RE/MAX COMMERCIAL

COMMERCIAL INVESTOR

REPORT 2018

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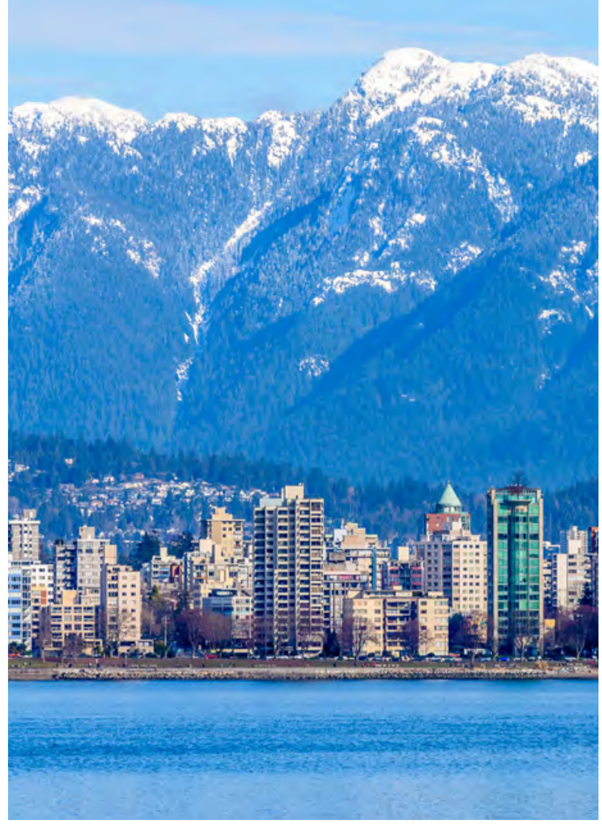


Executive Summary

Both Kelowna and Edmonton are poised to become hot spots for Canada's cannabis market post-legalization with competing cannabis enterprises looking for operating space in both cities.

While Kelowna's commercial real estate market saw an 8 per cent decrease in total sales value for commercial property types year over year, the city has identified more than 900 locations for retail spaces. It's expected that the approval of licenses will be extremely competitive further driving prices up for the remainder of 2018 and beyond.

Edmonton is also welcoming the addition of an 800,000 square foot facility by Aurora Cannabis which is contributing to the positive growth in the total sales value for the city's commercial properties, topping $1 billion. This was also the case in 2017 at the mid-year point. Although office and retail sales have not been as strong in the first half of the year, there are more than $500 million worth of completed transactions slated for the third quarter of 2018. Furthermore, the price of oil is continuing to stabilize with increasing global demand, helping Edmonton's commercial property market along the road to economic recovery.

Like Edmonton, Calgary's commercial real estate market primarily revolves around the city's oil and gas sector. Factors including the increase of oil prices, higher interest rates from the Bank of Canada and the Trans Mountain pipeline project have made buyers in the region more cautious, contributing to a significant year over year decline of 28 per cent in total property sales. However, Calgary is expected to remain stable as we head into 2019 due to a variety of reasons including the investment of big technology companies in the area.

While the past two years were exceptional in Greater Vancouver's commercial property market, the first half of 2018 has returned to historical norms. There were 523 commercial property sales in the first quarter of 2018, compared to 886 sales during the same period last year. However, continued growth in Vancouver's technology sector continues to drive demand for both office space and industrial space throughout the region. Larger tenants like Amazon and WeWork continue to expand and are expected to further increase inventory in the region going into next year.

Regina's commercial real estate market has slowed this year due to economic uncertainty. High interest rates, the price of oil and the low Canadian dollar have all contributed to the commercial market. However, new projects are still underway such as the construction of the megamall at the Global Transportation Hub. The mall – which will boast 300 stores – was originally billed at $45 million but could go as high as $300 million when completed. Saskatoon on the other hand has experienced relative stability as 2017 was considered a year of recovery. This is mostly due to the relative diversity of its sectors which include manufacturing, agriculture, construction and the service industry.

In Winnipeg, the commercial market has experienced a 3 per cent decrease in total sales value year-over-year. While interest rates have remained low, the lack of available property has had the biggest effect on sales which has affected the decisions of investors.

BRITISH COLUMBIA

Greater Vancouver

2016 and 2017 were exceptional years in Greater Vancouver's commercial property market, in comparison, the first half of 2018 has returned to historical norms. There were 523 commercial property sales in the first quarter of 2018, compared with 886 sales during the same period last year. The total dollar value of commercial real estate sales in Greater Vancouver in Q1 of 2018 was $3.031 billion, a decrease of -38.5 per cent from $4.93 billion in 2017.

Overall, the market continues to be driven by local investors, but there continues to be interest from offshore buyers from Europe, Asia and the Unites States (mainly due to the low CAD). Vacant land remains a rare and highly sought-after asset in Greater Vancouver's commercial real estate market. The total dollar value of land sales during the first quarter of 2018 declined by 21 per cent to $1.59 billion compared to $2.01 billion during the same period in 2017, again reverting to more normal pre-2016 levels. Regardless, individual selling prices remain strong as the market continues to see lack of supply across the region. CAP rates are expected to remain stable, with a slight uptick in 2018 due to rising interest rates.

Regional office vacancy is at a record low of 6.1 per cent (the lowest in a decade), while downtown Vancouver is just over 5 per cent despite the increase of new inventory.

Continued growth in Vancouver's tech sector continues to increase demand for both office space and industrial space throughout the region. Additionally, there are several new office towers under construction in downtown Vancouver. Larger tenants like Amazon and WeWork continue to expand significantly. In 2019 it's expected that these projects will further increase inventory in the region and demand will remain high.

Rising interest rates have had a slight impact on the market to-date. If the Bank of Canada continues to increase rates towards the end of 2018, prices for all commercial property types in Greater Vancouver may be impacted more significantly for 2019 and beyond.

Low supply and high demand are expected to continue to characterize the Greater Vancouver commercial property market throughout the remainder of 2018 and 2019.

BRITISH COLUMBIA

Kelowna

Kelowna's commercial real estate market has experienced a -8 per cent decrease in total sales value for commercial properties year-over-year in the region. The total dollar value of commercial real estate sales in the Okanagan in the first half of 2018 was approximately $98M compared to approximately $112M in 2017. Specifically, this was seen across office (- 49 per cent), retail (-72 per cent), multi-family land (-58 per cent), ICI land (-13 per cent), apartment (+43 per cent), hotels/motels (+168 per cent) and Industrial (+49 per cent). Despite the declines evident in some sectors, the region continues to see good returns on several property types including various opportunities with several significant transactions that have occurred off the market or through exclusive listings (not included in the stats).

The market is primarily driven by a wide range of investors and buyers. Many prospective buyers involved in multi-family projects, are now looking for industrial and retail upside potential or other commercial development opportunities. With the following commercial properties in high demand: Mixed-use high-rise developments; small bay industrial complexes; suitable tech space, near amenities; new commercial space.

With the increase in urban infill, densification and development in the market, there is an influx of demand with limited inventory in the region. Kelowna has become even more attractive to non-local investors due to recent CAP rate changes to the 5-6 per cent range putting increased pressure on supply in the commercial real estate sector. Particularly in the Okanagan which is proving to be an alternative to the lower mainland where the CAP rates tend to have less of a return in numerous sectors for investors.

While the retail sector experienced a year-over-year decline of -72 per cent in sales due to the lack of inventory, it is now on an upward growth cycle due in part to new mixed-use developments which will add much needed new commercial space in the downtown core and is helping to drive lease rates higher across the city. The overall retail space market has been left with a large gap previously occupied by Sears which remains unfilled. For many in this space, it may require reimagining the “mall” experience, with a growing trend of the addition of entertainment type facilities and the addition of a residential component.

As we inch closer to legalization of cannabis in Canada, the City of Kelowna has identified over 900 potential locations for dispensaries and it’s expected that approval of licenses will be extremely competitive further driving up prices in the region. Additionally, absorption of existing industrial space and industrial development land is being pressured by the Cannabis industry for the development of growing operations, which is adding to the rise in lease rates for industrial spaces.

Although there has been talk of the proposed Speculation Tax potentially having a negative effect on development in the Central Okanagan, the provincial government has yet to enact the new tax. What the full effect of the proposed tax has on the region has yet to be seen. Limits on available lands for development in the Okanagan due to geography continue to cause an upward trend in pricing of land.

Overall, it’s expected that the market will experience a growing supply of commercial space with projects already in the planning stages for the coming months/years.

ALBERTA

Edmonton

Economic recovery within the Edmonton Region began in 2017 and continues through to mid-year 2018 as reflected in sales activity and decreasing vacancy across several sectors. According to the Conference Board of Canada, Alberta led all Provinces with GDP growth at 4.9 per cent in 2017. In 2018, the ATB's economic forecast is indicating GDP growth of 2.7 per cent.

Positive growth is reflected in the total sales value for Edmonton's commercial properties topping $1 billion at the mid-year point for the second year in a row. Land sale rebounded in stronger economic climates with a total number of transactions up over 27 per cent, and total dollar value of all land and building sales up over 50 per cent as compared to 2016.

Private investors continue to be the most active buyers in Edmonton's commercial property market. Industrial sales have nearly doubled year over year with sale prices continuing to rise. Although office and retail sales have not been as strong in the first half of the year there are over $500 million of completed transactions slated for the 3rd quarter of 2018.

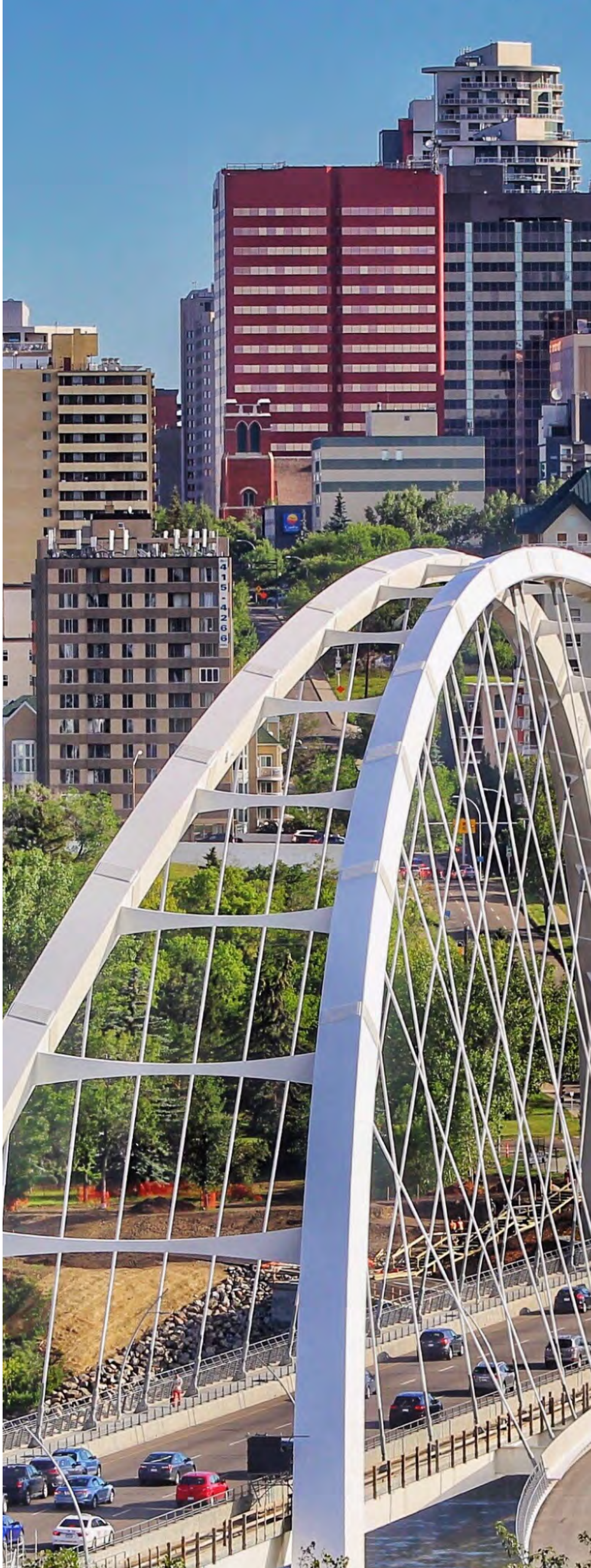
Vacancy rate for office properties has continued to drop and currently sits around 14%. There have been many investors continuing to reshape Edmonton's downtown market with conversion of C class office buildings to residential apartments, main floor retail and boutique office space. There will also be an increase in shared working spaces and business centres with the pivotal role start up tech entrepreneurs are playing in the downtown market place. Shared working spaces in the suburban market are becoming popular with the ease of parking and access. Buildings like Ritchie Mill that have been completely renovated will see increased activity.

The downtown Ice District continues to bring investors to the market, the fully vacant Enbridge Tower has been recently purchased with the intent to convert the property into a 300-room hotel with main floor retail. Tenants will continue to leave dated office space and migrate to improved or new office spaces. HSBC Bank Place is currently undergoing extensive renovations and will bring modernization to it prominent 101 Street location.

The retail market continues to diversify with the densification of areas such as Whyte Avenue, Jasper Avenue and 124 Street, making these areas more attractive to retail tenants. Construction of new retail developments will remain strong with low vacancy for the latter half of 2018 and beyond.

Edmonton's industrial market continues to remain strong with the vacancy rate lowering to 5 per cent in the first quarter of 2018. Edmonton's economy has benefited from higher oil prices and stronger investment in the oil patch. Its manufacturing sector has also rebounded and is expected to experience continued growth. New construction is the most active in the Leduc/Nisku market with the addition of the 800,000 sf Aurora Cannabis medical marijuana facility and the new 400,000 sf Ford distribution centre. Vacancy rates should continue to decrease, and lease rates will continue to moderately rise within Edmonton's industrial market for the remainder of 2018.

As the price of oil has stabilized with increasing global demand, Edmonton's commercial property market is expected to continue to recover, leading to continued optimism amongst investors. The commercial market will continue to remain strong contributing to Alberta being one of the leading Provinces for growth for 2018 and into 2019.



ALBERTA

Calgary

Calgary's commercial real estate market has experienced a 28 per cent decrease in total sales value for commercial properties year-over-year in the region. There were 143 commercial property sales in the first quarter of both 2017 and 2018.

The market primarily revolves around the city's oil and gas sector. Due to the increase of oil prices buyers have become more cautious to invest in commercial real estate. Other factors affecting the market include the CAP rate and the Trans Mountain pipeline project. The issues surrounding the pipeline have impacted product, as Suncore ceased any expansions until the pipeline construction has substantially begun.

Vacancy rates for office space sit at 29 per cent, down 1 per cent from last year. Sales value dropped 83 per cent from $481 billion in 2017 to $77 million in 2018. Offices in the downtown core continue to be rezoned as apartments, a trend which began in the early months of last year.

Retail centres remain in high demand, with a vacancy rate of 4 per cent. Retail investors continue to drive the leasing and buying rates higher as office towers continue to see a significant reduction in sales. Sales for retail has increased 83 per cent from 2017.

When it comes to industrial properties, vacancy rate sits at 15 per cent. Sales decreased 89 per cent from 2017. With the higher than normal vacancy rate, many landlords have more constraints including shorter terms, higher fees and higher allowances.

Higher interest rates from the Bank of Canada have made Calgary investors more cautious, steering away from the industrial and office space sectors. As well, lower taxes in outlying areas are contributing to lower activity in Calgary's city centre.

Overall, the commercial market in Calgary is expected to remain stable heading into 2019, despite the hold on the Trans Mountain pipeline. With Amazon and Garmin Technologies building new operations in the surrounding area, activity in Calgary's commercial market has the potential to see growth.

MANITOBA

Winnipeg

Winnipeg's commercial real estate market has experienced a 3 per cent decrease in total sales value for commercial properties year-over-year in the region.

Demand far outweighs supply in today's market. While interest rates have remained low, the lack of available property has had the biggest effect on sales causing investors to look at different types of assets.

There remains a heavy demand from seasoned buyers looking for a place for their capital and the past year has seen this overwhelming trend continue. There are fewer new buyers entering the market, possibly due to inability to find suitable deals or to compete with the seasoned buyers. Retail and multi-family properties are perennial favorites of those looking to acquire Commercial real estate. Recent availability has caused many buyers out of their comfort zone and has led to several strong years of industrial sales.

The construction of True North Square is expected to make an impact on the market. This development is a mix of commercial and residential properties. While there is demand for residential living downtown, the new commercial space will likely leave some office towers downtown vacant, which may take years to recover. This has caused many landlords to be proactive and resulted in more aggressive deals. Development fees imposed on new construction by the City have somewhat slowed the appetite to develop within the City limits. Activity continues in small hotbeds and some developers have chosen nearby bedroom communities for some of their development.

Interest rates and the low Canadian dollar may have had some impact in the Winnipeg market, potentially slowing activity slightly. In some cases, deals may happen a little more slowly or carefully as people watch the changes in the market. Vacancy rates are considerably higher than they were 10 years ago, and appear to be the new norm. Several factors have contributed to vacancy rising and new construction is a major factor. A common trend in Winnipeg includes business owners opting for new construction instead of updating or refreshing an existing building to suit their business.

Higher vacancy rates can be found in regional malls with the closure of large anchors and can also be attributed to large amounts in C class office buildings and obsolete industrial product with low ceilings. Repurposing or rebuilding on the site will have a strong impact on vacancy rates retreating to previous levels.

There appears to be no slowdown for Winnipeg, with multiple construction projects in the works. Sales are expected to continue at a steady pace as there are many buyers wanting to enter the market or add to their portfolio. Leasing has also been particularly strong as of late, potentially due to some tenants having given up on finding a suitable building to buy.

SASKATCHEWAN

Regina

Regina's commercial real estate market has slowed in 2018 due to continued economic uncertainty. The outlook for the oil and resource sector is quite soft and most prospects and businesses are very cautious.

However, the vacancy rate for office buildings during the first two quarters of 2018 is up by one per cent and currently sits at 13 per cent. Class A office space average cost per square foot is between $23, while Class B and Class B+ sits at $15 and $12, respectively.

The construction of the megamall at the Global Transportation Hub is expected to make an impact. The mall will boast 300 stores that will offer products from China and beyond and will cater to all potential clients. Originally billed at $45 million, the project has since expanded since it was announced and could go as high as $300 million.

Interest rates, the price of oil and the low Canadian dollar may have had some impact on the Regina market, potentially slowing activity slightly. Banks have tightened their regulations and don't provide loans for projects with potential of risk. Conversely, the housing market has also been affected, overlapping with the commercial market.

The high vacancy rates are due to the high supply of office space. This figure represents most major players, creating a large volume. Sales of office space have been quite slow. However, down markets create good opportunities as some sellers need to exit the market place along with the fact that softer conditions can lead to solid purchases.

The high inventory in commercial and industrial lease properties means that the market will continue to remain relatively level across the board for the remainder of 2018 and beyond. The cancellation of two pipelines, ongoing issues with the Trans Mountain pipeline and potential carbon tax will also affect input costs. A key factor in relieving the uncertainty in Saskatchewan would be a successful renegotiated NAFTA agreement.

Saskatoon

The commercial real estate sector in Saskatoon has experienced stable activity this year as 2017 was considered a year for recovery. The resource sector has seen some growth with support from economic diversity in manufacturing, agricultural, construction and service sectors. 2018 has shown investors focused on retail and hotel and Class A office development. Demand for commercial properties continues to be driven by a mix of out-of-province investors and overseas investors fueled by lower prices.

Saskatoon's hotel sector has seen continued growth in 2017 and with new inventory to enter the market in 2018 - 2019. Two major projects completed in 2018 are the Best Western Plus and Holiday Inn Express /Staybridge Suites. These two hotels add to the more than 900 rooms developed over the past three years. Alt Hotels is moving quickly on construction of its new facility in the River Landing project in the city's downtown core. This expansion has fueled tourism and attracted multiple conventions to the city.

The apartment sector showed signs of recovery in 2017. Increased rental supply and vacancies in 2018 has forced landlords to offer rental incentives.

The residential market in 2018 has seen declining sales as the housing supply is still larger than demand resulting in a buyer's market. New subdivisions of Brighton, Elk Point and the Meadows continue to forge ahead with their development despite lower sales.

Ongoing development of new neighborhoods, coupled with low vacancy rates, continues to drive a strong retail sector in Saskatoon. Several new projects are close to completion, include centres by DREAM, the 400,000 square foot centre, Meadows Market, by Arbutus Properties across from Saskatoon's second Costco. The city is in the planning stage for a new suburban centre on the west side of Saskatoon. New tenants moving into the city include Popeyes, Save-On-Food, Party City, Bed Bath & Beyond, and Marshalls. Rental rates have remained stable. Rates for suburban retail range from $28 - $33 per square foot. Growth in the suburban market has put downward pressure on downtown core rental rates.

Demand for office space continues to experience slow recovery from the declines noted in 2017 and should continue throughout 2018, with the vacancy rate in the

Central Core at almost 15%. New development of the office towers at River Landing has attracted major tenants from other buildings leaving a significant volume of “back fill” space. With low rates, Class A space still shows the lowest vacancy rates. Suburban office has seen little new development in 2018. Suburban office continues to compete with Central Core properties on parking and price. Office rental rates are impacted by the high vacancy. Class A - $22 - $30 per square foot, Class B $15 - $18 per square foot and Class C $10 - $14 per square foot. 2018 is expected to remain stable but will see landlords providing increased incentives rather that reducing the lease rates.

As a result of the downturn in the commodity sector, the industrial market has seen slow absorption and higher vacancy rates leaving developers with significant levels of inventory. Sales in 2018 thus far are mostly to owner-users in smaller footprints under 10,000 square feet. Vacancy rates are expected to remain stable under 10 per cent. Additionally, land sales have declined and are expected to do so until there is a significant reduction in vacancy rates.

New developments include a 40-acre site in the Hampton Industrial area south of the airport by the Kahkewistahaw First Nation. This Eagles Landing will be a unique development including gas bar, convenience store, retail/industrial, hotel and sports centre facility. Ground breaking is expected in spring of 2019.

With the commodity sector slowly starting to recover and a variety of development projects at almost completion, including the North Commuter Parkway and Traffic Bridge, River Landing Project and the new Children’s hospital, there is a positive outlook for Saskatoon’s economic growth for the remainder of 2018 and 2019.

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2018 RE/MAX Commercial Investor Report

The 2018 RE/MAX Commercial Investor Report includes data from local boards and brokerages. Brokers and agents are surveyed on trends, local development and features.

About the RE/MAX Network:

RE/MAX was founded in 1973 by Dave and Gail Liniger, with an innovative, entrepreneurial culture affording its agents and franchisees the flexibility to operate their businesses with great independence. Over 120,000 agents provide RE/MAX a global reach of more than 100 countries and territories. RE/MAX is Canada's leading real estate organization with more than 20,000 Sales Associates and over 900 independently-owned and operated offices nationwide. RE/MAX, LLC, one of the world's leading franchisors of real estate brokerage services, is a subsidiary of RE/MAX Holdings, Inc. (NYSE: RMAX). With a passion for the communities in which its agents live and work, RE/MAX is proud to have raised millions of dollars for Children's Miracle Network Hospitals® and other charities. For more information about RE/MAX, to search home listings or find an agent in your community, please visit www.remax.ca.

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