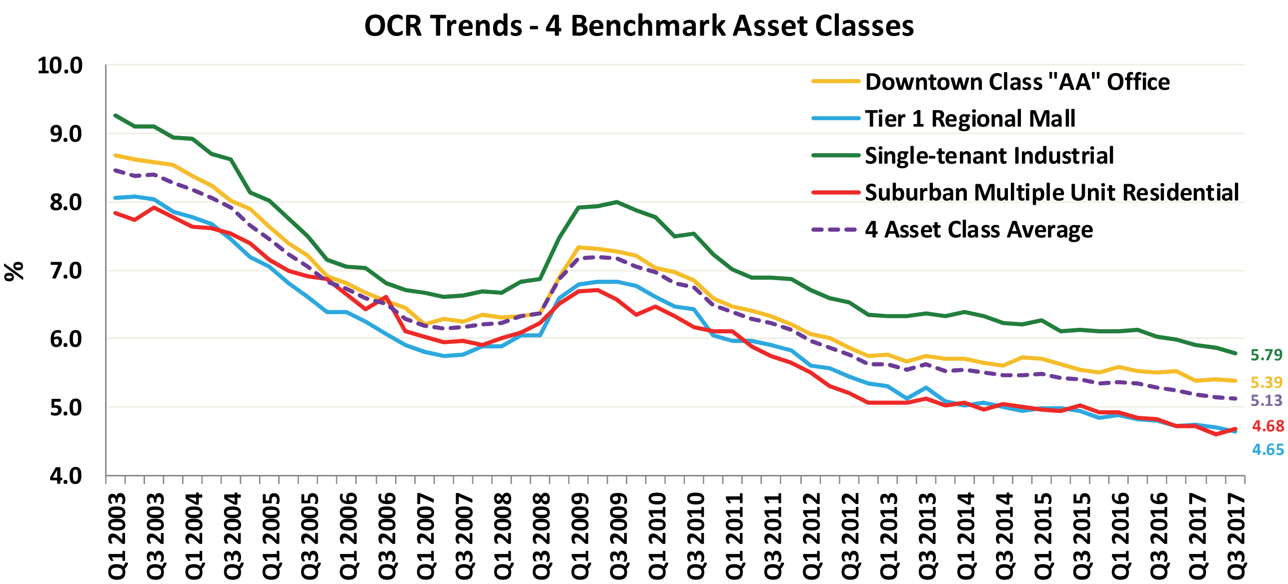
Downward Trend in Overall Cap Rate Continues

The latest results from the Investment Trends Survey for the 4 Benchmark asset classes show the average Overall Capitalization Rate (OCR) at 5.13% in Q3 2017, down slightly from 5.15% in Q2 2017 and 17 basis points lower than a year ago. The cap rate for the benchmark residential property bumped up, while industrial posted the largest quarter-to-quarter decline. The retail and office benchmark properties posted moderate declines.



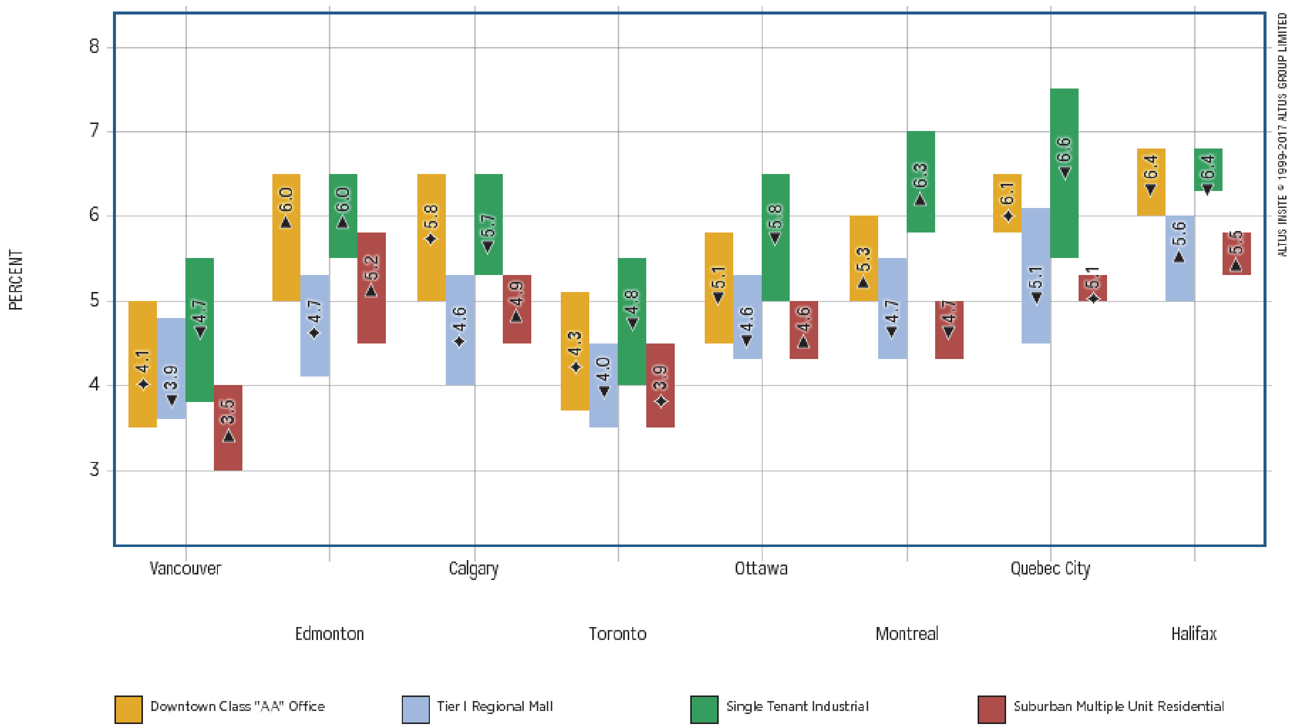
Source: Altus Group

Market highlights for the quarter include:

- **Trends in overall cap rates varied by market** – with quarter-to-quarter declines in Toronto, Ottawa, Montreal and Quebec City, stability in Vancouver, Calgary and Halifax, and some increase in Edmonton. Vancouver and Toronto continue to be the only markets with overall cap rates below 5%.
- **Montreal was the outlier for multi-unit residential, the only market to post a decline.** Despite increases, the average residential cap rate provided for Vancouver and Toronto remains below 4%.
- **Toronto industrial posted the largest year-over-year decline in cap rates** of the various market/asset class combinations – down 60 basis points.

Overall Capitalization Rates

Q3 2017



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 Q3 2017 include:

- **Canadian investors remain on average in a "buy" mode**. Of the 128 combinations of products and markets covered, 74 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), 52 a negative momentum ratio and 2 were neutral. Vancouver Multi-Tenant and Single Tenant Industrial showed the most positive momentum.
- **The largest perceived threats to investment in multi-unit residential are now legislative changes and debt costs** – not surprising after Ontario's announcement earlier this year of the extension of rent controls to newer buildings, and the fact that interest rates are now starting to move up. **The top motivation for office investment is still cash flow upside/growth.**
- **Downtown office space in Calgary is expected to stay vacant upon lease expiry for 2 years on average for Class B space.** ITS survey respondents on average anticipate downtown office vacancy will continue to increase in Calgary over the next 3 months.

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.