2024 CANADIAN ECONOMIC OUTLOOK

AND MARKET FUNDAMENTALS FIRST QUARTER REPORT

26TH ANNUAL EDITION

MORGUARD

Q1

CANADIAN REAL ESTATE: POISED TO STRENGTHEN

Morguard

CONTENTS

Q1

ABOUT

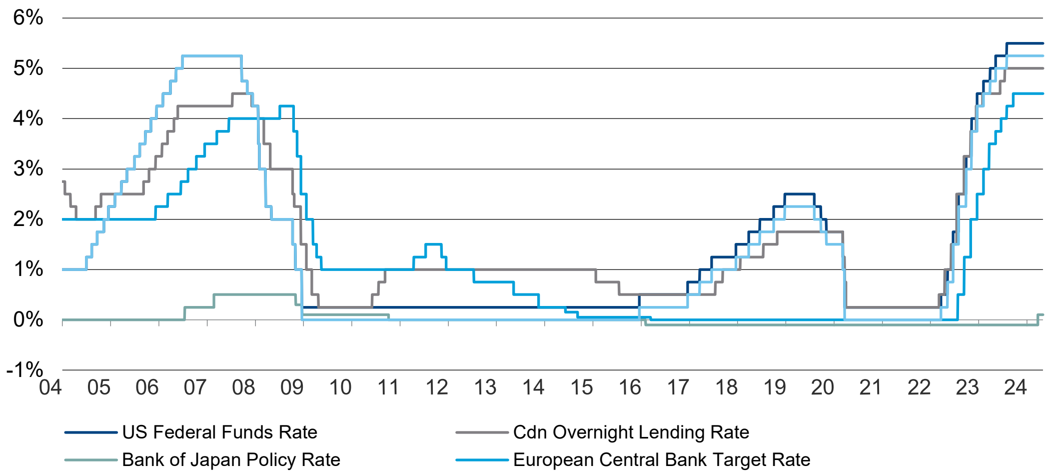
FINANCIAL REPORT

BANK OF CANADA MAINTAINED POLICY RATE

The Bank of Canada (BofC) maintained its policy rate during the first quarter. The Bank's overnight policy rate and Bank Rate were held at 5% and 5.25% on both January 24 and March 6, respectively. The rates were unchanged for a third consecutive announcement on April 10. The Bank continued its policy of quantitative tightening during the first quarter.

OFFICIAL POLICY RATES

International Monetary Conditions



Source: Bank of Canada, Federal Reserve Board, European Central Bank, Bank of Japan

The bank's justification for the maintenance of its overnight and Bank Rate was largely two-fold. The first was the Canadian economy's stronger-than-expected growth performance in the first few months of 2024. The growth uptick was driven by population growth, increased household and government spending and rising residential housing demand. The bank subsequently upgraded its economic growth forecast for 2024 in its quarterly Monetary Policy Report. The second justification for the maintenance of the overnight and Bank Rates was that inflation remained above the bank's target range, despite having eased across a broad range of goods and services over the recent past. Moreover, inflation is expected to remain relatively high over the next few months. The bank reiterated its intention to monitor economic performance and inflation closely over the next several months. Both are expected to moderate in the second quarter. The bank is expected to hold off on rate cuts until at least the spring of 2024, having done so in the first quarter.

CONSUMER PRICE GROWTH DECELERATION RECORDED

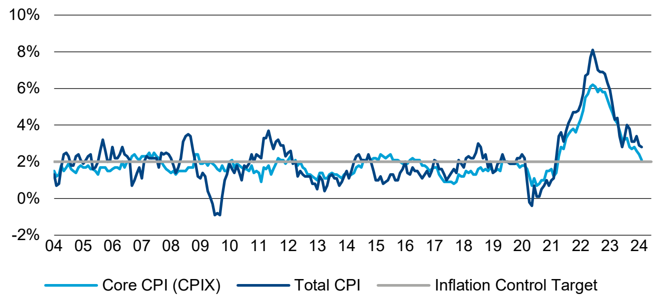
Consumer price growth deceleration was reported in the first quarter of 2024, in keeping with the recent trend. Headline inflation rose to 2.8% in February on a year-over-year basis. The February Consumer Price Index (CPI) headline index reading was down 10 bps month-over-month. February's price-growth deceleration was somewhat unexpected, with many forecasts calling for a slight increase. The CPI stood at 2.9% in January down from the elevated 3.4% rate reported for December 2023. Price growth pressure eased in the grocery sector in both January and February, which was a major contributor to the overall price growth deceleration recorded in early 2024. Prices for food purchased in stores rose by 3.4% in January on a year-over-year basis, down from 4.7% in the final month of 2023. In February, the figure fell to 2.4%, which was below headline inflation rate for all spending categories combined for the first time since October 2021. Grocery prices remained elevated in the first quarter, however, having increased by 21.6% between February 2021 and February 2024. The high cost of rent and mortgage interest contributed to the inflation pressure of the quarter. Despite the continued pressure, consumer price growth deceleration was recorded.

SOLID START TO THE YEAR FOR S&P/TSX COMPOSITE

The S&P/TSX Composite started 2024 on solid ground, with a 5.8% gain posted for the first quarter. Double-digit gains were recorded in the energy, health care and industrials sectors of the index. The three sectors were the only ones to best the composite's average return for the three-month period. The energy sector, which accounts for 18.0% of the composite, posted a 17.8% return for the first quarter. The driver of the healthy return was largely higher energy prices and strong pipeline activity levels. Canadian Natural Resources, Suncor Energy, Imperial Oil, and Cenovus Energy were among the top five contributors' to the strong energy sector and composite performance. The health care sector registered the second highest return for the quarter at 17.5%. However, health care represents less than 1.0% of the composite. Industrials registered the third highest return of the composite's 11 sectors. Accounting for roughly 14.0% of the index, industrials generated a solid 10.8% return. The only two sectors of the composite to post negative returns were utilities and communications services at -2.3% and -8.5%, respectively. Real estate barely kept its head above water with a 0.8% gain. On balance, the S&P/TSX Composite posted a solid first quarter performance.

NATIONAL INFLATION

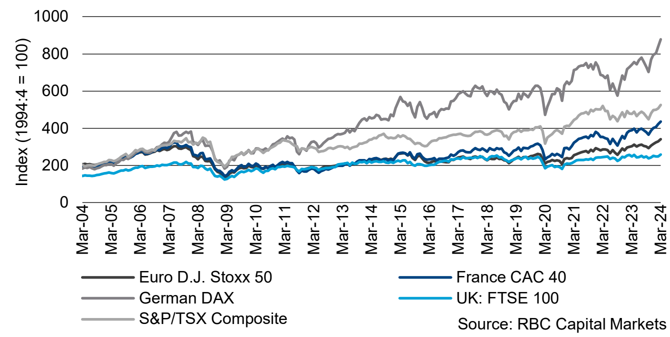
CPI Measures, % Change Over 1 Year Ago



Source: Bank of Canada, Statistics Canada

GLOBAL INDICES

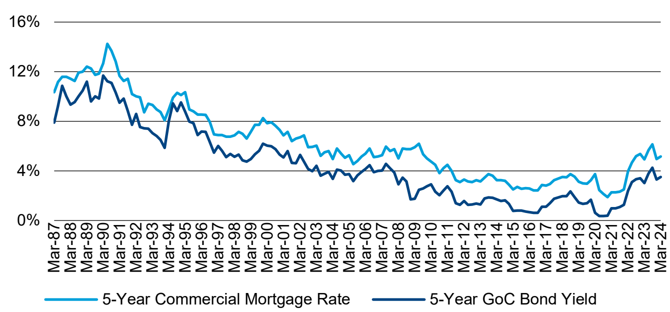
Trending of Global Price Return Indices



Source: RBC Capital Markets

MORTGAGE SPREADS

Commercial Mortgage Rates Vs. 5-Year GOC Bonds



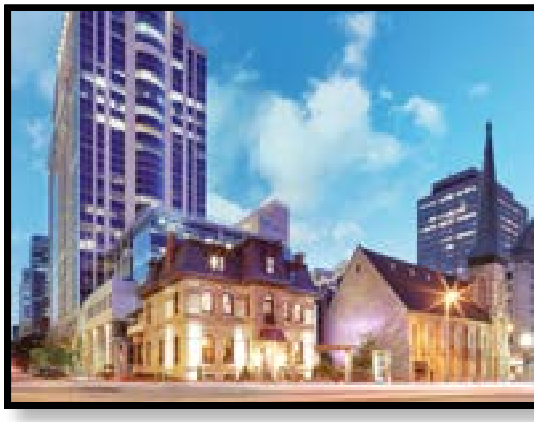
Source: RBC Capital Markets, Bank of Canada

Year-over-year price growth for food purchased in stores rested at 3.4% in January down from the 4.7% in December 2023.

INVESTMENT REPORT

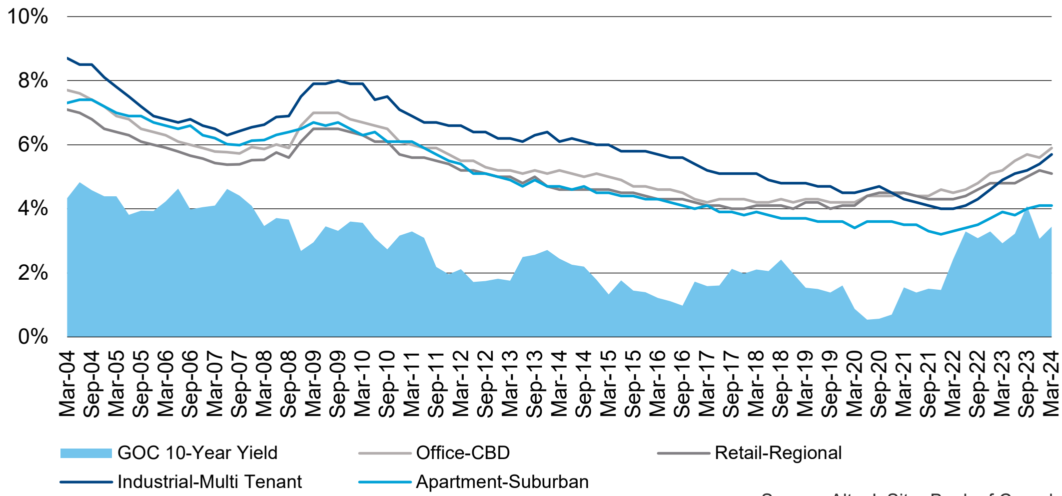
INVESTMENT SALES VOLUME FELL SHARPLY

The flow of investment capital into Canada's commercial real estate asset class fell sharply in the first quarter. Almost $2.6 billion of investment transaction volume was reported for the quarter for properties selling for at least $10.0 million in the Greater Vancouver, Calgary, Toronto, Ottawa and Montreal areas combined. The $2.6 billion represented a 55.3% quarter-over-quarter decline and a four-year quarterly low.



YIELD SPREADS

Cap Rates vs. 10-Year GOC Bonds



Source: AltusInSite, Bank of Canada

Investment sales volume declined significantly in the first quarter in the four property types tracked. Sales of multi-suite residential property fell 50.2% quarter-over-quarter and matched the four-year low. Industrial investment property sales dipped 55.0% quarter-over-quarter. Office property sales volume plunged to a seven-year quarterly low of just $282.8 million. Retail asset sales fell by 55.3%, although the quarter-over-quarter drop was due largely to the sale of interests in Vaughan Mills Centre and Pickering Town Centre in the previous quarter. The flow of capital into Canada's commercial real estate asset class began to slow significantly in the second half of 2022. The slowdown was due primarily to a combination of the rising cost of debt, increased economic uncertainty, and the subsequent widening of the gap between vendor and purchaser acquisition pricing expectations. Investors increasingly looked for pricing adjustments to offset increased real estate risk and higher financing costs. Often, vendors were unwilling to meet the pricing objectives of buyers when disposing of assets, despite increased downward valuation pressure. Commercial real estate investment sales fell sharply in the first quarter of 2024, having rested below pre-pandemic levels over the previous year.

OWNER / USERS WERE INDUSTRIAL PROPERTY SALES DRIVERS

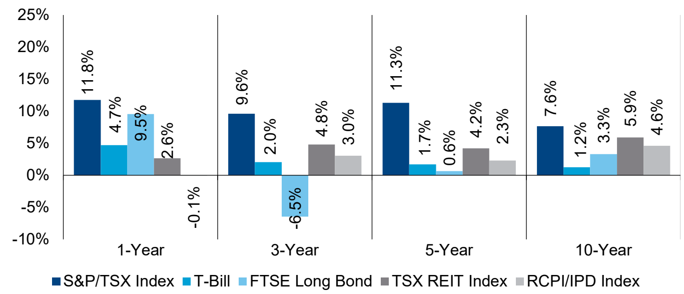
Owner/users were drivers of industrial property sales in the first quarter. A significant share of the $1.2 billion of industrial property sales reported for the first quarter with a sale price of at least $10.0 million in the Vancouver, Calgary, Toronto, Ottawa and Montreal markets combined was purchased by owner/users. Owner/user buyer motivation was typically linked to the financial advantages of ownership and the desire to control the real estate in which they operate. Private capital groups also accounted for a significant share of the industrial property sales reported in the first quarter. Private groups looked to capitalize on reduced competition levels to acquire assets. Institutions and pension funds have been relatively inactive in this market over the past 12 to 18 months, while the cost of capital remained high along with overall asset class risk. Leverage-driven buyer signaled the retreat as interest rates rose to a five-year high last year. While a range of groups have acquired assets recently, owners/users have accounted for a significant share of investment transaction volume up to and including the first quarter of 2024.

MULTI-SUITE RESIDENTIAL RENTAL WAS SECOND MOST POPULAR TARGET

Canada's multi-suite residential rental property sector was the second most popular acquisition target of investors of the four major asset types in the first quarter, in keeping with the trend of the past several years. Just over $568.0 million of multi-suite residential rental investment property transaction volume was reported for the first quarter of 2024 for properties sold for at least $10.0 million in the Greater Vancouver, Calgary, Toronto, Ottawa and Montreal markets combined according to Altus Group. Industrial was the only property type to exceed the multi-suite residential rental sector's transaction volume total in the first quarter, at $1.2 billion. The multi-suite residential rental sector first quarter sales total was spread over 21 transactions and just over 2,000 units. The quarterly average transaction size dropped to a three-year low and the total number of units sold to a five-year low. Sales of large portfolios have slowed significantly over the past few years, due to an availability shortfall. Smaller-scale properties selling to private groups have accounted for the largest share of sales activity over the past few years. Institutions and pensions funds have looked increasingly outside of Canada for acquisitions. Investors continued to exhibit confidence in Canada's multi-suite residential rental property sector in the first quarter, a period during which the sector was the second most popular acquisition target next to industrial.

RELATIVE PERFORMANCE

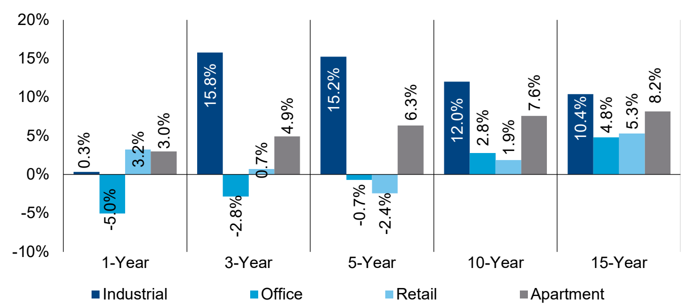
Comparing Annualized Returns To Dec 2023



Source: © MSCI Real Estate; RBC CM; TSX Datalinx; SCM; PC Bond Analytics

MSCI RETURNS

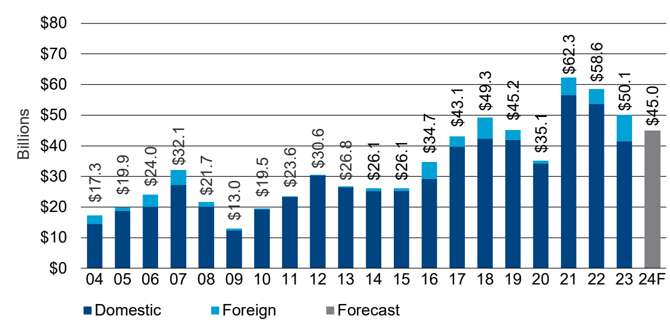
Annualized Returns By Property Type To Dec 2023



Source: © MSCI Real Estate 2024

INVESTMENT ACTIVITY

Total Investment Volume



Source: CBRE Limited; Morguard

Industrial was the only property type to exceed the multi-suite residential rental sector's transaction volume total in the first quarter, at $1.2 billion.

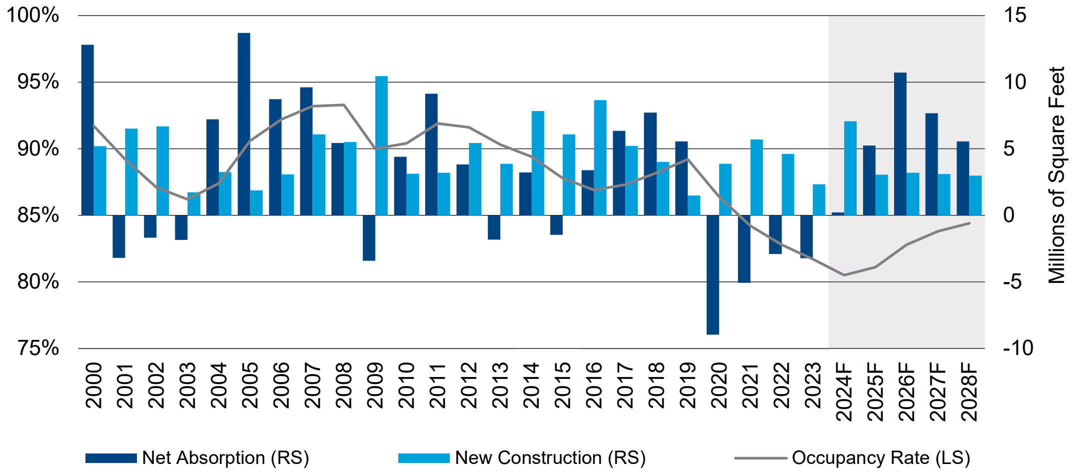
LEASING REPORT

PRE-LEASED NEW SUPPLY BOLSTERED OFFICE MARKET PERFORMANCE

The pre-leasing of new supply bolstered Canada's first-quarter office leasing market performance. Approximately 439,000 square feet of space was absorbed during the first three months of 2024, most of which was in newly constructed towers in Vancouver and Winnipeg. This was the first positive result for Canada's office leasing market since the third quarter of 2022.

OFFICE DEMAND & SUPPLY

National Historical & Forecast Aggregates



Source: CBRE Limited; CBRE Econometric Advisors (Q4 2023)

The Post's north tower and B6 in Vancouver, and Winnipeg's Wawanesa Tower were fully or close-to-fully leased upon completion in the first quarter. Edmonton and Ottawa were the only two other markets to post materially positive performances during the first quarter, with 127,000 square feet and 91,000 square feet of space absorbed, respectively. Toronto and Montreal posted significant quarterly losses. Close to 700,000 square feet of space was returned to the Greater Toronto Area, most of which was downtown. Slightly more than 300,000 square feet of space was returned to Montreal's suburban submarket. The national vacancy rate edged higher in the first quarter, as positive results in Vancouver and Winnipeg were offset by backsteps in more than one eastern Canadian market. The 18.4% vacancy rate posted at the end of March was up 10 bps quarter-over-quarter and 60 bps year-over-year. Leasing demand was relatively weak as tenants continued to downsize. Vacancy levels rose across the country. The country's premium towers generally outperformed during the first quarter while rents largely held at the cycle low. Overall, office leasing performance was bolstered by the pre-leasing of new supply.

INCREASED INDUSTRIAL LEASING MARKET AVAILABILITY REPORTED

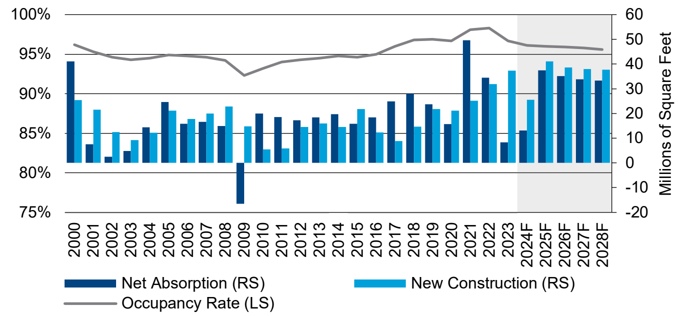
Industrial leasing market availability increased in the first quarter of 2024, in keeping with the recent trend. The national availability rate rose 50 bps to a six-year high of 3.7% in the first quarter, having risen steadily over the past year. The rate was 220 bps higher than the cycle-low of 1.5% recorded in the third quarter of 2022. More recently, the availability rate has increased by 120 bps over the past six months. The rising availability trend of the past several quarters was driven in part by a combination of a surge of new supply and an increase in sublease offerings in certain markets. Roughly 9.6 million square feet of new industrial supply was completed in the first quarter of 2024, following a record quarterly high of 16.8 million square feet in the final quarter of 2023. Much of the newly constructed space delivered in the first quarter was in large bay configurations suited to warehouse and logistics users. Demand for both existing and recently built space has moderated over the past six to nine months from the peak levels observed in 2021, 2022 and early 2023. The demand moderation was reflected in first-quarter absorption patterns. Calgary and Vancouver were the only two markets to post materially positive absorption at 1.2 million square feet and 1.4 million square feet, respectively. More than 2.0 million square feet of space was returned to the Toronto market and almost 890,000 square feet was returned in Montreal. The space returned during the first quarter helped drive national availability higher.

RETAIL LEASING FUNDAMENTALS WERE RELATIVELY STABLE

Retail leasing fundamentals were relatively stable during the first quarter of 2024. Vacancy levels were generally flat. The national vacancy rate stood at a healthy 6.6% at the start of the first quarter, down just 40 bps year-over-year. Space in prime locations and in premium centres was in relatively short supply. At the same time, vacancy remained elevated in some of the country's downtown cores where foot traffic remained below pre-pandemic levels. New retail concepts, both domestic and international, continued to look for opportunities to enter the market. Stores selling necessities and discounters also looked to expand their brick-and-mortar portfolios. Store expansions announced or completed in the first quarter 2024 included well-known names like Sephora in Edmonton, Le Maison Simons in Halifax, The Italian Centre Shop in Calgary, and Bulgari at The Colonnade in Toronto. At the same time, the most highly sought after space was in short supply in certain markets, in some cases impacted by the loss of competitive space to conversion or other development.

INDUSTRIAL DEMAND & SUPPLY

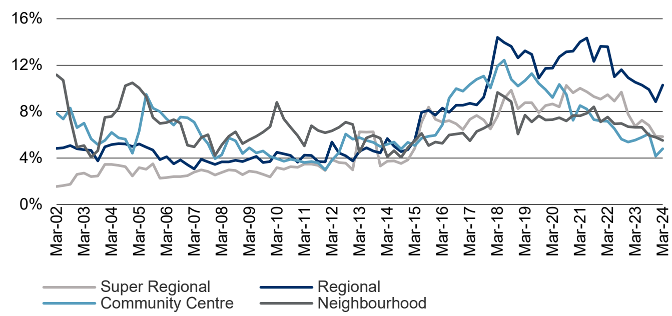
National Historical & Forecast Aggregates



Source: CBRE Limited; CBRE Econometric Advisors (Q4 2023)

RETAIL VACANCY RATES

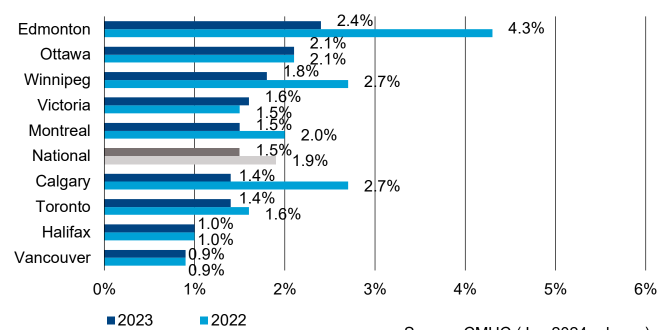
National Trending Across Property Types



Source: © MSCI Real Estate 2024

CMA'S RENTAL VACANCY

Rates for Structures of 3 units+



Source: CMHC (Jan 2024 release)

The nation's industrial availability rate rose 50 bps to a six-year high of 3.7% in the first quarter, having risen steadily over the past year.

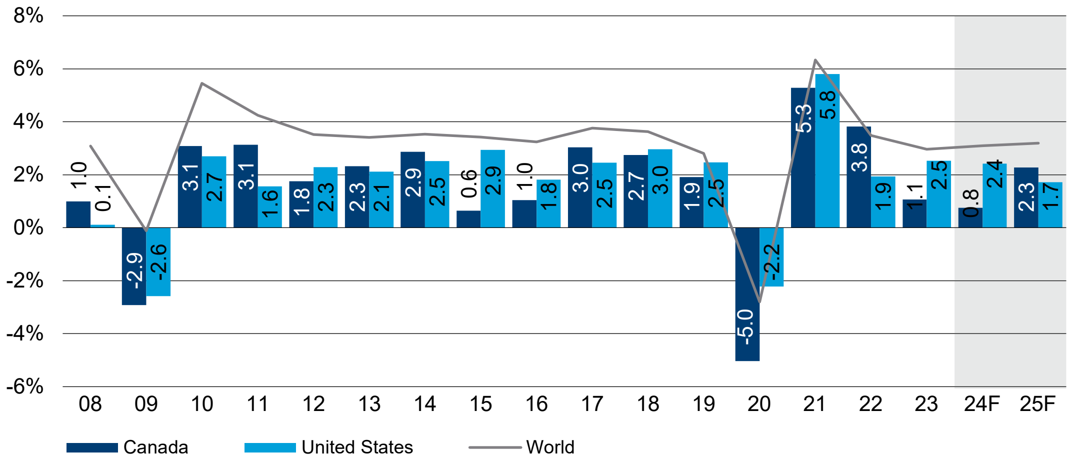
ECONOMIC REPORT

ECONOMY BESTED EARLY EXPECTATIONS

Canada's economy got off to a relatively strong start in 2024, with growth exceeding market and Statistics Canada expectations. Real Gross Domestic Product (GDP) expanded by 0.6% month-over-month in January, outpacing the BoC's 0.4% forecast. Statistics Canada's flash estimate called for a healthy 0.4% month-over-month advance for February, which will outstrip earlier market and BofC expectations.

ECONOMIC GROWTH

Real GDP Growth — Historical & Forecast



Source: Conference Board of Canada (Mar 2024); International Monetary Fund (Jan 2024)

Services-producing industry output increased 0.7% month-over-month in January while goods-producing industries eked out a 0.2% GDP advance. The stronger services-producing industry gain was driven by a rebound in educational services output with the end of the public sector strikes in Quebec in the final few months of 2023. The goods-producing industry advance was supported by rebounds in the utilities and manufacturing sectors. Output increased in 18 out of 20 industry sectors in January on a month-over-month basis.

A year ago, Canadian economic growth also exceeded expectations. Real GDP expanded by an annualized rate of 2.6% in the first quarter 2023, due in part to stronger-than expected growth in January and February. Over the balance of the year, growth slowed substantially. Real GDP rose by a modest 1.1% on an annualized basis in 2023. Economic growth is expected to exceed the 2023 annualized rate in 2024. Moderately healthy expansion in the second half will build on the unexpectedly strong early 2024 performance.

JOB GROWTH UNDERWHELMED AMID RISING UNEMPLOYMENT

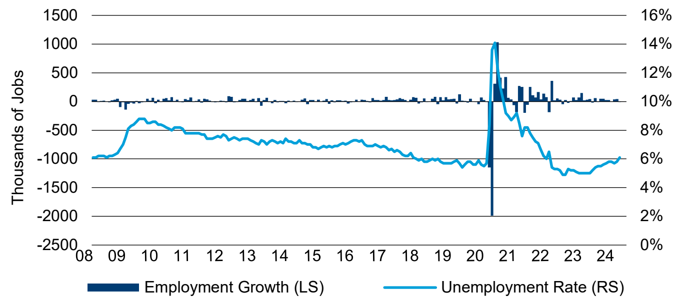
Somewhat underwhelming job growth was recorded in Canada in the first quarter. The Canadian economy lost 2,200 jobs in March, following the modest gains recorded in both January and February. Approximately 37,000 jobs were created in January, with a slightly stronger 41,000 positions in February. Changes in the nation's unemployment rate were indicative of the underwhelming first-quarter job growth. The unemployment rate fell 0.1% in January to 5.7%, which was the first decline since December 2022. However, the national unemployment rate rose 10 bps to 5.8% in February and 30 bps to 6.1% in March 2024. The March unemployment rate was up 100 bps year-over-year and represented a two-year high. The national unemployment rate has risen steadily over the past year. Labour market demand fell short of supply over the past few quarters. Labour force demand surged during the first quarter, with a 60,000-increase in people looking for work or temporarily laid off in March alone, as reported by Statistics Canada. The demand-surge was driven by a sharp increase in international migration volume. Labour market demand is expected to continue to outstrip supply over the near term, as the national economy slows. At the same time, job growth patterns will continue to underwhelm, in keeping with the first-quarter 2024 trend.

CONSUMER SPENDING GROWTH HEADWINDS PERSISTED

Consumer spending growth headwinds persisted during the first quarter. One of the more significant headwinds was the erosion of spending power due to the delayed impact of higher interest rates. Elevated inflation levels continued to negatively impact consumer spending. Retail sales fell by 0.3% to $67.0 billion in January 2024, with Statistics Canada calling for a 0.4% month-over-month decline for February. Much of January's spending decline was attributed to lower motor vehicle and parts dealer sales. Sales fell largely as the surge of buyer incentives offered in the final few months of 2023 were wound down. While retail sales decreased on a nominal month-over-month basis in early 2024, core sales were stronger-than-anticipated, indicating positive near-term growth momentum. Core retail sales rose 0.4% and 0.5% in December 2023 and January 2024, respectively. Sporting goods, hobby stores, and building material and garden supply dealers boosted core sales volume in January. Consumer spending patterns are expected to strengthen in the second half of 2024, with the continued easing of the retail sales growth headwinds that persisted through the first quarter.

LABOUR MARKET

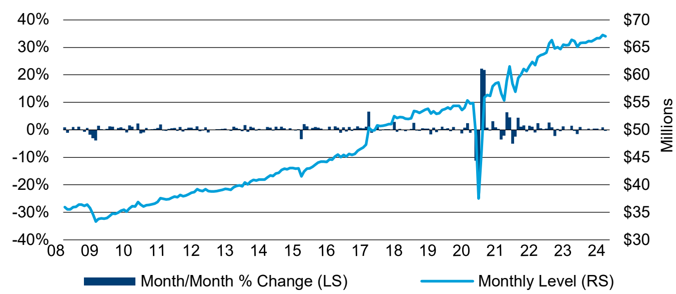
Month-Over-Month Trending



Source: Statistics Canada

RETAIL SALES

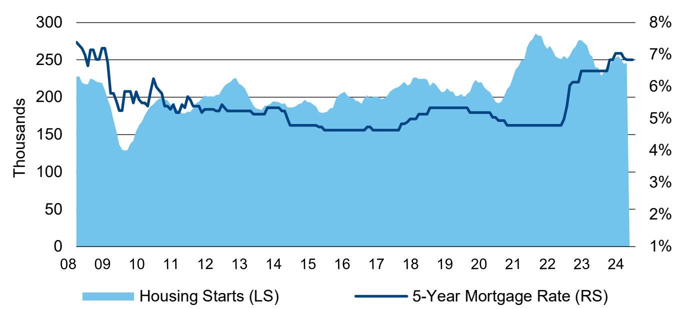
Month-Over-Month Trending



Source: Statistics Canada

HOUSING MARKET

Monthly Trends



Source: Statistics Canada, CMHC, Bank of Canada

The March unemployment rate was up 100 bps year-over-year and represented a two-year high.

INVESTMENT MARKET TRANSACTIONS

OFFICE

PROPERTY	DATE	PRICE	SF	PSF	PURCHASER	MARKET
181 Queen St	Feb-24	$125.3 M	270,543	$463	Public Works/Gov't Services	Ottawa
180 Duncan Mill Rd	Feb-24	$28.1 M	145,037	$194	Kingo	Toronto
2655, 2695 North Sheridan Way	Feb-24	$25.6 M	158,233	$162	Crown Realty Partners	Toronto
40 Wellington St E	Feb-24	$15.4 M	19,500	$790	Lee Chow Group	Toronto

INDUSTRIAL

PROPERTY	DATE	PRICE	SF	PSF	PURCHASER	MARKET
379 Orenda Rd	Mar-24	$16.6 M	114,000	$146	Lark Investments Inc	Toronto
Jacad Greater Montreal Portfolio	Mar-24	$87.7 M	437,214	$200	Vista Properties	Montreal
Edmonton Portfolio	Mar-24	$52.0 M	445,505	$117	Anthem Properties	Edmonton
1302 Derwent Wy	Mar-24	$73.0 M	224,000	$326	Dayhu Investments Ltd	Vancouver
Jacad Small Bay Portfolio	Mar-24	$87.7 M	437,214	$200	Vista Properties	Montreal
GTA East Portfolio	Feb-24	$71.8 M	313,067	$229	Dream Industrial REIT	Toronto
190 Wilkinson Rd	Feb-24	$17.1 M	50,035	$341	Stone Column Properties	Toronto
6360-6380 Vipond Dr	Jan-24	$26.1 M	96,790	$270	Roshel	Toronto
21720 Fraserwood Way	Jan-24	$63.0 M	137,620	$458	RCG Group	Vancouver
9404 39 Ave	Jan-24	$12.0 M	98,857	$121	York Realty	Edmonton
3601 82 Ave	Jan-24	$16.0 M	215,511	$74	Block 82 Industrial Inc	Edmonton
2385 Meadowpine Blvd	Jan-24	$44.6 M	130,239	$342	Brookfield Properties	Toronto
240 South Blair St	Jan-24	$67.0 M	291,281	$230	Rainbow Capital Investments	Toronto
2630, 2650, 2666 Royal Windsor Dr	Jan-24	$27.7 M	92,411	$300	Private	Toronto
1101-1137 Derry Rd E	Jan-24	$12.8 M	29,815	$429	Deveer Developments Ltd.	Toronto

RETAIL

PROPERTY	DATE	PRICE	SF	PSF	PURCHASER	MARKET
Georgetown Market Place	Mar-24	$64.5 M	339,846	$190	Private	Toronto
Yonge Davis Ctr	Mar-24	$31.0 M	52,600	$590	Arkfield Capital	Toronto
Crossroads Shopping Ctr	Feb-24	$13.4 M	27,040	$496	Elite Real Estate Group	Edmonton
Seton Gateway Ctr (50% interest)	Jan-24	$33.5 M	127,921	$523	First Capital REIT	Calgary
The Quarry	Jan-24	$138.7 M	320,340	$431	MDM Ventures (GP#1) Inc	Calgary
Lawrence Plaza (50% interest)	Jan-24	$100.0 M	270,724	$736	RioCan REIT	Toronto

MULTI-SUITE RESIDENTIAL

PROPERTY	DATE	PRICE	# UNITS	/UNIT	PURCHASER	MARKET
1302, 1310 14th Ave SW	Feb-24	$48.3 M	179	$269,553	Globe Capital Mgt.	Calgary
41 River St	Feb-24	$26.2 M	29	$903,448	Roland Real Estate Limited	Toronto
25 Lorne Ave	Feb-24	$16.8 M	67	$250,000	Lankin Investments	Toronto
3645 Sherbrooke St E	Feb-24	$15.0 M	96	$154,688	Entourage	Montreal
10025 115 St, 10030 114 St**	Jan-24	$32.3 M	194	$166,237	Leston Midtown Inc	Edmonton
9660 229 St	Jan-24	$45.3 M	199	$227,387	Boulevard Equities	Edmonton
Underwood Apartments (50% int.)	Jan-24	$52.9 M	225	$470,000	RioCan REIT	Calgary
200 Garden St	Jan-24	$12.0 M	51	$234,314	Whitby Mary Apts. Ltd	Toronto
The Level at Seton Circle	Jan-24	$77.8 M	295	$263,559	Boardwalk REIT	Calgary
3385 Dundas St W	Jan-24	$88.0 M	131	$671,756	Realstar Group	Toronto

*share sale

**part of larger portfolio

ABOUT

Morguard is a fully integrated real estate company with a diversified, high-quality portfolio of assets across North America. We have built our business with strong leadership, proven management and significant long-term growth for over 45 years. As of March 31, 2024, Morguard had $17.8 billion of total assets under management and employed 1,300 real estate professionals in 11 offices throughout North America.

Publicly Traded Real Estate Company	Morguard Corporation
Publicly Traded Real Estate Investment Trusts	Morguard REIT
	Morguard North American Residential REIT
Real Estate Advisory Company	Morguard
Real Estate Brokerage	Morguard Investments Limited
Investment Management Company	Lincluden Investment Management Limited

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