2022 CANADIAN ECONOMIC OUTLOOK

AND MARKET FUNDAMENTALS THIRD QUARTER UPDATE

24TH ANNUAL EDITION

MORGUARD

Morguard

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Q3

ABOUT

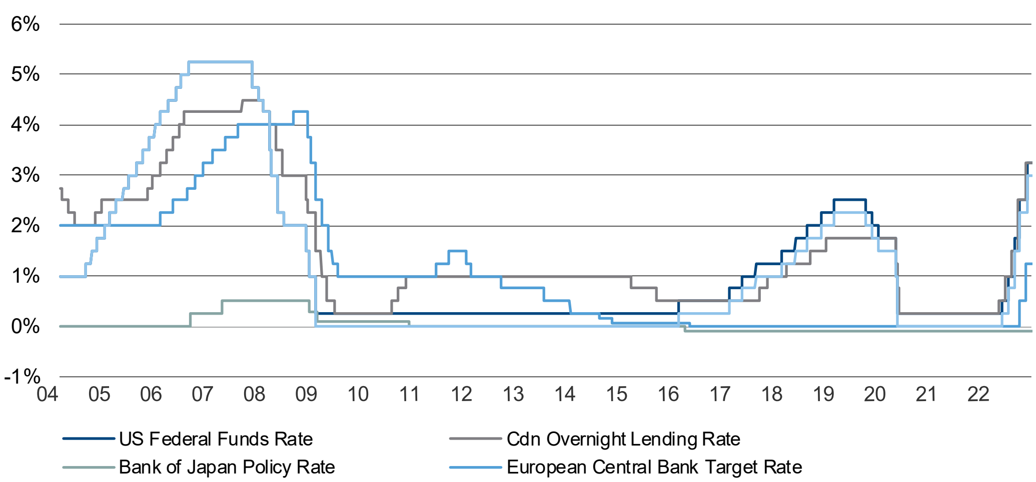
FINANCIAL REPORT

THE QUEST FOR PRICE STABILITY CONTINUED

The Bank of Canada's (BofC) quest for price stability continued during the third quarter of 2022. The bank raised its policy interest rate by 100 bps on July 13th and a further 75 bps on September 7th to 3.25%. The rate had increased by 275 bps over the second and third quarters on a cumulative basis and is now in economically restrictive range.

OFFICIAL POLICY RATES

International Monetary Conditions



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

By the end of the third quarter, it appeared that the bank's interest rate hikes were beginning to have an effect on inflation. The September year-over-year Consumer Price Index (CPI) reading was 6.9%. The rate was down significantly from the 8.1% peak in June, having steadily declined during the third quarter. In its Business Outlook Survey, the bank indicated that domestic demand had begun to soften during the third quarter. As a result, businesses have begun to downgrade their sales revenue estimates for the near term. In addition, business confidence continued to slide. Consumer goods and housing-related businesses were projecting weaker sales revenue over the near term. Many businesses had lowered prices in anticipation of the demand downdraft. Inflation pressure will continue to ease, given a markedly weaker demand outlook. The bank will continue to raise interest rates until inflation returns to its target range. However, we may see more supersized rate hikes over the near term, as the bank continues its quest for price stability.

SLIGHT EASING OF INFLATION PRESSURE

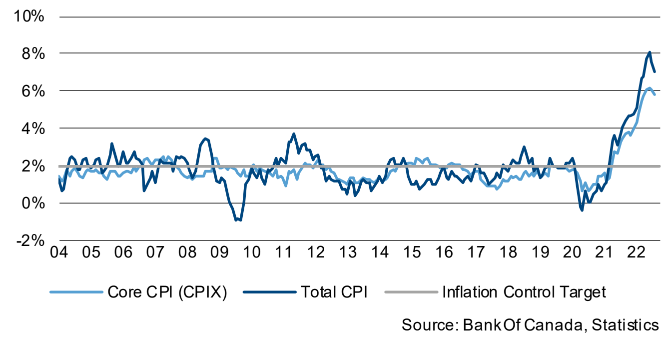
Canadian inflation pressure eased slightly during the third quarter, having peaked at the end of the previous quarter. Statistics Canada reported a Consumer Price Index reading of 6.9% in September. Year-over-year price growth was down slightly from the July and August rates of 7.6% and 7.0%, respectively. Previously, the 8.1% CPI rate posted for June was the largest yearly price gain on record dating back to January 1983. Inflation pressure eased as gasoline prices and demand fell. Excluding food and gasoline, year-over-year price growth was 5.4% in September and 5.3% in August. Canadian families continued to pay higher prices for groceries during the third quarter. The price of food purchased from stores rose 11.4% in September and 10.8% in August, year over year. The September increase was the fastest on record since August 1981. The BofC is expected to continue to raise its policy rate to bring inflation back down to its target range of 1.0%-3.0%. The slight easing of inflation pressure recorded during the third quarter was an indication that the bank's policy tightening was beginning to have the desired effect.

GLOBAL EQUITY MARKETS DIPPED

Global equity markets dipped to a cyclical low during the third quarter. Several factors continued to put pressure on the world's stock markets during the quarter. Most of the world's central banks continued to raise interest rates and implement tighter monetary policy in response to persistent and widespread inflation. The policy tightening coincided with a period of weaker demand. Rising interest rates, lower oil prices, and weaker export demand were factors in the risk-off equity market sentiment of the third quarter. Geopolitical uncertainty remained elevated, with no end in sight to the Russia-Ukraine conflict. Investor sentiment softened significantly on September 21, 2022, when the U.S. Federal Reserve hiked its target range for federal funds by 75 bps to 3.0%-3.25% and forecasted weaker economic growth. Additionally, the Federal Reserve indicated it would raise the federal funds rate by another 125 bps by the end of 2022. In raising rates further, the Federal Reserve will increase the risk of a yield curve inversion, which has historically been a negative indicator for the U.S. stock market. During the third quarter, global economic performance continued to soften, as central banks continued to drive interest rates into restrictive territory. At the same time, most of the world's equity indices dropped to a cyclical low.

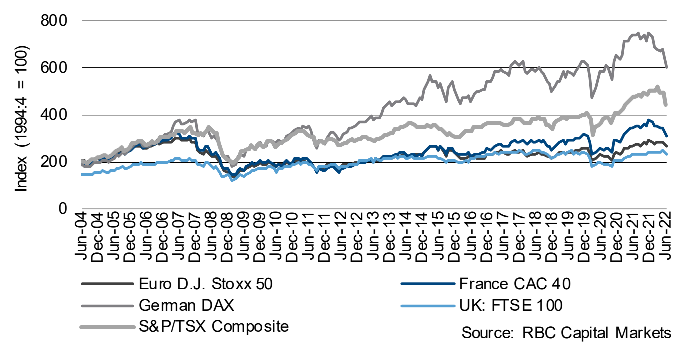
NATIONAL INFLATION

CPI Measures, % Change Over 1 Year Ago



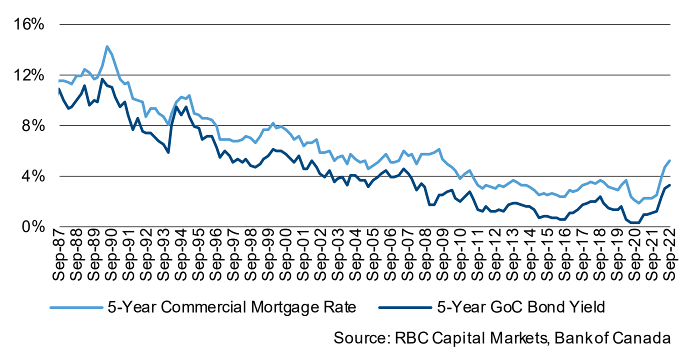
GLOBAL INDICES

Trending of Global Price Return Indices



MORTGAGE SPREADS

Commercial Mortgage Rates Vs. 5-Year GOC Bonds



Inflation pressure eased slightly during the third quarter, having hit a 30-year high at the end of the previous quarter.

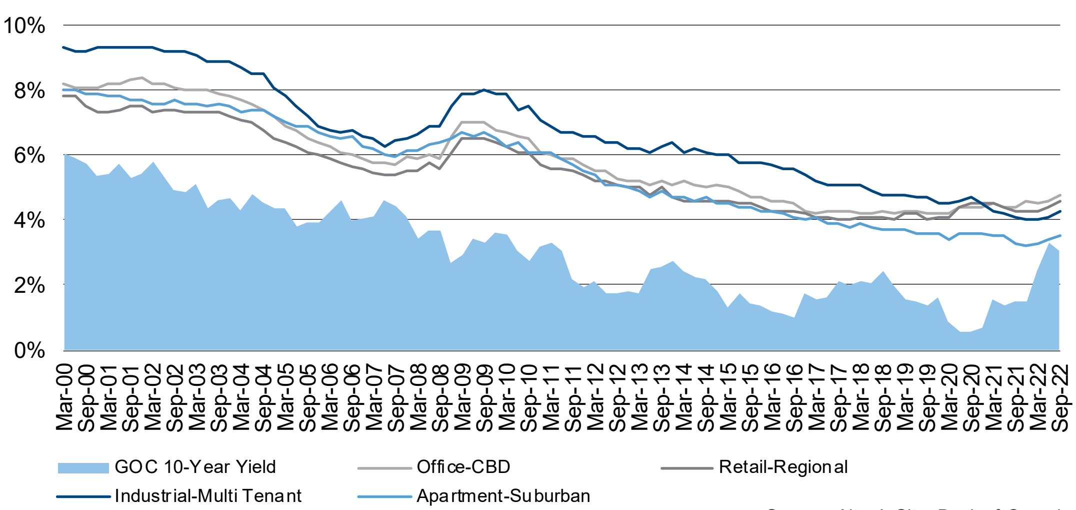
INVESTMENT REPORT

INVESTMENT SALES ACTIVITY SLOWED

Canadian commercial property sector investment activity slowed during the third quarter, having peaked over much of the past year due to a combination of interest rate hikes, global economic uncertainty, rising debt costs, and outsized inflation that eroded investor confidence. Certain groups retreated to the sidelines while others adopted a more cautious approach resulting in a substantial reduction in investment transaction velocity.

YIELD SPREADS

Cap Rates vs. 10-Year GOC Bonds



Source: AltusInSite, Bank of Canada

Sales of industrial property slowed during the third quarter. Roughly $1.4 billion of transaction volume was recorded in the third quarter for properties sold with a minimum sale price of $10.0 million in Vancouver, Calgary, Ottawa, Toronto, and Montreal combined. The third-quarter total was down substantially from the $2.9 billion reported for the second quarter of 2022 and third quarter of 2021. Moreover, the total was well below the $4.4 billion first-quarter 2022 peak. Sales of multi-suite residential rental property with a minimum sale price of $10.0 million also slowed substantially. In the third quarter of 2022, sales of multi-suite residential rental property totaled $957.0 million. Transaction volume totaled almost $2.3 billion for the previous three-month period. Almost $2.7 billion of property sales volume was reported for the third quarter of 2021. For the most part, core investment offerings continued to garner interest during the third quarter. However, there were generally few bidders on properties offered for sale. Institutional groups focused on acquiring core properties, which sold with relative ease. Riskier offerings received relatively low levels of interest. Investment market activity is expected to remain muted over the near term, barring a change in the economic and sector outlook.

INVESTOR CAUTION WAS ELEVATED

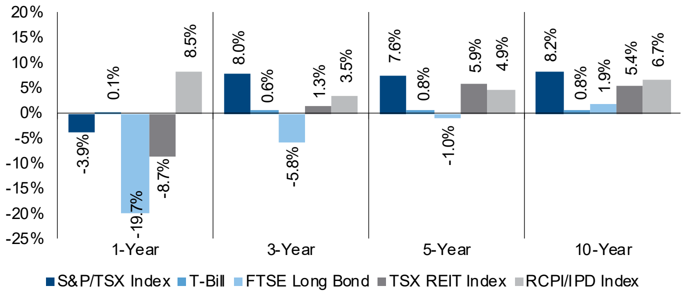
An elevated level of caution was exercised by investors in Canada's investment property market during the third quarter, when compared with much of the previous year. The elevated caution was a byproduct of the recent supersized interest rate hikes, near record high inflation, the rising cost of debt, and an economic outlook that suggests a recession may be imminent. Despite the increased caution, properties with strong near-term performance records and outlooks continued to generate strong interest. The industrial and multi-suite residential rental sector remained popular with various groups. Necessities-based retail was also a favourite investor target. However, investor interest was markedly lower for higher risk properties and sectors. As investor caution levels increased over the past few months, capitalization rates edged higher. The commercial investment property pricing adjustment was largely a result of the rising cost of debt capital and an uncertain financial market and economic outlook. Over the near term, investor caution levels will remain elevated, in keeping with the recent trend.

RETAIL INVESTMENT PROPERTY SALES ACTIVITY CONTINUED TO DECLINE

Retail investment property sales activity continued to decline in the third quarter. A modest $628.8 million of transaction volume was recorded over the three-month period for properties that sold for at least $5.0 million in Vancouver, Calgary, Ottawa, Toronto, and Montreal combined. Retail property sales volume has declined significantly over the past six months. Third quarter transaction volume was 31.8% lower than the previous quarter and 264.6% from the first quarter of 2022. Additionally, the number of transactions reported in the third quarter with a minimum sale price of $5.0 million was less than half that of the first quarter. Necessities-based retail and properties with redevelopment or repositioning potential continue to be received relatively well. There were relatively few significant transactions completed during the third quarter, which was in keeping with the trend of the past few years. Just five retail investment property sales with a minimum sale price of $20.0 million were completed during the three-month period. Notable transactions included Shops on Steeles and 404 which was acquired by Streamliner Properties and The Kerbel Group for $117.5 million in Markham, and Amberlea Shopping Centre in Pickering was purchased by First Capital and Crestpoint for $45.0 million. Retail investment property sales activity is expected to remain muted over the balance of 2022 and early 2023, continuing the year-to-date trend.

RELATIVE PERFORMANCE

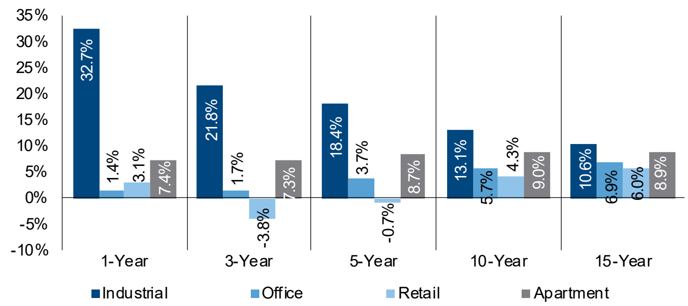
Comparing Annualized Returns To June 2022



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

MSCI RETURNS

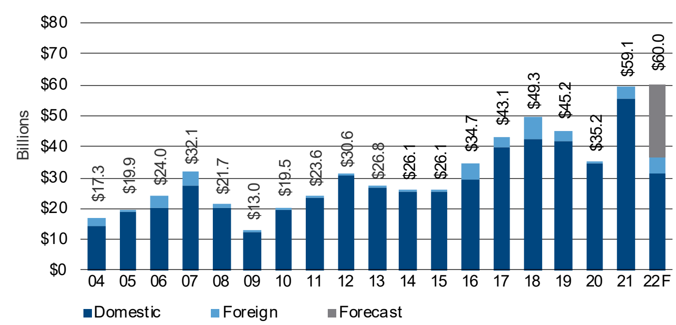
Annualized Returns By Property Type To June 2022



Source: © MSCI Real Estate 2022

INVESTMENT ACTIVITY

Total Investment Volume



Source: CBRE Limited; Morguard

Commercial property sector investment activity slowed during the third quarter, having peaked over much of the past year.

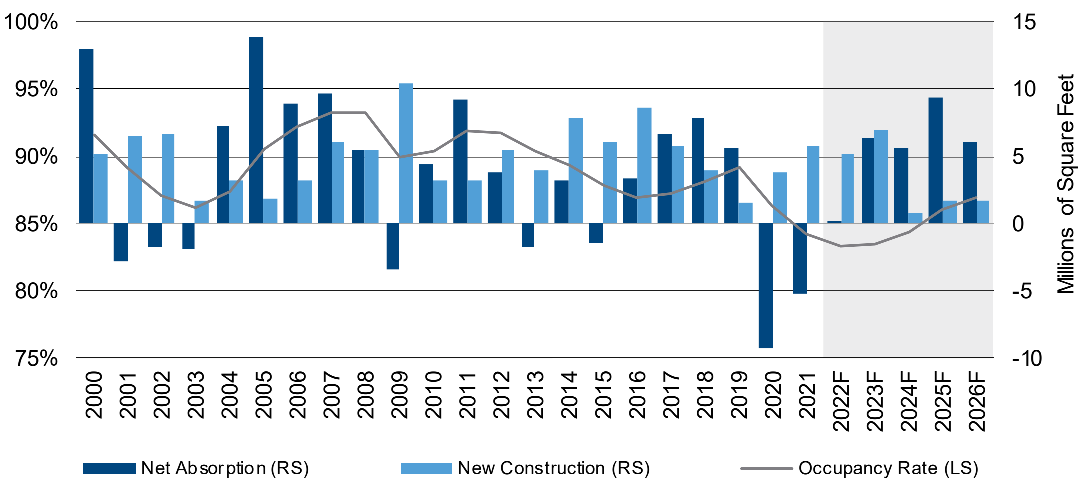
LEASING REPORT

LEASING MARKET REMAINED RELATIVELY QUIET

Canada's office leasing market remained relatively quiet during the third quarter, continuing the year-to-date trend. Leasing activity was muted in most markets and submarkets. Vacancy levels were largely flat across much of the country. Rents were also generally quite stable in the third quarter, with minimal upward or downward pressure reported for all classes of space.

OFFICE DEMAND & SUPPLY

National Historical & Forecast Aggregates



Source: CBRE Limited; CBRE Econometric Advisors

Leasing activity was comprised mostly of relocations to higher quality space, shorter term extensions and renewals and a modest number of expansions. Tenants continued to delay long-term leasing decisions, given a heightened level of economic uncertainty. The ongoing 'flight to quality' has been more pronounced in the country's downtown submarkets. As a result, the spread between downtown class A and class vacancy has widened significantly since the onset of the pandemic. The national downtown class A vacancy rate stood at a relatively healthy 14.3% at the end of the third quarter. The class B rate stood at a record high 21.4% at the end of September 2022. The 710 bps spread between the class A and B vacancy was markedly higher than the 520 bps differential reported in the fourth quarter of 2020. The spread between class A and B suburban vacancy was minimal. This suggests that fewer suburban tenants have upgraded their space over the past couple of years. Suburban leasing market conditions have been relatively stable when compared to downtown. Overall, Canada's leasing market was relatively quiet during the third quarter, in keeping with the recent trend.

CALGARY OUTPERFORMED

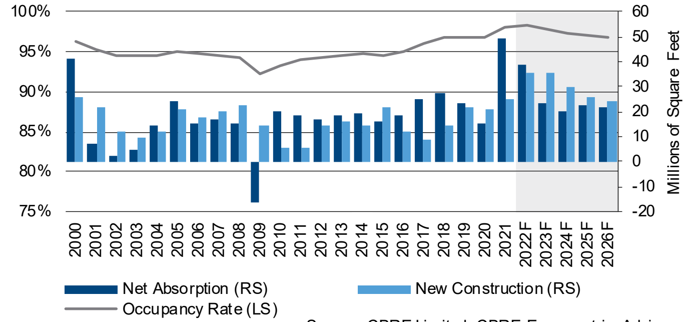
Calgary's industrial sector outperformed during the third quarter, building on a strong first half. Just shy of 5.2 million square feet of space was absorbed in the Greater Calgary Area (GCA) between the beginning of July and the end of September 2022, according to CBRE figures. The second highest total net absorption reported for the quarter was in Toronto, at almost 1.4 million square feet. Three pre-leased newly constructed properties comprised roughly 4.0 million square feet of Calgary's total third quarter net absorption. The GCA availability rate fell 70 bps during the quarter to 3.2%, as demand outdistanced supply. The third-quarter availability rate was down 320 bps from the end of 2021 and 340 bps year-over-year. GCA leasing market conditions have tightened considerably year-to-date. Users looking to relocate or expand have seen available options decline significantly over the recent past. At the same time, rents have continued to climb to an all-time high. Logistics and distribution space has become increasingly scarce. Construction activity has surged to a cycle high. A total of 6.3 million square feet of new supply has been completed in the GCA year to date. However, much of this space was leased prior, to or shortly after completion, providing little or no relief for tenants. Despite the supply shortfall, Calgary's industrial sector outperformed during the third quarter.

RENTS CONTINUED TO RISE

Multi-suite residential rental sector rents continued to rise during the third quarter, in keeping with the recent trend. The average asking rent for vacant units in the country's major urban centres was $1,810 as of September 2022, according to Rentals.ca. The monthly average rent was 11.8% higher year-over-year. To some extent, the increase was a byproduct of the delivery of higher priced new developments. However, asking rents continued to rise in the nation's built inventory. There were two main drivers of the upward pressure on asking rents of the recent past. The first was the demand recovery that unfolded in 2021 and firmed this year with the removal of pandemic restrictions. International migration increased substantially with the reopening of Canada's borders to families and students from other countries. This demographic has traditionally rented accommodation upon arrival. The second was decreased availability across the country. Consequently, competition for an increasingly limited supply of available units increased. As supply dwindled, landlords were able to increase asking rents on available units in their portfolios. Multi-suite residential rental sector rents will continue to rise during 2023, as demand outdistances supply in the country's larger urban areas.

INDUSTRIAL DEMAND & SUPPLY

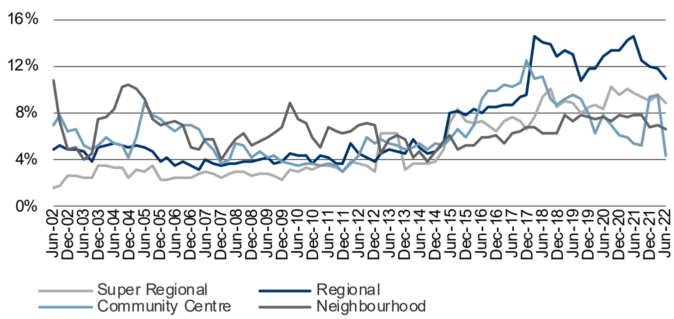
National Historical & Forecast Aggregates



Source: CBRE Limited; CBRE Econometric Advisors

RETAIL VACANCY RATES

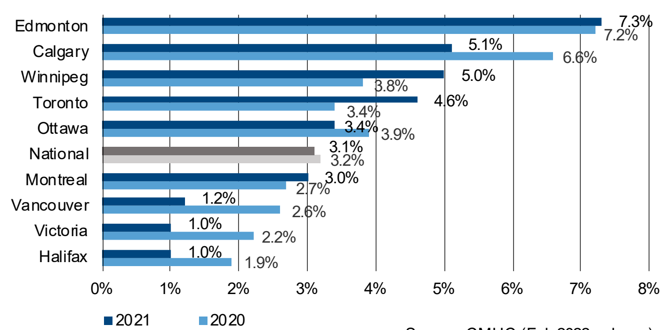
National Trending Across Property Types



Source: © MSCI Real Estate 2022

CMA'S RENTAL VACANCY

Rates for Structures of 3 units+



Source: CMHC (Feb 2022 release)

Calgary's industrial sector outperformed during the third quarter, building on a strong first half.

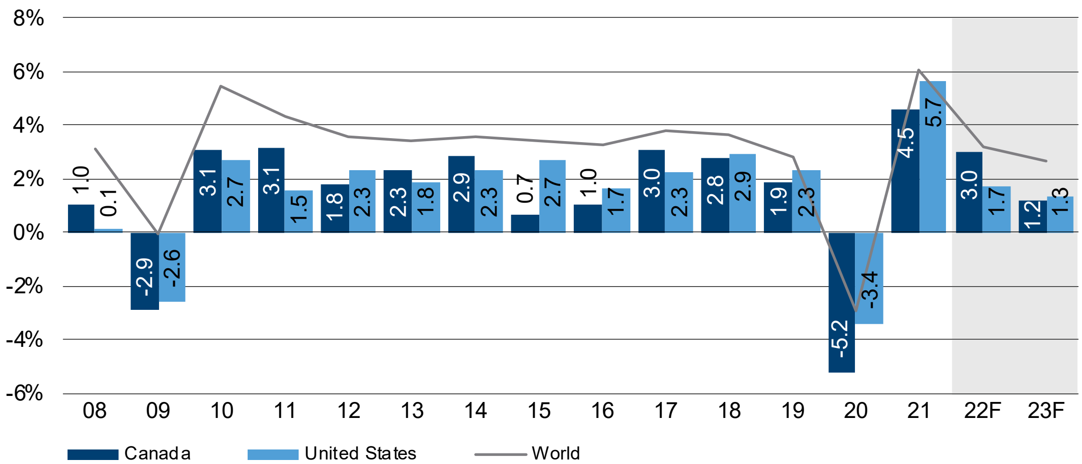
ECONOMIC REPORT

ECONOMIC SLOWDOWN CONTINUED TO UNFOLD

Canada's economic slowdown continued to unfold during the third quarter. Gross Domestic Product (GDP) edged just 10 bps higher in July, with zero growth expected for August. Economic activity began to slide in the second quarter, with GDP rising by a modest 1.0% on an annualized basis. However, the 3.2% first-half growth was the strongest of the G-7 countries.

ECONOMIC GROWTH

Real GDP Growth — Historical & Forecast



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

Canada's economic slowdown was due to several factors. Successive supersized interest rate hikes implemented by the BofC negatively impacted economic performance. As debt servicing costs increased, consumer spending slowed significantly. Retail consumption has been a key driver of economic activity over the past several years. Record high inflation has also had a negative impact on Canada's economy. Prices for both goods and services have increased substantially, which has eroded the spending power of Canadian families and businesses. Labour shortages and supply chain disruptions have constrained output to varying degrees in certain sectors of the economy. External factors have also eroded economic activity recently. Demand for Canadian exports has softened, as several European economies slowed. In some cases, Canadian businesses have postponed expansion plans, given an increasingly uncertain economic outlook. Economic growth will remain muted over the near term, continuing the recent trend.

LABOUR MARKET WAS TIGHT AS A DRUM

Canada's labour market remained very tight during the third quarter, in keeping with the recent trend. The national unemployment rate stood at a historic low of 4.9% in July. Subsequently, the rate increased by a modest 50 bps in August before falling 20 bps to 5.3% in the final month of the quarter. There was little change in employment levels during the third quarter, due in large part to a weaker economic growth trend. National employment declined by just 31,000 in July and a modest 40,000 in August. A stronger-than-expected 21,000 increase was tallied in September. Canada's labour force and employment levels stabilized during the third quarter, ensuring the unemployment rate held close to the historic low. Labour market conditions are expected to remain tight over the final few months of 2022 and into early 2023.

CANADIAN'S TIGHTENED THEIR PURSE STRINGS

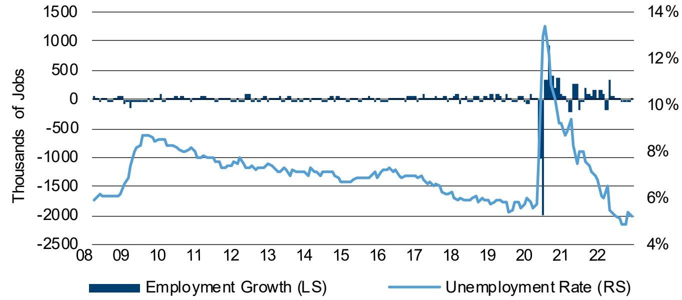
Canadians tightened their purse strings during the third quarter, resulting in weaker retail sales growth. In July, retail sales dropped 2.5% on a month-over-month basis. Statistics Canada forecasted a modest 0.4% gain for August. To some extent, lower gasoline demand and prices contributed to the July decline. However, sales weakened in most spending categories. Core sales were down in the third quarter when adjusted for inflation. The retail sales third-quarter downdraft was expected, given record high inflation, interest rate hikes, and the recent erosion of household wealth levels. As a result, Canadian consumers will continue to cut back on spending. These retail sales headwinds are expected to persist over the balance of 2022 and into 2023.

HOUSING START ACTIVITY WAS SURPRISINGLY ROBUST

Canadian housing start activity was surprisingly robust during the third quarter. A total of 299,600 units were reported in September, up 11.0% month-over-month. On aggregate, housing starts were elevated throughout the third quarter. Housing starts in Canada's urban areas increased by 5.0% in September. However, much of the progress was made in Ontario and was comprised largely of multi-suite residential rental and condominium projects. Modest increases in urban starts were also recorded in British Columbia and Alberta. Conversely, starts declined in Atlantic Canada, Quebec, and the rest of the Prairies. Housing demand is expected to continue to soften over the near term, due in large part to higher interest rates and economic uncertainty. As a result, housing starts will decline over the balance of 2022 and into 2023, following a period of relatively robust growth.

LABOUR MARKET

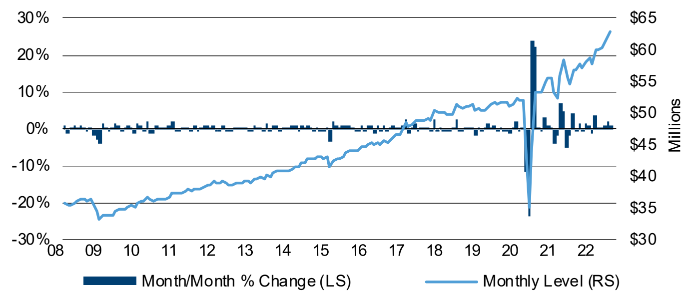
Month-Over-Month Trending



Source: Statistics Canada

RETAIL SALES

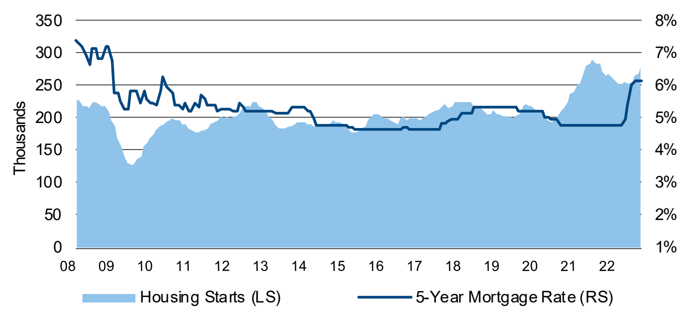
Month-Over-Month Trending



Source: Statistics Canada

HOUSING MARKET

Monthly Trends



Source: Statistics Canada, CMHC, Bank of Canada

The retail sales third-quarter downdraft was expected, given record high inflation, and the recent erosion of household wealth levels.

INVESTMENT MARKET TRANSACTIONS

OFFICE

PROPERTY	DATE	PRICE	SF	PSF	PURCHASER	MARKET
95-105 Moatfield Dr	Sep-22	$97.0 M	405,407	$239	Visionary Education Techn	Toronto
230 Westney Rd	Aug-22	$16.8 M	71,452	$235	Private	Torontor
37 Quarry Park Blvd SE	Aug-22	$17.0 M	101,026	$168	Qualico	Calgary
400 Cumberland St	Aug-22	$40.5 M	174,274	$232	True North REIT	Ottawa
30, 60 Centurian Dr	Aug-22	$17.3 M	93,228	$185	Tricap Properties	Toronto
77 Metcalfe St	Jul-22	$19.1 M	147,382	$130	Groupe Mach	Ottawa

INDUSTRIAL

PROPERTY	DATE	PRICE	SF	PSF	PURCHASER	MARKET
640 Coronation Dr	Sep-22	$13.8 M	60,097	$229	Crestpoint	Toronto
140 Wendell Ave	Sep-22	$44.5 M	241,000	$185	Northbridge Capital	Toronto
21800 Clark-Graham Ave	Sep-22	$17.8 M	55,055	$323	Nexus REIT	Montreal
OpTrust Portfolio	Sep-22	$133.3 M	397,948	$335	LaSalle Investment Mgt	Toronto
Philhobar Portfolio Montreal	Aug-22	$170.0 M	767,564	$221	BentallGreenOak/Sun Life	Montreal
1990 Ellesmere Rd	Aug-22	$18.6 M	63,635	$292	Northbridge Capital	Toronto
35 Bertrand Ave	Aug-22	$18.1 M	67,373	$269	Amdev Property Group	Torontol
975 Mid Way Blvd, 21 Regan Rd	Aug-22	$40.0 M	123,013	$325	Northbridge Capital	Toronto
Dixie Eglinton Complex	Aug-22	$45.9 M	139,068	$330	Soneil Investments	Toronto
4335 Mainway	Jul-22	$15.1 M	63,029	$240	Fiera Real Estate	Toronto
125 Consumers Rd	Jul-22	$15.0 M	94,900	$158	KingSett Capital	Toronto
199, 255 Longside Dr	Jul-22	$59.3 M	175,169	$338	Summit REIT	Toronto
4216 61st Ave SE	Jul-22	$27.4 M	253,138	$108	GWL Realty Advisors	Calgary
153 Van Kirk Dr	Jul-22	$92.0 M	248,000	$371	Pure Industrial REIT	Toronto

RETAIL

PROPERTY	DATE	PRICE	SF	PSF	PURCHASER	MARKET
460 Renforth Dr	Sep-22	$18.4 M	34,177	$537	Choice Properties REIT	Torontor
Shops on Steeles & 404	Sep-22	$117.5 M	287,756	$408	Streamliner/Kerbel	Toronto
Amberlea Shopping Ctr	Jul-22	$45.0 M	100,175	$449	First Capital/Crestpoint	Toronto
1051-1055 Davie St	Jul-22	$14.0 M	8,635	$1,621	Triple S Marketing	Vancouver

MULTI-SUITE RESIDENTIAL

PROPERTY	DATE	PRICE	# UNITS	/UNIT	PURCHASER	MARKET
2181 Navaho Dr	Sep-22	$33.9 M	137	$247,445	Starlight Investments	Ottawa
1635, 1645, 1655 Mullins St	Sep-22	$13.0 M	69	$188,406	Multi-Blocs SENC	Montreal
929 Richmond Rd	Aug-22	$97.3 M	175	$555,714	Brigil	Ottawa
CAPREIT East York	Aug-22	$90.1 M	249	$361,847	LaSalle Investment Mgt	Torontol
1698 Victoria Park Ave	Aug-22	$17.1 M	52	$328,846	Forest Gate Group	Toronto
78 Braemar Dr	Jul-22	$63.3 M	153	$413,398	Equiton Partners	Toronto
3972, 3992 Saint Elzear Blvd W	Jul-22	$102.0 M	235	$434,043	CAPREIT	Montreal
2233, 2235 Hurontario St	Jul-22	$132.0 M	389	$339,216	Starlight Investments	Toronto
70 Park St E	Jul-22	$105.5 M	215	$490,907	Dream Unlimited	Toronto
Peak Estates	Jul-22	$63.5 M	148	$429,054	Boardwalk REIT	Calgary
633 Northcliffe Blvd	Jul-22	$34.5 M	86	$401,163	Pulis Investments	Toronto

*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 September 30, 2022, Morguard had $19.5 billion of total assets under management and employed 1,300 real estate professionals in 11 offices throughout North America.

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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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