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2025

CANADA

National Investment Forecast


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TO OUR VALUED CLIENTS

Canada's commercial real estate sector is poised to gain momentum in 2025. While restrictive interest rates weighed on fundamentals across most property types, monetary easing began in the second half of 2024. As this trend continues to play out, both space demand and investor confidence could revive, setting the stage for an increasingly optimistic outlook.

Industrial, multifamily and essential-based retail are expected to maintain their status as preferred investment vehicles. Not only have historic population gains in recent years benefitted these sectors, but supply-side pressures are also beginning to taper. Together with lower borrowing costs, this combination should support investor engagement.

Some uncertainties are present, however, and investors should continue to monitor emerging trends, such as policy changes limiting immigration and the risks posed by tariffs. Nevertheless, friendlier financing conditions and a pullback in the development pipeline will likely help mitigate potential headwinds.

As the coming year unfolds, new opportunities will emerge. We hope this report provides useful insights to help you define your investment strategies and navigate the emerging landscape. As you adapt to ongoing and evolving trends, our investment professionals look forward to assisting you in meeting your goals.

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Developed by Marcus & Millichap Research Services.
Additional contributions were made by Marcus & Millichap investment brokerage professionals nationwide.

CALGARY

- Office-using employment – such as tech and service-related sectors – has led job growth in recent years. Along with Calgary housing many of Canada's largest resource firms, investment into clean energy and a bright oil and gas outlook with the completion of the Trans Mountain Pipeline should drive office vacancy lower.
- Hotels in Calgary are forecast to outperform the country at large. Falling interest rates, a new event center, the nearby Rocky Mountains, the Calgary Stampede and a stable energy sector outlook will all stoke leisure and corporate travel demand.

EDMONTON

- Edmonton has seen robust population gains, fuelled by its lower cost of living. With the Trans Mountain Pipeline and economic diversification spurring evolving job prospects, the metro is set to keep benefitting from interprovincial migration. Multifamily will hold as a preferred investment as a result.
- Ongoing investment into both energy and trade infrastructure will drive the need for greater warehousing, manufacturing and logistics capacity. Complemented by a disciplined construction cycle, Edmonton's industrial sector will likely tighten in 2025.

MONTREAL

- As a critical distribution hub for Eastern Canada, lower borrowing costs could incentivize third-party logistics expansion, potentially stabilizing the industrial vacancy rate. This comes after the metro saw one of the largest inventory expansions in Canada, bringing the market to a more balanced level over the past year.
- As new-build condo sales continue to show weakness, many investors are switching projects to apartment rentals amid healthy demand dynamics. Meanwhile, some institutional players are looking to add a residential component onto existing retail sites.

OTTAWA

- As the nation's capital, Ottawa's office sector is heavily reliant on space utilization from the public sector. In the recent federal budget, however, the government outlined plans to divest a large share of its office holdings due to hybrid work arrangements, which could create some risks for the sector going forward.
- Amid public sector hybrid work, foot traffic in the downtown has been subdued. However, recent return-to-work mandates and various investments could bring some vibrancy back to the area, aiding foot traffic and retail space demand over the coming years.

SOUTHWESTERN ONTARIO

- The completion of the Gordie Howe Bridge and large-scale projects focused on electric vehicle battery manufacturing will increase the region's cross-border trade capacity with the U.S., fuelling investment and aiding the metro's industrial outlook.
- Southwestern Ontario's hospitality and retail property sectors are likely to benefit from an expected uptick in discretionary spending and increased foot traffic. This will largely be driven by falling interest rates, the completion of the Gordie Howe Bridge, and the region's various urban centres and outdoor attractions.

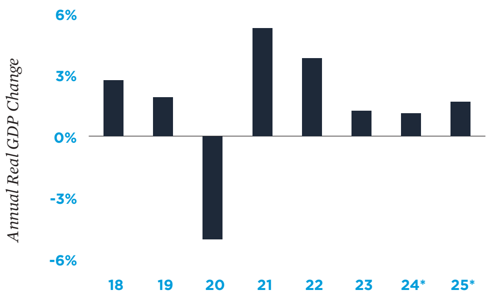
TORONTO

- After decades of underbuilding, government incentives and strong performance drove multifamily construction starts in recent years. Along with curbed population growth and a surge in for-owned condo deliveries – a secondary source of rental supply – some pressure will be taken off Toronto's rental market in 2025.
- Toronto's office vacancy rate, while still increasing, could stabilize over the second half of 2025. Falling interest rates are poised to spur business expansion, and the winding down of the metro's historic construction cycle will mitigate supply-side pressures.

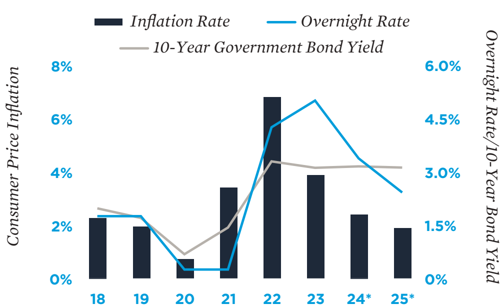
VANCOUVER

- Vancouver will maintain the lowest multifamily vacancy rate in Canada. Although healthy supply growth and changes to Canada's immigration policies are set to push the vacancy rate up, investors continue to favour new builds. These assets have seen robust rent growth in recent years, while also generating lower capital expenditure and qualifying for favourable CMHC financing. All together, newer builds modernize portfolios and offer better returns.
- Tourism plays a dynamic part in Vancouver's economy. Not only does the metro host Canada's largest cruise ship terminal, but its location on the Pacific Ocean and proximity to various mountain ranges attract visitors from across the globe. The potential uptick in foreign visitors, as well as the expected increase in discretionary spending as a result of falling interest rates, are likely to drive both hotel and retail property performance this year.

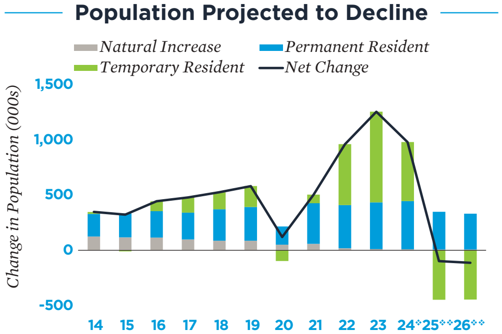
Economic Growth Expected to Increase



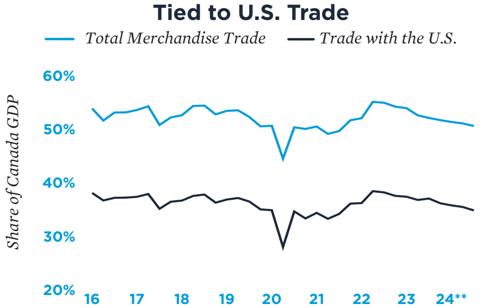
Inflation and Interest Rate Trends



Population Projected to Decline



Over One-Third of Canada GDP Tied to U.S. Trade



*Market consensus based on latest forecast from TD, RBC, BMO, CIBC, Scotiabank; *Estimate; ** Forecast based on government's immigration target; ** Through 3Q

Sources: Bank of Canada; Statistics Canada; TD, RBC, BMO, CIBC, Scotiabank, National Bank

Economy to Ride the Momentum of Falling Borrowing Costs and Stimulus Amid Challenges and Uncertainties

Positive outlook for Canada despite downside risks. Last year marked a major shift in the Bank of Canada's policy. The inflation rate held within the central bank's target band over the first half of 2024, leading the monetary authority to begin cutting interest rates in June. This move aimed to support economic activity while maintaining sustainable price growth. With the overnight rate expected to fall to roughly 2.25 per cent to 2.50 per cent by the end of 2025, monetary easing will shape Canada's economic landscape in the year ahead. New government measures facilitating homeownership and consumption complement this supportive backdrop, as they will contribute additional momentum. The main headwinds to this outlook will be lower population growth and potential trade tensions, which pose some downside risks.

Economic growth in an upswing amid policy support. Throughout 2025, lower interest rates are expected to encourage household spending and business investment. Adjustments to mortgage rules, including the introduction of 30-year amortization and the increase of the insured mortgage price cap, will also aid a recovery in the homeownership market. Consumption may be bolstered further by the two-month sales tax break on select goods – effective from mid-December 2024 to mid-February 2025 – which would be a boon for a less restrictive policy environment. Coupled with higher oil production set to uplift exports after the completion of the Trans Mountain Pipeline Expansion, Canada's economic growth is projected to accelerate in 2025. These factors will likely support a peaking jobless rate by mid-year, while at the same time stabilizing inflation around the Bank of Canada's target.

2025 ECONOMIC OUTLOOK

- **New immigration policy may impact domestic demand.** Amid persistent declines in per-capita income over the past two years, record population gains have largely driven positive headline GDP growth; however, this key growth driver is expected to weaken following a major policy overhaul. The federal government plans to significantly reduce both temporary and permanent immigration, which could result in a 0.2 per cent population decline in 2025 and 2026. Although the full implementation and magnitude remains uncertain, a notable slowdown in population growth is inevitable and will exert downwards pressure on aggregate demand this year. That said, fewer new residents could help balance housing demand and supply. Putting a lid on labour force growth may also stabilize the unemployment rate.

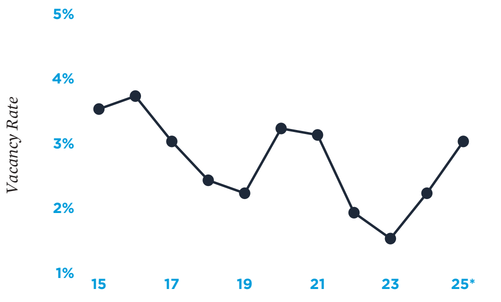
- **Trade policy a new source of uncertainty**. Though our baseline forecast assumes a gradual implementation of tariffs by the Trump administration, the possibility of more drastic measures – like the suggested 25 per cent tariff on all imports from Canada – cannot be ignored. Such trade barriers could affect Canada's economy and commercial real estate performance across multiple channels. Depending on how future expectations affect business decisions today, investment could slow even before the tariffs take effect, particularly in manufacturing and trade-related sectors. Exports may surge temporarily ahead of the implementation but are expected to decline thereafter, ultimately weighing on economic growth. Retaliation by Canada could also drive up import prices, adding upwards pressure on inflation. Resulting trade tensions may lead to slower growth and higher prices in Canada.

	Calgary	Edmonton	Montreal	Ottawa	SW Ontario	Toronto	Vancouver
	GCA Alberta	*GEA* Alberta	*GMA* Québec	*GOA* Ontario	*SWO* Ontario	*GTA* Ontario	*GVA* British Columbia
2024 JOB GROWTH* *Canada 1.6%*	3.7% / 2.8%	1.9% / 2.8%	0.9% / 1.1%	0.8% / 1.8%	1.2% / 1.8%	2.2% / 1.8%	-0.4% / 0.3%
2024 POPULATION AGE 20-34 *Canada Average 19.9%*	18.7% / 18.8%	19.8% / 18.8%	20.2% / 18.4%	20.3% / 21.1%	21.1% / 21.1%	22.9% / 21.1%	22.4% / 20.1%
2024–2029 HOUSEHOLD GROWTH *Canada 6.9%*	14.3% / 11.6%	14.1% / 11.6%	3.2% / 3.0%	8.7% / 8.0%	8.8% / 8.0%	9.5% / 8.0%	9.8% / 8.5%
2024 MEDIAN HOUSEHOLD INCOME *Canada $91,712*	$104,325 / $96,852	$99,882 / $96,852	$85,723 / $81,975	$113,518 / $98,866	$94,421 / $98,866	$102,898 / $98,866	$101,621 / $97,134
2023–2024 CHANGE IN HOUSING STARTS** *Canada 2.0%*	23.1% / 34.8%	46.8% / 34.8%	14.8% / 20.9%	-9.7% / -15.3%	-3.9% / -15.3%	-20.1% / -15.3%	-18.7% / -8.0%
PER CENT WITH BACHELOR'S DEGREE OR HIGHER (15 years+) *Canada 28.7%*	36.0% / 27.3%	28.5% / 27.3%	31.7% / 25.6%	38.8% / 32.1%	27.5% / 32.1%	40.4% / 32.1%	37.0% / 30.2%

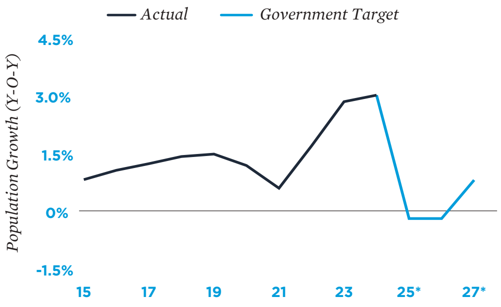
** Year over year as of November; ** Year to date through 3Q*

Sources: CMHC, Environics, Statistics Canada

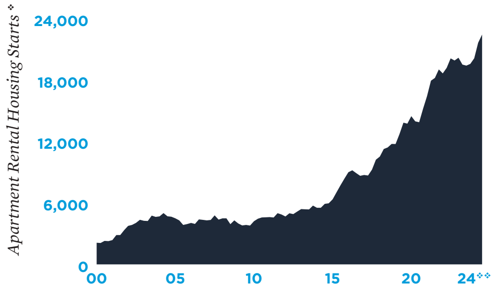
Multifamily Vacancy Trend



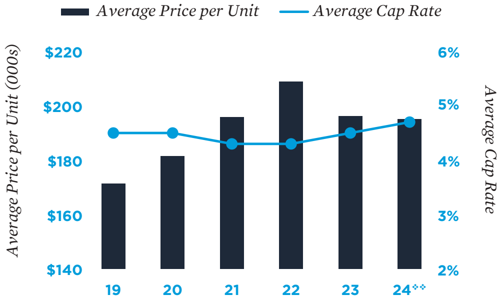
Population Growth to Slow Significantly



National Multifamily Starts See Stark Increase



Price and Cap Rate Trends



*Forecast; * Trailing 12-month average; ** Trailing 12 months through 3Q*

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

Multifamily a Sector to Watch as Government Policy Impacts Both Demand and Supply Dynamics

Softening demand to moderate multifamily performance. Canada has witnessed record population growth over the past three years, solidifying apartment rentals as a preferred investment vehicle. The nation's total resident count has risen by nearly three million people since the start of 2022, representing a 7.0 per cent population expansion as of the third quarter of 2024. This rapid growth has largely been driven by historic immigration amid a surge in international students and foreign workers. At the same time, significant barriers to homeownership, such as inflated prices and restrictive interest rates, pushed many potential buyers to the apartment rental market. Canada's multifamily vacancy rate fell from a recent high of 3.2 per cent in 2020 to an all-time low of 1.5 per cent in 2023. Looking ahead, while the national vacancy rate will hold below equilibrium, recent changes to Canada's immigration policies are expected to curb population growth. Along with greater affordability challenges amid higher rental rates, record deliveries are taking longer to be absorbed. Moreover, a less restrictive monetary environment will partly alleviate homeownership challenges, helping some transition out of the rental market. As a result, the national vacancy rate is expected to continue to inch higher and hover around the 3.0 per cent range by year-end. Nevertheless, the market remains tight, which will continue to generate positive investor sentiment.

Supply a major role in market conditions. In the 1970s, many builders shifted away from purpose-built rentals. Rent control policies facilitated better returns elsewhere, resulting in decades of underbuilding. Strong rent growth and government incentives have encouraged development in recent years, however, pushing the under-construction pipeline to an all-time high in 2024. While starts have levelled off in some major metros due to rising vacancy and cost pressures, the pace of groundbreakings nationally was up over the first three quarters of last year, signaling deliveries will remain elevated in the years ahead. Along with easing demand in the short-term, vacancy will rise and rent growth will slow. Regardless, an ongoing housing shortage and early signs suggesting a pullback in building supports further runway for rent growth over the long term.

2025 HOUSING OUTLOOK

- **Apartments a more attractive build type.** Multifamily construction starts have trended up in recent years. While easing demand dynamics and ongoing cost pressures are causing a pullback in some metros, lower interest rates, still-tight vacancy and ongoing government incentives will likely maintain the property type as a preferred development option. New-build condo sales have also shown weakness, forcing some investors to switch focus to apartment rentals as returns become more attractive. Meanwhile, some institutional players are looking to add much-needed rental supply to existing retail assets in order to bring customers closer.

- **Recent changes to immigration policies pose some risk to investors.** The federal government recently capped the number of temporary residents and considerably reduced its permanent resident targets. Canada's population could contract in 2025 and 2026 as a result – a stark contrast from recent years. Combined with elevated deliveries, vacancy could increase by more than expected, which poses some risk to Canada's multifamily construction outlook. A more drastic pullback in construction starts could further fuel the nationwide housing imbalance over the long term.

Fundamentals Remain Sound as Consumers and Retailers Navigate Market Crosscurrents

Overall conditions tightened as demand exceeded supply. Canada's retail sector demonstrated resilience throughout 2024. Net absorption outpaced completions for the fourth-straight year, driving the vacancy rate to a record low. This advantage was largely attributed to elevated population growth, which kept positive momentum in aggregate demand for goods and services. Despite declining interest rates and fading inflation, consumers continued to prioritize essential goods and services, including groceries, health care services and fuel. This shift in consumer preferences strengthened space demand in suburban areas, contributing to another year of declining vacancy rates outside urban cores. In contrast, Canada's downtowns experienced some softening, as hybrid work policies still posed a challenge to urban foot traffic.

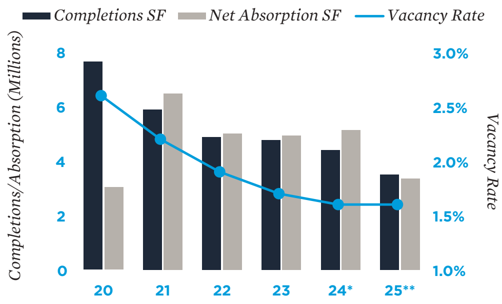
Retail sector adjusting to new macro environment. Although aggregate retail spending continued to grow last year, it declined when adjusted for population and price growth. This underlying weakness is expected to persist through at least the early part of 2025, as households grapple with interest rates that are still in restrictive territory. Furthermore, with population growth also projected to slow due to government measures aimed at curbing immigration, cracks are likely to appear in total retail sales as well. That said, the Bank of Canada is expected to reduce the overnight rate to roughly 2.50 per cent by year-end, ultimately creating favourable conditions for households to restore some purchasing power. This could drive the next phase of growth in late 2025 and beyond, supported by a recovery in per-capita spending. Given this outlook, retailers may face some challenges in the near term before regaining solid footing. Although space demand is projected to edge lower for the whole year, a shrinking construction pipeline – which will deliver mainly small- to medium-sized mixed-use projects – will help maintain the tight vacancy rate, paving the way for extended rent growth.

2025 RETAIL OUTLOOK

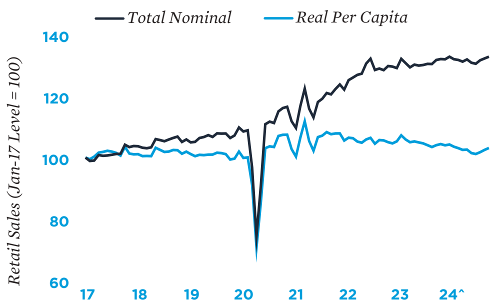
- **Low vacancy rate sustains rent growth.** As declining borrowing costs over the course of 2025 improve consumers' financial health and support leasing activity, all major metros are forecast to see positive net absorption this year. In markets with higher levels of completions, such as Calgary and Toronto, the vacancy rate may edge up slightly. Meanwhile, in Edmonton and Ottawa, where domestic in-migration continues to bolster the local consumer base, vacancy is expected to remain on a downward trajectory. Nationally, the average asking rent is projected to keep rising, reflecting tight market conditions; however, the pace of increase will likely soften for the third consecutive year as vacancy rates stabilize.

- **Investors are returning to capitalize on healthy fundamentals.** Following two years of decline, a 19 per cent year-over-year increase in dollar volume over the first three quarters of 2024 indicates a rebound in sales for the entire year. Retail properties regained popularity, as buyers facing weak office demand and rising industrial vacancy redirected capital to retail assets. With the sector's yield reaching roughly 7.0 per cent last year and its vacancy expected to remain below 2.0 per cent moving forwards, retail properties are poised to attract continued investor interest this year. This is especially true for grocery-anchored, neighbourhood centres, as the higher-cost environment keeps redirecting spending towards essential-based products.

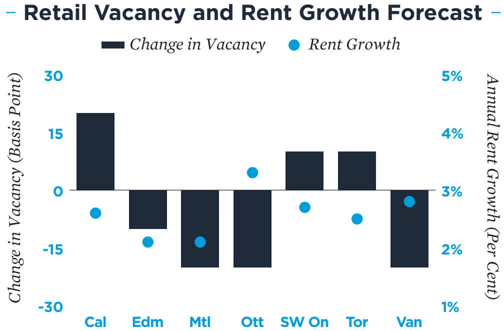
Retail Supply and Demand



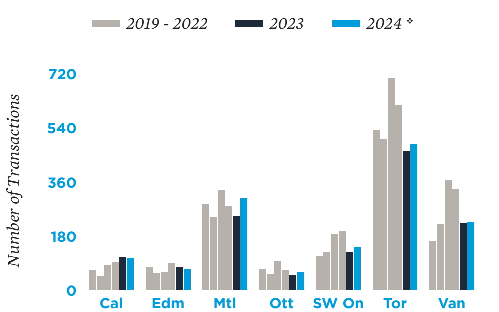
Real Per Capita Retail Sales Weakening



Retail Vacancy and Rent Growth Forecast



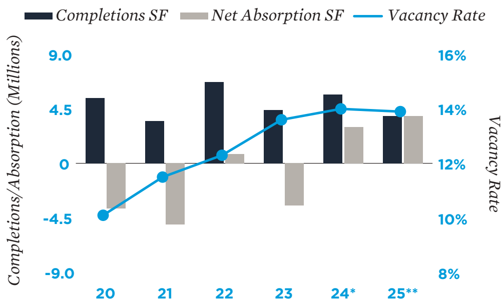
Retail Transactions



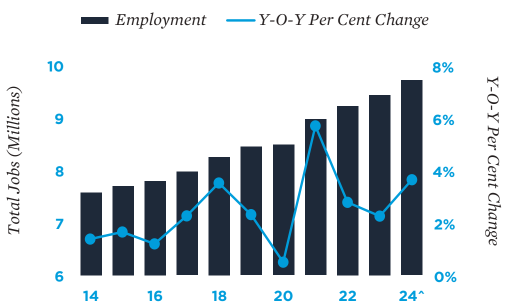
* Estimate; ** Forecast; ^ Through September; * Trailing 12 months through 3Q

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

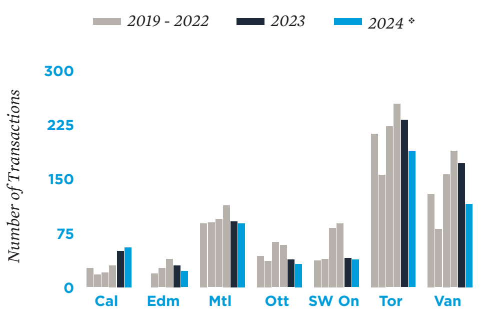
Office Supply and Demand



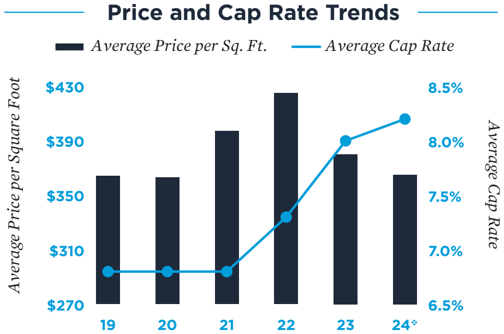
Office-Using Employment



Office Transactions



Price and Cap Rate Trends



** Estimate; ** Forecast; ^ As of October; ◆ Trailing 12 months through 3Q*

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

Office Sector at Inflection Point as Improving Fundamentals Could Rebuild Investor Optimism

Vacancy rose further while space demand experienced an upturn. Conditions in the office sector continued to weaken throughout last year, although the forces behind that weakness are shifting. After a slowdown in construction activity in 2023, completions rebounded in 2024 to the second-highest level since the global health crisis. At the same time, net absorption edged upwards, surpassing 2 million square feet nationwide. This rise was likely driven by pre-leasing, as well as higher growth in office-using employment and more return-to-office mandates implemented by both private companies and governments at all levels. While supply still outpaced demand, pushing the national vacancy rate up to a new record high, this lift in space needs is nonetheless an early sign of improvement. Previous rises in vacancy have been fuelled by both surging supply and weakening demand, but the vacancy increase in 2024 was primarily attributed to supply-side pressures.

Office sector enters a recovery phase. With demand showing signs of improvement, the most challenging period seems to have passed. In 2025, upwards momentum will likely continue to build, driven by business expansion amid a more supportive policy environment. Supply-side pressures are also expected to ease as the nation's historic construction cycle winds down. Additionally, office conversion projects are gaining traction in select metros, which will minimize supply growth. These shifting dynamics will likely lead to a stabilizing office sector, marking the first year since 2019 that the nation's vacancy rate drops, albeit only marginally. This positive turn in market conditions is poised to lay the foundation for a long-awaited recovery and create new investment opportunities in the years ahead.

2025 OFFICE OUTLOOK

- **Vacancy rates largely stabilizing by the end of 2025.** As Alberta's energy sector strengthens and non-oil industries continue to expand, space demand is poised to rise. Aided by marginal supply growth and office conversion projects, Calgary and Edmonton are projected to see the largest vacancy rate declines in Canada. Toronto, Southwestern Ontario, Montreal and Vancouver, meanwhile, should experience some stabilization. A modest demand recovery amid falling borrowing cost will likely drive an uptick in leasing, while dwindling supply-side pressures will support fundamentals. In contrast, Ottawa will still face some persistent challenges, as the federal government undergoes office divestment. While a disciplined construction cycle is aiding fundamentals, vacancy could see larger gains over the medium term as a result.

- **Key elements emerging to boost sales.** Despite early signs of a recovery, investors continued to shy away from office assets last year, which accounted for less than 10 per cent of total dollar volume invested across major commercial property types – the lowest level on record. Although buyer confidence stayed low, quality spaces with tenants who no longer require downsizing remained attractive in the market. Looking ahead, falling borrowing costs and an expected sector recovery could pave the way for an increase in transactions. Office space redevelopment, particularly in areas benefitting from government support, may serve as another catalyst to revive investor sentiment. This could create additional opportunities to capitalize on stronger fundamentals in other property types, such as multifamily and hospitality.

Lower Interest Rates Set Stage for New Equilibrium With Growing Demand and Investor Confidence

Sector rebalancing in full swing. Key industrial sectors faced decelerating economic activity throughout 2024. Tight financial conditions curbed business investment and consumer spending, slowing growth among manufacturers as well as businesses providing transportation and warehousing services. This macroeconomic trend led to reduced order volumes and limited profitability for third-party logistics companies, tempering demand for larger-bay spaces. While total completions remained above the historical norm last year – the result of decisions made when tenant demand was stronger – construction is moderating as developer sentiment wanes. These demand and supply dynamics allowed for the continuation of the industrial sector's rebalancing, providing much-needed breathing room for tenants across all major markets.

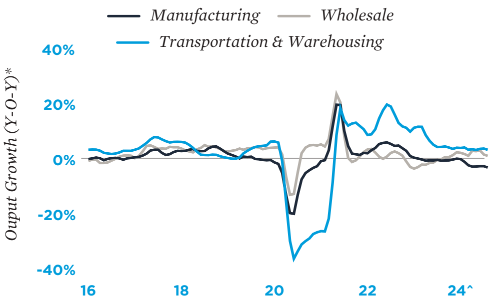
Stabilization anticipated this year. Looking ahead, space demand is expected to remain soft through at least the early part of 2025 but will likely be supported by falling borrowing costs thereafter. With the overnight rate believed to sit around 2.50 per cent by the end of 2025, a more accommodative monetary environment is approaching, which may help consumer spending and manufacturing activity regain momentum and facilitate a recovery across all industrial space-using sectors. On the supply side, the pullback in building intentions will lead to a continued decline in completions. Developers will monitor both the timing and strength of the demand-side recovery to assess the feasibility of new projects. As a result, the industrial sector will move towards a more balanced state, with the national vacancy rate stabilizing around 4.0 per cent. Nevertheless, potential tariffs stemming from the recent U.S. election do pose some risk to the nation's industrial outlook. While the magnitude and timing of said tariffs remains uncertain, demand dynamics may be impacted if larger import taxes do materialize.

2025 INDUSTRIAL OUTLOOK

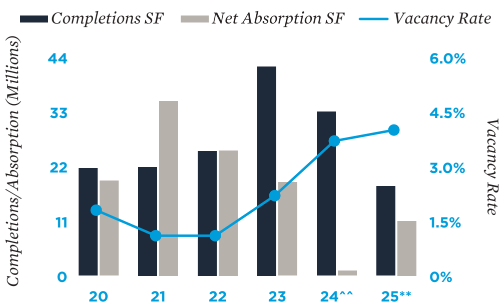
- **Vacancy rate to increase slightly but remain low.** While national vacancy is projected to edge up, Calgary and Edmonton will see declines. Space demand in these two markets will be bolstered by the full operation of the Trans Mountain Pipeline, ongoing expansion in the clean energy sector and the province's growing distribution network in Western Canada. In the east, vacancy will likely continue to rise in Toronto and Southwestern Ontario as deliveries stay elevated. Montreal's vacancy rate is predicted to stabilize around 5.0 per cent, the highest in Canada, which indicates a balanced market. With the national vacancy rate holding relatively low and a demand recovery expected in the second half of 2025, year-over-year rent growth is forecast to pick up by the final quarter and largely align with the rate of inflation.

- **Lower interest rates to further bolster investment activity.** Falling interest rates in 2024 primarily benefitted smaller deals, spurring an increase in transactions valued under $20 million. Moving forwards, investment activity is expected to stay on an upwards trajectory in 2025, likely driven by a resurgence in larger deals that will be easier to finance as borrowing costs decline further. Additionally, by increasing the premium over risk-free assets like government securities, this lower interest rate environment will also enhance the appeal of industrial investments. This will encourage indirect ownership – such as investment in REITs and mutual funds – among investors who do not require direct holdings of physical industrial properties.

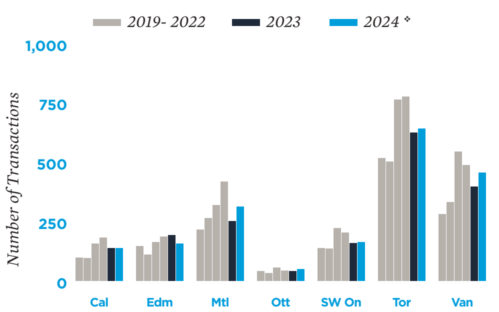
Industrial Production Growth Slowing



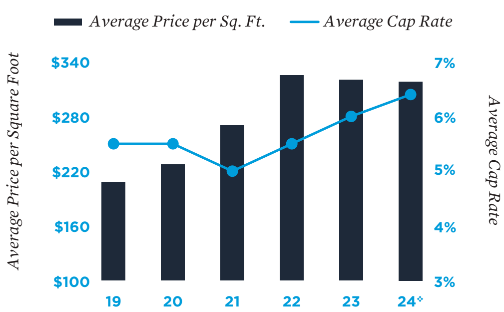
Industrial Supply and Demand



Industrial Transactions

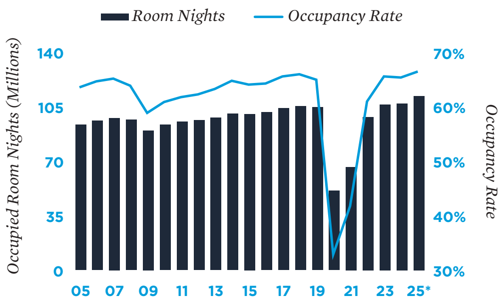


Price and Cap Rate Trends

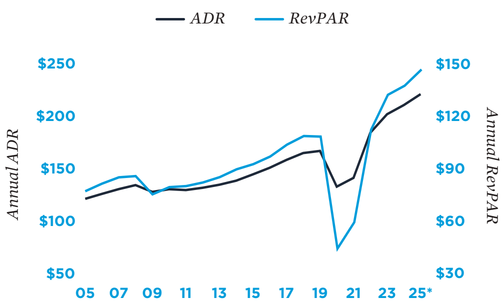


** 3-month moving average; ^ Through July; ^^ Estimate; ** Forecast;*
❖ Trailing 12 months through 3Q
Sources: Altus Data Solutions; CoStar Group, Inc.; Statistics Canada

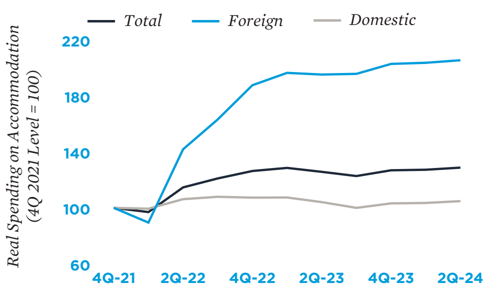
Annual Occupancy Trends



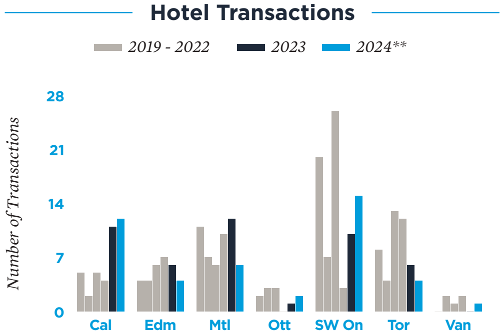
Annual Revenue Trends



Foreign Spenders Driving Hotel Gains in Canada



Hotel Transactions



** Forecast; ** Trailing 12 months through 3Q*

Sources: Altus Data Solutions; Statistics Canada; STR, a CoStar Group Company

Lower Borrowing Costs Set the Stage for an Optimistic 2025 After Outsized Gains Eased Last Year

Hotels outperform broader economy. After years of historic performance, led by pent-up leisure demand coming out of the pandemic, key revenue metrics began to normalize last year. This was mainly the result of weakness in the broader economy putting downwards pressure on hotel demand, as many consumers reigned in their discretionary spending. Consequently, the national occupancy rate edged down slightly, while growth in key performance metrics – such as the average daily rate and revenue per available room – returned to more sustainable levels. Occupancy was still largely aligned with pre-pandemic levels, however, causing the sector to outperform the economy at large. With interest rates now firmly trending down and providing some relief to borrowers, economic growth and consumer spending are set to gain momentum over the latter half of this year. This setting will likely support an uptick in occupancy, driving further gains in key revenue metrics. Nevertheless, the potential for a more gradual pickup in economic expansion and curbed population growth may manifest into some downside risk.

Corporate travel a key indicator to observe. Business travel has largely ebbed amid the adoption of hybrid work and the prominence of remote meetings. Nevertheless, midweek occupancy did return to pre-pandemic levels last year, mainly driven by a recovery in suburban and secondary markets. In contrast, urban downtowns continued to see corporate demand fall behind due to their reliance on national companies, who faced more pressure to cut costs in the face of Canada's slowing economy. Looking ahead, falling borrowing costs could support growing business investment and spending over the course of this year, potentially lifting corporate demand. A relatively stable outlook for the oil and gas sector, along with the completion of the Trans Mountain Pipeline and investments into renewable energy, should also benefit business travel in Canada's resource-intensive provinces. That said, the recent United States election and potential tariffs on Canadian exports does pose some risk to businesses and hotels.

2025 HOSPITALITY OUTLOOK

- **International travel boosting hotel performance.** Foreign travel has been a driving factor in Canada's hotel recovery. Since the health crisis, however, China has kept Canada off its approved travel list due to a deteriorating relationship amid political interference accusations. Despite a strong recovery, international inbound travel still lags behind pre-pandemic levels as a result. Nevertheless, Canada has recently scraped its Covid-era cap on flights to and from Mainland China, which could be an early sign of the shape of things to come. A weak Canadian dollar and the completion of the Gordie Howe Bridge are also likely to aid a return in U.S. visitors, who account for roughly 80 per cent of all international inbound travel. A further recovery in foreign visitors could provide some upside potential to Canada's hotel outlook.

- **Investors to keep an eye on supply dynamics.** Between a post-pandemic lull in hotel development and the removal of existing stock for residential use, Canada's hotel inventory has only increased by 4.0 per cent since the start of 2019. This limited supply growth has acted as a tailwind for underlying performance; however, development activity has picked up. More rooms are under construction and deliveries jumped 12 per cent year over year in 2024. On top of that, the pipeline of hotels in final planning is growing, creating some supply-side risk that investors should monitor.

Ongoing Demand Drivers Likely to Absorb Influx of New Supply Over the Long Run

Apartment sector seeing some balance return to the market. Calgary multifamily properties have benefitted from historic population growth, as the metro's lower cost of living drove both international and interprovincial migration. Compared with the start of 2019, Calgary's population jumped by roughly 240,000 residents as of the fourth quarter of 2024. At the same time, while lower land costs, less red tape and quicker development timelines caused purpose-built rental completions to reach all-time highs – pushing vacancy up – total apartment inventory has only expanded by 15,000 units. Looking ahead, while vacancy is expected to climb further, new supply is likely to be absorbed over the longer-term. Population growth is expected to remain above the national average in 2025, largely because of affordability advantages. A stable oil sector outlook, along with economic diversification into renewable energy as well as technology, finance, health care and film, is also likely to support above-average employment gains, further aiding the metro's long-term multifamily outlook. Additionally, the under construction pipeline began to level off in 2024, which is set to mitigate supply-side pressures over the coming years.

INVESTMENT TRENDS

- Amid healthy rent growth and ongoing demand drivers, investor sentiment remained positive. Over the past year ended September 2024, the total number of trades jumped nearly 50 per cent.
- With the city of Calgary recently resuming its Downtown Office Conversion Program, investor interest in office repositioning plays could gain momentum.

2025 Multifamily Trends

6,000
UNITS
will be completed

CONSTRUCTION:
While down from last year, deliveries will remain elevated in 2025. Suburban communities in the northwest and southwest, along with the Beltline in downtown, are seeing the strongest supply growth.

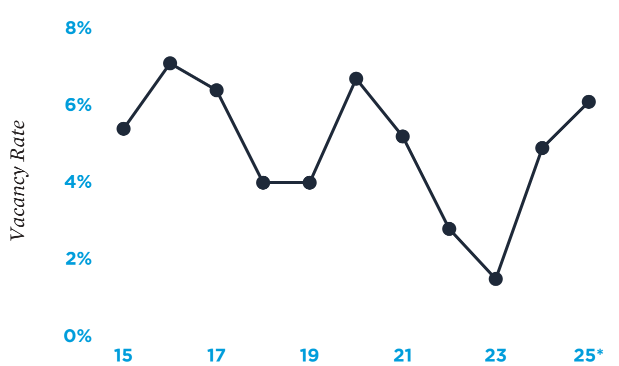
120
BASIS POINT
increase in vacancy

VACANCY:
Vacancy will continue to inch up, given historic supply growth taking time to be fully absorbed. The rate will largely return to the metro's pre-pandemic level and end the year in the 6.0 per cent range.

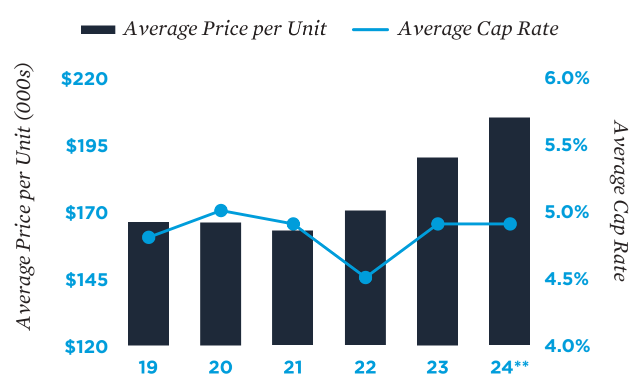
3.0%
INCREASE
in effective rent

RENT:
Above-average population growth, the absence of rent control and new, high-quality supply coming to market will all put further upwards pressure on effective rents. As vacancy rises, however, growth will be muted compared with recent years.

Vacancy Trend



Price and Cap Rate Trends



** Forecast; ** Trailing 12 months through 3Q*

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

Lower Interest Rates Support Consumer Spending Amid Demographic Headwinds

Market remains resilient as vacancy stays low. Calgary's retail sector has significantly benefitted from strong population growth in recent years. The metro's lower cost of living, booming energy sector and growing labour force in non-oil industries have attracted new residents from both within and outside Canada, fuelling increased demand for retail goods and services. This demographic tailwind has contributed to four consecutive years of declining vacancy, while also spurring development activity and attracting domestic and international retailers eager to capitalize on the expanding customer base. An expected decline in newcomers this year, however, will slow population growth considerably, driven by the federal government's new policy to curb both permanent and temporary immigration. This will mitigate a key driver of the metro's retail sector expansion. Nevertheless, declining borrowing costs are likely to support per-capita consumer spending, helping to sustain robust sector fundamentals. Even with vacancy forecast to rise due to slower population growth and healthy supply dynamics, the year-end rate is still expected to remain low, signaling enduring resilience.

INVESTMENT TRENDS

- Calgary's strong retail sector fundamentals have boosted investor sentiment. Total dollar volume for 2024 is estimated to approach $700 million, nearing a level not seen since 2012.
- As living expenses continued to rise last year, consumers shifted towards essential goods and services. Investors capitalized on this trend by acquiring properties that typically outperform under these conditions, such as suburban grocery-anchored retail.

2025 Retail Trends

1.2 MILLION
SQUARE FEET
will be completed

CONSTRUCTION:
Completions are projected to be in line with the historical average. While mixed-use developments remain the primary build type, two strip centres are slated for delivery in Okotoks and Airdrie.

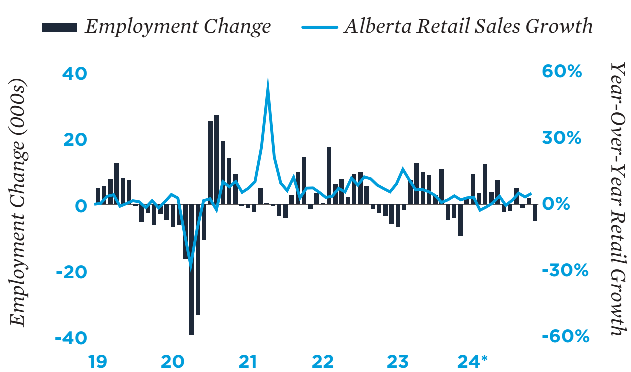
20
BASIS POINT
increase in vacancy

VACANCY:
Slower population growth is expected to drive an increase in the vacancy rate; however, as interest rates decline, a recovery in per-capita consumer spending will help maintain a tight leasing market.

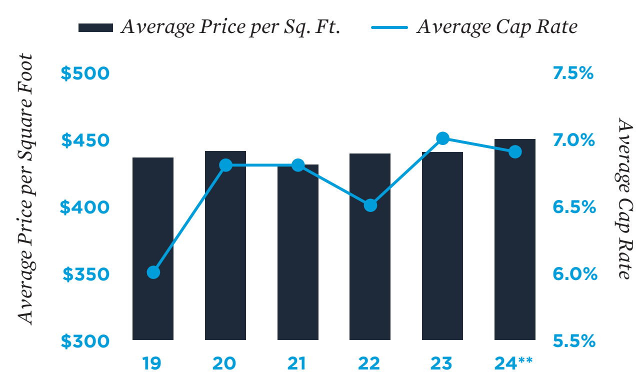
2.1%
INCREASE
in asking rent

RENT:
With vacancy staying range-bound near the historic low, rents are likely to continue rising. The year-end rate is poised to tick up after posting minimal growth last year.

Employment vs. Retail Sales Trends



Price and Cap Rate Trends



** Employment through November, retail sales through September; ** Trailing 12 months through 3Q*

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

Demand Tailwinds Maintain Vacancy Decline Amid Supply Reduction Efforts

Vacancy rate to fall for the third consecutive year. Calgary's office vacancy rate dropped by roughly 300 basis points in 2024, marking the fastest decline among major Canadian markets. Spill-over effects from a healthy oil and gas sector, along with growth in non-oil office-using sectors – such as financial services, technology and education – drove a surge in leasing activity. Net absorption exceeded 2 million square feet as a result, reaching its highest annual level in more than a decade. Looking ahead to 2025, these demand drivers are likely to sustain downwards pressure on vacancy, especially with interest rates expected to decline further. The metro's disciplined construction pipeline will also help improve sector fundamentals. Moreover, Calgary relaunched its Downtown Development Incentive Program in September last year after the metro secured funding from the federal government. Eligible projects will receive up to $75 per square foot of office space for conversion, up to a maximum of $15 million per project. This program will continue to revitalize the downtown core while also removing obsolete office stock and addressing the critical need for more housing.

INVESTMENT TRENDS

- Despite improving fundamentals, Calgary is still perceived as a high-risk office market, leading to weak transaction volumes. This once again put downward pressure on sale prices, with yields rising above 10 per cent last year.
- Office conversions have become a catalyst for sales. These projects have been proven to increase the assessed value of targeted buildings, likely boosting investment volume in the years ahead.

2025 Office Trends

72,000
SQUARE FEET
will be completed

CONSTRUCTION:
While up slightly from last year, construction will be minimal this year as vacancy is still elevated. The primary project for 2025 is Westwinds Business Campus III, slated for delivery in North Calgary.

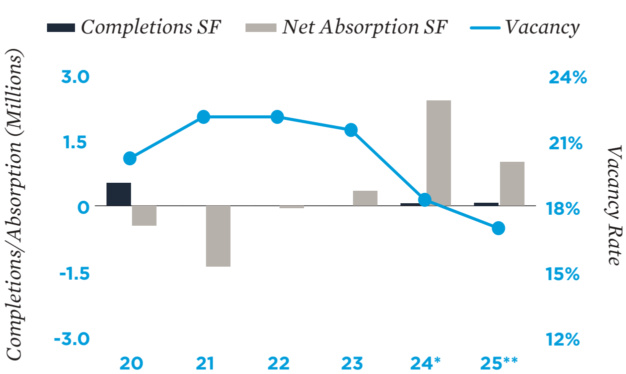
130
BASIS POINT
decrease in vacancy

VACANCY:
With declining borrowing costs, the vacancy rate is expected to continue falling as space demand grows across both oil and non-oil industries. Vacancy will sit around 17.0 per cent – its lowest reading since 2016.

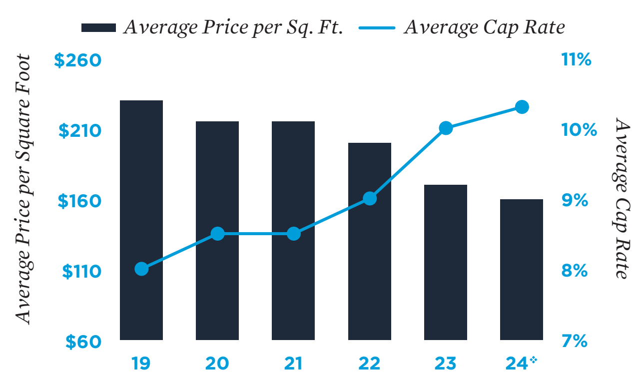
2.3%
INCREASE
in asking rent

RENT:
Office rent growth has largely stabilized after the outsized gains seen in 2023. This year, the rate of growth is set to accelerate only slightly as space demand regains strength.

Supply and Demand



Price and Cap Rate Trends



*Estimate **Forecast; * Trailing 12 months through 3Q

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

Demand Benefits From Robust Economic Growth Amid Energy Sector Investment

Metro's growing economy underpins solid 2025 outlook. Calgary's industrial sector is poised to benefit from another year of robust economic growth, driven by a positive outlook for Alberta's energy sector and the metro's diversifying economy. With the completion of the Trans Mountain Pipeline expansion, the province's oil transportation capacity is expected to nearly triple from its current level. This project will open up trade routes to Asia, spurring sector growth. At the same time, lower interest rates, broad-based employment gains and recent population growth will stimulate consumer spending and business investment, further solidifying Calgary as a distribution hub for Western Canada. These factors combined will drive space demand across various industrial formats and maintain the asset as a preferred investment option. On the supply side, the current construction pipeline is winding down, as softening demand has become a concern for developers. In 2025, completions are expected to scale back further, following last year's decline. That said, with less construction-related red tape and fewer regulatory barriers, development activity can ramp up quickly if demand rebounds.

INVESTMENT TRENDS

- Given the positive sector outlook, industrial assets are currently the most invested property type in Calgary, with sales accounting for roughly 35 per cent of the total number of transactions.
- As demand for smaller-bay properties remains strong amid the current market rebalancing, investors and developers have been focusing on opportunities that serve this segment of the market.

2025 Industrial Trends

1 MILLION
SQUARE FEET
will be completed

CONSTRUCTION:
Construction activity peaked in 2022 and since has been trending lower as space demand softens. In 2025, deliveries are expected to return to the historical average, marking its lowest level since 2020.

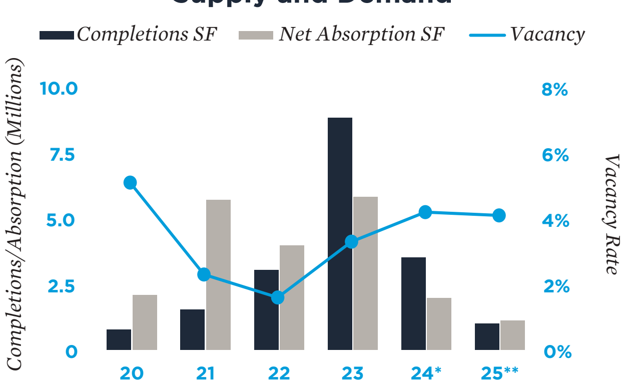
10
BASIS POINT
decrease in vacancy

VACANCY:
Vacancy is likely to stabilize amid a diversifying economy and the metro's growing distribution presence. Along with lower borrowing costs and investment in energy sector infrastructure, the rate will end the year hovering around 4.0 per cent.

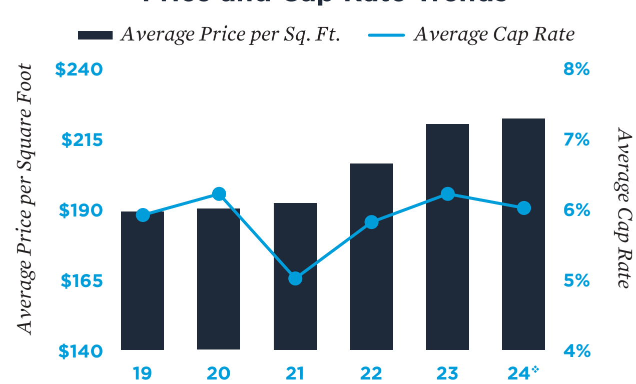
3.0%
INCREASE
in asking rent

RENT:
As vacancy remains below 5.0 per cent, upwards pressure on rents is likely to hold. With Calgary growing as a distribution hub while holding rental rates 15 per cent below the national average, there could be further runway for growth.

Supply and Demand



Price and Cap Rate Trends



** Estimate; ** Forecast; ✢ Trailing 12 months through 3Q*

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

Economic Green Shoots, Growing Event Capacity and Limited Supply Aid Hotels

Leisure offerings and economic landscape shape outlook. Hotel performance in Calgary continued its upwards trend in 2024 amid the completion of the BMO Convention Centre expansion, a healthy energy sector, a diversifying economy and a recovery in recreational activities. These factors aided corporate, group and leisure travel demand. Looking ahead, leisure travel is expected to inch higher this year. Lower interest rates will likely boost discretionary spending, while Calgary's proximity to the Canadian Rockies attracts with stunning mountain landscapes and outdoor activities. A less restrictive monetary environment and Alberta's business-friendly policies will also support corporate investment and ongoing economic diversification. The opening of the Trans Mountain Pipeline – which will nearly triple oil exporting capacity – could lead corporate travel to see further growth here, as Calgary houses the head offices for several of Canada's largest energy companies. In addition to an optimistic demand outlook, supply dynamics are also favourable, as hotel inventory has contracted over the past couple of years. While Calgary's office conversion program could incentivize hotel development over the long term, supply-side pressures remain minimal.

INVESTMENT TRENDS

- Sales volumes have past $200 million over the last two years ended September 2024, as some investors see considerable long-term upside amid economic growth and diversification.
- With the city renewing its office conversion incentive program, there could be an uptick in investment for underutilized office space with the potential to be repositioned into hotel use.

2025 Hospitality Trends

140
BASIS POINT
change in occupancy

OCCUPANCY:
Supply constraints, a new event centre and an outperforming economy will support hotel performance this year. By year-end, the metro's occupancy rate is expected to hit 66.8 per cent – the highest mark since 2014.

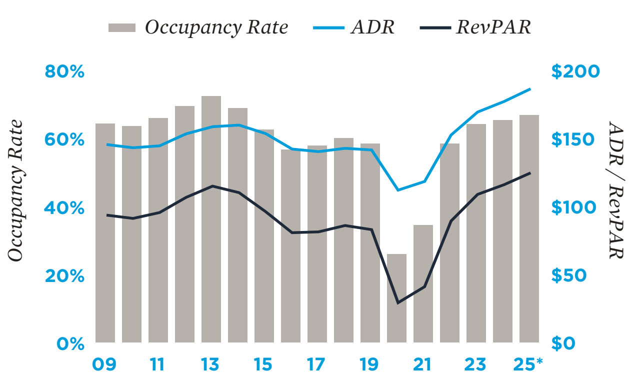
5.3%
INCREASE
in ADR

ADR:
As occupancy reaches new heights and sits above the national level, the average daily rate will keep trending higher. By the end of 2025, Calgary's ADR will hit a record peak of $186.

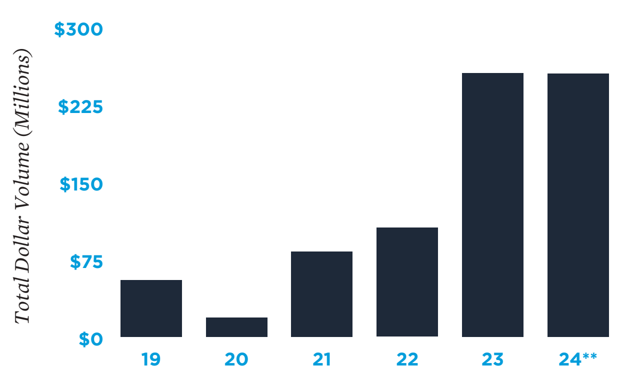
7.5%
INCREASE
in RevPAR

RevPAR:
The combination of strong occupancy gains and outsized ADR growth will drive revenue per available room higher. RevPAR is forecast to reach $124 by year-end, which is 50 per cent above the pre-pandemic level.

Occupancy and Revenue Metrics



Transaction Trends



** Forecast; ** Trailing 12 months through 3Q*

Sources: Altus Data Solutions; Statistics Canada; STR, a CoStar Group Company

Diversifying Economy Helps Support Both Past and Future Population Gains

Evolving job prospects maintain a positive outlook. Edmonton's population growth surpassed 4.0 per cent in 2023 and remained one of the highest in Canada over the first half of 2024. This trend was largely fuelled by Edmonton's lower cost of living, attracting both international immigrants as well as interprovincial migration. Looking ahead, while affordability will stay a key driver in multifamily performance, a more structural change in Edmonton is materializing. Historically, the metro has been heavily influenced by the traditional energy sector. Since 2019, however, industries outside of oil and gas – such as professional, scientific and technical services along with renewable energy, technology, healthcare, retail and finance – have driven employment gains. This signals that Edmonton's economy is undergoing widespread diversification, which will generate more stability and provide evolving employment opportunities for both past and future resident gains. Combined with a growing student population, a large public sector presence, higher disposable incomes and an economy that is likely to outperform, multifamily fundamentals are expected to remain robust. Apartment rentals are set to hold as a preferred investment vehicle in 2025 as a result.

INVESTMENT TRENDS

- Given robust fundamentals, multifamily accounted for 50 per cent of total dollar volume traded over the year ended September 2024 – the largest share among major commercial property types.
- Despite seeing outsized rent gains in recent years, Edmonton remains the lowest-cost market with a cap rate of 5.1 per cent, making it an attractive investment for those on the hunt for yield.

2025 Multifamily Trends

5,500
UNITS
will be completed

CONSTRUCTION:
While deliveries are set to edge down marginally when compared with last year, new supply coming to market will remain well above historic measures, as apartment starts have trended up since 2018.

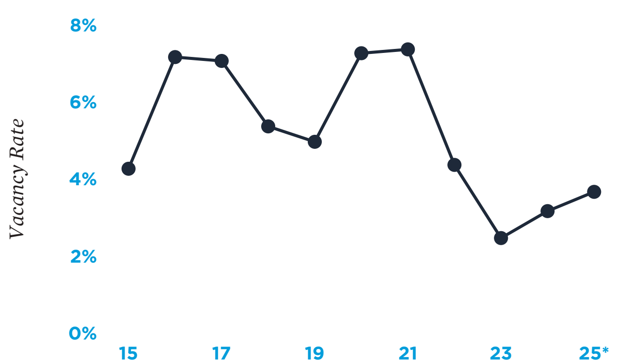
50
BASIS POINT
increase in vacancy

VACANCY:
Despite healthy supply growth, strong underlying demand due to Edmonton's lower cost of living, diversifying economy and investment in both traditional and renewable energy will keep the vacancy rate low at roughly 3.5 per cent.

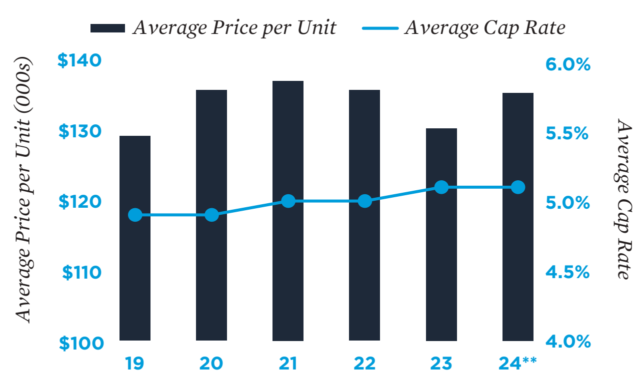
4.1%
INCREASE
in effective rent

RENT:
The absence of rent control, above-average population growth and a shortage of purpose-built rentals will all fuel continued rent growth in 2025. Rent growth in Edmonton will rank among the top markets in North America.

Vacancy Trend



Price and Cap Rate Trends



** Forecast; ** Trailing 12 months through 3Q*

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

Economic Strength Attracting Both Domestic and Global Retailers

Vacancy rate to stabilize amid healthy market conditions. Edmonton's demographic advantages have played a key role in driving retail sector growth in recent years. A rapidly growing population, combined with high disposable income, have established the city as an attractive retail market. Retailers seeking to expand their presence in Canada have also been drawn to Edmonton's better space availability and lower rental costs compared with other metros. Last year, this trend was marked by the expansion of grocery chains such as FreshCo, No Frills and L'OCA Quality Market, alongside the openings of new quick service restaurants, including Chipotle, Chick-fil-A and Crumbl Cookies. Looking ahead, 2025 is set to bring some demographic headwinds as the federal government takes steps to curb population growth; however, Edmonton's economy is expected to remain resilient. Supported by a robust energy sector, ongoing industry diversification and its lower cost of living, the region could keep population growth above the national average amid interprovincial migration. Consumer financial health is also likely to improve as declining interest rates ease household debt burdens. These strengths are projected to uphold sector fundamentals.

INVESTMENT TRENDS

- Investors stayed on the sidelines in 2024 as financing costs remained elevated. This suppressed sales activity for larger properties, driving total dollar volume below the historical average.
- Sale prices fell by over 10 per cent last year amid subdued investment activity. This creates a favourable environment for potential buyers, as Edmonton offers one of the highest yields in Canada.

2025 Retail Trends

900,000
SQUARE FEET
will be completed

CONSTRUCTION:
Despite a shift down from last year, retail construction remains robust as developers work to meet consumer and tenant demand. Several neighbourhood and outlet centre expansions are expected in 2025.

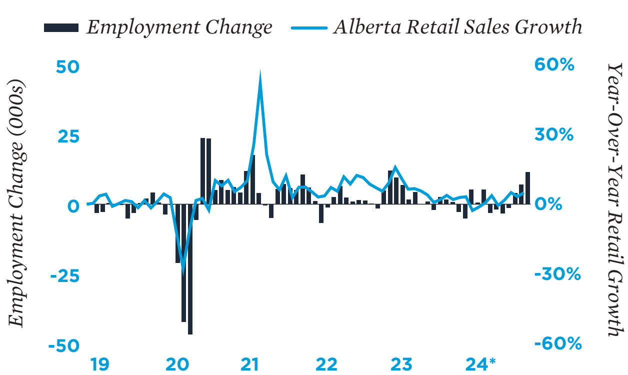
10
BASIS POINT
decrease in vacancy

VACANCY:
While curbed population growth could stabilize vacancy around 3.0 per cent, strong pre-leasing activity and ongoing demand for new, high-quality space is likely to mitigate supply-side pressures.

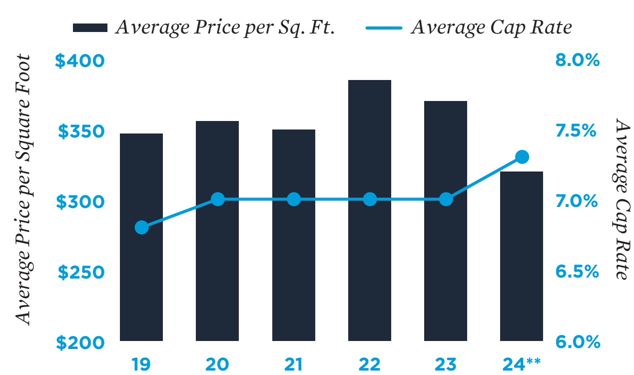
2.1%
INCREASE
in asking rent

RENT:
Asking rents are forecast to keep rising in 2025. While vacancy stays low, it will not drop as much as in recent years. As such, the average asking rent will rise but by a smaller margin.

Employment vs. Retail Sales Trends



Price and Cap Rate Trends



** Employment through November, retail sales through September; ** Trailing 12 months through 3Q*

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

Vacancy to Drop for Fourth-Straight Year as Macro Trends Fuel Rising Demand

Sector fundamentals continue to improve. The office vacancy rate in Edmonton declined for the third consecutive year in 2024, reaching its lowest level since 2019. Industry diversification and labour force expansion in the metro drove an increase in space demand. At the same time, the sector also benefitted from the provincial government's return-to-office policy, with several agencies – including Alberta Health Services and Alberta Infrastructure – expanding their office footprints. This year, the professional services sector backing Alberta's energy production is expected to grow further as the upgraded Trans Mountain Pipeline boosts oil output. On top of that, declining interest rates are likely to support small business growth in the metro, particularly within the tech industry. Together, these trends may drive a greater demand for office space, sustaining downwards pressure on the vacancy rate in 2025. On the supply side, developers have largely shifted focus away from the office sector. In the absence of policy support, some investors have chosen to independently pursue office-to-residential conversions as a means to capitalize on the potential upside of these projects.

INVESTMENT TRENDS

- Although elevated vacancy may still weigh on investor sentiment, falling borrowing costs and potential conversion projects could fuel an increase in transaction volume this year.
- Sale prices have been under pressure as investment activity waned, pushing the cap rate close to 10 per cent last year. With fundamentals expected to improve, this could present a good opportunity for investors seeking yield to enter the market.

2025 Office Trends

80,000
SQUARE FEET
will be completed

CONSTRUCTION:
Above-average vacancy has deterred development activity, with no major projects completed since 2019. A large portion of additions this year are mixed-use buildings aimed at medical use.

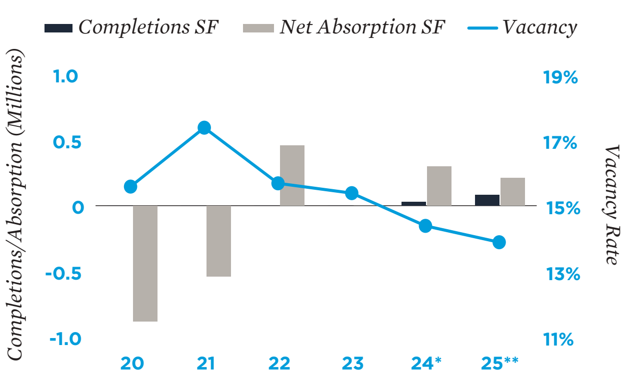
50
BASIS POINT
decrease in vacancy

VACANCY:
Vacancy is projected to keep declining as demand rises amid limited supply growth. By the end of the year, the vacancy rate is expected to return to roughly 14.0 per cent – a level not seen since mid-2020.

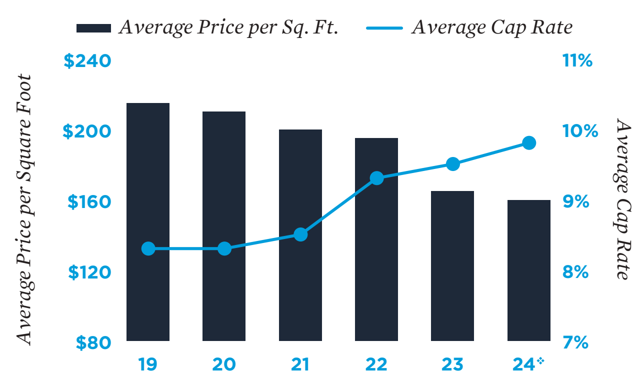
1.6%
INCREASE
in asking rent

RENT:
As sector fundamentals continue to improve, office rents are expected to rebound. Following two years of decline, the average asking rate is forecast to register a mild increase, rising above $14 per square foot.

Supply and Demand



Price and Cap Rate Trends



** Estimate; ** Forecast; * Trailing 12 months through 3Q*

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

Metrowide Investment in Key Sectors Supports Optimistic Industrial Outlook

Market tightens with multiple drivers supporting fundamentals. Industrial space demand in Edmonton will be bolstered by infrastructure projects focused on energy and trade over the coming years. As a major service hub for Alberta's energy sector, Edmonton is expected to see increased economic activity driven by the full operation of the Trans Mountain Pipeline. Another boon for the metro is its commitment to clean energy, as projects involving solar power, natural gas and hydrogen production will necessitate upgrades in the manufacturing sector as well as the transportation and warehousing sectors. In addition, the expansion of the Port of Prince Rupert, which Edmonton has direct access to, will enhance the metro's trade capacity, attracting more investment in logistics. Complementing this positive demand outlook, the significant increase in new supply seen across the country has not materialize in Edmonton. With fewer than 1 million square feet of space under construction as of the final quarter of 2024, deliveries are expected to trail absorption. The vacancy rate is projected to decrease in 2025 as a result, following a stabilization witnessed last year.

INVESTMENT TRENDS

- Investment activity in 2024 was dominated by sales under $20 million. The owner-user segment played a key role, as local businesses acquired industrial properties to serve local customers.
- Although valuations have been rising in the midst of a tight vacancy rate below 4.0 per cent, Edmonton continues to offer the highest cap rate while also remaining the lowest-cost industrial market in Canada, attracting investors on the hunt for yield.

2025 Industrial Trends

800,000
SQUARE FEET
will be completed

CONSTRUCTION:

As builders pare back on construction, completions are projected to decline. Developers have adopted a cautious approach to constructing speculative properties, helping maintain more stable fundamentals.

30
BASIS POINT
decrease in vacancy

VACANCY:

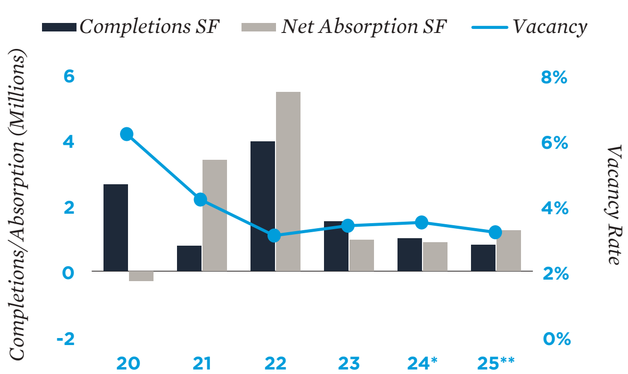
The vacancy rate is expected to decrease – ending the year just above 3.0 per cent – as strong demand persists during a time of limited inventory growth. This will mark the first year of vacancy decline since the market began rebalancing in 2023.

3.0%
INCREASE
in asking rent

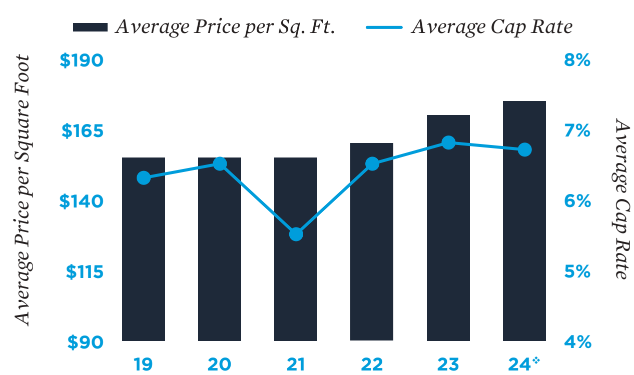
RENT:

Industrial rents are poised to continue rising, with the rate of increase outpacing inflation. The average asking rent is projected to surpass $11 per square foot by year-end, hitting its highest level since 2008.

Supply and Demand



Price and Cap Rate Trends



** Estimate; ** Forecast; * Trailing 12 months through 3Q*

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

Group and Corporate Demand Bucking National Trend Creates Tailwind for Hotels

Economic makeup drives hotel fundamentals. Edmonton's hotel sector outperformed the national average last year, as rising occupancy supported gains in key revenue metrics. The Edmonton Oilers run to the Stanley Cup Finals drove hotel demand in the spring and summer months. Looking more broadly over 2024, performance was also fuelled by a drastic improvement in group demand, which pushed ahead of pre-pandemic levels. Similarly, weekday occupancy also surpassed pre-pandemic measures amid strong corporate demand. Over the coming year, these trends are likely to hold. The metro's hotel sector will continue to benefit from consistent public sector corporate demand as Alberta's capital city, as well as from a stable resource sector outlook. While ongoing economic diversification is expected to loosen the hotel sector's reliance on the energy industry, the recent opening of the Trans Mountain Pipeline is welcome news for the sector at large. On the supply side, although there are currently no projects under construction, over 400 rooms lay in wait in final planning. With Edmonton boasting the lowest occupancy rate among major Canadian metros, these potential developments could create some supply-side pressures over the longer term.

INVESTMENT TRENDS

- Over the year ended September 2024, between elevated interest rates curbing buyer appetite and strong revenue growth allowing sellers to hold assets, the number of sales edged down 33 per cent.
- The coming year could see an uptick in transactions, facilitated by increased oil production, strong hotel performance, potential refinancing at higher rates and a friendlier monetary environment.

2025 Hospitality Trends

340
BASIS POINT
change in occupancy

OCCUPANCY:
Occupancy is expected to edge higher to roughly 62 per cent, aided by limited supply growth in recent years as well as an optimistic demand outlook stemming from falling interest rates.

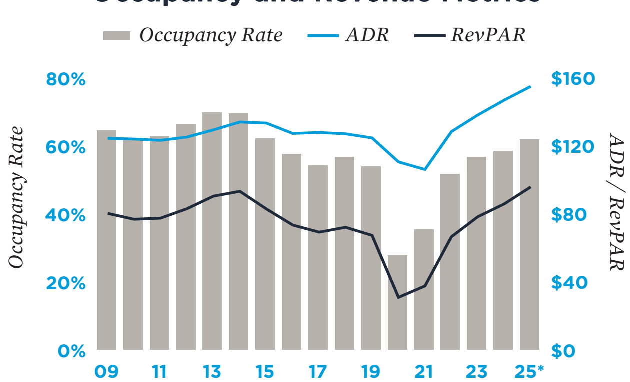
5.5%
INCREASE
in ADR

ADR:
With occupancy seeing one of the largest gains among major Canadian metros, ADR growth is forecast to hold well above Edmonton's long-term average. By year-end, the average daily rate will hit the highest reading on record at $155.

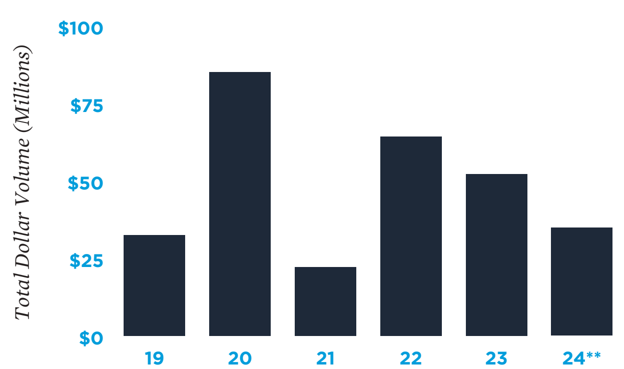
11.7%
INCREASE
in RevPAR

RevPAR:
As occupancy gains are forecast to nearly double last year's increase, revenue per available room growth will also outpace the 2024 level. By the end of the year, RevPAR will sit at $95.61 – slightly above the previous high of $93.04 seen in 2014.

Occupancy and Revenue Metrics



Transaction Trends



** Forecast; ** Trailing 12 months through 3Q*

Sources: Altus Data Solutions; Statistics Canada; STR, a CoStar Group Company

Further Interest Grows in Apartments Amid Weakness Seen in Other Housing Formats

Projects being repositioned to meet rental demand. Weakness in Montreal's for-owned condo market, especially in pre-construction sales, prompted many developers to begin repositioning projects as purpose-built rentals. Though this has received some pushback from investors – as for-owned condos recover upfront capital at a faster rate – the metro's ongoing rental supply-demand imbalance makes it an attractive alternative. At the same time, many larger players are beginning to focus on retail densification projects outside downtown Montreal. While these investors are looking to capitalize on robust demand dynamics, they also see an opportunity to add much-needed housing supply to the metro. These factors, combined with the lower cost of capital and new city zoning plans calling for higher density, led construction starts to resume their upwards trend in 2024 and are likely to support further activity in the years ahead. Some risks are present, however. Apartment demand could soften by more than expected over the longer term amid recent changes to Canada's immigration policies. A revival in building intentions could also cause construction costs to spike once again, eating into investor returns and hindering the profitability of planned projects.

INVESTMENT TRENDS

- Sales rose by roughly 65 per cent over the past year ended September 2024, as the cost of capital edged down. This was largely driven by an uptick in smaller deals that tend to use less financing.
- Higher costs in Montreal proper, including expensive land along with prolonged approval and development timelines, have pushed some investors to off-island areas like the North and South Shore.

2025 Multifamily Trends

12,000
UNITS
will be completed

CONSTRUCTION:
While restrictive interest rates have led to a brief pullback in starts since 2022, it has not undone the previous nine years of increases. Deliveries will remain elevated in 2025, albeit dropping slightly from last year.

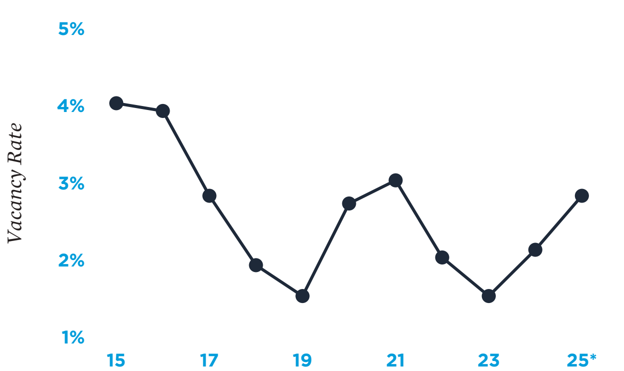
70
BASIS POINT
increase in vacancy

VACANCY:
Demand is holding amid past population gains, ownership hurdles and the metro's large university presence. New supply and slowing population growth are likely to push vacancy up, however, as deliveries take time to be absorbed.

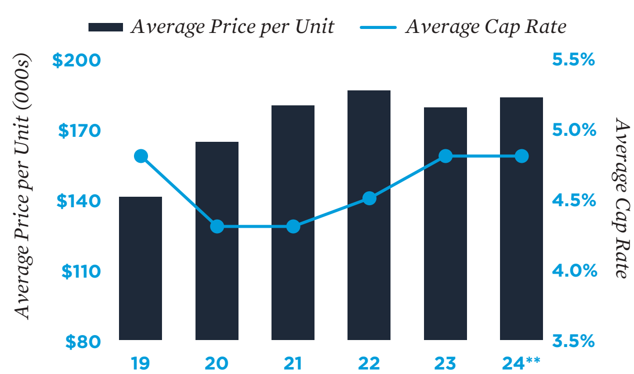
3.0%
INCREASE
in effective rent

RENT:
While rising vacancy will largely cause annual rent growth to return to a more neutral level, the market will remain below equilibrium, helping to drive rents higher. By year-end, the average effective rent will be 45 per cent above the 2019 level.

Vacancy Trend



Price and Cap Rate Trends



** Forecast; ** Trailing 12 months through 3Q*

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

Vacancy Rate Edges Lower as Demand Stays Resilient Amid Supply Constraints

Market strength to hold in new year. Consumer spending in Montreal exceeded the national average in 2024. Retail sales from January to September rose by 1.2 per cent year over year — the highest growth rate among major metros. The market has also held a lower jobless rate compared with other key eastern metros like Toronto and Southwestern Ontario. These demand-side advantages are expected to carry over into 2025. Although population growth is projected to slow due to Quebec's tighter immigration policies, falling borrowing costs are poised to bolster consumer confidence and support leasing activity. Furthermore, Montreal's large student population and vibrant tourism industry will support the city's consumer base, benefitting overall demand. On the supply side, subdued construction activity will help sustain solid fundamentals. Retail development remains largely restricted to mixed-use projects. Aside from the completion of the Royalmount project, no other large-scale shopping malls are currently proposed or under construction. This limited supply growth will help keep vacancy low, creating favourable conditions for continued rent growth.

INVESTMENT TRENDS

- Total dollar volume surged in 2024, driven by Cadillac Fairview's $553 million buyback of CF Carrefour Laval. Excluding this transaction, sales activity still improved, supported by lower financing costs and adjustments to capital gains tax regulations.
- Sale prices for single-tenant properties increased last year. These properties, often leased to well-established tenants, are considered more resilient investments in a slowing economy.

2025 Retail Trends

400,000
SQUARE FEET
will be completed

CONSTRUCTION:
The future construction pipeline predominantly features small- to medium-sized mixed-use developments. Total completions in 2025 are projected to fall short of the historical average.

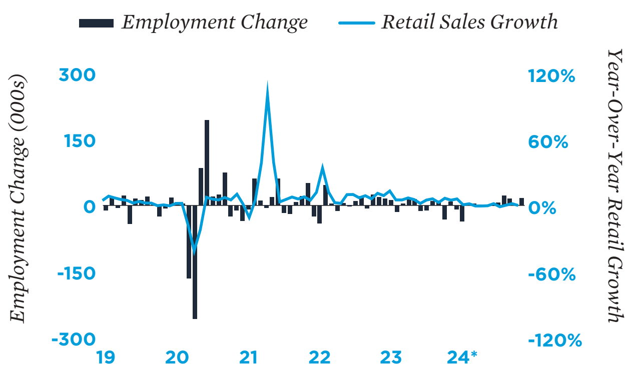
20
BASIS POINT
decrease in vacancy

VACANCY:
Supply pressures are expected to stay minimal in 2025. Combined with sustained demand for space, market tightness will hold as vacancy drops further.

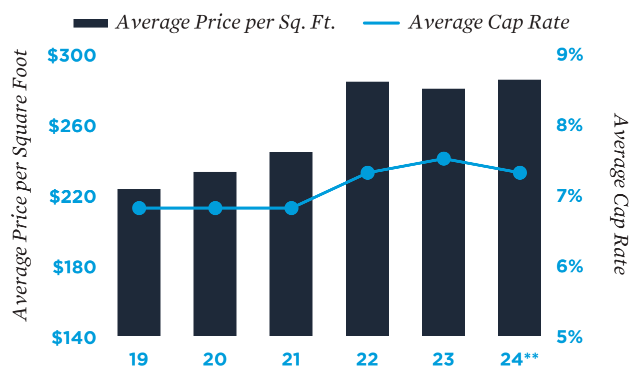
2.1%
INCREASE
in asking rent

RENT:
Consistent with the national trend, rents are set to continue rising. The low vacancy rate will likely exert upwards pressure on asking rents in the coming years.

Employment vs. Retail Sales Trends



Price and Cap Rate Trends



** Employment through November, retail sales through September; ** Trailing 12 months through 3Q*

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

Sector Moving Past Most Challenging Phase With Promising Signs of Recovery

Vacancy rate to stabilize as demand gains momentum. Office sector fundamentals in Montreal deteriorated at a rapid pace last year. Over 1.2 million square feet became unoccupied as demand fell, driving the vacancy rate to record highs. Yet, in the final quarter of the year, a modest decline in sublease space helped stabilize availability across all submarkets outside of the downtown core. This promising shift may become more pronounced in 2025, potentially paving the way for a broad-based recovery heading into 2026. While hybrid work arrangements remain a persistent challenge for office utilization, anticipated job growth in a lower interest rate environment this year could provide a backstop. Businesses will likely continue favouring quality spaces as a means to encourage a return to the office, thereby strengthening demand for Class A buildings. The National Bank's relocation to its new head office on Saint-Jacques Street evinces this trend, as does the Canadian National Railway's upcoming move in 2028. Rising demand from the emerging life sciences sector provides future growth opportunities as well. This sector has increasingly integrated with artificial intelligence in recent years, fuelling innovation and creating a need for specialized office spaces.

INVESTMENT TRENDS

- Sales activity improved last year as lower interest rates spurred smaller deals. A broader recovery is expected in 2025, though total deal volume will likely stay below pre-pandemic standards.
- Some buyers continue to focus on conversion projects. The most notable deal last year was Immo Alliances' acquisition of a building on Sainte-Catherine Street for a refit into student housing.

2025 Office Trends

60,000
SQUARE FEET
will be completed

CONSTRUCTION:

Supply growth has remained subdued since the delivery of the National Bank's new head office. This trend is expected to persist, as most new projects involve office spaces within mixed-use developments.

30
BASIS POINT
increase in vacancy

VACANCY:

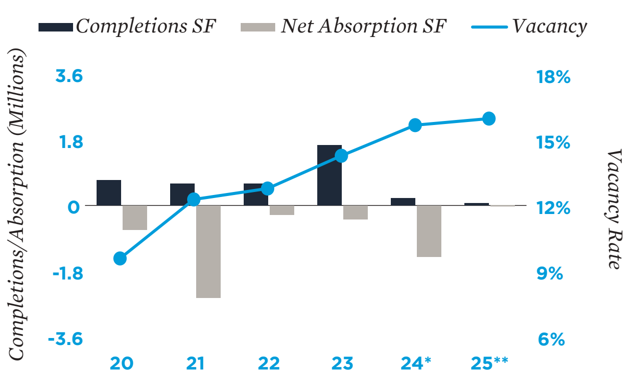
Falling interest rates will aid job growth, providing a tailwind for office demand. Combined with easing supply dynamics, the rate is set to stabilize around 16 per cent. Nevertheless, lower-quality assets will likely continue to see vacancy rise.

1.4%
DECREASE
in asking rent

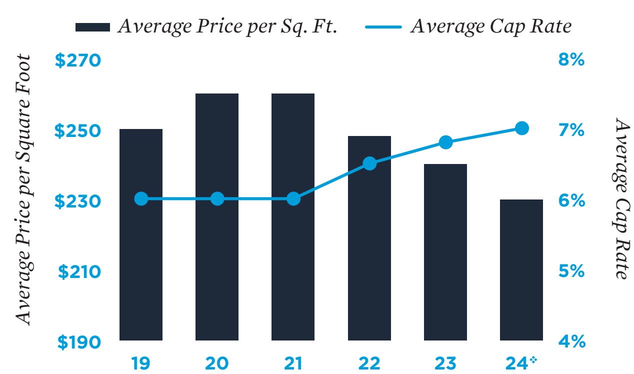
RENT:

Office rents are expected to continue declining as vacancy remains elevated. With demand projected to stabilize over the course of the year, however, the average asking rate may bottom out in 2025 before kicking off an upwards trajectory in 2026.

Supply and Demand



Price and Cap Rate Trends



** Estimate; ** Forecast; ᐩ Trailing 12 months through 3Q*

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

Falling Rates and Cooling Supply Pressures Propel Market Towards a Balanced State

Vacancy rate to peak in 2025. Montreal recorded the highest industrial vacancy rate among major Canadian metros in 2024. Slowing economic growth prompted many third-party logistics companies to scale back their expansion plans, consequently reducing demand, particularly in the large-bay segment. Compounding this demand headwind is the notable inventory expansion Montreal experienced over the past three years. Total supply increased by 7.0 per cent between 2021 and 2024, compared with just 5.0 per cent in Toronto and Vancouver, Canada's other dominate industrial markets. With interest rates expected to decline to more stimulative levels, however, this market recalibration is likely to run its course in 2025. As a crucial distribution hub in Eastern Canada, Montreal will see a recovery in consumer spending and business sentiment, bolstering activity in the transportation, warehousing and manufacturing sectors. At the same time, supply growth will dwindle significantly, as developers have paused industrial groundbreakings over the past few years amid growing concerns about oversupply. While vacancy will remain elevated compared with recent years, it is likely to stabilize around 5.0 per cent – a level indicative of a balanced market.

INVESTMENT TRENDS

- While still one of the less costly markets, Montreal experienced the fastest post-pandemic price increase in Canada, with the average sale price in 2024 surpassing 2019 levels by 120 per cent.
- Despite rising vacancy, modern, high-quality facilities continue to attract investors. This segment tends to involve nationally known companies capable of generating stable, long-term cash flows.

2025 Industrial Trends

1.5 MILLION SQUARE FEET *will be completed*

CONSTRUCTION: New supply is expected to decline, as the under-construction pipeline shrank to 2.1 million square feet in late 2024. The 40NetZERO project will deliver its first two facilities, totalling 600,000 square feet.

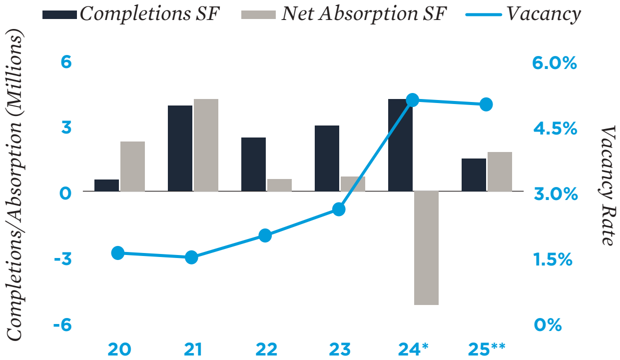
10 BASIS POINT *decrease in vacancy*

VACANCY: Vacancy is expected to stabilize, driven by easing supply-side pressures and a recovery in demand amid falling interest rates. Net absorption could turn positive, maintaining a vacancy rate around 5.0 per cent by year-end.

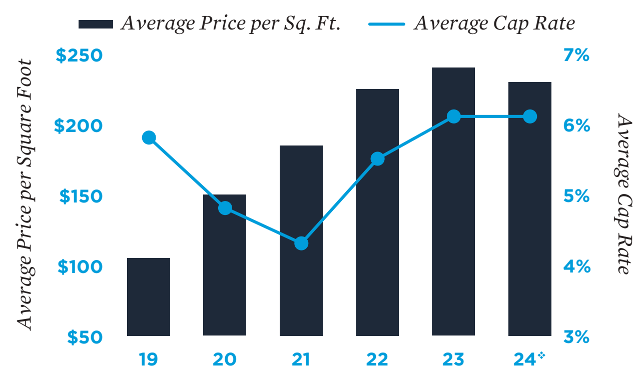
2.1% INCREASE *in asking rent*

RENT: As the vacancy rate approaches a more balanced level, rent growth will sit around the pace of inflation. Large-bay logistics spaces – especially those built on speculation – could see asking rents decline in areas with higher vacancy rates.

Supply and Demand



Price and Cap Rate Trends



** Estimate; ** Forecast; ⁺ Trailing 12 months through 3Q*

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

Cultural and Economic Diversity a Boon for Montreal's Hotel Fundamentals

Large-scale events a main driver in hotel performance. As Canada's second-largest city, Montreal hosts a diverse economy, home to a world-class food scene as well as ample history, culture and events. These factors drove a recovery in corporate and leisure travel coming out of the pandemic. While restrictive interest rates have led the metro to experience weaker economic conditions over the past year, including a higher unemployment rate than the country at large, key hotel revenue metrics continued to show healthy gains in 2024, even with a slight drop in occupancy. Nevertheless, elevated interest rates have curbed business and consumer spending, causing group travel as well as weekday occupancy – a proxy for corporate demand – to fall behind pre-pandemic levels. With interest rates now trending down, however, these demand measures have runway to grow over the second half of 2025, likely driving another year of hotel revenue gains. This is not only supported by the metro's diverse economy and widespread labour opportunities, but also from growing world-renowned events, such as Formula 1's Canadian Grand Prix, the Montreal International Jazz Festival, Nuit Blanche and Osheaga.

INVESTMENT TRENDS

- While the total number of transactions fell by roughly 40 per cent over the year ended September 2024, total dollar volume rose by 70 per cent amid an increase in upper-scale sales over $20 million.
- Underpinned by Montreal's diverse economic backdrop and a solid rebound in operating fundamentals, pricing largely aligns with pre-pandemic trends. Still, values are below other urban centers, as fewer land restrictions have allowed for more development.

2025 Hospitality Trends

170
BASIS POINT
change in occupancy

OCCUPANCY:
Corporate and group travel could continue to lag behind 2019 due to softer economic growth and a pullback in discretionary spending. With deliveries inching up, occupancy may fall to 67.9 per cent by year-end.

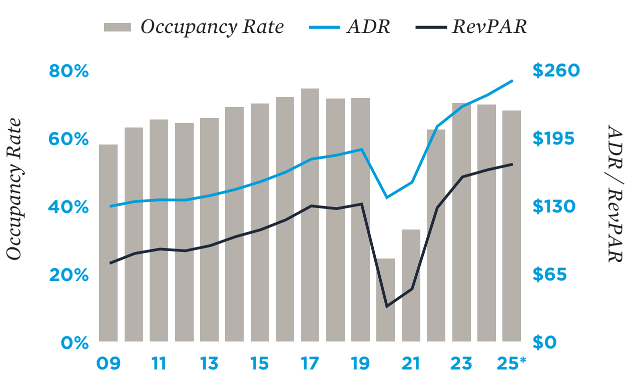
5.9%
INCREASE
in ADR

ADR:
The average daily rate is expected to see an uplift over the second half of the year as discretionary spending recovers amid falling interest rates. The ADR will likely sit just below $250 by the end of 2025.

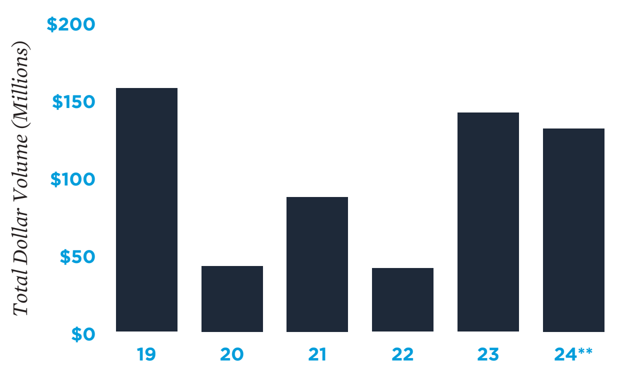
3.3%
INCREASE
in RevPAR

RevPAR:
Although occupancy is expected to edge lower, healthy ADR growth will drive a further increase in RevPAR. By the end of the year, RevPAR will hit $169, which is roughly 30 per cent above the pre-pandemic level.

Occupancy and Revenue Metrics



Transaction Trends



** Forecast; ** Trailing 12 months through 3Q*

Sources: Altus Data Solutions; Statistics Canada; STR, a CoStar Group Company

Conversions Becoming More Attractive to Investors Amid Government Action

Multiple factors aiding repositioning efforts. Ottawa's large university presence, stable labour market and lower cost of living caused a rapid rise in international immigration and intraprovincial migration in recent years, fuelling multifamily performance. Levels of government have been forced to take action to address the growing housing imbalance as a result. One concept being explored is the conversion of underutilized, government-owned office spaces to residential use. Amid hybrid work, the federal budget outlined a plan to cut costs by reducing its office portfolio by 50 per cent, with the government listing roughly 20 properties that could be suitable for repositioning. While these projects tend to have feasibility challenges, policy makers recently changed Ottawa's official plan to allow for more zoning flexibility in order to speed up approvals and development timelines for office-to-residential conversions. The government is also looking to lease crown land to investors. These factors minimize upfront costs – allowing builders to pencil out projects more frequently – and ensure affordable housing remains a priority.

INVESTMENT TRENDS

- Institutional investors are actively reshaping their portfolios by selling older properties and reinvesting in newer, higher-quality assets. This modernization strategy improves operational efficiency, reduces costs and strengthens long-term value creation.
- While institutions have been restructuring portfolios, private investors held a 65 per cent share of total dollar volume purchased over the first three quarters of 2024. These buyers are taking advantage of higher cap rates and less institutional competition.

2025 Multifamily Trends

3,500
UNITS
will be completed

CONSTRUCTION:
Supply growth is likely to moderate slightly in 2025 amid a pullback in development due to elevated interest rates. However, deliveries will hold above long-term measures, as starts have trended up since 2010.

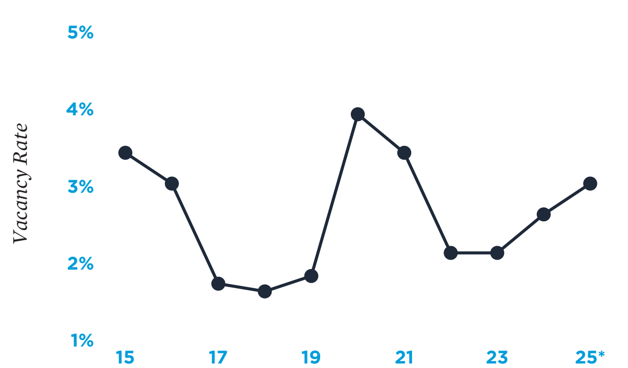
40
BASIS POINT
increase in vacancy

VACANCY:
New supply is largely composed of high-quality product. As new units take time to be absorbed, this segment of the market will drive the metrowide vacancy rate higher. By year-end, the rate will sit at roughly 3.0 per cent.

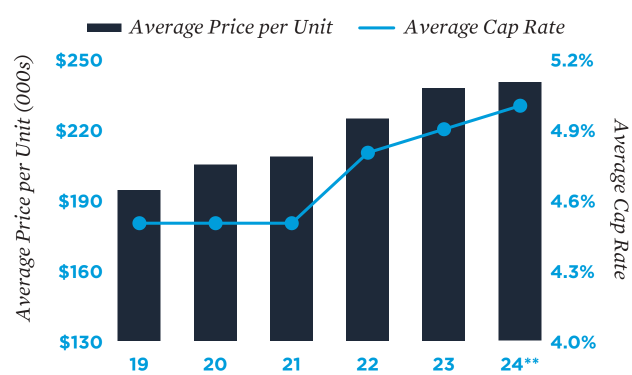
3.4%
INCREASE
in effective rent

RENT:
As vacancy inches up amid strong supply growth and curbed population gains, providing tenants with more options, annual rent growth will return to a more sustainable level. Slower growth will largely be seen in recently delivered assets.

Vacancy Trend



Price and Cap Rate Trends



** Forecast; ** Trailing 12 months through 3Q*

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

Various Developments and Public Sector Mandates to Stimulate Urban Recovery

Downtown revitalization underway. Despite rising unemployment and a pullback in spending, Ottawa's retail vacancy rate ended 2024 under 2.0 per cent. This resilience was largely seen in the suburban submarkets, which benefitted from robust population gains, hybrid work and muted property supply growth. In contrast, the metro's downtown saw a sharp rise in vacancy to nearly 300 basis points above the citywide rate, as returns to the office have been slower than expected. Looking ahead, however, various efforts are underway to revitalize Ottawa's downtown. Not only will the federal government's return-to-work mandate increase foot traffic and consumer spending, but various large-scale projects – such as the LeBreton Flats redevelopment and the Zibi master-planned community – will bring more residents to the city core over the long term. Additionally, the Ottawa Senators recently announced they will build and relocate to a new downtown arena, while Live Nation will open a new music and entertainment venue late this year. Combined with falling borrowing costs, these factors will likely drive foot traffic in the area and support the metro's retail property sector in the coming years.

INVESTMENT TRENDS

- Over the past year ended September 2024, the total number of sales jumped 18 per cent. A combination of falling borrowing costs, above-average population growth in the past five years and higher income levels have generated positive investor sentiment.
- While the average sale price fell in 2023, stabilizing interest rates facilitated a recovery in the first three quarters of 2024. Cap rates have held relatively stable over the past two years as a result.

2025 Retail Trends

130,000
SQUARE FEET
will be completed

CONSTRUCTION:
While deliveries will inch up in 2025, they will hold well below historic levels. Elevated construction costs and the prominence of mixed-use developments are the main contributors to subdued supply growth.

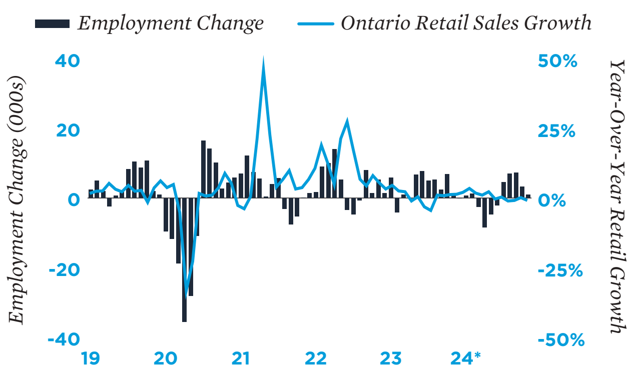
20
BASIS POINT
decrease in vacancy

VACANCY:
After inching up last year amid cooling household spending and a slowdown in retail leasing, vacancy is expected to trend down in 2025 to 1.6 per cent. The market will remain tight this year, supported by falling borrowing costs and limited supply.

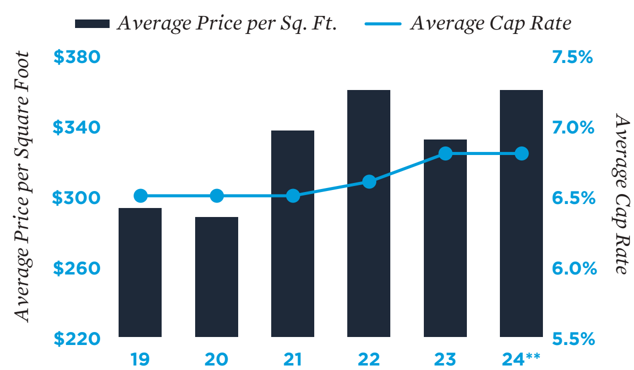
3.3%
INCREASE
in asking rent

RENT:
With vacancy holding at an extremely low level due to limited inventory expansion over the past two years, competition among tenants searching for space will remain fierce. Asking rents are set to continue on their upwards trajectory as a result.

Employment vs. Retail Sales Trends



Price and Cap Rate Trends



** Employment through November, retail sales through September; ** Trailing 12 months through 3Q*

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

Diminishing Demand From Public Sector Plays Critical Role in Office Sector Outlook

Vacancy rate continues to rise in the near term. Although Ottawa maintains one of the lowest office vacancy rates in Canada, the sector faces a unique challenge: the federal government's plan to divest its office buildings over the next decade. While some underutilized properties are slated for conversion into residential use, lengthy consultation and development processes mean that the vacancy rate will likely keep rising in the near term, especially in older and lower-quality buildings located in the downtown area. Some submarkets outside the city centre have demonstrated resilience, however, with the return-to-office trend and falling interest rates supporting leasing activity. In Kanata, where tech firms are concentrated, trailing 12-month net absorption turned positive in the third quarter of 2024 after staying negative since late 2022. Business expansion is expected to gain further momentum in 2025 – particularly in the tech sector – as interest rates decline to more stimulative levels. These changes, paired with a disciplined construction pipeline, should help stabilize the vacancy rate over the course of this year despite the federal government offloading space.

INVESTMENT TRENDS

- Investors have been cautious about entering Ottawa's office market, as challenging financing conditions and the federal divestment of office property have dampened investor sentiment.
- Looking ahead, while overall investment activity may remain subdued, areas with potential office-to-residential conversions and a strong presence of tech firms could see an uptick in sales.

2025 Office Trends

150,000
SQUARE FEET
will be completed

CONSTRUCTION:
While picking up each year since 2022, building activity is still restrained by weak sector demand. Ottawa's more disciplined construction cycle has helped maintain more stable fundamentals.

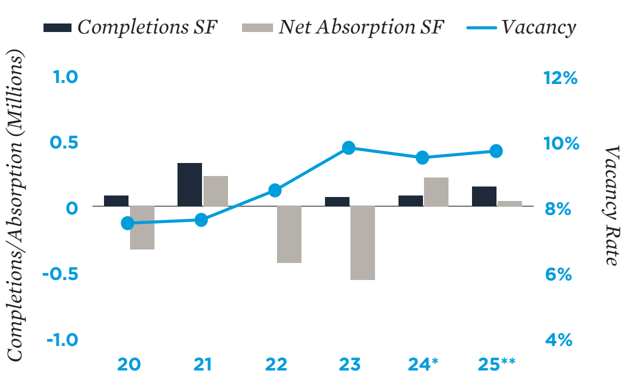
20
BASIS POINT
increase in vacancy

VACANCY:
Vacancy is projected to rise in 2025, yet hold as one of the lowest in Canada, as the federal government vacates underutilized space. That said, some submarkets with conversion potential and higher private sector exposure may see a decline.

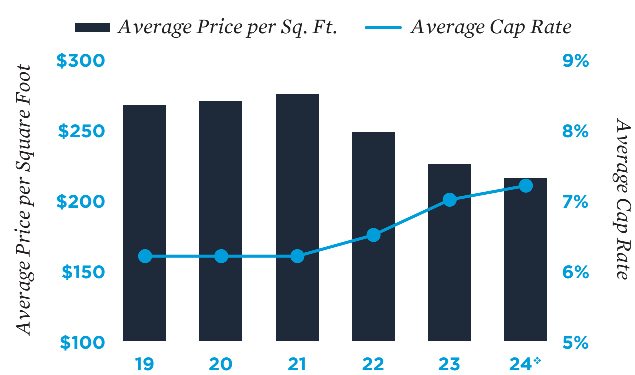
1.2%
INCREASE
in asking rent

RENT:
Rents are largely expected to stabilize as demand remains sluggish. The average asking rate is estimated to hit $16.70 per square foot by the final quarter of 2025 as a result.

Supply and Demand



Price and Cap Rate Trends



** Estimate; ** Forecast; ✦ Trailing 12 months through 3Q*

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

Healthy Fundamentals to Hold as Leasing Picks Up in an Under-Supplied Market

Low vacancy rate to persist in 2025. As expected, Ottawa's industrial sector has stayed on solid footing in spite of elevated interest rates over the past two years. The metro's strategic location between Toronto and Montreal, along with its growing suburban communities, has supported space demand across all bay sizes, preventing the notable pullback in net absorption seen in other larger markets. In 2025, strengthening consumer spending and business investment are likely to help sustain this strong leasing demand amid falling borrowing costs. On the supply side, unlike other major metros, Ottawa has yet to experience a meaningful demand-driven increase in speculative construction. Apart from Amazon's 2.7 million-square-foot fulfillment centre delivered in 2021, completions have been subdued. Despite holding over 1,000 hectares of vacant land available for industrial development over the next 30 years, as shown in a recent government survey, many builders remain patient and continue to secure tenants before commencing projects. This disciplined construction pipeline is expected to keep new speculative supply growth low in 2025, which in turn will help maintain a tight vacancy rate in the 2.0 per cent to 2.5 per cent range.

INVESTMENT TRENDS

- Deals valued under $10 million dominate Ottawa's investment market. Prices for these properties continued to inch higher last year, signalling resilience amid challenging financing conditions.
- As many owners in Ottawa adopt a long-term hold strategy, any properties that become available for sale will be increasingly sought-after due to the scarcity of investment opportunities.

2025 Industrial Trends

250,000
SQUARE FEET
will be completed

CONSTRUCTION:
With roughly 50 per cent of the five million square feet of planned construction being build-to-suit projects, deliveries for 2025 are uncertain. If demand picks up, supply growth could be much larger.

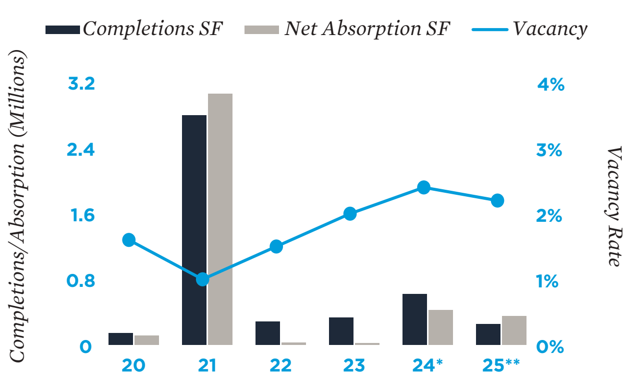
20
BASIS POINT
decrease in vacancy

VACANCY:
As leasing activity improves amid continued supply constraints, the vacancy rate is forecast to decline. By the end of 2025, the metro is expected to hold the lowest vacancy rate among major Canadian markets.

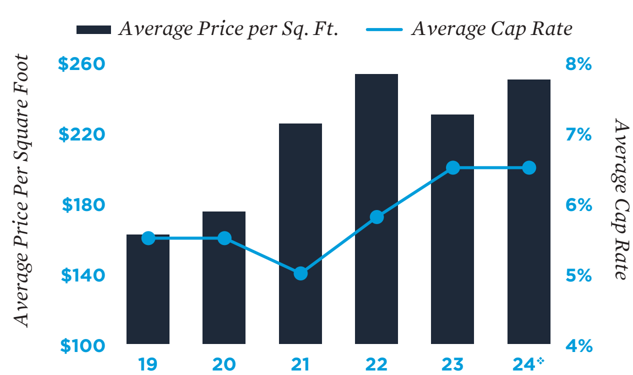
2.7%
INCREASE
in asking rent

RENT:
Tight market conditions will likely drive another year of rising asking rents. As the vacancy rate decreases, rent growth may accelerate, with the average rate expected to lift to $15.40 per square foot by year-end.

Supply and Demand



Price and Cap Rate Trends



** Estimate; ** Forecast; ⁺ Trailing 12 months through 3Q*

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

Hotel Outlook Generally Positive, Though Investors Ponder Some Emerging Risks

Supply-side factors to be monitored. As Canada's national capital and home to a diverse economy offering ample employment opportunities, festivals and museums, Ottawa saw a robust recovery in hotel fundamentals coming out of the pandemic. Combined with no completions of note over the past two years, performance metrics saw record gains. Slower economic growth in 2024, however, has caused a pullback in discretionary spending that impacted both leisure and corporate travel demand. Consequently, daily rates edged down slightly in 2024, as some hoteliers attempted to encourage bookings. Looking ahead, Ottawa's plethora of tourism options keeps the metro's hotel outlook generally positive. Travel demand is expected to pick up over the second half of 2025, as a less restrictive monetary environment aids consumer spending. Nevertheless, some risks should be noted for investors. The federal government plans to cut travel spending as a cost-saving initiative, which could keep weekday occupancy lower in the nation's capital. Hotel inventory is also set to expand by nearly 10 per cent in the next few years, creating supply-side pressure that could moderate revenue growth.

INVESTMENT TRENDS

- While sales remained limited, three transactions pencilled between mid-2023 and September 2024. After two years of zero activity, investor appetite appeared to turn a corner amid record operating performance and stabilizing borrowing costs.
- Robust fundamentals and falling interest rates could facilitate an uptick in transactions this year. Additionally, owners disposing of non-core assets could be another source of rising sales in 2025.

2025 Hospitality Trends

110
BASIS POINT
change in occupancy

OCCUPANCY:
Occupancy will inch up, especially over the second half of the year once borrowing costs fall further, ending 2025 at 68.8 per cent. The rate will remain below the pre-pandemic average of 72 per cent.

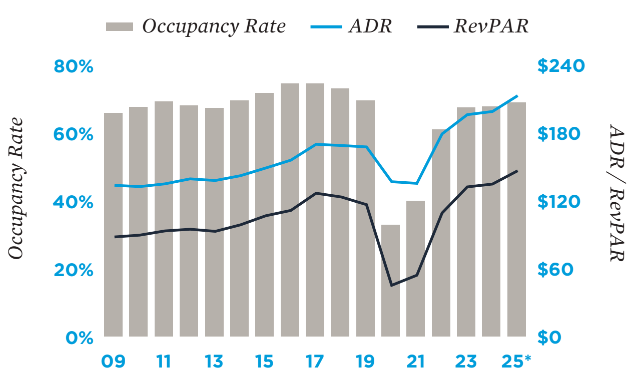
7.1%
INCREASE
in ADR

ADR:
As weak economic conditions subside, travel demand will likely gain momentum and push up occupancy. Along with higher-cost deliveries coming to market, the average daily rate is expected to hit an all-time high of $212 by year-end.

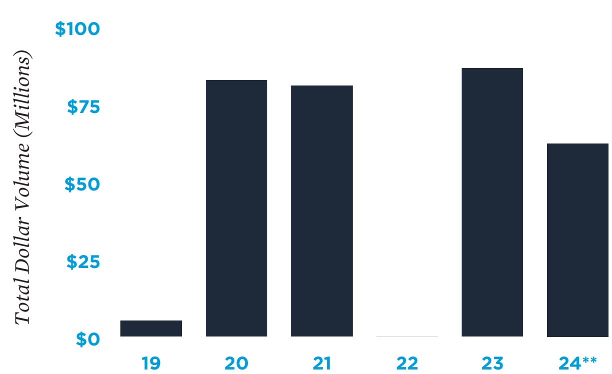
8.7%
INCREASE
in RevPAR

RevPAR:
Given rising occupancy supporting healthy ADR growth, revenue per available room is set to see some of the strongest gains nationwide and jump to just over $146, marking the highest reading on record.

Occupancy and Revenue Metrics



Transaction Trends



** Forecast; ** Trailing 12 months through 3Q*

Sources: Altus Data Solutions; Statistics Canada; STR, a CoStar Group Company

Economic Growth and Diversification a Tailwind for Multifamily Performance

Widespread investment aids apartment rentals. Record population growth and intraprovincial migration among younger generations – aided by a lower local cost of living and hybrid work – have all benefitted multifamily fundamentals in recent years. While the metro's relative affordability compared with the Greater Toronto Area will continue to support population gains in the years ahead, a more structural driver for apartment performance comes from the evolving job prospects created by a diversifying economy. Not only is the city of Kitchener-Waterloo known to be one of the largest and fastest-growing tech centres in North America, but Hamilton is also emerging as a hub for the health care and life science sectors. Moreover, regions across Southwestern Ontario are attracting large automotive firms looking to expand electric vehicle production. Along with the expected completion of the Gordie Howe International Bridge, the region will play a growing role in facilitating trade with the United States. All of these factors are also complemented by Southwestern Ontario's large university presence, which generates a talented labour pool and acts as a tailwind for employment growth as well as multifamily demand over both the short and long term.

INVESTMENT TRENDS

- The number of sales jumped 10 per cent over the trailing 12-month span ended September 2024 as financing costs trended down. This was led by a 14 per cent rise in sales under $10 million.
- Many market participants are being priced out of the GTA. Some investors are pivoting to Southwestern Ontario in response, aiming to capitalize on the healthy demand outlook and lower costs.

2025 Multifamily Trends

5,000
UNITS
will be completed

CONSTRUCTION:
Development is mainly focused around the region's major urban areas, such as Kitchener-Waterloo, Hamilton and London. These cities house some of Canada's top universities and offer diverse job prospects.

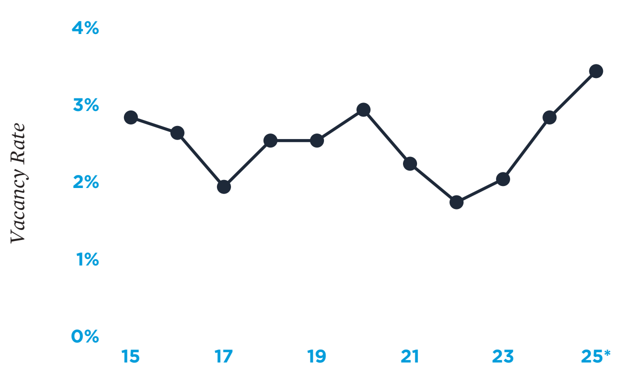
60
BASIS POINT
increase in vacancy

VACANCY:
Vacancy will inch up amid new supply, renters transitioning to homeownership and changes to Canada's immigration policies. The market will remain tight, however, with vacancy forecast to end the year hovering around 3.5 per cent.

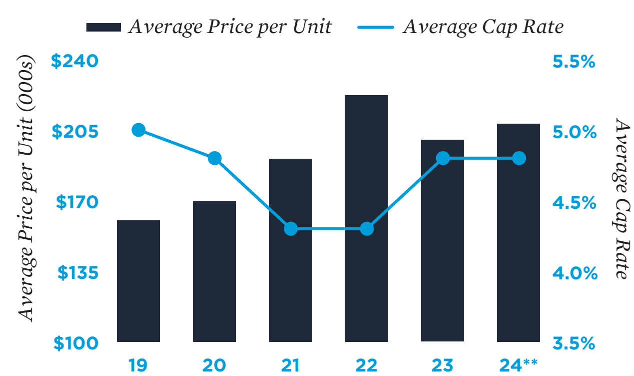
2.6%
INCREASE
in effective rent

RENT:
The combination of moderating economic growth and rising availability will cause annual rent growth to return to a more neutral pace. Nevertheless, the average effective rent will end the year 45 per cent above the level seen in 2019.

Vacancy Trend



Price and Cap Rate Trends



** Forecast; ** Trailing 12 months through 3Q*

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

Retail Benefits From University Presence, Tourist Attractions and Job Prospects

Diversity aids retail outlook. Southwestern Ontario's retail property sector has benefitted from the metro's lower cost of living driving intraprovincial migration and its vast university network fuelling a surge in foreign students. The market's vacancy rate fell from roughly 3.0 per cent in 2019 to 1.1 per cent at the end of 2024. While recent changes to Canada's immigration policies are set to curb the inflow of international students – poising some risk to the local retail sector – the long-term outlook remains optimistic. Not only has property supply growth been limited, but the metro also boosts a diverse economy with a strong footing in manufacturing, technology, health care and life sciences. Adding to this, recent incentives from the federal government are transforming the region into a key stop in the global supply chain of electric vehicle battery manufacturing. As a result, less restrictive interest rates are likely to spur job creation, aiding consumer spending and retail space demand in the latter half of 2025. Additionally, Southwestern Ontario is also home to a host of tourist attractions. A more friendly monetary environment will encourage discretionary spending, supporting retail performance – especially in the restaurant and food-related segment.

INVESTMENT TRENDS

- A growing population and limited supply have stoked investor appetite. While dollar volume was down 6.0 per cent over the past year ended September 2024, total sales jumped nearly 10 per cent.
- Some investors have been targeting older malls for intensification purposes, while others have sought out new, more competitive malls amid healthy performance and declining supply.

2025 Retail Trends

200,000
SQUARE FEET
will be completed

CONSTRUCTION:
Between elevated costs and the prevalence of mixed-use developments, deliveries will inch down to well below the long-term average. Most new supply will be in urban areas like Kitchener-Waterloo.

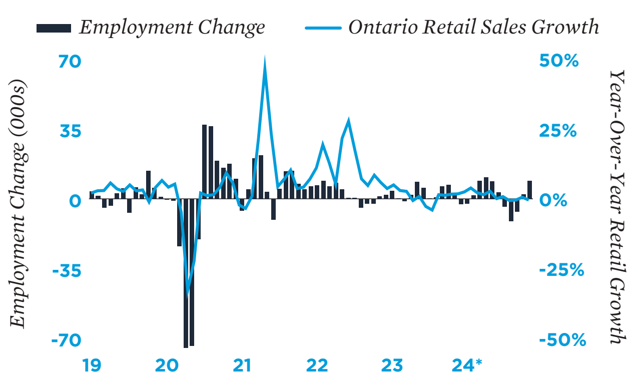
10
BASIS POINT
increase in vacancy

VACANCY:
As spending remains soft over the first half of 2025 and new immigration policies curb population gains, vacancy could edge higher. Even so, limited supply growth is set to act as a backstop to any prolonged pullback in consumption.

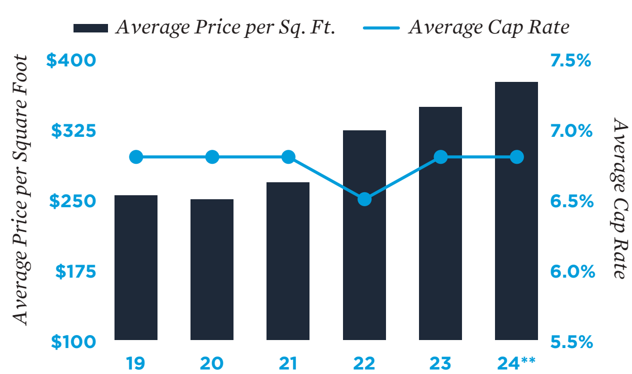
2.6%
INCREASE
in asking rent

RENT:
Annual rent growth will continue to follow the pace of inflation. Gains will likely be more pronounced in the metro's larger cities, such as Kitchener-Waterloo, Hamilton and the Niagara Region.

Employment vs. Retail Sales Trends



Price and Cap Rate Trends



** Employment through November, retail sales through September; ** Trailing 12 months through 3Q*

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

Small Business Expansion and Diversified Economy Aids Office Sector Stabilization

Favourable tailwinds set the stage for office recovery. Persistent hybrid work arrangements, elevated interest rates and rising unemployment weighed on office demand in Southwestern Ontario last year. The region's high concentration of small and startup tech firms makes its office sector more sensitive to macroeconomic trends compared with larger markets. That said, this same factor could support a recovery this year. Falling interest rates are expected to provide much-needed liquidity to the tech sector, potentially reigniting office space demand – especially in the Kitchener-Waterloo submarket. Moreover, Southwestern Ontario is emerging as a key player in the life sciences sector, as it sees strong growth in biotech and pharmaceutics amid government policies and investment. The metro also benefits from its large university and research presence. This robust educational network could expand the region's labour force over the long term, further driving the need for office space. On the supply side, with no major projects slated for completion in 2025, office inventory will remain stable. After three years of increases, the vacancy rate is poised to register a modest decline.

INVESTMENT TRENDS

- Sales activity stayed weak in 2024, with dollar volume dropping to its lowest level since 2019. Smaller transactions fared better, however, as falling interest rates made financing more accessible.
- Despite being the smallest office market among major metros, Southwestern Ontario maintains the highest cap rate in Eastern Canada at 7.5 per cent, attracting investors seeking yield.

2025 Office Trends

35,000
SQUARE FEET
will be completed

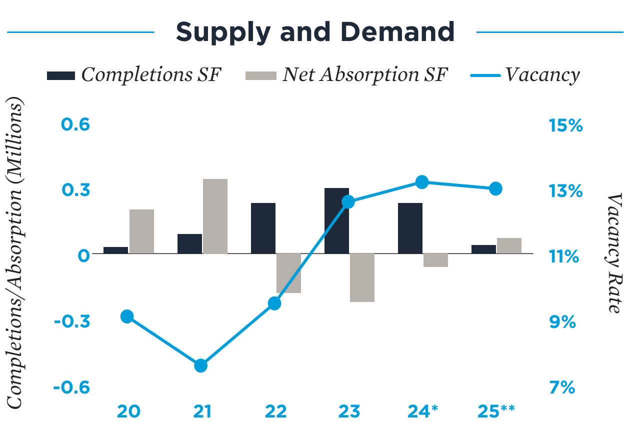
CONSTRUCTION:
Developers have largely transitioned away from office projects, as demand remains weak. While no major projects are slated for delivery this year, some build-to-suit additions are expected in Woodstock and Hamilton.

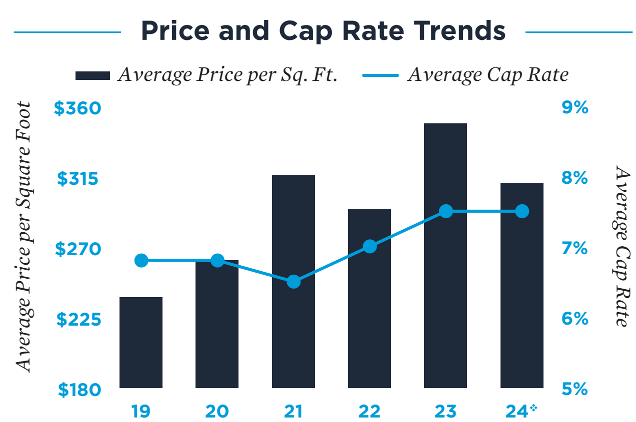
20
BASIS POINT
decrease in vacancy

VACANCY:
Space demand is set to improve as interest rates decline to more supportive levels. With virtually no supply growth, vacancy could decrease, ending the year around 13 per cent.

1.0%
INCREASE
in asking rent

RENT:
Rents will likely stabilize as space demand recovers. After two consecutive years of decline, the average asking rate is forecast to tick up and approach the level seen in 2022.





** Estimate; ** Forecast; * Trailing 12 months through 3Q*

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

Sector Conditions to Stabilize Amid Lower Interest Rates and Regional Differences

Vacancy rising as market absorbs new supply. As a major manufacturing and logistics hub in Eastern Canada, Southwestern Ontario has felt the impact of slowing economic activity. While the metro has largely avoided an outright decline in space demand, newly completed projects are taking longer to lease, resulting in sluggish net absorption and a sharp rise in the vacancy rate. Despite this metrowide trend, market conditions vary across regions. In Hamilton and London, a vacancy rate of approximately 8.0 per cent in the final quarter of 2024 signalled some oversupply and a tenant-friendly market. On the other end, Guelph and St. Catherines – regions that have seen little supply growth – maintained a sub-2.0 per cent vacancy rate. Looking ahead, leasing velocity is expected to increase this year, as falling borrowing costs stimulate consumer and business spending over the latter half of 2025. Southwestern Ontario's trade capacity with the United States could also increase amid the completion of the Gordie Howe Bridge and ongoing nearshoring efforts, especially in advanced manufacturing. Nevertheless, with completions remaining elevated, vacancy is forecast to continue rising. Additionally, potential U.S. tariffs could pose a risk to demand-side dynamics.

INVESTMENT TRENDS

- Following last year's rise in investment activity driven by smaller deals, the continued decline in interest rates will make financing more accessible, likely boosting larger transactions in 2025.
- As traditional sectors strengthen and new industries emerge, the metro will continue to attract investors looking for higher yields along with those priced out of the Toronto market.

2025 Industrial Trends

3 MILLION
SQUARE FEET
will be completed

CONSTRUCTION:
Supply growth will fall short of 2024 but remain above the historical average. The Waterloo Region, Guelph and Hamilton – all located near Toronto – have the majority of space under construction.

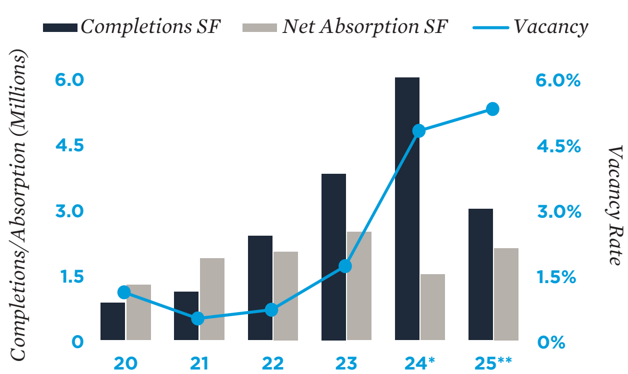
50
BASIS POINT
increase in vacancy

VACANCY:
The vacancy rate is estimated to approach 5.5 per cent due to elevated completions. Even so, this upwards momentum could be capped by a demand recovery resulting from falling borrowing costs, particularly in the second half of the year.

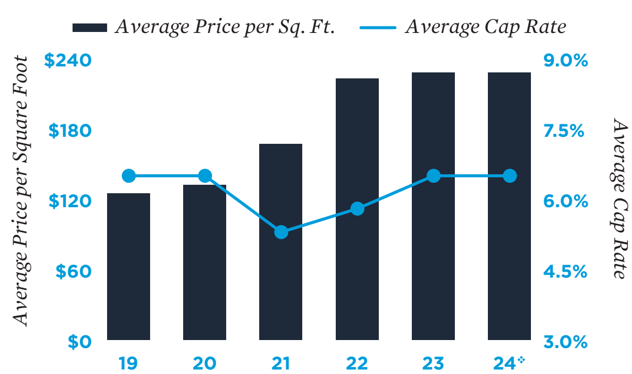
1.9%
INCREASE
in asking rent

RENT:
After stagnating in 2024, asking rents are forecast to resume an upwards trajectory as leasing activity ramps up. The average rate is expected to exceed $13 per square foot by year-end.

Supply and Demand



Price and Cap Rate Trends



* Estimate; ** Forecast; + Trailing 12 months through 3Q

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

Variety of Tourist Attractions Create an Optimistic Hotel Investment Climate

Ample tourism options support long-term hotel metrics. Travellers to Southwestern Ontario form a dynamic part of the region's economy, drawn by a diverse mix of attractions and employment opportunities. The region hosts large urban centers like London and Kitchener-Waterloo, along with picturesque natural destinations like the Bruce Peninsula as well as the Lake Huron and Erie shorelines. It is also home to Niagara Falls, which boasts an array of local wine producers, distilleries and breweries. With lower borrowing costs likely to spur consumer spending over the latter parts of 2025, Southwestern Ontario could see an uptick in international and domestic travellers who enjoy outdoor activities, culture and heritage, agri-tourism, as well as festivals and events. Although broad-based economic softening drove a pullback in discretionary spending in 2024 – causing occupancy and revenue per available room to fall – the metro's long-term hotel prospects remain sound given these wide range of activities. Additionally, the completion of the Gordie Howe Bridge will drive cross-border travel from the United States, while evolving job prospects will aid corporate travel amid large-scale investments in tech, health care and advanced manufacturing.

INVESTMENT TRENDS

- Given the wide range of tourist options and a robust recovery in recent years, Southwestern Ontario stays an actively traded market, with more than 10 sales over the past year ended September.
- Private buyers dominated the investment market in 2024. Proximity to Niagara Falls and ample local wineries led to roughly 75 per cent of sales being centered in the Niagara Region.

2025 Hospitality Trends

720
BASIS POINT
change in occupancy

OCCUPANCY:
After dropping significantly in 2024, occupancy will edge up to 63.6 per cent, with gains set for all submarkets. Notable improvements are expected in the Kitchener-Waterloo-Guelph area and Niagara Falls.

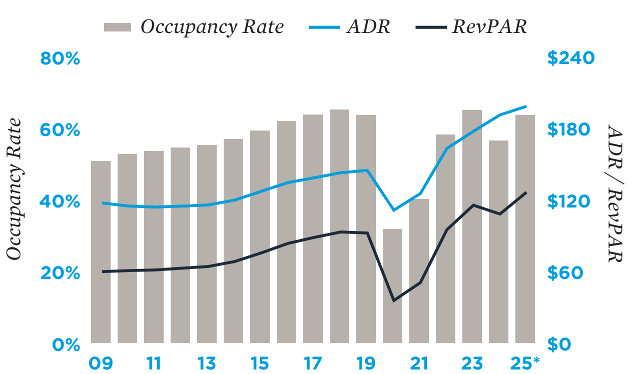
3.8%
INCREASE
in ADR

ADR:
With economic growth likely to stay sluggish over the first half of the year, ADR gains are set to slow, with the rate ending the year at around \$200. The Niagara region will hold the highest ADR at \$235, followed by Kitchener-Waterloo-Guelph at \$172.

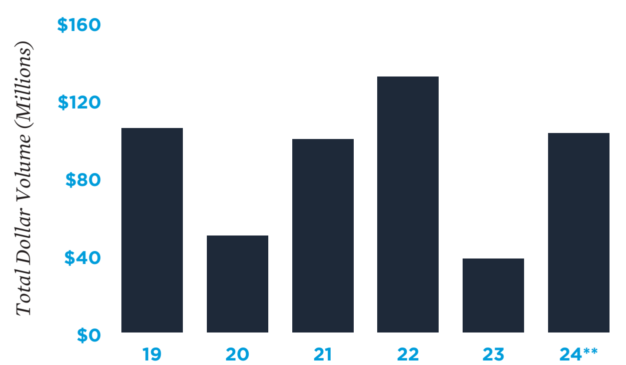
16.9%
INCREASE
in RevPAR

RevPAR:
Driven by a recovery in occupancy amid the return in travel demand expected over the latter parts of the year, revenue per available room will increase and end the year at \$125, marking an all-time high.

Occupancy and Revenue Metrics



Transaction Trends



** Forecast; ** Trailing 12 months through 3Q*

Sources: Altus Data Solutions; Statistics Canada; STR, a CoStar Group Company

Supply-Side Dynamics Providing Some Relief to Renters Searching for Space

Market well below equilibrium despite supply surge. Toronto's population grew by 3.4 per cent in 2023 and continued its outsized gains last year amid ongoing immigration. While population growth is set to cool notably amid changes to immigration policies, past gains and pent-up demand will put pressure on the existing rental stock. Starting in the late 1970s, builders switched away from purpose-built rentals due to rent control policies and for-owned condominiums offering higher profitability. Decades of underbuilding has now led to an imbalance in Toronto's multifamily sector. Nevertheless, the combination of government incentives and improving fundamentals has caused a significant uptick in rental development, with the under-construction pipeline hitting its highest level on record last year. For-owned condos – which act as a secondary source of rental supply – are also seeing elevated deliveries. While these factors will provide some relief to renters in the short term, the market will hold below equilibrium. Furthermore, over the long term, market tightness could intensify amid the recent pullback in construction starts seen over the course of last year due to higher costs, as well as rising vacancy and stabilizing rents in new builds.

INVESTMENT TRENDS

- More favourable financing provided by the CMHC has maintained liquidity in the market. Paired with falling borrowing costs, total sales rose 20 per cent over the past year ended September 2024.
- Being Canada's largest city and hub for new arrivals – along with boasting a sub-3.0 per cent vacancy rate – Toronto is seen as a low-risk market, highlighted by a 4.3 per cent cap rate.

2025 Multifamily Trends

7,000
UNITS
will be completed

CONSTRUCTION:
Multifamily starts rose significantly over the last few years to meet the surge in apartment rental demand. With these projects now starting to deliver, 2025 will be a banner year for completions.

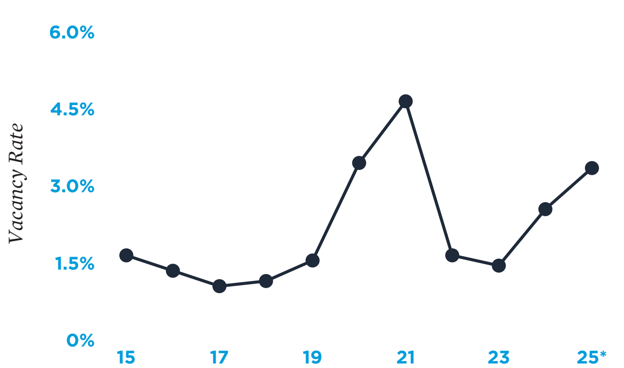
80
BASIS POINT
increase in vacancy

VACANCY:
Rising vacancy is largely in newer, higher-quality buildings amid strong supply growth and curbed population gains. These deliveries provide tenants more options and are offered at a rent premium, taking them longer to be absorbed.

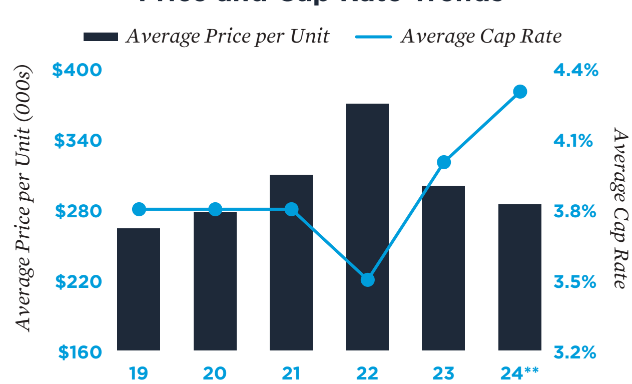
1.9%
INCREASE
in effective rent

RENT:
Rising availability for renters amid supply-side dynamics, along with new immigration policies and provincial rent control of 2.5 per cent year over year, will cause annual rent growth to remain subdued for the second consecutive year.

Vacancy Trend



Price and Cap Rate Trends



** Forecast; ** Trailing 12 months through 3Q*

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

Investors Prefer Residential Intensification or Redevelopment, Limiting Retail Supply

Fundamentals to hold despite higher cost of living. As Canada's largest city, Toronto attracts a lion's share of new residents to the country, as well as fellow Canadians in search of employment. Aided by record immigration in recent years, the metro's population grew by 10 per cent between 2017 and 2023. This influx of people propped up household spending, with retail sales increasing 42 per cent over that same time period. Meanwhile, Toronto's retail property inventory only increased by 3.0 per cent, which pushed the metro's retail vacancy rate to an all-time low of 1.3 per cent in 2024. Nevertheless, restrictive borrowing costs caused retail sales to flatline and vacancy to stabilize over the latter half of last year. Looking ahead, while falling interest rates will provide some relief to consumers, the metro's higher cost of living and curbed population growth amid recent changes to Canada's immigration policies are likely to keep retail sales muted and potentially push vacancy up. Even so, Toronto's retail property outlook remains optimistic. Not only will limited supply growth act as a backstop, but recent provincial legislation initiating the privatization of alcohol sales will also provide a new source of space demand in an already competitive market.

INVESTMENT TRENDS

- Property sales rose by 7.0 per cent over the past year ended September 2024. As consumers redirected spending to more essential products, investors favoured grocery-anchored retail.
- On top of essential retail, some investors are targeting older and obsolete malls with the goal of intensification or outright redevelopment, seeking to capitalize on widespread housing needs.

2025 Retail Trends

1.3 MILLION
SQUARE FEET
will be completed

CONSTRUCTION:
Deliveries will hold around last year's figure, yet stay well below the metro's long-term average of 2.2 million square feet. Elevated costs and the perceived risk of e-commerce have pushed starts down since 2013.

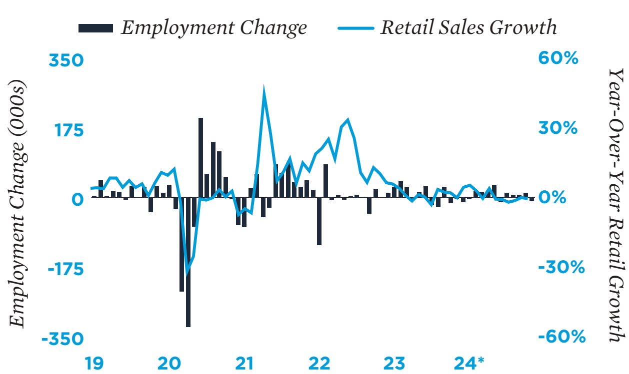
10
BASIS POINT
increase in vacancy

VACANCY:
Vacancy is forecast to hold at a subdued level of roughly 1.5 per cent to end 2025. It could inch up, however, as discretionary spending remains weak over the first half of the year and population growth slows notably amid immigration policy changes.

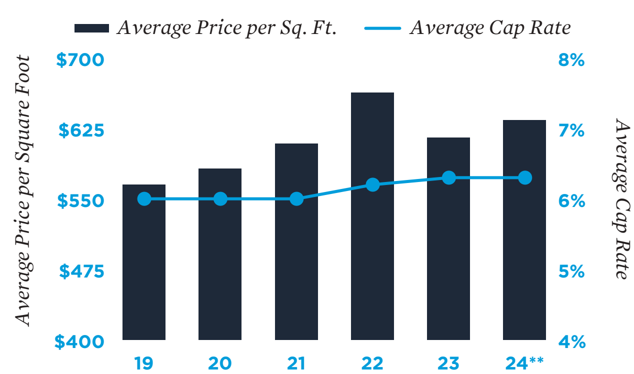
2.5%
INCREASE
in asking rent

RENT:
With the metro's vacancy rate largely stabilizing after three consecutive years of decline, annual rent growth is poised to slow down. Considering this, the mean rent will likely end 2025 at $36.50 per square foot.

Employment vs. Retail Sales Trends



Price and Cap Rate Trends



** Employment through November, retail sales through September; ** Trailing 12 months through 3Q*

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

Falling Interest Rates Set to Spark Optimism Amid Ongoing Return to Office

Vacancy rate to stabilize as demand improves. Five years of subdued demand due to the hybrid work model has caused Toronto's office vacancy rate to climb by over 800 basis points since the end of 2019. Combined with a wave of newly completed projects, this led to roughly 27 million square feet of unoccupied space on market by the end of 2024. This year, however, metro fundamentals are expected to take a turn for the better. According to Strategic Regional Research Alliance, in late 2024, Toronto's office utilization reached its highest level since the onset of the pandemic. This positive trend is set to continue into 2025 as more employees return to the workplace. Moreover, declining interest rates will support business expansion – especially in the metro's tech and financial sectors – stimulating office demand. Adding to these positive developments, Ontario's government recently announced plans to purchase downtown office buildings for its own use. This will assist with reducing vacant space and bolstering investor confidence over the coming years. These demand tailwinds are set to rouse more optimism in Toronto's office sector, with vacancy projected to stabilize by year-end for the first time since 2019 and rents expected to inch higher as a result.

INVESTMENT TRENDS

- Given elevated vacancy rates, buyers are now more cautious when acquiring office assets. A key indicator under scrutiny is whether tenants within the building have finalized right-sizing efforts.
- Following a notable downturn in larger transactions in 2024, investor sentiment is likely to grow over the year ahead due to rising space demand, higher cap rates and lower borrowing costs.

2025 Office Trends

2 MILLION
SQUARE FEET
will be completed

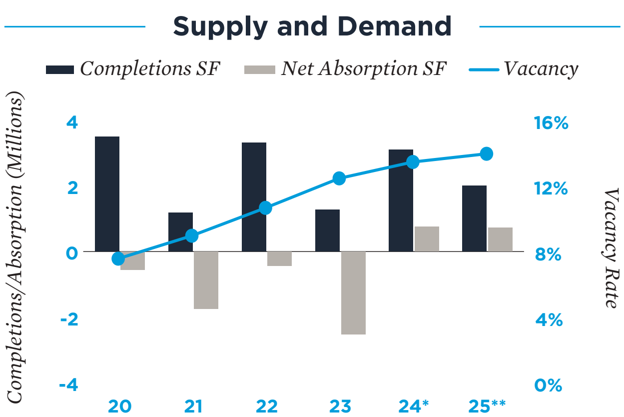
CONSTRUCTION:
Toronto's historic construction cycle is winding down, as elevated vacancy amid hybrid work has curbed development. The largest project set for completion is CIBC Square II in Toronto's financial core.

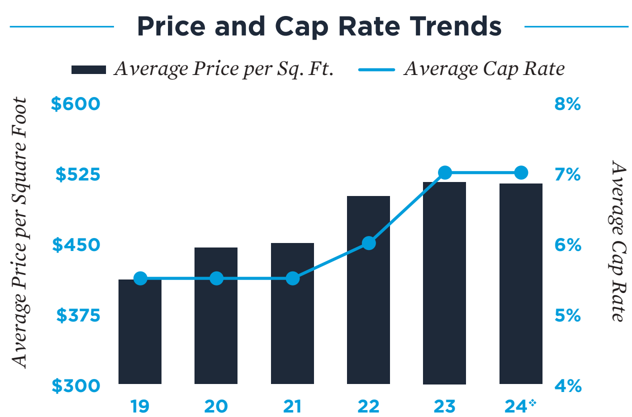
50
BASIS POINT
increase in vacancy

VACANCY:
While dwindling construction will help stabilize the vacancy rate around 14 per cent by year-end, the market is still expected to see strong supply growth. With these deliveries not fully pre-leased, vacancy could inch higher.

1.8%
INCREASE
in asking rent

RENT:
As the office vacancy rate stabilizes by year-end, rents are forecast to increase marginally after last year's mild dip. The average asking rate is expected to near $20 per square foot by the end of 2025.





** Estimate; ** Forecast; + Trailing 12 months through 3Q*

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

Industrial Outlook Turning More Positive With Market Recalibration in Full Swing

Sector participants adjusting to an evolving landscape. Toronto's industrial properties experienced a rapid change in market conditions last year. As demand softened, many tenants took advantage of rising vacancy rates and slower rent growth to upgrade to higher-quality spaces. At the same time, landlords became more inclined to offer inducement packages, such as rent-free periods and tenant improvement allowances, instead of reducing asking rents. Although leasing activity for larger-bay properties remained healthy, landlords were also open to dividing large facilities into smaller units for multiple tenants as a way to accommodate evolving demand dynamics. This trend is expected to continue into 2025 but could moderate as demand strengthens – likely in the latter part of the year, when less restrictive interest rates are absorbed by the broader economy. Complementing this outlook, construction activity is expected to slow further, as developers adopt a cautious wait-and-see approach amid cooling pre-leasing activity. Ergo, while the vacancy rate is projected to increase for another year, lower interest rates and a slower pace of inventory expansion will help cap the upwards movement.

INVESTMENT TRENDS

- Investor sentiment stayed positive despite elevated interest rates. While dollar volumes were subdued, buyers focused their capital on smaller deals to capitalize on strong market fundamentals.
- Toronto offers some of the lowest yields for industrial properties in Canada, as its tight vacancy rate continues to attract more risk-averse investors amid changing market conditions.

2025 Industrial Trends

9 MILLION
SQUARE FEET
will be completed

CONSTRUCTION:
Completions are projected to decline for the second consecutive year. Developers are assessing the current market dynamics, as many speculative projects are being delivered without secured leases.

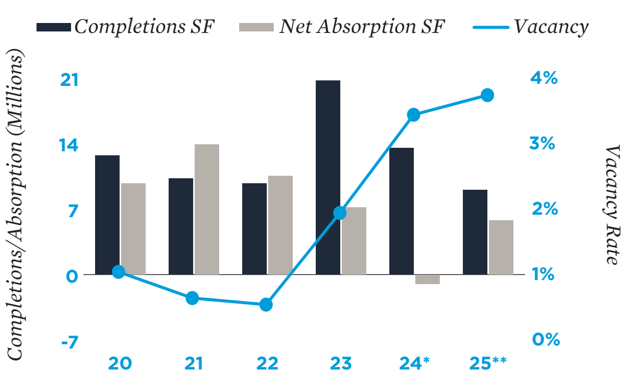
30
BASIS POINT
increase in vacancy

VACANCY:
Vacancy is expected to rise as net absorption lags behind new supply, ending 2025 just above 3.5 per cent. Declining interest rates could enhance space demand, however, potentially stabilizing the market in the second half of the year.

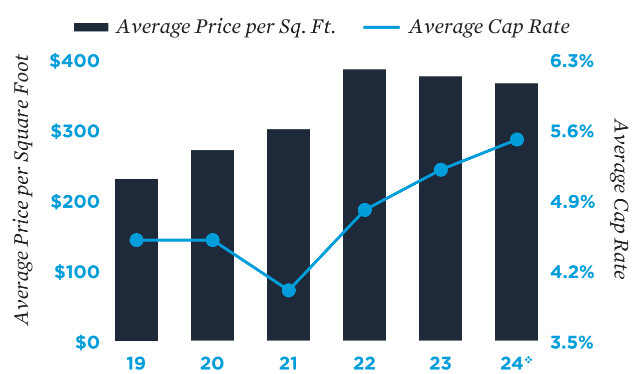
2.3%
INCREASE
in asking rent

RENT:
The average asking rent declined slightly last year as rapidly rising vacancy rates gave tenants more leverage in negotiations. Nevertheless, as vacancy stabilizes in 2025, rent growth is expected to resume.

Supply and Demand



Price and Cap Rate Trends



** Estimate; ** Forecast; * Trailing 12 months through 3Q*

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

Waning Demand Across Travel Segments Slows Growth in Key Revenue Metrics

Weakening economy normalizes hotel performance. After rapid growth coming out of the health crisis thanks to a rebound in travel demand, Toronto's hotel sector saw overall performance ease last year. While the Toronto International Film Festival in September and the six Taylor Swift concerts in November spurred momentum in key revenue metrics over the latter months of 2024, overall gains waned compared with recent years. A softening in the broader economy created a pullback in discretionary spending and corporate travel. Looking ahead, with leisure travellers reporting a much shorter booking window – giving limited visibility into future demand – growth could remain soft over the first half of 2025, as travellers continue to monitor non-essential spending. As borrowing costs trend down further over the course of this year, however, travel demand could pick up in the second half in both the leisure and corporate segments. Moreover, Toronto remains an attractive destination for international visitors and hosts many large-scale events. A weak Canadian dollar could further fuel demand over the latter parts of this year and into 2026, offering an additional boon for investors.

INVESTMENT TRENDS

- Sales over the past year were highlighted by Morguard's 14-hotel portfolio disposition, with 10 assets in the GTA. Morguard sought to pay down debt and raise capital for core property types.
- Buyers expect lower pricing due to a weaker economy and tighter debt markets. However, sellers are holding out amid robust operating metrics, so when opportunities to acquire well-performing assets do come on the market, they tend to observe solid pricing.

2025 Hospitality Trends

40
BASIS POINT
change in occupancy

OCCUPANCY:
With deliveries trending higher in recent years and demand likely to remain sluggish over the early parts of 2025, occupancy could inch down to 74.4 per cent – slightly below the 2019 level.

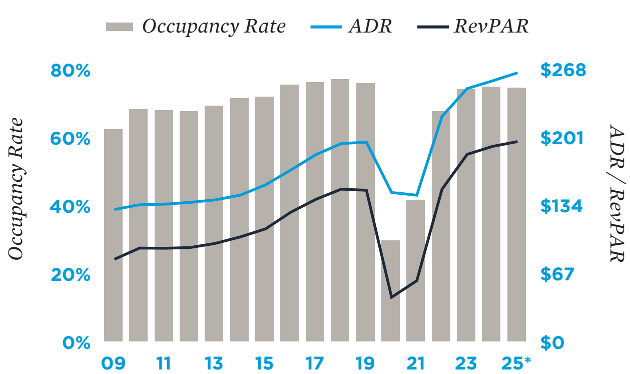
3.1%
INCREASE
in ADR

ADR:
Easing across travel segments has caused daily rates to plateau, as hoteliers look to encourage more bookings. Nevertheless, a predicted uptick in demand later this year could cause a slight increase in the ADR, ending 2025 at $264.

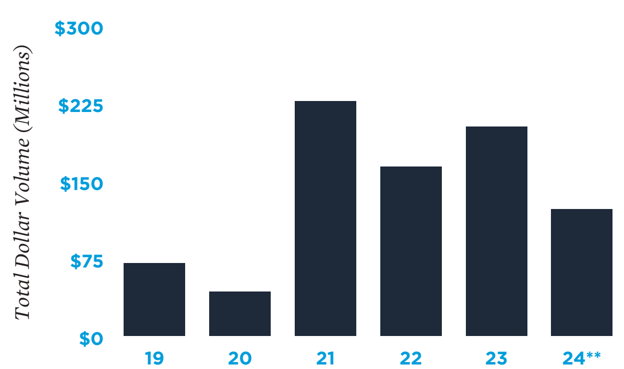
2.5%
INCREASE
in RevPAR

RevPAR:
An expected decline in occupancy and normalizing ADR growth create a modest forecast for revenue per available room that sees only marginal gains. This year will mark the lowest RevPAR growth since the height of the pandemic.

Occupancy and Revenue Metrics



Transaction Trends



** Forecast; ** Trailing 12 months through 3Q*

Sources: Altus Data Solutions; Statistics Canada; STR, a CoStar Group Company

Builders Shift Focus to Apartment Rentals, While Buyers Also Target New Supply

High-quality properties will continue to be sought-after. Vancouver will maintain the lowest multifamily vacancy rate among major metros in 2025. Available supply coming to market is also likely to remain elevated, as in recent years many developers pivoted away from condos to capitalize on healthy fundamentals and persistent demand tailwinds in the purpose-built rental sector. While starts did level off in 2024, this trend is being further influenced by a growing appetite for high-quality properties among wealthy private buyers and institutional players. Newer builds have seen rapid rent appreciation in recent years in addition to generating lower capital expenditure and qualifying for favourable CMHC financing through the MLI select program. Together, these newer assets help facilitate better returns and assist in raising capital by modernizing portfolios. Looking ahead, however, new immigration policies announced in 2024 are set to curb population gains over the coming year. Coupled with elevated supply growth, fundamentals could soften. Nevertheless, Vancouver's multifamily market will hold well below equilibrium, preserving the property type as a preferred investment option.

INVESTMENT TRENDS

- With major infrastructure projects underway, such as the Broadway Subway and the Surrey Langley SkyTrain, transit-oriented investment is likely to increase as borrowing costs trend down and investors look to capitalize on a healthy demand outlook.
- As early interest rate cuts took effect, multifamily investors reemerged over the past yearlong period ended in September 2024. The total number of transactions jumped by 38 per cent annually.

2025 Multifamily Trends

7,500
UNITS
will be completed

CONSTRUCTION:
While levelling off last year, starts have trended up since 2010, keeping deliveries high in 2025. Falling interest rates, healthy fundamentals and public transit development could maintain this lift in the years ahead.

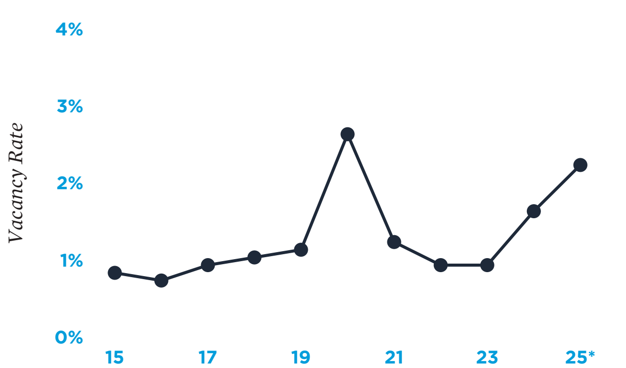
60
BASIS POINT
increase in vacancy

VACANCY:
Slowing population gains and strong supply growth will push vacancy just above 2.0 per cent. This increase will largely be seen in newly completed projects, as these more expensive units take time to be absorbed.

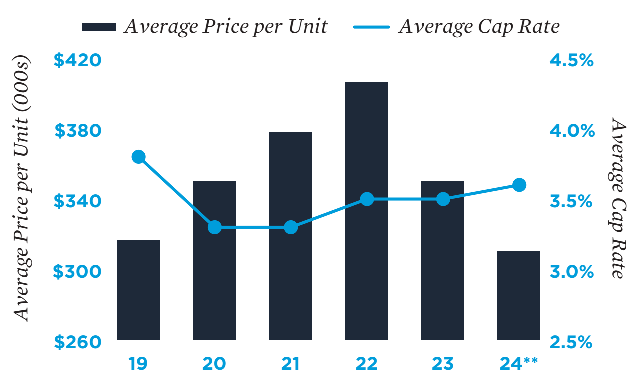
2.1%
INCREASE
in effective rent

RENT:
As the most costly market for tenants, turnover will be low. Along with rising vacancy amid strong supply growth as well as rent control of 3.0 per cent year over year for 2025, rent growth is forecast to slow to a more sustainable level.

Vacancy Trend



Price and Cap Rate Trends



** Forecast; ** Trailing 12 months through 3Q*

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

Market Conditions Tighten Amid Shortage of Premium Supply

Vacancy rate to edge lower as consumer spending strengthens. As developers and policymakers address the metro's housing challenges, recent retail development has primarily consisted of mixed-use spaces within new residential and office buildings. While this trend has mitigated supply-side pressures, it has also created challenges for retailers seeking quality spaces to expand their presence in one of Canada's strongest-performing retail markets. In 2025, the reopening of Oakridge Park – a redevelopment project set to deliver 650,000 square feet of premium retail space – is expected to address some of this pent-up leasing demand. Notably, over 90 per cent of the mall's retail space has been pre-leased, reflecting strong tenant confidence in the outlook for consumer spending. Looking more broadly over 2025, while tighter immigration policies in Canada will likely limit growth in Vancouver's consumer base, declining borrowing costs are set to bolster overall retail spending. This demand tailwind, combined with a disciplined construction pipeline, is poised to sustain downwards pressure on the vacancy rate this year.

INVESTMENT TRENDS

- Sales activity surged in 2024, highlighted by a 170 per cent annual increase in total dollar volume transacted in the second quarter. This spike was largely driven by changes in the capital gains tax, which incentivized the sale of several large-scale properties.
- Although transaction volumes moderated following the spike in the second quarter of 2024, declining borrowing costs are expected to support a broad-based recovery in 2025.

2025 Retail Trends

1 MILLION SQUARE FEET *will be completed*

CONSTRUCTION: Completions are set to rise with the opening of the new Oakridge Park mall. Other developments, primarily mixed-use projects, will contribute an additional 350,000 square feet of retail space.

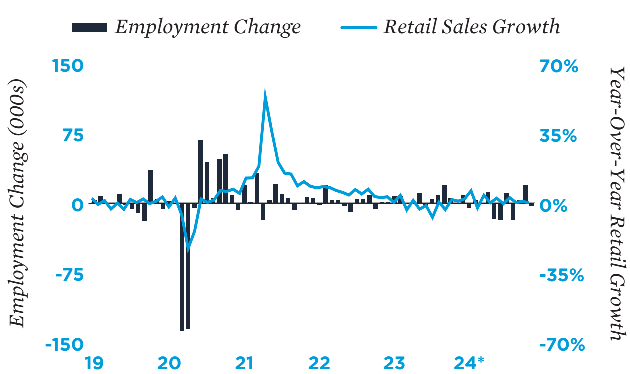
20 BASIS POINT *decrease in vacancy*

VACANCY: Strengthening space demand, coupled with limited supply growth, is expected to drive a decline in the vacancy rate. Vancouver will likely continue to maintain one of the lowest vacancy rates in Canada.

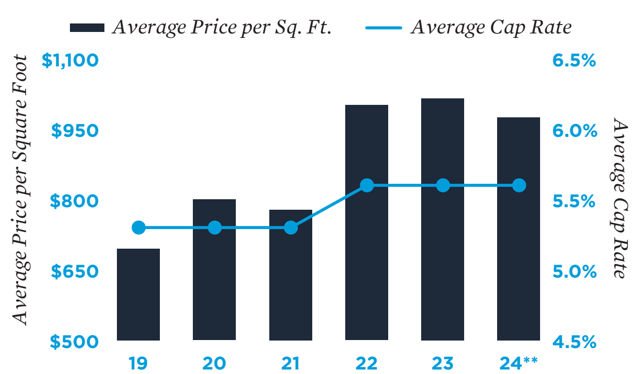
2.8% INCREASE *in asking rent*

RENT: A sub-2.0 per cent vacancy rate is poised to drive another year of rent increase in Vancouver. The average asking rent is projected to approach $39 per square foot by the end of 2025.

Employment vs. Retail Sales Trends



Price and Cap Rate Trends



** Employment through November, retail sales through September; ** Trailing 12 months through 3Q*

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

Interest Rate Declines and Adaptive Reuse Projects Set to Drive Sector Stabilization

Conditions improve as demand and supply dynamics evolve. While the metro's average vacancy rose in 2024, it was primarily driven by a rise in the suburbs amid weak office demand and elevated supply growth. In Burnaby, the completion of Gilmore Place Phase I along with two buildings of Discovery Campus added 400,000 square feet in the third quarter. Nevertheless, net absorption remained weak, as less than 60,000 square feet was occupied in the submarket during the same period. Looking ahead, however, a recovery is likely. Declining interest rates are expected to boost space demand in suburban markets and strengthen growth in the downtown core, where vacancy had already stabilized last year. This recovery will align with easing supply-side pressures, as a shrinking under-construction pipeline is set to further improve sector fundamentals. Additionally, many developers have also received permission to transform office spaces into other formats. Both Anthem Properties and Lark Group received approval last year to convert portions of their unfinished office projects into hotel use. This will help reduce office vacancy while also targeting sectors in greater need of new supply.

INVESTMENT TRENDS

- Investor sentiment was impacted last year by weakening fundamentals and financing challenges. The total number of transactions dropped to the lowest level since 2020.
- Though Vancouver remains the highest-cost office market in Canada, lower yields and relatively subdued vacancy levels positioned the metro as a relatively low-risk market for office investors.

2025 Office Trends

1.5 MILLION
SQUARE FEET
will be completed

CONSTRUCTION:
The construction cycle is winding down. Sluggish demand has led to the cancellation or conversion of many uninitiated projects, with most of the new additions slated for delivery outside the downtown area.

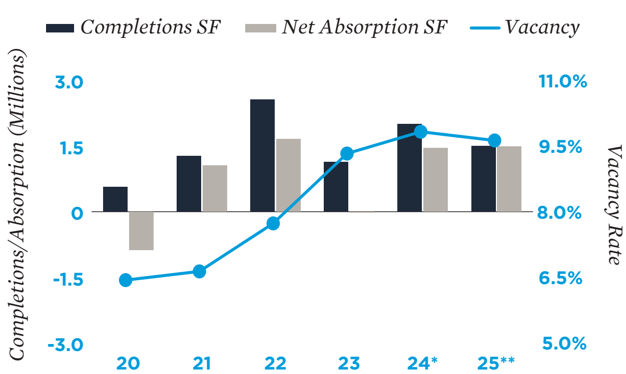
20
BASIS POINT
decrease in vacancy

VACANCY:
Vacancy is projected to edge down for the first time since 2018 amid solid pre-leasing levels and an expected improvement in demand. The vacancy rate will likely finish the year just below 10 per cent – one of the lowest levels in Canada.

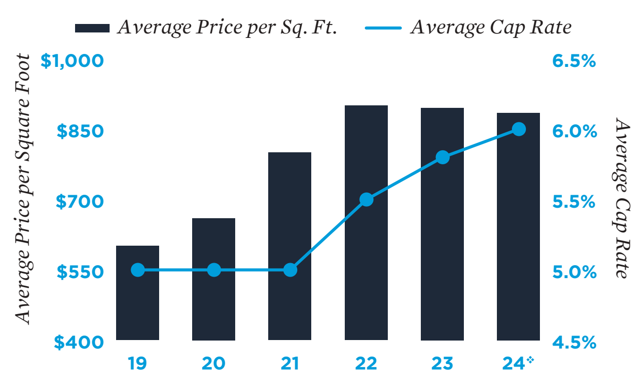
1.0%
INCREASE
in asking rent

RENT:
After stagnating in 2024, office asking rents are poised to rise marginally in 2025. Downtown is likely to continue leading rent growth, driven by a rising need for quality spaces as vacancy declines in this segment.

Supply and Demand



Price and Cap Rate Trends



** Estimate; ** Forecast; ⁺ Trailing 12 months through 3Q*

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

Demand Tailwinds and Supply Challenges Maintain Positive Outlook

Vacancy rate expected to stabilize in 2025. Market rebalancing has progressed rapidly in Vancouver. The near-full occupancy witnessed back in 2022 has eased, with softening demand amid elevated interest rates and a surge in completions raising the vacancy rate to just below 3.0 per cent by the end of 2024. This loosening in market conditions has largely been observed within the large-bay segment, whereas demand for smaller-bay spaces has fared better, as local businesses have taken advantage of current market conditions to purchase properties for their own use. In 2025, however, industrial fundamentals are forecast to stabilize over the second half of the year. Lower interest rates are expected to boost leasing activity, supported by a recovery in industrial-related sectors. Compounding this momentum in demand, new supply is projected to trend down over the coming years. Not only are land acquisition costs up, but with the larger-bay segment showing some weakness, industrial land sales have also been subdued, signalling a possible pullback in supply growth in the years ahead. These supply constraints will counter the effects of the softening in demand while also exerting downwards pressure on the vacancy rate over the long run.

INVESTMENT TRENDS

- Domestic private investors and owner-users were the main buyers in the transaction market last year, aiding sales volumes and deal velocity while institutional capital remained on the sidelines.
- Industrial assets were the most favoured in Vancouver in 2024, accounting for roughly half of the total dollar volume invested across major commercial property types in the metro.

2025 Industrial Trends

3 MILLION
SQUARE FEET
will be completed

CONSTRUCTION:
Construction activity is tapering off after 16 million square feet was delivered over the past five years. The majority of the new projects consist of smaller-bay properties under 100,000 square feet.

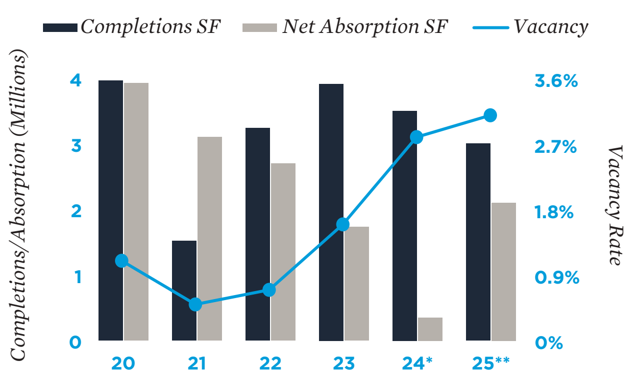
30
BASIS POINT
increase in vacancy

VACANCY:
Vacancy may continue to rise, but a demand recovery driven by lower borrowing costs could help stabilize the rate in the latter part of the year. A slowdown in construction will also assist in stabilizing vacancy just above 3.0 per cent.

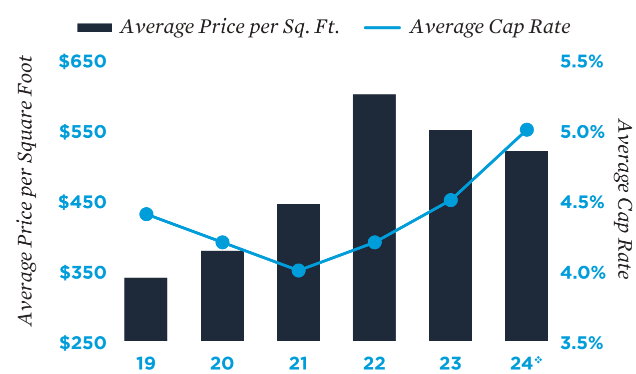
1.5%
INCREASE
in asking rent

RENT:
Industrial rents are expected to rebound as the vacancy rate hovers just above 3.0 per cent. The average asking rate is projected to settle below $21 per square foot by the final quarter of 2025.

Supply and Demand



Price and Cap Rate Trends



** Estimate; ** Forecast; + Trailing 12 months through 3Q*

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

Scenic Landscape and Ample Tourist Attractions Support Hotel Performance

Contracting supply and natural splendor aids hotels. Vancouver upholds a booming tourism industry, thanks to the natural beauty provided by its location on the Pacific Coast and its proximity to the Coastal Mountain Range. These scenic surroundings attract outdoor and sports enthusiasts from across the globe, sustaining Vancouver's hotel sector as a top performing market. While the metro's occupancy rate did inch down in 2024 due to fewer citywide events lowering group demand, its hotel performance outlook is favourable. Vancouver is home to Canada's largest cruise ship terminal, which witnessed a historic amount of travellers in 2024. As falling borrowing costs support an uptick in discretionary spending this year, the cruise sector is likely to gain further momentum. Additionally, Vancouver will be a host city for the 2026 World Cup. Coupled with the elimination of Covid-era flight restrictions to China and the potential for Canada to be reinstated on the country's approved travel list, international group and leisure demand from Asia could return to pre-pandemic levels in the years ahead. On top of a strong demand outlook, Vancouver's hotel inventory has also contracted over the past ten years, keeping supply-side pressures to a minimum. Hotel performance is likely to stay strong in 2025 and beyond as a result.

INVESTMENT TRENDS

- Given high barriers to entry and strong demand dynamics, hotel sales have been limited, as owners tend to hold assets. Only a handful of hotels have traded hands over the past three years.
- Sales over this span have largely been confined to limited-service hotels sold for conversion into supportive housing.

2025 Hospitality Trends

100
BASIS POINT
change in occupancy

OCCUPANCY:
After falling in 2024 amid weak group demand, occupancy will jump up to 78.6 per cent in 2025. Lower borrowing costs and limited inventory expansion will drive this increase over the second half of the year.

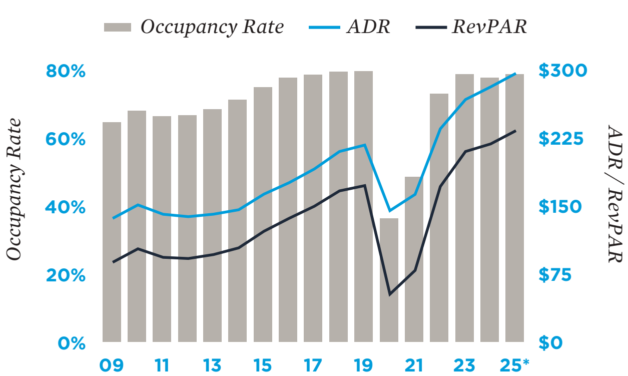
5.3%
INCREASE
in ADR

ADR:
The average daily rate will continue to rise at a pace above inflation, with limited supply and various demand drivers supporting growth. By year-end, Vancouver's ADR will sit at $295 – the highest rate in Canada.

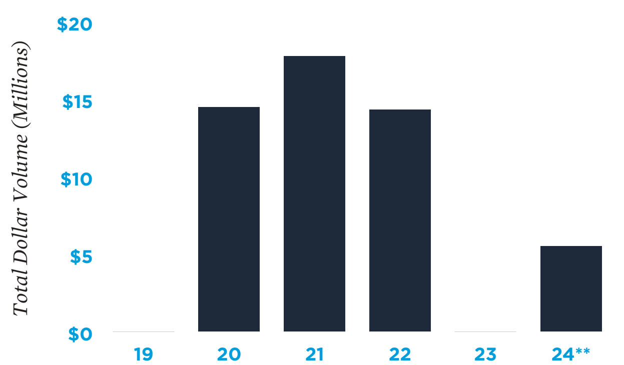
6.7%
INCREASE
in RevPAR

RevPAR:
As occupancy and ADR inch higher in 2025, revenue per available room will increase to $232. This is not only the strongest reading in Canada but also marks a 35 per cent increase from the pre-pandemic level.

Occupancy and Revenue Metrics



Transaction Trends



** Forecast; ** Trailing 12 months through 3Q*

Sources: Altus Data Solutions; Statistics Canada; STR, a CoStar Group Company

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Statistical Summary Note: Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2024. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Forecasts for employment and property performance are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, expressed or implied, may be made as to the accuracy or reliability of the information contained herein. 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; Bank of Canada; Bank of Montreal; Bank of Novia Scotia; Canadian Imperial Bank of Commerce; Canada Mortgage and Housing Corporation; Capital Economics; CoStar Group, Inc.; Environics; Royal Bank of Canada; Statistics Canada; STR, a CoStar Group Company; Toronto-Dominion Bank

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