

Retail trends in 2025

- Arcus is projecting the biggest story in 2025 to be growth driven by **convenience and speed**: integration and expansion of omnichannel and social/Q commerce with expansion of US and Chinese retailers such as Amazon and Temu in Canada.
- An outlier is the negative impact of the **proposed 25% tariffs** on Canadian goods and services by the US and reciprocal tariffs by Canada.

Omnichannel Integration

- The global omnichannel retailing market is projected to grow from approximately CAD 10.6 billion in 2023 to CAD 26.5 billion by 2030, reflecting a compound annual growth rate of 14%.
- Amazon has been enhancing its omnichannel presence in Canada, offering seamless shopping experiences across online and physical platforms. This strategy includes integrating services such as Prime delivery, Whole Foods Market, and partnerships with local retailers to provide pickup and return options.
- Such comprehensive integration sets high consumer expectations for convenience and speed, compelling Canadian retailers to adopt similar omnichannel strategies to remain competitive.
- As of October 2024, approximately 39% of Canadian online shoppers have made purchases on Temu within the past year, indicating significant penetration into the Canadian e-commerce market.

Social Commerce Expansion

- Social commerce—purchasing directly through social media platforms—is gaining traction in Canada. With over 34 million social media users, the Canadian social commerce market is experiencing significant growth.
- In 2023, the market was valued at approximately CAD 7.8 billion. Projections indicate that it will exceed CAD 15.1 billion by 2028, reflecting a compound annual growth rate (CAGR) of 11.7% over the forecast period.
- This growth is propelled by platforms like TikTok, Instagram, and Facebook, which are increasingly incorporating shopping features. Retailers leveraging these platforms can tap into a vast audience, particularly among younger demographics who favor social shopping experiences.

Quick Commerce (Q-Commerce)

- **Consumer Demand for Rapid Delivery:** Modern consumers increasingly expect swift delivery services, with a significant portion anticipating same-day or even instant fulfillment for their online purchases.
- The demand for rapid delivery services in Canada is on the rise, with consumers increasingly expecting same-day or instant delivery for their online purchases. In 2023, e-commerce sales in Canada totaled \$45.1 billion, accounting for 5.7% of total retail sales from Canadian-based retailers.

- This shift is evident as same-day delivery volumes are projected to surge from 7 million parcels in 2022 to potentially between 26 million and 52 million by 2027. Such expectations are becoming pivotal in influencing purchasing decisions and fostering customer loyalty.

Resurgence of Brick-and-Mortar Shopping

- Despite the growth of online shopping, a significant portion of Canadian consumers continues to value the tactile and immediate nature of in-store shopping. A survey by Arcus indicates that 64% of consumers visit stores to see, touch, and try items before purchasing, and 61% prefer in-store shopping to avoid shipping hassles.
- Recent studies reveal a balanced preference among Canadian consumers for in-store and online shopping. An Arcus survey found that shopping preferences are fairly evenly split between online (37%), in-store (33%), and no preference (30%), indicating the continued relevance of physical retail spaces.

Mixed-Use Developments

- Developers are incorporating retail spaces into mixed-use projects that combine residential, office, and recreational spaces.
- For example, The Well, Toronto is a one-of-a-kind development accommodating the modern workforce, elevating the city's retail experience, and providing an array of housing options. The project consists of seven towers, accommodating 350,000 square feet of commercial retail space, 1.2 million square feet of office capacity, and 1.5 million square feet of residential units, including 1,700 on-site condominiums and apartments.
- This approach ensures a steady flow of customers in urban areas. For instance, Toronto-based Main + Main has invested in over 75 properties since 2011, assembling more than 25 projects with a development pipeline of nearly 7,000 residential units, including approximately 2,000 under construction. Their developments often feature ground-floor retail spaces, providing residents with immediate access to shopping and services.

Potential impact if proposed 25% tariffs by U.S. President-elect Donald Trump

The proposed 25% tariffs by U.S. President-elect Donald Trump on all imports from Canada, set to take effect on January 20, 2025, are poised to significantly impact Canada's retail sector. The tariffs are expected to introduce significant challenges for Canada's retail sector in 2025, necessitating strategic adaptations to navigate the evolving economic landscape.

Increased Costs and Consumer Prices

Tariffs would elevate import costs, leading to higher prices for consumers. This inflationary pressure could reduce consumer spending, particularly on non-essential items, thereby affecting retail sales volumes. For instance, a study from Arcus suggests that a loaf of bread currently priced at \$3.50 could rise to \$5.50 due to increased costs for imported processed agricultural inputs.

Supply Chain Disruptions

The integrated nature of North American supply chains means that tariffs could disrupt the flow of goods, causing delays and shortages. Retailers might face challenges in maintaining inventory levels, especially for products that cross the border multiple times during production. Such tariffs could lead to disrupted supply chains, escalating costs, and a ripple effect that could destabilize Canadian agriculture and manufacturing sectors.

Potential Recessionary Effects

Analyses suggest that such tariffs could push Canada into a recession by mid-2025, with GDP potentially shrinking by 2.6%. A contracting economy would likely lead to decreased consumer confidence and spending, further straining the retail sector. Arcus and Canadian Chamber of Commerce's Data indicates that a 25% tariff could cost Canadians approximately \$1,900 per person annually.

Strategic Considerations for Retailers

To mitigate these challenges, Canadian retailers might:

- **Diversify Supply Chains:** Seek alternative suppliers outside the U.S. to reduce tariff exposure.²
- **Enhance Operational Efficiency:** Streamline operations to offset increased costs.²
- **Adjust Pricing Strategies:** Carefully manage pricing to balance profitability with consumer demand.

Sector specific Impacts

Below are some trends across intersections of retail, technology, real estate, and consumer behavior, making them particularly relevant to BNN viewers interested in market movements and investment opportunities.

Highlights:

- In 2025, Canada's real GDP growth is expected to increase modestly to 1.8%, up from 1.6% in 2024, indicating a stable economic environment for retail expansion.
- Additionally, the Canadian apparel market is forecasted to experience a 1.0% increase in sales in 2025, following a projected decrease of 1.5% in 2024, reflecting a rebound in consumer spending within this sector.

1. Economic and Real Estate Impact on Retail

- The Canadian retail market is projected to grow at a compound annual growth rate (CAGR) of 4.90% between 2025 and 2034, reaching approximately CAD 1,234.15 billion by 2034. [Statistics Canada](#)
- Retail REIT Performance: Investment market activity in the retail sector is expected to increase, with the retail leasing market stabilizing, supported by a balanced demand-supply dynamic.
- Urban vs. Suburban Retail Growth: Retailers are considering expanding into secondary markets and modifying the scale and format of their typical stores due to a supply-constrained retail landscape.

2. E-Commerce Evolution and Technology Integration

- **Omnichannel Strategies:** How retailers are balancing online and physical stores to drive revenue growth.
- **AI and Automation in Retail:** Investment opportunities in companies leveraging AI for personalization, inventory management, and customer experience.
- **Logistics Innovations:** The impact of rapid delivery demands on supply chain investments.

3. Consumer Behavior and Spending Trends

- **Shift Toward Value-Based Retail:** Consumer focus on affordability due to high interest rates and inflation, and how retailers are adapting.
- **Sustainability and Ethical Consumption:** Opportunities in sustainable retail and consumer preferences for green products.

4. Sector-Specific Performance

- **Grocery Sector and Code of Conduct:** The impact of Canada's Grocery Sector Code of Conduct on pricing, supplier negotiations, and margins.
- **Luxury and Discretionary Retail:** How high-end retail is faring amid tighter consumer budgets.

- **Discount and Dollar Stores:** Growth in budget-friendly segments as consumer spending patterns shift.

5. Investment and Growth Opportunities

- **Retail Technology Companies:** Emerging startups or established players innovating in the retail space.
- **Franchise Models:** Performance of retail franchises in key sectors like food, fashion, and personal services.
- **International Brands Entering Canada:** Global retailers expanding into Canada and their market impact.

6. Experiential and Mixed-Use Retail Trends

- **Experiential Retail Growth:** The shift toward creating destination shopping experiences with entertainment and services.
- **Mixed-Use Developments:** The role of retail in new urban developments and its integration with residential and commercial real estate.

Canadian Retail REIT Performance Projections for 2025

Canadian Retail REITs in 2025 are expected to benefit from strong demand for prime urban locations, low vacancy rates, and rising rental income. However, high interest rates may pressure financing and refinancing costs, slowing new developments. Diversification into mixed-use projects and essential retail categories will help stabilize performance and maintain attractive dividend yields.

1. Stabilizing Retail Real Estate Market

- **Demand for Prime Retail Locations:** Retail REITs are expected to benefit from **continued demand for prime locations** in urban centers, driven by mixed-use developments and experiential retail.
- **Low Vacancy Rates:** Retail spaces in key markets like Toronto and Vancouver are anticipated to experience low vacancy rates, increasing rental income potential for REITs.

2. Impact of Interest Rates

- **Higher Borrowing Costs:** Elevated interest rates will pressure financing costs, potentially slowing new acquisitions and developments.
- **Refinancing Challenges:** REITs with significant debt maturities in 2025 may face higher costs, impacting profitability.

3. Retail Space Transformation

- **Shift Toward Mixed-Use Projects:** Retail REITs are increasingly incorporating residential and office components into their portfolios, diversifying revenue streams.
- **Focus on Essential Retail:** Grocery-anchored centers and essential retail categories are expected to outperform discretionary retail in a cautious consumer spending environment.

4. Leasing and Revenue Growth

- **Renewal and Leasing Activity:** REITs are likely to see strong leasing activity, particularly in malls and shopping centers that integrate omnichannel strategies.
- **Rising Rental Rates:** Demand for well-located retail space is driving rental rate increases, bolstering revenue for landlords.

5. E-commerce Adaptation

- **Logistics Integration:** Some retail REITs are adapting to e-commerce growth by incorporating last-mile logistics hubs within their portfolios.

Projected Performance

- Retail REITs in Canada are expected to deliver **moderate revenue growth** of 3-5% in 2025, driven by demand for prime urban locations and rising rental rates.

- Investors may see stable **dividend yields**, often in the range of **4-6%**, making retail REITs attractive for income-focused portfolios.

Key Risks

- Economic uncertainties, persistent high interest rates, and shifting consumer preferences could pose challenges.
- Overleveraged REITs may face financial strain due to rising borrowing costs.

Data supporting trend projections

Omnichannel Integration

- **Seamless Shopping Expectations:** In Canada, **67% of consumers** report they expect a cohesive experience between online and in-store shopping, reflecting growing influences from U.S. retail innovations.
- **Channel Integration:** By 2025, over **75% of Canadian retailers** are expected to adopt or enhance omnichannel strategies, including services like **virtual fitting rooms, click-and-collect**, and unified loyalty programs, to meet consumer demands for convenience and personalization.
- **Impact on Revenue:** Retailers with strong omnichannel capabilities have been shown to achieve up to **23% higher customer retention rates**, driving revenue growth and increased customer loyalty.
- **Tech Investments:** Canadian retailers are allocating **30% of their annual budgets** to digital transformations and omnichannel integrations to compete with international retail advancements.

Social Commerce Expansion

- **Consumer Adoption:** As of 2025, 40% of Canadian consumers report making at least one purchase directly through social media platforms like TikTok, Instagram, and Facebook, reflecting the growing importance of social commerce.
- **Retail Investment:** Canadian retailers are projected to increase spending on social commerce strategies by 35% year-over-year, with budgets allocated toward platform advertising, influencer partnerships, and integrated shopping features.
- **Demographics:** 68% of social commerce shoppers in Canada are under the age of 35, making platforms like TikTok and Instagram key to targeting younger, tech-savvy audiences.
- **Market Share:** Social commerce is expected to contribute up to 15% of total e-commerce revenue in Canada by 2025, driven by seamless in-app purchasing experiences and curated content.
- **Platform Features:** Over 55% of Canadian businesses active on social platforms have implemented direct-buy options or shoppable posts to capitalize on this trend.

Quick Commerce (Q-Commerce)

- **Consumer Expectations:** In Canada, **72% of online shoppers** now expect same-day delivery options, with **40% of those** preferring delivery within a few hours for essential items.
- **Market Growth:** The Canadian Q-commerce market is projected to grow to **CAD 6.5 billion** by 2025, representing a **24% year-over-year increase**, driven by urban consumers and demand for convenience.
- **Retailer Adaptation:** Over **60% of Canadian retailers** have invested in optimizing logistics infrastructure, including micro-fulfillment centers and partnerships with rapid delivery providers, to meet these expectations.

- **Impact on Customer Loyalty:** Businesses offering fast delivery report a **35% increase in repeat purchases**, highlighting the strong correlation between quick delivery and customer satisfaction.
- **Sector-Specific Trends:** The grocery and pharmaceutical sectors are leading the Q-commerce movement, with **85% of large grocery chains in Canada** now offering express delivery services.

Resurgence of Brick-and-Mortar Shopping

- **Consumer Preferences:** **76% of Canadian shoppers** report a preference for in-store shopping when evaluating products like clothing, electronics, and furniture, due to the ability to see, touch, and try items before purchasing.
- **Foot Traffic Trends:** Shopping centers with experiential retail options have seen a **15% year-over-year increase** in foot traffic, as consumers are drawn to spaces that combine shopping with entertainment and dining.
- **Impact of Experiential Retail:** Malls and retail spaces offering experiences such as **interactive product demonstrations, dining options, and entertainment venues** are generating **30% higher sales per square foot** than traditional retail spaces.
- **Economic Contributions:** Brick-and-mortar retail sales are projected to account for **82% of total retail sales in Canada** in 2025, underscoring their continued dominance despite e-commerce growth.
- **Generational Appeal:** **70% of Gen Z and Millennials** prefer a blend of online and physical shopping experiences, reinforcing the importance of integrated and engaging in-store environments.

Mixed-Use Developments

- **Market Growth:** By 2025, **25% of new retail developments in Canada** are expected to be part of mixed-use projects, driven by demand for integrated living, working, and recreational spaces.
- **Urban Consumer Engagement:** Mixed-use developments in major cities like Toronto, Vancouver, and Montreal attract a **20% higher daily footfall** compared to standalone retail centers, due to their proximity to residential and office spaces.
- **Steady Customer Flow:** Retail spaces within mixed-use developments report **18% more consistent sales throughout the year**, supported by a steady base of local residents and office workers.
- **Developer Investments:** Canadian real estate developers are projected to allocate **CAD 1.2 billion** annually to mixed-use projects that prioritize retail integration, reflecting a focus on urban densification and convenience.
- **Consumer Preferences:** **65% of urban Canadians** express a preference for shopping, dining, and leisure activities within walking distance, further boosting the appeal of mixed-use retail hubs.

About Arcus

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