Research Brief

IPA INSTITUTIONAL PROPERTY ADVISORS
A DIVISION OF MARCUS & MILLICHAP, BROKERAGE

CANADA SECTION 338 TARIFFS

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Renewed Trade War Has Implications Across Canada's Economy and CRE Sector

Tensions escalate as trade talks falter. The United States imposed 50 per cent Section 338 tariffs on roughly $20 billion of Canadian goods in August, about 5 per cent of the nation's exports. The measures add to existing sectoral tariffs on autos, metals, and lumber, and the affected products do not qualify for a USMCA-compliant exemption. Ottawa has responded with a similar-sized package of counter-tariffs, risking further escalation. While the directly affected industries are a relatively small part of Canada's economy, weaker exports could materially slow near-term growth. More importantly, renewed uncertainty may further delay USMCA negotiations and business investment, creating additional challenges for an economy still navigating the effects of earlier trade disruptions.

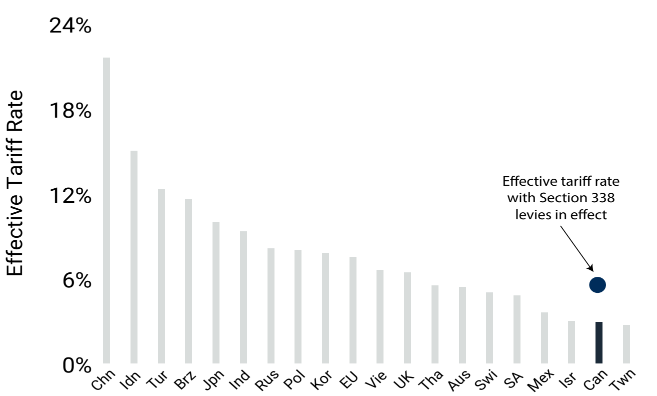
Weaker growth should outweigh tariff-related inflation. Canadian counter-tariffs will put some upward pressure on consumer prices. The overall impact, however, should be modest as businesses absorb costs, adjust supply chains, and substitute toward alternative products. At the same time, weaker exports, softer business confidence, and delayed investment are likely to weigh on economic activity and underlying demand. This presents a challenge for the Bank of Canada, but the growth implications should ultimately outweigh a temporary, tariff-driven increase in inflation. With underlying price pressures remaining relatively contained, the Bank will likely keep its overnight rate at 2.25 per cent through 2026. Renewed trade uncertainty further reduces the likelihood that policymakers will begin raising rates before 2027.

Commercial Real Estate Outlook

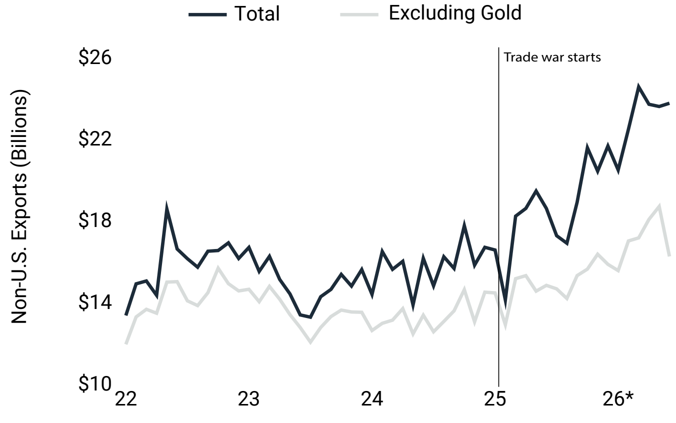
Trade exposure creates uneven outlooks. Ontario and Quebec face the greatest risk, given their large manufacturing bases and U.S. supply chain links. Resource-oriented provinces are likely to remain relatively resilient. For real estate, industrial properties tied to manufacturing and cross-border trade face the clearest near-term exposure, particularly in Southwestern Ontario and Quebec. Softer hiring and investment may reduce demand for office and retail space. However, limited construction, healthy property fundamentals, and stable interest rates might limit broader decline. Logistics facilities supporting domestic distribution and alternative trade corridors, meanwhile, could benefit as supply chains adapt.

Diversification efforts should support longer-term investment. Canada has increased exports outside the U.S., but recent gains have yet to represent a meaningful structural shift away from its largest trading partner. Governments are consequently emphasizing international trade corridors and domestic infrastructure, including ports, railways, highways, and energy networks. These investments will take time to reduce U.S. dependence, but they should strengthen economic resilience and improve access to overseas markets. For commercial real estate, shifting supply chains and infrastructure investment could support industrial and logistics development around major ports, intermodal hubs, and transportation corridors.

NEW TARIFF RATE IS MANAGEABLE FOR NOW



TRADE DIVERSIFICATION IS SLOWLY UNDERWAY



* Through June | Sources: Altus Data Solutions; Capital Economics; CoStar Group, Inc.; Oxford Economics; Statistics Canada

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