Morguard

Morguard Canadian Economic Outlook and Market Fundamentals

28th Annual Edition

2026 Second Quarter Update

MORGUARD

CONTENTS

Q2

ABOUT

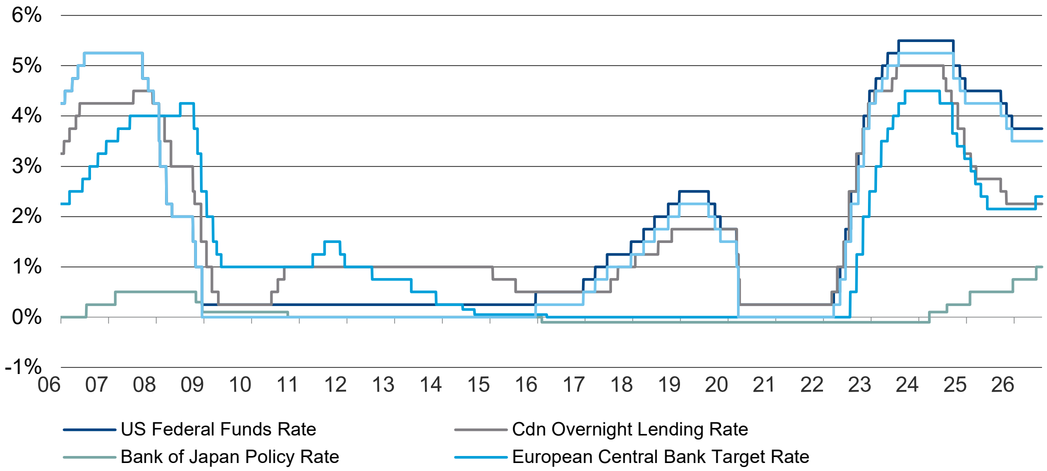
FINANCIAL REPORT

BANK HELD ITS BENCHMARK RATE STEADY

The Bank of Canada (BoC) held its benchmark rate steady in the second quarter. The overnight policy rate remained at 2.25% while the Bank Rate held at 2.5% and deposit rate of 2.2%. The BoC continued to maintain its benchmark rate while balancing an uneven economic performance and persistent consumer price growth pressures.

OFFICIAL POLICY RATES

International Monetary Conditions



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

Several factors contributed to the BoC's decision to maintain its benchmark policy rate in the second quarter. The Middle East conflict continued to disrupt global supply chains and weigh on global and Canadian economic growth. Canada's economy contracted by 0.1% in the first quarter, marking a second consecutive quarterly output decline. Government spending and housing market activity declined while exports and business investment remained underwhelming. Ongoing trade tensions with the U.S. have had a negative impact on business confidence and hiring activity. Additionally, the Middle East conflict materially increased inflation risk and significantly reduced consumer confidence. Headline inflation is projected to remain within a narrow rate of around 3.0% while gasoline prices remain high. Encouragingly, there is little evidence to suggest that energy price inflation has spread to other consumer goods and services. The BoC, therefore expected to keep its benchmark policy rate unchanged through the second half of the year.

CONSUMER PRICE GROWTH DRIVEN BY RISING GASOLINE PRICES

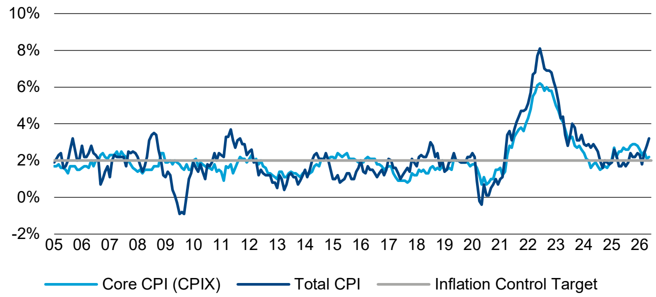
Consumer price growth accelerated in the second quarter, driven largely by rising gasoline prices. Headline inflation, as measured by the Consumer Price Index (CPI), rose 3.2% year-over-year in May, up 20 basis points (bps) from the previous period. This acceleration was due in large part to sharper increases in gasoline prices at the pump. On a year-over-year basis, gasoline prices rose by 33.2% in May compared with 28.6% in April. The May rise marked a third consecutive month of relatively rapid price growth. Gasoline prices rose to their highest level since June 2022, when the Russia-Ukraine conflict began. Supply uncertainty stemming from the Middle East conflict drove gasoline prices to a four-year high. Excluding gasoline, the all-item CPI rose to 2.2% in May compared with 2.0% in April. The cost of shelter rose at a slower rate year-over-year in May to 1.7% from 1.8% in April, marking a continuation of the year-to-date trend. In addition, the homeowners' replacement and mortgage interest cost indexes declined in both April and May. Residential rent inflation continued to ease in the second quarter, falling to the lowest level recorded since January 2022 according to Statistics Canada. In summary, higher gasoline prices continued to drive CPI acceleration during the second quarter, in keeping with the recent trend.

TSX COMPOSITE POSTS EIGHTH CONSECUTIVE ADVANCE

The S&P/TSX Composite Index posted an eighth consecutive positive return in the second quarter, with Financials leading the way. The Financials sector, comprising 36.0% of the composite, led all sectors with a +24.7% return, which represented its strongest quarterly gain in 17 years. The country's major banks registered strong performances, with returns ranging from 24.0% to 33.0%. Additionally, five of the six largest Canadian banks increased their quarterly dividends in the second quarter. Life Insurance companies within the Financials sector posted healthy gains, with Great-West Lifeco leading at 39.0%. Health Care, accounting for a very small share of the composite at just over 1.0%, posted the second highest sector return for the period at 15.8%. The Energy sector posted a negative return of 12.1%, due largely to a short-lived cease-fire and easing of Middle East tensions. Canada Natural Resources and Suncor each posted returns of 17.0% while Imperial Oil declined 13.0%. However, Energy remained the strongest sector performer year-to-date despite a weak second-quarter performance. Overall, however, the second quarter marked the eighth consecutive quarterly gain for the TSX Composite Index.

NATIONAL INFLATION

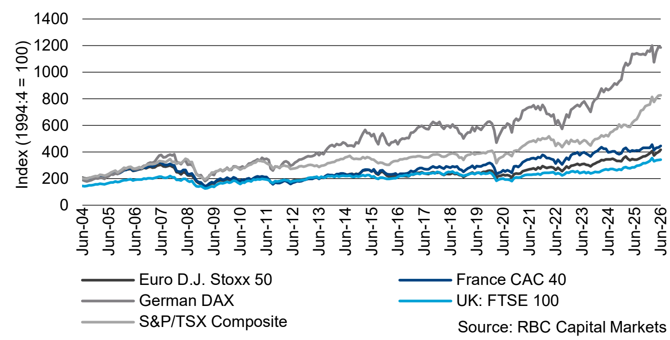
CPI Measures, % Change Over 1 Year Ago



Source: Bank of Canada, Statistics Canada

GLOBAL INDICES

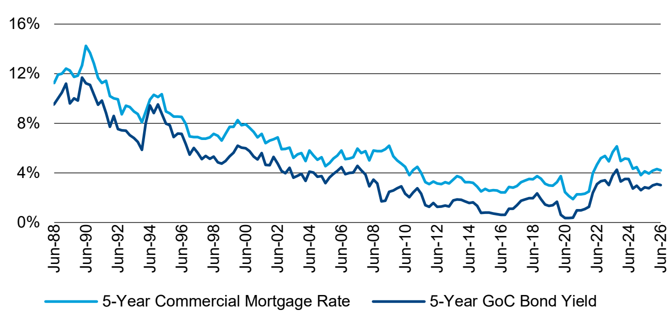
Trending of Global Price Return Indices



Source: RBC Capital Markets

MORTGAGE SPREADS

Commercial Mortgage Rates Vs. 5-Year GOC Bonds



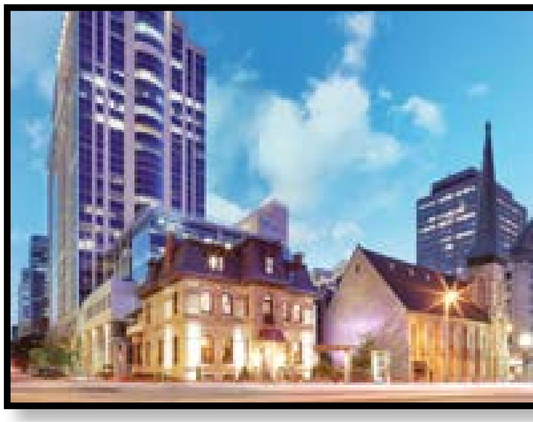
Source: RBC Capital Markets, Bank of Canada

Supply uncertainty stemming from the Middle East conflict drove gasoline prices to a four-year high.

INVESTMENT REPORT

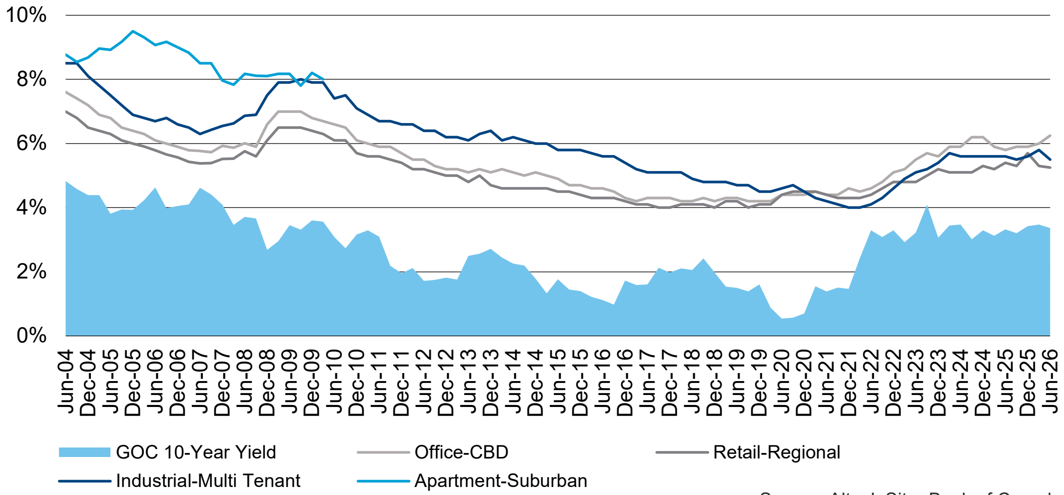
INVESTMENT SALES UPTICK WAS DRIVEN BY INDUSTRIAL AND RETAIL PROPERTY TYPES

The uptick in Canadian investment property sales volume in the second quarter was driven by the industrial and retail property types. The $2.1 billion in industrial property transactions of at least $10.0 million in the country's five largest markets represented a 32.8% increase over the previous period. Retail property investment sales volume rose 167.2% to $585.0 million.



YIELD SPREADS

Cap Rates vs. 10-Year GOC Bonds



Source: AltusInSite, Bank of Canada

Multi-suite residential rental and office property investment sales were relatively robust in the second quarter, although transaction volume declined quarter over quarter. The $1.2 billion in multi-suite residential rental transaction volume recorded represented an 18.0% decline while office property sales fell by 21.3% to $950.7 million. Overall, investors continued to exhibit a strong preference for core-quality acquisitions across the four major property types. Properties with stable long-term income streams and minimal capital expenditure requirements were highly sought after. Additionally, properties with tenants paying below-market rents were also popular acquisition targets. Private capital groups continued to look for properties that could be repositioned or had value-add potential. Investors exhibited confidence in high-quality downtown office properties in the past year as the return-to-office trend firmed. Consequently, several significant office properties were sold and/or closed in the second quarter. Office property sales are expected to increase in the near term, assuming market fundamentals continue to improve. This activity will help support the upward trend in investment property transaction volume following the uptick in sales recorded in the second quarter.

LARGE ASSET SALES SUPPORTED RISE IN INDUSTRIAL TRANSACTIONS

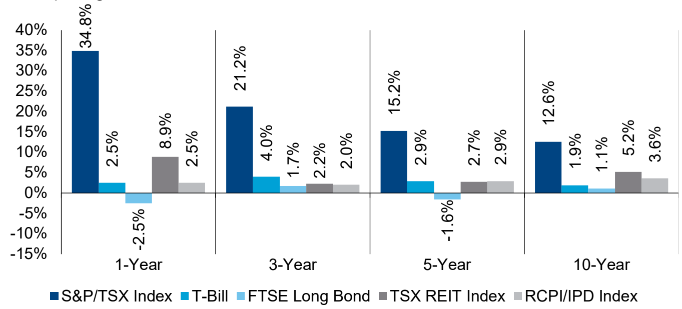
Large asset sales supported a rise in industrial property transaction volume in the second quarter. Five large-scale asset sales accounted for 48.1% of the $2.1 billion in industrial transaction volume recorded over the period. The five transactions comprised three portfolios and two individual assets. Geographically, four transactions occurred in the Greater Toronto Area (GTA), and one in the Greater Calgary Area. The highest sale price was $344.1 million, which Brookfield Asset Management paid for various ownership interests ranging from 40.0% to 50.0% in a portfolio of large-bay properties in the GTA. The highest price paid for an individual asset was $187.0 million, as Pontegadea acquired 1680 Thornton Road North in Oshawa. The property was fully occupied by Lactalis on a long-term lease. These five large transactions reflected the confidence investors have in acquiring industrial property in major Canadian markets. High-quality, functional, large-bay warehouse and logistics properties remained popular acquisition targets. Valuations were relatively stable in the second quarter, due in part to the market's healthy demand pattern. This stabilization will continue to support sales of large assets over the near term, consistent with the second-quarter trend.

SUSTAINED INVESTOR CONFIDENCE IN OFFICE PROPERTY MARKET

Investor confidence in Canada's office property market was sustained in the second quarter, marking an extension of the recent trend. This confidence supported the sale of several significant investment properties. In May, BGO acquired 95 Wellington Street West in downtown Toronto for $198.1 million, which represented the highest price paid for an office property during the quarter. In the same month, Infrastructure Ontario paid $145.5 million to acquire its head office at 1 Queen Street East and 20 Richmond Street East also in downtown Toronto. Brasswater, a private capital buyer, acquired Carling Executive Park in Ottawa for $53.0 million. In the final month of the quarter, another private capital investor acquired 150 Commerce Valley Drive West in Markham, Ontario for $50.0 million. Lastly, BGO purchased Wellington Square, a Class A building in downtown Toronto, for $75.5 million. The transaction clsoed shortly after the end of the second quarter. Sales of office property have been relatively rare since 2020. However, in the past year investor confidence has increased, particularly for high-quality downtown properties. This confidence was sustained in the second quarter.

RELATIVE PERFORMANCE

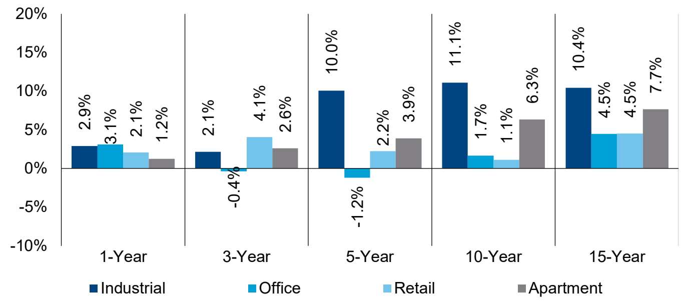
Comparing Annualized Returns To March 2026



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

MSCI RETURNS

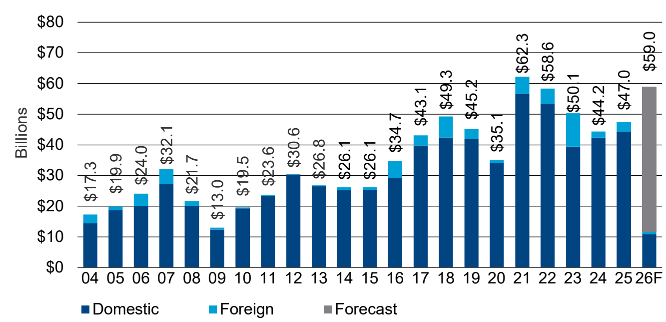
Annualized Returns By Property Type To March 2026



Source: © MSCI Real Estate 2026

INVESTMENT ACTIVITY

Total Investment Volume



Source: CBRE Limited; Morguard

Five large-scale asset sales accounted for 48.1% of the $2.1 billion in industrial transaction volume recorded over the period.

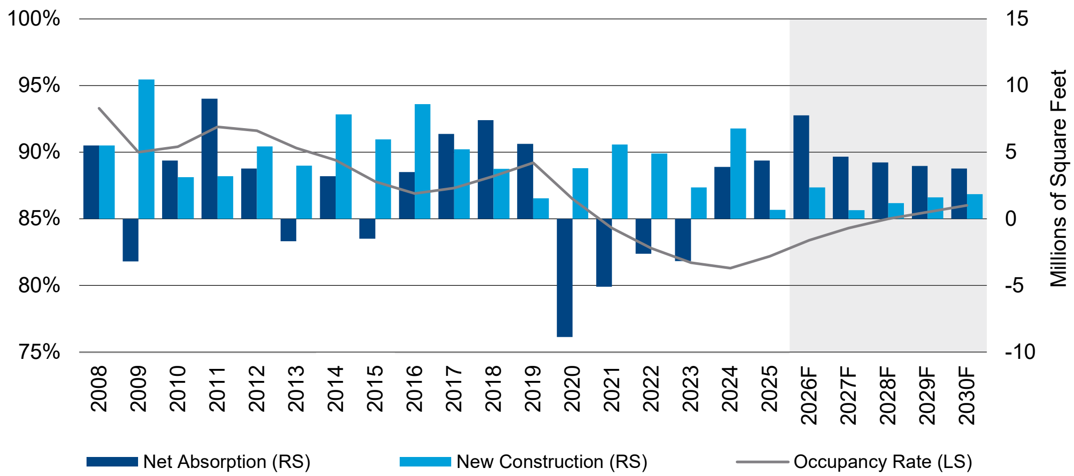
LEASING REPORT

POSITIVE OFFICE LEASING MARKET MOMENTUM PERSISTED

Positive momentum persisted in Canada's office leasing market in the second quarter, continuing the recent trend. This positive momentum was reflected in more than 1.2 million square feet of space absorbed during the period. Positive absorption has been reported in each of the past four quarters, marking the first such occurrence since before the pandemic, according to CBRE.

OFFICE DEMAND & SUPPLY

National Historical & Forecast Aggregates



Source: CBRE Limited; CBRE Econometric Advisors (Q1 2026)

Conditions in Canada's leasing market continued to tighten in the second quarter, due largely to the absorption of downtown space. The national vacancy rate declined by 20 bps to a 15-quarter low of 17.1%. The downtown vacancy rate matched the 15-quarter low of 17.8% while the suburban rate was unchanged at 16.3%. The rate for Class A buidings stood at a relatively healthy 15.5% in the second quarter, marking a 17-quarter low. The second-quarter downward vacancy pressure was a byproduct, to some degree, to the recent slowdown in construction deliveries. The national construction pipeline stood at a more than two-decade low in the second quarter, with just 1.2 million square feet of space underway. Most of this new product was located in suburban submarkets. Sublease availability declined in the second quarter, falling below 10.0 million square feet mark for the first time since mid-2020. Built-out sublease space remained popular with tenants looking to reduce leasing expenses. The reduction in sublease availability in the second quarter indicated the persistent leasing market momentum in Canada's office property sector.

CONTINUED STABILIZATION REPORTED IN INDUSTRIAL LEASING MARKET

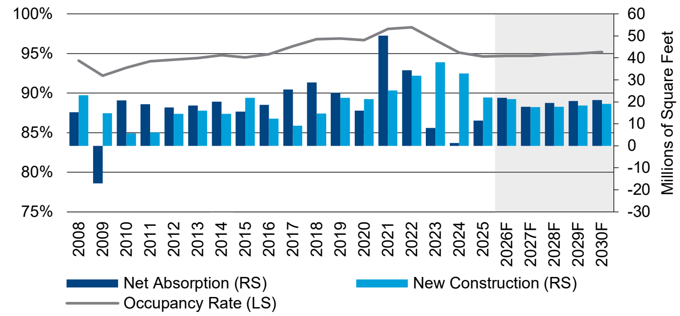
Stabilization was reported in Canada's industrial leasing market in the second quarter, continuing the year-to-date trend. This stabilization was evidenced in the nation's availability trend. Availability declined by a modest 10 bps to 5.5%, which was 20 bps higher than a year earlier, according to CBRE. The slight change in the availability rate was due in part to a moderately positive demand trend. This demand trend translated into the absorption of 3.9 million square feet of space in the second quarter, virtually matching the total reported in the previous period. Leasing demand outpaced new supply, with a reported 2.4 million square feet of newly constructed space delivered. Significantly positive absorption totals were recorded in eight of the country's largest industrial markets, with Toronto and Montreal leading at 1.3 million and 786,000 square feet, respectively. Negative totals were reported in some of the smaller industrial centres, including Victoria, Winnipeg, and London, which was consistent with the first-half of 2026 trend. The space absorbed in the second quarter helped drive availability levels moderately lower in most markets. However, leasing demand and business confidence remained relatively weak. Industrial users were sometimes reluctant to expand their operations in an uncertain economic and geopolitical climate. To some degree, this uncertainty contributed to the continued leasing market stabilization reported in the second quarter.

DOWNWARD RENT PRESSURE PREVAILED

Downward pressure on multi-suite residential rental property asking rents persisted in the second quarter, although growth was reported in some regions. The national average posted asking rent was 3.4% lower in May than a year ago. The persistent downward rent pressure was attributed to the effects of markedly weaker rental demand and the record-high new supply deliveries of the past year. Demand slowed considerably in the last year with the reduction in international student and temporary worker visa issuance. Elevated levels of youth unemployment have also contributed to the weak demand performance. In the past year, new supply deliveries rose to a record high, resulting in significantly higher vacancy levels in most regions. The negative effects of reduced demand and rising vacancy have been felt most acutely in the country's most expensive markets, Toronto and Vancouver. Rental market conditions have been more stable in some of the less expensive markets over the past year. In Saskatchewan, for example, asking rents were 2.3% higher year-over-year. Overall, however, downward rent pressure persisted in the second quarter.

INDUSTRIAL DEMAND & SUPPLY

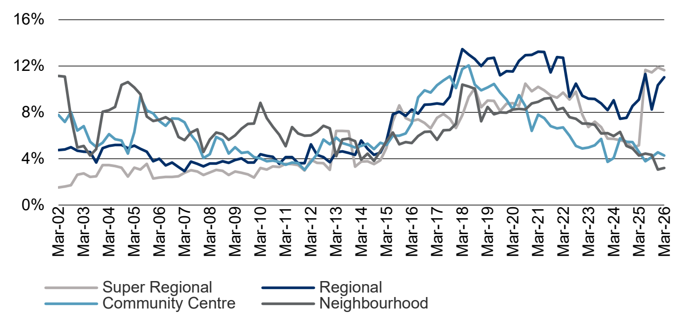
National Historical & Forecast Aggregates



Source: CBRE Limited; CBRE Econometric Advisors (Q1 2026)

RETAIL VACANCY RATES

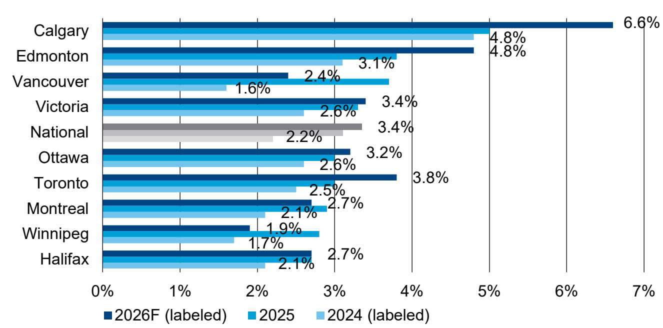
National Trending Across Property Types



Source: © MSCI Real Estate 2026

CMA'S RENTAL VACANCY

Rates for Structures of 3 units+



Source: CMHC (HMO Feb 2025 & Summer Update)

The national average posted asking rent was 3.4% lower in May than a year ago.

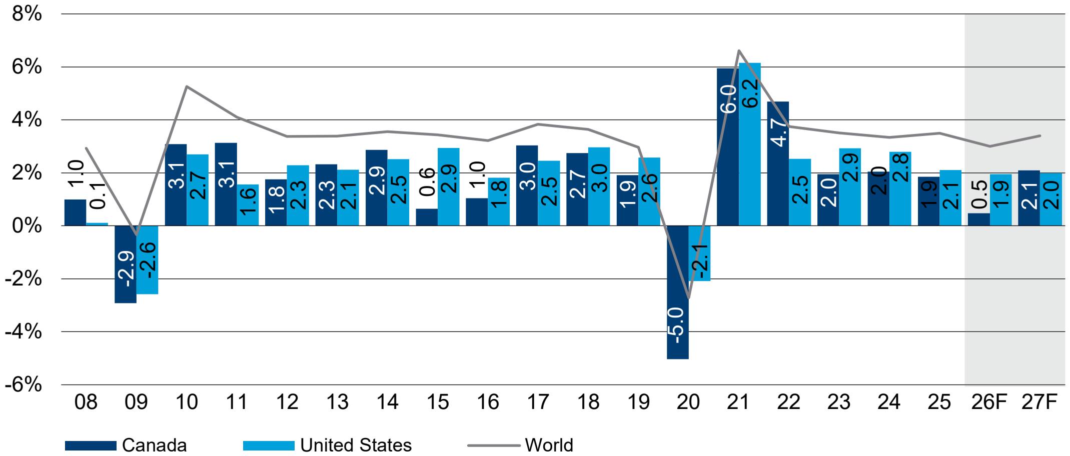
ECONOMIC REPORT

ECONOMY RETURNED TO GROWTH

The Canadian economy made a return to growth in the second quarter, having contracted in the final quarter of 2025 and first quarter of 2026. Canada's real Gross Domestic Product (GDP) expanded by a stronger-than-expected 0.5% in April after a 0.1% contraction in March. Statistics Canada reported strength across most goods-producing industries, with gains also posted in services-prodicing sectors of the economy.

ECONOMIC GROWTH

Real GDP Growth — Historical & Forecast



Source: Conference Board of Canada (June 2026); International Monetary Fund (July 2026)

A firmer economic growth trend is predicted in the near term, following a better-than-expected start to the second quarter. Annualized growth in the range of 2.0% is forecasted for the second quarter. This outlook assumes a modest recovery in industries that have been hurt the most by U.S. tariffs and the resilience of Canadian household demand. However, downside economic risk has increased significantly in recent weeks with renewed hostilities in the Middle East. Canada's economy contracted in the fourth quarter of 2025 and the first quarter of 2026 due in part to a temporary pullback in government spending. This pullback was offset largely by increased household consumption, which advanced by a solid 1.5% in the first quarter. Canada-US-Mexico trade negotiations represent a significant second-half growth risk. Real GDP is projected to rise by an annualized rate of close to 2.0% in the second half of 2026. However, the Middle East conflict and Canada-US-Mexico trade negotiations represent significant risks to the firmer growth outlook.

LABOUR MARKET RECOVERED MUCH OF THE GROUND LOST EARLIER IN THE YEAR

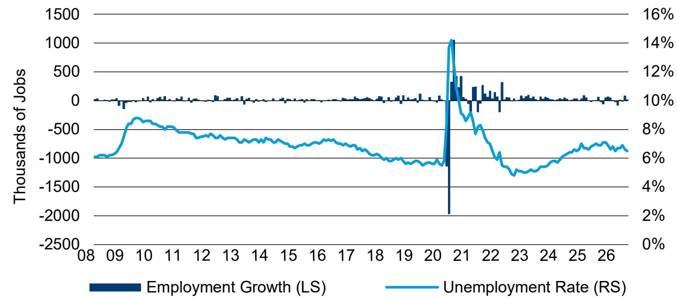
Canada's labour market recovered much of the ground lost earlier in the year in the second quarter. The 88,000 jobs created in May offset the job losses reported in the first quarter, while employment levels were little changed in either April or June. The jobs created in May pushed the employment rate 20 bps higher to 60.7% and the unemployment rate down 30 bps to 6.6%. The unemployment rate had increased by 20 bps to 6.9% in April as 51,000 more people entered the labour force. This rate declined by a modest 10 bps in June to 6.5%. Youth unemployment fell by almost a percentage point in May to 13.4%. Notable increases in employment were recorded in several industries in the same month, with the construction sector adding 27,000 jobs. Additionally, the information, culture and recreation and transportation and warehouse sectors each gained 19,000 jobs. Worker wages continued to rise in the second quarter as labour market conditions remained largely balanced. In April, the average hourly wage rose 4.5% year-over-year, with moderate increases of 3.0% and 3.3% in May and June. Wages have risen steadily year-to-date. Overall, the moderately positive labour market performance of the second quarter resulted in the recovery of jobs lost in the first quarter.

HOME SALES MARKET RECOVERY CONTINUED TO UNFOLD

Canada's home sales market recovery continued to unfold in the second quarter, following a prolonged period of weakness. This recovery was driven by moderately stronger demand and the positive effects of stable interest rates and home values. The positive second-quarter housing market performance was reflected in monthly sales data, with the Canadian Real Estate Association (CREA) reporting sales increases in each month. Sales tracked in Canada's MLS Systems increased by 0.9% in April, 5.5% in May, and a modest 0.5% in June. New property listings declined by 1.3% in June, marking a second consecutive monthly dip. In the same month, the national sales-to-new-listings ratio tightened to 50.2% compared with 49.3% in May. This tightening drove the ratio above the 50.0% mark for the first time in 2026, according to CREA figures. Ratios between 45.0% and 65.0% are generally indicative of a balanced market. The National Composite MLS Home Price Index held steady from May to June, having declined on a month-over-month basis since January 2025. This price stability indicated that Canada's home sales market recovery continued through to the of the second quarter.

LABOUR MARKET

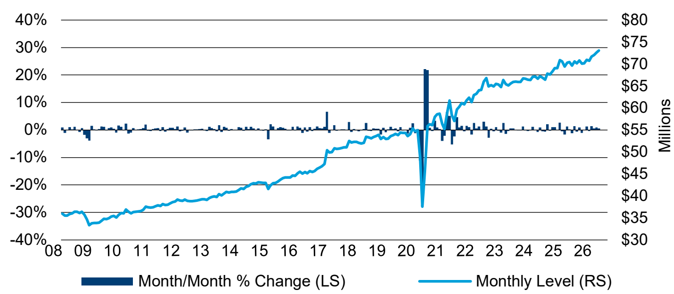
Month-Over-Month Trending



Source: Statistics Canada

RETAIL SALES

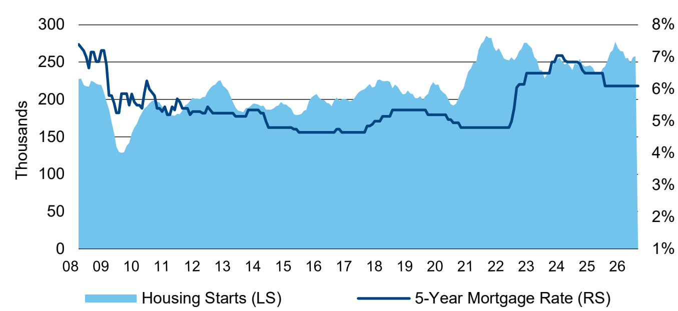
Month-Over-Month Trending



Source: Statistics Canada

HOUSING MARKET

Monthly Trends



Source: Statistics Canada, CMHC, Bank of Canada

Sales tracked in Canada's MLS Systems increased by 0.9% in April, 5.5% in May and a modest 0.5% in June.

INVESTMENT MARKET TRANSACTIONS

OFFICE

PROPERTY	DATE	PRICE	SF	PSF	PURCHASER	MARKET
212 King St W	Jun-26	$39.5 M	73,277	$539	YFK Office Lease	Toronto
150 Commerce Valley Dr W	Jun-26	$50.0 M	210,405	$238	Marianne 30 Limited	Toronto
95-105 Moatfield Dr	Jun-26	$30.0 M	402,297	$75	Sunray Group	Toronto
5900 Hurontario St	Jun-26	$62.8 M	191,755	$328	Citigroup	Toronto
Carling Executive Ctr	May-26	$53.0 M	291,661	$182	Brasswater	Ottawa
1 Queen St, 20 Richmond St E	May-26	$145.5 M	503,930	$289	Infrastructure Ontario	Toronto
95 Wellington St W	May-26	$198.1 M	330,000	$600	BGO	Toronto
477 Mount Pleasant, 250 Davisville	Apr-26	$54.8 M	231,000	$237	Steven Gary Properties Inc	Toronto
401 9 Ave SW (50% interest)	Apr-26	$68.1 M	1,125,780	$120	GWL Realty Advisors	Calgary
Place du Parc	Apr-26	$48.0 M	567,545	$85	Alta Canada	Montreal

INDUSTRIAL

PROPERTY	DATE	PRICE	SF	PSF	PURCHASER	MARKET
1680 Thornton Rd N	Jun-26	$187.0 M	379,000	$493	Pontegadea Group	Toronto
120 Valleywood Dr	Jun-26	$17.3 M	60,071	$287	Realspace Mgt. Group Inc.	Toronto
Concert Portfolio (partial interests)	Jun-26	$344.1 M	1,334,008	$258	Brookfield Asset Mgt.	Toronto
9404-9430 39 Ave NW	May-26	$15.3 M	98,801	$154	Nearctic REIT	Edmonton
5225, 5341 Boundary Rd (45% Int)	May-26	$64.2 M	1,023,250	$139	Brookfield Properties	Ottawa
921 Progress Ave	May-26	$26.7 M	89,159	$299	KOLT Investments	Toronto
115-133 Bridgeland Ave	May-26	$18.4 M	55,272	$332	Midking Properties Limited	Toronto
2750 Morningside Ave	May-26	$112.4 M	333,638	$337	GWL Realty Advisors	Toronto
1950 46e Ave	May-26	$16.0 M	154,875	$103	Camco Realties Inc	Montreal
Panattoni Portfolio	Apr-26	$286.5 M	1,085,585	$264	Pure Industrial REIT	Toronto

RETAIL

PROPERTY	DATE	PRICE	SF	PSF	PURCHASER	MARKET
75, 85, 87 Rideau St	Jun-26	$21.5 M	331,572	$65	Claridge Homes	Ottawa
10 Neighbourhood La	Jun-26	$16.5 M	31,826	$518	OL Plazas	Toronto
Belmont Town Ctr	Apr-26	$27.2 M	56,236	$484	Salthill Capital	Edmonton
2150 Bloor St W	Apr-26	$13.2 M	28,007	$471	Clifton Blake	Toronto

MULTI-SUITE RESIDENTIAL

PROPERTY	DATE	PRICE	# UNITS	/UNIT	PURCHASER	MARKET
95 du Dore-Jaune St (50% interest)	Jun-26	$22.5 M	154	$292,626	Centurion	Montreal
1450 20 Ave NW	Jun-26	$29.0 M	75	$386,667	Private Pension Partners	Calgary
Fourfifty The Well (50% int.)	Jun-26	$188.0 M	592	$635,135	Woodbourne Capital	Toronto
2220-2222, 2292 Weston Rd	May-26	$60.8 M	223	$272,646	PBC Group	Toronto
1551 Lycee Place	May-26	$72.0 M	258	$279,070	Lankin Investments	Ottawa
450 Saint-Francois Xavier St	May-26	$133.7 M	230	$581,215	Canadian Urban	Montreal
150 Roehampton Ave	May-26	$90.8 M	148	$613,176	Torimmo Inc.	Toronto
803 Daniels Wy	Apr-26	$30.7 M	104	$295,192	Transglobe Holdings Ltd	Edmonton
1350, 1400 Winding Tr	Apr-26	$45.0 M	149	$302,013	FAX Real Est./Distrikt Capit.	Toronto
3405, 3409, 3413 Rene-Laennec	Apr-26	$35.5 M	98	$362,245	Groupe Khoder	Montreal
1350, 1400 Winding Trail	Apr-26	$45.0 M	149	$302,013	Fax Real Est./Distrikt Cap.	Toronto
Starlight/Blackstone Portfolio	Apr-26	$106.1 M	345	$307,391	Dream	Toronto

*share sale

ABOUT

With more than 50 years of experience, Morguard is one of North America's leading fully integrated real estate and investment management companies. We provide property management services across a diversified portfolio of multi-suite residential, retail, office and industrial properties, delivering operational excellence through innovative systems, responsive tenant and resident support, and responsible sustainability practices. As at June 30, 2026, Morguard's owned and managed portfolio of assets was valued at $24.2 billion.

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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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, Newmark, 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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