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2020 CANADIAN ECONOMIC OUTLOOK AND MARKET FUNDAMENTALS

22ND ANNUAL EDITION

FOURTH QUARTER UPDATE

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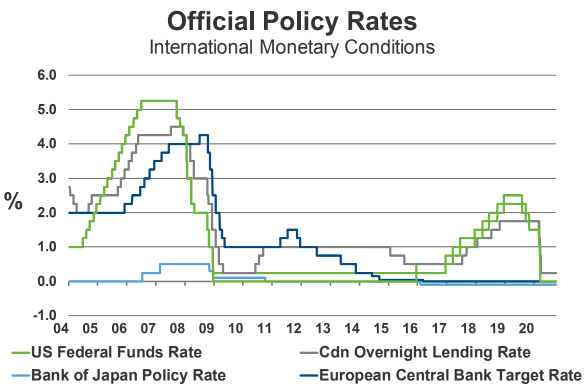
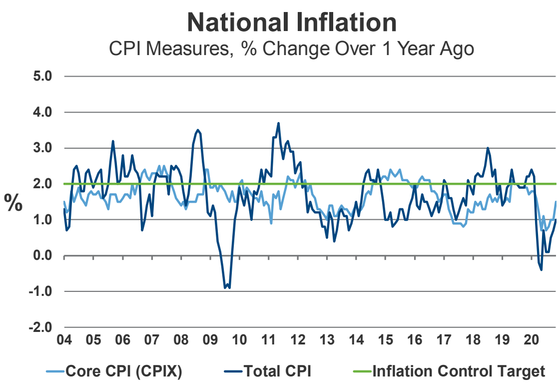
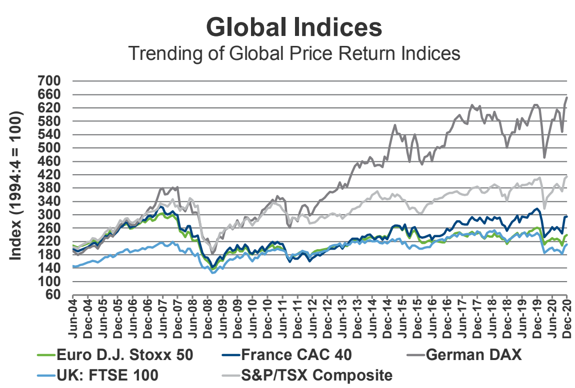
TABLE OF CONTENTS



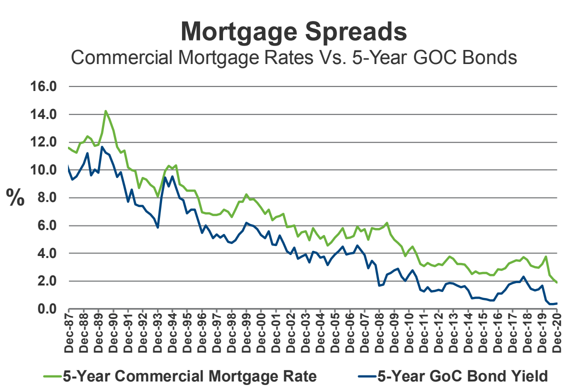
Source: Bank Of Canada, Federal Reserve Board, European Central Bank, Bank of Japan



Source: Bank Of Canada, Statistics Canada



Source: RBC Capital Markets



Source: RBC Capital Markets, Bank of Canada

BANK OF CANADA MAINTAINED ACCOMMODATIVE POLICY STANCE

The Bank of Canada (BofC) maintained its accommodative monetary policy stance during the fourth quarter, which has been a constant since the onset of the COVID-19 pandemic. The BofC announced the maintenance of its target for the overnight rate at the effective lower bound of a quarter of a percentage point. Coincidently, the bank continued with its quantitative easing program to the tune of $4.0 billion on a weekly basis. The bank's Governing Council restated its intention to hold the policy interest rate at the fourth-quarter level while the country's economic slack continued to weigh on inflation. Further, the bank indicated interest rates would remain low across the yield curve until inflation returns to the 2.0% target rate on a sustained basis. Previously, the BofC had implemented several programs and measures to minimize the negative impacts of the COVID-19 pandemic on Canadian businesses and consumers. The bank took steps to minimize the risk of a liquidity crisis and provide access to short-term cash. Subsequently, the foundation for economic recovery from the negative impacts of the pandemic was laid. As the fourth quarter came to an end, the bank's maintenance of its accommodative monetary policy stance was expected to remain in place over the near term.

CONSUMER PRICE INFLATION REMAINED MUTED

Canadian consumer price inflation remained muted during the fourth quarter, which represented a continuation of the near-term trend. Statistics Canada reported a 1.0% year-over-year rise in the Consumer Price Index (CPI) for November, up slightly from the 0.7% level in October. Of the spending categories tracked, prices for shelter increased most sharply at 1.9%. Excluding gasoline, the CPI rose 1.3%, up from 1.0% in the previous month. Month-over-month prices rose 0.3% on a seasonally adjusted basis. Inflation has consistently ranged below the 2.0% level over the past several months, a trajectory that is unlikely to change any time soon. Generally, consumer prices have rebounded nicely from the springtime deflationary environment. Energy and owner's replacement cost price growth were key drivers of inflation during the summer and fall of 2020. Additionally, the BofC's three core inflation measures were unchanged in November, at 1.7% year-over-year. Over the near term, supply chain disruptions were expected to drive core inflation closer to the bank's target. Moreover, government transfers were expected to boost household income and spending, resulting in moderately stronger upward consumer price pressure compared with the more muted level recorded during the fourth quarter.

EQUITY MARKETS RESPONDED POSITIVELY TO VACCINE NEWS

Global equity markets responded positively to news surrounding the distribution of COVID-19 vaccines during the fourth quarter. The MSCI All Country World Index (MSCI AWCI) composite's 12.9% return for the three-month period accounted for much of the index's 14.8% annual advance. A similar performance pattern was recorded in most other MSCI regional indices over the past year. Fourth-quarter equity market gains were a byproduct of increased investor optimism surrounding the global economic outlook. This optimism pushed the U.S. yield curve to a high point dating back over two years. Canada's S&P/TSX Composite posted a solid 8.1% return for the fourth quarter of 2020, bringing the annual 2020 performance into the black at 2.2%. The SmallCap Index outperformed, with a 22.8% quarterly return, followed by the Completion (Mid Cap) at 12.6%. For the full year, the Information Technology Sector posted a stellar 54.6% gain while the Energy sector floundered with a negative 37.6% return. Looking ahead to next year, global equity market performance will hinge to some extent on the efficacy of the various vaccines that have been developed or were expected to be approved.

INVESTORS CONTINUED TO ADAPT TO THE NEW MARKET REALITY

Investors continued to adapt to the new Canadian commercial property investment market reality during the fourth quarter. Buyers focused on acquiring properties with stable income streams and positive performance outlooks, given an uncertain economic outlook. As a result, investors continued to acquire multi-suite residential rental and industrial properties at a near record-high pace. Conversely, office and, in particular retail, properties were sold at a relatively muted pace. As a result of this dynamic, 2020 transaction volume was expected to fall markedly short of the record annual highs of 2018 and 2019. Transaction volume was expected to range close to the $30.0 billion mark for 2020 by the time final figures are tabulated. On average, cap rates for stabilized assets with strong income streams held close to pre-pandemic levels. Modest downward pressure has materialized for the most highly sought-after assets, particularly in the industrial and multi-suite residential rental sectors. Some investors continued to rationalize acquisitions during the fourth quarter with historically wide spreads between commercial property and long-term government bond yields. In summary, commercial property sector investors continued to adapt the new market reality of an uncertain performance outlook as a result of the unfolding of a global pandemic.

HEALTHY MULTI-SUITE RESIDENTIAL RENTAL PROPERTY SALES ACTIVITY REPORTED

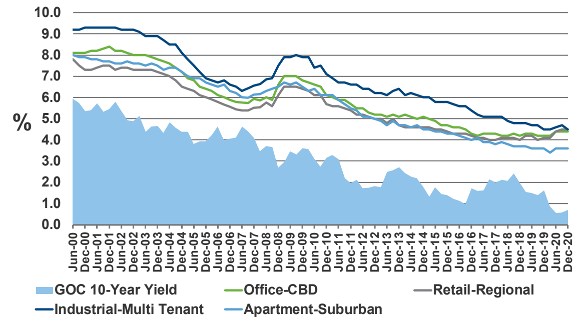
A healthy level of multi-suite residential rental investment property sales was recorded during the final few months of 2020, continuing the trend of the past few years. Several significant transactions were reported over the three-month period in Canada's largest urban markets. In the Greater Toronto Area, for example, Parkview Apartments was acquired by Q Residential for just shy of $158.0 million and the Realstar Group acquired 165 La Rose Avenue for $83.6 million. Centurion Apartment REIT acquired Le Art in Montreal for $72.4 million. Investors looked to the sector as a source of stable income with a positive performance outlook. Investors have focused increasingly on acquiring properties that had outperformed during a period of elevated business and economic uncertainty. During the pandemic period, landlords have been able to collect rents from most tenants, a trend that was bolstered by government transfer payments to renter households. In most jurisdictions, rent collections hovered in the high 90.0% range. Consequently, investment performance has been stable and healthy and property values have held at the peak for the cycle. This outperformance supported healthy investment sales activity through to the end of the fourth quarter.

INVESTMENT MARKET CONDITIONS TO STABILIZE OVER NEAR TERM

Canada's commercial property investment market will stabilize over the near term, barring a significant shift in the economic and business backdrop. Heightened economic and business uncertainty will continue to impact investor sentiment. Investors will focus on acquiring stable properties with defensive attributes, which has been the case since the onset of the pandemic. Investors will continue to exhibit a preference for industrial and multi-suite residential rental properties as sources of stable and attractive returns. At the same time, purchasers will remain selective when looking to acquire office and retail properties, given less certain outlooks for both asset classes. The national asset-class acquisition dynamic will continue to unfold over the next six to 12 months. Consequently, transaction closing volume will remain below the most recent peak levels of 2017-2019. Core property values will also stabilize, holding close to pre-pandemic levels. However, downward value pressure in the retail asset class will persist. The forecast near-term value stabilization will mirror conditions in the broader commercial property investment market over the near term.

Yield Spreads

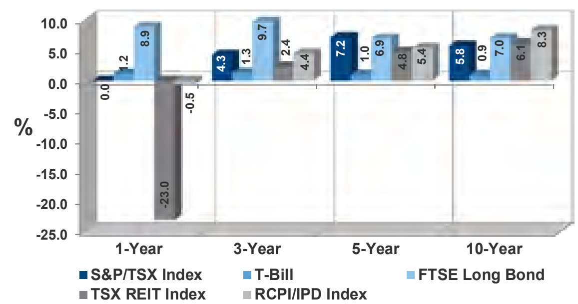
Cap Rates vs. 10-Year GOC Bonds



Source: AltusInSite, Bank of Canada

Relative Performance

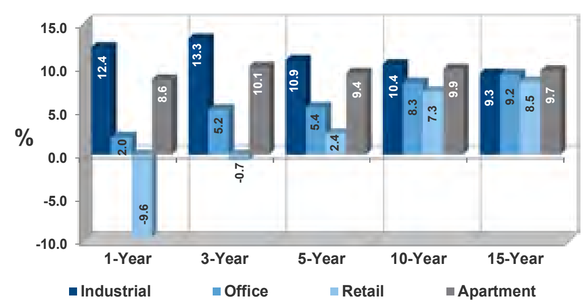
Comparing Annualized Returns To Sept 2020



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

IPD Returns

Annualized Returns By Property Type To Sept 2020

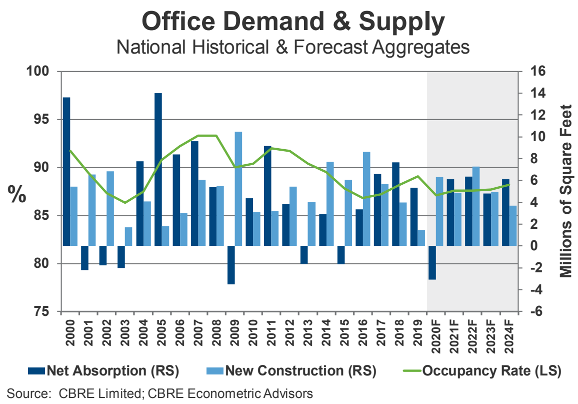


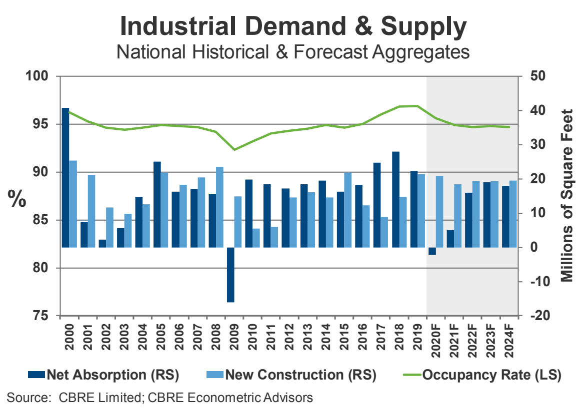
Source: © MSCI Real Estate

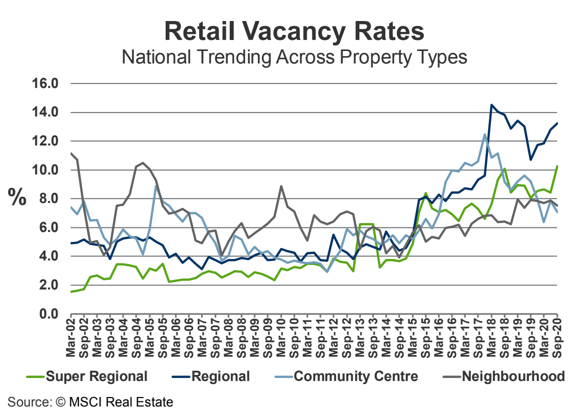
Investment Activity

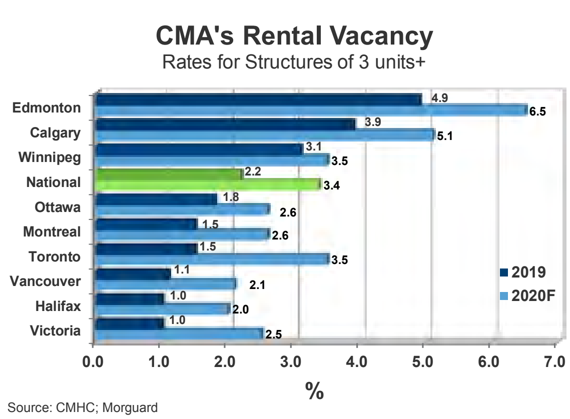
Total Investment Volume

Source: CBRE Limited; Morguard









OFFICE LEASING MARKET SOFTENING PERSISTED

The pandemic-driven softening of Canadian office leasing market fundamentals persisted during the fourth quarter. More than 5.8 million square feet of additional space was vacated across the country during the three-month period, bringing the annual 2020 total to just short of 8.3 million square feet. Canadian businesses continued to shed excess space in order to reduce expenses during the fourth quarter, continuing the trend that began with the onset of the COVID-19 pandemic. In many cases, employees continued to work remotely, in order to comply with government directives and reduce the spread of the virus. The office leasing market softening of the fourth quarter was most prominent in the downtown submarkets of the country. According to CBRE statistics, 3.7 million square feet of space was vacated during the fourth quarter, which drove the national average downtown vacancy rate up 150 bps to 13.0%. A relatively modest 2.1 million square of space was returned to the nation's suburban submarkets over the same time period, which pushed vacancy 150 bps higher to 14.0%. Markedly weaker office space demand fundamentals reported during the fourth quarter represented a continuation of the slowdown that unfolded with the onset of the pandemic in March 2020. Subsequently, vacancy levels steadily rose and demand stalled across much of the country, resulting in downward pressure on market rents. Over the near term, office leasing fundamentals are expected to continue to soften, following an intensification of this trend in the fourth quarter of 2020.

CONTINUED INDUSTRIAL MARKET RESILIENCE WAS EVIDENCED

The continued resilience of Canada's industrial leasing market was evidenced during the final few months of 2020. Demand for warehouse, logistics and manufacturing space remained buoyant through the final three months of the year, driven in part by increased e-commerce activity. E-commerce penetration continued to increase with the lockdown measures implemented in several regions of the country to control the second-wave surge in COVID-19 infections. Large-bay space remained in relatively short supply in the country's major regional distribution hubs. The buoyancy of the national demand cycle supported near record low availability. The national availability rate rested at just 3.3% at the end of 2020, as reported by CBRE. The rate dropped 20 bps quarter-over-quarter and was 10 bps lower than the previous three-year average. Vancouver, London, Waterloo Region, Toronto, and Montreal registered availability rates markedly lower than the national average. Conversely, Edmonton and Calgary posted substantially higher averages while Winnipeg, Ottawa and Halifax rates were slightly higher but still healthy. Market rents continued to rest at benchmark-high levels for the cycle, with upward pressure on averages reported in several regions. The continued upward pressure and broader leasing market resilience forecast for Canada's industrial sector over the next few years was expected to support above-average investment performance and acquisition volume.

MULTI-SUITE RESIDENTIAL RENTAL RENTS RESTED BELOW MOST RECENT PEAK

Multi-suite residential rental sector market rents continued to range below recent benchmark levels during the fourth quarter. Averages were down significantly in most major urban centres across the country, as of November 2020 year-over-year, as reported by Rentals.ca. The most pronounced declines were recorded in downtown nodes. In Toronto, for example, the average year-over-year rent was down 9.1%. Demand and overall rental market activity plunged in the spring of 2020 with the closure of Canadian borders to non-essential travelers including foreign students and immigrants. Rental demand was expected to improve with the widespread distribution of one or more COVID-19 vaccines next year, which will push rents closer to the recent benchmark highs set in in 2019.

ECONOMIC RECOVERY REMAINED SLOW AND UNEVEN

Canada's slow and uneven economic recovery continued to unfold during the fourth quarter, with the second wave of the pandemic hampering progress. Statistics Canada announced a 0.4% gain in economic output for October, with a similar result forecast for November. Subsequently, economic output was expected to decline in December, given tighter lockdown measures in Alberta and Ontario. The October and November advances represented the weakest growth rates dating back to May 2020. Canada's economic recovery remained uneven during the fourth quarter, as growth slowed. Some sectors of the economy had already moved beyond their pre-pandemic output highs. Finance, insurance, and real estate output, for example, was already 2.6% higher than the February level as of October 2020. Additionally, retail was up 2.7% over the same time period. Conversely, the accommodation and food services sector output was a whopping 31.6% below the pre-pandemic level. Additionally, Mining, quarrying, and oil and gas production output was down 10.1% from the February level. During the final few weeks of 2020, COVID-19 infection rates began to surge. Consequently, several provinces enacted or were about to implement even tighter measures to control the spread of the virus. As a result, economic output was expected to underwhelm and remain uneven into 2021.

LABOUR MARKET RECOVERY STALLED

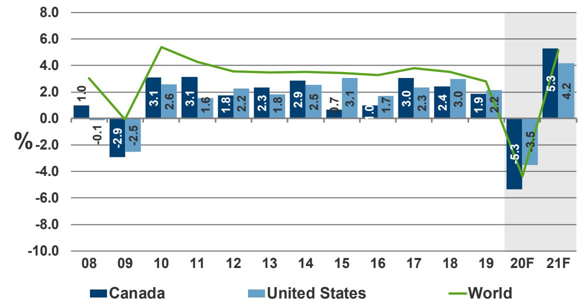
Canada's labour market recovery stalled during the fourth quarter, due primarily to the targeted measures implemented to control the second wave of the pandemic. National employment fell by 63,000, or 0.3% month-over-month as of early December, according to Labour Force Survey data. The month-over-month decline was the first recorded since April 2020. The drop off in total employment followed advances of 84,000 and 62,000 in October and November respectively, a period during which growth began to slow. The stalling of national labour market recovery in the final few weeks of 2020 was a result of public health measures implemented to offset the recent surge in COVID-19 infections. Cultural and recreational facility closures imposed in Manitoba and much of Quebec in the early fall were extended through to the end of 2020. Additionally, restrictions on in-person dining and retail businesses remained in place in both provinces. New restrictions were imposed in several provinces in November and December. In Ontario, for example, Toronto and Peel were locked down on November 23, followed by Windsor and York on December 11. On November 24, Alberta closed entertainment and recreation facilities while Saskatchewan implemented additional business limitations at the end of November. Further restrictions were introduced in several provinces in the final few weeks of December, which were expected to negatively impact the nation's labour market recovery into 2021.

BULLISH HOUSING MARKET TRENDS CARRIED THROUGH TO YEAR END

Canada's housing market continued to exhibit largely bullish trends through the final quarter of 2020. National home sales rested at an historically high level on a seasonally adjusted basis in November, as reported by the Canadian Real Estate Association (CREA). Home sales were up 32.1% year-over-year as of November, despite a slight month-over-month decline. Coincidentally, homes listed for sale dropped to an all-time low in the same month. Canada's average home price edged 0.4% higher, month-over-month, which represented a record high. Early indications from local real estate boards were that December sales surged by between 32.0% and 65.0% year-over-year in Montreal, Ottawa, Edmonton and Toronto. In short, Canadian housing market fundamentals have been generally bullish during the fourth quarter, continuing the trend of the post-pandemic period.

Economic Growth

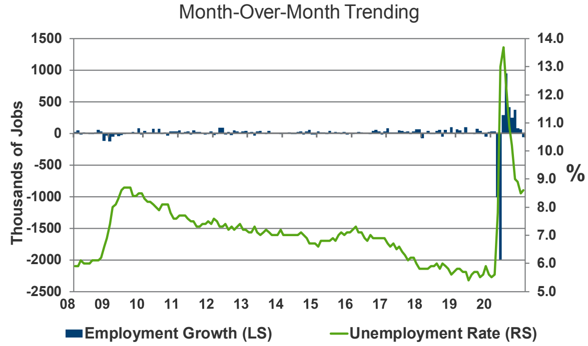
Real GDP Growth - Historical & Forecast



Source: Conference Board Of Canada (Dec 2020); International Monetary Fund (Oct 2020)

Labour Market

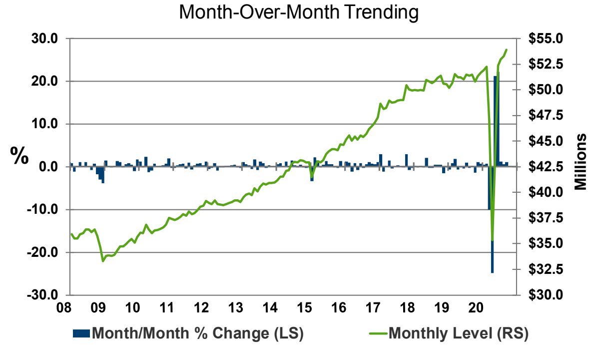
Month-Over-Month Trending



Source: Statistics Canada

Retail Sales

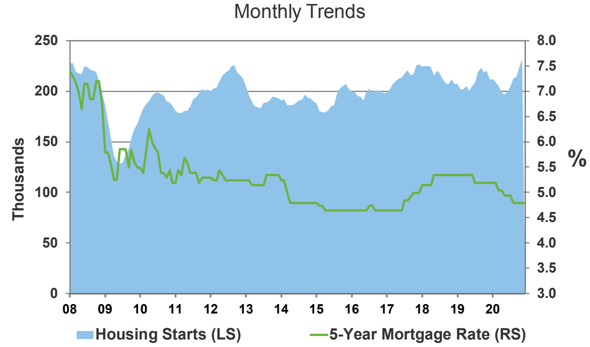
Month-Over-Month Trending



Source: Statistics Canada

Housing Market

Monthly Trends



Source: Statistics Canada, CMHC, Bank of Canada

INVESTMENT MARKET TRANSACTIONS | Q4 2020

OFFICE

Property	Date	Price	SF	PSF	Purchaser	City
First Meadowvale Ctr Phase I	Dec-20	$72.2 M	249,345	$290	Groupe Mach	Toronto
81 Metcalfe St (75%)	Nov-20	$12.5 M	57,170	$290	Marlin Spring	Ottawa
10303 Jasper Ave	Nov-20	$96.4 M	408,893	$236	Redstone	Edmonton
Concorde Corporate Ctr	Nov-20	$114.0 M	567,619	$210	Fengate Properties	Toronto
Dominion Place	Nov-20	$17.2 M	139,177	$126	Telus	Calgary
2300 Meadowvale Blvd	Oct-20	$75.7 M	242,000	$313	BMO Life Assurance	Toronto

INDUSTRIAL

Property	Date	Price	SF	PSF	Purchaser	City
280, 300 Industrial Pkwy S	Dec-20	$17.0 M	140,128	$121	Rathcliffe Properties	Toronto
1 Steelcase Rd W	Nov-20	$93.0 M	688,904	$135	Quadreal Group	Toronto
Sunrise Portfolio	Nov-20	$34.5 M	325,579	$106	Equitable Life	Montreal
550 McArthur St	Nov-20	$17.3 M	156,514	$111	Mondev	Montreal
1100 Gorham St	Oct-20	$12.0 M	55,084	$218	Crestview	Toronto
123 Great Gulf Dr	Oct-20	$47.3 M	244,633	$193	Summit REIT	Toronto
Groupe Montoni Portfolio (50%)	Oct-20	$88.0 M	1,043,178	$84	Summit REIT	Montreal

RETAIL

Property	Date	Price	SF	PSF	Purchaser	City
Ctre Commercial Chateauguay	Dec-20	$19.2 M	117,048	$164	MC Properties	Montreal
800 Steeles Ave W	Dec-20	$43.2 M	136,254	$317	Terracap	Toronto
Delta Shoppers Mall*	Nov-20	$34.3 M	74,669	$459	A.L. Scott	Vancouver
6435-6487 Dixie Rd	Oct-20	$24.0 M	129,976	$185	MSR Plaza Inc.	Toronto
2510 Hampshire Gt	Oct-20	$14.9 M	38,905	$382	Delamere Enterprises	Toronto
3964-3968 Notre Dame St W	Oct-20	$11.0 M	77,200	$142	Crombie REIT	Montreal

MULTI-SUITE RESIDENTIAL

Property	Date	Price	# Units	/Unit	Purchaser	City
Raamco International Portfolio	Dec-20	$76.2 M	528	$144,360	Banvest Inc.	Montreal
500 Duplex Ave	Dec-20	$158.0 M	330	$478,712	Q Residential	Toronto
Le Art	Nov-20	$72.4 M	138	$524,819	Centurion Apt. REIT	Montreal
Homestead Portfolio	Nov-20	$95.5 M	380	$251,316	CAPREIT	Ottawa
128 Sheridan Ave	Nov-20	$22.4 M	68	$330,000	Timbercreek	Toronto
141 Erskine Ave	Nov-20	$64.1 M	161	$398,012	Q Residential	Toronto
165 La Rose Ave	Nov-20	$83.6 M	211	$396,209	Realstar Group	Toronto
1130 Queens Ave	Oct-20	$46.1 M	100	$461,000	Homestead	Toronto
Walkley Avenue GMA Portfolio	Oct-20	$30.8 M	161	$190,994	Timbercreek	Montreal
78-88 Dollard des-Ormeaux St	Oct-20	$63.0 M	180	$350,000	Manulife Financial	Hull
301 Dixon Rd	Oct-20	$78.5 M	225	$348,887	Starlight Investments	Toronto

* share sale

ACKNOWLEDGEMENTS & CITED RESEARCH RESOURCES

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