INVESTMENT FORECAST

Office

Southwestern Ontario

IPA INSTITUTIONAL PROPERTY ADVISORS

2026

Local Strengths Battle Global Headwinds as Office Outlook Stabilizes

Regional characteristics underpin performance. Southwestern Ontario's office market strengthened in 2025, with vacancy falling sharply to 8.5 per cent. This was largely due to strong leasing momentum, selective space withdrawals and repositioning efforts, as well as rising owner-occupier activity tightening conditions. The improvement also reflected the region's structural advantages over larger metros — more affordable parking, shorter commute times and a tenant base dominated by smaller firms with greater control over their return-to-office strategies. Amid a limited new-supply pipeline, these factors, along with competitive rents, helped improve office demand despite widespread tariff uncertainty. Looking ahead, 2026 is expected to continue this trend. While trade negotiations could still sour — which does pose a material risk to the metro's office outlook — greater policy clarity is likely to emerge. This, along with continued return-to-office momentum, is likely to support tenant demand. Meanwhile, older buildings are expected to attract growing investor attention for adaptive reuse and conversion opportunities, positioning Southwestern Ontario as a more balanced office market heading into the next cycle.

INVESTMENT TRENDS

- Owner-user interest increased last year, driven by more favourable pricing and the desire for control over real-estate decisions.
- Office conversions also gained momentum. Combined with more balanced fundamentals due to less supply growth, dollar volume in 2025 largely aligned with the trailing 10-year average.

2026 Office Trends

0
SQUARE FEET
will be completed

CONSTRUCTION:

For the second straight year, Southwestern Ontario will see no office deliveries. In contrast, some investors are undertaking office-to-residential conversions to help address the region's widespread housing shortage.

30
BASIS POINT
decrease in vacancy

VACANCY:

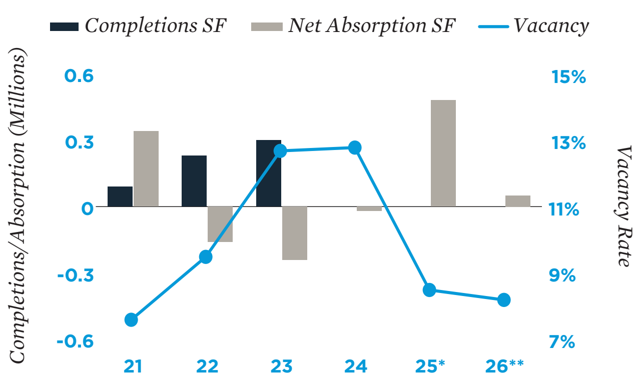
While vacancy forecasts are highly dependent on trade negotiations, positive momentum is building. Combined with favourable supply dynamics, vacancy could fall to just below 8.5 per cent this year.

0.3%
DECREASE
in asking rent

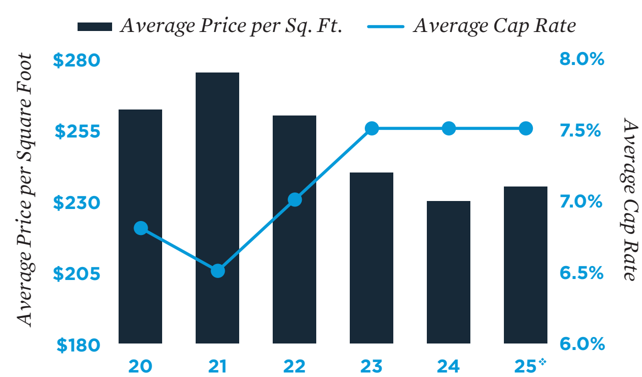
RENT:

While the metro's vacancy rate is expected to see continued improvement, Southwestern Ontario is highly exposed to protectionist U.S. trade. Consequently, tenants are likely to remain cautious, which may temper any rent increases.

Supply and Demand



Price and Cap Rate Trends



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

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

Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of February 2026. 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 retail data are made during the first quarter and represent estimates of future performance. No representation, warranty or guarantee, express 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.

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