CANADIAN ECONOMIC OUTLOOK & MARKET FUNDAMENTALS

SECOND QUARTER UPDATE 2018

20TH ANNUAL EDITION

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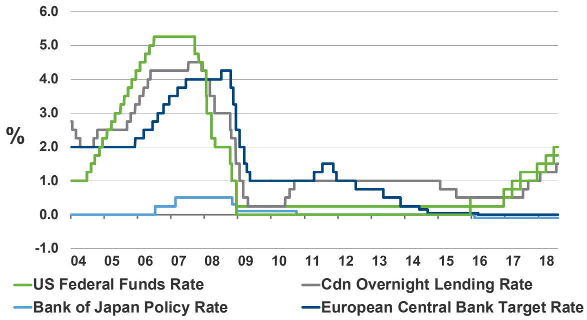

Source: Bank Of Canada, Federal Reserve Board, European Central Bank, Bank of Japan

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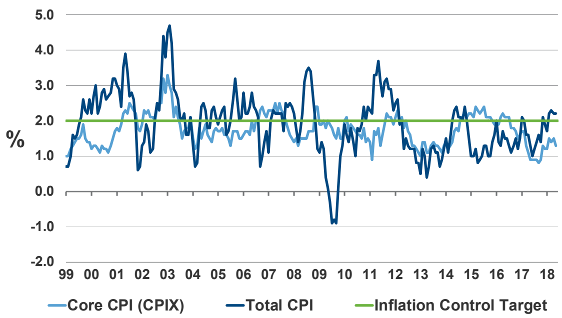

Source: Bank Of Canada, Statistics Canada

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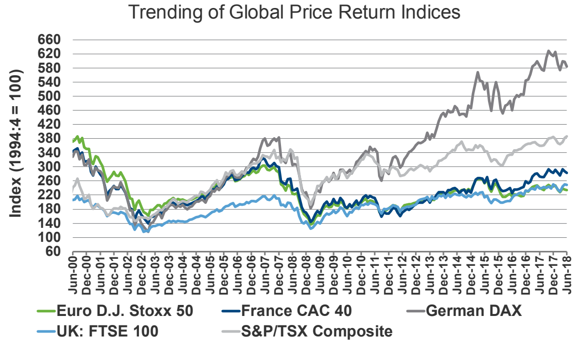

Source: RBC Capital Markets

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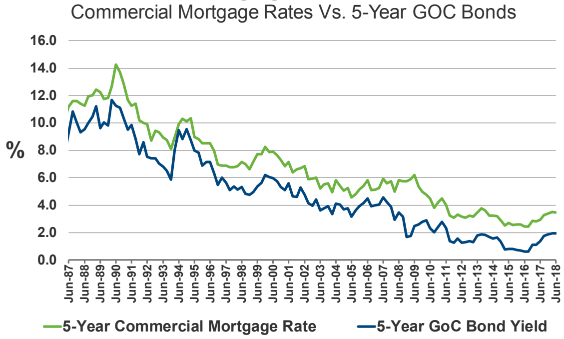


Source: RBC Capital Markets, Bank of Canada

BANK OF CANADA HIKED TARGET RATE DESPITE ELEVATED RISK

The Bank of Canada (BofC) did the expected and raised its target overnight rate by 25 bps on July 11, against a backdrop of increased risk. The consensus projection indicated a hike was highly probable, having pegged the likelihood of an increase at between 60.0% and 80.0%. The rationale for the continued monetary policy tightening was largely an expected pickup in Canadian economic activity through the balance of 2018 after a relatively sluggish first quarter. During the first three months of the year, the national economy expanded by a tepid 1.3%. The modest start to the year was the result of weaker consumer spending patterns and a slowdown in the housing market due to higher interest rates and various policy measures implemented to slowdown the sharp rise in mortgage debt. By the second quarter of 2018, consumer spending was expected to gradually strengthen in support of increased economic output to the tune of at least 2.0%. The July 11th rate hike was implemented during a period of relatively moderate risk. Increased risk was related directly to the recent waiving of Canada's exemption from U.S. steel and aluminum tariffs, which was tied to ongoing North American Free Trade Agreement negotiations. In addition, concerns related to the slowdown in the national housing market and consumer spending were also sources of additional uncertainty with regard to the economic outlook. Despite these concerns, the BofC did as expected and raised its target Overnight rate shortly after the end of the second quarter.

INFLATION STEADIED WHILE CORE PRICE GROWTH SOFTENED

Canada's year-on-year inflation rate was largely unchanged during the second quarter while upward pressure on consumer prices softened. In May, consumer prices increased by 2.2% year-over-year, which represented a repeat of the April performance. Consensus expectations called for a stronger rate of increase of 2.6%. Five of the eight spending categories tracked posted price growth deceleration. Excluding food and energy, the national Consumer Price Index was down month-over-month for the first time since 2012. Price growth was posted in the recreation, transportation and shelter categories month-over-month. Whereas prices for household operations including food and clothing, posted modest declines on a seasonally adjusted basis. Downward pricing pressure resulted in the sharpest May drop in car prices on record. Looking to the second half of the year, price growth was expected to increase. Tight labour market conditions were expected to support ongoing wage growth. In combination, a low Canadian dollar and trade tariffs were expected to increase import prices over the near-to-medium term. Eventually ,inflation levels should bounce back to the Bank of Canada target.

EQUITY MARKET OUTLOOK UNCERTAINTY INCREASED

The global equity market performance outlook became increasingly uncertain during the second quarter due in large part to concerns surrounding an imminent trade war between the U.S. and its trading partners. Initially, tariffs were imposed on steel and aluminum from Canada, Mexico and Europe. Subsequently, retaliatory tariffs were announced on the U.S. In June, China announced it would match the U.S. planned $50.0 billion in tariffs on its imports. Further tariffs on Chinese investment into the U.S. were planned, which added to the overall uncertainty. Coincidentally, the U.S. Fed indicated its intention to raise interest rates, despite an anticipated strengthening of its dollar. Under this scenario, equity earnings would likely be negatively impacted. By June of 2018, the S&P/TSX Index had reached a record high. At the same time, another period of global equity market strength was forecast. However with the increased threat of a significant trade war during the second quarter, the positive earnings forecast appeared to be very much in jeopardy.

TRANSACTION PACE SLOWED BUT DEMAND STILL HEALTHY

The sale of Canadian income-producing investment properties slowed during the second quarter despite stable and healthy demand characteristics. An analysis of sales in the Greater Toronto, Calgary and Vancouver markets showed a transaction volume dip of 23.3% year-over-year when comparing total sales of office, retail, industrial and multi-suite residential properties combined for the first halves of 2017 and 2018, respectively. The sharpest decline was in the office sector where volume dropped by 48.7%, followed by industrial where activity plunged 17.8%. Conversely, multi-suite residential sales increased 17.5% and retail edged 1.1% higher. During the same period, the total sales count for all sectors fell by 30.2%. Reductions in the number of sales was recorded in each of the sectors analyzed, with office and industrial once again posting the sharpest declines. As in the past few years, transaction activity was a function of product availability rather than a change in demand patterns during the second quarter. Across the country, demand has been fairly robust, despite increased economic uncertainty and peak pricing for core-quality assets in major markets. A range of public and private groups continued to allocate funds to the Canadian property sector. Rental growth in the office and industrial markets continued to capture the attention of investors, resulting in modest upward pressure on value. In addition, the prospect of economic recovery in Alberta and the ongoing health of rental fundamentals in the multi-suite residential sector were also a draw. Demand for retail properties was also nominally positive, despite industry headwinds. In short, investment market remained liquid in the second quarter even though transaction closing volume slowed.

APARTMENTS WERE STILL A CROWD FAVOURITE

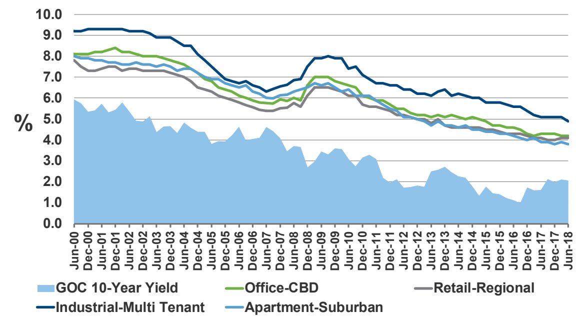
The popularity of Canada's multi-suite residential rental sector persisted during the second quarter. As a result, a healthy volume of transactions was completed in keeping with the trend of the past several years. Robust demand supported healthy closed transaction volume through the duration of the first half of 2018. During this period, using the Greater Toronto, Calgary and Vancouver markets as a national proxy, $935.2 million in multi-suite rental property was transacted. The total was up 17.5% year-over-year. At the same time, a significantly higher year-over-year average sale price was also reported. An average sale price of $13.0 million was posted during the first six months of 2018 compared with $8.5 million during the same time period a year earlier. The sector consistently quenched the investment thirst of investors during both time periods. The lure for most was the prospect of persistent rental growth, modest capital appreciation and the sector's record of stable and healthy long-term performance. Positive investor sentiment was expected to persist for at least the near term.

INVESTMENT CYCLE TO HANG ON TO THE PEAK

The mature phase of the current investment cycle will continue to characterize the Canadian commercial property sector through to at least the close of 2018. Demand will remain largely stable and positive, assuming the economic outlook remains moderately bright. The Canadian economy is forecast to have expanded by roughly 2.0% on an annualized basis through 2018, translating into close-to-full employment and a tight labour market. Moderate expansion will also support rental demand across the major property sectors. Rental growth will continue to support solid performance characteristics in the industrial, retail and apartment sectors, where demand will continue to outdistance supply. At the same time, the retail sector will continue to face various headwinds, including excess vacancy with the closure of Sears, and other tenant consolidations. Investment performance will be largely income-driven, as the property value and broader investment cycles continue to mature.

Yield Spreads

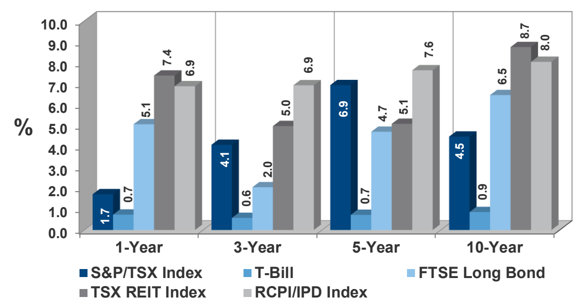
Cap Rates vs. 10-Year GOC Bonds



Source: AltusInSite, Bank of Canada

Relative Performance

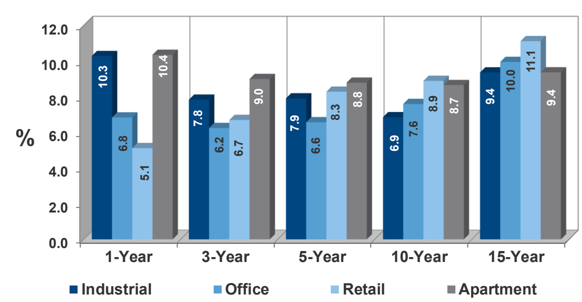
Comparing Annualized Returns To March 2018



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

RCPI/IPD Returns

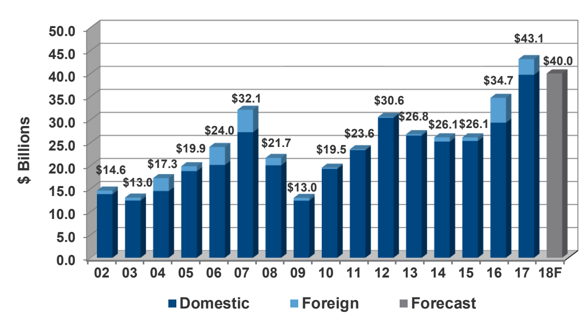
Annualized Returns By Property Type To March 2018



Source: RCPI; © MSCI Real Estate

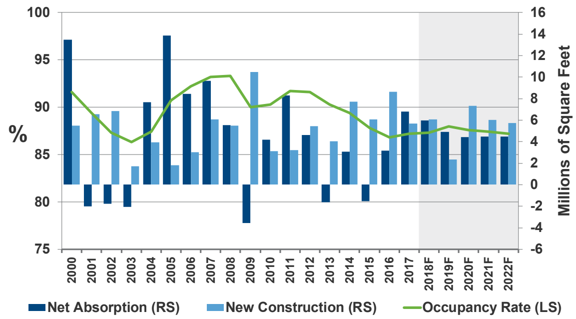
Investment Activity

Total Investment Volume



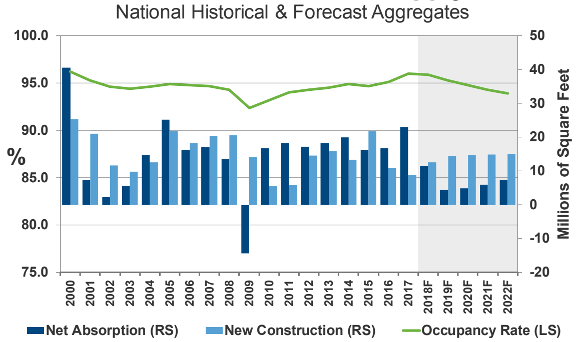
Source: CBRE Limited; Morguard

Office Demand & Supply
National Historical & Forecast Aggregates



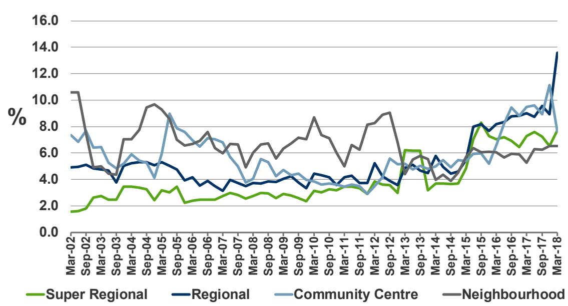
Source: CBRE Limited; CBRE Econometric Advisors

Industrial Demand & Supply
National Historical & Forecast Aggregates



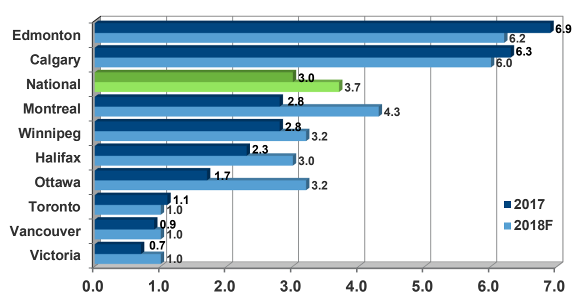
Source: CBRE Limited; CBRE Econometric Advisors

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

LEASING MARKET TIGHTNESS HAMPERED PROGRESS

National office leasing market progress was hampered by tightness in several downtown submarkets during the second quarter. The tightest markets were Vancouver, Toronto and Montreal and to a lesser extent Ottawa where tenant options were limited. During the second quarter, the national downtown vacancy rate rested at 10.7%, with rates of 4.7%, 2.9% and 8.7% in the Vancouver, Toronto and Ottawa markets, respectively. Vacant space was scarcer for the Class A segments of these markets. The national class A downtown vacancy average was unchanged quarter-over-quarter holding at 9.1%, but was down 80 bps year-over-year. The downtown supply shortfall limited options for tenants in the market for the highest quality of space in which to expand. The technology, shared workspace and government sectors remained the key drivers of growth, having accounted for much of the office progress of the past few years. The recent slowdown of new construction in the office sector was also a factor in the lack of space options. As conditions tightened in several markets over the past year, upward pressure on downtown rents intensified. Toronto and Vancouver have seen downtown rents steadily increase during the past 12 to 18 months. Against this backdrop or rising rents, low vacancy levels have hampered leasing market growth.

FUNCTIONAL SPACE IN SHORT SUPPLY IN SEVERAL MARKETS

Landlords and tenants operated in an environment of cycle-low vacancy across much of the country's industrial market during the second quarter. National availability stood at just 3.9% as of the end of the first half of 2018, according to CBRE data. The rate was down 20 bps quarter-over-quarter and 70 bps year-over-year. Cycle-low vacancy supported a measure of imbalance in a number of markets. In Toronto and Vancouver for example, availability stood at just 2.2% and 2.4%, respectively. In both markets, demand had outstripped supply for some time. Newly built speculative space was substantially pre-leased in most markets. This was not all that surprising since the volume of speculative development remained markedly lower than the long-term average. In several markets, like Montreal for instance, new development activity was mostly design builds for users that were unable to source suitable state-of-the-art space in the existing inventory. Generally, users were forced to make-do with their existing premises and faced higher rents upon renewal. On average, rents steadily rose across all market segments in Toronto and Vancouver. In Alberta, the prospect of continued economic recovery provided hope that rates would soon stabilize. Functional warehouse and distribution space continued to be highly sought-after, but unfortunately for users in short supply.

NEAR-TERM GAINS WILL BE MODEST

Industrial and office leasing market gains will be largely moderate over the balance of 2018 and into 2019. The lack of availability in both sectors will limit growth across much of the country. Opportunities to expand will be low in number. In the office sector national vacancy will gradually fall from an already low level, particularly in the nation's downtown submarkets. The exception to this rule will be in Calgary and Edmonton where vacancy continues to hold close to the cycle-high. In the industrial sector, the continuation of below average development will also hamper expansion activity. For tenants, the lack of alternatives will prove difficult for planned expansion. Market imbalance in various metros will allow landlords to raise rents and improve their bottom lines. In Edmonton and Calgary, more balanced conditions will persist, given a relatively modest economic recovery. However, by 2019 the recovery should at least stabilize rents. Investors will look to capitalize on rental rate growth over the near term in most markets, against a backdrop of modest gains in both the industrial and office leasing markets.

SECOND QUARTER GROWTH EXPECTED TO FIRM

A firmer Canadian economic growth was forecast for the second quarter after a tepid start to the year. The Conference Board of Canada (CBOC) forecast predicted Gross Domestic Product (GDP) would increase by an annualized rate of approximately 2.0%. Previously, GDP had increased by a fairly modest 1.3% over the first three months of the year. Growth began to slow during the second half of 2017, following a stellar first half. A slow start to the second quarter of 2018 was posted in April, although the 0.1% growth rate bested most projections of essentially a flat GDP trend or a slight step backwards. There were a number of temporary factors that caused the slow start to the second quarter. Manufacturing output was hit by the closing of oil refineries for maintenance. In addition, poor weather had a negative impact on retail sales and other services output. Retail trade fell by 1.3%. Overall services output, however, increased for a 25th consecutive month. In other less than positive news, the residential sector was the main culprit in a 0.5% dip in construction activity. A marked improvement in economic output was forecast for July. The third and fourth quarters of 2018 were expected to see somewhat mixed results. However, the forecast firming of growth in the second quarter was strong enough to support a July 2018 interest rate increase.

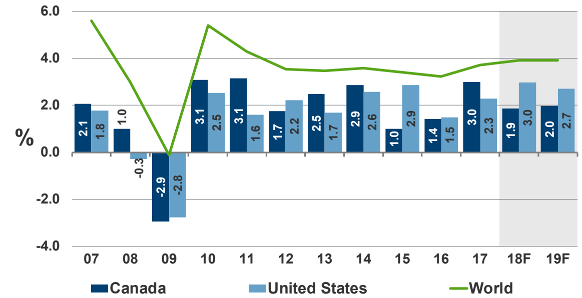
JOB MARKET REMAINED TIGHT DESPITE SLUGGISH PERFORMANCE

Canada's job market remained tight during the second quarter, despite reduced employment. Tightness was reflected in the national unemployment rate, which rested at 6.0% as of the end of June 2018. The rate was at the low end of the nation's full employment range. During May, national employment fell by 7,500 jobs. Bloomberg reported an average expectation of 14 leading economists of the creation of 22,000 new jobs during the month. The underperformance followed a 1,500 loss in April. There was a gain of 27,000 jobs recorded in June, including a return to growth in the construction sector indicating the housing market was finally on solid ground. In other positive news, wage growth looked to have finally taken hold. In May, Scotiabank reported wage growth of 3.9% year-over-year, marking the strongest gain since July 2012. Despite the sluggish second-quarter labour market performance, the upward wage pressure was in support of the interest rate hike on July 11th.

EVIDENCE OF HOUSING MARKET STABILIZATION REPORTED

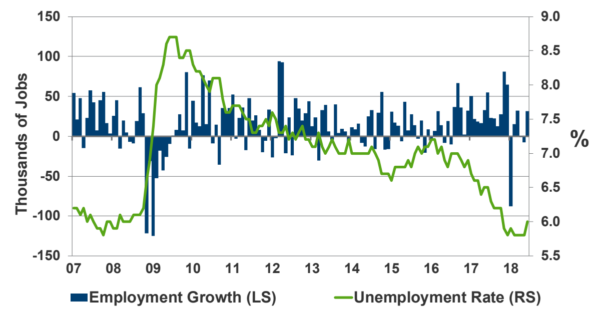
Canada's resale housing market exhibited signs of stabilization during the second quarter, although the trend was not uniform across the country. For the month of May, existing home sales were relatively flat with a slight dip of 0.1% recorded. This was the strongest showing to date this year following a 21.0% plunge in activity through to the end of April. Roughly half of the country's housing markets recorded fewer sales in May, whereas sales increased in Edmonton, Calgary, Ottawa and Regina. The big three, Montreal, Toronto and Vancouver, posted minimal shifts in activity. In terms of new listings, May figures showed a 5.1% increase nationally, with Calgary and Edmonton once again seeing positive results. Less robust growth was posted in the nation's three largest metros. More recent data showed a leveling of prices in what have been easily the country's most volatile markets. In June, prices were essentially flat for both Vancouver and Toronto month-over-month. This was a marked change from the year-over-year trend. Toronto had posted a year-over-year dip in pricing of 5.4% and 4.6% for May and June, respectively. Conversely, Vancouver generated annual increases of 11.5% and 9.5% over the same time periods. As the second quarter came to an end, the Canadian resale market looked to have stabilized after the implementation of a series of policy measures aimed at reducing the financial vulnerability of consumers. Looking ahead, we anticipate the continued unfolding of more balanced market conditions after a period of stabilization.

Economic Growth
Real GDP Growth - Historical & Forecast



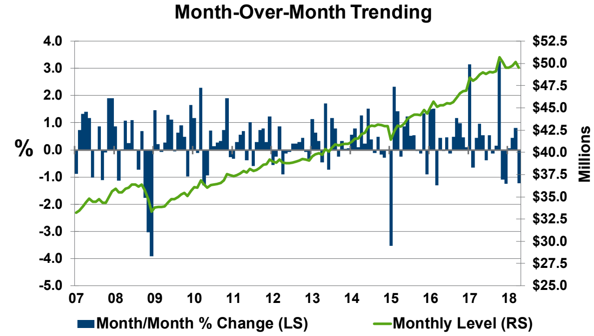
Source: Conference Board Of Canada (June 2018); International Monetary Fund (Jan 2018)

Labour Market
Month-Over-Month Trending



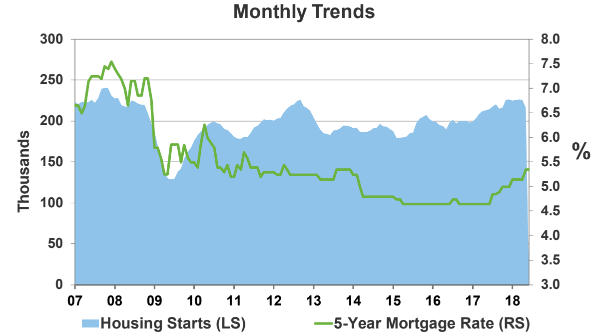
Source: Statistics Canada

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
5775 Yonge Str	Jun-18	$85.2 M	274,085	$311	True North REIT	Toronto
1004 Middlegate Rd	Jun-18	$65.0 M	262,028	$248	Rogers	Toronto
First Tower	May-18	$107.0 M	726,529	$147	Hines	Calgary
Parkway Place	May-18	$256.3 M	846,545	$296	Tigra Vista Inc.	Toronto
111 Gordon Baker Rd	May-18	$36.0 M	165,497	$218	Montez/Adgar	Toronto
Guildford Corporate Centre	Apr-18	$51.0 M	123,885	$412	Pacific Reach Prop.	Vancouver
16750-16766 Trans Can. (50%)	Apr-18	$32.0 M	247,017	$259	Crestpoint Inv.	Montreal

INDUSTRIAL

Property	Date	Price	SF	PSF	Purchaser	City
5485-5491 Timberlea Blvd	Jun-18	$13.3 M	85,567	$155	OMERS Realty	Toronto
4455 North Service Rd	Jun-18	$28.1 M	246,950	$114	Summit REIT	Toronto
Markham Portfolio	Jun-18	$70.0 M	321,028	$218	Summit REIT	Toronto
350 Hazelhurst Rd	May-18	$22.3 M	220,000	$135	BMO Life Assurance	Toronto
Investors Group Portfolio	Apr-18	$68.2 M	556,234	$123	Desjardins Financial	Ottawa
66 Leek Cr	Apr-18	$23.8 M	178,000	$134	Rodenbury Investmts	Toronto

RETAIL

Property	Date	Price	SF	PSF	Purchaser	City
Aberdeen Mall	May-18	$83.0 M	461,749	$180	Seacliff Properties	Kamloops
700 King St W, Units 1-7	May-18	$15.1 M	7,746	$1,952	Cosa-Nova Fashions	Toronto
Crombie REIT Portfolio	May-18	$87.0 M	405,158	$429	Northam Realty	Various
Mont Tremblant Village	Apr-18	$68.1 M	143,681	$474	Lasalle Investment	Mt Trembl
Guildford Place Mall	Apr-18	$38.0 M	49,625	$766	Private	Vancouver
1986 Queen St E	Apr-18	$13.2 M	8,767	$1,500	Navona Investor Serv.	Toronto

MULTI-SUITE RESIDENTIAL

Property	Date	Price	# Units	/Unit	Purchaser	City
Lagoon Villa	Jun-18	$19.7 M	42	$467,857	Living Balance Prop.	Vancouver
41 Garfella Dr	Jun-18	$21.5 M	95	$226,316	Starlight Investments	Toronto
135 Lawton Blvd	Jun-18	$19.2 M	48	$398,958	Hollyburn Properties	Toronto
1040 Cedar St	Jun-18	$37.5 M	264	$142,045	Medallion Corporation	Toronto
Le Montfort	May-18	$48.0 M	230	$208,696	Akelius Canada	Montreal
33, 77 Falby Crt	May-18	$103.0 M	422	$243,977	Homestead	Toronto
460 Belmont Ave W	May-18	$66.8 M	240	$278,125	Realstar Group	Kitchener
The Kensington	Apr-18	$25.5 M	114	$223,684	Skyline Apt. REIT	Dartmouth
101 Cosburn Ave	Apr-18	$20.5 M	69	$297,101	O'Shanter Developmt.	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:

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