TD Global Investment Solutions

Real Assets Market Report 30 Minutes

Real Assets Market Report

Spring Edition 2025

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Investment Outlook

We believe that an allocation to alternative assets can benefit diversified portfolios especially when implemented over the long term. Alternative assets can potentially provide inflation protection and attractive absolute returns, while acting as long-term portfolio stabilizers via their diversification benefits and less correlated income streams.

Canadian commercial mortgages continue to provide accretive income while insulating investor returns from the increased volatility in interest rates.

Within private debt, high credit quality and global diversification provides an income ballast in an uncertain economic environment. Incremental income and potential capital appreciation from interest rate moderation provide upside as well.

We believe a significant portion of the value adjustments in the Canadian commercial real estate space have occurred. Moving forward, we see reason for confidence in the multi-unit residential, retail and industrial spaces while lower-quality office in oversupplied markets should continue to lag. Globally, we believe the majority of capital depreciation has occurred in the U.S., U.K. and Nordic countries, while other regions, such as Australia, are in the midst of value adjustments.

Within global Infrastructure, increases in cash flow from higher-than-expected inflation is buffering the effects of elevated interest rates. Investor appetite remains strong, particularly for energy transition investments and critical infrastructure sectors that generate stable and growing cash flows.

Outlook

Canadian Commercial Mortgages

The Bank of Canada ("BoC") cut its overnight policy rate by 25 basis points ("bps") in March to 2.75% and is now 225 bps lower than the 5% peak observed in early 2024. The BoC cited the downward risk to economic growth and upside risk to inflation resulting from tariffs as reasons for the decision. Meanwhile, bond yields fell in response to the expected tariff impact on growth in the first quarter of 2025. Currently, the market is anticipating another two interest rate cuts, which may be tailwinds for the real estate market as transaction volume will likely increase as financing becomes more accretive.

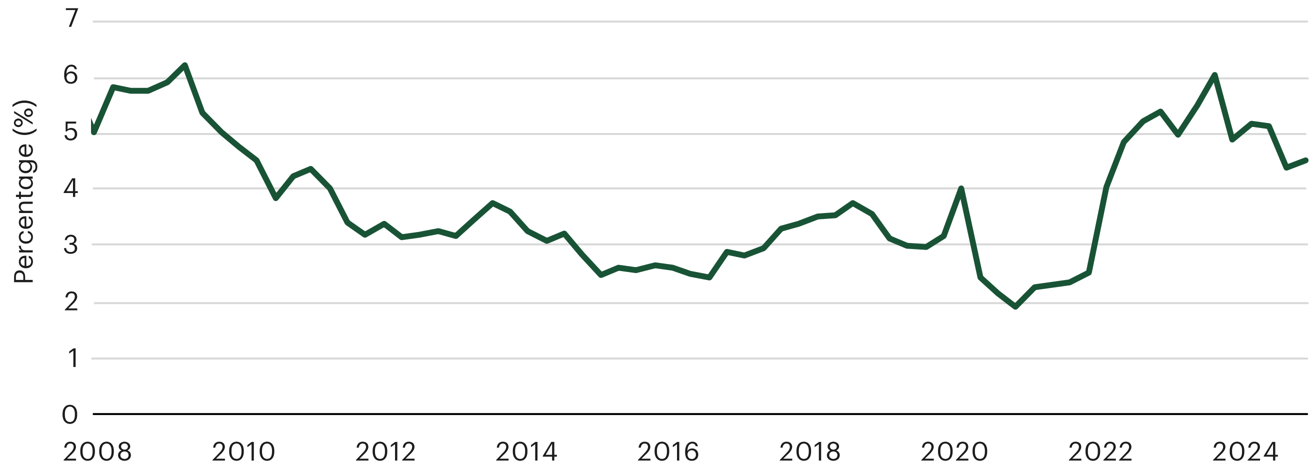
Figure 1: Five-year Government of Canada Bond Yield

Source: Bank of Canada. As of Mar 19, 2025.

High quality spreads also continued to tighten, resulting from the abundant supply of lenders' capital that reflect the confidence lenders have in real estate fundamentals. The five-year fixed commercial mortgage rate ended the year at 4.5%.[1]

[1] Bloomberg Finance L.P.

Figure 2: Five-year fixed rates on Canadian Commercial Mortgages

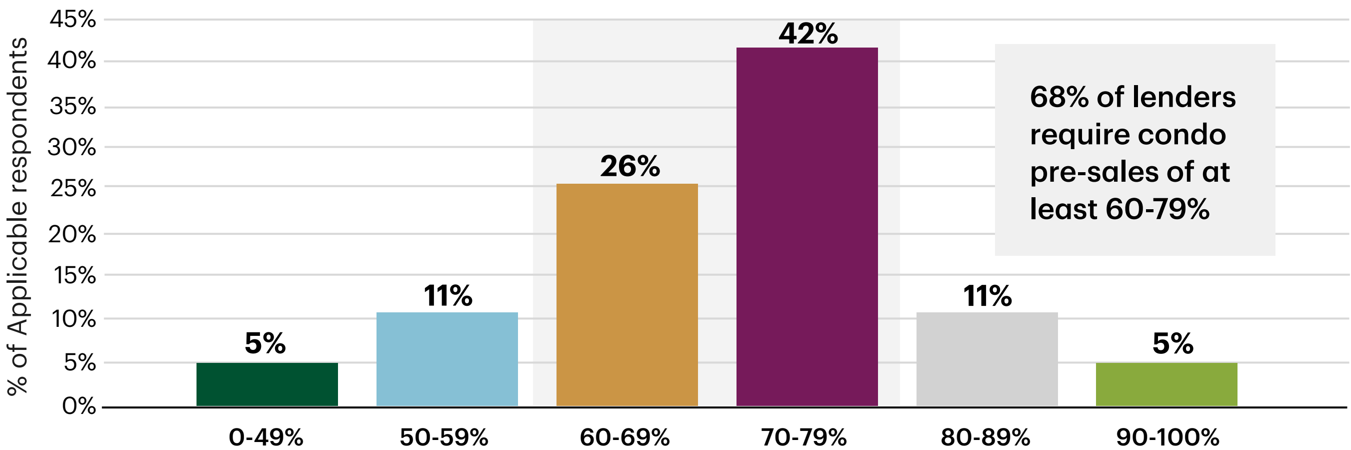


Source: TD Asset Management Inc. RBC Capital Markets, As of Dec 31, 2024.

Overall, lenders' sentiment continues to improve across all property types, with strong liquidity for industrial, multi-unit residential and grocery anchored retail assets. The most noteworthy improvement, however, was for core, Class A office where a material increase in lenders' capital was made available. While lenders continue to closely monitor vacancy rates and the shifting dynamics related to leasing uncertainties, most lenders are renewing their loans for high-quality office.

As high-quality office fundamentals have improved, high-rise condo began facing some headwinds as lenders became more cautious over the weaker sales environment and higher construction costs. Lenders now require a higher pre-sale percentage, in addition to more equity from borrowers and shorter repayment schedules in response to the higher perceived risk, as shown in **Figure 3**.

Figure 3: Condo Construction Pre-Sale Requirement



Source: CBRE Research, Canadian Real Estate Lenders Survey, February 2025.

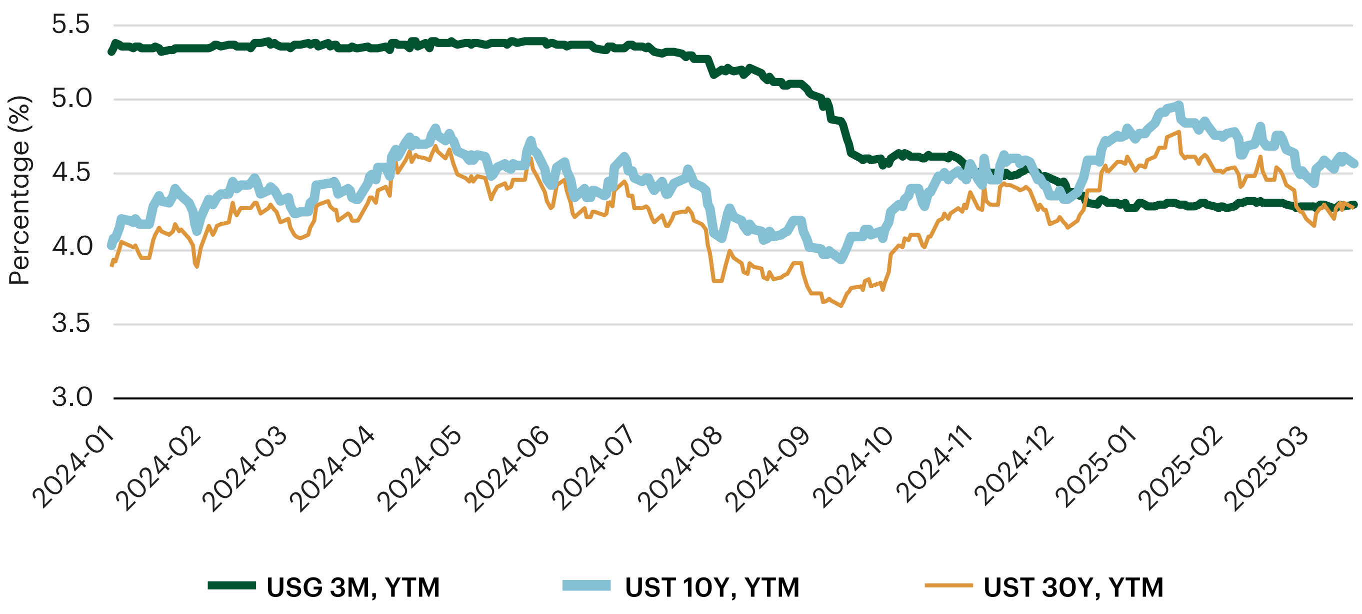
For 2025, the Canadian commercial mortgages market is expected to experience continued growth and overall origination volumes are expected to increase from 2024 levels.[2] In an environment with abundant liquidity and elevated competition, mortgage investors should focus on lenders with a strong track record of maintaining prudent underwriting standards in various market cycles. Lenders with access to top-quality opportunities through relationships and a track record of consistent deployment should continue to lead the market and deliver strong risk-adjusted returns for investors.

[2] Intellifi Corporation Lender Survey.

Private Debt

The sovereign rate volatility that started during the U.S elections cycle continued throughout the fourth quarter of 2024 and the first quarter of 2025. The overall elevated but normalizing rates environment heavily drives the fixed income and Investment Grade ("IG") private debt markets across G-7[3] countries where most private placement (IG private debt) lending happens. The rates' normalization and expectations of slowing economic growth were offset by the risks of inflationary resurgence arising from the uncertainty around trade, and fiscal policies of the U.S administration. Over the last 12-months, five of the G-7 countries held elections that resulted in the removal of the incumbent party/leadership. Ongoing political uncertainty is keeping 10- and 30-year rates at elevated levels, becoming uncorrelated to central banks' short term rates policies, as seen in **Figure 4**.

Figure 4: U. S. government Bond Yields 3 months, 10-year, 30-year



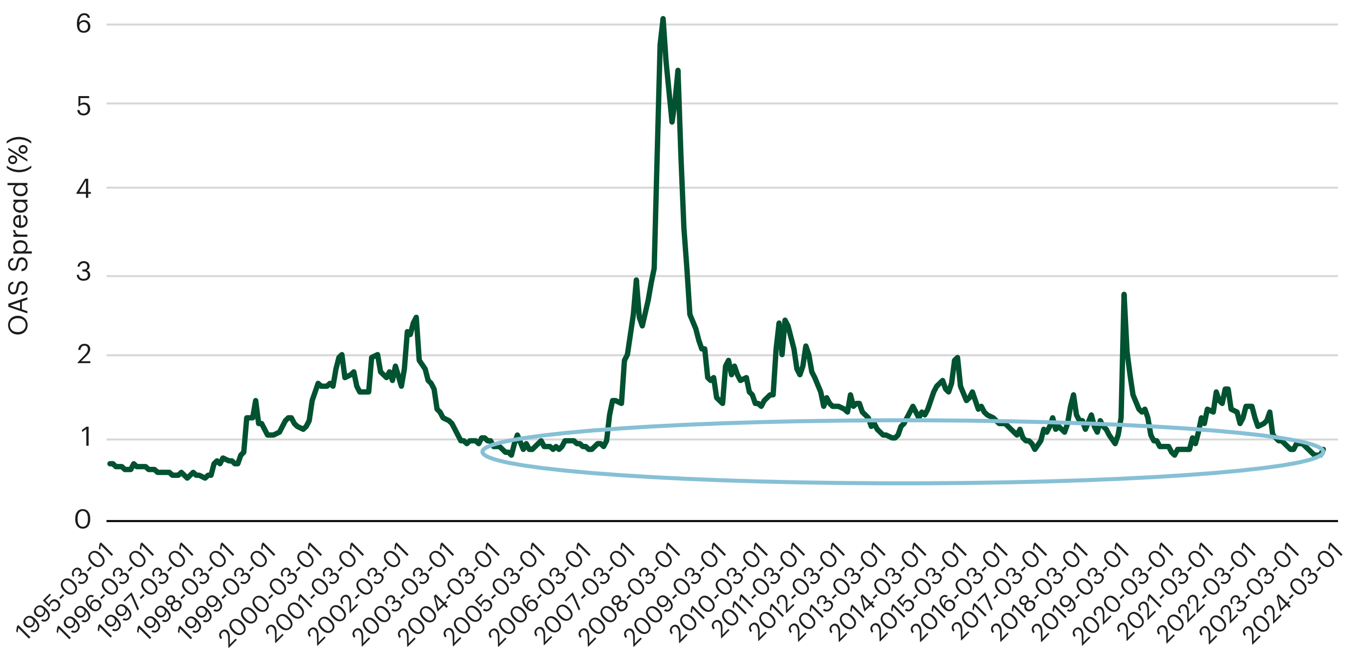
Source: Bloomberg Finance L.P. As of March 1, 2025.

Since the U.S. elections, Canada sovereign rates have decreased in short tenors, while U.S. and U.K. rates expanded by 30-50 bps across all tenors. Corporate credit spreads remained at multi-decade lows, supported by expectations of business-supportive policies.

[3] Intellifi Corporation Lender Survey.

The private placements market remained very attractive for borrowers to access customized long-term financing solutions in the range of 4-5% in Canada and 4.5-6% in the U.S. Borrowers are capitalizing on credit spreads trading near their lowest levels since 1998, as shown in **Figure 5**.

Figure 5: The Bloomberg U.S. Corporate Investment Grade Bond Index, OAS Spread%



Source: Bloomberg Finance L.P. As of March 1, 2025.

The diversification of deal flow observed throughout 2024 and early 2025 has once again highlighted the importance of asset class diversification as various sectoral corporates showed much different propensity to come to market. 2024 issuance was dominated by sectors such as infrastructure, utilities, and energy.

In Canada, the sovereign rate curve has compressed over the winter months while Investment Grade credit spreads remain compressed. Slightly lower all-in interest costs mean issuers started returning to the capital markets as activity was strong in mid-term tenors. In addition, we saw a strong social infrastructure transaction pipeline with expected pickup in new transaction closings over the first half of 2025 as deals materialize and issuers benefit from the stabilizing long rates environment. Private debt yield levels ended February 2025 in the 4.5 - 4.75% range.[4]

Over the fourth quarter of 2024, IG credit spreads in Canada and the U.S. were mixed. In Canada there was a moderate spread compression across the curve among A and BBBs credit ratings, while U.S. and U.K. BBB corporate spreads continued to compress to multi decade lows.

Overall, in our 2025 market outlook, we remain optimistic on origination potential but cautious on performance. This is mostly driven by:

- The potential credit spread expansion from current historical lows driven by signs of a slowing economy and slight credit weakening arising from ongoing uncertainty and tariff/trade rebalancing. Should credit spreads experience mean reversion to at least their 30-year averages, then they would need to expand by roughly 50 bps from their 86 level[5] (For U.S. Bloomberg Corporate Aggregate Index). Any serious adverse economic shock could lead to financial market turmoil and prompt a credit spread widening.
- We are also cognizant of potential rate volatility driven by elevated expectations of an inflationary resurgence and the impact it would create on loan 'mark-to-market' valuation performance, and how this may force borrowers to postpone large long-term debt issuances.

[4] S&P Global, CIBC Mellon, TD Asset Management Inc.
[5] Data as of Mid-March 2025.

Key Sector Trends

Power & Energy (Renewables)

In the Canadian power sector, we have observed new power purchase agreements awarded in British Columbia, Alberta, Ontario and Quebec which bodes well for future contracted financing opportunities and could bring a revival of transaction activity in the already-commissioned renewables energy generation and storage market.

In the U.S., sponsors are expected to partially postpone new renewables development until clarity over the new regulatory regime emerges. This uncertainty adds to the existing market practice of putting volumetric risk onto each project in the U.S., whereas sponsors would experience revenue volatility, as opposed to other jurisdictions with a tilt towards long Power Purchase Agreements ("PPA")[6]. However, a large driver of transaction activity was the corporate PPA[7] market with contracting by big tech companies for clean energy supply to power the data centers that will support the growth of their Artificial Intelligence ("AI") solutions.

In other areas of the power and energy sector, structural headwinds, such as cumulative interest rate increases in the post-COVID era, continue to mute transaction activity as participants incorporate changes in valuations and leverage cost conditions. Therefore, lenders must take a vigilant view when taking construction risk in an environment of sustained inflationary pressures.

Infrastructure

There is a promising pipeline of future Canadian-market social infrastructure projects. The rate normalization in 2024 allowed for several large financing programs to take place. There are still attractive opportunities in smaller, niche projects where direct relationships can allow for a swifter adjustment to financing structures or proceed amounts in case of project cost increases. Strong appetite for infrastructure debt from life insurance companies continues to cap value creation opportunities, particularly on longer-term projects. Again, lenders must remain vigilant when taking construction risk in an inflationary environment.

Private Corporate

Borrowers are accessing the market aggressively as low credit spreads accommodate strong issuance. Strong demand from fixed income investors, and moderately optimistic economic growth expectations continue to drive the tightening of corporate spreads, and therefore is reducing value creation opportunities with deals where buyers' oversubscription for plain vanilla corporate structures is pushing spread compression further.

Real Estate

After the rise in interest rates slowed transaction activity, buyers and sellers have continued their adjustment to valuation of the asset class. From the visible pipeline coming to market, we see transactions with gradually improving fundamentals or high-quality assets anchored by strong tenants. We believe there is value in focusing on opportunities in the multi-unit residential and industrial sector given the uncertain backdrop of re-leasing dynamics in selected office and retail markets. Transaction activity is expected to remain muted until commercial real estate valuation levels stabilize, and the cap rate expansion cycle is perceived to have ended.

Private Securitization

Attractive transactions with an investment-grade and longer-term profile are not common outside of the CLO[8] market.

[6, 7] A Power Purchase Agreement (PPA) is a long-term contract between an electricity generator (often a renewable energy developer) and a buyer (like a utility or corporation) that defines the terms of electricity supply, including price, volume, and duration.

[8] Collateralized loan obligations (CLOs) are a form of securitization where payments from multiple middle sized and large business loans are pooled together.

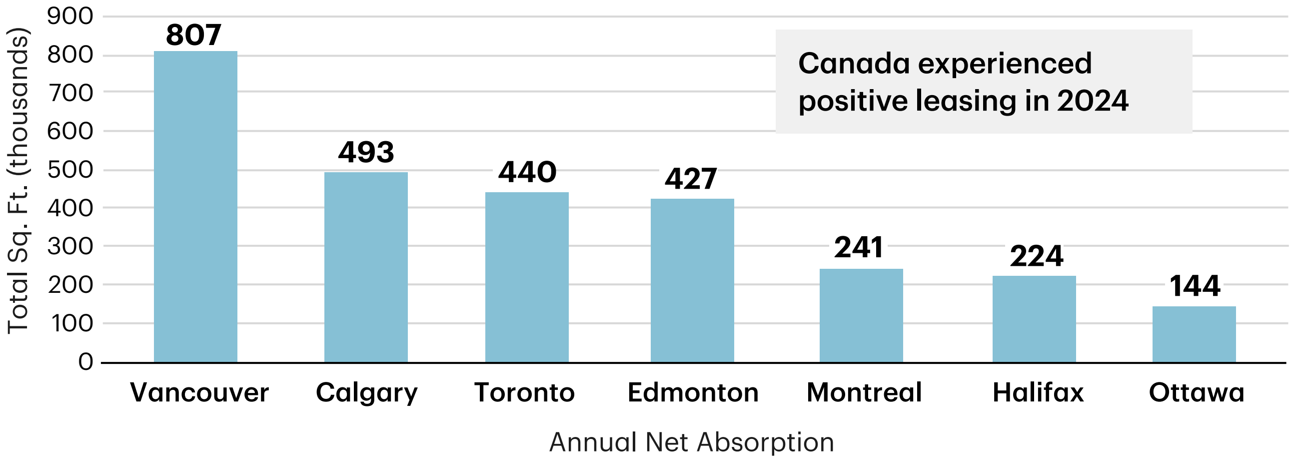
Global Commercial Real Estate (Canada and International)

Office

The global office real estate market in 2024 continued its gradual recovery amid structural shifts in demand. Global office leasing activity continued its momentum, albeit timid in certain regions, which pushed leasing up by 9% to the highest annual total since 2019[9]. The U.S. saw the strongest growth with volumes 18%[10] above 2023, as progress on office attendance policies and headcount growth provide occupiers with greater clarity on workplace planning. In Canada, net absorption totalled to 2.6 million square feet, which became the first year of positive net absorption for the office market since 2019[11].

Despite leasing activity experiencing modest improvement, challenges remained, including elevated vacancy rates, elevated interest rates, and economic uncertainty. Calgary and Edmonton experienced positive absorption, similar to most major cities, but stood out with positive absorption throughout 2024, reflecting improving demand in these challenged markets,[12] as shown in **Figure 6**. Although the national vacancy rate remained high at 18.7%[13], underneath this number there seems to be ongoing shifts in tenants' preferences, which are fueling the flight to quality theme with vacancy rates for AAA office assets being only 5%[14] higher than their 2020 levels versus 11.3%[15] higher for Class B offices.

Figure 6: Leasing momentum by Cities



Source: CBRE, Canadian Office Figures Q4 2024.

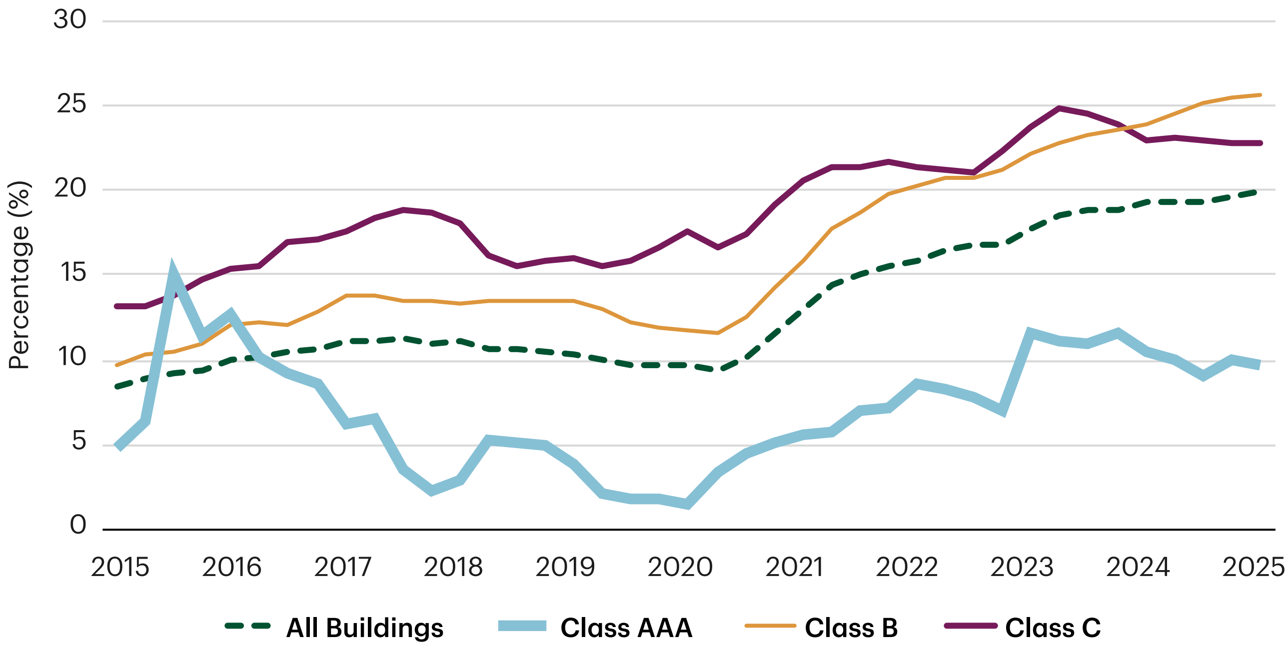
[9, 10] JLL, Global Real Estate Perspective - February 2025.

[11, 12, 13, 14] CBRE, Canada Office Figures Q4 2024.

[15] CBRE Historical Office figures.

The flight to quality theme is also reflected by the outperformance of high-quality office properties versus the broader market, as companies that prioritized employee experience drove demand for buildings with wellness features, flexible layouts, and smart technology. AAA office assets, those with prime locations, superior amenities, and strong ESG credentials continued to command higher rents ($38.80 per square foot for Class AAA vs. $26.25 per square foot for all office class[16]), and lower vacancy rates, as shown in **Figure 7**.

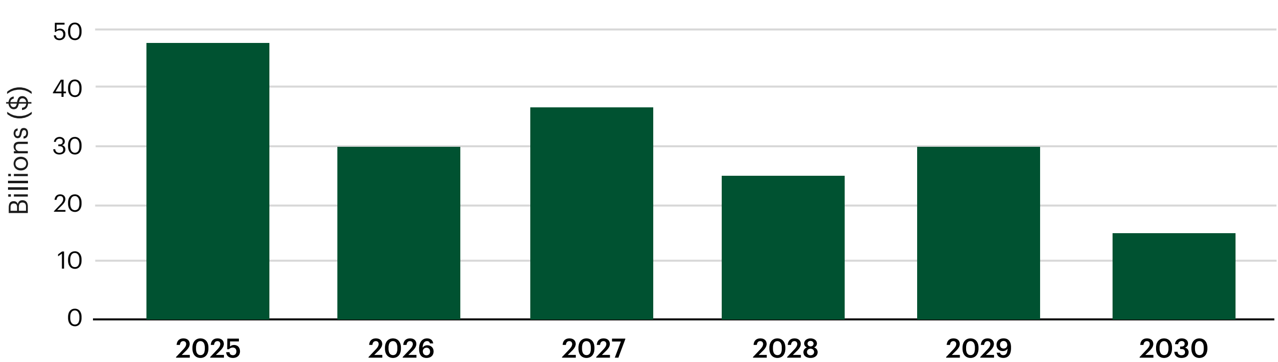
Figure 7: Downtown Vacancy rate by office segments



Source: CBRE, Canadian Office Figures Q4 2024.

As shown in **Figure 8**, a significant headwind to watch for the office sector is the looming wave of debt maturities, which could create potential distress for landlords with aging or underperforming assets. Properties with high vacancy rates or weaker tenant demand may struggle to secure favorable refinancing terms, leading to an uptick in distressed sales. The U.S. market comes to mind by being the laggard amongst other regions with vacancy rates sitting at 20.9%[17] at the end of 2024. While vacancy did increase by 20[18] bps in the fourth quarter of 2024, the leasing growth volume helped make this increase the lowest increase over the last 2.5 years. This highlights the fact that the U.S. market will need to experience several quarters of strong leasing growth volume before confirming a possible bottom. **Figure 8** highlights the wave of maturities for office loans maturing in the U.S. for non-bank lenders.

Figure 8: Non-Bank Office Debt Maturities



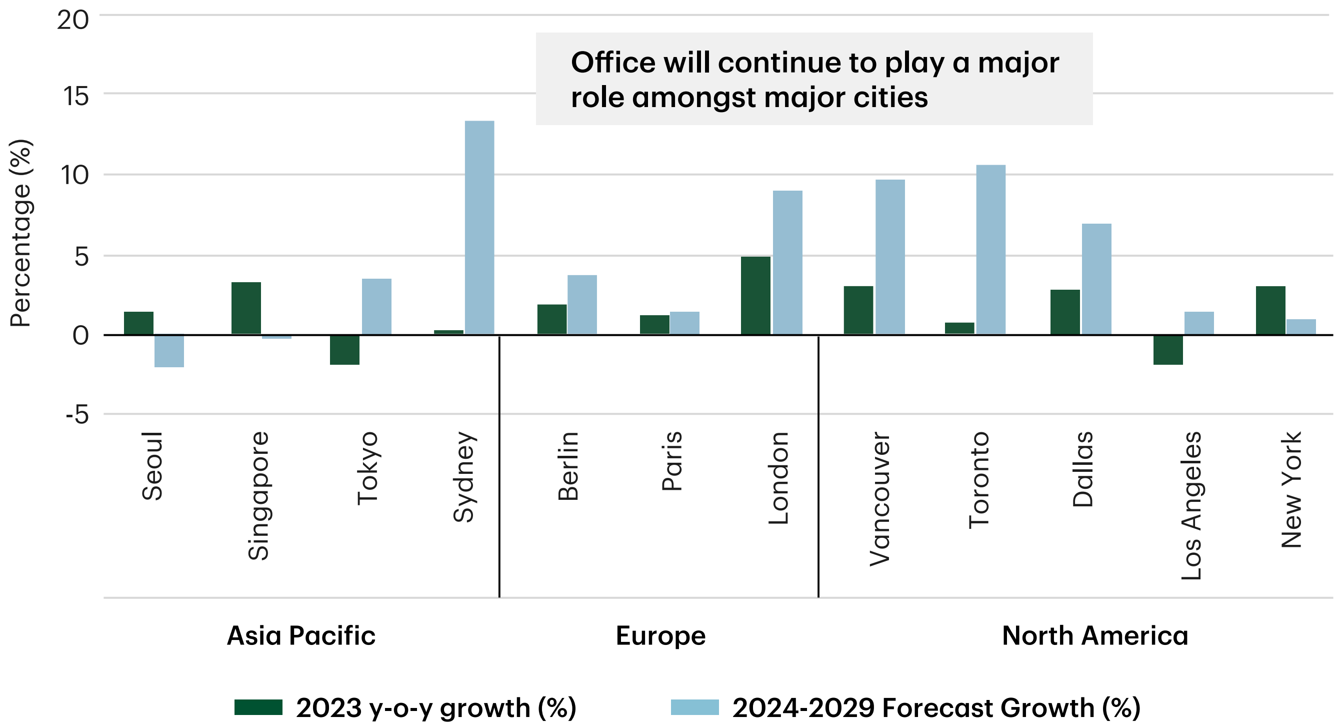
Source: MBA, TD Economics. Shedding Light on U.S. Office CRE Risks, May 2023.

[16] CBRE Canada Historical Office data base Q4 2024.
[17, 18] Cushman Wakefield, U.S Office report Q4 2024.

However, several factors could mitigate these risks. First, landlords investing in asset upgrades and repositioning strategies are better positioned to attract and retain tenants, improving cash flows and debt servicing capacity. Second, government and institutional investors may step in with refinancing programs or incentives for sustainable building retrofits. Third, increased demand for Class A and above assets may help stabilize valuations, cushioning the impact of tighter credit conditions.

Heightened trade tensions between Canada and the U.S. in 2025 could pose additional risks to the office sector. A prolonged dispute could impact business sentiment, slow corporate expansion, and reduce cross-border leasing activity. According to a recent Oxford Economics report, these tensions could create a drag on GDP growth, which will come via the indirect impact of weaker business investment that may challenge the forecasted elevated growth in office-using jobs and office demand,[19] as shown in **Figure 9**.

Figure 9: Forecasted Office Job Growth by regions/cities



Source: Oxford Economics 2024. Estimate of office occupancy including non-desk employees such as janitorial and mail room staff as of Sep 30, 2024.

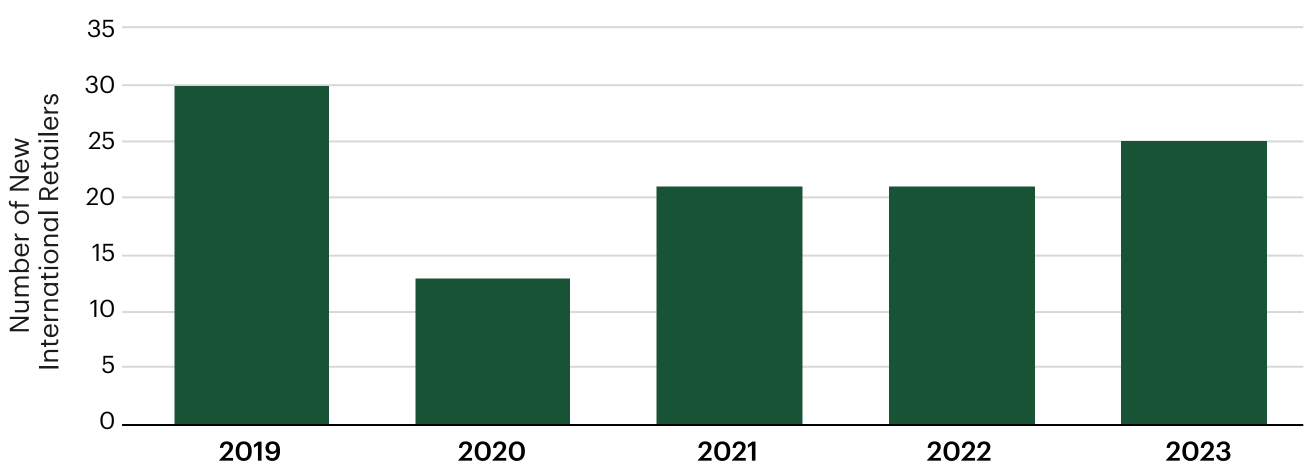
While 2024 presented challenges, the long-term outlook for office real estate remains constructive despite the geopolitical developments. Investors should focus on high-quality assets with strong tenant demand, as well as markets benefiting from population and economic growth. Those who proactively upgrade properties to meet evolving workplace expectations should be best positioned for success in 2025 and beyond.

[19] Oxford Economics, Canada Real Estate Chart book, February 2025.

Retail

In 2024, the retail sector demonstrated notable resilience despite facing economic headwinds. Real wage growth and a resurgence in international travel bolstered retail spending across major economies, even amidst subdued economic conditions. Prominent retail brands capitalized on this momentum by implementing store expansion strategies, reflecting a renewed confidence in brick-and-mortar establishments[20]. International retailers are expanding their presence in Canada, as shown in **Figure 10**. While this pace of new entrants could moderate with the recent flare up in tariffs, Canada's relatively strong economy and domestic consumption base may mitigate some of these adverse effects. While these uncertainties could make the consumer more cautious, value and discount stores, as well as channels stores should continue their expansion and benefit from shifting consumers' preferences[21]. Another aspect to keep in mind is the essential nature and contractual income streams of real assets which insulate them from tariff impacts.

Figure 10: International Retailers Entering Canada



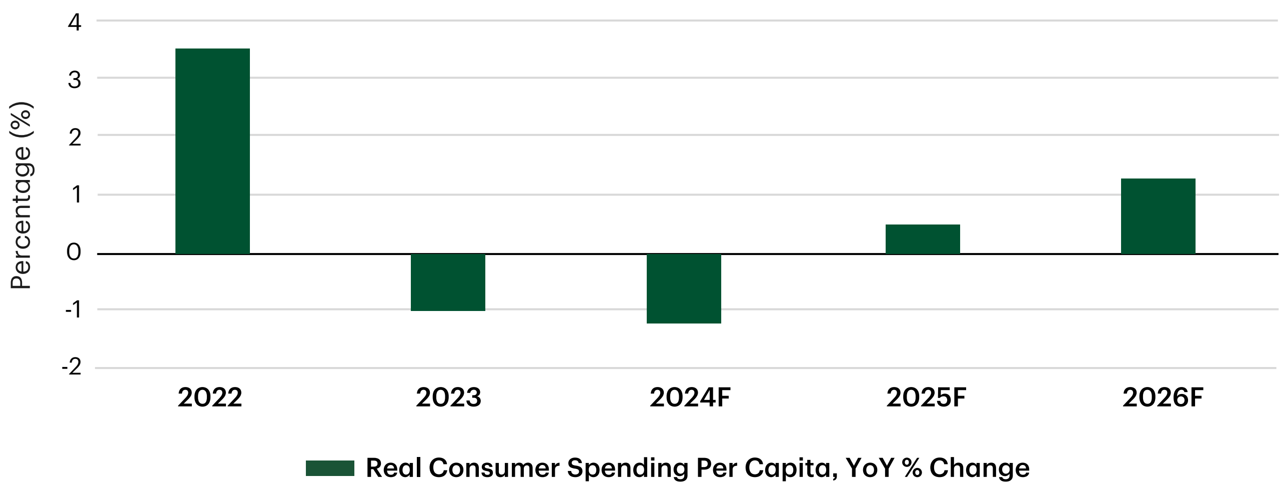
Source: Retail Insider, The International Retailers that entered Canada in 2023 and their Expansion Plans* March 2024.

[20] JLL, Global Real Estate Perspective - February 2025.

[21] CBRE, Canada Real Estate Market Outlook 2025.

Several crosswinds are buffeting the Canadian consumer. Consumer spending in Canada is expected to be relatively robust in 2025 as shown in **Figure 11**, bolstered by government support and a series of interest rate cuts by the Bank of Canada. While lower borrowing costs are boosting spending power, slower population growth could restrain aggregate consumer spending. Putting the pieces together, spending per capita is set to grow after retrenching for much of the past two years and could reflect improved consumer sentiment[22].

Figure 11: Canadian Consumers Real Consumer Spending Year-over-Year Change



Source: Statistics Canada, TD Economics, Dec 2024. Note F indicates TD Forecast.

Monetary easing, coupled with a resilient labor market, have contributed to retail's resiliency. The sector's resilience is capturing investor's interest specifically for centers anchored by grocery and essential service providers, as these centers have managed to better pass on increased costs from high inflation to consumers and fared better against the online retail competition. Notably, the $4 billion acquisition (a 5.5%[23] premium) of a retail investments company that specializes in grocery-anchored shopping centers located in densely populated, metropolitan markets across the West Coast in the U.S., underscores the sector's attractiveness.

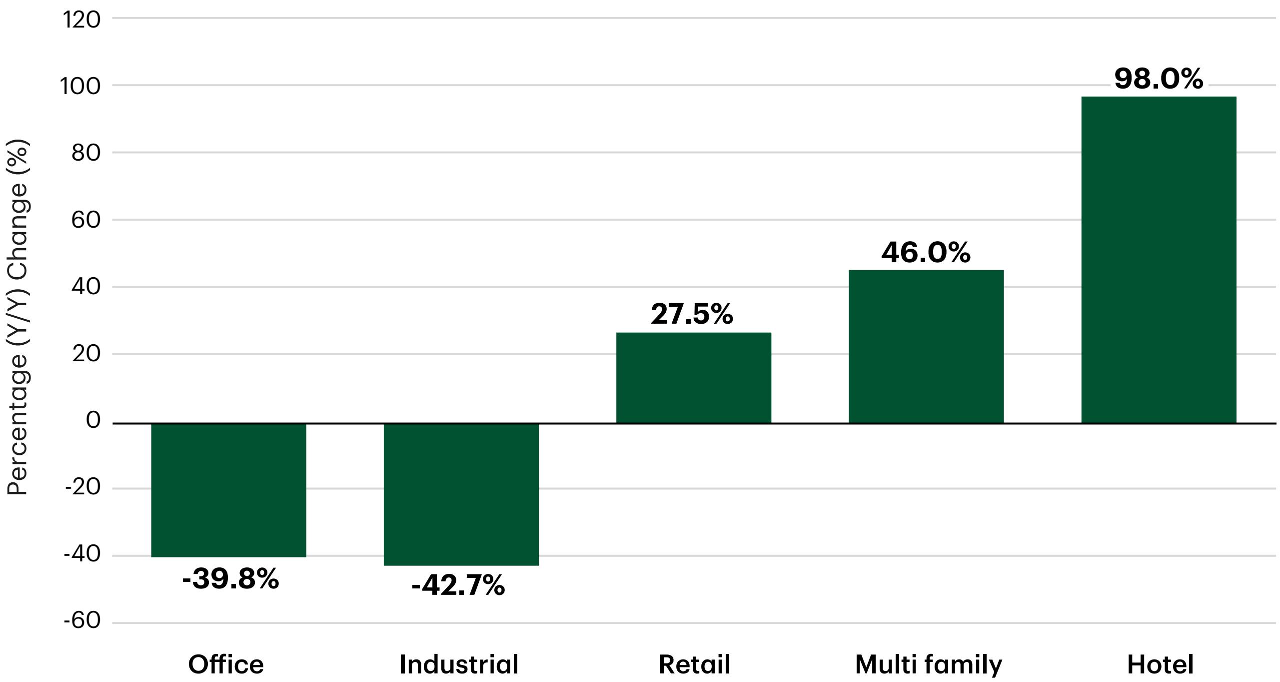
Resilient

[22] TD Economics, Quarterly Forecast, The Fast and Furious December 12, 2204.

[23] Reuters.com November 6, 2024, Blackstone Real Estate to take Retail Opportunity private in $4bln deal.

Investors' interest for retail is not specific to the U.S. market but it is rather a trend that is also observed in Canada. This is highlighted in **Figure 12** where retail investment volumes are experiencing higher year-over-year change versus 2023.

Figure 12: Investment volumes Year over Year Change in Canada



Source: CBRE, Canada Investment volumes Q3 2024.

Urban centers with growing populations and infrastructure developments present attractive investment opportunities. Additionally, the continued emphasis on experiential retail and the integration of technology in physical stores are expected to drive tenant demand and enhance customer engagement. Lastly, the disciplined approach to new retail supply further strengthened the sector's fundamentals. Developers exercised caution, leading to limited new supply and contributing to the sector's national vacancy rate standing at 6.2%[24] in the first half of 2024, which brings it back to its pre-pandemic levels.

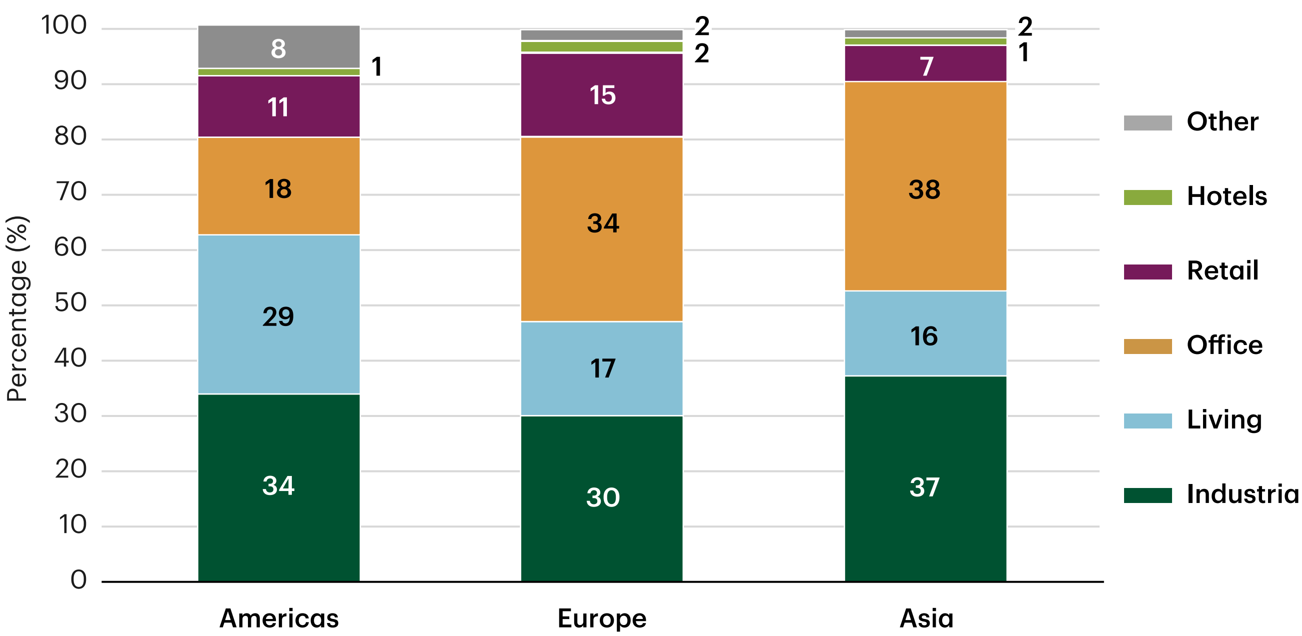
Looking ahead, while challenges such as potential trade tensions loom, the underlying strength of Canada's retail sector, supported by disciplined supply and resilient consumer spending, offers a stable foundation for investors.

[24]CBRE Historical Retail H1 2024.

Industrial

Throughout 2024, Industrial properties remained the most sought-after property type[25] by capital allocators across different regions as shown in **Figure 13**. However, current economic conditions are causing headwinds to the industrial market leading to softer demand globally during a time of an influx of new supply.

Figure 13: Capital allocation by sector in 2024

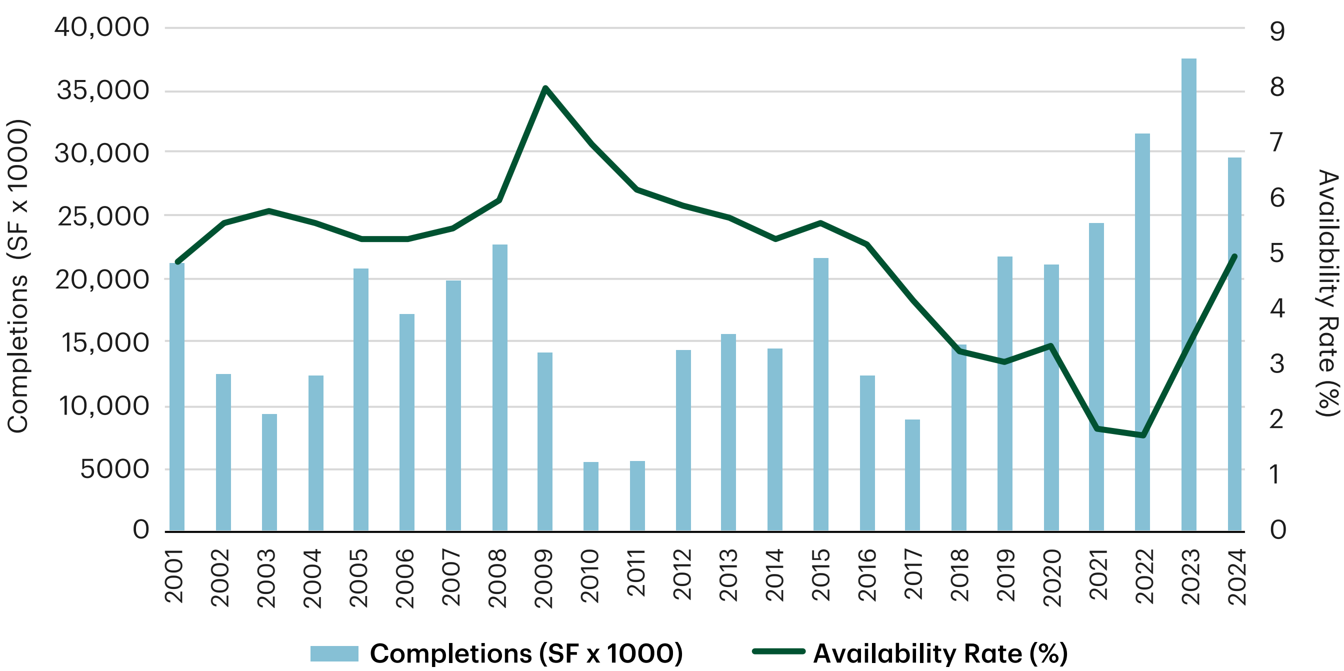


Source: JLL, 2025 Global Real Estate Outlook, Dec 2024.

[25] JLL 2025 Global Real Estate Outlook, Dec 2024.

The Canadian industrial market faced pressure in 2024 after years of rapid expansion. Construction completions surged in Q4 2024, which brought total new supply to 35.6 million square feet, the third highest on record since 2001[26]. At the same time, pre-leasing decreased and dropped from a historical 90% to just 36% in the latter half of 2024[27]. Major cities like Toronto and Vancouver continued to dominate development activity as they make up two thirds of the new supply pipeline. Early challenges resulted in demand remaining muted with most markets experiencing negative absorption. Despite that, Alberta recorded a net absorption of 1.4 million square feet in the second half of 2024[28]. However, new supply still outpaced leasing activity, pushing the national availability rate[29] to 4.9%[30], its highest level over the last eight years as shown in **Figure 14**.

Figure 14: Canadian Industrial Supply & Availability



Source: CBRE 2024 Q4 Canadian Industrial Report.

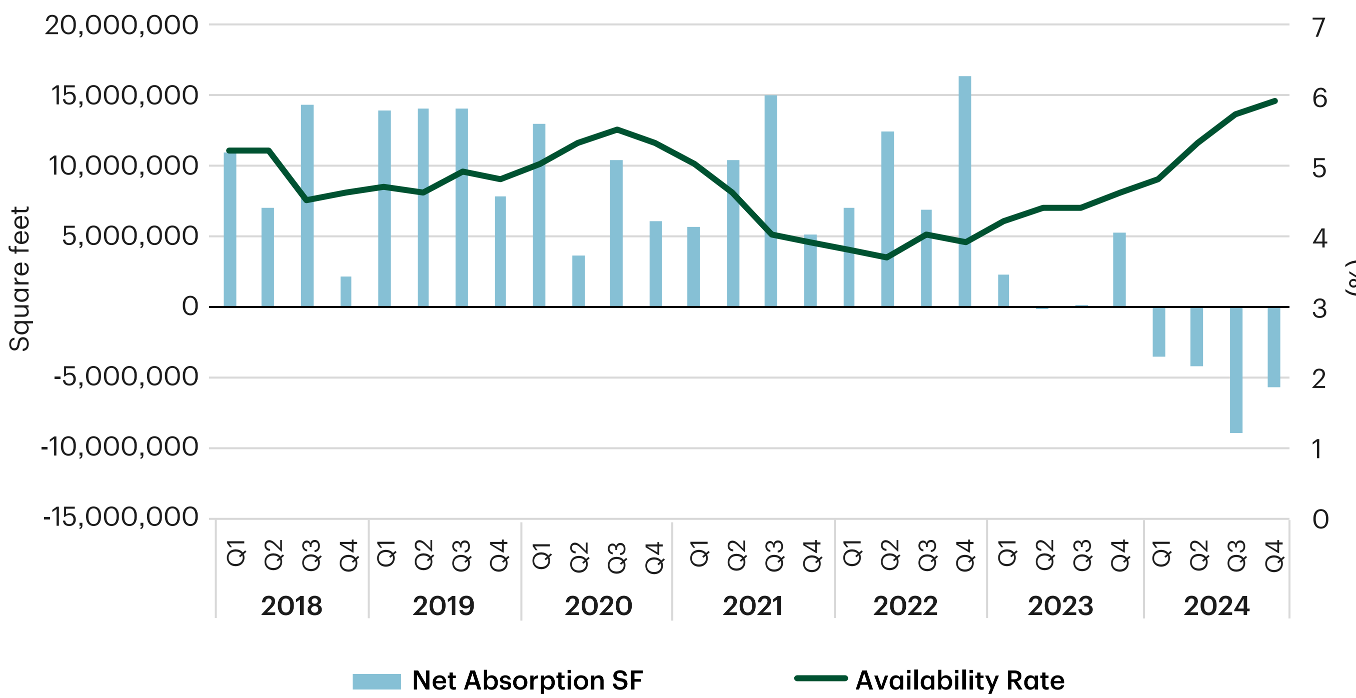
The 2021-22 constrained market has shifted to a more balanced market, which gives occupiers more options. Deals are still occurring but at a slower pace as tenants are rightsizing their space choices. Rising vacancies have also led to downward rental pressure resulting in the first annual decline in national asking rents after several years of growth[31].

It is safe to say that the Canadian industrial market is within a stabilization period. Although the market is experiencing recent rent declines, they are significantly above pre-pandemic levels and rolling leases are capturing rent growth. As such, legacy industrial portfolios still have upside through revisions on rents through a gap-to-market effect that is not reliant on further rent increases in the market. The industrial market will continue to seek equilibrium, but it is safe to say that it will remain a prominent property type in portfolios.

[26] CBRE Q4 2024 Canadian Industrial Report.
[27, 28] Ibid.
[29] The availability rate aims to illustrate the amount of space in a market available for deals either immediately or in the short term.
[30] Ibid.
[31] CBRE Economic Advisors, 2024.

The European industrial market also faced subdued leasing activity during the year. This was largely due to a more cautious approach by occupiers who postponed expansion plans amidst economic uncertainty. Despite a slowdown in new supply, the regional availability rate[32] rose to 4.4% in the third quarter of 2024[33]. Within the United Kingdom, the availability rate[34] rose to 5.9%,[35] as shown in **Figure 15**. With limited new supply coming to the U.K. market, slightly elevated vacancy and limited buyers provided a unique repricing opportunity for well capitalized investors.

Figure 15: U.K. Industrial Absorption & Availability Rate



Source: CBRE 2025 European Real Estate Market Outlook, January 2025.

With greater optionality for tenants, some began focusing more on building specifications that prioritize warehouse space, which would meet their current and future supply chain needs. The increasingly tenant-friendly environment also observed a slowdown in pre-leasing activity, as occupiers are taking more time to assess their space options.

For 2025, demand is expected to pick up, particularly in the second half of the year as the macroeconomic environment improves. Interest rate cuts and rising real incomes are anticipated to fuel private consumption, driving GDP growth and supporting a recovery in leasing activity[36]. Economic challenges such as ongoing supply chain disruptions, and rising nearshoring trend, especially in Southern Europe, could impact leasing dynamics. Despite these challenges, prime locations are likely to remain resilient, with rents in key logistics markets forecasted to increase by 1.8% within the year for these top assets[37].

Overall, the Industrial market is stabilizing as vacancy and rent growth return to more normalized levels. Limited new supply, combined with a gap to market rent continues to support positive lease roll-ups. While regional nuances exist with Europe seeing steady fundamentals and Canada experiencing less completions than the previous years, the overreaching trend remains constructive. Looking forward, industrial assets should remain well-positioned for sustained income growth and resilience in a moderating market.

[32] The availability rate aims to illustrate the amount of space in a market available for deals either immediately or in the short term.

[33] CBRE 2025 European Real Estate Market Outlook, Jan 2025.

[34] The availability rate aims to illustrate the amount of 23space in a market available for deals either immediately or in the short term.

[35] Costar United Kingdom Industrial Data, 2025 Q1.

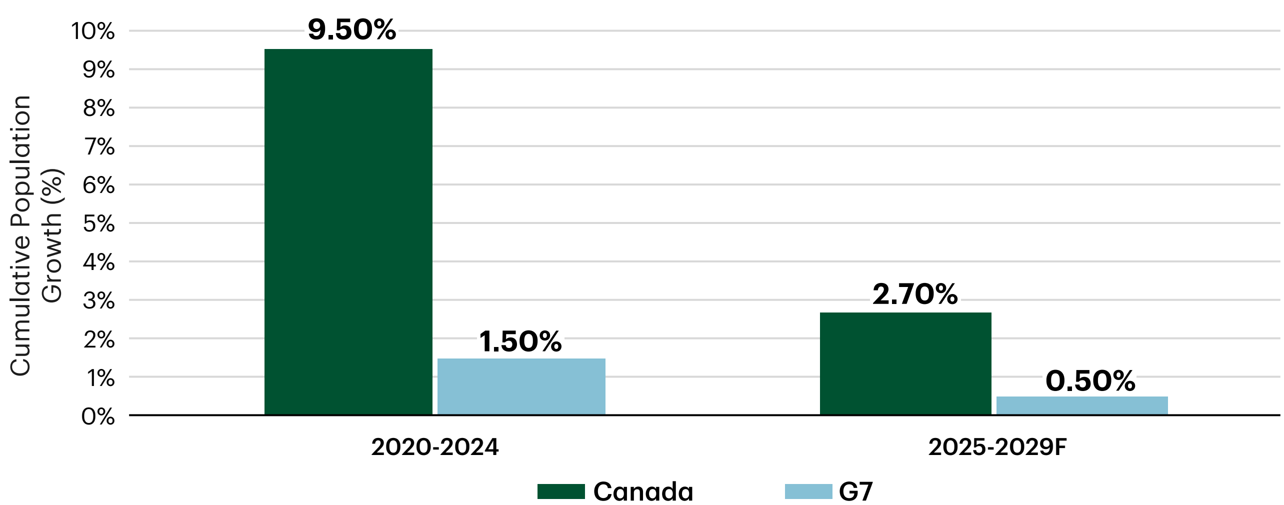
[36] Oxford Economics, March 2025.

[37] CBRE 2025 European Real Estate Market Outlook, Jan 2025.

Multi-unit Residential

In Canada, the recent immigration curbs and slower forecasted population growth should lower the overheated pace of aggregate rental housing demand experienced since 2021. Immigration policy changes were a direct result of housing unaffordability, which remains elevated[38]. The rapid population growth from the last couple of years, as shown in **Figure 16**, highlights the substantial amount of pent-up demand for rental housing that will need to be fulfilled, as renting continues to be the more affordable housing option[39].

Figure 16: Population Growth in Canada compared to the G7



Source: Oxford Economics, December 2024. The G-7 includes Canada, France, Germany, Italy, Japan, the United Kingdom and the United States.

[38] Oxford Economics, March 2025.

[39] Urbanation, July 2023.

The recent caps to Canada's immigration policies may provide some limited relief to the generally tight rental market conditions[40]. As a result, vacancy should move higher but remain lower than the long-term Canadian average of 3.09%[41]. The reductions are mostly targeted for temporary residents, who are predominately renters. If the announced plans are fully realized, the potential vacancies from temporary resident renters leaving would quickly be backfilled by other households looking to take advantage of more affordable housing. Overall, in 2025, only a minimal impact is expected to vacancy rates for the most in-demand rental units such as those with rent controls or more affordable rental rates.

The greatest potential for vacancy rate expansion in 2025 will be among the influx of newly built units with relatively elevated rental rates. Multi-family rent growth in 2024 bifurcated and moderated significantly from the record increases recorded in the last two years[42]. Newly built units had seen their market rents driven up by high construction costs, and the surge of completions in 2024 pushed up vacancy rates in this segment[43]. Rental growth had started to fall in the major metropolitan areas where the bulk of the new supply was delivered. This segment of the market will likely have to recalibrate pricing to fill in the higher vacancy, while the rent growth prospect for the affordable market segment is expected to be relatively flat in 2025[44]. Even so, owners of more affordable rental units in price-controlled markets should still realize rent growth upon turnover due to the material gap-to-market rent that has built over the previous decade.

The European region faces a housing shortage, which is expected to worsen. An estimated 9.6 million new homes are needed to close that gap while the pace of new building permits being issued is decreasing[45]. As a result, rental rates are rising, and the population will continue to face affordability issues unless policymakers intervene. The APAC region is seeing a more balanced market where lower-tier cities[46] are still struggling with oversupply and weak demand, while major gateway cities like Singapore, Tokyo, and Seoul are experiencing rental growth due to pent-up demand[47]. On the other hand, Australia, like Canada, experienced a similar population boom resulting in a rental growth surge that is now normalizing. However, major cities like Sydney, Melbourne and Brisbane still share strong fundamentals with vacancy rates below 2%[48].

The U.S. multi-family market is set to be a popular asset class despite short-term challenges. Rising interest rates and record levels of new supply—particularly in the Sun Belt[49] regions—have put pressure on vacancy rates. While the higher level of supply deliveries in Sun Belt markets drove their vacancies higher, other markets such as coastal and non-gateway coastal cities did not experience the same surge in new deliveries, putting a relative lid on vacancy rates, as displayed in **Figure 17**. These gateway and non-gateway cities have also experienced stronger rent growth, often exceeding the 2.6% national average.[50] Cities like Chicago, Boston, and New York benefit from lower construction activity, long-term renters, and resilient demand, affording investors stable income returns.

[40] Government of Canada-Immigration, Refugees and Citizenship, October 2024.

[41] Canadian Mortgage and Housing Corporation (CMHC) – National Vacancy Rate 1990-2024, Dec 2024.

[42, 43] CBRE Canada, December 2024.

[44] Ibid.

[45] European Real Estate Market Outlook, 2025.

[46] Refers to cities with less developed economies, smaller populations, and fewer opportunities compared to major metropolitan areas.

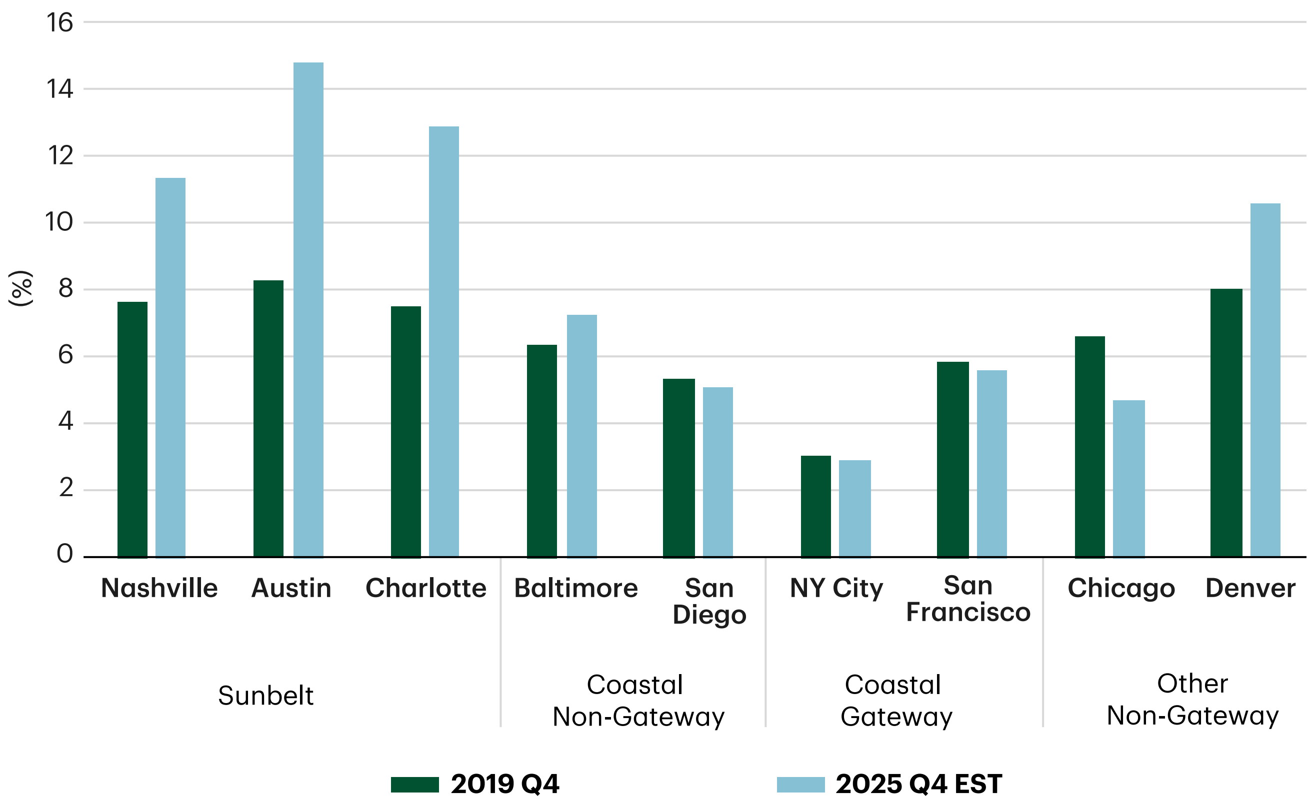
[47] Savills APAC Residential Outlook, Jan 2025.

[48] Ibid.

[49] Sun Belt sample regions include Arizona, Florida, Texas, South Carolina and Alabama.

[50] CBRE United States, December 2024.

Figure 17: Vacancy rate expansion by markets in the U.S.



Source: Costar, March 2025.

The demand surge is fueled by job growth, population expansion, and the affordability gap between renting and homeownership. With U.S. mortgage rates and home prices remaining elevated, buying a home has become prohibitively expensive for many households, keeping more renters in the market. As a result, the national vacancy rate is expected to settle at 4.9%, with 2.6% annual rent growth, signaling strengthening fundamentals and increasing investor confidence in U.S. multi-unit residential.[51]

As new development slows, and renter demand strengthens, vacancy rates are expected to tighten. Investors may need to wait until 2026 or later for the Sun Belt[52] regions to fully stabilize, but long-term growth prospects remain strong[53] as there is strong population and job growth. Meanwhile, established urban markets should continue to offer lower volatility and sounder fundamentals, ensuring that the multi-unit residential sector should remain a top investment choice across the U.S.

[51] CBRE United States, December 2024.

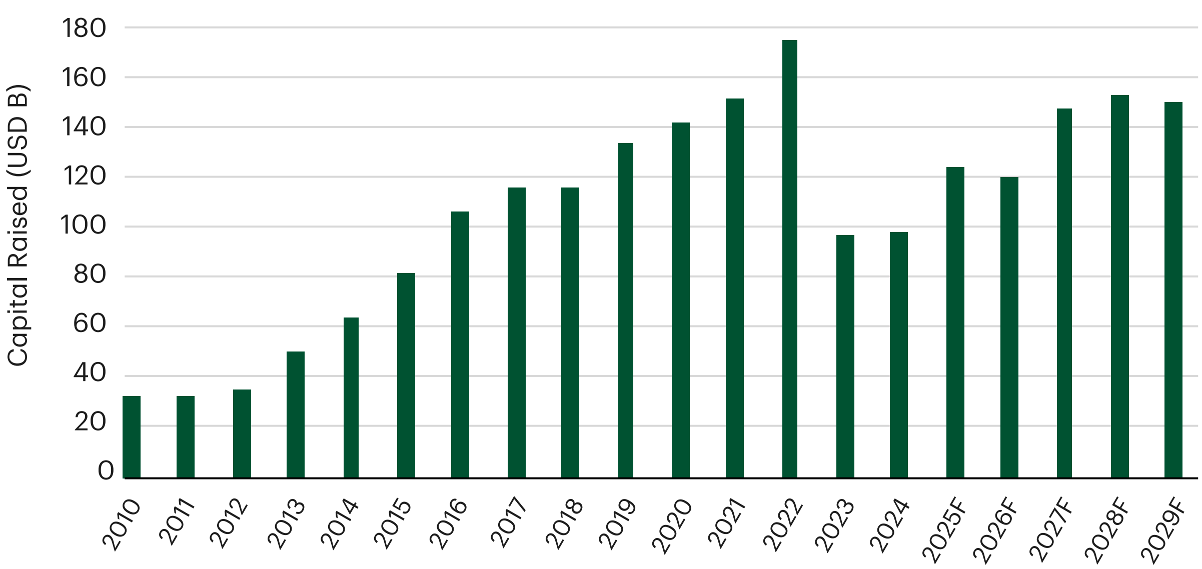
[52] Sun Belt sample regions include Arizona, Florida, Texas, South Carolina and Alabama.

[53] Costar, March 2025.

Global Infrastructure

The global infrastructure market has continued to stabilize as shown by the steady state of fundraising and transaction activity over the past two years. Infrastructure returns remain strong amid greater market volatility, promoting increased allocation to the asset class predicated on the essentiality of the assets and cash flows.

Figure 18: Capital Raised for Infrastructure Investments



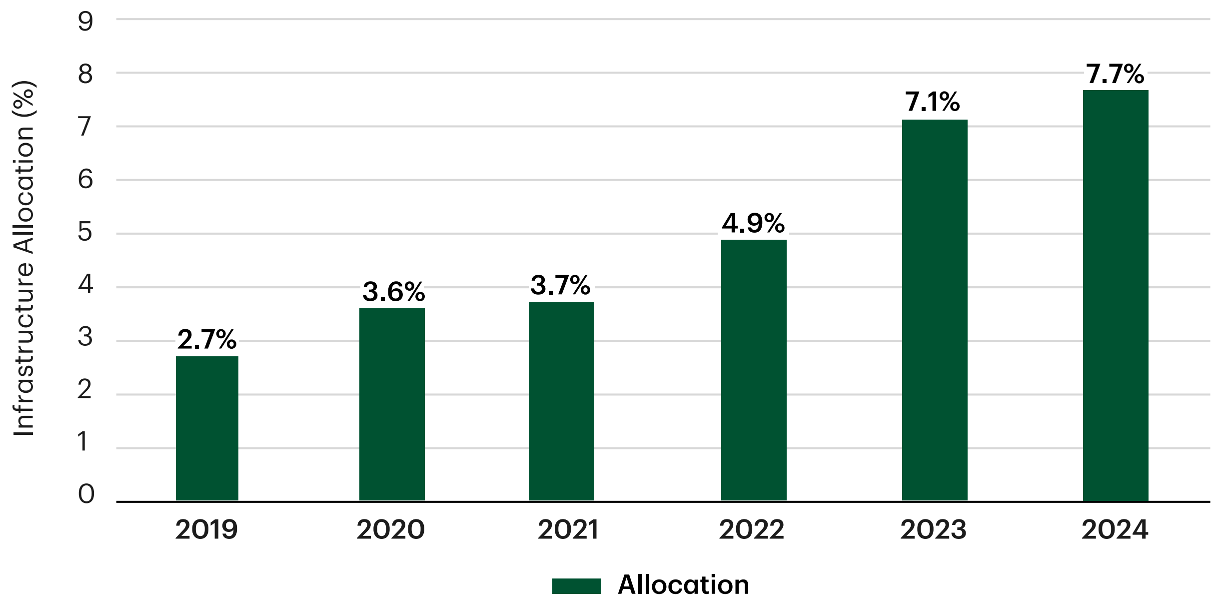
Source: Preqin, March 2025.

2024 witnessed capital raising of $98 billion USD, slightly ahead of the decade low of $96 billion USD experienced in 2023[54]. Looking forward, capital raising is expected to improve, albeit at a lower level than the record high level of capital raised in 2022.

[54] Preqin, March 2025.

As seen in **Figure 19**, large institutional investors continue to grow their infrastructure allocations with sovereign wealth funds allocating nearly 8% to infrastructure.

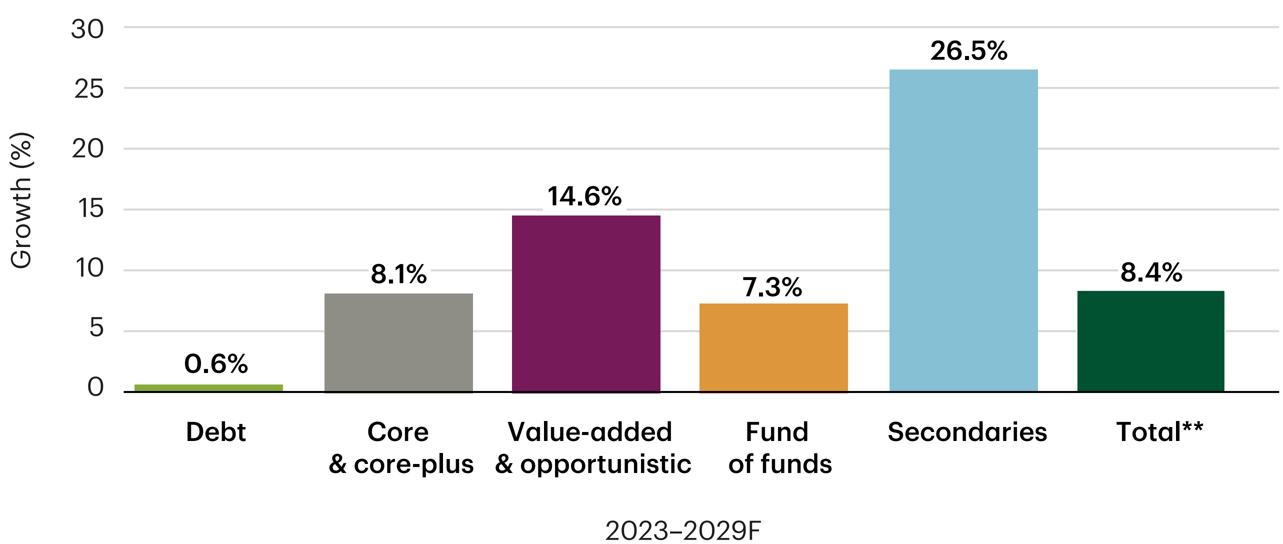
Figure 19: Large Institutional Investors Allocations to Infrastructure



Source: Invesco Global Sovereign Asset Management Study as of Dec 2024.

Investors continue to seek greater growth and higher return potential from their infrastructure allocations, which is expected to lead to a higher growth in fundraising levels for value-add and opportunistic strategies as seen in **Figure 20**.

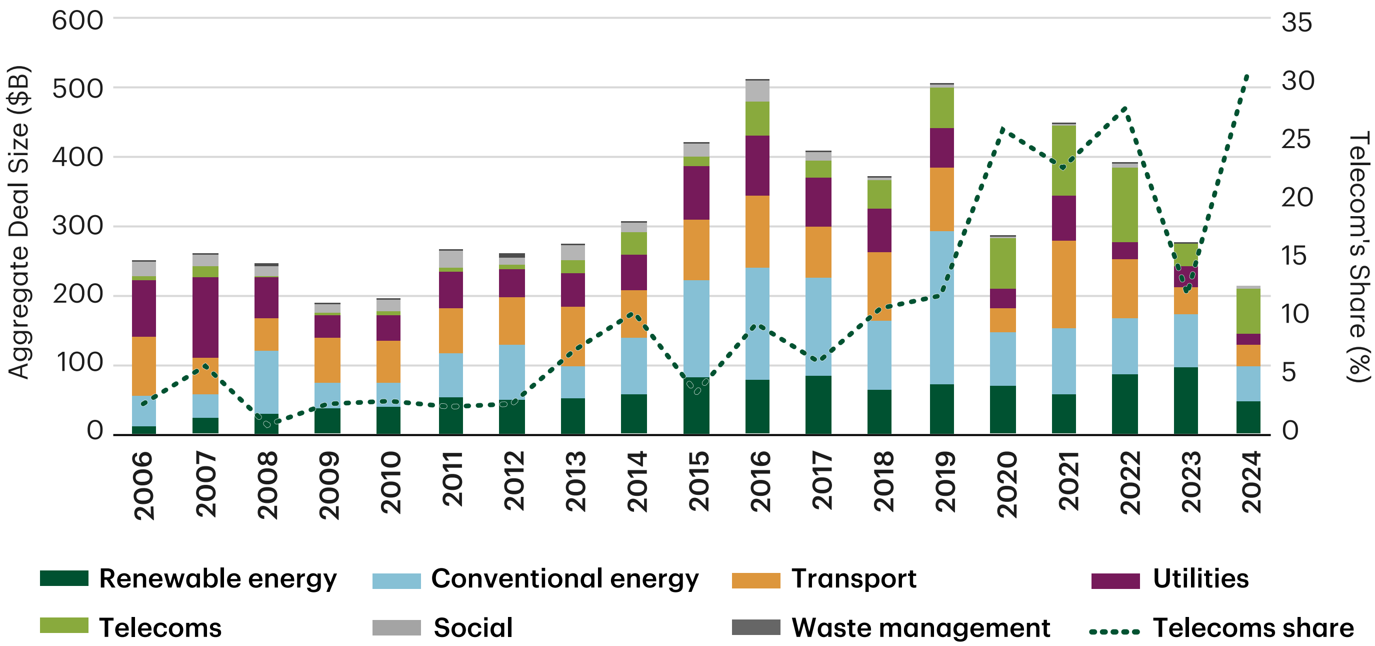
Figure 20: Expected Fundraising Growth by Sub-Strategy



Source: Preqin as of Sep 30, 2024.

Similarly, deal activity was relatively stable year over year. The largest share of deal activity came from renewables assets. However, that share has tempered from the peak of 2023. One of the fastest growing deal segments has been the telecommunication sector, as investors recognize the opportunity presented in the build-up of the digital infrastructure space.

Figure 21: Telecom Deals Increasing Market Share



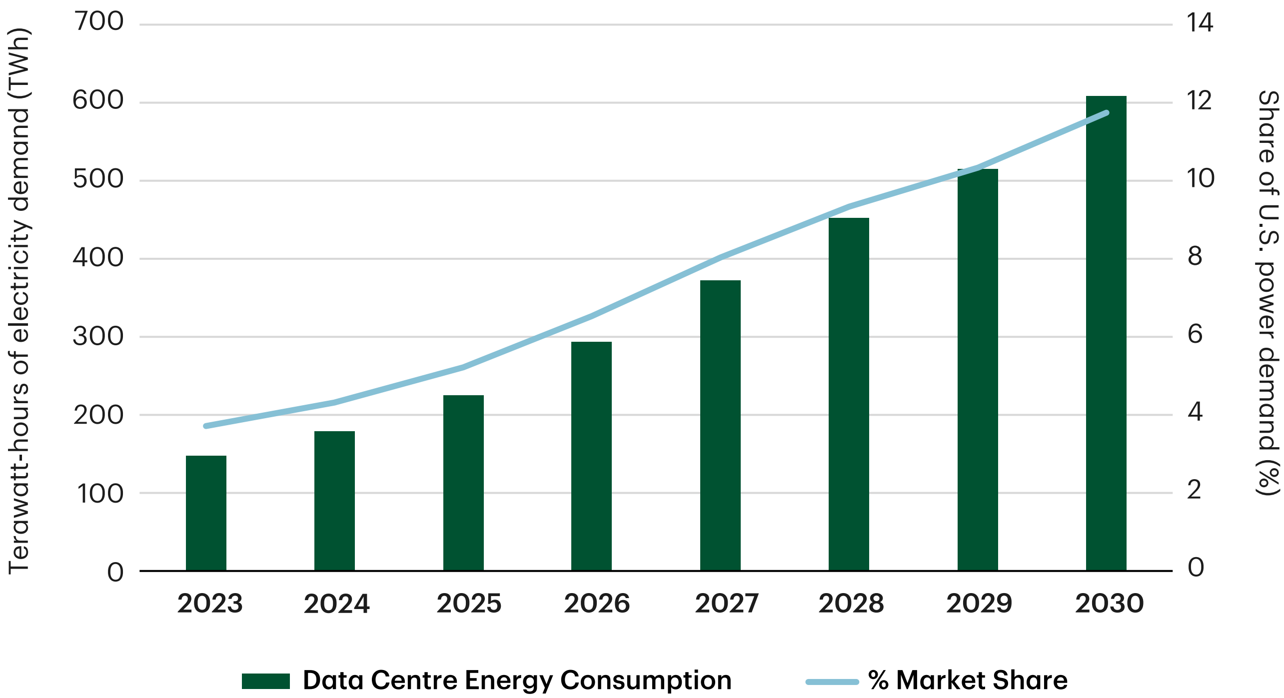
Source: Preqin Pro as of Sep 2024.

The acceleration of the adoption of Artificial Intelligence ("AI") has further increased the demand for data centres. McKinsey & Co. estimates that the global demand for data centers could triple by 2030[55]. The growth in data centres is buoying the growth in the corresponding power infrastructure that fuel these centres. As shown in **Figure 22**, the demand for power for data centers in the U.S. is expected to rise from 3.7% of current U.S. power demand market share to 11.7% in 2030.

Growth

[55] Source: McKinsey & Company as of Oct 29, 2024.

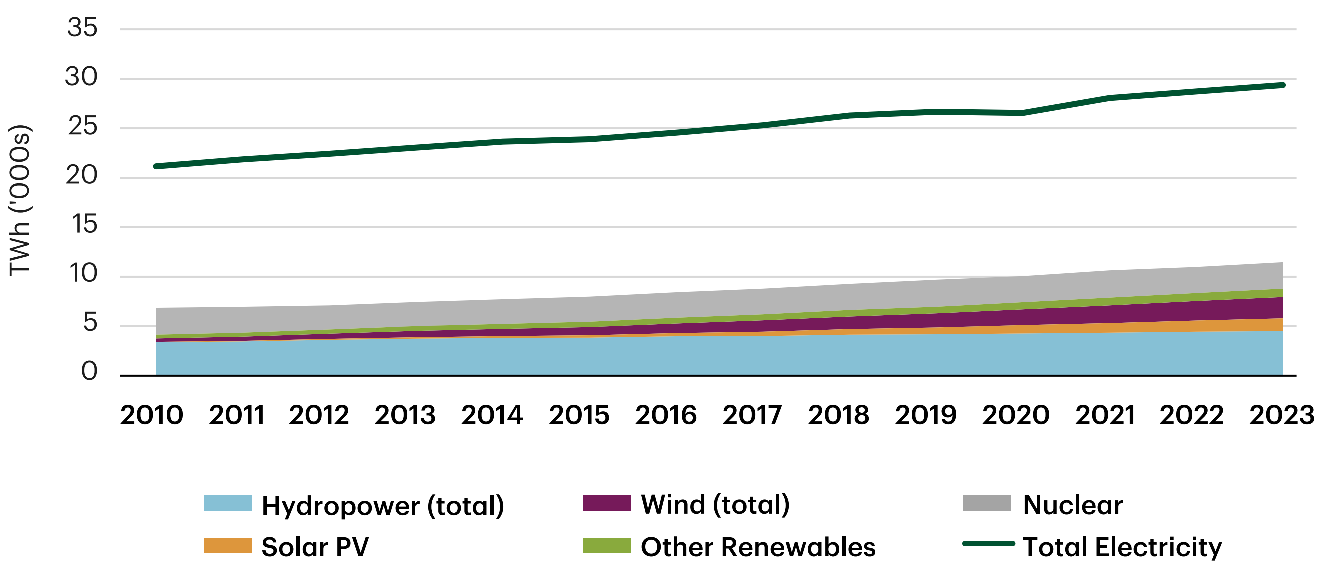
Figure 22: Demand for Power for Data Centers Expected to Rise in the U.S.



Source: McKinsey & Co. as of September 2023.

There are challenges with meeting this growth in power demand due to already strained grids and inadequate power transmission infrastructure. Supplying enough power to meet this increasing demand presents a significant opportunity for all power generation sources, including renewables, which are currently not keeping pace with the higher demand as seen in **Figure 23**.

Figure 23: Growth in Green Power not Keeping Pace with Demand



Source: IEA, Our World Data and Statista, as of Dec 31, 2024.

Overall, it is estimated that data centres and associated power infrastructure will need over $2 trillion in investment over the next five years, presenting a significant opportunity for infrastructure investors.[56]

[56] Source: Infrastructure Investor.

Real Assets Market Report