RECAN GLOBAL

MUNICH · HALIFAX

CANADIAN REAL ESTATE MARKET UPDATE

MID-YEAR 2023

Canada's Geopolitical Position

- Politically Stable – The federal government has been in power for 8 years, with the next election scheduled for October 2025
- Canadian economy is comparatively strong (2023 GDP Forecast: **Canada 1.4%** vs **Germany 0.0%)** benefitting from strong government investment and a resilient labour market
- Inflation in Canada is declining at a quicker pace than EU countries (**Canada 3.3%** vs **Germany 6.2%** July 2023)
- In the span of six months the Bank of Canada has paused interest rate hikes, raised rates by 0.50% and then paused the rate hikes again.
- Canada has the lowest "net debt to GDP" in the G7 at 14.1% (Germany 46.7%, US 95.54%)
- The war in Ukraine is having a diminished impact on Canada, as trade with countries directly affected by the war is minimal.
- 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, Bank of Canada, globalpetrolprices.com, Canada Energy Regulator, IMF, www.statista.com

Mid-Year 2023 Canadian Real Estate Market Update

Economic Update

GDP & Labour Growth

- The Bank of Canada forecasts Canadian GDP Growth to remain positive in 2023
  - 2023 Forecast Canadian GDP growth: 1.7% (0.9% EU, 1.8% US). In contrast, the IMF expects GDP in Germany to shrink by 0.3% in 2023.
  - Canadian GDP growth is forecasted to remain stable in the 2nd half of the year and accelerate into 2024 as demand for commodities and other Canadian exports increase.
- **Employment** continues to increase, well beyond pre-pandemic levels
  - Full-time employment in August 2023 was 20.21 million people (unemployment rate of 5.5%) compared to 19.14 million in February 2020 (pre-pandemic). (Table 1)

Table1. Total Employment 2018-2023

- This represents a gain of over 1 million jobs since the start of the pandemic and 4.1 million jobs (25%) from the pandemic-era lows.
- Canada added 320,0000 jobs in YTD 2023.
- Notwithstanding the job gains this year the unemployment rate increased from 5.0% to 5.5% as more people enter the workforce through immigration.

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

Mid-Year 2023 Canadian Real Estate Market Update

Economic Update

- **Consumer Price Index** continues to decline in Canada (Table 2)
  - CPI in Canada was 3.3% (5.3% EU and 3.2% US) in July 2023 (year-over-year) up slightly from 2.8% in June This is down 2.0% since the start of the year.
  - The Bank of Canada is forecasting inflation to remain in the 3% range for the remainder of 2023 and to fall back to the 2% range in 2024.

- **Cost of Capital**
  - The Bank of Canada (BofC) has raised it's "Policy Interest Rate" by 75 bps in 2023, pausing rate hikes for a second time in September.
  - 10-year Government of Canada (GOC) bond yields have risen by 50 bps since the start of the year to reach their highest level since 2008. (Table 3)
  - Commercial mortgages are currently priced in the range of 170 bps-300 bps over the 5-year or 10-year GOC Bond, reflecting an interest rate of 5.25% - 6.5%. Multi-Residential mortgages are priced lower, equivalent to 75 bps – 100 bps over the bond, reflecting an interest rate of approximately 4.5% - 5.0%.

Table 2 - CPI (Inflation) 5 years 2018-2023

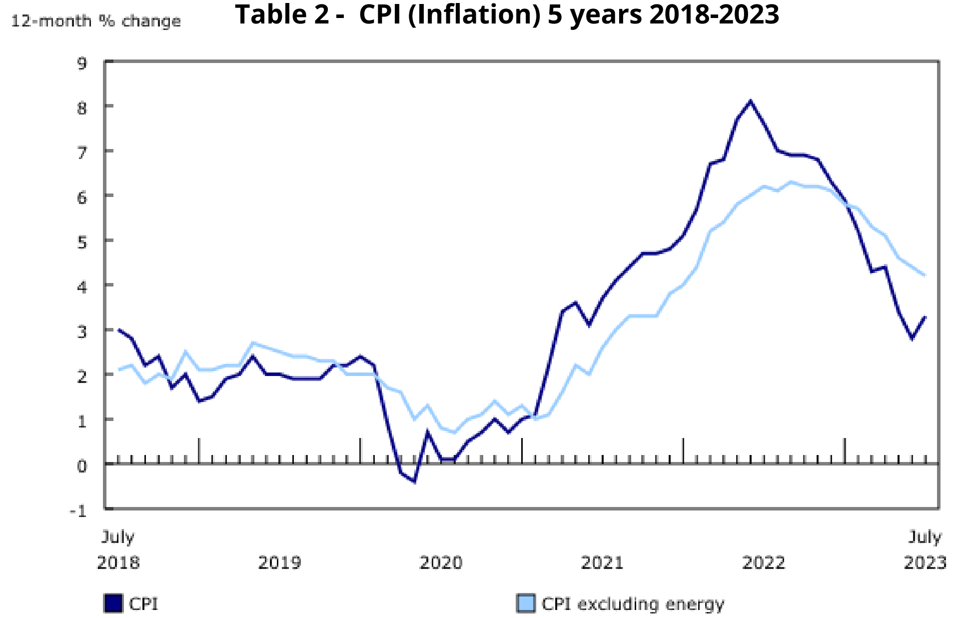


Table 3 - GOC 10-Yr Bond Yields

Sources: BofC, Statistics Canada, CBRE, OECD

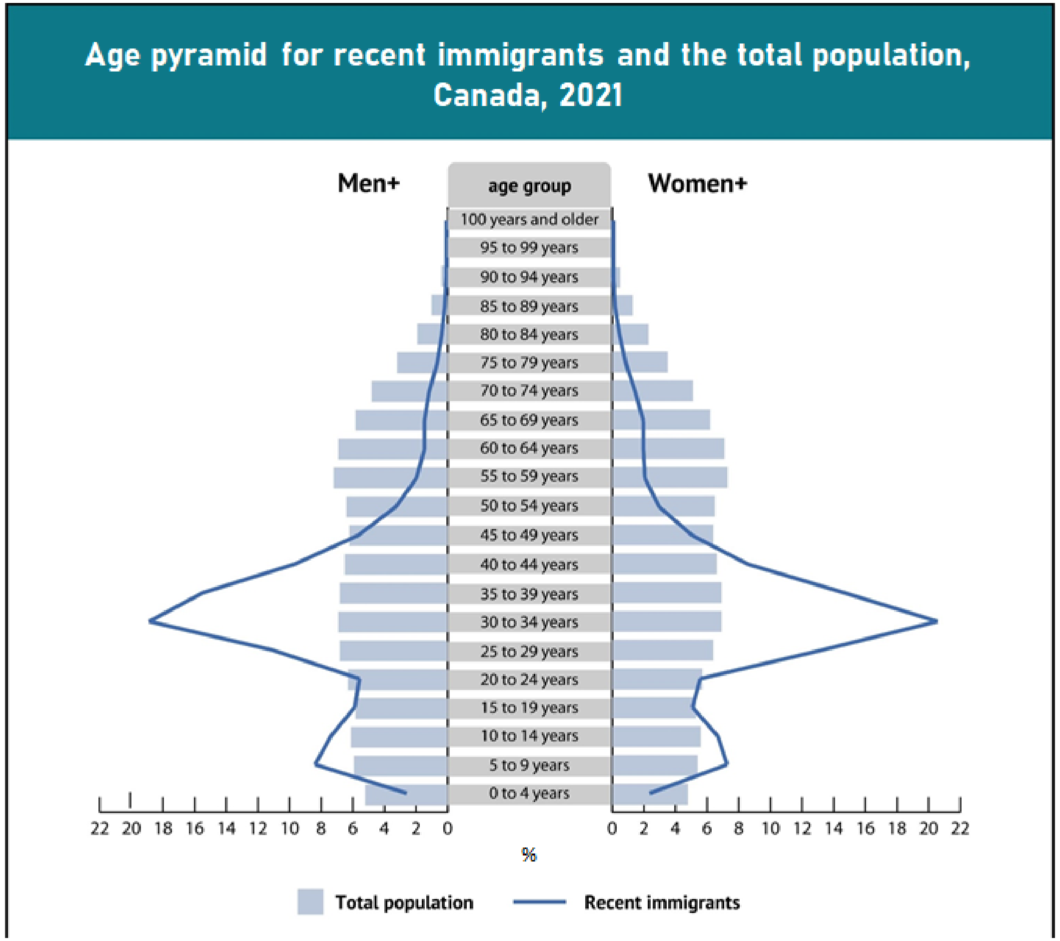
Economic Update

Immigration

- This fall Canada again increased its immigration target to 465,000 in 2023, 485,000 in 2024 and 500,000 in 2025. Notwithstanding the 2023 target, Canada is in track to welcome 520,000 new immigrants in 2023.
- 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

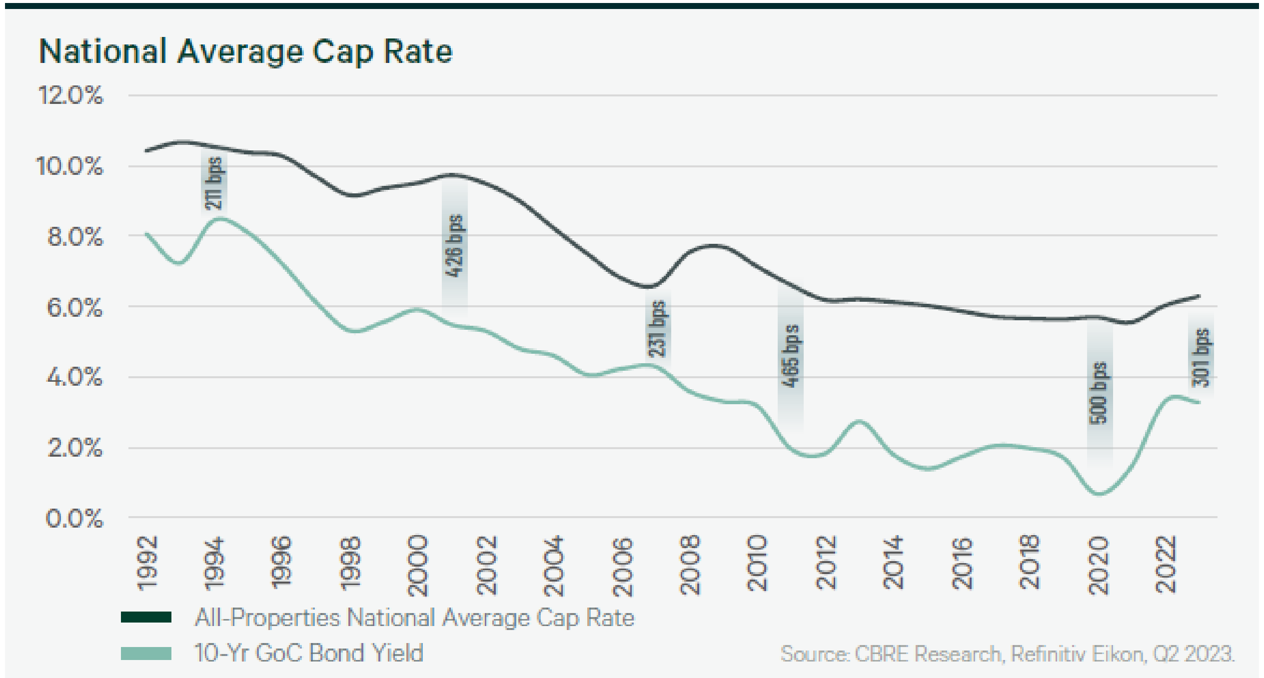


Canadian Real Estate Update

Canadian Real Estate Investment Market

- Real estate investment volumes remain "soft" and "muted" through the first half of 2023. It is expected that investment volume in H1 was $15-$20B, well below the $38B recorded in H1 2022.
- Rising bond yields have narrowed the spread between the 10 yr GOC bond and average cap rates to the 250 bps range (Sept 2023), well below historical averages.
- Investors will remain in "price discovery" mode until interest rates have stabilized.
- The majority of transaction in H1 have involved private investors, with institutional investors remaining on the sidelines.
- Capitalization rates in all asset classes rose between Q2 2022 and Q2 2023, with the national average cap rate rising 62 bps.
- Multi-family apartments continues to be the asset classes of choice, along with industrial/logistics. Strong neighbourhood retail (grocery/pharmacy anchored) also has been transacting.

Table 5 - Spread (Average Cap Rate to 10-Yr GoC Bond)



Source: CBRE, JLL

Canadian Real Estate Update

Capitalization Rates

- 10-year bond yields remained in the 3.20% range for most of the past year, but have increased by 40 bps to 3.67% over the past 2 months.
- The national average cap rate increased by 62 bps during the last 4 quarters.
- While office cap rates have increased an average of 85 bps over the past 12 months, industrial cap rates have risen by almost as much, reflecting rising interest rate pressure.
- Increased demand for both grocery-anchored retail, and retail with excess land for multi-residential development reduced the impact on retail cap rates.
- Cap rates of multi-family are now equal to or less than current mortgages rates (negative leverage), indicating an expected rise in multi-family cap rates.

Table 8 - National Average Capitalization Rates by Asset Class

Asset Type	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Variance Q2 '22-Q2 '23
Office Downtown AA	5.21%	5.54%	5.79%	5.92%	6.13%	0.92%
Office - Suburban A	6.58%	6.83%	6.97%	7.19%	7.39%	0.81%
Industrial A	4.55%	4.80%	5.03%	5.14%	5.38%	0.83%
Retail (anchor strip)	5.78%	5.95%	6.03%	6.20%	6.33%	0.55%
Multi-Family High-Rise	3.83%	3.87%	4.01%	4.04%	4.08%	0.25%
Multi-Family Low-Rise	4.29%	4.40%	4.38%	4.35%	4.37%	0.08%
National Avg Cap Rate	5.66%	5.89%	6.02%	6.12%	6.28%	0.62%
10-yr GoC Bond Yield	3.22%	3.17%	3.30%	2.88%	3.27%	0.04%
Spread	**2.44%**	**2.72%**	**2.72%**	**3.24%**	**3.02%**	**0.57%**

Source: CBRE

- With the rise in 10-year bond yields to 3.67% (Sept 2023) the spread between cap rates and bond yield has dropped to 250 bps. There will be continued upward pressure on cap rates until this spread widens to 325 bps – 400 bps, allowing for sufficient, ”accretive” mortgage financing.

Source: JLL Research, CBRE

Mid-Year 2023 Canadian Real Estate Market Update

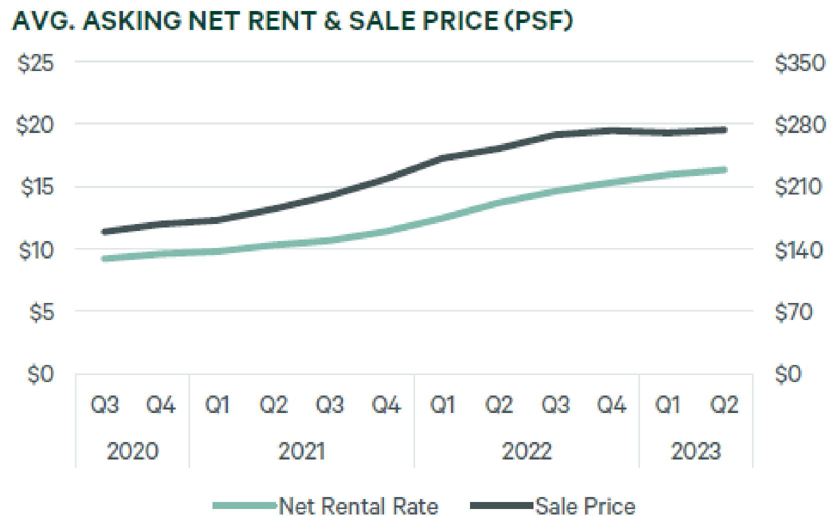
Canadian Industrial/Logistics Market Update

2023 Q2 National Statistics

- Industrial Vacancy rates rise to 2.1% nationally as new supply helps moderate strong demand. Current vacancy is well below the 15 yr average of 4.8%.
- Asking Rental Rates increased 19% in the past 12 months, with every major market now reporting average asking rents over \$10/ ft^2.
- Supply – 13M ft^2 of new supply in H1 2023, with an additional 44M ft^2under construction.
- Asking rental rates have increased by just over 50% since the start of the pandemic, while average sale price per square foot has almost doubled to \$280/ ft^2

Key Highlights

- Demand continues to be driven by supply chain/logistics requirements, along with e-commerce/fulfillment centre demand.
- RECan's target markets account for 66.2% of the 2.1B ft2 (190M m2) of inventory in Canada's major urban markets



Source: Colliers, JLL, Altus

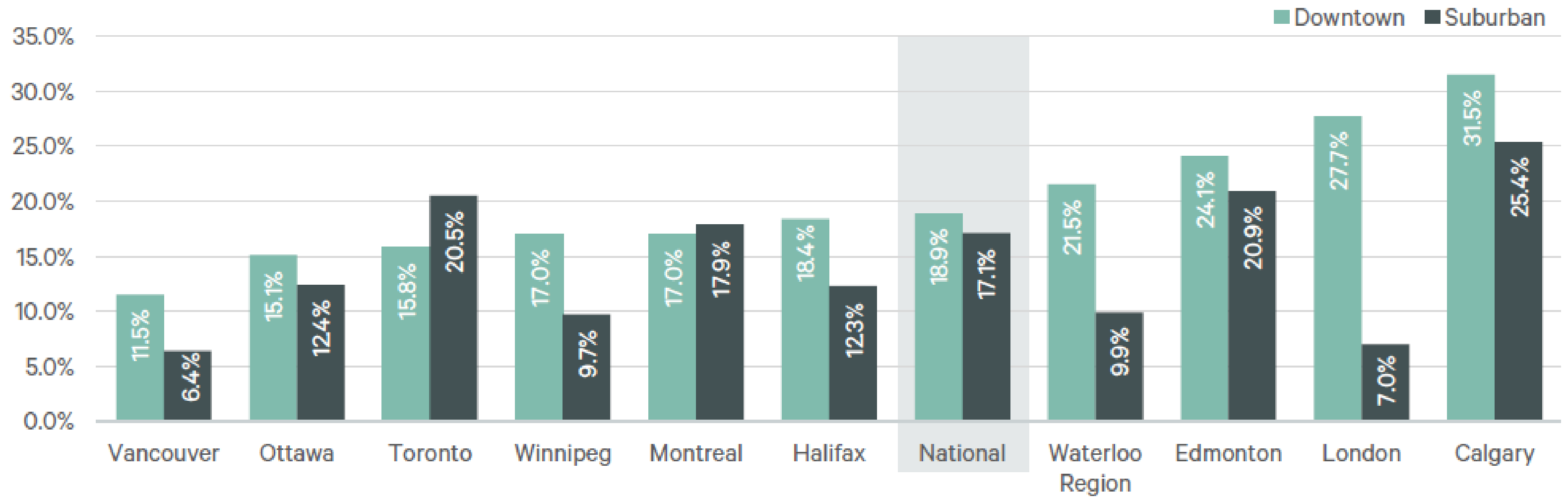
Canadian Office Market Update

2022 Q4 National Statistics

- The national average vacancy rate was 18.1% in June 2023, and there are signs that well-located suburban offices are performing better than the downtown comparable assets..
- Average rents in Suburban Offices are up 7.8% since the start of the pandemic, reflecting demand for more flexible and affordable offices with good amenities, close to retail, housing and transit.

Key Highlights

- Return to work picks up speed as many banks and large institutional employers begin back-to-work mandates in September.
- 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.



Source: CBRE Research, Q2 2023.

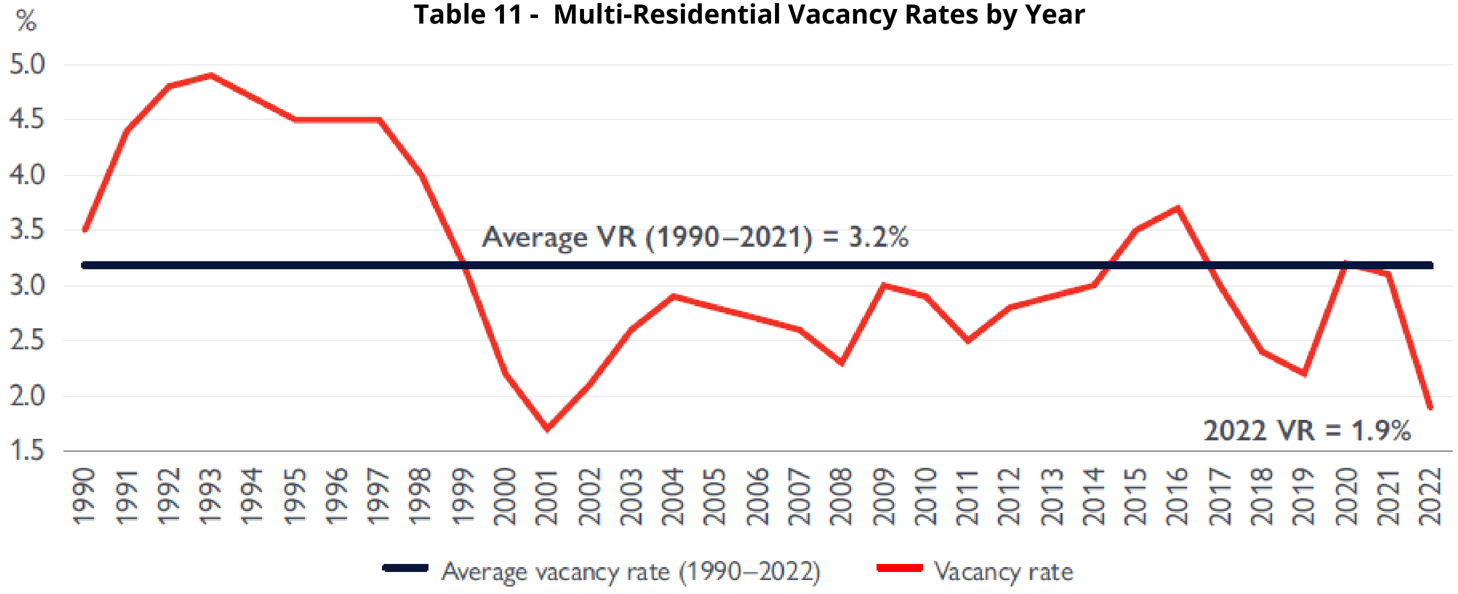
Source: Altus, CBRE, JLL

Canadian Multi-Residential Market Update

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

Table 11 - Multi-Residential Vacancy Rates by Year



Source: CMHC

Mid-Year 2023 Canadian Real Estate Market Update

RECan Global Forecast 2023

- **RECan Forecast: Investment Volumes will increase in the 2nd half of 2023**
  - Forecasted Investment volume will be below $20B CAD in Q1/Q2 but will increase to $30B+ in H2 2023.
  - Supply of product on the market will increase through Q2-Q4 as interest rates stabilize and vendors adjust their pricing expectations.
  - Industrial and multi-family will continue to dominate transactions, with select retail assets coming back into favour.

- **RECan Forecast: Industrial market fundamentals will continue to drive returns**
  - Continued trend of low vacancy rates,
  - Rental rate growth will continue, but moderate as leases come up for maturity
  - New development will continue, but will be impacted by higher interest rates and land prices

- **RECan Forecast: Office Market uncertainty will continue is most major markets**
  - Return to the office will continue in Q3 into Q4
  - Vacancy rates in larger markets could be challenged by space downsizing on lease renewals
  - Conversion to alternate uses will continue for older, obsolete buildings
  - Investors will be extremely selective but well leased, well located office product will continue to trade.

Mid-Year 2023 Canadian Real Estate Market Update

RECan Global Forecast 2023

- **RECan Forecast: Select retail assets will continue to be in demand**
  - Investors will continue to seek out grocery and pharmacy anchored (Non-enclosed) retail centres
  - Continued densification of retail properties with new multi-residential developments on excess land

- **RECan Forecast: Immigration will continue to drive demand in multi-residential**
  - Continued trend of low vacancy rates, with most RECan target markets averaging 1.0% - 3.0% vacancy
  - New construction will be constrained by higher interest, construction, and land costs
  - Rising cost of home ownership will keep more people in the rental market
  - Rental rate growth is expected to exceed inflation

Mid-Year 2023 Canadian Real Estate Market Update

Conference Summary – Q&A

Conference Summary

- Canada is a safe, stable and predictable economic environment
- Canadian real estate fundamentals will allow for a quick return to long-term growth
- RECan Global investment product targets high growth, core assets in stable economic environments
- Risk-adjusted return expectations in Canada are highly competitive with both the US and European markets
- RECan Global structure offers oversight of capital within Germany/Luxembourg (AIFM) and a local team in Canada executing strategy
- Canada continues to be favored option for European real estate allocations in North America

Question & Answers

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