Morguard

Morguard Canadian Economic Outlook and Market Fundamentals 28th Annual Edition

2026 Third Quarter Update



CONTENTS



Q3

FINANCIAL REPORT / 2

INVESTMENT REPORT / 4

LEASING REPORT / 6

ECONOMIC REPORT / 8

INVESTMENT MARKET TRANSACTIONS / 10

ABOUT

MORGUARD / ACKNOWLEDGEMENTS / RESOURCES / 11

FINANCIAL REPORT

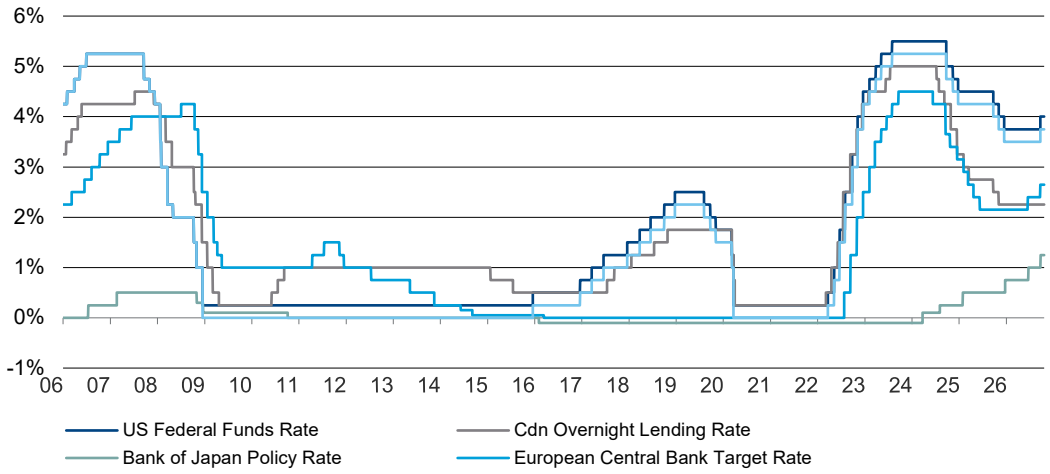
BANK OF CANADA MAINTAINED POLICY RATE

The Bank of Canada (BoC) maintained its policy rate in the third quarter as economic, inflation, and trade-related risks remained elevated. The bank's overnight rate was unchanged at 2.25 per cent, with the bank rate at 2.5 per cent and the deposit rate at 2.2 per cent. The bank's Governing Council indicated it was well positioned to react to changes in the economic outlook.



OFFICIAL POLICY RATES

International Monetary Conditions



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

The bank's decision to leave the policy rate unchanged in the third quarter was supported by the accuracy of its near-term economic and inflation forecasts. As the bank predicted, Canada's economy strengthened in the second quarter, with output expanding at an annualized rate of 3.3 per cent. This strengthening followed "very weak growth in the first quarter." Exports and business investment increased substantially, supporting improved labour market performance. The consumer price index (CPI) stabilized at close to the 3.0 per cent, while core inflation hovered close to 2.0 per cent. Economic and inflation risk had increased significantly by the end of the third quarter. New U.S. tariffs and Canadian counter-tariffs were imposed following the breakdown of trade negotiations. The ongoing conflict in the Middle East posed additional upside risks to inflation and downside risks to economic growth. In short, the BoC maintained its overnight policy rate in the third quarter despite persistent and elevated levels of economic, inflation, and trade-related risk.

HEADLINE INFLATION INCHED HIGHER

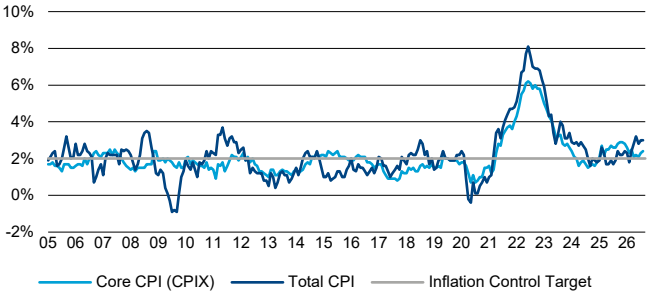
Headline inflation inched higher on a year over year basis in the third quarter. This increase was driven largely by rising gasoline prices and higher prices for travel tours. The consumer price index (CPI) rose 3.0 per cent year over year in July, up from 2.8 per cent in June. The headline inflation rate held steady at 3.0 per cent in August, although gasoline prices rose more slowly than they had in July. Gasoline prices were 22.8 per cent higher year-over-year, as of August compared with 25.7 per cent in July. Inflation in travel tour prices accelerated in August, more than offsetting the slower pace of gasoline price growth. Excluding gasoline, Canada's CPI rose by 2.4 per cent year over year in August, following a 2.2 per cent increase in July. Grocery prices continued to rise in the third quarter, increasing 2.8 per cent year over year in August, down from 3.1 per cent in July. For the first time since July 2024, grocery prices rose more slowly than the all-items CPI. Shelter costs rose 1.5 per cent year over year in August, up from 1.3 per cent in July, reversing the recent trend. The homeowners' replacement cost index had declined for 13th consecutive months as of May 2026. Overall, headline inflation edged higher year over year in the third quarter.

S&P/TSX COMPOSITE POSTED A MODEST POSITIVE RETURN

The S&P/TSX Composite Index posted a modest positive return in the third quarter, marking its ninth consecutive quarterly gain. The increase was driven largely by strong performances in the energy, materials, and information and technology sectors. The energy sector led with a 17.4 per cent return. Suncor Energy and Cenovus Energy posted gains of more than 25.0 per cent, largely because of rising energy commodity prices. Canada's energy sector outperformed the broader index year to date, generating a return four times that of the overall index. The Materials and Information Technology sectors posted the second- and third-strongest returns of the third quarter, with gains of 12.6 per cent and 10.7 per cent, respectively. Shopify was the largest contributor to the index's return, with a gain of more than 30.0 per cent. Fewer than half of the 221 stocks contained in the index generated positive returns in the quarter while eight of the 11 sectors recorded losses. The communications sector recorded the largest loss, at 10.4 per cent, followed by the real estate and utilities sectors, at 8.2% and 8.1%, respectively. The health care, consumer staples and consumer discretionary sectors recorded losses of between five and six per cent. These losses offset most of the gains recorded by the stronger-performing sectors, resulting in a modest overall increase in the index.

NATIONAL INFLATION

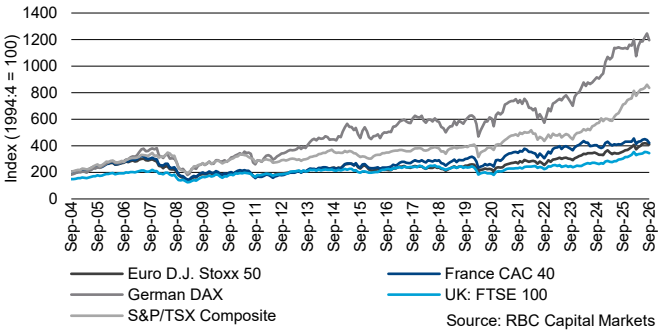
CPI Measures, % Change Over 1 Year Ago



Source: Bank of Canada, Statistics Canada

GLOBAL INDICES

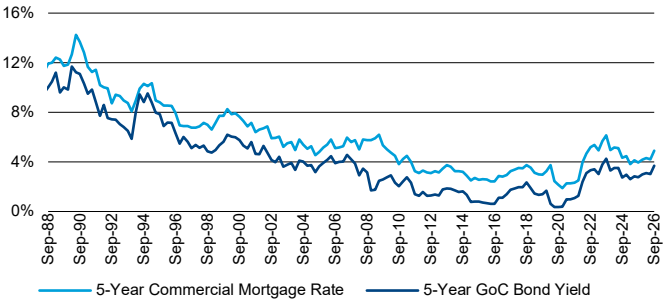
Trending of Global Price Return Indices



Source: RBC Capital Markets

MORTGAGE SPREADS

Commercial Mortgage Rates Vs. 5-Year GOC Bonds



Source: RBC Capital Markets, Bank of Canada

Excluding gasoline, Canada's CPI rose 2.4 per cent year over year in August, following a 2.2 per cent increasing in July.

INVESTMENT REPORT

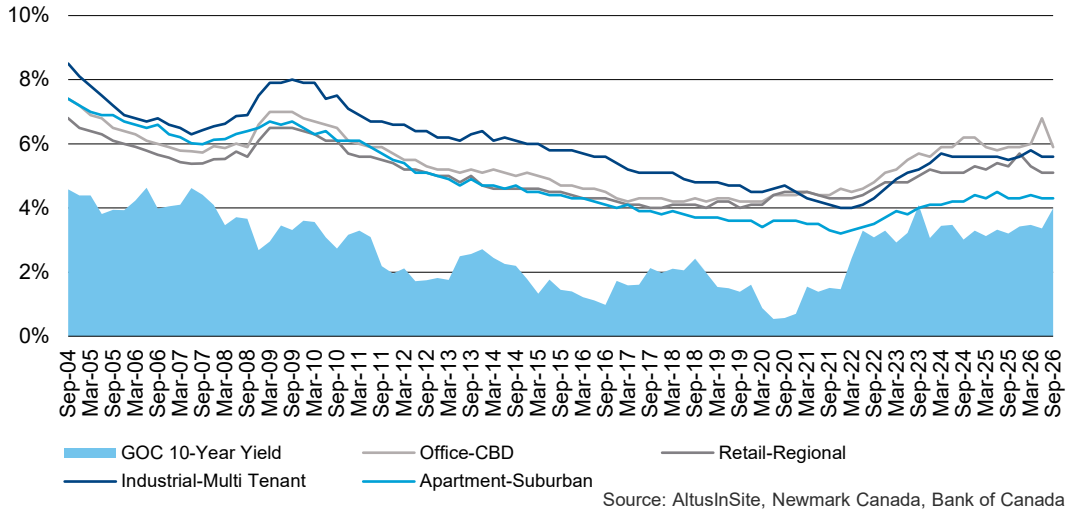
HEALTHY INVESTMENT PROPERTY TRANSACTION PACE WAS SUSTAINED



A healthy investment transaction pace was sustained in Canada's commercial property market in the third quarter, continuing a trend observed over the past year. More than $4.3 billion in transaction volume was recorded in five of the country's largest markets, marking the fourth consecutive quarter with more than $4.0 billion in sales activity.

YIELD SPREADS

Cap Rates vs. 10-Year GOC Bonds



Source: AltusInSite, Newmark Canada, Bank of Canada

Investors continued to demonstrate confidence in Canada's commercial property market while maintaining a selective approach to assessing acquisition opportunities. Multi-suite residential rental and industrial properties remained the preferred property types among investors, consistent with the trend over the past few years. This preference was reflected in the combined transaction volume of nearly $2.7 billion. Grocery-anchored retail properties and high-quality office assets also attracted investor interest, although availability of these properties remained limited. Office property transaction volume reached nearly $1.3 billion in the third quarter, up 32.7 per cent from the previous quarter, while retail sales volume declined significantly. Several major office property sales were completed, contributing to the increase in transaction volume. GWL Realty Advisors paid the highest price for an office property in the quarter, acquiring Citigroup Place in downtown Toronto for $243.6 million. This acquisition was indicative of the increased confidence investors have shown in the Canadian office in recent quarters. Improved investor confidence helped sustain the healthy pace of commercial property investment transactions in the third quarter.

INDUSTRIAL INVESTMENT PROPERTY MARKET SENTIMENT REMAINED POSITIVE

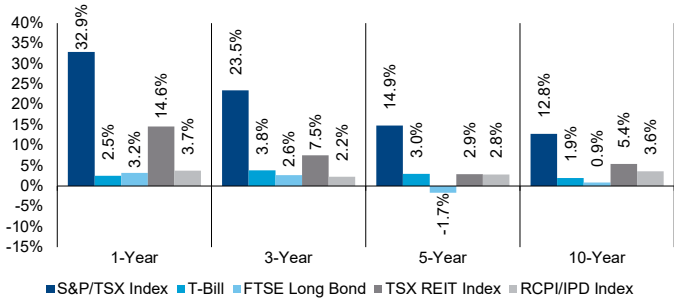
Investor sentiment in Canada's industrial property market remained positive in the third quarter. This sentiment was supportd by the asset class's favourable fundamental outlook, track record of performance and attractive prevailing yields. More than $1.5 billion in industrial investment property transaction volume was recorded in the third quarter, up from $1.3 billion in the same quarter a year earlier. This represented the third highest quarterly total in the past four years. Demand for high-quality, functional industrial buildings with financially secure tenants on long-term leases remained relatively robust. Interest in small-to medium bay properties increased significantly in the past year. Investment demand outpaced supply in this market segment in the third quarter, driven largely by the potential to increase rents through property repositioning. Investors continued to face stiff competition from owner-users when bidding on available properties. The highest price paid for industrial property in the third quarter was $115.0 million, when The Zzen Group acquired 750 Creditstone Road and 121 Pippin Road, with a combined area of 346,000 square feet. This sale reflected investor confidence in the industrial property sector.

STRONG INTEREST IN MULTI-SUITE RESIDENTIAL RENTAL EXHIBITED

Investors continued to show strong interest in multi-suite residential rental properties in the third quarter, continuing a trend observed over the past few years. This interest was driven largely by the investor's expectations that the asset class would generate attractive, stable investment returns over the medium to long term despite the recent softening in the market. This sentiment helped drive investment transaction volume significantly higher in the third quarter. Transaction volume exceeded $1.5 billion, representing an increase of more than 30.0 per cent from the previous quarter and surpassing the one-, three-, and five-year quarterly averages. Additionally, year-to-date transaction volume was 7.7 per cent higher than during the same period a year earlier. The highest transaction price of the third quarter was $265.0 million, paid by Groupe Dumont for four high-rise towers known as The Oaks on Green, comprising 1,212 units on Chalkfarm Drive in Toronto. The second-highest price paid was $162.0 million, when Cadillac Fairview acquired the 234-unit Ivy property in Toronto. These sales reflected the strong interest from a range of investment groups in this asset class in the third quarter.

RELATIVE PERFORMANCE

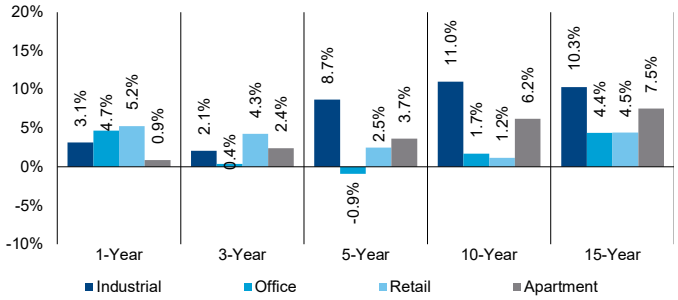
Comparing Annualized Returns To June 2026



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

MSCI RETURNS

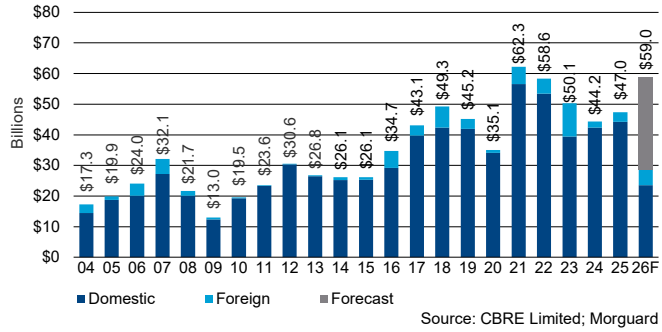
Annualized Returns By Property Type To June 2026



Source: © MSCI Real Estate 2026

INVESTMENT ACTIVITY

Total Investment Volume



Source: CBRE Limited; Morguard

Demand for high-quality, functional industrial buildings with financially secure tenants on long-term leases remained relatively robust.

LEASING REPORT

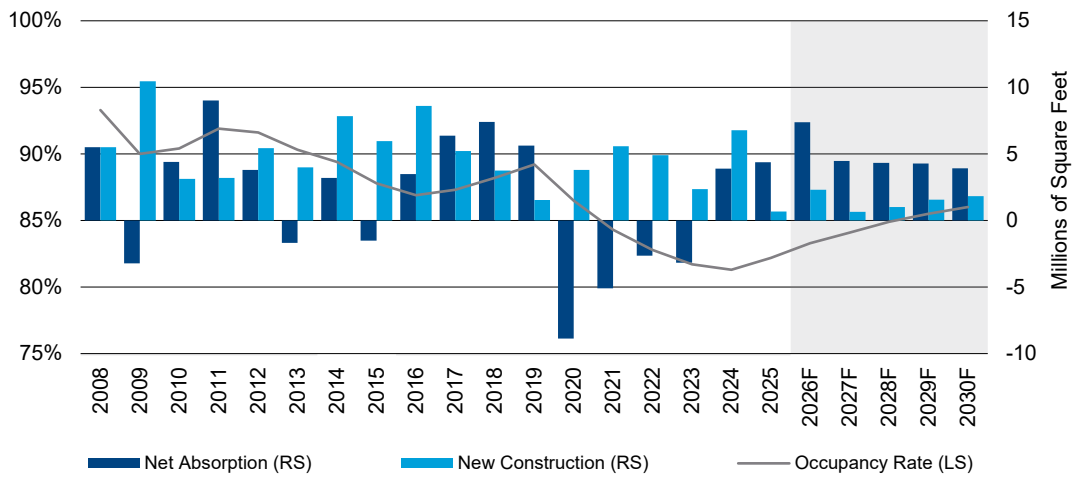
OFFICE MARKET RECOVERY PACE QUICKENED



The recovery in Canada's office leasing market accelerated in the third quarter, following a slowdown in the previous quarter. This acceleration was driven largely by increased occupier confidence and positive return-to-office momentum. Almost two million square feet of positive net absorption was reported in the third quarter, marking the sixth consecutive quarterly gain.

OFFICE DEMAND & SUPPLY

National Historical & Forecast Aggregates



Source: CBRE Limited; CBRE Econometric Advisors (Q2 2026)

The national vacancy rate continued to fall in the third quarter as the market recovery accelerated. The rate declined 40 basis points to 16.7 per cent, its lowest level in four years. The downtown rate fell 50 basis points to 17.3 per cent, also a four-year low, although it remained elevated. The suburban rate declined by 50 basis points to 15.8 per cent, its lowest level in four years, according to CBRE figures. The gap in vacancy rates between trophy/Class A and Class B/C properties rose to a record high in the third quarter, reflecting tenants' continued preference for high-quality, amenity-rich space in prime locations. Vacancy declined in eight of the nation's 11 major markets in the third quarter. The continued slowdown in construction activity contributed to the downward pressure on vacancy rates. No new office towers were completed in the third quarter, with few new projects expected to be completed over the next few years. Rental rates remained at or near the cycle lows in submarkets with an oversupply of class B/C space. Modest upward pressure on rents was reported in the nation's trophy towers where vacancy remained in the low- to mid-single-digit range. These trends reflected the accelerated leasing market recovery pace of the third quarter.

INDUSTRIAL LEASING MARKET DEMAND INCREASED SIGNIFICANTLY

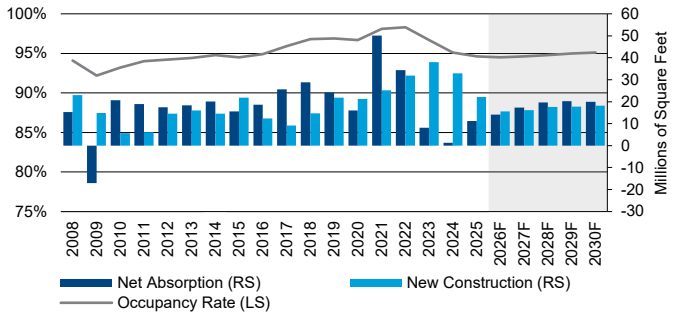
Industrial leasing market demand increased significantly in the third quarter, continuing a recovery that began three quarters earlier. This increase in demand was driven largely by the leasing of space in existing, more affordable buildings. Positive demand momentum was also evident in properties under construction and those that were recently completed. Nationally, approximately 10.3 million square feet of positive net absorption was recorded in the third quarter, driven by a stronger demand trend. This absorption marked the highest quarterly since the fourth quarter of 2022. With demand outpacing supply, the national availability rate declined by 30 basis points to 5.2 per cent, according to CBRE. Eight out of Canada's 11 major industrial markets posted lower availability rates quarter over quarter while most also recorded year-over-year declines. Sublease availability contracted by more than one million square feet in the third quarter, marking the largest quarterly decline of the past few years. This decline reflected some industrial users' have for shorter-term, lower-cost space. Overall, rental rates remained relatively stable despite the significant increase in leasing demand in the third quarter.

DOWN PHASE OF MULTI-SUITE RESIDENTIAL RENTAL MARKET CYCLE CONTINUED

The downturn in Canada's purpose-built, multi-suite residential rental market continued in the third quarter. This was driven largely by slower immigration-driven population growth and record-high levels of new supply delivered over the past few years. The national vacancy rate remained at its cyclical high as rental market supply continued to outpace demand. Third quarter asking rents reported in the Rentals.ca Rent Report reflected the ongoing market downturn. The average posted asking rent for purpose-built rental properties in Canada's top 20 markets was $2,036 per month in September 2026, representing declines of 2.7 per cent year over year and 0.1 per cent month over month. By unit-size, the average asking rent for three-bedroom units declined 1.4 per cent year over year, while the average for one-bedroom units fell more sharply, by 3.3 per cent. Asking rents for condominium units and other secondary-market rentals declined 7.8 per cent and 7.4 per cent, respectively, over the same period. The Canadian Mortgage and Housing Corporation (CMHC) predicts that the national average rent will decline in 2026 and 2027. This outlook is consistent with the rental market downturn observed in the third quarter.

INDUSTRIAL DEMAND & SUPPLY

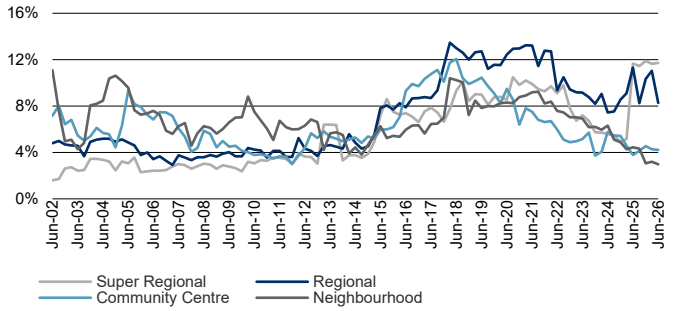
National Historical & Forecast Aggregates



Source: CBRE Limited; CBRE Econometric Advisors (Q2 2026)

RETAIL VACANCY RATES

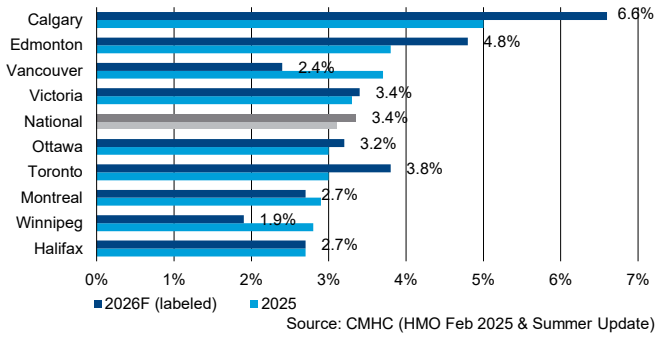
National Trending Across Property Types



Source: © MSCI Real Estate 2026

CMA'S RENTAL VACANCY

Rates for Structures of 3 units+



Source: CMHC (HMO Feb 2025 & Summer Update)

The downturn in Canada's pupose-built, multi-suite residential market continued in the third quarter.

ECONOMIC REPORT

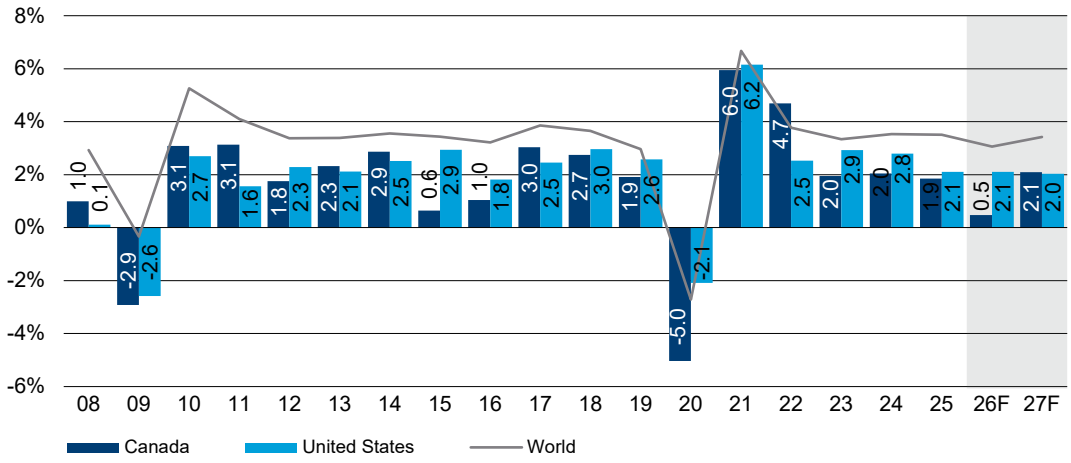
ECONOMIC ACTIVITY SLOWED SIGNIFICANTLY

Economic activity slowed significantly in the third quarter, following a markedly stronger performance in the previous quarter. This slowdown was driven by higher energy costs, rising inflation risk and increased trade-related friction with the U.S. Canada's gross domestic product (GDP) was unchanged in July, with Statistics Canada forecasting a slight increase in August and persistently slow growth through the end of 2026.



ECONOMIC GROWTH

Real GDP Growth — Historical & Forecast



Source: Conference Board of Canada (Sept 2026); International Monetary Fund (October 2026)

Canada's economy is expected to expand at a relatively moderate rate in 2027, following slower growth in 2026. This outlook reflects several persistent headwinds. The conflict in the Middle East is expected to continue to erode business confidence and limit growth. High energy prices are expected to continue weighing on Canada's economy in 2027, as they have in 2026. Canada's housing market slump is also expected to weigh on economic growth. Prospective buyers are likely to remain on the sidelines until interest rates decline.

U.S. tariffs are expected to continue undermining business and consumer confidence and constraining output in affected industries. Together with counter-tariffs, they will continue to weigh on economic activity. Canadian economic output is expected to grow by between 1.5 per cent and 1.8 per cent in 2027, up from approximately one per cent forecast for 2026. Overall, economic growth is expected to improve moderately in 2027 following the significant slowdown in the third quarter.

LABOUR MARKET PERFORMANCE WEAKENED

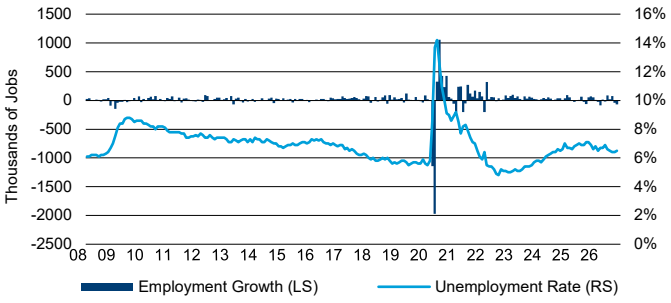
Canadian labour market performance weakened in the third quarter, reversing much of the progress made earlier in the year. This decline was driven largely by the effects of newly imposed U.S. tariffs and Canadian retailiatory tariffs, rising inflation risks and higher energy costs on Canada's economy. Statistics Canada reported significant job losses in August and September as economic activity slowed. Approximately 48,000 and 68,000 jobs were lost in August and September, respectively, more than offsetting the 75,000 jobs created in July. The national employment rate edged up 10 basis points to 60.9 per cent in July before declining by 30 basis points over the final two months of the quarter. The unemployment rate stood at 6.5 per cent at the end of the third quarter, 10 basis points higher than the two-year low recorded in July. Wages continued to rise in the third quarter, offsetting inflationary pressures to some degree. The nation's average hourly wage increased by 2.8 per cent in July, followed by more modest increases of two per cent and 2.3 per cent in August and September, respectively. Despite continued wage growth, Canadian labour market performance weakened considerably in the third quarter.

HOUSING MARKET SLUMP PERSISTED

The housing market slump of the past few years persisted in the third quarter. Broader economic conditions contributed to the prolonged downturn. Rising inflation risks and a weaker economic outlook prompted some buyers to return to the sidelines. Higher fixed mortgage rates and the prospect of near-term variable rate increases likely dampened housing market sales activity in the third quarter. Canadian home sales declined 0.7 per cent month over month in August and 2.3 per cent in September. Year-over-year, sales were down 6.9 per cent in August and 7.5 per cent in September, according to data from the Canadian Real Estate Association (CREA). The downturn was also evident in the National MLS Home Price Index (HPI) in the third quarter. The HPI declined 3.3 per cent, three per cent and 3.4 per cent year over year in July, August, and September, respectively. The HPI fell 0.4 per cent month over month in September, ending four consecutive months of stability. Buyers are expected to remain on the sidelines over the remainder of 2026, while assessing how far the BoC will go to control inflation. Consequently, the housing market slump that persisted in the third quarter will continue until at least the end of the year.

LABOUR MARKET

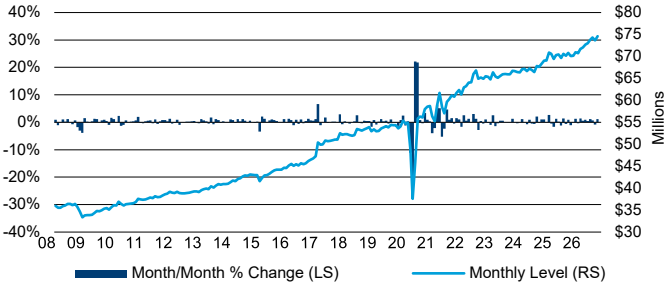
Month-Over-Month Trending



Source: Statistics Canada

RETAIL SALES

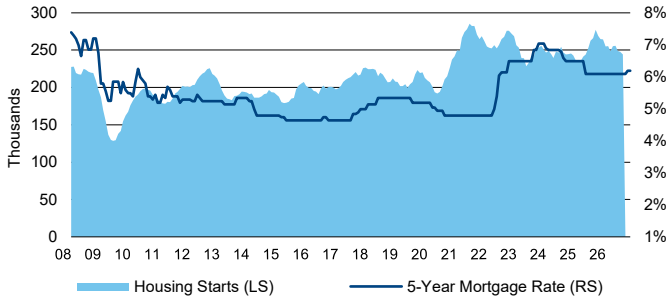
Month-Over-Month Trending



Source: Statistics Canada

HOUSING MARKET

Monthly Trends



Source: Statistics Canada, CMHC, Bank of Canada

Canadian home sales declined 0.7 per cent month over month in August and 2.3 per cent in September.

INVESTMENT MARKET TRANSACTIONS

OFFICE

PROPERTY	DATE	PRICE	SF	PSF	PURCHASER	MARKET
25 Sheppard Ave W	Sep-26	$81.5 M	359,341	$227	Infrastructure Ontario	Toronto
1010 Sherbrooke St W	Sep-26	$78.0 M	328,399	$238	Kam Realty Holdings Inc	Montreal
131 Queen St	Aug-26	$148.2 M	320,000	$463	Government of Canada	Ottawa
Beaver Creek Portfolio	Aug-26	$84.6 M	307,484	$275	Soneil Investments	Toronto
1185 West Georgia St*	Jul-26	$74.0 M	165,855	$446	Holborn Group of Cos.	Vancouver
Maison Alcan Stanley/Sherbrooke	Jul-26	$93.0 M	203,591	$457	Groupe Mach	Montreal
Wellington Sq. 26 Wellington St E	Jul-26	$75.5 M	176,360	$428	BGO	Toronto
Citigroup Place 123 Front St W	Jul-26	$243.6 M	344,393	$707	GWL Realty Advisors	Toronto

INDUSTRIAL

PROPERTY	DATE	PRICE	SF	PSF	PURCHASER	MARKET
40 Millwick Dr	Sep-26	$23.5 M	94,090	$250	TriVan Capital	Toronto
9404 39 Ave	Aug-26	$15.3 M	98,801	$154	Nearctic Industrial REIT	Edmonton
10, 20, 30 Alden Rd	Aug-26	$41.7 M	150,000	$278	KingSett Capital	Toronto
Burlington Bus. Park Portfolio	Aug-26	$94.4 M	325,896	$290	CanFirst Capital	Toronto
750 Creditstone Rd, 121 Pippin Rd	Aug-26	$115.0 M	346,035	$332	Zzen Group of Cos. Ltd.	Toronto
8335-8345 Winston St (50% int.)	Jul-26	$16.0 M	85,351	$375	Beedie Group	Vancouver
200 Aviva Park Dr	Jul-26	$62.0 M	273,211	$227	Pure Industrial REIT	Toronto
RFA Financial Winnipeg Portfolio	Jul-26	$21.7 M	164,872	$132	PROREIT	Winnipeg

RETAIL

PROPERTY	DATE	PRICE	SF	PSF	PURCHASER	MARKET
Newton Square	Sep-26	$26.8 M	48,900	$548	Oviedo Properties	Vancouver
Milliken Mall	Jul-26	$12.0 M	15,800	$759	MSV VLK Inc.	Toronto
Les Galeries Kirkland	Jul-26	$22.5 M	83,042	$271	MTRPL	Montreal

MULTI-SUITE RESIDENTIAL

PROPERTY	DATE	PRICE	# UNITS	/UNIT	PURCHASER	MARKET
The Ivy 6, 8 Gloucester St	Sep-26	$162.0 M	234	$692,308	Cadillac Fairview	Toronto
30 Springhurst Ave	Sep-26	$34.7 M	122	$284,221	BST Canada	Toronto
Pivot 35 Greenfield Ave (50% int.)	Sep-26	$95.7 M	361	$530,194	BGO	Toronto
239 Dequire Blvd	Sep-26	$47.0 M	185	$254,054	Globe Capital Mgt.	Montreal
21 Lexington Ave Townhomes	Aug-26	$20.7 M	71	$291,549	Group Lande	Toronto
50 Driftwood Ave, 797 Jane St	Aug-26	$57.2 M	201	$284,428	Peakhill Opportunity REIT	Toronto
The Oaks on Green	Aug-26	$265.0 M	1,212	$218,647	Groupe Dumont	Toronto
Edge By City Vibe	Jul-26	$44.0 M	182	$241,758	Ferrovia Capital	Edmonton
Louvre at Century Park	Jul-26	$104.9 M	358	$293,045	Strategic Group	Edmonton
Twin Lakes Estates*	Jul-26	$48.0 M	57	$842,105	Manulife Financial	Vancouver
Lash Group Portfolio	Jul-26	$143.8 M	487	$295,329	BST Canada	Montreal
145, 147 Wellington St W	Jul-26	$85.5 M	204	$419,118	Realstar Group	Toronto
Place Charles Albanel	Jul-26	$35.8 M	226	$158,186	Akelius Canada	Ottawa
Les Jardins Toulouse	Jul-26	$26.0 M	188	$138,298	Black Ridge	Montreal
85 Wellesley St E	Jul-26	$24.2 M	88	$275,398	Harlo Capital	Toronto
Renaissance, Vezina St, Pl Stirling	Jul-26	$46.5 M	260	$178,846	Inspire Group	Montreal

*share sale

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 50 years. As of September 30, 2026, Morguard had $24.1 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





ACKNOWLEDGEMENTS / RESEARCH RESOURCES

In the course of compiling the statistical information and commenting on real estate markets, nationally, regionally and across Canadian metropolitan areas, we acknowledge the assistance and feedback from the following parties in completing this report:

The Altus Group, Avison Young, Bank of Canada, Bank of Japan, BMO Economics, BMO Nesbitt Burns, CBRE Econometric Advisors, CBRE Limited, CIBC World Markets, Canada Newswire, Canadian Mortgage and Housing Corporation (CMHC), Canadian Mortgage Loans Services Limited, The Canadian Real Estate Association (CREA), Colliers International, Conference Board of Canada, Cushman & Wakefield, Developers and Chains e-news, Economy.com, European Central Bank, The Federal Reserve Board, Frank Russell Canada (RCPI), The Globe and Mail, ICR Commercial Real Estate, International Council of Shopping Centres (ICSC), Insite-Altus Research, International Monetary Fund, The Johnson Report (Winnipeg), Jones Lang LaSalle, MSCI, The Network, Newmark, Ottawa Business Journal, PC Bond Analytics, PricewaterhouseCoopers, RBC Capital Markets, RBC Economics, RealNet Canada Inc., Statistics Canada, Scotia Capital, TD Economics, Toronto Star, Torto Wheaton Research, Urban Land Institute, United States Department of the Treasury, York Communications

FORWARD-LOOKING STATEMENTS DISCLAIMER

Statements contained herein that are not based on historical or current fact, including without limitation statements containing the words “anticipates,” “believes,” “may,” “continue,” “estimate,” “expects” and “will” and words of similar expression, constitute “forward-looking statements.” Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, events or developments to be materially different from any future results, events or developments expressed or implied by such forward-looking statements. Such factors include, among others, the following: general economic and business conditions, both nationally and regionally; changes in business strategy; financing risk; existing governmental regulations and changes in, or the failure to comply with, governmental regulations; liability and other claims asserted; and other factors. Given these uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. The publisher does not assume the obligation to update or revise any forward-looking statements.

Copyright © 2026 by Morguard Investments Limited. All rights reserved.

Feedback, inquiries or requests for reproduction please contact:

Keith Reading
Senior Director of Research
905-281-5345
kreading@morguard.com

55 City Centre Drive
Suite 1000
Mississauga, ON
L5B 1M3
905-281-3800

MORGUARD.COM

