2023 CANADIAN ECONOMIC OUTLOOK

AND MARKET FUNDAMENTALS THIRD QUARTER UPDATE

25TH ANNUAL EDITION

MORGUARD

Q3

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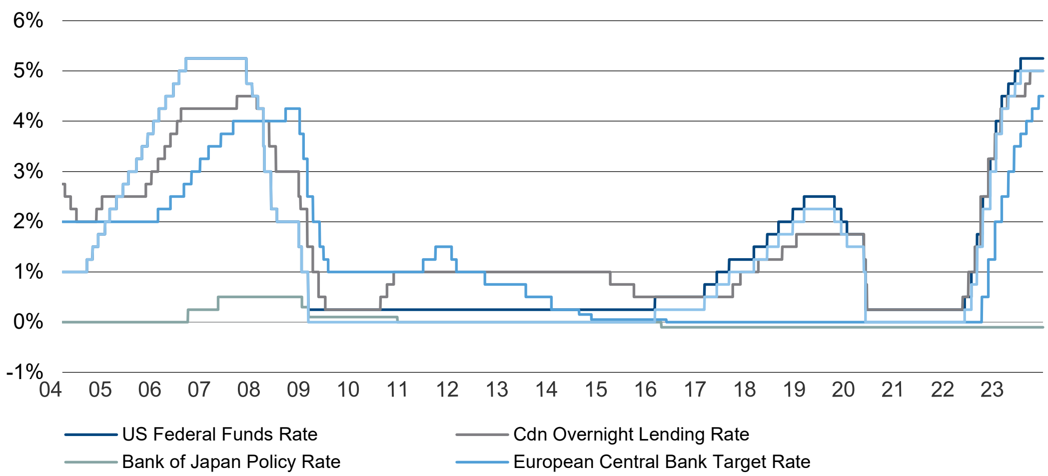
FINANCIAL REPORT

BANK OF CANADA CONTINUED TO FOCUS ON RESTORING PRICE STABILITY

The Bank of Canada (BofC) continued to focus on the restoration of pricing stability during the third quarter. On July 12th, the bank raised its overnight rate to 5.0% while continuing its policy of quantitative tightening. The target rate was subsequently held at 5.0% on the final fixed announcement date of the quarter.

OFFICIAL POLICY RATES

International Monetary Conditions



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

The bank cited strong demand and better-than-expected labour market performance had resulted in inflationary pressures in the services sector to rationalize the 25-bps hike on July 6th. The bank also cited the 5.8% increase in retail consumption and a pickup in housing market activity as further justification for the rate increase. The bank's rationale for its decision to hold the overnight rate at 5.0% on September 6th was two-fold. First, was that evidence indicated that excess demand in the domestic economy had begun to ease.

Growth slowed sharply in the second quarter, with annualized economic output decreasing by 0.2%. The weaker growth trend was due largely to a slowdown in retail consumption and housing market activity, as well as the negative effects of wildfires in several regions of the country. The second justification for holding the overnight rate at 5.0% was the bank's view that its monetary policy tightening would take more time to take effect. In short, the bank continued to focus on price stability during the third quarter.

INFLATION PRESSURE EASED

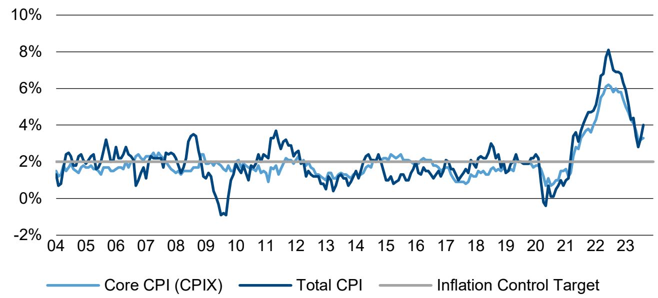
Canadian consumer price inflation pressure had eased by the end of the third quarter, having accelerated over the recent past. Canada's Consumer Price Index (CPI) rose 3.8% year-over-year in September, down from a 4.0% reading in August. The Bank of Canada's preferred inflation measures also dipped in September. The CPI-trim and CPI-median dropped by 20 bps to 3.7% and 30 bps to 3.8% year-over-year in September, respectively. Gasoline prices rose 7.5% year-over-year, which offset the deceleration in the all-items CPI. Excluding gasoline, Canada's CPI rose 3.7% in September, following a 4.1% increase in August. Food price inflation continued to slow during the third quarter. The price of the CPI's grocery items increased by 5.7% year-over-year in September, down from 6.9% in August. Inflation pressure was strongest in the CPI's shelter component, at 6.0% year-over-year, with rental accommodation at 7.0%. Headline inflation accelerated in August, which was largely due to higher year-over-year gasoline prices. The increase was the first recorded since January 2023. However, the year-over-year gain was driven by a base-year effect, as prices fell 9.6% month-over-month in August 2022. In short, consumer price inflation had eased by the end of the third quarter, having accelerated over the recent past.

CANADIAN INDEX POSTS YEAR'S FIRST QUARTERLY LOSS

The S&P/TSX Composite posted its first quarterly loss of the year in the third quarter. Canada's benchmark index registered a 3.0% decline for the three-month period. Several sectors posted negative results for the period. The Financials and Industrial sectors posted returns of -3.8% and -4.5%, respectively. Bank stocks weighed heavily on the Financials sector, with the Royal Bank, Bank of Nova Scotia, CIBC, Bank of Montreal, and National Bank posting weaker earnings. Air Canada, GFL Environmental, and Canadian National Railway losses contributed significant to the Industrials sector decline. The Energy sector outperformed during the third quarter, resulting in a 19.3% return. The positive outcome was driven largely by an increase in the price of oil. Canadian Natural Resources, Cenovus Energy, Suncor, and Imperial Oil posted strong double-digit gains during the quarter. Strong growth in Uranium pricing bolstered the Energy sector return. Despite a strong Energy sector performance, the S&P Composite Index generated its first quarterly loss of the year in the third quarter.

NATIONAL INFLATION

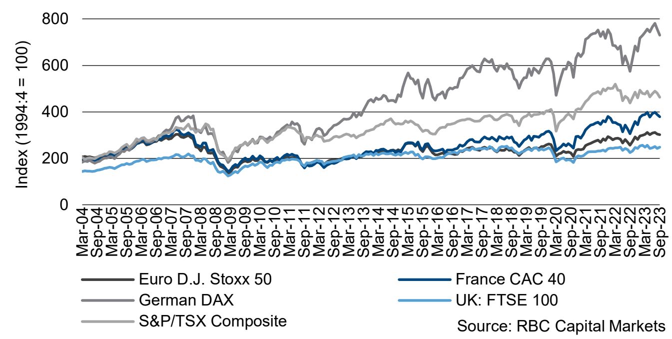
CPI Measures, % Change Over 1 Year Ago



Source: Bank Of Canada, Statistics

GLOBAL INDICES

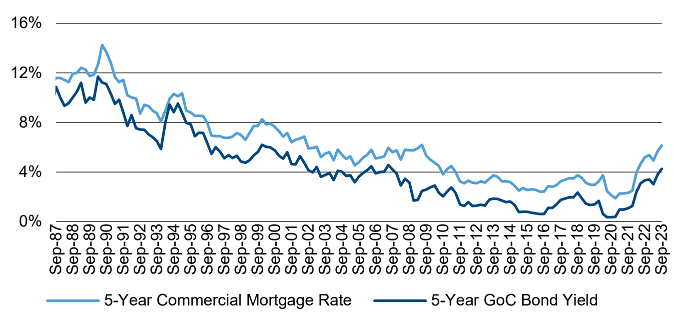
Trending of Global Price Return Indices



Source: RBC Capital Markets

MORTGAGE SPREADS

Commercial Mortgage Rates Vs. 5-Year GOC Bonds



Source: RBC Capital Markets, Bank of Canada

Excluding gasoline, Canada's CPI rose 3.7% in September, following a 4.1% increase in August.

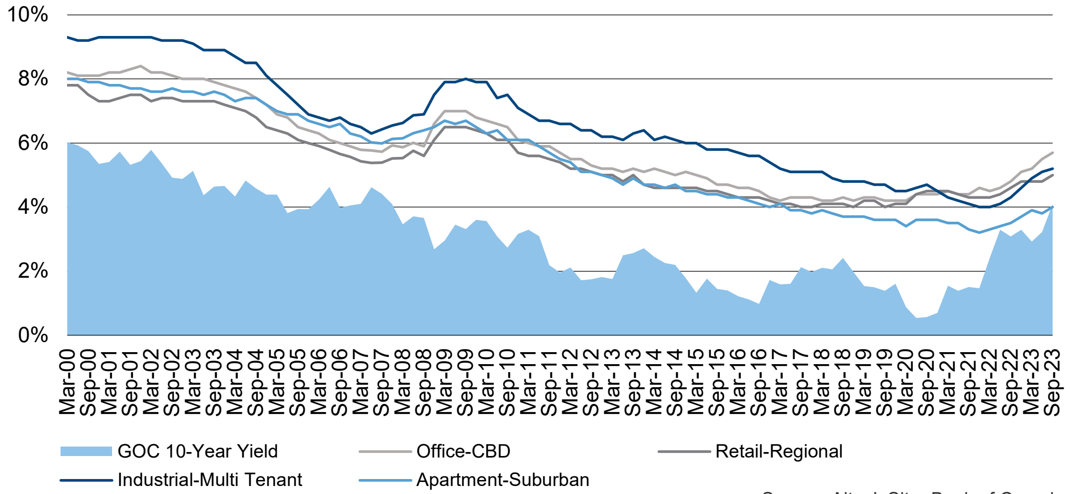
INVESTMENT REPORT

SALES ACTIVITY REMAINED MUTED

Investment sales activity in Canada's commercial property sector remained muted during the third quarter, continuing the trend that began roughly a year ago. Just shy of $4.0 billion of transaction volume was reported for the three-month period in Canada's top 10 markets and four major asset classes combined with a minimum sale price of $10.0 million. The third-quarter investment sales total was down 47.8% quarter-over-quarter.

YIELD SPREADS

Cap Rates vs. 10-Year GOC Bonds



Source: AltusInSite, Bank of Canada

Investment sales volume fell sharply quarter-over-quarter in three of the four major asset classes. Sales of office property more than doubled, with $2.1 billion of sales recorded between the beginning of July and the end of September. The doubling was somewhat misleading given more than half of the total was comprised of the sale of a significant portfolio of data centres in downtown Toronto. The industrial sector posted the steepest quarterly sales volume decline in the quarter. The $1.0 billion of third-quarter industrial investment sales volume was down sharply from the almost $3.6 billion recorded in the previous quarter. Industrial property sales had spiked during the second quarter. Multi-suite residential rental sales volume dipped below the $1.0 billion mark for the first time in three years in the third quarter. Less than $200.0 million of retail property sales was recorded in the third quarter, which represented a five-year quarterly low. Investment property sales activity began to slow significantly in the second half of 2022. Buyers retreated to the sidelines as borrowing costs increased, with greater macro-economic and property market risk. Subsequently, downward pressure on values increased. The resulting investment property sales decline persisted through to the end of the third quarter.

INDUSTRIAL PROPERTY SALES VOLUME FELL SHARPLY

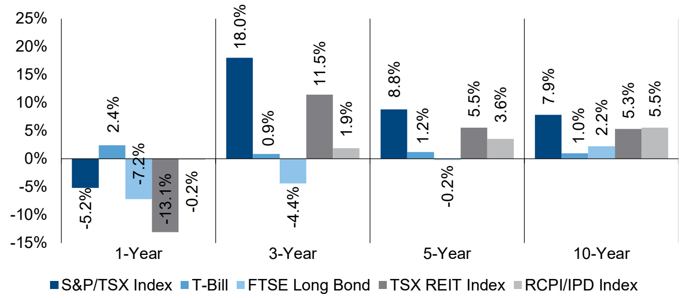
Industrial property sales volume fell sharply in the third quarter, after a second-quarter sales surge. Approximately $1.0 billion of third-quarter transaction volume was reported in the third quarter for industrial properties sold for at least $10.0 million in Canada's top 10 markets combined. The total was down sharply from the $3.6 billion of investment sales volume recorded for the previous quarter. Moreover, the third-quarter sales total was markedly lower than the three-year and five-year averages of $41.9 and $2.3 billion, respectively. In keeping with the national trend, industrial investment property sales slowed significantly in the second half of 2022. Despite the slowdown, core-quality warehouse and logistics properties continued to sell at relatively attractive pricing levels. Capitalization rates have risen modestly from the record-low averages reported in 2021 and early 2022. The industrial sector's positive leasing fundamental and rent growth outlooks remain a draw for various investment groups. Properties with excess land and in-place below market rents have attracted buyers. Institutional and pension fund groups have been somewhat less active, choosing instead to remain on the sidelines until the borrowing and economic outlooks stabilize. Over the near term, industrial property sales volume will remain below the medium-term average.

FIVE-YEAR LOW RETAIL INVESTMENT SALES VOLUME RECORDED

A five-year low investment sales total was recorded in the third quarter. Retail investment sales volume dipped below the $200.0 million mark for assets selling for at least $10.0 million in Canada's 10 largest market combined. The quarterly sales total was the lowest on record dating back to the first quarter of 2018. There were very few significant retail investment transactions reported during the third quarter, which was in keeping with the year-to-date trend. The $1.3 billion of sales recorded year-to-date was less than half of the three-quarter total of the previous year. Owners of retail assets have focused on operations, leasing, and increasing value through density additions over the past few years. In addition, owners have been reluctant to sell during a down market. In a few cases, owners have sold non-core assets or taken on partners with expertise in residential development. Properties with grocery store anchors and tenants selling necessities continue to draw interest. However, the availability of properties fitting this profile was limited. In short, retail property investment sales volume will remain below the medium-term average over the near term, in keeping with the broader market trend.

RELATIVE PERFORMANCE

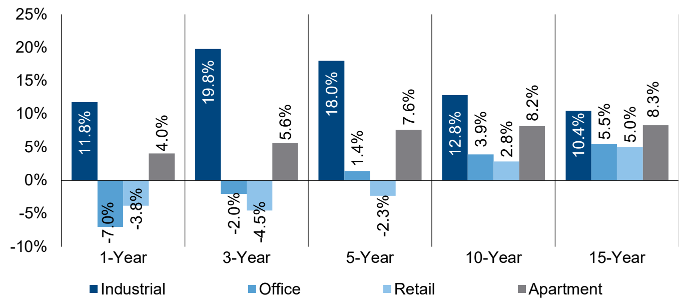
Comparing Annualized Returns To June 2023



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

MSCI RETURNS

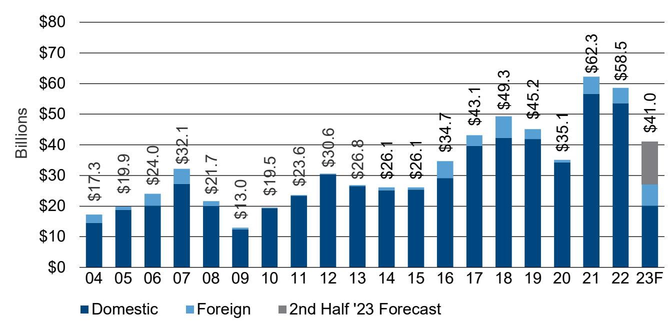
Annualized Returns By Property Type To June 2023



Source: © MSCI Real Estate 2023

INVESTMENT ACTIVITY

Total Investment Volume



Source: CBRE Limited; Morguard

There were very few significant retail investment transactions reported during the third quarter, which was in keeping with the year-to-date trend.

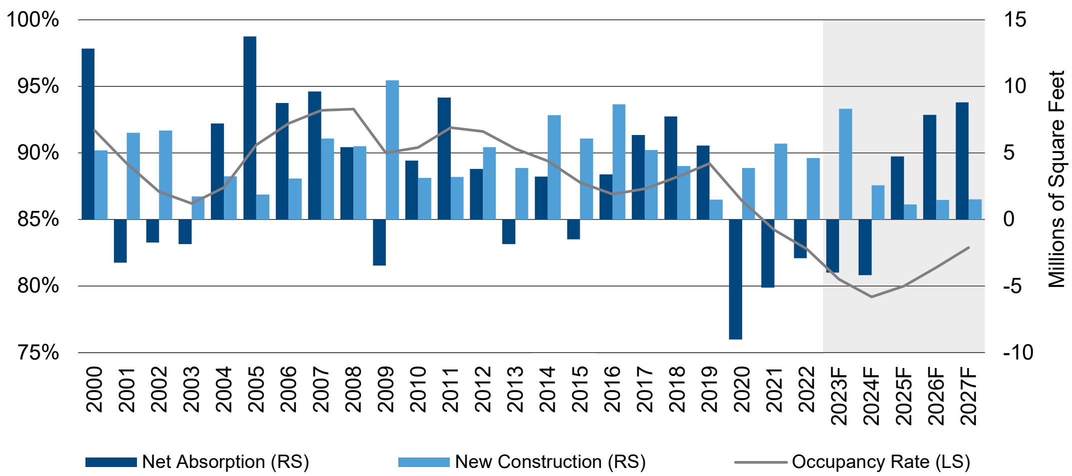
LEASING REPORT

OFFICE MARKET SLUGGISHNESS PERSISTED

Canada's office leasing market sluggishness of the past few years persisted in the third quarter. Leasing demand fell short of supply during the three-month period, which was reflected in the market's absorption trend. A total of almost 461,000 square feet of negative net absorption was tallied for the quarter according to CBRE figures. Roughly 4.8 million square feet of space was returned year-to-date to the nation's top 10 markets combined.

OFFICE DEMAND & SUPPLY

National Historical & Forecast Aggregates



Source: CBRE Limited; CBRE Econometric Advisors

Six of the country's top 10 office markets posted negative absorption totals for the third quarter. By far the quarter's strongest performance was tallied in the class A segment of Toronto's downtown submarket. A total of 525,000 square feet of class A space was absorbed over the three-month period. The second strongest performance was in the Waterloo Region where 210,000 square feet of suburban space was absorbed. Calgary was the only other market to post a materially positive performance during the quarter, with 144,000 square feet of suburban space absorbed. The national vacancy rate rose a modest 10 bps during the third quarter to 18.2%. Vacancy has risen 100 bps year-to-date and was up 170 bps year-over-year. Rents continued to hold at the cycle-low in the third quarter. In some cases, businesses were able to upgrade their space at a reasonable cost. Demand for high-quality space in the country's class A buildings was somewhat stronger than for class B and C space. Built-out space that included furniture was also a draw. On balance, however, Canada's office market sluggishness of the past few years persisted in the third quarter.

INDUSTRIAL SUPPLY WAS SLIGHTLY LESS CONSTRAINED

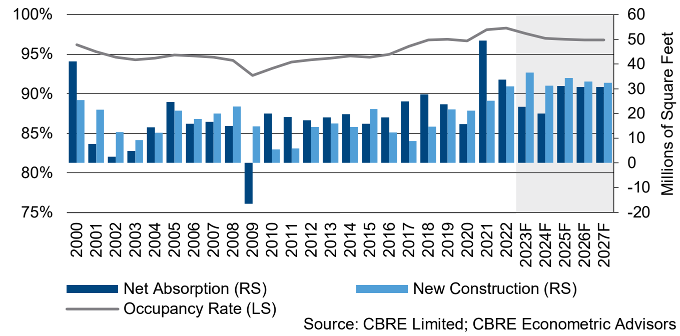
The supply of available industrial space became slightly less constrained in the third quarter, in keeping with the year-to-date trend. The national availability rate rose 40 bps during the quarter to 2.5% and had risen 90 bps year-to-date. The modest upward year-to-date availability trend was due largely to two factors. First, leasing demand has moderated substantially. Second, new supply exceeded the volume of space absorbed over the same time-period. In the third quarter, new supply totaled almost 11.0 million square feet while approximately 3.1 million square feet of industrial space was absorbed in the country's top 10 markets combined. More than 5.1 million square feet of new supply was completed in the GTA during the third quarter while a modest 1.1 million square feet of space was absorbed. Vancouver and Calgary added 1.9 million square feet and 1.7 million square feet of new industrial supply during the quarter, respectively. A modest 591,000 square feet of space was absorbed in Vancouver and almost 1.6 million square feet in Calgary. Tenant expansion activity has eased across the country recently, due largely to higher borrowing rates and increased economic uncertainty. As a result, available industrial space was slightly less constrained.

MULTI-SUITE RESIDENTIAL RENT GROWTH ACCELERATED

Rent growth accelerated in Canada's multi-suite residential rental sector during the third quarter. The average asking rent for purpose-built units in the country's 35 top markets rose 14.6% year-over-year, as of September 2023. The annual growth rate represented a nine-month high, as tracked by the Urbanation Inc Rentals.ca network. Double-digit asking rent growth was reported in all suite size categories. Annual growth in Toronto slowed substantially in the final month of the third quarter. Canadian residents continued to struggle with rent inflation during the third quarter. Rental demand outdistanced supply in most regions of the country. The more than 1.0 million international migrants arriving in Canada in 2022 contributed to the demand supply imbalance. Stronger-than-expected job growth in early 2023 added to the rental demand-pressure. Over the near term, rent growth is expected to moderate. Job growth is expected to slow significantly over the balance of this year and in early 2024. Additionally, international migration volume will trend lower. At the same time, young workers will hesitate to secure rental accommodation in an environment of increased economic uncertainty. In short, rent growth will moderate over the near term, having accelerated in the third quarter.

INDUSTRIAL DEMAND & SUPPLY

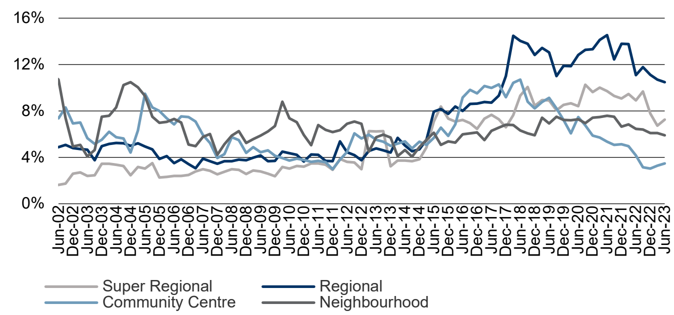
National Historical & Forecast Aggregates



Source: CBRE Limited; CBRE Econometric Advisors

RETAIL VACANCY RATES

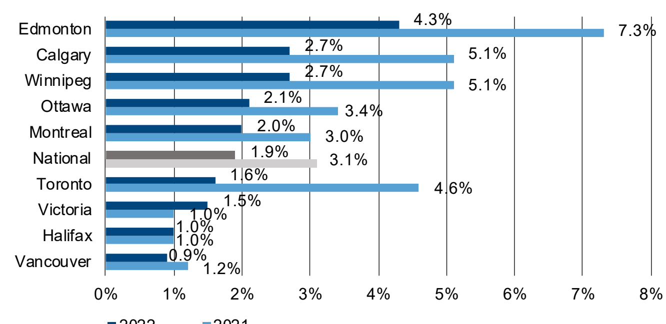
National Trending Across Property Types



Source: © MSCI Real Estate 2023

CMA'S RENTAL VACANCY

Rates for Structures of 3 units+



Source: CMHC (Jan 2023 release)

Vancouver and Calgary added 1.9 million square feet and 1.7 million square feet of new industrial supply during the quarter, respectively.

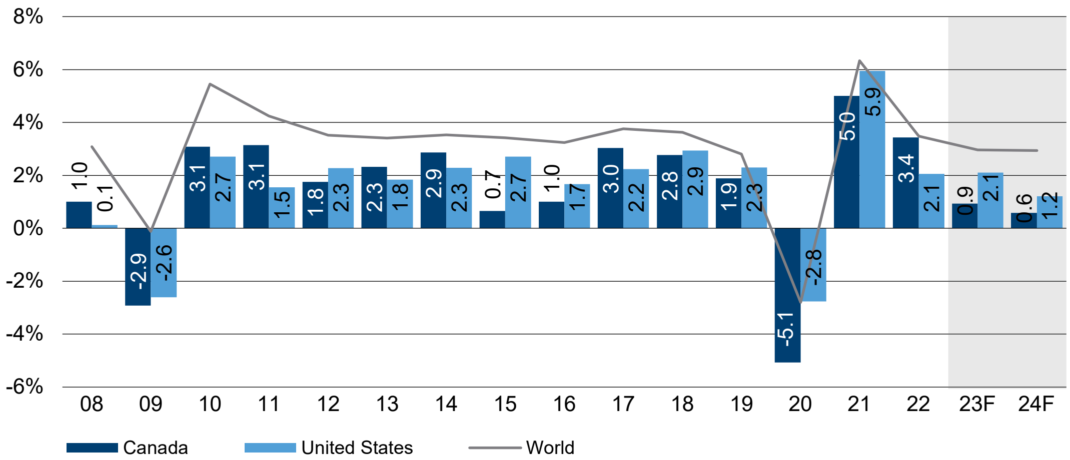
ECONOMIC REPORT

GROWTH SLOWDOWN CONTINUED TO UNFOLD

Canada's forecast economic slowdown continued to unfold during the third quarter, a trend that is expected to last through to the end of the year. Real GDP was unchanged in both July and August 2023. Statistics Canada's advanced estimate called for another flat GDP reading for September. Economic output is projected to decrease by an annualized rate of 0.1% over the third quarter, following the 0.2% second-quarter contraction.

ECONOMIC GROWTH

Real GDP Growth — Historical & Forecast



Source: Conference Board Of Canada (Sept 2023); International Monetary Fund (Oct 2023)

Increased output in the mining, quarry, and oil and gas sector during the third quarter was attributable to special circumstances. Oil sector output increased with the reopening of production facilities in western Canada that were previously locked down due to the threat of wildfires. Manufacturing sector output declined during the third quarter, due in large part to worker strikes at ports in British Columbia. Reduced output in the transportation and warehouse sector during the third quarter was also attributed largely to the port strikes.

The nation's economic growth trend will remained relatively weak over the final few months of 2023 and much of 2024. Real GDP is projected to increase by an annualized rate of less than 1.0% in the fourth quarter, a performance that will be repeated in each of the first two quarters of 2024. The national economic growth trend will strengthen in the second half, assuming interest rate and inflation pressures ease and consumer spending picks up. The strengthening will follow an extended period of weaker economic performance.

EMPLOYMENT AND WAGE INCREASES RECORDED

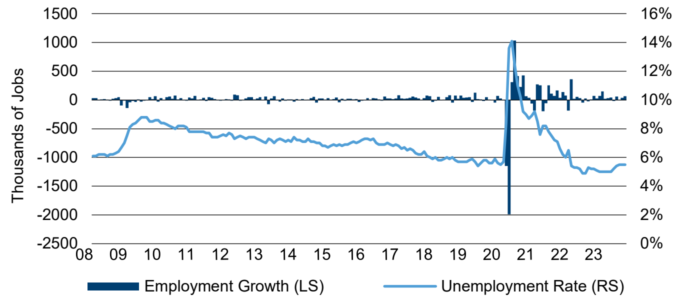
Employment levels and wages increased significantly during the third quarter. The ranks of the nation's employed rose by 40,000 and 63,800 in August and September, respectively. Job growth was stronger than expected over the two-month period, following a flat reading in July. Third-quarter job growth was concentrated largely in the services sector. In September, for example, 66,000 jobs were created in the historically volatile education services sector, more than recouping the 44,000 jobs lost in August. More than 52,000 jobs were created in the professional, scientific, and technical services sector and 34,000 in the construction sector in August. However, employment decreased substantially in several sectors during the third quarter, indicating the forecast labour market softening had commenced. Wages continued to rise at a robust rate during the third quarter. The national average hourly wage rose by 5.0%, 4.9%, and 5.0% year-over-year in July, August, and September respectively. The employment and wage growth in the third quarter was seen as a potential driver of increased consumer price inflation. The BofC may be forced into another rate hike over the near term.

WEAK CONSUMER SPENDING GROWTH TREND FORECAST

A weak consumer spending growth trend is forecast for the near term. Retail sales will increase by less than 1.0% in the final quarter of 2023, on an annualized basis. A similar spending growth pattern is forecast for the first half of 2024. Interest rate hikes and elevated inflation levels will reduce the spending power of Canadian residents. At the same time, job growth will slow, which will also have a negative impact on spending. Consumer confidence levels will decline over the near term, given an uncertain economic outlook. Canadian retail spending patterns weakened significantly in the second quarter of 2023. Retail spending was essentially flat during the three-month period. Spending slowed as consumers began to suffer the effects the recent monetary policy tightening and elevated inflation levels. Discretionary spending slowed significantly. Retail spending is expected to pick up in the second half of 2024. The forecast is predicated on lower interest rates and inflation levels. Economic activity is expected to increase, resulting in a stronger job growth trend and increased spending. The retail-sales increase will follow a period of relatively weak consumer spending growth over the near term.

LABOUR MARKET

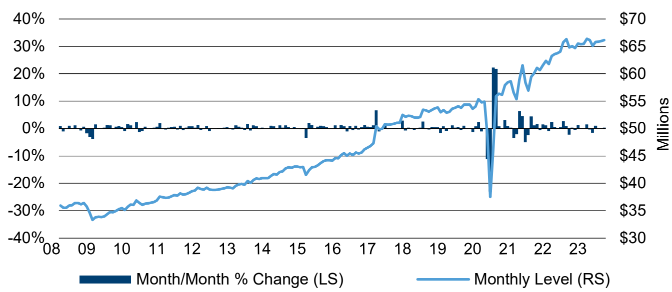
Month-Over-Month Trending



Source: Statistics Canada

RETAIL SALES

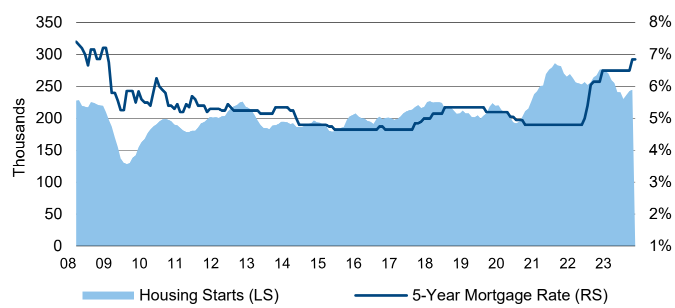
Month-Over-Month Trending



Source: Statistics Canada

HOUSING MARKET

Monthly Trends



Source: Statistics Canada, CMHC, Bank of Canada

The ranks of the nation's employed rose by 40,000 and 63,800 in August and September, respectively.

INVESTMENT MARKET TRANSACTIONS

OFFICE

PROPERTY	DATE	PRICE	SF	PSF	PURCHASER	MARKET
625 Rene-Levesque Blvd W	Sep-23	$16.2 M	120,000	$135	Groupe Mach	Montreal
1835 Yonge St	Sep-23	$20.8 M	66,828	$311	Regency Yonge Holdings	Toronto
8200 Warden Ave	Sep-23	$83.0 M	563,000	$147	Veryon Global	Toronto
3190 Steeles Ave E	Aug-23	$18.5 M	58,464	$316	Meritus Holdings Inc.	Toronto
66, 130 Slate St**	Aug-23	$72.5 M	382,906	$189	Katasa Grp./ARG Devco	Ottawa
1245, 1289 Greene Ave	Aug-23	$22.0 M	39,974	$550	Jesta Group	Montreal
360 Laurier Ave W**	Jul-23	$17.5 M	107,067	$163	CLV Group	Ottawa
Atria I, II, III	Jul-23	$165.0 M	921,834	$179	Groupe Mach/Sarees	Toronto

INDUSTRIAL

PROPERTY	DATE	PRICE	SF	PSF	PURCHASER	MARKET
5680-5700 Ambler Dr	Sep-23	$24.6 M	73,367	$335	Panattoni	Toronto
Thimens Small-Bay Portfolio	Sep-23	$43.6 M	235,512	$185	BentallGreenOak	Montreal
36 Simpson Rd	Sep-23	$22.7 M	65,649	$345	Interbuild	Toronto
20551-20583 Langley Bypass	Sep-23	$63.5 M	149,885	$424	Benchmark Group	Vanvouver
9305-9495 Trans-Canada	Aug-23	$42.9 M	202,137	$212	KingSett/Epic	Montreal
5498 76th Ave SE	Aug-23	$24.5 M	159,686	$153	XXIII Capital Inc	Calgary
35 Valleywood Dr	Aug-23	$21.7 M	61,858	$350	Tricap Properties	Toronto
6415 Northwest Dr	Jul-23	$20.0 M	69,382	$288	Northbridge Capital	Toronto
1840-1842 Clements Rd	Jul-23	$40.3 M	170,302	$236	Groupe Mach/Sarees	Toronto
250 Chrysler Dr	Jul-23	$44.0 M	149,789	$294	GIC/Dream REIT	Toronto
BGO Vaughan Porfolio	Jul-23	$80.5 M	262,922	$306	Woodbourne Capital Mgt	Toronto
Brasswater Montreal Portfolio	Jul-23	$43.9 M	156,255	$281	Brookfield Asset Mgt.	Montreal
3430 Harvester Rd	Jul-23	$48.4 M	141,534	$342	Nexus Industrial REIT	Toronto

RETAIL

PROPERTY	DATE	PRICE	SF	PSF	PURCHASER	MARKET
Mission Hill Plaza	Sep-23	$29.1 M	106,377	$274	Salthill Capital	Edmonton
Namao South	Jul-23	$52.0 M	108,011	$481	Salthill Capital	Edmonton
H&R REIT Portfolio	Jul-23	$50.8 M	330,000	$154	Rainbow Capital	Montreal

MULTI-SUITE RESIDENTIAL

PROPERTY	DATE	PRICE	# UNITS	/UNIT	PURCHASER	MARKET
50 Laurier Ave E, 170-180 Waller St	Sep-23	$96.0 M	212	$452,830	Homestead Land Holdings	Ottawa
4875,4905 des Erables St	Sep-23	$20.3 M	123	$165,041	Le 4875 Inc	Montreal
1142 Granville St	Sep-23	$48.0 M	106	$452,830	Concert Properties	Vancouver
120 East Keith Rd	Aug-23	$18.1 M	42	$431,857	FDG Property Management	Vancouver
161 Athol St E	Aug-23	$39.0 M	185	$210,811	Forum Asset Management	Toronto
335 Deguire Blvd	Aug-23	$32.5 M	180	$180,556	Greyspring Apartments	Montreal
222 MacLaren St	Aug-23	$13.9 M	47	$294,681	SerCo Realty Group	Ottawa
1239 12th Ave SW	Jul-23	$20.1 M	124	$162,097	Surefire Properties Inc	Calgary
4003 26 Ave	Jul-23	$16.3 M	180	$90,417	Harmani Rentals	Edmonton
40, 60 Marguerite Maille St	Jul-23	$57.1 M	158	$361,604	Centurion Apt. REIT	Gatineau
1040 Castlefield Ave	Jul-23	$10.0 M	44	$227,273	Homer Developments	Toronto

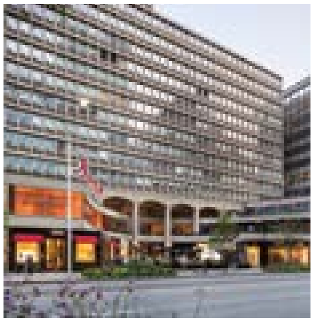
*share sale

**conversion

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 September 30, 2023, Morguard had $18.6 billion of total assets under management and employed 1,300 real estate professionals in 11 offices throughout North America.

Publicly Traded Real Estate Company	Morguard Corporation
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, 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, 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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