

SPECIAL REPORT

CANADA: NEW ECONOMIC AND POLITICAL STRATEGY

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The Future of Canada's Property Sectors in a Shifting Global Economy

A new megatrend is emerging. Since trade relations with the U.S. worsened last year, the joint review of the USMCA has become a key factor shaping Canada's near-term growth outlook. While focus remains on the future of the North American trade framework, the latest trade tensions appear to be part of a broader trend marked by more frequent supply-side disruptions after the global health crisis. This environment has created challenges for policymakers, who have traditionally relied on demand-side tools through business cycles, and has prompted countries like Canada to shift toward building an economy that can better withstand such shocks. Amid efforts to diversify trade and strengthen supply chain resilience, Canada's commercial real estate sectors will experience shifting forces, driving investment toward stable, defensive, and strategically located assets.

Three possible outcomes from USMCA joint review. Under the review provisions of the USMCA, the three member countries must conduct a joint assessment on its sixth anniversary, July 1, 2026, with any proposed amendments submitted at least one month in advance. Three outcomes are possible. First, all parties may agree to renew the agreement — potentially with revisions — for another 16-year term to 2042, with changes taking effect 60 days after negotiations conclude, and a subsequent review set for 2032. Second, if no extension is negotiated, the agreement stays in force until its scheduled expiry in 2036, with the option to revisit renewal through annual reviews. Third, any member may withdraw with six months' written notice, while the agreement stays in effect for the remaining parties.

U.S. uncertainty looms over USMCA negotiations. While Canada and Mexico are likely to support maintaining the North American trade pact, the U.S. remains the primary source of uncertainty. The USMCA Implementation Act mandates that the U.S. administration consult Congress on any proposed amendments or extensions during the upcoming joint review. However, some argue that the president still has the authority to unilaterally terminate trade agreements under Section 125 of the Trade Act of 1974. Consequently, the U.S. could use the threat of withdrawal as leverage during negotiations. That said, given the agreement's domestic support, any attempt to exit — especially before midterm elections — would likely face strong opposition from Congress. Overall, these legal and political factors create considerable uncertainty about the upcoming review process.

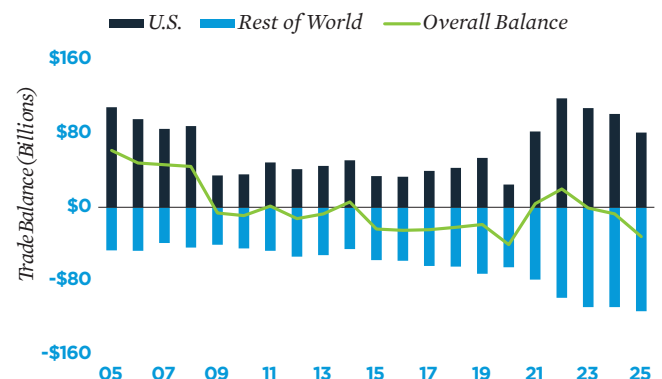
Key Takeaways

- The latest trade tensions with the U.S. are part of a broader trend of more frequent supply-side disruptions.
- Canada will prioritize new strategies to diversify its export markets and strengthen supply chain resilience.
- Select industrial and retail properties are well-positioned to benefit, as investors increasingly focus on sectors and locations that offer operational stability and durable cash flows.

Three Possible Outcomes for USMCA Review

Outcome	Key Points
Agreement Renewed	<ul style="list-style-type: none">• All parties agree to extend USMCA• Possible revisions included• New term: 16 years to 2042• Changes take effect 60 days after negotiations• Next review scheduled for 2032
No Extension	<ul style="list-style-type: none">• Agreement remains until expiry in 2036• Annual reviews can revisit renewal
Withdrawal by a Member	<ul style="list-style-type: none">• Any member can withdraw with six months' written notice• Agreement continues for remaining parties

Canada Merchandise Trade Balance



Global supply shocks are becoming more frequent. Beyond near-term trade uncertainty, both Canada and the world have experienced a clear increase in such supply-side shocks over the past decade. Many factors drive these disruptions. The U.S.-China trade war from 2018 to 2019 sparked a rise in deglobalization, while the COVID-19 pandemic triggered widespread logistics bottlenecks. Rising geopolitical conflicts, including Russia's invasion of Ukraine in 2022 and ongoing tensions in the Middle East, have significantly disrupted global energy markets. Together, these developments have exposed the fragility of global supply chains that were long assumed to be efficient and resilient, marking a shift away from the relatively stable, demand-driven environment that characterized much of the past few decades.

Supply disruptions undermine conventional policy effectiveness. This emerging pattern of more frequent and complex supply shocks is eroding the effectiveness of conventional monetary and fiscal policy. Before 2019, when global supply chains were relatively efficient and resilient, policy tools — such as interest rate cuts and fiscal stimulus — were generally effective in supporting economies during economic downturns. However, in the post-pandemic environment, rising supply-side disruptions have limited the impact of these countercyclical measures, as they do not address the underlying constraints on production and distribution. Central banks, in particular, now face an increased risk of stagflation, where policymakers may be forced to tighten monetary policy to contain inflation even as supply shocks weaken economic growth. In this environment, structural and strategic responses are expected to play an increasingly central role in helping Canada better withstand external supply shocks.

Canada's new strategy in an evolving global economy. In response to this shift, Prime Minister Mark Carney outlined a strategy at the World Economic Forum earlier this year to strengthen Canada both domestically and internationally. Central to this approach is reducing reliance on any single trading partner by diversifying export markets and deepening engagement with like-minded economies. More recently, Canada has expanded partnerships in the Indo-Pacific while advancing free trade discussions with a broader set of partners, including economies in Southeast Asia and Mercosur. At the same time, Carney emphasized the importance of building domestic resilience by improving internal economic integration and investing in critical infrastructure and supply chains across key sectors such as energy, natural resources, and advanced manufacturing. These efforts are complemented by initiatives to support innovation, workforce development, and digital transformation. Taken together, this marks an important shift in Canada's policy priorities aimed at enhancing the nation's ability to absorb supply-side shocks while maintaining greater economic autonomy in an increasingly fragmented world.



Canada's New Economic and Political Strategy

Objectives	Key Strategies
Strategic Autonomy	<ul style="list-style-type: none"> Reduce overreliance on major powers
Diversified Trade & Partnerships	<ul style="list-style-type: none"> Expand trade beyond traditional partners
Middle Power Coalition	<ul style="list-style-type: none"> Create flexible coalitions with like-minded middle powers
Domestic Capacity Building	<ul style="list-style-type: none"> Invest in infrastructure, defence, and internal trade
Values-Based but Pragmatic Foreign Policy	<ul style="list-style-type: none"> Uphold values and balance ideals with geopolitical realism
Reduce Exposure to Economic Coercion	<ul style="list-style-type: none"> Strengthen supply chains and critical sectors to limit leverage of great powers over Canada

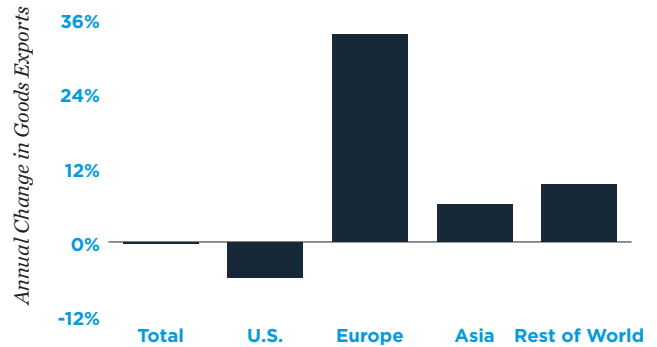
Impact on Commercial Real Estate in Canada

Industrial sector to gain from more diversified export markets. In 2025, Canada's trade diversification was in full swing, providing an early glimpse of the nation's future global linkages. Total exports to the U.S. fell by 6.0 per cent, while shipments to non-U.S. markets rose by 17 per cent, driven by a 33 per cent increase in exports to Europe. This trend is expected to continue as uncertainty around future U.S. trade relations lingers. The latest exporter sentiment survey also shows that, despite a still-heavy reliance on the U.S., firms are increasingly prioritizing growth opportunities in Europe and Asia over the next two years. As trade flows become more geographically dispersed, demand for industrial space is likely to extend beyond traditional cross-border corridors. This shift should support leasing activity in port-oriented logistics hubs and intermodal distribution networks as supply chains adapt to longer, more complex routes.

More robust supply chains will boost industrial outlook. In addition to trade diversification, the push to build more resilient supply chains will also increase demand for industrial space. One important shift is in inventory management, as firms shift from lean, just-in-time models to holding more buffer stock to guard against supply disruptions. This has already boosted the need for warehousing and distribution space, particularly near major population centres. Simultaneously, efforts to expand domestic production in strategic sectors — such as energy and critical minerals — are also gaining traction. As governments and businesses place greater emphasis on supply security, rising onshoring and nearshoring activity is expected to support demand for modern logistics and light industrial facilities. Together, these trends suggest a more durable, policy-supported demand outlook for the industrial sector, reinforcing its relative importance in Canada's commercial real estate market.

Stable supply chains would aid smoother retailer operations. For the retail sector, a more fragmented and uncertain global environment is likely to reinforce existing performance divergence across formats and locations. Rising stagflation risks could weigh on discretionary spending, keeping retailers cautious on expansion. However, efforts to diversify trade and strengthen domestic supply chains should help mitigate some of these pressures over time. While these changes may not directly drive a meaningful short-term increase in overall space demand, they should support more consistent store operations and reduce volatility in product availability. This is particularly relevant for larger retailers with complex supply chains, which stand to benefit the most from improved resilience and visibility. Over the longer term, a more stable supply backdrop could support expansion plans, although leasing activity will still primarily depend on consumer spending and location quality.

Non-U.S. Markets Supported Exports in 2025



Canadian Exporters' Top Planned Markets Over Next Two Years (Per Cent of Surveyed Exporters)

1. Europe (28%)

2. Asia-Pacific (19%)

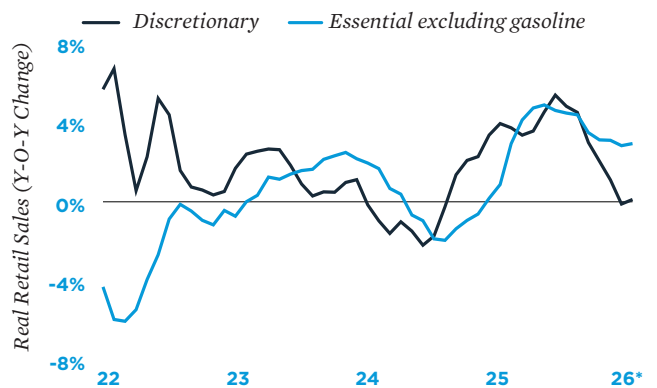
3. Middle East and Africa (16%)

4. U.S. (16%)

5. Latin America and the Caribbean (15%)

6. Mexico (13%)

Retail Now Supported by Essential Spending



* Three-month moving average through January

Sources: Capital Economics; Export Development Canada; Statistics Canada

Office sector will still depend on labour market conditions. The influence of macro shifts is likely to be more indirect in this sector, with structural challenges continuing to shape the outlook. While efforts to strengthen domestic industries and attract investment could support employment growth in certain sectors, this is unlikely to materially change near-term space demand dynamics. Firms will likely remain focused on cost control and operational flexibility, while hybrid work arrangements continue to limit expansion needs. At the same time, economic uncertainty and elevated financing costs could further delay leasing decisions. As a result, office demand is likely to remain uneven, with a continued split between high-quality, well-located assets and older, less competitive buildings. In the longer term, any sustained improvement in office demand will still depend on labour market trends and workplace strategies rather than on shifts in trade or industrial policy alone.

Frequent supply shocks add pressure on investors. The shift toward more frequent supply disruptions is expected to increase the cost of doing business, with significant implications for investors. Elevated long-term yields over the past two years — despite rate cuts from the Bank of Canada — already reflect this trend. Even if some supply shocks are temporary and do not warrant a monetary policy response, they can still trigger episodic inflation flare-ups. This heightens the risk of missteps by central banks, illustrated by the delayed rate hikes between 2021 and 2022 after pandemic-related reopenings and supply chain issues. Consequently, investors are likely to become more cautious over time in this environment.

Resilient sectors and regions attract investor focus. Despite heightened uncertainty, Canada's efforts to diversify trade and strengthen supply chains are creating new opportunities for investors. Capital is likely to gravitate toward sectors and locations that offer operational stability and durable cash flows. Industrial assets should remain in demand as businesses prioritize more flexible, diversified supply chains in the long term. At the same time, essential retail and health-care properties remain attractive for their defensive traits. Geographically, regions with strong local manufacturing bases, well-developed transportation networks, and diverse supplier ecosystems are expected to draw the most investor interest.

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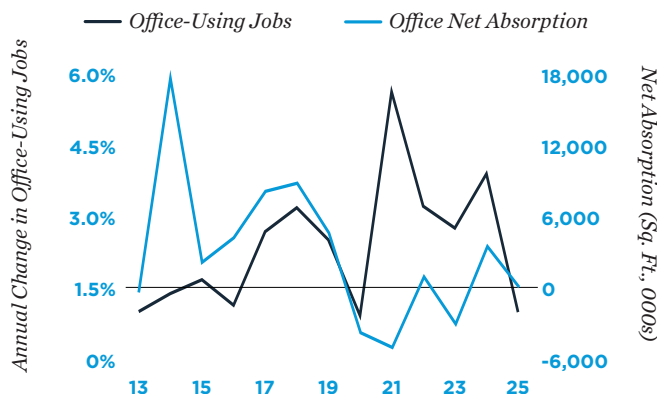
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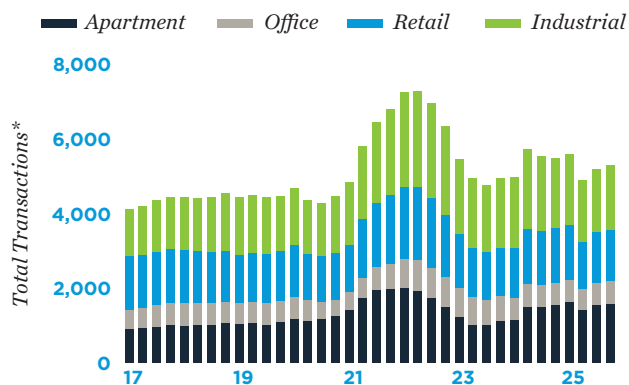
Office Jobs Drive Office Space Demand



Cost of Capital Elevated Since 2023



Canada All Property Sales Trend



* Trailing 12-month total, reported quarterly

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Sources: Marcus & Millichap Research Services; Altus Data Solutions; Bank of Canada; Capital Economics; Export Development Canada; Oxford Economics; World Economic Forum; Statistics Canada

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