National Report

CANADA MULTIFAMILY
3Q/26

IPA | INSTITUTIONAL PROPERTY ADVISORS

Multifamily Moves Further into Balance as Investors Stay Focused on the Long Term

Rental market rebalancing cycle continues. The multifamily sector has entered its third year of adjustment as shifting demographic trends and a surge in deliveries continue to reshape market conditions. Vacancy rates have risen nationwide, easing market tightness that characterized the post-pandemic period. In 2026, stalled population growth and another wave of apartment completions are expected to push market conditions further into balanced territory, leading to a more pronounced slowdown in rental rate growth. As a result, rental affordability should continue to improve, supported by the growing use of move-in incentives and lease renewal concessions aimed at maintaining occupancy. Despite near-term demographic headwinds, investor confidence remains intact. Transaction activity has continued to recover, with deal volumes reaching their highest level since mid-2022, underscoring sustained investor conviction in the sector's long-term growth prospects.

Slack in population growth remains the main challenge. As the federal government tightens immigration policies, slowing population growth remains the primary headwind for Canada's rental market. Major gateway metros such as Toronto, Montreal, and Vancouver are bearing the brunt of this demographic shift, with net outflows of international students and temporary foreign workers weighing on rental demand and easing market tightness. In contrast, markets such as Calgary, Edmonton, and Southwestern Ontario remain comparatively resilient, supported by continued domestic in-migration that is helping sustain housing demand. Despite these demographic headwinds, strengthening labour market conditions are emerging as an important counterbalance to softer population growth. Canada's unemployment rate has declined steadily from a recent high of 7.1 per cent in late summer 2025 to 6.4 per cent in July 2026, reflecting improving labour market fundamentals. Although joblessness remains elevated, particularly among younger adults, a sustained recovery in employment should support household formation and bolster rental demand, helping to mitigate some of the drag associated with weaker population growth
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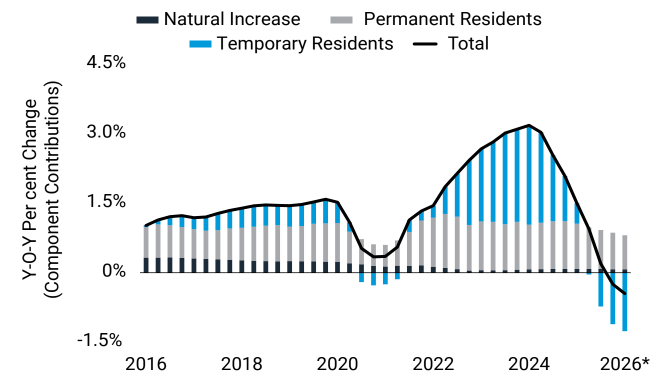
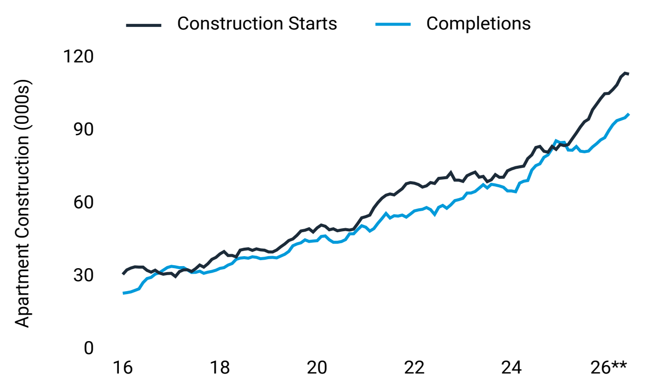
Supply growth shows few signs of slowing. Supported by past government incentives and persistent weakness in the condominium ownership market, developers continue to prioritize purpose-built rental development. Recent construction data indicate that both starts and completions are on pace to reach record highs this year. In June, trailing 12-month rental starts climbed 24 per cent year-over-year to roughly 112,000 units, while completions advanced 19 per cent to exceed 95,000 units. As a result, rental projects accounted for more than 52 per cent of total housing starts as of mid-2026, underscoring the sector's growing dominance in the housing market. Given the large volume of projects underway, apartment deliveries are expected to remain historically high through 2026, supporting further growth in rental inventory over the coming years.

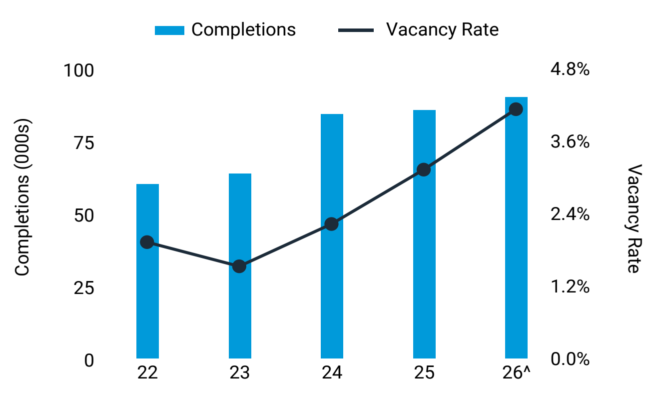
CANADA'S POPULATION IN CONTRACTION



RENTAL DEVELOPMENT CONTINUES TO INCREASE



VACANCY RATE REMAINS ON UPWARD TRAJECTORY



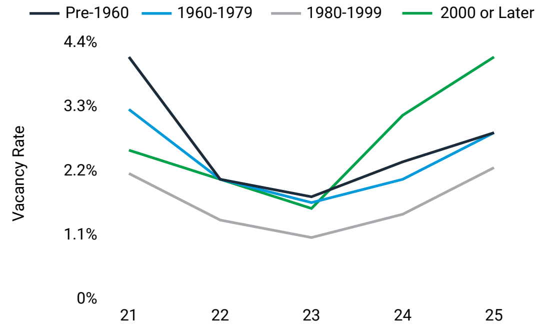
* Through 1Q; ** Trailing 12-month total through June; ^ Forecast

Sources: Capital Economics; CMHC.; Oxford Economics; Statistics Canada

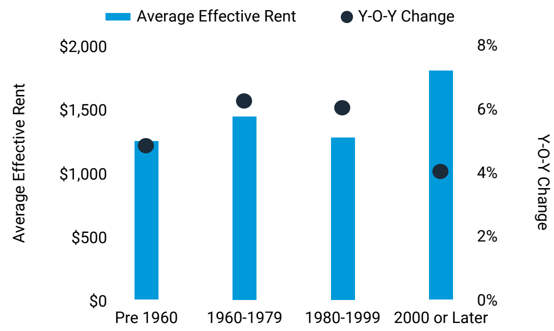
Newer buildings driving vacancy increases. While the vacancy rate has risen since 2023 amid changing demographics and a surge in new supply, the impact has been concentrated in newer assets. Buildings completed after 2000, which generally feature better amenities and command premium rents, have seen vacancy rise more rapidly than in older stock. Vacancy in newer properties climbed by over 260 basis points between 2023 and 2025, more than double the increase among older buildings, to a rate of 4.1 per cent, exceeding the sector-wide metric by 100 basis points. With population growth remaining muted and new supply continuing to intensify competition among the build-type, vacancy in newer, higher-rent assets is expected to continue rising, driving further increases in the vacancy rate through 2026 and into 2027.

Rent dynamics diverging across market segments. In 2025, vacancy rates across major metros rose to levels consistent with historically balanced market conditions, where rent growth tends to align with overall inflation. As vacancy rates continue to rise this year and approach the upper end of the balanced range, rental market conditions are expected to soften further, with rent growth easing to just above 2.0 per cent by year-end. Rising tenant turnover is expected to create divergent rent dynamics across the rental stock. In markets with rent control, older buildings may see stronger rent growth as unit turnover enables investors to mark rents to market and recapture pricing lost under regulated increases. Meanwhile, newer properties, particularly those recently completed, are likely to face greater leasing challenges as elevated supply and softer demand extend lease-up timelines. As a result, property owners will continue to rely on incentives to attract and retain tenants, placing downward pressure on effective rent growth despite relatively resilient face rents.

VACANCY RATE BY YEAR OF CONSTRUCTION



RENT GROWTH BY YEAR OF CONSTRUCTION IN 2025



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

2026 FORECAST

EMPLOYMENT
0.5% increase Y-O-Y

Job growth is expected to moderate as population growth slows, with hiring concentrated in non-trade sectors such as health care and education. Meanwhile, manufacturing and transportation are likely to face ongoing headwinds from trade uncertainty, limiting employment gains in export-oriented industries.

CONSTRUCTION
90,000 units completed

The pace of deliveries accelerated in the first half of 2026, with total new supply increasing 29 per cent year-over-year. This positions annual completions to reach a record high. Meanwhile, rising construction starts continue to expand the pipeline, suggesting that elevated levels of new supply may persist beyond 2026.

VACANCY
100 basis point increase Y-O-Y

With population growth remaining muted, renter demand is expected to grow at a softer pace, pushing vacancy above 4.0 per cent by year-end. Among major markets, Calgary is projected to post the highest vacancy rate at 6.5 per cent, while Edmonton and Vancouver are both expected to finish the year near 5.0 per cent.

EFFECTIVE RENT
1.9% increase Y-O-Y

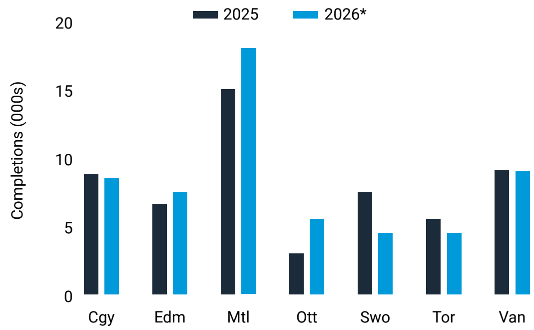
As the vacancy rate continues to rise, rent growth is expected to moderate for another year. Newer properties are expected to continue offering incentives to manage vacancy, while affordability constraints could remain acute in lower-cost units, where demand continues to outpace supply.

Market Rebalancing Accelerates Across Major Canadian Metros

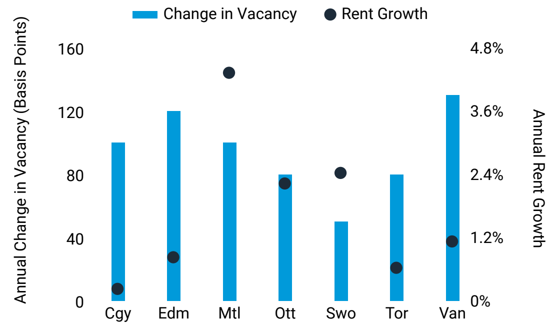
Western Canada remains relatively well positioned, though market conditions are normalizing after several years of exceptionally strong rental demand. Calgary is adjusting to record apartment deliveries, with vacancy rising and rent growth moderating from recent highs. At the same time, greater tenant mobility is creating new challenges for older assets. Edmonton continues to stand out for its affordability, steady population growth, and favourable long-term demand outlook, supported by a diversified economy and ongoing urban intensification. Vancouver is working through a significant supply wave, but its economic diversity, global appeal, and ability to attract talent should continue to support long-term renter demand. As current development pipelines are absorbed, the region is expected to maintain some of the strongest multifamily fundamentals in Canada over the longer term.

Eastern Canada's multifamily market is expected to soften further as slower population growth and moderating labour market conditions reduce rental demand, while a wave of new supply lifts vacancy rates. Toronto faces near-term demographic headwinds, but elevated housing costs and recent policy support should preserve long-term demand. Southwestern Ontario is benefiting from continued migration from the GTA, helping offset softer population growth as rental construction accelerates. Meanwhile, Ottawa and Montreal are contending with weaker demographic and employment trends as record levels of new supply enter the market, contributing to a more balanced environment and slower rent growth.

APARTMENT COMPLETIONS BY METRO

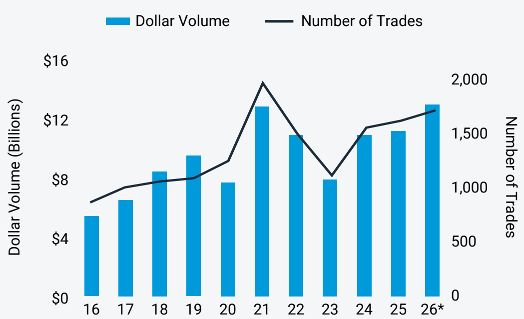


2026 VACANCY AND RENT FORECAST BY METRO

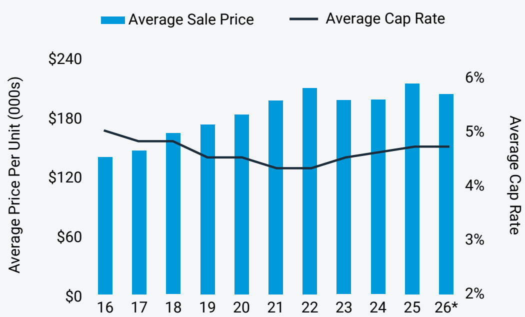


Sources: CMHC; Statistics Canada

APARTMENT SALES TRENDS



APARTMENT SALE PRICE AND CAP RATES BY METRO



INVESTMENT HIGHLIGHTS

Investor sentiment continued to strengthen through the first half of 2026. National trailing 12-month investment volume reached nearly $13 billion by June, up 25 per cent year-over-year, while the number of trades increased 21 per cent. Gains were recorded across all deal-size segments, indicating a broad-based recovery in investment activity and improving confidence in the multifamily sector. Eastern Canadian markets drove this strength, with trailing 12-month dollar volume rising 57 per cent in Toronto, 49 per cent in Southwestern Ontario, and 46 per cent in Montreal year-over-year. Highlighting renewed investor confidence, Woodbourne Capital Management acquired RioCan's FourFifty The Well in June for $188 million. The 592-suite Downtown Toronto property traded at roughly $635,000 per suite, making it one of the year's highest-profile multifamily transactions to date.

Despite the rebound in investment activity, the trailing 12-month average sale price softened, declining about 5 per cent from the 2025 average. The softness was concentrated in Vancouver, Calgary, and Ottawa, where pricing discovery — a factor fueling an uptick in investment activity — outweighed gains in other markets. While cap rates were largely stable nationally, modest increases in Vancouver and Calgary suggest investors there began pricing in a more cautious outlook for leasing and income growth.

* Trailing 12-month total through 2Q

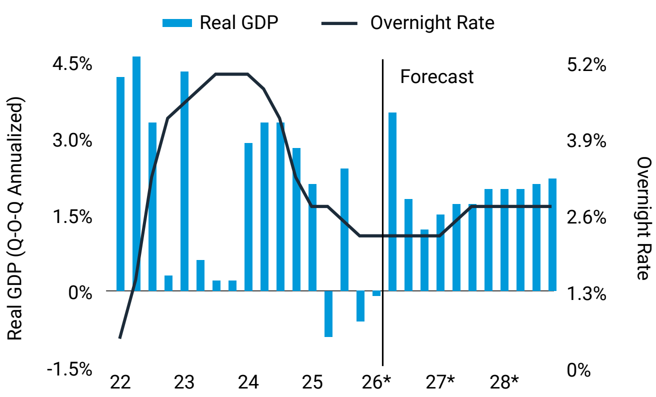
Sources: Altus Data Solutions; CMHC

Investment Market Navigates Transition as Central Bank Remains Patient

Monetary policy achieving its goals. Economic data released through the early summer months indicate that Canada's economic recovery is broadening. Following job losses earlier in the year, the labour market has regained some momentum, with the unemployment rate edging down to 6.4 per cent in July. This resilience has supported consumer spending and improved conditions in the homeownership market. Despite ongoing global trade and geopolitical uncertainty, manufacturing activity continued to recover, recording four consecutive monthly gains since February. Business sentiment has also remained constructive. A growing share of firms reported in the second quarter that they plan to invest in productivity-enhancing initiatives, including equipment upgrades and AI adoption, reflecting confidence in future demand and a focus on addressing long-term competitiveness challenges. On the inflation front, headline price growth accelerated over the summer, primarily due to higher gasoline prices and increased travel-related costs during the FIFA World Cup. However, underlying price pressures remain contained, with core inflation measures continuing to track within the Bank of Canada's target range. Taken together, these trends suggest that monetary policy is achieving its intended balance of supporting economic activity while maintaining progress toward price stability. As a result, the Bank of Canada is likely to remain patient as it assesses incoming data, reducing the immediate need for major policy adjustments.

Investors balance short-term headwinds with long-term resilience. Canada's multifamily investment sector is navigating a transitional period shaped by capital constraints, cyclical headwinds, and enduring structural fundamentals. Financing remains available but cautious as debt markets prioritize conservative leverage and strong sponsorship. Institutional and private investors, however, continue to use strategic debt vehicles and government-backed initiatives, such as the Apartment Construction Loan Program and other CMHC options, to manage stabilized borrowing costs. In the short term, the market faces a temporary supply overhang and moderating rental demand driven by muted population growth and elevated unemployment, especially among young adults. These demographic and economic headwinds have pushed national vacancy rates higher, increased the prevalence of leasing incentives, and significantly slowed rent growth compared to previous peaks. However, the long-term outlook remains highly resilient. Persistent structural housing shortages, the affordability gap between renting and homeownership, population growth expected to return to long-term averages over the coming years, and the essential nature of rental housing ensure that multifamily assets continue to attract strong investor confidence and long-term capital commitment across major markets.

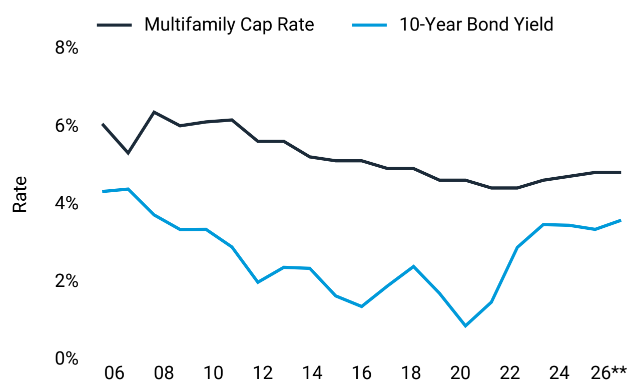
GROWTH OUTLOOK IMPROVING AMID RATE STABILITY



* Forecast

Source: Bank of Canada; Capital Economics; Oxford Economics

MULTIFAMILY CAP RATE VS. 10-YEAR BOND YIELD



** Cap rate through 2Q, 10-year bond yield through Aug. 19

Sources: Altus Data Solutions; Bank of Canada

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