

CANADA

Perspective

■ 🍁 ■ 2021

INSIDE

Vaccine optimism, despite uphill battle as COVID-19 rages.

Which pandemic trends will endure, which are fleeting?

Relative value attracts capital to commercial real estate.

Challenges and opportunities amid tailwinds for real asset strategies

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THE YEAR AHEAD

As we begin 2021, Canada's economic recovery has been curtailed by reimposed lockdowns across many regions of the country. But the prospect of widespread vaccination is reason for optimism on the other side of what is shaping up to be a challenging winter.

Canada is well resourced from a vaccine procurement standpoint, and progress towards herd immunity should materialize this year. Notwithstanding any unforeseen disruptions in the vaccination process, some semblance of normalcy should begin to take shape in the latter half of 2021.

As a new normal unfolds, households are poised to unwind some of what they've amassed in savings, providing much-needed support to the beleaguered services sectors and small businesses. This should kickstart a more sustainable recovery that will extend beyond 2021.

Meanwhile, a shifting political landscape south of the border will provide some near-term economic upside and longer-term political certainty. A Democratic Congress is likely to push through more stimulus

programs to boost the economy. U.S.-Canada relations are expected to be less contentious, providing much-needed clarity on the trade front.

While the full impact on the commercial real estate market remains foggy, winners and losers will emerge as the clouds part. Secular trends that were accelerated by the pandemic will linger.

Our consumption patterns have been permanently altered, characterized by a greater propensity to consume goods and services online. This shift has bolstered an already thriving industrial market at the expense of brick-and-mortar retail.

Employees will begin to exercise more choice over how they work, but we believe the office will remain critical infrastructure for company culture and collaboration. Nonetheless, more flexible work arrangements will force occupiers to reassess their real estate strategies.

Increased flexibility enables greater geographic choice in where to live. We've seen a shift in housing demand away from densely populated and unaffordable urban areas, accelerating a trend that had materialized well before COVID-19. Cities will eventually reemerge once the health crisis subsides, but it will take time. People are starved for social interaction and will once again gravitate towards amenity-rich neighborhoods that make urban life so attractive.

The year 2020 was a period of staggering loss of life across the globe, tremendous financial hardship and civil unrest that illuminated deep racial and economic inequality across many marginalized groups.

But it was also a year in which so many demonstrated deep compassion for one another and adaptability in dealing with unprecedented change in all aspects of our lives. There were incredible examples of human ingenuity and innovation, underscored by the record-breaking vaccine development timeline. As we embark on another challenging year ahead, we are optimistic about our collective resiliency.

It's against this backdrop that we remain positive about the future of commercial real estate — the infrastructure that underpins so much of our daily lives. Fundamentals and valuations have held up relatively well, and investor interest should remain strong as the search for yield intensifies. Investment managers face unique challenges and opportunities. Like many other parts of the economy, technology and data will be crucial to formulating effective strategies to take advantage of this new environment.



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Perspective on

ECONOMY



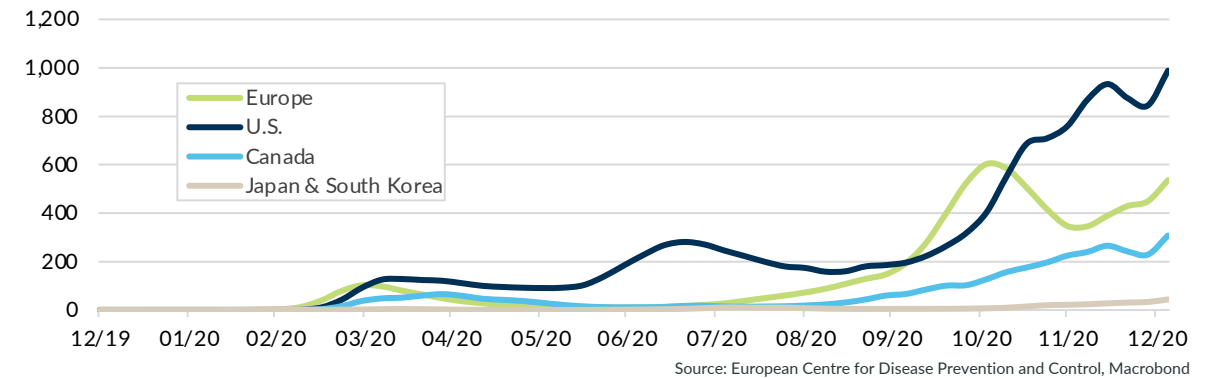
“Dark winter ahead, but a vaccine is reason for optimism.”

PROSPECT OF WIDESPREAD VACCINATION SPURS OPTIMISM

- Heading into 2021, most of the Western world continues to grapple with the second wave of COVID-19. Canada has done relatively well to contain the pandemic with cases per capita below that of Europe and the U.S. As stricter lockdown measures are reinforced, Canadians will have to go into hibernation for the next few months in to squash the current flare-up in cases and hospitalizations.
- The spread is most rampant in the U.S., resulting from a failure of leadership and policy in the handling of the pandemic. Meanwhile in Europe, progress appears to be tapering off as countries like the U.K. are experiencing a surge in cases because of a more contagious COVID-19 variant.
- The approval of vaccines is encouraging news. A successful immunization process of this scale will be dependent on a myriad of factors. Access to the prospective vaccines plays a key role, and the Canadian government has been proactive on this front, procuring approximately 414 million doses. This amounts to roughly 9.5 doses per capita and puts Canada well ahead of its peers by a wide margin.
- Canada has procured a sizeable amount of Moderna's vaccine, a more distribution-friendly option as it can be stored at higher temperatures making it better for offsite/nonhospital deployment.
- The vaccination process has taken place for many frontline workers with a broader rollout expected to accelerate as the year progresses. At this pace, some semblance of normalcy may begin to take shape in the later half of 2021.
- The public's perception towards vaccination and willingness to be immunized are key factors in achieving herd immunity. Despite facing a once-in-a-lifetime health crisis, there's little consensus on the percentage of Canadians willing to take a vaccine. Survey results are wide ranging between 60% to 80%. It's estimated that approximately 70% of the population must have immunity to prevent community spread. It remains to be seen how responsive Canadians will be, but the path towards an economic recovery is highly dependent on widespread vaccination.

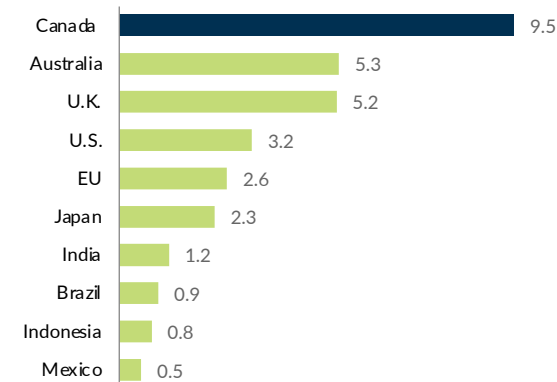
NOVEL CORONAVIRUS (COVID-19)

CUMULATIVE NUMBER FOR 14 DAYS OF COVID-19 CASES PER 100,000 PERSONS; JANUARY 4TH, 2021

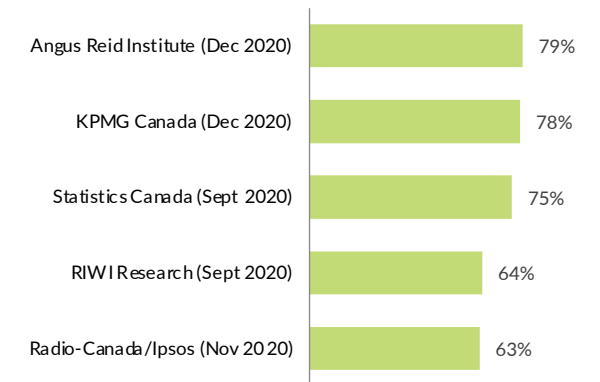


CANADA TOP COVID VACCINE PROCURER

PRE-ORDERED VACCINE DOSES PER PERSON

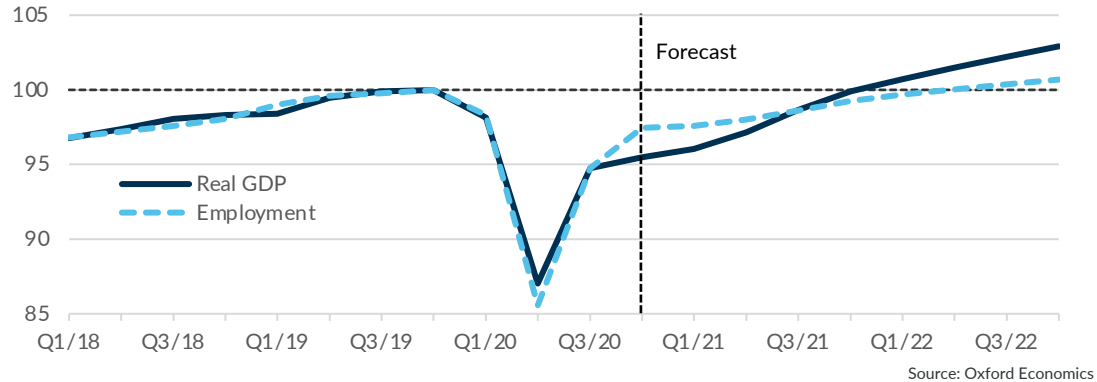


SHARE WHO WOULD TAKE A COVID-19 VACCINE IF IT WERE AVAILABLE

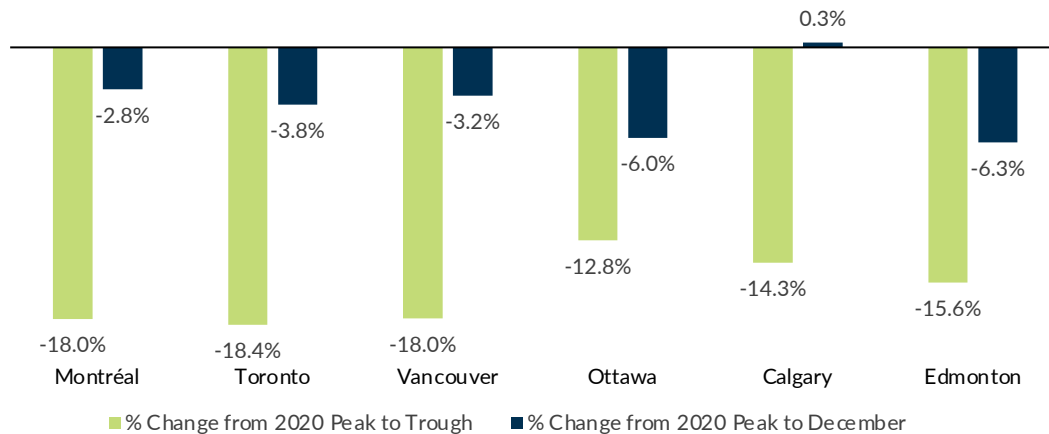


CANADIAN ECONOMIC MOMENTUM FADING

CANADA: REAL GROSS DOMESTIC PRODUCT AND EMPLOYMENT INDEX (Q4/19 = 100)



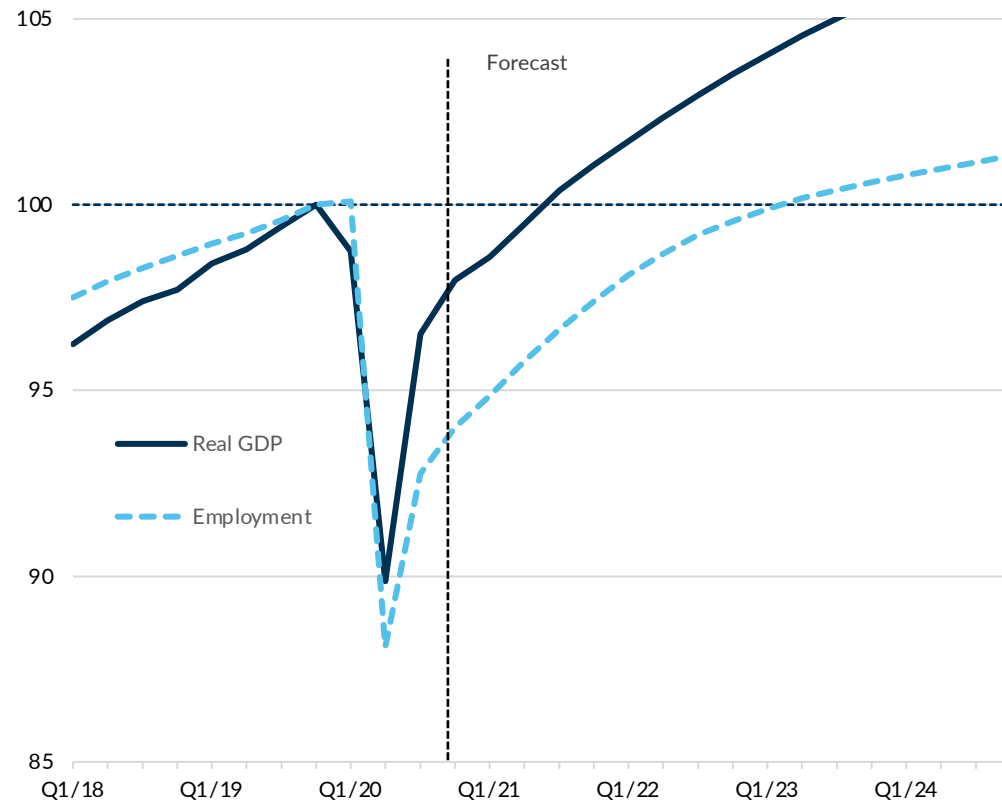
METRO EMPLOYMENT RECOVERY



- A swift and unprecedented monetary and fiscal response supported a strong consumer-led rebound following the first wave of COVID. But as pent-up demand waned, economic activity and job gains tapered off at the end 2020 as the public health situation deteriorated.
- The labour market lost nearly 3.0 million jobs at its lowest point in April but has since recovered 2.4 million (81%), reducing the unemployment rate to 8.5%. The slowing pace of job creation over the last few months is concerning but not unexpected. We anticipate a negative shock to employment because of reimposed lockdown orders across many provinces. And while vaccines help mitigate tail risks for the economy in 2021, we begin the year with a challenging few months of winter isolation that will weigh heavily on the recovery.
- It's unlikely that the Canadian economy will experience a pickup in sustained economic activity until the second half of the year once vaccination has occurred more broadly, restrictions are lifted and people feel comfortable resuming normal activities.
- Forecasts from Oxford Economics suggest that economic activity and employment will not return to pre-COVID levels until 2022. We anticipate another strong initial rebound in consumer spending driven by pent-up demand and a massive amount of savings that households have accumulated.
- Consumption will be more broadly distributed this time across both goods and "experience-oriented" industries, which will be a much-needed boost for retail real estate. But over the next year, many small businesses will fight to remain a going concern. The harsh reality is that many won't survive, and there is likely to be permanent retail job loss. It's also possible that over the medium term we could see a shift to a more cautious consumer who will set aside more savings and focus on essentials, which could drag on aggregate demand.
- Office-oriented industries have held up remarkably well during the pandemic because of the ability to work from home (WFH). But we could see further layoffs in the year ahead, particularly in finance, insurance and business services, as firms rein in costs.
- Coordinated monetary and fiscal policy will continue to play a significant role bridging the gap in the economy to the other side of the pandemic and perhaps beyond.

FOG LIFTS IN WASHINGTON

UNITED STATES: REAL GROSS DOMESTIC PRODUCT AND EMPLOYMENT INDEX (Q4/19 = 100)
INDEX (Q4/19 = 100)



Source: Oxford Economics

- Joe Biden's inauguration as the 46th president of the United States leaves the nation heavily divided but also brings some potential positives for the North American and global economies. There is hope for a more decisive and orderly response to COVID and vaccine distribution.
- While the Democrats lack super-majority power, unified government should bring about more policy action. Among the first moves by the new Congress is likely to be additional fiscal stimulus adding to the recently passed US \$900 billion relief bill.
- Clarity around international trade and foreign affairs generally should be a welcome change for major U.S. trading partners, including

Canada. It is likely the recent U.S. stance on immigration will change as well, which should help U.S. growth long term.

- It will not all be smooth sailing, however. Beyond sharp political differences, COVID cases are at record highs, the U.S. labour market recently posted its first decline in jobs in seven months and long-term unemployment remains elevated. Four million Americans have left the labour force over the past year.

The U.S. labour market is treading water with elevated long-term unemployment (27+ weeks).



U.S.–CANADA RELATIONS LESS CONTENTIOUS

BIDEN ADMINISTRATION: IMPLICATIONS FOR CANADA



- Specifics of Biden’s **immigration** programs are still unclear, but his election campaign rhetoric placed emphasis on reversing Trump’s policies over the past four years — especially when it comes to high-skilled work visas. While Canada remains an attractive destination for foreigners, a more open immigration policy south of the border could diminish some of the immigration tailwinds of recent years.



- **Trade** relations between Canada and the U.S. are expected to be much less arduous, but the Biden administration is likely to tow the party’s protectionist sentiments. While various forms of “America First”-type policies will remain intact, persistent tariff threats on key Canadian sectors such as aluminum and steel should subside.



- The **energy** sector could see intensifying headwinds, especially as it relates to pipeline infrastructure. Biden has been vocally opposed to the Keystone XL pipeline and is expected to cancel the project. On the other hand, his pledge to ban oil and gas permits on federal land could benefit Canadian energy exports.



- The U.S. is expected to rejoin the Paris climate accord, placing more pressure on world economies to reduce their carbon footprints and meet 2030 targets. A more **environmentally** focused outlook presents an opportunity for Canada to diversify and expand its clean energy sector. With an abundance of hydropower and raw materials for solar panels, Canada is poised to benefit on this front.



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Perspective on

INVESTMENT MARKET

“Strong investor sentiment, low interest rates, and attractive debt financing outweigh deteriorating fundamentals.”

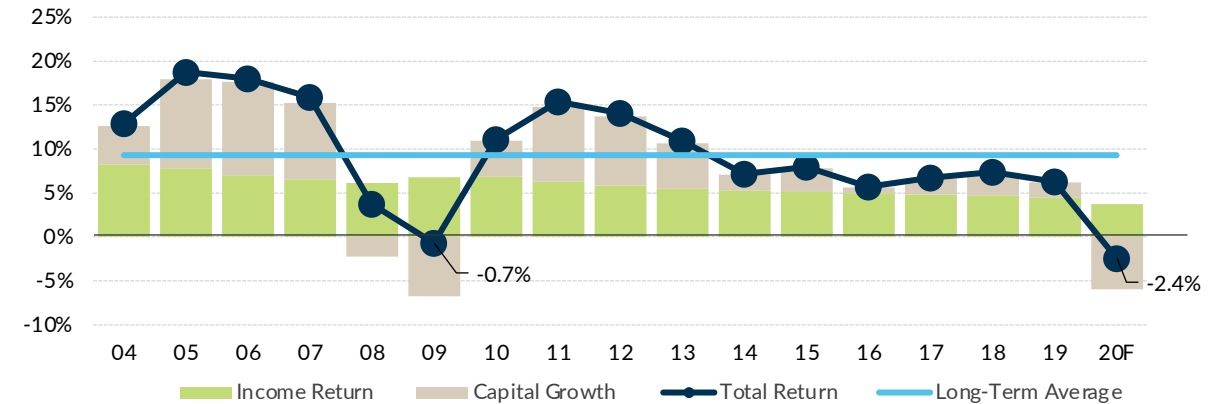
PERFORMANCE NEGATIVE FOR THE FIRST TIME SINCE 2009

- Canadian commercial real estate transaction activity was down 21% year-to-date as of Q3/20, according to real estate firm CBRE: \$25.1 billion of commercial real estate has transacted, compared to \$31.8 billion over the same period in 2019.
- Capital markets froze up during the onset of the pandemic, but we continue to see increasing risk-on appetite from investors looking to place both debt and equity capital in select sectors and markets.
- So long as vaccinations are effective and broadly distributed and interest rates remain low, we expect capital markets to bounce back in 2021. We believe there is likely to be increasing interest in alternative investment strategies, including real estate. We expect more institutional investors will be seeking diversification within traditional 60/40 portfolios and looking to add income-producing assets that also provide inflation protection.
- BGO Canada Research is projecting a total return of -2.4% in 2020 for the MSCI REALPAC Canada Property Index – a proxy for private, institutional quality, core real estate portfolios. It would mark the first dip into negative territory since 2009. The total

return projection is comprised of a 3.7% income yield and a -5.9% capital value decline.

- This would mark the lowest income return in the index's 35-year history. However, this year it's driven by lower income received as opposed to the denominator effect of higher capital values.
- Unlike the global financial crisis (GFC), most of the value declines in 2020 have been a result of eroding net operating income and downward revisions to future rent growth expectations as opposed to cap rate expansion. And whereas all properties were impacted comparably in the GFC, retail has been disproportionately affected during COVID.
- Notwithstanding challenges with deteriorating fundamentals, we are more optimistic about forward-looking returns as we see low interest rates, flow of funds and attractive debt financing as greater forces for property valuations.

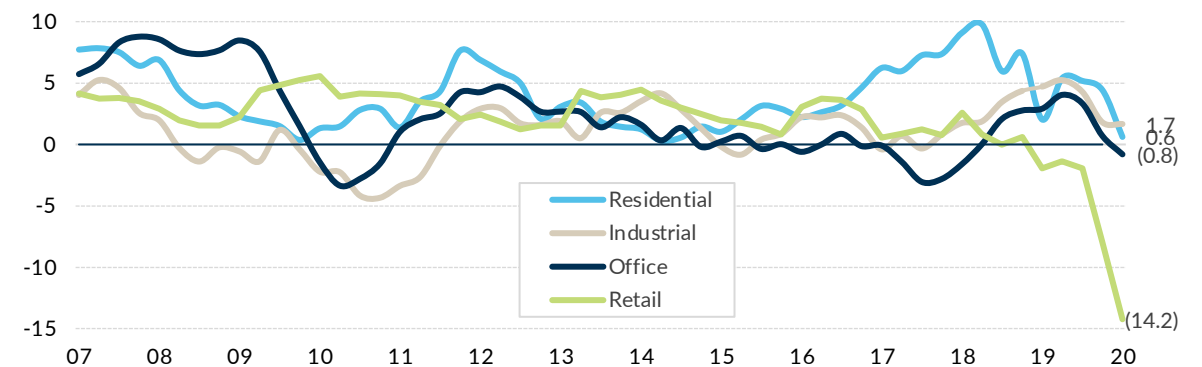
CANADIAN INSTITUTIONAL REAL ESTATE: TOTAL RETURN DECOMPOSITION



Source: MSCI/REAPAC Canada Property Index

CANADIAN INSTITUTIONAL REAL ESTATE: NET OPERATING INCOME GROWTH BY SECTOR

% CHANGE Y/Y

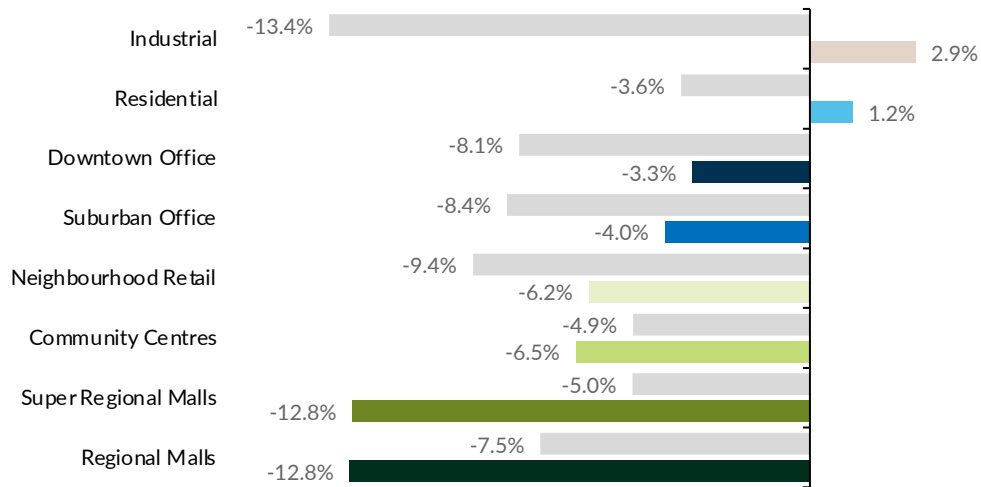


Source: MSCI/REAPAC Canada Property Index

WHICH PROPERTY SECTORS COULD OUTPERFORM?

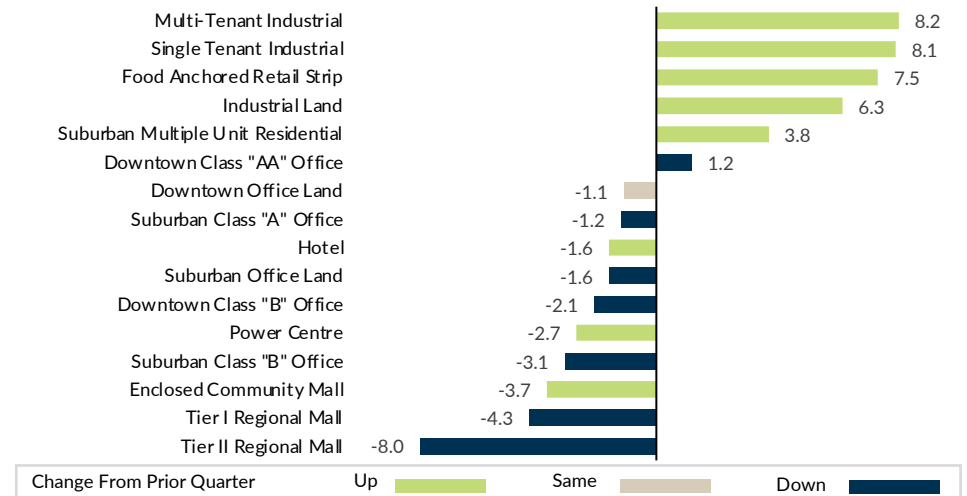
- The big question for 2021 is whether office valuations have adjusted to appropriately reflect both short-term cyclical headwinds and long-term secular risks from shifts in workplace strategies. We believe there will be further price correction in the sector reflecting greater operational risk. However, pressure on values will be skewed towards commodity office product in lower quality buildings.
- Positive structural tailwinds for industrial have enabled the sector to price efficiently through COVID. With ultralow interest rates, there is the potential for further cap rate compression for high-quality, logistics-oriented industrial product that benefits from surging ecommerce growth. Despite eroding development yield spreads over in-place income yields, we see development as a prudent risk-adjusted strategy to increase exposure to logistics and warehousing.
- There is evidence of an emerging bid-ask spread for multi-family assets, particularly for newer luxury or urban locations where rents are declining more than they are in more affordable, less dense suburban areas.
- However, vaccination should lift sentiment in 2021 as urban centres will eventually regain their footing. Attractive yield spreads for leveraged buyers should outweigh the negative outlook on fundamentals, exerting upward pressure on pricing.

3Q/20 YTD CHANGE IN CAPITAL VALUE
SHADED BARS SHOW PEAK TO TROUGH DECLINES IN GFC



Source: MSCI/REAPAC Canada Property Index

PROPERTY TYPE BAROMETER
MOMENTUM RATIO (BUY % / SELL %)



Source: Altus Group's Q4/20 Investment Trends Survey

DEBT MARKETS OPEN FOR BUSINESS

- There is very little liquidity for enclosed retail shopping centres in this environment because of their uncertain future. Food and drug anchored retail strip centres remain highly sought after and continue to price through COVID despite near-term challenges facing service-oriented tenancies. We could see further cap rate compression for this type of retail with strong interest from a wide range of investors and attractive financing available.
- Bifurcation across dimensions of both individual

asset quality and property type has become even more pronounced during this pandemic. This theme will intensify in 2021. We expect assets that are well located, are well occupied and possess rent rolls with term and credit to continue to be highly sought after by investors.

Discerning Mortgage Market

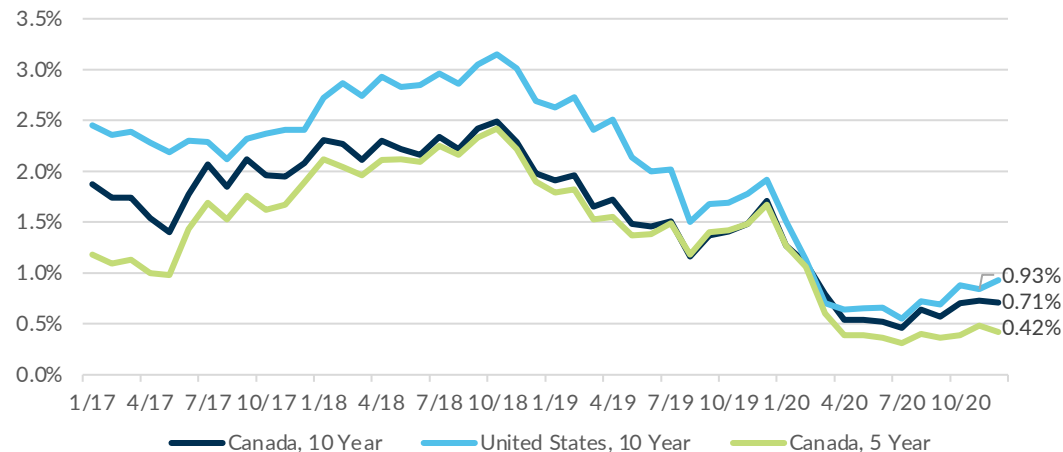
- The Canadian commercial mortgage loan (CML) market had an adventurous year to say the least. At the height of market volatility in late March, commercial mortgage spreads over risk-

free rates had widened 130 to 160 basis points for high-quality mortgages, matching a similar increase in corporate bond spreads and reflecting a general repricing of the risks at that point in time.

- “Peak” uncertainty subsided middle to late May, and lenders that had previously moved to the sidelines started coming back into the market, including foreign lenders.
- What unfolded over the remainder of the year was a highly competitive landscape, particularly

for high quality industrial and multi-family assets in core markets. Office bids were still active, mostly for A/B class buildings with strong owner/operators. We also saw continued liquidity for select retail assets, despite retail being the hardest hit sector. However, expectations were that the retail asset would have to have a resilient lease profile (grocery-anchored/“needs-based”) to obtain institutional financing.

GOVERNMENT BOND YIELDS



Source: Macrobond

COMMERCIAL MORTGAGE SPREADS OVER GOVERNMENT OF CANADA BOND YIELDS

Commercial

5-Year Term

150–80bps

10-Year Term

160–90bps

CMHC-Insured Residential

5-Year Term

80–95bps

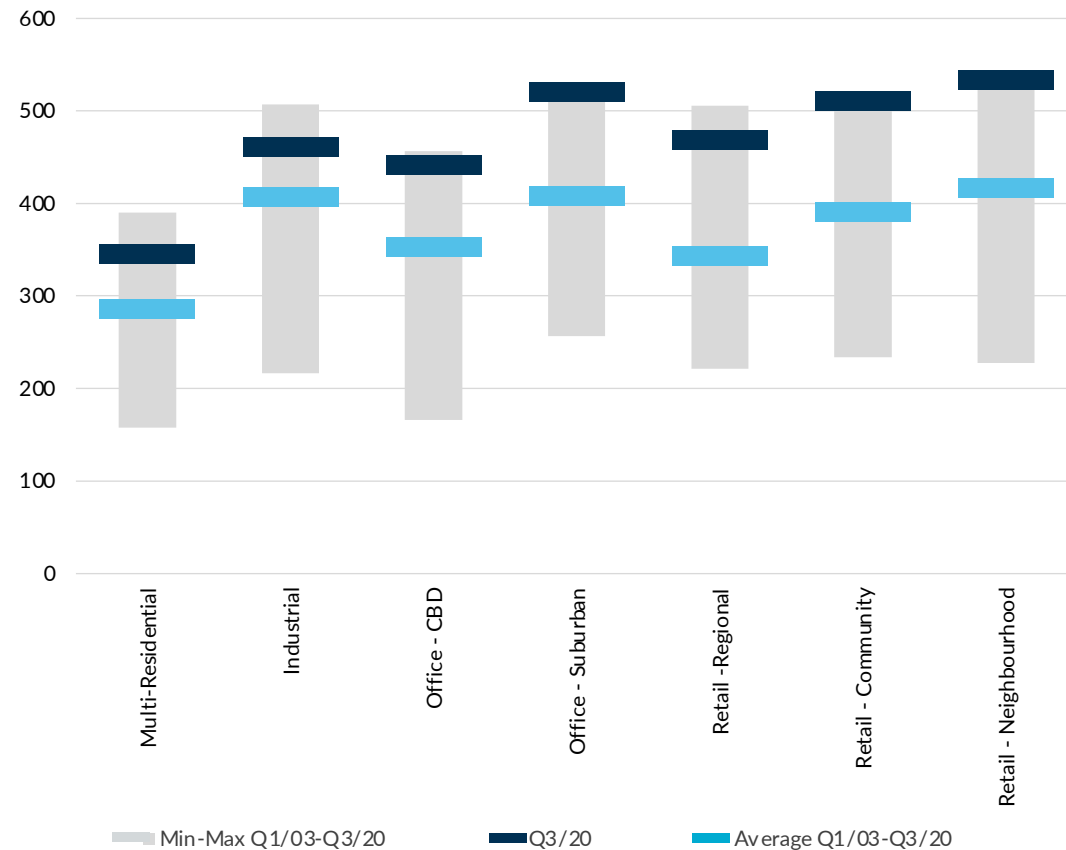
10-Year Term

90–105bps

Source: BGO Canada Research

LENDERS WILL NEED TO BE DISCIPLINED

APPRAISAL CAP RATE SPREADS OVER 10-YEAR GOVERNMENT OF CANADA BONDS
(BASIS POINTS)



Source: MSCI/REALPAC Canada Property Index, Bank of Canada, Macrobond

- The significant competition resulted in lenders competing on both spread and underwriting. CML spreads have now come down to at or near pre-COVID levels. We have also seen some lenders willing to stretch on underwriting to win transactions, specifically for industrial transactions. Examples include interest-only or stretched amortizations, and full loan proceeds, with borrowers being offered additional leverage in some cases. In general, borrowers with durable security were more than happy to come to the market looking for financing because of attractive all-in rates.
- Looking forward, we expect borrowers to continue to take advantage of the cheap financing available. Asset types such as industrial and multi-family will remain highly sought after by lenders. Debt capital markets face similar unanswered questions in the office sector, but lenders will not hesitate bidding on transactions where they feel the security and sponsorship are durable. Retail looks to be a value play with less competition relative to other asset types, but the loan must have the “right” attributes for the top-tier institutional lenders to move forward.
- Lender actions will reflect any shift in financial market conditions that stem from the state of the health and economic crisis in 2021. Lenders will be closely tracking borrower covenants as new information starts to become available in the early part of the year. If the later half of 2020 is any indication, we expect debt capital markets to remain open in 2021 for most asset types, but lenders will have to stay disciplined to navigate the challenges that persist in the marketplace.

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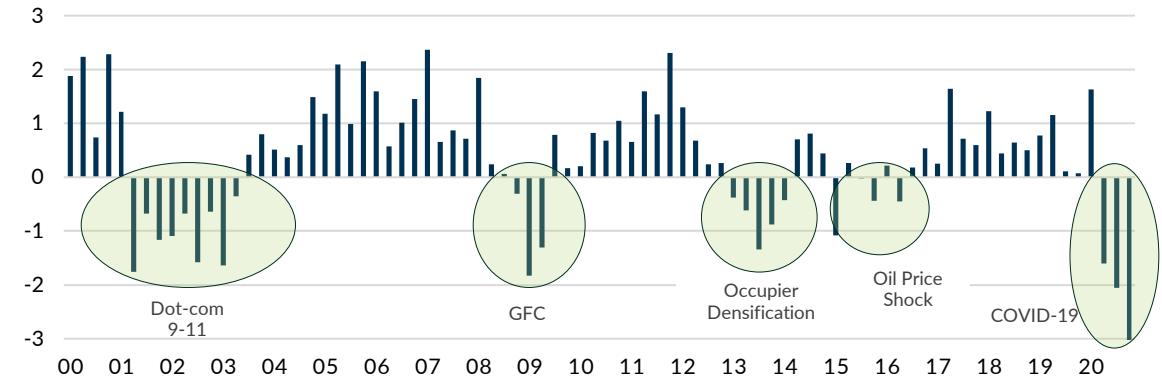
OFFICE

“Cyclical headwinds and shifting workplace strategies cloud the outlook for office”

CYCLICAL DOWNTURN HITS OFFICE HARD

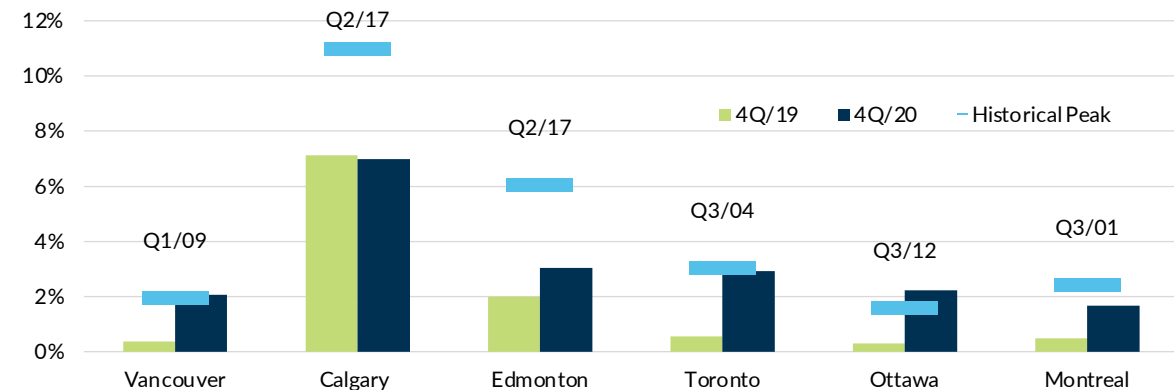
- A shift to greater flexibility in workplace strategies has clouded the longer-term outlook for office real estate. Lockdown orders and the economic downturn have created significant short-term headwinds that have disproportionately impacted downtown office markets.
- Cyclical headwinds have led to the largest negative quarterly drop in net absorption on record in Q4/20. According to CBRE, Canada's downtown vacancy increased 320 bps in 2020 to 13% – a level not seen since recession in the 1990s.
- Both direct and sublet vacancy are on the rise. Sublet vacancy is most acute in Toronto and Vancouver where as a percentage of total inventory it increased 170 bps and 240 bps, respectively in 2020.
- Vacancy was already anticipated to increase in Toronto and Vancouver with substantial new supply incoming over the next three years. But this was welcomed space that was poised to make markets healthier by balancing supply/demand dynamics, enabling greater tenant mobility and fostering more sustainable long-term growth.
- CBRE estimates that as of Q4/20, Vancouver's future towers were 58% pre-leased, largely reflecting new tenant demand. Meanwhile, Toronto's construction pipeline was 71% pre-leased but reflects
- more of a relocation story. The major banks have leased 3.5 million of the 9.2 million square feet of new space under construction, meaning they are relocating and likely leaving behind at least that amount of space. This older backfill class A and B space has always been a risk but one that has been exacerbated by the timing of this downturn.
- Office-using employment has held up remarkably well during the pandemic. Yet some companies are shedding space as CFOs are scrutinizing operating costs and reevaluating space requirements. The potential for significant shifts in workplace strategies may mean that the historical relationship between job creation and office demand is permanently altered, making forecasting future market conditions extremely difficult.
- Occupiers remain cautious about making any long-term leasing decisions. Short-term renewals are defining the current leasing environment. It won't be until we see clarity on the health outlook that we will see activity restart in a meaningful way.
- For now, rental face rates are holding up, but they are being induced with tenant improvement allowances and free rent periods, which are exerting downward pressure on net effective rents.

CANADA: DOWNTOWN OFFICE ABSORPTION
(SQUARE FEET, MILLIONS, QUARTERLY)



Source: CBRE

DOWNTOWN OFFICE SUBLEASE VACANCY



Source: CBRE

FIGURES WE'RE WATCHING CLOSELY

PROFILE: Downtown Toronto Sublease Market

570 bps
increase in overall vacancy
from Q1/20 to Q4/20 (7.2%)

43%
of overall vacancy is
sublet space

43%
of sublet space expires
within three years

39%
of sublet space is class A

75%
of sublease blocks are less
than 10,000 square feet

50%
of sublet space is tech
and creative

Source: CBRE, Cushman Wakefield, BGO Canada Research, December 31, 2020

FLEXIBILITY WILL DEFINE THE FUTURE OF OFFICE

- The largest WFH experiment ever undertaken has proven largely successful, and there is consensus from both employees and employers that there will likely be greater flexibility in work arrangements post-COVID. But there is concern amongst many firms about company culture, employee onboarding and training, and the ability to effectively collaborate and drive innovation over the long term.
- The future of knowledge work is best described as a “better integration between work and home” rather than “WFH.” We agree with consensus that more hybrid work models will evolve for many firms. This also gives rise to the notion of “third” spaces, which could be a coffee shop, a hotel lobby, a coworking space or anywhere there is mobile connectivity.

 - We expect employees will exercise greater choice in how and where work is performed to maximize both productivity and job satisfaction. For many, reducing commute times is critical to overall well-being. Cities with congestion and inferior public transit infrastructure are certainly more vulnerable to remote work trends.
- The prevailing view is that organizations that embrace more flexibility will have greater access to a larger pool of diverse talent. However, full-time WFH can often be isolating, therefore potentially limiting the practical implementation of diverse viewpoints and raising concerns about employee health and wellness.
- Firms are also looking for greater flexibility from their office space, which may include shorter lease terms, increased use of “space-as-a-service” (WeWork, Regus, etc.) and decentralization of their office footprint to accommodate more distributed workforces.
- The following framework helps illustrate how we’re thinking about the evolution of the office and how we’re monitoring the landscape.



FLEXIBILITY

Flexibility will define the future of knowledge work. Employees want more flexible work arrangements, and firms want to be more agile.



OFFICE STILL MATTERS

Physical office space will continue to be an integral component of the knowledge workers’ “productivity tool kit.” It remains critical infrastructure for culture and collaboration.



FLIGHT TO QUALITY

Health, safety and wellness of employees is paramount. Expect to see a continued flight to high quality real estate that can deliver on ESG factors.



DE-DENSIFICATION

Will physical distancing requirements recede once there is vaccination, or does this signal a shift to towards de-densification? How might space requirements change for an office redesigned for collaborative work “most of the time?”



DECENTRALIZATION

How does decentralization of knowledge work impact the spatial demand for places to work? How does our ability to work anywhere change where we decide to live and play?

ASSET PERFORMANCE WILL VARY SIGNIFICANTLY

CHECKLIST FOR RESILIENCY: OFFICE INVESTMENT CONSIDERATIONS



✓ LOCATION, LOCATION, LOCATION

- Walkability
- Multimodal accessibility
- Amenity-rich
- Wide user appeal
- Benefits from agglomeration economies/network effects



✓ BUILDING QUALITY

- Best-in-class
- Climate resilient
- Health and wellness features
- Tech-enabled
- Capex light
- Flex space



✓ DEFENSIBLE RENT ROLL

- Staggered lease maturity profile
- Strong tenant credit
- Low WFH plausibility
- Sector risk/growth profile
- “Right-sized” tenancies
- Tenant synergies



✓ MARKET DYNAMICS

- High liquidity
- Favourable supply/demand dynamics
- Long-term barriers to supply
- Gateway vs. secondary
- CBD vs. “surban” vs. suburban

Source: BGO Canada Research

- The magnitude of these countervailing forces will ultimately determine the net structural impact on office space demand, effective rents and valuations. Medium- to long-term impacts are unknown, but risks are tilted towards the downside and will disproportionately impact lower quality class B and C buildings.
- Unfortunately, we’re not likely to see much further clarity until vaccination is widespread and workers return to the office.
- The office is by no means dead. It will continue to be an integral tool in the knowledge workers’ “productivity tool kit.” And for employers, it will remain critical infrastructure for company culture and collaboration. But as we think about portfolio construction, we increasingly see the office sector as an idiosyncratic investment that requires even greater emphasis on submarket and node selection, tenant profile and the building attributes that make it a compelling destination for end users.
- This includes key characteristics such as multimodal accessibility, climate resiliency, a focus on health and wellness, operational efficiency, strong tenant credit and locations that are amenity rich and benefit from agglomeration economies. We believe that assets that are strong in these areas will continue to generate steady cash flow and attractive risk-adjusted returns.

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Perspective on

RETAIL

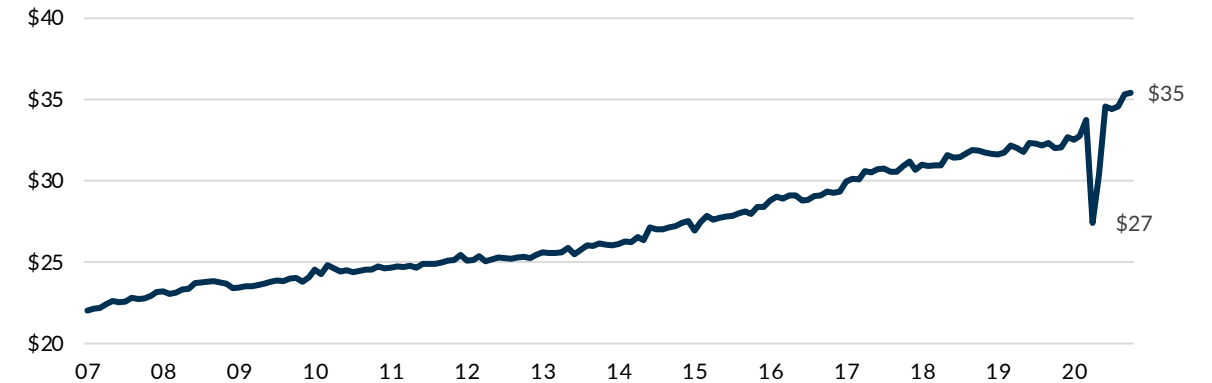
“COVID has pulled forward many retail bankruptcies that will leave permanent scarring”

SALES CONTINUE TO LEAK FROM BRICK-AND-MORTAR RETAIL

- The rebound in retail sales has been quite remarkable with activity surpassing pre-COVID levels. It's been supported in large part by government transfers to households, which has more than offset lost wages in aggregate, but it has also been propped up by dollars that would have been spent on restaurants, bars, live entertainment and travel.
- Gains in retail spending have not accrued to brick-and-mortar retail except for essential retailers and home improvement as we've been cooking at home and upgrading our home offices. Most notable is that ecommerce has grabbed a disproportionate share of spending. Consensus forecasts suggest that ecommerce penetration has increased from roughly 10% pre-COVID to 15% on a sustainable basis.
- As we look ahead in 2021, households have accumulated a massive amount of savings over the past year — nearly \$200 billion. For context, RBC Capital Markets suggests that's enough to cover the overall consumer spending on restaurants and hotels for more than two years. This savings is fueling pent-up demand that is waiting to be unleashed once there is widespread vaccination and restrictions are lifted.
- This will be a much-needed boost for brick-and-mortar retail. But most of the spending is going to be skewed towards all the “experiential” retail and travel we've been missing out on. The gains likely won't accrue to those categories that are typically found in enclosed malls, and to a lesser extent power centres, but should help struggling urban retail formats.

CANADA: MONTHLY CORE RETAIL SALES

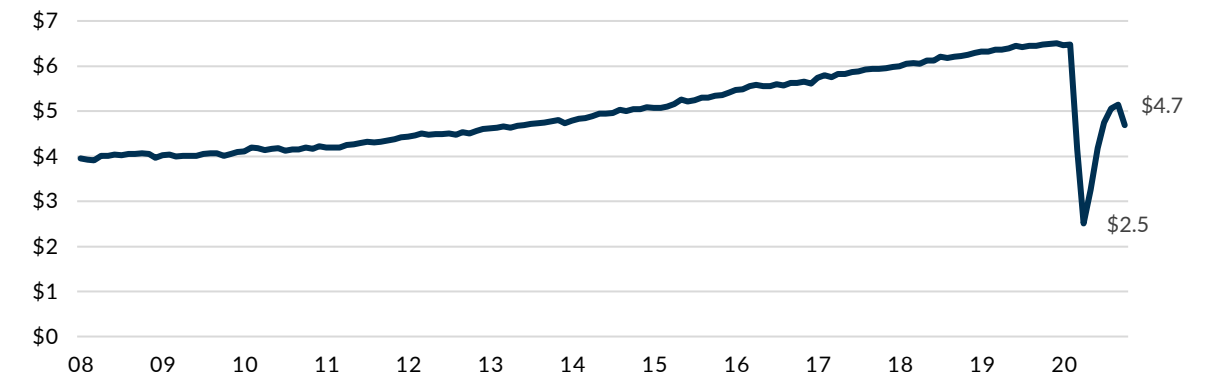
\$BILLIONS, AS OF OCTOBER 2020, REPORTED DECEMBER 2020



Source: Statistics Canada

CANADA: SALES AT FOOD SERVICES AND DRINKING PLACES

\$BILLIONS, AS OF OCTOBER 2020, REPORTED DECEMBER 2020



Source: Statistics Canada

CANADIAN RETAIL STORE CLOSURES IN 2020

1,800

stores

- Triple the level of 2019

6.4M

estimated sq. ft.

- But only ~1% of all retail sq. ft.

53%

apparel retailers

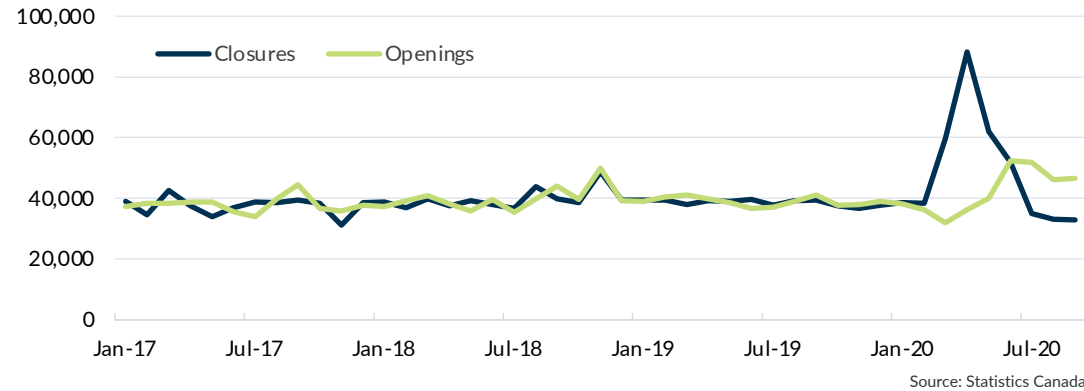
- Measured by sq. ft.

Source: RBC Capital Markets, BGO Canada Research

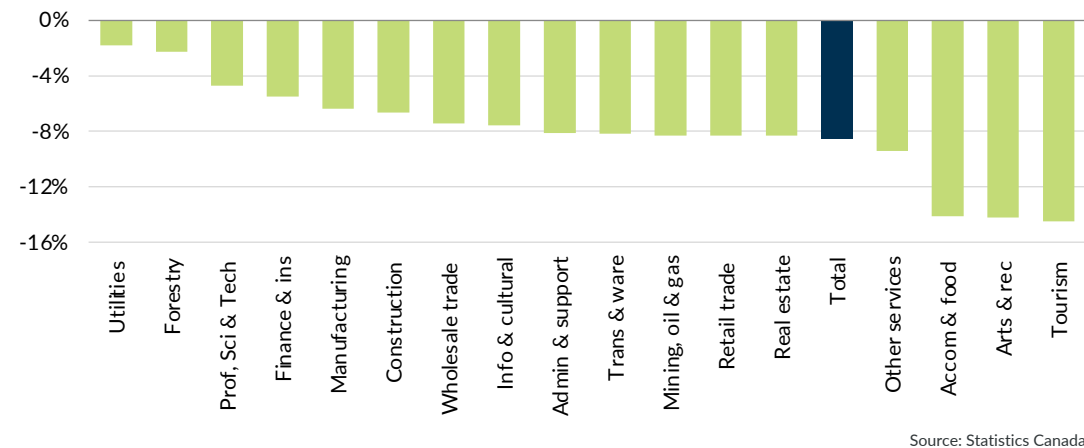
Store closures mounting, more fallout in the year ahead

MORE CHALLENGES AHEAD

CANADA: BUSINESS OPENINGS AND CLOSURES AS OF SEPTEMBER 2020, REPORTED DECEMBER 2020



CANADA: % CHANGE IN CONTINUING BUSINESSES FEB 2020 TO SEP 2020



- Data covering the first wave of the pandemic showed that Canadian businesses were surprisingly resilient. As lockdown measures eased during the summer months, store openings were quick to rebound while the pace of closures converged to pre-COVID levels.
- That said, a full recovery has yet to materialize as the level of continuing business was still 9% below pre-COVID levels as of the latest data through September 2020. COVID hotspots — Montreal, Toronto and Vancouver — saw the largest number of business casualties. Not surprisingly, services-oriented sectors such as food and accommodation were among the hardest hit, while goods-producing and office-using sectors have held up much better.
- Nonetheless, there is a long dark winter ahead of us before we begin to see the other side of the pandemic. We expect bankruptcies to remain elevated and further store rationalization in 2021. The Canadian Federation for Independent Business has suggested that upwards of 225,000 small businesses may be lost during the pandemic, of which many will be retail tenancies.
- The survival of many small businesses will be dependent on the successful deployment of government aid. Unlike its predecessor, which required landlords to apply for support, the new

Canadian Emergency Rent Subsidy is more targeted with payments directly to qualifying tenants and property owners. It's designed to subsidize commercial mortgage interest or rent payments while adjusting for magnitude of revenue loss — providing a much-needed lifeline.

- As we move beyond the post-pandemic "spending surge," one of the key questions is whether there will be a pronounced shift to a more "cautious" consumer that will set aside more savings and focus on "essentials," which could be a drag on aggregate demand. Nondiscretionary spending also has the demographic tailwinds of a large millennial population who is aging into their child-rearing years — typically the highest period for consumption of household essentials.
- For these reasons, we continue to believe there will be strong demand for "necessity-based" retail moving forward and we expect upward pressure on pricing to persist.

CANADA

Perspective on

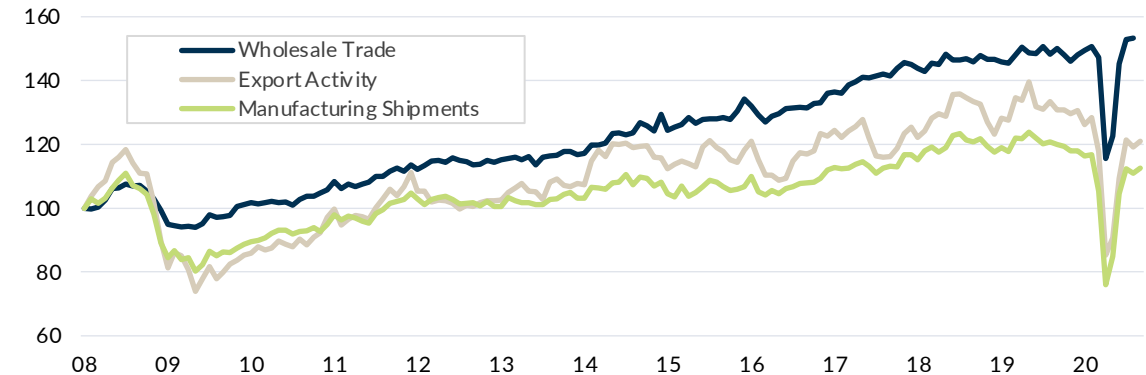
INDUSTRIAL

“Surging adoption of ecommerce underpins solid fundamentals for logistics and warehousing”

INDUSTRIAL SOARING TO NEW HEIGHTS

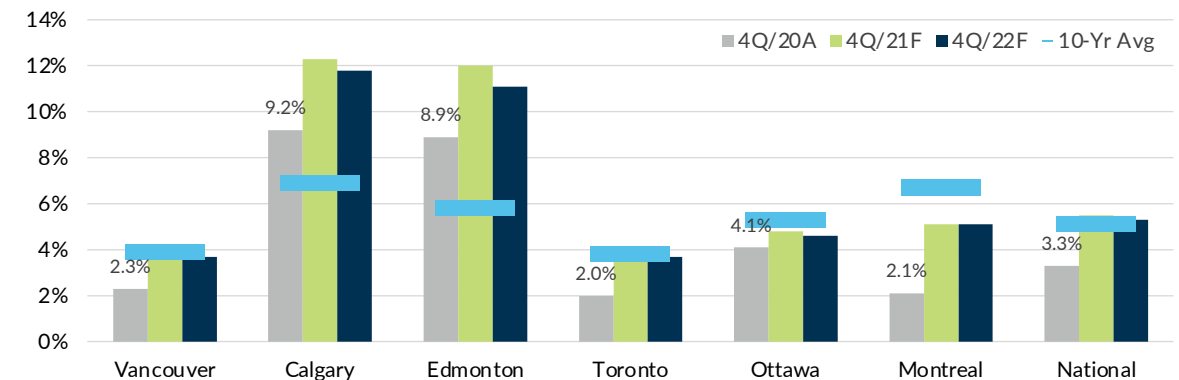
- Canada's industrial markets have demonstrated remarkable resiliency. After a pause in the second quarter, demand across Canadian markets rebounded sharply in the second half of the year. Overall, 2020 registered 18 million square feet of absorption, an impressive feat considering the circumstances.
- Ecommerce has been the driving force, but demand is coming from a variety of users including warehousing, logistics, and distribution in addition to manufacturing, cold storage, self-storage and data centres.
- In most markets, availability rates remain well below long-term averages and near historic lows. However, we'd be remiss if we didn't acknowledge that broader economic indicators suggest that space absorption will likely slow in the coming quarters.
- Industrial demand is not immune from the effects of the recession, and we expect that properties that are not positioned to benefit from the surge in ecommerce distribution may be disproportionately impacted.
- On the supply side of the equation, development activity remains elevated relative to historic averages, but most of the incoming space is pre-leased, which mitigates any potential market dislocation.
- Prior to the second wave, Euromonitor forecasted an estimated 15% increase in ecommerce sales in Canada in 2020, and a further 10% increase in 2021. And while there is likely to be a pullback in online sales as the economy returns to more normal conditions, much of the share gained during the pandemic will persist as shopping habits have been permanently altered. Moreover, ecommerce is now penetrating categories that were previously underrepresented in online sales, such as grocery.

MACRO DRIVERS OF INDUSTRIAL (INDEX, Q1/08 = 100)



Source: Statistics Canada, Macrobond

INDUSTRIAL AVAILABILITY

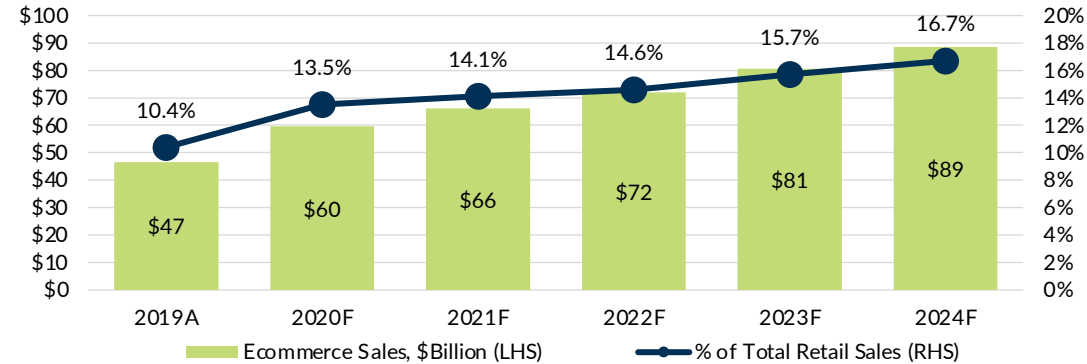


Source: CBRE-EA

LOGISTICS-ORIENTED INDUSTRIAL DRIVING ACTIVITY

CANADA: ECOMMERCE ACTIVITY

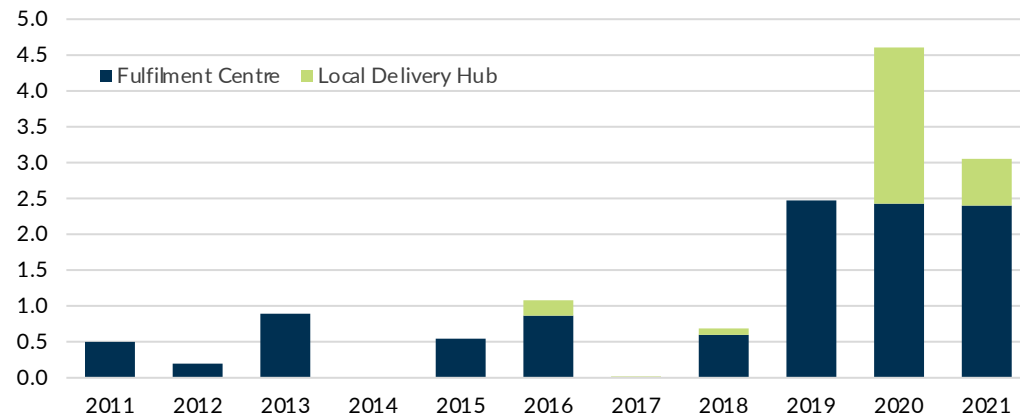
EUROMONITOR FORECAST, JULY 2020



Source: Euromonitor

AMAZON'S CANADIAN LOGISTICS FOOTPRINT

MILLIONS OF SQUARE FEET, YEAR WAREHOUSE OPENED



Source: CoStar, BGO Canada Research

- Another proxy for ecommerce activity is the growth of Amazon's logistics footprint, which increased at a staggering pace in 2020. Its total square footage expanded by 72% to more than 14 million square feet in Canada, comprised of both larger fulfillment centres and smaller local delivery hubs. The latter experienced significant growth with eight new centres in 2020 comprised of two million square feet — nearly a four-fold increase. These warehouses are lower-tech small sortation centres that facilitate last-touch delivery to customers as part of Amazon's Prime program.
- What's also noteworthy is that the size of an average fulfillment centre is getting larger as it has grown from an average of 575,000 square feet prior to 2019 to 800,000 square feet. In addition, the clear heights of these facilities are getting taller, generating more cubic volume and greater throughput.
- For example, Amazon recently announced warehouse in Hamilton is rumored to be five-stories or 70 feet tall with a footprint of one million square feet. Its fulfillment centre under construction just outside of Ottawa is anticipated to be 2.7 million square feet over five stories. Finally, Amazon is rumored to be locating a second fulfillment centre outside of Edmonton that would amass more than a 3 million square feet over multiple levels.
- As the dominant player in ecommerce, Amazon's expansion suggests strong growth in online shopping is likely to persist. In markets tight on supply, Amazon's growth is having a crowding out effect, limiting options for competing tenants and pushing up rents in the process.

CANADA

Perspective on

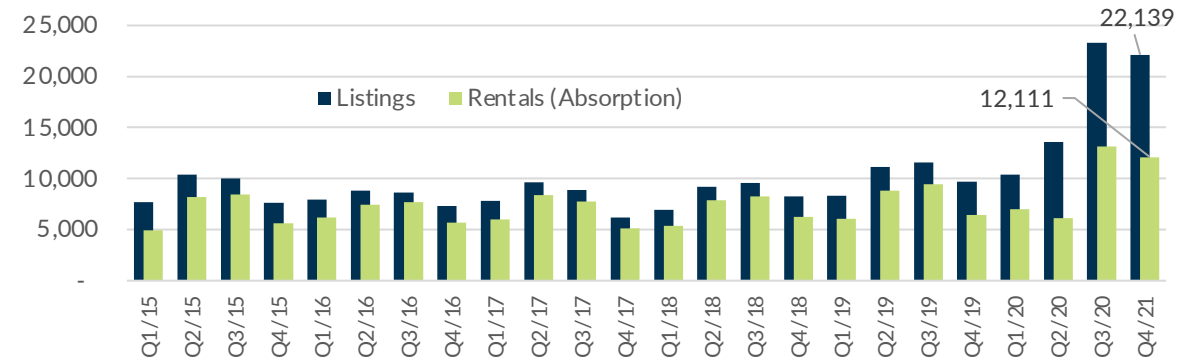
MULTI-FAMILY

“Downtown exodus weighs on near term outlook, but long-term demand drivers remain intact”

URBAN CORE MARKETS SHIFT IN FAVOUR OF TENANTS

- Purpose-built rental (PBR) faces near-term headwinds but should remain resilient like it has in prior economic downturns. Over the long run, we expect the demand drivers that have propelled the sector to remain intact, and challenges to constructing new supply will persist, providing an environment for sustainable rent growth.
- This downturn has led to increased vacancy and softening rents, particularly in urban cores. However, it's not expected to create any significant dislocation or lead to distressed sales within the PBR market.
- We've observed strong rent collections but acknowledge that there has been plenty of government support that may be masking some harsher economic realities that could surface in 2021. As we've noted, we expect more retail and small business closures in the year ahead, which will have knock-on effects for the apartment sector. This will be most prevalent in the urban cores where lockdown restrictions and WFH have had a disproportionate impact.
- Urban cores faced a confluence of negative factors as COVID took hold. Demand was reduced significantly because of lower immigration and fewer student renters, especially international students. Moreover, some young professionals were forced to give up their downtown rentals and returned home to wait out the pandemic. On the supply side, short-term rentals (Airbnb) returned to the long-term market, adding to the near record high new apartment completions.
- We've observed suburban, secondary, and tertiary markets perform better this year than downtown markets. This trend is most acute in the Greater Toronto Area, where condominium rentals (absorption) have not kept pace with a soaring number of listings throughout 2020. This softening in the shadow rental market has had a negative impact on PBR vacancy.
- Not surprising, disparities in rent growth emerged with the suburbs outperforming centrally located core and outer core markets. Demand for residential real estate outside of city centres is also observable in the resale housing market data where sales are up substantially vs. the City of Toronto.

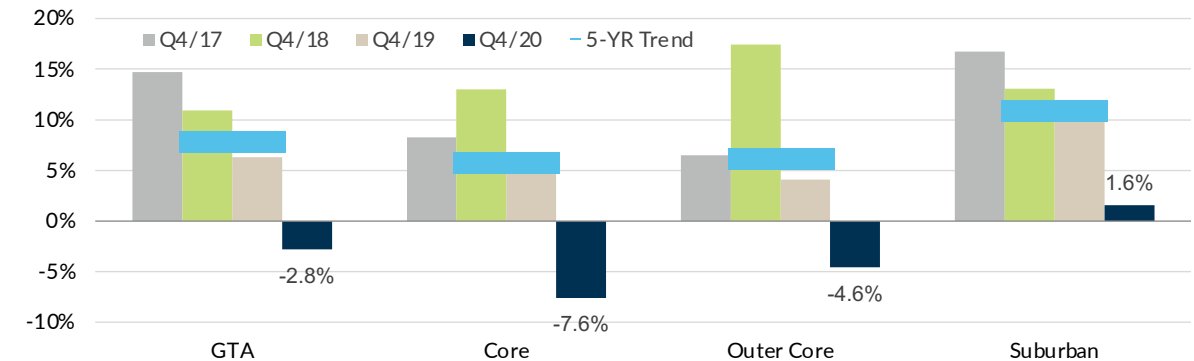
GREATER TORONTO AREA: CONDO RENTALS AND LISTINGS



Source: Urbanatoin

GREATER TORONTO AREA: PURPOSE-BUILT RENT GROWTH PER SQUARE FOOT

Y/Y % CHANGE

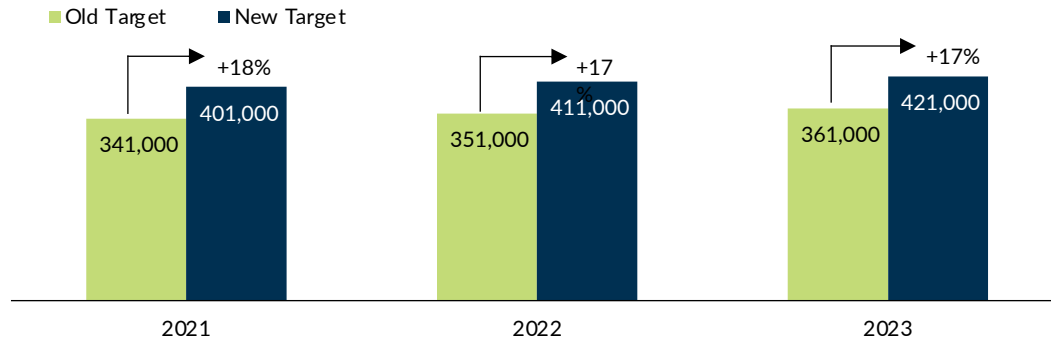


Note: Core = Old Toronto; Outer Core = Etobicoke, North York, East York; Suburban = Halton, Peel, York, Durham

Source: Urbanatoin

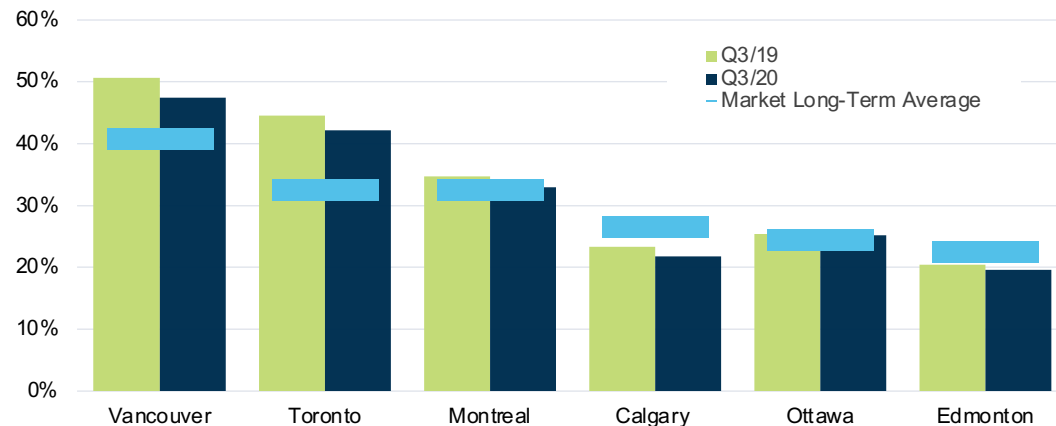
NEAR-TERM HEADWINDS BUT DEMAND DRIVERS REMAIN INTACT

CANADA: IMMIGRATION TARGETS PERSONS



Source: Immigration, Refugees and Citizenship Canada

CONDOMINIUM AFFORDABILITY PERCENTAGE OF MEDIAN HOUSEHOLD INCOME REQUIRED TO SERVICE THE AVERAGE CONDOMINIUM PRICE



Source: RBC Economics

- PBR performance will be heavily determined over the near term by the recovery in the labour market. The big question in the coming months is whether government fiscal support can be withdrawn without creating significant financial hardship for Canadians who have lost employment as a result of the health crisis.
- While the labour market rebounded well from the first wave, some sectors are still facing challenges. Lower-wage and public-facing jobs have been slow to recover and will likely see a second wave of layoffs from the current restrictions. People who are employed in these sectors tend to be renters because of the high cost of living.
- In 2020, there's been no relenting in prices in Canada's two most expensive markets, Toronto and Vancouver, where affordability remains near record levels. Both demand and supply have been rising in tandem over recent months and should continue to drive home prices in 2021. Much like the rental market, the fortunes of the home ownership market will be determined by the strength of the labour market.
- While today's interest rates are historically low, it has recently become more difficult for home buyers to obtain mortgage financing with more stringent loan underwriting criteria. Many

renters who may have been considering a home purchase may delay until their financial situation improves or there is greater economic certainty. To be sure, without a correction in prices, low interest rates alone will not be enough to materially improve affordability, resulting in more demand for rental housing.

- Immigration has slowed considerably with the latest data from Immigration, Refugees and Citizenship Canada, showing a 64% drop at the end of Q2/20 compared to the same period in 2019. Immigrants have a high propensity to rent, particularly international students who have been arriving in Canada in record numbers over recent years. The pace at which post-secondary institutions resume on-campus learning may be a driving factor in the recovery of immigration. Permits for temporary foreign workers in high-skilled occupations are also likely to recover quickly as growth in high-tech industries remains strong with a high demand for talent.
- The federal government recently increased its immigration targets over the next three years. Once mobility restrictions are lifted, we fully expect that immigration will return to its pre-COVID trend over the longer term.

QUICKTAKE: 2021 SECTOR OUTLOOKS

CANADA

| | Operating Fundamentals | Investor Sentiment | Overall Outlook | In Short |
|--------------|------------------------|--------------------|-----------------|---|
| Office | Mixed | Mixed | Mixed | Rising sublet vacancy, new supply, and evolving workplace strategies cloud the outlook. Downtown disproportionately impacted to-date. |
| Retail | Negative | Mixed | Mixed | No liquidity for enclosed malls but bid for "essentials" remains active. |
| Industrial | Positive | Positive | Positive | Dearth of industrial product to satiate strong demand from tenants and investors will continue to buoy the sector. |
| Multi-Family | Mixed | Positive | Positive | Long-term demand drivers remain intact despite short-term headwinds. Attractive financing offers compelling risk/return profile. |

Outlook Key



UNITED STATES

| | Operating Fundamentals | Investor Sentiment | Overall Outlook | In Short |
|--------------|------------------------|--------------------|-----------------|---|
| Office | Negative | Mixed | Mixed | Fundamentals have softened from their strong position in 2019. Evolving workplace strategies create uncertainty. |
| Retail | Negative | Negative | Negative | Continued bifurcation of the sector with "necessity-based" retail holding up well. Many centres require repositioning. |
| Industrial | Positive | Positive | Positive | Dramatic shift to ecommerce propelling exceptional demand. Fundamentals holding steady despite new supply. |
| Multi-Family | Mixed | Positive | Mixed | Urban challenges will ease later in 2021 after vaccination. Attractive financing offers compelling risk-adjusted returns. |

Source: BGO Research



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