CANADA

Perspective

MID-YEAR 2020 UPDATE

COVID-19

Cautious optimism on virus containment, rehiring, and successful reopening of economies.

ECONOMY

Uneven and gradual recovery is expected to erode real estate operating income to varying degrees across property types.

SPACE MARKETS

Healthy property fundamentals, strong investor demand, and low interest rates should provide resiliency through the downturn.

BentallGreenOak

CONTENTS

The path to a "new normal"

We are living in unprecedented times, marred by escalating economic, political and social tensions that have been accelerated by the COVID-19 pandemic. As we try to make sense of how the recovery might unfold, we begin by revisiting the themes laid out at the start of the year in Perspective 2020. Many of the themes remain front and centre and in most cases have been amplified. What follows is a chartbook highlighting the underlying trends that will shape the economic outlook and its impact on the commercial real estate market.

PERSPECTIVE 2020 THEMES UPDATE

COVID-19 has amplified many existing trends

Counteracting the slowdown AMPLIFIED

ONUS ON FISCAL POLICY TO DRIVE GROWTH

Canada is well positioned from a fiscal standpoint to stimulate growth compared to its G7 peers. The Canadian federal government's fiscal response to the crisis has been swift and unprecedented with measures amounting to more than C$300 billion or 14% of GDP. But how much more will be needed to bridge the gap to the other side of the crisis?

Focusing on long-term trends amid uncertainty

IMPLICATIONS OF AGING DEMOGRAPHICS

Older demographics have been the most vulnerable to the virus as more than 80% of the COVID-19 (COVID) deaths in Canada are people older than 70 years of age, with many in long-term care facilities. Efforts to improve the health span of older populations will have transformative implications for real estate as a result of COVID-19.

Technology permeating all aspects of real estate AMPLIFIED

PROPTECH FINDING PRODUCT/MARKET FIT

The largest work from home (WFH) experiment in history has accelerated the adoption of new technologies in order to remain productive. In executing a planned return to the office, there are many technologies that will need to be integrated into office buildings to mitigate against current and future health risks.

Increasing portfolio resilience AMPLIFIED

SUSTAINABLE INVESTING HELPS DRIVE PERFORMANCE

When it comes to health, safety and wellness of employees this pandemic has raised the minimum acceptable standard for occupiers of commercial real estate. Investors and their managers who have already made sustainability a priority will reap further benefits as a result of this health crisis.

Portfolio considerations in a low yield environment

REAL ESTATE'S PORTFOLIO ENHANCING ATTRIBUTES

Commercial Real Estate (CRE) has an uphill battle in the near term as the crisis has hit the "main street" economy hard. Forced business closures will challenge real estate's typically stable cash flow producing characteristics in the short run. However, over the long run, low interest rates and investors' search for yield will continue to benefit the asset class.

PERSPECTIVE 2020 THEMES UPDATE

COVID-19 has amplified many existing trends

The housing affordability crisis

MORE RENTALS PART OF THE SOLUTION

Becoming a homeowner has become more challenging as CMHC has strengthened its mortgage insurance underwriting criteria by 1) reducing maximum debt-service ratios; 2) increasing the minimum qualifying credit score; and 3) eliminating the ability to use borrowed down payments. These changes could hurt both first-time and move-up buyers which will be positive for purpose-built rental demand. However, higher unemployment will be a headwind for both rental and homeownership markets.

Rising development costs

RESTRAINING NEW SUPPLY

Inflationary pressures have subsided due to the economic fallout but the outlook over the longer term is more uncertain. Virus mitigation measures employed on construction sites are creating productivity challenges leading to higher costs. Developers will face an increased backlog in obtaining building permits and entitlements. While raw materials prices have fallen, supply chain disruptions could raise prices on intermediate and finished construction goods. Meanwhile, resulting layoffs in the construction sector have created slack in labour supply, but the structural challenges of an aging workforce remain and could now be exacerbated by early retirements.

Opportunities in emerging talent centres AMPLIFIED

BEYOND TORONTO AND INTO THE GREATER GOLDEN HORSESHOE

The future of urbanization is being heavily debated as a result of COVID's attack on dense metropolitan areas. We are certainly not in the camp that is calling for the death of cities, but we do expect to see a continued trend of outward migration as household preferences shift towards more living space and flexible work arrangements. Suburban areas and secondary markets may benefit as a result. Lower immigration for the foreseeable future will also be a drag on population growth in urban centres as it had previously more than offset outward migration.

Future of workplace-as-a-service AMPLIFIED

FLEX OFFICE PAUSES AFTER THE FAILED WEWORK IPO

Occupiers are now beginning to focus on "return to office" strategies and are re-evaluating their space requirements in both a COVID and post-COVID world. Flex office/coworking operators will struggle through COVID, but as companies re-imagine how the workplace is defined, flex office will play a critical role in the recovery phase. Flexibility and optionality will be even more important for firms moving forward.

Extended runway for industrial AMPLIFIED

SUPPLY CONSTRAINTS TRUMP ANY PULLBACK IN DEMAND

Industrial real estate fundamentals were exceptionally strong prior to COVID with historically low availability and soaring rents. Industrial won't be immune from a downturn, but demand for logistics and warehousing space should remains strong to support the growth in ecommerce that has accelerate during COVID.

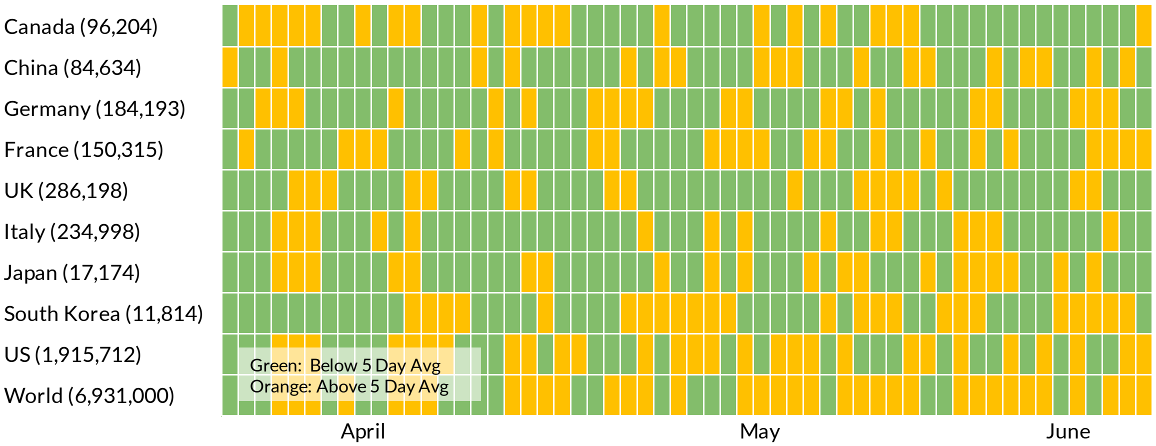
AMPLIFIED

> ***"As companies re-imagine how the workplace is defined, flex office will play a critical role in the recovery phase."***

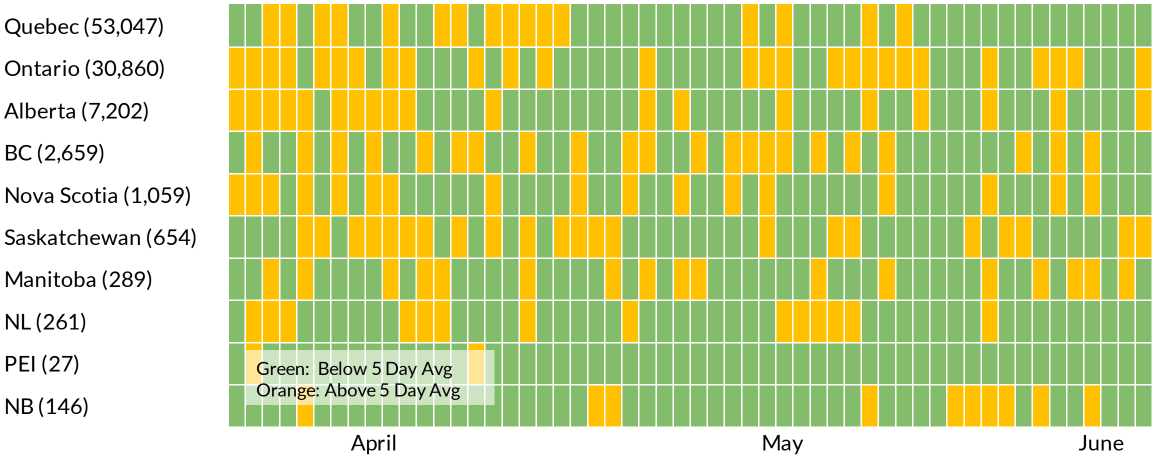
COVID-19

"The hammer" gives way to "the dance"

Daily New Cases by Country
From April 14th to June 8th



Daily New Cases by Province
From April 14th to June 8th



Regions at different stages of containment

- While progress has been made in "flattening the curve," definitive signs that the COVID-19 pandemic has been fully contained remain elusive and vary across countries. As of June 6th, the rate of daily new cases globally appears to be gaining momentum. After success in containing the initial wave, Japan and South Korea have experienced a rise in newly reported cases in recent weeks. It is uncertain whether this is suggesting a second wave of the pandemic.

- Canada is trending in the right direction, but the downward trend of daily new cases has been inconsistent across the major provinces. Approximately 86% of cases are in Quebec and Ontario with a large proportion of fatalities among a 70+ age cohort. Quebec is seeing noticeable signs of improvement while, the results are still mixed for Ontario.

- The US leads the world with approximately 1.9 million cases as of June 6th. With widespread mass demonstrations currently taking place across major US cities, it remains to be seen whether this will result in an acceleration of new cases over the coming weeks.

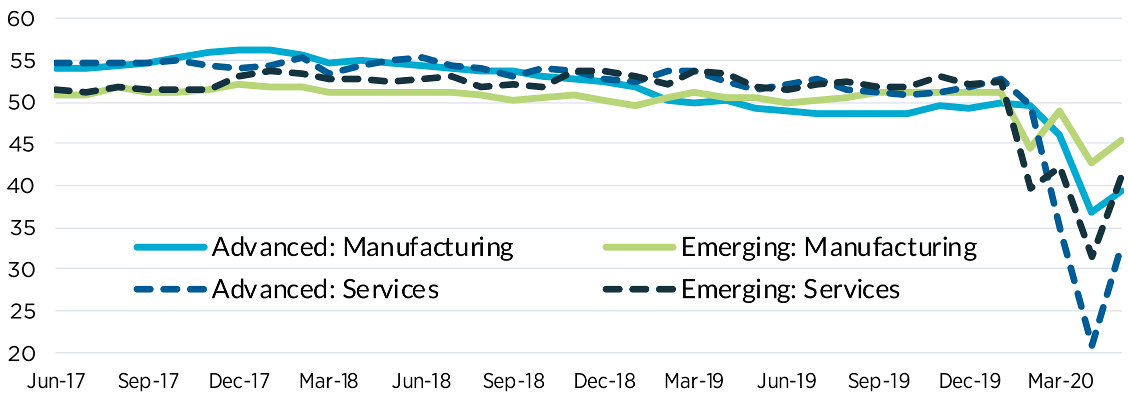
Source: BGO Canada Research, Macrobond, World Health Organization

GLOBAL ECONOMY

Synchronized shock around the world

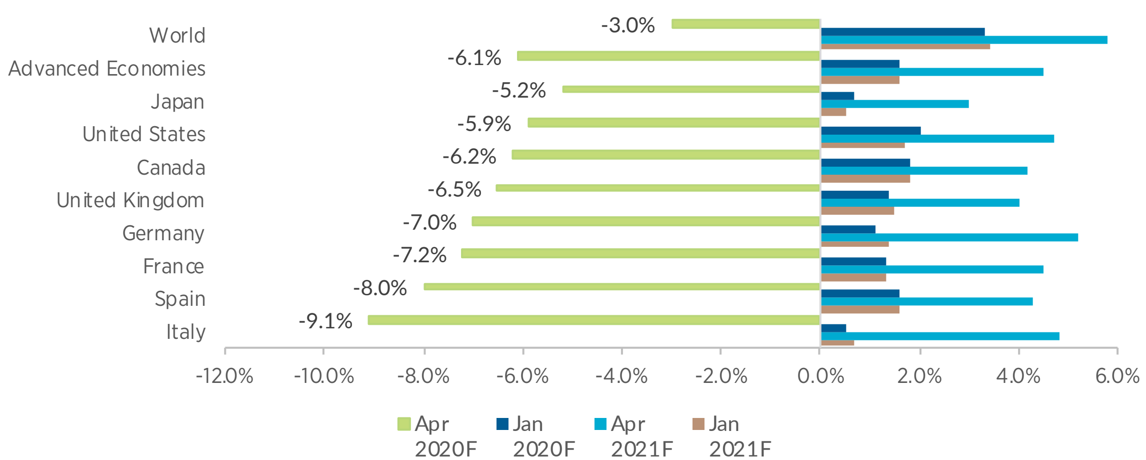
Purchasing Managers' Index (PMI)

+50 = Expansion, As Of May



Global GDP Forecast

Annual % Change



Global leading indicators plummet

- With a simultaneous demand and supply shock from widespread lockdowns, the global economy has taken a severe hit. Purchasing Managers' Indices (PMIs) have plummeted, especially for services, as ongoing social distancing weighs on retail-oriented businesses. Encouragingly, the manufacturing and services outlooks are showing signs of bottoming out across advanced and emerging economies.

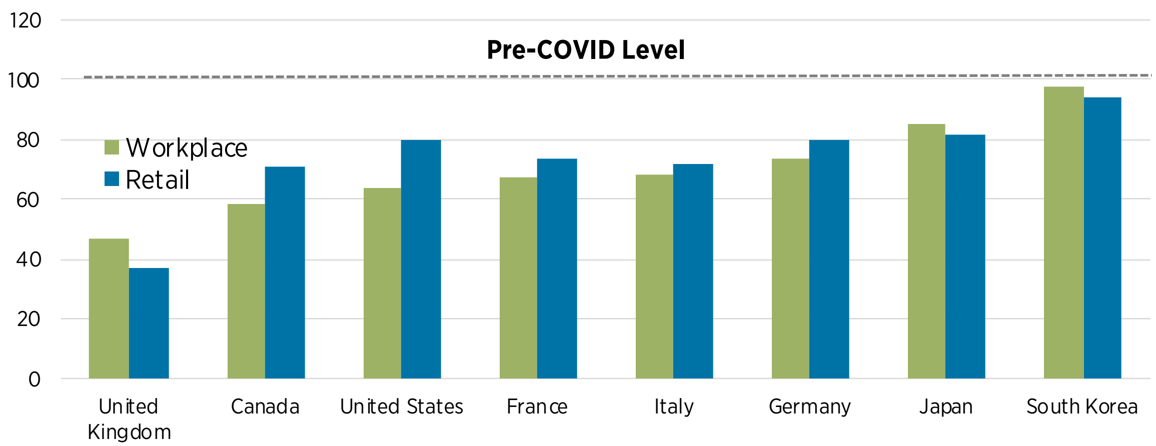
- Real GDP forecasts across advanced economies have been significantly downgraded. As the world slowly emerges from the lockdown, the recovery is further clouded by escalating U.S.-China tension along with social unrest in the U.S. and Hong Kong. Unprecedented levels of monetary and fiscal stimulus are providing much needed support in the near term. Most baseline forecasts assume there is no second wave of the virus and that a vaccine is developed in early 2021. On the vaccine front there has been positive progress with several candidates looking to complete the final phase of clinical trials by late summer.

Source: IHS Markit, International Monetary Fund

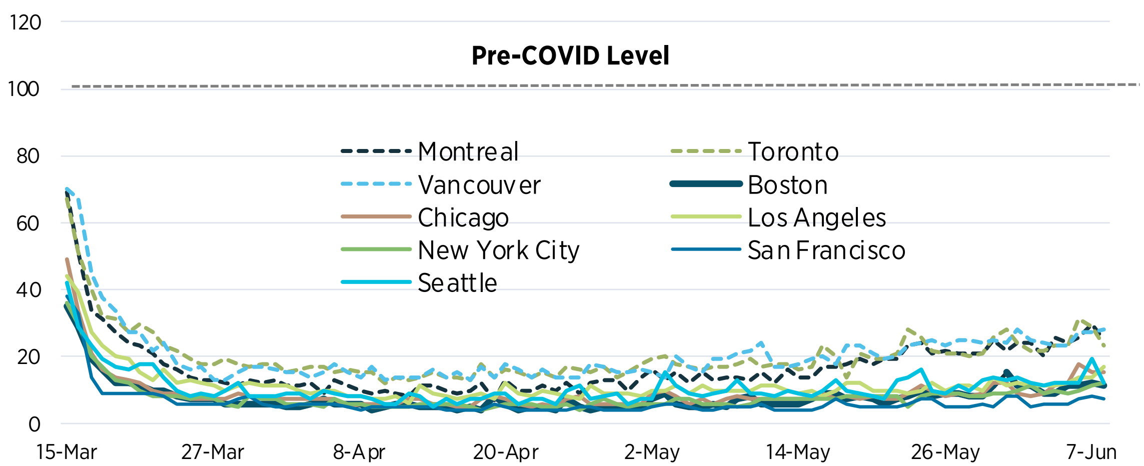
GLOBAL ECONOMY

Monitoring the reopening of economies

Country Mobility
By Trips And Length Of Stay Indexed To Pre-COVID Levels, As Of June 8th



Urban Mobility
Planned Trips Via Public Transit Indexed To Pre-COIVD Levels As Of June 8th



Mobility increasing, but cautiousness remains

- The path to a "new normal" is not only dependent on policy measures but also on the perceived health risk. Despite the easing of lockdowns, real time mobility metrics reflect a sense of cautiousness among the broader population base. In the absence of a vaccine mobility should improve gradually, however, it could also see an uptick in the near term as demonstrations continue to take place across major cities around the world.

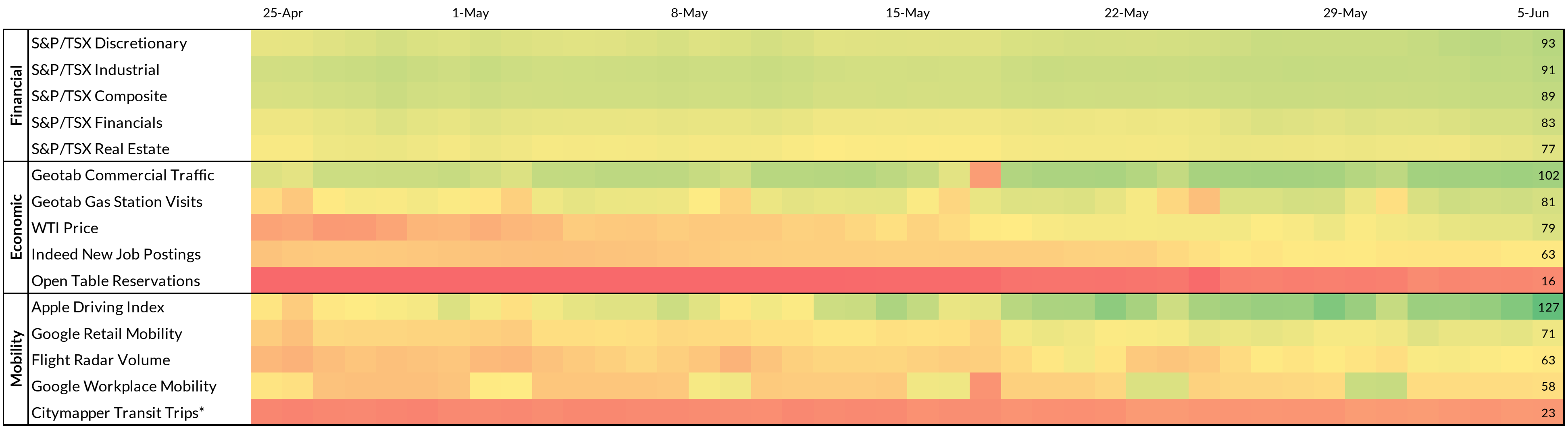
- Except for South Korea, mobility around retail and workplace locations is still noticeably below pre-COVID levels across advanced economies. Workplace mobility will also vary across sectors. The goods-producing sectors will likely see mobility recover quicker as factories begin to reopen. Meanwhile, professional services could see a prolonged period of working from home and see less activity around office premises. Urban mobility, as measured use of public transit, is also well below the norm across many North American cities. However, Montreal, Toronto and Vancouver are beginning to see a rise in public transit ridership as their economies reopen.

Source: Geotab

CANADIAN ECONOMY

Canadian economic recovery dashboard

High-frequency HEAT MAP



Note: Shading indexed to pre-COVID-19 levels (Feb 2020) of 100; Heat map = red below and green above 100; Current level in right-most column; *Toronto, Montreal and Vancouver

High-frequency data moving in the right direction

- High-frequency data is trending in the right direction but is reflecting a sense of cautiousness. Real-time economic indicators such as commercial traffic and gas station visits are picking up, which is a very positive sign that business activity is resuming. In contrast, the pace of new job listings on Indeed continues to tread water, while restaurant reservation activity on Open Table is non-existent. Additional measures of mobility remain below pre-COVID levels except for driving activity.

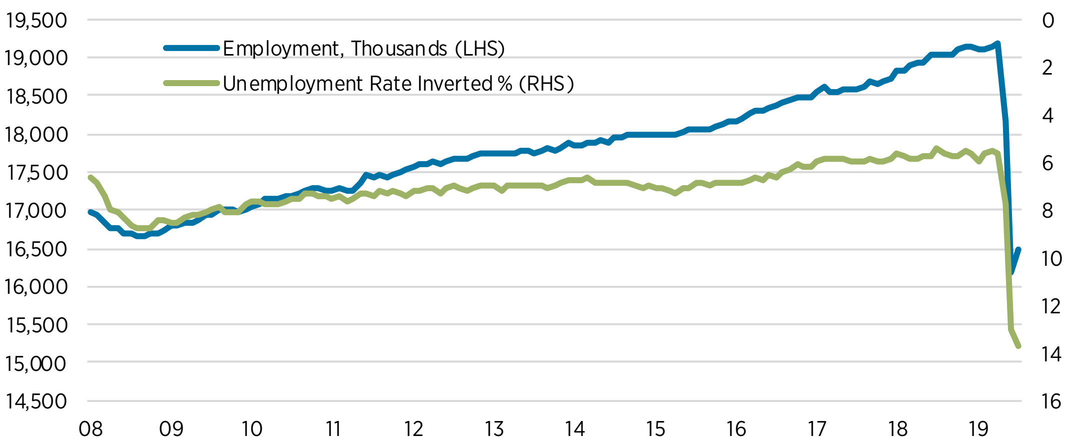
Despite mixed results in economic and mobility indicators, financial markets clearly suggest that the "the worst is behind us" and that a recovery is underway. However, volatility remains elevated, and performance has been uneven across sectors, led primarily by technology and telecom. We remain skeptical that equity markets have appropriately priced-in the economic fallout from the pandemic.

Source: BGO Canada Research, Google, Apple, Geotab, Macrobond, OpenTable, Indeed, Citymapper

CANADIAN ECONOMY

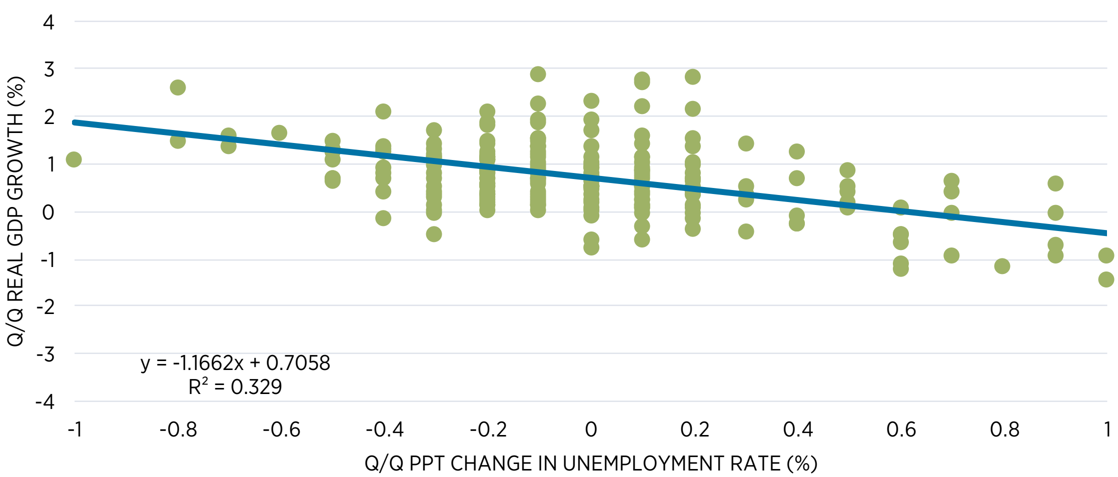
Unemployment reaches historic levels

Labour Market



Real GDP Vs Unemployment Rate

Relationship Between Real GDP Growth And Unemployment Rate, 1966 Q2 - 2020 Q1



How many layoffs will prove to be temporary?

- The labour market has lost approximately 2.6 million jobs since February, pushing the unemployment rate to an all-time high of 13.7%. This understates the full impact on the labour market as Statistics Canada estimates that one third of the labour market is either out of work or working less than 50% of their regular hours. May's jobs figures were encouraging with a net gain of almost 300,000 jobs. This suggests that many are being hired back as a result of the economy reopening and/or government programs working effectively to preserve payrolls.

- On average, a 1.0% increase in the unemployment rate reduces real GDP growth by roughly 1.2%. With the unemployment rate at 7.8% at the end of March and expected to rise to 20% by June in a conservative downside scenario, the implied loss of real GDP for 2020 Q2 could exceed14%.

- The shape of the recovery will depend on how swiftly the economy reopens, workers are rehired, and demand rebounds. We are mindful that massive government stimulus may be distorting the underlying economic reality. Will sustainable demand return by the time government programs expire in the fall? Will there be an enduring shock to consumer and business confidence?

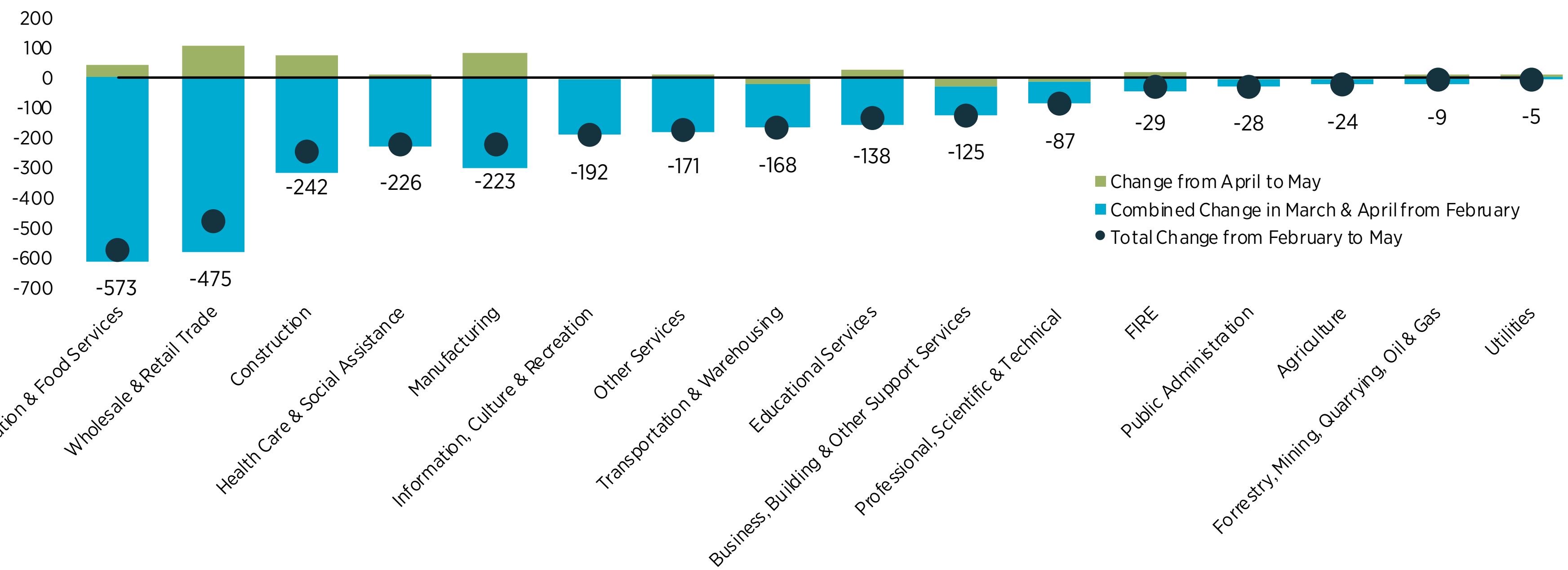
Source: BGO Canada Research, Macrobond, Statistics Canada

CANADIAN ECONOMY

Service-oriented sectors hit hardest

Job Loss By Sectors

Employment Change From February 2020 To May 2020, Thousands



Disproportionate impact on most vulnerable

Compared to prior employment downturns, the COVID-19 lockdown has disproportionately impacted people-facing industries. Unfortunately, these tend to be lower-paying jobs in sectors such as accommodation/food services and wholesale/retail trade. These sectors, especially accommodation/food services, face an additional challenge of reduced service capacity due to ongoing physical distancing requirements during the recovery phase.

First signs of recovery

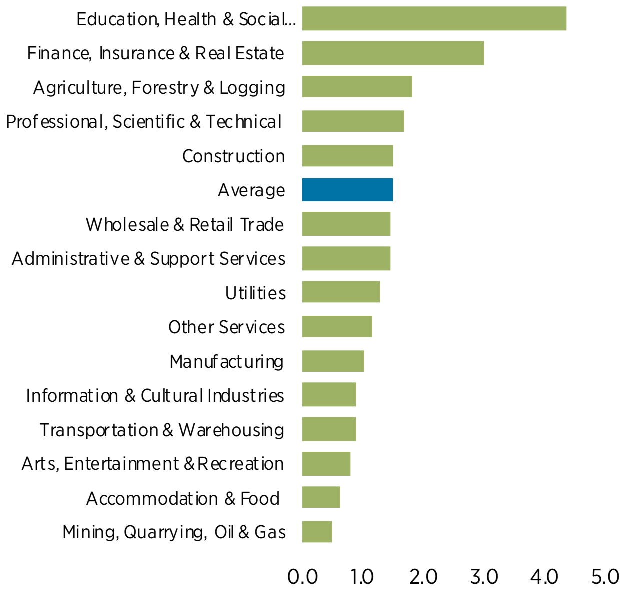
Office-using sectors such as finance, insurance, and real estate (FIRE) and professional/ scientific/technical have held up much better to date, but there is risk to these jobs the longer the economy takes to restart. Meanwhile, industrial oriented sectors such as construction and manufacturing experienced sizable job losses in March and April but experienced a mild recovery in June as plants reopened and development projects ramped up again.

Source: BGO Canada Research, Macrobond, Statistics Canada

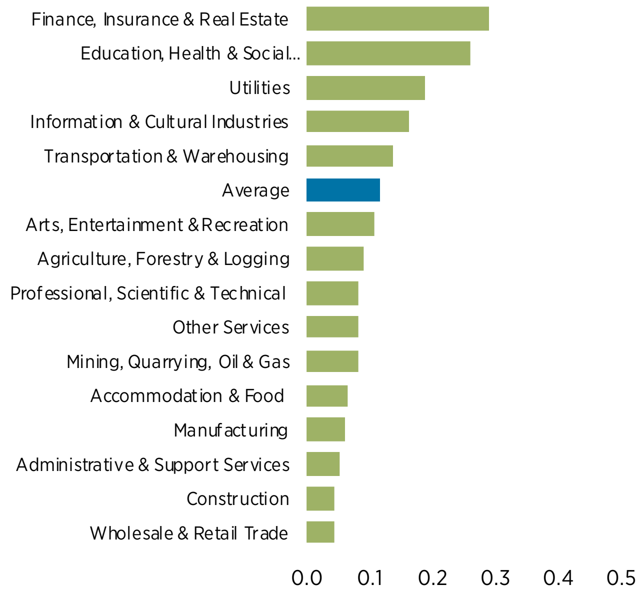
CANADIAN ECONOMY

Second wave impacts

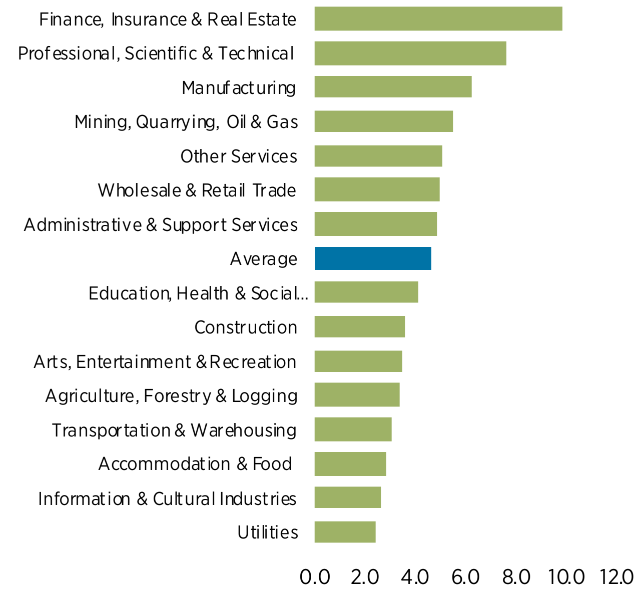
Liquidity
Current Assets To Current Liabilities As Of 2019 Q4



Profitability
Operating Profit To Revenue As Of 2019 Q4



Solvency
Asset To Debt As Of 2019 Q4



Office-using employment is more resilient

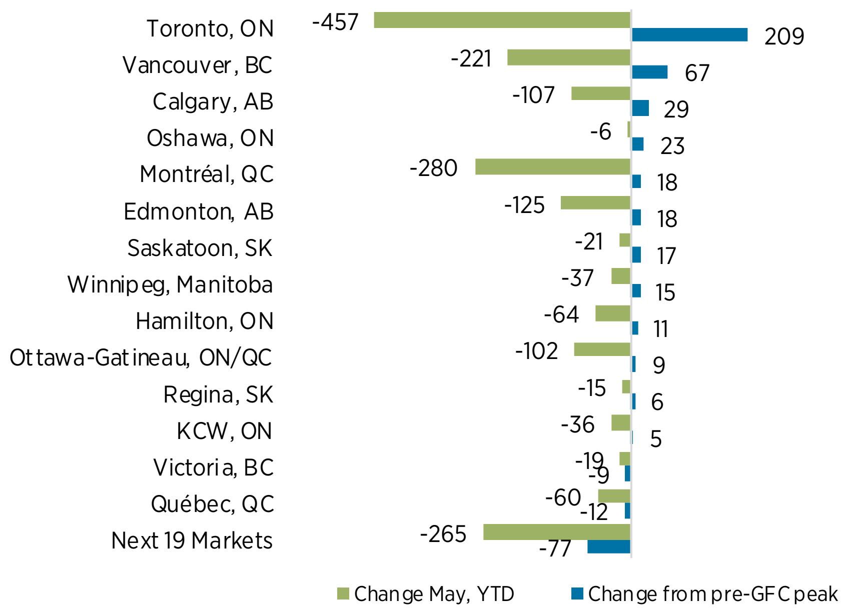
- The longer the downturn, the greater risk of a second wave of job losses that could spread to other sectors, including white collar professions. The extent of job losses will depend primarily on an individual firm's financial health, but we can look to aggregate sector financial positions to understand where stress is more likely to materialize.
- From a liquidity, solvency and profitability standpoint, office-using sectors such as FIRE and professional/scientific/technical services are better positioned to withstand the current shock. These sectors are also more responsive to work from home arrangements and face fewer operational disruptions.
- The accommodation/food services sector is highly leveraged and tends to operate with slim working capital and profit margins, while wholesale/retail trade is much more liquid and solvent. Meanwhile, the financial position for industrial-oriented sectors is rather mixed.
- There have been a few notable retail bankruptcies in Canada to date, including retailers Reitmans and Sail Outdoors and we expect more insolvency issues across both small business and larger enterprises.

Source: BGO Canada Research, Macrobond, Statistics Canada

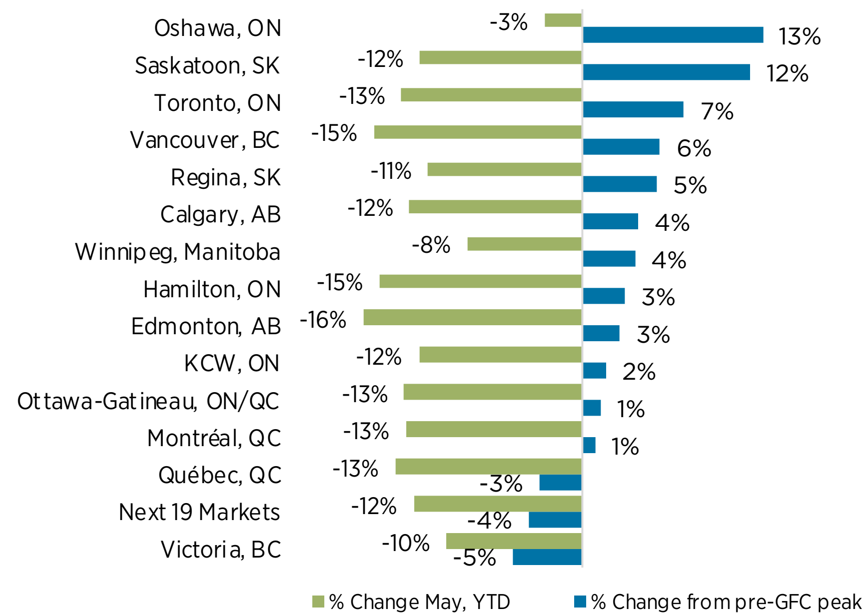
CANADIAN ECONOMY

MTV economies hit hardest

Metro Employment
Thousands, May 2020



Metro Employment
May 2020



- The impact of the job losses varies across metros, with larger cities such as Montreal, Toronto and Vancouver (MTV) among the hardest hit. Together MTV have lost more than 900,000 jobs combined this year, representing over 50% of the national total. These metros saw the their labour forces shrink by 13-15% and have nearly given back all the jobs that had been gained since the Global Financial Crisis (GFC) within span of five months. Energy dependent economies in Alberta also experienced significant job loss as they have been ravaged not only by COVID-19 but a plunge in oil prices.

- As the main economic and corporate hubs in Canada, MTV are well positioned to bounce back, especially if tourism and consumer demand recover quicker than anticipated. However, given their density, these metros are particularly vulnerable to a second wave and a more prolonged economic downturn.

- Montreal and Toronto are COVID-19 hot spots and the “interconnectedness” across their metropolitan areas along with a greater propensity for global travel are vulnerabilities. These risks are exacerbated by recent mass gatherings and demonstrations.

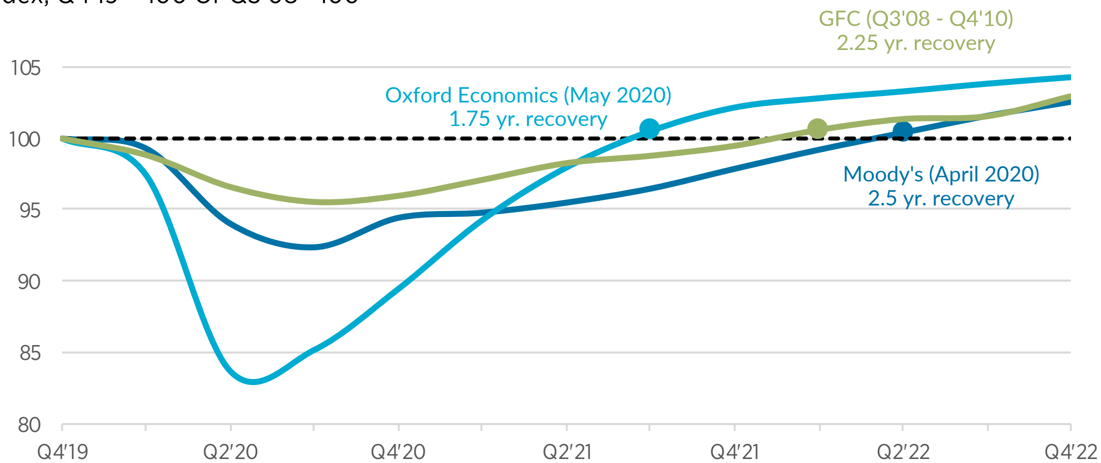
- The MTV economies are also dependent on trade and more exposed global economic conditions. Any material disruptions in the supply chains of intermediary goods will negatively impact the manufacturing sector in Montreal and Toronto. Meanwhile, weak global demand for commodities will weigh on Vancouver’s resources sectors. On the upside, these markets continue to be premier destinations for the tech sector, and this will be a key driver of economic growth over the longer term.

Source: BGO Canada Research, Macrobond, Statistics Canada

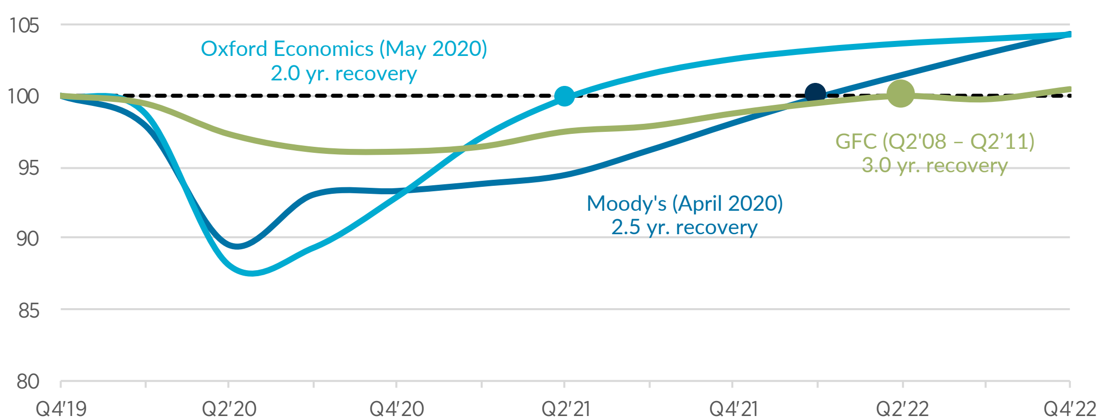
CANADIAN ECONOMY

Uneven and prolonged recovery

Canadian Real GDP
Index, Q4'19 = 100 Or Q3'08 =100



U.S. Real GDP
Index, Q4'19 = 100 Or Q2'08 =100



Capacity challenges

- With plenty of uncertainty regarding the state of the pandemic, there is little consensus on the economic outlook for Canada and the U.S. However, it is becoming clear that it will not be a "V-shaped" recovery, as it is more likely to be uneven and prolonged. Household consumption drives each of these economies and will play an important role in the recovery phase. While many facets of the economy will experience a swift bounce, absent a vaccine, many service-oriented sectors are likely to face both capacity and demand challenges.

Debt will weigh on consumer confidence

- Elevated household debt in Canada will weigh on consumer spending, particularly for discretionary items. The Canadian economy is also more dependent on trade, especially with the U.S. with respect to commodity and manufacturing exports. This poses additional challenges if U.S. and global demand remains weak.

Source: BGO Canada Research, Moody's, Oxford Economics, Macrobond, Statistics Canada

REAL ESTATE SPACE MARKETS

Entered the crisis from a position of strength

	Vacancy					Under Construction (% of Inventory)	
	'00-'20 Avg	07Q4	19Q1	19Q4	20Q1	07Q4	20Q1
Multi-Residential[1]	2.6%	2.4%	2.4%	2.2%	2.2%	1.0%	3.5%
Office[2]	10.3%	6.7%	11.3%	10.8%	10.2%	4.0%	4.0%
Office Excluding Alberta	9.8%	7.3%	8.0%	7.2%	6.6%	2.1%	5.1%
Retail[3]	5.2%	3.3%	9.9%	9.1%	9.1%	n/a	n/a
Industrial[4]	5.2%	5.7%	3.0%	3.0%	3.1%	1.1%	1.3%

[1]Two Bedroom units; No update for 20Q1

[2]Six major markets (VAN, EDM, CAL, TOR, OTT, MON)

[3]No update for 20Q1

[4]Availability rate

- Except for retail properties, the Canadian commercial real estate market was on firm footing heading into the lockdown. Driven by an insatiable appetite for logistics and warehousing space, the industrial market was setting historical benchmarks in availability, rental rates and new construction. The downtown office market was experiencing robust demand from a thriving tech sector while leasing activity in transit-oriented suburban markets was strong. The strength of the labour market, eroding home ownership affordability, and robust immigration were key drivers of multi-residential demand. Retail was already undergoing a significant transformation which will only be accelerated by COVID. While the death of retail is greatly exaggerated, ongoing challenges will continue to reprice the sector.

- The extent of the impact on these demand drivers is just beginning to unfold, but a fundamentally sound commercial real estate market is well positioned to withstand the economic shock without any major dislocation. Growth drivers are most evident in large corporate and population centres such as Vancouver, Toronto and Montreal. Given their economic and social diversity, these major Canadian markets should lead the recovery and continue to thrive over the long term.

- To date, rent collection has surprised to the upside with most of the stress occurring in retail, particularly enclosed shopping malls. This suggests that government support programs are working and that perhaps businesses were more resilient than business sentiment surveys indicated.

Source: BGO Canada Research, CBRE Econometric Advisors, MSCI REALPAC Canada Property Index, CMHC

REAL ESTATE SPACE MARKETS

Quick take: Canadian sector outlook

MULTIFAMILY

RENT COLLECTION:

95%

SHORT TERM MODERATE RISK

LONG TERM LOW RISK

- Housing demand is relatively inelastic; reduced population mobility slows turnover
- Temporary halt to immigration and potential disruption to 2020-21 school yr. present risks
- Tenants may seek lower cost housing in less dense locations over the medium term

INDUSTRIAL

RENT COLLECTION:

88%

SHORT TERM MODERATE RISK

LONG TERM LOW RISK

- Shift to ecommerce has been accelerated, particularly in the packaged foods/grocery space
- Potential move towards higher inventory levels for greater supply chain flexibility, which could include re-shoring
- Extremely tight fundamentals position the sector to weather the downturn

OFFICE

RENT COLLECTION:

92%

SHORT TERM MODERATE RISK

LONG TERM MODERATE RISK

- White collar economy relatively less impacted by the virus to date, but will not be spared from a cyclical downturn
- Conflicting impacts from increased remote work and increased workplace distancing
- Long-term implications from remote work unclear but risk to the downside

RETAIL

RENT COLLECTION:

60%

SHORT TERM HIGH RISK

LONG TERM HIGH RISK

- Necessity-based retail a clear winner as restaurant sales shift back to grocery
- Current conditions are accelerating the demise of already struggling retailers
- Greater shift to online purchasing but stores playing a key role in fulfillment

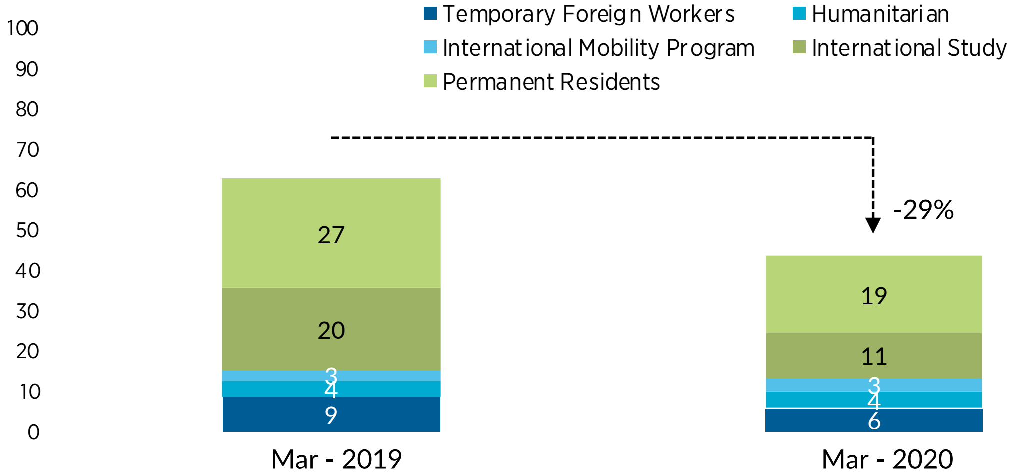
Note: Rent Collection figures are BGO estimates based on third-party survey date and experience with managed portfolios. Information presented that is not historical fact is based on current expectations, estimates, projections, opinions and beliefs and are subject to change. These figures are intended to reflect the overall institutional real estate market consisting of core/core + asset and are presented for informational purposes only.

Source: BGO Canada Research

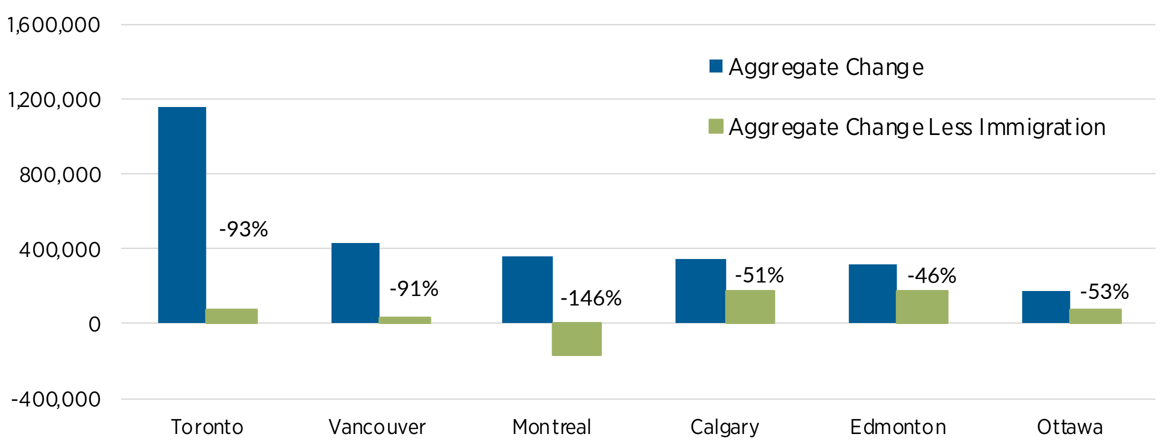
MULTI-RESIDENTIAL

Weaker immigration to slow rental apartment demand

Canada Immigration
Thousand Permits



10 Year Population Change
Persons, From 2009 To 2019



Unlikely to have a lasting impact

- As expected, immigration is slowing and will remain slow in the short run as Canada continues to fight the pandemic. Over the past decade, immigration has been the primary driver of population growth. Any sustained deviation from pre-COVID levels will have a materially negative impact on growth, particularly for Toronto, Vancouver and Montreal.
- Compared to last year, the number of immigration permits issued in March 2020 has fallen by nearly 30%. We expect permit levels to remain suppressed for the balance of the year and they could remain so over the medium term as the federal government risks losing the social license on immigration, especially if unemployment remains elevated.

However, over the longer term, the following drivers should persist:

1. Canada remains an attractive destination due to its political stability and high quality of life.
2. Dependence on immigration to alleviate the skilled labour shortage from an aging population.
3. Strong tech sector demand for skilled labour as it continues to build critical mass in the major markets.
4. International students will continue to be attracted to Canadian institutions for the quality of education and the employment opportunities upon graduation.

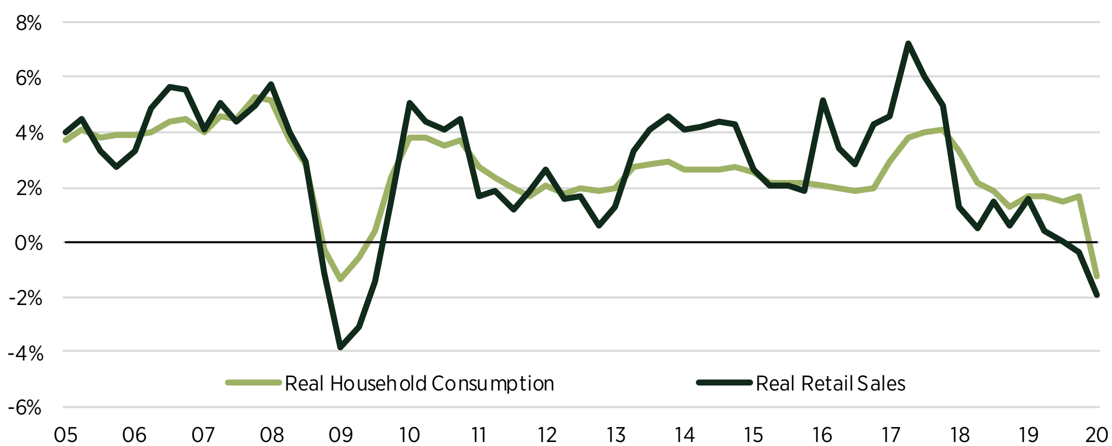
- On balance, we don't expect a net negative impact on immigration over the long run. Large and diverse metro areas such as Vancouver, Toronto and Montreal should continue to be the preferred destinations for international migrants.

Source: BGO Canada Research, Immigration Refugee Citizenship Canada, Statistics Canada

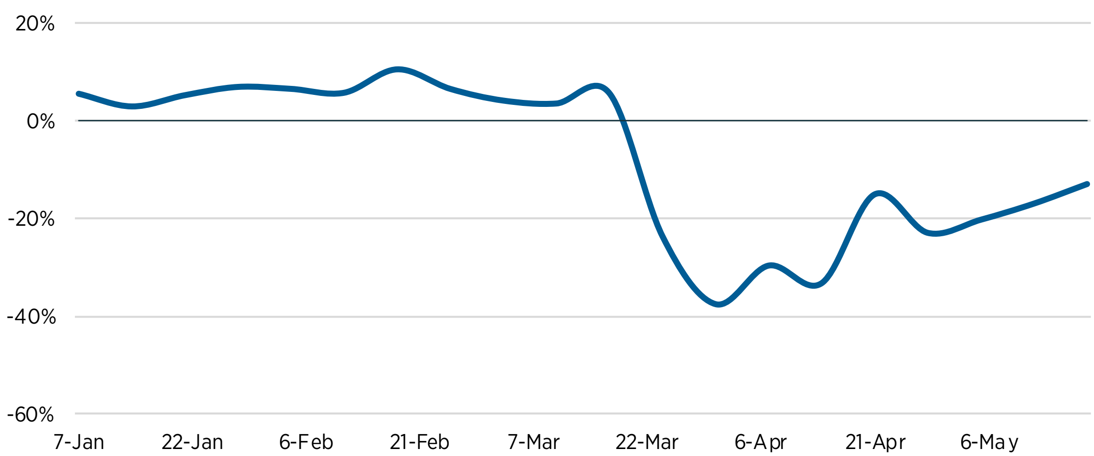
RETAIL

Headwinds mount, but early signs of recovery

Canadian Consumer Spending Pre-covid-19
% Change Y/Y



Canadian Consumer Spending During Covid-19
Y/Y % Change In Debit & Credit Card Spending



Cyclical slowdown adds to secular challenges

- Real household consumption and retail sales had already begun to contract prior to COVID-19. Slower consumer and mortgage credit growth was a contributing factor, but it was also a signal that households were making improvements in their balance sheets. This cyclical slowdown merely adds to the secular challenges plaguing the sector, namely rising ecommerce sales and shifting consumer preferences from goods to experiences. With household consumption comprising roughly 60% of Canadian GDP, the economic recovery will depend largely on how well the consumer bounces back.

Inevitable bankruptcies pulled forward

- The forced shutdown of non-essential bricks-and-mortar retailers due to COVID-19 will likely end up pulling forward many retail bankruptcies that would otherwise have taken years to unfold. In contrast, essential retailers in grocery and pharmacy continue to experience strong sales. Growth in ecommerce during the pandemic has surged, but how much of this increased demand will be sustained once economies reopen?

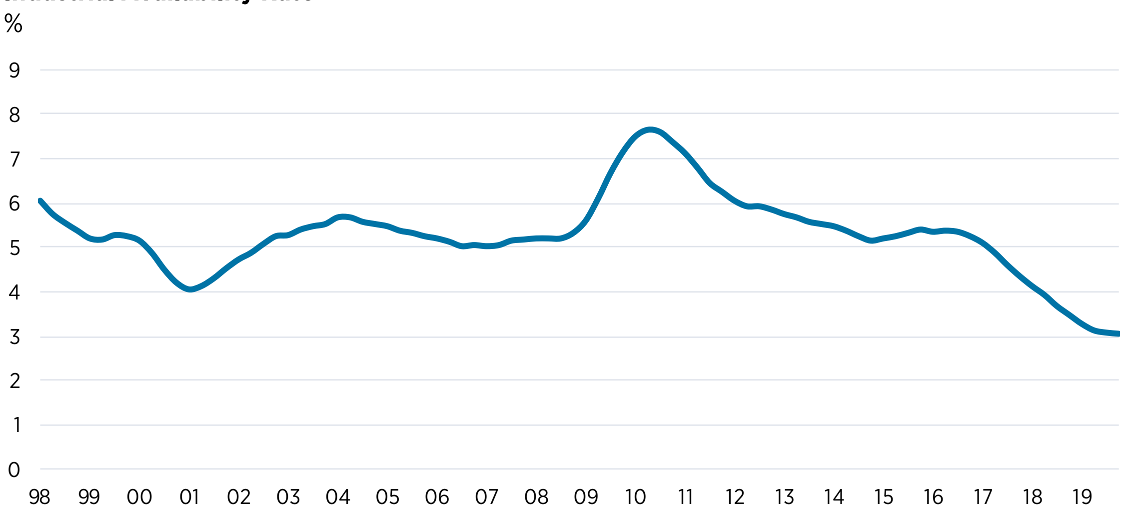
- The decline in consumer spending in March and April has been unparalleled as credit and debit card transaction data from RBC indicates. However, these data suggest that spending declines have bottomed out and a recovery is underway

Source: BGO Canada Research, Macrobond, Statistics Canada, RBC

INDUSTRIAL

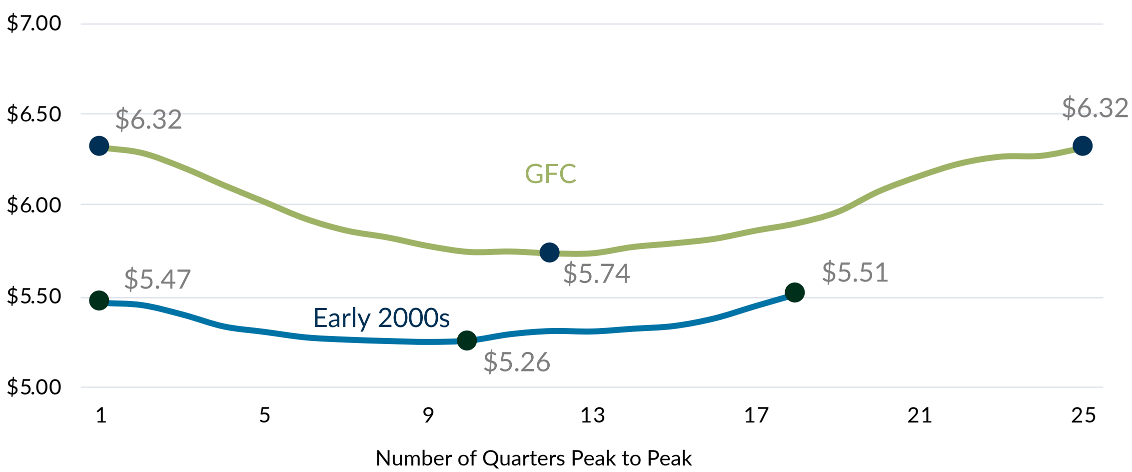
Strong fundamentals provide a cushion

Industrial Availability Rate



Industrial Net Rent

$/sf, 4-quarter MA, Peak To Peak



But industrial isn't immune from a downturn

- Low availability and strong rent growth across the country positions the industrial market well to "weather the storm". As of 2020 Q1, industrial availability was an historically low 3.1%. Net asking rents increased by 12% year over year to nearly $9.00 per square foot. Despite tight market conditions we expect weaker demand to slow the pace of rent growth, particularly for small bay product where tenants tend to be small businesses and/or have a quasi-retail component.

- A lookback at availability rates and rent growth in prior downturns reinforces a likely pullback in demand. However, lower starting availability and massive growth in ecommerce during the pandemic suggests that demand for logistics and warehousing from both pure-play and brick-and-mortar retailers will remain strong. This will help mitigate any short-term deterioration in fundamentals.

- Longer term, deglobalization and the diversification and re-shoring of supply chains, along with merchants carrying higher levels of inventory are also expected to benefit demand. A balanced market is likely around 5% to 7% availability. With the current development pipeline at just 1.3% of existing inventory, we would have to see significant negative absorption to reach vacancy levels of the GFC, let alone any significant market dislocation.

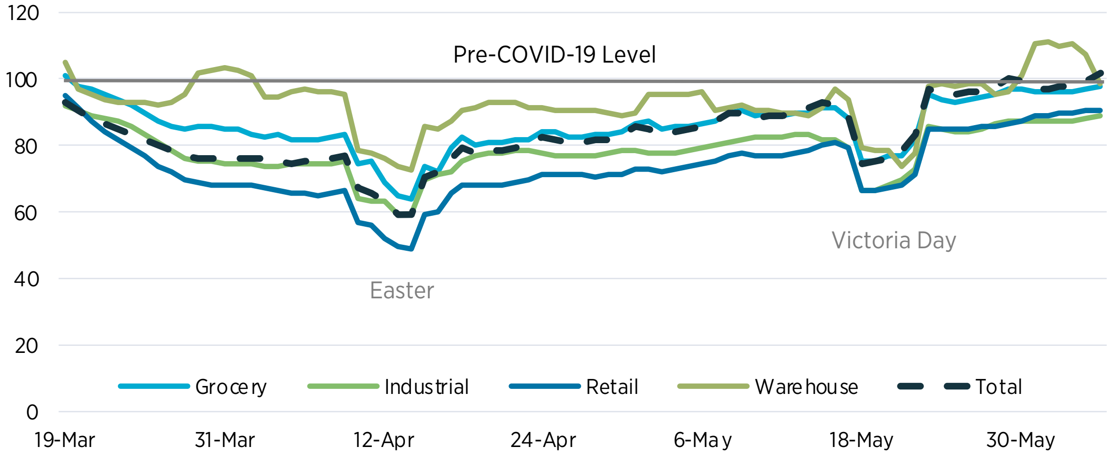
Source: CBRE Econometric Advisors

INDUSTRIAL

Logistics and warehousing activity bouncing back

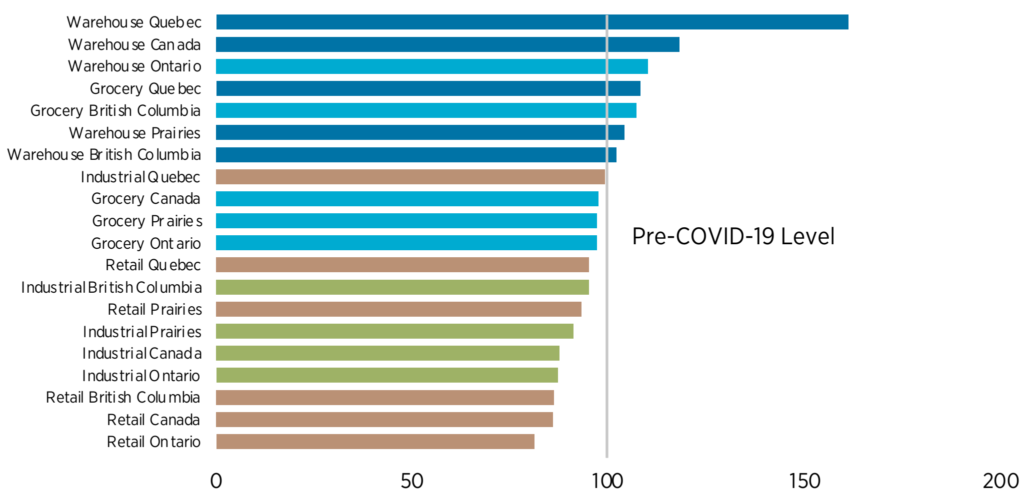
Commercial Trips By Properties

Compared To Pre-COVID-19 Levels, 5 Day MA As Of June 5th



Commercial Trips By Provinces

Compared To Pre-COVID-19 Levels, 14 Day High As Of June 5th



Is the growth in ecommerce sustainable?

- Real time data capturing commercial traffic throughout the downturn reinforces the strength of the industrial market outlook. Logistics related activity has held up very well and is bouncing back much quicker, especially when servicing warehousing and grocery locations. The frequency of daily commercial trips made to warehousing locations now exceed pre-COVID levels. Traffic surrounding industrial and retail locations has been weaker but trending in a positive direction.

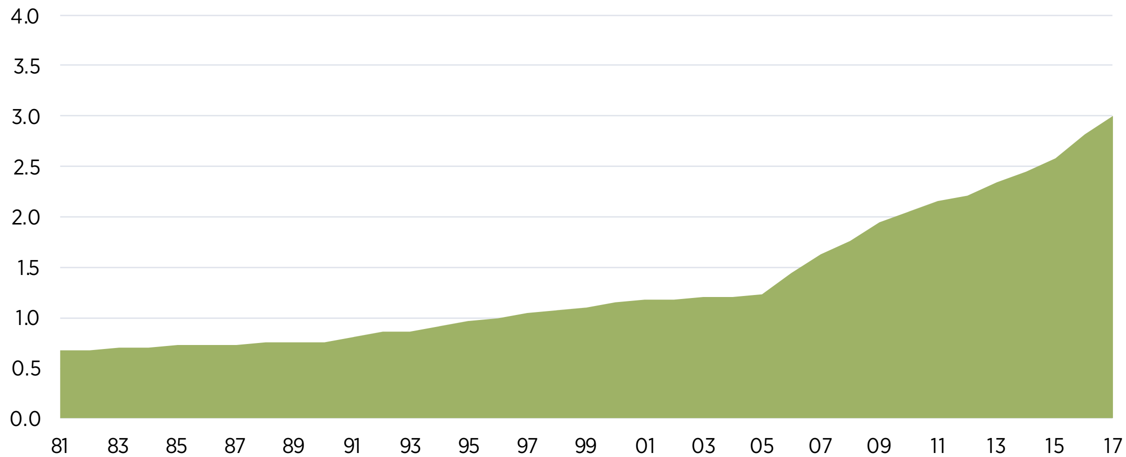
- Supply chains in British Columbia, Ontario and Quebec are recovering swiftly with warehousing and grocery commercial activity reaching or surpassing normal levels (100) in recent weeks. This is especially true for Quebec, where warehousing and grocery activities were able to reach 61% and 8% above normal levels, respectively. In Ontario, as the easing of lockdown begins to take effect, the production and movement of goods should gain further traction in the coming weeks. If the increases in ecommerce penetration are sustained in a post-COVID world, logistics and warehousing will be bigger drivers of industrial demand.

Source: BGO Canada Research, Geotab

OFFICE

The biggest work from home experiment in history

Working At Home Trend
% Of Full-time Employees Working At Home In The US



"Google Will Let Employees Work From Home Until The End Of 2020"
– Forbes

"Digital By Default: Shopify Is Letting Employees Work From Home Permanently"
– Financial Post

"Facebook and Google Extend Working From Home To End Of Year"
- BBC

"Work From Home Forever? Big Tech Is Divided on That"
– Bloomberg

Stigma has been broken

- One of the biggest questions resulting from COVID-19 is with respect to future office demand. The bias against remote work has been broken with the largest WFH experiment ever undertaken. Throughout this pandemic many firms have discovered that there has been little negative impact to productivity and job satisfaction. This view is far from unanimous, but it's clear that any prior stigma around remote work has been lifted. Looking at data from the U.S., remote work had been gaining momentum since 2005 and now represents more than 3.0% of the labour force or 3.4 million Americans WFH. It's estimated that roughly 7.0% of the labour force or 1.2 million Canadians WFH. This pandemic is likely to accelerate the WFH trend beyond COVID-19.

Long-term risks to the downside

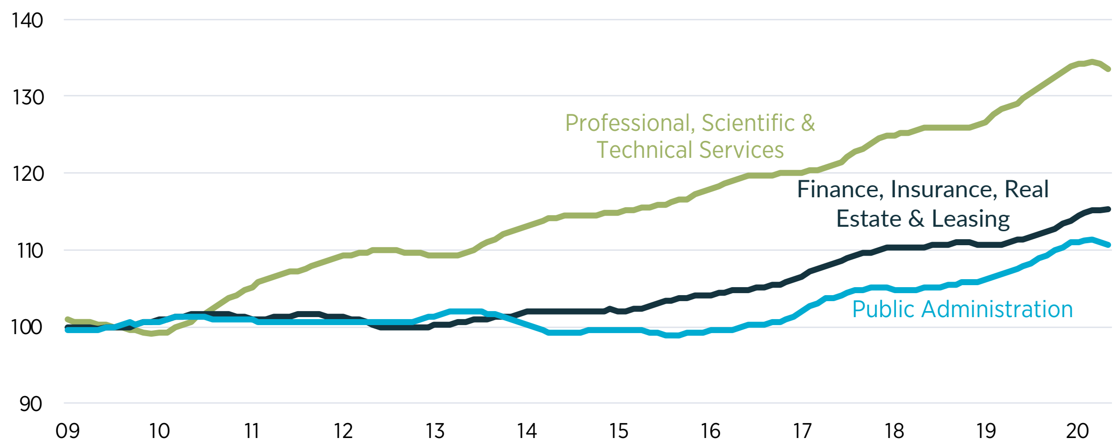
- Several prominent tech firms including Facebook, Twitter and Shopify, have publicly stated that they are allowing employees to WFH into 2021 and expect a significant percentage of their workforce to become remote over the long term. As the nature of knowledge work evolves, the office of the future is likely not a single location, but rather a network of spaces and services that facilitate productivity and well-being. The short-term outlook for demand is that as a return to the office occurs, the increase in space per in-office employee to allow for physical distancing will be roughly offset by an increase in WFH. The long-term implications of remote work are less clear, but the future demand for office space may decline.

Source: Federal Reserve Bank of St. Louis; IPUMS USA

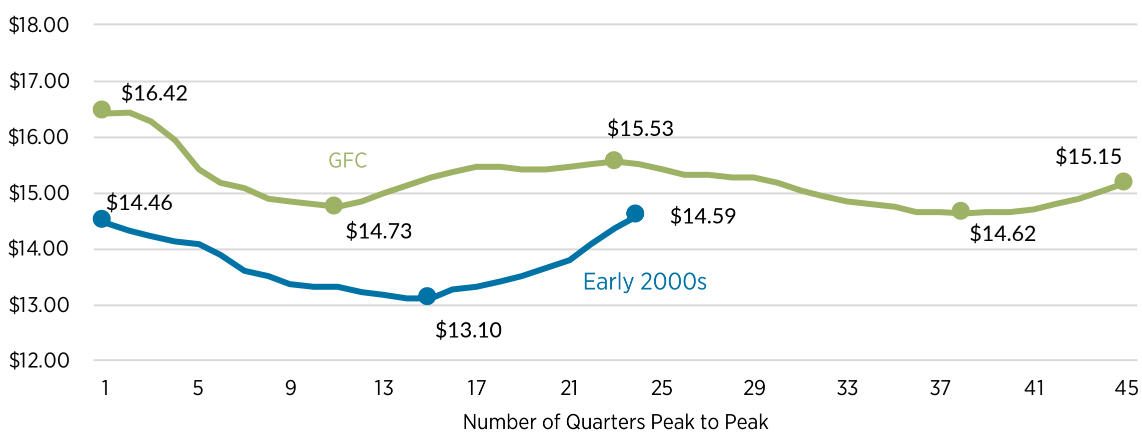
OFFICE

Recession will be the primary driver of weakness

Office Using Employment
Index: 2009 = 100, As Of May



Office Net Asking Rents
$PSF, 4-Quarter MA, Peak To Peak



Source: BGO Canada Research, Macrobond, Statistics Canada, CBRE Econometric Advisors

Depth of downturn and pace of recovery more uncertain than ever

- Fundamentals have benefited from the strength in office-using employment growth since the GFC, particularly in the tech sector. Office-using employment has held up relatively well over the initial months of the pandemic, but a second wave of job losses could begin to impact white collar professions. As firms face revenue and cost pressures, they may look to eliminate redundant or obsolete positions and invest in automation. Long-term contractual lease obligations will help mitigate any immediate cash flow impacts to office real estate, but it won't be immune from potential space rationalization.

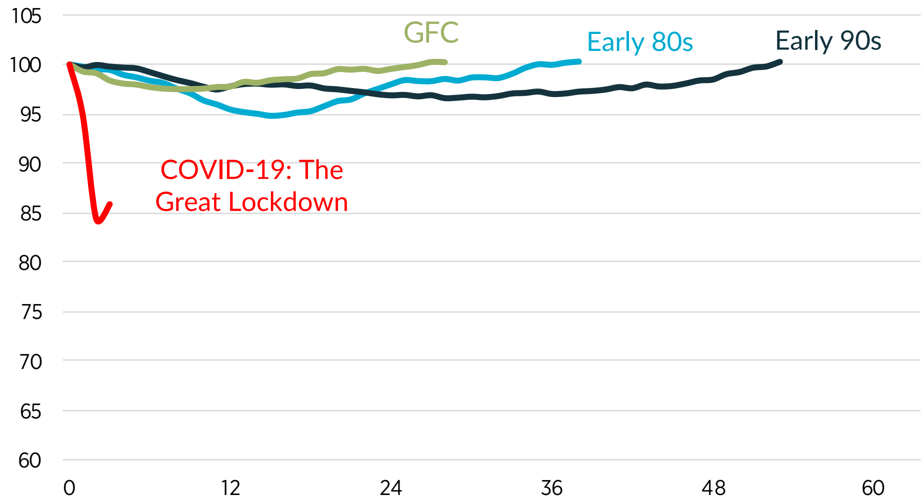
- Despite headwinds, the tech sector growth story that has driven demand in recent years is far from over. Big tech is only getting bigger, and the foundation has been laid with robust startup ecosystems in Canada's largest cities. The tech sector benefits more than any other sector from agglomeration economies and Canada will continue to remain a source of low-cost engineering talent.

- Outside Alberta, office fundamentals were strong heading into the downturn. The downtown markets continued to thrive and demand for suburban office space was escalating. The downtown markets in Vancouver and Toronto may not experience much of a decline in rents given historically low vacancies. Calgary office rents had adjusted to the imbalances following the oil collapse in 2016, so they may not have much further to fall. All other markets could see a recovery in rents resembling the early 2000s. But if greater structural shifts in demand begin to emerge, a prolonged recovery in rents could materialize.

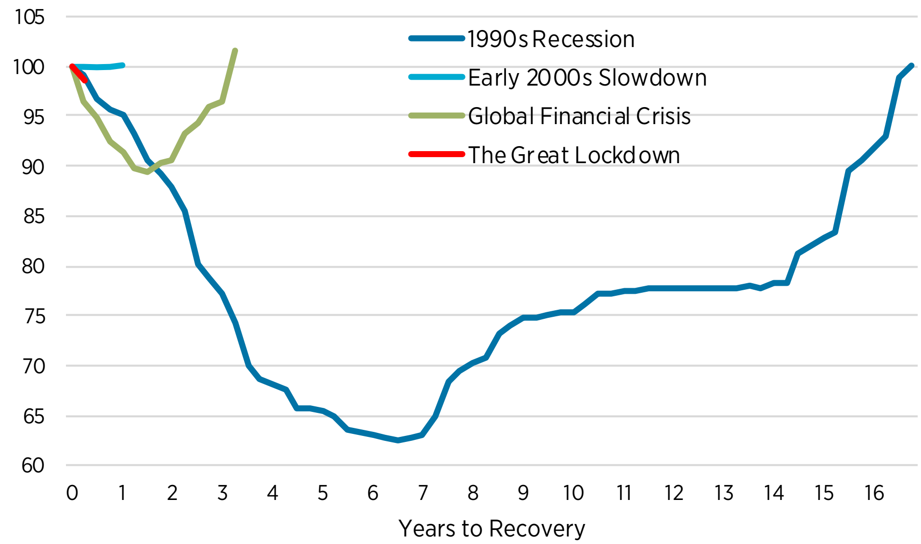
REAL ESTATE INVESTMENT

Framework for where values may be headed

Employment Recovery in Months
100 = Beginning of Downturn



Capital Growth Through Downturns
MSCI REALPAC Canada Property Index (Index, 100 = Peak)



- The GFC provides a reference point for what may transpire, given the magnitude and duration of the expected economic fallout of the Great Lockdown. Buoyed by a well-regulated banking system, limited exposure to sub-prime lending and strong global demand for natural resources, Canada escaped the GFC relatively unscathed. Cumulative GDP declined by 4.4%, while employment only fell 2.2%. In contrast, peak to trough GDP decline in the current recession is expected to double that of the GFC. Employment has already fallen by14.1% and unemployment reached an all-time high of 13.7%.

- The economic recovery of the GFC lasted about 2½ years and over that time period institutional private real estate values held up relatively well, declining by 10.6%. The Canadian commercial real estate market did not possess the excess leverage, overbuilding, and deterioration of underwriting standards that was evident in the U.S. In addition, Canada's larger trophy assets were concentrated among institutional owners who were well-capitalized and had long term investment horizons. This ownership profile still holds true. Looking ahead, with the GFC as a guidepost it would not be unreasonable to see value declines of 10% to 20% given the anticipated uneven and prolonged economic recovery.

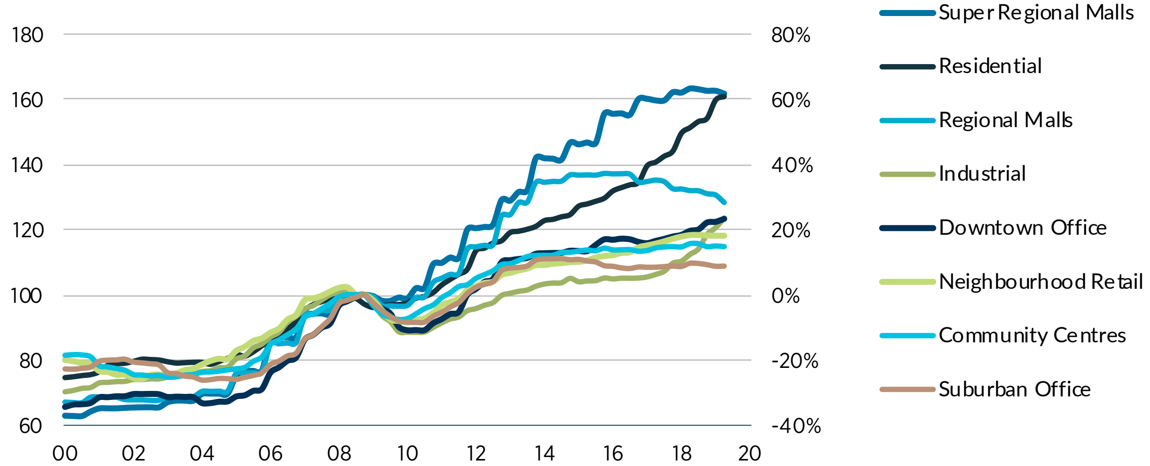
Source: BGO Canada Research, Statistics Canada
MSCI REALPAC Canada Property Index

REAL ESTATE INVESTMENT

Value declines will vary by property type

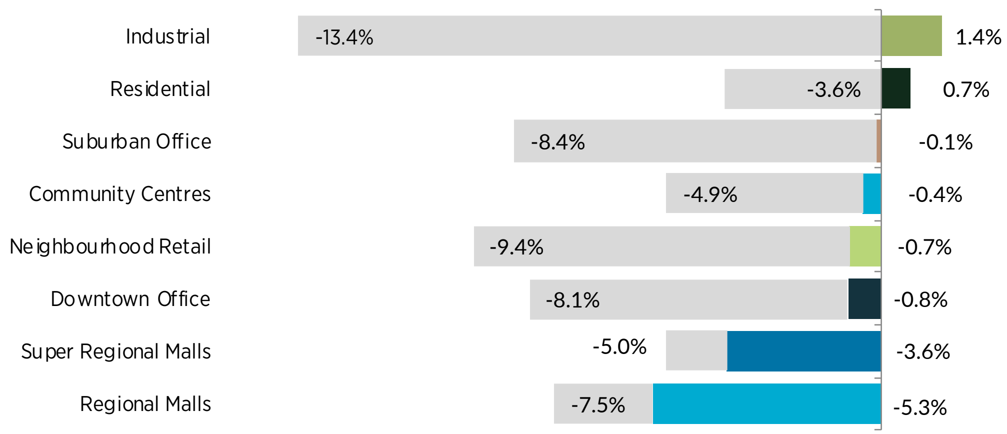
Canadian Property Price Index

Value Index (2008 = 100)



3-Month Change in Capital Value

Shaded bars show peak to trough declines in GFC



Source: MSCI REALPAC Canada Property Index

Impacts will be different than the GFC

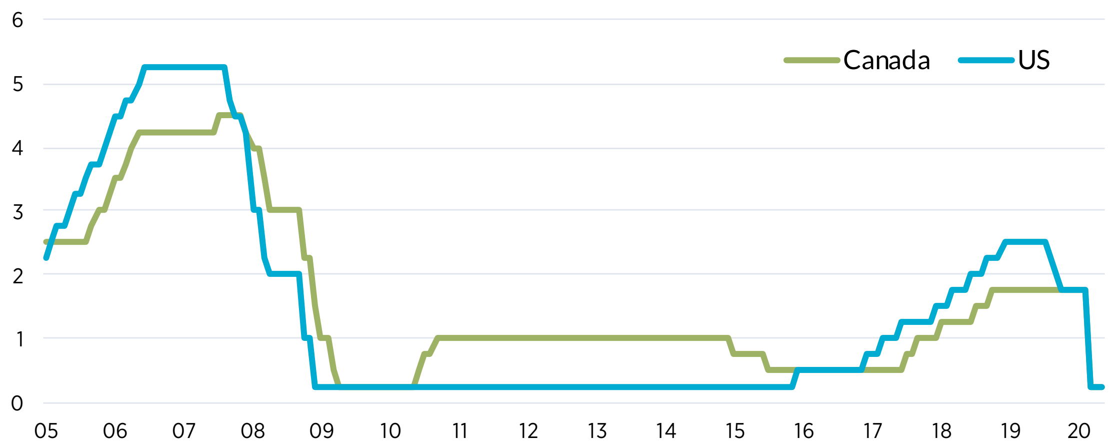
- Value declines in the GFC were driven by stress in the capital markets and a subsequent increase in risk premium for real estate. This crisis originated as a health crisis which became an economic one that is slashing company revenues. Property value declines this time will primarily result from erosion in net operating income rather than cap rate expansion. As such, real estate operating excellence will be critical to property yield maintenance. Optimizing the tenant experience to help businesses get back up and running with a focus on health and safety will maximize occupancy and minimize lease turnover.
- Beneath the headline expectations on values, different property types will be impacted to varying degrees. While there has been little change to date, the declines in enclosed mall values is striking, especially in comparison to the GFC where they were one of the better performing sectors. If you measure from peak valuations, super regional malls are now off 6% and regional malls are off 12%. It is believed that Canadian mall owners are collecting less than 60% of their rent and retail bankruptcies are expected to mount, particularly for discretionary retailers. The acceleration of ecommerce during this pandemic will only exacerbate the challenges faced by mall retailers.
- Neighbourhood shopping centres are expected to fare better as necessity-based retailers should be more resilient. But they will face challenges as these are often accompanied by service-oriented, people-facing businesses that have been forced to close and will be the last to reopen. Industrial and multi-residential sectors will outperform on a relative basis for reason's we've previously highlighted. But the biggest uncertainty is how the office sector will perform given its evolving risks.

REAL ESTATE INVESTMENT

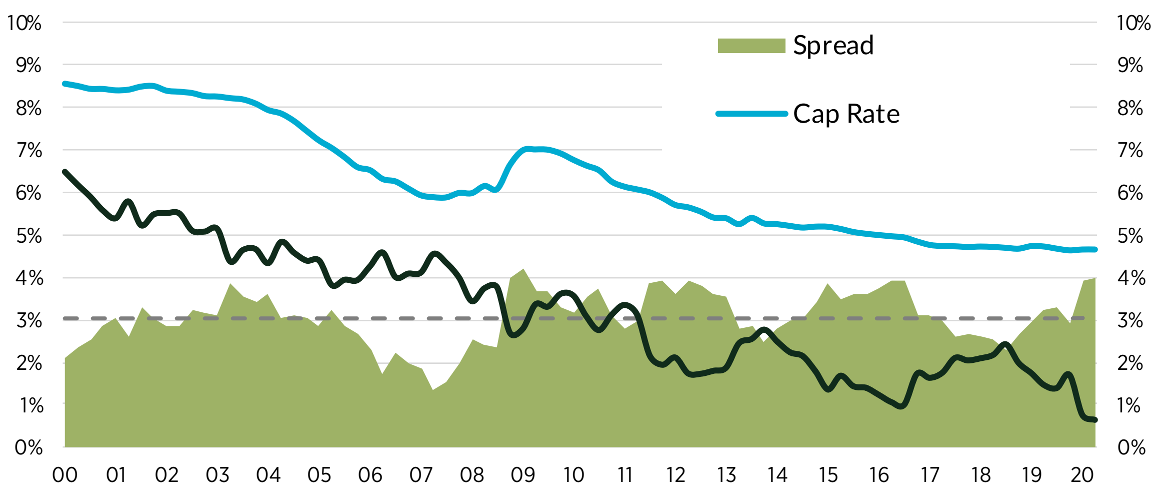
Flight to quality will differentiate asset performance

Central Bank Policy Rates

%, As Of May 2020



Institutional Quality Cap Rates vs. GoC 10YR Bond Yields



Lower for longer

- The impact on valuations will also be bifurcated by quality of asset – specifically, with respect to building vintage and functionality as well as the quality of the rent roll in terms of tenant credit and lease maturity profile. Even within sectors facing headwinds there will be winners and losers. For example, exacerbated by the pandemic, the bar for health, safety, and wellness has been raised across all occupiers. As a result, the demand for new-generation office buildings with superior air-circulating systems and digital connectivity will be higher.

- Broader macro trends are supportive for real estate values. Short-term interest rates are expected to remain low with monetary policy to remain accommodative for the foreseeable future. Long-term interest rates should also remain low driven by a shift to "risk-off" sentiments, strong demand from excess savings, and deflationary forces resulting from a recessionary climate. While commercial lending spreads remain above long-term averages, lower risk-free rates have resulted in an all-in mortgage rate that is historically low and comparable to pre-COVID pricing.

- Investors' search for yield as sentiment shifts to "risk-on" will benefit income-producing assets such as real estate. This should continue to create adequate availability for both debt and equity capital. These factors should help mitigate cap rate expansion and may even lead to cap rate compression for best-in-class assets.

Source: BGO Canada Research, Macrobond, Bank of Canada, Altus Group

For institutional use only.

About BentallGreenOak

BentallGreenOak is a leading, global real estate investment management advisor and a globally-recognized provider of real estate services. BentallGreenOak serves the interests of more than 750 institutional clients with approximately $48 billion USD of assets under management (as of March 31, 2020) and expertise in the asset management of office, retail, industrial and multi-residential property across the globe.

BentallGreenOak has offices in 24 cities across twelve countries with deep, local knowledge, experience, and extensive networks in the regions where we invest in and manage real estate assets on behalf of our clients. BentallGreenOak is a part of SLC Management, which is the institutional alternatives and traditional asset management business of Sun Life.

The assets under management shown above include real estate equity and mortgage investments managed by the BentallGreenOak group of companies and their affiliates.

For more information, please visit www.bentallgreenoak.com

Phil Stone
Principal, Head of Canadian Research
(416) 681-7955 phil.stone@bentallgreenoak.com

Tom Vo
Vice President, Research & Analytics
(416) 681-2728 tom.vo@bentallgreenoak.com

Doug Poutasse
Managing Director, Head of North American Research & Strategy
(617) 790-0851 douglas.poutasse@bentallgreenoak.com

BentallGreenOak