THIRD QUARTER UPDATE
21ST ANNUAL EDITION

2019 CANADIAN ECONOMIC OUTLOOK

AND MARKET FUNDAMENTALS

Morguard

Keith Reading
Director of Research
905-281-5345
kreading@morguard.com

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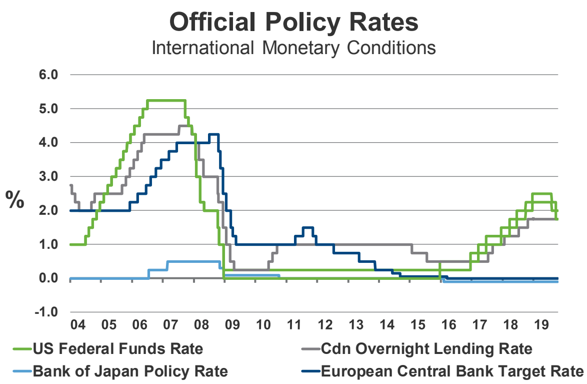
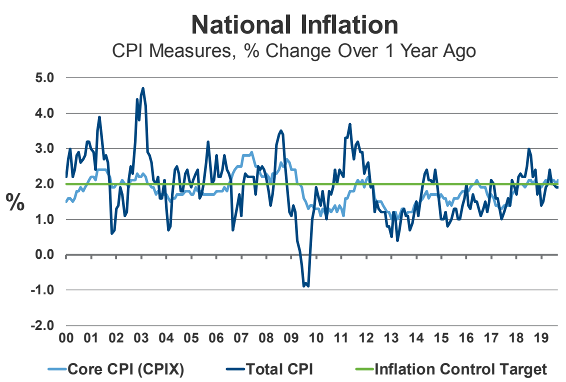
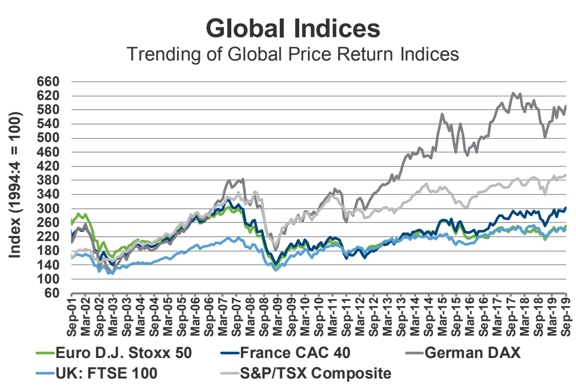


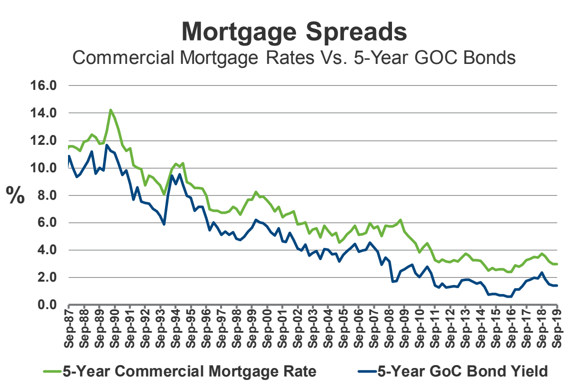
Source: Bank Of Canada, Federal Reserve Board, European Central Bank, Bank of Japan



Source: Bank Of Canada, Statistics Canada



Source: RBC Capital Markets



Source: RBC Capital Markets, Bank of Canada

BANK OF CANADA BUCKED THE GLOBAL TREND

The Bank of Canada (BofC) bucked the global trend when it maintained its overnight lending rate in September of this year. By holding the rate at 1.75%, the bank indicated the appropriateness of the current level of monetary accommodation. Most other central banks of the developed economic world had lowered or were about to lower rates, given a riskier global economic outlook. Despite the BofC's decision to stand pat, it did state its intention to closely monitor the global situation and the risk of contagion. Moreover, the bank noted the U.S.-China trade dispute had escalated resulting in weakened business investment. The bank also acknowledged that the U.S. economic growth had moderated but remained solid. Downward pressure on commodity prices as a result of weaker global demand was also cited by the bank as a concern. The bank projected a relatively modest Canadian economic growth trend during the second half of this year, following a better-than-expected third quarter result. On the one hand the domestic economic continued to operate close to full capacity. On the other hand, global trade uncertainty has taken a toll on both the global and domestic economies. Against this backdrop, the bank chose to hold off on raising its overnight rate during the third quarter, while several other central banks enacted more accommodative measures.

CONSUMER PRICE INFLATION COOLED

Canadian consumer price inflation (CPI) cooled during the third quarter, due to a drop in the price of gasoline. On a year-over-year basis, CPI rose 1.9%, down from 2.0% in July. CPI has now increased by 1.9% or more for six consecutive months, according to Statistics Canada. In August, consumers paid less for vegetables, meat and gasoline, year-over-year. Whereas inflation was strongest for air fares, which rose 10.3% year-over-year as of August, and natural gas. Strong labour market conditions including accelerated wage growth were drivers of increased purchasing power for consumers, while enjoying relatively modest price inflation. Looking ahead, geopolitical events may lead to increased pricing pressure. A major oil processing facility was attacked recently, which result in a sharp increase in global oil prices. This may lead to rising consumer prices, although as the third quarter came to an end the prospect appeared less likely. In the meantime, a cooling of consumer price inflation unfolded during the third quarter, despite a measure of volatility in the usual spending categories.

VOLATILITY CHARACTERIZED GLOBAL EQUITY MARKETS

Global equity markets were characterized by a significant level of volatility during the third quarter, due in large part to the ongoing trade dispute between the U.S. and China. Global equities have been through a rough ride of late. The Morgan Stanley Capital International All Country World Index (MSCI ACQI) began the quarter with a solid performance in July, ending the month in record-high territory. However, renewed hostilities between the U.S. and China resulted in a 6.0% drop in August. News of a U.S.-China meeting in Washington in October set the markets on an upward trend. In early September, the MSCI ACWI was up 17.1% on the year. For the same time period, the S&P/TSX performed slightly better at 17.9%. Volatility has also been the main theme for the S&P/TSX performance this year. This was tied largely to the energy sector. IT and Utilities have outperformed year-to-date, with gains of 61.1% and 31.6%, respectively. Whereas the Banks and Energy sectors, which have the largest weightings in the index, have underperformed. To a large extent, the underperformance was the result of uncertainty related to the ongoing U.S.-China trade dispute. Looking ahead, a solid economic and labour market outlook and low interest rates were expected to drive positive performance through the balance of the year. However, renewed tensions between the U.S. and China and its impact on the global economy was viewed as a potential equity market volatility-driver.

INVESTMENT TRANSACTION PACE HAS SLOWED

Sales of Canadian commercial investment property continued to moderate during the third quarter, continuing the first-half 2019 trend. To some extent, the slowdown was expected given the record annual high transaction volume total posted for 2018. Despite the recent slowdown in transaction closing volume, activity was expected to remain above the 10-year average. The reduction in closing activity was, to some degree, a function of supply. That is, fewer large-scale assets were made available for investors to acquire. On balance, investment demand outstripped supply, as investors continued to exhibit confidence in the Canadian commercial real estate sector. Industrial, office, and multi-suite residential rental properties were the most highly sought after. Generally, sales of these three property types have remained brisk. Retail properties have been more closely scrutinized, due to the broader changes sweeping across the industry. Retail has seen the sharpest decline in transaction activity of the major property classes in 2019, year-to-date. However, retail properties with solid performance records continued to attract buyers. Overall, investors continued to be drawn to Canada's commercial real estate sector as a source of attractive, largely income-driven yields. However, the pace at which they were able to close complete property acquisitions slowed during the third quarter.

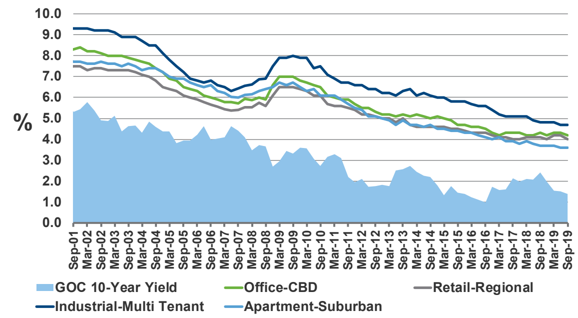
PERFORMANCE PATTERN HAS STABILIZED

The Canadian commercial real estate market third-quarter investment performance pattern was largely stable, in keeping the mature phase of the cycle. Properties contained in the MSCI Index generated an average annual total return of 6.8% for the year ending June 30, 2019. The moderately attractive return was in keeping with the performance pattern of the previous two-year period. The third quarter investment performance pattern by asset class was also largely stable. The industrial and multi-suite residential rental asset classes outperformed, with annual returns of 15.5% and 11.7% for the same 12-month time period, respectively. While returns have strengthened year-over-year, the pattern was unchanged. Over the same time period, the office sector registered a 7.3% return, which was also in line with the previous period. Lastly, the retail continued its recent track record of underperformance with a return of 2.9%. On balance, income growth was the main driver of investment performance for all asset classes. Looking ahead, a consistent investment performance pattern was expected to persist through the balance of this year and likely during much of the coming year.

MODEST VARIATION IN INVESTMENT MARKET TRENDS FORECAST

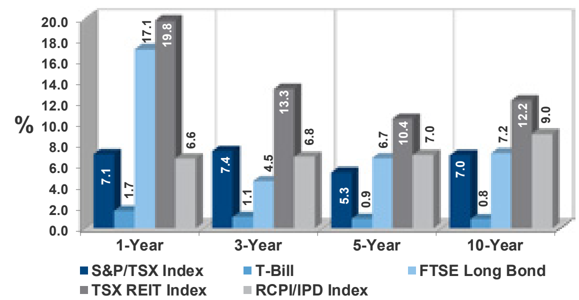
Variation in Canadian commercial real estate investment market conditions will be modest over the near term. Investors will continue to exhibit a measure of confidence in the sector at prevailing yields. Industrial, office and multi-suite residential rental properties will be held in the highest regard. Retail properties will be underwritten more conservatively, given the ongoing changes in the broader industry. Aggregate investment performance will continue to be largely income-driven, although slight increases in value could unfold in the industrial and multi-suite residential rental sectors. On balance, investor appetite will surpass product availability. Investors will be forced to bid aggressively, when attempting to acquire stabilized properties with attractive yield attributes. Annual transaction volume should remain above the 10-year average this year and next, assuming requisite availability. Some groups will continue to try to capitalize on late-cycle growth. Value-add opportunities will have appeal for others. The full range of buyer categories will be active over the near term, both for existing assets and development opportunities. In short, investment market conditions will largely mirror those of the recent past.

Yield Spreads
Cap Rates vs. 10-Year GOC Bonds



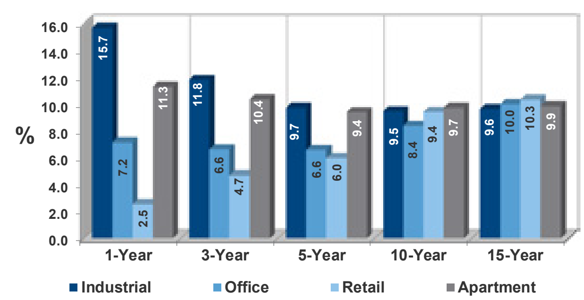
Source: AltusInSite (Sep 2019) , Bank of Canada (Sep 2019)

Relative Performance
Comparing Annualized Returns To Sept 2019



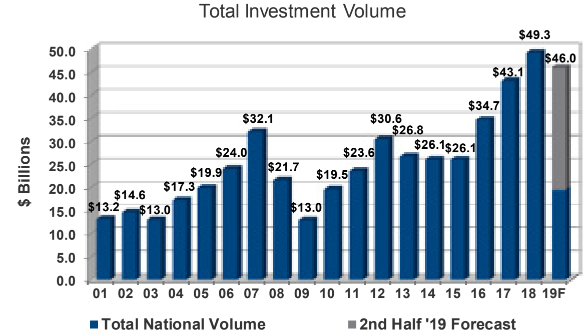
Source: © MSCI Real Estate; RBC CM; TSX Datalinx; SCM; PC Bond Analytics (Sep 2019)

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



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

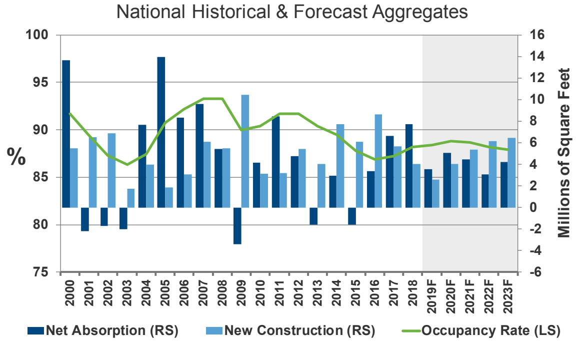
Investment Activity
Total Investment Volume



Source: CB Richard Ellis; Morguard

Office Demand & Supply

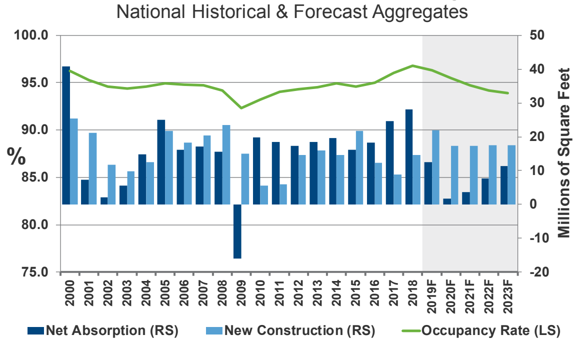
National Historical & Forecast Aggregates



Source: CBRE Limited; CBRE Econometric Advisors

Industrial Demand & Supply

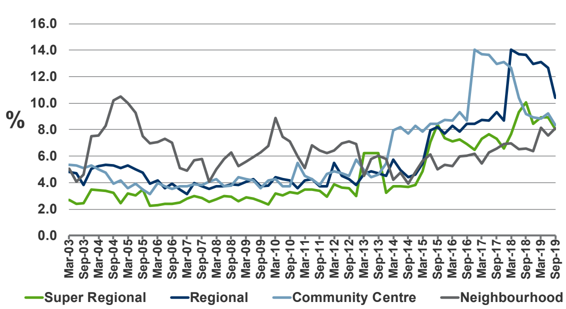
National Historical & Forecast Aggregates



Source: CBRE Limited; CBRE Econometric Advisors

Retail Vacancy Rates

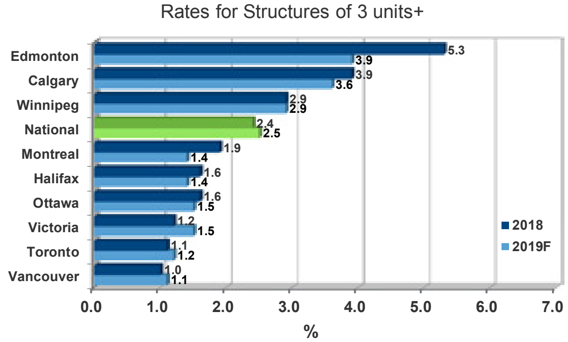
National Trending Across Property Types



Source: © MSCI Real Estate

CMA's Rental Vacancy

Rates for Structures of 3 units+



Source: CMHC, Housing Market Outlook Report, CBRE

ROBUST SUBURBAN OFFICE SPACE DEMAND REPORTED

The continued suburban office space demand robustness reported during the third quarter drove the aggregate national vacancy down to a four-year low. In extending the trend of the past four years, this demand supported aggregate net absorption of 977,733 square feet of office space in the nation's suburbs between July 1 and September 30, 2019. Year-to-date, 4.9 million square feet of suburban office space has been absorbed across the country. The strong performance year-to-date represented an extension of the trend of the preceding three-year period when suburban absorption averaged 5.0 million square feet annually. The recent health of the suburban demand cycle was, to some extent, a function of tight conditions and rising rents in several of the nation's downtown areas. Rapid expansion of the technology sector has also forced businesses to seek expansion opportunities in suburban locales. Furthermore, expansion within the nation's traditional office space user sectors has boosted suburban leasing activity. The suburban demand strength of the recent past helped drive the national vacancy rate downward. During the third quarter, the national vacancy rate dropped 20 bps to 11.0%. The downtown rate was unchanged at 9.8%, while the suburban average fell 50 bps quarter-over-quarter to a four-year low of 12.4%. Suburban office space demand was expected to remain healthy through the balance of this year and into 2020.

MAJOR MARKETS DROVE INDUSTRIAL LEASING PERFORMANCE

Canada's positive third-quarter industrial leasing performance was driven by the nation's largest markets. The national industrial leasing market continued to tighten during the third quarter, with availability dropping 20 bps to a cycle-low of 2.9%. Toronto and Montreal posted the most significant declines over the period, from 1.5% to 1.2% and 3.2% to 2.8%, respectively. The downward availability pressure was driven by the continue absorption of space across the country. A total of 8.5 million square feet of industrial space was absorbed between July 1 and September 30, 2019. The strongest results were registered in the nation's three largest inventories. Vancouver, Toronto and Montreal posted net absorption of 1.2 million square feet, 1.1 million square feet and 2.1 million square feet, respectively. Ottawa also added to the national total with 1.1 million square feet, almost all of which was the completion of the Amazon distribution centre. The positive third-quarter leasing performance supported continued and moderate upward pressure on rents in several markets. At the same time, the country's largest markets were the main drivers of the third-quarter performance.

RETAIL VACANCY STABILIZED WHILE INDUSTRY EVOLUTION CONTINUED TO UNFOLD

Retail sector vacancy stabilized during the third quarter, while the industry's evolution continued to unfold. The national vacancy rate stood at 5.8% as the beginning of the third quarter, down a modest 40 bps quarter-over-quarter and 100 bps year-over-year. Previously, vacancy had reached a decade-high due to the closure of Sears and several other well know retail brands over the past couple of years. The Regional Centre average national vacancy rate rested at 10.3%, representing the market's weakest segment. As the second half of 2019 began, however, national vacancy looked to have stabilized, against a somewhat uncertain industry backdrop. Changing spending habits and demographic trends continued to have both positive and negative impacts on the retail industry. To some extent, landlords and retailers were continuing to adjust to ongoing industry changes. The retail industry has changed and will continue to change over the next few years. In the meantime, the national vacancy trend is expected to continue to stabilize.

JOB MARKET OUTPERFORMED EXPECTATIONS

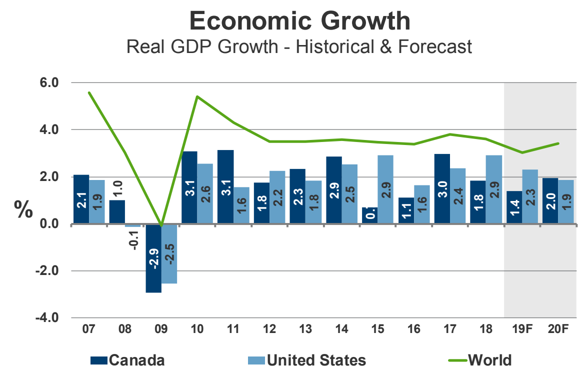
Canada's job market outperformed expectations during the third quarter. The Canadian economy created 53,700 jobs in September alone, bringing the quarterly total to 111,000, according to Statistics Canada data. Employment had increased by 456,000 positions year-over-year. Third quarter job growth virtually matched the second quarter's somewhat surprisingly strong performance. National employment grew 0.6% over the three-month period, compared with 0.7% between April 1 and June 30, 2019. The country's services sector was a key driver of employment growth in the third quarter, continuing the trend of the past several months. The strength of the employment growth trend drove the national unemployment rate steadily lower. The rate was driven 20 bps lower to 5.5% in September, which was just 10 bps higher than the historic low set in May 2019. In some sectors of the economy, businesses have found it increasingly difficult to source prospective employees for job openings. Therefore, it was not all that surprising to see wage growth accelerate during the third quarter. The national average wage increased by 4.3% in September from 3.8% in August, on a year-over-year basis. The increase offered further evidence of the Canadian job market outperformance of the third quarter.

TEPID RETAIL SALES GROWTH TREND CONTINUED

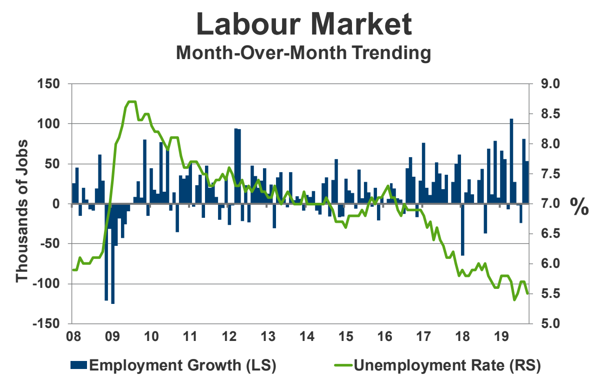
Canadian retail sales growth remained relatively weak during the third quarter, despite increased household purchasing power. Retail sales fell 0.1% in August. This backstep followed the first positive monthly result of the preceding three-month period. The August sales decline was a function of reduced sales in food and beverage stores. A modest rise in retail sales was projected for the third quarter, at somewhere near the 1.0% level. The sluggish retail sales data of the past few months was somewhat surprising, given an increase in household purchasing power. National employment had increased 2.0% year-over-year by the end of July. Lower interest rates and wage growth were also expected to generate increased spending volume. Additionally, confidence continued to hold at the cycle-peak. However, despite these positives, retail sales growth underwhelmed during the third quarter, a trend that was expected to persist through to the end of the year.

RESALE HOUSING MARKET RECOVERY PREVAILED

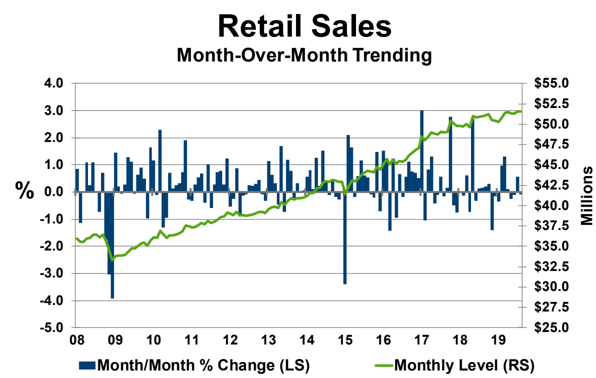
The recovery phase of the Canadian resale housing market cycle continued to unfold during the third quarter. Month-over-month sales increased by a modest 0.6% in September, following a healthier 1.4% lift in August. In July, a sharper rise in activity levels was recorded, at 4.0%. National sales have increased in seven consecutive months, including September. Year-over-year sales volume improved by a solid 8.6%. Sales in Vancouver have increased monthly since April of this year, with a 8.0% lift reported in September. In Ontario, sales were up 9.4% and 6.1% in Quebec, year-over-year as of September. The recovery in sales activity over the recent past coincided with increases in resale home prices. The national average resale home price in seven consecutive months through to the end of the third quarter. By the end of September, the average sale price had increased 4.5%, year-over-year. This growth was the strongest on record dating back to 2017, just prior to the B-20 implementation. Ontario and Quebec were the leaders in year-over-year price growth, with a more modest gain reported in British Columbia. Saskatchewan bucked the oil-producing province trend, with 6.0% year-over-year inflation as of September. Alberta and Newfoundland and Labrador prices have steadily declined over the recent past. Despite some regional variation in pricing trends, there was clear evidence of the continued unfolding of the nation's resale housing market recovery observed in the third quarter.



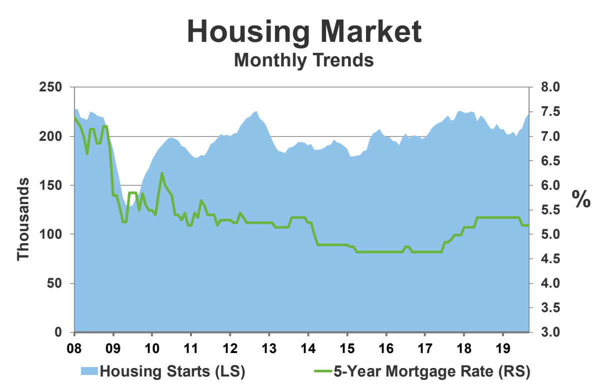
Source: Conference Board Of Canada (Oct 2019); International Monetary Fund (Oct 2019)



Source: Statistics Canada



Source: Statistics Canada



Source: Statistics Canada, CMHC

OFFICE

Property	Date	Price	SF	PSF	Purchaser	City
415 Yonge St	Sep-19	$124.0 M	192,036	$646	Private	Toronto
2476 Argentia Rd	Sep-19	$38.1 M	101,710	$375	Concert Properties	Toronto
Carling Executive Park	Aug-19	$56.5 M	287,480	$197	Crown Realty	Ottawa
30 Eglinton Ave W	Jul-19	$70.9 M	164,731	$430	Crown Realty/Plaza	Toronto
600 de la Gauchetiere St W	Jul-19	$187.0 M	762,890	$245	Kevric/PSP	Montreal
99 Metcalfe St	Jul-19	$52.0 M	157,315	$331	Morguard	Ottawa
700 de la Gauchetiere St W	Jul-19	$322.5 M	935,866	$345	Allied REIT	Montreal
RCA Building	Jul-19	$80.0 M	343,579	$163	Allied REIT	Montreal

INDUSTRIAL

Property	Date	Price	SF	PSF	Purchaser	City
5225-5371 Boundary Rd (90%)	Sep-19	$156.1 M	1,023,250	$169	Concert Properties	Ottawa
Cristall Group Misissauga Portf.	Sep-19	$47.7 M	261,817	$182	KingSett Capital	Toronto
15050 54A Ave	Sep-19	$66.2 M	315,128	$210	CanFirst Capital	Vancouver
HOOP Montreal Portfolio	Sep-19	$259.0 M	1,533,924	$169	Pure REIT/Blackstone	Montreal
2611 Hopewell NE, 4303 26th	Aug-19	$26.5 M	172,504	$154	Canadian Urban	Calgary
12333 Airport Rd	Jul-19	$89.3 M	568,000	$157	Pure Industrial REIT	Toronto
1250-1280 Humber Pl	Jul-19	$32.8 M	233,411	$141	Dream Ind. REIT	Ottawa
2500 Williams Pkwy E	Jul-19	$24.3 M	132,402	$184	Berkshire Axis	Toronto
195 Harry Walker Pkwy	Jul-19	$26.5 M	290,000	$91	Davpart Inc.	Toronto

RETAIL

Property	Date	Price	SF	PSF	Purchaser	City
Market at Magrath	Sep-19	$36.3 M	77,967	$465	Manulife Financial	Edmonton
Hazeldean Mall	Aug-19	$14.3 M	223,740	$63	Regional Group	Ottawa
312 Queen St W	Aug-19	$20.0 M	10,440	$1,916	Memnon	Toronto

MULTI-SUITE RESIDENTIAL

Property	Date	Price	# Units	/Unit	Purchaser	City
Fusion	Sep-19	$56.0 M	146	$383,562	Centurion Apt. REIT	Vancouver
Akelius Toronto Portfolio	Sep19	$176.8 M	628	$281,529	Starlight Investments	Toronto
1825 Russell Rd	Sep-19	$23.0 M	104	$221,154	Aera Investments	Ottawa
Montecito Towers	Aug-19	$90.0 M	252	$357,143	Starlight Investments	Vancouver
41 Dundonald St	Aug-19	$35.0 M	101	$346,535	Timbercreek AM	Toronto
Oceania Court*	Aug-19	$32.5 M	117	$277,778	Western Invstmt Prop	Vancouver
Manoir Dufferin	Aug-19	$22.7 M	118	$180,564	InterRent REIT	Montreal
D Sisso Portfolio	Jul-19	$132.0 M	544	$234,458	InterRent REIT	Montreal

* 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, 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, The Network, 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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55 City Centre Drive
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Mississauga, ON
L5B 1M3
905-281-3800

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