CI CANADIAN REIT ETF (TSX:RIT)

Commentary

JUNE 30, 2025

PERFORMANCE SUMMARY

For the quarter ended June 30, 2025 the CI Canadian REIT ETF returned 6.78% net of fees.

Contributors to performance: InterRent REIT and Killam Apartment REIT were the top individual contributors to fund performance in the quarter.

Detractors from performance: Ventas and BSR REIT were the top individual detractors from fund performance in the quarter.

MARKET SUMMARY AND PORTFOLIO ACTIVITY

North American equity indices rebounded meaningfully in Q2 2025, following a tumultuous start to the year, driven by tariff-related uncertainty. On a total return basis, the S&P 500 Index increased 10.5%, while the S&P/TSX Composite Index gained nearly 8.0%.

The S&P/TSX Capped REIT Index generated a return of +6.1% in the three months ended June 30, 2025 while the MSCI US REIT Index had a return of approximately -6.0%, and the FTSE EPRA Nareit Developed Index a return of -0.80% (in Canadian dollar terms). Canadian 10-year bond yields rose by 35bps during the quarter (+43bps through to July 4), outpacing the U.S., where yields increased just 6bps (+18bps through to July 4).

During the quarter, the fund initiated a position in real estate services provider, FirstService Corporation, and exited out of U.S. healthcare REIT, Healthpeak.

The fund added to its positions in CAP REIT, Dream Industrial and Killam, and decreased its holdings in Chartwell and InterRent REIT, following a privatization offer from CLV Group and GIC.

The fund's top ten holdings as of June 30, 2025 included: Chartwell, Killam, First Capital, CAP REIT, Dream Industrial, RioCan, Boardwalk, H&R, Granite and Choice. Collectively, the top ten holdings comprise approximately 56.5% of the fund.

SUBSECTOR REVIEW

We provide a brief overview of the underlying themes and outlook for major Canadian real estate subsectors.

Multifamily

While Canada's multifamily market is undergoing a period of rebalancing, the subsector is well-positioned over the long-term given high barriers to home ownership and a material slowdown in construction starts. This is reflective of unfavourable development economics. In the near-term, Canadian multifamily REITs will also benefit from the elimination of carbon taxes, which is expected to boost FFO by 1.5-3% annually. Investor interest in multifamily remains strong and, in late May, a partnership between CLV Group and GIC announced an offer to privatize InterRent, providing a positive read-through for valuations within the subsector. With many REITs trading at steep NAV discounts, unit repurchases - often funded by non-core asset sales - have become a strategic focus.

Industrial

Canada's industrial real estate market showed signs of short-term softness in Q2, largely due to ongoing trade disruptions that delayed leasing decisions. According to CBRE, national net absorption totalled -1.4 million sf, the second weakest quarterly performance in a decade. As a result, the national average availability rate rose 30bps sequentially to 5.3% while average asking rents declined 0.6%.

The federal government's decision to abandon the digital services tax has reopened trade negotiations with the U.S., with a potential deal on the horizon. Landlords report high tenant space utilization, suggesting leasing activity could rebound once policy clarity improves. Meanwhile, construction activity is trending lower, supporting a more balanced supply-demand environment. Valuations of Canadian industrial REITs remain discounted, and a sustained recovery in absorption could catalyze a re-rating. In the meantime, unit buybacks remain an accretive use of capital, with Granite continuing its program and Dream Industrial initiating repurchases post-quarter.

Office

Canadian office fundamentals are showing signs of stabilization, with national vacancy holding steady at 18.7% in Q2 2025 and sublet space declining for the eighth straight quarter, according to CBRE. Trophy assets continue to outperform, with vacancy falling to 10.6% and widening the gap versus lower-tier buildings. While net absorption remained slightly negative, a shrinking construction pipeline and a wave of new return-to-office mandates from major employers support expectations for a gradual recovery in occupancy. Allied and Dream Office have seen improved leasing momentum, with Dream Office posting its strongest leasing quarter since the pandemic in Q1 2025. Touring activity remains healthy, and management teams of both REITs expressed confidence in near-term occupancy gains.

Seniors Housing

Canadian seniors housing operators posted strong Q1 2025 results, driven by double-digit same-property NOI growth and acquisitions. Chartwell's same-property occupancy rose 140bps Q/Q to 91.5% and remains on track for its 95% year-end target. Operating leverage and expense control contributed to margin expansion, a trend expected to continue as occupancy improves. The investment market remains active, with Chartwell and Sienna announcing or completing $460 million and $335 million in acquisitions YTD, respectively.

Retail

Canadian retail REITs reported Q1 2025 results modestly ahead of expectations. Same-property NOI growth ranged from 3 to 5%, supported by strong leasing spreads, improved rent escalations, and better expense recoveries. Occupancy remains near peak levels for most retail REITs and while HBC's bankruptcy created short-term disruption for RioCan and Primaris, most of the affected space is expected to be backfilled at higher rents. Commentary from management teams was consistently positive, citing strong leasing pipelines and limited tenant risk, despite broader macroeconomic concerns.

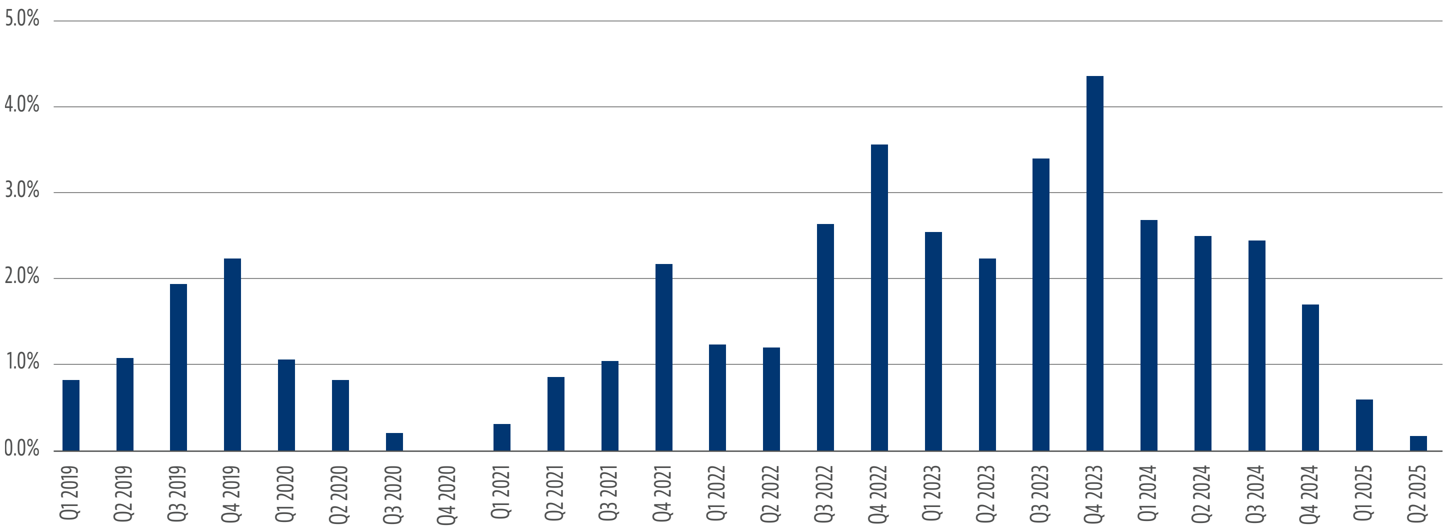
OUTLOOK

In our view, the outperformance of Canadian REITs versus U.S. REITs during Q2 2025 was driven by the recognition of relatively large valuation discounts in Canada versus the U.S., less pessimism about the magnitude and economic impact of tariffs and proposed M&A. With Canadian REITs trading at a 16% discount to NAV, on average, valuations remain attractive and greater clarity on the economic outlook, coupled with stable or declining interest rates are further catalysts for a re-rating.

The Bank of Canada has maintained the overnight rate at 2.75% since March, awaiting clearer signs of easing inflation and broader labour market weakness before considering further cuts. The current consensus based on economist estimates aggregated by Bloomberg suggests an additional 50bps of rate cuts by year-end. More relevant for real estate pricing and financing, Canadian 10-year government bond yields are expected to remain relatively flat over the next 18 months based on economist forecasts.

Supply conditions are also improving across most asset classes, with construction starts down by double-digit percentages Y/Y. This should help tighten market fundamentals and enhance landlord pricing power. On the demand side, population growth remains positive and has exceeded the recently re-elected Liberal party's targets, which imply modest Y/Y declines in 2025 and 2026.

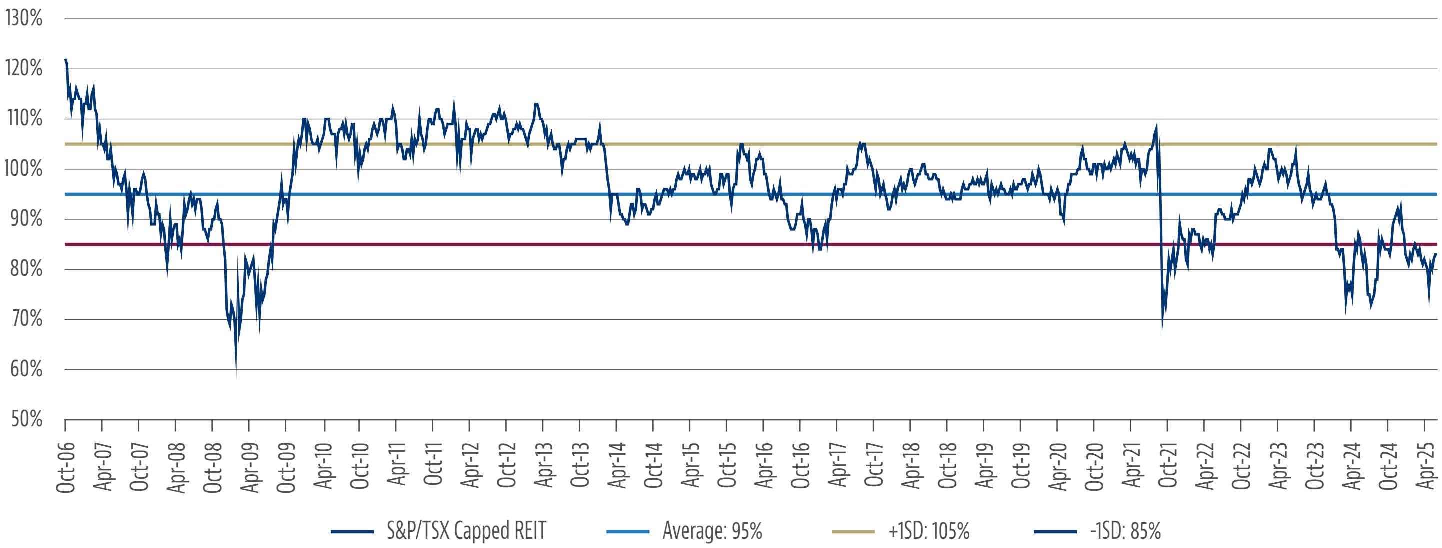
ANNUALIZED POPULATION GROWTH RATES IN CANADA



With interest rates stabilizing relative to recent years, REIT capital markets activity has rebounded. In May, InterRent REIT received a takeover offer from a consortium including CLV Group (affiliated with InterRent's chairman) and Singapore's sovereign wealth fund, GIC. Given the substantial "dry powder" in real estate private equity and the relative attractiveness of public versus private valuations, further privatizations may follow.

Canadian REITs remain compelling on both an absolute and relative basis. On a price-to-NAV basis, we estimate the S&P/TSX Capped REIT Index is trading at a 16% discount to consensus NAV, well below the historical average discount of 5%. Globally, Canadian REITs also appear undervalued: on a price-to-FFO basis, they trade at a 3.3x discount to the global developed benchmark, compared to a long-term average of 2.5x - suggesting Canadian REITs are attractively priced relative to global peers.

S&P/TSX CAPPED REIT INDEX P/NAV



Source: Bloomberg Finance L.P., S&P Capital IQ, company reports and CI Global Asset Management as at June 27, 2025

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