

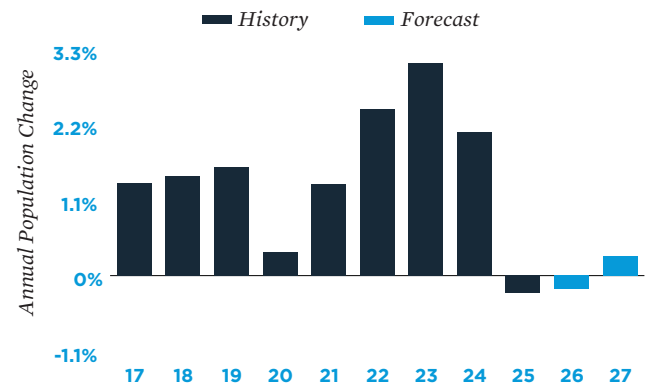
Retailers Pivot to Weather Softening Spending and Emerging External Risks

Retailers to face persistent challenge in 2026. The retail vacancy rate rose last year for the first time since 2020, as over 5 million square feet of space was vacated between January and June. The closure of Hudson’s Bay in June was the largest contributor to this significant drop in net absorption, while trade tensions early in the year also weighed on space demand. In 2026, headwinds from subdued population growth, rising geopolitical tensions, and uncertainty surrounding trade relations with the United States are expected to keep leasing momentum at a cautious pace. Retailers are likely to become increasingly selective in expansion plans, prioritizing productivity over footprint growth. Alongside the gradual backfilling of large-format space, vacancy is expected to edge higher, even as the pace of inventory expansion slows this year.

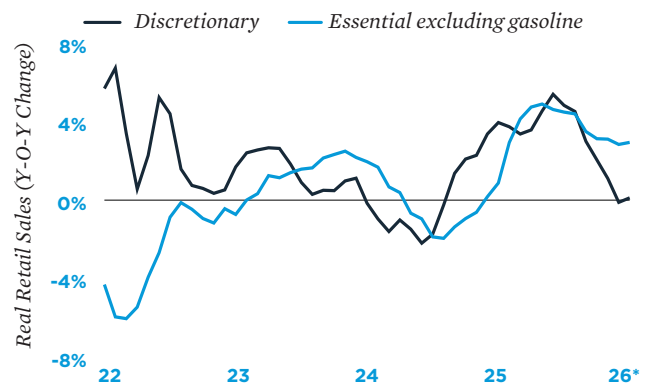
Consumers show early signs of strain. Driven by tighter immigration policies, which resulted in a lower intake of permanent residents and a net outflow of temporary residents, Canada’s population fell by 0.2 per cent in 2025. This contraction is expected to persist this year, leading to muted growth in foot traffic. The labour market also showed weakness at the start of the year, shedding nearly 110,000 jobs in the first two months. Although the demographic shift is partly responsible for the employment loss, stalled trade talks with the U.S. continue to weigh on job growth, particularly in the manufacturing sector. Alongside the soft labour market, consumer spending entered 2026 on a soft footing, with retail sales slowing amid a loss of momentum in discretionary spending growth.

Vacancy to inch higher as retailers adapt to changing environment. In response to waning consumer resilience, major grocery chains — including Loblaw, Metro, and Empire — are increasingly focusing on lower-cost discount formats, underscoring the growing shift in consumer demand. More importantly, as in-office work approaches pre-pandemic levels and population growth stalls, overall leasing momentum will likely stabilize across both urban centres and secondary markets. As a result, space demand is projected to turn positive this year, but the recovery will likely be more gradual than in the immediate post-pandemic period. While the vacancy rate is forecast to rise — as demand is expected to lag declining completions — it is still projected to end the year at a tight level below 3.0 per cent.

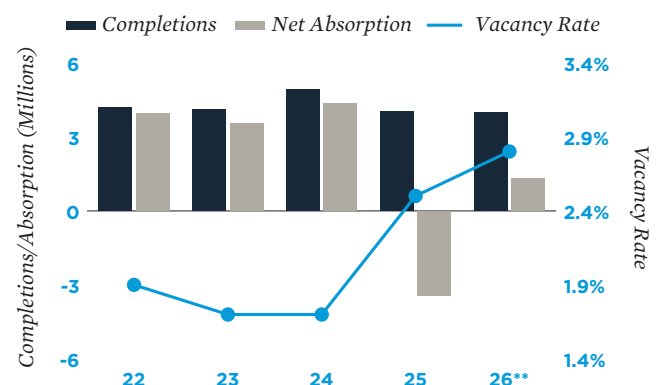
Population to Decline Through 2026



Discretionary Spending Slowed Entering 2026



Retail Supply and Demand Trends



* Through January; ** Forecast
Sources: Bank of Canada; CoStar Group, Inc.; Statistics Canada

Tracking Backfilling in Former HBC Space

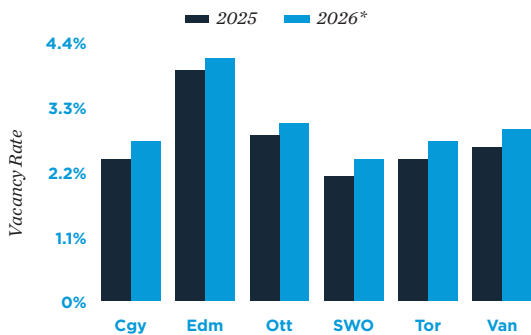
Metro	Vacant Space Sq. Ft.	Current Status
Toronto, ON	30,000	Goodwill leased former Saks Off 5th on The Queensway
Montreal, QC	655,000	James Bay Eeyou Corp. and JHD Immobilier proposed a \$400M Indigenous cultural centre, hotel, and retail hub for former HBC on Rue Sainte-Catherine
Vancouver, BC	600,000	Property on Granville Street has been listed for sale and proposed for office and retail mixed-use
Calgary, AB	150,000	Accents@Home has leased a portion of former space on Anderson Rd.
Edmonton, AB	150,000	Re-opened as a standalone Zellers at Londonderry Mall
Oakville, ON	120,000	Nation Experience has repurposed space on Leighland Rd for grocery, food hall, and entertainment slated to open in 2027
Pickering, ON	40,000	Splitsville will open a bowling and entertainment venue in fall 2026
Delta, BC	35,000	Central Walk has leased former Saks Off 5th at Tsawwassen Mills

Backfilling Hudson’s Bay Space Underway Amid New Uncertainty

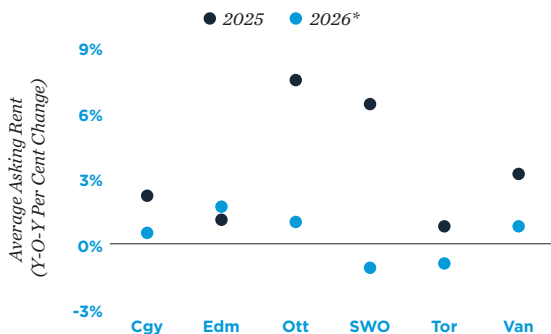
Former Hudson’s Bay space drawing tenant interest. The closure of HBC has triggered tangible re-leasing activity across several major retail markets. At Edmonton’s Londonderry Mall, a new Zellers store now occupies 60,000 square feet of the former HBC space. At Oakville Place, the roughly 120,000-square-foot box has been fully backfilled by Nations Fresh Foods, which is expected to open a large-format grocery concept in 2027. Fashion operator Fairweather has also secured two former Hudson’s Bay locations in Quebec for planned openings under its Les Ailes de la Mode brand. More broadly, many property owners are pursuing multi-tenant strategies, with most spaces subdivided into three to five mid-sized units to accommodate a mix of fitness, discount, home, and entertainment users – an approach expected to support leasing velocity. It is projected that over half of the space will be committed to within two years.

Iran war could impede re-leasing of big-box space. The Middle East conflict has added a new layer of uncertainty for large retailers. While higher oil prices could benefit Canada as a net oil exporter, sustained increases in energy costs risk curbing consumer spending on nonessential goods and services. Elevated prices may particularly weigh on discretionary categories such as apparel and luxury items, which typically account for a significant share of revenue for department-store-focused retailers. As a result, this heightened uncertainty, if sustained, could challenge the pace of backfilling large-format retail vacancies, as owners and tenants proceed more cautiously in leasing and redevelopment decisions.

Retail Vacancy to Increase in 2026



Rent Growth to Moderate in Most Metros



* Forecast

Sources: CoStar Group, Inc.; Various news sources

Major Market Overviews

Western Canada. Supported by still-positive population growth and rising oil production, Calgary and Edmonton are expected to outperform other metros in 2026. Robust consumer demand should drive a faster pace of backfilling in former Hudson’s Bay space. At the same time, ongoing downtown revitalization efforts are likely to bolster leasing activity in urban centres, helping to mitigate increases in metro-wide vacancy. In Vancouver, however, demand is expected to recover more gradually, as slower income growth, muted job gains, and a pronounced deceleration in population growth weigh on foot traffic amid persistent trade-related headwinds. On the supply side, completions are projected to increase across all three metros, placing upward pressure on vacancy rates.

Eastern Canada. A tepid economic outlook – marked by muted population gains, elevated trade risks, and declining public-sector employment – is expected to weigh on space absorption across eastern metros. In Toronto and Southwestern Ontario, backfilling challenges and exposure to cross-border trade will be the primary drags in 2026. In Ottawa, federal spending constraints and a drop in international student enrollment will continue to soften space demand. On the supply side, deliveries are winding down, helping cap vacancy increases. Over the longer term, as Canada’s economic and political centre, the region’s retail sector outlook remains strong, supported by its consumer base and structural importance.

2026 Forecast

EMPLOYMENT

0.5% increase Y-O-Y



- Employment growth is likely to decelerate as labour force expansion moderates and uncertainty surrounding USMCA weighs on the outlook. A more favourable trade environment, if realized, could help lift job gains.

CONSTRUCTION

4.0 million square feet to be completed



- Completions are projected to decline slightly from last year's level, as lower deliveries in eastern metros more than offset those in western markets. Mixed-use projects continue to account for the majority of openings.

VACANCY

30 basis point increase Y-O-Y



- Vacancy is expected to continue rising as absorption softens amid macroeconomic challenges. However, a faster pace of backfilling former Hudson's Bay space, if realized, could lower the nationwide vacancy rate.

ASKING RENT

0.1% decrease Y-O-Y

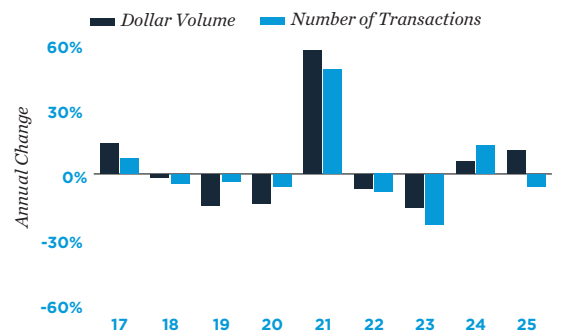


- The average asking rent is projected to hold steady, as declines in Toronto and Southwestern Ontario — driven by higher large-format vacancies — offset moderate increases elsewhere across the country.

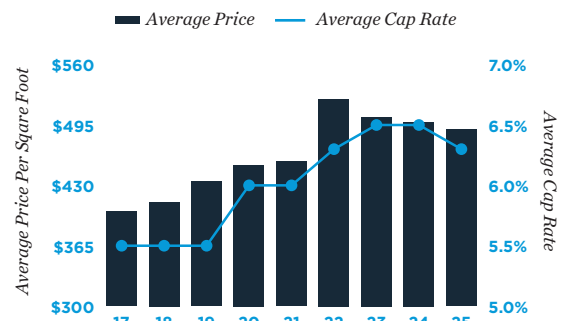
2026 Investment Outlook

- **Large transactions drove up deal value.** In 2025, total dollar volume increased across all markets, with the national total rising 11 per cent year over year. This growth occurred despite a 6.0 per cent decline in total transaction count, reflecting a surge in high-profile acquisitions by public and institutional investors. Ontario dominated these large-scale deals, highlighted by BGO's \$58 million purchase of Armadale Square in Markham and JDass Corp's \$55 million acquisition of the former Highland Farms supermarket property in Mississauga.
- **Investors to stay selective in 2026.** The annual decline in total transaction count last year — driven by deals valued under \$20 million — suggests that investor sentiment remained cautious and selective, particularly among owner-users and smaller private investors. In 2026, large-scale deals could remain active, potentially supported by transactions involving former Hudson's Bay properties. However, ongoing macroeconomic headwinds and emerging geopolitical risks are likely to keep the overall investment environment cautious.
- **High-profile sales have supported pricing.** The average cap rate inched lower even as the average sale price fell 1.7 per cent, reflecting the resilience of income streams across key assets. Strong demand from institutional and public investors, particularly for high-quality, income-producing properties, helped support pricing and keep cap rates compressed.

Retail Investment Sales Trend



Retail Sale Price and Cap Rate Trends



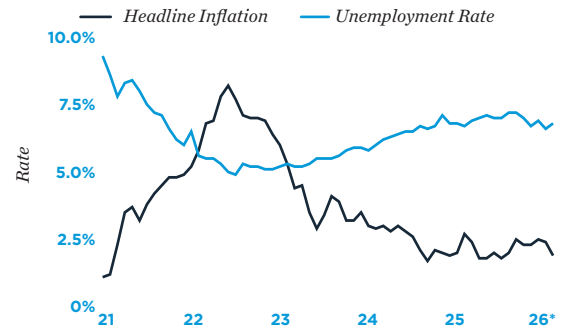
Investors Face Additional Uncertainty as Bank of Canada Navigates Policy Challenges

Slowing domestic demand and oil supply shock create dilemma for BoC. Data released so far in the first quarter points to a soft start for the Canadian economy in 2026. The labour market underperformed expectations in the first two months, shedding 109,000 jobs and pushing the unemployment rate to 6.7 per cent. Trade-dependent sectors, including manufacturing, continued to bear the brunt of stagnant Canada-U.S. commercial ties, contributing to lower production early in the year. Amid weaker labour market conditions, consumer spending slowed, driven by stalled growth in discretionary expenditures. The housing market also remained soft, with both condo and single-family home prices continuing to decline. These softening demand trends have contributed to a disinflationary environment, with headline price growth falling below the Bank of Canada's target in February. Despite subdued domestic demand – which would normally argue for looser monetary policy – the oil supply shock from the ongoing conflict in Iran has added uncertainty for the central bank ahead of the mid-year joint review of the North American trade pact. While higher oil prices typically benefit Canada as a net exporter, sustained energy price gains are likely to constrain household and business spending in non-energy sectors. If the conflict persists, elevated energy costs could eventually feed into core inflation, potentially prompting a policy response from the BoC.

Lower yields could unlock new opportunities. As the Iran conflict reignited inflation concerns, the yield on Canada's 10-year government bond rose roughly 40 basis points between the period before the outbreak and mid-March. Investors will closely monitor developments, particularly the situation at the Strait of Hormuz, as sustained higher financing costs could materially affect capital availability. Coupled with early signs of strains in consumer spending, retail investors may become more selective, gravitating toward suburban, necessity-based, and grocery-anchored properties that are likely to offer more stable income and greater resilience amid higher rates and broader market uncertainty. This adds another layer of caution on top of ongoing trade-related risks, reinforcing the importance of careful portfolio positioning in the near term.

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. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. 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.

– Inflation and Unemployment Rate Trends –



Treasury Yields Trends



* Through February

Sources: Marcus & Millichap Research Services; Altus Data Solutions; Bank of Canada; Capital Economics; CoStar Group Inc.; Oxford Economics

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