Investment Trends Survey

Sondage sur les tendances du marché de l'investissement

Q1 2018

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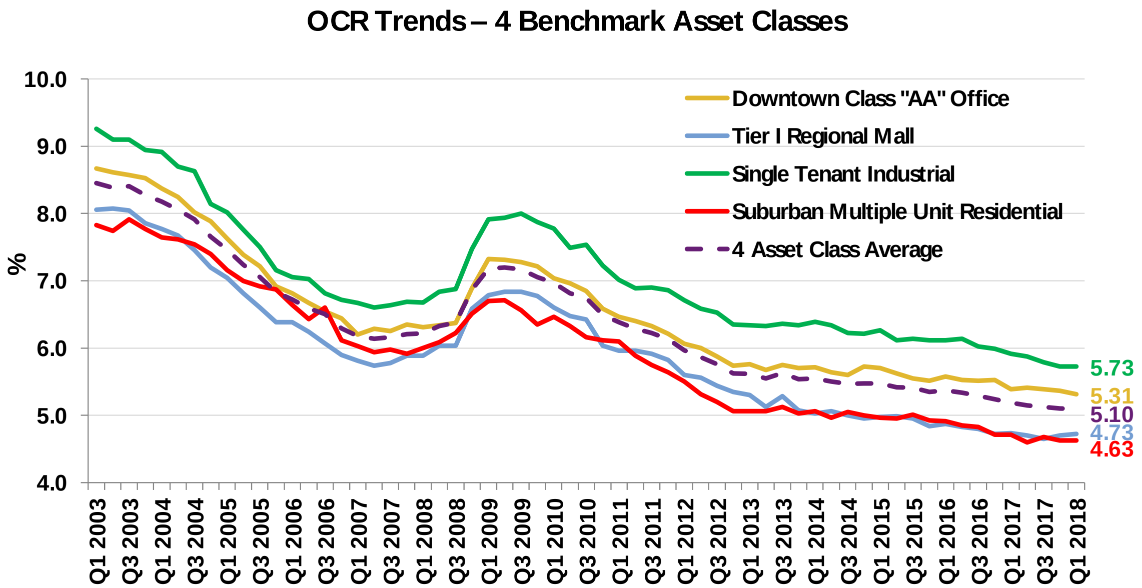
Investor demand continues to be strong, but overall cap rates appear to have flattened

The Investment Trends Survey participants expect demand for real estate to continue to be strong despite the increase in borrowing costs in 2018. The four Benchmark asset classes show the average Overall Capitalization Rate (OCR) remains unchanged at 5.10% in Q1 2018 compared to Q4 2017. A wave of capital is chasing a limited number of available investment assets. Based on the Q4 2017 investment activity volumes, foreign investment interest remains strong especially from the U.S. Europe and Asia.

Source: Altus Group

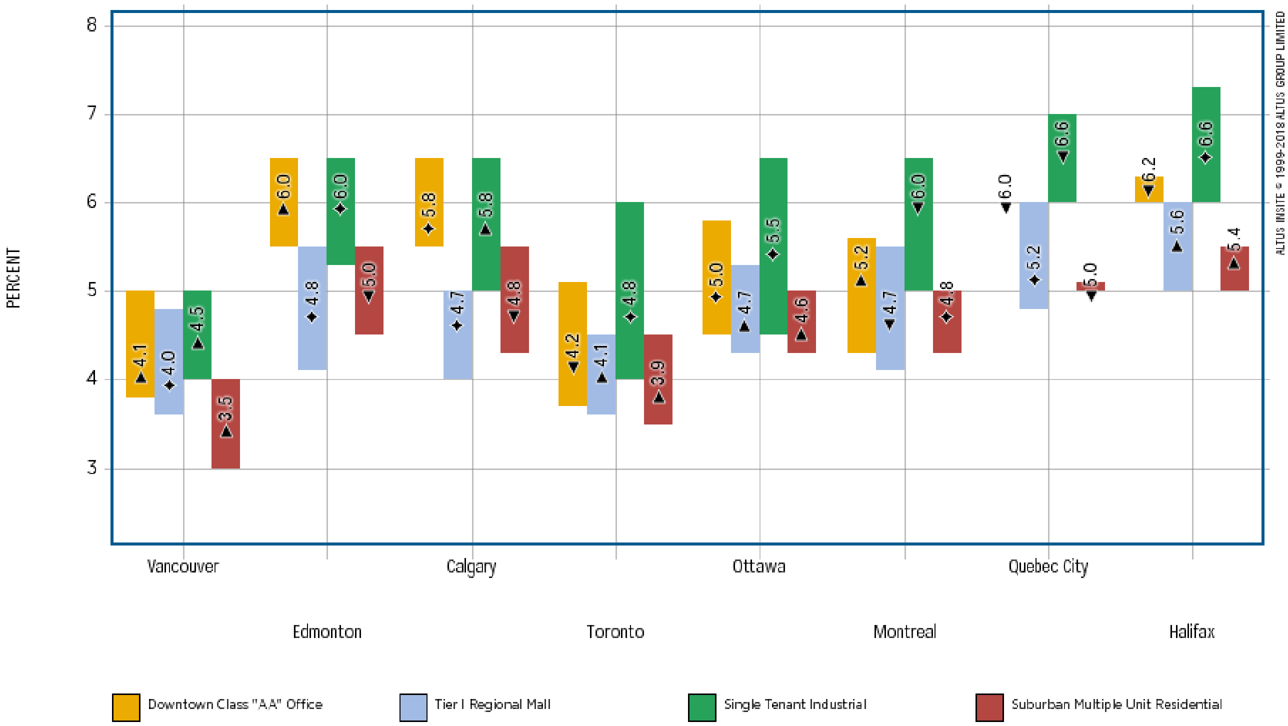


Market highlights for the quarter include:

- **Vancouver average overall cap rates for office, industrial and multi-unit residential were up slightly and remain flat for tier 1 regional malls**. This marks a directional change for Vancouver after years of steady declines in cap rates.
- **The worst may be over for Alberta with Calgary and Edmonton's cap rates which have for the most part been flat**, with the exception of suburban multiple unit residential for both markets cap rates continue to decline.
- **Toronto downtown Class AA office cap rates continue to compress**, this is reflective of the record low vacancy rate and the lack of available space for tenants and strong rental rate growth. Cap rates for tier I regional mall and suburban multiple unit residential product are up slightly.
- **Montreal Investment activity continues to be strong**, as investors continue to seek higher returns compared to Toronto and Vancouver. Cap rates for tier 1 regional malls and industrial product continue to decline.

Overall Capitalization Rates

Q1 2018



Arrows indicate directional movement from previous survey

Movement is defined as a change of more than 0.10 and due to rounding some arrows may not reflect actual movement.

Other highlights for Q1 2018 include:

- **Canadian investors remain on average in a “buy” mode**. Of the 128 combinations of products and markets covered, 68 had a positive momentum ratio (i.e. a higher percentage of respondents said they were more likely to be a buyer than a seller in that particular segment), 51 a negative momentum ratio and 9 were neutral. The overall momentum ratio was down from last year. Vancouver and Montreal tier 1 regional malls showed the most positive momentum.
- **Office cap rates across Canada** remains flat to a slight decline for class AA assets, this is reflective of over 70% office tenant retention rate nationally. In downtown class AA office the tenant retention rates are over 80%.
- **National internal rate of returns are mostly decreasing**, reflecting stabilizing cap rates and low availability in most of the asset types, especially in suburban multi-unit residential.

Every quarter, senior Altus Group professionals reach out to over 200 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 more than 15 years, the survey provides valuable insights on investor preferences and valuation parameters for 32 asset classes in Canada’s 8 largest markets. For more detailed survey results, please contact datasolutionsinfo@altusgroup.com.