

Altus InSite Investment Trends Survey Reports First Hike in Cap Rates since 2009

Altus InSite Q3 2013 Investment Trends Survey Summary Outlook

After reaching a record low 5.55% last quarter, the Altus InSite Investment Trends Survey national Cap Rate (OCR) average shifted upward in Q3 2013. Although modest, the small 8-point increase recorded for the 8-city, 4 property-type average OCR marks the first hike since Q3 2009. Average OCRs increased in 22 out of 32 asset classes and cities included in the Q3 2013 survey.

It is worth mentioning that the survey was conducted in late August, when markets were still expecting the American Central Bank to taper its Quantitative Easing (QE) measures. Speculation surrounding this probability pushed the 10-year Government of Canada Bond yields to 2.7% in early September, up 100 points from its May level. While the rate has since fluctuated following the announcement from the US Central Bank that it postponed its plan and the economic uncertainty created by the Government shutdown in October, the +100 increase is upheld.

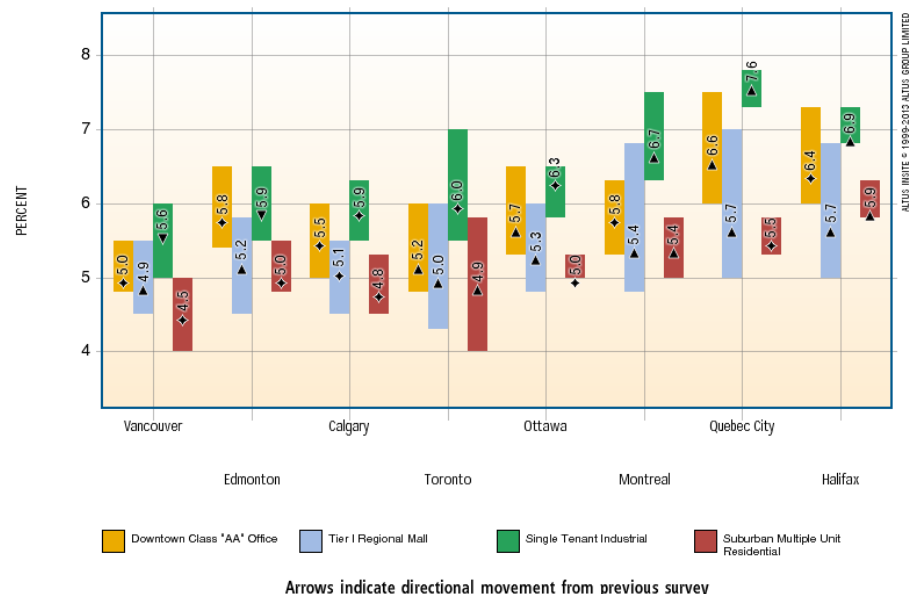
The outlook provided by the Altus InSite Investment Trends Survey respondents for Q3 2013 is in line with the recent changes seen on the financial market. It also confirms a market shift after 4 years of uninterrupted cap rate compression cycle. After reaching a record low 5.55% in Q2 2013, the survey's average 8-city, 4 property-type OCR climbed to 5.63% this quarter. While the increases seen this quarter are small, they are spread across virtually all regions and asset classes.

The Tier 1 Regional Mall Average OCR increased in all eight markets this quarter. The average for this aggressively priced asset class climbed from 5.13% in Q2 2013 to 5.29%, which represents the largest increase this quarter (16 basis points). Other quarter-

over-quarter increases were modest in comparison: the average OCR for Downtown Class AA Office climbed 7 points, to 5.75%; Suburban Multiple Unit Residential rose 6 points and now stands at 5.13% for the 8-city average, and; the rate for Single Tenant Industrial moved slightly (4 points) and now sits at 6.33%.

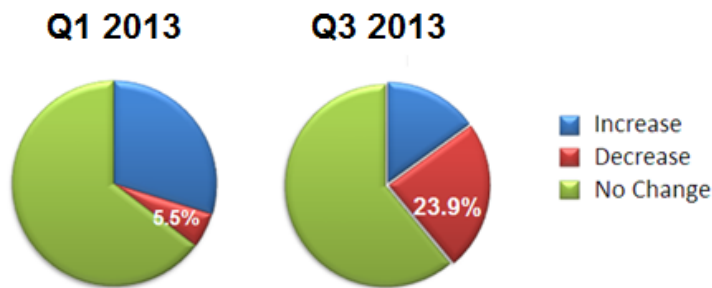
Overall Capitalization Rates

Q3 2013



Another sign of the changing tide is found in the Investor Outlook on value changes over the next 12 months. When asked if they expect values to increase, decrease or remain stable, only 15% of respondents anticipated value increases this quarter compared to almost 30% in Q1 2013. Responses pointing to a decrease in values in the next 12 months jumped from just 5.5% in Q1 2013 to almost 25% of all responses in Q3 2013. It is also interesting to note that according to survey results, Marketing Time, which is the time elapsed between the listing date of an offer to sell and the closing date of a transaction expressed in number of months, is generally longer now than it was in Q3 2012 for all asset classes and cities surveyed.

Investor Outlook



Investors Perspective on values Question:

Please provide your opinion on the Value

Trend for this asset class for the next 12

months. Responses include asset classes and

cities covered in the survey for these 2

quarters..

Let the Future Unfold

The survey results show that the rise of bond yields this summer had an impact on real estate investor outlook and expectations. The increased cost of financing on the stock market for most REITs is also a factor to consider, as it has eased bidding wars for desired asset classes. Many signs indicate we are approaching the end of a cycle and we look to future Investment Trends Surveys to gage further progress, once the current political and financial turmoil south of the border has cleared.

Every quarter, senior Altus Group professionals reach out to over 300 investors, managers, owners, lenders, analysts and other market stakeholders to survey their opinion on value trends and perspectives. Conducted with the same benchmark properties for over 10 years, the survey provides valuable insights on valuation parameters for 32 asset classes in Canada's 8 largest markets. For more detailed survey results, please contact support@altusinsite.com.