

MARKET REPORT

Multifamily

Southwestern Ontario Metro Area

IPA
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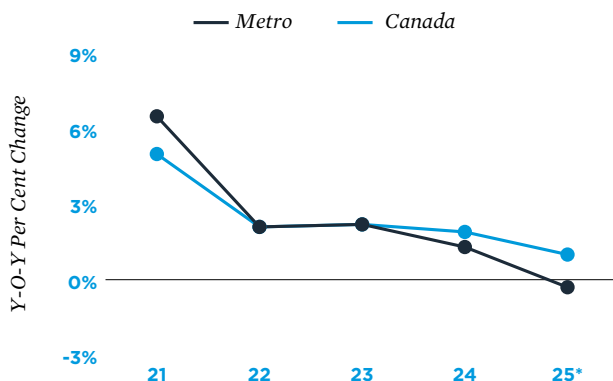
2Q/25

Retail Evolves to Shifting Dynamics in Canada's Lowest-Vacancy Market

Demand to moderate amid uncertainties. With a 3.2 per cent increase in population in 2024, Southwestern Ontario's retail sector has continued to benefit from robust consumer demand, driving the vacancy rate down to 1.1 per cent – the lowest among major Canadian metros. Complementing this demand boost, limited supply growth further tightened market conditions, making quality spaces harder to find. In 2025, however, market conditions are adjusting to evolving demand and supply dynamics. The tightening of Canada's immigration policy is expected to have a more significant impact on Southwestern Ontario, where post-pandemic population growth has been largely driven by an influx of temporary residents. Additionally, trade tensions may disproportionately affect the metro area due to its manufacturing- and trade-driven economy. The job market in Southwestern Ontario could face mounting pressure as a result, impacting consumer budgets and softening demand for retail space this year.

Muted supply growth to maintain a low vacancy rate. While the under-construction pipeline remains limited moving forward, the liquidation of Hudson's Bay – with nine locations in the region – will return quality spaces to the market, where such availabilities have become increasingly scarce. Coupled with softening demand, this could drive an increase in the vacancy rate in affected areas. Even so, because overall construction activity is still falling short of the historical average, this well-positioned space will likely be absorbed over the longer term. As a result, the metrowide vacancy rate will stay low.

Employment Trends



* Forecast

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

Retail 2025 Outlook



5,000

JOBS

will be lost

EMPLOYMENT:

A potential trade war and an anticipated population decline due to tightening immigration policies will both affect the metro's job market. The manufacturing, transportation and warehousing sectors may be hit the hardest by these challenges.



200,000

SQ. FT.

will be completed

CONSTRUCTION:

New supply is expected to continue its downwards trend, as high construction costs and near-term uncertainties push back timelines. Of the current projects under construction, the majority are concentrated in the Kitchener-Waterloo region.



40

BASIS POINT

increase in vacancy

VACANCY:

The vacancy rate is set to bottom out in 2025 as demand for space softens amid economic challenges. Even so, limited supply expansion will keep the rate tight below 2.0 per cent, maintaining it as one of the lowest in Canada.



0.6%

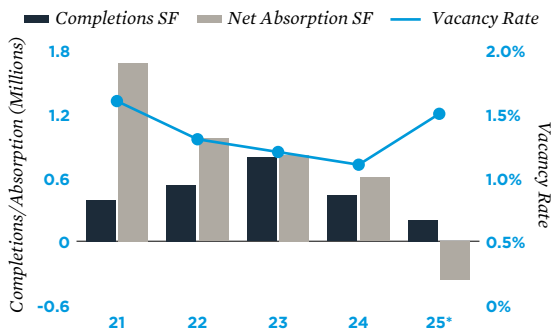
INCREASE

in asking rent

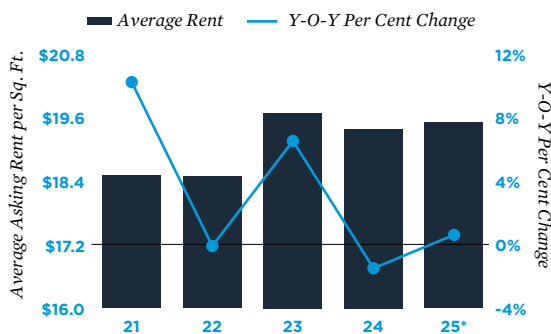
RENT:

After a 1.5 per cent annual decrease in 2024, the average asking rent is expected to hold flat in 2025. Trade tensions and a projected population decrease will influence demand dynamics. Southwestern Ontario will remain the least costly major market for retailers in Canada, with rents averaging below \$20 per square foot.

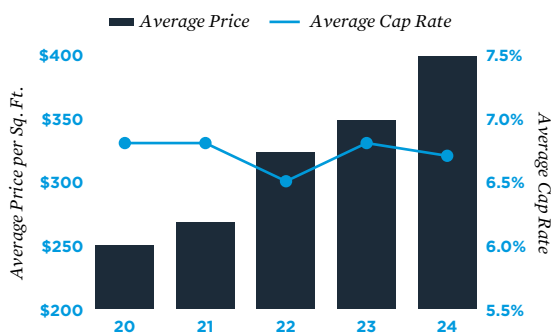
Supply and Demand



Rent Trends



Sales Trends



* Forecast

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

Toronto Office:

Mark Paterson First Vice President, District Manager | Eastern Canada

200 King Street W., Suite 1210

Toronto, Ontario M5H 3T4

Tel: (416) 585-4646 | mark.paterson@marcusmillichap.com

Prepared and edited by:

Frank Zhao

Research Analyst, Canada | Research Services

For information on national retail trends, contact:

John Chang

Senior Vice President, Director | Research & Advisory Services

Tel: (602) 707-9700 | john.chang@marcusmillichap.com

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The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guarantee regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Altus Data Solutions; CoStar Group, Inc.; Statistics Canada

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4Q 2024: Trailing 12-Month Period



CONSTRUCTION

427,000 sq. ft. completed

- Completions reached 1.2 million square feet in 2023, but have since declined. Elevated construction costs and the growing demand for housing have diverted key resources to the residential sector.
- The largest project delivered was Costco's new location in Brantford. Other additions consisted mostly of mixed-use and free-standing storefronts.



VACANCY

10 basis point decrease in vacancy Y-O-Y

- The vacancy rate edged up slightly in the first quarter of 2024, although it quickly resumed its downwards trend for the rest of the year as net absorption outpaced completions.
- Larger retail formats, including malls and neighbourhood centres, experienced the largest decline in vacancy rates.



RENT

1.5% decrease in the average asking rent Y-O-Y

- The average asking rent peaked above \$20 per square foot in the third quarter before declining in the final three months. As vacancy rates fell, some tenants were likely forced to seek less premium properties with lower rents.
- Even with the overall decline, rents still rose in malls and other large multi-tenant properties, where demand remained robust.

Investment Highlights

- Positive investor sentiment continued to strengthen in 2024. Alongside an 8.0 per cent increase in the number of sales, total dollar volume rose 3.4 per cent, driven by a surge in deals valued below \$20 million. Notably, dollar volume for mid-sized transactions between \$10 million and \$20 million quadrupled, underscoring a trend where easing borrowing costs began to facilitate financing for larger, higher-value properties.
- The Kitchener area experienced an 850 per cent surge in total dollar volume, led by Westcliff's \$137.7 million acquisition of Fairview Park Mall and Manulife's \$36 million purchase of Sunfish Shopping Centre. These acquisitions highlight sustained investor confidence in the region's long-term growth, as well as the enduring appeal of brick-and-mortar retail, which is increasingly evolving into an experiential destination.
- Strong market fundamentals and increased investment activity drove a 14 per cent rise in the average sale price in 2024. Despite this growth, prices in the metro remained 37 per cent lower than in Toronto. This pricing advantage, along with ongoing in-migration from other parts of Ontario, attracted investors priced out of the Toronto market and searching for yield.