

# MARKET REPORT

Multifamily

Southwestern Ontario Metro Area

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

2Q/26

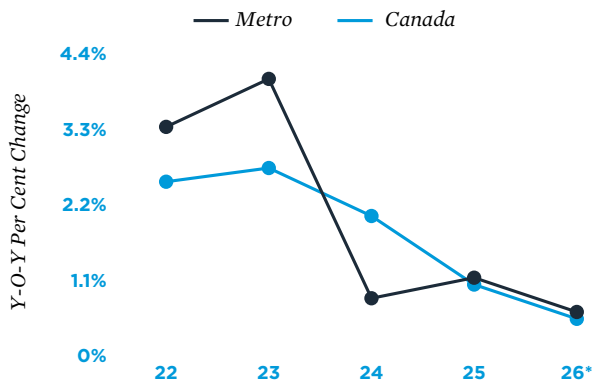
## Big-Box Availability and Trade Risks Test an Otherwise Resilient Retail Market

### Anchor closures lift vacancy but create long-term opportunity.

Southwestern Ontario's retail market recorded a modest softening in 2025, as vacancy rose 90 basis points. Much of this shift, however, stemmed from the closure of nearly 10 Hudson's Bay locations across the region, which temporarily returned large blocks of space to the market. Even with this disruption, the metro remained among the tightest retail environments in the country. In many cases, these former department store spaces are presenting investors with new opportunities to enhance long-term asset performance. Owners can re-tenant the space at higher market rents, subdivide large boxes to accommodate a wider mix of tenants and pop-ups, or pursue longer-term redevelopment plans that better align with evolving retail and residential demand — ultimately benefiting both property owners and the surrounding communities they serve.

**Trade a key factor for market and retail sector.** As one of Canada's largest manufacturing corridors, Southwestern Ontario is particularly exposed to tariffs and the upcoming USMCA renegotiation. These uncertainties pose a disproportionate risk to local employment and production activity in the near term. Over the longer run, however, a partial renewal of the agreement — combined with ongoing trade and supply-chain diversification — could help stabilize manufacturing output and support job growth. A firmer employment backdrop would help sustain household spending across the region, reinforcing the underlying demand drivers that support the metro's retail sector.

### Employment Trends



\* Forecast

## Retail 2026 Outlook



**10,000  
JOBS**

*will be created*

### EMPLOYMENT

The metro is expected to post modest job growth this year as interest rates stabilize and trade conditions become clearer. Tariffs remain a key risk, however, and cities with greater exposure to manufacturing could see more muted employment gains, if not modest job losses.



**400,000  
SQ. FT.**

*will be completed*

### CONSTRUCTION

Deliveries will fall this year, though roughly 60 per cent of new supply will come from a 13-acre retail development in Brantford. The remainder will largely be concentrated in Kitchener and London, primarily in smaller storefront retail.



**30  
BASIS POINT**

*increase in vacancy*

### VACANCY

Vacancy will rise to just above 2 per cent as large-format space from recent department store closures takes time to be absorbed, new supply comes online, and consumers remain cautious. Despite this, the retail market will hold exceptionally tight.



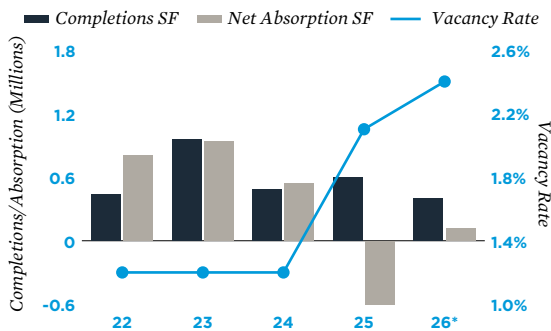
**1.1%  
DECREASE**

*in asking rent*

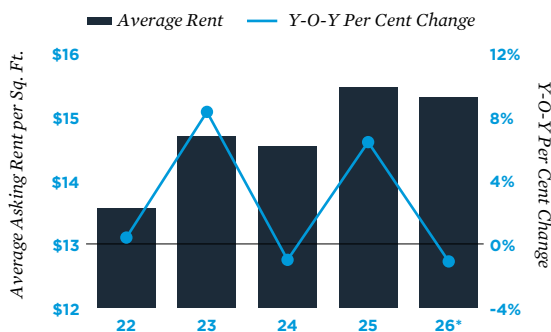
### RENT

Average asking rents are expected to decline roughly 1.1 per cent this year as large-format vacancies weigh on market averages and some tenants remain cautious with expansion. Even so, extremely tight availability should help limit the extent of rent compression over the longer term.

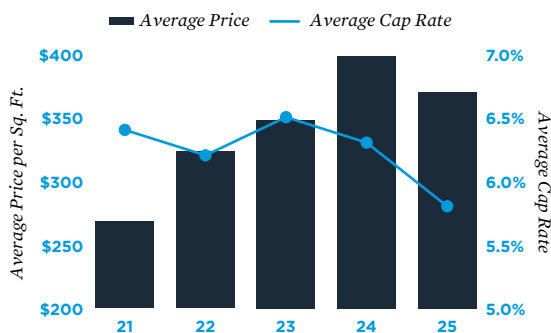
## Supply and Demand



## Rent Trends



## Sales Trends



\* Forecast

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## 4Q 2025: Trailing 12-Month Period



### CONSTRUCTION

**604,000 sq. ft. completed**

- Deliveries increased last year, but remained below the metro's trailing five-year average. A large portion of new supply was in Kitchener, mainly focused on food services and essential-based retail.
- Construction starts largely stalled last year as cost pressures and the return of large-block anchor space discouraged development.



### VACANCY

**90 basis point increase in vacancy Y-O-Y**

- Vacancy jumped to 2.1 per cent last year, largely due to the return of Hudson's Bay space. This was evident in enclosed malls, which saw vacancy spike by more than 500 basis points and end the year near 8 per cent.
- Vacancy remained largely stable across most other retail segments, whereas the Kitchener and Brantford areas saw the largest vacancy increase.



### RENT

**6.4% increase in the average asking rent Y-O-Y**

- Annual asking rent growth accelerated last year — led by enclosed malls, mainly because they were able to reset rents to market level after the vacating of Hudson's Bay.
- Neighborhood centers, specifically grocery-anchored, essential-based, continue to see resilient demand. This also helped fuel rent growth last year.

## Investment Highlights

- Strong demographic headwinds, fueled by population growth, have underpinned investor interest. As a result, dollar volume increased by a record 17 per cent last year. That said, it is important to note that total transactions actually fell by 30 per cent, and a few high-value regional mall sales mainly drove the surge in dollar volume.
- Investor demand remains strongest for grocery-anchored strip centres, where limited listings and resilient tenant demand are creating competitive bidding for available assets. As capital continues shifting toward necessity-based retail, transaction activity could increase through 2026 as buyers seek exposure to this defensive segment.
- Given the strong performance of retail assets in the metro over recent years, investors are holding onto assets, limiting buyer options and maintaining competitive pricing. Combining that with high-profile transactions, the average sale price has largely increased over the past three years amid greater interest rate visibility. At the same time, these factors have also begun to put downward pressure on cap rates, further indicating strong investor demand.