2023 CANADIAN ECONOMIC OUTLOOK

AND MARKET FUNDAMENTALS FIRST QUARTER UPDATE

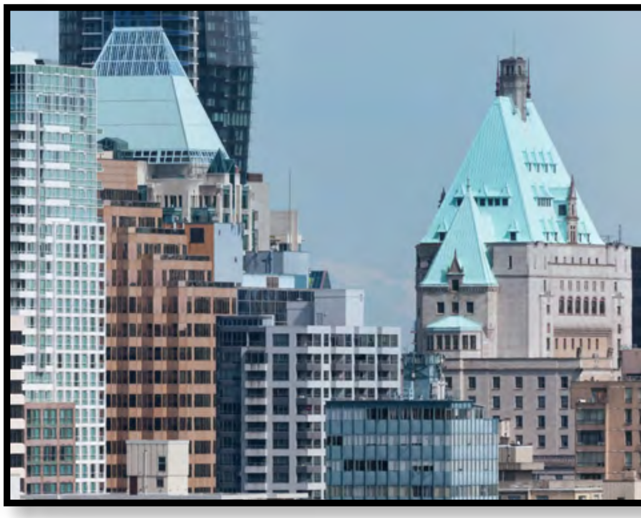
25TH ANNUAL EDITION

MORGUARD

Q1

Morguard

CONTENTS



Q1

ABOUT

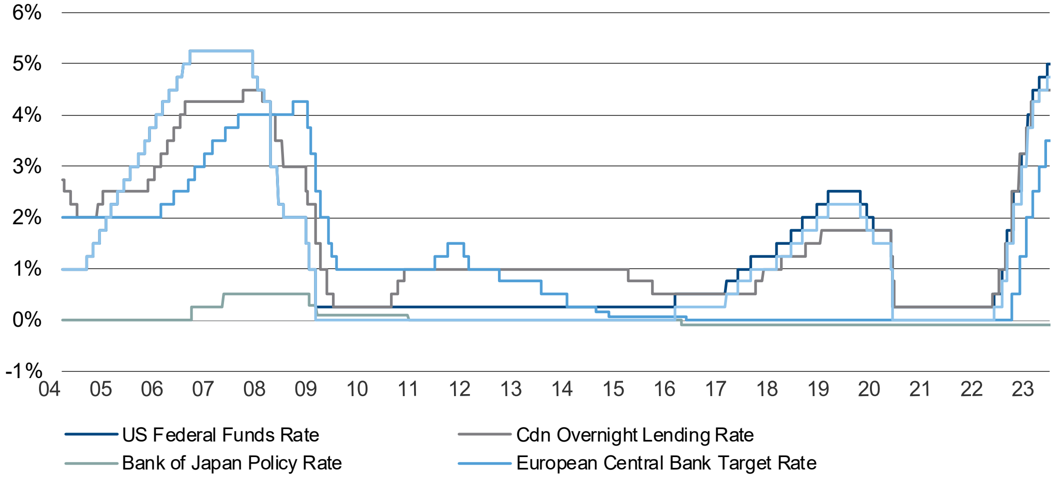
FINANCIAL REPORT

BANK OF CANADA HIT THE PAUSE BUTTON

The Bank of Canada (BofC) hit the pause button on its rate hike cycle during the first quarter. Coincidentally, the Bank stated it would continue with quantitative tightening. The BofC maintained the overnight rate at 4.5% on March 8, 2023, following a modest 25-bps hike in late January. Additionally, the Bank stated it was "prepared to increase the policy rate further if needed".

OFFICIAL POLICY RATES

International Monetary Conditions



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

The first-quarter rate hike pause was not a surprise. Previously, the BofC stated it would pause to assess the economic impact of the cumulative 425 bps interest rate increase of the past year. Household spending and business investment had begun to moderate by the first quarter, with the implementation of more restrictive monetary policy. Domestic and foreign demand had also exhibited signs of slowing. As a result, Canadian economic growth is forecast to slow during the spring and summer months, which should reduce inflation-inducing wage growth. The Bank forecast called for inflation to return to its target range of between 1.0% and 3.0% by the second half of 2023. Consumer price inflation continued to cool in the first quarter. The February year-over-year reading of 5.2% was down from 5.9% a month earlier. While interest rates have cooled the national housing market, economic momentum persisted. Job growth supported healthy consumer spending patterns in the first quarter. As a result, economic momentum may drive inflation and interest rates higher again.

INFLATION PRESSURE CONTINUED TO GRADUALLY EASE

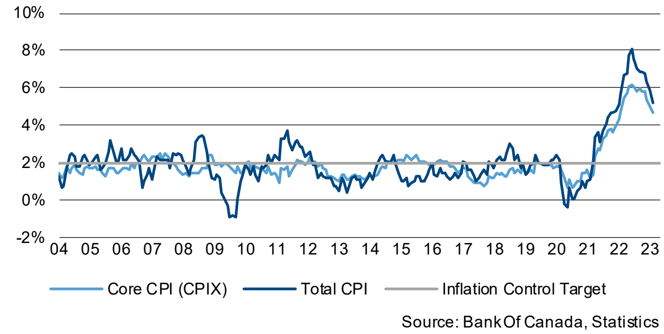
Inflation pressure continued to gradually ease during the first quarter. Headline inflation declined to 5.2% year-over-year in February, down from 5.9% in January. The February reading represented the largest deceleration of headline inflation since April 2020. However, to a large extent, the deceleration was attributable to base-year effects, as prices increased more sharply a year earlier. Despite the gradual easing, inflation remained elevated in the first quarter and only slowed to a modest 1.2% for the the six-month period ending in February. However, the Consumer Price Index (CPI) was up 8.3% over the 18-month period ending in the same month. Grocery prices rose 10.6% year-over-year in February, marking a seventh consecutive double-digit reading. Gasoline prices fell for the first time since January 2021 and shelter costs rose at a slower pace for a third consecutive month. Core inflation edged 10 bps lower to 4.8%. It will likely take several months for inflation to return to the BofC's target range of 1.0%-3.0%, having gradually eased in the first quarter.

GLOBAL EQUITY MARKET GAINS RECORDED

Global equity markets posted gains in the first quarter, despite a measure of volatility. The S&P 500 was up 7.0% for the quarter, while the Dow Jones Industrial Average rose a modest 0.4%. In March, the three major Wall Street indexes declined, with the closure of three of the nation's banks. However, U.S. stocks bounced back toward the end of the quarter, as the banking sector stabilized. Investor confidence increased as inflation pressures eased and the Federal Reserve's interest rate hikes appeared to take a pause. Eurozone markets also posted gains for the first quarter, despite increased banking sector volatility. Investors believed turmoil in the financial sector had been contained by the end of the quarter, with the acquisition of troubled lender Credit Suisse by UBS. Eurozone inflation fell to a one-year low in March, which also bolstered confidence levels. As a result, the FTSE Europe (excluding the UK) rose 11.7% during the quarter. U.K. equity markets posted positive returns for the quarter, with investors forecasting lower interest rates and inflation levels in the second half of the year. Emerging market returns were also positive, due in large part to the reopening of China's economy. The MSCI Emerging Market index rose a relatively modest 4.0%. Tensions between China and the U.S. escalated during the quarter, which eroded investor confidence. On balance, first-quarter global equity market performance was generally positive.

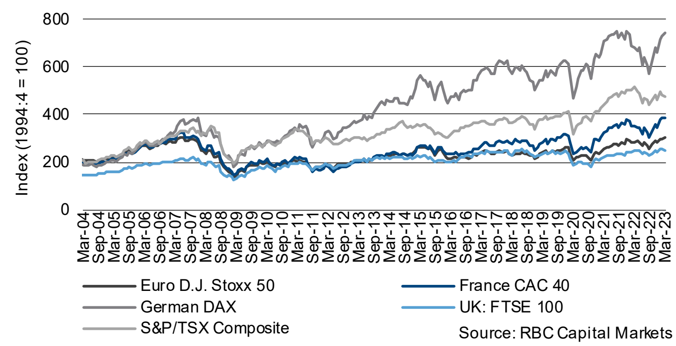
NATIONAL INFLATION

CPI Measures, % Change Over 1 Year Ago



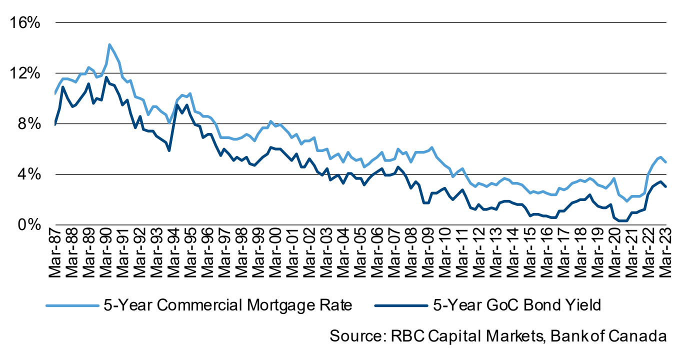
GLOBAL INDICES

Trending of Global Price Return Indices



MORTGAGE SPREADS

Commercial Mortgage Rates Vs. 5-Year GOC Bonds

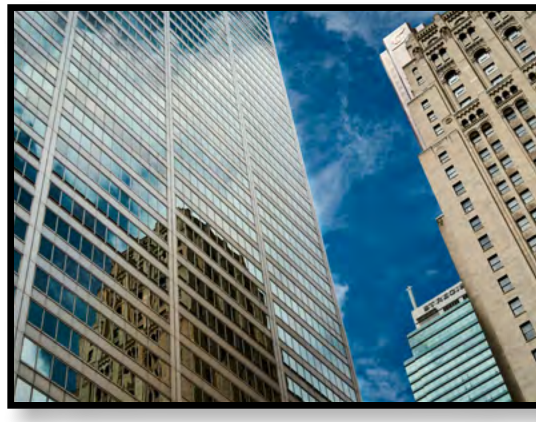


Grocery prices rose 10.6% year-over-year in February, marking a seventh consecutive double-digit reading.

INVESTMENT REPORT

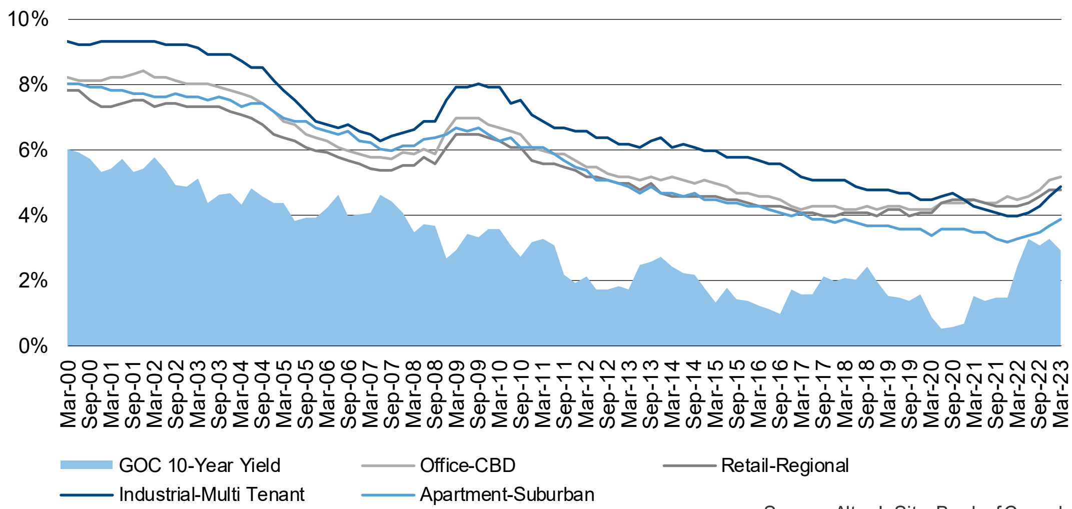
INVESTMENT ACTIVITY REMAINED MUTED

Canadian commercial property sector investment sales activity remained muted during the first quarter, in keeping with the second-half 2022 trend. Many investors remained on the sidelines, given heightened economic and capital market uncertainty and higher borrowing costs. Despite this trend, stabilized, lower-risk, value-add, and strategic properties continued to transact.



YIELD SPREADS

Cap Rates vs. 10-Year GOC Bonds



Source: Altus InSite, Bank of Canada

Several significant office property transactions closed in the first few months of the year. Alexandria Real Estate Equities acquired 720 Bay Street for $135.0 million and Groupe Mach continued to build its Canadian office portfolio with acquisition of a four-building suburban portfolio on Trans-Canada Road in Montreal for $84.0 million. In the retail sector, Erin Mills Town Centre sold for $272.0 million to the Pemberton Group, with the addition of a significant residential component planned. Modest upward pressure on capitalization rates continued during the first quarter, as buyers looked to offset higher borrowing costs and heightened property sector uncertainty.

Capitalization rates, however, continued to range below the most recent market peak in 2009. In some cases, investors were confident that rent growth over the next couple of years in the industrial and multi-suite residential rental sectors will offset higher borrowing costs and the negative impact of weaker economic performance. Interest rates are forecast to gradually decline at some point in the second half of 2023, assuming the BofC's efforts to control inflation are successful. Subsequently, investor confidence and investment property sales activity will increase. At the same time, property values and cap rates will have stabilized.

MULTI-SUITE RESIDENTIAL RENTAL SALES FALL TO FIVE-YEAR LOW

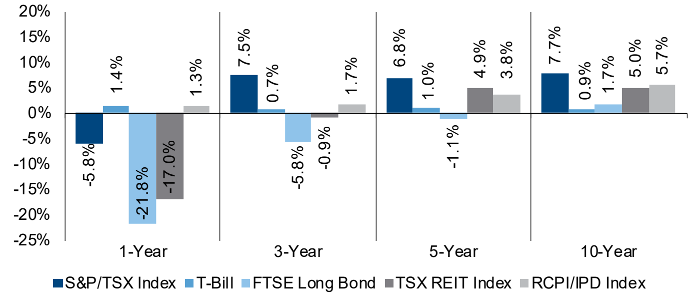
Multi-suite residential rental property sales volume fell to a five-year low in the first quarter. Quarterly sales dipped below the $400.0 million mark for the first time in five years for properties sold for a minimum of $10.0 million for five of the country's major markets combined. The only comparable quarterly total over the same five-year period was the $435.4 million pandemic-influenced total reported for the second quarter of 2020. The average quarterly transaction volume for the five-year period was $1.5 billion. Unsurprisingly, there were relatively few significant transactions completed during the first three months of 2023. The most noteworthy transaction closing was Crestpoint, Vector, and InterRent's acquisition of 605 units at 2 and 4 Hanover Road in Brampton Ontario for $185.5 million. Centurion Apartment Real Estate Investment Trust's acquisition of the 240-unit 1355 Le Corbusier Boulevard in Laval Quebec was another of the relatively few significant transactions closed during the quarter. Investment demand softened in the second half of 2022, as borrowing costs and economic uncertainty increased. Investors have looked to offset higher borrowing costs with price reductions. However, vendors and buyers have generally been unable to agree on pricing. As a result, multi-suite residential rental sector investment transaction volume has fallen to a five-year low.

PRIVATE CAPITAL A DOMINANT BUYER CATEGORY

Private capital groups were the most frequent acquirers of Canadian commercial property during the first quarter, in keeping with the recent trend. Owner/occupiers were the second most active buyer segment in the first three months of 2023. Institutional buyers for the most part remained on the sidelines while assessing the current environment of elevated economic, capital market, and interest rate uncertainty. Capital market dependent buyers were also relatively inactive, given limited access to low-cost debt and equity capital. More broadly, large-scale transactions were relatively few in number during the first quarter. On the sell side of the ledger, there were relatively few vendors willing to dispose of properties in a down market. The largest share of vendors were either private capital groups or owner/users. Private capital will remain the dominant buyer segment in the investment property sector until the interest rate, economic, and financial market outlooks are clarified.

RELATIVE PERFORMANCE

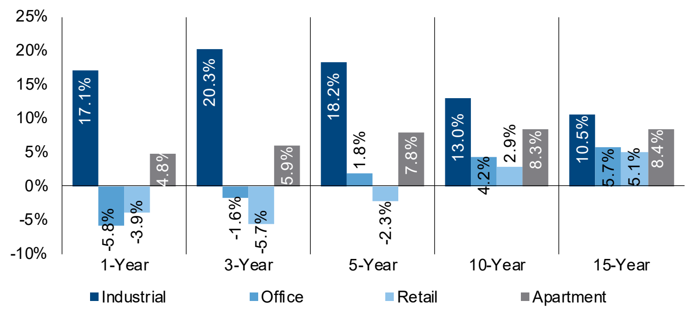
Comparing Annualized Returns To Dec 2022



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

MSCI RETURNS

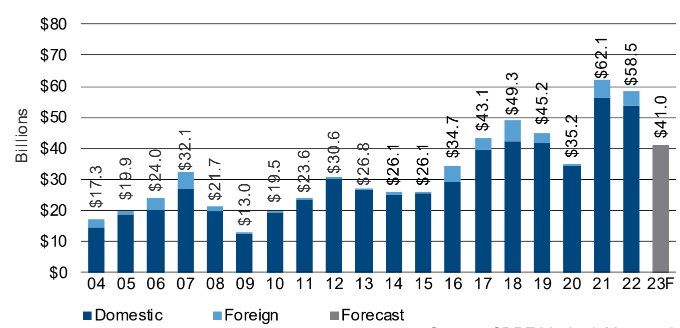
Annualized Returns By Property Type To Dec 2022



Source: ©MSCI Real Estate 2022

INVESTMENT ACTIVITY

Total Investment Volume



Source: CBRE Limited; Morguard

Sales volume dipped below the $400.0 million mark for the first time in five years for properties sold for a minimum of $10.0 million.

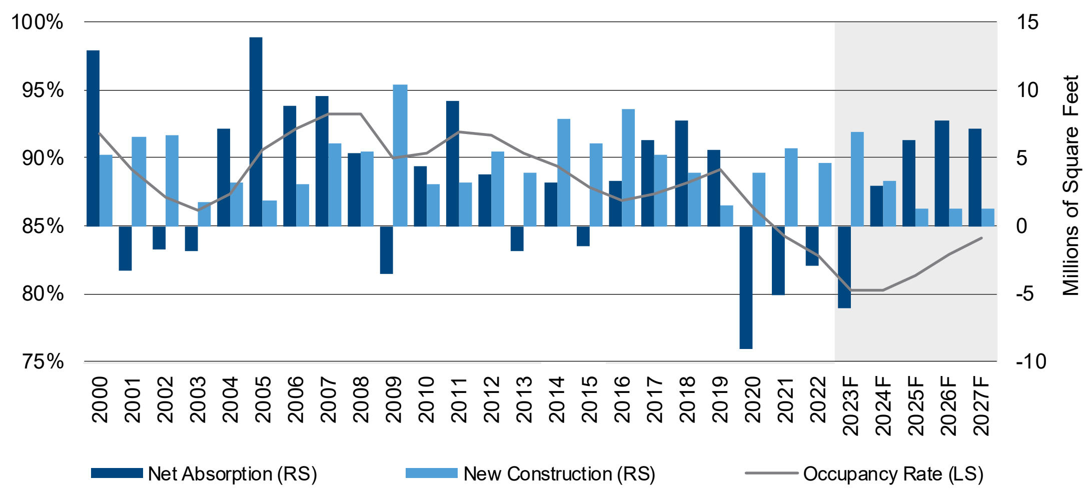
LEASING REPORT

OFFICE VACANCY CONTINUED TO RISE

Canadian office leasing market vacancy continued to rise during the first quarter, extending the trend of the past few years. The national aggregate vacancy rate climbed to a benchmark-high of 17.7% over the first three months of 2023. The downtown national average rate stood at 18.4% at the end of March, up 70 bps from the end of 2022. The suburban average of 16.8% was up 40 bps quarter-over-quarter, according to CBRE figures.

OFFICE DEMAND & SUPPLY

National Historical & Forecast Aggregates



Source: CBRE Limited; CBRE Econometric Advisors

Much of the 2.7 million square feet of vacant space returned to the market in the first quarter was in eastern Canada. Toronto saw the return of more than 2.4 million square feet during the quarter, 1.4 million of which was in the downtown submarket. In Ottawa and Waterloo Region, 537,000 square feet and 200,000 square feet of space was placed back on the market, respectively. Montreal bucked the national trend, with the absorption of 237,000 square feet. Vacancy was relatively stable in western Canada. Office tenants continued to reduce their footprints in many regions, a trend that began following the initial pandemic lockdowns. Additionally, many private sector companies have chosen to delay longer-term leasing decisions until the economic outlook improves. Some tenants have been able to capitalize on the rising vacancy trend and secure high-quality space at a relatively reasonable cost. Built-out space with furniture included has been leased relatively fast. Generally, tenants have had little trouble sourcing vacant space in early 2023, as vacancy levels have steadily increased across the country. Vacancy is expected to continue to rise over the near term.

SLIGHT EASING OF INDUSTRIAL SUPPLY PRESSURE RECORDED

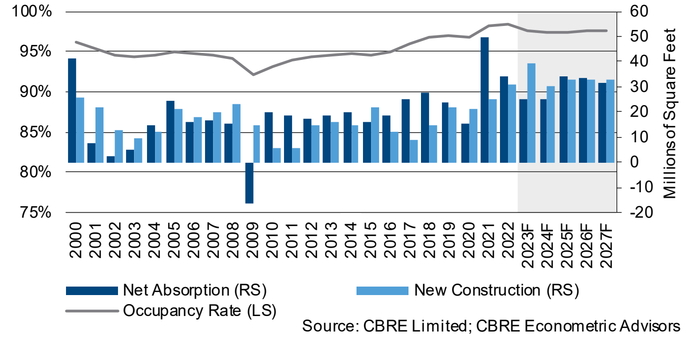
A slight easing of supply pressure was recorded in Canada's industrial leasing market during the first quarter. The national availability rate rose a modest 30 bps during the three-month period to 1.9%. The rate was up 30 bps year-over-year. Vancouver registered a 70 bps availability increase to 1.95% during the first quarter. Availability was unchanged in Calgary and Edmonton. In eastern Canada, both Toronto and Montreal registered 20-bps availability rate increases to 1.2% and 1.4%, respectively. Despite the slight easing of supply pressure in Canada's industrial leasing market, supply remained constrained. Users of industrial space were faced with few options when looking to expand or relocate in most regions. At the same time, landlords continued to command benchmark-high rents. Upward pressure on peak rents was reported during the first quarter, particularly for functional space in established business parks. Industrial availability remained highly constrained even with the completion of nearly 5.7 million square feet of new supply. Almost all of the newly constructed space was leased or sold and occupied prior to or shortly after completion. Supply constraints will continue to characterize Canada's industrial leasing market over the balance of the year, having eased slightly in the first quarter.

POSITIVE RETAIL LEASING MARKET MOMENTUM EVIDENCED

Positive retail leasing market momentum was evidenced during the first quarter. Several retailers expanded or announced plans to open new stores in the first few months of the year. There were several new entries to the Canadian market during the quarter. Much of the leasing activity and store openings reported during the first quarter were relatively smaller scale occupants. There were relatively few new stores opened or announced with footprints of 10,000 square feet or greater. In addition, specific retailer categories were more active, in keeping with the recent trend. The discount, restaurant, and food services retail segments continued to absorb space across the country. Leasing activity will likely slow down over the near term, given an expectation of weaker consumer spending patterns and job growth. Net absorption will be offset by announced high profile store closures over the next several months. Nordstrom gave notice of its intention to exit the Canadian market. Bed Bath & Beyond will also close stores across the country. Despite the closures, optimism and positive momentum was evidenced in the Canadian retail sector during the first few months of the year.

INDUSTRIAL DEMAND & SUPPLY

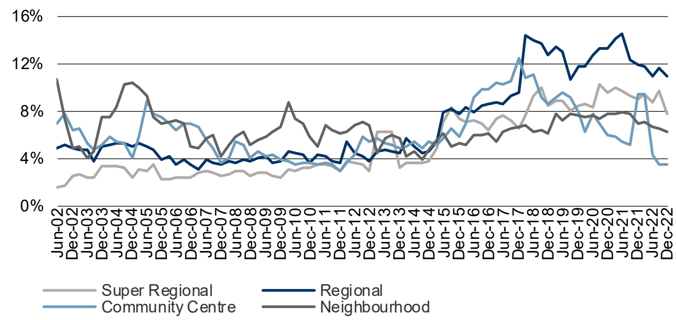
National Historical & Forecast Aggregates



Source: CBRE Limited; CBRE Econometric Advisors

RETAIL VACANCY RATES

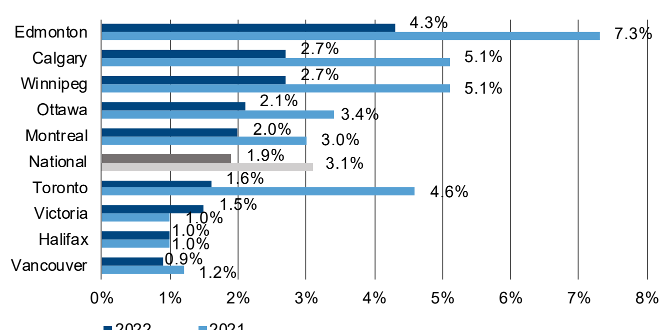
National Trending Across Property Types



Source: ©MSCI Real Estate 2022

CMA'S RENTAL VACANCY

Rates for Structures of 3 units+



Source: CMHC (Jan 2023 release)

Industrial availability remained highly constrained during the first quarter even with the completion of nearly 5.7 million square feet of new supply.

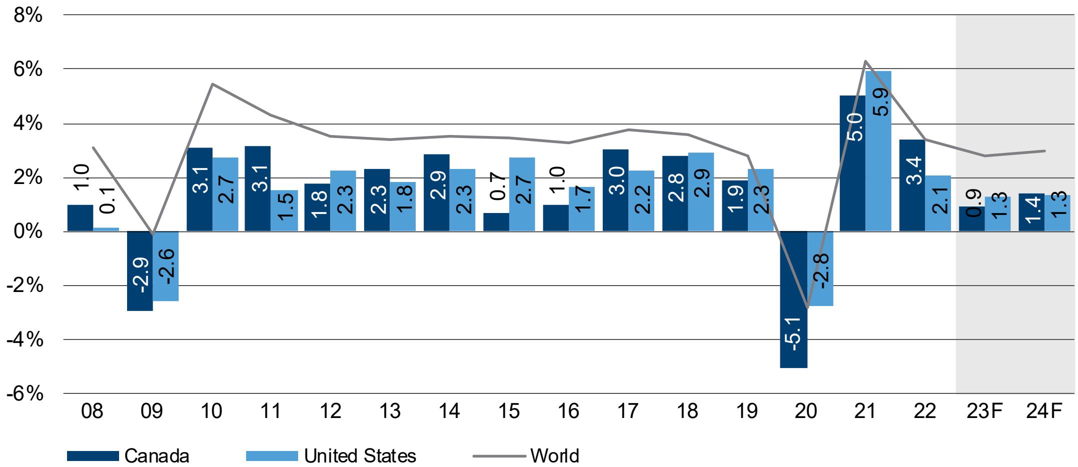
ECONOMIC REPORT

ECONOMIC RESILIENCE EXHIBITED

Canada's economy exhibited a measure of resilience during the first quarter. Gross Domestic Product (GDP) expanded by 0.5% month-over-month in January, which was slightly better than Statistics Canada's estimate. Another 0.3% advance is forecast for February. Economic growth is expected to eclipse the 2.0% annualized level in the first quarter, given stronger-than-expected expansion in the first few months of the year.

ECONOMIC GROWTH

Real GDP Growth — Historical & Forecast



Source: Conference Board Of Canada (March 2023); International Monetary Fund (April 2023)

The economic resilience recorded during the first quarter was driven by several factors. Employment growth has been stronger-than-forecast over the past several months, in support of increased economic activity. Approximately 382,000 new jobs were generated over the seven-month period ending March 2023. At the same time, wage growth and hours worked increased thereby driving demand for goods and services higher. Generally, consumers continued to spend freely during the latter months of 2022 and into early 2023 in the face of elevated inflation levels, rising interest rates, and the threat of a recession. Government transfers to Canadian households boosted spending and by extension economic output. By the summer of 2023, economic growth is expected to slow substantially, as the effects of BofC's interest rate hikes erode domestic demand. In turn, labour market performance will moderate, as consumer spending trends downward. The resulting economic slowdown will follow a period of resilience in the first few months of 2024.

LABOUR MARKET OUTPERFORMED

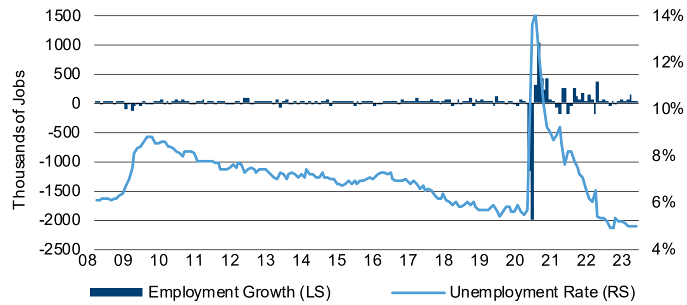
The Canadian labour market outperformed in the first quarter, with growth surpassing expectations. Employment increased by roughly 35,000 in March. Most forecasts called for little or no change in employment levels, which was the case in the previous month. National employment stood at 20,089,000 in March, having risen by 1.9% since September of last year. Aggregate national employment stood 865,000 higher at the end of the first quarter than the total reported before the onset of the pandemic. The national unemployment rate stood firm at 5.0% for a fourth consecutive month in March, just 10 bps higher than the record low dating back to 1976. Strong wage growth was also reported in the first quarter, with the national average hourly wage rising by 4.5%, 5.4%, and 5.3% year-over-year in January, February, and March, respectively. The national average hours worked continued to rise in the first quarter, up 5.3% year-over-year. Over the next few quarters the Canadian labour market is expected to soften as economic growth slows, having outperformed in the first few months of the year.

CONSUMERS CONTINUED TO SPEND DESPITE HEADWINDS

Canadian consumers continued to spend relatively freely during the first quarter, despite a number of significant headwinds. In January, sales rose 1.4% month-over-month, which was markedly stronger than most projections. Statistics Canada forecast January sales would rise by a less robust 1.0% month-over-month. Inflation-adjusted sales were up 1.5% in the first month of the year, driven in large part by vehicle sales. Consumer spending growth was expected to moderate in February and March, but remain at a relatively high level. Stronger-than-expected economic and labour market performance was a key driver of sales growth in late 2022 and early 2023. Canadian households continued to grapple with elevated inflation levels. The high cost of essentials like groceries and accommodation eroded spending volume to some degree. Higher interest rates have also taken a bite out of spending in some households. Consumer confidence levels have declined with the threat of a recession, with some households choosing to delay spending on big ticket items. The nation's housing market correction has also negatively impacted spending growth. Over the balance of 2023, consumer spending patterns are expected to soften, due in large part to weaker economic and job growth patterns. The softening will moderate in late 2023 or early 2024, given an expectation of lower interest rates and inflation.

LABOUR MARKET

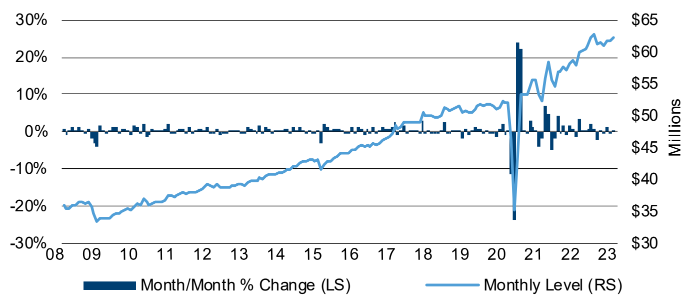
Month-Over-Month Trending



Source: Statistics Canada

RETAIL SALES

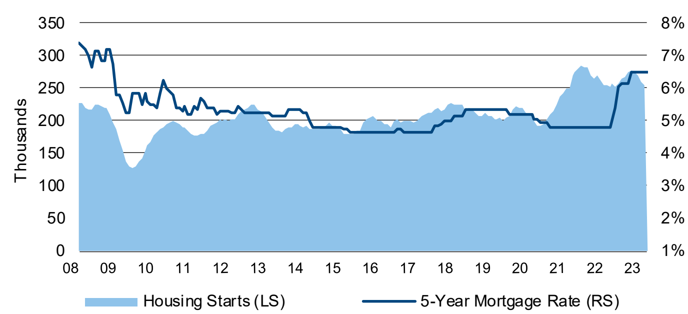
Month-Over-Month Trending



Source: Statistics Canada

HOUSING MARKET

Monthly Trends



Source: Statistics Canada, CMHC, Bank of Canada

The national average hourly wage rose 4.5%, 5.4%, and 5.3% in January, February, and March year-over-year, respectively.

INVESTMENT MARKET TRANSACTIONS

OFFICE

PROPERTY	DATE	PRICE	SF	PSF	PURCHASER	MARKET
1908 Colonel Sam Dr	Mar-23	$100.0 M	284,524	$351	OntarioPower Generation	Toronto
4475 North Service Rd	Mar-23	$12.0 M	71,762	$167	IAD Capital Corp	Toronto
Ennisclare Corporate Ctr	Mar-23	$55.0 M	223,035	$247	Private	Toronto
125 Commerce Valley Dr W	Mar-23	$48.3 M	189,045	$256	Soneil Investments	Toronto
1900, 2000 City Park Dr	Feb-23	$20.0 M	93,381	$214	Colonnade BridgePort	Ottawa
Nexus Core Portfolio	Feb-23	$84.0 M	379,285	$222	Groupe Mach	Montreal
163 Queen St E	Feb-23	$29.3 M	37,412	$784	The Community Hub Inc.	Toronto
4707-4757, 4767-4787 Levy St	Feb-23	$16.5 M	105,560	$156	Alexandria RE Equities	Montreal
720 Bay St	Jan-23	$135.0 M	247,700	$545	Alexandria RE Equities	Toronto
1075 North Service Rd	Jan-23	$22.2 M	107,854	$206	Regency Property	Toronto

INDUSTRIAL

PROPERTY	DATE	PRICE	SF	PSF	PURCHASER	MARKET
273 Bowes Rd	Mar-23	$14.5 M	64,534	$225	Shelborne Capital	Toronto
3400 Raymond-Lanier St	Feb-23	$108.5 M	474,983	$229	Groupe Montoni/Aimco	Montreal
1001 Corporate Dr	Feb-23	$51.8 M	231,311	$224	Crux Capital	Toronto
750-760 Birchmount Rd	Feb-23	$17.8 M	66,151	$268	Soneil Investments	Toronto
9900 Irenee Vachon St	Feb-23	$28.0 M	176,819	$158	BTB REIT	Montreal
8500, 8760 Place Marien	Feb-23	$66.5 M	400,000	$166	Groupe Mach	Montreal
8743 50 Ave	Jan-23	$15.8 M	72,088	$218	BTB REIT	Edmonton
Alberta Portfolio	Jan-23	$309.3 M	2,147,670	$144	Skyline Industrial REIT	Edm./Cal.
229 Wilkinson Rd	Jan-23	$13.4 M	30,285	$442	MSS Properties Ltd	Toronto
2150 Steeles E, 8026-32 Torbram	Jan-23	$63.8 M	191,859	$332	Private	Toronto
1655 Feldspar Crt	Jan-23	$22.0 M	80,714	$273	Jim Pattison Group	Toronto

RETAIL

PROPERTY	DATE	PRICE	SF	PSF	PURCHASER	MARKET
Queens Common Ctr	Mar-23	$17.5 M	46,512	$376	Choice Properties REIT	Toronto
278 Dundas St E	Mar-23	$20.0 M	65,000	$307	SigmaGroup	Toronto
Mill Woods Town Ctr	Mar-23	$69.0 M	455,701	$151	Maclab Development Group	Edmonton
GWL Realty Advisors Portfolio	Feb-23	$21.5 M	98,844	$227	Strathallen Capital	Montreal
390 Steeles Ave W	Feb-23	$26.3 M	41,887	$627	AWIN Group of Dealerships	Toronto
Plaza Brampton 9025 Torbram Rd	Feb-23	$16.4 M	36,720	$446	The Williams Way Inc.	Toronto
Erin Mills Town Ctr	Jan-23	$272.0 M	898,578	$303	Pemberton Group	Toronto

MULTI-SUITE RESIDENTIAL

PROPERTY	DATE	PRICE	# UNITS	/UNIT	PURCHASER	MARKET
2000 Saint-Marc St	Mar-23	$29.3 M	160	$180,619	Greybrook Realty Partners	Montreal
2, 4 Hanover Rd	Mar-23	$185.5 M	605	$306,612	Crestpoint/Vestcor/InterRent	Toronto
40 Delisle Ave	Mar-23	$44.5 M	100	$445,000	Homestead	Toronto
800 Eagleson Rd	Feb-23	$61.0 M	143	$426,573	CAPREIT	Ottawa
1355 Le Corbusier Blvd	Feb-23	$83.3 M	240	$347,167	Centurion Apartment REIT	Montreal
3141 Jaguar Valley Dr	Feb-23	$12.0 M	41	$292,683	Reserve Properties	Toronto
595 Brookdale Ave, 3171 Bathurst	Jan-23	$27.2 M	94	$289,362	Hazelview 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 March 31, 2023, Morguard had $18.8 billion of total assets under management and employed 1,300 real estate professionals in 11 offices throughout North America.

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Real Estate Advisory Company	Morguard
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Investment Management Company	Lincluden Investment Management Limited

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