DJEH REAL ESTATE INC.

Canadian RE Market Report

October 2024

Canada Real Estate Market Report – 10/2024

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General Market Updates (Oct. 2024)

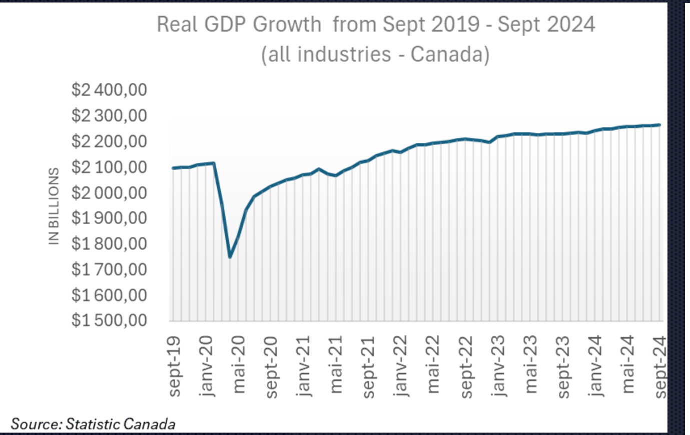
General – Macro-economic data

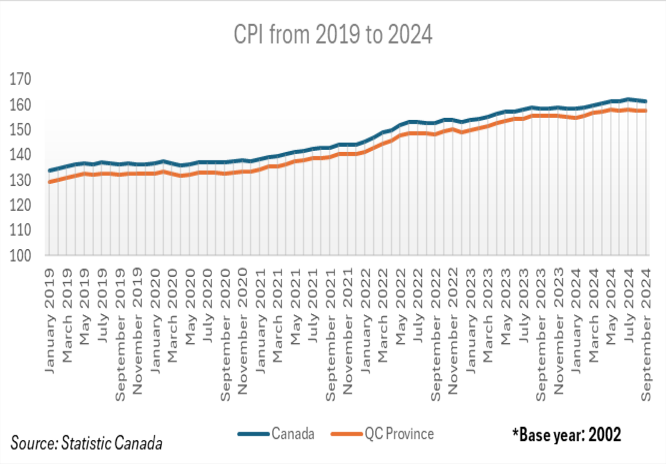
- **Gross Domestic Product (GDP):** Canada's real GDP reached nearly $2 266 billion in 3Q24, up 0,21% from 2Q24 and 1,39% YOY. The Public sector drove quarterly performance through sustained growth from local, municipal and regional administrations, with expanded healthcare, education and public safety services. The Real Estate and Finance/Insurance sectors also contributed significantly to quarterly growth after policy rate cuts, with increased transaction volumes, credit activities, market expectations, and foreign investment in Canadian Bonds. In September, monthly growth was supported by a 0,2% increase in service industries, primarily driven by a 1,0% jump in Retail Trade due to strong demand for essential goods, especially food and fuel. Conversely, Mining, Oil and Gas extraction (-0,5%) and Manufacturing (-1,5%) weighed down on quarterly performance, with lower maintenance activity and oil prices scaling back production, and reduced demand for machinery, transportation equipment, and non-durable goods.

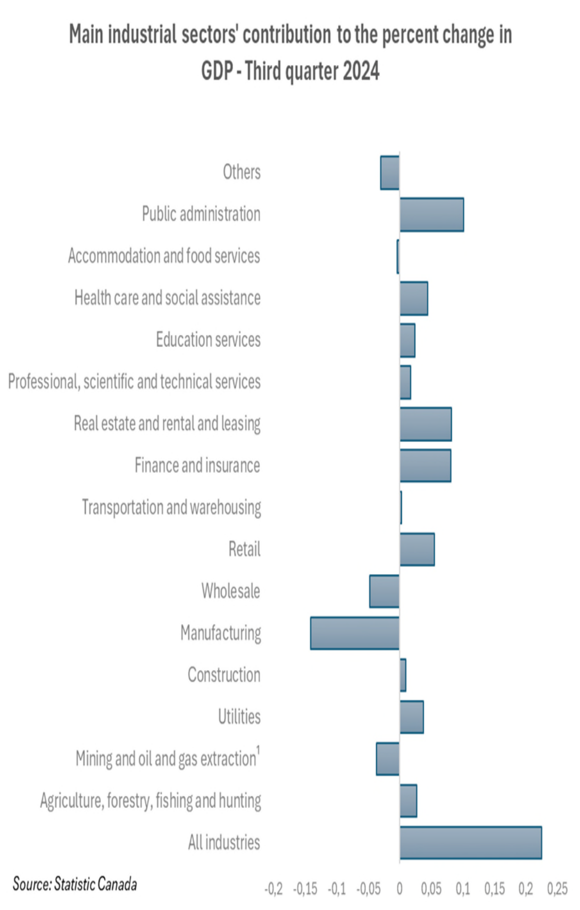
- **Consumer Price Index (CPI):** In September, Canada's CPI rose by 1,6% YOY, the slowest increase since February 2021, mainly due to a 10,7% decrease in gasoline price reflecting significant drops in crude oil prices. These trends are primarily induced by weaker economic growth expectations , and reduced expenses from transitioning to winter blends. Excluding gasoline, the CPI rose 2,2% YOY. Despite the decelerated CPI growth observed over the year, prices remain elevated for the average Canadian, with CPI rising 12,7% in September 2024 compared to September 2021 mainly due to rent and groceries, which are up 21,0% and 20,7% over the same three-year period, respectively.

- **Cost of Living:** The cost of living in Canada continues to rise, with housing, energy, and food prices as primary drivers. Although inflation has decelerated slightly, the cumulative increase in living costs has weighed heavily on Canadian households, especially in major urban centers. This trend is expected to continue unless interest rates or energy prices ease significantly. In spring 2024, 45% of Canadians struggled with expenses due to inflation, with housing affordability concerns and financial stress affecting 38% and 35% of Canadians, respectively. Lower-income groups, renters, and young adults faced disproportionate impacts, reducing overall well-being.

- **Interest rate:** On October 23, 2024, the Bank of Canada lowered its overnight rate from 4.25% to 3.75%, its largest cut since March 2020 and its fourth cut since the pandemic began. Inflation slowed to 1.6% in September, below the 2,0% target. Annual GDP growth is projected to decelerate to 1,8% in 2024, while housing demand is expected to outpace supply with easing shelter inflation reaching 5,8% in September vs. 7,2% in March. Yet, interest rates remain elevated and rising costs have driven consumers to tighten their budgets, with a shift from spending to saving, especially in retail sales data, which slightly declined during the year. Households are prioritizing savings amid economic uncertainty, with a savings rate of 7,1% in 3Q24, up 4,1% above year-end 2019, driven by wage growth outpacing spending growth.







General Market Updates (Oct. 2024)

General – Macro-economic data

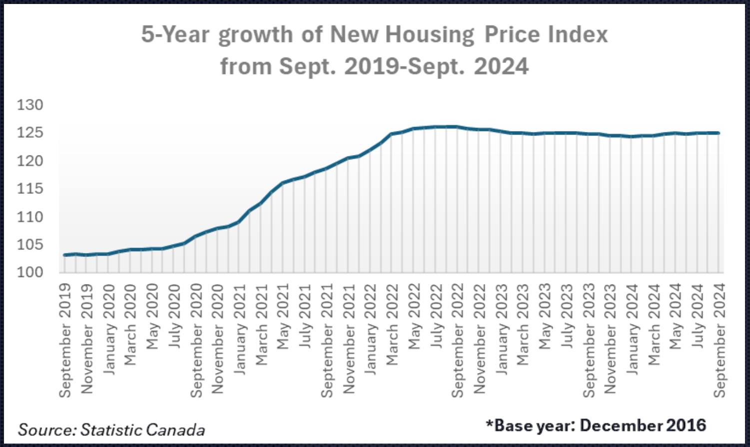
- **New Housing Price Index (NHPI):** In September 2024, Canada's NHPI stayed constant compared to August 2024. Prices were unchanged in 12 of 27 CMAs, rose in 8, and fell in 7. Guelph and St. Catharines–Niagara saw the largest drops due to weak markets, implying a sales-to-new-listings ratio for the resale market of 33.5 compared to 40 for a balanced market, while Québec and Kelowna had the highest increases, driven by shortages for land available for development. Nationally, prices rose 0.2% YOY, with Calgary (+4.3%) and Trois-Rivières (+3.1%) leading gains, and Kitchener-Cambridge-Waterloo (-2.8%) seeing the largest decline.

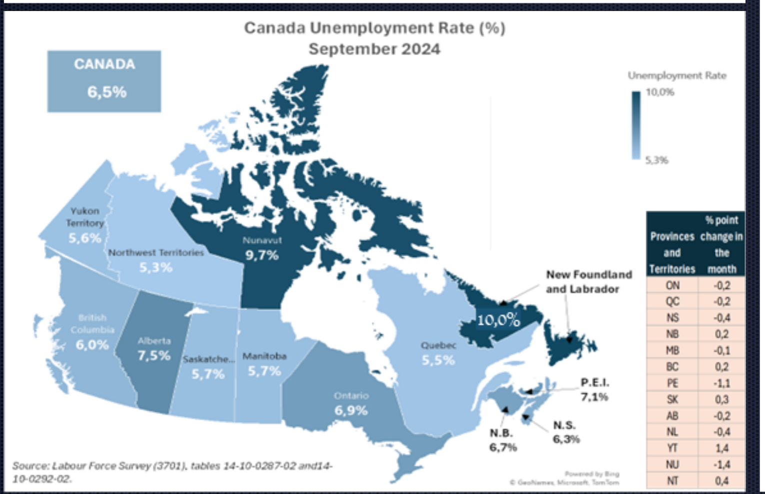
- **Residential Renovation Price Index (RRPI):** In Q2 2024, renovation prices rose 0.7% nationally, with British Columbia leading at 1.4%. Annually, prices increased 3.7%, driven by labour shortages and construction activity, especially in British Columbia and the Prairies. Since 2017, the RRPI rose by 66.5%, peaking during the pandemic due to supply chain disruptions and high demand. Price growth has since normalized but remains regionally uneven.

- **Structured Finance:** As of August 2024, total issuance across asset-backed securities (ABS), covered bonds, and commercial paper amounted to $64,7 billion. ABS issuance reached $35.7 billion, with auto and equipment financing representing 54% of total issuance. Residential mortgage-backed securities represented 38% of ABS issuance, reflecting the impact of rising rates and economic challenges. Default rates for prime mortgages rose to 19 bps as homeowners face higher renewal rates. Credit performance remains the same in general, supported by strong credit enhancements and stress-tested underwriting practices across asset classes.

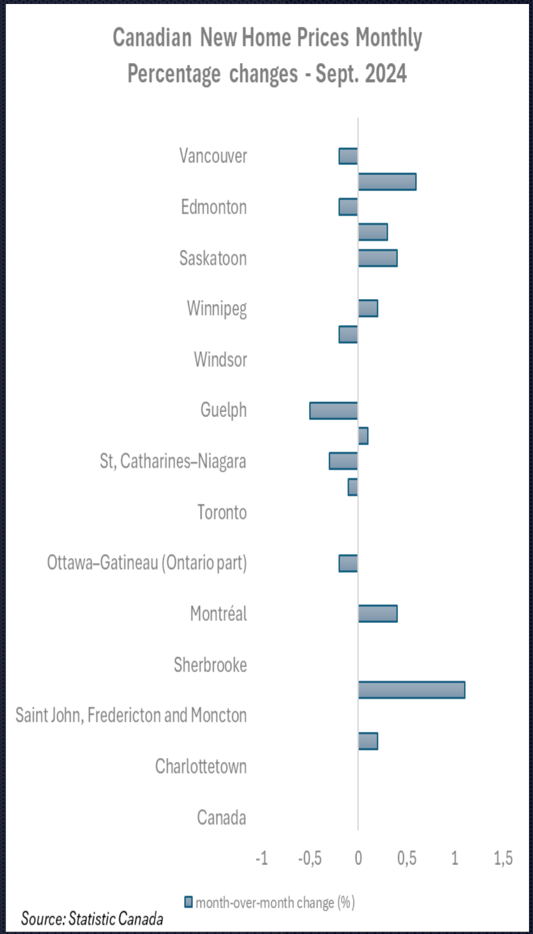
    - **Commercial-Mortgage-Backed-Securities (CMBS):** As of September 2024, delinquency rate decrease to 1.2%, 40 bps below August. Alberta faced the highest impact, with $34.2 million in delinquent or forbearance loans, largely tied to pandemic and energy industry challenges. Most COVID-era forbearances have been resolved. Payoff rates varied by loan size, with large loans achieving 100% repayment. Retail and hotel properties accounted for 83.8% of total historical forbearance balances.

- **Unemployment Rate**: Canada's unemployment rate reached 6,5% in September 2024, 1,5% above 1Q23. The labour market has shifted post-pandemic, with high-wage sectors like professional services offering 23% more employment than early 2020. Lower-wage industries such as retail, accommodation, and food services however have lost over 100,000 jobs since mid-2023, leading the employment rate to 6% below pre-pandemic levels. Younger workers, heavily employed in these sectors, have faced higher unemployment, driving 40% of the post-pandemic jobless rate increase.





Provinces and Territories	% point change in the month
ON	-0,2
QC	-0,2
NS	-0,4
NB	0,2
MB	-0,1
BC	0,2
PE	-1,1
SK	0,3
AB	-0,2
NL	-0,4
YT	1,4
NU	-1,4
NT	0,4



Sources: Statistics Canada , MorningStar DBRS, Bank of Canada, RBC

General Market Updates (Oct. 2024)

Commercial Real Estate (CRE)

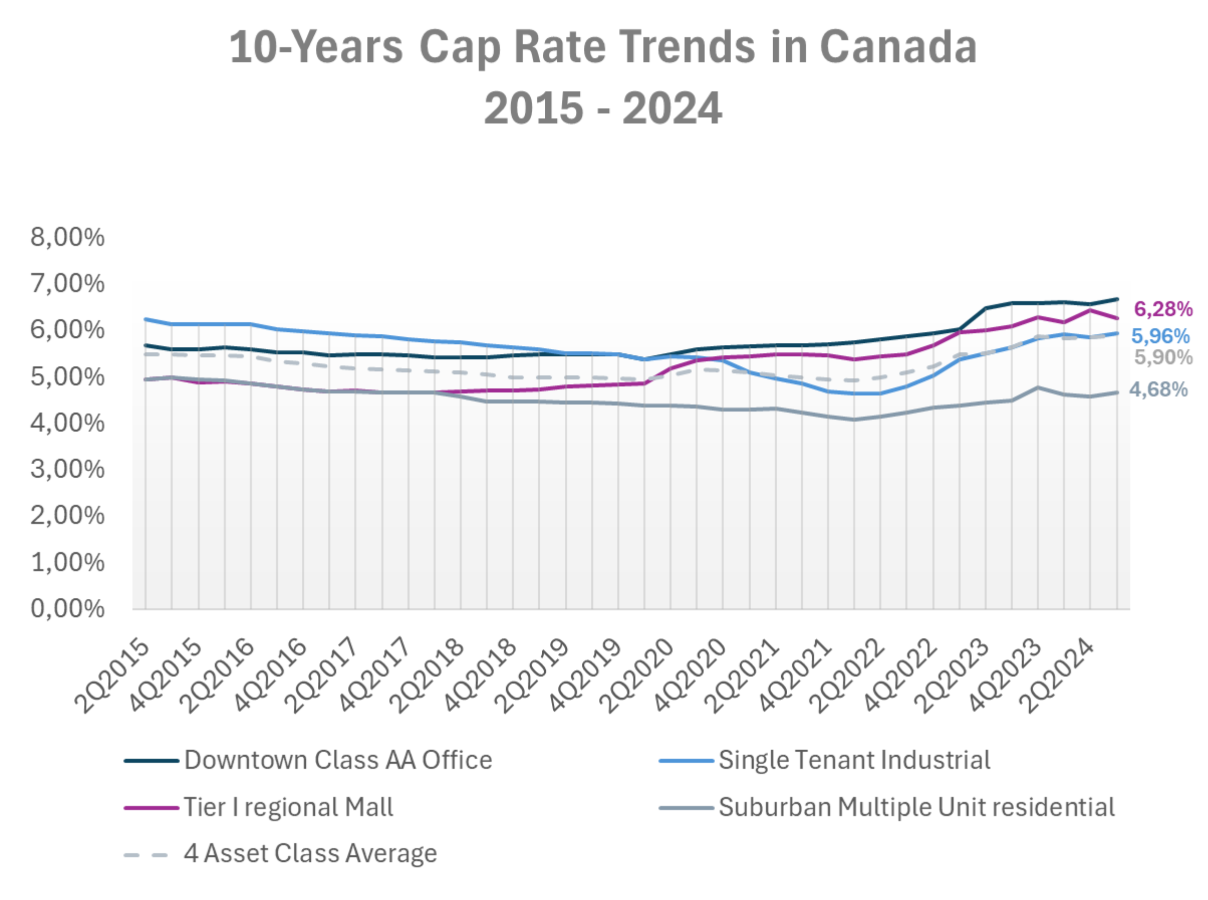
- Year-to-date commercial real estate transactions reached approximately $29,2 billion by the end of June 2024, representing a 3% increase from the same period a year ago. When annualized, total transaction level is at $36,5 billion, the lowest since early 2021. Low transaction level was mainly due to high interest rate and slower economic growth; however, with inflation reaching its 2% target and consecutive policy rate cuts reducing borrowing costs, investor confidence is expected to strengthen along with transaction activities.

- As of 3Q24, Industrial and Multifamily investments represented almost 70% of national sales volume. Domestic private investor represented 43% of market sales volume of income-properties, followed by public investors/REITs (28%), institutional investors (11%) and others (18%).

- In 3Q24, the Overall Capitalization Rate (OCR) remained relatively constant at 5,9%, 3 bps above 2Q24, and 2 bps YOY. Single Tenant Industrial's cap rate rose to 5,96%, 11 bps YOY, representing the largest cap rate expansion, followed by downtown office, reaching 6,28%. This highlights decreasing trends in these properties' valuation, sending positive signals to the buy side. Multi-residentials' cap rate reached 4,68%, the highest cap rate compression YOY due to excess demand.

- In 3Q24, the most favored property types for investors were: 1-food-anchored retail strips due to resilient demand for essential goods; 2-multi-tenant industrial spaces due to strong logistics and e-commerce demand; and 3- suburban multi-unit residential properties due to the rising demand in affordable housing in suburban areas. Retail centers with grocery or big-box anchors thrived due to evolving consumer habits. Despite temporary oversupply in the industrial market, transaction activity remained robust in key cities, driving an 8% YTD growth in dollar volume compared to 2023. According to Altus Product/Market barometer, the top 3 preferred assets for investors are:
  - Food-anchored retail strip in Vancouver
  - Suburban multiple-unit residential in Montreal
  - Multi-tenant industrial in Toronto

- As of September 2024, the outlook for debt market activities seems promising due to important declines in bond rates and improving financing terms for existing properties and new construction loans. Meanwhile, conventional loan financing remain relatively conservative with maximum loan-to-value (LTV) ratios ranging from 60% to 75% depending on the property type and a minimum debt service coverage ratio (DSCR) requirement of 1,2x. The federal CMHC MLI Select program provides an alternative, offering better terms for multi-residential investments, emphasizing affordability and energy efficiency to meet evolving market needs.



Source: Inspired from Altus CRE Investment Trends - Q3 2024 report

Source: Altus Group, CoStar Analytics, Avison Young

Property Matrix – Greater Montreal Area (GMA)

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INDUSTRIAL	MULTIFAMILY
• As of first half 2024, industrial investment transactions increased to $1,35 billion, up 41% YOY, and representing nearly 36% of GMA total sales volume of commercial investments. • As of 3Q24, total inventory in the GMA was 358,8 msf, with negative YTD net absorption of -3,4 msf due to oversupply. • Vacancy rates increased to 4,3%, 90 bps above 1Q24. Vaudreuil-Dorion experienced the highest vacancy rate in the region, exceeding 20%, driven by 340,000 square feet of sublease availability. As vacancy increases, net asking rents steadily decreased since late 2023, from peak levels of 16,8 psf to 15,47 psf in September 2024 due to lower demand for warehousing and slower economic growth. • Investor demand weakened YTD relatively to supply, leading to slight increases in cap rates averaging 5,9%-6,5% depending on the property's class and maturity. The high liquidity of the industrial market compared to other asset classes, also contributed to upward trends in the cap rate. • Although industrial demand remains solid, construction activity slowed significantly, with space under construction dropping from 6,8 msf in mid-2023 to 2,8 msf by September 2024. Despite decreasing borrowing costs, investors seem to be adjusting to stabilizing rents, high supply levels, and economic uncertainty.	• As of first half 2024, multifamily investment transaction increased to nearly $1,5 billion, up 29% YOY, and representing more than 39% of GMA total sales volume of commercial investment. Vacancy hits all time low across the region, reaching 1,5% in January 2024. • Demand for apartments remains strong, leading to further cap rates compression (4,5%-5%), and rising rents. High property prices and interest rates have driven a gradual shift from homeownership to renting as potential first-time homebuyers are reluctant or unable to buy. In addition, immigration-fueled population growth further tightens supply. • The affordability crisis has bolstered the sector, given the rising number of renters. However, it presents challenges for small local investors who are negatively impacted with low unit turnover and below-market rents, struggling to meet mortgage obligations. This also exposes the sector to potential political risks, implying more regulatory pressures, as experienced with the Quebec's three-year eviction moratorium under Bill 65, effective since 2Q24. • The apartment sector is performing well with long-term rent growth and favorable financing alternatives with CMHC. However, the effect of past inflation level continues to weigh on land, construction, labour, and operating costs, limiting profitability, particularly for underperforming rental units with limited turnover.
OFFICE	**RETAIL**
• As of first half 2024, office investment transactions decreased to $0,14 billion, down 64% YOY, mainly due to average transaction price dropping to $3.7M, nearly 50% below 1H23. As of 1H24, Office transaction represented less than 4% of GMA total sales volume of commercial. • Net absorption has remained negative since the pandemic, reaching YTD -1,8 msf in 3Q24. New supply also steadily declined, with inventory level reaching 106,3 msf, mainly due to high interest rate and the widespread adoption of hybrid work models. These dynamics negatively impacted office returns, leading institutional investor to shift their capital toward better performing asset classes. • Office vacancy has steadily increased since the beginning of the pandemic, from 10% in 2020 to a whooping 18% in 3Q24. Sublease availability has more than doubled since the beginning of the pandemic, from 1,0 msf in 1Q20 to almost 3,3 msf in 3Q24, currently representing 16,4% of available space. • Cap rate increased to 7%-8% for class A investments, compared to last year, which advantages buyers. Despite prevailing market uncertainty, the outlook is progressively brightening as more job listings are shifting back to on-site, and investors seek to exploit repositioning/conversion opportunities, especially with suburban offices.	• As of first half 2024, retail investment transactions decreased to nearly $0,5 billion, down 6% YOY, and representing more than 12% of GMA total sales volume of commercial investment. As economic conditions remain uncertain, Canadians are focusing more on essential goods and services, making of food-anchored retail strip one of the top choice for investors among all property types. • Post-pandemic tourism growth has invigorated downtown Montreal's retail sector. Hotel occupancy rose to 80% in 2024, which helped in boosting restaurant spending by 8% compared to 1H23. • The recovery of the retail sector post-pandemic is further supported by the progressive return of on-site jobs, which has positive effects on food and beverage or quick-service restaurant's leasing activities. • In 3Q24, cap rates for Regional Malls and Grocery-anchored range are 6%-6,5% and 6,25%-6,75%, respectively. • Despite economic uncertainty and more disciplined consumer spending, retail transactions are poised for growth with the expansion of the REM. Enhanced connectivity from new REM stations will boost accessibility to key retail hubs in downtown and midtown areas, driving foot traffic, boosting sales, and supporting downtown densification.

Source: Avison Young, Jones Lang LaSalle, Colliers, CBC, Altus Group

Global Real Estate Market

General

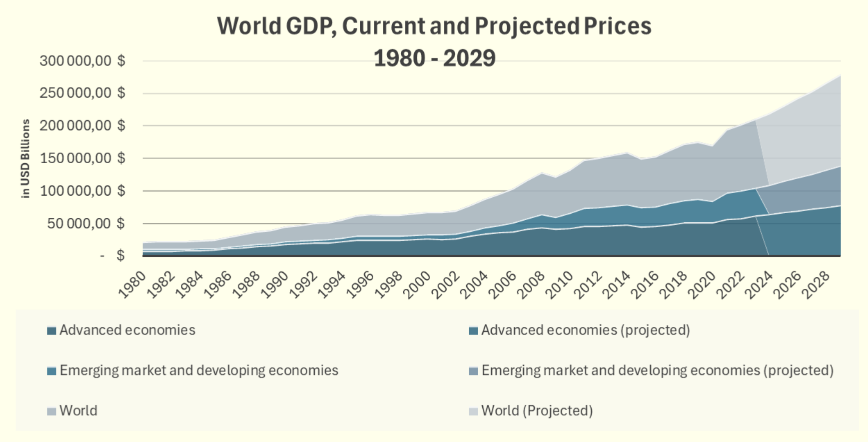
- The global real estate market in 2025 is poised for growth, fueled by falling inflation, declining interest rates, rising debt origination, further yield compression, and resilient labor markets. Economic growth prospects are improving for many economies. However, risks like geopolitical tensions, supply chain disruptions, and inflation resurgence remain major concerns for investors, suggesting persistent volatility in markets globally.

- Emerging Market – West Africa: FDI in Senegal, Nigeria, and Ivory Coast reached $6.3 billion in 2023. Global investor demand for luxury residential and hotel real estate is rising in the region, further exacerbating exponential growth in land and property values. Robust GDP growth along with substantial government investments in infrastructure, education, technologies, renewable energy, and tourism-friendly policies fuel West Africa's appeal as a high-yield investment destination, despite exposure to regional political and regulatory risks.

- Donald Trump's reelection could affect U.S. and Canadian real estate markets through deregulation, tax cuts, and housing reforms. In the U.S., relaxed regulations and federal land development may ease housing pressures but fail to address supply issues, while immigration policies could limit construction labor. Cross-border investment shifts may influence Canadian market sentiment.

- **Key Points by Sector:**
  - **Office Leasing:** Global leasing volumes increased by 12% in Q3 YOY, due to expansionary monetary policies, downsized office spaces, and stabilized office attendance trends.
  - **Retail and Hospitality:** upward trends in real wages and international travel help maintaining strong demand **Logistics:** Occupiers are cautious, focusing on optimizing current facilities over new acquisitions.

- **Performance by Region:**
  - **US and UK:** Led in transaction recovery due to transparent pricing adjustments, with global direct investment volumes up 26% YOY in Q3 as pricing stabilized and top performing asset class experience yield compression.
  - **Asia-Pacific:** Stable in general, with slower recovery compared to Western markets.



Source: IMF

TOP 10 Cities with highest annual global investment in 3Q2024

City	Country	YOY Investment 3Q24 (US$ Billion)	Rental Growth 3Q24	Vacancy Rate 3Q24	Net Absorption	Leasing Recovery
New-York	U.S.	18,60 $	1,4%	16,8%	-1,3%	-15,1%
Tokyo	Japan	17,30 $	4,8%	3,1%	3,3%	-32,2%
Dallas	U.S.	16,20 $	1,8%	25,1%	-2,8%	53,5%
London	U.K.	14,90 $	8,9%	8,5%	1,3%	-10,5%
Seoul	South Korea	12,80 $	9,7%	3,0%	2,0%	-70,5%
Atlanta	U.S.	11,60 $	0,1%	26,5%	-2,1%	21,1%
Paris	France	10,40 $	8,3%	9,5%	-2,4%	-27,1%
Singapore	Singapore	10,00 $	2,1%	8,3%	1,4%	6,7%
Washington D.C.	U.S.	10,00 $	3,9%	22,5%	-2,6%	-21,8%
Sydney	Australia	7,20 $	2,9%	17,3%	-0,1%	-22,0%

Source: JLL Research, October 2024

Global Real Estate Market

U.S. Market

- In 3Q24, the NCREIF Property Index (NPI) market rebounded this quarter, delivering a modest quarterly return of 0.83% (-3,3% YOY) after seven quarters of negative performance, driven by 1.20% quarterly income gains but offset by -0.37% property appreciation. Hotels led with a 2.67% quarterly return (7,6% YOY), followed by retail at 1.86% (2,2% YOY), while office properties lagged at -0.89% (-11,5% YOY).

- As of 3Q24, market fundamentals look similar to trends in Canada. Inflation fell to 2,5% in August 2024, 50 bps above the target and borrowing cost is decreasing with interest rates. In November, Fed rate decreased to 4,75%, which is favorable for borrowers, however rates remain high.

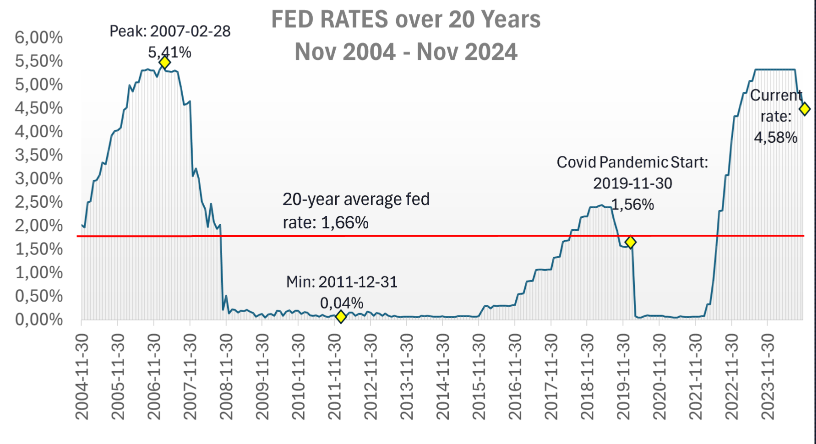
- Office's performance is negatively affected by changes in work models, highlighted by: 1-negative net absorption of -34,5 msf YOY, 2-rising vacancy above 20% especially for Class A office in tech hubs such as San Francisco, Houston, and Dallas-Fort, experiencing corporate relocation due to high operating costs, along with 3-decreasing property values characterized by cap rates rising to nearly 9%.

- Similarly to Canada, the affordability issue is dragging homeownsership down with rising rental demand fueling net absorption to 535 000 units, 115 bps above last year, with class B investment outperforming class A multifamily with moderately higher rent growth (1,1%) and lower vacancy of 8,7% vs. 10,7%, respectively. Vacancy rates are higher on average when compared to Canada due to excess supply, implying higher completion rates and new construction.

- In 3Q24, retail space availability remains historically low at under 5% for over two years, with net deliveries at just 33 msf, at least 50% below the 10-year average. Neighborhood centers and general retail spaces are the strongest contributors, with vacancy as low as 2,5%. Meanwhile, the industrial sector faces slowing demand, rising vacancy rates (6.6%), and decelerating rent growth (3.2%).

- As of Q3 2024, Hotels' Average daily rates (ADR) and revenue per available room (RevPAR) surpassed pre-pandemic levels nationally, while occupancy stabilized at 62%-63% since 2022, 3% below pre-pandemic levels, partially due to remote work.

Source: NCREIF (NPI)



Source: MacroTrends

Source: NPI, Trade Economics, National Association of Realtors (Research Group)

Currency Effects – Market Trends

Overview

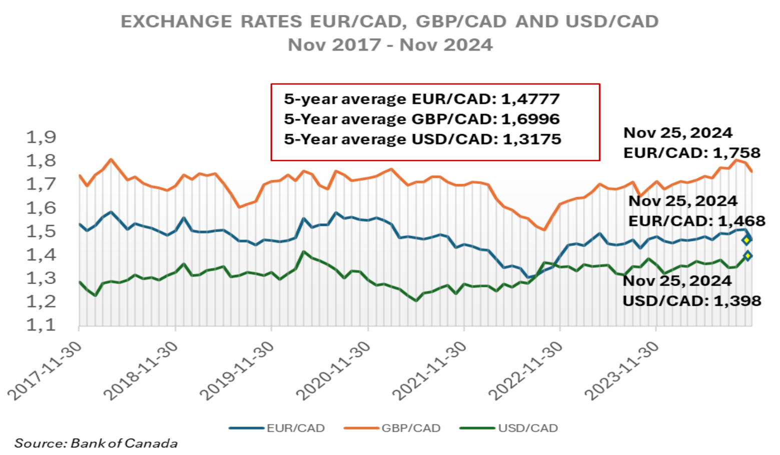
- The Canadian Dollar (CAD) has weakened against the US Dollar (USD) in 2024. At the end of October 2024, the CAD/USD rate has dropped to 0.7186, a decline from 0.736 a year earlier, reflecting a -2.4% annual decrease. Economic factors, including differences in monetary policy and global commodity price trends, have influenced this performance.

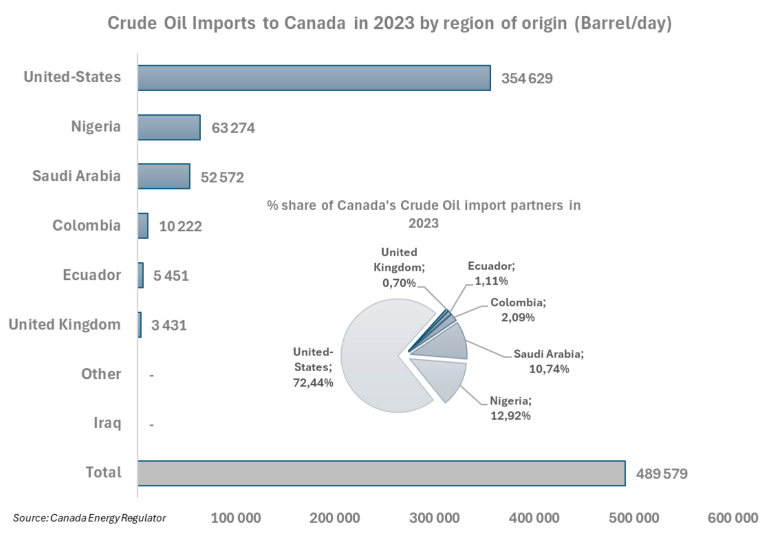
- CAD depreciation has raised import costs, negatively impacting Canadian investors and consumers. The U.S. and Nigeria dominate Canada's crude oil imports at 72.44% and 12.92%, respectively. The global decline in oil prices has been partly driven by a stronger USD, benefiting U.S. consumers somewhat as a tax break. However, the weaker CAD has eroded these benefits for Canadians. In August 2024, Canada's crude petroleum trade balance reached $10,6 B, solidifying its position among the world's top five crude petroleum exporters. Hence, the Canadian economy significantly relying on oil price fluctuations, lead the CAD to act as a commodity currency, as the CAD's value is positively correlated with global oil trends.

- In 2Q24, Canada's current account deficit widened to $8.5 billion due to rising trade deficits in goods complemented by the drop in investment income, while services trade deficit improved slightly. Effectively, imports, led by vehicles, outpaced exports. However, foreign investment surged in Canadian bonds mainly due to the combination of high interest rate and weaker currency. In addition, direct foreign investment reached its highest point in 17-year at $38,5 B mainly due to merger and acquisition activities ($21,2 B), along with the manufacturing ($8,7 B) and energy ($8,1 B) sectors.

- Canada has experienced a persistent current account deficit since 2008, due to many structural economic shifts including declining export of Canadian oil and gas, downward trends in global oil prices, higher deficit in trade balances for goods, machinery, equipment, services, technologies, limited pipeline capacity, inefficient logistic with transportation bottleneck, and investment income outflows. The persistent current account deficit places downward pressure on the CAD, affecting to some extent investors' confidence in the country's economy prospects.

- As of November 2024, the newly elected U.S. President, Donald Trump, announced that a 25% tariffs will be imposed on Canadian and Mexican exports, starting on January 20, 2025. This announcement jeopardizes somewhat earlier economic projections on potential decreases in inflation and interest rate as it may lead to higher costs for Canadian exporters, which could either be absorbed by businesses, reducing profit margins, or passed on to consumers as higher prices, contributing to inflation.





Commercial Real Estate Market Outlook – 2025

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- At DJEH Real Estate, we anticipate continued momentum in the multifamily sector throughout 2025, driven by fundamental demand-supply dynamics and the ongoing affordability challenges within the housing market. We expect cap rates to remain stable within the range of 4.25% to 5.50% across all asset classes, reflecting a balanced market with steady investor interest.

- In the industrial sector, we foresee continued growth, with investments and developments in warehouse spaces further bolstered by increasing e-commerce demand. As supply chains remain a focus of global discussions, Canada's industrial properties are poised to benefit, with local investors showing heightened interest in expanding production capacity.

- Office market prospects are stabilizing as the hybrid work model is now setting as the new norm. This trend is encouraging more physical presence in the workplace (typically three-days a week), offering a more favorable outlook for office investors, with less important decreases in transaction volumes, implying price stabilization. However, the key to success will lie in resilience and adaptability. Office investors must explore innovative reconversion strategies to stay aligned with evolving market fundamentals.

- The retail sector is showing signs of recovery as inflation reaches its target levels, and interest rates are expected to decrease further. While optimism is growing, we remain cautious and vigilant, monitoring potential market shifts, especially with the upcoming change in leadership in the United States. The next U.S. presidential administration will play a pivotal role in shaping global economic trends, particularly with respect to inflation and interest rates, which could impact the cost of living for Canadian citizens.

- Looking further ahead, DJEH Real Estate recognizes the need for a strategic shift. We strongly believe in the importance of strengthening Canada's economy and local production through strategies that will focus on: 1-improving workforce's training and education, 2-taking advantage on the positive side of immigration by leveraging the technical skills of newcomers, 3-invest significant capital in innovative machinery, equipment and intellectual property, 4-promote healthy business competition, and 5-address supply chain inefficiencies. By focusing on fostering domestic industry growth, policymakers, businesses and financial institutions will contribute to create a more resilient economy, a stronger labour market, and solid prospects to progressively build back consumers confidence, which will leverage further investment opportunities and long-term growth in the Canadian Real Estate market.

OUTLOOK 2025

Multifamily Cap rates
4,25% - 5,50%

Transaction volumes
(based on Supply-Demand fundamentals)

Multifamily + Industrial

Office

Retail

Contact

At DJEH Real Estate, our vision is to remain at the forefront of market trends. We are committed to navigating any market scenario with agility and insight, ensuring that our strategies align with the evolving needs of the Canadian real estate market. We invite you to explore these opportunities with us and stay ahead of the curve in shaping the future of real estate investment.

For more information visit **www.djehrealestate.com**

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