SECOND QUARTER UPDATE

21ST ANNUAL EDITION

2019 CANADIAN ECONOMIC OUTLOOK

AND MARKET FUNDAMENTALS

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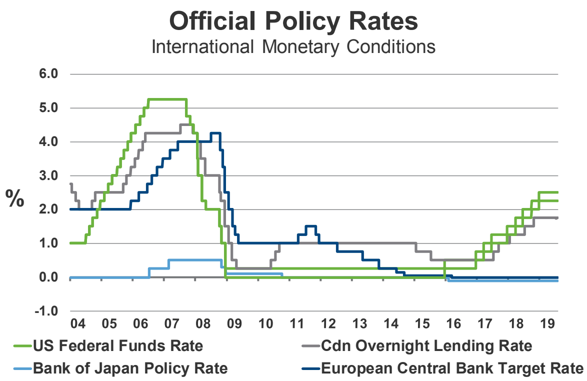
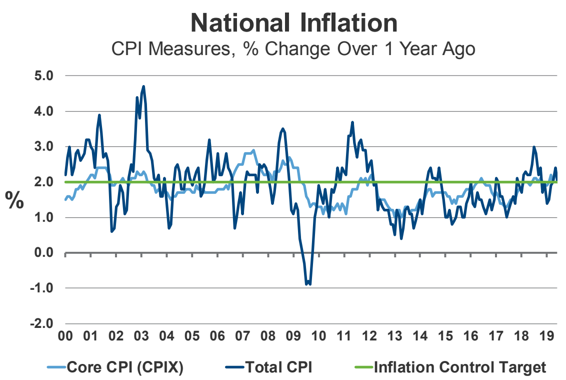
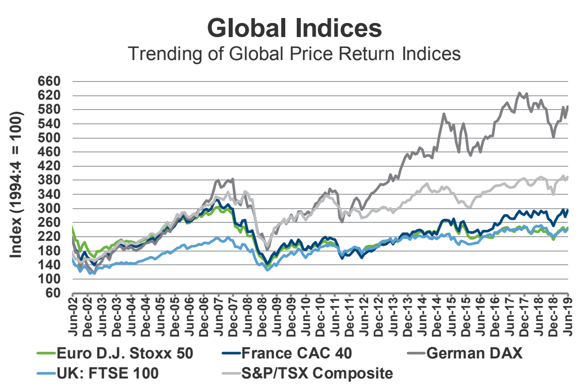


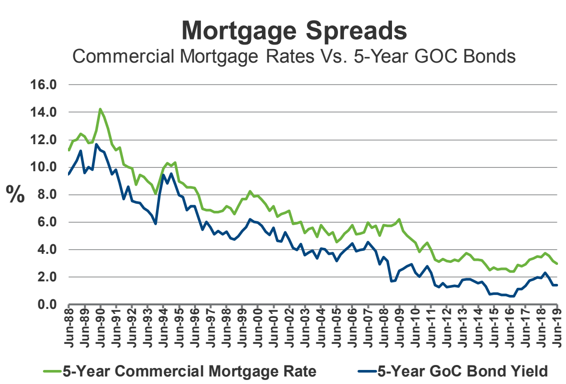
Source: Bank Of Canada, Federal Reserve Board, European Central Bank, Bank of Japan



Source: Bank Of Canada, Statistics Canada



Source: RBC Capital Markets



Source: RBC Capital Markets, Bank of Canada

POLICY RATE WAS MAINTAINED AGAINST BACKDROP OF GLOBAL UNCERTAINTY

The Bank of Canada (BofC) maintained the overnight rate at 1.75% on July 10th 2019. The bank cited the "escalation of trade conflicts remains the biggest downside risk to the global and Canadian outlooks" as the main decision-driver. By the end the first half of 2019, it was clear that the ongoing trade conflict between the U.S. and China was having a negative impact on the global economy. Economy activity levels were trending lower in a number of developed economies across the globe, which eroded business confidence. More specifically, there was evidence of a slowdown in manufacturing output and business investment. In turn, commodity pricing was driven lower. The U.S. and European central banks were poised to implement monetary policy aimed at stimulating growth. At the same time, Chinese authorities continued to take steps to boost economic activity. In the second quarter, Canadian economic growth strengthened, after a slow start to the year. Oil production increased significantly. Strong labour market fundamentals supported solid consumption patterns. Export activity picked up in the second quarter, a performance that was forecast to prevail through the second half of the year. Finally, housing market activity exhibited signs of improvement, which has been a driver of economic output over the past several years. Despite a healthier domestic economic backdrop in the second quarter however, the BofC held off on raising rates given continued uncertainty with regard to the broader global outlook.

BROAD-BASED CONSUMER PRICE GAINS REPORTED

Upward pressure on consumer prices increased during the second quarter, with gains recorded in all major components of the Consumer Price Index (CPI). In May, the index increased year-over-year, up from 2.0% in the previous month. All eight major components of the index registered average price increases, six of which were at a faster rate than during April. Higher prices were reported for food and durable goods, whereas the cost of gasoline dropped 3.7% in May, year-over-year. Inflation pressure has increased steadily over the past few months, despite a wider output gap. There was some speculation that the recent upward pressure was the result of the depreciation of the Canadian dollar. This would have driven import pricing higher. The Bank of Canada (BofC) predicted inflation would once again track their 2.0% target rate by mid-2020. Given this forecast, the probability of further rate hikes over the near term was relatively low. However, if the upward consumer pricing pressure were to continue, monetary policy tightening would at some point be implemented.

GLOBAL EQUITY MARKETS RECOUPED RECENT LOSSES

Global equity markets recovered much of the losses of the past few months by the end of the second quarter. The rebound was rooted in a modest easing of U.S.- China trade tensions and the potential for more than one central bank to lower rates over the near term. By July of this year, both the Reserve Banks of Australia and New Zealand had already cut rates. The Fed and European Central Bank also sent signaled their intention to do the same in short order. The Banks of England and Canada were also sounding decidedly more dovish. As the second quarter ended investors believed Central bank policy would offset downside risk. The S&P 500, for example, reached a record high in early July due in large part to clear indications of the Fed's intention to lower rates. Additionally, the MSCI ACWI also hit a record high in July. Closer to home, the S&P/TSX performance of the second quarter was reflective of the BofC's more dovish stance on monetary stimulus. In regaining losses racked up over the recent past, the S&P/TSX performance was in keeping with that of the broader global equity market.

TRANSACTION PACE PICKED UP

The pace of Canadian commercial investment property sales picked up during the second quarter. Early indications pointed to a greater volume of sales quarter-over-quarter, although final totals were still being calculated at press time. Second quarter sales volume was on track to top the $10.0 million mark, which was in line with the market peak of 2017-2018. The multi-suite residential rental sector was the strongest contributor to the increase in transaction activity during the second quarter. Investors continued to look to the sector to achieve stable and positive income performance and attractive yields. In the broader market, investors continued to acquire investment properties at near record levels, despite the view by some that the current cycle would soon come to an end. Buyers exhibited little hesitancy in bidding on stabilized core assets across much of the market. The exception to some extent was retail. The wave of change underway in the broader retail industry continued to support performance headwinds, prompting investors to exercise increased scrutiny when looking at potential acquisitions. In the office sector, high-quality assets were in demand. The sales of Atrium on Bay in Toronto for $640.0 million and 1250 Rene Levesque Boulevard West in Montreal for $605.0 million were indicative of the overall strength of demand for prime assets. Industrial properties were also highly coveted during the second quarter, with aggressive bidding holding values at the peak. In summary, second-quarter commercial investment property sales activity increased markedly over the previous period.

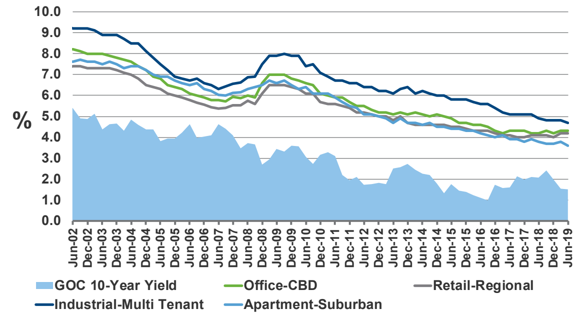
MULTI-SUITE RESIDENTIAL RENTAL PROPERTIES TRANSACTED AT RECORD PACE

Investment in the multi-suite residential rental properties reached a record-high pace during the second quarter, continuing the trend of the past few years. Total Sales volume was expected to surpass the $2.0 billion mark for the quarter. Properties selling for the highest price during the quarter located in the nation's two dominant markets, Montreal and Toronto. In Montreal, Le Rockhill sold for $268.0 million to Investors Group and Minto and Le Sommet sold for $82.0 million to a joint venture between LaSalle Investments and Timbercreek. In Toronto, Rossland Park in Oshawa sold for $220.0 million to Q Residential. The surge in sales activity reflected strong investor confidence in a sector that would continue to generate solid performance characteristics. As well, some groups looked to increase their exposure to a sector that had performed relatively well during periods of economic weakness. As a result, activity levels were expected to remain high in the multi-suite residential rental sector over the near term.

LATE STAGES OF CYCLE WILL CONTINUE TO UNFOLD

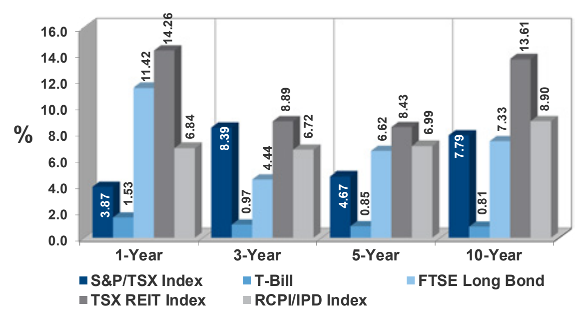
The late stages of the Canadian commercial investment property cycle will continue to unfold through to the end of 2019. Generally, investors will look to strike a balance between capitalizing on late-cycle growth and increasing their positions in assets that offer greater downside protection. For some, this will mean continuing to source asset classes with histories of low volatility. These will likely include multi-suite residential rental properties and various debt strategies. These late-cycle strategies will continue to support a relatively healthy transaction closing volume and aggressive bidding on available properties. The late stages of the cycle will see yields continue to stabilize, as the cap rate compression trend continues to slowly fade. The continued low interest rate environment will drive investment activity. Prime markets will generate strong interest, as will properties at or near transportation hubs. In general, there will be plenty of low-cost debt and equity capital available to over the near term, during the late stages of the Canadian commercial property investment cycle.

Yield Spreads
Cap Rates vs. 10-Year GOC Bonds



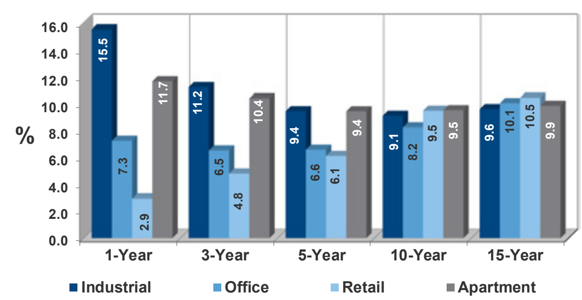
Source: AltusInSite (Jun 2019), Bank of Canada (Jun 2019)

Relative Performance
Comparing Annualized Returns To June 2019



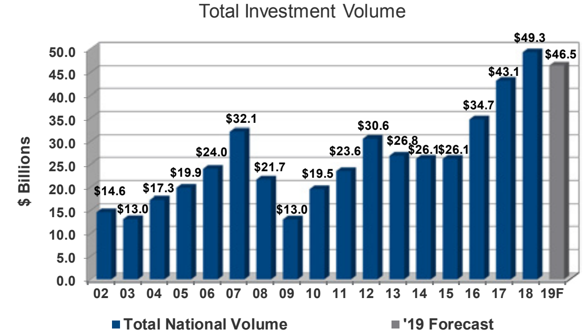
Source: © MSCI Real Estate; RBC CM; TSX Datalinx; SCM; PC Bond Analytics (Jun 2019)

RCPI/IPD Returns
Annualized Returns By Property Type To June 2019

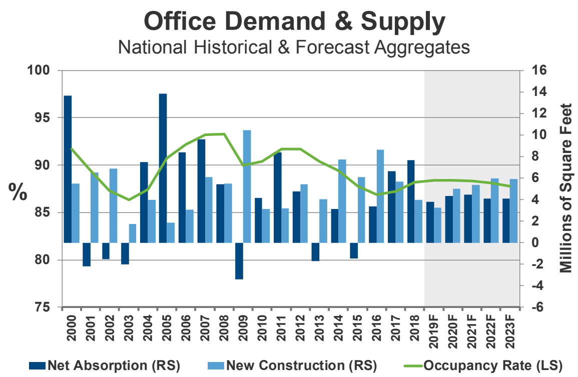


Source: RCPI; © MSCI Real Estate (Jun 2019)

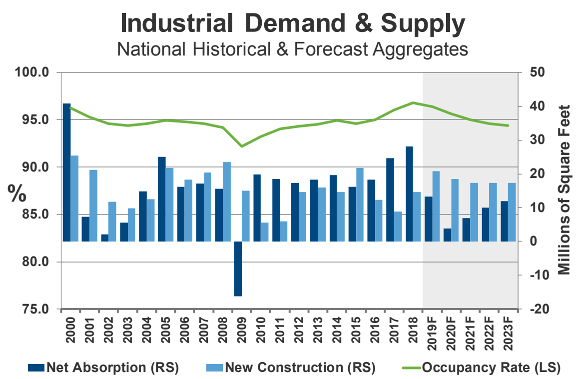
Investment Activity
Total Investment Volume



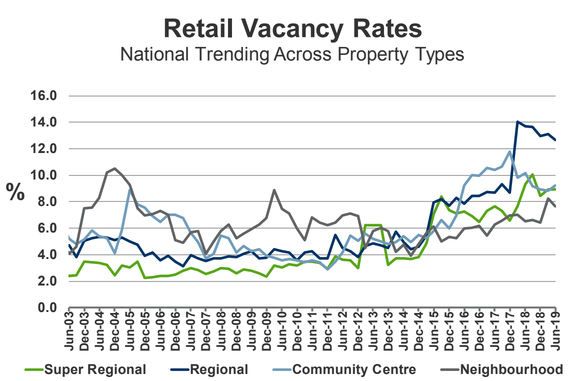
Source: CB Richard Ellis; Morguard



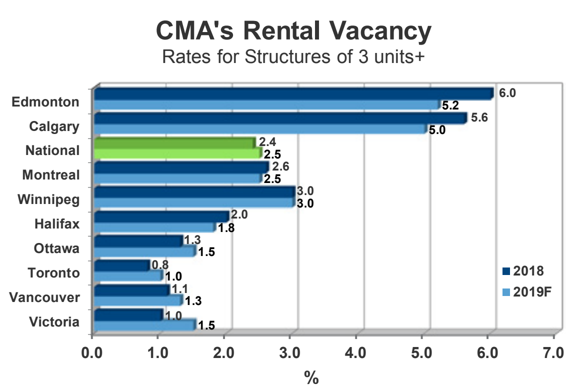
Source: CBRE Limited; CBRE Econometric Advisors (Mar 2019)



Source: CBRE Limited; CBRE Econometric Advisors (Mar 2019)



Source: © MSCI Real Estate (Jun 2019)



Source: CMHC, Housing Market Outlook Report, Morguard

OFFICE LEASING MARKET STRENGTH WAS SUSTAINED

The overall health of the Canadian office leasing market was sustained through to the end of the second quarter, despite continued weakness in Edmonton and Calgary. Conditions were tight in most regions particularly in downtown submarkets. The national vacancy rate stood at 11.3% as of the end of June, down 20 bps quarter-over-quarter and 140 bps year-over-year. Conditions were particularly tight in the central business districts of Toronto and Vancouver. The market's demand cycle continued to impress during the second quarter. Technology based businesses and shared work space companies remained at the forefront of the nation's office space demand cycle. More broadly, expansion activity has been healthy across much of the market. Calgary and Edmonton were the exceptions to this trend however, as both markets continued their struggle to emerge from the most recent energy sector downturn. In general, average rents were stable-to-rising, depending on the market. In most regions, landlords were in the driver's seat when negotiating lease terms and rents. The strength of the market's demand cycle was part of the rationale for yet another new large-scale development announcement for downtown Toronto. At the end of the second quarter, Oxford Properties announced a $3.5 billion mixed-use development called Union Park, including a 1.3 million square foot office component. The construction boom, underway in the downtown area, punctuated the market's sustained positive momentum of the second quarter.

INDUSTRIAL SECTOR STILL ON A ROLL

Positive momentum was evidenced in the Canadian industrial leasing market during the second quarter, a performance that was in keeping with that of the post financial crisis era. Demand patterns were largely stable and positive, driven by continued expansion in the warehouse and distribution sector in most regions. Companies involved in the delivery of consumer purchases remained active, which has been the case for the past several years. Businesses looking to upgrade their space also contributed to the demand pressure in several regions. Positive demand momentum ensured conditions remained tight across much of the country. In Calgary and Edmonton, conditions were more balanced, given above-average availability levels. The national availability rate came to rest at 3.1% as of the end of the second quarter, down 80 bps year-over-year. At this level, supply fell consistently short of demand in most major metropolitan areas. As a result, upward pressure on rents in these regions remained a fixture. For the most part landlords were able to dictate terms on new leases and for renewals. With few options, tenants were forced to look to new construction as an alternative. However, in some cases rising costs and land shortages made this option somewhat difficult to achieve. As a result, landlords have been able to capitalize on the positive leasing market momentum of the recent past.

RETAIL VACANCY REMAINED ELEVATED

Vacancy levels continued to range at or near the cycle-high across much of the retail sector. Double-digit vacancy was reported recently, with a cycle-high 10.5% at the end of September of last year. More recently, properties tracked in the MSCI index registered average vacancy 10.0% by the end of March of this year. The wave of change that has unfolded in the retail industry served to drive vacancy levels progressively higher over the past few years. Previously, retail vacancy rates had ranged in the single-digits for more than 15 years. Regional centres have exhibited the highest vacancy rates of the past few years. As of the end of March, MSCI properties posted a vacancy rate of 13.1%. Super Regional and Neighbourhood rates came to rest at 8.9% and 8.3%, respectively. The Community centre average was 10.7%. Cycle-high vacancy reported across much of the retail sector recently proved to be a challenge for some owners and dampened rent rate growth.

FIRMER ECONOMIC GROWTH TREND BEGAN TO EMERGE

A firmer economic growth trend began to emerge during the second quarter of 2019, following a period of sluggish performance. Output was forecast to increase by roughly 2.0% on an annualized basis between April and the end of June. Previously, Real GDP advanced by a weak 0.4% during the first three months of the year. A similar performance was posted in the final three months of 2018, when annualized growth averaged an even more modest 0.3%. The recent economic growth downshift was relatively broad, despite continued job market strength and healthy domestic demand. External forces dampened progress, more specifically, the ongoing trade spat between the U.S. and China. Negative sentiment related to renewed North American trade tensions also negatively impacted economic activity. The end to steel and aluminum tariffs was a positive. Looking ahead to the balance of the year, growth was forecast to continue to firm. More than one forecast has pegged annualized growth at less than 1.5% for the year. The forecasts were generally predicated on an uptick in export activity, consumer spending advances and a modest recovery in the national housing market. The balance of 2019 was expected to see an extension of the modest increase in economic that began to emerge in the second quarter.

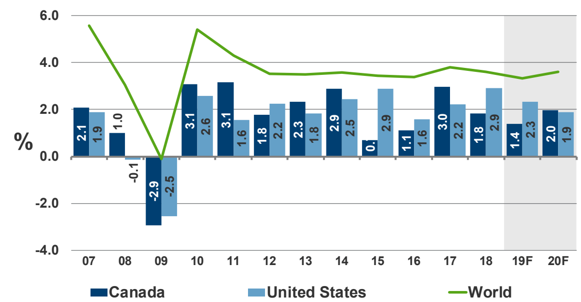
LABOUR MARKET STAR SHONE BRIGHT

Canada's labour market continued to rack up solid gains during the second quarter. In April, employment surged by 106,500 positions, which represented the biggest monthly advance dating back to 1976. As a result, the national unemployment rate fell to a near four-decade low. The increase in employment indicated the country had finally emerged from a six-month period of weakness. In May, a modest 27,700 new positions were created, with pulled the national unemployment rate down to 5.4%. This was likely a harbinger of things to come, with more modest employment gains forecast for the balance of the year. The moderate gains forecast over the near term likely signaled an end to an impressive turn of strong labour market performance. The Canadian economy generated 426,400 new jobs over the 12-month period ending April 30 2019. This represented the largest annual increase since the financial crisis. Second quarter wage growth was further evidence of the resilience of the Canadian job market. During April and May, wages for permanent workers rose 2.6%, which was the strongest upward pressure recorded since August of last year. Additionally, total hours worked increased 1.3% annually in April. In the same month, 108,100 people entered the labour force, which was a one-month record high and was another indication of the market's strength.

POSITIVE HOUSING MARKET TRENDS REPORTED

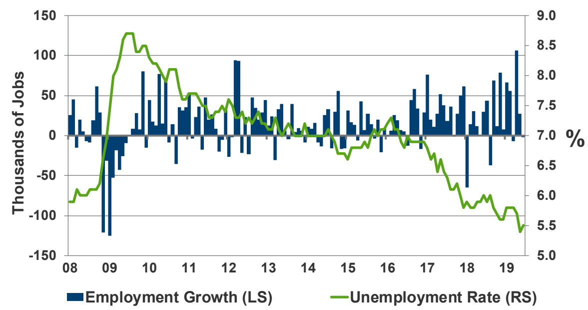
Positive trends were reporting in Canada's housing market during the second quarter. Homebuilding activity slowed during the three-month period but remained at a fairly healthy level. The 202,000 units (annualized) reported for May, was down 13.0% from the previous month. The near-term outlook for housing starts was stable, driven by positive labour market performance and the downward mortgage rate trend of the recent past. The Canadian resale home market also exhibited positive trends in the second quarter. Sales volume increased 1.9% in May, month-over-month. The modest rise marked a fourth monthly gain in the past five months. Activity increased in Vancouver and Toronto, with mixed results reported across the rest of the country. There gains in activity during the past few months suggested housing demand had stabilized. In terms of pricing, the average price of a home rose 2.5% month-over-month in May, marking a third consecutive increase. Positive resale market results generated during the second quarter were in keeping with the broader housing sector performance.

Economic Growth
Real GDP Growth - Historical & Forecast



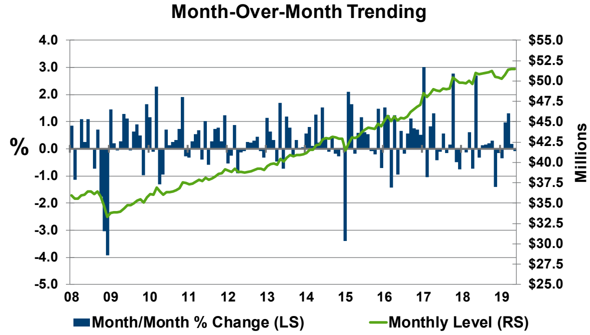
Source: Conference Board Of Canada (Jun 2019); International Monetary Fund (Apr 2019)

Labour Market
Month-Over-Month Trending



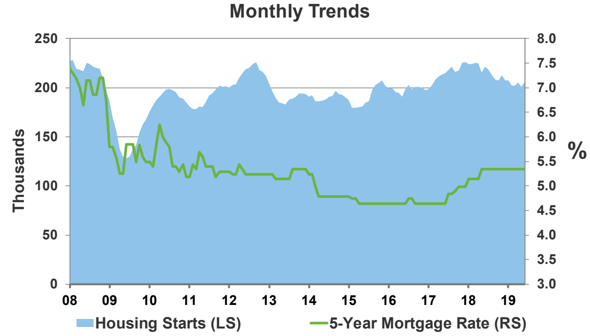
Source: Statistics Canada

Retail Sales
Month-Over-Month Trending



Source: Statistics Canada (May 2019)

Housing Market
Monthly Trends



Source: Statistics Canada, CMHC

OFFICE

Property	Date	Price	SF	PSF	Purchaser	City
Atrium on Bay	Jun-19	$640.0 M	1,079,870	$593	TD Greyst./KingSett	Toronto
1250 Rene Levesque Blvd W	May-19	$605.0 M	1,061,820	$570	Sun Life/Bentall	Montreal
AeroCentre	May-19	$163.4 M	623,250	$262	Fiera Properties	Toronto
99 Bank St (50%)	Apr-19	$207.5 M	986,633	$421	Bentall Kennedy	Ottawa
140 Allstate Pkwy	Apr-19	$17.0 M	84,037	$202	Davpart Inc.	Toronto
Slate GTA Portfolio (25%)	Apr-19	$131.8 M	1,957,868	$269	Wafra Inc.	Toronto

INDUSTRIAL

Property	Date	Price	SF	PSF	Purchaser	City
7270-7290 Torbram/Drew Rd	Jun-19	$26.2 M	150,696	$174	Pure Industrial REIT	Toronto
2001 Bantree St	May-19	$29.3 M	257,185	$114	Regional Group	Ottawa
1121 Walkers Line	May-19	$30.8 M	288,161	$107	CanFirst Capital	Toronto
Wingold Porfolio	May-19	$28.2 M	268,450	$105	Berkshire Axis	Toronto
1602 Tricont Ave	Apr-19	$35.8 M	258,000	$139	Dream Industrial	Toronto
2562 Stanfield Rd	Apr-19	$38.0 M	361,800	$105	Pure Industrial REIT	Toronto
ICBC Toronto Portfolio	Apr-19	$42.2 M	345,094	$122	Bentall Kennedy	Toronto
1600 Transcanada Highway	Apr-19	$26.0 M	258,578	$100	Camco Realties	Montreal
390 Orenda Rd	Apr-19	$18.7 M	156,769	$119	KingSett Capital	Toronto

RETAIL

Property	Date	Price	SF	PSF	Purchaser	City
Stock Yards Village (50%)	May-19	$88.5 M	504,179	$351	RioCan REIT	Toronto
First Capital Ont/Que Portfolio	May-19	$131.6 M	1,022,600	$257	Firm Capital	Various
Partners REIT GMA	May-19	$100.7 M	593,299	$170	Crofton Moore	Montreal
Shops at Wilson Station	Apr-19	$36.0 M	49,508	$727	Manulife Financial	Toronto

MULTI-SUITE RESIDENTIAL

Property	Date	Price	# Units	/Unit	Purchaser	City
Rossland Park	Jun-19	$220.0 M	991	$221,998	Q Residential	Toronto
La Voile Boisbriand	May-19	$57.2 M	149	$384,013	Realstar Group	Montreal
Le Sommet	May-19	$82.0 M	290	$282,759	Timbercreek/LaSalle	Montreal
La Voile Pointe-Claire	May-19	$70.0 M	197	$355,122	Realstar Group	Montreal
Le Rockhill	May-19	$268.0 M	1,004	$266,932	Investors/Minto	Montreal
518 Rochester St	May-19	$48.9 M	144	$339,583	Realstar Group	Ottawa
Sovima GMA Portfolio	Apr-19	$84.2 M	261	$322,605	Realstar Group	Montreal
Starlight GTA Portfolio	Apr-19	$39.0 M	144	$277,083	Siteline Group	Toronto
1531-1539 Bathurst/Tichester	Apr-19	$66.0 M	224	$294,643	Starlight Investments	Toronto

* share sale

ACKNOWLEDGEMENTS & CITED RESEARCH RESOURCES

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