Doane Grant Thornton

2026 Real estate market summary: transitioning to the future

At the beginning of 2025, the general economic consensus was one of 'cautious optimism'. The economy was trending in the right direction, interest rates had dropped from 5.25% to 3.5%, and post-pandemic inflation was returning to target levels. In favour of caution was the looming change in the US presidency and the potential for disruption in our most important trade relationship.

The scope of the tariffs applied to American trading partners was a shock to governments and markets around the world, and the remainder of the year was spent reacting to the effects of US trade policy. With a new Prime Minister, Mark Carney, in charge of the Canadian response, uncertainty cascaded through the economy and the implications of every policy, trade decision, and piece of economic data prompted reconsideration of national real estate fundamentals.

While tariffs have received a lot of attention, the vast majority of trade between the US and Canada is tariff-free because of the Canada-United States-Mexico Agreement ("CUSMA"). With CUSMA up for negotiations in 2026, there is a looming threat on the horizon that needs to be addressed. The federal government has taken steps to recalibrate our trading patterns to be less reliant on the US, including the signing of a trade deal with China to reduce tariffs on key goods and trade negotiations with India, Thailand, the Philippines, ASEAN countries, and the Mercosur bloc.

Looking forward to 2026, the outlook for the Canadian real estate market is hopeful but with reservations. According to the Bank of Canada's (BoC) January 2026 Monetary Policy Report, Canada's economy is projected to grow by 1.1% in 2026 with inflation estimated to be in the 2% range, both positive developments considering the turmoil of early-2025. Whatever the estimates, the actual growth of the economy will be most directly affected by the renegotiation of CUSMA possible to begin mid-2026.

Though outstanding questions on trade and the economy are yet to be answered, the real estate industry has adapted to the evolving situation and sees opportunity in the year ahead and beyond. As Benjamin Tal noted in his address to attendees of this year's Real Estate Forum, improving sentiment in capital markets and shifting sector fundamentals across asset classes are creating a more favourable operating environment in 2026 that will transition the industry to a more positive position in 2027.

Key trends

Positioning for growth

The uncertainty in our trade relations makes planning more difficult for businesses. According to the Bank of Canada's Business Outlook Survey, heightened uncertainty is holding back investment plans for Canadian businesses. While no one knows how the year ahead will play out, we do know that critical decisions will be made. At some point we'll know what the future of CUSMA looks like, how businesses have adapted to trade uncertainty, and how the economy is performing. As noted above, investment decisions were subdued with investors showing selective interest in low-risk, high-quality assets, focusing on stability. Investment volumes varied by region and across asset classes, but the time to act is coming. Avison Young's survey of Canada's commercial real estate market for 2026, shows a sentiment of recovery and growth among sectors, as "97% expressed confidence that market activity would increase (64%) or remain stable (33%)". In preparation, organizations should be doing their utmost to ensure their fundamentals are strong, paring down areas of weakness and bolstering areas of strength so that they're poised to act when opportunity arises.

"In 2025, North American trade remained largely tariff-free under CUSMA, however US tariffs on select goods—along with Canadian countermeasures—added cost pressures and supply chain uncertainty. These developments underscored ongoing vulnerabilities within North American trade.

The 2026 CUSMA joint review marks a pivotal moment. While the core framework is expected to remain, negotiations could reshape key areas such as automotive rules of origin, dairy market access, digital trade, and dispute resolution. The review brings both opportunity and risk: potential modernization of trade provisions but also heightened uncertainty for investment and pricing strategies.

Shifts in these areas could carry implications for Canadian commercial real estate, potentially influencing construction costs through changes in materials pricing, industrial demand tied to supply chains, and demand through broader impacts on growth, employment, investment flows, and market confidence.

Businesses should monitor developments closely, engage in consultation processes, and prepare contingency plans for possible rule changes or renewed tariff volatility"

- Ray Fischer, Senior Manager, Tax

Canada is open for business

Measures of confidence in Canada as a target for foreign direct investment (FDI) are typically high, ranking among countries such as the US, UK, and Japan. Despite our attractiveness to foreign capital, our investment in foreign countries far exceeds our FDI. However, changes in the past year have positioned us for another strong year of investment. Borrowing costs in Canada are now significantly lower than in the US, and the overall investment environment here is less volatile than south of the border. In a time of global uncertainty, an environment in which the application and interpretation of laws and regulations remain consistent from day-to-day will add to our attractiveness when investors begin looking for safe havens. On the other hand, development charges and red tape continue to contribute to higher costs and longer timelines, respectively. To unlock our investment potential in 2026, governments at all levels should be looking for ways to help developers reduce costs and deliver projects more quickly.

Asset class overview

Residential

The condo market continued its slide in 2025 as both prices and unit sales declined across the country. According to the RE/MAX Condominium Report, each market saw a decline in sales volume most notably in Calgary (-28.5%), the Greater Toronto Area (-11.9%), and Vancouver (-11%). Edmonton saw modest price increases (6.3%), whereas the GTA and Greater Vancouver Area both saw continued price declines (-5.1% and -5.8% respectively). The continued weakness of the condo market has led to a continued decline in construction in most markets, including a significant drop in the GTA. As pre-sales in major high-rise developments evaporate, developments are expected to shift to smaller projects such as townhomes and low-rises or boutique developments.

After steep declines in sales and prices at the beginning of 2025, home sales appear to have stabilized on both measures and are expected to recover, albeit gradually. Canada is expecting a modest 5.1% increase in sales in 2026, primarily in southern Ontario and B.C., based on CREA data. The trajectory of the housing market in 2026 is not certain and is expected to generally follow the direction of the Canadian economy.

As for Canada's purpose-built rentals, the market is easing from extremely tight conditions. According to CHMC's 2025 Rental market report, vacancy rates have risen to just over 3% nationally and rent increases have slowed, especially in newer and more expensive buildings.

Affordability continues to be a key challenge as the federal government looks to tackle the issue through a combination of programs to preserve existing affordable units, increase new supply, and boost construction to help ease costs in the short term.

Special section

Build Canada Homes

As part of the federal government's efforts to manage the housing affordability issue, it launched Build Canada Homes (BCH) in 2025. Capitalized with an initial $13 billion, BCH isn't meant to act as a traditional government program in which it delivers grants or subsidies for prescribed actions. Instead, it's a Crown corporation meant to act as a delivery engine by supporting proposals to scale up affordable and non-market housing across the country. This is meant to be accomplished by finding innovations in the sector and helping to fund them while they find their footing and path to sustainability.

At this year's Real Estate Forum, BCH CEO Ana Bailão shared the organization's priorities as it begins to ramp up operations. First, BCH hopes to support the creation of a pipeline for modern construction methods to enable scaling and reduce costs. Next, it plans to focus initially on projects ready to start within 12 months to kickstart activity and gain knowledge. Finally, it wants to collaborate with government, financial institutions, and philanthropic organizations to deliver on its mandate.

As a new organization, BCH is currently focused on staffing and developing the processes by which it will determine which proposals to support and how to deliver on its commitments. As it grows and evolves, so will its processes, which means that companies hoping to apply for funding will need support in developing and tailoring their applications to meet BCH requirements. For assistance with audit and review planning related to BCH equirements, please reach out to our real estate team.

"The federal government has introduced programs intended to ease the GST/HST burden on housing and, at the same time, the CRA has increased audits of residential developers. For example, the CRA has been reassessing fair market values and challenging eligibility for the new purpose-built rental housing rebate which can ultimately lead to unexpected and increased project costs.

To protect project viability and cash flow, residential developers should proactively mitigate inflated GST/HST assessments and defend their entitlement to the new purpose-built housing rebate."

- Melinda Fleming, Partner, Tax

Office

Driven by return-to-office mandates, especially among top tenants such as government and banks, the office market in major Canadian cities is positive heading into 2026. According to CBRE, overall national vacancy across classes dipped to 19.5% in Q3 2025. When split into asset classes, it's clear that the trend is being driven by top-tier properties. Both Trophy and A-class buildings saw vacancy rates decline between Q1 and Q3, whereas the vacancy rate for B and C-class buildings actually increased across the year. This 'flight to quality' is an ongoing trend identified in last year's real estate market summary. As demand for top-tier properties grows, tenant expectations are changing as they seek buildings with quality amenities, such as central locations, access to transit, and food and beverage options.

When drilling down to the market level, Toronto is driving the overall trends in the Canadian market. CBRE reports that strong net absorption in Toronto (1.6 million sq. ft.) led to a positive net absorption rate across Canada for the first time since Q2 2024. Halifax, Calgary, and London also saw positive net absorption rates with other major markets remaining in the negative.

As we look forward to coming years, the new office construction pipeline has almost completely dried up. Across Canada, space under construction accounts for 0.5% of total inventory, 60% of which is pre-leased. With few new builds on the way and demand for premium space growing, the market for top-tier assets will continue to tighten. Tightening demand in the premium market hasn't yet forced potential tenants to consider B and C-class buildings, but there may be opportunities for owners to entice potential tenants by either renovating spaces or offering other deal sweeteners to make their properties more attractive.

"There were approximately 70 large Canadian restructuring filings in 2025, of which 28 were associated with the real estate or construction sectors. It's obvious the industry has been under significant pressure for a few years and all indicators are that the sector will continue having challenges in 2026. However, for those willing to take some risks, these challenges create tremendous opportunities. There are many motivated sellers in the market, and with some creativity and collaboration, developers and construction companies have continued building their pipeline of projects under favourable terms.

Structured deals in which sellers offer to take on a share of the risk via vendor take back mortgages, reduced rate financing, longer closings, and/or equity positions appear to be one of the keys to success and will ultimately help revive the real estate market and boost the economy. While these aren't the deals that sellers necessarily want, they allow projects to progress and companies to extract some immediate value. As we see a continued flight to quality, those types of creative deals will be required to move B and C class properties."

- Jon Krieger, Partner, Restructuring

Industrial

With the economic trade environment in chaos, it was bound to be a challenging year for Canadian industry, but industrial real estate has remained resilient. According to Avison Young, vacancy rates in the seven major markets have risen by 1% since Q3 2024 and net absorption has been muted if not negative as well. Average rental rates have also seen slight declines in each of the seven major markets except Edmonton and Ottawa.

As COVID-era leases expire in the coming 24 months, there are opportunities for tenants to negotiate better terms or seek out higher quality properties built during the height of the industrial boom. However, those opportunities are expected to be short lived as pipelines and speculative developments decline in the face of economic uncertainty. At the same time, there are still opportunities. In particular, the federal budget announced in November included a measure to allow a 100% deduction for the cost of eligible manufacturing and processing (M&P) buildings (subject to specific conditions) and is expected to increase development activity and long-term growth in the asset class.

Retail

With the bankruptcy of the Hudson's Bay Company (HBC), the retail market lost a major anchor tenant in markets across the country. All told, the company returned 45 million sq. ft. of space. In a year of economic turmoil and transition, there were more than 700 store closures this year, whereas an average year sees around 400 closures. While a spike in closures demands attention, overall retail sales have been higher in 2025 than the previous year. Overall, the outlook for retailers depends on what type of goods are on offer. At this year's Real Estate Forum, panelists noted a distinct bifurcation—premium and value retailers are growing, while mid-tier retailers are weakening.

In terms of market trends, experiential and grocery-anchored centres are thriving. Experiences draw consumers out to the property and once completed, they take the opportunity to eat and shop. For example, at this year's Real Estate Forum, Bradley Jones at Oxford Properties Group shared that the Minecraft Experience at Square One mall in Mississauga, Ontario, drove cross-category sales through its run at the shopping centre. Similarly, grocery stores draw regular traffic to retail centres with consumers stopping by two or three times each week.

Additionally, the trend toward greater collaboration between landlords and tenants continues. Landlords are increasingly sharing data during retailers' planning cycles. Combined with the new technologies available to both retailers and landlords, shared information can help improve strategies and drive better results.

"While lower interest rates have theoretically supported valuations and financing, the details matter. Residential assets remain challenged in the soft real estate market and are only beginning to recover given the drag created by supply and demand distortions in major markets. In contrast, industrial and commercial assets have been much more stable, with performance tied closely to asset quality, market fundamentals, tenant strength, and lease considerations.

We've seen conditions improve in recent months, but progress is fragile due to geopolitical risk and trade uncertainty. For clients with strong financial capacity, this continues to present a unique opportunity to acquire real estate assets under favourable terms and valuations, to support long-term value creation."

- Troy MacDonald, Partner, Transactions

Alternatives

Despite lagging behind the US, the alternative real estate sector (e.g., data centres, healthcare facilities, life sciences labs, self-storage, student housing, senior housing, hotels) in Canada has been growing rapidly in recent years, with institutional investors targeting niche, defensive assets supported by long-term demographic trends.

According to Colliers, the hotel industry is performing well—subject to specific regional trends—with soft brands and lifestyle hotels gaining traction among younger demographics. Additionally, an aging Canadian population and the prospect of consistent, ongoing cash flow continues to make senior housing an attractive opportunity for investment.

Overall, investors are gravitating toward assets less sensitive to near-term economic fluctuations and more anchored in structural demographic shifts, with larger institutions now pursuing portfolio-scale investments in sectors they once overlooked. Industry leaders at this year's Real Estate Forum anticipated increased capital allocation and interest from institutional investors in 2026.

Opportunities on the horizon

As the Canadian real estate market is patiently entering a phase of renewal, it also presents opportunities for growth and re-strategy for those ready to take advantage of the changing market. Whether it's exploring tax efficiencies, restructruing, getting ahead in planning your financial strategies, or even if you're not sure, connect with us!

Our national real estate team is here to guide you through this evolving market.

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