Canadian Real Estate
Market Update

Q3 2026

FIERA REAL ESTATE

Canadian Economic Summary

Economic Growth Trends[1]

- Canada's economy continues to demonstrate resilience despite elevated interest rates, persistent inflationary pressures and ongoing trade uncertainty.
- Real GDP increased 3.3% annualized in Q2 2026, accelerating from 0.3% growth in Q1 and marking the strongest annualized expansion since Q3 2024.
- Quarterly growth was supported by a 3.6% increase in exports, the fastest pace since Q1 2023, alongside gains in household spending (+0.8%), residential investment (+2.5%) and business capital investment.
- Business investment remained particularly strong in technology-related infrastructure, with spending on computers and peripherals increasing 16.7%, reflecting ongoing investment in data centres and artificial intelligence.
- Real GDP per capita increased 1.0%, while corporate profits rose 9.6%, the strongest increase since 2021, supported largely by higher energy prices.
- Overall, the Canadian economy appears to be transitioning from stagnation toward a period of modest but increasingly broad-based growth.

Employment Trends[2]

- Canada's labour market continues to normalize, although signs of softness have become more evident.
- Employment declined by 68,000 positions in September, following a decline of 42,000 in August, reversing part of the gains recorded between April and July.
- The unemployment rate increased modestly to 6.5%, while employment remains 95,000 jobs higher than one year ago.
- Labour market softness continues to be characterized principally by weaker hiring rather than widespread layoffs, with the layoff rate remaining low at 0.7%.
- Average hourly wages increased 2.3% year over year (Y/Y), up slightly from 2.0% in August, continuing to support household incomes while limiting inflationary pressure.
- Overall, labour market conditions remain more consistent with a gradual normalization than a significant deterioration in economic activity.

All figures are in Canadian dollars unless specified otherwise.

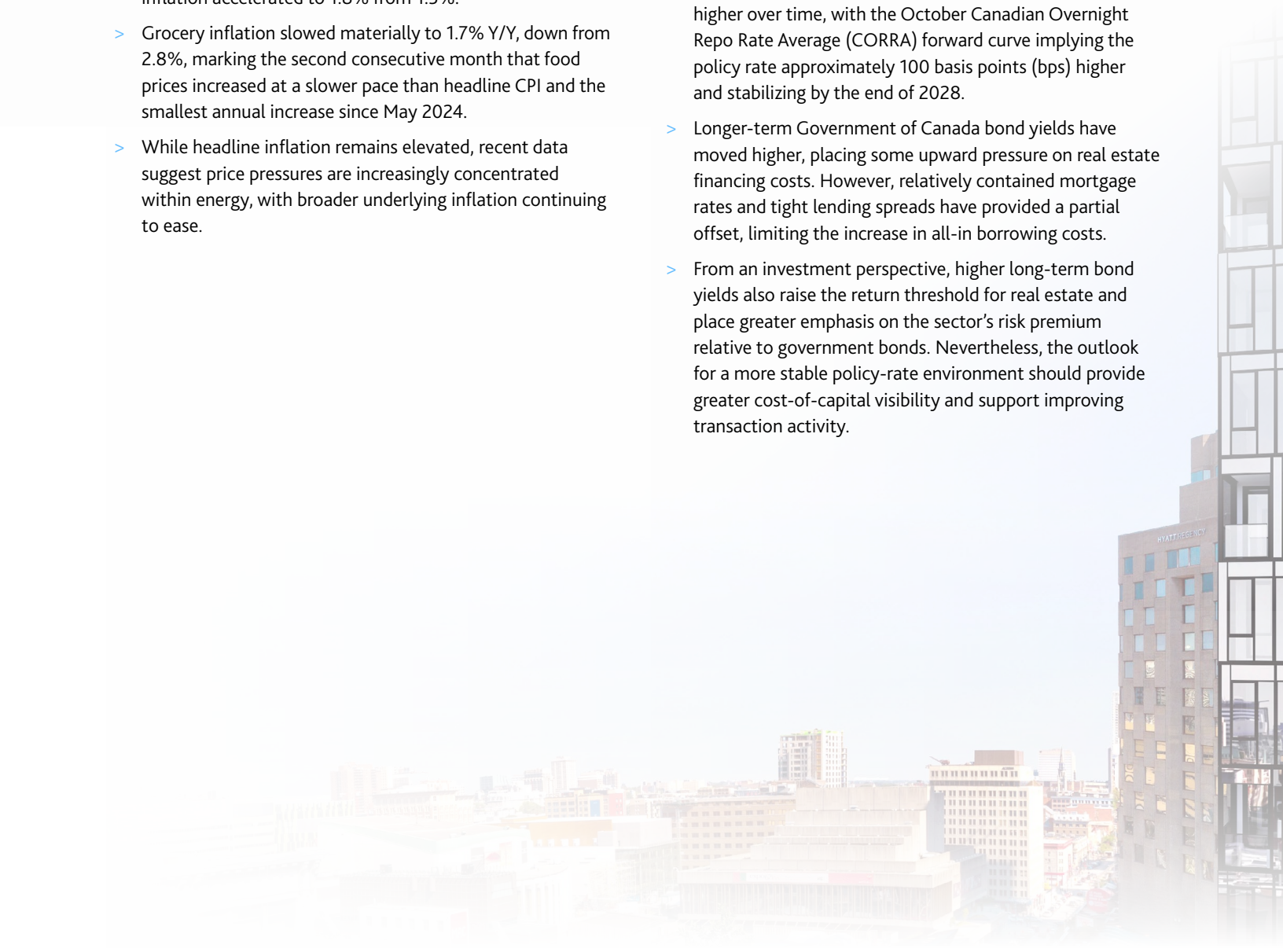
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Inflation Trends[3]

- Inflation remains above the Bank of Canada's (BOC) target, although underlying price pressures continue to moderate.
- Headline Consumer Price Index (CPI) increased 3.1% Y/Y in September, up modestly from 3.0% in August, while CPI excluding gasoline eased to 2.2% from 2.4%.
- Gasoline prices accelerated sharply, increasing 27.8% Y/Y, up from 22.8%, reflecting higher crude oil prices and ongoing geopolitical uncertainty.
- Rent inflation remained at 2.8% Y/Y, while overall shelter inflation accelerated to 1.8% from 1.5%.
- Grocery inflation slowed materially to 1.7% Y/Y, down from 2.8%, marking the second consecutive month that food prices increased at a slower pace than headline CPI and the smallest annual increase since May 2024.
- While headline inflation remains elevated, recent data suggest price pressures are increasingly concentrated within energy, with broader underlying inflation continuing to ease.

Monetary Policy Responses[4]

- Despite persistent inflation pressures, the expected monetary policy response remains relatively muted, as anchored inflation expectations and softer labour market conditions reduce the need for aggressive near-term tightening.
- Structural forces including fiscal spending, infrastructure and energy investment, AI-related capital spending and geopolitical uncertainty continue to support a higher-for-longer inflation and interest-rate backdrop.
- Market pricing nevertheless points to some normalization higher over time, with the October Canadian Overnight Repo Rate Average (CORRA) forward curve implying the policy rate approximately 100 basis points (bps) higher and stabilizing by the end of 2028.
- Longer-term Government of Canada bond yields have moved higher, placing some upward pressure on real estate financing costs. However, relatively contained mortgage rates and tight lending spreads have provided a partial offset, limiting the increase in all-in borrowing costs.
- From an investment perspective, higher long-term bond yields also raise the return threshold for real estate and place greater emphasis on the sector's risk premium relative to government bonds. Nevertheless, the outlook for a more stable policy-rate environment should provide greater cost-of-capital visibility and support improving transaction activity.



Real Estate Market Trends

Industrial[5]

- Canada's industrial market moved more firmly into a cyclical recovery during Q3 2026, with fundamentals improving across most major markets.
- National availability declined to 5.2% from 5.5%, representing the largest quarterly decline in five years.
- Net absorption increased to 10.3 million square feet (sf), the strongest quarterly result since Q4 2022 and nearly four times the trailing three-year average.
- Leasing activity was broad based, led by Calgary (+3.8 million sf), Toronto (+2.0 million sf), Montreal (+1.8 million sf) and Vancouver (+1.1 million sf).
- Supply remains disciplined, with the construction pipeline holding at 25.4 million sf, equivalent to just 1.2% of existing inventory.
- Sublease availability declined by 1.1 million sf, marking its first meaningful reduction in more than five years.
- Asking rents declined 2.4% Y/Y to $14.77 per sf, although quarterly rent growth turned positive in several markets, particularly in Alberta.

Summary

Overall, availability appears to have peaked, leasing momentum is strengthening and rental conditions are stabilizing. Importantly, most Canadian industrial markets are now reporting lower availability than a year ago for the first time since 2022. With demand increasingly absorbing existing vacant space and the development pipeline remaining disciplined, the sector is well positioned for renewed rental growth and further market tightening through 2027.

Multi-Residential[6]

- Canada's multi-residential market remains in a cyclical easing phase as slower population growth, softer employment conditions and elevated completions reduce near-term pressure on rental markets.
- National purpose-built vacancy increased to 3.1% in 2025 from 2.2% in 2024.
- Average two-bedroom rents nevertheless increased 5.1% to approximately $1,550 per month.
- Leasing conditions have softened most noticeably in Toronto and Vancouver, where landlords face greater competition from rental condominium supply and are increasingly offering incentives.
- Structural housing undersupply remains, while homeownership continues to be out of reach for many households.
- Declining housing starts are expected to constrain the future supply pipeline.

Summary

Despite near-term easing, the long-term investment case remains intact. Structural housing shortages, affordability constraints and continued demand for purpose-built rental housing remain supportive. As population growth stabilizes and the current completion wave is absorbed, multi-residential fundamentals are expected to strengthen into 2027 and beyond.



Retail[7]

- Canada's retail market continues to demonstrate resilience, although signs of softening remain evident.
- National retail vacancy increased to 7.4% in H1 2026, up 1.9% Y/Y, as leasing demand moderated alongside slower population growth and softer consumer conditions.
- The pace of deterioration appears to be slowing however, suggesting that conditions may be stabilizing rather than entering a period of more meaningful weakness.
- Grocery-anchored, pharmacy and value-oriented centres continue to outperform, supported by needs-based spending and defensive tenant demand.
- Weaker performance remains concentrated in discretionary categories that are more exposed to household budget pressures.
- Limited development activity continues to provide support to occupancy fundamentals.

Summary

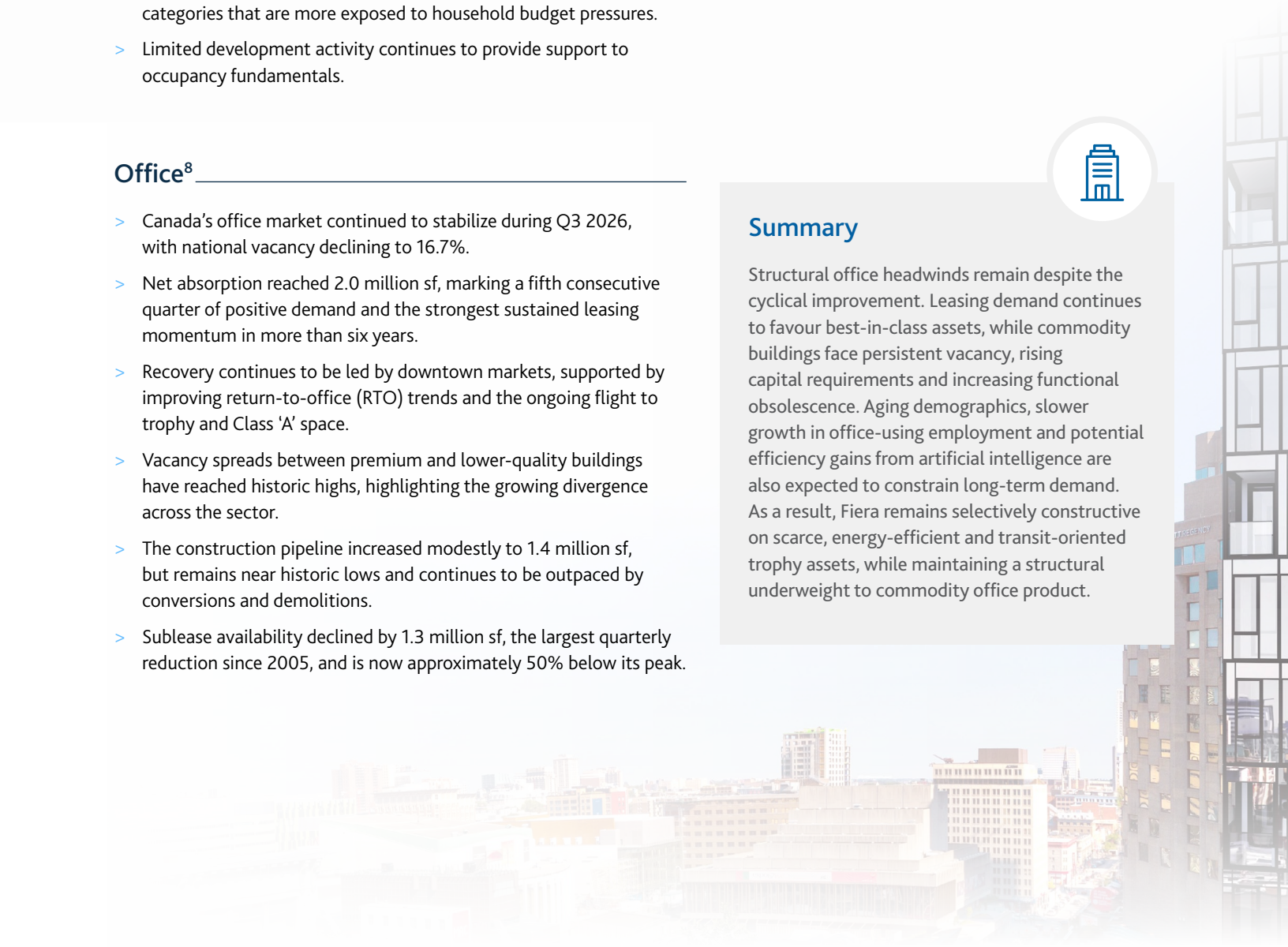
Overall, investor demand remains focused on neighbourhood and community centres with defensive tenant mixes and stable cash flows. Retail remains a neutral, income-oriented sector, with necessity-based demand and constrained new supply expected to support steady fundamentals and inflation-like income growth.

Office[8]

- Canada's office market continued to stabilize during Q3 2026, with national vacancy declining to 16.7%.
- Net absorption reached 2.0 million sf, marking a fifth consecutive quarter of positive demand and 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 the ongoing flight to trophy and Class 'A' space.
- Vacancy spreads between premium and lower-quality buildings have reached historic highs, highlighting the growing divergence across the sector.
- The construction pipeline increased modestly to 1.4 million sf, but remains near historic lows and continues to be outpaced by conversions and demolitions.
- Sublease availability declined by 1.3 million sf, the largest quarterly reduction since 2005, and is now approximately 50% below its peak.

Summary

Structural office headwinds remain despite the cyclical improvement. Leasing demand continues to favour best-in-class assets, while commodity buildings face persistent vacancy, rising capital requirements and increasing functional obsolescence. Aging demographics, slower growth in office-using employment and potential efficiency gains from artificial intelligence are also expected to constrain long-term demand. As a result, Fiera remains selectively constructive on scarce, energy-efficient and transit-oriented trophy assets, while maintaining a structural underweight to commodity office product.



Canadian Economic & Real Estate Outlook[9]

- Fiera Capital continues to assign its highest probability, 45%, to a "Sustained Inflation" environment characterized by resilient growth and inflation remaining above central bank targets.
- This compares with estimated probabilities of 30% for "Stagflation", 15% for "Recession" and 10% for "Productivity Boom" environments.
- Structural drivers including AI-related investment, elevated fiscal spending, infrastructure development, energy investment and geopolitical uncertainty continue to support a higher-for-longer inflation backdrop.
- With inflation expectations remaining relatively well anchored, central banks are likely to tolerate moderately elevated inflation rather than risk overtightening and unnecessarily weakening economic activity.
- Institutional-quality real estate remains well positioned in this environment, supported by durable occupier demand, constrained supply pipelines and the ability to deliver stable income growth.
- On the activity front, Canada's commercial real estate investment market accelerated in Q2 2026, with transaction volumes reaching $16.2 billion, the highest quarterly total since early 2022.[10]
- Volumes increased 29.6% quarter over quarter (Q/Q) and 51.6% Y/Y, while transaction activity reached 2,146 deals.
- Multi-residential led investment activity at $6.5 billion, followed by industrial at $4.2 billion, retail at $2.1 billion and office at $1.5 billion.
- Foreign investors represented 43.9% of acquisitions, while cross-border investment reached $4.3 billion, bringing first-half inflows to $5.1 billion.
- Improving liquidity, stabilizing fundamentals and renewed domestic and foreign capital activity reinforce the view that Canadian commercial real estate has moved beyond its cyclical trough and into its stages of expansion.

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Endnotes

1 Gross domestic product, income and expenditure, second quarter 2026 - Statistics Canada – Released: 2026-08-28 – https://www150.statcan.gc.ca/n1/daily-quotidien/260828/dq260828a-eng.htm?HPA=1&indid=3278-1&indgeo=0

2 Labour Force Survey, September 2026 - Statistics Canada – Released: 2026-10-09 – https://www150.statcan.gc.ca/n1/daily-quotidien/261009/dq261009a-eng.htm

3 Consumer Price Index, September 2026 - Statistics Canada – Released: 2026-10-19 – https://www150.statcan.gc.ca/n1/daily-quotidien/261019/dq261019a-eng.htm?HPA=1&indid=3665-1&indgeo=0

4 CORRA Forward Curve - Chatham Financial – Accessed: October 13, 2026 – https://cf.com/rates/canada/corra/forward-curves

5 Canada Industrial Figures - CBRE – Q3 2026 – https://www.cbre-ea.com/data/iprojects

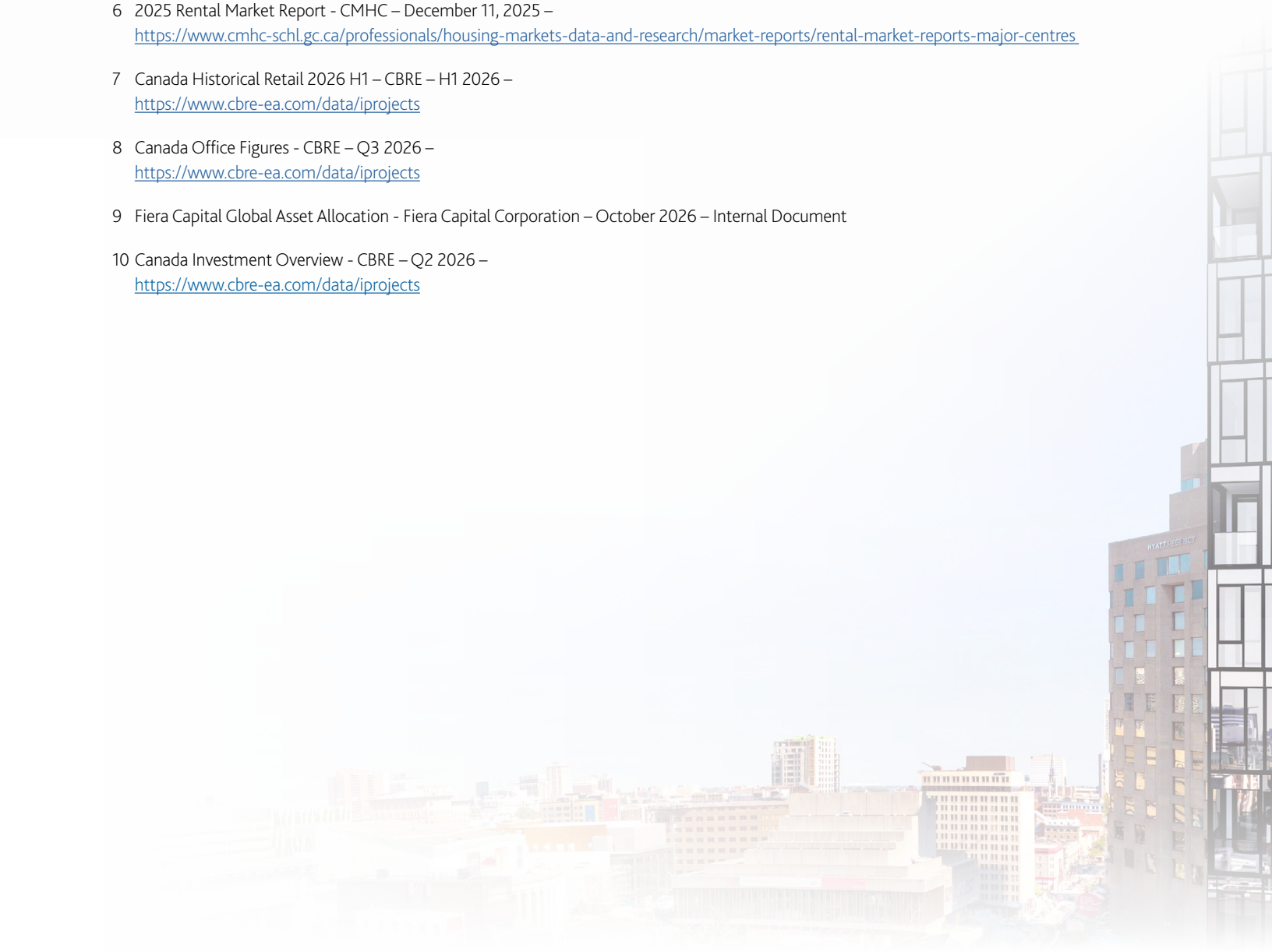
6 2025 Rental Market Report - CMHC – December 11, 2025 – https://www.cmhc-schl.gc.ca/professionals/housing-markets-data-and-research/market-reports/rental-market-reports-major-centres

7 Canada Historical Retail 2026 H1 – CBRE – H1 2026 – https://www.cbre-ea.com/data/iprojects

8 Canada Office Figures - CBRE – Q3 2026 – https://www.cbre-ea.com/data/iprojects

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

10 Canada Investment Overview - CBRE – Q2 2026 – https://www.cbre-ea.com/data/iprojects



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