IPA | INSTITUTIONAL PROPERTY ADVISORS

A DIVISION OF
MARCUS & MILLICHAP, BROKERAGE

2023 CANADA

NATIONAL INVESTMENT FORECAST

TO OUR VALUED CLIENTS

Canada's commercial real estate industry emerged from the pandemic with strength and momentum that will likely carry into 2023. Healthy underlying fundamentals across most property types and regions should backstop the transaction market, which has been slowed by rising interest rates. While many investors have taken a wait-and-see approach as they monitor borrowing costs, activity will likely revive once economic uncertainty dissipates. Despite headwinds, strong underlying performance metrics should unlock a considerable volume of capital as uncertainty abates.

The industrial sector is expected to remain a top-performing asset, driven by an uptick in onshoring, coupled with ongoing e-commerce-related demand. Multifamily is also expected to garner significant attention due to subdued supply and a record number of immigrants anticipated next year, which will further drive rental demand. Lastly, the return of group and corporate travel, coupled with a strong U.S. dollar, will bode well for both the hotel and retail industries.

The uptick in immigration expected next year will also benefit a slowing economy in the early parts of 2023. This influx of new residents will partially mitigate the nation's labour shortages, helping to fuel job gains and consumption. While growth is expected to be modest in the first half of the year, real estate should be well positioned to weather a short-term economic slowdown, should it come.

As the coming year unfolds, evolving economic, societal and market dynamics will create new opportunities for both buyers and sellers. We hope this report provides useful insights to help you define your strategies and navigate the emerging landscape. As you recalibrate and adapt to the emerging trends, our investment professionals look forward to assisting you in meeting your goals.

Sincerely,

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Developed by IPA Research Services. IPA is a division of Marcus & Millichap, brokerage. Additional contributions were made by IPA and Marcus & Millichap investment brokerage professionals nationwide.

Calgary

- The Calgary industrial market is rising in prominence for both builders and tenants, due to the metro's favourable geography, cost advantages, less restrictive development policies and the relatively abundant amount of land. The metro, as a result, has the potential to provide supply relief to Canada's tight industrial sector. Calgary is set to lead the nation for percentage growth rate in inventory.
- New employment opportunities in the emerging tech sector will further the need for Class A, centrally-located apartments. With a wealthy consumer base beginning to form, due to robust wage growth potential and the affordable nature of Calgary, economic growth remains a possibility.

Edmonton

- Edmonton focuses on the service of existing oil projects, making the economy less responsive to volatile energy prices. With a possible uptick in oil production this year, service sector employment and inter-provincial migration should persist, bolstering lower-tier apartment demand.
- Edmonton has a diverse economy with a large government presence, as well as a young and educated labour pool that is aided by the University of Alberta. This skilled workforce is establishing a strong footing in the healthcare sector and is creating an emerging environment for tech startups. Both industries have high-wage growth potential, fueling demand for upper-tier apartments, as well as retail leasing activity.

Montreal

- In 2023, international tourists and leisure demand, coupled with the reemergence of corporate travel are expected to drive the hospitality sector due to the relatively strong U.S. dollar and the vast amount of city-wide events such as the Grand Prix and the International Jazz Festival.
- The more affordable nature of Montreal and ample education opportunities promotes strong immigration, which acts as a backstop to apartment fundamentals in times of uncertainty. With this trend expected to continue, due to the return of in-person learning and Canada's elevated immigration targets, the multifamily outlook remains optimistic. An influx of new supply, however, may dampen fundamentals in the near term.

Ottawa

- With the presence of the federal government, Ottawa is likely to avoid severe job loss in the coming year with a possible recession on the horizon. This stable employment base should keep the labour market relatively healthy, acting as a safeguard for the office and multifamily markets.
- Ottawa is located in the middle of Toronto and Montreal, Canada's two largest cities, making it an ideal location for logistics companies to hold inventory and deliver products quickly. This geographic advantage should keep industrial fundamentals sound, especially given the anticipated uptick in onshoring over the coming years, as the metro is a prime location to hold increased inventories and manufacture goods domestically.

Southwestern Ontario

- A large portion of industrial companies are turning to Southwestern Ontario as an alternative option, due to its cost-savings benefits, the more readily available development land and its close proximity to the U.S. Additionally, during the pandemic, many people left urban cores for more suburban areas like Southwestern Ontario, creating a healthy labour pool that supports industrial activity and expansion.
- Population growth also bodes well for the apartment rental sector. With a possible recession on the horizon, households will likely search for cheaper living options as ownership, and in some cases rent, becomes unaffordable, making this region an attractive area for young families.

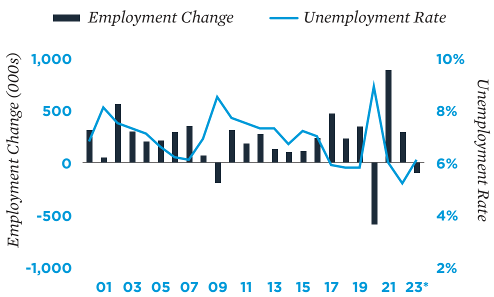
Toronto

- Economic headwinds will further impede housing supply as developers question the feasibility of projects. With still-elevated home prices and highly indebted households furthering the need for rentals, a supply and demand imbalance will support multifamily fundamentals.
- Last year, transient leisure travel fueled the hospitality sector's recovery. This year, however, with Toronto being the business hub of Canada, coupled with the return of almost all city-wide events, the hospitality sector is set to benefit further from the return of corporate and group travel, as both remain below pre-pandemic peaks and are set to return to 2019 levels this year.

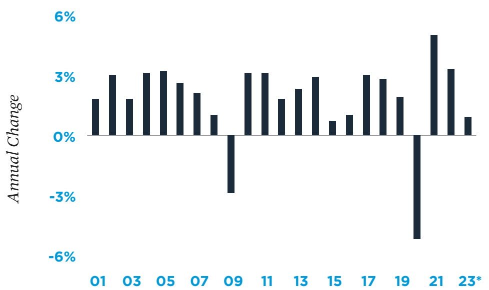
Vancouver

- Softening employment growth, along with a slowdown in consumer spending, will likely impact the retail sector. Nonetheless, Vancouver is Canada's tightest retail market, which combined with an affluent consumer base, should allow the sector to withstand an economic slowdown.
- Although Vancouver has large concentrations of wealth, the province as a whole is the most indebted in the country, with real estate capturing a disproportionate share of household wealth, making Vancouver highly vulnerable to rising interest rates. This aspect of the economy further highlights the need for purpose-built rental apartments, and with the recently-elected ABC party, an uptick in development activity is expected.

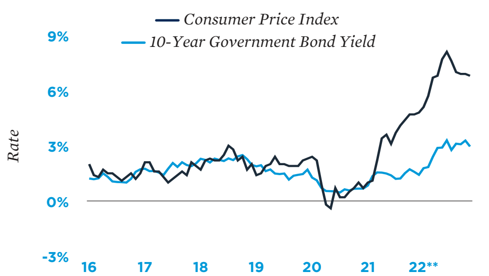
Employment vs. Unemployment



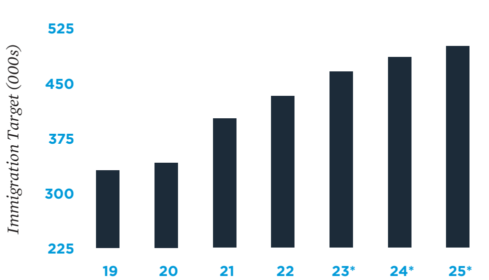
GDP Change



Inflation Reaches Record High, Beginning to Slow



Canada Ramps Up Immigration



** Forecast; ** Through November*

Sources: Capital Economics; Statistics Canada; TD Economics

Uncertainty and Elevated Borrowing Costs Dampen Outlook; Immigration Remains a Foundation for Growth

Labour market likely to begin showing cracks. Canada's unemployment rate reached a historic low last year of 4.9 per cent, which was 70 basis points below the mark seen prior to the global health crisis. While unemployment fell due to robust job creation, it also dropped because of a decline in the labour force participation rate, which provides a deeper insight into the state of the economy by accounting for unemployed residents not actively searching for work. This was due to an increased level of retirements and people halting their job search, causing widespread labour shortages for low-paying service sector jobs, as well as an abnormally subdued unemployment rate. Looking forward, given the expected slowdown in labour demand due to a potential recession on the horizon, the underlying economic dynamics will not be sufficient to generate enough jobs to absorb people re-entering the labour force who are now seeking a source of income as household budgets tighten. With this slowdown in labour demand and the uptick in participation, it is anticipated that the unemployment rate will rise to roughly 6.3 per cent by year-end, which is 70 basis points above the pre-pandemic level. Nonetheless, due to the record level of job vacancies stemming from widespread labour shortages, employment losses this year will likely not offset the gains witnessed in 2022.

Taming inflation to remain a focus for the Bank of Canada. Last year, Canada's economy experienced price growth not seen since the early 1980s, with inflation peaking at 8.1 per cent year-over-year. Accelerating prices were a byproduct of pent-up demand, government stimulus, supply chain bottlenecks and elevated energy prices, stemming from the global health crisis and the war in Ukraine. As a result, the BoC hiked its overnight rate seven times in 2022, ending the year at 4.25 per cent, up 400 basis points. In 2023, inflation is projected to return to a more sustainable level, with the help of easing supply chain disruptions, lower energy prices and moderate economic growth. The general consensus among Canada's major banks is that inflation figures are likely to reach 2.6 per cent by year-end. In terms of the overnight rate, the BoC will likely maintain it in the range of 4.25 per cent to 4.50 per cent through the year, and begin reducing it back toward a more neutral level starting in the final quarter of 2023.

2023 Canadian Economic Outlook

Elevated interest rates could push the economy into contraction. The BoC's primary objective is to curb inflation, however, it comes with a risk of inducing a possible recession. While price growth should cool, and likely return closer to the target range of 2.0 per cent by year-end, GDP growth will also soften. Consumer confidence will likely continue to trend downward due to rising debt service payments, causing retail sales and household consumption to ease. Residential investment is also likely to experience weakness, due to the continued slowdown in Canada's housing market. These factors impact both the consumption and investment variables of GDP, resulting in economic growth slowing to sub-1 per cent this year, or possibly turning negative, inducing a recession.

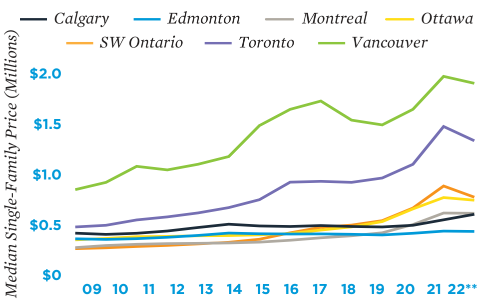
Immigration to drive population growth. In 2022, Canada's population grew at its fastest pace since the 1950s, and most of this growth was caused by an influx of highly-educated immigrants. This trend is expected to continue in 2023, as the federal government has increased its immigration target to 465,000 new permanent residents and 485,000 in 2024. Looking forward, however, the federal government plans to target newcomers of specific occupations to ensure better matching with industries suffering the most intense labour shortages, such as service sector and skilled-trades construction employees.

	Calgary	Edmonton	Montreal	Ottawa	SW Ontario	Toronto	Vancouver
	GCA Alberta	*GEA* Alberta	*GMA* Québec	*GOA* Ontario	*SWO* Ontario	*GTA* Ontario	*GVA* British Columbia
JOB GROWTH (2022) *Canada 2.7%*	**7.1%** 4.7%	**3.1%** 4.7%	**3.6%** 2.2%	**4.9%** 4.4%	**2.2%** 4.4%	**0.2%** 4.4%	**1.8%** 2.8%
2022 POPULATION AGE 20-34 *Canada Average 20.1%*	**25.6%** 20.7%	**22.2%** 20.7%	**20.9%** 18.5%	**22.5%** 21.3%	**23.4%** 21.3%	**24.3%** 21.3%	**23.9%** 20.2%
FIVE-YEAR HOUSEHOLD GROWTH (2022-2027) *Canada 6.0%*	**11.2%** 8.9%	**10.6%** 8.9%	**4.8%** 3.3%	**7.7%** 6.8%	**6.9%** 6.8%	**8.3%** 6.8%	**8.2%** 6.9%
2022 MEDIAN HOUSEHOLD INCOME *Canada $84,143*	**$102,418** $97,671	**$98,310** $97,671	**$77,593** $74,960	**$99,118** $89,120	**$83,316** $89,120	**$95,621** $89,120	**$93,195** $89,303
HOUSING STARTS (2021-2022 change) *Canada -3.9%*	**24.7%** 22.4%	**24.7%** 22.4%	**-19.1%** -13.3%	**20.2%** -6.8%	**-22.1%** -6.8%	**6.6%** -6.8%	**-7.7%** -7.1%
PERCENT WITH BACHELOR'S DEGREE OR HIGHER (15 years+) *Canada 26.6%*	**35.3%** 26.6%	**27.6%** 26.6%	**29.0%** 23.7%	**37.3%** 29.5%	**24.8%** 29.5%	**37.2%** 29.5%	**34.4%** 28.0%

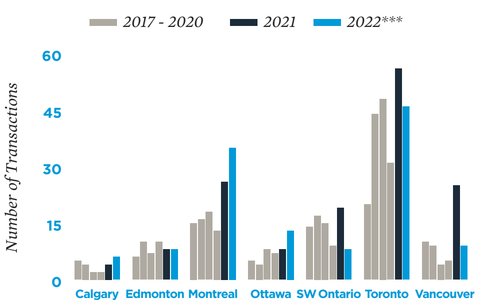
Sources: Capital Economics, CMHC, Environics, Statistics Canada, TD Economics

Vacancy Trend

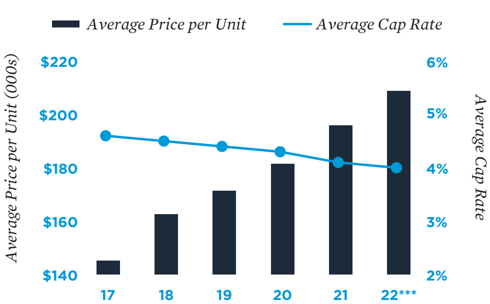
Single-Family Detached Benchmark Price



Apartment Transactions Over $20 Million



Price and Cap Rate Trends



** Forecast; ** Through November; *** Trailing-12-months through 3Q*

Sources: Altus Data Solutions; CMHC; CoStar Group, Inc.; Canadian Real Estate Association; Statistics Canada

Builders Struggle to Keep Pace with Rental Demand, Pushing Down Vacancy and Sustaining Rent Growth

Residents to remain renters amid barriers to homeownership. Single-family housing prices increased 58 per cent from January 2020 to February 2022, which was mainly a result of limited supply, coupled with the new remote work environment, where some people vacated urban cores for more suburban areas. Homeownership, as a result, became more out of reach for many Canadians, as elevated prices far exceeded household budgets. This year, however, economic headwinds and elevated interest rates will continue to cool Canada's housing market. While the general consensus calls for a 15 per cent to 20 per cent correction by midyear, housing prices will still remain historically high, and the current environment of elevated borrowing costs will continue to keep potential owners on the sidelines. Meanwhile, with economic uncertainty ahead and high levels of inflation, people are tightening their budgets, and real disposable income is shrinking, causing many households to remain in the apartment rental market. These underlying characteristics further exemplify the need to increase purpose-built rental stock as a less costly housing solution.

Rising costs continue to restrict much-needed supply. Amid an expectation of enduring renter demand this year, new supply is likely to remain scarce. Rising construction costs — due to supply chain bottlenecks, labour shortages and government initiatives — have caused developers to question the feasibility of new projects. As a result, construction timelines have been pushed, or projects have been outright canceled, as firms cannot receive financing when minimum requirements cannot be met. While new supply is expected to surpass last year's level, these construction barriers will still likely keep the increase below that of demand, resulting in healthy underlying fundamentals for 2023.

2023 Canadian Housing Outlook

Demand drivers to remain robust, fueled by a rise in immigration. Amid Canada's deepening single-family housing affordability crunch, an increase in immigration will further amplify the need for purpose-built rentals. With Canada increasing its immigration target to 465,000 new permanent residents in 2023 and 485,000 in 2024, an uptick in apartment demand is expected, as immigrants tend to initially favour the rental market over ownership because it is costly and takes time. Due to these underlying demand drivers, vacancy is expected to continue on its downward trend, ending the year in the low-2 per cent range. Rent growth is also anticipated to remain healthy. However, due to economic headwinds, turnover will likely be limited. As a result, rent growth will be muted compared to last year, ending 2023 at 5.4 per cent. The potential for a more severe economic contraction remains a wild card, however, and job losses could meaningfully impact the outlook, possibly even reversing momentum in vacancy rates, putting downward pressure on rent growth.

Investment likely to soften with elevated borrowing costs. Even with sound underlying fundamentals and continued rental demand, it is likely that investor enthusiasm will ease compared to last year. Many buyers are currently taking a wait-and-see approach to determine where interest rates will stabilize. A significant price expectations gap also exists between buyers and sellers, but that margin should realign once interest rate hikes plateau and market participants come to terms with the new investment environment. Once uncertainty mitigates, sound underlying fundamentals will likely act as a backstop for the transaction market, allowing positive investment sentiment to build.

Pent-up Demand Fueled Recent Retail Recovery; Potential Recession May Cause Near-Term Slowdown

Removal of pandemic-related restrictions bolstered retail sector resurgence. The re-opening of Canada's economy, following last year's winter lockdowns, prompted a full recovery for the nation's retail sector. This was mainly driven by pent-up shopping demand, which was seen through a healthy increase in foot traffic. According to Google mobility statistics, traffic at retail, grocery and recreation establishments was 10 to 20 per cent above pre-pandemic levels. As a result, retail sales were up nearly 6 per cent year-over-year as of the end of the third quarter. While a large share of these gains were due to escalating prices, sales volumes — which strip out price impacts — were also up nearly 3.0 per cent. Retail leasing, as a byproduct, picked up significantly and caused vacancy to trend below pre-pandemic levels. Healthy rent growth also returned, which was a reflection of tight market conditions, but also the positive impact inflation had on percentage rents, which is a prevalent clause in many retail leases across Canada.

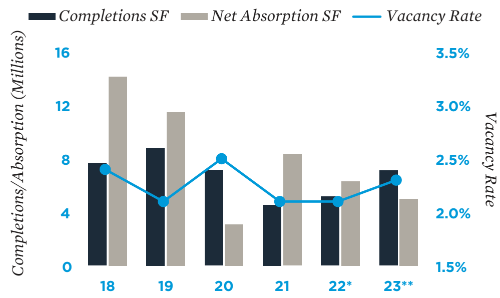
Suburban retail led rebound. With the return-to-office movement happening at a slower than expected pace, suburban retail witnessed a more robust recovery when compared to urban cores. Most consumer activity happened within community and neighbourhood centres as people remain at home, whereas urban cores have experienced muted foot traffic over the previous two years. Retail spending, and in turn leasing activity, has lagged as a result. While this trend could potentially revert over the course of 2023 as people return to the office on a more consistent basis, a slowing economy could further hinder this recovery, leading to ongoing uncertainty for the downtown retail segments.

2023 Canadian Retail Outlook

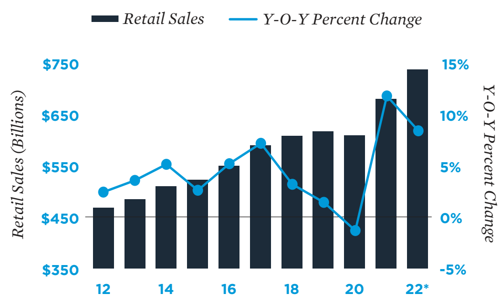
Slowing economy and deteriorating consumer purchasing power cloud outlook. While Canada's retail sector experienced healthy growth last year, economic uncertainty may hinder underlying fundamentals in the near term. At the end of 2022, consumption, and thus retail activity, was protected by a tight labour market and a reserve of cash and assets built up throughout the pandemic. This is seen through Canada's elevated savings rate compared to its historic average. Moving forward, however, a likely slowdown in labour demand — coupled with a correcting housing market, along with elevated borrowing costs and heightened inflation — will result in less disposable income. This could lead to a pullback in consumption as households tighten their budgets. Retail leasing and investment activity, as a result, will likely be muted compared to last year, as tenants curb expansion/opening plans and investors take a wait-and-see approach until interest rates stabilize. Nonetheless, with relatively healthy underlying fundamentals, Canada's retail sector should be able to weather a short-term economic slowdown.

Retail property performance to diverge along consumer spending fault lines. Similar to 2021 and 2022, essential retail will likely outperform discretionary assets over the coming year as a slowing economy tightens household budgets. These non-discretionary retailers provide essential goods, which are consistently a part of consumer spending habits, making supermarkets and other necessity vendors protected against economic downturns. As a result, grocery-anchored retail or single-tenant pharmacies, for example, should continue to experience healthy demand, as consumption activity will likely remain stable. Nonetheless, tenant diversification remains key, and discretionary retail assets could potentially fair well, if diversification is broad enough to mitigate downside economic risk stemming from heightened inflation and elevated borrowing costs.

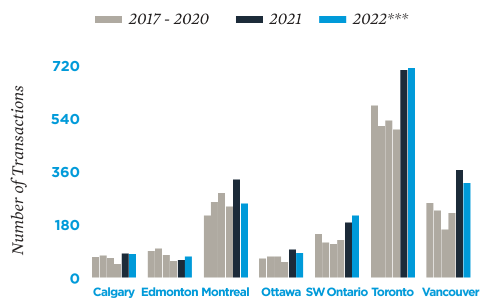
Retail Supply and Demand



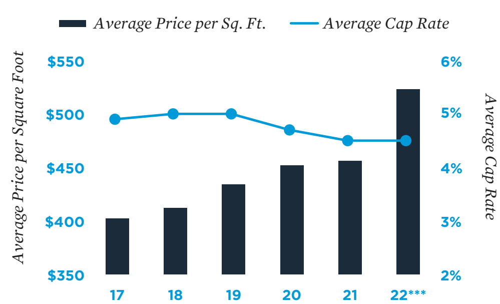
Strong Retail Sales Rebound



Retail Transactions



Price and Cap Rate Trends



* Estimate; ** Forecast; *** Trailing-12-months through 3Q

Sources: Altus Data Solutions; CoStar Group, Inc.; Statistics Canada

Economic Uncertainty and Influx of New Supply Delay Office Recovery; Momentum to Soften this Year

Tech sector slowdown curbs leasing activity. From January 2020 to December 2021, Canada's office market saw vacancy rise 300 basis points to 11.6 per cent. By the early parts of 2022, however, pandemic-related restrictions were largely lifted and momentum turned positive. A large share of this emerging recovery was fueled by office expansion within the technology sector. Given the subsequent elevation in interest rates and a slowing economy, however, these firms are now grappling with hiring freezes, layoffs and declining company valuations. Consequently, leasing has slowed. Firms like Shopify are even beginning to put large blocks of space on the sublease market, which now accounts for roughly 16 per cent of total available space, nearly double the amount witnessed in 2019. Subdued leasing activity and elevated sublet space is especially pronounced in markets with larger companies, such as Toronto and Montreal. Meanwhile, it has remained relatively stable in smaller-tenant metros like Ottawa and Vancouver. Despite this, a weakening in fundamentals is anticipated across most markets this year, as economic headwinds and a potential recession curb hiring and office expansion.

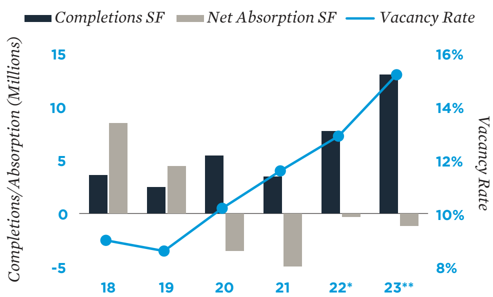
New supply and flight-to-quality dim outlook. During the pandemic, the pace of office deliveries continued to remain robust, with 16.5 million square feet added to the market. While new supply bodes well for employers hoping to lure people back to the office with appealing amenities, it is also resulting in older properties becoming available, which will hold a large share of vacant space on the market in 2023. This dynamic is particularly acute in Toronto and Montreal, where development has been most heavily concentrated. Locations with limited construction, however, such as Alberta and Ottawa, are experiencing relatively healthier office markets. Nonetheless, as a byproduct of the national flight-to-quality trend and the increased prevalence of remote work, these older assets that are now on the market are more challenging to lease and tend to offer lower asking rents, which will hinder underlying fundamentals and soften office momentum this year.

2023 Canadian Office Outlook

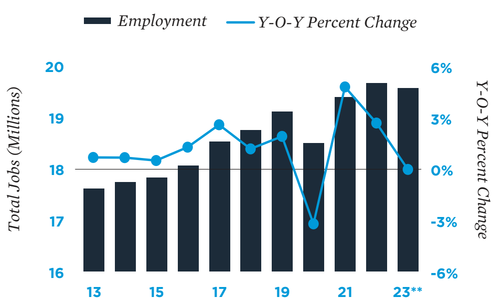
Market imbalance dampening fundamentals. Vancouver and Ottawa are likely to outperform other major metros in 2023, as a result of the relatively quicker return-to-office movement witnessed in British Columbia, along with limited new supply and the large government presence in Ottawa. The outlook for Alberta is dependent on public policy. Despite a bump in oil production, without government support, the industry is unlikely to see large upticks in hiring or office expansion, due to the volatile nature of oil prices and the rise of renewable energy. Nonetheless, an emerging tech sector and limited supply should act as a backstop. In Toronto and Montreal, an influx of new development will outpace demand as tech sector leasing slows. Therefore, with demand softening across most metros, coupled with new supply entering the market in Canada's two largest cities, national vacancy is likely to trend upward, while putting downward pressure on rent.

Investor sentiment to soften, given economic headwinds. Elevated interest rates, a slowing economy, and increasing uncertainty due to weakening fundamentals are causing investment activity and overall sentiment toward the office market to dampen. Total dollar volume transacted is down nearly 20 per cent year-over-year as of the third quarter of 2022. However, centrally-located, high-quality office properties are still showing relatively healthy fundamentals, due to the national flight-to-quality trend. Older, more suburban properties, on the other hand, are facing obsolescence, and some owners who are seeking healthier returns will likely reposition these properties in the future.

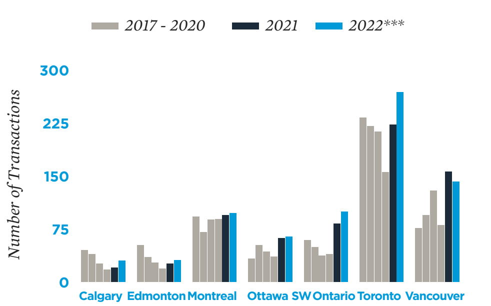
Office Supply and Demand



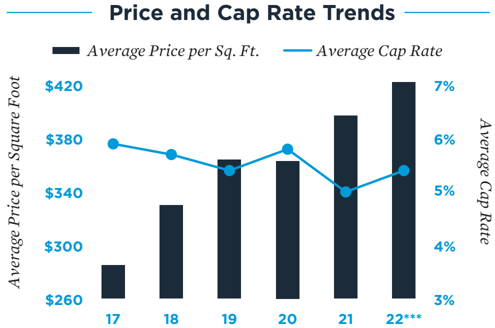
Employment



Office Transactions



Price and Cap Rate Trends



** Estimate; ** Forecast; *** Trailing-12-months through 3Q*
Sources: Altus Data Solutions; CoStar Group, Inc.; Statistics Canada

Supply and Demand Imbalance Drives Fundamentals; Construction Pipeline not Sufficient

Demand expected to persist amid economic headwinds. The global health crisis accelerated the need for industrial space, and while healthy demand is likely to continue this year, economic uncertainty and re-establishing supply chains could cause it to ease. Elevated interest rates and the prospect of a potential recession are tempering consumer confidence, leading households to tighten budgets. A resulting pullback in online shopping is likely to slow demand for e-commerce-related space. Furthermore, with supply chain bottlenecks easing, the need to hold larger stocks of just-in-case inventory is falling. Nonetheless, the pandemic has resulted in an uptick in onshoring, as firms realize the risky nature of relying on global supply chains and foreign manufacturers. As a result, while inventory may deplete compared to the highs seen in recent years, they are likely to remain above the levels seen prior to 2020, when the industrial market was already extremely tight. Domestic manufacturing could also begin to regain a footing within Canada's industrial landscape. These factors, plus the lack of new supply and development land, should act as a backstop, given the current economic uncertainties.

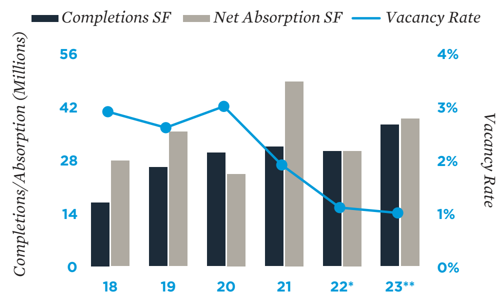
Supply continues to lag behind demand, maintaining healthy fundamentals. The current construction pipeline only accounts for roughly 2 per cent of total inventory, and nearly 75 per cent of this space is already pre-leased. The lack of available development land is the primary contributor to constrained supply, along with elevated construction costs. Consequently, the limited available space tends to be older, small-bay stock that traditional users like manufacturers and distributors — as well as more modern companies like health sciences, cold storage, data centres and omnichannel retailers — cannot utilize. This translates into fierce competition for new builds, even in the face of economic headwinds. Expanding companies, as a result, continue to have limited options, causing a vast amount of new developments to be fully pre-leased years before completion.

2023 Canadian Industrial Outlook

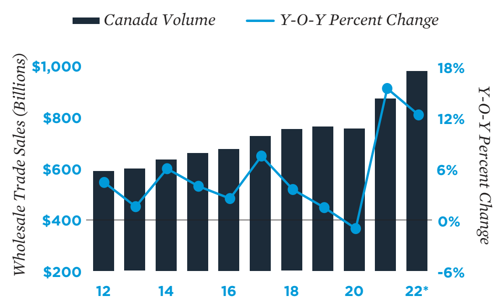
Industrial to stay a top performer. With demand expected to hold amid constrained supply, fundamentals will likely remain stable, even with economic headwinds. Absorption should continue to outpace new development, causing vacancy to drop to 1.0 per cent. Subsequently, the average asking rent is anticipated to maintain double-digit growth. Robust rent gains are also a function of elevated construction costs as market rents are increasingly becoming dictated by new builds, with most leasing activity in speculative, large-bay developments, which are also priced at a premium. These sound underlying fundamentals will support robust investment activity, even in the face of elevated borrowing costs, as rent growth continues to outpace inflation.

Investors stay optimistic. Extremely low vacancy and healthy rent growth have solidified industrial assets as a focal point for many investors. Last year, the industrial real estate market saw the most robust investment activity across Canada, with total dollar volume reaching roughly 25 per cent of all sales. As a result, the average sale price increased by nearly 15 per cent, and cap rates compressed by 70 basis points. This year, investment activity is likely to remain sound. Rising interest rates, however, may temper buyer enthusiasm when compared to last year, as many investors are taking a wait-and-see approach to determine where interest rates stabilize. Nonetheless, strong underlying numbers, coupled with comparatively low rental figures from a global perspective, will continue to make industrial real estate an attractive investment option, as many foreign buyers see income growth opportunities within Canada's industrial landscape.

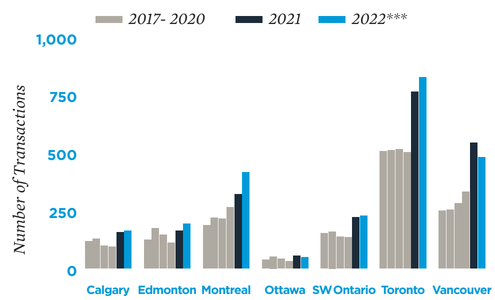
Industrial Supply and Demand



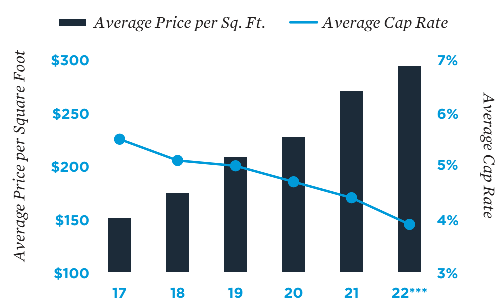
Wholesale Trade Volume



Industrial Transactions



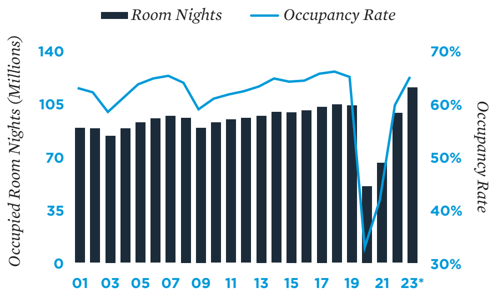
Price and Cap Rate Trends



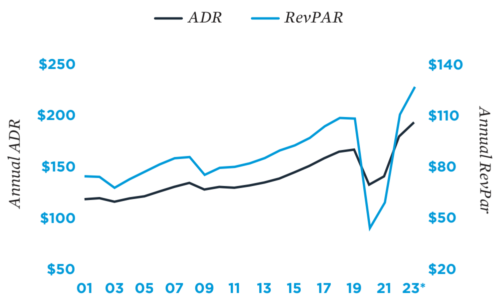
* Estimate; ** Forecast; *** Trailing-12-months through 3Q

Sources: Altus Data Solutions; CoStar Group, Inc.; Statistics Canada

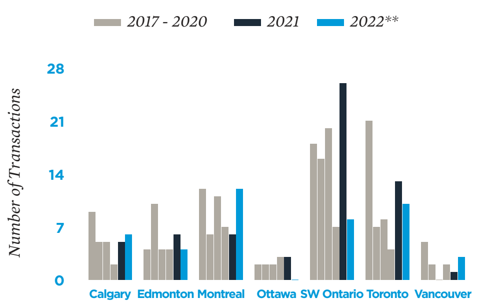
Annual Occupancy Trends



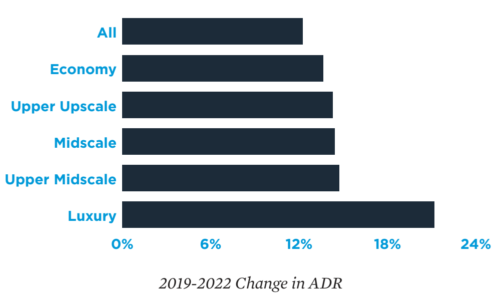
Annual Revenue Trends



Hotel Transactions



ADR Recovery by Hotel Class



** Forecast; ** Trailing-12-months through 3Q*
Sources: Altus Data Solutions; Statistics Canada; STR, a CoStar Group Company

Hospitality Sector Recovers from Pandemic Lows; Group and Corporate Travel to Drive Performance in 2023

Hotels experienced unprecedented growth. The hospitality sector was one of the hardest-hit industries at the onset of the global health crisis. Occupancy plummeted to roughly 13 per cent, causing ADR and RevPAR to drop nearly 40 per cent and 85 per cent, respectively. In the summer of 2021, however, once vaccines became readily available and restrictions were largely lifted, the hotel industry began its historic recovery. By the summer of 2022, the sector was performing well above pre-pandemic levels, and is now regarded as a top asset. Occupancy had returned to the pre-pandemic level of 75 per cent, and both ADR and RevPAR were up roughly 16 per cent when compared to 2019.

Leisure travel has led recovery, but additional avenues are on the rise. Fewer health and logistics challenges meant that leisure demand from smaller groups traveling domestically drove much of the growth over the past two years. In 2023, however, with restrictions largely gone, group and corporate travel will likely become more common as many canceled group tours and business events are returning. As of the final quarter of 2022, group travel was only down 9 per cent from 2019 and is quickly climbing. Weekday travel, which is measured between Monday and Wednesday, is also tracking upward, signaling that corporate trips are on the rise. These recovering sources will likely help hotels record more nightly stays in 2023, despite economic headwinds and a potential recession.

Hotels adapt operating model in the face of rapid inflation. Prior to the pandemic, hotels sought high occupancy as its primary revenue driver. Since the global health crisis, however, growth has also been fueled by the ADR. This is due to the inflation-resistant nature of hotels, as well as a more lean operating model, which focuses on cost minimization. Some hotel operators see this streamlined model as more productive and efficient, given the current landscape of widespread labour shortages and rising input costs. Shifting focus away from occupancy alone, as a result, translates into lower variable costs and increased flow-through, causing an uptick in bottom-line income. Due to this, hotel values in 2023 are likely to remain in line, or above pre-pandemic levels.

2023 Canadian Hospitality Outlook

City-wide events to fuel demand. Since the removal of most pandemic-related restrictions, the hotel industry has seen underlying fundamentals return and exceed 2019 levels. With the return of city and corporate events in 2023, Canada's major metros should continue to experience healthy performance. While the rate of growth will likely slow, this is not a byproduct of dwindling demand, rather a result of the sector returning to its long-term potential, after the unexpected shock and rebound from the health crisis.

Fundamentals healthy, yet transactions muted. Unlike other sectors, elevated interest rates did not constrain investment activity. Rather, limited transaction volume was a byproduct of Canada's current hotel ownership structure, many of which are generational owners who were able to withstand an economic downturn. With government subsidies, coupled with healthy fundamentals coming out of the health crisis, there was no incentive to sell, making opportunities scarce, and in turn limiting transaction volumes. Even with elevated interest rates, however, investment is likely to remain stable if opportunities arise. Both top and bottom-line performance remain robust, and given hotels' inflation-resistant nature and ability to reset room rates on a daily basis, income growth could continue to outpace inflation. Price expectation gaps will likely exist, however, causing lengthier closing timelines and slight downward price pressure. Despite this, it is expected that investor sentiment will remain positive, given the strong revenue fundamentals.

APARTMENTS

Soaring Demand from Record-Level Population Gain Aids Fundamentals

Resident gains bolster growth metrics. Calgary's multifamily sector has experienced a demand-driven boom backed by strong population inflow, which is expected to see further improvement in 2023. International immigration and domestic in-migration to Alberta last year reached the highest level since 1946. This was driven by the province's profitable energy sector, relatively low cost-of-living, as well as a diversifying and fast-growing labour market. Declining affordability in the single-family sector has also contributed to the increase in rental demand as elevated prices and borrowing costs keep potential buyers in the rental market. These forces spurred developers to significantly boost construction activity, with more than 5,000 units finalized last year. In 2023, demand for units will remain robust, but developers are expected to slow the pace of deliveries, due to high financing and construction costs. Nevertheless, the metro's initiative to transform empty downtown office buildings into apartments should alleviate some pressure on availability caused by the softening level of completions.

Calgary Apartment Investment Trends

- Total dollar volume transacted throughout 2022 remained in relatively better shape compared to other metros with an 11.9 per cent annual increase, due to strong tenant demand and rent growth.
- The average sale price in Calgary has largely flattened since 2019. Combined with a rapidly rising average effective rent, the metro's multifamily sector enjoys one of the highest cap rates in Canada, ranging between 4.75 per cent and 5.75 per cent.

2023 Apartment Trends

4,970
UNITS
will be completed

CONSTRUCTION:
Completions will moderate, after a strong year of deliveries in 2022. High interest rates and elevated building costs will weigh on construction activity in the near term.

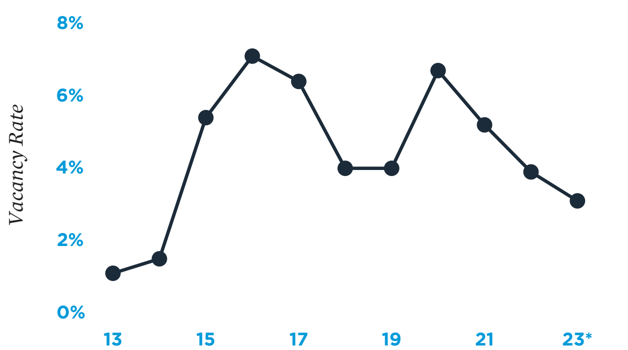
80
BASIS POINT
decrease in vacancy

VACANCY:
Vacancy will inch lower, ending the year at 3.0 per cent. Strong demand, driven by population growth, will cause absorption to remain at elevated levels, while completions are expected to record a mild decline.

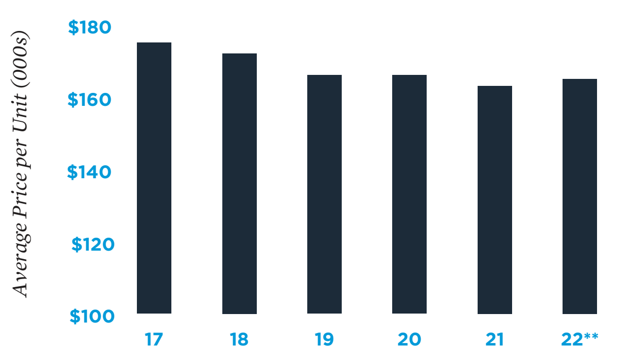
8.7%
INCREASE
in effective rent

RENT:
Non-existent rent control, heightened demand and rising construction costs will keep the mean effective rent on an upward path, ending the year above $1,400 per month.

Vacancy Trend



Sales Trends



** Forecast; ** Through 3Q*

Sources: Altus Data Solutions; CMHC; CoStar Group, Inc.; Statistics Canada

RETAIL

Overall Consumer Demand Softens; Downtown Retailers to Gain from Resident Inflow

Sector growth loses steam amid near-term uncertainties. Calgary's retail sector quickly recouped pandemic losses over the past two years, thanks to a V-shaped rebound in employment. This was followed by the removal of health restrictions and a period of elevated energy prices. Record-high inter-provincial and international migration into the metro last year also helped solidify a stronger consumer base. These factors reinforced household incomes and increased foot traffic. In 2023, with the broad-based headwinds of elevated interest rates — plus potentially lower energy prices resulting from a dimming economic outlook — the metro's job creation and household income growth may moderate. This will put downward pressure on consumer spending, particularly in the non-essential segment, leading to more subdued leasing activity and net absorption. With the local government's initiative to transform underutilized downtown office buildings into residential use, however, proximate retailers may benefit from increased foot traffic in the near future as more people choose to live in the urban core.

Calgary Retail Investment Trends

- Overall transaction activity slowed last year. Total dollar volume traded in the single-tenant segment, however, held up better, due to the essential nature of the companies that occupy these assets.
- Downtown may see investment interest improve in the coming years, as foot traffic is expected to rise with the development of more residential properties and entertainment options.

2023 Retail Trends

1.39 MILLION SQUARE FEET
will be completed

CONSTRUCTION:
Construction activity will slow in 2023, after 2 million square feet of deliveries last year. The level of completions, however, will still exceed the pre-pandemic level.

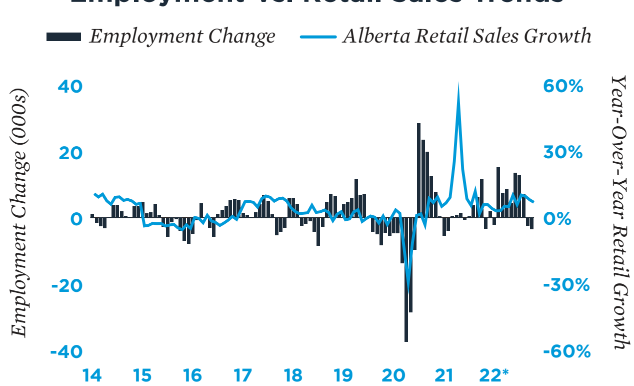
20 BASIS POINT
increase in vacancy

VACANCY:
With still-elevated new supply growth and softening demand, the vacancy rate will tick up. Strong inventory expansion during the past few years has resulted in vacancy hovering above the 2019 level.

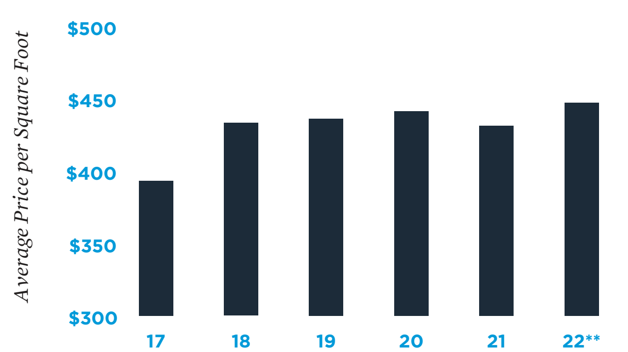
3.5% INCREASE
in asking rent

RENT:
The average asking rent is expected to climb for the fourth consecutive year. However, the rate of increase will slow, due to easing demand amid economic uncertainties.

Employment Vs. Retail Sales Trends



Sales Trends



* Through October; ** Through 3Q

Sources: Altus Data Solutions; CoStar Group, Inc.; Statistics Canada

OFFICE

Emerging Tech Sector and Office Conversions Improve Downtown Landscape

Rise in vacancy decelerates. The strong economic recovery in 2022 has not yet helped reverse the course of rising vacancy. The rate of increase, however, is beginning to slow. Acting as a headwind, oil and gas companies have allocated most of their increased profits from elevated energy prices to stock buybacks and higher dividends, rather than capital expenditures and office expansion. The structural shift toward hybrid work has also weakened office demand. Nonetheless, the recent tech sector expansion trend should continue to help slow the rise in office vacancy in 2023. Despite economic headwinds, this emergence is likely to remain relatively robust, thanks to the metro's low operating costs relative to other alternative markets. Multiple local and international firms, including IBM, AWS, Infosys and Helcim, have recently announced plans to expand operations in Calgary, which will help maintain steady office demand. Supply-side surplus is also expected to fade further. New construction will remain muted this year, and the Downtown Calgary Development Incentive Program will continue to eliminate excess inventory by converting empty office buildings to residential use.

Calgary Office Investment Trends

- Total dollar volume reached a record high in 2022, marked by two outsized sales — The Bow and Western Canadian Place.
- Buyer interest will likely remain stable in 2023, in anticipation of rising tenant demand for amenity-rich buildings. Elevated interest rates, however, may delay a more robust sales market to late 2023.

2023 Office Trends

242,000
SQUARE FEET
will be completed

CONSTRUCTION:
Construction activity will remain subdued throughout 2023. New deliveries will only account for roughly 0.3 per cent of total inventory, with a large share of the new space being used by the healthcare sector.

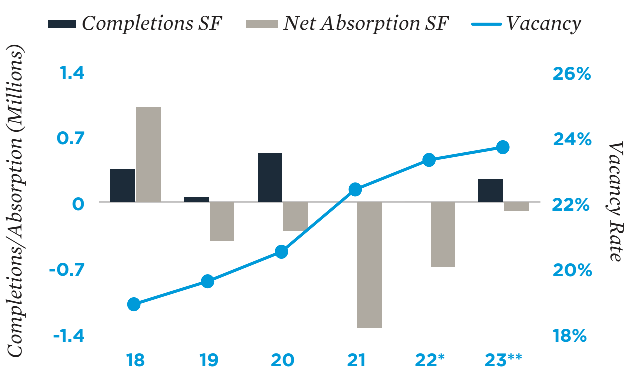
40
BASIS POINT
increase in vacancy

VACANCY:
Vacancy will rise at a slower pace than last year's 90-basis-point increase. Downtown availability could inch lower as the government continues to approve the conversion of empty offices to residential space.

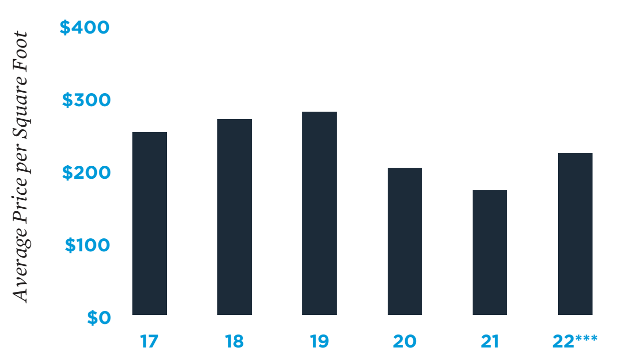
3.8%
INCREASE
in asking rent

RENT:
The average asking rent likely bottomed out in the final quarter of 2022 and will strengthen this year. Demand for better-amenitized space will help push office rents upward throughout 2023.

Supply and Demand



Sales Trends



** Estimate; ** Forecast; *** Through 3Q*

Sources: Altus Data Solutions; CoStar Group, Inc.; Statistics Canada

INDUSTRIAL

Local Features Spur Development, Offering Potential National Supply Relief

Strong and amicable market for builders. Calgary offers a more conducive environment to both industrial developers and tenants compared to Vancouver and Toronto. The metro is situated away from mountains, shorelines and the Canada-U.S. border, making construction easier and less costly. Local governments are also speeding up approvals to facilitate industrial developments. Furthermore, businesses that find it hard to secure leases in the tight and expensive Vancouver market often turn to Calgary, as the metro's extensive road network allows for east-west and north-south access. With these geographic, regulatory, and cost advantages, demand soared during the pandemic. Large retailers — including Canadian Tire, Amazon and Home Depot — opened new distribution centres in Calgary, in response to fast-growing e-commerce sales, which helped lift net absorption considerably above the pre-pandemic level. Following this demand surge, construction reached historic levels in 2022, and expansion, although muted, is expected to continue this year. With abundant land, Calgary has the potential to provide relief for Canada's tight industrial market.

Calgary Industrial Investment Trends

- Total dollar volume transacted surpassed $1 billion for the first time in 2022. Investment activity will likely remain healthy this year, especially in the second half, as investor sentiment becomes better anchored when near-term economic uncertainties fade.
- The construction boom in the metro and relatively low sale price will likely bode well for investment activity in the long term.

2023 Industrial Trends

4.8 MILLION
SQUARE FEET
will be completed

CONSTRUCTION:
Construction will soften in 2023 compared to last year's historic level. Completions, however, will still account for 3.1 per cent of the current inventory, which is the highest level in Canada.

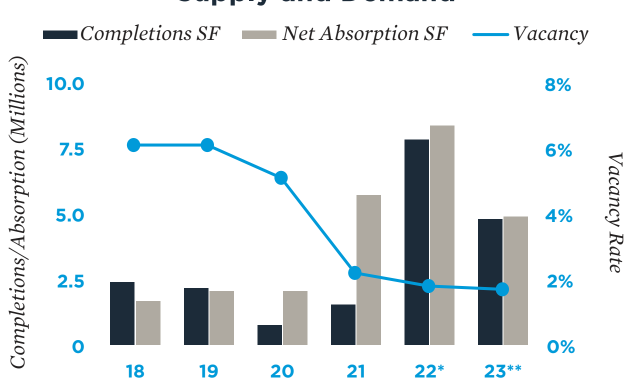
10
BASIS POINT
decrease in vacancy

VACANCY:
Even with ample new supply, vacancy is expected to record a slight decline, ending the year at 1.7 per cent. Strong construction should help alleviate some supply-side limitations over the long term.

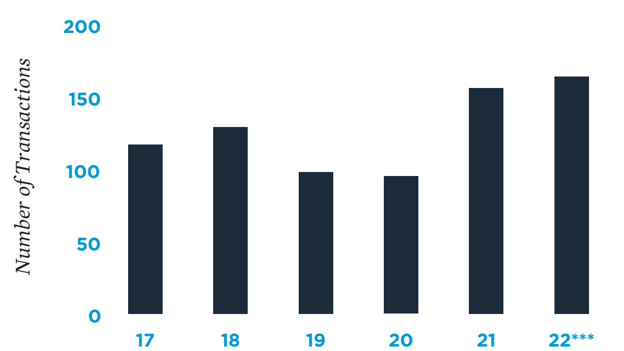
6.0%
INCREASE
in asking rent

RENT:
The average asking rent will continue to increase, but at a slower pace, due to a surge in supply in the Southeast and North parts of the metro — which tend to offer lower rates compared to other regions.

Supply and Demand



Transaction Trends



** Estimate; ** Forecast; *** Trailing-12-months through 3Q*

Sources: Altus Data Solutions; CoStar Group, Inc.; Statistics Canada

HOSPITALITY

Leisure Travelers Top Guest Lists Amid Continued Sluggish Corporate Demand

End of restrictions to lure foreigners and enhance performance. Domestic leisure travelers were the major contributor behind the recovery in Calgary's hospitality sector in 2022. With four national parks in the vicinity, vacationers within Canada flocked to the region as soon as health concerns faded. Inbound domestic air passenger volumes in the second half largely recovered to pre-pandemic levels, which boosted hotel demand. Occupancy throughout the summer remained above 70 per cent, with the peak in July recording a nine-year high. This strong momentum partially made up for the subdued demand from business and international visitors. Looking ahead, 2023 will be the first year since 2020 without travel restrictions, and inbound trips are expected to see accelerated gains from the leisure segment as international travel normalizes. This should help offset the continued sluggish corporate demand, which is heavily dependent on oil price movements and increasingly influenced by the metro's tech sector. New supply will be muted, with only one major hotel currently under construction. This limited inventory expansion will help minimize supply-side pressures on key revenue metrics.

Calgary Hospitality Investment Trends

- Investment activity remained below average through 2022, as intentions to sell were muted and willing buyers faced elevated debt servicing costs. Constrained new supply also led to limited sales.
- Last year, Calgary's downtown experienced transaction activity, with the average sale price roughly in line with pre-pandemic values. Marketwide activity, however, still remained limited.

2023 Hospitality Trends

530
BASIS POINT
change in occupancy

OCCUPANCY:
Occupancy is expected to continue on its upward trajectory in 2023 as international leisure demand returns. The rate, however, will remain below its long-term average, due to still-muted corporate demand.

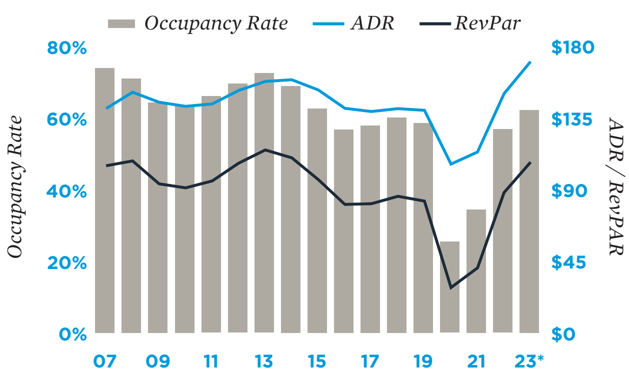
13.4%
INCREASE
in ADR

ADR:
The average daily rate will record another year of robust gains, with the annual mean reaching a historic high. Upper midscale hotels will see the strongest 12-month improvement of almost 18 per cent.

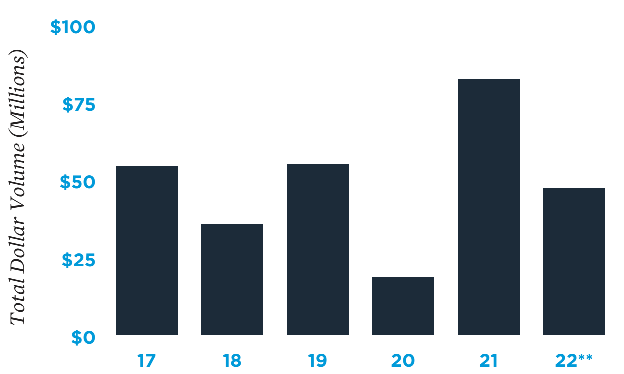
21.7%
INCREASE
in RevPAR

RevPAR:
Revenue per available room will rise above $100 for the first time since 2014, driven by robust occupancy and ADR gains. The first and the fourth quarter will likely record the largest year-over-year increase.

Occupancy & Revenue Metrics



Transaction Trends



** Forecast; ** Trailing-12-months through 3Q*

Sources: Altus Data Solutions; Statistics Canada; STR, a CoStar Group Company

APARTMENTS

Rise in Immigration and Robust Fiscal Position Support Healthy Outlook

Strong government revenue mitigates near-term risks. Edmonton's oil service sector, as well as the transportation and warehousing sector, saw robust job growth last year, following a surge in oil prices and soaring demand for logistics. This employment gain supported demand for Class B and C apartments. Class A properties have also been increasingly favoured by employees in the metro's emerging tech sector and an increasing number of inter-provincial migrants. In and beyond 2023, robust population growth is likely to continue, particularly driven by Canada's updated three-year immigration plan. Furthermore, while near-term economic headwinds have the potential to soften demand, an uptick in oil production will likely result in further sector employment gains. Job growth could also be aided by new public infrastructure investment driven by a massive government budget surplus uplifted by last year's oil price rally. New hiring, in turn, would aid rental apartment demand. On the supply side, following a 12 per cent increase in deliveries in 2022, the rise in construction starts recorded during the pandemic will translate into further expansion in completions this year.

Edmonton Apartment Investment Trends

- The average sale price is now below $120,000 per unit, which has kept the mean cap rate at roughly 4.5 per cent, higher compared to most other markets.
- In 2022, there was a notable rise in investment activity. Over 50 per cent of total dollar volume traded was in the $20 million-plus tranche by domestic private investors.

2023 Apartment Trends

5,850
UNITS
will be completed

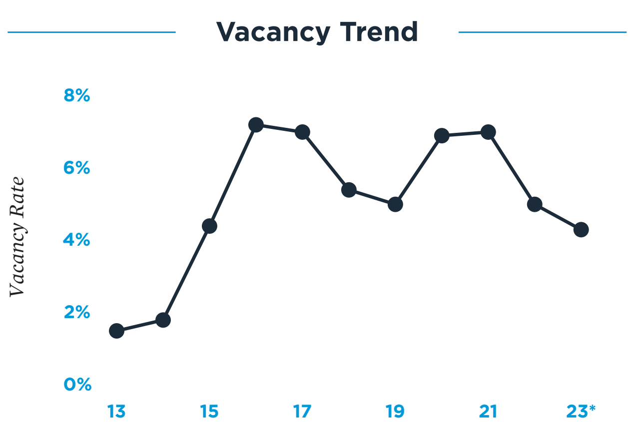
CONSTRUCTION:
Construction rose above 4,000 units last year. Healthy demand prospects will continue to drive up supply, leading to a near 35 per cent increase in completions this year.

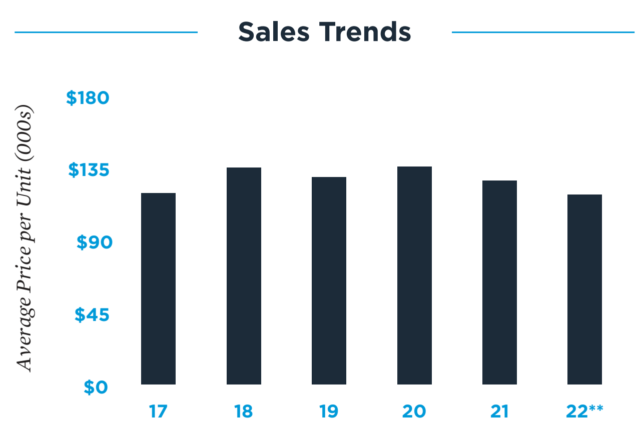
70
BASIS POINT
decrease in vacancy

VACANCY:
Vacancy will continue to trend downward in 2023, ending the year at 4.2 per cent, which is mainly a result of strong population growth. The pace of decline, however, will soften amid a rise in supply.

7.0%
INCREASE
in effective rent

RENT:
In the absence of rent control, coupled with strong demand, the average effective rent will increase at a fast clip as new properties charge higher rents and limited turnover is less influential.





** Forecast; ** Through 3Q*
Sources: Altus Data Solutions; CMHC; CoStar Group, Inc.; Statistics Canada

RETAIL

Recovery Trend to Reverse Course as Leasing Demand Eases Amid Supply Influx

Surge in construction elevates availability. Edmonton's retail sector enjoyed solid growth last year, with leasing activity returning to 2019 levels, which was aided by a pick up in foot traffic. This strong demand, coupled with a subdued level of construction, contributed to a 70-basis-point drop in the metro's vacancy rate in 2022. This year, however, demand tailwinds will wane, while a larger influx of deliveries is expected. With a possible recession on the horizon, consumers will likely shift spending to essential goods and services, resulting in a stronger performance for non-discretionary retailers. Downtown operators, however, will continue to face headwinds as muted foot traffic persists, owing to a slow return to office and a lack of shopping options. Additionally, inventory growth will accelerate substantially from 0.9 per cent in 2022 to 1.8 per cent this year, with the majority of new projects in the form of neighbourhood and strip centres in the suburban areas. This will likely cause vacancy to reverse course and rise again, after shrinking over the past two years.

Edmonton Retail Investment Trends

- Total dollar volume transacted in 2022 well exceeded the prior year's level. Outlying regions, including St. Albert and Sherwood Park, saw investment surge as retail demand grew significantly in the suburbs, which tend to offer lower prices, putting downward pressure on the overall average price per square foot.
- Despite near-term challenges, Edmonton will likely attract new households over the long term, due to its low cost of living and tax advantage. This should keep investor sentiment positive.

2023 Retail Trends

1.28 MILLION
SQUARE FEET
will be completed

CONSTRUCTION:
Deliveries will see a significant increase, after remaining subdued during the course of the pandemic. The majority of the new projects are small- to medium-sized properties below 20,000 square feet.

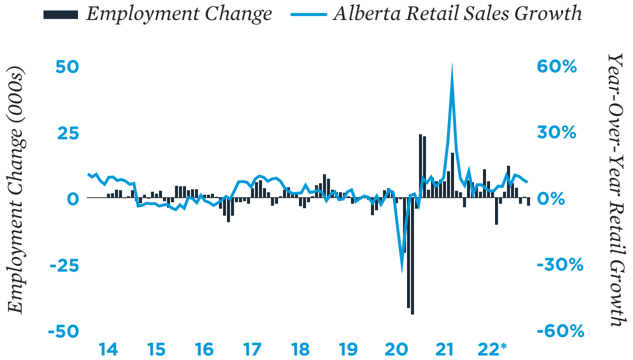
30
BASIS POINT
increase in vacancy

VACANCY:
The vacancy rate will rise notably this year as completions register a 97 per cent year-over-year increase. Despite the slight uptick, vacancy will remain below the pandemic high recorded in 2020.

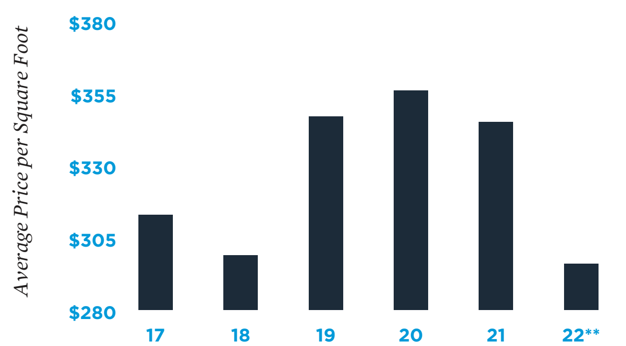
1.6%
INCREASE
in asking rent

RENT:
After peaking in 2022, the pace of growth in the average asking rent will decelerate as demand-side pressure eases. Edmonton continues to offer the lowest rents among major western metros.

Employment Vs. Retail Sales Trends



Sales Trends



** Through October; ** Through 3Q*
Sources: Altus Data Solutions; CoStar Group, Inc.; Statistics Canada

OFFICE

Diversification Supports Demand; Public Sector Presence Caps Vacancy

Fundamentals to remain relatively stable. Edmonton's tech sector, aided by the University of Alberta, has experienced healthy growth in recent years. The metro's low operating costs, emerging labour pool and various government initiatives have encouraged startups to expand their presence, leading to a rise in tech sector employment and a slight uptick in office demand. This has helped diversify the local economy, leading to less dependence on the oil and gas industry. The large presence of the provincial government also provides a greater level of stability for the local labour market during economic downturns. Although a potential slowdown in the national economy could weigh on the metro's tech sector growth this year, the public sector will likely act as a backstop for declining office demand. Furthermore, supply will continue to be constrained, with no new developments expected for completion this year. This should act as a safety net for underlying fundamentals, preventing vacancy from rising significantly and helping to avoid a decline in the market's average asking rent.

Edmonton Office Investment Trends

- Suburban leasing activity recovered notably in 2022 compared to the still negative absorption in the downtown core. This led to more transactions in Beaumont, Spruce Grove and St. Albert.
- Large institutional investors slowed activity in Edmonton's office sector during the pandemic to reduce risk and globalize their portfolios. In 2022, most dollar volume transacted was by domestic private investors.

2023 Office Trends

0
SQUARE FEET
will be completed

CONSTRUCTION:
For the fourth consecutive year, no new office developments are expected to be delivered in 2023. Construction activity has slowed significantly, after the delivery of the 66-storey Stantec Tower in 2018.

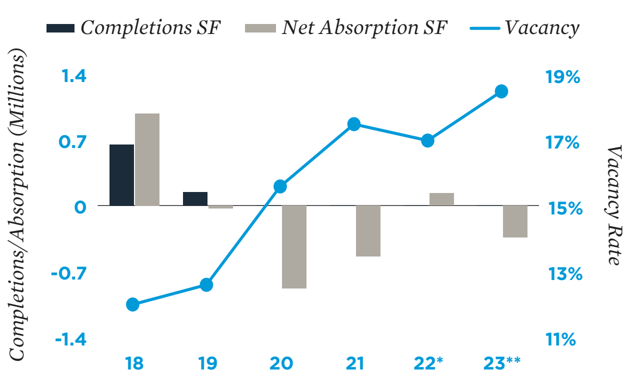
150
BASIS POINT
increase in vacancy

VACANCY:
Vacancy is expected to rise, with a possible recession on the horizon. The increase, however, will likely be milder relative to larger markets, thanks to muted supply growth and the large government presence.

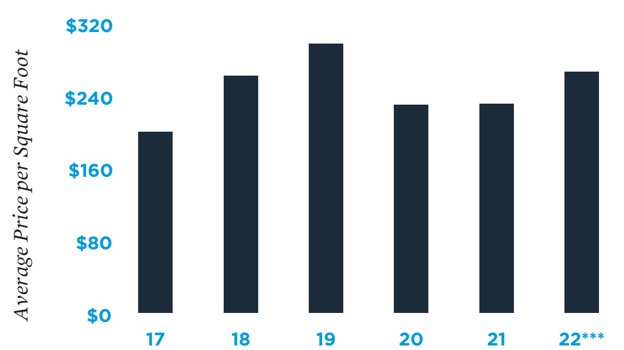
1.3%
INCREASE
in asking rent

RENT:
The average asking rent will grow at a slower pace this year, as demand is anticipated to moderate. Despite the expected increase in rent, Edmonton will remain the least costly office market in Canada.

Supply and Demand



Sales Trend



** Estimate; ** Forecast; *** Through 3Q*

Sources: Altus Data Solutions; CoStar Group, Inc.; Statistics Canada

INDUSTRIAL

Strengthening of International Cargo Network Drives Long-Term Growth Prospects

Robust local infrastructure aids industrial market. Edmonton enjoys a set of local features that benefit the industrial sector. The Port of Prince Rupert in British Columbia — North America's closest deep-water port to Asia — has rail connections to Edmonton's airport, which is further backed by the nearby Nisku Industrial Park. This makes Edmonton an indispensable part of the cargo network linking Asia to Eastern Canada and the U.S., especially with global supply chains improving. Furthermore, the metro's relatively low rent and sale price attract a rising number of tenants and investors who are priced out of the Vancouver market. These factors — coupled with a growing and diversifying economy, as well as construction delays during the pandemic — have resulted in a rapidly declining vacancy rate. Although near-term economic headwinds could soften investment activity in 2023, underlying fundamentals will likely remain robust over the long term, generating positive investor sentiment. The expansion of the Port of Prince Rupert and Edmonton's airport cargo service may require greater industrial capacity in the future. An influx of investment, as a result, will likely follow as the metro faces fewer construction cost and regulatory hurdles.

Edmonton Industrial Investment Trends

- Total dollar volume transacted in 2022 topped $1 billion for the first time. The city of Acheson saw a 300 per cent increase, marked by Amazon, which opened a new warehouse facility in the area.
- Industrial assets have long attracted the most investment in Edmonton, due to the sector's relatively high cap rate and low price.

2023 Industrial Trends

2.85 MILLION
SQUARE FEET
will be completed

CONSTRUCTION:
Construction activity will moderate in 2023, after a substantial rebound last year. Most deliveries are concentrated near the airport along the Queen Elizabeth II Highway.

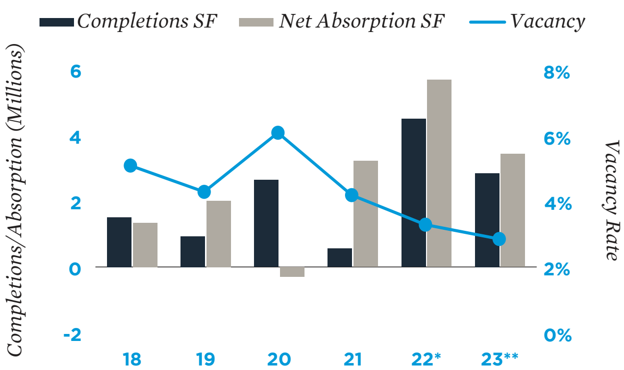
40
BASIS POINT
decrease in vacancy

VACANCY:
Net absorption will soften, but remain above the pre-pandemic level witnessed in 2019. As demand continues to exceed completions, vacancy should fall further, but at a slower pace, ending the year at 2.9 per cent.

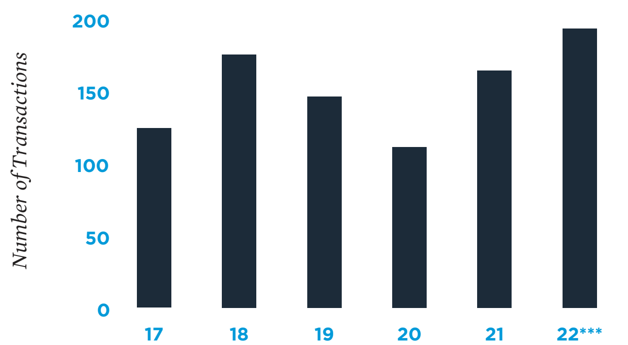
8.9%
INCREASE
in asking rent

RENT:
The average asking rent will rise above $11 per square foot, due to tighter availability. Despite the large increase, Edmonton will remain Canada's least-costly market for tenants searching for space.

Supply and Demand



Transaction Trends



** Estimate; ** Forecast; *** Trailing-12-months through 3Q*
Sources: Altus Data Solutions; CoStar Group, Inc.; Statistics Canada

HOSPITALITY

Interprovincial Travel Drives Recovery; Supply Surge Limits Revenue Growth

Ample development dims near-term fundamentals. Similar to the national trend, Edmonton's hospitality sector enjoyed a healthy recovery last year, which was mainly boosted by a rebound in domestic transient leisure travel. All revenue metrics recorded double-digit growth, with the annual average daily rate exceeding the pre-pandemic level. Compared to other western metros, however, Edmonton's hotel performance was still relatively weak, which will likely continue to be the case in 2023. Despite the growth in domestic travel, the recovery in inbound air passenger traffic has progressed at a slower pace compared to Calgary and Vancouver. More importantly, the metro experienced a period of supply expansion during the pandemic and will see further growth in 2023. By the end of this year, room inventory in Edmonton will increase by 2.1 per cent compared to 2019. Whereas in Calgary and Vancouver, supply will contract by roughly 1.5 per cent. This inventory expansion, coupled with the relatively moderate level of inbound travel, put a lid on the sector's recovery in 2022, and will continue to result in softer improvements to revenue metrics this year relative to neighbouring metros.

Edmonton Hospitality Investment Trends

- Transactions remained below the historical average in 2022, as a result of elevated financing costs and relatively lagging demand. Among outlying regions, Leduc stood out last year.
- Returning tourism has bolstered investor confidence, helping the average sale price return to pre-pandemic levels. Nevertheless, Edmonton features Canada's lowest entry cost among major metros.

2023 Hospitality Trends

880
BASIS POINT
change in occupancy

OCCUPANCY:
Continued recovery in domestic travel is expected to lift occupancy above 60 per cent. The increase in room inventory, however, will cause the annual rate to remain below the long-term average.

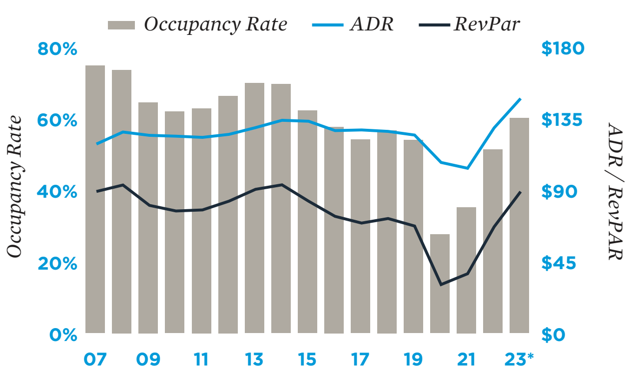
14.3%
INCREASE
in ADR

ADR:
Following a 25 per cent increase last year, the annual average daily rate will approach $150 in 2023. This further improvement will be spurred by continued demand recovery and still-elevated inflation.

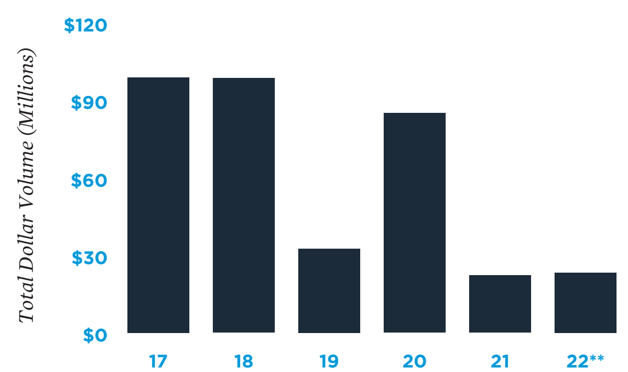
33.2%
INCREASE
in RevPAR

RevPAR:
The annual average revenue per available room will sit well above its long-term average. The summer peak will surpass $100 for the first time since the onset of the global health crisis.

Occupancy & Revenue Metrics



Transaction Trends



** Forecast; ** Trailing-12-months through 3Q*

Sources: Altus Data Solutions; Statistics Canada; STR, a CoStar Group Company

APARTMENTS

Tech Sector Demand Fades; Student Population Provides Backstop

Demographic advantages aid market in choppy waters. Montreal's economy remained healthy last year, lending support to the rental market. The unemployment rate tracked below 5 per cent, which was underpinned by job gains in the metro's diverse service sector. Rental demand was also lifted by the return of university students and redirected housing needs from the single-family market, due to high interest rates and prices. These demand forces, however, were met with a 9 per cent increase in supply, resulting in only a marginal contraction in availability. This year, elevated deliveries are expected once again, and the metro's tech sector will likely face continued headwinds as higher borrowing costs lead to further job cuts, consequently softening apartment demand. This slowdown, however, may be partially offset by robust housing needs from the metro's student population, which has the potential to increase at a fast pace. The Québec government has launched a scholarship program to incentivize enrollment, in order to diversify and expand the province's labour pool. Over the long term, strong rental demand, as a result, will likely persist, generating positive investor sentiment.

Montreal Apartment Investment Trends

- Investment activity slowed sharply in 2022 as rising interest rates caused hesitancy among investors. With financing conditions expected to stabilize this year, investment activity may find a bottom before the end of 2023.
- As a result of ample supply, Montreal's average apartment sale price remains the lowest among major eastern Canadian metros.

2023 Apartment Trends

15,820
UNITS
will be completed

CONSTRUCTION:
Completions have grown at a healthy pace in recent years, with annual deliveries outpacing all other major metros. In 2023, new supply will exceed 15,000 units.

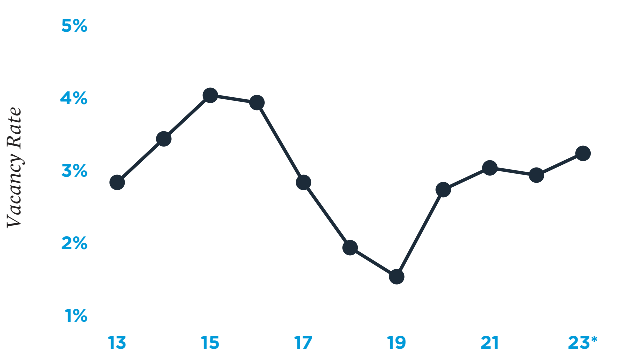
30
BASIS POINT
increase in vacancy

VACANCY:
Although supported by the large student population, an influx of new supply will likely put upward pressure on vacancy. This will be furthered by a slight moderation in demand as economic growth softens.

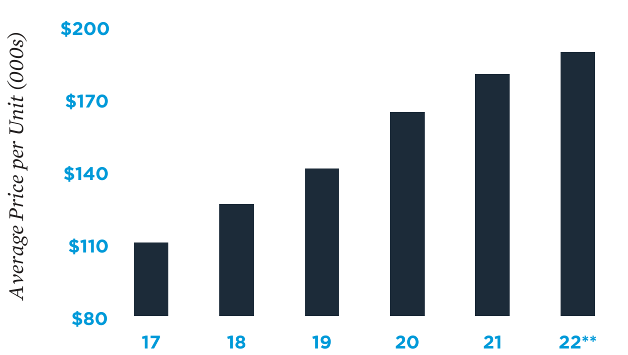
2.8%
INCREASE
in effective rent

RENT:
As supply expands and turnover slows, the increase in rent will moderate. Montreal's average monthly rent will remain below $1,000, and its lower cost-of-living will continue to attract new residents.

Vacancy Trend



Sales Trends



** Forecast; ** Through 3Q*

Sources: Altus Data Solutions; CMHC; CoStar Group, Inc.; Statistics Canada; Province of Quebec - Quebec Perspective Scholarship

RETAIL

Students and Visitors Help Fill Demand Gaps; Supply Surge on the Horizon

Vacancy on the ascent toward pre-pandemic levels. With the impact of COVID-19 in the rear-view mirror, Montreal's retail sector has experienced a remarkable recovery. Robust job gains, coupled with the return of students and tourists, boosted foot traffic last year, and the following increase in leasing activity enhanced absorption. In 2023, as the central bank's restrictive monetary policy continues to exert pressure on the local labour market, unemployment will likely rise, reducing consumers' spending power. Although this softening in the job market will reduce consumer spending, the large presence of university students and a further recovery in the tourism sector, aided by a strengthening U.S. dollar, will help mitigate this demand deceleration. Completions, however, will record a substantial increase this year, marked by multiple mixed use projects. Additionally, the Royalmount shopping centre will add a further 2.5 million square feet of high-end retail in 2024. These notable additions, combined with easing demand, will put some upward pressure on vacancy over the coming years.

Montreal Retail Investment Trends

- Total dollar volume traded held up well last year, thanks to strong deal flow in the first half. In 2023, with a pickup in development, trading is likely to improve once financing conditions stabilize.
- Montreal continues to be the least costly market in Canada, resulting in the highest cap rate among eastern metros.

2023 Retail Trends

1.07 MILLION
SQUARE FEET
will be completed

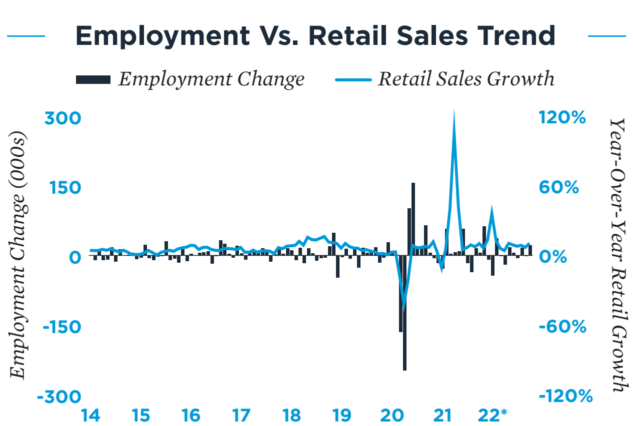
CONSTRUCTION:
The metro will see a 75 per cent year-over-year increase in deliveries, with the annual level of completions breaching 1 million square feet for the first time since 2015.

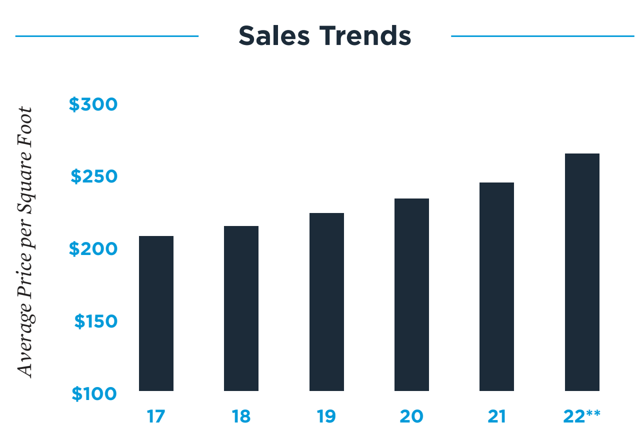
30
BASIS POINT
increase in vacancy

VACANCY:
Availability will reverse its downward trend seen throughout the pandemic recovery and begin to rise throughout 2023. This is a result of softening demand and a substantial inventory expansion.

0.9%
INCREASE
in asking rent

RENT:
Following a robust increase last year, the average asking rent will stabilize in 2023, due to softening demand and a surge in supply. The inflation tailwind, however, will cause rents to rise, though only marginally.





* Through October; ** Through 3Q

Sources: Altus Data Solutions; CoStar Group, Inc.; Statistics Canada

OFFICE

Cooling Demand and Surging Supply Hinder Near-Term Outlook

Flight-to-quality amid supply glut dampens fundamentals. Montreal has experienced a continuous rise in office vacancy, despite a mild pace of development throughout the pandemic. The structural shift toward remote work has weighed on the sector's recovery, prompting some businesses to reduce office footprints and others to seek quality space to help lure employees back to the office. This flight-to-quality is leaving large blocks of lower-tier assets on the market, putting downward pressure on the average asking rent. In 2023, this trend will likely continue, and could be further exacerbated by a slowdown in the metro's tech sector and a significant increase in new construction. Similar to other metros, rising interest rates are taking a toll on tech companies' near-term expansion, which will likely quell demand for office space. On the supply side, the National Bank's new head office is expected to add 1.1 million square feet to the market. This project, combined with others to be finished after pandemic-related delays, will nearly double annual deliveries relative to last year. The moderation in demand and surge in supply will continue to push up vacancy and compress rent.

Montreal Office Investment Trends

- Most trades in 2022 were front-loaded in the first quarter. Rising interest rates will likely keep investment activity subdued in 2023.
- The long-term prospect of the metro's AI and life science sectors, combined with a higher concentration of post-secondary institutions, bodes well for the metro's office market. The average sale price has grown 55 per cent since 2018, trailing only Vancouver.

2023 Office Trends

2.1 MILLION SQUARE FEET
will be completed

CONSTRUCTION:
Deliveries will rise considerably in 2023. Besides the National Bank's new headquarters, most other deliveries are in the form of mixed-use projects in urban areas.

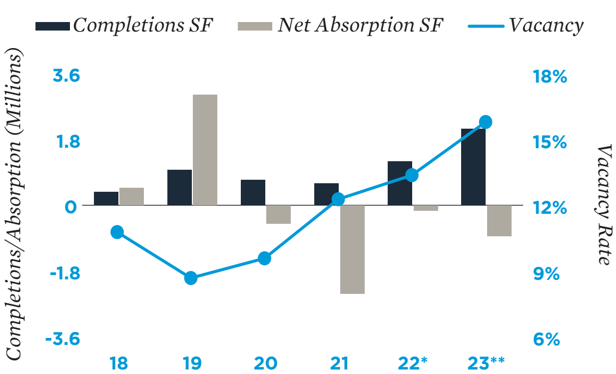
240 BASIS POINT
increase in vacancy

VACANCY:
Net absorption will remain negative, due to a further slowdown in office demand. Coupled with a notable uptick in construction, vacancy will climb to a record high, sitting just below 16 per cent by year-end.

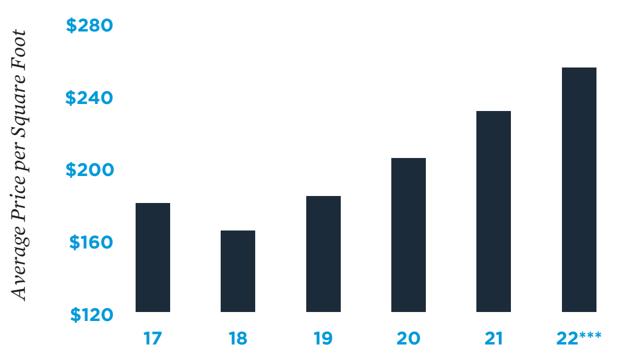
3.8% DECREASE
in asking rent

RENT:
As overall demand decelerates and tenants continue to seek higher-quality properties, there will be increased availability in lower-tier assets, putting downward pressure on the average asking rent.

Supply and Demand



Sales Trends



** Estimate; ** Forecast; *** Through 3Q*

Sources: Altus Data Solutions; CoStar Group, Inc.; Statistics Canada

INDUSTRIAL

Rise in Data Centres Fuels Development; Off-Island Market Increasingly Favoured

Strong demand drives construction. Montreal's industrial market saw unprecedented rent growth during the pandemic, which was fueled by strong e-commerce demand. The average asking rent soared by over 50 per cent from 2020 to 2022, and almost reached $12.00 per square foot. Furthermore, thanks to the metro's cool climate and abundance of affordable and low-carbon energy, the presence of data centres has been on the rise. Montreal currently houses roughly 50 of the nearly 300 data centres across Canada, and will likely see further growth. The most notable establishments in recent years were Amazon's AWS data centre in Varennes and Google's cloud centre in Beauharnois. On the supply side, the strong demand for industrial assets has encouraged speculative development. Builders remain optimistic that tenant demand is not likely to cool significantly, despite short-term economic headwinds. As land prices have become exceedingly high on the island of Montreal, due to scarce availability and robust demand, developers are now increasingly looking for opportunities off-island. This is especially true, given the rising demand for data centres, which require high-powered industrial clusters with strong power grids.

Montreal Industrial Investment Trends

- Sales volume in 2022 far exceeded the prior year's level. The average sale price, despite a strong rise during the pandemic, is still much more affordable compared to Toronto and Vancouver.
- Most sales prior to 2021 occurred in the $1 to $10 million tranche, but have since been overtaken by the $20 million-plus segment.

2023 Industrial Trends

5.8 MILLION
SQUARE FEET
will be completed

CONSTRUCTION:
Most deliveries in 2023 will be medium- to large-bay facilities in the off-island submarkets. Robust development activity is well underway in Valleyfield, Mascouche and St-Bruno-de-Montarville.

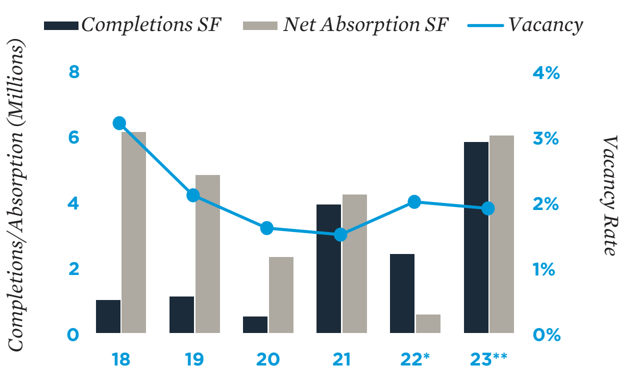
10
BASIS POINT
decrease in vacancy

VACANCY:
Vacancy will register a mild decline in 2023, ending the year at 1.9 per cent. Increased construction activity will help keep vacancy relatively stable, compared to the fast decline that occurred in pre-pandemic times.

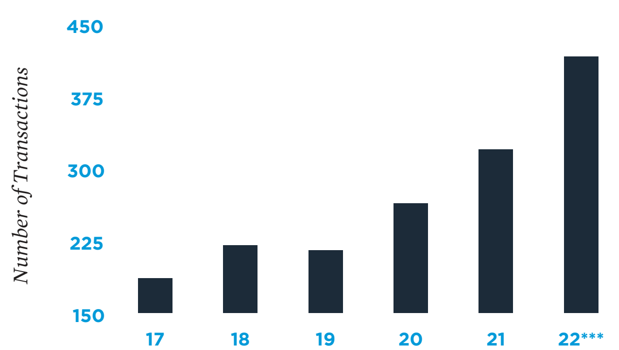
11.1%
INCREASE
in asking rent

RENT:
The influx of new large-bay properties should fuel another year of robust rent growth. The rate of increase, however, will likely soften as more properties become available in outlying areas.

Supply and Demand



Transaction Trends



** Estimate; ** Forecast; *** Trailing-12-months through 3Q*

Sources: Altus Data Solutions; CoStar Group, Inc.; Statistics Canada

HOSPITALITY

Citywide Events and Business Conferences Add Momentum to Sector Recovery

Rise in travel drives strong demand. As pandemic concerns faded in early 2022, Montreal's tourism sector experienced a rapid recovery. Air passenger volume rose by 300 per cent last year, led by a more than fivefold increase in international arrivals. The resurgence in the tourism sector resulted in a significant uptick in hotel occupancy and revenues. Despite this strong recovery, the annual average revenue per available room in 2022 was still below its 2019 level, mainly due to lower occupancy compared to pre-pandemic years. This relative demand slack, however, leaves room for future improvement. In 2023, citywide events such as the Montreal Grand Prix and the International Jazz Festival, combined with a strong U.S. dollar, will continue to attract transient leisure and international travelers. Multiple large-scale conferences will also lead to a greater number of business trips, further boosting hotel demand. As a result, sector occupancy is expected to approach its long-term average, with revenues recording another year of robust growth. On the supply side, the postponed expansion of the metro's airport and elevated building costs may cause delays in the construction pipeline. This pullback in supply will likely benefit near-term fundamentals.

Montreal Hospitality Investment Trends

- The $63 million sale of Marriott's 221-room Residence Inn, one of the largest hotel trades of last year, highlights the strong buyer demand for Montreal hotels when they come on the market.
- Transaction activity is likely to slow in 2023, as hotel owners continue to enjoy improvements in performance.

2023 Hospitality Trends

750
BASIS POINT
change in occupancy

OCCUPANCY:
The occupancy rate will approach its long-term average, which will be led by a strong rebound during the winter and spring months. This will mostly be fueled by healthy transient leisure and business travel.

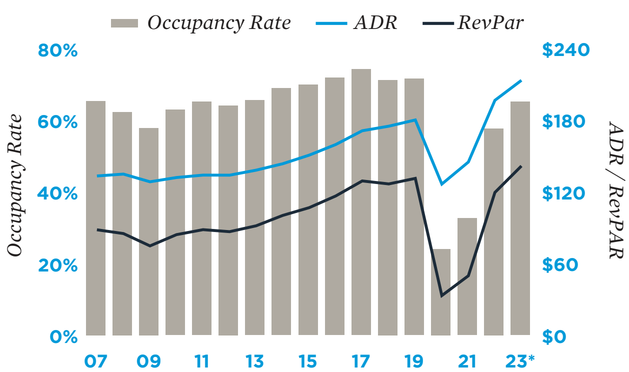
8.5%
INCREASE
in ADR

ADR:
Hotels are expected to see a further increase in the average daily rate as demand continues to recover. Similar to the national trend, the annual ADR will sit significantly above its long-term average.

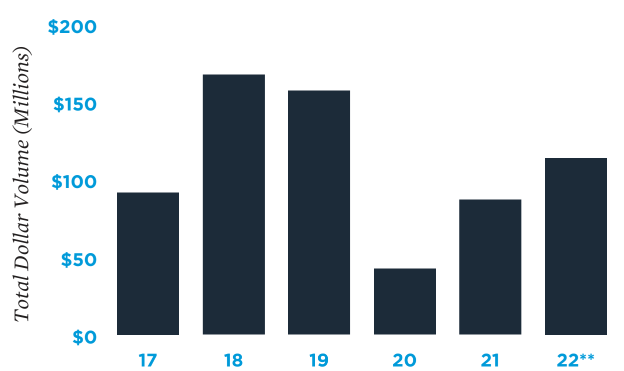
18.6%
INCREASE
in RevPAR

RevPAR:
Revenue per available room will register positive growth in most months when compared to 2019. Strong demand, coupled with elevated inflation, will push RevPAR above $200 in the summer months.

Occupancy & Revenue Metrics



Transaction Trends



** Forecast; ** Trailing-12-months through 3Q*

Sources: Altus Data Solutions; Statistics Canada; STR, a CoStar Group Company

APARTMENTS

Public Sector Presence Counters Job Market Headwinds; Demand Shift Persists

Robust rental need takes hold. As Ottawa's largest employer, the federal government expanded its workforce by roughly 12 per cent during the pandemic, now employing the largest number of public servants in Canadian history. This strong job gain, coupled with overseas immigration and domestic in-migration, has provided strong support for the metro's apartment market. Also, with home mortgage rates reaching multiyear highs, single-family sales dropped sharply in 2022, which pushed housing needs to the apartment rental market. As a result, the average effective rent recorded a solid increase last year, after breaking the $1,400 per month mark in 2021. This year, a possible slowdown in economic growth could continue to cause pain in the local labour market, which has already been reflected in recent waves of tech sector layoffs and hiring pauses. The strong government presence, however, will provide a backstop for the softening job market, cushioning multifamily fundamentals. Additionally, the demand spillover from the single-family market is likely to persist in the foreseeable future, as debt-servicing costs remain unattainable for many prospective homebuyers.

Ottawa Apartment Investment Trends

- Ottawa continues to attract yield-focused investors as the metro's apartment market has one of Canada's highest cap rates, with the average sale price well below that in Toronto.
- While total dollar volume traded in Ottawa proper slowed in 2022, sales in other areas — including Nepean and Gatineau — recorded large gains, signaling investor interest outside the city centre.

Apartment 2023 Outlook

2,280
UNITS
will be completed

CONSTRUCTION:
Deliveries peaked in 2022 and will register a near 18 per cent deceleration this year. This slowdown is likely a result of elevated construction costs and interest rates, making financing and feasibility a challenge.

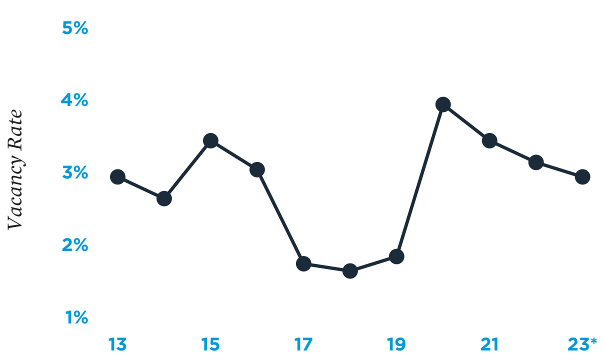
20
BASIS POINT
decrease in vacancy

VACANCY:
The softer completions and healthy demand, which will be supported by public sector employment and redirected housing needs, will continue to put downward pressure on the vacancy rate.

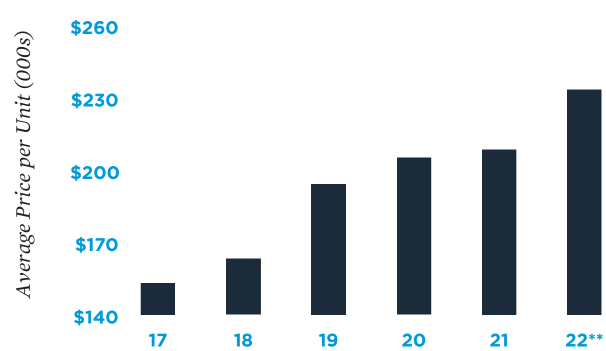
4.1%
INCREASE
in effective rent

RENT:
Ottawa's average effective rent increase is set to moderate, after a strong rise last year. Although overall demand may not soften notably, limited turnover caused by economic headwinds may slow rent growth.

Vacancy Trend



Sales Trends



** Forecast; ** Through 3Q*
Sources: Altus Data Solutions; CMHC; CoStar Group, Inc.; Statistics Canada

RETAIL

Macro Conditions Challenge Fundamentals; Resilient Labour Market Offers Backstop

Vacancy to trend lower, even as demand moderates. The removal of pandemic restrictions led to an increase in foot traffic in 2022, which aided leasing activity and lifted net absorption above the level of completions. During the final months, however, rising interest rates and elevated inflation started to weigh on the local job market and retail sector performance. This trend will likely prevail throughout 2023 and be reflected in further waves of layoffs and hiring freezes. The retail market will consequently face challenges, as the softening job market causes a contraction in consumers' disposable incomes. As a result, retailers will be less inclined to expand their market footprints, leading to a pullback in net absorption. Nevertheless, compared to other parts of Ontario, the higher concentration of public sector employment in the metro will act as a backstop, helping prevent a large rise in unemployment and a dramatic wane in household spending. Additionally, supply-side pressure will be muted, with inventory registering the slowest expansion since 2015. This will offset the impact of softening space demand, leading to a further drop in vacancy.

Ottawa Retail Investment Trends

- The pace of trades slowed rapidly as borrowing costs began to rise last year. In 2023, investment activity is expected to bottom out, then start to rise as financing conditions stabilize.
- This year, essential, single-tenant retail properties may gain investor attention, due to their resilience during economic downturns.

2023 Retail Trends

182,000
SQUARE FEET
will be completed

CONSTRUCTION:
Inventory will record a sluggish 0.2 per cent expansion, which is equivalent to a 39 per cent year-over-year drop in completions. Most additions will be located in outlying regions, including Kanata and Kingston.

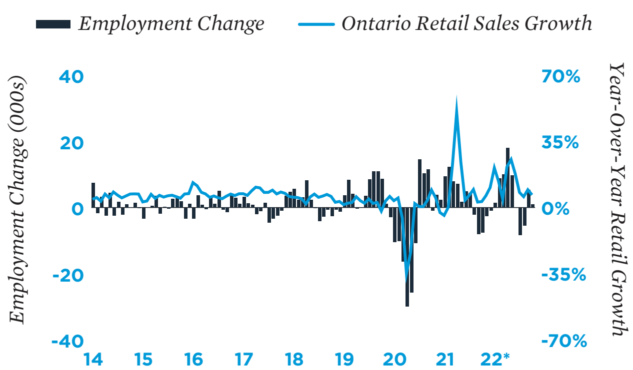
10
BASIS POINT
decrease in vacancy

VACANCY:
Despite the softening in demand, muted inventory growth will cause availability to inch lower. The vacancy rate, as a result, will reach its lowest level since 2016.

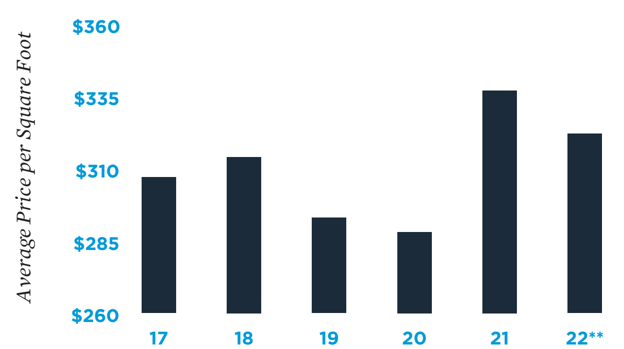
2.1%
INCREASE
in asking rent

RENT:
Limited availability will continue to put upward pressure on the average asking rent. The rate of increase, however, will slow as demand-side pressure eases.

Employment Vs. Retail Sales Trends



Sales Trends



** Through October; ** Through 3Q*

Sources: Altus Data Solutions; CoStar Group, Inc.; Statistics Canada

OFFICE

Tech Firms Tap the Brakes; Federal Government Office Divestment Accelerates

Vacancy trends back past pandemic high. The metro saw office availability shrink steadily from mid-2021 to mid-2022, as the easing of health-related restrictions enabled a gradual return to office. This trend, however, reversed in the third quarter of 2022, as rapidly rising interest rates caused the tech sector — especially the e-commerce and cryptocurrency segments — to halt recruitment and downsize office space. The vacancy rate in 2023 will likely remain on this upward trajectory and track back past pandemic highs, as the tech industry responds to rising borrowing costs and lower company valuations by halting hiring activity. The federal government is also accelerating its long-term plan to shed its office footprint across the country. Ottawa, where the public sector owns and leases a higher concentration of local office buildings relative to other metros, will start to see more space vacated for sale and lease. This will put upward pressure on the vacancy rate over the coming decade. Near-term underlying fundamentals, however, are likely to remain in better shape compared to Toronto and Montreal, thanks to much milder office development in previous years, as well as 2023.

Ottawa Office Investment Trends

- Transaction volume peaked in the final quarter of 2021 and has since leveled off. Deal flow will likely remain muted in 2023 amid short-term economic uncertainty and continued hybrid work.
- As part of the government's strategy, new Class A office properties, which provide attractive workplaces, will be the next investment focus as older assets are vacated and potentially re-purposed.

2023 Office Trends

352,000
SQUARE FEET
will be completed

CONSTRUCTION:
Completions will top the level seen in 2022 and surpass the recent peak in 2021. However, completions remain muted compared to other major metros. Most of this new supply will be delivered in Gatineau.

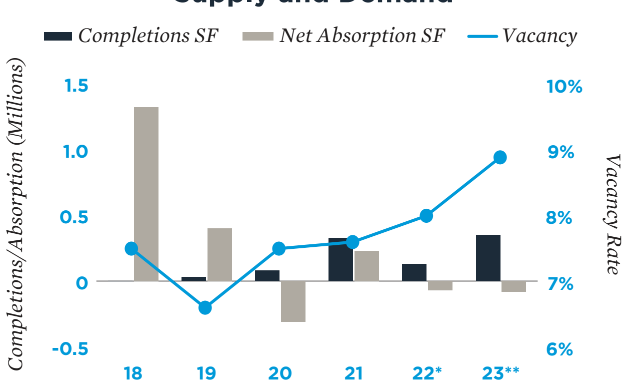
90
BASIS POINT
increase in vacancy

VACANCY:
As a result of the short-term slowdown in tech sector expansion, net absorption will soften. Coupled with an increase in supply, vacancy will rise above the pandemic peak and end the year at 8.9 per cent.

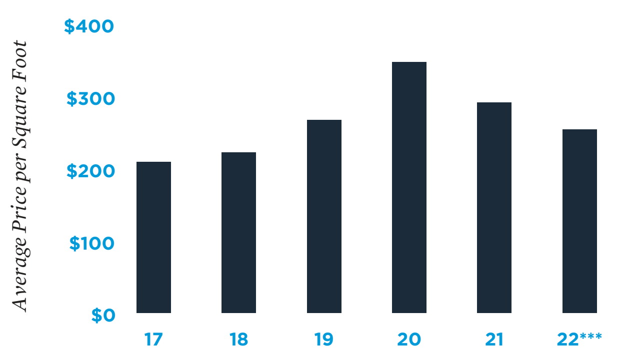
0.3%
INCREASE
in asking rent

RENT:
The average asking rent growth is expected to moderate, after a robust gain in 2022. The relative scarcity of new office supply will put a floor on rent growth, avoiding a yearly decline seen in neighbouring metros.

Supply and Demand



Sales Trends



** Estimate; ** Forecast; *** Through 3Q*
Sources: Altus Data Solutions; CoStar Group, Inc.; Statistics Canada

INDUSTRIAL

Multinational Corporations Eye Ottawa as a Rising Star for Future Development

Undersupply ensures strong fundamentals. Once off the radar for multinational businesses seeking major fulfillment and distribution centres, Ottawa has now become one of the focal points for large corporations' future expansion plans. The metro's relatively low asking rent and close proximity to Toronto and Montreal — Canada's two largest cities — gives the market a cost and geographic advantage, which aids in efficient operations. The recent openings of Amazon's fulfillment centre in Barrhaven and Ford's distribution centre in Casselman paint a promising picture for the metro's future industrial appeal. Meanwhile, construction has been lagging behind demand, putting downward pressure on the metro's vacancy rate. Availability was above 4 per cent in 2015, but fell to roughly 1.5 per cent in 2022. This year, short-term economic headwinds are not likely to abate demand significantly, as prospective tenants compete for any new space that comes to market. Supply is only moderately ramping up, and most projects consist of small-bay space, which will likely be fully absorbed upon delivery. Vacancy, as a result, will continue to fall, driving the market's average asking rent to a new high in 2023.

Ottawa Industrial Investment Trends

- Total dollar volume transacted rose significantly in 2022, marked by the sale of a new large-bay distribution centre in Casselman.
- Several large facilities, each with rentable areas over 500,000 square feet, will be delivered over the upcoming years, which will likely stimulate investor interest. The largest project is a distribution centre at 1966 Roger Stevens Drive in South Ottawa.

2023 Industrial Trends

865,000
SQUARE FEET
will be completed

CONSTRUCTION:
Completions will exceed last year's level by roughly 150,000 square feet. Most of these additions are located at the National Capital Business Park in South Ottawa near the Trans-Canada Highway.

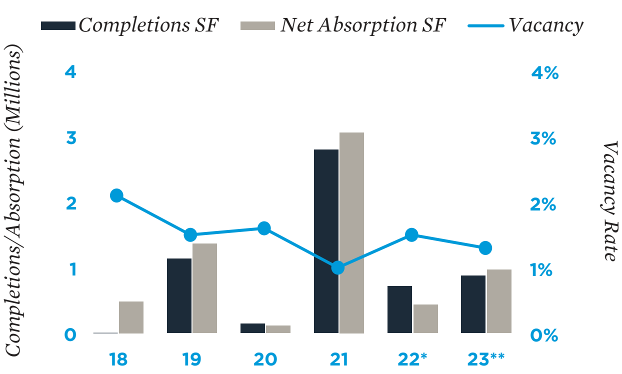
20
BASIS POINT
decrease in vacancy

VACANCY:
Strong demand is set to outpace the mild uptick in construction. Vacancy, as a result, will fall to 1.3 per cent. The city of Gatineau will remain the tightest submarket, as no new deliveries are expected this year.

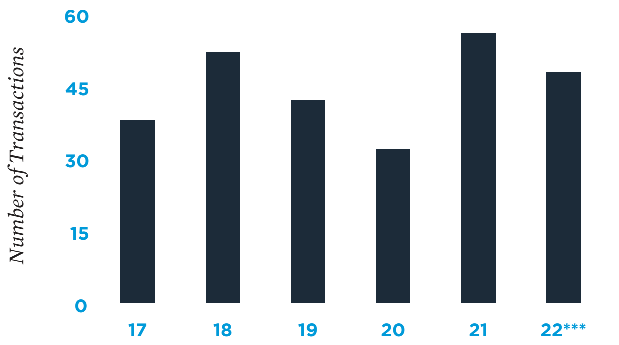
9.5%
INCREASE
in asking rent

RENT:
Limited availability will push the average asking rent to $14.95 per square foot. The metro's industrial rent will likely remain elevated over the next few years as new, large-bay projects finalize and enter lease-up.

Supply and Demand



Transaction Trends



** Estimate; ** Forecast; *** Trailing-12-months through 3Q*
Sources: Altus Data Solutions; CoStar Group, Inc.; Statistics Canada

HOSPITALITY

Waning Impact of Political Events and Return of In-Office Work to Lift Occupancy

Continued demand leads to record-high room rates. Last summer, Ottawa's hospitality sector enjoyed a significant uptick in travel demand. The peak in occupancy almost reached the pre-pandemic high, with the average daily rate and revenue per available room rising well above their long-term averages. The recovery, however, was softer compared to Toronto, largely caused by a plummet in hotel demand throughout the winter months due to pandemic-related protests. This was followed by delayed business trips, as a result of wide and lasting remote work arrangements in the public sector, which led to the average annual occupancy rate remaining below 60 per cent in 2022. Nonetheless, this metric is likely to improve further in 2023, recording a near 10 percentage-point increase. Demand throughout the winter and spring will see a strong year-over-year rebound, as the impact of social movements is largely gone. Normalizing in-person activities should also boost business travel, aiding additional occupancy gains. With this demand tailwind, revenue metrics will register double-digit growth and the annual average daily rate will be on track to break the $200 mark for the first time.

Ottawa Hospitality Investment Trends

- Ottawa investors tend to have longer hold periods, leading to lower turnover and fewer properties on market. This dynamic persisted in 2022, mostly due to a lack of new supply and seller hesitancy.
- Marriott and Hilton are looking to expand their market presence over the coming years, by adding roughly 400 rooms combined. This should lead to an improvement in investment activity.

2023 Hospitality Trends

900
BASIS POINT
change in occupancy

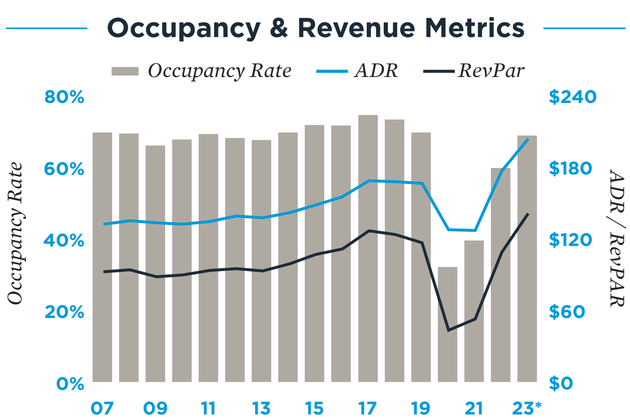
OCCUPANCY:
Occupancy will see healthy improvement this year, with the summer peak surpassing 80 per cent. The annual average is expected to approach the 70 per cent mark.

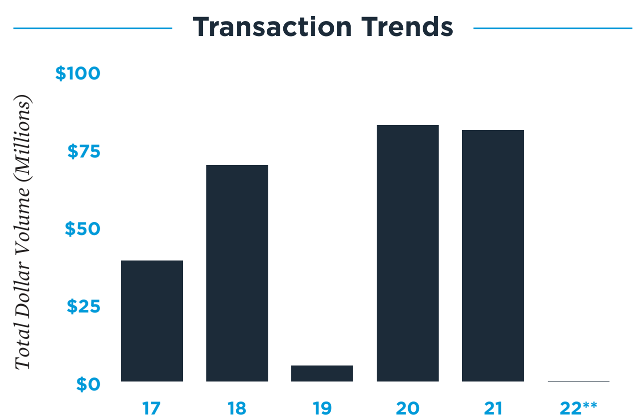
15.2%
INCREASE
in ADR

ADR:
Robust travel demand will drive the average daily rate to a new high in 2023. Most months will see the rate remain above $190, with the summer peak reaching almost $230.

30.2%
INCREASE
in RevPAR

RevPAR:
Revenue per available room is anticipated to advance further on the strength of occupancy and the average daily rate. It will rise above the pre-pandemic level for the first time since the onset of the health crisis.





** Forecast; ** Trailing-12-months through 3Q*
Sources: Altus Data Solutions; Statistics Canada; STR, a CoStar Group Company

APARTMENTS

Supply Shortage Stoked Red-Hot Rents; New Legislation May Cool Gains

Regional relocations drive tight market. In 2022, the average effective rent in Southwestern Ontario registered a double-digit percentage increase, spurred by exceptionally strong demand and a large slowdown in completions. Population growth was strong as residents moved into the region from the GTA, due to deteriorating housing affordability and the flexibility permitted by remote work. These new residents have contributed to not only an improvement in overall apartment demand, but also additional upward pressure on rents. These newcomers tend to have higher incomes than existing residents within the region, which leads to increased absorption of higher-cost and better-amenitized buildings. In 2023, demand for units will remain robust, but likely not as strong as last year, due to near-term economic uncertainties. Vacancy, however, may contract further as completions continue to decline. Nonetheless, Ontario's More Homes Built Faster Act, which was passed last year, has the potential to expand the region's apartment inventory by reducing construction cost and regulatory hurdles for developers. This could bring supply and demand to a more balanced level in the future.

Southwestern Ontario Apartment Investment Trends

- Investment activity retracted in the second half of 2022, particularly in the $20 million-plus tranche. Total dollar volume traded may be lacklustre this year as uncertainty remains.
- Since 2019, the average sale price in the region has climbed at a faster pace compared to the national average, resulting in the region's cap rate now sitting slightly below the country's average.

Apartment 2023 Outlook

2,590
UNITS
will be completed

CONSTRUCTION:
Completions peaked near 5,000 units in 2021 and have since trended downward. Deliveries in 2023 will record a 15 per cent year-over-year drop as builders face high construction and financing costs.

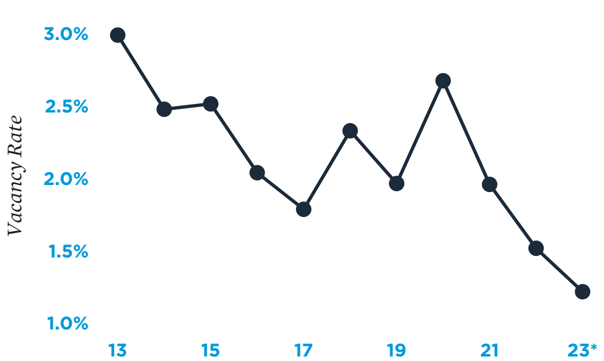
30
BASIS POINT
decrease in vacancy

VACANCY:
As new supply dwindles and demand remains robust, the vacancy rate will register a further decline and approach 1 per cent. The More Homes Built Faster Act could help increase availability over the long term.

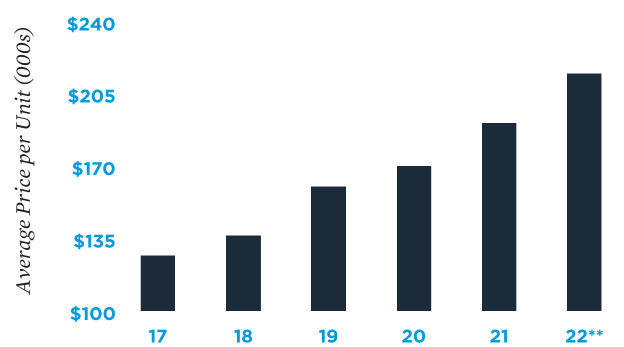
6.3%
INCREASE
in effective rent

RENT:
Following a nearly 14 per cent jump, the average effective rent will rise again, but at a slower pace because of near-term economic uncertainties. Rents will stand nearly 40 per cent above the pre-pandemic level.

Vacancy Trend



Sales Trends



** Forecast; ** Through 3Q*

Sources: Altus Data Solutions; CMHC; CoStar Group, Inc.; Statistics Canada

RETAIL

Suburban Essential Retail Better Positioned to Overcome Short-Term Challenges

Macro headwinds to exert less weight on performance. In line with the trend felt across the province, a recovery in foot traffic — aided by household income gains and the removal of health restrictions — boosted retail spending and led to elevated leasing activity last year. Along with a moderate level of development, the vacancy rate fell to an eight-year low. In 2023, with the impact of elevated interest rates in full swing, retail demand should soften, posing challenges to the sector's performance. Nevertheless, due to a less urban landscape compared to Toronto and Ottawa, a greater concentration of suburban essential businesses are present in the region. This may enable some retailers to better weather near-term headwinds as consumers shift spending to essential goods and services during economic downturns. Additionally, inventory will grow at a milder annual pace of 0.4 per cent, compared to the 0.6 per cent expansion expected in the GTA. This limited supply increase will help prevent a large deterioration in underlying fundamentals.

Southwestern Ontario Retail Investment Trends

- Single-tenant properties have increasingly gained investor attention in recent years as the share of dollar volume transacted reached a historic high last year. Single-tenant assets will likely continue to draw focus in 2023, given near-term uncertainties
- The region offers lower-priced assets, with its average sale price being roughly half of Toronto's. This results in a nearly 200-basis-point gap in cap rates between the metro and the GTA in 2022.

2023 Retail Trends

552,000
SQUARE FEET
will be completed

CONSTRUCTION:
Deliveries will exceed 500,000 square feet this year. The Gateway London project will contribute to most of this inventory expansion, offering outlet centre retail space.

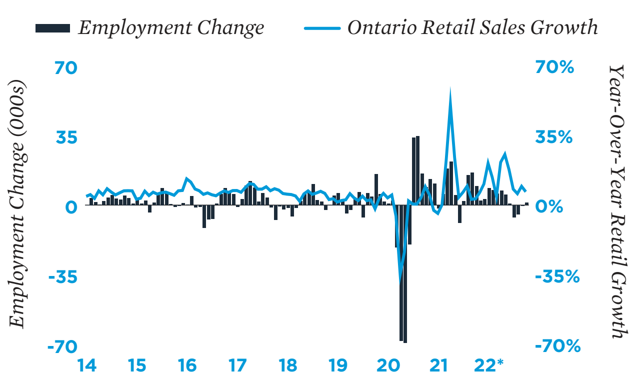
10
BASIS POINT
increase in vacancy

VACANCY:
With the softening in consumer demand and a mild rise in construction activity, the vacancy rate will tick up slightly, but will remain well below pre-pandemic levels.

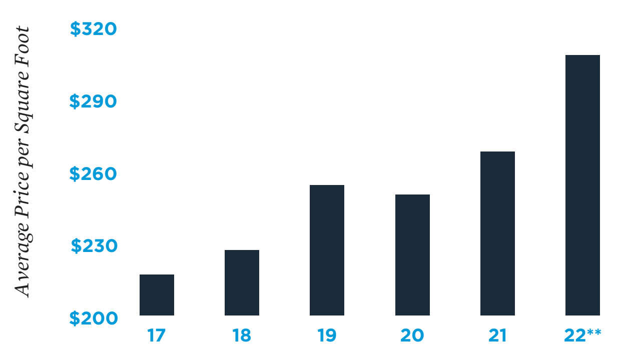
0.7%
INCREASE
in asking rent

RENT:
Following strong gains recorded in the first half of 2022, the rate of rent increase has slowed. This year will see the average asking rent stabilize above $19 per square foot.

Employment Vs. Retail Sales Trends



Sales Trends



** Through October; ** Through 3Q*

Sources: Altus Data Solutions; CoStar Group, Inc.; Statistics Canada

OFFICE

Migration-Fueled Employment Surge Fades as Uncertainty Clouds Outlook

Economic headwinds to impact near-term fundamentals. Southwestern Ontario experienced a much faster return to office in 2022 compared to other major metros in Canada. The region's smaller city sizes allow for shorter commutes, and the pandemic has caused the local labour force to expand at a faster pace, with residents moving in from neighbouring urban cores in the hopes of better living arrangements. Employment across office-using sectors, as a result, recorded large gains during the past two years, which helped propel office demand. After multiple years of inactivity, however, deliveries in 2022 picked up considerably, with four times more space added to market compared to 2021, which exceeded the uptick in demand. As a result, vacancy only saw a short-lived improvement, dropping slightly in 2021 before quickly elevating again in 2022. This year, similar to the neighbouring GTA, near-term economic headwinds will likely weigh on office demand, especially in Waterloo, which has become one of Ontario's major tech hubs. Rising interest rates have slowed tech sector growth, tempering near-term office demand and putting upward pressure on overall vacancy.

Southwestern Ontario Office Investment Trends

- During the pandemic, investment activity remained relatively stable compared to other Ontario markets, as office demand remained slightly healthier due to strong job growth.
- Long-term investor sentiment remains optimistic as government initiatives, including FedDev Ontario and the Southwestern Ontario Development Fund, help support local businesses.

2023 Office Trends

24,000 SQUARE FEET
will be completed

CONSTRUCTION:
Building activity will slow in 2023, after a solid year of development in 2022. As a result, this reduction in construction may act as a backstop for falling demand and underlying office fundamentals.

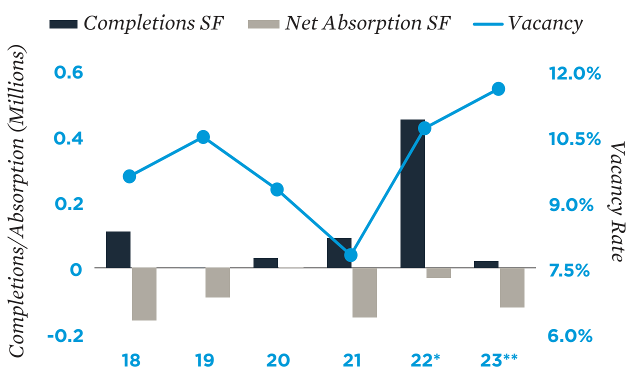
90 BASIS POINT
increase in vacancy

VACANCY:
The softening in demand will contribute to a further rise in availability. The limited new supply, however, will likely lead to the vacancy rate increasing at a more moderate pace compared to 2022.

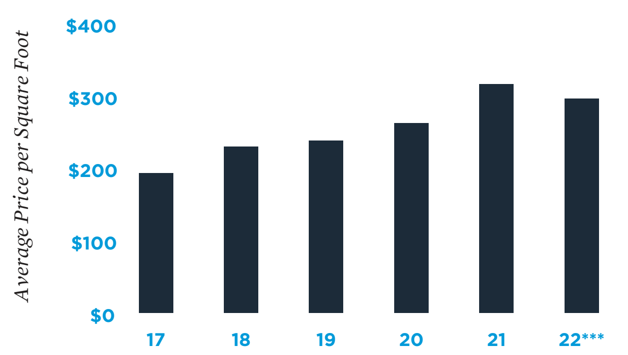
0.2% INCREASE
in asking rent

RENT:
With new, high-quality Class A assets being delivered in 2022 — which were not fully pre-leased — the average asking rent is anticipated to rise, though only marginally.

Supply and Demand



Sales Trends



** Estimate; ** Forecast; *** Through 3Q*

Sources: Altus Data Solutions; CoStar Group, Inc.; Statistics Canada

INDUSTRIAL

Industrial Sector Benefits from Redirected Tenant and Investor Interests

Location and competitive costs drive healthy outlook. Southwestern Ontario sits at an ideal location, with the state of Michigan to the west, as well as the GTA and the state of New York to the east. The presence of multiple industrial clusters, including London, Brantford and Kitchener, provides tenants and investors with cost-effective alternatives to Toronto's tight and pricey industrial market. With the neighbouring GTA reaching historically low availability and a record-high average asking rent last year, demand migrated and boosted leasing activity within the region, which pushed vacancy down to 0.5 per cent in mid-2022. Construction ramped up immediately afterward, and will likely pick up further this year to provide relief to the region's tight availability. Over the long term, Toronto's decade-long supply shortage may continue to drive the region's industrial demand. Furthermore, with relatively lower land acquisition costs, multiple government incentives encouraging industrial development, and the region's optimal location, construction activity has the potential to rise substantially in the future to accommodate excess tenant and investment demand from the GTA.

Southwestern Ontario Industrial Investment Trends

- Deals have been concentrated in the $1 to $10 million range, but may shift to $20 million-plus as large-bay facilities are expected, due to the relative abundance of development land.
- The average sale price is now above $200 per square foot, but is still lower than Toronto prices. This will likely stimulate investor interest, as high demand from the GTA spills over to the region.

2023 Industrial Trends

3.8 MILLION
SQUARE FEET
will be completed

CONSTRUCTION:
Construction will increase by roughly 80 per cent this year. Multiple large-bay projects are expected, including the Allendale Business Park in Cambridge and the Homer Watson Business Park in Kitchener.

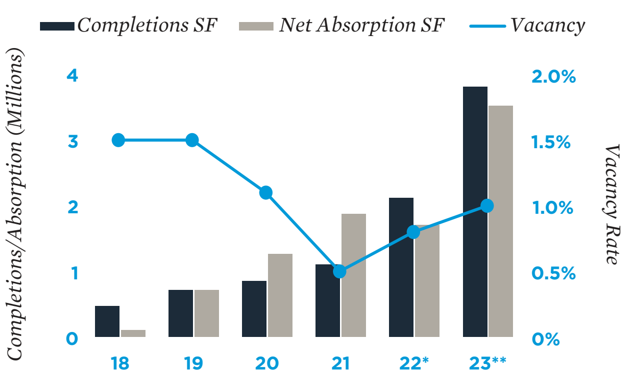
20
BASIS POINT
increase in vacancy

VACANCY:
Although net absorption remains robust, the significant uptick in completions will provide some relief, pushing vacancy up slightly to 1.0 per cent by year-end.

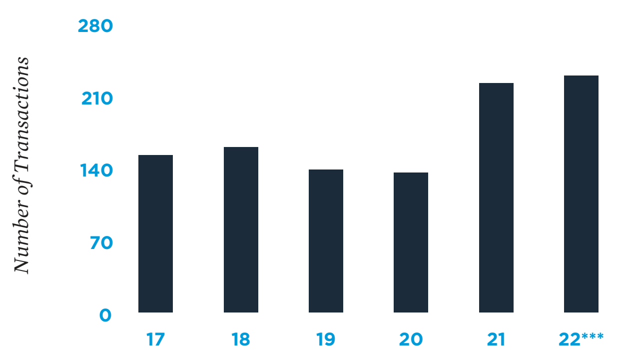
13.1%
INCREASE
in asking rent

RENT:
The average asking rent will continue to rise, due to the completions of new, upper-tier industrial properties. The rate of increase, however, is expected to soften from last year's high amid a surge in supply.

Supply and Demand



Transaction Trend



** Estimate; ** Forecast; *** Trailing-12-months through 3Q*
Sources: Altus Data Solutions; CoStar Group, Inc.; Statistics Canada

HOSPITALITY

Hotel Performance Continues Upward; Limited Impact from Inventory Growth

Return of visitors and government subsidies aid hotel revenues. While heavily impacted by the omicron variant early last year, the hospitality sector in Southwestern Ontario experienced a quick recovery after health concerns waned. The average occupancy rate for 2022 rose above the long-term average, which was led by a near 30 percentage-point jump during the summer months. This strong rebound was most visible in the Kitchener Waterloo-Cambridge-Guelph submarket, due the high concentration of post-secondary education institutions located within the region. In addition to the pent-up travel demand and the return of students, this recovery was also aided by the federal government's $68.5 million investment in the metro's tourism-related industries to attract both domestic and international visitors. In 2023, the sector is expected to continue to grow, with key revenue metrics advancing further above their long-term averages. On the supply side, roughly 200 units are expected for completion this year, which represents 1 per cent of the current inventory. This low supply growth should act as a backstop to a potential recession and help keep income metrics elevated in 2023.

Southwestern Ontario Hospitality Investment Trends

- While a high-profile sale near Niagara Falls skewed last year's dollar volume, the total number of trades fell sharply to a multiyear low, due to current owners' lack of willingness to sell.
- The average sale price dropped below $100,000 per room at the end of 2022, largely in line with the pre-pandemic level.

2023 Hospitality Trends

660
BASIS POINT
change in occupancy

OCCUPANCY:
Occupancy will climb above 65 per cent and will almost recover to the pre-pandemic level in 2019. The summer peak will surpass 80 per cent for the first time since 2020.

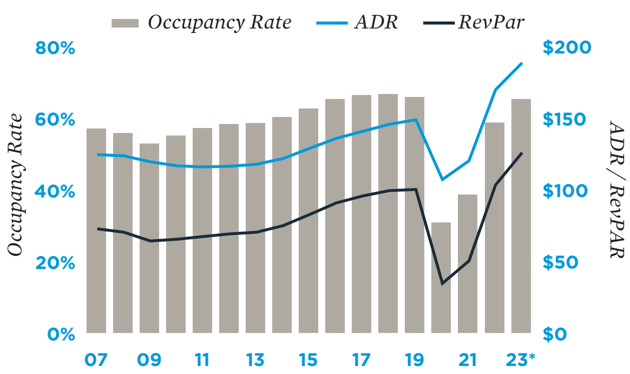
11.1%
INCREASE
in ADR

ADR:
A continued demand recovery will help lift the annual average daily rate above $180 this year. The first half of 2023 will see the largest year-over-year increase of roughly 17 per cent.

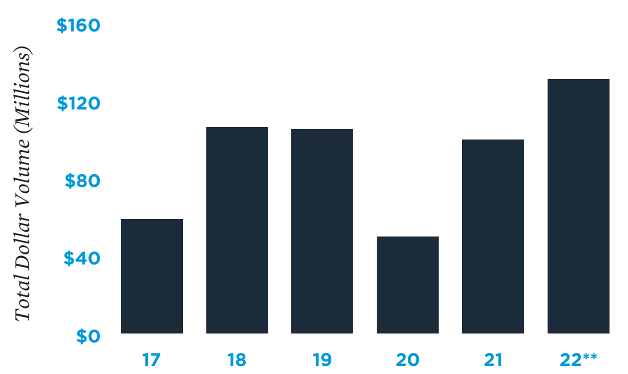
21.9%
INCREASE
in RevPAR

RevPAR:
Revenue per available room will continue on an upward trajectory this year, with the highest gains to be recorded in the first six months. The annual average will reach $125.

Occupancy & Revenue Metrics



Transaction Trends



** Forecast; ** Trailing-12-months through 3Q*

Sources: Altus Data Solutions; Statistics Canada; STR, a CoStar Group Company

APARTMENTS

Immigration and Spillover from Single-Family Market Bolster Optimistic Outlook

Steady demand adds further pressure on vacancy. Multifamily demand in Toronto was strong last year, stemming from increased levels of immigration, a gradual return to office, steep barriers to becoming a first-time homeowner and a sharp decline in completions. In 2023, the metro is expected to welcome a larger number of newcomers, following Canada's newly-expanded immigration target, which will continue to support rental demand. Additionally, still elevated home prices and borrowing costs will keep potential buyers on the sidelines as ownership remains out of reach. This will continue to redirect housing demand toward apartment rentals. These demand forces, however, may be moderately softened by a mild rise in unemployment, particularly in the metro's tech sector, as a result of decelerating economic growth in the near term. Furthermore, an uptick in supply this year may temporarily slow declining vacancy. Over the long term, however, elevated interest rates are causing developers to pause, or outright cancel projects, which could exacerbate the supply and demand imbalance over the coming years.

Toronto Apartment Investment Trends

- The average apartment price reached roughly $360,000 per unit in 2022, driven in part by investors' views on the positive property performance metrics resulting from strong leasing demand and limited new supply.
- While total dollar volume traded remained stable last year, the western submarkets — such as Burlington and Mississauga — saw a notable increase, partially driven by lower average prices.

2023 Apartment Trends

5,060
UNITS
will be completed

CONSTRUCTION:
New supply will record a 41 per cent year-over-year increase in 2023, as some projects that have been delayed throughout the pandemic are able to reach completion this year.

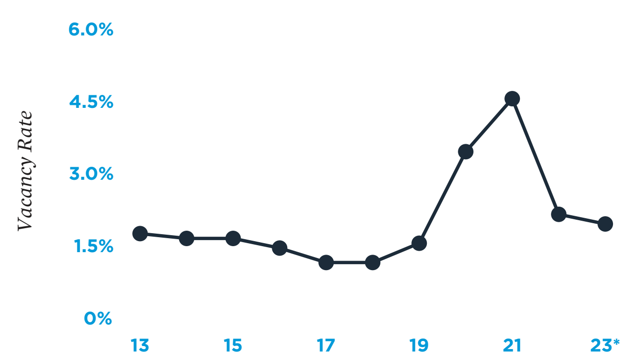
20
BASIS POINT
decrease in vacancy

VACANCY:
Following a significant drop in 2022, the vacancy rate will continue on its downward trajectory. Although, the pace of decline will decelerate, as a result of increasing supply and a potential softening in demand.

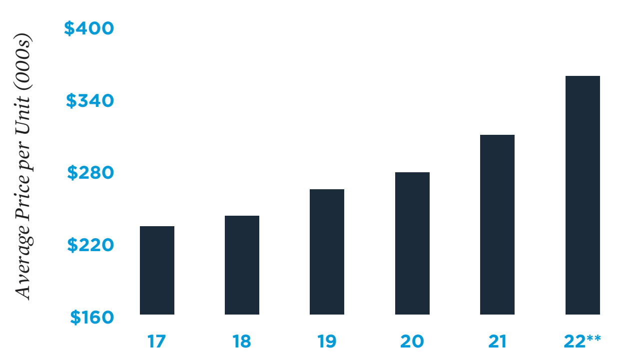
4.6%
INCREASE
in effective rent

RENT:
A number of Class A buildings, including The Well and Mirvish Village, will push the average effective rent up. Slower turnover, resulting from a possible near-term economic slowdown, will cap this increase.

Vacancy Trend



Sales Trends



** Forecast; ** Through 3Q*
Sources: Altus Data Solutions; CMHC; CoStar Group, Inc.; Statistics Canada

RETAIL

Job Market Slack and Large Supply Deposit to Elevate Availability

Supply shortage to be temporarily ameliorated. As the Bank of Canada aggressively lifted borrowing costs last year to combat inflation, consumer spending in Toronto leveled off quickly after peaking in June. The local labour market also showed early signs of moderation as elevated interest rates reduced company valuations and impeded hiring activity. As a result, the metro's unemployment rate ticked up above 6 per cent late last year. As the monetary tightening program continues to work its way through the local economy, consumer spending is expected to see additional softening in 2023, which will likely be complicated by further job losses. This demand headwind will lead to a year of relatively lacklustre leasing activity as a result, especially in the non-essential sector. The essential segment, however, will likely remain robust as consumers shift spending away from discretionary goods and services. On the supply side, projects that have been delayed during the pandemic are expected to come to market this year, lifting completions to the highest level since 2020. This substantial supply increase, coupled with demand-side headwinds, will temporarily lift the metro's tight vacancy rate to a slightly more balanced level.

Toronto Retail Investment Trends

- As rising borrowing costs hindered the availability of financing, the metro saw a broad deceleration in investment activity across all deal size tranches last year, which is likely to extend into 2023.
- The average sale price reached a historic high in 2022, close to $700 per square foot. Cap rates, however, remained elevated.

2023 Retail Trends

1.86 MILLION SQUARE FEET
will be completed

CONSTRUCTION:
Deliveries in 2023 will see a more than twofold increase, with most arrivals in the suburbs. Many projects delayed throughout the health crisis, including The Well, are expected for completion this year.

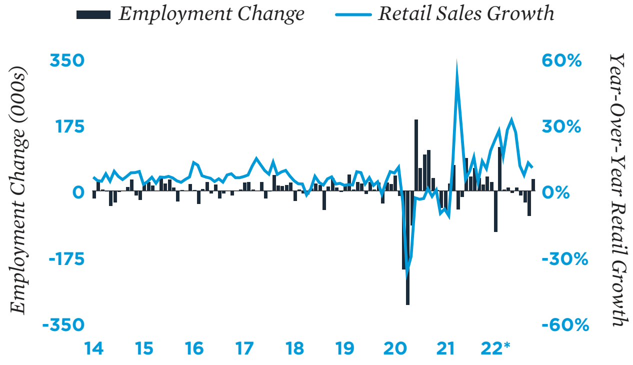
20 BASIS POINT
increase in vacancy

VACANCY:
Softer demand, caused by near-term economic uncertainties and a notable pickup in completions, will put slight upward pressure on the metro's vacancy rate.

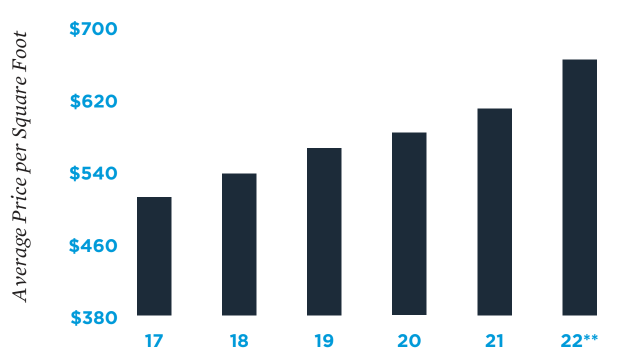
2.6% INCREASE
in asking rent

RENT:
The average asking rent will track upward, due to still-elevated price growth and the presence of percentage rents. However, the pace of rent growth will ease, as a result of increased availability.

Employment Vs. Retail Sales Trends



Sales Trends



* Through October; ** Through 3Q

Sources: Altus Data Solutions; CoStar Group, Inc.; Statistics Canada

OFFICE

Industries that Drove the Recovery Hit Pause in Toronto, Disrupting Momentum

Supply surge amid economic uncertainty creates headwinds. As rising interest rates cool the national economy, hiring activity in Toronto will consequently slow in 2023. The technology sector — which drove the office sector recovery in early 2022 — has already experienced hiring freezes and layoffs, and will likely see recruitment activity remain weak throughout this year, leading to sluggish demand for office space. Demand from other sectors may also stagnate as businesses navigate through near-term economic uncertainty. Furthermore, the overall slow return to office, seen through subdued workplace activity in fall 2022, will put a lid on businesses' office expansion plans. These factors will contribute to a further rise in vacancy across the GTA. On the supply side, the influx of new space will likely add to the surplus, and further dampen underlying fundamentals. The increase in new properties, coupled with fading office demand, will subsequently result in an uptick in the availability of older and less-amenitized Class B and C assets. These properties typically take longer to be absorbed, and will exert downward pressure on the average asking rent throughout this year.

Toronto Office Investment Trends

- Investment began to slow in the second quarter of 2022, as interest rates began to rise. Deal flow will likely remain sluggish this year amid economic uncertainty and the ongoing trend of hybrid work.
- The average sale price peaked in early 2022 and has since been trending down, due to softer investor demand. As a result, the average cap rate has slowly been moving upward.

2023 Office Trends

6.3 MILLION
SQUARE FEET
will be completed

CONSTRUCTION:
Deliveries will ramp up significantly this year, partly due to the delayed completion of The Well in the Fashion District. Another major addition will be the TD Bank building located in the Financial Core.

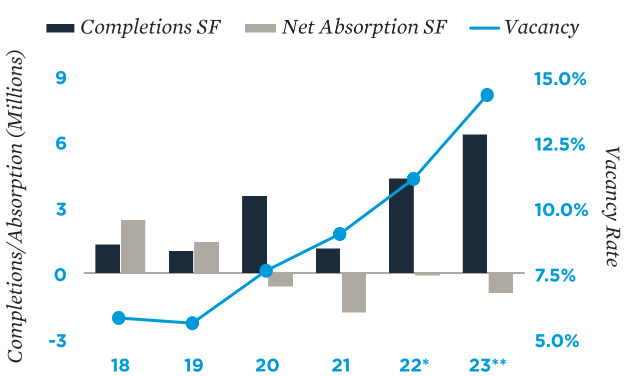
320
BASIS POINT
increase in vacancy

VACANCY:
Net absorption will remain negative for the fourth consecutive year since the onset of the global health crisis, as a result of weak demand and excess supply. This will push the vacancy rate to 14.3 per cent.

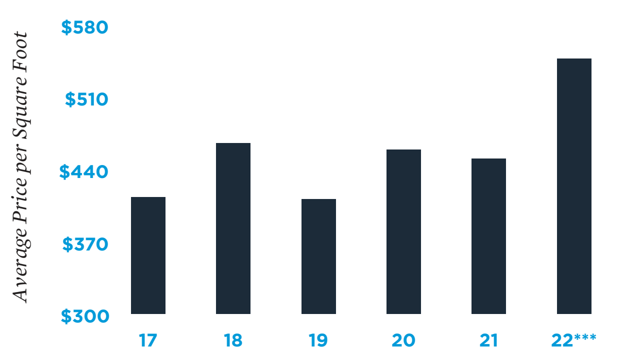
0.7%
DECREASE
in asking rent

RENT:
Most new Class A assets are fully pre-leased, while Class B and C properties continue to account for a larger share of vacant space on the market. The average asking rent, as a result, is expected to drop slightly.

Supply and Demand



Sales Trends



** Estimate; ** Forecast; *** Through 3Q*

Sources: Altus Data Solutions; CoStar Group, Inc.; Statistics Canada

INDUSTRIAL

Supply and Demand Imbalance Pushes Vacancy to Extremely Low Level

Vacancy continues to trend downward. Availability in Toronto's industrial market was on a steady decline prior to 2020. The pandemic accelerated this tightening, due to strong e-commerce demand, elevated uncertainties surrounding global supply chains and extremely subdued supply. Construction limitations have long been the underlying force for the metro's supply and demand imbalance. Building activity is geographically bounded by Lake Ontario and the Greenbelt. Developers also have to navigate through tedious approval processes in order to begin construction. This has led to multiple years of limited completions, which has become a driving force for the ultra-low availability. Although elevated inflation and rising interest rates have the potential to cause an economic recession, tenant competition will likely remain fierce as businesses continue to localize supply chains to reduce offshoring risks. Deliveries will pick up after pandemic delays, adding almost 50 per cent more space to market than last year, but will still be outpaced by absorption. Vacancy, as a result, will retreat to a record low, and the average asking rent will rise further, despite near-term economic uncertainties.

Toronto Industrial Investment Trends

- The ultra-low availability helped push the average sale price to a record high in 2022, making the metro the second-highest priced market in Canada, trailing only Vancouver.
- The GTA West continues to attract the most investment attention; however, the GTA East is emerging as a hotbed for investment, due to its relatively low sale price.

2023 Industrial Trends

12.5 MILLION SQUARE FEET *will be completed*

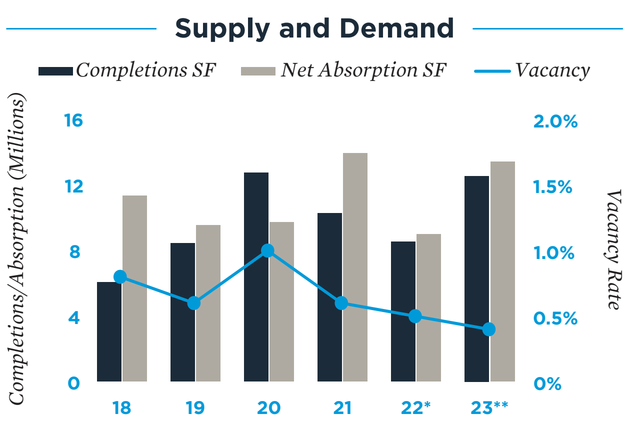
CONSTRUCTION: The metro will see roughly 4 million more square feet added in 2023. Over 60 per cent of this space will be in the GTA West, due to the area's robust highway network and close proximity to Pearson Airport.

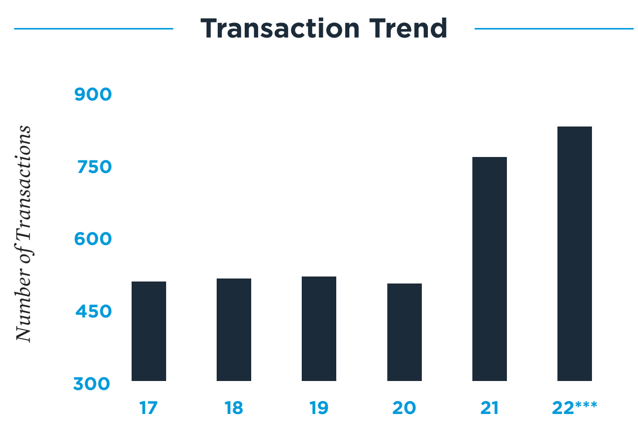
10 BASIS POINT *decrease in vacancy*

VACANCY: Despite economic headwinds, net absorption will exceed supply due to intense tenant competition. The vacancy rate will reach an all-time low of 0.4 per cent by year-end.

11.2% INCREASE *in asking rent*

RENT: After increasing 26 per cent in 2022, limited supply and robust demand will keep the average asking rent on an upward trajectory. By year-end, rent is expected to approach the $20.00 per square foot mark.





* Estimate; ** Forecast; *** Trailing-12-months through 3Q

Sources: Altus Data Solutions; CoStar Group, Inc.; Statistics Canada

HOSPITALITY

Rise in Inbound Trips and Return of Business Travel Lead to Further Recovery

Hotel revenues continue upward, despite cooling inflation. The hospitality sector experienced a swift rebound, after the omicron variant faded early last year. Occupancy jumped 50 percentage points from the winter trough to the summer peak in just five months, with the annual occupancy rate for 2022 reaching its long-term average. Looking forward, as worldwide COVID-19 restrictions — particularly in Asia — continue to ease and in-person business events normalize, further recovery in international and corporate travel is expected, which will help raise occupancy throughout 2023. Furthermore, due to hotels' ability to reset rents on a nightly basis, the average daily rate in the metro rose above $200 in 2022. This year, as aggressive monetary tightening is expected to cause a deceleration in inflation, the average daily rate should continue to rise, but at a slower pace. On the supply side, deliveries have remained scarce, acting as a backstop for fundamentals in times of economic hardship. The downtown and west submarkets, however, will see major additions in the coming years, including RIU's first Canadian hotel, which will add over 350 rooms.

Toronto Hospitality Investment Trends

- Investment activity declined significantly in 2022 as financing costs were elevated and the incentive to sell was muted, with hotel owners benefiting from the asset's inflation-resistant nature.
- Investor attention toward hotel assets is likely to grow in and beyond 2023, as the metro sees a notable rise in construction activity.

2023 Hospitality Trends

530
BASIS POINT
change in occupancy

OCCUPANCY:
While the occupancy rate will advance further to 71.2 per cent, driven by the return of citywide events and corporate travel, it will still sit below the pre-pandemic level.

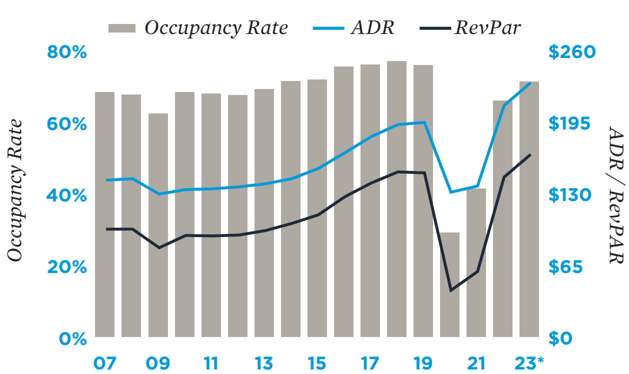
9.8%
INCREASE
in ADR

ADR:
Following an over 50 per cent increase in 2022, the average daily rate will rise further, albeit at a softer pace, with the annual average rising above $230.

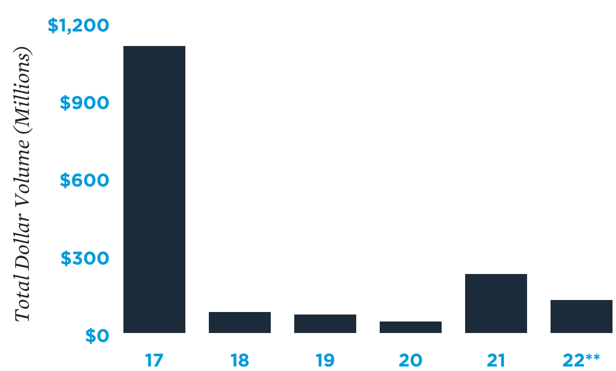
14.2%
INCREASE
in RevPAR

RevPAR:
Further improvement in occupancy and the average daily rate will push the annual RevPAR to $165, which is well above its long-term average.

Occupancy & Revenue Metrics



Transaction Trends



** Forecast; ** Trailing-12-months through 3Q*

Sources: Altus Data Solutions; Statistics Canada; STR, a CoStar Group Company

APARTMENTS

Rental Needs Remain Strong; Rise in Supply Temporarily Halts Vacancy Slide

Supply increase not sufficient to lift vacancy. The GVA's apartment rental market tightened at a rapid pace during the past two years, with vacancy falling to sub-1 per cent in 2022. Although annual supply had risen to roughly 6,000 units, newly-built apartments were being absorbed at a blistering pace. This was a byproduct of exceptionally strong demand from high-salaried tech workers, domestic and international migration, as well as the return of university students. In 2023, deliveries will record another year of solid growth, partially facilitated by the government's new 3-3-3-1 plan. This new program encourages development activity by streamlining the planning process and reducing construction obstacles. Demand tailwinds will also likely persist, as the city looks to welcome record levels of new residents, following the updated national immigration target. Furthermore, still elevated homeownership costs will keep single-family sales subdued, redirecting housing demand to the multifamily market. Due to this, availability will continue to sit below 1.0 per cent but remain temporarily stable this year, as a result of the uptick in new construction.

Vancouver Apartment Investment Trends

- The average sale price rose at a milder pace compared to other metros last year. Vancouver, however, remains the highest-priced market in Canada, offering the lowest average cap rate.
- Total dollar volume traded softened in 2022. Despite this, the new Broadway subway line and the metro's latest 3-3-3-1 initiative will likely bode well for investment activity in the coming years.

2023 Apartment Trends

7,815
UNITS
will be completed

CONSTRUCTION:
Annual deliveries will reach an all-time high, with close to 8,000 units expected for completion this year. This increase is a result of projects that were delayed during the global health crisis finally being delivered.

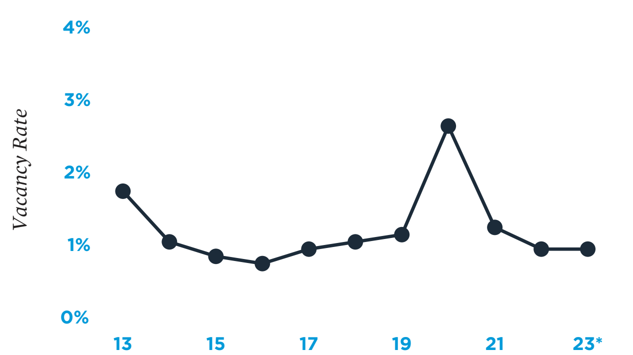
0
BASIS POINT
change in vacancy

VACANCY:
Even as deliveries jump by 28 per cent, absorption will likely keep pace as strong demand from multiple sources persists. Vacancy, as a result, will remain at an extremely low level of 0.9 per cent.

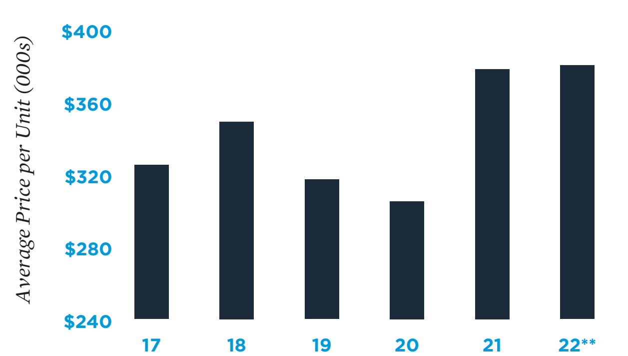
5.3%
INCREASE
in effective rent

RENT:
The GVA's average effective rent will reach $1,750 per month, more than 40 per cent above the national average. The metro is expected to remain the priciest rental market in Canada.

Vacancy Trend



Sales Trends



** Forecast; ** Through 3Q*

Sources: Altus Data Solutions; CMHC; CoStar Group, Inc.; Statistics Canada

RETAIL

Affluent Consumers and Further Recovery in Tourism Underpin Retail Performance

Availability to stabilize at an extremely low level. The metro's retail sector has proven to be resilient throughout the pandemic. Vacancy ticked up just 30 basis points at the height of the health crisis and quickly retracted thereafter, ending 2022 below the pre-pandemic level. Due to very low inventory growth during the past two years, vacant space has been absorbed at a rapid pace. This trend is likely to continue in 2023. Near-term macroeconomic headwinds may weigh on the retail sector, as a result of reduced household spending and diminished foot traffic. However, wealthy consumers within the metro, combined with an expected further recovery in the tourism industry, have the potential to act as a backstop to moderating demand. This will enable retailers to stay afloat, with a potential recession on the horizon. Furthermore, supply-side pressure will be limited. While a large increase in completions is expected in 2023, the pace of supply growth will remain well below pre-pandemic norms. Vacancy, as a result, will hold stable at an exceptionally subdued level, nearly 100 basis points below the national average.

Vancouver Retail Investment Trends

- Metro Vancouver remains the highest-priced retail market in Canada. The average sale price for single-tenant properties broke the $1,000 per square foot mark last year, bringing the average cap rate to roughly 5.5 per cent.
- Infrastructure projects, including the Surrey Langley SkyTrain extension and the Broadway Subway Project, will create a more interconnected GVA and generate further investment opportunities.

2023 Retail Trends

774,000
SQUARE FEET
will be completed

CONSTRUCTION:
Construction activity will record a healthy yearly expansion, with 147 per cent more supply coming to market. The level of completions, however, will still fall short of the 2019 level of roughly 1.4 million square feet.

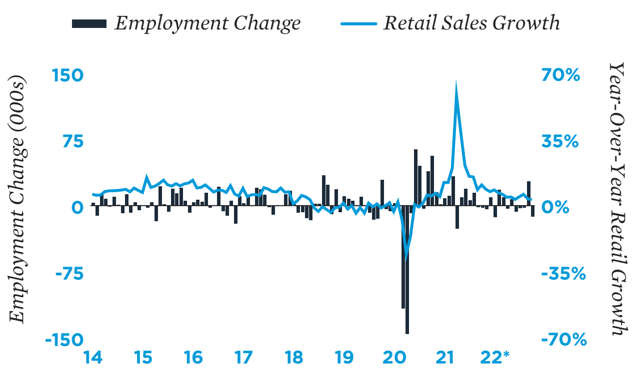
0
BASIS POINT
change in vacancy

VACANCY:
The softening in demand and uptick in inventory growth will likely halt the declining trend in vacancy. Availability will remain relatively stable at roughly 1 to 2 per cent.

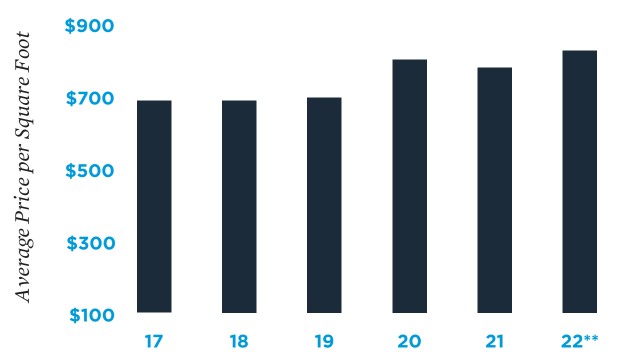
3.6%
INCREASE
in asking rent

RENT:
Fierce competition, coupled with inflationary pressures benefiting percentage rents, has the average asking rent for high-end locations along Robson and Alberni nearing $200 to $250 per square foot.

Employment Vs. Retail Sales Trends



Sales Trends



** Through October; ** Through 3Q*
Sources: Altus Data Solutions; CoStar Group, Inc.; Statistics Canada

OFFICE

Strong Class A Pre-Leasing Activity Outweighed by Influx of New Developments

Vacancy to rise, due to substantial construction. Vancouver's office market proved to be relatively resilient during the pandemic, with vacancy remaining below the national average. Fewer pandemic-related restrictions, along with strong employment gains, have contributed to healthy demand for top-tier office space. Despite this, waves of new supply over the past two years have kept vacancy on an upward trajectory, as deliveries are not fully pre-leased and companies continue to take a wait-and-see approach regarding future office needs. In 2023, demand for Class A assets will likely elevate as pre-leasing activity in the tech, finance and professional service sectors remain steady. Supply, however, will speed up and exceed absorption, as deliveries of several large downtown buildings — many of which started construction before the health crisis — are expected later this year. Furthermore, with a possible economic slowdown on the horizon, availability may increase further in lower-tier assets, given the flight-to-quality trend. The overall vacancy rate, as a result, will increase, causing rent growth to soften.

Vancouver Office Investment Trends

- Rising interest rates have the potential to weigh on investment activity this year. Intense tenant competition for scarce high-end space, however, will likely bode well for investment opportunities in Class A assets over the long term.
- The Lower Mainland remains the highest-priced office market in Canada. The average sale price is nearly twice the national average, despite a notable decline of 20 per cent recorded in mid-2021.

2023 Office Trends

3.8 MILLION
SQUARE FEET
will be completed

CONSTRUCTION:
Multiple pre-pandemic construction projects are slated for completion in the downtown core. This uptick more than doubles what was witnessed last year, causing new supply to outpace demand.

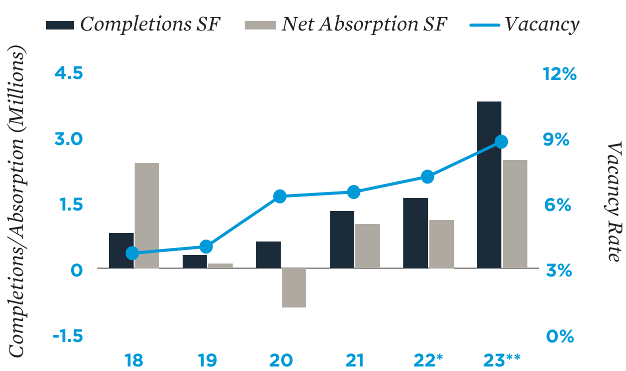
160
BASIS POINT
increase in vacancy

VACANCY:
This rise in vacancy will be fueled by a surge in availability within lower-tier properties, as a result of the flight-to-quality trend seen across Canada. The vacancy rate is expected to end the year at 8.8 per cent.

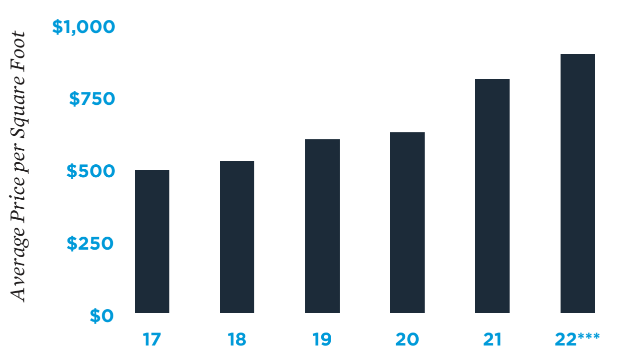
1.2%
INCREASE
in asking rent

RENT:
Rent growth this year will likely be capped by the rise in Class B and C vacancy. With new supply not fully pre-leased, however, the average asking rent is still expected to increase, though only marginally.

Supply and Demand



Sales Trend



** Estimate; ** Forecast; *** Through 3Q*

Sources: Altus Data Solutions; CoStar Group, Inc.; Statistics Canada

INDUSTRIAL

New Development Zone and Innovative Build Concepts Slightly Lift Availability

New supply provides limited relief. As Canada's largest and busiest gateway, the Port of Vancouver handles the most diversified cargo shipments in North America, which is the dominant demand driver for the metro's industrial sector. Furthermore, the pandemic propelled the e-commerce industry to expand its warehouse footprint, best exemplified by Amazon, which in 2021 announced the opening of five new fulfillment centres within the metro. Pre-leasing, as a result of the robust demand, is exceptionally strong, with tenants securing leases on speculative builds. Supply has historically lagged behind demand, however, causing vacancy to remain below 1 per cent. Nonetheless, completions swiftly rebounded last year, and a further surge is expected in 2023. Development activity is accelerating in South Campbell Heights, as the proposal to rezone the area for industrial use received approval last year. Developers are also exploring new ways to increase availability by building multi-storey mixed-use industrial facilities. Glenlyon Business Park in Burnaby will be the largest multi-level project slated to open this year, offering more than 1 million square feet of warehouse and office space.

Vancouver Industrial Investment Trends

- The average sale price recorded more than a $100-per-square-foot gain in 2022, far outpacing other metros. Metro Vancouver continues to be the highest priced market with the lowest cap rate.
- Rising interest rates took a toll on investment activity in the second half of 2022. Sales volume, however, may recover as financing conditions become more stable later this year.

2023 Industrial Trends

6.8 MILLION
SQUARE FEET
will be completed

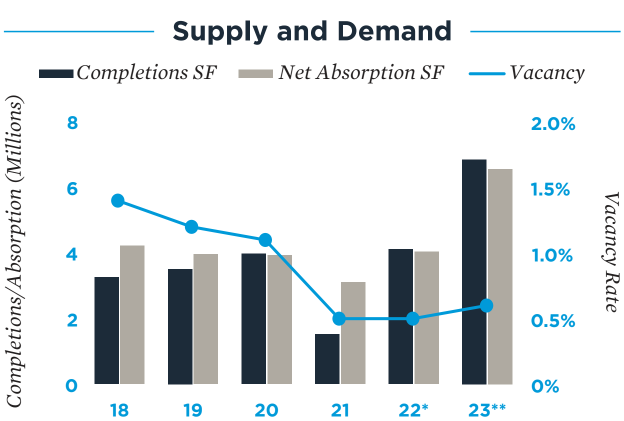
CONSTRUCTION:
Competitions will rise by 66 per cent, with Surrey seeing the most activity, as development permits have been submitted on roughly 120 acres of land after South Campbell Heights was cleared for industrial use.

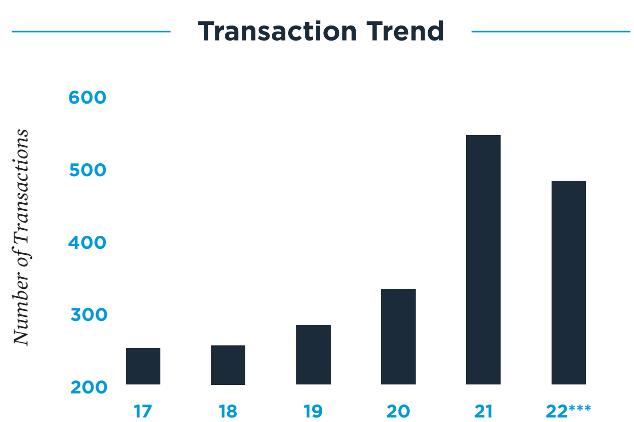
10
BASIS POINT
increase in vacancy

VACANCY:
Net absorption will remain exceptionally strong, but the substantial increase in new construction will offer some temporary relaxation in availability. As a result, vacancy will record a slight uptick to 0.6 per cent.

8.6%
INCREASE
in asking rent

RENT:
After approaching the $20 per square foot mark in 2022, the average asking rent will continue to climb this year, albeit at a moderating pace, due to an influx of new construction in outlying regions.





** Estimate; ** Forecast; *** Trailing-12-months through 3Q*
Sources: Altus Data Solutions; CoStar Group, Inc.; Statistics Canada

HOSPITALITY

Prime Location and Strong U.S. Dollar Aid Further Hotel Sector Growth

Robust demand makes Vancouver Canada's strongest market. Building on a brisk recovery over the past 12 months, Vancouver will see its hospitality sector return to the pre-pandemic normal in 2023. The metro's competitive location and mild climate attract both leisure and business travelers all year-round. Although inbound visits from Asia remained sluggish throughout 2022, domestic trips into the metro proved resilient. Trans-border travel also saw a swift rebound, which was aided by the removal of all travel restrictions and further supported by a strong U.S. dollar. All key performance metrics, as a result, registered a remarkable improvement, exemplified by the 114 per cent annual increase in revenue per available room. This year, while transient leisure travel will continue to provide the backbone for the metro's hotel demand, the return of more group and corporate travel will contribute additional gains. Furthermore, a less expensive Canadian dollar, relative to the U.S. dollar, will also continue to benefit hotel bookings, particularly by American visitors from the neighbouring states on the West Coast. These heightened demand drivers will push annual average occupancy above 78 per cent, largely on par with the pre-pandemic level.

Vancouver Hospitality Investment Trends

- While the number of sales has historically remained muted, a surge in completions, in anticipation of the 2026 World Cup, may considerably boost investment activity over the long term.
- Lack of new supply and strong investor demand pushed the average sale price to $300,000 per room in 2022, the highest in Canada.

2023 Hospitality Trends

710
BASIS POINT
change in occupancy

OCCUPANCY:
The annual average occupancy rate will improve to 78.4 per cent, in line with its pre-pandemic level. Strong demand tailwinds will lift the peak summer rate close to 90 per cent.

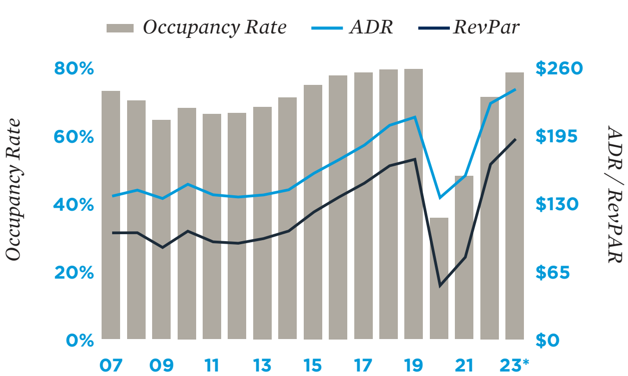
6.0%
INCREASE
in ADR

ADR:
Following a 44 per cent year-over-year improvement in 2022, the pace of increase will slow this year. The average daily rate for most months will sit above $190, with the summer high surpassing $300.

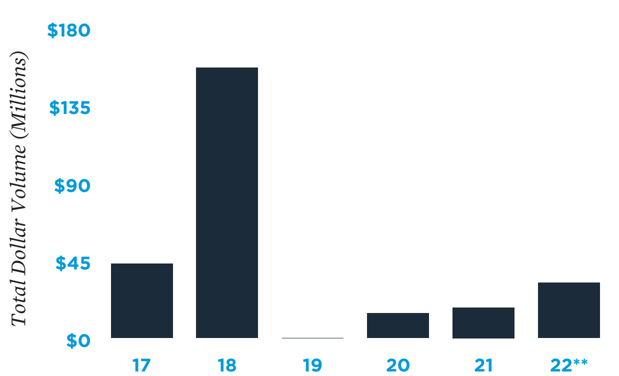
14.5%
INCREASE
in RevPAR

RevPAR:
Revenue per available room will rise to an all-time high of $191. The winter and spring months will see the strongest gains, as demand is expected to bounce back to normal levels from last winter's trough.

Occupancy & Revenue Metrics



Transaction Trends



** Forecast; ** Trailing-12-months through 3Q*

Sources: Altus Data Solutions; Statistics Canada; STR, a CoStar Group Company

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Steve DeGennaro | *Executive Vice President, Chief Financial Officer*

Gregory A. LaBerge | *Senior Vice President, Chief Administrative Officer*

Andrew Strockis | *Senior Vice President, Chief Marketing Officer*

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Michael L. Glass | *Senior Vice President, Division Manager*

John Horowitz | *First Vice President, Division Manager*

Brian Hosey | *First Vice President, Division Manager*

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Sources: IPA Research Services; Altus Data Solutions; Canada Mortgage and Housing Corporation; Capital Economics; CoStar Group, Inc.; Canadian Real Estate Association; Environics; Province of Quebec - Quebec Perspective Scholarship; Statistics Canada; STR, a CoStar Group Company; TD Economics

CONNECTING THE RIGHT **INVESTORS** WITH THE RIGHT **OPPORTUNITIES**

IPA embraces a new world of commercial real estate with institutional connectivity and a versatile platform. We are constantly evolving our process, exceeding expectations, and delivering results.

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