Special Report

2026 CANADA IMMIGRATION OUTLOOK

INSTITUTIONAL PROPERTY ADVISORS

Property Sectors at the Crossroads of Slower Immigration and Aging Population

Demographic transition well underway. Canada's efforts to curb immigration have slowed population growth. Tighter entry rules and stricter permit renewal, along with a more selective path to permanent residency, have caused a net loss of temporary residents over the past two years, especially since non-permanent residents drove the post-pandemic population surge. While these measures are helping stabilize growth, population aging is likely to reemerge soon as the country's primary long-term economic challenge. As a result, immigration will likely need to gradually normalize beyond 2027. These demographic forces will shape commercial real estate performance in distinct ways, creating opportunities and challenges across sectors as markets adjust to stagnant population growth today and to renewed immigration-driven expansion later.

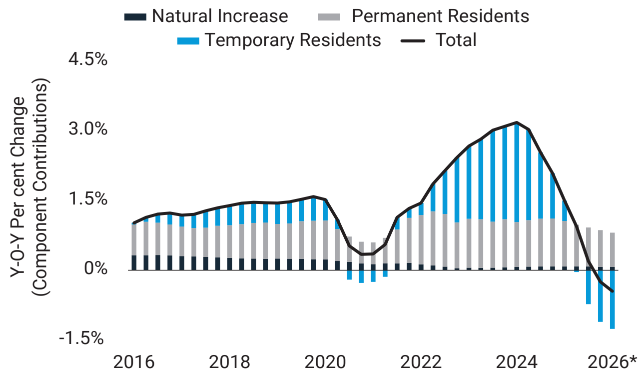
Outflow of temporary residents to continue through 2027. Since last year's intensified federal efforts to curb immigration, Canada's population growth has reversed. The country recorded two consecutive quarters of year-over-year population decline between October 2025 and March 2026. A sharp drop in the non-permanent resident population has been the main driver, as the share of temporary residents — including those with study or work permits and asylum seekers — fell from 7.6 per cent of the population in the third quarter of 2024 to 6.2 per cent in the first quarter of 2026. To reach the federal government's target of reducing temporary residents to below 5 per cent of the population, Canada will need to further reduce the count by roughly 500,000 by the end of 2027. If fully implemented, the policy would shrink the temporary resident population by approximately 1.1 million people — a 35 per cent contraction — from its peak in mid-2024.

Permanent resident admissions have also slowed. Alongside the decline in the temporary resident population, permanent resident admissions have also been moderating. Economic immigration — the largest stream of permanent resident admissions — has fallen by 30 per cent from its 2022 peak. If current trends persist, total admissions in 2026 could fall short of the federal government's target of 380,000 new residents. At the same time, natural population growth, defined as births minus deaths, has been slightly negative since the final quarter of 2025, while emigration among Canadian citizens and permanent residents has gradually increased over the past five years. Combined with the ongoing net outflow of temporary residents, these trends are expected to result in a second consecutive year of population decline, with Canada's total resident count projected to contract by 0.3 per cent in 2026 following last year's 0.2 per cent decrease.

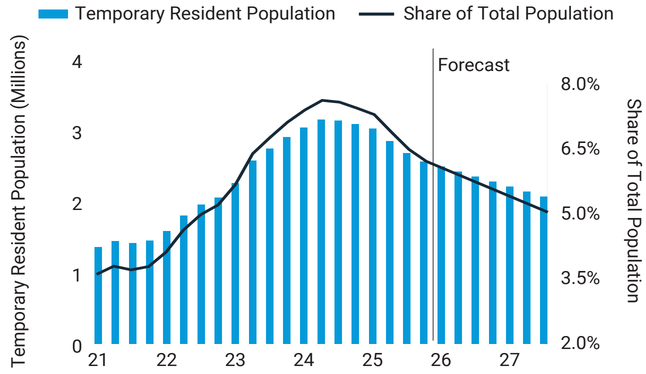
KEY TAKEAWAYS

- Population is now contracting amid temporary resident departures and slower permanent resident inflows.
- Immigration will likely need to rebound over time to offset population aging.
- Commercial real estate sectors are poised for a period of more moderate growth before immigration reaccelerates population gains.

CANADA'S POPULATION IN CONTRACTION



TEMPORARY RESIDENT POPULATION DECLINING



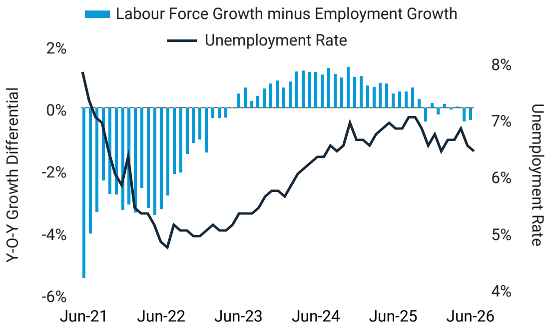
* Through 1Q

Sources: Capital Economics; Oxford Economics; Statistics Canada

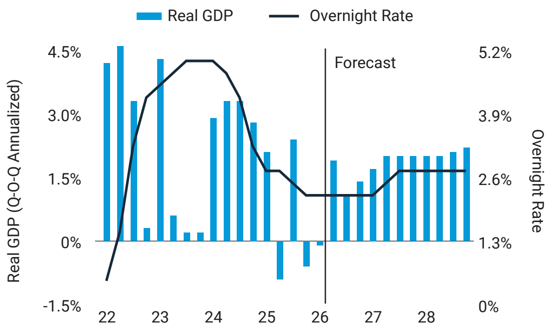
Demographic shifts rippling across Canada's economy. The labour market and the broader economy are showing the effects of the population slowdown. From mid-2023 to the third quarter of 2025, the unemployment rate rose by roughly 150 basis points as rapid population growth fueled labour force expansion that far outpaced job creation. Since then, however, labour force growth has slowed sharply, helping to restore balance to labour market conditions. As a result, the unemployment rate has stabilized and gradually declined from its September 2025 peak. The population slowdown has also shaped interpretations of broader economic performance. Despite real GDP contracting for a second consecutive quarter in the first three months of this year, some economists stopped short of declaring a recession, noting that GDP per capita actually rebounded by 0.9 per cent. This suggests that while a shrinking population base was weighing on total output, per-person economic activity remained resilient.

Bank of Canada remains on the sidelines amid population slowdown. In addition to the stabilizing unemployment rate, the sharp deceleration in population growth has helped contain demand-driven price growth, even as supply shocks — particularly those originating abroad — have put upward pressure on inflation largely beyond the BoC's control. At the same time, slower population growth has contributed to weakness in some sectors of the economy, most notably the homeownership market, where condo sales have fallen sharply amid softer demand and rising inventories. Together, these trends are helping to temper inflation and weigh on overall economic growth, supporting the case for the Bank of Canada to keep interest rates unchanged until there is clearer evidence that inflation or economic activity is shifting away from its objectives.

UNEMPLOYMENT RATE STABILIZING

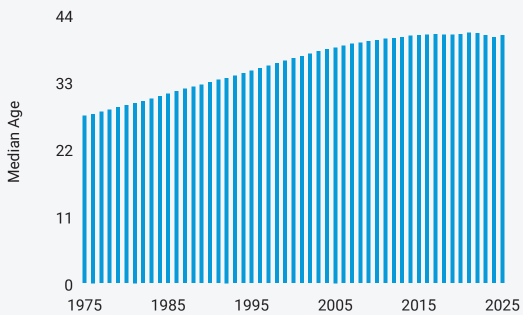


INTEREST RATES STEADY AMID SUBDUED GROWTH

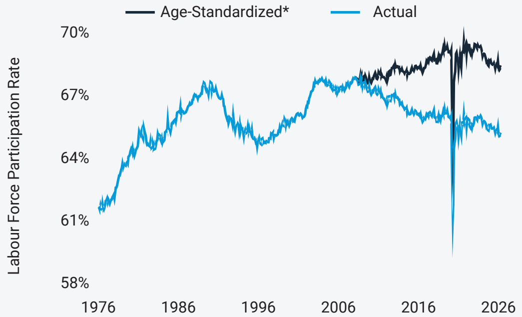


Sources: Capital Economics; Oxford Economics; Statistics Canada

CANADA'S POPULATION ON AN AGING PATH



AGING POPULATION LOWERS LABOUR PARTICIPATION



Immigration Remains Essential to Canada's Long-Term Growth

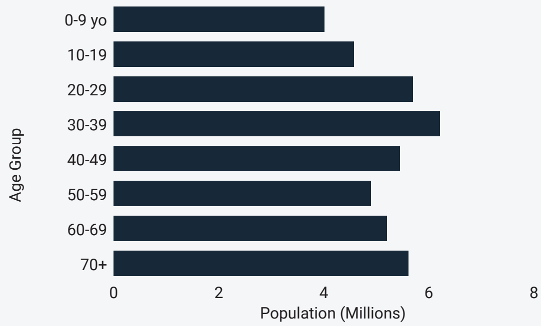
Tighter controls on international migration have helped alleviate pressure on housing affordability, infrastructure, and public services following the rapid population growth of the post-pandemic period. However, immigration remains essential to addressing one of Canada's most pressing long-term challenges: an aging population.

Canada's workforce engagement shrinking. As the population ages, labour force participation naturally declines, as a growing share of residents retire. This demographic shift typically increases pressure on public finances, as a shrinking workforce must support a growing retiree population, driving higher demand for health care, pensions, and other age-related services. The resulting deterioration in fiscal capacity could lead to higher public debt, structurally higher interest rates that can crowd out private-sector investment, and a greater tax burden on the working-age population. Since peaking in early 2008, Canada's labour force participation rate has been steadily eroded by population aging, a trend that accelerated alongside a sharp decline in natural population increase during post-pandemic years. As a result, demographic aging alone has reduced the national participation rate by roughly 320 basis points since 2008, compared with a population with an unchanged age structure.

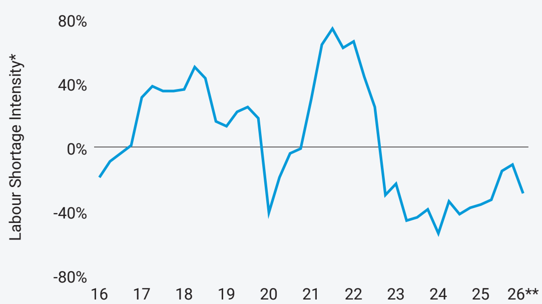
* Age-standardized labour force participation rate holds the population age distribution constant at February 2008 levels. ^ Through May

Sources: Capital Economics; Oxford Economics; RBC; Statistics Canada

CANADA'S SHRINKING YOUNGER COHORTS



LABOUR MARKET TIGHTNESS HAS FADED



Immigration remains key to Canada's long-term economic expansion. Age-cohort population data show that those aged 30 to 39 comprise the largest segment of Canada's population, with progressively smaller cohorts among younger age groups. At the same time, Canada's natural population growth turned negative between October 2025 and March 2026 — the first occurrence outside the pandemic period — highlighting the combined effects of population aging and falling fertility rates. As these demographic pressures intensify, immigration is likely to increasingly drive future population growth. While tighter immigration policies may be justified under current economic conditions, demographic realities suggest that international migration will need to normalize to help offset population aging, support workforce growth, and preserve Canada's long-term economic potential.

Today's labour market relief may become tomorrow's constraint. Amid still-elevated unemployment, slower labour force growth is helping rebalance the labour market, particularly for younger workers, whose jobless rate remains above 10 per cent. The BoC's latest Business Outlook Survey also shows that hiring difficulties have eased substantially, with the share of firms reporting labour shortages now sitting well below its historical average. Nevertheless, labour constraints remain evident in certain industries, including construction, health care, and hospitality. As economic activity strengthens and hiring demand recovers, subdued labour force growth could once again tighten labour market conditions, increasing the risk that labour shortages spread more broadly across the economy.

* Percentage of firms reporting more intense labour shortages minus the percentage reporting less intense shortages; ** Through 2Q

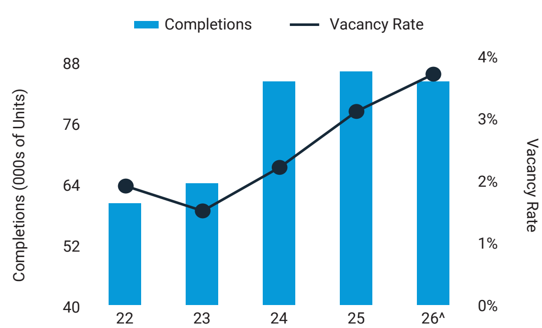
Sources: Bank of Canada; Capital Economics; Oxford Economics; RBC; Statistics Canada

Impact on Commercial Real Estate

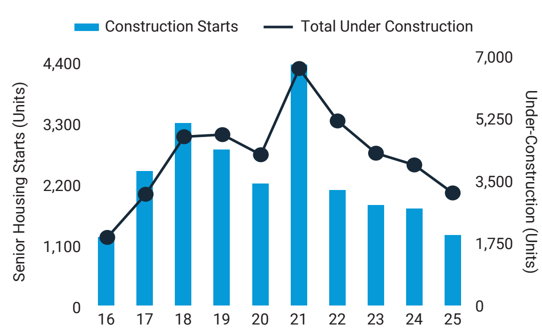
Rental market rebalancing amid demographic shifts. Slowing population growth has had an immediate impact on the multifamily sector, with softer rental demand increasing the national vacancy rate by roughly 160 basis points since 2023, to 3.1 per cent as of 2025. At the same time, a wave of new supply and growing competition from investor-owned condominium rentals have extended lease-up periods for newly completed buildings, prompting many operators to offer move-in incentives. These conditions are expected to persist through the rest of 2026, giving renters greater choice and bargaining power. Looking ahead, market conditions could begin to stabilize in 2027 as the federal government approaches its objective of reducing temporary residents to less than 5 per cent of Canada's population, easing a key source of uncertainty about future population trends and housing demand.

Growing senior population underpins long-term senior housing demand. Over the long term, Canada's aging population is expected to remain a key driver of demand for the senior housing sector. The leading edge of the baby boomer generation is approaching the age range associated with greater use of senior housing. At the same time, longer life expectancy and a growing share of seniors within the overall population continue to expand the potential resident base. However, supply growth remains constrained, as the construction pipeline has shrunk in recent years amid elevated development and financing costs. As a result, occupancy has remained near full capacity for the past five years, supporting strong operating fundamentals and positioning the sector for sustained growth as demographic tailwinds intensify.

MULTIFAMILY VACANCY RATE CONTINUES TO RISE



SENIOR HOUSING CONSTRUCTION DIMINISHING



^ Forecast

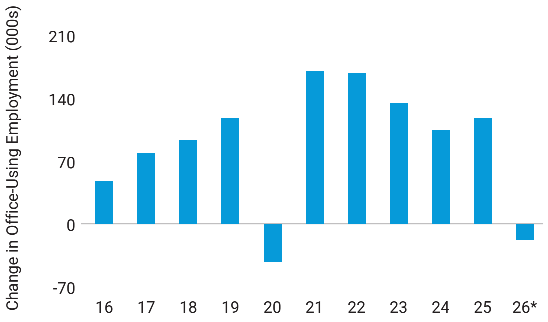
Sources: CMHC, Capital Economics; CoStar Group, Inc.; Oxford Economics

Office recovery advances, but growth drivers are evolving. The return-to-office push has supported a gradual recovery in office demand, contributing to a decline in the national vacancy rate since its 2024 peak. In 2026, ongoing return-to-office initiatives are expected to drive another year of vacancy reduction, particularly in downtown markets across Canada. Over the longer term, however, as office utilization approaches pre-pandemic levels, further gains in office demand will increasingly depend on growth in office-using employment. Such expansion will require both an increase in the office workforce and continued growth in office-intensive industries such as finance, insurance, real estate, technology, and public administration. As tighter immigration policies weigh on labour force growth, the office sector may face slower demand growth, with future expansion increasingly tied to productivity gains and employment growth in office-intensive industries until immigration-driven population growth normalizes.

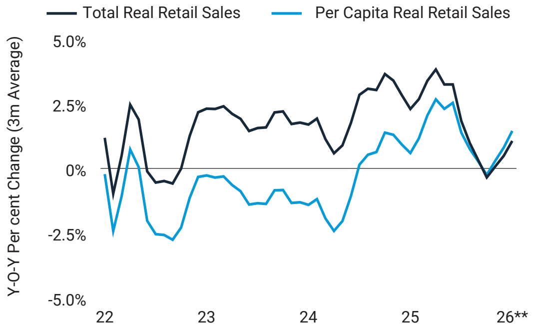
Shifting demographics reshaping the retail sector. The sharp slowdown in population growth is expected to encourage a more cautious approach among retailers in 2026, with many operators prioritizing same-store sales growth, operational efficiency, and margin preservation. As the size of the consumer base stabilizes amid near-term headwinds, leasing activity is expected to remain selective, particularly among discretionary retailers. Over the longer term, however, the retail sector's performance should continue to benefit from structurally low vacancy rates after years of subdued construction activity. If population growth normalizes and household formation strengthens beyond 2027, retailers will likely resume expansion efforts, supporting renewed leasing demand. At the same time, Canada's aging population will continue to reshape the retail landscape, increasing demand for healthcare-oriented retail, pharmacies, personal care providers, and other goods and services tailored to older consumers.

Industrial long-term growth drivers remain intact. Compared to the post-pandemic surge in space demand, the industrial sector is likely to face more moderate demand growth through 2027 amid stagnant population growth and trade headwinds. However, structural drivers such as e-commerce and supply chain diversification should continue to support space absorption. At the same time, a slowdown in construction is helping to rebalance market conditions, reducing the risk of a prolonged period of oversupply. Assuming growth begins to recover after 2027, renewed business expansion amid a growing consumer base should support another phase of industrial demand growth. Over the longer term, the sector should remain well positioned to benefit from Canada's new economic and political strategy, with future demand growth closely tied to productivity gains and domestic and international trade activity.

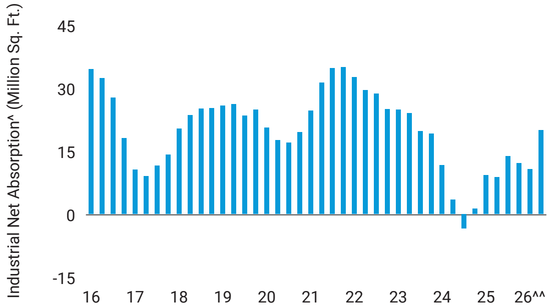
PACE OF OFFICE JOB CREATION AT MULTIYEAR LOW



PER CAPITA STRENGTH DRIVING RETAIL SALES GROWTH



INDUSTRIAL SPACE DEMAND RECOVERING AT MILD PACE



* Forecast; ** Through March; ^ Trailing 12-month sum; ^^ Through 2Q

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