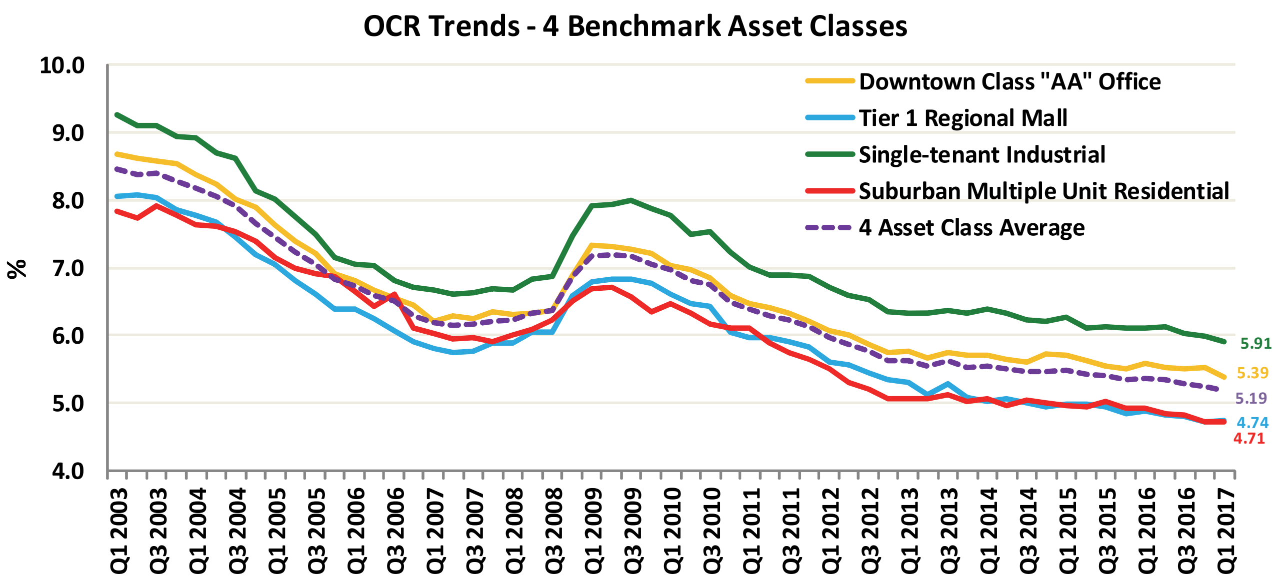
No Bottom Yet in Overall Cap Rates

The latest results from the Investment Trends Survey for the 4 Benchmark asset classes show the average Overall Capitalization Rate (OCR) at 5.19% in Q1 2017, down slightly from 5.24% in Q4 2016 and 18 basis points lower than a year ago. The overall cap rate for office showed the largest decline from Q4 2016. The overall cap rate for industrial was also down, while retail and multi-unit residential held steady.



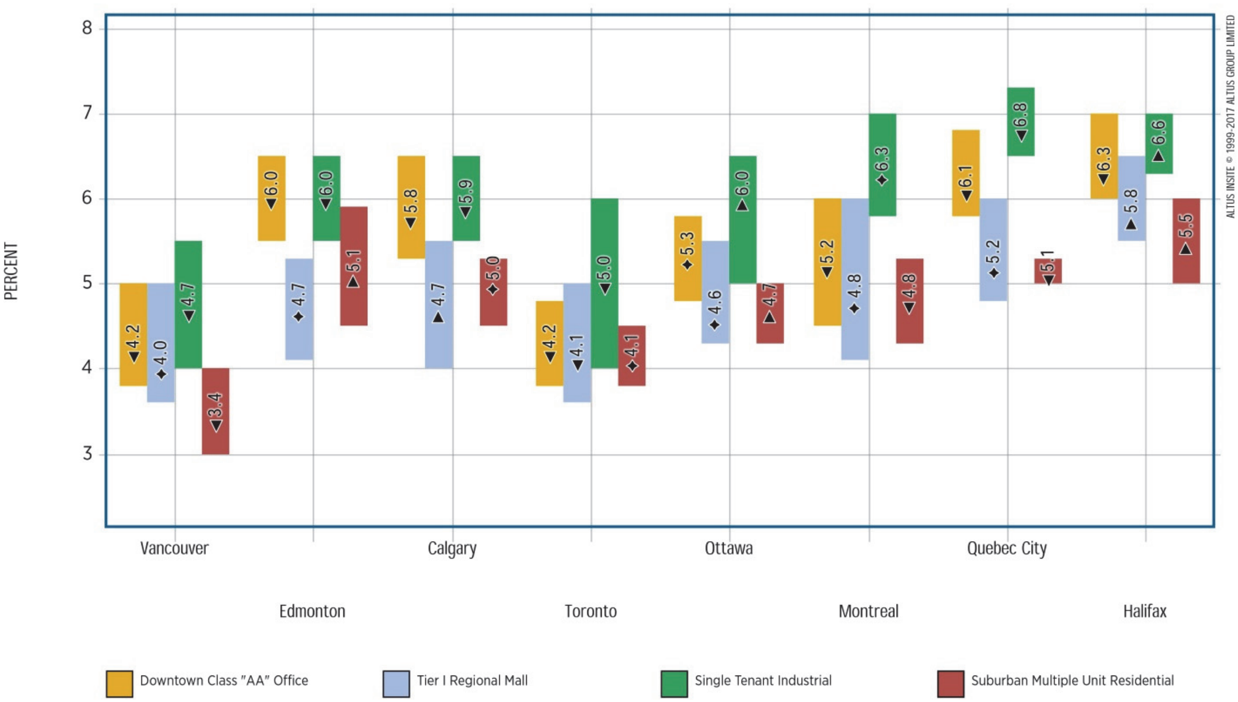
Altus Group (Q1, 2017)

Market highlights for the quarter include:

- **Overall cap rates moved down in 6 of the 8 markets.** Ottawa and Halifax were the exceptions, with **Ottawa reversing some of the decrease** from last quarter and **Halifax holding steady**.
- **This was the second quarter in a row that the Calgary overall cap rate moved down (to 5.35%)**, declines for office and industrial more than offset a modest increase for retail.
- **The gap in overall cap rates between Vancouver and Toronto vs. the other 6 markets continues to widen:**
  - In Q1 2017, the Vancouver overall cap rate, at 4.1% was about 140 basis points below the 6 market average excluding Vancouver and Toronto; in Q1 2014, that gap was about 80 basis points.
  - Similarly, the current gap between Toronto's overall cap rate of about 4.4% and the 6 markets is about 115 basis points, compared to about 60 basis points 3 years ago.

Overall Capitalization Rates

Q1 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 Q1 2017 include:

- **Canadian investors remain on average in a "buy" mode**. Of the 128 combinations of products and markets covered, more than half 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). Tier 1 Regional Malls in Toronto and Ottawa showed the most positive momentum.
- **"Stability of Income" was identified as the prime motivation for retail investment**, followed by "stability of value versus other asset types".
- **More respondents now expect the cost of debt to increase over the next 3 months** – one-third or more (depending on asset type) compared to less than 15% six months ago.

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.