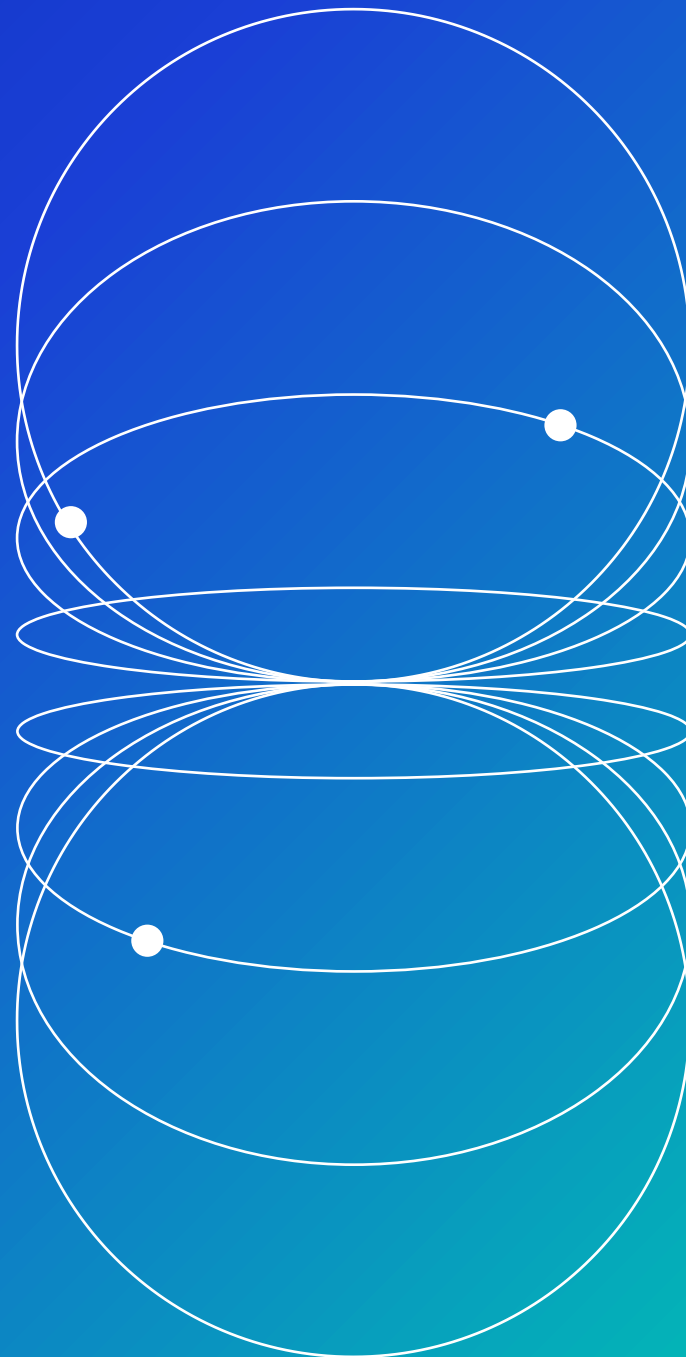




Navigating a Stock Pickers Market

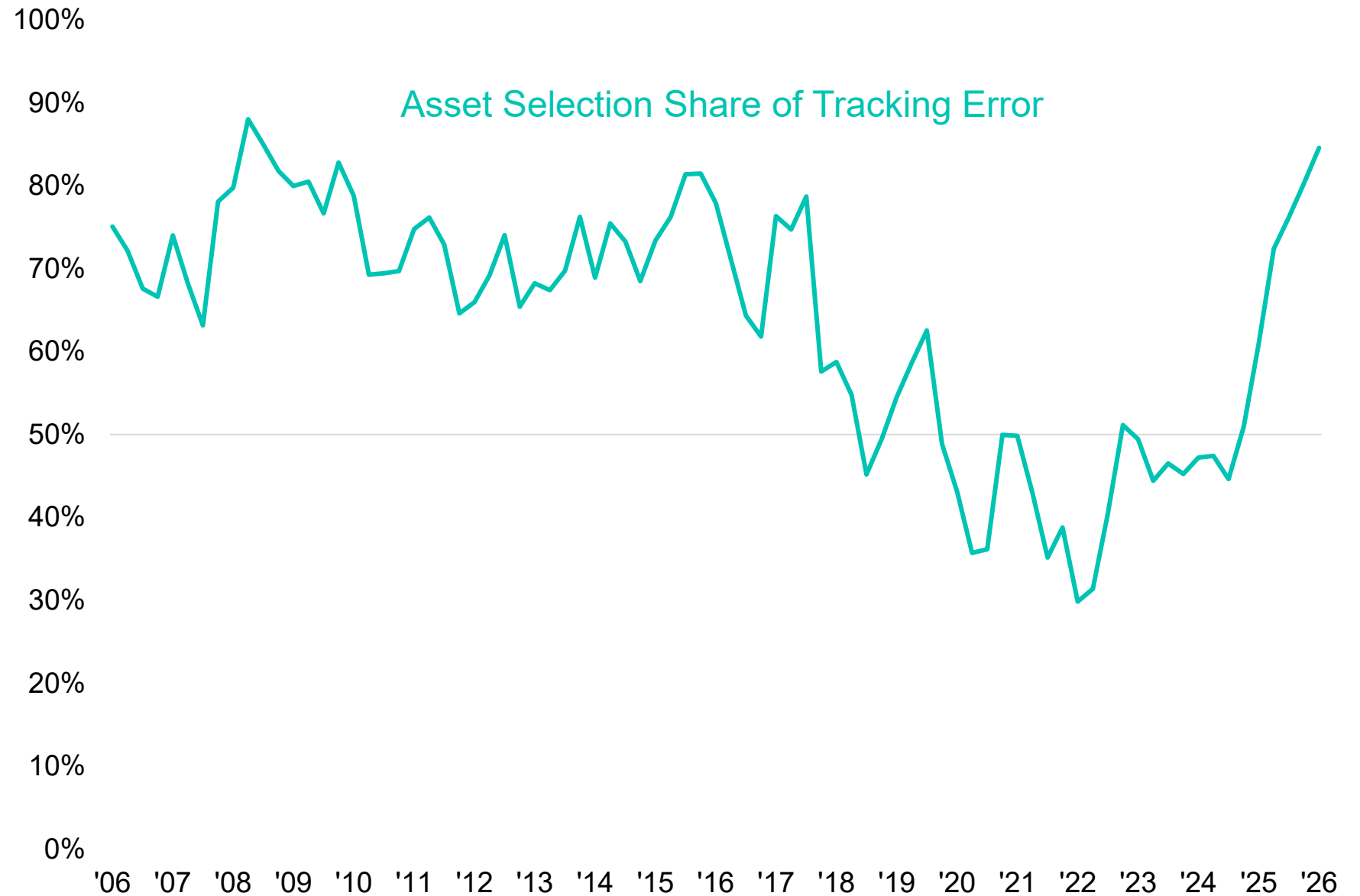
October 14, 2026

Bryan Reid



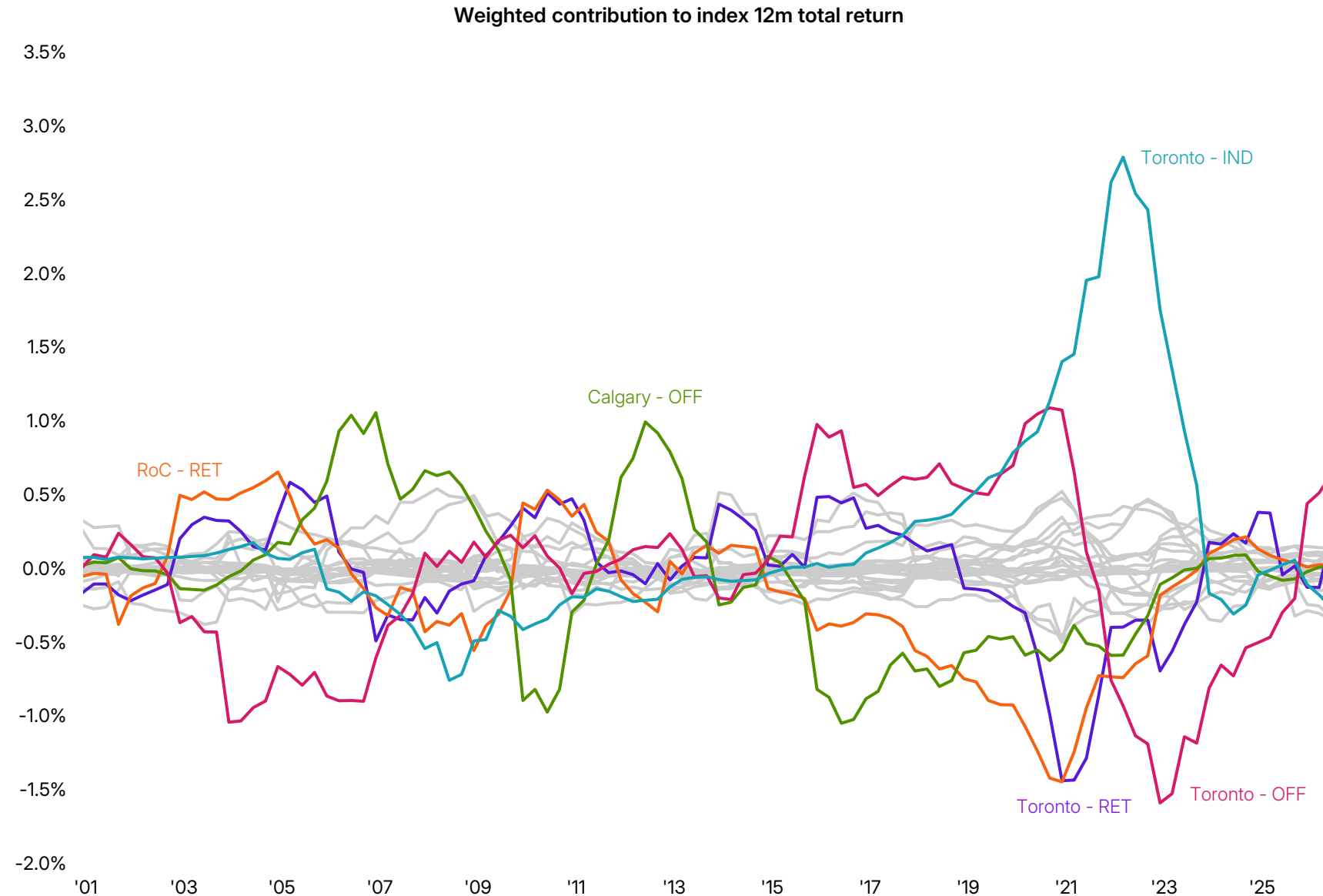
A return to selection driven performance differentiation

→ Bifurcation and divergence in returns saw allocation become the dominant driver or relative performance for a period, but we have returned to a selection driven regime



What's driving Canadian index returns

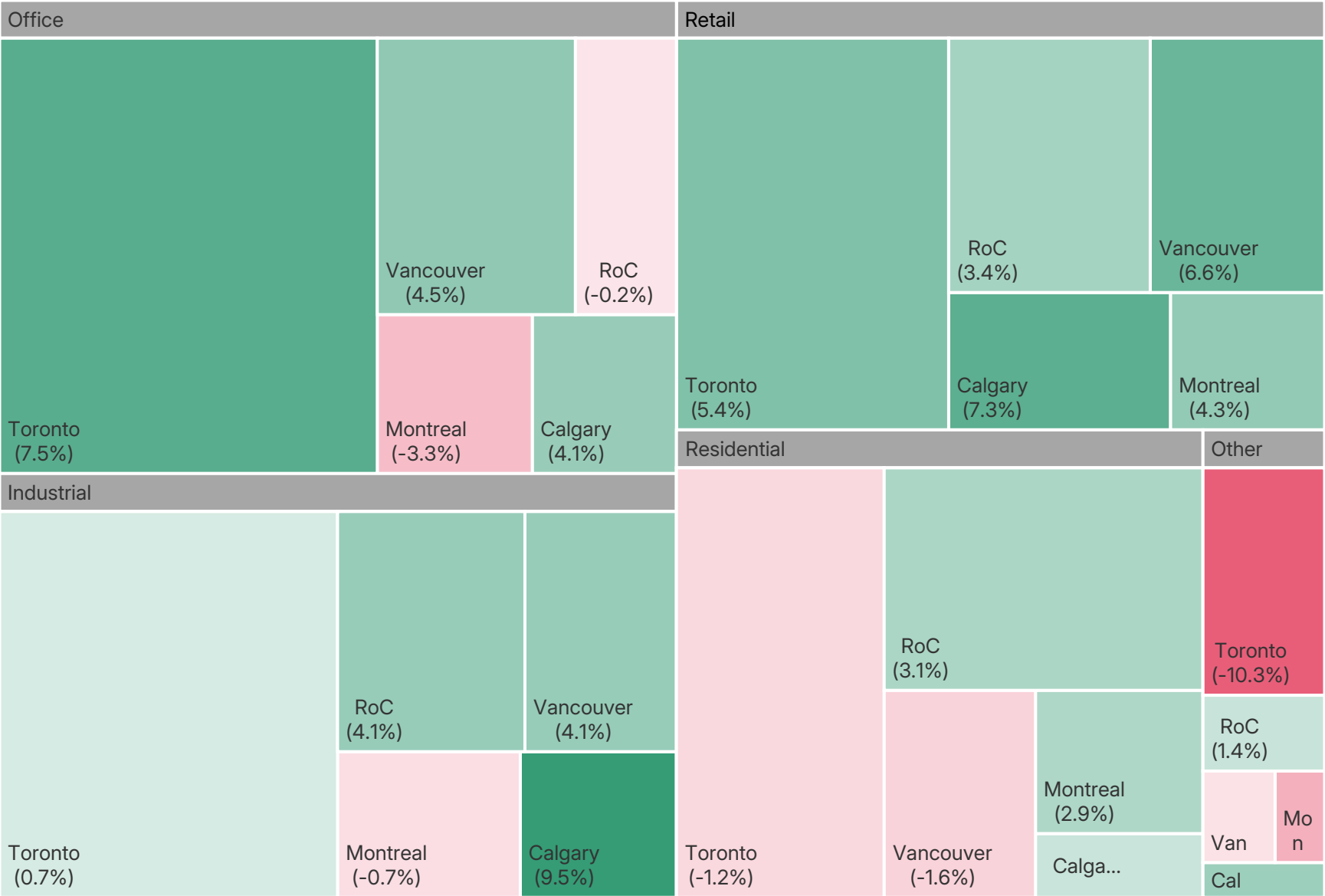
- Weighted contribution to index total return shows which segments of the market have boosted and which segments have weighed on index returns.
- Toronto industrial had a massive positive pull in pandemic but no longer accretive to index.
- Toronto office and retail now leading positive contributions to index performance.



Source: MSCI/REALPAC Canada Annual Property Index

Dispersed returns across Canadian cities and sectors

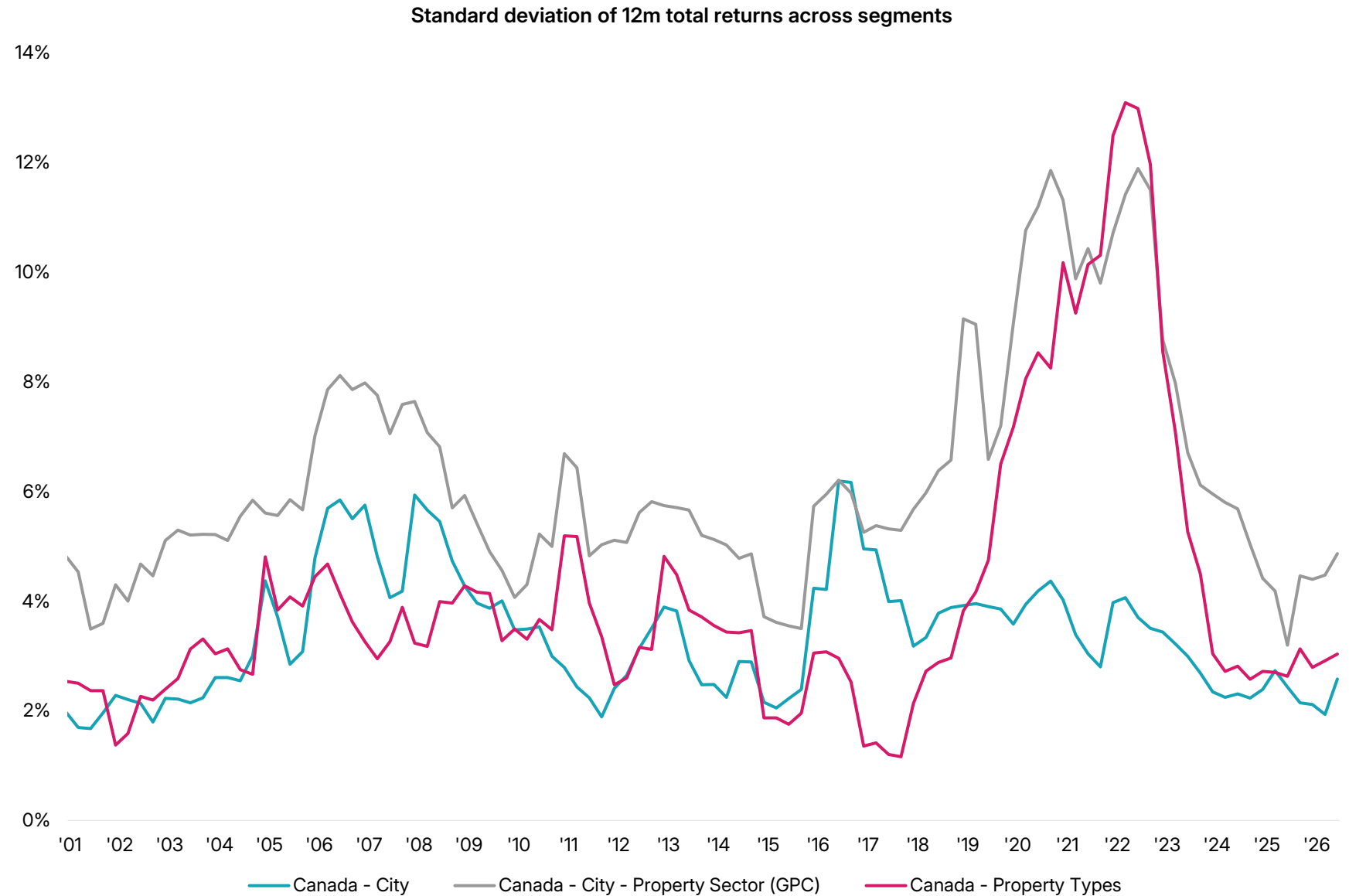
- After a return cycle dominated by capital markets and property type allocations, space markets and asset selection becoming more important.
- Outcomes have varied across cities and sectors.



Source: MSCI/REALPAC Canada Annual Property Index

Total return spreads tell a story

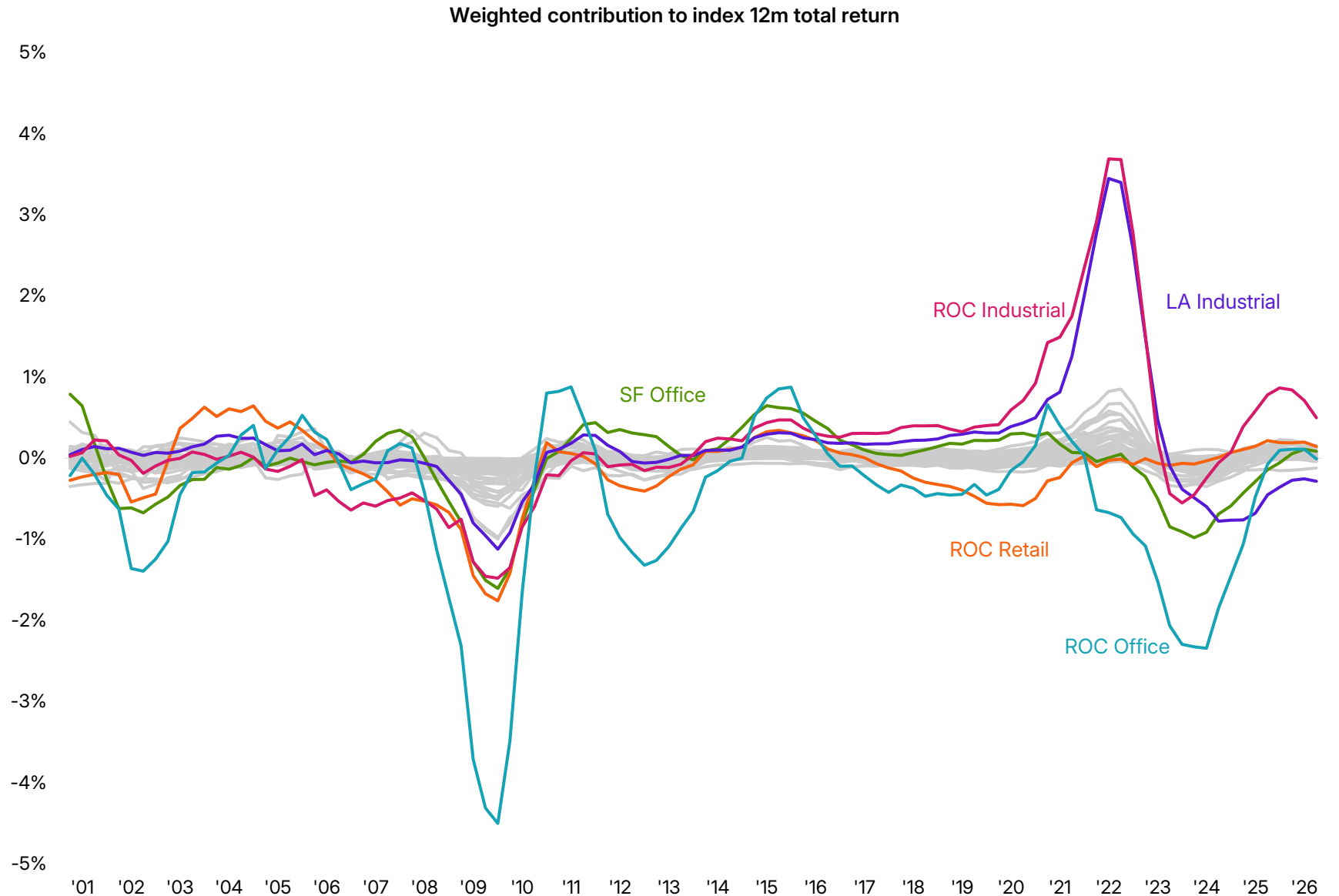
- Property type return spreads were huge but have declined back to levels comparable to city total return spreads.
- No longer a simply a sector allocators market.
- Picking right combination of property type and market now more important together with individual asset underwriting.



Source: MSCI/REALPAC Canada Annual Property Index

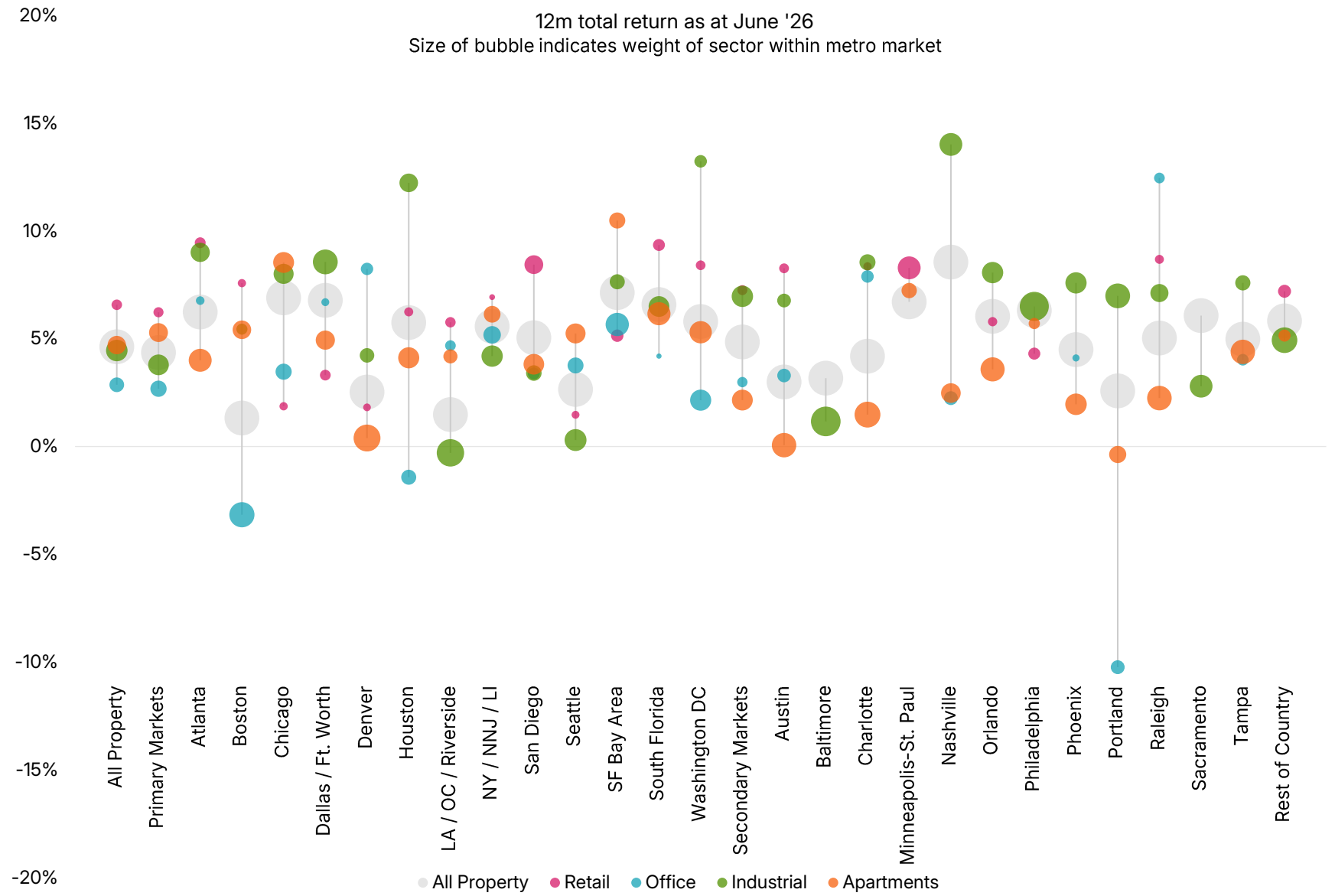
What's driving U.S. index returns

- Weighted contribution to index total return shows which segments of the market have boosted and which segments have weighed on index returns.
- LA and ROC industrial were strong drivers in late 2010s/early 2020s but now muted.
- ROC retail and office as well as SF office have moved back into positive weighted contribution territory.



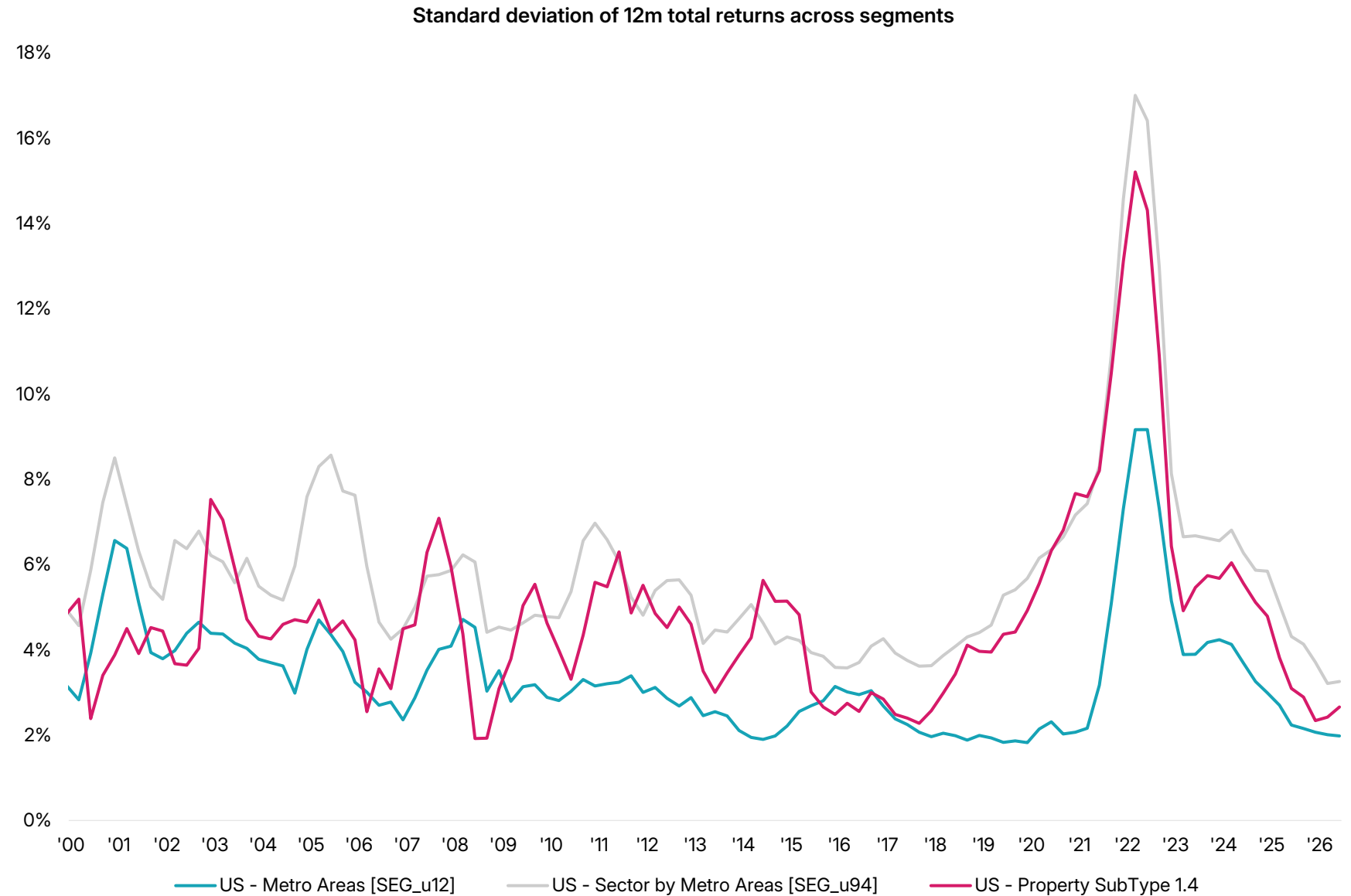
Dispersed returns across U.S. cities and sectors

- After a return cycle dominated by capital markets and property type allocations, space markets and asset selection becoming more important.
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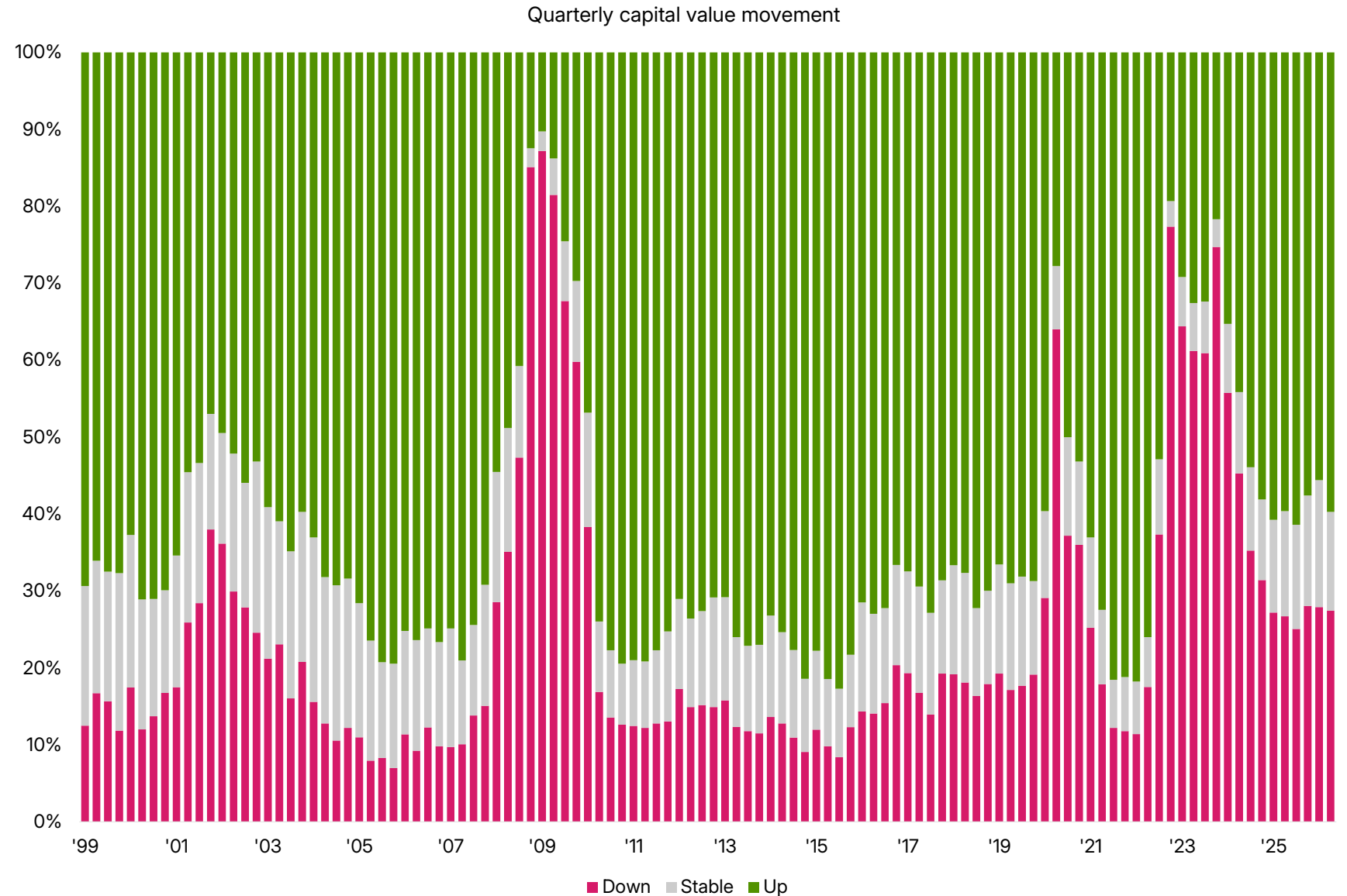
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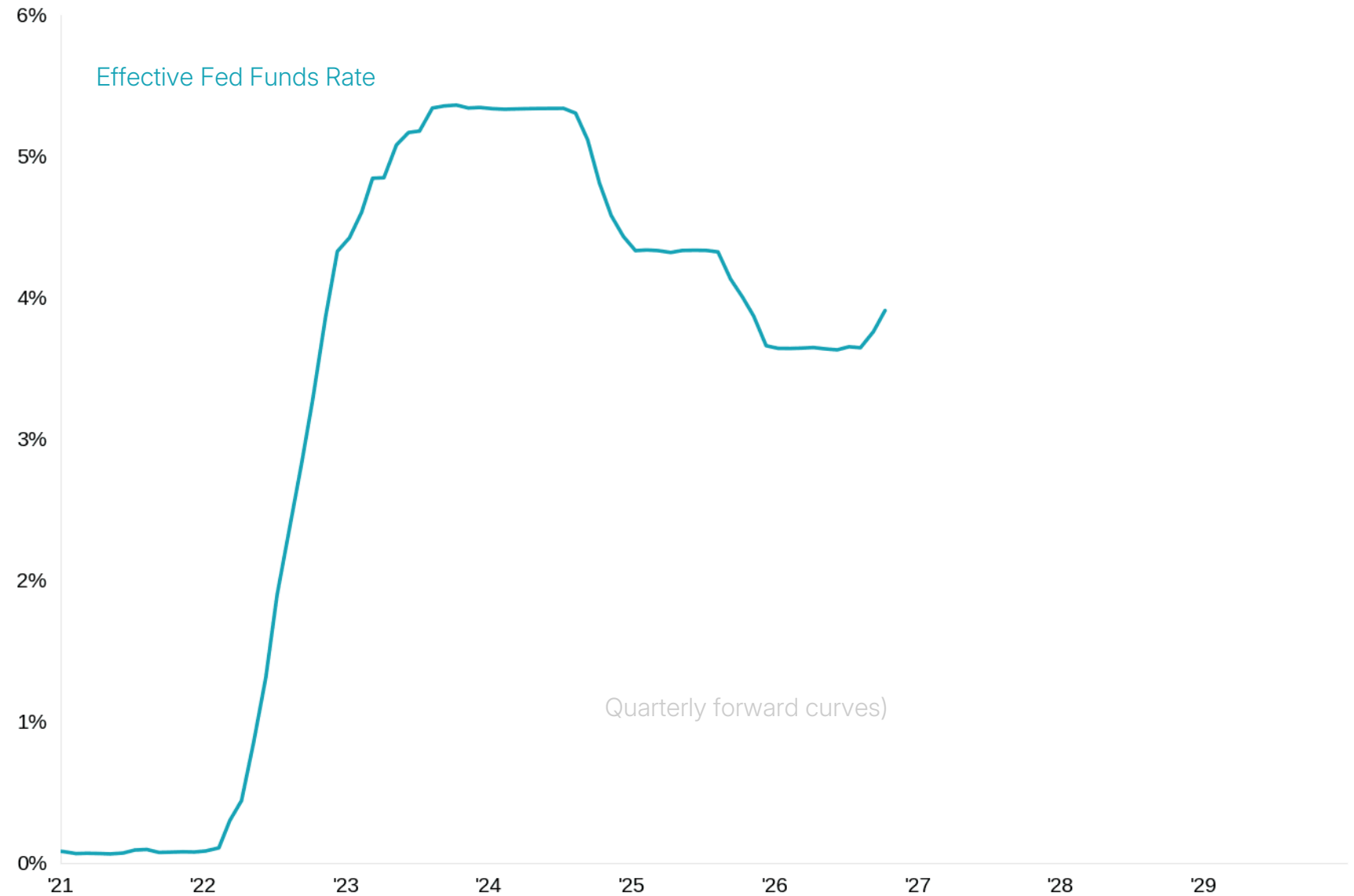
Higher rates likely to increase write-down pressure

- PRE portfolios faced considerable write-down pressure when rates and borrowing costs shot up in 2022/23
- Write-downs remained elevated by historical standards but had stabilized in recent quarters
- Renewed rate pressure likely to put more pressure on asset valuations



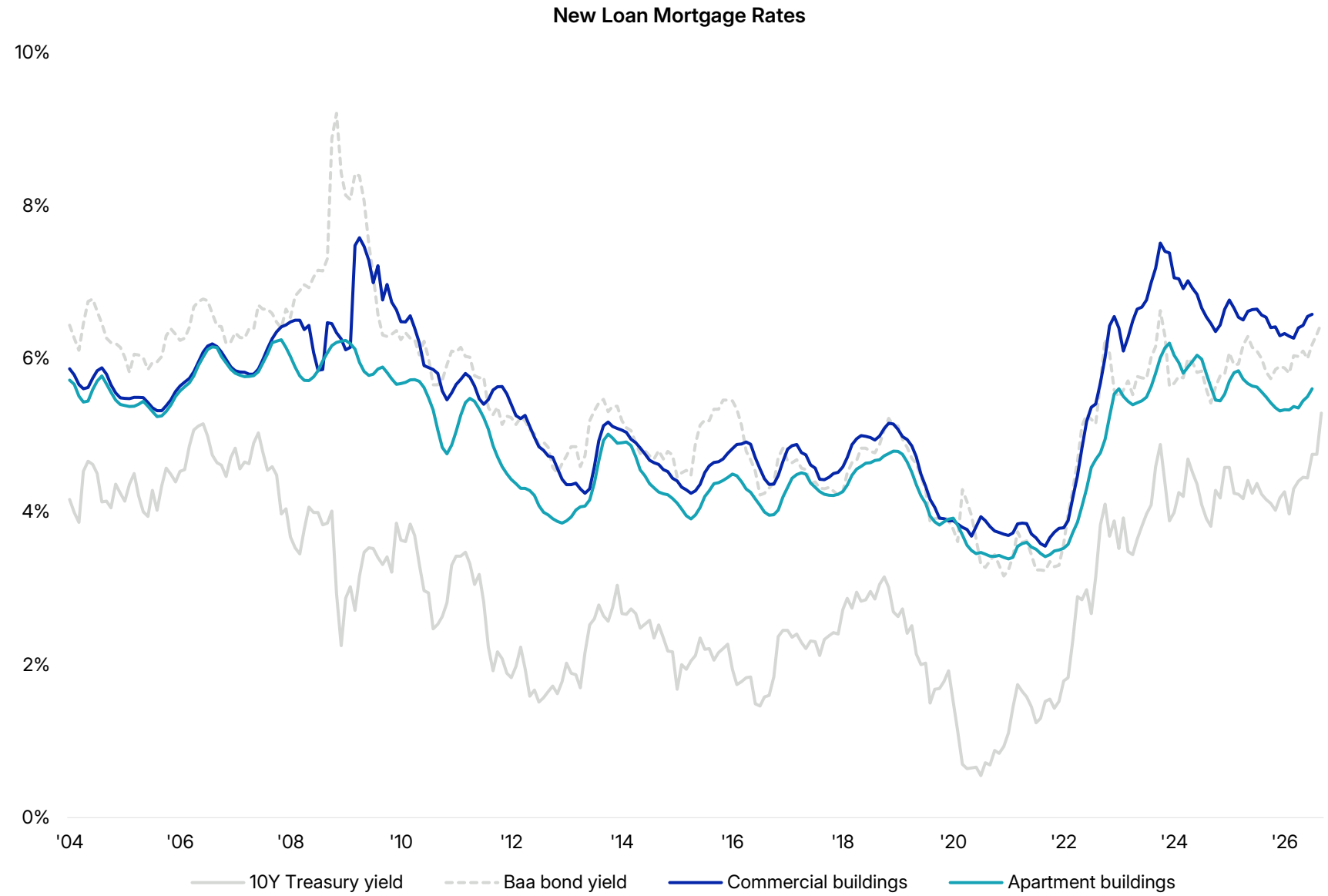
Markets have underestimated forward rates

→ Financial markets underestimated rate increases in 2022/2023 and have often overestimated easing since rates peaked.



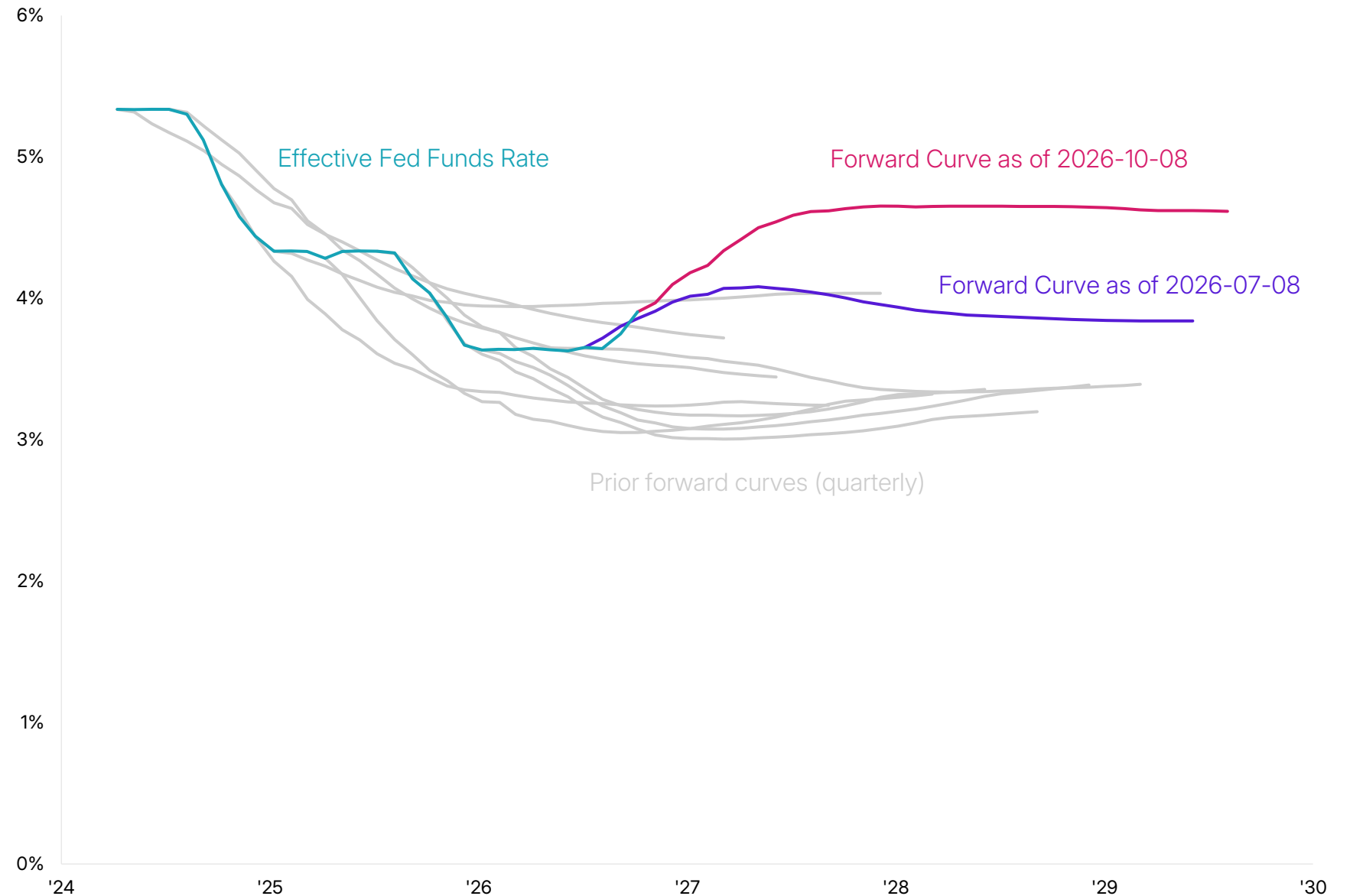
The return of rate pressures

- Interest rates have been trending up and that's not welcome news for real estate investors
- Commercial mortgage rates have started trending up again on the back of that rate pressure



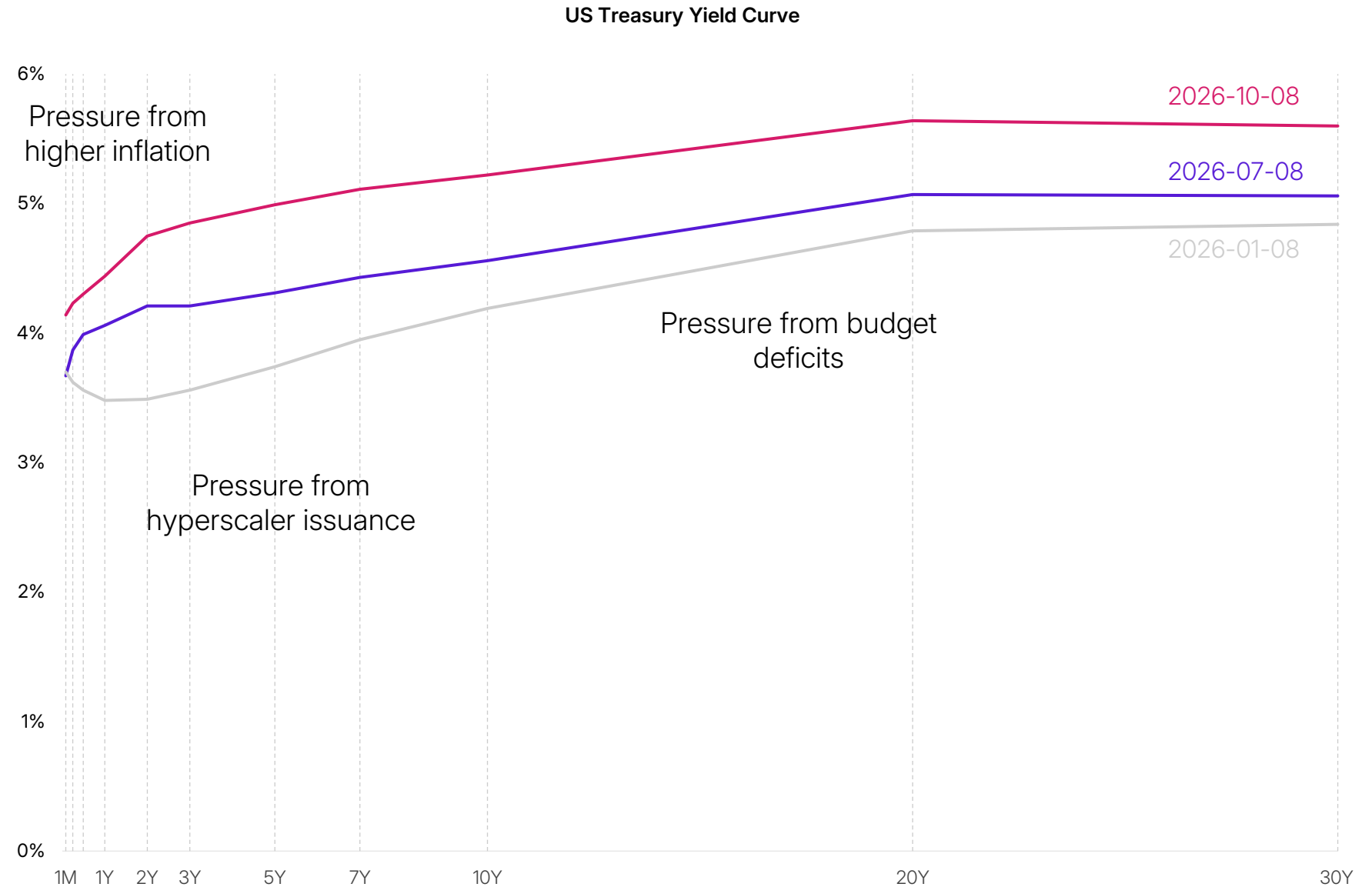
Markets expect further pressure

- Investors had been expecting rates to trend down until the latter half of 2026
- Forward curves are now markedly higher than they were even just a quarter ago



Multiple drivers of higher rates

- At the short end of the curve, the war in Iran, higher oil prices and persistent inflation are driving upwards pressure
- At the long end of the curve, high deficits and fiscal worries are driving upwards pressure
- In the middle of the curve, record hyperscaler issuance and the AI buildout are driving upwards pressure
- No quick fix



Debt M2M may cushion returns in near-term

→ With 10Y UST yields increasing 85 bps and Baa corporate yields up 47 bps in Q3, debt mark-to-market impacts could boost returns by around 20 bps

