



Economic and Commercial Real Estate Market Update “The Long & Winding Road to A New Normal”

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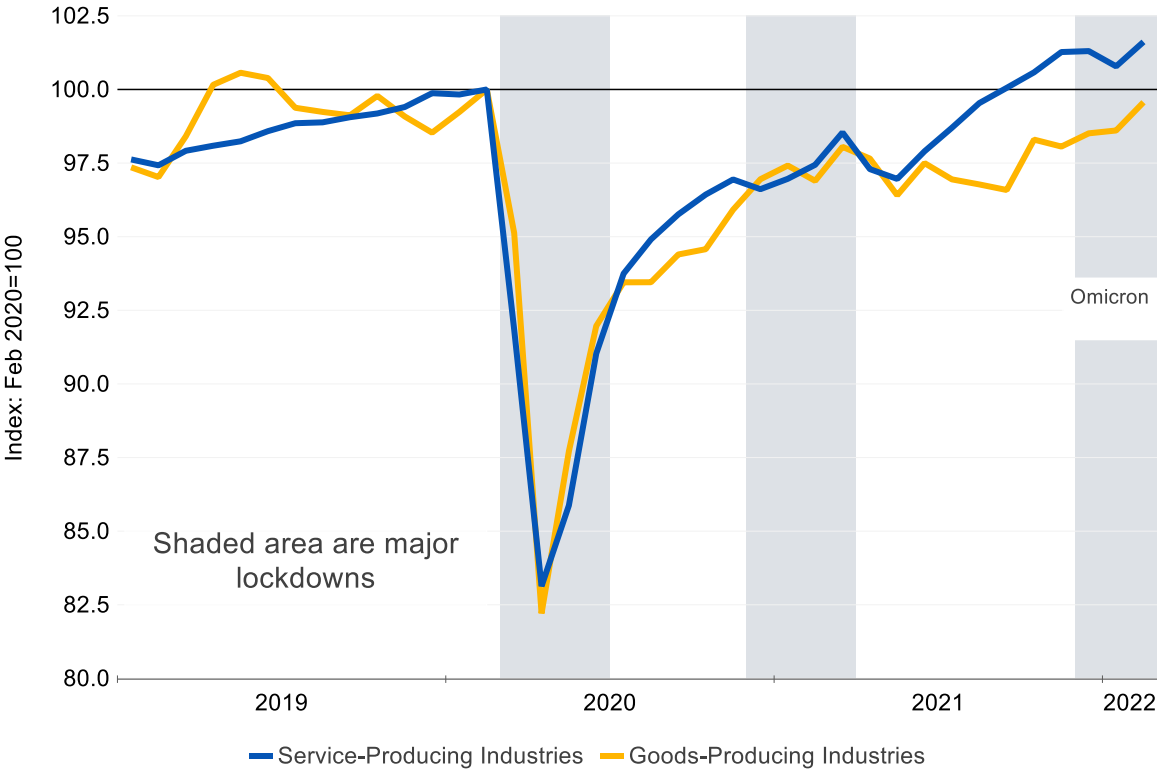
June 22nd, 2022



The Economy

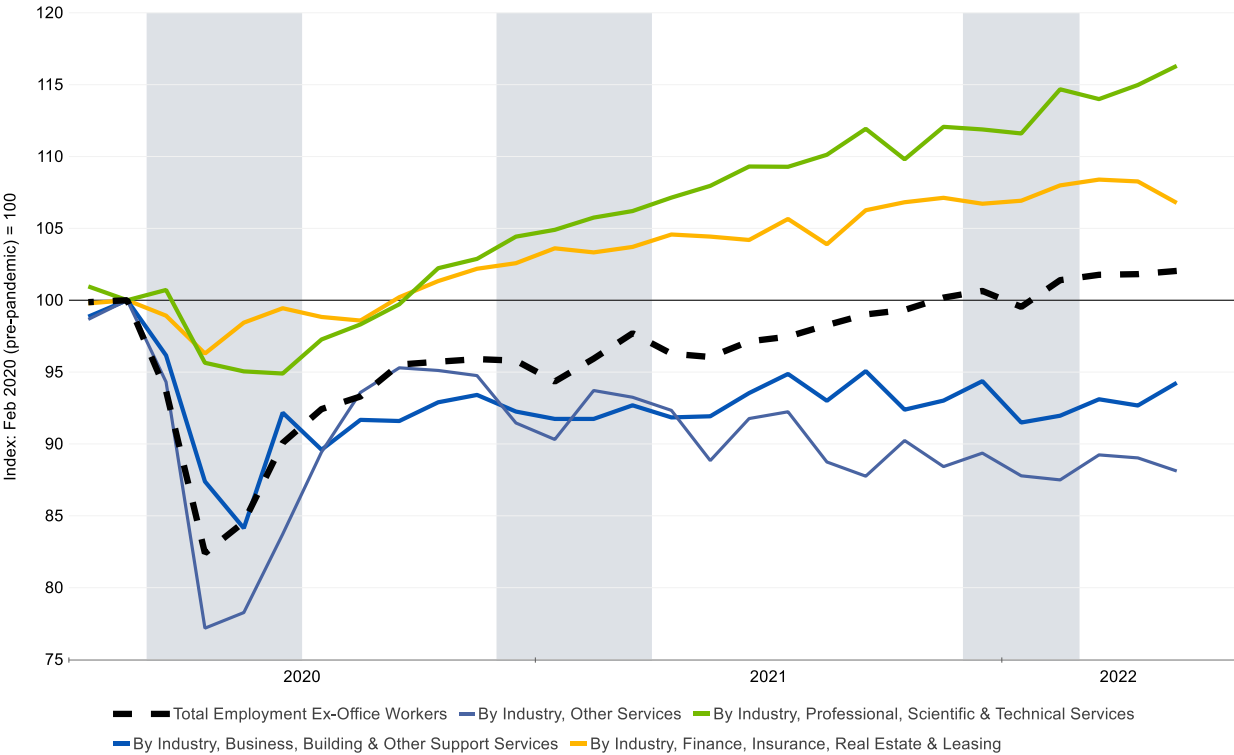
Canadian Economy Back to Pre-Pandemic Levels

Real GDP Growth By Industry



Source: Macrobond, Costar, StatCan

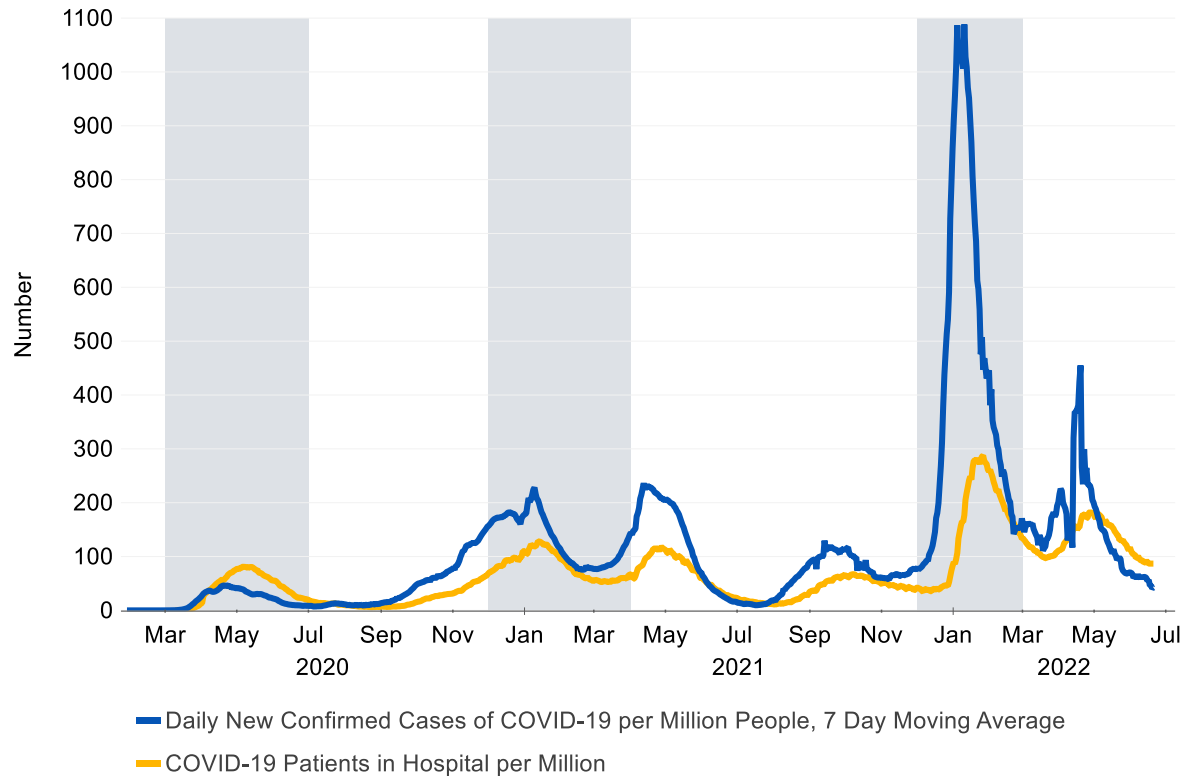
Canadian Employment: Office Workers vs the Rest



Source: Macrobond, Costar, StatCan

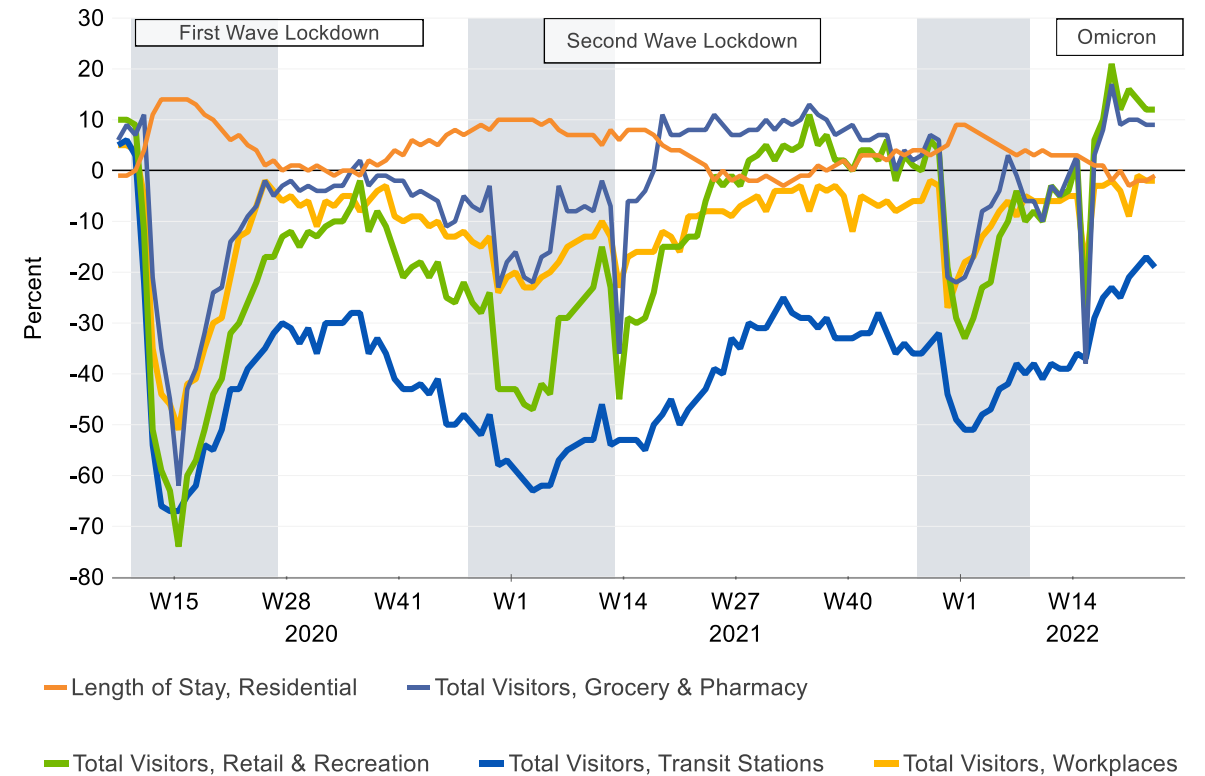
Canadian Mobility is Recovering

Canada, Novel Coronavirus (COVID-19)



Source: Macrobond, Costar, Our World in Data

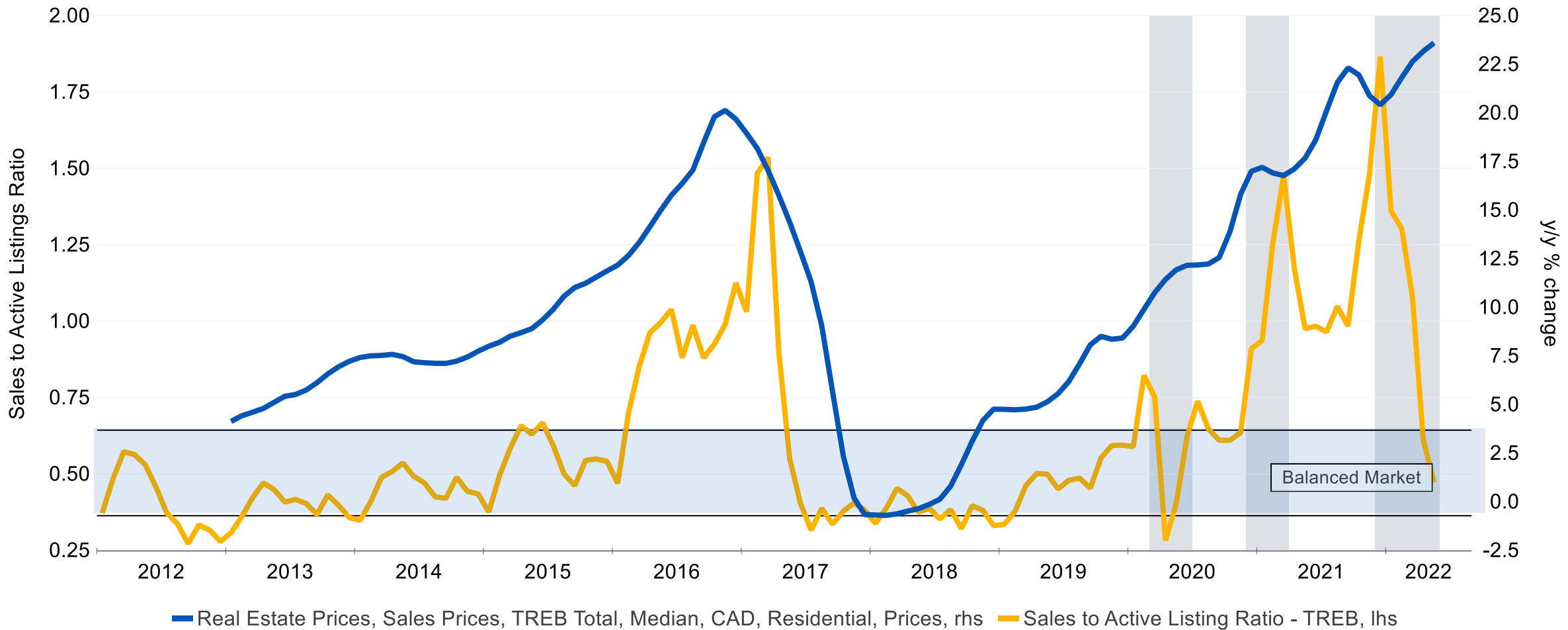
Google Mobility By Sector



Source: Macrobond, Costar, Google

Balance (Not A Contraction) is Returning to the Housing Market

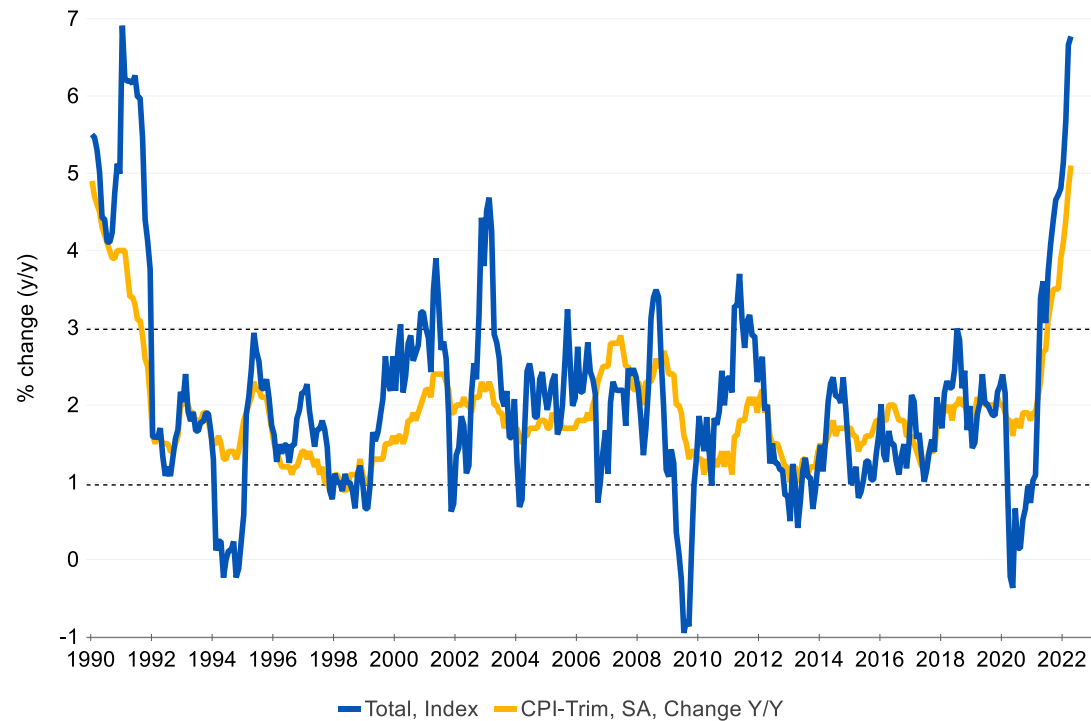
Sales to Active Listings Ratio: Greater Toronto



Source: Macrobond, Costar, TREB

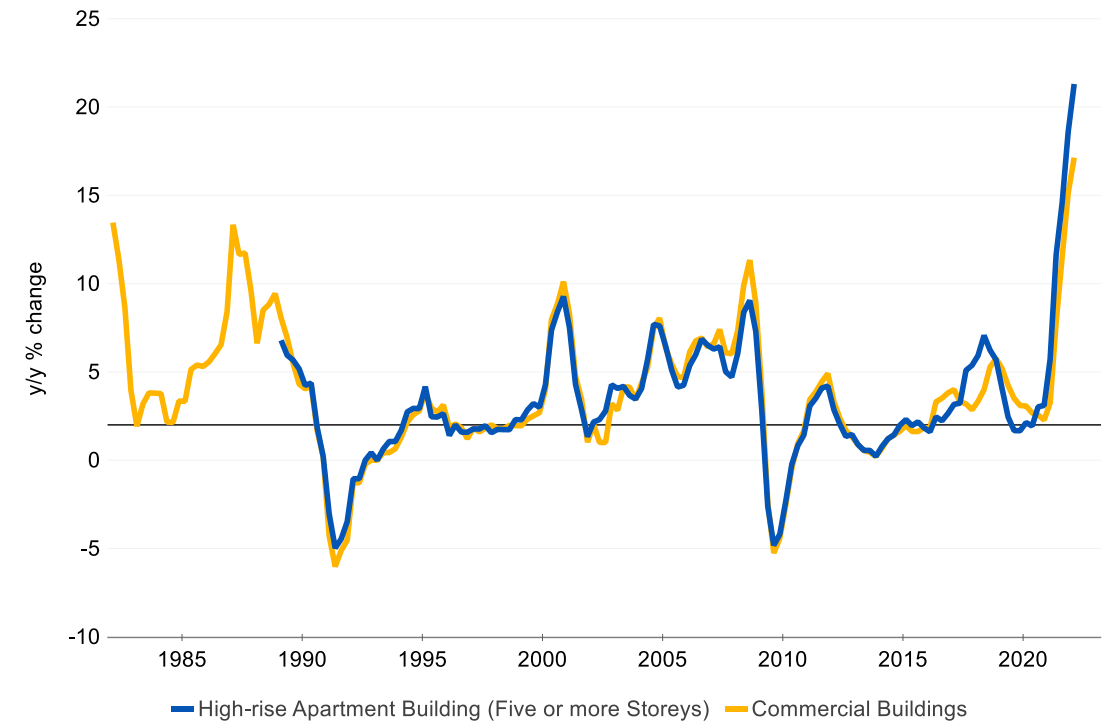
Cost Pressures Increase Across the Board

Canada, Consumer Price Index



Source: Macrobond, Costar, StatCan

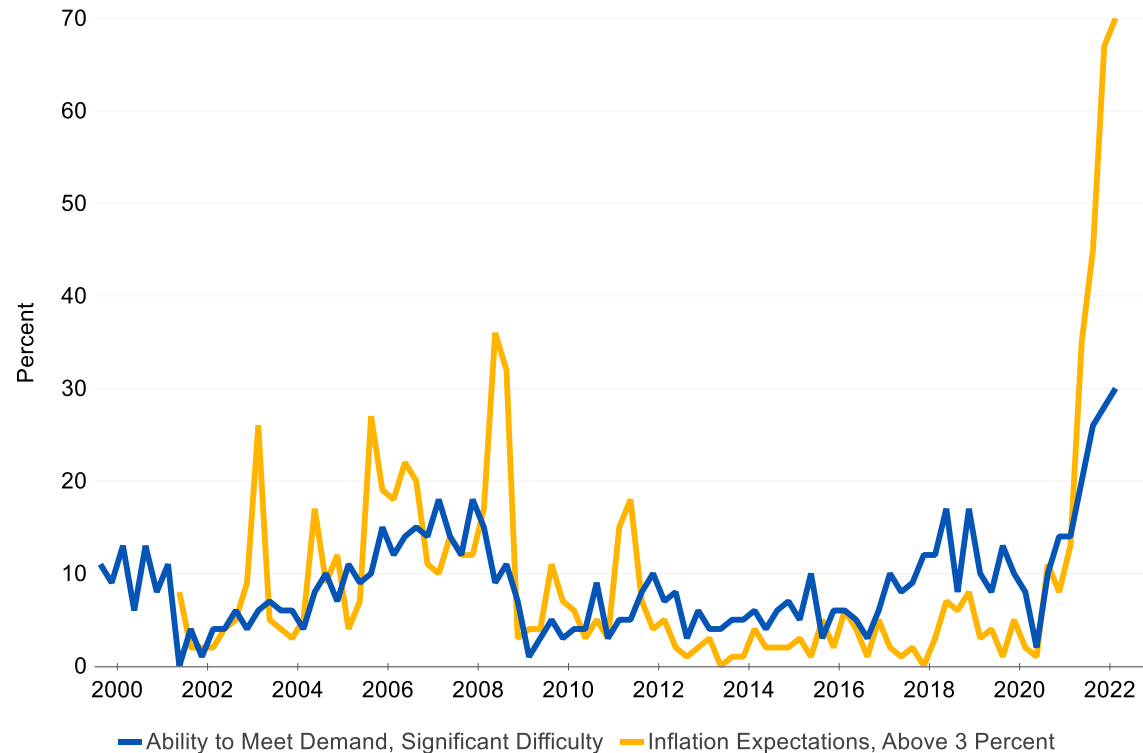
Building Construction Costs



Source: Macrobond, Costar, StatCan

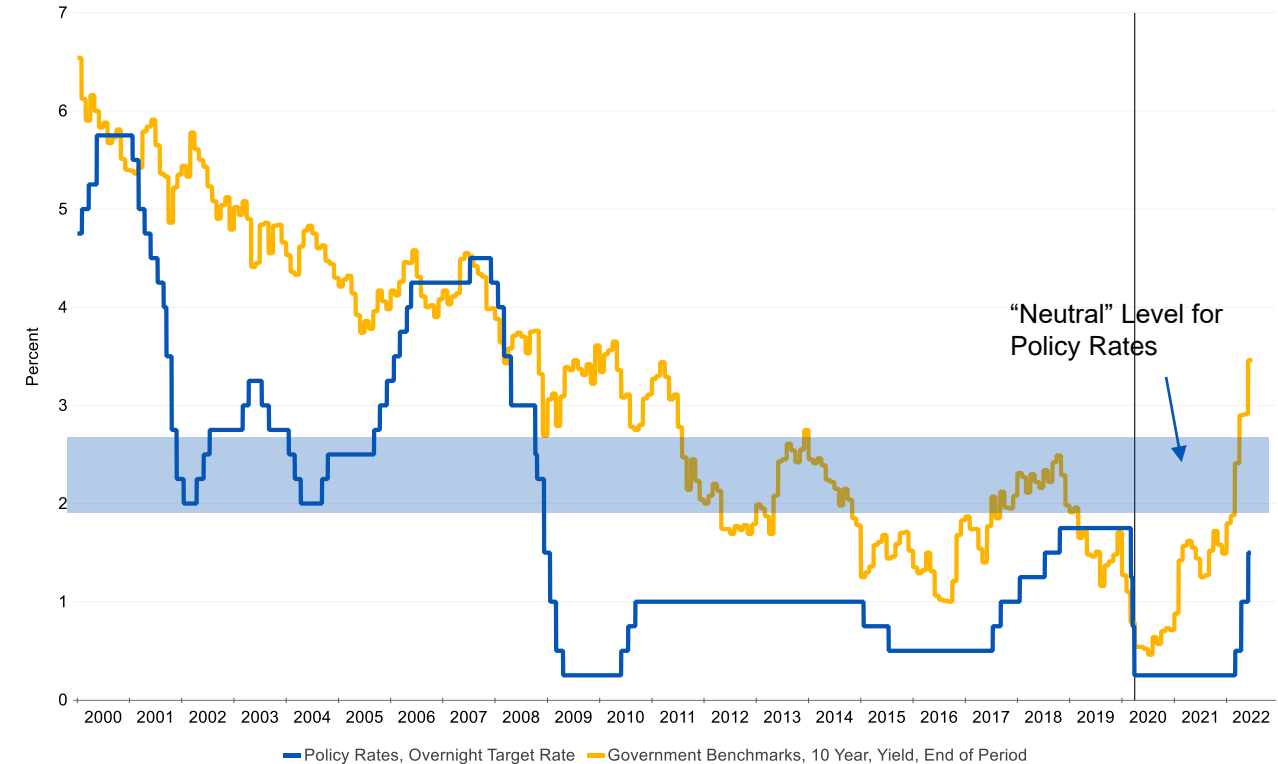
Interest Rates Must Become Less Stimulative

Bank of Canada Business Outlook Survey



Source: Macrobond, Costar, BoC

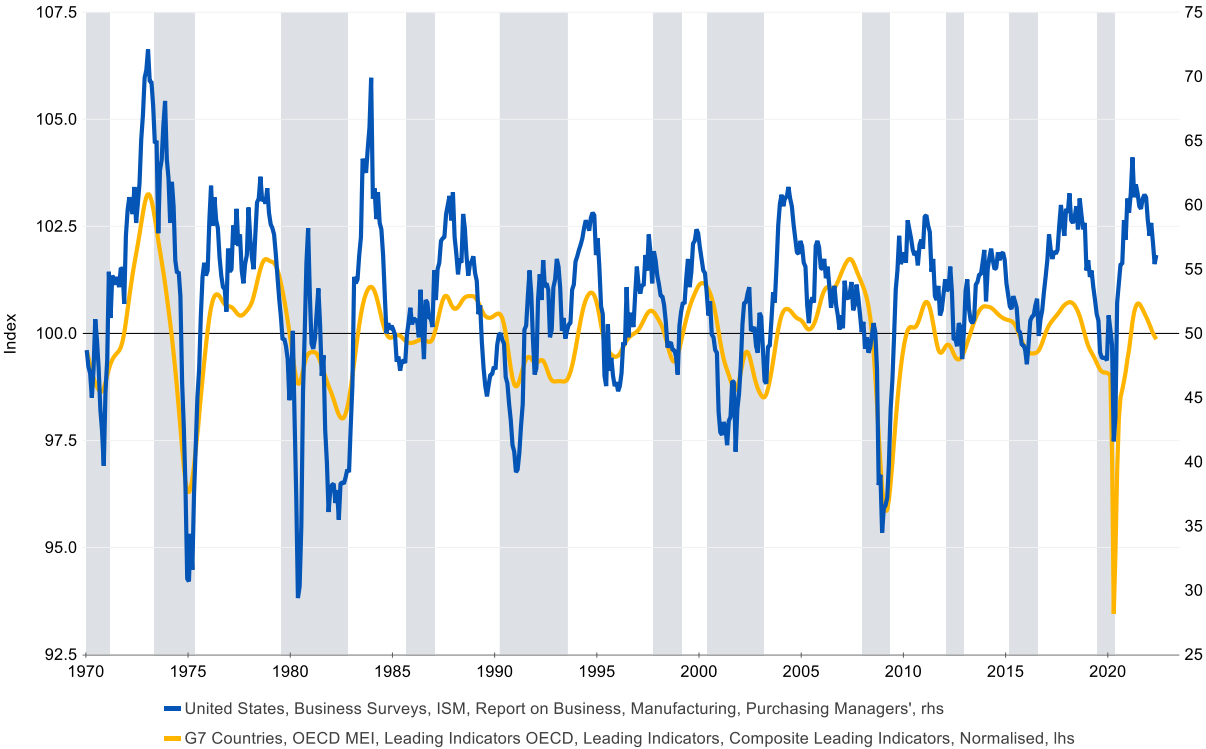
Canadian Interest Rates



Source: Macrobond, Costar, Macrobond, BoC

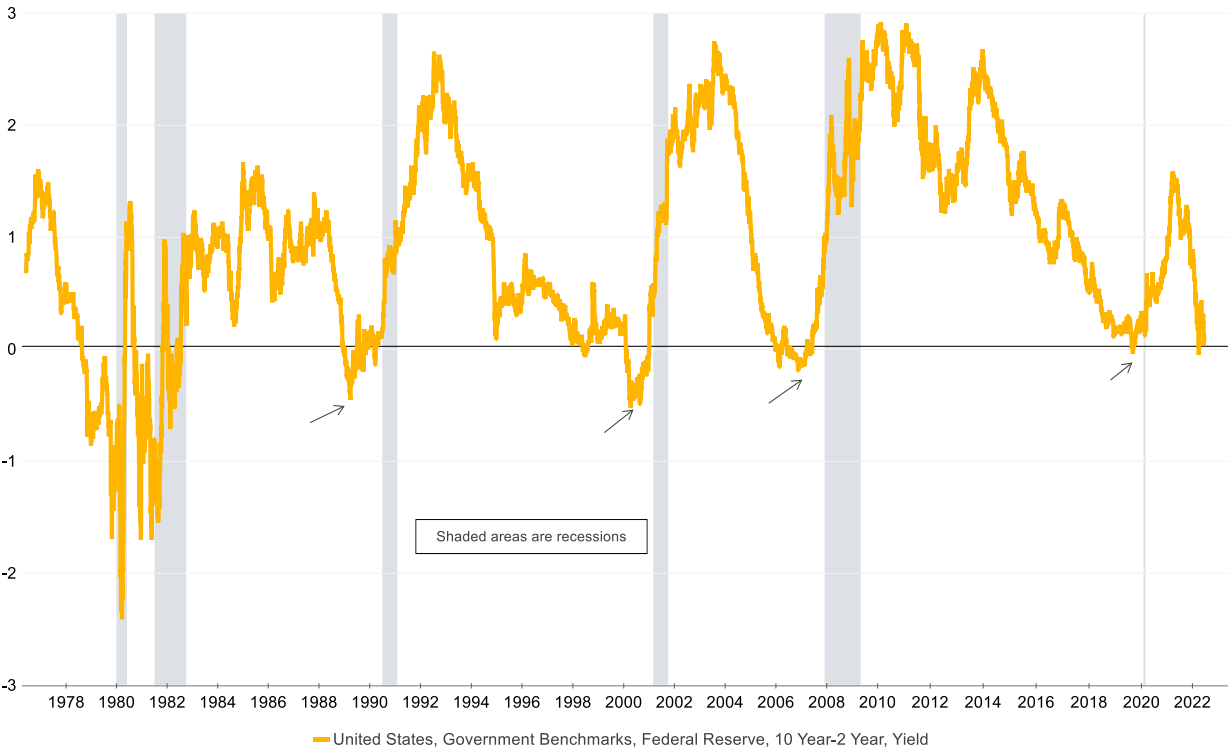
Recession Risks Are Growing

Leading Indicators Still in Expansion but Decelerating



Source: Macrobond, Costar, OECD, ISM

US Yield Curve: 10 Year-2 Year, Treasuries Constant Maturity Spread

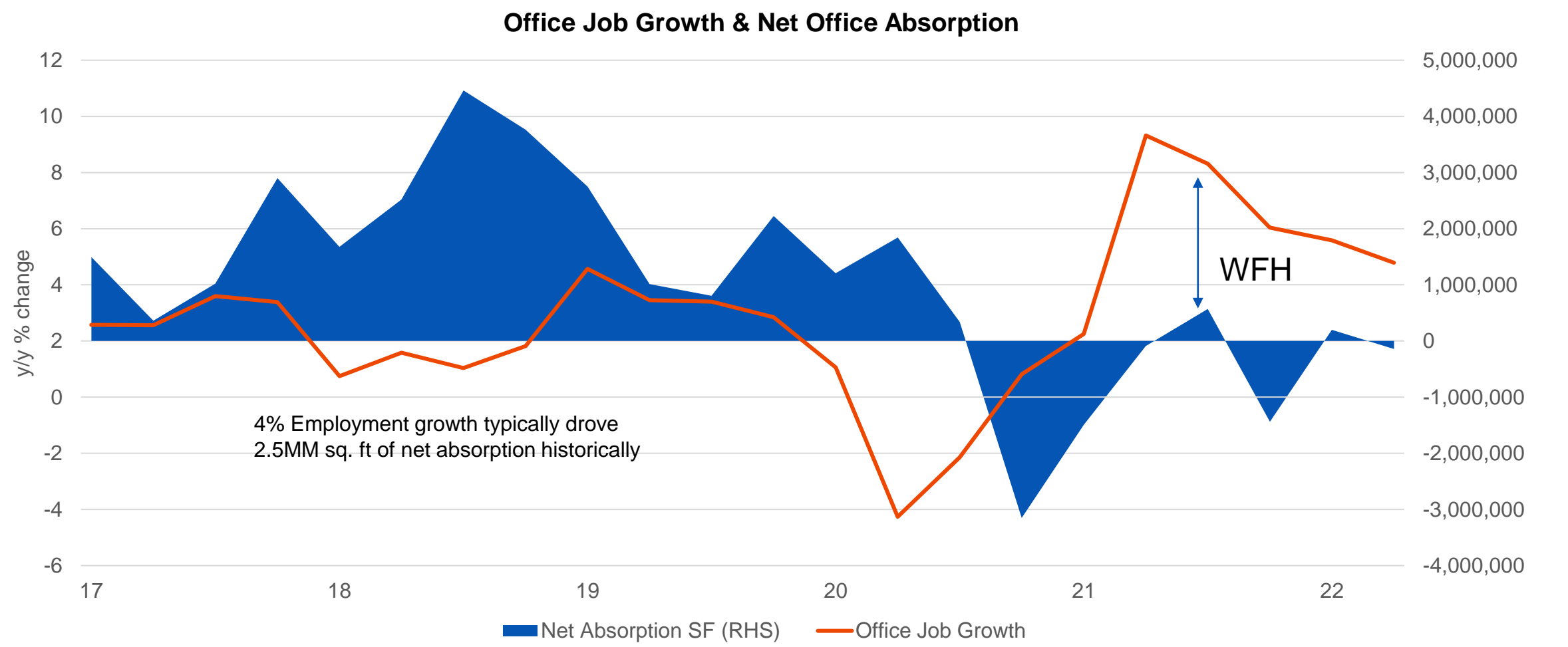


Source: Macrobond, Costar, U.S. Department of Treasury

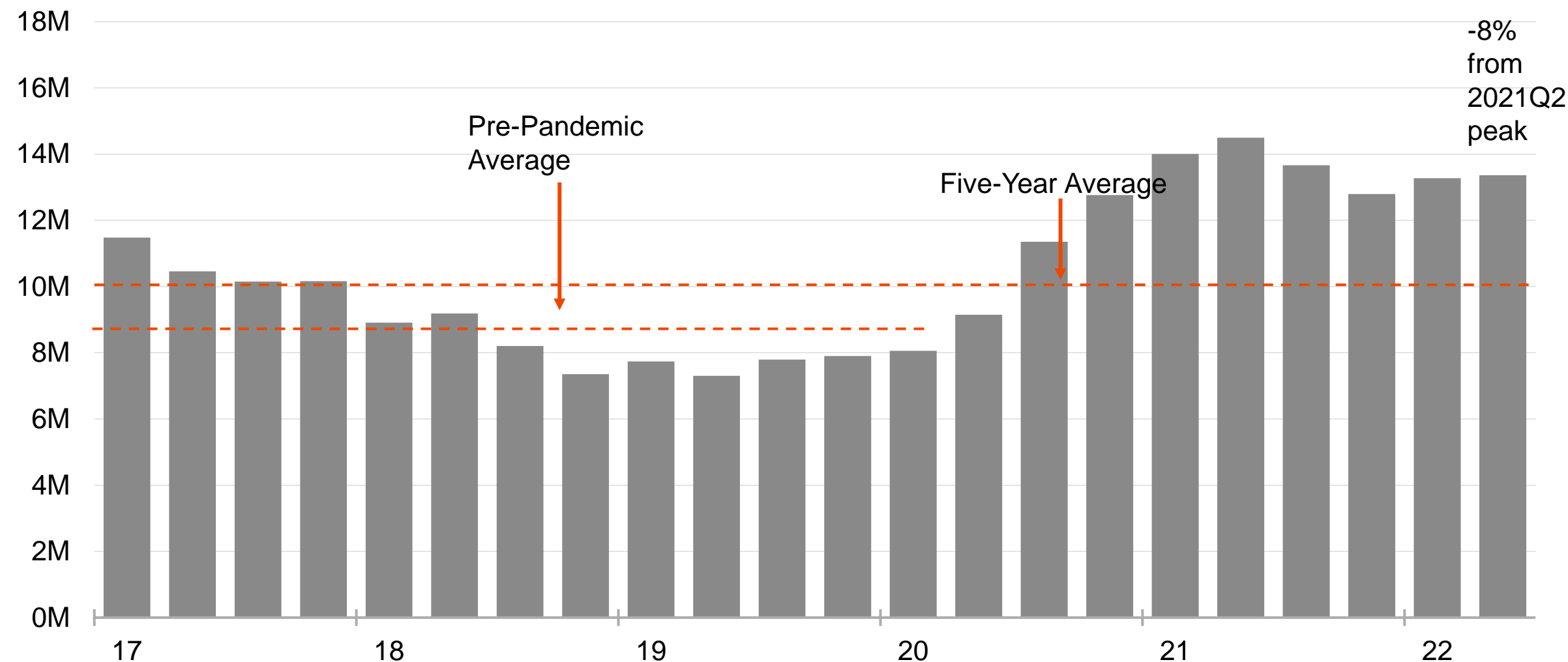


Property Markets

Canadian Office Demand Altered By Remote Work

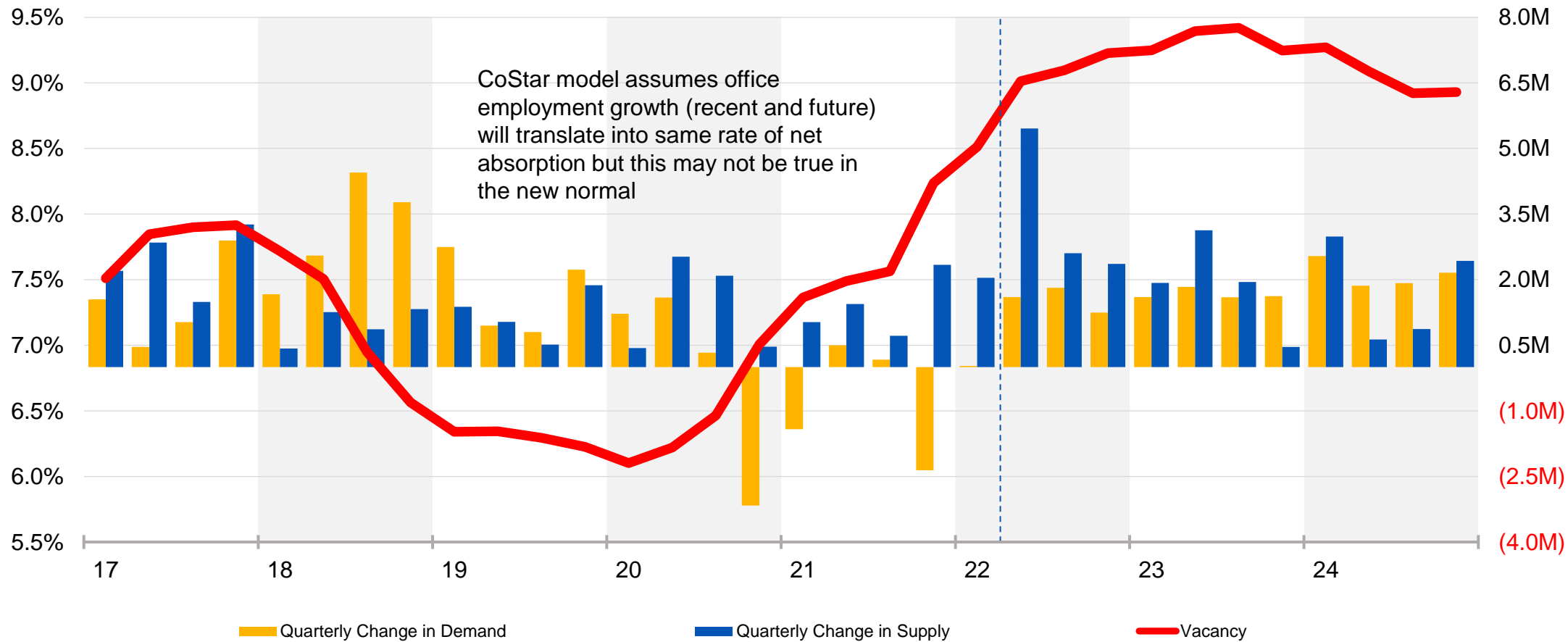


Sublease Space Elevated As Tenants Continue to Re-assess

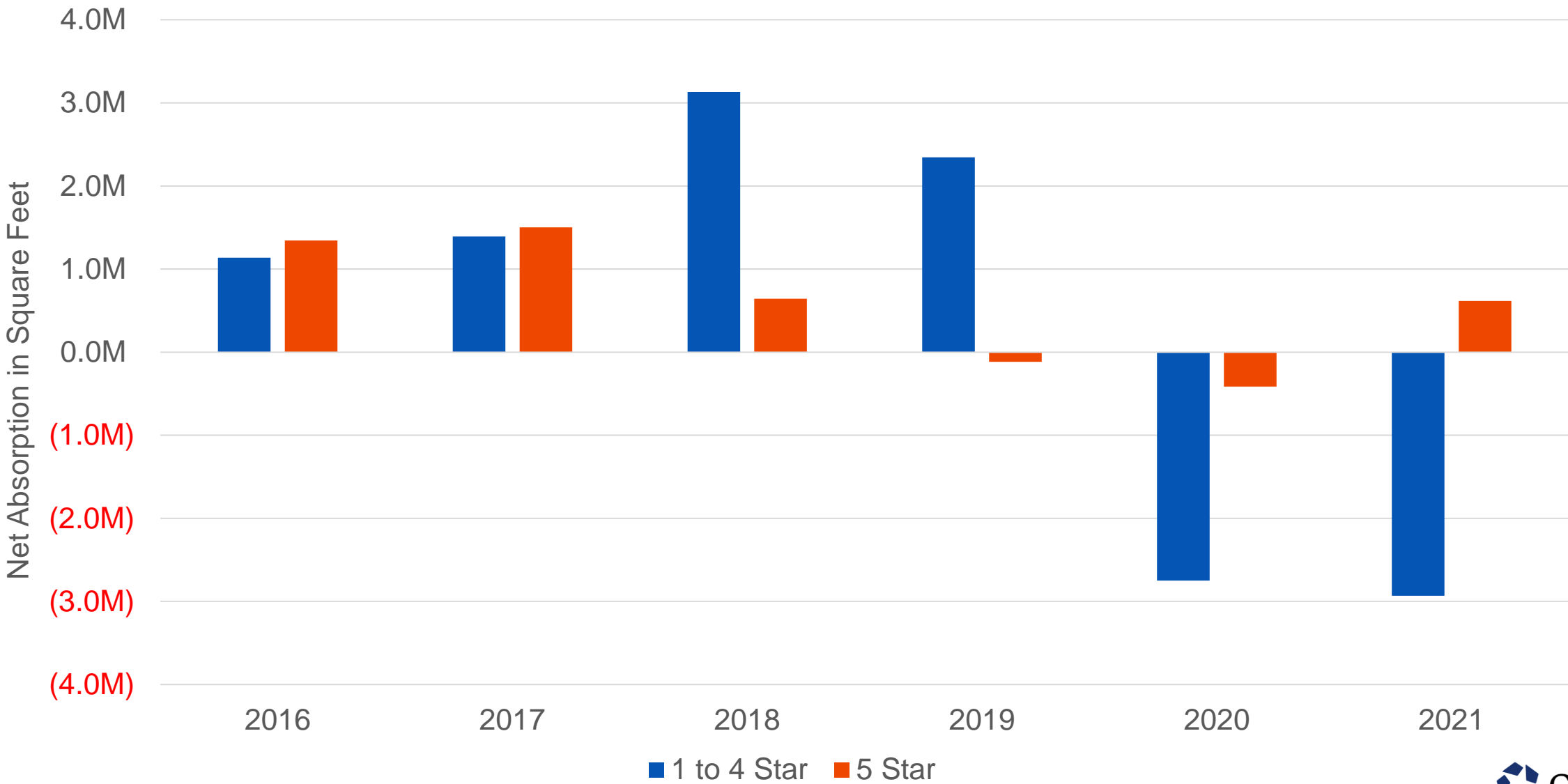


Office Market to Remain Firmly in Tenants Territory

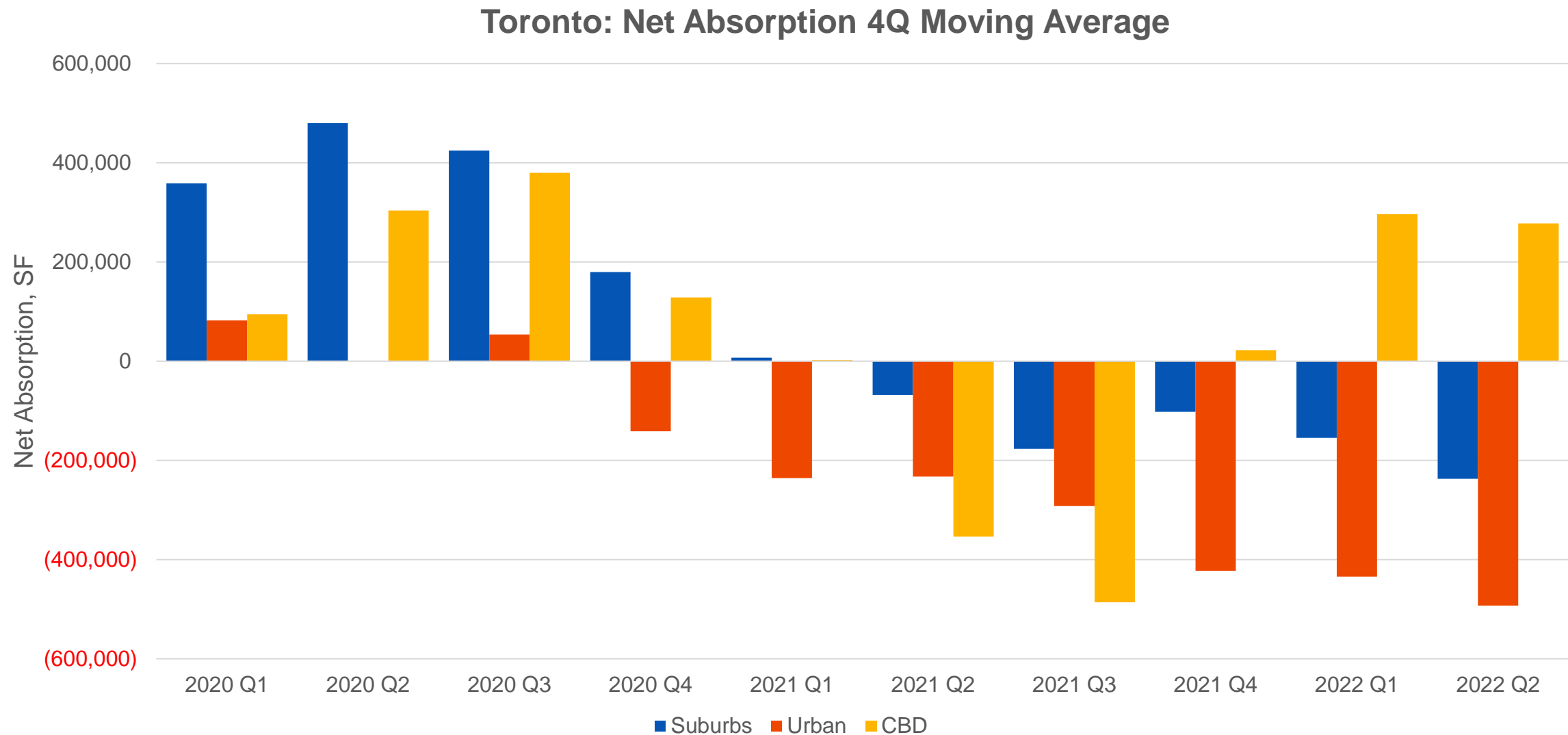
Canada Office Supply, Demand and Vacancy



Flight to Quality in Office Markets Has Just Begun

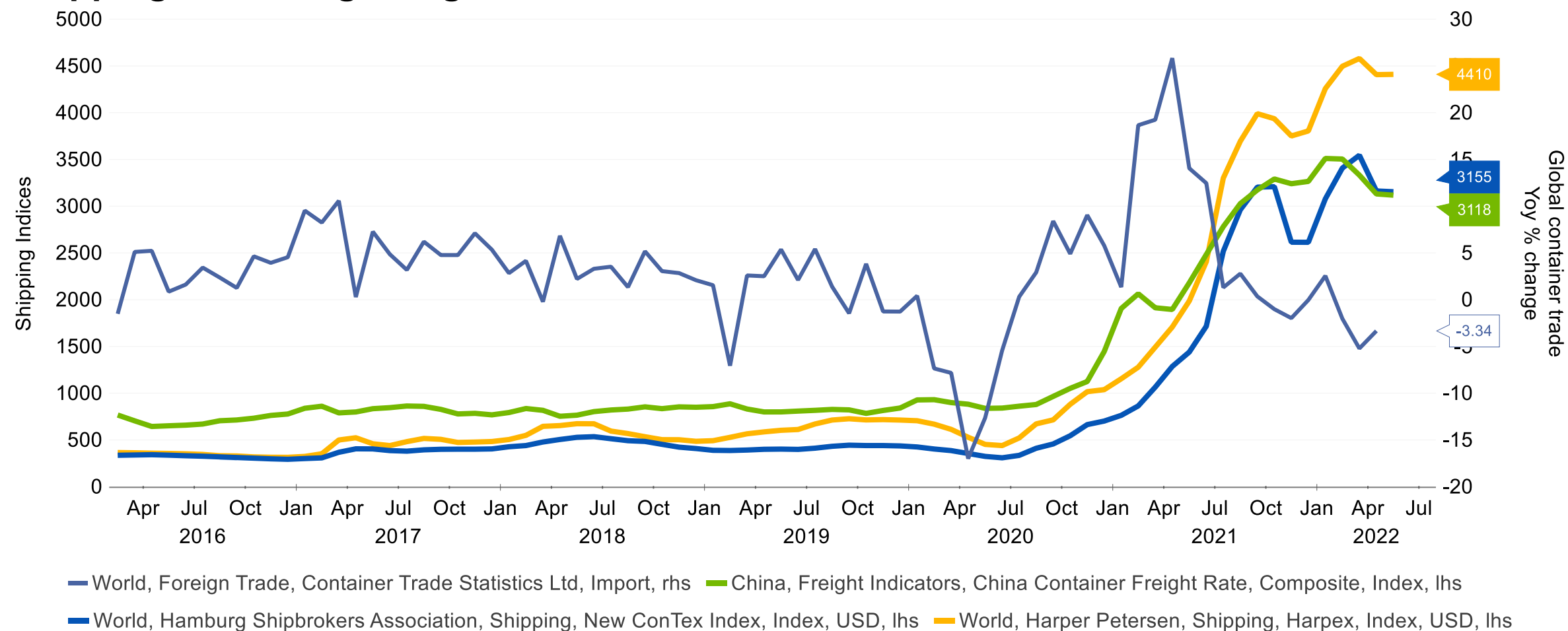


Suburbs, CBD Have Been More Resilient than Urban (Ex-Core) Areas



Container Traffic & Shipping Rates Remain Elevated

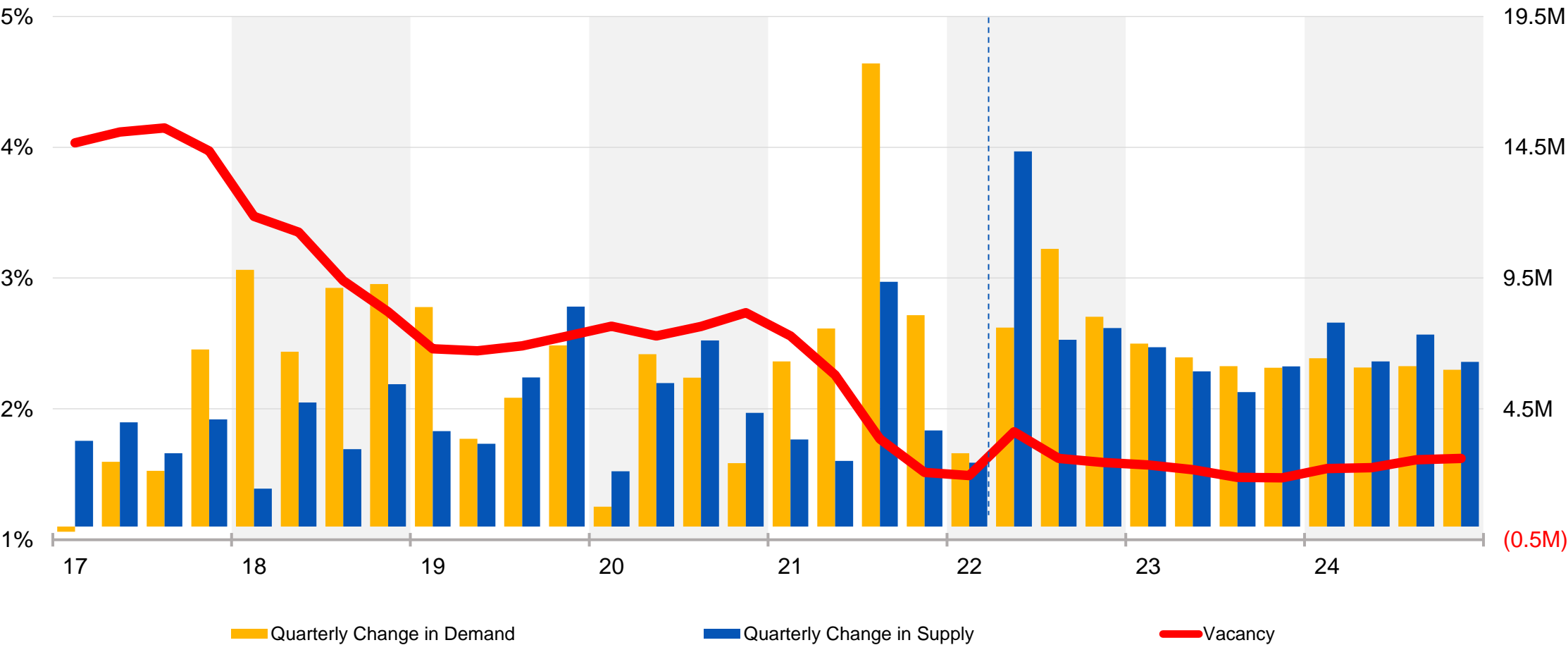
Shipping rates surge as global container trade rises



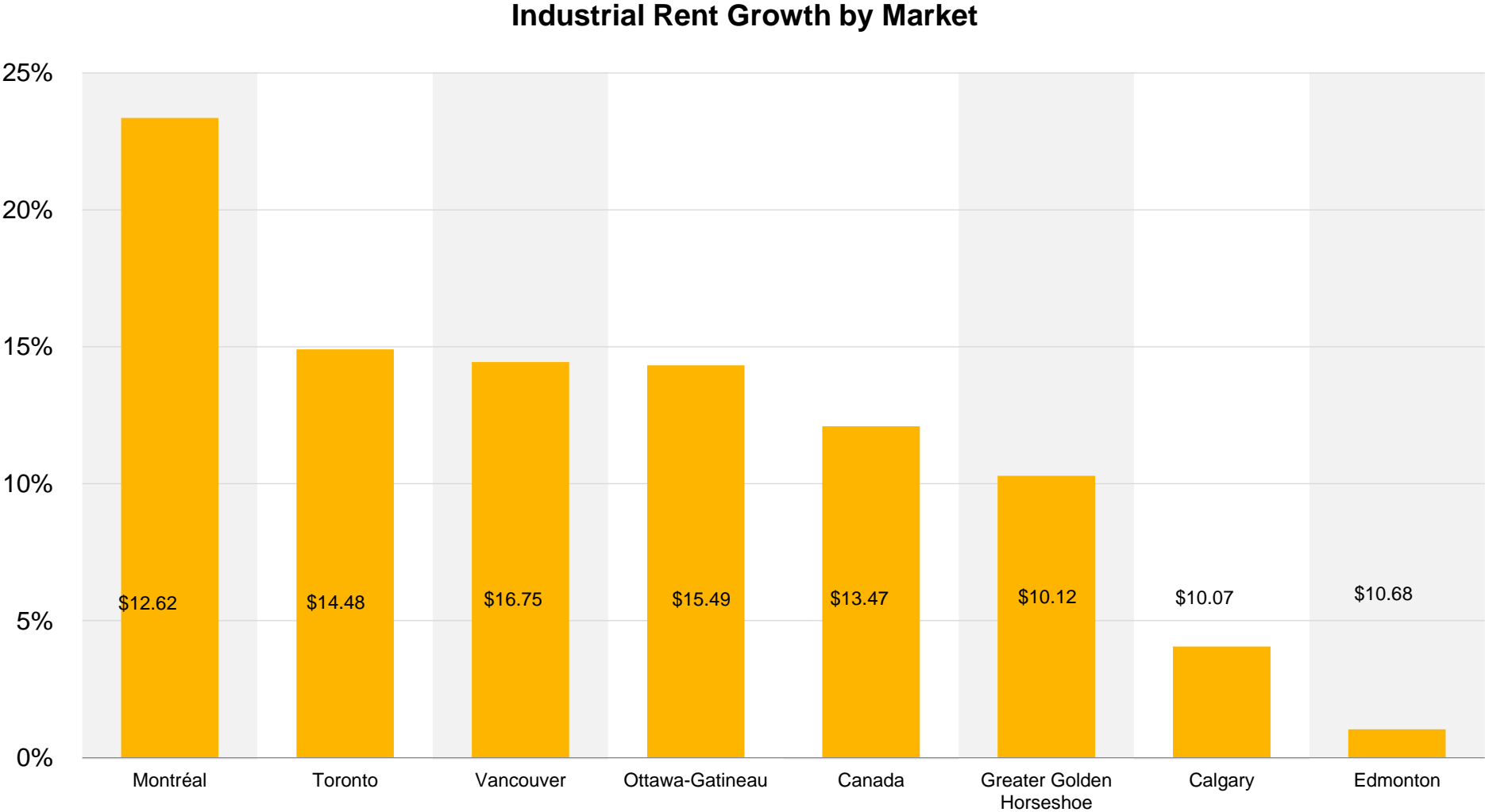
Source: Macrobond, Costar, MOT, Harper Petersen & Co., VHSS, CPB, Container Trades Statistics Ltd

Tight Industrial Market To Persist Indefinitely

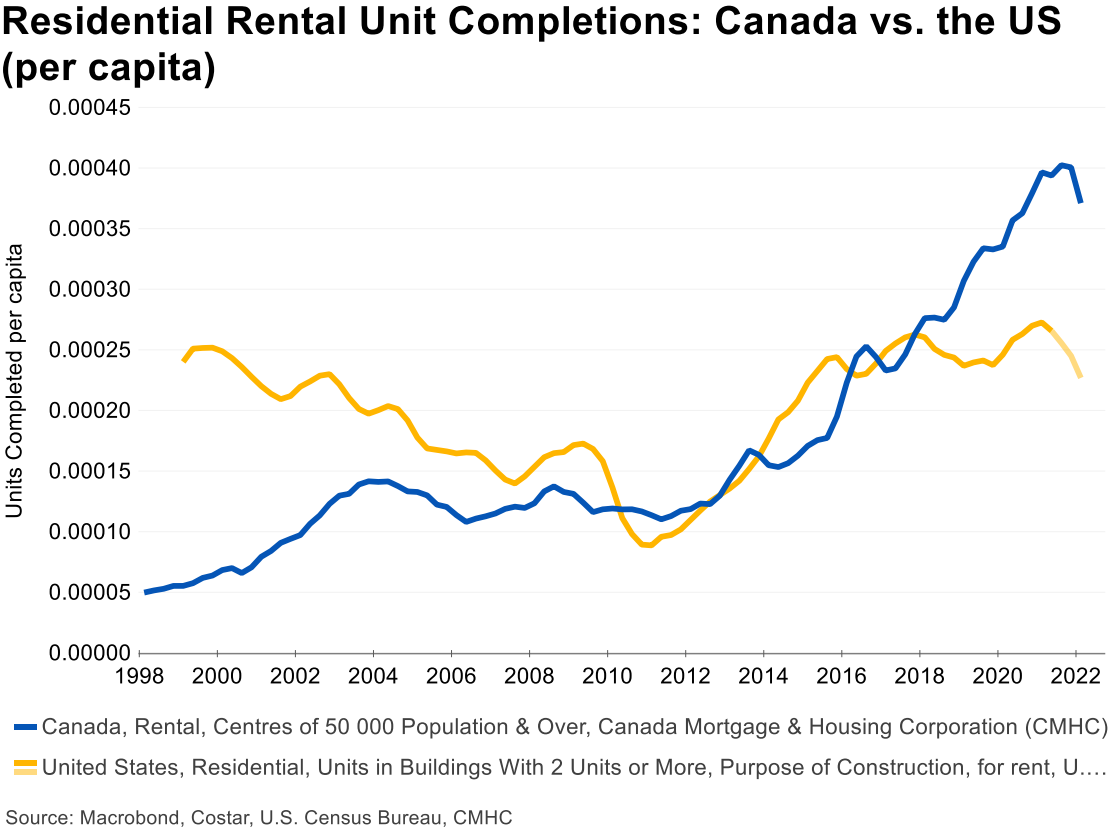
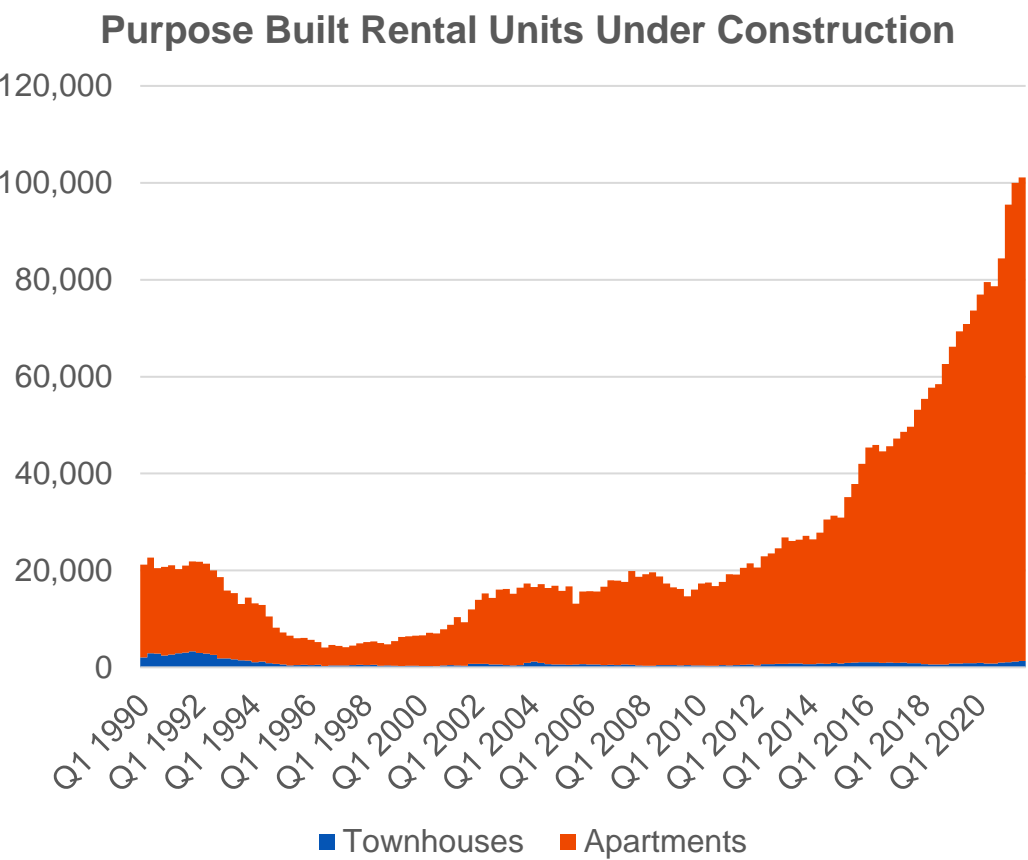
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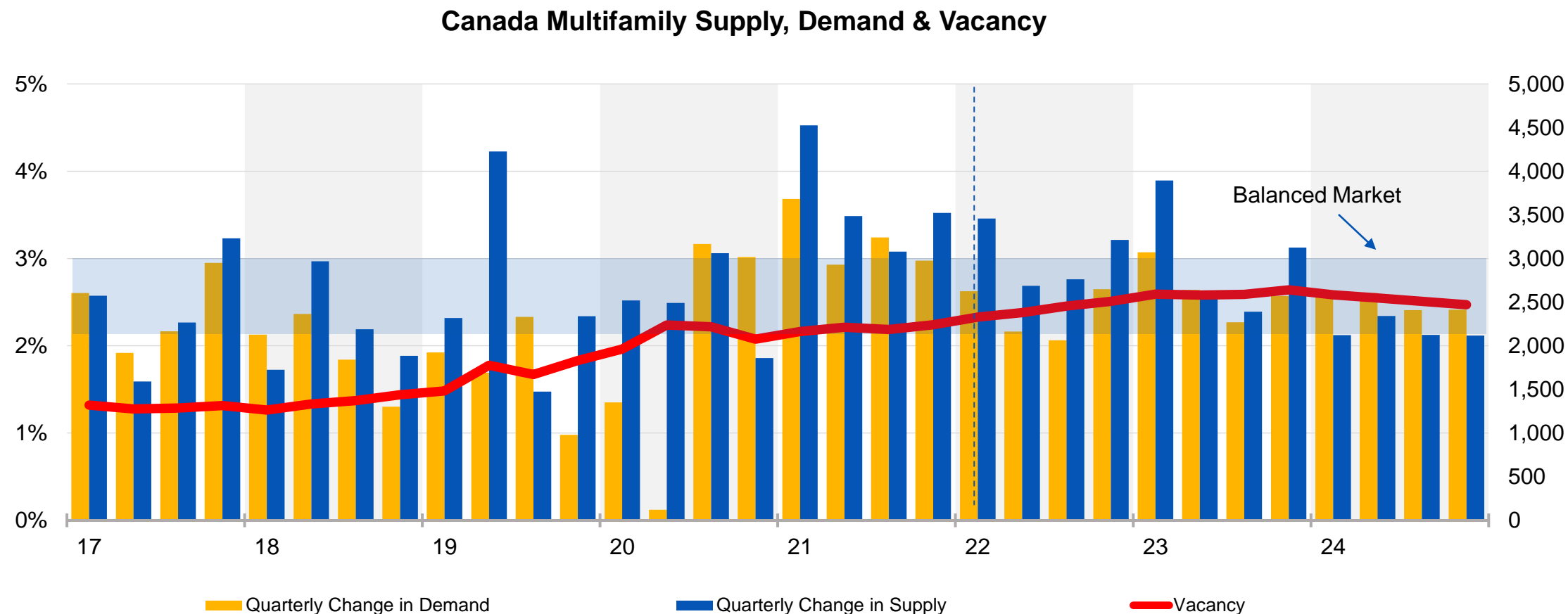
Record Rent Growth Especially in Supply Constrained Markets



Multifamily Purpose Built Rental Construction is Booming



Multifamily Market Conditions Less Tight But Significant Variation



Incoming Purpose-Built Rental Geared to Higher Incomes



The Stack At Bayview
The Brown Group of Companies

146 luxury rental apartments in 145,404sf

Estimated delivery Spring 2022
s



The Well – Building F
@ 450 Front St., Toronto (Downtown)

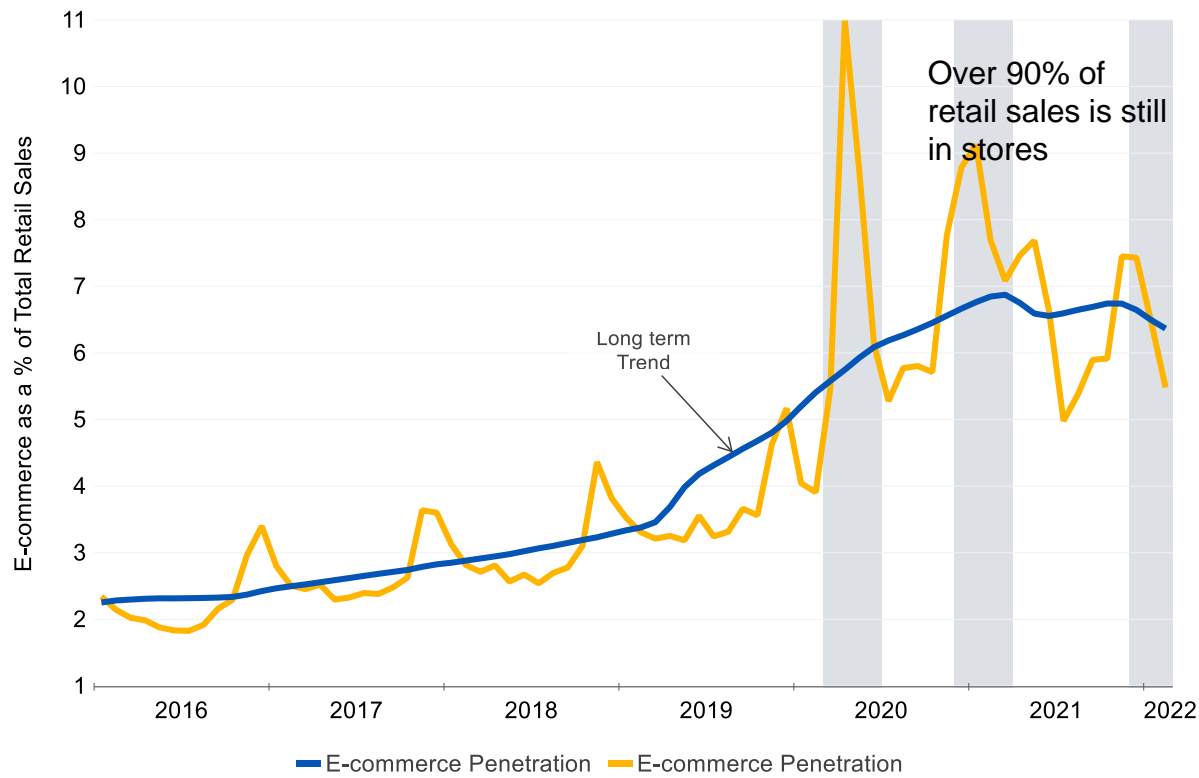
Under Construction

46-storey, 592 units

Part of the larger development including office towers, retail and condo towers

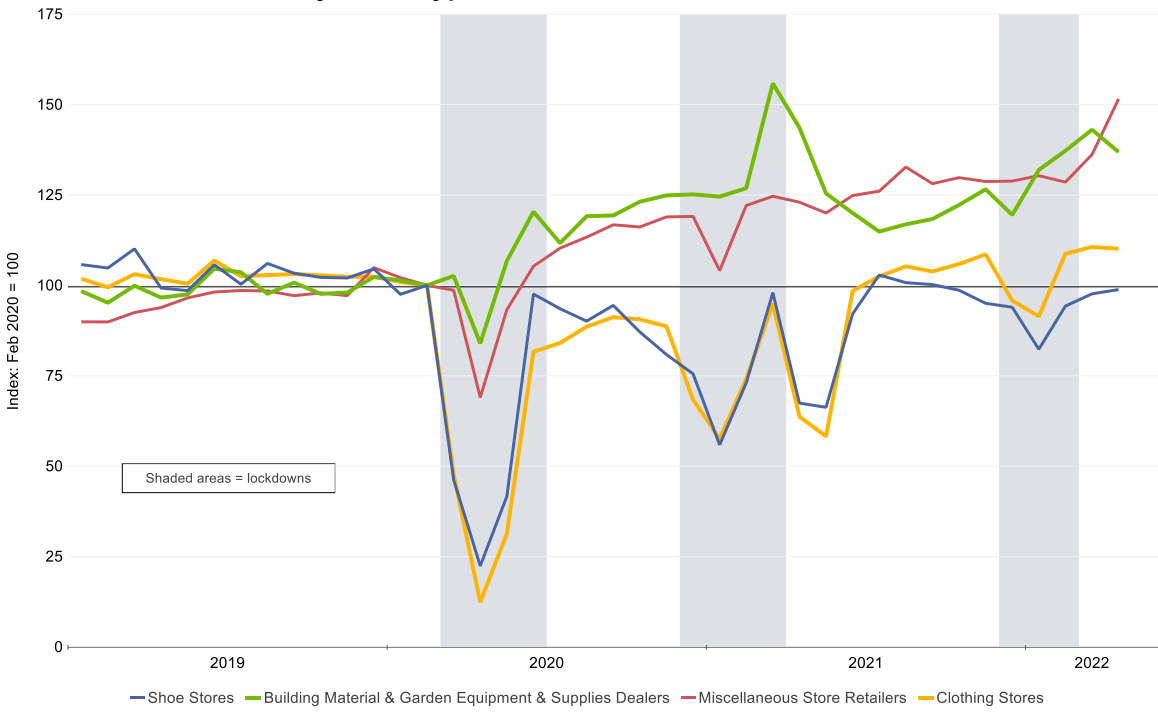
Retail Apocalypse Overstated

E-Commerce Penetration in Canada



Source: Macrobond, Costar, StatCan

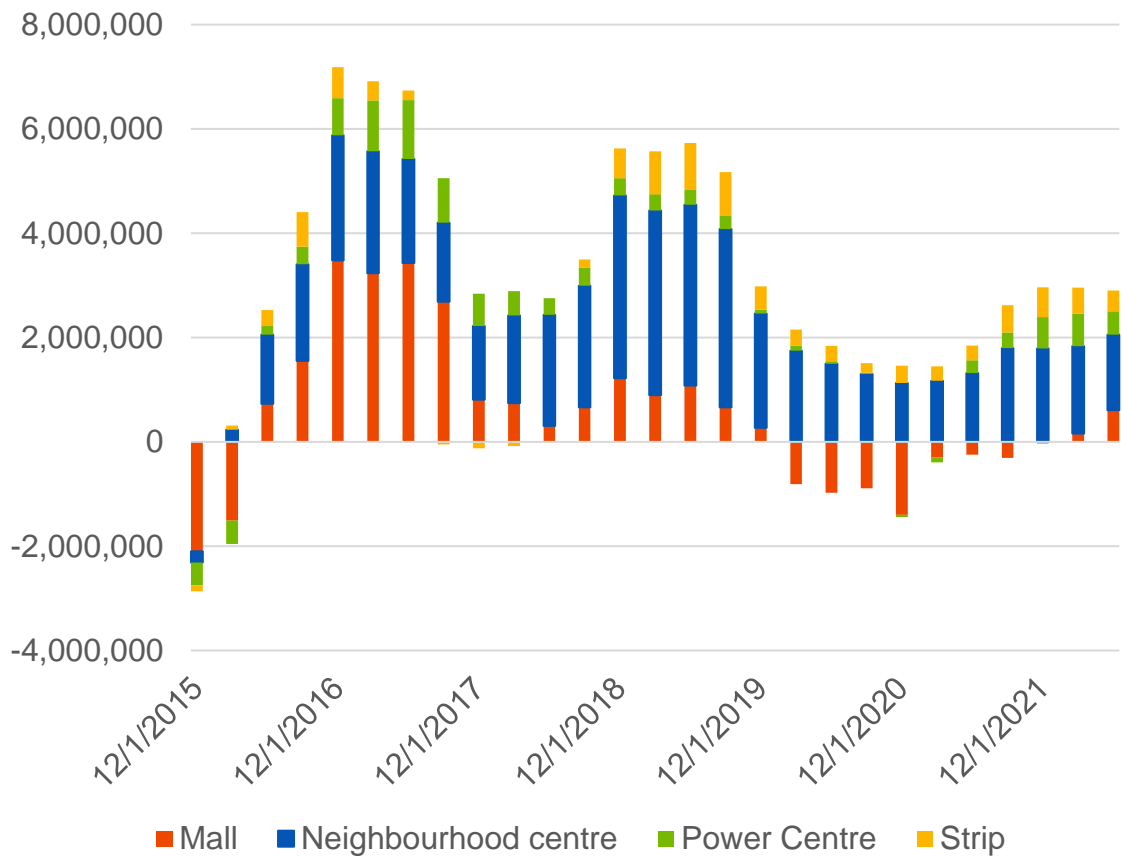
Canadian Retail Trade by Store Type



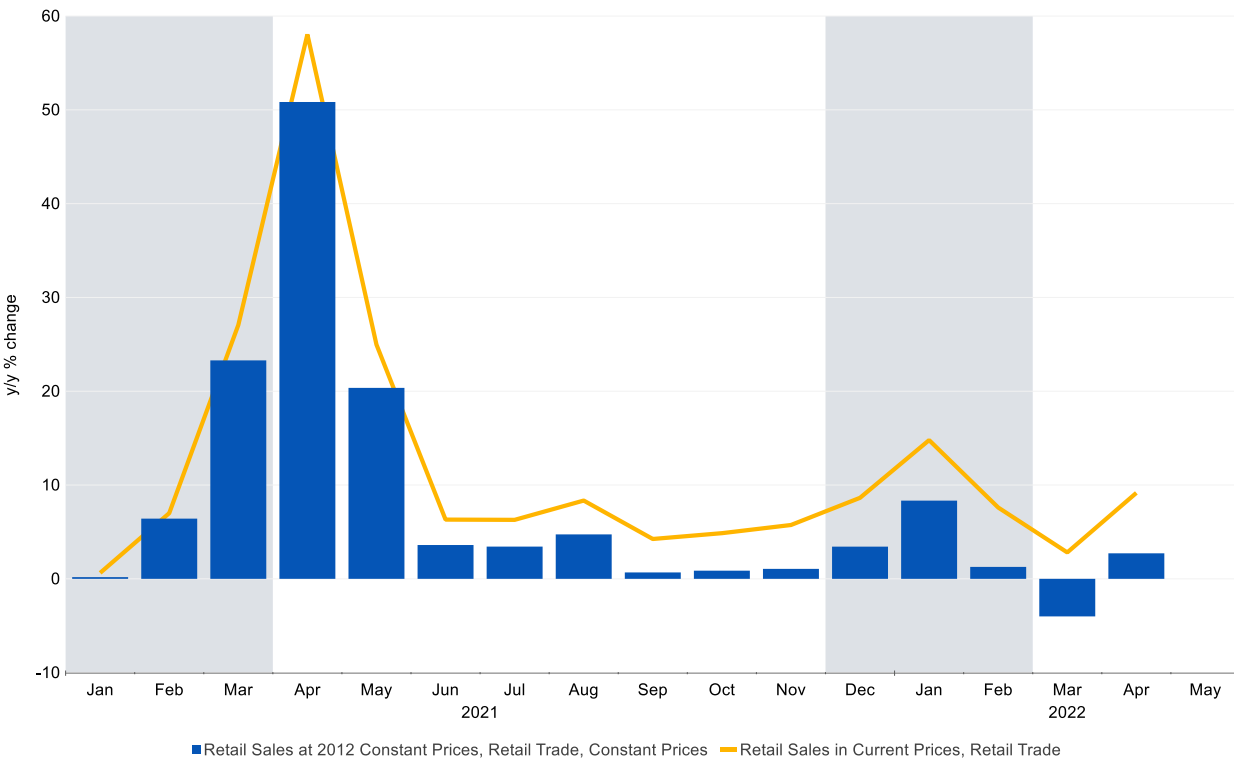
Source: Macrobond, Costar, StatCan

Retail Demand Recovers As Percentage Rents Boosted by Inflation

Rolling 12 Month Absorption by Store Type

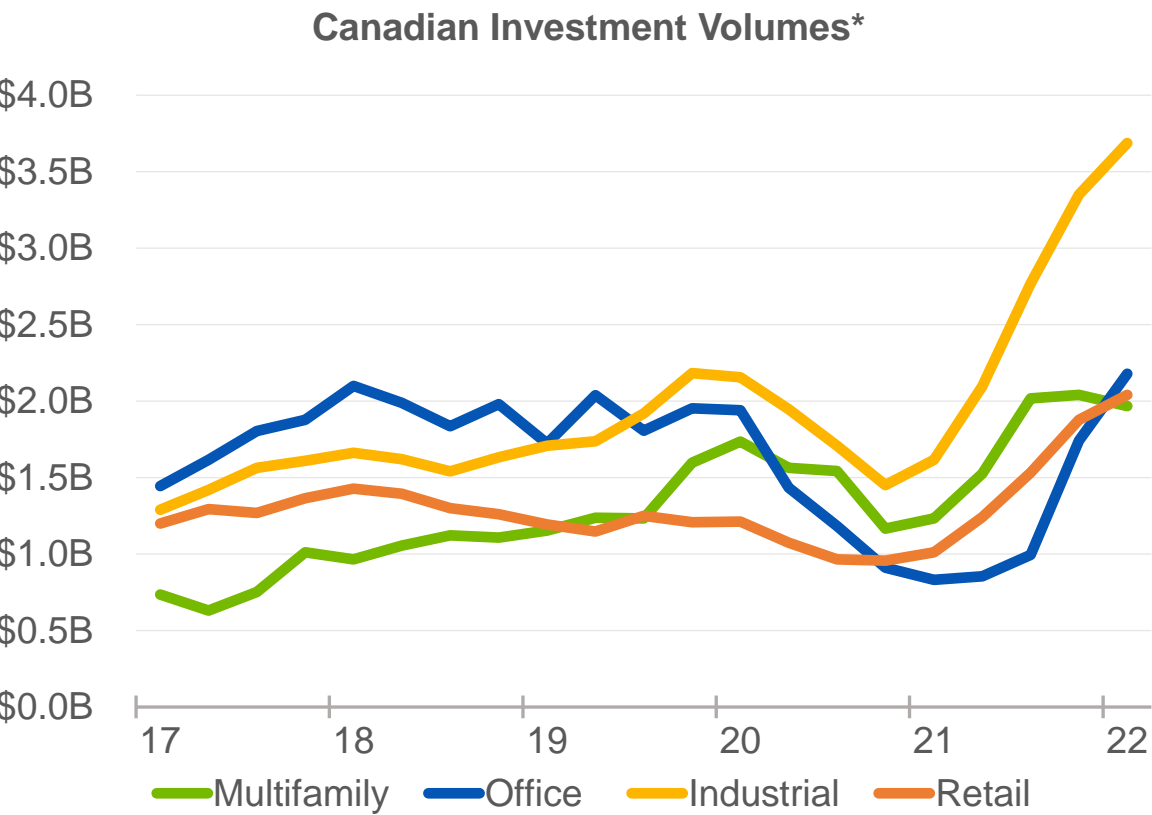


Retail Sales: Constant vs Current Prices

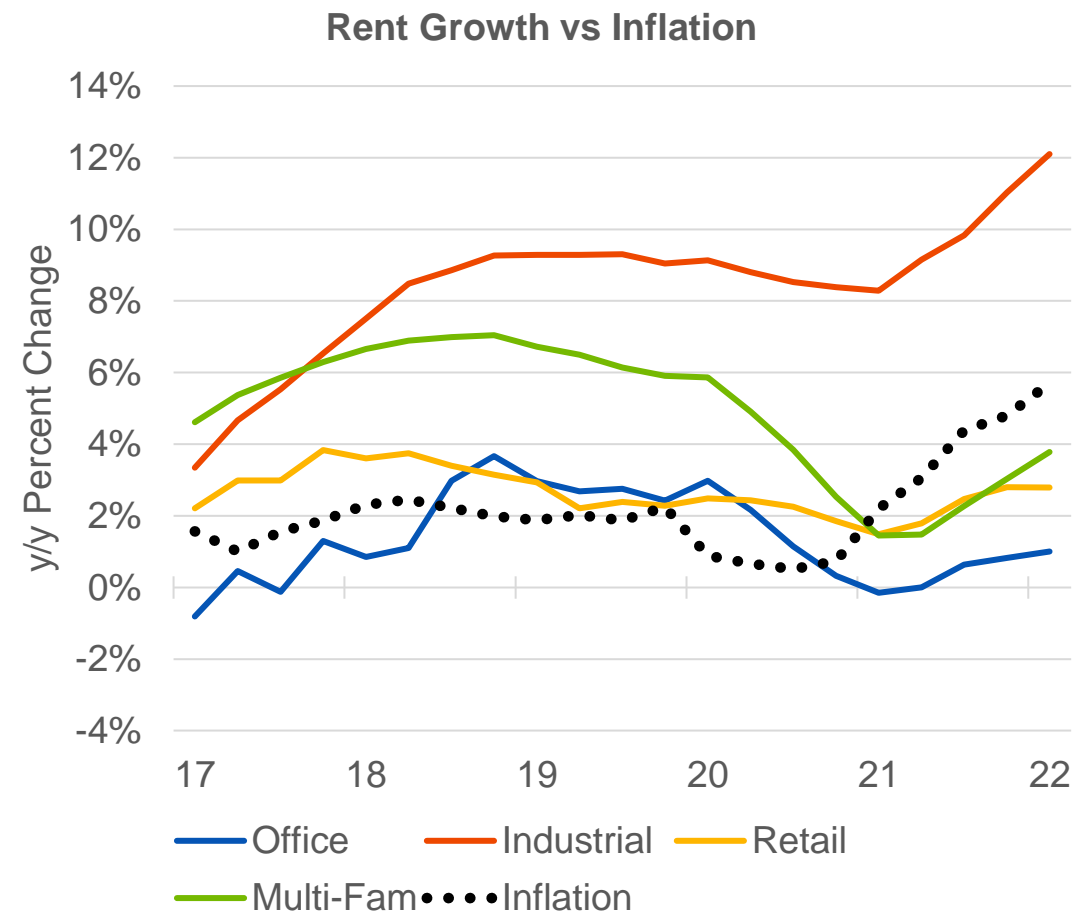


Source: Macrobond, Costar, StatCan

Deal Volumes Rebound / Investors Looking for Inflation Protection



* 4 Qtr Moving Average



Real Estate Investors Becoming More Cautious

TSX REIT Total Return Index by Sector



Source: Macrobond, Costar, TMX

Implications & Key Takeaways

- Recovery from the pandemic continues to unfold – inflation is accelerating mainly due to global supply constraints and recovering demand
- Inflation likely to trend higher than policy makers would like - interest rates to readjust to less ultra stimulative levels but recession risks are also growing– this is not your father’s stagflation....yet
- Property sector in a period of adjustment both cyclically and from a secular level. Long term drivers work against office but are highly supportive to industrial. Outlook for household-driven property types (multifamily/retail) depends mainly on local/regional demographics and relative supply conditions
- Less uncertainty and shifting portfolio allocations releases plenty of capital waiting on the sidelines – investors looking for growth as much as yield
- Industrial likely to remain the most favourable property type while investors increasingly scrutinize alternatives (data centres, life sciences) in search of mis-pricing opportunities
- As interest rates rise, returns will increasingly be driven by manufacturing value (development, repositioning, organic rent growth)