Morguard Canadian Economic Outlook and Market Fundamentals 27th Annual Edition

Canadian Real Estate: Investors Stay the Course

2025

Second Quarter Update

Morguard 50 YEARS

CONTENTS

Q2

ABOUT

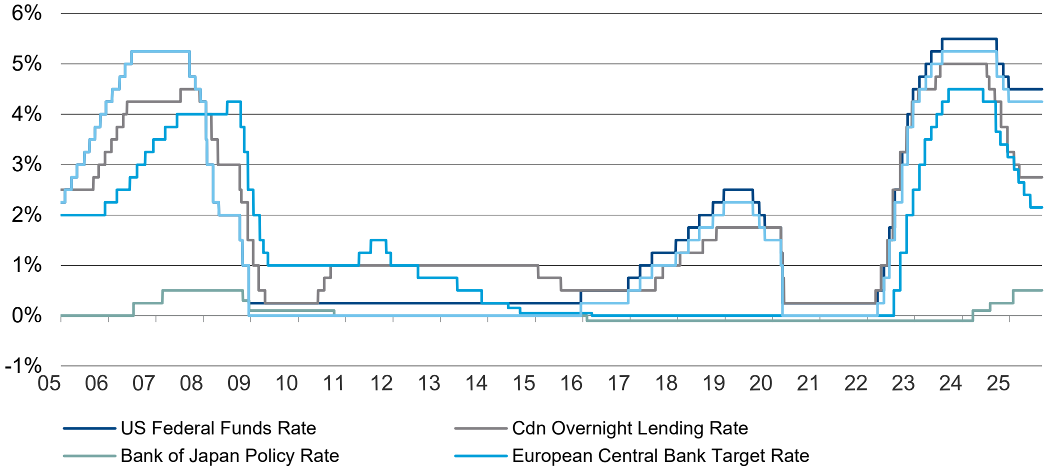
FINANCIAL REPORT

BANK OF CANADA (BOC) MAINTAINED TARGET FOR THE OVERNIGHT RATE

The Bank of Canada (BoC) maintained its target for the overnight rate in the second quarter as economic uncertainty and geopolitical risks remained elevated. The Bank held the policy rate at 2.75% following 50 and 100 basis point (bp)cuts in the fourth quarter of 2024 and the first quarter of 2025, respectively.

OFFICIAL POLICY RATES

International Monetary Conditions



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

The BoC's rationale for maintaining its target was largely two-fold. First, the Bank cited increased economic uncertainty stemming from tariffs placed on Canadian and other country's goods exports to the U.S. and the broadening of a global trade war. The U.S. administration's trade policy shifts and reversals eroded consumer and business confidence in both the U.S. and Canada. In April, for example, a 145.0% tariff was announced on Chinese imports to the U.S., which was reduced to 30.0% a month later. Canadian economic activity slowed substantially in the second quarter of 2025 as tariffs were imposed on Canadian steel and aluminum exports. The second factor was the continuation of stubbornly high core inflation. This contributed to the bank's decision to maintain its target for the overnight rate in the second quarter. However, the BoC may be forced to lower rates in the second half of 2025 if the economy continues to weaken. The Bank may face the challenge of stimulating while inflation remains above its target range.

INFLATION REMAINED LARGELY UNDER CONTROL

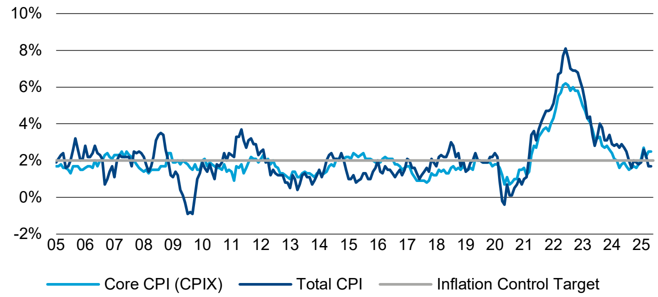
Inflation remained largely under control in the second quarter, continuing the year-to-date trend. The Consumer Price Index (CPI) annualized month-over-month reading for June was 1.9% edging 20 bps higher than the 1.7% levels reported for April and May. This measure of core inflation has been below 2.0% in nine of the 11 months ending in June. The BoC's preferred measures of inflation also remained within an acceptable range in the second quarter, despite a sharp and and unexpected rise in April. Rent inflation eased substantially in some of the country's most expensive markets. Canada's year-over-year CPI measure of rent inflation rose 5.2% in April and then fell to 4.5% in May. This trend is expected to continue through the remainder of 2025, particularly in Vancouver and Toronto. Core inflation, which excludes the historically volatile energy and food categories, rose by a relatively modest 2.9% and 2.6% in April and May, respectively. Weaker domestic demand and labour market conditions are expected to help contain inflation in the near term, consistent with the second-quarter trend.

S&P/TSX COMPOSITE REGISTERED SOLID GAINS

The S&P/TSX Composite Index posted solid gains in the second quarter, marking its second consecutive positive performance. The index rose by 7.8% over the three-month period ending June 30, 2025, following an 8.6% increase in the previous quarter. The Financials sector, which accounts for 33.0% of the index, led the way with an 11.1% gain. The country's largest banks posted double-digit returns for the same period. These positive outcomes were supported by strong quarterly earnings and the perception that trade tensions are expected to ease, which would support improved economic performance. The Consumer Discretionary sector recorded the second strongest performance of the quarter, with a 12.9% gain, driven largely by strong quarterly earnings by Dollarama, Aritzia and Canadian Tire. The Information Technology sector also outperformed, with a positive 14.9% return, led by Shopify and Celestica. In constrast, the Energy and Health Care sectors declined, posting returns of -3.6% and -4.2%, respectively. Overall, the index has generated positive returns for the past four consecutive quarters, despite increased trade tensions and economic uncertainty. Reduced trade tensions could support stronger economic performance and continued equity market progress, following the solid second-quarter gains of the S&P/TSX Composite Index.

NATIONAL INFLATION

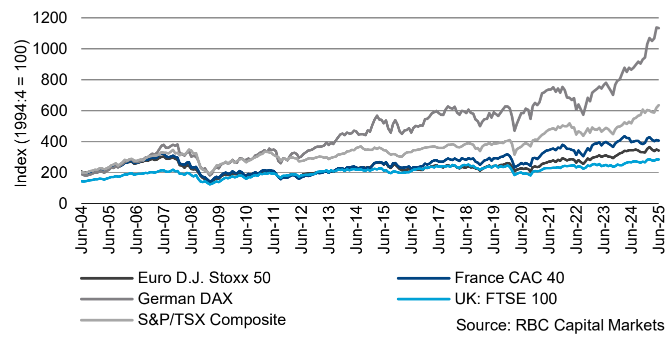
CPI Measures, % Change Over 1 Year Ago



Source: Bank of Canada, Statistics Canada

GLOBAL INDICES

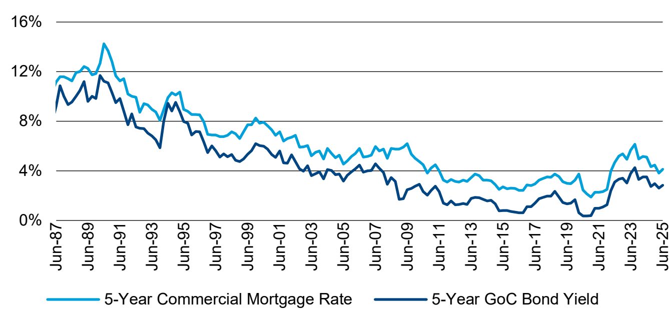
Trending of Global Price Return Indices



Source: RBC Capital Markets

MORTGAGE SPREADS

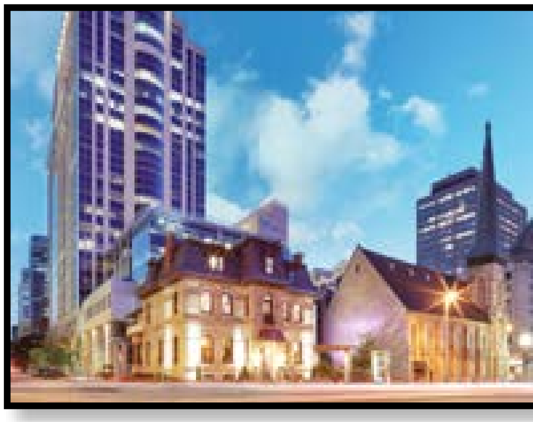
Commercial Mortgage Rates Vs. 5-Year GOC Bonds



Source: RBC Capital Markets, Bank of Canada

Inflation remained largely under control in the second quarter, continuing the year-to-date trend.

INVESTMENT REPORT

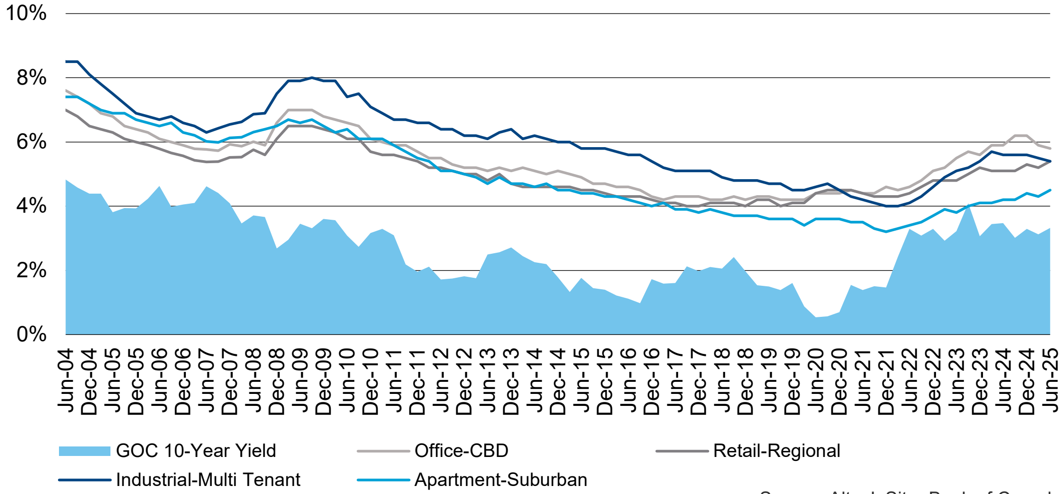


INVESTMENT TRANSACTION VOLUME FELL TO A FIVE AND A HALF YEAR LOW

Investment property transaction volume fell to a five-and-a-half-year low in the second quarter. Transaction volume of just under $2.5 billion was reported for the three-month period for properties sold for at least $10.0 million across six of Canada's major markets. This represented the lowest total since the third quarter of 2020.

YIELD SPREADS

Cap Rates vs. 10-Year GOC Bonds



Source: AltusInSite, Bank of Canada

Investment property sales activity remained muted in the second quarter due in part to still-high financing costs and heightened economic uncertainty driven by U.S. tariffs. Property values and capitalization rates largely stabilized as investment sales activity declined. Multi-suite residential rental property sales ticked 39.4% higher quarter-over-quarter. However, the total was markedly below the annual, three-year, and five-year quarterly averages. Demand for multi-suite residential rental property outdistanced available supply, despite the oveall sales volume downdraft. Just over $1.0 billion in industrial investment sales volume was reported for the second quarter, down 21.9% from the previous quarter. High-quality logistics/warehouse properties continued to attract strong interest. Sales of office property remained sporadic, consistent with the post-pandemic trend. A notable transaction was KingSett's acquisition of 1200 McGill College Avenue in Montreal for $100.7 million. Retail sales volume fell sharply, which was not overly surprising given several significant properties were sold in the previous quarter. Sales of retail property have been surprisingly brisk over the past year. Overall, investment property sales volume fell to a five-and-a-half-year low in the second quarter.

MULTI-SUITE RESIDENTIAL RENTAL TRANSACTION VOLUME TICKED HIGHER

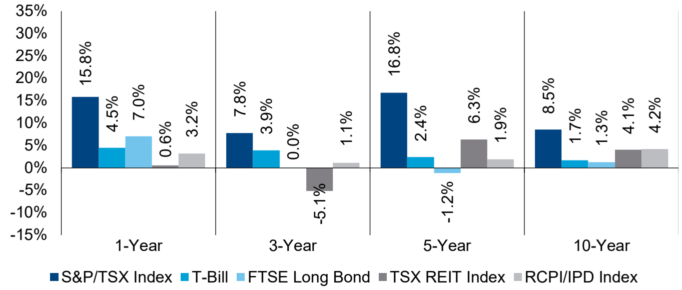
Multi-suite residential rental property transaction volume ticked higher in the second quarter following a slow start to the year. The $812.0 million in reported transaction volume represented a 39.4% quarter-over-quarter increase. Investor sentiment remained positive, despite the softening of rental market fundamentals over the past year, including demand moderation, slower rent growth, and rising vacancy partially due to record-high new supply deliveries in certain markets. This optimism was supported by the asset class' healthy medium-to long-term fundamental outlook and its history of above-average performance during periods of economic weakness. Two of the more noteworthy transactions reported in the second quarter were Homestead Land Holdings' acquisition of 5166 and 5170 Lakeshore Road in Burlington for $92.5 million, and Lankin Investments' acquisition of 2 and 4 Silver Maple Court in Brampton for $132.0 million. Concrete high rises and recently constructed properties remained the most popular investor acquisition targets. In addition, properties with rent upside generated strong interest. The availability of properties with these characteristics supported the increase in transaction volume for the asset class in the second quarter.

USERS ACCOUNTED FOR THE LARGEST SHARE OF INDUSTRIAL PROPERTY SALES

User sales accounted for the largest share of industrial property sales recorded in the second quarter. Approximately half of the properties sold during the period were purchased by users. In many cases, businesses opted to own space for their operations rather than pay record or near-record-high lease rates in most Canadian markets. Although rent growth has eased significantly over the past year, lease rates remain markedly higher than the pre-pandemic average. Private capital buyer groups accounted for the second largest share of industrial property sales. Private groups have been able to access more favourable financing terms than other buyers in the current market. In addition, private capital groups took advantage of a less competitive environment to purchase properties that in the past were more difficult to acquire. Institutional buyers continued to target larger scale warehouse and logistics properties, despite increased trade tensions and economic uncertainty. In short, user sales accounted for the largest share of industrial property transaction volume in the second quarter.

RELATIVE PERFORMANCE

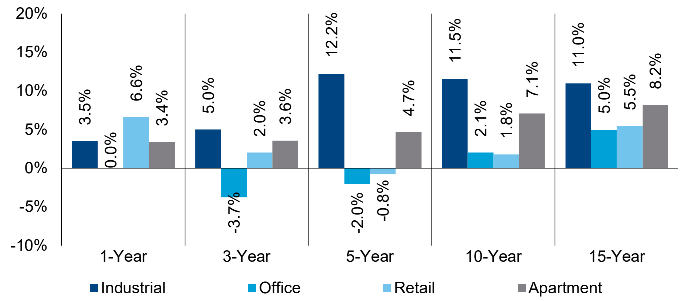
Comparing Annualized Returns To March 2025



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

MSCI RETURNS

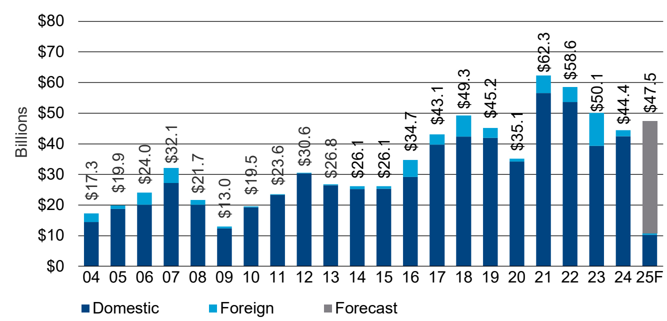
Annualized Returns By Property Type To March 2025



Source: © MSCI Real Estate 2025

INVESTMENT ACTIVITY

Total Investment Volume



Source: CBRE Limited; Morguard

Retail sales volume fell sharply in the second quarter, which was not overly surprising as several significant properties sold in the previous quarter.

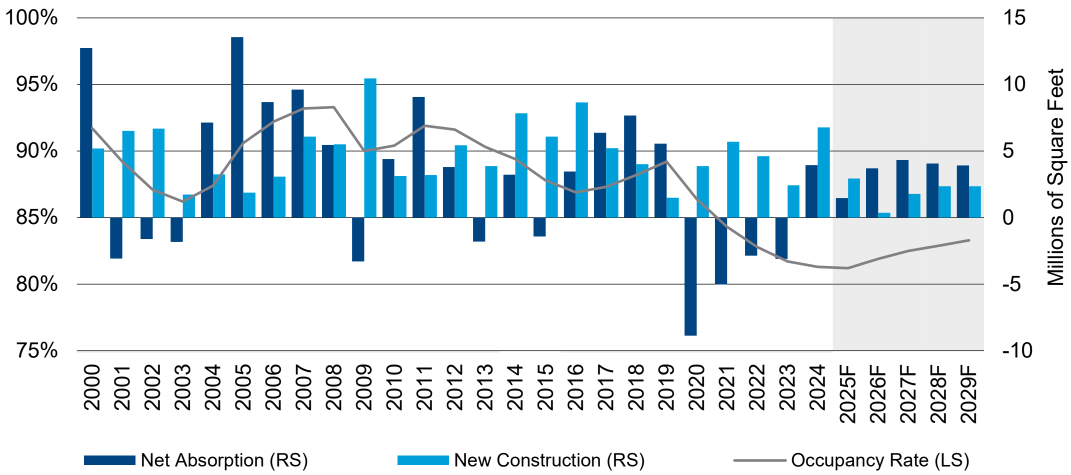
LEASING REPORT

OFFICE LEASING MARKET STABILIZATION OBSERVED

A measure of stability was observed in the Canadian office leasing market in the second quarter. The national vacancy rate for all space classes combined stood at 18.7% at the end of June, down just 10 bps quarter-over-quarter and 10 bps higher than a year ago. Vacancy has remained within a narrow range of just 30 bps over the past two years, according to CBRE figures.

OFFICE DEMAND & SUPPLY

National Historical & Forecast Aggregates



Source: CBRE Limited; CBRE Econometric Advisors (Q1 2025)

Office leasing demand patterns were also relatively stable in the second quarter. The country's trophy assets remained popular with tenants seeking space in highly-amenitized buildings and locations. However, available options in these buildings were somewhat limited, when compared with the broader market. The national average class A vacancy rate stood at 17.6% at the end of June 2025, 110 bps lower than average for classes of space combined. This spread has been relatively narrow in the post-COVID era. Overall, leasing demand has consistently fallen short of pre-pandemic levels over the past few years. New supply deliveries and construction activity slowed substantially over the past year, a trend that carried through to the second quarter. Just over 2.8 million square feet of new supply was under construction across the country in the second quarter, down from 11.4 million square feet two years ago. Office rents were also relatively stable in the second quarter, with slight upward pressure reported for space in trophy buildings. This rental rate stabilization was consistent with the broader second-quarter office leasing performance theme.

RISING INDUSTRIAL LEASING MARKET AVAILABILITY TREND PREVAILED

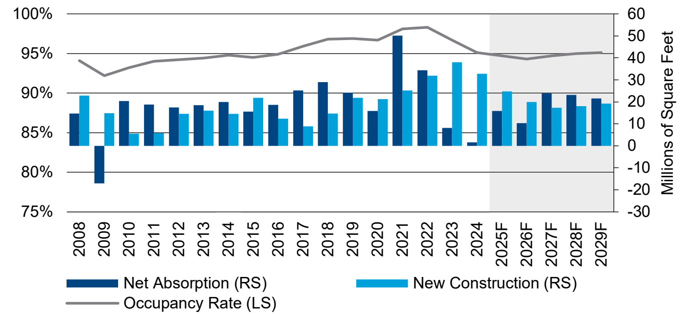
The rising industrial leasing market availability trend of recent quarters continued in the second quarter. The average availability rate for the nation's top 10 markets rested at 5.3% at the end of June as reported by CBRE. This rate rose 40 bps quarter-over-quarter and 110 bps year-over-year, representing a seven-year high. Two main factors contributed to the rising availability trend observed in the second quarter. First was the shift in the leasing market's demand-supply dynamic over the past year. Leasing demand moderated, a trend exacerbated by the recent surge in global trade tensions and economic uncertainty. Industrial users have become increasingly reluctant to expand their footprints in an unstable economic and business environment. The second contributing factor was the ongoing delivery of new supply. More than 7.0 million square feet of new industrial supply was completed and ready for occupancy in the second quarter, representing the second highest total of the current development cycle. A significant portion of this space remained available upon completion, driving the availability rate higher. Roughly 12.5 million square feet of new industrial supply is scheduled for delivery over the second half of 2025. This new supply is expected to drive industrial leasing market availability even higher, continuing the second quarter trend.

RENTAL MARKET REBALANCING TO CONTINUE

The multi-suite residential rental market's rebalancing observed in the recent past is expected to continue through the second half of 2025 and into next year. Rental demand is projected to ease further over the forecast period, largely due to reductions in temporary worker and permanent resident admission targets. In addition, increased first time homebuyer activity will reduce demand for rental accommodation. While demand eases, new rental supply is projected to be delivered at a historically high pace. On balance, new supply is expected to outpace demand. Consequently, vacancy is projected to continue to rise while rent growth remains moderate. The CMHC predicts the national vacancy rate will reach a four-year high of 3.0% by fall 2025, representing an 80-bps year-over-year rise. A further 20-bps year-over-year increase is forecast for 2026. Asking rents are expected to continue rising over the forecast period, due largely to the influx of newly constructed buildings. In summary, the multi-suite residential rental market rebalancing is expected to continue through the latter half of 2025 and into 2026.

INDUSTRIAL DEMAND & SUPPLY

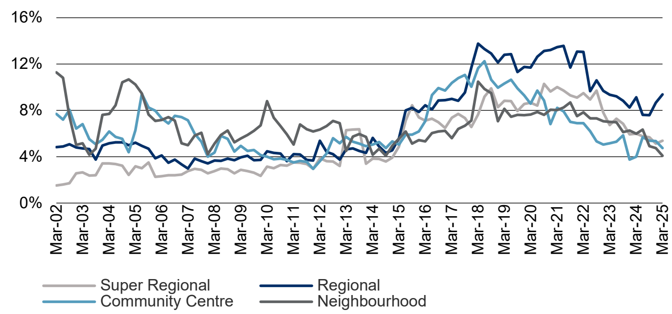
National Historical & Forecast Aggregates



Source: CBRE Limited; CBRE Econometric Advisors (Q1 2025)

RETAIL VACANCY RATES

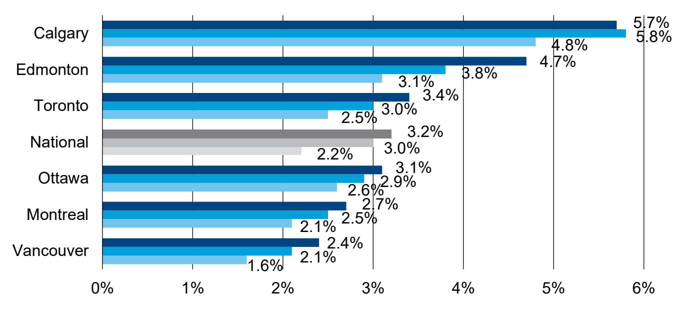
National Trending Across Property Types



Source: © MSCI Real Estate 2025

CMA'S RENTAL VACANCY

Rates for Structures of 3 units+



Source: CMHC (Housing Market Outlook Feb 2025)

Roughly 12.5 million square feet of new industrial supply is scheduled for delivery over the second half of 2025.

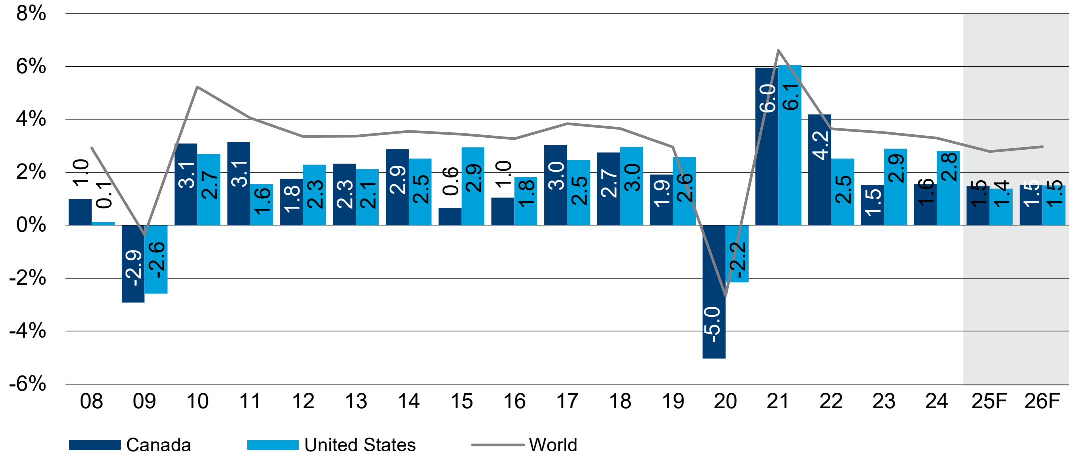
ECONOMIC REPORT

ECONOMY SHIFTED INTO A LOWER GEAR

Canada's economy shifted into a lower gear in the second quarter, following a stronger-than-expected performance in the previous quarter. Economic output contracted slightly in April, with StatCan's early estimate predicting a similar result for May. The gearing down was largely due to a slowdown in goods production in response to rising U.S. trade tensions.

ECONOMIC GROWTH

Real GDP Growth — Historical & Forecast



Source: Conference Board of Canada (June 2025); International Monetary Fund (April 2025)

Inventory building in tariff-exposed industries pushed economic growth beyond expectations in the first quarter, with Gross Domestic Product (GDP) expanding at an annualized rate of 2.2%. However, goods production sector output fell by 0.6% month-over-month in April, marking the largest decline since January 2024. The decline was driven primarily by Canada's manufacturers sector. In contrast, services sector output edged 10 bps higher. As Canada's economy geared down in the second quarter, downside economic risks increased substantially. Trade disruptions and tariffs continued to erode business and consumer confidence. U.S. demand for Canadian exports is projected to decline under the new tariff regime, which in turn could cause job growth to stall. In addition, consumer spending and business investment are expected to soften. The resulting economic slump would serve as a catalyst for interest rate cuts. However, the BoC would be expected to strike a balance between economic growth and price growth stability.

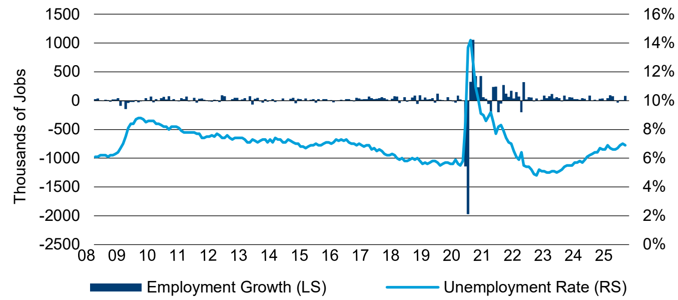
LABOUR MARKET SOFTENING RECORDED

A softening of Canadian labour market conditions was recorded in the second quarter, driven largely by the negative impacts of U.S. tariffs on business confidence and hiring activity. The effects were concentrated in specific industries and regions. The manufacturing sector saw a decline of 31,000 jobs (1.6% employment decline) in April and a further 12,200 job losses in May. In total, 55,000 manufacturing jobs were lost over the four-month period ending in May. Unemployment rates remained elevated in regions with significant exposure to the manufacturing industry. Three-month rolling average unemployment rates of 10.8% and 9.1% were reported for Windsor and Oshawa, respectively as of May 2025, well above the 6.9% national average for the same period. The national unemployment rate rose for three consecutive months ending in May, marking the first such trend since 2016 (excluding the pandemic period). There was little change in national employment levels in the second quarter. Employment increased by just 7,400 in April and 8,800 in May. Private sector employment declined, while public sector emplyment levelled off between February and May 2025. In short, a softening of Canadian labour market conditions was recorded in the second quarter.

HOUSING MARKET SHOWED SIGNS OF LIFE

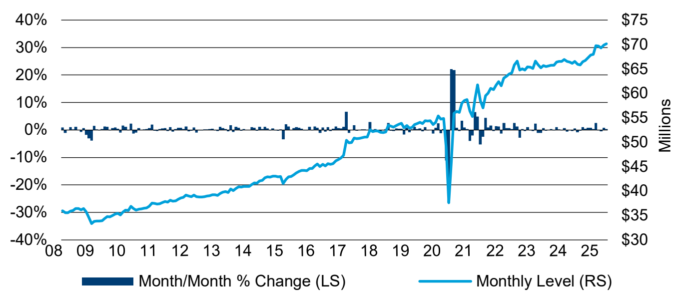
Canada's housing market exhibited signs of life in the second quarter following a prolonged period of weakness. In May, the national home sales count increased by 3.6% month-over-month, the first such gains since November 2024, according to the Canadian Real Estate Association. In addition, the National Composite MLS Home Price Index (HPI) was unchanged from April to May, following three consecutive month-over-month declines. The average home price rose by a modest 1.9% month-over-month, with British Columbia, Saskatchewan, and Manitoba posting solid gains. Although there were signs of life in the second quarter, Canada's housing market remained largely subdued. Home sales activity was down 4.3% in May on a year-over-year basis (not seasonally adjusted). The HPI was down 3.5% from a year ago. Homes listed for sale have increased by 13.2% year-over-year while demand remained weak. The Toronto and Vancouver condominium market corrections persisted in the second quarter. Sales of condominiums declined by 75.0% in Toronto and 37.0% in Vancouver between 2022 and the end of March 2025. Dozens of condominium developments have been postponed or canceled recently, including in the second quarter when Canada's housing market began to show tentative signs of life.

LABOUR MARKET
Month-Over-Month Trending



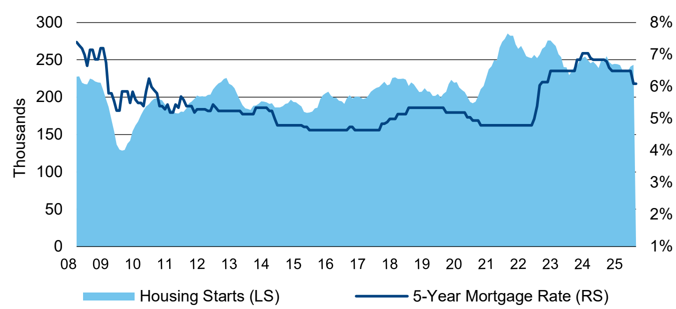
Source: Statistics Canada

RETAIL SALES
Month-Over-Month Trending



Source: Statistics Canada

HOUSING MARKET
Monthly Trends



Source: Statistics Canada, CMHC, Bank of Canada

Home sales activity was down 4.3% in May on a year-over-year basis (not seasonally ajdusted).

INVESTMENT MARKET TRANSACTIONS

OFFICE

PROPERTY	DATE	PRICE	SF	PSF	PURCHASER	MARKET
1200 McGill College, 900 St Cath W	Jun-25	$100.7 M	351,869	$286	KingSett Capital	Montreal
1111, 1122 International Blvd	Jun-25	$51.0 M	271,571	$188	Crown Realty Advisors	Toronto
1375-1393 North Service Rd E	Jun-25	$31.1 M	109,106	$285	Enticor Properties Inc	Toronto
Place Laval	Jun-25	$54.1 M	853,885	$63	Poirier	Montreal

INDUSTRIAL

PROPERTY	DATE	PRICE	SF	PSF	PURCHASER	MARKET
11-13 Holland Dr	Jun-25	$14.0 M	56,379	$248	Li Limited Group	Toronto
190 Matheson Blvd E	Jun-25	$15.3 M	50,012	$306	CAP Ontario Inc	Toronto
30 West Beaver Creek Rd	May-25	$39.5 M	183,394	$215	KingSett Capital	Toronto
Drew & Kimbel Portfolio	May-25	$120.0 M	395,567	$303	Crestpoint	Toronto
2555 Royal Windsor Dr	Apr-25	$13.6 M	25,000	$542	Ingroup Capital	Toronto
50 Precidio Crt, 100 Corporation Dr	Apr-25	$44.6 M	139,759	$319	Lotus Capital Corp	Toronto
81 Maybrook Dr	Apr-25	$18.6 M	72,721	$256	Derry & Tomken Bus Ctr Inc	Toronto
1218 South Service Rd W	Apr-25	$59.2 M	256,101	$231	Dream Industrial REIT	Toronto

RETAIL

PROPERTY	DATE	PRICE	SF	PSF	PURCHASER	MARKET
3443, 3455, 3465 Fairview St	Jun-25	$25.2 M	66,742	$378	Emshih Developments	Toronto
30-34 Highbury Park Dr	May-25	$21.5 M	42,011	$513	Cristall Group Investments	Ottawa
Les Colonnades Pointe-Claire	May-25	$25.0 M	92,092	$271	Devmont	Montreal
Ste Catherine W, Bishop St	May-25	$15.0 M	29,814	$503	Prime Investments Inc	Montreal
Cineplex Complex	Apr-25	$15.0 M	64,900	$231	Bosa Properties	Edmonton
Chinook Park Plaza	Apr-25	$17.8 M	49,783	$358	MDC Realty Advosors	Calgary
Mega Centre Notre Dame	Apr-25	$75.0 M	263,847	$284	Rosefellow	Montreal
Greenbank Hunt Club Ctr	Apr-25	$35.9 M	96,741	$372	Epic Investments	Ottawa
Place Major	Apr-25	$20.1 M	98,583	$203	Salthill Capital	Montreal

MULTI-SUITE RESIDENTIAL

PROPERTY	DATE	PRICE	# UNITS	/UNIT	PURCHASER	MARKET
5166, 5170 Lakeshore Rd	Jun-25	$92.5 M	203	$455,665	Homestead	Toronto
1200 Mackay St	Jun-25	$55.0 M	124	$443,548	Canadian Urban	Montreal
1449-1451 de la Gare Ave	May-25	$22.7 M	48	$472,917	Skyline Apartment REIT	Montreal
2070 Camilla Rd	May-25	$24.4 M	103	$236,893	Camilla Pathfinder Ltd	Toronto
290 Morningside Ave	May-25	$27.5 M	106	$259,434	Harrington Housing	Toronto
2,4 Silver Maple Crt	May-25	$132.0 M	416	$317,308	Lankin Investments	Toronto
1175 Broadview Ave	May-25	$44.0 M	134	$328,358	Heather View Apts. Inc	Toronto
Realstar Portfolio	Apr-25	$31.2 M	172	$181,395	SureFire Properties	Edmonton
Concord Tower	Apr-25	$19.7 M	101	$194,554	Elite Real Estate Group	Edmonton
1441, 1451 Gascon Rd	Apr-25	$76.5 M	249	$307,229	Priveda Capital	Montreal
445 Saint Joseph Blvd W	Apr-25	$21.2 M	58	$443,621	Yuliv Inc.	Montreal
Beaches Queen St E Portfolio	Apr-25	$56.4 M	160	$352,750	Dream	Toronto
Glo2 Apartments	Apr-25	$39.7 M	102	$389,461	CAPREIT	Montreal
10190-10200 du Bois de Boulogne	Apr-25	$21.7 M	121	$178,926	Groupe Inspire	Montreal

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 50 years. As of June 30, 2025, Morguard had $19.1 billion of total assets under management and employed 1,100 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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