

Canadian Real Estate Market Update

Q1 2026



Canadian Economic Summary

> Economic Growth Trends¹

- > Canada's economy continues to demonstrate resilience as it continues to work through the lagged effects of one of the most aggressive tightening cycles in decades and economic uncertainty from tariffs in 2025 and the conflict in the Middle East that has recently come to the forefront
- > Real GDP declined modestly in Q4 2025, down 0.6% annualized, following a 2.4% increase in Q3
- > Domestic demand held up more constructively as household spending rose 0.4% in the quarter, supported by services consumption, while exports increased 1.5%, led by commodities
- > Government capital investment also contributed positively, offsetting softness in business investment
- > On a full-year basis, GDP grew 1.7% in 2025 (slower than historical trend rates), but still indicative of an economy that has decelerated, not contracted

> Employment Trends²

- > Canada's labour market continued to soften, but importantly, it is doing so in a controlled and orderly fashion
- > Employment was essentially unchanged in March, rising just 14,000 (+0.1%) following a cumulative decline of 109,000 over the first two months of the year
- > The unemployment rate held steady at 6.7%, modestly above pre-pandemic norms but still well below prior cyclical peaks
- > At the same time, labour force participation has edged lower to 64.9%, continuing its gradual structural decline
- > The underlying dynamics point to cooling driven more by slower hiring than outright layoffs
- > Despite this moderation, income dynamics remain supportive – average hourly wages accelerated to 4.7% year over year (Y/Y) in March, the strongest pace since late 2024, suggesting that nominal income growth continues to underpin consumer spending

> Inflation Trends³

- > Inflation remains relatively contained, but has shown a modest re-acceleration, with headline Consumer Price Index (CPI) rising to 2.4% Y/Y in March, up from 1.8% in February
- > The increase was driven primarily by higher energy prices, particularly gasoline, reflecting recent geopolitical supply shocks – this will likely prove to be transitory
- > Excluding gasoline, inflation moderated to 2.2%, indicating that underlying price pressures continue to ease
- > The broader trend suggests that while inflation may experience near-term fluctuations, underlying pressures are stabilizing

> Monetary Policy Responses⁴

- > There are pockets of stickiness in inflation, particularly in food prices, but the overall trajectory is now firmly within the Bank of Canada's (BOC) target range
- > The key takeaway is that inflation is no longer the primary risk, shifting the policy focus toward supporting growth and liquidity
- > Resultingly, the BOC has held the policy rates at 2.25%, but has resumed purchases of Government of Canada treasury bills to further support funding markets and large spending outlays announced at the federal budget meeting in the fall

All figures are in Canadian dollars unless specified otherwise.

Real Estate Market Trends



Industrial⁵

- > Canada's industrial market is showing continued signs of stabilization, with fundamentals beginning to inflect in favour of the landlord
- > Net absorption totaled 4.2 million square feet (sf) in Q1 2026, nearly double the trailing three-year average, highlighting that leasing demand remains resilient despite a softer macro backdrop
- > Supply dynamics remain disciplined – the construction pipeline sits at 24.8 million sf, or just 1.2% of inventory, well below prior peaks due to prohibitive replacement costs
- > At the same time, availability has plateaued at 5.5%, with over half of tracked markets seeing flat or declining availability quarter over quarter (Q/Q), suggesting the market is nearing a cyclical peak in vacancy
- > Rents continue to adjust, declining 3.7% Y/Y to \$14.91 per sf, but the rate of decline is slowing, with most markets already experiencing growth momentum

Summary

Overall, the direction of travel has shifted. The themes we highlighted over the last several quarters – normalizing vacancy, steady pipelines and resilient demand tied to e-commerce, nearshoring and supply-chain upgrades – are playing out. Fundamentals are no longer deteriorating and are beginning to stabilize. 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 brighter 2026.



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 demand cooled pressure
- > Even so, average two-bedroom rents rose 5.1% to about \$1,550 per month
- > In large markets like Toronto and Vancouver, landlords are leaning on incentives and competing with a larger pool of rented condominiums
- > Regionally, rent growth slowed in Vancouver, Calgary and Edmonton, but picked up in the east, particularly Montreal and Halifax
- > In the priciest cities, rising vacancies are starting to stabilize affordability issues

Summary

Beyond the cycle, fundamentals remain favourable – structural undersupply persists even with Federal Government/Canada Mortgage and Housing Corporation (CMHC) programs continuing to support purpose-built delivery. Demand is likely to regain momentum as the proportion of households that rent in big cities keeps rising, since ownership remains out of reach for many households. With cash flows resilient, Fiera remains convicted, expecting a re-tightening into 2026-27 as population flows normalize and new supply gets absorbed.



Retail⁷

- > Canada's retail market continues to demonstrate underlying resilience, even as signs of softening begin to emerge at the aggregate level
- > National vacancy increased to 7.5% in 2025 from 5.2% in 2024, reflecting some cooling in demand as consumer spending begins to lose momentum; however, the headline weakness masks a more constructive underlying story
- > Performance remains highly bifurcated, with needs-based retail continuing to anchor the sector
- > Grocery-anchored, pharmacy and value-oriented centres are still seeing stable demand, consistent traffic and ongoing rental growth
- > In contrast, more discretionary formats, particularly enclosed malls and certain urban high streets, are enduring most of the slowdown
- > Experiential, fitness and food-oriented tenants are actively backfilling space in well-located nodes, while limited new supply, tied to mixed-use redevelopment, is helping to contain further upward pressure on vacancy

Summary

From an investment standpoint, capital remains focused on grocery-anchored centres, where defensive tenant profiles and stable income streams continue to offer attractive risk-adjusted returns. Overall, retail is best viewed as a neutral sector, with the combination of resilient needs-based demand and constrained supply continuing to support stable fundamentals and inflation-like income growth.



Office⁸

- > In Q1 2026, national office vacancy declined to 17.4%, supported by 2.1 million sf of positive net absorption, marking a third consecutive quarter of gains
- > Momentum has been led by downtown markets, particularly Toronto, where improving return-to-office (RTO) trends and strong leasing in new, best-in-class buildings are driving the recovery
- > At the same time, supply dynamics are becoming increasingly supportive
- > The development pipeline has fallen to just 1.6 million sf, or roughly 0.3% of inventory, a 22-year low, while conversions and demolitions continue to remove stock from the market at a meaningful pace
- > Sublease space has also declined for eleven consecutive quarters, further reinforcing the tightening trend; however, beneath the improving headline data, structural challenges persist

Summary

As continually reiterated and despite the more positive office headlines, demand remains heavily skewed toward trophy assets (which is approximately 7% of total stock), while lower-quality buildings continue to face elevated vacancy and limited leasing velocity. Canada's aging demographics imply slower growth in office-using employment, artificial intelligence (AI) should lower space-per-worker needs and capital expenditures for older stock is rising. Our stance remains a structural underweight, focusing only on scarce, energy-efficient, transit-served trophy assets.

Canadian Economic & Real Estate Outlook⁹

- > Looking ahead, Fiera Capital assigns a 55% base-case probability to a “Stagflation” scenario, marked by elevated, but stabilizing inflation
- > In this scenario, broad-based tariff implementation pushes effective rates to near century-high levels, weighing on global growth while simultaneously increasing input costs across the system
- > The added overlay of geopolitical tensions, particularly in energy markets, introduces further upside risk to inflation through supply-side pressures
- > This backdrop creates a more cautious environment in the near term, as households and businesses pull back on spending, investment and hiring
- > However, it also accelerates longer-term structural shifts, including supply chain diversification, reshoring and increased domestic investment
- > Within this environment, real assets with stable income profiles and embedded pricing power, particularly institutional-quality real estate, are well positioned to outperform
- > To this point, Canada’s commercial real estate volumes re-accelerated into year-end, with Q4 2025 volumes rising to \$13.5 billion (+25.1% Q/Q) as transaction activity improved
- > Annual volumes reached \$47.0 billion (+6.3% Y/Y), the first yearly sequential increase since 2022
- > Deal flow strengthened alongside, with transactions up 16.5% Q/Q, pointing to broader market participation¹⁰
- > Fiera Real Estate’s proprietary Quadrant Model continues to indicate that there are early cycle tailwinds for the Canadian real estate market, characterized by improving liquidity and growth metrics
- > 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 further into 2026
- > 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, fourth quarter 2025 – Statistics Canada – Released: 2026-02-27
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- 3 Consumer Price Index, March 2026 – Statistics Canada – Released: 2026-04-20
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- 4 Bank of Canada announces restart of Government of Canada treasury bill purchases – November 13, 2025
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- 5 Canada Industrial Figures – CBRE – Q1 2026
<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 H2 – CBRE – H2 2025
<https://www.cbre-ea.com/data/iprojects>
- 8 Canada Office Figures – CBRE – Q1 2026
<https://www.cbre-ea.com/data/iprojects>
- 9 Fiera Capital Global Asset Allocation – Fiera Capital Corporation – April 2026 – Internal Document
- 10 Canada Investment Overview – CBRE – Q4 2025
<https://www.cbre-ea.com/data/iprojects>

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