Canadian Real Estate
Market Update

Q1 2025

FIERA REAL ESTATE

Canadian Economic Summary

Economic Growth Trends[1]

- Canada's latest growth reading showed the country entered 2025 with moderate economic strength
- Output expanded by 2.6% annualized in the fourth quarter of 2024, marking the fifth straight period of growth
- Gains were led by a resurgence in household spending, which rose 1.4% in the fourth quarter of 2024, the strongest growth since the second quarter of 2022 – an improvement in capital investment and exports was also encouraging
- Housing construction also saw its strongest performance in more than a year, buoyed by resale activity and single-family building in Ontario
- While GDP per capita ticked higher during the quarter, the full-year decline of 1.4% underscored persistent productivity concerns
- Shifting gears to potential impacts of US tariffs, in 2024, Canada's US trade surplus was US$64 billion (representing 3% of GDP) – this figure is directly at risk should the trade surplus be fully eroded by US tariffs
- On the other hand, Canada's household and government spending equated to 78% of its 2024 GDP, which is clearly a larger component of its economic base than its US trade surplus
- While continuing to hold firm, consumption will be the key item to watch as tariff-driven uncertainty threatens to drag on GDP growth through negative consumer sentiment

Employment Trends[2]

- Canada's labour market conditions softened in March after a stretch of employment gains
- The economy shed 33,000 jobs, with most losses in full-time positions and among older male workers
- The jobless rate edged up to 6.7% (+0.1% month-over-month ("M/M"))
- Wage growth remained relatively firm, up 3.6% from a year earlier, and hours worked increased modestly
- Despite the pullback, underlying labour market conditions suggest resilience, though signs of emerging slack, particularly in long-term unemployment bear monitoring

Inflation Trends[3]

- The annual inflation rate in Canada eased to 2.3% in March 2025, down from an eight-month high of 2.6% in February, coming in below both market expectations and the Bank of Canada's ("BOC's") 2.5% forecast
- This marks the beginning of the inflation normalization anticipated by the central bank for this year, following a temporary 0.6% boost in headline inflation due to the expiry of the goods and services tax ("GST") and harmonized tax ("HST") breaks in mid-February
- A key contributor to the decline was the reversal in gasoline prices, which fell 1.6% after a 5.1% increase in February, driven by a sharp drop in crude oil prices as the Organization of the Petroleum Exporting Countries ("OPEC+") announced plans to raise production
- Further contributing to lower gas prices was the removal of the federal fuel charge, effective April 1, 2025

Monetary Policy Responses[4]

- On the operational side, the BOC recently reintroduced its term repurchase ("repo") program (a form of Quantitative Easing, "QE"), which began on March 5, 2025
- The BOC is buying term repo in $2-5 billion increments every two weeks ($~4-10 billion per month), with further Treasury bill purchases set to begin later this year
- Purchases of Government of Canada bonds are anticipated to begin toward the end of 2026 at the earliest, conducted in the secondary market
- These operations are collectively a net positive for future real estate valuations
- However, with underlying price momentum still firm and additional tariff-related pressures expected in the coming months, the BOC is likely to take a cautious approach to future rate decisions

Real Estate Market Trends

Industrial[5]

- Canada's industrial market entered 2025 with stable momentum and signs of long-term strength, even as global trade headwinds introduced some near-term caution
- The national availability rate inched up to 5.0%, the highest since 2016, reflecting a market absorbing a wave of new supply
- Positive net absorption remained solid at 4.0 million sf, led by robust demand in Toronto and Vancouver, reinforcing tenant appetite for well-located, high-quality space
- While construction activity is recalibrating, it's doing so from a position of strength. The development pipeline contracted 10.6% to 23.3 million sf, indicating developers are being more strategic and disciplined in response to shifting conditions
- Notably, nearly half of space under construction is already pre-leased, underscoring continued confidence in core markets
- New supply moderated to 4.8 million sf in Q1 but remains on pace to accelerate through the rest of the year, with 18.5 million sf expected to deliver – largely concentrated in top-tier hubs
- Rental rates held firm, with the national average at $15.47 per sf. While major markets saw modest corrections, secondary cities such as Halifax and Edmonton posted double-digit growth, pointing to the sector's deep bench of demand across the country
- Sale prices followed a similar trend – down slightly overall but remaining well above historical norms, particularly in resilient Western markets

Summary

Looking ahead, Canada's industrial sector is well-positioned for steady growth. With a more balanced pipeline, ongoing tenant demand, and investor discipline, the market is poised to navigate short-term tariff uncertainty while continuing to deliver value in the years ahead.

Multi-Residential[6]

- Canada's rental apartment sector continues to show early signs of cyclical easing, though the structural supply-demand imbalance remains deeply entrenched
- The national vacancy rate rose to 2.2%, up from 1.5% in 2023, but still below the 10-year average of 2.7%
- Rent growth for two-bedroom units slowed to 5.4%, while turnover units saw rents climb by 23.5%, reinforcing ongoing affordability pressures
- New purpose-built supply continues to enter the market at record levels, but much of it remains concentrated in higher-end product
- Vacancy in recently completed luxury buildings has reached double digits in some markets, reflecting a disconnect between product and price-sensitive renter demand
- Meanwhile, older stabilized assets continue to benefit from low turnover and strong pricing power
- Regionally, Calgary leads in rent growth at 8.9%, while Toronto trails at 2.7%, constrained by regulation
- Population growth remains a key demand driver, though a shift in immigration policy to reduce permanent resident volumes is beginning to weigh on leasing velocity in some submarkets

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 headline rent growth may moderate further in the near term, ownership affordability remains deeply challenged. With renters now outnumbering owners in cities like Toronto and Vancouver, the long-term outlook for rental housing remains strong – particularly for well-located, professionally managed assets that align with local income realities.

Retail[7]

- Canada's retail sector entered 2025 with renewed resilience, underpinned by improving fundamentals and a flight to necessity-based retail
- National vacancy compressed 0.1% in the second half of 2024 to 5.2% (the lowest post-pandemic level), as tenant demand rebounded across most formats – particularly in grocery-anchored strips and service-driven neighbourhood centres
- Consumer spending remains cautious but steady, with strength concentrated in food services, health and wellness, and discount-oriented retailers
- These categories continue to benefit from daily-need relevance and shifting consumer preferences toward convenience and affordability
- Conversely, power centres and regional malls face ongoing headwinds, with demand lagging in discretionary segments and larger-format spaces
- The rebound in foot traffic – fueled by sustained immigration, stable employment, and hybrid work models – has supported leasing momentum in walkable, amenity-rich locations

Summary

Looking ahead, retailers are increasingly focused on urban nodes with strong demographics and mixed-use synergy, favouring visibility, density, and proximity to transit. With limited new supply under construction (only 7 million sf nationwide, representing less than 2% of current inventory),[8] most of it embedded in broader mixed-use developments, near-term competition remains low. As a result, market conditions are expected to stay landlord-favourable in key submarkets, particularly for well-located, necessity-based assets that align with evolving consumer behaviours.

Office[9]

- Canada's office market showed continued early signs of stabilization in Q1 2025, with national vacancy dipping slightly to 18.7% – its first decline in years
- Net absorption was modest but positive in key markets like Vancouver and downtown Toronto, where demand for high-quality space continues to drive leasing activity
- The gap between premium and lower-tier assets widened further, as Class 'A' and "Trophy" buildings held steady while older 'B/C' stock faced ongoing pressure
- Sublease availability dropped for the seventh straight quarter, now at 13.6 million sf, mostly due to expirations and space removals rather than new tenant demand
- Construction remains muted at 3.2 million sf, with no new starts this quarter
- Most upcoming supply is already pre-leased, and conversions continue to reduce obsolete inventory
- Over 587,000 sf was removed this quarter for adaptive reuse

Summary

Long term, the outlook for Canada's office market remains bearish even though there are signs of cyclical improvement emerging. The market appears to be gradually recalibrating, with quality assets holding firm and overall sentiment beginning to stabilize. As continually reiterated, without a meaningful acceleration in demand dynamics, the sector is likely to face prolonged weakness given its excess vacancy slack.

Canadian Economic & Real Estate Outlook

- Looking ahead, Fiera Capital's base case assigns a 60% probability to a "Trade Resolution" scenario over the next 12–18 months[10]
- Under this framework, aggressive US tariffs are scaled back partially, easing trade tensions but leaving some inflationary pressure in place
- While economic sentiment remains dented, long-term inflation expectations are expected to hold firm, allowing the BOC to gradually resume rate cuts – though not to levels that risk reigniting inflation
- In this environment, Canadian GDP is forecast to grow 1.0% in 2025, with inflation stabilizing around 3.0%
- Fiera Real Estate's internal models are increasingly telegraphing that despite some increased risk developing due to trade policies, Canadian real estate still possesses the ingredients for a continued robust recovery from its 2022-2023 cyclical downturn[11]
- Real assets with pricing power and yield durability – such as income-generating real estate – are poised to outperform as investors seek defensive positioning amid cautious monetary normalization
- 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 well-positioned for sustainable growth

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Endnotes

as of March 2025

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10 Fiera Capital Global Asset Allocation – Fiera Capital Corporation – April 2025 – Internal Document

11 Michael Le Coche, Quadrant Model – Fiera Real Estate – Q1 2025 – Internal Research

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