

2023 CANADIAN ECONOMIC OUTLOOK  
AND MARKET FUNDAMENTALS FOURTH QUARTER UPDATE  
25<sup>TH</sup> ANNUAL EDITION

MORGUARD

Q4



INVEST FOR THE FUTURE.



Morguard

# CONTENTS

## Q4

FINANCIAL REPORT / 2

INVESTMENT REPORT / 4

LEASING REPORT / 6

ECONOMIC REPORT / 8

INVESTMENT MARKET TRANSACTIONS / 10



## ABOUT

MORGUARD / ACKNOWLEDGEMENTS / RESOURCES / 11

# FINANCIAL REPORT

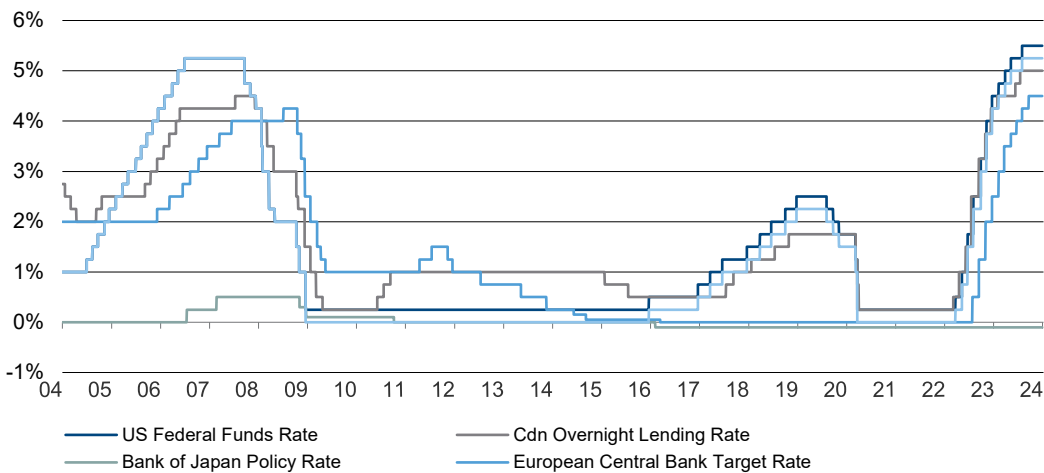
## BANK OF CANADA HELD THE LINE ON POLICY RATE

The Bank of Canada (BofC) maintained its overnight policy rate at 5.0% throughout the fourth quarter, while continuing its program of quantitative tightening. In June and July, the policy rate was increased by 25 bps, a period during which underlying inflation pressure remained stubbornly high.



## OFFICIAL POLICY RATES

International Monetary Conditions



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

The bank's decision to hold off on changes to its policy rate in the fourth quarter was influenced by several factors. In its October policy rate announcement, the bank indicated that past interest rate increases had slowed the national economy and domestic demand. Canada's economy contracted by 1.1% in the third quarter. Consumer spending had also begun to slow, along with labour market growth. Retail consumption was essentially flat in both the second and third quarters of 2023. Economic demand and supply were markedly more

balanced during the late summer and early fall. As a result, inflation pressure eased across a broader range of goods and services categories, which influenced the bank's decision to hold off on policy rate changes. The bank's Governing Council indicated that it would not hesitate to raise its policy rate again over the near term if inflation pressure increased. By the end of the fourth quarter, consensus projections called for the bank to begin lowering rates in the spring of 2024 assuming inflation pressure continues to ease.

## HEADLINE INFLATION REMAINED ELEVATED

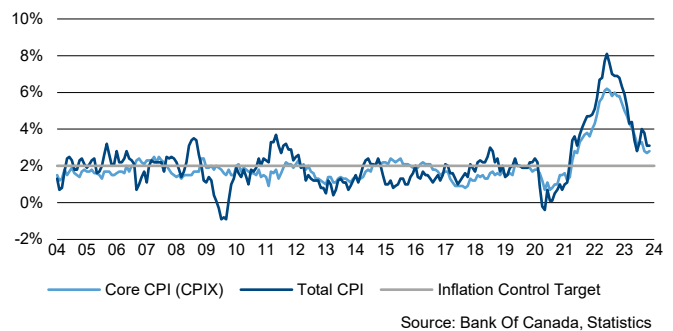
Headline consumer price inflation remained elevated during the fourth quarter, in keeping with the recent trend. The Consumer Price Index (CPI) rose by 3.4% on a year-over-year basis in December, up from 3.1% in November. The December rise was driven in large part by higher gasoline prices, increasing by 1.4% year-over-year, following a 7.7% and 7.8% drop in October and November, respectively. However, the higher cost of gasoline was base-year effect driven. Excluding gasoline, headline inflation dipped slightly to 3.5% in December, having rested at 3.6% in each of October and November year-over-year. Price growth accelerated for airfares, fuel oil, passenger vehicles, and rent in December. In November, a higher-than-expected headline inflation figure was due largely to a 26.1% year-over-year increase for travel tours, particularly to the U.S. Food price inflation continued to trend lower during the fourth quarter. The rate of inflation for food declined for a fifth consecutive month in November, resting at 5.0% year-over-year. Overall, core inflation has eased substantially over the recent past and is only slightly higher than the BoC's target range. However, headline inflation remained elevated during the fourth quarter.

## STRONG FINISH TO THE YEAR FOR S&P/TSX COMPOSITE

Canada's benchmark S&P/TSX Composite equity market index finished 2023 strongly. The index registered a 7.3% gain for the fourth quarter, boosting the annual return to 8.1%. The fourth-quarter gain contrasted the 3.0% backstep recorded over the previous quarter. The index advanced by 5.1% in the fourth quarter a year earlier. Several sub-sectors of the index posted solid year-over-year gains for the year. Financials, which comprises 31.0% of the index, posted a solid 9.0% annual return for 2023. Industrials contributed a 10.8% return for the year, representing 14.0% of the index. The Energy sub-sector, which comprises 17.0% of the index, suffered a slight loss for the year. Lower energy prices and higher interest rates took a significant toll on the sub-sector. The large and mid-cap segments of the index performed relatively well in 2023, with annual returns of 8.2% and 7.7%, respectively. The SmallCap segment posted a modest 2.1% return for the year. The positive 2023 index return contrasted last year's result. The S&P/TSX Composite index generated a negative 8.7% return for 2022, despite a relatively healthy fourth quarter. In 2023, however, a strong fourth quarter pushed the annual index return into positive territory.

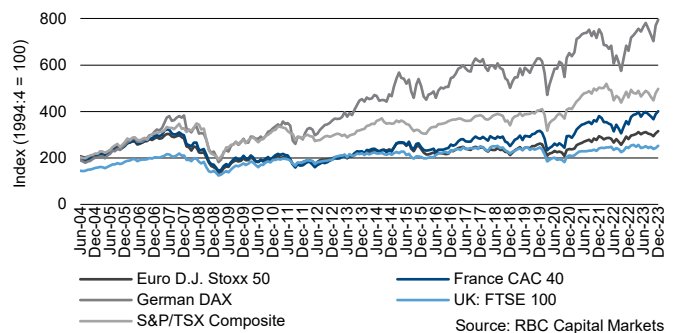
## NATIONAL INFLATION

CPI Measures, % Change Over 1 Year Ago



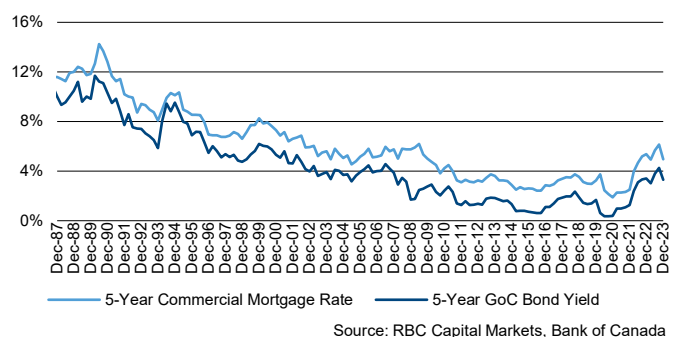
## GLOBAL INDICES

Trending of Global Price Return Indices



## MORTGAGE SPREADS

Commercial Mortgage Rates Vs. 5-Year GOC Bonds



**Overall, core inflation has eased over the recent past and is only slightly higher than the BoC's target range.**

# INVESTMENT REPORT

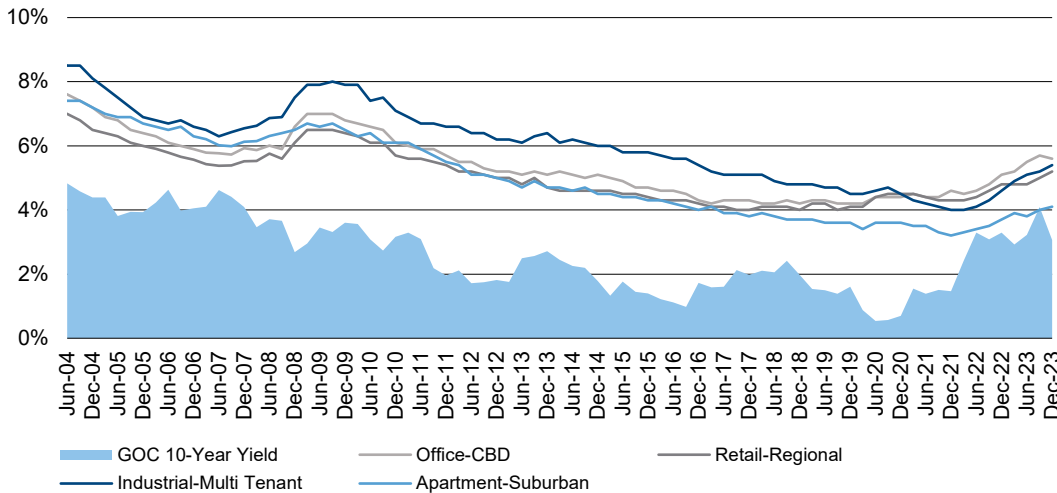
## INVESTMENT PROPERTY SALES SLOWDOWN CONTINUED

Canada's commercial investment property sales activity slowdown continued to unfold in the fourth quarter of 2023, a trend that began in the second half of 2022. Investment property sales volume totaled roughly \$4.5 billion for assets selling for at least \$10.0 million in the Vancouver, Calgary, Toronto, Ottawa, and Montreal markets combined in the fourth quarter.



### YIELD SPREADS

Cap Rates vs. 10-Year GOC Bonds



Source: AltusInSite, Bank of Canada

Transaction volume was down marginally quarter-over-quarter, with slightly more than \$4.5 billion in sales recorded in the previous three-month period. Quarter-over-quarter increases were recorded in three of the four major property types. Multi-suite residential rental property transaction volume rose more than 30.0% quarter-over-quarter, but remained well below the long-term average. Industrial property sales volume advanced by 34.4%. A 77.3% drop was recorded for the office sector, with a modest \$452.2 million of sales completed over the final three months of 2023. Retail transaction volume spiked quarter-over-quarter to \$970.5 million from \$217.0 million, due

largely to the sale of a 49.0% interest in Vaughan Mills Centre and a 100.0% interest in Pickering Town Centre in the eastern part of the Greater Toronto Area. The two interests sold for a combined \$673.2 million over two separate transactions. Investors continued to target lower risk assets in the fourth quarter, in keeping with the recent trend. Industrial and multi-suite residential attracted strong interest, along with retail properties with positive performance characteristics. Over the near term, investment transaction volume will fall short of the near-to-medium term average, in keeping with the fourth quarter trend.

## OFFICE PROPERTY INVESTMENT SALES DIPPED TO THREE-YEAR LOW

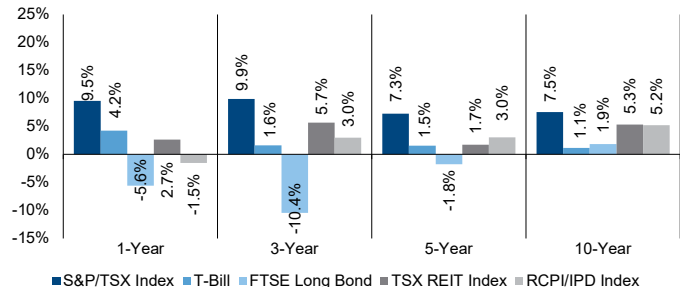
Sales of office investment property in Canada's major markets dipped to a three-year low in the fourth quarter. Approximately \$452.2 million of transaction volume was recorded for the quarter representing properties that sold for at least \$10 million. The total was down sharply quarter-over-quarter, with almost \$2.0 billion of sales tallied in the third quarter. Moreover, the fourth quarter total was well below the five-year quarterly average of \$1.5 billion. Some owners have reduced their exposure to the office sector recently, given an uncertain performance outlook. The increased popularity of hybrid and remote workplace strategies is expected to continue to have a negative impact on performance over the next few years. Additionally, vacancy levels have climbed sharply in most regions of the country, particularly in the class B and C market segment. Office property values have trended moderately lower over the past year, as market fundamentals weakened, and outlook risk increased. Investment performance softened and cap rates increased significantly for higher-risk assets. Sales of institutional-grade office property will remain muted over the near term, having fallen to a three-year low in the fourth quarter.

## INVESTORS EXHIBITED CONFIDENCE IN THE RETAIL PROPERTY SECTOR

Investors exhibited a measure of confidence in Canada's retail property sector in the fourth quarter. Investor confidence in the sector was evidenced in the sale of separate interests in two prime Greater Toronto Area shopping centres. In late December, LaSalle Investment Management acquired a 49.0% interest in Vaughan Mills Centre from Ivanhoe Cambridge for \$470.2 million as part of a "syndication process". CentreCourt Developments, Salthill Capital, and Cowie Capital together acquired Pickering Town Centre from Ontario Pension Board Realty Inc. for \$203.0 million in the same month. More than 6,000 residential units are planned for the Pickering Town Centre's 55-acre site. Outside of a small number of transactions, retail investment sales activity has been relatively low over the past several years. Caution levels have been elevated as shopping behaviours have changed, during the period of weaker performance patterns as a result of the COVID-19 pandemic. Investors retreated to the sidelines as borrowing costs rose and economic uncertainty increased. Valuations and performance declined. Despite heightened sector uncertainty, investors exhibited confidence in acquiring low risk high-quality retail assets through to the end of 2023.

## RELATIVE PERFORMANCE

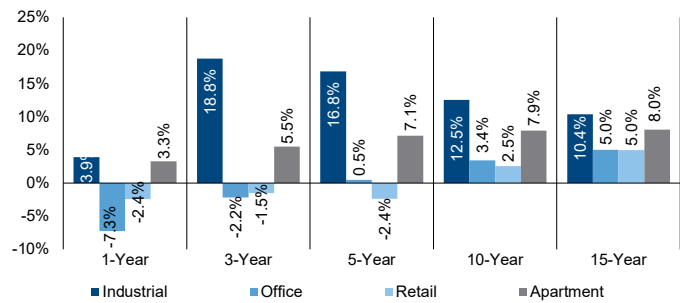
Comparing Annualized Returns To Sept 2023



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

## MSCI RETURNS

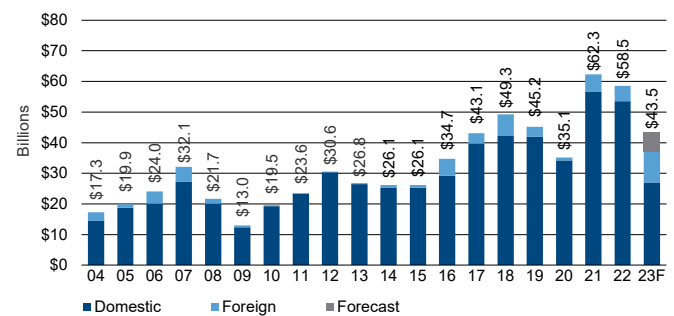
Annualized Returns By Property Type To Sept 2023



Source: © MSCI Real Estate 2023

## INVESTMENT ACTIVITY

Total Investment Volume



Source: CBRE Limited; Morguard

Some owners have reduced their exposure to the office sector recently, given an uncertain performance outlook.

# LEASING REPORT

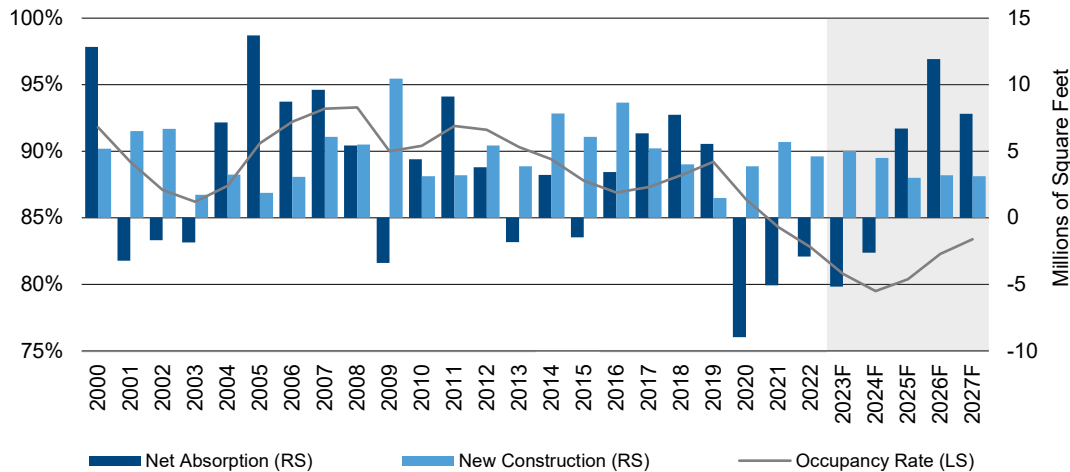
## OFFICE LEASING MARKET PERFORMANCE WAS MIXED

Canada's fourth quarter office leasing market performance was mixed. Leasing demand characteristics varied widely, continuing the year-to-date trend. The nation's downtown submarkets returned a combined 940,000 square feet of space to the market over the quarter. Close to 4.0 million square feet of downtown space was vacated in 2023, according to CBRE statistics.



## OFFICE DEMAND & SUPPLY

National Historical & Forecast Aggregates



Source: CBRE Limited; CBRE Econometric Advisors (Q3 2023)

Eastern Canadian cities accounted for most of the downtown space returned in the fourth quarter. Vancouver, Calgary, and Edmonton posted solid gains. A similar performance pattern was reported during much of 2023. The nation's suburbs have performed relatively well during both the fourth quarter and the past year. Just shy of 681,000 square feet of suburban space was absorbed in the fourth quarter, with a modest 1.0 million square of space vacated in 2023. Vacancy patterns were also mixed during the final quarter of the year. The national average downtown vacancy rate rose a further 50

bps during the quarter to 19.4%. The suburban average fell 30 bps to 16.9%. Year-over-year, downtown vacancy rose by 170 bps, with a modest 40 bps increase reported for the suburbs. Leasing market performance also varied significantly by building class. Generally, class A buildings have outperformed recently. Demand for space in class B and C buildings has consistently underwhelmed and vacancy levels have risen more sharply over the past few years. Looking to 2024, office leasing market performance patterns will remain mixed, in keeping with the fourth quarter trend.

### SUPPLY CONSTRAINTS EASED SLIGHTLY

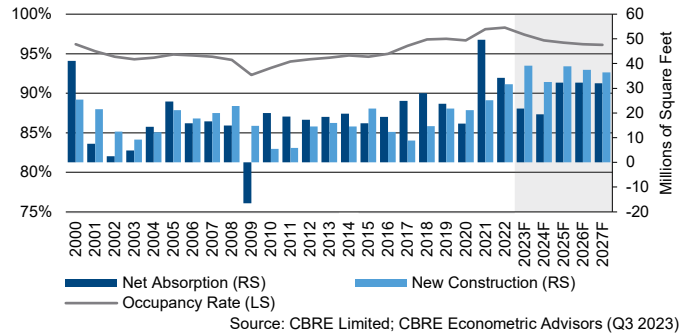
Supply constraints eased slightly in Canada's industrial leasing market in the fourth quarter, in keeping with the recent trend. There were two main drivers of this trend, which provided some relief from the availability shortfall of the past few years. The first was the record quarterly high of 16.8 million square feet of new supply added to Canada's industrial property inventory during the fourth quarter. A record annual high of 42.2 million square feet of new supply was completed in 2023. Secondly, leasing demand has moderated over the past few months, resulting in modest upward pressure on availability in some regions of the country. Demand had outdistanced supply by a significant margin during the peak phase of the cycle, in the aftermath of the initial phase of the pandemic. The demand peak drove the national availability rate down below the 2.0% mark, with few options available for tenants looking to expand. However, availability rose steadily in the second half of 2023. The nation's industrial availability rate rose 70 bps in the fourth quarter to 3.2%, having doubled year-over-year. The rising availability trend was indicative of the slight easing of supply constraints in Canada's industrial leasing market in the fourth quarter.

### MULTI-SUITE RESIDENTIAL RENTAL RENT GROWTH CYCLE MODERATED

Canada's multi-suite residential rental property rent growth cycle moderated during the fourth quarter, having peaked over the recent past. The average asking rent for units listed on the Rentals.ca Internet Listings Service rose 12.6% year-over-year as of November 2023. The rise was 2.0% lower than the average year-over-year increase reported in September, which was a nine-month high. Double digit increases were recorded for all suite size categories except for three bedroom units, year-over-year as of November 2023. The one bedroom average rent rose 14.8% year-over-year, leading all other suite size categories. Growth has been strongest for the one bedroom unit category over the past several months. Rent growth slowed significantly in the nation's most expensive rental markets during the fourth quarter, Toronto and Vancouver. Toronto's average rent for purpose-built and condominium rental units combined decreased for a second straight month in November. Above-average rent growth was reported in Alberta recently, as international and inter-provincial migration boosted demand for rental accommodation. Rent growth will remain moderate over the near term, in keeping with the fourth quarter trend.

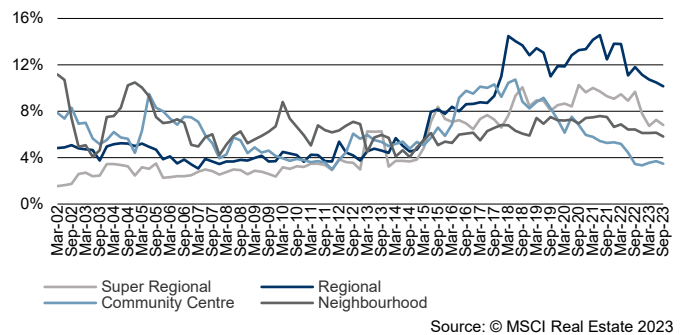
### INDUSTRIAL DEMAND & SUPPLY

National Historical & Forecast Aggregates



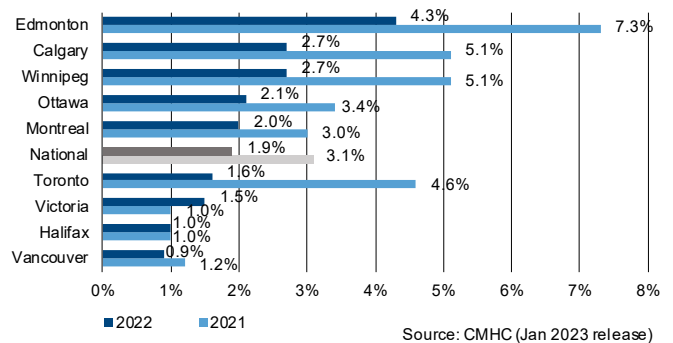
### RETAIL VACANCY RATES

National Trending Across Property Types



### CMA'S RENTAL VACANCY

Rates for Structures of 3 units +



The nation's industrial availability rate rose 70 bps in the fourth quarter to 3.2%, having doubled year-over-year.



# ECONOMIC REPORT

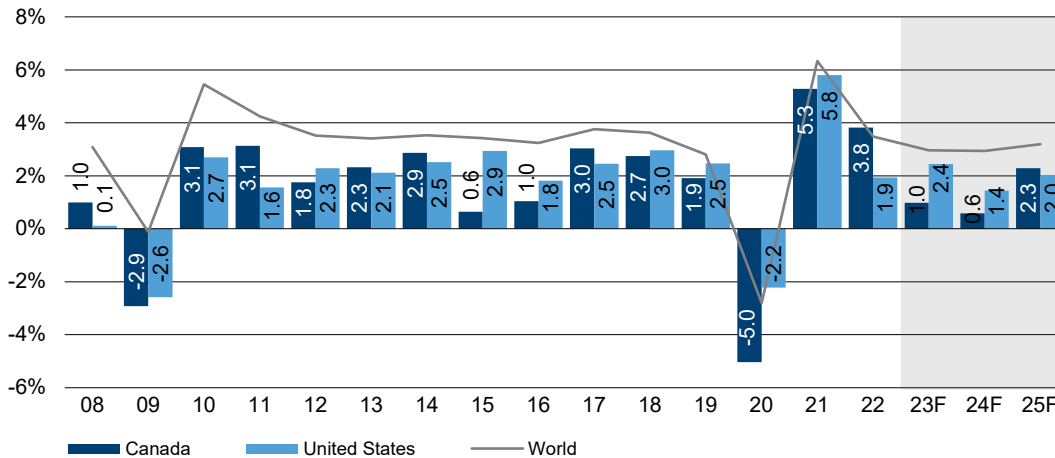
## GROWTH SLOWDOWN UNFOLDING LARGELY AS EXPECTED

Canada's economic growth slowdown is unfolding largely as expected during the fourth quarter. Real Gross Domestic Product (GDP) is projected to contract by roughly 1.0% in the fourth quarter, on a quarter-over-quarter annualized basis. Real GDP was effectively flat in October. Statistics Canada's flash estimate called for a modest gain of 0.1% in November.



### ECONOMIC GROWTH

Real GDP Growth — Historical & Forecast



Source: Conference Board Of Canada (Dec 2023); International Monetary Fund (Oct 2023)

Canada's economic slowdown is expected to continue through much of the first half of 2024. Consumer and business belt-tightening will result in reduced retail trade and spending, which have been key economic growth drivers over the past several years. Consumer spending will continue to slow during the first half, as interest rates remain elevated and wage growth eases. Higher interest rates will limit the positive economic impacts of the nation's residential housing sector as well. The economic outlook for the second half 2024 outlook

is dependent largely on interest rates. The probability of rate cuts increased substantially in the last few months of 2023, as domestic demand and economic growth slowed. Economic activity is expected to strengthen considerably in the latter half of 2024, assuming lending rates decrease. This trend will carry through to 2025, with real GDP forecast to expand by an annualized rate of between 1.5% and 2.0%. Canada's economic growth trend will firm up in the latter half of 2024, following a relatively weak fourth quarter result.

## LABOUR MARKET PERFORMANCE WAS RELATIVELY WEAK

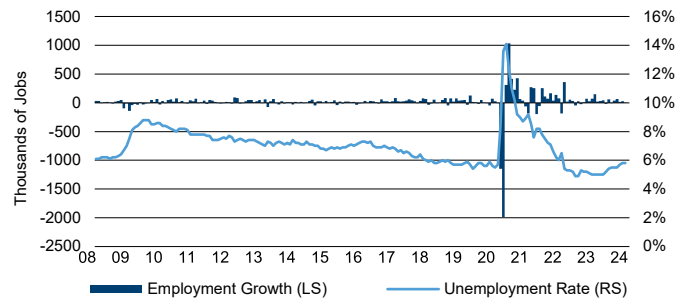
A relatively weak labour market performance was recorded in the final quarter of 2023, a trend that is expected to persist through much of the first half of 2024. National employment leveled off during the final three months of the year, which was indicative of the recent economic slowdown. In October, employment was little changed, rising by just 0.1% or 18,000 positions according to Statistics Canada’s monthly Labour Force Survey. A slightly better but still modest 25,000 advance was reported for November. Employment was virtually unchanged in the final month of the year. Employment growth has slowed significantly in the second half, with an average of 23,000 jobs created monthly. Growth averaged 46,000 per month during the first half of the year. The national unemployment rate steadied somewhat during the fourth quarter. Initially, the rate rose 20 bps in October to 5.7%, edged 10 bps higher in November and was unchanged at 5.8% in December. The unemployment rate has trended downward in 2023, with population growth outstripping employment gains. The nation’s unemployment was significantly higher at the end of 2023 than the average reported in the spring. Worker wages continued to rise at a relatively healthy rate during the fourth quarter. The national average weekly wage rose 4.8% and 5.4% year-over-year in November and December 2023, respectively. Overall, however, fourth quarter labour market performance patterns were relatively weak.

## WEAK CONSUMER SPENDING GROWTH TREND FORECAST

A weak Canadian consumer spending growth trend is forecast over the near term. Growth of less than 1.0% is projected for both the first and second quarters of 2024. The weak first half consumer spending growth trend is attributable to several factors. The interest rate hikes of the past year will continue to erode consumer spending power. Consumer spending power had already begun to decline in the second half of 2023, as borrowing costs continued to rise. Consumer belt-tightening will continue over the near term, given elevated levels of economic and financial market uncertainty. Inflation will also negatively impact spending through much of the first half of 2024. Weaker job market performance patterns will erode consumer confidence, resulting in reduced discretionary spending. Additionally, record high costs of renting accommodation across much of the country will negatively impact spending. The nation’s consumer spending growth trend is expected to strengthen in the second half of 2024, given an expectation of lower interest rates and inflation and increased economic activity.

## LABOUR MARKET

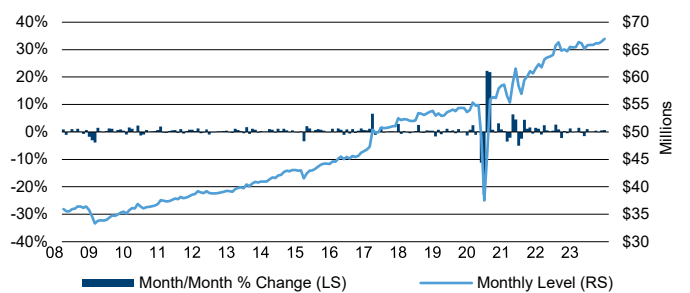
Month-Over-Month Trending



Source: Statistics Canada

## RETAIL SALES

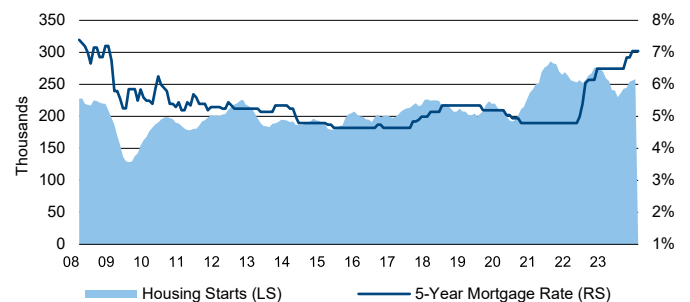
Month-Over-Month Trending



Source: Statistics Canada

## HOUSING MARKET

Monthly Trends



Source: Statistics Canada, CMHC, Bank of Canada

**The national average weekly wage rose 4.8% and 5.4% year-over-year in November and December 2023, respectively.**

# INVESTMENT MARKET TRANSACTIONS

## OFFICE

PROPERTY	DATE	PRICE	SF	PSF	PURCHASER	MARKET
400-480 Armand-Frappier Blvd	Nov-23	\$36.3 M	200,004	\$182	HarveyCorp	Montreal
Altius Ctr	Oct-23	\$20.0 M	326,685	\$61	Armco Capital Inc	Calgary
4855 Marc-Blain St	Oct-23	\$23.0 M	73,000	\$315	Brasswater	Montreal
6605 Hurontario St	Oct-23	\$22.9 M	60,053	\$381	RSG Holdings Ltd.	Toronto

## INDUSTRIAL

PROPERTY	DATE	PRICE	SF	PSF	PURCHASER	MARKET
Oxford Properties Portfolio (75% Int)	Dec-23	\$990.0 M	5,106,645	\$258	TPG	Toronto
2660-2710 Lancaster Rd	Dec-23	\$23.0 M	115,317	\$199	Crown Realty Partners	Ottawa
7550-7570 Torbram Rd	Dec-23	\$30.0 M	142,131	\$211	KingSett Capital	Toronto
2340 Winston Park Dr	Dec-23	\$67.1 M	202,165	\$332	Concert Properties	Toronto
8550 Montview Rd	Dec-23	\$53.2 M	234,093	\$227	Cosa-Nova Limitee	Montreal
Olympia Tile Portfolio	Nov-23	\$95.0 M	650,573	\$146	Shelborne Capital	Various
660 Monarch Ave	Nov-23	\$20.3 M	113,013	\$180	Dream Industrial REIT	Toronto
1650 Montgolfier St	Nov-23	\$23.5 M	300,000	\$313	Triovest	Montreal
Vaughan Portfolio	Nov-23	\$24.1 M	81,391	\$283	KingSett Capital	Toronto
34th Street Business Ctr	Oct-23	\$20.0 M	143,853	\$139	Narland Properties	Edmonton
Deerpoint Tech Ctr	Oct-23	\$31.5 M	181,211	\$174	Mancal Properties	Calgary
20, 30 Royal Group Cres	Oct-23	\$120.7 M	442,931	\$273	Dream Industrial REIT	Toronto
Holten Impex Portfolio	Oct-23	\$37.0 M	148,624	\$249	Fiera Real Estate	Toronto
5 Intermodal Dr, 1 Woodslea Rd	Oct-23	\$62.6 M	198,026	\$316	GIC/Dream Industrial REIT	Toronto

## RETAIL

PROPERTY	DATE	PRICE	SF	PSF	PURCHASER	MARKET
Vaughan Mills Ctr (49.0% Int)	Dec-23	\$470.2 M	1,500,000	\$640	LaSalle Investment Mgt.	Toronto
Pickering Town Ctr	Dec-23	\$203.0 M	830,000	\$245	Salthill/CentreCourt/Cowie	Toronto
Heritage Shopping Ctr 2011 111 St	Nov-23	\$30.7 M	86,755	\$354	KingSett Capital	Edmonton

## MULTI-SUITE RESIDENTIAL

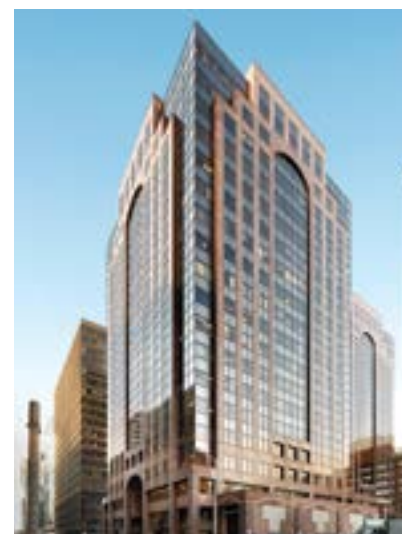
PROPERTY	DATE	PRICE	# UNITS	/UNIT	PURCHASER	MARKET
2051-2061 Stanley St	Dec-23	\$69.0 M	178	\$387,640	Fitzrovia	Montreal
2300 Marine Dr	Dec-23	\$20.6 M	47	\$438,298	Roehampton Apartments	Toronto
10-30 Vermont Ave	Dec-23	\$65.5 M	220	\$297,727	Private	Montreal
2293 Eglinton Ave E	Nov-23	\$32.4 M	118	\$274,153	Lankin Investments	Toronto
615 Du Plateau Blvd	Nov-23	\$35.5 M	99	\$358,125	Centurion Apartment REIT	Gatineau
135 Lynnview Rd SE	Nov-23	\$53.9 M	263	\$204,867	Empirio Capital	Calgary
728 Meaford Rd	Nov-23	\$43.5 M	106	\$410,377	Starlight Investments	Langley
JPG Portfolio Edmonton	Oct-23	\$63.4 M	266	\$238,158	Avenue Living	Edmonton
4 Sherbourne St N	Oct-23	\$12.3 M	32	\$382,813	Osmington Gerofsky	Toronto
Sterling Hill Portfolio	Oct-23	\$69.8 M	220	\$317,273	District REIT	Toronto
195 de la Savane	Oct-23	\$19.0 M	74	\$256,757	S.E. Lowy Holdings Inc	Gatineau
420 Parkdale Ave	Oct-23	\$15.0 M	55	\$272,500	SerCo Realty Group	Ottawa
105 Milton St	Oct-23	\$21.8 M	112	\$194,643	MK Group	Montreal
1300-1320 Lombard Cres	Oct-23	\$13.0 M	59	\$220,339	Capital Montreal Mgt. Inc	Montreal

\*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 December 31, 2023, Morguard had \$17.9 billion of total assets under management and employed 1,200 real estate professionals in 11 offices throughout North America.

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



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