

SPECIAL REPORT

CANADA BUDGET 2025

JANUARY 2026

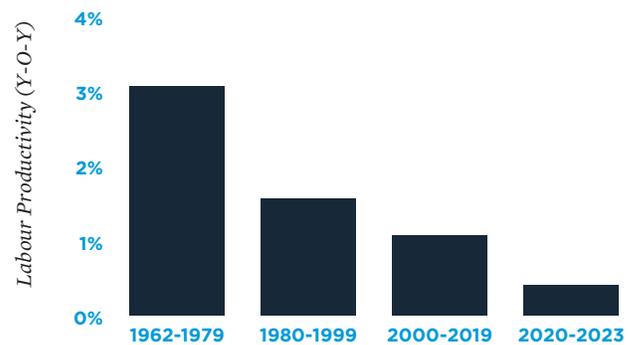
Canada's CRE Poised to Benefit as Government Budget Sparks Productivity Revival

New fiscal spending catalyzes productivity gains. Canada's weak productivity growth over the past decade has often been cited as a key reason for the nation's sluggish economic performance, particularly on a per capita basis. Amid muted private-sector investment and limited public-sector support, the economy has been caught in a low-investment, low-productivity growth cycle. Budget 2025, however, offers a ray of hope. With substantial increases in capital spending on infrastructure, technology, and research and development (R&D), the new budget has the potential to boost Canada's economic growth through higher productivity gains — an outcome with broad implications for the country's commercial real estate sectors.

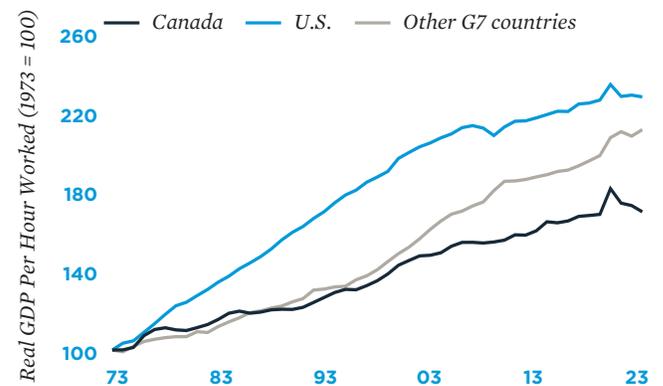
Productivity has been weakening over past four decades. Canada's productivity has been on a slowing trajectory over the past 40 years. The indicator, measured by total output per hour worked, grew at an average annual rate of 3.0 per cent between 1962 and 1979. Over the following four decades, growth slowed to 1.6 per cent between 1980 and 1999 and then decelerated to just 0.4 per cent after 2020. Compared with its G7 peers, Canada's productivity growth has underperformed since 1980, particularly lagging that of the United States. These relatively weak productivity gains have translated into slower economic growth, especially on a per capita basis. It is estimated that if Canada's productivity growth since 2000 had matched that of other G7 countries, the nation's GDP would have been about 9.0 per cent higher — equivalent to nearly \$7,000 per person.

Slack in productivity mainly driven by subdued investment. While many factors can weigh on productivity growth, weak capital spending has been a major contributor to Canada's underperformance in productivity growth relative to its peers. Investment — particularly in nonresidential assets such as machinery and equipment — is a key driver of productivity growth, as it equips workers with better physical tools to improve efficiency and output. Over the past decade, Canada's business investment as a share of GDP has yet to recover to its pre-2014-2015 oil-price-plunge levels. This shortfall was largely driven by a persistent decline in energy-related capital expenditures, prolonged weakness in investor sentiment amid uncertainty over energy and investment policy, higher taxes, and the subsequent pandemic shock to overall investment activity. By contrast, business investment in the U.S. reached a 20-year high in 2019, and its share of GDP is now on track to fully recoup pandemic-era losses.

Productivity Growth Has Been Slowing



Productivity Lags Behind G7 Peers



Investment in Canada Has Remained Weak



* Through 1Q

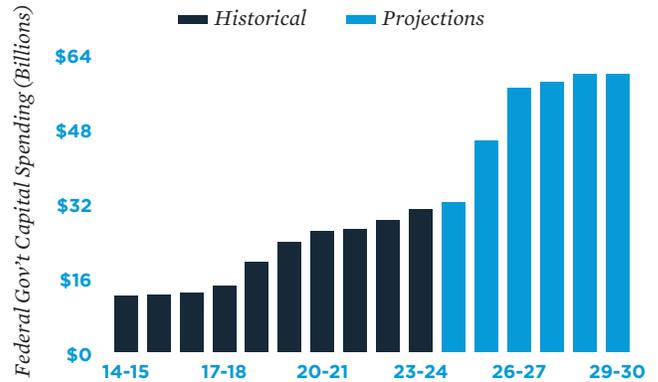
Sources: Bank of Canada; Organisation for Economic Co-operation and Development; Statistics Canada

Fiscal support crucial to boost productivity. Weak investment is not only a key drag on productivity growth but also a consequence of prolonged productivity weakness. Low productivity growth erodes business profitability and slows economic growth, further discouraging firms from investing, which, in turn, weighs on productivity growth. This self-reinforcing negative feedback loop is often challenging to break by private-sector forces alone. In this environment, businesses are reluctant to invest because expected returns are low, uncertainty is high, and many productivity-boosting investments require large, long-term commitments that are hard to reverse. As a result, private investment tends to remain subdued without a catalyst that can raise expected returns or reduce risk across the economy. This is where fiscal policy can play a critical role. Canada’s federal government has attempted to address the nation’s productivity challenge in the past, but its limited capital spending over the past four years did little to reverse the productivity trajectory.

Public investment set to rise substantially over next five years. In Budget 2025, the new Liberal government announced a significant increase in capital spending, lifting public investment from 1.0 per cent of GDP in 2024 to 1.7-1.8 per cent annually between 2026 and 2030. If implemented as planned, this step-up in public investment could boost Canada’s productivity gains by helping break the vicious cycle of low investment and weak productivity growth. The budget outlines both direct and indirect productivity-enhancing measures. Direct measures include substantial capital outlays – most notably \$115 billion in infrastructure investment and \$110 billion in initiatives to improve productivity and competitiveness over five years. The government also introduced targeted incentives to accelerate investment in machinery, equipment, and technology, alongside enhancements to the Scientific Research and Experimental Development tax incentive program to support research, development, and innovation.

New initiatives designed to crowd in private-sector investment. The budget also includes a range of indirect measures to improve the broader business environment to encourage private-sector investment. These include pro-competition regulatory reforms – such as measures to reduce red tape and expand competition in telecommunications and financial services – which can lower costs and spur innovation. Budget 2025 also introduced nation-building project acceleration through the Major Projects Office to fast-track transformative energy, trade, and transportation projects. The government will also enhance Canada’s human capital through an International Talent Attraction Strategy, which will recruit over a thousand highly qualified international researchers and improve foreign credential recognition for immigrants.

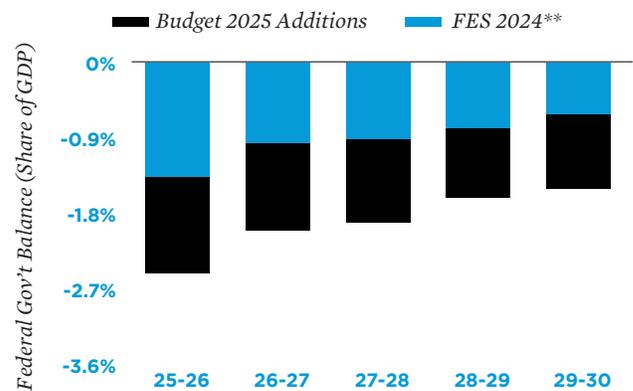
Public Sector Investment to Rise Substantially



Budget 2025 Main Capital Spending Overview

New Capital Spending Announced in Budget 2025 (Millions)	2025-26	2026-27	2027-28	2028-29	2029-30
Infrastructure, Industrial Policy, Trade, National Defense, etc	\$376	\$5,403	\$6,742	\$6,019	\$6,464
Capital-Focused Tax Incentives	\$49	\$283	\$360	\$386	\$421
Build Canada Homes	\$778	\$1,762	\$1,638	\$1,353	\$946
Research & Development	\$3	\$70	\$85	\$65	\$70

Budget 2025 Significantly Widens Deficit



* Excludes funds previously provisioned in the fiscal framework; ** 2024 Fall Economic Statement
Sources: Bank of Canada; Department of Finance Canada

Impact on Commercial Real Estate in Canada

Commercial properties benefit from productivity gains. While productivity is often viewed through a macroeconomic lens, its effects ultimately materialize at the property level. By supporting capital investment, labour mobility, and urban efficiency, Budget 2025 helps lay the groundwork for stronger-trend economic growth through higher productivity. Over time, productivity gains enable businesses to generate greater profits and operate more efficiently, creating favourable conditions for hiring, expansion, and investment. As incomes rise and firms increase their capital spending, demand for commercial space is expected to strengthen across all commercial real estate sectors, supporting a broad-based improvement in fundamentals.

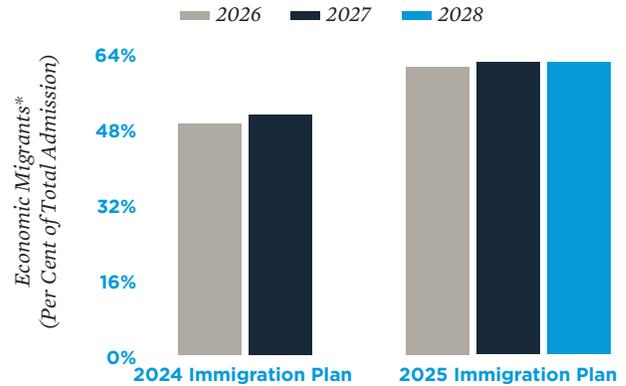
Rental demand to gain from talent inflows and urban investment.

While Canada's near-term population trajectory presents a headwind for the multifamily sector, Budget 2025 is positioned to support long-term rental demand. There are many measures focused on talent acquisition and labour mobility, including improved foreign credential recognition, international talent attraction and retention, and greater interprovincial labour mobility. These can support faster real income growth and more resilient employment gains, underpinning household formation and rental demand. At the same time, federal investments in infrastructure, transit, and housing-enabling services are likely to improve urban efficiency and expand the supply of livable locations, reinforcing demand for purpose-built rental housing across major metros and secondary cities. As a result, even as tighter immigration policies are expected to weigh on rental demand cyclically, Budget 2025 has the potential to structurally lift multifamily fundamentals through stronger productivity growth.

New public investment to structurally support office demand.

Productivity-focused measures in Budget 2025 are particularly supportive of office demand over the medium to long term. Investments in innovation, R&D, advanced manufacturing, artificial intelligence, and talent attraction will benefit knowledge-intensive industries that are heavy users of office space. As productivity gains lift corporate profitability and encourage business expansion, demand for high-quality, well-located office space is expected to increase — particularly in urban cores that offer superior access to high-skilled labour, transit, and collaboration networks. While the post-pandemic shift toward hybrid work remains a key constraint on full office utilization, stronger productivity-led growth can support office demand by anchoring employment growth in professional, scientific, and technical service industries. As a result, if well implemented, Budget 2025 could help facilitate the ongoing recovery in the office sector, contributing to a faster decline in vacancy rates across Canada over the coming years.

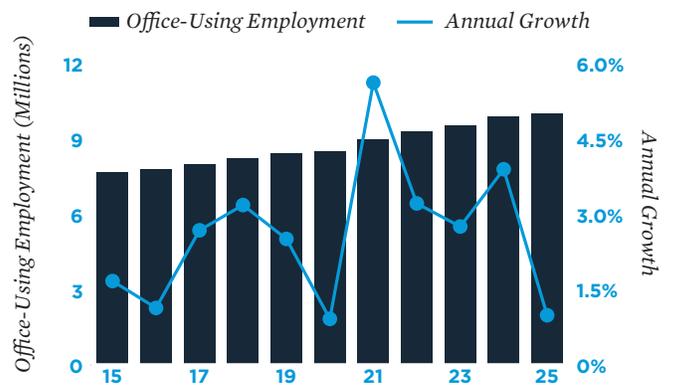
Shifts Focus Toward Talent Attraction



Build Canada Homes: Key Measures for Rental Housing

- Mass-Scale Affordable and Rental Housing Delivery
- Preserving and Expanding Existing Rental Housing
- Supportive & Transitional Multifamily Projects
- Direct Build on Federal Lands
- Flexible Financing & Incentive Tools
- Modern, Efficient Construction Methods
- Mixed-Income & Community-Oriented Developments

Office Jobs Remain in Growth Mode



* Includes temporary foreign workers and permanent residents admitted under the economic category
Sources: Department of Finance Canada, Statistics Canada

Logistics and trade strategy lift long-term industrial outlook. In Budget 2025, measures aimed at unlocking the economic potential of Canada's airports — such as enabling more development on airport lands and attracting greater private-sector participation — could support new logistics and distribution activity around major cargo hubs. At the same time, the \$5 billion Trade Diversification Corridors Fund targets long-standing bottlenecks across ports, and rail and trade corridors, helping goods move faster and more reliably to more global markets. These improvements can translate into higher throughput and sustained demand for modern logistics, warehousing, and manufacturing space. This could provide a new source of growth for the industrial sector over the coming years, despite current trade frictions with the U.S.

Productivity gains to prompt retail business expansion. Although retail is comparatively less capital-intensive, productivity-driven income growth can directly boost consumer spending, a key driver of retail space demand. Measures in Budget 2025 — such as the income tax cut and the removal of the carbon surcharge — are expected to support consumption and, in turn, retail space demand in 2026. Over the longer term, productivity gains can encourage retailers to invest in technology, logistics, and omnichannel capabilities, reinforcing the role of physical storefronts as part of an integrated distribution and customer engagement strategy. This is particularly relevant for urban-core retail properties, where consumers now increasingly seek experiential and specialty offerings.

Property sales may gain momentum amid productivity gains. Transaction activity is expected to strengthen in 2026 as past interest rate cuts create more favourable conditions for sales. Investors could also become more optimistic about the potential effects of Budget 2025, recognizing that increased public investment can boost Canada's productivity, which, in turn, structurally benefits all sectors over the long term. While some caution may persist due to lingering trade risks, the substantial planned capital spending improves the long-term growth outlook, brightening the overall investment climate. Early-stage investors may initially focus on assets with the strongest fundamentals and the clearest links to productivity-driven demand — testing the market while positioning to benefit from structural gains over time.

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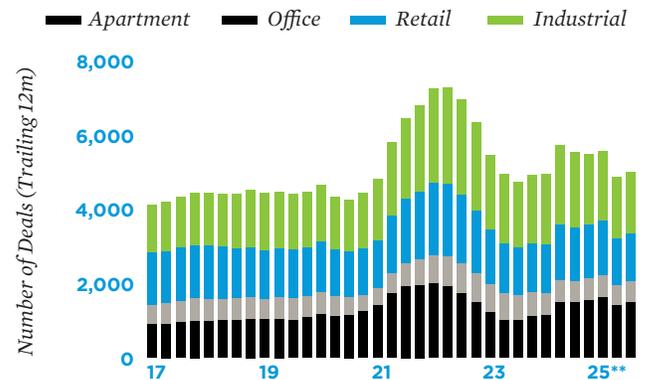
Public Investment Aids Industrial Outlook



Retail Growth Accelerated Last Year



Sales Volume Subdued Entering 2026



* Trailing 12-months through October; ** Through 3Q

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Sales data includes transactions sold for \$1 million or greater. 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: IPA Research Services; Altus Data Solutions; Bank of Canada; Department of Finance Canada; Organisation for Economic Co-operation and Development; Statistics Canada

Price: \$1,500

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