IPA | INSTITUTIONAL PROPERTY ADVISORS

A DIVISION OF
MARCUS & MILLICHAP, BROKERAGE

2024

CANADA

National Investment Forecast

TO OUR VALUED CLIENTS

Canada's commercial real estate industry was resilient in 2023. Healthy fundamentals across most property types and markets held, despite rapidly rising interest rates curbing investment activity. These healthy performance metrics, along with the expectation that borrowing costs have peaked, are set to provide some optimism for investors over the coming year. Stabilizing financing conditions will aid in price recalibration, while record levels of deployable investment capital are currently sidelined, waiting for uncertainty to abate. These factors should align to boost sales activity over the course of the year.

Industrial properties are expected to remain a preferred investment option. Limited supply, ongoing e-commerce activity, and nearshoring should all support performance. Multifamily assets will also continue to gain investor attention. Immigration is set to reach new highs, while homeownership challenges remain, furthering the need for apartment rentals. Lastly, necessity-based, neighbourhood retail will generate positive sentiment, due to the sector's stability and its role in servicing communities seeing strong population growth.

The uptick in immigration expected this year will also benefit Canada's economy. This influx of new residents, combined with declining borrowing costs, will provide a boost to consumer spending. While growth is expected to be modest, commercial real estate should be well-positioned to benefit, given limited supply and ongoing demand across the property spectrum.

As the coming year unfolds, opportunities are set to rise for both buyers and sellers. We hope this report provides useful insights to help you define your investment strategies and navigate the emerging landscape. As you adapt to ongoing and evolving trends, our investment professionals look forward to assisting you in meeting your goals.

Sincerely,

MICHAEL HECK
Vice President
Regional Manager
Calgary, Edmonton & Vancouver

MARK PATERSON
First Vice President
Regional Manager
Montreal, Ottawa & Toronto

LUKE SIMURDA
Director of Research, Canada

JOHN CHANG
Senior Vice President
Director, Research Services

TABLE OF CONTENTS

NATIONAL PERSPECTIVE

MARKET OVERVIEWS

CLIENT SERVICES

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

- Affordability, elevated energy prices and evolving labour opportunities will promote another year of robust in-migration and population growth. Multifamily will further benefit from these traits, maintaining the property type as a preferred investment option.

- Calgary's industrial market will remain healthy as it offers a more cost-effective alternative to gateway markets like Vancouver and Toronto. The metro also has access to deep-water ports in British Columbia and will continue to play an increasing role as a center for distribution and logistics, servicing all of western Canada.

EDMONTON

- Edmonton is becoming a major player in the artificial intelligence sector. Combined with the metro's more affordable nature, the area is seeing historic in-migration and population growth. A younger demographic with high income potential is forming from this trend, aiding upper-tier apartment demand.

- Alberta's economy is poised to benefit from increasing oil production, diversification and continued in-migration over the next 12 months. Edmonton's job market is expected to be well-cushioned against the impact of elevated interest rates due to these traits. The retail property sector will benefit as a result.

MONTREAL

- Montreal holds a disciplined office construction pipeline. Along with stable demand for upper-tier space — especially from the tech and life science sectors — Class A vacancy rates could show further signs of stabilizing over the coming year.

- Royalmount shopping center is slated to be delivered in 2024. It will become a new landmark for Montreal, highlighting the growing want for experiential retail. The metro's large student population and strong immigration will maintain an expanding consumer base, helping combat near-term economic headwinds.

OTTAWA

- Ottawa's geographic location between Canada's two largest cities — Toronto and Montreal — benefits the metro's industrial sector. Along with lower rents, these factors attract large distribution and logistics firms looking to service Canada's most populated areas.

- As Canada's capital city, the area holds a large public sector presence, which will help cushion the impact of a prolonged period of elevated interest rates. Due to the city's more stable labour market, coupled with still-heightened population growth, multifamily and retail property performance will be well-supported in 2024.

SOUTHWESTERN ONTARIO

- Over the coming years, Southwestern Ontario will benefit from the ongoing trend of nearshoring. Clustering effects from the EV battery boom happening within the region will likely result in robust employment and population growth, aiding both industrial and apartment rental demand.

- Elevated borrowing costs will likely continue to place upward pressure on office vacancy. However, with limited new supply in recent years, coupled with the region's more suburban nature, vacancy rates could stabilize by year-end.

TORONTO

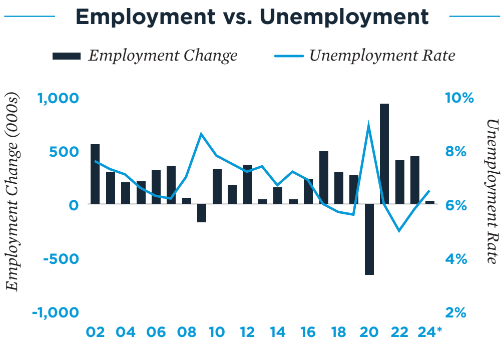
- While industrial demand is set to moderate amid high borrowing costs, rental rates still have room to grow. Rents in the metro sit roughly 30 to 50 per cent below other distribution hubs in North America. With vacancy also lower in Toronto, this suggests rent growth should continue to outpace inflation.

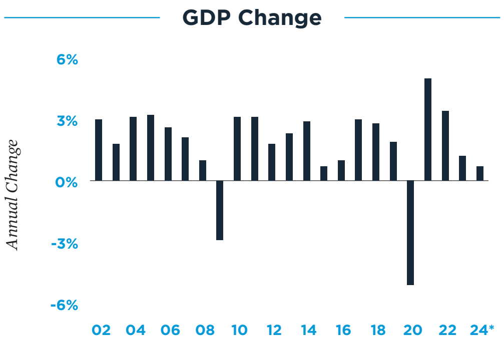
- Toronto's global reputation attracts a diverse rental pool, including job seekers, newcomers to the country and university students. Additionally, with homeownership remaining a challenge for many residents — given still-high prices and elevated borrowing costs — demand for apartments will hold above average this year.

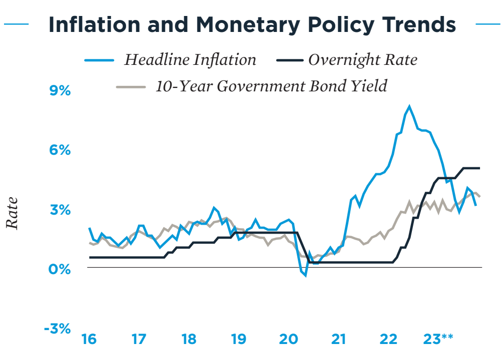
VANCOUVER

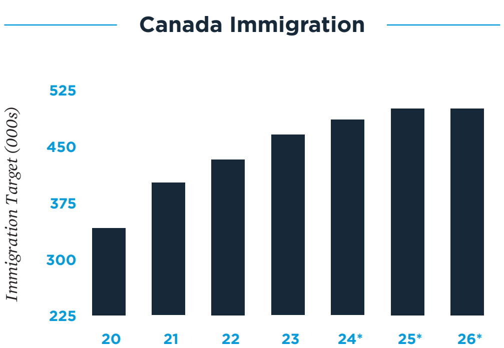
- Vancouver is one of the most important retail markets in Canada. The metro hosts a robust tourism industry, given its natural beauty, and has experienced record population growth in recent years. These factors, along with limited supply, will cushion a short-term slowdown in consumer spending brought on by a prolonged period of elevated interest rates over the first half of 2024.

- Despite the pandemic's impact on Vancouver's office sector, the metro remains one of the top-performing markets in North America. While downtown has seen a larger rise in vacancy due to elevated new supply, suburban and peripheral submarkets have performed better. These areas have had less new supply and are seeing more leasing activity from the healthcare and technology sectors.









** Forecast; ** Through November*

Sources: Bank of Canada; Capital Economics, Statistics Canada; TD Economics

Economic Growth is Slowing and Inflation is Cooling, Supporting the Belief that Interest Rates Have Peaked

Economy has absorbed rising borrowing costs better than expected. Over the past two years, Canada's economy has undergone one of the most rapid tightening cycles in the nation's history. The Central Bank increased its policy rate by 475 basis points in the span of 18 months, bringing it to 5.0 per cent. Despite this, Canada's economy remained relatively resilient over the first half of last year. While real GDP did contract in the third quarter of 2023, the economy has not yet entered into a technical recession. The unemployment rate ended last year near 6.0 per cent, below the nation's pre-pandemic average of 6.5 per cent. Household consumption, while stagnating, has also not witnessed a significant pullback, largely owing to record population growth amid historic immigration. However, some signs of underlying weakness began to show in the latter parts of last year. The unemployment rate increased roughly 100 basis points, and GDP per capita has declined for five consecutive quarters as of September 2023. Consequently, economic growth is likely to remain soft over the first half of 2024, and could even contract further if borrowing costs do not fall as much as expected.

Interest rates have likely peaked. Inflation sat at 3.1 per cent as of November 2023, down from the peak reading of 8.1 per cent seen in June 2022. It is likely that inflationary pressures will continue to cool over the coming year. The nation's unemployment rate has been trending up since the second quarter of 2023, suggesting that wage pressures will continue to ease through 2024. Growth prospects will remain muted as both business and consumer spending are set to moderate further, with consumption re-balancing after the economic contraction seen in the third quarter of last year. As a result, the Bank of Canada has likely reached the end of its monetary tightening cycle. After bond yields stabilized in the latter parts of last year, money markets began pricing in rate cuts as early as the start of the second quarter. Despite this, the magnitude of cuts remains uncertain. If borrowing costs do not drop as much as expected, growth prospects may be hindered.

2024 ECONOMIC OUTLOOK

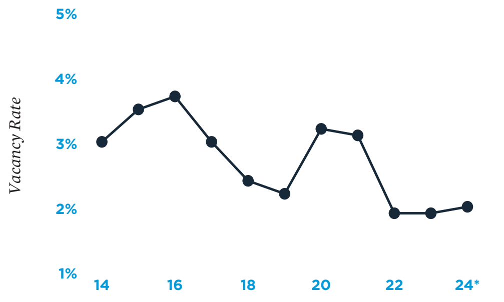
- **Historic immigration to aid long-term prospects.** Canada's population grew by a record pace of 3.2 per cent annually as of October 2023 amid outstanding immigration. This influx of new residents has been the main provider of resilience for Canada's economy as it has expanded the nation's consumer base, propping up household spending. The federal government is set to welcome even more permanent residents in 2024. As the world's third-leading destination for international students, Canada will also welcome a surge in temporary residents. This rapid growth will likely act as a backstop to a softening economy, creating optimism for healthy long-term performance.

- **Economic risk remains if higher borrowing costs are prolonged.** Despite interest rates likely being at their peak, Canada's economy still faces elevated risks of a downturn. With the nation holding the highest household debt levels in the G7, coupled with mortgages renewing on a more frequent basis, rising interest rates have a much greater impact on the Canadian economy. It is estimated that roughly 70 per cent of mortgage-holders will be faced with higher payments by the end of 2024. If financing costs do not fall by as much as the market expects, the Canadian economy could experience a much more significant pullback in consumption and a noteworthy deterioration in its housing market, curbing economic growth prospects.

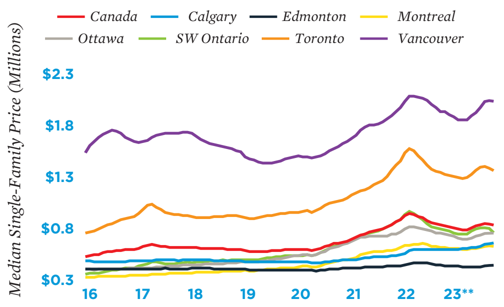
	Calgary	Edmonton	Montreal	Ottawa	SW Ontario	Toronto	Vancouver
	GCA Alberta	*GEA* Alberta	*GMA* Québec	*GOA* Ontario	*SWO* Ontario	*GTA* Ontario	*GVA* British Columbia
JOB GROWTH (2023) *Canada 2.5%*	2.0% (4.1%)	5.7% (4.1%)	1.0% (1.3%)	4.6% (2.6%)	2.5% (2.6%)	3.6% (2.6%)	3.9% (2.3%)
2023 POPULATION AGE 20-34 *Canada Average 19.8%*	24.7% (24.5%)	25.7% (24.5%)	23.8% (22.0%)	26.3% (25.2%)	26.1% (25.2%)	26.7% (25.2%)	26.2% (24.0%)
FIVE-YEAR HOUSEHOLD GROWTH (2023-2028) *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%)
2023 MEDIAN HOUSEHOLD INCOME *Canada $90,689*	$106,494 ($101,569)	$104,110 ($101,569)	$83,426 ($79,019)	$105,887 ($98,919)	$93,338 ($98,919)	$107,413 ($98,919)	$101,357 ($93,585)
HOUSING STARTS (2022-2023 change) *Canada -6.8%*	11.5% (-1.8%)	-23.2% (-1.8%)	-44.1% (-35.7%)	-25.7% (0.3%)	-6.2% (0.3%)	22.0% (0.3%)	37.1% (14.2%)
PERCENT WITH BACHELOR'S DEGREE OR HIGHER (15 years+) *Canada 27.2%*	36.0% (27.3%)	28.3% (27.3%)	29.4% (24.1%)	37.3% (30.1%)	25.3% (30.1%)	37.8% (30.1%)	35.1% (28.6%)

Sources: CMHC, Environics, Statistics Canada

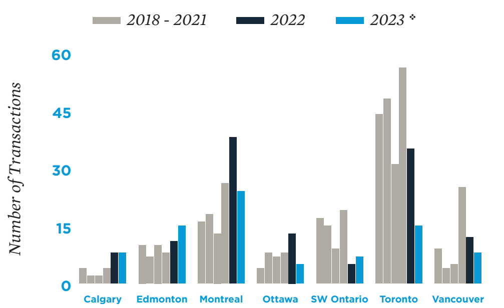
Multifamily Vacancy Trend



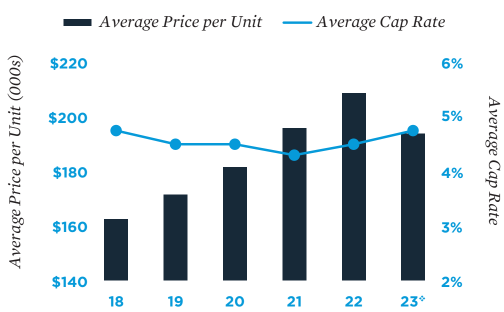
Single-Family Detached Benchmark Price



Apartment Transactions Over $20 Million



Price and Cap Rate Trends



*Forecast; ** Through October; * Trailing 12 months through 3Q*

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

Immigration-Fueled Demand Set to Face Off Against Government-Led Building Efforts

Record population growth fuels multifamily fundamentals. Canada's population has grown at a record-setting pace, expanding 3.2 per cent annually as of the end of the third quarter of last year, pushing the nation's total population above 40 million and causing a surge in apartment rental demand. This robust growth was primarily driven by historic immigration. In 2022, the country welcomed over 435,000 new permanent residents and more than 465,000 last year. Canada also offers many high-quality, post-secondary education institutions, making it the world's third-leading destination for foreign students. International study permits were up 77 per cent annually in 2023, bringing Canada's total international student count to roughly 900,000. Further aiding demand, homeownership remained a challenge for many households, despite the average price of a single-family home softening after the Bank of Canada hiked its policy rate 475 basis points over the past two years. Potential homebuyers continued to find better value within Canada's apartment rental market. As a result, the nation's apartment sector has been extremely tight over the past two years. Canada's vacancy rate hovered just below 2.0 per cent to end 2023, helping annual rent growth reach roughly 7.0 per cent.

Supply shortfalls further prop up apartment rental sector. Due to various rent control policies in many provinces, the feasibility of apartment rentals discouraged building activity over the past decade as for-owned condos generally yielded a better return. As a result, the supply of purpose-built rentals has remained relatively scarce as almost all of Canada's major metros have fewer rental units per capita than 30 years ago. Given Canada's tight vacancy supporting above-average rent growth in recent years, construction activity has significantly picked up. Even so, demand has outpaced supply, which helped support robust apartment performance in 2023.

2024 HOUSING OUTLOOK

- **Demand tailwinds sustain throughout 2024.** With Canada's federal government set to welcome 485,000 new permanent residents this year, followed by an additional 500,000 in 2025 and 2026, population growth is expected to remain well above the nation's long-term average. On top of these historic population tailwinds, the expectation of a prolonged period of higher borrowing costs is likely to create further affordability hurdles within Canada's homeownership market. Housing demand, as a result, is set to continue to be redirected toward the apartment rental sector. While an uptick in construction activity in recent years is likely to alleviate some vacancy pressures, the market will remain well below equilibrium levels. Canada's multifamily sector should hold extremely tight, maintaining the property type as a preferred investment option.

- **Government action to aid development.** As housing affordability has increasingly become an area of concern, the federal government has taken steps to balance Canada's housing market by announcing the Enhanced GST Rental Rebate. This is a tax incentive created in a bid to kickstart purpose-built rental construction by fully eliminating GST and the federal portion of HST. This will account for a minimum 5.0 per cent tax reduction and could spur development as many builders have paused ongoing projects, due to rising costs and limited financing options. The federal government also increased the Canada Mortgage Bond issuance limit by $20 billion per year, ensuring that builders and investors continue to have access to low-cost financing provided by the CMHC.

Expanding Product Offerings Cater to Evolving Demand; Potential for Rate Cuts to Spur Consumption

Resilient consumers helped strengthen sector fundamentals. Supported by a healthy job market and record-high population growth, consumer spending in Canada continued to increase last year, despite rising interest rates. Total retail sales rose 2.1 per cent year-over-year as of September 2023. Leasing demand remained robust as a result, outpacing an increase in completions and suppressing the national vacancy rate below 2.0 per cent, a post-pandemic low. Tenants acted fast to expand their operations once spaces became available. Soon after the exit of Bed Bath & Beyond, for instance, several large retailers — including Canadian Tire, Toys "R" Us, Babies "R" Us and Mountain Equipment Company — quickly announced takeovers of these vacated spaces. Tight vacancy kept rents on an upward trajectory. The average asking rent increased 3.4 per cent year-over-year, which ended 2023 above $30 per square foot.

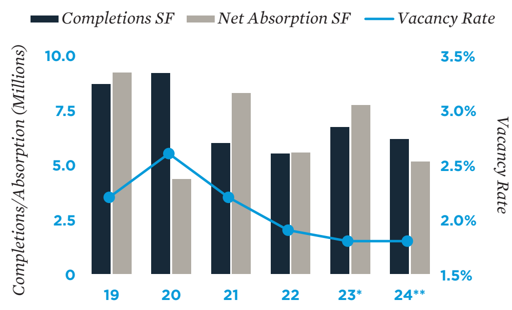
Retail product diversification meeting changing consumer preferences. Consumer behaviour has changed. Compared to the pre-pandemic trend, shoppers spent more on discretionary goods and services in 2023, such as motor vehicles, restaurant dining, personal care and travel. Retail product diversification is also underway to meet growing demand for experiential retail. The Well retail podium in Toronto, The Post in Vancouver and the Royalmount project in Montreal are such developments that enrich consumers' shopping experiences. The former Nordstrom and Nordstrom Rack locations are also expected to be re-purposed for more food and beverage offerings, as well as entertainment uses.

2024 RETAIL OUTLOOK

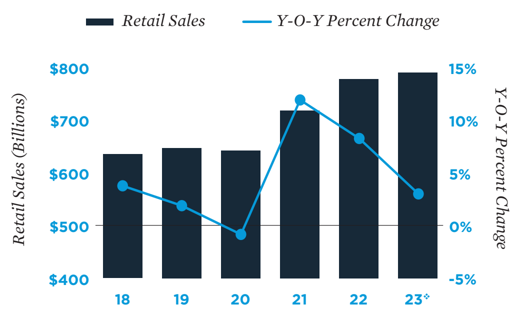
- **Short-term headwinds to soften retail activity; long-term outlook remains positive.** In late 2023, while total retail sales remained up 2.2 per cent annually, inflation-adjusted retail sales contracted for four consecutive months as of September. Consumers began to pull back on spending amid rising debt-servicing liabilities. This trend is likely to continue, at least through early parts of 2024. Consumption in essential retail products, however, should remain healthy, especially in the densely-populated suburbs. In urban areas, downtown foot traffic may normalize only gradually due to still-elevated office vacancy rates. This will continue to be the main challenge for downtown retailers. In the latter part of the year, financial conditions may ease following possible rate cuts from the BoC. A recovery in consumer spending will likely ensue. Combined with historic population growth, the retail sector will remain well-positioned for long-term growth.

- **Vacancy to remain stable.** Moderating consumer spending will weigh on leasing activity for at least the first few months of 2024, which may cause a short-term uptick in the vacancy rate. However, an anticipated recovery in private consumption toward the second half of the year, still-elevated population growth, and a projected annual decrease in completions should eliminate this upward pressure. Out of the seven major markets, Montreal will see the greatest increase in vacancy due to the delivery of the Royalmount mall. Fundamentals in Calgary and Edmonton will remain sound thanks to Alberta's high-performing energy sector, as well as record in-migration patterns. In other markets, the vacancy rate will end 2024 roughly unchanged from last year's level. For investors, while the potential for rate cuts in 2024 should improve sentiment, buyers may increasingly favour property types with more robust fundamentals, such as single-tenant assets and properties that offer suburban essential retail, to minimize risks.

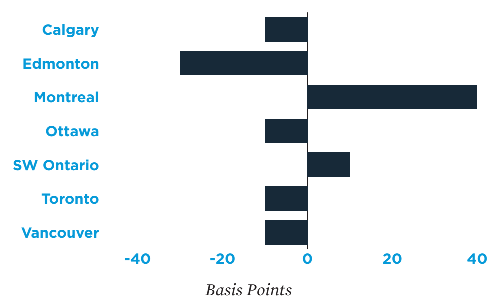
Retail Supply and Demand



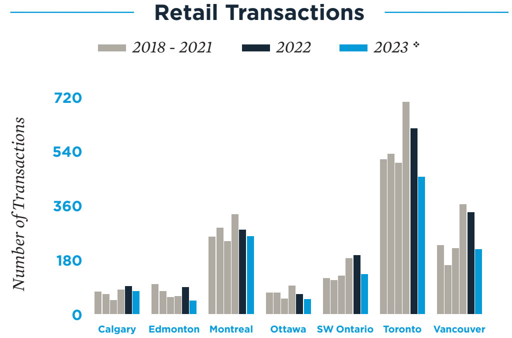
Retail Sales Growth Slowing



Annual Vacancy Rate Changes in 2024



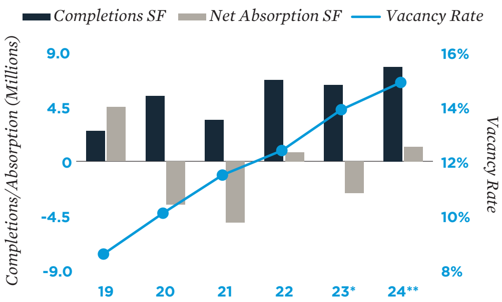
Retail Transactions



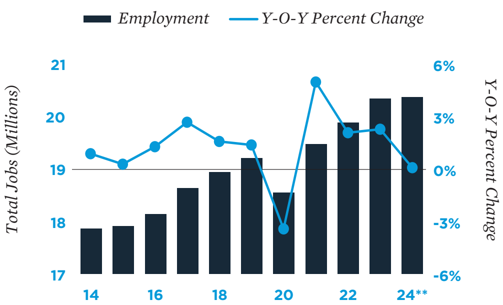
* Estimate; ** Forecast; ✦ Trailing 12 months through 3Q

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

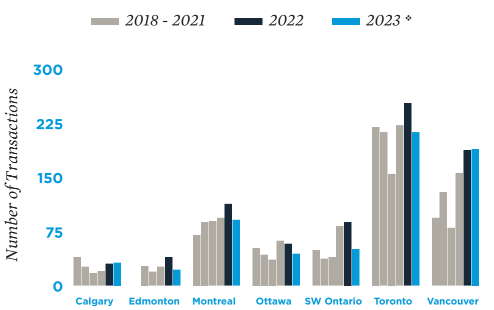
Office Supply and Demand



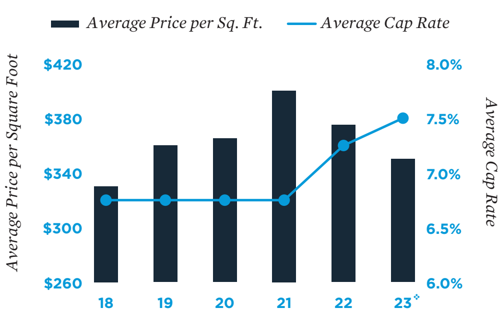
Employment



Office Transactions



Price and Cap Rate Trends



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

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

Vacancy Drifting Higher Amid Waning Office Needs; Sales Activity May Improve, Albeit with Downside Risks

Soft demand to keep vacancy rates on upward trajectory. In 2023, Canada's office sector showed few signs of stabilizing as the national vacancy rate increased at a faster pace compared to the prior year. The share of unoccupied spaces reached all-time highs in Toronto, Montreal and Southwestern Ontario, while registering post-pandemic records in Ottawa and Vancouver. Higher interest rates curbed business expansion, which diminished the need for office space. Businesses also consolidated their office footprints as hybrid work arrangements became the new norm. Canada's economic growth is expected to remain soft in early 2024, with a greater number of businesses being affected by elevated interest rates. This will likely cut the need for office spaces further. On the supply side, Toronto is projected to see a surge in completions, while other metros are expected to experience more disciplined construction activity. The national vacancy rate, as a result, will continue to trend higher, but may begin to show early signs of stabilizing toward the latter months of the year as the nation's historic construction cycle nears completion.

Conversion programs becoming a national trend. Following Calgary's implementation of its downtown office conversion initiative, other major metros followed suit. Local governments are looking into providing public funding for such programs. City councillors in Edmonton, for instance, have considered the Downtown Community Revitalization Levy as a potential source of capital to support these re-development projects. Ottawa's government is also in the process of piloting a financial incentive program for office-to-residential conversions within the Somerset Ward region. These programs will not only cut unused office inventory, but also help address Canada's housing shortage.

2024 OFFICE OUTLOOK

- **Lower rents to end 2024.** Toronto and Vancouver, which hold more than 40 per cent of Canada's total office stock, are estimated to contribute disproportionately to over 80 per cent of Canada's total inventory growth this year. Vacancy rates in these two regions, as a result, will register the greatest increases among all major markets. Other metros will experience more subdued supply growth, with just 300,000 square feet to be completed in Calgary, Edmonton, Ottawa and Southwestern Ontario combined. Vacancy rates are still forecast to increase due to weak demand, but at a milder pace in these markets. Tenants seeking top-of-the-line spaces for relocation will continue to face strong competition, leaving more Class B and C buildings on the market. Due in part to greater vacancy among these older assets, office rents are forecast to register a mild decline, with the national average asking rent hovering around $19 per square foot by the end of 2024.

- **Cautiously optimistic outlook for investors.** Office investment ended 2023 on a soft note amid elevated financing costs and weakening fundamentals. However, investor sentiment could recover in 2024, as possible rate cuts may improve credit conditions toward the second half of the year. Office conversion programs across Canada will likely also introduce new investment pathways to tap into the multifamily market, which now benefits from booming demand due to record population growth. Yet, transaction volume may remain subdued if Canada's economic growth deteriorates more than expected in 2024. Office vacancy rates will likely rise at a fast clip in this scenario, which can continue to weigh on sales activity. Investors may choose to minimize risks by pursuing top-tier Class A properties that tend to offer more robust fundamentals.

Canada's Industrial Market Inching Toward a More Balanced State as Demand Moderates and Supply Rises

Demand to hold above nation's long-term average. Canada's industrial market has witnessed record performance in recent years. The nation's vacancy rate hit an all-time low of 1.0 per cent in 2022, helping annual rent growth average 12 per cent between 2021 and 2023. This was mainly due to surging e-commerce spending brought on by the global health crisis. While online shopping activity as a share of total retail sales has eased from nearly 12 per cent seen during the pandemic to roughly 6.0 per cent as of the third quarter of 2023, it remained well above the long-term average of 3.0 per cent. In 2024, industrial space needs are set to moderate from the historic levels seen in recent years as rising borrowing costs curb both business and consumer spending. Intermodal rail and port traffic declined over the latter half of last year, a signal that demand for space is primed to cool. However, these indicators — along with still elevated e-commerce-related activity — continue to sit above historic standards, which should keep underlying fundamentals healthy despite some balance returning to the market.

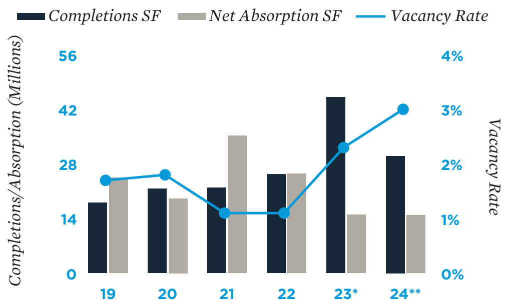
Supply and demand forces work in tandem to alleviate some vacancy pressures. Rising interest rates over the past two years have caused national leasing volumes to cool. Quarterly absorption over the first nine months of 2023 averaged roughly 3.6 million square feet, nearly half of the level seen over the prior three-year period. While moderating absorption can also be attributed to limited available space, a decline in pre-leasing indicates cooling demand. New supply over the coming year, meanwhile, will exceed recent annual averages, as the under-construction pipeline sits at roughly 30 million square feet as of the end of September 2023. Combined, these forces should help alleviate some of the tightness in the market and push up the vacancy rate, without it escalating too high. Demand is still expected to hold above long-term standards, and new product under construction only sits at 1.5 per cent of current stock. As a result, industrial rent growth in Canada should continue to outpace inflation over the coming year.

2024 INDUSTRIAL OUTLOOK

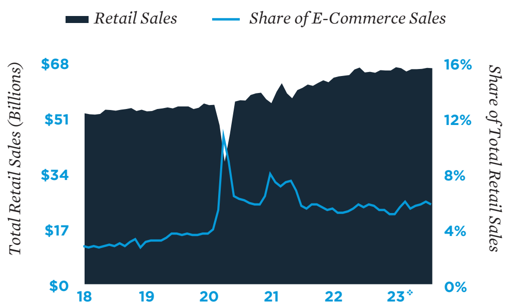
- **Nearshoring to aid industrial demand.** Due to ongoing global insecurity, many firms are looking to localize supply chains. This process of nearshoring is likely to benefit Canada's industrial sector over the coming years as the nation is beginning to carve out a key spot in the global supply chain of electric vehicle battery manufacturing. Given the country's established automotive network, as well as the abundance of key input materials needed for EV battery production, numerous automotive and battery manufacturers are choosing Canada, with notable investments in Ontario, Québec and British Columbia. This is set to directly impact manufacturing demand, together with distribution and warehousing demand. Such large corporate investments will facilitate clustering effects, which will drive robust job creation and growth over the long-term.

- **Positive investor sentiment to hold.** The share of total investment dollars going toward industrial properties has been trending up since 2020, increasing from roughly 25 per cent to 42 per cent as of September 2023. As the average asking rent has grown by 45 per cent during that time, industrial has become a sought-after asset. With fundamentals to remain favourable in 2024, financing will be relatively more available. Coupled with the expectation of declining interest rates over the latter half of the year, industrial real estate should continue to capture a large share of investment dollars.

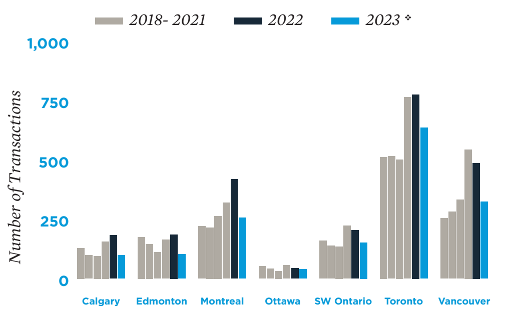
Industrial Supply and Demand



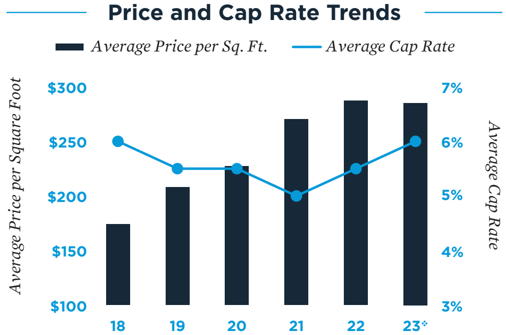
E-Commerce Activity



Industrial Transactions



Price and Cap Rate Trends



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

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

Booming Tourism to Feed Further Revenue Gains; Investors on Standby for Future Openings

Broad-based recovery in full swing, with leisure travel taking centre stage. In the first post-pandemic year free of travel restrictions, upward momentum in the hospitality sector continued to build. The national occupancy rate climbed back to the pre-pandemic level in 2023, with ADR and RevPAR both rising at double-digit rates. A shift in consumers' preference toward discretionary goods and services led to a considerable increase in leisure travel spending, which drove the recovery in the hospitality sector. Corporate and group travel also continued on an upward trajectory, which was evident in rising weekday occupancy rates. However, demand in this segment still lagged behind the pre-pandemic measure as overall business travel needs have been reduced, due to the adoption of remote meetings, ESG compliance and businesses' cost-cutting efforts. Among all chain scales, luxury, upper upscale and upscale hotels enjoyed the greatest occupancy and RevPAR gains, which suggests that travelers sought top-of-the-line experiences, despite heightened inflation in the post-pandemic era.

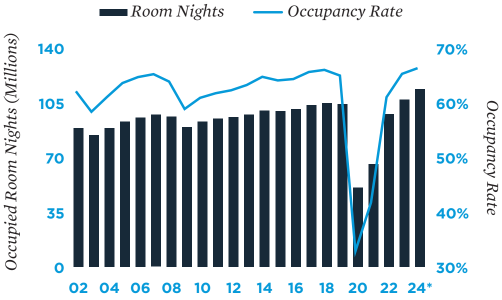
Leisure demand still dominates in next phase of growth. Despite elevated interest rates exerting downward pressure on global economic growth in 2024, a further improvement is expected in Canada's hospitality sector. While corporate and group travel could remain lacklustre, leisure travel will likely continue to be a priority for many people. Overseas flight routes may continue to normalize, which should bring more foreign visitors to Canada. A stronger U.S. economy and its currency, compared to the Canadian counterparts, have the potential to further boost inbound trans-border tourism as well. Additionally, many metros have received public funding to enrich local tourism resources, which will help create more capacity in the tourism sector. These factors will be the main drivers for hotel demand over the near term, lifting revenues once again this year.

2024 HOSPITALITY OUTLOOK

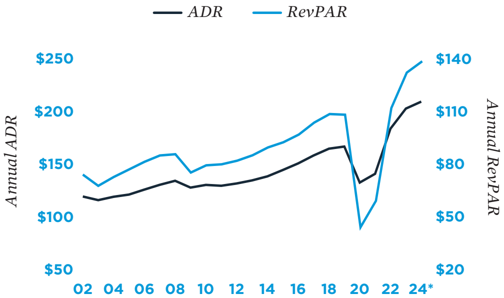
- **Key revenue metrics remain on an upward trajectory.** Supported by strong leisure demand, the national occupancy rate is forecast to increase by 100 basis points in 2024. Out of the seven major metros, Edmonton is expected to enjoy the greatest annual occupancy increase of 400 basis points, while Vancouver will be the first market to see its annual occupancy rate reach 80 per cent post-pandemic. Given these still-healthy demand drivers, daily rates are set to continue growing; however, as operating costs are set to stabilize amid easing inflation, ADR will increase at a slower pace compared to last year. With the occupancy rate and ADR both registering an advancement, the average RevPAR is projected to end 2024 with a 4.9 per cent annual increase.

- **Sales muted amid strong buyer interest.** Canada's generational ownership structure continued to be the main reason for hoteliers' reluctance to trade in 2023. Many owners also opted to capitalize on fast-improving operating fundamentals instead of selling. A number of small-sized and independent hotels, however, changed hands in select metros like Calgary and Southwestern Ontario last year, as rising incomes provided an exit strategy for some owners who suffered from significant losses during the pandemic. Despite muted trading activity, it is worth noting that Toronto's Hazelton Hotel was sold at the highest price per room ever recorded nationwide in June 2023. Any openings this year will likely gather great buyer enthusiasm thanks to a positive sector outlook, especially toward the second half of the year as financing conditions are expected to ease.

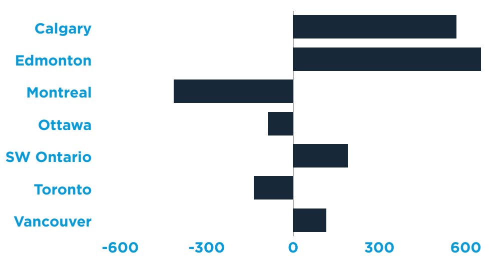
Annual Occupancy Trends



Annual Revenue Trends

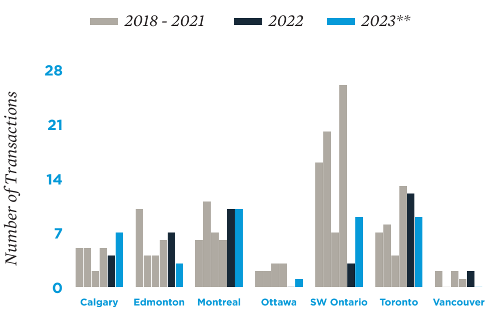


Occupancy Recovery by Metro



2019-2024* Change in Occupancy (Basis Points)

Hotel Transactions



* Forecast; ** Trailing 12 months through 3Q

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

Healthy Migration Patterns and Evolving Job Opportunities Fuel Multifamily Demand

Demand tailwinds to continue this year. Alberta's population growth approached new heights in 2023, expanding 4.3 per cent year-over-year as of the third quarter. Inter-provincial migration hit a historic level of 56,000 people, and international immigration reached 54,000 — a near record high. This largely reflects Alberta's lower cost-of-living and the increasing willingness for people to relocate to more affordable regions. With the federal government set to welcome 1.5 million new permanent residents by 2026, this apartment demand driver is likely to continue throughout 2024. This holds especially true for Calgary, as roughly 10 per cent of all newcomers move to the metro. Additionally, multifamily demand is set to benefit from heightened oil prices and the expected completion of the Trans Mountain Pipeline, further fueling employment gains in the energy sector. New industries are also beginning to evolve. Amazon's AWS and IBM have set up innovation hubs within the region, as Calgary is seeing some of the fastest growth in tech talent across Canada. With ongoing population gains being complemented by both traditional and high-tech job opportunities, apartment demand is likely to remain well-supported over the coming year.

INVESTMENT TRENDS

- The Downtown Calgary Development Incentive Program has 13 approved projects and an additional four under review to convert underutilized office space to residential and alternative uses.
- Demand for multifamily assets is likely to continue, with investors hunting for higher yields, as cap rates sat around 4.8 per cent as of the third quarter of 2023.

2024 Multifamily Trends

4,500 UNITS *will be completed*

CONSTRUCTION: With rental starts running above average in recent years, coupled with delayed projects wrapping up amid rising costs, new supply is forecast to increase compared to last year and near record levels.

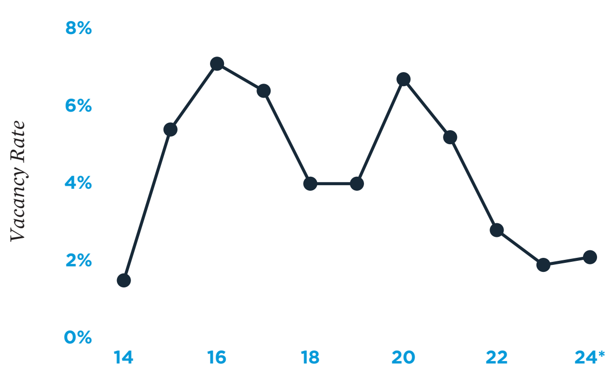
20 BASIS POINT *increase in vacancy*

VACANCY: Vacancy is expected to inch up slightly and end the year hovering around 2.0 per cent, due to an influx of new supply over the past few years. The rate, however, will remain 200 basis points below its 2019 level.

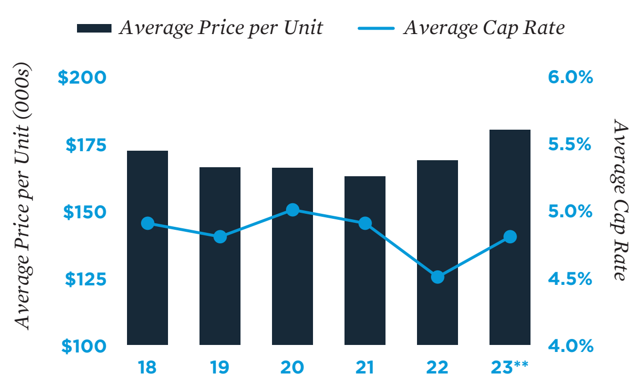
10.2% INCREASE *in effective rent*

RENT: Robust demand due to historic population growth, coupled with the arrival of new, amenity-rich supply and non-existent rent control policies, are likely to sustain near-record high annual rent growth.

Vacancy Trend



Price and Cap Rate Trends



** Forecast; ** Through 3Q*

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

Retail Market Well-Supported as Energy Sector Tailwinds Aid Local Economy

Retail fundamentals to remain healthy. In 2023, elevated oil prices and the continued diversification of the local economy supported Calgary's job market and household income. This provided the backbone for growing consumer spending in the metro. Additionally, an influx of new residents helped solidify the local consumer base, which encouraged retailers to expand their presence. The vacancy rate remained on a downward trajectory as a result, dropping to the pre-pandemic level in the final quarter of the year. Looking ahead, oil production is forecast to increase notably in the next 12 months. This will act as a shield against near-term economic headwinds caused by elevated interest rates. Coupled with a further increase in the local population, the metro's retail sector is expected to record another year of robust performance. The vacancy rate is projected to remain relatively stable, causing rent growth to accelerate. On the supply side, construction activity will soften, as total completions are estimated to drop below 1 million square feet for the first time since 2015 as rising costs curb building activity. Similar to 2023, almost all new projects will be completed in suburban areas, with the majority of additions being mixed-use properties.

INVESTMENT TRENDS

- Despite rising interest rates, overall transaction activity recovered last year. The first three months saw total dollar volume exceed $300 million, which was the strongest quarter since 2012.
- Stabilizing interest rates may lead to a further increase in investment in 2024; however, investors will likely prefer suburban essential retail for its robust fundamentals amid a slowing economy.

2024 Retail Trends

940,000 SQUARE FEET
will be completed

CONSTRUCTION:
Completions will continue to trend lower, falling below 1 million square feet. Elevated financing and building costs are major concerns hindering construction activity.

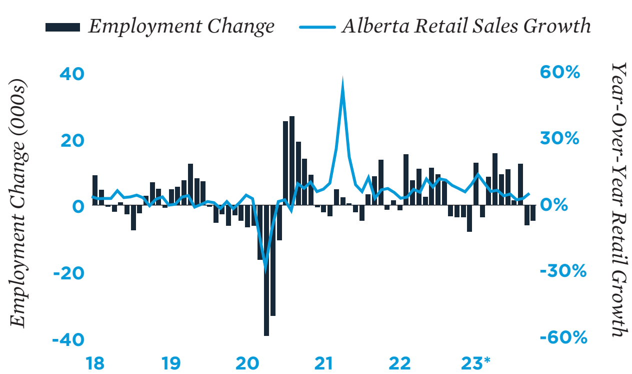
10 BASIS POINT
decrease in vacancy

VACANCY:
Despite elevated interest rates creating potential headwinds, robust demand drivers and limited new supply should support a relatively stable vacancy rate, ending the year hovering around 2.5 per cent.

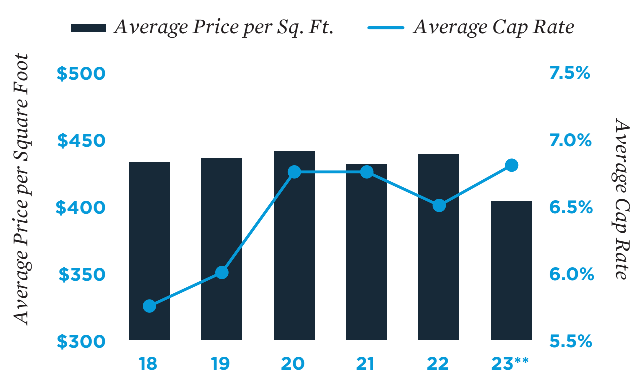
3.5% INCREASE
in asking rent

RENT:
Retail rents are expected to climb amid still-healthy demand and declining new supply. The average asking rent will approach $29 per square foot by the end of 2024.

Employment vs. Retail Sales Trends



Price and Cap Rate Trends



** Employment through October, retail sales through September; ** Through 3Q*

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

Office Momentum to Slow; Conversion Program Could Stabilize Vacancy

Near-term headwinds to curb momentum. Aided by a high-performing energy sector and a diversifying local economy, Calgary's office net absorption turned positive in 2023, after remaining below zero during the prior four-year period. The metro is also tackling office underutilization via its downtown conversion program, which provided funding for 13 projects to transform unused offices into residential buildings, hotels, schools and performing arts spaces before funding was exceeded. As a result, the vacancy rate declined slightly in 2023, sitting just above 21 per cent. With very limited new construction, the metro's office fundamentals now almost solely depend on demand dynamics. Over the coming year, elevated interest rates are expected to slow the metro's economic growth and weaken office demand, albeit at a softer level compared to other metros, given elevated oil prices over the latter half of last year. The vacancy rate will remain relatively stable, potentially increasing slightly. If the metro resumes its office conversion program, the initiative could slash office vacancy in the coming years. Without a significant improvement in demand, however, Calgary's office vacancy will remain at elevated levels.

INVESTMENT TRENDS

- Transactions among private buyers were scarce in 2023. The Ministry of Infrastructure, however, made the largest purchase, acquiring a $75 million office building in Northwest Calgary.
- If resumed, the downtown conversion program could lead to more transactions in 2024, given an expected easing of financial conditions, as well as ongoing population growth and housing demand.

2024 Office Trends

70,000 SQUARE FEET
will be completed

CONSTRUCTION:
Given the metro's office vacancy rates of over 20 per cent, new development is almost non-existent. Almost all new supply in 2024 is set to be delivered in the Northeast.

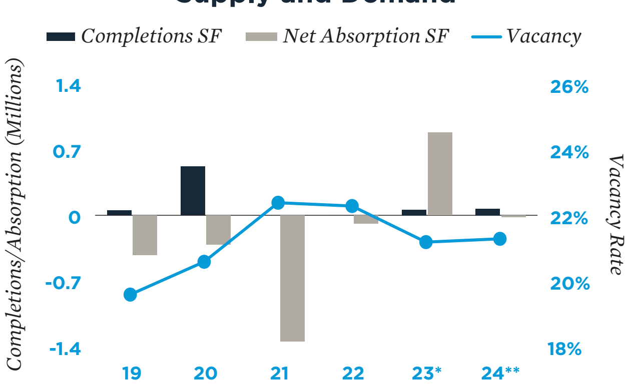
10 BASIS POINT
increase in vacancy

VACANCY:
The vacancy rate is set to hold relatively stable as elevated energy prices and ongoing tech growth support leasing. Heightened borrowing costs, however, are expected to slow business expansion, putting slight upward pressure on vacancy.

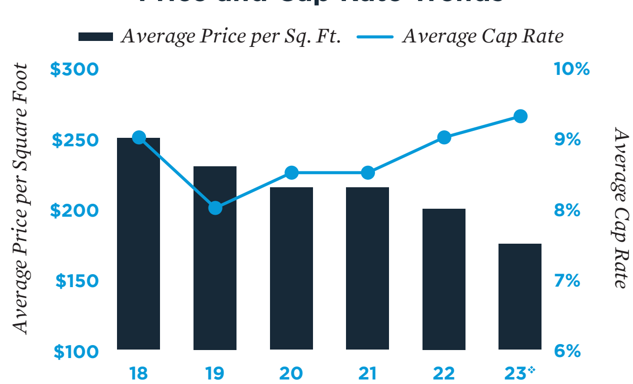
0.6% INCREASE
in asking rent

RENT:
Office rents will likely stagnate in 2024 amid elevated vacancy rates. However, as more tech companies move into the metro, the average asking rents may see some upside potential in the years ahead.

Supply and Demand



Price and Cap Rate Trends



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

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

Influence of Energy Sector and Expanding Distribution Hub Aid Industrial Outlook

Unique drivers pave growth path, despite broader uncertainty. Alberta's economy is set to outperform the national average in 2024 as elevated energy prices in the latter half of last year support an expansion in the natural resources sector. Canada is anticipated to lead the world in oil production growth as the nation is expected to add another 500,000 daily barrels. With Alberta being Canada's energy capital, industrial-related space demand is set to benefit. Additionally, with industrial rents in Calgary roughly 40 per cent below that of Vancouver, the metro continues to play an increasing role as a center for distribution and logistics, servicing all of western Canada. Given these lower rental rates, transportation and warehousing companies find it more cost effective to ship goods from ocean ports in British Columbia to Alberta, before distributing them to its end user. Coupled with near-record population growth witnessed in 2023 supporting e-commerce-related activity, distribution and logistics space demand will remain healthy — albeit at subdued levels compared to recent highs witnessed over the past two years, given ongoing economic uncertainty. These demand drivers indicate industrial growth will likely continue throughout the year.

INVESTMENT TRENDS

- With rental rates lagging Vancouver and robust population growth supporting distribution demand, positive investor sentiment should hold as the market offers a potential growth opportunity.

- Due to Calgary's relatively abundant amount of lower-cost land, and higher cap rates, the metro will continue to attract investors from Canada's other major markets searching for yields.

2024 Industrial Trends

4.0 MILLION SQUARE FEET
will be completed

CONSTRUCTION:
New supply is set to remain elevated in 2024 as Calgary's historic construction cycle, which began in late 2021, nears its end. However, deliveries will drop compared to last year's record level.

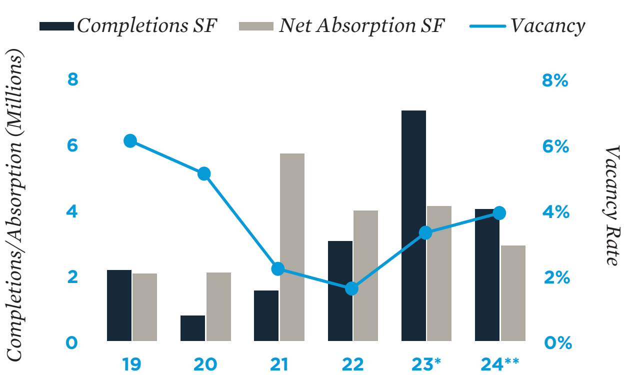
60 BASIS POINT
increase in vacancy

VACANCY:
Historic supply growth and softening demand amid elevated interest rates will cause vacancy to end the year sitting just below 4.0 per cent, roughly 100 basis points under the metro's long-term average.

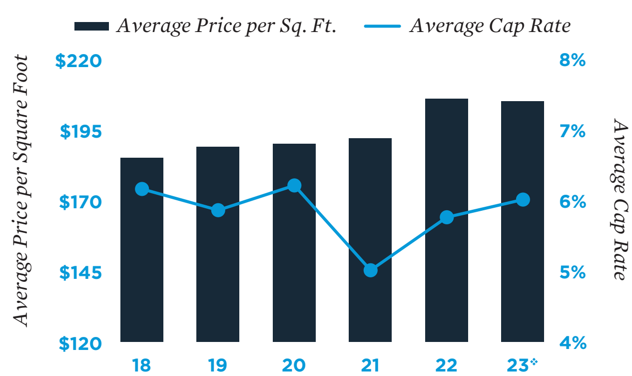
3.8% INCREASE
in asking rent

RENT:
Sitting below the national average, rents still have room to grow as space demand is tempering, but still above the long-term standard. The rate of growth will ease compared to last year as vacancy inches up and tenants have more options.

Supply and Demand



Price and Cap Rate Trends



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

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

Revenue Continues to Improve Amid Stabilizing Travel Demand

Key metrics to see modest improvement in 2024. A return of visitors benefited Calgary's hospitality sector last year. Flight data shows that domestic and international passenger volumes all registered double-digit percentage increases, with a roughly 70 per cent annual advancement from overseas visitors. Momentum continued to build in all revenue metrics as a result, with the occupancy rate during the peak summer season exceeding 80 per cent for the first time since 2013. Leisure travel still dominated the market, which was evident in higher occupancy rates in the submarkets surrounding the airport, as compared to the downtown area. Labour shortages also improved last year, which helped hoteliers provide better services. A slowing economy in 2024, both domestic and abroad, could hold back the pace of growth in travel spending. Transient leisure travel demand is expected to stabilize, with relatively limited upside gains in hotel revenues. Downtown's annual average occupancy rate is projected to rise above 60 per cent, but will still lag behind other regions, as reduced needs for in-person meetings will continue to weigh on corporate travel expenditures.

INVESTMENT TRENDS

- Most sales last year took place in the first six months, as a brief pause in interest rate hikes aided financing. The largest transaction was the sale of MTN House By Basecamp in Canmore.
- Beyond the pause in rate hikes, deals in 2023 were partly driven by strong revenue gains facilitating exit plans for some owners. Most of these were sales falling within the $10 million category.

2024 Hospitality Trends

95
BASIS POINT
change in occupancy

OCCUPANCY:
The occupancy rate is set to stabilize, after rebounding at a fast pace between 2021 and 2023. Occupancy near the airport and surrounding submarkets will continue to exceed that metric in the downtown core.

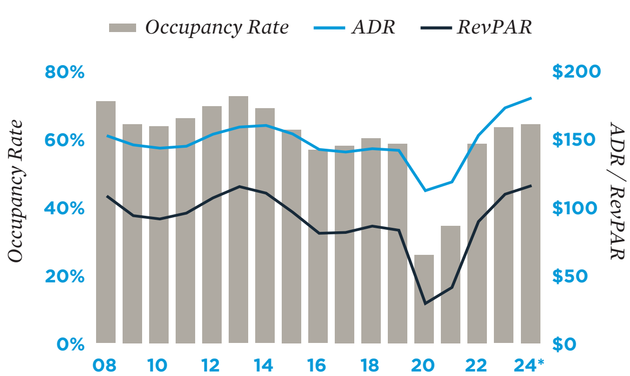
4.2%
INCREASE
in ADR

ADR:
Most of the gains in ADR are projected to be front-loaded in the first half of the year. This is due to lower rates recorded within the same period in 2023. The annual average ADR is forecast to rise above $130.

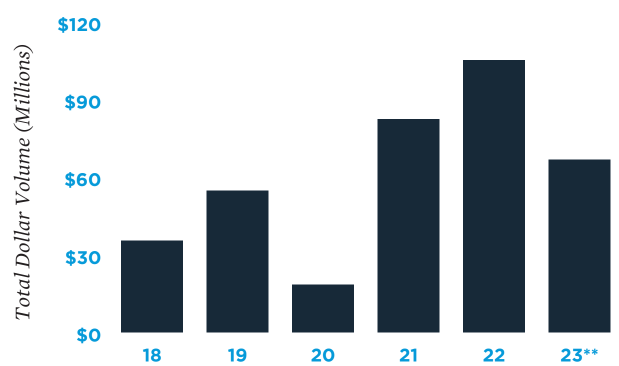
5.8%
INCREASE
in RevPAR

RevPAR:
An increase in the occupancy rate and ADR will result in RevPAR noting an improvement. The revenue gain is expected to be most visible in the downtown area, followed by the Airport submarket.

Occupancy and Revenue Metrics



Transaction Trends



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

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

Higher-Paying Job Opportunities Support Upper-Tier Apartment Demand

Emergence of high-tech boosts multifamily outlook. For many years, Edmonton has offered the lowest multifamily rents among major Canadian metros, serving as a lower-cost alternative to the gateway markets. With growing affordability challenges in British Columbia and Ontario, the metro has benefited from record levels of inter-provincial migration. Alberta welcomed 56,000 fellow Canadians over the past year ending in September 2023. On top of near-record population growth, job opportunities are continuing to grow. Traditional sectors, such as oil and gas, are set to expand, due to energy prices seeing healthy gains in the latter half of last year. Additionally, the metro is also becoming a major player in the international technology sector. The University of Alberta, which is located in Edmonton, is one of the top three artificial intelligence research institutions in the world, while the Alberta Machine Intelligence Institute was named a Center of Excellence. The region has attracted large corporate investments from global entities like IBM and Microsoft. With this, a younger demographic with high-income potential is beginning to emerge, supporting elevated rent growth and causing new, highly-amenitized supply to be absorbed quickly.

INVESTMENT TRENDS

- Price growth began to stagnate in 2023. Coupled with rising interest rates and healthy rent growth, cap rates inched up and sat just above 5.0 per cent — the highest among major Canadian metros.
- Dollar volume sold over the trailing 12 months ending in September 2023 was up 22 per cent annually as strong tenant demand and relatively higher cap rates attracted investors searching for yields.

2024 Multifamily Trends

4,200 UNITS
will be completed

CONSTRUCTION:
Apartment rental starts have been trending up since 2018, with 2021 and 2022 reaching new heights. As a result, completions for this year are set to remain well above the metro's long-term average.

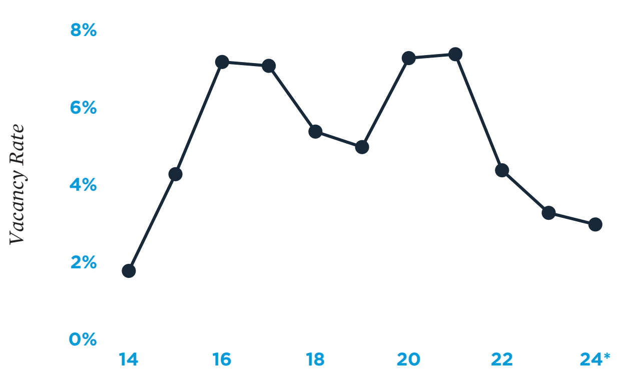
30 BASIS POINT
decrease in vacancy

VACANCY:
Despite a surge in deliveries, new supply is forecast to lag behind demand. The metro's vacancy rate will continue to trend down, ending the year just below 3.0 per cent.

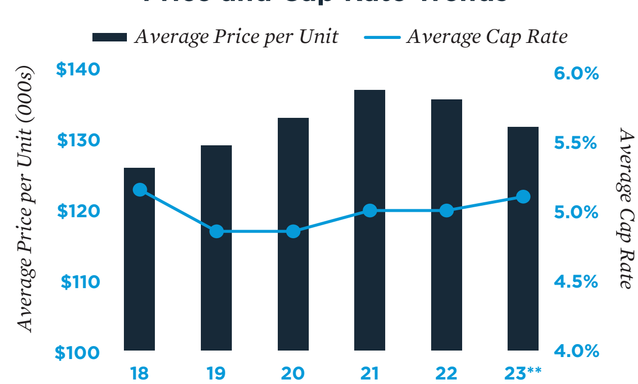
7.1% INCREASE
in effective rent

RENT:
Ongoing demand and Edmonton's younger demographic targeting new builds are likely to support near-record high rent growth. This will be further aided by the absence of rent control policies.

Vacancy Trend



Price and Cap Rate Trends



** Forecast; ** Through 3Q*

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

Strong Sector Performance Continues Amid Healthy Economic Outlook

Vacancy to reach a new post-COVID low. Edmonton's retail sector fared better than expected in 2023, ending the year with more completions, yet lower vacancy than previously anticipated. A healthy local economy — which was supported by elevated oil prices, a heavy public sector presence and the continued inflow of new residents — contributed to robust consumer spending and, in turn, strong retail leasing demand. Net absorption, as a result, exceeded new supply, compressing the vacancy rate to the pre-pandemic level in the fourth quarter of 2023. As Alberta's economy is poised to benefit from increasing oil production, and continued immigration and in-migration in 2024, Edmonton's job market is expected to be well cushioned against the impact of elevated interest rates. Retailers will thus feel more confident to expand operations within the metro. The suburban retail market may continue to outperform, due to consumers preferring to live and shop locally outside the urban core. On the supply side, current under-construction data shows that total completions will likely drop well below 1 million square feet in 2024. This limited supply growth will work in tandem with healthy demand to push the vacancy rate to a new post-pandemic low.

INVESTMENT TRENDS

- A few large-sized, single-tenant transactions over $20 million helped offset a notable decrease in multi-tenant sales, which maintained total investment dollar volume at a healthy level in 2023.
- Stabilizing interest rates and a positive sector outlook should facilitate a recovery in investment over the coming quarters.

2024 Retail Trends

550,000 SQUARE FEET
will be completed

CONSTRUCTION:
Construction activity will remain subdued in 2024. New deliveries will account for just 0.8 per cent of total inventory, with a large share of the new space being strip and neighbourhood centres.

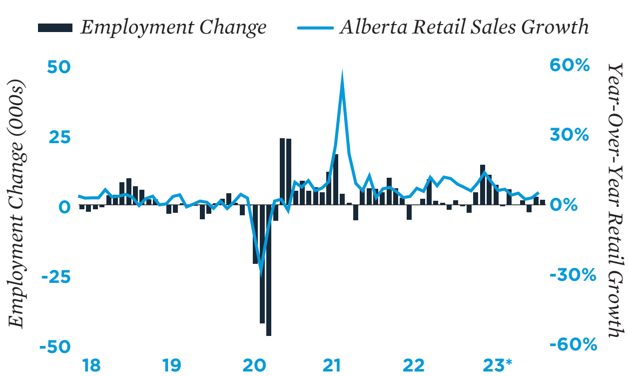
20 BASIS POINT
decrease in vacancy

VACANCY:
Vacancy is set to drop below the pre-pandemic level, as stable leasing demand will meet with tempered supply growth. Suburban areas will likely continue to see lower vacancy rates compared to the urban core.

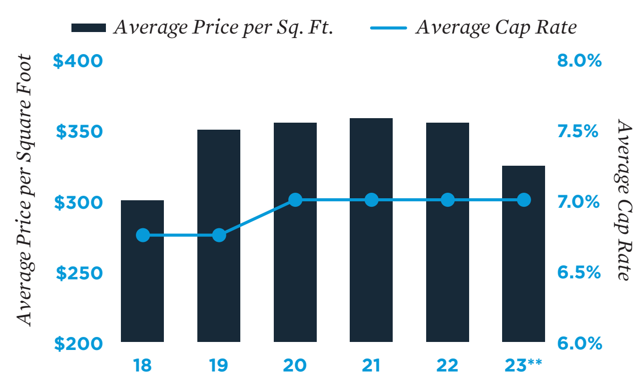
3.4% INCREASE
in asking rent

RENT:
Annual rent growth is predicted to accelerate, as limited new supply intensifies competition among tenants. The average asking rent is estimated to hover around $24 per square foot in 2024.

Employment vs. Retail Sales Trends



Price and Cap Rate Trends



** Employment through October, retail sales through September; ** Through 3Q*

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

Suburban Demand a Bright Spot; Incentive Program May Revive City Centre

Near-term headwinds to soften leasing momentum. With essentially no new supply coming to market during the past four-year period, Edmonton's office vacancy rate has been on a slight downward trajectory since the start of 2023. Almost all of this improvement, however, has come from the peripheral market, which was facilitated by a faster return-to-office pace outside the urban core. The heavy public sector presence has also helped maintain healthier levels of office occupancy in some parts of the metro. Leasing demand is expected to slow in 2024 as the job market absorbs increasing impacts from a prolonged period of elevated interest rates. The vacancy rate, however, is forecast to remain relatively stable as Alberta's economy is set to outperform the national average. On the supply-side, in order to revitalize downtown and meet the growing housing demand from elevated population growth, the local government is considering an incentive program for office-to-residential conversions. If such a program materializes, it will complement ongoing redevelopment projects and help align office supply and demand.

INVESTMENT TRENDS

- Despite weak transaction activity in 2023, Edmonton saw a handful of deals crossing the $10 million mark. The largest transaction was a $22 million acquisition of a 160,000-square-foot office building in the Pleasantview area.
- An incentive program for downtown office-to-residential conversions may spur investor interest, as population growth supports increasing housing demand. Possible rate cuts in 2024 could further facilitate such a recovery in investment activity.

2024 Office Trends

20,000 SQUARE FEET
will be completed

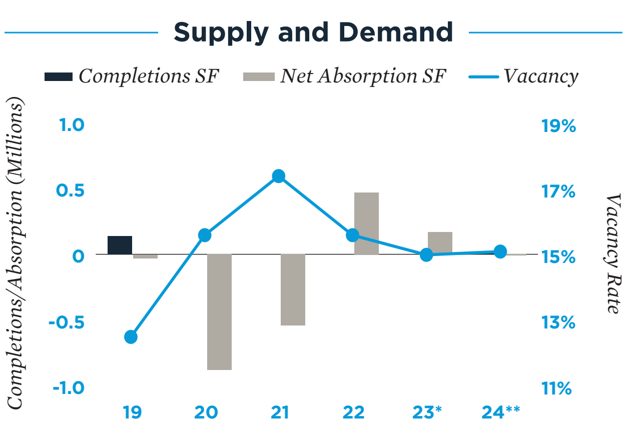
CONSTRUCTION:
Office development has virtually paused in Edmonton since 2020 due to elevated vacancy rates. With very few projects currently under construction, completions in 2024 will remain at a subdued level.

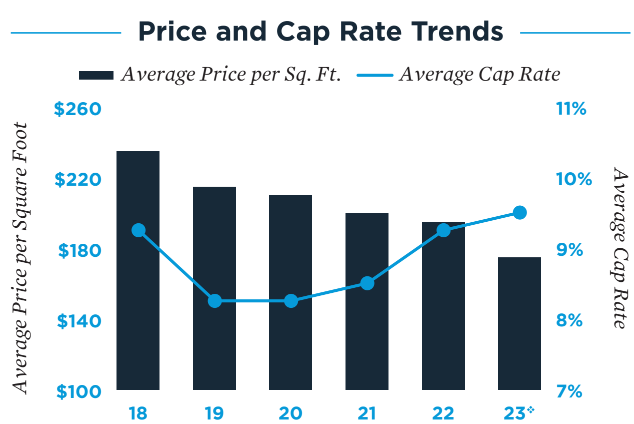
10 BASIS POINT
increase in vacancy

VACANCY:
As demand is projected to weaken given elevated borrowing costs, the office vacancy rate will reverse course and rise slightly in 2024. The heavy public sector presence will help limit this increase.

0.4% INCREASE
in asking rent

RENT:
Office rents will hold essentially unchanged in 2024, as vacancy rates and leasing activity remain relatively stable. More active leasing in the suburbs may also soften this year's rent growth.





* Estimate; ** Forecast; ⁺ Through 3Q

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

Energy Tailwinds and Ongoing Population Growth to Drive Industrial Performance

Metro well-positioned to benefit from economic landscape. Industrial space demand is forecast to remain healthy in 2024 as Alberta's economy is set to outperform the national average amid elevated oil prices and ongoing record population growth. Edmonton will be essential in providing specialized industrial space to the natural resources sector, as well as the oil and gas servicing industry, given its proximity to the oil sands. Also, the metro is well-positioned to benefit from ongoing cleantech incentives offered by the federal government, due to the significant pool of professionals with unparalleled energy, extraction and engineering skills. Edmonton is the closest industrial hub for many of the natural gas, biomass, solar and hydrogen projects underway, making industrial-related space demand well-supported. On top of these evolving energy tailwinds, population growth should continue at a rapid clip, driving the need for distribution space that services the immediate and surrounding areas. With rental rates relatively more affordable compared to neighbouring Vancouver, coupled with lower land values allowing for quicker development, those looking for best-in-class space find Edmonton to be a more cost-effective market.

INVESTMENT TRENDS

- Investment activity in 2023 was mainly fueled by the Dream/GIC portfolio acquisition, which featured roughly 20 properties in Edmonton and equated to $585 million.
- After peeling away the portfolio transaction, owner-user sales accounted for the next largest share of investment activity, reaching roughly 20 per cent of total dollar volume.

2024 Industrial Trends

1.6 MILLION SQUARE FEET
will be completed

CONSTRUCTION:
New supply growth is set to slow compared to the elevated levels seen in recent years. However, deliveries will remain above the metro's long-term average as lower-cost land entices development activity.

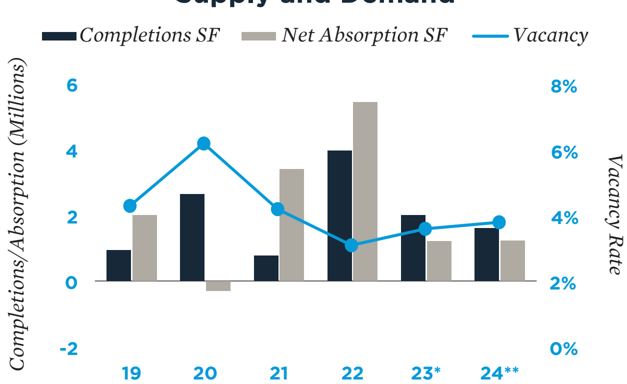
20 BASIS POINT
increase in vacancy

VACANCY:
Elevated oil prices and the ongoing population expansion should support healthy economic growth this year. As a result, vacancy will remain relatively stable, ending the year hovering just above 3.5 per cent.

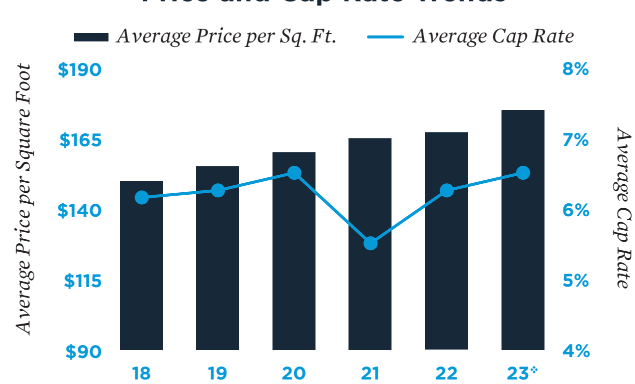
3.3% INCREASE
in asking rent

RENT:
Given Edmonton's affordable nature, combined with the flight-to-quality trend playing out across the market, rent growth is forecast to remain above the region's long-term average. Year-end rent will sit just below $11.00 per square foot.

Supply and Demand



Price and Cap Rate Trends



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

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

Tourism Sector Receives Policy Support; Stable Inventory Aids Occupancy Gains

Upside potential continues in 2024. Following four years of recovery, Edmonton's annual average occupancy rate rose above 55 per cent in 2023. The metro welcomed an influx of visitors, with the number of foreign travelers increasing at the fastest pace, according to air passenger statistics. Besides transient leisure travel that led the recovery, corporate demand was also well-supported by the public sector. This increasing occupancy will likely continue in 2024. Late last year, Edmonton introduced its Indigenous Tourism Strategy, aiming to draw visitors to the metro's distinctive Indigenous cultures. The federal government has also invested $3.7 million to enhance several key attractions, including Fort Edmonton Park, the Edmonton Valley Zoo and the Muttart Conservatory. These efforts are strengthening the metro's tourism resources, which will help attract more inbound travelers and improve revenue metrics in the hospitality sector. After several years of inventory expansion, construction activity will be muted in 2024. This lack of supply-side pressure will be another positive factor aiding a further recovery in Edmonton's hospitality sector.

INVESTMENT TRENDS

- Transaction activity slowed last year, as higher financing costs were the main barrier for investors. Still-soft fundamentals, compared to the national average, also weighed on investor sentiment.
- Despite an increase in hotel values, Edmonton remained Canada's least costly market for investors. The metro's average sale price hovered roughly 40 per cent below the national average in 2023.

2024 Hospitality Trends

400
BASIS POINT
change in occupancy

OCCUPANCY:
Edmonton's occupancy rate is forecast to rise above 60 per cent this year for the first time since 2016. The suburbs surrounding Edmonton are projected to see the greatest increase of 450 basis points.

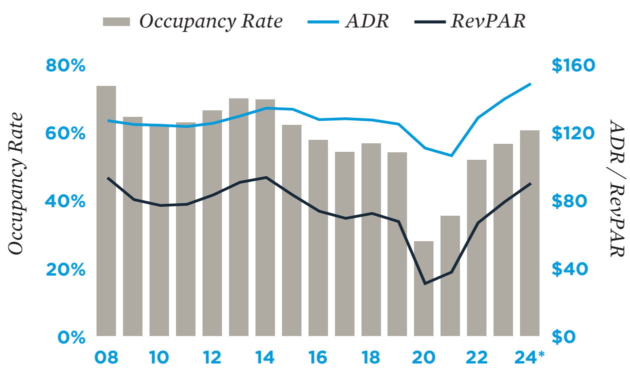
6.5%
INCREASE
in ADR

ADR:
ADR will remain on an upward trajectory amid increasing occupancy in 2024. Most gains are expected in the summer months, as lower rates were recorded within the same period last year due to wildfires.

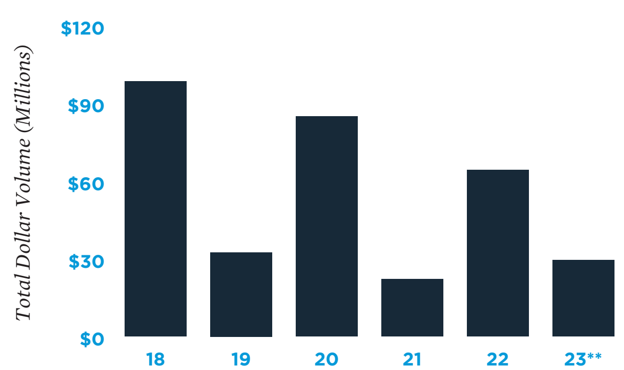
14.0%
INCREASE
in RevPAR

RevPAR:
Strong occupancy and ADR gains will push RevPAR higher in 2024. Suburban submarkets will likely see larger revenue increases as leisure demand leads the recovery.

Occupancy and Revenue Metrics



Transaction Trends



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

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

Diversified Economy Aids Multifamily Fundamentals, yet Some Risks Emerging

Wide array of job opportunities support apartment demand. As Canada's second-largest economy, Montreal has a highly-educated and diversified workforce. Combined with the metro's relatively lower cost-of-living and a high quality of life, the city tends to attract a wide range of talent. The metro is also home to six major universities, which has drawn a broad scope of employers searching for quality labour. Montreal is establishing itself in the artificial intelligence sector, is a leader in the life sciences industry, and has the third-largest aerospace cluster in the world. Boosted by historic immigration, annual population growth hit near-record highs in the third quarter of 2023, expanding by just over 2.0 per cent. While historic immigration targets set by the federal government will continue to support multifamily demand throughout the year, some risks are forming. Population growth in 2023 trailed the national average and was the lowest among Canada's major metros. The recent adoption of Bill 96 adds various requirements for business and educational establishments to operate in French. Its adoption could weigh on immigration and job creation as it may have a negative impact on the city's growing startup ecosystem.

INVESTMENT TRENDS

- Total dollar volume over the past year ending in September 2023 was down 40 per cent as rising interest rates curbed buyer appetite. The average sale price fell 5.0 per cent, pushing cap rates up.
- With capital markets uncertainty persisting last year, institutional players remained sidelined. Private buyers, as a result, accounted for roughly 85 per cent of the total dollar volume purchased.

2024 Multifamily Trends

11,800 UNITS
will be completed

CONSTRUCTION:
Completions will remain well above the metro's long-term average, but will fall from the elevated levels seen in recent years. Construction starts dropped 30 per cent annually in 2022 amid rising costs.

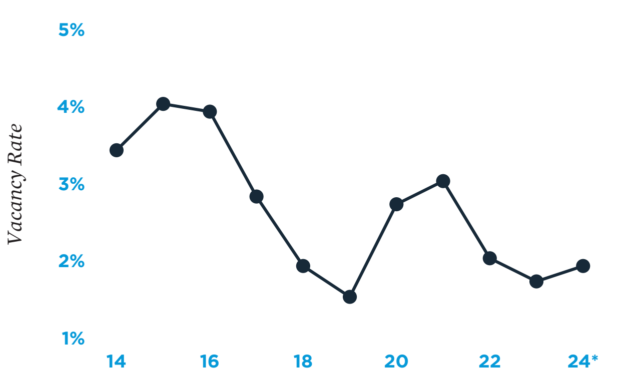
20 BASIS POINT
increase in vacancy

VACANCY:
While demand is expected to remain healthy in 2024, the vacancy rate is likely to inch up slightly — due to the meaningful levels of new supply that have entered the market over the past five years. Year-end vacancy will hover around 2.0 per cent.

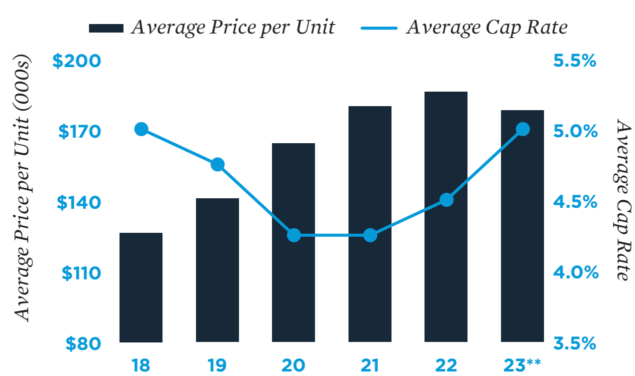
4.2% INCREASE
in effective rent

RENT:
Rent growth is forecast to remain above the metro's long-term average, given still-healthy demand and the high-quality supply coming to market in recent years. The rate of increase in 2024, however, will likely cool compared to last year.

Vacancy Trend



Price and Cap Rate Trends



** Forecast; ** Through 3Q*

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

Royalmount's Opening Well on Track to Enrich Experiential Retail Offerings

Supply surge to open up more possibilities for tenants. In 2023, retail sales in Montreal outperformed the national average and recorded one of the highest annual growth rates in Canada. Combined with government support for restaurants and small businesses, the metro's vacancy rate declined compared to the height of the pandemic. Construction activity between 2021 and 2023 was relatively muted, which also aided the sector's fundamentals. Royalmount is slated to be delivered in spring 2024, almost 10 years after the project was announced. This brand-new shopping centre will be a mixed-use property, offering retail, hotels, offices and other commercial establishments. It will become a new landmark for Montreal, lifting total completions to a multi-year high. On the demand-side, the metro's large student population, elevated levels of immigration and a robust tourism industry will maintain a growing consumer base to help combat near-term economic headwinds. However, falling business investment in recent quarters may slow employment growth over the short-term, causing consumers to pull back on spending. This is likely to put upward pressure on vacancy over the coming year.

INVESTMENT TRENDS

- Despite investment activity falling, single-tenant sales held up relatively well in 2023 as these properties tend to be occupied by large, nationally-known businesses and are lower risk.
- Investors may seek out assets near phase 2 of Réseau Express Métropolitain, as foot traffic will increase once this project is completed in late 2024.

2024 Retail Trends

2.1 MILLION SQUARE FEET
will be completed

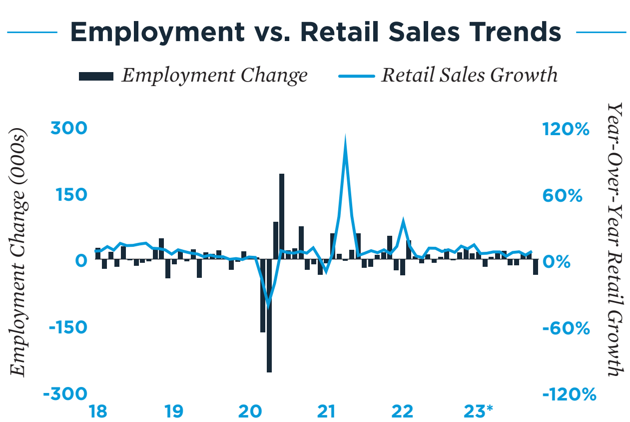
CONSTRUCTION:
The completion of the 1.4-million-square-foot Royalmount project will contribute to most of this year's increase. Other additions will mostly be small- to medium-sized mixed-use properties.

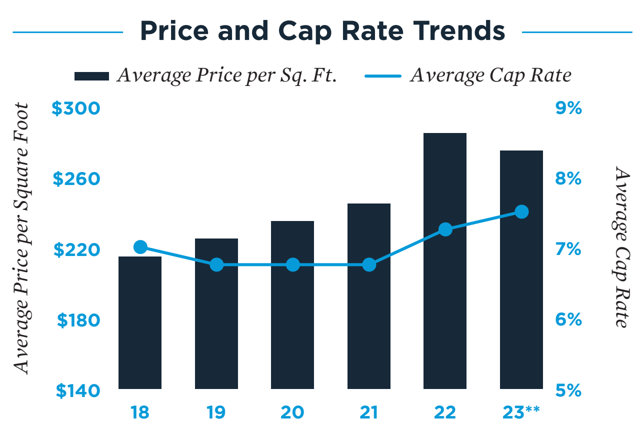
20 BASIS POINT
increase in vacancy

VACANCY:
New supply, as well as a slowing economy, will lead to an increase in vacancy. However, healthy migration patterns and a large university presence will keep Montreal's retail vacancy relatively tight.

2.9% INCREASE
in asking rent

RENT:
While leasing demand may slow, a large pullback is not expected. Annual rent growth will also be well supported, due to a large influx of Class A properties.





* Employment through October, retail sales through September; ** Through 3Q

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

High-Quality Space Capturing Demand, Lower-Tier Fundamentals Weakening

Office performance bifurcated by property class. The pace of vacancy increase in Montreal's office sector accelerated in 2023. By the end of the fourth quarter, the share of unoccupied spaces rose by roughly 200 basis points year-over-year, following a 50-basis-point increase seen in 2022. The impact was not uniform across the property class spectrum, however, as many businesses relocated to higher-grade buildings for a better in-office experience. This resulted in a considerable number of Class B and C properties being vacated, whereas demand for Class A spaces remained at a healthier level. As business expansion and hiring activity are expected to slow due to elevated borrowing costs in 2024, vacancy rates are estimated to rise further in lower-quality assets. Last year's flight-to-quality trend may continue once again, especially in the life sciences and tech sectors, which could help stabilize vacancy rates for Class A properties. Backfilling older spaces will thus be more challenging. However, inventory expansion is projected to slow, and more office-to-residential conversion projects are expected, a trend that is gaining traction among policymakers and investors. These supply-side factors could help stabilize vacancy over the long-term.

INVESTMENT TRENDS

- Property owners have been heavily investing in under-performing office assets in a bid to revamp performance and alleviate rising vacancy by providing flexible turnkey spaces.
- Investment in the life sciences sector increased notably over the past few years. This growth potential may be a future demand driver for Montreal's office sector, specifically in the Laval area.

2024 Office Trends

100,000
SQUARE FEET
will be completed

CONSTRUCTION:

Following last year's completion of the National Bank building, new construction is projected to decline. A major addition in 2024 includes Devmont's Westbury Tower.

120
BASIS POINT
increase in vacancy

VACANCY:

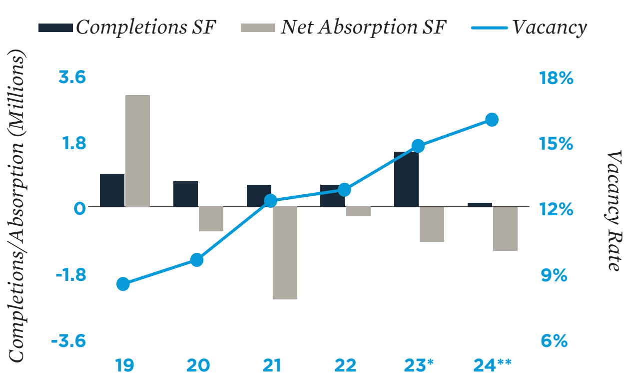
Near-term economic headwinds will take a toll on office demand, which will push the vacancy rate to a new high in 2024. Class B and C properties are likely to hold higher vacancy rates due to the flight-to-quality.

1.7%
DECREASE
in asking rent

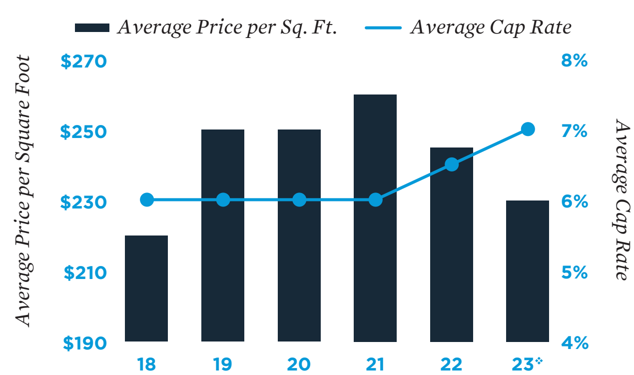
RENT:

The average asking rent is forecast to register a mild decline in 2024 due to diminishing office demand. An increase in unoccupied Class B and C buildings will also put downward pressure on rents.

Supply and Demand



Price and Cap Rate Trends



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

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

Market Inches Toward Equilibrium After Record Performance in Recent Years

Sector reaching a more balanced state. The Montreal industrial market has seen record-setting performance since the onset of 2021, as on average, the asking rent grew 25 per cent year-over-year. While market fundamentals are expected to remain at healthy levels in 2024 — due to record population growth, a diverse economy and a disciplined under-construction pipeline — Montreal's industrial sector is set to stabilize. With rising interest rates already causing three quarters of negative net absorption last year, this muted leasing activity should continue through 2024 as businesses and consumers further pull back on spending. Shipping volumes at the Port of Montreal were down 15 per cent year-over-year as of the third quarter of 2023. Consequently, third-party logistics and multinational companies are set to slow expansion efforts until they have reduced existing inventory levels. Vacancy will inch up the most in older spaces with lower clear heights, as well as big-box space, given elevated construction activity within this segment. This is expected to provide some balance to the market as tenants will have more options and leverage to negotiate inducement packages.

INVESTMENT TRENDS

- Rising interest rates curbed sales activity, with total dollar volume down 15 per cent annually as of the third quarter of 2023. The average sale price, however, has fared relatively well, up 4.5 per cent.
- With price growth beginning to stagnate amid rising interest rates, coupled with annual rent growth hitting 16 per cent in the third quarter of 2023, cap rates have increased to just over 6.0 per cent.

2024 Industrial Trends

2.3 MILLION SQUARE FEET
will be completed

CONSTRUCTION:
With pre-leasing and overall demand slowing, speculative development began to ease in the latter parts of 2023. New supply is set to fall compared to last year, but remain above the long-term average.

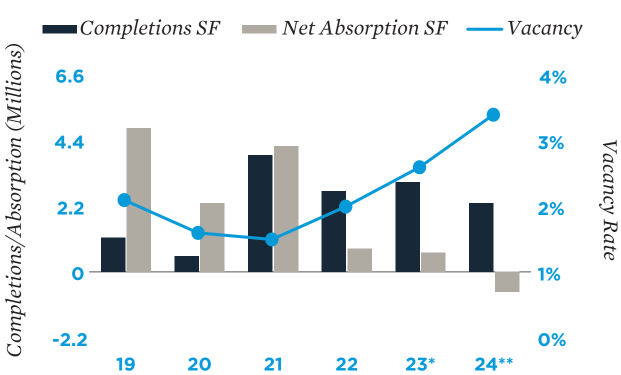
80 BASIS POINT
increase in vacancy

VACANCY:
The vacancy rate will edge up and end the year sitting around 3.5 per cent as sublet space and big-box availabilities rise. Vacancy, however, will still sit below the pre-pandemic average of 4.5 per cent.

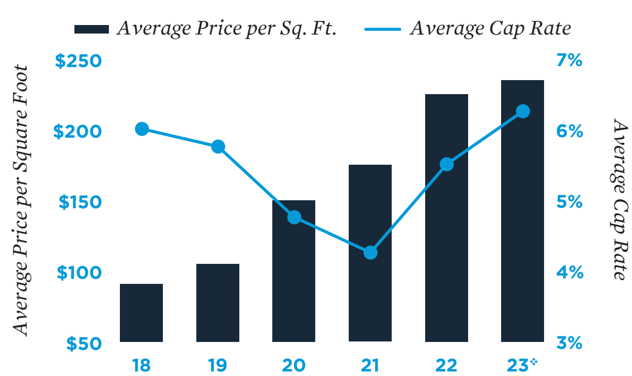
3.6% INCREASE
in asking rent

RENT:
As leasing demand slows, annual rent growth will also ease from the historic levels seen in recent years. Given relatively tight vacancy, however, the rate of change will remain above the pace of inflation.

Supply and Demand



Price and Cap Rate Trends



* Estimate; ** Forecast; * Through 3Q

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

Tourism Sector Cushions Demand Amid Ebbing Corporate Travel and Rising Supply

Mild decrease in occupancy expected this year. As demand from the tourism sector returned to the pre-pandemic level, hoteliers enjoyed a double-digit percentage revenue increase in 2023. Unlike other major metros in Canada, transborder and overseas air passenger traffic exceeded the 2019 level, which reflects strong foreign demand in the metro's tourism sector. Corporate and group travel, however, was still not fully normalized due to slowing business expansion and remote work arrangements. This kept the metro's 2023 average occupancy rate below the pre-pandemic level. As elevated interest rates work their way through the economy in 2024, corporate and group demand are expected to continue lagging. In addition, the metro's total room inventory will expand by 1.4 per cent, which is forecast to outpace the national average. This supply increase is likely to be another source of downward pressure for occupancy. Nevertheless, the well-performing tourism sector is expected to help maintain relatively steady travel demand, providing a backstop to the softening occupancy rate.

INVESTMENT TRENDS

- As hotel revenues increased, investment activity improved in 2023. Total dollar volume rose markedly, which was boosted by several large transactions, including the sales of InterContinental Hotel Montreal and SpringHill Suites Old Montreal.
- The increase in sales last year shows great buyer demand despite higher interest rates. Any future opportunities will likely be met with strong enthusiasm, as financing costs are expected to ease amid still-robust operating fundamentals in the near term.

2024 Hospitality Trends

110
BASIS POINT
change in occupancy

OCCUPANCY:
The annual occupancy rate has likely peaked and is projected to soften slightly in 2024. Lagging corporate and group demand, as well as an inventory expansion, will put downward pressure on occupancy.

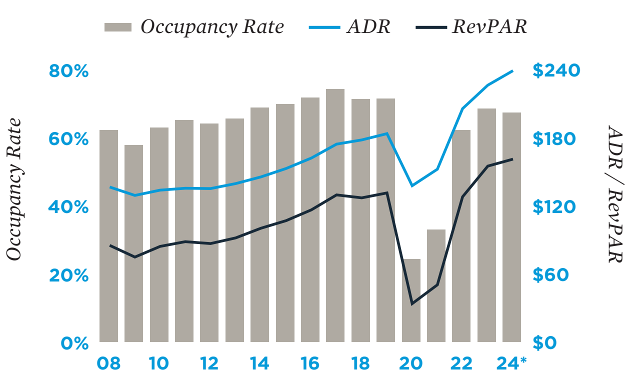
5.7%
INCREASE
in ADR

ADR:
Hotel operators will be able to raise daily rates amid still-healthy transient leisure travel demand. The rate of increase, however, will moderate, falling to the single-digit percentage territory in 2024.

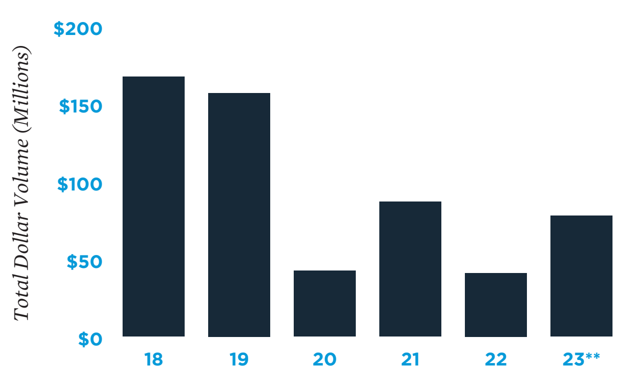
4.0%
INCREASE
in RevPAR

RevPAR:
Despite a slight decrease in the occupancy rate, the positive ADR growth will keep RevPAR on an upward trajectory. The peak summer season is expected to see the greatest gains in hotel revenues.

Occupancy and Revenue Metrics



Transaction Trends



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

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

Healthy Demographic Profile and Diverse Job Prospects Aid Multifamily Performance

Public sector insulates Ottawa from softening economy. As Canada's capital city, nearly one-third of the economy is directly linked to the public sector. Therefore, Ottawa's labour market tends to be more stable in times of uncertainty, which may soften the impact of rising interest rates over the past two years. The metro typically sees healthy intra-provincial migration amid its relatively lower cost-of-living, and is benefiting from the nation's historic immigration as newcomers seek stable employment with the federal government. In September 2023, Ottawa's annual population growth reached new highs, expanding 3.2 per cent. Surging international university enrollment has also benefited the metro, as the city is home to several important post-secondary institutions. This strong university presence has also aided Ottawa's labour market as roughly 40 per cent of the working-age population is university-educated. International tech firms, such as IBM and Kinaxis, have taken notice of this large talent pool and hold major office footprints in the metro. With Ottawa offering both stable and high-income potential jobs, population growth is expected to remain elevated this year. Combined with limited supply, apartment performance will remain robust in 2024.

INVESTMENT TRENDS

- The 2022 adoption of a new urban plan, plus developments like the Zibi master-planned community, Lansdowne 2.0, and the redevelopment of LeBreton Flats, should spur multifamily investment.
- Historically, investors have been reluctant to sell, given tight vacancy and robust rent growth. As a result, the average sale price has held relatively steady compared to other major Ontario markets.

2024 Multifamily Trends

2,200 UNITS
will be completed

CONSTRUCTION:
New supply is set to cool in 2024 as rising interest rates over the past two years curbed development. This comes after four consecutive years of elevated deliveries, with 2022 and 2023 reaching new highs.

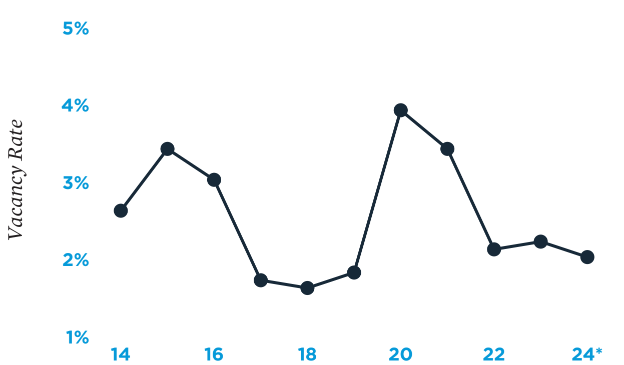
20 BASIS POINT
decrease in vacancy

VACANCY:
Heightened population growth, a shortage of apartment inventory, and a lack of affordable homes are key factors driving down vacancy. By the end of the year, the rate will hover around 2.0 per cent.

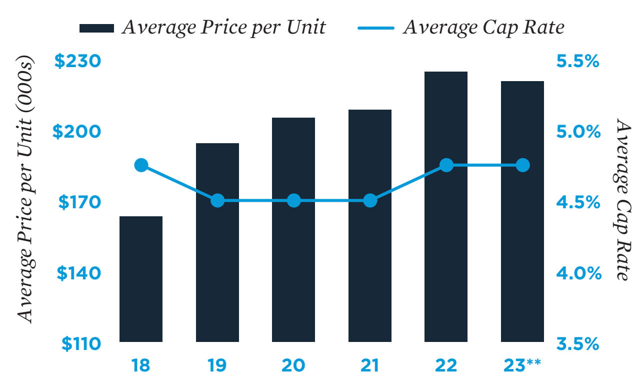
4.8% INCREASE
in effective rent

RENT:
Given rent control policies, coupled with a slowdown in unit turnover, rent growth is likely to ease from last year's highs. However, with still strong demand and limited supply, growth is expected to remain above the region's long-term average.

Vacancy Trend



Price and Cap Rate Trends



** Forecast; ** Through 3Q*

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

Vacancy Rate Getting Slashed As Demand Outstrips Supply

Market resilience continues to build. As Ottawa's economy fully re-opened, the metro's retail vacancy rate fell to the lowest level on record in 2023. Net absorption well surpassed completions, intensifying tenant competition and putting upward pressure on rents. Several retailers, including Altea, Uniqlo and T&T Supermarket, all occupied large spaces in this tight market. In 2024, the metro is expected to see its retail sector fundamentals improve further amid steady demand growth and a muted level of construction. Ongoing domestic and international in-migration continues to expand Ottawa's consumer base. Spending may also be supported by the metro's large government presence. About one-third of Ottawa's employment is in the public sector, which is considered to offer greater income stability during periods of economic distress. After falling to a multi-year low in 2023, total completions are projected to increase slightly this year, but sit below the region's long-term average. This subdued supply growth, coupled with stable consumer demand, will push the vacancy rate to a new low, helping the average asking rent increase for another year in 2024.

INVESTMENT TRENDS

- Sales activity slowed in 2023 as higher lending rates prompted an increasing number of investors to stand on the sidelines. This year may see a recovery as interest rates have likely peaked.
- As LeBreton Flats is redeveloped over the coming years, investors may seek out retail assets in surrounding regions to benefit from increasing foot traffic.

2024 Retail Trends

200,000
SQUARE FEET
will be completed

CONSTRUCTION:
Building activity will remain below the long-term average, despite a slight increase in new supply expected this year. A large share of the new projects will be delivered in Kanata.

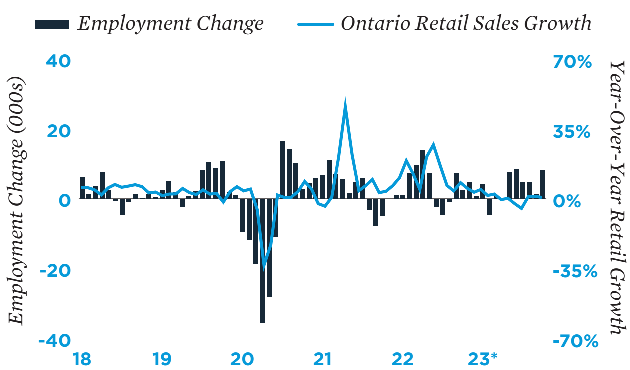
10
BASIS POINT
decrease in vacancy

VACANCY:
Stable consumer demand and muted construction will put downward pressure on vacancy. The share of vacant space will hover around 1.5 per cent, making Ottawa one of the tightest retail markets in 2024.

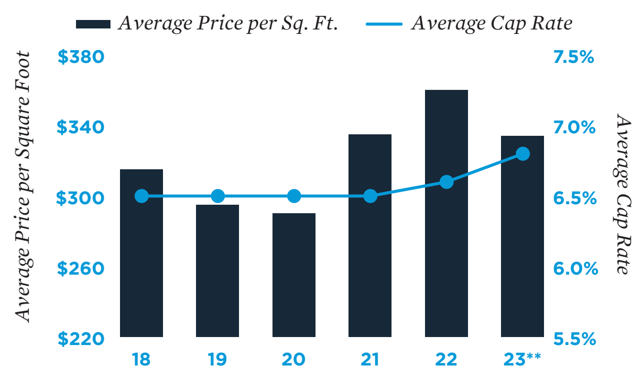
4.2%
INCREASE
in asking rent

RENT:
The squeeze in the vacancy rate will keep rents on an upward trajectory. By the end of 2024, the average retail asking rent is estimated to sit around $25 per square foot.

Employment vs. Retail Sales Trends



Price and Cap Rate Trends



** Employment through October, retail sales through September; ** Through 3Q*

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

Office Divestment to Weaken Performance, While Conversions Provide Optimism

Subdued demand to push vacancy higher. Following the public sector's labour disputes in the early parts of 2023, which resulted in more remote work flexibility, the federal government announced that it aimed to cut approximately 50 per cent of its office usage. This includes offloading some office holdings and relinquishing leased space. Ottawa's office sector will likely be the hardest-hit in the upcoming years, with over half of the government's office spaces in the national capital region. In addition to this long-term impact, the metro has already witnessed early signs of weakening office demand. Between the third quarter of 2022 and the third quarter of 2023, more than 1.2 million square feet of office space was vacated. Office demand is projected to remain weak amid a slowing economy in 2024. The federal government will continue to pull back on its office needs, and the tech sector's demand will likely remain muted due to elevated interest rates. However, with five office-to-residential conversions now approved, and more likely to occur, vacancy rates may show early signs of stabilizing by year-end.

INVESTMENT TRENDS

- Overall transaction activity slowed last year as a result of rising financing costs. The number of large-sized deals over $20 million decreased the most.
- Ottawa has now approved five office-to-residential conversions, with some being fully-vacated government properties. Future office sales activity could follow suit as demand wanes and residential space needs continue to grow.

2024 Office Trends

130,000 SQUARE FEET
will be completed

CONSTRUCTION:
Declining office occupancy, as a result of the federal government's reduction of its office footprint, has discouraged construction activity. New supply will be limited over the upcoming years.

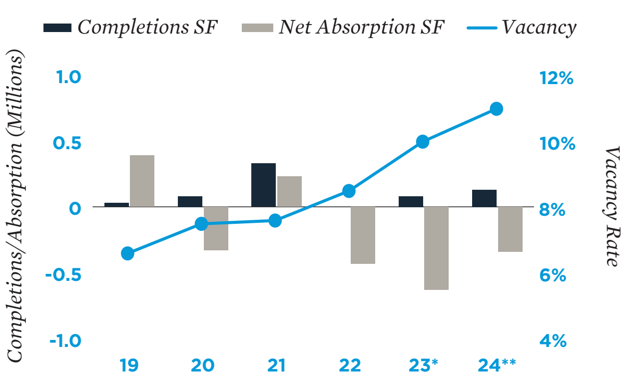
100 BASIS POINT
increase in vacancy

VACANCY:
With muted new supply, weakening demand will be the main driver for this year's vacancy increase. However, more suburban markets such as Kanata are continuing to see more stable demand.

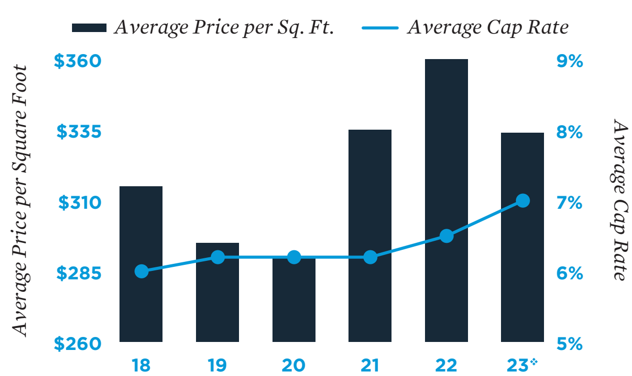
0.5% DECREASE
in asking rent

RENT:
The diminishing need for office spaces will put downward pressure on rents. The average asking rate is estimated to end 2024 slightly below $17 per square foot.

Supply and Demand



Price and Cap Rate Trends



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

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

Ottawa's Industrial Market Showing Resilience Amid Economic Uncertainty

Disciplined supply pipeline aids outlook. Ottawa has benefited from its strategic location between Toronto and Montreal — Canada's two largest cities — and is acting as a more affordable distribution hub for Eastern Ontario and Québec. Ottawa's average asking rent is roughly 25 per cent below that of Toronto, and the metro offers a more business-friendly environment compared to that of Montreal. Both of these factors attract large distribution and logistics companies looking to service Canada's most populated areas. Ottawa's disciplined construction pipeline has also allowed vacancy to remain more stable compared to other major metros. Due to Ottawa's strategic location, coupled with still-elevated population growth, distribution and warehousing space needs are expected to remain healthy over the coming year, especially for small-bay space. The meaningful levels of new supply set to enter the market this year should help meet a portion of this ongoing demand. While these deliveries will also put upward pressure on vacancy, the metro's construction pipeline as a per cent of existing inventory sits well below the national average. This will help soften the impact of moderating demand, as a result of elevated interest rates.

INVESTMENT TRENDS

- Despite heightened interest rates and falling sales activity, the average sale price was up 20 per cent annually as of the third quarter of 2023 — the largest increase among major Canadian metros.
- Interest rate uncertainty kept institutional capital on the sidelines in 2023. User purchases captured the largest share of total dollar volume at 42 per cent, followed by private investors at 37 per cent.

2024 Industrial Trends

1.5 MILLION SQUARE FEET
will be completed

CONSTRUCTION:
In response to healthy fundamentals and still-strong demand for new, top-tier distribution and warehousing space, developers remain confident. New supply, as a result, is set to increase in 2024.

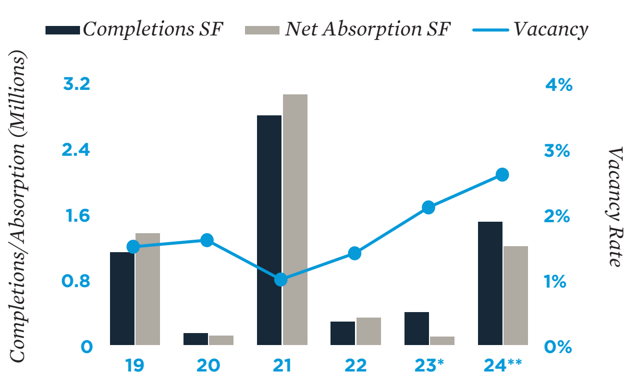
50 BASIS POINT
increase in vacancy

VACANCY:
As demand and pre-leasing ease amid rising interest rates, coupled with elevated levels of new supply entering the market, vacancy will inch up and end the year hovering slightly above 2.5 per cent.

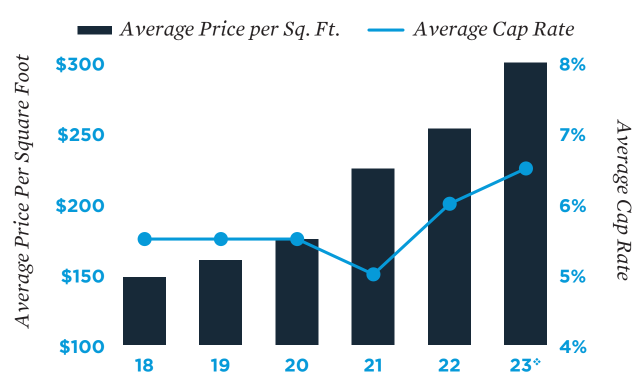
3.5% INCREASE
in asking rent

RENT:
Limited existing space, combined with an influx of new, high-quality supply that is not fully pre-leased, will cause asking rents to grow at a slightly above-average pace. The rate of change, however, will ease from the historic levels seen last year.

Supply and Demand



Price and Cap Rate Trends



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

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

Influx of Tourists Drives Recovery, While Business Travel Falls Behind

Occupancy continues to improve. Boosted by a return of leisure travelers, Ottawa saw its hospitality occupancy rate approach the pre-pandemic level in 2023. The metro welcomed an influx of visitors coming for its summer events, such as Tamarack Ottawa Race Weekend and the Canadian Tulip Festival. Hotel occupancy on some peak summer weekends was near capacity as a result, which led to double-digit percentage increases in revenue per available room. Further momentum from this pent-up demand is expected in 2024; however, the rate of increase in key revenue metrics is forecast to soften, as some consumers may pare back travel spending amid near-term economic headwinds. In contrast to the recovery in the tourism sector, corporate travel was still shy of the pre-pandemic level. This was partly due to the federal government's cut on travel expenses and reduced business travel needs in other sectors, as a result of elevated interest rates. The cuts will continue to weigh on 2024's weekday demand, leading to an annual average occupancy rate that is still slightly below the 2019 level.

INVESTMENT TRENDS

- Investment activity continued to be scarce throughout 2023. The sale of Ottawa Marriott Hotel by InnVest to Manga Hotels was one of the only major transactions in the first three quarters of 2023.
- Similar to the national trend, there has been hesitancy to sell as property owners opt to benefit from increasing hotel revenues. Any future openings will likely be met with greater buyer interest, due to robust post-pandemic operating fundamentals and the expectation of declining borrowing costs over the latter parts of 2024.

2024 Hospitality Trends

150
BASIS POINT
change in occupancy

OCCUPANCY:
A further recovery in the leisure segment is expected to drive this year's occupancy rate increase. Corporate travel demand, however, will remain subdued.

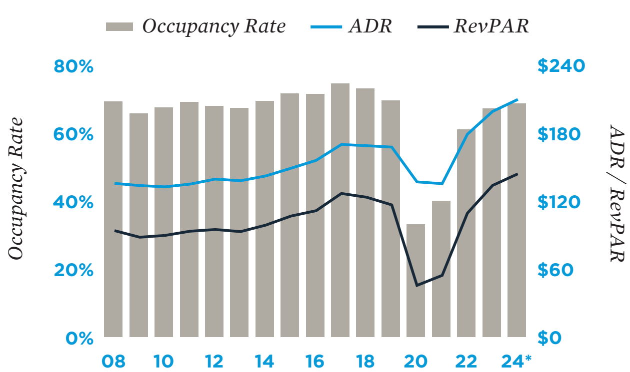
5.3%
INCREASE
in ADR

ADR:
As overall inflation is expected to cool in 2024, the increase in ADR is forecast to moderate from the 2023 level. The early spring and summer months will see the greatest gains of the year.

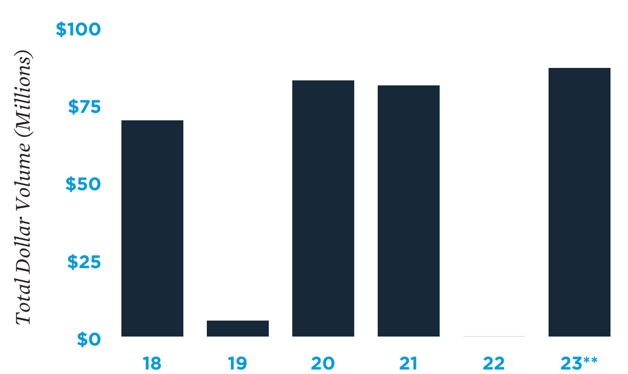
7.7%
INCREASE
in RevPAR

RevPAR:
Hotel revenues will trend higher as both the occupancy rate and ADR continue to increase. The annual average RevPAR is expected to end 2024 above $140.

Occupancy and Revenue Metrics



Transaction Trends



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

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

Population Growth, Job Prospects and University Presence Aid Performance

Multiple factors support multifamily demand. Southwestern Ontario has seen historic population growth in recent years, expanding roughly 2.5 per cent annually as of September 2023. Like most other major metros, the region is benefiting from historic immigration, but also from elevated levels of intra-provincial migration due to the lower cost-of-living and evolving labour opportunities. The average rent is roughly 20 per cent below that of Toronto, and the region is among the fastest-growing industrial hubs in North America. On top of growing industrial employment, cities like Kitchener-Waterloo and Hamilton offer ample job prospects in the tech and health science sectors. This lower cost-of-living, combined with widening job opportunities, should support robust rental demand over the coming year — especially in Southwestern Ontario's more urban areas. Additionally, the region is also home to 10 post-secondary educational institutions. As Canada is the world's third-leading destination for international students, study permits were up 77 per cent annually through the first six months of 2023. Due to this factor, Southwestern Ontario is expected to welcome an influx of temporary residents this year, further aiding apartment demand.

INVESTMENT TRENDS

- Despite strong fundamentals, dollar volume transacted was down 25 per cent annually over the trailing 12 months ending in September 2023, as rising borrowing costs curbed buyer enthusiasm.
- With population and job growth holding above average, underlying rental demand remains healthy. Transaction activity, as a result, is likely to gain momentum once interest rate uncertainty abates.

2024 Multifamily Trends

4,000 UNITS
will be completed

CONSTRUCTION:
Development activity is set to reach new highs as builders recognize the ongoing demand for rental housing. Most new supply will be in the form of mixed-use projects and office-to-residential conversions.

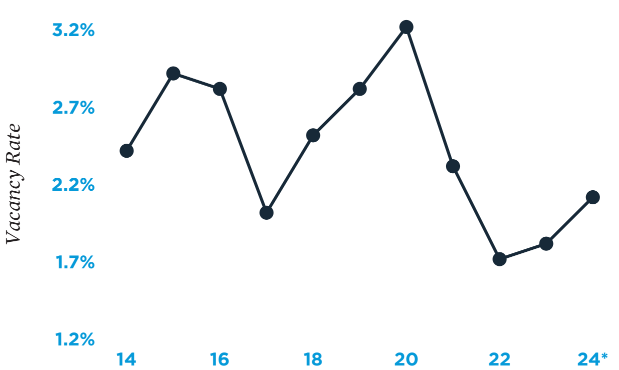
30 BASIS POINT
increase in vacancy

VACANCY:
The vacancy rate is forecast to remain extremely tight, ending 2024 hovering just above 2.0 per cent. However, a record level of new supply set to enter the market will put slight upward pressure on the rate.

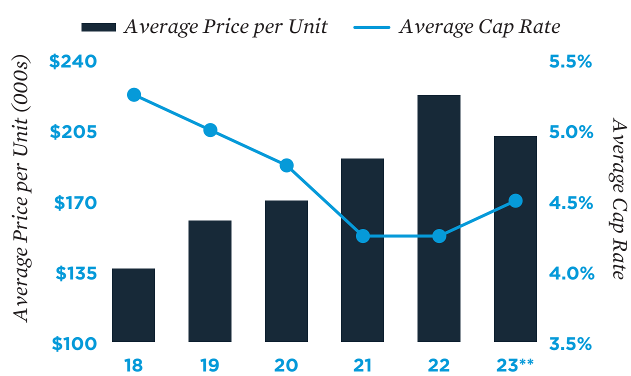
4.0% INCREASE
in effective rent

RENT:
Annual rent growth is expected to cool from the elevated levels seen over the past two years, yet still increase at a solid rate given the influx of new, high-quality supply and above-average demand.

Vacancy Trend



Price and Cap Rate Trends



** Forecast; ** Through 3Q*

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

Suburban Retail Composition Aids Sector in Combating Near-Term Challenges

Healthy demand to cap vacancy increase. Southwestern Ontario saw the largest influx of new supply since 2017 in 2023. The 450,000-square-foot Gateway London Shopping Centre was close to being fully delivered. Other openings varied from small neighbourhood centres to standalone restaurants and supermarkets, contributing another 650,000 square feet to the total stock. Yet the vacancy rate remained low, signaling the market's resilience against economic headwinds. With a heavy presence of suburban essential retail in the region, leasing demand was shielded from moderating consumer spending in 2023. This suburban nature should continue to benefit retailers amid a slowing economy this year. Inventory expansion will soften slightly in 2024, but will still hover above the historical average. Besides the full completion of the Gateway London Centre, other projects will be delivered in large cities, including Hamilton, Kitchener and Guelph. This elevated supply growth, however, is expected to only lift the vacancy rate slightly as demand for space will likely hold.

INVESTMENT TRENDS

- It is likely that interest rates have peaked, and could even ease toward the second half of 2024. As such, investment activity may improve over the coming quarters as financing costs taper.
- Aided by historic levels of immigration, the area's expanding consumer base is expected to benefit retailers and increase retail investment over the long-term, especially for suburban properties with densification potential.

2024 Retail Trends

800,000 SQUARE FEET
will be completed

CONSTRUCTION:
Construction activity seems to have largely recovered from the pandemic trough. Despite a decline from last year's level, total completions will still stand above the long-term annual average in 2023.

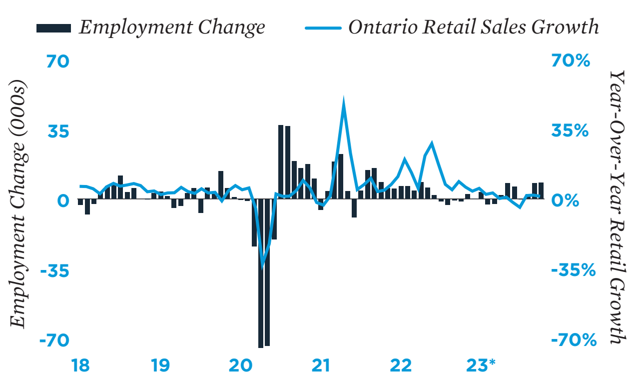
10 BASIS POINT
increase in vacancy

VACANCY:
Consumer demand for the metro's suburban essential retail is expected to remain robust. Elevated supply growth, however, will be the main contributor to this slight increase in the vacancy rate.

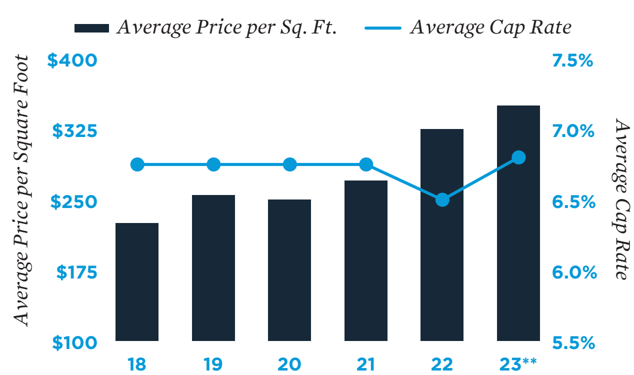
3.5% INCREASE
in asking rent

RENT:
Retail rents will remain on an upward trajectory. After multiple years of increase, the average asking rent in 2024 will be roughly 25 per cent above the 2019 level.

Employment vs. Retail Sales Trends



Price and Cap Rate Trends



** Employment through October, retail sales through September; ** Through 3Q*

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

Higher Vacancy Linked to Smaller Firms; Office Conversions Helping Cut Inventory

Vacancy to rise, but signs of stabilization begin to emerge. As businesses consolidated their office footprints amid the slower pace of hiring and adoption of hybrid work arrangements, office demand in Southwestern Ontario weakened in 2023. Sublet space rose by more than 10 times over the course of last year, which was the biggest driver for the vacancy rate increase. A higher concentration of small- to medium-sized enterprises in the region also weighed on demand, as elevated financing costs took a heavier toll on these businesses compared to large corporations, which typically have a greater resilience against economic headwinds. Meanwhile, the metro's smaller city size, shorter commutes and a growing student population have sparked redevelopment activity to transform old office buildings into residential units. One such project was Europro's conversion of a 12-storey office building in downtown Kitchener, which was acquired by Conestoga College after completion. As these projects continue, coupled with a pause in construction activity this year, supply-side pressure on the vacancy rate should be limited. While still muted demand is also likely to cause further upward pressure on vacancy, the rate could show signs of stabilizing by year-end.

INVESTMENT TRENDS

- Total dollar volume fell notably in 2023, largely due to a drop in transaction volume in Waterloo. However, the Kitchener-Waterloo-Cambridge area continued to attract the most investment.
- The metro is seeing an expansion of the life sciences sector as a number of universities are building medical schools within the region. This may create more investor traction in the coming years.

2024 Office Trends

85,000 SQUARE FEET *will be completed*

CONSTRUCTION: Following the completion of The Breithaupt Block Phase 3, construction activity will be muted in 2024. Additions will be spread across Kitchener, London and Hamilton.

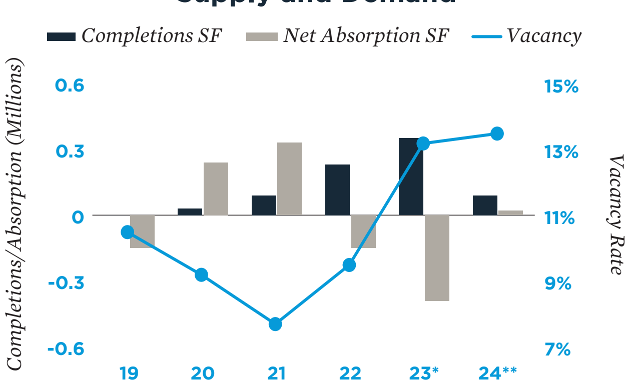
30 BASIS POINT *increase in vacancy*

VACANCY: Vacancy will rise at a slower pace than last year's 400-basis-point increase. Conversion programs and a minimal inventory expansion will likely help stabilize the vacancy rate over the latter half of the year.

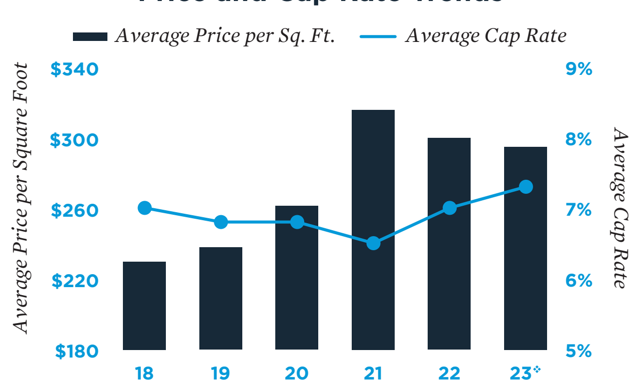
0.7% DECREASE *in asking rent*

RENT: Office rents appeared to have peaked in mid-2023 and have since been on a downward trajectory. This trend is expected to continue this year, as still-soft demand causes vacancy rates to climb higher.

Supply and Demand



Price and Cap Rate Trends



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

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

Manufacturing Sector to Support Industrial Outlook Amid Spillover Effects

Nearshoring aids metro outlook. Southwestern Ontario is carving out a key link in the global supply chain of electric vehicles, benefiting from the province's already established automotive network. Both Stellantis and Volkswagen selected the region for their new state-of-the-art EV battery manufacturing plants, resulting in Canada earning the second spot in the global electric battery supply chain rankings. Not only will this directly impact long-term demand for manufacturing space, these emerging industries will have clustering effects, supporting robust employment opportunities and growth. Spillover impacts for distribution and warehousing space are likely to emerge over the coming years as the region's population continues to expand. Southwestern Ontario is also a pivotal contributor to Canada's agriculture industry, which is benefiting from nearshoring as well and is set to support the need for industrial space in the coming years. The long-term outlook for the metro's industrial sector is positive. However, tenants' space needs are likely to moderate in 2024 amid elevated interest rates. Coupled with record supply growth, fundamentals are set to soften compared to the historic performance seen in recent years.

INVESTMENT TRENDS

- In the third quarter, total dollar volume sold was down 20 per cent annually. Despite still-healthy fundamentals, capital markets uncertainty has pushed many buyers to the sidelines.
- Due to the expectation of stabilizing interest rates, investment activity will likely gain momentum, given the positive sector outlook amid the growing EV presence and expected employment gains.

2024 Industrial Trends

3.8 MILLION SQUARE FEET
will be completed

CONSTRUCTION:
New supply growth will hold above average as developers significantly increased building intentions over the past three years. Deliveries, however, will fall slightly compared to last year's historic level.

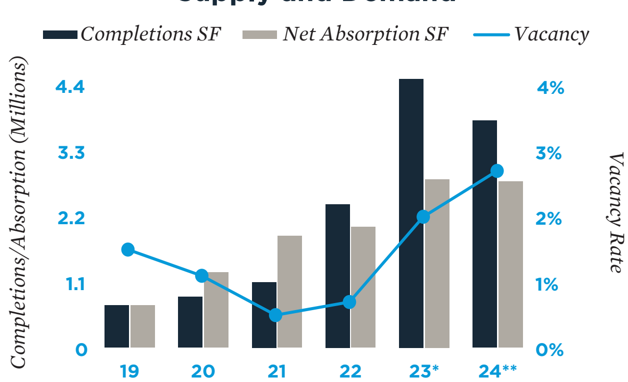
70 BASIS POINT
increase in vacancy

VACANCY:
Easing demand amid heightened interest rates, coupled with elevated levels of new supply entering the market in recent years, will cause vacancy to rise and end the year just below 3.0 per cent.

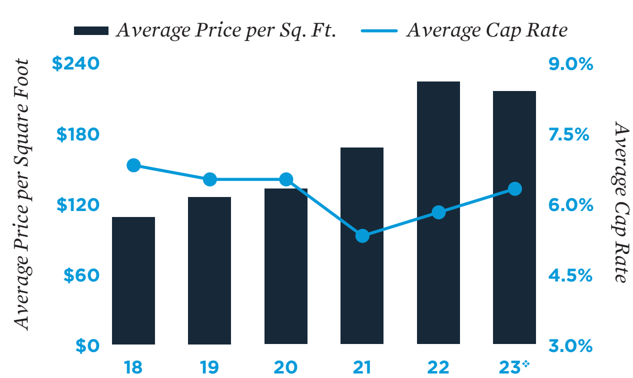
3.4% INCREASE
in asking rent

RENT:
As vacancy is set to return to the metro's long-term average, annual rent growth will cool from the historic levels seen in recent years. The pace of change in 2024, however, will hold above inflation.

Supply and Demand



Price and Cap Rate Trends



* Estimate; ** Forecast; ✢ Through 3Q

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

Leisure Travel Dominates; Government Subsidies Aid Long-Term Growth

Demand stabilizing after a brisk rebound. The hospitality sector in Southwestern Ontario has recovered at a faster clip compared to the national trend. In 2023, the metro's annual occupancy rate stood 140 basis points above the 2019 level, while Canada's average occupancy just climbed back to the pre-pandemic measure. This was helped by strong demand growth in areas like London and Niagara Falls, where the removal of pandemic restrictions led to the normalization of leisure travel. While occupancy is projected to inch up once again in 2024, demand is set to stabilize, causing the rate to increase at a softer pace. Niagara Falls will likely see the greatest occupancy gain this year with an increasing number of domestic and international visitors. Furthermore, the region's tourism sector will continue to benefit from policy support. Following FedDev Ontario's $68.5 million investment in 2022, the federal government will deliver another $108 million to support communities, small- and medium-sized businesses, and not-for-profit organizations in developing local tourism products and experiences. These subsidies will bode well for the region's hospitality sector over the long-run.

INVESTMENT TRENDS

- While total dollar volume declined, a greater number of small-sized transactions were recorded in 2023. Niagara Falls saw the most transactions, with three independent motels changing hands.
- This more active trading was partly due to improving fundamentals offering an exit strategy for some small hotel owners, who experienced significant losses during the pandemic.

2024 Hospitality Trends

50 BASIS POINT
change in occupancy

OCCUPANCY:
Occupancy is expected to trend higher in 2024, which will be driven by increasing tourist foot traffic. However, the pace of improvement will slow, partly due to slightly softening corporate demand.

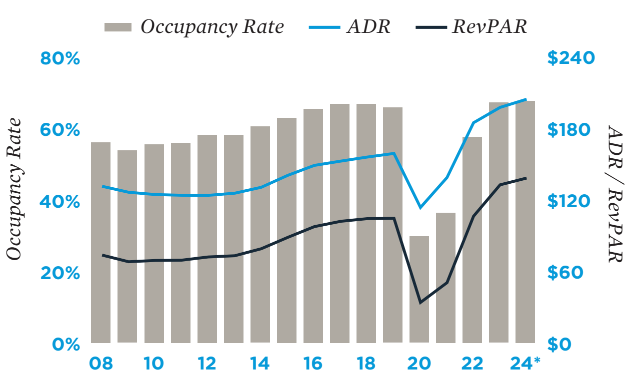
3.5% INCREASE
in ADR

ADR:
Daily rates will continue rising in 2024, due to still-robust demand. The rate of increase is projected to slow, however, as operating costs are likely to rise at a slower pace amid easing inflation.

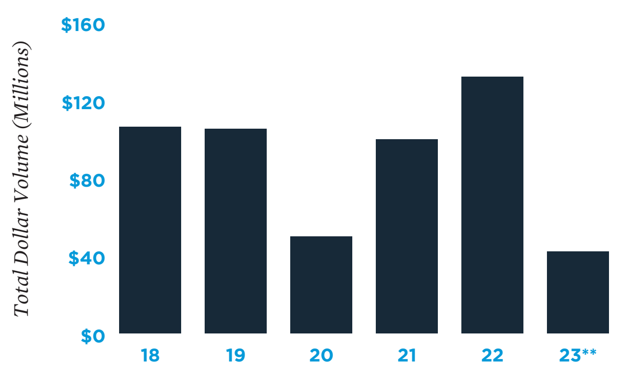
4.3% INCREASE
in RevPAR

RevPAR:
ADR gains will contribute to most of this increase in RevPAR. Niagara Falls will continue to see the highest RevPAR, followed by the greater Niagara Region and the Kitchener-Cambridge-Guelph submarkets.

Occupancy and Revenue Metrics



Transaction Trends



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

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

Diverse Rental Pool Amid Toronto's Global Reach to Benefit Apartment Sector

Metro's international standing aids performance. Toronto's apartment rental sector fully recovered by the end of last year. The metro's vacancy rate sat below its pre-pandemic average, and rent gains neared record highs. Elevated population growth, which reached 3.3 per cent annually in the third quarter of 2023, drove this surge in multifamily demand. This was mainly a result of Toronto's global reputation, which attracts a diverse renter pool — including young professionals in search of their first job, newcomers to the country as a result of historic immigration, as well as local and international students. With immigration and international university enrollment set to trend up again this year, combined with still-elevated home prices and the expectation of a prolonged period of higher borrowing costs creating further homeownership hurdles, apartment rental demand is set to be well supported. On top of these demand tailwinds, new supply continues to lag, despite reaching historic levels in recent years. This ongoing market imbalance should continue to support robust performance, keeping fundamentals extremely healthy. As a result, investment activity is likely to gain momentum throughout the year as borrowing costs are forecast to stabilize.

INVESTMENT TRENDS

- With dollar volume down 60 per cent annually over the past year ending in September 2023, the average sale price fell 10 per cent. The average cap rate inched up to just below 4.0 per cent.
- As Canada's largest city, coupled with the ongoing supply shortfall, many developers and investors are expected to capitalize on the Enhanced GST Rental Rebate this year.

2024 Multifamily Trends

6,500 UNITS
will be completed

CONSTRUCTION:
While completions were originally expected to increase in 2024, rising construction and financing costs have caused development to slow. As a result, new supply growth will inch down slightly this year.

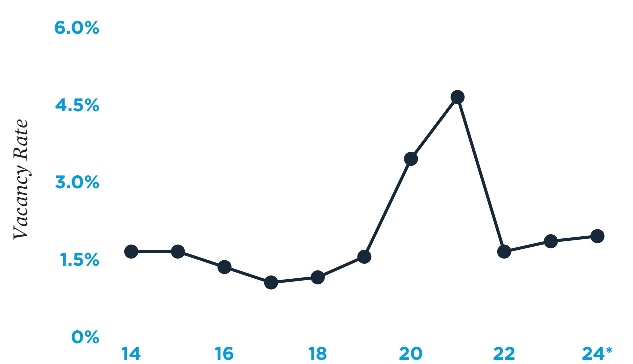
10 BASIS POINT
increase in vacancy

VACANCY:
Vacancy is forecast to hold relatively stable compared to last year. An influx of new supply may create slight upward pressure, causing vacancy to end the year hovering just below 2.0 per cent.

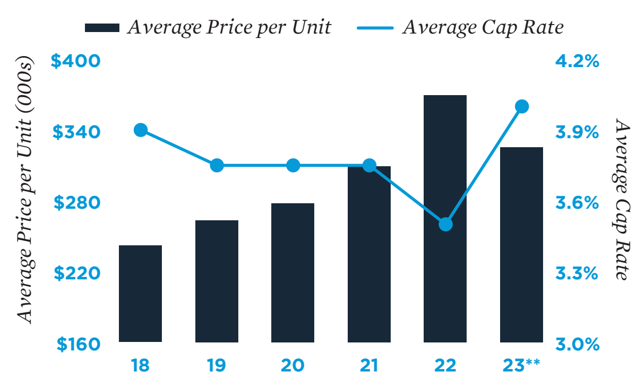
5.1% INCREASE
in effective rent

RENT:
The average asking rent is expected to grow at an above-average clip in 2024. Given rent control policies, along with already heightened rental rates limiting turnover, growth is likely to ease compared to last year's elevated level.

Vacancy Trend



Price and Cap Rate Trends



** Forecast; ** Through 3Q*

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

Investors Eye Essential Retail as Toronto's Households Face Debt Challenges

Retail sector remains resilient against economic headwinds. With one of the lowest vacancy rates in Canada, Toronto's retail sector showed few signs of leasing softening in 2023. A large influx of new projects were delivered, including the 455,000-square-foot retail podium at The Well and a new Costco in North Etobicoke. Construction approached 2 million square feet in total as a result, whereas the vacancy rate was largely unchanged. This demonstrates the great resilience Toronto's retail sector has against rising interest rates. Looking ahead, major additions in 2024 include Mayfield Crossing in Brampton and a new neighbourhood centre in Northeast Oshawa. Total new supply will hold relatively similar to last year's level, with most new spaces having already been pre-leased. This should put downward pressure on vacancy. On the demand-side, elevated interest rates will challenge an increasing number of households with high debt burdens, which will lead to a decline in consumer spending. This impact will likely be most visible in the early parts of 2024, but it is not expected to trigger a significant pullback in net absorption, as the metro's consumer base will be supported by an increase in population amid historic immigration.

INVESTMENT TRENDS

- Despite a decline in overall transaction activity, strong sales were recorded in the essential segment, such as grocery-anchored retail, due to the stability the asset offers in times of uncertainty.
- The Well has set the bar for new destination retail, where people can live, work and shop locally. This type of mixed-use development will likely be the next investment focus.

2024 Retail Trends

1.4 MILLION SQUARE FEET
will be completed

CONSTRUCTION:
Following 2023's elevated levels of construction, completions will slightly retreat to just below 1.5 million square feet. The majority of additions in 2024 will be Class B spaces in suburban areas.

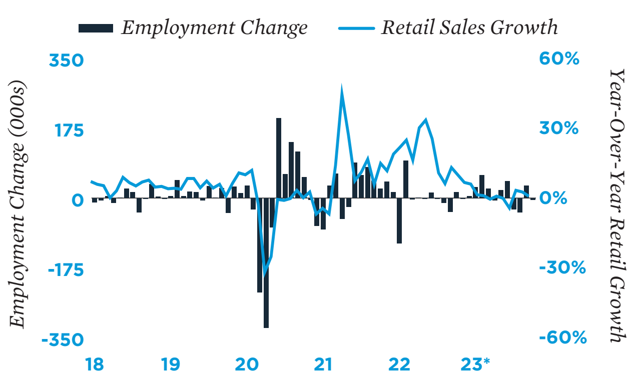
10 BASIS POINT
decrease in vacancy

VACANCY:
Due to softening consumer spending, vacancy may rise in the first few months of 2024; however, it should register an annual decrease by the fourth quarter when leasing demand picks up in the back half of the year.

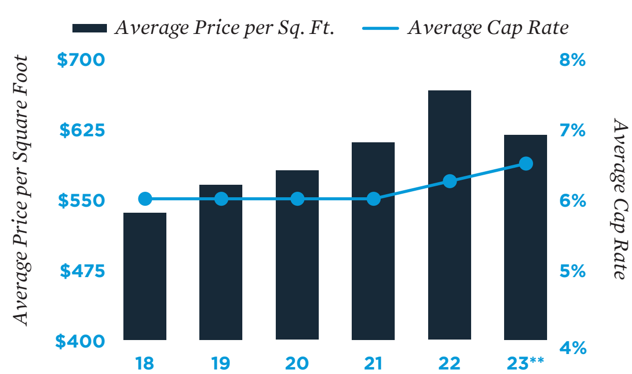
3.4% INCREASE
in asking rent

RENT:
Healthy consumer demand and limited new supply growth will maintain upward-trending retail rents. The average asking rent is estimated to sit above $36 per square foot by the end of 2024.

Employment vs. Retail Sales Trends



Price and Cap Rate Trends



** Employment through October, retail sales through September; ** Through 3Q*

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

Fundamentals Weakening Amid Office Right-Sizing and Inventory Expansion

Vacancy rate to hit new highs. Driven by weak absorption and elevated inventory growth, Toronto's office vacancy rate has trended up since the start of 2020. On one hand, the slow progress of resuming in-office work and mounting economic headwinds led to four consecutive years of negative net absorption between 2020 and 2023. Some businesses also opted to sublet under-utilized office spaces instead of vacating, which pushed sublet availability to an all-time high. This was met with a large uptick in construction, as building starts in the downtown core surged just prior to the pandemic, when the area's vacancy rate hovered around 2.0 per cent. As Toronto's economic growth is expected to remain soft in 2024, demand is likely to hold at a subdued level. With sublet space also at an all-time high, further head leases are set to expire. Similar to the post-2020 trend, this muted demand will be met with an even greater supply increase. Several Class A projects, such as the new TD Bank building and CIBC Square II, will push total completions to a post-pandemic record. Toronto's office vacancy will continue to reach new highs. However, with the metro's historic construction cycle nearing its end, supply-side pressures on vacancy should mitigate by early 2025.

INVESTMENT TRENDS

- KDDI Corporation's expansion into Canada gave way to three data centre purchases totaling $1.35 billion in the downtown area. These transactions marked the largest investment in 2023.
- The re-occupancy of office spaces has rekindled investor enthusiasm in Downtown Toronto. This area made up over 55 per cent of total office investment in 2022 and 2023.

2024 Office Trends

5.0 MILLION SQUARE FEET
will be completed

CONSTRUCTION:
Several large projects, including TD Terrace, The Shift and CIBC Square II, will push completions to a new peak. Total construction is projected to more than double the level seen in 2023.

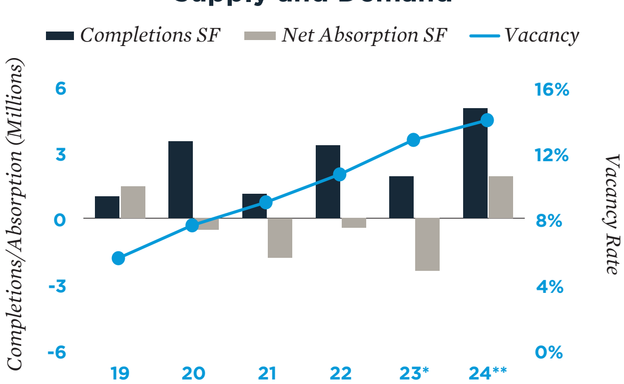
120 BASIS POINT
increase in vacancy

VACANCY:
Still-soft demand and hefty inventory growth will cause the metro's vacancy rate to trend up for the fifth straight year. As more firms move into top-tier spaces, older buildings will be harder to backfill.

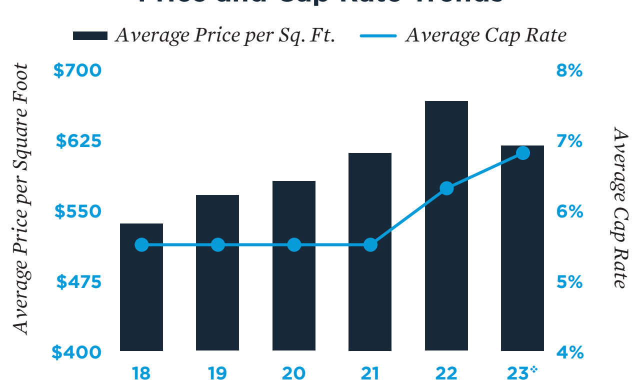
1.5% DECREASE
in asking rent

RENT:
Climbing vacancy will cause a decline in office rents. However, an influx of Class A properties will help cap this downward movement as demand for high-quality space remains relatively healthy.

Supply and Demand



Price and Cap Rate Trends



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

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

Sector Still Has Room to Grow as Rents Trail Other Hubs Across North America

As the nation's industrial centre, outlook remains positive. With a robust highway network and access to the nation's largest international airport, as well as being the largest city in Canada, the Greater Toronto Area holds 45 per cent of the country's industrial inventory. Due to these traits, Toronto's industrial sector greatly benefited from the surge in e-commerce activity over the past three years, with annual rent growth averaging roughly 22 per cent since 2021. While space demand is set to moderate from the historic levels seen in recent years, especially for large-bay space amid elevated borrowing costs curbing both business and consumer spending, it is still likely that the metro will perform at a healthy rate in 2024. Near-record population growth is expected to continue, which will keep e-commerce-related activity well supported. As of the third quarter of last year, average asking rents sat roughly 30 to 50 per cent under those in other major industrial centres in North America. Toronto's vacancy rate also sat well below other distribution hubs, which should underpin another year of healthy sector performance, as asking rents still have room to grow — albeit at a more moderate pace due to softening demand and elevated new supply.

INVESTMENT TRENDS

- Despite dollar volume being down 10 per cent annually over the trailing 12 months ending in September 2023, the average sale price has held relatively stable, only down 2 per cent.
- As interest rate hikes are largely believed to be over, coupled with healthy fundamentals, industrial is set to remain a preferred investment option. Transaction activity is likely to gain momentum.

2024 Industrial Trends

12 MILLION SQUARE FEET
will be completed

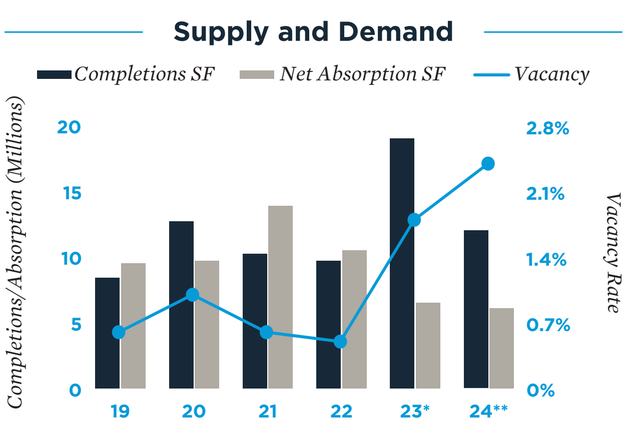
CONSTRUCTION:
Deliveries will be down roughly 35 per cent when compared to last year's historic level. With rent growth beginning to soften amid moderating demand, some builders are proceeding with greater caution.

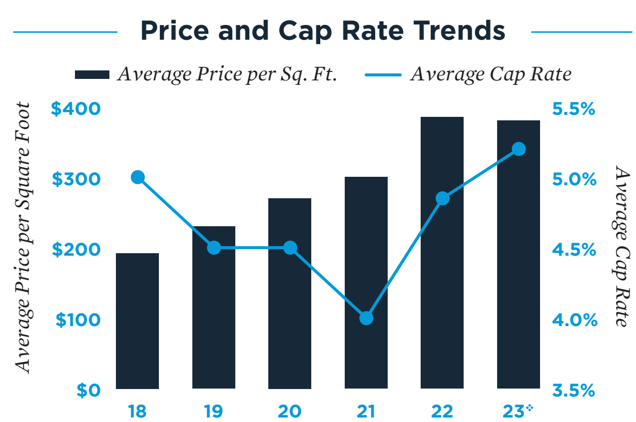
60 BASIS POINT
increase in vacancy

VACANCY:
Vacancy will edge up and end the year hovering around 2.5 per cent as pre-leasing activity slows, sublet space increases, and meaningful levels of new supply continue to enter the market over the coming year.

4.1% INCREASE
in asking rent

RENT:
Rent growth will outpace inflation in 2024 due to still-tight vacancy, yet begin to ease from the record levels seen over the past two years. Moderating demand and an uptick in available space will provide tenants with some room to negotiate.





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

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

Leisure Travel Supports Occupancy Gains Amid Slower Pace of Inventory Expansion

Demand is one step closer to full normalization. Toronto's hotel occupancy rate registered a 600-basis-point increase in 2023, which outpaced the national average. This outperformance was most palpable in the first half of the year with a swift return of travelers. Pent-up leisure demand acted as a key driver, while corporate and group travel lagged, which kept the metro's annual average occupancy rate below the pre-pandemic level. After contracting throughout the health crisis, total room inventory just returned to the 2019 level last year. This supply-side tailwind also aided hotel performance. While moderating business activity, due to elevated interest rates, will likely reduce corporate travel needs in 2024, leisure demand is on track to register a further improvement. The pace of inventory expansion is also estimated to slow, decelerating from 3.6 per cent to 2.3 per cent annually. As a result, the average occupancy rate is projected to remain on an upward trend, finishing the year roughly 100 basis points below the rate seen in 2019.

INVESTMENT TRENDS

- Investment sales remained scarce in 2023, partly due to an increasing reluctance to sell as owners opted to capitalize on rising revenues. However, total dollar volume held up well, supported by the $105 million transaction of the Hazelton Hotel.
- This positive sector outlook contributed to BlackRock's $300 million investment in Freed Corporation. This investment is primarily to support the development of Freed Resort Communities north of Toronto.

2024 Hospitality Trends

90 BASIS POINT *change in occupancy*

OCCUPANCY: The increase in occupancy will mostly come from a further recovery in leisure demand. A deceleration in inventory expansion will also support this occupancy gain.

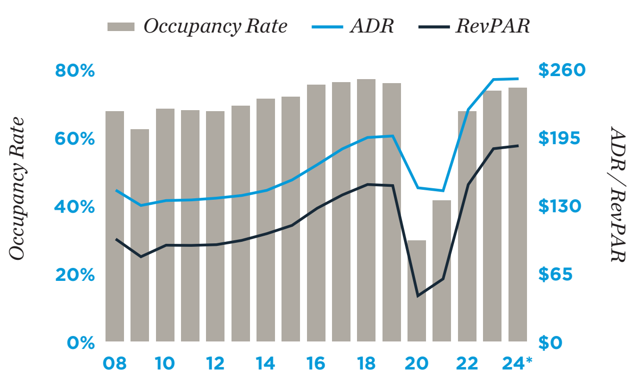
0.3% INCREASE *in ADR*

ADR: ADR will remain mostly unchanged in 2024 compared to the prior year. Hotel operators are expected to raise rates in the first half, but will likely need to cut rates in the second half as demand normalizes.

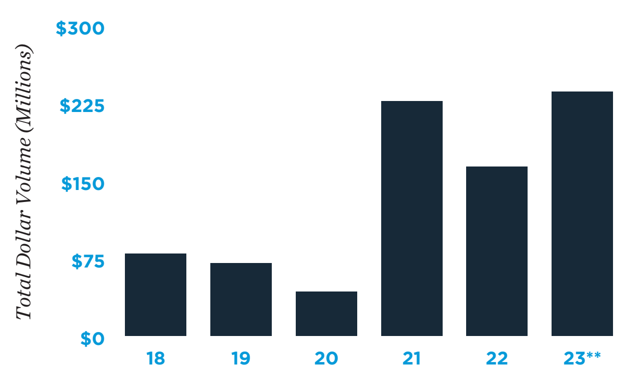
1.5% INCREASE *in RevPAR*

RevPAR: As ADR is projected to stabilize in 2024, the rising occupancy rate will contribute to this revenue gain. The first half of the year will see the greatest increases in RevPAR.

Occupancy and Revenue Metrics



Transaction Trends



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

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

Supply-Demand Imbalance a Main Driver in Underlying Apartment Performance

Vancouver to remain the most expensive rental market. With the median price of a single-family home in Vancouver sitting just over $2 million as of last year, along with elevated borrowing costs further hindering homeownership prospects, many potential buyers find the rental market to be of better value. Vancouver's population has also expanded at a near-record pace over the past two years. With the federal government set to welcome 1.5 million new permanent residents by 2026, further levels of growth are expected to continue as just over 15 per cent of all newcomers tend to reside in British Columbia. On top of these evolving demand tailwinds, Vancouver has faced a prolonged housing shortage, exacerbated by rising borrowing costs over the past year. Coupled with robust population growth, Vancouver's housing supply-demand imbalance is growing. As a result, apartment vacancy is forecast to remain around 1.0 per cent, maintaining Vancouver as the most expensive multifamily rental market in Canada. The metro has introduced policies in order to create incentives for developers to increase the region's housing supply and address the city's housing affordability crisis.

INVESTMENT TRENDS

- The trailing 12-month dollar volume was down 40 per cent annually as of September 2023. Rising interest rates curbed buyer enthusiasm, causing sale prices to ease and cap rates to inch up.
- With major infrastructure projects underway, such as the Broadway Subway and the Surrey Langley SkyTrain, transit-oriented investment is likely to increase as borrowing costs stabilize this year.

2024 Multifamily Trends

9,200
UNITS
will be completed

CONSTRUCTION:
As Vancouver attempts to address its housing affordability crisis, multifamily starts have been trending up since 2019. Deliveries, as a result, are set to reach new highs this year.

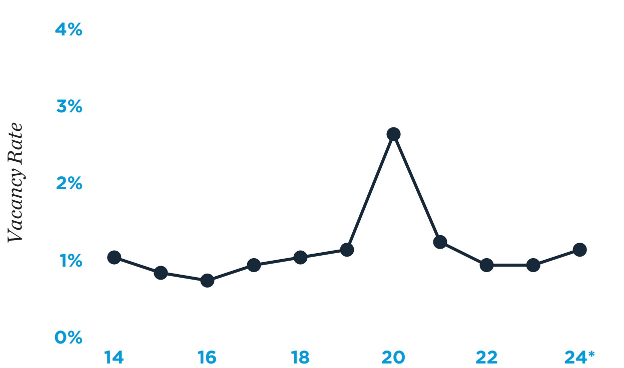
20
BASIS POINT
increase in vacancy

VACANCY:
With the Vancouver rental market sitting near-full occupancy as of 2023, the historic level of new supply set to enter the market is forecast to push vacancy up slightly, ending the year hovering just above 1.0 per cent.

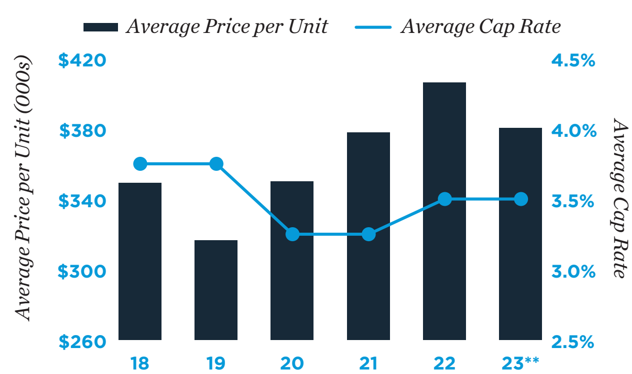
5.5%
INCREASE
in effective rent

RENT:
Rent growth is set to hold above the metro's long-term average. However, due to the high cost associated with moving, turnover will be limited. This may cause the pace of increase to cool from last year's elevated level amid rent control policies.

Vacancy Trend



Price and Cap Rate Trends



** Forecast; ** Through 3Q*

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

Momentum to Build in Latter Half as Tourism and Resident Gains Aid Sector

Low inventory growth maintains tight vacancy. Vancouver continues to be one of the most important retail markets in Canada, given its robust tourism industry and record population growth amid healthy migration patterns. As a result, retailers are expected to weather short-term headwinds brought on by elevated borrowing costs, and continue expansionary efforts as the year progresses. These factors should help mitigate any upward pressure on the vacancy rate over the first few months of the year. Limited supply growth will also help ensure a tight vacancy rate, as completions will remain at a subdued level. The metro is not expected to see major deliveries until the redevelopment of Oakridge Centre is completed, which will release roughly 1 million square feet of retail space in 2025. This comes after elevated interest rates work their way through the economy over the first few months of the year and soften consumer spending, as debt-servicing liabilities rise with more households renewing mortgages. Retail space demand may soften when compared to the elevated levels seen last year. However, the vacancy rate is expected to remain relatively stable and hold at an extremely tight level, hovering around 1.0 per cent.

INVESTMENT TRENDS

- Elevated interest rates impacted multi-tenant transactions the most in 2023. Total dollar volume invested in single-tenant assets held up better, due to its lower risks during economic downturns.
- With strong fundamentals, retail assets in Vancouver trailed only industrial, becoming the second-most invested property type in 2023 by offering buyers a near-6 per cent implied return.

2024 Retail Trends

420,000 SQUARE FEET
will be completed

CONSTRUCTION: Completions will record a slight increase compared to last year. Most offerings will be mixed-use spaces bundled with office and residential assets, with more freestanding retail away from the urban centre.

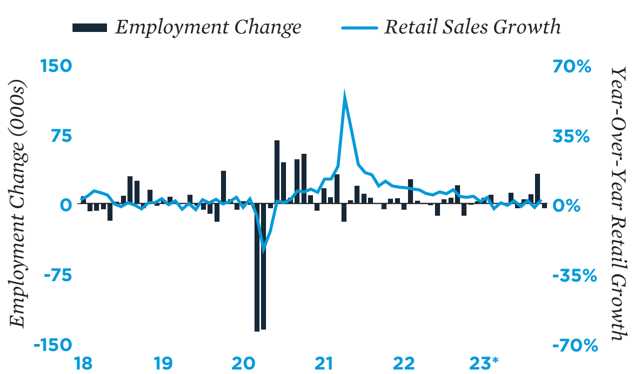
10 BASIS POINT
decrease in vacancy

VACANCY: Vacancy will inch up in early 2024, due to softening leasing activity related to easing consumer spending. Limited supply expansion, however, will cap this uptick, causing a small decline by year-end.

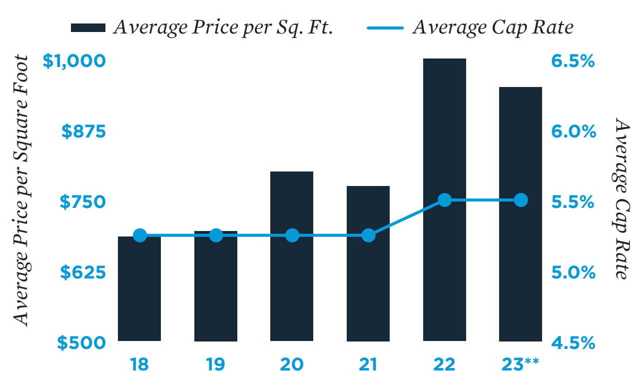
3.0% INCREASE
in asking rent

RENT: Rents will continue to hit higher ground due to still-tight vacancy rates; however, the rate of increase is expected to moderate as overall leasing demand softens from the elevated levels seen last year.

Employment vs. Retail Sales Trends



Price and Cap Rate Trends



** Employment through October, retail sales through September; ** Through 3Q*

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

Office Market Holds Lowest Vacancy Rate Among All of Canada's Major Metros

Peripheral markets better positioned. From 2020 to 2023, Vancouver experienced a faster pace of employees returning to the office compared to other major markets. This helped keep its office vacancy rate well below 10 per cent, the lowest in Canada. Suburban areas fared better thanks to more robust leasing activity seen in the healthcare and tech sectors, while higher vacancy persisted in the city centre. Also, elevated interest rates and increasing new supply pushed up the average vacancy rate across the geographic spectrum as businesses consolidated operations, which was most acute in the urban core. The downtown vacancy rate rose above 12 per cent in 2023, compared to roughly 6.0 per cent in the suburbs. Rising vacancy trends will likely continue in 2024, at least through the first half as economic headwinds are expected to peak in the early parts of the year. Outlying submarkets may continue to see lower vacancy rates with a higher level of in-office work. Despite near-term economic headwinds, the Vancouver area is expected to continue holding the lowest office vacancy rate among major Canadian metros. The region remains an important commercial hub with a heavy presence in tech and life sciences, which should support demand over the long-term.

INVESTMENT TRENDS

- Last year, the decrease in total dollar volume was due to muted sales in the $20 million-plus category. Smaller-sized assets, however, drew greater investor interest despite rising financing costs.
- Although an increase in small- to medium-sized deals led to a decline in price, the average per-square-foot cost remained over 90 per cent above the national average in 2023.

2024 Office Trends

2.5 MILLION SQUARE FEET
will be completed

CONSTRUCTION:
The majority of new projects in 2024 and beyond will be completed in more peripheral submarkets. With the metro's downtown build cycle set to complete in 2024, supply pressures may begin to ease.

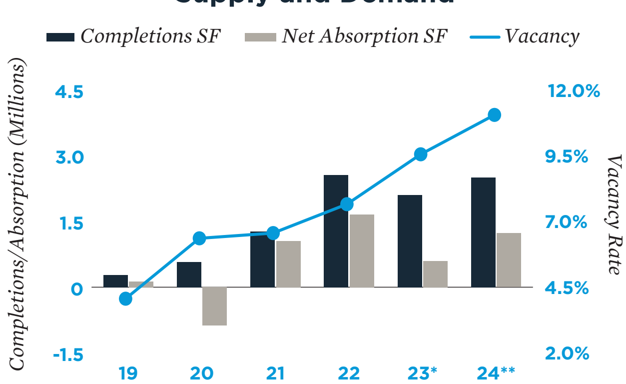
150 BASIS POINT
increase in vacancy

VACANCY:
Soft demand and rising supply will contribute to this increase in vacancy. With the amount of sublet space also trending up, further risks prevail as it is unknown how much space tenants will require when head leases expire.

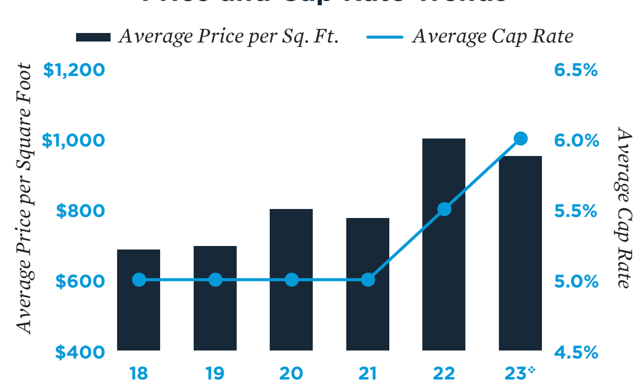
0.8% INCREASE
in asking rent

RENT:
As firms seek better-amenitized space to lure back employees, coupled with new high-quality supply entering the market, asking rents will inch up. However, rising vacancy rates in Class B and C assets will mute the pace of growth.

Supply and Demand



Price and Cap Rate Trends



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

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

Red-Hot Market to Soften; Supply Constraints Support Fundamentals

Market to remain healthy, but signs of stabilization grow. Vancouver's industrial sector will continue to perform well in 2024. While expected to soften from the historic levels witnessed in recent years, distribution and warehousing demand should remain well-supported. The region is home to one of the largest deep-water ports in North America and is benefiting from the shift in consumer behaviour, as well as record population growth. Supply constraints, due to limited development land because of the metro's ocean and mountain boundaries, are also aiding fundamentals. The Vancouver industrial market is set to ease, however, with vacancy continuing to inch up and rent growth softening. Available space in older properties with lower clear heights and limited shipping doors are beginning to increase as well as large block opportunities given elevated construction activity within this segment over the past few years. Sublet space has also been trending up since last year as operators return unneeded space that was over-committed to when options were limited. A more balanced market is set to form as potential tenants will have more space options, and regain some negotiating power in the form of rising tenant inducements.

INVESTMENT TRENDS

- Private buyers accounted for roughly 75 per cent of all transactions last year as institutional capital remained sidelined amid ongoing interest rate uncertainty.
- Surrey generated positive investor attention in the first half of 2023, due to its 1.0 per cent vacancy rate and one of the highest asking rents, capturing roughly 25 per cent of all transactions.

2024 Industrial Trends

4.0 MILLION SQUARE FEET
will be completed

CONSTRUCTION:
New supply is set to remain above the metro's long-term average, with most construction activity happening in Vancouver, Abbotsford, Surrey and Richmond.

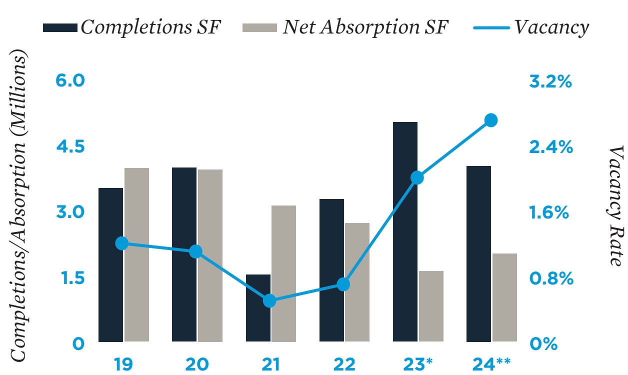
70 BASIS POINT
increase in vacancy

VACANCY:
Vacancy will trend up and hover just above 2.5 per cent as leasing demand slows and elevated levels of new supply are delivered. This is leaving large block space sitting on market for longer periods of time.

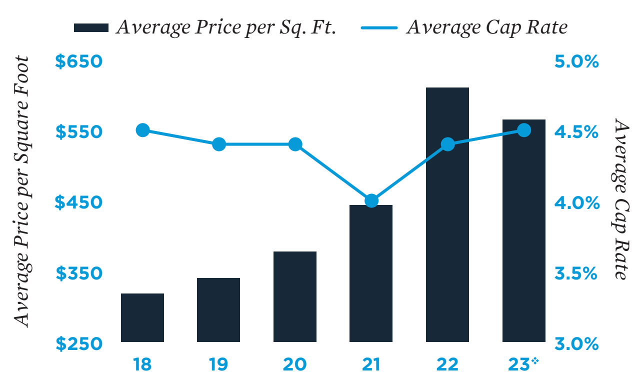
4.0% INCREASE
in asking rent

RENT:
While rent growth will continue to outpace inflation, it is set to moderate this year as vacancy trends up, especially in older space. This will give tenants more options and provide some balance to the market.

Supply and Demand



Price and Cap Rate Trends



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

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

International Travel to Boost Demand Amid Minimal Supply-Side Pressure

Occupancy to hit a new record. Vancouver's prime location and its rich tourism resources were a key attraction for both domestic and foreign visitors in 2023. Facilitated by the normalization of flights, total air passenger volume within the first eight months rose by 40 per cent year-over-year, which was led by a brisk rebound from the Asia-Pacific region and a continued recovery from the U.S. This strong momentum in travel aided hotel demand, with nearly 90 per cent of rooms being occupied during the summer months. Despite slower economic growth expected in both Canada and abroad, an increasing number of inbound travelers are expected in 2024, especially from Europe and Asia, where air travel has not fully returned to the pre-pandemic level. The occupancy rate is set to increase further as a result, with the annual average likely surpassing 80 per cent. On the supply side, diminishing inventory and muted construction activity are not only supporting key revenue metrics, but are also gradually becoming an obstacle for the metro's economic growth. Most new projects are currently in the proposed or final planning stage, and completions are expected beyond 2024 in preparation for future events like the 2026 World Cup.

INVESTMENT TRENDS

- Investment activity paused, with no major transactions being recorded within the first three quarters of 2023. Hotel owners opted to benefit from significantly higher revenues instead of selling.
- Due to a lack of transactions, the average sale price was hard to estimate last year. However, it is likely that valuations held firm as underlying fundamentals showed robust growth.

2024 Hospitality Trends

160
BASIS POINT
change in occupancy

OCCUPANCY:

The annual average occupancy rate is forecast to rise slightly above 80 per cent, which will be a new record. Downtown Vancouver is estimated to see the highest occupancy, followed by the airport area.

2.0%
INCREASE
in ADR

ADR:

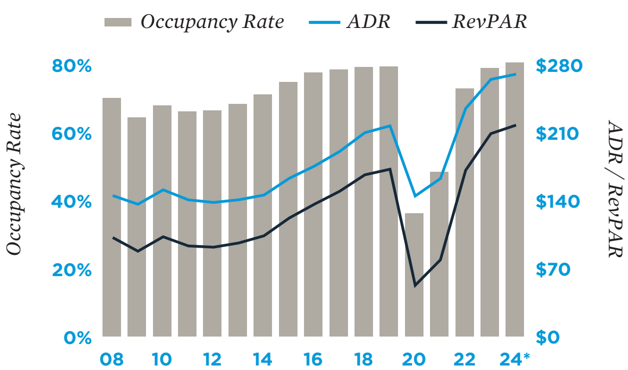
Vancouver's ADR is estimated to end 2024 roughly 30 per cent above the national average, which will be the highest average daily rate among major markets in Canada.

4.2%
INCREASE
in RevPAR

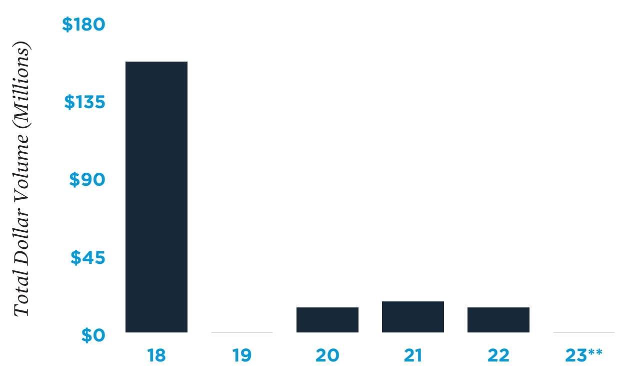
RevPAR:

Robust gains in occupancy and ADR will lead to another year of RevPAR increasing. This improvement is forecast to be most visible in the downtown submarket, which will see the greatest increase in occupancy.

Occupancy and Revenue Metrics



Transaction Trends



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

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

United States

Corporate Headquarters
Marcus & Millichap
23975 Park Sorrento
Suite 400
Calabasas, CA 91302
(818) 212-2250
www.MarcusMillichap.com

Atlanta
1100 Abernathy Road, N.E.
Building 500, Suite 600
Atlanta, GA 30328
(678) 808-2700
John M. Leonard

Austin
9600 N. Mopac Expressway
Suite 300
Austin, TX 78759
(512) 338-7800
Bruce Bentley III

Bakersfield
4900 California Avenue
Tower B, Second Floor
Bakersfield, CA 93309
(661) 377-1878
Jim Markel

Baltimore
One West Pennsylvania Avenue
Suite 850
Towson, MD 21204
(443) 703-5000
Brian Hosey

Baton Rouge
10527 Kentshire Court, Suite B
Baton Rouge, LA 70810
(225) 376-6800
Jody McKibben

Birmingham
800 Shades Creek Parkway
Suite 815
Birmingham, AL 35209
(205) 510-9200
Jody McKibben

Boise
800 W. Main Street, Suite 1460
Boise, ID 83702
(208) 401-9321
Adam Lewis

Boston
100 High Street, Suite 1025
Boston, MA 02110
(617) 896-7200
Thomas Shihadeh

Charleston
151 Meeting Street, Suite 450
Charleston, SC 29401
(843) 952-2222
Benjamin Yelm

Charlotte Uptown
201 S. Tryon Street, Suite 1220
Charlotte, NC 28202
(704) 831-4600
Benjamin Yelm

Chicago Downtown
333 W. Wacker Drive, Suite 200
Chicago, IL 60606
(312) 327-5400
Joseph Powers

Chicago Oak Brook
One Mid-America Plaza, Suite 200
Oakbrook Terrace, IL 60181
(630) 570-2200
Steven D. Weinstock

Cincinnati
600 Vine Street, 10th Floor
Cincinnati, OH 45202
(513) 878-7700
Josh Caruana

Cleveland
Crown Center
5005 Rockside Road, Suite 800
Independence, OH 44131
(216) 264-2000
Grant Fitzgerald

Columbia
1320 Main Street, Suite 300
Columbia, SC 29201
(803) 678-4900
Benjamin Yelm

Columbus
500 Neil Avenue, Suite 100
Columbus, OH 43215
(614) 360-9800
Grant Fitzgerald

Dallas
5001 Spring Valley Road, Suite 100W
Dallas, TX 75244
(972) 755-5200
Mark R. McCoy

Dallas Uptown
3131 Turtle Creek Boulevard
Suite 1200
Dallas, TX 75219
(972) 267-0600
Mark R. McCoy

Denver
1144 15th Street, Suite 2150
Denver, CO 80202
(303) 328-2000
Adam A. Lewis

Detroit
2 Towne Square, Suite 450
Southfield, MI 48076
(248) 415-2600
Steven Chaben

Encino
16830 Ventura Boulevard, Suite 100
Encino, CA 91436
(818) 212-2700
Jim Markel

Fort Lauderdale
5900 N. Andrews Avenue, Suite 100
Fort Lauderdale, FL 33309
(954) 245-3400
Harrison E. Rein

Fort Worth
300 Throckmorton Street, Suite 1500
Fort Worth, TX 76102
(817) 932-6100
Mark R. McCoy

Fresno
6795 N. Palm Avenue, Suite 109
Fresno, CA 93704
(559) 476-5600
Jim Markel

Greensboro
200 Centreport Drive, Suite 160
Greensboro, NC 27409
(336) 450-4600
Benjamin Yelm

Hampton Roads
208 GoldenOak Ct, Suite 210
Virginia Beach, VA 23452
(757) 777-3737
Benjamin Yelm

Houston
3 Riverway, Suite 800
Houston, TX 77056
(713) 452-4200
Ford Noe

Indianapolis
600 E. 96th Street, Suite 500
Indianapolis, IN 46240
(317) 218-5300
Josh Caruana

Inland Empire
3281 E. Guasti Road, Suite 800
Ontario, CA 91761
(909) 456-3400
Mario J. Alvarez, Jr.

Iowa
425 Second Street S.E., Suite 610
Cedar Rapids, IA 52401
(319) 333-7743
Todd Lindblom

Jacksonville
5200 Belfort Road, Suite 250
Jacksonville, FL 32256
(904) 672-1400
Justin W. West

Kansas City
7400 College Boulevard, Suite 105
Overland Park, KS 66210
(816) 410-1010
David Saverin

Knoxville
1111 Northshore Drive, Suite S-301
Knoxville, TN 37919
(865) 299-6300
Jody McKibben

Las Vegas
9205 W Russell Road, Suite 100
Las Vegas, NV 89148
(702) 215-7100
Cameron Glinton

Los Angeles
1900 Avenue of the Stars, Suite 2000
Los Angeles, CA 90067
(213) 943-1800
Tony Solomon

Louisville
9300 Shelbyville Road, Suite 1012
Louisville, KY 40222
(502) 329-5900
Josh Caruana

Manhattan
260 Madison Avenue, Fifth Floor
New York, NY 10016
(212) 430-5100
John Horowitz

Memphis
5100 Poplar Avenue, Suite 2505
Memphis, TN 38137
(901) 620-3600
Jody McKibben

Miami
2916 North Miami Avenue, Suite 700
Miami, FL 33127
(786) 522-7000
Harrison E. Rein

Milwaukee
13890 Bishops Drive, Suite 300
Brookfield, WI 53005
(262) 364-1900
Todd Lindblom

Minneapolis
1601 Utica Avenue South, Suite 301
Minneapolis, MN 55416
(952) 852-9700
Todd Lindblom

Mobile
208 N. Greeno Road, Suite B-2
Fairhope, AL 36532
(251) 929-7300
Jody McKibben

Nashville
6 Cadillac Drive, Suite 100
Brentwood, TN 37027
(615) 997-2900
Jody McKibben

New Haven
265 Church Street
Suite 210
New Haven, CT 06510
(203) 672-3300
John Horowitz

New Jersey
250 Pehle Avenue, Suite 501
Saddle Brook, NJ 07663
(201) 742-6100
Jim McGuckin

New Mexico
100 Sun Avenue N.E., Suite 650
Albuquerque, NM 87109
(505) 445-6333
Ryan Sarbinoff

Oakland
555 12th Street, Suite 1750
Oakland, CA 94607
(510) 379-1200
Ramon Kochavi

Oklahoma City
101 Park Avenue, Suite 1300
Oklahoma City, OK 73102
(405) 446-8238
Jody McKibben

Orange County
19800 MacArthur Boulevard
Suite 150
Irvine, CA 92612
(949) 419-3200
Jonathan Giannola

Orlando
300 S. Orange Avenue, Suite 700
Orlando, FL 32801
(407) 557-3800
Justin W. West

Palm Springs
74-710 Highway 111, Suite 102
Palm Desert, CA 92260
(909) 456-3400
Mario J. Alvarez, Jr.

Palo Alto
2626 Hanover Street
Palo Alto, CA 94304
(650) 391-1700
Ramon Kochavi

Philadelphia
2005 Market Street, Suite 1510
Philadelphia, PA 19103
(215) 531-7000
Brian Hosey

Phoenix
2398 E. Camelback Road, Suite 300
Phoenix, AZ 85016
(602) 687-6700
James K. Crawley

Portland
111 S.W. Fifth Avenue, Suite 1950
Portland, OR 97204
(503) 200-2000
David Tabata

Raleigh
101 J Morris Commons Lane, Suite 130
Morrisville, NC 27560
(919) 674-1100
Benjamin Yelm

Reno
50 W. Liberty Street, Suite 400
Reno, NV 89501
(775) 348-5200
Daniel A. Kapic

Richmond
4401 Waterfront Drive, Suite 230
Glen Allen, VA 23060
(804) 802-6900
Benjamin Yelm

Sacramento
3741 Douglas Boulevard, Suite 200
Roseville, CA 95661
(916) 724-1400
Daniel A. Kapic

Sacramento Downtown
333 University, Suite 150
Sacramento, CA 95825
(916) 724-1400
Daniel A. Kapic

Salt Lake City
95 South State Street, Suite 1280
Salt Lake City, UT 84111
(801) 736-2600
Adam Christofferson

San Antonio
8200 IH-10 W, Suite 603
San Antonio, TX 78230
(210) 343-7800
Bruce Bentley III

San Diego
12544 High Bluff Drive, Suite 100
San Diego, CA 92130
(858) 373-3100
Damon Wyler

San Francisco
750 Battery Street, Fifth Floor
San Francisco, CA 94111
(415) 963-3000
Ramon Kochavi

Seattle
401 Union Street, Suite 3200
Seattle, WA 98101
(206) 826-5700
Joel Deis

South Bay
880 Apollo Street, Suite 101
El Segundo, CA 90245
(424) 405-3900
Dawson Rinder

St. Louis
7800 Forsyth Boulevard, Suite 710
St. Louis, MO 63105
(314) 889-2500
David Saverin

Tampa
201 N. Franklin St., Suite 1100
Tampa, FL 33602
(813) 387-4700
David G. Bradley

Tucson
2 E Congress Street, Suite 1050
Tucson, AZ 85701
(520) 202-2900
James K. Crawley

Washington, D.C.
7200 Wisconsin Avenue, Suite 1101
Bethesda, MD 20814
(202) 536-3700
Brian Hosey

Westchester
50 Main Street, Suite 925
White Plains, NY 10606
(914) 220-9730
John Horowitz

Canada

Calgary
602-16 Avenue Northwest
Suite 211
Calgary, Alberta T2M 0J7
(587) 349-1302
Michael Heck

Edmonton
10175 101 Street, Suite 1820
Edmonton, Alberta T5J 0H3
(587) 756-1600
Michael Heck

Montreal
1250 Rene Leveque Boulevard West
Suite 2200
Montreal, Quebec H3B 4W8
(438) 844-6500
Kevin Marshall

Ottawa
275 Bank Street, Suite 301
Ottawa, Ontario K2P 2L6
(613) 364-2300
Mark Paterson

Toronto
200 King Street W, Suite 1210
Toronto, Ontario M5H 3T4
(416) 585-4646
Mark Paterson

Vancouver
1111 West Georgia Street, Suite 1100
Vancouver, British Columbia
V6E 4M3
(604) 638-2121
Michael Heck

CONTACTS, SOURCES AND DEFINITIONS

Research Services Division

John Chang | *Senior Vice President, Director*
Peter Tindall | *Vice President, Director of Research Operations*
Greg Willett | *First Vice President, IPA Research*
Luke Simurda | *Director of Canada Research*
Cody Young | *Publication Manager*
Jacinta Tolinos | *Research Operations Manager*
Josh Craft | *Research Analyst*
Maria Erofeeva | *Graphic Designer*
Luis Flores | *Research Analyst II*
Nayomi Garcia | *Copy Editor, Digital Media Editor*
Jessica Henn | *Research Analyst*
Benjamin Kunde | *Research Analyst II*
Luke Murphy | *Research Analyst*
Chris Ngo | *Data Analyst II*
Adam Norbury | *Data Analyst II*
Benjamin Otto | *Digital Media Manager*
Erik Pisor | *Research Analyst*
Daniel Spinrad | *Research Analyst*
Musab Salih | *Junior Data Analyst*
Neel Sodhi | *Research Associate*
Frank Zhao | *Research Associate*

Contact:

John Chang | *Senior Vice President*
Director, Research and Advisory Services
4545 East Shea Boulevard, Suite 201
Phoenix, Arizona 85028
(602) 707-9700 | john.chang@marcusmillichap.com

Senior Management Team

Hessam Nadji
President and Chief Executive Officer

Richard Matricaria
Executive Vice President, Chief Operating Officer, Western Division

J.D. Parker
Executive Vice President, Chief Operating Officer, Eastern Division

Evan Denner
Executive Vice President, Head of Business, MMCC

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

Adam Christofferson
Senior Vice President, Division Manager

Michael L. Glass
Senior Vice President, Division Manager

John Horowitz
Senior Vice President, Division Manager

Brian Hosey
Senior Vice President, Division Manager

Ryan Nee
Senior Vice President, Division Manager

Tim Speck
Senior Vice President, Division Manager

John Vorsheck
Senior Vice President, Division Manager

Media Contact:

Gina Relva | *Public Relations Director*
555 12th Street, Suite 1750
Oakland, CA 94607
(925) 953-1716 | gina.relva@marcusmillichap.com

Statistical Summary Note: Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2023. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Forecasts for employment and property performance are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.

Sources: IPA Research Services; Altus Data Solutions; Bank of Canada; Canada Mortgage and Housing Corporation; Capital Economics; CoStar Group, Inc.; Environics; 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.

JOHN CHANG

Senior Vice President, Director
IPA Research Services
jchang@ipausa.com

LUKE SIMURDA

Director of Research, Canada
Marcus & Millichap Research Services
luke.simurda@marcusmillichap.com

MARK PATERSON

Montreal / Ottawa / Toronto
First Vice President, Regional Manager
mark.paterson@marcusmillichap.com

MICHAEL HECK

Calgary / Edmonton / Vancouver
Vice President, Regional Manager
michael.heck@marcusmillichap.com

OFFICES THROUGHOUT THE UNITED STATES AND CANADA

RESEARCH SERVICES

4545 E. Shea Boulevard • Phoenix, AZ 85028 • 602.707.9700