

RESEARCH BRIEF

CANADA MONETARY POLICY

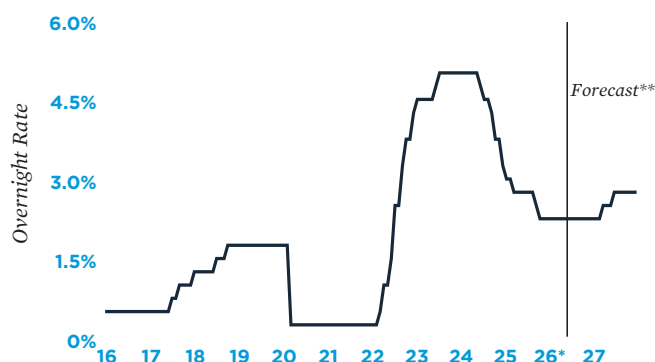
APRIL 2026

Rate Hold Extends Stability as CRE Recovery Navigates Volatility

Bank of Canada holds overnight rate amid global volatility. The Bank of Canada held its key policy rate at 2.25 per cent for the fourth consecutive meeting as officials balance a softer domestic economy with renewed inflation risks. While economic growth resumed in early 2026 after a fourth-quarter contraction, underlying momentum remains muted. Consumer and government spending are supporting activity, but tariffs, trade uncertainty, and the ongoing conflict in the Middle East continue to weigh on inflation expectations, exports, and business investment. Slower population growth, affordability challenges, and broader economic uncertainty are also restraining the housing market. At the same time, the labour market remains soft with unemployment holding in the 6.5 to 7.0 per cent range. As a result, the central bank is taking a wait-and-see approach.

Policy path is uncertain. The Bank's latest forecast projects GDP growth of 1.2 per cent in 2026, rising to 1.6 per cent in 2027 and 1.7 per cent in 2028, with growth improving as exports and business investment gradually recover. However, the outlook remains clouded by the Iran war, higher energy prices, and ongoing U.S. trade policy uncertainty ahead of the USMCA review. Inflation rose to 2.4 per cent in March and is expected to approach 3.0 per cent in April, though the Bank is currently looking through the immediate energy-driven increase. As a result, any change to the overnight rate is unlikely until officials have greater clarity on the implications of oil-related inflation and evolving trade dynamics. However, if pressures persist, the Bank appears ready to hike interest rates if needed.

Inflation Risks Could Push Policy Rate Higher



Commercial Real Estate Outlook

Transaction recovery pauses as geopolitical risk hurt sentiment. Commercial real estate transaction activity trended higher over the course of last year, with dollar volume increasing in three of the four quarters as fundamentals improved, borrowing costs stabilized, and pricing expectations began to realign. The only interruption occurred in the second quarter of 2025, when tariff-related uncertainty temporarily slowed deal flow as investors became more cautious. In 2026, momentum is likely to stall in the first half of the year as the Middle East conflict modestly pushes borrowing costs higher and reintroduces volatility into capital markets. At the same time, elevated uncertainty is causing many vendors to delay listing decisions, limiting available inventory and reducing near-term transaction velocity.

Improving conditions support second-half rebound. Despite this near-term pause in transaction activity, the broader recovery remains intact as property-level fundamentals continue to improve across most major asset classes. Leasing activity has stabilized or strengthened across several sectors, while new supply pipelines are beginning to taper, supporting the outlook for occupancy and rent growth. The current geopolitical shock is also expected to be temporary, and during periods of global volatility, Canada's commercial real estate market continues to benefit from its reputation for stability and durable cash flow. As visibility improves and capital markets regain footing, transaction activity is expected to gradually accelerate through the second half of 2026, supported by narrowing bid-ask spreads and renewed investor confidence.

Middle East Conflict Renews Rate Volatility



* Through April; ** Forecast provided by Capital Economics

Sources: IPA Research Services; Altus Data Solutions; Bank of Canada; Capital Economics; CoStar Group, Inc.; Oxford Economics; Statistics Canada