Morguard

# Resilience in Core Sectors

Morguard Canadian Economic Outlook and Market Fundamentals
28th Annual Edition

2025 Fourth Quarter Update

# CONTENTS

## Q4



## ABOUT

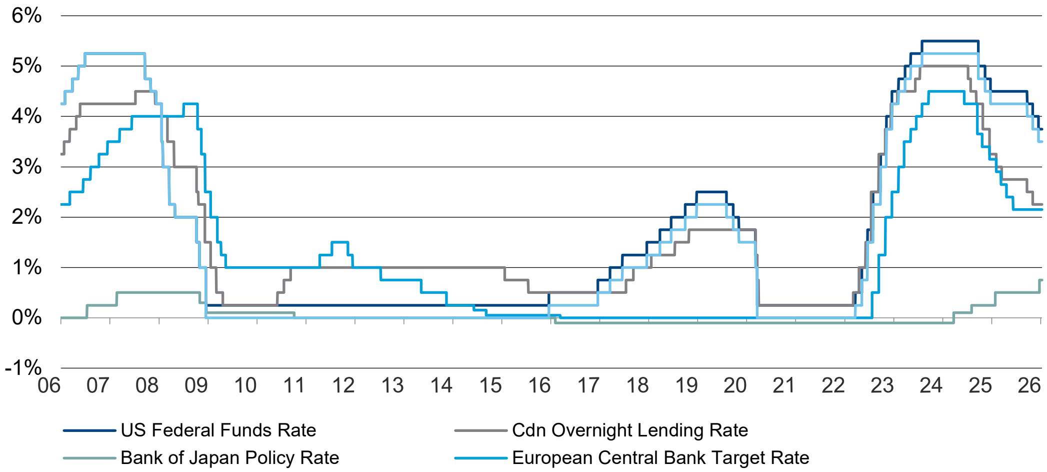
# FINANCIAL REPORT

## RATE CUTTING CYCLE ENDED

The Bank of Canada's (BoC) recent rate cutting cycle came to an end in the fourth quarter. The Bank announced that the overnight rate would remain at 2.25% on December 10. The Bank rate and deposit rate were unchanged at 2.5% and 2.2%, respectively. The key policy rate was lowered by 25 bps on each of October 29 and September 27.

### OFFICIAL POLICY RATES

International Monetary Conditions




Source: Bank of Canada, Federal Reserve Board, European Central Bank, Bank of Japan

The BoC is expected to hold the overnight policy rate at 2.25% over the first few months of 2026. The Bank stated on December 10 that "if inflation and economic activity evolve broadly in line with the October projection, Governing Council sees the current policy rate at about the right level to keep inflation close to 2.0% while helping the economy through this period of structural adjustment". The Bank added that a measure of inflation volatility is anticipated over the near term. In December, inflation ticked 20 bps higher to 2.4% year-over-year from the previous month. Inflation pressure is expected to gradually ease in the first few months of 2026 while remaining within the Bank's target range. Trade uncertainty and tariffs will continue to have a negative impact on Canadian economic performance and business investment. Canada's economy is projected to expand slowly in the first half of 2026 with a stronger growth trend predicted in the second half. The accuracy of this projection supports the Bank's maintenance of its overnight policy rate over the near term.

## INFLATION PRESSURE INCREASED MODESTLY

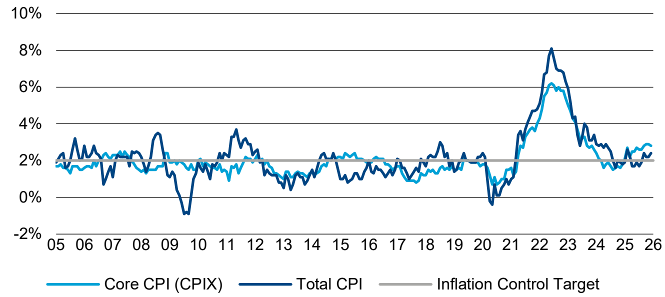
Inflation pressure increased modestly in the fourth quarter, mirroring the trend of the previous period. Canada's Consumer Price Index (CPI) rose by a modest 20 bps in December to 2.4%, held steady at 2.2% in November, and increased by 20 bps to 2.2% in October. The December increase was somewhat misleading, as it was largely due to a denominator effect related to the Goods and Services Tax (GST)/ Harmonized Sales Tax (HST) break. Items impacted by this tax break included restaurant food, alcoholic beverages, toys, games and hobby supplies, children's clothing, and certain grocery items. Higher restaurant prices were the largest contributor to the faster year-over-year price growth. Prices for food purchased from restaurants increased by 8.5% year-over-year in December, compared with a modest 3.3% in November, as reported by Statistics Canada. Headline inflation remained at or below the 2.0% mark dating back to March. Grocery prices continued to rise in the fourth quarter, with year-over-year increases of 3.4%, 4.7%, and 5.0% in October, November, and December, respectively. Inflation pressure is expected to gradually ease over the near term, following the modest increase recorded in the fourth quarter.

## FOURTH-QUARTER GAIN CAPPED OFF STRONG YEAR

The S&P/TSX Composite Index's fourth-quarter gain capped off a strong 2025. The index registered a 5.6% gain in the fourth quarter, with a stellar 28.2% annual advance for the year. This represented the strongest performance since 2019. Positive returns were recorded in 174 of the 240 stocks in the composite at some point in 2025. The Materials sector outperformed and came close to doubling in price, posting a 98.2% annual return, driven primarily by gold mining companies. The Financials sector posted the second strongest annual return at 30.8%, led by Canada's largest banks. The Consumer Discretionary sector ranked third, with a gain of 28.2%. The Consumer Staples, Information Technology, Utilities, and Communications sectors registered positive mid-teen advances. The Health Care sector was the only sector to post a negative result in 2025. However, it accounted for less than 1.0% of the index. The S&P/TSX SmallCap Index registered a healthy annual return of 47.0%, while the Completion (Mid Cap) and S&P/TSX 60 (Large Cap) indices gained 39.7% and 25.5%, respectively. In summary, the S&P/TSX Composite's fourth quarter gain capped off a strong performance in 2025.

## NATIONAL INFLATION

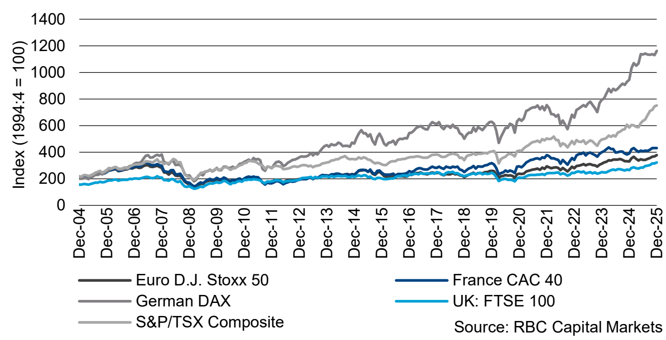
CPI Measures, % Change Over 1 Year Ago




Source: Bank of Canada, Statistics Canada

## GLOBAL INDICES

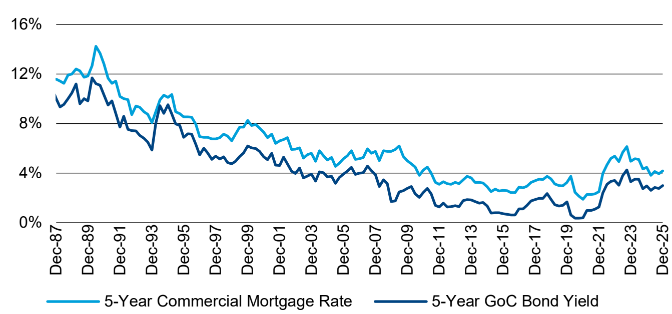
Trending of Global Price Return Indices




Source: RBC Capital Markets

## MORTGAGE SPREADS

Commercial Mortgage Rates Vs. 5-Year GOC Bonds



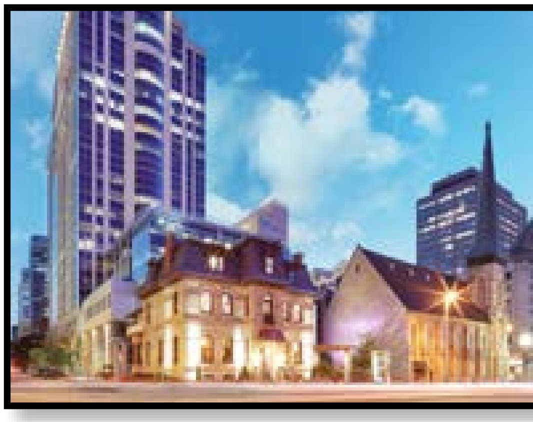

Source: RBC Capital Markets, Bank of Canada

**Inflation pressure is expected to ease over the near term, following the modest increase in the fourth quarter.**

# INVESTMENT REPORT

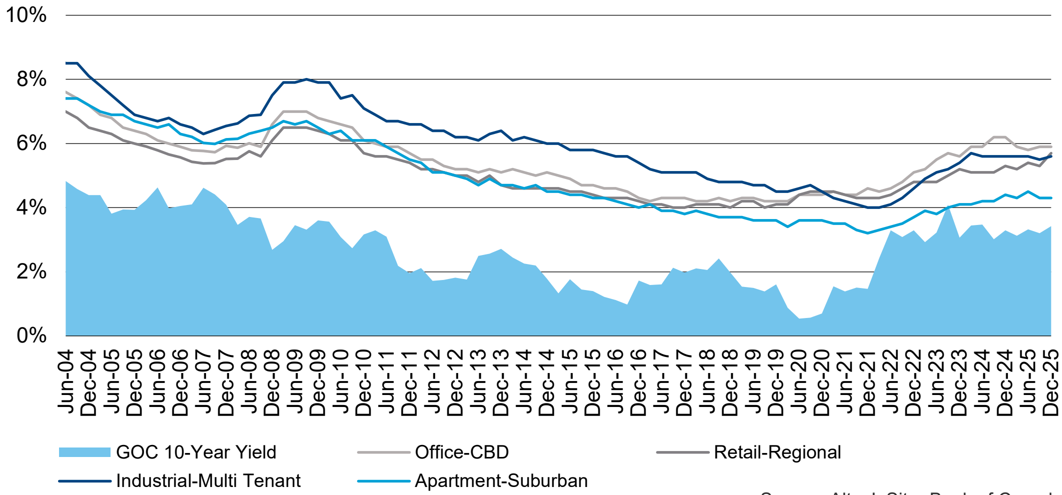
## INVESTMENT TRANSACTION VOLUME INCREASED SIGNIFICANTLY

Canadian investment property transaction volume increased significantly in the fourth quarter. Fourth quarter investment property sales volume totaled just shy of $5.7 billion, the second highest quarterly total of the past two years. Sales increased by $1.9 billion quarter-over-quarter and were just shy of $1.9 billion higher than the same period a year ago.



### YIELD SPREADS

Cap Rates vs. 10-Year GOC Bonds




Source: AltusInSite, Bank of Canada

Confidence in Canada's office property market ticked higher recently with the mandated return of major bank and government employees to their offices. Close to $1.9 billion of office property transaction volume was reported in the fourth quarter for assets sold for at least $10.0 million in the Greater Vancouver, Calgary, Toronto, Ottawa, and Montreal areas. Sales of retail property reached $1.0 billion, almost double the total of the previous period. Retail property sales climbed to a two-year quarterly high. Multi-suite residential rental property transaction volume rose by $400 million quarter-over-quarter to $1.7 billion. Investor interest in industrial property remained stable and healthy as sales volume edged slightly lower. Investors continued to target lower risk property acquisitions while economic and financial market uncertainty remained elevated. Industrial and multi-suite residential rental properties remained the preferred acquisition targets, a trend that is expected to continue in 2026. Retail assets with tenants selling essential goods are also expected to generate strong interest. Interest in high-quality, lower-risk office acquisitions will continue to firm up over the near term. Overall, investment sales activity is projected to increase in 2026, continuing the fourth quarter trend.

## MULTI-SUITE RESIDENTIAL RENTAL PROPERTY SALES INCREASED

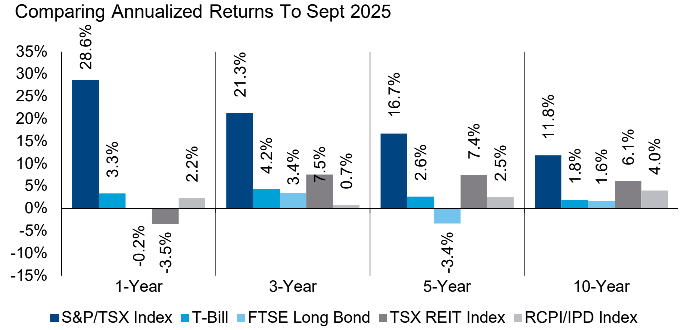
Multi-suite residential rental property investment sales increased quarter-over-quarter, continuing the recent trend. Transaction volume rose to $1.7 billion in the fourth quarter marking a third consecutive quarterly increase. The fourth quarter sales total was the second highest recorded since the first quarter of 2022. Investors continued to exhibit confidence in an asset class with a positive medium-to-long-term outlook. Interest in properties offered for sale remained high despite rising vacancy levels and downward pressure on rents in some markets. To some extent, CMHC financing helped facilitate property sales in the fourth quarter. Recently built properties and high-rise towers in downtown and urban areas remained the preferred targets of investors. However, acquisition availability was limited, as owners were reluctant to sell properties with strong performance track records. The country's two largest markets, Toronto and Montreal, accounted for more than three quarters of the properties sold in the fourth quarter. Property values were largely stable, consistent with the trend of the past few quarters. Assuming sufficient product availability, multi-suite residential rental property sales are expected to remain brisk, in line with the fourth-quarter trend.

## SALES OF INDUSTRIAL PROPERTY STEADIED

Sales of industrial investment property steadied in the fourth quarter. Interest in industrial acquisitions remained stable and positive, as investors and users competed for a limited supply of available properties. This demand supported close to $1.2 billion in sales volume across 55 transactions in the fourth quarter. Industrial property investment sales volume ranged between $1.0 billion and $1.6 billion over the past six quarters. Several significant investment transactions were reported in Toronto in the fourth quarter. KingSett Capital acquired 1177-1181 Finch Avenue West, measuring 165,000 square feet, for $37.1 million. Axia Real Assets acquired 1121 Walkers Line in Burlington from CanFirst Capital for $60.5 million. The 288,580 square foot property was built in 1968. Pure Industrial Real Estate Investment Trust purchased 5 Precidio Court in Brampton for $52.0 million. The 203,000 square foot building was fully occupied by Skjodt-Barrett. High-quality warehouse and logistics properties continued to generate strong interest. This demand supported a stable capital value trend in the fourth quarter, during which sales of industrial property steadied.

## RELATIVE PERFORMANCE

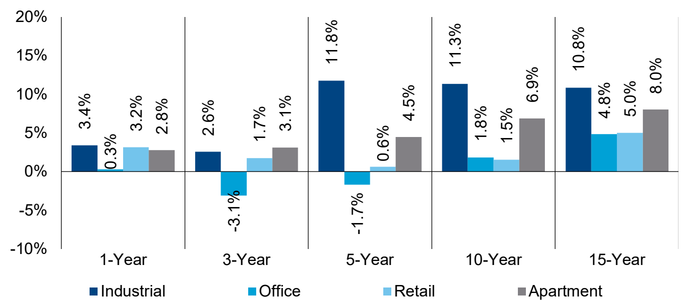
Comparing Annualized Returns To Sept 2025




Source: © MSCI Real Estate; RBC CM; TSX Datalinx; SCM; PC Bond Analytics

## MSCI RETURNS

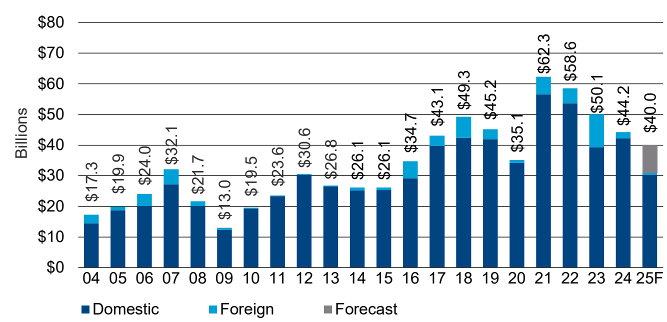
Annualized Returns By Property Type To Sept 2025




Source: © MSCI Real Estate 2025

## INVESTMENT ACTIVITY

Total Investment Volume




Source: CBRE Limited; Morguard

**Industrial property investment sales volume ranged between $1.0 billion and $1.6 billion over the past six quarters.**

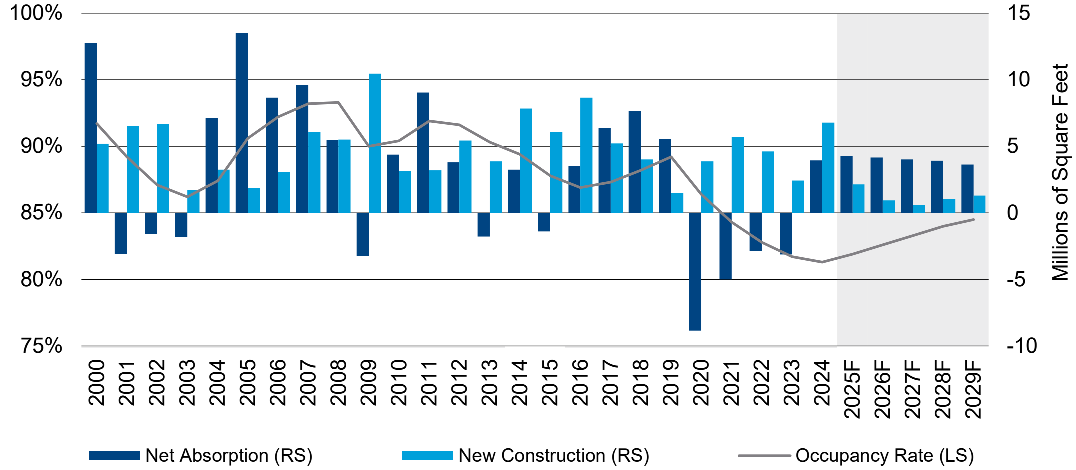
# LEASING REPORT

## OFFICE MARKET VACANCY FELL TO AN ALMOST THREE-YEAR LOW

Canada's office market vacancy rate fell to an almost three-year low in the fourth quarter. The 18.0% market average rate recorded at the end of 2025 was just 10 bps higher than the three-year low posted in the first quarter of 2022. This rate declined by a cumulative 70 bps in the second half of 2025. The class A vacancy rate fell by 110 bps over the same period.

### OFFICE DEMAND & SUPPLY

National Historical & Forecast Aggregates




Source: CBRE Limited; CBRE Econometric Advisors (Q3 2025)

The nation's downtown vacancy rate also declined in the fourth quarter. The 19.0% vacancy average was 100 bps lower than the rate reported by CBRE at mid-year 2025. The nation's class A downtown vacancy average stood at a healthier 15.4%. Conditions were tighter in the country's suburban markets, with vacancy resting at 16.7% in the fourth quarter. The suburban class A vacancy rate stood at 17.9%. Recent vacancy declines were driven by increased leasing demand in the second half of the year, supported by return-to-office mandates from major banks and the public sector. More than 1.3 million square feet of Canadian office space was absorbed in the fourth quarter and 2.2 million square feet in the second half of the year, following negative absorption in the first half. The nation's downtowns accounted for approximately three-quarters of total space absorbed in the second half, most of which was in class A buildings. In the fourth quarter, Toronto and Montreal posted healthy absorption totals, while Calgary and Ottawa registered substantially negative results. Despite these outcomes, the national vacancy rate fell to an almost three-year low.

## INDUSTRIAL LEASING MARKET STABILITY REPORTED

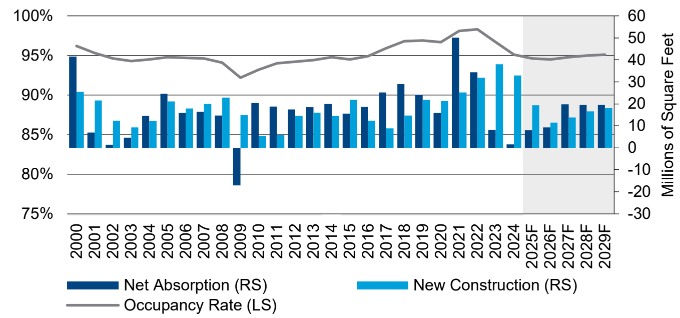
Stability was reported in Canada's industrial property leasing market in the fourth quarter. Market conditions have softened over much of the previous three-year period. Leasing market stability was reflected in the national availability rate, which edged just 10 bps higher to 5.6% in the fourth quarter. This modest rise represented a slowing of the trend seen over the past year, during which availability increased by 100 bps. New supply deliveries have outpaced leasing demand over the past year and in the fourth quarter. Almost 9.0 million square feet of new supply was delivered in the fourth quarter while 5.9 million square feet of space was absorbed. Approximately 4.3 million square feet of this new supply was delivered in the Greater Toronto Area. Vancouver saw the second highest new supply total at 1.8 million square feet. Pre-leasing of new supply increased modestly in the fourth quarter, as tenants continued to prefer newly constructed, state-of-the-art space. Expansion activity remained below the most recent peak overall, as some tenants remained reluctant to expand amid elevated economic uncertainty. Despite this sentiment, a measure of leasing market stability was reported in the fourth quarter.

## DOWNWARD PRESSURE ON ASKING RENTS PERSISTED

Downward pressure on multi-suite residential purpose-built rental asking rents persisted in the fourth quarter. This pressure resulted from continued weaker demand patterns and increased availability. Weaker demand was largely driven by lower government targets for permanent residents, temporary workers, and foreign students. At the same time, availability remained relatively high due in part to record-high new supply deliveries. According to Rentals.ca, the average asking rent for purpose-built rental units as of December 2025 was 1.0% lower than a year earlier. One-bedroom and two-bedroom averages were down 2.8% and 1.2%, respectively. Studio rents rose modestly by 0.5%, while three-bedroom units outperformed with a 3.9% year-over-year increase. In the secondary market, the average asking rent for condominium unit declined by 4.0% year-over-year. Owners and managers continued to offer incentives such as one or two months of free rent, as well as flexible move-in dates. Looking ahead to 2026, asking rents are expected to gradually stabilize following the downward pressure reported in the fourth quarter and throughout 2025.

## INDUSTRIAL DEMAND & SUPPLY

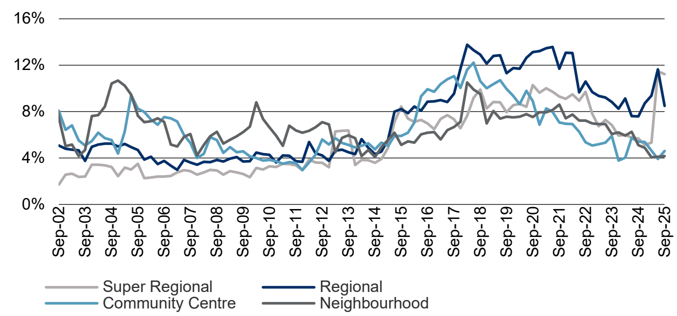
National Historical & Forecast Aggregates




Source: CBRE Limited; CBRE Econometric Advisors (Q3 2025)

## RETAIL VACANCY RATES

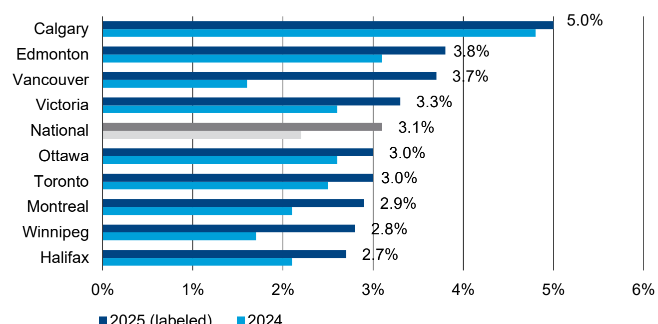
National Trending Across Property Types




Source: © MSCI Real Estate 2025

## CMA'S RENTAL VACANCY

Rates for Structures of 3 units+




Source: CMHC (October 2025 Rental Market Report)

**The pre-leasing of new industrial supply increased modestly in the fourth quarter.**

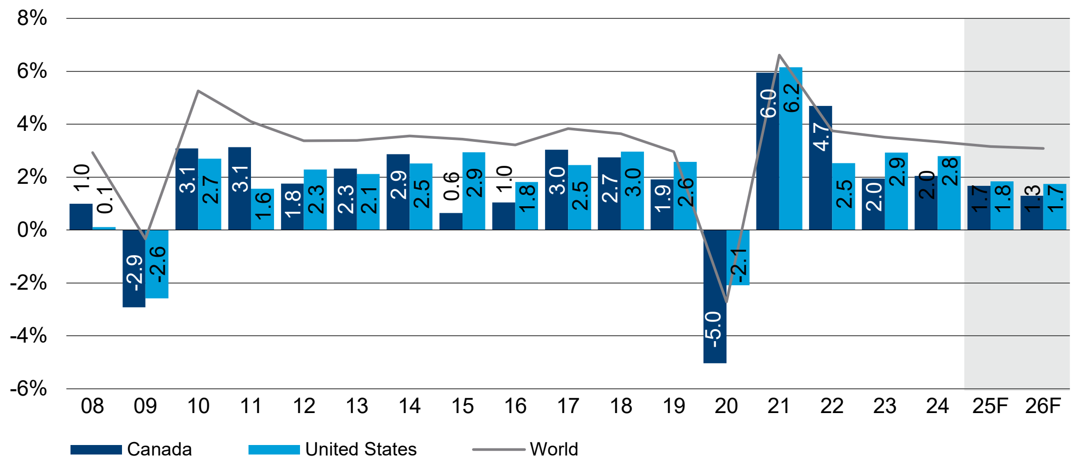
# ECONOMIC REPORT

## ECONOMIC OUTLOOK UNCERTAINTY REMAINED ELEVATED

Uncertainty surrounding Canada's economic outlook remained elevated in the fourth quarter, consistent with the trend of the past year. Economic uncertainty increased following the U.S. administration's imposition of tariffs on imported Canadain goods in the spring of 2025. The effects of U.S. tariffs on Canada's economic have been largely industry-specific.

## ECONOMIC GROWTH

Real GDP Growth — Historical & Forecast




Source: Conference Board of Canada (Dec 2025); International Monetary Fund (Oct 2025)

Heightened uncertainty is expected to persist through at least mid-2026, largely due to on the timing of the joint review of the Canada-United States-Mexico Agreement. Continuation of the agreement would have a stabilizing effect on Canada's economy. Until negotiations are concluded, uncertainty is expected to remain elevated. Trade-related turmoil was reflected in recent economic performance. Canada's economy contracted by 1.6% in the second quarter of 2025 following the imposition of U.S. tariffs on Canadian metals including steel and aluminum and automotive parts. Output expanded by 2.6% in the third quarter as businesses accelerated production to avoid tariffs. Growth of less than 1.0% is projected for the fourth quarter as tariffs and economic uncertainty continue to affect Canadian businesses. In summary, uncertainty surrounding Canada's economic outlook is expected to will remain elevated over the near term, which is consistent with the fourth quarter trend.

## STRONGER-THAN-EXPECTED JOB GROWTH TREND RECORDED

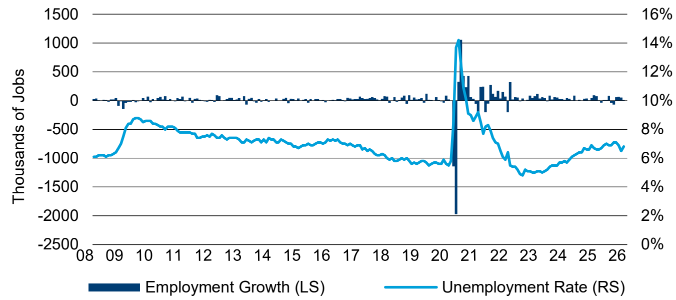
Canada's economy created more jobs than expected in the fourth quarter. Approximately 67,000 jobs were created in October of 2025, primarily in the wholesale and retail trade, transportation and warehousing, and information, culture, and recreation business sectors. Employment increased by a further 54,000 positions in November, with significant gains in the health care and social assistance, accommodation and food services, and natural resources sectors. Employment growth slowed in December, with only 8,200 jobs added. Stronger-than-expected job growth helped drive the unemployment rate lower in the fourth quarter, falling by 20 bps to 6.9% in October and a further 40 bps to 6.5% in November. However, labour force growth exceeded job creation in December, pushing the unemployment rate up 30 bps to 6.8%. Canadian wages continued to rise, with average hourly earnings increasing by 3.5% year-over-year (not seasonally adjusted). This wage growth coincided with stronger-than-expected employment gains.

## RESALE HOUSING MARKET SLUGGISHNESS CONTINUED

Sluggish conditions in Canada's resale housing market persisted in the final quarter of 2025. Many buyers chose to remain on the sidelines amid elevated economic uncertainty and softening labour market conditions. Resale activity was expected to increase following indications from the BoC that further rate cuts were unlikely in the near term. Lower home prices were also viewed as a catalyst for increased sales activity. However, little change was reported between July and November 2025. Approximately 62,400 existing homes were sold in Toronto in 2025, representing a 25-year low. Vancouver recorded 23,800 sales, the lowest level in more than 20 years. Nationally, sales were down 10.7% year-over-year as of November 2025. Despite downward pricing pressure, activity remained weak throughout 2025. The MLS Home Price Index declined by 0.4% month-over-month in November and was 3.7% lower year-over-year. Housing supply continued to rise in the fourth quarter, providing buyers with ample choice. Listings on Canada's MLS System increased by 8.5% between November 2024 and November 2025. Despite the increase in options for buyers, sluggishness in Canada's resale market persisted in the fourth quarter.

### LABOUR MARKET

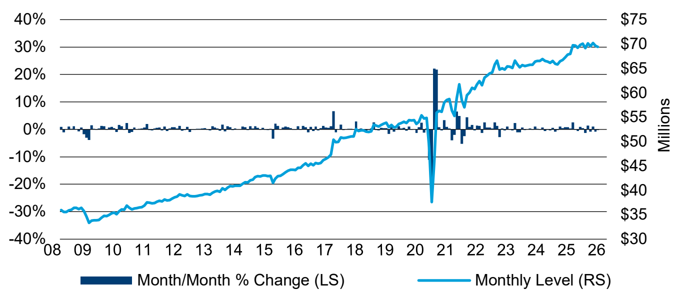
Month-Over-Month Trending




Source: Statistics Canada

### RETAIL SALES

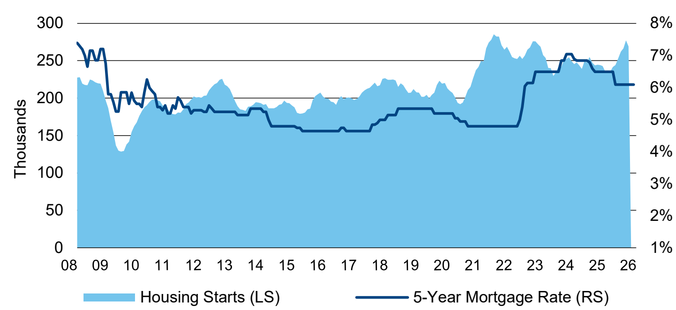
Month-Over-Month Trending




Source: Statistics Canada

### HOUSING MARKET

Monthly Trends




Source: Statistics Canada, CMHC, Bank of Canada

**There were approximately 62,400 existing homes sold in Toronto in 2025, representing a 25-year low.**

# INVESTMENT MARKET TRANSACTIONS

## OFFICE

| PROPERTY | DATE | PRICE | SF | PSF | PURCHASER | MARKET |
|---|---|---|---|---|---|---|
| 141 Adelaide St W | Dec-25 | $95.3 M | 188,191 | $506 | Spear Street Capital | Toronto |
| 2 St Clair Ave E | Dec-25 | $80.0 M | 161,302 | $496 | Choice Properties REIT | Toronto |
| 5995 Avebury Rd | Dec-25 | $24.6 M | 145,448 | $169 | Crestpoint | Toronto |
| 5750 Explorer Dr | Dec-25 | $22.8 M | 108,218 | $211 | Hunter Express | Toronto |
| 70 York St | Nov-25 | $134.6 M | 210,805 | $638 | Desjardins AM & Pension | Toronto |
| *The Post | Nov-25 | $1,200 M | 1,306,530 | $918 | Pontegadea Canada Inc | Vancouver |

## INDUSTRIAL

| PROPERTY | DATE | PRICE | SF | PSF | PURCHASER | MARKET |
|---|---|---|---|---|---|---|
| 8 Falconer Dr, 10 Matlock Ave | Dec-25 | $19.2 M | 137,736 | $139 | Beedie Group | Toronto |
| 11, 23 Creditstone Rd | Dec-25 | $16.5 M | 47,194 | $350 | IKore Developments | Toronto |
| 5 Precidio Crt | Dec-25 | $52.0 M | 202,810 | $256 | Pure Industrial REIT | Toronto |
| 1121 Walkers Line | Dec-25 | $60.5 M | 288,161 | $210 | Axia Real Assets | Toronto |
| Crystal Water Investments Portfolio | Nov-25 | $40.1 M | 264,315 | $152 | Nexus REIT | Montreal |
| 5300 Tomken Rd | Nov-25 | $25.3 M | 85,680 | $295 | AAA Capital Ventures | Toronto |
| 80-90 Centurian Dr | Oct-25 | $33.9 M | 133,364 | $254 | Regency Property | Toronto |
| 400, 450 Matheson Blvd E | Oct-25 | $39.7 M | 115,165 | $345 | Mantella/Crestpoint | Toronto |
| 1177-1181 Finch Ave W | Oct-25 | $37.1 M | 165,327 | $225 | KingSett Capital | Toronto |

## RETAIL

| PROPERTY | DATE | PRICE | SF | PSF | PURCHASER | MARKET |
|---|---|---|---|---|---|---|
| 446 Spadina Rd | Dec-25 | $21.8 M | 27,114 | $802 | Hullmark | Toronto |
| 2141 Kipling Ave | Dec-25 | $16.0 M | 73,792 | $217 | ADMP | Toronto |
| Les Promenades Bellerose | Oct-25 | $15.6 M | 39,569 | $395 | Toulon Development Corp. | Montreal |
| Armadale Square | Oct-25 | $58.1 M | 142,703 | $407 | BentallGreenOak | Toronto |
| Promenades St-Bruno | Oct-25 | $482.1 M | 1,001,200 | $482 | Primaris REIT | Montreal |

## MULTI-SUITE RESIDENTIAL

| PROPERTY | DATE | PRICE | # UNITS | /UNIT | PURCHASER | MARKET |
|---|---|---|---|---|---|---|
| 6 Silver Maple Crt | Dec-25 | $115.0 M | 339 | $339,233 | Lankin Investments | Toronto |
| 1175 Haro St | Dec-25 | $33.1 M | 83 | $398,795 | Starlight Investments | Vancouver |
| 5775-5785 de la Cote des Neiges | Dec-25 | $36.5 M | 162 | $225,309 | Oikis Real Estate Grp. Inc | Montreal |
| 400 Avenue Rd | Dec-25 | $15.7 M | 41 | $384,034 | Hannah Real Estate Group | Toronto |
| Oxford Brampton Porfolio | Dec-25 | $312.1 M | 1,116 | $279,659 | Starlight Investments | Toronto |
| 4340 Bloor St W | Dec-25 | $30.5 M | 86 | $354,651 | Tawse Realco Inc | Toronto |
| Garneau Towers 2810 111 St NW | Nov-25 | $70.7 M | 309 | $228,803 | Oktodev | Edmonton |
| 2559-2561 Bloor St W | Nov-25 | $14.4 M | 61 | $235,246 | EM Canada Investment | Toronto |
| 335 Deguire Blvd | Nov-25 | $46.0 M | 180 | $255,555 | Catera Properties Inc | Montreal |
| *7070-7082 Inlet Dr | Nov-25 | $45.6 M | 117 | $389,957 | Equiton | Vancouver |
| Boardwalk REIT Portfolio | Oct-25 | $65.0 M | 262 | $248,092 | OKTODEV | Edmonton |
| 2610 109 St | Oct-25 | $51.7 M | 175 | $295,714 | Equiton | Edmonton |
| Domaine Choisy | Oct-25 | $97.0 M | 414 | $234,299 | KIN Income Fund/Vered | Montreal |
| 135-145 York St | Oct-25 | $29.4 M | 106 | $277,406 | Akelius Canada | Ottawa |
| 1155-1199 Lansdowne Ave | Oct-25 | $21.7 M | 69 | $313,768 | Starlight Investments | Toronto |

*share sale

# ABOUT

Morguard is a fully integrated real estate company with a diversified, high-quality portfolio of assets across North America. We have built our business with strong leadership, proven management and significant long-term growth for 50 years. As of December 31, 2025, Morguard had $18.9 billion of total assets under management and employed 1,100 real estate professionals in 11 offices throughout North America.

| | |
|---|---|
| Publicly Traded Real Estate Company | Morguard Corporation |
| Publicly Traded Real Estate Investment Trusts | Morguard REIT |
| | Morguard North American Residential REIT |
| Real Estate Advisory Company | Morguard |
| Real Estate Brokerage | Morguard Investments Limited |
| Investment Management Company | Lincluden Investment Management Limited |


## ACKNOWLEDGEMENTS / RESEARCH RESOURCES

In the course of compiling the statistical information and commenting on real estate markets, nationally, regionally and across Canadian metropolitan areas, we acknowledge the assistance and feedback from the following parties in completing this report:

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