

2024 CANADIAN ECONOMIC OUTLOOK  
AND MARKET FUNDAMENTALS THIRD QUARTER REPORT  
26<sup>TH</sup> ANNUAL EDITION

MORGUARD

Q3

CANADIAN REAL ESTATE:  
POISED TO STRENGTHEN



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# FINANCIAL REPORT

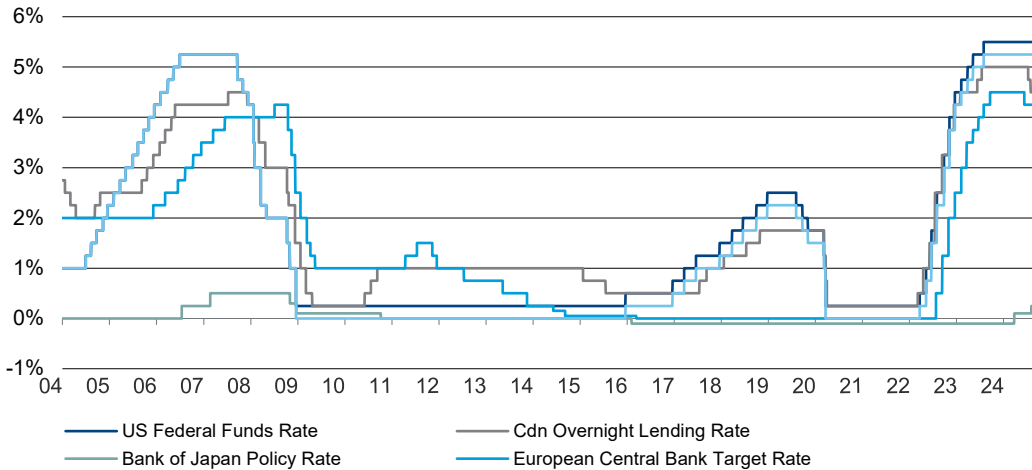
## RATE CUTTING CYCLE CONTINUED

The Bank of Canada’s (BofC) rate cutting cycle continued in the third quarter. The BofC reduced its policy rate by 25 basis points (bps) on July 24th to 4.5%, and by another 25 bps on September 5th to 4.25%. The bank stated it would continue its policy of balance sheet normalization. Further rate cuts are expected over the balance of 2024, as inflation pressure continues to ease.



## OFFICIAL POLICY RATES

International Monetary Conditions



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

The bank’s decision to continue reducing the overnight policy rate during the third quarter can be attributed to several factors. Inflation continued to slow during the quarter. Canadian headline inflation rested at the BofC’s target in August at 2.0% year-over-year, down from July’s 2.5% average. In July, the bank’s preferred measures of core inflation also averaged close to the 2.5% mark. Shelter price growth began to slow during the third quarter but remained the biggest contributor to inflation. The bank’s decision to

lower rates during the third quarter was also influenced to some extent by the start of an economic slowdown. The Canadian economy slowed significantly during June and July, due largely to the lingering effects of restrictive monetary policy and inflation. The nation’s labour market has weakened substantially since the start of the year and job growth has stalled. The BofC is expected to continue cutting rates over the remainder of this year and into early 2025, as it focuses on the national economy and labour market.

## CONSUMER PRICE INFLATION PRESSURE CONTINUED TO EASE

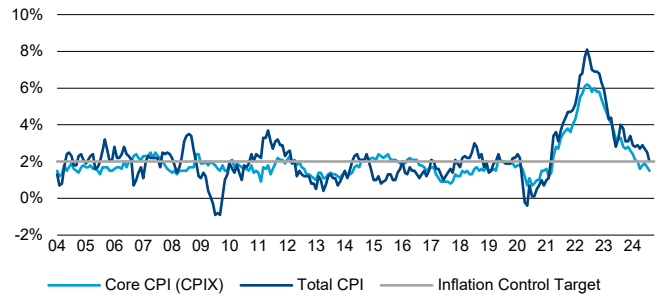
Canadian consumer price inflation pressure continued to ease during the third quarter. Canada's Consumer Price Index (CPI) rose by 2.0% in August on a year-over-year basis, marking the lowest reading since February 2021. In addition, the August CPI reading was down 50 bps lower than July's 2.5% year-over-year increase. The headline inflation deceleration was due in part of downward pressure on gasoline prices and a base-year effect, according to Statistics Canada. Shelter costs, including mortgage interest and rent accounted for largest portion of the August CPI increase. Mortgage interest cost growth has been the largest contributor to inflation dating back to December 2022. Excluding mortgage interest cost, the CPI rise 1.2% year-over-year in August 2024. Prices for goods deflated in August by -0.7% year-over-year while services prices were up 4.3% year-over-year, due largely to increased shelter costs. The BofC kicked off its rate cutting cycle in June 2024, with a 25-bps reduction in its overnight rate. The overnight rate was cut by 25 bps two more times in the third quarter, a period during which Canadian consumer price inflation pressure continued to ease.

## CANADA'S LEADING EQUITY MARKET INDEX POSTED STRONG RESULT

Canada's S&P/TSX Composite posted its strongest quarterly performance since 2020 in the third quarter, with a 9.7% return. The composite's year-to-date return stood at 14.5% as of the end of September. Much of the third-quarter return was attributed to the expected continuation of the BofC's rate-cutting cycle, which began in June 2024. Positive performances were posted by roughly 74% (or 169 of the 228) of the stocks included in the TSX Composite at some point during the third quarter. In addition, seven of the sectors included in the index posted double digit gains. Interest rate sensitive sectors outperformed during the quarter. Real estate, financials and utilities posted three of the top five sector returns for the quarter at 21.9%, 15.8%, and 15.3%, respectively. Energy was the only sector to post a negative return for the quarter at -7.1%, due largely to downward pressure on energy prices. Five of the strongest third-quarter stock performances were in the financials sector, which included three of Canada's major banks. In summary, Canada's benchmark equity market index posted its strongest quarterly return dating back to 2020 in the third quarter.

## NATIONAL INFLATION

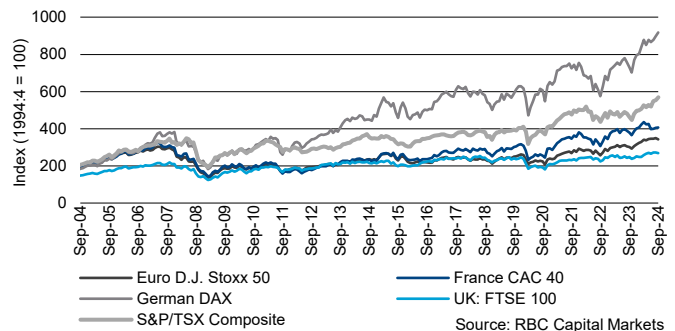
CPI Measures, % Change Over 1 Year Ago



Source: Bank of Canada, Statistics Canada

## GLOBAL INDICES

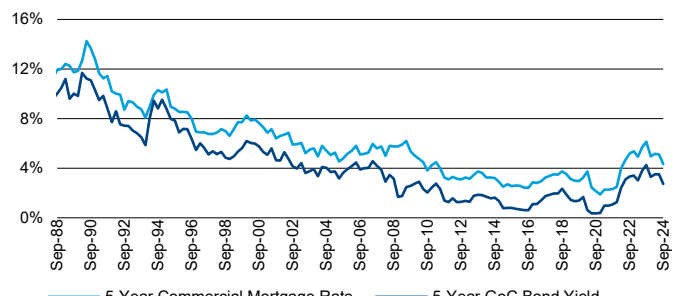
Trending of Global Price Return Indices



Source: RBC Capital Markets

## MORTGAGE SPREADS

Commercial Mortgage Rates Vs. 5-Year GOC Bonds



Source: RBC Capital Markets, Bank of Canada

**Canada's CPI rose by 2.0% in August on a year-over-year basis, marking the lowest reading since February 2021.**

# INVESTMENT REPORT

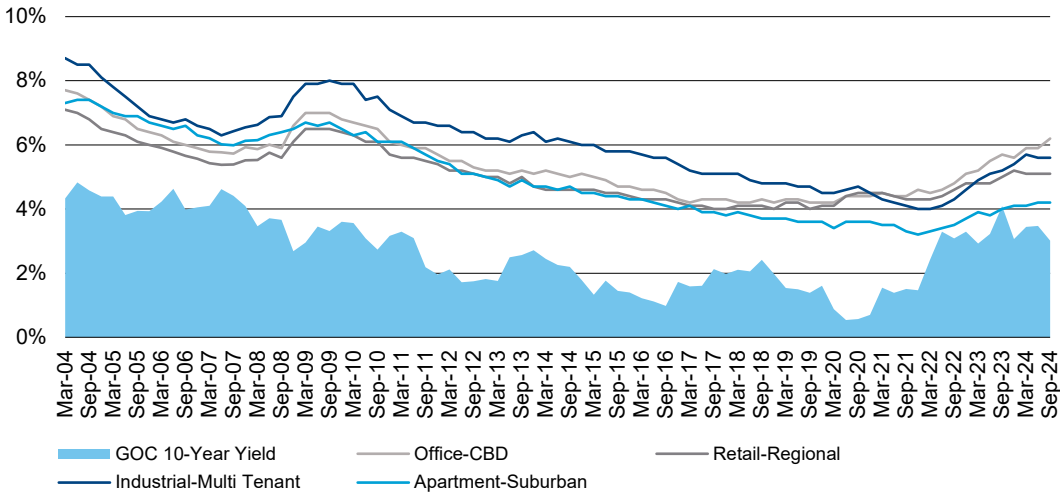
## INVESTMENT TRANSACTION VOLUME REMAINED BELOW PAR

Canadian commercial real estate investment market transaction volume remained below par in the third quarter, in keeping with the year-to-date trend. Third quarter sales volume totaled \$4.1 billion for industrial, retail, office and multi-suite residential rental properties sold for at least \$10 million in the Vancouver, Calgary, Toronto, Ottawa, and Montreal markets combined.



## YIELD SPREADS

Cap Rates vs. 10-Year GOC Bonds



Source: AltusInSite, Bank of Canada

Sales of investment property fell short of the near and medium-term quarterly averages in the third quarter, a performance attributed to several factors. Lending market conditions factored into the third-quarter investment sales downturn. Financing was more readily available for parties with a proven track record when acquiring low risk assets. However, financing was more difficult to source for higher risk acquisitions. Institutional buyers remained sidelined during the third quarter, while awaiting pricing and lending market stability. Private capital groups continued to access alternative financing options when acquiring properties. In

some cases, investors chose to wait until economic and real estate risk levels declined, while others preferred to hold off on acquisition decisions until borrowing costs decline further. Upward pressure on capitalization rates continued in the third quarter, although it was modest and uneven. Capitalization rates were largely stable in the retail and multi-suite residential rental sectors. Modest capitalization rate decompression was recorded in certain segments of the office and industrial sectors. In summary, third quarter commercial real estate investment transaction volume rested below the near and medium-term averages.

### MULTI-SUITE RESIDENTIAL RENTAL INVESTMENT SALES SURGED

Sales of multi-suite residential rental property surged in the third quarter. Investment sales volume of \$1.8 billion was already recorded with one week to go in the quarter. The third quarter investment sales volume was the highest quarterly total dating back to the first quarter of 2022. The average transaction size in the third quarter was \$66.8 million, representing an eight year quarterly high. Moreover, the total was markedly higher than the three- and five-year quarterly averages. The sales surge was due largely to an increase in large-scale properties and portfolios. In addition, buyers were able to access attractive Canada Mortgage and Housing Corporation financing. Buyers were attracted by the multi-suite residential rental sector’s attractive yields and solid rental market performance outlook. Eleven transactions with sale prices of least \$50.0 million were recorded in the third quarter, a period that saw multi-suite residential rental property surge.

### INDUSTRIAL PROPERTY INVESTMENT SALES ACTIVITY SLOWED

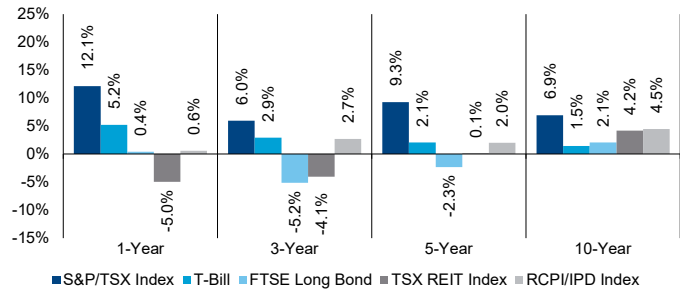
Industrial property investment sales activity slowed in the third quarter, following a significant increase in the previous quarter. Transaction volume of \$1.2 billion was reported with one week still to go in the quarter. The third quarter sales total is expected to be one of the lowest on record dating back to the initial pandemic lockdown period. The \$1.2 billion of sales volume was spread over 33 transactions, which represented a low dating back to the third quarter of 2020. The sales activity slowdown of the third quarter can be attributed largely to an availability shortfall. Additionally, the slowdown in property sales in the third quarter may indicate that owner/user demand has begun to ease.

### VALUES CONTINUED TO LEVEL OFF

Canadian commercial real estate values continued to level off in the third quarter. Multi-suite residential rental values have stabilized in most markets. A similar pattern was reported in the industrial and retail property sectors. Downward pressure on office property values persisted during the third quarter, as as sector risk remained elevated. Property values began to decline in the second half of 2023, a trend that carried through to early 2024. Investors sought higher property yields during this period, as borrowing costs and investment market risk increased. In short, Canadian commercial real estate values continued to level off in the third quarter.

### RELATIVE PERFORMANCE

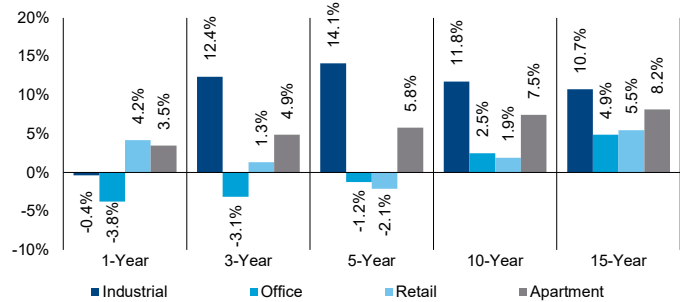
Comparing Annualized Returns To June 2024



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

### MSCI RETURNS

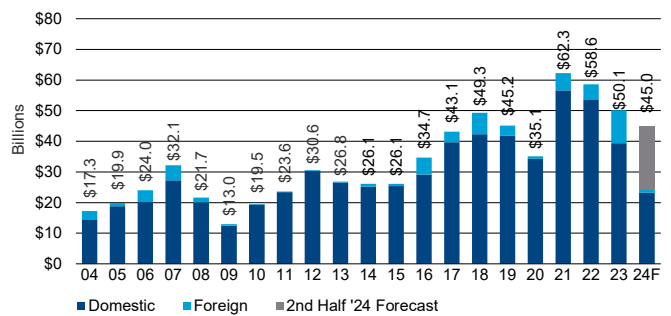
Annualized Returns By Property Type To June 2024



Source: © MSCI Real Estate 2024

### INVESTMENT ACTIVITY

Total Investment Volume



Source: CBRE Limited; Morguard

Sales of multi-suite residential rental property surged in the third quarter.

# LEASING REPORT

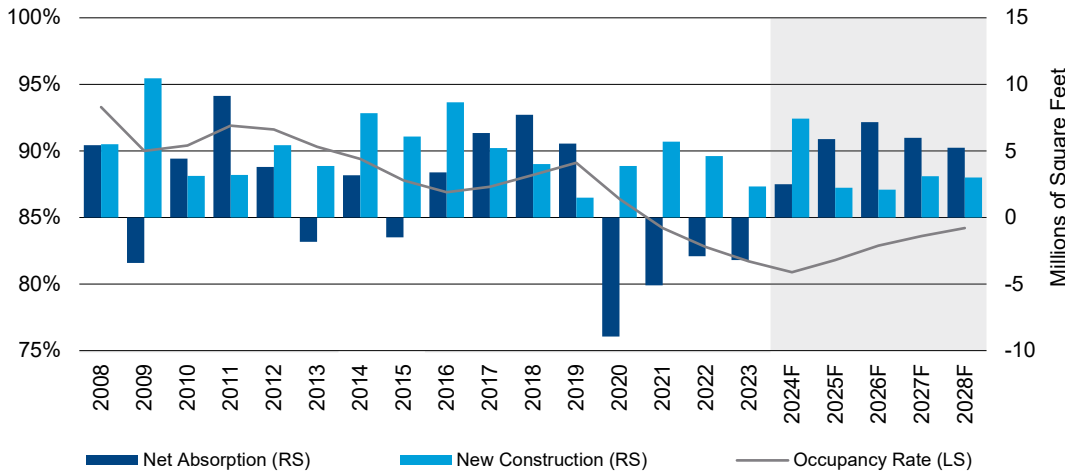
## LEASING MARKET SHIFTED INTO NEUTRAL GEAR

Canada's office leasing market shifted into neutral gear in the third quarter. The national vacancy rate edged just 10 bps higher to 18.6%, after resting at 18.5% in the first two quarters of 2024. Negative net absorption of 53,000 square feet was recorded in the third quarter, according to CBRE figures. Year-to-date, 2.8 million square feet of office space has been absorbed.



## OFFICE DEMAND & SUPPLY

National Historical & Forecast Aggregates



Source: CBRE Limited; CBRE Econometric Advisors (Q2 2024)

Office leasing market absorption varied significantly by market in the third quarter, consistent with the trend of the past year. The Greater Toronto Area outperformed with more than 650,000 square feet of positive net absorption. Of the nine remaining markets tracked, three posted modest increases in occupied space. The Greater Vancouver Area underperformed with negative net absorption of 413,000 square feet post in the third quarter. The volume of space available for sublease declined for a fifth consecutive quarter. Tenants continued to exhibit a preference for shorter

term subleases that were already improved and ready for occupancy. Vacancy in the nation's downtown trophy towers remained markedly lower than the market average in the third quarter. Trophy tower vacancy stood at 10.1% at the end of September 2024, compared with 19.7% rate for all of the nation's downtown buildings. Construction activity continued to wind down during the third quarter. No new projects were started during the period, and the office construction pipeline fell to a 20-year low as the Canadian office leasing market shifted into neutral gear.

## NEW INDUSTRIAL SUPPLY OUTPACED DEMAND

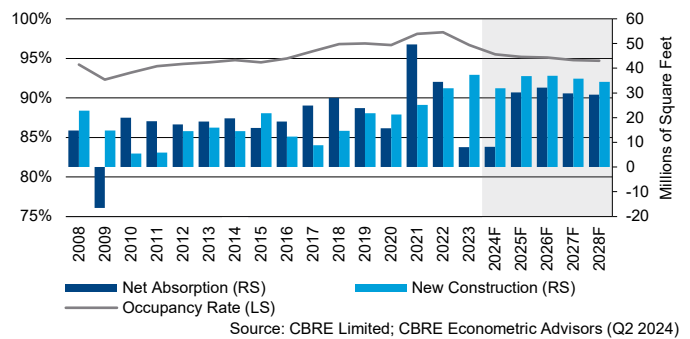
New supply outpaced demand in Canada’s industrial leasing market in the third quarter, consistent with the trend of the past year. Roughly 7.3 million square feet of new construction was delivered to Canada’s industrial property market in the third quarter. A modest 1.9 million square feet of positive net absorption, a measure of leasing demand, was posted over the same period. Most of the space absorbed during the quarter comprised previously negotiated leases in newly constructed buildings. The national industrial availability rate edge higher in the third quarter, continuing the year-to-date trend. The rate stood at 4.4% at the end of September 2024, which was 30 bps higher quarter-over-quarter and 230 bps year-over-year. Availability rates have increased year-over-year in half of the nation’s top 10 industrial markets. Sublease availability began to level off somewhat during the third quarter, following a significant increase over the past year. Total sublease availability increased by just 1.9% to 14.1 million square feet. Downward pressure on asking rents was reported in the third quarter, due largely to the rising availability trend over the past year. According to CBRE, the national average asking net rent stood at \$15.67 per square foot at the end of the third quarter, which marked a second consecutive quarterly decline.

## RENT GROWTH SLOWED SUBSTANTIALLY

Rent growth in Canada’s multi-suite residential rental market slowed substantially during the third quarter. The average asking posted monthly rent for all unit-sizes combined in Canada’s largest 35 markets rose by a relatively modest 5.4% year-over-year in September 2024, according to Rentals.ca. In July, the average rose by a robust 11.0%. Rent growth slowed across all unit-size categories in September, due largely to a weaker rental demand trend. The average posted asking rent for bachelor units increased by 11.1% year-over-year in September, down from 14.6% in July. The one-bedroom average rent rose by 3.5% in August down from 9.7% in July. The average asking rent for two-bedroom units rose by 5.2% in September down from 12.0% just two months earlier. Lastly, the three-bedroom average increased by 10.5% in September down from 11.3% in July. Rent growth is expected to continue to moderate in the multi-suite residential rental sector over the near term, having slowed in the third quarter.

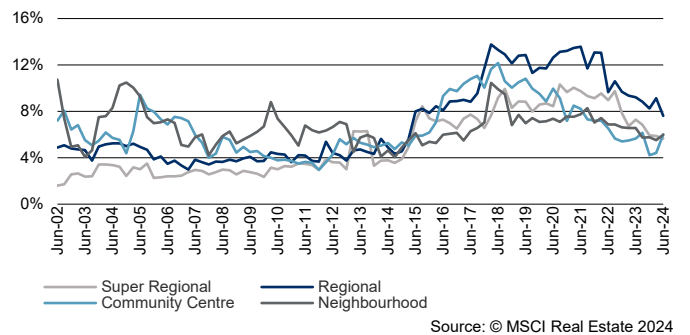
## INDUSTRIAL DEMAND & SUPPLY

National Historical & Forecast Aggregates



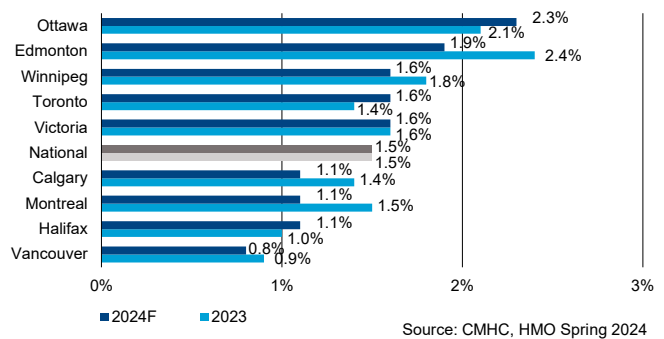
## RETAIL VACANCY RATES

National Trending Across Property Types



## CMA'S RENTAL VACANCY

Rates for Structures of 3 units+



**New supply outpaced demand in Canada’s industrial leasing market in the third quarter, consistent with the trend of the past year.**



# ECONOMIC REPORT

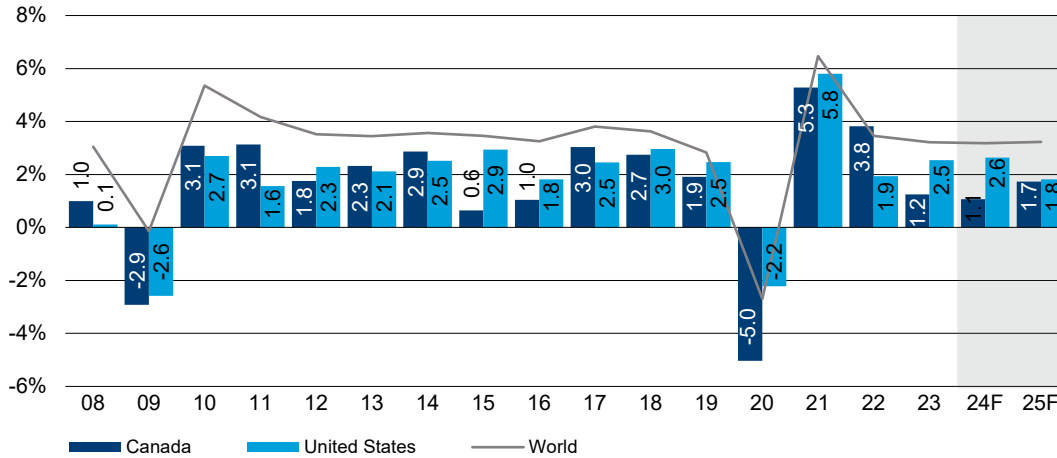
## ECONOMIC SLOWDOWN COMMENCED

Canada’s economy slowed in the third quarter, largely in line with the consensus forecast. Economic output rose 0.2% month-over-month in July, which was only slightly better than expected. Statistics Canada’s early guidance called for no growth in August. Canada’s economy is expected to expand at a relatively slow pace over the remainder of the year and into the first half of 2025, consistent with the third quarter trend.



## ECONOMIC GROWTH

Real GDP Growth — Historical & Forecast



Source: Conference Board of Canada (Sept 2024); International Monetary Fund (April 2024)

The slow-growth economic outlook can be attributed to a number of factors. Canadian households are expected to cut back on spending over the forecast period. Many homeowners will be forced to contend with higher debt-servicing costs as mortgages come up for renewal. In addition, the cost of renting accommodation will remain high, which will add to the stress on household finances. Continued softening in the job market over the near term will also negatively impact growth. The lingering effects of still high interest rates and

inflation are expected to dampen economic performance. Canada’s economy was on track to expand by roughly 1.5% in the second half of 2024. A slightly stronger growth trend is projected in the first half of 2025. Economic growth trend is expected to gradually strengthen in the second half of 2025, as the effects of higher interest rates and inflation taper off. Domestic demand and consumer spending patterns should improve accordingly. In the third quarter, economic growth began to slow, in line with the consensus forecast.

### LABOUR MARKET CONTINUED TO SOFTEN

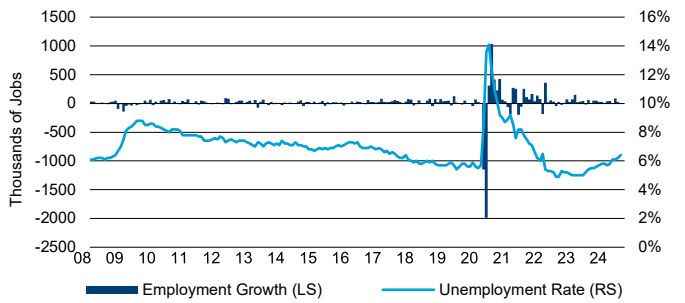
Canada’s labour market continued to soften in the third quarter. Employment was little changed in both July and August 2024, which was largely in line with expectations. In July, employment fell by just 2,880 and then increased by 22,000 in August. There was little change in national employment over four consecutive months ending in August. In July, full-time employment rose by 42,000, but this gain was more than offset by a 64,000 decline in part time employment. The pattern was reversed in August, with 44,000 full-time jobs lost as part time employment rose 66,000 or 1.8%. Labour force expansion has outpaced job growth over the recent past, resulting in upward pressure on the nation’s unemployment rate. The national unemployment rate rose 20-bps in August to 6.6%. The unemployment rate has risen by 1.5% since April 2023. Moreover, this is the highest rate recorded since 2017, except for the 2020 and 2021, during the pandemic. The unemployment rate is expected to continue to rise and subsequently peak in 2025. In summary, Canada’s labour market continued to soften in the third quarter, a trend that will persist over the near term.

### HOUSING MARKET ACTIVITY UNDERWHELMED

Housing market activity continued to underwhelm during the third quarter, consistent with the year-to-date trend. National home sales edged 1.3% higher in August month-over-month on a seasonally adjusted basis, according to the Canadian Real Estate Association (CREA). Resale housing activity was down 2.3% from August 2023 when not seasonally adjusted. Sales rose slightly in June, following the BofC’s first interest rate cut. However, sales have been relatively flat year-to-date. Buyers continued to rest on the sidelines, awaiting further interest rate cuts. The BofC’s July and September rate cuts have yet to have an appreciable impact on activity levels. Resale housing prices have been relatively flat since the start of 2024. The National Composite MLS Home Price Index was unchanged from July to August, following two small increases in June and July, according to CREA. Prices increased in the spring and summer of 2024, which were offset by downward pricing pressure in the second half. Housing market activity is expected to increase next year, assuming the continuation of the BofC’s rate cutting cycle. Over the remainder of 2024, housing market activity is expected to continue to underwhelm, in line with the third quarter trend.

### LABOUR MARKET

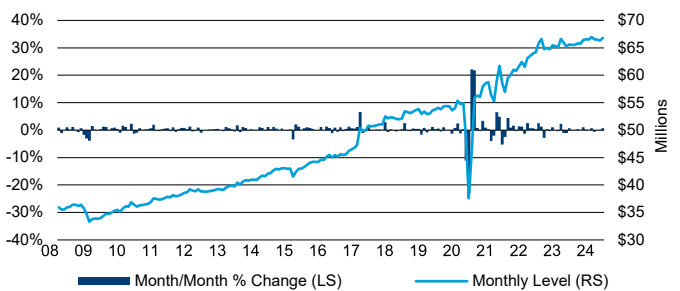
Month-Over-Month Trending



Source: Statistics Canada

### RETAIL SALES

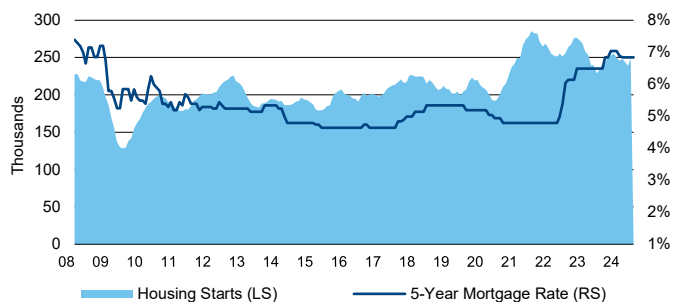
Month-Over-Month Trending



Source: Statistics Canada

### HOUSING MARKET

Monthly Trends



Source: Statistics Canada, CMHC, Bank of Canada

**Employment was little changed in July and August 2024, which was largely in line with expectations.**

# INVESTMENT MARKET TRANSACTIONS

## OFFICE

PROPERTY	DATE	PRICE	SF	PSF	PURCHASER	MARKET
2 Gurdwara Rd	Sep-24	\$15.3 M	94,460	\$162	Inside Edge Properties	Ottawa
10 Lower Spadina Ave	Aug-24	\$23.7 M	59,801	\$396	Arkfield	Toronto
LaSalle Burlington Portfolio	Aug-24	\$28.9 M	258,873	\$112	Bellridge Capital	Toronto
1600, 1616 Rene-Levesque Blvd W	Aug-24	\$15.5 M	256,574	\$60	Groupe Mach	Montreal
Sun Life Place	Aug-24	\$33.0 M	289,076	\$114	Ironwood IV Inc	Edmonton
3600 Steeles Ave E	Jul-24	\$115.0 M	855,269	\$134	Triple Properties Inc	Toronto
200 Sacre-Coeur Blvd	Jul-24	\$18.5 M	201,979	\$92	Groupe Heafey/Boless	Montreal
1900, 1908 Ironoak Dr	Jul-24	\$35.3 M	101,697	\$347	Binscarth Holdings LP	Toronto

## INDUSTRIAL

PROPERTY	DATE	PRICE	SF	PSF	PURCHASER	MARKET
1575 South Gateway Rd	Sep-24	\$52.5 M	161,055	\$326	Enticor Properties Inc	Toronto
2945-2965 Andre Ave	Sep-24	\$32.7 M	134,340	\$243	ProREIT	Montreal
261 Abbotside Way	Sep-24	\$48.6 M	138,617	\$350	DH Management	Toronto
Cansett Lachine	Sep-24	\$17.0 M	75,703	\$225	Brasswater	Montreal
8450 Boston Church Rd	Aug-24	\$361.0 M	1,335,030	\$270	Prologis	Toronto
2095 de l'Industrie Rd	Aug-24	\$20.0 M	69,000	\$290	Rainbow Capital Investmts.	Montreal
420 Tapscott Rd, 31-33 Melford Rd	Aug-24	\$34.7 M	165,620	\$210	Melscott Inc.	Toronto
1625, 1795 32e Ave	Aug-24	\$43.9 M	192,261	\$228	Brasswater	Montreal
165-167 Hymus Blvd	Jul-24	\$34.6 M	220,713	\$157	KingSett Capital	Montreal

## RETAIL

PROPERTY	DATE	PRICE	SF	PSF	PURCHASER	MARKET
CF Carrefour Laval (50% int.)	Aug-24	\$553.2 M	1,242,990	\$890	Cadillac Fairview	Montreal
Promenades de Montarville	Aug-24	\$23.6 M	155,000	\$152	United Properties	Montreal

## MULTI-SUITE RESIDENTIAL

PROPERTY	DATE	PRICE	# UNITS	/UNIT	PURCHASER	MARKET
120 Torresdale Ave, 300 Antibes Dr	Sep-24	\$216.3 M	618	\$350,000	Starlight Investments	Toronto
Delmar-Hearne Portfolio	Sep-24	\$25.6 M	92	\$172,635	Ziemia Capital	Montreal
6509 Glen Erin Dr	Sep-24	\$79.5 M	326	\$243,865	Minto Group	Toronto
Blackstone/Starlight Portfolio	Sep-24	\$130.2 M	346	\$376,301	Equiton	Toronto
Greenrock Portfolio	Sep-24	\$437.2 M	1,188	\$368,000	Brookfield Properties	Toronto
Canvar Group Portfolio	Aug-24	\$102.1 M	317	\$322,121	Fitzrovia	Montreal
91 Valley Stream Dr	Aug-24	\$45.0 M	136	\$330,882	Homestead	Ottawa
1754, 1770 Pendrell St	Aug-24	\$137.0 M	173	\$791,908	CAPREIT	Vancouver
445 Sicard St	Aug-24	\$36.6 M	106	\$345,157	Skyline Group	Montreal
6201 MacEwan Blvd	Aug-24	\$54.1 M	262	\$206,393	Northland Properties Corp	Edmonton
2590 Lonsdale Ave	Aug-24	\$42.2 M	64	\$659,375	CAPREIT	Vancouver
3170 Cameron Heights Way	Jul-24	\$69.3 M	277	\$250,000	Oneka Land Company Ltd	Edmonton
9922 111 St	Jul-24	\$79.3 M	179	\$443,203	CAPREIT	Edmonton
514-532 Rochester St	Jul-24	\$78.5 M	144	\$545,139	CAPREIT	Ottawa
Hillview Apartments	Jul-24	\$21.0 M	54	\$388,889	CAPREIT	Ottawa
9197 Mary St	Jul-24	\$18.0 M	85	\$211,765	Dogwood Holdings Society	Vancouver

# 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 June 30, 2024, Morguard had \$17.6 billion of total assets under management and employed 1,200 real estate professionals in 11 offices throughout North America.



Publicly Traded Real Estate Company	Morguard Corporation
Publicly Traded Real Estate Investment Trusts	Morguard REIT
	Morguard North American Residential REIT
Real Estate Advisory Company	Morguard
Real Estate Brokerage	Morguard Investments Limited
Investment Management Company	Lincluden Investment Management Limited



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