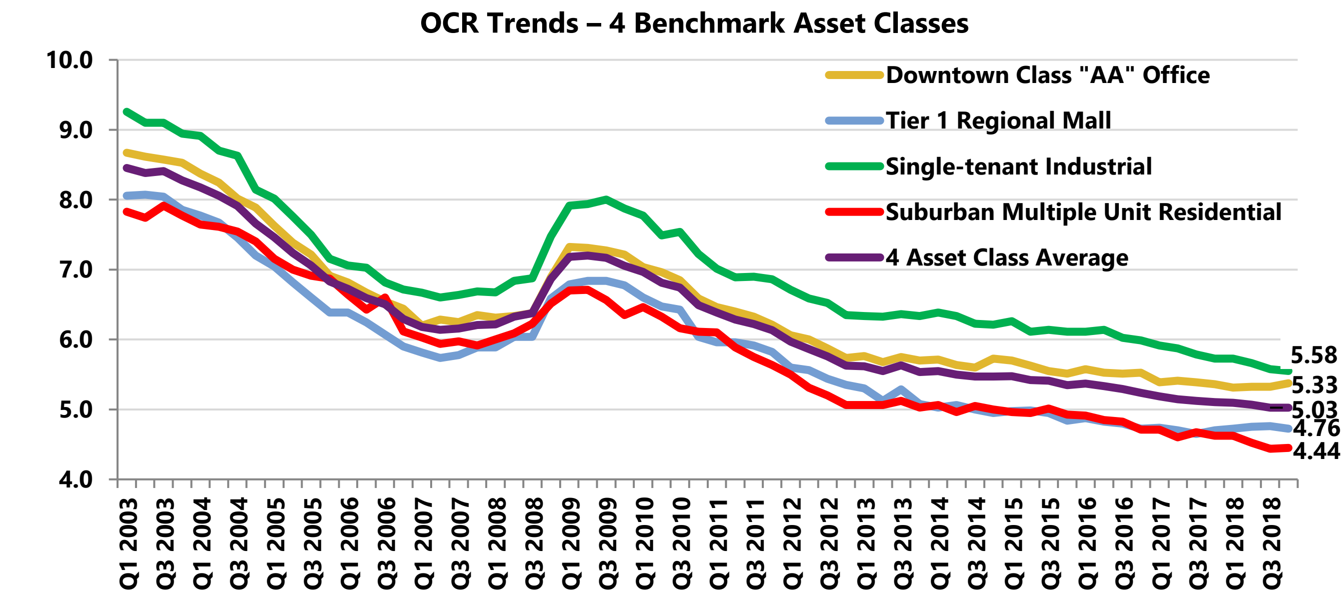
Despite 2018 increases in interest rates, overall cap rates and investment demand have not been impacted

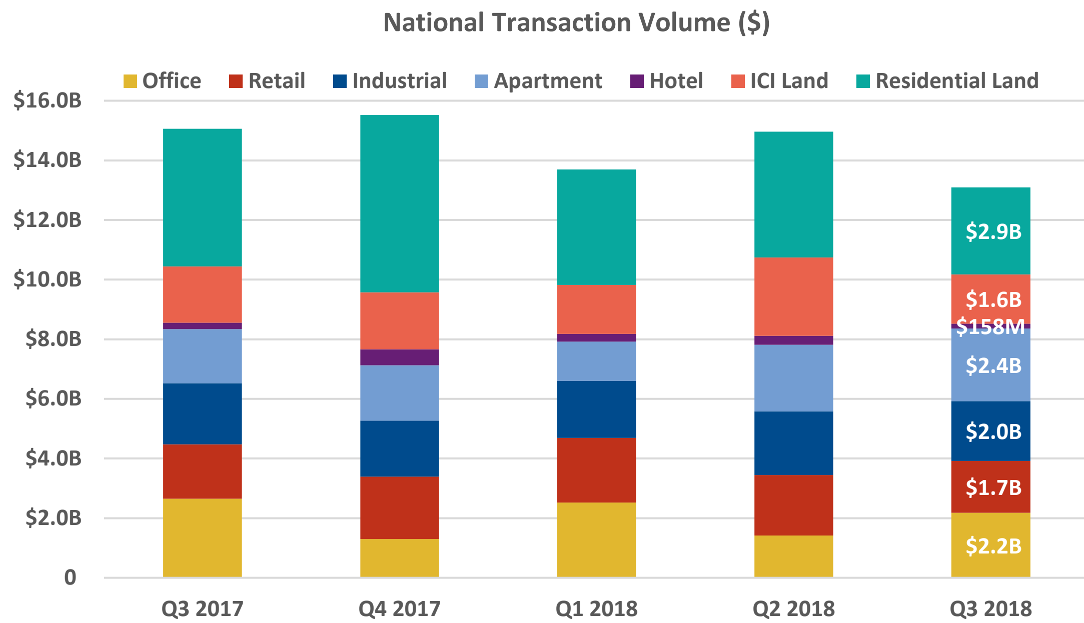
The latest results from Altus Group's Investment Trends Survey (ITS) for the 4 Benchmark asset classes show that the overall Capitalization Rate (OCR) has tightened slightly year-over-year from 5.10% in Q4 2017 to 5.03% in Q4 2018 and has remained unchanged from the previous quarter. The recent minimal increase in interest rates have not impacted cap rates thus far. It is likely that the Bank of Canada (BoC) may continue to raise interest rates in 2019 but will also adopt a more cautious tone. The overall flow of capital into the commercial real estate sector is down slightly from last year amid ongoing product shortages. Investors continue to seek attractive investment opportunities and potential real estate operating company acquiistions.



Source: Altus Group

Market highlights for the quarter include:

- **Year-over-year overall cap rates for Ottawa have moderately increased and Halifax has remained the same, while all other markets have slightly compressed.** Large institutional investors remain competitive and continue to seek the best opportunities in other attractive markets while also reinvesting in their existing portfolio. The challenge is finding a large enough acquisition opportunity in smaller markets.
- **Downtown Class "AA" office cap rates for Vancouver, Edmonton, Calgary, and Quebec City have gone up versus last quarter, Ottawa and Montreal remain flat, and Toronto and Halifax take a slight dip.** Although available high quality office assets remain scarce, demand continues to be strong as overall office investment improves in Q3. Investors also consider repositioning their underperforming assets.



Source: RealNet Investment Transactions

- **The Tier I Regional Malls sector witnessed cap rate compressions in most markets except for a slight increase in Montreal and Halifax, and a steady cap rate in Quebec City.** Retail property owners continue to intensify and repurpose their assets and advance towards more transit-oriented and mixed-use development in an effort to maximize potential returns on assets.
- **Interest in industrial suburban product remains robust as investors view this sector as a continuing sure bet, especially with continued strong growth in the e-commerce sector and the need for last mile distribution facilities. Demand for product continues to rise despite limited product availability. Several developers are constructing build-to-suit facilities to accommodate the increase in demand.** Overall cap rates declined in Vancouver, Calgary, Toronto, and Halifax**.** Ottawa, Montreal, while Quebec City experienced marginal increases, and Edmonton remains unchanged this quarter.
- **Overall suburban multi-unit residential cap rates showed little change from last quarter. Lower cap rates in Ottawa followed strong investment activity in Q3.** The high costs of home ownership and rising interest rates have increased the demand for rental units. As demand for multi-residential housing strengthens, investors continue to look towards secondary and tertiary markets for investment opportunities with stable returns.

Other highlights include:

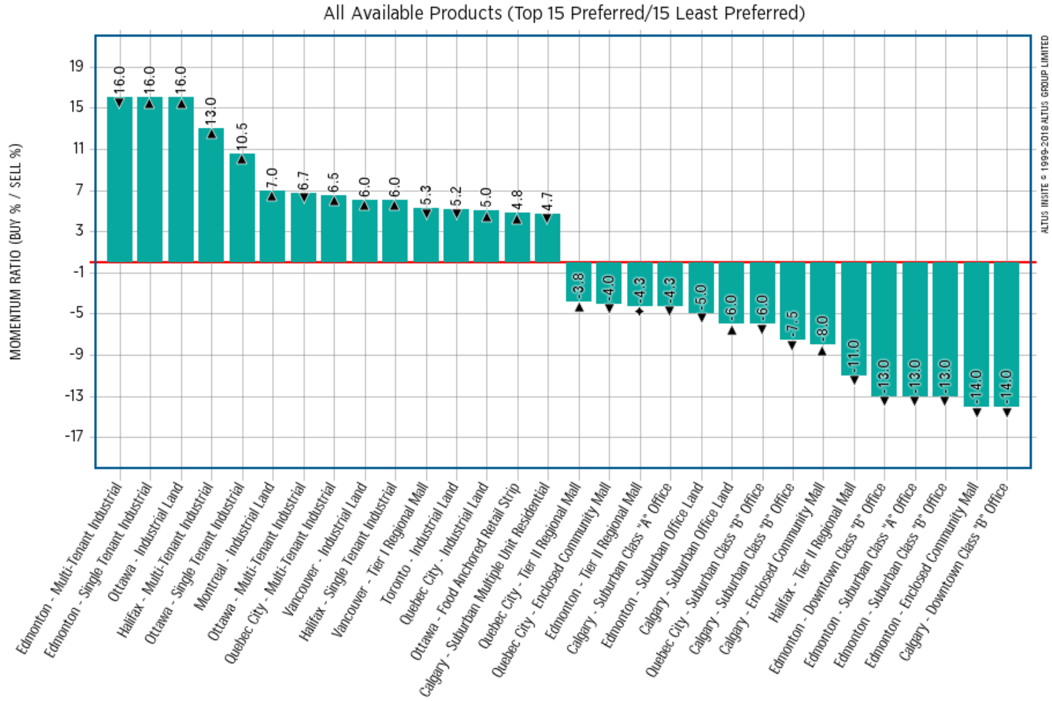
- Although the BoC maintained its overnight interest rate at 1.75%, concerns around emerging trade conflicts, slow economic growth, and falling oil prices remain.
- Production cuts in oil in the coming months are expected to push up prices to balance supply and demand. The reduction in output may impact other areas of the energy sector and the overall economy reducing GDP growth, but is expected to rebound by late 2019/2020.

- According to RealNet investment transactions results, overall transaction volume in Q3 2018 has fallen by almost $2B since Q3 3017 largely due to the gradual interest rate hikes and heightened uncertainty around NAFTA trade negotiations. However, with the signing of the USMCA, new federal tax incentives and rising demand, commercial investment outside the energy sector is expected to gain strength.
- **Of the 128 combinations of products and markets covered in the Investment Trends Survey**,
    - 67 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 70 in Q3; 58 had a "negative" momentum ratio compared to 50 in Q3; and 3 were neutral compared to 8 in Q3.
- **The 5 products/markets which showed the most positive momentum were**:
    - Edmonton Multi-Tenant Industrial and Single Tenant Industrial, Ottawa Industrial Land and Single Tenant Industrial, and Halifax Multi-Tenant Industrial.

Product/Market Barometer - Current Quarter

Q4 2018

All Available Products (Top 15 Preferred/15 Least Preferred)



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.