2023 CANADIAN ECONOMIC OUTLOOK

AND MARKET FUNDAMENTALS SECOND QUARTER UPDATE

25TH ANNUAL EDITION

MORGUARD

Q2

CONTENTS

Q2

ABOUT

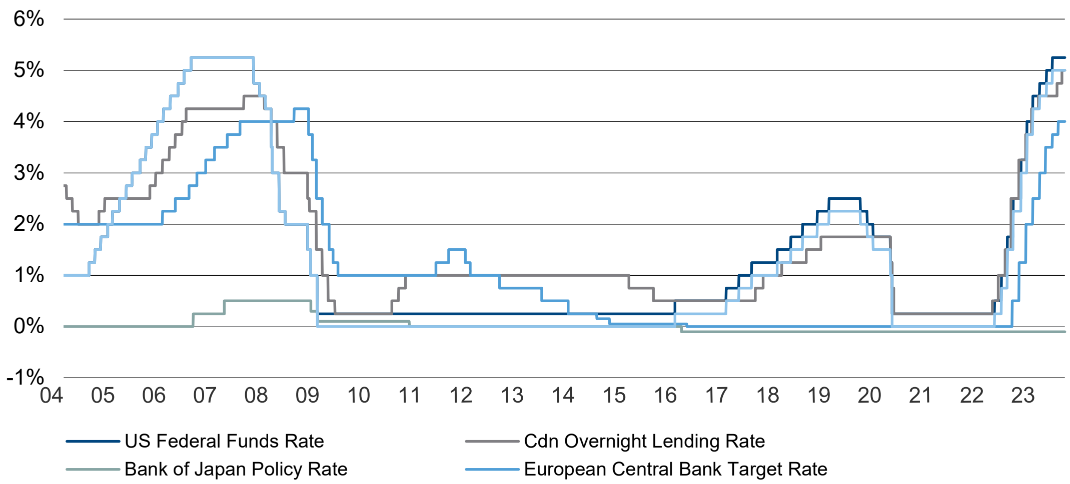
FINANCIAL REPORT

BANK OF CANADA ENDED THE QUARTER WITH SURPRISE RATE HIKE

The Bank of Canada (BofC) raised its target overnight rate 25-bps to 4.75% on June 7, 2023, in a somewhat surprising move. The rate increase was the first dating back 10 months. The Bank Rate rose to 5.0% and the deposit rate to 4.75%. The BofC also stated it would continue with its quantitative tightening.

OFFICIAL POLICY RATES

International Monetary Conditions



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

The Governing Council's decision to raise the overnight rate on June 7th was a byproduct of several factors. Economic momentum was stronger-than-expected in the first few months of 2023. Canada's Gross Domestic Product expanded by a healthy annualized rate of 3.1% in the first quarter. The positive economic momentum was due in large part to surprisingly robust consumer spending patterns amid rising debt-servicing costs and stubbornly high inflation. The Bank pointed to a rebound in services sector demand, increased spending on interest-sensitive goods, and an uptick in housing market activity as drivers of consumer spending growth. Coincidentally, labour market conditions, including strong wage growth, drove consumer prices higher and supported continued economic momentum in the first quarter. The demand supply imbalance in Canada's economy is expected to continue over the near term. As a result, the probability of more interest rate hikes has increased substantially, following the BoC's 25-bps hike in the final month of the second quarter.

INFLATION EASED BUT REMAINED ELEVATED

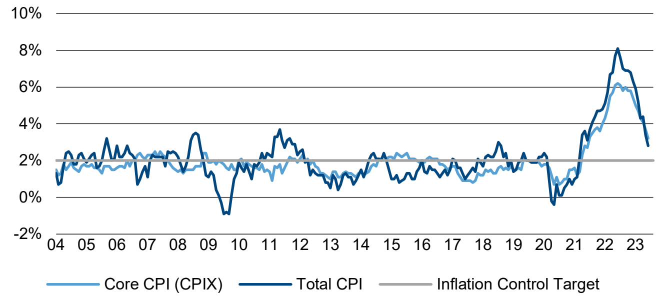
Inflation pressure eased but remained elevated in the second quarter, in keeping with the recent trend. Canada's Consumer Price Index (CPI) rose 2.8% year-over-year in June, down from the 3.4% reading a month earlier. The June reading represented the lowest headline inflation rate dating back two years. However, headline inflation would have been 4.0% in June and 4.4% in May if gasoline was excluded from the CPI. The inflation downdraft was driven largely by lower year-over-year gasoline prices. Prices paid at the pump were down 21.6% year-over-year as of June, on the heels of an 18.3% decline in May. The decline was largely a result of the spike in gasoline prices a year earlier. Prices rose sharply in the second quarter of 2022 due to the combined effects of Russia's invasion of Ukraine and higher global demand as China began to ease some COVID-19 restrictions. The recently announced reduction in oil output by the Organization of Petroleum Exporting Countries (OPEC) Plus and increased carbon levies are expected to drive gasoline prices higher again by the end of the year. Canadian households continued to contend with grocery price inflation and higher mortgage interes costs, which rose 9.1% and 30.1%, respectively year-over-year. The BofC forecasted headline inflation in the 3.0% range during the summer. Stronger-than-anticipated economic and job market performance represented significant upside inflationary risk. However, inflation is expected to gradually ease over the near term, continuing the second-quarter trend.

BENCHMARK CANADIAN INDEX EKED OUT SMALL RETURN

The S&P/TSX Composite registered a very small positive return during the second quarter, led by the Information Technology (IT) and Consumer Discretionary (CD) sectors. The benchmark index recorded a modest 0.3% return for the quarter, with a year-to-date index return of 4.0%. The IT sector continued to lead the way in the second quarter, extending the year-to-date trend. The IT sector registered a 13.3% return for the quarter, with CD sector posting a more-than-respectable 5.8% advance. Shopify bolstered the index-leading IT sector performance, with a 32% return for the three-month period, with quarterly sales and earnings besting analyst forecasts. Restaurant Brands and Dollarama led the CD sector with returns of 13.0% and 11.0%, respectively. The Utilities, Communications Services, Consumer Staples, Real Estate and Materials generated negative returns for the quarter. Looking to the second half, there is no real consensus on how the S&P/TSX will perform, on the heels of a very small second-quarter return.

NATIONAL INFLATION

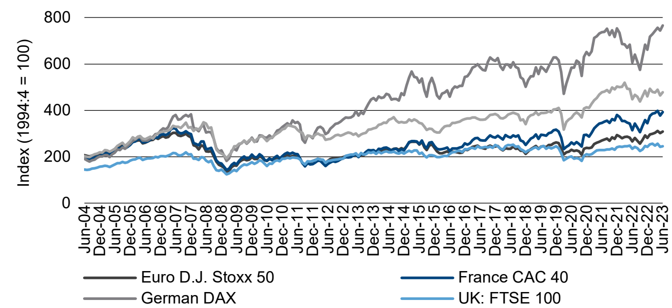
CPI Measures, % Change Over 1 Year Ago



Source: Bank Of Canada, Statistics

GLOBAL INDICES

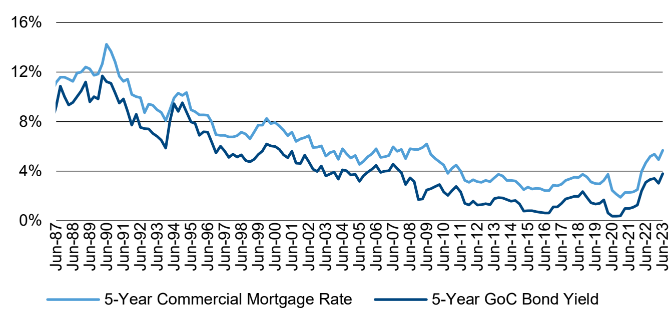
Trending of Global Price Return Indices



Source: RBC Capital Markets

MORTGAGE SPREADS

Commercial Mortgage Rates Vs. 5-Year GOC Bonds



Source: RBC Capital Markets, Bank of Canada

Stronger-than-anticipated economic and job market performance represented upside inflationary risk

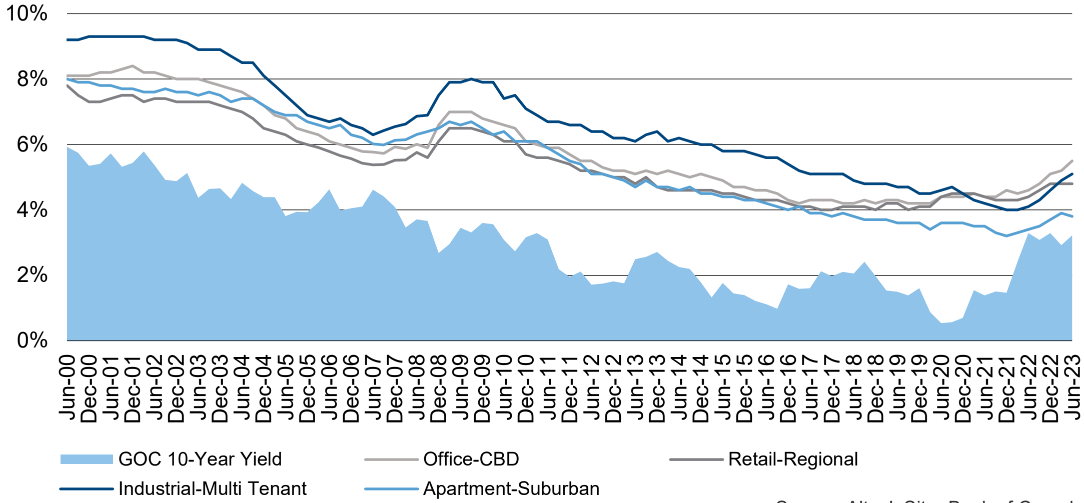
INVESTMENT REPORT

MODEST SALES INCREASE RECORDED

A modest increase in Canadian commercial property sector investment sales activity was recorded in the second quarter, following three consecutive quarterly declines. Quarterly investment transaction volume totaled just shy of $4.3 billion for properties selling for a minimum of $10.0 million in the Greater Vancouver, Calgary, Toronto, Ottawa, and Montreal regions combined a week prior to the end of the second quarter.

YIELD SPREADS

Cap Rates vs. 10-Year GOC Bonds



Source: AltusInSite, Bank of Canada

The total sales figure for the multi-suite residential rental, office, industrial, and retail property types combined was already 25.9% higher than the previous quarter. The quarter-over-quarter increase was due largely to a surge of activity in the industrial sector. Industrial sales were up 117.9% quarter-over-quarter while the multi-suite residential rental total was a more modest 29.5% higher with a week to go in the quarter. Sales of office and retail property were down sharply quarter-over-quarter and fell to a cycle-low level. Investors continued to target industrial and multi-suite residential rental properties, given their healthy fundamental and rent growth outlooks. Valuations for the same two property categories have decreased slightly recently but have remained close to their respective peaks. Investment property yields have risen modestly recently, due to increases in macro-economic risk, bond yields, and debt-servicing costs. As a result, investors have focused increasingly on lower risk property acquisitions as second tier asset sales slowed significantly. We anticipate little change in investor focus over the second half of 2023. Expect commercial investment property transaction volume to remain below the most recent peaks, despite a modest increase in sales activity in the second quarter.

INDUSTRIAL PROPERTY SALES SURGED

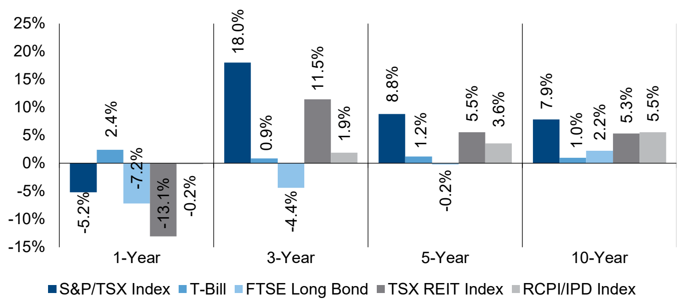
There was a surge of industrial investment property sales recorded in the second quarter. By the time the final figures are tabulated, transaction volume will have easily eclipsed the $3.0 billion mark for properties selling for at least $10.0 million in the Greater Vancouver, Calgary, Toronto, Ottawa, and Montreal regions combined. The total is more than double that of the previous quarter and represents a five-quarter high. A 30-year high $4.5 billion of industrial property sales was recorded in the first quarter of 2022. Subsequently, sales activity slowed significantly, with transaction volume dipping below the $2.0 billion mark in three out of four quarters. During this period, investors retreated to the sidelines as the cost of debt capital and macro-economic risk increased. Increasingly, buyers looked for a yield premium to offset higher debt-servicing costs and economic risk. In some cases, buyers looked to capitalize on the sector's healthy rent-growth outlook. Some vendors were willing to lower their pricing expectations when selling properties. With vendors and buyers agreeing on price, transaction volume increased. Functional warehouse properties generated the strongest interest from a range of private and public parties. This interest was a key driver of the second-quarter industrial property sales surge.

RETAIL SALES REMAINED MUTED

Retail investment property sales activity remained muted in the second quarter, with transaction volume nearing a three-year low. Retail investment property sales with a minimum sale price of $10.0 million in the combined Vancouver, Calgary, Toronto, Ottawa, and Montreal markets totaled less than $300.0 million in the second quarter, although a noteworthy investment grade enclosed project in Waterloo sold for $270.0 million. The total was the lowest dating back to Q2 2020 when the market effectively closed down with the onset of the pandemic. Previously, transaction volume had peaked in the final quarter of 2021 and first quarter of 2022 when sales topped the $1.5 billion mark. The investment sales slowdown of the past few years can be attributed to several factors. The most recent of these was the interest rate hikes the BofC implemented to control inflation. The evolution of consumer shopping behaviour continues to generate the uncertainty that keeps the buyer pool thin. Relatively few significant portfolios or flagship properties have been made availabile for acquisition recently. Smaller and/or value-add assets with repositioning potential have been brought to market more commonly, amid an environment of relatively muted sales activity.

RELATIVE PERFORMANCE

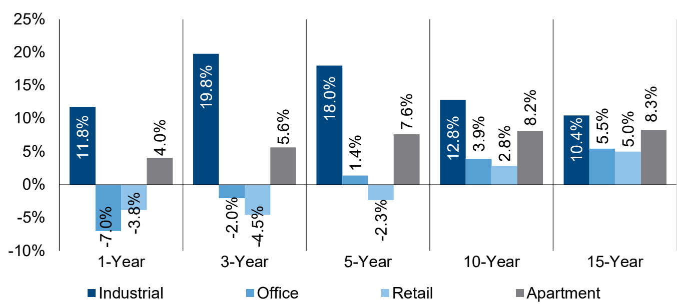
Comparing Annualized Returns To June 2023



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

MSCI RETURNS

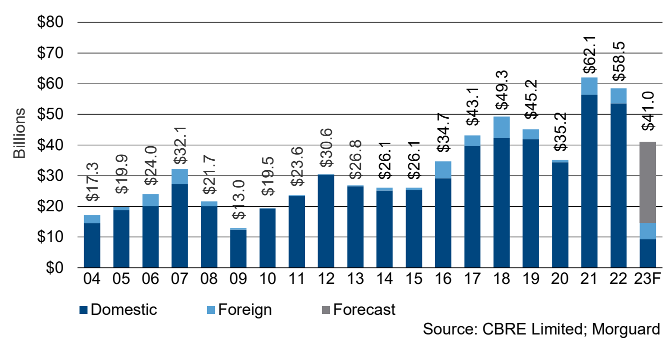
Annualized Returns By Property Type To June 2023



Source: © MSCI Real Estate 2023

INVESTMENT ACTIVITY

Total Investment Volume



Source: CBRE Limited; Morguard

Retail investment property sales activity remained muted in the second quarter, with transaction volume nearing a three-year low.

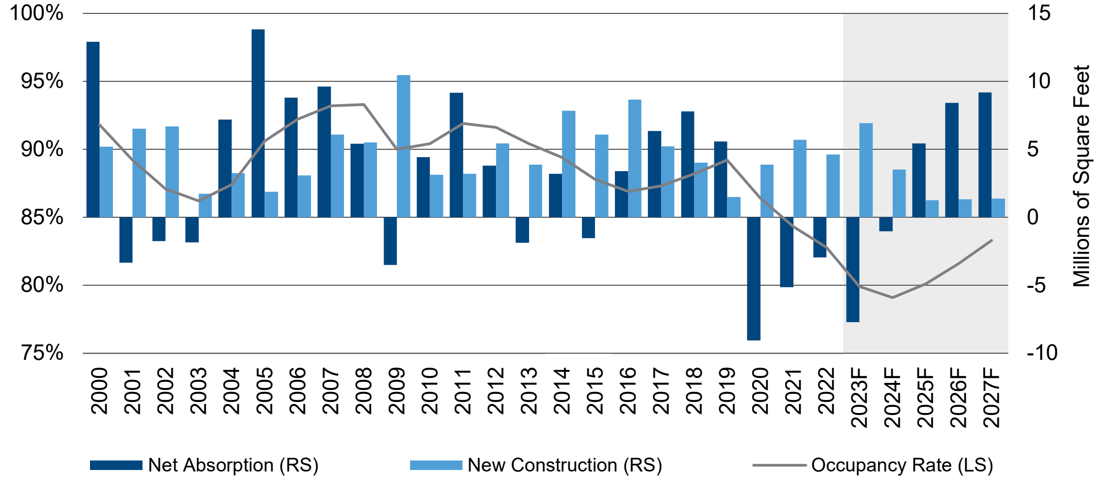
LEASING REPORT

OFFICE MARKET DOWNTURN CONTINUED

Canada's office leasing market downturn continued to unfold during the second quarter. The downturn has lasted more than three years, beginning shortly after the initial pandemic outbreak in the spring of 2020. The national aggregate vacancy rate continued to climb during the second quarter. A 30-bps vacancy increase was reported for the three-month period, with the national rate resting at a 30-year high of 18.1%.

OFFICE DEMAND & SUPPLY

National Historical & Forecast Aggregates



Source: CBRE Limited; CBRE Econometric Advisors

Several factors contributed to the rising vacancy trend. Tenants have looked to reduce expenses by reducing their footprints with their employees working remotely either partially or completely. In some cases, tenants offloaded space either by subletting or by not extending their leases upon expiry. The footprint reductions have been both temporary and permanent. A significant number of tenants across the nation have delayed long-term leasing decisions over the past few years, which has also impacted the market's broader vacancy trend. New supply completions have added vacant space to the market, particularly in the nation's downtown areas. The national downtown average vacancy rate for the nation's 10 top leasing markets was up 200 bps year-over-year, at the end of the second quarter. The suburban average rose a more modest 110 bps. Class B and C building vacancy has generally risen more sharply over the past three years. With aggregate supply outstripping demand in Canada's leasing market, rents have been steadily eroded. The national office leasing market downturn of the past three years carried through to the end of the second quarter.

INDUSTRIAL SPACE WAS STILL IN SHORT SUPPLY

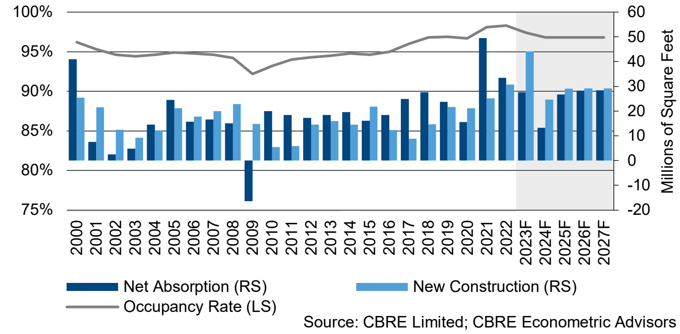
Available industrial space remained in short supply during the second quarter, continuing the medium-term trend. The national industrial availability rate stood at just 2.1% at the end of June, up 20 bps quarter-over-quarter and 50 bps year-to-date. Functional warehouse and manufacturing space availability was critically low across the country. New supply offered minimal relief for tenants looking to expand or relocate in the country's industrial heartland, despite an uptick in the volume of space completed in the second quarter. Industrial leasing market conditions remained tight, even as the nation's absorption rate declined. Net absorption, an indicator of demand for industrial space, totaled roughly 3.4 million square feet in the second quarter for the nation's top 10 industrial markets combined. Slightly more than 4.7 million square feet of space was absorbed over the first half of 2023. A year earlier, a markedly stronger 16.0 million square feet of space was absorbed in the second quarter and 24.6 million square feet in the first half of 2022. In the first half of 2023, demand and rent growth have eased, but remain healthy. Despite the moderation, available industrial space remained in short supply in most regions of the country.

RENT GROWTH PHASE OF THE CYCLE PERSISTED

The rent growth phase of the Canadian multi-suite residential rental market cycle persisted during the second quarter. The average asking monthly rent for listed units was 10.6% higher year-over-year as of the end of May, for the 25 cities tracked by Rentals.ca. The strongest year-over-year asking rent growth for listed units over the same time-period was in the one and two-bedroom size categories. The rental market's demand supply dynamics have driven rents progressively higher over the past several quarters. Rental demand has generally exceeded both existing and new available supply over the recent past. Record-high international migration has supported strong rental demand fundamentals. Roughly 1.0 million new international arrivals were reported for 2022, which was a record high. The federal government's plan calls for a further 500,000 new international arrivals annually through to 2025. As a result, demand for rental accommodation will remain robust over the next few years. Stronger-than-expected job growth has also been a driver of rental demand over the past year. Despite the addition of a near-record high volume of new supply over the past couple of years, national rental demand consistently outpaced supply. As a result, the multi-suite residential rental sector's rent growth phase of the cycle persisted through to the end of the second quarter.

INDUSTRIAL DEMAND & SUPPLY

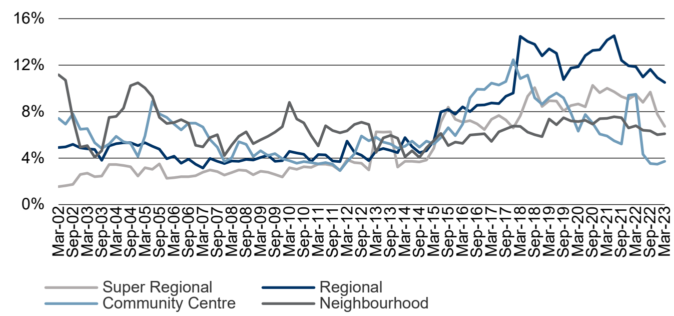
National Historical & Forecast Aggregates



Source: CBRE Limited; CBRE Econometric Advisors

RETAIL VACANCY RATES

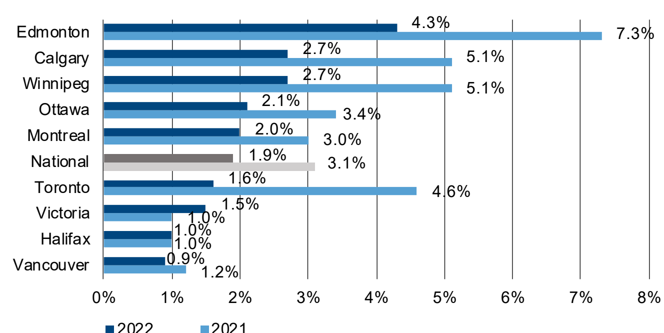
National Trending Across Property Types



Source: © MSCI Real Estate 2023

CMA'S RENTAL VACANCY

Rates for Structures of 3 units+



Source: CMHC (Jan 2023 release)

The strongest asking year-over-year rent growth for listed units was in the one and two-bedroom size categories.

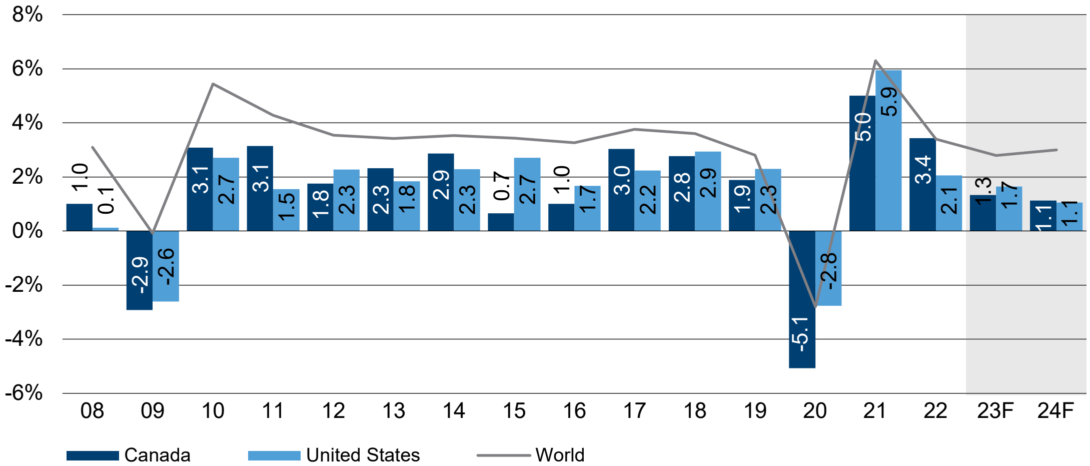
ECONOMIC REPORT

ECONOMIC RESILIENCE PREVAILED

Canada's economy continued to exhibit a measure of resilience in the second quarter. Gross Domestic Product (GDP) is projected to increase 0.4% month-on-month in May, which would be the largest monthly increase since 2023. The May advance will be driven by the nation's manufacturing and wholesale industries and federal government public administration sector, following a flat GDP April reading.

ECONOMIC GROWTH

Real GDP Growth — Historical & Forecast



Source: Conference Board Of Canada (June 2023); International Monetary Fund (April 2023)

Economic growth was on track to surpass the most recent BofC estimate in the second quarter. The national labour market remained tight and job growth has been surprisingly strong. As a result, the probability of another rate hike in July increased in the second quarter. The economic resilience exhibited in the second quarter continued the trend of the year's opening quarter. Output expanded by an annualized rate of 3.1% over the first three months of the year, following a weak final quarter of 2022 when growth stalled. Consumer spending surged by a robust 5.7% over the first three months of the year. First-quarter output was bolstered by higher net exports. Most of the first-quarter advance was in January, with little change in output in February and March. Economic growth is projected to slow significantly in the second half. Consumer delinquencies will continue to slowly rise and interest rate hikes will have a negative impact on spending. In the first half of the year, Canada's economy continued to exhibit a measure of resilience in outperforming expectations.

JOB GROWTH MODERATED AFTER STRONG START TO THE YEAR

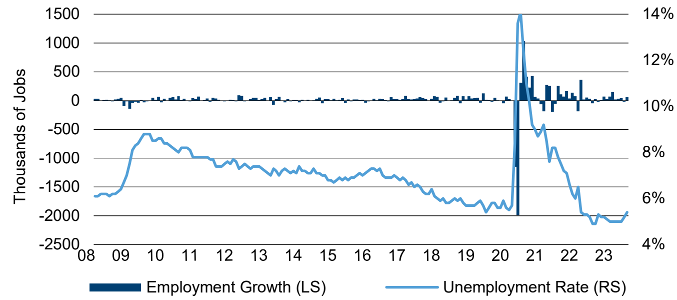
Job growth began to moderate during the second quarter, after a strong start to the year. In June, national employment rose by 60,000 (0.3%), recouping much of the May losses. The May decline was the first on record since August 2022. National employment had risen sharply during the first three months of 2023. Canada's economy added roughly 209,000 new jobs during the first quarter. Despite the second quarter job growth moderation, Canada's labour market remained stable and healthy due in large part to a stronger-than-expected economic growth trend. Tightness has been a labour market constant recently, with the national unemployment rate edging slightly higher to 5.4% in June from 5.2% in May. The 20-bps rise in May and in June were the first increases recorded since August 2022. The national total hours worked average was up 2.0% on a year-over-year basis in June, having risen by a slightly stronger 2.2% in the previous month. Wages continued to climb at a robust rate, with the nation's average hourly wage up 4.2% in June year-over-year, following May's 5.1% rise. Job growth is expected to continue to moderate in the second half of the year, a trend that began to unfold in the second quarter.

CONSUMER SPENDING SLOWED FOLLOWING RECENT SURGE

Consumer spending slowed significantly in the second quarter, having started off the year with a surge. National retail sales rose just 0.2% month-over-month in May after a 1.0% advance in April. The May gain was weaker that the Statistics Canada's estiamte of 0.5%. The primary driver of the retail sales increase in May was auto sales, which was also the case in the previous month. Sales of cars and car parts have been relatively strong in the second quarter, with gains of 0.5% and 0.8% month-over-month in April and May, respectively. Gasoline station and other fuel vendor sales were falt in May, having dipped by 0.4% in April. Retail sales have slowed significantly quarter-over-quarter. Sales surged by a healthy 5.7% on an annualized basis in the first quarter, despite the negative impacts of inflation and higher debt-serving costs on household spending power. Core spending has increased at a healthier-than-expected rate over much of the first half of the year. As a result, the nation's economy and job market have been surprisingly resilient. Therefore, the probability of more interest rate hikes has increased. Retail spending patterns are expected to remain moderately positive over the second half of the year. Retail sales growth will be moderate at best, continuing the second quarter trend.

LABOUR MARKET

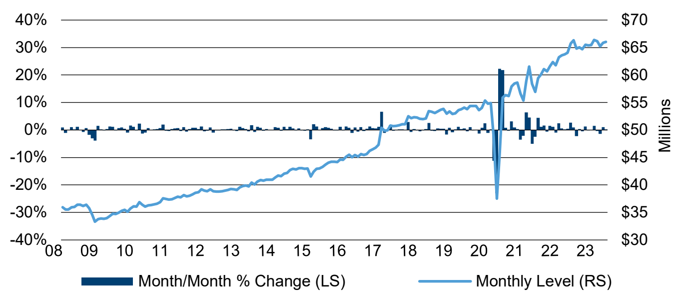
Month-Over-Month Trending



Source: Statistics Canada

RETAIL SALES

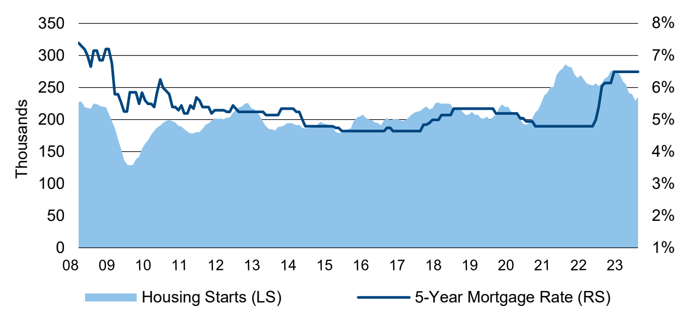
Month-Over-Month Trending



Source: Statistics Canada

HOUSING MARKET

Monthly Trends



Source: Statistics Canada, CMHC, Bank of Canada

Sales of cars and car parts have been relatively strong in the second quarter, with gains of 0.5% and 0.8% month-over-month in April and May, respectively.

INVESTMENT MARKET TRANSACTIONS

OFFICE

PROPERTY	DATE	PRICE	SF	PSF	PURCHASER	MARKET
Cominar GMA Portfolio	Jun-23	$63.5 M	433,595	$146	HS Properties	Montreal
7070 Mississauga Rd	May-23	$72.4 M	244,128	$296	Binscarth Holdings LP	Toronto
160 Elgin St	Apr-23	$277.0 M	973,611	$285	Groupe Mach	Ottawa
Cominar Portfolio Laval	Apr-23	$67.5 M	503,977	$134	Caracal Investments Inc	Montreal
HOOPP Courtney Park Portfolio	Apr-23	$74.5 M	230,941	$323	Soneil Investments	Toronto

INDUSTRIAL

PROPERTY	DATE	PRICE	SF	PSF	PURCHASER	MARKET
Morguard Portfolio	Jun-23	$108.0 M	362,317	$298	BMO Life Assurance Co.	Toronto
45 Di Poce Wy	Jun-23	$198.2 M	422,433	$469	Pontegadea Group	Toronto
270-330 Esna Park Dr	Jun-23	$35.5 M	101,532	$350	Kolt Investments	Toronto
7525-7535 Financial Dr	Jun-23	$76.6 M	270,016	$284	DH Management	Toronto
1100 Thornton Rd S	Jun-23	$24.1 M	129,432	$186	Crux Capital	Toronto
3701 Gaumont Rd	Jun-23	$64.7 M	191,878	$337	Nexus Industrial REIT	Montreal
2600 John St	Jun-23	$42.8 M	153,000	$280	Berkshire Axis	Toronto
2501 Trans-Canada Hwy	Jun-23	$60.0 M	274,044	$219	Brasswater	Montreal
8574 Boston Church Rd	May-23	$176.0 M	754,704	$233	Pure Industrial REIT	Toronto
70 Esna Park Dr	Jun-23	$28.0 M	75,203	$372	Wu Family Holdings Inc.	Toronto
BGO Mississauga/Brampton Portf.	May-23	$138.5 M	442,008	$313	Pure Industrial REIT	Toronto
8020 Fifth Line	May-23	$73.0 M	286,881	$254	Canada Post Pension Plan	Toronto
Apotex Ontario Portfolio	Apr-23	$638.3 M	2,258,217	$283	W.P. Carey	Tor./Brantford
50 Precidio Crt,100 Corporation Dr	Apr-23	$44.3 M	139,120	$318	Genesis Wealth Mgt.	Toronto
Dixie & Fewster Portfolio	Apr-23	$61.0 M	221,729	$275	Soneil Investments	Toronto
8069 Lawson Rd	Apr-23	$54.2 M	131,420	$412	BVD Group	Toronto
3388 190th St	Apr-23	$25.0 M	54,256	$461	Loon Properties	Vancouver
1040 Martin Grove Rd	Apr-23	$24.5 M	77,864	$315	Forgestone/Takol	Toronto

RETAIL

PROPERTY	DATE	PRICE	SF	PSF	PURCHASER	MARKET
Maisonneuve Commercial Ctr	May-23	$53.0 M	114,400	$463	First Capital Realty	Montreal
Galeries Terrebonne (50% int.)	May-23	$25.0 M	392,600	$127	Belsize Development Ltd	Montreal

MULTI-SUITE RESIDENTIAL

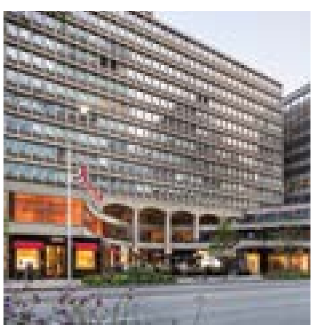
PROPERTY	DATE	PRICE	# UNITS	/UNIT	PURCHASER	MARKET
Joie de Vivre	Jun-23	$68.9 M	393	$175,318	Greyspring Apartments	Montreal
Salpam Investments GTA Portfolio	Jun-23	$170.2 M	594	$286,498	Starlight Investments	Toronto
1225 York Mills Rd	Jun-23	$84.7 M	140	$605,345	Realstar Group	Toronto
Bellevue Apartments	May-23	$53.3 M	120	$444,000	RioCan REIT	Montreal
Quartier 7 465 Sicard St	May-23	$35.9 M	106	$338,742	Skyline Apartment REIT	Montreal
CAP REIT Longueuil Portfolio	May-23	$27.8 M	180	$154,375	B.V.T. Longueuil Investmts	Montreal
38 Dixington Cr	May-23	$30.5 M	111	$274,775	Pulis Investments	Toronto
20449 Park Ave*	May-23	$53.7 M	93	$577,419	CAPREIT	Vancouver
5530 Schonsee Dr	May-23	$41.7 M	188	$222,000	Yorkton Group	Edmonton
9825 103 St	May-23	$33.0 M	204	$161,765	Valko Properties	Edmonton

*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 45 years. As of March 31, 2023, Morguard had $18.8 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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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, 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

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