Intelligent Investment

2025 Canada Real Estate Market Outlook

REPORT

CBRE RESEARCH
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The Next Chapter

Canada finds itself at an inflection point on many fronts – politically, economically, and on social issues such as housing affordability and congestion. In spite of these very real challenges, Canada remains a growth play. The country ranks among the top G7 nations in GDP, population and employment growth over the next five years, all of which are highly correlated with demand for all types of commercial real estate.

2025 is poised to be a year of increased activity. The cost of capital crisis will finally begin to ease and, contingent on global bond market conditions, investment and leasing activity will increase in the year ahead. Leasing fundamentals are improving on the whole, though Canada has seen significant amounts of new supply in the office, industrial and residential sectors which will take time to work through.

CBRE Research stands ready to help clients succeed in 2025. Please contact us at any time.

Marc Meehan
Managing Director, Research

Executive Summary

- **Economy** - Despite modestly lower economic growth forecasts as a result of immigration curbs, Canada's longer term outlook remains solid compared to the G7 and favourable for commercial real estate demand.
- **Capital Markets** - Sentiment has been improving and stronger investment activity is expected in 2025 as more capital is drawn off the sidelines. Cap rates for some asset classes are likely to start modestly compressing, but subject to global bond market conditions.
- **Debt Markets** - Debt availability is expected to improve, however, lenders will remain selective and nuanced. Credit spread dynamics should begin to normalize and loan underwriting will echo broader market trends with respect to rents and vacancy rates.
- **Office** - Occupiers will shift back into a growth mindset, paving the way toward recovery. Further bifurcation of product with a focus on 'flight-to-experience' and a slowdown in new supply will lead to an under-supply of modern, amenitized and environmentally sustainable buildings.
- **Retail** - Positive leasing intentions combined with a supply-constrained retail landscape will force retailers to consider expanding into secondary markets and modifying the scale and format of their typical store.
- **Industrial** - The industrial sector is facing headwinds amid softer demand and an influx of new supply. The market will continue to work towards normalization, which could come sooner than some expect.
- **Multifamily** - Immigration curbs and new supply deliveries have heightened near-term uncertainties. Long term growth fundamentals, however, remain solid and present a compelling investment thesis.

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01

Economy

Despite modestly lower economic growth forecasts as a result of immigration curbs, the longer term outlook remains solid compared to the G7 and favourable for Canadian commercial real estate demand over the long term.

Trends to Watch

01

Economic growth in Canada is expected to be lower, albeit only modestly, for the next few years as a result of the recently announced immigration curbs.

02

Interest rates are set to continue falling in 2025 as the Bank of Canada looks to bring its policy rate back into the neutral range.

03

For the next five-year period, Canada's growth metrics are forecast to remain strong relative to the G7 which will be favourable for long term commercial real estate demand.

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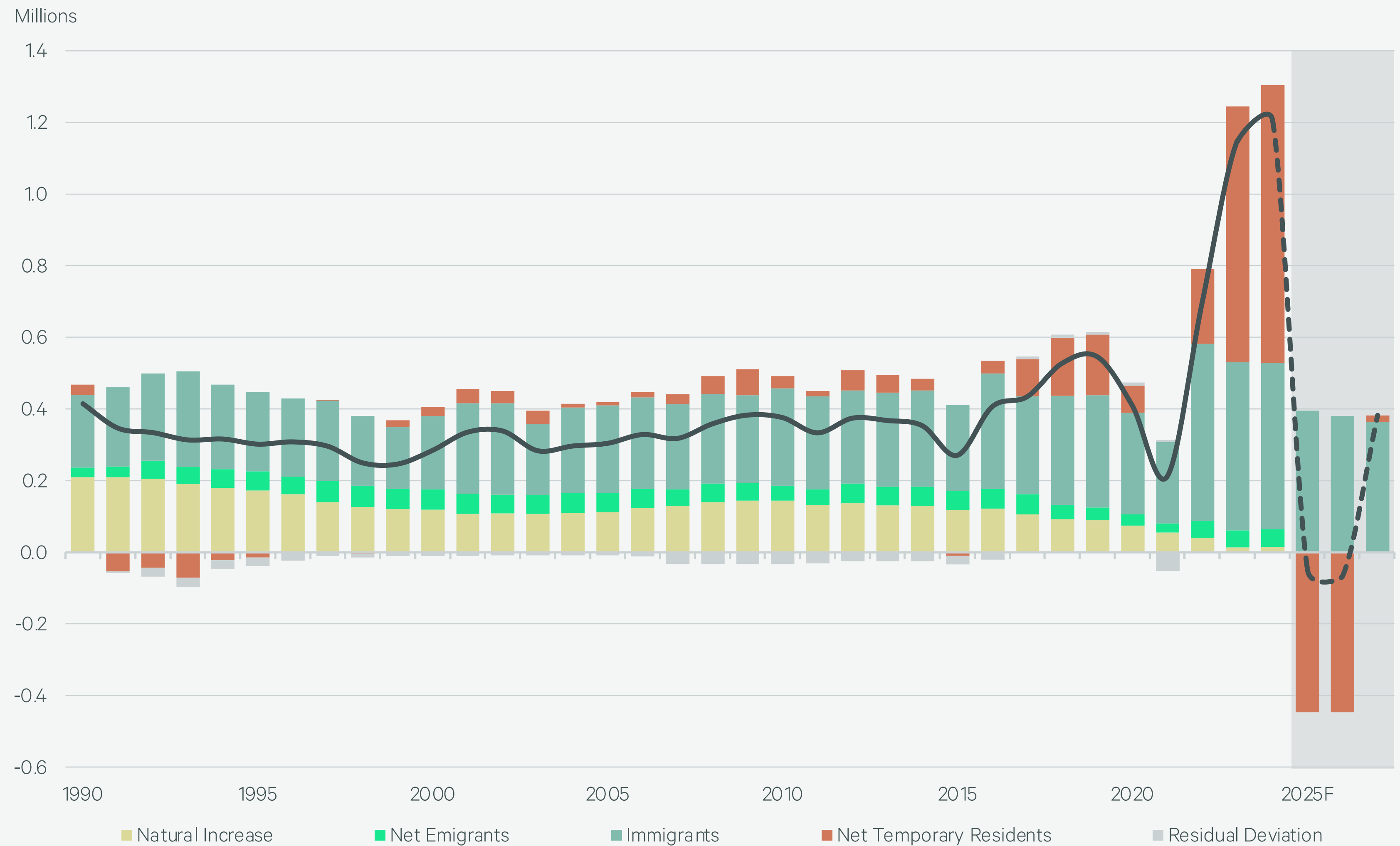
Immigration curbs to modestly cut Canada's economic outlook

Following two years in a row of record high levels of population growth, the Canadian government has announced new measures aimed at slowing the number of new entrants over the next couple of years. The changes planned are mainly two-fold involving material reductions to the temporary and permanent resident programs.

Temporary residents have been a significant driver of Canada's outsized population growth over the last two years, surging by nearly 1.5 million people over 2023 and 2024. In response, the federal government has established targets for the first time to lower the share of temporary residents to 5.0% of the population from its current level of 7.3% within a couple of years. For permanent residents, the government has reduced its acceptance targets from 500,000 annually down by over 20% across all its intake streams for the next two years.

The net effect of these policy changes, if fully realized, is expected to lead to modest declines in the population in 2025 and 2026. This would have wide-reaching implications for the economy and growth outlooks have been downgraded accordingly. However, many economist groups are not confident that the federal government will be able to quickly and successfully implement all of their announced changes. As a result, the revisions to economic growth have mostly been modest with Oxford Economics cutting Canada's average annual gross domestic product (GDP) growth for 2024 to 2028 by 30 basis points (bps). While GDP for 2024 is on track to grow by 1.0%, falling well below the historical trend, it is expected to gradually strengthen thereafter. However, declining productivity levels are also a concern for durable long term growth in Canada that will need to be addressed.

FIGURE 1: Components of Population Growth



Source: CBRE Research, Statistics Canada, Government of Canada, November 2024.

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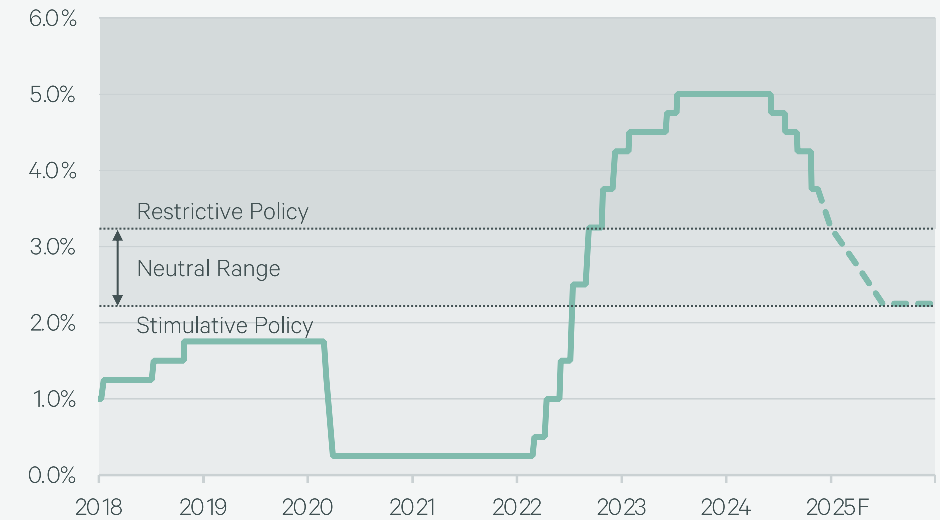
Interest rates are on track to continue falling in 2025

The Bank of Canada has been consistently cutting its policy interest rate since June 2024, cumulatively lowering the interest rate by 125 bps to 3.75% to date. This shift towards loosening monetary policy comes as the central bank tries to navigate a 'soft landing' for the Canadian economy now that inflation has fallen back to target. In fact, the Bank of Canada has been explicit with its forward guidance that interest rates will continue to decline further as long as the inflation outlook progresses as expected. The goal is to bring the policy interest rate to the neutral range of between 2.25% and 3.25%, the hypothetical range where interest rates are supposed to be neither restrictive nor stimulative for the economy.

Speculation has been rising that the Bank of Canada may need to accelerate its pace of interest rate cuts in order to quickly get to the neutral range. With inflation already at its target level, there is little reason for the central bank to keep interest rates at its current, still-restrictive levels. As well, the Bank of Canada has started to express concerns that inflation could be at risk of falling below target if the economy ends up slowing more than expected. As a result, the current median projection of the major Canadian bank economist groups forecast the policy interest rate will drop to the lower end of the neutral range of 2.25% as early as Q2 2025. This would mean about 100 – 125 bps of interest rate cuts is expected over the first half of 2025.

FIGURE 2: Bank of Canada Policy Interest Rate Forecast



Projections are the median quarterly forecasts of the major Canadian bank economist groups.
Source: CBRE Research, Factset, major Canadian bank economist groups, November 2024.

However, if economic growth does not recover and ends up weaker than expected, this could necessitate lower and more stimulative interest rates from the Bank of Canada.

Overall, as the policy interest rate continues to fall to the neutral range, this should further ease macroeconomic constraints and promote stronger, more durable growth for the Canadian economy.

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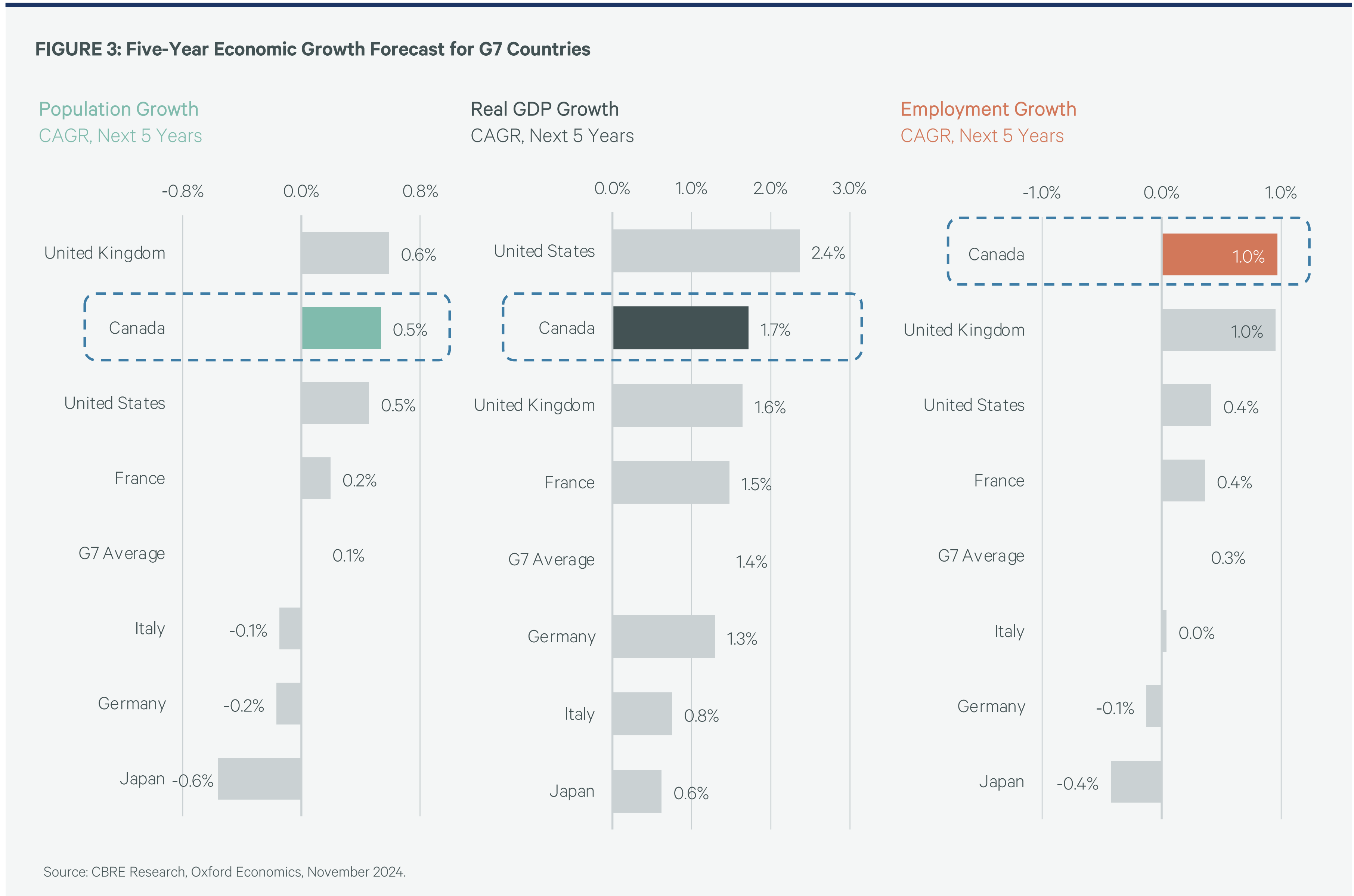
In the longer term context, population growth remains strong and positive for real estate demand

Despite the recently announced immigration curbs, Canada's population growth over the next five-year period is still expected to be strong relative to the G7. The current outlook from Oxford Economics forecasts population growth to 2029 in Canada to average 0.5% annually, second among the G7 only to the United Kingdom which has a marginally faster growth rate. While curbs have been placed on temporary residents and immigration targets have been lowered, they are still positive on a gross basis and expected to remain a net positive over the long term given Canada's aging demographic. In the context of longer term population growth, the modest potential declines in population over 2025 and 2026 can be viewed as more of a short term correction and not a fundamental change to Canada's long term outlook. When combining the outsized population growth of the last two years with the slower forecasts for the next three years, the average annual growth rate for this five-year period is 1.3%, effectively in line with the 50-year historical average of 1.2%.

Over the long term, a growing population ultimately means more workers and office space requirements, higher levels of consumer spending that drives retail and logistics demand as well as the need for more housing including rental. Real estate demand is highly correlated with population growth and a continued strong outlook is positive for the long term prospects of the Canadian commercial real estate market.

FIGURE 3: Five-Year Economic Growth Forecast for G7 Countries



Source: CBRE Research, Oxford Economics, November 2024.

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02

Capital Markets

Sentiment has been improving and momentum is building towards a recovery in the Canadian commercial real estate investment market in 2025. Stronger investment activity is expected as more capital is drawn off the sidelines. Cap rates for some asset classes are likely to start modestly compressing in 2025, but subject to global bond market conditions.

Trends to Watch

01

Investment market sentiment is improving and activity is expected to recover in 2025 with volumes steadily returning to levels closer to the average pace of recent years.

02

Some price discovery is likely to continue to play out in early 2025 as the market looks to establish its new pricing levels and narrow buyer and seller expectations.

03

Real estate spreads are roughly in line with their long-term historical average and cap rates are on track to start modestly compressing in 2025, but global bond market volatility poses some risk.

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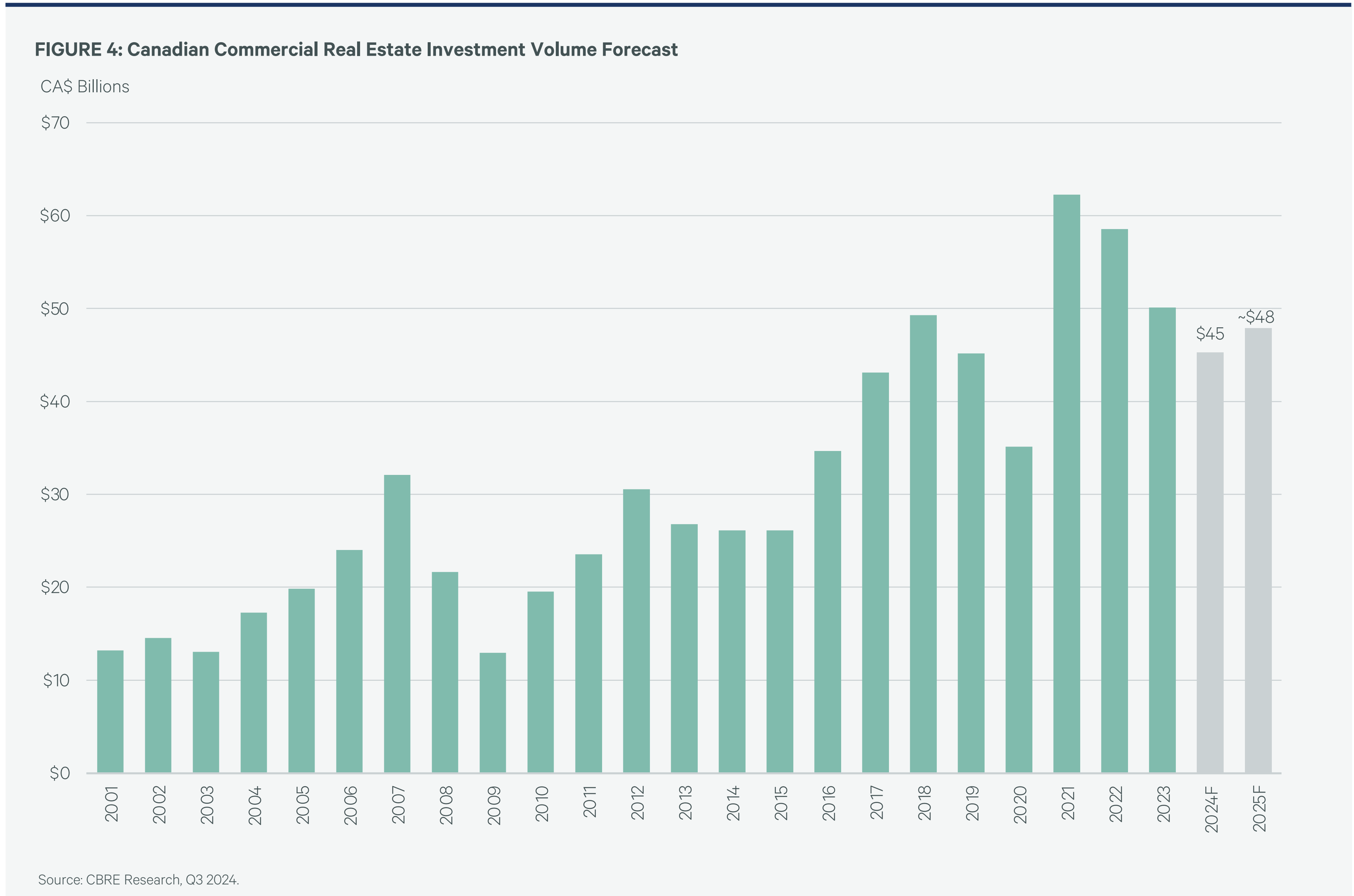
Investment market to recover in 2025 as sentiment continues to improve

Momentum in the commercial real estate investment market has been steadily building in the latter half of 2024, with transaction volumes and activity notably trending higher since the recent low recorded in Q1 2024. The stronger levels of capital formation and market optimism was driven in part by the Bank of Canada interest rate cuts. With each decrease to the policy interest rate, investors grew more confident that the market was shifting back into a stable and more accommodating financing environment. As a result, Canadian commercial real estate investment volumes for 2024 are on track to total $45 billion. This would be the third consecutive annual decrease in investment volumes since the record high in 2021, but also represents what is expected to be the trough before a recovery in 2025.

While some real estate asset classes are contending with sector headwinds, market fundamentals are mostly still relatively healthy and supportive of the long term appeal of Canadian real estate as an investment. In particular, alternative assets will see robust investor demand in 2025 given their comparatively stronger fundamentals. Combined with a more accommodative financing environment, investment capital will continue to be drawn off the sidelines in 2025. Institutional capital is also expected to make a material return and inject significantly more liquidity into the market. Overall activity is expected to be stronger in 2025 as the quarterly pace of investments steadily rise to levels closer in line with the average seen in recent years. If the investment market recovery progresses as expected, volumes could total nearly $48 billion in 2025. As well, the possibility for significant merger & acquisition activity presents further additional upside potential to the forecast.

FIGURE 4: Canadian Commercial Real Estate Investment Volume Forecast



Source: CBRE Research, Q3 2024.

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Some price discovery likely to persist in early 2025 but will then largely stabilize

With the investment market recovery in its nascent stages, price discovery for some asset classes is expected to continue over the early months of 2025. Asset classes that saw limited transactions over the past two years and that may not have undergone enough of an adjustment yet will be monitored closely as the market looks to establish its new pricing levels.

As momentum in the market continues to build, each new completed transaction will provide fresh pricing datapoints that should help narrow buyer and seller expectations. Once new price floors and ceilings have been solidified, likely over the first half of 2025, this will give investors greater confidence in pursuing their real estate strategies and become a catalyst for even more transaction activity.

One notable exception is with Class B office assets, where pricing is expected to take a much longer time to stabilize. The office sector as a whole is beginning to see cash flows come under pressure as a result of increased spending on tenant inducements, amenities, insurance, base building build-outs and decarbonization. For Class B offices in particular, these assets are also facing additional headwinds from weaker leasing and investor demand. Altogether, it could take a couple years for Class B office pricing to fully stabilize.

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Cap rates expected to start modestly compressing, but subject to global bond market conditions

Following more than two years of continual increases, Canadian cap rates generally appear to be peaking and are on track to start modestly compressing over 2025. Yields in some markets and select asset classes have already marginally decreased and this trend is expected to grow over the coming quarters.

The compression in cap rates is supported in part by a projected easing in the Canada 10-year bond yield in 2025, which is forecast to drop about 15 bps according to the median forecast of the major Canadian bank economist groups. However, volatility in the global bond markets will pose some risk. Real estate cap rate spreads have also widened and are roughly in line with the 20-year historical average of 384 bps over the Canada 10-year bond yield, which should relieve some of the upwards pressure on cap rates.

Cap rate movements will vary between asset classes as some segments like office still contend with softer valuations and others, such as multifamily, face pressure for wider spreads which may buoy yields in those cases. Meanwhile, cap rates for some assets, such as anchored retail, have risen to rather attractive levels and drawn increased investor interest. The stronger demand and competition for these highly sought-after properties will provide further support for modest cap rate decreases in 2025.

FIGURE 5: Canadian National Average All-Properties Cap Rate and Spreads

Source: CBRE Research, Q3 2024.

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03

Debt Markets

Debt availability is generally expected to improve in 2025, however, lenders will remain selective and nuanced between asset classes, locations and borrowers. Credit spread dynamics will begin to normalize and loan underwriting will echo broader market trends with respect to rents and vacancy rates.

Trends to Watch

01

Overall debt availability is expected to be greater in 2025, but lenders will continue to be selective with nuanced approaches between asset classes, locations and borrowers.

02

Credit spreads for top real estate assets are likely to remain at tightened levels while some modest compression is expected at the wider end.

03

Lenders are incorporating more conservative market trends with higher minimum hurdles into their underwriting, specifically with respect to vacancy and rents, that will impact loan economics accordingly.

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Greater debt availability expected in 2025, but lenders will remain selective

For most of 2024, lenders were very selective in their dealmaking which led to many groups ending up well behind on their capital allocation budgets for the year. Lenders focused on financing for assets considered defensive, such as multifamily, industrial and grocery-anchored retail, which continued to see strong levels of competition among lenders. Meanwhile, assets facing headwinds or uncertain outlooks were more difficult and costly to finance.

In order to meet 2025 capital deployment allocations, lenders have already begun adjusting, exploring a wider range of assets and markets. Financing activity is beginning to increase and improve, including in such asset classes as enclosed retail and office. While this trend is expected to take hold in 2025 resulting in greater overall debt liquidity, lenders will still remain selective with specific and conservative underwriting approaches as well as cautious, but certainly increasing, appetite for quality risk-adjusted returns.

With real estate investment volumes also expected to rise next year, this will be another catalyst for increased debt activity and competition in 2025. Real estate debt markets traditionally follow the equity side and so will accordingly see a reciprocal increase in activity as buyer capital re-emerges and transaction momentum starts to build in Canada.

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Credit spread dynamics to begin normalizing next year

Due to the highly selective nature of lenders this year, the delta of real estate credit spreads between the tightest and widest ranges for mainstream term lenders had surged to its greatest point in recent years. However, amid increasing debt capital availability and lending competition, these dynamics have begun to change, with the wide end of the range expected to start contracting towards more historic norms in 2025.

Credit spreads for top assets steadily tightened throughout the year, amid strong lending competition and a constant compression in corporate bond spreads. In the year-to-date, the spread of Canadian investment grade corporate bond yields to the Government of Canada 10-year yield has steadily fallen to the 100 bps range and now matches levels last consistently seen in late-2018. Credit spreads for top real estate assets converged and, in some best-in-class cases, financing was achieved very near this effective "risk free" level. As a result, credit spreads for this tranche of real estate will likely remain at current levels into 2025, as further tightening is unlikely without a parallel movement in corporate spreads.

Meanwhile, for real estate loans that have encountered widened credit spreads, these are expected to begin modestly compressing in 2025 as lenders generally become more active and open, following a similar trend in real estate equity markets. However, there will remain some exceptions as lenders more clearly define the specific range of asset classes they are willing to compete in.

In terms of gross financing costs, real estate base rates for fixed mortgage loans are most closely tied to the Government of Canada bond or Canada Mortgage Bond yields instead of the policy interest rate. So despite 100 - 125 bps of cuts expected from the Bank of Canada over 2025, declines in bond yields are largely already priced in and are projected to fall more modestly.

FIGURE 6: Canada Investment Grade Corporate Bond Spreads

Spreads calculated as the difference between the S&P Canada Investment Grade Corporate Bond Index yield vs. the Canada 10-year bond yield.

Source: CBRE Research, S&P Dow Jones Indices, Factset, November 2024.

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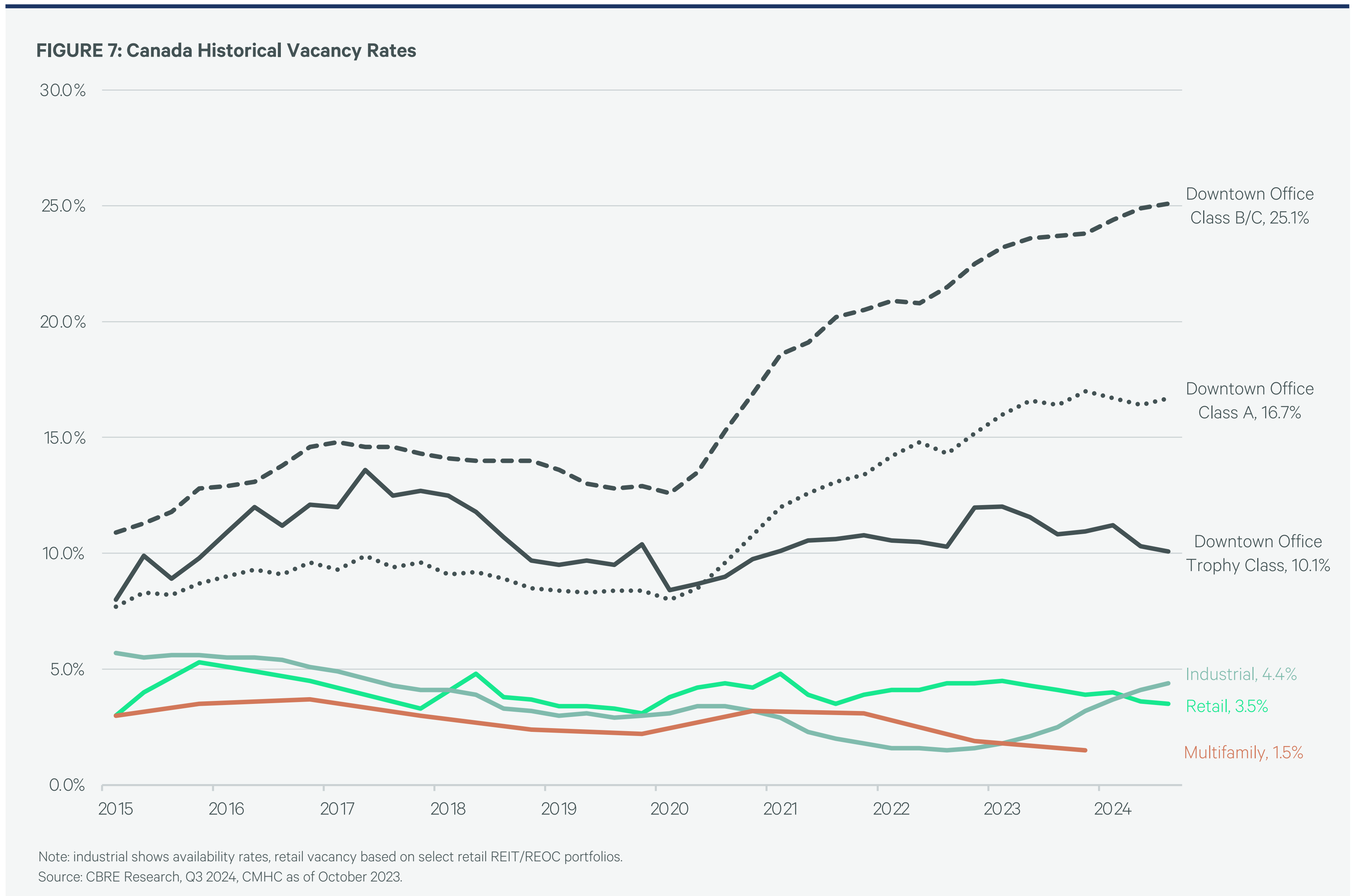
Lenders incorporating more conservative market trends into their underwriting

With rising vacancy rates across most of the major asset classes, lenders have adapted and made some adjustments to their underwriting process. Most notably, lenders are now factoring larger vacancy provisions in line with current market rates.

As underwriting incorporates expectations for the market over the length of the term, this shift is reflective of lenders' more conservative outlooks for the next few years. Until there is a more pronounced shift in market fundamentals, lenders are likely to continue applying these growing market vacancy rates and softening rents in their underwriting. This will generally lead to more cautious net operating income projections and property valuations that will impact loan economics such as the total loan amount available or debt service coverage covenants.

FIGURE 7: Canada Historical Vacancy Rates



Note: industrial shows availability rates, retail vacancy based on select retail REIT/REOC portfolios.
Source: CBRE Research, Q3 2024, CMHC as of October 2023.

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04

Office/Occupier

The office market is exhibiting more confidence than a year ago with occupiers shifting back into a growth mindset, paving the way toward recovery. Further bifurcation of product with a focus on 'flight-to-experience' and a slowdown in construction activity is expected to lead to an under-supply of modern, amenitized buildings that are needed to keep pace with the newest era of occupier requirements.

Trends to Watch

01

Tenants have become more refined in what's driving their real estate decisions, evolving existing flight-to-quality trends into one that is being characterized as a 'flight-to-experience'.

02

A muted development pipeline is expected in the coming years. This will be a turning point for the market, helping to reduce volatility in the near-term, while also leading to an under-supply of modern buildings in the long-term.

03

Market fundamentals, past and current, are suggesting that vacancy should peak in early 2025. General sentiment is trending positively, providing green shoots of optimism in the year ahead.

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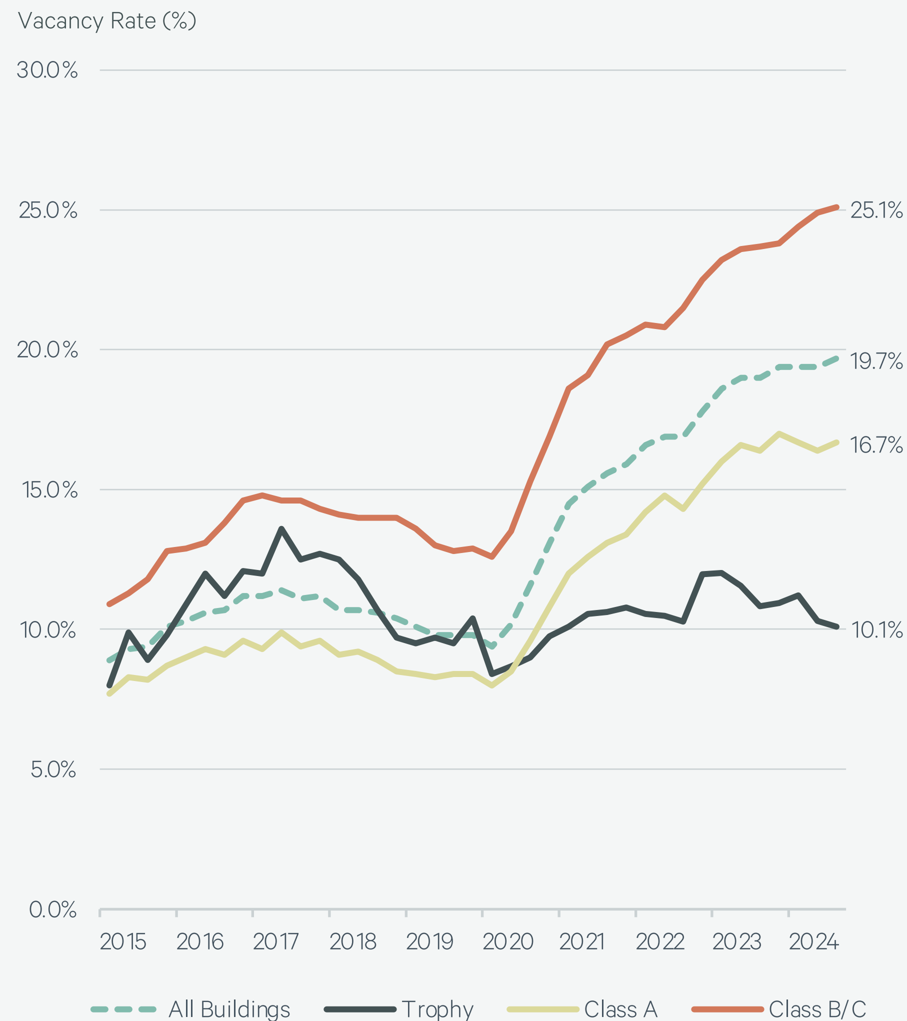
Trading up in a ‘flight-to-experience’

Office space needs continue to impact the market. Increased bifurcation between trophy downtown buildings and the rest of the market is expected to persist as occupiers carry out flight-to-quality moves that focus on upgrading from their existing space. In fact, 59% of respondents to CRBE’s 2024 Americas Office Occupier Sentiment Survey noted that they were considering or executing a relocation to higher-quality space. Further, occupiers that already operate in Class A space are now upgrading to AA or AAA buildings or to improved, more central locations. This is just one facet of the story however, as this trend is evolving into what is now being characterized as a ‘flight-to-experience’.

Tenants have become more refined in what’s driving their real estate decisions. A shift to hospitality-inspired amenities and experiences have led occupiers to seek amenitized buildings that either offer or augment what they can provide within their own footprint. Again from CBRE’s 2024 Americas Office Occupier Sentiment Survey, it was noted that 57% of occupiers relocating desire improved amenities and services for their employees. Both the building and surrounding neighborhood play a crucial role in creating an exceptional employee experience that remote work cannot replicate.

High-quality offices in vibrant locations will continue to attract tenant interest and lead to tighter vacancy in the best locations. As the divide is set to widen further between these and lower-quality assets, undergoing capital improvements that add a differentiated amenity offering, along with other building upgrades, will be necessary for some product to meet the market and remain competitive.

FIGURE 8: Canada Downtown Office Vacancy Rate by Segment



Trophy series includes top-tier properties in Vancouver, Calgary, Toronto and Montreal.
Source: CBRE Research, Q3 2024.

57% of occupiers relocating desire improved amenities and services for their employees.

CBRE’s 2024 Americas Office Occupier Sentiment Survey

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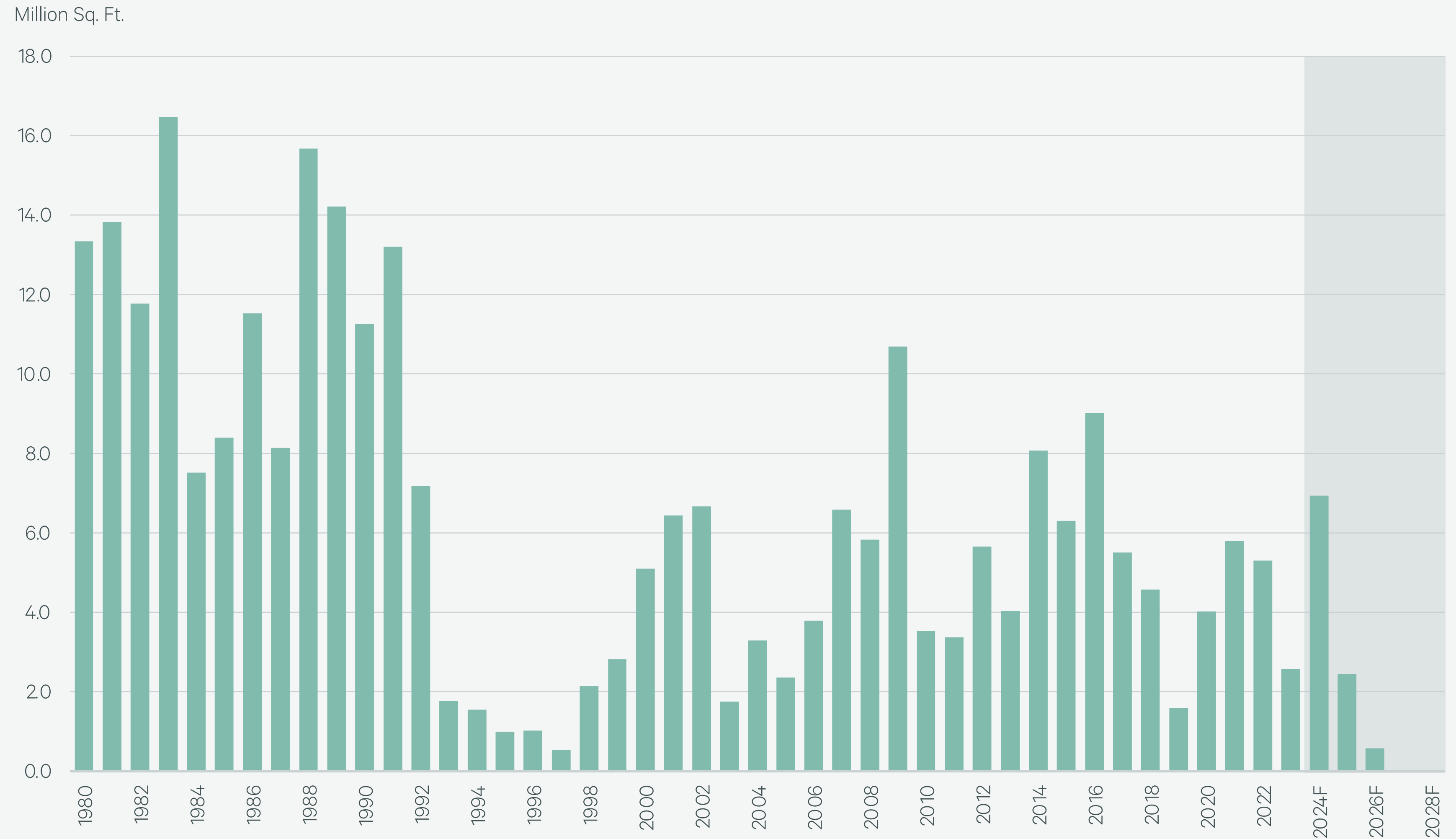
End of construction cycle: good for now but not for long

New supply has been a contributing factor behind record high vacancy rates in cities like Toronto and Vancouver. The market has had to contend with not only backfilling associated tenant moves, but also vacant new supply as we have seen pre-leasing levels drop amongst late-wave deliveries. Properties completed in 2020 were over 75% pre-leased upon delivery versus just under 50% for projects completing next year.

When all is said and done, the current development cycle will have added 27.2 million sq. ft. or 5.8% to national office inventory since 2020. The pipeline has continued to dwindle with increasingly few projects moving forward, a trend that started to take hold in 2022 as developers grappled with elevated vacancy, interest rates and construction costs. As such, construction levels are currently at a 20-year low and are anticipated to remain muted following the last tranche of deliveries over 2025. This will be a turning point for market recovery, mitigating supply-side risks as occupiers gradually absorb new and improved existing product.

While a lack of new projects breaking ground may be a welcome reprieve and aid in reducing volatility in the short-term, a sustained period of limited construction could lead to an under-supply of buildings that meet modern needs. This might soon be the case in select markets where there has been limited construction for a number of years already. The cost of construction will pose a further challenge in this equation when considering the high rents needed to pencil out future developments. A limited pipeline of new supply could be good news for existing buildings, however. As prime spaces become scarce, demand is expected to spill over to the next tier of buildings.

FIGURE 9: Canada Office New Supply



Forecast only includes projects currently under construction.
Source: CBRE Research, Q3 2024.

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38% of respondents are anticipating their portfolio size to expand over the next three years, this is even higher in Canada at

45%

CBRE's 2024 Americas Office Occupier Sentiment Survey

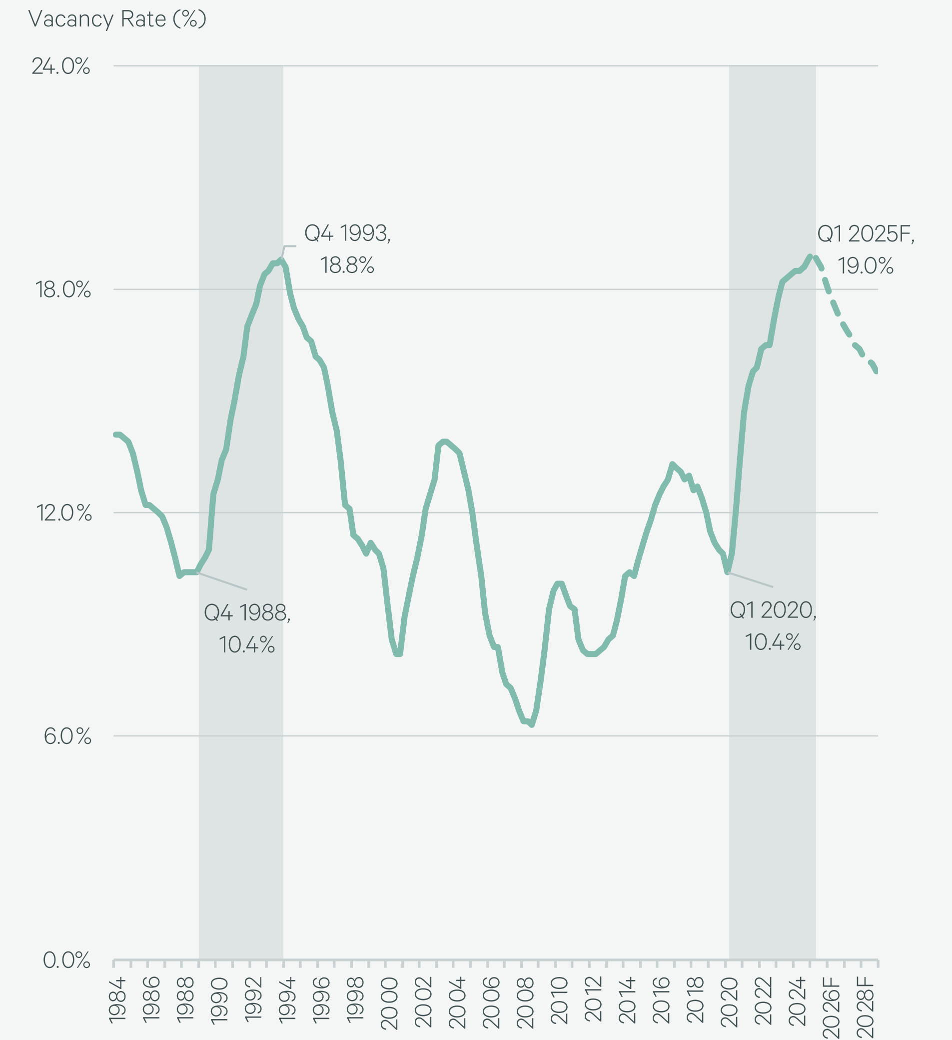
Turning tide on office market cycle

Overall, the office market is exhibiting more confidence than a year ago, paving the way for recovery. Absorption is trending positive for the first time since 2019; office utilization, while still lower than pre-pandemic, has by all accounts reached a steady state; and sublease space continues to trend downward, a typical forward-looking indicator. We are also starting to see occupiers shift back into growth mindset. From CBRE's 2024 Americas Office Occupier Sentiment Survey, 38% of respondents are anticipating their portfolio size to expand over the next three years, this is even higher in Canada at 45%, citing expected business growth and evolving workplace design standards that accommodate new work patterns behind that need for more space. This will help support office absorption moving forward.

If present indicators aren't enough, looking at past market cycles might provide further proof that we are on the cusp of moving into the next stage of this market cycle. Current vacancy levels are on-par with market highs last seen in the 90's recession which also came with a large influx of new supply. It took the office market roughly five years to peak, rising from Q4 1988 to Q4 1993, before starting to recover. Applying that to the current cycle which began its ascent from Q1 2020, it is expected that vacancy could peak in early 2025 and move toward recovery in 2026.

Regional differences may still crop up and result in an uneven recovery trajectory in some areas of the country. General sentiment is trending positively, however, providing green shoots of optimism in the year ahead for this challenged sector.

FIGURE 10: Canada Metro All Classes Office Vacancy Rate



Source: CBRE Research, CBRE Econometric Advisors, Q3 2024.

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05

Retail

Retailer sentiment going into the new year remains positive, however, factors influencing the market will further entrench current trends and push change in the sector. Being forward looking and resilient will always be rewarded, and this has never been more true than in today's competitive landscape.

Trends to Watch

01

A supply-constrained retail landscape is expected to persist and reshape the typical store format in Canada. Retailers will ultimately be strategic, expanding into secondary markets or modifying the scale of their typical store.

02

Sentiment going into 2025 remains positive, however, we are starting to see more normal growth levels following the boom pandemic years. Retailers that tap into savings, provide entertainment, or are innovative/experiential will continue to thrive during this time.

03

Expanding where and how retailers access consumers may be what it takes to remain relevant in the year ahead. Diversifying sales methods may play a significant role in revenue generation, even if primarily used for branding.

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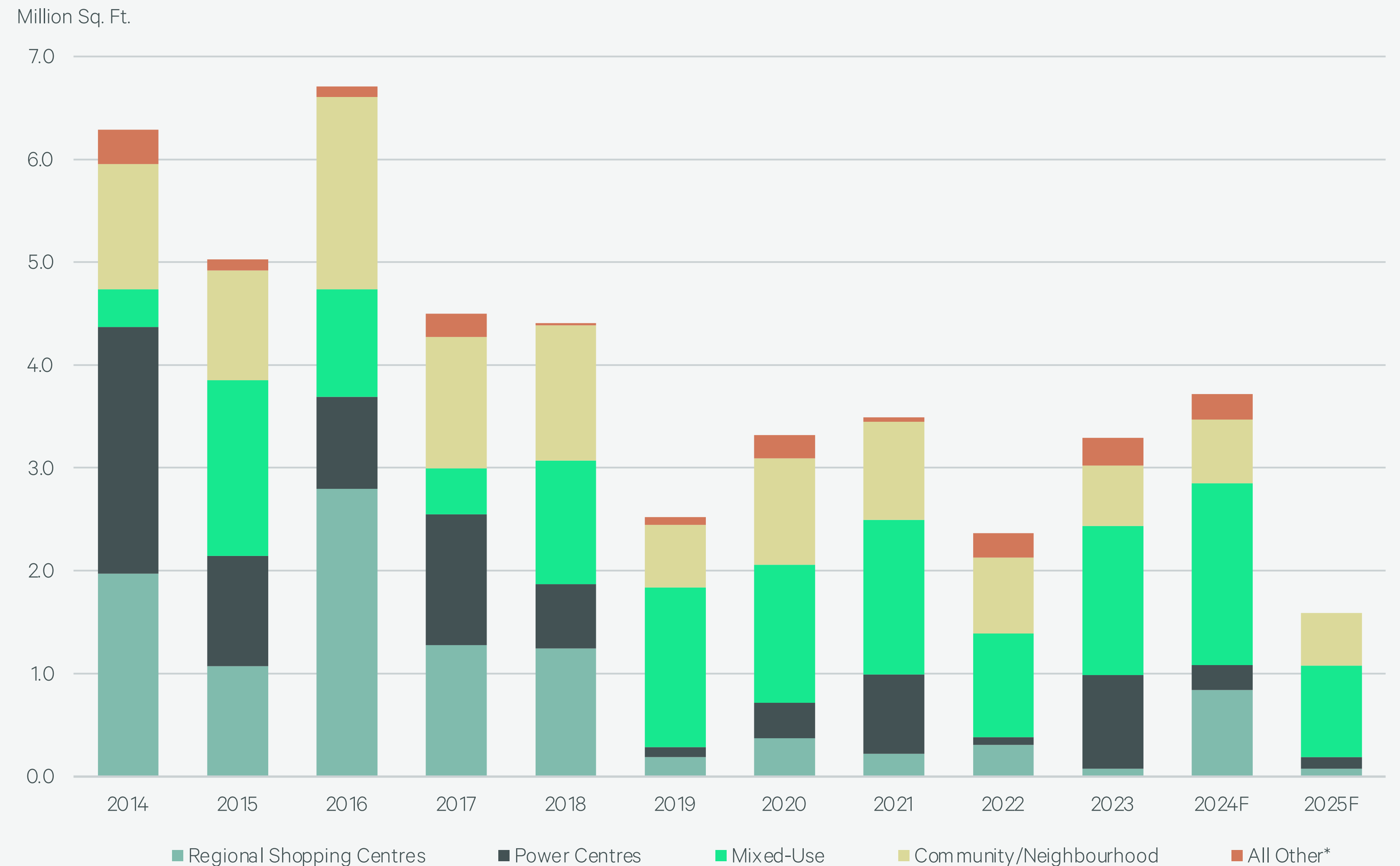
Spillover effect from supply-constrained markets

As noted over the last few years, dwindling levels of new construction have resulted in a supply-constrained retail landscape in Canada with low vacancy and rising rents, especially among fixtured units. Unlike other property types, the main limiting factor has been elevated construction costs and not demand. With a restricted new supply pipeline expected to persist, anticipate these themes to continue in 2025 with robust demand putting pressure on vacancy and rents, although on a healthier growth trajectory.

Large-scale developments like the recently opened Royalmount in Montreal are few and far between. In fact, it has been a few decades since an enclosed mall has been built in Canada. Significantly leased on opening, the success of this property further proves levels of demand and that other properties of scale can be supported. Among current active construction, however, the average project or phase is 35,000 sq. ft. which is nearly 50% smaller than three years ago. This smaller-format offering, which is predominantly mixed-use with retail at grade, will reshape what the typical store looks like in the years to come.

We have seen activity spill down to lower-quality product amidst lower vacancy, and in the year ahead, will see that continue with retailers expanding over wider geographies, either tapping into secondary markets or going south to the U.S. Retailers will ultimately be strategic during this time selecting spaces that still promote growth while working toward their long-term strategy. Domestically, an increasing number of brands will modify the scale of their typical store, for example Loblaws is currently rolling out smaller-format No Frills; Sephora meanwhile also opened their smallest location to date at The Well. Being forward looking and resilient will always be rewarded, and this has never been truer than in today's competitive landscape.

FIGURE 11: Canada Retail New Supply by Format



*All Other encompasses Convenience, Freestanding or other small retail formats..
Source: CBRE Research, Q3 2024.

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Retailers tapping into successes

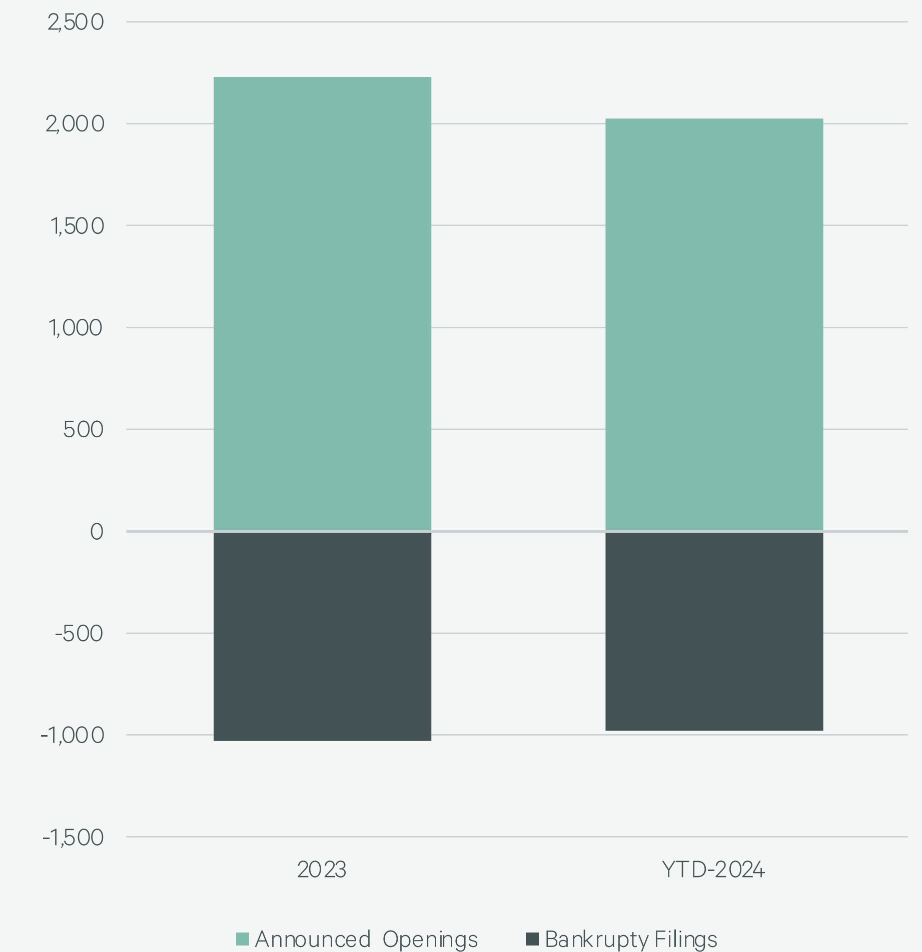
Record levels of immigration and population growth have been a boon for the sector, which when paired with inflation and elevated interest rates, has resulted in exceptional growth, especially among necessity-based and discount categories. This confluence of factors is changing however, with recent announcements from the Government of Canada indicating they will curtail immigration targets. This could result in a challenging upcoming year for retailers, especially when layering in a potential recession and an associated pullback in consumer spending. Expect growth to continue, however in a more conservative manner.

Shoppers will remain cautious and keep household budgets tight against this backdrop in 2025. Correspondingly, value or discount channels, including second-hand or consignment stores, will continue to be popular. Value Village has even expanded on this success with its boutique-branded locations. According to Trendex, cost savings are the biggest motivator for re-sell apparel shopping, the number one item purchased in second-hand stores, followed by books and furniture.

Entertainment is another category that has been in expansion mode over the last 12 months and is poised for future growth in 2025. These operators are proven to be a destination for consumers and, much like necessity-based retail, can boost centre performance. Beauty is acting similarly and is now being recategorized as an everyday need. New to market entrants and acquisition of brands will push this category towards continued growth.

As has been the case, churn is anticipated among middle of the pack or stagnant retailers without a differentiated offering. Bankruptcies and closures in the year ahead won't be viewed as detrimental or as an indicator of poor market health. Instead, we've seen openings outpace closings, with well-located spaces quickly leased, in some cases even before being vacated by the exiting tenant.

FIGURE 12: Count of Retail Openings and Closures



Note: Openings include announced but not yet opened stores, and Closures include bankruptcy filings for retail trade and food establishments.

Source: Monday Retail IQ, Office of the Superintendent of Bankruptcy Canada, CBRE Research, September 2024.

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Channels for capturing market share

While business sentiment going into the new year has remained positive, recession fears will influence decision making, both on the retailer and consumer front. Future proofing business models will be top of mind, however changing consumer behaviours will challenge retailers with Forrester noting that 74% of retailers believe their organization will struggle to adapt to consumer expectations in 2025.

We typically see Canadians stick to known brands and that has never been more true with EY noting that the percentage of customers willing to pay more for a brand they trust has increased significantly since 2023; this may be tested however in favour of finding a deal. Building off of the recent success of discount retailers, AIR MILES' research found that 82% of survey respondents were more likely to shop at stores with a loyalty program; further, 66% will modify where and when they make a purchase to maximize points. Rolling out or expanding loyalty programs may be what it takes to attract and retain existing customers.

Additionally, according to Deloitte's 2024 Holiday Retail Outlook, a growing number of consumers are willing to shop directly through social media channels such as Instagram and TikTok, especially those aged 18-34. This was backed by the Retail Council of Canada's Navigating the Future: A Study of Sales Strategies and Challenges for Canada's Retail SMBs where it was noted that other sales methods play a significant role in revenue generation, even though some are still primarily used for branding rather than direct sales. Further from this study, the more sales channels businesses employ, the more optimistic they are about their business prospects, highlighting the importance of diversification. Expanding where and how you access consumers may be what it takes to remain competitive in the year ahead.

74%

of retailers believe their organization will struggle to adapt to consumer expectations in 2025.

Retail Council of Canada noted that other sales methods like social media channels play a significant role in revenue generation, even though some are still primarily used for branding rather than direct sales.

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06

Industrial

The industrial sector is facing headwinds amid softer demand and an influx of new supply. The market will continue to work towards normalization, which could come sooner than some expect.

Trends to Watch

01

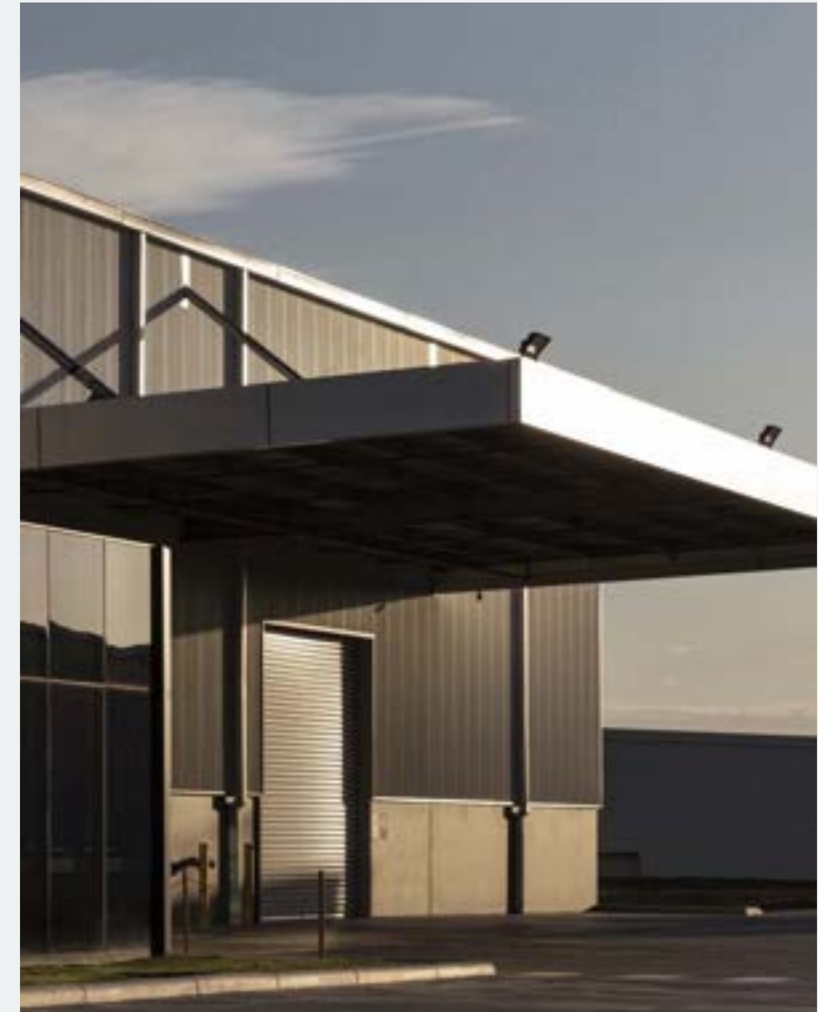
Softer demand will continue to challenge the industrial market. Fundamentals suggest however that the market could see things start to turn as early as mid-2025.

02

New supply has been the primary headwind, delivering a record amount of supply right as demand wavered. Projects where 'demisability' was planned for will fare better in the year ahead.

03

Rental rates have started to moderate and are anticipated to continue this trajectory in 2025. Rent growth is not anticipated to resume until the market has time to absorb the recent excess of new supply.



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Returning to positive net absorption

The Canadian industrial market is experiencing headwinds following a period of expansion and unprecedented market tightening. Softer demand amid an influx of new supply has resulted in rising availability, the pace of which is on-par with what resulted during the Global Financial Crisis. Current conditions are very different to 2008-2009, however; chiefly macro and structural issues at that time resulted in losses to the manufacturing sector and the retreat of companies from Canada, leading to over 20.0 million sq. ft. of negative net absorption over the course of one year. Present day, we have only had one quarter of meaningful negative net absorption.

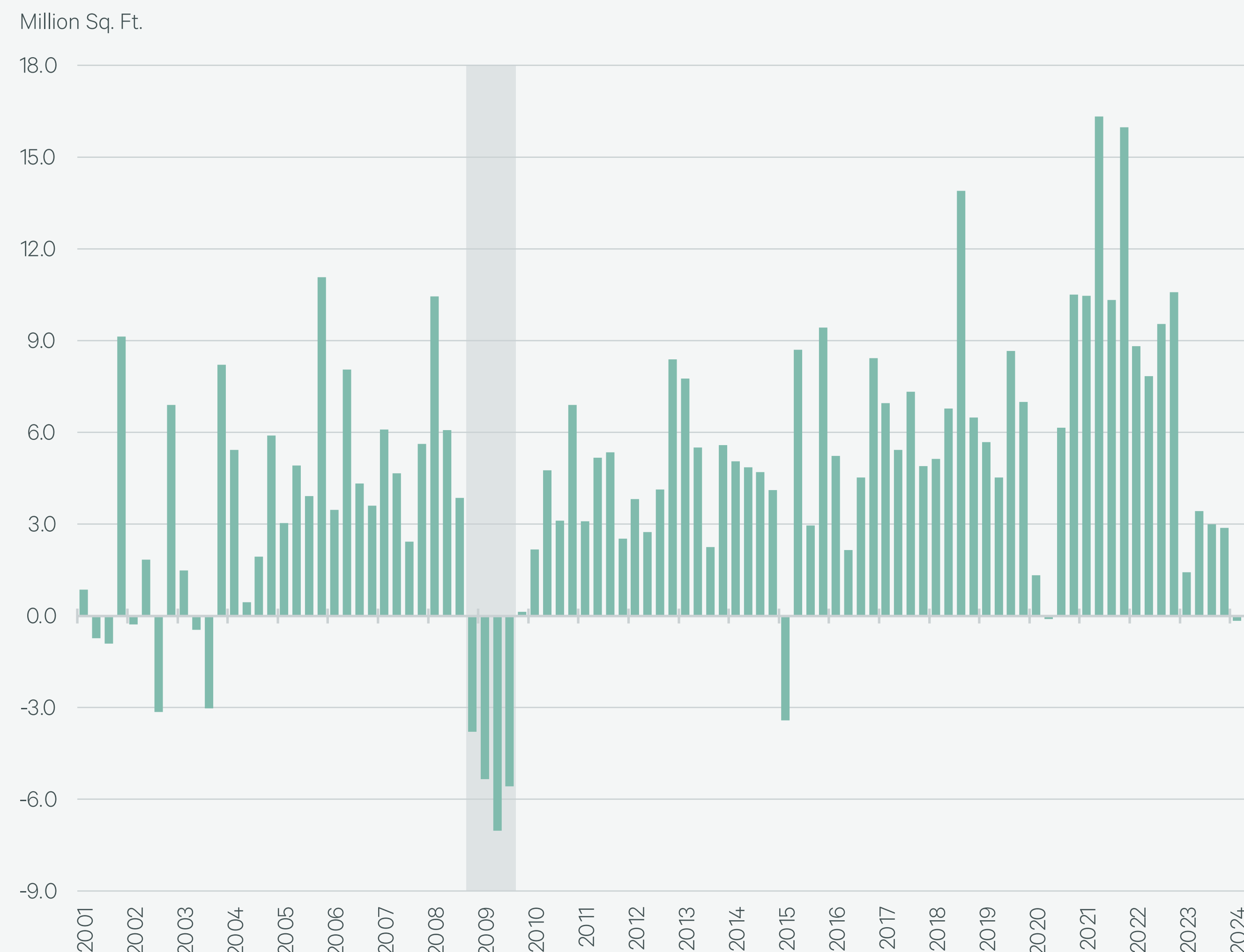
Instead, what we've seen is 3PL's and retailers overstretch, spurred on by the rapid growth of ecommerce, pulling forward future demand over the course of 2020-2023 and then put their pens down. Today, users in these industries are finding that they don't need to take on more net new space because they already have that capacity or alternatively, that they took too much during that expansionary period and are now shedding it.

Some demand remains, nonetheless, with some regional variances. The food and beverage sector, and data centres are active nationally; auto and electric vehicle production plants are a part of the conversation in Ontario; and in Alberta, economic strength is resulting in heightened demand from local groups. The pickup among these users however is not enough to mask the overall drop-off from retailers and 3PL's.

Anecdotally from client conversations, the return of robust demand levels feels like they could be one to two years away. CBRE's U.S.-based Econometrics Advisors however are opining that based on historical patterns and Canada's current economic outlook it could be as soon as mid-2025. There are reasons supporting this view - despite federal announcements curbing Canada's immigration, Canada will remain among the fastest growing G7 countries across population, GDP, and employment growth. All of which will result in increased demand for logistics space. As well, with central bank policy rates coming down, business growth plans will be supported with more accommodative financing, helping to inject momentum back into the market.

The market has shifted from constrained to healthy market conditions where occupiers now have options to choose from. Deals will continue to happen in the year ahead but will take longer to complete amid this period of greater optionality.

FIGURE 13: Canada Industrial Net Absorption



Source: CBRE Research, Q3 2024.

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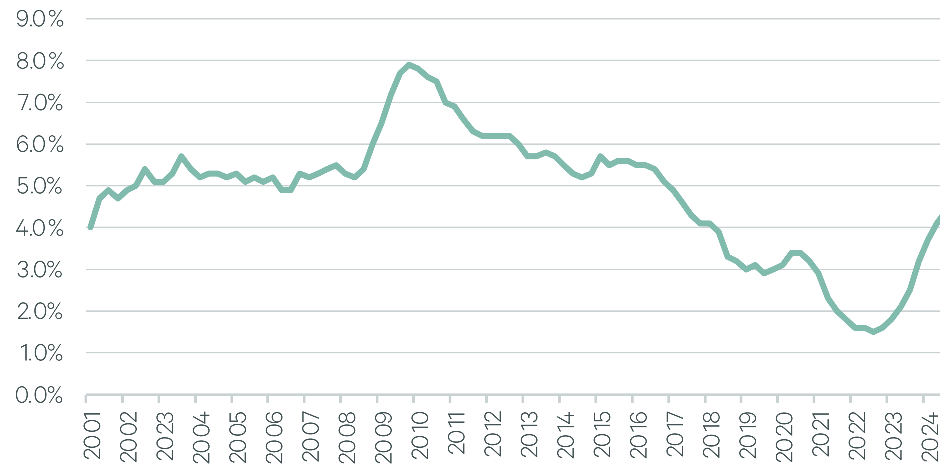
Pressure of (spec) construction

The situation today may be better characterized as a supply problem that will continue to pose challenges for the market. The precipitous increase in availability can be linked to record deliveries amid a sharp reduction in demand. This is best showcased in the drop to pre-leasing activity, with just over a third of the total space under construction currently committed. Construction levels have accordingly slowed, with next year anticipated to deliver even less new supply than in 2024 at an estimated 25 million sq. ft.

What remains of the new supply pipeline is heavily composed of projects that kicked off on a speculative basis, accounting for over 70% of active development. These blank big boxes, however, are better suited for 3PL's and in some cases are not fully aligned with the needs of today's users. Instead, end users are looking to make long term commitments where they can justify investing for greater customization that aligns with their requirements, from clear heights to power capacity and automation.

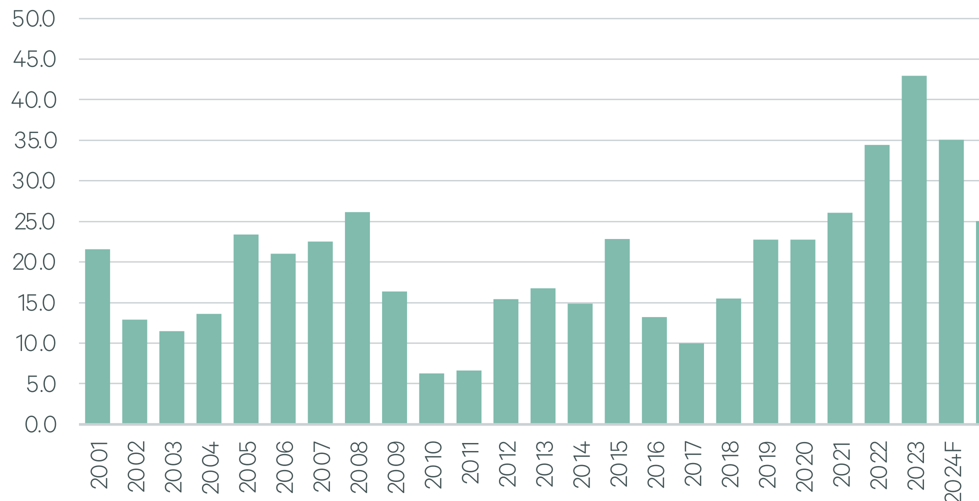
Projects where 'demisability' was planned for will fare better in the year ahead, others are likely to drop off or stall at foundation work waiting for a tenant to be secured. While some may consider too much having been built right as demand was wavering, the market could easily see itself in an under-supply issue should activity abruptly resume. This will be more acutely felt in cities that have a longer than typical pipeline to delivery.

FIGURE 14: Canada Industrial Availability Rate (%)



Source: CBRE Research, Q3 2024.

FIGURE 15: Canada Industrial New Supply (Million Sq. Ft.)



Source: CBRE Research, Q3 2024.

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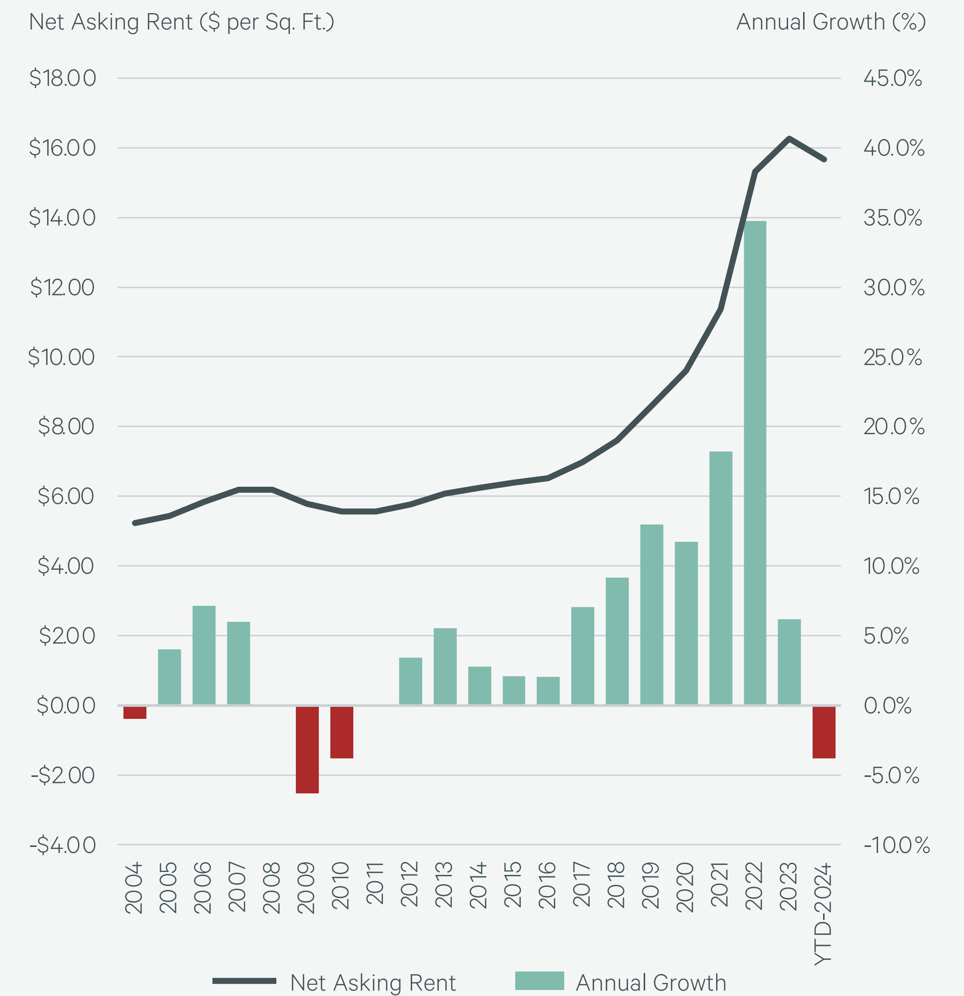
Finding the floor on rents

2025 is expected to be year of finding the floor and increased normalization of industrial market dynamics. Asking rents are an area to watch in that regard, as they have started to come off of peak pricing; in fact, 2024 will be the first year that we are anticipating a national annual decline, albeit a fairly moderate one. A mass correction back to rates seen three years ago isn't likely, however there is room for the market to move down further in response to greater availability.

The landlord community is taking different approaches at this time, however, either reducing face rates or offering inducements most typically in the form of free rent. Properties in fringe areas of the market or with limited touring activity will be the first to see price adjustments. Core industrial areas meanwhile will always remain in demand and hold relative to other areas.

It is anticipated that rent growth will not resume until the market has time to absorb the recent excess of new supply. If the past is any indicator, an under 4.0% availability rate is the on-ramp to rent growth. Until then, we will see the market continue its current trajectory, gradually moderating back to normalization.

FIGURE 16: Canada Average Asking Net Rental Rate Growth



Source: CBRE Research, Q3 2024.

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07

Multifamily

The multifamily sector faces heightened near-term uncertainty from revised demand outlooks and challenges in the high-end portion of the market. Long term growth fundamentals, however, remain solid.

Trends to Watch

01

While immigration curbs may lower aggregate demand for rental housing, vacancy rates among the most accessible segments of the market are expected to remain healthy.

02

The rent growth outlook for the multifamily sector faces greater uncertainty in 2025, especially for the wave of newly completed units with higher rents.

03

Developers are likely to temporarily pause new construction starts while waiting for the market to adjust to the new demand outlook and work through recent new supply.

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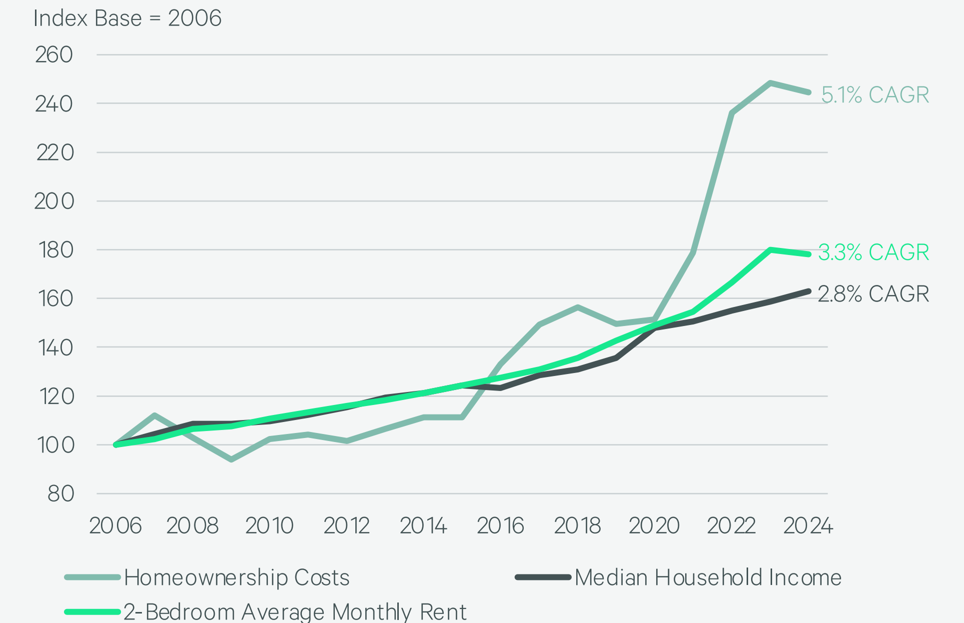
Demand for the most accessible segments of the rental market expected to remain healthy

While the recent immigration curbs and potentially slight population declines over 2025 and 2026 may lower aggregate rental housing demand, Canada still faces a housing affordability issue and pent-up demand. Despite interest rate cuts and a cooler housing market, housing affordability has remained elevated where the gap between homeownership costs and household income levels are still wide apart. Renting continues to be the more affordable housing option for many Canadians. Coupled with the rapid population growth from the last two years, there is still a substantial amount of pent-up demand for rental housing that will need to be fulfilled.

However, the recent caps to Canada's immigration policies may provide some limited relief to the generally tight rental market conditions. The reductions to temporary residents specifically targeted international students and temporary foreign workers, both demographics which predominately would have been renters. If these announced plans are fully realized, the potential vacancies from temporary resident renters leaving would open up options for other households to take advantage and relocate into more affordable housing. Overall in 2025, only a minimal impact is expected to vacancy rates for the most in-demand rental units such as those with rent controls or more affordable rental rates. Some short term volatility is possible during this transition period, and the impacts may not be uniform across Canada, but long term fundamentals will continue to support low vacancy rates in this segment of the rental market.

The greatest potential for vacancy rate expansion in 2025 will be among the influx of newly built units with rents at the higher end of the range. These newer units have required higher rents as a result of the escalation seen in construction costs in recent years. However, the higher rents are also becoming increasingly mismatched with household income capabilities. With still more new supply expected to deliver over the near term, vacancy rates in this segment of the multifamily rental market are likely to rise further in 2025.

FIGURE 17: Canada's Home Affordability Gap



Source: CBRE Research, CREA, Oxford Economics, CMHC, rentals.ca, Factset, 2024.

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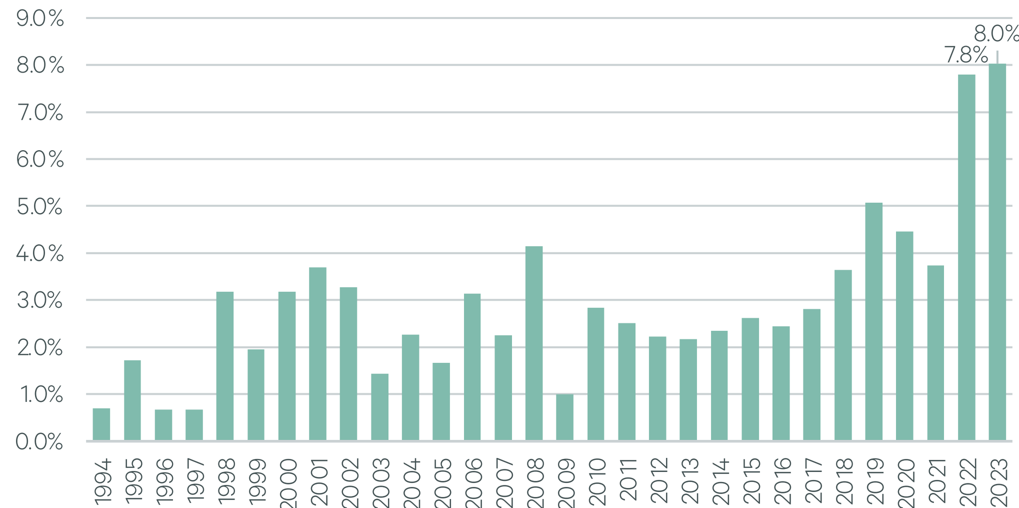
The rent growth outlook is flat to inflationary, except for high-end recent completions

Multifamily rent growth in 2024 bifurcated and moderated significantly off of the record increases recorded in the two years prior. Newer units, in particular, had seen market rents driven up by high construction costs, but the surge of completions in 2024 pushed up vacancy rates in this segment and rents had started to fall in the major metropolitan areas. These rent decreases were most apparent in cities with large condominium markets, such as Vancouver and Toronto, that also saw an influx of new supply in 2024. Meanwhile, for the rest of the multifamily rental market, rents had largely held flat or recorded modest increases amid sustained demand for the more affordable housing units.

For 2025, the outlook for multifamily rent growth is more uncertain but the market will face increased downside pressure amid more new supply and weaker population growth forecasts. Rents for newly built units are at the biggest risk for decreases given higher vacancy rates and still more units expected to deliver over the short term. This segment of the market will likely have to recalibrate pricing in order to fill in vacancy. But for the rest of the market, with generally more affordable price points, rent growth is expected to be flat or inflationary in 2025. For metropolitan areas seeing strong levels of in-migration, such as in the Prairie Region, rent growth is expected to remain solid and supported by growing demand.

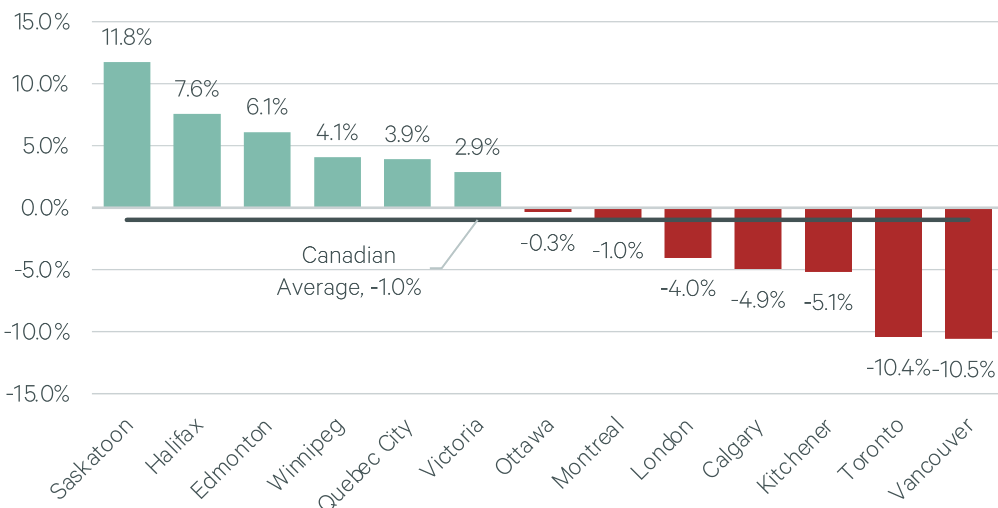
The net result in 2025 is likely for overall market rents to hold steady or potentially see modest declines. However, when viewed over the longer term, average market rents will remain above levels from three years ago and reflective of strong long term growth fundamentals.

FIGURE 18: Annual Canadian Average 2-Bedroom Rent Growth

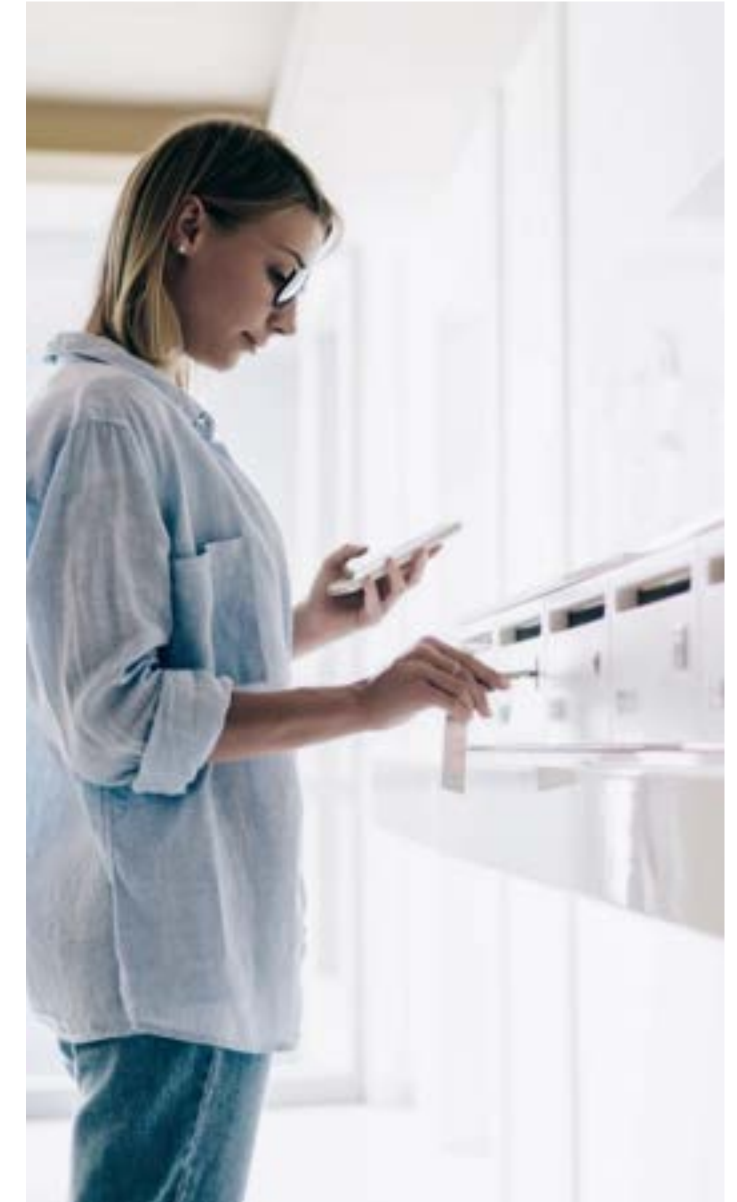


Source: CBRE Research, CMHC, 2024.

FIGURE 19: Average 2-Bedroom Asking Rent Growth (Year-To-Date 2024)



Source: CBRE Research, rentals.ca, November 2024.



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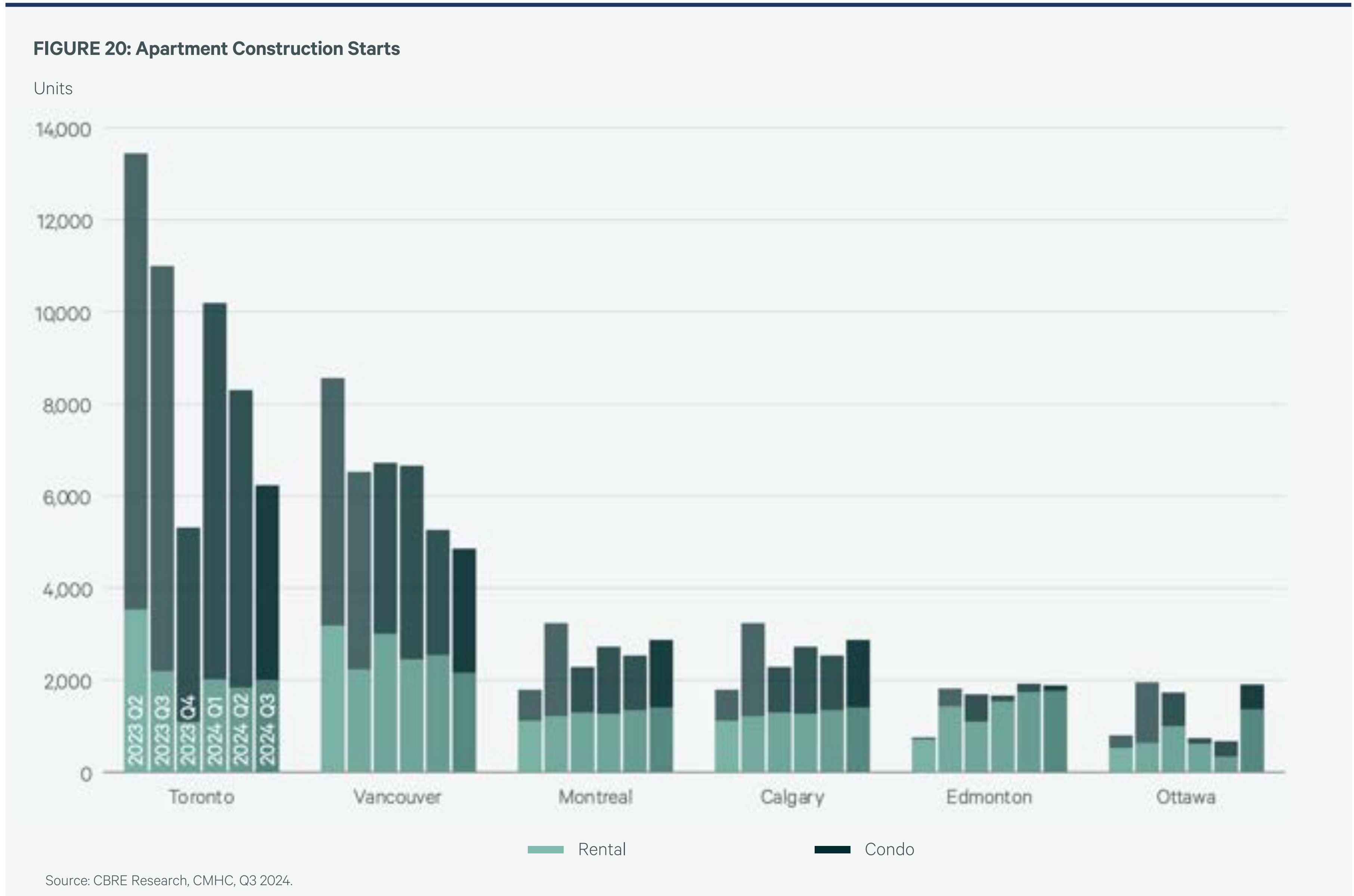
Construction activity likely to temporarily pause as market recalibrates

With population growth potentially heading for modest decreases over the next two years, this has placed more headwinds on multifamily construction activity that has already been slowing in some major metropolitan areas. Concerns about potentially lower aggregate demand from the new immigration curbs is likely to hold back developers from new construction starts, at least until there is more certainty for the future growth outlook. At the same time, construction costs are still elevated, albeit slightly off of their peak levels, and continue to make some development projects difficult to rationalize financially. In cities like Vancouver and Toronto with large condominium markets, the situation is further exacerbated by the recent influx of new supply, a steep slowdown in sales activity and a growing number of projects falling into receivership.

This combination of market pressures and negative sentiment will likely cause developers to pause new construction over in the short term in 2025 as the market adjusts to the revised demand outlook. Over the longer term, this will mean less new supply in a few years' time that might reignite supply issues just as population growth resumes again.

FIGURE 20: Apartment Construction Starts



Source: CBRE Research, CMHC, Q3 2024.

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08

Canada Statistics

Canada

Office

DOWNTOWN	2023	2024	2025F	YoY
Inventory (million sq. ft.)	268.45	272.28	272.81	▲
Vacancy Rate (%)	19.4%	20.0%	19.7%	▼
Net Absorption (million sq. ft.)	-3.86	1.90	2.15	▲
New Supply (million sq. ft.)	2.18	5.28	2.14	▼
Class A Net Asking Rent (per sq. ft.)	$28.94	$29.41	$29.75	▲
SUBURBAN				
Inventory (million sq. ft.)	220.02	220.43	221.05	▲
Vacancy Rate (%)	17.4%	17.2%	17.2%	◀▶
Net Absorption (million sq. ft.)	-1.64	0.68	0.65	▼
New Supply (million sq. ft.)	0.41	1.52	0.84	▼
Class A Net Asking Rent (per sq. ft.)	$19.67	$20.25	$20.37	▲
OVERALL				
Inventory (million sq. ft.)	488.47	492.71	493.87	▲
Vacancy Rate (%)	18.5%	18.7%	18.6%	▼
Net Absorption (million sq. ft.)	-5.51	2.58	2.81	▲
New Supply (million sq. ft.)	2.59	6.81	2.98	▼
Class A Net Asking Rent (per sq. ft.)	$25.17	$25.74	$25.98	▲

Industrial

	2023	2024	2025F	YoY
Inventory (million sq. ft.)	1,992.25	2,027.15	2,050.11	▲
Availability Rate (%)	3.2%	4.8%	5.4%	▲
Net Absorption (million sq. ft.)	10.75	1.41	10.14	▲
New Supply (million sq. ft.)	42.94	35.57	22.96	▼
Net Asking Rent (per sq. ft.)	$16.26	$15.51	$15.41	▼
Sale Price (per sq. ft.)	$326	$314	$313	▼
Land Price (per acre, $ millions)	$1.41	$1.38	$1.41	▲

Retail

	2023	2024	2025F	YoY
Total Retail Sales per Capita	$17,226	$16,878	$16,862	▼
Total Retail Sales Growth	1.9%	0.6%	1.1%	▲
New Supply (million sq. ft.)	3.30	3.80	2.35	▼

Multifamily

	2023	2024	2025F	YoY
Vacancy Rate	1.6%	2.7%	3.3%	▲
2-Bedroom Average Rent	$1,622	$1,729	$1,776	▲
New Rental Supply (units)	43,930	58,499	48,200	▼

All $ values are in CAD
Sources: CBRE Research, Oxford Economics, CMHC, 2025.

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09

Regional Outlook

Regional Outlook

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01 Victoria
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Victoria

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Strong suburban retail pre-leasing market

The Greater Victoria retail market remains dynamic in the suburban markets, observed through low vacancy rates in shopping centers and strong pre-leasing demand. New commercial developments such as Arbutus Landing are attracting interest from various retailers seeking expansion opportunities. In contrast, the downtown core continues to experience urban degradation, leading to higher turnover rates among restaurants and merchandise retailers. Ongoing initiatives aimed at enhancing local tourism, attracting cruise visitors, and encouraging return to office mandates are expected to play a crucial role in revitalizing the downtown retail landscape.

Flight-to-quality trend persists in Downtown Victoria

Downtown Class AA and Class C office inventories continue to be inversely correlated. High-quality spaces remain highly sought after in a flight-to-quality, resulting in a growing surplus of vacancy in older properties. This may propel an erosion in Class C market rents or push landlords to upgrade aging assets. The development pipeline remains narrow with TELUS Ocean being the only new office building anticipated in the coming years. A lack of new proposed projects will further constrain Class AA/A vacancy and see demand eventually shift to improved existing stock.

Interest rate decline will rekindle strata demand

Industrial sales in Greater Victoria were particularly impacted by high interest rates and the untimely delivery of 430,000 sq. ft. of new strata in the Westshore over 2024. This oversupply of industrial space is anticipated to stabilize over the long term, as the scarcity of freestanding industrial properties will drive active market participants toward the strata market. Additionally, the transition of retiring long-standing local operators is expected to increase vacancy in freestanding industrial inventory in the coming years.

Institutional trade sales and non-profit buyers trending in multifamily

Multifamily activity in Greater Victoria remains robust, driven by demand from institutional trade sales and the Canada Rental Protection Fund. The capital gains tax change sparked a surge in transactions within core plus real estate investments, as investors seized the opportunity to enhance their portfolios with well-occupied properties requiring minimal improvements. Provincial government housing initiatives, including mandated construction targets and transit-oriented area legislation, aim to fast track new housing supply and will continue to be prevalent in multifamily development land sales.

Office

DOWNTOWN	2023	2024	2025F	YoY
Inventory (million sq. ft.)	3.83	4.14	4.14	◀▶
Vacancy Rate (%)	10.4%	12.1%	12.5%	▲
Net Absorption (million sq. ft.)	0.08	-0.12	-0.02	▲
New Supply (million sq. ft.)	0.00	0.00	0.00	◀▶
Class A Net Asking Rent (per sq. ft.)	$22.71	$20.40	$19.79	▼
SUBURBAN				
Inventory (million sq. ft.)	5.54	5.31	5.33	▲
Vacancy Rate (%)	7.6%	6.0%	5.8%	▼
Net Absorption (million sq. ft.)	0.05	0.05	0.03	▼
New Supply (million sq. ft.)	0.01	0.00	0.02	▲
Class A Net Asking Rent (per sq. ft.)	$28.47	$29.38	$30.26	▲
OVERALL				
Inventory (million sq. ft.)	9.37	9.45	9.47	▲
Vacancy Rate (%)	8.7%	8.7%	8.7%	▲
Net Absorption (million sq. ft.)	0.13	-0.08	0.01	▲
New Supply (million sq. ft.)	0.01	0.00	0.02	▲
Class A Net Asking Rent (per sq. ft.)	$27.46	$27.76	$27.70	▼

Industrial

	2023	2024	2025F	YoY
Inventory (million sq. ft.)	9.97	10.40	10.40	◀▶
Availability Rate (%)	3.4%	5.1%	4.8%	▼
Net Absorption (million sq. ft.)	-0.03	0.25	0.03	▼
New Supply (million sq. ft.)	0.11	0.43	0.00	▼
Net Asking Rent (per sq. ft.)	$18.69	$19.86	$20.26	▲
Sale Price (per sq. ft.)	$500	$475	$490	▲

Retail

	2023	2024	2025F	YoY
Total Retail Sales per Capita	$20,119	$19,480	$19,698	▲
Total Retail Sales Growth	0.5%	-0.9%	2.4%	▲

Multifamily

	2023	2024	2025F	YoY
Vacancy Rate	1.6%	2.6%	3.4%	▲
2-Bedroom Average Rent	$1,839	$1,993	$2,095	▲
New Rental Supply (units)	2,139	2,572	2,775	▲

Sources: CBRE Research, CMHC, Oxford Economics, 2025.

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Vancouver

Office sector reverting to long term averages

Higher quality assets continue to outperform in the downtown office market with Class AAA and A inventory recording vacancy rates 300 basis points below that of Class B and C inventory. Vacancy in the downtown core has remained elevated with tenants undertaking rightsizing moves, however a noted resurgence in demand, along with no new supply, could result in a rebound to long term averages within 12 to 18 months for quality product. The inverse is playing out in the suburban markets with record levels of new supply and softening tenant demand. It is expected that suburban vacancy will rise above downtown again sometime in 2025, another sign of a return to normal market dynamics

Industrial demand is normalizing

Demand for large format industrial inventory has been impacted in recent quarters driven by an influx of new supply and a wave of sublease offerings. As a result, asking rates for industrial product have declined and deal incentives are on the rise. Delivery of new supply is expected to decline in 2025 allowing for vacancy to stabilize and tenant demand to catch up.

Land & development markets progress through period of adjustment

Development proformas are being impacted by a combination of reduced demand and project revenues, along with elevated costs of construction, financing and government fees. Inflation in end-unit pricing is no longer offsetting these cost increases, and as a result has significantly reduced residential development site sales from peak years. Distressed sales also make up a notable proportion of total land sales, a trend which should continue into early 2025. Market fundamentals are expected to continue to perform as they currently are until project revenues increase and/or costs decline

Investor confidence is on the rise

The resurgence in investment sales activity is expected to carry forward into 2025. Recent deal activity has been broad-based and total transaction volumes are at or above historical averages for almost every asset type. Pricing has adjusted with cap rates rising from their all-time lows, however, yields are expected to begin compressing again as asset class fundamentals improve and the bond rate stabilizes.

Office

DOWNTOWN	2023	2024	2025F	YoY
Inventory (million sq. ft.)	26.64	27.80	27.83	▲
Vacancy Rate (%)	11.0%	11.5%	10.6%	▼
Net Absorption (million sq. ft.)	0.29	0.88	0.28	▼
New Supply (million sq. ft.)	0.75	1.15	0.03	▼
Class A Net Asking Rent (per sq. ft.)	$47.08	$45.51	$45.90	▲
SUBURBAN				
Inventory (million sq. ft.)	25.21	25.98	26.53	▲
Vacancy Rate (%)	7.7%	10.8%	11.9%	▲
Net Absorption (million sq. ft.)	-0.39	-0.07	0.20	▲
New Supply (million sq. ft.)	0.13	0.80	0.55	▼
Class A Net Asking Rent (per sq. ft.)	$29.87	$32.47	$32.65	▲
OVERALL				
Inventory (million sq. ft.)	51.86	53.77	54.36	▲
Vacancy Rate (%)	9.4%	11.2%	11.3%	▲
Net Absorption (million sq. ft.)	-0.10	0.81	0.48	▼
New Supply (million sq. ft.)	0.88	1.95	0.58	▼
Class A Net Asking Rent (per sq. ft.)	$39.99	$38.46	$38.75	▲

Industrial

	2023	2024	2025F	YoY
Inventory (million sq. ft.)	216.14	220.60	225.16	▲
Availability Rate (%)	3.2%	5.3%	6.1%	▲
Net Absorption (million sq. ft.)	2.68	-0.34	2.52	▲
New Supply (million sq. ft.)	7.19	4.45	4.56	▲
Net Asking Rent (per sq. ft.)	$21.61	$20.09	$19.75	▼
Sale Price (per sq. ft.)	$550	$515	$515	◀▶
Land Price (per acre, $ millions)	$5.00	$5.00	$5.00	◀▶

Retail

	2023	2024	2025F	YoY
Total Retail Sales per Capita	$15,758	$15,409	$15,548	▲
Total Retail Sales Growth	0.0%	0.7%	2.5%	▲
New Supply (million sq. ft.)	0.27	0.72	0.17	▼

Multifamily

	2023	2024	2025F	YoY
Vacancy Rate	0.9%	1.6%	2.5%	▲
2-Bedroom Average Rent	$2,181	$2,314	$2,360	▲
New Rental Supply (units)	5,172	7,227	8,125	▲

Sources: CBRE Research, CMHC, Oxford Economics, 2025.

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BACK TO MENU

Calgary

Declining office inventory to drive vacancy reduction

Office inventory, both downtown and in the Beltline, is anticipated to decline in 2025 as buildings are removed from inventory for conversion and redevelopment opportunities. Rightsizing events and mergers and acquisitions in the energy industry are anticipated to return some excess space downtown, however the reduction of inventory is likely to cause an overall decline in vacancy rates. In the suburbs, positive momentum is expected to carry into 2025 as population growth will continue to generate activity from service-based users.

Industrial new supply falls significantly

The latest industrial development cycle is now largely complete after three years of record-breaking new supply deliveries, with 2025 anticipated to see few new supply deliveries or new construction starts. The recent development surge has substantially increased availability rates however, these are anticipated to decline gradually over the next year as larger vacancies are absorbed, especially when paired alongside limited additional new supply entering the market.

Retail continues to see strong performance

Calgary's retail market will continue to have low vacancy as robust demand levels are paired alongside record low levels of new supply. The city's record-setting population growth continues to help drive sales for retailers. Demand will continue to be strong for health and wellness, food and beverage, personal services, and several other categories. Meanwhile, construction is anticipated to increase slightly as higher rental rates and a lower interest rate environment have changed calculations on some new developments.

Multifamily market remains active

The market for multifamily assets in Calgary will continue to be robust after reaching record transaction volumes in 2024, with interest from all investor types. New supply levels will remain high as developers continue to turn over much needed inventory. Overall rental rate growth has slowed slightly from its rapid increase over the last few years; however, high construction costs have continued to place upward pressure on rents in new developments.

Office

DOWNTOWN	2023	2024	2025F	YoY
Inventory (million sq. ft.)	42.10	41.53	40.90	▼
Vacancy Rate (%)	30.2%	29.5%	28.4%	▼
Net Absorption (million sq. ft.)	0.41	-0.15	0.00	▲
New Supply (million sq. ft.)	0.00	0.00	0.00	◀▶
Class A Net Asking Rent (per sq. ft.)	$17.74	$19.10	$20.00	▲
SUBURBAN				
Inventory (million sq. ft.)	26.23	25.88	25.73	▼
Vacancy Rate (%)	24.2%	20.6%	18.9%	▼
Net Absorption (million sq. ft.)	0.26	0.64	0.40	▼
New Supply (million sq. ft.)	0.00	0.13	0.07	▼
Class A Net Asking Rent (per sq. ft.)	$19.60	$20.17	$21.15	▲
OVERALL				
Inventory (million sq. ft.)	68.33	67.41	66.63	▼
Vacancy Rate (%)	27.9%	26.1%	24.7%	▼
Net Absorption (million sq. ft.)	0.68	0.49	0.40	▼
New Supply (million sq. ft.)	0.00	0.13	0.07	▼
Class A Net Asking Rent (per sq. ft.)	$18.33	$19.42	$20.35	▲

Industrial

	2023	2024	2025F	YoY
Inventory (million sq. ft.)	156.83	162.44	163.71	▲
Availability Rate (%)	5.5%	5.8%	4.0%	▼
Net Absorption (million sq. ft.)	2.26	4.86	4.00	▼
New Supply (million sq. ft.)	6.03	5.61	1.26	▼
Net Asking Rent (per sq. ft.)	$11.33	$11.36	$11.55	▲
Sale Price (per sq. ft.)	$215	$220	$230	▲
Land Price (per acre)	$720,000	$740,000	$760,000	▲

Retail

	2023	2024	2025F	YoY
Total Retail Sales per Capita	$19,350	$18,856	$18,746	▼
Total Retail Sales Growth	5.5%	1.7%	2.0%	▲
New Supply (million sq. ft.)	0.60	0.38	0.37	▼

Multifamily

	2023	2024	2025F	YoY
Vacancy Rate	1.4%	4.8%	6.5%	▲
2-Bedroom Average Rent	$1,695	$1,882	$1,930	▲
New Rental Supply (units)	3,391	9,655	5,625	▼

Sources: CBRE Research, CMHC, Oxford Economics, 2025.

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Edmonton

Industrial rates rise as inflation stifles new construction

The industrial market will see demand from national and international users seeking lower real estate costs relative to other Canadian markets. Northwest Edmonton remains particularly tight for large bay distribution buildings, with very limited availability over 150,000 sq. ft. Growth will continue in the surrounding areas of Leduc, Acheson and Parkland County, which offer substantial property tax savings. As interest rates continue their downward trajectory, liquidity and valuations are projected to improve.

Tenant activity shows a flight-to-quality

The office market is expected to maintain positive absorption, favouring the suburban market. Notably, South Henday is forecast to experience tenant demand that will lower vacancy and create positive rental growth, allowing landlords to be selective and less aggressive on deal terms. Downtown, the trend of tenants migrating towards higher-quality buildings will continue. Office investment will be dominated by private capital, reflecting sustained local confidence in the market. Public and private sector efforts to revitalize and rejuvenate Downtown remains a top priority.

Rental momentum continues

Edmonton's economic outlook has created an enviable multifamily market. With a strong line-of-sight on growth drivers, rental demand should continue on its current trajectory, reinforcing rent growth and compressing vacancy. A significant post-secondary school presence with substantial growth initiatives will provide an additional layer of demand. Housing starts are also expected to increase, critical for maintaining the cost-of-living advantage of the city. Investment volumes will continue to be driven by private capital, along with rising institutional interest, as groups continue to leverage high household incomes and resulting benefits provided by the CMHC MLI Select program.

Entertainment and experiential retail to prevail

The Edmonton retail market should maintain steady momentum in 2025. Elevated construction costs continue to be a factor in high, required net rents and has created a temporary cap on new supply. In addition to a continued focus on entertainment and experiential uses, it is expected that other grocers will follow Loblaws' lead in creating smaller, more affordable store formats. Private investor demand will continue to outpace available investment opportunities, with institutional interest focused on necessity-based centres.

Office

DOWNTOWN	2023	2024	2025F	YoY
Inventory (million sq. ft.)	16.44	16.35	16.35	◀▶
Vacancy Rate (%)	22.9%	21.6%	23.6%	▲
Net Absorption (million sq. ft.)	-0.03	0.14	-0.32	▼
New Supply (million sq. ft.)	0.00	0.00	0.00	◀▶
Class A Net Asking Rent (per sq. ft.)	$19.34	$19.01	$19.01	◀▶
SUBURBAN				
Inventory (million sq. ft.)	9.92	9.90	9.90	◀▶
Vacancy Rate (%)	18.9%	15.8%	14.3%	▼
Net Absorption (million sq. ft.)	0.19	0.29	0.15	▼
New Supply (million sq. ft.)	0.00	0.07	0.00	▼
Class A Net Asking Rent (per sq. ft.)	$18.58	$17.93	$17.93	◀▶
OVERALL				
Inventory (million sq. ft.)	26.36	26.25	26.25	◀▶
Vacancy Rate (%)	21.4%	19.4%	20.1%	▲
Net Absorption (million sq. ft.)	0.15	0.43	-0.17	▼
New Supply (million sq. ft.)	0.00	0.07	0.00	▼
Class A Net Asking Rent (per sq. ft.)	$19.18	$18.78	$18.78	◀▶

Industrial

	2023	2024	2025F	YoY
Inventory (million sq. ft.)	157.39	159.03	161.18	▲
Availability Rate (%)	5.3%	4.6%	4.5%	▼
Net Absorption (million sq. ft.)	2.72	2.69	2.21	▼
New Supply (million sq. ft.)	2.62	1.64	2.15	▲
Net Asking Rent (per sq. ft.)	$9.80	$10.30	$10.50	▲
Sale Price (per sq. ft.)	$169	$178	$180	▲
Land Price (per acre)	$661,000	$680,000	$689,000	▲

Retail

	2023	2024	2025F	YoY
Total Retail Sales per Capita	$18,814	$18,395	$18,352	▼
Total Retail Sales Growth	5.3%	1.5%	2.1%	▲
New Supply (million sq. ft.)	0.52	0.80	0.60	▼

Multifamily

	2023	2024	2025F	YoY
Vacancy Rate	2.4%	3.1%	3.6%	▲
2-Bedroom Average Rent	$1,398	$1,536	$1,630	▲
New Rental Supply (units)	4,811	6,925	4,700	▼

Sources: CBRE Research, CMHC, Oxford Economics, 2025.

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Saskatoon

High-end office success

Saskatoon's River Landing which features over 400,000 sq. ft. of office space across two towers has reached full occupancy nearly two years after completion. The success of this riverfront development has transformed the downtown office market, resulting in significant vacancies in other Class A and B product. Occupiers are increasingly prioritizing high-quality, well-designed office spaces in strategic locations. Vacancies created by this flight-to-quality will be gradually filled over time.

Mining & resource sector growth to promote wider activity

Economic development in Saskatchewan will be predominantly driven by the mining and resource sectors. Notably, both BHP and Nutrien have increased their downtown office presence in anticipation of launching long-term potash projects in the province. Alongside the expected job growth within these companies, these initiatives will generate numerous new business opportunities for contractors in related fields such as logistics, engineering, and equipment manufacturing. This growth will not only benefit the companies involved, but also stimulate the broader economy by fostering a diverse array of ancillary services.

Retail remains steady

Strong leasing demand from national retailers has provided confidence for new retail projects to proceed. Saskatoon's expanding East-side is becoming increasingly attractive to both established brands and new entrants, thanks in part to a burgeoning population and evolving consumer preferences that favour convenience and accessibility. The threshold for the amount of rent that retail tenants are willing to pay has not yet been reached in new developments.

Healthy industrial development

There has been a surge of industrial construction across the city that is aiming to meet demand. Development activity overall is at a healthy level and currently encompasses a combination of build-to-suit projects and speculative construction initiatives. While Saskatoon's small bay industrial availability remains historically low, the overall market availability is gradually reverting back toward the historical average. Despite this positive trend, industrial rental rates continue to remain inflated, reflecting ongoing demand in the market.

Office

DOWNTOWN	2023	2024	2025F	YoY
Inventory (million sq. ft.)	3.32	3.32	3.32	◀▶
Vacancy Rate (%)	20.1%	19.4%	18.5%	▼
Net Absorption (million sq. ft.)	-0.03	0.03	0.03	◀▶
New Supply (million sq. ft.)	0.00	0.00	0.00	◀▶
Class A Net Asking Rent (per sq. ft.)	$19.03	$19.51	$19.63	▲
SUBURBAN				
Inventory (million sq. ft.)	3.23	3.23	3.23	◀▶
Vacancy Rate (%)	13.1%	11.5%	11.2%	▼
Net Absorption (million sq. ft.)	0.07	0.05	0.01	▼
New Supply (million sq. ft.)	0.04	0.00	0.00	◀▶
Class A Net Asking Rent (per sq. ft.)	$22.43	$23.07	$22.89	▼
OVERALL				
Inventory (million sq. ft.)	6.55	6.55	6.55	◀▶
Vacancy Rate (%)	16.7%	15.5%	14.9%	▼
Net Absorption (million sq. ft.)	0.04	0.08	0.04	▼
New Supply (million sq. ft.)	0.04	0.00	0.00	◀▶
Class A Net Asking Rent (per sq. ft.)	$21.56	$22.08	$22.06	▼

Industrial

	2023	2024	2025F	YoY
Inventory (million sq. ft.)	24.45	24.56	24.71	▲
Availability Rate (%)	3.4%	3.0%	2.9%	▼
Net Absorption (million sq. ft.)	0.47	0.20	0.16	▼
New Supply (million sq. ft.)	0.04	0.11	0.15	▲
Net Asking Rent (per sq. ft.)	$12.10	$12.71	$12.66	▼
Sale Price (per sq. ft.)	$190	$194	$198	▲
Land Price (per acre)	$575,000	$583,000	$587,000	▲

Retail

	2023	2024	2025F	YoY
Total Retail Sales per Capita	$19,592	$19,360	$19,031	▼
Total Retail Sales Growth	1.8%	2.1%	0.8%	▼

Multifamily

	2023	2024	2025F	YoY
Vacancy Rate	2.0%	2.0%	2.3%	▲
2-Bedroom Average Rent	$1,360	$1,471	$1,510	▲
New Rental Supply (units)	1,145	773	950	▲

Sources: CBRE Research, CMHC, Oxford Economics, 2025.

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Winnipeg

Industrial development to proceed at modest pace

Industrial development in Winnipeg has experienced a notable slowdown from its peak in recent years. Rising construction costs and decreased absorption have prompted developers to reassess future projects. While continued industrial development is anticipated in the near term, it is likely to proceed at a measured pace. This is primarily due to the significant volume of new large bay industrial space delivered over the last three years. Despite lower levels of absorption, rental rates are expected to continue to increase steadily across all types of industrial inventory.

Suburban office market will continue to outshine downtown

Vacancy in the Winnipeg office market has stabilized in recent quarters. While downtown vacancy rates remain elevated; they appear to have plateaued, a positive sign for the market. The suburban sector meanwhile has and will continue to outperform the downtown core, as companies continue to relocate to these areas. Supported by shorter commute times, demand for suburban office product is expected to maintain robust levels of leasing activity in 2025. The downtown office market meanwhile is likely to remain stagnant.

Retail development playing catch-up

The Winnipeg retail market has experienced remarkable growth in 2024 and boasts the lowest vacancy rate of any commercial asset class in the city. Increasing demand for retail space has developers working diligently to keep pace with numerous significant retail projects currently underway. Many of these developments are expected to be quickly absorbed in this competitive market.

Economic confidence drawing investors back to market

Market activity has been relatively subdued due to economic uncertainty and persistently high interest rates. However, 2025 is anticipated to mark a turning point for these challenges, with consumer sentiment beginning to improve. Inflation is settling and lending rates have already begun to drop across the country, with more decreases projected for 2025. We expect transaction volumes to normalize as lending becomes more viable and investors re-enter the market.

Office

DOWNTOWN	2023	2024	2025F	YoY
Inventory (million sq. ft.)	10.01	10.63	10.64	▲
Vacancy Rate (%)	18.4%	18.7%	18.7%	◀▶
Net Absorption (million sq. ft.)	-0.20	0.29	0.01	▼
New Supply (million sq. ft.)	0.00	0.38	0.01	▼
Class A Net Asking Rent (per sq. ft.)	$19.34	$19.40	$19.50	▲
SUBURBAN				
Inventory (million sq. ft.)	4.05	3.99	3.99	◀▶
Vacancy Rate (%)	10.9%	10.3%	9.5%	▼
Net Absorption (million sq. ft.)	-0.10	0.08	0.03	▼
New Supply (million sq. ft.)	0.00	0.01	0.00	▼
Class B Net Asking Rent (per sq. ft.)	$17.32	$17.44	$17.60	▲
OVERALL				
Inventory (million sq. ft.)	14.06	14.62	14.63	▲
Vacancy Rate (%)	16.3%	16.4%	16.2%	▼
Net Absorption (million sq. ft.)	-0.30	0.37	0.04	▼
New Supply (million sq. ft.)	0.00	0.39	0.01	▼
Class A Net Asking Rent (per sq. ft.)	$19.34	$19.40	$19.50	▲

Industrial

	2023	2024	2025F	YoY
Inventory (million sq. ft.)	86.49	87.36	87.56	▲
Availability Rate (%)	2.5%	3.2%	3.2%	▲
Net Absorption (million sq. ft.)	0.09	-0.16	0.16	▲
New Supply (million sq. ft.)	0.57	0.52	0.20	▼
Net Asking Rent (per sq. ft.)	$10.89	$10.97	$11.00	▲
Sale Price (per sq. ft.)	$142	$170	$175	▲
Land Price (per acre)	$550,000	$565,000	$565,000	◀▶

Retail

	2023	2024	2025F	YoY
Total Retail Sales per Capita	$16,408	$16,217	$16,037	▼
Total Retail Sales Growth	3.1%	1.3%	0.2%	▼
New Supply (million sq. ft.)	0.09	0.03	0.02	▼

Multifamily

	2023	2024	2025F	YoY
Vacancy Rate	1.8%	1.7%	2.0%	▲
2-Bedroom Average Rent	$1,427	$1,507	$1,580	▲
New Rental Supply (units)	2,586	3,413	2,250	▼

Sources: CBRE Research, CMHC, Oxford Economics, 2025.

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London

Growing demand for medical real estate investments

London is witnessing notable investment interest in medical buildings, driven by demand for increased healthcare accessibility. Canadian and foreign investors are targeting properties in London and nearby areas, pivoting focus from retail to the resilient healthcare sector. Supported by population growth and the need for specialized medical facilities, this trend underscores a significant transformation in investment strategies within the city.

Industrial space demand amid uncertainty

The anticipated St. Thomas Volkswagen and PowerCo battery cell gigafactory is the focus of conversation across Southwestern Ontario. Should the facility open as expected in 2027, employment outlooks and population growth are forecast to swell across the region. An associated rise in industrial demand is expected in nearby London and may tighten the already constrained market even further due to limited speculative construction. Investors are monitoring development opportunities as the factory will significantly impact industrial land values and influence regional market dynamics in the years to come.

Population growth to fuel multifamily demand

Despite recent fluctuations in population growth, optimism remains around future trends, particularly with the anticipated opening of the Volkswagen plant in 2027. As such, demand for multifamily housing is expected to rise. Future downtown development opportunities however face hurdles related to infrastructure constraints and a lack of available developable land. Addressing these challenges could pave the way for new apartment complexes and provide a solution to future housing shortages.

Office market stabilization through adaptation

The downtown office market in London is facing significant challenges, characterized by staggeringly high vacancy and a lack of demand. With companies downsizing and employees favouring suburban locations, there is potential for innovative leasing strategies to emerge. A renewed focus on office utilization and city initiatives aimed at boosting downtown activity could inspire positive transformation. With the right efforts, the future of the market holds promise for growth and revitalization.

Office

DOWNTOWN	2023	2024	2025F	YoY
Inventory (million sq. ft.)	4.80	4.58	4.24	▼
Vacancy Rate (%)	28.5%	31.7%	33.0%	▲
Net Absorption (million sq. ft.)	-0.16	-0.25	0.03	▲
New Supply (million sq. ft.)	0.00	0.00	0.00	◀▶
Class A Net Asking Rent (per sq. ft.)	$15.07	$15.43	$15.35	▼
SUBURBAN				
Inventory (million sq. ft.)	1.58	1.56	1.56	◀▶
Vacancy Rate (%)	10.6%	9.9%	9.4%	▼
Net Absorption (million sq. ft.)	-0.02	0.01	0.01	◀▶
New Supply (million sq. ft.)	0.00	0.00	0.00	◀▶
Class B Net Asking Rent (per sq. ft.)	$13.30	$13.70	$13.85	▲
OVERALL				
Inventory (million sq. ft.)	6.38	6.14	5.80	▼
Vacancy Rate (%)	24.0%	26.2%	26.7%	▲
Net Absorption (million sq. ft.)	-0.18	-0.24	0.04	▲
New Supply (million sq. ft.)	0.00	0.00	0.00	◀▶
Class A Net Asking Rent (per sq. ft.)	$15.07	$15.43	$15.35	▼

Industrial

	2023	2024	2025F	YoY
Inventory (million sq. ft.)	41.64	42.43	42.57	▲
Availability Rate (%)	0.7%	2.8%	3.3%	▲
Net Absorption (million sq. ft.)	0.41	-0.10	-0.08	▲
New Supply (million sq. ft.)	0.25	0.79	0.13	▼
Net Asking Rent (per sq. ft.)	$10.05	$10.37	$10.00	▼
Sale Price (per sq. ft.)	$184	$203	$195	▼
Land Price (per acre)	$450,000	$450,000	$450,000	◀▶

Retail

	2023	2024	2025F	YoY
Total Retail Sales per Capita	$17,579	$17,248	$17,253	▲
Total Retail Sales Growth	3.4%	0.8%	1.0%	▲
New Supply (million sq. ft.)	0.07	0.00	0.00	▼

Multifamily

	2023	2024	2025F	YoY
Vacancy Rate	1.7%	2.9%	3.5%	▲
2-Bedroom Average Rent	$1,479	$1,548	$1,580	▲
New Rental Supply (units)	701	2,309	1,925	▼

Sources: CBRE Research, CMHC, Oxford Economics, 2025.

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BACK TO MENU

Waterloo Region

Adjusting tenant-favoured industrial market

The Waterloo Region industrial market is facing increasing vacancy and declining lease rates, creating a tenant-favored environment. While the influx of new supply has eased from 2023's peak, a strong future pipeline of 2.2 million sq. ft. is projected for completion next year. Ongoing development, along with stabilizing economic conditions, indicates that the downward pressure on the industrial sales and land market may ease by mid-2025, as deal activity is expected to rise with anticipated declines in interest rates.

Retail investment resurgence amidst rate cuts

Interest in retail is rising, especially in the food and grocery segment which ties to consumers prioritization of convenience and accessibility. Strong demand, fueled by low vacancy and limited new construction, is driving lease rates upward. As a result, investors are increasingly pursing retail and actively seeking opportunities with enhanced property value. Further, declining interest rates are causing a mindset shift of investors from cautious to enthusiastic. This trend is expected to persist, fostering a favourable environment in the coming years.

Multifamily stability with limited supply

The multifamily market in the Waterloo Region remains steady, driven by strong demand and limited product availability. Despite a surge in completions, the market is not experiencing significant downward pressure, suggesting resilience. Investors are keen on purpose-built rental constructions, particularly in desirable urban areas. As competition for high-quality multifamily assets intensifies, it is expected that vacancy rates will remain low, making it a stable investment class, even as new developments come online.

Anticipated growth in medical office spaces

The medical office sector is set for significant growth in Waterloo Region, fueled by healthcare innovations and the upcoming super hospital. A collaboration between the Region's major hospitals, this new facility will create increased demand for medical office space, making it the most active segment in the market. Further demand is anticipated as this sector increasingly moves towards privatization. With the University of Waterloo's new Innovation Arena offering 90,000 sq. ft. wet lab incubator space, the Region is poised to become a hub for cutting-edge healthcare solutions and research advancements.

Office

DOWNTOWN	2023	2024	2025F	YoY
Inventory (million sq. ft.)	5.01	4.72	4.72	◀▶
Vacancy Rate (%)	22.9%	29.6%	32.9%	▲
Net Absorption (million sq. ft.)	-0.13	-0.25	-0.16	▲
New Supply (million sq. ft.)	0.00	0.00	0.00	◀▶
Class A Net Asking Rent (per sq. ft.)	$27.14	$26.47	$26.05	▼
SUBURBAN				
Inventory (million sq. ft.)	11.65	11.60	11.60	◀▶
Vacancy Rate (%)	12.6%	13.2%	13.8%	▲
Net Absorption (million sq. ft.)	0.03	-0.08	-0.07	▲
New Supply (million sq. ft.)	0.23	0.02	0.00	▼
Class A Net Asking Rent (per sq. ft.)	$16.61	$16.46	$16.00	▼
OVERALL				
Inventory (million sq. ft.)	16.66	16.32	16.32	◀▶
Vacancy Rate (%)	15.7%	17.9%	19.3%	▲
Net Absorption (million sq. ft.)	-0.10	-0.33	-0.23	▲
New Supply (million sq. ft.)	0.23	0.02	0.00	▼
Class A Net Asking Rent (per sq. ft.)	$19.64	$18.96	$18.50	▼

Industrial

	2023	2024	2025F	YoY
Inventory (million sq. ft.)	120.27	123.69	125.90	▲
Availability Rate (%)	2.8%	6.0%	6.9%	▲
Net Absorption (million sq. ft.)	2.02	-0.73	0.98	▲
New Supply (million sq. ft.)	4.35	3.43	2.21	▼
Net Asking Rent (per sq. ft.)	$14.02	$13.85	$13.85	◀▶
Sale Price (per sq. ft.)	$255	$259	$260	▲
Land Price (per acre, $ millions)	$1.05	$1.04	$1.02	▼

Retail

	2023	2024	2025F	YoY
Total Retail Sales per Capita	$14,623	$14,378	$14,401	▲
Total Retail Sales Growth	2.7%	1.8%	1.5%	▼
New Supply (million sq. ft.)	0.01	0.06	0.12	▲

Multifamily

	2023	2024	2025F	YoY
Vacancy Rate	2.1%	3.6%	3.9%	▲
2-Bedroom Average Rent	$1,658	$1,766	$1,800	▲
New Rental Supply (units)	1,397	1,832	1,075	▼

Sources: CBRE Research, CMHC, Oxford Economics, 2025.

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BACK TO MENU

Toronto

Occupiers driving flight-to-experience

There is renewed confidence in the Toronto office market going into 2025 as tenants have become more refined in what's driving their real estate decisions. Demand for centrally located, well-amenitized, operationally efficient assets that either offer or augment what occupiers can provide within their own footprint has put a spotlight on best-in-class properties. Healthy leasing momentum should continue into the new year right as the construction pipeline is winding down, lending confidence to a mid-term recovery of the office sector.

Softer industrial dynamics to persist

Industrial dynamics have softened in Toronto, with demand shifting from 3PL's toward the end-user. Expect the development pipeline to slow over 2025 as the market continues to work through recently delivered vacant new supply. Downward pressure on rental rates will persist over the near to mid-term, with the delta between new and older facilities anticipated to widen further. Deals will continue to happen in the year ahead but will take longer to complete amid this period of greater optionality.

Positive retail sentiment and momentum

Momentum and sentiment around the retail sector is expected to remain positive into 2025. Necessity-based retail, beauty, fitness, entertainment and discount are driving demand and are poised for future growth, albeit in a more conservative manner than in years prior. A restricted new supply pipeline meanwhile will continue to constrain the market, putting pressure on vacancy and rents. Retailers will be strategic in the year ahead, either by exploring secondary nodes across the city or by modifying the scale of their typical store.

Residential rental demand to stay healthy

The glut of newly completed residential condo units that delivered in 2024 has shifted purpose-built rental market dynamics in Toronto. Vacancy rates have risen from their ultra-low levels and are projected to increase further in 2025 given more new supply on the way. Higher vacancy is increasing competition and dampening overall rental rate growth. Despite curbs to national immigration policies, Toronto will remain a top destination for new residents and support demand to absorb excess vacancy over the next couple of years.

Office

DOWNTOWN	2023	2024	2025F	YoY
Inventory (million sq. ft.)	94.14	96.11	97.36	▲
Vacancy Rate (%)	17.6%	19.0%	18.2%	▼
Net Absorption (million sq. ft.)	-2.73	0.43	2.43	▲
New Supply (million sq. ft.)	1.12	2.32	1.89	▼
Class A Net Asking Rent (per sq. ft.)	$35.17	$35.46	$35.85	▲
SUBURBAN				
Inventory (million sq. ft.)	77.02	77.09	77.23	▲
Vacancy Rate (%)	20.5%	20.7%	20.6%	▼
Net Absorption (million sq. ft.)	-0.98	0.01	0.18	▲
New Supply (million sq. ft.)	0.06	0.36	0.15	▼
Class A Net Asking Rent (per sq. ft.)	$18.92	$18.98	$18.95	▼
OVERALL				
Inventory (million sq. ft.)	171.16	173.20	174.59	▲
Vacancy Rate (%)	18.9%	19.7%	19.3%	▼
Net Absorption (million sq. ft.)	-3.72	0.44	2.60	▲
New Supply (million sq. ft.)	1.17	2.67	2.04	▼
Class A Net Asking Rent (per sq. ft.)	$28.56	$28.85	$29.05	▲

Industrial

	2023	2024	2025F	YoY
Inventory (million sq. ft.)	832.96	845.03	855.21	▲
Availability Rate (%)	2.7%	4.7%	5.7%	▲
Net Absorption (million sq. ft.)	2.05	-2.33	0.68	▲
New Supply (million sq. ft.)	16.98	14.20	10.18	▼
Net Asking Rent (per sq. ft.)	$18.25	$17.18	$16.90	▼
Sale Price (per sq. ft.)	$384	$358	$350	▼
Land Price (per acre, $ millions)	$2.00	$1.85	$1.92	▲

Retail

	2023	2024	2025F	YoY
Total Retail Sales per Capita	$17,036	$16,397	$16,461	▲
Total Retail Sales Growth	0.6%	-0.7%	2.0%	▲
New Supply (million sq. ft.)	1.24	0.74	0.88	▲

Multifamily

	2023	2024	2025F	YoY
Vacancy Rate	1.4%	2.5%	3.2%	▲
2-Bedroom Average Rent	$1,961	$1,974	$1,975	▲
New Rental Supply (units)	6,594	5,361	5,975	▲

Sources: CBRE Research, CMHC, Oxford Economics, 2025.

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BACK TO MENU

Ottawa

Office uncertainty coming to an end

Despite being one of the tightest office markets in Canada, vacancy could see an uptick as more shadow vacancies are set to emerge. Nevertheless, office occupiers will continue to drive demand for quality, well-amenitized spaces amidst a flight-to-quality. While there is some uncertainty regarding the future of the federal government's office portfolio, the upcoming election cycle and the government's new workplace strategy initiative will provide much needed clarity for the market. Leasing velocity is expected to remain stable with possible upside potential in 2025.

Industrial supply remains tight

2024 has been a solid year for industrial leasing fundamentals with demand expected to persist into 2025. However, an overall lack of supply has strained the Ottawa market, putting upwards pressure on rents. Although some developers are still hesitant to build on speculation, strong leasing momentum could propel some projects to start construction, alleviating some of the mid-to-large bay demand in the market. Rents are still expected to increase amidst this supply constraint, albeit at a much slower rate.

Strong rental demand provides positive outlook for multifamily

Demand for multifamily was strong in 2024 with plenty of rental units continuing to be absorbed, particularly single units and bachelors. In 2025, Ottawa will observe several large scale multifamily projects start or potentially get completed, introducing new supply to a relatively tight market and leaving room for more mid-rise projects to appear. Rental demand is expected to remain strong and yield positive absorption, albeit at a slower rate due to the number of units coming to market.

Improving economic conditions will favour the retail market

Ottawa observed tight conditions in 2024 as retail tenants navigated a market with little quality supply. Heightened construction costs have slowed down the delivery of projects, placing landlords in a better position for negotiation. 2025 will continue to observe strong retail demand as increased consumer confidence will provide a boost to overall consumption. On the supply side, lowered interest rates will help reduce construction costs, which will aid in introducing new inventory and cool down the market.

Office

DOWNTOWN	2023	2024	2025F	YoY
Inventory (million sq. ft.)	18.30	18.24	18.24	◀▶
Vacancy Rate (%)	14.2%	15.6%	15.2%	▼
Net Absorption (million sq. ft.)	-0.59	-0.28	0.08	▲
New Supply (million sq. ft.)	0.06	0.00	0.00	◀▶
Class A Net Asking Rent (per sq. ft.)	$23.18	$23.88	$24.00	▲
SUBURBAN				
Inventory (million sq. ft.)	22.64	22.34	22.41	▲
Vacancy Rate (%)	12.5%	9.9%	10.1%	▲
Net Absorption (million sq. ft.)	-0.46	0.43	0.02	▼
New Supply (million sq. ft.)	0.00	0.00	0.07	▲
Class A Net Asking Rent (per sq. ft.)	$15.81	$15.58	$15.65	▲
OVERALL				
Inventory (million sq. ft.)	40.94	40.58	40.65	▲
Vacancy Rate (%)	13.3%	12.4%	12.4%	◀▶
Net Absorption (million sq. ft.)	-1.05	0.14	0.10	▼
New Supply (million sq. ft.)	0.06	0.00	0.07	▲
Class A Net Asking Rent (per sq. ft.)	$18.97	$19.71	$19.80	▲

Industrial

	2023	2024	2025F	YoY
Inventory (million sq. ft.)	37.28	38.60	39.06	▲
Availability Rate (%)	2.6%	3.1%	3.4%	▲
Net Absorption (million sq. ft.)	0.63	0.30	0.33	▲
New Supply (million sq. ft.)	0.72	0.53	0.46	▼
Net Asking Rent (per sq. ft.)	$15.44	$16.62	$17.10	▲
Sale Price (per sq. ft.)	$313	$361	$370	▲
Land Price (per acre, $ millions)	$1.18	$1.10	$1.07	▼

Retail

	2023	2024	2025F	YoY
Total Retail Sales per Capita	$17,989	$17,852	$17,871	▲
Total Retail Sales Growth	2.1%	1.9%	1.4%	▼
New Supply (million sq. ft.)	0.09	0.00	0.03	▲

Multifamily

	2023	2024	2025F	YoY
Vacancy Rate	2.1%	2.6%	3.1%	▲
2-Bedroom Average Rent	$1,698	$1,880	$1,955	▲
New Rental Supply (units)	3,337	4,191	4,225	▲

Sources: CBRE Research, CMHC, Oxford Economics, 2025.

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BACK TO MENU

Montreal

Mid bay to continue leading deal activity

The Montreal industrial market is expected to remain tenant leaning in the first half of 2025. Large bay warehousing will continue to lease slowly, as consumer spending will need a major jolt to flip this narrative. Deal flow will focus around mid bay spaces, particularly among product with clear heights above 26" and in locations with ample power. As major landlords have already reduced their asking net rents repeatedly in 2024, there is consensus that lease rates will stabilize by the end of 2025.

Recovering foot traffic downtown a boon for street front retail

Downtown metro station entry data has shown a building momentum around foot traffic recovery. In 2023, tracked entries came in at 67% of 2019 levels; 2024 has seen that gap narrow, with entries now closer to 80%. As in-office attendance continues to rise, 2025 will see this trend gradually improve, and will add much needed exposure for retail tenants on Sainte-Catherine Street West.

Flight-to-quality will continue to drive office leasing

Trophy assets have been front and center, driven by major consolidation efforts by companies like National Bank and Canadian National Rail. Vacancy rates for trophy assets – Class AAA and AA buildings - will remain tight and is expected to extend into Prime A properties which have received substantial investment in modernization. Leasing momentum will be primarily focused on the central business district, with less activity in midtown and the suburban areas. 2025 will be a catalyst year in determining the trough for office leasing.

Institutional investors switching back to acquisition mode

Institutional investors have largely remained on the sidelines since the implementation of the Bank of Canada's quantitative tightening policies. However, following multiple rate cuts, there is optimism that low borrowing costs will fuel an investment market rally. It is anticipated that institutional investors will focus primarily on multifamily, linked to the pressing issue of housing affordability, and industrial assets, where availability rates are expected to peak in the first half of 2025.

Office

DOWNTOWN	2023	2024	2025F	YoY
Inventory (million sq. ft.)	45.70	47.14	47.35	▲
Vacancy Rate (%)	18.0%	18.2%	19.0%	▲
Net Absorption (million sq. ft.)	-0.72	1.01	-0.21	▼
New Supply (million sq. ft.)	0.25	1.43	0.21	▼
Class A Net Asking Rent (per sq. ft.)	$25.23	$25.81	$25.90	▲
SUBURBAN				
Inventory (million sq. ft.)	33.99	34.41	34.41	◀▶
Vacancy Rate (%)	18.9%	21.2%	22.2%	▲
Net Absorption (million sq. ft.)	-0.28	-0.77	-0.33	▲
New Supply (million sq. ft.)	0.00	0.14	0.00	▼
Class A Net Asking Rent (per sq. ft.)	$17.35	$18.16	$18.20	▲
OVERALL				
Inventory (million sq. ft.)	79.70	81.55	81.76	▲
Vacancy Rate (%)	18.4%	19.5%	20.4%	▲
Net Absorption (million sq. ft.)	-1.01	0.24	-0.54	▼
New Supply (million sq. ft.)	0.25	1.57	0.21	▼
Class A Net Asking Rent (per sq. ft.)	$22.16	$22.37	$22.45	▲

Industrial

	2023	2024	2025F	YoY
Inventory (million sq. ft.)	328.94	332.51	334.21	▲
Availability Rate (%)	3.1%	5.0%	5.7%	▲
Net Absorption (million sq. ft.)	-2.22	-3.05	-0.73	▲
New Supply (million sq. ft.)	3.94	3.23	1.70	▼
Net Asking Rent (per sq. ft.)	$16.48	$15.24	$15.24	◀▶
Sale Price (per sq. ft.)	$258	$246	$250	▲
Land Price (per acre, $ millions)	$1.83	$1.83	$1.74	▼

Retail

	2023	2024	2025F	YoY
Total Retail Sales per Capita	$17,179	$16,803	$16,853	▲
Total Retail Sales Growth	5.5%	-0.2%	1.0%	▲
New Supply (million sq. ft.)	0.33	0.94	0.09	▼

Multifamily

	2023	2024	2025F	YoY
Vacancy Rate	1.5%	2.1%	2.4%	▲
2-Bedroom Average Rent	$1,096	$1,176	$1,205	▲
New Rental Supply (units)	13,851	15,495	11,550	▼

Sources: CBRE Research, CMHC, Oxford Economics, 2025.

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BACK TO MENU

Quebec City

Industrial net asking rates could stabilize in H1 2025

Industrial availability and rental rates have softened in Quebec City, mirroring the national trend. There is a lack of large bay listings in the region, however, 2025 will see small bay product as the driving force of absorption compared to mid bay inventory in Montreal. Institutional landlords have an outweighed representation of available listings and given the consecutive rental adjustments noted in 2024, are anticipated to stabilize around mid-year 2025.

Tale of two markets in office leasing

Quebec City's office leasing fundamentals are imbalanced between the suburban submarkets of Sainte-Foy and Laurier and the central business district. Sainte-Foy and Laurier have maintained tight vacancy rates, and as hybrid work matures, it is anticipated that these submarkets will continue their recent strong performances. Contrastingly, the Downtown Fringe and Saint-Roch submarkets have struggled to recover at the same pace as other Canadian downtown areas, particularly as certain FIRE tenants have maintained "work from anywhere" policies. Expect further negative net absorption downtown until this narrative flips.

Grocery-anchored assets will continue to be the jewel of retail

Leyad acquired Mega Centre Lebourgneuf for $66.5 million in 2024. This 342,000 sq. ft. retail center features high-profile tenants including Sail, Home Depot, Sports Experts, Costco, and Maxi. The presence of Costco and Maxi highlights the continued influence of grocery tenants on retail investment decisions, as they generate significant foot traffic. Looking ahead to 2025, retail sales as of September 2024 from Oxford Economics are projected to grow at a slow rate of 1.7%, with consumer spending expected to increase by only 1.4%. As a result, acquisitions of necessity-based retail properties will remain a priority for investors.

Multifamily construction starts moving in the right direction

Quebec City's low rental vacancy rate of 0.9% can be linked to a strong demand for housing. October year-to-date data from the CMHC illustrates that construction starts have increased significantly, with 4,569 purpose-built rental units under development compared to 3,970 in 2023. This trend is promising and could help achieve a balanced housing market in the short term and will be particularly crucial as immigration rates are expected to decline following federal policy adjustments.

Office

DOWNTOWN	2023	2024	2025F	YoY
Inventory (million sq. ft.)	7.32	7.32	7.32	◀▶
Vacancy Rate (%)	15.2%	16.0%	16.5%	▲
Net Absorption (million sq. ft.)	-0.17	-0.06	-0.04	▲
New Supply (million sq. ft.)	0.00	0.00	0.00	◀▶
Class A Net Asking Rent (per sq. ft.)	$15.61	$15.81	$15.95	▲
SUBURBAN				
Inventory (million sq. ft.)	11.63	11.63	11.63	◀▶
Vacancy Rate (%)	9.2%	9.9%	10.7%	▲
Net Absorption (million sq. ft.)	-0.26	-0.09	-0.09	◀▶
New Supply (million sq. ft.)	0.04	0.00	0.00	◀▶
Class A Net Asking Rent (per sq. ft.)	$18.71	$18.40	$18.23	▼
OVERALL				
Inventory (million sq. ft.)	18.95	18.95	18.95	◀▶
Vacancy Rate (%)	11.5%	12.3%	12.9%	▲
Net Absorption (million sq. ft.)	-0.44	-0.15	-0.13	▲
New Supply (million sq. ft.)	0.04	0.00	0.00	◀▶
Class A Net Asking Rent (per sq. ft.)	$16.53	$16.52	$16.50	▼

Industrial

	2023	2024	2025F	YoY
Inventory (million sq. ft.)	22.37	22.57	22.58	▲
Availability Rate (%)	3.1%	5.0%	5.5%	▲
Net Absorption (million sq. ft.)	0.04	-0.21	-0.11	▲
New Supply (million sq. ft.)	0.27	0.22	0.02	▼
Net Asking Rent (per sq. ft.)	$15.17	$14.29	$14.29	◀▶
Sale Price (per sq. ft.)	$250	$185	$190	▲
Land Price (per acre)	$700,000	$790,000	$790,000	◀▶

Retail

	2023	2024	2025F	YoY
Total Retail Sales per Capita	$19,471	$19,729	$19,927	▲
Total Retail Sales Growth	6.1%	3.4%	1.7%	▼

Multifamily

	2023	2024	2025F	YoY
Vacancy Rate	0.9%	0.9%	1.2%	▲
2-Bedroom Average Rent	$1,040	$1,159	$1,195	▲
New Rental Supply (units)	5,534	5,758	5,750	▼

Sources: CBRE Research, CMHC, Oxford Economics, 2025.

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Halifax

Retail market remains tight

Retail activity remains strong, however there is a growing divide between luxury and discount retailers that is being spurred on by evolving population demographics. Developers are facing major challenges as high construction costs and slow permitting processes stall new retail developments from breaking ground. Coupled with record low vacancy rates, retailers are facing stiff competition to secure prime locations, leading to higher rental rates along with more aggressive lease terms in favour of the landlord.

Industrial stays optimistic

Halifax saw a record breaking amount of new industrial supply in 2024 which aided in alleviating some of the pent-up demand experienced over the last few years. That said, the market remains quite competitive with relatively low availability and rising rental rates. This has led many users to renew in place on shorter lease terms when possible rather than relocating. Rising labour and capital costs coupled with higher land values will continue to push rental rates upward, increasing the demand for owner-occupied assets, especially among price-conscious occupiers looking for operational efficiencies.

Multifamily in high demand

Multifamily demand is at an all-time high in Halifax, and while there has been record levels of residential construction starts, strong population growth and the associated need for housing continues to outpace supply. Despite recently removing the provincial portion of HST on new apartment construction, limited labour capacity, lengthy approval timelines, and increased construction costs are all playing a role in hampering development. Without government subsidization, elevated rents will be needed to ensure positive cash flow, leading to a mismatch in what the government considers affordable housing in the year ahead.

Flight-to-experience and convenience

Halifax's office market continues to outperform much of Canada in terms of decreasing vacancy, yet recovery will remain slow. Return to office mandates have led to a flight-to-experience as employees are demanding more from their employers, landlords, and the spaces they inhabit. Employees are looking for functional, enjoyable and engaging workspaces that enhance a work-life balance. The suburbs have and will continue to outperform the urban core due to convenience, while well thought-out Class A space will continue to do well across the market.

Office

DOWNTOWN	2023	2024	2025F	YoY
Inventory (million sq. ft.)	5.30	5.18	5.18	◀▶
Vacancy Rate (%)	17.9%	16.1%	15.7%	▼
Net Absorption (million sq. ft.)	0.00	0.09	0.02	▼
New Supply (million sq. ft.)	0.00	0.00	0.00	◀▶
Class A Net Asking Rent (per sq. ft.)	$19.16	$19.71	$19.85	▲
SUBURBAN				
Inventory (million sq. ft.)	7.73	7.68	7.68	◀▶
Vacancy Rate (%)	11.5%	9.8%	9.0%	▼
Net Absorption (million sq. ft.)	0.11	0.14	0.06	▼
New Supply (million sq. ft.)	0.00	0.00	0.00	◀▶
Class A Net Asking Rent (per sq. ft.)	$17.16	$16.92	$17.05	▲
OVERALL				
Inventory (million sq. ft.)	13.03	12.86	12.86	◀▶
Vacancy Rate (%)	14.1%	12.3%	11.7%	▼
Net Absorption (million sq. ft.)	0.11	0.22	0.08	▼
New Supply (million sq. ft.)	0.00	0.00	0.00	◀▶
Class A Net Asking Rent (per sq. ft.)	$18.35	$18.51	$18.65	▲

Industrial

	2023	2024	2025F	YoY
Inventory (million sq. ft.)	14.30	15.46	15.56	▲
Availability Rate (%)	2.4%	7.9%	8.1%	▲
Net Absorption (million sq. ft.)	0.11	0.27	0.07	▼
New Supply (million sq. ft.)	0.28	1.16	0.10	▼
Net Asking Rent (per sq. ft.)	$10.90	$12.52	$13.20	▲
Sale Price (per sq. ft.)	$300	$330	$345	▲
Land Price (per acre)	$650,000	$850,000	$887,000	▲

Retail

	2023	2024	2025F	YoY
Total Retail Sales per Capita	$19,411	$19,143	$18,810	▼
Total Retail Sales Growth	4.1%	0.9%	0.0%	▼
New Supply (million sq. ft.)	0.09	0.11	0.06	▼

Multifamily

	2023	2024	2025F	YoY
Vacancy Rate	1.0%	2.1%	2.6%	▲
2-Bedroom Average Rent	$1,628	$1,707	$1,740	▲
New Rental Supply (units)	2,090	2,091	2,750	▲

Sources: CBRE Research, CMHC, Oxford Economics, 2025.

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