MARKET REPORT

Multifamily

Calgary Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

A DIVISION OF MARCUS & MILLICHAP, BROKERAGE

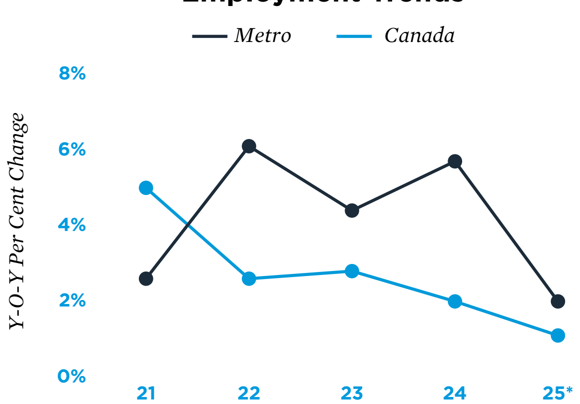
2Q/25

Lower Levies Could Mitigate Some Impacts of Trade War on Retail Sector

Demographic tailwinds attract developers and retailers. Calgary has been one of Canada's fastest-growing cities, with its population rising by 15 per cent over the past three years. Economic diversification, a healthy energy sector and a lower cost of living have fuelled this robust growth. Meanwhile, growing opportunities in higher-paying jobs such as engineering, finance, technology and energy have also led to disposable incomes that sit above the levels seen in other major Canadian cities. Retail sales in Alberta jumped 6.0 per cent in 2024 – well above the countrywide rate of 4.0 per cent – which drove a 30 per cent increase in net absorption. These demand dynamics have also stoked builder interest, as Calgary holds one of the largest retail development pipelines in the country. While supply growth, trade headwinds and tighter immigration will likely soften retail property performance in 2025, the metro's economy and population growth are expected to outpace the national average. Once more certainty returns, Calgary should remain attractive to global retailers looking to expand.

Tariffs pose a risk. Calgary has diversified its economy away from energy in recent years, with technology, engineering and finance seeing strong growth. Nevertheless, over 40 per cent of Alberta's annual GDP is tied to oil exports to the United States. While it is widely believed that Canada's oil and gas sector can absorb a 10 per cent tariff, U.S. trade policy does pose a notable risk to labour markets and consumer spending. Because Calgary is home to many of Canada's top resource companies, if trade levies are expanded or stay in place for an extended period of time, retail space demand could diminish.

Employment Trends



** Forecast*

Sources: Altus Data Solutions; CoStar Group, Inc.; Statistics Canada

Retail 2025 Outlook

18,000 JOBS
will be created

EMPLOYMENT:

Trade uncertainties will hinder business investment, which could cause job growth to slow despite lower interest rates. Nevertheless, as the provinces' oil and gas sector has signaled plans to increase production in 2025, job creation is likely to hold in spite of tariffs.

800,000 SQ. FT.
will be completed

CONSTRUCTION:

Deliveries are set to edge down compared with 2024, hitting one of the lowest readings in ten years. The under-construction pipeline, however, represents roughly 20 per cent of the national total and 1.8 per cent of total inventory, double the country average.

30 BASIS POINT
increase in vacancy

VACANCY:

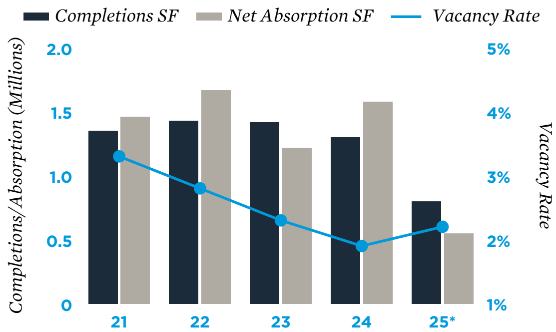
Slower population gains and labour market disruptions amid trade uncertainties could cause consumer demand to ease. Combined with ongoing supply growth, vacancy will likely inch higher, albeit holding below 2.5 per cent amid an outperforming economy.

1.3% INCREASE
in asking rent

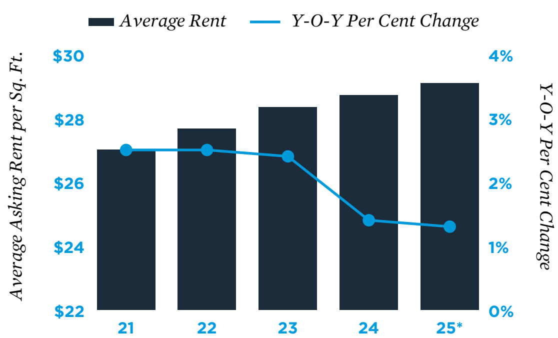
RENT:

As vacancy inches higher and demand-side risks linger due to tighter immigration and looming trade uncertainties, annual rent growth is forecast to slow to its lowest level since the pandemic. That said, this is likely to be short lived, with healthier growth expected longer term.

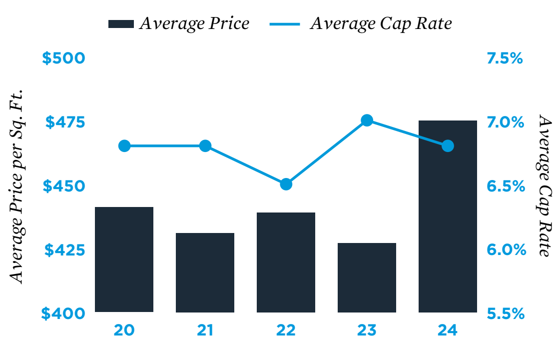
Supply and Demand



Rent Trends



Sales Trends



* Forecast

Sources: Altus Data Solutions; CoStar Group, Inc.; Statistics Canada

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4Q 2024: Trailing 12-Month Period

CONSTRUCTION

1,313,500 sq. ft. completed

- Deliveries were largely aligned with the metro's long-term average last year. Given robust population growth, openings have been concentrated in more suburban submarkets, mainly composing neighbourhood and strip centres.
- Starts slowed last year, which could reflect developers being influenced by the impact of tighter immigration or rising housing costs on consumers.

VACANCY

40 basis point decrease in vacancy Y-O-Y

- Vacancy hit 1.9 per cent – the lowest on record. New supply has been absorbed by notable brands looking to capitalize on historic population gains.
- A good share of incoming new supply is neighbourhood and strip centres. While these formats held the highest vacancy rates to end 2024, they are still capturing a large share of tenant demand amid demographic tailwinds.

RENT

1.4% increase in the average asking rent Y-O-Y

- With less red tape and lower costs, developers have kept pace with strong retail demand over the past few years. As a result, annual rent growth has been more modest, compared with some other major metros.
- Because malls and power centres have seen little supply growth in recent years, these retail formats witnessed the strongest rent growth in 2024.

Investment Highlights

- Retail properties were a preferred investment in 2024, holding the second-largest share of total sales among major commercial properties at roughly 30 per cent. As lower interest rates and healthy demand dynamics helped fuel investor confidence, preliminary estimates suggest that total sales last year jumped by nearly 10 per cent compared with 2023. Dollar volume also rose by 17 per cent on an annual basis to just over $700 million – the largest reading in over ten years.
- Institutions have been the main sellers over the past year, as they look to raise and deploy capital towards other property types or existing land banks for development opportunities. Meanwhile, local private investors and end users have been the most active buyers, accounting for nearly 50 per cent of total dollar volume purchased in 2024.
- Cap rates compressed slightly last year, fuelled by the combination of interest rates falling, transaction activity picking up and average sale prices inching higher. The highest value sales over the past year were essential-based, grocery-anchored centres, which typically generated a yield in the 6.5 per cent to 7.0 per cent range. In contrast, centres without an essential goods anchor saw cap rates hover above the 7.0 per cent range.

Price: $250