Canadian Real Estate
Market Update

Q4 2024

FIERA REAL ESTATE

Canadian Economic Summary

Economic Growth Trends[1]

> Canada's economy grew by 1.0% annualized in Q3 2024, marking the fourth consecutive quarter of expansion
> Growth was in line with market expectations and followed a revised 2.2% growth in Q2 2024
> Economic growth was mainly driven by resilient household and government spending
> Household expenditures increased, fueled by strong demand for new vehicles and financial services, indicating sustained consumer confidence
> Per capita GDP declined by 0.4%, reflecting ongoing productivity challenges
> Rising wages in key sectors and a 7.1% peak household savings rate support future economic stability
> Enacted US tariffs with duration are now a risk to the immediate path and degree of growth since the US represents 75% of Canadian exports
> Developments in this area will be watched closely

Employment Trends[2]

> Canada's labour market ended 2024 with strong momentum
> Employment surged by 91,000 in December, marking the third gain in four months
> The labour force participation rate rose, the first increase since January 2023
> The unemployment rate declined by 0.1% to 6.7%
> Growth was driven mainly by full-time positions
> Broad-based employment gains occurred across multiple sectors
> Alberta led with a 1.4% employment increase, followed by gains in Ontario and British Columbia
> Average hourly wages rose by 3.8% year-over-year (Y/Y)
> For 2024, Canada added 413,000 jobs (+2.0%), reflecting labour market resilience despite global challenges; this strength highlights Canada's solid economic fundamentals heading into 2025

Inflation Trends[3]

- Inflation eased to 1.8% Y/Y in December 2024, down from 1.9% in November
- The slowdown was driven by declining prices for food purchased from restaurants and alcoholic beverages, influenced by a temporary Goods and Services Tax & Harmonized Sales Tax ("GST/HST") break introduced mid-month; excluding food, inflation rose 2.1%
- Inflation is now sustaining below the Bank of Canada's ("BOC") 2% target, with US tariffs putting this trend at risk

Monetary Policy Responses[4]

- Overall, November's inflation data signals a gradual return to stability, with the BOC's recent rate cuts appearing to provide relief to consumers while supporting a controlled economic cool-down
- A Consumer Price Index ("CPI") reading below 2% has also given the BOC additional cover for 200 bps of cumulative rate cuts – the policy rate now stands at 3.00%
- Importantly, the BOC has also announced that it will stop its Quantitative Tightening ("QT") program, and resume asset purchases in March
- Again, if US tariffs are enacted, the BOC may respond as it sees fit

Real Estate Market Trends

Industrial[5]

- Canada's industrial real estate sector ended 2024 with strong and resilient performance despite shifting market dynamics
- The national availability rate rose to its 20-year average of 4.8% (+0.4% Q/Q) due to increased new supply, indicating a balanced market
- Positive net absorption surged to 4.9 million sf in Q4, bringing the annual total to 1.4 million sf
- Alberta led the recovery, with Calgary and Edmonton contributing 7.5 million sf in leasing activity, offsetting softer demand in larger markets
- New supply accelerated to 14.6 million sf in Q4, pushing the annual total to 35.6 million sf, the second-highest level on record
- Major hubs like Toronto and Edmonton saw leasing outpace pre-leased deliveries, reflecting strong tenant demand for high-quality industrial space
- Construction activity slowed as the development pipeline shrank by 27.7% to 23.9 million sf, signaling a healthy market recalibration
- Developers are proactively adjusting to market conditions, with Toronto and Vancouver leading in new development, showing ongoing investor confidence
- National average asking rents declined by 4.6% Y/Y to $15.51 per sf, mainly due to pricing corrections in major markets, but remain over 70% above pre-pandemic levels
- Secondary markets like Halifax and Ottawa posted notable rent increases, reflecting consistent regional demand
- Average sale prices dipped 3.8% to $313.95 per sf, but remain 61% above pre-pandemic levels

Summary

Canada's industrial market has resiliently rebalanced over the last few years. The sector is well-positioned for continued growth and stability. The sector's ability to absorb new supply, a more balanced development pipeline, and sustained investor confidence all point to a positive outlook in the coming years.

Multi-Residential[6]

- Canada's rental apartment market showed cyclical easing in 2024, but structural imbalances persist
- The national vacancy rate for purpose-built rentals rose to 2.2% from 1.5% in 2023, still below the 10-year average of 2.7%
- Rent growth for 2-bedroom units slowed to 5.4%, while turnover unit rents surged 23.5%, highlighting affordability challenges
- Regional disparities remain as Calgary led with an 8.9% rent increase, driven by strong demand and fewer regulations
- Toronto had the lowest rent growth at 2.7%, reflecting caution in a rent-controlled market
- Vancouver and Montréal maintained stronger rent growth due to persistent demand and limited turnover
- Record new purpose-built rental completions mainly targeted higher-priced segments, benefiting higher-income renters but offering little relief to middle- and lower-income households
- Population growth remains a major demand driver, with 1.2 million newcomers in the past year, worsening the housing supply strain

Summary

Although government policies, such as eliminating the GST on new rental developments and broader housing affordability initiatives, have been introduced, they have yet to make a significant impact on supply-demand imbalances. While the recent vacancy rate increase may suggest a short-term reprieve, the broader market conditions point to a sustained structural bull market in rental housing. Supply continues to lag demand, driven by demographic pressures and affordability constraints in the homeownership market. This prolonged imbalance will likely continue exerting upward pressure on rents, ensuring strong long-term fundamentals for rental housing investors.

Retail[7]

- Canada's retail market ended 2024 showing signs of stability despite ongoing economic pressures
- Services inflation, higher interest rates, and rising household debt slowed consumer spending, especially in discretionary categories like furniture, jewelry, and home improvement
- Population growth in major markets like Toronto and Calgary supported leasing activity in well-located retail spaces
- Retail rents increased by 2.4% Y/Y, driven by inflation-linked lease structures and limited new supply
- Only 7 million sf of of retail space was under construction, mainly within mixed-use developments[8]
- National vacancy rates compressed by 0.4% to 6.2% in H1 2024, the lowest post-pandemic level
- Notable transactions included acquisitions of grocery-anchored centres and neighbourhood retail hubs in Toronto and Vancouver, reflecting interest in stable, income-generating assets
- Larger malls and power centres faced softer demand due to shifting consumer preferences

Summary

The retail sector is positioned for gradual adjustment. While discretionary spending may remain cautious, essential retail and mixed-use developments are expected to drive steady demand, balancing challenges in larger-format retail properties.

Office[9]

- Canada's office market ended 2024 with its first year of positive net absorption since 2019, totaling 2.6 million sf
- The momentum remains fragile, with the national vacancy rate steady at 18.7% (62% higher than its 20-year average)
- Calgary and Edmonton sustained steady leasing activity, while other major markets struggled
- Rising shadow vacancies in Ottawa and Waterloo signal deeper challenges ahead
- The gap between trophy assets and Class 'B/C' buildings continues to widen
- Sublease space declined for the seventh straight quarter, but this has not improved market sentiment
- New office construction dropped to a 20-year low of 3.4 million sf, with nearly 90% pre-leased
- Reduced development limits future vacancy risks, but signals muted developer confidence

Summary

In the long-term view, the outlook for Canada's office market remains bearish. The flight to quality shows no sign of slowing, leaving Class 'B/C' landlords facing ongoing vacancies and mounting pressure to invest heavily in upgrades or risk obsolescence. Without a meaningful shift in demand dynamics, the sector is likely to face prolonged weakness.

Canadian Economic & Real Estate Outlook

- Economic prospects remain nuanced moving forward with more upcoming risk due to trade uncertainty
- Fiera Capital forecasts a moderate risk of "Inflation Revival" over the next 12–18 months due to[10]:
  - Economic resilience
  - A tight labour market
  - Easing financial conditions
  - New US tariffs
- These factors could limit the BOC's ability for aggressive rate cuts, though gradual easing is expected
- Geopolitical risks in Ukraine and the Middle East pose challenges, especially for global energy markets, potentially impacting inflation trends
- Policy uncertainty from President Trump's proposed tariffs, increased fiscal deficits, and slowing population growth may disrupt global trade and intensify inflationary pressures
- These global dynamics may create a more volatile environment, but also offer opportunities for investors targeting resilient asset classes in Canadian commercial real estate
- Despite challenges, Canada remains better positioned to withstand this kind of shock, relative to last year
- Fiera Real Estate's internal models are increasingly telegraphing that despite increased risk developing attributed to tariffs, Canadian real estate still possesses the ingredients for a continued recovery from its 2022-2023 cyclical downturn[11]

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Endnotes

as of December 2024

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6 Rental Market Report - CMHC – January 2025
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7 Canada Historical Retail 2024 H1 – CBRE – H1 2024
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8 Canada Retail National Report - CoStar – January 2025
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10 Fiera Capital Global Asset Allocation - Fiera Capital Corporation – December 2024 – Internal Document

11 Michael Le Coche, Quadrant Model - Fiera Real Estate – Q4 2024 – Internal Research

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