RESEARCH BRIEF
CANADA INDUSTRIAL

IPA INSTITUTIONAL PROPERTY ADVISORS
A DIVISION OF MARCUS & MILLICHAP, BROKERAGE

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Industrial Sector Under Pressure as Tariff Impact Builds

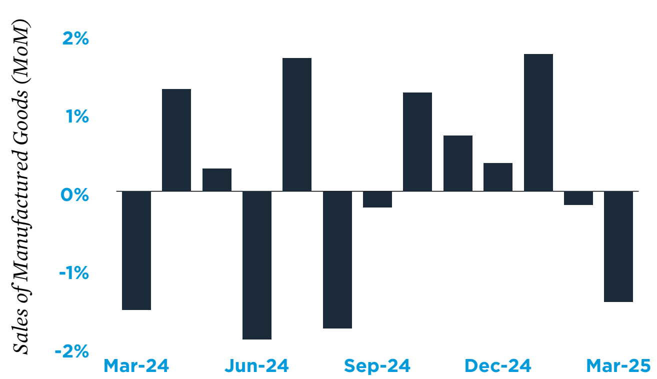
Manufacturing sales' slump deepened. With U.S. tariffs taking effect, sales of manufactured goods declined sharply in March, posting a 1.4 per cent monthly drop. The import duties on steel and aluminum products weighed on primary metal manufacturing, which saw a 6.5 per cent monthly decline. Sales of petroleum and coal products also fell notably, down 4.2 per cent, though this was largely due to lower commodity prices. As expected, Ontario and Quebec – Canada's major manufacturing hubs – saw significant declines in total shipments. In Ontario, weaker sales in acchemical products and primary metals led the decrease. In Quebec, contractions in primary metals and transportation equipment added to the overall weakness.

Some near-term optimism despite an overall weak outlook. Looking ahead, manufacturing sales are expected to remain sluggish as U.S. tariffs continue to weigh on production. Ongoing negotiations with the U.S. and efforts to bring a broader range of products into compliance with USMCA, however, could provide some near-term stabilization after the initial blow of the tariffs. Moreover, demand rebounding with tariffs proved less stringent than initially feared. A 1.0 per cent monthly increase in new orders supports a cautiously positive outlook. In the wholesale sector, a slight monthly decline in inventories also points to this trend. Yet wholesale inventory levels remained elevated compared with last year, suggesting that strategic stockpiling may still be underway amid persistent uncertainty.

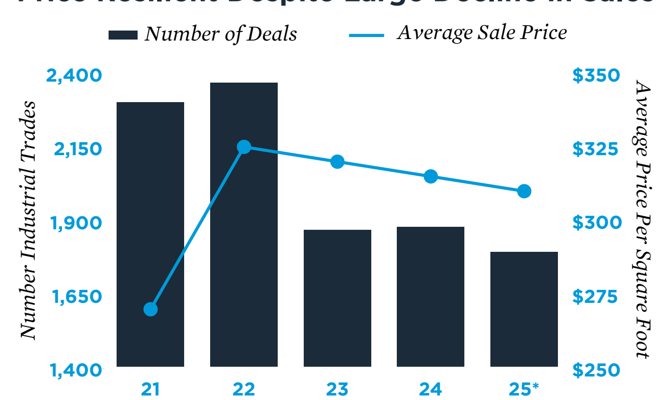
Trade tensions' impact on space demand becoming more visible. Tariffs continue to weigh on activity heading into the summer months, which has net absorption for industrial space to dip into negative territory. Preliminary data indicates that markets in British Columbia, Ontario and Quebec have all seen a marked decline in absorption rates so far in the second quarter. Honda's decision to postpone its $15 billion EV plant – originally planned for Alliston, Ontario – is the latest sign of this broader slowdown. That said, space demand could return to an upward trajectory in the second half of the year, as progress in trade negotiations with the U.S. may ease tensions and bolster business confidence. Lower interest rates and government fiscal support are also expected to provide a backstop, helping sustain leasing activity through the latter part of 2025.

Flight to quality underway among investors. Investment sales in industrial properties have been declining over the past two years. Some investors have shifted away from the sector amid softening demand. Average sale prices held up relatively well, however, edging down just 4.6 per cent between 2022 and the first quarter of 2025. This volume-price divergence is likely driven by investor preference for core assets – properties that are newer, well-located or backed by long-term leases. Additionally, while larger transactions have slowed considerably, smaller deals have remained relatively resilient. Owner-users continue to acquire small-bay properties, which can trade at a premium due to their strong underlying fundamentals.

Shipments Dropped Sharply in March



Price Resilient Despite Large Decline in Sales



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* Trailing 12 month through 1Q
Sources: IPA Research Services; Altus Data Solutions; Statistics Canada