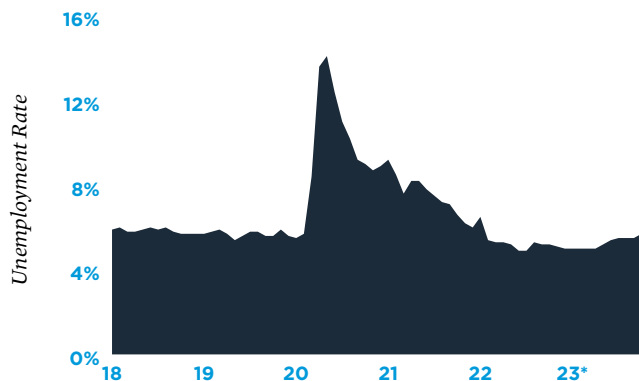


Further Uptick in Unemployment Supports View that Interest Rate Hiking Cycle is Finished

Labour market continues to soften as interest rates are absorbed. Canada's economy added 17,500 jobs in October, below the consensus estimate of 22,500. At the same time, the unemployment rate inched up to 5.7 per cent – from 5.5 per cent in September – as labour force growth outpaced job gains amid historic immigration. Canada's jobless rate has now increased four times in the past six months, reaching the highest level since the 6.5 per cent reading in January 2022. This indicates that the Bank of Canada's 475-basis-point increase in its overnight rate over the past two years is impacting the broader economy. The hours worked held essentially unchanged in October, suggesting that labour demand is gradually easing. Coupled with an ongoing increase in labour supply, Canada's Central Bank should feel confident that wage growth will continue to ease, and that the current monetary policy level is restrictive enough to bring down inflation.

Next move by Bank of Canada likely to be an interest rate cut. Canada's Central Bank has been closely monitoring the labour market to determine whether or not monetary policy is at a restrictive enough level. Some indicators that suggest it is restrictive are unemployment trending up, wage growth cooling to 4.0 per cent on a three-month annualized basis and job vacancies falling. Also, the economy contracted in the second quarter and has remained stagnant so far in the third quarter. The downshift in economic momentum is a key signal that the monetary authority's next move could more likely be an interest rate cut rather than an increase, with a possible rate drop coming as early as the second quarter of next year.

– Rising Unemployment Aids Rate Stability –

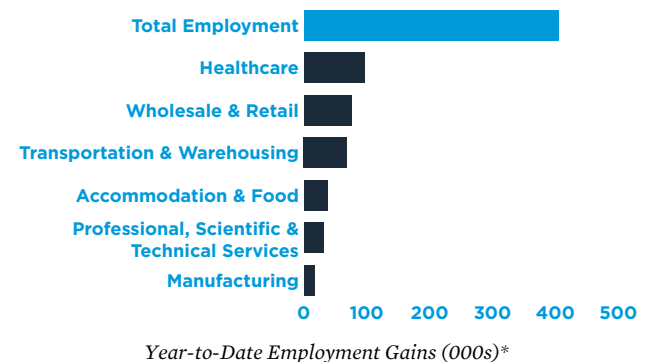


Commercial Real Estate Outlook

Select employment gains support commercial real estate. Despite the labour market beginning to show signs of easing, year-to-date employment growth sits at 405,000 as of October, up roughly 30 per cent when compared to the same time period last year. Both industrial- and retail-related employment have seen strong gains during the period, which is especially noteworthy compared to last year when these sectors experienced losses. Space demand remains healthy for both of these property types. The national industrial vacancy rate was 1.6 per cent as of the third quarter, helping annual rent growth remain elevated at 12.5 per cent. Additionally, retail vacancy rates remain at near all-time lows. While rising interest rates are expected to cool space demand in the short-term, both sectors should continue to experience healthy underlying fundamentals over the coming year.

Growing labour force gives rental demand a boost. Canada's population has rapidly expanded, increasing roughly 3.0 per cent annually as of the third quarter amid historic immigration. The labour force has also grown at a similar pace of 3.1 per cent, with annual wage growth remaining elevated at 4.8 per cent. As homeownership continues to be out of reach for many Canadians, this expanding labour force with healthy income potential is resulting in robust demand for apartment rentals across the country. Combined with limited supply, multifamily assets remain a preferred investment option among potential buyers. Since 2017, the share of all commercial real estate dollar volume going to multifamily has increased from 20 per cent to nearly 30 per cent as of the third quarter.

Select CRE Space-Using Employment Sees Gains



* Through October

Sources: IPA Research Services; Altus Data Solutions; Bank of Canada; Canada Mortgage and Housing Corporation; Capital Economics; CoStar Group, Inc.; Statistics Canada



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