



Q3 2019 **Canadian** **Cap Rates &** **Investment** **Insights**

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

CBRE RESEARCH

CBRE

Q3 2019

Canadian Cap Rates & Investment Insights

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Investment Summary

- Despite on-going volatility, mixed signals from financial markets, geopolitical shifts and daily headlines that seem more surreal than real, the commercial real estate market in Canada remains in ‘steady as she goes’ mode.
- Overall cap rates have remained largely unchanged with the exception of the multifamily and industrial sectors where structural shifts continue to drive rental growth. Cap rates in these two sectors compressed further in Q3 2019.

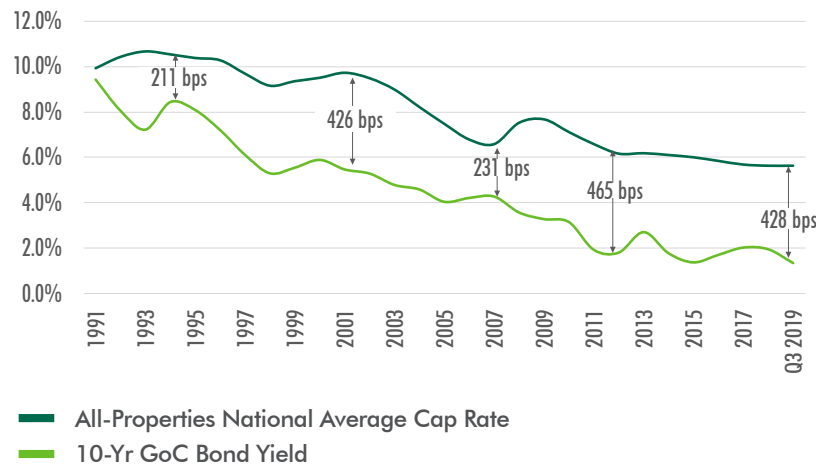


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National Average Cap Rate



Source: CBRE Research, Thomson Reuters, October 2019.

Q3 2019 CAP RATES

DOWNTOWN OFFICE		△Q/Q
AA	4.85%	◀▶
A	5.63%	◀▶
B	6.55%	◀▶
SUBURBAN OFFICE		
A	6.41%	▲
B	7.22%	◀▶
INDUSTRIAL		
A	5.08%	▼
B	6.09%	▼
RETAIL		
Regional	5.27%	◀▶
Power	6.23%	◀▶
Neighbourhood	6.28%	◀▶
Strip	5.80%	◀▶
Strip (non-anchored)	6.72%	◀▶
Urban Streetfront	5.38%	▲
High Street	3.81%	◀▶
MULTIFAMILY		
High Rise A	3.82%	▼
High Rise B	4.38%	▼
Low Rise A	4.44%	▼
Low Rise B	4.88%	▼
HOTEL		
Downtown Full Service	7.08%	◀▶
Suburban Limited Service	8.20%	◀▶
Focused Service	7.92%	◀▶

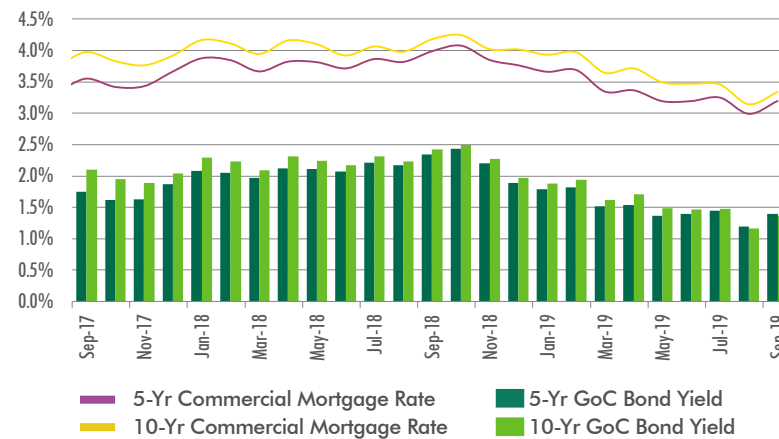
Debt Market Summary

- Further interest rate cuts by central banks would have minimal effect on global growth while trade and other major economic uncertainties exist. The ongoing trade war between the U.S. and China has slowed global growth. A fresh wave of \$7.5 billion in American tariffs targeting European consumer and industrial products in Q3 2019 will only worsen global economic conditions.
- The 10-year US Treasury now approximates 1.52% with numerous market participants calling for 1% yield ± 25 basis points by year end. Canadian yields inverted in early August and the differentials now fall within a 3-4 basis point range for 5-, 7- and 10-year tenors.
- Given current market conditions, early Q3 was an opportune time to refinance existing debt as witnessed in the bond markets but few committing to capital expenditures and expansion given political uncertainties.
- Canadian Real Estate lenders have remained consistent in dealing with the market but with all fiscal budgets approaching, or expiring in the calendar quarter, distinguishing moves may be made by some lenders.



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, Q3 2019.

MARKET MOVERS

CAD/USD

Q2 2019	Q3 2019	Change QoQ (%)
\$0.76	\$0.75	▼ -1.19%

CANADA PRIME RATE

Q2 2019	Q3 2019	Change QoQ (%)
3.95%	3.95%	◀▶ 0.00%

30-DAY CDOR

Q2 2019	Q3 2019	Change QoQ (%)
1.96%	1.95%	▼ -0.32%

WEST TEXAS INTERMEDIATE (USD)

Q2 2019	Q3 2019	Change QoQ (%)
\$58.47	\$55.06	▼ -5.83%

5-YEAR MORTGAGE SPREAD RANGE

Q2 2019	Q3 2019	Change QoQ (%)
1.55% - 2.05%	1.55% - 2.05%	◀▶ 0.00%

10-YEAR MORTGAGE SPREAD RANGE

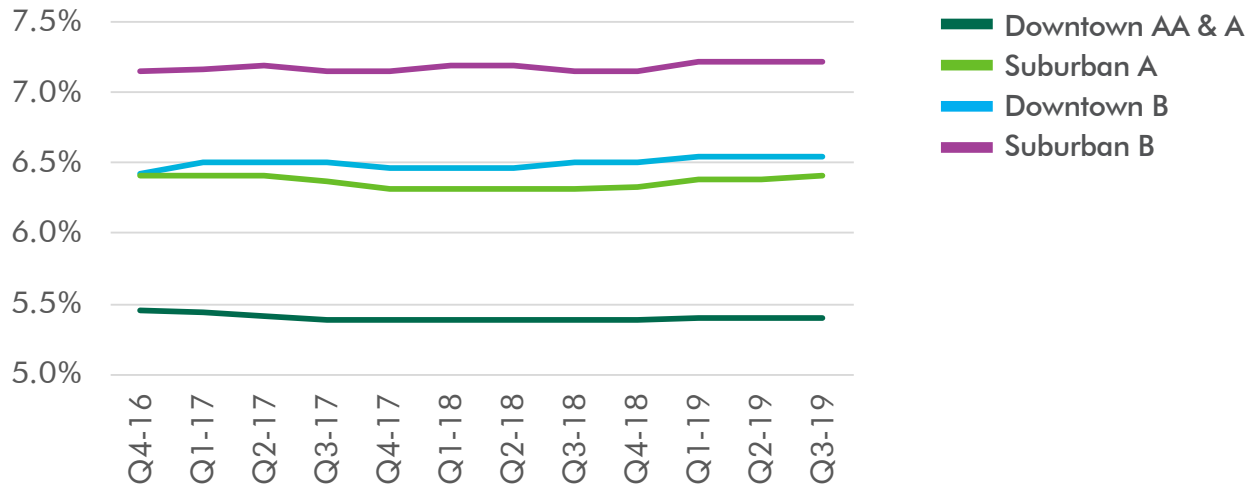
Q2 2019	Q3 2019	Change QoQ (%)
1.70% - 2.30%	1.65% - 2.30%	▼ -1.25%

Source: CBRE Limited, Thomson Reuters Eikon.

National Office Summary

- Investment activity in the Canadian office sector has recovered since a slow start to the year. The asset class stabilized even further over Q3 2019 and cap rates remained relatively unchanged this period. The only office property type to see changes in its National average cap rate figure over the third quarter was the Suburban Class A category, which saw yields rise by 2 bps compared to Q2 2019.
- Only three markets reported movements in cap rates over Q3 2019. Calgary reported a 12 bps compression in Suburban Class A yields and Saskatoon reported an increase of 38 bps to their Downtown Class B cap rate figures, while Montreal reported a 25 bps increase in Suburban Class A office yields.
- Interest in Class AA & A Downtown office assets remains elevated and the average cap rate figures for this property type remained unchanged this quarter.

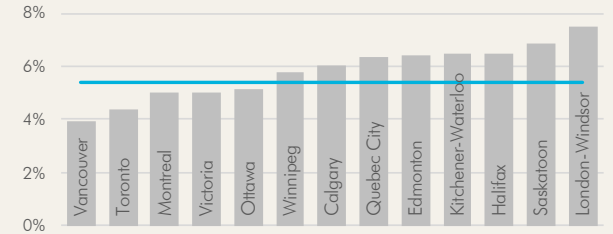
Historical Office Cap Rates



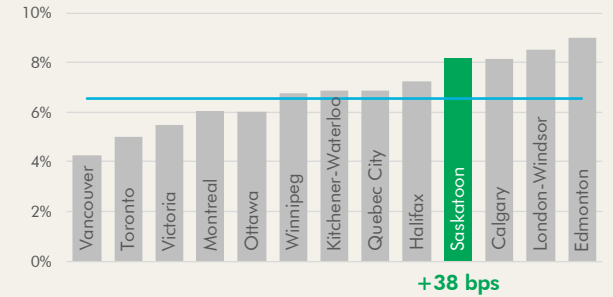
REGIONAL RANKINGS

Cap Rate National Average ΔQ/Q

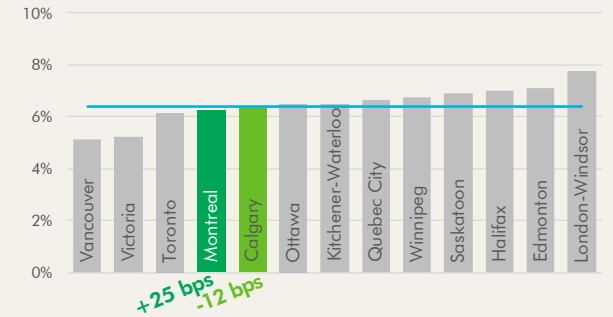
DOWNTOWN AA & A



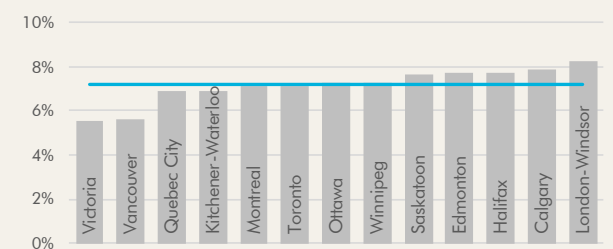
DOWNTOWN B



SUBURBAN A



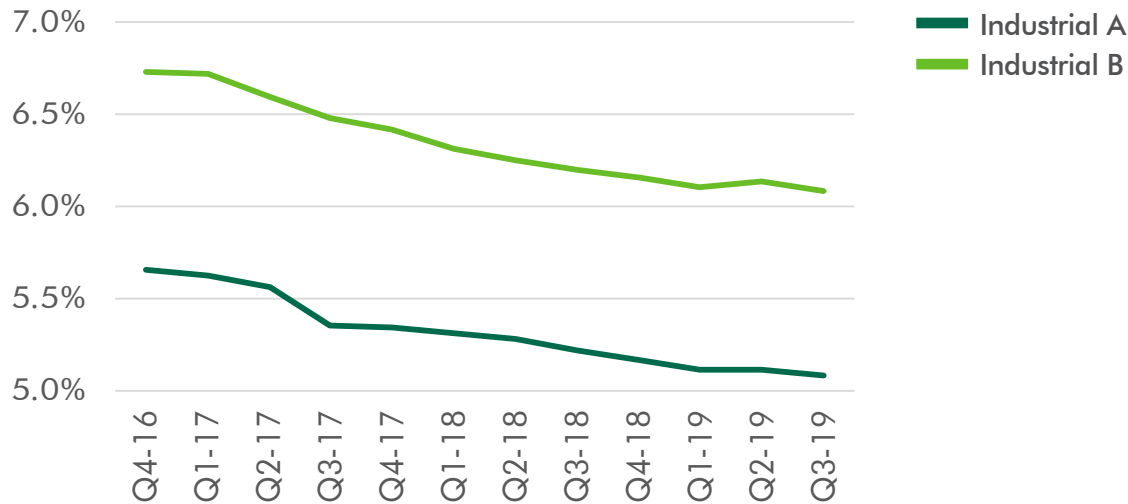
SUBURBAN B



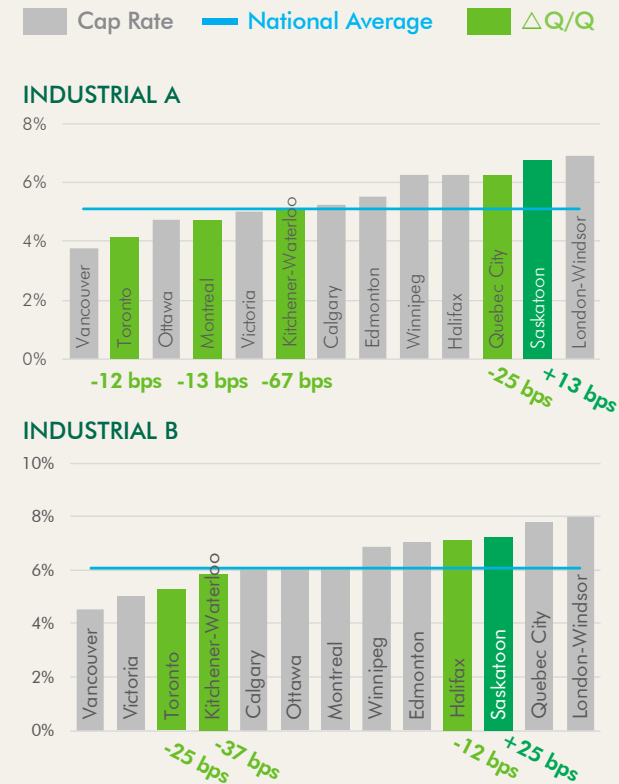
National Industrial Summary

- Canadian industrial fundamentals continued to strengthen over Q3 2019 fueled by strong ecommerce penetration and limited availability.
- Due to the sector’s strong performance, investor demand for industrial assets has continued to strengthen and cap rates have continued to compress. The national average Class A & B cap rate figures decreased by 3 bps and 5 bps over Q3 2019, ending the period at 5.08% and 6.09% respectively.
- Several markets reported declines in cap rates in Q3 2019 including Toronto, Montreal, Kitchener-Waterloo and Quebec City, while the only market to report increases in cap rates over the third quarter was Saskatoon where yields for Class A assets rose by 13 bps to 6.75%.

Historical Industrial Cap Rates



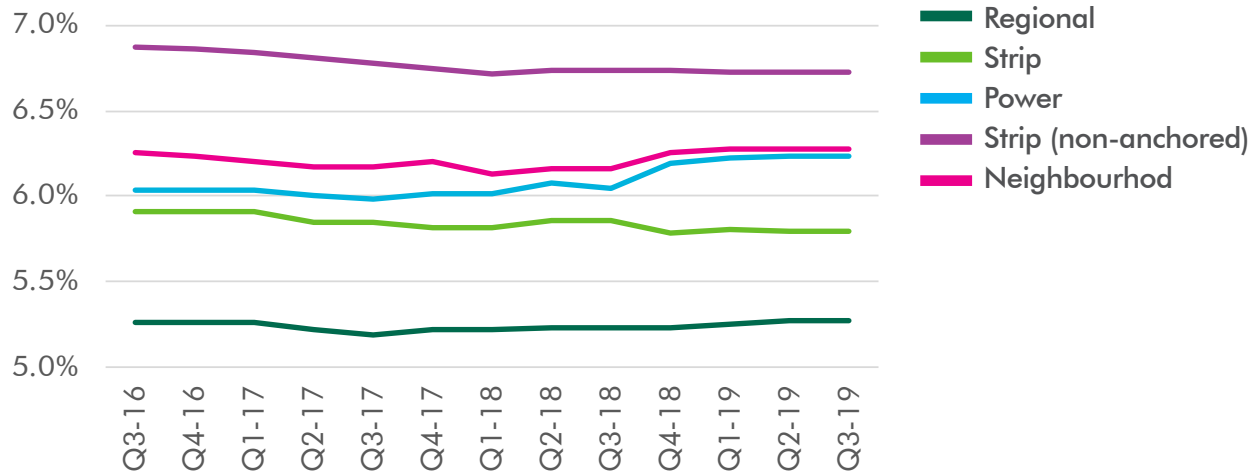
REGIONAL RANKINGS



National Retail Summary

- Canadian retail cap rates remained resilient in Q3 2019 despite a tumultuous business landscape fueled by the continued growth of ecommerce. At the National level, the only retail property types to see changes in average yields was the urban streetfront category, which increased by 2 bps.
- Montreal and Winnipeg were the only markets which recorded movements in retail yields over the third quarter. Montreal saw increases of 25 bps and 13 bps in the in the strip and urban streetfront retail property categories, while Winnipeg saw a drop of 25 bps in the strip category.
- Investment activity within the sector has continued to hold steady and demand for high-quality assets including regional malls, anchored strip centres and urban streetfront assets remains high across most geographies.

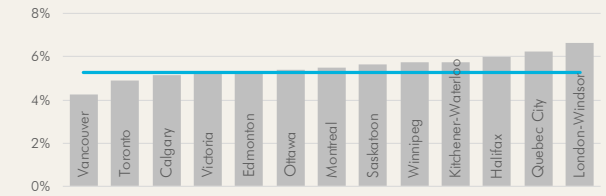
Historical Retail Cap Rates



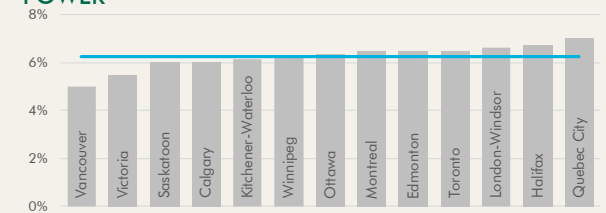
REGIONAL RANKINGS

Cap Rate National Average ΔQ/Q

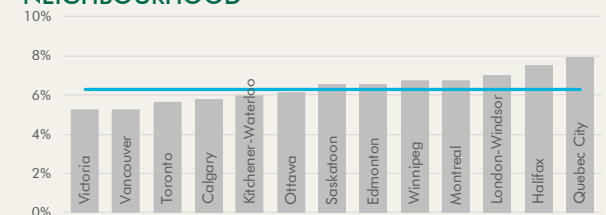
REGIONAL



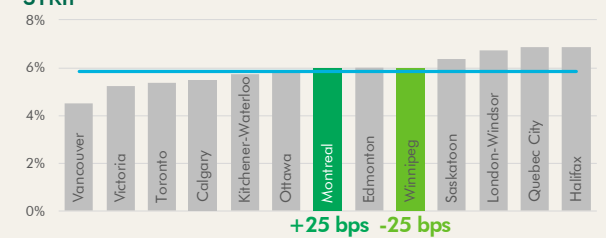
POWER



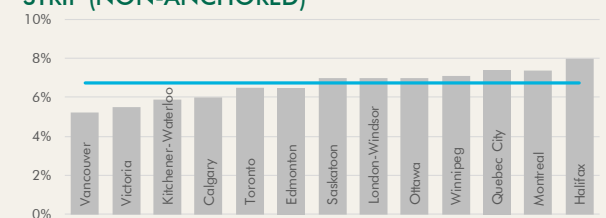
NEIGHBOURHOOD



STRIP



STRIP (NON-ANCHORED)



National Multifamily Summary

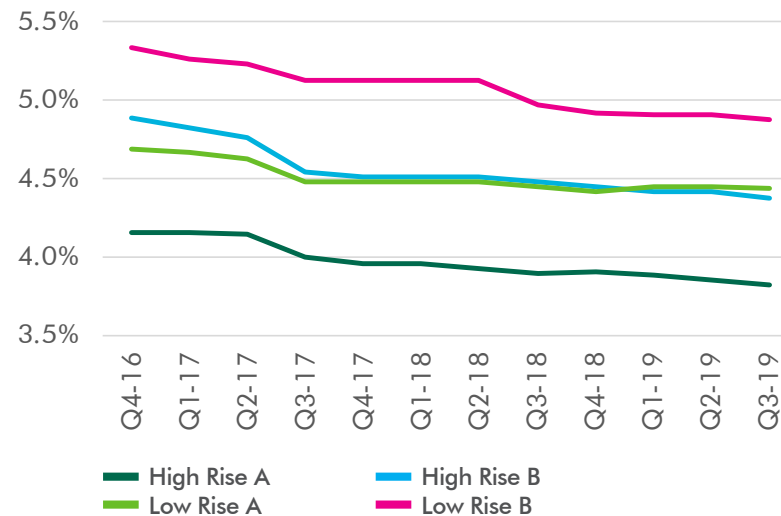
- Canadian multifamily cap rates continued to compress over Q3 2019 and the national average cap rate figures for most of the multifamily property subcategories ended the quarter at or near all-time record lows.
- Despite record pricing metrics, interest from investors has remained elevated due to exceptionally strong property fundamentals across most Canadian geographies. The competitive bidding activity has driven yields to compress further.
- Markets to see movement in rates included Toronto, which saw yield compression across all four multifamily property types and Halifax, which recorded yield compression in three subcategories.



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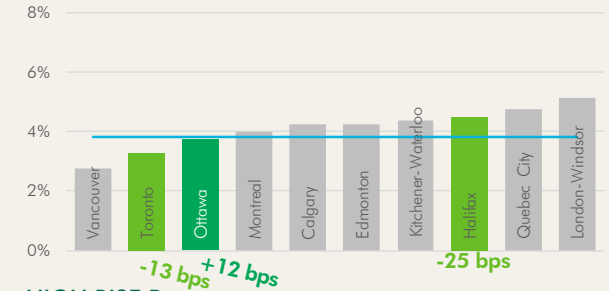
Historical Multifamily Cap Rates



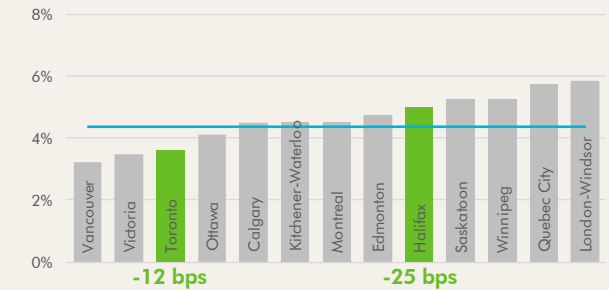
REGIONAL RANKINGS

Cap Rate National Average Δ Q/Q

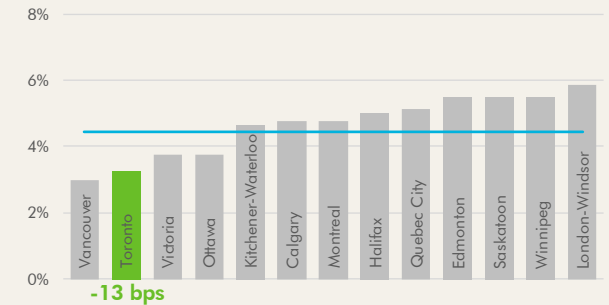
HIGH RISE A



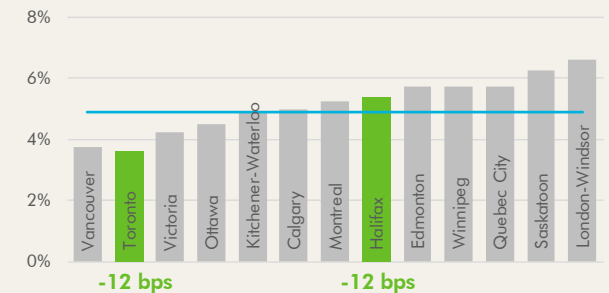
HIGH RISE B



LOW RISE A



LOW RISE B



National Hotel Summary

- RevPAR expectations for 2019 have been scaled back as result of some demand softness and operator’s hesitance on ADR growth.
- The wide availability of debt and equity in the market and the interest from new entrants is contributing to new supply growth and considerable demand for acquisitions.
- Some existing owners, however, seem to be reluctant to bring product to market given the challenges they face replacing the yields and income currently being earned.
- There are a few significant transactions, both single assets and portfolios, expected to close over the remainder of the year but full-year transaction volume will likely remain close to the 10-year average.

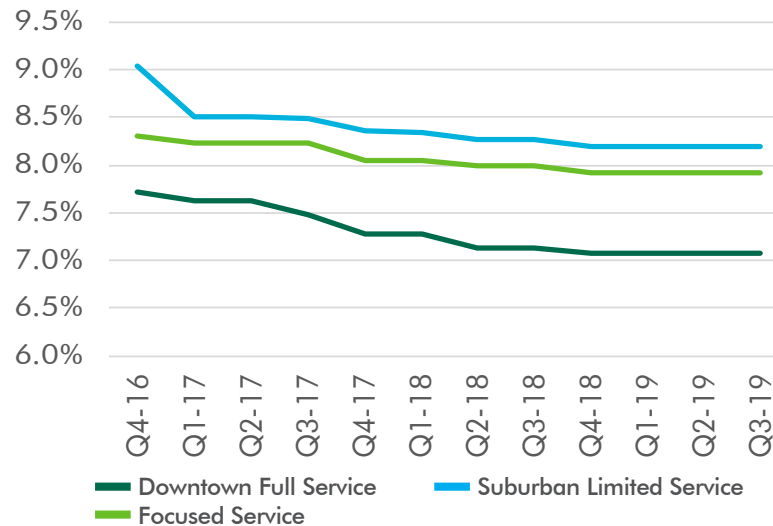


Bill Stone

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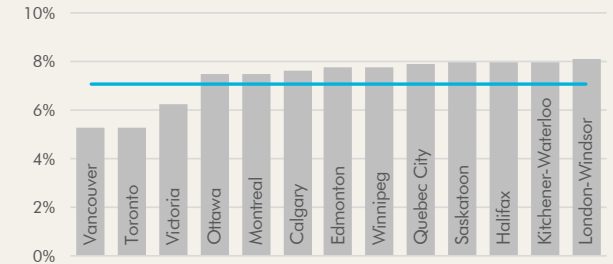
Historical Hotel Cap Rates



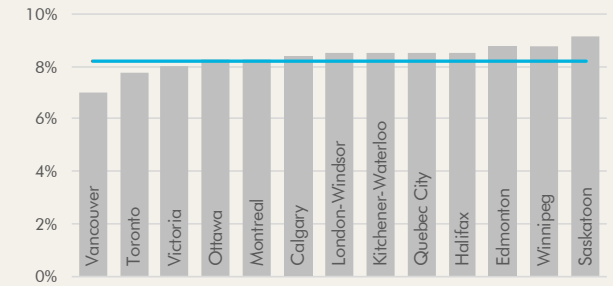
REGIONAL RANKINGS

Cap Rate National Average Δ Q/Q

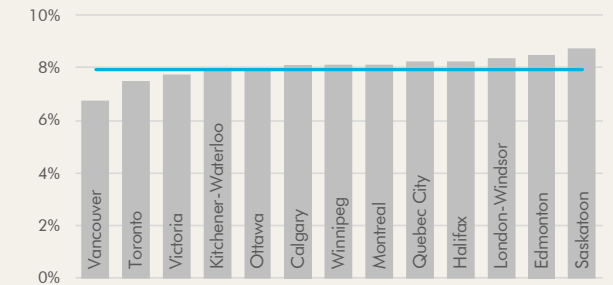
DOWNTOWN FULL SERVICE



SUBURBAN LIMITED SERVICE



FOCUSED SERVICE



Victoria

- Steady demand and limited supply across asset classes have ensured that cap rates in Victoria remained unchanged over Q3 2019.
- Investor interest in the industrial sector remains robust. Occupiers are finding it difficult to secure suitable lease options as the sector remains undersupplied while availability rates sit near record lows. The supply-demand imbalance is resulting in upward pressure on rents and asset values.
- Likewise, office assets continue to see strong demand from users and investors alike. Rental rate increases, a low interest rate environment and a competitive lender landscape, are all encouraging users to consider owning over leasing. This phenomenon has further strengthened the investor pool.



Ross Marshall

Senior Vice President

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Historical Victoria Cap Rates



Q3 2019 CAP RATES

DOWNTOWN OFFICE ΔQ/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%	◀▶

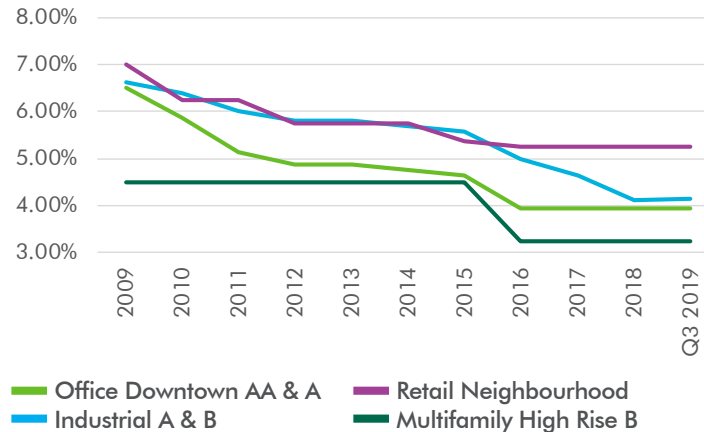
Vancouver

- Investment demand for office, industrial and multifamily assets remain strong. While availability of quality product remains an issue, we have seen cap rates for all three product types hold firm.
- So far in 2019 the make-up of the demand side of the market has continued to shift towards more domestic and U.S. based capital with Asian based capital retreating to more traditional levels.
- High quality service-based retail centres in Metro Vancouver and secondary markets continue to attract investors seeking higher yield plays.
- The current cooling of the housing market has led to a dip in condominium development land values in Metro Vancouver.



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Historical Vancouver Cap Rates



Q3 2019 CAP RATES

Category	Cap Rate Range	ΔQ/Q
DOWNTOWN OFFICE		
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

- Institutional investors have maintained a cautious approach to big-box retail, while private buyers continued to capitalize on smaller retail offerings over Q3 2019.
- Core industrial and multifamily product continues to propel most of the investment activity in Calgary. This trend is expected to continue through to the end of the year.
- Investor confidence in the market has improved steadily since the change of Provincial government in April.

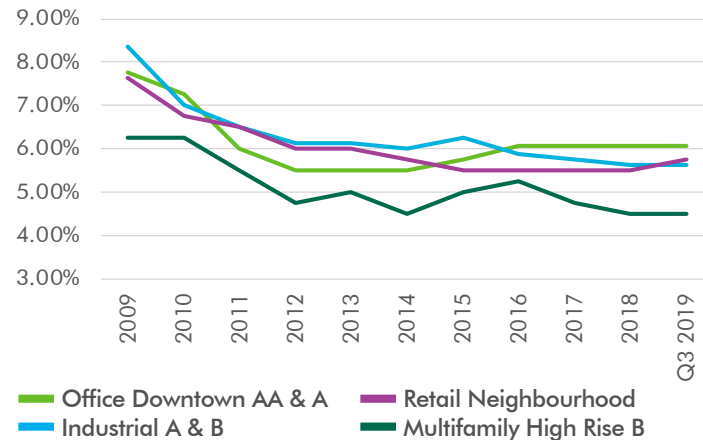


Garry Beres

Vice Chairman,
National Investment Team

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Historical Calgary Cap Rates



Q3 2019 CAP RATES

DOWNTOWN OFFICE		ΔQ/Q
AA	5.25% - 5.75%	◀▶
A	6.25% - 7.00%	◀▶
B	7.75% - 8.50%	◀▶
SUBURBAN OFFICE		
A	6.00% - 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 “beds and sheds” theme continue to hold true in Edmonton as core industrial and multifamily assets have remained the most highly sought-after property types. Demand continues to outpace limited supply in each of these asset classes.
- Retail continues to be looked at cautiously from both an investor and lender perspective. There continues to be strong demand for assets priced under the \$15 million threshold, however there is a very selective buyer pool above this price range.
- Flight to quality is persisting in the office market with a concentric effect being felt around the ICE District. The sale of Stantec Tower provides a much-needed data point for trophy office assets in Alberta.



Dave Young
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National Investment Team
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Historical Edmonton Cap Rates



Q3 2019 CAP RATES

DOWNTOWN OFFICE		ΔQ/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 for investors in Saskatoon’s downtown office market. Construction continues on the North Tower at River Landing and fixturing is ongoing at the East Tower in preparation for expected occupancy in 2020.
- Saskatoon has seen increased industrial investment activity as speculative construction remains limited and industrial market fundamentals continue to improve.
- While interest in retail investment assets has been tepid this year, Q3 2019 saw an uptick in activity for this property type within Saskatoon.

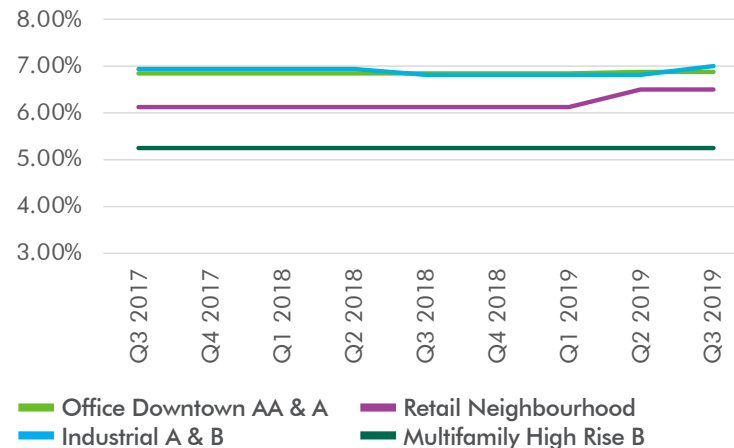


Michael Bratvold

Vice President,
Managing Director

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Historical Saskatoon Cap Rates



Q3 2019 CAP RATES

DOWNTOWN OFFICE		ΔQ/Q
AA	N/A	
A	6.50% - 7.25%	◀
B	7.50% - 8.75%	▲
SUBURBAN OFFICE		
A	6.50% - 7.25%	◀
B	7.25% - 8.00%	◀
INDUSTRIAL		
A	6.50% - 7.00%	▲
B	7.00% - 7.50%	▲
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

- Local and regional private capital has shown continued confidence in anchored retail centres. This has been evidenced by several recent trades where, despite significant bid depth from larger capital sources, liquidity remained intact, and cap rates were strong.
- Industrial assets are in high demand across the board including core, value-add, and greenfield properties, while retail remains fragmented based on form and function, and demand for office assets is limited to core buildings downtown and in select suburban areas.
- Business confidence is positive throughout much of the province on the heels on the recent re-election of a majority government for the Progressive Conservative Party of Manitoba and the continued trend of moderate economic expansion.



Ryan Behie

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Historical Winnipeg Cap Rates



Q3 2019 CAP RATES

DOWNTOWN OFFICE		ΔQ/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	5.75% - 6.25%	▼
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

- Cap rates within London held steady once again over Q3 2019. The region continues to benefit from record low cap rates in a variety of asset classes within the GTA, as London remains an enticing option for investors seeking additional yield.
- Demand for multifamily assets continued to build over Q3 2019 despite a severe lack of supply. This has driven many buyers to consider the development market.
- Interest remains strong for Class A & B industrial assets, with low availability rates continuing to drive rents higher while construction has been slow due to land scarcity and high construction costs.

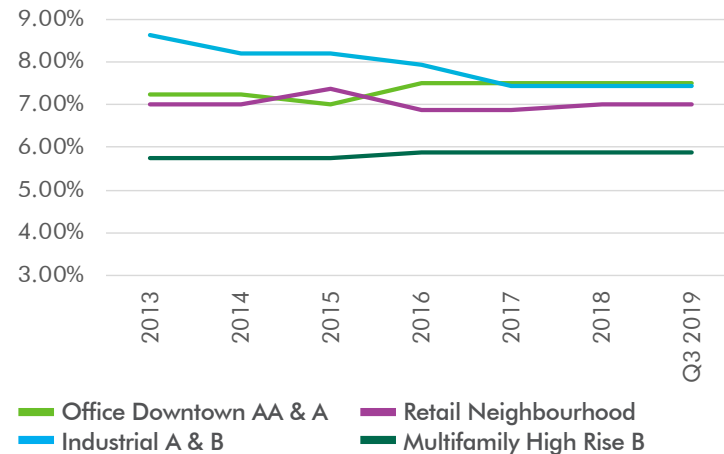


Peter Whatmore

Senior Vice President,
National Investment Team

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Historical London Cap Rates



Q3 2019 CAP RATES

DOWNTOWN OFFICE		ΔQ/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%	◀▶

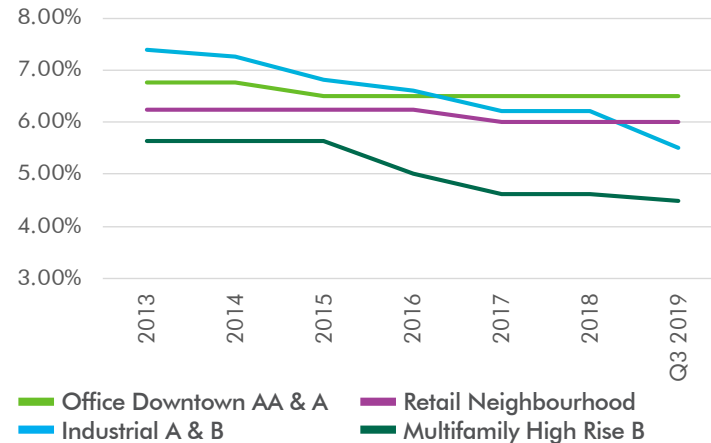
Kitchener-Waterloo

- Industrial assets remain highly sought after by investors and cap rates continued to compress for both Class A & B property categories over Q3 2019.
- Investor confidence in the Kitchener-Waterloo office market has fully rebounded. Owners of conventional office buildings in the core as well as suburban office buildings in Waterloo are benefitting from the low availability. In addition, high profile office leasing activity continues to drive excitement and fuel new development in Downtown Kitchener.
- Waterloo represents a significant opportunity for investors to acquire product at scale. Developers can't add product to the market fast enough as housing fundamentals remain in the landlords favour.



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 National Investment Team
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Historical Kitchener-Waterloo Cap Rates



Q3 2019 CAP RATES

DOWNTOWN OFFICE		ΔQ/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	4.75% - 5.50%	▼
B	5.50% - 6.25%	▼
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%	◀▶

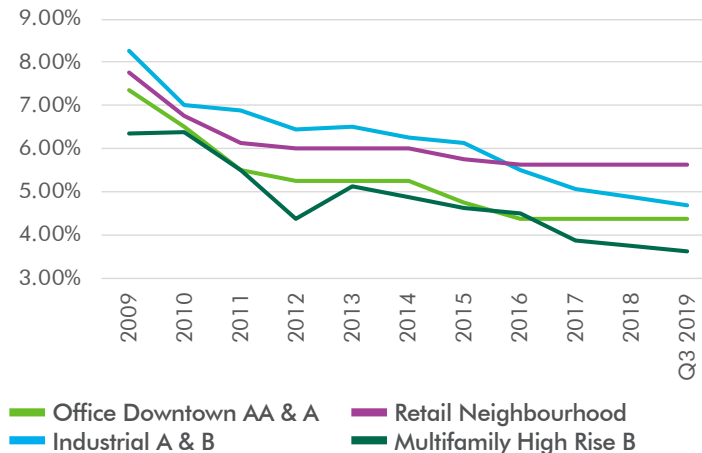
Toronto

- The Canadian commercial real estate sector continues to perform exceptionally well as volatility across global financial markets, a domestic interest rate environment which is currently favourable to the property sector and low yields across most other investment vehicles has driven capital towards the asset class.
- Liquidity for real estate assets has continued to strengthen as the year has progressed and capital remains exceptionally deep.
- Investor demand has not been limited to any given asset class as fundamentals across property types look poised for continued strength. The industrial and multifamily sectors continue to lead the way in terms of investment yields.



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



Q3 2019 CAP RATES

DOWNTOWN OFFICE		ΔQ/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	3.75% - 4.50%	▼
B	4.75% - 5.75%	▼
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	2.75% - 3.75%	▼
High Rise B	3.25% - 4.00%	▼
Low Rise A	2.75% - 3.75%	▼
Low Rise B	3.25% - 4.00%	▼
HOTEL		
Downtown Full Service	4.50% - 6.00%	◀▶
Suburban Limited Service	7.00% - 8.50%	◀▶
Focused Service	7.00% - 8.00%	◀▶

Ottawa

- Significant government spending and growth in the tech sector has resulted in Ottawa experiencing record fundamentals in 2019 with no sign of slowing down, notwithstanding the upcoming fall election on the horizon.
- Investment activity has been robust in all sectors, but downtown office has led the charge with several key tower sales in the second half of the year closing or scheduled to close.
- Ottawa’s industrial market continues to grow at a record pace and investors should expect to see limited new development on the near-horizon.



Nico Zentil
 Senior Vice President,
 National Investment Team
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Historical Ottawa Cap Rates



Q3 2019 CAP RATES

DOWNTOWN OFFICE		ΔQ/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% - 4.00%	▲
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

- Canadian and foreign investors are increasingly optimistic in the Montreal market. Many continue to underwrite assets expecting strong growth in rental rates.
- Downtown office and industrial opportunities are highly sought after by institutional investors. There continued to be downward pressure on cap rates for these property types over Q3 2019.
- Top of market retail sites continue to garner strong investor appetite, while land prices downtown continue to increase due to a scarcity of sites and strengthening residential absorption figures.



Scott Speirs

Executive Vice President,
National Investment Team

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Historical Montreal Cap Rates



Q3 2019 CAP RATES

DOWNTOWN OFFICE		ΔQ/Q
AA	4.50% - 5.00%	◀▶
A	5.00% - 5.50%	◀▶
B	5.75% - 6.25%	◀▶
SUBURBAN OFFICE		
A	6.00% - 6.50%	▲
B	6.75% - 7.50%	◀▶
INDUSTRIAL		
A	4.50% - 5.00%	▼
B	5.50% - 6.50%	◀▶
RETAIL		
Regional	5.25% - 5.75%	◀▶
Power	6.25% - 6.75%	◀▶
Neighbourhood	6.50% - 7.00%	◀▶
Strip	5.75% - 6.25%	▲
Strip (non-anchored)	7.00% - 7.75%	◀▶
Urban Streetfront	4.00% - 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

- As interest rates have remain stable, significant capital remains available for all asset types.
- The majority of recent investments have stemmed from local firms or groups out of Montreal. The primary investment thesis within Quebec City continues to be development potential and urban densification.
- There’s been a noticeable change in strategy from owner-occupiers, as they’ve become more open to sale-leaseback transaction structures. The tightness of the industrial market has made these owners more willing to sell their properties in exchange for long-term leases.



Stéphane Hudon

Vice President

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Historical Quebec City Cap Rates



Q3 2019 CAP RATES

DOWNTOWN OFFICE		ΔQ/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	5.75% - 6.75%	▼
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

- The Atlantic Region is on pace for one of its highest yearly investment volume totals of the decade.
- Halifax’s industrial market in particular has experienced significant activity, as over \$325 million worth of industrial assets have traded hands so far in 2019. This total was driven primarily driven by KingSett’s \$271 million acquisition of Dream’s 2.7 million square foot Atlantic Canada Portfolio.
- Multifamily fundamentals are solid within Halifax as the city has experienced rapid population growth and continued low vacancy coupled with rising rents. Multifamily cap rates for a variety of property types compressed over Q3 2019.



Bob Mussett

Senior Vice President,
National Investment Team

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Historical Halifax Cap Rates



Q3 2019 CAP RATES

DOWNTOWN OFFICE		ΔQ/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	6.75% - 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	4.25% - 4.75%	▼
High Rise B	4.75% - 5.25%	▼
Low Rise A	4.75% - 5.25%	◀▶
Low Rise B	5.00% - 5.75%	▼
HOTEL		
Downtown Full Service	7.25% - 8.75%	◀▶
Suburban Limited Service	8.00% - 9.00%	◀▶
Focused Service	7.50% - 9.00%	◀▶

Q3 2019 Canadian Cap Rates Δ Q/Q

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

Q3 2019 Canadian Cap Rates Δ Q/Q

DOWNTOWN OFFICE	KITCHENER-WATERLOO	TORONTO	OTTAWA	MONTREAL	QUEBEC CITY	HALIFAX
AA	N/A	4.00% - 4.50% \blacktriangleleft	4.75% - 5.25% \blacktriangleleft	4.50% - 5.00% \blacktriangleleft	N/A	N/A
A	6.00% - 7.00% \blacktriangleleft	4.25% - 4.75% \blacktriangleleft	5.00% - 5.50% \blacktriangleleft	5.00% - 5.50% \blacktriangleleft	6.00% - 6.75% \blacktriangleleft	6.25% - 6.75% \blacktriangleleft
B	6.50% - 7.25% \blacktriangleleft	4.75% - 5.25% \blacktriangleleft	5.75% - 6.25% \blacktriangleleft	5.75% - 6.25% \blacktriangleleft	6.25% - 7.50% \blacktriangleleft	7.00% - 7.50% \blacktriangleleft
SUBURBAN OFFICE						
A	6.00% - 7.00% \blacktriangleleft	5.75% - 6.50% \blacktriangleleft	6.25% - 6.75% \blacktriangleleft	6.00% - 6.50% \blacktriangle	6.25% - 7.00% \blacktriangleleft	6.50% - 7.50% \blacktriangleleft
B	6.50% - 7.25% \blacktriangleleft	6.75% - 7.50% \blacktriangleleft	7.00% - 7.50% \blacktriangleleft	6.75% - 7.50% \blacktriangleleft	6.50% - 7.25% \blacktriangleleft	7.50% - 8.00% \blacktriangleleft
INDUSTRIAL						
A	4.75% - 5.50% \blacktriangledown	3.75% - 4.50% \blacktriangledown	4.50% - 5.00% \blacktriangleleft	4.50% - 5.00% \blacktriangledown	5.75% - 6.75% \blacktriangledown	6.00% - 6.50% \blacktriangleleft
B	5.50% - 6.25% \blacktriangledown	4.75% - 5.75% \blacktriangledown	5.50% - 6.50% \blacktriangleleft	5.50% - 6.50% \blacktriangleleft	7.00% - 8.50% \blacktriangleleft	6.75% - 7.50% \blacktriangledown
RETAIL						
Regional	5.50% - 6.00% \blacktriangleleft	4.25% - 5.50% \blacktriangleleft	5.00% - 5.75% \blacktriangleleft	5.25% - 5.75% \blacktriangleleft	5.75% - 6.75% \blacktriangleleft	5.75% - 6.25% \blacktriangleleft
Sector/Power	5.75% - 6.50% \blacktriangleleft	6.00% - 7.00% \blacktriangleleft	6.00% - 6.75% \blacktriangleleft	6.25% - 6.75% \blacktriangleleft	6.50% - 7.50% \blacktriangleleft	6.25% - 7.25% \blacktriangleleft
Neighbourhood	5.50% - 6.50% \blacktriangleleft	5.00% - 6.25% \blacktriangleleft	5.75% - 6.50% \blacktriangleleft	6.50% - 7.00% \blacktriangleleft	7.25% - 8.50% \blacktriangleleft	7.00% - 8.00% \blacktriangleleft
Strip	5.00% - 6.50% \blacktriangleleft	4.75% - 6.00% \blacktriangleleft	5.50% - 6.25% \blacktriangleleft	5.75% - 6.25% \blacktriangle	6.25% - 7.50% \blacktriangleleft	6.25% - 7.50% \blacktriangleleft
Non-anchored Strip Mall	5.00% - 6.75% \blacktriangleleft	6.00% - 7.00% \blacktriangleleft	6.50% - 7.50% \blacktriangleleft	7.00% - 7.75% \blacktriangleleft	7.00% - 7.75% \blacktriangleleft	7.50% - 8.50% \blacktriangleleft
Urban Streetfront	6.00% - 7.50% \blacktriangleleft	3.75% - 4.50% \blacktriangleleft	4.75% - 5.50% \blacktriangleleft	4.00% - 4.50% \blacktriangle	N/A	6.50% - 7.50% \blacktriangleleft
High Street	N/A	3.50% - 4.25% \blacktriangleleft	N/A	N/A	N/A	N/A
MULTIFAMILY						
High Rise A	4.25% - 4.50% \blacktriangleleft	2.75% - 3.75% \blacktriangledown	3.50% - 4.00% \blacktriangle	3.75% - 4.25% \blacktriangleleft	4.25% - 5.25% \blacktriangleleft	4.25% - 4.75% \blacktriangledown
High Rise B	4.25% - 4.75% \blacktriangleleft	3.25% - 4.00% \blacktriangledown	4.00% - 4.25% \blacktriangleleft	4.25% - 4.75% \blacktriangleleft	5.25% - 6.25% \blacktriangleleft	4.75% - 5.25% \blacktriangledown
Low Rise A	4.25% - 5.00% \blacktriangleleft	2.75% - 3.75% \blacktriangledown	3.50% - 4.00% \blacktriangleleft	4.50% - 5.00% \blacktriangleleft	4.75% - 5.50% \blacktriangleleft	4.75% - 5.25% \blacktriangleleft
Low Rise B	4.50% - 5.25% \blacktriangleleft	3.25% - 4.00% \blacktriangledown	4.25% - 4.75% \blacktriangleleft	5.00% - 5.50% \blacktriangleleft	5.25% - 6.25% \blacktriangleleft	5.00% - 5.75% \blacktriangledown
HOTEL						
Downtown Full Service	7.50% - 8.50% \blacktriangleleft	4.50% - 6.00% \blacktriangleleft	7.00% - 8.00% \blacktriangleleft	7.00% - 8.00% \blacktriangleleft	7.25% - 8.50% \blacktriangleleft	7.25% - 8.75% \blacktriangleleft
Suburban Limited Service	8.00% - 9.00% \blacktriangleleft	7.00% - 8.50% \blacktriangleleft	7.75% - 8.75% \blacktriangleleft	7.75% - 8.75% \blacktriangleleft	8.00% - 9.00% \blacktriangleleft	8.00% - 9.00% \blacktriangleleft
Focused Service	7.50% - 8.50% \blacktriangleleft	7.00% - 8.00% \blacktriangleleft	7.50% - 8.50% \blacktriangleleft	7.50% - 8.75% \blacktriangleleft	7.50% - 9.00% \blacktriangleleft	7.50% - 9.00% \blacktriangleleft

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/NEIGHBOURHOOD: 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-served by public transit, demand above average rents, and are furnished 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.

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