2022 CANADIAN ECONOMIC OUTLOOK

AND MARKET FUNDAMENTALS SECOND QUARTER UPDATE

24TH ANNUAL EDITION

MORGUARD

Q2

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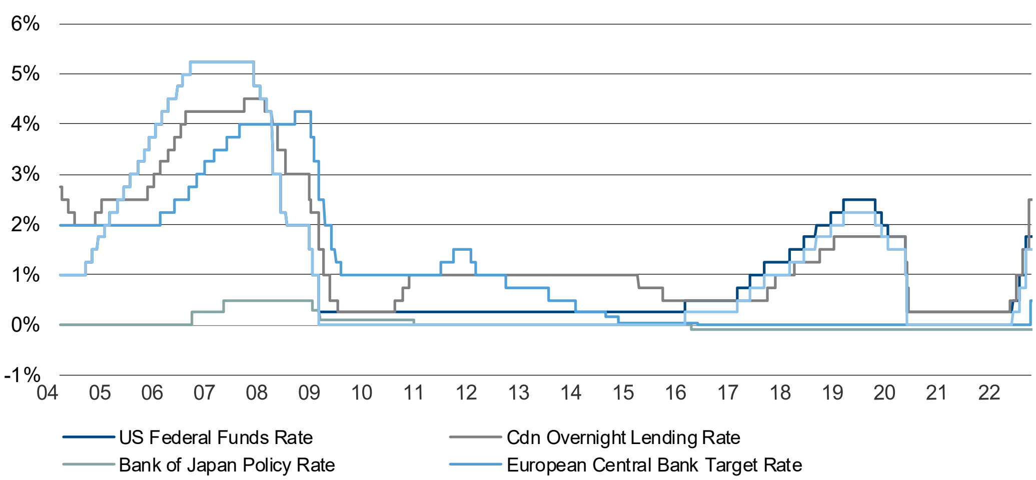
FINANCIAL REPORT

POLICY TIGHTENING CONTINUED

The Bank of Canada raised its target overnight rate aggressively during the second quarter to try to combat near 40-year high inflation. On June 1, 2022 the bank increased the overnight rate to 1.5%, while continuing its quantitative tightening program. The increase followed another outsized rate hike earlier in the second quarter, as inflation became more entrenched.

OFFICIAL POLICY RATES

International Monetary Conditions



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

On April 13, 2022 the bank raised its overnight rate by 50 bps to 1.0% and kicked off its quantitative easing program. At that time, Canada's Consumer Price Index stood at a lofty 5.7% and was expected to range near the 6.0% mark through to the end of the first half of 2022. However, by May, inflation had increased to 7.7% and the bank indicated a more aggressive approach to interest rate hikes would be the most likely scenario over the near term. The bank's objective of achieving its inflation target of 2.0% will have a major influence on policy decisions going forward. The bank also indicated the strength of Canada's economy recovery was a factor in its decision to aggressively raise rates. Gross Domestic Product expanded by a healthy 3.1% in the first quarter. Wages were on the rise, while labour shortages were reported in several business sectors. More recently, however, Canadian consumers and businesses have become increasingly concerned about rising prices, which forced the bank to continue to implement tighter monetary policies during the second quarter.

INFLATION WINDS BLEW HARDER

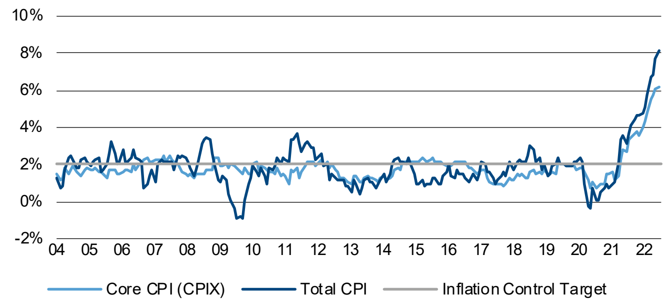
The winds of inflation blew harder during the second quarter, much to the chagrin of Canada's consumers and businesses. The Consumer Price Index (CPI) registered a 7.7% year-over-year reading for May, which represented a high mark dating back to 1983. The May reading was up 90 bps from the previous month. Excluding gasoline, CPI rose 6.3% in May, year-over-year. The main drivers of the near 40-year high inflation rate was gasoline which rose 12.0%, hotel and restaurant services, and food and shelter. Energy prices spiked by 34.8% in May, due primarily to supply uncertainty stemming from the Russian invasion of Ukraine and surging demand. Grocery store prices rose 9.7%, matching the previous month's reading. Similarly, the cost of shelter rose 7.4% year-over-year in both May and April. Upward pressure on prices for services also intensified in the second quarter. Prices increased by 5.2% in May, which followed a 4.6% average in April. More specifically, the cost of accommodation when travelling was up a whopping 40.2% year-over-year in May, driven by a sharp demand-surge. A year ago, restrictions on travel were still being imposed. Over the near term, inflation is expected to remain elevated, which will continue to force the Bank of Canada to adopt materially tighter polices for the foreseeable future.

GLOBAL EQUITY MARKETS TRENDED LOWER

Global equity markets trended lower during the second quarter, capping off a weak first half. Canada's main index dropped 14.0% in the second quarter, representing the biggest decrease since the final quarter of 2019. The S&P/TSX was down 11.0% over the first half of 2022. The energy sector was the only sub-sector of the index to register a positive performance in the second quarter, driven by substantially increased earnings revisions. The S&P 500 was down almost 21.0% over the first half, which marked the steepest first-half plunge in more than five decades. Declines were tallied in 56.0% of the trading days that comprised the first half of 2022. There were several drivers of the second-quarter global equity market downturn. One of the main drivers was outsized inflation, due in large part to the sharp increase in geopolitical uncertainty and persistent supply chain challenges. Central banks have pushed interest rates markedly higher to curb inflation, resulting in an uncertain profit outlook. In addition, emerging equity markets were side-swiped by China's economic lockdown to combat the spread of COVID-19. The causes of the second-quarter equity market decline were also the drivers of increased economic and financial market uncertainty in most of the world's developed and developing countries.

NATIONAL INFLATION

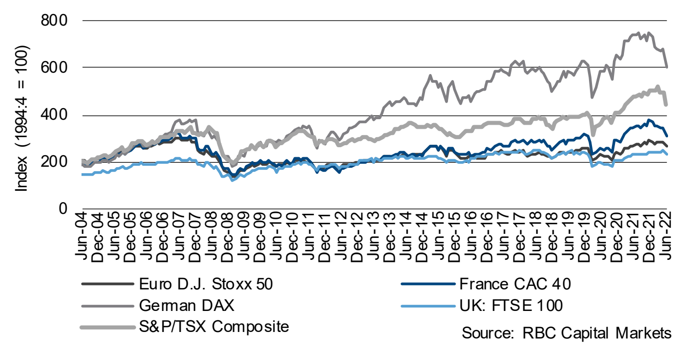
CPI Measures, % Change Over 1 Year Ago



Source: Bank Of Canada, Statistics

GLOBAL INDICES

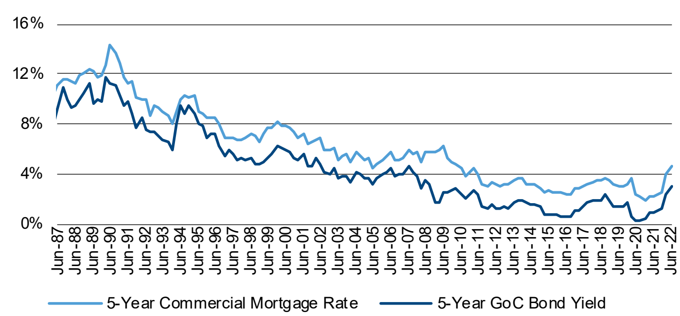
Trending of Global Price Return Indices



Source: RBC Capital Markets

MORTGAGE SPREADS

Commercial Mortgage Rates Vs. 5-Year GOC Bonds



Source: RBC Capital Markets, Bank of Canada

May's CPI year-over-year reading of 7.7% represented a high dating back to 1983.

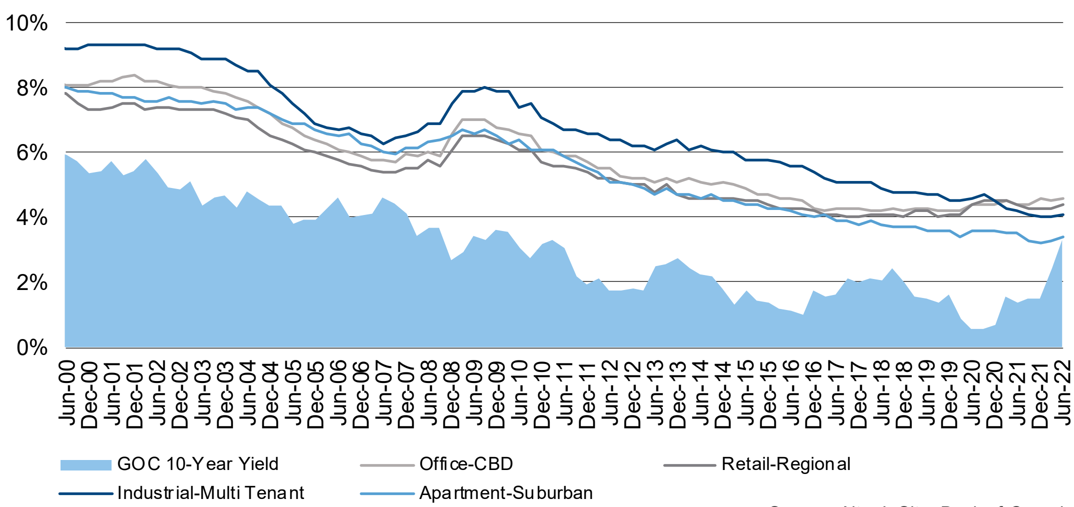
INVESTMENT REPORT

BRISK SALES PACE CONTINUED DESPITE INCREASED UNCERTAINTY

Investment sales activity remained brisk during the second quarter, following the record-setting pace of the past 15 months. Transaction volume is expected to surpass the $10.0 billion mark in the second quarter. Investors exhibited confidence in Canada's property sector, as uncertainty surrounding the financial, economic, and geopolitical outlooks increased.

YIELD SPREADS

Cap Rates vs. 10-Year GOC Bonds



Source: AltusInSite, Bank of Canada

The pace at which investment properties sold during the second quarter was slower year-over-year. A year ago, $14.0 billion in sales volume was reported for the same three-month period. Using the Vancouver, Calgary, Toronto, Ottawa, and Montreal markets as a proxy, second-quarter sales of multi-suite residential rental, office, industrial, and retail property with a minimum sale price of $1.0 million declined to $6.7 billion from $8.5 billion a year earlier. The decline equated to a 21.7% drop off. The biggest declines were in the multi-suite residential rental and retail sectors. Volume was down only slightly for the industrial sector, which has been the darling of investors over the past few years. Retail sector sales volume fell from $1.7 billion to $795.0 million, or 54.1%. The decline for the four sectors combined was a function of availability rather than a demand softening. A significant backlog of available capital remained in place during the second quarter. Investors continued to exhibit confidence in Canada's investment property sector, with the worst of the pandemic appearing to have passed and with leasing fundamentals steadily improving. Investment sales activity is expected to remain brisk over the near term, despite a heightened level of economic and financial market uncertainty.

NO SIGNS OF A SLOWDOWN IN THE INDUSTRIAL SECTOR

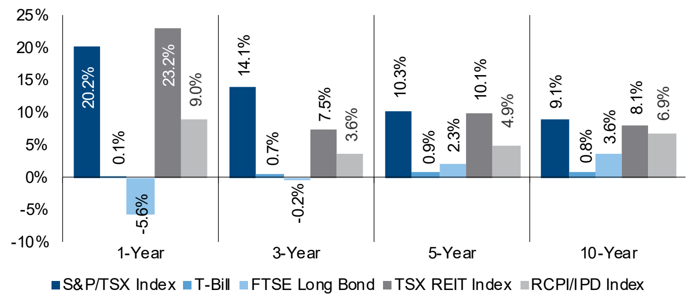
Signs of a slowdown in Canada's industrial investment property market were absent during the second quarter, as sales activity remained elevated. A combined $2.8 billion of investment transaction volume for properties selling for a minimum of $1.0 million in Vancouver, Calgary, Toronto, Ottawa, and Montreal combined was reported with a week still to go in the quarter. The total was down only slightly from the record pace of a year ago when $3.1 billion of property sales was tallied for the second quarter. Second quarter transaction volume will more than likely eclipse the record-high total of a year ago, driven by continuously strong demand characteristics. Investors competed intensely to acquire properties made available in a sector that has seen rents double and even triple in some submarkets since the onset of the pandemic. Moreover, industrial rents are expected to continue to rise over the balance of 2022 against a backdrop of highly constrained supply. Industrial property values have risen to a record high while cap rates have compressed. Leasing market availability has become critically low in several of the country's major industrial heartlands, a dynamic that has driven land values to an all-time high. Barring a significant change in the financial or economic backdrop, investment activity will continue to peak over the near term.

RETAIL SECTOR INVESTMENT SALES MOMENTUM EASED

Retail investment property sales activity continued to underwhelm during the second quarter. Few significant assets were made available or traded, which has been the case over the past couple of years. A modest $795.0 million of transaction volume for properties with a minimum sale price of $1.0 million for the Vancouver, Calgary, Toronto, Ottawa, and Montreal metros combined was reported over the second quarter with one week to go. The total was well off the pace of a year ago when $1.7 billion of sales was posted for the same quarter. Second-quarter transaction closing volume looked to have dropped to a decade-low. Previously, there was hope that the market had begun to show signs of life. The close to $8.5 billion in annual sales reported for 2021 represented a sharp increase over the relatively muted $5.0 billion over the previous year. The $2.6 billion of retail investment property traded in the first quarter of 2022 was perhaps an indication that the market had finally turned a corner. However, in the second quarter of 2022 retail investment transaction volume slowed significantly, amid the uncertainty of a cloudy economic outlook and a cautious lending environment.

RELATIVE PERFORMANCE

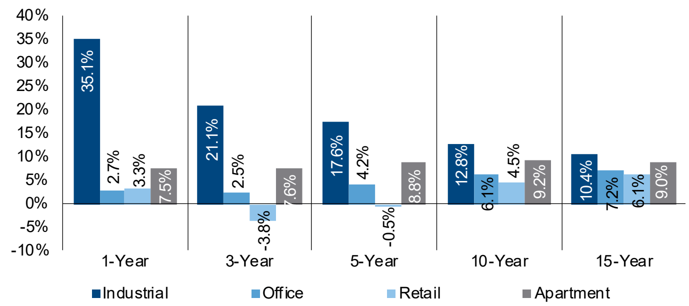
Comparing Annualized Returns To March 2022



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

MSCI RETURNS

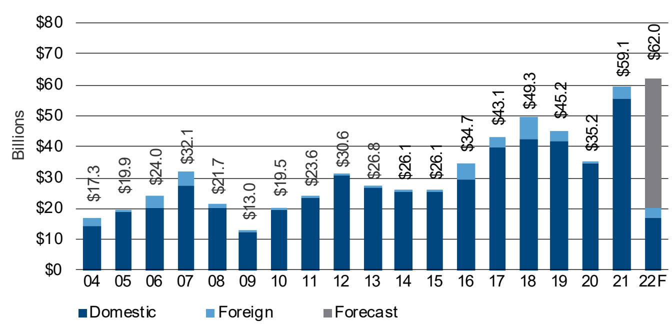
Annualized Returns By Property Type To March 2022



Source: © MSCI Real Estate 2022

INVESTMENT ACTIVITY

Total Investment Volume



Source: CBRE Limited; Morguard

Investors exhibited confidence in Canada's industrial property sector, given strong fundamentals and a healthy near-term outlook.

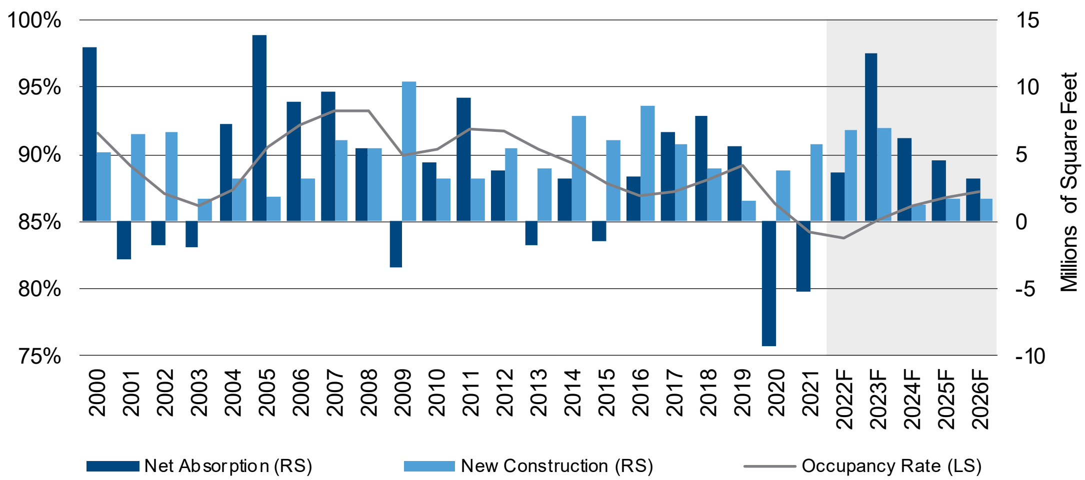
LEASING REPORT

OFFICE MARKET SUPPLY PRESSURE CONTINUED TO BUILD

Office leasing market supply pressure continued to build during the second quarter, in keeping with the pandemic-era trend. The national vacancy rate rose 20 bps to 16.5% during the quarter, which brought the year-to-date increase to 60 bps. Looking ahead to the balance of 2022 and 2023, national vacancy is expected to continue to slowly rise.

OFFICE DEMAND & SUPPLY

National Historical & Forecast Aggregates



Source: CBRE Limited; CBRE Econometric Advisors

New supply completions in 2022 and 2023 will add to the upward vacancy pressure in Canada's office leasing market. Approximately 13.9 million square feet of new supply is slated for completion in the second half of 2022 and 2023. While much of the newly built space is pre-leased, some of it will be vacant upon completion. In addition, the resulting backfill space will likely drive vacancy levels higher in some markets, including Vancouver, Toronto, and Montreal. The new supply completions will coincide with an economic growth slowdown. Real GDP is forecast to increase by an annualized rate of approximately 2.0% this year and a more modest 1.5% in 2023. Over the same time period, some organizations will continue to shed excess space when transitioning to fully or partially remote work programs. By 2024, construction completions will decline substantially and excess vacancy will be gradually absorbed. We will likely see a measure of obsolescence with some properties removed from inventory and/or converted to other uses. These activities will result in modest downward vacancy pressure. However, over the next 12 to 18 months, upward pressure on vacancy levels will remain an office leasing market constant.

UPWARD PRESSURE ON INDUSTRIAL RENTS PERSISTED

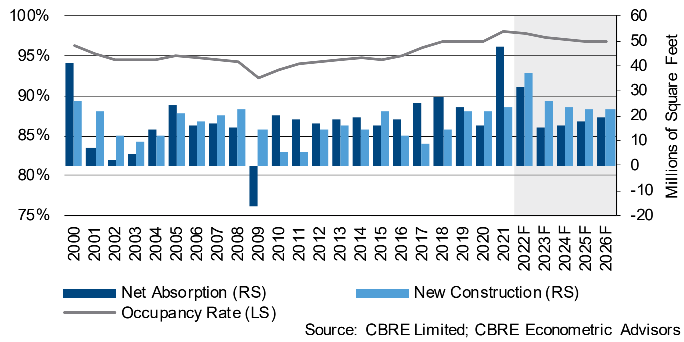
Upward pressure on industrial lease rates persisted across much of the country during the second quarter. The combination of critically low availability levels in most regions and stable and positive demand characteristics were the main drivers of the upward lease rate pressure. The national availability rate rested at a record-low 1.6%, as of the end of the second quarter. For the most part, tenants struggled to source availabile options in all space size ranges. At the same time, there were few options available as a result of new supply completions, as most of this space was leased either prior to completion or shortly thereafter. Warehouse, logistics, and last-mile storage and delivery space was in particularly short supply. Many users were forced to make do with their existing premises and hold off on expansion plans. At the same time, owners and managers were able to command higher rents and fewer concessions when negotiating new leases and renewals. In Toronto, for example, landlords have been able to command net rents in the mid-to-high teens for functional space. Tenants looking to renew or sign new leases were faced with significantly higher rents and inflated operating expenses across the country. Upward pressure on industrial rents is expected to persist over the near term, which will continue to impact the bottom lines of both tenants and landlords.

MULTI-SUITE RESIDENTIAL RENT GROWTH RECORDED

Multi-suite residential rental rates continued to rise during the second quarter, continuing the year-to-date trend. Using the GTA as a proxy, the average asking monthly rent increased by 5.7% in May alone for all property types, which represented the largest month-over-month increase in three years according to Bullpen Research and TorontoRentals.com. The year-over-year increase reported was a robust 16.5%. Several factors continued to drive rents higher during the second quarter in most regions and market segments. Rising demand has translated into reduced supply in many submarkets across the country. Increased immigration supported stronger demand patterns. The return of post-secondary students to in-person classes has buoyed demand adjacent to the country's universities and colleges. In addition, a higher number of students have graduated and ventured out in search of their first homes. Lastly, some renters have chosen to continue to rent, given an increasingly uncertain financial and economic outlook. As in the past, the mutli-suite rental sector has tended to outperform during periods of elevated uncertainty, which bodes well for the sector and continued rent growth over the near term.

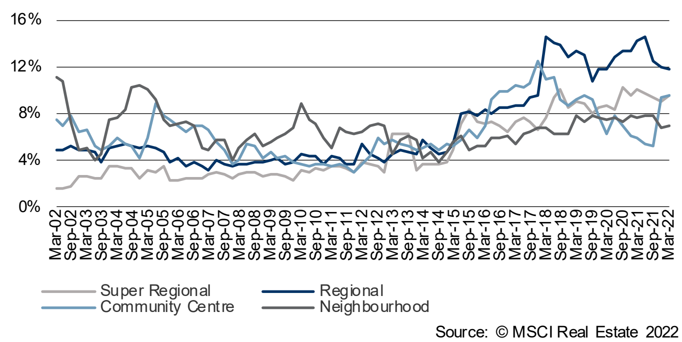
INDUSTRIAL DEMAND & SUPPLY

National Historical & Forecast Aggregates



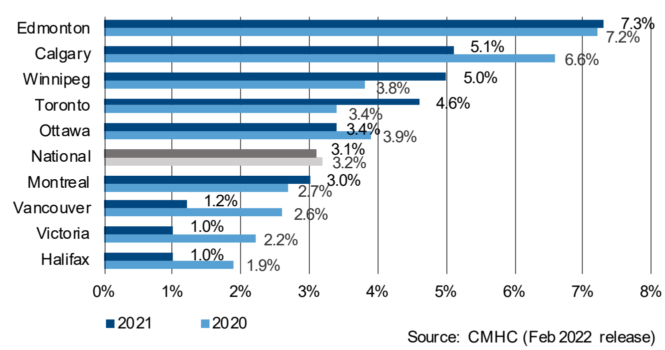
RETAIL VACANCY RATES

National Trending Across Property Types



CMA'S RENTAL VACANCY

Rates for Structures of 3 units+



Office leasing market conditions varied across the country, as vacancy levels continued to rise in the country's largest metros.

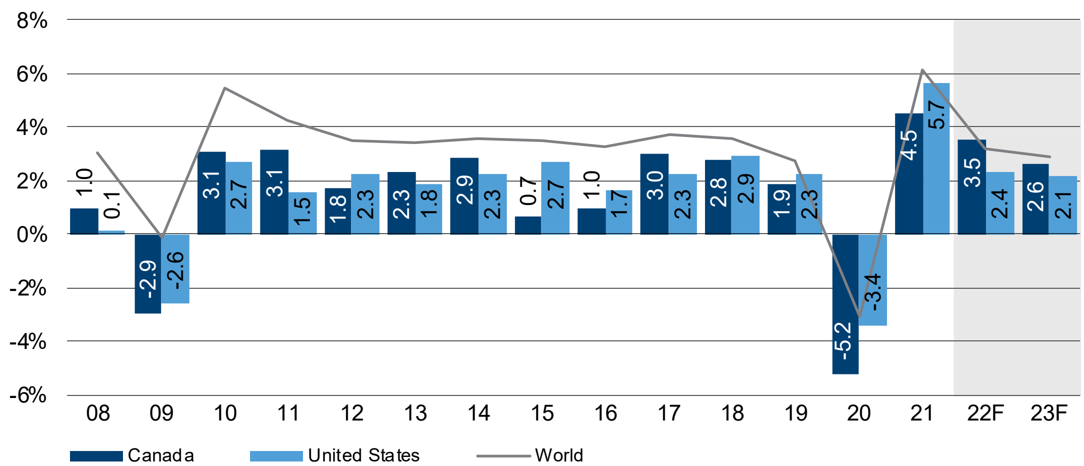
ECONOMIC REPORT

ECONOMIC RECOVERY BEGAN TO SLOW

Canada's economic recovery from the effects of the pandemic began to slow during the second quarter, following an extended period of robust expansion. The Canadian economy grew by 0.3% month-over-month in April, with expansion recorded in 13 out of 20 industrial sectors. The energy sector was the largest contributor to the expanded industrial output, a trend that is expected to continue over the balance of the year.

ECONOMIC GROWTH

Real GDP Growth — Historical & Forecast



Source: Conference Board Of Canada (June 2022); International Monetary Fund (July 2022)

The modest April increase in economic output is expected to kick off a protracted period of slower economic growth. Previously, national output had risen by a healthier average of 0.8% in February/March. Statistics Canada's flash estimate for May called for a month-over-month output contraction of 0.2%. The slower economic growth trend that emerged in the second quarter was a byproduct of several factors. One of the more prominent was the slowdown in the national housing market, which will continue to have a negative impact on growth as conditions continue to balance out over the second half of the year. Interest rate hikes took a bite out of consumer and business spending. An increasingly unsettled geopolitical environment also had an adverse effect on the nation's economy. Lastly, slower global economic growth and the COVID-19 lockdown in China eroded Canadian export volume. Canadian economic growth will continue to slow in the second half of 2022 and through much of 2023, a trend that emerged in the second quarter.

LABOUR MARKET GAINED GROUND AFTER SLOW START

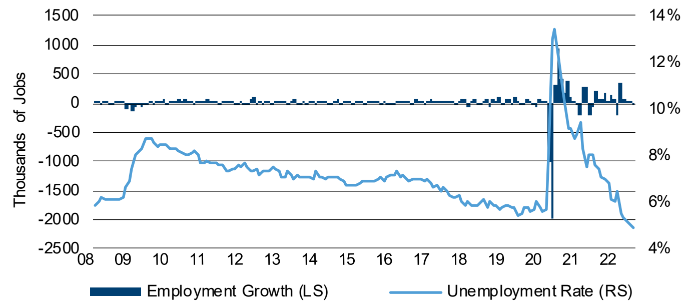
Canada's labour market gained ground as the second quarter progressed, after a relatively slow start. Statistics Canada reported a labour market gain of roughly 40,000 positions in May, with full-time employment increasing by 135,000 and part-time falling by 96,000. In the same month, the unemployment rate fell a modest 10 bps to a new record-low of 5.1% while the participation rate was unchanged at 65.3%. Despite the May employment increase, the national job vacancy rate rested at an all-time high. This was a clear indication that the Canadian labour market had surpassed full employment. However, the second quarter got off to a slow start, compared with the 409,000 jobs created in February/March. The relatively weak employment growth performance was a byproduct largely of the Omicron variant's negative impacts, despite the removal of most pandemic restrictions. Looking ahead to the near term, worker shortages and economic uncertainty are expected to dampen further labour market progress. The modest improvement in labour market conditions forecast for the balance of 2022 is broadly in line with the second quarter performance.

RESALE HOUSING MARKET COOLDOWN CONTINUED

Canada's housing market continued to cool down during the second quarter, driven in large part by rapidly rising interest rates. The 512,000 existing homes sold in May represented a decline both on a month-over-month and year-over-year basis. The month-over-month decline was 8.6% while the year-over-year count was down a much sharper 21.7%. The May sales total represented the first sub-525,000 tally since February 2020. Sales dipped in nine of 10 provinces in May, with British Columbia (BC), Alberta, and Ontario registering month-over-month declines of 16.3%, 10.5%, and 3.8%, respectively. Saskatchewan posted the only increase at 3.8%. Regionally, resale market conditions varied widely during the second quarter. Activity remained well above the pre-pandemic level in both April and May in the Prairie and Atlantic provinces. Much of the recent resale market softening trend was focused in BC, Ontario, and Quebec. While existing home sales demand cooled, an increased number of listings were brought to the market in the second quarter. In Ontario and BC, the MLS Home Price fell 0.8% month-over-month in May, indicating the beginnings of a shift away from a firm sellers market. Conversely, sellers have held firm on prices in Atlantic Canada. On balance, prices were still markedly higher year-over-year, although it was clear a resale housing market cooldown was already underway as the second quarter progressed.

LABOUR MARKET

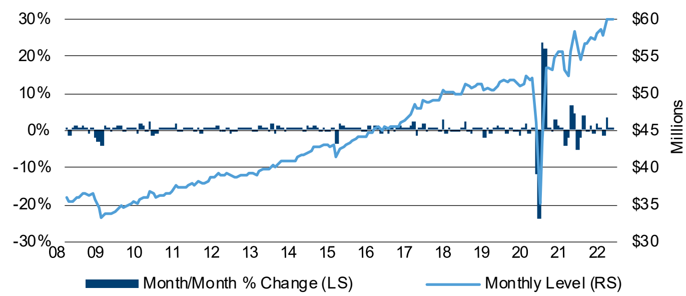
Month-Over-Month Trending



Source: Statistics Canada

RETAIL SALES

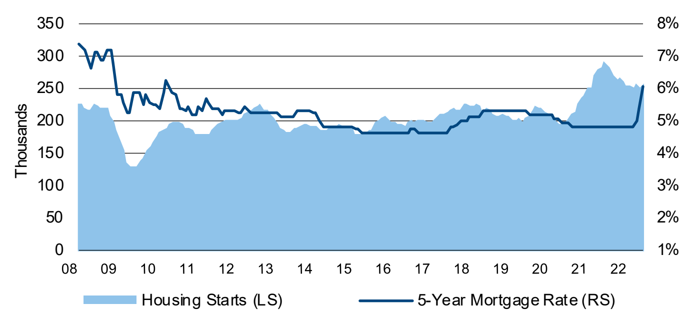
Month-Over-Month Trending



Source: Statistics Canada

HOUSING MARKET

Monthly Trends



Source: Statistics Canada, CMHC, Bank of Canada

Canada's economic recovery began to slow during the second quarter, following an extended period of robust expansion.

INVESTMENT MARKET TRANSACTIONS

OFFICE

PROPERTY	DATE	PRICE	SF	PSF	PURCHASER	CITY
6750 Century Ave	Jun-22	$30.0 M	99,828	$301	Concert Properties	Toronto
2233 Argentia Rd	May-22	$40.1 M	146,551	$273	Soneil Investments	Toronto
1795 Willingdon Ave, 4425 Halifax	May-22	$112.5 M	160,654	$700	Concert Properties	Vancouver
Orlando Heartland Porfolio	Apr-22	$251.9 M	1,200,000	$210	Crown Realty Partners	Toronto
1305, 1315 Pickering Pkwy	Apr-22	$38.3 M	140,169	$273	Goldmanco Inc	Toronto
5800 Explorer Dr	Apr-22	$35.5 M	110,000	$323	Family Capital Group	Toronto
121 King St W	Apr-22	$379.3 M	539,059	$705	Crestpoint/AIMCo	Toronto

INDUSTRIAL

PROPERTY	DATE	PRICE	SF	PSF	PURCHASER	CITY
200 Industrial Pkwy N	Jun-22	$40.6 M	167,958	$242	Pure REIT	Toronto
111 Van Kirk Dr	Jun-22	$52.0 M	141,320	$368	Pure REIT	Toronto
1549 Yorkton Crt	Jun-22	$26.9 M	80,480	$334	Dream REIT	Toronto
5300 Harvester Rd	May-22	$16.5 M	61,182	$270	Parkit Enterprise Inc	Toronto
100 West Dr	May-22	$244.0 M	895,512	$272	Crestpoint	Toronto
201 Speers Rd	May-22	$22.3 M	89,345	$250	Northbridge Capital	Toronto
60 East Beaver Creek Rd	Apr-22	$30.0 M	86,000	$349	Dream REIT	Toronto
1590 South Gateway Rd	Apr-22	$48.8 M	195,038	$250	Quadreal	Toronto
560 Hensall Cir	Apr-22	$53.0 M	216,846	$244	Triovest	Toronto
21 Regina Rd	Apr-22	$25.2 M	73,262	$344	Summit REIT	Torontol
1845 Birchmount Rd	Apr-22	$26.5 M	160,600	$165	Secure Capital	Toronto
Chelsea Land Holdings GMA Portf.	Apr-22	$25.6 M	189,693	$135	Leyad	Montreal
Everlast Mississauga Portfolio	Apr-22	$294.3 M	809,316	$364	LaSalle Investment Mgt.	Toronto
20 Regina Rd	Apr-22	$24.7 M	63,000	$392	AuroraGroup	Toronto
144, 155 First Ave	Apr-22	$52.5 M	411,000	$128	Forgestone Capital	Toronto
7311 Kimbel St	Apr-22	$18.2 M	108,961	$167	Quadreal	Toronto

RETAIL

PROPERTY	DATE	PRICE	SF	PSF	PURCHASER	CITY
Appleby Crossing	May-22	$40.4 M	131,682	$306	Choice Properties REIT	Torontor
Appleby Crossing Phase II	May-22	$28.1 M	69,769	$403	Graywood Developments	Toronto
Logan Creek Plaza*	May-22	$57.3 M	76,831	$745	Private	Vancouver

MULTI-SUITE RESIDENTIAL

PROPERTY	DATE	PRICE	# UNITS	/UNIT	PURCHASER	CITY
215, 225 Markham Rd	Jun-22	$165.0 M	423	$390,071	Q Residential	Toronto
Paramount Portfolio Ottawa	Jun-22	$70.3 M	370	$189,865	Starlight Investments	Ottawa
1420, 1440 Towers St	May-22	$24.7 M	136	$181,618	Greyspring Apartments	Montreal
514, 516 Dawes Rd	May-22	$25.6 M	80	$320,000	Golden Equity Properties	Toronto
KoL Apartments & Townhomes	May-22	$43.7 M	112	$390,179	CAPREIT	Ottawa
55 Brownlow Ave	May-22	$56.2 M	115	$488,522	Menkes/Quadreal	Toronto
20 Greencrest Circuit	May-22	$48.1 M	136	$353,676	Conundrum Capital	Toronto
Jomac Portfolio	Apr-22	$40.8 M	226	$180,467	Prologia Partnership	Montreal
Le Central l’Atmosphere St	Apr-22	$114.4 M	346	$330,750	Centurion Apartment REIT	Gatineau

*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 June 30, 2022, Morguard had $19.4 billion of total assets under management and employed 1,300 real estate professionals in 12 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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