2025

First Quarter Update

Morguard Canadian Economic Outlook and Market Fundamentals 27th Annual Edition

Canadian Real Estate: Optimism to Build

Morguard

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Q1

ABOUT

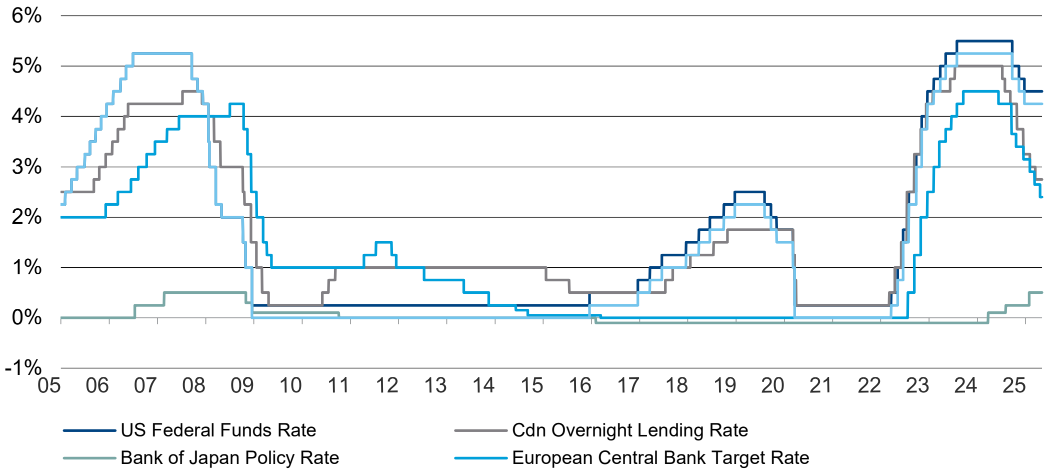
FINANCIAL REPORT

RATE CUTS CONTINUED AMID RISING ECONOMIC UNCERTAINTY

The Bank of Canada (BofC) continued with its rate-cutting cycle in the first quarter amid rising economic uncertainty. The BoC lowered its policy rate by 0.25% on both January 29 and March 12. The policy rate has been cut seven consecutive times dating back to June 2024.

OFFICIAL POLICY RATES

International Monetary Conditions



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

The bank's target overnight rate stood at 2.75% at of the end of the first quarter. The first quarter rate cuts considered the nation's relatively strong economic position at the start of 2025 and an inflation rate that hovered close to its 2.0% target. In its March announcement, the bank restated its position that monetary policy would have limited impact on the effects of a global trade war. Canadian economic growth is expected to slow substantially with the imposition of U.S. tariffs and ongoing global trade tensions. Additionally, inflation pressure is projected to increase as the global trade war unfolds. The U.S. and Canadian economies started to slow toward the end of the first quarter and equity market values declined. The U.S. equity market fell into bear territory as the second quarter got underway. Canadian job growth also started to soften in the first quarter after strengthening in late 2024. In short, the bank moved ahead with rate cuts in the first quarter as the ongoing threat of U.S. tariffs eroded consumer and business confidence.

CONSUMER PRICE GROWTH EASED

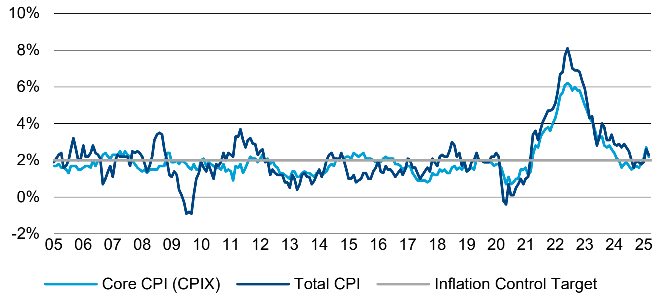
Canadian consumer price growth eased by the end of the first quarter, largely due to lower price increases for gasoline and air travel. Headline inflation was 2.3% year-over-year in March, down from 2.6% in February. Gasoline prices declined 1.6% less year-over-year in March, following a 5.1% increase in February. Travel and airfare prices fell by 4.7% year-over-year in March, after an 18.8% increase in the previous month. Inflation pressure increased in February with the expiration of the federal Goods and Services Tax (GST) and Harmonized Sales Tax (HST) breaks. The tax breaks had partially offset rising energy prices through to mid-February. Energy prices rose 5.3% in January, up from 1.0% in December. Canada's CPI rose by 2.4% in 2024 on an annual average basis, down from 3.9% in 2023. The 2024 average represented the lowest level since 2020, though it remained above the pre-pandemic annual average. Consumer prices have remained elevated since the pandemic began in 2020 and a return to historic CPI inflation averages has been stubbornly slow. By the end of the first quarter, consumer price growth had eased, a trend that will likely be reversed with the imposition of U.S. tariffs.

S&P/TSX COMPOSITE INDEX OUTPERFORMED

The S&P/TSX Composite Index outperformed the U.S. equity market in the first quarter, following a largely bullish two-year run. Canada's benchmark index rose 0.8% in the quarter, while the U.S. market declined by 4.7% in Canadian dollar terms. Of the 225 stocks in the S&P/TSX Composite, 108 (48%) registered gains. The Materials sector led with a 19.9% gain, largely driven by the mining sector. Utilities, Energy, and Consumers Staples saw modest gains of 3.7%, 2.8%, and 2.5%, respectively. Communications Services posted a 1.0% gain. The remaining six sectors ended the quarter in the red with Information Technology and the Health Care underperforming at -8.1% and -14.8%, respectively. Investors moved toward defensive sectors such as Utilities given heightened economic uncertainty. The retreat to safety is expected to intensify amid growing trade tensions. The S&P/TSX Composite is expected to decline over the near term after outperforming the U.S. equity market in the first quarter.

NATIONAL INFLATION

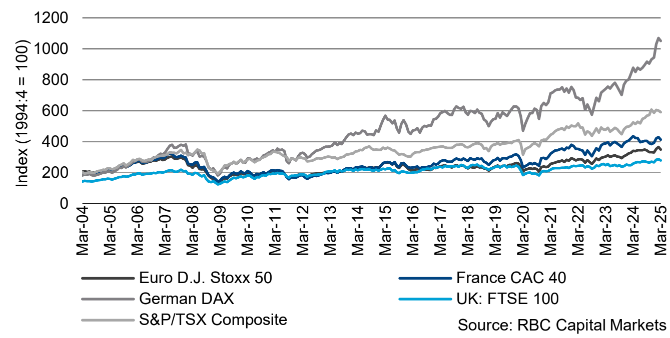
CPI Measures, % Change Over 1 Year Ago



Source: Bank of Canada, Statistics Canada

GLOBAL INDICES

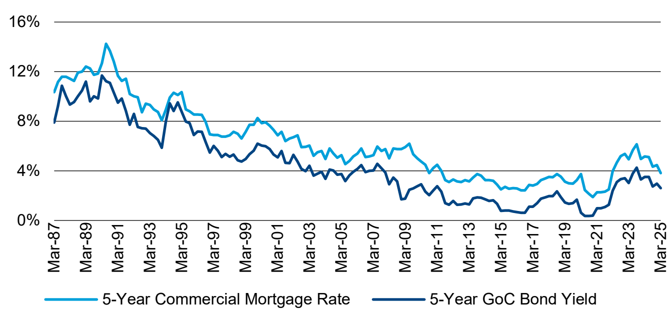
Trending of Global Price Return Indices



Source: RBC Capital Markets

MORTGAGE SPREADS

Commercial Mortgage Rates Vs. 5-Year GOC Bonds

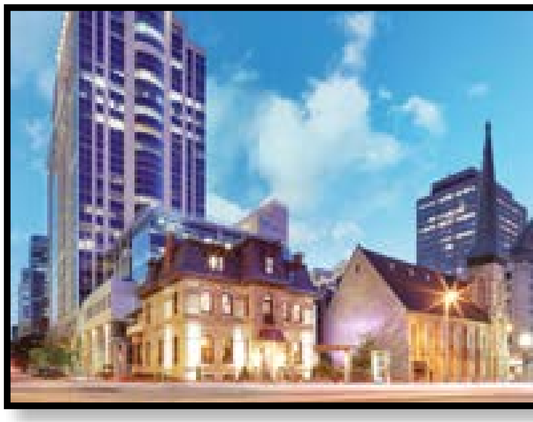


Source: RBC Capital Markets, Bank of Canada

Headline inflation was 2.3% year-over-year in March, down from 2.6% in the previous month.

INVESTMENT REPORT

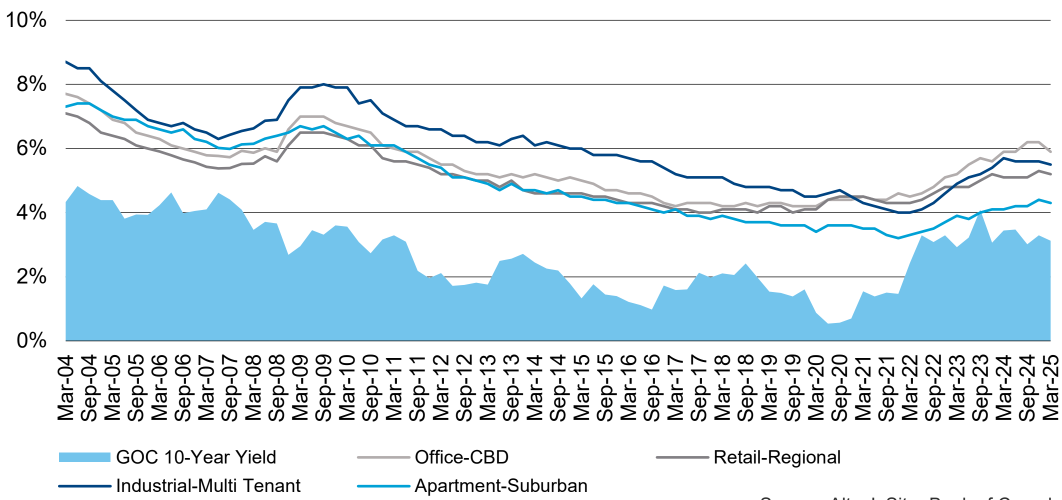
INVESTMENT SALES VOLUME CONTINUED TO DECLINE



Canadian commercial investment property sales volume continued to decline in the first quarter. Sales of office, industrial, retail, and multi-suite residential rental properties that were valued at $10.0 million or more in five of the country's largest markets, totalled $3.1 billion. This total represented a fourth consecutive quarter-over-quarter decline.

YIELD SPREADS

Cap Rates vs. 10-Year GOC Bonds



Source: AltusInSite, Bank of Canada

Moreover, the first quarter transaction volume was the second lowest quarterly total dating back to Q3 2020 when investors retreated to the sidelines with the onset of the COVID-19 pandemic. Retail was the only property type to post an increase in quarter-over-quarter transaction volume in the first quarter. The acquisition of a 50.0% interest in Southgate Centre in Edmonton and a 100% interest in the Oshawa Centre by Primaris REIT for a combined $585.0 million accounted for over half of the $980 million in retail sales volume. Private capital buyers continued to account for the largest share of industrial property sales, which totalled just over $1.3 billion. Office property sales volume fell below the $200.0 million mark following $812.0 million final quarter of 2024. The $583.0 million of multi-suite residential rental property sales volume was a low mark dating back to Q3 2020. However, demand for multi-suite residential rental property remained relatively robust. Availability fell short of demand, thereby limiting transaction volume. Commercial real estate investment sales activity is expected to remain muted over the near term given the ongoing threat of a global trade war and economic downturn. Investors will target lower risk acquisitions during a period of heightened uncertainty.

PRIVATE CAPITAL CONTINUED TO DRIVE INDUSTRIAL SALES

Private capital continued to account for a large share of industrial investment property sales activity in the first quarter, continuing the trend of the past few years. Privately funded groups have been increasingly active in acquiring properties while institutions focused on operations and addressing under-performing assets. Leverage-driven buyers remained relatively inactive as borrowing costs stayed elevated. Owner-users also accounted for a significant share of sales volume as they looked to avoid paying historically high rents for leased space. Private buyers are expected to continue to account for a large portion of industrial property sales over the near term.

RETAIL INVESTMENT ACTIVITY TICKED HIGHER

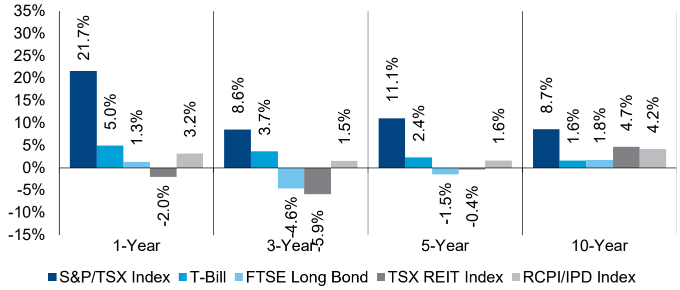
Retail investment property sales activity ticked higher in the first quarter. The $980.4 million in transaction volume represented a five-quarter high and exceeded the three- and five-year quarterly averages. The most significant transaction was Primaris REIT's acquisition of a 50.0% interest in Edmonton's Southgate Centre and a 100.0% interest in Oshawa Centre for a combined total of $585.0 million. Hudson's Bay filing for bankruptcy protection dominated headlines during the quarter and may redirect capital flows as landlords prepare for the potential impact of large vacancy blocks in the market. Investors continue to look for opportunities to acquire properties with strong performance track records especially grocery-anchored centres. Performance headwinds are expected to increase over the near term due to the global tariff war. Sales of retail property will likely slow, having ticked higher in the first quarter.

AVAILABILITY FELL SHORT OF DEMAND

Multi-suite residential rental property acquisition opportunities fell short of demand in the first quarter, in keeping with the recent trend. Investors continued to exhibit strong interest in acquiring core-quality individual assets and portfolios expected to generate attractive yields. However, availability remained somewhat constrained in the first quarter, which limited sales closings. A modest $583.0 million of sales volume was reported for the three-month period, representing the second lowest quarterly total since Q2 2020. Concrete high-rise towers and recently constructed properties remained popular with investors. However, the availability of properties with these attributes fell short of demand in the first quarter.

RELATIVE PERFORMANCE

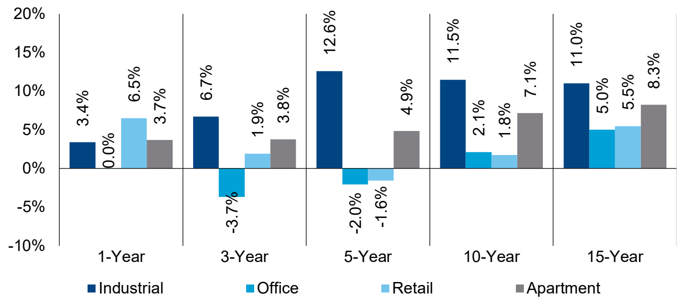
Comparing Annualized Returns To Dec 2024



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

MSCI RETURNS

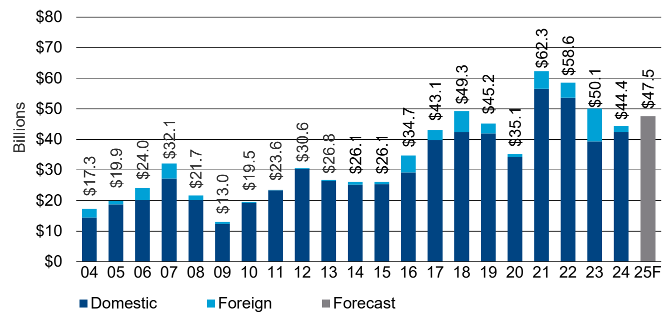
Annualized Returns By Property Type To Dec 2024



Source: © MSCI Real Estate 2025

INVESTMENT ACTIVITY

Total Investment Volume



Source: CBRE Limited; Morguard

Investors continued to exhibit strong interest in acquiring core-quality assets and portfolios expected to generate attractive yields.

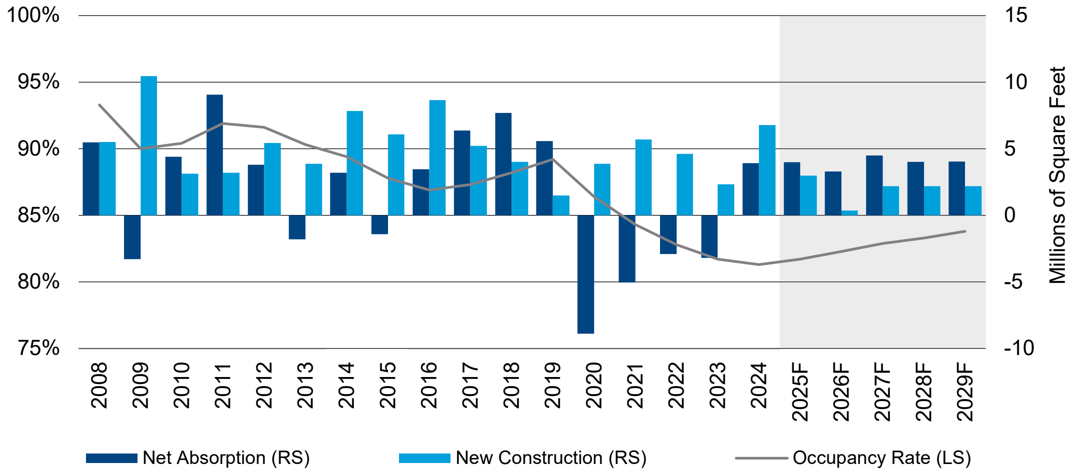
LEASING REPORT

LITTLE CHANGE IN OFFICE LEASING MARKET CONDITIONS REPORTED

There was little change in Canadian office leasing market conditions reported in the first quarter, continuing the trend of the past year. The national average vacancy rate stood at 18.7% at the end of March, 10 bps higher year-over-year and 10 bps lower quarter-over-quarter.

OFFICE DEMAND & SUPPLY

National Historical & Forecast Aggregates



Source: CBRE Limited; CBRE Econometric Advisors (Q4 2024)

The national class A vacancy rate was relatively stable in the first quarter, consistent with the recent trend. Class A vacancy stood at an elevated 17.6%, just 20 bps above the level reported a year earlier. The average downtown vacancy rate fell just 10 bps to 19.9% while the suburban average was unchanged. Occupancy decreased by 366,000 square feet acros all classes of space with more than 72.0% of the decrease occurring in the nation's downtown areas according to CBRE data. Vancouver was the only market to post an increase in occupancy in the first three months of 2025. New supply had little impact on vacancy with just 119,000 square feet of space added to inventory. Asking rents were generally flat across the country, which was consistent with the recent trend. Downside risk in the leasing market increased substantially in the first quarter, largely due to the ongoing threat of a global trade war and economic downturn. Canadian business confidence has declined, leading businesses to delay office expansions and hiring plans. As a result, there was little change in office leasing fundamentals reported over the first three months of the year.

RISING INDUSTRIAL AVAILABILITY TREND EASED

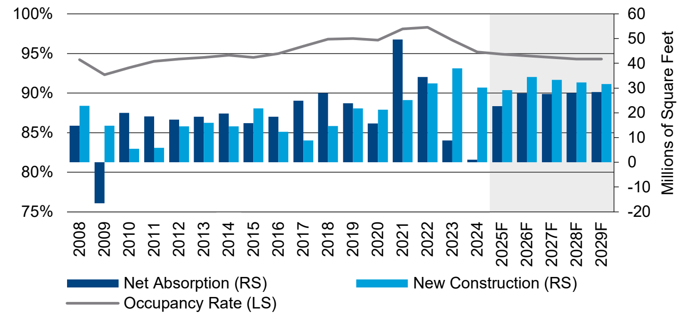
The upward trend in industrial leasing market availability eased slightly in the first quarter. The national average availability rate for existing industrial properties increased by a modest 10 bps to 5.0%. The rate had increased by a quarterly average of 43 bps in 2024. This easing was due to a slowdown in new supply deliveries and a marked rise in occupancy during the quarter. Occupancy increased by just shy of 4.0 million square feet over the same period while almost 4.8 million square feet of new construction was completed. In comparison, Q4 2024 saw a 5.4 million square foot increase in occupancy and a near record high 15.9 million square feet of new supply was completed. Industrial leasing market availability rose steadily from a low of 1.8% to a high of 4.9% in 2023 and 2024. The rising availability trend was due lagely to the effects of demand moderation and record high new supply completions. Consequently, lease rates levelled off and declined, particularly in Eastern Canada. Looking ahead, economic growth and trade activity are expected to slow due to protectionist U.S. tariffs. In turn, industrial leasing market fundamentals will soften and availability will rise, a trend that eased slightly in the first quarter.

STRONGEST ASKING RENT GROWTH POSTED FOR LARGEST UNITS

Asking rent growth was strongest for the largest multi-suite residential rental units in the first quarter. The average posted monthly asking rent for three-bedroom units in the country's top 35 markets rose 3.7% year-over-year as of March 202, according to Rentals.ca/Urbanation. The average rent for studio units rose just 1.8%, one-bedroom and two-bedroom units saw declines of 2.2% each. The March year-over-year pattern was similar to the preceding two months: three-bedroom asking rents rose by 5.0% in January and 2.1% in February, and 3.8% in March. Several factors contributed to the above-average asking rent growth for larger units over the past year. The high cost of homeownership kept many households renting larger units. Inflation remained a significant burden on renter households finances. More recently, growing economic uncertainty prompted families to continue renting rather than purchasing. This uncertainty spiked in the first quarter as the U.S. announced tariffs on most countries including its closest allies. As a result, rent growth for larger units is expected to remain elevated over the nar term, consistent with the first quarter trend.

INDUSTRIAL DEMAND & SUPPLY

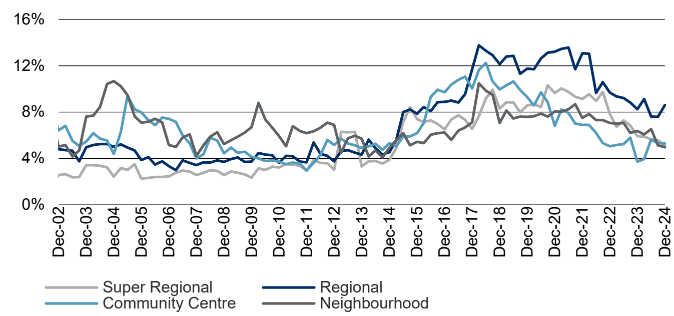
National Historical & Forecast Aggregates



Source: CBRE Limited; CBRE Econometric Advisors (Q4 2024)

RETAIL VACANCY RATES

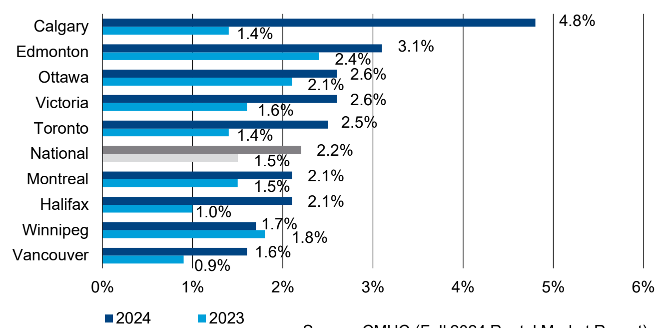
National Trending Across Property Types



Source: © MSCI Real Estate 2025

CMA'S RENTAL VACANCY

Rates for Structures of 3 units+



Source: CMHC (Fall 2024 Rental Market Report)

The nation's industrial availability rate rose 50 bps to a six-year high of 3.7% in the first quarter, having risen steadily over the past year.

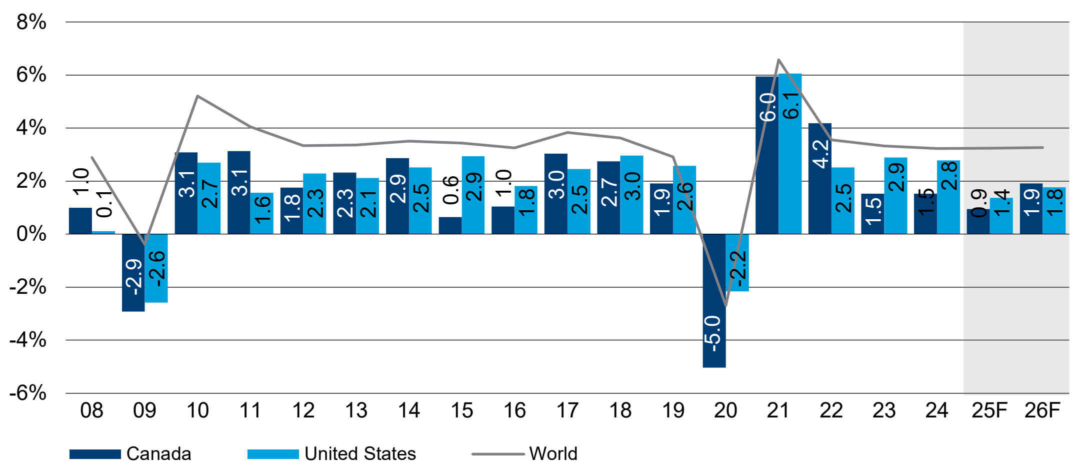
ECONOMIC REPORT

DOWNSIDE ECONOMIC RISK HAS INCREASED SUBSTANTIALLY

Downside economic risk in Canada increased substantially in the first quarter, largely due to the U.S. administration's protectionist policies and resulting threat of a global trade war and economic uncertainty. During the quarter, the U.S. announced import tariffs on many products originating from roughly 60 nations, including Canada.

ECONOMIC GROWTH

Real GDP Growth — Historical & Forecast



Source: Conference Board of Canada (March 2025); International Monetary Fund (Oct 2024)

The U.S. imposed a 25.0% tariff on Canadian non-energy imports on February 1, 2025. Energy imports were subject to a more moderate 10.0% levy. In retaliation, Canada imposed a 35.0% tariff on certain U.S. goods. A few days later, the U.S. announced a pause on Canadian tariffs and United States Mexico Agreement (CUSMA)-compliant goods were exempted. On March 12, a 25.0% tariff was levied by the U.S. on Canadian steel and aluminum imports. The U.S. also introduced reciprocal tariffs ranging from 11.0% to 50.0% on imports approximately 60 countries, on may items in addition to a baseline 10.0% levy on all imports. CUSMA-compliant exemptions were upheld, and no new tariffs were levied on Canada and Mexico. On April 5, a 25.0% U.S. tariff was announced on automobile and automobile part imports. In short, Canadian economic uncertainty and downside risk rose substantially in the first quarter, due largely to the imposition and threat of wide-ranging U.S. tariffs on Canada and many other countries.

LABOUR MARKET CONDITIONS STARTED TO SOFTEN

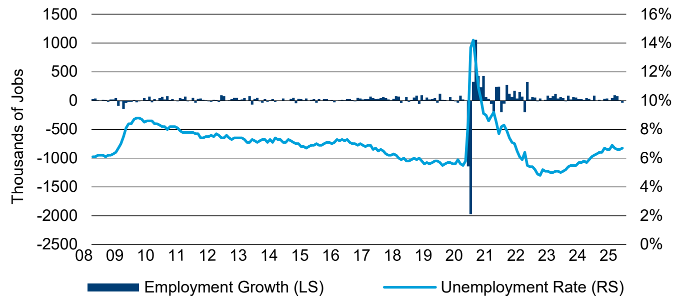
Canadian labour market conditions started to soften in the first quarter, following a two-year period of moderately positive performance. This trend was likely attributable to the early impacts of U.S. tariffs on the Canadian economic performance and business confidence. Canada's economy shed 32,600 jobs in March 2025, after employment flatlined in the previous month. In January, 76,000 jobs were created as employment rose by 0.4%. Employment increased in four out of the five months ending in January 2025. The national unemployment rate edged up 10 bps to 6.7% in March after holding steady at 6.6% in January and February. This followed a 100 bps increase in the unemployment rate over 2024. The average Canadian hourly wage continued to rise during the first quarter. The non-seasonally adjusted average hourly wage increased by 3.5%, 3.8%, and 3.6% year-over-year in January, February, and March respectively. Labour market conditions are expected to continue softening over the near term as economic impacts of U.S. tariffs ripple through the Canadian economy. Private sector hiring had already begun to slow in the first quarter amid declining business confidence. Hiring is expected to continue to slow as tariffs increase business costs and weaken sentiment. Non-CUSMA-compliant exporters are likely to see their margins compressed. In short, the softening of the labour market that began in the first quarter is expected to persist over the near term.

CANADIAN HOMEBUYERS REMAINED SIDELINED

Canadian homebuyers remained largely on the sidelines in the first quarter as sales of existing properties fell to their lowest level since 2009. Economic uncertainty stemming from escalating U.S. tariffs and global trade tensions prompted many buyers to hold off on purchasing a home. Sales of existing homes fell by 4.8% month-over-month in March, according to a recent Canadian Real Estate Association report. This marked the fourth consecutive monthly decline and a 9.3% year-over-year drop (non-seasonally adjusted). Moreover, sales of existing homes have declined by 20.0% from the most recent high posted in November 2024. The most significant sales declines were reported in Ontario and British Columbia in the first quarter. While sales declined, new listings increased. The 165,800 properties listed for sale in March across Canada represented an 18.0% year-over-year increase. The combination of weakening demand and growing supply put downward pressure on the national average home price in the first quarter while Canadian homebuyers remained on the sidelines.

LABOUR MARKET

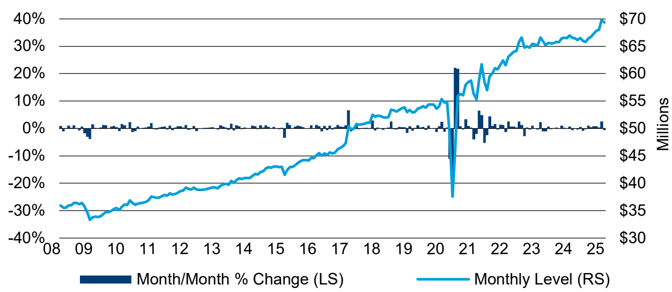
Month-Over-Month Trending



Source: Statistics Canada

RETAIL SALES

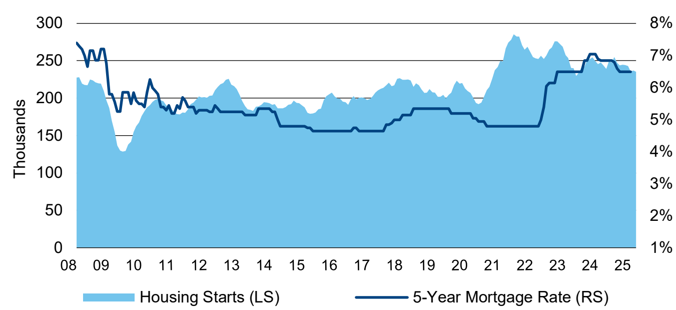
Month-Over-Month Trending



Source: Statistics Canada

HOUSING MARKET

Monthly Trends



Source: Statistics Canada, CMHC, Bank of Canada

Employment increased in four out of the five months ending in January 2025.

INVESTMENT MARKET TRANSACTIONS

OFFICE

PROPERTY	DATE	PRICE	SF	PSF	PURCHASER	MARKET
1111 West Hastings St	Mar-25	$70.0 M	95,814	$731	Reliance/Germain Hotels	Vancouver
First Canadian Ctr	Feb-25	$46.1 M	508,141	$91	G2S2 Capital Inc	Calgary
3760-3762 Fourteenth Ave	Jan-25	$22.1 M	127,904	$173	Private	Toronto

INDUSTRIAL

PROPERTY	DATE	PRICE	SF	PSF	PURCHASER	MARKET
7900 Airport Rd	Mar-25	$253.0 M	745,121	$340	Crestpoint/PSP Investments	Toronto
2700 Bristol Cir	Mar-25	$26.3 M	105,200	$250	Beedie Group	Toronto
Argentia Business Ctr	Mar-25	$44.0 M	162,043	$272	The Hamtor Group Inc.	Toronto
10651 Keele St	Feb-25	$14.5 M	39,000	$372	Mirabelli Corporation	Toronto
201 Whitehall Dr	Feb-25	$18.2 M	71,385	$254	Regency Property	Toronto
Pure Ind. REIT GTA East Portfolio	Feb-25	$258.2 M	998,000	$259	Dream Summit Industrial LP	Toronto
633 Edgeley Blvd	Jan-25	$20.0 M	54,461	$366	The D'Angelo Group	Toronto
17204 114 Ave	Jan-25	$11.2 M	104,085	$108	Priority Asset Mgt. Inc	Edmonton
1650 Lionel-Bertrand Blvd	Jan-25	$10.3 M	63,982	$160	Parkit Enterprise Inc	Montreal
15423 131 Ave	Jan-25	$26.5 M	244,230	$109	Constance Property ULC	Edmonton
6435-6451 Northwest Dr	Jan-25	$100.0 M	395,781	$253	Groupe Montoni	Toronto

RETAIL

PROPERTY	DATE	PRICE	SF	PSF	PURCHASER	MARKET
Sheridan Plaza	Mar-25	$40.0 M	170,746	$234	Trinity Group	Toronto
Hudson Mall Podium	Jan-25	$89.1 M	82,450	$1,081	Hazelview Investments	Vancouver
Oshawa Ctr	Jan-25	$375.0 M	1,219,962	$307	Primaris REIT	Toronto
1560 Yonge St	Jan-25	$37.6 M	65,895	$570	Wittington Properties	Toronto
Faubourd Langelier	Jan-25	$28.6 M	80,223	$356	Groupe Mach	Montreal
Choice REIT Aurora Portfolio	Jan-25	$38.5 M	86,350	$446	Varallo Holdings/Laviva	Toronto
Willowbrook Park Ctr	Jan-25	$137.0 M	193,785	$707	Willowbrook Drive Lands	Vancouver
10-30 Broadleaf Ave	Jan-25	$18.2 M	37,114	$489	B&B Plaza Limited	Toronto
1379-1389 Sainte Catherine St W	Jan-25	$10.0 M	11,175	$895	Prime Building Inc	Montreal
Strawberry Fields Plaza	Jan-25	$22.2 M	40,192	$551	Private	Toronto

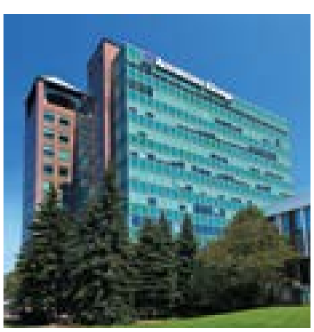
MULTI-SUITE RESIDENTIAL

PROPERTY	DATE	PRICE	# UNITS	/UNIT	PURCHASER	MARKET
10141 124 St	Mar-25	$79.4 M	240	$330,833	CAPREIT	Edmonton
520-550 Varennes St	Mar-25	$12.3 M	69	$177,536	KJ Realties Inc	Montreal
10155 116 St	Mar-25	$20.7 M	122	$170,000	Leston James Financial Inc	Edmonton
83 Elm Ave	Feb-25	$23.5 M	61	$385,246	Rosedale Grand (Toronto)	Toronto
4540-50 1e St/4565-75 Samson	Feb-25	$16.8 M	84	$199,405	Newstein Mgt. Group Inc	Montreal
9717 111 St	Feb-25	$38.9 M	138	$281,522	Leston Holdings (1980) Ltd	Edmonton
4643 Sherbrooke St W	Feb-25	$11.2 M	27	$415,741	DKJ Abbey Inc	Montreal
115 John St	Jan-25	$17.8 M	62	$286,290	Westphalen Holdings	Toronto
4320 Slocan St	Jan-25	$18.2 M	41	$444,546	CAPREIT	Vancouver
1755 Frobisher Ln	Jan-25	$69.0 M	241	$286,307	Paramount Properties	Ottawa
280 Route 132	Jan-25	$52.3 M	160	$326,563	Astoria Capital	Montreal
30 McEwen Ave	Jan-25	$20.0 M	227	$88,106	Private	Ottawa

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, 2025, Morguard had $18.7 billion of total assets under management and employed 1,200 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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