Canadian Real Estate
Market Update

Q2 2025

FIERA REAL ESTATE

Canadian Economic Summary

Economic Growth Trends[1]

- Canada's economy expanded by 2.2% annualized in Q1 2025, exceeding expectations and the prior quarter's growth
- Growth was driven by a surge in exports and inventory accumulation as businesses front-loaded shipments ahead of anticipated U.S. tariffs
- Key export gains were realized in passenger vehicles (+16.7%) and industrial machinery (+12.0%); imports also rose in these categories as firms secured supply early
- Household consumption remained steady despite high interest rates, rising 0.1% per capita, while final domestic demand was flat after a year of gains
- Consumers are showing resilience, supported by wage growth strength in healthcare, construction and, in particular, Western Canadian provinces
- Housing investment fell 2.8%, led by a sharp pullback in resale activity
- The household saving rate dipped to 5.7%, still above pre-pandemic levels, as spending modestly outpaced income growth
- While domestic momentum cooled, strong external demand and stable consumption highlight an economy quietly recovering despite global uncertainty

Employment Trends[2]

- Employment rebounded in June with a net gain of 83,000 jobs, the first monthly increase since January
- Gains were concentrated in part-time roles, with strength in retail and healthcare offsetting weakness in agriculture
- The national unemployment rate edged down to 6.9%, representing -0.1% month over month (M/M)
- Alberta and Quebec led regional job growth, while Newfoundland and Labrador and Nova Scotia saw declines
- Long-term unemployment continued to rise, and student joblessness hit its highest level since 2009
- Despite uneven gains, labour market resilience appears to be gradually returning

All figures are in Canadian dollars unless specified otherwise.

Inflation Trends[3]

- Headline inflation ticked up to 1.9% in June from 1.7% in May, but remains below the Bank of Canada's (BOC) 2.0% target
- The increase was driven by a smaller decline in gasoline prices and firmer goods inflation (notably in vehicles and furniture)
- Grocery inflation eased to 2.8%, the lowest since 2021, due to falling produce costs
- Core inflation (CPI ex-energy) held steady at 2.7%, indicating underlying stability
- Overall, inflation pressures remain contained, supporting a patient monetary policy stance from the BOC

Monetary Policy Responses[4]

- Amid the focus on interest rate policy, one of the most overlooked, yet highly favourable developments is the continuation of the BOC's 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
- Together, these operations represent a tailwind for future real estate valuations: on net, they inject liquidity into the system, offsetting the drain from quantitative tightening
- That capital is increasingly flowing into private real estate, supporting asset values and improving the broader liquidity backdrop
- However, with additional tariff-related pressures expected in the coming months, the BOC is likely to maintain a cautious approach to interest rate cuts over the next few meetings

Real Estate Market Trends

Industrial[5]

- Net absorption turned negative (-1.4 million square feet [sf]) for only the second time in five years as trade-related uncertainty weighed on demand
- Calgary and Vancouver were the only major markets with positive net absorption, supported by pre-leased supply
- 3.7 million sf of new space was pre-leased, but 5.1 million sf of existing inventory returned to the market, lifting availability to 5.3% (slightly above the post-2000 average of 4.8%)
- Construction remained steady and very limited at only 1.1% of inventory
- Pre-leasing volumes improved modestly, indicating sustained tenant interest in quality, well-located space
- National rents declined 3.2% year over year (Y/Y) to $15.37 per sf, driven by weakness in Toronto, Vancouver and Montreal; despite the dip, rental rates remain well above pre-pandemic levels
- Secondary markets outperformed, with tighter vacancies and more stable rent growth

Summary

Despite near-term headwinds, the sector's structural story is unchanged. Developers are showing greater discipline, and tenant demand for high-quality, well-located logistics space remains intact. In a more cautious macro environment, the industrial sector continues to offer compelling long-term fundamentals, anchored by durable demand, limited overbuilding and strong income resiliency and growth potential, as Canada's growth cycle accelerates later in 2025.

Multi-Residential[6]

- The national multi-residential vacancy rate rose to 2.2% (from 1.5% Y/Y), with luxury units in Toronto and Vancouver seeing double-digit vacancy – although the overall market remains tighter than its long-run average
- Advertised rents declined between 2 and 8% Y/Y in several markets, while turnover rents climbed up to 23.5%, widening the affordability gap
- 88% of 2024 rental starts were CMHC-backed, driving elevated completions and increasing supply
- Slower permanent resident inflows and elevated youth unemployment are weighing on leasing velocity
- Rent-to-income ratios rose to 13.9% nationally, up from 12.1% in 2020, reinforcing persistent affordability pressures, as the recent uptick in supply has yet to bring rents down meaningfully
- In Toronto, rent gaps between vacant and occupied units exceed 40%, constraining tenant mobility

Summary

Looking forward, rising vacancy and cooling demand may moderate near-term rent growth, but with renters now outnumbering owners in cities like Vancouver, the long-term fundamentals for rental housing remain strong, particularly for income-aligned, professionally managed assets. A resumption in rental growth is expected as Canada's growth rate begins to pick up later this year.

Retail[7]

- Retail entered 2025 with a stable 5.2% national vacancy rate, holding firm through mid-year
- Leasing demand softened modestly, especially in enclosed malls and urban street fronts
- Discretionary segments are under pressure from high interest rates
- Store closures are now slightly outpacing openings; legacy retailer Hudson's Bay exited the Canadian market this quarter
- Grocery-anchored and service-oriented centres remain resilient, supported by stable foot traffic and population growth
- Leasing activity continues to be driven by grocery, pharmacy, home hardware and experiential service retail in transit-connected nodes

Summary

With only 7 million sf under construction[8] representing 2.0% of existing inventory and mostly in mixed-use redevelopments, limited new supply is reinforcing landlord-favourable conditions in key submarkets, especially for well-located, necessity-based assets aligned with shifting consumer behaviour.

Office[9]

- Canada's national office vacancy rate held steady at 18.7% for the fourth consecutive quarter, indicating a cyclical plateau
- Net absorption was slightly down at negative 157,000 sf, reinforcing range-bound fundamentals over the past 18 months
- Trophy and Class 'A' assets continue to outperform, with improving vacancy and rents at $26.34 per sf (+4.0% Y/Y)
- Tenant demand remains concentrated in high-quality downtown assets; leasing gains have been led by Montreal and Edmonton
- Large block vacancies in Calgary, Toronto and Vancouver offset regional gains, keeping national metrics flat
- Sublease inventory is down 26% from peak, driven by expirations and space withdrawals rather than new demand
- Construction pipeline remains thin at just 2.8 million sf (0.6% of stock), with no new starts in the past year

Summary

While structural headwinds persist, particularly for lower-tier assets, the market continues to recalibrate gradually, supported by flight-to-quality demand. As continually reiterated, without a meaningful acceleration in structural demand dynamics, the broad sector is likely to face prolonged weakness until at least 2027, given its excess vacancy slack.

Canadian Economic & Real Estate Outlook[10]

- Fiera Capital expects a 60% base-case probability of a “Trade Resolution” scenario within 12-18 months, where select tariffs ease and trade tensions subside—reducing inflation pressure but not eliminating it (inflation is likely to remain above pre-2020 rates)
- Resultingly, interest rate cuts are likely to continue at a measured pace, helping reignite economic momentum
- Liquidity conditions are materially improving, reflected in increased demand for real estate lending, as evidenced by record tight mortgage spreads quoted by commercial banks
- Real estate continues to offer inflation resilience and income stability, drawing increased foreign capital interest amid a more fragmented global investment environment
- Industrial, multi-residential and grocery-anchored retail are attracting the most capital, with investor focus shifting toward defensive, yield-oriented sectors
- Momentum is gradually building into mid-year as investors pivot from price discovery to selective re-entry into core Canadian markets[11]
- Looking ahead, Canada’s commercial real estate market is quietly recovering, underpinned by easing financial conditions, stabilizing inflation and improving capital deployment
- Strategic capital deployment is critical; performance will increasingly hinge on specialized managers with macro insight, data-driven models and asset-specific expertise

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Endnotes

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