

INVESTMENT FORECAST

Retail
Toronto

IPA

INSTITUTIONAL
PROPERTY
ADVISORS

2026

Economic and Demographic Hurdles to Weigh on Sector Expansion

Demand-side challenges to prolong upward vacancy pressures. Last year, mounting economic headwinds from trade tensions and the closure of Hudson's Bay stores led to negative net absorption in Toronto, pushing the vacancy rate to its highest level since 2017. Retailers grew increasingly apprehensive about expansion, delaying rollouts and lease renewals amid uncertain demand and tighter margin pressures. Looking ahead, persistent trade uncertainties and subdued population growth will cloud the near-term outlook. Toronto has long been a top destination for new immigrants, and restricting population inflows could further temper growth in retail sales amid sluggish foot traffic expansion. Additionally, ongoing weakness in the condominium market may continue to erode household net worth and prolong muted consumer confidence, posing some downside risks to spending. As a result, space demand is expected to remain soft in the short term. On the supply side, completions are projected to pull back significantly in 2026 as developers have become cautious as cost pressures mount. This limited pipeline should help cap any large increases in vacancy and support broader market stability.

INVESTMENT TRENDS

- Investment activity remained resilient last year despite macro challenges. Still-low vacancy rates helped keep investor demand strong amid a scarcity of quality assets for sale.
- Although retail fundamentals are set to soften in the near term, lower financing costs could draw sidelined buyers — particularly those eyeing long-term gains — back into the market.

Employment vs. Retail Sales Trends



* Employment through November, retail sales through September; ** 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.

2026 Retail Trends



**500,000
SQUARE FEET**
will be completed

CONSTRUCTION:

Completions are projected to decline notably, reaching an all-time low. Down-town, however, will see a major addition, with more than 100,000 square feet delivered as part of the YSL Residences Condos project.



**30
BASIS POINT**
increase in vacancy

VACANCY:

Macroeconomic headwinds will weaken space demand, exerting upward pressure on vacancy. Limited supply growth, however, will help temper this rise, keeping the rate low at below 3.0 per cent.

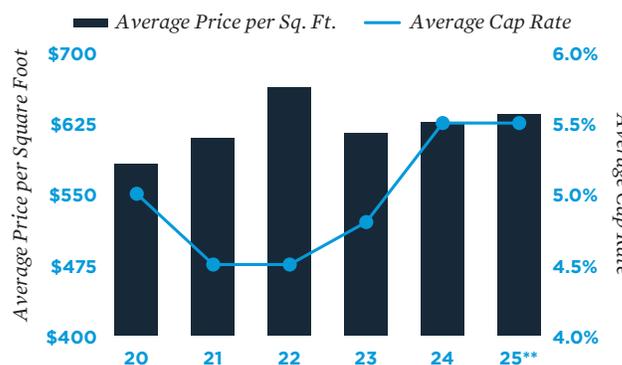


**1.6%
DECREASE**
in asking rent

RENT:

As the vacancy rate rose, year-over-year growth in asking rent slowed in the second half of 2025 and is expected to slip into negative territory this year. The average asking rate is projected to settle just above \$35 per square foot by year-end.

Price and Cap Rate Trends



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