

Sector Improvement Gains Traction, Yet Trade Policy Risks Linger

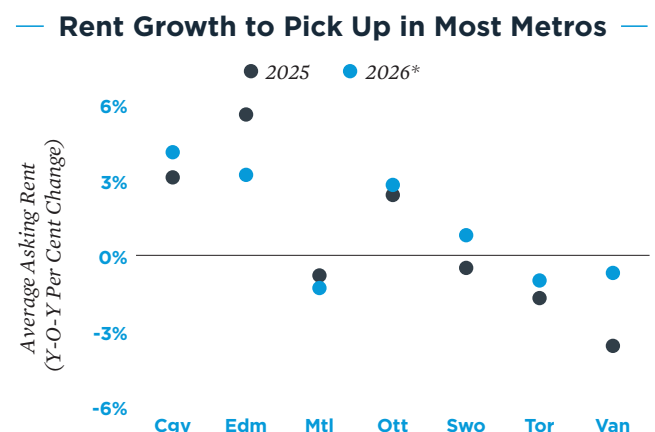
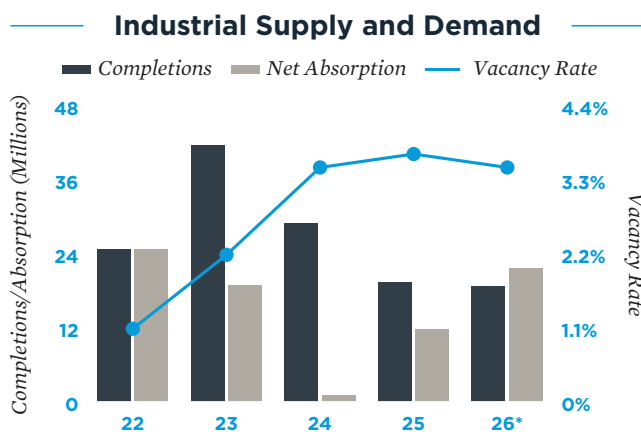
Recovery gathers momentum amid a supportive backdrop. Canada's industrial sector has demonstrated resilience, with space demand recovering over the past three quarters. With growing clarity around the future of USMCA in 2026, near-term absorption is expected to continue improving through year-end. A surge in property sales in Calgary and Edmonton supported national transaction dollar volume, but broader investor sentiment remained cautious and selective last year. Even so, gradually strengthening space demand — combined with Canada's long-term nation-building initiatives, such as infrastructure investment and supply-chain reconfiguration — should provide a more supportive backdrop for both leasing and investment activity moving forward.

Space demand remains on its rising trajectory. The industrial sector finished the first quarter on a solid footing. Net absorption exceeded completions for the first time since the second quarter of last year, stabilizing the vacancy rate at 3.6 per cent. This momentum highlights the resilience of space demand amid persistent cross-border trade uncertainty, as some tenants have opened up new overseas markets and increasingly reconfigured supply chains to offset external headwinds. Despite this national-level gain, leasing activity in Montreal remained muted at the start of the year, as the metro's net absorption continues to shrink amid trade uncertainties, and completions of speculative projects initiated over the past few years pushed vacancy higher, particularly in the large-bay segment.

Rising leasing momentum amid greater trade policy visibility.

Looking ahead, growing clarity around the future of the USMCA should continue to improve tenant confidence. In early April, the U.S. trade representative indicated that the U.S. expects to pursue separate agreements with Canada and Mexico, while retaining “load-bearing pillars” of the existing USMCA that function well. Canada has likewise expressed optimism about reaching a comprehensive agreement, despite ongoing challenges related to French-language labeling rules and dairy supply management. Although trade negotiations are expected to extend beyond the July deadline, the risk of trade frictions reescalating remains relatively low. As a result, space demand is expected to continue recovering in the second half of the year, putting downward pressure on vacancy.

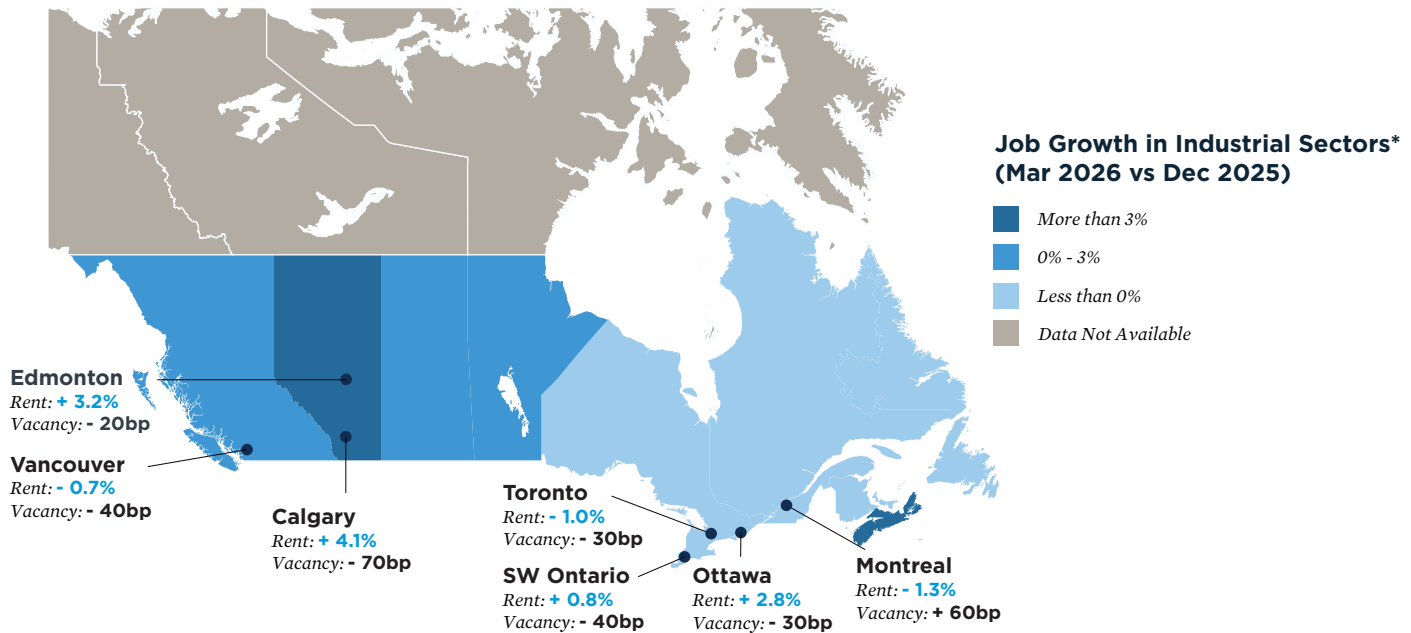
Rent growth stagnates amid falling vacancy rates. Completions are projected to edge down slightly from last year's level, reflecting a pullback in deliveries in Toronto and Vancouver. However, as the construction pipeline has rebounded from the lows seen over the past two years, completions are not expected to decrease much further beyond 2026. While recovering space demand and a modest decline in deliveries should contribute to a lower vacancy rate this year, rent growth is likely to remain subdued — particularly in the large-bay segment. In Vancouver and most eastern metros, average asking rents are expected to continue trending lower on an annual basis, whereas in Calgary and Edmonton, rent growth will decelerate but remain robust amid continued leasing momentum tied to outperforming economies.



* Forecasts

Sources: Altus Data Solutions; Statistics Canada

2026 Metro Forecasts



* Includes transportation, warehousing, manufacturing, and wholesale sectors
Sources: Altus Data Solutions; Statistics Canada

WESTERN CANADA

- **Calgary, Alberta:** Calgary's industrial market is gaining momentum, with stronger space demand driving vacancy lower as leasing activity recovers across all property sizes. A resilient economy, rising oil prices, and major projects are supporting this rebound, with demand now expected to exceed earlier forecasts. Meanwhile, construction activity — after hitting a low point — has started to pick up again, signaling improving builder confidence and suggesting the market is moving out of its recent rebalancing phase.
- **Edmonton, Alberta:** Net absorption turned negative in the first quarter, reflecting softer leasing in the large-bay segment, while small-bay demand remained resilient. Looking ahead, trade dynamics are expected to be the primary driver of the market's trajectory. On the supply side, elevated construction costs have curtailed development, supporting a gradual decline in vacancy.
- **Vancouver, British Columbia:** Small-bay properties are expected to continue anchoring Vancouver's industrial market, with demand led by local tenants supporting near-term absorption. Moving forward, limited new supply should keep vacancy low, while Vancouver's role in global energy and Asia-facing trade will gradually strengthen demand for large-bay space. Overall, the market is expected to remain tight by historical and national standards.

EASTERN CANADA

- **Montreal, Québec:** Trade uncertainty is weighing on near-term demand, with softer leasing and rising vacancy, particularly in larger-bay space, despite limited new supply. Over the longer term, infrastructure investment and trade diversification are expected to support more resilient and diversified demand.
- **Ottawa, Ontario:** Ottawa's industrial market is gaining prominence as a logistics hub, led by Amazon's major new distribution centre. However, space demand remains anchored by stable local tenants, helping maintain steady absorption and contained vacancy, despite a temporary construction surge.
- **Southwestern Ontario:** Despite trade-related volatility, the metro's industrial market has remained resilient, with vacancy edging lower after a brief rise. While near-term uncertainty has weighed on sentiment, long-term demand is supported by ongoing investment in the region's EV and advanced manufacturing supply chain.
- **Toronto, Ontario:** Supported by interest rate clarity and stronger leasing, the vacancy rate is expected to edge lower in 2026 as supply tapers and demand improves. However, risks from trade exposure remain, and performance is uneven — smaller-bay assets and supply-constrained areas are holding up better than larger-bay and recently developed submarkets.

2026 National Forecast

EMPLOYMENT

0.5% increase Y-O-Y

- Job growth is projected to ease alongside slowing population growth, with nontrade sectors seeing modest gains while manufacturing and transportation continue to feel the effects of trade uncertainty.

CONSTRUCTION

19 million square feet completed

- Completions are expected to edge down as lower deliveries in Toronto and Vancouver are offset by higher openings in Calgary and Ottawa, though rising pipelines point to potential increases beyond 2026.

VACANCY

20 basis point decrease Y-O-Y

- The vacancy rate appears to have peaked in the third quarter of last year, and a steady recovery in the absorption rate is expected to stabilize the share of unoccupied space in 2026 at around 3.5 per cent.

ASKING RENT

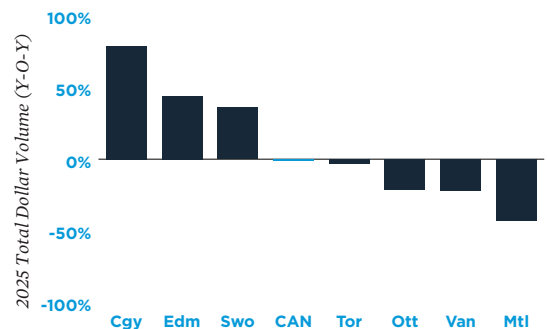
-0.5% decrease Y-O-Y

- Leasing continues to be supported by demand for small-bay facilities, while demand for large-bay space is slowly gaining traction. This ongoing imbalance is contributing to a slight decline in asking rents.

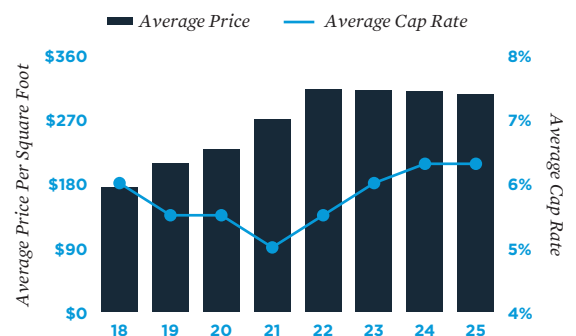
Investment Outlook

- **Larger deals and strength in Alberta support trade volume.** Total dollar volume last year remained resilient compared to the prior year, despite heightened uncertainty around cross-border trade. The 7.0 per cent increase in transactions over \$20 million contrasted with a 9.0 per cent decline in deals under \$10 million. This trend is most pronounced in Calgary and Edmonton, where large-sized deals pushed total dollar volume 79 per cent and 44 per cent higher respectively. The strength in Alberta suggests that buyers have shifted toward markets with the strongest fundamentals and are targeting larger, high-quality assets alongside more selective capital deployment.
- **Trade-reliant metros seeing renewed momentum.** Despite still-robust national transaction volumes, sales in Vancouver and most eastern metros remained subdued last year. However, early signs of recovery began to emerge in the first quarter of 2026 across several trade-dependent markets. In Montreal, for instance, the average transaction value surpassed \$8 million, pointing to a renewed interest among investors to pursue larger, institutional-grade assets.
- **Nation-building efforts may help enhance long-term valuation.** Following the past three years' decline in sale prices, emerging optimism in larger-bay facilities may provide some stabilization in the near term. Over the longer term, Canada's nation-building strategy and increased investment in key infrastructure could further strengthen industrial demand, enhance connectivity, and provide a more durable foundation for valuation gains.

— Alberta Strength Supported Total Sales —



— Industrial Investment Sales Trends —

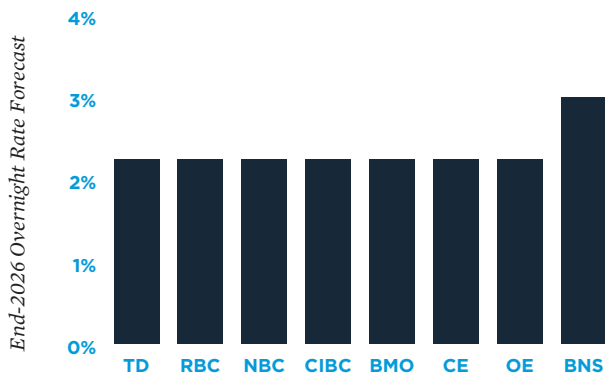


Rising Stagflation Risks Delay Monetary Easing While Capital Remains Selective

Bank of Canada stays on hold as Middle East conflict raises stagflation risks. Canada's economy remained on a soft footing in the first quarter of 2026. Recent data show the labour market continued to underperform expectations in March, with more than 90,000 jobs lost over the quarter. Retail sales also disappointed, with the advance estimate pointing to a 1.0 per cent monthly decline in real terms in March. While business sentiment improved earlier in the year, rapidly evolving geopolitical tensions in the Middle East are likely to weigh on confidence — particularly among non-energy firms — as higher energy costs strain household budgets and dampen discretionary spending. Core inflation remained well anchored in March despite the surge in oil prices. However, sustained increases in energy costs could gradually pass through to a broader set of prices, especially if disruptions to the Strait of Hormuz persist. Against this backdrop, the Bank of Canada faces renewed stagflationary risks, following earlier pressures tied to tariffs. As a result, the Bank may keep the overnight rate unchanged for longer than previously expected, as it monitors the persistence and magnitude of energy-driven inflation and its impact on domestic growth.

Financing remains cautious and targeted. Capital availability in Canada's industrial sector has remained selective, reflecting tighter credit conditions and a more cautious lending environment. While well-leased, institutional-quality assets continue to attract financing, lenders have generally emphasized stronger covenant packages, lower loan-to-value ratios, and higher debt-service coverage requirements. Borrowing costs remain elevated, limiting leverage and tempering acquisition activity, particularly for speculative developments. That said, improving fundamentals in several markets and greater clarity around cross-border trade have begun to support a gradual easing in financing sentiment, suggesting capital availability could improve modestly as confidence stabilizes.

Most Forecasters See Steady Rates in 2026



Long-Term Rise Amid Middle East Conflict



Sources: Altus Data Solutions; BMO; Bank of Canada; Capital Economics; CIBC; Oxford Economics; National Bank; RBC; Scotiabank; TD; Statistics Canada

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Sources: IPA Research Services; Altus Data Solutions; BMO; Bank of Canada; Capital Economics; CIBC; Oxford Economics; National Bank; RBC; Scotiabank; TD; Statistics Canada