FIRST QUARTER UPDATE

21ST ANNUAL EDITION

2019 CANADIAN ECONOMIC OUTLOOK

AND MARKET FUNDAMENTALS

Morguard

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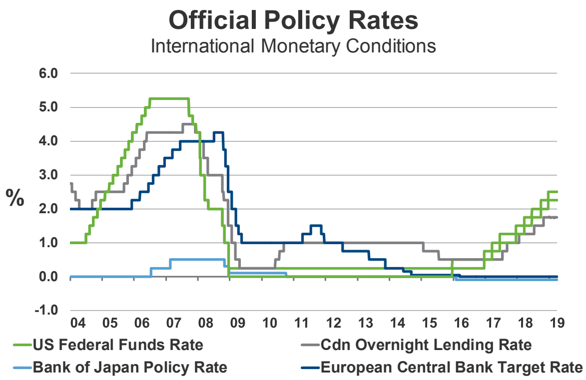
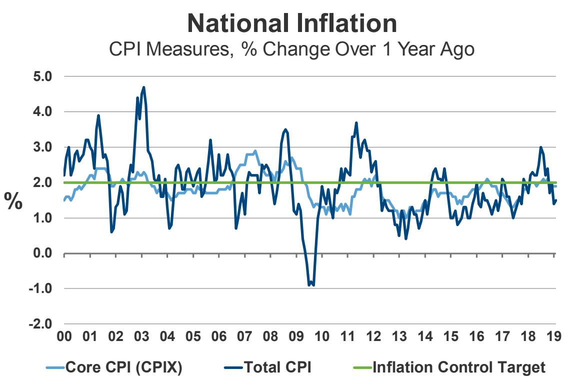
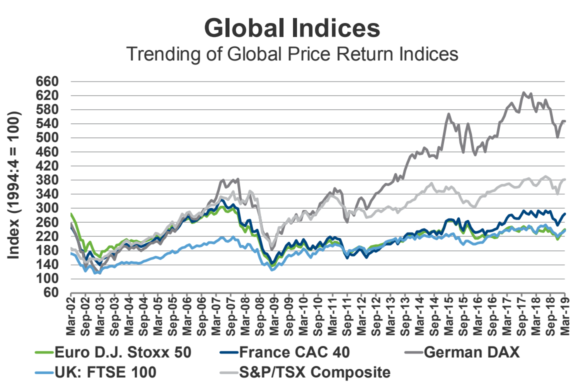


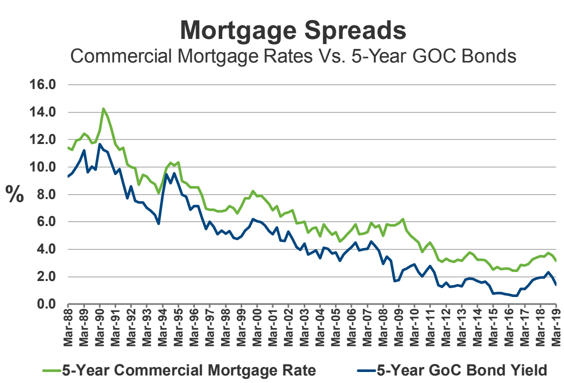
Source: Bank Of Canada, Federal Reserve Board, European Central Bank, Bank of Japan



Source: Bank Of Canada, Statistics Canada



Source: RBC Capital Markets



Source: RBC Capital Markets, Bank of Canada

POLICY TIGHTENING WAS PUT ON HOLD

Canada's central bank held off on further policy rate hikes during the first quarter, given a 'more broadly based' than anticipated economic slowdown in late 2018 and early 2019. The bank's March 6, 2019 press release cited a number of factors that ultimately influenced the decision to hold off on further rate hikes. Ongoing trade tensions between the U.S. and China and the resulting decline in business confidence negatively impacted the Canadian economy. As a result, Canadian economic growth weakened more than the bank had previously projected. The combination of reduced export activity, energy sector investment and household spending resulted in downgraded growth projections and the bank's decision to stand pat on rates. Moreover, weakness in the national housing market also factored into the bank's decision to hold off on policy tightening in the first quarter and potentially for the balance of 2019. Another influence on the bank's decision was Canadian inflation outlook. As 2019 began, it was clear inflation pressure had eased, with levels expected to remain below the 2.0% target threshold for much of the coming year. The main driver of the moderate inflation trend of the recent past was persistently low energy prices. Finally, Canada's economic output gap added to the rationale for the bank's decision to hold off on further rate hikes during the first quarter. In short, until Canada's economic outlook strengthens, the bank will continue to maintain a largely neutral stance with respect to monetary policy.

INFLATION PRESSURE REMAINED MILD

Inflationary pressure remained relatively modest during the first quarter, with just a slight uptick in Canada's consumer price index recorded. The consumer price index edged higher to 1.5% in February compared with the year-over-year figure of 1.4% in the previous month. The upward price trend was fueled by higher costs of mortgage interest and fresh vegetables, at 8.1% and 14.3%, respectively. Another driver of the mild upward price pressure on prices was a 6.4% rise in the cost of insurance premiums on automobiles. Gasoline prices on the other hand continued to erode upward pricing pressure during the first quarter, with a decline of 11.9% recorded month-over-month as of February. There was somewhat of a silver lining, however, as gasoline prices increased for the first time month-over-month since July 2018. Excluding the volatility of gasoline prices, Canada's annual rate of inflation was a more robust 2.1%, unchanged month-over-month. To some extent, the stability of the national inflation outlook supported the Bank of Canada's decision to maintain interest rates during the first quarter of 2019.

EQUITY MARKET GAINS RECORDED TO START THE YEAR

The S&P/TSX Composite gained ground over the first eight weeks of 2019, having racked up a decidedly bearish performance during the final quarter of 2018. In February, the Canadian index registered a 3.0% gain, which bought the year-to-date advancement to a fairly healthy 11.7%. A similar performance was generated in global markets, with the MSCI ACQI rising 2.9% in February and a 10.2% lift year-to-date. The S&P/TSX advance was driven largely by the IT, Energy and Health Care industrial groupings. The year-to-date equity market gains have, to some extent, run counter to the economic growth performance thus far in 2019. Consumer spending and residential investment have both underwhelmed. In addition, corporate investment has also been relatively weak. By the second half of 2019, economic activity was forecast to improve, given the transient nature of the factors that have taken the steam out of the Canadian economy. The second half should see a modest recovery in consumer spending and housing market stabilization. In turn, earnings in the financial and consumer-driven sectors are expected to strengthen, after a tepid start to the year.

STABLE INVESTMENT MARKET FUNDAMENTALS EVIDENCED

Canadian commercial real estate investment market fundamentals were generally stable and positive during the first quarter when compared with the recent past. Investors continued to source 'core' quality assets across the country, with an emphasis on major markets. As was the case for much of the past few years, Vancouver and Toronto remained the most highly sought after regions in which to invest. By asset class, the industrial and multi-suite residential rental sectors commanded the most attention, given healthy rental growth forecasts. Office properties were also in demand, given the asset class's track record of solid performance. Retail properties commanded the attention of active buyers. However, buyers were selective in their approach to retail and were underwriting cautiously. The stability of the demand cycle during the first quarter translated into continuously strong transaction closing volume patterns. A number of significant sales were completed over the first three months of 2019. In the office sector for example, the sale of the Dynamic Funds Tower in downtown Toronto garnered a $473.0 million total consideration. In southeast Calgary, BCIMC sold three single-tenant industrial properties for $79.6 million. The market's broader theme of stabilization was also reflected in its property value trend. For the most part, values held at levels recorded over much of the past year for core properties, which was in keeping with the overriding investment market theme.

INDUSTRIAL AND MULTI-SUITE RESIDENTIAL RENTAL SECTORS WERE HIGHLY REGARDED

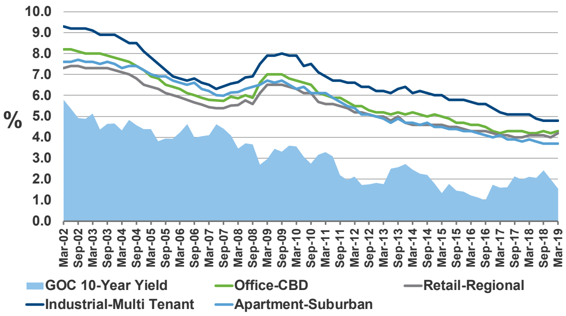
The industrial and multi-suite residential rental asset classes continued to generate strong interest on the part of the investment community during the first quarter. The strong preference for the two sectors was tied to their solid near-term rental market outlooks. For the industrial sector, availability levels were forecast to remain at a record low in most urban regions. At the same time, demand for industrial space was projected to continue to outpace supply by a significant margin. Therefore, the demand supply imbalance was expected to support a continued rental growth cycle over the balance of 2019 and into 2020. As a result, investors looked to position themselves to capitalize on the rental growth forecast. A similarly positive outlook was forecast for the multi-suite residential rental sector. Availability rates across the market were projected to hold at or near the record low. Coincidentally, demand fundamentals were expected to remain fairly robust. The combination of international migration patterns and the movement of retirees from single family homes to the rental market have resulted in significant demand pressure. Like the industrial sector, this pressure, coupled with very low availability, was expected to drive rents beyond the all-time highs set recently. As a result, the sector was expected to remain a favourite of investors, along with the industrial sector, for the foreseeable future.

PERFORMANCE PATTERNS TO MATCH THOSE OF THE RECENT PAST

Commercial real estate investment performance will mirror that of the recent past during the balance of 2019. The MSCI average total return will remain attractive through the balance of the year, despite resting below the long-term average. On aggregate, multi-suite residential rental and industrial sectors will continue to outperform, in light of generally healthy rental market outlooks. At the same time, demand pressure could see a modest rise in sector values. The office sector will also generate rental rate growth in several markets, offset to some degree by the ongoing malaise in Calgary and Edmonton. Retail income performance will continue to trend lower, in light of ongoing sector headwinds. The mature phase of the capital cycle will persist during the balance 2019, with values holding at or near the peak. In short, investment market performance will follow recent patterns during 2019, in keeping with the mature phase of the current cycle.

Yield Spreads

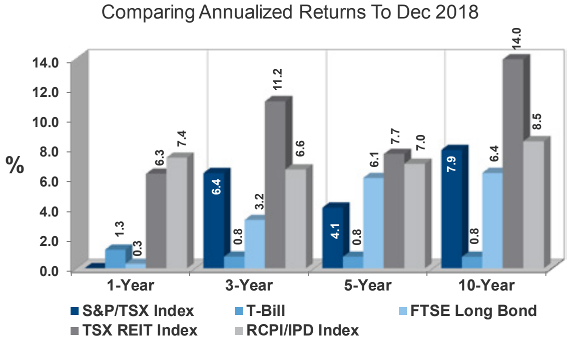
Cap Rates vs. 10-Year GOC Bonds



Source: AltusInSite (Mar 2019) , Bank of Canada (Mar 2019)

Relative Performance

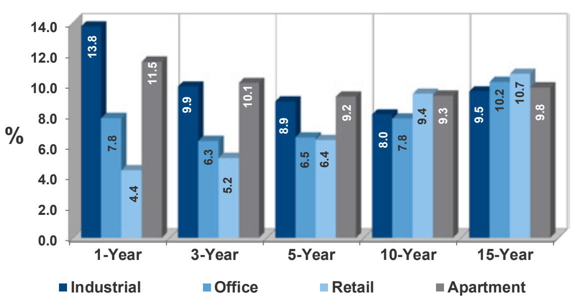
Comparing Annualized Returns To Dec 2018



Source: © MSCI Real Estate; RBC CM; TSX Datalinx; SCM; PC Bond Analytics (Dec 2018)

RCPI/IPD Returns

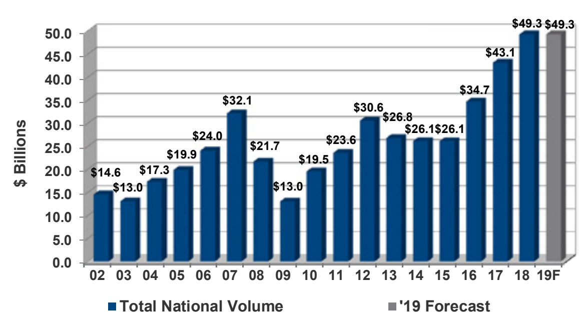
Annualized Returns By Property Type To Dec 2018



Source: RCPI; © MSCI Real Estate (Dec 2018)

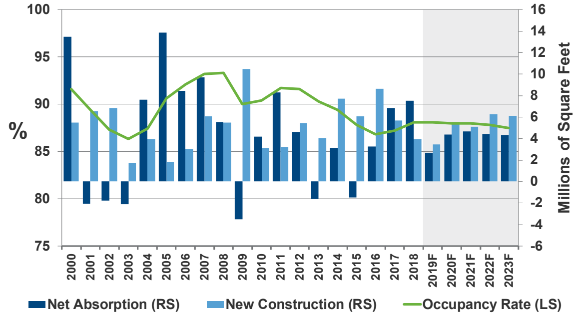
Investment Activity

Total Investment Volume



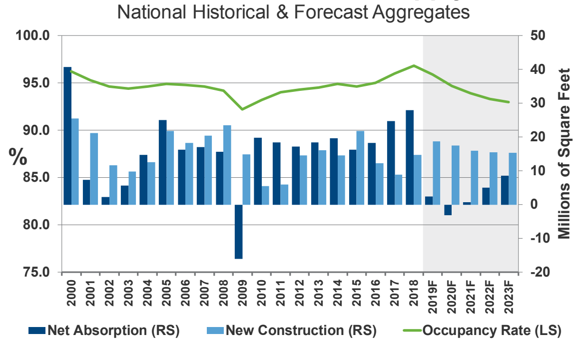
Source: CB Richard Ellis; Morguard

Office Demand & Supply
National Historical & Forecast Aggregates



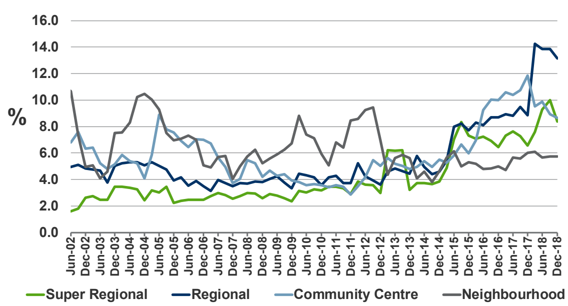
Source: CBRE Limited; CBRE Econometric Advisors

Industrial Demand & Supply
National Historical & Forecast Aggregates



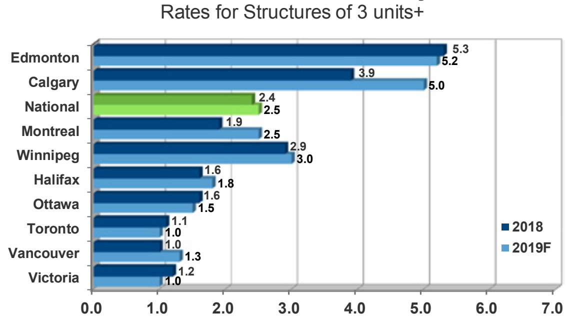
Source: CBRE Limited; CBRE Econometric Advisors

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, Morguard

POSITIVE OFFICE LEASING MARKET MOMENTUM REPORTED

Positive momentum in Canada's office leasing market carried over into the first quarter of 2019, driven by healthy demand patterns. The positive momentum was reflected in market fundamentals reported at the end of the quarter. The national vacancy came to rest at 11.5% at the end of March, down 40 bps quarter-over-quarter and 100 bps year-over-year, according to CBRE survey data. The downward vacancy trend was evidenced in the downtown areas of Montreal and Vancouver. By the end of the first quarter, downtown Toronto vacancy rested at an all-time low of just 2.6%. The beleaguered Calgary office market also showed signs of life during the first quarter, which was reflected in a significant reduction in sublease space availability. The volume of new construction activity underway across the country provided further evidence of positive momentum in Canada's office leasing market during the first quarter. A total of 16.0 million square feet of new supply was underway by the end of the first quarter as tracked by CBRE. The total represented a high dating back almost three years. Another element of the Canadian office market's fundamental health during the first quarter was its rental rate characteristics. In several cities rents continued to stand at the cycle-high. The strength of the rental rate trend and leasing market fundamentals during the first quarter was a byproduct of a generally healthy office space demand cycle.

SUPPLY CONSTRAINTS SUPPORTED INCREASED DEVELOPMENT

Supply constraints across much of the country's industrial leasing market continued during the first quarter, resulting in increased development activity. CBRE reported a record-low national availability rate of 3.0% as of the end of March, down 20 bps quarter-over-quarter and 110 bps year-over-year. At this level, shortages of opportunities for tenants and owner-occupiers were very low in several markets. Modern functional space was in short supply across most geographies and segments of the market. Availability rested at less than 2.0% in Vancouver and Toronto, where options were particularly scarce. The Toronto average of 1.5% represented an all-time low. Over the past few years, e-commerce sales have boosted demand for industrial space in both Toronto and surrounding municipalities. A similar demand scenario has also unfolded across much of the country's largest urban centres. With options in short supply, rents have increased steadily for both recently constructed space and older properties. The upward pressure on rents has also been a catalyst for new development, particularly in Vancouver and Toronto where the existing inventory has edged closer to full occupancy. A total of 22.6 million square feet of new supply was in various stages of construction as of the end of the first quarter. The total was the highest dating back to 2015. However, despite an increase in development activity recently, supply was expected to remain constrained for some time.

RETAIL SECTOR HEADWINDS TO CONTINUE

Evidence of continued Canadian retail sector headwinds was observed during the first quarter. This evidence came in the form of additional store closure announcements. In January for example, Canada's Hugo Boss flagship store in Toronto closed. In the same month, Hopscotch entered receivership. In February, Neron announced it would close nine of its 14 locations in Quebec and Gymboree planned to close all 49 of its Canadian locations. Payless Shoes also began the process of closing stores across the nation. The Hudson's Bay Company's decision to close all 37 Home Outfitters locations was expected to create a larger vacancy hole in the market. Finally, the closure of Gap stores represented continuation of the trend that has seen the disappearance of recognizable names from the Canadian retail landscape. Despite the ongoing closure of stores across Canada announced in the first quarter, these were at least in part offset by expansion activity. Therefore, the sector was likely to see a measure of stabilization over the near term.

ECONOMIC GROWTH TREND EASED

A marked slowdown in economic activity characterized the Canadian economy during the first quarter of 2019, continuing the trend of the previous quarter. A number of factors contributed to the weaker growth trend. First, the implementation of limits on oil production significantly reduced the economic contribution of the sector. Secondly, weakness in the national housing market and trickle-down effect on related services industry sectors also eroded economic activity levels. Thirdly and finally, a material decline in the consumer spending growth rate also had a negative impact on the national economic growth during the final few months of 2018 and the first quarter. Of the three factors that contributed to a more modest economic growth performance recently, consumer spending represented the biggest risk to the outlook. The impacts of reduced oil production volume and housing market weakness were viewed as short term. Indeed, consumer spending accounted for close to 60.0% of Canada's 2018 Gross Domestic Product. Looking to the balance of 2019, wage growth was expected to boost consumer spending patterns and support a modest economic growth trend in the second half of 2019. Canadian economic output was forecast to strengthen during this period, after a relatively weak performance to start the year.

LABOUR MARKET FORGED AHEAD

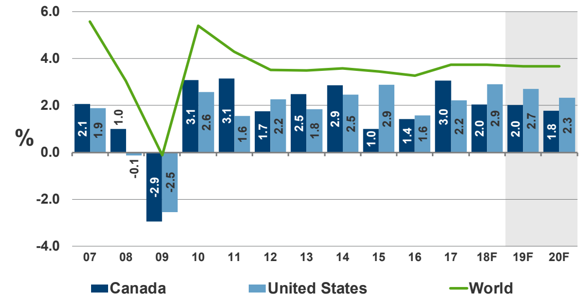
Canada's labour market forged ahead during the first quarter, despite a marked slowdown in the national economy. Strong employment gains were recorded in both January and February, totaling 67,000 and 56,000, respectively. The bulk of this growth was in full-time positions. From a geographic standpoint, employment gains in January were spread across six provincial jurisdictions with Quebec joining Ontario in the lead position. In the following month, Ontario was the only province to post an increase in employment levels. A solid increase in employment was recorded in the 15 to 24 age category in the first quarter. The national unemployment rate was relatively stable through much of the first quarter, holding at 5.8% despite material labour force growth. Wage growth was another labour market positive during the first quarter, with increases of 1.8% and 2.2% for permanent employees reported for January and February, respectively. Although there was a modest decline in net jobs of 7,200 in March, the six-month trend remained solid with more than 35,000 jobs created on average monthly. Strong employment growth over the period was punctuated by healthy gains recorded during the first quarter.

HOUSING MARKET STRUGGLED TO ESTABLISH FIRM FOOTING

Canada's housing market continued to disappoint during the first quarter, as construction and re-sale market activity remained weak. Housing starts fell 16.3% month-over-month in February, a sharper decline than forecast. The plunge was widespread geographically. In Ontario for example, a drop in multi-unit construction activity resulted in a decline of 16,400 unit starts. Multi-unit starts also dipped markedly in Quebec and British Columbia. In the Prairie region, a slowdown in construction activity was reported in both the multi-unit and single-family market segments. A slowdown in activity was also observed in the Canadian existing home sale market. A 9.1% month-over-month plunge drove sales down to a level last seen in 2012. The Greater Toronto Area tallied a 12.6% drop, with Greater Vancouver sales down 4.4% and Calgary 2.3%. Quebec bucked the trend with sales rising for a third consecutive month in February. Canadian re-sale property values also declined. In February, the average sale price fell for a fifth consecutive month, at 1.8%. British Columbia and oil industry centric markets have been the key drivers of the downward value trend over the past several months. Canada's housing market outlook was moderately better for the balance of 2019, following a disappointing start to the year.

Economic Growth

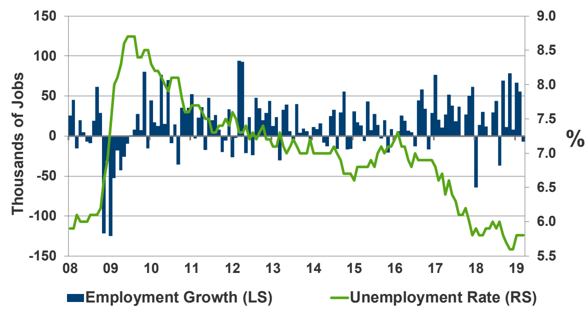
Real GDP Growth - Historical & Forecast



Source: Conference Board Of Canada (Jan 2019); International Monetary Fund (Oct 2018)

Labour Market

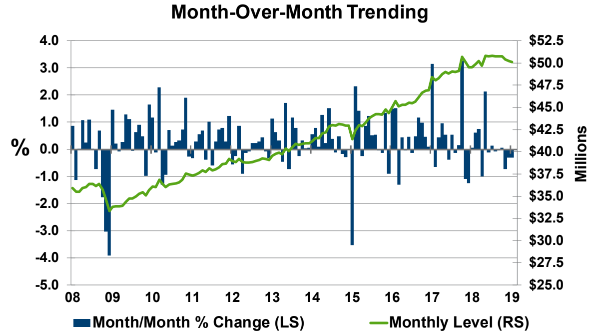
Month-Over-Month Trending



Source: Statistics Canada (Mar 2019)

Retail Sales

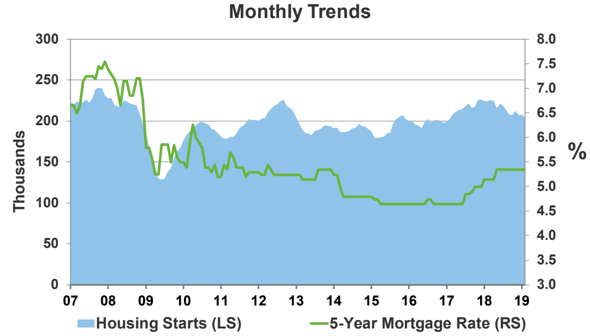
Month-Over-Month Trending



Source: Statistics Canada

Housing Market

Monthly Trends



Source: Statistics Canada, CMHC

OFFICE

Property	Date	Price	SF	PSF	Purchaser	City
Metrotown Place I & III	Mar-19	$95.0 M	250,800	$379	Slate Asset Mgt.	Vancouver
1075 West Georgia St*	Mar-19	$275.0 M	348,799	$788	Crestpnt/KingSett/Rel	Vancouver
1 Adelaide St E	Feb-19	$473.0 M	652,038	$725	OpTrust/Investrs/GWL	Toronto
56 Wellesley St W	Feb-19	$98.0 M	215,677	$454	GWL Realty Advisors	Toronto
219 Laurier Ave W	Feb-19	$51.2 M	186,950	$274	GWL Realty Advisors	Ottawa
Warden City Ctr	Feb-19	$26.5 M	127,602	$208	Davpart	Toronto
Airport Executive Ctr	Jan-19	$208.0 M	707,809	$294	Fiera Properties	Vancouver
Cominar Portfolio	Jan-19	$41.3 M	538,648	$77	Groupe Quint	Montreal

INDUSTRIAL

Property	Date	Price	SF	PSF	Purchaser	City
2751 Transcanada Highway	Mar-19	$23.0 M	236,144	$97	Summit Ind. REIT	Montreal
205 Market Dr	Mar-19	$49.8 M	241,596	$206	GWL Realty Advisors	Toronto
185 William Smith Dr	Feb-19	$27.5 M	217,901	$126	Bentall Kennedy	Toronto
2301-2311 Royal Windsor Dr	Feb-19	$25.8 M	204,330	$126	Menkes	Toronto
York Realty Portfolio	Jan-19	$24.5 M	218,126	$112	GPM	Edmonton
Foothills HOOPP Realty	Jan-19	$77.2 M	622,754	$124	Triovest	Calgary
BCIMC Alberta Portfolio	Jan-19	$97.1 M	998,095	$97	Summit Ind. REIT	Cal/Edm

RETAIL

Property	Date	Price	SF	PSF	Purchaser	City
Westminster Ctr	Feb-19	$10.3 M	92,736	$114	Westdell Development	London
Upper James Square	Jan-19	$35.2 M	114,251	$308	RioCan REIT	Hamilton
Plaza Delson	Jan-19	$22.5 M	144,669	$153	Groupe Quint	Montreal
Iroquois Ridge Shopping Ctr	Jan-19	$34.3 M	65,301	$524	Abel Capital	Toronto
222-232 8th Ave SW	Jan-19	$18.5 M	35,439	$521	Slate A.M.	Calgary

MULTI-SUITE RESIDENTIAL

Property	Date	Price	# Units	/Unit	Purchaser	City
29-31 Upper Canada Dr	Feb-19	$23.4 M	114	$205,263	Westdale Properties	Toronto
6700 The Avenue Ave	Feb-19	$29.8 M	90	$330,556	Mecyva Inc.	Montreal
15 Walmer Rd	Feb-19	$30.0 M	78	$384,615	Belgrove Capital	Toronto
Linmarc Portfolio	Feb-19	$59.0 M	253	$233,202	InterRent REIT	Montreal
The Quarters	Jan-19	$63.8 M	199	$320,352	Minto Group	Calgary
Portfino 11440 Ellerslie Rd SW	Jan-19	$55.9 M	240	$232,734	Skyline	Edmonton
900 Rockland Ave	Jan-19	$25.0 M	72	$347,222	Akelius	Montreal
Kaleidoscope 24th St NW	Jan-19	$20.3 M	70	$290,000	Minto Group	Calgary

* share sale

ACKNOWLEDGEMENTS & CITED RESEARCH RESOURCES

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