

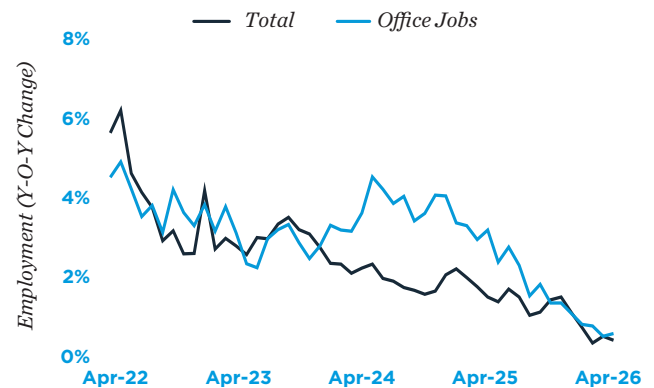
## Recovery Returns to Urban Cores as Conversions Accelerate

**Return-to-office mandates driving up office utilization.** Driven by trade-related uncertainty and tighter immigration policies, Canada's job growth has slowed markedly over the past three years, declining from 2.7 per cent year-over-year in 2023 to 0.3 per cent in April of this year. Consistent with this trend, office-using employment growth has stalled, averaging only 0.6 per cent over the first four months of 2026. Despite these headwinds, office utilization continues to rise, supported primarily by return-to-office mandates across both the public and private sectors. This year, the federal government, along with select provinces including Ontario and Alberta, requires employees to be in the office at least four days per week, while corporate Canada is converging toward a three- to four-day model. In Toronto, for example, the average weekly office attendance rate reached 86 per cent in February, with peak midweek attendance climbing to 96 per cent.

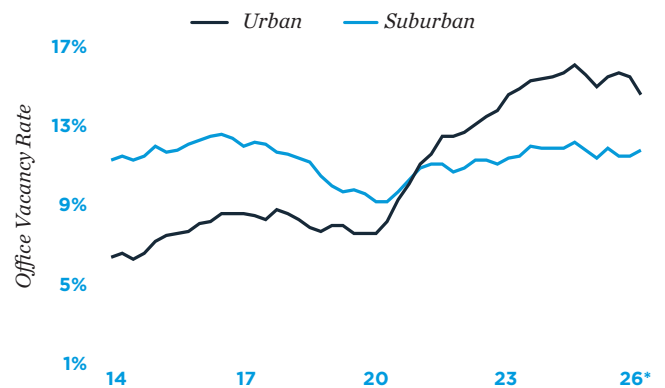
**Office demand concentrated in downtown cores.** Rising office attendance has translated into a clear increase in absorption, particularly across downtown markets in Canada. Following a six-month contraction between April and September 2025 amid trade policy uncertainty, demand in urban cores rebounded sharply, reaching a record 2.7 million square feet in the first quarter of this year. As a result, the national downtown vacancy rate declined to 14.4 per cent, its lowest level since March 2023. In contrast, suburban leasing remained relatively subdued, with vacancy largely unchanged and above 11 per cent over the past four years. Despite this recent momentum, vacancy remains elevated in downtown markets, where it stood 750 basis points above the pre-pandemic average in the first quarter — compared with just 190 basis points in suburban markets.

**Vacancy rate set to decline as space demand recovers.** Leasing momentum in downtown submarkets is expected to drive vacancy down through the end of 2026, only the second annual decline since the onset of the pandemic. As the redevelopment of underutilized office space accelerates across Canada, adaptive reuse projects will further reinforce this trend by gradually reducing available inventory over the longer term. By year-end, the national vacancy rate is projected to ease to approximately 12.6 per cent, with the most pronounced declines in Calgary and Edmonton, followed by Toronto and Montreal. Strengthening space demand is also expected to support modest growth in asking rents across most Canadian metros.

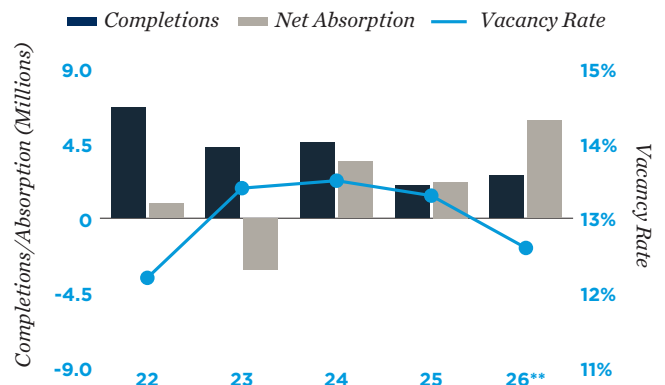
### Employment Growth Has Stalled



### Downtown Vacancy Down but Still Elevated



### Office Supply and Demand



Select Conversion Projects Across Canada

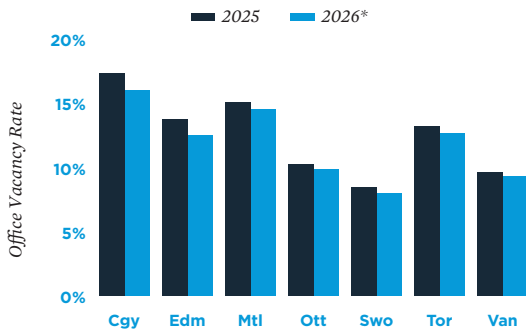
Metro	Major Conversion Projects	Square Footage	Status
Calgary, AB	Palliser One (125 9 Ave SE)	415,000	Under Construction
	Hanover Building (101 6 Ave SW)	267,000	Under Construction
	640 Fifth (640 5 Ave SW)	220,000	Proposed
Ottawa, ON	The Elgar Building (200 Elgin St)	140,000	Under Construction
	Former NAV Canada HQ (77 Metcalfe St)	125,700	Under Construction
	The Slayte (473 Albert St)	90,000	Completed
Montreal, QC	Le Samuel (1245 Sherbrooke Street W)	350,000	Completed
	Édifice du Canal (1720 rue du Canal)	100,000	Under Construction
London, ON	Homes on Dufferin (195 Dufferin Av)	80,000	Completed
	Farhi Holdings Building (685 Richmond St)	85,000	Under Construction

Office Conversions Continue to Gain Momentum

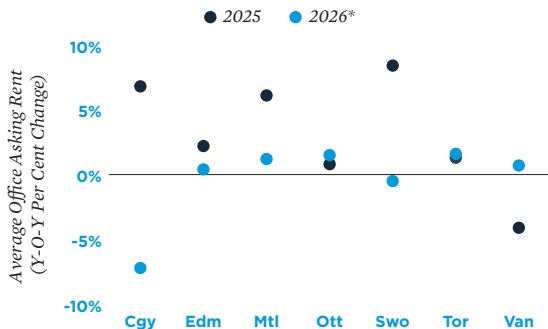
**Redevelopment ramping up in major metros.** A sharp rise in downtown vacancy rates across Canada since 2020 has prompted developers and policymakers to pursue office conversion projects to repurpose underutilized space, accommodate population growth, revitalize urban cores, and stabilize commercial property values. Calgary has emerged as the national leader in this trend. The metro’s conversion program currently supports 21 projects, collectively transforming approximately 2.68 million square feet of office space into 2,628 residential units, as well as a hotel and a hostel. Looking ahead, Calgary aims to remove 6 million square feet of underutilized office space – roughly 14 per cent of its downtown inventory – by 2031. Redevelopment activity has also gained traction in Ottawa, where the federal government has identified 22 properties as candidates for residential redevelopment, alongside a growing number of conversion projects initiated by private developers.

**Government support aids long-term vacancy stabilization.** Public-sector funding has been instrumental in advancing office conversion activity. Calgary leads the most expansive program, committing over \$200 million since 2021 to support downtown redevelopment. In London, Ontario, developers can access forgivable per-unit loans of up to \$35,000 – rising to \$45,000 for affordable units – helping to bridge retrofit cost gaps for eligible vacant office buildings. By accelerating the removal of obsolete inventory and encouraging adaptive reuse, these programs are expected to gradually reduce downtown vacancy rates and support a broader rebalancing of urban markets.

Office Vacancy to Decline in 2026



Rent Growth to Moderate in Most Metros



Major Market Overviews

**Western Canada.** Supported by strong population growth, suburban submarkets in Calgary are experiencing robust demand from service-oriented tenants expanding to serve a growing resident base. This demand momentum, combined with ongoing redevelopment activity, is expected to drive one of the most pronounced declines in vacancy among major metros this year. In Edmonton, the Alberta government’s return-to-office mandate has improved sentiment toward centrally located space, while the metro’s growing tech sector continues to support leasing activity. Vancouver’s leasing demand remains highly selective, with tenants prioritizing newer, higher-quality buildings. The downtown core is likely to face near-term challenges tied to large blocks of space returns and tenant consolidation.

**Eastern Canada.** In Toronto, demand remains concentrated in high-quality downtown assets, with a recent wave of new supply failing to push vacancy higher, as much of it was delivered with strong pre-leasing. Similar strength is evident in Montreal, where occupiers continue to prioritize space efficiency and employee experience, supporting demand for Class A properties. In Ottawa, the federal government’s return-to-office mandate is beginning to reverse earlier space-shedding trends, as a growing number of agencies face emerging space constraints. Meanwhile, in Southwestern Ontario, leasing activity remains anchored by affordability, accessibility, and ample parking availability.

\* Forecast  
Sources: Altus Data Solutions; Capital Economics; Oxford Economics; Statistics Canada

## 2026 Forecast

### EMPLOYMENT

**0.5% increase Y-O-Y**



- Job growth is expected to moderate as population gains slow, with nontrade sectors posting modest increases while manufacturing and transportation remain weighed down by ongoing trade uncertainty.

### CONSTRUCTION

**2.6 million square feet to be completed**



- Completions are expected to rise, led by the 1.5 million square feet being delivered at CIBC Square Phase II in downtown Toronto, while construction activity remains subdued in other metros.

### VACANCY

**70 basis point decrease Y-O-Y**



- Vacancy peaked in 2024 and is set to decline for a second consecutive year, supported by strengthening absorption and limited new supply. Alberta is expected to record the most pronounced reduction this year.

### ASKING RENT

**0.5% increase Y-O-Y**

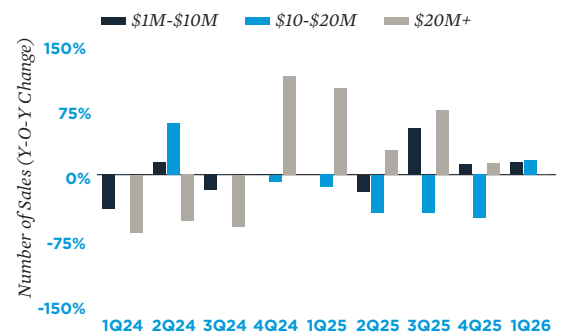


- A continued recovery in space demand is expected to support modest rent growth across most metros this year; however, the abundance of lower-quality Class B and C availabilities will likely cap further increases.

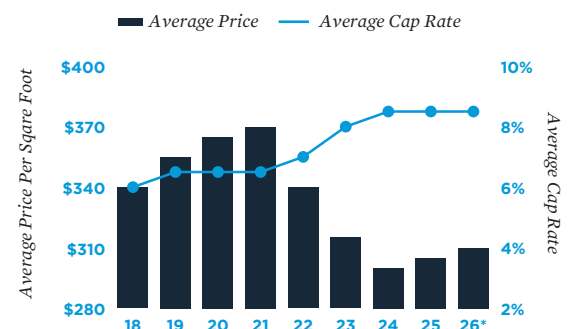
## 2026 Investment Outlook

- **Large-deal comeback fuels sales growth.** Investment rebounded in 2025, with the deal count rising by 3.9 per cent from the prior year. This momentum accelerated in the first quarter, with transactions increasing 13 per cent year-over-year and dollar volume surging 77 per cent. While sub-\$10 million deals continued to dominate over the past 12 months, investor focus has begun to shift toward larger assets. On a trailing 12-month basis through March, transactions exceeding \$20 million rose 21 per cent, with dollar volume up 32 per cent year-over-year.
- **Improving fundamentals lift market sentiment.** The recovery in space demand — particularly for high-quality assets — has emerged as the key driver of market sentiment. At the same time, limited construction and the growing obsolescence of older buildings have fueled a record volume of office-to-residential and mixed-use conversions, prompting a revaluation of aging office stock. Institutional capital has returned, with investment nearing \$500 million over the trailing 12-month period, up sharply from just over \$100 million a year earlier.
- **Pricing holds firm as sentiment strengthens.** The national cap rate held steady in the first quarter of 2026 at approximately 8.5 per cent. In select eastern metros, including Ottawa and Toronto, cap rates edged down, reflecting improving sentiment. The average sale price rose modestly; while still below the 2021 peak, it has recovered to roughly 3 per cent above the 2024 low.

### Office Sales Trend by Deal Size



### Office Sale Price and Cap Rate Trends



\* Trailing 12-month through 1Q

Sources: Altus Data Solutions; Capital Economics; Oxford Economics; Statistics Canada

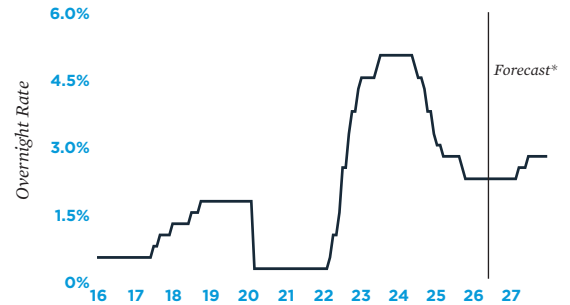
## Capital Redeployment Gains Momentum Amid Interest Rate Stability

**Monetary policy to remain stable through 2026.** While the ongoing conflict in the Middle East pushed headline inflation higher in March and April, still-declining core measures suggest that sectors less exposed to global energy price volatility continued to experience disinflation. The oil price decline in late May has reduced the risk that this external energy shock will broaden into persistently higher inflation, particularly in non-energy sectors. At the same time, labour market conditions remained weak, with job losses recorded in three of the first four months of the year, lifting the unemployment rate to 6.9 per cent in April. This slack in the labour market was also reflected in declining retail sales volumes in March, as consumers pulled back spending amid elevated uncertainty and sharply higher gasoline prices. Looking ahead, the U.S. trade representative's latest comments about maintaining tariffs on Canadian goods, alongside broader frictions – including Canada's retaliatory measures and concerns surrounding the structure of North America's auto supply chain – suggest that trade headwinds may continue to weigh on Canada's near-term economic outlook. Taken together, these conditions are expected to keep the Bank of Canada on hold, with the overnight rate likely unchanged through year-end. That said, the Bank emphasized in April that it remains prepared to act should energy-driven price pressures become more persistent and threaten overall price stability.

**Improving fundamentals draw renewed investor interest.** The return of capital over the past 12 months indicates that investor demand began to recover as soon as the vacancy rate turned the corner. Amid still challenging financing conditions – evident in elevated long-term bond yields – the flight-to-quality trend will continue to characterize the next phase of the transaction market. Core and core-plus assets with stable cash flow profiles are expected to remain the primary focus, particularly in downtown submarkets where leasing fundamentals are improving. At the same time, pricing discovery for lower-quality assets is still ongoing, with elevated cap rates and limited lender appetite continuing to constrain transaction activity in this segment. As a result, the gap in pricing and liquidity between high- and lower-quality office assets is expected to persist, reinforcing the bifurcation within Canada's office investment market.

*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.*

### Overnight Rate Stable Through 2026



### Long-Term Financing Costs Remain Elevated



\* Forecast from Capital Economics

Sources: IPA Research Services; Altus Data Solutions; Bank of Canada; Capital Economics; Oxford Economics

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