CI CANADIAN REIT ETF (TSX:RIT)

Commentary

MARCH 31, 2025

PERFORMANCE SUMMARY

For the quarter ended March 31, 2025, the CI Canadian REIT ETF had a total return of 3.1%.

1Y%	3Y%	5Y%	10Y%	S.I%
3.8	-4.1	7.2	6.4	8.7

Source: CI Global Asset Management
All returns and fund details are based on ETF shares; net of fees; figures in CAD annualized if period is greater than one year; as at March 31, 2025. Inception date November 15, 2004.

Contributors to performance: Chartwell Retirement Residences, Flagship Communities, and Interrent were the top individual contributors to fund performance in the quarter.

Detractors from performance: Equinix, Riocan, and Colliers Internation were the top individual detractors to fund performance in the quarter.

MARKET SUMMARY AND PORTFOLIO ACTIVITY

Canadian REITs outperformed the broader market and global REIT indices in Q1 25 after underperforming in the prior year, helped by lower bond yields. The S&P/TSX Capped REIT Index achieved a total return of +2.7% in the three months ended March 31, 2025 and compares with returns for the S&P/TSX Composite Index of +1.5%, the MSCI US REIT Index of +1.0%, and the FTSE EPRA Nareit Developed Index of +1.9% (in Canadian dollar terms). Canadian 10-year bond yields were down 26bps during the quarter, in line with the 27bps decline in U.S. yields, but compares with moves higher in Europe on the back of German defence spending plans. Subsequent to quarter end, President Trump's "Liberation Day" tariff announcements have sent REIT indices lower globally as fears of its impact on economic growth weigh on investor minds.

During the quarter, the fund increased its position in Sienna Senior Living by participating in an equity offering that was well received by the market. The fund decreased positions in Minto and CT REIT, and also eliminated its small position in Northwest Healthcare Properties. The fund's top ten holdings as of March 31, 2025 included: Chartwell, First Capital, Riocan, Granite, Killam, CAP REIT, Crombie, Dream Industrial, Boardwalk, and Choice Properties. The top ten holdings comprised approximately 47% of the fund.

SUBSECTOR REVIEW

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

Multifamily

Results from Canadian multifamily REITs were largely in line with expectations in Q4 24, underpinned by healthy albeit moderating organic growth, which averaged 6.4% in the quarter, down from 8.5% in Q3. National average apartment rents fell 2.8% year-over-year in March 2025 but increased 1.5% on a month-over-month basis, driven by a seasonal increase in move-in activity. There have been larger declines in asking rents in more expensive cities, such as Toronto and Vancouver, and at higher-end buildings which compete more directly with rental condominiums.

Declining market rents have narrowed the gap between in-place and market rents for Canadian multifamily REITs, with new leasing spreads decelerating from 15% in Q3 24 to 12% in Q4 24. New supply deliveries are expected to peak later this year but will drop off meaningfully in 2026 and beyond, which should help shift pricing power back in favour of apartment landlords.

With the Canadian multifamily sector currently trading at a 24% average discount to consensus NAV estimates, several REITs have been active in repurchasing units. Large trading discounts have also stoked speculation regarding potential M&A within the subsector. Anson Funds, a Toronto-based hedge fund, recently disclosed a 9% stake in InterRent and is reportedly pushing for operational and strategic changes at the REIT.

Source: CI Global Asset Management as at April 11, 2025

Retail

Canadian shopping centre fundamentals remain strong overall, with the national vacancy rate below 4%. Results from Canadian retail REITs were in line with expectations in Q4 24 with solid rent spreads on renewals and occupancy rates in the high 90% range for most portfolios. There has also been a notable improvement in contractual rent increases on new leases from 1-2% historically to 2-3%, which should support stronger organic growth going forward.

Although the Canadian retail real estate sector is in a very strong position today, the risk profile of the sector has increased as potential tariffs by the Trump administration risk putting Canada at a greater risk of an economic pullback. This would weigh on consumer spending. HBC's recent CCAA filing has also tempered investor enthusiasm towards retail REITs, although we believe the impact to the overall market is likely to be small, increasing market vacancy by less than 1%.

Industrial

Canadian industrial market statistics for Q1 25 showed signs of stabilization with the Canada's national availability rate up 10bps sequentially to 5.0% and average asking rents holding steady for the first time in six quarters. Market rents are still nearly double 2019 levels and renewal spreads continue to drive outsized organic growth for Canadian industrial REITs, which averaged 8.5% in Q4 24.

Guidance for Dream Industrial and Granite implies FFO per unit growth of 7.5% and 6.3%, respectively, in line with consensus expectations. Despite the strong industrial prints and healthy guidance for 2025, investor enthusiasm is limited given U.S. trade policy uncertainty. We expect leasing activity will remain subdued until industrial occupiers have greater confidence in the macro outlook and can plan their space needs accordingly. In the interim, the risk of oversupply has decreased, with Canada's industrial construction pipeline currently at a five-year low, and space under development representing 1.1% of total inventory. Available sublease space has also decreased for three consecutive quarters to 0.6% of inventory, an indication that space utilization across the market is improving.

Source: CI Global Asset Management as at April 11, 2025

Seniors Housing

The outlook for Canadian seniors housing fundamentals has improved on a relative basis since the beginning of 2025, as macroeconomic uncertainty has increased. Demand for seniors housing is largely needs-based and should be resilient in an economic slowdown. Additional slack in the labour market should also help to mitigate operating cost inflation, supporting margin expansion for operators. Capital markets remain supportive of external growth for seniors housing operators, and we expect another year of heightened acquisition activity. YTD, Chartwell has announced or completed $460 million of acquisitions and Sienna has announced or closed $291 million, partly funded with a $144 million equity issuance in February.

In March, Welltower announced an agreement to acquire Amica Senior Lifestyles from the Ontario Teachers Pension Plan for $4.6 billion, equating to a price per door of $680,000 for the standing portfolio. While the Amica portfolio is ultra luxury and not representative of the broader market, the transaction nonetheless represents a favourable datapoint demonstrating investor interest in Canadian seniors housing.

Office

Canadian office fundamentals have shown signs of stabilization, and the worst is likely in the rear view mirror for Canadian office REITs in terms of operating and financial performance. However, there is no obvious catalyst for a rebound in office space demand, particularly in a slowing Canadian economy. Disposition programs are currently underway at both Allied and Dream Office, which should help reduce leverage and provide greater confidence in asset values.

Leasing volume has stabilized at 80%-90% of pre-pandemic levels, with Class A buildings representing a disproportionate share of overall activity. The national office market vacancy rate was 18.7% at the end of Q1 25, unchanged from the end of 2024, while the Downtown Class A vacancy rate declined 20bps sequentially to 16.9%.

Stabilizing vacancy was largely a function of no new supply deliveries during the quarter. With 3.2 million sf (0.6% of inventory) of new space scheduled for completion before year-end, market vacancy rates will likely move higher. Tenants will likely continue to upgrade their office space as leases expire, further widening the gap between Class A versus B/C vacancy rates (840bps as of Q1 25).

Source: CI Global Asset Management as at April 11, 2025

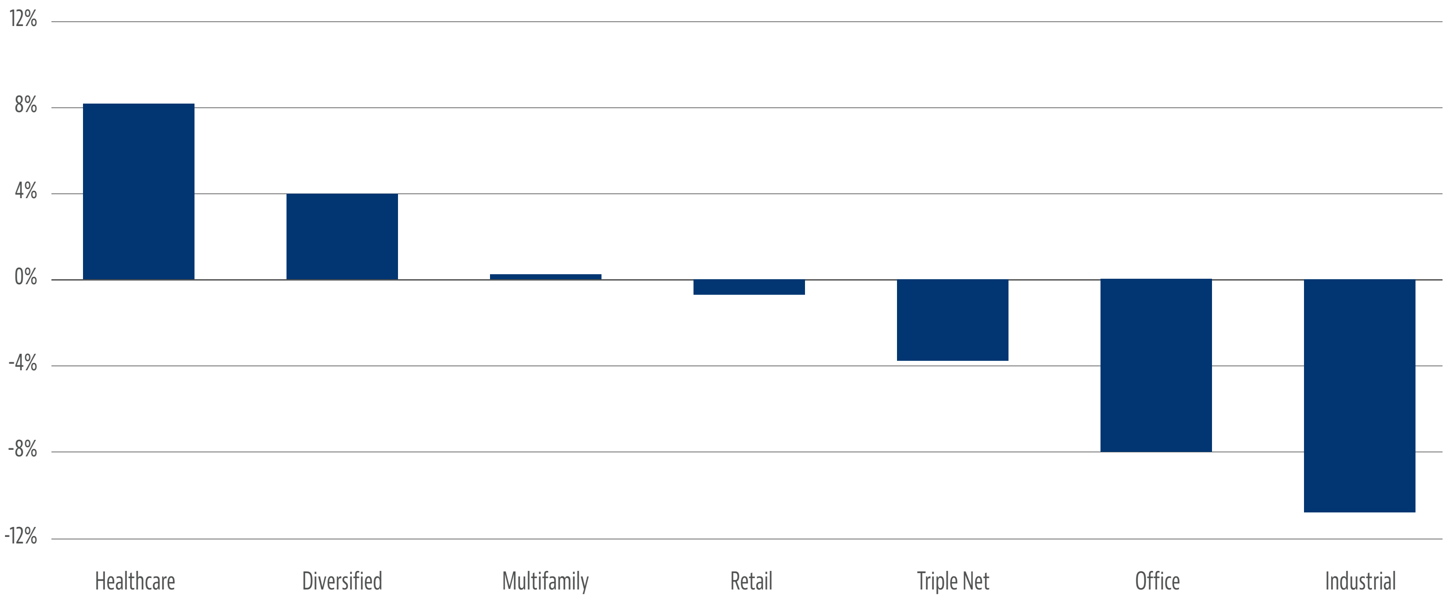
OUTLOOK

It goes without saying that it has been a difficult start to the year for investment markets with uncertainty created by the recent tariff announcements. On the overall macro front, we highlight the following points from CI's economics team:

- **Elevated Uncertainty and Volatility:** The Trump administration's aggressive policy proposals and tariffs are creating significant economic uncertainty, negatively impacting investor and consumer confidence.
- **U.S. Growth Slowing, Inflation Rising:** Following above-trend growth, the U.S. economy faces risks from slower consumer spending and higher inflation. The front-loading of inventories driven by tariff-related concerns is also likely to weigh on economic activity in the coming quarters.
- **Canadian Recession Risk Rising:** Canada faces heightened recession risks if broad U.S. tariffs are implemented, impacting consumption, housing, business investment, and longer-run growth potential, despite the Bank of Canada's aggressive easing of monetary policy.
- **Global Recalibration Possible:** Trump's policies could trigger broader shifts in international alliances and economic relationships, prompting countries to reconsider economic and security dependencies on the U.S.
- **Mixed Global Growth Outlook:** China's economy is stabilizing, and Europe's growth remains sluggish. Fiscal stimulus offers cautious optimism, though the overall outlook hinges on easing U.S.-led trade tensions.

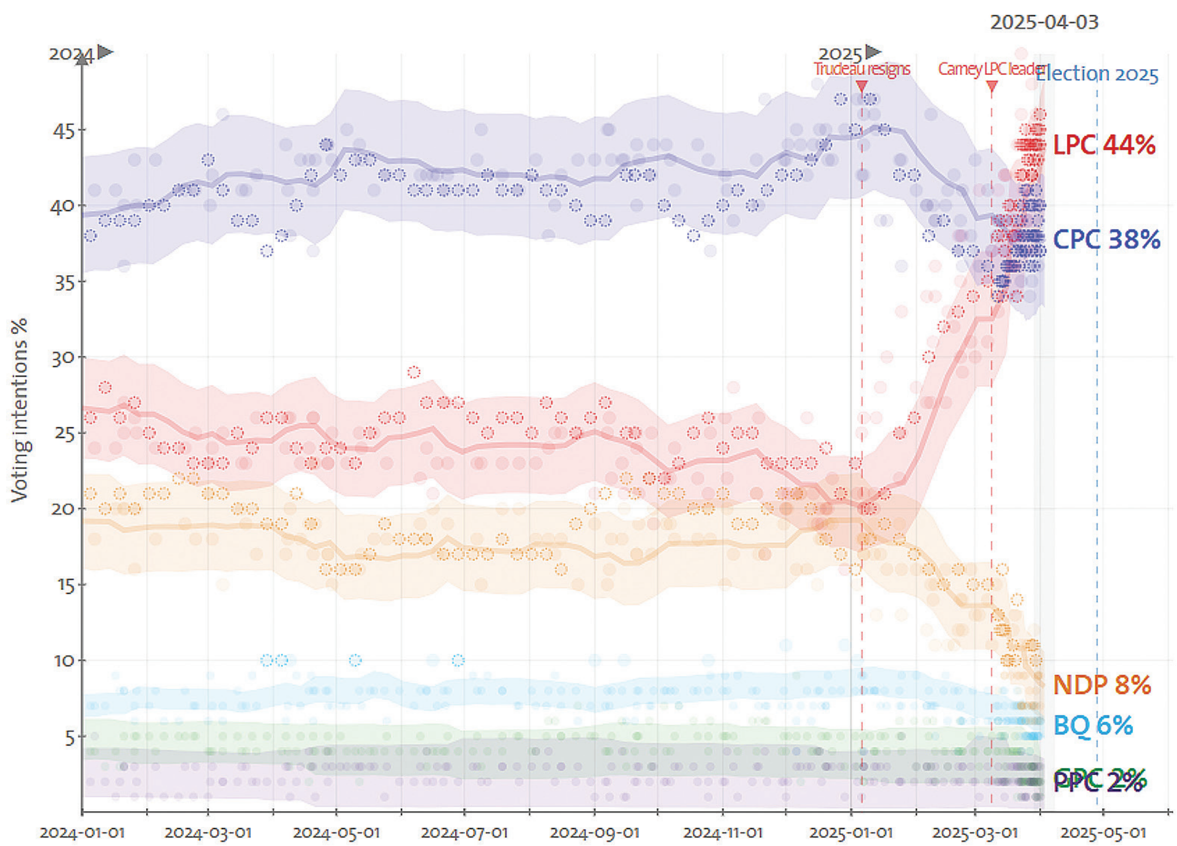
With "Liberation Day" behind us, we at least have a better understanding of what the tariff picture looks like for Canada – unless there were to be a renegotiation of the USMCA trade agreement. Tariffs in place include 25% on all non-USMCA compliant products (which will reduce to 12% if the national emergency related to fentanyl gets lifted), 25% on steel, aluminum and completed vehicles (with auto parts expected to be included in May) and 10% on potash and energy. Canada has responded with its own retaliatory tariffs including 25% on automobiles, 25% on goods valued at $30 billion imported from the U.S. and reciprocal tariffs on steel and aluminum. We would have expected the subsector most directly negatively impacted by an escalating trade war with the U.S. would be industrial, while seniors housing should be the least impacted owing to its demographic demand drivers. This has largely played out in returns through April 4.

BLOOMBERG CANADA REIT CONSTITUENT YTD TOTAL RETURN

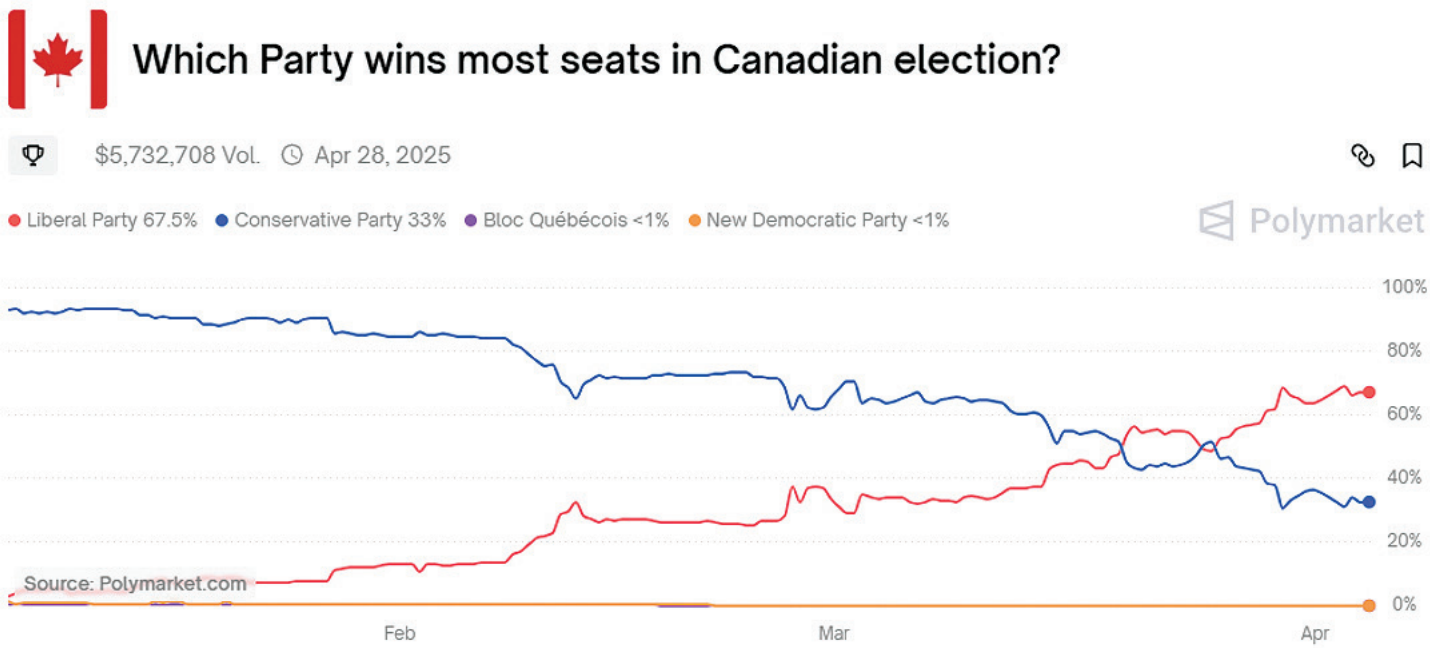


Source: Bloomberg Finance L.P. and CI Global Asset Management as at Apr 4, 2025

Canadians will go to the polls at the end of April and at the time of writing, sentiment has strongly shifted from what was meant to be a dominant Conservative victory in early January, to a potential Liberal win.



Projection updated April 3, 2025

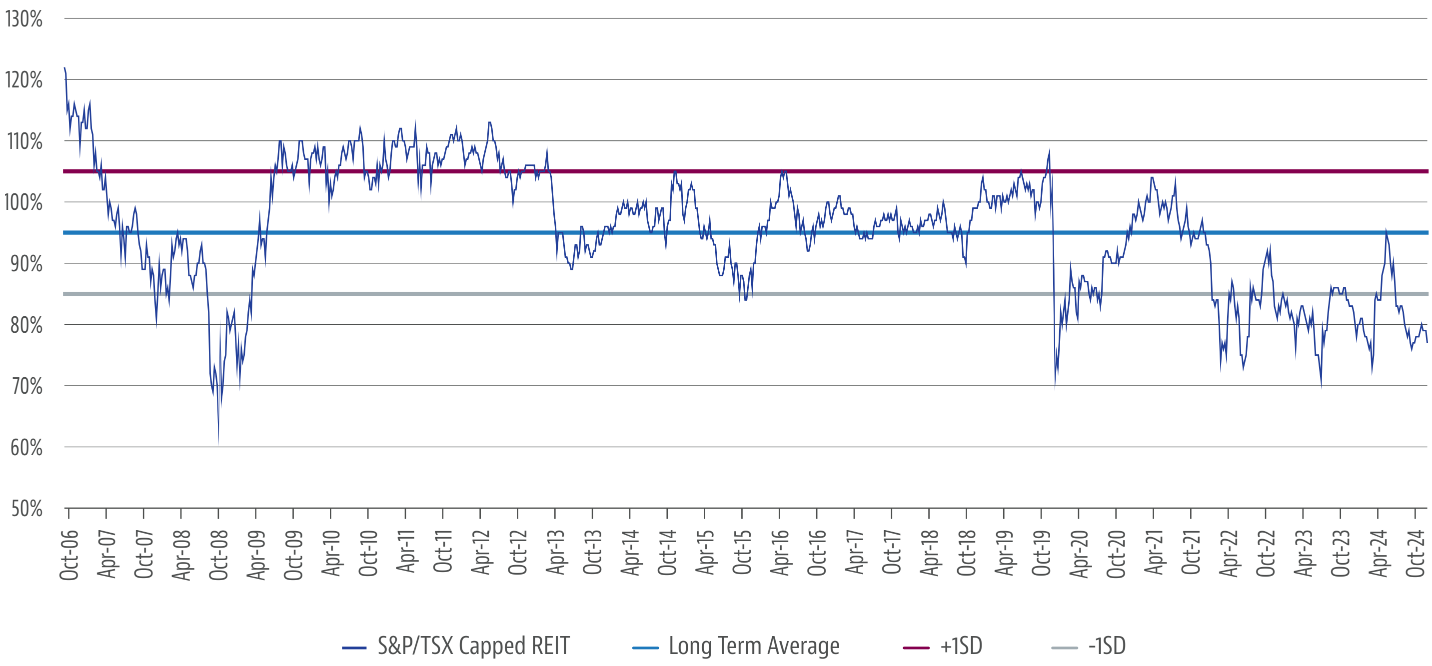


Source: 338canada.com and polymarket.com accessed as at April 4, 2025

Both parties are largely campaigning on increased industrial and economic strength (e.g. remove interprovincial trade barriers, increase defence spending) and lower tax burdens (e.g. elimination of consumer carbon tax, eliminate capital gains tax increase, reduction in lowest marginal tax bracket, elimination of GST on certain home purchases). Increased military investment could be a benefit to Atlantic Canada owing to its naval shipbuilding capacity, which could be a relative boost to REITs such as Killam with material exposure to that region. One key difference that impacts apartment REITs broadly would be on immigration, where the Liberals currently expect to maintain the existing recently announced immigration caps whereas the Conservatives look to tie immigration to home building. We understand some global investors have been shying away from Canada due to political uncertainty, and election finality should remove this objection.

Canadian REITs continue to look attractive on an absolute and relative basis. On a price to NAV basis, we estimate the S&P/TSX Capped REIT Index is trading at over a 20% discount to consensus NAV, well below the historical average of a 5% discount. Within a global context, when we look at price to FFO multiples, relative to the global developed benchmark, Canada is trading at a 5x discount compared with a longer run average closer to 2.5x implying Canada is cheap versus global REITs. Key overweight sectors for the fund are residential asset classes such as apartments and manufactured housing, as well as seniors housing, while underweights include shopping centres and industrial.

S&P/TSX CAPPED REIT INDEX P/NAV



P/FFO OF FTSE EPRA NAREIT DEVELOPED INDEX - S&P/TSX CAPPED REIT INDEX

Source: Bloomberg Finance L.P. and CI Global Asset Management as at Apr 4, 2025

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