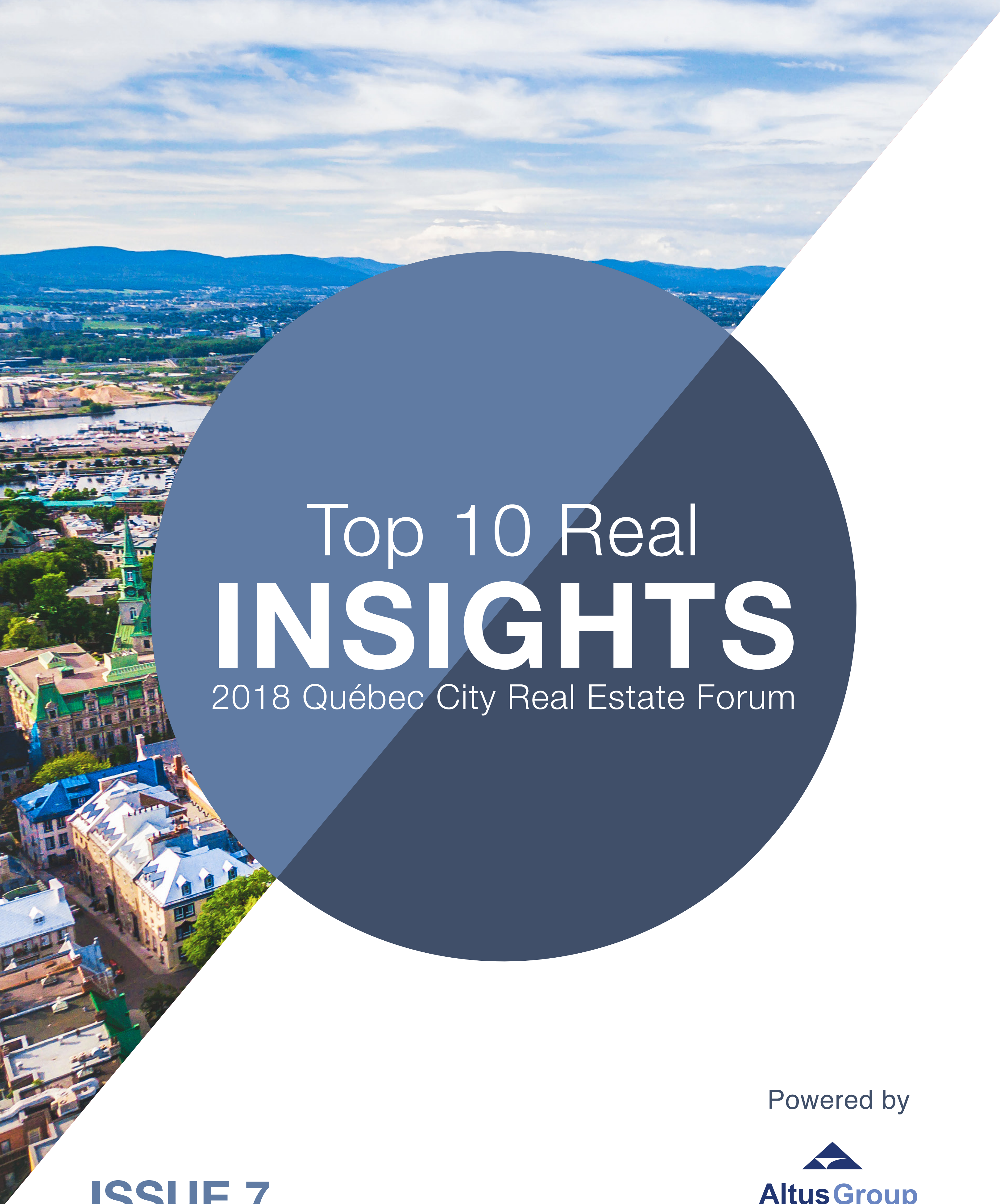

Top 10 Real
INSIGHTS
2018 Québec City Real Estate Forum

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ISSUE 7

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For further details on these top trends please visit the Real Estate Forums Portal at realestateforums.com

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1. ECONOMIC GROWTH OUTPACES MOST OF CANADA.

Growth in GDP and employment indicators of a growing economy.

The City of Québec's Real GDP has continued to grow over the last two decades.

1.8% increase in Q4 2017 over the previous quarter

2.5% increase in Q1 2018 from Q4 2017

Quebec's unemployment rate declined steadily since 2016. At 3.8% it is the lowest among all 29 Canadian CMAs and the lowest it has been since Stats Can began keeping track.

There are significant economic engines responsible for the job growth coming from both the public and private sectors.

As the seat of the provincial government, the impact on office, residential and retail sectors is significant. Public service accounts for almost half of all service industry jobs.

Québec has a vibrant and dynamic private sector that results in the city's continued strong economic performance. There are ten head offices of insurance companies resulting in this being the second largest hub for the Canadian insurance industry.

The technology sector, life sciences research, cutting-edge food and nutrition research, and manufacturing all contribute to Québec's economy.

The economic engine will continue being fuelled:

In December, The Québec Port Authority announced its plan to build a container terminal at the site of the Beauport 2020 project. The project could potentially create a new international economic hub geared toward logistics, distribution centers, and new businesses.

The key aspects of the project are:

- $400M investment
- 610-meter extension of the wharf line
- Development of 17-hectare area behind the wharf
- Link-up with existing rail and road networks

Last month the government announced the 2018-2028 Québec Infrastructure Plan. A record $100.4B will be invested to drive economic growth throughout Québec.

This is the biggest infrastructure spending increase since the rollout of Québec's first infrastructure investment plan in 2007.

It represents a 10.2% increase over the 2017 2027 QIP, more than $10B will be allocated for infrastructure improvements and new projects in 2018 2019.

2. LABOUR IN SHORT SUPPLY

A result of Québec's booming economy is a shortage of labour.

Record low employment rate of 3.8%, has resulted in instances of decreased production. Some companies are having to pay higher than minimum wage.

According to Jean-Guy Côté, associate director of the Institut du Québec, a public policy think tank, this historic shortage is the result of economic growth and an aging population leaving the workforce. He has urged the province to increase immigration quotas in order to grow its labour force.

A BMO report states that the services-producing industry led the way concerning job growth in Quebec as a province, adding 145,300 jobs from the beginning of January 2016 to the end of December 2017, for a total of 3,406,000 jobs.

The next-highest growth for the province came in the finance, insurance and real estate sector, which added 35,100 jobs in the same time period to reach a total of 880,000 jobs.

In the 2018 Budget, the province has allocated $810M to address labour market challenges including integration of immigrants.

3. TRANSIT TO GET AN OVERHAUL

Most significant public transit initiative in the city's history will have a dramatic impact on future growth of the metropolitan area.

In March, plans were announced for a $3B transit network that would traverse Québec.

The plan has four components:

- construction of a 23km light rail line of which 3.5km would be underground
- construction of a 17km rubber-tired "trambus"
- provision of 16km of dedicated public transit right-of-way
- provision of 110km of a hybrid-power "metrobus" network

The U-shaped light rail line will run from Le Gendre via Sainte-Foy West, and Laval University to Louis XIV

The objective is that 65% of the population, or 344,000 people, will be within 800m of one of the new public transport components.

Included in the plan is $300M for improvements including landscaping and widening sidewalks.

The project will be done by 2026 and the city projects that once complete, there will be an increasing in public transit ridership of 29%, easing traffic congestion by taking 12,500 cars off the road.

4. 2018 RESIDENTIAL DEVELOPMENT OFF TO A STRONG START

In Q1 2018 the QFREB reported that there was a 13% increase in condo sales marking a shift towards higher-density housing.

According to QFREB market analysis manager Paul Cardinal, the province's lower price point has allowed it to dodge the effects of a new mortgage stress test, which came into force on January 1 and has dampened many of the country's more expensive markets.

According the CMHC, housing starts for the Q1 2018 rose 51% from Q1 2017, to 848 units.

It is estimated that housing starts should hover between 3,000 and 3,600 units between 2018 and 2021.

In the Quebec CMA the economic development department estimates that there are 100 current and future residential projects slated for this period, with a total value of nearly $2B.

One of the largest developments under construction is Le Phare. It will consist of four towers (17, 32, 56 and 68 storeys) with the tallest tower at 250 metres, making it the tallest building east of Toronto. It has a floor space of over two million SF with 1,100 residential and leased units, 200 condos, commercial and office space, a 150-room hotel and a multimedia 700-seat concert hall.

Other developments currently under construction are:

- Le St. Moritz by Sylcorp is slated for completion this year. It is a 7 storey - 89 unit development.
- Click Condo Phase II, a 15 units 3 storey, will be complete in 2018.
- LB9 is a 198 unit project by Groupe Bolduc Inc. This project will offer a condominium agreement that will allow owners of certain units to rent on Airbnb.

5. QUEBEC A DESTINATION FOR RESEARCH AND TECHNOLOGY

Hundreds of companies are active in these sectors impacting the real estate market with office, laboratory, R&D and warehouse space needs.

Between 1998 and 2008 the GDP for the Technology Industry grew twice as fast as Quebec's overall economy. At present, there are 540 technology companies located in Quebec, employing approximately 19,500 people, creating $1.7B in sales and 65 research centres, chairs, clusters and institutes

The Geospatial industry includes 30 companies, generates approximately 800 jobs, including 130 in research and represents $ 80M in annual sales figures. The sector supports 10 research centers, groups and chairs.

The City of Quebec is home to important research centers:

- Center for Optics, Photonics and Lasers (COPL) - University research center for optics-photonics
- Defense Research and Development Canada (DRDC Valcartier) - National Defense R&D Center in Canada
- Interuniversity Research Center on Enterprise Networks, Logistics and Transportation (CIRRELT) Transportation research center.
- National Optics Institute (INO) - Center for expertise in applied optics-photonics.
- The Centre de recherche Université Laval Robert-Giffard (CRULRG) - Canadian research center treating brain disease with neurophotonics

The Life Sciences industry in the Quebec CMA consists of 121 companies employing over 9,000 people and represents and estimated $1.3B in sales. It supports 85 centres, research chairs, clusters and institutes.

The Canadian-based pharmaceutical firm Medicago is developing a $245M facility for vaccine production. Medicago's new complex will be built in Quebec City's Estimauville innovation park and will be completed by 2019. It will house Medicago's head office, research and development activities and commercial production plant.

6. SENIORS HOUSING MARKET BUOYED BY AGING POPULATION AND UNIQUE MODEL.

Almost half of the 225,000 private residential housing spaces for seniors in Canada are in the province of Québec.

Senior's housing comprises a major part of the apartment market in the City of Québec as they provide a very affordable option for empty nesters and the elderly. Rents are 55% of the average rents in Ontario and Québec has an operating model that is unique to their counterparts in Ontario.

According to Chartwell's Vlad Volodarski, in Québec residents can chose their amenities on an 'a la carte basis' whereas in Ontario, retirement homes operate on an all-inclusive basis, decreasing the affordability of retirement living. In Québec, 18% of senior over the age of 75 live in retirement homes, compared with 5% in Ontario.

Vacancy rates for seniors housing decreased from 7.2% in 2016 to 6.3% in 2017. Overall, rates have decreased 2.5% since 2013.

The lowest vacancy rate was for units over $1901 / month which was 3.9% and comprises approximately on third of the rental stock available in the Québec CMA.

Despite an increase in new construction, supply has not caught up with demand, due in a large part to an aging demographic.

According to the Conference Board of Canada's report, demand for home care services will increase at a projected 3.1% annual pace until 2026. But growth in home care employment is only projected at 1%.

Chartwell is spending $78.5M to build a 360-unit retirement home in Cap-Rouge and will be anchored by the soon to be revitalized Cap Rouge Mall.

The former Provigo supermarket is being torn down to make way for the five-storey retirement home. The building should open to residents in the summer of 2019. One bedroom units will rent for $1,900 to $2,500; two bedrooms of about 1,000 square feet for about $2,600 and three-bedroom penthouse style apartments will go for about $3,200 (not including meals).

7. MULTI FAMILY VACANCY RATES DECREASING

Despite 20% increase in rental stock, vacancy rates are decreasing.

According to CMHC, the rental housing vacancy rate in the Québec CMA decreased slightly, reaching 4.5% in October 2017, compared to 4.9% one year earlier.

A significant number of new units were added to the rental housing stock, however, the rise in demand caused a slight decrease in the vacancy rate due to strong job growth numbers and migration.

The number of condominiums offered for rent grew from 3,830 in 2016 to 4,578 in 2017, for an increase of nearly 20%. The vacancy rate for rental condominiums remained stable (3.9%) and was slightly lower than that of the conventional rental market (4.5%).

While this market is growing, it only comprises close to 4,600 units, compared to nearly 87,000 conventional rental units. 5% compared to 60% in Vancouver.

Vacancy rates jump to 7.7% on units with rental rates over $1100 per month.

ImDevCo and the Fonds immobilier de solidarité FTQ will be completing their rental development "Espace Orainville" this spring. The 4-storey building will contain 32 one and two bedroom rental units.

8. CONSUMER SPENDING DRIVING RETAIL SECTOR

The retail market is benefitting from the real GDP growth of over 3% in 2017, which is resulting in strong consumer spending.

Strong consumer spending is leading to the expansion of Québec based retailers into new markets. It is also leading to new retailers moving into the Québec marketplace. Another effect of strong consumer spending is the revitalization of retail spaces.

La Maison Simons, is in the middle of a 5-year $200M expansion, which includes new stores in Vancouver, Edmonton, Calgary and Toronto. The expansion also includes its first net zero energy store.

Ikea's new Québec City location that will be 340,000 SF in size is on track to open late summer 2018.

RICARDO Boutique + Café will open its third location in Canada in the newly renovated food court of Les Galeries de la Capital

Québec City-based customer menswear retailer Surmesur has been in expansion mode, and it plans to continue. Surmesur currently operates 14 stores in Québec , Ontario, Chicago, Pittsburgh & Vancouver.

Designer Shoe Warehouse's COO said that Québec will be a target for the company as it continues to grow its brick-and-mortar operations.

Chinese dollar store MINISO plans to open 500 stores in Canada.

Ivanhoé Cambridge has announced that it is investing $60 in its Laurier Québec shopping centre in Québec City. It's the second phase of the mall's modernization, following the 2015 expansion and renovation of the mall's food court at a cost of $18M. Since 2010, more than $400M has been invested in the centre.

Oxford Properties is in the middle of a modernization strategy of Les Galeries de la Capitale. More than $200M in investments having been announced for the centre's retail and entertainment components.

9. INVESTMENT VS. LIQUIDITY

The greatest challenge facing real estate investment activity in Québec is the significant disconnect between supply and demand of assets.

Private owners are very prominent in the city along with institutional investors and REITs. There is no strong appetite on the part of any of these to dispose of their assets.

With its long history of low unemployment rates, the services sector (which currently accounts for over 80% of the city's economy) along with a strong tourism sector, Québec represents a very stable and therefore desirable market to many investors.

Recently, Cominar REIT has just sold 95 of it non-core market portfolio to Slate for $1.14. Cominar's plan is to focus on its core markets portfolio in Montreal, Quebec City and Ottawa.

According to a recent study by the Conference Board of Canada, "the real estate industry is poised to bounce back after three years of lacklustre growth, thanks in part to strong commercial and industrial real estate activity in Québec City and Lévis".

Some of the recent larger transactions in Québec City include:

- Allied Properties REIT sold its portfolio of six properties in Québec City for aggregate proceeds of $24M. The portfolio was comprised of 224,174 SF of GLA. As at September 30, 2017, it was 60.8% leased.
- Immostar & Fiera Properties jointly acquired the Place de L'Escarpement in 2017 a deal that included 140,000 SF and development space.
- In November BTB REIT acquired the retail power center known as the «Carrefour Saint-Romuald» in Lévis, Québec. This $35.9M transaction total leasable area of 121,000 square feet and is entirely leased. It houses well-known national retailers such as Archambault, Avril, Michaels, Bulk Barn, Mondou and Latulippe.

10. QUÉBEC BENEFITS FROM BALANCED BUDGETS

For the fourth year in a row the province has balanced its budget boosting spending and cutting income tax.

In its last budget before the Oct 1 election, the province of Québec has balanced its budget for the fourth straight year.

There is a projected surplus of $904M fon total revenue of $109.6B, including $23.7B in federal transfers. The surplus will go to a fund aimed at lowering the province's debt.

Gross debt has decreased for three years in a row. As of March 2018, it stood at $204.5B, representing 49.6% of GDP, down from the peak of 54.3% in 2014-15.

Spending will increase 4.7% this fiscal year as revenue climbs 2.2%. The budget contains $3.6B of new investments in health care and $1.6B in education over five years. The increase will bring the overall spending in education to a total of $23.3B.

$13.5B will be spent to get three major public-transit projects under way including the project to overhaul the transit system in Québec City.

Québec will raise $23M in excise duties on the sale of marijuana once it's legalized in Canada later this year. That will rise to $50M in 2019-20.

The government will also gradually reduce income tax in the service and construction sectors from 8% to 4%.

The budget benefits the real estate sector:

First-time homebuyers will get tax breaks worth $140M over five years through a tax credit on real estate fees such as inspection and notary feeds. The tax credit, which applies to housing units purchased after Jan. 1, 2018, will give Quebecer home-buyers a break of up to $750 on tax returns.

The RénoVert program has been extended until December 31, 2019. This program provides assistance equal to 20% of eligible residential renovation expenses exceeding $2,500.

The government announced that it will allocate $431M over seven years to build new social housing units, make housing more affordable for certain low-income households, adapt and renovate homes, and provide additional support to housing construction projects.