

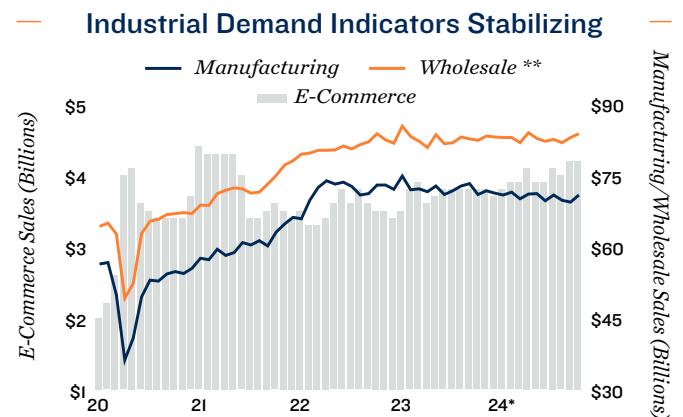
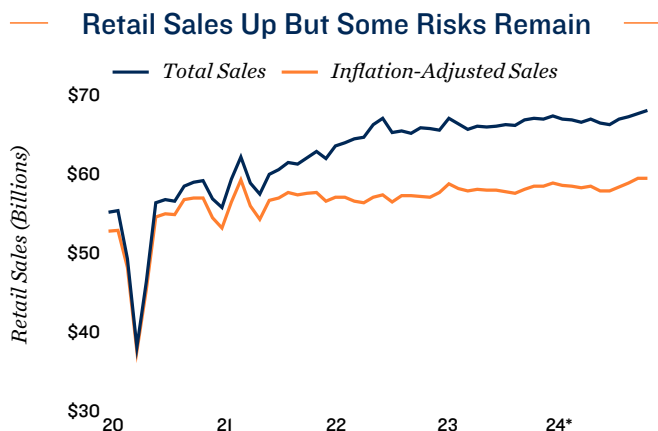
### Policy Implications Likely to Have an Impact on Retail and Industrial Property Sector Dynamics

**Momentum could be slowing.** Household consumption surged 3.6 per cent annualized in the third quarter, as lower interest rates began to feed through into the broader economy. This momentum could be fading, however, as underlying indicators remain soft, evinced by a fast-rising unemployment rate and slowing population growth. In October, while retail sales did increase 0.6 per cent monthly, with core retail sales also up 0.2 per cent, volumes were unchanged when controlling for inflation. Additionally, preliminary estimates suggest November was another month of stagnation, which could signal the start of a larger trend. Some optimism persists regardless, as falling interest rates and strong real disposable income growth could act as a tailwind for household consumption and retail property performance over the course of next year.

**Policy changes to impact sector.** Between mid-December 2024 and mid-February 2025, consumers will not have to pay GST on select goods and services. Combined with growing real disposable income, retailers stand to benefit over the early parts of next year. Recent policy changes set to curb population growth could have a counter effect, however. Since the onset of 2020, retail sales have risen 25 per cent when compared with October, while per capita sales have largely edged lower for two consecutive years. With population growth potentially turning negative next year, this could impact overall spending. Nevertheless, limited retail property supply and a less restrictive monetary environment are likely to act as backstop for the sector at large.

**Retail sector remains well positioned.** Though some risk surrounds Canada's retail property sector, with a potential population contraction, rising unemployment and affordability concerns amid the nation's high cost of living, the outlook for the sector is still optimistic. Retail property supply remains limited, as total inventory has only expanded by 2.0 per cent since 2020 when compared with the third quarter. Meanwhile, Canada's population grew by 10 per cent during that time, which has significantly increased Canada's consumer base. The nation's retail property sector will stay tight as a result, with a sub-2.0 per cent vacancy rate in 2025.

**Consumption patterns to also benefit industrial space demand.** In November, e-commerce sales edged up 1.5 per cent monthly. This translated into a 10 per cent year-over-year increase and accounted for a 6.2 per cent share of total retail sales. At the same time, wholesale trade – excluding petroleum, other hydrocarbons, and oilseed and grain – holds well above pre-pandemic levels while also increasing for the second-consecutive month. These leading indicators, in addition to falling borrowing costs, could be fuelling the recent uptick seen in industrial leasing. Preliminary estimates suggest that fourth quarter absorption returned to positive territory for the first time this year. Along with tapering supply growth, the national industrial vacancy rate could stabilize around 4.0 per cent in 2025. This comes after the sector saw some broad-based softening over the past two years. Canada's industrial vacancy rate increased from an all-time low of 1.0 per cent in 2022 to a recent high of 3.5 per cent as of the third quarter of 2024.



\* Through October; \*\* Wholesale excluding petroleum, other hydrocarbons, and oilseed and grain  
Sources: Marcus & Millichap Research Services; Altus Data Solutions; Capital Economics; CoStar Group, Inc.; Statistics Canada

