2022 CANADIAN ECONOMIC OUTLOOK

AND MARKET FUNDAMENTALS FOURTH QUARTER UPDATE

24TH ANNUAL EDITION

MORGUARD

Q4

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Q4

ABOUT

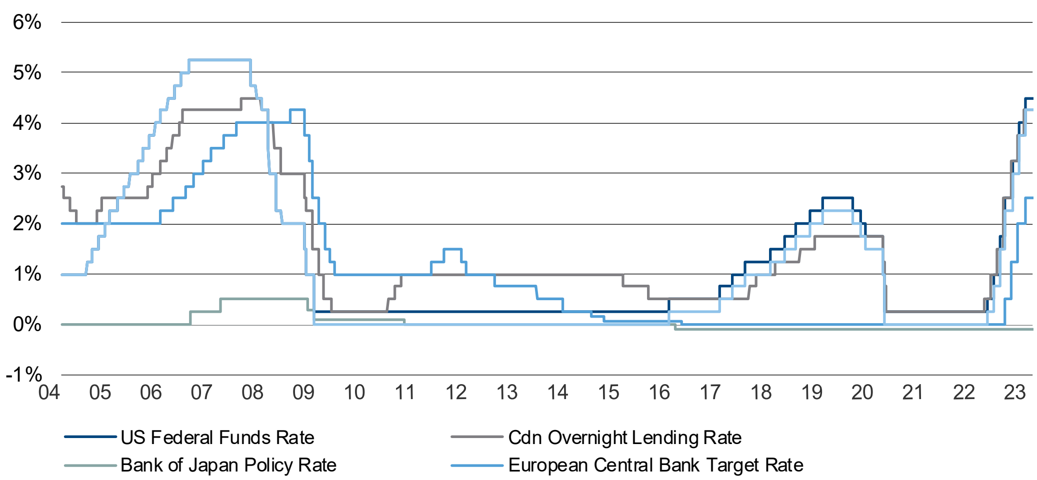
FINANCIAL REPORT

CENTRAL BANK'S RATE HIKE CYCLE CONTINUED TO UNFOLD

The Bank of Canada's (BofC) rate hike cycle continued in the fourth quarter. The bank raised its policy rate 50 basis points (BPS) twice during the quarter. The rate was hiked on October 26th to 3.75% and on December 7th to 4.25%. The bank also continued with its program of quantitative tightening.

OFFICIAL POLICY RATES

International Monetary Conditions



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

The impact of the current rate hike cycle was evidenced in sectors of the economy that were most interest-sensitive during the fourth quarter. Housing market activity continued to slow. In addition, household and business spending was down significantly from the most recent peak. In a December 7th release, the bank stated that "Gross Domestic Product (GDP) growth in the third quarter was stronger than expected, and the economy continued to operate in excess demand". However, there was evidence that suggested domestic demand had slowed with the tightening of monetary policy. Three-month core inflation has declined, which may be an indication that consumer price inflation may have begun to moderate. More broadly, however, inflation remained elevated in the fourth quarter. As a result, the bank continued to contemplate further interest rate hikes to restore economic balance and bring inflation down to its target range. As the fourth quarter came to an end, there was plenty of speculation as to how much longer the bank's rate hike cycle would last.

CONSUMER PRICE GROWTH REMAINED ELEVATED

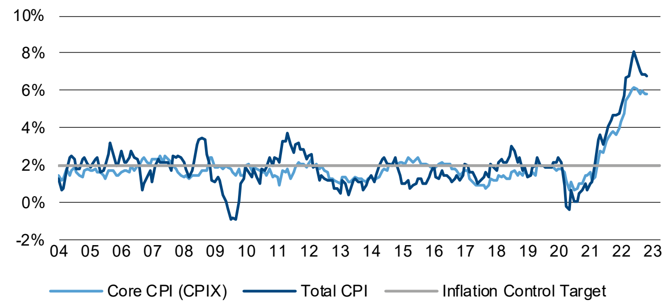
Consumer price growth remained elevated during the fourth quarter, which was largely in line with expectations. The December year-over-year Consumer Price Index (CPI) reading of 6.3% was down slightly from 6.8% in November and 6.9% registered in both September and October. Excluding the typically more volatile food and energy categories, prices were up 5.3% year-over-year in December, compared with 5.4% in November. Gasoline price growth slowed sharply in December, but was still up 3.0% year-over-year. The price of gasoline had increased 13.7% in November year-over-year and a whopping 17.8% year-over-year. The price of food purchased from stores rose at a more modest pace in December, up 11.0% year-over-year compared with 11.4% in the previous month. Shelter costs also continued to rise during the fourth quarter. Mortgage interest costs were up 18.0% year-over-year as of December, the largest rise since February 1983. The cost of renting accommodation continued to rise at a rapid rate in the fourth quarter, resulting in additional financial stress for renters. By the end of the fourth quarter, it appeared the BofC's aggressive rate hikes were having the desired effect on inflation. However, inflation remained persistently high through to the end of the quarter.

EQUITY MARKET RALLY WAS SHORT-LIVED

The fourth quarter global equity market rally was relatively short-lived. The MSCI ACWI dropped 4.4% and the MSCI World Index 4.8% over the first two weeks of December. All of the regional sub-sectors of the Index were also down for the period. Equity markets gained significant ground in the weeks leading up to the early-December declines. However, the market rally was somewhat misleading. The gains were attributed to price-earnings ratio expansion as Treasury yields dropped due to a modest easing of inflation pressure. The past year has been largely a difficult one for global equity market investors even with the fourth quarter rally. Significant declines were reported in 2022 in most of the world's major markets and in many industrial groups. Canadian equities have held up relatively well, given a stable and positive commodity pricing environment. Looking ahead to early 2023, equity market performance will continue to underwhelm. Economic activity is expected to slow in the first half of the year and inflation will continue to erode demand across the globe. Rising interest rates will also limit business activity and earnings over the near term. In short, the global equity market will remain bearish over the near term, following a short-lived early fourth-quarter rally.

NATIONAL INFLATION

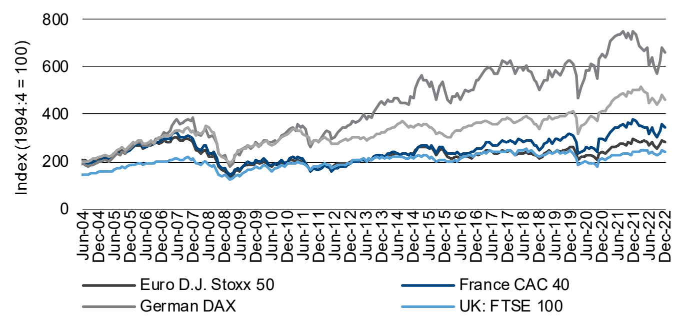
CPI Measures, % Change Over 1 Year Ago



Source: Bank Of Canada, Statistics

GLOBAL INDICES

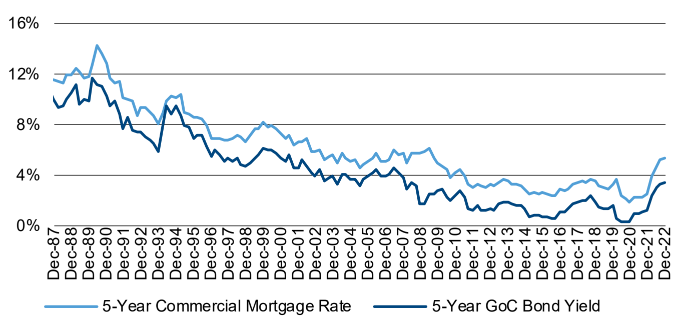
Trending of Global Price Return Indices



Source: RBC Capital Markets

MORTGAGE SPREADS

Commercial Mortgage Rates Vs. 5-Year GOC Bonds



Source: RBC Capital Markets, Bank of Canada

The December year-over-year Consumer Price Index reading of 6.3% was down just 50 bps month-over-month

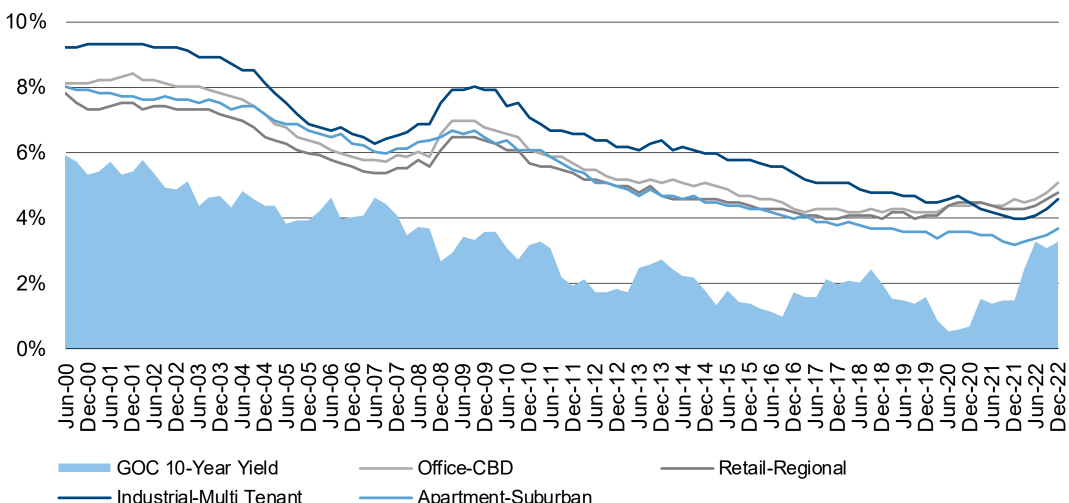
INVESTMENT REPORT

INVESTMENT SALES SLOWDOWN CONTINUED TO UNFOLD

The Canadian commercial property sector investment sales slowdown that began in the first half of 2022 carried on through to the end of the fourth quarter. Many investors remained on the sidelines, given a string of interest rate hikes, an uncertain economic growth and financial market outlook, and a significant level of performance risk in more than one asset type.

YIELD SPREADS

Cap Rates vs. 10-Year GOC Bonds



Source: Altus InSite, Bank of Canada

Industrial property investment sales activity dropped sharply in the second half of 2022, having peaked during the first half. Sales of industrial investment property with a minimum sale price of $10.0 million totaled $3.5 billion in the second half of 2022 in the Vancouver, Calgary, Ottawa, Toronto, and Montreal regions combined. Industrial sales volume of $7.6 billion was tallied for the first half of 2022. Despite the drop off, industrial property remained a preferred investor acquisition target. Investment activity and sales volume also dropped sharply in another of the investment community's favourite property types of the past several years. Sales of multi-suite residential purpose-built property slowed significantly in the second half of 2022, with less than $1.0 billion of sales volume recorded in the fourth quarter. An average of $2.1 billion in sales volume was tallied quarterly over the first half of 2022. Office and retail property investment activity had also slowed significantly by the second half of 2022, with few significant properties changing hands. Looking ahead to the first half of 2023, investment sales activity will remain relatively muted for all property types, given heightened performance, economic, geopolitical, and financial market uncertainty.

INVESTORS WERE CAUTIOUS

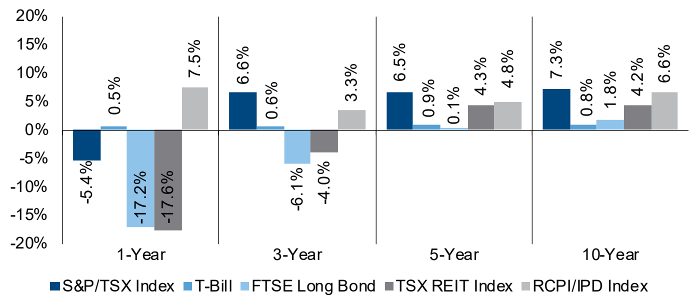
Investors in Canada's commercial property investment market continued to exercise a relatively high level of caution during the fourth quarter. The elevated caution levels were generally attributed to several factors. A combination of the increased cost of debt capital, high inflation, economic, geopolitical, and financial market uncertainty prompted a significant portion of the investment community to remain on the sidelines. Investors approached office property acquisitions with a degree of caution, given the increased popularity of various work-from-home workplace strategies and their impact on performance. Another driver of the heightened investor caution was acquisition pricing, which has been somewhat in flux recently. Property yields began to rise in the second half of 2022, given increased sector risk. To a large extent, the elevated caution exercised by Canadian commercial property market investors in the second half 2022 was a catalyst for the sharp drop in investment activity.

OFFICE SECTOR INVESTMENT SALES ACTIVITY REMAINED MUTED

Investment activity in Canada's office property sector remained muted during the fourth quarter, continuing the recent trend. There were just 16 transactions with a minimum sale price of $10.0 million reported over the final three months of the year in the Vancouver, Calgary, Ottawa, Toronto, and Montreal regions combined. The most significant was the combined sale of 222-230 Queen Street and 550 de la Cité Boulevard in Ottawa and Gatineau, respectively. The two properties were sold by Cominar Real Estate Investment Trust for an aggregate price of $110.0 million to Groupe Mach. The 16 office property transactions completed during the fourth quarter equated to a modest $475.8 million of transaction volume. During 2022, quarterly transaction volume trended sharply lower to below the long-term average. Investors continued to view the sector cautiously, given an uncertain performance outlook. Leasing activity remained weak during the fourth quarter, in keeping with the trend of the past few years. Office tenants continued to offload space across the country while transitioning to various work-from-home operational models. Somewhat encouragingly, the Treasury Board of Canada mandated the return of federal public servants to their offices utilizing a 'common hybrid model' in December. Owners of office buildings across the country were hopeful that this move would kick off a wave of returns. Barring a significant increase in leasing market demand, investment activity will remain muted over the near term.

RELATIVE PERFORMANCE

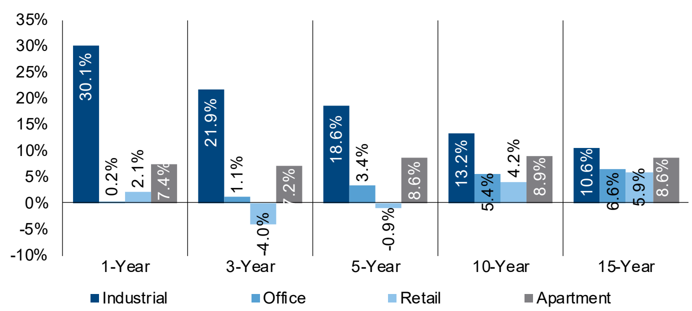
Comparing Annualized Returns To Sept 2022



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

MSCI RETURNS

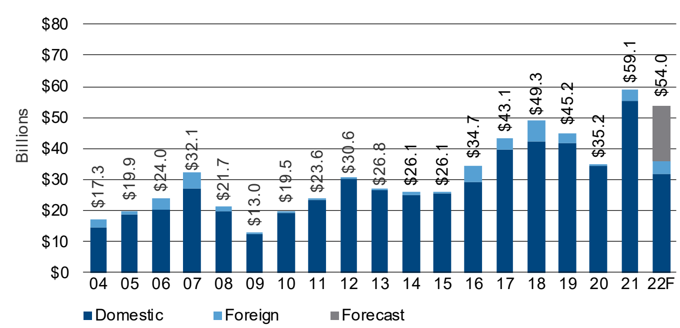
Annualized Returns By Property Type To Sept 2022



Source: ©MSCI Real Estate 2022

INVESTMENT ACTIVITY

Total Investment Volume



Source: CBRE Limited; Morguard

The Canadian commercial property sector investment sales slowdown that began in the first half of 2022 carried on through to the end of the fourth quarter.

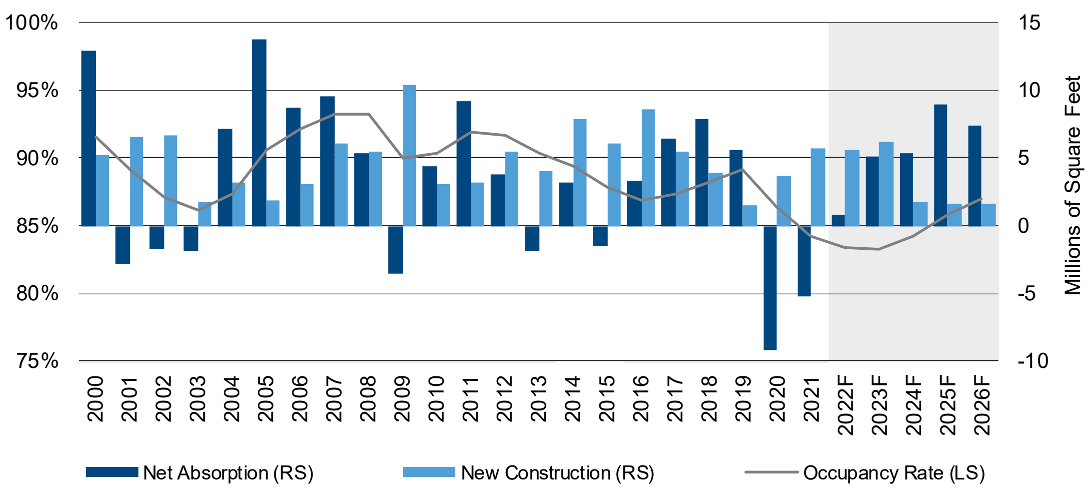
LEASING REPORT

LEASING DEMAND PATTERNS WERE MIXED

Canadian office leasing demand patterns remained mixed during the final quarter of 2022. In some cases, tenants continued to offload excess space onto the market either at the end of their leases or offered all or part of their space for sublease. At the same time, some organizations expanded or relocated into space that was flexible, amenity rich, and provided opportunities for employees to collaborate.

OFFICE DEMAND & SUPPLY

National Historical & Forecast Aggregates



Source: CBRE Limited; CBRE Econometric Advisors

The volume of office space absorbed by tenants expanding across the country fell markedly short of space that was placed back on the market. Consequently, vacancy rates increased across much of the country in the fourth quarter. The national vacancy rate rose 70 bps during the fourth quarter to a 20-year high of 17.1% and was 130 bps higher year-over-year. The national aggregate vacancy rate has climbed more than six percentage points higher from the pre-pandemic level of three years ago. More than 2.1 million square feet of vacant space was added to the national office market during the fourth quarter alone, driving vacancy to a benchmark high. The most significant addition was in downtown Toronto where 1.7 million square feet of vacant space was placed back on the market. Of the 10 markets tracked by CBRE, six posted materially higher vacancy levels in the fourth quarter. Notably, Vancouver, Waterloo Region, and Halifax registered vacancy declines during the fourth quarter. Looking to 2023, office leasing demand patterns will remain mixed. Some owners and managers of office properties will be faced with excess space in their portfolios.

INDUSTRIAL LEASING MARKET CONTINUED TO OUTPERFORM

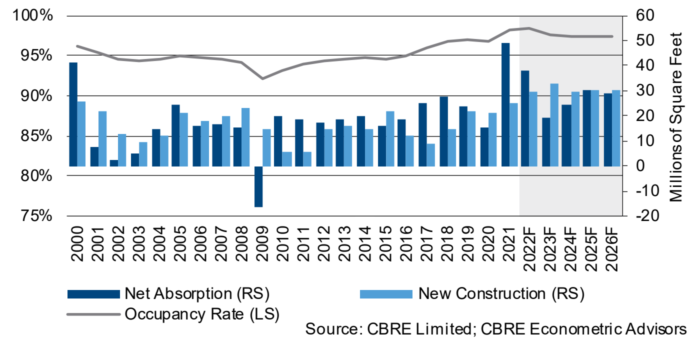
Canada's industrial leasing market outperformance of the past few years carried through to the end of the fourth quarter. Demand for industrial space continued to outdistance existing and new supply over the final 12 weeks of the year. Warehouse and distribution, logistics, and fulfillment space users scoured the market for available space in which to expand, upgrade, or relocate. A total of almost 10.4 million square feet of available space was absorbed during the final three months of 2022, which was the year's highest quarterly total according to CBRE statistics. Nine of the 10 industrial markets tracked posted positive outcomes, with Waterloo Region posting a modest negative total. The supply of available space remained very low across the country. The national availability rate edged 10 bps higher during the fourth quarter to just 1.6%, the second lowest level dating back more than 20 years. Seven of the country's industrial markets posted availability rates of 2.0% or less by the end of 2022. A market average availability rate of 3.2%, 5.5%, and 2.6% was posted in Calgary, Edmonton, and Ottawa, respectively. New supply continued to offer minimal relief for tenants looking to expand. Just shy of 12.7 million square feet of new supply was completed and readied for occupancy in the fourth quarter. However, almost all of this space was pre-leased. The rapid lease up of new available supply was indicative of the industrial leasing market's continued outperformance.

RENTS CLIMBED TO A BENCHMARK HIGH

The national average multi-suite residential purpose-built rent climbed to a benchmark high in the fourth quarter. The average listed asking monthly rent had risen to $1,840 as of December 2022, according to Rentals.ca figures. The average rent for all unit types was up 11.3% year-over-year. Increases were reported for all unit types, with the one-bedroom average up 11.3%, two-bedroom up 12.6%, and three-bedroom up a relatively modest 5.3%. Asking rents steadily increased in most regions of the country during 2022, even in markets with record-high new supply completions. For the most part, rental demand has surpassed supply, driven by strong international migration patterns, job growth, and the removal of pandemic restrictions. Many Canadian families have continued to rent accommodation as interest rates peaked, pricing many families out of the ownership market. At the same time, an increased number of renter households chose to stay in their units as economic uncertainty remained elevated. The combination of increasingly limited supply and healthy demand fundamentals drove multi-suite purpose-built residential rents up to a benchmark high in the fourth quarter.

INDUSTRIAL DEMAND & SUPPLY

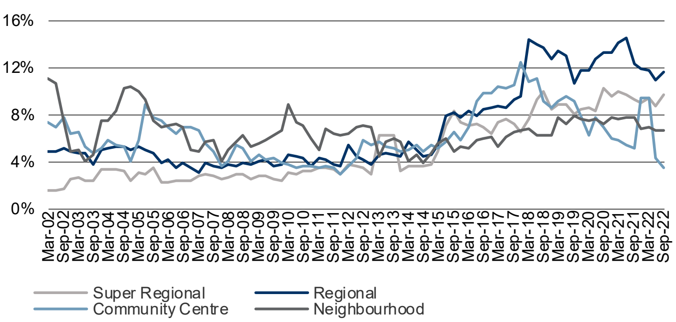
National Historical & Forecast Aggregates



Source: CBRE Limited; CBRE Econometric Advisors

RETAIL VACANCY RATES

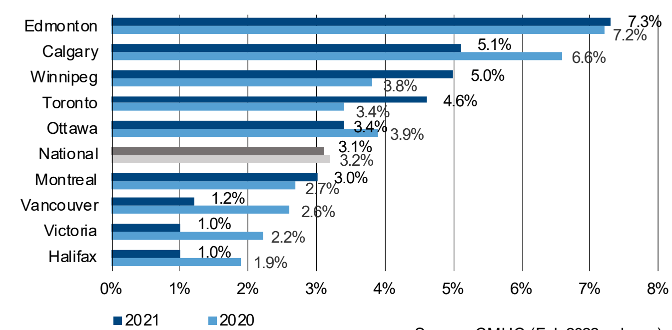
National Trending Across Property Types



Source: ©MSCI Real Estate 2022

CMA'S RENTAL VACANCY

Rates for Structures of 3 units+



Source: CMHC (Feb 2022 release)

Almost 10.4 million square feet of industrial space was absorbed during the fourth quarter, which was the highest quarterly total recorded in 2022.

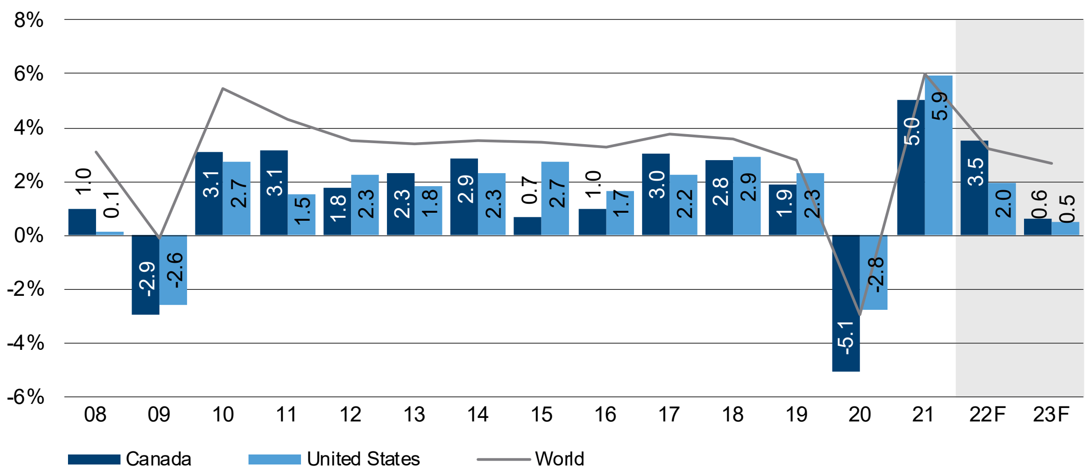
ECONOMIC REPORT

ECONOMIC GROWTH BEGAN TO SLOW

Canada's economy slowed significantly in the fourth quarter, in line with expectations. Economic output increased by a modest 0.1% in October, month-over-month. A similar rate of expansion was forecast for November. Output is projected to rise by an annualized rate of approximately 1.0%, or slightly less in the fourth quarter. Above-trend growth was posted in the first half of 2022, with a better-than-expected 3.0% gain in the third quarter.

ECONOMIC GROWTH

Real GDP Growth — Historical & Forecast



Source: Conference Board Of Canada (Dec 2022); International Monetary Fund (Oct 2022)

Canada's economic growth trend will remain relatively weak in 2023, with the potential for a mild recession in the first half. The growth downdraft will be driven to a large extent by weaker domestic demand patterns and consumer spending growth moderation. Spending on goods slowed during the fourth quarter, which was largely offset by expenditures on services. In 2023, Canadians are expected to tighten their purse strings, due primarily to the delayed effects of interest rate hikes and near record-high inflation. There is plenty of speculation surrounding the potential of another interest rate hike in January 2023. Residential investment will continue to moderate next year. Prior to the 2022 market correction, residential investment had been a key economic growth driver. Export demand is expected to slow in 2023, given weaker global demand and ongoing supply-chain disruptions. In short, Canada's economy is expected to expand at a relatively modest rate in 2023, having slowed significantly during the final quarter of 2022.

LABOUR MARKET RESILIENCE EVIDENCED

Canada's labour market resilience was evidenced in the fourth quarter, a period during which losses recorded between May and September were recouped. National employment rose by a modest 104,000 in December, following a stronger-than-expected 118,000 rise in October/November. The gains over the two-month period more than made up for the losses of the previous five-month period. Full-time employment increased by a healthy 170,000 in October/November combined and 460,000 year-to-date. Despite a measure of volatility, Canada's labour market remained tight in the fourth quarter. The national unemployment rate stood at 5.0% at the end of December, just 30 bps higher than the all-time low of 4.7% reported earlier this year. Labour market tightness and shortages in some industrial sectors supported steady wage growth. The national average hourly wage was 5.2% higher year-over-year as of December 2022, having risen by at least 5.0% in each of the preceding five consecutive months. The fourth quarter wage and employment growth were indicative of Canada's labour market resilience.

RETAIL CONSUMPTION LEVELED OFF

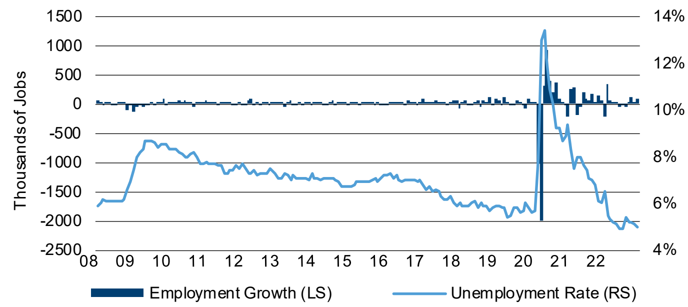
Retail sales growth leveled off during the fourth quarter, having surged during the summer. Retail sales rose 1.4% month-over-month in October, however, the rise was entirely due to higher consumer prices, rather than increased spending volume. Statistics Canada indicated a slight decline in retail consumption is expected in November. Gasoline sales receipts were up 6.8% month-over-month in October, however, the volume of fuel sold was down 3.3%. The increase was driven by a 9.2% increase in gasoline pricing month-over-month, which was the largest increase since June 2022. Both consumer spending and retail sales declined during the third quarter, as reported by StatsCan. Retail consumption had slowed significantly year-to-date, due to the erosion of household wealth and spending power. Record-high inflation and interest rate hikes have negatively impacted the balance sheets of Canadian families. Retail sales growth will remain relatively flat into 2023, mirroring the fourth quarter trend.

HOUSING MARKET DECLINE CONTINUED

Canada's resale housing market decline continued in the fourth quarter. National sales volume declined 3.3% month-over-month in November and has dropped 38.8% on a cumulative basis since February. The average resale home selling price was down roughly 12.0% year-over-year, as of November. Buyers and sellers remained on the sidelines in the fourth quarter, as Canada's resale housing market decline continued to unfold.

LABOUR MARKET

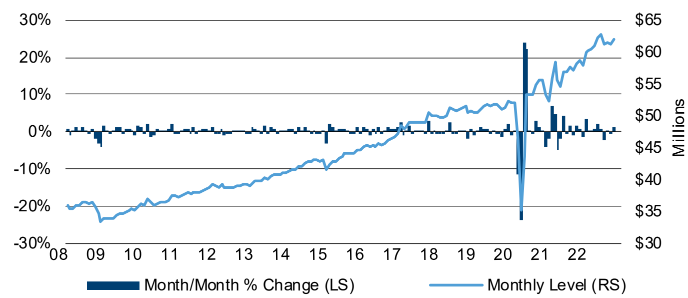
Month-Over-Month Trending



Source: Statistics Canada

RETAIL SALES

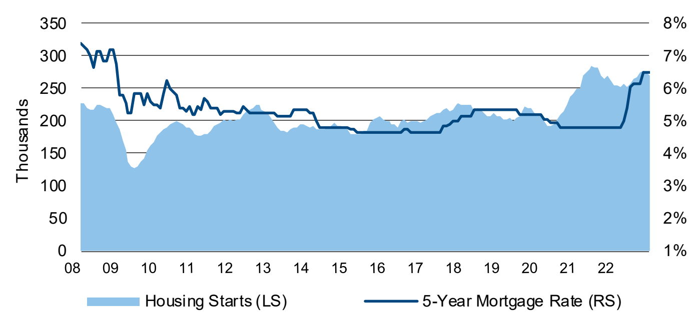
Month-Over-Month Trending



Source: Statistics Canada

HOUSING MARKET

Monthly Trends



Source: Statistics Canada, CMHC, Bank of Canada

Full-time employment increased by a healthy 170,000 in October/ November combined and 460,000 year-to-date.

INVESTMENT MARKET TRANSACTIONS

OFFICE

PROPERTY	DATE	PRICE	SF	PSF	PURCHASER	MARKET
215 Slater St (50% interest)	Dec-22	$28.1 M	109,208	$515	Morguard	Ottawa
10 King St E/83 Yonge St	Dec-22	$41.9 M	68,980	$607	Ergo Capital	Toronto
2085 Hurontario St	Dec-22	$33.7 M	105,000	$321	Trillium Health Partners	Toronto
5770 Hurontario St/25 Milverton	Nov-22	$50.2 M	252,045	$199	Kaneff Group	Toronto
Qualicum Ctr 2930-36 Baseline Rd	Nov-22	$43.0 M	214,593	$200	Regional Group	Ottawa
Cominar Ottawa/Gatineau	Oct-22	$110.0 M	520,000	$212	Groupe Mach	Ott./Gatineau

INDUSTRIAL

PROPERTY	DATE	PRICE	SF	PSF	PURCHASER	MARKET
1330 Martin Grove Rd	Dec-22	$139.5 M	368,632	$378	Vestcor	Toronto
Rutherford Portfolio	Dec-22	$80.0 M	254,834	$314	Pure Industrial REIT	Toronto
5266-5288 General Rd	Dec-22	$26.7 M	86,155	$310	Takol	Toronto
9871 279 St	Nov-22	$11.5 M	45,048	$255	LS Properties	Edmonton
5185 Garrard Rd (90.0% interest)	Nov-22	$138.0 M	518,731	$296	Concert Properties	Toronto
50 Frank Nighbor Place	Nov-22	$14.0 M	74,014	$189	Uniform Developments	Ottawa
Investors Group Vaughan Porfolio	Nov-22	$222.6 M	710,389	$313	CanFirst Capital	Toronto
3905 Allard Ave	Oct-22	$13.0 M	51,228	$253	BTB REIT	Edmonton
400 Norris Glen Rd	Oct-22	$66.5 M	214,000	$311	Dream Industrial REIT	Toronto
21, 31 Prince Andrew Place	Oct-22	$21.0 M	92,904	$226	H&R REIT/Crestpoint	Toronto

RETAIL

PROPERTY	DATE	PRICE	SF	PSF	PURCHASER	MARKET
Innovation Station	Dec-22	$10.2 M	15,375	$663	Skyline Retail REIT	Ottawa
Fallingbrook Shopping Ctr	Dec-22	$41.8 M	101,114	$413	Strathallen Capital	Ottawa
4000 Highway 7	Dec-22	$19.4 M	22,388	$864	Choice Properties REIT	Toronto
Shoppes on Queen West	Dec-22	$51.2 M	89,419	$573	Choice Properties REIT	Toronto
486 Hazeldean Rd	Nov-22	$27.9 M	88,900	$313	Castlefrank Plaza Inc	Ottawa
6510 Gateway Blvd	Oct-22	$10.3 M	39,879	$257	Pacific International Prop.	Edmonton
1034 Robson St	Oct-22	$27.5 M	8,636	$3,184	Crestpoint	Vancouver

MULTI-SUITE RESIDENTIAL

PROPERTY	DATE	PRICE	# UNITS	/UNIT	PURCHASER	MARKET
2303 Eglinton Ave E	Dec-22	$50.0 M	169	$295,858	Equiton	Toronto
305 Metcalfe St	Dec-22	$15.0 M	55	$272,727	Golpro Holdings	Ottawa
Midtown Estates	Nov-22	$22.5 M	65	$346,154	CAPREIT	Edmonton
Driftwood Apartments	Nov-22	$35.3 M	74	$476,351	2055 York Holdings Ltd.	Vancouver
745 Place Fortier	Nov-22	$40.5 M	167	$242,515	Catera Properties Inc	Montreal
190 Queen St S	Nov-22	$13.1 M	41	$320,122	Starlight Investments	Toronto
775 Georges-Dor Place	Nov-22	$17.7 M	70	$252,857	Davic Development	Montreal
123 Bellamy Rd N	Nov-22	$94.5 M	250	$378,000	Hazelview Investments	Toronto
Westpark Ridge	Oct-22	$20.9 M	102	$204,902	Petwin Westpark Corp.	Edmonton
255 Simard Blvd	Oct-22	$13.0 M	71	$183,451	Akelius	Montreal
20 Elizabeth St N	Oct-22	$19.1 M	68	$280,882	Pulis Investments	Toronto
Les Terrasses Francesca	Oct-22	$207.0 M	276	$750,000	Centurion Apartment REIT	Ottawa

*share sale

ABOUT

Morguard is a fully integrated real estate company with a diversified, high-quality portfolio of assets across North America. We have built our business with strong leadership, proven management and significant long-term growth for over 45 years. As of December 31, 2022, Morguard had $18.6 billion of total assets under management and employed 1,300 real estate professionals in 11 offices throughout North America.

Publicly Traded Real Estate Company	Morguard Corporation
Publicly Traded Real Estate Investment Trusts	Morguard REIT
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Real Estate Advisory Company	Morguard
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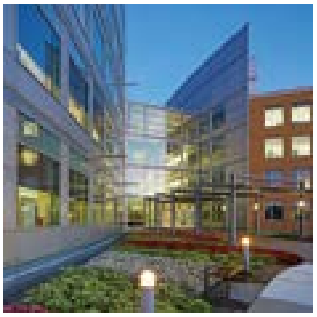

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The Altus Group, Avison Young, Bank of Canada, Bank of Japan, BMO Economics, BMO Nesbitt Burns, CBRE Econometric Advisors, CBRE Limited, CIBC World Markets, Canada Newswire, Canadian Mortgage and Housing Corporation (CMHC), Canadian Mortgage Loans 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, The Johnson Report (Winnipeg), Jones Lang LaSalle, MSCI, The Network, Ottawa Business Journal, PC Bond Analytics, PricewaterhouseCoopers, RBC Capital Markets, RBC Economics, RealNet Canada Inc., 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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