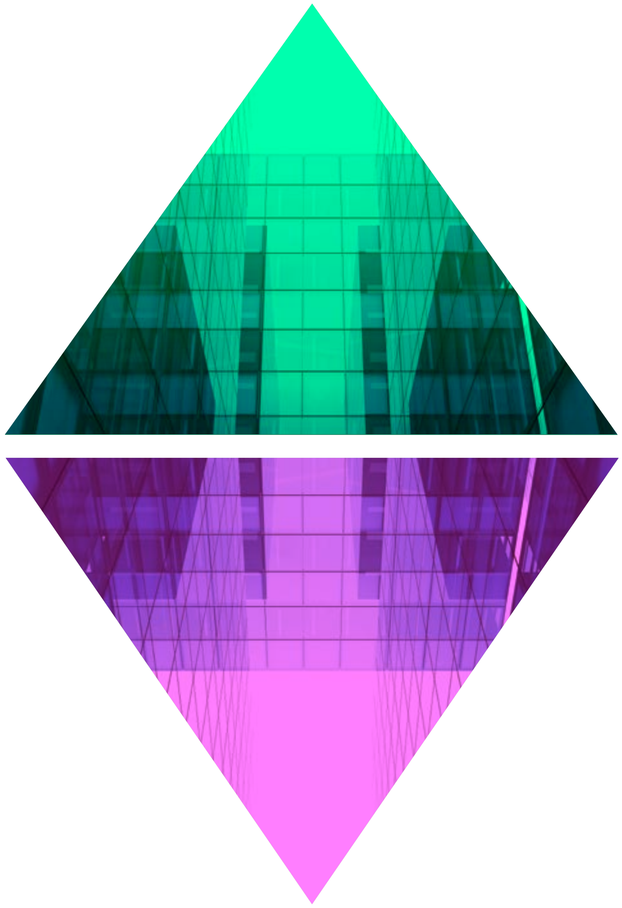
CBRE RESEARCH | CANADA



REAL ESTATE MARKET

OUTLOOK 2019

CBRE

CONTENTS

National Outlook

Regional Outlook

2019 Real Estate Market Outlook: Canada

"A ship in harbour is safe, but that is not what ships are built for."

~ JOHN A. SHEDD

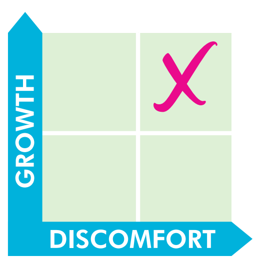
Safety and stability thrust Canada into the spotlight during the Global Financial Crisis and initiated a transformative decade. An influx of global capital, record construction activity, rising home prices and the pace of technological advancement produced prosperity for many. However, some market participants were caught flatfooted and left behind.

Few sectors have so universally benefitted from Canada's economic momentum than commercial real estate. Record occupancy levels, investment activity and new construction are hallmarks of the largely unprecedented and uninterrupted run for the industry. Growth is often synonymous with discomfort. In many Canadian cities, real estate is at the forefront in both regards.

The past decade of momentum has been a mixed blessing for Canada and commercial real estate's bull run is producing similar challenges. Most notably, there is increased competition for commercial space, rising lease and construction costs, as well as an elevated level of exposure to global economic forces. Despite these challenges, Canadian real estate is not a victim of its own success.

This is what it is to be a leader in the world. This is what it feels like to live in thriving global cities. These are the challenges that governments, businesses and citizens face when the pace of change accelerates due to rising competition and opportunity.

Canadian commercial real estate, like the country itself, has left the safety of the harbour in search of larger opportunities and greater prominence on the world stage. On this journey, it will be essential to remember the practices that provided stability and initiated a decade of growth. It will be even more important to innovate and advance global best practices to ensure that the real estate industry and the broader economy are able to address challenges, build on our promise and reach the intended destination.



This is what it is to be a leader in the world. This is what it feels like to live in thriving global cities.

Big Gains and Growing Pains

The mix of momentum and strain are apparent across the commercial real estate spectrum. Here is a snapshot of record statistics that show the remarkable strength that exists in certain asset classes and geographies:

2.7%

Downtown Toronto's office vacancy rate has been the lowest in North America since Q2 2016 and currently sits at 2.7%. Vancouver and Ottawa were also strong performers with 3.8% and 7.4% downtown office vacancy as of Q4 2018.

#1

CBRE's prime industrial rent study found that Vancouver's industrial hub is leading the world in rental rate growth. The overall industrial availability rate fell to 2.3% in 2018, fueled by strong demand for warehouse and distribution space.

<2.0%

Five of Canada's ten largest cities (Vancouver, Toronto, Ottawa, Montreal and Halifax) have overall apartment vacancy rates below 2.0%.

>$1.0 M

The average price for a single acre of low-density land in the GTA, used for single-family and semi-detached homes, surpassed $1.0 million for the first time, up from $382,000 per-acre over the past decade.

66.0%

Hotel occupancy reached 66.0% nationally in 2018, setting a new Canadian record.

$49.3 B

Commercial real estate investment reached a third consecutive annual record in 2018 at $49.3 billion, 68.3% above the 10-year average.

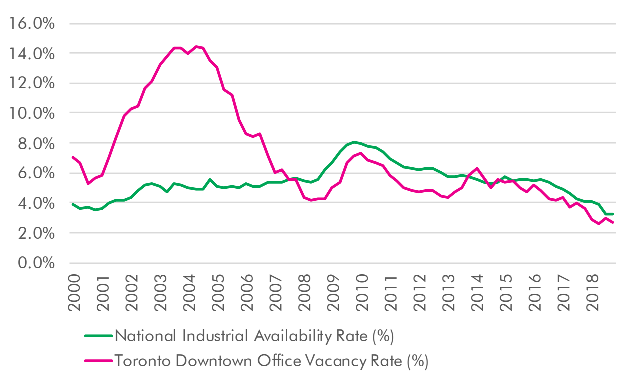
These statistics reflect the overall strength of commercial real estate fundamentals, however, not all classes and product are created equal and this is very much a matter of perspective.

Once in a Generation

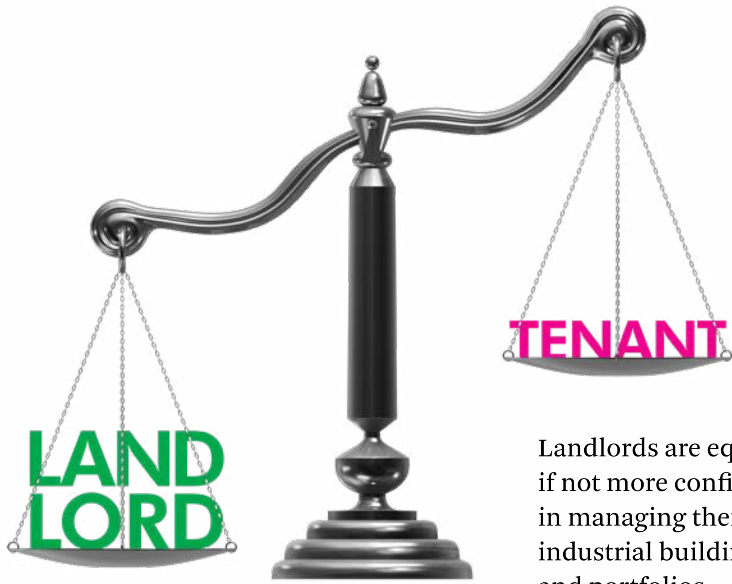
Demand for commercial property has never been higher, which makes finding space and negotiating for it all the more complicated. This is true for most property types and is most pronounced in gateway markets like Toronto and Vancouver. To be clear, this is not simply a traditional "Landlord's Market". Conditions are so tight that landlords are becoming increasingly particular and are able to control their portfolios like never before.

In the tightest office markets, 10-year lease terms with top pricing are now standard. Discounted sublets are being assumed by landlords who have confidence that they can be re-leased at top dollar. This environment is limiting movement and encouraging renewals, while also encouraging occupiers to consider workplace strategies that allow them to do more with their existing space.

FIGURE 1: LANDLORDS IN CONTROL



Source: CBRE Research, Q4 2018.



Landlords are equally, if not more confident, in managing their industrial buildings and portfolios. In the tightest neighbourhoods within Vancouver and Toronto, landlords are increasing rents for top-tier product at some of the fastest rates in the world and commonly pushing for 15-year lease terms. Vancouver's net industrial asking rent increased by 15.9% year-over-year in 2018 to $11.86 per sq. ft., the highest on record. While higher rents and longer leases may be hard for some tenants to swallow, this dynamic shift may be mutually beneficial. Tenants are now more likely to consider longer-term occupier strategies, including significant investments in supply chain automation and robotics to improve operations, while landlords can obtain lengthy commitments and an opportunity to future-proof their assets.

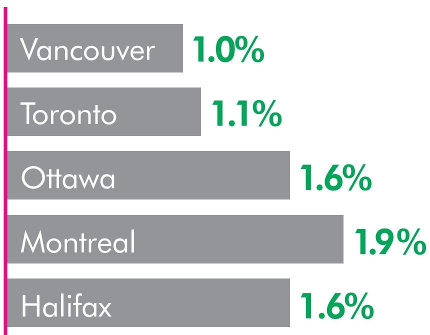
Hotels and apartments are also experiencing unprecedented demand and owners of these properties have a similar advantage when it comes to pricing. With the exception of Alberta, the hotels sector currently boasts the best fundamentals in recent memory. Occupancy and per room profit are each at or near their all-time highs, with profit figures growing rapidly. Likewise in the multifamily sector, purpose-built apartment vacancy rates

The best hotel fundamentals in recent memory – ADR growth, occupancy and bottom line profit.

averaged 2.4% nationally in 2018 and availabilities are almost non-existent in major downtown centres. This is adding to frustration around housing accessibility and affordability from coast to coast.

While landlords currently have an unprecedented negotiating position, rising asking rental rates do not necessarily translate into increased cash flows. Tight markets discourage tenant movement and encourage renewals. New workplace strategies allow office tenants to do more with existing space and apartment owners are not seeing the normal 25.0% lease turnover in major downtown markets where rents are climbing the fastest. Limited vacancy also hinders property renovation. A pronounced "Landlord's Market" is most problematic for tenants, but still presents challenges for landlords.

FIGURE 2: 2018 APARTMENT VACANCY RATES



Source: CMHC, October 2018.

Red Lines and Red Tape

Strong demand, record low vacancy rates and changing tenant needs are spurring a wave of new construction across the country. While the amount of new space is triggering anxiety amongst some market watchers, the bulk of the 14.6 million sq. ft. of office and 18.5 million sq. ft. of industrial product under construction is concentrated in markets which are currently underpinned by unprecedented strength and demand.

Over 7.3 million sq. ft. of office space is under construction in downtown Toronto, with Vancouver adding an additional 2.9 million sq. ft., both of which hold the lowest vacancy rates in North America at 2.7% and 3.8% respectively. To alleviate the industrial supply crunch, 6.6 million sq. ft. and 5.0 million sq. ft. is being built in Toronto and Vancouver, respectively, 64.8% of which is pre-leased due to pent-up demand. Even smaller cities like Victoria are reporting the highest number of cranes at work in the city's history.

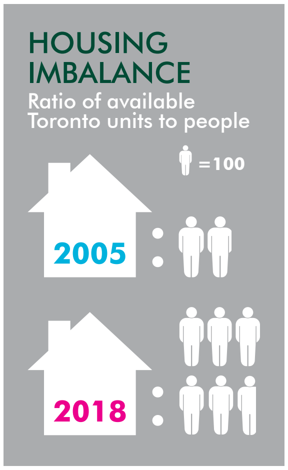
While these numbers may seem large, make no mistake, new construction is absolutely needed. A lack of vacancy in any property type hinders economic growth by limiting a company's ability to respond to client needs and evolve business strategy, while also acting as an impediment for international firms looking to expand into new markets. What is telling about the amount of space under construction is not the overwhelming amount of space, but the fact that it is not a record given a lack of vacancy and availability.

FIGURE 3: CONSTUCTION AS A % OF INVENTORY

Source: CBRE Research, Q4 2018.

Industrial construction in Toronto peaked at 8.7 million sq. ft. while the availability rate was still a relatively comfortable 4.1%. Despite the record-low 1.6% industrial availability currently, there is

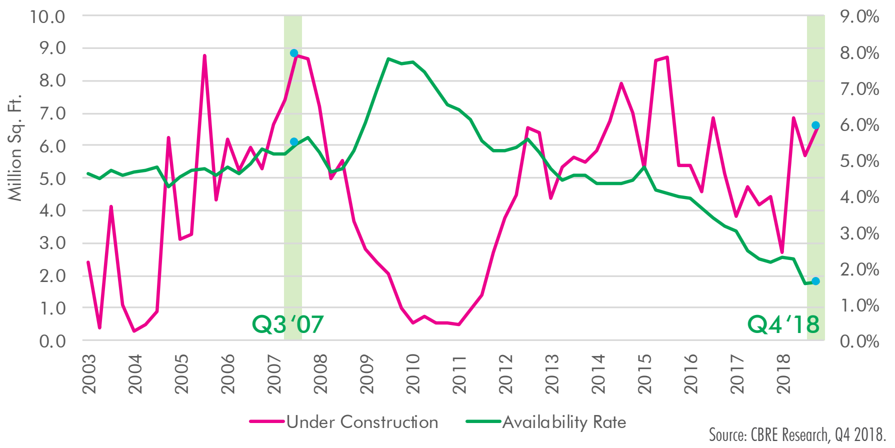
24.1% less industrial space in the development pipeline. While the Canadian commercial real estate industry has traditionally been conservative in terms of development, the fact that record tenant demand on a number of fronts is not spurring even more construction suggests that there are difficulties with the development process.



From coast to coast, developers are pointing to a confluence of issues that are restraining development: record land prices, increasing development charges, rising material and labour costs as well as a prolonged and more involved planning and approval process. The delays in approvals are most problematic. The nine-month approval target set by the Toronto Development Guide is taking three and a half years to complete on average and commercial developers are finding similar bottlenecks. The commercial real estate industry only has to look to the residential market to see what happens when demand outstrips supply over a prolonged period. Canadian home prices and rental rates have soared with cities like Toronto now exhibiting a ratio of housing units to people that has climbed from 1:190 in 2005 to 1:575 in 2018.

There is a shortage of almost all types of quality modern commercial property. Rising costs and red tape threaten to create an even greater imbalance. While there is a role for municipal planning and protections, government and business interests need to align to ensure that the Canadian economy has the physical space required to grow so that our cities and the national economy can continue to prosper.

FIGURE 4: TORONTO INDUSTRIAL CONSTRUCTION BELOW PEAK



Source: CBRE Research, Q4 2018.

A Question of Covenant

Three types of tenants are heightening the demand for commercial space: coworking providers, technology companies and logistics/distribution firms. These sectors have each expanded rapidly of late and are having outsized impacts on the real estate market.

The sudden expansion of specific sectors is not uncommon in the history of Canadian commercial real estate. Following the 2008-09 recession, financial services grew and occupied more office space than expected as Canada's financial institutions weathered the Global Financial Crisis with relative ease. The dotcom boom and subsequent bust is another example, but in this case, it is evident that sectors can get ahead of themselves. During that cycle, technology companies were nearly singlehandedly responsible for Toronto's downtown office vacancy falling to 5.3% in Q3 2000 before rising to 14.4% in Q4 2003. It took eight quarters to return to sub-10.0% vacancy.

New players and sectors define each period of economic expansion and this cycle is no different. The outstanding question is whether or not coworking providers, technology companies and online retail sales are sustainable. It is also unclear how they will weather an economic downturn.

While covenant concerns for emerging users and questions regarding our stage in the current economic cycle may be at the forefront of the industry's consciousness, it is important to also step back and take stock of the whole picture. Commercial real estate fundamentals are at record levels in virtually all markets, tenant demand remains strong across all sectors and Canada remains a bastion of stability globally. With this in mind, it will become increasingly important that the real estate industry seize this opportunity to push the envelope with innovative and creative approaches to workplace strategies, business planning and living arrangements as it adapts to a shifting landscape.

At this stage in the cycle, your level of comfort with these sources of demand may depend on your perspective on these questions:

- What effect would a sudden correction in coworking requirements have on the market at large? Would the traditional market be able to satisfy the demands of tenants currently occupying coworking space? How would landlords adjust to the loss of coworking tenants?
- Can the broader technology sector endure if start-up growth slows? Are Canadian technology firms at a stage in their growth where they are no longer dependent on seed- and early-stage funding for survival? Is there enough support from government and non-technology businesses to provide a lifeline in the absence of venture capital and private equity funding?
- Is the Canadian consumer's debt load sustainable and will spending practices continue to support the rapid evolution and expansion of the logistics industry?

Rethinking Real Estate

While the commercial real estate market is typically slow to embrace change, the sector is experimenting with a variety of new concepts and is responding surprisingly quickly to user needs in this tight market.

- Coworking is likely to continue to be a strong driver of the office market despite questions around the sector's long-term viability. WeWork and Regus already account for a significant portion of the Canadian office footprint and additional entrants, including Hana by CBRE, have ramped up their expansion plans over the past year. The next frontier for coworking businesses is to leverage a vast amount of customer data to customize services and facilitate day-to-day operations through investments in analytics and other technology solutions.
- The Canadian apartment sector could also see the introduction of co-living concepts in 2019. These projects, which would model themselves after student dormitory style living arrangements, would allow tenants to rent private fully-furnished bedrooms that open onto shared kitchen and living space. This style of apartment is designed to accommodate a greater number of renters while still responding to rising development costs and increasing rental rate sensitivity.
- In the industrial sector, shifts in supply chain strategies have drastically increased demand for specialized facilities for last-mile delivery, product returns and reverse logistics. Buffer-stock warehouses, which all operate niche functions within the supply chain of retailers and ecommerce companies, will also be a market driver. Landlords and tenants alike will leverage the diminishing cost of robotics and automation systems to maximize operational efficiencies.

- This could also be the year that the construction of the first two-storey industrial distribution facility is announced in Canada. This would be a direct response to land constraints and rising rental rates.
- Retailers will continue to be at the forefront of technological change and look for ways to utilize bricks and mortar locations effectively. One of the more interesting new concepts to emerge is the rise of food halls. This format offers a variety of high-quality fare without the frills of a sit-down eating experience and will become increasingly common in cities from coast to coast.
- Look no further for adaptation than the real estate industry itself with the expansion and adoption of Property Technology (Proptech) in 2019. Innovative new technology solutions are being developed for every aspect of the sector, including property management, leasing, market research and investment. Several large institutional players have already recognized this shift and have begun investing in funds and incubators to develop cutting edge technologies which will eventually help them run their businesses and manage their portfolios more effectively. The spread of technology in the real estate sector should only accelerate as these products and tools are adopted.

The institutionalization of creative solutions reveals that the traditionally conservative commercial real estate industry is responding to market forces at a surprisingly fast pace. Landlords and large institutional owners will increasingly test new arrangements to accommodate very pressing needs for commercial space in the most sought-after markets. This underscores the fact that no business model or traditional use is immune to changes in the economy, especially at a time of prolonged market tightness.

Second-Tier Markets, Big City Ambitions

While many of the records being set are in major markets, dominant trends have the potential to shape Canada's smaller markets to an even larger degree. In these markets, one new building or the loss of a major tenant can have a major impact on fundamentals.

Rising demand for downtown office space with next-generation layouts and amenities is a dominant trend globally. This shift is playing out in Halifax, where office construction, tenant demand and multifamily projects have shifted to the peninsula for the first time in decades. However, in smaller cities where behaviour patterns are more entrenched and where there are fewer tenants to backfill space, sensitivities to any kind of market shift are more profound and can be downright destabilizing.

The flight-to-quality in office buildings is also shaping the cities in the prairies. Saskatoon is building the first new downtown office building since the 1980s which will nearly double the market's stock of Class A inventory. Winnipeg is also experiencing the development of a new downtown office node away from the traditional Portage & Main intersection. Landlords in both cities are waiting to see how these new buildings fare in competition with renovated space in traditional downtown nodes.

The fact that big city trends are making an impact on smaller markets demonstrates that the nature of business and tenant requirements are increasingly global. However, the impact of these trends will not be uniform and will vary depending on the market in question.

Rise to the Challenges

Canadian commercial real estate has been a primary benefactor of a decade of economic growth and distinction on the global stage. Further integration into the global economy coupled with technological change has produced new sources of demand, an influx of foreign capital and changing business needs and behaviours. Growing pains and tenant strain are evident in many property types and cities across the country, which might seem particularly daunting in the context of geopolitical upheaval globally and the rapid rate of overall change.

While government, business leaders and average Canadians adjust to changing conditions, it is important to remember that these difficulties are byproducts of Canada's significant competitive advantages, stable institutions, high quality of life and a decade of G7-leading economic growth. In the eyes of the world, Canada remains a haven from instability. It is a place where opportunity can become reality and prosperity is a more likely outcome than it is simply a possibility.

Putting the ship back into the harbour without testing its mettle is a missed opportunity. Shying away from challenges and pursing a path of less integration with our global partners will ultimately mean that Canada will have less influence, a smaller standing in the global economy, less wealth and fewer opportunities.

It is the talent that exists in our great cities that ultimately makes this country a destination for capital and allows the burgeoning technology sector to flourish.

Staying the course, however, requires all parties to step up to the plate. Governments need to ensure that commercial and residential development can accommodate business growth and provide accessible and affordable housing for workers. Landlords need to accommodate evolving sectors of the economy, embrace new technologies and workplace solutions, while carefully weighing the risk of new leasing covenants. Businesses need to plan ahead and embrace creative real estate strategies as increasing competition and rising rents further entrench the current “Landlord’s Market”.

And, most importantly, the needs of Canadian workers must not get lost in all of this change and advancement. For it is the talent that exists in our great cities that ultimately makes this country a destination for capital and allows the burgeoning technology sector to flourish.

Canada and the commercial real estate sector have had an enviable decade of growth. Our challenges are also enviable, but they must be tackled for this momentum to continue and for the Canadian dream to evolve in a sustainable fashion.


NATIONAL STATISTICS

NATIONAL STATISTICS

CANADA

Office

DOWNTOWN	2017	2018	2019 F	YoY
Vacancy Rate	11.1%	10.3%	10.2%	▼
Class A Net Asking Rent (per sq. ft.)	$21.91	$21.68	$22.24	▲
Net Absorption (million sq. ft.)	3.22	2.85	2.13	▼
New Supply (million sq. ft.)	3.61	1.88	2.18	▲
Under Construction (million sq. ft.)	7.04	11.95	14.36	▲
SUBURBAN				
Vacancy Rate	15.3%	13.8%	12.8%	▼
Class A Net Asking Rent (per sq. ft.)	$17.63	$17.75	$18.42	▲
Net Absorption (million sq. ft.)	3.16	4.23	3.46	▼
New Supply (million sq. ft.)	2.38	2.40	1.58	▼
Under Construction (million sq. ft.)	4.13	2.69	2.37	▼
OVERALL				
Vacancy Rate	13.0%	11.9%	11.4%	▼
Class A Net Asking Rent (per sq. ft.)	$19.38	$19.42	$20.03	▲
Net Absorption (million sq. ft.)	6.38	7.08	5.59	▼
New Supply (million sq. ft.)	5.99	4.28	3.77	▼
Under Construction (million sq. ft.)	11.17	14.63	16.72	▲

Source: CBRE Research, 2019.

Industrial

	2017	2018	2019 F	YoY
Availability Rate	4.1%	3.2%	2.9%	▼
Net Asking Rent (per sq. ft.)	$6.97	$7.72	$8.11	▲
Sale Price (per sq. ft.)	$123	$144	$154	▲
Net Absorption (million sq. ft.)	23.69	31.61	27.66	▼
New Supply (million sq. ft.)	9.62	15.44	22.45	▲
Under Construction (million sq. ft.)	13.75	18.49	17.68	▼

Source: CBRE Research, 2019.

Retail

	2017	2018	2019 F	YoY
Total Retail Sales per Capita	$16,063	$16,307	$16,628	▲
Total Retail Sales Growth	7.1%	2.8%	3.1%	▲
Mall Sales Productivity (per sq. ft.)	$770	$794	$806	▲
New Supply (million sq. ft.)	4.57	4.28	4.77	▲

Source: CBoC, ICSC, CBRE Research, 2019.

Investment

VOLUME ($ MILLIONS)	2017	2018[1]	2019 F	YoY
Office	$10,195	$10,822	$10,494	▼
Industrial	$7,407	$12,691	$10,193	▼
Retail	$9,233	$9,481	$7,640	▼
Multifamily	$6,285	$8,321	$7,282	▼
ICI Land	$7,036	$7,169	$6,796	▼
Hotel	$2,961	$800	$1,200	▲
Total	$43,117	$49,284	$43,605	▼

[1]2018 investment volumes include material allocations from M&A activity.
Source: CBRE Research, 2019.

CAP RATES (%)				
Office - Downtown Class A	5.90	5.89	5.91	▲
Office - Suburban Class A & B	6.85	6.86	6.84	▼
Industrial - Class A & B	6.13	5.93	5.84	▼
Retail - Neighbourhood	6.25	6.30	6.33	▲
Multifamily - High Rise Class B	4.66	4.61	4.49	▼
Hotel - Downtown Full Service	7.51	7.23	7.23	◀▶

Source: CBRE Research, 2019.

Multifamily

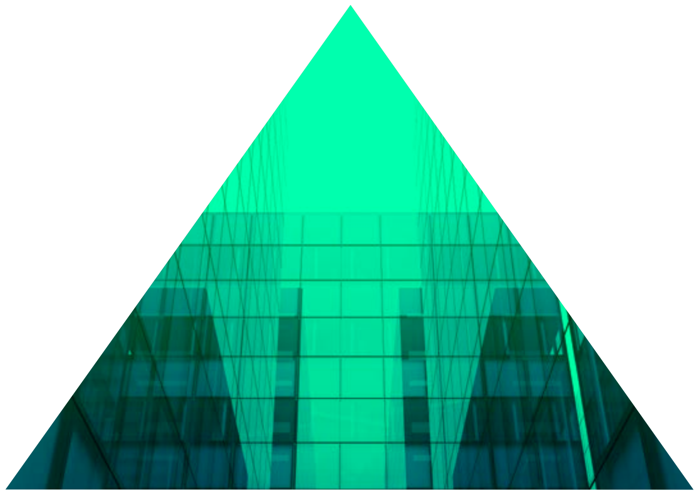
	2017	2018	2019 F	YoY
Vacancy Rate	2.9%	2.4%	2.5%	▲
2-Bedroom Average Rent	$1,178	$1,238	$1,274	▲
New Rental Supply (units)	22,872	25,682	34,161	▲

Source: CMHC, CBRE Research, 2019.

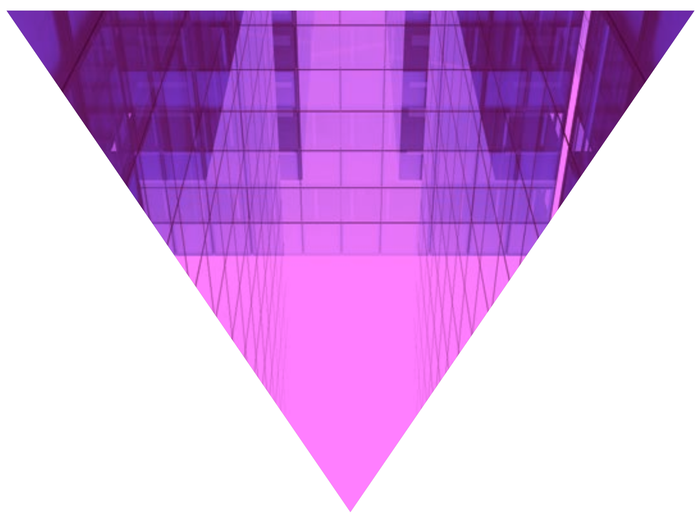
*Hotel**

	2017	2018	2019 F	YoY
Inventory (Rooms)	392,883	398,721	407,647	▲
Occupancy	66.0%	66.0%	66.0%	◀▶
Average Daily Rate	$155	$160	$166	▲

*Canada-wide
Source: CBRE Research, 2019.



REGIONAL OUTLOOK



VICTORIA

Key Trends

INVESTMENT MARKET HEATS UP

Viewed as an attractive alternative to the resource-rich provinces, capital has been drawn to British Columbia's diversified market. Demand for product continues to outpace availability as Victoria offers slightly higher yields than the mainland. While local owner-occupiers and purchasers from the mainland remain active, there are a number of buyers on the sidelines with deep pockets, both from within Victoria and afar. Strong tenant demand has placed upward pressure on rental rates and the market is poised for continued strength in 2019.

GOVERNMENT AND TECH SECTORS DRIVING OFFICE LEASING ACTIVITY

Following a year of record high absorption, healthy levels of demand will reinforce Victoria's positive office market conditions into 2019. The office market has experienced some shifts with the government sector moving into more efficient Class A space, lowering their space-per-person. Other industries driving office demand in the capital city include the local burgeoning technology sector as well as organic growth from professional services firms.

RECORD INDUSTRIAL FUNDAMENTALS

The industrial market remains competitive with historic low availability of product to lease or purchase in Victoria, pushing some users into the west shore. As a consequence, occupiers are increasingly having to bump-up their timeline and plan their future space requirements well in advance of their lease expiry. Land constraints coupled with competitive market conditions have placed upward pressure on rental rates which have reached record high lease rates.

VICTORIA'S RETAIL DIVIDE

The dichotomy between suburban and urban streetfront retail continues to persist with tourism and increased downtown living helping to boost activity and trade in the city's core. Major centres are weathering market shifts brought on through increased ecommerce offerings, however recent tenant relocations into the redeveloped Mayfair Shopping Centre have led some to wonder how these and other flight-to-quality movements will impact Class B product in the near-term.

COST OF CONSTRUCTION TAXING ON DEVELOPERS AND RESIDENTS

Victoria is witnessing a record number of cranes in the sky with sophisticated developers from outside the Lower Mainland capitalizing on the tremendous opportunity within the capital. However, this activity is not widespread and select municipalities are more welcoming of development. Other impediments include multiple layers of regulation and increased development fees, in addition to provincial limitations to residential rental rate increases. As well, construction fatigue has also resulted in pushback from municipalities and residents alike. These conditions could lead to more projects kicking-off in suburban areas. Development will continue in 2019, albeit at a more conservative pace with developers exercising increasingly stringent care in planning.

Investment

CAP RATES (%)	2018	2019 F	YoY
Office - Downtown Class A (%)	4.75 - 5.25	4.75 - 5.25	◀▶
Office - Suburban Class A & B (%)	5.00 - 5.75	5.00 - 5.75	◀▶
Industrial - Class A & B (%)	5.00 - 5.75	5.00 - 5.75	◀▶
Retail - Neighbourhood (%)	5.00 - 5.50	5.00 - 5.50	◀▶
Multifamily - High Rise Class B (%)	3.25 - 3.75	3.25 - 3.75	◀▶
Hotel - Downtown Full Service (%)	5.50 - 7.00	5.50 - 7.00	◀▶

Source: CBRE Research, 2019.

PROJECTS TO WATCH

VICTORIA

McKenzie Interchange

The Province of British Columbia and the Government of Canada are investing $85.0 million in the development and construction of the McKenzie Interchange on the Trans-Canada Highway. Located at intersection of Admirals Road and McKenzie Avenue in Saanich, the number one bottleneck on Vancouver Island, the interchange will help improve traffic flow in the district by up to 20 minutes and shift the pattern of drivers into the west shore. The interchange is expected to open to traffic in the summer of 2019.

Victoria International Airport Expansion (YYJ)

In response to rising passenger numbers and larger-capacity aircrafts, the ground-level departure lounge at Victoria International Airport (YYJ) is undergoing a $19.4 million expansion funded by the airport authority. The expansion will double the size of the lower departures area while providing more seating capacity and dedicated departure gates. Passenger growth through YYJ has increased by 31.6% over the last five years and could see the annual passenger count approach 3.0 million through the expansion. Construction started in early 2018 and is scheduled to be completed by spring 2020.

Customs House

The $100.0 million redevelopment of Customs House by Cielo Properties will see the transformation of the landmark heritage building into a luxury residence with 16,000 sq. ft. of retail space. Prominently located in Victoria's Inner Harbour featuring views of the provincial legislature building and the Empress Hotel, as well as easy access to seaplane service, the site holds significant value and is considered the last unfinished piece in the harbour. The project is targeting completion for early 2020 and has garnered significant interest from both domestic and international buyers.

VANCOUVER
Key Trends

NEW OFFICE SUPPLY CAN'T COME SOON ENOUGH

Leasing fundamentals were strong throughout 2018 and resulted in downtown office vacancy finishing 2018 at a six-year low of 3.8%. While continued demand from a diversifying group of users is anticipated, it is the scarcity of product which will be at the forefront of decision making in 2019. Downtown Vancouver is currently caught between development cycles of new supply driving vacancy rates down and pushing net rental rates to the highest levels ever experienced in the market. The development community is responding accordingly with over 4.1 million sq. ft. office product set to be delivered by 2023. With strong pre-leasing and rising interest in this next wave of construction, tight market conditions are expected to continue for the next several years.

INDUSTRIAL LEASE RATES HIGHEST IN CANADA

The Metro Vancouver industrial availability rate finished the year at a historic low of 2.3% and yielded record-setting average rental rates which escalated to $11.86 per sq. ft. New supply is forthcoming, however, pent-up demand in the market has caused this product to become nearly two-thirds pre-leased or sold. As companies focus on logistics and last-mile initiatives, demand for warehousing and distribution space is anticipated to remain high in 2019. With limited developable land and few options of either existing or pipeline product for large-users, developers are being forced to consider and implement densification strategies.

RESIDENTIAL PERSPECTIVES SHIFTING

The residential market softened in 2018 as a result of new and expanded government tax measures put in place to address affordability concerns. A rebound is expected in 2019, fueled by positive net migration which is forecast to average 30,000 people per-year through to 2023 and the creation of new employment opportunities across the metro. With an overall residential rental vacancy rate of 0.9%, increased population and employment opportunities may lead to a renewed interest in rental development and for residential rents to rise. Municipalities with either business-friendly development incentives, including certainty of development costs and accelerated permit timelines, will stand to benefit and experience a boom in development for residential product.

DOMESTIC INVESTORS BULLISH

As a result of the strong leasing fundamentals in office, industrial and retail, the commercial real estate investment market is poised for another positive year. Market valuations and underwriting has shifted with investors focusing more specifically on an assets' ability to generate cash-flow growth. Cap rates continue to remain at an all-time low due to the strength of the leasing market in Vancouver. After years of being outbid by foreign capital the domestic buyer is now stepping back into the spotlight. Foreign capital has remained an active player within Metro Vancouver, however their focus has shifted towards long-term holding opportunities in developable land and trophy assets.

PROJECTS TO WATCH

VANCOUVER

The Post

Under construction and scheduled to be delivered in mid-2023, The Post by QuadReal will see the redevelopment of the previous Canada Post distribution centre. One of the most ambitious heritage redevelopments in Canadian history, the site comprises a full city block within the downtown core and will feature two state-of-the-art office towers totaling 1.1 million sq. ft., along with a 200,000 sq. ft. retail podium and public spaces. With Amazon announced as an anchor tenant occupying more than 35% of the office portion and Loblaws City Market set to occupy 50,000 sq. ft. of podium retail space, this development will redefine the eastern portion of the Georgia Street business district.

The Xchange Business Park

Persistently low industrial availability rates have pushed users and developers out to peripheral markets and culminated in the 1.1 million sq. ft. joint venture development between Hungerford and QuadReal Property Group called the Xchange at Mount Lehman in Abbotsford. Currently undergoing site planning and permitting, this project is likely to kick off on spec and the first phase of the development is estimated for completion before the end of 2020. Abbotsford has transformed into a very competitive market for land and has been attracting major institutional developers like Beedie, Wesgroup and Hungerford. With industrial rents in Abbotsford appreciating over the last 10 years, landlords are transforming this community into a strong industrial market.

Oakridge Centre Redevelopment

QuadReal and Westbank are moving forward on the redevelopment of Oakridge Centre into a new purpose-built multi-use complex that will see the area transform into a cultural hub. Development of the 28.5-acre site has an estimated total cost of $5.0 billion and will be completed in phases, with the first phase anticipated to open in 2022. The master-plan features 10 towers and four mid-rise buildings, including housing, office space, a community centre and a nine-acre public park. The project will also see Oakridge Centre double in size to 1.0 million sq. ft. with a galleria spine running from the SkyTrain station to the development's western edge.

VANCOUVER

Office

DOWNTOWN	2017	2018	2019 F	YoY
Vacancy Rate	5.0%	3.8%	3.2%	▼
Class A Net Asking Rent (per sq. ft.)	$31.77	$37.20	$38.54	▲
Net Absorption (million sq. ft.)	0.70	0.55	0.23	▼
New Supply (million sq. ft.)	0.09	0.26	0.10	▼
Under Construction (million sq. ft.)	0.82	2.86	3.98	▲
SUBURBAN				
Vacancy Rate	9.6%	7.4%	6.2%	▼
Class A Net Asking Rent (per sq. ft.)	$22.62	$23.82	$24.77	▲
Net Absorption (million sq. ft.)	1.11	1.00	0.50	▼
New Supply (million sq. ft.)	0.13	0.72	0.23	▼
Under Construction (million sq. ft.)	0.96	0.61	1.13	▲
OVERALL				
Vacancy Rate	7.3%	5.6%	4.7%	▼
Class A Net Asking Rent (per sq. ft.)	$25.05	$27.90	$29.45	▲
Net Absorption (million sq. ft.)	1.81	1.55	0.73	▼
New Supply (million sq. ft.)	0.22	0.98	0.33	▼
Under Construction (million sq. ft.)	1.78	3.47	5.11	▲

Source: CBRE Research, 2019.

Industrial

	2017	2018	2019 F	YoY
Availability Rate	2.3%	2.3%	2.4%	▲
Net Asking Rent (per sq. ft.)	$10.23	$11.86	$12.19	▲
Sale Price (per sq. ft.)	$280	$350	$365	▲
Net Absorption (million sq. ft.)	4.79	3.21	4.55	▲
New Supply (million sq. ft.)	3.14	3.32	5.02	▲
Under Construction (million sq. ft.)	4.17	5.01	4.06	▼

Source: CBRE Research, 2019.

Retail

	2017	2018	2019 F	YoY
Total Retail Sales per Capita	$15,661	$15,530	$15,783	▲
Total Retail Sales Growth	7.2%	0.4%	2.8%	▲
Mall Sales Productivity (per sq. ft.)	$1,059	$1,105	$1,118	▲
New Supply (million sq. ft.)	0.91	0.46	0.89	▲

Source: CBoC, ICSC, CBRE Research, 2019.

Investment

VOLUME ($ MILLIONS)	2017	2018[1]	2019 F	YoY
Office	$2,388	$2,367	$2,400	▲
Industrial	$1,394	$2,053	$1,350	▼
Retail	$3,615	$2,194	$2,100	▼
Multifamily	$1,259	$1,160	$1,050	▼
ICI Land	$2,732	$1,973	$1,850	▼
Total*	$11,389	$9,748	$8,750	▼

* Total regional investment volumes do not include Hotel transactions.
[1] 2018 investment volumes include material allocations from M&A activity.
Source: CBRE Research, 2019.

CAP RATES (%)				
Office - Downtown Class A	3.75 - 4.25	3.75 - 4.00	3.75 - 4.00	◀▶
Office - Suburban Class A & B	4.75 - 5.75	4.75 - 6.00	4.75 - 6.00	◀▶
Industrial - Class A & B	4.00 - 5.25	3.50 - 4.75	3.50 - 4.75	◀▶
Retail - Neighbourhood	5.00 - 5.50	5.00 - 5.50	5.00 - 5.50	◀▶
Multifamily - High Rise Class B	3.00 - 3.50	3.00 - 3.50	3.00 - 3.50	◀▶
Hotel - Downtown Full Service	4.50 - 6.00	4.50 - 6.00	4.50 - 6.00	◀▶

Source: CBRE Research, 2019.

Multifamily

	2017	2018	2019 F	YoY
Vacancy Rate	0.9%	1.0%	1.3%	▲
2-Bedroom Average Rent	$1,552	$1,649	$1,724	▲
New Rental Supply (units)	4,245	5,540	8,293	▲

Source: CMHC, CBRE Research, 2019.

Hotel

	2017	2018	2019 F	YoY
Inventory (Rooms)	24,066	24,234	24,405	▲
Occupancy	79.0%	80.0%	80.0%	◀▶
Average Daily Rate	$190	$212	$227	▲

Source: CBRE Research, 2019.

CALGARY

Key Trends

PIPELINES VITAL FOR THE LOCAL ECONOMY

Moderate economic growth is expected for Calgary over the next year as the city continues its recovery from the oil-based recession in 2015 and 2016. Significant growth potential is being hindered by stalled pipeline projects. As evidenced by the record price discount for Canadian crude briefly reached in late 2018, oil transportation bottlenecks need to be resolved to secure the long-term prosperity of the region's energy sector. While the provincially mandated production cuts are expected to help alleviate the current glut of supply in the short-term, the pipelines will be necessary to help open access for Canadian oil to additional global markets. Calgary's economy can expect a strong boost if the construction of the Trans Mountain and Keystone XL pipeline projects are approved.

OPPORTUNITIES ARISE IN THE MARKET

Coming off a robust year for commercial real estate activity in 2018, investors remain confident in the long-term viability of the Calgary market and are beginning to capitalize on the available opportunities. Another year of strong activity is in store for 2019 as investors looking to enter the market are matched up with those wanting to divest their assets. In particular, public companies are repositioning their portfolios while private firms are solidifying their presence in the market. Another driver of activity in 2019 will be the continuation of mergers and acquisitions, however, such activity is expected to result in additional sublet space coming onto the market as businesses consolidate.

MARKET FUNDAMENTALS STABLE

The recovering economy has helped stabilize market fundamentals for the commercial real estate market in Calgary:

- The office sector posted positive annual absorption for the first time since 2014, however, vacancy remains at historic highs. Conditions are expected to remain flat throughout 2019 and the elevated vacancy rate will nullify future office developments.
- As a main distribution hub for the region, industrial properties above 100,000 sq. ft. are in high demand. In fact, strong demand has spurred a construction binge with 2.3 million sq. ft. of industrial space set to be delivered over the next year.
- Calgary boasts one of the highest household incomes per capita relative to the rest of the country, providing support for retail sales in the city. While the high-end fashion and restaurant industries have shrunk, consumer staples retailers will continue to do well.

DIVERSIFICATION EFFORTS UNDERWAY

With uncertainty in the energy sector clouding the outlook for Calgary, the city has begun to make inroads with the diversification of its economy. The technology sector has emerged as a contributor of growth in the city, with coworking firms and incubators also active in the office leasing market, albeit still at a relatively small scale. However, with Calgary ranked sixth among Canadian cities in terms of overall technology talent, continued growth in the local technology sector will help strengthen market fundamentals over the coming years.

PROJECTS TO WATCH

CALGARY

Taza Development

Taza is a massive, $4.5 billion mixed-use development proposal put forth by the Tsuu T'ina Nation and Canderel. The 1,240-acre project is located just southwest of the city limits and is expected to comprise 17.0 million sq. ft. of commercial space upon completion. The development will be separated into three distinct villages known as Taza Park, Taza Crossing and Taza Exchange. Slated to be one of the largest First Nations developments in North America, Taza will offer retail, office space, parks, entertainment venues, a research campus and various community facilities. The project is ideally situated along the southwest Ring Road extension project providing access into the nearby Sienna Hills, Glamorgan and Lakeview communities.

Green Line LRT

The Green Line LRT project is a plan to expand Calgary's transit network with a 46-kilometre light rail transit route that runs from 160 Avenue North to Seton. The 28-station route complements the ongoing Ring Road infrastructure projects and will connect the Keystone and Seton communities via downtown. The project is estimated to carry 240,000 trips per day upon completion. Preparations for the construction of the transit line have already begun and Stage 1 of the project is expected to be completed by 2026. Stage 1 is estimated to cost $4.6 billion and will include 20-kilometres of LRT track and 14 stations, with further expansions as additional funds become available.

Calgary Cancer Centre

Construction continues at the site for the new state-of-the-art Calgary Cancer Centre located at the Foothills Medical Centre. The $1.4 billion health care and research facility will encompass over 1.0 million sq. ft. and will have 160 inpatient beds, 12 radiation vaults and over 100 chemotherapy chairs. The project is one of the largest government infrastructure initiatives in Alberta and is expected to be completed by 2022 and operational by 2023.

REGIONAL STATISTICS

C A L G A R Y

Office

DOWNTOWN	2017	2018	2019 F	YoY
Vacancy Rate	27.7%	26.4%	27.2%	▲
Class A Net Asking Rent (per sq. ft.)	$17.89	$15.88	$15.88	◀▶
Net Absorption (million sq. ft.)	(0.11)	0.05	0.00	▼
New Supply (million sq. ft.)	1.40	0.00	0.43	▲
Under Construction (million sq. ft.)	0.43	0.43	0.00	▼
SUBURBAN				
Vacancy Rate	22.3%	20.9%	20.3%	▼
Class A Net Asking Rent (per sq. ft.)	$20.11	$19.31	$19.31	◀▶
Net Absorption (million sq. ft.)	0.03	0.44	0.25	▼
New Supply (million sq. ft.)	0.48	0.22	0.12	▼
Under Construction (million sq. ft.)	0.22	0.16	0.10	▼
OVERALL				
Vacancy Rate	25.7%	24.3%	24.6%	▲
Class A Net Asking Rent (per sq. ft.)	$18.72	$17.26	$17.26	◀▶
Net Absorption (million sq. ft.)	(0.07)	0.49	0.25	▼
New Supply (million sq. ft.)	1.88	0.22	0.55	▲
Under Construction (million sq. ft.)	0.65	0.59	0.10	▼

Source: CBRE Research, 2019.

Industrial

	2017	2018	2019 F	YoY
Availability Rate	8.2%	8.2%	8.0%	▼
Net Asking Rent (per sq. ft.)	$7.04	$7.54	$8.00	▲
Sale Price (per sq. ft.)	$165	$165	$165	◀▶
Net Absorption (million sq. ft.)	2.46	3.12	2.25	▼
New Supply (million sq. ft.)	0.48	3.37	2.26	▼
Under Construction (million sq. ft.)	1.87	2.26	2.20	▼

Source: CBRE Research, 2019.

Retail

	2017	2018	2019 F	YoY
Total Retail Sales per Capita	$19,976	$20,289	$20,521	▲
Total Retail Sales Growth	8.3%	3.3%	3.0%	▼
Mall Sales Productivity (per sq. ft.)	$774	$764	$775	▲
New Supply (million sq. ft.)	0.46	0.50	1.24	▲

Source: CBoC, ICSC, CBRE Research, 2019.

Investment

VOLUME ($ MILLIONS)	2017	2018[1]	2019 F	YoY
Office	$843	$1,482	$750	▼
Industrial	$717	$1,647	$800	▼
Retail	$425	$740	$415	▼
Multifamily	$346	$366	$370	▲
ICI Land	$520	$659	$425	▼
Total*	$2,850	$4,894	$2,760	▼

* Total regional investment volumes do not include Hotel transactions.
[1]2018 investment volumes include material allocations from M&A activity.
Source: CBRE Research, 2019.

CAP RATES (%)				
Office - Downtown Class A	6.25 - 7.00	6.25 - 7.00	6.25 - 7.00	◀▶
Office - Suburban Class A & B	6.25 - 8.25	6.25 - 8.25	6.50 - 8.00	◀▶
Industrial - Class A & B	5.00 - 6.50	5.00 - 6.25	5.25 - 6.00	◀▶
Retail - Neighbourhood	5.25 - 5.75	5.25 - 5.75	5.25 - 5.75	◀▶
Multifamily - High Rise Class B	4.50 - 5.00	4.25 - 4.75	4.25 - 4.75	◀▶
Hotel - Downtown Full Service	7.00 - 8.75	6.75 - 8.50	6.75 - 8.50	◀▶

Source: CBRE Research, 2019.

Multifamily

	2017	2018	2019 F	YoY
Vacancy Rate	6.3%	3.9%	5.0%	▲
2-Bedroom Average Rent	$1,247	$1,272	$1,292	▲
New Rental Supply (units)	1,414	777	1,717	▲

Source: CMHC, CBRE Research, 2019.

Hotel

	2017	2018	2019 F	YoY
Inventory (Rooms)	14,924	15,059	16,081	▲
Occupancy	59.0%	63.0%	62.0%	▼
Average Daily Rate	$143	$146	$148	▲

Source: CBRE Research, 2019.

EDMONTON

Key Trends

RESURGENCE OF THE DOWNTOWN CORE

Over the past few years, Edmonton's downtown core has seen significant development and continues to undergo urbanization and densification. The addition of Rogers Place and the entire ICE District development is key to growth in the downtown core. The renewed vigor is attracting tenants and will support strong office leasing activity in the area.

UNCERTAIN POLITICAL LANDSCAPE

With a provincial election expected to be called in early 2019 and a federal election slated for later in the year, the political landscape in Edmonton is unclear. As the seat of provincial political power, the public sector accounts for a significant portion of Edmonton's office market. The outcome of these elections could put pressure on government sector occupancies as well as define the future of the region's important energy sector.

TROPHY OFFICE SPACE IN DEMAND

Demand is strong for Class AA office buildings as tenants are demanding better amenities. Tenants no longer view building amenities as a mere commodity but instead now see them as a necessity in order to hire and retain top talent.

CONVERSION OPPORTUNITIES FOR FUNCTIONALLY OBSOLETE AND VACANT PROPERTIES

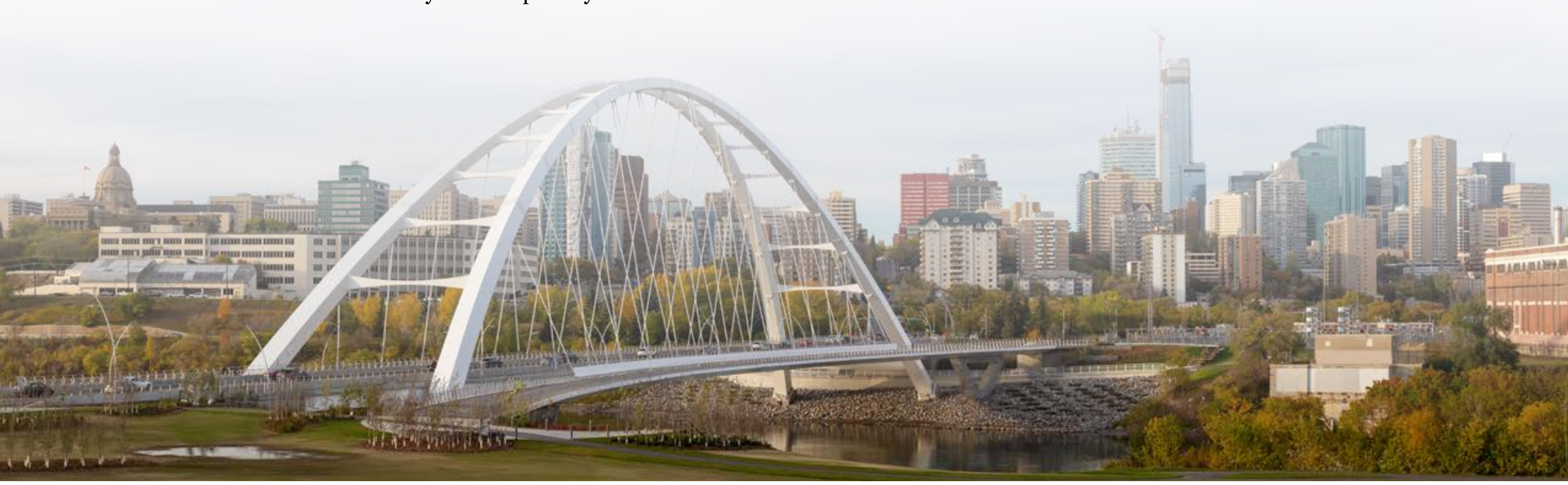
As tenants are relocating into higher quality office buildings, vacancy is expected to rise among the older office inventory. Due to functional inefficiencies, some owners are reviewing conversion opportunities as a viable option to repurpose these obsolete buildings. Recent projects in Edmonton have trended towards multifamily and hospitality conversions.

STRONG PRIVATE DEMAND FOR COMMERCIAL REAL ESTATE INVESTMENTS IN 2019

The private investor market will continue to be the most active in 2019. There continues to be strong investor demand for industrial and multifamily assets across all quality of product. In fact, Class A properties in both sectors continue to trade at pre-recession yields or even more aggressively in certain scenarios. On the other hand, office investment activity is expected to remain relatively quiet as demand becomes more selective in 2019. Similarly, institutional demand for larger retail properties has been muted while assets under $10.0 million are sought-after and backed by abundant private capital.

TAX DIFFERENTIALS DRIVING INDUSTRIAL TENANTS TO THE SURROUNDING MARKETS

Given large differences in taxation, industrial tenants are finding it more cost-effective to move their operations from the City of Edmonton into the surrounding communities. Tax differentials between $1.00 and $2.00 per sq. ft. are becoming costly and driving industrial tenants to relocate to Nisku, Leduc as well as to Acheson.



PROJECTS TO WATCH

EDMONTON

Edmonton International Airport Expansions

Over the past few years, the Edmonton International Airport (EIA) has continued to develop its available land to expand flight operations as well as to grow its commercial footprint. In 2018, a new Costco Warehouse, the Premium Outlet Collection mall and an 800,000 sq. ft. Aurora Cannabis production facility opened at the EIA. Additional amenities scheduled for completion in 2019 include the 135 room Fairfield Inn by Marriott hotel as well as Century Casino's race track and entertainment facility. As current developments are completed and future projects are started, the EIA will continue to grow as a commercial and economic driver for the region.

Valley Line West LRT

The Valley Line LRT project is a long-term plan to expand Edmonton's public transportation network with a 27-kilometre, 28-stop light rail transit route operating between Mill Woods in the southeast and Lewis Farms in west Edmonton via the downtown. As a first phase, the 12-stop southeast portion of the line is currently under construction and scheduled to be opened to the public by the end of 2020. Recently the Alberta government committed $1.0 billion to help fund the 16-stop second phase of the expansion, the Valley Line West portion. This funding covers 40.0% of the estimated total cost of the project and has moved it into the preliminary design review stage. However, additional funding is still required to cover the projected $2.6 billion total cost before construction can proceed.

Southwest Edmonton Hospital

Slated to be Edmonton's first new hospital to be built since 1988, a new health-care facility has been proposed in southwest Edmonton at the Ellerslie Research Station on 127 Street NW. The 320-acre site will house between 350 and 500 inpatient beds and is located adjacent to the planned LRT expansion routes. The Alberta government has already pledged $400.0 million for the project which is estimated to cost $2.0 billion. The planning and approval process for the project have already begun and construction is scheduled to start in 2020. The project is expected to take six years to complete with the hospital anticipated to become operational in 2026.

REGIONAL STATISTICS

EDMONTON

Office

DOWNTOWN	2017	2018	2019 F	YoY
Vacancy Rate	18.7%	18.2%	17.8%	▼
Class A Net Asking Rent (per sq. ft.)	$22.16	$20.55	$20.55	◀▶
Net Absorption (million sq. ft.)	(0.30)	0.27	0.10	▼
New Supply (million sq. ft.)	0.00	0.65	0.04	▼
Under Construction (million sq. ft.)	0.60	0.04	0.00	▼

SUBURBAN				
Vacancy Rate	19.1%	19.9%	19.0%	▼
Class A Net Asking Rent (per sq. ft.)	$18.51	$19.64	$19.64	◀▶
Net Absorption (million sq. ft.)	(0.02)	0.06	0.15	▲
New Supply (million sq. ft.)	0.07	0.15	0.07	▼
Under Construction (million sq. ft.)	0.15	0.07	0.14	▲

OVERALL				
Vacancy Rate	18.8%	18.9%	18.2%	▼
Class A Net Asking Rent (per sq. ft.)	$20.93	$20.25	$20.25	◀▶
Net Absorption (million sq. ft.)	(0.32)	0.33	0.25	▼
New Supply (million sq. ft.)	0.07	0.80	0.10	▼
Under Construction (million sq. ft.)	0.75	0.10	0.14	▲

Source: CBRE Research, 2019.

Industrial

	2017	2018	2019 F	YoY
Availability Rate	7.6%	7.9%	8.0%	▲
Net Asking Rent (per sq. ft.)	$9.71	$9.52	$9.35	▼
Sale Price (per sq. ft.)	$138	$140	$140	◀▶
Net Absorption (million sq. ft.)	0.60	0.81	1.20	▲
New Supply (million sq. ft.)	0.60	1.32	1.53	▲
Under Construction (million sq. ft.)	1.04	1.53	1.93	▲

Source: CBRE Research, 2019.

Retail

	2017	2018	2019 F	YoY
Total Retail Sales per Capita	$20,373	$20,792	$21,112	▲
Total Retail Sales Growth	9.7%	3.7%	3.1%	▼
Mall Sales Productivity (per sq. ft.)	$730	$721	$731	▲
New Supply (million sq. ft.)	0.70	0.70	0.40	▼

Source: CBoC, ICSC, CBRE Research, 2019.

Investment

VOLUME ($ MILLIONS)	2017	2018[1]	2019 F	YoY
Office	$404	$550	$750	▲
Industrial	$397	$1,468	$500	▼
Retail	$692	$1,086	$600	▼
Multifamily	$296	$856	$600	▼
ICI Land	$300	$624	$300	▼
Total*	$2,089	$4,585	$2,750	▼

* Total regional investment volumes do not include Hotel transactions.
[1]2018 investment volumes include material allocations from M&A activity.
Source: CBRE Research, 2019.

CAP RATES (%)				
Office - Downtown Class A	6.75 - 7.50	6.75 - 7.50	6.75 - 7.50	◀▶
Office - Suburban Class A & B	6.75 - 8.00	6.75 - 8.00	6.75 - 8.00	◀▶
Industrial - Class A & B	5.25 - 8.00	5.25 - 7.00	5.25 - 7.00	◀▶
Retail - Neighbourhood	5.50 - 6.00	6.25 - 6.75	6.25 - 6.75	◀▶
Multifamily - High Rise Class B	4.50 - 5.00	4.50 - 5.00	4.50 - 5.00	◀▶
Hotel - Downtown Full Service	7.25 - 8.75	7.00 - 8.50	7.00 - 8.50	◀▶

Source: CBRE Research, 2019.

Multifamily

	2017	2018	2019 F	YoY
Vacancy Rate	7.0%	5.3%	5.2%	▼
2-Bedroom Average Rent	$1,215	$1,246	$1,267	▲
New Rental Supply (units)	1,923	1,055	1,095	▲

Source: CMHC, CBRE Research, 2019.

Hotel

	2017	2018	2019 F	YoY
Inventory (Rooms)	16,624	16,815	17,637	▲
Occupancy	57.0%	58.6%	57.8%	▼
Average Daily Rate	$130	$129	$130	▲

Source: CBRE Research, 2019.

SASKATOON

Key Trends

NEW WAVE OF OFFICE CONSTRUCTION ATTRACTING MARQUEE TENANTS

After years of conservative office construction, two new towers at the River Landing development site in downtown Saskatoon are slated to open in late 2019 and early 2021. These developments will represent the first true Class A office assets delivered to the city's downtown core since the 1980s. Top-tier tenants who had previously been in Class B, C or owner-occupier properties have jumped at the opportunity to upgrade their space. With limited net new tenants coming to Saskatoon in recent years, the new developments will surely have significant trickle-down impacts on second tier office properties in the market. While it remains to be seen how the landscape will stabilize, it seems likely that city wide vacancy rates will rise in the short term as tenants take advantage of opportunities to move up the chain and sign leases in higher quality buildings at moderate rental rates.

INDUSTRIAL MARKET STABILIZES

The Saskatoon industrial landscape continued to improve in 2018 following several years of excess supply and high vacancy rates triggered by the wave of construction which ended in 2013. After years of gradual improvements due to minimal new construction and mounting tenant demand, 2018 finally saw the leasing of the remaining industrial space from the previous development cycle. Going into 2019, the city's vacancy rate sits at a healthy 7.7% with rents remaining resilient at $9.25 per sq. ft. Overall, fundamentals in the industrial sector look strong and there remains significant runway for further growth.

UNCERTAIN REGIONAL ECONOMY LEADING TO CAUTIOUS APPROACH ACROSS SECTORS

While Saskatoon boasts a more diverse economy than many other major cities in the prairie provinces, the region's economic performance is still highly tied to the commodity and energy industries. The recent downturn in these sectors, in the fallout of the oil prices collapse of 2014, has resulted in several turbulent economic years which, in turn, have led to caution in the real estate sector. This approach has paid off as conservative development across asset classes has allowed fundamentals to remain strong despite a challenging economic landscape and limited inflows of net new tenants. While this cautious approach looks poised to persist for the foreseeable future, real estate fundamentals should remain steady against the backdrop of forecasted GDP growth of a more robust 2.4% in 2019.

Investment

CAP RATES (%)	2018	2019 F	YoY
Office - Downtown Class A	6.50 - 7.25	6.50 - 7.50	▲
Office - Suburban Class A & B	6.50 - 8.00	6.50 - 8.00	◀▶
Industrial - Class A & B	6.25 - 7.25	6.25 - 7.25	◀▶
Retail - Neighbourhood	5.75 - 6.50	5.75 - 6.50	◀▶
Multifamily - High Rise Class B	5.00 - 5.50	5.00 - 5.50	◀▶
Hotel - Downtown Full Service	7.25 - 8.75	7.25 - 8.75	◀▶

Source: CBRE Research, 2019.

PROJECTS TO WATCH

SASKATOON

River Landing

The River Landing development by Greystone, Triovest and a local developer is a true mixed-use urban project situated on the edge of downtown Saskatoon. The project includes residential, hotel and office components which all broke ground in 2018. The two office towers included in the project total 450,000 sq. ft. of Class A space. The project has been well received by the market and both towers have already achieved pre-leasing of over 60%, including lease transactions by marquee tenants such as TD, Ernst & Young and Nutrien.

North Commuter Parkway

The North Commuter Parkway completed as part of the city's "Bridging to Tomorrow" initiative was one of the largest infrastructure projects in the province's history with a total budget of $211.4 million. The bridge, which opened officially in October 2018, spans the South Saskatchewan river at the northern edge of the city connecting residential developments in the northeast to the city's industrial areas in the east and south. The bridge will be a key driver of economic growth for the region and traffic volumes are set to hit upwards of 20,000 cars per day in coming years.

Brighton Marketplace

Brighton Marketplace has been one of Saskatoon's most successful retail developments since opening in 2018 with Landmark Cinemas and Wilson Lifestyle Centre currently open for business. Well-situated at the corner of College Drive and McOrmand Drive, the centre was designed to service Dream's over 100-acre residential Brighton Community located adjacent to the site. The development will include 235,000 sq. ft. of new retail. Leasing is nearing completion for the remaining project with a number of tenants, including a grocery anchor, slated to open in 2019.

WINNIPEG

Key Trends

CONSTRAINED INDUSTRIAL MARKET

While the Winnipeg industrial market ended 2018 with a near-record low availability rate of 3.2%, new construction within Winnipeg city limits has lagged. This lack of new construction coupled with lower costs in the rural municipalities surrounding the city has made these alternatives enticing options for industrial tenants. While fringe submarkets look poised to see increased leasing velocity going forward, the overall industrial market in Winnipeg remains healthy, tenant demand remains high and fundamentals should remain tight in 2019.

REDEFINING OF THE DOWNTOWN OFFICE MARKET

The growth of the office market in Winnipeg's Sports, Hospitality, and Entertainment District, dubbed the SHED, continues to redefine the city's downtown landscape. While options for Class A downtown office space in Winnipeg have traditionally been limited to the area surrounding Portage and Main, the completion of the new True North Square has both added a new alternative to the landscape and motivated several landlords to reinvest in their existing older stock. Overall, the effect of the new office tower, in conjunction with the growth of the SHED as a pedestrian and tourist destination, has been profound and will continue to build momentum in the area going forward.

OFFICE FLIGHT-TO-QUALITY

The availability of new top-quality Class A office product has triggered a flight-to-quality for many of the city's top office tenants looking to invest in new spaces and implement their respective "workplace of the future" corporate strategies. While this has been good news for owners of top of market assets, it has been a challenge for mid- and lower-tier office buildings as much of the movement to date has been a shuffling of the cards with no new major office tenants entering the market.

SEASONS MALL DEVELOPMENT A RESOUNDING SUCCESS

In the retail sector, Seasons continues to be a major area of growth for Winnipeg. The enclosed outlet mall on the north half of the site is practically fully leased and outparcel construction activity has been robust with hotel expansions announcements, residential and retail projects either being delivered in 2018 or currently underway. Much of the new development has involved new-to-market retailers, demonstrating that Winnipeg can attract new tenants as it continues to grow and mature as a market.

INVESTMENT MARKET ACTIVITY

Poised for an active investment year, the supply of investible assets should be steady in 2019 as many of the larger institutional investors make strategic shifts to core markets. Concurrently, climbing asset prices in Winnipeg should entice the disposition of properties by smaller local players. The current investment landscape should provide ample opportunity for mid-tier institutional capital and local private investors to acquire quality properties in a market boasting solid fundamentals across a variety of property sectors.

PROJECTS TO WATCH

WINNIPEG

Railside @ the Forks

The Forks neighborhood located on the site of a former CN railyard at the crossing of the Red and Assiniboine rivers has undergone a staggering transformation from underutilized industrial space to a vibrant tourist destination since Federal, Provincial and Municipal government groups assumed control of the lands in the early 1990s. After several stages of community and stakeholder consultation, it appears that the Forks Renewal Corporation (FRC) is prepared to begin work on the final developable parcels on the site, Railside @ the Forks. The first wave of construction will consist of several mid-rise multifamily buildings, complete with creative retail and office uses at ground level, rounding out The Forks as a mixed-use community in addition to one of Manitoba's top tourist destinations.

The SHED

Development within Winnipeg's Sports, Hospitality, and Entertainment District (the 'SHED') has redefined the city's downtown core. The submarket centered around the MTS Centre, home of the NHL's Winnipeg Jets, has undergone significant improvements of late including the completion of the first two buildings at True North Square and the start of construction on the Sutton Place Hotel and Residential towers. New development activity in the District has encouraged additional investment in surrounding properties and increased the quality of neighbourhood amenities, retail offerings and entertainment options, adding new sense of vibrancy to the district.

CentrePort

The CentrePort region located at the edge of the city of Winnipeg and the rural municipality of Rosser is positioned to be a growing industrial hub and the focus of significant development activity in coming years. While industrial construction within Winnipeg's city limits has lagged recently due to high construction costs and increasing land prices, newly serviced parcels in the CentrePort region have become enticing options for landlords and owner-occupier tenants looking for cost-effective and well-situated sites for new industrial properties. Leasing velocity in the region has been strong and looks poised to continue over the near- to medium-term.

REGIONAL STATISTICS

WINNIPEG

Office

DOWNTOWN	2017	2018	2019 F	YoY
Vacancy Rate	8.8%	11.7%	13.2%	▲
Class A Net Asking Rent (per sq. ft.)	$17.89	$22.34	$20.42	▼
Net Absorption (million sq. ft.)	0.03	0.05	(0.14)	▼
New Supply (million sq. ft.)	0.00	0.38	0.00	▼
Under Construction (million sq. ft.)	0.38	0.00	0.00	◀▶

SUBURBAN				
Vacancy Rate	9.2%	8.2%	9.2%	▲
Class A Net Asking Rent (per sq. ft.)	n/a	n/a	n/a	
Net Absorption (million sq. ft.)	0.00	0.06	0.09	▲
New Supply (million sq. ft.)	0.08	0.00	0.14	▲
Under Construction (million sq. ft.)	0.00	0.08	0.03	▼

OVERALL				
Vacancy Rate	9.0%	10.8%	12.1%	▲
Class A Net Asking Rent (per sq. ft.)	$17.89	$22.34	$20.42	▼
Net Absorption (million sq. ft.)	0.03	0.12	(0.05)	▼
New Supply (million sq. ft.)	0.08	0.38	0.14	▼
Under Construction (million sq. ft.)	0.38	0.08	0.03	▼

Source: CBRE Research, 2019.

Industrial

	2017	2018	2019 F	YoY
Availability Rate	3.6%	3.2%	2.9%	▼
Net Asking Rent (per sq. ft.)	$7.88	$7.96	$8.16	▲
Sale Price (per sq. ft.)	$91	$94	$97	▲
Net Absorption (million sq. ft.)	0.47	0.39	0.40	▲
New Supply (million sq. ft.)	0.07	0.07	0.18	▲
Under Construction (million sq. ft.)	0.00	0.08	0.10	▲

Source: CBRE Research, 2019.

Retail

	2017	2018	2019 F	YoY
Total Retail Sales per Capita	$14,920	$14,994	$15,389	▲
Total Retail Sales Growth	6.2%	2.1%	4.2%	▲
New Supply (million sq. ft.)	0.63	0.05	0.02	▼

Source: CBoC, ICSC, CBRE Research, 2019.

Investment

CAP RATES (%)	2017	2018	2019 F	YoY
Office - Downtown Class A	5.50 - 6.00	5.50 - 6.00	5.50 - 6.00	◀▶
Office - Suburban Class A & B	6.50 - 7.50	6.50 - 7.50	6.50 - 7.50	◀▶
Industrial - Class A & B	6.00 - 7.25	6.00 - 7.25	6.00 - 7.00	▼
Retail - Neighbourhood	6.50 - 7.00	6.50 - 7.00	6.25 - 6.75	▼
Multifamily - High Rise Class B	5.00 - 5.75	5.00 - 5.50	4.75 - 5.50	▼
Hotel - Downtown Full Service	7.75 - 9.00	7.00 - 8.50	7.00 - 8.50	◀▶

Source: CBRE Research, 2019.

Multifamily

	2017	2018	2019 F	YoY
Vacancy Rate	2.8%	2.9%	3.0%	▲
2-Bedroom Average Rent	$1,107	$1,179	$1,210	▲
New Rental Supply (units)	1,376	1,410	1,227	▼

Source: CMHC, CBRE Research, 2019.

Hotel

	2017	2018	2019 F	YoY
Inventory (Rooms)	7,188	7,313	7,428	▲
Occupancy	71.0%	70.2%	71.0%	▲
Average Daily Rate	$126	$129	$132	▲

Source: CBRE Research, 2019.

LONDON

Key Trends

DEVELOPMENT OF SOUTHWEST LONDON

The southwest end of London looks primed to become the city's next hub for development. The recent ruling by the provincial government's Land Disputes Tribunal, which increased the retail development cap along Wonderland Road to a total 1.3 million sq. ft. (118,700 sq. m.), now allows for the construction of additional big-box retail complexes in the area. Retail development will be supported by growing retail sales which are expected to increase 2.1% per year from 2019 to 2021, according to the Conference Board of Canada. Additional growth in this corridor will be spurred by Gateway Casinos' lease of a property on Wonderland Road for a new casino. If approved and rezoned, this entertainment facility will add a significant amount of jobs and development to the area.

MODERNIZATION OF EXISTING OFFICE STOCK

Following suit to Canada's major markets, London has seen an emergence of tenants looking to modernize their office space. To improve employee retention, recruitment and satisfaction, companies have demonstrated a willingness to either invest in their current spaces or relocate into areas that better support their evolving needs. Following a recent increase in vacancy, London's core office market has become well-positioned to handle such relocations.

GROWING DEMAND FOR INDUSTRIAL WAREHOUSES

Driven by the rise of ecommerce, London has seen significant demand for warehousing space from retailers and distribution companies looking to service Southwestern Ontario. In contrast to the rising development activity in other constrained industrial markets, tight market conditions in London have not prompted an increase in the construction pipeline. As a result, the industrial asset class is currently pricing at record rental rates that have increased by 30.0% since 2016. Strong demand has caused the availability rate to drop by 270 bps over the same period, resulting in a diminished amount of quality inventory available. Until supply meets demand, London's industrial market will remain tight.

WESTMOUNT MALL

Westmount Shopping Centre is repositioning the space vacated by Target into multiple alternative uses. Once completed, the area's main floor will be occupied by a gym and major retail tenant, while office tenants will operate on the top floor. Along with the mall's entire upper floor already being repurposed into both professional and medical offices, the Westmount mall has followed the trend of shopping centres evolving into community hubs. With some additional Target space still vacant along with the Sears vacancies in the market, Westmount Shopping Centre's repurposing of their site could act as a blueprint for other landlords.

ECONOMIC OUTLOOK

London's economic growth is expected to remain relatively on par with Ontario over the next few years. According to the Conference Board of Canada, the construction sector will be a main source of growth and is expected to expand by 2.2% in 2019. In addition to this, London International Airport has added three new destinations to Halifax, Edmonton and Abbotsford through WestJet's discount airline Swoop. It is anticipated that this expansion will bring more than 200,000 passengers through London and support an unprecedented amount of growth to their local industries.

PROJECTS TO WATCH

LONDON

Redevelopment of Hospital Lands

Located in the eastern portion of London, the former Psychiatric Hospital lands have been sold to Old Oak Properties for $17.0 million. Plans are to redevelop the 72-hectare infill site into more than 3,000 housing units as well as commercial office and retail uses. The development will help accommodate London's rising demand for rental, student and seniors housing. The site will feature both new and heritage-designated buildings, as well as three transit stops to ensure people can move efficiently through the neighbourhood. Expected to break ground in 2020, the Old Oak development will take at least 10 years to be completed.

Maple Leaf Foods Plant

Maple Leaf Foods recently announced plans to consolidate its fresh poultry processing operations across the province into a brand-new location in London. The 640,000 sq. ft., $660.0 million facility in the south industrial portion of the city is set to be the largest single-site investment in Canada's food industry. To reduce the development's environmental footprint, the company has pledged another $5.0 million to ensure that the London plant will utilize advanced manufacturing technologies. This decision to build in London will create 1,450 jobs, stimulate residential development and provide a boost to Southwest Ontario's agriculture sector. Construction is expected to begin in 2019, with production at the poultry plant slated for 2021.

Bostwick High-Rise Development

London's city council recently approved York Developments' proposed construction of five high-rise residential towers and a three-storey commercial complex on 16-hectares of land. Located close to the new Bostwick Community Centre, the $500.0 million project would consist of 1,300 residential units surrounded by significant amounts of park land. With a tight rental market and strong demand for new housing, this project would dramatically improve London's southwest corridor.

REGIONAL STATISTICS

LONDON

Office

DOWNTOWN	2017	2018	2019 F	YoY
Vacancy Rate	19.5%	21.3%	21.2%	▼
Class A Net Asking Rent (per sq. ft.)	$14.52	$17.58	$17.58	◀▶
Net Absorption (million sq. ft.)	(0.01)	(0.08)	0.00	▲
New Supply (million sq. ft.)	0.00	0.00	0.00	◀▶
Under Construction (million sq. ft.)	0.00	0.00	0.00	◀▶
SUBURBAN				
Vacancy Rate	8.0%	17.3%	16.5%	▼
Class A Net Asking Rent (per sq. ft.)	n/a	n/a	n/a	
Net Absorption (million sq. ft.)	0.04	(0.05)	0.06	▲
New Supply (million sq. ft.)	0.04	0.09	0.06	▼
Under Construction (million sq. ft.)	0.12	0.16	0.11	▼
OVERALL				
Vacancy Rate	16.9%	20.3%	20.0%	▼
Class A Net Asking Rent (per sq. ft.)	$14.52	$17.58	$17.58	◀▶
Net Absorption (million sq. ft.)	0.03	(0.13)	0.07	▲
New Supply (million sq. ft.)	0.04	0.09	0.06	▼
Under Construction (million sq. ft.)	0.12	0.16	0.11	▼

Source: CBRE Research, 2019.

Industrial

	2017	2018	2019 F	YoY
Availability Rate	8.0%	5.1%	4.5%	▼
Net Asking Rent (per sq. ft.)	$4.35	$5.14	$5.50	▲
Sale Price (per sq. ft.)	$61	$74	$80	▲
Net Absorption (million sq. ft.)	(0.29)	1.47	0.48	▼
New Supply (million sq. ft.)	0.10	0.39	0.25	▼
Under Construction (million sq. ft.)	0.51	0.24	0.80	▲

Source: CBRE Research, 2019.

Retail

	2017	2018	2019 F	YoY
Total Retail Sales per Capita	$15,040	$15,078	$15,226	▲
Total Retail Sales Growth	6.1%	1.6%	2.1%	▲

Source: CBoC, ICSC, CBRE Research, 2019.

Investment

VOLUME ($ MILLIONS)	2017	2018[1]	2019 F	YoY
Office	$11	$19	$20	▲
Industrial	$21	$28	$30	▲
Retail	$64	$409	$75	▼
Multifamily	$126	$277	$110	▼
ICI Land	$17	$37	$40	▲
Total*	$240	$770	$275	▼

* Total regional investment volumes do not include Hotel transactions.
[1] 2018 investment volumes include material allocations from M&A activity.
Source: CBRE Research, 2019.

CAP RATES (%)	2017	2018	2019 F	YoY
Office - Downtown Class A	6.50 - 8.50	6.50 - 8.50	6.50 - 8.50	◀▶
Office - Suburban Class A & B	7.50 - 8.50	7.50 - 8.50	7.00 - 8.50	▼
Industrial - Class A & B	6.30 - 8.50	6.30 - 8.50	6.30 - 8.50	◀▶
Retail - Neighbourhood	6.25 - 7.50	6.25 - 7.75	6.00 - 7.75	▼
Multifamily - High Rise Class B	5.25 - 6.50	5.25 - 6.50	5.00 - 6.50	▼
Hotel - Downtown Full Service	7.75 - 9.00	7.50 - 8.75	7.50 - 8.75	◀▶

Source: CBRE Research, 2019.

Multifamily

	2017	2018	2019 F	YoY
Vacancy Rate	1.8%	2.1%	1.9%	▼
2-Bedroom Average Rent	$1,041	$1,087	$1,102	▲
New Rental Supply (units)	415	1,139	567	▼

Source: CMHC, CBRE Research, 2019.

Hotel

	2017	2018	2019 F	YoY
Inventory (Rooms)	3,531	3,531	3,531	◀▶
Occupancy	65.0%	67.0%	68.0%	▲
Average Daily Rate	$113	$118	$123	▲

Source: CBRE Research, 2019.

WATERLOO REGION

Key Trends

TECH SECTOR CONTINUING TO FUEL OFFICE DEMAND

Demand for office space in Waterloo continues to be fueled by initiatives and funding brought into the Region through the technology sector. According to the Waterloo Economic Development Corporation, Waterloo has the largest concentration of math and computer science talent in the world. With a strong pool of venture capital and incubators spurring growth, there have been many new entrants into the marketplace as well as companies who have expanded their presence. To accommodate this growth, announcements for more purpose-built office construction projects are expected in 2019.

UNIVERSITY CORRIDOR CONSTRUCTION

The student housing sector remains highly competitive in the University Corridor because of its proximity to both the University of Waterloo and Wilfrid Laurier University. To attract students and achieve higher rental rates, developers have built modern buildings with high-quality amenities and management services. As a result of increased competition in the corridor, occupancy for Class C and D product is expected to come under pressure. These assets may therefore be repurposed and returned to the market as traditional multifamily rental units or single-family residences.

INDUSTRIAL MARKET TO BENEFIT FROM PROXIMITY TO GTA

As omnichannel strategies continue to develop in response to ecommerce's growth in Canada, the Waterloo Region has become an increasingly viable option for warehouse and distribution users seeking affordable alternatives to Toronto. Currently priced at $5.84 per sq. ft., Waterloo's average industrial net asking lease rate is 22.0% lower than the Greater Toronto Area (GTA) average. In 2018, leasing activity for industrial warehouses was driven by the increasing pressure to deliver consumer goods in shortened timeframes and as a result, the region's availability rate is currently at a record low. With the development pipeline only beginning to respond to the increase in demand, it is expected that the Region's availability will continue to tighten and drive up rental rates.

INTENSIFICATION OF DEVELOPMENT AROUND LRT

Despite repeated setbacks to the ION LRT's completion schedule, the construction of both residential and office buildings continues to intensify in the areas surrounding the light rail's proposed 19-stations. According to the London Free Press, infill investments in this area have totaled over $3.0 billion since the LRT was announced in 2011. Development around the light rail stops will remain active for the foreseeable future as access to transit remains an important factor for office tenants in the market for space.

ECONOMIC OUTLOOK

Backed by a diverse and broad-based economy, Waterloo Region's real GDP is expected to grow annually by 2.2% from 2019 to 2022, ranking it as the fourth strongest economy amongst Canadian CMAs according to the Conference Board of Canada. With a healthy job market and comparatively affordable housing, the Waterloo Region has become one of the largest and fastest growing regions in Ontario. From 2019 to 2022, annual employment growth is expected to average 1.7% and the Region's population is expected to grow by an average 1.2% each year. As a result, investor interest in the Waterloo Region is expected to remain robust for the foreseeable future.

PROJECTS TO WATCH

WATERLOO REGION

Gaslight District

Set to change Cambridge's skyline, the redevelopment of the Gaslight District by HIP Development will include two residential towers reaching 17- and 18-storeys as well as commercial uses including office, restaurants and retail. To pay homage to the area's past, the $125.0 million Gaslight District project is planned to showcase the site's heritage and keep the historic industrial stone façade largely intact during construction. With a skyline that has remained untouched since the 1970s, the Gaslight District project will change the outlook on Cambridge's core and provide the area with a new live and work space.

DTK Condos

IN8 Developments is slated to build the largest tower in downtown Kitchener with their 39-storey condominium tower at the corner of Duke and Frederick Street. Set to cost more than $100.0 million, the project will have 494 residential units, retail spaces located in the building's podium and top-of-the-line amenities for tenants. Along with other approved high-density residential projects expected to be completed by 2020, this project will continue to revitalize Kitchener's downtown core. Construction is slated to begin in 2019 following the demolition of the existing property at 32 Duke Street East.

Station Park

Located in the heart of Kitchener's Innovation District, the $500.0 million Zehr Group "SIXO Midtown" project has been sold to Vancouver-based VanMar Developments for $30.0 million and signals a vote of confidence in the Waterloo Region as an investment market. Although the exact details remain to be seen, VanMar Developments plan to move forward with a mixed-use project similar to the original proposal. With potential new residential, retail, office, restaurant and public spaces to come, Station Park promises to be a landmark destination for the booming technology sector in Waterloo Region's growing midtown district.

WATERLOO REGION

Office

DOWNTOWN	2017	2018	2019 F	YoY
Vacancy Rate	12.5%	9.5%	9.0%	▼
Class A Net Asking Rent (per sq. ft.)	$13.64	$15.23	$15.50	▲
Net Absorption (million sq. ft.)	(0.10)	0.21	0.35	▲
New Supply (million sq. ft.)	0.02	0.06	0.36	▲
Under Construction (million sq. ft.)	0.06	0.12	0.12	◀▶

SUBURBAN				
Vacancy Rate	20.0%	10.8%	8.5%	▼
Class A Net Asking Rent (per sq. ft.)	$14.91	$16.03	$16.50	▲
Net Absorption (million sq. ft.)	0.36	1.02	0.24	▼
New Supply (million sq. ft.)	0.24	0.17	0.00	▼
Under Construction (million sq. ft.)	0.21	0.00	0.13	▲

OVERALL				
Vacancy Rate	17.5%	10.4%	8.7%	▼
Class A Net Asking Rent (per sq. ft.)	$14.64	$15.99	$16.15	▲
Net Absorption (million sq. ft.)	0.27	1.23	0.59	▼
New Supply (million sq. ft.)	0.26	0.23	0.36	▲
Under Construction (million sq. ft.)	0.26	0.12	0.25	▲

Source: CBRE Research, 2019.

Industrial

	2017	2018	2019 F	YoY
Availability Rate	3.9%	2.9%	2.7%	▼
Net Asking Rent (per sq. ft.)	$5.02	$5.84	$6.25	▲
Sale Price (per sq. ft.)	$54	$85	$95	▲
Net Absorption (million sq. ft.)	0.84	1.46	1.04	▼
New Supply (million sq. ft.)	0.66	0.22	0.94	▲
Under Construction (million sq. ft.)	0.55	0.57	0.04	▼

Source: CBRE Research, 2019.

Retail

	2017	2018	2019 F	YoY
Total Retail Sales per Capita	$14,587	$14,648	$14,592	▼
Total Retail Sales Growth	6.8%	0.4%	2.3%	▲

Source: CBoC, ICSC, CBRE Research, 2019.

Investment

VOLUME ($ MILLIONS)	2017	2018	2019 F	YoY
Office	$196	$148	$175	▲
Industrial	$509	$397	$400	▲
Retail	$366	$362	$425	▲
Multifamily	$453	$483	$483	◀▶
ICI Land	$245	$297	$260	▼
Total*	$1,770	$1,686	$1,743	▲

* Total regional investment volumes do not include Hotel transactions.
Source: CBRE Research, 2019.

CAP RATES (%)				
Office - Downtown Class A	6.00 - 7.00	6.00 - 7.00	6.00 - 7.00	◀▶
Office - Suburban Class A & B	6.00 - 7.75	6.00 - 7.75	6.00 - 7.75	◀▶
Industrial - Class A & B	5.50 - 7.25	5.50 - 7.25	5.50 - 7.25	◀▶
Retail - Neighbourhood	5.50 - 6.50	5.50 - 6.50	5.50 - 6.50	◀▶
Multifamily - High Rise Class B	4.25 - 5.00	4.25 - 5.00	4.25 - 5.00	◀▶
Hotel - Downtown Full Service	8.00 - 9.00	7.50 - 8.50	7.50 - 8.50	◀▶

Source: CBRE Research, 2019.

Multifamily

	2017	2018	2019 F	YoY
Vacancy Rate	1.9%	2.9%	2.1%	▼
2-Bedroom Average Rent	$1,093	$1,210	$1,232	▲
New Rental Supply (units)	977	1,580	567	▼

Source: CMHC, CBRE Research, 2019.

Hotel

	2017	2018	2019 F	YoY
Inventory (Rooms)	4,219	4,221	4,248	▲
Occupancy	63.0%	65.7%	67.0%	▲
Average Daily Rate	$118	$126	$131	▲

Source: CBRE Research, 2019.

REGIONAL OUTLOOK

TORONTO
Key Trends

ECONOMIC GROWTH

Despite rising global economic and political uncertainty, Toronto continues to grow in prominence on the international stage as one of the most stable financial business centres in the developed world. The market emerged from the Global Financial Crisis relatively unscathed and has now experienced nine consecutive years of robust GDP growth, including a commanding growth rate of 2.7% in 2018. The city has developed a diverse and thriving economy and the unemployment rate ended 2018 at 6.0%, the lowest level since the late 1990s. Economic growth and high quality of life have also made Toronto a desirable destination for immigration and the market's population grew by over 120,000 people in 2018.

CURRENT WAVE OF CONSTRUCTION CRUCIAL FOR TORONTO TO BE COMPETITIVE GLOBALLY

Toronto is currently undergoing its largest wave of office development in over 15 years with 8.1 million sq. ft. of new space under construction along with a further 2.6 million sq. ft. committed for development. Tenant demand for this new space has been robust with 61.5% of the 7.3 million sq. ft. currently being developed downtown already pre-leased as of year-end 2018. As the city becomes increasingly international in scope and influence, the availability of top-class office space will be a key driver of future economic growth and an important factor in attracting new businesses to the market.

DOWNTOWN MARKET REMAINS VERY TIGHT

Toronto ended 2018 with the lowest Downtown vacancy rate of any major market in North America at 2.7%. These tight conditions drove the average Class A net asking rent up by 14.2%, ending the year at $35.37 per sq. ft. While the traditional large office-using employment sectors (financial services, business services and legal firms) have continued to account for a large portion of leasing activity, a growing share of the office demand has come from firms in emerging industries. Going forward it is expected that requirements from technology companies, who accounted for up to 30% of the users in the market in 2018, and coworking firms, who remain willing to lease almost any large block of space that reaches the market, will continue to grow and place additional pressure on market fundamentals in 2019.

TIGHTNESS OF MARKET AND SUPPLY CHALLENGES

The GTA industrial market reached unprecedented levels of tightness in 2018. Availability ended the year at a record low of 1.6%, full-year net absorption reached 11.1 million sq. ft. and rents surpassed the $7.00 per sq. ft. threshold for the first time in the market's history. Despite these conditions, new supply has lagged market demand the last four years. With net absorption exceeding 10.0 million sq. ft. every year since 2015 and only 6.6 million sq. ft. under construction at year-end, 75.4% of which is currently pre-leased, little relief will be brought to the market in the near-term. While the landlord community is beginning to ramp up construction, issues surrounding entitlement timelines, access to labour and rising construction costs will make developing enough new space to alleviate current market tightness a challenge in 2019 and beyond.

LARGE OCCUPIERS SHIFTING TO LONG-TERM STRATEGIES

A lack of options and access to labour have risen as major hurdles for industrial tenants over the past few years. In response to these obstacles, many occupiers have shifted their focus away from short-term remedies, to long-term strategies such as increased investment into automation and retrofitting existing space. This long-term mindset has also resulted in an increase in design-build construction as occupiers choose to forego the current marketplace in order to secure their ideal space, even if it will not be available until 2020 or beyond. With so much competition from an occupier perspective, smaller and more cost-conscious tenants will be pressed to find suitable space in the GTA going forward, especially as a larger share of the development pipeline gets consumed by build-to-suit projects.

TORONTO

Key Trends

GROWTH OF ECOMMERCE AS A DEMAND DRIVER

While the health of the industrial sector in Toronto has traditionally moved in-step with the region and country's macro-economic performance, in recent years demand for industrial space has outpaced underlying GDP growth. While this dynamic is complex, one factor which has fueled this shift has been the emergence of ecommerce precipitating an overhaul of Canadian supply chains. This change in supply chain strategy has drastically increased demand as it requires specialized facilities for last-mile delivery, product returns and reverse logistics, as well as buffer-stock warehouses which all operate niche functions with the supply chain of retailers and ecommerce companies.

ONLINE RETAILERS INVESTING IN BRICK AND MORTAR (OMNICHANNEL REMAINS KEY)

The growth of ecommerce and online retail will continue to have a major impact on the retail real estate landscape in 2019. Forward-looking retailers, both traditional and online-only, understand the importance of a blended omnichannel strategy and realize that consumers expect to be able to purchase products and interact with brands through a variety of channels. Having reached a market threshold for growth, digitally-native brands are beginning to see that online-only platforms are insufficient in this new environment and have begun to expand into brick and mortar space to better connect with consumers. This trend should accelerate in the new year.

FOOD AND FITNESS THRIVING

While certain retail formats have faced significant headwinds as of late, there have also been many sectors which have seen tremendous growth, namely food and fitness occupiers. Retail nodes featuring a heavy concentration of innovative food tenants have seen increased vibrancy and rising rents. In a similar vein, boutique fitness occupiers, which have traditionally been lumped in with the larger fitness gyms and viewed as less than desirable tenants, have been extremely successful in 2018. Many, if not all, have either expanded or plan on growing their footprint across urban Toronto neighbourhoods in the coming year.

POPULATION GROWTH DRIVING RENTAL DEMAND

Rental market fundamentals remained incredibly strong across the GTA as rental rates reached new highs and vacancy and unit turnover slid to historic lows in 2018. Construction of multifamily product remains at capacity and lags current demand driven by employment gains and robust population growth. Coupled with a secular shift in housing preferences toward centrally located high-density housing, the current lack of supply and rising home ownership costs has driven demand toward the comparatively cheaper rental market where it is expected that rents should continue to climb in 2019. Growth prospects are considerably strong as Toronto's rental market aims to move further along a favourable investment trajectory which is supported by an aggressive appetite from both domestic and international capital.

LONG IN THE CYCLE BUT OPPORTUNITIES EXIST

Toronto set a third consecutive record for investment volume in 2018 with a record total of just under $18.0 billion. While late cycle caution and rising interest rates would suggest a lowering of expectations for the market in the new year, momentum seems to be building and demand remains elevated. The relative lack of large-scale investment opportunities drove large institutional investors to creative strategies in 2018, including an increase in M&A and development activity, however opportunities still exist in the market and the outlook for 2019 remains bright.

PROJECTS TO WATCH

TORONTO

Downtown Relief Line

As the City of Toronto's priority transit project, the South Relief Line took several steps forward in 2018. The project, which is expected to cost close to $7.0 billion, will connect Pape station on Line 2 (Bloor-Danforth) to Osgood station on Line 1 (Yonge-University) providing much-needed relief for the near-capacity subway system. With design work already underway, the municipal government announced in early 2019 that they would be expediting the project, cutting the target completion date by two years to 2029.

"Housing Now" Plan

A measure aimed at improving housing affordability across the GTA, the "Housing Now" plan was approved by the Toronto City Council in early 2019. The program is the first stage of a government initiative to build 40,000 new affordable residential units over the next 12 years. The first phase of the project is set to begin immediately with the construction of 10,000 units across 11 municipally-owned sites. The city will offer $280.0 million in incentives to ensure that a third of the new units will be earmarked as affordable, with the remaining two-thirds being split evenly between market rental and condo offerings.

The Well Retail

RioCan and Allied's much anticipated The Well development continued to build momentum in 2018 with the announcement of several high-profile office leases and significant progress on construction of the commercial portion of the site. Going into the new year, the focus will now shift to the project's impressive retail offerings. The new retail development will include 420,000 sq. ft. of new space spread over three levels and will represent one of the largest urban mixed-use retail projects in the country over recent years. With leasing underway, the project is poised to attract an exciting mix of premium, flagship and concept stores for a wide variety of shoppers.

TORONTO

Office

DOWNTOWN	2017	2018	2019 F	YoY
Vacancy Rate	3.7%	2.7%	2.5%	▼
Class A Net Asking Rent (per sq. ft.)	$30.96	$35.37	$36.75	▲
Net Absorption (million sq. ft.)	1.52	1.35	0.89	▼
New Supply (million sq. ft.)	0.95	0.49	0.72	▲
Under Construction (million sq. ft.)	3.92	7.35	9.23	▲
SUBURBAN				
Vacancy Rate	14.3%	13.2%	12.0%	▼
Class A Net Asking Rent (per sq. ft.)	$17.48	$17.56	$18.12	▲
Net Absorption (million sq. ft.)	0.34	0.95	1.57	▲
New Supply (million sq. ft.)	0.28	0.82	0.74	▼
Under Construction (million sq. ft.)	1.43	0.74	0.33	▼
OVERALL				
Vacancy Rate	8.6%	7.6%	6.9%	▼
Class A Net Asking Rent (per sq. ft.)	$19.88	$20.88	$21.70	▲
Net Absorption (million sq. ft.)	1.86	2.30	2.46	▲
New Supply (million sq. ft.)	1.23	1.31	1.47	▲
Under Construction (million sq. ft.)	5.34	8.09	9.56	▲

Source: CBRE Research, 2019.

Industrial

	2017	2018	2019 F	YoY
Availability Rate	2.2%	1.6%	1.3%	▼
Net Asking Rent (per sq. ft.)	$6.42	$7.15	$7.51	▲
Sale Price (per sq. ft.)	$156	$194	$233	▲
Net Absorption (million sq. ft.)	11.39	11.05	12.26	▲
New Supply (million sq. ft.)	3.92	5.75	9.96	▲
Under Construction (million sq. ft.)	4.41	6.60	7.15	▲

Source: CBRE Research, 2019.

Retail

	2017	2018	2019 F	YoY
Total Retail Sales per Capita	$14,218	$14,230	$14,557	▲
Total Retail Sales Growth	9.1%	2.1%	4.2%	▲
Mall Sales Productivity (per sq. ft.)	$943	$964	$989	▲
New Supply (million sq. ft.)	0.87	1.07	1.22	▲

Source: CBoC, ICSC, CBRE Research, 2019.

Investment

VOLUME ($ MILLIONS)	2017	2018[1]	2019 F	YoY
Office	$4,221	$4,318	$4,250	▼
Industrial	$3,463	$5,129	$5,000	▼
Retail	$2,830	$2,855	$2,500	▼
Multifamily	$1,544	$2,664	$1,850	▼
ICI Land	$2,260	$2,729	$3,000	▲
Total*	$14,318	$17,696	$16,600	▼

* Total regional investment volumes do not include Hotel transactions.
[1]2018 investment volumes include material allocations from M&A activity.
Source: CBRE Research, 2019.

CAP RATES (%)				
Office - Downtown Class A	4.25 - 4.75	4.25 - 4.75	4.50 - 5.00	▲
Office - Suburban Class A & B	5.50 - 7.25	5.50 - 7.25	5.75 - 7.50	▲
Industrial - Class A & B	4.00 - 6.25	4.00 - 6.00	4.00 - 5.75	▼
Retail - Neighbourhood	5.00 - 6.25	5.00 - 6.25	5.25 - 6.50	▲
Multifamily - High Rise Class B	3.50 - 4.25	3.50 - 4.00	3.25 - 3.75	▼
Hotel - Downtown Full Service	5.00 - 6.00	4.50 - 6.00	4.50 - 6.00	◀▶

Source: CBRE Research, 2019.

Multifamily

	2017	2018	2019 F	YoY
Vacancy Rate	1.0%	1.1%	1.0%	▼
2-Bedroom Average Rent	$1,404	$1,467	$1,539	▲
New Rental Supply (units)	1,370	3,128	5,552	▲

Source: CMHC, CBRE Research, 2019.

Hotel

	2017	2018	2019 F	YoY
Inventory (Rooms)	44,503	45,195	46,454	▲
Occupancy	75.5%	76.0%	76.0%	◀▶
Average Daily Rate	$172	$183	$196	▲

Source: CBRE Research, 2019.

OTTAWA

Key Trends

▶ TECHNOLOGY HELPING TO TIGHTEN THE DOWNTOWN MARKET

The Downtown Class A market reached an eight-year low vacancy rate with a lack of available options for users looking for large blocks of space. The market is expected to remain tight moving forward, in part due to an increase in technology transactions in predominantly high-quality older product. Characterized by fast growth, technology companies often need to quickly move into larger space to keep pace with the company's growth and are therefore prioritizing the quality and availability of space over cost.

▶ FEDERAL GOVERNMENT INCREASING LEASING ACTIVITY

The Federal Government, Ottawa's largest occupier, has increased activity within both the downtown and suburban markets. A combination of increased hiring as well as the renovation of older stock owned by the government has led to stronger demand for office space across the market. In the near term, federal absorption of space should remain steady, however the upcoming election in 2019 leaves some uncertainty regarding the continued further take-up of space.

▶ LACK OF PROJECTS UNDER CONSTRUCTION COULD DAMPEN TENANT EXPANSION INTO THE OFFICE MARKET

Continued growth from both technology and government users has lowered office vacancy to levels not seen since 2013. With only 80,000 sq. ft. under construction in LeBreton Flats, additional supply will need to break ground as there is not enough quality product to meet current or future demand. Without an injection of new supply, the market could see a bottleneck in the downtown office market. While tenants with longer time-horizons should be able to wait for construction projects, tenants looking to act quickly could be forced to explore other options outside of their desired location and product choice.

▶ NEW SUPPLY NEEDED TO EASE INDUSTRIAL DEMAND

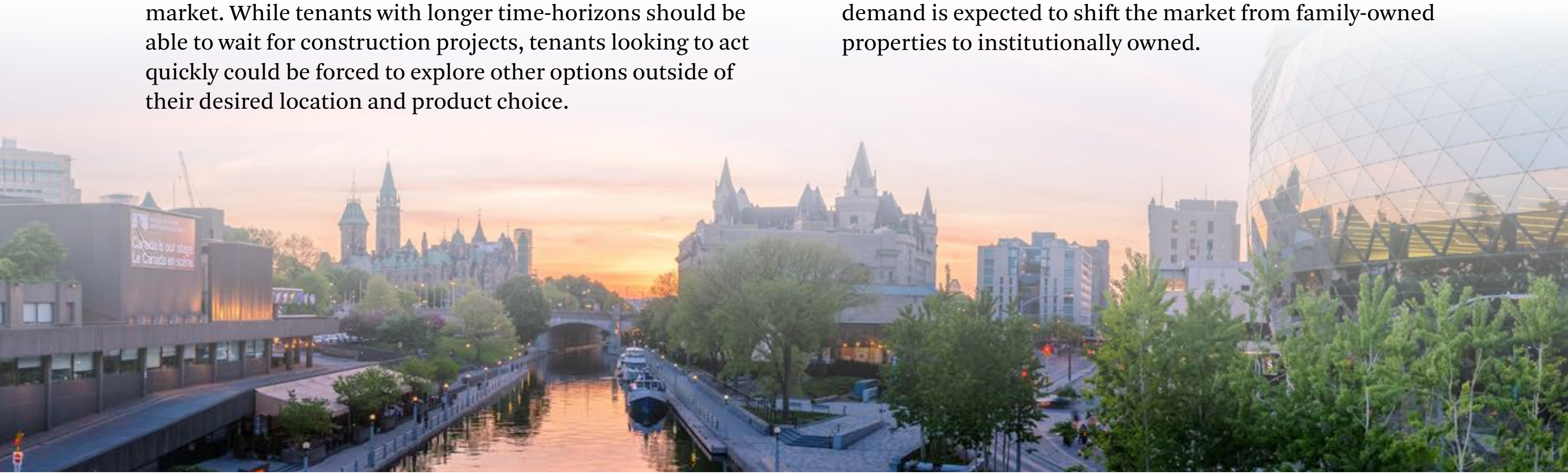
The industrial market faces a similar imbalance between supply and demand as the overall availability rate dropped to a record low in 2018. With no new supply in the pipeline other than Amazon's 1.0 million sq. ft. design-built development, Ottawa's industrial market is poised to compress even further over the coming quarters. Increased construction costs have discouraged speculative builds from moving forward constricting supply in the short-term.

▶ INCREASED COSTS FOR SMALLER TENANTS

With the majority of industrial user requirements between 5,000 and 15,000 sq. ft., currently available large bay product will need to be demised in order to meet demand. However, this does not always make economical sense as the construction costs to do so will result in rents which are more expensive than new-build product. The mismatch between tenant needs and market inventory will likely to persist until construction can more easily accommodate users of this size.

▶ INSTITUTIONALIZATION OF PROPERTY OWNERSHIP

Ottawa's investment market is expected to remain stable in the first half of 2019 as the vibrancy of the tech market and the stability of the federal government create a healthy environment for investors. Both Tier 1 industrial assets as well as Class A and high-quality Class B office space will continue to be the assets of choice for investors. Activity will be driven by owners looking to divest and redeploy capital within the Ottawa market as they recognize that now is a good time to diversify. Additionally, strong institutional demand is expected to shift the market from family-owned properties to institutionally owned.



PROJECTS TO WATCH

OTTAWA

800 Palladium Drive

Cominar has announced they will break ground on a 100,000 sq. ft. Phase 4 office building in their Palladium Campus in Kanata. The Class A project will come with a full slate of amenities designed to attract tenants including fitness and yoga facilities, indoor bike storage and a volleyball court. With completion expected by 2020, Ford Motors has already leased 40,000 sq. ft. for a new research and development centre to support autonomous vehicle research.

LRT (Phase I and II)

Phase I of Ottawa's Light Rail Transit is almost complete and is expected to start running in early 2019. It will be comprised of 12.5-kilometre of track running from east to west cutting through the downtown core. This has sparked renovation projects along the line route including SunLife Financial Centre, CF Rideau Centre, as well as the University of Ottawa and the Ottawa Art Gallery. Construction on Phase II is expected to start in 2019 and will add an additional 44-kilometres of track to the LRT system, extending the Confederation and Trillium lines.

Zibi

Development began on three office buildings totalling 80,000 sq. ft. in Zibi, Dream Office REIT and Theia Partners' mixed-use development just west of the core. The 37-acre development will eventually bring upwards of 1,500 condominiums and rental apartments, more than 1.5 million sq. ft. of commercial space, including office, retail, cultural and institutional uses, and eight-acres of greenspace. Expected to extend the boundaries of the Downtown West when complete, the development will transform the old Domtar lands in Ottawa and Gatineau into a vibrant and sustainable mixed-use community. Completion of the full site is expected by 2026.

REGIONAL STATISTICS

OTTAWA

Office

DOWNTOWN	2017	2018	2019 F	YoY
Vacancy Rate	9.3%	7.4%	7.1%	▼
Class A Net Asking Rent (per sq. ft.)	$23.05	$23.81	$23.90	▲
Net Absorption (million sq. ft.)	0.14	0.35	0.11	▼
New Supply (million sq. ft.)	0.00	0.00	0.04	▲
Under Construction (million sq. ft.)	0.00	0.08	0.13	▲
SUBURBAN				
Vacancy Rate	11.8%	8.5%	7.1%	▼
Class A Net Asking Rent (per sq. ft.)	$16.48	$16.03	$16.21	▲
Net Absorption (million sq. ft.)	0.40	0.74	0.32	▼
New Supply (million sq. ft.)	0.44	0.00	0.00	◀▶
Under Construction (million sq. ft.)	0.00	0.00	0.09	▲
OVERALL				
Vacancy Rate	10.7%	8.0%	7.1%	▼
Class A Net Asking Rent (per sq. ft.)	$18.12	$18.14	$19.71	▲
Net Absorption (million sq. ft.)	0.54	1.09	0.43	▼
New Supply (million sq. ft.)	0.44	0.00	0.04	▲
Under Construction (million sq. ft.)	0.00	0.08	0.22	▲

Source: CBRE Research, 2019.

Industrial

	2017	2018	2019 F	YoY
Availability Rate	4.5%	2.7%	0.8%	▼
Net Asking Rent (per sq. ft.)	$9.72	$10.10	$10.22	▲
Sale Price (per sq. ft.)	$134	$176	$195	▲
Net Absorption (million sq. ft.)	0.46	0.61	1.58	▲
New Supply (million sq. ft.)	0.20	0.07	1.02	▲
Under Construction (million sq. ft.)	0.03	1.02	0.00	▼

Source: CBRE Research, 2019.

Retail

	2017	2018	2019 F	YoY
Total Retail Sales per Capita	$15,542	$15,866	$16,246	▲
Total Retail Sales Growth	7.1%	3.9%	3.9%	◀▶
Mall Sales Productivity (per sq. ft.)	$704	$719	$736	▲
New Supply (million sq. ft.)	0.31	0.18	0.15	▼

Source: CBoC, ICSC, CBRE Research, 2019.

Investment

VOLUME ($ MILLIONS)	2017	2018[1]	2019 F	YoY
Office	$1,067	$635	$700	▲
Industrial	$107	$356	$325	▼
Retail	$208	$376	$400	▲
Multifamily	$279	$224	$225	▲
ICI Land	$310	$309	$325	▲
Total*	$1,971	$1,901	$1,975	▲

* Total regional investment volumes do not include Hotel transactions.
[1]2018 investment volumes include material allocations from M&A activity.
Source: CBRE Research, 2019.

CAP RATES (%)				
Office - Downtown Class A	5.00 - 5.50	5.00 - 5.50	5.00 - 5.50	◀▶
Office - Suburban Class A & B	6.00 - 7.25	6.00 - 7.25	6.00 - 7.50	▲
Industrial - Class A & B	4.50 - 6.50	4.50 - 6.50	4.50 - 5.50	▼
Retail - Neighbourhood	5.75 - 6.50	5.75 - 6.50	5.75 - 6.50	◀▶
Multifamily - High Rise Class B	4.00 - 4.25	4.00 - 4.25	4.00 - 4.25	◀▶
Hotel - Downtown Full Service	7.00 - 8.00	7.00 - 8.00	7.00 - 8.00	◀▶

Source: CBRE Research, 2019.

Multifamily

	2017	2018	2019 F	YoY
Vacancy Rate	1.7%	1.6%	1.5%	▼
2-Bedroom Average Rent	$1,232	$1,301	$1,332	▲
New Rental Supply (units)	575	928	1,737	▲

Source: CMHC, CBRE Research, 2019.

Hotel

	2017	2018	2019 F	YoY
Inventory (Rooms)	10,431	11,454	12,179	▲
Occupancy	75.0%	73.0%	73.0%	◀▶
Average Daily Rate	$172	$169	$175	▲

Source: CBRE Research, 2019.

MONTREAL

Key Trends

▶ DEMAND FROM TECH DRIVING BRICK-AND-BEAM CONVERSIONS

Montreal continues to assert itself as technology hub with companies both moving into and expanding within the city. Artificial Intelligence (AI) research in Montreal has established itself as a major global player with large firms such as Google, Facebook and Microsoft all setting up AI labs in the city. The growth of the technology industry has helped to compress brick-and-beam vacancy to historic lows as companies tend to prefer the converted space to traditional offices. It is expected that vacancy will lower even further into 2019 and encourage more loft conversions to meet the demand.

▶ NO SLOWDOWN EXPECTED FOR THE INDUSTRIAL MARKET

The industrial market saw remarkable strength through 2018 and is expected to continue in 2019 as high levels of demand pushed availability to record-low levels in Montreal. This has driven a race for space with properties for lease quickly being taken off-market. While this bodes well for landlords, it has posed challenges for tenants, particularly those with large requirements. Rental rates have increased in-step with landlords taking advantage of the tight conditions and pursing rental appreciation between 20% to 30% for renewals. This trend is likely to continue into the upcoming year, further strengthening Montreal's industrial fundamentals.

▶ HIGH COSTS WILL CONTINUE TO CONSTRAIN INDUSTRIAL CONSTRUCTION

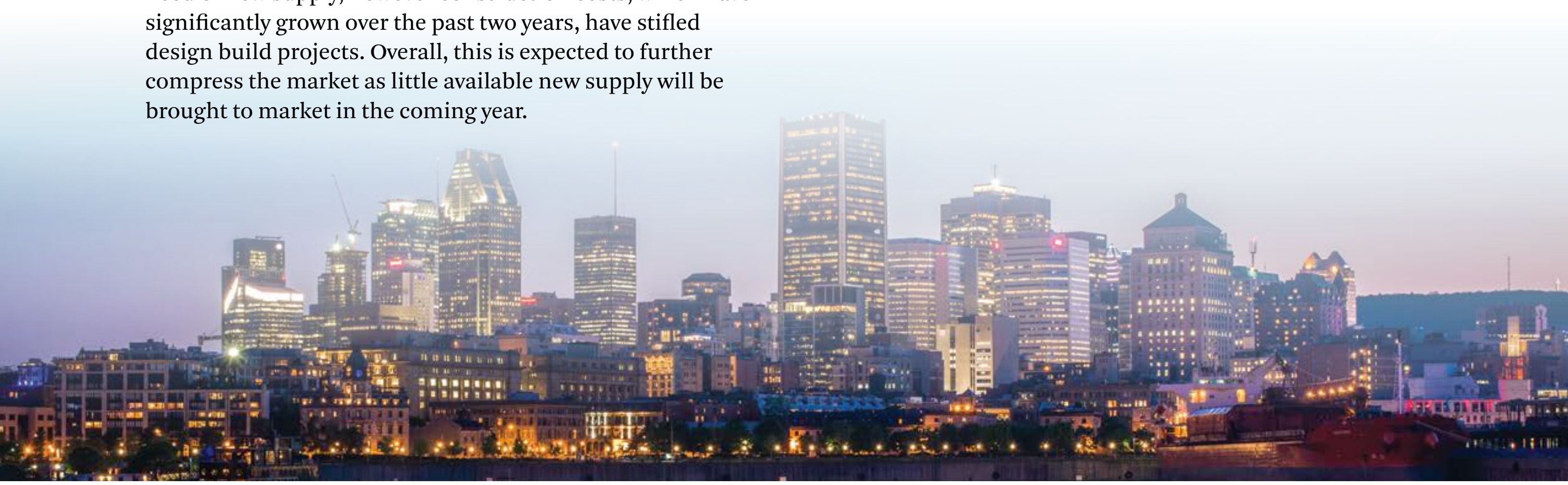
Given current market conditions the industrial market is in need of new supply, however construction costs, which have significantly grown over the past two years, have stifled design build projects. Overall, this is expected to further compress the market as little available new supply will be brought to market in the coming year.

▶ RETAIL WITNESSING NEW TENANT DEMAND

Urban retail remains vibrant in Montreal with the growing mix of high-end stores. The ongoing renovation of the Montreal Eaton Center, which will see it merged with the former Complexe Les Ailes, will also be a bright spot for the market when complete. The renovation is already garnering tenant demand and is set to be the home of French sports goods store Decathlon, their third location in Greater Montreal following two suburban locations. The traditionally slower moving suburban retail has seen a resurgence as an increasing number of retailers are choosing to expand into suburban shopping centres. Increased accessibility for shoppers and larger space options have drawn tenants to power centre style retail, particularity on the South Shore and in Laval. Adding to the strength of suburban retail is the conversion of former Target space into offices, allowing landlords to increase the overall quality of the asset.

▶ ACTIVE INVESTMENT MARKET IN 2019

Montreal's investment market is expected to remain strong throughout 2019. Industrial and multifamily product will continue to be highly sought-after as both sectors have undergone a rapid strengthening of fundamentals with no expected slow down in the near future. In addition to these top-tier investment targets, grocery-anchored and urban retail as well as downtown core office assets remain in high demand. Rising investor confidence and a liquid debt market have created an advantageous environment for owners to sell or refinance assets and, matched with increased investor demand for quality product across all asset types, cap rates are expected to compress slightly over the coming year.



PROJECTS TO WATCH

MONTREAL

Samuel De Champlain Bridge

The new Samuel De Champlain Bridge is expected to be complete and ready for use in June 2019. Meant to replace the existing Champlain Bridge, the $2.1 billion project will have six vehicle lanes with a dedicated lane for cyclists and pedestrians. Additional highway infrastructure projects are underway to more efficiently connect the Island of Montreal to the South Shore through the Light Rail Train coming in 2020. With an estimated $20.0 billion in annual international trade expected to cross the bridge and annual traffic volumes anticipated to reach 60.0 million vehicles, this new bridge is vital to Montreal residents, as well as the local and national economies.

Royalmount

Carbonleo has started the demolition phase of their ambitious Royalmount project located just west of the Town of Mount Royal. The $2.0 billion mixed-use project will feature retail, restaurants, a hotel and additional amenities, as well as office and residential towers. The project has faced criticism as some groups are concerned about the increased demand it will place on traffic given that the project sits at the intersection of two of Montreal's busiest highways, however, city officials and the developers are committed to working together to try to find a solution that addresses these concerns.

Place Ville Marie

Ivanhoe Cambridge's revitalization of their Place Ville Marie complex in the heart of downtown Montreal is set to be completed in 2019. The $200.0 million project will showcase a new design including a glass pavilion as well as upgraded shopping offerings to better suit those working and shopping in the area. The project will also be home to a new restaurant, Le Cathcart Restaurants et Biergarten. A major cornerstone of this project is the revitalization of the lower levels at 1 Place Ville Marie, including the existing retail area and construction of new offices under the esplanade.

REGIONAL STATISTICS

MONTREAL

Office

DOWNTOWN	2017	2018	2019 F	YoY
Vacancy Rate	9.7%	9.4%	9.2%	▼
Class A Net Asking Rent (per sq. ft.)	$22.22	$22.76	$22.95	▲
Net Absorption (million sq. ft.)	1.18	0.15	0.55	▲
New Supply (million sq. ft.)	0.85	0.04	0.50	▲
Under Construction (million sq. ft.)	0.71	0.95	0.79	▼

SUBURBAN				
Vacancy Rate	17.4%	18.0%	18.0%	◀▶
Class A Net Asking Rent (per sq. ft.)	$15.30	$14.82	$14.79	▼
Net Absorption (million sq. ft.)	0.76	(0.10)	0.12	▲
New Supply (million sq. ft.)	0.50	0.16	0.17	▲
Under Construction (million sq. ft.)	1.03	0.81	0.27	▼

OVERALL				
Vacancy Rate	12.8%	12.9%	12.8%	▼
Class A Net Asking Rent (per sq. ft.)	$18.48	$18.45	$18.29	▼
Net Absorption (million sq. ft.)	1.93	0.05	0.67	▲
New Supply (million sq. ft.)	1.35	0.20	0.66	▲
Under Construction (million sq. ft.)	1.74	1.76	1.06	▼

Source: CBRE Research, 2019.

Industrial

	2017	2018	2019 F	YoY
Availability Rate	6.3%	3.6%	2.8%	▼
Net Asking Rent (per sq. ft.)	$5.66	$5.91	$6.17	▲
Sale Price (per sq. ft.)	$68	$82	$84	▲
Net Absorption (million sq. ft.)	2.75	8.93	3.61	▼
New Supply (million sq. ft.)	0.42	0.79	1.03	▲
Under Construction (million sq. ft.)	1.04	1.03	1.20	▲

Source: CBRE Research, 2019.

Retail

	2017	2018	2019 F	YoY
Total Retail Sales per Capita	$13,555	$14,381	$14,668	▲
Total Retail Sales Growth	3.5%	7.3%	3.0%	▼
Mall Sales Productivity (per sq. ft.)	$655	$677	$686	▲
New Supply (million sq. ft.)	0.28	1.00	0.75	▼

Source: CBoC, ICSC, CBRE Research, 2019.

Investment

VOLUME ($ MILLIONS)	2017	2018[1]	2019 F	YoY
Office	$867	$1,088	$1,349	▲
Industrial	$772	$1,391	$1,488	▲
Retail	$877	$965	$975	▲
Multifamily	$1,693	$2,131	$2,344	▲
ICI Land	$603	$473	$496	▲
Total*	$4,812	$6,048	$6,652	▲

* Total regional investment volumes do not include Hotel transactions.
[1]2018 investment volumes include material allocations from M&A activity.
Source: CBRE Research, 2019.

CAP RATES (%)				
Office - Downtown Class A	5.00 - 5.50	5.00 - 5.50	5.00 - 5.50	◀▶
Office - Suburban Class A & B	5.25 - 7.75	5.50 - 7.50	5.75 - 6.50	▼
Industrial - Class A & B	5.50 - 7.25	4.75 - 6.50	4.75 - 6.50	◀▶
Retail - Neighbourhood	7.00 - 7.75	6.50 - 7.00	6.50 - 7.25	▲
Multifamily - High Rise Class B	4.50 - 5.00	4.50 - 5.00	4.00 - 4.50	▼
Hotel - Downtown Full Service	7.00 - 8.00	6.50 - 7.50	6.50 - 7.50	◀▶

Source: CBRE Research, 2019.

Multifamily

	2017	2018	2019 F	YoY
Vacancy Rate	2.8%	1.9%	2.5%	▲
2-Bedroom Average Rent	$782	$809	$819	▲
New Rental Supply (units)	9,155	8,879	12,104	▲

Source: CMHC, CBRE Research, 2019.

Hotel

	2017	2018	2019 F	YoY
Inventory (Rooms)	23,038	24,235	24,807	▲
Occupancy	75.0%	72.5%	73.0%	▲
Average Daily Rate	$175	$179	$186	▲

Source: CBRE Research, 2019.

REGIONAL OUTLOOK

QUEBEC CITY

Key Trends

▶ ECONOMIC OUTLOOK REMAINS POSITIVE

Coming off a strong 2018, Quebec City's economic growth is expected to moderate slightly to an estimated 1.9% though 2019. Despite the slowdown, 2019 will mark the region's 23rd year of consecutive annual gains. Professional, scientific and technical services, as well as the manufacturing sector, will help drive the economy as both are expected to post gains of 2.2% in 2019. Additionally, the residential construction market will remain strong with housing starts forecast to remain in line with its 10-year historical average with 4,900 units expected for 2019.

▶ OFFICE MARKET TO REMAIN STABLE MOVING FORWARD

Quebec City's office market has enjoyed relatively steady vacancy rates and rents in recent years predominately due to the stability from the provincial government. Government and insurance companies are the largest occupiers in Quebec City, accounting for almost 70% of leased office space. Due to the relatively stagnant nature of these tenants, the city sees less leasing activity than other metros of similar size. However, the upcoming city-wide transit project could help attract outside tenants to the market and encourage current ones to grow.

▶ SURROUNDING CITIES EXPERIENCING GROWTH

The city of Lévis, located on the south shore of Quebec City, has seen an increasing number of businesses moving into the market. Industrial tenants are being drawn to the area by lower asking rents as well as larger amounts of available land for development compared to Quebec City proper. As more people begin to both live and work in Lévis, additional amenities such as pharmacies or grocery stores are expected to be drawn to the area to support the increased number of residents centred in the city.

▶ INVESTMENT TO REMAIN LOCALLY OWNED

Quebec City's investment market tends to experience low transaction volumes as the majority of the market is family-owned where assets are handed down through generations. While this trend is expected to continue, the increased modernization of the city and stability of the Quebec City market could help increase interest from outside capital and owners may start to consider selling their assets for the right price. This trend has already started with Groupe Mach investing in the city along with Oxford Properties recently acquiring over 200 multifamily units within the city.

Investment

CAP RATES (%)	2018	2019 F	YoY
Office - Downtown Class A	6.00 - 6.75	6.00 - 6.75	◀▶
Office - Suburban Class A & B	6.25 - 7.25	6.25 - 7.25	◀▶
Industrial - Class A & B	6.25 - 8.50	6.00 - 8.50	▼
Retail - Neighbourhood	7.25 - 8.50	7.25 - 8.50	◀▶
Multifamily - High Rise Class B	5.25 - 6.25	5.25 - 6.25	◀▶
Hotel - Downtown Full Service	7.25 - 8.50	7.25 - 8.50	◀▶

Source: CBRE Research, 2019.

PROJECTS TO WATCH

QUEBEC CITY

Tramway Network

The municipal government has announced plans to build a $3.0 billion public transit network expected to be fully operational by 2026. The 23-kilometre project will connect the city using streetcars and busses which will operate in reserved lanes. In an effort to increase sustainability, the entire system will run on electricity fed through overhead wires. The addition of this city-wide transit system could help to increase interest in the market on both the tenant and landlord sides as it will allow for a more mobile workforce.

Espace d'Innovation Chauveau

Groupe Dallaire has started preleasing Phase I of their 3.0 million sq. ft. industrial project in the northeast end of the city. With construction expected to begin this Spring, Phase I will add an additional 800,000 sq. ft. to the Quebec City's industrial market. As the space is zoned for all types of industrial use, demand is expected from logistic users in particular, although some tech manufacturing may also demonstrate interest. The park will also be home to Simons' new $215.0 million fulfillment facility which is expected to open in 2020. The scope of both of these projects indicate high levels of confidence in the industrial market.

Le Phare

Groupe Dallaire has obtained zoning for the mixed-used mega project Le Phare. Serving as a launchpad for the densification of Laurier Boulevard, construction on the 65-storey $755.0 million dollar project is scheduled to break ground in Spring 2019. Le Phare will be a one-of-a-kind destination that will include housing, offices, shops, restaurants, a public transportation hub, a performing arts center and a public square. The tallest and the most impressive mixed-use development to date in Quebec City, the tower will also include an observation deck on the top two floors providing a panoramic view of the city.

REGIONAL OUTLOOK

HALIFAX
Key Trends

▶ IMMIGRATION TO FUEL DEVELOPMENT

Halifax is expected to experience strong population growth as a result of the Atlantic Growth Strategy, a government initiative introduced in 2016 with the goal to attract more immigrants to the maritime provinces. According to the Conference Board of Canada, Halifax's population is expected to grow annually by an average of 1.3% from 2019 until 2022, outpacing that of the national and provincial averages of 1.1% and 0.4%, respectively. Since its implementation, the growth strategy has stimulated the economy, bolstered the skilled workforce and improved the fundamentals of multifamily assets in the downtown core. Historically focused to the suburban nodes, office users have shifted their recruitment efforts towards Halifax's downtown core.

▶ TENANTS DEMAND QUALITY SPACE

The office market has experienced a growing number of tenants who have downsized their space requirements and become more efficient in collaborative work environments as a result of new supply in the downtown core. Following the growing trend across the country, landlords and developers in Halifax have opted to include newer technologies into their older spaces to help tenants attract and retain talent. To remain competitive, landlords have begun to raise tenant improvement allowances in older office stock to give tenants the ability to retrofit or renovate their spaces.

▶ TRANSPORTATION AND WAREHOUSING BOOM

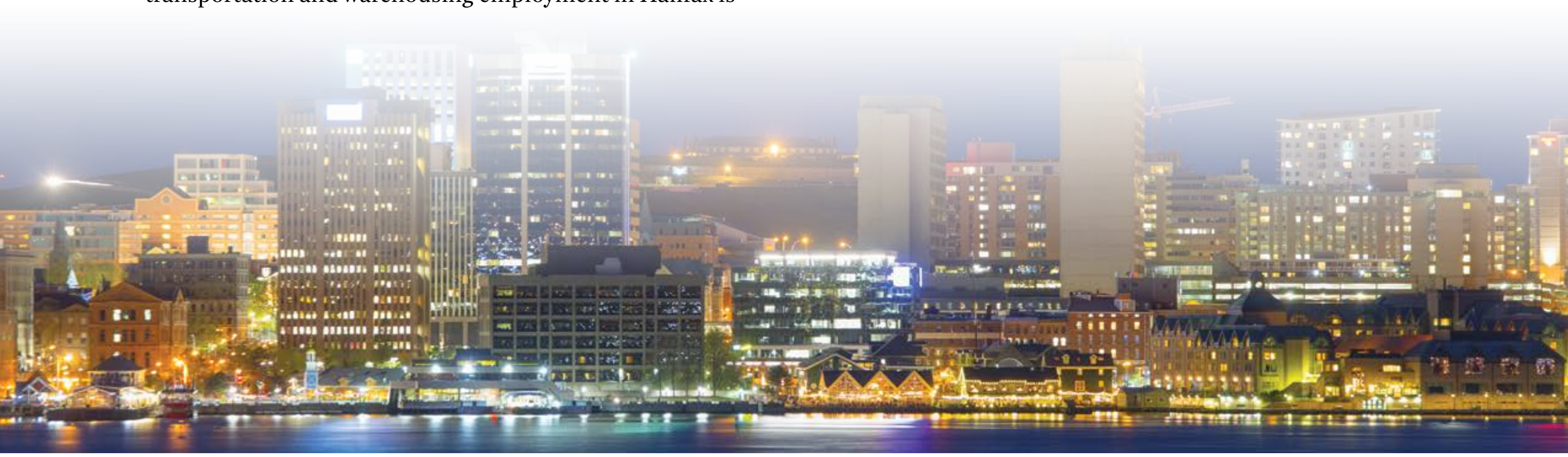
The Halifax industrial market has seen an increased level of activity in the marketplace and achieved a record level of absorption in 2018. Facilitated through the Port of Halifax, which connects importers and exporters across the world, transportation and warehousing employment in Halifax is expected to grow by 3.7% in 2019 according to the Conference Board of Canada. Despite having an older warehouse inventory relative to Canada's major markets, Halifax's industrial marketplace continues to have a shortage of industrial space under construction. With more companies expanding their distribution platforms in Atlantic Canada and the small development pipeline limiting future availability, rental rates are expected to rise over the coming years.

▶ INVESTMENT OUTLOOK

Over the last few years, the premium on property yields in Halifax has attracted a deeper and broader investment pool to the region across all asset classes. With the availability of product becoming more strained across Canada's major markets, investors have begun to look towards the mid-tiered markets to invest their capital. Coupled with an attractive yield spread, 2019 is expected to be another strong year for investment in Halifax.

▶ TECH TALENT

Concentrated in the Atlantic region, Canada's Ocean Supercluster is a $250.0 million Federal Government-led partnership which brings together post-secondary institutions, non-profit groups and businesses to boost innovation and modernization across the country's ocean industries. As part of this supercluster, these groups will work on emerging marine technologies focused on creating environmentally sustainable economic growth. Supported by an abundance of nearby universities, the Centre for Ocean Ventures and Entrepreneurship, growth in Halifax's digital media industry and the Ocean Supercluster initiative, Atlantic Canada's technology scene is expected to flourish for the foreseeable future.



PROJECTS TO WATCH

HALIFAX

Air Cargo Park Funding

The federal government and province of Nova Scotia plan to spend $23.0 million to fund a new Air Cargo Logistics Park located at the Halifax Stanfield International Airport. This facility will help to alleviate the bottleneck of cargo goods at the airport and improve access to the regional highway system, business parks and warehouse facilities across Atlantic Canada. With more than 70% of Atlantic Canada's air cargo exports flowing through Stanfield International Airport, the new cargo park will help fuel industrial and logistics growth in the area.

Cogswell District

To connect downtown with the north end of the city and the waterfront, the City of Halifax plans to construct a new neighbourhood where the Cogswell Interchange currently stands. With a completion date of spring 2022, the underutilized piece of road infrastructure will be transformed into a mixed-use development as well as a new transit hub. Plans for the district include residential units, commercial space, green spaces, an urban plaza, public parks, bikeways and multi-use trails. The new Cogswell District will also support environmentally sustainable commuting between downtown and the surrounding communities.

Halifax Shipbuilding Contract

The federal government announced that they will purchase a sixth Arctic and offshore patrol vessel for the Royal Canadian Navy that will be built at Halifax's Irving Shipbuilding yard. With four other offshore patrol vessels currently under construction, this new addition will narrow the gap between the current contract's completion and when work begins on the Canadian Surface Combatant program starting in 2024. The extension of the current project, along with the split contract for maintenance of Royal Canadian Navy frigates in Halifax, will continue to stimulate job growth and residential development in the surrounding area.

REGIONAL STATISTICS

HALIFAX

Office

DOWNTOWN	2017	2018	2019 F	YoY
Vacancy Rate	18.5%	19.5%	18.7%	▼
Class A Net Asking Rent (per sq. ft.)	$19.43	$19.25	$19.25	◀▶
Net Absorption (million sq. ft.)	0.16	(0.05)	0.04	▲
New Supply (million sq. ft.)	0.30	0.00	0.00	◀▶
Under Construction (million sq. ft.)	0.12	0.12	0.12	◀▶

SUBURBAN				
Vacancy Rate	13.5%	12.8%	11.5%	▼
Class A Net Asking Rent (per sq. ft.)	$15.51	$15.85	$16.50	▲
Net Absorption (million sq. ft.)	0.14	0.11	0.15	▲
New Supply (million sq. ft.)	0.12	0.07	0.05	▼
Under Construction (million sq. ft.)	0.03	0.05	0.03	▼

OVERALL				
Vacancy Rate	15.5%	15.6%	14.4%	▼
Class A Net Asking Rent (per sq. ft.)	$18.06	$17.93	$17.96	▲
Net Absorption (million sq. ft.)	0.31	0.06	0.19	▲
New Supply (million sq. ft.)	0.42	0.07	0.05	▼
Under Construction (million sq. ft.)	0.15	0.17	0.15	▼

Source: CBRE Research, 2019.

Industrial

	2017	2018	2019 F	YoY
Availability Rate	10.3%	7.0%	6.6%	▼
Net Asking Rent (per sq. ft.)	$7.85	$8.05	$8.10	▲
Sale Price (per sq. ft.)	$80	$80	$90	▲
Net Absorption (million sq. ft.)	0.21	0.56	0.28	▼
New Supply (million sq. ft.)	0.05	0.15	0.26	▲
Under Construction (million sq. ft.)	0.12	0.00	0.20	▲

Source: CBRE Research, 2019.

Retail

	2017	2018	2019 F	YoY
Total Retail Sales per Capita	$17,836	$18,267	$18,446	▲
Total Retail Sales Growth	6.9%	4.4%	2.6%	▼
New Supply (million sq. ft.)	0.42	0.32	0.10	▼

Source: CBoC, ICSC, CBRE Research, 2019.

Investment

VOLUME ($ MILLIONS)	2017	2018[1]	2019 F	YoY
Office	$198	$214	$100	▼
Industrial	$26	$223	$300	▲
Retail	$85	$493	$150	▼
Multifamily	$288	$161	$250	▲
ICI Land	$50	$68	$100	▲
Total*	$647	$1,159	$900	▼

* Total regional investment volumes do not include Hotel transactions.
[1]2018 investment volumes include material allocations from M&A activity.
Source: CBRE Research, 2019.

CAP RATES (%)				
Office - Downtown Class A	6.25 - 6.75	6.25 - 6.75	6.25 - 6.75	◀▶
Office - Suburban Class A & B	6.50 - 8.00	6.50 - 8.00	6.50 - 8.00	◀▶
Industrial - Class A & B	6.00 - 7.75	6.00 - 7.75	6.00 - 7.50	▼
Retail - Neighbourhood	6.75 - 7.75	7.00 - 8.00	7.25 - 8.25	▲
Multifamily - High Rise Class B	5.00 - 5.50	5.00 - 5.50	4.75 - 5.25	▼
Hotel - Downtown Full Service	7.50 - 9.00	7.25 - 8.75	7.25 - 8.75	◀▶

Source: CBRE Research, 2019.

Multifamily

	2017	2018	2019 F	YoY
Vacancy Rate	2.3%	1.6%	1.8%	▲
2-Bedroom Average Rent	$1,109	$1,156	$1,220	▲
New Rental Supply (units)	1,422	1,246	1,302	▲

Source: CMHC, CBRE Research, 2019.

Hotel

	2017	2018	2019 F	YoY
Inventory (Rooms)	5,293	5,557	5,997	▲
Occupancy	72.0%	70.0%	67.7%	▼
Average Daily Rate	$149	$158	$164	▲

Source: CBRE Research, 2019.

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