SMART CAPITAL

2025

CONSTRUCTION COSTS IN CANADA

Trade Tensions, Tariffs, and the Path to Stabilization

SOMMAIRE

EXECUTIVE SUMMARY

The 2025 U.S.–Canada tariff dispute has introduced renewed volatility to Canada's construction landscape, impacting material costs, supply chains, and project risks. For developers and sponsors seeking financing, this shifting environment demands a strategic approach to debt structuring and lender presentations. As a leader in commercial real estate debt financing, Smart Capital offers this summary to help developers navigate the capital markets amid these trade tensions.

1. **Rising Costs and Lender Sentiment**

The reintroduction of 25% tariffs on key U.S. imports—such as electrical systems, metals, and engineered wood—has led to a 5–20% increase in material costs across several construction sectors. In response, lenders are tightening underwriting standards, adjusting loan-to-cost ratios downward, and increasing spread margins. Developers must be prepared for higher interest reserves and reassessed debt service coverage ratios.

2. Implications for Construction & Bridge Loans

Construction loans are under greater scrutiny in 2025, with projects heavily reliant on U.S.-imported materials or lacking solid contingency planning facing delays in financing approvals. Bridge lenders are increasingly requiring more rigorous stress testing of pro formas. At Smart Capital, we work closely with developers to structure pro formas that align with lender expectations, enhancing the likelihood of approval and ensuring long-term project viability.

EXECUTIVE SUMMARY

3. Practical Mitigation Tactics for Developers

To maintain financing momentum, developers should adopt the following strategies:

- Lock in contractor and supplier pricing early.
- Engage lenders with updated budgets and appraisals.
- Increase contingency buffers in pro formas.
- Diversify material sourcing to reduce dependency on U.S. imports.
- Incorporate force majeure and escalation clauses in contracts to manage concerns about cost overruns.

4. How Smart Capital Adds Value

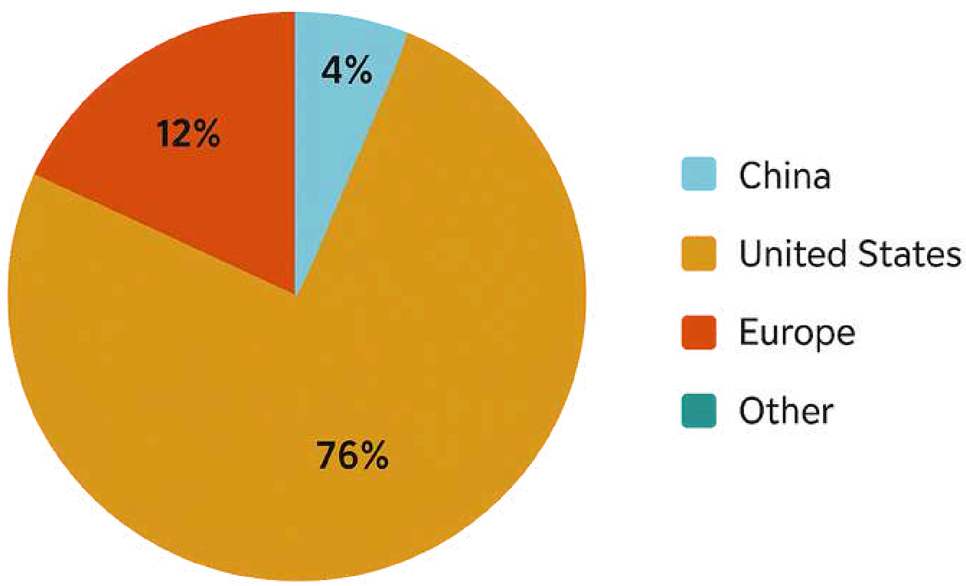
Our team proactively liaises with lenders, credit unions, and institutional partners to identify the most cost-effective debt solutions. Whether optimizing CMHC applications, structuring interim bridge loans, or negotiating refinancing, Smart Capital ensures that each deal is resilient in the face of pricing uncertainty. If your project is facing challenges due to tariff-related cost increases, let's discuss strategic options and capital structuring to maintain project momentum.

CANADA–US TRADE CONFLICT & TARIFFS (2024–2025)

In early 2025, the United States imposed blanket tariffs of 25% on a wide array of Canadian imports, sparing only a few categories—such as energy and critical minerals, which were subject to a reduced 10% rate. Canada responded with reciprocal tariffs on CAD $30 billion worth of U.S. goods and signaled intentions to expand these measures to as much as $155 billion in trade. These actions effectively marked the beginning of a trade war between two of the world's most deeply integrated trading partners.

This disruption is particularly significant given the scale of bilateral trade. In 2024, 76% of Canada's exports went to the United States, while 62% of Canada's imports came from the U.S. The imposition of tariffs on such a large share of the economy marks the most severe trade shock in decades, with wide-ranging effects across sectors—including construction.

Canadian exports by country (2024)



Source: FactSet, Edward Jones.

CANADA–US TRADE CONFLICT & TARIFFS (2024–2025)

For Canada's construction industry, the timing of these tariffs is especially problematic. After several years of post-pandemic price volatility and inflation, the sector had only recently begun to see cost escalation stabilize. In cities like Vancouver, Toronto, Calgary, and Montreal, construction costs surged between 2018 and 2023 due to supply chain backlogs, global inflation, and labour shortages. In the Greater Toronto Area, for instance, the cost of building a low-rise home doubled, while high-rise construction costs increased by approximately 75% over the same period. By late 2024, year-over-year cost increases had moderated to around 3.8%, but the new tariffs now threaten to reverse this trend.

Tariffs act as a one-time cost shock, functioning much like a tax that raises the price of affected imports by the full amount of the duty. In the context of construction, this can immediately raise the cost of materials such as lumber, drywall, mechanical and electrical systems, lighting, fixtures, furniture, and finishing products—many of which are either imported from the U.S. or include U.S.-origin components.

Beyond tariffs themselves, currency effects are amplifying the cost pressure. Market uncertainty and weakening trade balances are putting downward pressure on the Canadian dollar, which in turn makes all imports—including untariffed ones—more expensive in Canadian dollar terms. This means that even materials not directly listed in tariff schedules may see price increases.

Although a temporary 30-day suspension of tariffs was announced on February 3, 2025, both countries resumed tariff implementation on March 4, with a carve-out for certain USMCA-compliant goods. However, trade policy developments remain fluid, and additional changes—either in escalation or de-escalation—are possible.

CANADA–US TRADE CONFLICT & TARIFFS (2024–2025)

The impact on the Canadian construction sector will depend on a variety of factors, including project type, location, procurement strategy, and reliance on U.S.-sourced materials. But the risks are broadly shared across the country:

- Material cost increases are already being reported, particularly for U.S.-sourced items such as lumber, lighting, and interior finishes.
- Supply chain disruptions may occur as suppliers reconfigure their logistics and pricing structures.
- Labour market challenges could be intensified by project delays and developer uncertainty.
- Investment hesitancy is likely, as project sponsors reassess feasibility in light of new cost structures.
- Contractual risks are heightened for fixed-price agreements that lack sufficient cost escalation protection.

Under most contract formats in Canada—including Canadian Construction Documents Committee (CCDC) agreements—the project owner typically bears the risk of tariff-related cost increases unless otherwise negotiated. As the trade dispute evolves, it will be essential for stakeholders across Canada's construction industry to anticipate impacts, revise cost assumptions, and plan accordingly.

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IMPACT BY CONSTRUCTION DIVISION

The 25% tariffs introduced during the 2024–2025 U.S.–Canada trade conflict are having broad and measurable impacts across the Canadian construction industry. Key divisions—particularly those related to building systems, finishes, and structure—are now facing varying degrees of cost pressure, depending on their reliance on U.S. suppliers and the availability of substitutes. Below is a breakdown of how major construction divisions are affected, with Ontario-based examples offered to illustrate these national trends.

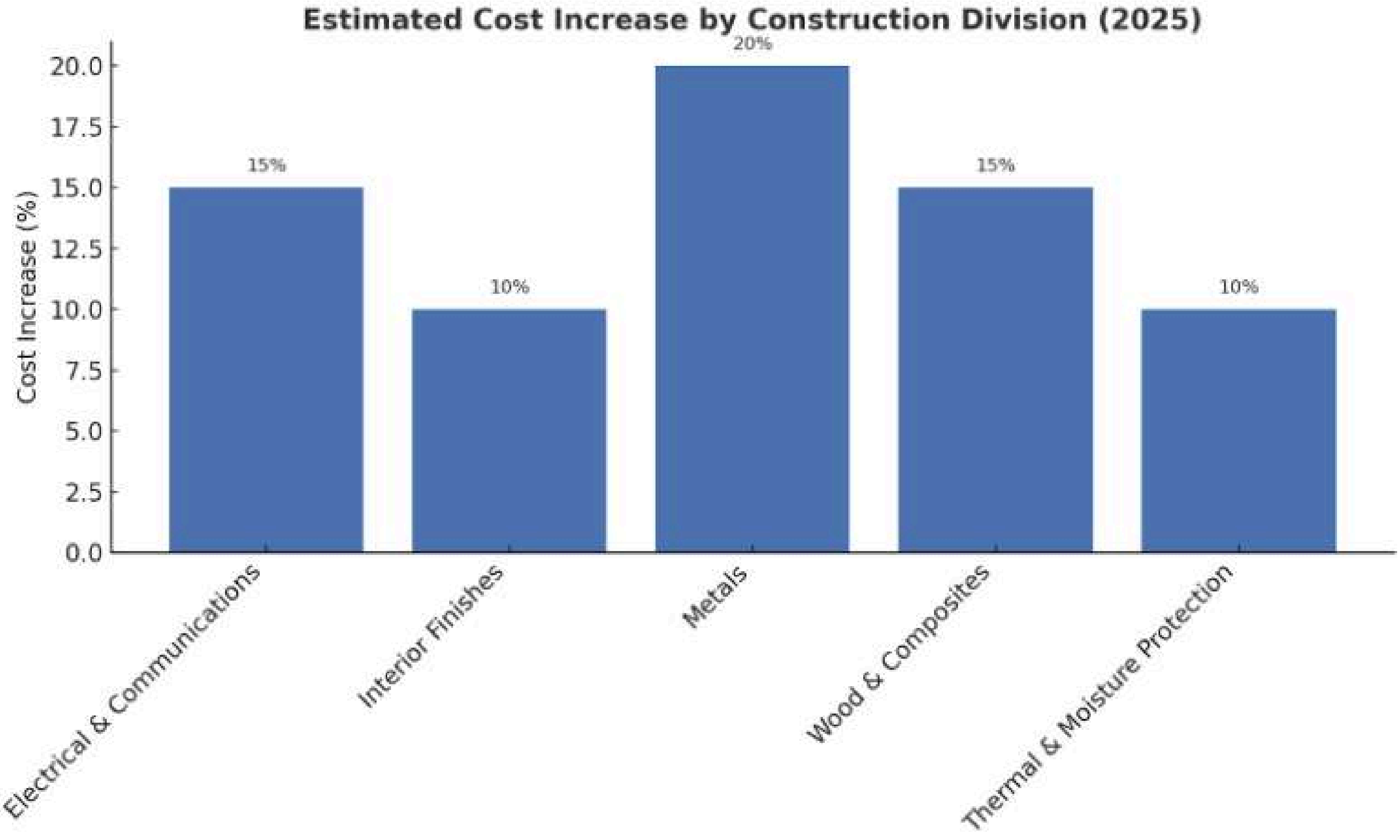

Figure 2 – *Estimated cost increases by construction division in 2025, reflecting the impact of U.S.–Canada tariff policy. Electrical, metals, and engineered wood components face the highest exposure.*

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IMPACT BY CONSTRUCTION DIVISION

Division	Category	Tariff Exposure	Estimated Cost Impact
Div. 26–28	Electrical & Communications Systems	High – heavily U.S.-sourced	**5% to 15%**
Div. 09	Interior Finishes	Moderate – mixed sourcing	**5% to 10%**
Div. 05	Metals (Steel, Fasteners, Decking)	High – structural steel from the U.S.	**10% to 20%**
Div. 06	Wood, Plastics & Composites	Moderate – engineered wood imports	**8% to 15%**
Div. 07	Thermal & Moisture Protection	Moderate – U.S.-made polymers	**5% to 10%**

- **Divisions 26–28: Electrical and Communications Systems**

Electrical and communications components used in commercial, institutional, and residential construction projects across Canada are heavily reliant on U.S. production and brands. Equipment such as switchgear, panelboards, transformers, LED lighting systems, wiring devices, standby generators, and integrated fire/security systems are predominantly sourced from the U.S. The 25% tariff on these goods has introduced immediate and direct cost increases, with electrical packages across Canada expected to rise by approximately 5–15%. Projects that are heavy on electrical infrastructure—such as hospitals, schools, data centers, and modern office fit-outs—will be most affected. In Ontario, developers have already reported increased supplier quotes of 10–15% for Division 26 systems, particularly where imported lighting controls and specialty systems are involved.

- **Division 09: Interior Finishes**

Interior finishes have a more mixed exposure to tariffs. Canada produces gypsum and has domestic drywall manufacturing capacity, which may help moderate the impact in some cases. However, other finishing materials such as acoustic ceiling tiles, resilient flooring, architectural woodwork, and specialty paints are frequently sourced from the U.S. While substitution is more feasible in this category, projects across the country should still expect cost increases in the range of 5–10%. In Ontario, for instance, contractors involved in corporate fit-outs are reporting 8–10% increases on ceiling systems and flooring materials—particularly those specified from U.S. brands or tied to performance certifications.

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IMPACT BY CONSTRUCTION DIVISION

- **Division 05: Metals**

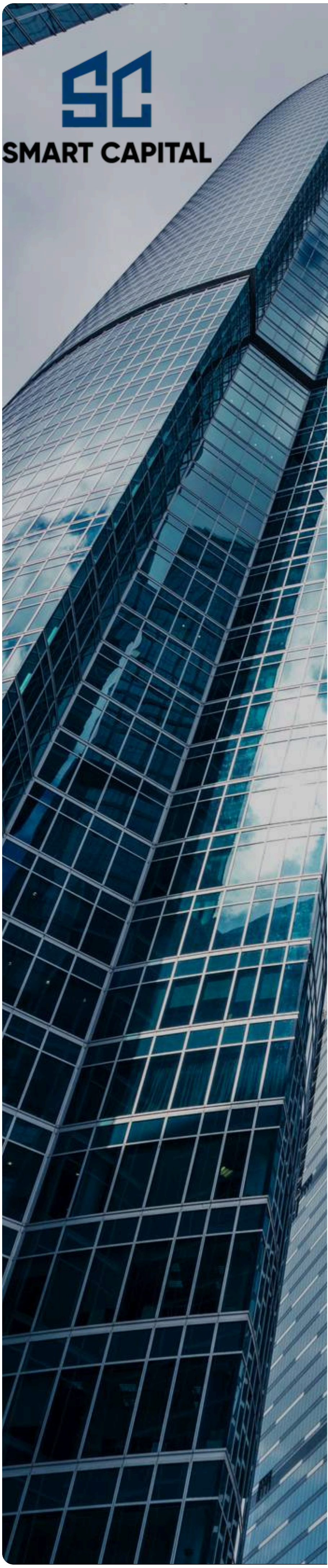
The Canadian construction sector has long depended on structural steel, decking, fasteners, and miscellaneous metals manufactured or processed in the U.S. While Canada has domestic steel capacity, it is not always sufficient to absorb demand shifts during a supply shock. As a result, projects across the country are seeing 10–20% cost escalations on steel-intensive scopes, especially for structural frames and decking systems. In Ontario, large commercial and institutional projects have been notified of 15–20% increases in structural steel costs due to both tariffs and anticipated fabrication delays.

- **Division 06: Wood, Plastics, and Composites**

Although Canada has robust softwood lumber production, many specialty wood products—including engineered wood (LVLs, CLT, glulam) and architectural millwork—are imported from or rely on U.S. suppliers. As a result, tariffs are expected to increase costs by 8–15% for components in this division, particularly in mid- to high-rise residential and institutional projects that specify engineered timber or branded finish carpentry. For example, Ontario developers working on mass timber and hybrid wood-steel designs are facing 10–12% cost increases for glulam beams and finish-grade engineered wood products.

- **Division 07: Thermal and Moisture Protection**

This division includes roofing membranes, insulation, sealants, vapor barriers, and waterproofing systems—many of which contain chemical or polymer components manufactured in the U.S. Though some Canadian alternatives exist, branded insulation systems and roofing membranes often originate from U.S. plants or rely on American raw materials. As a result, projects nationwide are seeing moderate cost increases of about 5–10% in this category. In Ontario, contractors installing single-ply roofing membranes have already reported 8% hikes in material costs, citing U.S. sourcing and tariff pass-throughs from distributors.



EFFECTS ON COMMERCIAL REAL ESTATE IN CANADA

The ongoing escalation of trade tensions between Canada and the U.S. has introduced significant volatility to the Canadian commercial real estate (CRE) landscape. Tariffs on steel, aluminum, and a wide range of building materials have ripple effects beyond construction costs—they're altering market sentiment, investor behavior, and project feasibility across key real estate asset classes. These structural shifts, combined with a weakening Canadian dollar, are creating complex economic dynamics that developers, investors, and lenders must navigate carefully.

1. Currency Volatility and Investor Behavior

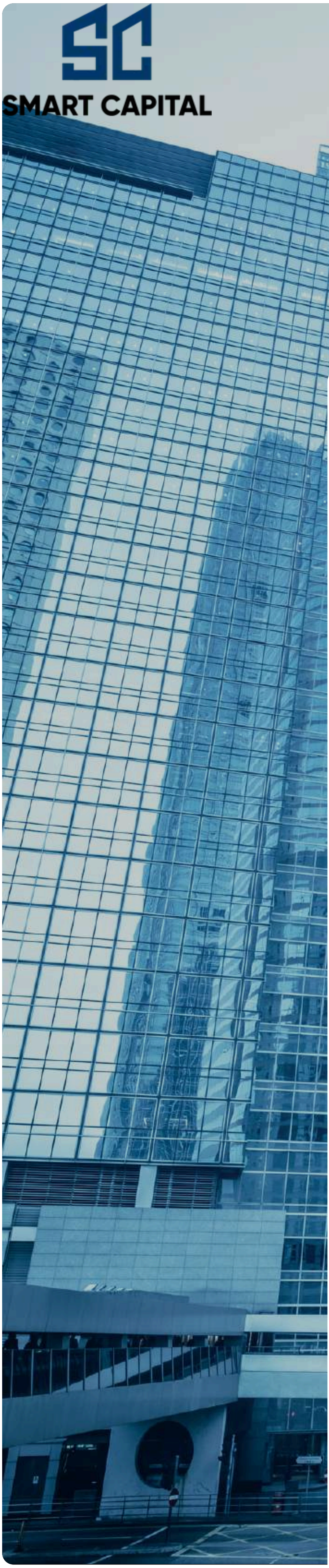
Tariffs have directly impacted the strength of the Canadian dollar. Following key tariff announcements, the CAD dropped to a 22-year low before stabilizing. This depreciation increases the cost of imported construction materials and equipment, putting upward pressure on project budgets. At the same time, it can make Canadian real estate assets more attractive to foreign investors, particularly from the U.S., due to improved purchasing power.

2. Rising Industrial Leasing Costs

The industrial sector—long considered a safe haven due to its alignment with e-commerce and logistics—faces headwinds. Higher import costs can compress margins for industrial tenants (e.g., warehousing, manufacturing), potentially leading to reduced leasing activity or pressure

3. Financing and Interest Rate Ambiguity

Tariff-induced inflation poses a dilemma for central banks. They may hike rates to temper inflation, or cut them to stimulate growth in the face of slowing trade. This uncertainty makes underwriting more complex and affects lender risk appetite, particularly for speculative or value-add projects.



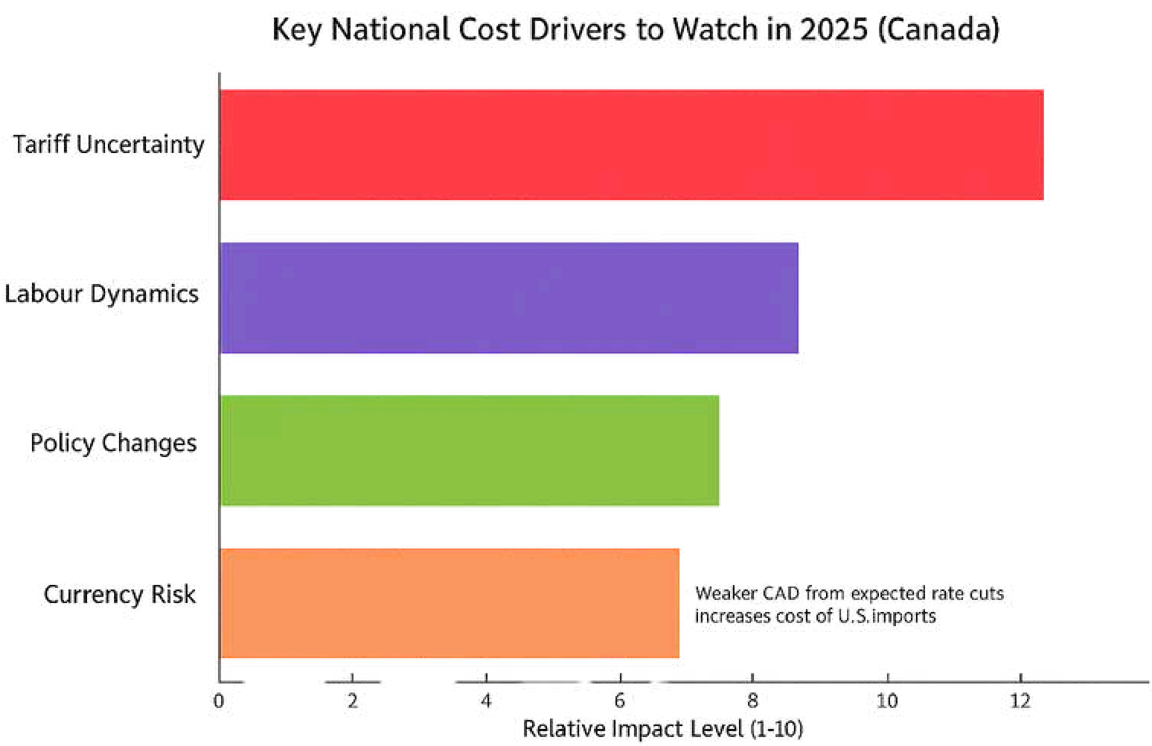
EFFECTS ON COMMERCIAL REAL ESTATE IN CANADA

4. Geographic and Sectoral Disparities
Regions and asset classes tied closely to manufacturing or cross-border trade—such as Windsor, ON or parts of Quebec—are more exposed to the downside risk of tariffs. Conversely, tech-centric markets or areas with less dependency on imports may show resilience.

5. Investor and Developer Caution
Perhaps the most intangible—but equally impactful—consequence of tariffs is market hesitation. Developers may delay groundbreakings, investors may pause acquisitions, and lenders may increase spreads to buffer risk—all contributing to a slower transaction pipeline.

NATIONAL CONSTRUCTION COST TRENDS

After several years of accelerated price increases driven by post-pandemic supply chain disruptions, the Canadian construction market is showing signs of stabilization. According to Altus Group's 2025 Canadian Cost Guide, construction cost growth has moderated across most regions, with pricing now more closely aligned with broader inflation trends. However, this apparent relief may be temporary, as significant risks remain on the horizon.



Note. – 38% of Canadian construction materials are used on U.S. imports

National Trends: Cost Stability Returning :
Across Canada, construction costs have begun to stabilize, primarily due to softer construction volumes and slowing demand. From 2021 through early 2023, cost escalations reached up to 40% annually for certain materials. In contrast, through 2024 and early 2025, cost increases have cooled and now hover closer to inflationary norms. While the baseline outlook suggests continued moderation, key macroeconomic and geopolitical risks could disrupt this trend.

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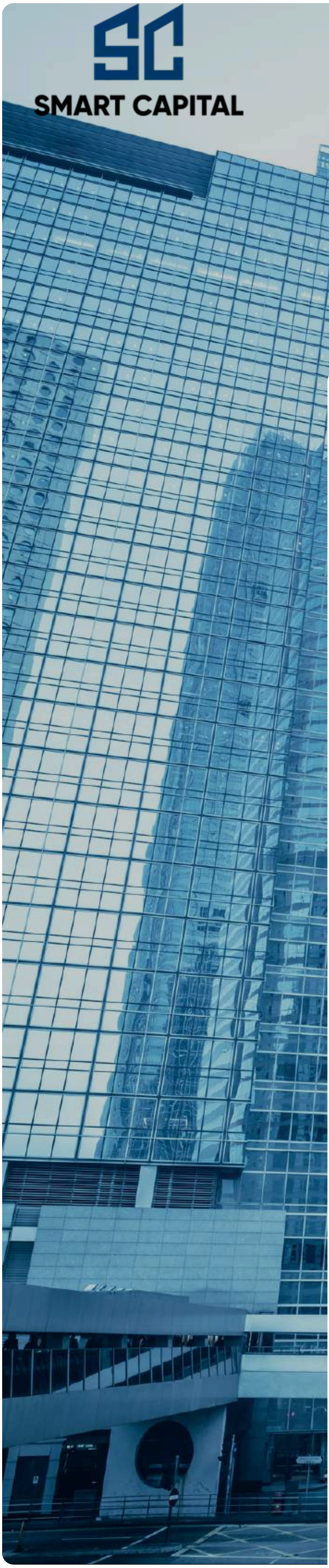


NATIONAL CONSTRUCTION COST TRENDS

Key National Cost drivers to watch in 2025

- Tariff Uncertainty: Ongoing U.S.–Canada trade tensions and material-specific tariffs may reintroduce upward pressure, particularly on U.S.-imported electrical, mechanical, and specialty products.
- Labour Dynamics: Wage inflation remains sticky, and while the labour market has softened slightly, major collective bargaining agreements and persistent trade-specific labour shortages continue to add pressure.
- Policy Changes: Anticipated building code revisions and sustainability mandates (such as energy performance requirements) may increase construction complexity and costs.
- Currency Risk: Expected Bank of Canada rate cuts could weaken the Canadian dollar, potentially increasing the cost of imported materials.

Approximately **8.1%** of construction material costs in Canada are tied to U.S. imports—relatively modest on average, but significantly concentrated in critical divisions like electrical and mechanical. This leaves certain project types more exposed than others.

REGIONAL HIGHLIGHTS

Regional Highlights: Varied Impacts Across Markets

While the national outlook trends toward stabilization, regional conditions remain diverse. Cost performance and project feasibility differ markedly by province and city.

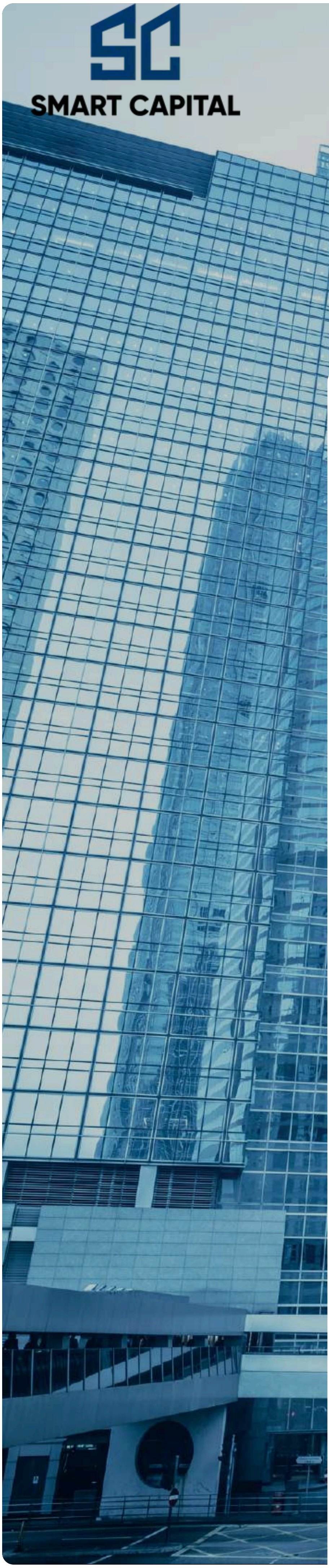
Toronto & Ottawa: These markets are notable outliers, with construction costs declining slightly due to a slowdown in building activity. Toronto, in particular, has seen lower pricing in high-rise residential due to reduced investor demand and greater contractor availability.

Montreal: Costs are rising, especially in mechanical and electrical materials. CMHC programs are helping to sustain residential feasibility despite rising input prices and stricter building codes.

Vancouver: Marginal cost increases are anticipated, partly due to building performance mandates. While material costs have remained relatively flat overall, categories like mechanical (+10%) and excavation (+30%) have surged.

Calgary & Edmonton: Construction costs are trending higher, driven by strong infrastructure spending and a lack of competition. Labour shortages in specialty trades are particularly acute.

Halifax / St. John: Costs remain elevated due to labour constraints and climate resiliency requirements. Meanwhile, petroleum-based materials and copper have declined, offering selective relief.



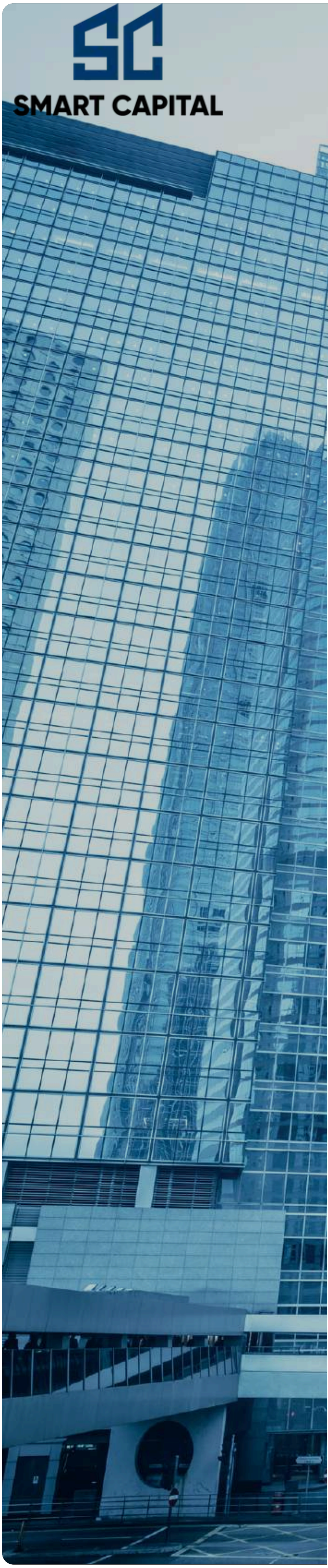
IMPLICATIONS FOR BUDGETING AND FINANCING

Developer Takeaways :

Although costs appear to be stabilizing, this period of relative calm should not be mistaken for certainty. Developers must actively monitor market signals, policy changes, and international trade developments. Feasibility remains highly location- and asset-class-specific, with CMHC-backed rental housing and industrial assets continuing to show the strongest viability across markets.

As a strategic response, project budgeting should incorporate:

- Flexible contingencies for tariffs and code-driven cost escalations;
- Sensitivity analysis based on potential currency fluctuations;
- Early engagement with contractors and suppliers to lock pricing;
- Pro forma scenarios that reflect both base and stress-test conditions.



IMPLICATIONS FOR BUDGETING AND FINANCING

Implications for Debt Structuring and Lender Sentiment

Tariff-induced cost volatility is creating significant friction in real estate debt markets. Lenders are responding to rising construction costs with increased scrutiny across all types of financing—particularly construction and bridge loans. Projects that depend heavily on U.S.-sourced materials or that lack robust contingency buffers are seeing tighter loan-to-cost (LTC) ratios and delayed approvals. In many cases, debt coverage ratios (DSCR) are harder to meet due to upward cost pressure, forcing developers to inject more equity or restructure financing terms.

Spreads have increased by 30–50 basis points on loans for projects impacted by tariff-exposed materials, especially those with significant Division 05 (metals) or Division 26 (electrical systems) components. Some lenders are also increasing interest reserves, requiring more rigorous stress testing of proformas, and delaying construction-to-perm transitions until revised budgets and contingencies are submitted.

Smart Capital partners with borrowers and developers early to anticipate shifting lender requirements and ensure smooth financing execution. Our team structures proformas and loan packages that meet lender expectations in volatile markets. This includes advising on interest-only periods, layered capital stacks (e.g., bridge-to-perm or bridge-to-CMHC), and early lender engagement to align project budgets with available financing.

PREPARING FOR TARIFFS: STRATEGIC RECOMMENDATIONS

1 REVIEW CONTRACT TERMS—PRICE RISK ALLOCATION MATTERS

Most standard construction agreements in Canada, such as those governed by the Canadian Construction Documents Committee (CCDC), already contain provisions that determine how new taxes, duties, and tariffs are handled. In stipulated price contracts, for example, contractors may be entitled to pass along cost increases, while cost-plus agreements may already allocate price risk to the owner. However, not all contracts treat tariff exposure equally—especially on large, privately negotiated or public-private infrastructure projects. It is critical to:

- Reassess "Change in Law" and "Taxes and Duties" clauses for tariff coverage.
- Re-negotiate terms in upcoming procurements to clarify tariff-related cost recovery.
- Ensure escalation mechanisms or allowances are explicitly included where risk is high.

2 UNDERSTAND THE LIMITS OF FORCE MAJEURE

Force majeure clauses are often misunderstood as offering a financial escape route in times of pricing turbulence. However, under Canadian common law (excluding Québec), courts have repeatedly held that rising prices—regardless of cause—do not excuse performance. Force majeure clauses must be tightly drafted and explicitly inclusive of tariff-related disruptions if parties hope to rely on them.

3 ALIGN PROCUREMENT LANGUAGE AND BID ASSUMPTIONS

Owners and public authorities must ensure that tenders and RFPs clearly define how to account for tariffs—whether anticipated or actual—in bid pricing. Inconsistent bidder assumptions increase the risk of non-compliant bids, post-award claims, or costly change orders.

Consider issuing guidance notes to align all bidders on:

- The inclusion or exclusion of tariff costs.
- Whether bidders should price with or without contingencies.
- How changes in trade policy will be handled post-award.

PREPARING FOR TARIFFS: STRATEGIC RECOMMENDATIONS

4 BUILD A RESILIENT SUPPLY CHAIN—BEYOND THE U.S

Canada's deep integration with U.S. manufacturing makes decoupling difficult, but not impossible. Stakeholders should proactively:

- Identify and vet alternative non-U.S. suppliers for key materials (especially in Divisions 05, 07, and 26).
- Diversify procurement timelines to hedge against border disruptions.
- Explore early-purchase or inventory strategies for long-lead, high-risk items.

The earlier you assess supply chain flexibility, the more leverage you'll have when tariffs hit.

5 REVISIT FINANCIAL MODELS AND COST ESCALATION ASSUMPTIONS

Tariffs don't just raise costs—they destabilize assumptions baked into loan underwriting, return models, and long-term asset plans. Stress-test your models for:

- 5–15% material cost increases across tariff-exposed divisions.
- Project delays due to resourcing or customs bottlenecks.
- DSCR impacts under new pricing realities.

Lenders are already reacting to tariff risk with tighter loan-to-cost thresholds and increased interest reserves—your financial model should anticipate this before your lender does.

6 USE TOOLS TO MITIGATE INFLATION AND SECURE COST CERTAINTY

From locking in material pricing and delivery schedules to embedding escalation clauses, there are actionable steps stakeholders can take now:

- Consider hedging exposure with indexed contracts or price adjustment clauses.
- Explore group purchasing arrangements to benefit from bulk pricing.
- Review whether early-stage bulk buying or warehousing makes strategic sense.

7 DON'T OVERLOOK TARIFF RELIEF MECHANISMS

- Confirm tariff classification codes for imported materials.
- Working with trade counsel or customs consultants can yield real savings on large-scale imports.

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HOW SMART CAPITAL CAN HELP

In a market defined by uncertainty—rising construction costs, tariff impacts, shifting lender sentiment, and regulatory changes—accessing the right capital is more critical than ever. At Smart Capital, we specialize in helping developers and commercial real estate professionals secure the financing they need to move forward with confidence, even in complex or rapidly changing environments.

We work alongside our clients from the earliest stages of planning to structure debt solutions that are resilient, responsive, and strategically aligned with both market conditions and project realities.

What We Offer:

1. Feasibility Assessment & Strategic Guidance

Our team analyzes your pro forma, cost assumptions, and market risks to help you evaluate project viability. We identify pressure points—such as tariff-sensitive materials or interest rate exposure—and recommend solutions that enhance financial resilience.

2. Custom Financing Structures for a Volatile Market

We structure construction, bridge, and take-out loans tailored to today's inflationary and tariff-sensitive climate. This includes optimizing loan-to-cost ratios, building in flexible contingencies, and layering financing through bridge-to-perm or CMHC-insured capital stacks.

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3. Access to a Broad Network of Lenders

Our deep relationships with national banks, credit unions, private lenders, and CMHC programs give us leverage to secure competitive financing terms even when traditional underwriting hurdles arise. We negotiate on your behalf to ensure financing terms align with your project's cash flow and timeline.

4. Risk Mitigation Through Early Lender Engagement

In today's cautious lending environment, early and transparent communication with lenders is essential. We engage lenders from the outset to preempt issues, streamline approvals, and ensure that cost escalations or delays do not derail your financing.

5. Proactive Loan Packaging & Execution Support

We don't just source capital—we package and position your project to meet lender expectations. Our underwriting support includes DSCR analysis, interest reserve strategies, scenario modeling, and stress-tested pro formas to ensure you're not just eligible for financing but well-positioned for success.

If you're facing cost pressures, uncertainty around loan terms, or delays due to changing lender requirements, **Smart Capital** is here to help. Our proven track record in construction and commercial real estate financing ensures that you have a reliable partner to structure, negotiate, and close deals that work—even in volatile times.

[Let's talk about how we can support your next project.]

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CONCLUSION

As Canada's construction industry enters 2025, a fragile balance between cost stabilization and new volatility is emerging. The recent U.S.–Canada trade dispute has introduced significant short-term pressure on material prices, procurement logistics, and project feasibility—particularly in divisions most reliant on U.S. imports.

While some regions are benefiting from softer construction demand and temporary cost relief, the outlook remains uneven and unpredictable. Developers, contractors, and project sponsors must prepare for continued fluctuations in pricing, policy, and currency markets.

To succeed in this environment, stakeholders must move beyond reactive cost control and embrace a proactive risk management approach. This includes revisiting pro formas, negotiating flexible contracts, securing pricing early, and exploring alternative materials and delivery models. Regular engagement with suppliers, legal advisors, and cost consultants will also be essential.


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