Canadian Real Estate
Market Update

Q2 2026

FIERA REAL ESTATE

Canadian Economic Summary

Economic Growth Trends[1]

- Canada's economy continues to work through the delayed effects of one of the most aggressive tightening cycles in decades, although the pace of weakness appears to be stabilizing
- Real GDP was essentially unchanged in Q1 2026 (-0.1% annualized), following a -0.6% annualized contraction in Q4 2025
- While two consecutive quarters of negative annualized growth technically place the economy in a recession, the underlying composition of growth remains resilient rather than broadly contractionary
- Household spending remained a key source of support, rising 0.4% for a second consecutive quarter, while business inventories rebounded following sharp drawdowns in late 2025
- Higher oil prices supported corporate earnings and improved Canada's terms of trade, while per capita GDP returned to growth as population growth continued to moderate
- Overall, the economy appears to be transitioning from broad deceleration toward a period of subdued but stable growth, with resilient consumer spending continuing to offset weakness in capital investment

Employment Trends[2]

- Canada's labour market appears to be stabilizing following a period of gradual cooling
- Employment increased by 18,000 (+0.1%) in June, marking a second consecutive monthly gain
- Resultingly, the unemployment rate declined to 6.5%, down from 6.7% in March
- Labour market conditions continue to normalize through slower hiring rather than widespread layoffs, with layoff activity remaining subdued
- At the same time, labour force participation held steady at 65.0%
- Average hourly wage growth moderated to 3.3% year over year (Y/Y), a pace more consistent with the Bank of Canada's (BOC) inflation objective while continuing to support household incomes and consumer spending
- Overall, labour market conditions remain consistent with an economy transitioning toward a period of muted but positive growth

All figures are in Canadian dollars unless specified otherwise.

Inflation Trends[3]

- Inflation moderated in June, with headline Consumer Price Index (CPI) easing to 2.8% Y/Y from 3.2% in May, as gasoline prices retreated following an easing in geopolitical tensions and a decline in global oil prices
- Excluding gasoline, inflation remained unchanged at 2.2%, reinforcing the view that underlying price pressures remain relatively well contained
- Food inflation also eased modestly to 3.9% Y/Y, although grocery prices continued to outpace headline inflation for a seventeenth consecutive month, highlighting ongoing pockets of stickiness in essential consumer goods
- Meanwhile, softer vehicle price inflation and a monthly decline in the CPI suggest broader inflationary pressures continue to moderate, even as travel-related services experienced a temporary boost from elevated domestic tourism and the FIFA World Cup

Monetary Policy Responses[4]

- With inflation expectations remaining reasonably well anchored, central banks are likely to tolerate moderately higher inflation rather than risk overtightening and unnecessarily weakening economic activity
- Against this backdrop, the BOC has held the policy rate 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

Real Estate Market Trends

Industrial[5]

- Canada's industrial market continues to move through a cyclical inflection point, with fundamentals becoming increasingly supportive
- In Q2 2026, national availability declined by 0.1% to 5.5%, marking the first quarterly decline since Q3 2022, while positive net absorption extended into a third consecutive quarter
- Stabilization is becoming more broad-based, with nine of eleven major markets reporting flat or declining availability rates
- Supply remains disciplined, with new deliveries at their lowest level since 2017 and the development pipeline at just 1.2% of existing inventory
- Asking rents continued to normalize, declining 3.9% Y/Y to $14.78 per square foot, although the pace of decline has moderated

Summary

Overall, fundamentals are no longer deteriorating, with availability appearing to have peaked, positioning the sector for a cyclical recovery as market confidence and transaction activity continue to improve. The structural themes we highlighted over the last several quarters – resilient demand tied to e-commerce, nearshoring and supply-chain upgrades – are playing out in the data.

Multi-Residential[6]

- Canada's multi-residential market remains in a cyclical easing phase, although the long-term outlook continues to be constructive
- National purpose-built vacancy increased to 3.1% in 2025 from 2.2% in 2024 as record completions and slower household formation eased supply pressures
- Average two-bedroom rents increased 5.1%, with affordability pressures influencing household behaviour
- Softer leasing conditions, particularly in Toronto and Vancouver, have resulted in greater use of leasing incentives and increased competition from rental condominiums

Summary

Despite near-term easing, the long-term investment case remains intact, supported by structural housing undersupply, persistent affordability challenges and continued CMHC and government incentive support for purpose-built rental development. As rental affordability improves, population growth normalizes and the current supply wave is absorbed, market fundamentals are expected to strengthen into late 2026 and 2027.

Retail[7]

- Canada's retail market remains resilient, although signs of softening are beginning to emerge
- National vacancy increased to 7.5% in 2025 from 5.2% in 2024 as leasing demand moderated alongside consumer spending
- Grocery-anchored, pharmacy and value-oriented centres continue to outperform, supported by stable demand, consistent traffic and ongoing rental growth
- Discretionary retail formats, including enclosed malls, continue to face a more challenging operating environment
- Elevated living costs, slower employment growth, and renewed inflation pressures are expected to weigh on consumer spending as 2026 progresses

Summary

Overall, limited new supply and continued investor preference for neighbourhood and community centres with defensive tenant mixes continue to support stable fundamentals. Retail remains a neutral sector, with resilient needs-based demand and constrained supply underpinning steady market conditions. Fiera expects that this sector will produce inflation-like income growth and diversification benefits for real estate investors.

Office[8]

- Canada's office market continues to gradually stabilize, with national vacancy declining to 17.1% in Q2 2026, following a fourth consecutive quarter of positive net absorption, the strongest sustained leasing momentum in more than six years
- Recovery continues to be led by downtown markets, supported by improving return-to-office (RTO) trends and an ongoing flight-to-quality, particularly among trophy and Class 'A' assets
- Supply-side conditions continue to improve, with the development pipeline falling to just 1.2 million square feet (0.2% of inventory), a two-decade low, while office conversions and demolitions continue to remove obsolete space from the market
- Sublease availability has declined for 12 consecutive quarters, reinforcing the gradual tightening underway

Summary

Structural headwinds remain despite the cyclical recovery. Leasing demand continues to be concentrated in best-in-class buildings, while lower-quality assets face elevated vacancy, increasing capital expenditure requirements and growing functional obsolescence. Looking ahead, aging demographics, slower growth in office-using employment and continued productivity gains from artificial intelligence (AI) are expected to constrain long-term space demand. As a result, Fiera remains selectively constructive, favouring scarce, energy-efficient, transit-oriented trophy assets while maintaining a structural underweight to commodity office product.

Canadian Economic & Real Estate Outlook[9]

> Looking ahead, Fiera Capital has shifted its base-case outlook from "Stagflation" to "Sustained Inflation," assigning a 45% probability

> This environment is characterized by resilient economic growth alongside inflation that remains persistently above central bank targets

> While geopolitical tensions have eased, structural drivers including AI-related investment, supply-side constraints and elevated fiscal deficits are expected to keep inflation and interest rates structurally higher than experienced over the past decade

> The outcome of the CUSMA renegotiation, or prolonged uncertainty should negotiations remain unresolved, remains an important macro risk, influencing business confidence, capital allocation and the pace of economic growth

> At the same time, longer-term structural themes, including supply chain diversification, reshoring, domestic manufacturing and digital infrastructure investment continue to support investment activity

> Against this backdrop, institutional-quality real estate remains well positioned, offering durable income, embedded pricing power and attractive diversification benefits in an environment of resilient nominal growth

> As a result, Canada's commercial real estate investment market continues its gradual recovery, with Q1 2026 transaction volumes reaching $11.6 billion (+2.6% Y/Y) despite a seasonal 20.0% quarter-over-quarter (Q/Q) decline[10]

> Multi-residential remained the largest investment sector, while industrial was the only major asset class to record Q/Q growth

> Office investment also continued to recover, posting its second-strongest quarter since Q3 2023

> Fiera Real Estate's proprietary Quadrant, Predictive Composite and Target Markets Models continue to indicate favourable cycle conditions, supported by improving liquidity, strengthening investment activity and a market that appears to have moved beyond its cyclical trough

> Institutional investment activity reinforces this view having reached its strongest level in more than three years, signaling improving confidence, stabilizing valuations and broader market participation

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Endnotes

1 Gross domestic product, income and expenditure, first quarter 2026 - Statistics Canada – Released: 2026-05-29 – https://www150.statcan.gc.ca/n1/daily-quotidien/260529/dq260529a-eng.htm?HPA=1&indid=3278-1&indgeo=0

2 Labour Force Survey, June 2026 - Statistics Canada – Released: 2026-07-10 – https://www150.statcan.gc.ca/n1/daily-quotidien/260710/dq260710a-eng.htm?HPA=1&indid=3587-2&indgeo=0

3 Consumer Price Index, June 2026 - Statistics Canada – Released: 2026-07-20 – https://www150.statcan.gc.ca/n1/daily-quotidien/260720/dq260720a-eng.htm?HPA=1&indid=3665-1&indgeo=0

4 Bank of Canada announces restart of Government of Canada treasury bill purchases – November 13, 2025 – https://www.bankofcanada.ca/2025/11/bank-canada-announces-restart-government-canada-treasury-bill-purchases/

5 Canada Industrial Figures - CBRE – Q2 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 – Q2 2026 – https://www.cbre-ea.com/data/iprojects

9 Fiera Capital Global Asset Allocation - Fiera Capital Corporation – July 2026 – Internal Document

10 Canada Investment Overview - CBRE – Q1 2026 – https://www.cbre-ea.com/data/iprojects

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