COMMERCIAL INVESTOR

REPORT 2016

WESTERN CANADA EDITION

RE/MAX COMMERCIAL®

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EXECUTIVE SUMMARY

Much of Western Canada continued to experience slower market activity in the first half of the year as regional economies continued to recover from the downturn in the oil sector. In B.C.'s Lower Mainland, by contrast, activity was brisk and prices continued to increase significantly in the commercial property market. The total dollar value of commercial real estate sales in the Lower Mainland in the first half of the year was $7.135 billion, an increase of 94 per cent over 2015, with land the most in-demand property type.

Demand for commercial property in the Vancouver area remains very high and continues to be driven mainly by local investors. Over the next several months, however, foreign buyers who are interested in investing in Greater Vancouver may start to shift their focus to commercial properties as a result of the recent foreign buyer tax on residential properties.

The commercial real estate markets in Calgary and Edmonton continued to feel the impact of lower oil prices. In Calgary, the number of commercial properties sold during the first two quarters of the year was down 12 per cent from the same period in 2015. The most significant impact has been seen in office space; at the end of July 2016, the office vacancy rate was approaching 25 per cent.

In Edmonton, the number of commercial building and land sales was down eight per cent year-over-year while the value of those sales was down five per cent. This marks the second consecutive year that total sales valued less than $1 billion by mid-year. Land sales declined by 40 per cent year-over-year, indicative of a slowing economy; however, the total dollar value of building sales was up 13 per cent compared with the first half of 2015.

There continues to be demand for good quality product in the Calgary and Edmonton markets, though a full recovery is not expected until oil prices rebound. There will likely be some good opportunities for investors coming on to the market later this year and next year as owners start to sell off assets.

The commercial real estate markets in Saskatoon and Regina have remained fairly active despite a somewhat softer market caused by the downturn in the resource sector. In both cities, the first half of 2016 saw increased investor interest from Real Estate Investment Trusts (REITs). A well-diversified economy and positive year for the agricultural sector are keeping confidence high in these markets.

In Winnipeg, demand for commercial properties has continued to outpace supply, with investors primarily interested in retail investment properties, industrial properties and vacant land. The market is expected to stay fairly stable and demand is expected to remain strong heading into 2017.

GREATER VANCOUVER

The first two quarters of 2016 saw a continuation of the high activity seen in Vancouver's commercial real estate market throughout the previous year. There were 1,464 commercial property sales in the first half of 2016, compared with 1,138 during the same period last year. The total dollar value of commercial real estate sales in the Lower Mainland in the first half of the year was $7.135 billion, an increase of 94 per cent over the $3.686 billion total in the first half of 2015.

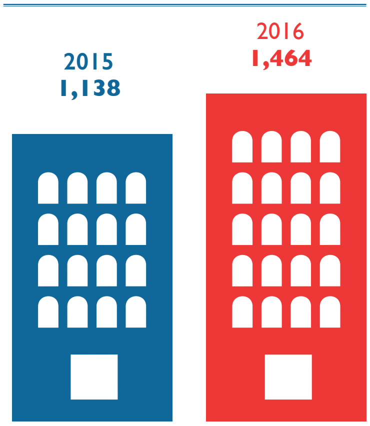
Vacant land continued to be a rare and highly in-demand asset in Greater Vancouver's commercial real estate market. There was strong growth in total volume of land sales during the first six months of 2016, rising to $3.519 billion, a 97 per cent increase from $1.783 billion in the first half of 2015.

The office and retail property markets also experienced significant increases: combined office and retail total sales increased from 420 in the first half of 2015 to 457 during the same period this year. The dollar value of office and retail sales in Q2 2016 was $1.758 billion, a 190.5 per cent increase over $605 million in Q2 2015.

Low interest rates continued to drive demand for all commercial property types in the region. Most investors remained local, but the weak Canadian dollar is fuelling an increase in buyers from outside of Canada—particularly from the United States and Asia—who are looking to enter the market. The Bentall Centre, a complex of four major office towers in downtown Vancouver, recently became the first billion dollar real estate sale in the city when it was sold to Anbang Insurance Group of China. This deal may signal a trend of increased foreign investor interest in Vancouver's commercial property market.

Vacancy rates have not had a significant impact on the number of sales in Greater Vancouver as the appetite to acquire assets in the Lower Mainland has remained strong to start the year.

TOTAL COMMERCIAL PROPERTY SALES (Q1 AND Q2)



Historical values are sourced from CREA or local board statistics.

Vacancy rates for all commercial property types currently sit at approximately nine per cent in the downtown core and slightly higher in the suburbs, at approximately 13 per cent.

Public transportation expansion projects are likely to lead to increased demand for land outside of Vancouver's downtown core. Two major projects include the 10.9 kilometre Evergreen Extension to the SkyTrain, which will connect Burnaby to Coquitlam, and the proposed light rail transit expansion between Surrey and Langley City. Land along transit lines is in high demand throughout Greater Vancouver and these proposed expansions are expected to increase the value of agricultural, commercial and industrial properties along the new routes.

Demand for commercial property in Greater Vancouver remains high, and could become even higher as a result of the recent implementation of a 15 per cent foreign buyer tax on residential properties, which could lead foreign investors to shift their focus to commercial properties.

Despite high demand, activity in the second half of the year may slow due to tighter inventory as the more desirable properties, such as those along major transit routes, start to make up a smaller share of the remaining inventory. There is currently approximately 5.3 million square feet of space under construction that is slated to come onto the market within the next 18 months, which is expected to increase inventory in 2017.

> ***"Demand for commercial property in Greater Vancouver remains high, and could become even higher as a result of the recent implementation of a 15 per cent foreign buyer tax on residential properties."***

EDMONTON

At the end of the second quarter, the number of commercial building and land sales was down eight per cent year-over-year and the value of those sales was down five per cent, marking the second consecutive year that sales value totaled less than $1 billion at mid-year.

Land sales declined by 40 per cent year-over-year, indicative of a slowing economy, but the total dollar value of building sales was up 13 per cent compared with the first half of 2015. Property values have remained fairly stable, with the exception of industrial property related to oilfield companies, which has seen a decline. Capitalization rates are trending modestly upward in most asset classes.

Private investors are the most active buyer segment in Edmonton's commercial property market, while institutional investors have been more conservative since the downturn in the Alberta economy. Demand from investors for top tier assets in all sectors remained high in the first half of the year. These include multi-family apartment, well-positioned retail, and industrial with well-capitalized tenants.

Despite the economic downturn, vacancy rates in Edmonton were fairly healthy at mid-year. The vacancy rate for industrial property was at six per cent, multi-family was at five per cent and retail was at 3.5 per cent. For office space, the vacancy rate is higher, at approximately 12 per cent. This is expected to increase as 1.8 million square feet of new inventory come onto the market beginning in 2017.

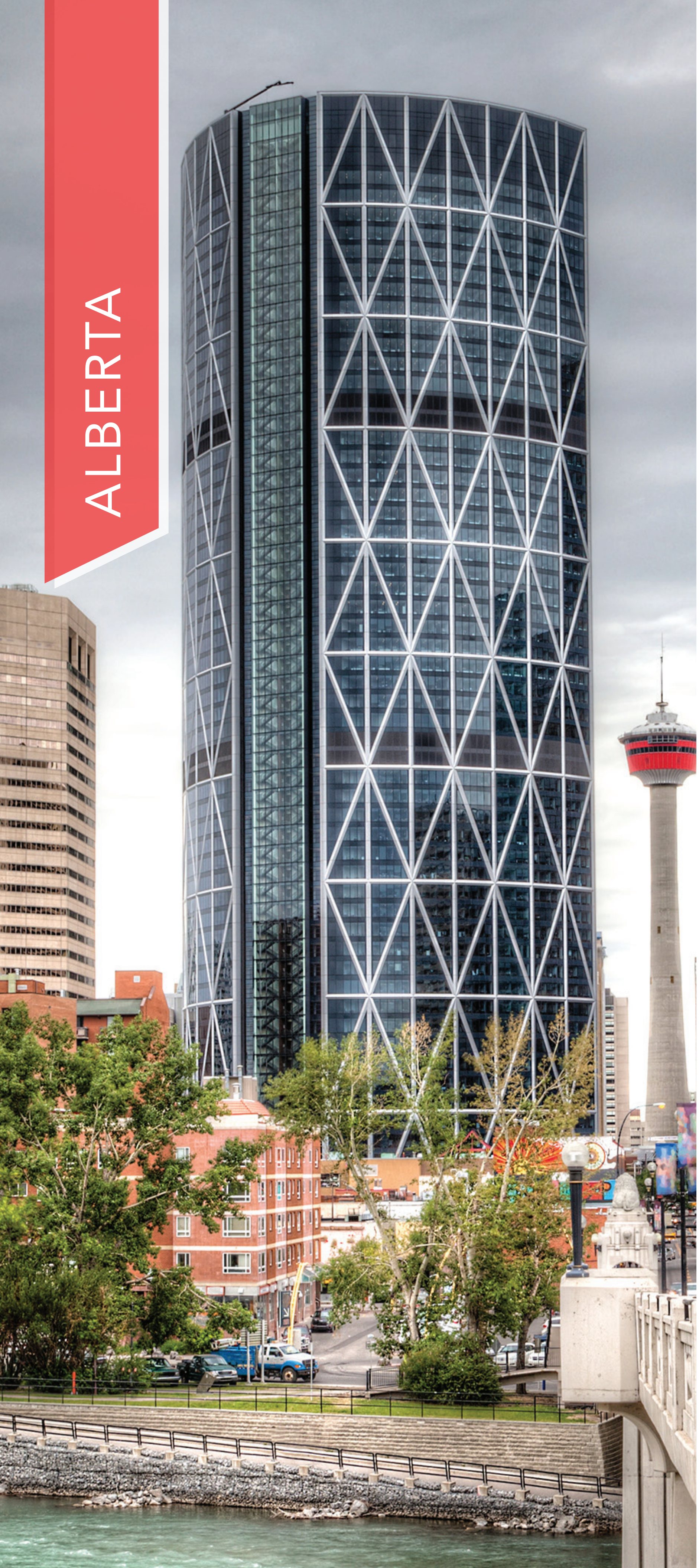
Increased vacancy typically results in a decrease in land sales as development slows down; however, there are assets available in the market that are attracting buyers who feel it is the time to increase their asset positions as world oil prices slowly recover. Alternatively, some commercial sellers are looking to dispose of assets, seeing the increase in vacancy and potentially a decrease in rental rates as a threat to their asset value.

"Private investors are the most active buyer segment in Edmonton's commercial property market, while institutional investors have been more conservative since the downturn in the Alberta economy."

Until the WTI benchmark price of oil stabilizes at or above $50 per barrel, Edmonton's commercial property market is expected to remain in a down cycle. A new provincial carbon tax comes into effect in January 2017, which is expected to further curtail capital investment and have a negative impact on the provincial economy.

On a more positive note, significant downtown development continues to boost employment and optimism. The $2 billion ICE District, featuring a new arena as well as office towers, hotels, entertainment venues and a museum, is revitalizing the city's downtown. The Anthony Henday Ring Road, scheduled to be completed this fall, is expected to unlock further development opportunities in Edmonton's northeast.

ALBERTA



CALGARY

Calgary's commercial property market continued to feel the impact of lower oil prices in the first half of 2016, which affected different asset classes in different ways. There were 132 sales of commercial properties in the first two quarters of the year, down from 150 in the same period in 2015.

The most significant impact of the downturn in oil prices at the end of 2014 has been seen in office space. There was significant downsizing in 2015, and the impact of that continues to be felt in the downtown office market in particular. At the end of July 2016, the office vacancy rate was approaching 25 per cent.

In some asset classes, particularly office space, the sublease market is putting pricing pressure on the primary lease market. As a result of companies downsizing, lease-holders in long-term leases are looking to sublease, and in order to do so have to price below market rate. This is having the most impact on office space, but is affecting retail as well.

Retail has rebounded somewhat and is fairly healthy, though there is high retail vacancy in downtown Calgary. Some of the large retail spaces left by Target exiting the Canadian market have been filled by new tenants such as fitness facilities, while others have been leased to other large American retailers. At the end of August, the retail vacancy rate was 3.4 per cent in the city overall and 11 per cent downtown.

Calgary continues to be a shipping and distribution hub, and distribution space continues to perform well. New companies have continued to move into the city and there is a lot of building on spec for these types of properties.

It is a tenant's market for apartment rentals, with vacancy rates hovering around six per cent. There have been few multi-family properties on the market this year. As values have decreased for residential properties, owners are holding on and waiting for prices to rebound.

"For investors, there will likely be some good opportunities starting to come onto the market later this year and next year."

There has been more foreign interest this year, particularly from Asia-based buyers. These buyers are typically looking for income-producing properties, or in some cases, businesses they can run themselves. Shopping centres with good tenants are in particularly high demand. REITs have remained active, though some are selling off their properties in Calgary.

This year has seen increased demand from small owner-users, particularly in the manufacturing and retail sectors. This has been driven by entrepreneurs who were previously employed in the oil industry and are putting their severance packages toward starting their own businesses: anything from fitness studios to dog day cares to welding shops.

Calgary has historically been a resilient market, and a slow but eventual recovery is expected. The office market is expected to experience the longest recovery. More office space is continuing to come on the market, while at the same time, the overall trend is for companies to shift to a smaller footprint.

For investors, there will likely be some good opportunities starting to come onto the market later this year and next year, as owners are no longer able to hold out for the upturn and have to sell off assets.

SASKATCHEWAN

SASKATOON

Saskatoon's commercial real estate sector has remained active and investors are confident despite a somewhat softer market caused by the downturn in the resource sector. There remains some demand in the market, particularly for apartment buildings and hotel development. In the first half of 2016, Saskatoon saw an increase in investor interest from Real Estate Investment Trusts (REITs) looking for portfolio investments and larger assets. Out-of-province investors incentivized by lower prices and overseas investors, primarily from China, also continue to drive demand.

There has been unprecedented development in Saskatoon's hotel sector over the past two years as over 900 rooms were added in 2015, with an additional 500 more expected for 2016 and 2017 as ongoing projects near completion. This expansion has allowed the city to land several major conventions and helped fuel tourism.

The apartment sector is still experiencing strong demand but activity is tempered by limited inventory. Residential lot sales are continuing to see sustained activity as the city and other major developers complete the development of new subdivisions, such as the Kensington, Brighton, Meadows and Meadows Market projects.

The retail sector has continued to show strength, with vacancy rates under four per cent. There are several new projects under construction across the city, including centres by DREAM, which will be built over the next 10 years and total more than one million square feet, and a 400,000-square-foot centre by Arbutus Properties, which includes Saskatoon's second Costco. The city is also in the planning stage for a new suburban centre on the west side of Saskatoon. Saskatoon's retail property market is expected to remain stable moving forward.

The industrial and office space markets have felt the decline in the resource sector most acutely. The industrial market has experienced slow absorption rates as developers have

> *"Out-of-province investors incentivized by lower prices continue to drive demand in Saskatoon's commercial real estate market."*

continued to construct new facilities despite lower demand. The commodity sector downturn has contributed to office space vacancy rates in the central business district of 15 per cent, which could grow to 20 per cent by the end of 2016. Class B and C office buildings have seen the largest increase in vacancy rates across the city.

Several office projects that were planned for construction have been delayed. One project that has moved forward is the River Landing Towers development, which is slated to begin construction this fall. The development will include 400,000 square feet of office space, a 165-room Alt Hotel by Le Germain, a residential tower, restaurants, retail shops, and a four-level underground parking garage.

Saskatchewan's diversified economy has kept investor confidence relatively high overall despite the commodity price downturn throughout 2014 and 2015. Several major city projects currently underway such as the North Commuter Parkway and Traffic Bridge in the north end, the Remai Modern Art Gallery and a new children's hospital are expected to complement and support economic growth through 2016 and 2017. These projects, combined with the anticipated turnaround of the resource sector and population growth in the city, are contributing to a positive outlook for Saskatoon's commercial real estate market heading into 2017.

SASKATCHEWAN

REGINA

Regina's commercial real estate market has remained fairly stable throughout 2016 with steady activity on a wide range of property types. The market has softened slightly as a result of the downturn in the commodities sector, but demand remains strong for multi-tenant retail properties, multi-family apartments and industrial properties. Development land in the city is in short supply and properties with good leases typically sell quite quickly.

Retail properties, particularly strip malls with good tenants, are in highest demand. The average price has remained stable year-over-year, sitting at approximately $18 to $20 per square foot for an existing space, and just over $20 for a new space. Multi-family apartments saw a rise in vacancy rates in the first half of the year, shifting from just under three per cent in 2015 to approximately six per cent, as a result of layoffs in the resource sector. Prices have remained fairly stable however at roughly $115,000 per door for buildings with eight units or more.

Investors from out of province and new immigrants, primarily from China, Korea, Eastern Europe, the Middle East and South Asia, are important drivers of demand in Regina's commercial property market. The first half of 2016 also saw increased interest in Regina's commercial property market from Real Estate Investment Trusts (REITs). REITs are typically looking to invest in multi-family apartment buildings, as well as office buildings with low vacancy and rental rates that are relatively affordable compared with other parts of the country.

There remains significant inventory of office space stemming from new product that came to market in recent years; however, these units are starting to be absorbed. Vacancy rates fell in the first half of 2016 to 13 per cent in the city centre, down from approximately 20 to 25 per cent during the same period last year. There is strong demand for properly priced office buildings with good leases in place.

"A diversified provincial economy has helped Regina's commercial real estate property market remain stable in 2016, and is expected to continue to do so into the next year."

The lack of available land combined with the downturn in the resource sector has resulted in few new development projects in the city. Two projects in the early stages of construction that have prompted optimism are the Regina Bypass project, a new $2 billion highway, and the 27-storey Capital Pointe luxury condo. A number of projects on the outskirts of the city, such as industrial and retail developments in Emerald Park and White City to the east of Regina, have also boosted confidence.

Until the potash and oil sectors rebound, Regina is unlikely to experience significant growth. However, a diversified provincial economy has helped Regina's commercial real estate property market remain stable in 2016, and is expected to continue to do so into the next year. A particularly strong performance from Saskatchewan's agriculture sector is predicted for the year and has helped buoy investor confidence. The market is not expected to change significantly over the next six to 12 months; activity is expected to remain stable throughout the third and fourth quarters and into the first half of 2017.

WINNIPEG

Through the first two quarters of 2016, demand for commercial properties continued to outpace supply in Winnipeg, with investors primarily interested in retail investment properties, industrial properties and vacant land. Overall, sales were up in the first half of 2016 as low interest rates continued to fuel demand for commercial property.

Demand in the market has shifted away from multi-family properties as the cost to renovate or repurpose the buildings that make up the current stock of inventory is often deemed to exceed the value of those properties. As a result, investors interested in multi-family properties typically look for vacant land to build new structures.

An increase in demand for condominium units as a lower cost alternative to buying a single family home over the past several years has driven new construction of multi-family condominium buildings. That market has now become fairly saturated, and developers have struggled to sell buildings with less attractive amenities and locations. Coupled with expectations that market conditions will remain stable for the foreseeable future and continued low interest rates, developers have been pushed into rental apartment development.

The city has also seen a rise in new office space construction driven by higher demand for services due to significant population growth. A new 40-storey office tower in the downtown core was approved in April and construction is set to begin in February 2017. Winnipeg is projected to continue to experience growth in the coming years, which has led to strong consumer confidence in the commercial property market.

Vacancy rates across all sectors are healthy and have remained largely static year-over-year. The new 40-storey office tower is scheduled for occupancy in 2019, and is expected to result in higher vacancy rates in the central business district for two to three years.

Experienced, local buyers and low interest rates fuel demand in Winnipeg. There is a significant concentration of local business owners who view owning their space as an attractive alternative to leasing. Most commercial property types in the city have seen price increases as multiple potential buyers incentivized by low interest rates vie for a limited number of properties.

There are not many bargains available in the city other than a few properties that would be typically deemed as less desirable, such as industrial properties with limited yard space or retail properties with higher vacancy rates. The outlook for the remainder of 2016 is positive, with the market expected to stay fairly stable and the demand to remain strong through 2017. Not until there is a significant interest rate hike is it expected that greater balance between supply and demand will come to Winnipeg's property market.

"In the first half of 2016, demand for commercial properties continued to outpace supply in Winnipeg."

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2016 RE/MAX COMMERCIAL INVESTOR REPORT:

The 2016 RE/MAX Commercial Investor Report includes data from local boards and brokerages. Brokers and agents are surveyed on trends, local development and features.

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