



Altus Group

Q3 2024

Commercial Real Estate Industry Conditions & Sentiment Survey

Canada results and analysis



Introduction

Q3 2024

Commercial Real Estate Industry Conditions & Sentiment Survey

Altus Group is pleased to share the results of our “Commercial Real Estate Industry Conditions & Sentiment Survey” with survey participants and partners. This survey was conducted by the Altus Group’s Research Team in an effort to provide insights into the market sentiment, conditions, metrics, and issues affecting the commercial real estate (CRE) industry.

The survey captures the individual practitioner’s perspective, representing various functions and across the capital stack. Participation in the survey is voluntary and responses will remain confidential.

As always, we invite you to share any feedback or questions with your Altus Group contact or reach out to the Altus Group’s Research Team directly at altusresearch@altusgroup.com.

Omar Eltorai

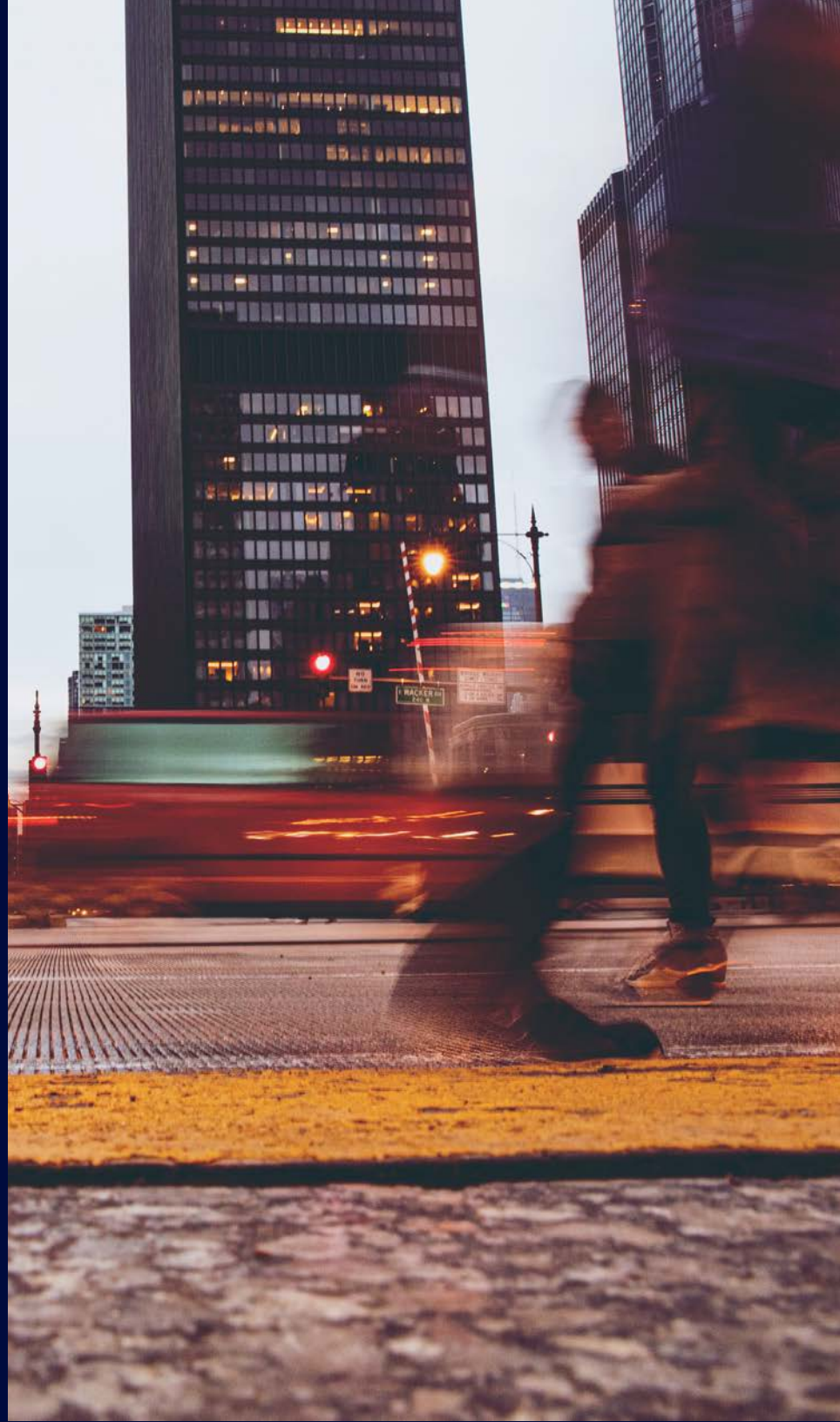
Director of Research, Altus Group’s Research Team

Cole Perry

Associate Director of Research, Altus Group’s Research Team

CRE Industry Conditions & Sentiment Survey Q3 2024 - Canada

Methodology



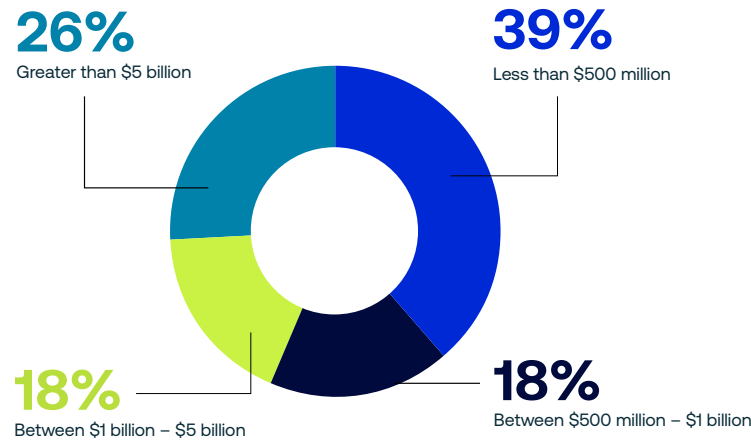
Survey size and methodology

Altus Group's Research Team surveyed industry participants across Canada from July 11 to August 6, 2024. There were 241 respondents, representing at least 89 different firms¹.

Questions in the survey were optional and explored two main topics: current conditions and future expectations. Percentages represent the share of all responses received for each question, excluding "blank" or "not applicable" responses.



Firm CRE exposure (\$CAD)



¹ Firm count based on participants who chose to identify themselves.

Functional area

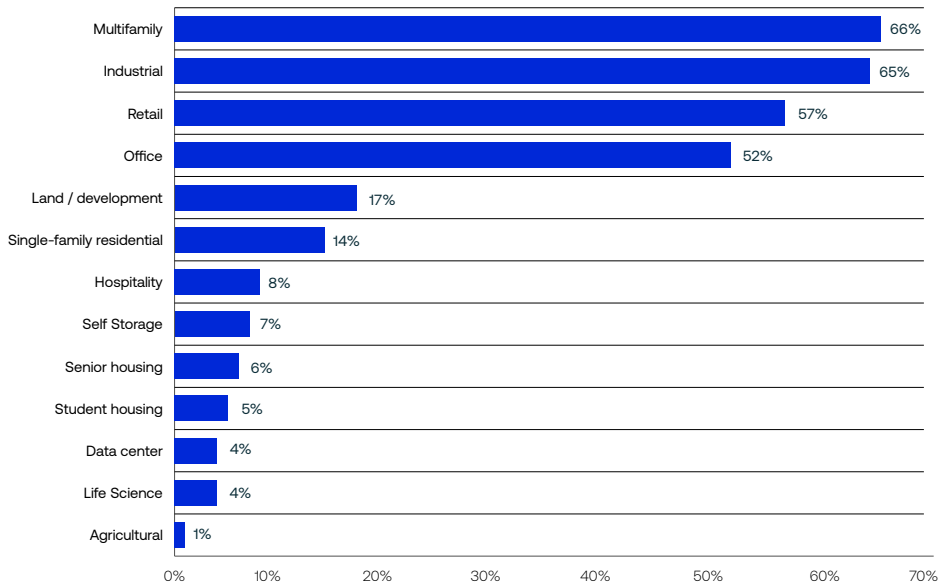
Senior management / exec. leadership	24%
Developer / construction manager	14%
Acquisitions / dispositions	10%
Appraiser / valuations	9%
Brokerage (investment sales or leasing)	8%
Asset manager / FP&A	7%
Property management	5%
Corporate (Accounting, HR, IT)	5%
Loan officer / credit risk manager	3%
Market research and analysis	3%
Originations / underwriting	3%
Equity investor	2%
Fund or portfolio manager	2%
Other	5%

Organization type

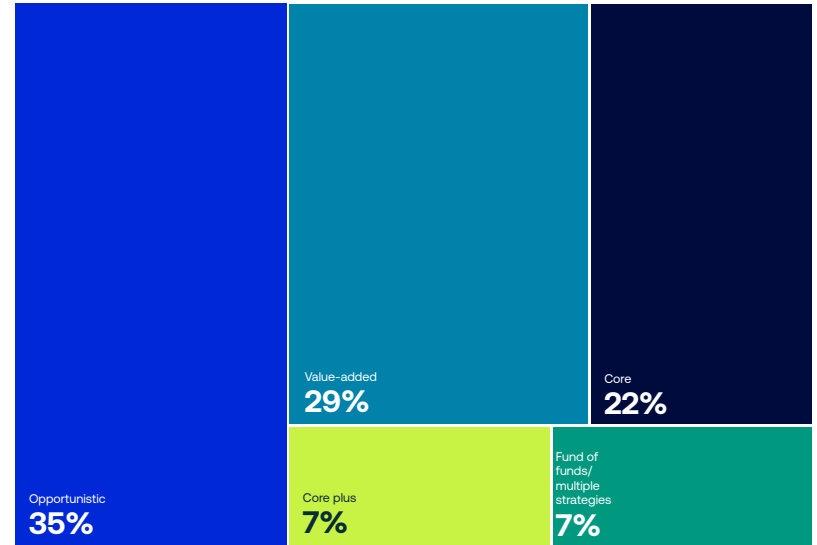
Developer	31%
Brokerage	12%
Asset management company	8%
Service provider	6%
Appraisal / valuation	6%
Investment manager	5%
Advisory	5%
Bank	4%
Government or Regulatory	4%
Non-bank lender	3%
Family office or sovereign wealth fund	3%
Pension fund	3%
Private equity	3%
Other	6%

Respondent characteristics

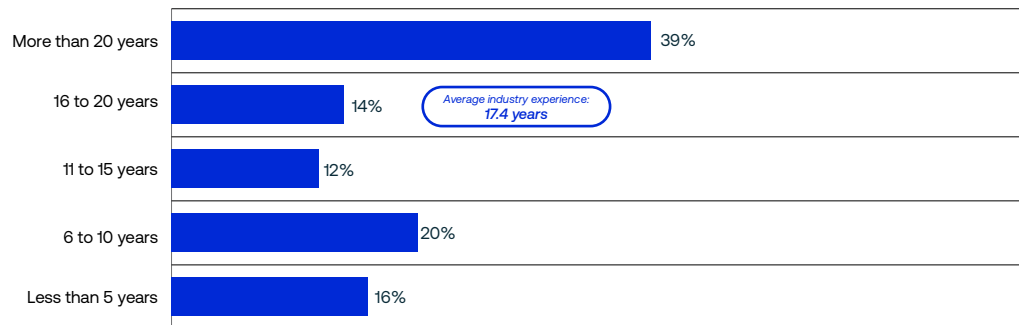
What property types does your firm primarily focus on?



How would you describe your firm's primary investment strategy?



How many years of experience do you have in the industry?



Note: Percentages represent the share of all responses, excluding "blank" or "not applicable" responses.

CRE Industry Conditions & Sentiment Survey Q3 2024 - Canada

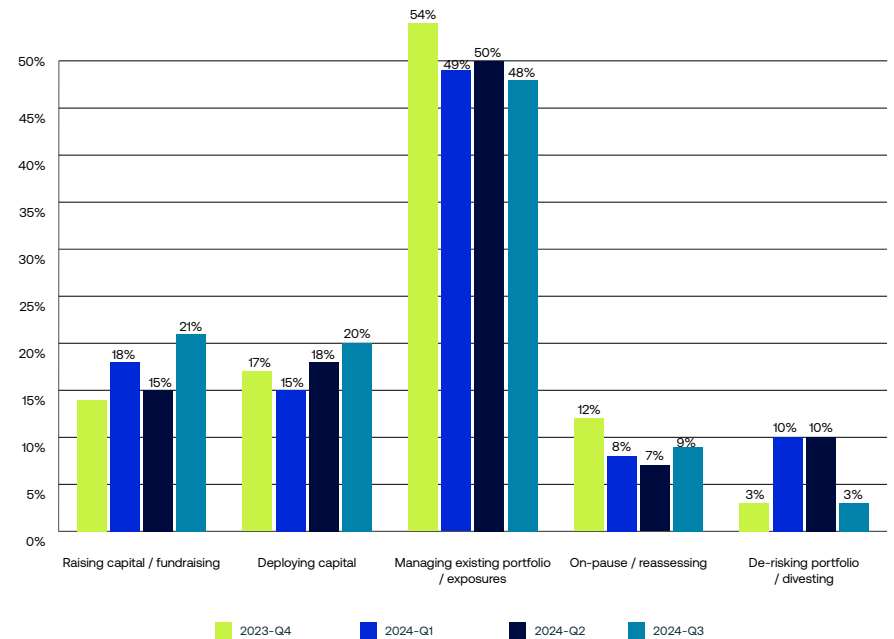
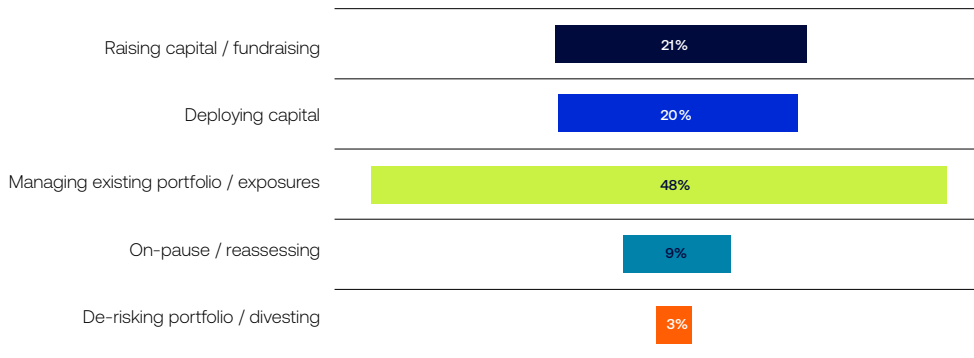
Conditions



Current focus

Respondents are increasingly gearing up to put capital to work. The percentage who cited “raising capital” as a primary focus gradually gained 6 percentage points – from 15% in Q4 2023 to 21% in Q3 2024. The percentage of those who cited actively deploying capital increased 2 percentage points quarter-over-quarter to 20%, while the share simply managing existing exposures slipped slightly from 50% to 48% over the same period.

What do you think your team’s primary focus will be over the next 6 months?

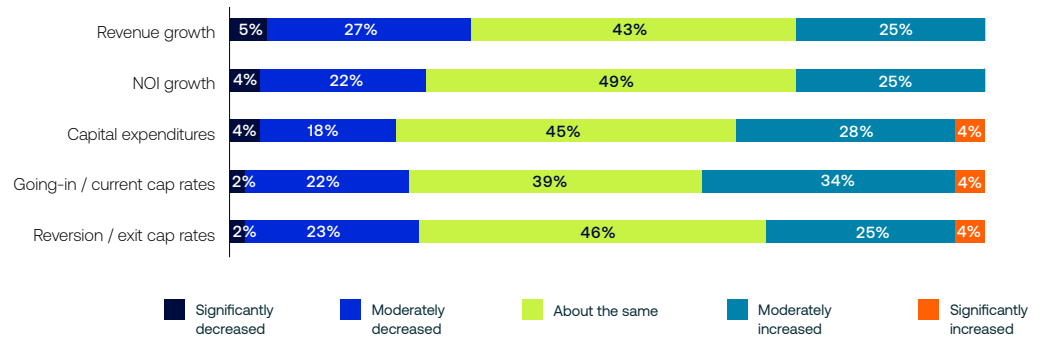


Note: Percentages represent the share of all responses, excluding “blank” or “not applicable” responses.

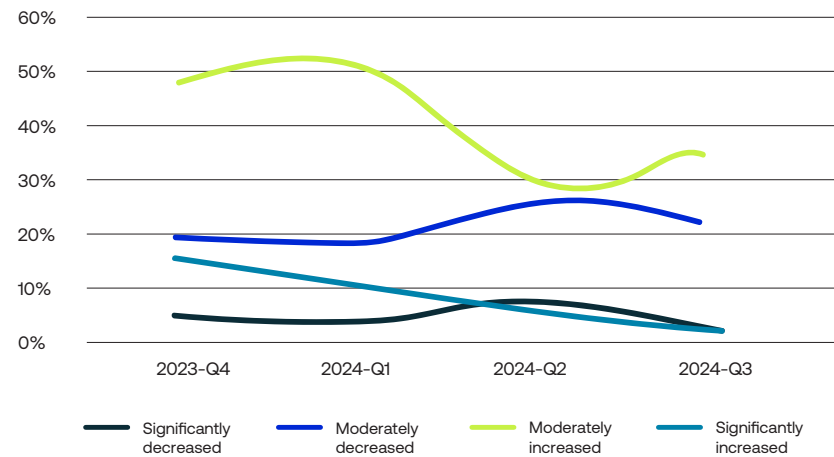
Cash flow expectations are broadly leveling off for key metrics among Canadian respondents. A plurality stated that expectations were “about the same” as a year ago across revenue growth, NOI growth, capital expenditures, going-in/current cap rates, and reversion/exit cap rates. Despite this, respondents remain relatively split on revenue and NOI growth. In Q3, 25% stated that they had moderately or significantly increased expectations for revenue growth, while 32% said they had moderately or significantly decreased expectations relative to a year ago. A similar 25% and 26% respectively said the same for NOI growth.

As recently as Q1 2024, a majority (54%) cited increased expectations for going-in cap rates, but the percentage experiencing increases in expectations has since fallen to 36%.

How have your expectations for your portfolio changed compared to 12 months ago?



Expectations for going-in/current cap rates

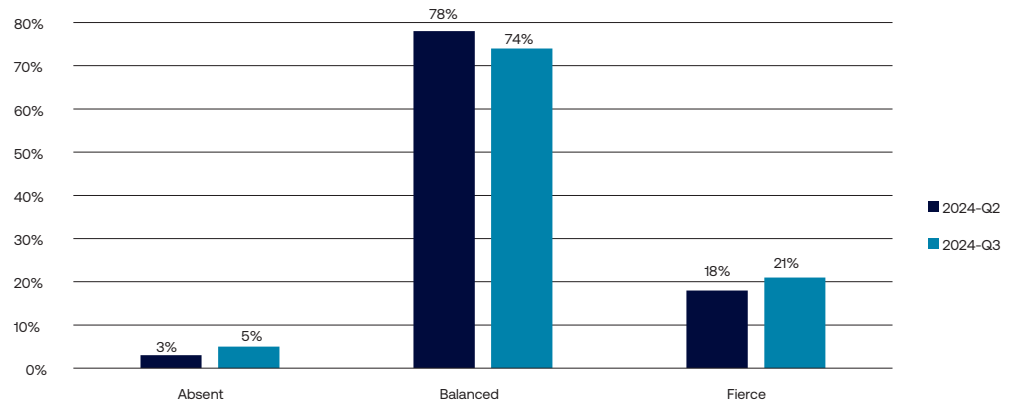
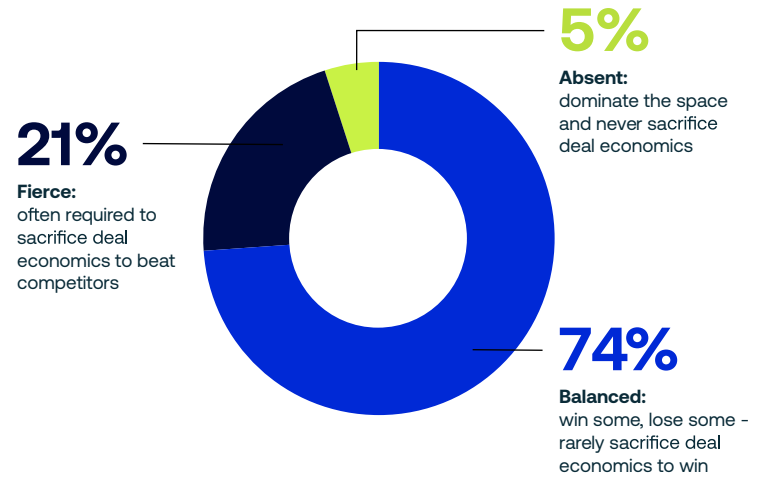


Note: Percentages represent the share of all responses, excluding “blank” or “not applicable” responses.

Competition and pricing

Respondents cited increasingly intense competition among their peer firms in Q3. More than one in five respondents stated that the level of competition within their firm's peer group was "fierce", up 3 percentage points quarter-over-quarter. Relatedly, the percentage describing the level of competition as "balanced" slipped to 74%, a 4 percentage point drop quarter-on-quarter.

How would you describe the level of competition among your firm's peer group?

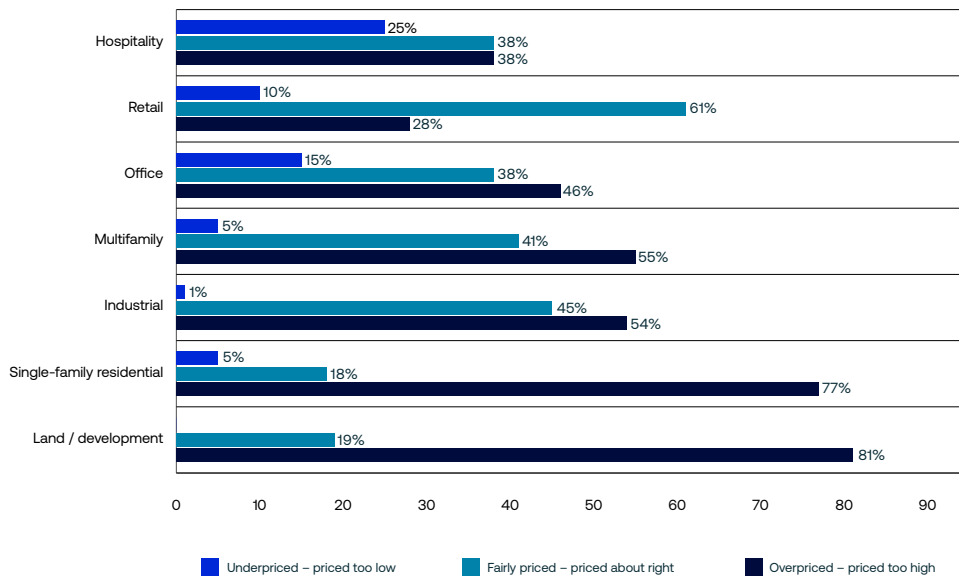


Note: Percentages represent the share of all responses, excluding "blank" or "not applicable" responses.

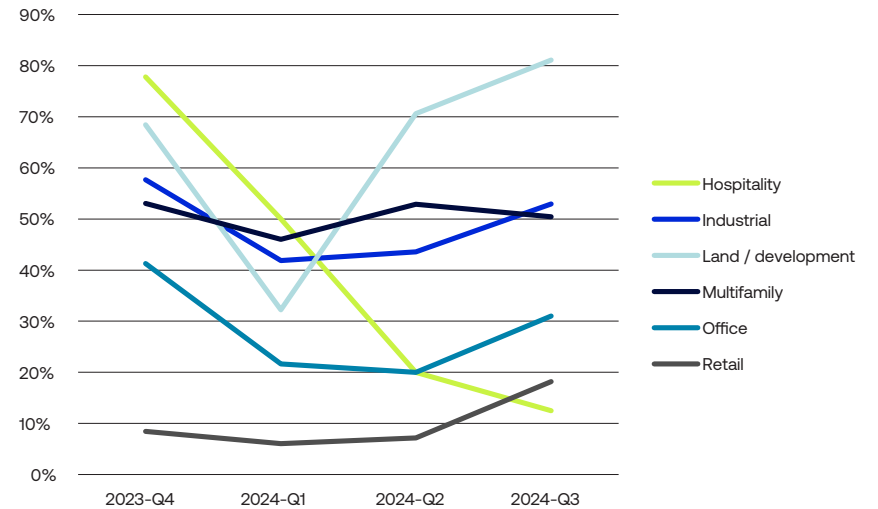
Respondents still characterize much of the market as “overpriced”. Survey responses reflected that many participants still view current pricing to be too high, characterizing the sectors as “overpriced”. The “priced too high” characterization was most evident for land/development (81% of responses) and single-family residential (77%), followed by multifamily (55%) and industrial (54%). The retail sector was the only property sector which had a majority (61%) characterization of being “fairly priced”.

Compared to Q2, responses for hospitality experienced the biggest shift as nearly 23% of survey participants shifted away from characterizing it as being “fairly priced” to either “underpriced” (+15 percentage point shift QoQ) or “overpriced” (+8 percentage point shift).

How would you characterize current pricing for the following property types?



Net characterization of current pricing¹

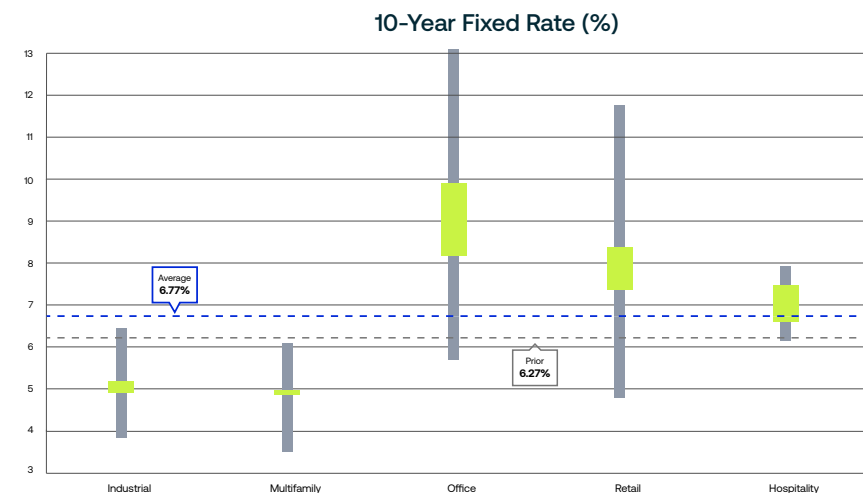
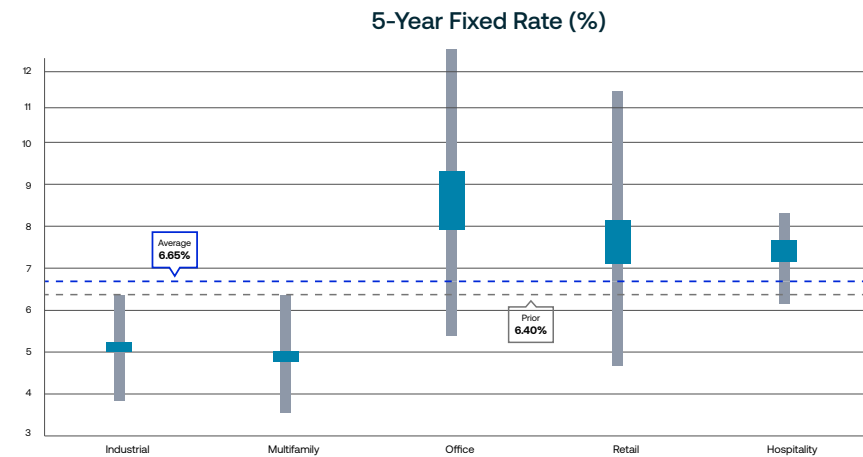
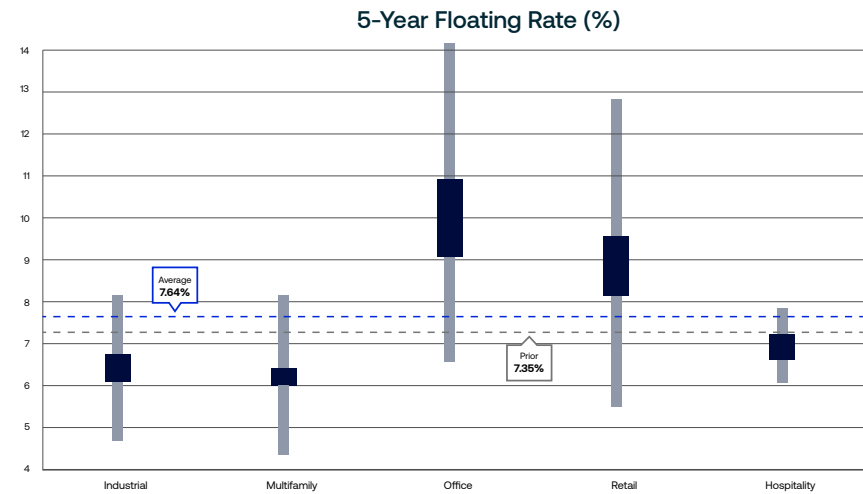


¹Net characterization is calculated as the percentage of respondents who said “Overpriced - priced too high” less the percentage of respondents who said “Underpriced - priced too low.”

Note: Percentages represent the share of all responses, excluding “blank” or “not applicable” responses.

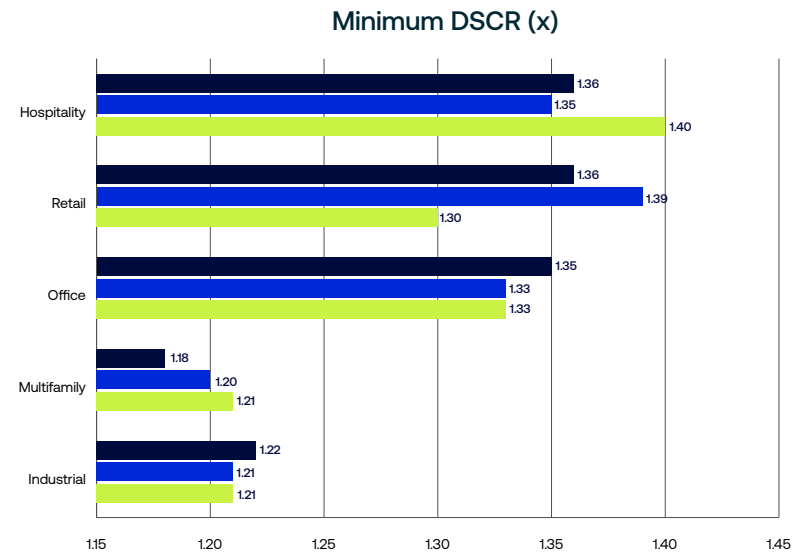
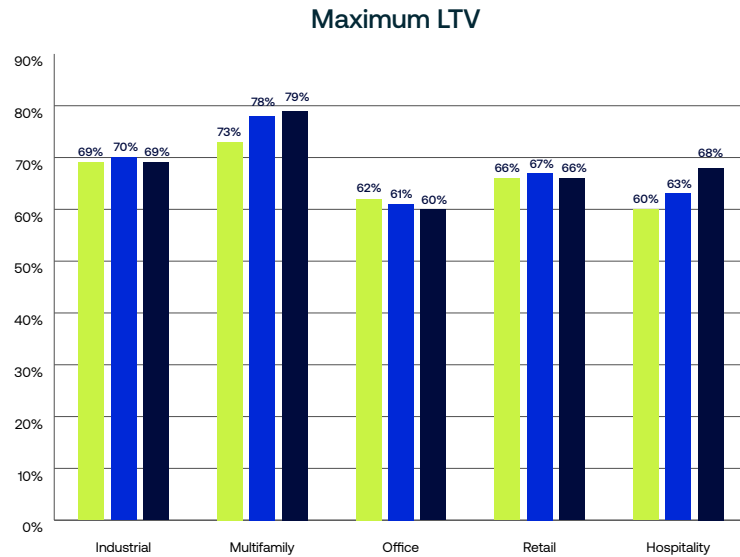
What all-in interest rates are you seeing in the market?

Debt costs rise across property sectors. The average all-in interest rates across the five main property sectors (hospitality, industrial, multifamily, office, retail) moved up on the quarter for 5-year and 10-year loan terms. The average interest rate on 10-year fixed rate debt moved up the most (+51 bps) to 6.77%, while both 5-year floating and 5-year fixed rate interest rates moved up 29 bps and 25 bps, respectively. However, the majority of this change was a result of higher interest rates reported for office, which moved up an average of 174 bps for 5-year and 201 bps for 10-year financing compared to Q2 2024.



What senior debt financing terms are you seeing in the market?

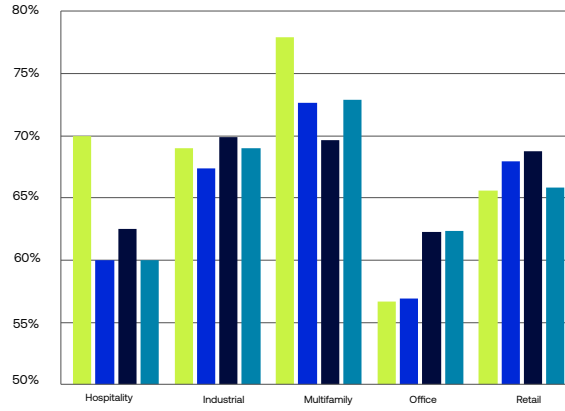
Modest shift in underwritten maximum leverage and minimum coverage ratios. Reported terms for senior debt financing shifted modestly from Q2 to Q3. Across most property sectors there were minor changes to the max loan-to-value (LTV) reported, with the exception of hospitality and multifamily which saw +5 percentage point increases to their 10-year financing max LTVs QoQ. Minimum debt service coverage ratios (DSCR) reported for office and retail also increased on the quarter, especially for the 5-year fixed rate loan product.



■ 5Y Floating ■ 5Y Fixed ■ 10Y Fixed

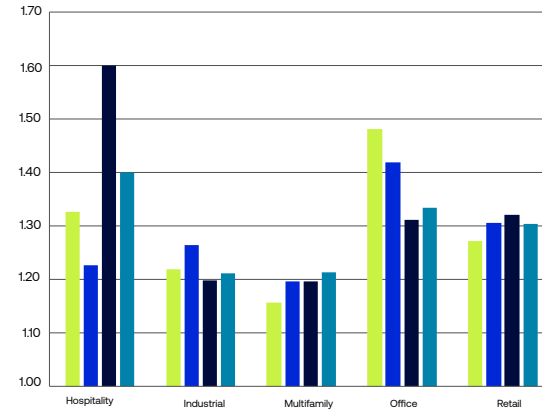
Maximum LTV

5-Year Floating Rate (%)

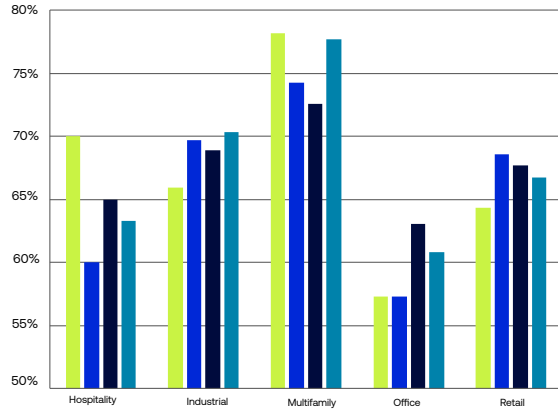


Minimum DSCR (x)

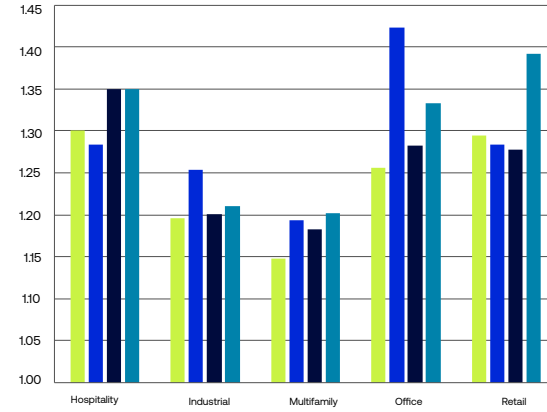
5-Year Floating Rate (%)



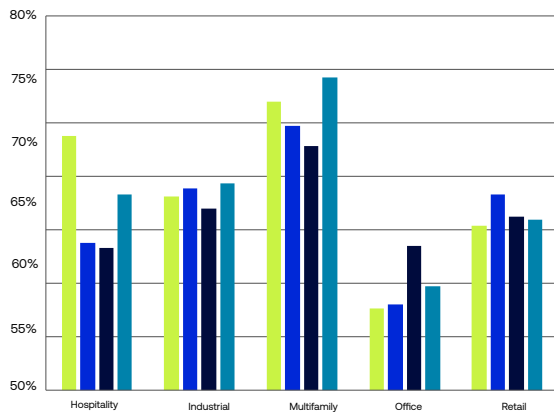
5-Year Fixed Rate (%)



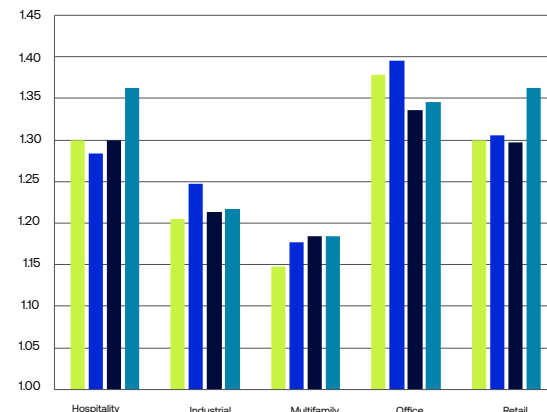
5-Year Fixed Rate (%)



10-Year Fixed Rate (%)



10-Year Fixed Rate (%)

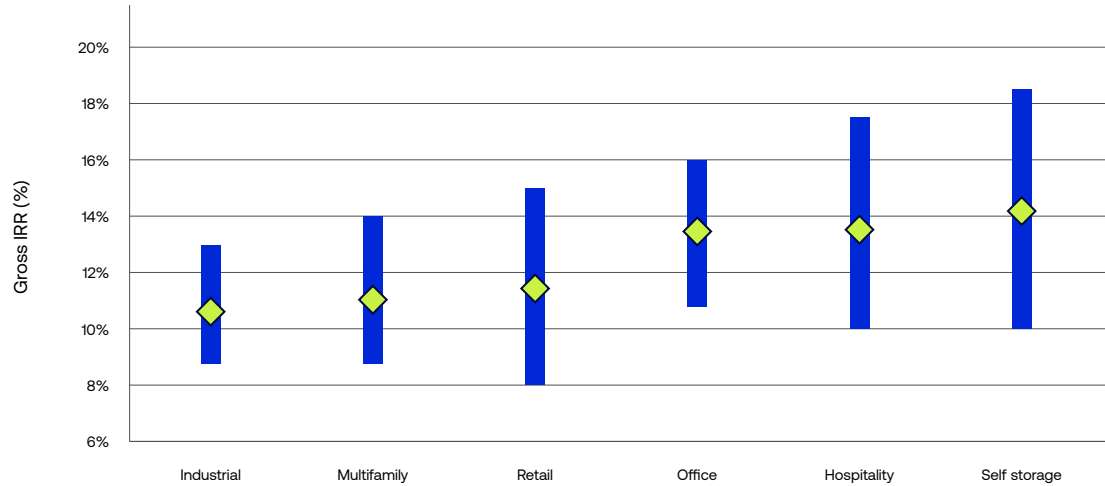


2023-Q4 2024-Q1 2024-Q2 2024-Q3

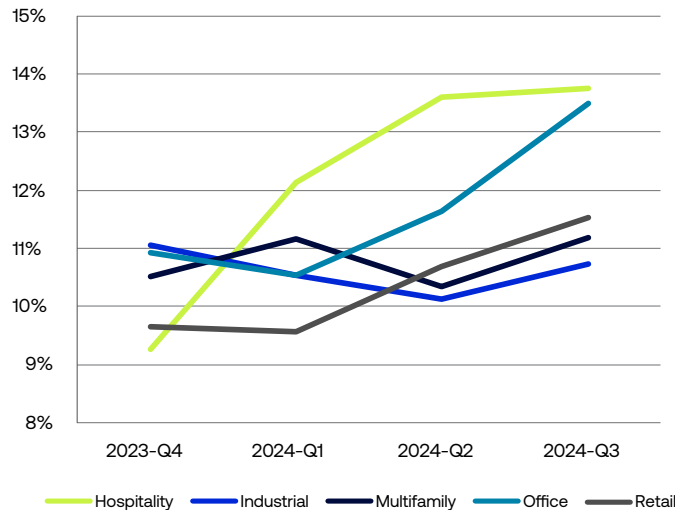
Reported current market gross IRRs

Midpoint gross IRRs targeted by new funds increase. Compared to Q2, the Q3 reported midpoint for gross IRRs targeted by new funds increased across all the property sectors, increasing the most for office (+188 bps vs Q2). New fund gross IRRs have been trending upwards over the last four quarters for office, hospitality, and retail, while those for industrial and multifamily have largely remained consistent.

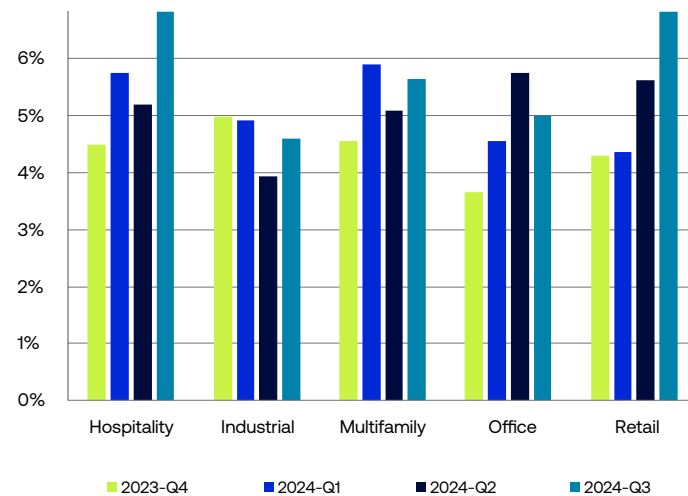
What are typical ranges for the returns you are seeing across the current market for new funds?



Gross IRRs targeted by new funds



Range of Gross IRRs (high end less low end)



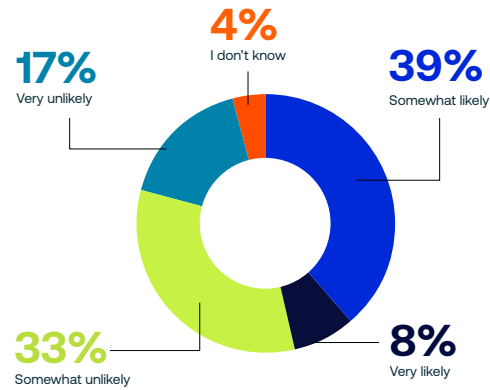
CRE Industry Conditions & Sentiment Survey Q3 2024 - Canada

Sentiment & expectations

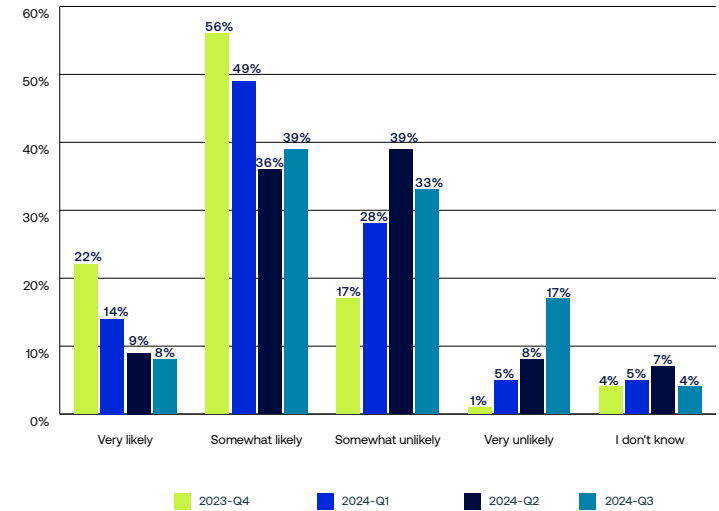


Recession expectations

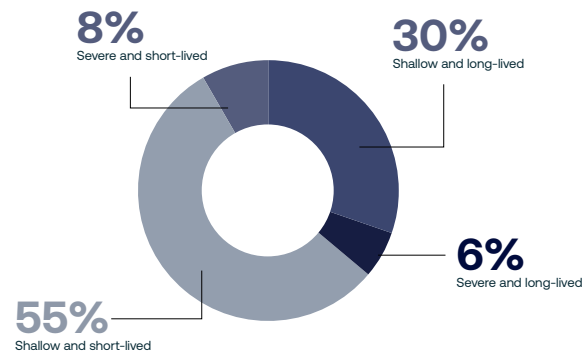
Slight increase in expectation for the likelihood of a near-term recession. Thirty-nine percent of respondents expect a recession to be “somewhat likely” over the next 6 months, up from 36% in Q2, though down from the 56% who said the same in Q4 2023. Participants’ views on a near-term recession have faded over the last quarter, as the percentage of those saying a near-term recession is “very unlikely” increased by 8 percentage points to 17%, well above the 1% who said the same in Q4 2023.



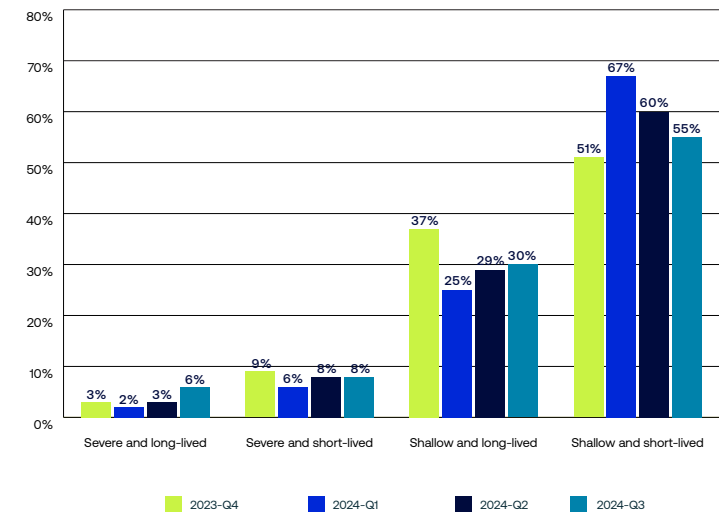
How likely is an economic recession within the next six months?



Respondents align on expectation for a shallow recession. A majority, 55% of respondents, anticipate that the next recession will be shallow and short-lived, a 4 percentage point decrease from Q2, and 12 percentage points less than the Q1 2024 survey. The second most popular description was “shallow and long-lived”, suggesting that the majority believes it will be shallow, even if there is less alignment on the duration.



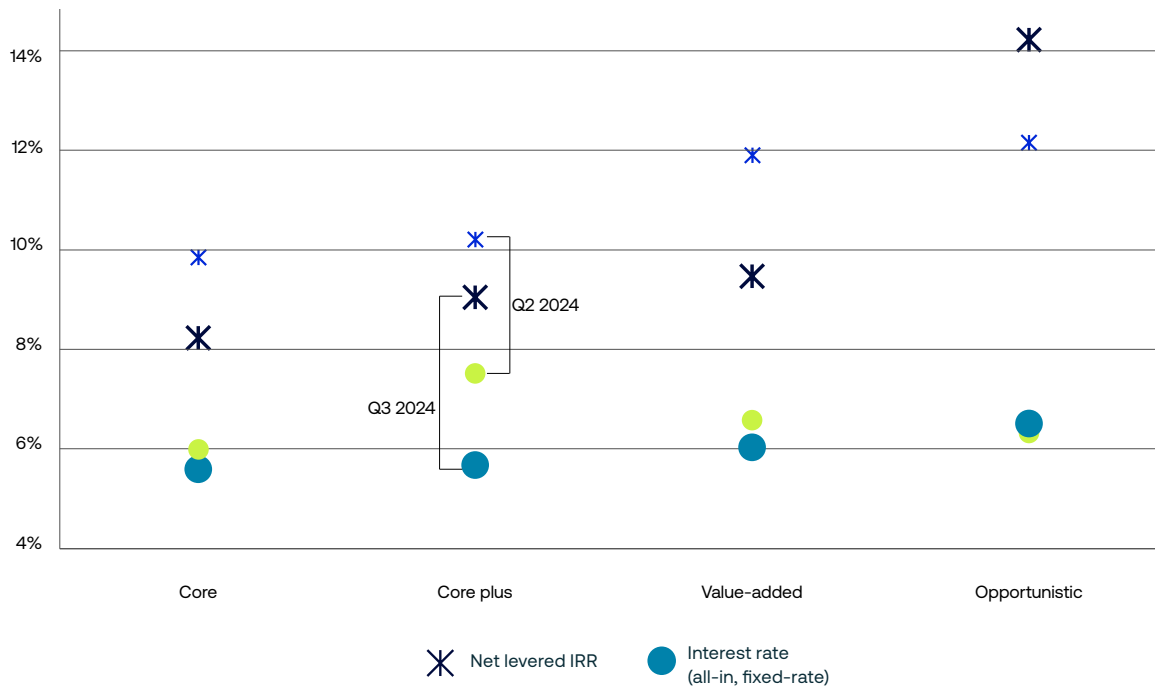
What will be the depth and length of the next economic recession?



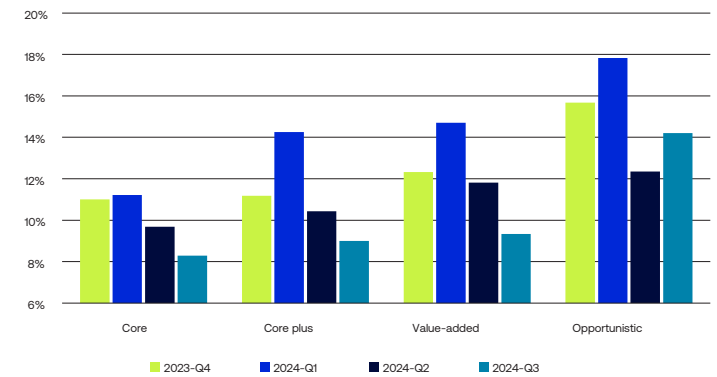
Cost of capital expectations

Expected returns for investors continue to decline across most fund strategies. Expected net levered IRRs over the next 12 months continued to decline on the quarter, falling by an average of 86 bps QoQ across the four main equity strategies: core, core plus, value-added, and opportunistic. The only strategy that saw an increase in expected net levered IRR was opportunistic, which increased by 185 bps on the quarter to 14.2%. Meanwhile, 12-month forward expectations for all-in, fixed-rate financing across these strategies also came down, though to a lesser degree, falling 66 bps on average across all strategies.

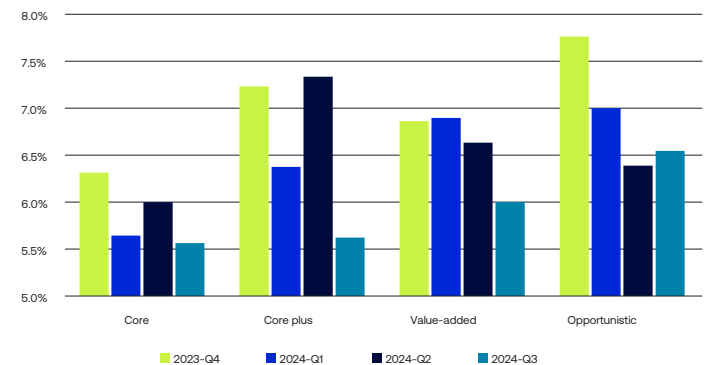
Where do you anticipate the cost of capital to be over the next 12 months (on annualized basis)?



Net levered IRRs



Interest rate (all-in, fixed rate)



What changes do you anticipate to the following key metrics over the next 12 months?

Growing conviction for little change across key operating and performance metrics.

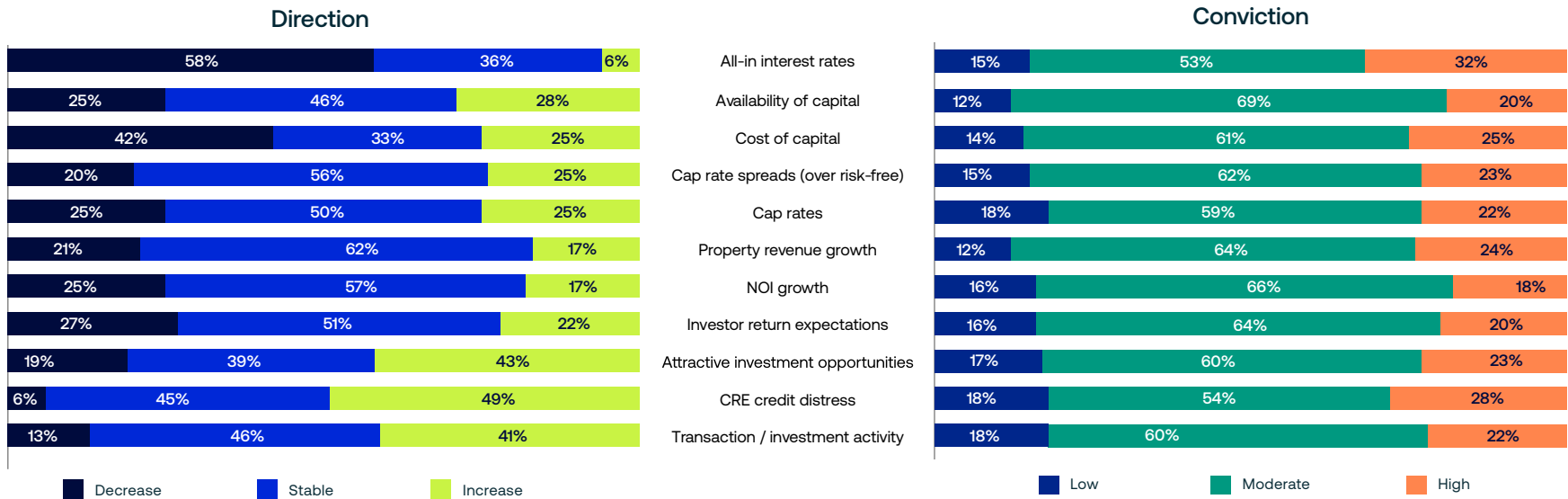
Respondents' expectations for capital conditions (cost of capital, interest rates, availability) were thrown over the last two quarters. Respondents expect the cost of capital and all-in interest rates to decline over the next 12-months. And while on net the responses suggest that little change is expected to the availability of capital, there's growing collective conviction amongst respondents.

Respondents' conviction has largely collapsed over the last four quarters in terms of 12-month forward expectations for cap rates (spreads and absolute). And while conviction has come down, the net expectation is that these remain largely

unchanged over the coming year. Property cash flows (revenue growth, NOI growth) are anticipated to decrease slightly over the coming year.

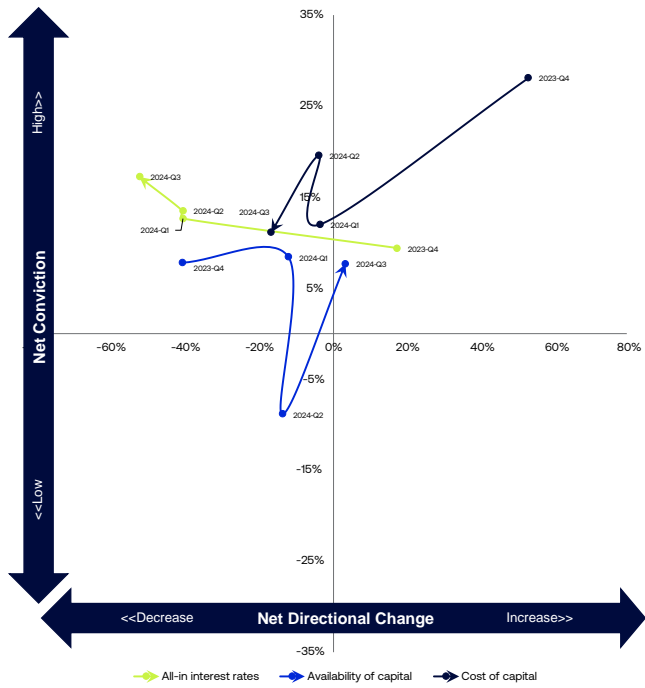
Finally, respondents had increased conviction that the next 12 months will bring heightened credit distress, transaction activity, and attractive investment opportunities, while investor return expectations remain little changed.

What changes do you anticipate to the following key metrics over the next 12 months?

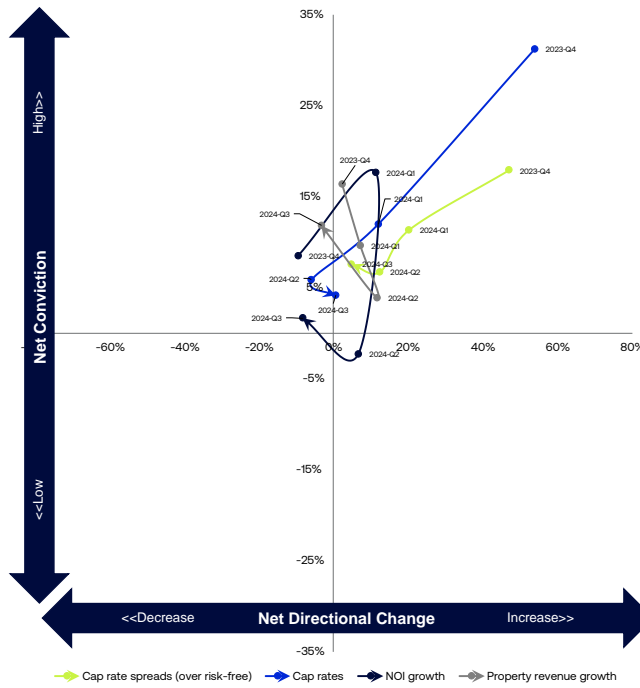


Migration of Net Direction vs Net Conviction

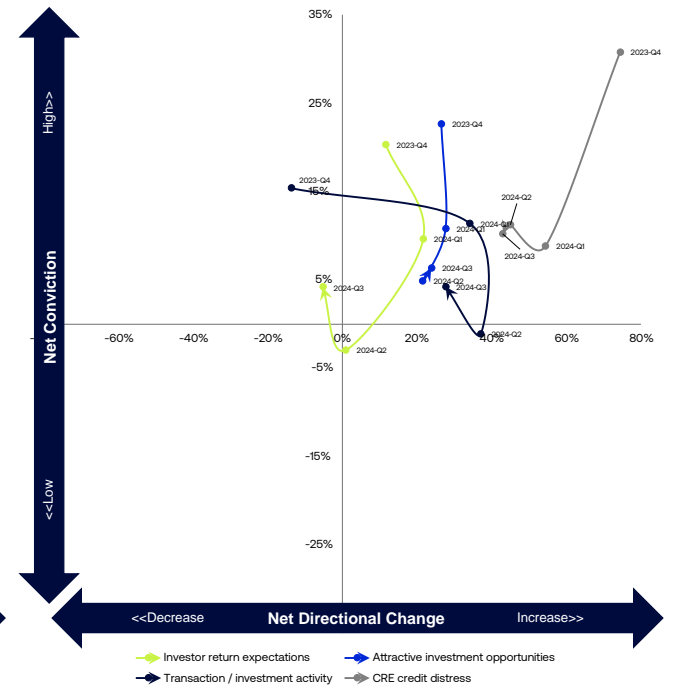
Capital: Interest Rates, Availability, Cost of Capital



Fundamentals: Revenues, NOI, Cap Rates



Investments: Returns, Distress, Activity



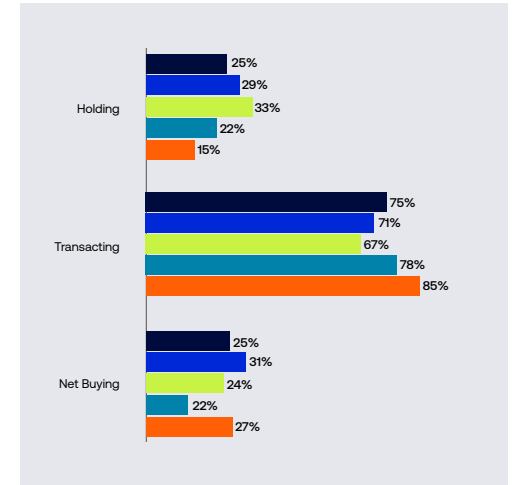
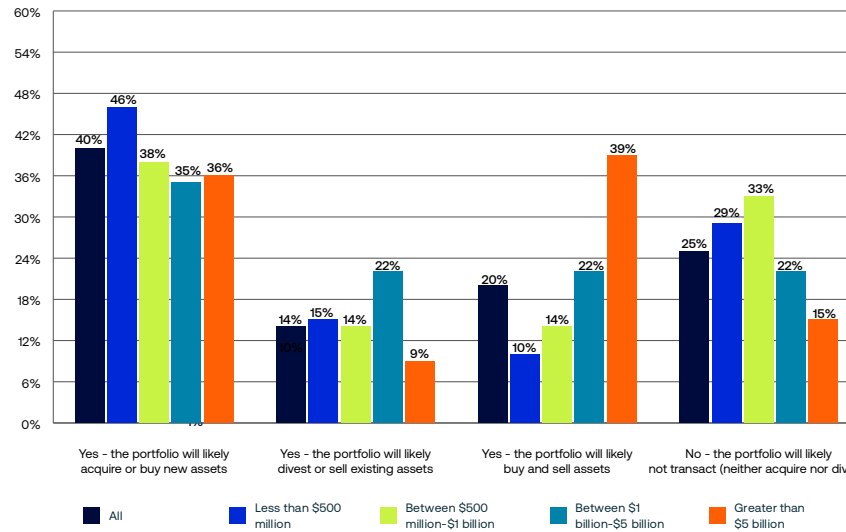
Transaction intentions over next 6 months

Transaction intentions show significant shift towards near-term pickup in activity. Respondents' near-term transaction intentions increased meaningfully through Q3. A majority (75%) of respondents noted that they plan to transact (buy and/or sell) in the next 6 months, up 10 percentage points from the prior quarter and the highest level in four quarters. Net buying intentions also jumped on the quarter to 26%, up 8 percentage points from Q2 2024. Respondents at small- and mid-sized firms, those with less than \$1 billion, reported the highest degree of buying intentions; while the largest firms (those with greater than \$5 billion) reported the highest degree of intentions to buy and sell.

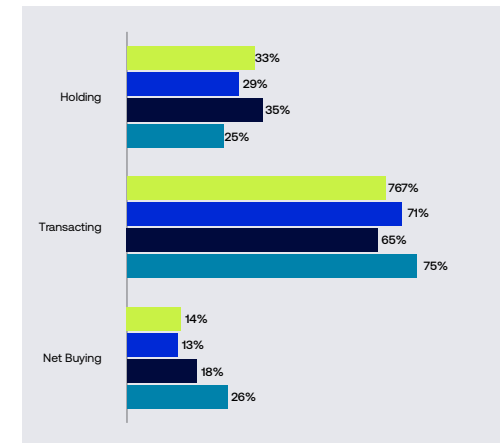
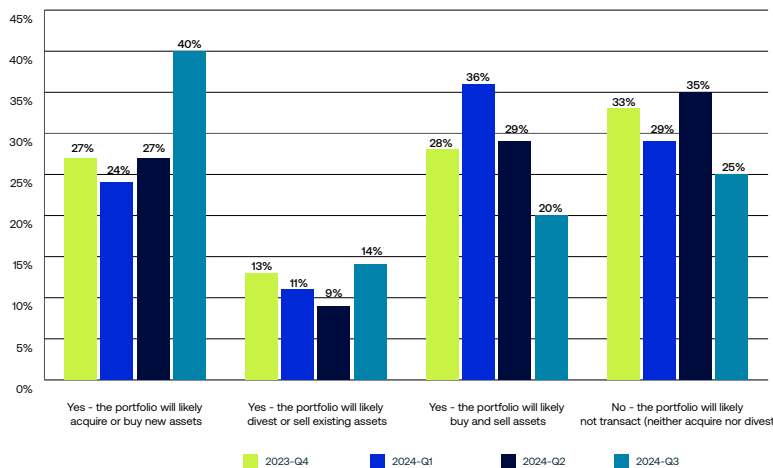
Over the next 6 months, do you anticipate any transactions in your portfolio?

Comparison of quarterly near-term transaction intentions (all firm sizes)

Transaction intentions by firm size



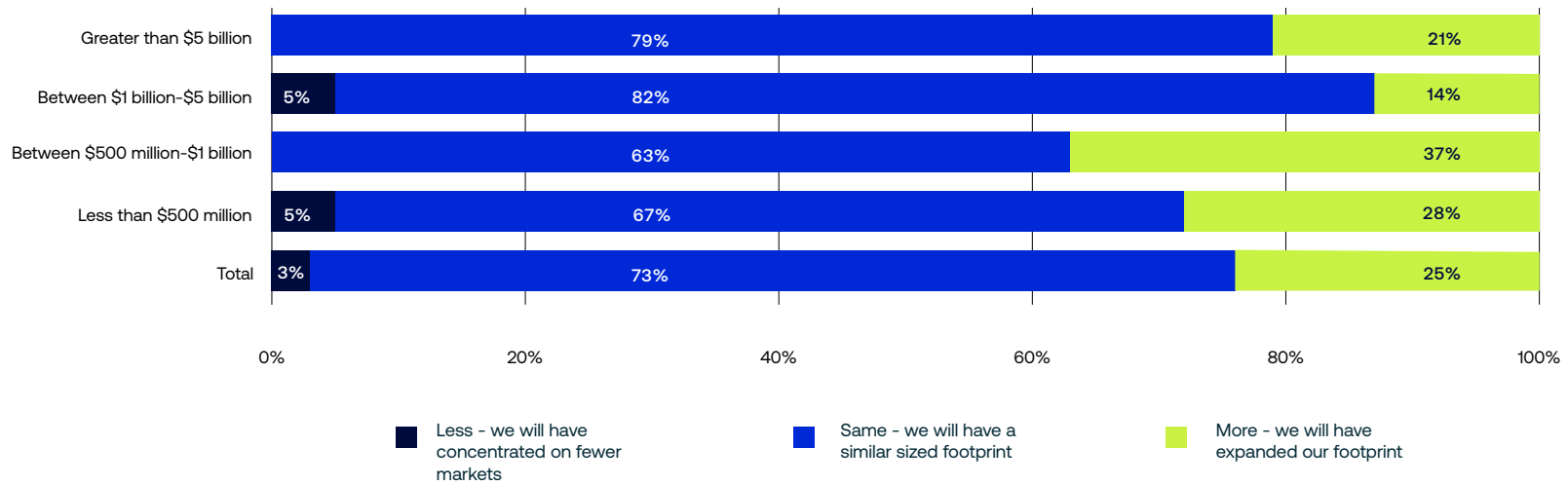
Transaction intentions over time



Geographic footprint expectations

Nearly 75% of respondents expect their firms to operate in the same number of markets within the next year, while 25% anticipate expansion into additional markets. Notably, 37% of respondents from firms with \$500 million to \$1 billion in CRE exposure expect to expand operations into more markets, compared to just 14% from firms with \$1 to \$5 billion in CRE exposure.

A year from now, how many markets (metros, cities) do you think your firm / fund will be operating in?



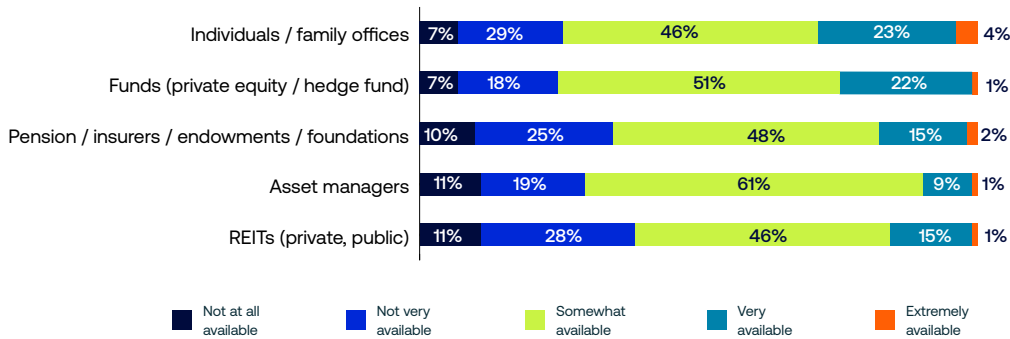
Note: Percentages represent the share of all responses, excluding "blank" or "not applicable" responses.

Capital availability

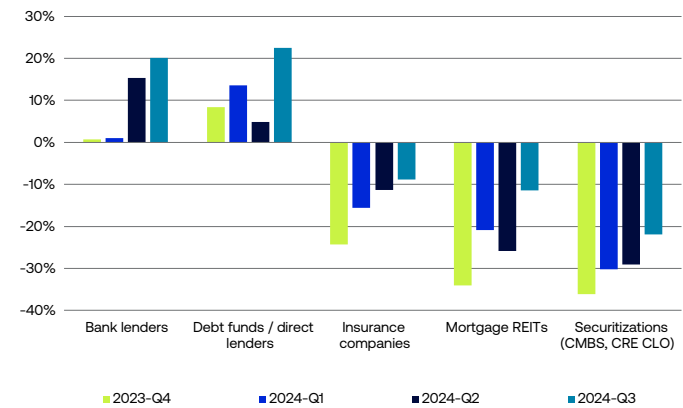
While expectations for capital availability remain low overall, net expectations surged across all sources of debt in Q3. Despite this, Insurers, mortgage REITs, and securitizations remain in negative territory, with a net -9%, -11%, and -22% respectively expecting those sources to be available within the next year. Respondents in Canada broadly expect equity to be difficult to come by within the next year. Individuals/family offices were the only sources showing a net positive expectation for availability within the next year at nearly 1%. Net expectations waned for asset managers quarter-over-quarter (falling 4 percentage points to -20%) and for pensions (falling 6 percentage points to -18%). However, net expectations for equity from REITs surged 16 percentage points over the same period.

What are your expectations for the availability of capital over the next 12 months?

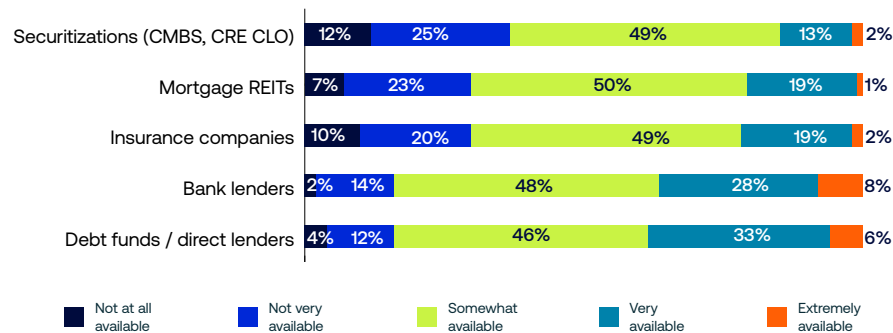
By equity source



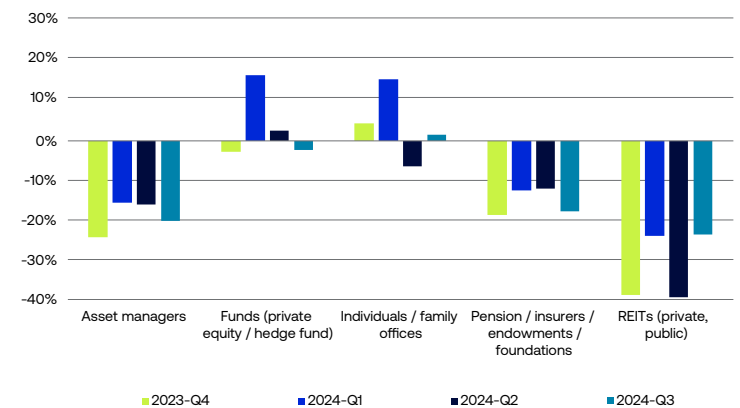
Net expectations



By debt source



Net expectations

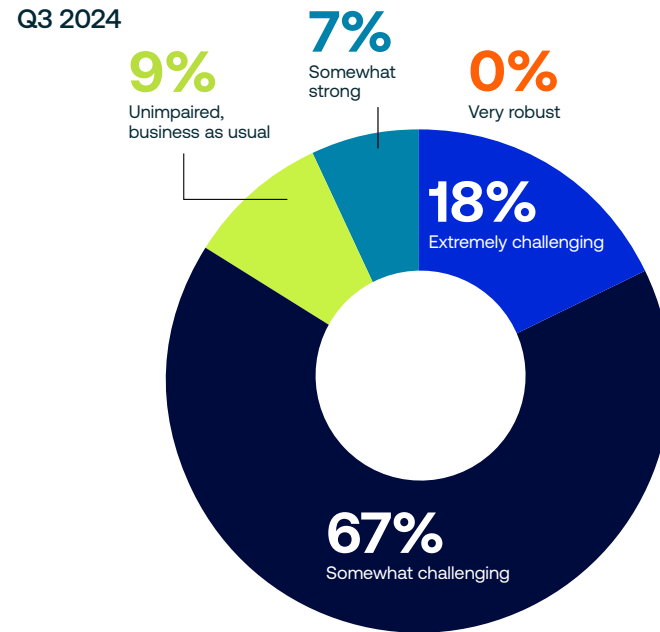
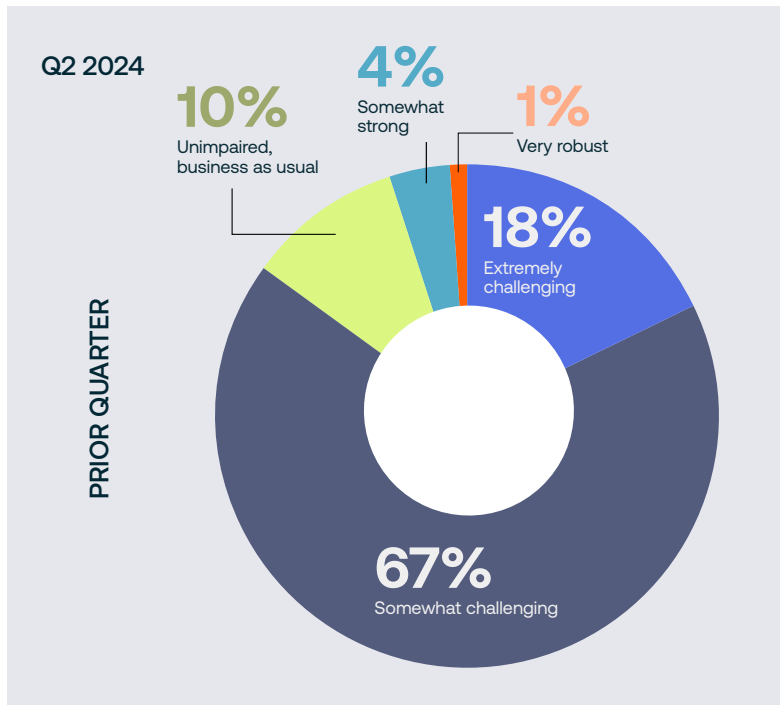


Note: Net expectation is the sum of responses for extremely available and very available less the sum of responses for not very available and not at all available.

Expected operating environment

Respondent expectations for the operating environment over the next 12 months generally remained stable quarter-on-quarter. 67% anticipate a “somewhat challenging” environment and 18% expecting an “extremely challenging” one. However, the fraction of respondents that described the environment as “somewhat strong” increased 3 percentage points to 7%.

What best describes your expectations for the operating environment over the next 12 months?



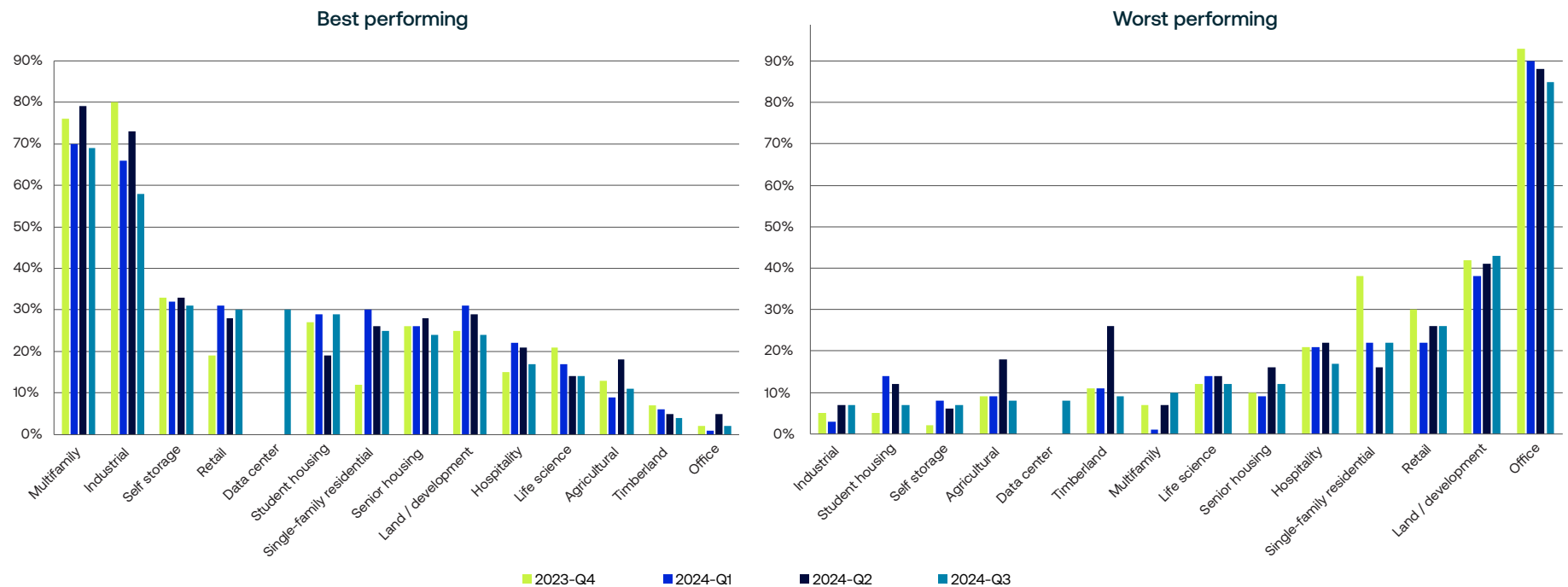
Note: Percentages represent the share of all responses, excluding “blank” or “not applicable” responses.

Expectations for property type performance

Outlook on the industrial and multifamily sectors continues to weaken, while the outlook for student housing surged. The percentage that cited industrial as a potential “best performer,” slipped 15 percentage points from 73% to 58% from the previous quarter. Multifamily and industrial sentiment deteriorated during the quarter. Fifty-eight percent believe industrial will be among the best-performing property types within the next 12 months, though this fraction was down 15 percentage points from Q2 2024. While 69% say multifamily will be among the best-performing property types, the share dropped 10% from Q2 2024.

On the other hand, sentiment regarding student housing rebounded sharply, with 29% now considering it among the “best performing” asset types, a 10-point improvement from the prior quarter, while the percentage seeing it as a potential “worst” performer dropped from 12% to 7%.

Rank which property types you expect to be the best and worst performing in the next 12 months.



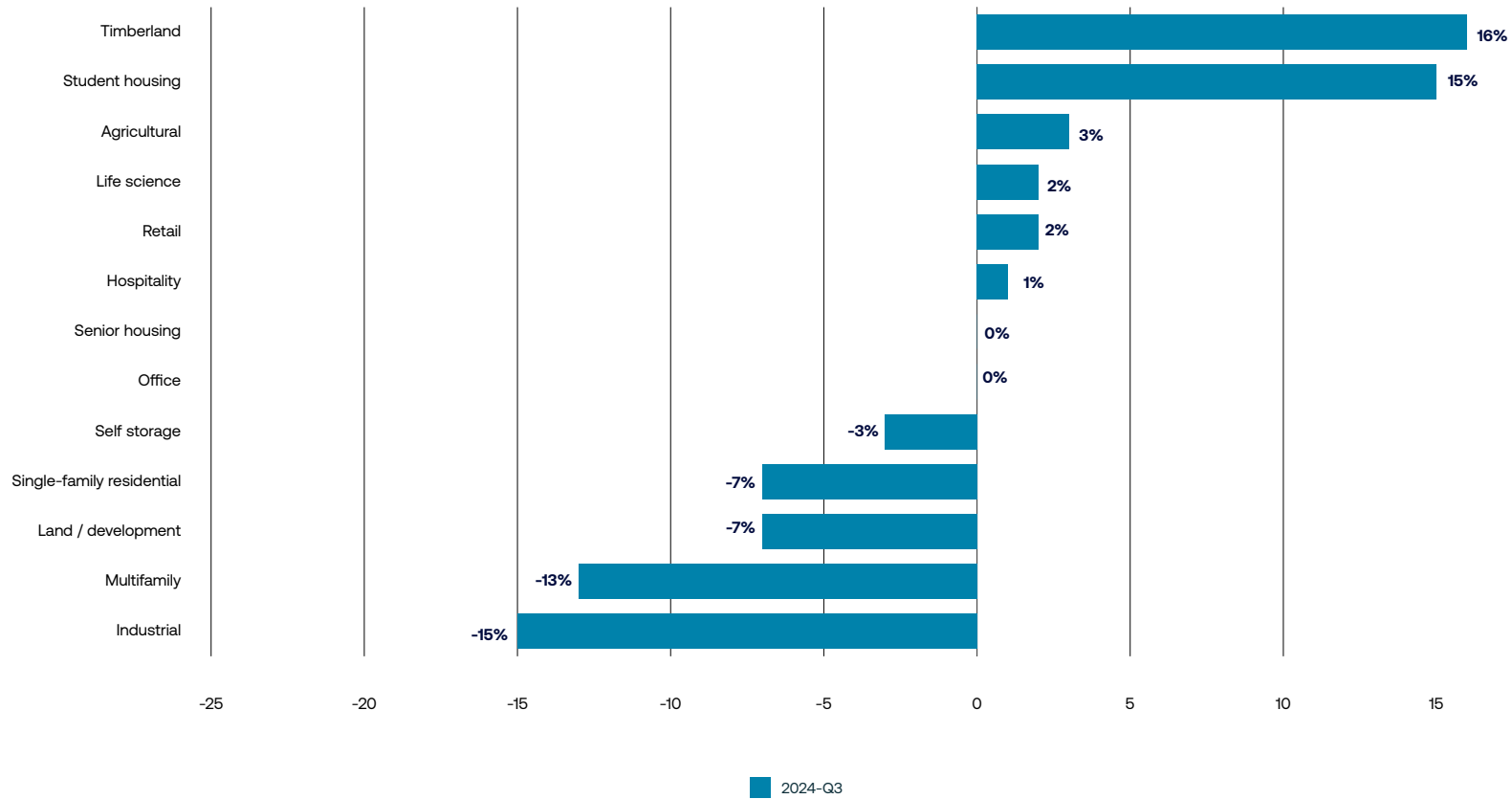
Note: Percentages represent the share of all responses, excluding “blank” or “not applicable” responses. Data center was added to the survey question in Q3 2024.

Net expectations deteriorated most for industrial and multifamily; timberland and student housing surge double digits. The change in net expectations (the share of responses indicating a sector may perform “best” less responses suggesting a sector may perform “worst”) was most pronounced for the industrial sector, for which net expectations deteriorated by 15 percentage points. The sector was followed by multifamily (-13%), land/ development (-7%), and single-family residential (-7%). Timberland sector sentiment rebounded 16 percentage points and student housing sentiment rebounded by 15 percentage points, the only two such improvements in the double digits in Q3.

How to read the chart

The survey question asked participants to identify which property types they thought would be either “best” or “worst” performing in the next 12 months. Not all property types needed to be selected and any property type selected could only be identified as either “best” or “worst” performing, so no property could be identified as both “best” and “worst” performing. The “net sector sentiment” shown on the chart represents the difference in the percentage of respondents who identified the property type as the “best” less the percentage who identified it as the “worst”.

Change in net expectations since Q2 2024

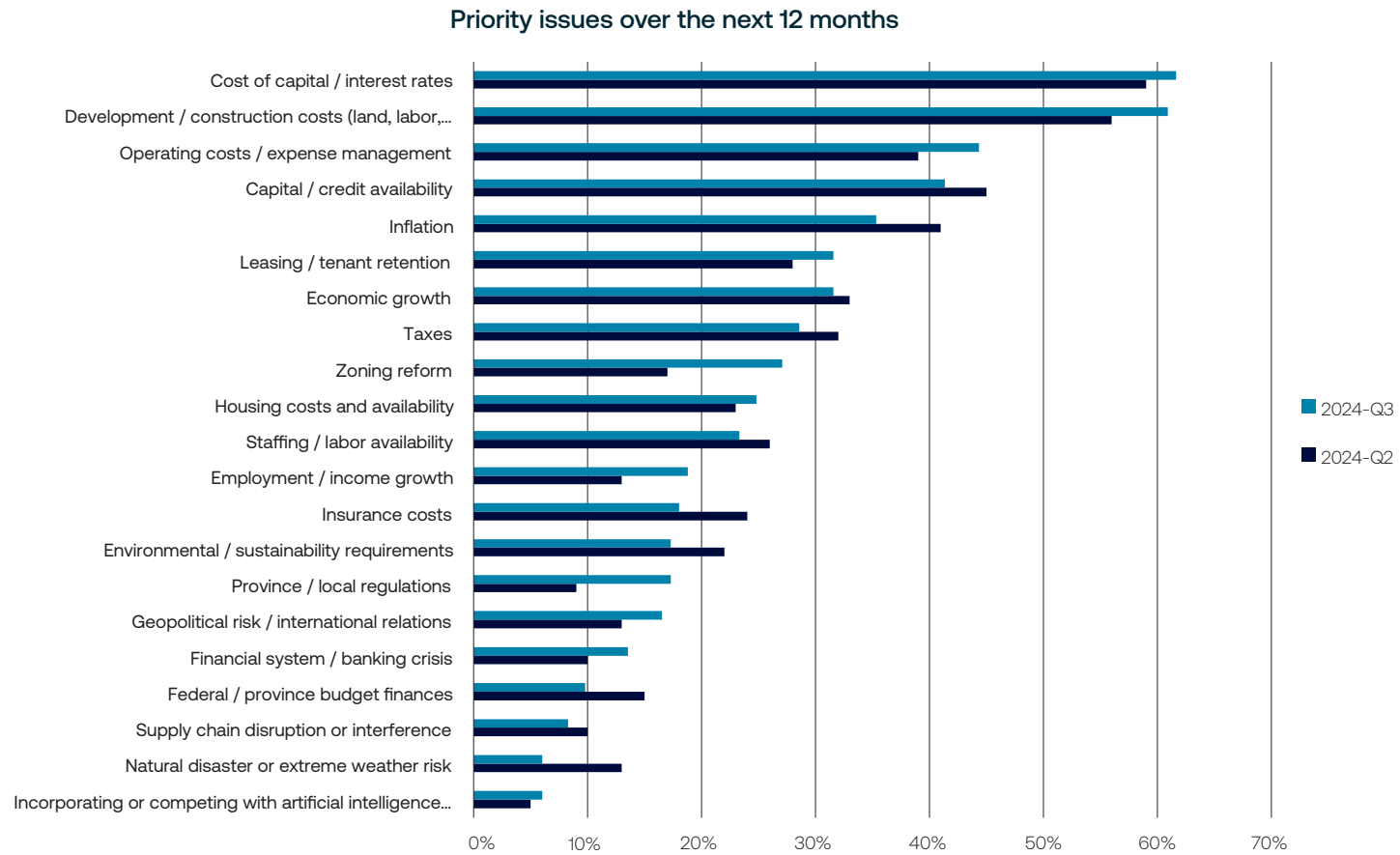


Note: Percentages represent the share of all responses, excluding “blank” or “not applicable” responses.

Priority issues over the next 12 months

Cost of capital still dominates top concerns over the next year, while property-specific issues tick back up. Cost of capital remained the top concern of respondents for the fourth consecutive quarter, with 62% of respondents citing it as a priority. Relatedly, concerns about capital availability were high, being noted by 41% of respondents, but this ticked down 4 percentage points quarter-over-quarter. Notably, a strong majority (61%) also cited development costs as a concern during Q3.

Property-specific issues were also widely acknowledged. Operating costs were also a significant concern, ranking third overall at 44%, and showing a notable increase of 5 percentage points quarter-over-quarter. Nearly one-third of respondents were concerned with leasing/tenant retention.



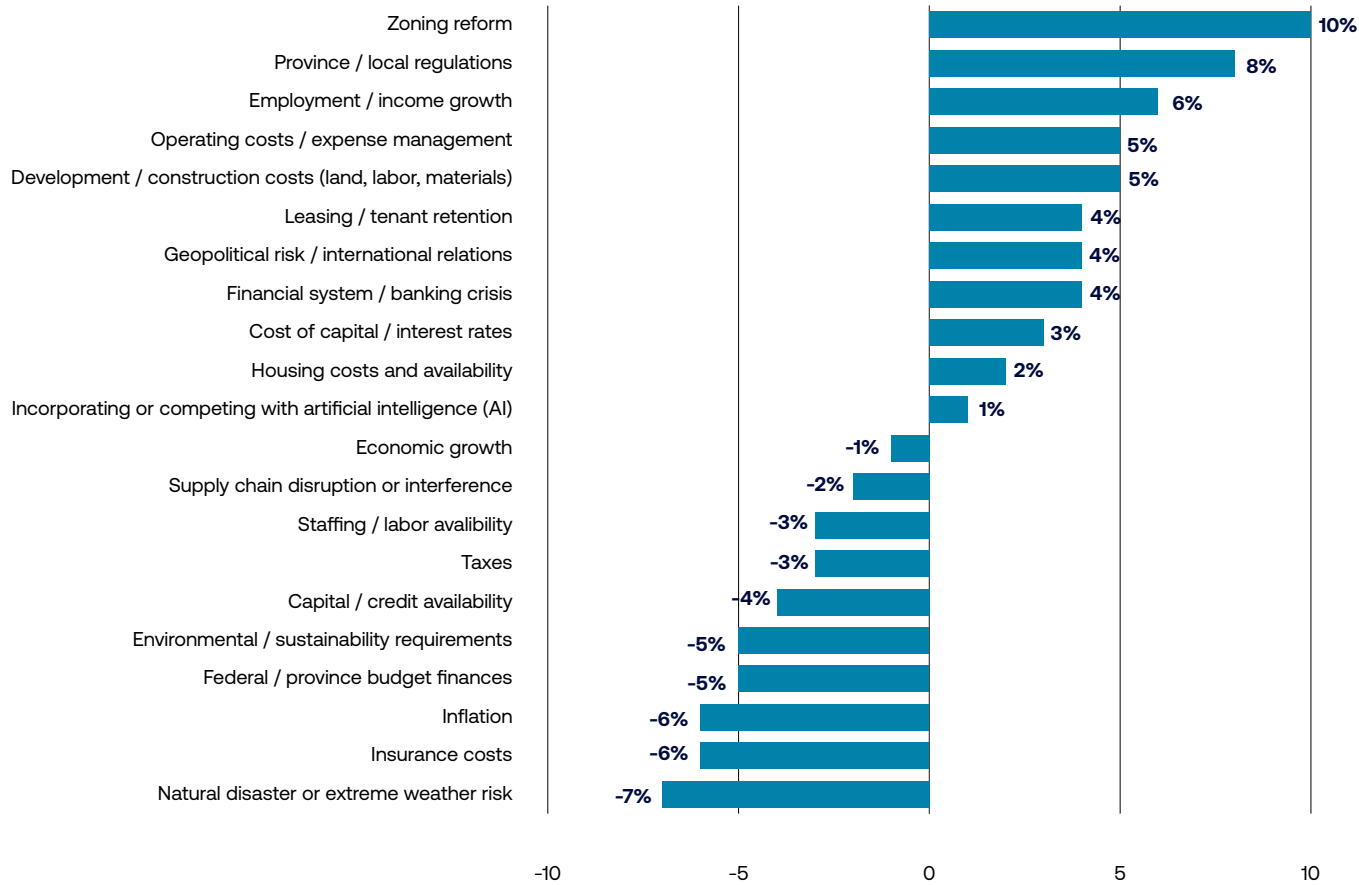
Note: Percentages represent the share of all responses, excluding "blank" or "not applicable" responses.

Priority issues over the next 12 months

Community and regional concerns rose in Q3, while fewer respondents cited concerns over weather risk and insurance costs. Community-related concerns saw a notable uptick quarter-over-quarter in Q3 with zoning reform surging by 10 percentage points as a priority, province/local regulations rising by 8 percentage points, and employment and income growth increasing by 6 percentage points, and employment and income growth increasing by 6 percentage points.

Among property-level concerns, the percentage of respondents citing “weather risk” and “insurance costs” as concerns declined 7 and 6 percentage points respectively in Q3, the most out of any issues.

Change since Q2 2024

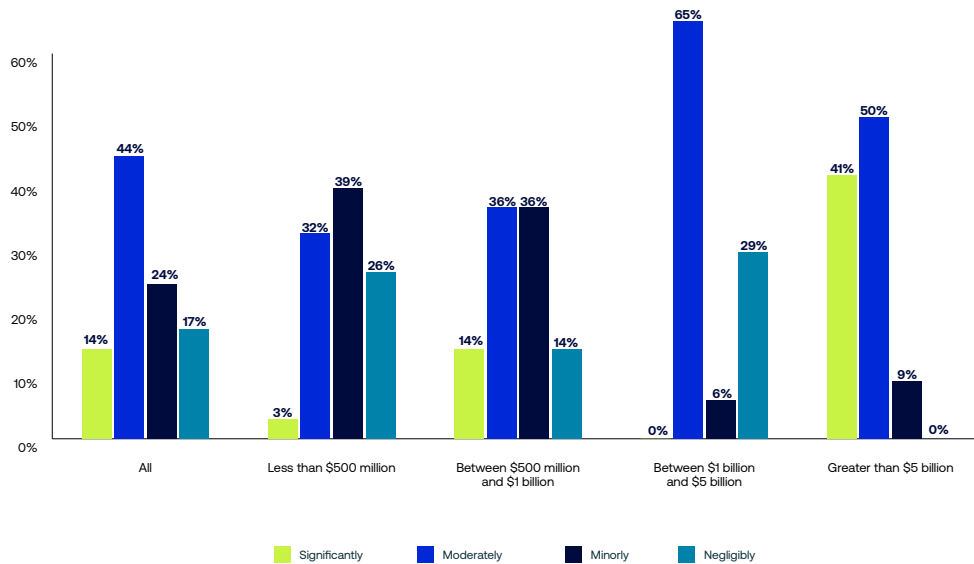


Note: Percentages represent the share of all responses, excluding “blank” or “not applicable” responses.

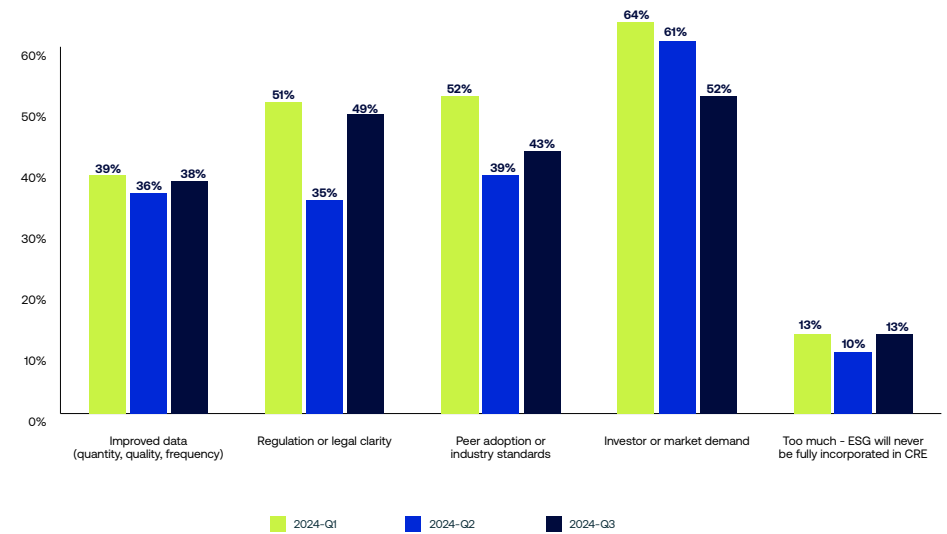
ESG

Respondents from firms with large CRE exposures consider ESG “moderately”; others on the lookout for more regulation or legal clarity on the topic. 50% of firms with more than \$5 billion in exposure to CRE said that ESG considerations moderately affect their investment decisions, compared to a plurality (44%) of all Canadian respondents to the Q3 2024 survey. A dwindling percentage of respondents indicated that investor or market demand would drive ESG to become more widely incorporated (from 61% in Q2 2024 to 52% in Q3 2024), though the percentage of those that cited regulation or legal clarity rose from 35% to 49% over the same period.

In what way do ESG (environmental, social, governance) considerations affect your investment or credit decisions?



What do you think it would take for “ESG” to be more widely considered and incorporated by the CRE industry? (Check all that apply)



Note: Percentages represent the share of all responses, excluding “blank” or “not applicable” responses.



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