

Canadian Real Estate Market Update

Q4 2025



Canadian Economic Summary

Economic Growth Trends¹

- > Canada's GDP rebounded at a 2.6% annualized pace in Q3, which marks it as the strongest quarter of the year
- > The positive 2.6% annualized growth contrasted sharply against a 1.8% drop in Q2 and was well above expectations of 0.5%
- > Investment climbed 2.3%, led by residential and a 12.2% surge in government investment (notably, weapon systems and institutional buildings)
- > Households were more cautious, trimming big-ticket purchases and travel
- > Under the hood, wage and salary income advanced, nudging the saving rate higher to 4.7%, and corporate earnings recovered on energy, mining and healthier bank profits
- > All considered, momentum rotated from consumption toward trade and capital expenditures, with energy and public investment anchoring the quarter's rebound
- > Canada's economy has proven more resilient in 2025 than initially anticipated, defying earlier forecasts that widespread tariff pressures would push the country into recession

Employment Trends²

- > Canada's labour market was essentially unchanged in December 2025 as employment edged up by 8,200 jobs
- > The unemployment rate rose to 6.8% (+0.3% month over month [M/M]) as labour force participation increased to 65.4%
- > Full-time jobs grew (+50,000) while part-time positions declined (-42,000)
- > Health care/social assistance and other services added jobs, while professional, scientific and technical services, accommodation and food and utilities contracted
- > Regionally, Quebec gained (+16,000) while Alberta (-14,000) and Saskatchewan (-4,000) fell
- > Average hourly wages rose 3.4% year over year (Y/Y)
- > The Canadian labour market faced strong headwinds in 2025 due to the economic uncertainty introduced by the imposition of tariffs on exports to the United States (U.S.), but it weathered the uncertainty quite well, as evidenced by the unemployment rate rising only 0.1% throughout the year

All figures are in Canadian dollars unless specified otherwise.

Inflation Trends³

- > Canada's headline inflation rate, as measured by the Consumer Price Index (CPI), rose 2.5% Y/Y in December, up from 2.2% in November
- > The pickup reflects base effects from the expiry of the temporary GST/HST break in December 2024, which mechanically lifted Y/Y comparisons, particularly in restaurants, alcohol and select consumer goods
- > Excluding gasoline, inflation rose to 3.0%, highlighting ongoing services-led stickiness, while shelter inflation continued to moderate at 2.1% Y/Y
- > Taken together, the data points to an inflation backdrop that is no longer re-accelerating

Monetary Policy Responses⁴

- > The Bank of Canada (BOC) responded by cutting its policy rate by 25 basis points in October, bringing the overnight rate to 2.25% and subsequently maintaining that level at its December meeting
- > Policymakers signaled that further easing could follow (although the bar is now higher to do so) if growth fails to reaccelerate, reaffirming their commitment to balancing inflation control with financial stability and growth support
- > South of the border, the U.S. Federal Reserve began expanding its balance sheet in December by approximately US\$40 billion per month through purchases of U.S. Treasury Bills to increase bank reserve levels, a liquidity injection that should also exert positive spillover effects on Canadian financial conditions

Real Estate Market Trends

Industrial⁵

- > Canada's industrial market finished 2025 on a firmer, more balanced footing
- > Availability may have inched up to 5.6% in Q4 (+0.1% quarter over quarter [Q/Q]), but the real story was a large rebound in quarterly net absorption of 5.9 million sf, representing its highest quarter since Q4 2022
- > This leasing momentum lifted the full-year take-up to 8.7 million sf, which was higher than 2024
- > The construction pipeline continues to right-size as it now stands 4.0 million sf lower at 22.0 million sf (representing 11% of inventory)
- > Design-build projects are now the majority, and pre-leasing of new projects continues to improve
- > In Q4, new deliveries spiked to 9 million sf as delayed projects landed, but the full-year new supply figure for 2025 was one of the lowest annual tallies in recent years
- > Rents are undergoing a controlled reset, down 3–4% Y/Y to just under C\$15 per sf, with the pace of decline moderating and levels still well above pre-COVID
- > Market strength showed through in Toronto, which led Q4 lease-up at 4.3 million sf (over 72% of the quarterly total), while Calgary also posted solid gains

Multi-Residential⁶

- > Canada's multi-residential market is in a cyclical easing phase, but the long-term setup remains compelling
- > National purpose-built vacancy edged up to 3.1% in 2025 from 2.2% in 2024 (and above the 10-year average) as record completions and softer renter household formation cooled upward pressure on rental growth
- > Despite the softening, average two-bedroom rents still rose 5.1% Y/Y to about C\$1,550 per month
- > In large markets like Toronto and Vancouver, landlords are leaning on incentives and competing with a bigger pool of rented condos
- > Regionally, rent growth slowed in Vancouver, Calgary and Edmonton, but picked up in the east, particularly in Montreal and Halifax
- > In the priciest cities, rising vacancies are starting to stabilize rental affordability
- > Beyond the cycle, fundamentals remain favourable as federal programs delivered through the Canada Mortgage and Housing Corporation (CMHC) continue to support purpose-built deliveries, however, structural demand-supply imbalances persist



Summary

The themes we highlighted last quarter – normalizing vacancy; steady pipelines and resilient demand tied to e-commerce, nearshoring and supply-chain upgrades – are playing out. Investor sentiment has proven resilient, pricing corrections have been shallow and core industrial yields remain stable, leaving the sector well-positioned for a cyclical upswing and a brighter 2026.



Summary

With rate cuts resuming and cash flows resilient, we remain confident, expecting a re-tightening into 2026–27 as population flows normalize and the recent delivery of new supply gets absorbed. Further, renters' share in large markets continue to rise as ownership remains out of reach for many households.



Retail⁷

- > Canada's retail market continues to show quiet resilience, pairing softer discretionary spending with steady demand in necessity-led formats
- > Despite high household debt and slower job growth, foot traffic and operating metrics are holding up, pointing to sound fundamentals
- > National vacancy ticked higher by 0.3% in the last six months ended H1 2025 to 5.5% – this is still consistent with a broadly balanced market
- > Pressure persists at enclosed malls and urban high streets, exacerbated by high-profile exits like Hudson's Bay, while grocery, pharmacy, medical and value concepts anchor demand
- > Experiential, fitness and food-driven operators continue to backfill space in well-located, transit-oriented nodes where density and access underpin sales

Summary

New supply is scarce and largely tied to mixed-use redevelopments, keeping a lid on vacancy. Investors are leaning into neighbourhood and community centres for their defensive tenant mix, embedded redevelopment potential and stable income profiles. The reality is that, anchored by essential retail and constrained new supply, the sector remains durable and income resilient.



Office⁸

- > Canada's office market showed clear cyclical firming as national vacancy edged down 0.4% to 18.0%, marking a second straight year of positive net absorption at 2.2 million sf
- > This figure was led by Toronto (+2.7 million sf), with Montreal and Halifax also positive, while Calgary and Ottawa softened
- > The flight-to-quality trend has become more pronounced with downtown Class 'A' vacancy falling to 15.4% and "trophy" assets near 10.4% vacant – this was driven by robust leasing in Toronto and a steady rebound across several major centres as return-to-office (RTO) mandates continue to get rolled out by Canada's major banks
- > New supply remained thin in 2025 and there is only 2.8 million sf under construction, which is currently 69% pre-leased

Summary

As continually reiterated and despite the more positive office headlines, without a meaningful acceleration in structural demand dynamics, the sector is likely to face prolonged weakness given its excess vacancy slack. We continue to view this as a transitory upswing within a secularly challenged sector. Aging demographics imply slower growth in office-using employment, artificial intelligence (AI)/automation should lower space-per-worker needs and capex for older stock is rising. Our stance remains structurally underweight, focusing only on scarce, energy-efficient transit-served trophy assets.

Canadian Economic & Real Estate Outlook⁹

- > On the investment activity front, Canada's commercial real estate market cooled modestly in Q3 2025 (latest data) after a strong first half, as investment volume slipped to C\$9.7 billion (-8.1% Q/Q), but +10.2% Y/Y across 1,683 deals¹⁰
- > Looking ahead, Fiera Capital assigns a 50% base-case probability to a "stagflation" scenario, marked by elevated but stabilizing inflation
- > In this scenario, broad, sweeping U.S. tariffs lift the effective tariff rate to near century-highs, slowing global growth and raising prices
- > The near-term uncertainty prompts households and firms to adopt a more cautious stance, but it also accelerates the global shift toward supply diversification and domestic investment
- > With tariff pass-through keeping inflation above target, central banks stay restrictive longer than markets expect
- > The result is an environment of slower but resilient growth, where disciplined policy recalibration helps contain risks while preserving long-term stability
- > In this setting, real assets with durable income streams and intrinsic pricing power, such as institutional real estate, stands to benefit, providing investors with both stability and inflation protection as policy normalization unfolds
- > With a robust pipeline of announced and pending deals, cheaper financing than years past and clearer pricing, conditions are in place for Canadian real estate volumes and values to re-accelerate into early 2026
- > Fiera Real Estate's proprietary quadrant model continues to indicate that there are "expansion" tailwinds for the Canadian real estate market, characterized by improving liquidity and growth metrics
- > We expect positive momentum, especially in multi-residential, industrial and necessity-retail, while office activity and values remain muted, selective and value-driven

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Endnotes

- 1 Gross domestic product, income and expenditure, third quarter 2025 – Statistics Canada – Released: 2025-11-28 – <https://www150.statcan.gc.ca/n1/daily-quotidien/251128/dq251128a-eng.htm?HPA=1&indid=3278-1&indgeo=0>
- 2 Labour Force Survey, December 2025 – Statistics Canada – Released: 2025-01-09 – <https://www150.statcan.gc.ca/n1/daily-quotidien/260109/dq260109a-eng.htm?HPA=1&indid=3587-2&indgeo=0>
- 3 Consumer Price Index, November 2025 – Statistics Canada – Released: 2025-12-15 – <https://www150.statcan.gc.ca/n1/daily-quotidien/251215/dq251215a-eng.htm?HPA=1&indid=3665-1&indgeo=0>
- 4 Bank of Canada maintains policy rate at 2¼% – Bank of Canada – December 10, 2025 – <https://www.bankofcanada.ca/2025/12/fad-press-release-2025-12-10/>
- 5 Canada Industrial Figures – CBRE – Q4 2025 – <https://www.cbre-ea.com/data/iprojects>
- 6 2025 Rental Market Report - CMHC – December 11, 2025 – <https://www.cmhc-schl.gc.ca/professionals/housing-markets-data-and-research/market-reports/rental-market-reports-major-centres>
- 7 Canada Historical Retail 2025 H1 – CBRE – H1 2025 – <https://www.cbre-ea.com/data/iprojects>
- 8 Canada Office Figures – CBRE – Q4 2025 – <https://www.cbre-ea.com/data/iprojects>
- 9 Fiera Capital Global Asset Allocation – Fiera Capital Corporation – January 2026 – Internal Document
- 10 Canada Investment Overview – CBRE – Q3 2025 – <https://www.cbre-ea.com/data/iprojects>

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