Q2 2019 Canadian Cap Rates & Investment Insights

A quarterly snapshot of Canadian commercial real estate cap rates and investment trends.

CBRE RESEARCH

CBRE

Q2 2019
Canadian Cap Rates & Investment Insights

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Investment Summary

- Good news is bad news, bad news is good news....and so continues the relationship between economic growth and interest rates.
- The bad news, that trade and geopolitical uncertainties remain elevated, has clearly fuelled the good news, that both the Federal Reserve and the Bank of Canada have turned dovish on interest rates. It's now possible we may see cuts to interest rates later this year.
- Despite soaring stock markets, investors are focusing on defense. This is good news for bond proxies such as real estate.
- While we saw slight upward movements in cap rates for regional malls, power centres and suburban office assets, the increases were felt primarily within the secondary asset quality tiers within these sectors.

Paul Morassutti

Vice Chairman, Valuation & Advisory Services

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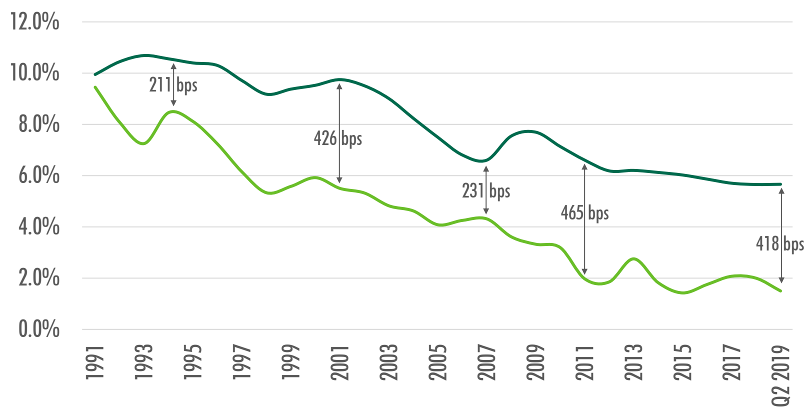
National Average Cap Rate



All-Properties National Average Cap Rate
10-Yr GoC Bond Yield

Source: CBRE Research, Thomson Reuters, July 2019.

Q2 2019 CAP RATES

DOWNTOWN OFFICE		△Q/Q
AA	4.85%	◀▶
A	5.63%	◀▶
B	6.55%	◀▶
SUBURBAN OFFICE		
A	**6.39%**	▲
B	7.22%	◀▶
INDUSTRIAL		
A	5.11%	◀▶
B	**6.14%**	▲
RETAIL		
Regional	**5.27%**	▲
Power	**6.23%**	▲
Neighbourhood	6.28%	◀▶
Strip	**5.80%**	▼
Strip (non-anchored)	6.72%	◀▶
Urban Streetfront	5.36%	◀▶
High Street	3.81%	◀▶
MULTIFAMILY		
High Rise A	**3.86%**	▼
High Rise B	4.42%	◀▶
Low Rise A	4.45%	◀▶
Low Rise B	4.91%	◀▶
HOTEL		
Downtown Full Service	7.08%	◀▶
Suburban Limited Service	8.20%	◀▶
Focused Service	7.92%	◀▶

Debt Market Summary

- In Q2, realities led to lower bond yields as trade wars progressed at a trench warfare pace.
- Goldman Sachs waited until an inconsequential G20 meeting in late June to revise their year-end forecast on 10-year Treasury yields from 2.80% to 1.75%, well after JP Morgan made a similar call a month earlier.
- Yields decreasing by 105 bps is a clear signal that bond markets don't believe the US-China trade tensions are a small matter. In fact, this trend now appears to be spreading to other trade-oriented nations like South Korea, Japan and other supply chain economies.
- Regardless, U.S. equity markets, stoked by the Fed's hints at accommodative easing, continues to punch above its weight.
- The BOC looks to maintain the status quo and at the end of Q2 a mere 8 basis points separated 5 and 10-year Canada bond yields.
- With bond yields in such a low realm, lenders have so far also elected to maintain the status quo. The question remains, will they eventually react with floor rates and/or wider spreads?

Carmin Di Fiore

Executive Vice President, Debt & Structured Finance

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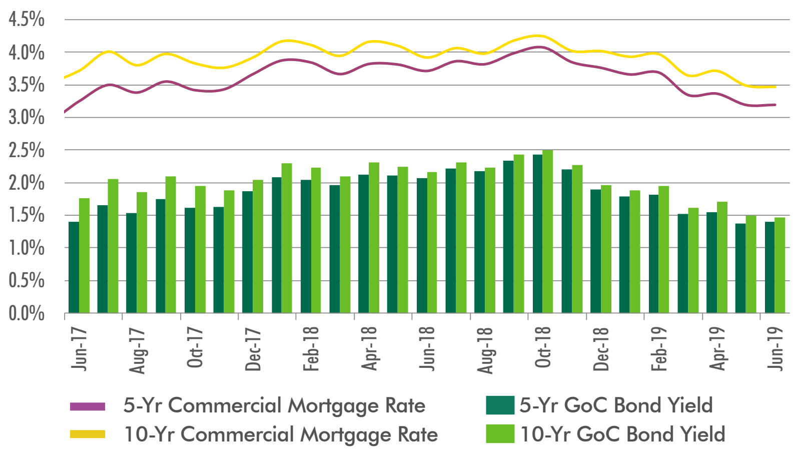
Mortgage Rates to Government of Canada Bonds



Source: CBRE Research, Thomson Reuters, Q2 2019.

MARKET MOVERS

CAD/USD

Q1 2019	Q2 2019	Change QoQ (%)
$0.75	$0.76	▲ 1.94%

CANADA PRIME RATE

Q1 2019	Q2 2019	Change QoQ (%)
3.95%	3.95%	◀▶ 0.00%

30-DAY CDOR

Q1 2019	Q2 2019	Change QoQ (%)
1.98%	1.96%	▼ -1.07%

WEST TEXAS INTERMEDIATE (USD)

Q1 2019	Q2 2019	Change QoQ (%)
$60.14	$58.47	▼ -2.78%

5-YEAR MORTGAGE SPREAD RANGE

Q1 2019	Q2 2019	Change QoQ (%)
1.55% - 2.10%	1.55% - 2.05%	▼ -1.37%

10-YEAR MORTGAGE SPREAD RANGE

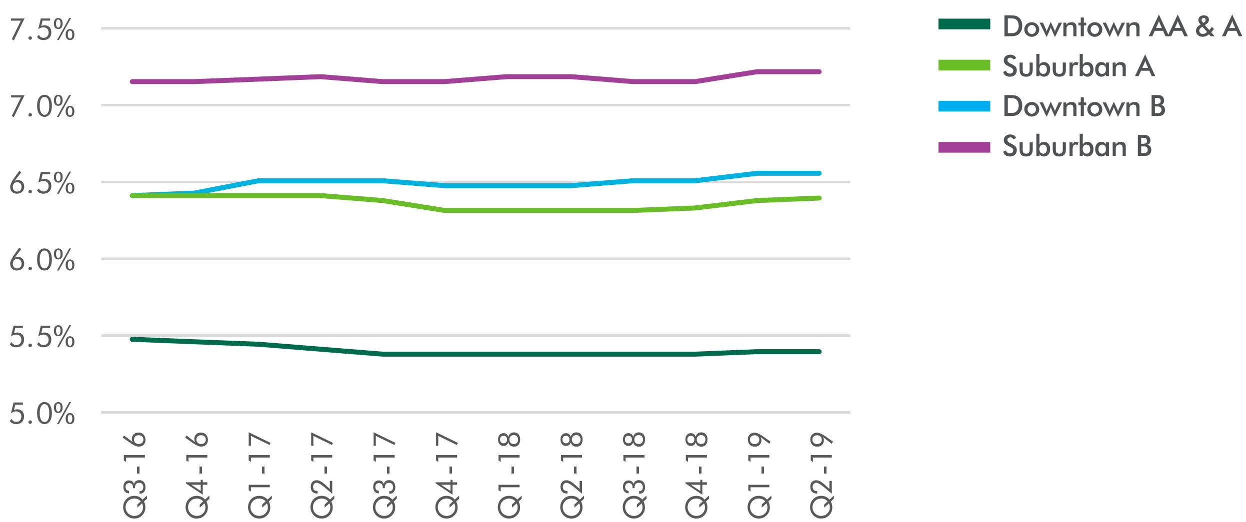
Q1 2019	Q2 2019	Change QoQ (%)
1.75% - 2.30%	1.70% - 2.30%	▼ -1.23%

Source: CBRE Limited, Thomson Reuters Eikon.

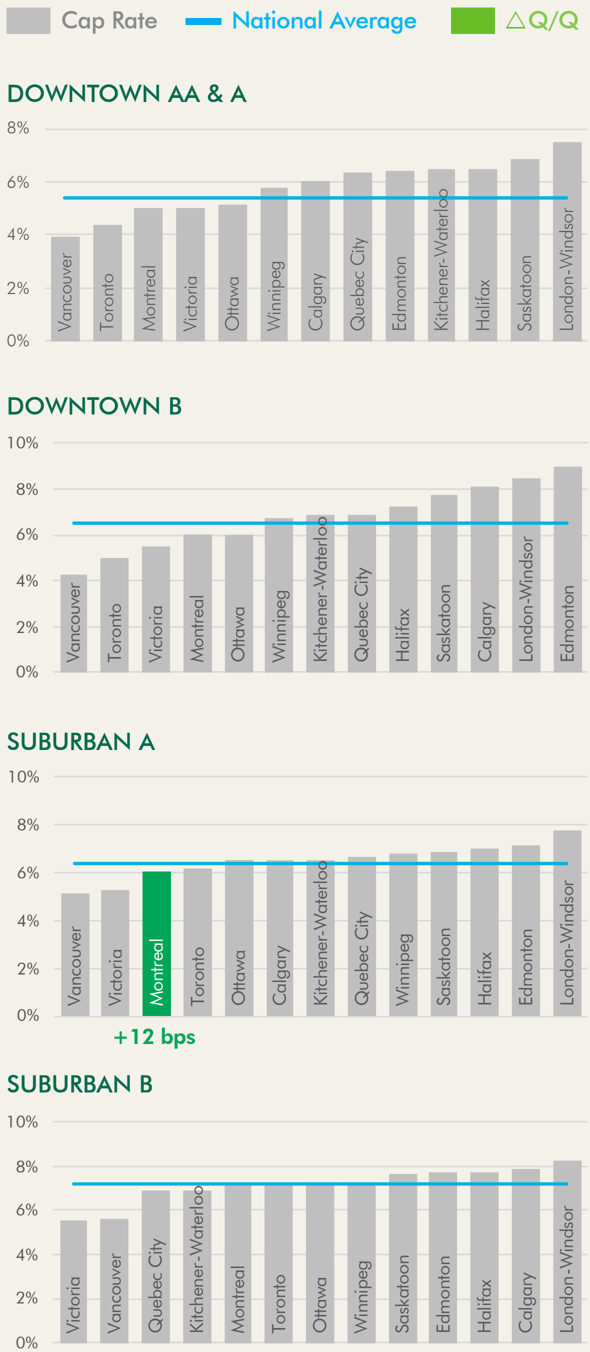
National Office Summary

- After a tumultuous end to 2018 and a conservative start to the year, the Canadian office market rebounded in Q2 2019. Investment activity accelerated rapidly in the second quarter with several blockbuster transactions closing in each of Toronto, Vancouver, and Montreal.
- Despite the late 2018 market turmoil, pricing of office assets has remained resilient. This continued in Q2 2019 as the only market to report movement in yields was Montreal, where Suburban Class A cap rates increased by 12 bps.
- Investor interest continues to be centered on high quality downtown office assets and liquidity for this property type has remained plentiful.

Historical Office Cap Rates



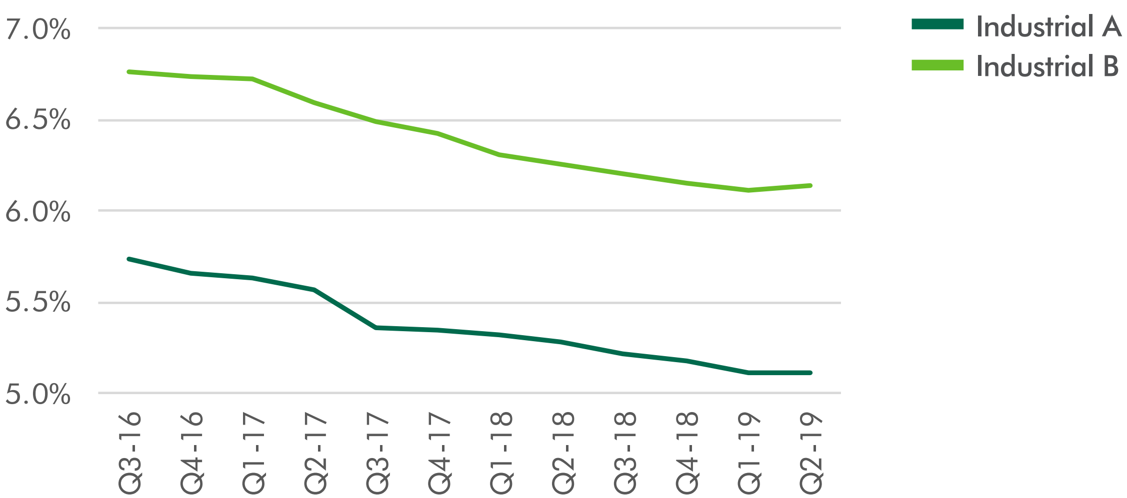
REGIONAL RANKINGS



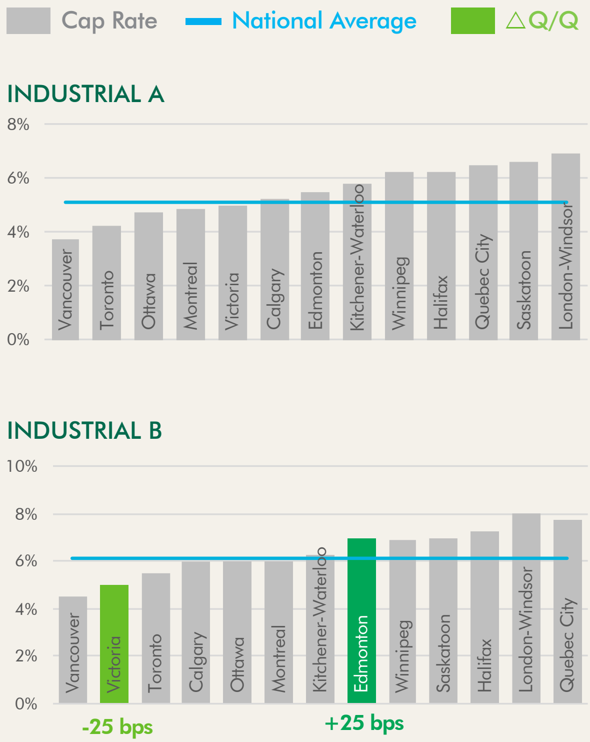
National Industrial Summary

- Industrial fundamentals continued their unprecedented run, as every key metric strengthened in Q2 2019. Significant demand from tenants and growing economic tailwinds, including the continued expansion of ecommerce and a stabilizing import/export landscape, should buoy the sector for the foreseeable future.
- Industrial cap rate movements were minimal in Q2 2019. The only markets to record changes in yields were Victoria where Class B cap rates compressed by 25 bps and Edmonton where Class B cap rates rose by 25 bps.
- While investor demand continues to outstrip supply, a swelling construction pipeline may provide new opportunities in the not-too-distant future.

Historical Industrial Cap Rates



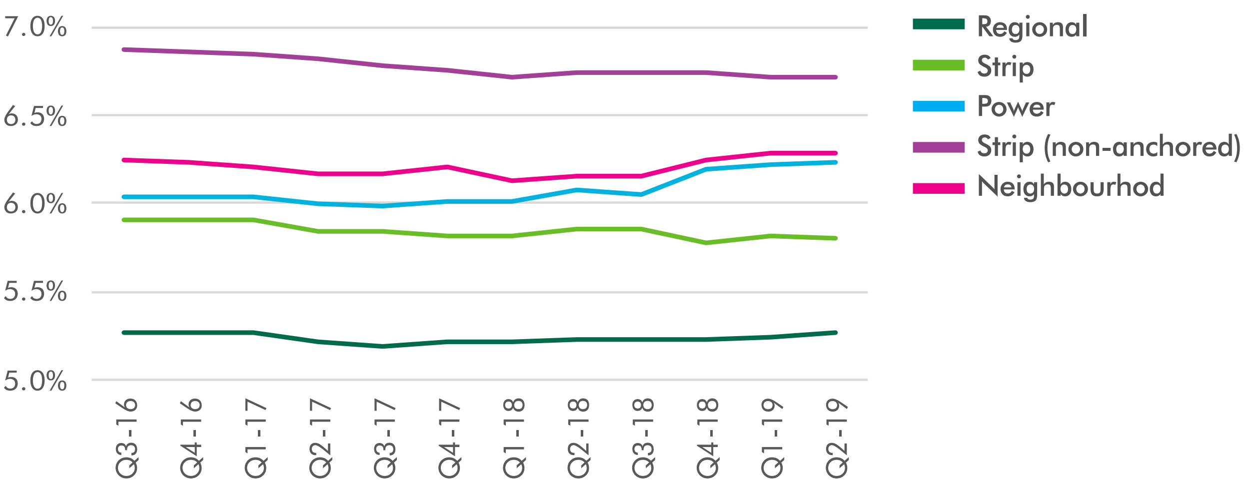
REGIONAL RANKINGS



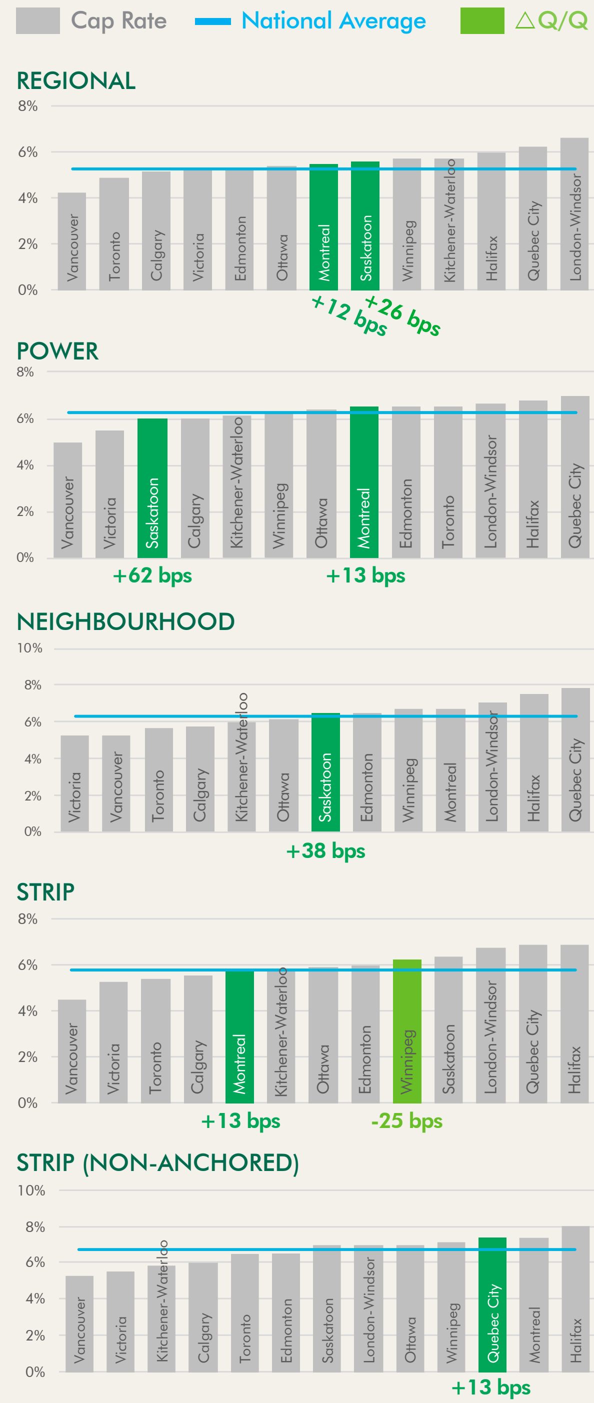
National Retail Summary

- Growing pains continued to be felt across the retail sector in Q2 2019 as the market reshapes itself in the face of rising ecommerce penetration.
- The asset class has become increasingly stratified across both asset type and geography. Pricing for lower quality product in secondary and tertiary markets continued to fall over the second quarter and the investor pool outside of core markets continues to shrink.
- Various markets including Montreal, Quebec City, and Saskatoon saw retail yields climb in Q2 2019 while the only market to see retail cap rate compression was Winnipeg.

Historical Retail Cap Rates



REGIONAL RANKINGS



National Multifamily Summary

- The multifamily sector remained the most sought-after asset class for investors in Q2 2019. Rock solid fundamentals coupled with seemingly ever-increasing demand should ensure that liquidity for the sector remains abundant.
- With pricing already at or near record levels across nearly every market, there was very little movement in multifamily cap rates in Q2 2019. The only market to report any changes in yields was Halifax where the average high rise Class A cap rate compressed by 25 bps.
- While supply has remained an issue, construction of new multifamily units has ramped up in major markets across the country.

David Montressor

Executive Vice President, National Apartment Group

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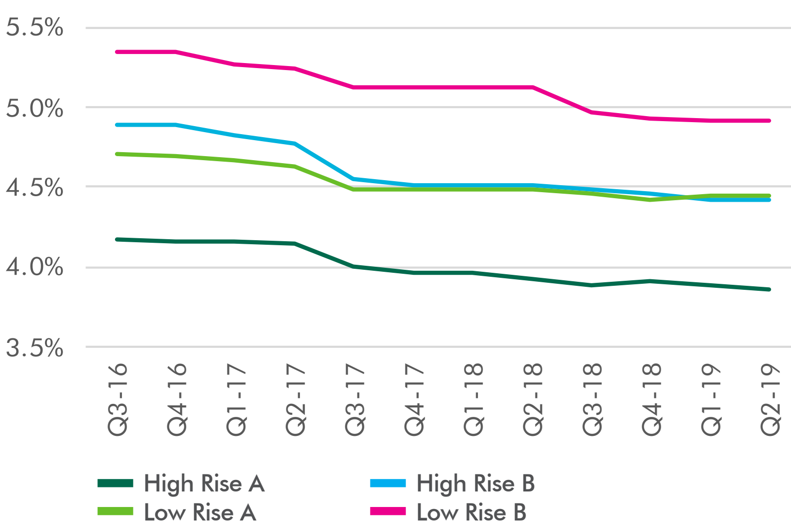
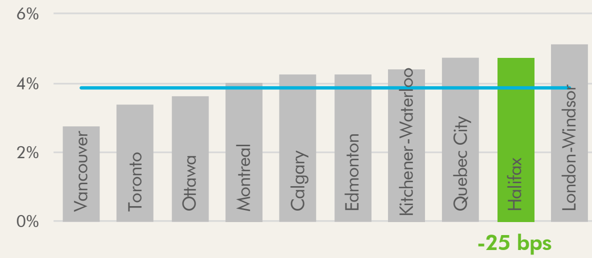
Historical Multifamily Cap Rates



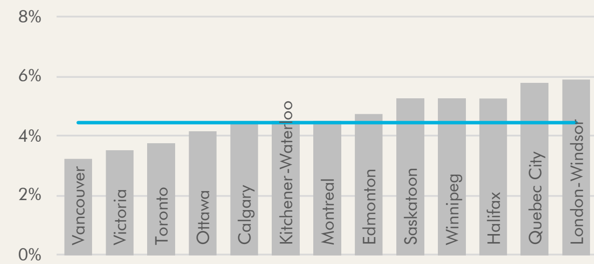
REGIONAL RANKINGS

Cap Rate National Average △Q/Q

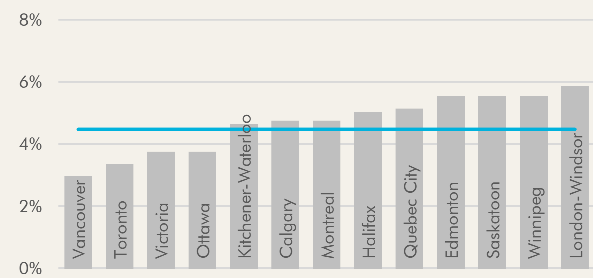
HIGH RISE A



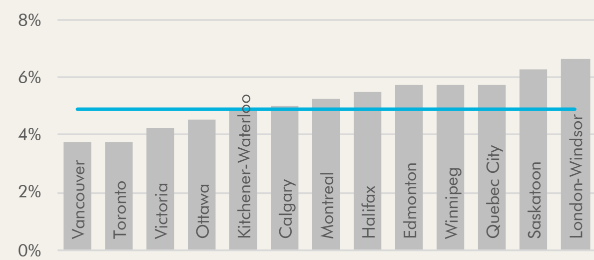
HIGH RISE B



LOW RISE A



LOW RISE B



National Hotel Summary

- Hotel cap rates remained unchanged over Q2 2019, as moderating macro-economic conditions and slowing profitability are tempering expectations.
- The availability of capital for Hotel assets continues to be strong. The elevated liquidity coupled with low transaction volumes and limited product on the market has fueled supply growth.
- The combination of slowing economic growth, increasing development costs, and increasing supply is causing both buyers and sellers to adopt a somewhat cautious approach to the market.

Bill Stone

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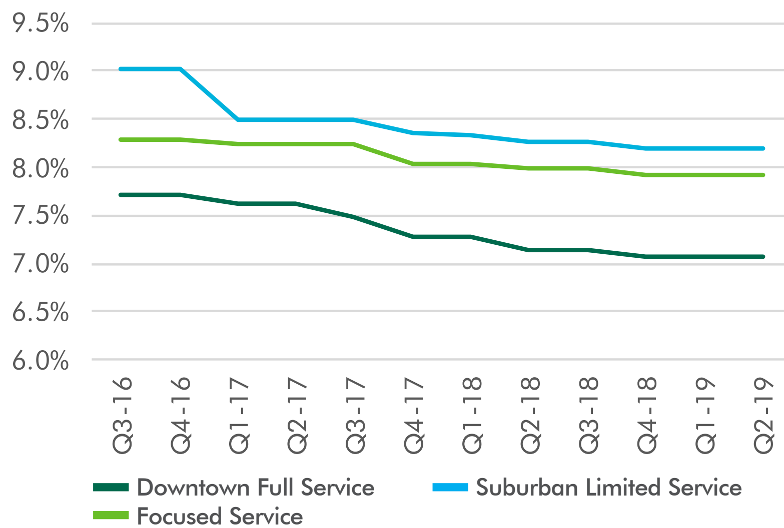
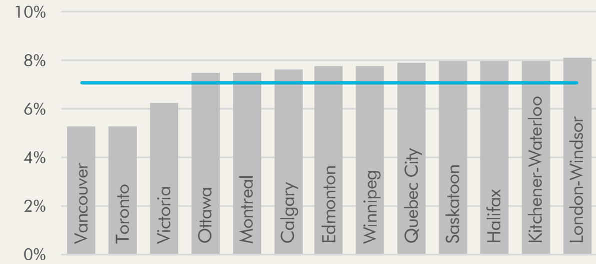
Historical Hotel Cap Rates



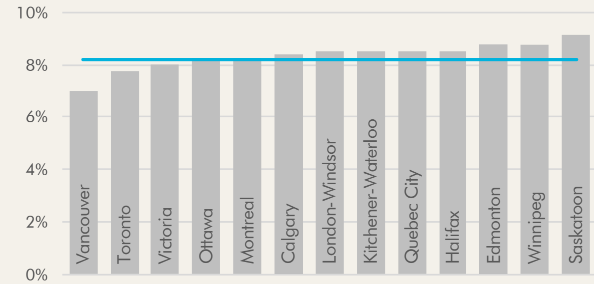
REGIONAL RANKINGS

Cap Rate | National Average | △Q/Q

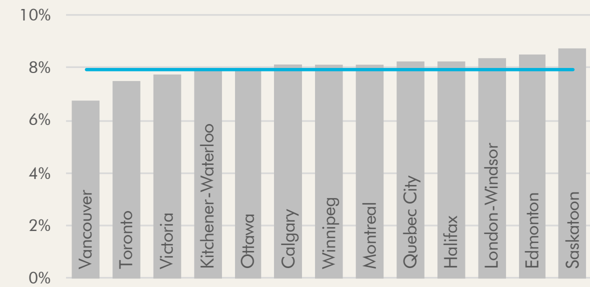
DOWNTOWN FULL SERVICE



SUBURBAN LIMITED SERVICE



FOCUSED SERVICE



Victoria

- Industrial zoned land constraints coupled with a robust local economy and competitive market conditions have kept upward pressure on industrial rental rates and downward pressure on cap rates.
- Political intervention in the multifamily market and increased regulation from municipal and provincial levels are having significant impacts on buyers, particularly value-add investors. This may result in fewer sales and the potential for a decrease in pricing.
- Institutional and private investors are well capitalized after experiencing tremendous gains in their portfolios over the past several years. This has led to increased demand and multiple bids for prime assets.

Ross Marshall
Senior Vice President
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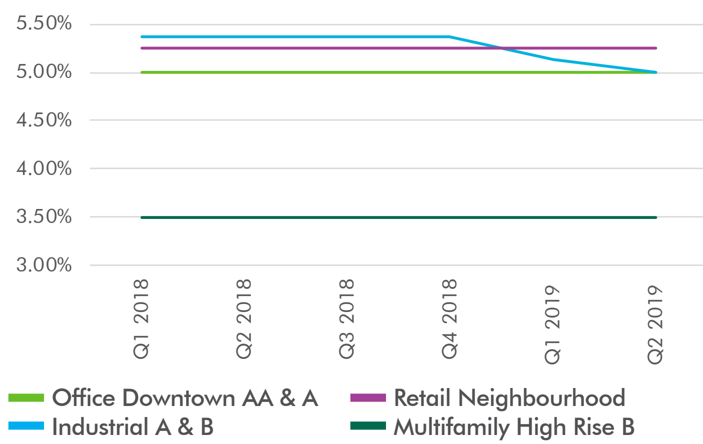
Historical Victoria Cap Rates



Q2 2019 CAP RATES

DOWNTOWN OFFICE		△Q/Q
AA	N/A	
A	4.75% - 5.25%	◀▶
B	5.25% - 5.75%	◀▶
SUBURBAN OFFICE		
A	5.00% - 5.50%	◀▶
B	5.25% - 5.75%	◀▶
INDUSTRIAL		
A	4.75% - 5.25%	◀▶
B	**4.75% - 5.25%**	▼
RETAIL		
Regional	4.75% - 5.75%	◀▶
Power	5.00% - 6.00%	◀▶
Neighbourhood	5.00% - 5.50%	◀▶
Strip	5.00% - 5.50%	◀▶
Strip (non-anchored)	5.25% - 5.75%	◀▶
Urban Streetfront	4.75% - 5.25%	◀▶
High Street	4.50% - 5.00%	◀▶
MULTIFAMILY		
High Rise A	N/A	
High Rise B	3.25% - 3.75%	◀▶
Low Rise A	3.50% - 4.00%	◀▶
Low Rise B	4.00% - 4.50%	◀▶
HOTEL		
Downtown Full Service	5.50% - 7.00%	◀▶
Suburban Limited Service	7.50% - 8.50%	◀▶
Focused Service	7.00% - 8.50%	◀▶

Vancouver

- Values for residential development sites remain under pressure as rising inventories and government regulations have pushed developers and buyers to the sidelines. In the first half of 2019, development permit applications have fallen by 22% compared to the same period in 2017.
- Falling interest rates have helped to spur interest in secondary market retail assets as values in this segment are starting to attract new investors seeking yield.
- Strong office and industrial fundamentals across greater Vancouver have created a significant backlog of demand for assets in both of these sectors, which has in turn resulted in continued downward pressure on cap rates.

Jim Szabo
Vice Chairman,
National Investment Team
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Historical Vancouver Cap Rates

Q2 2019 CAP RATES

DOWNTOWN OFFICE		△Q/Q
AA	3.75% - 4.00%	◀▶
A	3.75% - 4.25%	◀▶
B	4.00% - 4.50%	◀▶
SUBURBAN OFFICE		
A	4.75% - 5.50%	◀▶
B	5.25% - 6.00%	◀▶
INDUSTRIAL		
A	3.50% - 4.00%	◀▶
B	4.25% - 4.75%	◀▶
RETAIL		
Regional	4.00% - 4.50%	◀▶
Power	5.00% - 5.00%	◀▶
Neighbourhood	5.00% - 5.50%	◀▶
Strip	4.00% - 5.00%	◀▶
Strip (non-anchored)	5.00% - 5.50%	◀▶
Urban Streetfront	3.75% - 4.25%	◀▶
High Street	3.50% - 4.00%	◀▶
MULTIFAMILY		
High Rise A	2.50% - 3.00%	◀▶
High Rise B	3.00% - 3.50%	◀▶
Low Rise A	2.75% - 3.25%	◀▶
Low Rise B	3.25% - 4.25%	◀▶
HOTEL		
Downtown Full Service	4.50% - 6.00%	◀▶
Suburban Limited Service	6.50% - 7.50%	◀▶
Focused Service	6.00% - 7.50%	◀▶

Calgary

- Core industrial and multifamily assets remain highly sought after while product availability has remained limited.
- While the flight to quality phenomenon exists across all asset classes, it is especially true for the downtown office leasing market. This is starting to put upward pressure on rental rates for Class AA assets.
- Investor confidence in the Alberta market is growing due to a more business friendly provincial government and recent economic green shoots including the approval of the TransMountain Pipeline.

Duncan MacLean
Senior Vice President,
National Investment Team
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Historical Calgary Cap Rates

Q2 2019 CAP RATES

DOWNTOWN OFFICE		△Q/Q
AA	5.25% - 5.75%	◀▶
A	6.25% - 7.00%	◀▶
B	7.75% - 8.50%	◀▶
SUBURBAN OFFICE		
A	6.25% - 6.75%	◀▶
B	7.50% - 8.25%	◀▶
INDUSTRIAL		
A	5.00% - 5.50%	◀▶
B	5.75% - 6.25%	◀▶
RETAIL		
Regional	4.75% - 5.50%	◀▶
Power	5.75% - 6.25%	◀▶
Neighbourhood	5.50% - 6.00%	◀▶
Strip	5.50% - 6.00%	◀▶
Strip (non-anchored)	5.75% - 6.25%	◀▶
Urban Streetfront	5.50% - 6.25%	◀▶
High Street	N/A	
MULTIFAMILY		
High Rise A	4.00% - 4.50%	◀▶
High Rise B	4.25% - 4.75%	◀▶
Low Rise A	4.50% - 5.00%	◀▶
Low Rise B	4.75% - 5.25%	◀▶
HOTEL		
Downtown Full Service	6.75% - 8.50%	◀▶
Suburban Limited Service	7.75% - 9.00%	◀▶
Focused Service	7.25% - 9.00%	◀▶

Edmonton

- The core multifamily and industrial sectors continue to see demand that outpaces supply.
- Institutional capital is looking at retail opportunities on a very selective basis. Private buyers are helping to prop up the market for assets valued at under $10 million.
- Retail in secondary markets is currently undergoing a slight value adjustment. This could present opportunities for discerning retail investors.
- There continues to be a flight to quality in the office and industrial markets from both a tenant and investor perspective.

Dave Young

Executive Vice President,
National Investment Team

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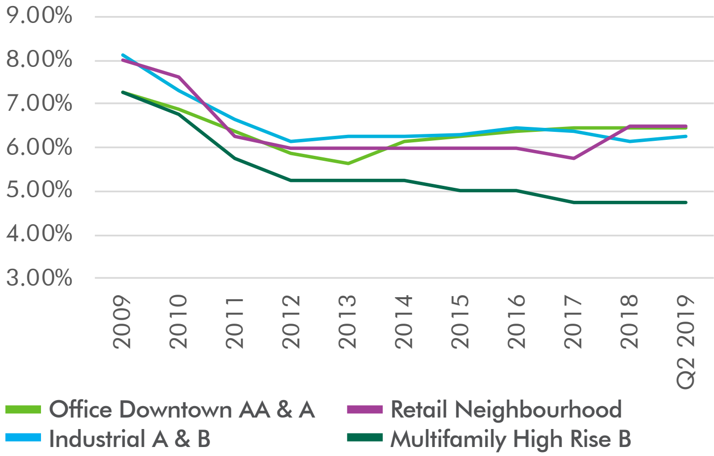
Historical Edmonton Cap Rates



Q2 2019 CAP RATES

DOWNTOWN OFFICE		△Q/Q
AA	5.50% - 6.00%	◀▶
A	6.75% - 7.50%	◀▶
B	8.00% - 10.00%	◀▶
SUBURBAN OFFICE		
A	6.75% - 7.50%	◀▶
B	7.50% - 8.00%	◀▶
INDUSTRIAL		
A	5.25% - 5.75%	◀▶
B	**6.75% - 7.25%**	▲
RETAIL		
Regional	5.00% - 5.50%	◀▶
Power	6.25% - 6.75%	◀▶
Neighbourhood	6.25% - 6.75%	◀▶
Strip	5.75% - 6.25%	◀▶
Strip (non-anchored)	6.25% - 6.75%	◀▶
Urban Streetfront	6.00% - 6.50%	◀▶
High Street	N/A	
MULTIFAMILY		
High Rise A	4.00% - 4.50%	◀▶
High Rise B	4.50% - 5.00%	◀▶
Low Rise A	5.25% - 5.75%	◀▶
Low Rise B	5.50% - 6.00%	◀▶
HOTEL		
Downtown Full Service	7.00% - 8.50%	◀▶
Suburban Limited Service	8.25% - 9.25%	◀▶
Focused Service	7.75% - 9.25%	◀▶

Saskatoon

- The River Landing development continues to create uncertainty surrounding investment in aging downtown office assets in Saskatoon. Construction is underway on the project's North Tower as work continues on the East Tower with fixturing expected to begin in the fall.
- Industrial market fundamentals continue to improve, bringing about increased investor interest and a wide range of owner-occupier opportunities.
- Retail cap rates rose in Q2 2019 as the market has seen investors demand greater returns for dated retail assets.

Michael Bratvold

Vice President,
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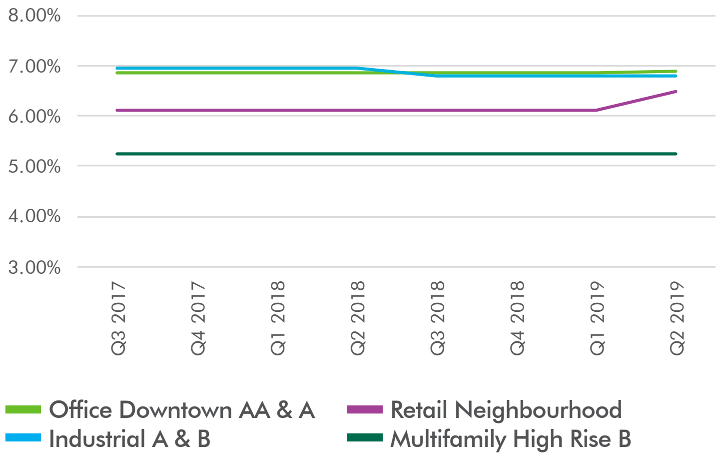
Historical Saskatoon Cap Rates



Q2 2019 CAP RATES

DOWNTOWN OFFICE		△Q/Q
AA	N/A	
A	6.50% - 7.25%	◀▶
B	7.25% - 8.25%	◀▶
SUBURBAN OFFICE		
A	6.50% - 7.25%	◀▶
B	7.25% - 8.00%	◀▶
INDUSTRIAL		
A	6.25% - 7.00%	◀▶
B	6.75% - 7.25%	◀▶
RETAIL		
Regional	**5.25% - 6.00%**	▲
Power	**5.75% - 6.25%**	▲
Neighbourhood	**6.25% - 6.75%**	▲
Strip	6.00% - 6.75%	◀▶
Strip (non-anchored)	6.75% - 7.25%	◀▶
Urban Streetfront	6.50% - 7.00%	◀▶
High Street	N/A	
MULTIFAMILY		
High Rise A	N/A	
High Rise B	5.00% - 5.50%	◀▶
Low Rise A	5.25% - 5.75%	◀▶
Low Rise B	6.00% - 6.50%	◀▶
HOTEL		
Downtown Full Service	7.25% - 8.75%	◀▶
Suburban Limited Service	8.50% - 9.75%	◀▶
Focused Service	8.00% - 9.50%	◀▶

Winnipeg

- Winnipeg's industrial market pulled back in a meaningful way in Q2 2019, as three consecutive quarters of negative absorption, including the worst quarter since 2015, have erased almost 80% of the growth experienced over a strong 2018. While notable, this trend has, for the most part, been limited to lower tier product while also being somewhat offset by growth in surrounding communities.
- There remains significant growth on the horizon for the multifamily market in Winnipeg. The multifamily tower at True North Square is now complete, construction of the 40 storey tower at 300 Main is progressing steadily, and the Portage Place Shopping Centre was recently been sold to a multifamily developer.

Ryan Behie
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Managing Director
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Historical Winnipeg Cap Rates

Q2 2019 CAP RATES

DOWNTOWN OFFICE		△Q/Q
AA	N/A	
A	5.50% - 6.00%	◀▶
B	6.50% - 7.00%	◀▶
SUBURBAN OFFICE		
A	6.50% - 7.00%	◀▶
B	7.00% - 7.50%	◀▶
INDUSTRIAL		
A	6.00% - 6.50%	◀▶
B	6.50% - 7.25%	◀▶
RETAIL		
Regional	5.50% - 6.00%	◀▶
Power	6.00% - 6.50%	◀▶
Neighbourhood	6.50% - 7.00%	◀▶
Strip	**6.00% - 6.50%**	▼
Strip (non-anchored)	6.75% - 7.50%	◀▶
Urban Streetfront	6.00% - 6.75%	◀▶
High Street	N/A	
MULTIFAMILY		
High Rise A	N/A	
High Rise B	5.00% - 5.50%	◀▶
Low Rise A	5.25% - 5.75%	◀▶
Low Rise B	5.50% - 6.00%	◀▶
HOTEL		
Downtown Full Service	7.00% - 8.50%	◀▶
Suburban Limited Service	8.00% - 9.50%	◀▶
Focused Service	7.50% - 8.75%	◀▶

London

- Demand for quality multifamily assets from local investors has been particularly strong over recent quarters and shows no signs of retreating.
- There remains strong interest in Class A and B industrial assets, with free standing properties being the most sought-after property type in this sector. Lack of supply is a significant market limiting issue.
- Concerns regarding the trade conflict between the US and Canada have eased, bringing stability and confidence back to the market. Investor interest has grown and bid depth strengthened considerably over Q2 2019.

Peter Whatmore

Senior Vice President,
National Investment Team

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Historical London Cap Rates

Q2 2019 CAP RATES

DOWNTOWN OFFICE		△Q/Q
AA	N/A	
A	6.50% - 8.50%	◀▶
B	8.00% - 9.00%	◀▶
SUBURBAN OFFICE		
A	7.50% - 8.00%	◀▶
B	8.00% - 8.50%	◀▶
INDUSTRIAL		
A	6.30% - 7.50%	◀▶
B	7.50% - 8.50%	◀▶
RETAIL		
Regional	6.25%- 7.00%	◀▶
Power	6.25% - 7.00%	◀▶
Neighbourhood	6.25% - 7.75%	◀▶
Strip	6.25%- 7.25%	◀▶
Strip (non-anchored)	6.25%- 7.75%	◀▶
Urban Streetfront	7.00% - 8.50%	◀▶
High Street	N/A	
MULTIFAMILY		
High Rise A	4.75%- 5.50%	◀▶
High Rise B	5.25% - 6.50%	◀▶
Low Rise A	5.00% - 6.75%	◀▶
Low Rise B	6.00% - 7.25%	◀▶
HOTEL		
Downtown Full Service	7.50% - 8.75%	◀▶
Suburban Limited Service	8.00% - 9.00%	◀▶
Focused Service	7.75% - 9.00%	◀▶

Kitchener-Waterloo

- Industrial assets continue to be highly sought-after by investors. Near full occupancy levels have continued to drive rents while construction has remained relatively muted. Class A industrial yields in the 6.0% range still represent a significant premium compared to Toronto.
- Scarcity of available multifamily assets is helping maintain high market values and driving buyers to the development market. The market is seeing significant new residential construction in the form of condominium and rental properties.
- Investor confidence in the Kitchener-Waterloo office market has fully rebounded as strengthening fundamentals are driving investment activity.

Peter Whatmore
Senior Vice President,
National Investment Team
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Historical Kitchener-Waterloo Cap Rates

Q2 2019 CAP RATES

DOWNTOWN OFFICE		△Q/Q
AA	N/A	
A	6.00% - 7.00%	◀▶
B	6.50% - 7.25%	◀▶
SUBURBAN OFFICE		
A	6.00% - 7.00%	◀▶
B	6.50% - 7.25%	◀▶
INDUSTRIAL		
A	5.50% - 6.10%	◀▶
B	5.50% - 7.00%	◀▶
RETAIL		
Regional	5.50% - 6.00%	◀▶
Power	5.75% - 6.50%	◀▶
Neighbourhood	5.50% - 6.50%	◀▶
Strip	5.00% - 6.50%	◀▶
Strip (non-anchored)	5.00% - 6.75%	◀▶
Urban Streetfront	6.00% - 7.50%	◀▶
High Street	N/A	
MULTIFAMILY		
High Rise A	4.25% - 4.50%	◀▶
High Rise B	4.25% - 4.75%	◀▶
Low Rise A	4.25% - 5.00%	◀▶
Low Rise B	4.50% - 5.25%	◀▶
HOTEL		
Downtown Full Service	7.50% - 8.50%	◀▶
Suburban Limited Service	8.00% - 9.00%	◀▶
Focused Service	7.50% - 8.50%	◀▶

Toronto

- The continued mixed-signals coming from financial and economic markets has increased the attractiveness of the commercial real estate sector as an investment asset class. The uncertainty elsewhere coupled with strong property market performance should ensure that the real estate investment landscape remains strong going forward.
- After a slow start to the year, investment volumes have returned to the elevated levels seen since 2016. The primary investment targets for investors continue to be industrial, multifamily, and downtown office assets.
- The trophy asset market returned to form in Q2 2019, with both pricing and bid depth showing significant strength.

Peter Senst
President, Canadian Capital Markets
National Investment Team
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Historical Toronto Cap Rates

Q2 2019 CAP RATES

DOWNTOWN OFFICE		△Q/Q
AA	4.00% - 4.50%	◀▶
A	4.25% - 4.75%	◀▶
B	4.75% - 5.25%	◀▶
SUBURBAN OFFICE		
A	5.75% - 6.50%	◀▶
B	6.75% - 7.50%	◀▶
INDUSTRIAL		
A	4.00% - 4.50%	◀▶
B	5.00% - 6.00%	◀▶
RETAIL		
Regional	4.25% - 5.50%	◀▶
Power	6.00% - 7.00%	◀▶
Neighbourhood	5.00% - 6.25%	◀▶
Strip	4.75% - 6.00%	◀▶
Strip (non-anchored)	6.00% - 7.00%	◀▶
Urban Streetfront	3.75% - 4.50%	◀▶
High Street	3.50% - 4.25%	◀▶
MULTIFAMILY		
High Rise A	3.00% - 3.75%	◀▶
High Rise B	3.50% - 4.00%	◀▶
Low Rise A	3.00% - 3.75%	◀▶
Low Rise B	3.50% - 4.00%	◀▶
HOTEL		
Downtown Full Service	4.50% - 6.00%	◀▶
Suburban Limited Service	7.00% - 8.50%	◀▶
Focused Service	7.00% - 8.00%	◀▶

Ottawa

- Investment volume and transactions velocity in Ottawa accelerated through Q2 2019 and this trend looks poised to continue into the second half of the year.
- Office sales continue to drive the bulk of the activity in Ottawa.
- Some notable multifamily opportunities should be available to investors in the coming quarters.

Nico Zentil

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National Investment Team

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Historical Ottawa Cap Rates

Q2 2019 CAP RATES

DOWNTOWN OFFICE		△Q/Q
AA	4.75% - 5.25%	◀▶
A	5.00% - 5.50%	◀▶
B	5.75% - 6.25%	◀▶

SUBURBAN OFFICE		
A	6.25% - 6.75%	◀▶
B	7.00% - 7.50%	◀▶

INDUSTRIAL		
A	4.50% - 5.00%	◀▶
B	5.50% - 6.50%	◀▶

RETAIL		
Regional	5.00% - 5.75%	◀▶
Power	6.00% - 6.75%	◀▶
Neighbourhood	5.75% - 6.50%	◀▶
Strip	5.50% - 6.25%	◀▶
Strip (non-anchored)	6.50% - 7.50%	◀▶
Urban Streetfront	4.75% - 5.50%	◀▶
High Street	N/A	

MULTIFAMILY		
High Rise A	3.50% - 3.75%	◀▶
High Rise B	4.00% - 4.25%	◀▶
Low Rise A	3.50% - 4.00%	◀▶
Low Rise B	4.25% - 4.75%	◀▶

HOTEL		
Downtown Full Service	7.00% - 8.00%	◀▶
Suburban Limited Service	7.75% - 8.75%	◀▶
Focused Service	7.50% - 8.50%	◀▶

Montreal

- A shifting investor landscape has created opportunities for private capital and REITs. Service-oriented shopping centers with strong anchors continue to perform well.
- Office fundamentals continue to thrive in Montreal. With limited core offerings, value-add opportunities have begun seeing significant traction.
- Robust demand for industrial investment product coupled with very limited supply will continue to drive cap rate compression in this sector.
- Increased construction costs, approval delays, the LRT tax and the 20-20-20 housing policy will have an impact on new condominium prices in the downtown core going forward.

Scott Speirs
Executive Vice President,
National Investment Team
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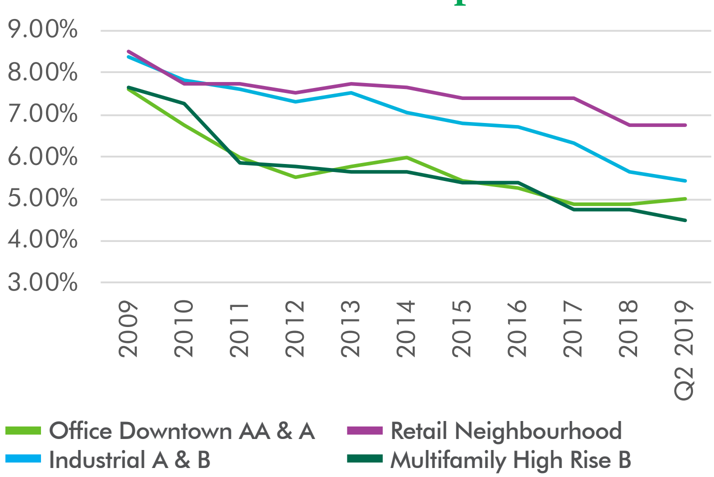
Historical Montreal Cap Rates



Q2 2019 CAP RATES

		△Q/Q
DOWNTOWN OFFICE		
AA	4.50% - 5.00%	◀▶
A	5.00% - 5.50%	◀▶
B	5.75% - 6.25%	◀▶
SUBURBAN OFFICE		
A	**5.75% - 6.25%**	▲
B	6.75% - 7.50%	◀▶
INDUSTRIAL		
A	4.50% - 5.25%	◀▶
B	5.50% - 6.50%	◀▶
RETAIL		
Regional	**5.25% - 5.75%**	▲
Power	**6.25% - 6.75%**	▲
Neighbourhood	6.50% - 7.00%	◀▶
Strip	**5.50% - 6.00%**	▲
Strip (non-anchored)	7.00% - 7.75%	◀▶
Urban Streetfront	3.75% - 4.50%	◀▶
High Street	N/A	
MULTIFAMILY		
High Rise A	3.75% - 4.25%	◀▶
High Rise B	4.25% - 4.75%	◀▶
Low Rise A	4.50% - 5.00%	◀▶
Low Rise B	5.00% - 5.50%	◀▶
HOTEL		
Downtown Full Service	7.00% - 8.00%	◀▶
Suburban Limited Service	7.75% - 8.75%	◀▶
Focused Service	7.50% - 8.75%	◀▶

Quebec City

- The multifamily and seniors housing sectors continue to account for a large portion of the development and investment activity in Quebec City.
- Office fundamentals continue to thrive in the Sainte-Foy and Lebourgneuf neighborhoods. With limited core offerings and many new projects already well leased, value-add opportunities are seeing increased traction. These submarkets may begin to see new construction moving forward.
- The lack of land for industrial development and a Municipal initiative to rethink existing industrial parks, could finally lead to spec construction going forward.

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Vice President
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Historical Quebec City Cap Rates

Q2 2019 CAP RATES

DOWNTOWN OFFICE		△Q/Q
AA	N/A	
A	6.00% - 6.75%	◀▶
B	6.25% - 7.50%	◀▶
SUBURBAN OFFICE		
A	6.25% - 7.00%	◀▶
B	6.50% - 7.25%	◀▶
INDUSTRIAL		
A	6.00% - 7.00%	◀▶
B	7.00% - 8.50%	◀▶
RETAIL		
Regional	5.75% - 6.75%	◀▶
Power	6.50% - 7.50%	◀▶
Neighbourhood	7.25% - 8.50%	◀▶
Strip	6.25% - 7.50%	◀▶
Strip (non-anchored)	**7.00% - 7.75%**	▲
Urban Streetfront	N/A	
High Street	N/A	
MULTIFAMILY		
High Rise A	4.25% - 5.25%	◀▶
High Rise B	5.25% - 6.25%	◀▶
Low Rise A	4.75% - 5.50%	◀▶
Low Rise B	5.25% - 6.25%	◀▶
HOTEL		
Downtown Full Service	7.25% - 8.50%	◀▶
Suburban Limited Service	8.00% - 9.00%	◀▶
Focused Service	7.50% - 9.00%	◀▶

Halifax

- After years of minimal industrial investment trades, Burnside placed over 3.0 million sq. ft. on the market in Q2 2019 including a major portfolio offering.
- In May, the Federal government announced $50M in funding to assist with improvements for port infrastructure and access for transport trucks. This will make the port more efficient and lessen truck traffic in the downtown.
- Halifax is experiencing an influx of private buyers from other major markets in Canada who are looking for alternate investment options, as they feel that they have been priced out of their own markets.

Bob Mussett

Senior Vice President,
National Investment Team

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Historical Halifax Cap Rates

Q2 2019 CAP RATES

DOWNTOWN OFFICE		△Q/Q
AA	N/A	
A	6.25% - 6.75%	◀▶
B	7.00% - 7.50%	◀▶
SUBURBAN OFFICE		
A	6.50% - 7.50%	◀▶
B	7.50% - 8.00%	◀▶
INDUSTRIAL		
A	6.00% - 6.50%	◀▶
B	7.00% - 7.50%	◀▶
RETAIL		
Regional	5.75% - 6.25%	◀▶
Power	6.25% - 7.25%	◀▶
Neighbourhood	7.00% - 8.00%	◀▶
Strip	6.25% - 7.50%	◀▶
Strip (non-anchored)	7.50% - 8.50%	◀▶
Urban Streetfront	6.50% - 7.50%	◀▶
High Street	N/A	
MULTIFAMILY		
High Rise A	**4.50% - 5.00%**	▼
High Rise B	5.00% - 5.50%	◀▶
Low Rise A	4.75% - 5.25%	◀▶
Low Rise B	5.25% - 5.75%	◀▶
HOTEL		
Downtown Full Service	7.25% - 8.75%	◀▶
Suburban Limited Service	8.00% - 9.00%	◀▶
Focused Service	7.50% - 9.00%	◀▶

Q2 2019 Canadian Cap Rates △Q/Q

DOWNTOWN OFFICE	VICTORIA	VANCOUVER	CALGARY	EDMONTON	SASKATOON	WINNIPEG	LONDON-WINDSOR
AA	N/A	3.75% - 4.00% ◀▶	5.25% - 5.75% ◀▶	5.50% - 6.00% ◀▶	N/A	N/A	N/A
A	4.75% - 5.25% ◀▶	3.75% - 4.25% ◀▶	6.25% - 7.00% ◀▶	6.75% - 7.50% ◀▶	6.50% - 7.25% ◀▶	5.50% - 6.00% ◀▶	6.50% - 8.50% ◀▶
B	5.25% - 5.75% ◀▶	4.00% - 4.50% ◀▶	7.75% - 8.50% ◀▶	8.00% - 10.00% ◀▶	7.25% - 8.25% ◀▶	6.50% - 7.00% ◀▶	8.00% - 9.00% ◀▶
SUBURBAN OFFICE							
A	5.00% - 5.50% ◀▶	4.75% - 5.50% ◀▶	6.25% - 6.75% ◀▶	6.75% - 7.50% ◀▶	6.50% - 7.25% ◀▶	6.50% - 7.00% ◀▶	7.50% - 8.00% ◀▶
B	5.25% - 5.75% ◀▶	5.25% - 6.00% ◀▶	7.50% - 8.25% ◀▶	7.50% - 8.00% ◀▶	7.25% - 8.00% ◀▶	7.00% - 7.50% ◀▶	8.00% - 8.50% ◀▶
INDUSTRIAL							
A	4.75% - 5.25% ◀▶	3.50% - 4.00% ◀▶	5.00% - 5.50% ◀▶	5.25% - 5.75% ◀▶	6.25% - 7.00% ◀▶	6.00% - 6.50% ◀▶	6.30% - 7.50% ◀▶
B	4.75% - 5.25% ▼	4.25% - 4.75% ◀▶	5.75% - 6.25% ◀▶	6.75% - 7.25% ▲	6.75% - 7.25% ◀▶	6.50% - 7.25% ◀▶	7.50% - 8.50% ◀▶
RETAIL							
Regional	4.75% - 5.75% ◀▶	4.00% - 4.50% ◀▶	4.75% - 5.50% ◀▶	5.00% - 5.50% ◀▶	5.25% - 6.00% ▲	5.50% - 6.00% ◀▶	6.25% - 7.00% ◀▶
Sector/Power	5.00% - 6.00% ◀▶	5.00% - 5.00% ◀▶	5.75% - 6.25% ◀▶	6.25% - 6.75% ◀▶	5.75% - 6.25% ▲	6.00% - 6.50% ◀▶	6.25% - 7.00% ◀▶
Neighborhood	5.00% - 5.50% ◀▶	5.00% - 5.50% ◀▶	5.50% - 6.00% ◀▶	6.25% - 6.75% ◀▶	6.25% - 6.75% ▲	6.50% - 7.00% ◀▶	6.25% - 7.75% ◀▶
Strip	5.00% - 5.50% ◀▶	4.00% - 5.00% ◀▶	5.50% - 6.00% ◀▶	5.75% - 6.25% ◀▶	6.00% - 6.75% ◀▶	6.00% - 6.50% ▼	6.25% - 7.25% ◀▶
Non-anchored Strip Mall	5.25% - 5.75% ◀▶	5.00% - 5.50% ◀▶	5.75% - 6.25% ◀▶	6.25% - 6.75% ◀▶	6.75% - 7.25% ◀▶	6.75% - 7.50% ◀▶	6.25% - 7.75% ◀▶
Urban Streetfront	4.75% - 5.25% ◀▶	3.75% - 4.25% ◀▶	5.50% - 6.25% ◀▶	6.00% - 6.50% ◀▶	6.50% - 7.00% ◀▶	6.00% - 6.75% ◀▶	7.00% - 8.50% ◀▶
High Street	4.50% - 5.00% ◀▶	3.50% - 4.00% ◀▶	N/A	N/A	N/A	N/A	N/A
MULTIFAMILY							
High Rise A	N/A	2.50% - 3.00% ◀▶	4.00% - 4.50% ◀▶	4.00% - 4.50% ◀▶	N/A	N/A	4.75% - 5.50% ◀▶
High Rise B	3.25% - 3.75% ◀▶	3.00% - 3.50% ◀▶	4.25% - 4.75% ◀▶	4.50% - 5.00% ◀▶	5.00% - 5.50% ◀▶	5.00% - 5.50% ◀▶	5.25% - 6.50% ◀▶
Low Rise A	3.50% - 4.00% ◀▶	2.75% - 3.25% ◀▶	4.50% - 5.00% ◀▶	5.25% - 5.75% ◀▶	5.25% - 5.75% ◀▶	5.25% - 5.75% ◀▶	5.00% - 6.75% ◀▶
Low Rise B	4.00% - 4.50% ◀▶	3.25% - 4.25% ◀▶	4.75% - 5.25% ◀▶	5.50% - 6.00% ◀▶	6.00% - 6.50% ◀▶	5.50% - 6.00% ◀▶	6.00% - 7.25% ◀▶
HOTEL							
Downtown Full Service	5.50% - 7.00% ◀▶	4.50% - 6.00% ◀▶	6.75% - 8.50% ◀▶	7.00% - 8.50% ◀▶	7.25% - 8.75% ◀▶	7.00% - 8.50% ◀▶	7.50% - 8.75% ◀▶
Suburban Limited Service	7.50% 8.50% ◀▶	6.50% - 7.50% ◀▶	7.75% - 9.00% ◀▶	8.25% - 9.25% ◀▶	8.50% - 9.75% ◀▶	8.00% - 9.50% ◀▶	8.00% - 9.00% ◀▶
Focused Service	7.00% 8.50% ◀▶	6.00% - 7.50% ◀▶	7.25% - 9.00% ◀▶	7.75% - 9.25% ◀▶	8.00% - 9.50% ◀▶	7.50% - 8.75% ◀▶	7.75% - 9.00% ◀▶

Q2 2019 Canadian Cap Rates △Q/Q

DOWNTOWN OFFICE	KITCHENER-WATERLOO	TORONTO	OTTAWA	MONTREAL	QUEBEC CITY	HALIFAX
AA	N/A	4.00% - 4.50% ◀▶	4.75% - 5.25% ◀▶	4.50% - 5.00% ◀▶	N/A	N/A
A	6.00% - 7.00% ◀▶	4.25% - 4.75% ◀▶	5.00% - 5.50% ◀▶	5.00% - 5.50% ◀▶	6.00% - 6.75% ◀▶	6.25% - 6.75% ◀▶
B	6.50% - 7.25% ◀▶	4.75% - 5.25% ◀▶	5.75% - 6.25% ◀▶	5.75% - 6.25% ◀▶	6.25% - 7.50% ◀▶	7.00% - 7.50% ◀▶
SUBURBAN OFFICE						
A	6.00% - 7.00% ◀▶	5.75% - 6.50% ◀▶	6.25% - 6.75% ◀▶	5.75% - 6.25% ▲	6.25% - 7.00% ◀▶	6.50% - 7.50% ◀▶
B	6.50% - 7.25% ◀▶	6.75% - 7.50% ◀▶	7.00% - 7.50% ◀▶	6.75% - 7.50% ◀▶	6.50% - 7.25% ◀▶	7.50% - 8.00% ◀▶
INDUSTRIAL						
A	5.50% - 6.10% ◀▶	4.00% - 4.50% ◀▶	4.50% - 5.00% ◀▶	4.50% - 5.25% ◀▶	6.00% - 7.00% ◀▶	6.00% - 6.50% ◀▶
B	5.50% - 7.00% ◀▶	5.00% - 6.00% ◀▶	5.50% - 6.50% ◀▶	5.50% - 6.50% ◀▶	7.00% - 8.50% ◀▶	7.00% - 7.50% ◀▶
RETAIL						
Regional	5.50% - 6.00% ◀▶	4.25% - 5.50% ◀▶	5.00% - 5.75% ◀▶	5.25% - 5.75% ▲	5.75% - 6.75% ◀▶	5.75% - 6.25% ◀▶
Sector/Power	5.75% - 6.50% ◀▶	6.00% - 7.00% ◀▶	6.00% - 6.75% ◀▶	6.25% - 6.75% ▲	6.50% - 7.50% ◀▶	6.25% - 7.25% ◀▶
Neighborhood	5.50% - 6.50% ◀▶	5.00% - 6.25% ◀▶	5.75% - 6.50% ◀▶	6.50% - 7.00% ◀▶	7.25% - 8.50% ◀▶	7.00% - 8.00% ◀▶
Strip	5.00% - 6.50% ◀▶	4.75% - 6.00% ◀▶	5.50% - 6.25% ◀▶	5.50% - 6.00% ▲	6.25% - 7.50% ◀▶	6.25% - 7.50% ◀▶
Non-anchored Strip Mall	5.00% - 6.75% ◀▶	6.00% - 7.00% ◀▶	6.50% - 7.50% ◀▶	7.00% - 7.75% ◀▶	7.00% - 7.75% ▲	7.50% - 8.50% ◀▶
Urban Streetfront	6.00% - 7.50% ◀▶	3.75% - 4.50% ◀▶	4.75% - 5.50% ◀▶	3.75% - 4.50% ◀▶	N/A	6.50% - 7.50% ◀▶
High Street	N/A	3.50% - 4.25% ◀▶	N/A	N/A	N/A	N/A
MULTIFAMILY						
High Rise A	4.25% - 4.50% ◀▶	3.00% - 3.75% ◀▶	3.50% - 3.75% ◀▶	3.75% - 4.25% ◀▶	4.25% - 5.25% ◀▶	4.50% - 5.00% ▼
High Rise B	4.25% - 4.75% ◀▶	3.50% - 4.00% ◀▶	4.00% - 4.25% ◀▶	4.25% - 4.75% ◀▶	5.25% - 6.25% ◀▶	5.00% - 5.50% ◀▶
Low Rise A	4.25% - 5.00% ◀▶	3.00% - 3.75% ◀▶	3.50% - 4.00% ◀▶	4.50% - 5.00% ◀▶	4.75% - 5.50% ◀▶	4.75% - 5.25% ◀▶
Low Rise B	4.50% - 5.25% ◀▶	3.50% - 4.00% ◀▶	4.25% - 4.75% ◀▶	5.00% - 5.50% ◀▶	5.25% - 6.25% ◀▶	5.25% - 5.75% ◀▶
HOTEL						
Downtown Full Service	7.50% - 8.50% ◀▶	4.50% - 6.00% ◀▶	7.00% - 8.00% ◀▶	7.00% - 8.00% ◀▶	7.25% - 8.50% ◀▶	7.25% - 8.75% ◀▶
Suburban Limited Service	8.00% - 9.00% ◀▶	7.00% - 8.50% ◀▶	7.75% - 8.75% ◀▶	7.75% - 8.75% ◀▶	8.00% - 9.00% ◀▶	8.00% - 9.00% ◀▶
Focused Service	7.50% - 8.50% ◀▶	7.00% - 8.00% ◀▶	7.50% - 8.50% ◀▶	7.50% - 8.75% ◀▶	7.50% - 9.00% ◀▶	7.50% - 9.00% ◀▶

GLOSSARY OF TERMS:

CAP RATE: Estimates are provided by NIT members in respective markets based on market transactions and/or feedback from investors on their current yield expectations.

Office/Industrial

DOWNTOWN: The neighborhoods in a metropolitan area which are the most densely populated, contain the highest concentration of businesses, offer access to a variety of urban amenities, and are typically well serviced by public transit.

SUBURBAN: The portion of a metropolitan area that is outside the city centre with a less concentrated population and typically lower density land use than is typically found in the metro's urban areas.

CLASS AA (OFFICE ONLY): The best quality office assets in a metropolitan area's downtown submarket. Typically, these properties are newer, larger than 800,000 sq. ft. with large floor plates, fully or near fully leased at or above markets rents to top quality tenants.

CLASS A: Properties competing for higher-quality tenants with above average rental rates for the area. Buildings are in good physical shape, are well situated and contain high-quality finishes, top class building systems and exceptional accessibility features.

CLASS B: Properties competing for a wide range of tenants with average or below average rents for the area. Buildings are in good to fair shape and suitable for tenants seeking functional space at discounted rates.

Retail

REGIONAL: Enclosed malls which have strong anchors with a high percentage of National tenants in CRU space. Occupiers focus on general merchandise or fashion-oriented offerings. Properties are typically anchored by at least two large format tenants, including most often a department store.

POWER CENTRES: Unenclosed retail centres comprised of freestanding and mostly unconnected single storey properties or "big boxes", often including at least one large format brand name anchor tenant. Typically situated in a larger retail node but contain limited CRU space.

COMMUNITY/NEIGHBORHOOD: Enclosed or unenclosed shopping centres that serve a community and are generally anchored by some combination of a junior department store, supermarket, drug or sport store. Typically supply a wide range of apparel and soft goods.

STRIP (ANCHORED): Open-air centres anchored by either a grocery or major drugstore tenant. Designed to provide convenience shopping for the daily needs of consumers in the surrounding neighbourhood. Off-street parking typically offered on site.

STRIP (NON-ANCHORED): Open-air centre typically not anchored by either a grocery or drugstore tenant. Centres offer a narrow mix of goods and personal services to a limited trade area. Off-street parking typically offered on site.

HIGH STREET RETAIL: Self-contained streetfront properties centrally located along high-profile retail corridors. Properties are occupied by well-known brands at well above average rental rates. Parking is typically available on street or within a public parking structure.

URBAN STREETFRONT: Streetfront properties located side by side along major urban thoroughfares in close proximity to public transit. Properties may be occupied by a wide range of tenants at above average rental rates. Parking is typically available on street or within a public parking structure.

Multifamily

HIGH RISE: Multi-unit high density properties typically 5 storeys and above in height.

LOW RISE: Multi-unit properties typically 4 storeys and below in height.

CLASS A: Newer properties which are situated in desirable neighbourhoods, well-serviced by public transit, demand above average rents, and are furbished with top of the line finishes and amenities.

CLASS B: Older properties which offer functional space with rental rates near to or below the market average.

Hotel

CAP RATES (HOTEL SPECIFIC): Rates indicated are based on adjusted results after deduction of management fees and reserves for replacement

FULL SERVICE: Hotel properties offering an abundant provision of food and beverage services (meeting rooms and dining venues). Full service hotels also typically offer additional amenities such as room service, valet parking and concierge service. Examples of core brands would be Marriott, Hilton, Four Seasons.

LIMITED SERVICE: Hotel properties that are rooms focused and don't offer a wide variety of additional amenities or services. This category would include "budget" limited service assets that offer no-frills rooms at modest prices, as well as more robust limited service properties that might offer a fitness room, a guest laundry facility, a market pantry, an indoor and/or outdoor pool, and/or a small meeting room. Examples would include Comfort Inn, Days Inn, Super 8.

FOCUSED SERVICE: Focused service hotels (also referred to as select service hotels) offer the fundamentals of limited-service properties together with a selection of the services and amenities characteristic of full-service properties. They may offer food and beverage facilities but on a less elaborate scale than one would find at full-service hotels. Extended Stay/All-Suite hotels are included in this sample. Examples would include Hampton Inn, Holiday Inn Express, Residence Inn.

CBRE