

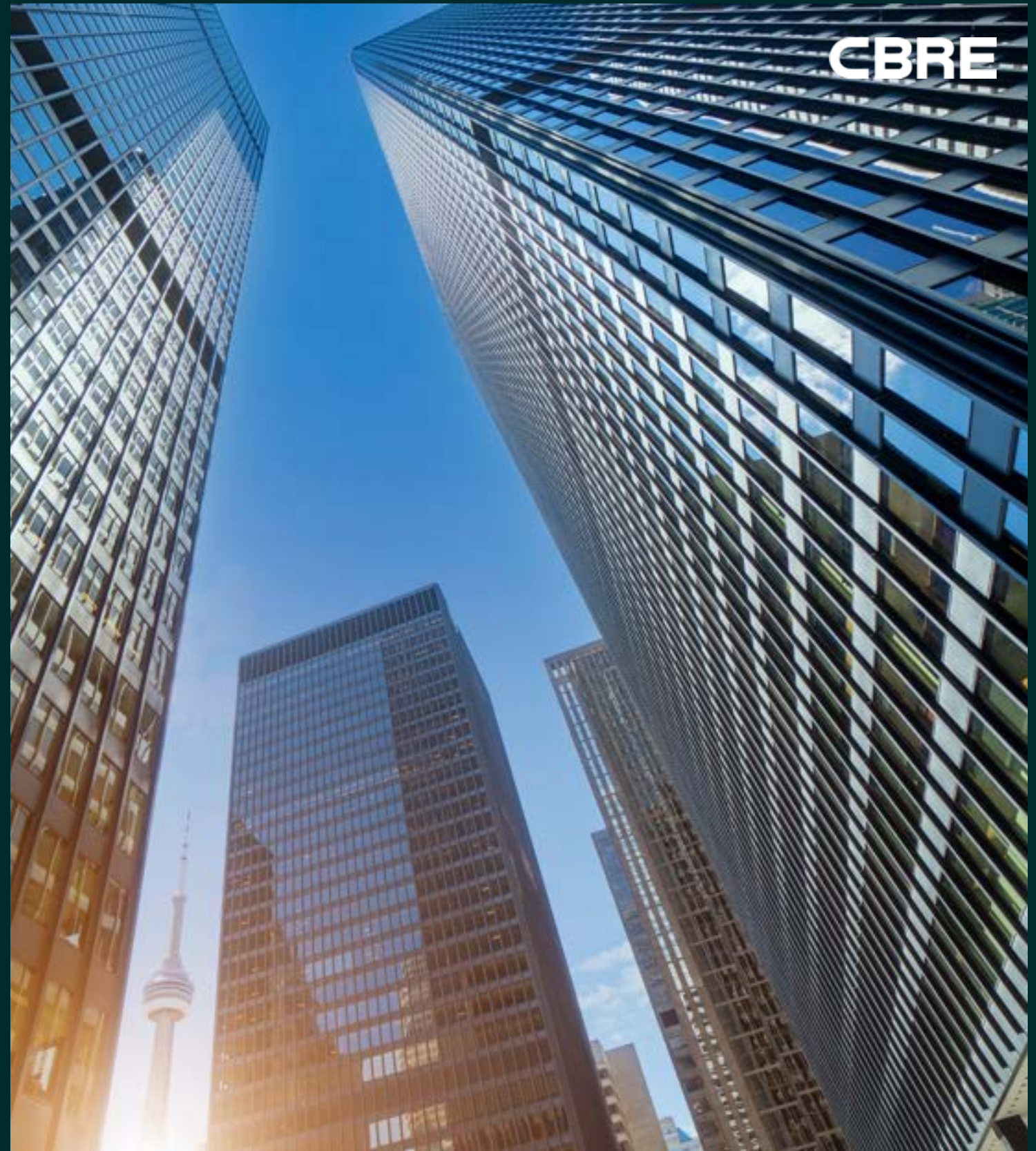
Intelligent Investment

# 2024 Canada Real Estate Market Outlook

REPORT

CBRE RESEARCH  
FEBRUARY 2024

CBRE





## A Year of Opportunity

While 2023 was a challenging year for commercial real estate, Canada fared relatively well in context. Case in point: Canada's \$49.5 billion year for investment represented a 15% year-over-year decrease, however this paled in comparison to global investment activity levels which plummeted by 47% during the same period. Indeed it was global investors who recognized Canada's appeal – safety and security, coupled with G7-leading long-term growth prospects – and whose investments saw 2023 reach the highest level of foreign investment on record.

2024 will also offer a mix of challenges and opportunities. Liquidity and the cost of capital should improve, but mortgage renewals will still result in increased borrowing costs. Outside of commodity office, leasing fundamentals are strong. Population growth has a direct correlation with demand for all types of real estate and Canada will grow faster than any G7 country.

CBRE Research stands ready to help clients succeed in 2024. Please contact us at any time.

Marc Meehan, Managing Director, Research

# Executive Summary

- Assuming inflation continues to follow the Bank of Canada's trajectory, economists project interest rates could begin decreasing in late Q2 2024 and fall 100 bps to 4.00% by the end of the year.
- Canada is forecast to lead the G7 countries over the next five years across the major economic indicators of GDP, employment and population growth.
- Mid-sized investment deals, which had been more muted in 2023, should rebound and drive transaction activity in 2024, with any M&A activity presenting additional upside potential.
- High levels of dry powder for lending will see tight lending spreads for industrial, grocery-anchored retail and multifamily. Funding gap challenges will persist in office, land and residential condo loans.
- Office markets will continue to experience bifurcation between quality and commodity space. Flight-to-quality will sustain demand for trophy assets and landlords will need to increase their amenity offerings in order to remain competitive.
- Consumer behaviour and spending patterns will test retailers and push for innovation, however churn will be a boon for the sector which has seen limited vacancy amongst the most in-demand formats.
- The industrial sector is returning to balance as rental growth normalizes and a wave of new supply lifts availability rates. Market conditions will remain healthy relative to historical norms.
- The Canadian multifamily sector will continue to grapple with significant undersupply as unprecedented population growth drives record demand.

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01

# Economy

Economic growth is expected to slow in early 2024 but rebound later in the year alongside highly anticipated interest rate cuts. Inflation remains the critical prerequisite over the near term but long-term prospects for Canada are bright.

# Trends to Watch

## 01

Interest rate cuts are expected in 2024, however, the timing will be highly dependent on sustained progress in cooling inflation.

## 02

Canada's economy is on track for a 'soft landing' with economic growth to rebound in the second half of 2024 and continuing into 2025.

## 03

A strong outlook and unique factors contributing to Canada's competitive advantage support the long term prospects for the Canadian economy.

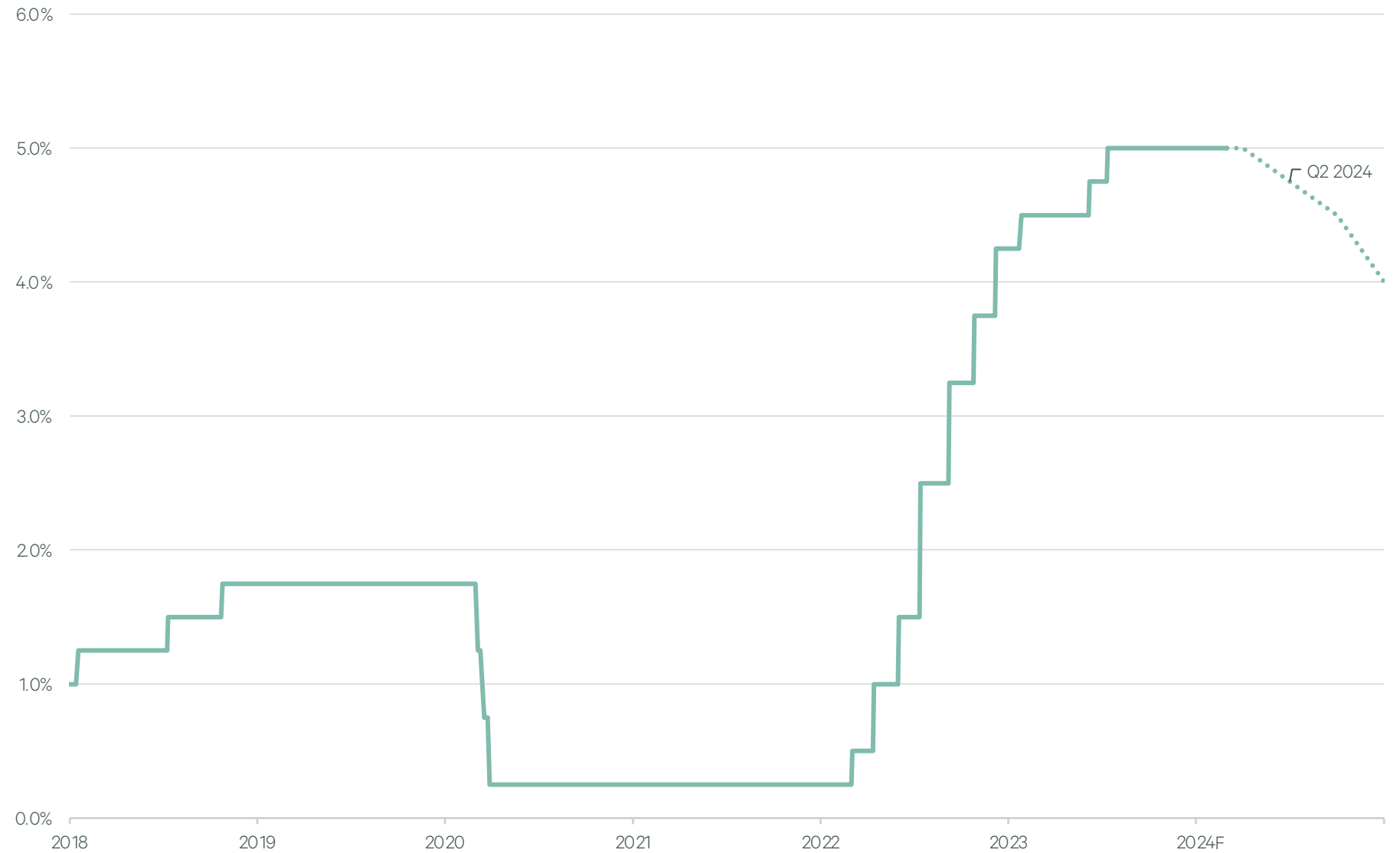


## Interest Rate Cuts on the Horizon But Timing Depends on Inflation Progress

The rapid rise in interest rates over the last two years finally came to an end with the Bank of Canada officially pivoting away from more interest rate hikes. The central bank's focus is now on determining how long interest rates need to remain elevated in order to completely quell inflation. With the policy interest rate having peaked at 5.00% and growing signs of strain in the Canadian economy, a lot of attention is now focused on when interest rates may come down.

Inflation continues to be the main point of concern for the Bank of Canada as it remains stubbornly above target. In particular, the core inflation measures that the central bank emphasizes are not showing the sustained downward momentum that would warrant interest rates to decline. In fact, recent datapoints have been volatile and slightly pushed back the expected timeline for interest rate cuts in 2024. The Bank of Canada currently forecasts inflation to hold near 3% during the first half of 2024 before gradually easing and returning to its 2% target in 2025. Assuming inflation follows this trajectory, economists project interest rates to begin decreasing in late Q2 2024 and fall 100 basis points (bps) to 4.00% by the end of the year.

**FIGURE 1: Bank of Canada Policy Interest Rate Forecast**



Source: CBRE Research, major Canadian bank economist groups, 2024.

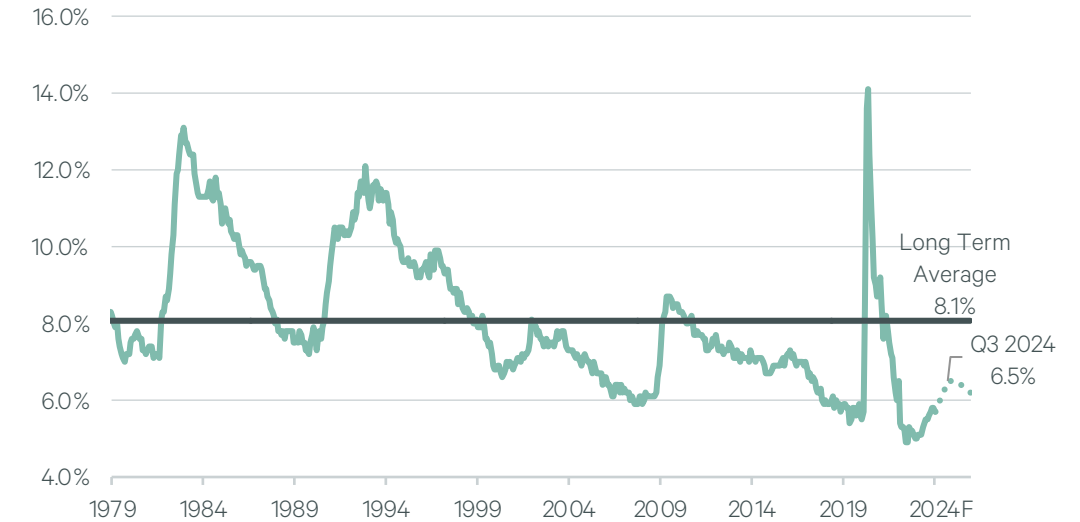
## Stronger Economic Activity Later in the Year to Carry Forward Into 2025

Economic growth in Canada is forecast to slow to near-zero levels in the first quarter of 2024 as the pressure of elevated interest rates continues to work through the economy. Consumers are expected to tighten spending and business investment is likely to remain muted. The unemployment rate is also forecast to rise amid the weaker short term economic outlook, however, current economist projections for a peak rate of 6.5% will still remain relatively healthy compared to the long-term historical average of 8.1%.

Overall, recession expectations in Canada have nearly completely dissipated with the anticipated interest rate cuts in 2024 forecast to revive economic activity in the latter half of the year. The Bank of Canada currently forecasts GDP growth to rebound in late-2024 and carry over into 2025. On an annual basis, the Canadian economy is expected to grow by 0.7% in 2024 and accelerate to 2.0% in 2025. While risks to the outlook include persistently high inflation, geopolitical spillover and global trade disruptions, this baseline scenario expects a successful ‘soft landing’ of the Canadian economy and improving prospects in the near future.

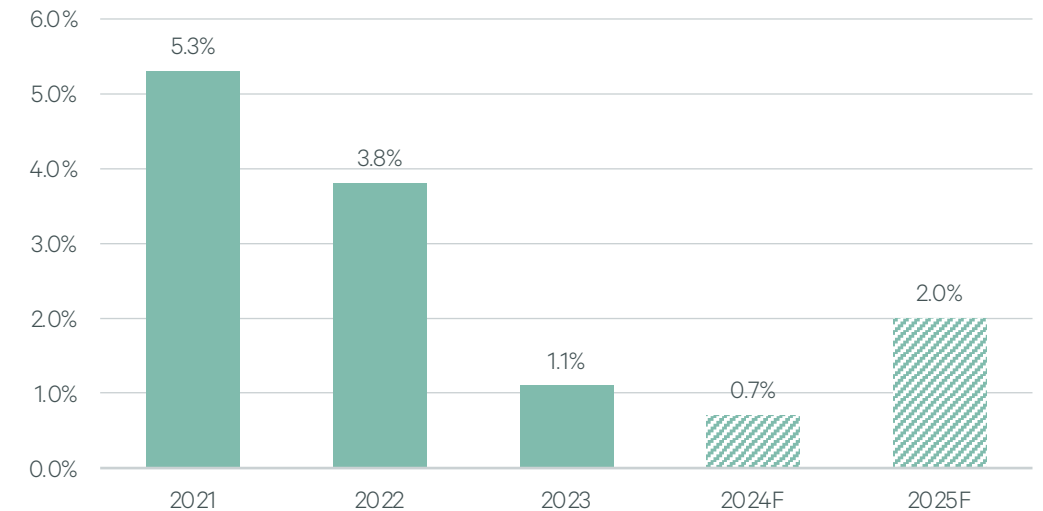


**FIGURE 2: Historical Canada Unemployment Rate**



Source: CBRE Research, Statistics Canada, major Canadian bank economic reports, 2024.

**FIGURE 3: Annualized Real GDP Growth Forecast**



Source: CBRE Research, Statistics Canada, major Canadian bank economic reports, 2024.

## Long Term Prospects for the Canadian Economy Remain Strong

The Canadian economy is poised to outperform its global peers over the long term. Across the major economic indicators of GDP, employment and population growth, Canada is forecast to lead the G7 countries over the next five years. In particular, a couple unique factors will contribute to Canada’s competitive advantage.

In the global shift towards electric vehicles (EV), Canada is uniquely positioned to benefit given an abundance of natural resources related to EV batteries as well as being entrenched within the existing North American auto supply chain. Substantial investments already made to date signal the potential growth for the industry and its related services.

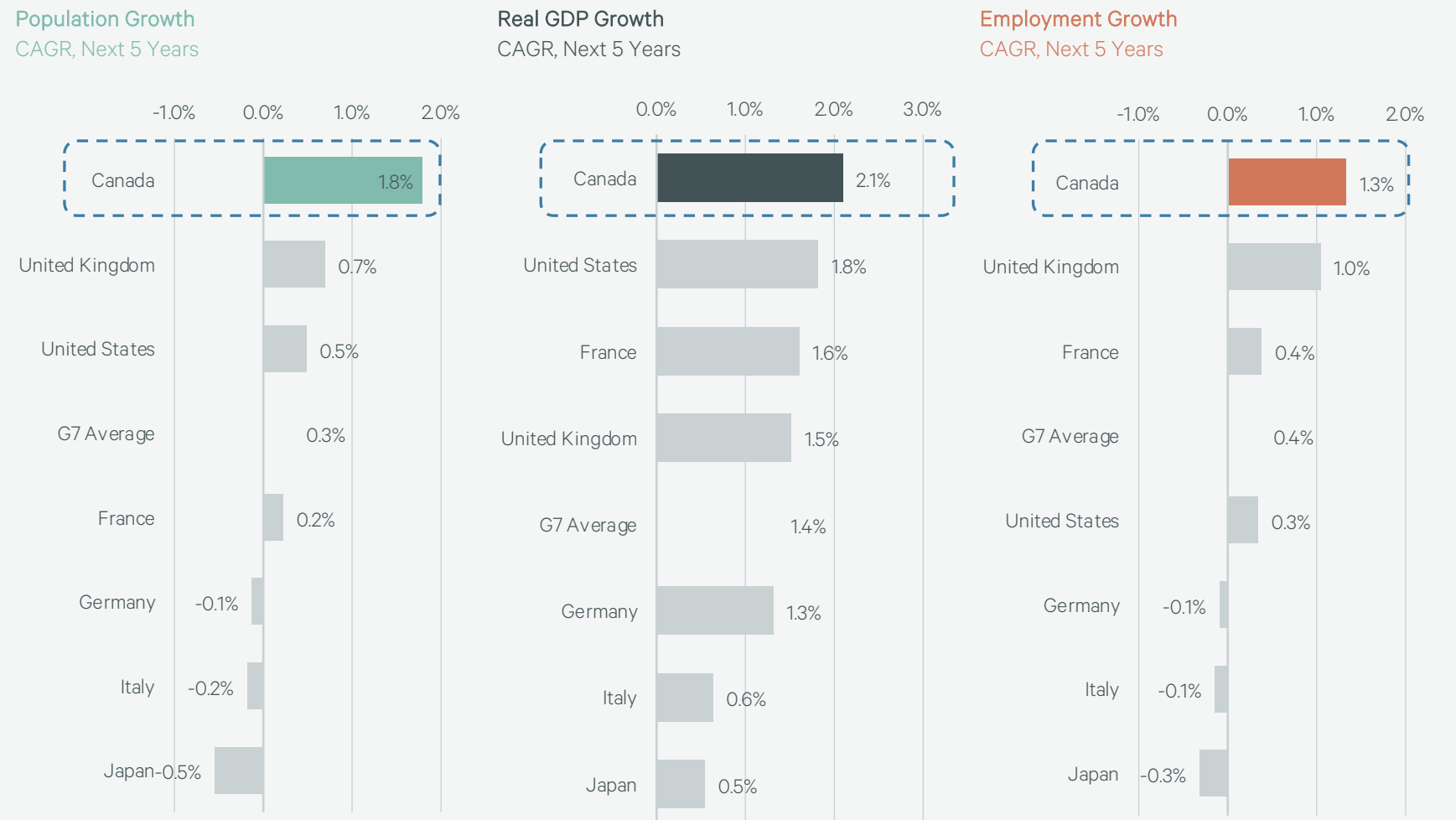
Canada’s economy continues to be a safe haven for capital given its stability compared to the rest of world. Canada is relatively sheltered from global geopolitical risks and rising conflicts, which will continue to attract capital looking to divest away from riskier markets. As well, a prudent Canadian banking system has meant limited lender exposure to commercial real estate loan losses. Compared to some institutions in other countries, real estate loan risk will be manageable for Canada’s largest banks and ensure a stable and healthy market going forward.

Altogether, these economic strengths bode well for long term Canadian commercial real estate fundamentals and support continued returns in the sector.

**“ We’ll come through this commercial real estate, office commercial real estate problem pretty well ”**

- Peter Routledge, Superintendent of Financial Institutions, OSFI

**FIGURE 4: 5 Year Economic Growth Forecast for G7 Countries**



Source: CBRE Research, Oxford Economics, 2024.

02

# Capital Markets

The Canadian commercial real estate investment market is poised to recover in 2024 as highly anticipated interest rate cuts spur transaction activity later in the year. Investment volumes are forecast to improve modestly and cap rates will stabilize in 2024.

# Trends to Watch

## 01

A recovery in the commercial real estate investment market is expected in the latter half of 2024, led by a rebound in mid-sized deals for a modest increase in investment volumes this year.

## 02

Overall, capitalization rates will stabilize in 2024 as real estate spreads have normalized and are more closely in line with the long-term historical average.

## 03

Real estate debt markets will continue to face challenges in 2024, however, liquidity remains abundant albeit highly selective.

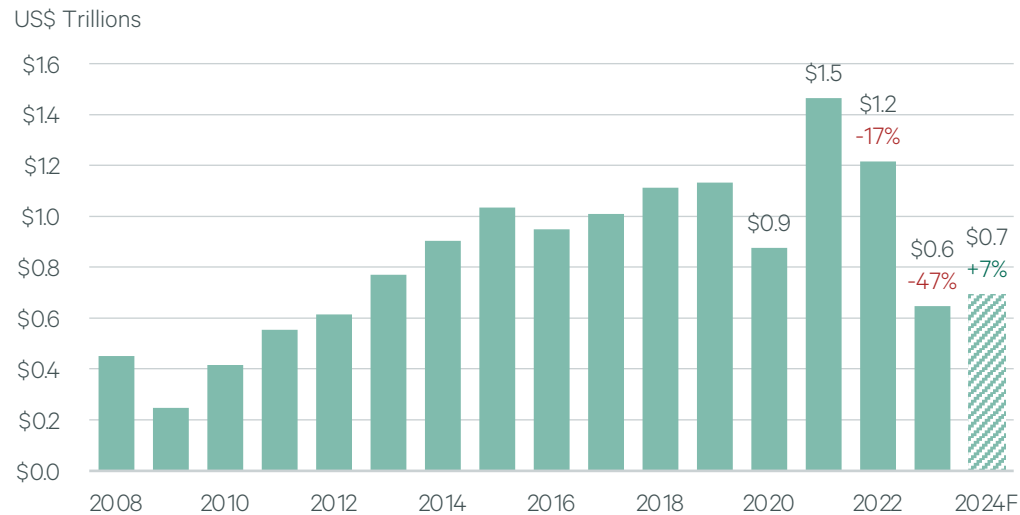


## Wider Array of Investment Activity Expected in 2024 on Improving Credit Conditions

Total Canadian real estate investment activity was surprisingly resilient in 2023, with transaction volumes largely buoyed by a record high amount of global capital inflows. While global capital markets activity slowed significantly last year with annual volumes down 4.7% year-over-year, Canada remained relatively strong with total volumes of near \$50 billion representing approximately one-third the global decline at 15% year-over-year. However, several large foreign portfolio and merger and acquisition transactions accounted for a sizeable portion of the total investment volumes.

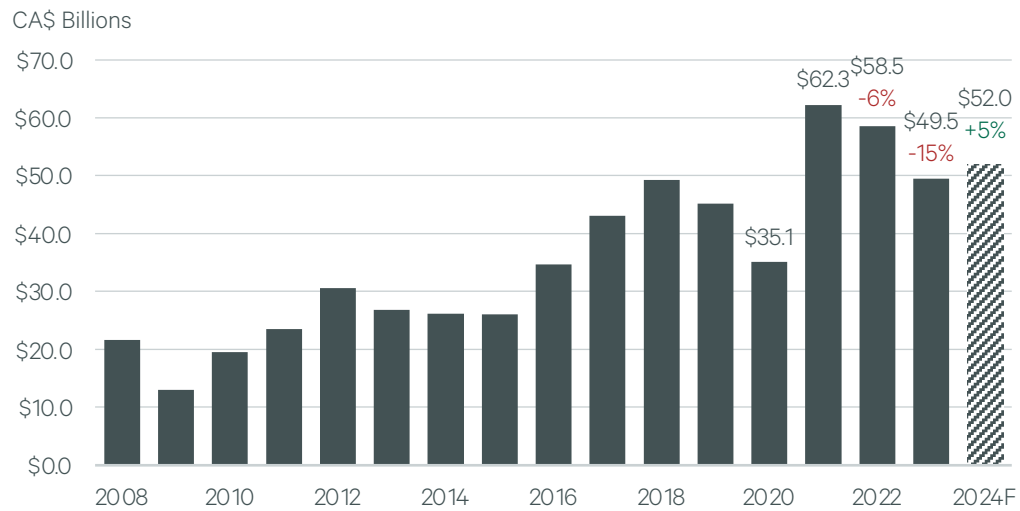
Despite the capital markets slowdown of last year, investor sentiment has turned positive in 2024 on the highly anticipated interest rate cuts expected later in the year. Commercial real estate investment activity will recover as credit conditions return to normal and investors have better access to capital. Mid-sized investment deals, which had been more muted in 2023, will rebound and drive transaction activity in 2024. Overall, Canadian real estate investment volumes are forecast to rise modestly in 2024 with any merger and acquisition activity presenting additional upside potential to the forecast.

**FIGURE 5: Global Commercial Real Estate Investment Volumes**

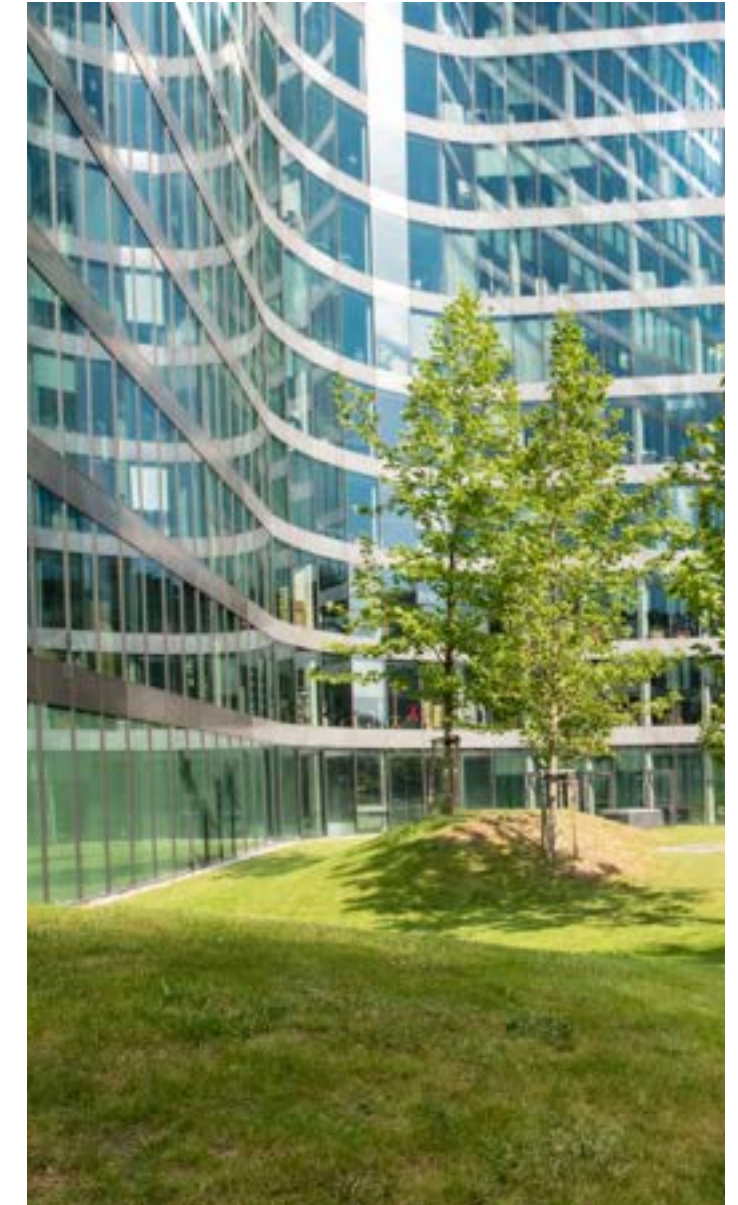


Source: CBRE Research, 2024.

**FIGURE 6: National Commercial Real Estate Investment Volumes**



Source: CBRE Research, 2024.

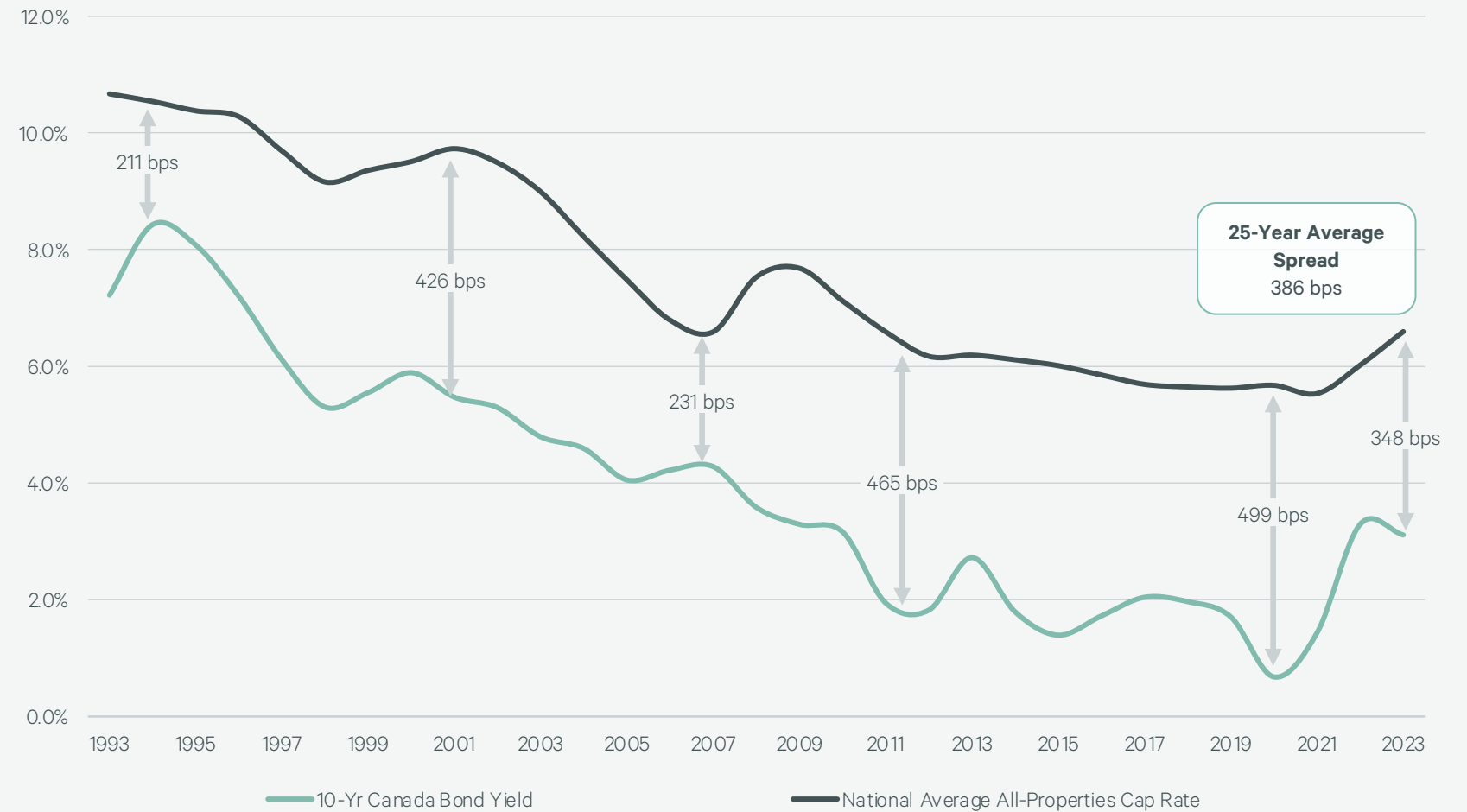


## Cap Rates to Stabilize in 2024 as Real Estate Spreads Normalize

Commercial real estate capitalization rates steadily rose throughout 2023 as the market continued to adjust to the new investment environment of higher costs of debt. After rising 48 bps in 2022, the national average all-properties asset yield increased a further 58 bps to 6.59% in 2023. Over the span of the last two years, this represents the second largest period of cap rate increases in 30 years.

The outlook for 2024 expects real estate yields to stabilize, underpinned by the normalization of cap rate spreads. In the current environment, investors require sufficient yield premiums above their cost of debt in order to close transactions. With cap rates now higher and bond yields expected to settle below their peak from last year, spreads between cap rates and bond yields have moved closer in line with their long-term historical average. As well, yields for some asset classes, such as high-quality office and retail, have risen to a level that is beginning to draw some investor interest. While additional cap rate increases are likely to occur in 2024, as the recovering investment market helps settle lingering price discovery issues, overall increases are expected to be marginal.

**FIGURE 7: National Average All-Properties Cap Rates and Spreads**



Source: CBRE Research, Q4 2023.

## Debt Liquidity Remains Abundant But Highly Selective

Real estate debt markets faced a challenging lending environment in 2023 amid elevated interest rates, economic uncertainty and rising property cap rates. Base rates have also risen with bond yields higher today relative to prior years, resulting in elevated borrowing costs across the board. In 2024, the already selective nature of debt capital will become further entrenched, targeting asset classes with the strongest tailwinds.

For industrial, grocery-anchored retail and multifamily, high levels of dry powder for lending will see aggressive levels of competition and tight lending spreads. On the other end of the spectrum, the material disparity in lending spreads that emerged last year is likely to persist throughout 2024. Spreads will remain diverged even among the best-in-class assets, which traditionally would have been priced aggressively across asset classes. The variance in lending spreads will also provide an opportunity for owners of diverse portfolios to manage their overall leverage levels and debt costs by borrowing at different loan-to-value ratios based on the specific asset class.

In Canada, funding gap challenges will largely be limited to office, land and residential condo loans. Declines in capital values for these assets will likely necessitate equity paydowns, though some will need to find new sources of capital or sell assets if they cannot bridge the gap between existing loans and the debt now offered. Multifamily and industrial will see increases in cap rates largely offset by exceptional rental income growth, and retail will benefit from the increased prevalence of net rent over percentage rent leasing, the latter of which lenders view less favourably.



Debt spreads will remain diverged even among the best-in-class assets, which traditionally would have been priced aggressively across asset classes.

**FIGURE 8: Canada 10 Year Bond Yield Forecast**



Source: CBRE Research, major Canadian bank economist groups, 2024.

03

# Office/Occupier

The office market will continue to grapple with a bifurcated market in the year ahead as occupiers remain focused on getting into the best-quality spaces. Landlords will be faced with the challenge of ensuring their buildings remain attractive in today's high-availability environment.

# Trends to Watch

## 01

The downtown office market will continue to experience bifurcation between quality and commodity space. Flight-to-quality will sustain demand for trophy assets, meanwhile tenants will continue shifting away from dated product leaving those assets with increasingly limited backfill options.

## 02

Conversions will continue to be a topic for discussion amongst the landlord community as they grapple with their most challenged assets. Ultimately this type of activity will play a role in aiding, but not solving the office market recovery in Canada.

## 03

In today's high vacancy environment, landlords will need to increase their amenity offerings in order to remain competitive. While the capital cost to invest in the spaces might be high, providing differentiated product is what will lead to the long-term success of the asset.



## Quality vs Commodity: Market Bifurcation to Persist

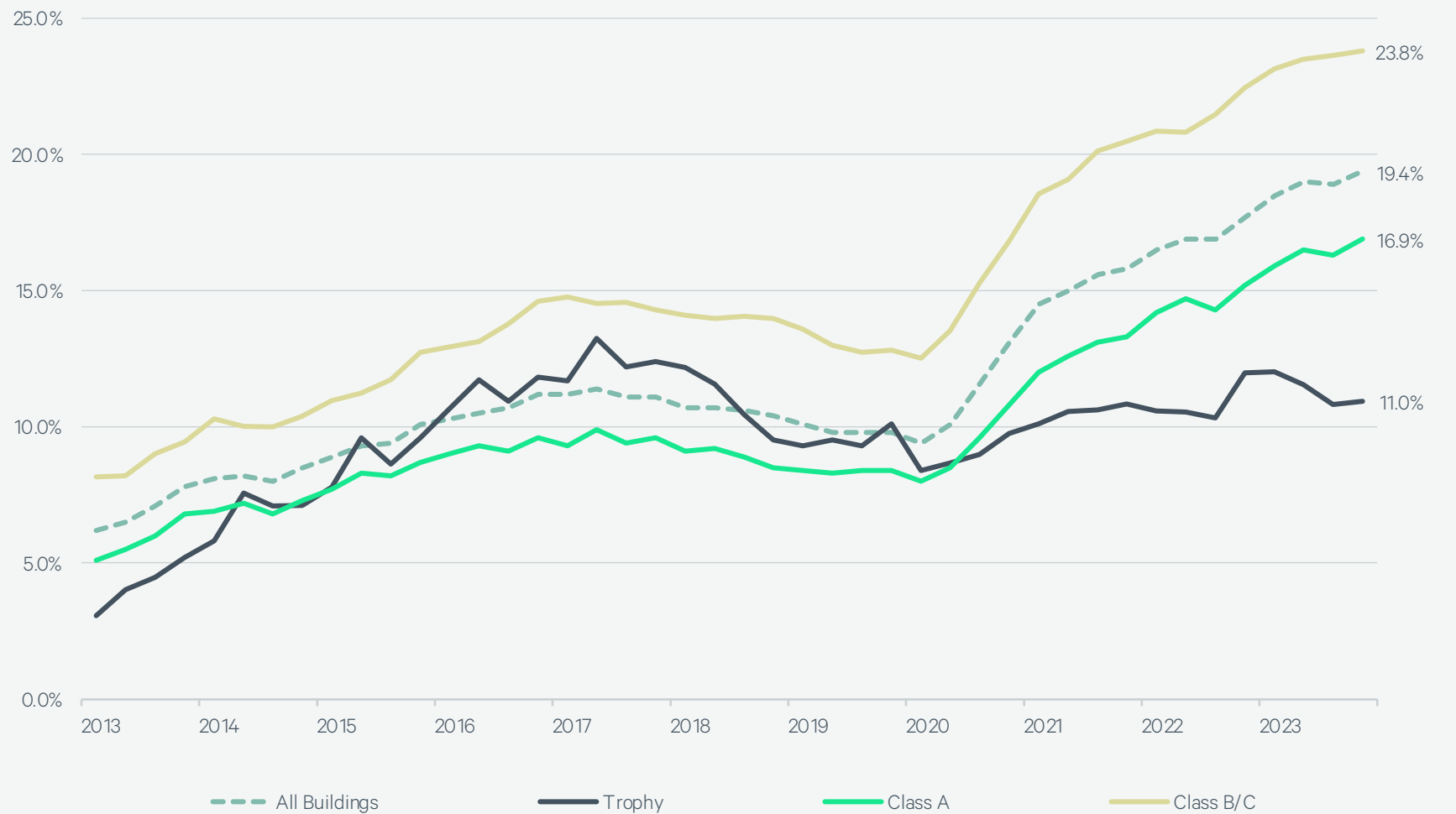
Today's office tenants expect more of their buildings in terms of quality, design, location, and sustainability. This has been the motivating factor behind new office space decisions with tenants making a flight-to-quality. These types of moves are expected during any period of market turbulence; however, this time appears to be different, as tenants are moving out of more outdated product leaving those assets with increasingly limited demand to backfill.

Increasing market bifurcation will continue to play out in Canada as older, unimproved downtown buildings struggle with high vacancy and trophy assets for their part continue to perform well relative to the overall downtown market. The divide between quality and commodity will become further entrenched. The same dynamic has not taken hold in the suburbs to the same extent where shorter drive times play a bigger factor and vacancy levels are more consistent across Class A and B product.

New supply plays an important role as it has been a contributing factor behind the elevated vacancy rates in markets like Toronto and Vancouver which are nearing the end of their current development cycle. It is expected that high interest rates and record-high office vacancy will continue to deter new developments from breaking ground in 2024, concentrating tenant attention on the remaining options in recently delivered product.

It is expected that poorly amenitized and lower quality assets will continue to struggle in the year ahead as demand for premium spaces remains high. Some landlords will look to meet the market and undergo significant capital improvements to support the long-term appeal of their assets.

**FIGURE 9: National Downtown Vacancy by Segment (%)**



Source: CBRE Research, Q4 2023.

## Conversions Will Continue to Aid, But Not Solve Office Recovery

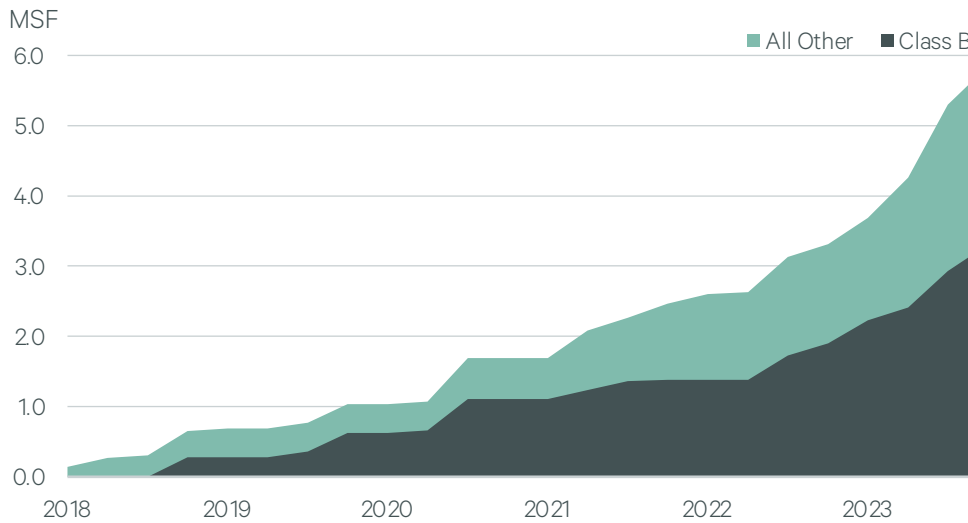
Owners of the most challenged properties are increasingly weighing their options on how to deal with these assets: either undergoing significant capital improvements and retrofits to attract tenants or using the structure for a different purpose altogether.

Repurposing office properties has been on the rise in Canada and picked up steam in 2023. A cumulative 4.2 million sq. ft. of office product has come out of inventory for conversion over the last three years, over 60% of which took place in 2023. This still represents a small fraction of overall inventory however and has been eclipsed by new supply. Most of the conversions to-date in Canada have been to residential, however there is a growing swell of planned conversions to lab space.

Feasible conversion projects will remain limited due to several factors including physical floorplate requirements, zoning and financial viability, and while certainly providing some relief, conversions will not be a silver bullet to solving for elevated office vacancy. For context, the removal of buildings that began their conversion process in 2023 had a net impact of just -0.2% to vacancy; a similar influence on vacancy is anticipated in the year ahead.

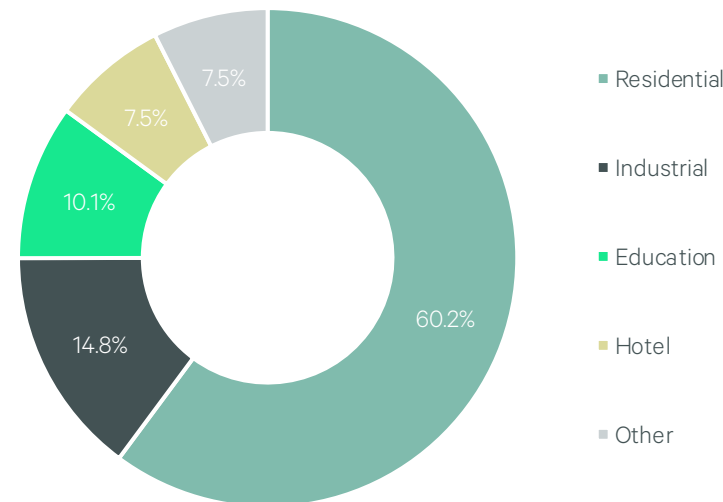
Government incentives play an important role in making these complex projects financially viable. This has been the case in Calgary, which has led the office to residential conversion trend in Canada. Applications for funding in the City of Calgary's Downtown Office Conversion Program recently paused however with the City taking this time to determine if the first round of conversions have been successful in their goal of reducing office vacancy and providing housing for people before reopening the program.

**FIGURE 10: Cumulative Sum of Repurposed Office Buildings Removed From Inventory**



Source: CBRE Research, 2024.

**FIGURE 11: Office Conversion by New Property Type (2021 – 2023)**



Source: CBRE Research, 2024.



## Amenities Integral to Long-Term Success

Curating a highly personalized office experience has historically been the responsibility of individual tenants, with each taking on fit-outs that created spaces their workers wanted to spend time in. Many companies were putting their own spin on build outs more commonly seen in the offices of technology and coworking companies, including break-out rooms, ping-pong tables, and coffee bars. Fast forward to today and the responsibility of providing great amenities has expanded to also include landlords, who must support their tenants in providing a differentiated experience.

Today's high vacancy environment will see landlords needing to offer more to remain competitive. When touring space, tenant considerations are often the location, the building, and the space – and in a sea of options, a strong amenity offering will prove to be the most influential factor determining whether that building makes it to the tenant survey and tour schedule.

Calgary is a leading city regarding the amenitization of office buildings. With vacancy rates having held at elevated levels since the 2014-15 oil gut, several of Calgary's landlords differentiated their office buildings by focusing on amenities, either in individual assets or shared across their portfolio. In 2024, we will see landlords in other cities implementing the lessons learned from Calgary and undergoing retrofits to add tenant lounges and other building amenities.

While the upfront cost for these upgrades will seem high from an individual project perspective, a shift in thinking is expected to take place where the cost of these upgrades will need to be measured against the long-term viability of a portfolio and the cost to future-proof it. Construction costs for these types of fit outs may rise, however it will often prove best to do these while tenants are still in-place and can help defray some of these costs through recoveries.



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In a sea of options, a strong amenity offering will prove to be the most influential factor determining whether that building makes it to the tenant survey and tour schedule.

04

# Retail

The Canadian retail landscape is poised for change in the year ahead. Consumer behaviour and spending patterns will test retailers and push for innovation as they compete to remain top of mind for shoppers. Churn is expected but should be a boon for the sector which has seen limited vacancy amongst the most in-demand formats.

# Trends to Watch

## 01

Changing consumer behaviour and spending patterns are expected to challenge retailers in the year ahead. Capturing and maintaining consumer attention will be of importance for brands.

## 02

Retail insolvency filings are on the rise; however, these promise to promote growth by opening opportunities in markets where vacancy has been limited. Consolidation, rollup, and acquisition will likely be seen among established brands propelling these institutions to grow and reach new highs in 2024.

## 03

Companies will continue to implement technologies such as AI as part of building their competitive edge. It remains important however that these advancements, both online and in-store, are thoughtful and effective in improving the customer experience.



## Rebalancing Period Challenging Retailers and Shifting Consumer Behaviour

Inflation and elevated interest rates constrained wallets in 2023 and led to a gradual consumer pullback in the latter half of the year. This rebalancing period is expected to continue in 2024 with Oxford Economics forecasting retail sales to decline year-over-year by -0.6%. Ultimately this will put capturing and maintaining consumer attention into sharper focus for brands in the year ahead with 64% of respondents in Salesforce's State of Commerce survey indicated that meeting customer expectations is harder than ever.

Consumer behaviours started to shift amidst the peak of inflation in 2023 as shoppers became more critical of their discretionary spending and household budgets. Value in particular has had a boom with sales growth at brands that offer savings. Continuing from 2023, consumers will try to save money on essential items in 2024 by trading down to value channels and products, especially for grocery items where inflation has been most acutely felt. This is both to reduce spending and allow consumers the ability to trade up or spend more on less essential items, including luxury goods or other micro indulgencies.

All that said, 2024 promises to challenge retailers. Expect retailers to lean into discounts or other targeted promotions to capture the selective spending and move product. Expansion and innovation will be greatest among those facing headwinds or that are carving a niche for themselves within the Canadian marketplace.

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# 64%

of respondents in Salesforce's State of Commerce survey indicated that meeting customer expectations is harder than ever



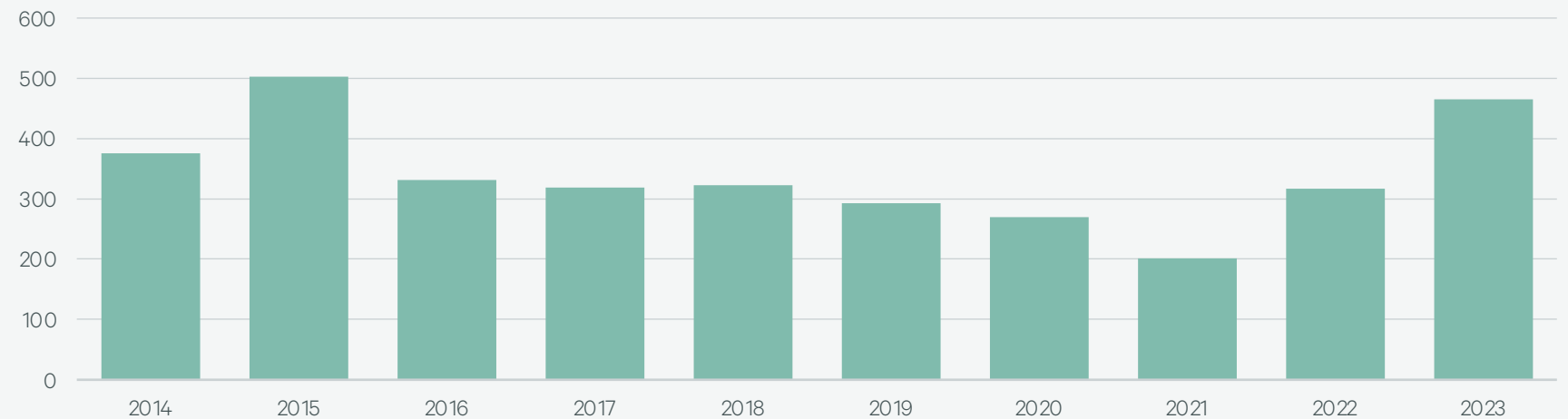
## Retail Churn Opening Up New Investor and Market Opportunities

Elevated interest rates are having a material impact on business operations. Coupled with a cost-of-living crisis and pullback in consumer spending, business insolvency filings started to creep up across the country in 2023, increasing over 40% from the prior year. The Federal government deadline to pay back pandemic loans happened in early 2024, the impact of which will be most acutely felt among small businesses, with many speculating we will see more churn in the industry in the year ahead.

Consolidation, rollup, and acquisition will likely be seen among established brands propelling these institutions to grow and reach new highs in 2024. We started to see some of these moves take shape in 2023 including Putman Investments taking on a portion of the former Bed Bath & Beyond portfolio; as well as Unity Brands acquiring Kit + Ace and Mastermind Toys. In each of these cases, the originating brand needed some form of repositioning, either having been stagnant or by growing too quickly.

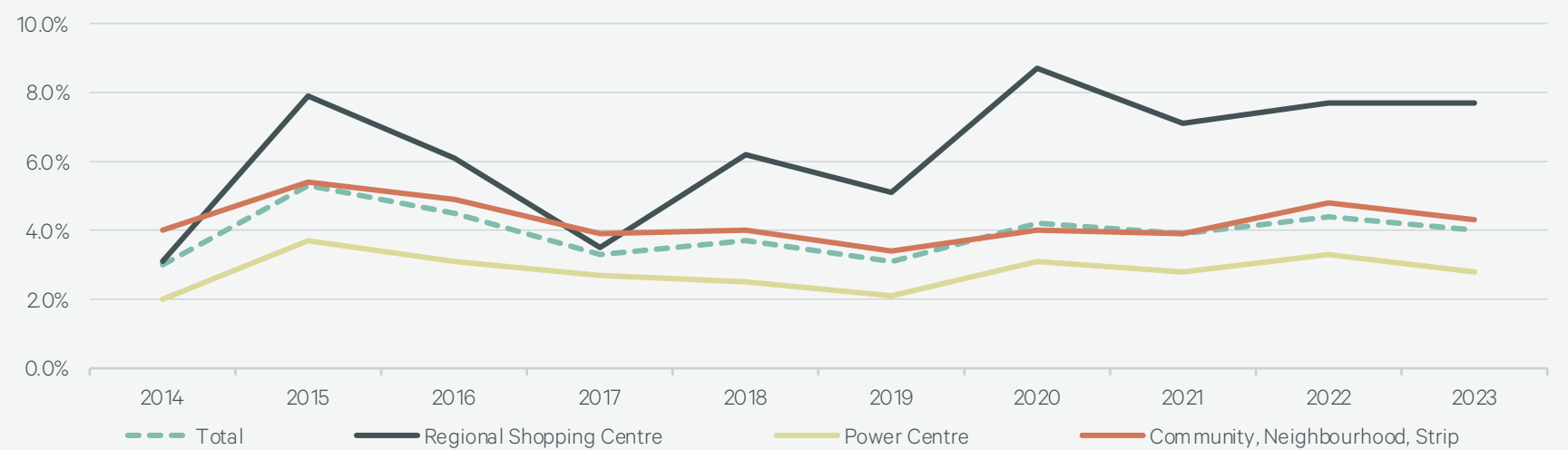
From a real estate perspective, this churn can be viewed as a good thing as it brings the potential to open opportunities in markets where vacancy has been limited. Looking at REIT-owned property performance, retail vacancy trended down over 2023 to 4.0% with all but regional shopping centres showing a marked improvement. Good real estate has and will continue to be leased quickly, resulting in limited vacancy amongst the most in-demand formats, namely grocery-anchored centres. Because of this, tight market conditions are expected to persist, especially when paired with a softening supply pipeline, a byproduct of higher construction costs.

**FIGURE 12: Retail Trade Bankruptcy Filings**



Source: Office of the Superintendent of Bankruptcy Canada, December 2023.

**FIGURE 13: Retail REIT Vacancy Rate by Format (%)**



Source: CBRE Research, Select retail REIT portfolios, 2023.



## Technology and the Store

Part of the competitive edge that companies will be seeking in the year ahead involves implementing technologies such as Artificial Intelligence (AI), especially as it aids in improving the customer experience through personalized recommendations and product discovery. AI technologies and solutions will drive innovation, improve the shopper journey, deepen loyalty, and elevate the overall brand.

As with any type of change however comes a learning curve before being widely adopted. SOTI's Techspectives: Consumer Demand for Digital Transformation in Retail report found that there are still some pain points to both new and existing technologies being implemented. Namely, 78% of Canadians expressed security concerns with personal data related to AI. Retailers need to balance convenience and security while building trust in this sphere.

The technology learning curve can also extend to the physical store as we've seen a rapid adoption self-checkout stations or sales professionals carrying around tablets that check store inventory. According to SOTI, 43% of customers indicated that these technologies can enhance shopping convenience and speed; however technology can also complicate the shopping experience with 28% of respondents finding making in-store purchases more confusing.

It will be important in the year ahead that the technologies being implemented in-store are thoughtful and effective to the customer experience. CBRE's Global Live-Work-Shop Report found that Canadians prefer to shop in-person across all categories, a fact that should not be forgotten. Consumers are eager to engage in more lively, personalized shopping experiences that cannot be offered online.

# 78%

of Canadians expressed security concerns with personal data related to AI

Retailers need to balance convenience and security while building trust in this sphere.

CBRE's Global Live-Work-Shop Report found that Canadians prefer to shop in-person across all categories, a fact that should not be forgotten.

05

# Industrial

The industrial sector is returning to balance and markets are adjusting accordingly. An economic slowdown will drag on industrial demand and a wave of new supply is lifting availability rates, however, market conditions will remain healthy relative to historical norms.

# Trends to Watch

## 01

Industrial market fundamentals are forecast to continue normalizing in 2024. With an influx of available new supply expected to enter the market, availability rates will rise but remain comfortably below the long-term historical average.

## 02

Rental rate growth is expected to be largely subdued in 2024 as markets adjust to a more balanced environment. Overall, the national average rental rate is forecast to effectively hold flat year-over-year.

## 03

The major sectoral tailwinds of recent years have mostly been realized, meaning industrial demand will more closely align with overall economic performance going forward.



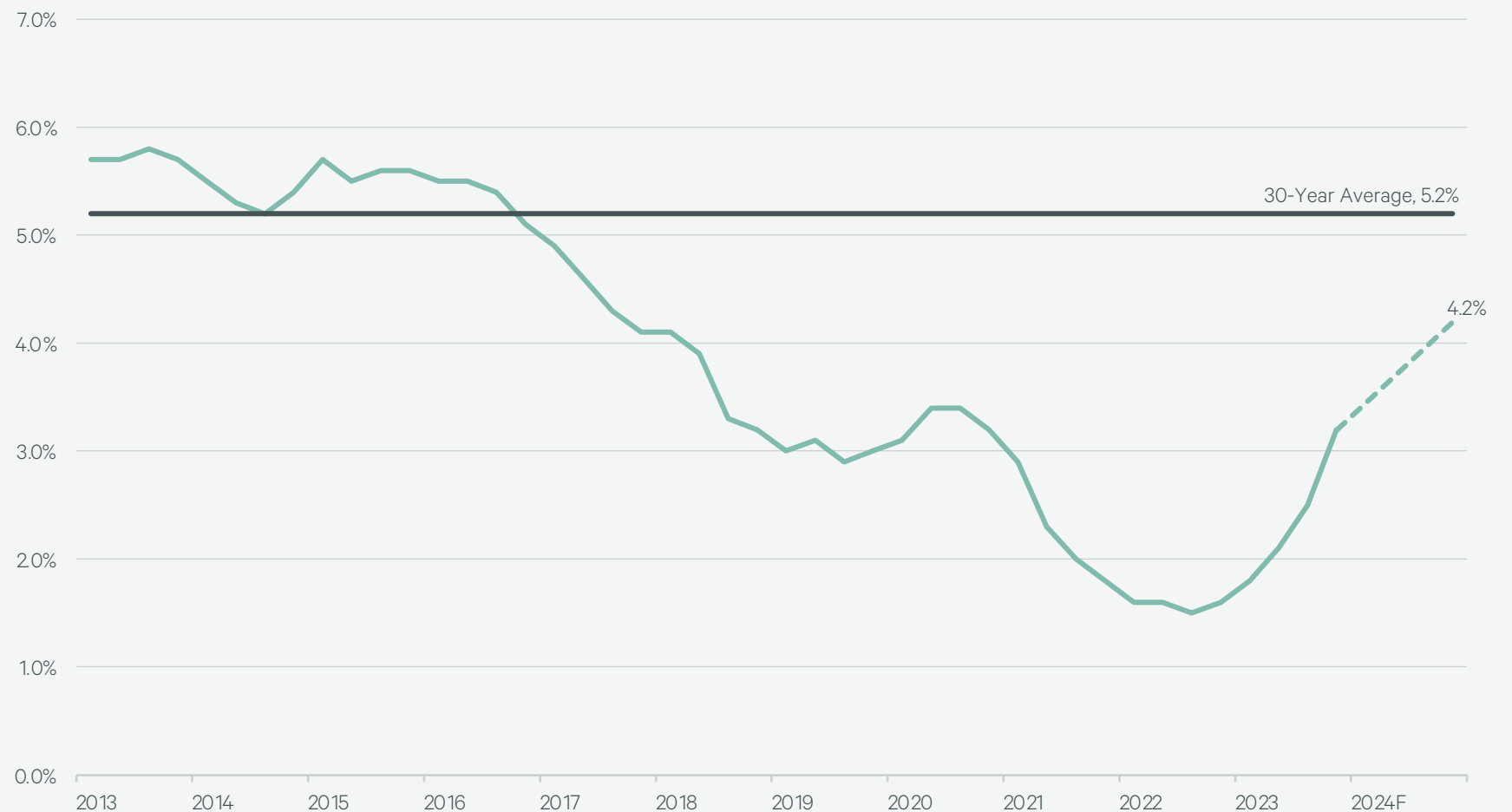
## Further Normalization of Market Fundamentals

Industrial market fundamentals had started to normalize amid the record surge of new supply that delivered last year. While construction starts have since tapered off, there still remains 36.1 million sq. ft. of new space forecast to complete over 2024. Coupled with softer demand resulting in lower levels of pre-leasing activity, which had fallen from an average of 89.6% for new supply delivered in 2021 and 2022 to 59.0% in 2023, this will see more available new supply enter the market and lift availability rates across the country.

Conservative Canadian development standards, however, have meant no markets overbuilt despite the substantial influx of new supply. In fact, only the Alberta markets of Calgary and Edmonton are expected to see availability rates above 5.0% this year.

With weaker economic conditions expected to moderate industrial leasing demand, net absorption is forecast remain relatively muted at 14.0 million sq. ft. in 2024. While this represents slower overall leasing activity relative to the 30-year average pace of 19.0 million sq. ft., it will still be an improvement over last year's 14-year low. Overall, these market conditions are forecast to lift the national availability rate to 4.2% in 2024. While this would constitute a 100 bps year-over-year increase, the national availability rate will still remain comfortably below the long-term historical average rate of 5.2%.

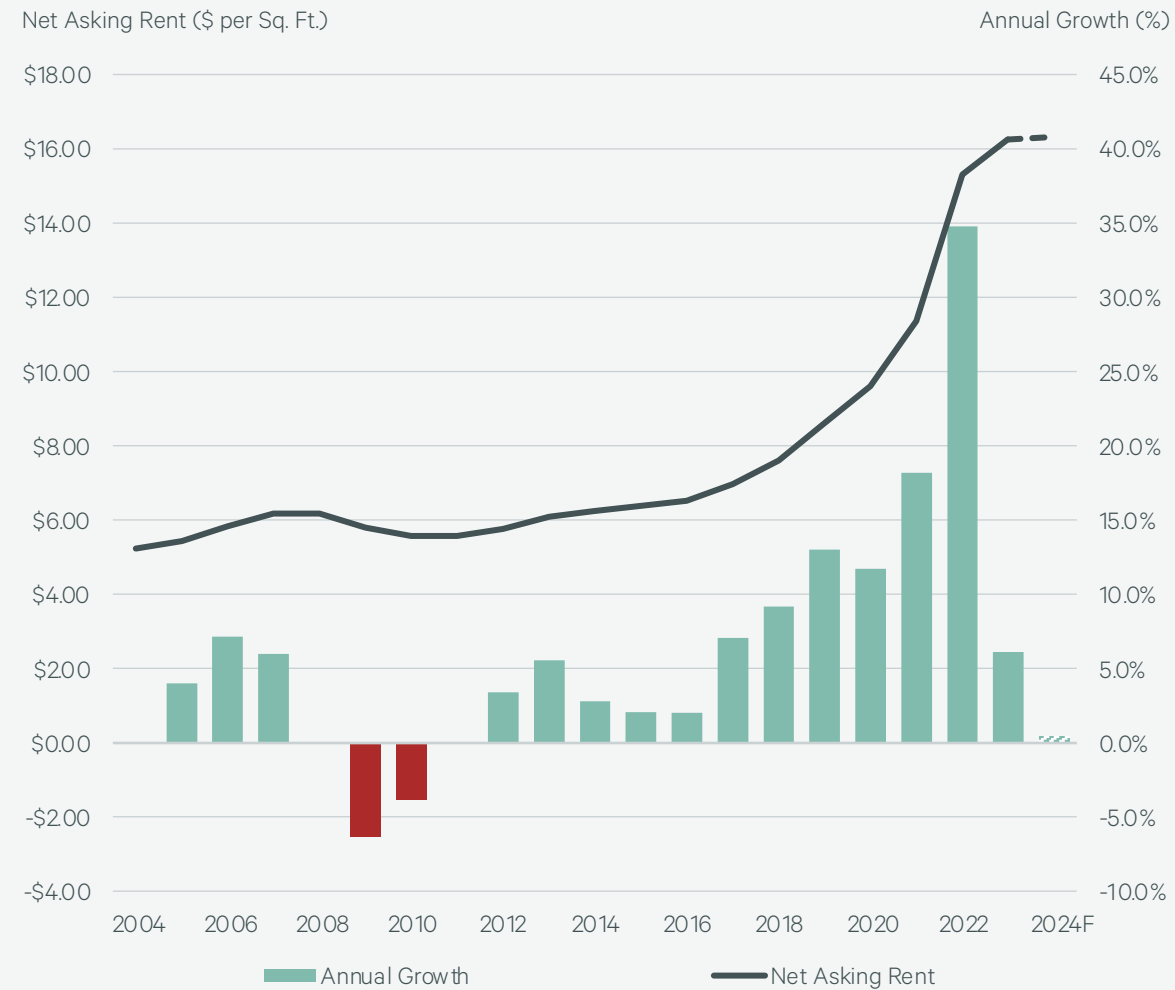
**FIGURE 14: Historical National Average Availability Rate**



Source: CBRE Research, 2024.



**FIGURE 15: National Average Asking Net Rental Rate Growth**



Source: CBRE Research, 2024.

## National Rents to Hold Flat as Markets Adjust to More Balanced Environment

Rental rate growth has moderated considerably from its post-pandemic highs, with year-over-year increases in national average asking rates falling from 34.8% in 2022 to 6.1% in 2023. Some markets had also recorded declines in their rental rates in the latter half of 2023, culminating in the first minor quarterly decrease in the national average rental rate in nearly seven years in Q4 2023.

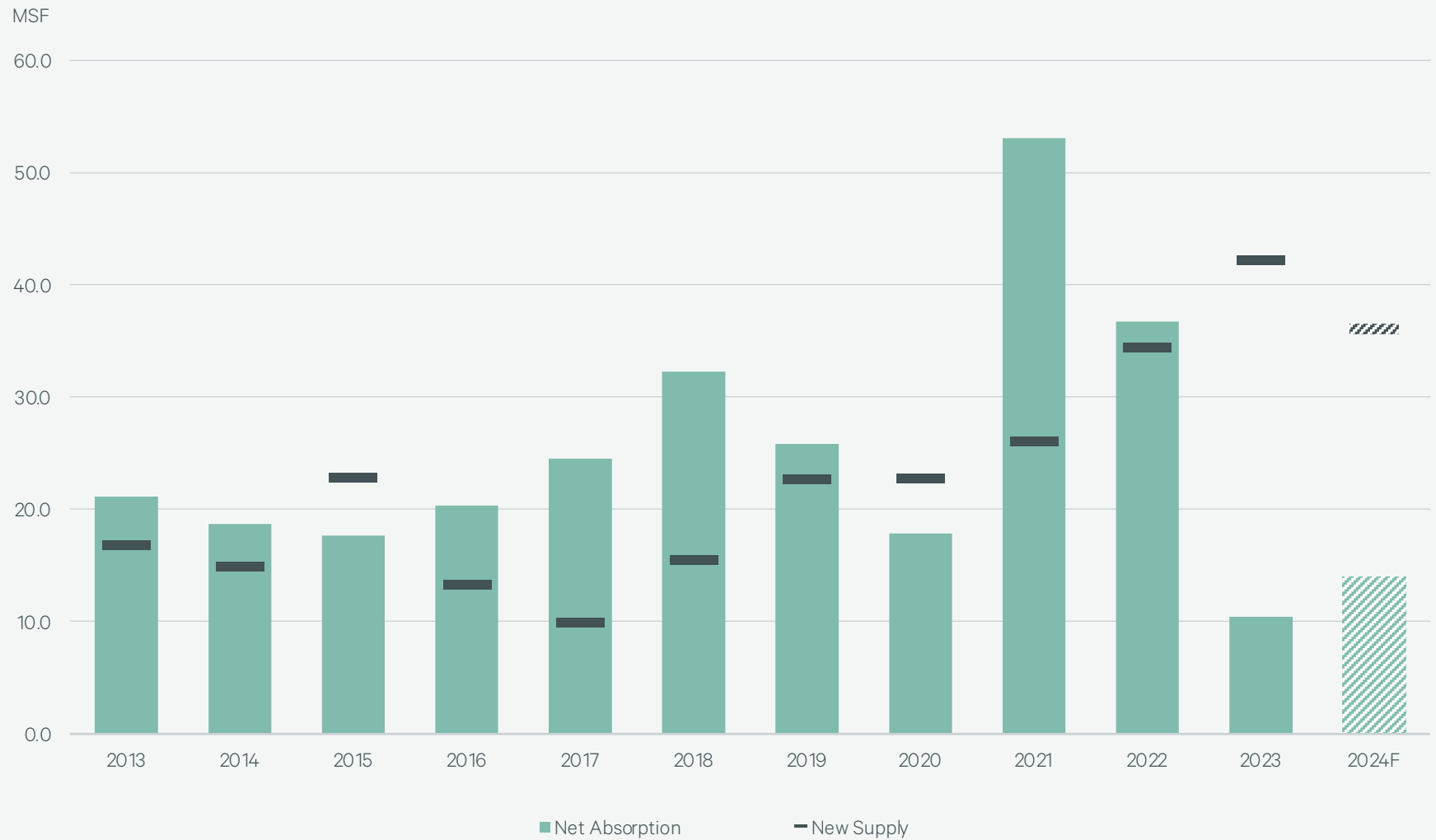
Markets will continue to adjust to the wave of new supply in 2024 and rent growth is expected to be largely subdued throughout the year. The rental rate declines that some markets saw at the end of 2023 will likely dissipate and plateau by mid-2024. Rental rate growth is then expected to gain momentum later in the year alongside the forecasted rebound in economic activity. While individual market dynamics will vary, the overall result is for the national average rental rate to effectively hold flat with a 0.4% year-over-year increase to \$16.32 per sq. ft. in 2024.

## Industrial Demand to Largely Track the Overall Economy

The Canadian industrial market had benefited greatly in recent years from the sectoral tailwinds of rapid ecommerce adoption, expanding supply chain networks and rising retailer inventory levels. These factors were major drivers of continued strength in the industrial market, even while other real estate asset classes eased. Following years of extraordinary market activity, these benefits have now mostly been realized and future industrial demand will be more closely aligned with overall economic performance.

Given weaker economic growth is forecast for early 2024, industrial demand will likely also remain softer during this period. As a result, it will take more time for the market to absorb all the available new supply being delivered. However, looking further ahead, current projections indicate an economic rebound is projected for the second half of 2024, stretching into 2025. Accordingly, this economic recovery is expected to reignite industrial leasing momentum and drive future growth in an ultimately more balanced market.

**FIGURE 16: Annual National Industrial Net Absorption vs. New Supply**



Source: CBRE Research, 2024.

06

# Multifamily

The Canadian multifamily sector will continue to grapple with significant undersupply as unprecedented population growth drives record demand. Affordable housing options continues to become increasingly scarce, perpetuating the housing affordability crisis.

# Trends to Watch

## 01

Shortfalls in construction will exacerbate the undersupply of housing in Canada with persistent barriers posing a challenge to increasing supply.

## 02

Multifamily vacancy is expected to decrease further as a result of unprecedented population growth boosting demand and driving further upwards trajectory for rental rates.

## 03

While multifamily rental rates are expected to rise, low levels of unit turnover present a challenge for realizing some of the gains.



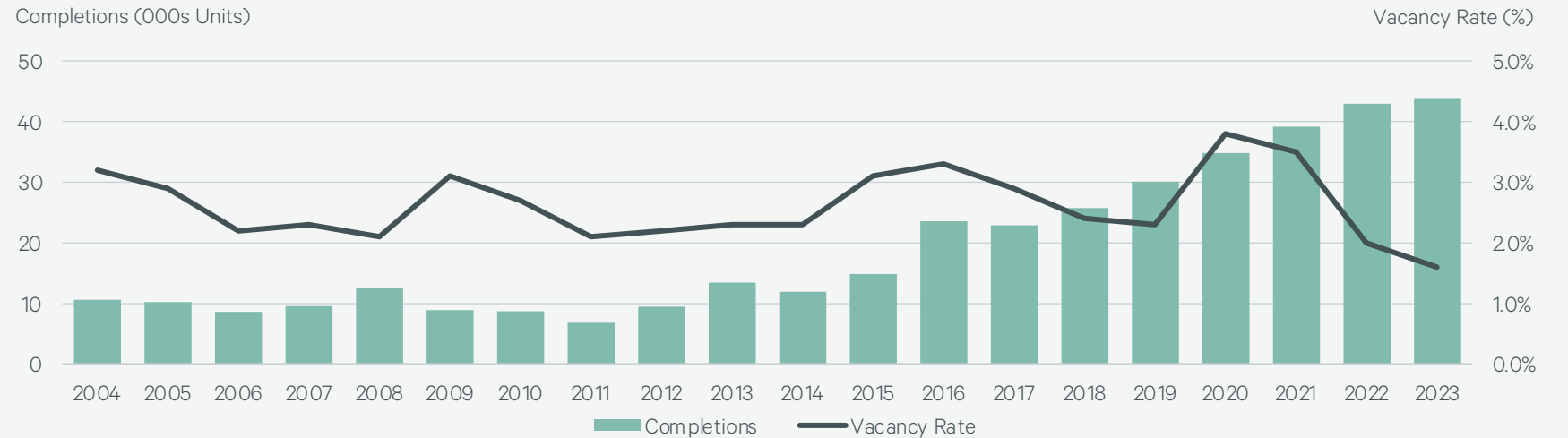
## Barriers to Rental Construction Will Perpetuate Supply-Demand Imbalance

Housing affordability continues to worsen for Canadians as the level of undersupply in the country's rental stock widens. Purpose-built rental completions failed to keep pace with the record level of population growth in 2023, leading to further tightening of multifamily fundamentals. In addition, the CMHC also reduced its projections for new housing completions by 400,000 units which would result in an estimated total inventory of 18.2 million homes by 2030. As a result of this lower expected supply, the CMHC estimates an additional 3.5 million housing units above current construction trends are needed to 'restore housing affordability' by 2030.

Although housing completions have increased in recent years, it is unlikely that the pace of construction will accelerate further. Overall housing starts are forecast to remain near the current capacity of around 240,000 units in 2024. Sustained inflation of labour and material costs pose a barrier for developers who find themselves in an already tight borrowing market. Construction workers are also scarce, posing its own challenge to developments. Further, approval timelines for new housing developments remain lengthy, with the cities in most need of new development often seeing the longest turnaround times.

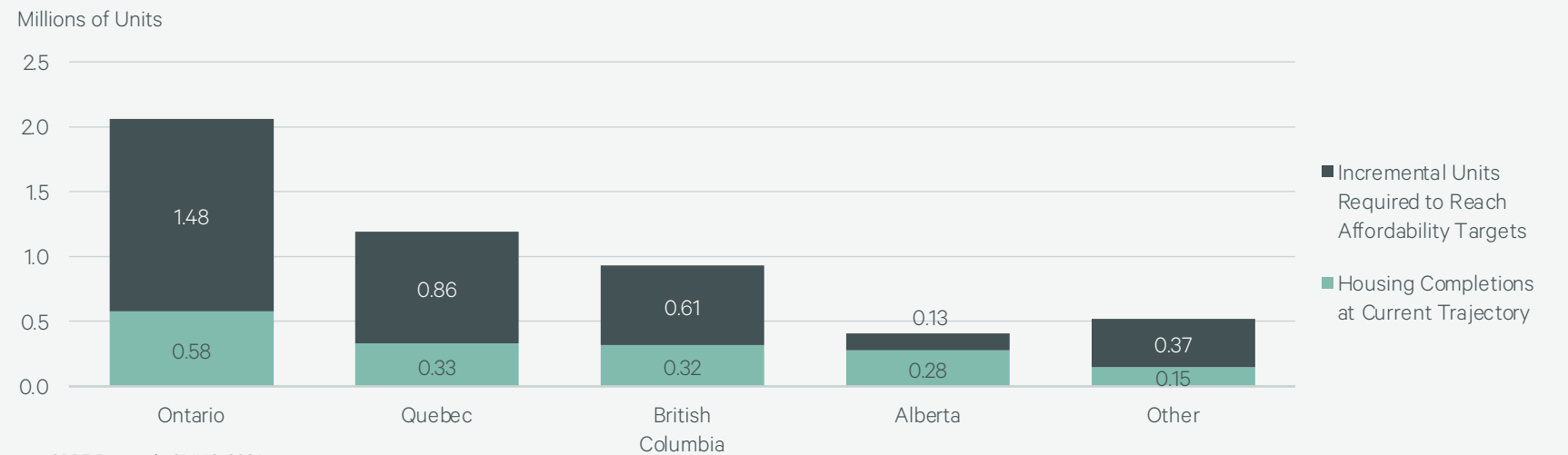
Given the widening gap between the current pace of development and that needed to achieve affordability, initial steps towards incentivizing additional construction are being taken by governments. 2024 will mark the first year where GST rebates on the construction of new purpose-built rentals will be applied across the country and is expected to boost development activity going forward.

**FIGURE 17: Purpose-Built Rental Vacancy and New Supply**



Source: CBRE Research, CMHC, 2024.

**FIGURE 18: Estimated Housing Undersupply in 2030**

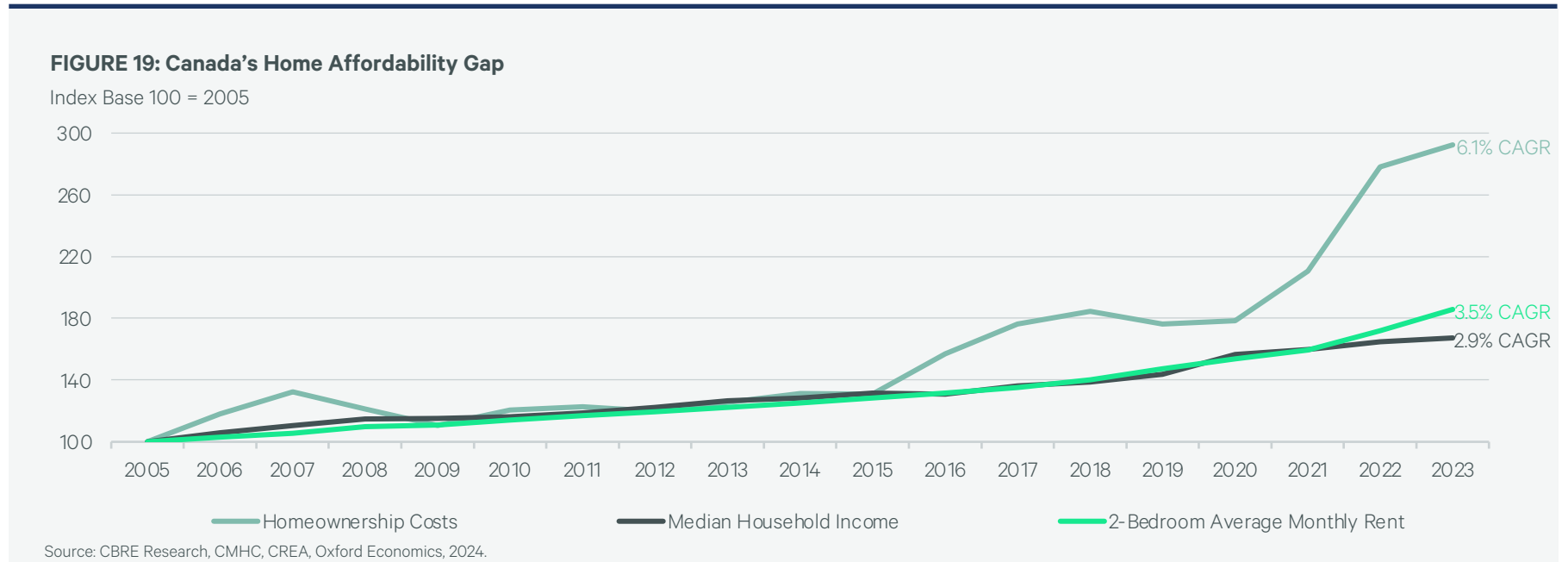


Source: CBRE Research, CMHC, 2024.

## Record Low Multifamily Vacancy to Drive Continued Growth of Rental Rates

A focal point of the Canadian housing market over the past few years has been the disparity between the rise in homeownership costs relative to the growth of household incomes, a trend which has now spilled over to affect renters as well. Over 2023, average multifamily rental rates grew by 9.2% and greatly exceeded annual wage growth of 5.0%. With Canadian household finances under more strain in the current inflationary environment, the more affordable housing options and cities are gaining popularity and often observe below-average vacancy rates. In turn, lower-income households find themselves with increasingly fewer housing options.

Sustained levels of record demand driven by unprecedented population growth compressed the overall multifamily vacancy rate in Canada to a 22-year low of 1.6% in 2023. With immigration targets of 1.45 million new residents over the coming years, multifamily vacancy is expected to contract further in 2024, albeit at a slower rate due to already tight market conditions. Despite recent slight declines in asking rental rates in Q4 2023, which are largely attributed to an influx of new supply, multifamily rent growth is expected to continue its forward momentum in 2024 given persistent supply and demand imbalances.



Average multifamily rental rates in 2023 grew by 9.2%, greatly exceeding annual wage growth of 5.0%.



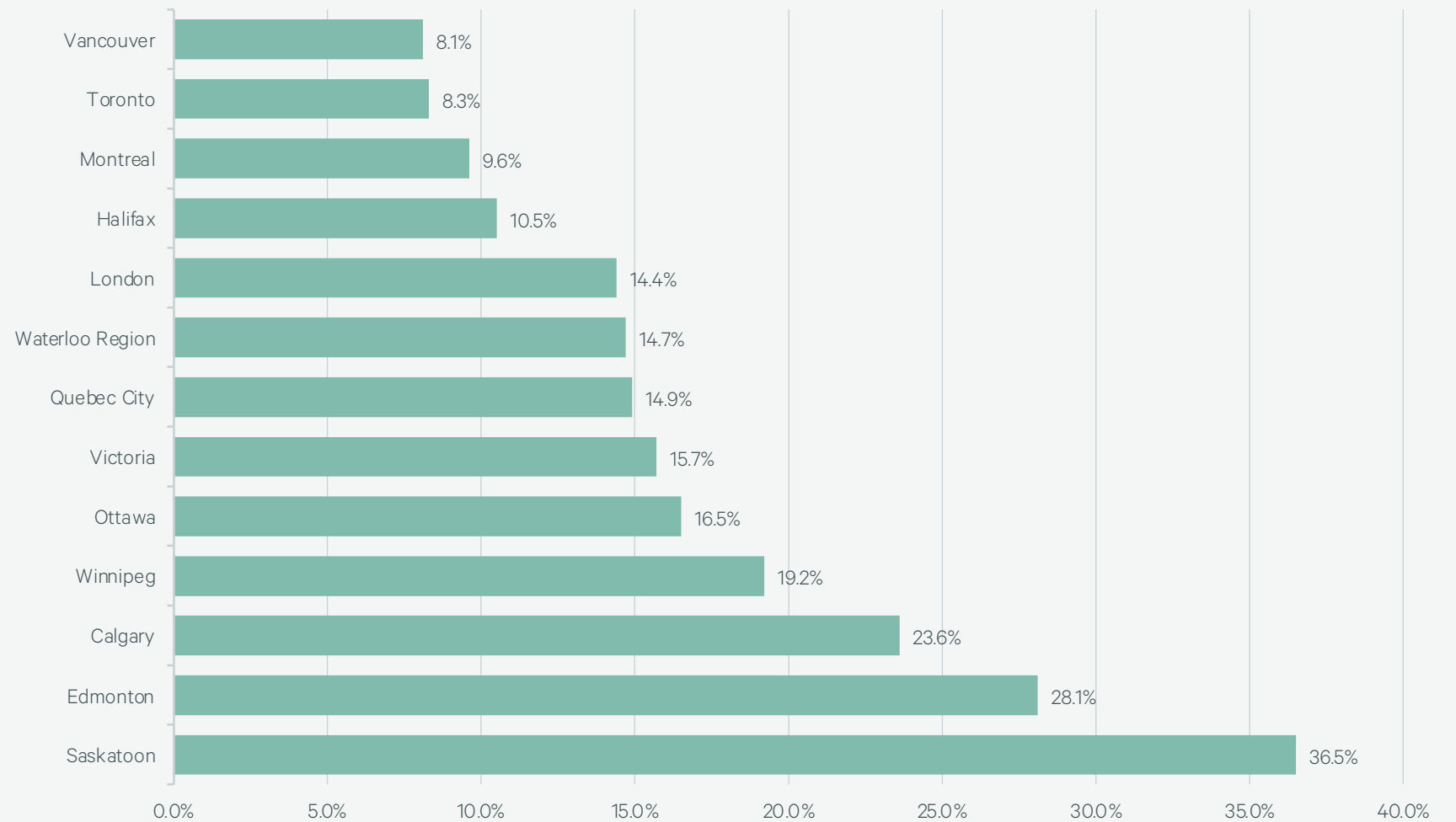
## Low Rates of Unit Turnover Present a Challenge for Realizing Rental Gains

Units which experienced tenant turnover reported significantly higher rental rate growth than those which saw lease extensions in 2023. A primary driver of surging multifamily rents, the CMHC reported rental rate growth for turnover units of 24.1% year-over-year for 2-bedroom units across Census Metropolitan Areas (CMA). In the case of units that did not turn over, rental rate growth was only 5.1% in 2023.

Although strong rental rate growth is beneficial for owners of multifamily, few were able to fully realize the gains due to low levels of unit turnover. The national average turnover rate declined for a second consecutive year from 13.6% to 12.4% in 2023. Cities in the Canadian Prairies saw more normal levels of unit turnover of 20.0% or greater while the three largest cities of Vancouver, Toronto and Montreal, each reported turnover rates of less than 10.0%.

Renters have seen their finances become increasingly strained, leading to an inability or unwillingness to leave current units in the face of unaffordable homeownership costs, heightened rental rates and limited choice. With no short-term solution available to improve renter flexibility, unit turnover rates are likely to remain low over the coming year.

FIGURE 20: Purpose-built Rental Unit Turnover Rates by CMA (2023)



Source: CBRE Research, CMHC, 2024.

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Canada  
Statistics

# Canada

## Office

	2022	2023	2024F	YoY
<b>DOWNTOWN</b>				
Inventory (million sq. ft.)	269.29	269.14	273.69	▲
Vacancy Rate (%)	17.7%	19.4%	20.4%	▲
Net Absorption (million sq. ft.)	-2.03	-3.97	0.97	▲
New Supply (million sq. ft.)	3.84	2.08	5.47	▲
Class A Net Asking Rent (per sq. ft.)	\$29.42	\$29.17	\$29.17	◀▶
<b>SUBURBAN</b>				
Inventory (million sq. ft.)	216.65	218.20	219.25	▲
Vacancy Rate (%)	16.5%	16.9%	17.4%	▲
Net Absorption (million sq. ft.)	-0.27	-1.03	0.13	▲
New Supply (million sq. ft.)	1.32	0.41	1.57	▲
Class A Net Asking Rent (per sq. ft.)	\$19.26	\$19.69	\$19.77	▲
<b>OVERALL</b>				
Inventory (million sq. ft.)	485.94	487.35	492.95	▲
Vacancy Rate (%)	17.2%	18.3%	19.1%	▲
Net Absorption (million sq. ft.)	-2.30	-5.00	1.09	▲
New Supply (million sq. ft.)	5.16	2.49	7.04	▲
Class A Net Asking Rent (per sq. ft.)	\$25.31	\$25.35	\$25.38	▲

## Industrial

	2022	2023	2024F	YoY
Inventory (million sq. ft.)	1,949.11	1,991.00	2,027.06	▲
Availability Rate (%)	1.6%	3.2%	4.2%	▲
Net Absorption (million sq. ft.)	36.72	10.42	14.01	▲
New Supply (million sq. ft.)	34.40	42.17	36.05	▼
Net Asking Rent (per sq. ft.)	\$15.31	\$16.25	\$16.32	▲
Sale Price (per sq. ft.)	\$273	\$277	\$282	▲
Land Price (per acre, \$ millions)	\$1.50	\$1.41	\$1.42	▲

## Retail

	2022	2023	2024F	YoY
Total Retail Sales per Capita	\$17,376	\$17,178	\$16,575	▼
Total Retail Sales Growth	0.3%	1.6%	-0.6%	▼
New Supply (million sq. ft.)	2.41	3.26	3.83	▲

## Multifamily

	2022	2023	2024F	YoY
Vacancy Rate	2.0%	1.6%	1.5%	▼
2-Bedroom Average Rent	\$1,486	\$1,622	\$1,718	▲
New Rental Supply (units)	42,980	43,930	46,021	▲

All \$ values are in CAD  
Sources: CBRE Research, Oxford Economics, CMHC, 2024.

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# Regional Outlook

# Regional Outlook

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# Victoria

## Tenant’s Market Impacting Office Lease Deal Terms

The Greater Victoria office market continues to experience elevated levels of vacancy and increasing subleases in result of turbulent market conditions forcing tenants to consider downsizing. Leasing activity has been largely driven by tenants relocating into smaller but higher quality spaces or subleasing underutilized excess space. This has led to an increased inventory of large floorplates and single-tenanted office buildings being pushed to the market. Landlords are anticipated to strongly adapt to these shifts through improving amenity offerings and being flexible in deal negotiations. The office leasing market is expected to remain stagnant in 2024 with activity focused on rightsizing tenants.

## Significant New Supply of Industrial Strata Delayed to Early 2024

Recent economic turbulence has caused delays in the industrial development pipeline with most projects delayed by over two quarters and pushing occupancy to early 2024. The completion of strata developments in the Westshore will relieve some of the industrial shortage in Greater Victoria and is currently just over 65% pre-sold. This new supply is anticipated to inflate the availability rate over the short-term but will subside as it is met by demand from owner-occupiers. Inventory levels still remain heavily undersupplied outside the Westshore. Asking rates are projected to stabilize around mid-2024 after tenants fully occupy investor-purchased strata units and the availability rate normalizes.

## Increasing Free-rent Periods to Offset Tenant Inducements

The retail market in Greater Victoria has been more resilient than the other asset classes, however, rising interest rates have increasingly put a strain on landlords especially concerning tenant inducements. There is a significant supply of commercial spaces that are new and delivered in shell-condition as well as older units requiring extensive interior re-fixturing. Landlords are preferring to offset the cost to build out these spaces through increasing free-rent periods for tenants, allowing landlords to hold onto their cash positions by exchanging future cash flows.

Office					Industrial				
	2022	2023	2024F	YoY		2022	2023	2024F	YoY
<b>DOWNTOWN</b>									
Inventory (million sq. ft.)	3.83	3.83	3.83	◀▶	Inventory (million sq. ft.)	9.22	9.33	9.75	▲
Vacancy Rate (%)	12.4%	10.4%	10.6%	▲	Availability Rate (%)	2.0%	2.9%	3.2%	▲
Net Absorption (million sq. ft.)	-0.02	0.08	-0.01	▼	Net Absorption (million sq. ft.)	0.16	0.02	0.38	▲
New Supply (million sq. ft.)	0.02	0.00	0.00	◀▶	New Supply (million sq. ft.)	0.19	0.11	0.43	▲
Class A Net Asking Rent (per sq. ft.)	\$25.38	\$22.71	\$22.05	▼	Net Asking Rent (per sq. ft.)	\$17.63	\$18.60	\$18.80	▲
					Sale Price (per sq. ft.)	\$550	\$500	\$480	▼
<b>SUBURBAN</b>									
Inventory (million sq. ft.)	5.53	5.54	5.54	◀▶					
Vacancy Rate (%)	8.6%	7.6%	7.3%	▼					
Net Absorption (million sq. ft.)	0.06	0.05	0.02	▼					
New Supply (million sq. ft.)	0.09	0.01	0.00	▼					
Class A Net Asking Rent (per sq. ft.)	\$28.64	\$28.47	\$28.70	▲					
<b>OVERALL</b>									
Inventory (million sq. ft.)	9.36	9.37	9.37	◀▶					
Vacancy Rate (%)	10.1%	8.7%	8.7%	▼					
Net Absorption (million sq. ft.)	0.05	0.13	0.01	▼					
New Supply (million sq. ft.)	0.11	0.01	0.00	▼					
Class A Net Asking Rent (per sq. ft.)	\$26.56	\$27.46	\$27.25	▼					
					<b>Retail</b>				
						<b>2022</b>	<b>2023</b>	<b>2024F</b>	<b>YoY</b>
					Total Retail Sales per Capita	\$20,351	\$20,080	\$19,332	▼
					Total Retail Sales Growth	-5.3%	1.4%	-0.1%	▼
					<b>Multifamily</b>				
						<b>2022</b>	<b>2023</b>	<b>2024F</b>	<b>YoY</b>
					Vacancy Rate	1.5%	1.6%	1.7%	▲
					2-Bedroom Average Rent	\$1,699	\$1,839	\$1,970	▲
					New Rental Supply (units)	897	2,139	1,990	▼

Sources: CBRE Research, CMHC, Oxford Economics, 2024.

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# Vancouver

## Office Vacancy Nears Peak

Office vacancy through Metro Vancouver has increased significantly over the past three years as 1.5 million sq. ft. of inventory vacated in that time. However, with vacancy from second-generation office space returned to the market forecasted to decline, reduced sublease listing activity and 88% of the record amount of new supply delivered since 2020 leased, office vacancies are nearing their peak. The region still has the lowest downtown vacancy rate of any major market in North America, and there has been positive leasing activity for new build product and spaces where landlords are willing to build improvements.

## Industrial Outperforms

Metro Vancouver industrial real estate continues to outperform thanks to strong consumer spending and e-commerce adoption. After a sustained frenzy of demand, competition for industrial space is beginning to moderate. 2022 and 2023 will be the first back-to-back years that supply exceeds demand since 2009 and 2010. But there are tailwinds fueling demand in the local industrial market, including population growth and a port expansion project that will increase to the movement of goods across Canada.

## Retail Sees Strong Pre-leasing

Retail leasing has been stable in Metro Vancouver and redevelopment projects like The Post, Oakridge and Brentwood are seeing strong pre-leasing demand. The combination of population growth, a boom year for tourism and continued consumer spending has meant more money spent in the local economy, and new brands like Balenciaga, Esprit, ArcTeryx, Monos and Peak Performance are setting up shop. Most future development will be concentrated on existing retail properties that will be demolished and then replaced by a smaller footprint in a mixed-use format. This will help to keep retail vacancy low.

## Rental Housing is Lacking

Rental housing is in short supply with Metro Vancouver having the lowest purpose-built apartment vacancy rate amongst major metros in Canada. Rents have continued to climb and are up 18.3% over the past two years. The average 2-bedroom unit in Metro Vancouver now fetches over \$2,000 per month and is expected to continue to rise. There does not appear to be relief for renters in the forecast due to our increasing population and inability to get new supply to market fast enough.

Office					Industrial				
	2022	2023	2024F	YoY		2022	2023	2024F	YoY
<b>DOWNTOWN</b>									
Inventory (million sq. ft.)	25.96	26.64	27.80	▲	Inventory (million sq. ft.)	208.95	216.14	220.61	▲
Vacancy Rate (%)	9.8%	11.0%	10.9%	▼	Availability Rate (%)	1.2%	3.2%	4.3%	▲
Net Absorption (million sq. ft.)	0.18	0.29	1.05	▲	Net Absorption (million sq. ft.)	2.91	2.68	1.90	▼
New Supply (million sq. ft.)	0.91	0.75	1.15	▲	New Supply (million sq. ft.)	3.46	7.19	4.47	▼
Class A Net Asking Rent (per sq. ft.)	\$46.95	\$47.08	\$47.50	▲	Net Asking Rent (per sq. ft.)	\$20.83	\$21.61	\$22.60	▲
<b>SUBURBAN</b>									
Inventory (million sq. ft.)	25.14	25.21	25.80	▲	Sale Price (per sq. ft.)	\$650	\$550	\$525	▼
Vacancy Rate (%)	5.8%	7.7%	9.2%	▲	Land Price (per acre, \$ millions)	\$6.00	\$5.00	\$5.00	◀▶
Net Absorption (million sq. ft.)	0.47	-0.39	0.19	▲	<b>Retail</b>				
New Supply (million sq. ft.)	0.26	0.13	0.62	▲		2022	2023	2024F	YoY
Class A Net Asking Rent (per sq. ft.)	\$30.07	\$29.87	\$30.00	▲	Total Retail Sales per Capita	\$16,376	\$15,911	\$15,433	▼
<b>OVERALL</b>									
Inventory (million sq. ft.)	51.10	51.86	53.60	▲	Total Retail Sales Growth	-2.6%	0.2%	0.9%	▲
Vacancy Rate (%)	7.8%	9.4%	10.1%	▲	New Supply (million sq. ft.)	0.19	0.22	0.65	▲
Net Absorption (million sq. ft.)	0.65	-0.10	1.24	▲	<b>Multifamily</b>				
New Supply (million sq. ft.)	1.17	0.88	1.78	▲		2022	2023	2024F	YoY
Class A Net Asking Rent (per sq. ft.)	\$40.74	\$39.99	\$40.30	▲	Vacancy Rate	0.9%	0.9%	0.8%	▼
					2-Bedroom Average Rent	\$2,002	\$2,181	\$2,340	▲
					New Rental Supply (units)	5,691	5,172	5,847	▲

Sources: CBRE Research, CMHC, Oxford Economics, 2024.

# Calgary

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## Office Is Improving

The last half of 2023 saw a tremendous amount of office leasing activity as a result of mergers and acquisitions and companies renewing leases or moving. Calgary’s office attendance rate is higher than in other major cities for various reasons, including shorter commute times. The City of Calgary meanwhile has paused its office conversion program to assess if it’s been a success, based on its goal of reducing office vacancy and providing housing for people.

## Industrial Takes a Breather

The Calgary industrial market is taking a respite from the tremendous leasing activity experienced from 2021 to 2023, and there has been a drop-off in big users looking for space. Demand from large bay distribution centre users has slowed, a trend that is being seen North America-wide. 20 industrial projects are being built on spec in Calgary, and decent pre-leasing activity has been secured. A slowdown is expected in terms of higher availability and less demand.

## High Rents Hurt Multifamily

Calgary is Canada’s busiest market in terms of rental rate growth and the amount of investors looking at the multifamily asset class. Construction costs are going through the roof, which is adding more pressure. Local governments are trying to assist the private sector in dealing with the high cost of rents but so far to no avail. In December, Calgary recorded a 10.4% year-over-year increase in average rent, among the highest of the major Canadian markets.

## Disposable Incomes Fuel Retail

Calgary and Edmonton have the highest disposable incomes in the country, in spite of the growing cost of living and rental rates, resulting in retailers clamouring to get into the Alberta market. High-end fashion retailers are facing challenges but the food and beverage sector is booming and Calgary will see new concepts continue to open there. Community malls are opening up on the west and south sides of Calgary, where new residential districts are growing. Expect to see more convenience, strip retail and medical centres being built and opened up in those areas.

Office					Industrial				
	2022	2023	2024F	YoY		2022	2023	2024F	YoY
<b>DOWNTOWN</b>									
Inventory (million sq. ft.)	43.06	42.08	41.45	▼	Inventory (million sq. ft.)	150.46	156.83	161.48	▲
Vacancy Rate (%)	32.6%	30.2%	27.9%	▼	Availability Rate (%)	3.2%	5.5%	6.3%	▲
Net Absorption (million sq. ft.)	0.18	0.41	0.50	▲	Net Absorption (million sq. ft.)	10.89	2.26	3.10	▲
New Supply (million sq. ft.)	0.00	0.00	0.00	◀▶	New Supply (million sq. ft.)	8.11	6.03	4.64	▼
Class A Net Asking Rent (per sq. ft.)	\$17.42	\$17.73	\$19.15	▲	Net Asking Rent (per sq. ft.)	\$10.58	\$11.33	\$11.50	▲
<b>SUBURBAN</b>									
Inventory (million sq. ft.)	26.01	26.23	26.24	▲	Sale Price (per sq. ft.)	\$200	\$215	\$220	▲
Vacancy Rate (%)	25.7%	24.2%	23.3%	▼	Land Price (per acre)	\$700,000	\$720,000	\$750,000	▲
Net Absorption (million sq. ft.)	0.02	0.26	0.25	▼	<b>Retail</b>				
New Supply (million sq. ft.)	0.00	0.00	0.18	▲		2022	2023	2024F	YoY
Class A Net Asking Rent (per sq. ft.)	\$18.72	\$19.60	\$20.50	▲	Total Retail Sales per Capita	\$19,065	\$19,272	\$18,492	▼
<b>OVERALL</b>									
Inventory (million sq. ft.)	69.07	68.31	67.69	▼	Total Retail Sales Growth	0.7%	5.3%	-0.1%	▼
Vacancy Rate (%)	30.0%	27.9%	26.1%	▼	New Supply (million sq. ft.)	0.55	0.60	0.32	▼
Net Absorption (million sq. ft.)	0.20	0.68	0.75	▲	<b>Multifamily</b>				
New Supply (million sq. ft.)	0.00	0.00	0.18	▲		2022	2023	2024F	YoY
Class A Net Asking Rent (per sq. ft.)	\$17.85	\$18.33	\$19.55	▲	Vacancy Rate	2.7%	1.4%	1.2%	▼
					2-Bedroom Average Rent	\$1,466	\$1,695	\$1,800	▲
					New Rental Supply (units)	4,760	3,391	4,076	▲

Sources: CBRE Research, CMHC, Oxford Economics, 2024.

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# Edmonton

## Good Office Space Will Prevail

Watch for the continued evolution of Class A and AA office space and tenants demanding more out of their premises. Building owners will need to have well amenitized offerings to attract and retain tenants. There will be activity downtown in the Class A and better buildings, and continued growth in the suburbs. Questions surround the fate of Class B and C office space with obsolete or smaller floorplate buildings. Conversion is not a silver bullet to solve both office vacancy and the housing crisis; it only works for a certain scale and floorplate, therefore, look for continued value erosion in the B and C office space.

## Energy Tenants Drive Industrial Growth

2024 will be the year of existing industrial product in Edmonton. There are buildings being built, albeit not at the same pace as in the last couple of years. Availability will continue to fall and rental rate growth is expected in all categories of industrial space in 2024. Watch for continued growth of oil and gas tenants and tenants that service that industry. Bigger tenants aren't seeing the same amount of activity as in 2021 and 2022 but it's still a healthy market. Dow is building a \$9 billion carbon capture facility in the northeast quadrant of the city; Air Products announced a hydrogen facility in the same area. These companies have been resilient in looking at how to green the energy business.

## Retail Boosted by GDP

GDP growth in Alberta is leading the nation, benefitting retailers in the region. Given construction costs and the debt market, new development will focus on infill opportunities or un-anchored strip centres to service specific nodes as the residential market continues to expand.

## Smaller Multifamily Deals

Housing costs are escalating dramatically and it's hard to build in Edmonton, which will lead to continued growth in multifamily rents in 2024. This year will be a story of existing income-producing properties. If debt starts to stabilize and rents continue to grow, the multifamily market will be active in 2024. Cost of debt and access to financing has been a challenge, but the private market is still active. Smaller deals (<\$30 million) will continue to be the most sought after. A new zoning bylaw should ease smaller-scale multifamily development. Edmonton is still extremely affordable, which bodes well for growth in 2024, despite supply challenges.

Office					Industrial				
	2022	2023	2024F	YoY		2022	2023	2024F	YoY
<b>DOWNTOWN</b>									
Inventory (million sq. ft.)	16.44	16.44	16.35	▼	Inventory (million sq. ft.)	154.77	157.34	159.25	▲
Vacancy Rate (%)	22.7%	22.9%	23.5%	▲	Availability Rate (%)	5.5%	5.3%	5.2%	▼
Net Absorption (million sq. ft.)	-0.31	-0.03	-0.15	▼	Net Absorption (million sq. ft.)	6.43	2.67	2.05	▼
New Supply (million sq. ft.)	0.00	0.00	0.00	◄►	New Supply (million sq. ft.)	4.61	2.57	1.91	▼
Class A Net Asking Rent (per sq. ft.)	\$20.58	\$19.34	\$19.34	◄►	Net Asking Rent (per sq. ft.)	\$10.15	\$9.80	\$10.20	▲
<b>SUBURBAN</b>									
Inventory (million sq. ft.)	9.92	9.92	9.92	◄►	Sale Price (per sq. ft.)	\$156	\$168	\$175	▲
Vacancy Rate (%)	20.8%	18.7%	18.2%	▼	Land Price (per acre)	\$633,000	\$661,000	\$661,000	◄►
Net Absorption (million sq. ft.)	0.14	0.21	0.06	▼	<b>Retail</b>				
New Supply (million sq. ft.)	0.00	0.00	0.00	◄►		2022	2023	2024F	YoY
Class A Net Asking Rent (per sq. ft.)	\$18.23	\$18.38	\$18.38	◄►	Total Retail Sales per Capita	\$19,038	\$19,152	\$18,311	▼
<b>OVERALL</b>									
Inventory (million sq. ft.)	26.36	26.36	26.27	▼	Total Retail Sales Growth	-1.5%	4.5%	-0.6%	▼
Vacancy Rate (%)	22.0%	21.4%	21.5%	▲	New Supply (million sq. ft.)	0.66	0.54	0.91	▲
Net Absorption (million sq. ft.)	-0.17	0.17	-0.09	▼	<b>Multifamily</b>				
New Supply (million sq. ft.)	0.00	0.00	0.00	◄►		2022	2023	2024F	YoY
Class A Net Asking Rent (per sq. ft.)	\$19.99	\$19.14	\$19.14	◄►	Vacancy Rate	4.3%	2.4%	2.2%	▼
					2-Bedroom Average Rent	\$1,304	\$1,398	\$1,440	▲
					New Rental Supply (units)	3,877	4,811	5,130	▲

Sources: CBRE Research, CMHC, Oxford Economics, 2024.

# Saskatoon

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## Saskatchewan's Economy is Growing

Large-scale capital investment is flowing into the province to capitalize on a global surge in demand for potash, uranium and various agricultural sectors. This expenditure is highlighted by BHP's \$14.0 billion dollar commitment to push forward on full-scale potash production by 2026, at which point it will be producing approximately 8.5 million tonnes of potash per annum. Another key trend in the market is Saskatchewan's goal of internalizing canola processing within the province, including four canola crushing plants that are projected to cost nearly \$2.0 billion and create thousands of permanent skilled labour jobs.

## Interest in Industrial Development

There has been a spike in permitting activity to take advantage of Saskatoon's tight industrial market. A large portion of development is design build; however, the elevated cost of construction is largely offset by the rise in local net asking rates providing developers comfort in building speculative industrial product.

## Saskatoon's Downtown Office

Saskatoon's newest Class AA product, River Landing has achieved full occupancy in the 450,000 sq. ft. two-tower office development. In turn, this flight to-quality has created an opportunity to lease Class A office space at a more affordable rate. The market has yet to see an increase in activity at these more affordable levels. Saskatchewan's mining and resource sectors will dictate much of the future demand, evidenced by Nutrien kicking off the River Landing development and BHP recently securing an expansion in the downtown core to help service their large-scale potash projects in Saskatchewan. In the coming years, the contractors that are selected to support major capital projects within the province will begin to absorb the Class A office vacancy that is currently present in the downtown market.

## Retail Expansion in Saskatchewan

Increasingly, retail users are turning to Saskatchewan to fulfill their expansion objectives. Saskatoon often gets the first look, based on population demographics and discretionary spending trends. The competitive retail node of 8th Street is the primary destination for new market entrants, though there are limited options available. Due to this, grocery-anchored neighborhood centres will continue to see most of the leasing velocity in 2024.

Office					Industrial				
	2022	2023	2024F	YoY		2022	2023	2024F	YoY
<b>DOWNTOWN</b>									
Inventory (million sq. ft.)	3.32	3.32	3.32	◀▶	Inventory (million sq. ft.)	24.41	24.45	24.74	▲
Vacancy Rate (%)	24.4%	25.2%	25.4%	▲	Availability Rate (%)	5.2%	3.4%	4.0%	▲
Net Absorption (million sq. ft.)	0.05	-0.03	-0.01	▲	Net Absorption (million sq. ft.)	0.53	0.47	0.14	▼
New Supply (million sq. ft.)	0.27	0.00	0.00	◀▶	New Supply (million sq. ft.)	0.07	0.04	0.29	▲
Class A Net Asking Rent (per sq. ft.)	\$19.15	\$19.03	\$18.80	▼	Net Asking Rent (per sq. ft.)	\$10.60	\$12.10	\$12.30	▲
<b>SUBURBAN</b>									
Inventory (million sq. ft.)	3.19	3.23	3.23	◀▶	Sale Price (per sq. ft.)	\$183	\$190	\$196	▲
Vacancy Rate (%)	14.2%	13.1%	13.2%	▲	Land Price (per acre)	\$540,000	\$575,000	\$578,000	▲
Net Absorption (million sq. ft.)	0.00	0.07	0.00	▼	<b>Retail</b>				
New Supply (million sq. ft.)	0.01	0.04	0.00	▼		2022	2023	2024F	YoY
Class A Net Asking Rent (per sq. ft.)	\$22.56	\$22.43	\$22.20	▼	Total Retail Sales per Capita	\$20,004	\$19,528	\$18,915	▼
<b>OVERALL</b>									
Inventory (million sq. ft.)	6.51	6.55	6.55	◀▶	Total Retail Sales Growth	-1.1%	0.9%	0.0%	▼
Vacancy Rate (%)	19.4%	19.2%	19.4%	▲	<b>Multifamily</b>				
Net Absorption (million sq. ft.)	0.05	0.04	-0.01	▼		2022	2023	2024F	YoY
New Supply (million sq. ft.)	0.28	0.04	0.00	▼	Vacancy Rate	3.4%	2.0%	1.7%	▼
Class A Net Asking Rent (per sq. ft.)	\$21.77	\$20.17	\$19.95	▼	2-Bedroom Average Rent	\$1,248	\$1,367	\$1,410	▲
					New Rental Supply (units)	828	1,145	929	▼

Sources: CBRE Research, CMHC, Oxford Economics, 2024.

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# Winnipeg

## Battling High Office Vacancy

The new Wawanesa Tower opening downtown this year will have an impact on reshaping the market. Of the buildings Wawanesa was in, 200 Main, has already sold to the Manitoba Métis Federation. One or both of the remaining buildings they were lead tenants in, namely 191 Broadway and 333 Main, could be candidates for conversion. As the market battles historically high vacancy, moving real estate from the office designation to something else will be a part of making a healthier downtown.

## Industrial Market Is Too Tight

There is nowhere for anybody to move in the Winnipeg industrial market which has placed incredible pressures on rental rates. Hopewell and QuadReal will be bringing new buildings to the market, Class A product with 36-foot clear ceilings. Incumbent Winnipeg tenants likely won't be moving into these buildings, however. The main thing to watch in 2024 will be which big out-of-market mover comes to Winnipeg. Whoever takes that space will infuse more oxygen to the market and start the ecosystem humming again. At CentrePort, Fastfrate Group has been the first to buy a parcel in the Rail Park and start development. Expect to see more sales and momentum in the year ahead, but the big issue will be the cost of construction.

## Multifamily In High Demand

There is considerable demand locally and nationally to enter Winnipeg as a multifamily holder; however, housing starts are not being produced fast enough, a trend observed across the country. Pricing expectations are a challenge in the market, with sellers unwilling to adjust and be more in line with reality. Some multifamily investors will be exposed to distressed sales in 2024, the impact of which on the Winnipeg market remains to be seen.

## Retail Is Outperforming

Winnipeg retail has surpassed expectations and is performing strongly. A number of new retail projects will create waves in 2024: Hopewell's Refinery District, Whiteland's Polaris Place, LS Properties' expansion at Kildonan Crossing, and Qualico's next phase of Sage Creek.

Office					Industrial				
	2022	2023	2024F	YoY		2022	2023	2024F	YoY
<b>DOWNTOWN</b>									
Inventory (million sq. ft.)	9.82	10.01	10.39	▲	Inventory (million sq. ft.)	85.89	86.49	86.79	▲
Vacancy Rate (%)	16.0%	18.4%	19.0%	▲	Availability Rate (%)	1.9%	2.5%	2.8%	▲
Net Absorption (million sq. ft.)	-0.07	-0.20	0.25	▲	Net Absorption (million sq. ft.)	1.27	0.09	0.03	▼
New Supply (million sq. ft.)	0.00	0.00	0.38	▲	New Supply (million sq. ft.)	0.42	0.57	0.30	▼
Class A Net Asking Rent (per sq. ft.)	\$19.26	\$19.34	\$19.30	▼	Net Asking Rent (per sq. ft.)	\$10.54	\$10.89	\$11.55	▲
<b>SUBURBAN</b>									
Inventory (million sq. ft.)	4.13	4.05	4.06	▲	Sale Price (per sq. ft.)	\$134	\$142	\$145	▲
Vacancy Rate (%)	8.7%	10.9%	10.0%	▼	Land Price (per acre)	\$470,000	\$550,000	\$580,000	▲
Net Absorption (million sq. ft.)	0.10	-0.10	0.05	▲	<b>Retail</b>				
New Supply (million sq. ft.)	0.00	0.00	0.01	▲		2022	2023	2024F	YoY
Class B Net Asking Rent (per sq. ft.)	\$16.85	\$17.32	\$17.35	▲	Total Retail Sales per Capita	\$16,303	\$16,267	\$15,681	▼
<b>OVERALL</b>									
Inventory (million sq. ft.)	13.95	14.06	14.45	▲	Total Retail Sales Growth	-1.1%	2.6%	-1.1%	▼
Vacancy Rate (%)	13.8%	16.3%	16.5%	▲	New Supply (million sq. ft.)	0.03	0.09	0.03	▼
Net Absorption (million sq. ft.)	0.03	-0.30	0.30	▲	<b>Multifamily</b>				
New Supply (million sq. ft.)	0.00	0.00	0.39	▲		2022	2023	2024F	YoY
Class A Net Asking Rent (per sq. ft.)	\$19.26	\$19.34	\$19.30	▼	Vacancy Rate	2.7%	1.8%	1.9%	▲
					2-Bedroom Average Rent	\$1,350	\$1,427	\$1,500	▲
					New Rental Supply (units)	2,356	2,586	2,820	▲

Sources: CBRE Research, CMHC, Oxford Economics, 2024.

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# Southwestern Ontario

## Industrial Leads the Way

The focal point in the Kitchener-Waterloo-Cambridge (KWC) region will be the construction pipeline of new industrial space. With 3.1 million sq. ft. under development going into 2024, these projects are expected to contribute to a more balanced availability rate and overall market fundamentals. Supply constraints should ease this year, which will impact lease rates. Lease rates grew at unprecedented rates, and with the amount of new space coming to market, are expected stabilize.

Given there is little new speculative construction space in the pipeline, London's industrial availability rate will remain low and the market tight. The focus remains on St. Thomas and the new Volkswagen EV plant. There is considerable confidence in the area around the plant, with developers actively acquiring land and planning industrial projects.

## Quality Shapes Office Decisions

KWC office occupiers will continue to right-size their footprints in 2024. Interest in Class A, well-amenitized buildings remains strong. Flight-to-quality is underpinning occupier real estate decisions, and this will continue to drive up vacancy in Class B and C buildings. Landlords and owners will be challenged to assess options with stranded assets and there have been a few cases of buildings identified for conversion from office to residential. These will be important firsts for the KWC region. An office tower in downtown Kitchener will be converted to residential, with 91 rental units, and the project is expected to be completed by the end of 2024.

## ESG Emphasis

There will be increased emphasis on the importance of ESG (Environmental, Social, Governance) and sustainability in 2024. Consideration of ESG on the part of landlords and developers is the expectation now. It is of importance not just to institutional investors, but also occupiers. Future-proofing assets will be top of mind, including efforts to incorporate green clauses in leases to formalize each side's commitment to sustainable practices.

	LONDON				WATERLOO REGION				
<b>Office</b>					<b>Industrial</b>				
<b>DOWNTOWN</b>	<b>2022</b>	<b>2023</b>	<b>2024F</b>	<b>YoY</b>	<b>2022</b>	<b>2023</b>	<b>2024F</b>	<b>YoY</b>	
Inventory (million sq. ft.)	4.78	4.80	4.80	◀▶	Inventory (million sq. ft.)	41.39	41.64	42.72 ▲	
Vacancy Rate (%)	26.1%	28.5%	29.6%	▲	Availability Rate (%)	1.1%	0.7%	1.2% ▲	
Net Absorption (million sq. ft.)	0.00	-0.16	-0.06	▲	Net Absorption (million sq. ft.)	1.42	0.41	0.86 ▲	
New Supply (million sq. ft.)	0.00	0.00	0.00	◀▶	New Supply (million sq. ft.)	1.55	0.25	1.08 ▲	
Class A Net Asking Rent (per sq. ft.)	\$14.45	\$15.07	\$14.85	▼	Net Asking Rent (per sq. ft.)	\$8.95	\$10.05	\$10.65 ▲	
					Sale Price (per sq. ft.)	\$219	\$184	\$195 ▲	
					Land Price (per acre)	\$450,000	\$450,000	\$442,000 ▼	
<b>SUBURBAN</b>					<b>Retail</b>				
Inventory (million sq. ft.)	1.61	1.58	1.58	◀▶		<b>2022</b>	<b>2023</b>	<b>2024F</b>	<b>YoY</b>
Vacancy Rate (%)	9.3%	10.6%	11.3%	▲	Total Retail Sales per Capita	\$17,428	\$17,252	\$16,527	▼
Net Absorption (million sq. ft.)	-0.03	-0.02	-0.01	▲	Total Retail Sales Growth	0.1%	1.9%	-1.2%	▼
New Supply (million sq. ft.)	0.00	0.00	0.00	◀▶	New Supply (million sq. ft.)	0.00	0.07	0.00	▼
Class B Net Asking Rent (per sq. ft.)	\$13.68	\$13.30	\$13.20	▼	<b>Multifamily</b>				
						<b>2022</b>	<b>2023</b>	<b>2024F</b>	<b>YoY</b>
<b>OVERALL</b>					Vacancy Rate	1.7%	1.7%	1.8%	▲
Inventory (million sq. ft.)	6.38	6.38	6.38	◀▶	2-Bedroom Average Rent	\$1,393	\$1,479	\$1,540	▲
Vacancy Rate (%)	21.9%	24.0%	25.1%	▲	New Rental Supply (units)	796	701	710	▲
Net Absorption (million sq. ft.)	-0.04	-0.18	-0.07	▲					
New Supply (million sq. ft.)	0.00	0.00	0.00	◀▶					
Class A Net Asking Rent (per sq. ft.)	\$14.45	\$15.07	\$14.85	▼					

Sources: CBRE Research, CMHC, Oxford Economics, 2024.

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LONDON		WATERLOO REGION											
<b>Office</b>					<b>Industrial</b>								
<b>DOWNTOWN</b>	<b>2022</b>	<b>2023</b>	<b>2024F</b>	<b>YoY</b>		<b>2022</b>	<b>2023</b>	<b>2024F</b>	<b>YoY</b>				
Inventory (million sq. ft.)	5.23	5.03	5.03	◀▶	Inventory (million sq. ft.)	115.92	120.27	123.54	▲				
Vacancy Rate (%)	21.5%	23.3%	24.2%	▲	Availability Rate (%)	0.9%	2.8%	4.1%	▲				
Net Absorption (million sq. ft.)	0.34	-0.14	-0.05	▲	Net Absorption (million sq. ft.)	0.43	2.02	1.58	▼				
New Supply (million sq. ft.)	0.30	0.00	0.00	◀▶	New Supply (million sq. ft.)	0.78	4.35	3.27	▼				
Class A Net Asking Rent (per sq. ft.)	\$28.07	\$27.14	\$26.95	▼	Net Asking Rent (per sq. ft.)	\$11.82	\$14.02	\$14.45	▲				
					Sale Price (per sq. ft.)	\$233	\$255	\$260	▲				
					Land Price (per acre, \$ millions)	\$1.38	\$1.05	\$1.01	▼				
<b>SUBURBAN</b>													
Inventory (million sq. ft.)	10.90	11.13	11.15	▲									
Vacancy Rate (%)	7.8%	9.4%	9.5%	▲									
Net Absorption (million sq. ft.)	0.22	0.03	0.01	▼									
New Supply (million sq. ft.)	0.11	0.23	0.02	▼									
Class A Net Asking Rent (per sq. ft.)	\$16.80	\$16.85	\$16.85	◀▶									
<b>OVERALL</b>													
Inventory (million sq. ft.)	16.13	16.15	16.17	▲									
Vacancy Rate (%)	12.2%	13.7%	14.1%	▲									
Net Absorption (million sq. ft.)	0.56	-0.11	-0.04	▲									
New Supply (million sq. ft.)	0.41	0.23	0.02	▼									
Class A Net Asking Rent (per sq. ft.)	\$22.65	\$21.97	\$21.85	▼									
					<b>Retail</b>								
						<b>2022</b>	<b>2023</b>	<b>2024F</b>	<b>YoY</b>				
					Total Retail Sales per Capita	\$14,967	\$14,769	\$14,252	▼				
					Total Retail Sales Growth	-1.8%	2.1%	0.0%	▼				
					New Supply (million sq. ft.)	0.02	0.01	0.01	▲				
					<b>Multifamily</b>								
						<b>2022</b>	<b>2023</b>	<b>2024F</b>	<b>YoY</b>				
					Vacancy Rate	1.2%	2.1%	2.1%	◀▶				
					2-Bedroom Average Rent	\$1,469	\$1,658	\$1,790	▲				
					New Rental Supply (units)	888	1,397	1,650	▲				

Sources: CBRE Research, CMHC, Oxford Economics, 2024.



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# Ottawa

## Office Vacancy Plateaus

Ottawa finished 2023 with a slight decrease in office vacancy, the result of buildings being removed from inventory and converted to residential product. Hybrid work is less of a prominent conversation but still relevant as most companies are down to two to three days of work at the office. The Kanata tech-focused submarket has experienced a slowdown due to the impacts of people working remotely but also the cooling of the tech sector. Overcorrection of previous growth, layoffs and space being put on the sublease market will see landlords feel the impact.

Tenants now have a better understanding of their usage of space. Expect them to commit to office space in 2024, even if it is in smaller footprints. Flight-to-quality will be even more pronounced in 2024 to highly amenitized buildings, where landlords are actively investing in the property, expecting to see activity.

## Industrial Availability Ticks Up

With new supply hitting the market in the final quarter of 2023, the availability rate ticked back up. Expect this trend to continue in 2024. Throughout the pandemic, the rapid acceleration in e-commerce trends and the global supply chain disruptions caused an increased demand for local warehousing space which is now levelling off and allowing new supply to catch up.

There's more than 700,000 sq. ft. of industrial space under construction and expected to be delivered in 2024. It will take some time to fully absorb this new inventory. The market is seeing lower pre-leasing numbers for developments being done on spec and will mean some delays for projects waiting for a tenant before kicking off. Fundamentals of the industrial market remain strong and the outlook on the sector is optimistic for 2024.

## Retail on the Rise

Foot traffic, dwell time and sales are expected to continue rising in Ottawa's enclosed malls throughout 2024. New brands and concepts will lead the leasing market, primarily in the food and entertainment categories. Supply will remain tight and demand will continue to compete for well positioned opportunities as they become available.

### Office

<b>DOWNTOWN</b>	<b>2022</b>	<b>2023</b>	<b>2024F</b>	<b>YoY</b>
Inventory (million sq. ft.)	18.48	18.30	18.30	◀▶
Vacancy Rate (%)	12.6%	14.2%	15.0%	▲
Net Absorption (million sq. ft.)	-0.47	-0.59	-0.15	▲
New Supply (million sq. ft.)	0.00	0.06	0.00	▼
Class A Net Asking Rent (per sq. ft.)	\$22.12	\$23.18	\$23.20	▲

### SUBURBAN

Inventory (million sq. ft.)	22.04	22.64	22.71	▲
Vacancy Rate (%)	10.7%	12.5%	13.3%	▲
Net Absorption (million sq. ft.)	-0.69	-0.46	-0.12	▲
New Supply (million sq. ft.)	0.00	0.00	0.07	▲
Class A Net Asking Rent (per sq. ft.)	\$15.78	\$15.81	\$15.80	▼

### OVERALL

Inventory (million sq. ft.)	40.52	40.94	41.01	▲
Vacancy Rate (%)	11.5%	13.3%	14.1%	▲
Net Absorption (million sq. ft.)	-1.16	-1.05	-0.27	▲
New Supply (million sq. ft.)	0.00	0.06	0.07	▲
Class A Net Asking Rent (per sq. ft.)	\$18.34	\$18.97	\$18.95	▼

### Industrial

	<b>2022</b>	<b>2023</b>	<b>2024F</b>	<b>YoY</b>
Inventory (million sq. ft.)	35.61	36.60	37.33	▲
Availability Rate (%)	2.4%	2.6%	4.4%	▲
Net Absorption (million sq. ft.)	0.02	0.55	0.04	▼
New Supply (million sq. ft.)	0.28	0.65	0.73	▲
Net Asking Rent (per sq. ft.)	\$13.63	\$15.44	\$15.65	▲
Sale Price (per sq. ft.)	\$281	\$313	\$315	▲
Land Price (per acre, \$ millions)	\$1.03	\$1.18	\$1.21	▲

### Retail

	<b>2022</b>	<b>2023</b>	<b>2024F</b>	<b>YoY</b>
Total Retail Sales per Capita	\$18,053	\$17,921	\$17,278	▼
Total Retail Sales Growth	-3.1%	2.1%	-0.4%	▼
New Supply (million sq. ft.)	0.03	0.09	0.00	▼

### Multifamily

	<b>2022</b>	<b>2023</b>	<b>2024F</b>	<b>YoY</b>
Vacancy Rate	2.1%	2.1%	1.9%	▼
2-Bedroom Average Rent	\$1,625	\$1,698	\$1,790	▲
New Rental Supply (units)	2,674	3,337	3,440	▲

Sources: CBRE Research, CMHC, Oxford Economics, 2024.

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# Montreal

## Quality Office Prevails

Office occupiers are looking for high-quality built-out space in key locations for their employees. High-quality buildings are seeing lots of leasing activity, while less-amenitized buildings are more challenged to appeal to occupiers. There are opportunities for those landlords to make investments to provide a differentiated experience. Montreal has seen office conversions come to fruition with more planned, including the former Standard Life tower on Sherbrooke Street. Without substantial government support there will not be many examples where conversions are economically feasible.

## Industrial Indicators Reverse

After breakneck absorption of industrial space, remarkable rental growth, and a significant drop in availability, indicators have started to reverse direction in early 2024. The big box space will be one to watch given that developers are delivering new product at a time when 3PLs and other big box users are shedding space they leased as a hedge during the COVID days. Sublease space is on the rise and the amount of space available in the large bay segment is rising substantially.

## Multifamily Helped by CMHC

CMHC will continue to provide considerable support to developers and their commitments to delivering new housing stock across the country. Driven by the recent Bill-96 announcement, the Quebec student housing market may face challenges stemming from concerns about associated local and international demand. The new language law requirements may be perceived as a barrier to a world-class educational system.

## Retail Awaits Royalmount

Grocery-anchored retail has been the most popular and highest-value asset class in recent years. Highstreet retail is coming back, particularly in denser areas. The food and beverage segment is seeing lots of new things happening in Montreal. Completed segments of the Sainte-Catherine Street West revitalization are creating an appealing pedestrian-retail environment. The REM (Réseau express métropolitain) will be a game-changer in 2024. Properties at the terminus of the REM at Brossard, including Dix30 and Solar, are doing well from office and retail leasing perspectives.

Royalmount will be the big retail project to watch; the first phase is slated to open later in 2024. At a cost of \$1.0 billion, Phase 1 will have more than 170 businesses, including 60 eateries and cafes, in an 824,000 sq. ft. two-level retail and lifestyle complex.

Office					Industrial				
	2022	2023	2024F	YoY		2022	2023	2024F	YoY
<b>DOWNTOWN</b>									
Inventory (million sq. ft.)	46.19	45.61	47.16	▲	Inventory (million sq. ft.)	324.58	328.30	331.25	▲
Vacancy Rate (%)	16.0%	18.0%	22.0%	▲	Availability Rate (%)	1.2%	3.0%	4.0%	▲
Net Absorption (million sq. ft.)	-1.09	-0.82	-0.61	▲	Net Absorption (million sq. ft.)	2.03	-2.41	-0.45	▲
New Supply (million sq. ft.)	0.00	0.15	1.56	▲	New Supply (million sq. ft.)	3.27	3.30	2.95	▼
Class A Net Asking Rent (per sq. ft.)	\$25.61	\$25.23	\$25.25	▲	Net Asking Rent (per sq. ft.)	\$15.39	\$16.42	\$16.00	▼
<b>SUBURBAN</b>									
Inventory (million sq. ft.)	31.71	32.48	32.36	▼	Sale Price (per sq. ft.)	\$218	\$257	\$270	▲
Vacancy Rate (%)	18.3%	17.6%	17.9%	▲	Land Price (per acre, \$ millions)	\$1.72	\$1.83	\$1.87	▲
Net Absorption (million sq. ft.)	-0.07	0.17	0.08	▼	<b>Retail</b>				
New Supply (million sq. ft.)	0.64	0.00	0.13	▲		2022	2023	2024F	YoY
Class A Net Asking Rent (per sq. ft.)	\$16.40	\$17.30	\$17.40	▲	Total Retail Sales per Capita	\$16,701	\$17,155	\$16,705	▼
<b>OVERALL</b>									
Inventory (million sq. ft.)	77.90	78.08	79.52	▲	Total Retail Sales Growth	2.7%	4.9%	-0.5%	▼
Vacancy Rate (%)	17.0%	17.8%	20.3%	▲	New Supply (million sq. ft.)	0.45	0.32	0.88	▲
Net Absorption (million sq. ft.)	-1.16	-0.65	-0.53	▲	<b>Multifamily</b>				
New Supply (million sq. ft.)	0.64	0.15	1.69	▲		2022	2023	2024F	YoY
Class A Net Asking Rent (per sq. ft.)	\$21.47	\$22.27	\$22.30	▲	Vacancy Rate	2.0%	1.5%	1.5%	◀▶
					2-Bedroom Average Rent	\$1,022	\$1,096	\$1,140	▲
					New Rental Supply (units)	16,405	13,851	13,408	▼

Sources: CBRE Research, CMHC, Oxford Economics, 2024.

# Quebec City

BACK TO MENU

## Tenant Base Could See a Shift

The significant government presence in Quebec City has allowed for stable office conditions relative to the rest of the country. That large presence can have an outsized impact on the market however, as any attrition plans could open up opportunities for the private sector to grow. Sublease options meanwhile have remained scarce due to the strong presence of owner occupiers. Securing financing for office assets will continue to prove a challenge for potential purchasers.

## Future Industrial Pipeline to Alter Market

The industrial supply and demand imbalance has persisted in Quebec City. In an attempt to remediate the lack of supply, significant plans for future land development surrounding the airport are underway which could reposition the city as a distribution hub. In the near-term, limited active developments partnered with tenant rollover and relocations will continue to perpetuate the shortage of availability across the market.

## Retail Remains Resilient

Despite concerns surrounding heightened inflation, the retail sector remains strong and stable. Reduced consumer spending will be felt, but with a soft economic landing expected optimism persists. Densification opportunities are highly sought after among investors, with several future redevelopments in the planning stages.

## New Supply Will Drive Multifamily Rental Rates

Apartment rental rates will see growth as new product is delivered to market, especially where appliances are included. Demand remains resilient, encouraging the commencement of additional sizeable developments through strong pre-leasing. Where other sectors struggle to meet demand, the level of multifamily construction in Quebec City lends itself to an optimistic outlook for opportunities and growth in the market.

## Strategic Financing Top of Mind

Transaction activity among existing multifamily assets has been muted, but will see a resurgence led by portfolio sales. Landlords are strategically divesting in an effort to increase liquidity, opting to prioritize assets which qualify for the CMHC MLI Select program. CRE financing remaining strenuous, MLI Select will continue to gain popularity.

Office					Industrial				
	2022	2023	2024F	YoY		2022	2023	2024F	YoY
<b>DOWNTOWN</b>									
Inventory (million sq. ft.)	7.92	7.92	7.92	◀▶	Inventory (million sq. ft.)	21.73	22.37	22.62	▲
Vacancy Rate (%)	11.8%	14.0%	15.9%	▲	Availability Rate (%)	2.1%	3.1%	2.8%	▼
Net Absorption (million sq. ft.)	0.07	-0.17	-0.15	▲	Net Absorption (million sq. ft.)	0.44	0.04	0.30	▲
New Supply (million sq. ft.)	0.10	0.00	0.00	◀▶	New Supply (million sq. ft.)	0.47	0.27	0.25	▼
Class A Net Asking Rent (per sq. ft.)	\$14.22	\$15.61	\$15.75	▲	Net Asking Rent (per sq. ft.)	\$14.73	\$15.17	\$15.50	▲
<b>SUBURBAN</b>									
Inventory (million sq. ft.)	11.64	11.73	11.73	◀▶	Sale Price (per sq. ft.)	\$275	\$250	\$250	◀▶
Vacancy Rate (%)	6.7%	9.1%	9.5%	▲	Land Price (per acre, \$ millions)	\$500,000	\$700,000	\$625,000	▼
Net Absorption (million sq. ft.)	0.15	-0.26	-0.05	▲	<b>Retail</b>				
New Supply (million sq. ft.)	0.00	0.04	0.00	▼		2022	2023	2024F	YoY
Class A Net Asking Rent (per sq. ft.)	\$18.22	\$18.71	\$18.95	▲	Total Retail Sales per Capita	\$18,097	\$18,435	\$18,180	▼
<b>OVERALL</b>									
Inventory (million sq. ft.)	19.56	19.65	19.65	◀▶	Total Retail Sales Growth	-5.5%	4.3%	0.9%	▼
Vacancy Rate (%)	8.8%	11.1%	12.1%	▲	<b>Multifamily</b>				
Net Absorption (million sq. ft.)	0.22	-0.44	-0.20	▲		2022	2023	2024F	YoY
New Supply (million sq. ft.)	0.10	0.04	0.00	▼	Vacancy Rate	1.5%	0.9%	0.9%	◀▶
Class A Net Asking Rent (per sq. ft.)	\$15.20	\$16.53	\$16.70	▲	2-Bedroom Average Rent	\$976	\$1,040	\$1,080	▲
					New Rental Supply (units)	6,459	5,634	4,170	▼

Sources: CBRE Research, CMHC, Oxford Economics, 2024.



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