



RECAN GLOBAL

MUNICH · HALIFAX



CANADIAN REAL ESTATE MARKET UPDATE

June 2023

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Canadian Real Estate Market Update



Canada's Geopolitical Position

- ✿ Politically Stable – current government has been in power for **8 years**
- ✿ Canadian economy is comparatively strong and resilient (2023 GDP Forecast: **Canada 1.5%** vs **Germany - 0.1%**) benefitting from strong government investment during the pandemic
- ✿ Inflation in Canada is declining at a quicker pace than EU countries (**Canada 3.0%** 2023 CPI forecast vs **Germany 6.2%** CPI forecast)
- ✿ Canadian GDP was 3.1% in Q1 2023 and the Bank of Canada forecasting that GDP growth in Canada will remain positive for the remainder of 2023 (no recession)
- ✿ The war in Ukraine is having a diminished impact on Canada, as trade with countries directly affected by the war is minimal.
- ✿ The US continues to be Canada largest trading partner with the implementation of the updated Canada/US/Mexico trade agreement. Canada remains focused on increasing trade with the EU.
- ✿ Energy Self-sufficiency – **Canada is a net exporter of oil, natural gas, and electricity, meaning** we produce more of each commodity than we consume. Quebec produces 1/3 of all electrical production in Canada and over 99% of that production is from renewable sources (hydro-electric, wind, solar)

Sources: OECD, IMF, Bank of Canada, globalpetrolprices.com, Canada Energy Regulator, IMF



Canada's Geopolitical Position

🇨🇦 **Safe Harbour – Canada is a politically and economically stable G7 country**

- Canada has one of the world's most stable social and economic environments with a AAA-credit-quality rating and one of the most stable banking systems, ranking #1 in the G7 and 2nd in the world
- The Bank of Canada has an excellent track record of maintaining GDP growth while keeping inflation within its target range
- Canada produces more oil, natural gas, and electricity than it consumes and is not reliant on any foreign country for its energy security.
- Canada has signed multiple trade agreements and tax treaties with the EU and member countries, with the EU becoming a “favoured” trade partner of Canada.
- The Canada-European Union (EU) Comprehensive Economic and Trade Agreement (CETA) will increase capital flows between Canada and EU and lower regulatory barriers.
- RECan team members are local in Canada. They understand the markets and the economic environment and have deep experience in the Canadian real estate markets.

🇨🇦 **Economic Growth - Immigration is a key driver of growth and real estate demand**

- Canada is targeting greater than 1% of its population in new immigration each year, with 60% of new immigrants entering Canada through economic/financial immigration programs
- Immigration and GDP growth are driving strong demand in the multi-residential sector, resulting in low vacancy rates (3% nationally) and strong year-over-year rent increases
- Canadian employment far exceeds pre-pandemic levels, helping to drive demand in all real estate sectors

Canadian Real Estate Market Update



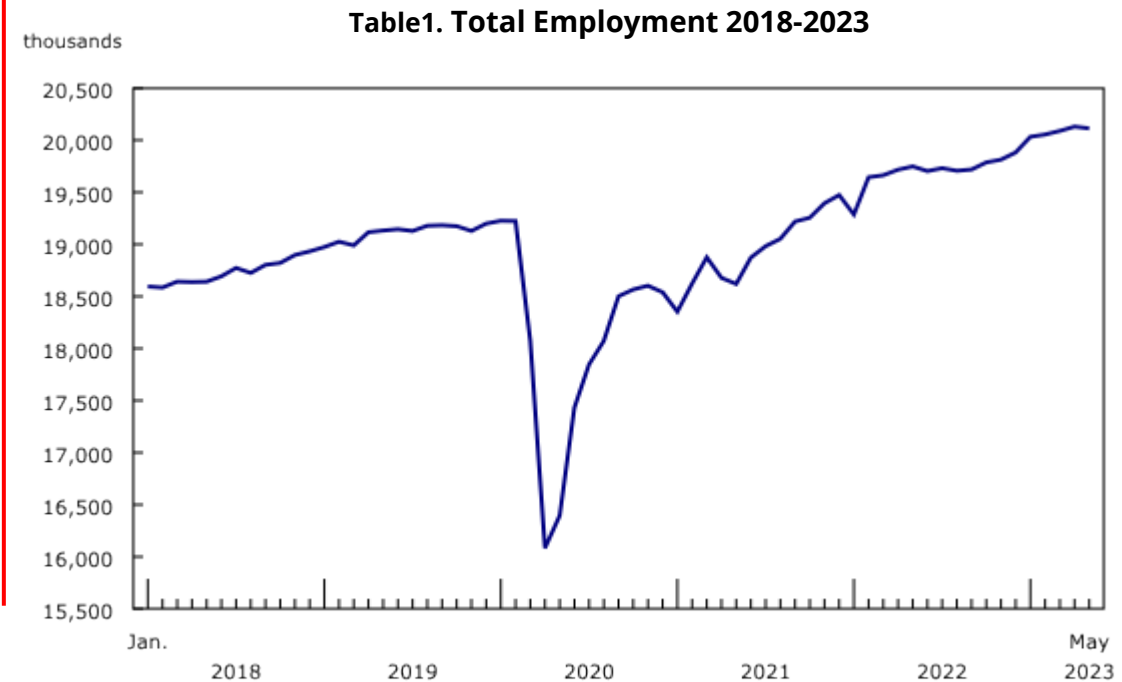
Economic Update

GDP & Labour Growth

- The Bank of Canada forecasts Canadian GDP Growth will slow in the 2nd half of 2023 but will remain positive.
- 2023 Forecast Canadian **GDP growth: 1.5% (0.6% EU, 1.6% US)**. In contrast, the IMF expects GDP in Germany to decline by 0.1% in 2023.
- Canadian GDP growth is forecasted to accelerate in 2024 as demand for commodities and other Canadian exports increase.

- **Employment** continues to increase, well beyond pre-pandemic levels

- Full-time employment in May 2023 was 20.11 million people (unemployment rate of 5.2%) compared to 19.14 million in February 2020 (pre-pandemic). (Table 1)
- This represents a gain of 1 million jobs since the start of the pandemic and almost 4 million jobs from the pandemic-era lows.
- Canada added 250,000 jobs since the start of 2023. Job growth was essentially flat in May in the first sign that interest rate increases may be slowing the economy, which would be viewed positively in the market.



Sources: OECD, IMF, Bank of Canada, Statistics Canada

Canadian Real Estate Market Update



Economic Update

🇨🇦 Consumer Price Index in Canada (Table 2)

- **CPI was 4.4% (7.0% EU and 4.9% US)** in April 2023 (year-over-year) down 2.0% since the start of the year.
- Excluding food & energy, **Core CPI was 4.4%** in April as the gap between CPI and Core CPI disappears.
- The Bank of Canada is forecasting a **decline of inflation to 3% by the end of 2023** and back within its policy range of 2% in 2024.

🇨🇦 Cost of Capital

- The Bank of Canada (BoFC) recent pause to its “Policy Interest Rate” increases was reversed in early June, with a 0.25% increase.
- 10-year Government of Canada (GOC) bond yields have increased by 50+ bps since mid-May as the market reacts to stubborn inflation and stronger than expected GDP and employment growth (Table 3)
- Commercial and multi-residential mortgage spreads over the bond have, for the most part, remained stable, but the bond yield increases have increased mortgage costs

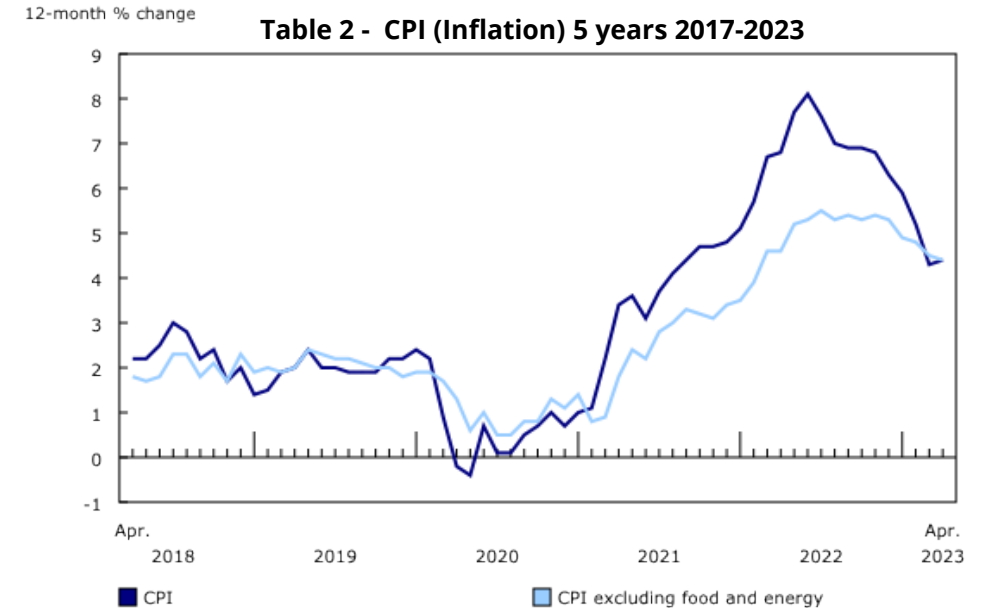


Table 3 - GOC 10-Yr Bond Yields



Sources: BofC, Statistics Canada, Europa.eu, CBRE, OECD, marketwatch.com

Canadian Real Estate Market Update



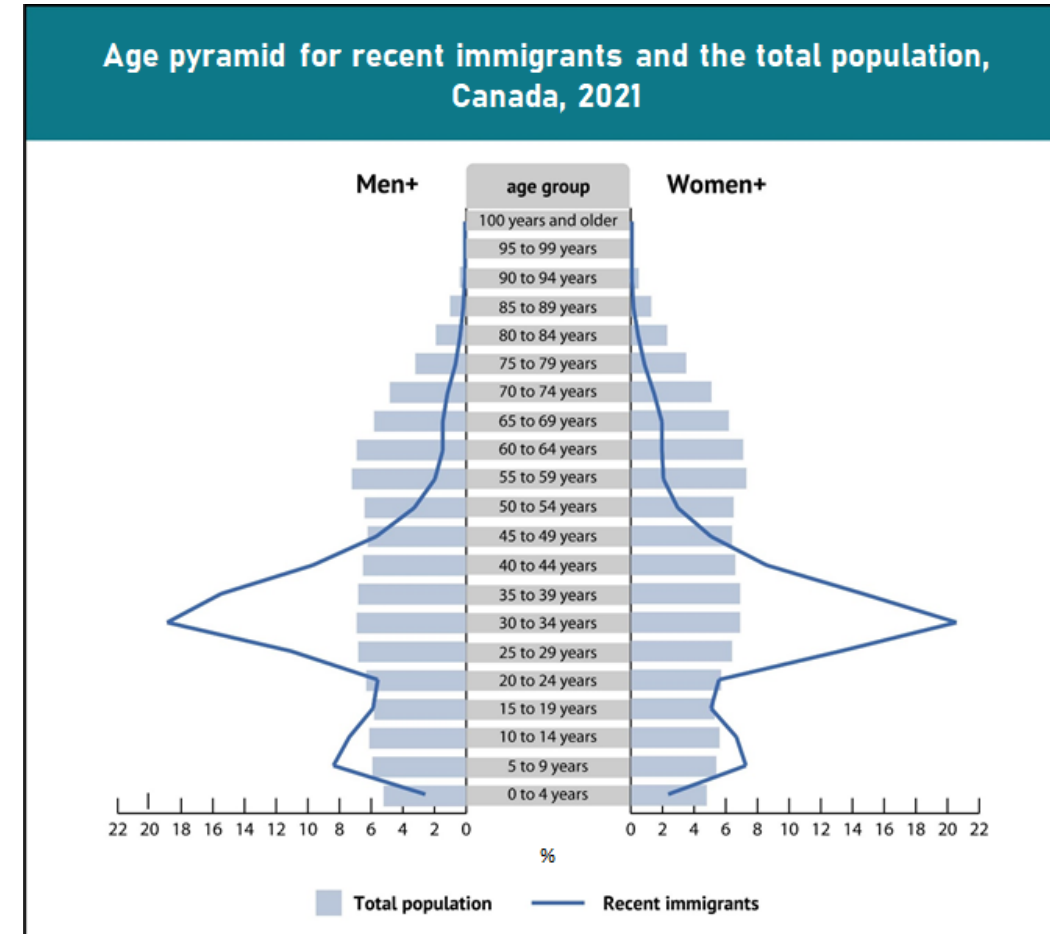
Immigration Update

Immigration

- Last fall Canada again increased its immigration target to 465,000 in 2023, 485,000 in 2024 and 500,000 in 2025.
- The 2023 target represents 1.2% of Canada's population. In context, 1.2% of Germany's population would be 1.0 million new immigrants each year. Germany currently is averaging 330,000 net new immigrants.
- 60%+ of new immigrants to Canada arrive through employment related immigration programs and another 26% through family reunification. Less than 14% of new immigrants since 2010 have been refugees.
- Between 2010 and 2022 over 80% of Canada's labour force growth has been through immigration, representing approximately 1.7 million new immigrants in the labour force.
- Close to 66.67% of recent immigrants are of "core working age", rejuvenating Canada's aging workforce population. (Table 4)
- **Increased immigration levels are helping to drive Canadian real estate markets. Not only do new immigrants rent housing and provide much need labour force growth, but given the level of economic immigration in Canada these immigrants are also helping fuel the comeback in the retail sector as well.**

Sources: Statistics Canada, Gov't of Canada

Table 4 - Age of New Immigrants vs Population



Canadian Real Estate Market Update



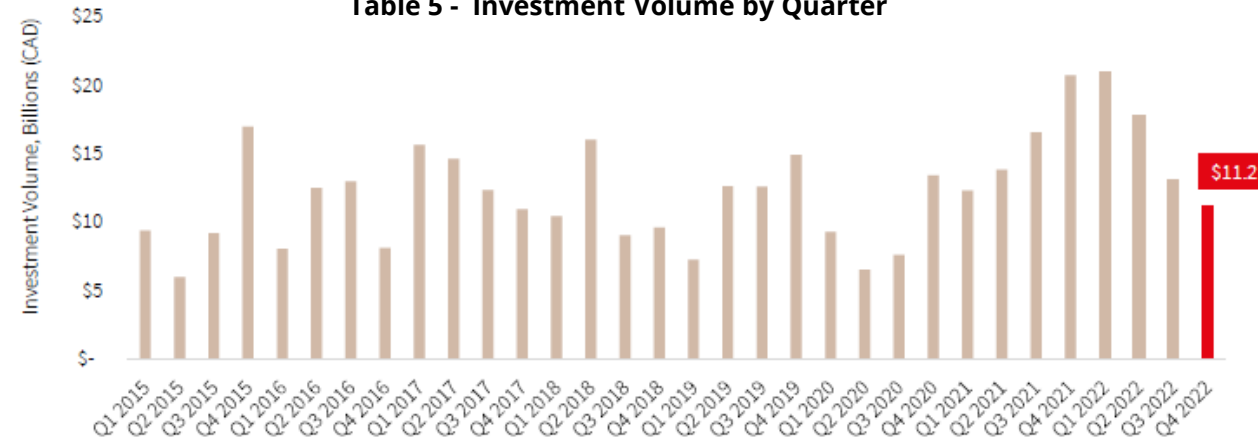
Canadian Real Estate Update

Canadian Real Estate Liquidity/Transaction Volume

- 2022 investment volume was a record \$63B CAD, reflecting a record 1st quarter, with declining volumes in each subsequent quarter as interest rates rose. (Table 5)
- Investment volume for Q1 2023 is expected to be similar to Q4 2022, with increasing volumes each quarter as price clarity will bring back the capital currently sitting on the sidelines.
- RECan's target markets in Eastern Canada set record deal volume in 2022, with over 80% of the total sales volume in Canada.
- The decline in volumes in in the 2nd half of 2022 reflects the increased cost of capital as interest rates rose, with 10 yr GOC Bond yields rising 170 bps in 2022.
- Capitalization rates in all asset classes have risen between Q2 2022 and Q1 2023, with the national average cap rate rising 63 bps.
- Industrial/Logistics continues to be the asset classes of choice
- Canada's resilient economy provides a strong and stable investment option for international investors

Source: CBRE, JLL

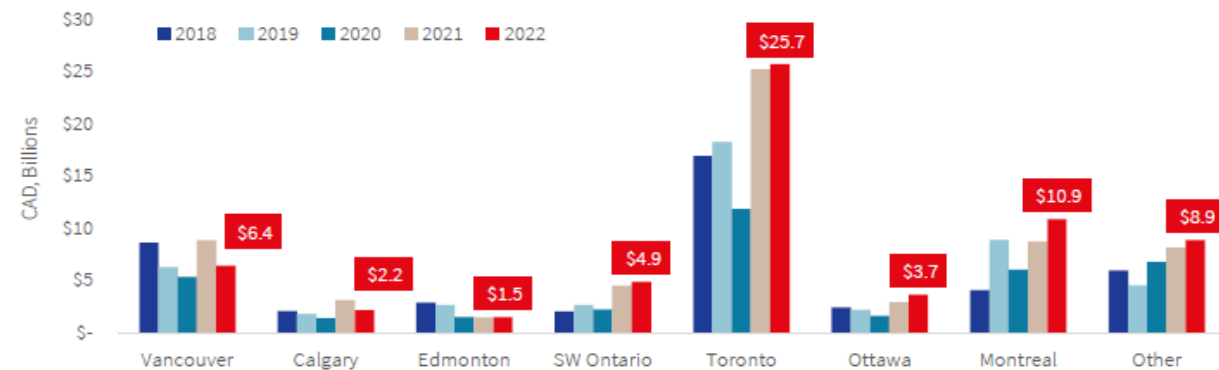
Table 5 - Investment Volume by Quarter



Source: JLL Research, Altus, Real Capital Analytics, Gettel Network
All transactions > \$5m, direct and entity level



Table 6 - Investment Volume by Region



Source: JLL Research, Altus, Real Capital Analytics, Gettel Network
All transactions > \$5m, direct and entity level

Canadian Real Estate Market Update



Canadian Real Estate Update

Capitalization Rates – Q1 2023

- Increases in bond yields put upward pressure on cap rates throughout 2022 and early 2023.
- The national average cap rate increased by 63 bps over the last 12 months. This is the first time in 14 years that the average cap rate saw a year-over-year increase.
- Uncertainty over “return-to-office” led a 104 bps increase in downtown office cap rates.
- Notwithstanding strong demand and rising rents Industrial cap rates rose 84 bps in the last 12 months
- Increased demand for both grocery-anchored retail, and retail with excess land for multi-residential development reduced the impact on retail cap rates.
- Investor demand for multi-residential assets and preferential mortgage rates through CMHC programs has also muted cap rate increases.
- With 10-year Government of Canada bond yields settling to below 3.0% the spread between average cap rates and the 10-year bond widened to 324 bps in Q1 2023. It is possible that both bond yields and cap rate spread may hold for much of 2023.

Table 8 - National Average Capitalization Rates by Asset Class

Asset Type	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Variance
						Q1 '22-Q1 '23
Office Downtown AA	4.88%	5.21%	5.54%	5.79%	5.92%	1.04%
Office - Suburban A	6.28%	6.58%	6.83%	6.97%	7.19%	0.91%
Industrial A	4.30%	4.55%	4.80%	5.03%	5.14%	0.84%
Retail (anchor strip)	5.69%	5.78%	5.95%	6.03%	6.20%	0.51%
Multi-Family High-Rise	3.65%	3.83%	3.87%	4.01%	4.04%	0.39%
Multi-Family Low-Rise	4.17%	4.29%	4.40%	4.38%	4.35%	0.18%
National Avg Cap Rate	5.49%	5.66%	5.89%	6.02%	6.12%	0.63%
10-yr GoC Bond Yield	2.41%	3.22%	3.17%	3.30%	2.88%	0.47%
Spread	3.08%	2.44%	2.72%	2.72%	3.24%	0.16%

Source: CBRE

Source: JLL Research, CBRE

Canadian Real Estate Market Update



Canadian Industrial/Logistics Market

2023 Q1 National Statistics

- ✦ The Industrial vacancy rate is now 1.2% nationally (availability 1.9%) as demand continues to outstrip new supply.
- ✦ Rental Rates increased by over 28% year-over-year, averaging \$15.99/ ft² or €175/m²
- ✦ Supply – 5.7M ft² (520,000 m²) of new supply in the 1st quarter, with an additional 46.2M ft² (4.2M m²) under construction,
- ✦ Size – The Canadian industrial market has in excess of 2 billion ft² (180M m²) of leaseable space, half of which is in the Toronto area. Toronto is the 3rd largest industrial/logistics market in North America

	VANCOUVER	CALGARY	EDMONTON	WINNIPEG	LONDON	WATERLOO	TORONTO	OTTAWA	MONTREAL	HALIFAX	NATIONAL
Net Rentable Area	211,226,267	149,359,485	147,873,483	85,953,694	41,429,235	116,517,969	818,167,745	36,060,771	324,455,679	14,078,667	1,945,122,995
Overall Availability Rate	1.9%	3.3%	5.5%	2.4%	0.6%	1.2%	1.2%	2.4%	1.4%	1.3%	1.9%
Quarter Net Absorption	661,304	101,180	205,442	-264,475	233,872	243,939	-319,298	298,186	-315,212	50,586	895,524
Year-to-Date Net Absorption	661,304	101,180	205,442	-264,475	233,872	243,939	-319,298	298,186	-315,212	50,586	895,524
Quarter New Supply	2,272,905	179,105	110,963	140,174	43,375	600,270	1,801,719	249,200	230,000	55,123	5,682,834
Year-to-Date New Supply	2,272,905	179,105	110,963	140,174	43,375	600,270	1,801,719	249,200	230,000	55,123	5,682,834
Under Construction	8,380,556	5,553,213	3,659,860	648,554	860,931	3,390,196	17,636,670	159,296	5,061,439	843,945	46,194,660
Avg. Net Rent (PSF)	\$21.33	\$10.81	\$10.65	\$11.01	\$9.67	\$12.66	\$17.77	\$14.00	\$16.65	\$9.96	\$15.99
Avg. TMI (PSF)	\$5.81	\$4.85	\$4.81	\$4.37	\$4.35	\$3.91	\$4.20	\$6.34	\$4.22	\$6.88	\$4.53
Avg. Sale Price (PSF)	\$600.00	\$210.00	\$158.37	\$135.00	\$179.76	\$254.30	\$380.33	\$316.62	\$222.80	\$250.00	\$270.72

Source: CBRE Research, Q1 2023.

Canadian Real Estate Market Update



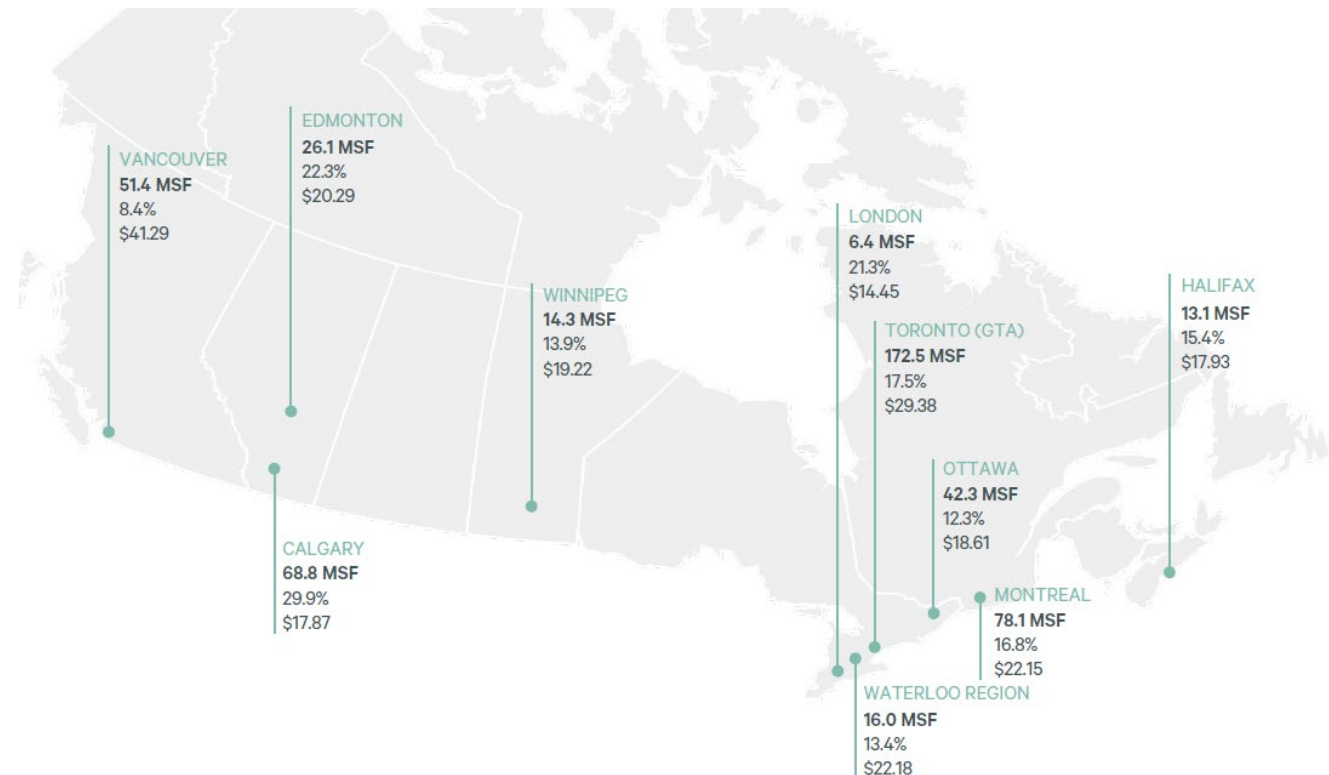
Canadian Office Market

2023 Q1 National Statistics

- ✦ The national average vacancy rate was 17.7% at the end of Q1 2023, with very large vacancies in Calgary and Edmonton offset somewhat by lower vacancies in RECan target markets Quebec City and Ottawa.
- ✦ Notwithstanding vacancy issues, Asking Net Rental Rates increased each quarter and are now at \$25.60/ft² (\$280/m²)
- ✦ Size – The Canadian office market has approximately 500M ft² (45M m²) of leaseable space

Key Highlights

- ✦ Return to work is increasing in 2023 with governments, banks and major corporations requiring all employees to work at least 2-3 days per week at the office.
- ✦ Smaller markets with smaller average tenant sizes are performing better than larger markets
- ✦ Continued job growth is expected to help fill office vacancies, as an increasing number of new hires are being required to work in the office.
- ✦ Plans continue to convert older Class B offices to apartments.



Source: CBRE

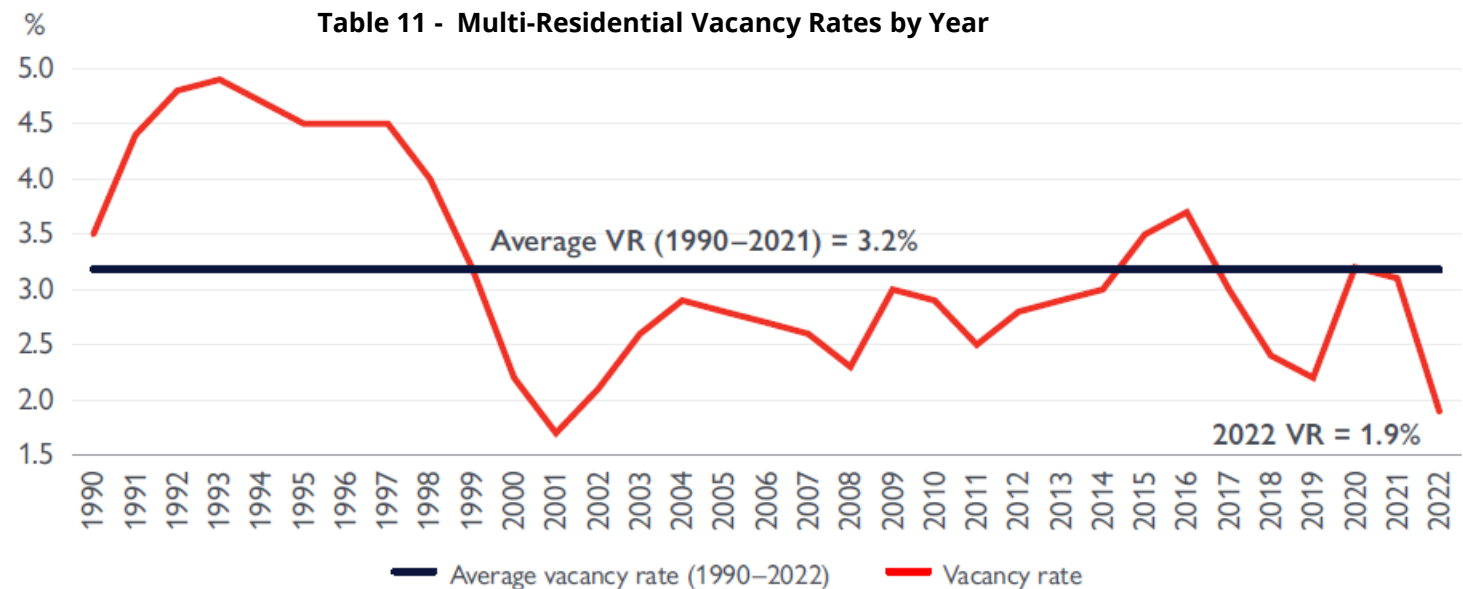
Canadian Real Estate Market Update



Canadian Multi-Residential Market

2022 Q4 National Statistics

- ❖ The National Vacancy Rate decreased by 120 bps to 1.9% in 2022 as the number of occupied units increased by 79,000 (3.8%) compared to new units supplied of 55,000.
- ❖ Vacancy dipped even further in RECan's target markets, dropping 140 bps to 1.8%
- ❖ Average Rental Rates have increased by \$123/month (8.0%) in the past 12 months as demand for housing accelerates, while the average rent of a vacant unit increased by \$692/month (41.1%)
- ❖ Drivers of demand include both immigration and the return of university students to campus. In addition, rising interest rates are making the cost of home ownership more difficult, keeping more people in the rental.
- ❖ Supply of new units needs to double in order to meet the annual demand of new immigrants



Source: CMHC

Canadian Real Estate Market Update



RECan Overview and Structure

RECan Overview/Structure

- Offices and Management Team in Munich, Luxembourg and Halifax Canada
- Partners each having between 20-32 years of real estate experience in Germany and Canada
- Umbrella Fund: RECan Canadian Diversified Real Estate Funds
 - Sub-Fund 1: [RECan Canadian Commercial Real Estate Fund I](#)
 - Sub-Fund 2: [RECan Canadian Multi-Residential Real Estate Fund I](#)
- Fund structure: SCS, SICAV-RAIF (Reserved Alternative Investment Fund), Luxembourg
- AIFM structure with Pancura providing investors with regulatory oversight and Pandomus providing central administration
- PG Asset Management Inc., a Canadian entity with common ownership to RECan Global, will provide exclusive, local asset sourcing, financing, and asset management services to the Funds
- External Independent Advisory Committee – oversight and direction
- Currency Hedging available through 7-Orca

Key Take-Aways – USP's

- German and Luxembourg based oversight for investor capital
- Local Canadian based team to execute on asset sourcing and asset management
- ESG: In addition to financial and technical criteria, RECan's ESG policy will be applied to acquisitions and asset management decisions. All RECan funds are compliant with Sustainable Finance Disclosure Regulations - Article 8.
- Fund Products positioned to take advantage of Canadian investment opportunities and deliver favorable risk adjusted returns
- Each sub-fund will be operated independently (no shared assets) and investors will have the ability to invest in one, or both sub-funds.
- Common regular Luxembourg SICAV-RAIF SCS structure with recognized partners and options like a securitization bond and currency hedging



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