

RESEARCH BRIEF

CANADA MONETARY POLICY

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

OCTOBER 2025

Bank of Canada Cuts Rates, Providing Opportunities for CRE Investors

Rate cut aims to cushion trade-driven slowdown. The Bank of Canada reduced its overnight rate by 25 basis points to 2.25 per cent to support a struggling economy due to weaker exports, slowing business investment and persistent global trade uncertainty. The Bank noted that U.S. tariffs are reshaping supply chains and weighing on key Canadian industries such as autos, steel, aluminum and lumber, leading to a soft labour market and a 1.6 per cent annualized contraction in second quarter GDP. Although household and government spending remain sources of stability, overall growth is expected to stay muted through early 2026. With inflation holding near the 2.0 per cent target and underlying price pressures easing, policymakers judged that modest monetary easing could help offset the drag from trade disruptions and fiscal restructuring. That said, further rate cuts will depend on incoming data and inflation dynamics.

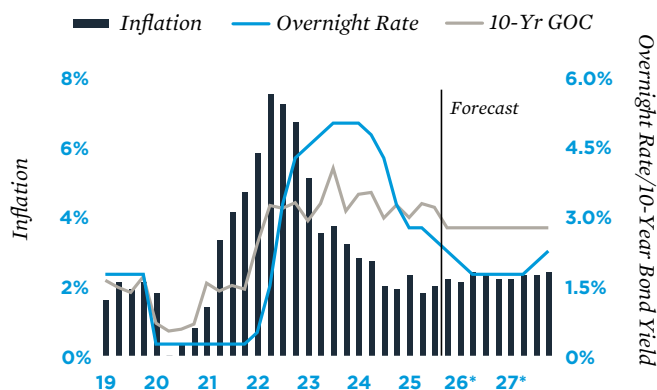
Policy rate outlooks are mixed. The Bank of Canada signaled that the overnight rate is now at “about the right level” to keep inflation near target while supporting the economy’s structural adjustment amid tariff risks, suggesting a likely hold at the December meeting. Beyond that, forecasters are split. Some see another 50 basis points of easing in the first half of 2026 – bringing the terminal rate to 1.75 per cent – as trade-related weakness deepens. Others see the rate holding at 2.25 per cent as inflation pressures remain and economic growth picks up. Nonetheless, monetary conditions are likely to be moderately accommodative through next year.

Commercial Real Estate Outlook

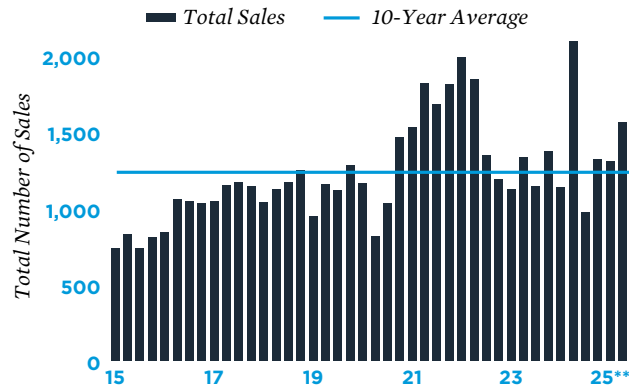
Bond yields ease, offering modest relief to CRE financing. After remaining elevated for much of 2025, Canadian bond yields have trended lower in recent weeks, driven by the United States Federal Reserve’s rate cuts and Canada’s federal government removing retaliatory tariffs. The repricing has narrowed borrowing spreads and provided some relief to commercial real estate financing costs, particularly for long-term fixed-rate debt. However, the downside for yields appears limited. Persistent global tariff tensions and Ottawa’s rising fiscal spending are expected to keep term premiums higher than pre-pandemic norms. While further declines are possible if global growth softens, the bond market is likely to stabilize near current levels. This means capital costs for investors and developers may remain above historical averages even as monetary policy eases.

Stabilizing yields to aid investment. Easing bond yields are starting to affect investor sentiment, narrowing bid-ask spreads and improving financial visibility. Still, with long-term borrowing costs likely to hold structurally higher than in the pre-pandemic decade, investors are becoming more selective. Core assets with stable income profiles – particularly industrial and grocery-anchored retail – continue to attract institutional capital, while value-add and development opportunities remain constrained by elevated construction and financing costs. Modest yield compression and improving macro stability could support a gradual recovery in transaction volumes through 2026, though the pace will hinge on the trajectory of both policy easing and fiscal expansion.

Inflation and Interest Rate Trends



Lower Borrowing Costs Aiding Investment



* Forecast provided by Capital Economics; ** Preliminary estimates through 3Q
Sources: IPA Research Services; Altus Data Solutions; Capital Economics; CoStar Group, Inc.; Statistics Canada



Follow Us [on LinkedIn](#)