COMMERCIAL INVESTOR

REPORT 2015

WESTERN CANADA EDITION

RE/MAX COMMERCIAL

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EXECUTIVE SUMMARY

In much of Western Canada, the fall in oil prices led to slower activity in the commercial property markets in the first half of 2015. In Greater Vancouver, however, the first half of the year saw a 14 per cent increase in total sales over the same period in 2014. The second quarter of the year, in which there were 591 sales, was the busiest quarter for commercial sales in the past five years.

Continued low interest rates and high investor confidence drive demand in the Vancouver commercial property market, where land is the most in-demand property type. Most investors are local with some foreign investment as well. Long-term investors, primarily smaller developers, are driving demand for raw land in the suburbs. With the current low interest rates, developers view these purchases as safe long-term investments.

The impact of the drop in oil prices was felt most strongly in Edmonton and Calgary. In Edmonton, the total number of commercial and land sales was down nine per cent year-over-year in the first half of 2015. The overall value of those sales was down 13 per cent, dipping below $1 billion at half-year for the first time in three years. In Calgary, the 40 million square foot downtown office market experienced the greatest impact from downsizing in the energy sector. Average net rents decreased approximately 19 per cent year-over-year; the average vacancy rate of all classes was approximately 13 per cent, and vacancy rates for class B and C office space was as high as 18 per cent.

Until oil rebounds, Edmonton is expected to remain in a down cycle. However, significant ongoing development in the city is prompting optimism, and with an experienced commercial group of owners, the market is expected to adjust and move forward. Calgary is well situated both financially and geographically for long term growth and stability, driving demand for good investment properties. The short-term outlook for Calgary's commercial property market is cautiously optimistic, with foreign and domestic investors continuing to be attracted to the market. Oil prices, wages and a change in government will determine how quickly the recovery will unfold.

In Regina and Saskatoon, while the drop in oil prices has affected the commercial property market, the impact hasn't been as significant as in Calgary and Edmonton. The diversity of Saskatchewan's economy, in which agriculture, potash, trucking and government are all significant employers, has mitigated the overall impact of falling oil prices.

Activity remained steady in Regina's commercial property market during the first half of 2015 and product of all types with good leases in place was quick to sell. Multi-tenant retail and industrial properties with good leases were in highest demand, typically selling within days of coming on the market. However, Regina's market continues to be limited by a shortage of development land; there is no land zoned for retail or hotel development currently available, though demand for it remains high.

In Saskatoon, despite a somewhat softer market due to the downturn in the resource sector, commercial real estate activity showed signs of confidence in the first half of 2015. There was still strong demand from commercial investors, though sales were tempered by a lack of product.

In Winnipeg, a limited number of commercial properties for sale resulted in greater activity on properties that would typically be viewed as less desirable. The limited inventory is primarily a result of low interest rates, which have kept demand high. The fastest moving streams are multi-tenant industrial properties and multi-family residential properties. It is expected that the commercial property market for the rest of 2015 and through to the end of 2016 will be fairly static, with low interest rates continuing to keep demand high and supply low. Not until there is a significant interest rate hike is it expected that a healthier balance of supply and demand will come to the market.

GREATER VANCOUVER

There were 1,111 commercial property sales in the first half of 2015, compared to 974 during the same period in 2014, according to statistics from the Real Estate Board of Greater Vancouver. The second quarter of the year, in which there were 591 sales, was the busiest quarter for commercial sales in the past five years.

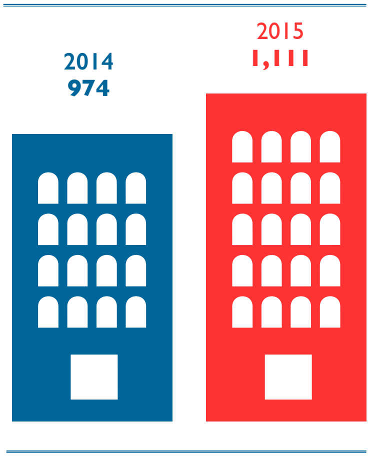
Activity in commercial and industrial land, office and retail, and multi-family residential has driven the high number of sales. In the first half of the year, according to RealNet, residential land sales accounted for 40.2 per cent of transactions and ICI land for another 19 per cent, retail for 13.1 per cent, industrial for 13 per cent, multi-family residential for 9.2 per cent, office for 5 per cent, and hotel for 0.5 per cent.

Land is the most in-demand property type. Long-term investors, primarily smaller developers, are driving demand for raw land in the suburbs. With the current low interest rates, developers view this as a safe long-term investment.

Continued low interest rates and high investor confidence drive demand in the commercial property market. Most investors are local with some foreign investment as well. There is vacancy in retail and office and therefore prices are down slightly, creating a tenant's market. In retail, demand remains good for well-located product. There has been a recent shift to the Pacific Centre, while high-end tenants are moving to Alberni Street.

In Vancouver, office vacancy rates were at 10.9 per cent at the end of Q2, due to the completion of four new office towers, which brought 1.3 million square feet of office space to the market. In the suburbs, particularly Surrey, which had an office vacancy rate of over 20 per cent last year, there has been positive absorption, lowering vacancy rates by 5 per cent to just over 15 per cent.

TOTAL COMMERCIAL PROPERTY SALES (Q1 AND Q2)

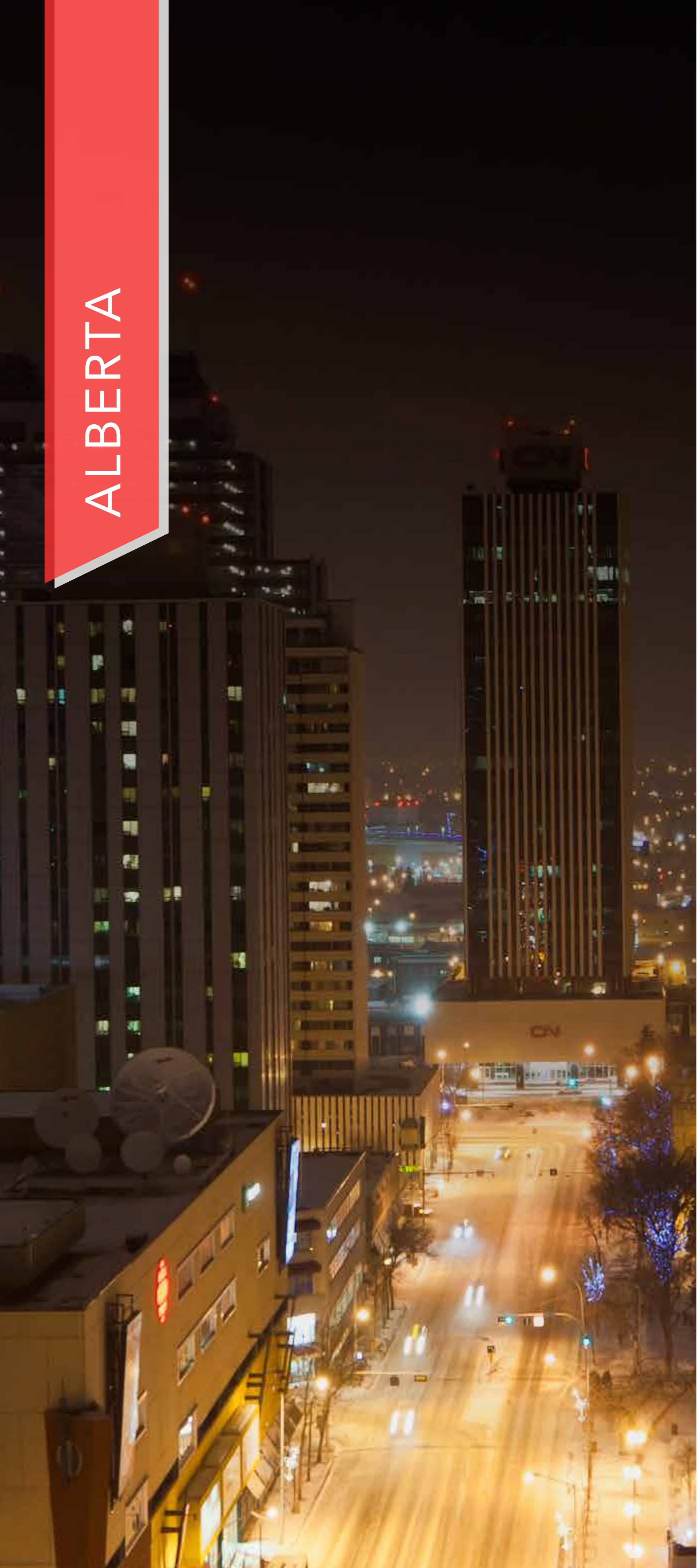


Historical values are sourced from CREA or local board statistics.

Low interest rates have fuelled construction of industrial property. So far this year, 1.2 million square feet of industrial product have come on the market, with an additional 2.1 million currently under construction and 3 million planned for 2016/7. This development is mainly in the suburbs, where the growth of e-commerce has driven demand for warehouse and shipping facilities.

The outlook is positive for Vancouver's commercial property market, and it is expected to continue to grow across property types for the remainder of 2015 and 2016 as there remains strong demand for good-quality, well-located product. The technology sector is expanding in the city, and the low Canadian dollar and favourable tax incentives are spurring growth in Vancouver's film industry. Sony Imageworks recently moved its headquarters from Los Angeles to a 74,000 square foot space above the newly opened Nordstrom store in the Pacific Centre.

ALBERTA



EDMONTON

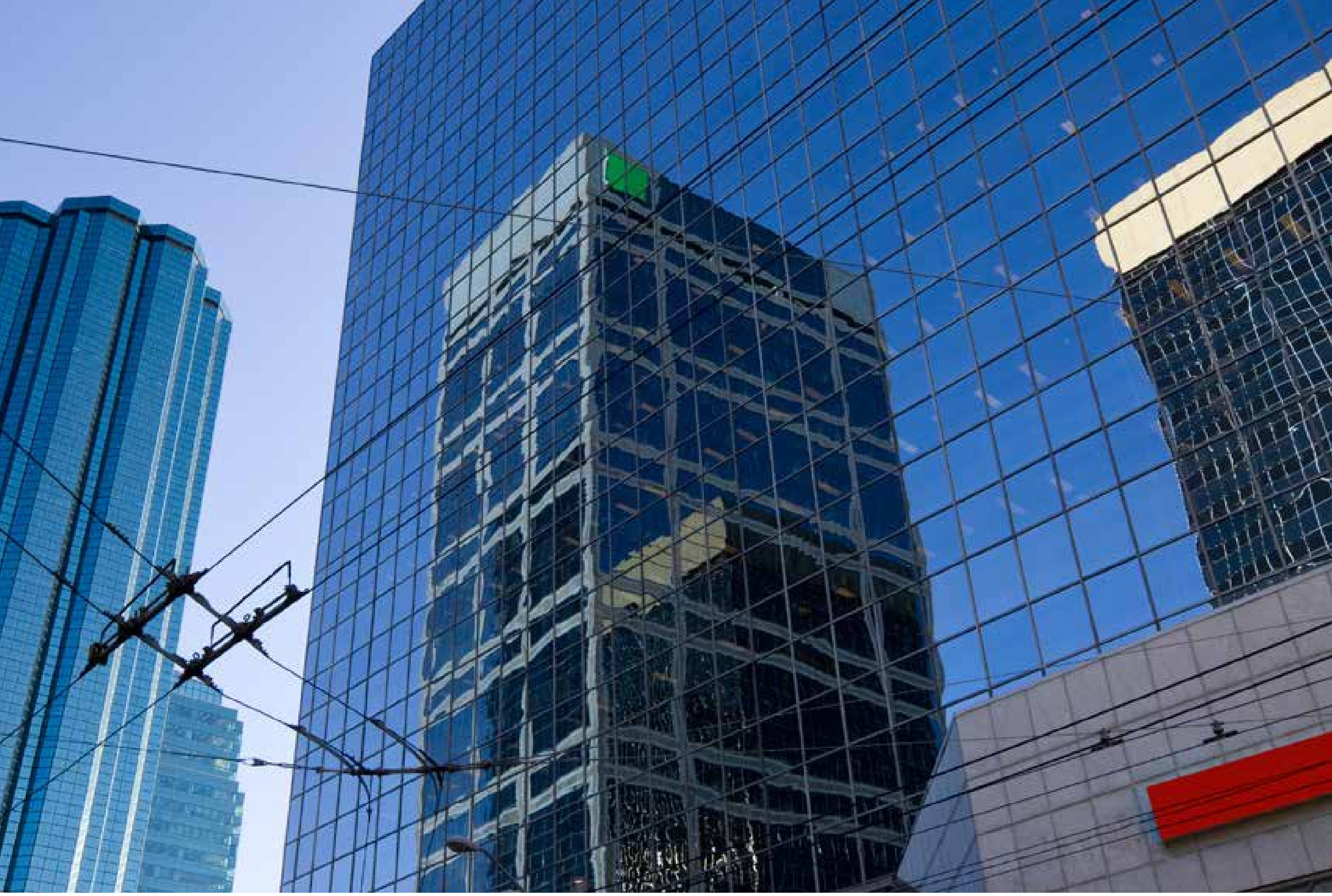
In the first half of 2015, the commercial property market in Edmonton felt the impact of the drop in oil prices. The number of commercial building and land sales was down nine per cent and the overall value of those sales was down 13 per cent year-over-year. For the first time in three years, total sales at mid-year dipped below $1 billion.

The most significant decline was in land sales; sales decreased by 30 per cent year-over-year, indicative of a slowing economy. A bright spot was multi-family residential – sales increased by 45 per cent year-over-year, driven by continued low vacancy and high rental rates in the city. Overall, sales in the third quarter are pointing toward continued slower activity through to the end of the year.

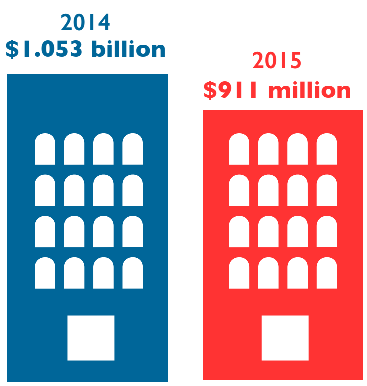
There is a good representation of Real Estate Investment Trusts (REITs) and pension funds; however, the regional/local private companies are currently driving demand in Edmonton's commercial property market. The industrial market has slowed, due to downsizing in the oil service sector driven by the decline in oil prices. There is increasing demand from foreign buyers for good quality assets. U.S. investors in particular are taking advantage of the opportunities afforded by the lower Canadian dollar.

Top tier assets in all sectors continue to be in high demand. Multi-family residential, well-positioned retail and industrial properties with well-capitalized tenants are the most in-demand property types. There is a shortage of good-quality product in these categories and they are quick to sell when they come on the market.

Vacancy rates in the city were healthy at mid-year; the vacancy rate in industrial was at five per cent, and retail and multi-family at 2.5 per cent. Office vacancy rates are at 8.5 per cent and expected to rise in the coming year as new supply comes on the market. 1.2 million square feet of new office inventory, plus over 3.0 million square feet of



TOTAL VALUE OF COMMERCIAL PROPERTY SALES (Q1 AND Q2)



The Network Real Estate Intelligence

new industrial supply and sublease space are anticipated to come on the market by the end of 2016. With oil companies downsizing to reduce costs, owners may be competing to attract and retain office and industrial tenants, which could cause hesitation among investors in these segments. Conversely, opportunities may arise for assets that will need to be repositioned.

Recent developments that may slow down Edmonton's commercial property market in the coming year include the NDP government's provincial oil and gas royalty review, further capital spending cutback announcements by the oil producers, increases in provincial personal and corporate taxes and the minimum wage increase to $15 per hour. In June 2015, Alberta's provincial government forecast in its first quarter fiscal update a disconcerting $5.9 to $6.5 billion annual deficit for the year ending March 31, 2016.

Despite economic slowdown due to the downturn in the oil industry, ongoing development projects are boosting the city's outlook. In downtown Edmonton, the 25-acre, $2 billion Ice District development features a new arena, public plaza, office and condo towers, entertainment venues, hotels and retail. A new provincial museum, new LRT station and expansions to the campuses of MacEwan University and NorQuest College are in progress as well. The completion of the Anthony Henday ring road, scheduled for 2016, is expected to unlock suburban development opportunities in northeast Edmonton.

Until oil rebounds, Edmonton is expected to remain in a down cycle. However, significant ongoing development in the city is prompting optimism, and with an experienced commercial group of owners, the market is expected to adjust and move forward.

CALGARY

The commercial property market in Calgary in 2015 has differed greatly in certain asset classes from previous years with the fall in crude oil price, volatility in the financial markets and the an uncertain political climate causing the turmoil in the province. While the economy in Alberta is in a downturn, a slow but stable recovery is on the horizon.

When oil prices sharply declined in the fourth quarter of 2014, Calgary's commercial property market reacted quickly. There was significant downsizing in the first quarter of 2015 as oil and gas companies reduced their capital spending, laying off employees and putting surplus office space on the sublease market.

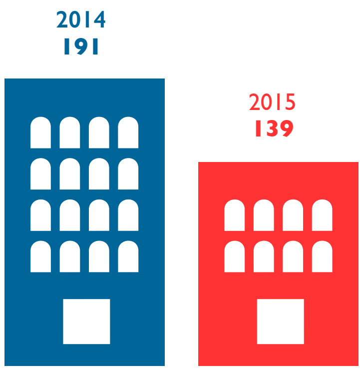
The 40 million square foot downtown office market has experienced the greatest impact from downsizing in the energy sector. Average net rents decreased approximately 19 per cent year-over-year; the average vacancy rate of all classes is approximately 13 per cent, and vacancy rates for class B and C office space is as high as 18 per cent.

There is 2.4 million square feet of sublease space currently on the market and another wave of sublease space is expected to come on the market in Q4 as the downsizing continues.

The 126 million square foot industrial segment is showing positive results with average rents increasing by 50 cents to $9.75 per square foot and vacancy rates decreasing by more than a full per cent from a year ago. Large distribution space is also active, exemplified by the recent transaction of the former Target distribution centre; the 1.3 million square foot facility was quickly snapped up after going on the market.

Calgary continues to be a distribution hub due to its location, as well as the growth of e-commerce. Currently there are approximately 4 million square feet of industrial space under construction; almost half of that is being built on spec, suggesting long-term confidence in the Calgary market. The automotive sector is also strong, with a new Mercedes Benz dealership being announced recently.

TOTAL COMMERCIAL PROPERTY SALES (Q1 AND Q2)



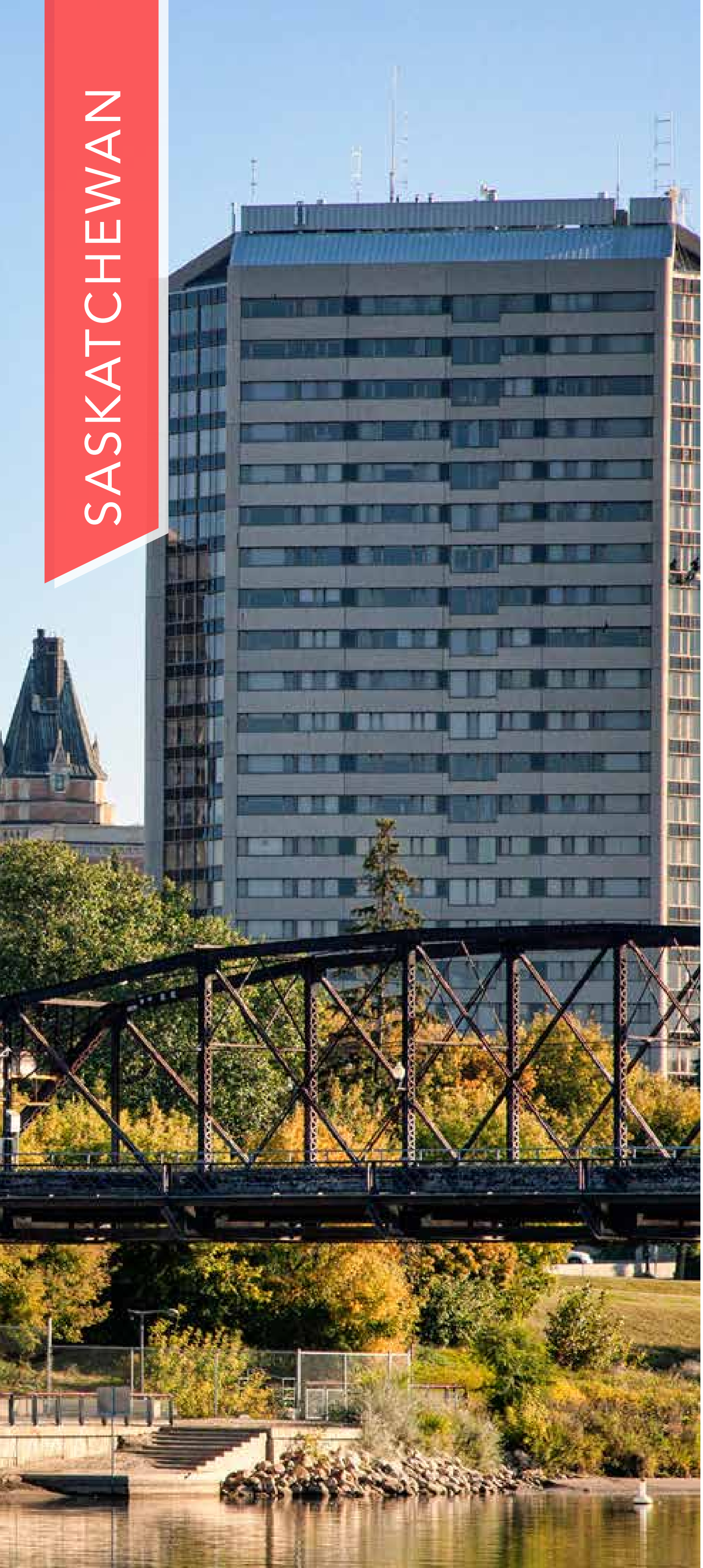
Historical values are sourced from CREA or local board statistics.

Removing the former Target stores from the equation, the retail sector is showing positive results. Most of the former Target stores were leased quickly to American retailers entering the Canadian market, including Saks Fifth Avenue, Lowe's and Nordstrom. Retail locations showing a decline are those in Beltline as well as some dated regional centres. New retail construction throughout the city suggests retail investors have a positive long-term outlook. Calgary continues to have the highest income per capita in the country, and the city is growing with a population increase of approximately 36,000 in the past year.

Calgary is well situated both financially and geographically for long term growth and stability, driving demand for good investment properties. Industrial land, shopping centres of all sizes and multi-family residential are the most sought-after property types. These segments may experience a shortage in inventory over the next year as retail and apartment rents remain high, leaving owners reluctant to sell.

The short-term outlook for Calgary's commercial property market is cautiously optimistic, with foreign and domestic investors continuing to be attracted to the market. Oil prices, wages and a change in government will determine how quickly the recovery will unfold.

SASKATCHEWAN



SASKATOON

In spite of a somewhat softer market due to the downturn in the resource sector, commercial real estate activity in Saskatoon is still showing signs of confidence in the first half of 2015. Commercial investment in Saskatoon is showing some demand, though sales are tempered by the lack of product. There is good demand by investors for quality projects due to limited inventory, and investors need to continuously monitor the market for new opportunities.

In the first half of the year, sales of all property types were down, as developers and investors exhibited caution in their investment decisions. The exceptions are hotel development and industrial lands, where demand remains high.

The hotel sector has seen an unprecedented increase in development. Over 900 rooms have been constructed or are in construction, and additional developments are planned for 2016. Most of this construction has been in the Aerogreen Business Park next to Saskatoon's airport.

Demand from investors for apartment buildings remains strong, even with a lack of product on the market and increase in vacancies. Residential land and lot sales have seen stable activity as the City and major developers continue servicing two new major subdivisions. Demand for smaller retail development in the $2 to $5 million range is also high.

There has been an increase in activity in the retail market over the past three years to service a growing population and residential development. In the industrial condominium sector, there is an oversupply on the market as speculative development over the past five years has outpaced demand and owner/user development.

Office vacancy in the downtown core for 2015 has shown some absorption from the beginning of the year, and vacancy rates have decreased from 15 per cent to 12 per cent. Sublease space has increased due to cutbacks by companies in the resource sector. Suburban

"There has been an increase in activity in the retail market over the past three years to service a growing population and residential development."

office vacancy was affected by the increase of sublease inventory; current vacancy is 14.2 per cent and could see an increase.

Industrial vacancy seems to have stabilized and some newer projects have been put on hold, allowing for absorption. The current vacancy rate is approximately 7.6 per cent.

Saskatoon is seeing more interest from Real Estate Investment Trusts (REITs), especially in larger or portfolio investments. Another highly active market is investors from overseas, primarily from China.

Saskatoon's commercial market is expected to benefit from several major planned and ongoing developments. These include over 500,000 square feet of retail space by DREAM Developments and Arbutus Properties' 420-acre subdivision, which includes 2,200 homes, 65 acres of park and amenity space, and a major retail component. River Landing in the downtown core recently announced that they are closer to proceeding with their mixed-use project, which will include condominiums, offices and a hotel. North Prairie Developments continues the planning of its City Centre Tower project, which will include 29 floors of condominium units and retail in the downtown core.

The City is in the final stages of planning for the new North Downtown project, a redesign of the city centre industrial and rail yards, which will include a mix of industrial, residential and retail, with an emphasis on green space. Major projects for Saskatoon include two new bridges with the commuter bridge slated to begin construction in 2016.

Saskatoon and Saskatchewan are benefiting from the diverse economy and confident attitude towards business development. Several major projects slated for construction in the province and the city are expected to provide jobs, which should spur residential/ commercial development and industrial projects to service those industries. Moving into 2016 and beyond, more activity is expected as these major projects move forward.

SASKATCHEWAN

REGINA

Activity has remained steady in Regina's commercial property market during the first half of 2015 and product of all types with good leases in place is quick to sell. However, Regina's market continues to be limited by a shortage of development land; there is no land zoned for retail or hotel development currently available, though demand remains high.

Multi-tenant retail and industrial properties with good leases are in highest demand, and typically sell within days after coming on the market. Retail is stable year-over-year; activity is normal, on par with last year, and retail space sells for an average of approximately $275 per square foot. There are lots of new builds being sold and leased, and retail properties in good locations that are properly priced are quick to sell.

Multi-family apartment product is selling for approximately $110,000 per door, down slightly from approximately $115,000 in 2014. Sales remain strong in this sector, but value is softer due to higher inventory of new rental projects coming on stream.

Industrial property has stabilized over the past year after several years of increase, and sells for an average of approximately $150 per square foot. Sales activity remains high in this sector of the market. There is demand from owner operators for industrial product looking for space for mechanic and auto body shops, trucking, manufacturing distribution, sales and a variety of uses.

New office product that has come on the market recently has increased vacancy rates to approximately 20 to 25 per cent in a large segment of the market. This has led to somewhat softer prices and slower activity in that segment of the market. However, there continues to be buyer demand for properly priced, good-quality office buildings with good leases in place.

"Multi-tenant retail and industrial properties with good leases are in highest demand, and typically sell within days after coming on the market."

The past few years has seen a significant increase in both buying and leasing from new immigrants to Canada, as well as investors from other provinces. Demand from immigrants to Canada, who come to Regina primarily from China, Korea, Eastern Europe, the Middle East and South Asia, has led to increased activity in the business brokerage market. These buyers are investing in anything from small mom-and-pop stores to larger hotels and manufacturing operations. They continue to be a strong driving force in the economy as they tend to recognize or create opportunities that expand growth in retail and other sectors.

While the drop in oil prices has affected Regina's market, the impact hasn't been as significant as in cities such as Calgary and Edmonton. The diversity of Regina's economy, in which agriculture, potash, trucking and government are all significant employers, has mitigated the overall impact of falling oil prices.

The Regina Bypass project, a new $2 billion highway project, is in the early stages of construction and prompting optimism. This project is expected to boost the trucking industry and provide stimulus to the city's economy over the next several years. The outlook for the remainder of 2015 and 2016 is stable. October's federal election may slow down the market temporarily, but no significant changes in price or activity are expected in the next year and a half.

WINNIPEG

The number of commercial properties for sale in Winnipeg is limited, causing greater activity on properties that would typically be viewed as less desirable. The low inventory is primarily a result of low interest rates remaining low over recent years, keeping the demand high. The fastest moving streams are multi-tenant industrial properties and multi-family residential properties. Large passive income properties are generally attractive to Real Estate Investment Trusts (REITs).

Recently there has been an increase in real estate selling outside of its original purpose. For example, industrial product is being repurposed into office or quasi-retail properties. Or, in some cases, if industrial properties don't have the right structure for repurposing – low ceilings, for instance – they are being demolished to make way for new housing developments. The St. James area and the north end of Winnipeg are popular areas for this practice; however, any industrial property qualifies if it is considered obsolete based on its originally constructed purpose.

Downtown Winnipeg has seen a lot of new construction recently. Overall, sales of existing properties have been slow, though certain microcosms have done well. Sherbrook Street had an influx of development over the past couple years, and on Marion Street in the St. Boniface area, a new strip mall and condominium development have been built recently, along with other development and redevelopment.

Vacancy rates in the city are healthy. Retail leasing is quite strong, while vacancy rates are higher for Class B and C office space, as well as for older industrial product that lacks in-demand amenities such as good parking and loading facilities.

Demand continues to be fueled by immigration and low interest rates. New immigrants, primarily from East and South Asia, are purchasing both owner-used businesses and investment properties. Businesses in strip malls tend to be particularly popular with these buyers newly entering the commercial property market. Out of province investors, largely from Alberta and British Columbia, are still coming to the Winnipeg market as well. Softness in the stock market, which tends to spur investment in real estate, is also contributing to demand.

It is expected that the commercial property market for the rest of 2015 and through to the end of 2016 will be fairly static, with low interest rates continuing to keep demand high and supply low. Not until there is a significant interest rate hike is it expected that a healthier balance of supply and demand will come to the market.

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2015 RE/MAX COMMERCIAL INVESTOR REPORT:

The 2015 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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