

RESEARCH BRIEF

CANADA RETAIL SALES

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Retail Property Sector Well Positioned Despite Risks of Slowing Economy

Tariff front-loading comes to an end. Retail sales fell 1.1 per cent monthly in May, largely aligned with preliminary estimates. The biggest monthly drop was seen in the automotive sector at 3.6 per cent amid in-place car tariffs. Nevertheless, total sales were still up nearly 5.0 per cent year over year in May, and consumer confidence has also rebounded from the recent trade-induced lows. Preliminary estimates for June show a solid 1.6 per cent monthly increase in retail sales. As a result, the contraction in May likely reflects a normalization after tariff front-running, rather than the start of a marked downturn in consumer spending. Together with recent GDP and employment data, signs of economic resilience are promising for a nation highly dependent on trade with the United States.

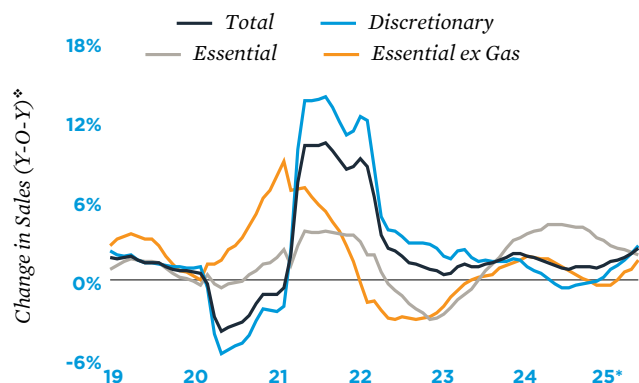
Interest rate hold largely locked in. It is widely believed the Bank of Canada will keep its overnight rate at 2.75 per cent in July, marking the third consecutive rate pause. Meanwhile, the expected June uptick in household spending, combined with a labour market that has yet to collapse, has raised terminal rate projections. These factors, along with uncertainty surrounding future trade policy, has caused money markets and major banks to pare back their forecasts to a 2.25 per cent to 2.50 per cent range. While additional rate cuts may occur, the impact on bond yields will likely be minimal. In fact, considering the inflationary impacts of tariffs and the potential for larger government deficits due to trade bailouts and NATO defense commitments, longer-term bond yields may inch higher over the coming year.

Commercial Real Estate Outlook

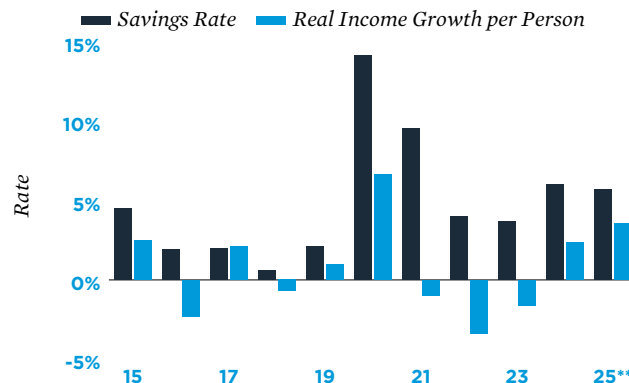
Retail showing healthy performance. Canada's retail property sector has seen limited supply-side pressures in recent years, largely driven by the rise in e-commerce, the global health crisis and, more recently, construction feasibility challenges. Restrained development, combined with historic population growth, has led to robust performance in Canada's retail property sector. Looking ahead, fluid trade policy creates some uncertainty for the sector; however, consumer health has been improving. Canada's household savings rate has been rising since 2023, and real disposable income growth per person has also trended up since 2022. Even if the national vacancy rate inches up amid tariff risks, it will remain extremely tight, staying just below 2.0 per cent by year-end. The property type continues to generate positive investor sentiment as a result.

Essential-based retail capturing investor interest. Retail spending across all categories has been trending up in recent years, with discretionary spending turning a corner in mid-2024. Meanwhile, similar to the high interest rate environment seen in 2023, essential-based spending is beginning to gain momentum again amid tariff risks. For this reason, grocery-anchored, essential-based retail is currently a top investment option. Not only does it offer stability and capture a greater share of spending in times of uncertainty, but the asset also offers strong in-place income growth, as well as redevelopment/intensification potential over the longer term. As a result, retail as a share of total dollar volume transacted has been increasing over the past two years.

Spending Patterns Favour Essential Retail



Consumer Health Has Been Improving



* Through May; ** Through 1Q; v Year-over-year change in trailing 12-month total sales
Sources: IPA Research Services; Altus Data Solutions; Capital Economics; CoStar Group, Inc.; Statistics Canada



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