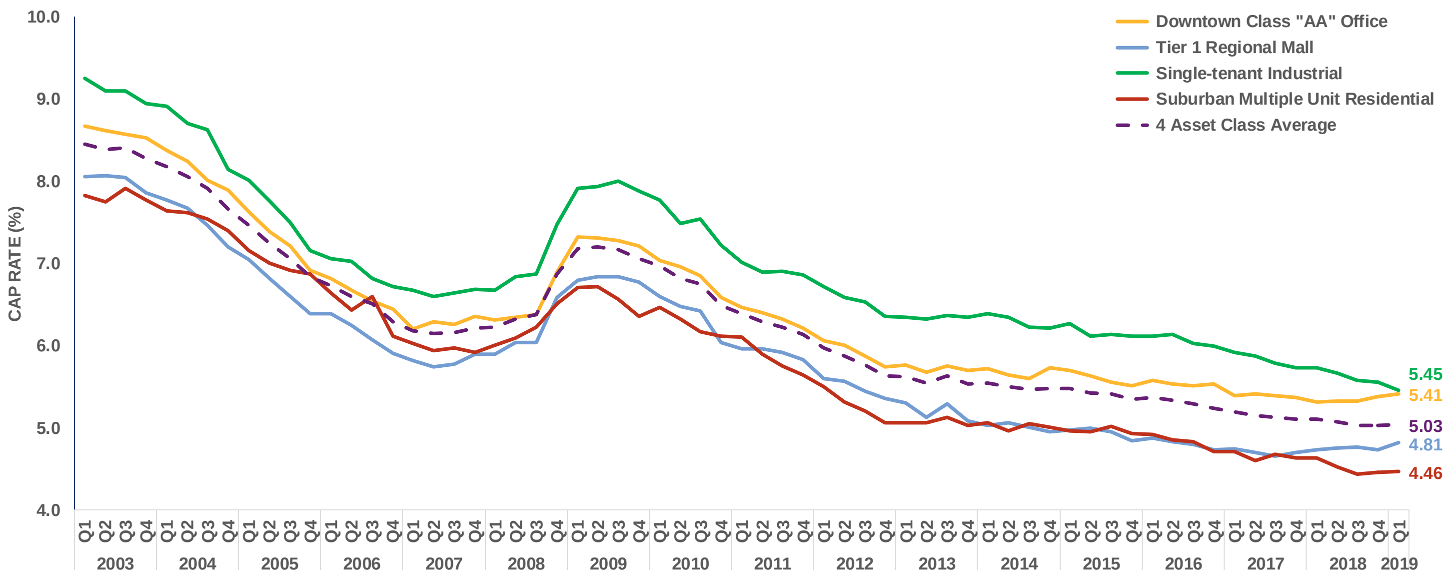
Investment demand continues to be strong across Canada and overall cap rates continue to remain steady across Canada

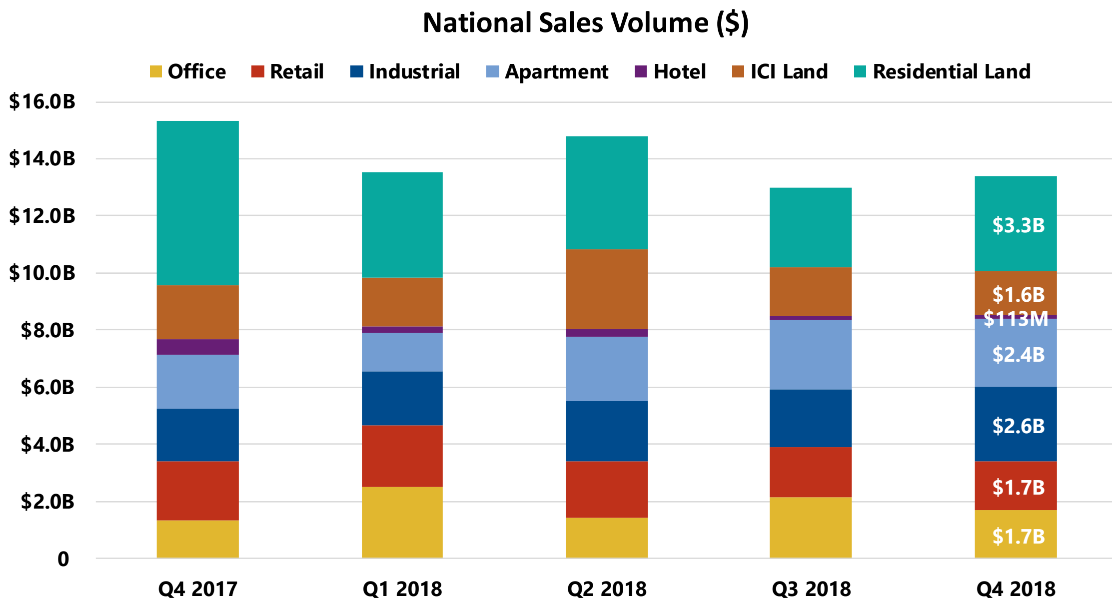
The latest results from Altus Group's Investment Trends Survey (ITS) for the 4 Benchmark asset classes show that the overall Capitalization Rate (OCR) has continued to keep the year-over-year momentum from 5.10% in Q1 2018 to 5.03% in Q1 2019 and has once again remained unchanged for the third consecutive quarter. Investment demand for Canadian commercial real estate continues to be strong across Canada despite uncertainties around the political climate, US-China trade conditions, the ratification of the USMCA, and ambiguity over future interest rate hikes. The Bank of Canada (BoC) retained a dovish tone at the start of 2019 and has held interest rates steady at 1.75% since October 2018. However, more subdued hikes can be expected, but the timing is uncertain. It is no surprise, therefore, that a mismatch between supply and demand due to product shortages and the strengthening demand for quality assets in core markets translated to a slight decline in overall investment transactions by 13% compared to the previous year. Despite the pace of investments, investors continue to sharpen their focus on potential higher-yielding real estate opportunities in peripheral markets as well as repurposing distressed or underutilized assets.



<u>Market highlights for the quarter include:</u>

- **High demand for good quality commercial real estate assets from both domestic and foreign investors continues to steadily push down cap rates in top-tier markets. Furthermore, strong investment activity in larger markets like Montreal and Edmonton have also contributed to the downward trend.** Year-over-year overall cap rates for Calgary and Halifax moderately increased, Edmonton remained flat, Montreal showed the largest decline, while all other markets have slightly compressed.
- **Trophy assets in core markets continue to be in high demand amid the lack of new supply and existing out-dated assets. As tenant demands heat up, vacancy rates continue to fall across most markets exerting upward pressure on rental rates.** On a year-over-year comparison, the overall cap rates for downtown Class "AA" office have slightly increased with Edmonton, Calgary, and Halifax cap rates spiking upwards while Toronto and

Ottawa showed modest increases. Although Vancouver and Montreal showed the greatest cap rate compressions compared to all other markets, the increases were minimal.



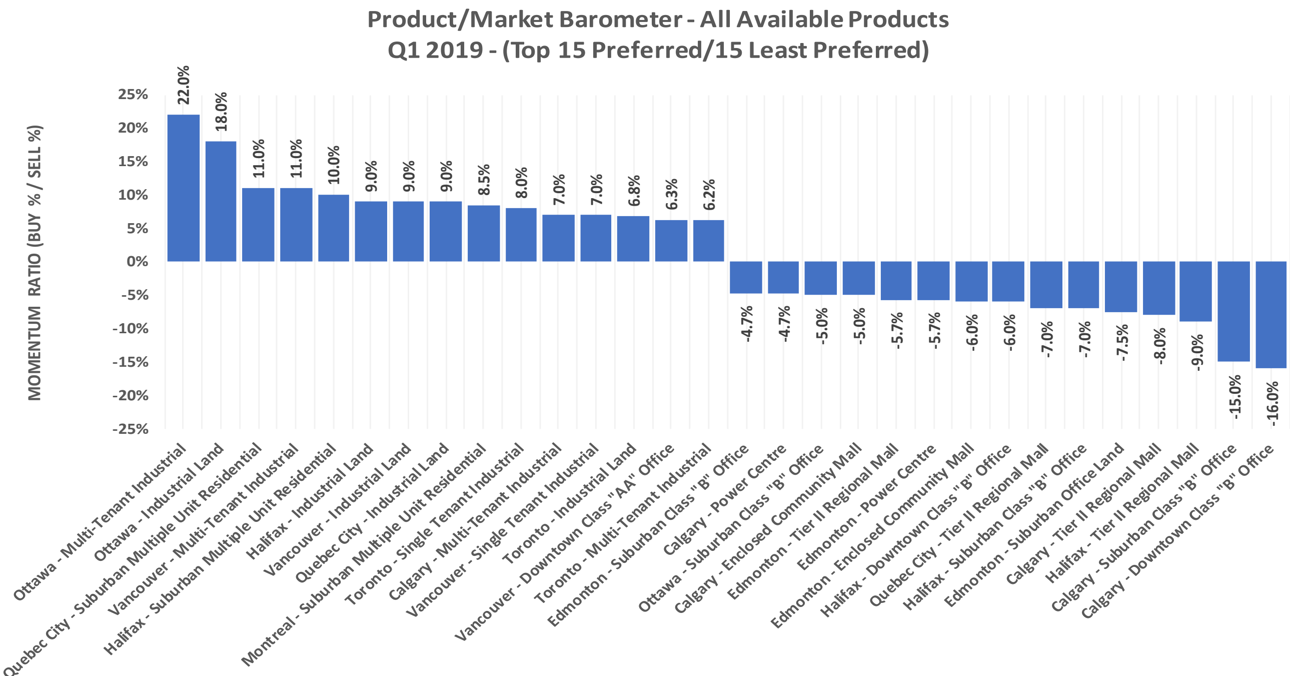
Source: Altus Group's RealNet Investment Transactions

- **Investors remain particularly confident in industrial assets amid land and product shortages. And with rising rental rates, high occupancy rates and consistent returns, it is a landlord's market. With the continued expansion of e-commerce, cannabis production and growing interest from other potential users, it is expected that demand for additional space will outpace new supply in the next few years across well-situated markets.** Cap rates for single-tenant industrial product have gone down in most major markets since the previous quarter with Vancouver and Montreal encountering the most significant drop since the beginning of last year, while Edmonton, Calgary, and Halifax showed moderate increases.
- **Changing retail and lifestyle trends are creating new opportunities for retail assets largely due to their prime locations near major transit hubs and road networks. Many properties are also undergoing intensification, emphasizing a mixed-use approach by combining retail with residential and commercial uses to bring added value to their assets and maximize potential returns.** The Tier I Regional Malls sector witnessed slight cap rate increases across most markets with the largest increase in Quebec City and Halifax. Edmonton was the only market that showed a slight decline, with steady cap rates in Vancouver and Calgary compared to the previous quarter.
- **The housing affordability saga continues across pricey markets like Toronto and Vancouver along with positive population growth further strengthening demand in the suburban multi-unit residential housing market. Investors continue to chase opportunities and stable returns in secondary and tertiary markets.** The average cap rates in suburban apartment stock have gone down in all markets since last year ranging from 3.5% to 5.2%. Quebec City was unchanged at 5.0%. Ottawa and Montreal showed the largest decline, with Montreal having the strongest fourth quarter for Apartment investment volume in 2018, second to Toronto for the year.

Other highlights include:

- **Of the 128 combinations of products and markets covered in the Investment Trends Survey,**
  - 69 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) compared to 67 in Q4 2018; 54 had a "negative" momentum ratio compared to 58; and 5 were neutral compared to 3.

- The products/markets which showed the most positive momentum, respectively, were:
  - Ottawa Multi-Tenant Industrial and Industrial Land; Vancouver Multi-Tenant Industrial; Quebec City and Halifax Suburban Multi-Unit Residential; Vancouver, Quebec City, and Halifax Industrial Land; Montreal Suburban Multi-Unit Residential; and Toronto and Vancouver Single Tenant Industrial.



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.