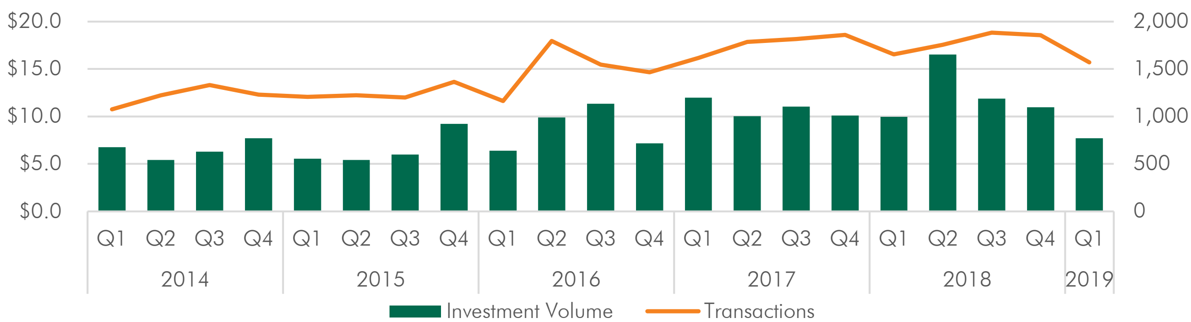
Canada Investment, Q1 2019

Investment activity moderates briefly following late 2018 financial market volatility

Investment Volume	Transactions	National Avg Cap Rate	GoC 10-yr Bond Yield
$7.7 billion	1,570	5.64%	1.62% (as of Mar 31, 2019)

*Arrows indicate change from previous year.

Figure 1: Quarterly National Investment Volumes ($B)



Source: CBRE Research, RealNet Canada Inc., RealTrack, Collette Plante, JLR Land Titles Solutions, Q1 2019.

- National investment volumes totalled $7.7 billion over 1,570 transactions in Q1 2019. This represented a year-over-year decrease of -22.5% from Q1 2018. While the market had a slow start to the year, investor sentiment rebounded as the quarter progressed and, based on the current sales pipeline, volumes are expected to be in line with those seen in previous years in Q2 2019.
- The three most active asset classes by total volume in Q1 2019 were the industrial, office and multifamily sectors which saw acquisitions total $1.9, $1.8 and $1.4 billion, respectively.
- The two largest transactions in Q1 2019 were the sale of Dynamic Funds Tower in Toronto to GWL, Investors Group and OPTrust for $473.0 million and the sale of 1075 West Georgia Street in Vancouver to Crestpoint, KingSett and Reliance Properties for $274.0 million.
- Private Canadian Investors, Institutional and Private Equity groups were the primary purchasers in Q1 2019 accounting for 36%, 22% and 16% of acquisitions, respectively.

Brought on by the financial and economic market volatility seen in late 2018, commercial real estate investment volumes totaled $7.7 billion in Q1 2019, representing a -22.5% decrease in volumes compared to the same period in 2018. Investors adopted a wait-and-see approach coming into the new year and, while pricing has remained strong, the cautious mindset led to a decrease in transaction velocity across the country. This pause was most apparent in the trophy asset segment of the market, as only four properties sold for over $100.0 million in Q1 2019. This was below the average of almost 10 per quarter in 2018.

Despite the slow start to the year, investor sentiment rebounded significantly as the financial markets stabilized over the course of the first quarter. Based on the current pipeline of asset on offer, and the continued strength of property fundamentals in most asset classes, strong investment volumes are expected in Q2 2019.

INVESTMENT BREAKDOWN

BY ASSET CLASS

The most active asset classes in Q1 2019 were the industrial, office and multifamily sectors where volumes totaled $1.9, $1.8 and $1.4 billion, respectively. Industrial and multifamily assets continue to be the most sought after property types due to solid real estate fundamentals and favourable underlying demographic and economic conditions.

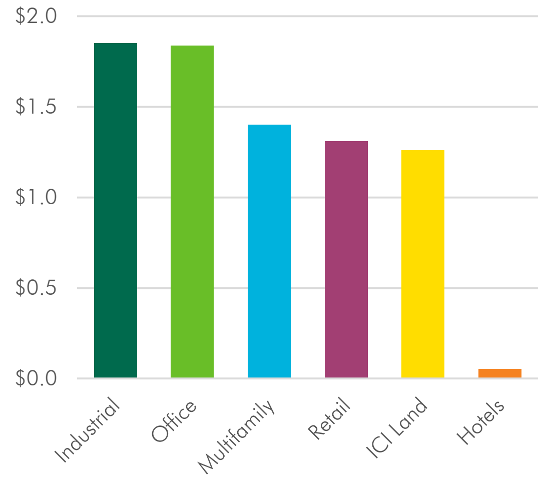
The continued growth of ecommerce has spurred tenant demand for additional logistics, transportation and warehousing space, compressing industrial availability rates to record lows and pushing rents up substantially. For the multifamily sector, continued population growth and rising costs of home ownership in major markets have driven a greater share of the population towards rental housing. Much like in the industrial sector, these market conditions have resulted in exceedingly tight vacancies and inflated rents. Despite the increased demand from investors, supply of quality assets has remained limited. This lack of supply restricted investment volumes in the first quarter to totals similar to those seen over the same period in 2018.

The retail, ICI land and hotels asset classes all experienced more muted quarters with investment volumes totaling $1.3 billion, $1.3 billion and $51.6 million, respectively. These totals were -36%, -19% and -65% lower than those recorded in Q1 2018.

Despite the slower than normal quarter in terms of investment volumes, pricing remained strong across practically every sector in Q1 2019. Each asset class has seen it's average cap rate figure compress since the start of 2017, with the industrial and multifamily sectors seeing the largest boosts due to their aforementioned strong fundamentals.

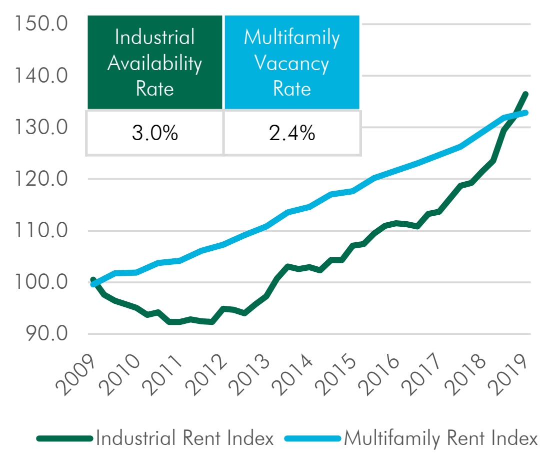
It's expected that transaction velocity and investment volumes will rebound as worries around market volatility dissipate going forward.

Figure 2: Investment Volume by Asset Class ($B) | Q1 2019



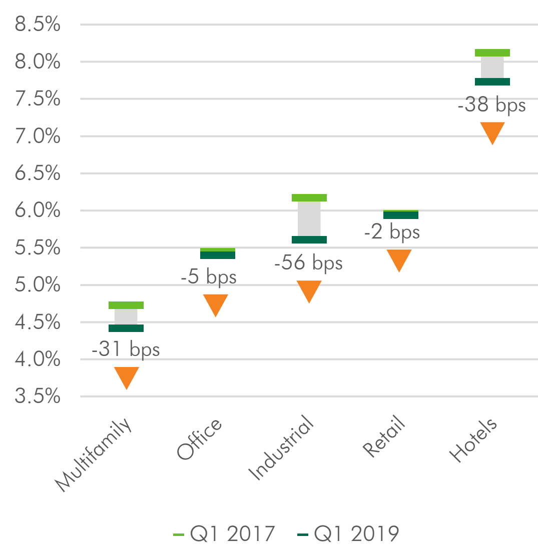
Source: CBRE Research, RealNet Canada Inc., RealTrack, Collette Plante, JLR Land Titles Solutions, Q1 2019.

Figure 3: Key Sector Rent Growth | Indexed to a value of 100 @ 2018



Source: CBRE Research, CMHC, Q1 2019.

Figure 4: Cap Rate Compression | 2-year Comparison



Source: CBRE Research, Q1 2019.

INVESTMENT BREAKDOWN

BY MARKET

Toronto was the most active investment market in Q1 2019 where volumes totaled $2.7 billion. This included the largest transaction in the country which was the sale of Dynamic Funds Tower to GWL, Investors Group and OPTrust for $473.0 million. While Toronto led the nation in terms of investment volume, the Q1 2019 total was -31% below the total recorded in Q1 2018.

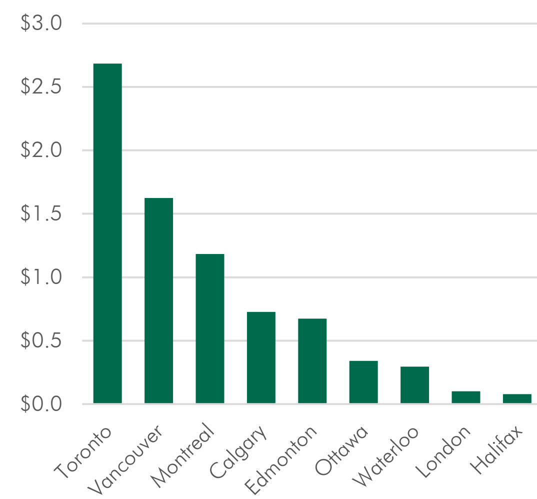
The following most active markets in Q1 2019 were Vancouver and Montreal where investment volumes totaled $1.6 and $1.2 billion. The largest transactions to close in these markets in the quarter were 1075 West Georgia St in Vancouver which was acquired by Reliance Properties, KingSett Capital and Crestpoint for $274.0 million and 7095 Gouin Blvd E in Montreal which was acquired by Desjardins and Cogir for $135.0 million. Much like Toronto, the first quarter volumes for these markets were lower than the totals from Q1 2018, by -20% and -27%, respectively.

While volumes in the three largest markets fell short of their totals from Q1 2018, two markets which outperformed results from last year were Calgary and Edmonton. Acquisition volumes in these markets totaled $726.8 million and $673.9 million in Q1 2019, representing a year-over-year increase of +36% and +17%, respectively.

Finally, investment volumes in Ottawa, Waterloo, London and Halifax all had slower than normal quarters, with volumes totaling less than $350.0 million in each of these markets.

Despite the fact that volumes were down across major markets in Q1 2019, investor confidence improved dramatically over the first few months of the year. Improved confidence, coupled with the impending sale of several high profile assets in Toronto, Vancouver and Montreal in the second quarter, should ensure that volumes for Q2 2019 will be more robust than those seen in the first quarter.

Figure 5: Investment Volume by Market ($B) | Q1 2019



Source: CBRE Research, RealNet Canada Inc., RealTrack, Collette Plante, JLR Land Titles Solutions, Q1 2019.

Figure 6: Notable Transactions | Q1 2019

Sector	Market	Price ($ Millions)	Property/Address	Size (sf / units / acres / rooms)	Purchaser
Office	Toronto	473.0	Dynamic Funds Tower	650,000	GWL, Investors Group, OPTrust
Office	Vancouver	274.0	1075 West Georgia St	349,000	KingSett, Crestpoint, Reliance
Office	Vancouver	208.0	Airport Executive Park	708,000	Fiera
Multifamily	Montreal	135.0	7095 Gouin Blvd E	853	Cogir, Desjardins
Office	Toronto	98.0	56 Wellesley St W	216,000	GWL, Canada Life, London Life
Multifamily	Ottawa	92.0	400 Friel St & 261-281 Laurier Ave E	159	Alignvest Student Housing REIT
Industrial	Calgary	79.6	6075 86th Ave SE, 6060 90th Ave SE & 8801 60th St SE	850,000	Summit Industrial Income REIT
Industrial	Calgary	77.2	7403 48th St SE, 7505 48th St SE & 4639 72nd Ave SE	623,000	Triovest

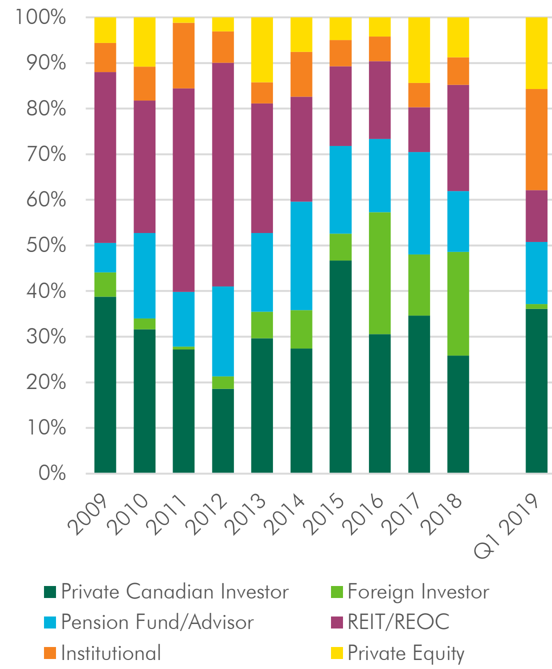
Source: CBRE Research, RealNet Canada Inc., RealTrack, Collette Plante, JLR Land Titles Solutions, Q1 2019.

PURCHASER PROFILE

The most active buyers in Q1 2019 were Private Canadian Investors who accounted for 36% of acquisitions above $10.0 million. The next largest groups over the first quarter were Institutional and Private Equity firms who accounted for 22% and 16% of the market, respectively. These groups were very active over the first part of 2019 and accounted for a significantly larger portion of the market than in recent years. Following the three largest groups were Pension Fund/Advisors and REIT/REOCs who accounted for 14% and 11% of the market, respectively.

Notably absent from the purchaser landscape in Q1 2019 were Foreign Investors, who accounted for only 1% of all deals in the first quarter. While interest from foreign firms has remained robust, it will be interesting to see whether they continue being selective going forward after several years of fairly aggressive acquisition campaigns.

Figure 7: Purchaser Profile



Source: CBRE Research, Q1 2019.

Figure 8: Investment Volume Summary ($ Millions) | Q1 2019

Sector	Vancouver	Calgary	Edmonton	London	Waterloo	Toronto	Ottawa	Montreal	Halifax	Q1 2019	Q1 2018
Office	754.4	71.7	26.6	1.7	5.1	764.4	91.7	118.0	3.6	1,837.2	2,859.3
Industrial	253.7	301.3	181.3	8.2	53.7	772.9	54.2	223.5	1.0	1,849.9	1,885.2
Retail	224.8	127.0	116.7	44.7	57.4	475.6	19.9	225.7	18.0	1,309.8	2,051.9
Multifamily	68.5	123.6	186.9	7.2	107.0	233.5	108.5	532.8	33.0	1,401.2	1,447.5
ICI Land	322.4	97.5	157.6	40.0	63.6	416.7	67.6	78.1	17.1	1,260.7	1,554.2
Hotels	-	5.8	4.8	-	7.7	21.5	-	5.0	6.9	51.6	149.6
Q1 2019	1,623.8	726.8	673.9	101.8	294.5	2,684.8	342.0	1,183.1	79.6	7,710.3	
Q1 2018	2,024.0	533.9	574.2	243.0	436.7	3,940.2	378.7	1,611.9	205.0		9,947.6

Source: CBRE Research, RealNet Canada Inc., RealTrack, Collette Plante, JLR Land Titles Solutions, Q1 2019.

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