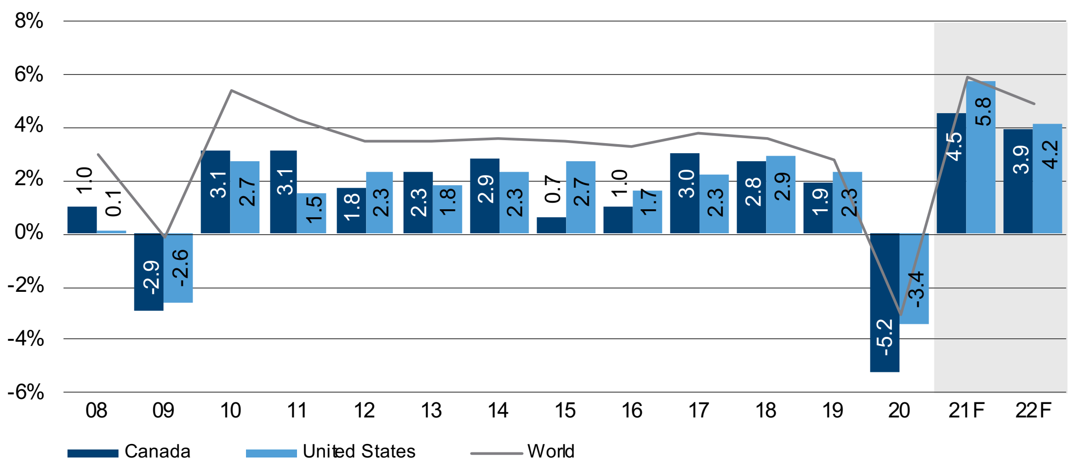
ECONOMIC REPORT

ECONOMIC RECOVERY CONTINUED

Canada's economic recovery continued to unfold during the first quarter, despite the emergence of the pandemic's sixth wave. National Real Gross Domestic Product rose 0.2% in January, with a stronger 0.8% preliminary forecast for February. The January lift represented an eighth consecutive monthly gain. The Canadian economy is forecast to expand at a relatively robust rate over the balance of the year, after a solid start to the year.

ECONOMIC GROWTH

Real GDP Growth – Historical & Forecast



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

The Omicron variant continued to hamper progress in some services-based industries during the first quarter. The reintroduction of restrictions to reduce the spread of the virus reduced activity levels and output. Accommodation and food services output dropped 11.5% in January, which represented the most significant decline since April 2020. Transportation and warehousing services output fell 3.0% in January, which was the largest drop since April 2020. Arts, entertainment, and recreation output fell 10.8% in January as well. While services-production output declined, goods-producing output was on the rise. The construction, wholesale trade, utilities, and retail trade sectors posted material output increases in January of 4.3%, 3.1%, 4.0%, and 2.5%, respectively. Over the balance of 2022, services sector output is forecast to increase steadily, as the effects of the Omicron variant subside. Services sector expansion will support a relatively robust national economic growth trend over the next 12 to 24 months, while goods sector expansion remains relatively moderate.

UNEMPLOYMENT FELL TO RECORD LOW LEVEL

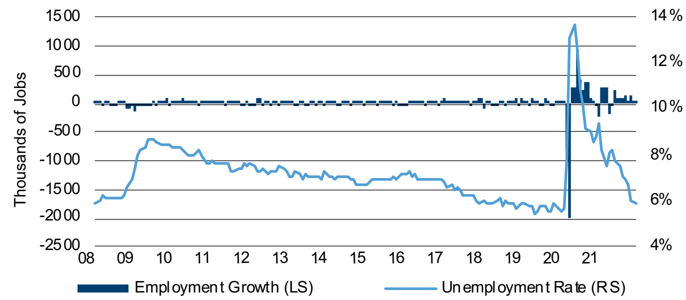
The Canadian labour market continued to tighten during the first quarter, with unemployment falling to a record-low level. The national unemployment rate stood at 5.3% as of the end of March 2022, a low point dating back to 1976 when comparable data first became available. The rate dropped 120 bps from a rate of 6.5% at the end of January. The downward pressure on the unemployment rate was a byproduct of employment gains registered in both February and March. Employment rose by a robust 337,000 in February, with the relaxing of pandemic restrictions. The employment surge followed January's 200,000 drop off due to stricter public health measures implemented to combat the spread of the Omicron variant. The broad-based strengthening of the national labour market during the first quarter was evidenced in increased hours worked and wages. Total hours worked rose 3.6% and 1.3% in February and March, respectively. The increases followed a 2.2% decline in January. Average hourly wages increased in each of the three months of the first quarter. Since the fall of 2021, Canada's labour market has proven its resilience against a backdrop that included the ongoing public health crisis, supply chain challenges, and a record-high number of unfilled employment vacancies. The record-low unemployment rate of the first quarter provided concrete evidence of this resilience.

EXISTING HOME SALES ACTIVITY CONTINUED TO RISE

Canadian existing home sales volume continued to rise in the first quarter. In February, approximately 58,200 units were sold, representing a high dating back to April 2021. National sales rose 4.6% month-over-month in February. Sales volume increased in four of the country's 10 provinces, with Alberta, Manitoba, Saskatchewan, and Ontario leading the way. Existing home sales activity rose sharply in Calgary and Edmonton in February 2022. Sales climbed to a record-high in both metros, due in part to a significant increase in available listings. Nationally, new listings surged by 24.0%, month-over-month, with Calgary and Edmonton leading the way. The national average existing home sale price continued to rise during the first quarter, despite the introduction of new listings. The national average sale price rose 2.3% month-over-month in February, with Alberta posting a 5.2% increase. The MLS home price index registered a 30.4% year-over-year spike in detached home values in the same month. The continued upward price pressure of the first quarter coincided with increased sales activity, despite the prospect of higher interest rates over the near term.

LABOUR MARKET

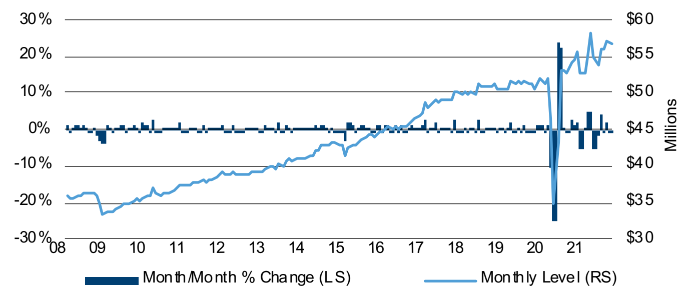
Month-Over-Month Trending



Source: Statistics Canada

RETAIL SALES

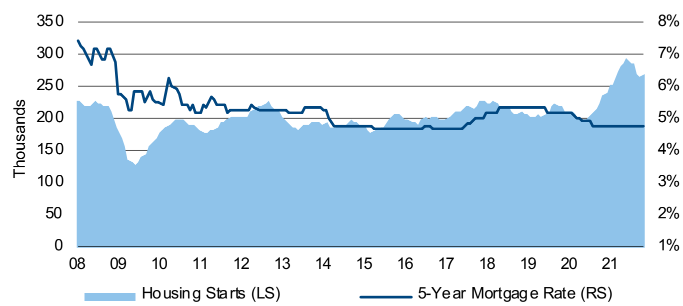
Month-Over-Month Trending



Source: Statistics Canada

HOUSING MARKET

Monthly Trends



Source: Statistics Canada, CMHC, Bank of Canada

The nation's unemployment rate dropped to 5.3% during the first quarter, which represented a low point dating back to 1976.

INVESTMENT MARKET TRANSACTIONS

OFFICE

PROPERTY	DATE	PRICE	SF	PSF	PURCHASER	CITY
Choice REIT Portfolio.	Mar-22	$794.0 M	1,229,694	$646	Allied REIT	Van/Tor/Mon
Blair Park of Commerce	Feb-22	$60.0 M	428,000	$140	Crown Realty Partners	Ottawa
Royal Bank Plaza	Feb-22	$1,163.0 M	1,471,730	$790	Pontegadea Group	Toronto
979, 1031 Bank St	Jan-22	$38.1 M	116,226	$328	BTB REIT	Ottawa

INDUSTRIAL

PROPERTY	DATE	PRICE	SF	PSF	PURCHASER	CITY
4211 Mainway	Mar-22	$17.9 M	93,558	$191	Dream REIT	Toronto
2150-2180 Dunwin Dr	Mar-22	$29.2 M	75,900	$385	Torcom Realty	Toronto
10 North Queen St	Feb-22	$42.0 M	127,600	$329	TAS/LaSalle	Toronto
1580 Eiffel St/1149 Marie-Victorin	Feb-22	$58.5 M	186,278	$314	Montez	Montreal
1055 Clark Blvd	Feb-22	$44.7 M	205,000	$218	Soneil Investments	Toronto
**2039 Airport Perimeter Rd	Feb-22	$38.2 M	210,429	$181	Nobel REIT	Edmonton
250 Bowie Ave/670, 680 Caledonia	Feb-22	$100.0 M	265,000	$377	BentallGreenOak/Hullmark	Toronto
8550 Montview Rd	Jan-22	$42.0 M	234,093	$179	Brasswater	Montreal
1120 Birchmount Rd	Jan-22	$45.0M	220,465	$204	Pure Industrial REIT	Toronto
67 Toll Rd	Jan-22	$32.8 M	307,737	$106	Cedar City Developments	Toronto
130-160 Bradwick Dr	Jan-22	$41.3 M	124,115	$332	Pure Industrial REIT	Toronto
222 Citigate Dr (90.1% interest)	Jan-22	$494.0 M	2,800,000	$196	Crestpoint	Ottawa
Skyline Ottawa Portfolio	Jan-22	$154.5 M	692,613	$223	Woodbourne/Epic	Ottawa
8072, 8120 Transcanada Hwy	Jan-22	$30.8 M	152,187	$202	Triovest	Montreal
Skyline GMA Portfolio	Jan-22	$80.1 M	402,709	$199	KingSett Capital	Montreal
1710-1750 Transcanada Hwy	Jan-22	$29.0 M	104,101	$279	KingSett Capital	Montreal
2525, 2605 Jean-Baptiste Desch.	Jan-22	$37.0 M	252,850	$146	Sun Life Assurance	Montreal
8301 Keele St	Jan-22	$50.6 M	275,000	$217	Soneil Investments	Toronto
1120 Birchmount Rd	Jan-22	$45.0 M	220,465	$204	Pure Industrial REIT	Toronto

RETAIL

PROPERTY	DATE	PRICE	SF	PSF	PURCHASER	CITY
851-887 Queen St E	Mar-22	$17.0 M	16,274	$1,045	Stamina Ontario Investmts.	Toronto
4051-4059 New St	Feb-22	$19.8 M	55,561	$354	Fieldgate Commercial	Toronto
Refinery Row	Feb-22	$14.5 M	26,055	$555	LS Properties	Edmonton
Valley Fair Mall	Jan-22	$76.0 M	139,000	$547	Revs Entertainment Group	Vancouver
CF Carrefour Laval (16.7% interest)	Jan-22	$222.8 M	1,242,990	$1,075	TD Greystone Asset Mgmt	Montreal
Laurentian Place (50% interest)	Jan-22	$41.0 M	273,143	$300	Calloway REIT	Ottawa

MULTI-SUITE RESIDENTIAL

PROPERTY	DATE	PRICE	# UNITS	/UNIT	PURCHASER	CITY
Cons Quebec Portfolio	Mar-22	$281.0 M	516	$544,574	CAPREIT	Mon/St Hayaci
1570 Lawrence Ave W	Feb-22	$33.8 M	87	$387,931	Pulis Investments	Toronto
263, 265 Dixon Rd	Feb-22	$141.0 M	352	$400,568	Akelius	Toronto
265 Hymus Blvd	Feb-22	$53.8 M	135	$398,321	Firm Capital	Montreal
45 Trayborn Dr	Jan-22	$24.0 M	62	$387,097	Q Residential	Toronto
5 Mallory Gardens	Jan-22	$27.9 M	60	$465,000	Akelius	Toronto

** leasehold interest

ABOUT

Morguard is a fully integrated real estate company with a diversified, high-quality portfolio of assets across North America. We have built our business with strong leadership, proven management and significant long-term growth for over 45 years. As of March 31, 2021, Morguard had $19.9 billion of total assets under management and employed 1,300 real estate professionals in 12 offices throughout North America.

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Publicly Traded Real Estate Investment Trusts	Morguard REIT
	Morguard North American Residential REIT
Real Estate Advisory Company	Morguard
Real Estate Brokerage	Morguard Investments Limited
Investment Management Company	Lincluden Investment Management Limited

ACKNOWLEDGEMENTS / RESEARCH RESOURCES

In the course of compiling the statistical information and commenting on real estate markets, national, 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, CBRE Econometric Advisors, CBRE Limited, CIBC World Markets, Canada Newswire, Canadian Mortgage and Housing Corporation (CMHC), Canadian Mortgage Loans Services Limited, The Canadian Real Estate Association (CREA), Colliers International, Conference Board of Canada, Cushman & Wakefield, Developers and Chains e-news, Economy.com, European Central Bank, The Federal Reserve Board, Frank Russell Canada (RCPI), The Globe and Mail, ICR Commercial Real Estate, International Council of Shopping Centres (ICSC), Insite-Altus Research, International Monetary Fund, The Johnson Report (Winnipeg), Jones Lang LaSalle, MSCI, The Network, Ottawa Business Journal, PC Bond Analytics, PricewaterhouseCoopers, RBC Capital Markets, RBC Economics, RealNet Canada Inc., Statistics Canada, Scotia Capital, TD Economics, Toronto Star, Torto Wheaton Research, Urban Land Institute, United States Department of the Treasury, York Communications

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Keith Reading
Director of Research
905-281-5345
kreading@morguard.com

55 City Centre Drive
Suite 1000
Mississauga, ON
L5B 1M3
905-281-3800

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