

National Report

CANADA RETAIL 3Q/26

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Select Retailers Continue to Pursue Growth as Near-Term Challenges Temper Sentiment

Headwinds persist while select segments stay resilient. The closure of Hudson's Bay caused net absorption to plunge to negative 5.5 million square feet during the first half of 2025. Since then, space demand has remained soft and lagged completions, reflecting retailer caution amid evolving demographic trends and a prolonged Canada-U.S. trade war. Despite these headwinds, retail fundamentals remain resilient. Vacancy has stayed low and stable, supported by muted construction activity as elevated development costs and ongoing uncertainty weigh on project feasibility. While retail expansion has been limited, select retailers continue to pursue growth opportunities, particularly in essential spending categories, as consumers remain focused on value-driven, cost-conscious purchasing amid lingering inflation concerns.

Short-term demand remains muted but stable. In the first half of 2026, net absorption largely kept pace with new supply, keeping the vacancy rate stable at 2.5 per cent. At the same time, retailers continued to contend with elevated uncertainty stemming from persistent Canada-U.S. trade tensions and higher energy prices resulting from the ongoing conflict in the Middle East. Combined with slower population growth, these headwinds weighed on consumer spending, with trailing 12-month real retail sales growth slowing to just 1.0 per cent in June. The further escalation of Canada-U.S. trade tensions in late August suggests that these challenges are more persistent than initially anticipated and will likely continue to weigh on retailer sentiment in the months ahead. As a result, leasing activity is expected to remain relatively subdued through year-end.

Limited construction continues to maintain tight vacancy.

Retail construction has remained structurally subdued in the post-pandemic period, averaging roughly 4 million square feet annually between 2021 and 2025, well below the approximately 7 million square feet delivered in 2019. Completions are projected to reach a record low this year as elevated construction costs and the departure of major retailers, including Hudson's Bay and Nordstrom, bring large-block space back to market that must be absorbed. In Toronto, for example, only 900,000 square feet was completed between July 2025 and June 2026, and deliveries have slowed considerably in early 2026, with most new supply consisting of small-format, freestanding suburban properties. Nationally, the under-construction pipeline fell below 5 million square feet in the second quarter, equivalent to just 0.6 per cent of inventory. This limited supply backdrop has helped keep the vacancy rate historically low following the wave of space returned by Hudson's Bay closures. By year-end, the national vacancy rate is expected to remain below 3.0 per cent, continuing to support rent growth.

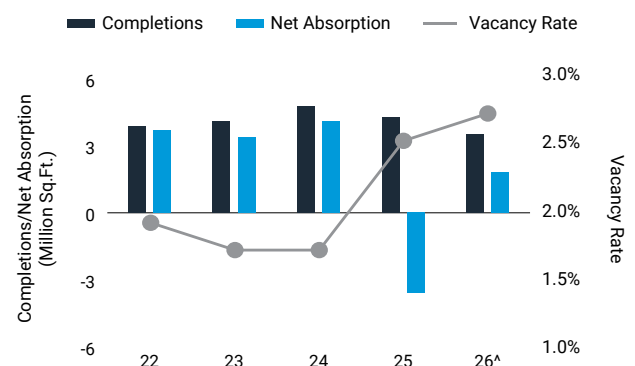
CONSUMER SPENDING GROWTH DECELERATING



DEVELOPMENT HAS REMAINED LOW SINCE 2020



SPACE DEMAND AND SUPPLY TRENDS



* Through June; ** Through 2Q; ^ Forecast

Sources: Capital Economics; CoStar Group Inc.; Oxford Economics; Statistics Canada



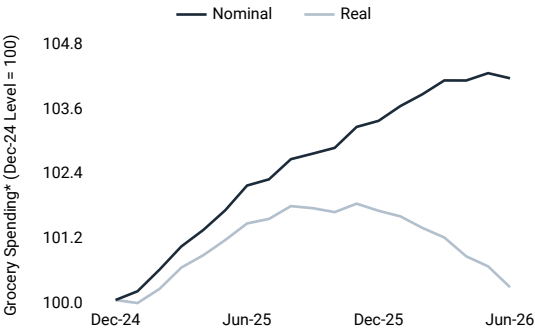
Deliveries begin to ease from historical high point with pullback on the horizon

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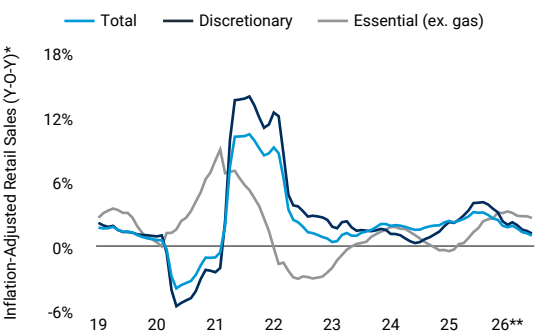
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REAL AND NOMINAL GROCERY SALES DIVERGING



ESSENTIAL RETAIL HOLDING FIRM



* Trailing 12-month total; ** Through June.
Sources: Capital Economics; CoStar Group, Inc.; Oxford Economics

2026 FORECAST



EMPLOYMENT

0.5% increase Y-O-Y

Slower population growth is expected to temper employment gains, with most new jobs concentrated in health care, education, and other domestically oriented sectors. Meanwhile, ongoing trade uncertainty is likely to hinder hiring in manufacturing and transportation, particularly among export-focused businesses.



VACANCY

20 basis point increase Y-O-Y

Following Hudson's Bay's departure, the vacancy rate rose notably in mid-2025. Since then, modest but steady absorption has helped keep vacancy at roughly 2.5 per cent. Through the remainder of 2026, the rate is expected to edge higher as space demand is projected to fall slightly short of new supply.



CONSTRUCTION

3.5 Million sq ft to be completed

The delivery pace is expected to fall to a record low, driven mainly by a slowdown in development activity across eastern metros that more than offsets modest gains in western markets. As the construction pipeline shrinks, completion volumes are expected to remain subdued in the years ahead.



ASKING RENT

1.7% increase Y-O-Y

With vacancy remaining low, retail rents are expected to continue trending upward, with smaller markets such as Edmonton, Ottawa, and Southwestern Ontario projected to outperform the national average. However, rent growth is forecast to moderate as the vacancy rate gradually edges higher.

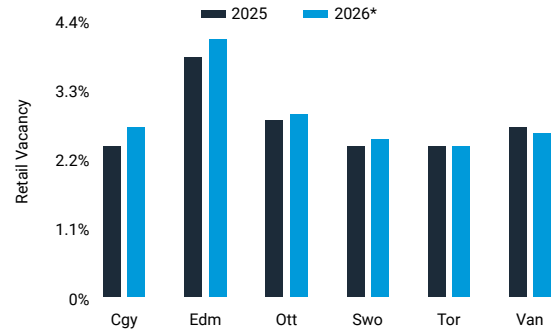


Major Market Overviews

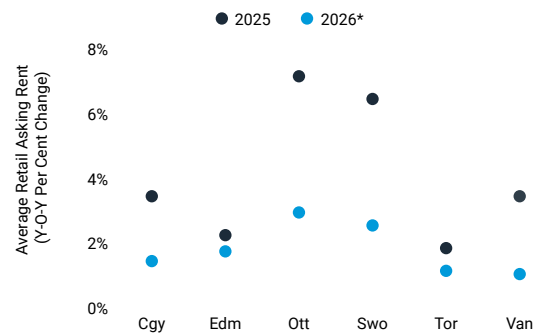
Western Canada's retail sector will benefit from stronger economic growth prospects and resilient consumer fundamentals this year. While Vancouver is normalizing, retail fundamentals remain healthy, with low vacancy and limited new supply helping to stabilize the market. Calgary and Edmonton are positioned to outperform the national economy, supported by continued in-migration, robust income growth, and investment tied to the energy sector and emerging digital infrastructure. These trends are expected to support above-average retail sales growth and retailer expansion across Alberta. Over the longer term, improving household spending, population growth, and sustained energy-related investment should reinforce space demand and support some of the strongest operating fundamentals in the country.

Eastern Canada's retail outlook remains constructive despite a softer near-term economic backdrop. In Toronto, slower population growth, modest employment gains, and affordability pressures are driving a market rebalancing, while Ottawa faces headwinds from federal government restraint and workforce reductions. Southwestern Ontario is also grappling with sluggish economic growth and trade-related uncertainty tied to its large manufacturing sector. Nevertheless, retail fundamentals across the region remain relatively resilient, supported by limited development activity, low vacancy rates, and constrained new supply. Looking ahead, the region's economic strength and the repositioning of former Hudson's Bay locations are expected to create new leasing opportunities and support retail demand as market conditions improve.

VACANCY RATES BY METRO



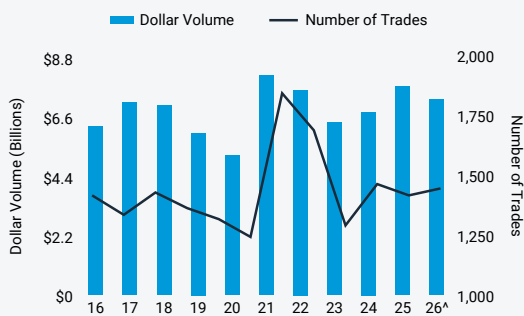
RENT GROWTH BY METRO



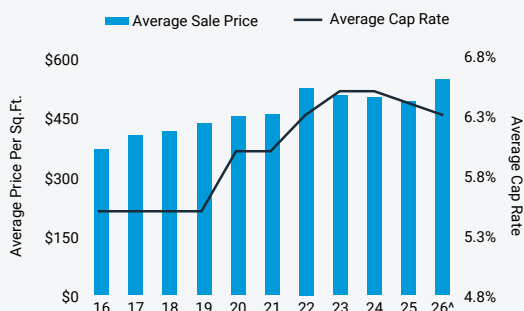
* Forecast

Sources: Capital Economics; Oxford Economics; Costar Group Inc.

PROPERTY SALES TRENDS



SALE PRICE AND CAP RATES



^ Trailing 12-month total through 2Q

Sources: Altus Data Solutions

INVESTMENT HIGHLIGHTS

Following a rebound in investment activity in the second half of 2025, buyer sentiment remained strong through June this year. Total trailing 12-month dollar volume reached \$7.3 billion by the second quarter, up 12 per cent year-over-year, while the number of transactions increased 14 per cent. Activity was particularly robust for mid-sized deals between \$10 million and \$20 million, with trailing 12-month dollar volume rising 59 per cent and the number of trades jumping 55 per cent. One notable transaction was RYCO Properties' acquisition of Marlborough Mall in Calgary for \$67.5 million. The purchaser has announced plans for a comprehensive redevelopment and modernization of the shopping centre, which originally opened in 1971.

Investment activity was strong nationwide, with Western Canadian markets leading the recovery. Vancouver recorded nearly 50 per cent year-over-year growth in both dollar volume and transaction count, while Calgary saw dollar volume increase by 37 per cent. In Eastern Canada, Ottawa emerged as the strongest-performing market, with deal count rising 46 per cent and dollar volume climbing 40 per cent. The broad-based improvement across major markets reflects growing investor confidence in the retail sector, supported by still low vacancy levels, resilient consumer spending, and limited new supply.

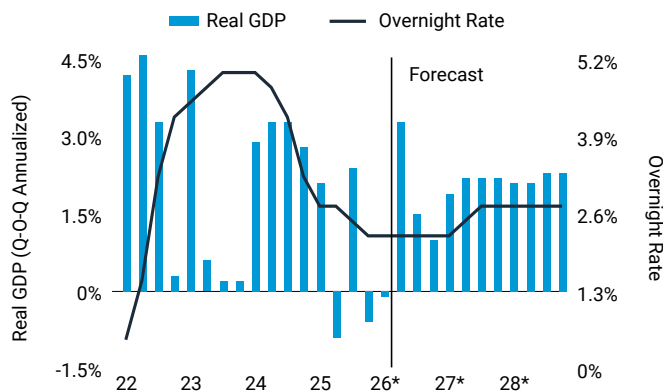


Retail Investment Shows Resilience Amid More Hawkish Interest Rate Outlook

Monetary policy turning more hawkish. The Bank of Canada held its overnight rate at 2.25 per cent for the seventh consecutive meeting in September, reflecting a cautious approach despite improving domestic economic conditions. Second-quarter GDP growth exceeded expectations, rising at an annualized rate of 3.3 per cent, while labour market conditions strengthened, with the unemployment rate at a two-year low of 6.4 per cent. Even so, excess capacity remains in the economy and trade uncertainty continues to cloud the outlook, reducing the need for immediate policy tightening. Looking ahead, policymakers will need to balance a strengthening domestic economy against competing inflationary and trade-related risks. Stronger growth and improving employment have reduced the need for further monetary support, while elevated oil prices increase the risk that inflation remains above target or becomes more broadly embedded. At the same time, ongoing trade uncertainty could weigh on exports, business investment, and hiring, particularly in trade-sensitive industries. As a result, rates will likely remain unchanged in the near term. However, the Bank struck a more hawkish tone in its latest communication, noting that upside risks to inflation have increased and signalling a greater willingness to respond. This suggests the balance of risks has shifted toward an earlier rate increase if price pressures prove more persistent. **Retail assets remain in demand despite**

higher rates. Over the summer, long-term bond yields climbed, with the 10-year yield reaching its highest level since October 2023. The move reflects a macroeconomic environment in which investors are demanding a higher risk premium amid persistent uncertainty surrounding geopolitical conflicts and trade tensions, both of which have complicated the fiscal and monetary policy outlook. Higher bond yields have increased financing costs and raised return requirements across commercial real estate, creating a more selective investment environment. Even so, retail properties remain well positioned to attract capital. Strong leasing fundamentals, low vacancy rates, and limited new construction continue to support rent growth and provide investors with stable income streams. In addition, the sector's tenant mix has become increasingly anchored by grocery stores, discount retailers, service-oriented businesses, and other necessity-based uses that tend to be more resilient during periods of economic uncertainty. As a result, retail assets continue to offer an attractive combination of income stability, defensive characteristics, and risk-adjusted returns despite a higher-cost financing environment.

RATE HIKES EXPECTED BEYOND 2026



* Forecast from Capital Economics

Source: Bank of Canada; Capital Economics; Oxford Economics

TREASURY YIELDS TRENDS



Sources: Bank of Canada

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

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Price: \$250