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.
## TABLE OF CONTENTS

### NATIONAL ECONOMIC & REAL ESTATE OUTLOOK

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Economic Report</td>
<td>4</td>
</tr>
<tr>
<td>Office Outlook</td>
<td>6</td>
</tr>
<tr>
<td>Office Investment Report</td>
<td>7</td>
</tr>
<tr>
<td>Industrial Outlook</td>
<td>8</td>
</tr>
<tr>
<td>Industrial Investment Report</td>
<td>9</td>
</tr>
<tr>
<td>Retail Outlook</td>
<td>10</td>
</tr>
<tr>
<td>Retail Investment Report</td>
<td>11</td>
</tr>
<tr>
<td>Multi-Suite Residential Outlook</td>
<td>12</td>
</tr>
<tr>
<td>Multi-Suite Residential Investment Report</td>
<td>13</td>
</tr>
<tr>
<td>Investment Outlook</td>
<td>14</td>
</tr>
<tr>
<td>Economic Outlook</td>
<td>16</td>
</tr>
</tbody>
</table>

### METROPOLITAN ECONOMIC & REAL ESTATE OUTLOOK

<table>
<thead>
<tr>
<th>City</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Halifax</td>
<td>18</td>
</tr>
<tr>
<td>Montreal</td>
<td>23</td>
</tr>
<tr>
<td>Ottawa</td>
<td>28</td>
</tr>
<tr>
<td>Toronto</td>
<td>33</td>
</tr>
<tr>
<td>Winnipeg</td>
<td>38</td>
</tr>
<tr>
<td>Regina</td>
<td>43</td>
</tr>
<tr>
<td>Saskatoon</td>
<td>45</td>
</tr>
<tr>
<td>Calgary</td>
<td>47</td>
</tr>
<tr>
<td>Edmonton</td>
<td>52</td>
</tr>
<tr>
<td>Vancouver</td>
<td>57</td>
</tr>
<tr>
<td>Victoria</td>
<td>62</td>
</tr>
<tr>
<td>Acknowledgements / Works Cited</td>
<td>67</td>
</tr>
</tbody>
</table>
NATIONAL ECONOMIC & REAL ESTATE OUTLOOK
HIGHLIGHTS

• Canada’s economy was tracking expansion of approximately 2.0% for 2018 as of the fall, following a more robust 3.0% rise in Gross Domestic Product (GDP) in 2017.

• Labour market conditions were generally very solid during 2018, which was reflected in a national unemployment rate of less than 6.0% in the second half.

• Retail sales growth moderated during 2018, due in large part to rising interest rates, a slowdown in housing market activity and close to record high household debt levels.

• Uncertainty related to Canada’s economic outlook was reduced to some extent with the agreement on an updated North American Free Trade Agreement (NAFTA) on September 30, 2018.

NATIONAL ECONOMIC PULSE

<table>
<thead>
<tr>
<th>FUNDAMENTALS</th>
<th>△ YTD</th>
<th>1-YEAR OUTLOOK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP Growth*</td>
<td>▼</td>
<td>—</td>
</tr>
<tr>
<td>Unemployment</td>
<td></td>
<td>—</td>
</tr>
<tr>
<td>Retail Sales Growth*</td>
<td>▼</td>
<td>—</td>
</tr>
<tr>
<td>Housing Starts*</td>
<td>▼</td>
<td>—</td>
</tr>
<tr>
<td>Trade Balance*</td>
<td>▼</td>
<td>—</td>
</tr>
<tr>
<td>Total Inflation</td>
<td>▲</td>
<td>—</td>
</tr>
</tbody>
</table>

*The trend indicators do not necessarily represent a positive or negative value (i.e., real GDP growth could be +/-, yet indicate a growing/shrinking trend).

ECONOMIC GROWTH MODERATED AFTER ROBUST 2017

Canada’s economic growth rate remained moderately positive during 2018, after a fairly robust rate of expansion over the previous 12-month period. The national economy was on track for annualized expansion of approximately 2.0% this year. Previously, Gross Domestic Product grew at an annualized rate of 3.0% in 2017, driven in part by stabilization in the energy sector. The 2017 performance was somewhat dichotomous, with a strong first half and modest second half. The modest second-half past carried over into 2018. After a slow first quarter, growth firmed. Output increased 2.9% during the second quarter on an annualized basis with a more moderate result forecast for the third quarter. The slower growth trend was the result of a number of largely temporary factors. The most prominent of these was the housing market correction. Tighter lending rules, higher interest rates and provincial policy measures caused a slowdown in housing market activity, which reduced sector output. Additionally, a number of disruptions in the manufacturing and oil sectors also had a negative impact on economic expansion. On the flip side, however, a tight labour market and wage growth helped drive economic output higher during 2018. The solid economic growth trend of the past year occurred during a period of moderate risk. The most prominent of these were the impact of rising interest rates, the potential for a widespread global trade war and a longer-than-expected housing market correction. A moderate rate of Canadian economic expansion persisted during 2018, despite a modest level of risk.

LABOUR MARKET WAS TIGHT AND HEALTHY

Canada’s labour market remained tight and healthy during 2018. As conditions tightened this year, the labour market closed in on ‘full employment’. The national unemployment rate stood at 5.8%, as of July of this year, with a similar result forecast for year end. The creation of approximately 210,000 new jobs was forecast for 2018, against a backdrop of generally healthy labour market trends. A repeat performance was forecast for 2019. In 2017, the Canadian economy created 329,800 new jobs, which marked a 10-year high and surpassed most forecasts. This year, Ontario continued to lead the way in terms of economic performance and job creation. The health of the national labour market was also reflected in consistent wage growth patterns during 2018. Wages increased 3.2%, year-over-year as of July. Wage growth was expected to persist through the balance of 2018 albeit at a more moderate pace. In short, Canada’s labour market was expected to remain tight and generally healthy through the balance of this year and into 2019.

RETAIL SALES GROWTH TREND SLOWED

The Canadian retail sales growth rate declined steadily during the latter half of 2017 and first half of 2018. Retail sales were up 3.6% during the first six months of 2018, which was half of the growth rate for the same time period a year earlier. Previously, year-over-year growth peaked at 8.0%, as of the midway mark of 2017. Since then, the year-over-year results have steadily declined with 7.3% in Q3 2017, 6.7% in Q4 2017, 4.0% in Q1 2018 and 3.5% in Q2 2018. In April of this year, year-over-year growth of just 2.6% was reported, which marked a low dating back to 2015. The weakening of the retail sales trend of the past year can be largely attributed to the Food and Drug sector. In the first six months of 2018 sector sales increased by a tepid 1.1%, year-over-year. In the second quarter a weak 0.3% gain was recorded. Despite the downward growth trend, wage growth and tight labour market conditions have at least partially offset the potentially adverse impacts of rising interest rates and high levels of household debt on sales growth. The rate at which retail sales have increased over the past year has declined, a result that was in keeping with the broader economic performance.
SIGNS OF HOUSING MARKET STABILIZATION WERE OBSERVED
The Canadian housing market exhibited signs of stabilization during 2018, after a rough start to the year. During the summer months, sales activity increased in a number of locales. Ontario led the way, while Alberta and New Brunswick also contributed to the modest rise in activity levels. Moreover, resale activity levels have improved in seven out of 10 provinces between May and October of 2018. Signs of stabilization were also reported in the country’s largest region, the Greater Toronto Area (GTA). Sales of existing homes in the GTA increased in three consecutive months, beginning in May, and were up 17.0% year-over-year by July. Resale home sales in both Calgary and Edmonton increased in the summer months, having plunged 30.0% between December of last year and April. The housing market correction that unfolded in 2017 was a byproduct of rising interest rates, tighter lending rules and various provincial policy actions. While there was progress made in other parts of the country, the Greater Vancouver Area (GVA) market continued to flounder through to the fall of 2018. Increased tax rates on foreign purchases and new provincial policies continued to hamper progress. However, there were signs of Canadian housing market stabilization on a broader scale.

EXPORT GROWTH EASED AFTER STRONG FIRST HALF
A steady growth trend for Canadian exports was forecast for the second half of 2018, following a strong first-half performance. During the first six months of 2018 Canadian exporters shrugged off the negative impacts of steel and aluminum sector tariffs. In the first half of 2018 exports to the U.S. reached a record high. The surge in export volume recorded in the first half of the year was driven in large part by a rise in crude oil and refined petroleum product exports. Export growth was expected to moderate in the second half of the year due to a number of factors. For example, aluminum and steel exports were expected to fall sharply, causing a 0.6% decline in total exports according to the Conference Board of Canada (CBOC). In June, aluminum exports to the U.S. were down 7.0%, following a gain of 28.5% between February and May. Capacity issues and labour shortages were also expected to reduce export volumes in a number of other sectors. Despite this scenario, Canadian exports were expected to rise steadily in the second half of the year after a robust first half.

US MEXICO CANADA AGREEMENT TEMPORARILY REDUCED ECONOMIC UNCERTAINTY
The creation of the new U.S. Mexico Canada Agreement (USMCA) in the fall of this year temporarily reduced economic uncertainty. In the past, trade agreements have boosted economic performance, although the positive effects have typically been uneven. The agreement effectively removed the threat of steep tariffs on the nation’s automotive sector, which would have had a profoundly negative impact on the Province of Ontario’s economy. In addition, the duty limit for goods brought into Canada from the U.S. was raised to $150.0 from $20.0, much to the chagrin of the Canadian retail sector. While the USMCA agreement included a number of positives, there were aspects that could have negative repercussions for Canadian businesses. In the agricultural sector, for example, U.S. companies were granted access to the Canadian market. The nation’s dairy farmers expressed their concern as to the negative impact of increased competition from south of the border. The federal government responded with a promise of financial compensation for losses incurred. A similar scenario was also likely for the nation’s poultry sector. Looking ahead, the reduction in economic uncertainty resulting from the new USMCA agreement may prove to be temporary. There was speculation that the Democrats could block the implementation of the agreement, having gained control of the House of Representatives in the November Midterm U.S. elections.

ECONOMIC UNCERTAINTY
US MEXICO CANADA AGREEMENT TEMPORARILY REDUCED ECONOMIC UNCERTAINTY
The creation of the new U.S. Mexico Canada Agreement (USMCA) in the fall of this year temporarily reduced economic uncertainty. In the past, trade agreements have boosted economic performance, although the positive effects have typically been uneven. The agreement effectively removed the threat of steep tariffs on the nation’s automotive sector, which would have had a profoundly negative impact on the Province of Ontario’s economy. In addition, the duty limit for goods brought into Canada from the U.S. was raised to $150.0 from $20.0, much to the chagrin of the Canadian retail sector. While the USMCA agreement included a number of positives, there were aspects that could have negative repercussions for Canadian businesses. In the agricultural sector, for example, U.S. companies were granted access to the Canadian market. The nation’s dairy farmers expressed their concern as to the negative impact of increased competition from south of the border. The federal government responded with a promise of financial compensation for losses incurred. A similar scenario was also likely for the nation’s poultry sector. Looking ahead, the reduction in economic uncertainty resulting from the new USMCA agreement may prove to be temporary. There was speculation that the Democrats could block the implementation of the agreement, having gained control of the House of Representatives in the November Midterm U.S. elections.

ECONOMIC UNCERTAINTY
US MEXICO CANADA AGREEMENT TEMPORARILY REDUCED ECONOMIC UNCERTAINTY
The creation of the new U.S. Mexico Canada Agreement (USMCA) in the fall of this year temporarily reduced economic uncertainty. In the past, trade agreements have boosted economic performance, although the positive effects have typically been uneven. The agreement effectively removed the threat of steep tariffs on the nation’s automotive sector, which would have had a profoundly negative impact on the Province of Ontario’s economy. In addition, the duty limit for goods brought into Canada from the U.S. was raised to $150.0 from $20.0, much to the chagrin of the Canadian retail sector. While the USMCA agreement included a number of positives, there were aspects that could have negative repercussions for Canadian businesses. In the agricultural sector, for example, U.S. companies were granted access to the Canadian market. The nation’s dairy farmers expressed their concern as to the negative impact of increased competition from south of the border. The federal government responded with a promise of financial compensation for losses incurred. A similar scenario was also likely for the nation’s poultry sector. Looking ahead, the reduction in economic uncertainty resulting from the new USMCA agreement may prove to be temporary. There was speculation that the Democrats could block the implementation of the agreement, having gained control of the House of Representatives in the November Midterm U.S. elections.

ECONOMIC UNCERTAINTY
US MEXICO CANADA AGREEMENT TEMPORARILY REDUCED ECONOMIC UNCERTAINTY
The creation of the new U.S. Mexico Canada Agreement (USMCA) in the fall of this year temporarily reduced economic uncertainty. In the past, trade agreements have boosted economic performance, although the positive effects have typically been uneven. The agreement effectively removed the threat of steep tariffs on the nation’s automotive sector, which would have had a profoundly negative impact on the Province of Ontario’s economy. In addition, the duty limit for goods brought into Canada from the U.S. was raised to $150.0 from $20.0, much to the chagrin of the Canadian retail sector. While the USMCA agreement included a number of positives, there were aspects that could have negative repercussions for Canadian businesses. In the agricultural sector, for example, U.S. companies were granted access to the Canadian market. The nation’s dairy farmers expressed their concern as to the negative impact of increased competition from south of the border. The federal government responded with a promise of financial compensation for losses incurred. A similar scenario was also likely for the nation’s poultry sector. Looking ahead, the reduction in economic uncertainty resulting from the new USMCA agreement may prove to be temporary. There was speculation that the Democrats could block the implementation of the agreement, having gained control of the House of Representatives in the November Midterm U.S. elections.
OFFICE OUTLOOK

MATURE PHASE OF CYCLE WAS EXTENDED WHILE SALES PEAKED

The mature phase of the current investment cycle was extended recently, a period that included record high sales volume. The maturing of the current cycle was reflected in investment performance. Office assets contained in the MSCI Index generated a fairly attractive investment return of 7.3% for the year ending June 30, 2018. This result was up 240 bps year-over-year, which was an indication that the current cycle had staying power. The extension of the current cycle was a byproduct of largely stable and healthy investment demand patterns. A range of groups, both institutional and private, looked to increase their exposure to the sector over the recent past. Investor appetite for core and core-plus properties was strong across the country. In some cases, investors exhibited a willingness to stretch on price for prime assets. Investment appetite was also strong for assets with a perceived upside, typically with development, lease up and/or re-positioning. The strength of the demand cycle translated into record-high sector transaction closing activity. In the first half of 2018 a total of $6.0 billion in transaction volume was reported, which was slightly ahead of the pace of the previous year. The GTA and GVA markets remained the most attractive, however, investors were forced to look elsewhere given limited opportunities in these markets. The strength of the demand cycle combined with strong leasing fundamentals drove property values moderately higher. At the same time, cap rates continued to rest at the cycle-low, which was in keeping with the mature phase of the cycle that was extended over the recent past.

LEASING DEMAND OUTDISTANCED SUPPLY IN MOST REGIONS

Office leasing demand outdistanced supply in most of the country’s major urban areas over the past year. In several markets, technology-related businesses were the main demand-drivers and leased a significant volume of vacant space. The professional services, education and health care business sectors also continued to expand. A number of shared work space companies also set up shop in a number of locations, which also reduced vacancy levels in a number of submarkets. With office space demand outdistancing supply over the recent past, particularly in the country’s downtown areas, vacancy rates were driven lower. The national average downtown vacancy rate fell to 10.7% as of the end of the first half of 2018, down from 11.4% a year earlier. In downtown Toronto and Vancouver conditions were markedly tighter, with vacancy of 2.9% and 4.7% reported at the midway mark of 2018, respectively. Options were limited for tenants looking to expand or relocate, especially in newly built properties. Increased tightness in most cities had a trickle-down effect into the older building inventory to varying degrees. Even in Alberta, there was evidence of brighter days ahead. Low vacancy levels resulted in rising rents, with Class A space seeing the strongest growth. Older buildings registered more modest increases. Rental growth over the past year was a byproduct of the broader market dynamic that saw demand outpace supply.

RECENT PERFORMANCE PATTERNS WILL BE REPEATED

Office sector performance patterns of the recent past will be repeated over the near term. The national economic growth outlook will continue to support a broadly positive leasing demand trend. In continuing to outpace supply, demand will drive vacancy levels lower and rents moderately higher. Supply constraints will continue to hamper growth in some markets. Downtown rental rates should rise more sharply, given record-low vacancy levels in some cities. This growth and the continued strength of leasing fundamentals across much of the country will support positive income performance characteristics. In turn, this will boost overall investment performance. Returns are expected to remain attractive, as was the case over the past year. In short, near-term performance patterns will mirror those of the recent past.
HIGHLIGHTS

• Canadian office properties were sold at close to record levels over the past 18 months, with a reported $10.2 billion in transaction volume posted for 2017 and a further $5.8 billion for the first six months of 2018.

• A modest strengthening of leasing fundamentals was recorded in Canada’s office sector over the past year, although oversupply remained an issue in Calgary and Edmonton.

OFFICE INVESTMENT REPORT

INVESTMENT MARKET TRANSACTIONS

MONTREAL

Property | Date | Price | SF | PSF | Purchaser
--- | --- | --- | --- | --- | ---
Broccolini (50%) | Apr-18 | $32.0 M | 247,017 | $259 | Crestpoint
7250 Mile-End St | Jan-18 | $155.5 M | 400,000 | $389 | Sun Life

OTTAWA

Property | Date | Price | SF | PSF | Purchaser
--- | --- | --- | --- | --- | ---
Jean Edmonds Tower | Oct-18 | $186.0 M | 551,652 | $337 | Morguard/IA Fin.
41 Victoria, Gatineau | Aug-18 | $58.8 M | 134,369 | $429 | Morguard
Minto Place (33.3%) | Aug-18 | $135.0 M | 945,030 | $429 | LaSalle Investmts
Morguard Kanata | Feb-18 | $74.2 M | 343,985 | $216 | Fiera Properties

TORONTO

Property | Date | Price | SF | PSF | Purchaser
--- | --- | --- | --- | --- | ---
Queen’s Quay Termin. | Oct-18 | $261.0 M | 494,901 | $527 | Northam/IA Fin.
6 Staples Ave | Sep-18 | $33.0 M | 121,964 | $270 | True North REIT
1243 Islington Ave | Sep-18 | $40.4 M | 111,370 | $363 | Montez
125 Commerce Vail. W | Aug-18 | $57.6 M | 189,210 | $304 | IA Financial Group
80 Whitehall Dr | Aug-18 | $20.4 M | 60,805 | $335 | True North REIT
5 Park Home Ave | Jul-18 | $30.1 M | 91,115 | $330 | Morguard
Pearson Corporate Ctr | Jul-18 | $63.5 M | 305,446 | $208 | Crown Realty
1335 North Service E | Jul-18 | $25.3 M | 55,000 | $469 | Nicola Crosby
Lansing Square | Jul-18 | $162.3 M | 439,612 | $369 | Elad Canada
5075 Yonge St | Jun-18 | $38.1 M | 86,913 | $438 | Davenport Inc.
5775 Yonge St | Jun-18 | $85.2 M | 274,085 | $311 | True North REIT
1004 Middlelatch Rd | Jun-18 | $65.0 M | 262,028 | $248 | Rogers
Parkway Place | May-18 | $256.3 M | 486,545 | $296 | Tigris Vista Inc.
111 Gordon Baker Rd | May-18 | $36.0 M | 165,497 | $218 | Montez/Adgar
Bay-Adelaide (50%) | Mar-18 | $89.0 M | 2,216,360 | $767 | Dadco Investments
55 University Ave | Mar-18 | $195.1 M | 263,035 | $742 | Investors Group
Dundas Edward Ctr | Mar-18 | $167.0 M | 416,603 | $401 | Crown/Crestpoint
5985 Explorer Dr | Feb-18 | $50.6 M | 135,744 | $373 | Morguard
3070, 3115 Harvester | Jan-18 | $22.8 M | 78,800 | $289 | True North REIT

KITCHENER/WATERLOO

Property | Date | Price | SF | PSF | Purchaser
--- | --- | --- | --- | --- | ---
Westmount Place | Mar-18 | $72.5 M | 303,417 | $239 | Killam Properties

CALGARY

Property | Date | Price | SF | PSF | Purchaser
--- | --- | --- | --- | --- | ---
IBM Corporate Park | Sep-18 | $98.0 M | 358,426 | $273 | Spear St. Capital
First Tower | May-18 | $107.0 M | 726,529 | $147 | Hines

EDMONTON

Property | Date | Price | SF | PSF | Purchaser
--- | --- | --- | --- | --- | ---
Edmonton Tower | Jul-18 | $400.0 M | 631,027 | $634 | AIMCo

VANCOUVER

Property | Date | Price | SF | PSF | Purchaser
--- | --- | --- | --- | --- | ---
Containers Phase II | Sep-18 | $92.0 M | 128,404 | $716 | Concert Properties
Government House* | Aug-18 | $227.0 M | 222,032 | $1,022 | Crestpoint
32071 South Fraser* | Aug-18 | $22.0 M | 52,270 | $421 | True North REIT
Shorehill Building | Jul-18 | $80.0 M | 83,068 | $963 | Hollyburn Prop.
Guildford Corp. Ctr | Apr-18 | $51.0 M | 123,885 | $412 | Pacific Reach Prop
Willington Pk I & II | Mar-18 | $48.3 M | 126,500 | $381 | Spear St. Capital
555 Robson St* | Feb-18 | $107.5 M | 135,000 | $796 | GWL Realty Adv.

*share sale

Office Total Returns
For The 1-Year Period Ending June 2018

Source: © MSCI Real Estate 2018

Office Sales By CMA
18 Months to June 2018

Source: CBRE Limited

Total Sales By Product
18 Months to June 2018

Source: CBRE Limited

Office Total Returns
For The 1-Year Period Ending June 2018

Source: © MSCI Real Estate 2018

Industrial 22%
Hotel 9%
Retail 21%
Office 23%
Multi-Suite 14%
Land 15%

Office Sales By CMA
18 Months to June 2018

Source: CBRE Limited

Toronto 43%
Montreal 10%
Ottawa 8%
Other 2%
Calgary 11%
Edmonton 3%
Vancouver 21%
Halifax 2%
Victoria 5%
Winnipeg 5
calgary 11%
Vancouver 21%

Office Total Returns
For The 1-Year Period Ending June 2018

Source: © MSCI Real Estate 2018

Industrial 22%
Hotel 9%
Retail 21%
Office 23%
Multi-Suite 14%
Land 15%

Office Sales By CMA
18 Months to June 2018

Source: CBRE Limited

Toronto 43%
Montreal 10%
Ottawa 8%
Other 2%
Calgary 11%
Edmonton 3%
Vancouver 21%
Halifax 2%
Victoria 5%
Winnipeg 5
Industrial leasing market fundamentals continued to strengthen over the past year, building on an already solid foundation. On the supply side of the market ledger, vacancy rates continued to compress. The national vacancy rate stood at 3.9%, as of the end of the first half of 2018, having fallen 70 bps year-over-year. Supply constraints were an issue in a number of markets. Functional space was hard to find in Vancouver and Toronto, where record-low vacancy of 3.0% and 2.5% was reported, respectively. While less acute, functional space shortages were also a problem in Montreal, Winnipeg and Victoria as well. Vacant space in older properties was also in relatively short supply in a number of markets as well. The health of the market’s supply fundamentals was a function of the continued strength of the sector’s demand cycle. Consumer goods, logistics and tech-related businesses were the market’s dominant demand-drivers. In Calgary and Edmonton, stabilization in the oil sector also boosted demand. To varying degrees, low vacancy and healthy demand pushed rents higher, a trend that was most prevalent in Toronto and Vancouver. Rent growth was strongest for newly built space but upward pressure was also evidenced for older properties as well. In short, industrial leasing market fundamentals continued to improve over the past year, a trend that was expected to persist for at least the near term.

The near-term performance outlook for Canada’s industrial sector is stable and healthy. Leasing fundamentals will continue to improve, although supply constraints in some cities will hamper progress. Economic growth rates forecast across much of the country are expected to translate into leasing demand stability. However, the supply of functional space will continue to fall short of this demand in the nation’s three largest inventories, Toronto, Montreal and Vancouver. The rising cost of land and construction and municipal development charges will continue to reduce the volume of new properties delivered to market. As a result, there will continue to be a measure of demand supply imbalance. This imbalance will drive rents moderately higher in many locales. Stable and healthy leasing performance will be a catalyst for improved income growth rates for owners of industrial properties. This will boost investment performance and continue to draw investors to the sector. Investment demand will remain robust, given the broadly stable and healthy sector outlook for the near term.
**HIGHLIGHTS**

- Sales of industrial investment property soared during 2018, with a record-high $6.1 billion in transaction volume reported for the second quarter alone.

- Supply constraints characterized much of the Canadian industrial leasing market over the past year, as the supply of functional space fell short of demand in most jurisdictions except for Calgary and Edmonton.
INVESTMENT SALES ACTIVITY SURGED TO RECORD-HIGH LEVEL
The sale of retail investment properties surged to a record-high level over the past year, despite heightened sector risk. A total of $5.5 billion in retail property was sold across the country during the first six months of 2018. This mirrored the pace of the previous year, when record-high transaction volume of $9.2 billion was reported. The record pace of the past 18 months was fuelled by broadly positive demand fundamentals. National and local groups both exhibited confidence in placing capital into this sector. Shopping centres with strong performance records and prime high street assets were particularly popular, as were smaller strips and centres with grocery store anchors. Properties with development or repositioning upside also generated strong interest. The transaction volume high of the past 18 months was somewhat surprising, given an increase in sector risk over the recent past. The ongoing impact of online shopping and changing consumer shopping preferences and patterns were seen as the main areas of risk for the sector. To some degree, these had already impacted sector performance. Properties contained in the MSCI Index registered a fairly attractive 5.7% return for the year ending June 30, 2018. However, the return was the lowest on record since the most recent recession. The downward performance trend was somewhat counterintuitive to the record high volume of property sales recorded over the past 18 months.

LEASING PERFORMANCE WAS MIXED
The Canadian retail leasing market performance of the past year was somewhat mixed. There was some variation in supply-side characteristics reported. The national vacancy rate stood at 6.8% as of the end of the first half of 2018, up 240 bps year-over-year. The rising vacancy trend was driven largely by the closure of Sears stores across the country and the steady stream of store closures that has characterized the sector over the past couple of years. A sharper rise in vacancy was recorded in the Regional Centre market segment, with vacancy rising 690 bps to 11.3% over the same time period. The Power Centre average was not only more stable, but also markedly lower. A rate of 3.4% was posted at the midyear mark of 2018, up a modest 50 bps year-over-year. Finally, average vacancy for the Neighbourhood and Community Centres combined was 6.8%, up 240 bps year-over-year. Rental rate trends also varied over the past year in the retail sector. Generally, there was modest upward pressure on rents on a few major shopping streets and in centres with strong sales performance profiles. However, there were varying degrees of downward pressure on rents across much of the rest of the market. To some extent, there was also some variation in demand patterns over the past year. Discount stores and the luxury market segment continued to thrive, while downsizing and store closures continued in the mid-market subcategory. This variation was in keeping with the broader leasing market theme of the past year.

NOWHERE TO GO BUT SIDEWAYS
The probability of material change in retail sector trends over the near term is quite low. Retail sales growth will continue to moderate through the balance of 2018 and much of 2019. However, spending patterns will support retailer expansions. The luxury and discount market segments will lead the way in terms of expansion activity. Therefore, vacancy patterns will mirror those of the recent past. The recently vacated Sears space will take some time to be absorbed and/or re-purposed. Therefore, vacancy will remain elevated. Rent stabilization will continue in some segments of the market, with few exceptions. Investment market conditions are also expected to stabilize. Demand will remain fairly brisk, which should hold values at current levels. Riskier assets will be scrutinized closely, given heightened sector risk. On balance, there will be minimal variation in sector trend over the near term.
**HIGHLIGHTS**

- Investors continued to exhibit confidence in the Canadian retail sector over the recent past, despite a measure of uncertainty associated with the wave of ongoing change in the broader industry.

- Retail property investment sales peaked over the past 18 months, with a reported $14.7 billion in assets sold despite a myriad of changes taking place across the broader industry.

---

**INVESTMENT MARKET TRANSACTIONS**

### MONTREAL

<table>
<thead>
<tr>
<th>Property</th>
<th>Date</th>
<th>Price</th>
<th>SF</th>
<th>PSF</th>
<th>Purchaser</th>
</tr>
</thead>
<tbody>
<tr>
<td>1321 Ste-Catherine W</td>
<td>Jan-18</td>
<td>$25.0 M</td>
<td>9,570</td>
<td>$2,612</td>
<td>Dassault Canada</td>
</tr>
</tbody>
</table>

### OTTAWA

<table>
<thead>
<tr>
<th>Property</th>
<th>Date</th>
<th>Price</th>
<th>SF</th>
<th>PSF</th>
<th>Purchaser</th>
</tr>
</thead>
<tbody>
<tr>
<td>216 Elgin St</td>
<td>Aug-18</td>
<td>$11.0 M</td>
<td>12,470</td>
<td>$882</td>
<td>First Capital</td>
</tr>
</tbody>
</table>

### TORONTO

<table>
<thead>
<tr>
<th>Property</th>
<th>Date</th>
<th>Price</th>
<th>SF</th>
<th>PSF</th>
<th>Purchaser</th>
</tr>
</thead>
<tbody>
<tr>
<td>410 @ 7</td>
<td>Oct-18</td>
<td>$59.0 M</td>
<td>238,174</td>
<td>$248</td>
<td>Premises Prop.</td>
</tr>
<tr>
<td>King Plaza</td>
<td>Oct-18</td>
<td>$14.1 M</td>
<td>34,202</td>
<td>$412</td>
<td>Liberty Dev't</td>
</tr>
<tr>
<td>1400 Victoria St E</td>
<td>Sep-18</td>
<td>$16.7 M</td>
<td>104,850</td>
<td>$156</td>
<td>KingSett Capital</td>
</tr>
<tr>
<td>9025-9145 Arpt (50%)</td>
<td>Jul-18</td>
<td>$22.5 M</td>
<td>161,300</td>
<td>$279</td>
<td>Fieldgate Prop.</td>
</tr>
<tr>
<td>751-775 King St W</td>
<td>Jul-18</td>
<td>$22.8 M</td>
<td>18,026</td>
<td>$1,262</td>
<td>First Capital</td>
</tr>
<tr>
<td>477-485 Queen St W</td>
<td>Jun-18</td>
<td>$28.9 M</td>
<td>30,116</td>
<td>$960</td>
<td>YM Inc.</td>
</tr>
<tr>
<td>700 King St W 1-7</td>
<td>May-18</td>
<td>$15.1 M</td>
<td>7,746</td>
<td>$1,952</td>
<td>Cosa-Nova</td>
</tr>
<tr>
<td>18700 Bayview Ave</td>
<td>May-18</td>
<td>$17.5 M</td>
<td>72,150</td>
<td>$243</td>
<td>Monopoly Group</td>
</tr>
<tr>
<td>1141 Kennedy Rd</td>
<td>Apr-18</td>
<td>$10.8 M</td>
<td>34,338</td>
<td>$313</td>
<td>Kennedy Prop.</td>
</tr>
<tr>
<td>1986 Queen St E</td>
<td>Mar-18</td>
<td>$13.2 M</td>
<td>8,767</td>
<td>$1,500</td>
<td>Navona</td>
</tr>
<tr>
<td>Woodside Square</td>
<td>Mar-18</td>
<td>$97.3 M</td>
<td>293,934</td>
<td>$331</td>
<td>Private</td>
</tr>
<tr>
<td>1945 Dundas St E</td>
<td>Mar-18</td>
<td>$10.3 M</td>
<td>72,320</td>
<td>$143</td>
<td>Henry &amp; Vivian</td>
</tr>
<tr>
<td>Mississauga Portfolio</td>
<td>Feb-18</td>
<td>$14.1 M</td>
<td>47,300</td>
<td>$297</td>
<td>Ratchiffe Group</td>
</tr>
<tr>
<td>Thicksen Ctr</td>
<td>Jan-18</td>
<td>$31.1 M</td>
<td>87,359</td>
<td>$356</td>
<td>RioCan REIT</td>
</tr>
</tbody>
</table>

### KITCHENER/WATERLOO/GUELPH

<table>
<thead>
<tr>
<th>Property</th>
<th>Date</th>
<th>Price</th>
<th>SF</th>
<th>PSF</th>
<th>Purchaser</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frederick Mall</td>
<td>Aug-18</td>
<td>$24.0 M</td>
<td>175,000</td>
<td>$137</td>
<td>EIWO Cdn. Mgt.</td>
</tr>
</tbody>
</table>

### CALGARY

<table>
<thead>
<tr>
<th>Property</th>
<th>Date</th>
<th>Price</th>
<th>SF</th>
<th>PSF</th>
<th>Purchaser</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market at Quarry Park</td>
<td>Aug-18</td>
<td>$52.7 M</td>
<td>90,407</td>
<td>$583</td>
<td>LaSalle Investm.</td>
</tr>
<tr>
<td>Jacksonport</td>
<td>May-18</td>
<td>$18.2 M</td>
<td>18,310</td>
<td>$994</td>
<td>ReDev Properties</td>
</tr>
<tr>
<td>Market on Macleod</td>
<td>May-18</td>
<td>$14.5 M</td>
<td>27,743</td>
<td>$523</td>
<td>Trico Dev'ts.</td>
</tr>
</tbody>
</table>

### EDMONTON

<table>
<thead>
<tr>
<th>Property</th>
<th>Date</th>
<th>Price</th>
<th>SF</th>
<th>PSF</th>
<th>Purchaser</th>
</tr>
</thead>
<tbody>
<tr>
<td>Century Park</td>
<td>Sep-18</td>
<td>$41.8 M</td>
<td>86,848</td>
<td>$482</td>
<td>Supreme Capital</td>
</tr>
<tr>
<td>Hawkstone Plaza</td>
<td>Jul-18</td>
<td>$29.2 M</td>
<td>88,955</td>
<td>$328</td>
<td>Canadian Urban</td>
</tr>
<tr>
<td>2008 101 St</td>
<td>Jun-18</td>
<td>$10.3 M</td>
<td>25,726</td>
<td>$398</td>
<td>Guardian Capital</td>
</tr>
<tr>
<td>Miller Crossing</td>
<td>May-18</td>
<td>$13.8 M</td>
<td>27,336</td>
<td>$505</td>
<td>ReDev Properties</td>
</tr>
<tr>
<td>Westland Market Mall</td>
<td>Mar-18</td>
<td>$35.5 M</td>
<td>131,453</td>
<td>$270</td>
<td>CCP Westland GP</td>
</tr>
<tr>
<td>Kameyosek Ctr</td>
<td>Jan-18</td>
<td>$18.9 M</td>
<td>46,128</td>
<td>$409</td>
<td>BKM Alliance Ltd</td>
</tr>
</tbody>
</table>

### VANCOUVER

<table>
<thead>
<tr>
<th>Property</th>
<th>Date</th>
<th>Price</th>
<th>SF</th>
<th>PSF</th>
<th>Purchaser</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sumas Mount. Village</td>
<td>Jul-18</td>
<td>$65.8 M</td>
<td>93,583</td>
<td>$703</td>
<td>GWL Realty Adv.</td>
</tr>
<tr>
<td>1855 Burrard St</td>
<td>Jul-18</td>
<td>$25.0 M</td>
<td>11,915</td>
<td>$2,098</td>
<td>Heiwah Dev’t.</td>
</tr>
<tr>
<td>1451-59 W Broadway</td>
<td>May-18</td>
<td>$14.0 M</td>
<td>6,500</td>
<td>$2,154</td>
<td>Shato Holdings</td>
</tr>
<tr>
<td>The Hub</td>
<td>May-18</td>
<td>$36.0 M</td>
<td>19,557</td>
<td>$1,841</td>
<td>Translink</td>
</tr>
<tr>
<td>Granville at 70th (50%)</td>
<td>May-18</td>
<td>$36.9 M</td>
<td>47,485</td>
<td>$1,555</td>
<td>Northam Realty</td>
</tr>
<tr>
<td>West Fourth Building</td>
<td>May-18</td>
<td>$80.5 M</td>
<td>64,381</td>
<td>$1,250</td>
<td>Bonnis Properties</td>
</tr>
<tr>
<td>1160 Robson St</td>
<td>Apr-18</td>
<td>$12.2 M</td>
<td>4,175</td>
<td>$2,922</td>
<td>Grosvenor Cda.</td>
</tr>
<tr>
<td>Bute St &amp; Davie St</td>
<td>Feb-18</td>
<td>$18.0 M</td>
<td>12,624</td>
<td>$1,426</td>
<td>Golco</td>
</tr>
<tr>
<td>Clancy Building</td>
<td>Jan-18</td>
<td>$21.0 M</td>
<td>21,044</td>
<td>$996</td>
<td>Bonnis Properties</td>
</tr>
</tbody>
</table>

*share sale

---

**Retail Sales By CMA**

18 Months to June 2018

- Vancouver 32%
- Toronto 31%
- Ottawa 3%
- Calgary 9%
- Edmonton 9%
- Other 6%
- Halifax 4%

**Total Sales By Product**

18 Months to June 2018

<table>
<thead>
<tr>
<th>Product</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>15%</td>
</tr>
<tr>
<td>Hotel</td>
<td>21%</td>
</tr>
<tr>
<td>Office</td>
<td>23%</td>
</tr>
<tr>
<td>Industrial</td>
<td>22%</td>
</tr>
<tr>
<td>Multi-Suite</td>
<td>14%</td>
</tr>
<tr>
<td>Retail</td>
<td>21%</td>
</tr>
<tr>
<td>Other</td>
<td>6%</td>
</tr>
</tbody>
</table>

**Retail Total Returns**

For The 1-Year Period Ending June 2018

- Vancouver 9.3%
- Toronto 9.3%
- Montreal 6.8%
- National 5.7%
- Victoria 4.8%
- Winnipeg 4.7%
- Calgary 4.6%
- Edmonton 4.5%
- Ottawa 4.2%
- Halifax 2.8%

---

Source: CBRE Limited

Source: © MSCI Real Estate 2018

*2019 CANADIAN ECONOMIC OUTLOOK & MARKET FUNDAMENTALS*
MULTI-SUITE RESIDENTIAL OUTLOOK

CAPITAL FLOWED INTO ASSET CLASS AT RECORD-HIGH RATE

Investment capital flowed into the Canadian multi-suite residential rental sector at a record-high pace over the recent past, in keeping with the broader property market trend. A record $6.3 billion of investment property was sold during 2017, followed by another $3.6 billion in the first six months of 2018. The record-setting pace was indicative of the sector’s buoyant demand backdrop and broad-based investor confidence. National, regional and local groups combed their respective constituencies for core assets and value-add properties in order to expand their asset class exposure. Capital from both public and private sources was placed in the sector. The strength of the asset classes demand cycle of the past 12 to 18 months held cap rates at the cycle-low and value at the cycle-high. The demand cycle also had a positive impact on the asset class’s investment performance patterns of the recent past. Properties tracked in the MSCI Index generated an attractive annual average total return of 11.4% for the year ending June 30, 2018, which marked a five-year high. Throughout this five-year period asset class returns were attractive, a record that influenced at least some of the investors that drove transaction volume to a record-high over the past 18 months.

RENTAL MARKET CONDITIONS FAOURED LANDLORDS

Rental market conditions in the multi-suite residential sector were more favourable for landlords over the recent past. Supply fundamentals were very healthy. In 2018, the national vacancy rate was forecast to fall a further 20 bps from the cycle-low of 3.2% in 2017. At these levels, most landlords were able to achieve full occupancy or close to it. In situations where units were vacated, landlords were able to command higher rents. The exception to this rule, however, was in Calgary and Edmonton, where vacancy levels remained near 25-year highs. The tightest of conditions were reported in the Greater Vancouver, Greater Toronto and Greater Montreal areas, of the country’s major urban centres. Demand fundamentals were also favourable for the nation’s landlords. In most cities demand fundamentals were stable and healthy. Demographic and migration patterns support the demand cycle. In many cases, landlords were able to secure tenants easily and often faced interest from multiple parties. Therefore, they were able choose tenants with the strongest financial profiles. A relatively modest development cycle helped maintain the landlord’s advantageous position over the recent past. The small number of new units added to market on a national basis ensured vacancy levels remained low. In short, rental market conditions reported across much of the country over the recent past were more advantageous for its landlords.

PERFORMANCE PATTERNS WILL MIRROR THOSE OF THE RECENT PAST

A period of stable and healthy performance is forecast for the multi-suite residential rental sector over the near term, in keeping with the trend of the past couple of years. Demand will continue to outstrip supply, resulting in significant imbalance across much of the country’s major markets. Rental demand will remain robust through to at least the end of 2019. Migration patterns and demographic trends will continue to support the rental demand cycle. A solid economic growth trend and resulting labour market advances will also continue to fuel demand for rental accommodation. The combination of healthy demand patterns and tight supply will drive rents moderately higher. In Alberta, rental market conditions will continue to gradually improve, resulting in the stabilization of rents by the end of 2019. The broadly positive rental market outlook will help extend the asset class’ cycle of attractive investment performance. Returns are expected to stabilize in the double-digit range. At the same time investment demand will remain brisk. In short, another period of largely bullish trends are forecast for the asset class over the near term.
Bullish investment market characteristics were reported over the recent past, a performance that was punctuated by strong demand, attractive returns, stable and positive income growth and a modest rise in property values.

Demand outdistanced supply across much of the national multi-suite residential rental market over the past year resulting in upward pressure on rents and cycle-low vacancy.

---

**INVESTMENT MARKET TRANSACTIONS**

**MONTREAL**

<table>
<thead>
<tr>
<th>Property</th>
<th>Date</th>
<th>Price</th>
<th>Suites</th>
<th>P.S.</th>
<th>Purchaser</th>
</tr>
</thead>
<tbody>
<tr>
<td>Le Montfort</td>
<td>May-18</td>
<td>$48.0 M</td>
<td>230</td>
<td>$208,696</td>
<td>Akelius Canada</td>
</tr>
</tbody>
</table>

**OTTAWA**

<table>
<thead>
<tr>
<th>Property</th>
<th>Date</th>
<th>Price</th>
<th>Suites</th>
<th>P.S.</th>
<th>Purchaser</th>
</tr>
</thead>
<tbody>
<tr>
<td>236 Richmond Rd</td>
<td>Mar-18</td>
<td>$36.3 M</td>
<td>71</td>
<td>$489,865</td>
<td>InterRent REIT</td>
</tr>
<tr>
<td>131-141 Cooper St</td>
<td>Mar-18</td>
<td>$48.0 M</td>
<td>224</td>
<td>$213,333</td>
<td>Paramount Prop.</td>
</tr>
</tbody>
</table>

**TORONTO**

<table>
<thead>
<tr>
<th>Property</th>
<th>Date</th>
<th>Price</th>
<th>Suites</th>
<th>P.S.</th>
<th>Purchaser</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wynn Group Portfolio</td>
<td>Sep-18</td>
<td>$402.1 M</td>
<td>1,527</td>
<td>$263,351</td>
<td>Starlight Invests.</td>
</tr>
<tr>
<td>50 Burnhill Rd</td>
<td>Aug-18</td>
<td>$32.6 M</td>
<td>163</td>
<td>$200,000</td>
<td>Starlight Invests</td>
</tr>
<tr>
<td>736 Woodbine</td>
<td>Aug-18</td>
<td>$32.4 M</td>
<td>64</td>
<td>$506,250</td>
<td>Realstar Group</td>
</tr>
<tr>
<td>1465 Lawrence Ave W</td>
<td>Jul-18</td>
<td>$33.9 M</td>
<td>153</td>
<td>$221,569</td>
<td>Starlight Invests.</td>
</tr>
<tr>
<td>96 Jameson Ave</td>
<td>Jul-18</td>
<td>$16.8 M</td>
<td>72</td>
<td>$232,639</td>
<td>Starlight Invests.</td>
</tr>
<tr>
<td>151 St. George St</td>
<td>Jul-18</td>
<td>$17.5 M</td>
<td>48</td>
<td>$364,583</td>
<td>Hollyburn Prop.</td>
</tr>
<tr>
<td>26-28 Balmoral Ave</td>
<td>Jul-18</td>
<td>$14.0 M</td>
<td>55</td>
<td>$254,545</td>
<td>Akelius Canada</td>
</tr>
<tr>
<td>1040 Cedar Ave</td>
<td>Jun-18</td>
<td>$37.5 M</td>
<td>264</td>
<td>$142,045</td>
<td>Medallion Corp.</td>
</tr>
<tr>
<td>41 Garfelia Dr</td>
<td>Jun-18</td>
<td>$21.5 M</td>
<td>95</td>
<td>$226,316</td>
<td>Starlight Invests.</td>
</tr>
<tr>
<td>16 St. Joseph St</td>
<td>May-18</td>
<td>$12.3 M</td>
<td>37</td>
<td>$333,243</td>
<td>Akelius Canada</td>
</tr>
<tr>
<td>33, 77 Falby Crt</td>
<td>May-18</td>
<td>$103.0 M</td>
<td>422</td>
<td>$243,977</td>
<td>Homestead</td>
</tr>
<tr>
<td>101 Cosburn Ave</td>
<td>Apr-18</td>
<td>$20.5 M</td>
<td>69</td>
<td>$297,101</td>
<td>O’Shanter Dev’t</td>
</tr>
<tr>
<td>612 Dawes Rd</td>
<td>Mar-18</td>
<td>$13.2 M</td>
<td>60</td>
<td>$220,000</td>
<td>Akelius Canada</td>
</tr>
<tr>
<td>45 Forty Second St</td>
<td>Feb-18</td>
<td>$11.0 M</td>
<td>53</td>
<td>$207,547</td>
<td>Starlight Invests.</td>
</tr>
<tr>
<td>1570 Lawrence Ave W</td>
<td>Jan-18</td>
<td>$14.9 M</td>
<td>87</td>
<td>$171,000</td>
<td>Shelborne Capital</td>
</tr>
<tr>
<td>35 Valley Woods Rd</td>
<td>Jan-18</td>
<td>$51.9 M</td>
<td>135</td>
<td>$384,444</td>
<td>Realstar Group</td>
</tr>
<tr>
<td>55, 56 Eccleston Dr</td>
<td>Jan-18</td>
<td>$21.1 M</td>
<td>120</td>
<td>$176,000</td>
<td>Akelius Canada</td>
</tr>
<tr>
<td>1285 Lakeshore Rd E</td>
<td>Jan-18</td>
<td>$27.8 M</td>
<td>107</td>
<td>$259,346</td>
<td>Homestead</td>
</tr>
</tbody>
</table>

**KITCHENER/WATERLOO**

<table>
<thead>
<tr>
<th>Property</th>
<th>Date</th>
<th>Price</th>
<th>Suites</th>
<th>P.S.</th>
<th>Purchaser</th>
</tr>
</thead>
<tbody>
<tr>
<td>460 Belmont Ave B&amp;C</td>
<td>May-18</td>
<td>$66.8 M</td>
<td>240</td>
<td>$278,125</td>
<td>Realstar Group</td>
</tr>
</tbody>
</table>

**CALGARY**

<table>
<thead>
<tr>
<th>Property</th>
<th>Date</th>
<th>Price</th>
<th>Suites</th>
<th>P.S.</th>
<th>Purchaser</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Towers</td>
<td>Jun-18</td>
<td>$11.9 M</td>
<td>58</td>
<td>$204,310</td>
<td>Hollyburn Prop.</td>
</tr>
<tr>
<td>Hillcrest Manor</td>
<td>Jan-18</td>
<td>$10.0 M</td>
<td>44</td>
<td>$227,273</td>
<td>Timbercreek AM</td>
</tr>
</tbody>
</table>

**EDMONTON**

<table>
<thead>
<tr>
<th>Property</th>
<th>Date</th>
<th>Price</th>
<th>Suites</th>
<th>P.S.</th>
<th>Purchaser</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Vibe</td>
<td>Sep-18</td>
<td>$47.0 M</td>
<td>176</td>
<td>$267,045</td>
<td>Killam Properties</td>
</tr>
<tr>
<td>Stella Place</td>
<td>Jun-18</td>
<td>$19.0 M</td>
<td>66</td>
<td>$287,879</td>
<td>Strategic Group</td>
</tr>
<tr>
<td>S.M.C. Portfolio</td>
<td>Mar-18</td>
<td>$40.3 M</td>
<td>189</td>
<td>$213,228</td>
<td>Greystone</td>
</tr>
<tr>
<td>Gameau Manor</td>
<td>Jan-18</td>
<td>$11.0 M</td>
<td>52</td>
<td>$211,538</td>
<td>Timbercreek AM</td>
</tr>
</tbody>
</table>

**VANCOUVER**

<table>
<thead>
<tr>
<th>Property</th>
<th>Date</th>
<th>Price</th>
<th>Suites</th>
<th>P.S.</th>
<th>Purchaser</th>
</tr>
</thead>
<tbody>
<tr>
<td>Villa Contessa</td>
<td>Aug-18</td>
<td>$15.1 M</td>
<td>30</td>
<td>$501,667</td>
<td>Starlight Invests.</td>
</tr>
<tr>
<td>2333 Oxford St</td>
<td>May-18</td>
<td>$16.3 M</td>
<td>51</td>
<td>$318,841</td>
<td>Lotus Capital</td>
</tr>
<tr>
<td>8623 Selkirk St</td>
<td>May-18</td>
<td>$11.9 M</td>
<td>31</td>
<td>$383,226</td>
<td>Malcaic Enterpr.</td>
</tr>
<tr>
<td>Oceania Crt</td>
<td>Apr-18</td>
<td>$32.5 M</td>
<td>117</td>
<td>$277,778</td>
<td>Anthem Properties</td>
</tr>
<tr>
<td>Sevilla Apartments</td>
<td>Apr-18</td>
<td>$11.4 M</td>
<td>36</td>
<td>$315,278</td>
<td>Sevilla Holdings</td>
</tr>
<tr>
<td>Ottman Portfolio</td>
<td>Apr-18</td>
<td>$247.9 M</td>
<td>456</td>
<td>$543,682</td>
<td>Starlight Invests.</td>
</tr>
</tbody>
</table>

*share sale*
INVESTMENT OUTLOOK

HIGHLIGHTS

- Investors placed capital into the Canadian commercial property market with confidence during the past 18 months, resulting in record-high transaction volume.
- Core properties with strong tenant profiles in major markets were highly sought after, while assets with upside potential also attracted a range of investment groups when made available for acquisition.

BULLISH INVESTMENT MARKET TRENDS REPORTED

Trends reported in the Canadian commercial property investment market over the past 12 to 18 months were largely bullish. Investment capital flowed freely into the asset class over the past year, with transaction volume on pace to reach a new record annual high. Activity surged in the second quarter, with $16.5 billion in sales reported, bringing the first-half total to $26.8 billion. The brisk sales pace of the past year was a clear indication of the confidence investors continued to exhibit in the asset class. Pension funds, either directly or through their advisors, private capital groups, Real Estate Investment Trusts (REITs), Real Estate Operating Companies (REOCs) and various other investment structures look for core opportunities across the country. Additionally, investors exhibited a willingness to accept prevailing property yields, even though they ranged at or near the all-time low for prime assets. In the past year, values have increased modestly in most regions for core-quality assets. Value-add values have edged lower in some regions, in part due to heightened interest rate risk. Despite the modest price inflation, bidding on asset offerings was generally aggressive, given a measure of supply demand imbalance. Demand for core-quality assets continued to outstrip supply over the past 12 to 18 months, which was in keeping with the bullish nature of the market over the same time period.

INVESTMENT ACTIVITY SURGED TO RECORD HIGH

The rate at which capital was invested in the Canadian commercial investment property market over the past year reached a record high. During the first six months of 2018 a total of $26.8 billion in transaction closing volume was reported, following a record annual high of $43.1 billion in 2017. Investors continued to target the Greater Toronto and Greater Vancouver areas. Investors looked to capitalize on their stable and healthy economic outlooks and strong leasing market fundamentals. The Greater Toronto Area (GTA) was the most active of regions over the past 18 months, with $15.7 billion in property sales completed in 2017, followed by a further by $9.6 billion in the first half of 2018. The Greater Vancouver Area (GVA) and Greater Montreal Area (GMA) were also highly active regions during the same 18-month period, with $17.4 billion and $8.2 billion in transaction volume recorded, respectively. Investors increasingly targeted other regions across the country over the recent past, given the supply of core properties fell short of demand. As a result, activity across the country was relatively robust. By asset class, the office sector led the way accounting for over 20.0% of capital invested over the period. Somewhat surprisingly, the retail sector finished second over the same period. Healthy liquidity patterns were also evidenced in the multi-suite residential and industrial sectors. In short, debt and equity funds continued to flow freely into Canada’s commercial investment property market over the recent past, indicating the ongoing resilience of the current phase of the cycle.

INVESTMENT PERFORMANCE IMPROVED OVERALL

Canadian commercial property investment returns improved recently, a trend that varied by property sector. A total annual average return of 7.4% was registered in the MSCI Index for the 12-month period ending June 30, 2018 for the major property sectors combined. The stronger result was a function of a firmer capital growth trend, while the income component was relatively stable. The overall performance was 150 bps better than the previous period, with three of the four major asset classes posting higher returns. The exception was the retail sector, which generated a return of 5.7%, down from 6.0% year-over-year. The industrial and multi-suite residential sectors outperformed, with average returns of 11.5% and 11.4%, respectively. These represented year-over-year gains of 460 bps and 310 bps, respectively. In the office sector, Edmonton, Halifax and Montreal posted solid gains. In the industrial sector, material advances were made in all major markets. Markedly
stronger year-over-year results were tallied in the Toronto, Edmonton, Ottawa and Calgary multi-suite residential markets. Finally, Montreal was the only market to generate high returns in the retail sector year-over-year. Looking ahead, there was the potential for further advances in property sector investment performance over the near term, given generally positive economic, rental market and investment demand forecasts.

RISK BACKDROP WAS LARGELY UNCHANGED
Risk perception related to the commercial property investment performance outlook was largely unchanged over the past year. An area of risk was the potentially negative impact of a global trade war on the Canadian economic and real estate performance outlooks. The current U.S. administration had slapped tariffs on a range of Chinese imports. As a result, China imposed its own retaliatory tariffs on a multitude of U.S. goods. The potential for these actions to undermine the global economic recovery was a threat to Canada’s economy and property sector. In a related matter, the prolonged NAFTA negotiations were also seen as a potential threat to the Canadian economy and property sector. Despite an agreement in principle on a new NAFTA, called USMCA, at the end of September, its impact was to some extent still undetermined. However, tariffs on Canadian automotive exports to the U.S. appeared to have been avoided. Geopolitical events outside of Canada’s borders were also seen as a potential economic and property sector headwind. Renewed financial concerns in Europe were also of concern. Closer to home, rising interest rates, record household debt and a sharper than expected housing market correction were also seen as threats to the national economy and property market. By the late summer, however, the housing market exhibited signs of stabilization. The housing market remained a key economic driver, and therefore an area of significant sector risk. Therefore, the BoC continued to closely monitor the impact of higher interest rates on the economy and Canadian consumer. In summary, Canadian real estate investment performance risk was largely unchanged year-over-year, which was to some extent a welcome sight for investors.

NEAR-TERM SECTOR OUTLOOK IS MODERATELY HEALTHY
The near-term Canadian commercial property investment market outlook is largely positive for the near term. Rental market conditions will continue to gradually strengthen, which will continue to support investment performance. More specifically, tight conditions in the office, industrial and multi-suite residential markets are expected to push rents moderately higher. At the same time, a solid economic growth outlook is expected to add to the upward pressure on average rents in these three sectors. In the retail sector, leasing market fundamentals will gradually stabilize, following a period of rising vacancy levels due to the closure of Sears stores across the country. Alberta’s two largest markets, Edmonton and Calgary, will continue to suffer the effects of the most recent oil sector downturn. However, their respective industrial and office markets should begin to strengthen by the second half of 2019. The generally positive leasing market performance forecast for the near term will attract investors to the asset class. For the most part, private and public groups will continue to exhibit high levels of confidence in the Canadian market at prevailing yield. As a result, transaction closing volume will continue to peak. assuming product availability. Once again, bidding will be aggressive. The competitive bidding environment will at least hold values at current levels, with the potential for modest increases in some cases. As was the case over the past couple of years, prime assets in the country’s largest business centres will draw the strongest interest, although, assets with development upside will also be popular. In summary, the near-term outlook for the Canadian commercial property investment market is generally healthy, assuming no materially negative financial or economic events take place.
SOLID ECONOMIC GROWTH TREND FORECAST

Canada’s economy is forecast to expand at a fairly healthy rate over the next couple of years, having fired on all cylinders in 2017. Economic output, or GDP, is projected to expand by approximately 2.1% in 2018 and a slightly less robust annual average of 1.9% in 2019 and 2020. According to the CBOC, the Canadian trade sector’s contribution to the economic growth trend will be fairly muted. In the manufacturing sector, capacity issues and low levels of investment in operations have stunted export growth. Exports of crude oil are set to rise over the next couple of years, but remain well below the previous five-year annual average increase of 6.9%. Household spending will also help drive economic growth over the next few years. However, the contribution will be more modest than during the past few years. While some factors will have a positive impact on economic performance over the forecast period, others will hamper progress to varying degrees. U.S. tariffs on Canadian aluminum and steel exports, for example, will continue to reduce sector output. Hesitance on the part of businesses to invest in their operations is also expected to negatively impact performance. Finally, rising interest rates will reduce household spending to some extent. Despite these potentially negative influences, Canada’s economy will continue to expand at a moderately healthy rate over the next couple of years.

JOB MARKET WILL REMAIN TIGHT GIVEN MODEST PROGRESSION

Tightness will continue to characterize the Canadian job market over the near term, driven by a solid economic outlook. The national unemployment rate is expected to fall to 5.8% by the end of 2019. At this rate, the economy will have effectively achieved ‘full employment’, driven by retirements and job creation. The creation of approximately 210,000 new jobs is forecast for each of 2018 and 2019. Previously, 329,800 positions were created in 2017, which marked a 10-year high. Ongoing tightness in the Canadian job market over the next few years will push average wages higher. To some extent, rising wages will offset downward pressure on consumer spending levels due to higher interest rates. Household income per capita is expected to rise 3.0% and 2.8% in 2018 and 2019, respectively. Against this backdrop, labour market conditions are expected to remain tight over the forecast period.

HOUSING MARKET BALANCE TO GRADUALLY EMERGE

The outlook for Canada’s resale housing market is one of increased balance over the next 12 to 24 months. By the late stages of this year, prices are expected to stabilize, before a more sustainable rate of increase unfolds in 2019. By the summer of 2018, Canada’s resale market correction looked to have bottomed, as conditions began to stabilize in more than one CMA. Recovery in Vancouver will take more time, as policy measures implemented in February of 2018 resulted in a longer period of weakness. On balance, however, a more balanced Canadian resale housing market is forecast for the next couple of years.

RETAIL SALES GROWTH MODERATION TO PERSIST

The retail sales growth rate will remain modest over the near term. National retail consumption will increase 2.3% in 2018, followed by an average annual lift of 2.1% from 2019 through to 2021. Reduced activity in the housing market and higher savings rates are the two main drivers of more modest consumption patterns over the forecast period. Rising interest rates and the resulting increase in debt servicing costs are also expected to reduce sales growth. Finally, a slowdown in housing price growth forecast for the next couple of years will also moderate spending. In short, retail sales growth will moderate over the near term, in keeping with the national economic forecast.
METROPOLITAN ECONOMIC & REAL ESTATE OUTLOOK
LABOUR MARKET OUTLOOK HAS IMPROVED
A moderately healthier labour market was predicted for the Halifax CMA over the next couple of years, driven by a stronger economic growth trend. Total employment was expected to increase by 1.3% and 1.1% in 2018 and 2019, respectively. Previously, the total number of workers in the region had declined by 0.7% in 2017, due largely to a weaker economic performance. In 2018, employment growth was strongest in the Educational Services and Manufacturing sectors. In 2019, employment levels were projected to fall once again. A more stable growth trend was expected to unfold in the professional, scientific, and technical services sector over the near term.

HOUSING STARTS ACTIVITY SOFTENED
Residential new home construction activity slowed markedly during the first few months of 2018, a trend that was forecast to persist through to at least the end of the year. Previously, activity surged in 2017 with volume rising to a five-year high of 2,750 units. The forecast slowdown was predicated on rising interest rates, tighter mortgage rules and more modest population growth. The CBOC forecast called for an annual average of 2,400 starts in each of 2018 and 2019. Despite the slowdown, the number of starts forecast was above the medium-term annual average. Relatively healthy residential starts activity was expected to offset a markedly stronger downward trend in the commercial construction market due to the winding down of several large-scale developments over the forecast period.

SERVICES SECTOR POSTED RESPECTABLE GAINS
The services sector was tracking a solid increase in output of 1.9% for 2018. Much of the expanded services output of the recent past took place in the transportation and warehousing sector. Increased port traffic was expected to boost sector output in 2018 and over the subsequent two-year period.

ECONOMIC GROWTH IS EXPECTED TO STABILIZE
A fairly stable rate of economic growth is forecast for the Halifax CMA over the next couple of years. GDP will increase by an average of 1.6% between 2019 and 2020. While down from the 2018 rate of expansion, growth will help boost employment levels. Employment will increase by an average of slightly more than 1.2% in 2019 and 2020. The combination of moderate increases in economic output and employment growth will, in turn, support healthy retail sales growth patterns. In 2019 and 2020, retail sales will advance by 1.5% and 1.8%, respectively. At the same time, consumers will loosen their purse strings given solid gains in average household income. In short, the outlook for the Halifax CMA’s economy, labour market, and retail sales trend is largely stable and positive.
MIXED LEASING MARKET PERFORMANCE RECORDED
The GHA office leasing performance of the past year was relatively uneven, resulting in a slight improvement in market fundamentals. Market vacancy continued to range in the mid-to-high teens throughout 2017 and much of 2018, which was above the national average. Generally, supply outpaced demand during this period, which benefitted tenants looking to renew or expand. Demand patterns remained fairly positive across much of the market. To a large extent, demand was supported by a steady economic growth trend. Many users exhibited a preference for newly built space either in newly constructed or recently improved properties. As a result, vacancy in the Class B and C inventories continued to rise. In addition, some properties became stronger candidates for redevelopment. Excess vacancy in the Class A and B inventories resulted in downward pressure on rents. Moreover, the lease-up of space in these generally older buildings was projected to take some time, given recent absorption patterns. Looking ahead, market performance was expected to remain mixed, given a modest economic growth outlook and changes in tenant preferences.

STABILITY CHARACTERIZED INVESTMENT MARKET TRENDS
There were few changes in GHA office property investment market characteristics observed recently, in keeping with the trend of the past several years. Demand for income-producing assets has been largely stable and healthy over the past few years. Regional and local groups continued to seek out properties with solid long-term performance characteristics in established locales. Coincidentally, national groups looked for larger-scale opportunities with strong tenant profiles in order to achieve diversification objectives within their existing portfolios. In keeping with the long-term trend, buildings with long-term government leases were most highly sought after. As has been the case for the past several years, however, there were relatively few properties available for acquisition. To a large extent, the shortfall remained a function of the relative size of the market and the unwillingness of vendors to sell. Investment performance patterns have also been fairly consistent recently. Total returns in the MSCI Index have been attractive and largely income driven for this market. Properties tracked in the Index generated an annual average return of 5.5% for the year ending June 30 2018. The income component was stable and positive, while the capital component declined for a sixteenth consecutive quarter. This performance consistency was in keeping with the broader GHA office property investment market theme of the recent past.

REPEAT OF RECENT PERFORMANCE PATTERNS FORECAST
GHA office sector performance patterns will generally mirror those of the recent past over the near term. Modest gains will continue to characterize the region’s leasing market. Newly built or renovated space is expected to remain popular with organizations looking to expand or relocate. Class B and C landlords will continue to struggle with excess vacancy levels, given a relatively healthy supply of newly built space. Market vacancy will continue to range in the low-to-mid double digits, although the Class A rate should hold at the low end of the range. Rents will stabilize for the market’s highest quality space, whereas a measure of downward pressure will continue for older properties in less desirable locales. There will also be minimal variation in investment market conditions over the near term. Local and national groups will continue to source suitable opportunities across the region. However, availability will remain relatively low. Property values will hold at 2018 levels, given the absence of material improvement in leasing fundamentals or significant changes in the economic or financial conditions. Local groups will continue to target off-market, and generally smaller, properties. Returns will remain largely income driven. In short, leasing and investment market conditions are expected to stabilize over the near term.
TRENDING STATISTICS

<table>
<thead>
<tr>
<th>FUNDAMENTALS</th>
<th>Δ YTD</th>
<th>1-YEAR OUTLOOK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vacancy Rate</td>
<td>▼</td>
<td>▼</td>
</tr>
<tr>
<td>Net Absorption</td>
<td>▲</td>
<td></td>
</tr>
<tr>
<td>Lease Rates</td>
<td>▼</td>
<td>▼</td>
</tr>
<tr>
<td>New Supply</td>
<td>▼</td>
<td>▼</td>
</tr>
</tbody>
</table>

The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).

HALIFAX INDUSTRIAL REPORT

PROGRESS REPORTED IN LEASING MARKET

GHA industrial leasing fundamentals strengthened during the past year, a performance that mirrored the national trend. Positive demand characteristics were the result of organic growth in both the manufacturing and broader services sector. Port and shipbuilding activity have been supporters of healthy industrial space demand. The overall demand pressure drove market vacancy below the 10.0% mark for the first time in three years by mid-year 2018. A fairly healthy development cycle prevented a sharper reduction in overall vacancy over the period. The development cycle was a reflection of the strengthening of leasing fundamentals that has taken place recently. Development activity was focused in the region’s largest submarket, Burnside Business Park. A total of roughly 300,000 square feet of ‘flex’ industrial construction was scheduled for completion by the midway mark of 2019. There were few indications of a slowdown in construction activity over the near term, given a fairly firm demand cycle. The health of the market’s demand supply dynamic resulted in modest upward pressure on rents in locations where vacancy was in relatively short supply. However, the overall trend was largely flat, in light of double-digit vacancy levels. Despite the fact that vacancy rested well above the national average, recent leasing performance characteristics were indicative of stronger market fundamentals.

MINIMAL CHANGE IN INVESTMENT MARKET CONDITIONS POSTED

Trends observed in the GHA industrial property investment market over the recent past were generally stable and positive, in keeping with the national sector average. Demand for assets available for acquisition with healthy tenant profiles attracted the attention of both regional and national groups. However, acquiring properties in this market was often difficult given competition from owner/users. The acquisition of vacancy buildings by owner/users did have its benefits for those with holdings in this market. The resulting downward pressure on vacancy helped drive rents higher and boost rental income. In turn, rent growth supported overall investment performance. Generally positive returns generated over the past few years continued to attract investment capital to this market. The region’s positive economic outlook, with forecast expansion of 1.8% over 2019 and 2020 annually, was also viewed favourably. In keeping with the national trend, however, the potential volume of capital available to invest outdistanced the volume of assets available to acquire. This dynamic was evidenced in recent transaction volume totals for this market. Despite relatively low activity levels, the GHA industrial property investment market remained stable and healthy over the past year in keeping with the national trend.

GAINS WILL CONTINUE TO BE MADE

The GHA industrial property sector will continue to gain ground over the near term, in keeping with recent performance patterns. Leasing fundamentals are expected to gradually strengthen, with availability edging down closer to the 10% mark. An economic growth rate of slightly less than 2.0% will be sufficient to support positive space demand characteristics and a modest uptick in development activity. Industrial tenants can expect a fairly healthy level of available options and a measure of upward pressure on rents. Property owners at the same time will be treated to healthy levels of interest in their available space, especially if it is recently built and functional. In some cases, users will be forced to go the build-to-suit route when specific requirements are not met in the existing inventory. Manufacturing and businesses related to shipyard activity will continue to drive demand for both leased and owned space. Landlords will be able to achieve positive income performance, while property values hold at 2018 levels. In short, the outlook for the GHA industrial sector is promising, with performance characteristics mirroring those of the recent past.
LEASING FUNDAMENTALS SOFTENED
GHA retail leasing market fundamentals softened over the past year in line with the national trend. The recent softening was focused in the market’s regional centres. More specifically, the closure of Sears stores pushed vacancy levels markedly higher. Regional centre vacancy jumped to 17.1% as of the end of 2017 from just 1.8% a year earlier. In 2018, regional vacancy has driven overall GHA market vacancy up to the 8.0% mark, a level last seen shortly after the financial crisis in 2009. To some degree the upward vacancy trend was also driven by new supply completions. A total of almost 419,000 square feet of new retail construction was completed in 2017 alone. While a significant portion of the space was occupied upon completion, there were still a number of vacant units. Vacancy levels were fairly stable across the balance of the asset types in the GHA retail sector. Power centre vacancy, for example, reached an eight-year low of 5.6% as of the end of 2017. Overall, leasing market fell short of supply during 2017 and much of 2018. While retailers looked to the region for expansion opportunities, the resulting growth activity only partially offset increased supply over the period. Retail industry uncertainty eroded the growth trend to some extent. Consequently, rental growth pressure was relatively modest. This moderation was in keeping with the softening trend reported in the GHA leasing market over the past year.

INVESTMENT MARKET TRENDS WERE LARGELY UNCHANGED
Retail investment market characteristics were essentially unchanged during the past year despite heightened overall sector risk. Investment performance continued to disappoint, driven by a prolonged capital decline that has persisted for the past few years. Coincidentally, income performance has been stable and healthy. The capital decline has more than offset income component advancement resulting in a negative return environment over the period. GHA retail assets generated an average total return of (-2.8%) for the year ending June 30, 2018 in the MSCI Index. Despite consistently negative results of late, investment demand has been relatively buoyant. National groups continued to pursue grocery-anchored centres and other assets with strong national tenant rosters. At the same time, regional groups looked to capitalize on local knowledge to acquire value-add opportunities. As has been the case in the past however, product availability fell short of demand given the relatively small inventory of assets in this market. To a large extent, this was reflected in the $561.0 million in sales reported during 2017 and 2018 combined. The low level of sales activity had little to do with the heightened uncertainty eroded the growth trend to some extent. Consequently, rental growth pressure was relatively modest. This moderation was in keeping with the softening trend reported in the GHA leasing market over the past year.

OUTLOOK IS GENERALLY POSITIVE
The GHA retail sector outlook is generally positive. Vacancy will stabilize following a sharp uptick due to the closure of Sears Canada locations in this market. In turn, rents are expected to slowly stabilize after a period of downward pressure over the past year. The local annual economic growth trend of slightly below 2.0% forecast for 2019 and 2020 will support job and retail spending. Spending will help drive retailer expansion activity. The positive fundamental outlook is not without its challenges. The effects of ongoing shifts in consumer spending habits and e-commerce will continue to play out in this market, resulting changes in space usage patterns within more than one category. This will have both positive and negative impacts on leasing market fundamentals. From an investment performance standpoint, stable and healthy income growth will persist. At the same time, however, the capital value trend will remain negative. On balance, however, the near-term picture for the GHA retail sector is moderately positive, despite a number of headwinds.
DEMAND CYCLE SUPPORTED RENTAL MARKET HEALTH

The strength of the GHA's multi-suite residential rental demand cycle of the recent past was supportive of healthy market fundamentals. Strong rental demand was a byproduct of a relatively healthy economic and labour market growth over the past year. A range of other factors also had a positive influence. Strong international immigration to the region during 2017 and 2018 was one factor. Other drivers of rental demand over the past year included an increased propensity among certain segments of the population to rent, including baby boomers and millennials. International students were also a source of stable and healthy rental demand. The health of the demand cycle of the past couple of years strengthened the region’s rental market supply-side characteristics. Market vacancy was forecast fall 20 bps in 2018, from the 14-year low of 2.3% in 2017. The downward vacancy trend was most prominent in the region’s lower cost market segments in particular. Tight conditions across the market resulted in increased development activity and upward pressure on average rents. These two factors were indicative of the market’s fundamental strengthening of the past year, driven by a broadly positive demand cycle.

ANOTHER SOLID INVESTMENT PERFORMANCE POSTED

The GHA multi-unit residential rental sector posted another period of healthy investment market performance over the recent past. Properties tracked in the MSCI Index generated an annual average return of 6.9% for the 12-month period ending June 30th 2018. This result included a modest uptick in capital value, matching the previous period. The majority of the positive performance, however, was rooted in strong income growth. A byproduct of healthy performance patterns of the past year was a healthy demand cycle. Both national and regional investment groups actively pursued properties to acquire in this market, in keeping with the medium-term trend. The combination of historically attractive performance patterns and a healthy rental market outlook was supportive of the demand cycle. Demand outdistanced the supply of properties for sale during the past couple of years, which was reflected in transaction volume totals. During the first half of 2018, a total of $137.5 million in sector property sales was reported, following the $288.1 million in 2017. These numbers would most certainly be higher if more properties were available. To some extent, the demand supply imbalance propped up sector property values and market performance characteristics.

CURRENT PHASE OF CYCLE WILL CONTINUE TO UNFOLD

The current phase of the GHA multi-suite residential rental cycle will be extended over the near term. The region’s economic outlook will continue to support job growth and demand for rental accommodation. Job prospects will attract international migrants who typically rent on initial arrival to the area. The shift to renting within the region’s baby boomer and millennial populations will generate additional demand. Demand will remain strongest in the region’s downtown core and in lower cost submarkets. Demand should continue to at least match supply thereby holding vacancy levels in the low single digits. Tight conditions will continue to drive rents slowly to new highs for the cycle. The resulting improvement in rental income will reward owners and continue to draw investors in their quest for stable long-term yield. The persistent supply shortfall, however, will be a frustration for some groups looking to gain a foothold in the region or expand their existing portfolios. In the open market, vendors will be able to achieve their pricing goals when disposing of properties that no longer fit their requirements. Local buyers will continue to source value-add and off-market opportunities. Returns will remain largely income-driven and attractive. In short, the current phase of the cycle will be prolonged barring a material change in economic or financial conditions.
ECONOMIC SNAPSHOT

Montreal’s economy was projected to expand by a modest rate of 2.2% in 2018, following a 17-year-high rate of 3.7% in 2017. The stellar economic performance of 2017 translated into strong job market gains, including the creation of 74,800 new positions according to Statistics Canada data. In 2018, more modest job growth was expected. The relatively healthy employment outlook of the past couple of years was a driver of retail sales growth. Retail sales growth was also projected to moderate in 2018. In addition, a decline in housing starts volume was anticipated over the next couple of years following a three-year high set in 2017.

LABOUR MARKET OUTPERFORMED

The GMA labour market exhibited a measure of robustness recently, with more modest gains projected for the near term. In 2018, the volume of new jobs created was expected to range close to the long-term average. Previously, a record of nearly 75,000 positions were created during 2017. Employment levels were on pace to rise for a fourth consecutive year in 2018, which represented a continuation of healthy job market performance patterns of the past few years. The recent job market strength resulted in a steady downward unemployment rate trend, with the expectation of a level of less than 6.0% will be posted in the second half of 2018.

CONSTRUCTION SECTOR EMERGED FROM DOLDRUMS

The GMA construction sector exhibited consistent signs of recovery during 2018, following a three-year period of weakness that came to an end in late 2016. A moderate increase in output was forecast for 2018, on the heels of a sharp advance of 5.1% last year. The 2018 outlook was somewhat mixed. On the one hand, a number of major infrastructure projects were closing in on completion. On the other hand, residential and private non-residential output were both expected to see moderate increases in activity levels. Aggregate construction sector output was projected to rise 2.1% in 2018 and 1.8% in 2019, as the sector continued its emergence from a period of prolonged weakness between 2012 and 2016.

SERVICES SECTOR TOOK THE LEAD POSITION

Diversification in the GMA’s services sector contributed to the region’s recent run of steady economic growth results. The services sector added 67,500 new jobs to the local economy in 2017. In 2018, the sector was expected to create 76.0% of all new jobs in the region. The finance, insurance and real estate and professional, scientific, and technical services sectors were projected to lead the way in terms of job creation and increased output. Overall services output was set to increase 2.2% in 2018, followed by a more modest 1.9% in 2019.

GROWTH OUTLOOK IS MORE MODERATE

A more moderate growth trend was forecast for the GMA economy over the near term. GDP was predicted to expand by a solid 2.2% in 2018, followed by a 1.9% lift in the following year. This rate of expansion was considered strong to drive employment growth of 1.6% in 2018 and a further 1.0% annual average over the subsequent two-year period. Once again, labour market progress will be concentrated in the services sector. For the next few years, economic growth was expected to be fairly broad based. The strength of the region’s economy and labour market will support equally moderate increases in retail consumption and a stable unemployment rate.
VARIATION IN LEASING PERFORMANCE TRENDS OBSERVED

There was significant variation in leasing performance characteristics reported in the GMA office sector over the past 12 to 18 months. Leasing activity was healthy in certain segments of the market over this period. Newly renovated loft-style buildings were popular with tenants, as were a couple of suburban nodes. Technology companies were highly active, in keeping with the national trend. The region’s Class A properties were the focus of expansion activity, particularly downtown. The broader market, however, was forced to contend with a number of headwinds over the past 18 months. A handful of large blocks of sublease space were brought to market offsetting a large share of gains made. The variation in leasing market conditions was reflected in supply-side characteristics to some extent. Overall average market vacancy stood at 13.0% as of the end of the first half of 2018, up from 12.4% a year ago. CBD vacancy stood at 9.6%, up 20 bps year-over-year. Vacancy remained elevated in the suburbs resting at 18.0% as of the end of the second quarter of 2018 from 16.8% a year earlier. Across the market, the steady delivery of new construction and recently renovated space helped drive vacancy levels higher. As a result there was little progress made in terms of rental rate growth. Both of these trends were a byproduct of the variation in leasing performance patterns of the recent past.

INVESTOR CONFIDENCE WAS EVIDENCED

Investors exhibited confidence in the GMA office sector over the past year, against a backdrop of stable and positive investment market conditions. A range of groups looked to the GMA for core assets with attractive yield characteristics. For some the GMA was perceived as an attractive alternative to the highly competitive and more expensive GVA and GTA markets. The brisk demand environment of the past year surpassed the relatively small number of core properties available for acquisition, particularly in the most highly sought after downtown submarket. The high levels of confidence exhibited in the investment community coincided with broadly stable and healthy investment market conditions. On average, core property values rested at or near the cycle peak. In general, vendors were able to achieve their pricing objectives when disposing of assets. The demand-pressure and low availability of product pushed values moderately higher in some cases. To some extent this was reflected in recent investment performance. Properties contained in the MSCI Index generated an annual average return of 6.8%, which was comprised of material capital and income component gains. The attractive return posted was in keeping with investment market conditions reported over the past year, which supported investor confidence.

DEMAND CYCLE WILL DRIVE POSITIVE NEAR-TERM RESULTS

The forecast health of the GMA office space demand cycle bodes well for market performance over the near term. Economic growth levels in 2018 and 2019 will support leasing demand. In particular, technology businesses will continue to be the frontrunners in terms of expansion in the loft and amenity-rich market segments. On balance, overall demand will keep pace with new supply, with small reductions in vacancy expected, particularly downtown. In the suburbs, development activity will increase as a result of the new Réseau Express Metropolitan transit network lining downtown with the South Shore, West Island, North Shore and airport. Average market vacancy will stabilize at the 2017-2018 level resulting in minimal pressure on rents. In specific market segments, for example downtown Class A, modest rental growth will unfold. Near-term leasing market performance should generate positive investment performance patterns. Values are likely to hold at current levels, however. Stable leasing market performance and the region’s overall outlook will continue to support investor confidence, backed by a positive leasing demand forecast.
DEMAND OUTSTRIPPED SUPPLY RESULTING IN DEVELOPMENT SPIKE

GMA Leasing demand outpaced supply over the past several quarters, resulting in a sharp increase in construction activity. The region’s technology, manufacturing, cannabis production and logistics contributed to what has been a brisk demand environment during 2017 and much of 2018. The uptick in expansion requirements over the period had a markedly positive impact on supply-side fundamentals. By the midway mark of 2018 average availability in the existing inventory of buildings had fallen to a 16-year low of 5.3%. Functional space was in very short supply across the market. Tenants and owner/occupiers scrambled to access suitable space in which to operate their businesses. Options were in short supply in most submarkets forcing more users to look at design-build as an alternative. The supply shortfall resulted in upward press on rents, particularly for functional space to the benefit of owners. Rents climbed to levels required to justify new development at prevailing costs. According to a recent CBRE report, construction activity increased by 44.7% in early 2018. Over one million square feet of new construction was announced at the close of 2017, rising to 1.5 million by the end of the first quarter of 2018. The recent surge in development activity signalled the beginning of a new growth cycle for the GMA industrial sector.

ROBUST DEMAND CHARACTERIZED INVESTMENT MARKET

Robust demand characterized the GMA industrial investment property market over the past year, in keeping with the national trend. National and regional groups looked to increase their exposure to a market with a solid recent history and near-term outlook of economic and job market performance. Offerings brought to market were generally well-received during 2017 and 2018, regardless of the age of the building. The bidding environment remained brisk, with product availability generally falling short of demand. Functional and recently built properties were most sought after. The availability of assets for acquisition was a key determinant of transaction closing volume during the recent past. Regardless, activity levels have been healthy of late. There was a total of $771.6 million in sales recorded during 2017 alone. The strength of the demand backdrop resulted in mild upward pressure on property values, largely for the highest quality assets. The modest rise in value coupled with stable and positive income growth fuelled recent performance patterns. A total average return of 8.7% was reported for the year ending at the midway time horizon). The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).

PERFORMANCE DRIVERS INDICATE STEADY PROGRESSION

GMA industrial sector performance drivers are indicative of continued progression over the near term. The regional economy is projected to expand by an annual average of 2.0% in 2018 and 2019 following a high of 3.5% in 2017 dating back to the turn of the century. Near-term expansion will drive industrial demand across a range of business sectors in the region. Manufacturing output will continue to increase, albeit at a slower pace than during 2016 and 2017. Industrial demand will be sufficient to absorb much of the 1.5 million square feet of new supply in development and maintain mid-single digit average vacancy. Users will continue to face a shortage of development land close to the GTA. Therefore, a modicum of upward pressure on rents for functional space will persist in 2018 and 2019. The healthy leasing outlook will continue to drive investment performance, which will attract investment capital. Investment demand will continue to surpass product availability. Functional properties with long-term leases in place will remain highly coveted. Vendors will have no trouble achieving their pricing objectives, with the potential for slight increases in value. In short, the GMA industrial sector should generate consistent progress over the near term.
The trend indicators do not necessarily represent a positive or negative value (i.e., absorption or new supply could be +/-, yet indicate a growing/shrinking trend over a specified time horizon).

LEASING MARKET RESILIENCE WAS DISPLAYED
The GMA leasing market exhibited a measure of resilience over the recent past, in an environment of broader industry changes. The region’s economic and labour market performances supported equally positive consumer spending patterns. To some extent this helped drive retailer expansion activity, which included local, national and international brands. This activity helped stabilize vacancy levels in areas where stores had previously closed their doors. To be sure, market vacancy has increased, but this was largely a function of the closure of Sears stores rather than a broader market trend. Average market vacancy increased to 7.7% by the end of 2017, up from 4.7% a year earlier. The upward trend was concentrated in regional centres, where Sears stores were vacated. Power Centre vacancy rested below the market average at 3.1% down 20 bps year-over-year. The Neighbourhood/Community Centre average fell 60 bps to 4.8%. Aside from the up tick in vacancy, leasing characteristics were stable over 2017 and 2018. Prime locations were in demand, as retailers looked to capitalize on healthy sector fundamentals. The demand-pressure resulted in the stabilization of average rents. The resilience of this market was also evidenced by the consistency of its construction cycle. The 500,000 square foot Solar Uniquartier and La Cite Mirabel were the most notable of developments underway. In short, rental market conditions were fairly positive over the recent past, against a backdrop of broader industry change.

INVESTMENT MARKET PERFORMANCE CONSISTENCY REPORTED
Investment market fundamentals have been fairly consistent during 2018. Centres with stable anchors and strong tenant rosters and prime urban assets were the most attractive for investors who were active in this market. Demand has moderated, although the volume of capital allocated for investment in this segment of the market exceeded the availability of properties for acquisition. High quality assets brought to market generated aggressive bids often from multiple parties. As a result, property values were stable or marginally higher. The value cycle supported the relatively healthy investment performance of the recent past for this market. Properties tracked in the MSCI Index generated an annual average total return of 7.3% for the year ending June 30, 2018. The performance was markedly stronger than the previous year when an annual average return of 2.3% was reported. The improvement was driven by a return to capital growth after a year-long decline. The robust demand backdrop boosted transaction volume totals. In the first half of 2018, a total of $516.7 million in sales volume was tallied, following the $876.9 million during all of 2017. Product availability has fallen short of demand during the past couple of years, which to some extent limited closing volume totals. Despite this dynamic, investment market fundamentals have been consistently stable and healthy.

MATERIAL CHANGE IN MARKET CONDITIONS IS UNLIKELY
The probability of material changes in retail sector market conditions is low over the near term. Positive retail space demand patterns will continue to characterize the sector. Retailers with an existing Canadian presence will seek out expansion opportunities, as will brands looking to establish a foothold in the country’s second most populated urban centre. This activity will ensure vacancy levels hold close to those reported at the midway mark of 2018. The leasing market demand supply dynamic will ensure rents hold at 2018 levels. Investment market trends will mirror the consistency of the region’s leasing market performance patterns. Investors will continue to scour the region for centres with healthy performance records and urban locations along primary streets. Availability will once again fall short of demand, a scenario that has been common in the broader market for some time. In summary, retail sector conditions will mirror those of the recent past over the near term.
RENTAL MARKET IMPROVEMENT WAS EVIDENCED

Conditions in Canada’s largest multi-suite residential rental market have steadily improved over the past year. A material tightening of supply side fundamentals has taken place during 2017 and 2018, according to CMHC survey results. Average market vacancy was on track to hit a forecast 2.6% in 2018. A rate of 2.8% was reported as of October 2017, having ranged close to the 4.0% mark over the previous two-year period. All unit-size categories of the market posted similar downward vacancy trends over the period. Vacancy levels consistently declined even as a steady stream of newly built units were added to the market’s inventory. Tighter conditions resulted in relatively mild upward pressure on rents, largely for smaller unit sizes over the past 12 to 24 months. Rental growth was strongest for bachelor and one-bedroom units on average, while a marginal decline in two- and three-bedroom averages was recorded. Larger unit rents fell as a result of an increased number of families transitioning to ownership over the past couple of years. The recent improvement in rental market fundamentals was a byproduct of healthy demand. A sharp increase in net migration in 2017 and 2018 strengthened the demand cycle. Decade-high economic and job growth also added to the demand pressure. In addition, rental demand was boosted by an increase in the number of young people leaving home and choosing to rent, which also positively impacted market performance.

INVESTMENT TRANSACTION ACTIVITY SPIKED

Investor confidence in this market and sector drove investment activity to a record-high level recently. A record $1.7 billion in multi-suite residential rental property was traded during 2017, with a further $1.0 billion during the first half of 2018. Investors were drawn to a market with a solid long-term record of performance and a healthy near-term fundamental outlook. National and regional groups acquired properties across the region at a brisk pace. Publicly traded and private groups both participated in the recent buying frenzy. Some investors preferred the more attractive yields available in the GMA compared with the GVA and GTA where prices had peaked. Properties located in the central core of the city were most popular with investors, especially concrete high-rises. Investor appetite for assets in this market surpassed the volume of properties available for acquisition. This demand supply imbalance resulted in upward pressure on property values. This pressure was evidenced in recent performance patterns. GMA properties tracked in the MSCI Index generated an annual average return of 5.7% for the 12-month period ending June 30, 2018. This positive performance included a modest increase in capital value of 1.5% for the year. The GMA multi-suite rental cycle continues to trend upward, with a number of factors that supported the record pace of activity in this market over the past couple of years.

MORE GAINS FORECAST AS CYCLE CONTINUES TO MATURE

The GMA multi-suite residential rental sector is expected to continue to gain ground over the near term, while the current phase of the investment cycle matures. Investment demand will continue to outpace supply. Despite this scenario properties are expected to continue to trade at a fairly healthy rate. Relatively high property yields will draw capital to the region. At the same time, investment performance will remain attractive and largely income-driven as the capital cycle continues to mature. Rental market conditions will continue to support investment performance, although progress will be somewhat more muted. Rental demand patterns will continue to impress, given a solid economic and job market outlook. Supply-side characteristics will remain tight and somewhat more stable. Therefore, rental growth will also be more moderate. Even with the maturation of the current cycle, investors will continue to invest a significant volume of capital into this market.
Ottawa Historical & Forecast Aggregates

ECONOMIC SNAPSHOT

The Ottawa-Gatineau region was tracking a more moderate rate of economic expansion in 2018, following a stronger-than-expected 2017. A strengthening of the region’s job market was predicted even with the slowdown in economic growth. The regional unemployment rate had begun to gradually fall during 2018. The public sector was not only the region’s largest employer, but also a leader in job creation during the past couple of years. The health of the region’s economy and job market were key drivers of retail sales growth during 2017 and much of 2018.

JOB MARKET CHARACTERISTICS WERE LARGELY POSITIVE

Recent Greater Ottawa Area (GOA) job market performance was generally quite impressive over the recent past, a period that included positive employment growth patterns and a low unemployment rate. For each of 2018 and 2019 job growth numbers in excess of the 20-year annual average of 11,900 was forecast. This represented a markedly stronger growth performance than the 7,800 jobs created in 2017. The region’s public sector has posted the strongest growth totals recently, a trend that was projected to ease over the near term. While the total number of jobs created in 2017 was relatively weak, the unemployment rate fell sharply. At the end of 2017 the rate rested at 5.6% down 90 bps year-over-year. A more modest decline was forecast for 2018, given an expectation of greater numbers entering the labour force.

PUBLIC SECTOR EXPANSION BEGAN TO MODERATE

Public sector employment growth began to slow during the first few months of 2018, following a period of robust expansion. The slowdown was projected to continue for the balance of the year. Sector output was expected to increase by a relatively modest 2.2% for the year. Prior to this year, federal government expansion had been generally quite brisk dating back to the beginning of 2016. Looser fiscal policies during this period resulted in large deficits for 2016 and 2017. Subsequently, the federal government’s deficit reached a three-year high of $19.4 billion in 2018. With the national economy expected to moderate, public sector spending will likely follow the same path. The 2018 budget indicated program expenses would increase by a modest 3.1% over the next five years, down from 5.7% in 2017-2018 and an annual average of 6.0% over the preceding five-year period. In turn, sector employment growth was also forecast to moderate over the near term.

CONSTRUCTION SECTOR’S RUN OF SUCCESS WILL CONTINUE

Construction sector output will continue to rise over the near term, in an eight-year long period of modest performance. This year output was projected to increase by 1.7%, following a 1.4% rise in 2017. The CBOC forecast a further 2.4% rise in output for 2019. Sector output had doubled over the past 20 years. Much of the long-term sector’s long-term strength was focused in the non-residential market segment. Continuing this trend a number of large scale developments are either underway or planned for the next couple of years. The most notable of these is the O-Train transit system with a price tag of $1.2 billion. These projects will extend the region’s long run of prosperity over at least the next 12 to 24 months.
The GOA office leasing market strengthened during 2018, building on the modest gains of the recent past. A major driver of healthier market fundamentals during 2017 was a firmer demand trend. Technology firms continued to expand across the market, adding to the diversity of the region’s office market. Coincidentally, public sector expansion solidified its position as the market’s most important demand-driver. In a number of cases, technology companies absorbed space vacated by the public sector. The firmer demand trend persisted from the latter half of 2017 through much of 2018. On balance, demand outdistanced supply during this period, resulting in generally tighter conditions. Average market vacancy stood at 9.8% at the end of the second quarter of 2018, down 100 bps year-over-year. Central Business District rate came to rest at 7.7%, down 90 bps year-over-year. Across the market, Class A vacancy levels have also been driven significantly lower. However, many tenants were able to access a healthy supply of vacancy alternatives when looking to expand. Larger spaces, however, were in much shorter supply. With few new developments completed over the past couple of years, large vacancies were few. Generally, there was an absence of material upward pressure on rents on average, given vacancy levels. Tenants continued to enjoy the upper hand in negotiations. By the end of 2018, leasing market conditions were expected to have improved to a point where landlords would hold the upper hand.

Positive investment market momentum was observed in the GOA office property investment market over the past year. From an investment performance point of view, returns reached a five-year high recently. Properties tracked in the MSCI Index posted an annual average return of 7.8% for the 12-month period ending June 30, 2018. This result was driven by healthy income growth and modest capital appreciation. The recent upswing in performance was the result, in part, of strong investment demand patterns. National and regional groups continued to look to increase their exposure to the asset class. The region’s technology sector growth and stabilizing public sector presence continued to support the rationale for investing. Public and private sector occupied assets alike were popular investor targets. The strong demand backdrop helped drive sales activity and transaction volume totals. Transaction closed in on the recent peak of 2007, with $1.1 billion in assets sold during 2017. This total was the second highest on record. This was followed by $161.6 million in sales during the first half of 2018. Demand has consistently outdistanced availability over the past few years. The demand pressure was indicative of the positive market momentum reported in this market over the past year.

The near-term forecast for the GOA office sector is largely positive. Leasing market fundamentals are expected to steadily improve during the latter half of 2018 and 2019, building on recent performance patterns. The GOA economy is projected to expand by an annual average of just over 2.0% in 2018 and 2019. This increase in economic output supports business growth and demand for expansion space. At the same time, public sector space requirements will also result in the absorption of vacant space in this market, particularly downtown. The largely stable and healthy demand cycle predicted for the next 12 to 24 months will help strengthen supply fundamentals. Vacancy levels both downtown and in the suburbs will steadily decrease as excess vacancy is absorbed. In turn, upward pressure on rents will gradually intensify, especially in submarkets with the lowest vacancy rates. The gradual improvement forecast for the GOA leasing market will drive solid investment performance patterns over the near term.
SUPPLY CONSTRAINTS HAMPERED PROGRESS

Supply constraints continued to characterize the GOA industrial leasing market over the past year, which to some extent hampered progress. As the first half of 2018 came to a close the market’s average overall vacancy rate rested at a 15-year low of just 4.0%. Year-over-year, available supply became increasingly constrained as vacancy fell a further 80 bps as of the end of the second quarter. Options for tenants and owner/users looking to expand or relocate were in very short supply, which has been the case in this market for several years. In some cases, businesses were forced to ‘make do’ with their existing space or occupy less-than-suitable space in more than one property or location. The shortfall in availability across much of the market was exacerbated by the fact that development activity has been minimal for the past several years. Therefore, market growth has been limited to the existing inventory of buildings. One notable development however, was the announced 1.0 million square foot Amazon build to suit. Supply constraints have been a positive for the market’s landlords. As market conditions became increasingly tight over the past few years they were able to command higher rents. To a large extent, tenants were forced to meet landlord’s demands given the lack of alternatives in which to expand. At the same time, landlords offered fewer incentives and were able to strengthen their bottom lines. While landlords were able to achieve stronger results as a result of supply constraints over the past year, business expansion was somewhat limited.

INVESTMENT PERFORMANCE BUILT ON RECENT SUCCESS

The GOA industrial sector continued to build on its recent record of healthy investment performance during the past year. Properties contained in the MSCI Index registered an attractive annual average return of 10.3% for the year ending June 30, 2018. This was the strongest annual performance dating back to 2013. The attractive return was the result of a gradual strengthening of its capital and income components. An element of the market’s broad based health of the past year was its demand environment. For the most part, demand for income-producing industrial assets brought to market was buoyant. National and local groups exhibited a relatively high degree of confidence when looking to acquire assets in this market. Not surprisingly, those with stable long-term tenant rosters were bid on aggressively, often by multiple parties. In keeping with the broader sector trend, supply was somewhat constrained relative to the volume of capital that could potentially be allocated to the sector and region. Even with the availability shortfall, transaction volume was relatively healthy during 2018, due to the sale of a number of portfolios. In the first half of 2018, transaction volume totalled $219.4 million. This activity level was to some extent an indicator of the overall investment market’s health of the past year.

REPEAT OF RECENT TRENDS A SAFE BET

Conditions in the GOA industrial sector over the near term are projected to mirror those of the past year. Leasing market imbalance will continue to favour the region’s landlords. The lack of available tenant options will result in upward pressure on rents and largely full buildings. Market vacancy will continue to range close to the 15-year posted in 2018. As a result, landlords will continue to enjoy strong financial results. Tight leasing market conditions will force tenants to scramble to source expansion options. New construction will offer little relief for tenants looking for vacant space in which to expand. Rental growth and healthy sector fundamentals will continue to support healthy investment performance. Returns will continue to impress and draw funds to the market. Groups looking to invest in this market will struggle to source properties, in part due to the relative size of its inventory. On balance, investment conditions and broader sector fundamentals are expected to stabilize over the near term, as market trends mirror those of the past year.
VARIATION IN LEASING MARKET PERFORMANCE EVIDENCED
Variation in leasing market fundamentals was reported in the GOA retail sector recently, in keeping with the national trend. The market’s vacancy profile of the past year provided evidence of this variation. Average Regional centre vacancy spiked in the latter half of 2017 due in large part to the closure of Sears Canada stores. By the end of 2017 vacancy in this market segment increased to 13.4% from 6.7% just six months earlier. The rate was expected to continue to edge higher through to the mid-point of 2018 before the emergence of a more stable trend. Over the same time period, Power centre vacancy levels rested in the low single-digit range having edged 20 bps lower to 3.4% as of the end of 2017. The Neighbourhood/Community centre average increased modestly, from 4.7% to 6.7% over the second half of 2017. Overall, vacancy levels were expected to stabilize through to the close of 2018. There was also a measure of demand variation in the retail leasing market recently. Some market segments were more active than others. For example, discounters and international retailers continued to expand, while some brands either downsized or disappeared altogether. Restaurant and other food services users continued to thrive. Variation in rental rate trends were also evidenced over the past year. To some extent this was dictated by the recent performances of individual centres and streets. The variation in the rental rate trend was in keeping with the broader leasing market theme.

MATURE PHASE OF INVESTMENT CYCLE WAS EXTENDED
The mature phase of the retail property investment cycle lasted through to the close of 2017 and well into 2018. During this period, demand for core-quality assets remained generally brisk. To some extent this was surprising given an uncertain industry backdrop. Properties that boasted strong national tenant rosters commanded the attention of a range of investment groups. Grocery-anchored plazas and Regional centres with strong performance records were also highly sought after. Institutional and private groups were highly active in pursuing properties that could generate attractive yields. For the most part, product availability fell short of demand. Despite this shortfall, a total of $207.9 million in transaction volume was reported for 2017, just shy of the four-year annual high. While most aspects of the GOA investment market performance of the recent past were positive, there was one area of weakness. Investment performance was somewhat disappointing. Properties tracked in the MSCI Index generated an annual average return of 3.0% for the year ending June 30, 2018. The erosion of the sector’s capital component erases much of the income growth achieved. While underwhelming, the performance had little impact on the continued maturing of the investment cycle in this market over the recent past.

STABILITY FORECAST FOR THE NEAR TERM
The GOA retail property sector is projected to exhibit an increased level of stabilization over the near term. Vacancy levels will level off over the next 12 to 18 months. Previously, vacancy spiked due in large part to the closure of Sears stores. Further spikes are unlikely, with the gradual lease-up or re-purposing of at least some of this space in the coming months. Retailers will continue to expand in this market, as they continue to adjust to broader industry changes in shopping behaviour and preferences. A healthy economic growth outlook and resulting job market advances will drive healthy spending patterns. Therefore, retailer closures and downsizing will continue to slow. More stable leasing fundamentals will register positively in the regional investment market performance. Demand for assets with healthy performance profiles will have little trouble finding buyers. A competitive bidding environment for these assets will persist. This consistency will be the prevailing market theme over the near term.
DEMAND PICK UP SUPPORTED FUNDAMENTAL STRENGTHENING

The strengthening of the GOA rental demand cycle translated into markedly healthier market fundamentals during the past 12 to 18 months. Increased demand for multi-suite residential rental units was driven in large part by healthy economic and job growth trends. In 2017, regional economic output, measured by GDP, expanded 2.7%, up from an average of slightly better than 2.1% over the previous two-year time frame. The resulting improvement in the regional labour market fuelled an increase in the formation of new households. A share of these newly formed households chose to rent accommodation. Coincidentally, rental demand rose as a result of increased migration to the City of Ottawa and surrounding area. Additionally, stronger youth employment rates also supported the stronger-than-expected rise in rental demand. The firming on the market’s demand cycle drove aggregate vacancy down to a six-year low of 1.7% as of October 2017. A further 40 bps drop was forecast for 2018. The sharpest drop in vacancy levels has been in the bachelor and one-bedroom market segments. Overall, rents increased to an all-time high for all unit-size categories. During the past year rents reached levels that made new construction economically viable. As a result, a modest increase in construction activity took place. Generally, landlords were able to achieve full or close-to-full occupancy levels and higher rents, on average, in large part driven by a marked improvement in demand fundamentals.

INVESTMENT FUNDAMENTALS WERE BROADLY POSITIVE

The GOA multi-unit residential rental sector racked up another period of impressive investment market performance recently. Properties tracked in the MSCI Index generated an attractive total average return of 8.9% over the 12-month period ending June 30, 2018. The positive outcome represented a five-year peak and a fifth consecutive period of healthy performance. The result was comprised of material capital and income growth. The medium-term performance strength was one of several factors that continued to support the rationale for investing in this sector and region. National and regional groups, and in particular REITs, actively pursued and were able to secure assets in this market during 2017 and 2018. These efforts supported sales volume levels during the same time period. A total of $279.2 million in sales volume was reported for 2017, followed by $92.1 million during the first six months of 2018. These totals while down from the 2015/2016 peak represented a fairly brisk pace of sales activity relative to the long-term trend. Recent volume totals were limited by product availability rather than a drop off in demand levels. Indeed, the robust demand environment of the recent past was one aspect of what has been a period of stable and healthy investment fundamentals over the past couple of years.

PERFORMANCE OUTLOOK IS GENERALLY POSITIVE

The performance outlook for the GOA multi-suite residential rental sector is largely positive. Rental market conditions are expected to continue to strengthen, given stable demand and fairly constrained supply. The demand supply relationship will result in upward pressure on rents, although provincial legislation will limit price inflation to some extent. Stronger rental market fundamentals will boost income levels for landlords. In turn, stronger income performance will support attractive sector returns. Positive investment will draw investment to the region, in keeping with the trend of the past several years. High quality properties offered for sale will be bid upon aggressively by a variety of parties. Assuming product availability, above-average transaction closing volume will remain a fixture for this market in the coming year. Vendors will be able to achieve their pricing objectives and in some cases surpass them. To summarize, this market will continue to generate broadly positive performance characteristics over the near term, in keeping with the medium-term trend.
ECONOMIC PROGRESS SUPPORTED JOB MARKET GAINS
Solid economic growth levels of the past few years supported labour market gains. Total employment was projected to increase by a modest 1.3% in 2018, adding to the previous three-year period of strong growth. Prior to 2018, GTA employment reached a record high of almost 3.3 million. Coincidently, the GTA unemployment rate had been driven down to a 16-year low of 6.5% at the end of 2017. This year, the rate was expected to continue its descent ending 2018 at 5.9%. In keeping with the economic forecast, more moderate progress in the GTA labour market was projected for the near term.

MANUFACTURING SECTOR OUTPUT WAS PROJECTED TO RISE
Manufacturing sector output was expected to increase this year, despite uncertainty surrounding global trade and tariffs. Sector output was forecast to rise 1.8% this year, following a sluggish 2017 when output increased by a four-year low of just 0.4%. Prior to 2017, manufacturing output had increased by an annual average of 2.5% over a three-year period. U.S. demand and a low Canadian dollar supported recent sector success. By the fall of 2018, it appeared the manufacturing sector had shaken off the threat of further tariffs on Canadian goods, as output steadily increased.

CONSTRUCTION SECTOR STAR CONTINUED TO SHINE BRIGHT
The construction sector maintained its position as an economic growth driver recently, in keeping with the trend of the past few years. Construction output was projected to rise 1.8% this year, in extending the sector’s run of positive performance dating back to the 2009 recession. While growth has moderated recently, the sector continued to support gains in the regional job market. A plethora of major construction projects were in progress during 2018. Some of the more notable developments included a number of non-public and private residential projects, which supported job creation and increases in economic output over the past few years.

OUTLOOK IS IN LINE WITH NATIONAL FORECAST
The near-term outlook for the GTA economy is similar to that of the national average. Economic growth is forecast to remain relatively modest over the balance of 2018 and 2019 for both the GTA and Canada. The rate of expansion for the GTA will be close to the 2.5% mark for 2018, down from more than 3.0% over the previous year. A slightly sharper downdraft is forecast for the national economy, with growth falling to 2.1% this year, following a 3.0% advance in 2017. The economic slowdown will support more moderate employment growth over the near term. Total GTA employment, for example, will increase by 1.4% in 2018 and 1.3% in 2019. A similar employment growth trend is forecast at the national level. In short, the GTA economic outlook is consistent with the national average for the next couple of years.
The near-term GTA office sector outlook is mostly positive, especially for its landlords. Forecast GTA economic expansion of 2.4% in 2018 and 2.3% in 2019 will continue to translate into healthy office space demand patterns. Technology-related business growth will continue to be at the forefront of this trend. Thirty-year low vacancy levels, however, will present an obstacle for tenants looking to expand, particularly downtown. This dynamic will allow landlords to push rents progressively higher and dictate lease negotiation terms. Double-digit vacancy in the suburbs will result in a more stable rental rate trend. On balance, occupancy levels will continue to rise across the market. Rising rents and occupancy levels will remain the market’s foundation for healthy investment market performance. Investor confidence levels will remain relatively stable and positive. Investment demand should continue to outpace product availability in support of stable to marginally rising property values. Class A and B properties with strong tenant rosters will generate multiple, and sometimes aggressive bids. The general health of near-term investment market performance characteristics will mirror those of the broader sector.
LEASING MARKET TIGHTNESS LIMITED PROGRESS
GTA industrial leasing market progress was limited to some extent during the past year, due to a shortage of options for tenants looking to expand. As the first half of 2018 came to a close, average market vacancy rested at 2.2%, down 30 bps year-over-year. Available options were few in most submarkets regardless of square footage required. In a few cases companies looking to expand were unable to source any suitable space alternatives. There was little relief from the shortfall in availability during the past year, as new construction was leased up either prior to, or shortly after completion. New supply volume was below the long-term average, which added to the availability pressure. Supply constraints were evidenced in absorption patterns over the recent past. CBRE reported total annual net absorption of 11.4 million square feet for 2017. While the figure represented a five-year high, it was far below the mid-to-late 1990s when absorption peaked at 24.9 million square feet. The 2017 pace continued in the first half of 2018 when just under 4.3 million square feet of space was absorbed. Demand rooted in the logistics and warehouse sector coupled with limited availability across pushed rents higher, especially for newly constructed space. Aside from rental growth, expansion was limited by record-low availability across the market.

INVESTMENT PERFORMANCE EMULATED SECTOR AVERAGE
Another period of strong investment market performance was registered in the GTA industrial property sector over the past year, in line with the broader asset-class trend. The market’s recent record of healthy performance was evidenced in MSCI Index results. GTA industrial properties tracked in the index posted an attractive annual average return of 16.9% for the 12-month period ending June 30, 2018. The return was the strongest dating back to the market peak of 2005 and was comprised of a sharp rise in capital value and stable income growth. Another aspect of the market’s recent strength was robust demand and the resulting spike in transaction volume. Generally, a range of private and institutional investors targeted the GTA industrial market as a preferred destination in which to invest. Investors were acutely aware of the strength of the sector’s recent performance and forecast growth outlook. The resulting demand-pressure fuelled the record pace of sales activity in the first half of 2018 when $3.4 billion in transaction volume was reported. The first half total almost matched the record annual sales total for 2017 of $3.5 billion. The bidding environment was aggressive and competitive, which continued to drive values higher. In short, the broad-based strength of the market’s investment performance of the past year was a reflection of the broader sector trend.

ONGOING STRENGTH AND STABILITY FORECAST
The GTA industrial sector outlook is strong and stable for at least the next 12 to 18 months, barring an unforeseen negative financial or economic event. Warehouse and logistics companies are expected to continue to expand, given the ongoing expansion and reconfiguration of distribution networks. Businesses involved in retail goods distribution will also make up a significant share of the demand pressure over the near term as they adapt to new shopping habits. The positive demand cycle will ensure availability levels continue to range close to the record low. At the same time, development activity will remain relatively modest. The market’s demand supply dynamic over the next 12 to 24 months will drive rents materially higher. Rental rate growth will, in turn, support positive investment performance, with returns remaining in double-digit range. The expectation of strong performance and the market’s positive fundamental outlook will continue to attract investors. Assuming asset availability, sales activity should hold near to the record high of the recent past. Regardless of whether properties are made available, the overall sector outlook is healthy and potentially record breaking.
LEASING STABILIZATION REPORTED DESPITE RISING VACANCY
The GTA retail leasing market conditions were relatively stable over the recent past, despite an upward vacancy trend. Overall, supply-side characteristics were generally quite stable. As the first half of 2018 drew to a close, average market vacancy stood at 6.2%, up 170 bps year-over-year. Regional centre vacancy spiked during the past year, due largely to the closure of Sears stores. Regional vacancy more than doubled and came to rest at 8.2% as of the midway market of 2018. The rate stabilized in 2018, as the task of leasing up or re-purposing space previously occupied by Sears got underway. The Power centre and combined Neighbourhood and Community centre vacancy rates were significantly lower than the Regional centre average and were virtually unchanged over the same time period. Generally, the GTA leasing market was relatively tight over the past 12 to 18 months, due in part to a healthy demand cycle. As the country’s largest population centre and economy the GTA remained a key target for retailers looking to expand or enter the Canadian market. The usual suspects, including food services, discounters and luxury retailers continued to expand into this market. While some labels continued to downsize or close altogether, the broader demand outlook was positive. For the most part, demand kept pace with somewhat limited supply. Prime streets and centres with strong performance profiles were the focus of modest upward pressure on rents. Whereas, challenged locations saw modest erosion of rents, on average. On balance, the GTA leasing performance was stable and healthy.

CYCLE RESILIENCE WAS DISPLAYED
There was evidence in support of the continued resilience of the GTA retail property investment market over the recent past, despite an increase in perceived sector risk. An indicator of this resilience was the rate at which retail properties sold in this market over the past 18 months. Investors exhibited confidence in this market and sector as purchasers of $2.8 billion in retail assets in the GTA during 2017, followed by a further $1.7 billion during the first six months of 2018. The 2017 annual total was the second highest on record dating back to 2001 next to the almost $3.0 billion in 2011. The pace looked to have at least been maintained during the first half of 2018. It was clear that there was a willingness on the part of the investment community to increase their exposure to this market despite increased sector uncertainty. Further evidence of the resilience of the GTA investment market was contained in recent investment performance patterns. The GTA retail sector posted an attractive annual average total return of 8.9% for the 12-month period ending June 30, 2018. The result included a healthy measure of both capital and income growth and was 40 bps up from the previous period. The year-over-year trend indicated the market’s performance resilience, given a more than 300 bps dip over the preceding 12-month period. This stabilization was further evidence of the GTA’s broader investment market resilience of the past 12 to 18 months.

PROGRESS FORECAST DESPITE UNCERTAINTY
The GTA retail property sector will continue to register gains over the near term, against a backdrop of persistent uncertainty. Despite sweeping industry changes, the market will continue to progress. The GTA will remain the favourite target of retailers and investors, in keeping with the historic trend. A solid fundamental economic outlook will continue to support healthy employment patterns and sales for retailers, which will drive retailer expansions. As a result, outside of the Sears closure-driven vacancy hangover, leasing supply conditions will remain tight. Rents, therefore, will hold at current levels, which will drive healthy investment performance. In short, the country’s largest and deepest retail market will continue to progress over the near term, even as sector risk perceptions remain elevated.
IMBALANCE CHARACTERIZED RENTAL MARKET
The GTA multi-suite residential rental market was characterized by a significant level of imbalance during the past year, a trend that has been in place for some time. During 2017 and 2018 market vacancy ranged close to the 1.0% mark, which represented a 15-year low. Vacancy has ranged close to the 1.0% mark throughout the current decade. Low vacancy levels over the past year coincided with broadly positive demand characteristics. The GTA economy expanded at an annual rate of 3.0% during 2017, which bolstered the local job market and supported strong rental demand. Positive migration patterns added to the rental demand pressure. Increased youth employment levels was also a rental demand enhancer. The overall strength of the demand cycle of the couple of years resulted in an increased level of market imbalance. Renters looking to enter the market and/or relocate found it difficult to source available units. When options were identified they were often relatively expensive. The market imbalance continued to push average rents higher. To a large extent rental rate inflation was somewhat limited to the provincial guideline. However, in many cases, increases were in excess of the guideline or had increased annually for a number of years. Therefore, renters were faced with some of the highest rents in the country and few available options. This imbalance has been the norm in this market for several years.

INVESTMENT MARKET FIRED ON ALL CYLINDERS
The GTA multi-suite residential rental sector continued to exhibit bullish investment market performance patterns over the past year. The bullish nature of the sector’s recent performance was evidenced in MSCI Index return results. The sector posted a strong 16.2% annual average return for the 12-month period ending June 30, 2018, which represented a five-year high. The strength of this performance was rooted in above-average capital appreciation, relative to the recent past and the Index’s other asset classes and markets. The attractive return result was also a function of stable and positive income growth trend. The market’s bullish run was also evidenced in the rate at which properties have sold over the recent past. A seventh consecutive year of annual transaction volume in excess of $1.0 billion was posted in this market in 2017. The $1.5 billion in sales was the third highest annual total dating back to 2001. The additional $848.0 million in sales volume reported over the first half of 2018 indicated the market was on track for another strong year in 2018. The robust activity level of the recent past was the direct result of a healthy demand trend. A range of public and private groups placed capital in this market recently, while many others attempted to do the same. Despite near record-high sales volume over the past year, the availability of assets for purchase fell short of demand. This dynamic pushed values higher and supported the market’s bullish investment performance of the past year.

RINSE AND REPEAT
The outlook for the GTA multi-suite residential rental sector is as healthy as it was a year ago. Rental market conditions will remain tight, as demand outdistances supply by a wide margin. Vacancy should hold in the low single digits, making it difficult for tenants to source rental accommodation. For owners, market imbalance will continue to translate into strong occupancy, rental growth and investment performance over the near term. These same trends will attract investors looking for relatively stable yields. Therefore, the bidding environment will be brisk, resulting in strong sales activity. Property values are expected to at least hold at the peak for the cycle, with the potential for modest increases for high-quality assets. Solid regional economic expansion and job market conditions will continue to drive positive rental demand patterns and, in part, the healthy market performance patterns over the near term.
A softening of the GWA economic growth trend was forecast for 2018, which is in line with most of the country’s major urban centres. The softening was to follow a 24-month period of markedly stronger advancement. More modest gains were also projected for the region’s labour market this year. Despite a weaker growth trend, the outlook for the near term remained largely positive. As a result, retail sales and household income gains were expected for both this year and 2019. The region’s manufacturing sector was set to once again lead the way in driving economic activity higher over the near term.

MANUFACTURING SECTOR PLAYED A KEY ROLE
The manufacturing sector continued to play an important role in driving economic growth and job market gains in the GWA over the past year. The sector was tracking a 2.9% increase in output for 2018. The 2018 result was expected to follow up a markedly stronger increase of 4.3% in 2017, which marked a six-year high. The 2017 surge in activity outpaced the national average by 130 bps. Increased diversity within the sector was a catalyst for what has been a period of sustained expansion over the past couple of years. A weak Canadian dollar and strong U.S. demand has also helped drive sector output higher. Looking ahead, a more modest increase in sector output of 2.3% is projected for 2019. A similar performance is forecast for the next few years, which will continue to push sector employment closer to the 2022 peak.

CONSTRUCTION SECTOR WAS A PILLAR OF STRENGTH
The GWA construction sector had a largely positive influence on the broader regional economy over the recent past. Both the non-residential and residential subsectors contributed to the generally stable and positive economic performance of the past couple of years. A relatively modest 2.1% increase in construction output was projected for 2018. Prior to this year, sector output had surged by 23.0% since 2013, a performance that included a 4.7% bump in 2017. A number of major projects were in various stages of completion in 2018 including: the $400 million True North Square development, upgrades to the Winnipeg Art Gallery and a new Royal Aviation Museum. Housing starts hit a 30-year high in 2017, with unsold homes resting at a 30-year high this year. Despite this scenario, housing starts were expected to continue to have a moderately positive impact on the regional economy this year.

STABILIZATION TO CHARACTERIZE NEAR-TERM OUTLOOK
Stabilization was the expected overriding theme for the GWA economy over the near term, against a backdrop of modest growth. The CBOC was projecting a modest average annual increase in economic output of 2.2% between 2019 and 2022. In turn, employment levels were forecast to increase by between 1.3% and 1.5% annually over the same time period. Employment prospects were expected to continue to draw more people into the labour market, resulting in a fairly stable unemployment rate of close to the 6.0% mark over the next few years. Consistently stable and positive economic and job market trends over the forecast period should support equally modest retail sales growth. Sales were expected to rise by an annual average of just short of 2.2% between 2019 and 2021. The moderate trend will be a byproduct of fairly consistent wage growth over the forecast period. In short, the GWA economic forecast called for a more moderate growth trend. As a result, most other economic indicators were expected to follow the same path.
LEASING MARKET CONDITIONS REMAINED GENERALLY POSITIVE
GWA leasing fundamentals were generally stable and healthy during the latter half of 2017 and first half of 2018. Moderately positive demand patterns resulted in the absorption of space in newly renovated or improved buildings. Downtown landlords offered incentives and sometimes lower rents to lure tenants, in anticipation of a spike in vacancy in the second half of 2018. The spike was a result of vacancy added to the market with the delivery of the first tower of the True North Square development, which was 50.0% pre-leased at press time. In some cases, landlords upgraded their properties in anticipation of the increase in competitive space to be added to inventory. In the suburbs, demand for Class A space has been fairly brisk, resulting in modest upward pressure on rents. Market-wide demand was strong enough to support healthy vacancy patterns. Average market vacancy for the GWA stood at 8.9% as of second quarter of 2018, with the Class A rate at an even stingier 6.9%, according to CBRE statistics. The downtown submarket all-class vacancy average was 8.6%, while the suburban average was 9.8%. Vacancy patterns have been relatively stable and healthy during 2018 and 2017, as a result of a moderately positive demand cycle. Looking ahead over the near term, however, markedly higher vacancy levels were forecast, which will have a negative impact on leasing market fundamentals.

PERIOD OF INVESTMENT MARKET STABILIZATION WAS EXTENDED
Stabilization characterized the GWA investment market over the past year, as the current phase of the cycle was extended. Investment performance remained moderately healthy, with the MSCI Index return rising 60 bps year-over-year. A fairly attractive return of 4.6% was generated over the 12-month period ending June 30, 2018, compared with a 3.8% average over the previous period. The income component was largely stable and healthy, while the capital component continued to its gradual descent. While investment performance was relatively stable year-over-year, so too was the market’s demand supply dynamic. The volume of capital chasing assets in this market exceeded the volume of high-quality offerings of significant scale. Institutional groups were exposed to a small number of larger investment offerings. Private, and often regional, groups were most active in pursuing value-add opportunities, which often required significant capital investment. The modest demand pressure ensured values were generally stable for high quality assets. The stable demand environment supported a modest uptick in transaction closing volume recently. In the first half of 2018 a total of $98.4 million in sales was reported, a significantly stronger pace of activity than the $97.4 million for all of 2017. The broader stability of the demand trend over the past 12 to 18 months was in keeping with the overall market theme.

MARKEDLY WEAKER SUPPLY FUNDAMENTALS FORECAST
A material weakening of GWA office sector supply fundamentals is forecast over the near term. The relocation of tenants to the newly completed True North Square Phase One tower will drive downtown vacancy levels significantly higher over the near term. At the same time, consolidation in the public sector will also drive vacancy higher to a lesser extent. As a result, the market average and downtown vacancy rates should rise into the double-digits. In turn, downward pressure on market rents will increase, given the fact that the excess space could take between 12 and 24 months to absorb. Over the same time period, demand will remain moderately healthy, but fall short of the spike in vacant supply. The resulting income erosion will negatively impact investment performance. However, investors will continue to target the market’s higher quality assets, given their attractive longer-term performance record. Therefore, investment demand should continue to outpace supply, despite weaker fundamentals and investment performance over the near term.
DEMAND SUPPLY IMBALANCE FAVOURED MARKET’S LANDLORDS

GWA industrial landlords have been able to boost their bottom lines over the past year, given significant leasing market imbalance. In many cases, they were able to improve their bottom lines by commanding higher rents and offering fewer incentives. Moreover, there were few challenges in finding prospective tenants when vacant space was made available. The ability to raise rents was a function of all-time low availability levels. Overall availability stood at 3.2%, as of the end of the second quarter of 2018 according to CBRE statistics. The rate had fallen 70 bps year-over-year, and 40 bps over the preceding 6-month period. At this availability level, functional space was in very short supply. All-time low availability was also a byproduct of a muted development cycle. Rising development costs were a major factor in delaying the construction of new buildings in this market. Leasing market imbalance of the past couple of years presented a number of challenges for the market’s tenants. Companies looking to expand or relocate had few choices. In some cases, they were forced to renew at their current location. Others delayed expansion plans, with few options in the existing inventory or in the form of new supply. To make matters worse, the cost of renting had increased. Competition among the market’s tenants was intense, given the relatively few available options. The resulting imbalance benefited the market’s landlords, who were able to raise rents and operate largely full buildings.

INVESTMENT PERFORMANCE WAS FAIRLY POSITIVE

Recent GWA industrial property sector investment market conditions were largely in keeping with those of the recent past. Investment performance remained fairly attractive. The sector posted an annual average total return of 4.7% in the MSCI Index for the year ending June 30, 2018, up a modest 50 bps year-over-year. During this period, capital values levelled off after a period of modest erosion. Once again, the performance was largely income-driven, in keeping with the trend of the past few years. In the past year, investment demand patterns were also consistent. Local and national groups looked to acquire assets with strong tenant rosters in prime locations. In keeping with the national trend, product availability fell short of the volume of capital that could potentially be placed in this market. Despite this scenario, however, there has been a marked increase in activity levels recently. Colliers International reported transaction volume of $159.6 million during the first six months of 2018, which was higher than annual totals dating back to 2000. This was tangible evidence that activity levels were limited by product supply, rather than availability. The consistency of this dynamic over the past couple of years was in keeping with the broader market theme.

CONSISTENCY TO CHARACTERIZE NEAR-TERM PERFORMANCE

There are few changes in GWA industrial sector performance anticipated over the near term. The regional economic growth trend will continue to support leasing demand, as the sector’s growth-drivers remain in expansion mode. Companies involved in the distribution of consumer goods and the region’s manufacturers will lead the way as was the case over the past few years. Ongoing leasing market imbalance will result in added upward pressure on rents as tenants compete for limited availability. There will be little relief from the shortfall in availability given few new construction projects nearing completion. Landlords will be able to push rents higher once again and bolster their bottom lines. Tenants will have to adjust to the increase in premises costs. Tight leasing market conditions will help support positive investment performance. Fundamentals will continue to attract investors and support property value stability. Once again, demand will outpace product supply, resulting in a competitive bidding environment. In short, the continued unfolding of the current phase of the investment cycle will result in a significant level of consistency in this market over the near term.
LEASING MARKET PERFORMANCE WAS MIXED
Recent GWA retail leasing market performance was somewhat uneven. Progress was made in a number of areas of the market. There were a number of expansions and new entries reported in this market including Lowe’s, The Rec Room, Mr Mikes and Jollibee. In other positive news, there were a number of new expansions and developments planned or commenced during the past year. The most notable of these were the Plaza at Polo Park, Bishop Grandin Crossing, Park City Common and Seasons. Retail expansion and new developments provided tangible evidence of the health of the GWA retail leasing market over the past 12 to 18 months. However during the same time period there were signs of weakness observed. The most prominent of these was a sharp rise in market vacancy. Average market vacancy increased to 10.5% by the end of the first half of 2018, more than double the rate recorded a year earlier. The rate was expected to continue to rise during 2018. Vacancy levels were driven higher largely because of the closure of Sears Canada stores in this market. In January of 2018, the final two closures took place in this market at St. Vital Centre and Kildonan Place, with Polo Park and Garden City already closed. Some of this space could remain vacant until it is redeveloped or substantially reconfigured. The negative impact of rising vacancy levels was offset to some degree by the positive aspects of the GWA leasing market performance of the past 12 to 18 months, which was in keeping with the national sector trend.

INVESTMENT MARKET STABILITY PREVAILED
Generally stable investment market conditions were reported in the GWA retail sector over the past year, against a backdrop of broader sector uncertainty. From an investment performance standpoint, returns remained fairly attractive. The MSCI indexed properties tallied an annual average total return of 4.7% for the 12-month period ending June 30, 2018. Much like the previous 12-month period, the return was almost exclusively income-driven. In addition, it fell short of the five and 10-year averages. Despite the weakened performance record over the past few years, the GWA retail sector continued to attract investment. Local and national groups actively pursued assets in this market with records of strong performance and solid tenant rosters. However, in general product availability fell short of demand. To some extent this imbalance supported relatively stable property values. Solid demand characteristics also ensured the flow of capital into this market. A total of $54.4 million in retail property sales were recorded in the first half of 2018, following the $89.1 million in 2017. To a large extent activity levels were driven higher largely because of the closure of Sears Canada stores in this market. In January of 2018, the final two closures took place in this market at St. Vital Centre and Kildonan Place, with Polo Park and Garden City already closed. Some of this space could remain vacant until it is redeveloped or substantially reconfigured. The negative impact of rising vacancy levels was offset to some degree by the positive aspects of the GWA leasing market performance of the past 12 to 18 months, which was in keeping with the national sector trend.

MATERIAL SHIFT IN MARKET PERFORMANCE IS UNLIKELY
There is little evidence to suggest a material change in retail market conditions will take place over the near term. Vacancy levels will remain elevated, barring a quick lease-up of the recently vacated Sears store locations. In the rest of the market, leasing conditions will remain fairly healthy, given continued expansion activity and a modest construction cycle. Retailers will look to expand in a market with a strong recent record of economic growth and a moderately positive outlook. The relative stability of the leasing market will continue to support fairly attractive investment performance, with returns likely holding at recent levels. Property values are expected to hold at current levels, following a period of erosion. In the investment market, high-quality assets will remain in relatively short supply, resulting in a fairly competitive bidding environment. Riskier assets may see a slight down trend in pricing, given broader sector uncertainty. In short, market conditions will mirror those of the recent past.
DEMAND OFFSET INCREASED SUPPLY
Brisk multi-suite residential rental demand offset supply growth in the GWA over the past year, which was an indication of the market’s overall health. Rental demand was bolstered by international migration and demographic trends. Between 9,000 and 10,000 migrants were expected to call the GWA home over the next several years, according to the CBOC forecast. Historically, a significant portion of this group have chosen to rent for at least their first year of residence. The aging of Manitoba’s population has also boosted rental demand, in that many seniors rent as an interim solution before moving to retirement residences. The health of the region’s rental demand cycle provided at least part of the rationale for an uptick in the development of new purpose-built units over the past 12 to 24 months. Improved demand patterns ensured these units were and will continue to be absorbed. This dynamic was reflected in the market’s recent vacancy trend. Market vacancy was projected to hit the 3.0% mark this year, up just 20 bps year-over-year. In addition, demand patterns were healthy enough to push rents higher across all unit-size categories year-over-year. In short, rental demand continued to support healthy market performance and offset increased supply in 2017 and much of 2018.

CONSISTENCY WAS DOMINANT INVESTMENT MARKET THEME
Consistency was the overriding theme in the GWA multi-suite residential rental investment market over the past year. Demand characteristics were generally stable and healthy. Local groups were the most active during 2017 and 2018, in keeping with the historic trend. Transactions were predominantly small in size, typically with a sale price of less than $5.0 million. This buyer group has consistently targeted older properties with upside on rents. Generally speaking, investors continued to try to access or expand their holdings in this market to take advantage of its overall stability. Largely stable demand was once again met with a limited supply of assets available for acquisition. To some degree, this scenario supported the stabilization of property values over the past couple of years. At the same time, the availability shortfall has also had an effect on the volume of capital flowing into this market. In 2017, transaction volume totalled $60.9 million, compared with the five-year average of $91.0 million. The first half 2018 pace was markedly stronger with $121.3 million in sales reported. Investment demand outpaced supply over the past several years, despite the upswing in closing volume. The market’s broader consistency of the past year, was replicated across much of the nation.

REPEAT PERFORMANCE IS HIGHLY PROBABLE
Recent trends observed in the GWA multi-suite residential rental sector are expected to persist over the near term. The local economy is forecast to expand at a higher rate than the national average this year and in 2019, in keeping with the post financial crisis trend. The resulting unemployment rate of less than 6.0% will continue to support rental demand, as migrants arrive looking for jobs and accommodation. Consequently, the rental market will remain healthy and rents will continue to edge higher. In addition, development activity will continue to surpass the long-term average. Owners of properties will continue to drive rents higher by rates that are dictated largely by the provincial guideline. Rental growth will drive investment performance, as has been the case for the past few years. Investment demand will remain brisk, holding property values at levels reported in 2017 and 2018 through to the end of the decade. The main risk to the positive sector outlook is NAFTA, which could derail what has been healthy gains in the region’s manufacturing sector over the past few years. Aside from this, near-term performance characteristics will be similar to those of the past few years.
ECONOMIC SNAPSHOT

A moderate rate of economic growth is projected for the GRA over the next few years. GDP is expected to expand by 2.0% in 2018, according to the CBOC, down 70 bps from 2017. The forecast is predicated on stable-to-rising resource prices including: soybeans, potash, uranium and oil. The solid economic growth trend was expected to support an equally modest increase in employment and a stable unemployment rate of 5.1% this year and next. The economic outlook was also expected to drive modest retail sales growth and a slight dip in new housing starts, which had reached a three-year peak in 2017.

JOB MARKET GAINS HAVE UNDERWHELMED
Recent GRA labour market gains have been largely disappointing, due in large part to a less-than-robust economic performance. For 2018, the CBOC forecast suggested employment levels would rise by a tepid 1.0%. Much of the rise was anticipated in the goods-production side of the economy. This rate of increase was only slightly better than the annual average of the previous four-year period. Despite a modest uptick in the economic growth rate in 2017, the employment growth trend has underperformed. A positive for this period, however, was that the number of people entering the labour force increased. Even with the increased labour market participation the GRA unemployment rate was expected to hold steady at 5.1% in each of 2018 and 2019, before edging lower over the subsequent three-year period.

MANUFACTURING SECTOR MOMENTUM STALLED
Manufacturing sector growth slowed significantly during 2018, following a two-year period of robust expansion. Manufacturing output was projected to rise by an unspectacular 2.2% this year, having advanced by 11.2% in 2017. Since the 2009 recession output had increased by 63.0%. During the past several years, sector expansion outdistanced the national average by a significant margin. Expanded output boosted sector employment with the number of jobs rising by a record 30.1% in 2017 alone. Looking ahead, sector output was forecast to increase 2.7%, still well below the lofty levels of 2016 and 2017.

SLOWER CONSTRUCTION SECTOR GROWTH FORECAST
The GRA construction industry was expected to generate a fairly modest rise in sector output over the near term. This year, sector output was tracking an improvement of 2.4%, down sharply from the 6.8% boost in 2017. Residential starts were expected to slide, given rising interest rates and the high volume of unsold inventory. A relatively modest volume of non-residential projects was also cited as the reason behind the conservative growth forecast for the near term.

REGIONAL OUTLOOK IS LARGELY POSITIVE
The accuracy of GRA’s modest economic growth outlook will provide further evidence that the boom years are officially over. The regional economy was projected to expand 2.0% this year and 2.2% in 2019. These rates of expansion were expected to boost employment levels by roughly 1.0% annually. As a result, the unemployment rate will hold steady at just over 5.0%. The modest outlook was expected to support a moderately lower level of net in-migration, with 2,700 people projected for 2018 down from 4,600 in 2017. This moderation is in keeping with the broader economic outlook for the region over the near term.
LEASING STABILITY HELD DESPITE WEAKER DEMAND TRENDS
GRA leasing market fundamentals remained largely stable over the past year, despite a somewhat weaker demand trend. During much of 2018 and 2017, conditions were generally tight. Colliers International’s reported market availability of 4.1% as of the end of the first quarter of 2018, up a modest 70 bps year-over-year. Although the 4.1% represented a 10-year availability high, supply-side conditions were largely unchanged. While supply-side conditions were largely unchanged over the past year, so too was the demand backdrop. Tenants looking to relocate and/or expand were greeted with a relatively small number of options. Increasingly, tenants and owner/occupiers have become more discerning with regard to the type of space in which they are willing to operate their businesses in the past few years. In some cases, recently built, state-of-the-art space has become the only viable option. Therefore, the volume of alternatives has been artificially reduced to an even smaller number. A significant portion of the space available in this market over the past year has been older and less functional, which has impacted progress to some degree. Moderately positive demand patterns and stable-to-slightly rising availability produced a generally flat rental rate curve. While the emergence of a downward trend for older properties appeared to have taken hold in early 2018, the overall trend was flat. To some extent, downward pressure on new space was offset by rising construction costs. On balance, GRA leasing fundamentals were fairly stable through to the second half of 2018.

INVESTMENT TRENDS MIRRORED THE SECTOR AVERAGE
In a general sense, GRA industrial property investment market trends observed during 2017 and 2018 were similar to those reported across the sector in the country’s major urban centres. Demand was quite robust, although local groups were the most active. Coincidentally, national investment groups exhibited interest in acquiring assets in this market, in order to achieve increased geographic diversification and expand their holdings. On balance, however, product supply fell short of demand. The supply shortfall was in keeping with the sector trend. A significant number of owners were reluctant to sell assets that had provided solid returns over the long term. This was also a phenomena across the nation. The relatively small inventory of properties in this market was also a factor in the investment product shortfall. The availability shortfall was reflected in recent transaction volume statistics. Colliers International reported relatively modest and stable sales activity during the second half of 2018. Nationally, transaction volume rose, although supply also fell short of demand. Demand pressure in the GRA industrial market ensured values were largely unchanged, except for the highest quality properties and assets with strategic attributes. The value trend mirrored the sector average, which was also the case for most GRA investment characteristics.

MODERATE ECONOMIC GROWTH FORECAST BODES WELL FOR THE SECTOR
The GRA’s moderate economic growth forecast for the next few years bodes well for the industrial sector. The CBOC forecast GRA GDP will rise 2.2% in 2018 and an annual average of almost 2.0% for 2019 and 2020. The region’s manufacturing base will lead the expansion trend. This should continue to support leasing demand, resulting in relatively stable and positive market fundamentals. New construction will be met with strong interest and be leased prior to or shortly after completion. The positive leasing outlook will translate into solid income growth for owners and stable capital values. Economic growth and leasing fundamentals will attract investors. However, supply will continue to fall short of demand. Regardless of this scenario, the outlook for the GRA industrial sector is positive, given a solid economic growth outlook.
ECONOMIC PERFORMANCE FUELLED LABOUR MARKET ADVANCE
Labour market advancement in the Saskatoon CMA over the recent past was fuelled by improved economic performance patterns. Employment was projected to rise 1.6% in 2018, following a more modest 1.0% gain during the preceding 12-month period. Increased employment levels in 2017 and anticipated for 2018 represented a reversal of the 2015 and 2016 performance pattern. In 2016, CMA employment contracted 0.8%, after a tepid 0.3% in 2015. The economic and employment rebound that began in 2017 led to an increased number of people entering the region’s labour force. The rise pushed the employment rate 100 bps in 2017 to 7.9%. However, the rate was expected to slide to 7.2% this year and hold fairly steady in 2019. In summary, stronger labour market conditions reported recently was the result of healthier economic performance.

MANUFACTURING SECTOR FORTUNES WERE REVERSED
GSA manufacturing sector growth reported recently represented an end to weaker performance trend reported previously. Sector output was expected to increase by 1.3% in 2018, according to a recent CBOC forecast. The 2018 gain added to the stronger increase in output of 2.3% reported for 2017. Previously, sector output fell by 4.7%, cumulatively during 2015 and 2016. Despite increased output in 2017 and additional gains forecast this year, sector employment trends have been somewhat mixed. In 2017, sector employment contracted by 4.0%. Conversely, the 2018 forecast called for employment levels to rise by 4.0%. This inconsistency has been the sector norm over the past decade. Over the next few years, however, employment levels were projected to steadily rise.

CONSTRUCTION PERFORMANCE TRACKED NATIONAL AVERAGE
Construction sector growth slowed over the past year, in keeping with the national trend. Output was projected to rise by a modest 0.6% this year, on the heels of a 6.3% surge in activity in 2017. The projection and 2017 performance was similar to the national average. The relatively weak performance of 2018 was to follow a period of strong gains reported over the past several years. While there were a number of significant projects underway in the GSA, the long-term forecast called for relatively modest increases in sector output.

MODERATE ADVANCEMENT FORECAST
Moderate advancement will characterize the Saskatoon CMA’s economy over the near-to-medium term. Economic output is expected to rise 2.2% annually over the next three years. As a result, employment levels will follow suit. The economic outlook will support equally modest retail sales growth of an average of 2.6% annually over the forecast period. Housing starts are also expected to gradually increase after a modest decline this year.
LEASING MARKET PROGRESSION RECORDED

Modest progression characterized the GSA retail leasing market performance of the past year, against a backdrop of rising vacancy. This progress was evidenced in the market’s stable and healthy demand trend reported for the past 12 to 18 months. More specifically, a number of expansions and new store openings took place. Much of this activity took place in new and emerging neighbourhoods throughout the GSA. Various brands opened new locations including: Sobeys Liquor, Skechers, Bed Bath and Beyond, Lammle’s, Save-on Foods and various restaurants. Another indication of leasing market progress over the recent past was the continued development of new retail space. In 2017 alone, close to 220,000 square feet of new retail construction was completed. Most of this square footage was leased prior to, or shortly after completion in both established locations and in emerging trade areas. A further 225,000 square feet of new retail space was under development at Dream’s locations at Brighton and Hampton Village over the next few years according to a recent ICR survey. Leasing market progress recorded over the recent past occurred during a period when market vacancy levels were rising. Market vacancy hit a high of 4.0% at the beginning of 2018 dating back to 2015. The upward vacancy pressure resulted in a largely flat rental rate trend. Despite the upward vacancy trend and rental rate levelling, leasing market progress continued to be made.

INVESTMENT MARKET STABILIZED DURING PERIOD OF HEIGHTENED SECTOR UNCERTAINTY

Investment market fundamentals were generally stable over the past year, despite heightened retail sector uncertainty. Investors continued to hold this market in high regard, as a place where attractive yield performance could be achieved. The region’s long-term record of healthy overall performance was also an element of the rationale for investing. For the most part, investment demand remained fairly brisk, with local groups continuing to account for the lion’s share of activity. As was the case across the country, investors scrutinized retail opportunities more closely over the past year, given the perception of greater sector risk. Despite this increased scrutiny, demand fundamentals remained positive and stable. The demand stability supported a fairly flat property value trend in 2017 and much of 2018. Investment demand continued to outpace the supply of properties available for purchase, which translated into fairly muted activity levels. Transaction volume totalled just $11.3 million for the first half of 2018, following a relatively modest $64.1 million in 2017 according to Colliers International statistics. Consistently low activity levels of the past 18 months was in keeping with overall investment market performance for the same time period.

PERFORMANCE-DRIVERS INDICATE PERSISTENT NEAR-TERM PROGRESS

The GSA’s retail sector performance-driver forecast is indicative of additional sector gains over the near term. The GSA economy is projected to expand by 2.0% this year and 2.3% in 2019. This growth should drive at least modest employment and retail sales growth. The positive outlook will continue to be a draw for retailers looking to expand. Therefore, leasing fundamentals will remain largely stable and healthy. Vacancy patterns will mirror those of the recent past, with the market average holding close to the 4.0% market reported in early 2018 over the next 12 to 18 months. Leasing market health will continue to support attractive income performance to the benefit of the market’s owners. This will draw investors looking for solid yield and income performance characteristics. Once again, however, product availability will continue to frustrate investors and dampen activity levels. Against this backdrop of low product availability, the sector will continue to gain ground as a consequence of a mainly positive performance-driver forecast.
ECONOMIC SNAPSHOT

The CGA economy began a cycle of steady growth during 2018 following a 12-month period of robust expansion. In 2018, the regional economy was forecast to expand by a fairly robust 2.9%. The sharp economic rebound of 2017 and 2018 progression was expected to translate into materially stronger labour market conditions. Employment was projected to increase by 2.9%, helping to drive a moderate rise in retail sales and a slight downdraft in housing starts. The largely positive outlook for the regional economy was predicated on a continued and gradual increase in oil prices over the forecast period.

OIL PRICE GROWTH FUELLED EMERGENCE OF RECOVERY

A material increase in oil prices over the past year resulted in the continued emergence of economic recovery in the GCA. After an initial surge, oil prices appeared to have settled into a more modest upward trend. As a result, the regional economy was tracking an increase in output of approximately 2.9% in 2018, following a resurgent 6.9% in 2017. The forecast 24-month period of progress was to follow a cumulative economic plunge of 7.0% in 2015 and 2016. The services and construction sectors were expected to make key contributions to the gradual economic recovery forecast for the next few years.

ENERGY SECTOR HAS BEEN A PLUS

Further increases in the price of oil were forecast for the near term, which was expected to boost primary and utilities sector output. In addition, rising prices were seen as a driver of head office activity, adding to overall sector output levels. Sector output was projected to rise 3.6% in 2018, following the 10.9% spike in activity in 2017. Decreases in output recorded between 2015 and 2017 have now been recouped. In 2018, a new high for sector output was anticipated. Subsequently, the primary and utilities output growth rate was expected to moderate.

MODERATE SERVICES SECTOR EXPANSION FORECAST

The GCA broader services sector was on track for a 2.6% increase in output for 2018. In the previous year, the sector posted a stronger result with output rising 3.9%. The largest and most prominent segment of the services sector, finance, insurance and real estate, is expected to continue to recover from a sharp downturn over the near term. Previous sector output fell as a result of reduced residential housing related demand due to the oil crisis. The wholesale and retail and professional, scientific, and technical services segments of the services sector were also set to push output moderately higher in 2018 and 2019.

RECOVERY PACE WILL BE SLOW BUT SURE

Economic recovery in the GCA will be slow but sure over the next couple of years, in the aftermath of two years of recession. GDP will expand by an annual average of 2.4% during 2019 and 2020. The forecast expansion will push employment levels higher by an annual average of 1.3% over the same time period. Equally modest increases in retail consumption levels are expected at 2.9% in 2019 and 3.2% in 2020. At the same time, slightly lower wage growth rates are forecast. The region’s energy sector will strengthen, although the Kinder Morgan pipeline dispute could dampen progress. The approval pipeline will provide a boost for the region’s recovery over the next few years.
CORRECTIVE PHASE OF THE CYCLE PERSISTED

The GCA’s leasing market correction continued to unfold during the past year, despite a modest recovery in the region’s oil sector. The market’s demand cycle continued to disappoint. The lion’s share of demand was from tenants looking to renew or take advantage of excess supply and cycle-low rents. Tenants looked to relocate to more efficient, state-of-the-art Class A space in order to reduce their footprint sizes. Some suburban tenants took advantage of market conditions to relocate to the downtown area having been effectively ‘priced-out’ in the past. The absence of a firm demand cycle during the past few years has had a profoundly negative impact on supply side fundamentals. In the past year, market vacancy continued to rise and came to rest at an all-time high of 26.1% for all classes of space. Similarly, the downtown and suburban averages stood at a record-high of 27.8% and 23.2%, respectively. Opportunities for tenants looking to expand or relocate were in abundance, including the highest quality of space. This dynamic has produced some of the lowest average rents on record, with some landlords still struggling to lease space. In the past year, construction activity stood at the cycle low, which has at least reduced the rate at which vacancy has risen. As the leasing market correction persisted over the past year, owners held out hope that the worst was over.

INVESTMENT TRENDS WERE A BYPRODUCT OF LEASING CYCLE

GCA investment market trends over the recent past were impacted by the current phase of the sector leasing cycle. The leasing market correction of the past few years continued to erode investment performance. Properties tracked in the MSCI Index tallied an average total return of -2.9%, for the year ending June 30, 2018. While income performance was relatively attractive over the period, the capital component was ratcheted down 8.9% over the 12-month period. This marked a third consecutive year of significant losses in value in the Index, which mirrored the broader market trend. The corrective phase of the cycle also influenced the market’s demand trend. A number of groups continued to look for acquisitions on an opportunistic basis, including those priced at a discount to replacement cost. Private groups were the most active in this market over the recent past, with many looking for assets with upside or redevelopment potential. The market’s modest demand cycle evidenced in transaction closing volume totals of the recent past. Transaction volume totalled $900.3 million for the first half of 2018, which represented a stronger pace than the $843.1 million for all of 2017. However, activity levels remained well below the 2007 peak. The relatively modest rate at which capital flowed into this market was expected to continue over the near term. This outlook was also anticipated for the broader investment market, barring a material change in the current phase of the sector leasing cycle.

MODEST RECOVERY TO SLOWLY EMERGE

The emergence of a modest recovery cycle is forecast for the GCA office market by early 2019. The forecast is predicated on a steady rise in oil prices over the next 12 to 18 months, as a catalyst for improved leasing demand. Increased demand will result in the gradual absorption of the excess sublease and head-lease space available in the region. As 2019 progresses, vacancy is expected to fall below the peak levels reported in 2018. The improved demand trend will result in the eventual firming of rents, likely in late 2019. This may take longer, however, depending on the level to which demand increases. As business confidence and overall sector optimism rises, investors will begin to take notice. Improvements in individual property performance will once again draw groups to the region that had previously exhibited little interest in a market in decline. In short, by the end of 2019, leasing conditions are expected to have improved, driven by ongoing economic recovery.
SUSTAINED POSITIVE LEASING MARKET MOMENTUM WAS REPORTED
Sustained positive momentum continued to unfold in the GCA industrial leasing market over the past year. A marked improvement in economic performance during 2017 and 2018 was the catalyst for a healthier space demand cycle in the past year. Distribution space demand strengthened substantially, driven in part by e-commerce related businesses. Companies entering the cannabis industry were also drivers of industrial demand. Finally, ongoing recovery in the region’s oil and gas sector added to the demand pressure. The renewed strength of the market’s demand cycle resulted in the absorption of available space and reductions in availability rates. Market availability fell 120 bps to 8.1%, year-over-year as of the end of the first half of 2018. Furthermore, the rate was down 170 bps from the cycle high of 9.8% reported at the end of 2016. Economic and market optimism and the resulting increase in leasing activity were the catalysts for increased industrial construction activity over the recent past. More than 3.6 million square feet of new supply was underway as of the end of the first half of 2018. A small number of projects had been completed during the preceding two-year period. The sharp uptick in activity was a response to a shortage of 100,000 square foot and larger options for tenants looking to expand. To some extent, it was also a byproduct of increased optimism as a result of the market’s positive overall momentum sustained over the past year.

INVESTOR CONFIDENCE SUPPORTED CAPITAL FLOW SPIKE
Investor confidence levels in the GCA industrial sector supported a spike in capital flow during the first half of 2018. A stellar $1.2 billion in GCA industrial property sales was recorded during the six-month period, which represented one of the highest half-year totals on record. Moreover, the maintenance of this pace would most likely result in the second highest annual total of all time next to the 2007 peak. The surge in activity levels was a testament to the confidence investors have exhibited in the broader sector over the recent past. In addition, optimism surrounding the region’s emergence from a prolonged period of oil-sector induced economic recession was another driver of positive investor sentiment. Investors were also encouraged by recent investment performance patterns. MSCI Index results for this market were fairly attractive. A total annual return of 4.9% was generated for the year ending June 30, 2018. Perhaps more importantly, the more than two-year period of capital decline appeared to have neared an end. Investor confidence was also supported by leasing market momentum generated over the past year and the prospect for continued gains over the near term. A positive economic growth forecast was an additional consideration in all likelihood. This was one of several factors in support of a sharp increase in property sales in this market during the first half of 2018.

MOMENTUM WILL CONTINUE TO BUILD
Positive momentum is expected to continue to build in the GCA industrial sector over the near term. The regional economy is forecast to expand by 2.9% in 2018 and 2.3% in 2019, following the 6.3% rebound in 2017. The solid growth outlook will support positive leasing demand fundamentals and improved supply characteristics. Availability levels are expected to gradually fall, although the recent uptick in development activity may delay this trend. Sustained leasing demand and market optimism will eventually produce upward pressure on rents, perhaps as early as the first half of 2019. The leasing outlook will continue to support strong investment demand patterns, in addition to a positive performance trend. Property values will eventually firm and rise, to the benefit of holders of assets in this market. Bidding on assets brought to market will likely intensify, given the fact that positive momentum will continue to build over the near term.
LEASING MARKET RESILIENCE PREVAILED

Resilience continued to characterize the GCA retail leasing market over the past year, even with a reported increase in vacancy levels. Broadly speaking, demand fundamentals were fairly healthy, given a number of recent store openings and expansions. Larger locations that opened over the past year included recognizable names like Saks OFF 5th, Zara, and Sport Chek’s “Hero” format and the backfilling of Target space by HomeSense. There were also a number of new service retail openings reported recently in keeping with the national trend. New restaurant concepts, drug stores and banks in mixed-use projects were the most common of services added to this market. To some degree, store closures offset some of this expansion, however, the overall trend was positive. Despite store closures and footprint reductions leasing market progress was made on a number of other fronts. In the city’s CBD for example, a number of vacant storefronts were leased up that had been vacated due to the reduction in foot traffic as a result of the office market downturn. The market’s leading malls and new developments attracted more than their fair share of retailers looking to expand or relocate. Leasing market progress also came in the form of the approximately 2.7 million square feet of new supply scheduled for completion in 2018 alone. This growth provided evidence of the market’s resilience, during a period of rising vacancy.

MATURE PHASE OF THE INVESTMENT CYCLE WAS EXTENDED

The mature phase of Canadian investment property market continued to impact the GCA retail sector over the past year. Demand characteristics mirrored the national trend, as regional malls with strong performance metrics, prime urban streetfront properties, and assets with upside in the GCA were subjected to healthy levels of investor interest. Higher risk assets were subjected to higher degrees of scrutiny with regard to their resilience in light of broader retail sector trends. The overall strength of the market’s demand backdrop was evidenced in recent sales volume totals. The pace at which retail assets in the GCA sold increased during the first half of 2018, with $542.5 million sales recorded. This bested the $424.8 million annual total for 2017 as well as the five-year annual average. Investor confidence was buoyed by the region’s emergence from recession and its solid economic growth outlook. To some extent, the mature phase of the national investment cycle was also evidenced in recent GCA retail sector return rates. Assets contained in the MSCI Index registered a mildly positive annual average return of 2.4% for the 12-month period ending June 30, 2018. This was up 50 bps year-over-year. The income component was stable and positive, while the capital trend remained negative. To some extent the capital decline was in keeping with the national trend, which was also the case for most other aspects of the GCA retail investment performance of the past year.

OUTLOOK TO INCLUDE MEASURE OF STABILIZATION

The outlook for Calgary’s retail sector is largely stable, driven in part by the region’s modest economic recovery. The GCA economy will continue to slowly rebound after a two-year long recession, with growth of 2.9% forecast for 2018 and a more modest 2.3% in 2019. The growth trend will support positive retail spending patterns and, in turn, stable leasing fundamentals over the forecast period. In keeping with the broader industry, the market will continue to adjust to changes in consumer spending habits. While there will be a modicum of turbulence, gains will be made in the form of new store openings and new development activity. Retailers will look to capitalize on the region’s recovery, which will support demand for retail space. Leasing market stabilization will support investment market stabilization to some degree. In short, the GCA retail sector trends will result in more stable performance patterns over the near term, in keeping with the national sector outlook.
RECOVERY LOOKS TO HAVE GOTTEN UNDERWAY
Rental market conditions observed in the GCA multi-unit residential rental market recently indicated recovery was already underway. Market vacancy has begun to decline, with an average rate of 5.6% forecast for the end of 2018. The forecast rate was markedly lower than the 25-year high of 7.0% reported for 2017. The downward trend was consistent across the various unit size categories, except for the bachelor segment. The vacancy reductions of the past year were driven by the fact that demand for rental accommodation outpaced the introduction of new supply to the market. Positive rental demand patterns were supported by increases in regional employment and international migration, both of which were a function of the sharp rise in economic output recorded in 2017. The 6.3% boost in economic output resulted in the creation of nearly 30,000 new jobs in the Calgary CMA during the first nine months of 2017 alone. In addition to an improved demand trend, a slowing of the rate at which average rents were declining was another indication that the market had begun to stabilize. The average CMHC same sample rent for the Calgary CMA fell by a modest 1.6%, year-over-year as of October of 2017. This rate contrasted the sharper 7.6% decline of the previous year. A similar pattern was observed for changes in rental averages for one-bedroom and two-bedroom unit sizes, which make up the majority of the market. For owners, the slowdown in rental decline was a welcome sight and offered hope that the recovery cycle was underway.

INVESTMENT MARKET STABILIZATION CONTINUED TO UNFOLD
Stabilization was the overriding theme in the GCA multi-unit residential rental property investment market over the recent past. Demand patterns were largely unchanged, with institutional investors looking eagerly to acquire core assets with strong performance records. On the whole, however, the market failed to provide a sufficient number of properties to meet this demand, which has been the case for a number of years. Private groups generally focused on older and/or smaller assets with value-add characteristics. However, product supply also fell short of demand in this market segment as well. Assets brought to market were generally well-received. As a result, transaction closing activity levels were generally stable and quite robust over the recent past. In 2017, a total of $345.7 million in asset sales were reported, up 39.7% year-over-year. Levels were generally stable and quite robust over the recent past. In 2017, a total of $345.7 million in asset sales were reported, up 39.7% year-over-year. While the pace has slowed recently, this was again a function of supply rather than a demand reduction. This consistency was also apparent in recent investment performance trends. Properties contained in the MSCI Index generated a modest and largely income-driven total average annual return of 3.2% for the year ending June 30, 2018. While the result was significantly better than the previous year, income performance was essentially unchanged. The income consistency was in keeping with the market’s broader investment market theme.

RENTAL MARKET FUNDAMENTALS TO GRADUALLY STRENGTHEN
GCA rental market fundamentals are expected to gradually strengthen over the near term, driven in large part by modest economic recovery. The region’s economic growth forecast, assuming it is accurate, will support rental demand. A healthy economy will draw migrants to the region and increase employment opportunities for the existing and newly arrived residents. The resulting demand increase will continue to drive rental market vacancy gradually closer to the 6.0% mark by the end of 2018. The demand uptick will help stabilize rents across all market segments. Progressively stronger rental market conditions will boost income performance for owners and attract investment capital to the region. In short, modest rental market gains over the near term will support slightly stronger overall sector performance.
CONSTRUCTION SECTOR GROWTH TREND MODERATED
The rate at which GEA construction sector output increased slowed during 2018, after a period of stronger energy sector driven expansion in 2017. One of the causes of the slowdown was a sharp reduction on construction activity in the region’s office market. Residential construction activity also eased this year. Residential investment decreased in 2018, given an oversupply of newly built unsold homes. The CBOC forecast indicated a reduction in both single-detached and multiple dwelling residential construction for 2018. Despite the reduction, residential output was expected to rise by a relatively muted 2.9% year-over-year.

EMPLOYMENT PATTERNS STEADILY IMPROVED
A stable employment growth trend was projected for 2018 and 2019, according to the CBOC. Employment was expected to rise 1.4% and 1.7% annually for 2018 and 2019, respectively. In 2018, additions to the regional labour force were expected to fall short of employment gains, resulting in a slightly lower lower unemployment rate. Previously, the Edmonton CMA unemployment rate had hit a 21-year high of 8.0% in 2017. The rate had steadily declined during the first half of 2018, as a result of a strengthening of regional employment characteristics over the same time period.

MODERATION CHARACTERIZED SERVICE SECTOR PROGRESS
The region’s services sector growth trend moderated during 2018, which was in line with the national performance. Services sector output was forecast to rise a modest 2.6% in 2018, according to the CBOC spring forecast. This rate represented a more conservative trend relatively to the sharp rise in output recorded in 2017. Previously, the oil crisis had a profoundly negative impact on wholesale and retail trade, as consumers tightened their purse strings. Looking ahead, however, retail trade is expected to rise by a 1.3% in each of 2018 and 2019.

SOLID ECONOMIC EXPANSION RATE FORECAST
The emergence of a slower economic growth trend this year will continue to unfold over the near term. GDP will expand by an average of 2.5% annually between 2018 and 2020. Expanded output will support average annual employment growth of 1.6% over the same time period. After a three-year period of volatility ending in 2017, retail sales growth will stabilize over the next few years with gains between 2.6% and 3.2% over the forecast period. In turn, wholesale and retail trade and the broader services sector will see increased activity, albeit at a fairly modest rate of increase. The CMA’s economic recovery is expected to take several years, following a prolonged period of energy sector driven weakness. The rebound will be supported by a fairly modest growth trend over the next few years.
EARLY STAGES OF RECOVERY CONTINUED TO Emerge
The early stages of recovery in the GEA leasing market continued to emerge during the first half of 2018. Evidence of this emergence was the strengthening of the market’s demand cycle during the first half of 2018, a trend that began in the late stages of 2017. To some extent, the ICE District has been a catalyst for downtown leasing activity. In a number of situations tenants have relocated to buildings closer to the area, effectively causing a northward shift in the downtown core. In some cases, tenants have vacated buildings that were subsequently repurposed. The improved downtown demand trend of the recent past was rooted in the region’s financial, insurance, legal and government sectors. In addition, the stabilization of energy prices and resulting economic activity was also a demand-driver. Healthier demand patterns led to a marked increase in absorption of office space across the region and reductions in vacancy levels. Market vacancy stood at 16.9% at the end of the first half of 2018, down 300 bps year-over-year. An even sharper decline was recorded downtown, as vacancy plunged by 490 bps over the same time period to 15.7%. Despite a healthier demand cycle and downward vacancy trend, however, rents remained close to the cycle low on average. Looking to the future, the continued unfolding of the office leasing market recovery was expected to eventually have a positive impact on rents.

INVESTMENT ACTIVITY SLOWED TO A CRAWL
A sharp drop in transaction closing activity was reported through the first half of 2018. During this period, just $23.9 million in office building sales volume was tallied from 13 transactions. Previously, a fairly robust $404.0 million in sales volume was reported for 2017. This total was somewhat misleading, as a large portion of the total was the result of one significant portfolio sale. Since 2013, activity levels have generally trended downward, especially during the market correction that lasted for more two years. Despite the sharp dip in activity levels, investors have continued to look to the region for opportunity. Institutional groups have typically looked to acquire assets with solid histories of strong performance in established nodes. Others, generally private groups, have looked for opportunities with development and other upside potential. Until recently, the ongoing leasing market correction forced investors to scrutinize potential acquisitions in this market more closely. Concerns related to the timing and intensity of the market’s eventual recovery resulted in some uncertainty with regard to pricing. At the same time, investment performance remained weak, which added to the uncertainty. Properties tracked in the MSCI Index posted a moderately positive total return of 1.9% for the year ending June 30, 2018, following -3.9% over the previous period. The poor results were a function of a downward capital trend. Given this trend, it was not all that surprising to see investment activity levels plunge.

RECOVERY PHASE OF THE CYCLE WILL PERSIST
The GEA’s office sector recovery cycle is expected to continue to unfold over the near term, driven in large part by a solid economic growth outlook. Regional economic growth and ongoing stability in the oil sector will continue to support leasing demand. Therefore, vacancy levels will gradually decline and rents will eventually stabilize. The completion of the Stantec building later this year will push vacancy higher, before a downward trend re-emerges in 2019. The brighter leasing outlook will also lead to the stabilization of property values over the next 12 to 24 months. The combination of leasing market recovery and levelling of property values will support positive investment performance. By 2020, investment market conditions should have improved, along with the leasing market, which will boost investment activity. Depending on the pace at which market fundamentals improve, it could be two to three years before a firmer growth cycle emerges. Regardless of the timing, the sector recovery will persist for at least the next couple of years.
LEASING MARKET STRENGTHENING REPORTED

GEA industrial sector leasing fundamentals strengthened over the past year, following an extended period of softening. A material improvement in supply fundamentals was reported over the past year. Market availability stood at 7.5% as of the end of the second quarter of 2018. The rate was 100 bps below the cycle-high level a year earlier. A byproduct of the downward availability trend was that functional space became harder to source for tenants looking to expand or relocate. Another indicator of the strengthening of supply side fundamentals over the past year was a marked increase in development activity. A number of major build-to-suit projects were scheduled for completion during 2018, following a marked slowdown in activity in 2017. Major projects scheduled for occupancy included: the Aurora Sky Cannabis 800,000 square foot manufacturing plant, a 546,000 square foot Distribution Centre for Alberta Gaming and Liquor Corporation, and Champion Pet Foods’ 370,000 square foot plant in Acheson. Stronger supply side fundamentals were a function of a healthier leasing demand backdrop. A renewed economic growth trend that began in 2017 fuelled demand for industrial space across the region’s major business sectors. The resulting demand pressure generated increased expansion activity in the existing built inventory. As a result, there were indications that rental rate stabilization would emerge later in 2018 or early 2019. The potential for rental rate stabilization in the near future was a byproduct of the strengthening of GEA industrial leasing fundamentals over the past year.

INVESTMENT ACTIVITY SURGED AS RECOVERY CYCLE NEARED

Investment market conditions in the GEA industrial sector were generally positive over the past year, in keeping with the national trend. Industrial assets were the most highly sought-after property asset class, along with multi-suite residential rental sector. Investor confidence was driven by the sector’s healthy near-term outlook and leasing market improvements generated over the past year. The region’s economic recovery was also a supporter of investor confidence levels. Confidence levels supported aggressive bidding on stabilized offerings and a generally competitive acquisition environment. The demand pressure was a factor in the sharp rise in transaction closing volume reported in 2018. In the first half alone just over $1.0 billion in industrial property sales was recorded. The total already represented an all-time annual high, with the second half of the year still to come. Sales volume totalled a relatively muted $397.4 million in 2017. While the record-high volume of capital invested during 2018 reflected fairly high investor confidence levels, not all aspects of the market’s investment performance were positive. MSCI Index results showed an annual return of 3.8% for the period ending June 30, 2018. The result included a 1.9% capital dip. Aside from this aspect, however, market conditions were generally quite positive.

MODEST PERFORMANCE IMPROVEMENT FORECAST

Modest improvement in GEA industrial property market performance is forecast for the balance of 2018 and 2019. The forecast is predicated on continued economic recovery that began last year. Real GDP is projected to expand by 2.8% in 2018 and a more modest 2.2% in 2019 following a 5.0% surge in activity in 2017. The positive outlook is, not surprisingly, tied to the continued oil sector rebound that started in 2017. Assuming oil prices and production continue to rise, companies tied to the sector that occupy industrial space will more than likely require more square footage. Other sectors will add to the demand pressure, resulting in healthier leasing market fundamentals. In turn, these will strengthen the bottom lines of owners and attract investment. The progress will be fairly modest and drawn out, given a modest economic growth trajectory. Therefore, sector fundamentals will improve at a fairly slow pace.
LEASING MARKET RESILIENCE EVIDENCED DESPITE HEADWINDS

The GEA retail leasing market performance of the recent past was largely positive, despite persistent sector headwinds. In the latter half of 2017 and early 2018 leasing activity increased, as a response to a stronger-than-expected improvement in the regional economic outlook. Activity was strongest in new developments completed on the outskirts of the city. Downtown, new restaurants and other service-retail tenants took occupancy of space on the ground floor of new residential towers. The revitalization of a handful of busy commercial strips downtown was also a focus of activity over the past year. Over the past 12 to 18 months vacancy patterns were generally stable, due largely to the health of the market’s demand cycle. Average vacancy for this market rested at 4.9% as of the end of the second quarter of 2018, for an inventory of $33.9 million square feet of retail space tracked by CBRE. The rate was up just 50 bps year-over-year and from the same time period two years earlier. This stability was indicative of the market’s resilience, despite a number of headwinds. The most notable challenge came when Sears vacated a combined 644,000 square feet of space in the West Edmonton Mall, Southgate Mall and Kingsway Mall. The 140,000 square foot West Edmonton Mall space has been re-leased. Changes in consumer spending habits and other store closures were other challenges to overcome. Despite these headwinds, the GEA leasing market performance of the past year was a reflection of its resilience.

INVESTMENT ACTIVITY REACHED A PEAK LEVEL

The GEA retail investment market remained very active over the past year, in keeping with the trend of the past few years. Retail assets in this market sold at a record pace during the first half of 2018, with $620.7 million in transaction volume reported. Transaction volume was more than likely to reach a new record annual high for 2018. Previously, successive record annual highs were set in 2016 and 2017, as investment sales surged. Transaction volume totalled $623.5 million and $691.7 million in 2016 and 2017, respectively. The market’s strong capital flow trend of the past few years was a byproduct of positive demand characteristics. In the past year, demand for smaller properties generally valued below $20.0 million was particularly strong. Buyers in this market segment were largely local and regional private groups. Institutional demand for properties with strong performance records was also healthy. Asset in established retail nodes and prime centres were highly sought after and bid on aggressively. Consequently, property values were fairly stable. In summary, the spike in investment sales activity of the past few years was expected to persist, assuming product availability.

PERFORMANCE PATTERNS ARE EXPECTED TO IMPROVE

GEA retail sector performance patterns are projected to strengthen over the near term, given largely positive fundamental outlook. The Edmonton CMA economy is forecast to expand by 2.8% in 2018 and a more modest 2.2% in 2019. Driven by continued oil sector recovery, the positive outlook should support healthy consumption levels. In turn, retailers should be able to achieve solid revenue growth. The broadly positive outlook will continue to support retailer expansion activity, including new entries to the market. Demand for retail space, particularly in new developments and established nodes, will likely strengthen. The strength of the demand cycle will continue to translate into relatively low vacancy rates and stable rents in the regional leasing market. The solid leasing outlook will continue to support income growth for owners and moderately positive returns for investors. Therefore, investors will look to establish a foothold or expand their holdings in this market, which will continue to drive asset sales. Improved leasing conditions will also positively impact property values. On balance, the near-term outlook for this market is positive.
The introduction of new supply in the Edmonton CMA largely offset accelerated demand for purpose-built multi-unit residential rental accommodation over the past year. For a third consecutive year multi-unit residential rental supply increased by close to 4.0%. The CMHC’s most recent figures indicated supply increased by 3.7%, year-over-year as of October 2017. Coincidentally, rental demand accelerated over the past year as a byproduct of a strong job growth trend. Previously, the energy sector downturn and subsequent recession that emerged in 2014 resulted in job losses. Rental demand also improved with the rising rate of family formation within the younger worker age group. Moreover, migration patterns contributed to the demand pressure over the past year to 18 months, according to the CMHC. To a large extent, new supply offset the stronger demand trend. The market’s demand supply dynamic had an impact on vacancy and rents over the same time period. Vacancy began to slowly decline this year, having held at the 25-year high of 7.0% during much of 2017. The rate was forecast to dip to 6.0% by the fall of 2018. The downward vacancy trend began to positively impact the rental rate cycle in the first half of 2018. Market rents have largely stabilized, particularly for newer and/or prime properties. Barring a significant change in the market’s overall demand supply dynamic, rents were expected to continue to gradually stabilize through to the end of the year.

INVESTMENT DEMAND OUTSTRIPPED SUPPLY
Investment demand outstripped the supply of GEA multi-unit residential rental properties available for acquisition over the past year. This imbalance was reflected in the relatively low volume of transactions recorded during the first half of 2018 when a modest $120.5 million in sales volume was reported. Previously, volume was moderately stronger in 2017, given increased availability. During 2017, sales of $296.5 million was tallied. Market activity has been limited by availability over the past years rather than a shortfall in demand. Strong demand patterns have been the norm in this market for some time. Recently built properties have typically garnered the strongest interest and, not surprisingly, the most aggressive bids. In a few cases over the past year older wood-frame properties in the suburbs were put up for sale but failed to transact. Properties located downtown were more highly regarded. The demand inconsistency was related to the fundamentals within each of these market segments. For example, vacancy and demand characteristics were typically healthier for new properties and in downtown submarkets. Despite the short-term weakness in certain market segments, investors tried to increase their exposure to a market with a solid long-term record of performance. As a result, demand continued to outpace supply.

NEAR-TERM GAINS WILL BE MODEST
The near-term performance forecast for the GEA multi-suite residential rental sector is moderately positive. Rental demand patterns will be buoyed by the region’s solid economic and employment growth trends. Migrants will come to the area looking for jobs and rental accommodation. The resulting demand pressure will offset the delivery of newly built vacant units to the market and gradually drive vacancy levels lower. This dynamic will continue to stabilize rents across much of the market. There may be some downward pressure on rents, however, for older suburban properties. The moderately positive rental market performance will support positive overall returns for owners. Institutions and private groups will continue to bid on assets offered for sale with confidence. Assuming product availability, transaction volume should rise. As rental market fundamentals firm, bidding will become increasingly aggressive. In short, sector performance will gradually improve over the near term, while the region continues to emerge from the energy sector drive malaise of the past few years.
HEALTHY JOB MARKET FUNDAMENTALS REPORTED
The GVA’s record of healthy labour market performance was extended in 2018, a period that included rising employment levels and downward pressure on the region’s unemployment rate. Employment was projected to rise 1.6%, according to a recent CBOC forecast for 2018. While still positive, this projection represented a substantially weaker trend than observed in 2016 and 2017. In 2016 and 2017, employment rose by 60,700 and 41,700 positions, respectively. The slowdown was primarily due to the fact that the region was fast approaching full employment. The CMA’s unemployment rate was projected to steadily fall during 2018 before coming to rest at a very low 4.3% at year end. In general, unemployment levels have been markedly lower than the national average for some time.

SERVICES SECTOR GROWTH CYCLE BEGAN TO COOL
The impressive services sector growth cycle of the past few years has slowed significantly, driven in large part by a marked reduction in housing market activity. Services sector output was projected to rise by a relatively modest 2.9% in 2018, down more than a full percentage point from 2017. Between 2013 and 2017, GVA services sector output increased by an annual average of 4.3%. Measures implemented in the housing market by the federal and provincial governments and interest rate increases in 2017 and 2018 have negatively impacted the services sector growth rate. In the finance, insurance, and real estate sector, for example, projected growth of 2.8% for 2018 was down 60 bps from the previous year. A downgraded year-over-year growth pattern was also predicted for retail trade. In short, the emergence of a slower service sector growth was expected to reduce the economic expansion rate for the next few years relative to the recent past.

MODERATION WILL BE THE OVERRIDING ECONOMIC THEME
Moderation of the GVA economic growth trend is predicted for the next few years, following a period of robust expansion. As mentioned earlier, annual growth will dip below the 3.0% mark in 2018, before moderating further in 2019 and 2020. Over the forecast period, labour market and retail sales advances will also moderate. Retail consumption is projected to rise 4.2% in 2018, down from a stellar 8.2% in 2017. The downdraft is a consequence of weaker housing market trends, rising borrowing costs and high levels of household debt. The broader moderation in services output growth will be partially offset by the continued buoyancy of the region’s manufacturing sector. Shipbuilding activity will be a key driver of increased output. Non-residential construction projects are also expected to boost economic activity levels. On balance, however, the economic growth forecast is one of increased moderation, after a four-year run of stronger gains.
CONstrained supply impeded progress

Supply constraints impeded progress in the GVA office leasing market over the past year. Quite often, businesses looking to expand or relocate to more suitable premises found it difficult to source an appropriate number of alternatives. This issue was particularly prevalent for larger users with requirements for state-of-the-art space measuring 10,000 square feet or greater. The strength of the market’s demand cycle did not help matters, as more businesses were forced to compete for the limited volume of available space. Shared workspace and technology-related companies were easily the market’s most prominent demand-drivers over the past year. Above-average regional economic growth was also supportive of positive demand patterns within the professional services and financial services business sectors. Supply constraints were common across the market, which limited growth. Market vacancy stood at 6.1% at the end of the second quarter of 2018, which represented a historic low dating back to 2008. Supply was even more constrained downtown with vacancy holding at 4.7% at the end of the first half of 2018. A similar story played out in the suburbs where a rate of 7.5% was posted. Class A levels conditions were even tighter. While struggling to source suitable space, tenants were also forced to accept rents that were rising and had reached the cycle peak. In short, while supply constraints were a challenge for tenants, they more importantly were a significant impediment to broader market progress.

Mature phase of bullish cycle continued to play out

The mature phase of the bullish GVA office property investment cycle was extended recently. Properties tracked in the MSCI Index posted an attractive annual total return of 9.8% for the year ending June 30, 2018. The positive result was a function of positive capital and income component performance over the period. The strength of the income component was not overly surprising given the health of the market’s leasing fundamentals. Investors looked to acquire properties in a market with a solid recent and long-term performance history and economic outlook. Investors also exhibited confidence in acquiring properties at prevailing yields, which was a factor in the fairly brisk pace at which assets were acquired recently. In the first half of 2018 alone $1.1 billion in sales volume was reported. The first-half volume was in line with the record pace of activity reported for 2016 and 2017. Moreover, the strength of the demand cycle resulted in a modest level of upward pressure on values in this market. The pressure was indication that the mature phase of the bullish investment cycle had carried through the first half of 2018 and would likely continue for at least the near term.

Extension of bull session forecast

The GVA office sector’s run of largely bullish performance will continue over the near term. The sector’s demand-driver forecast indicates a continuation of broadly positive leasing market performance. The economic growth outlook is supportive of a healthy leasing demand trend, which coupled with ongoing supply constraints will continue to push average rents higher. For owners, this will mean healthy income growth rates and strong occupancy levels. Leasing market performance will boost investment performance, which should remain fairly attractive to investors. Investor confidence will remain stable and positive, in light of an equally buoyant fundamental forecast. Therefore, investment demand should continue to outpace availability. As a result, property values will hold close to the peak for the cycle. Additionally, cap rates will remain the lowest in the country for core assets. While supply constraints have hampered progress recently, the gradual introduction of new construction provide some relief. In short, the GVA office sector’s bull cycle will carry over into 2019 and perhaps longer.
SUSTAINED LEASING MARKET STRENGTH OBSERVED
Consistently healthy leasing market fundamentals were observed in the GVA industrial sector over the past year. The market’s demand trend continued to impress. A range of businesses involved in the warehouse and distribution manufacturing and logistics sectors expanded across the market in the past year. This activity was the result of a robust economic growth cycle that has been in place for much of the post 2009 recession period. Demand was relatively strong across the full range of square feet occupied. The buoyant demand trend of the past year drove availability down to record-low levels. Average market availability stood at just 2.4%, as of the midway market of 2018. At this level, options for tenants were in very short supply. Large blocks of contiguous space were scarce, despite a fairly robust development cycle. Landlords for the most part were able to achieve full occupancy, or close to it. Increasingly constrained supply resulted in significant upward pressure on rents, with asking rents averaging more than $10.0 per square foot in early 2018 for the first time ever. In addition, the demand cycle ensured new developments were leased up quickly. A premium was placed on newly constructed and functional space, which was a reflection of the sustained leasing market strength.

INVESTMENT PERFORMANCE WAS DECIDEDLY BULLISH
The GVA industrial sector investment performance of the recent past was markedly bullish. Investment demand outpaced supply by a significant margin. Assets with strong performance profiles were very popular, but unfortunately also in short supply. Investor confidence levels remained high, given the strength of local leasing market and economy. The demand pressure drove cap rates to a record low and values higher. The relatively few properties brought to market were bid on aggressively. In general, the acquisition environment was competitive, as local and national groups exhibited a willingness to invest at prevailing yields. The scarcity of available properties forced some groups to turn to development as an alternative strategy for expanding their portfolio. Investor confidence levels were also buoyed by the market’s recent performance record. MSCI Indexed properties generated an annual average return of 15.8% for the year ending June 30, 2018. The result marked a third consecutive double-digit average return. In addition, the result was in line with the bullish nature of the market’s recent investment performance.

RECENT PERFORMANCE TRENDS WILL BE REPEATED
The healthy performance characteristics of the GVA industrial sector of the past few years will be repeated over the near term. The solid economic outlook forecast for the balance of 2018 and 2019 will continue to translate positively into the regional leasing market outlook. Demand for industrial space will therefore, continue to outpace supply. Most segments of the user market will continue to source expansion space and newer more efficient premises. The resulting backfill space will be absorbed as well. The ongoing strength of the demand cycle will ensure availability levels remain close to record-low reported early in 2018. In addition, the demand pressure will continue to drive rents moderately higher. The market’s development cycle will provide new state-of-the-art space for some users. However, the volume of projects will provide marginal relief from space shortage, particularly for larger tenants looking to expand. Near-term leasing fundamentals will continue to boost investment returns and attract investors in search of yield. Once again, however, supply will run short of demand. Therefore, the bidding environment will remain competitive and aggressive. As a result, property values will gradually rise. Value-add and core opportunities will be equally popular, as will properties with excess density. In short, the GVA industrial sector outlook is generally bullish, in keeping with the recent performance trend.
LEASING TRENDS WERE RELATIVELY STABLE AND STRONG

The GVA retail leasing performance of the past year was generally bullish, despite the existence of a number of potential headwinds. The region’s high profile strips continued to advance, especially those with a significant luxury component. On Alberni Street and Burrard Street, for example, rents for prime locations continued to rise. More broadly, demand for downtown space in general has been fairly strong through much of the past year. The availability of space in the downtown area was relatively low during the past year. In a recent CBRE survey, availability was pegged at 2.8% for the prime downtown shopping strips. A vacancy rate of a healthy 6.4% was reported for the almost 41.0 million square feet of retail surveyed across the GVA, as of the end of the second quarter of 2018. This vacancy level was an indicator of the market’s resilience during a period of heightened risk. One area of risk was the potential fallout as a result of the closure of Sears stores in this market. However, it became clear that the resulting vacancy was in fact an opportunity to access prime in this market that was otherwise unattainable. It also offered some landlords an opportunity to adjust their tenant mixes. Despite these headwinds, the GVA retail leasing market continued to progress over the past year, a performance that included upward pressure on rents for prime space, relatively low vacancy levels and healthy demand patterns.

INVESTMENT MARKET WAS VIBRANT AND VERY ACTIVE

The GVA retail property investment market has been vibrant and very active recently. Transaction closing activity reached an all-time high during the past 18 months. In 2017, record annual high sales volume of over $3.6 billion was reported. Investment activity remained robust during the first half of 2018 when an additional $1.1 billion in sales was tallied. A number of major asset sales took place during this 18-month period, including Sevenoaks Centre, Oakridge Center, and Marine Way Market. The surge in sales activity coincided with a period of largely stable and positive investment market. It almost goes without saying that investment demand fundamentals were strong. A range of capital sources were active market participants and made their presence known when assets were offered for sale. Pension funds, either directly or through their advisors, exhibited high levels of interest when core properties with strong performance records were brought to market. For the most part, the bidding environment was competitive and aggressive for core offerings. This drove values moderately higher for prime assets. This pressure along with healthy income growth levels was reflected in MSCI reported returns. A total return of 9.3% was posted for the year ending June 30, 2018. The attractive result was yet another indicator of the markets vibrancy of the recent past, during a period of robust activity.

MARKET WILL CONTINUE TO IMPRESS

The GVA retail property sector will continue its impressive run over the near term. Economic conditions will support gains in retail consumption to the benefit of the market’s retailers and landlords. Relatively low vacancy levels and sustained retailer demand will help solidify leasing market fundamentals. Rent growth in prime market segments will support attractive levels generated, along with moderate capital growth. Above-average economic growth and healthy market fundamentals will continue to draw capital to the sector from a range of sources. The investment demand pressure could drive cap rates slightly lower for the highest quality of assets, although the broader trend will be flat. Demand for riskier assets will also be fairly positive, as niche buyers look to capitalize on the potential upside of the redevelopment or expansion projects. In short, the GVA retail sector is expected to continue to impress over the near term, given a largely positive performance driver outlook.
CONSTRAINED SUPPLY WAS OVERRIDING RENTAL MARKET THEME
Constrained supply was the overriding theme in the GVA multi-suite residential rental market over the past year, which has been the case for several years. The market’s vacancy average stood at just 0.9% as of October of 2017, with a slight increase to 1.1% forecast for 2018. Previously, market vacancy had averaged 0.8% between 2014 and 2016. Over the past year and in the preceding three-year period rental demand had consistently outdistanced supply by a significant margin. The resulting imbalance was exacerbated by the fact that there were few new developments completed during this time period. At the same time, a strong economy and positive migration patterns contributed to what was a very healthy rental demand cycle. The supply constraints of the past few years have had a number of impacts on market fundamentals. For instance, families looking to enter the market, relocate or move to larger or smaller units were faced with few options. This was the case in all unit-size categories and submarkets. The imbalance benefited the market’s landlords who were able to command higher rents and generally dictate lease terms. Rental inflation rates have exceeded the provincial guideline over the past few years. Looking ahead, supply constraints were expected to continue to dictate market performance for at least the near term.

EXTENSION OF BULLISH CYCLE WAS RECORDED
The bullish GVA multi-suite residential sector investment cycle was extended over the past year. Robust demand patterns observed over the past year were characteristic of the bullish cycle. A number of national and regional groups endeavoured to increase their exposure to the market, while others looked to gain entry. The volume of capital seeking a home exceeded the limited number of properties offered for sale, which was typical of the sector across the country. A consequence of this dynamic was an aggressive and competitive bidding environment. The combination of strong rental market fundamentals and robust demand produced upward pressure on values and attractive investment performance levels. Evidence of this trend was contained in recent MSCI Index returns reported for this market. An attractive total return of 11.0% was posted for the year ending June 30, 2018. The result was made up of solid income and capital component performances. The bullish nature of the current cycle was reflected in the pace at which properties sold over the past year. In 2017, the pace at which properties sold reached a record-high of $1.3 billion. The record pace continued during the first six months of 2018, when a further $732.5 million in sales were registered. Investment activity levels reported for the past 12 to 18 months was indicative of the market’s extended run of bullish performance.

CURRENT CYCLE PHASE WILL PREVAIL OVER NEAR TERM
The current phase of the GVA multi-suite residential rental cycle will prevail through to the end of 2019. Positive rental demand patterns will continue through the end of next year. A healthy economic trend and the resulting job growth will attract migrants searching for work. Migrants typically rent upon arrival, which will help stabilize rental demand. At the same time, many renters will be forced to continue to rent, given the high cost of ownership in the region. The ongoing strength of the market’s demand cycle will ensure vacancy levels range at or near the 1.0% mark. The resulting imbalance will be a boon for landlords and a challenge for tenants looking to relocate and young workers looking to form new households. The lack of options will also allow owners to drive rents higher. Strong rental market fundamentals will continue to provide at least part of the rationale for investing in this sector and market. Therefore, investment demand will remain brisk and bidding aggressive. Vendors will continue to have their pricing objectives met. Once again, product availability will be somewhat limited, which will be in keeping with the bullish phase of the cycle.
LABOUR MARKET SLIPPED INTO NEUTRAL
Victoria’s labour market appeared to have entered neutral territory during 2018, following a three-year period of solid growth. The CBOC forecast a 0.1% contraction in employment levels during 2018, after an annual average increase of 3.2% over the preceding three-year period. The CMA’s unemployment rate was expected to rise to 4.1% by the end of 2018, up just 20 bps year-over-year but still markedly lower than the national average. Despite the uptick, the regional unemployment rate was projected to rest well below the 5.2% ratio of two years ago. Household income per capita was thought to be on a rising path in 2018, which will mark a fifth consecutive year of growth.

SLIGHT DECREASE IN SERVICES SECTOR GROWTH ON TAP
A slight dip in services sector growth was forecast for the Victoria CMA over the near term. The announcement was predicated on a gearing down of spending by the provincial government, as forecast by the CBOC. Over the past few years, the provincial government had loosened its purse strings. As a result, public administration output increased by an annual average of 4.0% between 2014 and 2017. This year, however, smaller fiscal surpluses were announced by the B.C. government, indicating public sector spending would likely decline. Therefore, services sector growth rates were forecast to ease at least for 2018 and perhaps longer.

HOUSING STARTS TO SLOW AFTER REACHING RECORD HIGH
Housings starts were expected to slow in 2018, despite reaching a record-high level in April of the same year. The combination of new government policy measures, rising interest rates and a relatively high volume of construction already underway in combination was expected to have a cooling effect on the regional housing market in the second half of 2018 and through much of 2019. Previously, a record 4,460 homes were being built as of April 2018. The Victoria CMA’s economy was projected to expand by 2.4% in 2018, which presented a slight dip from the 2.6% rate reported for 2017. The slightly slower rate of expansion was expected to negatively impact labour market progression over the same time period. Victoria CMA employment was forecast to decline in 2018, following a two-year period of advancement. Retail consumption was tracking a 4.5% increase for 2018, despite the downdraft in the region’s labour market. This premise for the forecast rise in consumption was predicated on a solid income growth trend reported for the Victoria CMA over the past two years.

ABOVE-AVERAGE GROWTH FORECAST DESPITE MODERATION
The Victoria economic growth trend is forecast to soften over the near term, but remain above the national average. GDP is expected to increase 2.4% in 2018, compared with the national average of approximately 2.0%. The slower economic growth trend will result in a reduction in total employment during 2018. Subsequently, total employment will rise by an annual average of 1.9% in 2019 and 2020. The unemployment rate will stabilize over the forecast period, against a backdrop of above-average economic expansion.
LEASING MARKET OUTPERFORMED
Stronger-than-expected leasing fundamentals were reported in Victoria’s office leasing market during 2018, driven in large part by a buoyant demand trend. The outperformance was driven by expansion activity beyond expectations in the public and private sectors of the Greater Victoria area. As a result, there was more vacant space absorbed in the existing building inventory than anticipated both downtown and outside of the city limits. A significant share of this activity took place in three projects including Uptown, 740 Hillside Avenue and Eagle Creek Village. Additionally, expansion activity reported recently drove vacancy levels lower. Average market vacancy declined 50 bps during the first six months of 2018, according to Colliers International survey results. A rate of 8.2% was reported at the end of the first half of 2018, down from 8.7% six months earlier. The downward vacancy trend was more prominent in the Class A suburban market segment, where vacancy fell to 8.9% from 10.6% over the same time period. Downtown vacancy was essentially unchanged over the same time period. Previously, the delivery of new supply was expected to drive vacancy rates markedly higher. However, the addition of 280,000 square feet of new supply downtown over the recent past had little impact on vacancy rates. Much of the newly built space was absorbed, although some of the backfill space remained vacant. Despite the strength of market’s demand trend, rents were largely unchanged year-over-year. Looking ahead, however, upward pressure on rents is anticipated, given a stable demand trend and the resulting downward vacancy pressure.

INVESTMENT MARKET REMAINED ON CRUISE CONTROL
Investment market conditions observed in the Greater Victoria area office sector over the past year were generally stable and healthy. Investment performance reported in the MSCI Index offered evidence of the health of this market over this time period. Properties tracked in the Index registered an attractive annual average return of 6.1% for the 12-month period ending June 30, 2018. The income growth component of this performance was positive, while the capital trend exhibited signs of maturity. The stabilization of the capital cycle followed a period of appreciation. In the broader market, property values had also stabilized, with modest growth reported for prime assets. Investment demand patterns were also fairly stable and healthy over the past year. The most highly sought-after properties were those possessing long-term government leases. In general, local private capital groups were the most active pursuers of assets in this market. National groups found it difficult to acquire suitable properties of scale in this market, given relatively low availability. The demand supply imbalance observed in this market mirrored the national trend, as did the broad-based health of its investment market over the recent past.

MARKET FUNDAMENTALS EXPECTED TO CONTINUE TO STRENGTHEN
Leasing market fundamentals are expected to continue to improve over the next 12 to 24 months. The region’s solid economic growth outlook will be supportive of generally positive office space demand patterns. The regional economy is projected to expand 2.4% this year and 2.0% in 2019. The resulting private sector growth will drive expansion activity. The provincial government is also expected to increase its footprint in this market, in light of its financial surplus. The resulting demand pressure will drive vacancy levels gradually lower. At some point next year upward pressure on rents will build. The healthy outlook for the Greater Victoria office market will continue to attract investors both locally and nationally. As in the past, demand will outpace the supply of investment-grade product. This imbalance should continue to support a levelling of the property value curve, which will prevail against a backdrop of slightly stronger market fundamentals.
CONSTRAINED SUPPLY WAS MAIN LEASING MARKET THEME

Constrained supply was the dominant leasing market theme of the past 12 to 18 months, a scenario that was prevalent across the country. The Victoria CMA industrial market was severely undersupplied, with availability standing at 1.7% in the summer of 2018. A year earlier, a rate of 2.4% was reported. During 2017 and 2018, leasing market conditions became increasingly imbalanced. Cycle-low availability rates over the past year was reflected in absorption patterns. A modest total of 200,247 square feet of industrial space was absorbed during the 12-month period, between the summer of 2017 and the summer of 2018. Tenants and owner/users found it difficult to source alternatives when looking to relocate, expand, and/or renew their leases. In many cases, organizations, both public and private, were forced to ‘make do’ with their existing space given the shortfall in suitable space available for lease or purchase. In addition, the market’s construction cycle was somewhat tepid and therefore offered little relief of the space shortages in this market over the past couple of years. The only significant development completed recently was the Islands West Produce warehouse in Royal Oak, which was pre-leased prior to completion. Not only were industrial users forced to ‘make do’ with their existing space or delay their expansion plans altogether, they were often faced with increased occupancy costs. The market’s demand supply imbalance worked to the advantage of its landlords who were able to command higher rents on available space. While supply remained constrained over the past 12 to 18 months, landlords were generally in the driver’s seat with regard to lease negotiations.

INVESTMENT CONDITIONS WERE LARGELY UNCHANGED

Conditions in the Greater Victoria industrial investment market were generally unchanged over the past year. Local investment groups continued to be the most active of buyer groups. National buyers were also present, however, there have been few opportunities of scale brought to market over the recent past. Despite the fact that supply generally fell short of demand over the past 18 months, transaction closing activity has been fairly robust. In the first six months of 2018, the $37.8 million in transaction volume was reported, which was in line with record annual pace of 2016. In 2017, annual sales volume of $61.1 million represented a slightly slower pace of activity, but was still the second highest total on record dating back 15 years. For the most part, transaction closing volume has been limited by product availability. Demand has generally outdistanced supply. The supply shortfall was dictated by the relative size of the market to some extent. The health of the market’s demand cycle, coupled with stellar leasing market fundamentals ensured property values held close to the cycle peak. The bidding environment was generally quite aggressive, which was largely unchanged year-over-year and in keeping with the broader market theme.

SUPPLY CHARACTERISTICS WILL REMAIN TIGHT

Leasing market conditions will remain tight over the near term, to the advantage of the market’s landlords. Availability levels are expected to continue to rest at or near the cycle-low through the latter stages of 2018 and into 2019. As a result, tenants and owner/users will often be forced to postpone their expansion plans, given few available options. Additionally, record-low availability will result in upward pressure on rents, to the advantage of the market’s landlords. The combination of very low availability and rising rents will continue to draw investors to the market in search of yield. However, the availability of properties for acquisition will fall short of demand. This is in part due to the size of the market, but also the desire of many owners to hold on to properties that have strong performance records. The ongoing leasing market tightness forecast for this market will ensure this scenario prevails for most property owners over the near term.
POSITIVE LEASING PERFORMANCE PATTERNS WERE EVIDENCED

The Greater Victoria area retail sector registered a period of largely positive leasing market characteristics over the recent past. The strongest leasing market performance patterns were observed in the region’s downtown street front market segment. Aggregate vacancy fell below the 4.0% mark by the end of 2017, according to Colliers International. The 3.8% market average vacancy rate was down a healthy 170 bps year-over-year and marked a low point dating back to 2009. Declining vacancy was a byproduct of strong demand. A fairly wide range of retail categories expanded in this market over the past 12 to 18 months. Downtown, cannabis stores, various food and beverage formats and several high-profile labels opened up shop. Notably, John Fluevog Shoes and Giant Bicycles opened their doors recently. The absorption of vacant space in the downtown area resulted in modest upward pressure on average rents during the second half of 2017 and much of 2018. While not quite as robust, leasing performance patterns in the Greater Victoria shopping centre market segment have also been fairly positive over the recent past. Vacancy rates were generally low and stable, with the segment average resting at 4.4%, as of the end of 2017. The rate was virtually the same as reported a year earlier. Demand for prime space in Greater Victoria’s shopping centres outstripped supply, resulting in mild upward pressure on average rents. Retailers in this market segment looked to capitalize on the boom in residential development across the region that took place over the past few years. As a result, the shopping centre market segment has more than held its own, even though new retail development activity picked up. The uptick in development activity market wide was yet another indication of the health of the region’s leasing performance of the recent past.

INVESTMENT MARKET STABILITY REPORTED

Stabilization characterized the Greater Victoria area retail property investment market over the near term. Investment performance exhibited signs of stabilization over the past year, as evidenced in MSCI returns. The sector registered an annual average total return of 4.8% for the year ending June 30, 2018. This performance was essentially income-driven as the capital trend flattened. Prior to this 12-month period, the capital component was eroded in four out of six quarterly intervals. Investment demand characteristics were also largely stable over the past year. In keeping with the long-term trend, local groups were the most active of investor categories during the past year. Local and regional groups actively pursued smaller assets, given a more intimate knowledge of local market trends. Local groups were more often able to source properties with upside potential, while national groups focused on larger and often higher profile assets. The stability of the investment demand backdrop has been a market fixture for several years. During this time, supply consistently fell short of demand, which was another element of the market’s stability of the past year.

NEAR-TERM OUTLOOK IS ONE OF MINIMAL CHANGE

There are few changes in Greater Victoria retail property sector performance patterns forecast for the near term. Leasing market conditions will gradually strengthen. However, the loss of Sears at Hillside Centre will offset gains to some extent, as will the addition of new supply. Newly developed space at Mayfair Mall, Sidney Crossing, Onni’s Colwood Corners and Belmont Market will result in modest upward pressure on vacancy. This will be offset to some extent by downward pressure on vacancy in prime locations downtown. The increased scarcity of prime space downtown will result in upward pressure on rents. At the same time, conditions in the investment market will largely mirror those of the past year, as will be the case for the broader sector over the near term.

The Greater Victoria retail sector registered a period of largely positive leasing market characteristics over the recent past. The strongest leasing market performance patterns were observed in the region’s downtown street front market segment. Aggregate vacancy fell below the 4.0% mark by the end of 2017, according to Colliers International. The 3.8% market average vacancy rate was down a healthy 170 bps year-over-year and marked a low point dating back to 2009. Declining vacancy was a byproduct of strong demand. A fairly wide range of retail categories expanded in this market over the past 12 to 18 months. Downtown, cannabis stores, various food and beverage formats and several high-profile labels opened up shop. Notably, John Fluevog Shoes and Giant Bicycles opened their doors recently. The absorption of vacant space in the downtown area resulted in modest upward pressure on average rents during the second half of 2017 and much of 2018. While not quite as robust, leasing performance patterns in the Greater Victoria shopping centre market segment have also been fairly positive over the recent past. Vacancy rates were generally low and stable, with the segment average resting at 4.4%, as of the end of 2017. The rate was virtually the same as reported a year earlier. Demand for prime space in Greater Victoria’s shopping centres outstripped supply, resulting in mild upward pressure on average rents. Retailers in this market segment looked to capitalize on the boom in residential development across the region that took place over the past few years. As a result, the shopping centre market segment has more than held its own, even though new retail development activity picked up. The uptick in development activity market wide was yet another indication of the health of the region’s leasing performance of the recent past.

INVESTMENT MARKET STABILITY REPORTED

Stabilization characterized the Greater Victoria area retail property investment market over the near term. Investment performance exhibited signs of stabilization over the past year, as evidenced in MSCI returns. The sector registered an annual average total return of 4.8% for the year ending June 30, 2018. This performance was essentially income-driven as the capital trend flattened. Prior to this 12-month period, the capital component was eroded in four out of six quarterly intervals. Investment demand characteristics were also largely stable over the past year. In keeping with the long-term trend, local groups were the most active of investor categories during the past year. Local and regional groups actively pursued smaller assets, given a more intimate knowledge of local market trends. Local groups were more often able to source properties with upside potential, while national groups focused on larger and often higher profile assets. The stability of the investment demand backdrop has been a market fixture for several years. During this time, supply consistently fell short of demand, which was another element of the market’s stability of the past year.

NEAR-TERM OUTLOOK IS ONE OF MINIMAL CHANGE

There are few changes in Greater Victoria retail property sector performance patterns forecast for the near term. Leasing market conditions will gradually strengthen. However, the loss of Sears at Hillside Centre will offset gains to some extent, as will the addition of new supply. Newly developed space at Mayfair Mall, Sidney Crossing, Onni’s Colwood Corners and Belmont Market will result in modest upward pressure on vacancy. This will be offset to some extent by downward pressure on vacancy in prime locations downtown. The increased scarcity of prime space downtown will result in upward pressure on rents. At the same time, conditions in the investment market will largely mirror those of the past year, as will be the case for the broader sector over the near term.
SUPPLY SHORTAGES IMPACTED PERFORMANCE PATTERNS
Extremely limited availability had an impact on Greater Victoria multi-suite residential rental market performance recently, which was also the case over the past few years. Market vacancy was forecast to hold at the 1.0% mark as of the fall of 2018, having ranged between 0.5% and 0.7% over the previous three-year period. Demand supply imbalance has been a dominant market characteristic across the region for several years. Rental demand has been fairly brisk during this period, with both existing and new arrivals to the region competing for a limited number of available units. A healthy local economy and job market was an attraction for many new arrivals to the area looking for work. At the same time, a fairly conservative construction cycle provided little relief from the shortage of options for prospective tenants over the past few years. Supply constraints have been somewhat of a windfall for landlords with holdings in this market. Generally, they have been able to command higher rents over the past few years, as evidenced in the CMHC’s same-sample rental survey data. Average monthly rents have increased steadily for all unit sizes between April 2015 and October 2017. Rents were expected to rise again in the October 2018 CMHC survey. Looking ahead, imbalance was expected to continue to be the dominant rental market theme for the Greater Victoria multi-suite residential sector over the near term.

MINIMAL VARIATION IN INVESTMENT CONDITIONS OBSERVED
There were few changes in investment market conditions observed in the Greater Victoria multi-suite residential rental property sector over the recent past. Sales activity remained fairly muted, in part due to the size of the market and the relatively smaller number of assets offered for sale. In the first half of 2018, a modest total of $32.1 million in transaction volume was reported. This pace was markedly lower than the previous 12-month period when $178.8 million in sales was reported. Moreover, the first half total was well below the most recent peak in 2015, when $222.1 million in sales volume was tallied. Despite the slow first half of 2018, investment demand remained generally quite brisk. National and local groups continued to actively pursue assets in a market that has historically provided strong performance characteristics. When properties were offered for sale over the past year, bidding was generally aggressive. Against this backdrop, pricing has largely stabilized, following a period of steady upward pressure. For the most part values have continued to range close to the peak. The broader performance climate has also been largely positive. Owners have been able to boost rents over the past year and thus, improve their bottom lines. Like most other market characteristics of the past year, this was consistent with the trend of the past few years.

MARKET CONDITIONS WILL MIRROR THOSE OF THE RECENT PAST
There are few changes in market conditions anticipated for the Greater Victoria multi-suite residential rental sector over the next 12 to 18 months. Rental market demand will continue to outstrip the supply of available units. The resulting imbalance will mean that many prospective tenants will be unable to easily source units in which to relocate or gain entry to the market. Generally, a relatively buoyant local economy and job market will continue to support healthy rental demand. Owners of assets in this region will have little trouble finding tenants for the few empty units in their respective portfolios. At the same time, they will continue to be able to achieve income growth and stability, which has been the case for the past few years. Investors will also be forced to contend with constrained supply. Off-market opportunities will be at a premium, as many owners choose to hold on to assets that have historically strong performance record. Prime assets brought to market will be bid on aggressively, ensuring values hold at current levels. In a few exceptional cases, cap rates will compress. However, on balance market conditions will mirror those of the recent past over the near term.
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:

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 $16.3 billion.

To contact us, visit MORGUARD.COM.