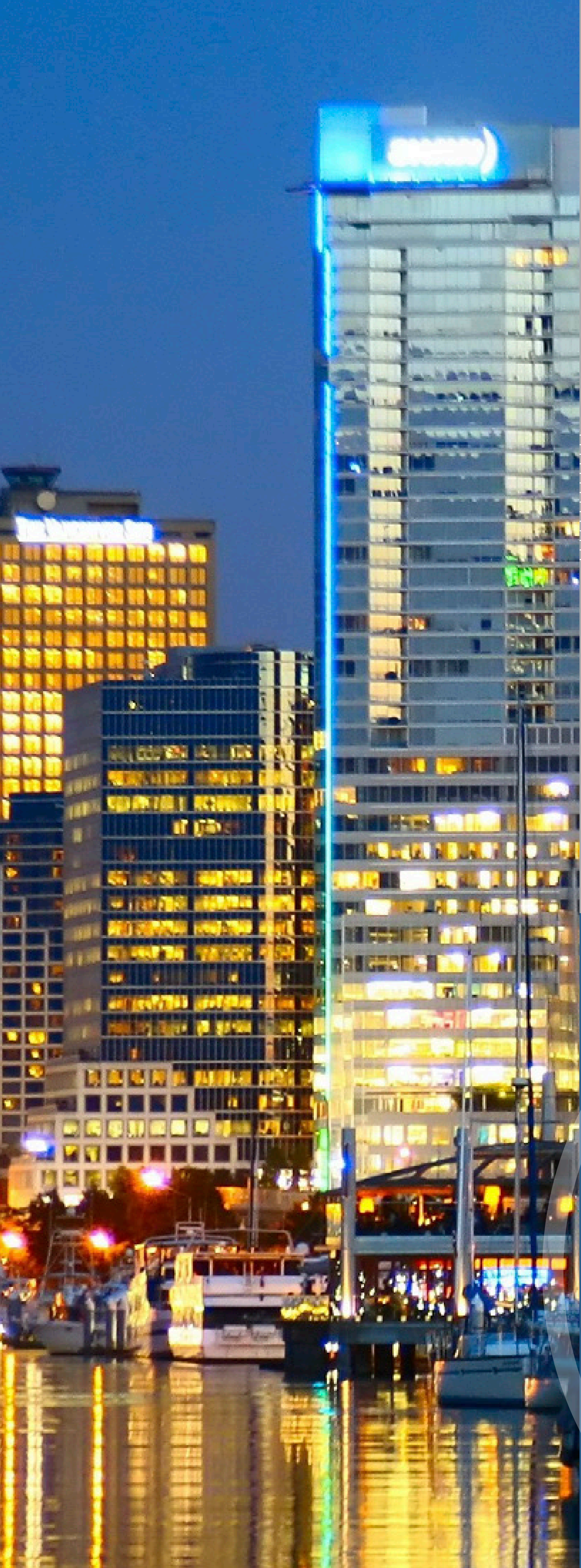

CANADIAN ECONOMIC OUTLOOK & MARKET FUNDAMENTALS

FIRST QUARTER UPDATE 2018

20TH ANNUAL EDITION

Morguard

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FORWARD-LOOKING STATEMENTS DISCLAIMER

FIRST QUARTER UPDATE 2018

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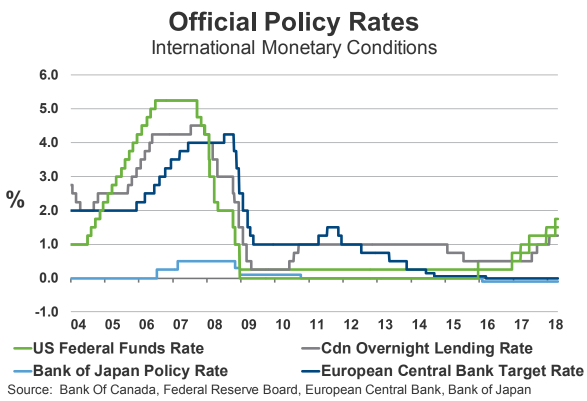
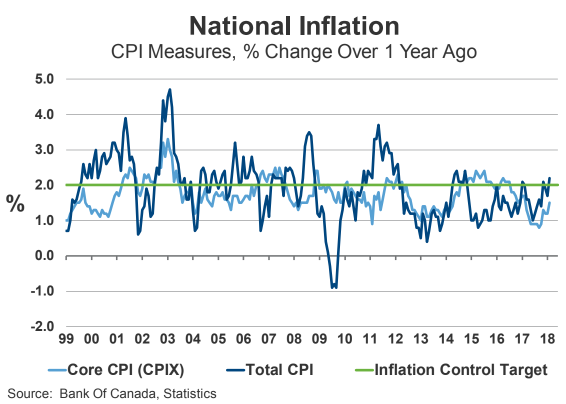
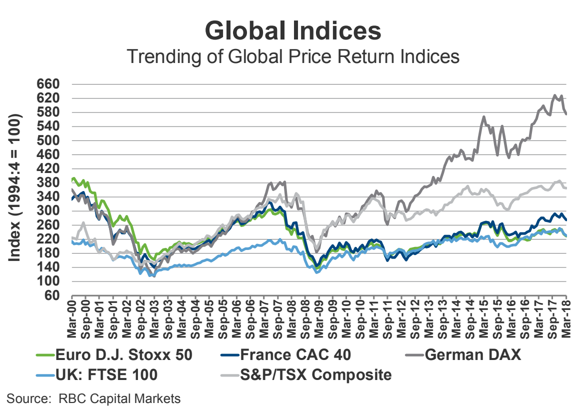
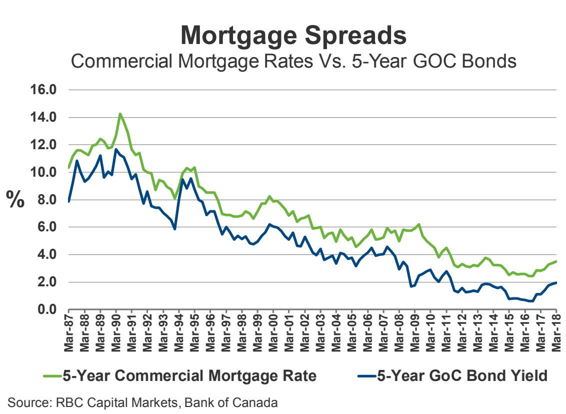








BANK OF CANADA TO ADOPT CAUTIOUS APPROACH TO FURTHER RATE HIKES

The Bank of Canada (BofC) is expected to exercise caution with regard to further interest rate hikes over the balance of 2018 given various risks. Projections called for either two or three more increases in the Bank's benchmark rate by the close of the year. Previously, the BofC had increased its policy rate three times since July of 2017. A strong national job market and healthy economic expansion levels across much of the country provided the impetus for the upward rate trajectory. The rationale for the relatively cautious approach of late, and in the coming months, was related to uncertainty with regard to North American Free Trade Agreement (NAFTA) negotiations, a slowdown in economic activity in the fourth and first quarters of 2017 and 2018, respectively, housing market risk and rising consumer debt levels. Canadian consumer debt reached an all-time high as the first quarter of 2018 got underway. Levels were boosted by increased housing-market related debt. The ability of Canadian households to absorb interest rate hikes over the balance of 2018 presented a significant risk in the eyes of the BofC. As a result, the bank of Canada is expected to exercise caution with regard to the tightening of monetary policy over the near term.

INFLATION PRESSURE INCREASED

Inflation pressure increased during the first quarter as Canada's Consumer Price Index (CPI) surpassed the BofC's target level. As of February, the CPI Index increased by 2.2% year-over-year, up from 1.7% a month earlier. The seasonally-adjusted increase in prices was the highest dating back to October of 2014, while Core inflation hit a six-year high. By region, British Columbia's (CPI) increased more sharply than the national average at 2.8% year-over-year. Alberta matched the national average, while Ontario was just below at 2.1%, as of February. Quebec's annual rate of inflation was the lowest at just 1.5%. According to a recent TD Economics brief, the February uptick in the national consumer-price growth was spread across most core spending categories. Energy prices were up 5.3% year-over-year from 2.4% in January. All three of the BofC's inflation measures increased, which will likely have an impact on the bank's policy decisions through the balance of 2018. Additionally, uncertainties related to NAFTA negotiations and Canada's housing market could also delay further policy tightening.

EQUITY MARKET VOLATILITY CARRIED THROUGH THE FIRST QUARTER

Global equity markets continued to languish during the first quarter, a performance that included relatively few bright spots. None of the world's major markets were in the black year-to-date as of the end of March. Canada's S&P/TSX Index was down more than 5.0% during the period with similar performances registered in Germany and Japan. Over the first three months of 2018, the S&P 500 was also firmly in the red for the first time since 2015. By contrast, the North American technology sector performed relatively well. The Nasdaq, however, was barely on the plus side of the ledger during the first quarter. While Tech remained 20.0% to the good year-over-year in both the TSX and the S&P 500 according to a recent BMO Capital Markets briefing. Of the 20 major equity market sectors combined in Canada and the U.S., all but three were in negative territory year-to-date. Canada's energy sector has floundered falling more than 10.0%. Overall, Canada's S&P/TSX Index stumbled during first quarter, die in large part to NAFTA uncertainty and ongoing consumer debt concerns. Looking ahead to the rest of 2018, the mature phase of the cycle indicated earnings would need to improve for equity markets to rise. Valuations aren't likely to strengthen. In short, global markets are expected to remain volatile and relatively weak at least for the near term.

SOLID START TO THE YEAR REPORTED

Largely positive investment market conditions were reported in Canada's commercial real estate sector during the first quarter. Transaction closing activity remained fairly robust with several larger-scale properties changing ownership. The office sector was a key driver of activity during the first quarter as has been the trend over the past few years. Despite rising interest rates, core property values continued to rest at the peak for the cycle. Investors exhibited a willingness to pay top pricing for properties with stable and long-term tenancies. Despite heightened risk in the retail sector, evidence of declining value has not yet materialized. To date, rising interest rates have had little impact on value. Across the market, investors looked to secure assets with upside in the form of added density or perceived rent growth. Both public and private sources of capital were active market participants in their quest for yield. Moreover, core offerings continued to receive strong interest from a range of capital sources. The sector's risk profile was largely stable during the first quarter. The eventual outcome of NAFTA negotiations, record Canadian consumer debt and housing market risks were front and centre as headwinds. Despite these risks, the Canadian commercial real estate sector posted generally positive investment market performance to begin 2018.

APARTMENT SECTOR CONTINUED TO ROLL

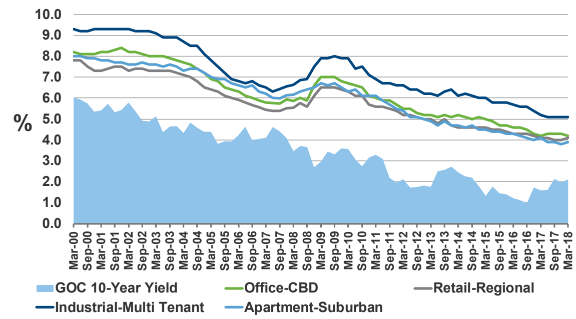
The Canadian multi-suite residential rental sector continued its run of healthy investment market performance during the first quarter with few signs of a slowdown observed. Demand outpaced the supply of the highest quality assets in major markets. Public and private capital demand sources were active in their pursuit of properties in primary markets and increasingly in secondary markets. Real Estate Investment Trusts and private capital were the most active of investment groups during the first quarter. At the same time, vendors were able to achieve peak-pricing on dispositions as a result of the demand pressure. The shortfall in high quality supply forced investors to look to smaller markets and properties with upside potential typically through investing in capital improvements and the potential to increased rents. This potential upside on rents and strong rental market outlook continued to drive performance. Properties tracked in the MSCI Index generated an average total return of 8.1% for the 2017 calendar year. Healthy performance was expected to continue this year. Moving forward, the sector is expected to deliver healthy performance trends for owners of properties in major markets given the prospect of rental rate inflation. In short, the multi-suite sector's run of solid performance was forecast continue for the foreseeable future.

SECTOR CAPITAL FLOW SHOULD REMAIN THE 2017 RECORD-HIGH

The flow of investment capital into Canada's commercial real estate sector is expected to continue at the record level of 2017 this year. Although first-quarter total transaction volume was still being tabulated at press time, early indications were that results were in line with those of the previous year. In the first quarter, a number of significant office building sales were completed including: a 50.0% interest in Bay Adelaide Centre, 100.0% interests in each of 55 University Avenue and Dundas Edward Centre in Downtown Toronto and the sale of 55 Robson Street in Downtown Vancouver. In the retail sector, significant first quarter transactions included Woodside Square in Toronto and a 50.0% interest in Richmond Centre in Vancouver. In addition, a number of notable sales were already scheduled for completion in the second quarter, indicating the cycle of healthy flow of investment capital into the sector will continue at least for the near term. Whether capital flow will continue at the 2017 record pace will be dependent on the supply of product brought to the market. In short, ongoing sector liquidity levels will be dictated by supply rather than any demand shortfall.

Yield Spreads

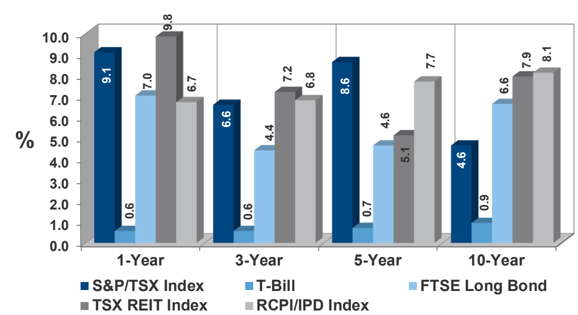
Cap Rates vs. 10-Year GOC Bonds



Source: AltusInSite, Bank of Canada

Relative Performance

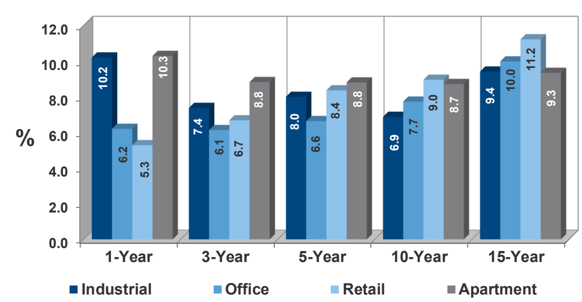
Comparing Annualized Returns To Dec 2017



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

RCPI/IPD Returns

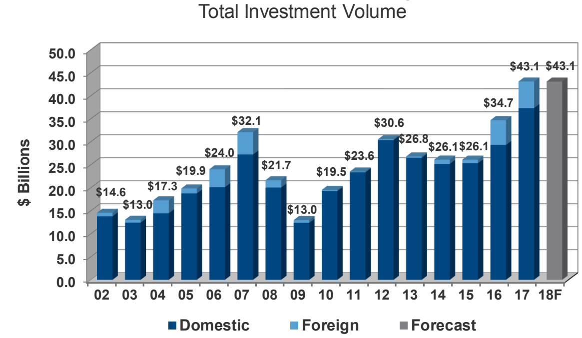
Annualized Returns By Property Type To Dec 2017



Source: RCPI; © MSCI Real Estate

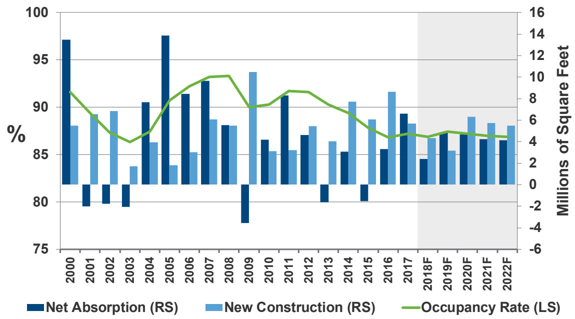
Investment Activity

Total Investment Volume



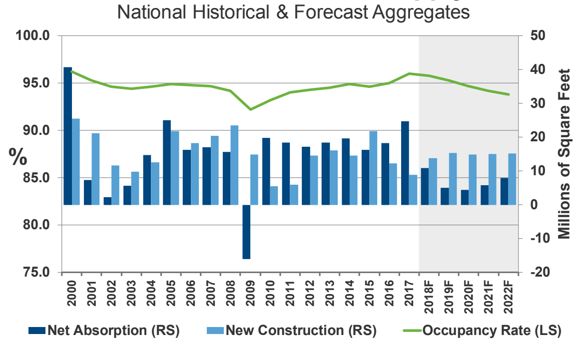
Source: CBRE Limited; Morguard

Office Demand & Supply
National Historical & Forecast Aggregates



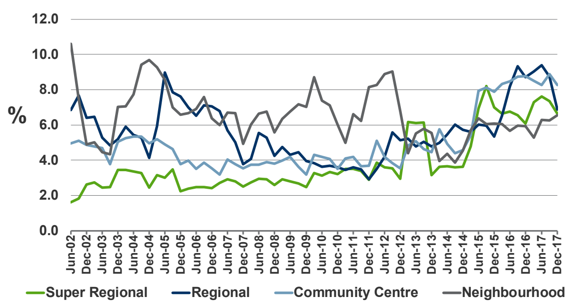
Source: CBRE Limited; CBRE Econometric Advisors

Industrial Demand & Supply
National Historical & Forecast Aggregates



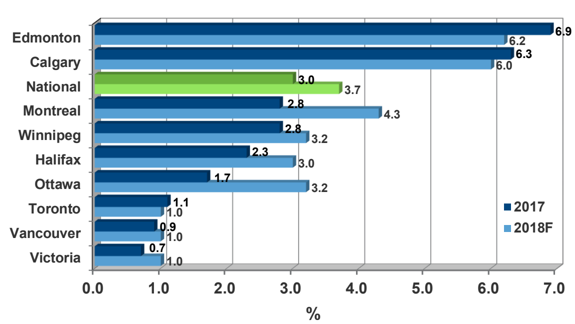
Source: CBRE Limited; CBRE Econometric Advisors

Retail Vacancy Rates
National Trending Across Property Types



Source: © MSCI Real Estate

CMA's Rental Vacancy
Rates for Structures of 3 units+



Source: CMHC, Housing Market Outlook Report

OFFICE LEASING CONDITIONS TIGHTENED

The overall strength of Canada's office leasing market was reflected in increasingly tight conditions during the first quarter. According to CBRE data, the national vacancy rate stood at 12.5% as of the end of March, down 50 bps from the end of 2017 and 60 bps year-over-year. The rate also matched the two-year low having edged slightly higher during the latter half of 2016 and first half of 2017. Strong market vacancy characteristics were the byproduct of consistently positive office space demand patterns over the past couple of years, a trend that carried over into the opening quarter of 2018. Demand outdistanced supply during the three-month period. The nation's downtown submarkets led the charge in tallying slightly more than 1.2 million square feet of net absorption for the quarter with the suburbs seeing a slightly more modest 949,056 square foot gain. Geographically, Vancouver and Toronto were market leaders in terms of demand, in keeping with the trend of the past few years. Technology companies and professional services groups continued to be a source of demand for office space across the country's major markets. The modest volume of newly built space added to inventory across the nation also supported tighter conditions overall. A modest 716,650 square feet of new development was completed during the first quarter, 495,150 square feet of which was located in Vancouver's downtown and suburban areas. Canada's office market is expected to continue to register tight conditions through the balance of the year, which should result in additional upward pressure on rents in most locales.

INDUSTRIAL SPACE WAS IN SHORT SUPPLY

Imbalance characterized the Canadian industrial leasing market during the first quarter, as tenants struggled to source available options in which to relocate or expand in most regions. The struggles were related to the fact that national availability rested at a seventeen-year low of just 4.0% as of the end of the quarter. In two of the nation's three largest regions, the imbalance was even more pronounced. In the Greater Toronto Area (GTA), availability of just 2.1% presented a significant challenge for tenants looking to expand. In Vancouver, availability shortages were also a major issue, given an availability rate of 2.3%. In Montreal, availability was higher than the national average at 5.6%. However, there was still a distinct shortfall in functional availability. In addition to the shortage of available options in most regions, tenants were also forced to contend with rising rents. Landlords who possessed newly built space for lease were able to command cycle-high rents. Upward pressure on asking rents for older space was also a common occurrence. In several markets activity levels were stunted by the lack of available space. The development of speculative space across the country has also limited national industrial expansion. Barring a sharp rise in speculative construction activity, industrial space will remain in short supply, which will continue to produce upward pressure on rents.

RETAIL HEADWINDS DRIVE MARKET VACANCY HIGHER

Continued headwinds in the Canadian retail sector have resulted in weakened vacancy characteristics. National retail vacancy of 6.2% was posted as of the end of 2017, up from 4.4% at mid-year and 4.7% a year earlier. The rate was expected to slowly rise through to the end of 2018. The main culprit for the upward vacancy trend was the nation's Regional centres. More specifically, the closure of Sears Canada stores pushed national vacancy higher. As of the end of 2017, Regional Centre vacancy had spiked from 4.4% as of the midway mark of 2017 to 11.4% at yearend. By the end of 2018, the rate was expected to eclipse the 12.0% mark. During the same period, the Power Centre rate was up just 30 bps, with a similar rate forecast for the next 12 months. Ongoing retail headwinds were expected to continue to support rising market vacancy levels over the near term.

ECONOMIC GROWTH TREND TO STRENGTHEN AFTER MODEST START TO THE YEAR

A firmer economic growth cycle is anticipated for much of the balance of 2018 following a relatively modest start to the year. In January, the Canadian economy contracted slightly, with Gross Domestic Product (GDP) down 0.1%. A marked pull back in goods production was a key component of the reduction in economic output in early 2018. On the services side of the economic ledger, a marked decline in real estate sector output of 0.5% was also a factor in the slow start to the year. To a large extent the slow start to the year was not entirely unexpected. For one, there was little economic slack left heading into 2018 after a strong 2017 performance. Moreover, policies related to the housing sector were also expected to limit real estate sector contributions to growth. Moving forward, expanded output was forecast for the balance of 2018 resulting in modest job growth and steady inflationary pressure. Most national growth forecasts ranged between 1.5% and 2.5% for 2018. The reason for the disparity was related to the variation in expectations forecasters had with regard to various risks to the outlook. Washington's movement toward more economic protectionist policies was seen as a major risk for Canada's economic growth outlook. More specifically, the outcome of NAFTA negotiations could present a significant threat to growth over the near term. Canada's export sector and consumer would be affected most directly given the potential for higher prices on imported goods. Despite these risks, however, Canadian economic growth was expected to improve over the balance of 2018.

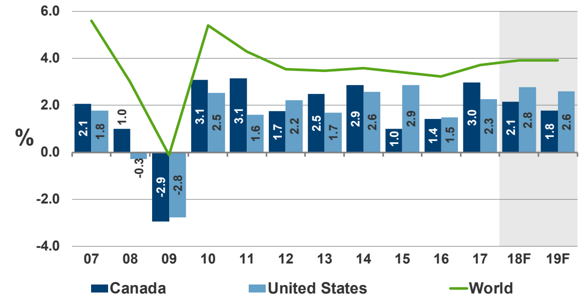
JOB MARKET PROGRESSION SLOWED

Canadian job market progress slowed markedly during the first quarter, a performance that was a reflection of the national economic backdrop. Total national employment fell during the quarter, driven in large part by an 88,000 loss recorded in January. The decline was the sharpest monthly decline recorded in nine years. Subsequently, the national employment trend returned to positive territory with marginal increases reported for February and March, at 15,000 and 32,000 jobs, respectively. First quarter labour market growth essentially kept pace with changes in employment resulting in a minor 10 bps decline in the national unemployment rate. At the end of March, the national unemployment rate rested at a 40-year low of 5.8%. The overall strength of the national job market was reflected in wage growth which continued to hover close to the 3.0% mark during the third quarter. On balance, however, the overriding third-quarter national labour market theme was one of more modest progression driven by a slowing of the economic growth rate.

MORE BALANCED RESALE HOUSING MARKET CONTINUED TO UNFOLD

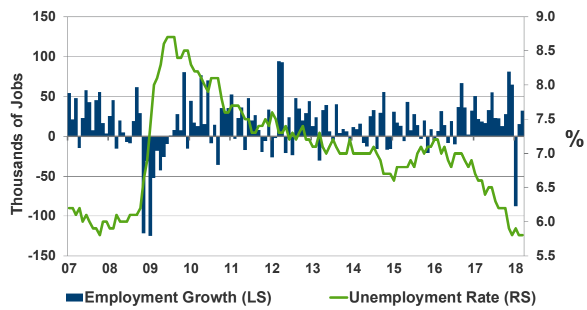
The transition toward a more balanced Canadian resale housing market continued to unfold in the first quarter. According to a recent RBC brief, Canadian resale home sales fell by 6.5% in February and 13.8% in January, month-over-month on a seasonally adjusted basis. The first-quarter slowdown took place across much of the country's major markets. At the same time, some owners held off on selling, choosing to wait and see what direction the market would take with regard to values. Despite an 8.1% increase in listings posted in February, volume remained close to the lowest level of the past several years. Coincidentally, resale price growth eased. The average price of a Canadian home increased by 6.9% year-over-year, as of February, down from 7.7% in January. Toronto accounted for much of the reduction. More balanced conditions reported during the first quarter can be partially traced back the implementation of tighter mortgage rules in January, which led to a flurry of sales in late 2017. As a result, a measure of balance was injected into the market during the first quarter.

Economic Growth
Real GDP Growth - Historical & Forecast



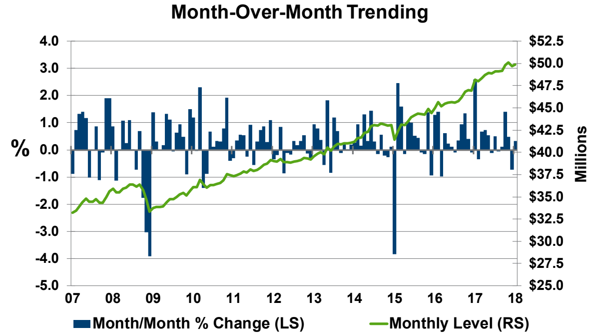
Source: Conference Board Of Canada (March 2018); International Monetary Fund (Jan 2018)

Labour Market
Month-Over-Month Trending



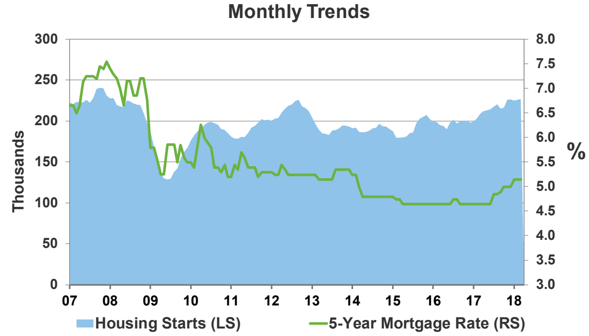
Source: Statistics Canada

Retail Sales
Month-Over-Month Trending



Source: Statistics Canada

Housing Market
Monthly Trends



Source: Statistics Canada, CMHC

OFFICE

Property	Date	Price	SF	PSF	Purchaser	City
Bay Adelaide Centre (50%)	Mar-18	$850.0 M	2,216,360	$767	Dadco Investments	Toronto
55 University Avenue	Mar-18	$195.1 M	263,035	$742	Investors Group	Toronto
Dundas Edward Ctr	Mar-18	$167.0 M	416,603	$401	Crown/Crestpoint	Toronto
Morguard Kanata North	Feb-18	$74.2 M	343,985	$216	Fiera Properties	Ottawa
555 Robson St*	Feb-18	$107.5 M	135,000	$796	GWL Realty Advisors	Vancouver
5985 Explorer Dr	Feb-18	$50.6 M	135,744	$373	Morguard	Toronto
3070 & 3115 Harvester Rd	Jan-18	$22.8 M	78,800	$289	True North REIT	Toronto

INDUSTRIAL

Property	Date	Price	SF	PSF	Purchaser	City
American Business Park	Mar-18	$90.6 M	552,675	$164	KingSett Capital	Toronto
2200 Rue de l'Aviation	Feb-18	$32.5 M	292,385	$111	Pure Industrial REIT	Montreal
Morguard Alberta Portfolio	Jan-18	$61.4 M	461,817	$133	Fiera Properties	Calg./Edm.
Granite REIT Newmarket	Jan-18	$63.0 M	567,390	$111	Sun Commercial	Toronto
1100, 1101 Polytek	Jan-18	$42.5 M	242,766	$175	Morguard	Ottawa
19750 92A Ave	Jan-18	$32.8 M	208,888	$157	Manulife Financial	Vancouver
1001 Thornton Rd S	Jan-18	$23.4 M	369,500	$63	Lotus Capital	Toronto

RETAIL

Property	Date	Price	SF	PSF	Purchaser	City
Woodside Square	Mar-18	$97.3 M	293,934	$331	Private	Toronto
Dixie Outlet Mall	Mar-18	$180.9 M	418,638	$432	Slate AM	Toronto
Richmond Centre (50%)	Feb-18	$69.8 M	790,000	$177	AIMCo	Vancouver
731-739 10th Avenue SW	Feb-18	$11.9 M	20,834	$573	First Capital Realty	Calgary
1181 Davie Street	Feb-18	$18.0 M	12,624	$1,426	Golco Properties Inc.	Vancouver
Four Corners Square	Jan-18	$15.8 M	74,000	$213	Sasor Properties Ltd	Sudbury
Thickson Ctr	Jan-18	$31.1 M	115,580	$269	RioCan REIT	Toronto

MULTI-SUITE RESIDENTIAL

Property	Date	Price	# Units	/Unit	Purchaser	City
612 Dawes Road	Mar-18	$13.2 M	60	$220,000	Akelius Canada	Toronto
1 & 3 Slessor Blvd	Mar-18	$21.1 M	172	$122,529	InterRent REIT	Grimsby
45 Forty Second St	Feb-18	$11.0 M	53	$207,547	Starlight Investments	Toronto
Hillcrest Manor	Jan-18	$10.0 M	44	$227,273	Timbercreek	Calgary
35 Valley Woods Rd	Jan-18	$51.9 M	135	$384,444	Realstar Group	Toronto
55 & 56 Eccleston Dr	Jan-18	$21.1 M	120	$176,000	Akelius Canada	Toronto
1285 Lakeshore Rd E	Jan-18	$27.8 M	107	$259,346	Homestead	Toronto

* share sale

ACKNOWLEDGEMENTS & CITED RESEARCH RESOURCES

In the course of compiling the statistical information and commenting on real estate markets, national, regionally and across Canadian metropolitan areas, we acknowledge the assistance and feedback from the following parties in completing this report:

The Altus Group, Avison Young, Bank of Canada, Bank of Japan, BMO Economics, BMO Nesbitt Burns, British Bankers' Association, Brunsdon Martin & Associates, CBRE Econometric Advisors, CBRE Limited, CIBC World Markets, Canada Newswire, Canadian Mortgage and Housing Corporation (CMHC), Canadian Mortgage Loans Services Limited, The Canadian Real Estate Association (CREA), Colliers International, Commercial Edge, Conference Board of Canada, Cushman & Wakefield, Developers and Chains e-news, Economy.com, European Central Bank, The Federal Reserve Board, Frank Russell Canada (RCPI), The Globe and Mail, ICR Commercial Real Estate, International Council of Shopping Centres (ICSC), Insite-Altus Research, International Monetary Fund, jlr Land Title Solutions, The Johnson Report (Winnipeg), Jones Lang LaSalle, Monday Report on Retailers, MSCI, Ottawa Business Journal, PC Bond Analytics, PricewaterhouseCoopers, RBC Capital Markets, RBC Economics, Real Capital Analytics, RealNet Canada Inc., RealTrack Inc., Rogers Media, Statistics Canada, Scotia Capital, TD Economics, Toronto Star, Torto Wheaton Research, Urban Land Institute, United States Department of the Treasury, York Communications

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