RECanInvest Inc.

Canadian Real Estate Market Update

Mid-Year 2025

Key Themes and Takeaways

KEY ECONOMIC THEMES

Tariffs are clouding economic outlook

- Fluid situation makes forecasting and scenario planning challenging.
- Lack of clarity has led to a pause in leasing and sales markets.

Economy was gaining momentum and then stalled in March

- GDP growth increased steadily from July 2024 – January 2025.
- GDP slowed sharply in February mostly due to slowdown in agriculture, extractives, and construction.

Housing affordability is driving demographic trends across Canada

- Cities that offer relative affordability are growing faster.
- Prairie cities (Calgary, Edmonton, Regina, Winnipeg), GTA spillover cities Waterloo, London, Barrie) among the fastest growing.

BoC could lower policy rate more than expected this year if tariff uncertainty persists

- Bank of Canada has hinted at taking a pro-active and flexible stance on interest rates.
- More cuts on the table for 2025 depending on how tariff negotiations play out.

Immigration cuts starting to impact market fundamentals

- Pullback in non-permanent resident (NPR) visas is expected to lead to flat population growth beginning this year.
- This has likely been a factoring in falling apartment rents and housing prices over the past ~6 months.

KEY REAL ESTATE THEMES

Capital Markets

- Investment sales were gaining momentum in Q4 2024, but hit an abrupt pause in March.
- Investors are fully in "wait-and-see" mode until trade picture clears up.
- Cost of capital has not changed materially as GoC 10-yr remains within 3-3.5% band.

Industrial

- Industrial absorption had rebounded before February tarif announcements, then slowed abruptly in February.
- Tariff impact on industrial market is uncertain and difficult to predict. Slower economy could lead to less demand to warehouse goods, but in some cases trade uncertainty could lead firms to stockpile.

Office

- Leasing activity was gaining momentum in Q4 2024, then mostly paused in March.
- National office vacancy was flat in Q4 2024 but resumed its upward trajectory, rising 20 bps in Q1 2025.
- Demand for furnished sublease space expected to swell as tariff escalation could lead to higher build-out costs.

Retail

- Retail sales have declined for January and February, though this is typical after the holiday season. Expired GST/HST holiday also weighed on sales.
- Consumer purchasing power this year could be challenged by trade complications, as well as a spike in residential mortgage renewals at higher interest rates.

Land and development

- Counter-tariffs are targeting some key U.S. construction imports (HVAC, furniture, etc.). This will raise construction costs and lower the feasibility of new development across all sectors.
- New development is set to fall across all commercial sectors – office, industrial, and retail – over the next few years as market fundamentals and costs undermine the case for new development.

Canadian Real Estate Market Update

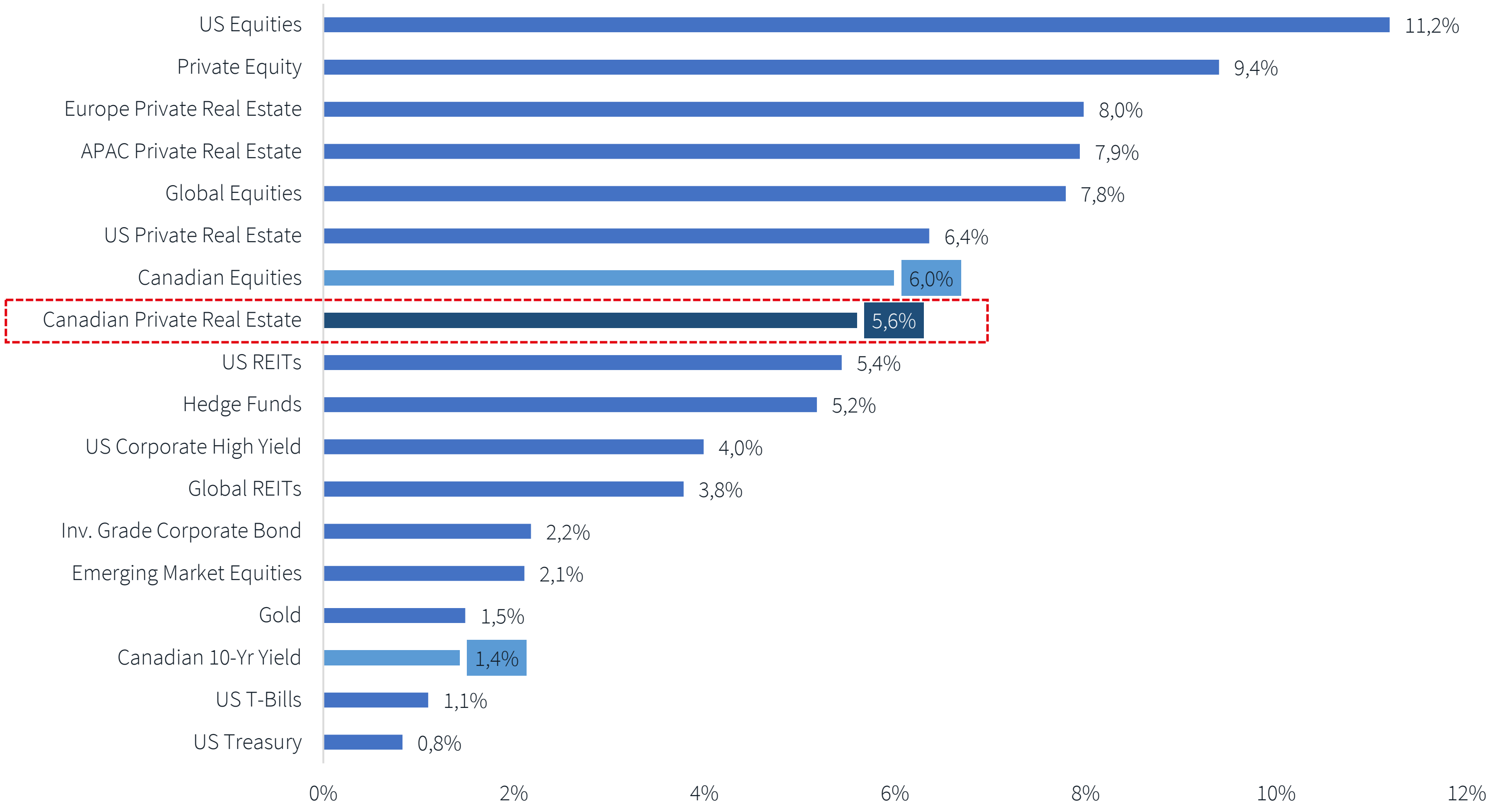
Economic Review

10-year Returns for Select Investment Vehicles

Canadian private real estate remains an attractive long-term investment

- Over the past 10 years, Canadian real estate ownership has earned an average annual return of about 5.6%, according to the MSCI/REALPAC Canadian Property Index.
- While private real estate has garnered a better return in Europe, Asia Pacific, and the US, Canadian real estate offers relatively more stability and predictability, while outperforming fixed income alternatives.

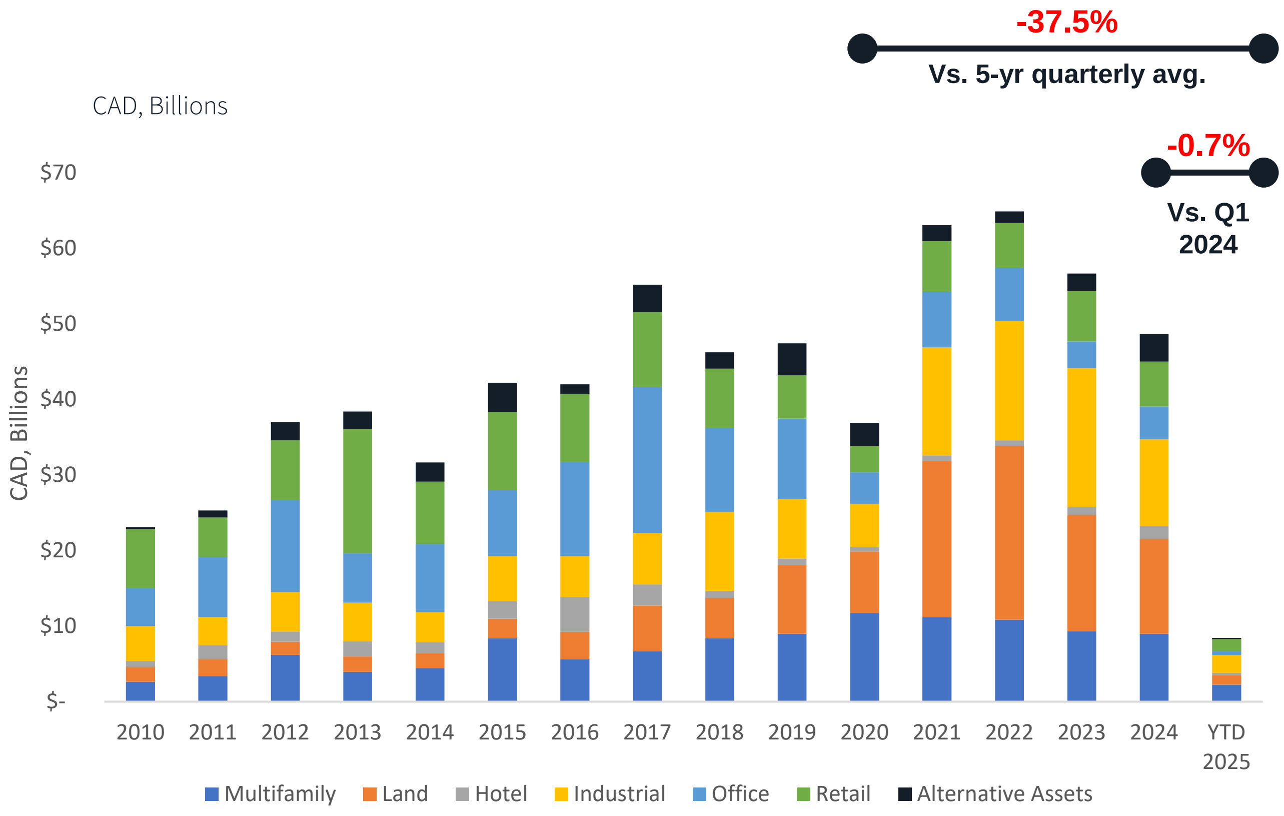
Average Annual Return, 2014-2024



Source: JLL Research, MSCI, REALPAC

Investment volumes reach $8.4b in Q1 2025, making it the slowest quarter since 2020

Historical Investment Volumes by Sector

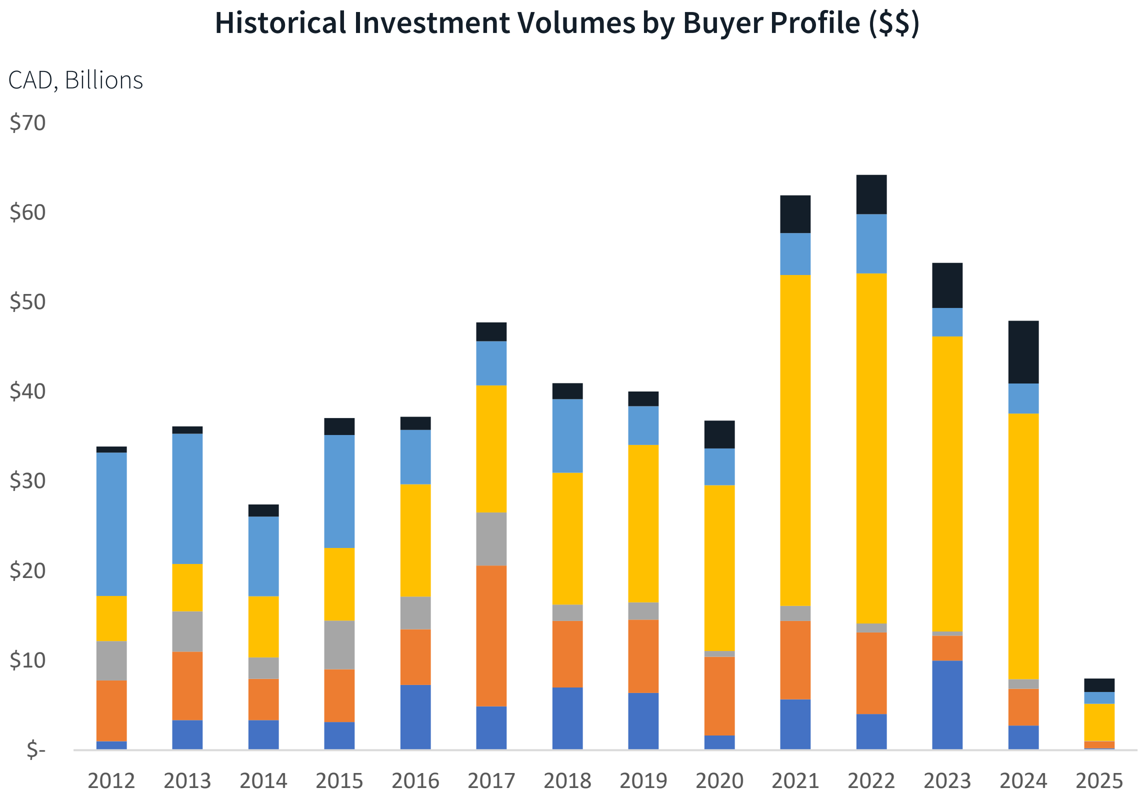


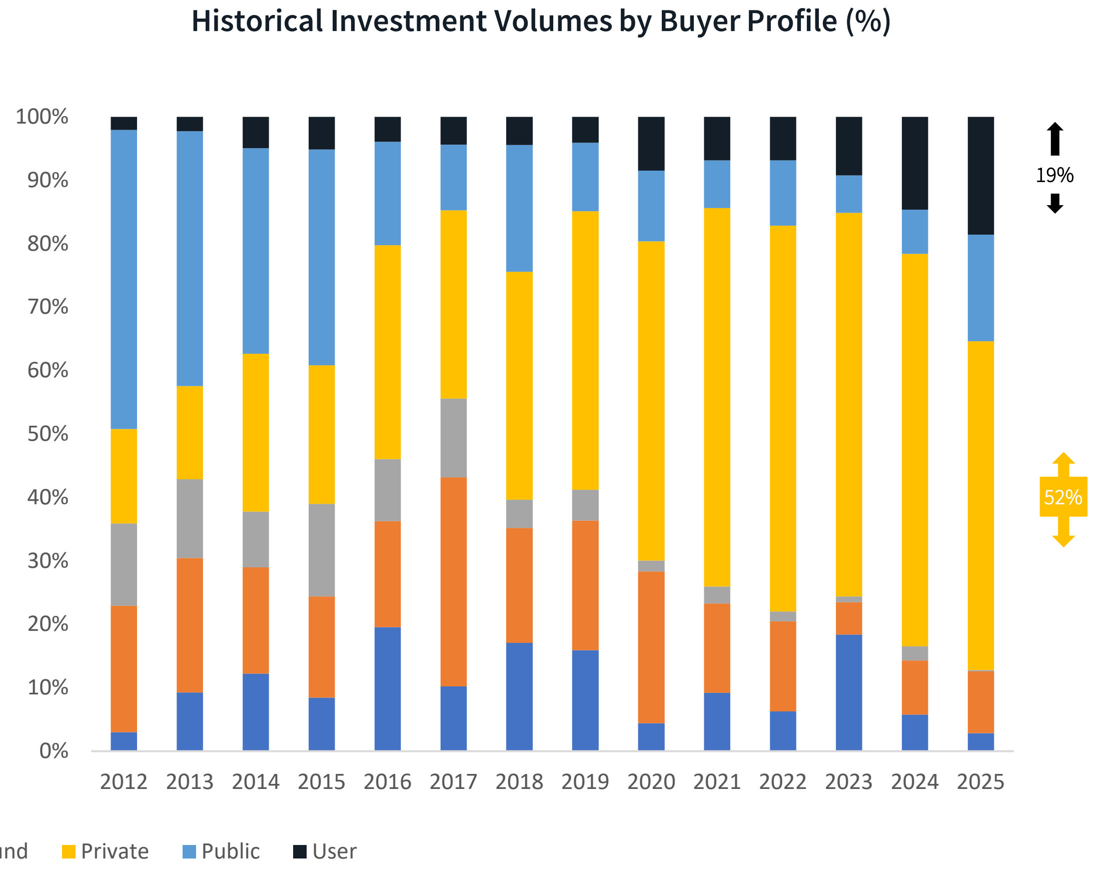
Source: JLL Research, Real Capital Analytics, Altus, Gettel Network, Nominis
All transactions > $5m
Includes entity-level and portfolio transactions

YTD 2025 Investment Volumes vs. Historical

Market / Sector	2025 Investment Volume YTD (CAD, Millions)	Vs 5-yr quarterly average	Vs. Q1 2024
Vancouver	$1,109.71	-14.9%	81.4%
Calgary	$745.91	-20.2%	-31.2%
Edmonton	$851.67	55.9%	88.9%
SW Ontario	$638.81	-36.9%	15.6%
Toronto	$2,810.68	-44.1%	-0.3%
Ottawa	$394.91	-27.4%	-4.4%
Montréal	$1,190.49	-51.0%	-19.7%
Hotel	$318.12	34.8%	-52.3%
Industrial & Logistics	$2,401.24	-40.4%	12.8%
Land	$1,228.72	-65.1%	-41.0%
Multifamily	$2,257.43	-3.0%	33.1%
Office	$454.47	-69.0%	-35.4%
Retail	$1,615.83	6.4%	75.0%
Alternative Assets	$164.84	-49.7%	-28.5%
Total	**$8,440.64**	-37.5%	-0.7%

Private investors continue to dominate the investment market, but owner-users are the fastest growing buyer cohort

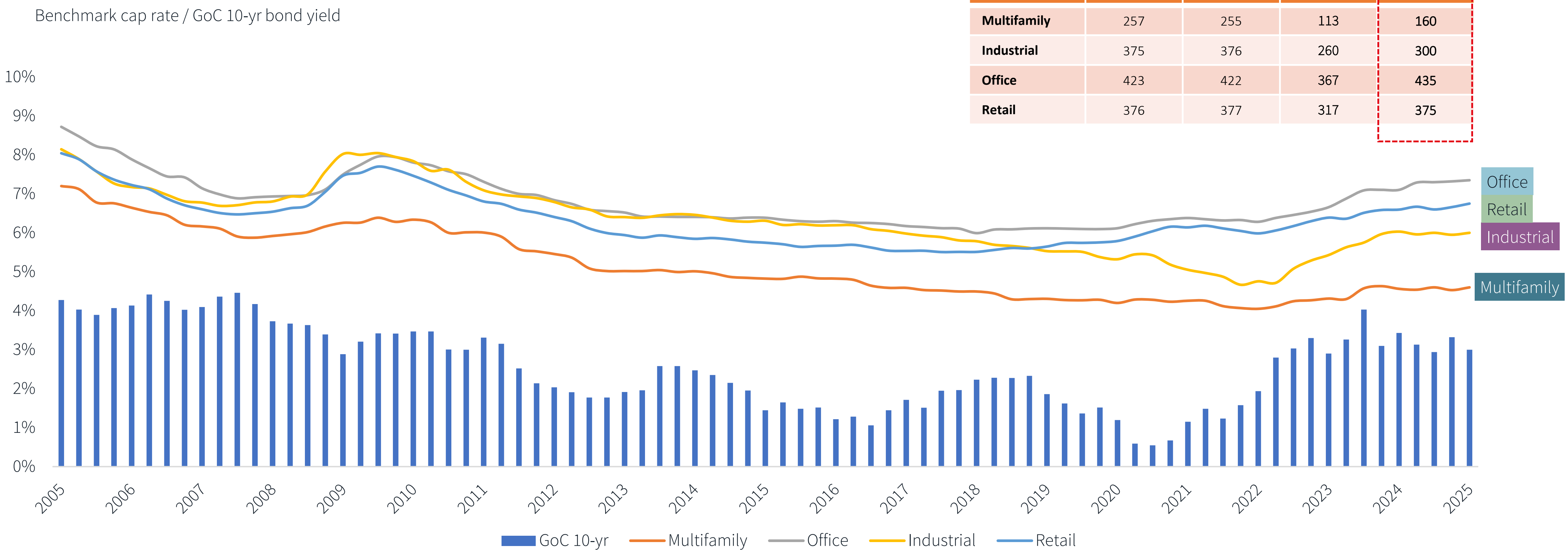




Source: JLL Research, Real Capital Analytics, Altus, Gettel Network, Nominis
All transactions > $5m
Includes entity-level and portfolio transactions

Real estate spreads improving vs. 2024, but still relatively thin from a historical perspective

Cap rate spreads to 10-year GoC (bps)	Long term (2005 to current)	Past 10 years	Previous Year (Q1 2024)	Current Spread (Q1 2025)
Multifamily	257	255	113	160
Industrial	375	376	260	300
Office	423	422	367	435
Retail	376	377	317	375

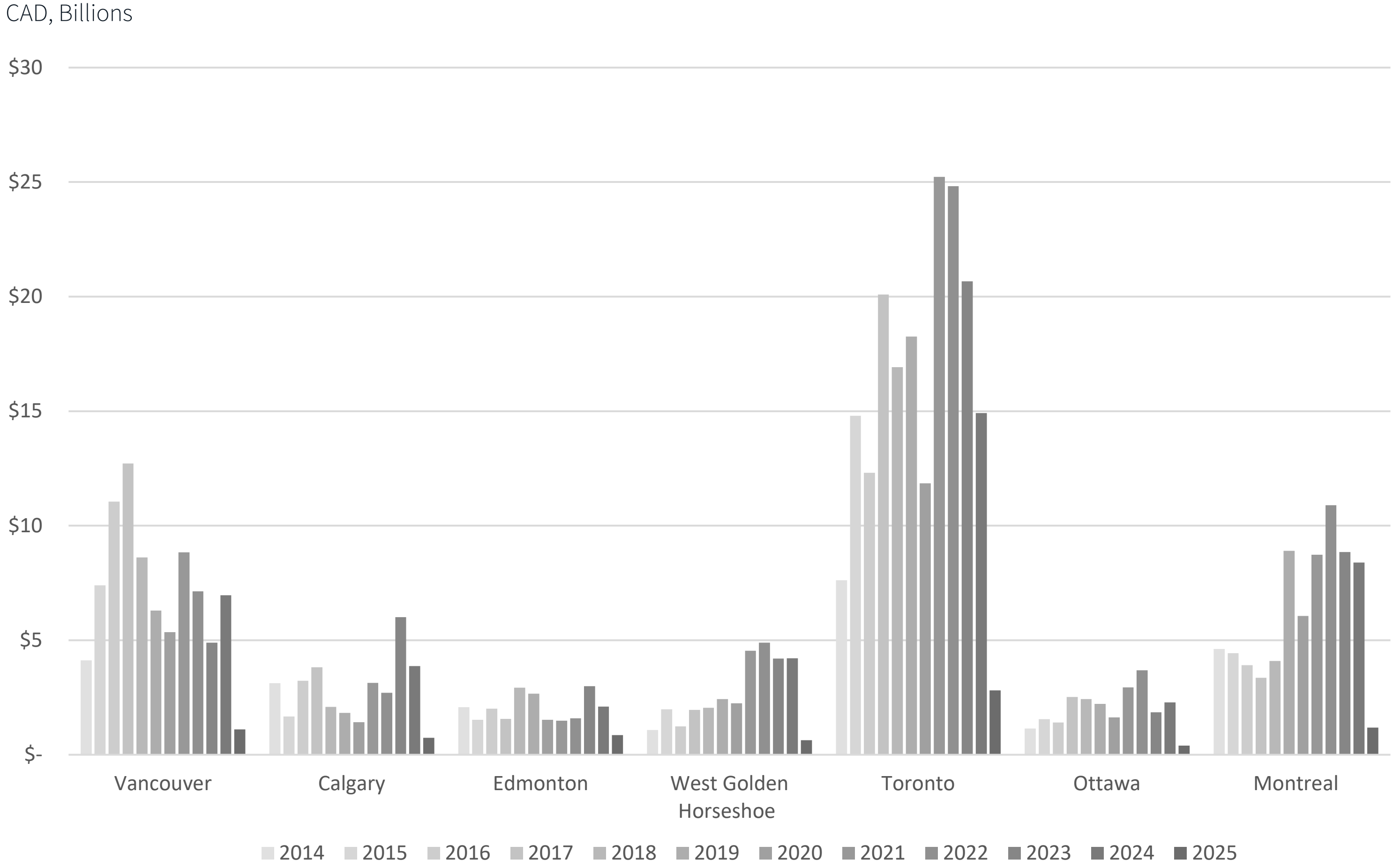


Source: JLL Research, Altus

Investment Volumes by Market

Total investment volume fell by 14% year-over-year

- Overall investment volumes were down by 14% versus 2023, down 22% versus 2022, and down 9.5% versus the five-year average. However, individual market performance varied.
- The national decline was mostly due to a large drop in Toronto, Canada's largest real estate market. Here volumes fell by 28% year-over-year, from $20.7b in 2023 to $14.9b in 2024. Toronto's slowdown can further be attributed to the industrial market, where total sale volume reached just under $5b after topping $9b in 2023.
- A handful of markets saw performance either maintain or improve over last year. Leading the way was Vancouver, which saw investment volumes increase by 42% y-o-y. Southwestern Ontario and Ottawa also matched or topped last year's volume.



Source: JLL Research, Real Capital Analytics, Altus, Gettel Network, Nominis
All transactions > $5m
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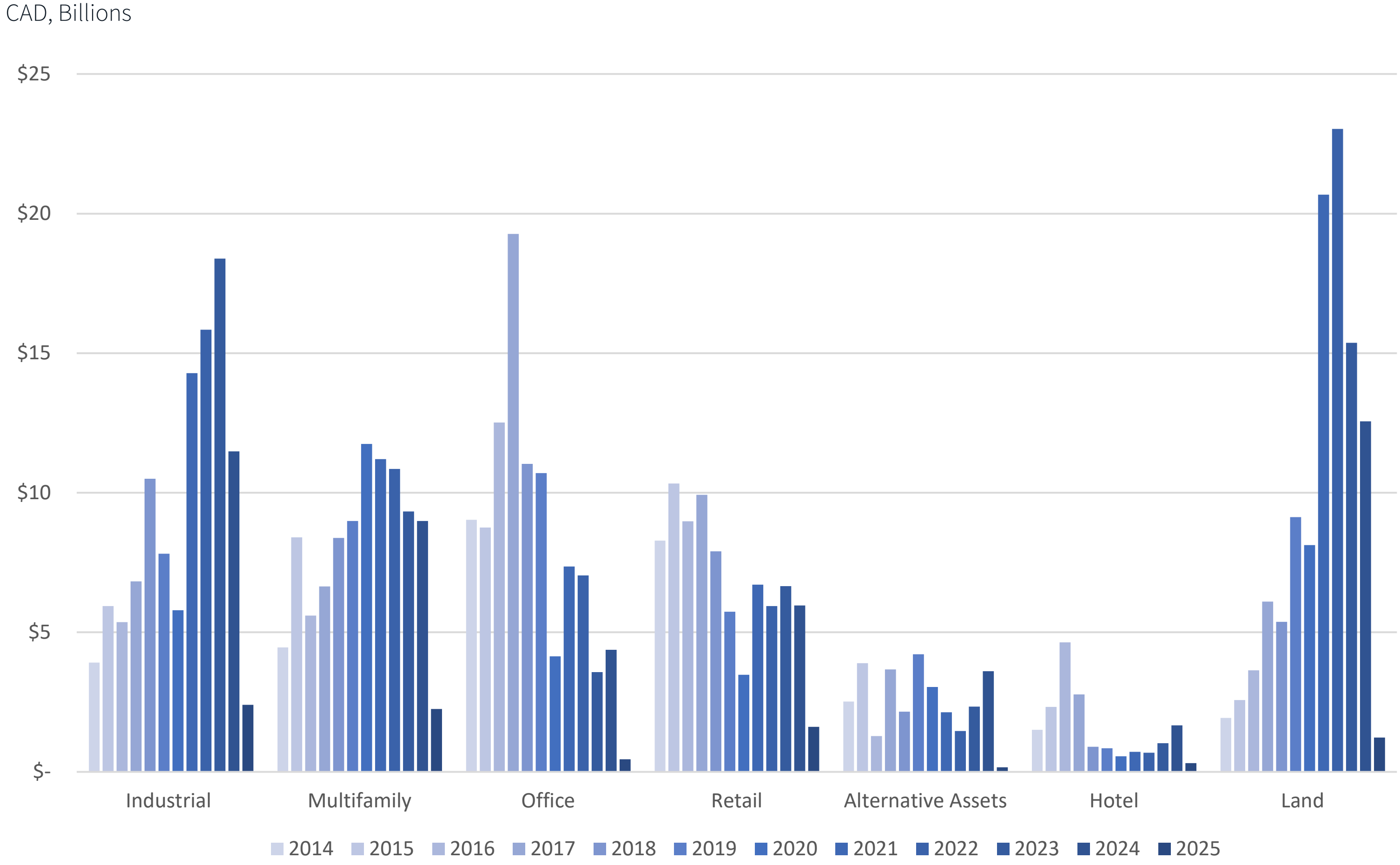
Total Investment Volumes by Sector

Office, hotels, and alternative assets see improved liquidity in 2024

- As with the past few years, the industrial and land sectors proved to be the most in-demand for Canadian investors. However, sales in both sectors fell sharply from 2023 levels, down 38% and 18%, respectively.
- The industrial market continues to see high valuations despite falling rents. This is keeping buyers and sellers far apart on valuations.
- The fall in land sales is mainly attributed to uncertain final demand in the industrial and residential condo markets, generally the two most common uses for newly acquired development land.
- A jump in sales for alternative assets is mostly due to the Alignvest Student Housing REIT privatization to Forum Asset Management for $1.7b. Regardless, alternatives would have improved y-o-y even without this major transaction.



Source: JLL Research, Real Capital Analytics, Altus, Gettel Network, Nominis
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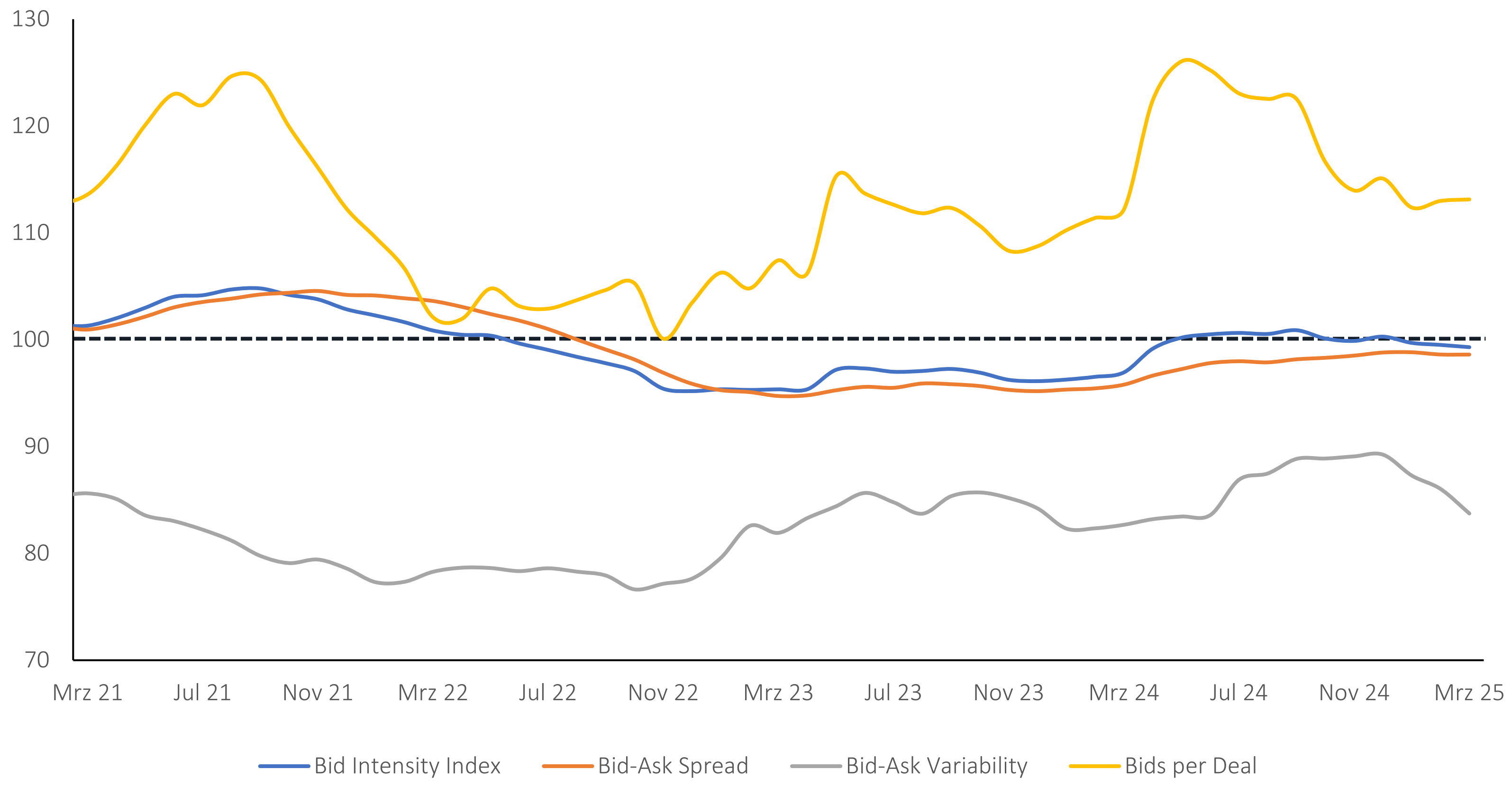
Global Bid Intensity Index, 2019 - 2025

Global bid intensity index showing increasing conviction among buyers

- The bid-ask spread has closed considerably since 2023 as buyers and sellers increasingly converge on pricing thesis.
- The number of bids per deal increased slightly thus far in 2025 as liquidity broadens across more buyer types.
- On average, bids were falling just shy of asking price into 2025 after coming in just ahead of asking price from April – October 2024.

March 2021 = 100



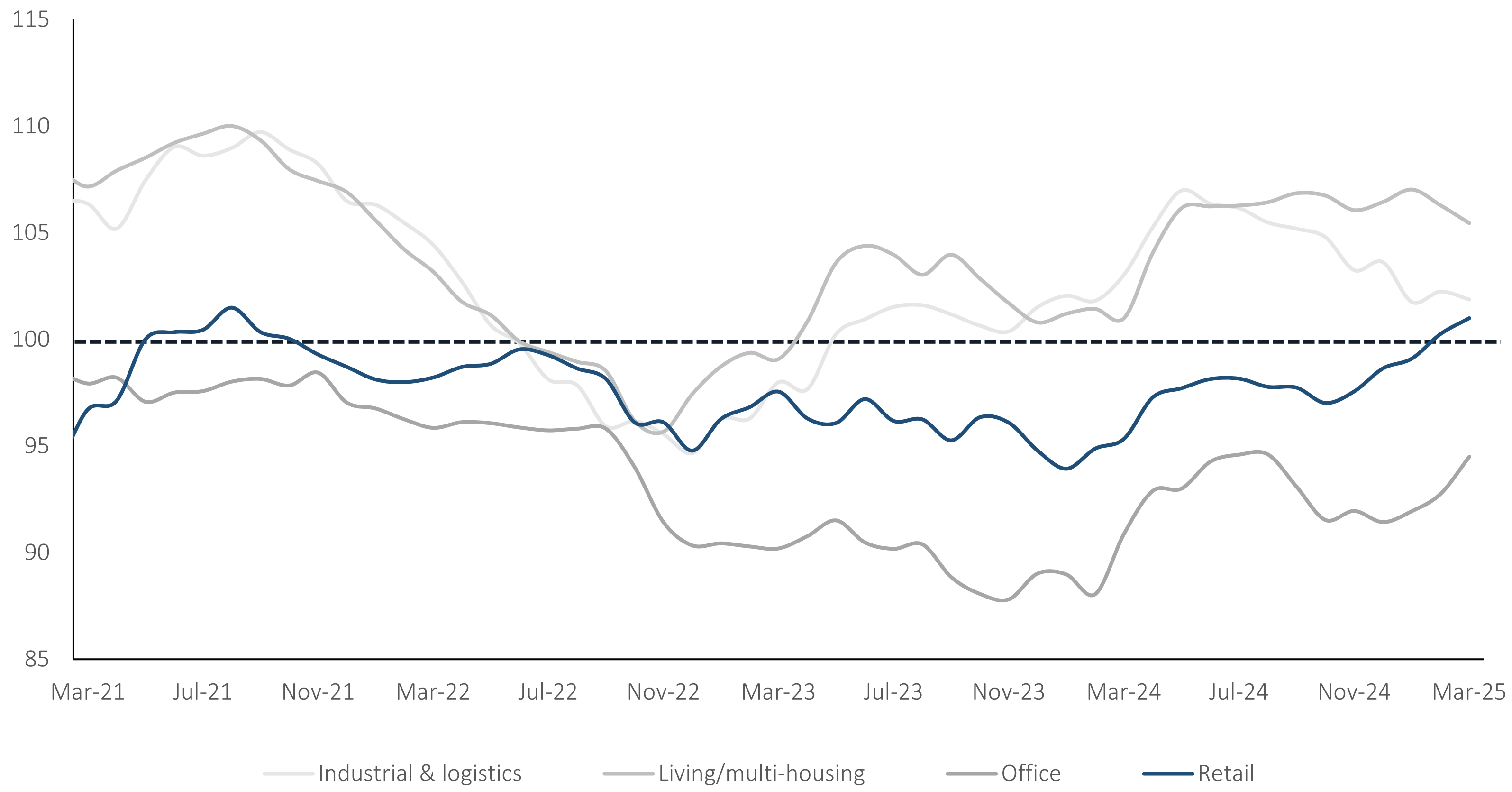
Source: JLL Research, 20245

Global Bid Intensity Index, 2019 - 2025

Retail and office bids are improving while living and I&L are slowing

- Living/multifamily sector bidding dynamics remain the most resilient and stable at elevated levels, despite continued bid-ask variability across selected markets.
- Industrial bid intensity remains generally positive, though bid momentum has slowed over the past year.
- Office bidding is recovering in 2025 as leasing momentum continues to grow. Investor FOMO could also be driving this.
- The sector that has seen the most notable rebound in sentiment has been retail, where JLL's bid intensity index shows a significant recovery over the past 6 months. This is driven by improved consumer sentiment (pre-tariffs), foot traffic that continues to rival pre-pandemic levels, and in many cases advantageous pricing.

Bid price relative to asking price, global
March 2021 = 100

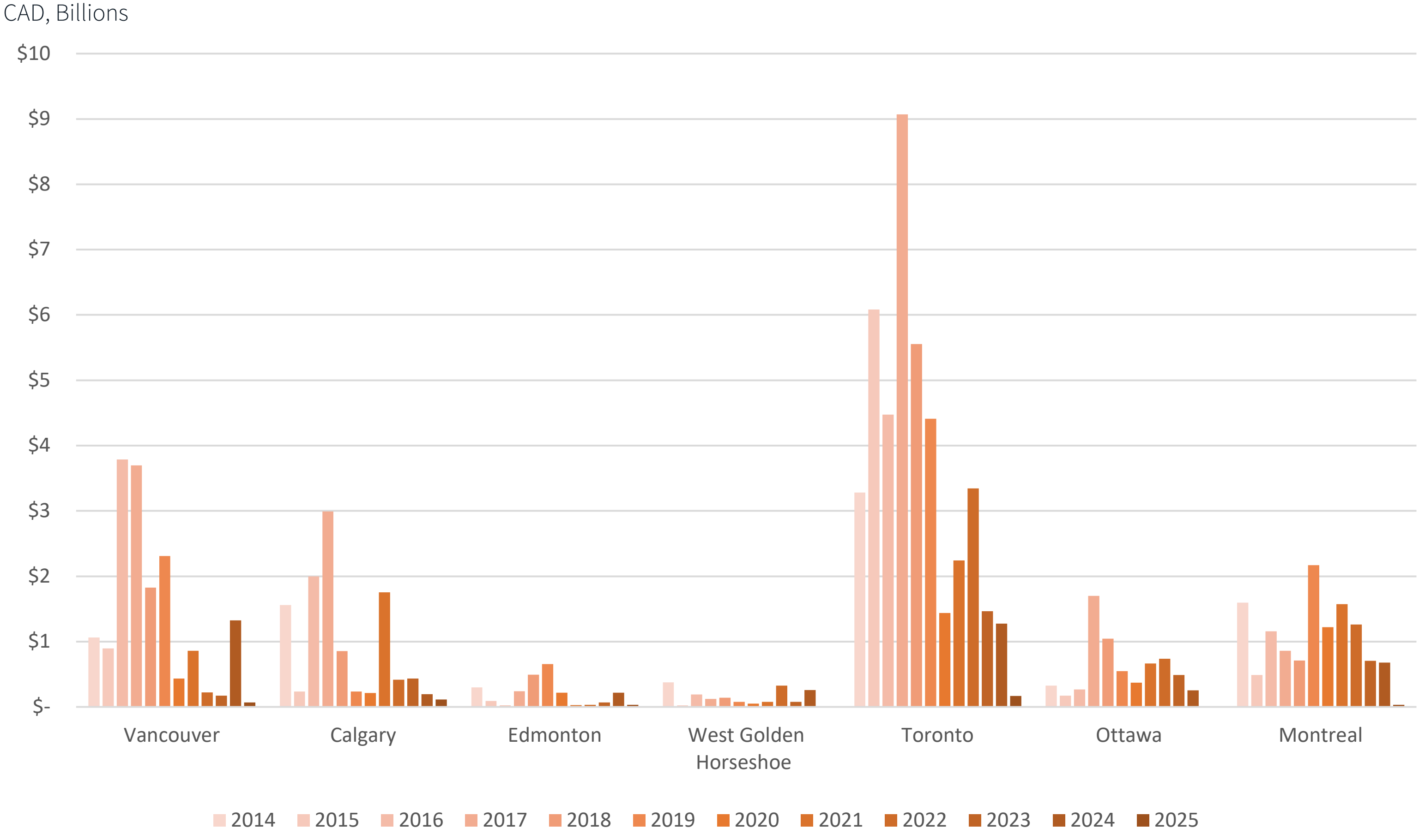


Source: JLL Research, 2025

Office Investment Volumes by Market

Vancouver, Edmonton see office sales surge in 2024

- Overall office liquidity was up by 23% year-over-year, but down 33% relative to the five-year average. Still, the annual improvement is a positive sign in a sector that is starting to see more green shoots.
- Much of the momentum this year came from Vancouver, where several notable transactions occurred. These include:
  - Westbank sale of Deloitte Summit to Allied Properties REIT;
  - Oxford/CPP sale of 401 West Georgia Ave to Deka Inmobilien;
  - TD Asset Mgmt / Forgestone 20% interest sale of Telus Gardens to Morguard.
- Edmonton had more office sales this year than in any year since 2019, totaling $216b in overall liquidity. Most of these sales were private investors acquiring older downtown assets such as Sun Life Plaza, Phipps McKinnon, and Energy Square, from institutional investors.



Source: JLL Research, Real Capital Analytics, Altus, Gettel Network, Nominis
All transactions > $5m
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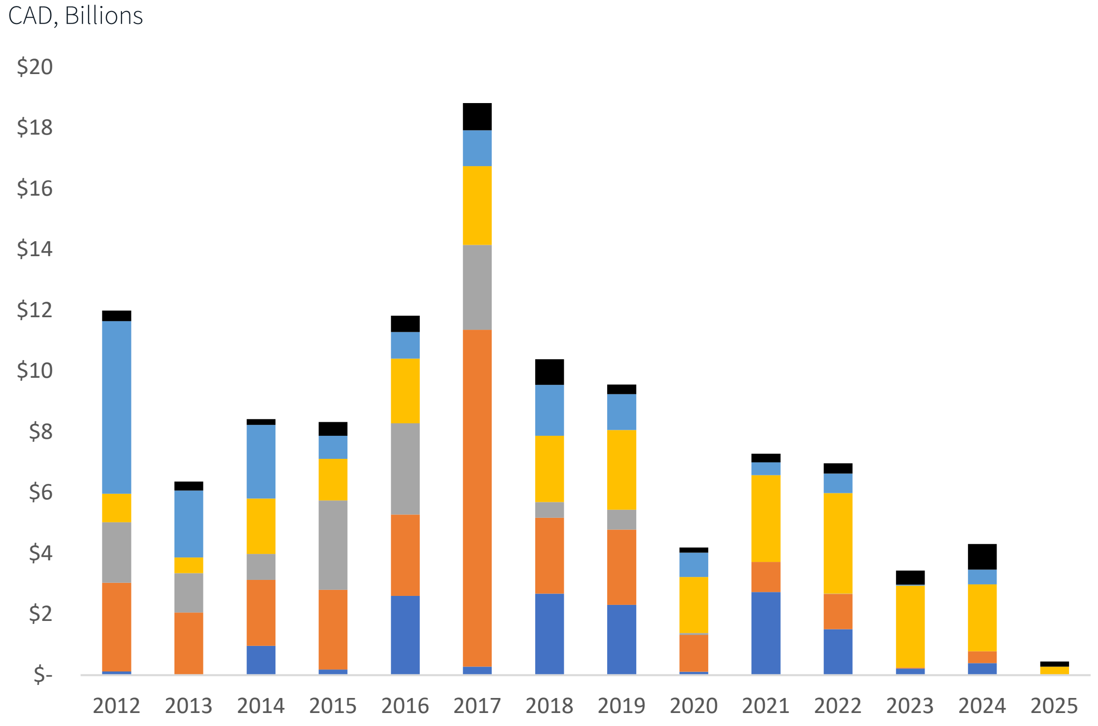
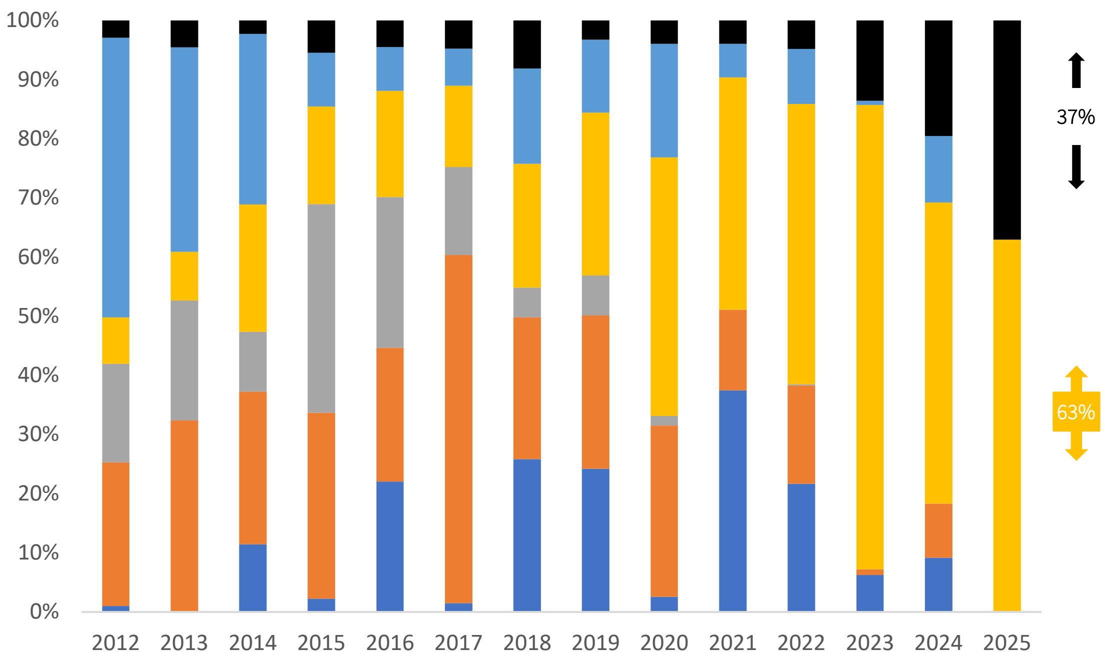
Owner-users are fastest growing buyer group, taking advantage of soft office pricing to expand their operations

Historical Office Investment Volumes by Buyer Profile ($$)



Historical Office Investment Volumes by Buyer Profile (%)



Foreign | Fund Manager | Pension Fund | Private | Public | User

Source: JLL Research, Real Capital Analytics, Altus, Gettel Network, Nominis
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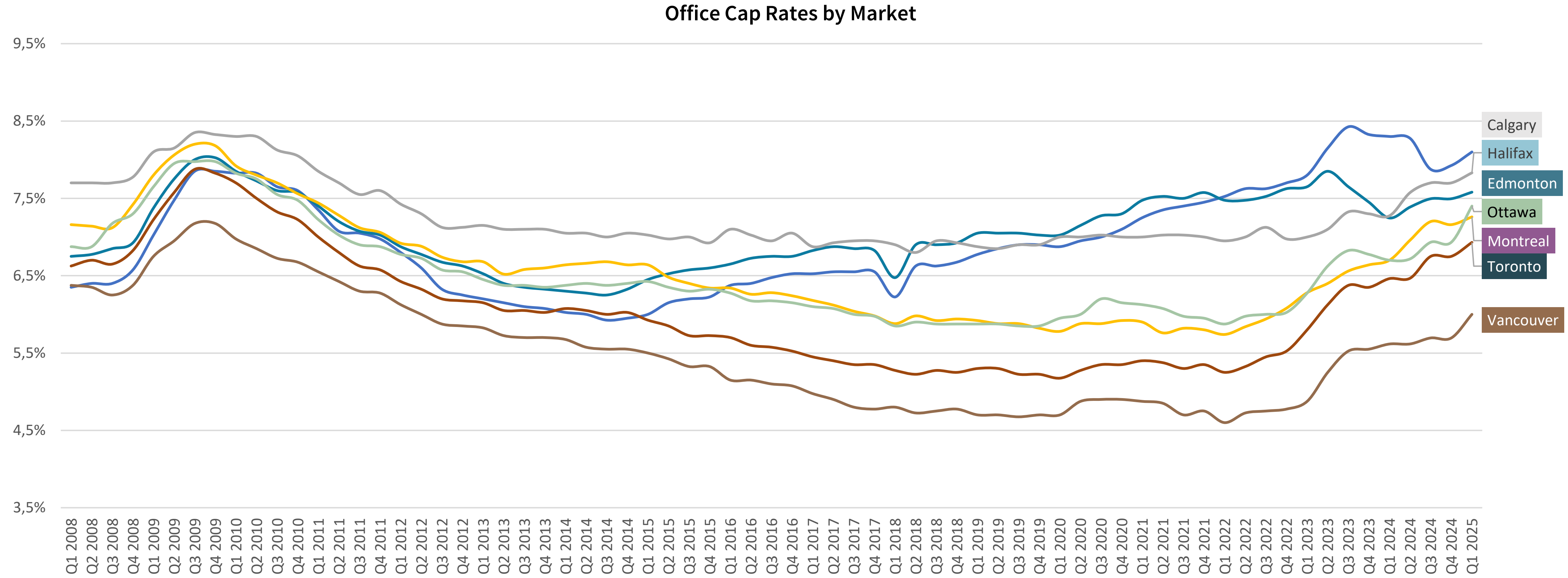
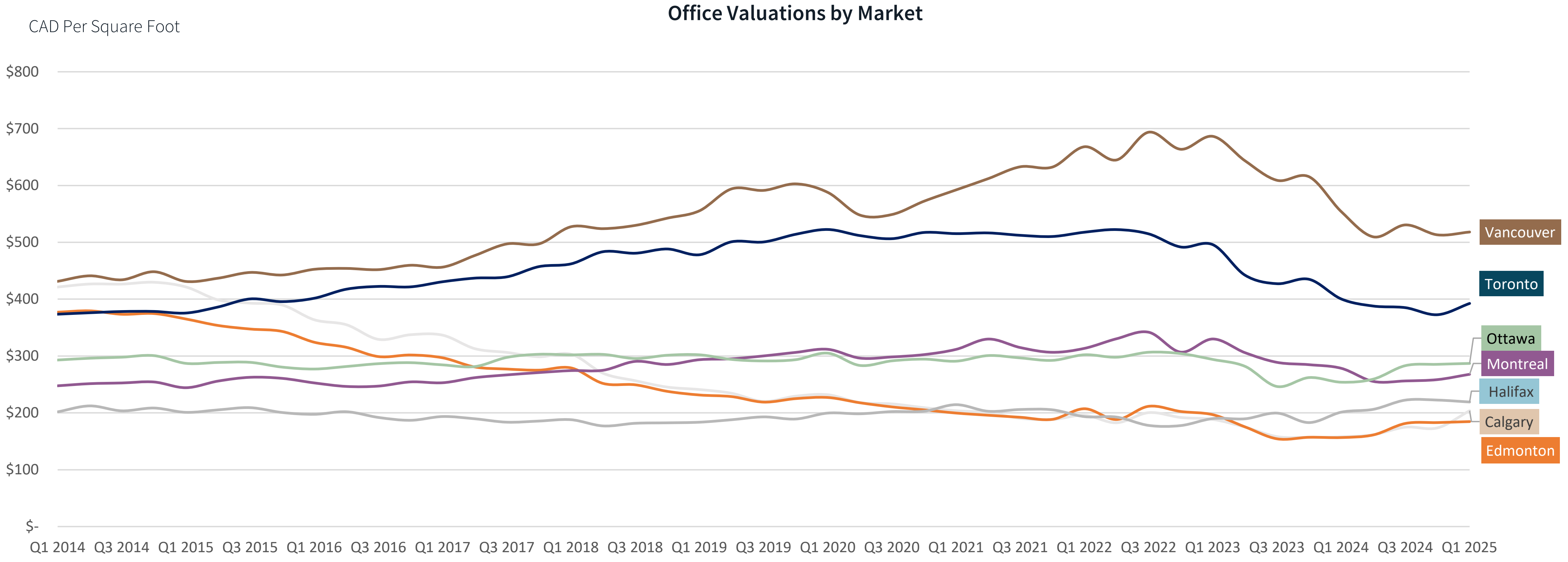
Office cap rates have yet to meaningfully **respond** to fall in BoC policy rate



Source: JLL Research, Altus Investment Trends Survey

Toronto has seen continued downward pressure on valuations while Alberta, Halifax, Ottawa valuations are up



Source: JLL Research, Altus Investment Trends Survey

Key trends

1 Development pipeline slowed

- Under construction space slowed for the 6th consecutive quarter as developers slow speculative starts amid a cooler market.
- Tariff related user demand uncertainty along with construction material price increases could continue to dampen construction in the coming quarters.

2 Largest markets saw absorption rebound

- Vancouver, Toronto and Montreal all witnessed positive absorption in Q1 after significant negative absorption in 2024.
- The rebound in demand, however, may be short lived as users may hit the pause button on decision making amid economic uncertainty.

3 Vacancy increased, but at a slower rate

- Vacancy increased 20 basis points on the quarter to 4.7%.
- While an increase, it is the slowest rate of increase since Q3 2023 aided by both slowing deliveries and a rebound in demand.

4 Sales volume remained muted

- Sales volume in most markets has not seen notable bounce from lower interest rates.
- Volume was down in Q1 from both the 5 year quarterly average and the 2024 quarterly average.

By the numbers

2.1 billion
Existing inventory (s.f.)

25.1 million
Under construction (s.f.)

4.7%
Total vacancy

$15.43
Average asking rent

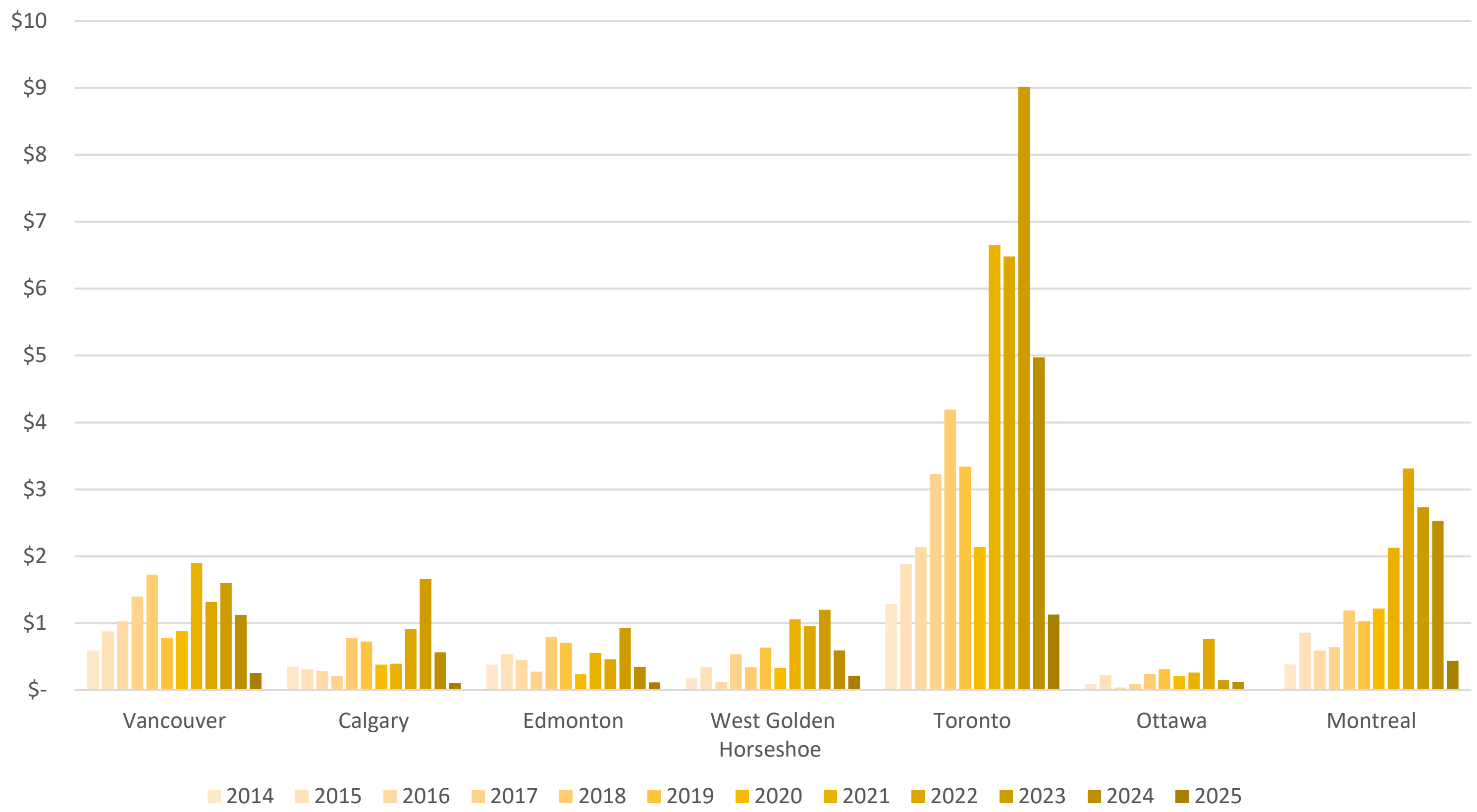
4.4 million
YTD 2025 net absorption (s.f.)

Industrial Investment Volumes by Market

Softening fundamentals lead to 38% fall y-o-y for industrial sales

- With vacancy increasing across most Canadian markets and rents falling over the past year, buyers have been pulling back on industrial acquisitions.
- Pre-leasing has slowed considerably just as record levels of new supply are being delivered. This has created a much more competitive environment for landlords to lease up these facilities. While investors remain largely bullish on industrial, they are increasingly building in more conservative leasing assumptions, which is leading to a disconnect between buyers and sellers.
- It is worth noting that 2023 volumes were somewhat inflated due to the $4.4b privatization of Summit Industrial REIT.

CAD, Billions



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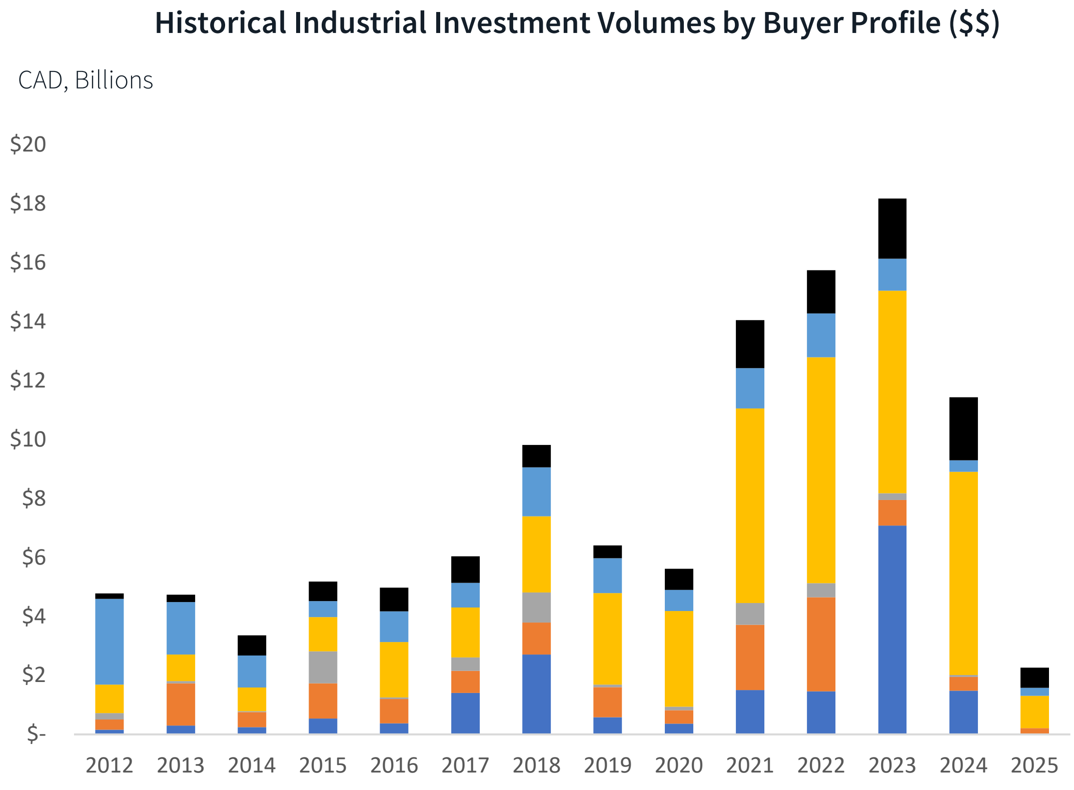
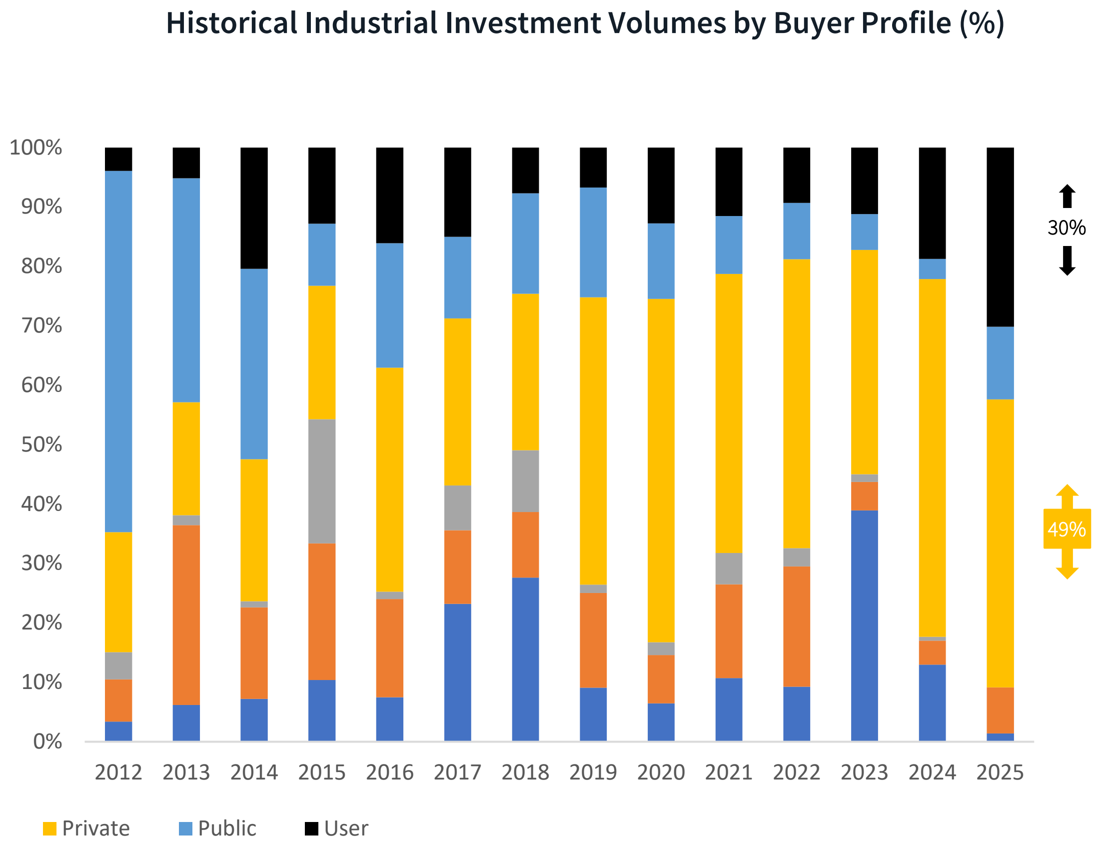
Occupiers (i.e. users) increasingly purchasing facilities to avoid exposure to steep rent increases





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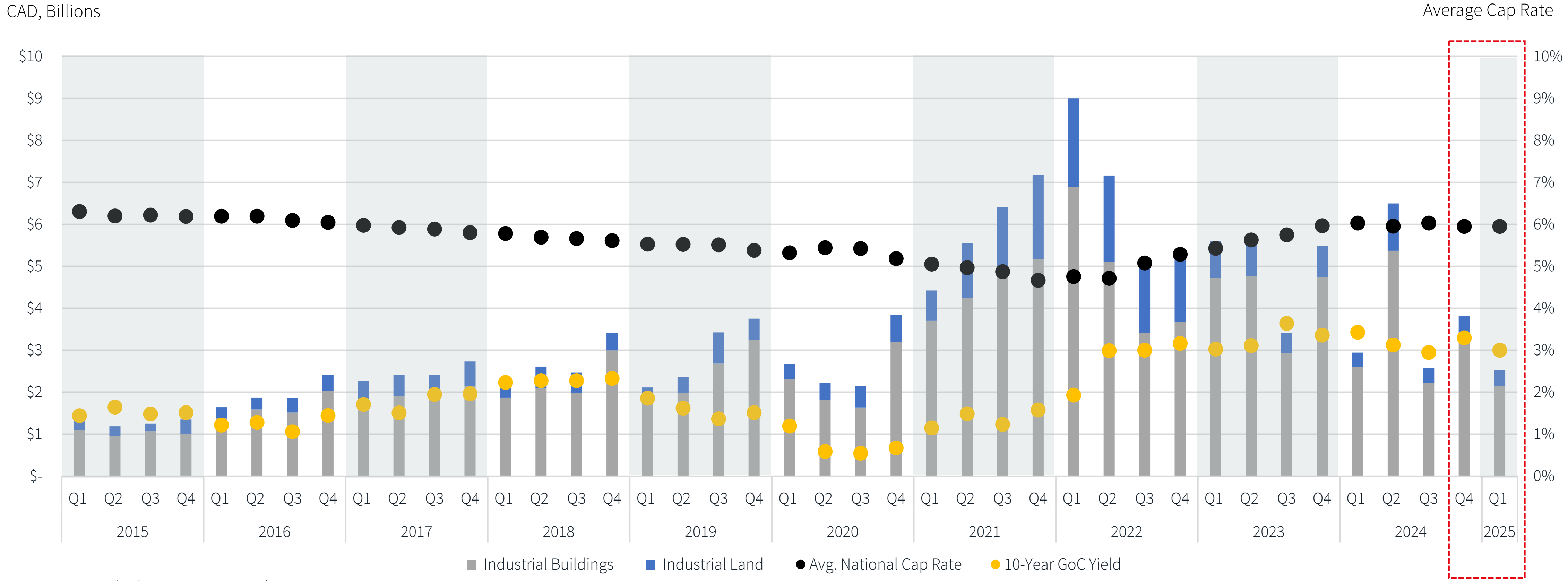
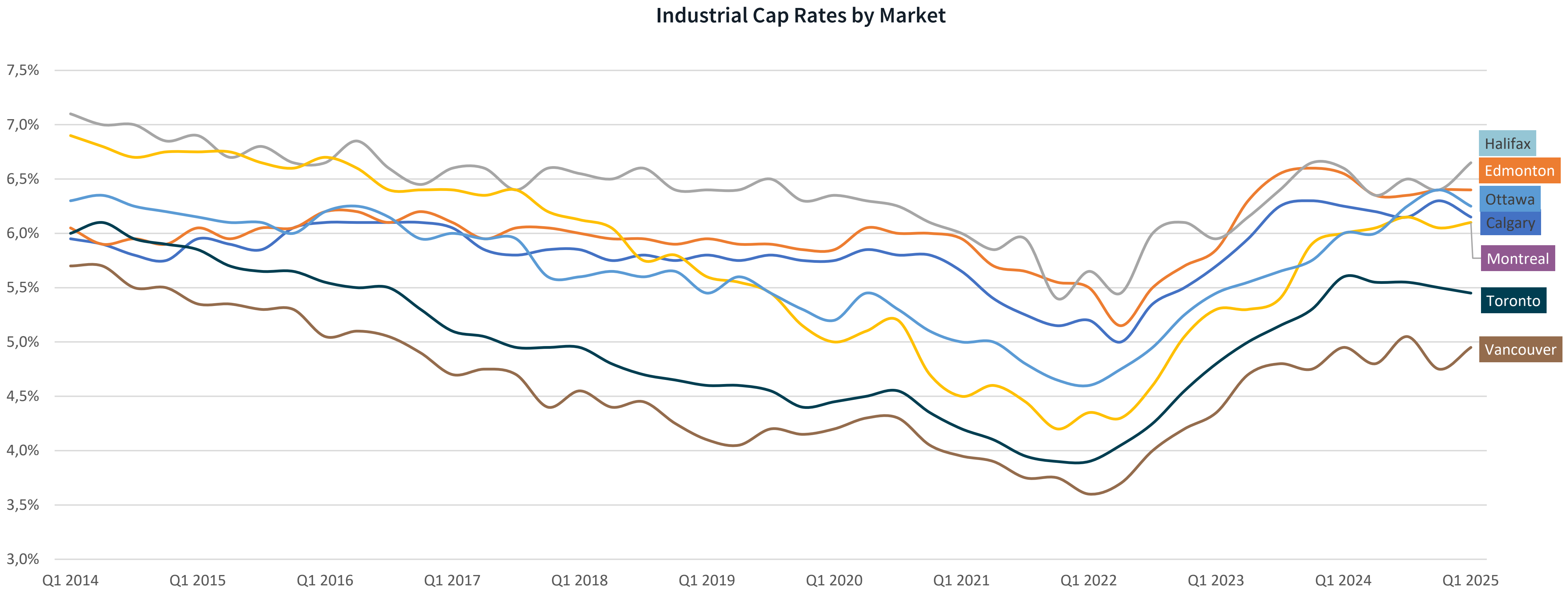
Transaction volume slowed with tariff announcements, cap rates have been stickier than bond yields

Canada: Industrial Investment Volumes and Cap Rates, Quarterly



Source: JLL Research, Altus Investment Trends Survey

Industrial cap rates have yet to meaningfully respond to the Bank of Canada's cuts to the policy interest rate

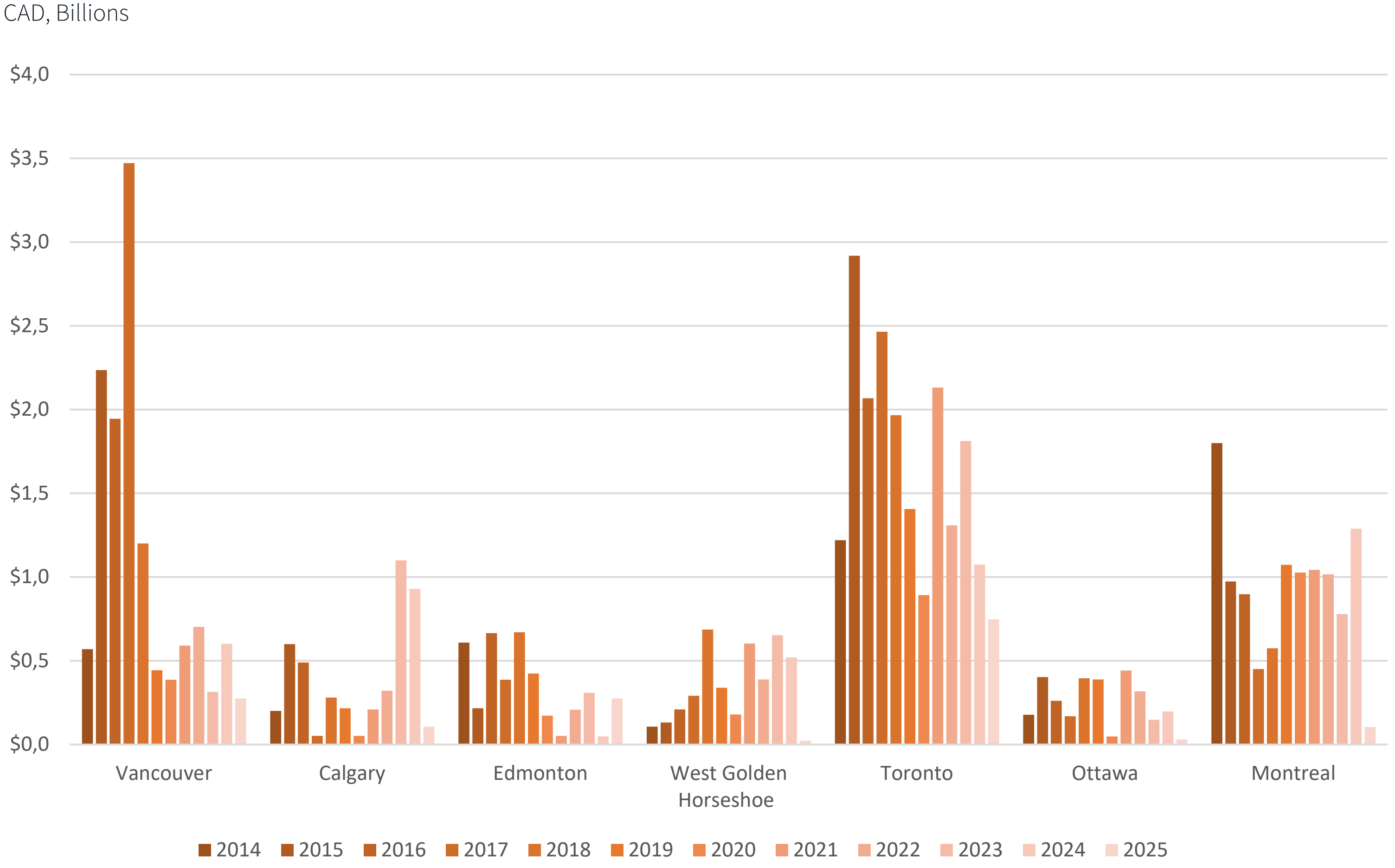


Source: JLL Research, Altus Investment Trends Survey

Retail Investment Volumes by Market

Investors are returning to retail

- Retail fundamentals have been strong as consumers continued to shift spending back to physical stores, and a lack of new supply has led to robust rental growth.
- As investors have raced to deploy capital into the industrial and multifamily sectors after the pandemic, valuations ballooned. With office sector fundamentals still challenged, many have shifted capital into retail (and especially grocery-anchored retail) to balance their portfolios.
- As a result, retail investment sales were strong in 2024 at about $6b nationally. While this was down from 2023 levels, retail investment is up 4.6% versus the five-year average, even topping 2019 levels.
- The Greater Montréal Area led Canada in retail investment sales in 2024, thanks to a handful of major transactions including TD Greystone's share sale of CF Carrefour Laval to Cadillac Fairview and Fonds FTQ's sale of Galeries Laval to Jadco Group.



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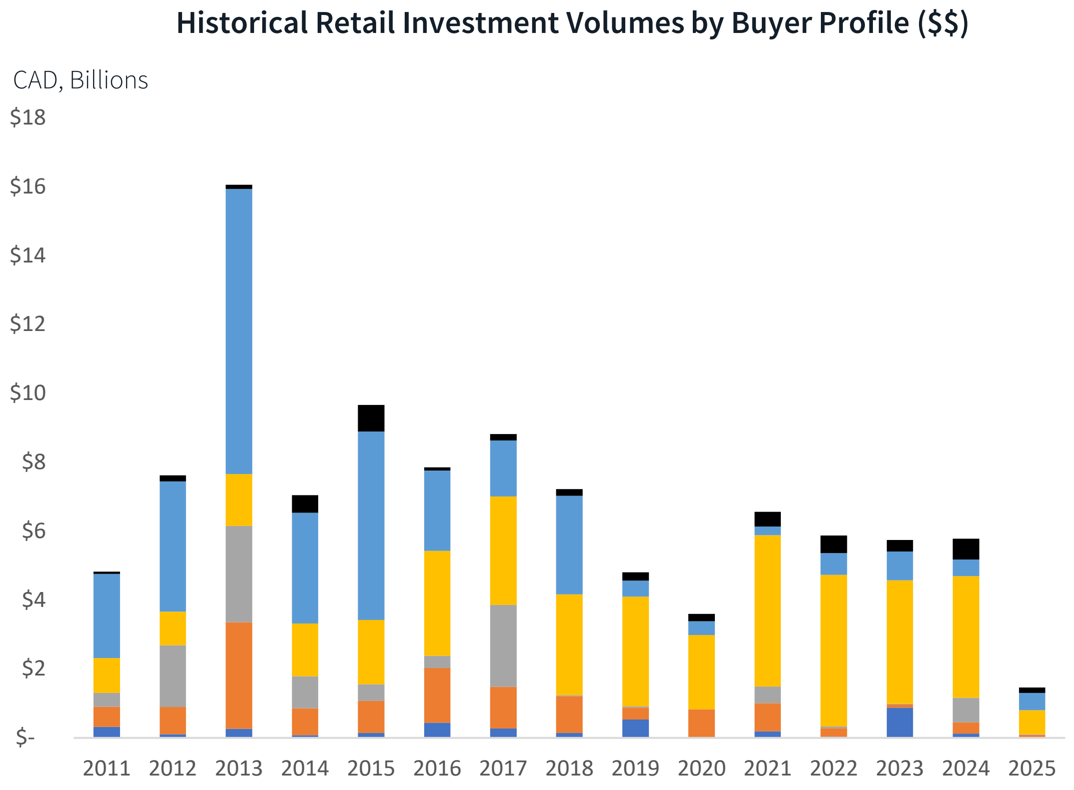
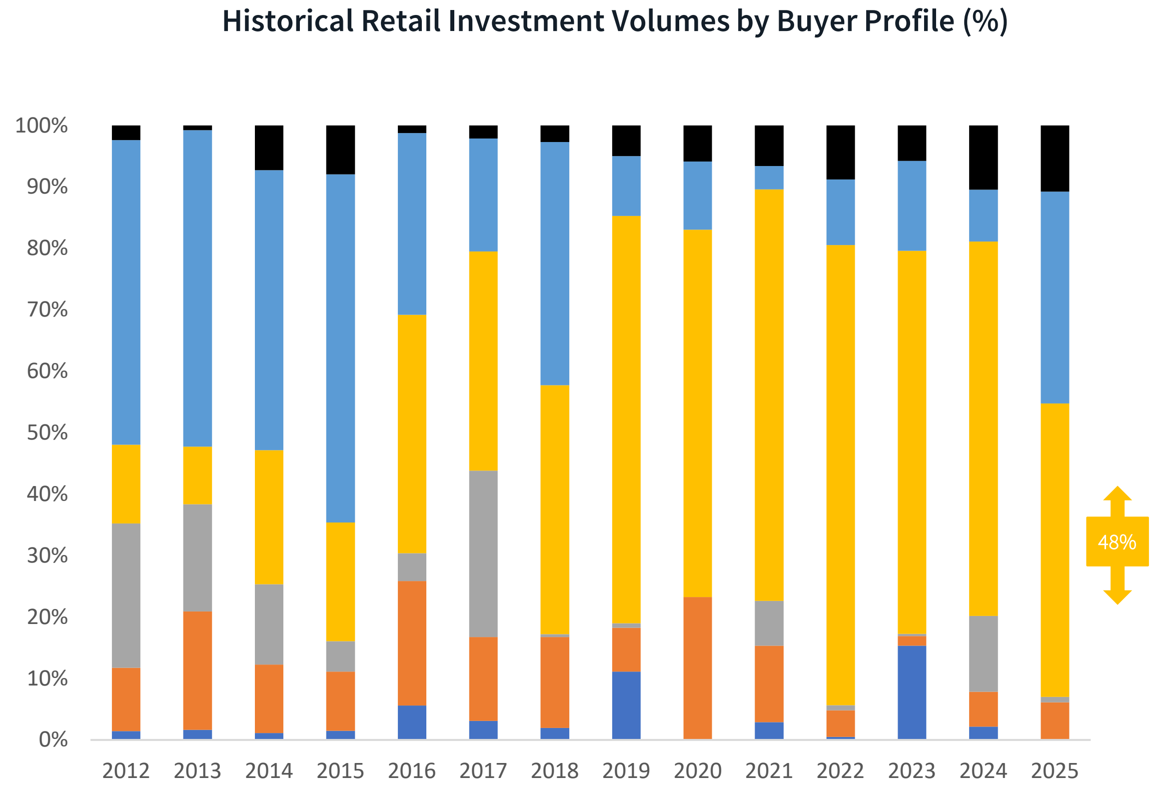
Private investors continue to dominate retail investment market, with Primaris REIT accounting for most institutional activity





Foreign | Fund Manager | Pension Fund | Private | Public | User

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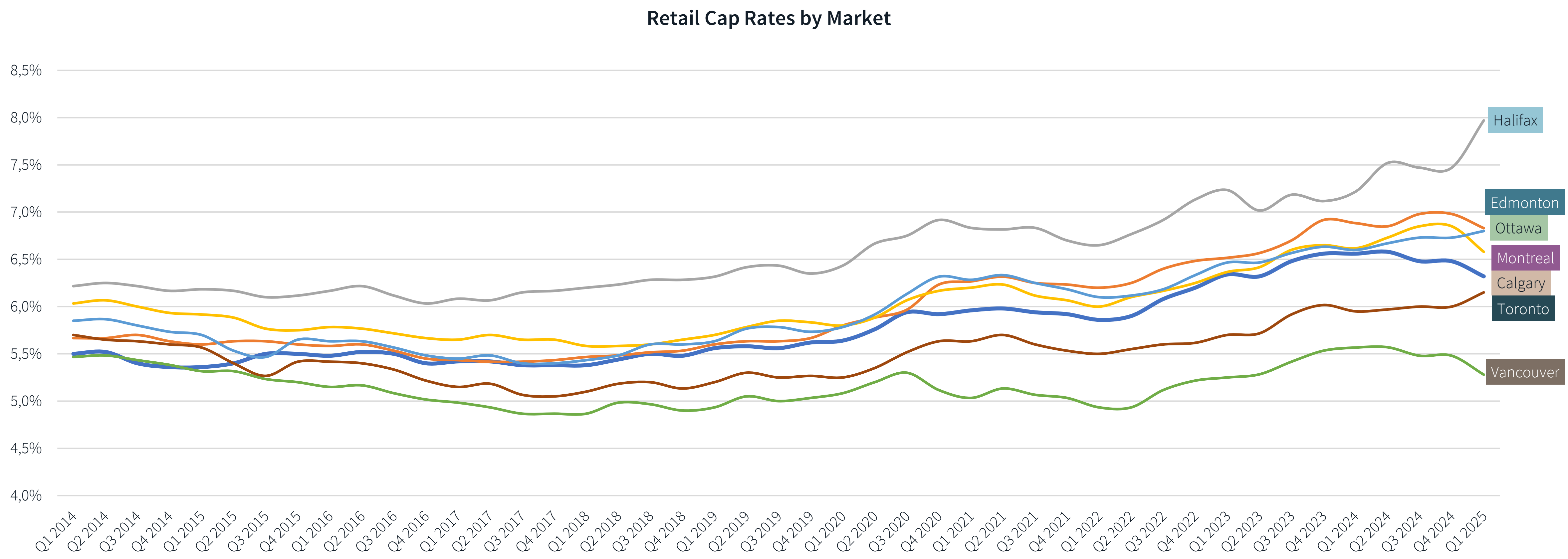
Retail cap rates have been mostly flat in 2024 after rising in 2022-2023



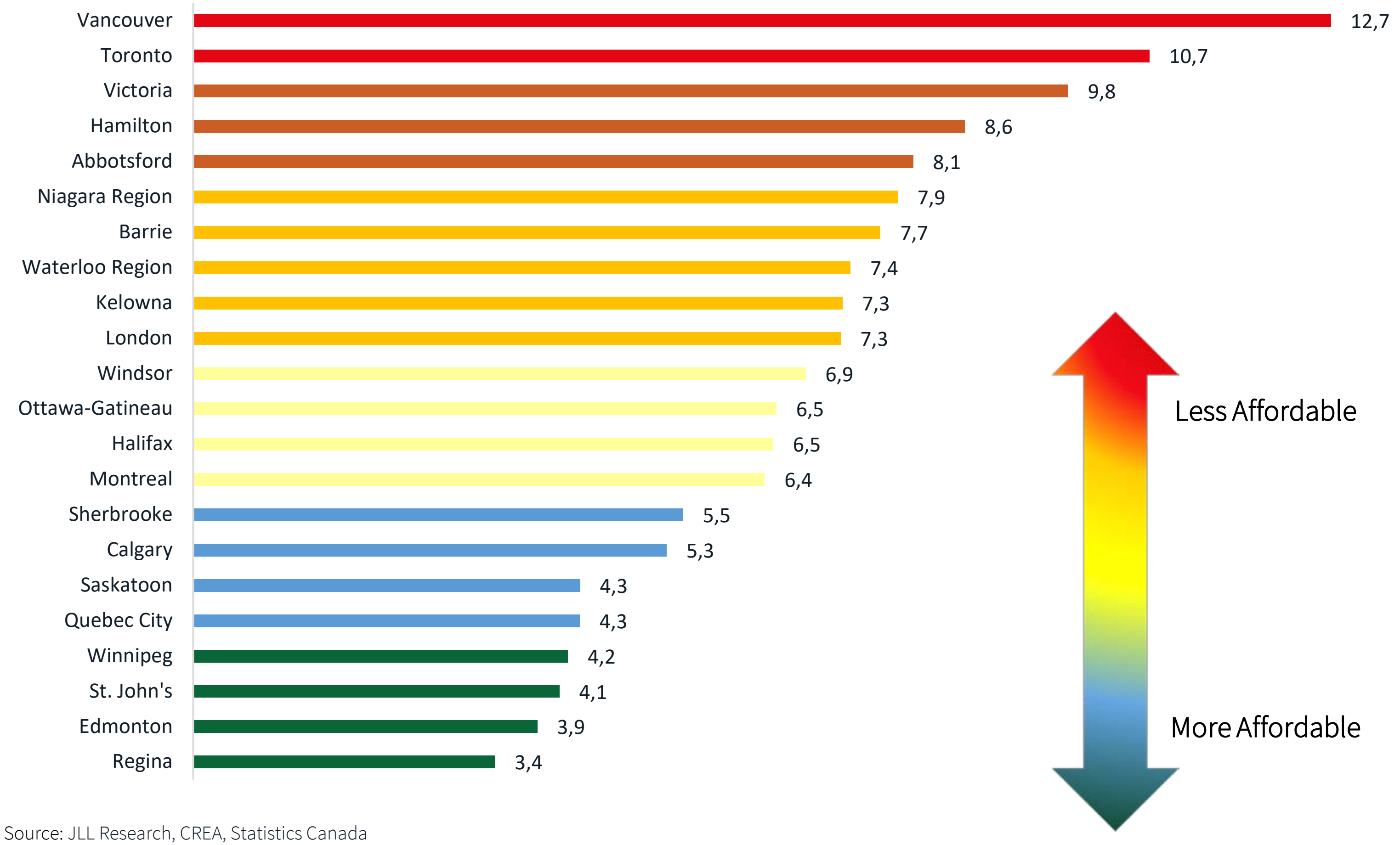
Source: JLL Research, Altus Investment Trends Survey

Housing Price-to-Gross-Income (PGI) Ratio, by Census Metropolitan Area (CMA)

Prairies, Atlantic Canada offering most affordable housing in Canada

- As shelter costs continue to climb nationally, demographic shifts across Canada are increasingly tied to housing affordability.
- Regina and Edmonton offer the best affordability of all major Canadian cities with a PGI ratio of 3.4 and 3.9, respectively. In Edmonton, the average household income is $103,000 while the benchmark home price is $397,000.
- Other prairie cities like Winnipeg, Saskatoon, and Calgary have relatively low PGI ratios. Some cities in Atlantic Canada like St. John's and Quebec City are also among Canada's most affordable cities.
- Vancouver and Toronto are the least affordable cities in Canada with PGI ratios of 12.7 and 10.7, respectively. In Vancouver the average household income is $92,000 while the benchmark housing price is $1,172,900.

Average housing price / average gross income



Source: JLL Research, CREA, Statistics Canada
*Price-to-Gross Income Ratio is calculated using the CREA average home price benchmark for each city divided by average gross income for that city, as per Statistics Canada.

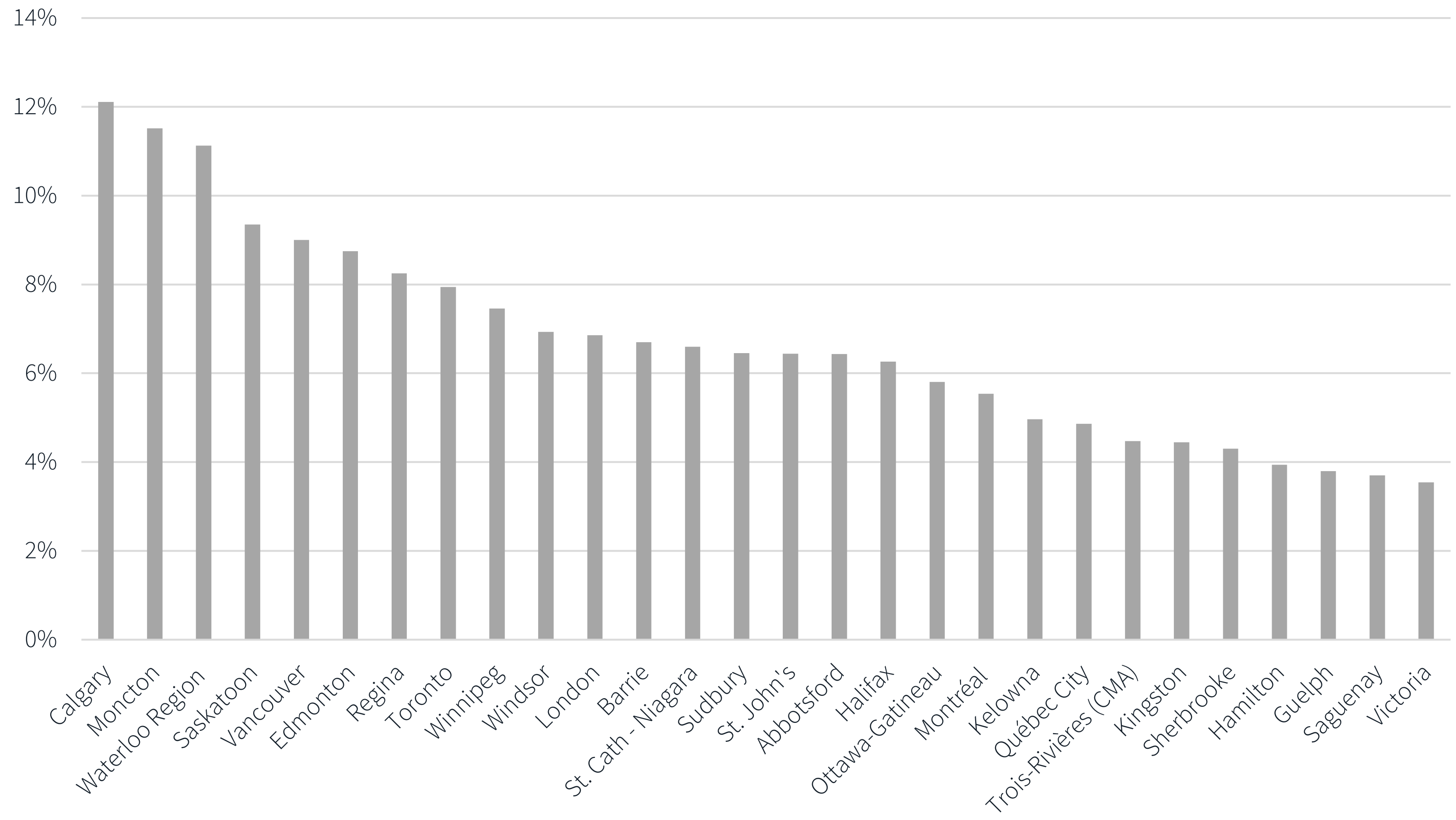
Population Growth by Census Metropolitan Area, 2022-2024

Affordability is driving population flows across Canada

- The ranking of Canada's fastest-growing urban centres from 2022-2024 highlights the importance of housing affordability and cost-of-living as fundamental drivers of demographic momentum. Cities that offer these attributes are leading the way in population growth.

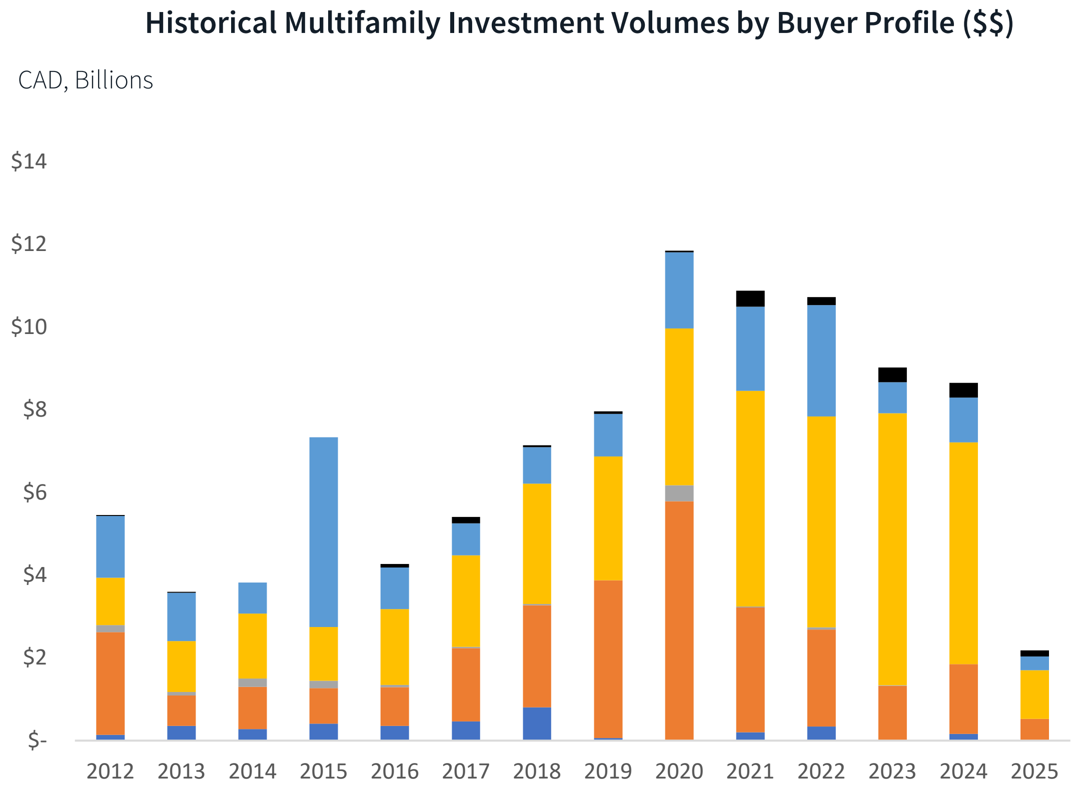
- With the exception of Vancouver (where quality of life is a key demographic driver), Canada's fastest growing cities can largely be grouped into 3 categories: Prairie cities (Calgary, Saskatoon, Edmonton), Toronto spillover cities (Waterloo Region, London, Barrie), and Atlantic Canada cities (Moncton, Halifax).

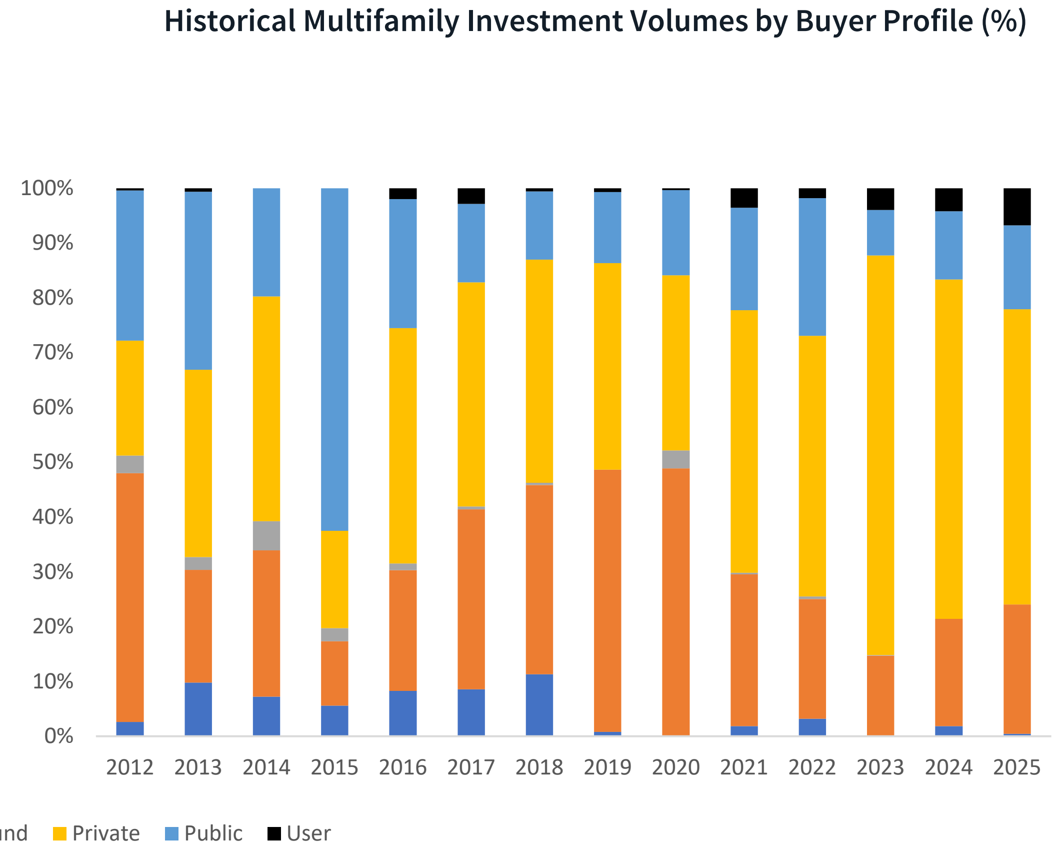
- Job growth and remote work are also playing a major role. For example, economic growth in Alberta has been outpacing BC, ON, and QC in recent years, fueling a surge in interprovincial migration to Calgary and Edmonton. The emergence of hybrid work is creating more work opportunities in smaller cities like Moncton, Regina, and Halifax.



Source: JLL Research, Statistics Canada

Private investors are dominating the multifamily market, but fund managers and REITs remain active





Source: JLL Research, Real Capital Analytics, Altus, Gettel Network, Nominis
All transactions > $5m
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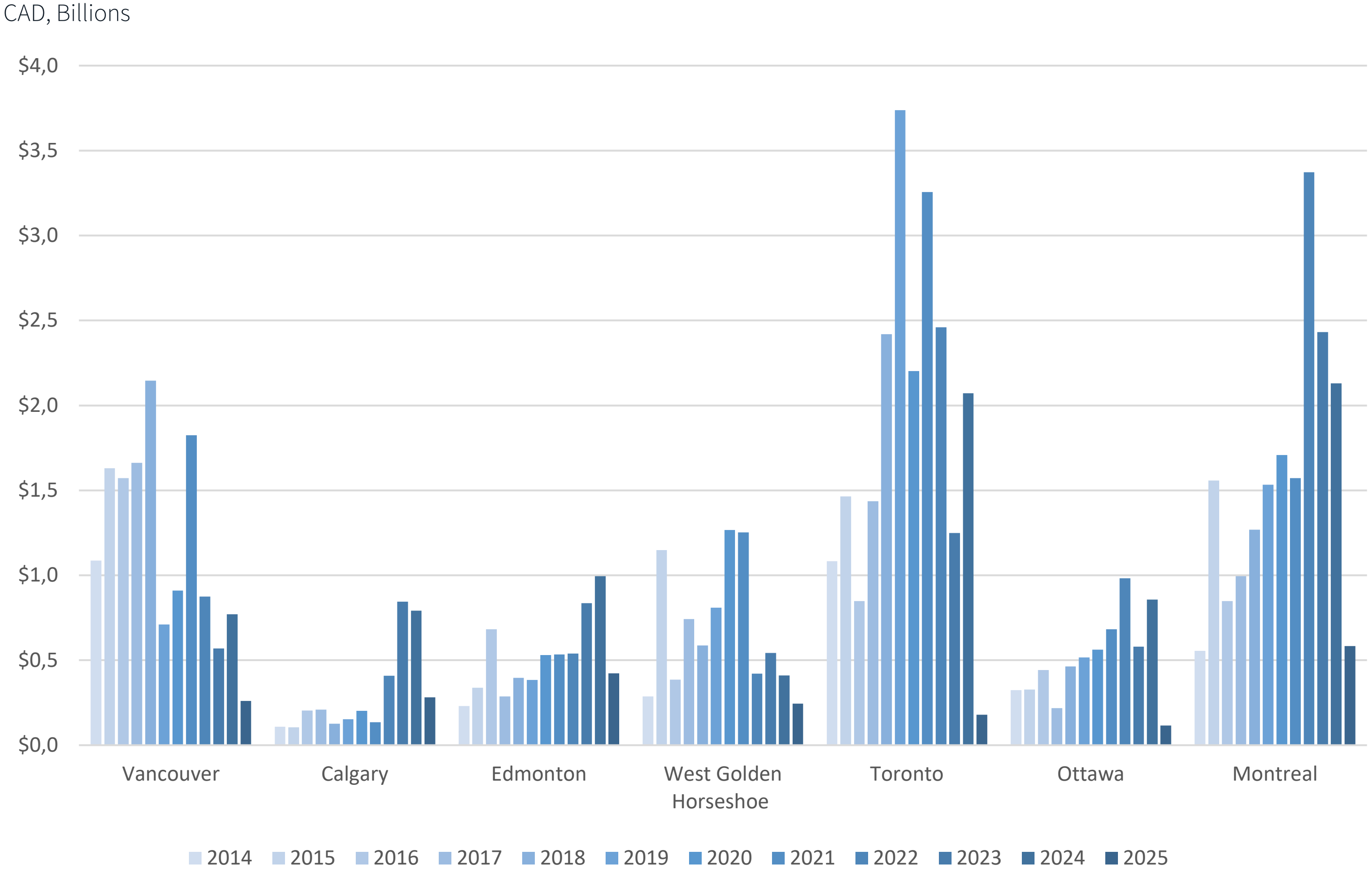
Multifamily Investment Volumes by Market

Multifamily investment sales fall for 4th straight year, but remain strong relative to other sectors

- Multifamily investment sales reached $9b nationally. This represented a decrease of 3.6% versus 2023, and a fall of 13.7% versus the five-year average.
- Calgary and Edmonton are each seeing record levels of apartment sales thanks to strong demographic growth and higher yields that are attracting a wider pool of potential buyers.



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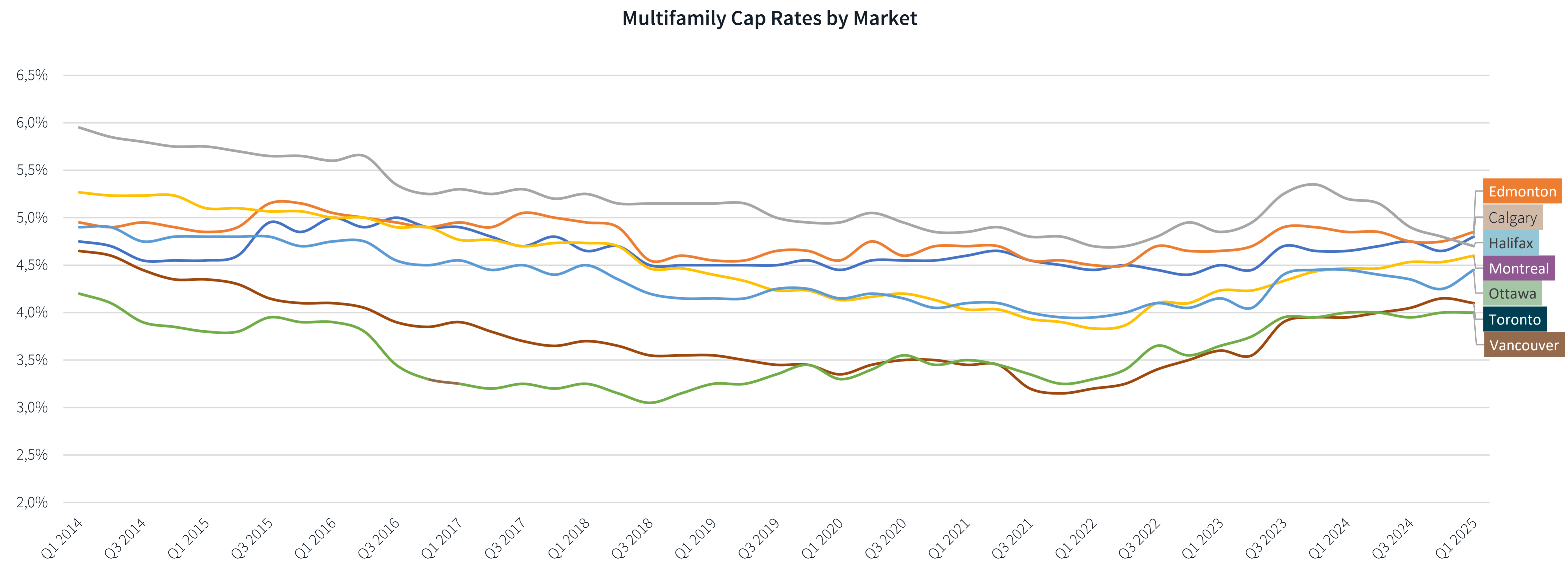
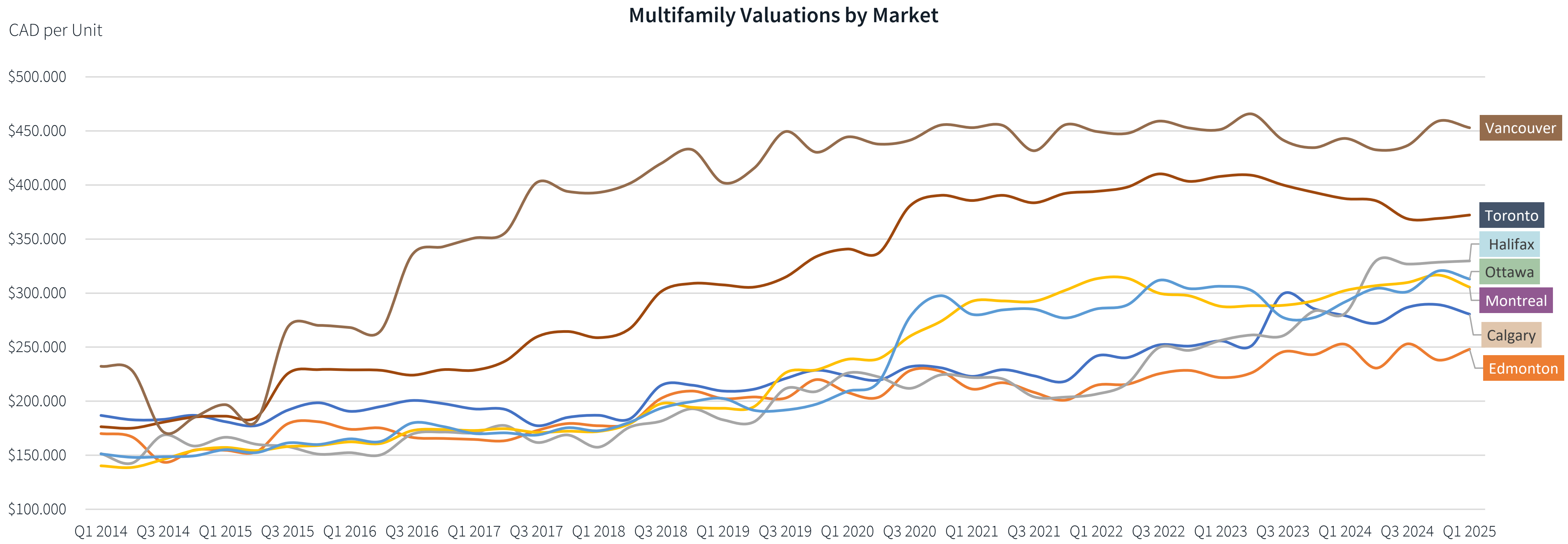
Multifamily cap rates have compressed more than other sectors over the past year



Source: JLL Research, Altus Investment Trends Survey

Multifamily valuations remain robust across most markets, driven by strong long-term fundamentals



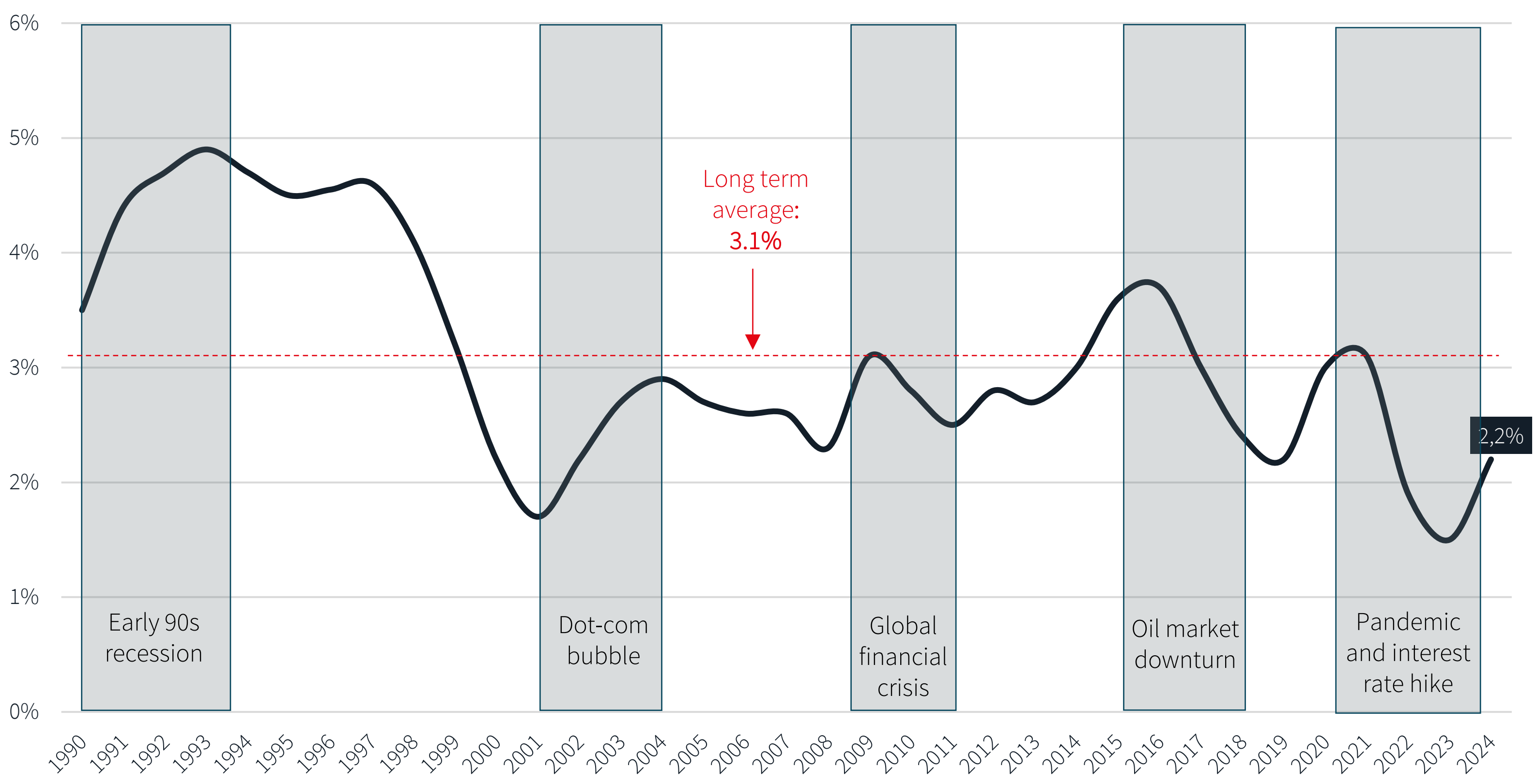
Source: JLL Research, Altus Investment Trends Survey

National Rental Vacancy Rate

Rental vacancy loosens year-over-year

- Rental vacancy in Canada has risen by 70 bps year-over-year to 2.2%.
- This is mostly due to an expansion of housing supply over the past year as a wave of completions were delivered to market. Over 187,000 new rental units were completed in Canada in 2024, the highest annual total in several decades.
- Slowing demand has also played a role, as the government's cap on international immigration has softened demand for housing.

% of vacant rental units



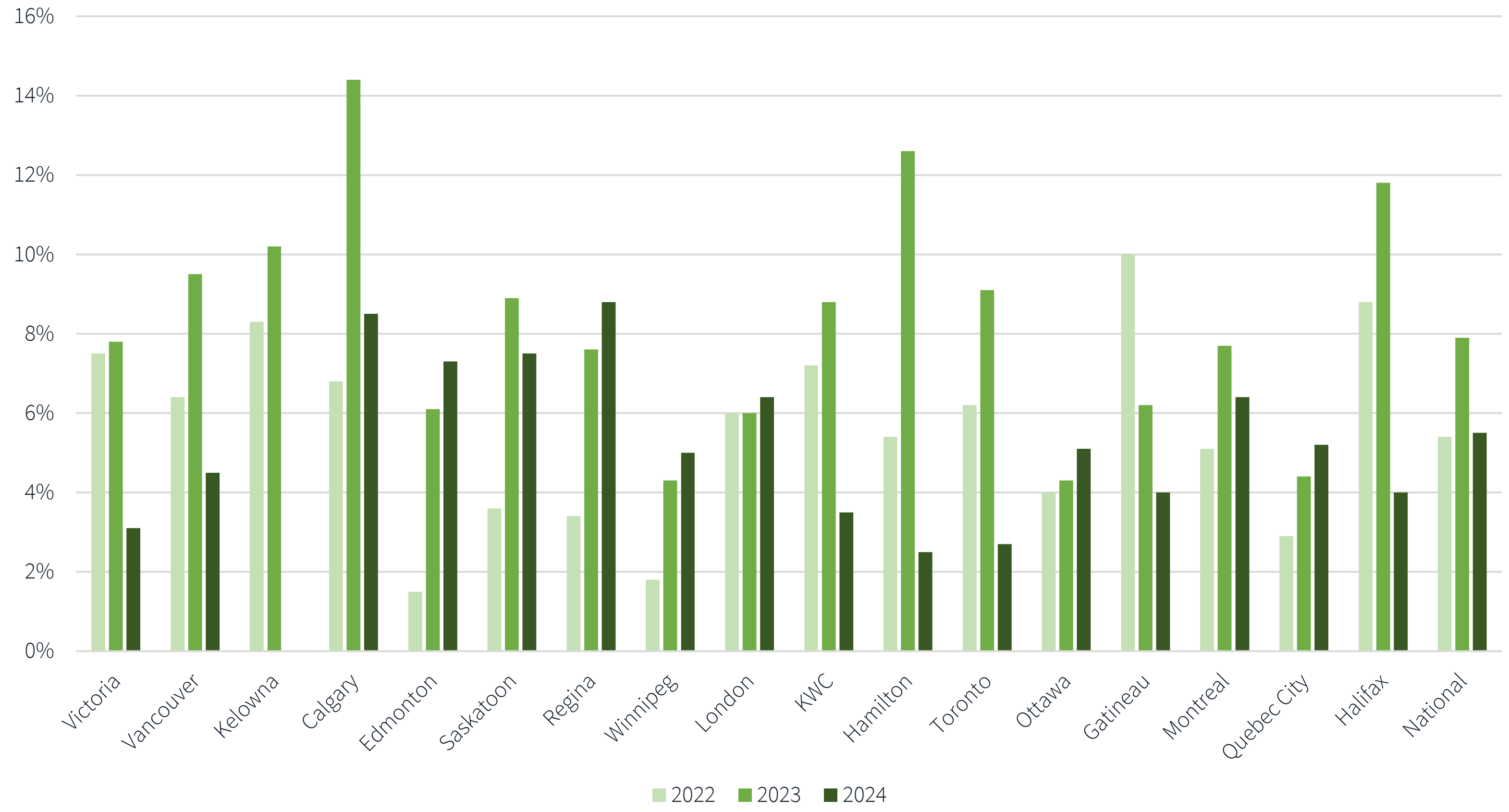
Source: JLL Research, CMHC

Rental Growth by Market

Robust rental growth continues despite softening markets

- Apartment rent growth was 5.5% nationally in 2024, down from the record level of 7.9% in 2023, but good enough for the second highest year to date.
- Apartment rents rose the most in prairie markets like Regina (8.8% year-over-year growth), Calgary (8.5%), Saskatoon (7.5%), and Edmonton (7.3%). These cities are among the fastest-growing in Canada due to lower housing prices and robust economies.

Year-over-year change in average in-place rent



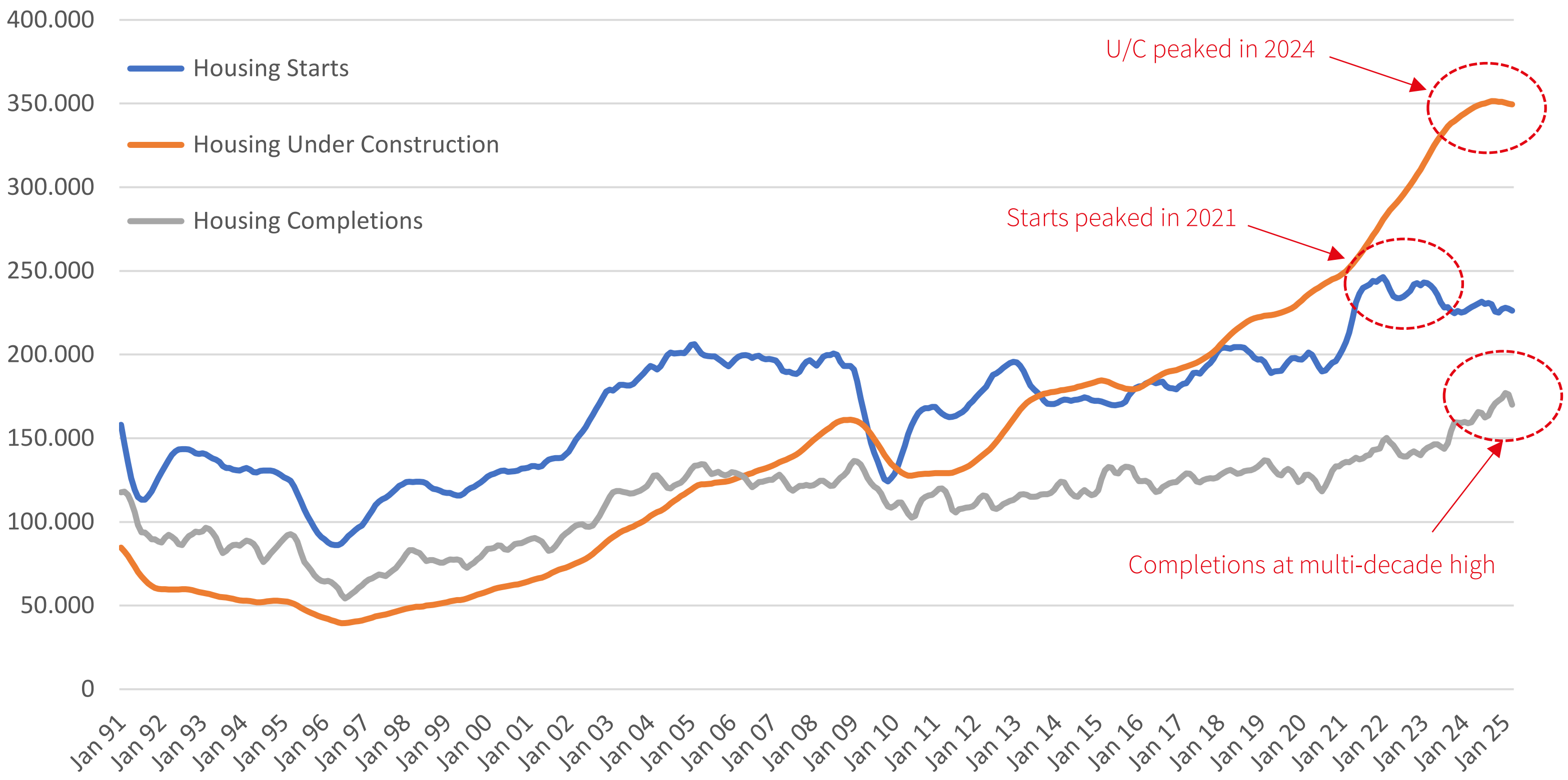
Source: JLL Research, CMHC

National Housing Starts, Under Construction, and Completions

Housing completions are at multi-decade high, but will slow over the next few years

- Housing under construction is at its highest level since the 1970s with over 353k units currently under development.
- New home starts remain at elevated levels, though they have fallen from a peak in 2021. This will likely lead to a tightening of market conditions over the next few years once demand catches up with current new supply.
- New home construction varies greatly across markets: According to CMHC, Calgary, Edmonton, and Montréal saw significant increases in housing starts (up between 40-70% y-o-y) while Toronto, Vancouver, and Ottawa saw starts fall between 10-20%. The relative size of these markets has contributed to the overall drop in starts on a national basis.

Total units, all housing types (twelve-month moving average)



Source: JLL Research, CMHC

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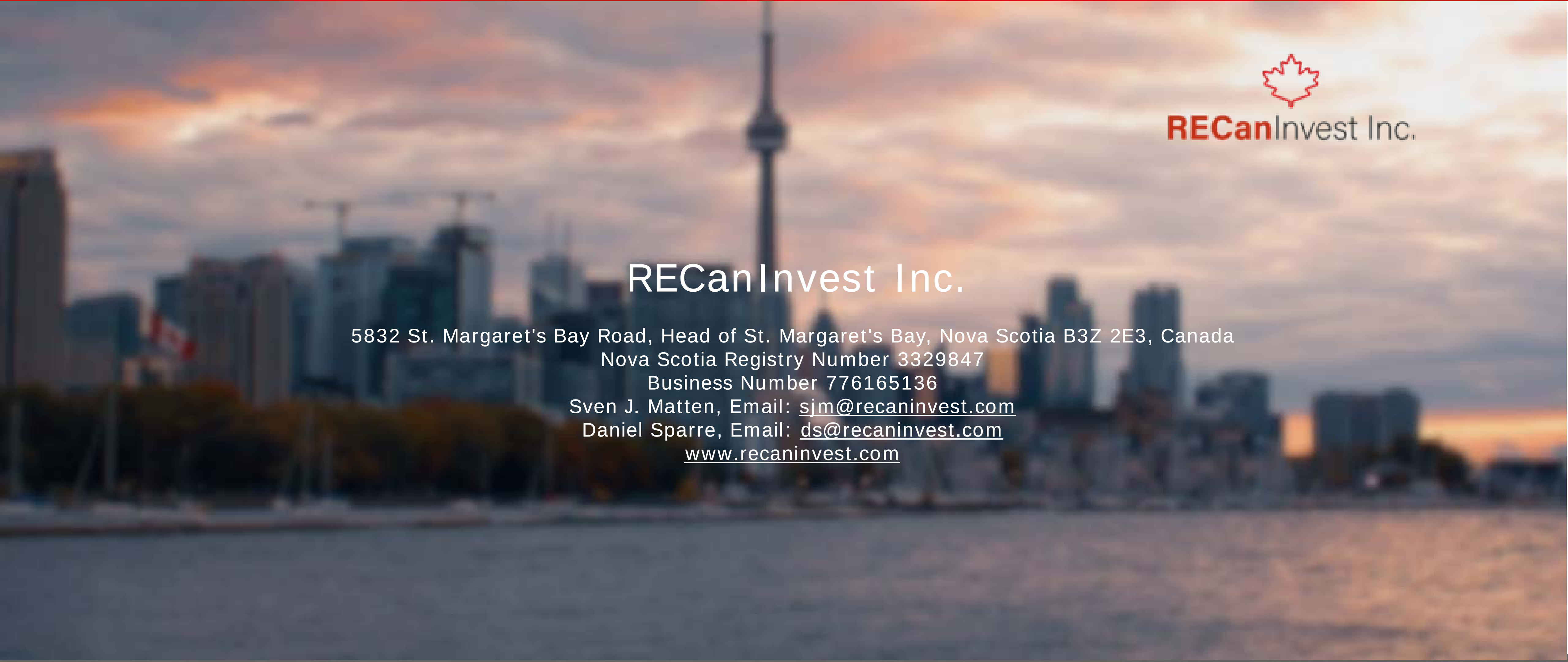

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