Q1 2023

# GTA INDUSTRIAL MARKET INSIGHTS

CUSHMAN & WAKEFIELD

## GTA West

Vacancy in the GTA West market edged further away from the sub-one percent mark in the first quarter with a 10 bps uptick to close out the quarter at a two-year high of 1.2%. While four of the six submarkets in GTA West registered increases, Bolton-Caledon and Brampton led the way with increases of 90 bps and 70 bps bringing the vacancy rate to 1.5% and 1.4% respectively. As the space crunch began to slowly ease across most nodes, vacancy in Mississauga and Oakville dipped by 20 bps and 30 bps to 1.1% and 0.3% respectively - marking a record low for Oakville.

New leasing activity eased back to a five-quarter low of 2.8 msf, down from 3.4 msf at the end of 2022. The sharpest decline occurred in the Milton-Halton Hills node where leasing dipped to 25,694 square feet (sf) – a 93% contraction over year-end 2022. This was followed by Burlington with an 85% contraction quarter-over-quarter (QoQ) to 35,000 sf. Meanwhile, 1.4 msf of new leasing was registered in Mississauga.

Despite moderating demand in the quarter, the overall quoted rental rate in the GTA West market continued to move up. The weighted average rent increased by 4.3% QoQ to $18.28 psf from $17.52 psf at the end of 2022. Bolton-Caledon and Brampton saw their average rents soar above the $18.00 psf mark, with rates of $19.42 psf and $19.28 psf, respectively. These two nodes now hold the top positions for the highest average net rent in existing buildings across the GTA.

In the first quarter, 1.1 msf of new supply was delivered to GTA West, which accounted for 88% of the new inventory delivered across the GTA. Bucking recent trends, pre-leasing activity decreased to its lowest level since Q4 2017, resulting in approximately 351,000 sf of new vacancy. The new deliveries included Orlando's 551,000-sf building on Reading Court in Milton, which was leased to General Mills Canada Corporation. Additionally, Dream's 154,000-sf building at 203 Abbotside Way and GWL's 139,000-sf building at 216 Abbotside Way were also delivered, although both of these buildings were vacant upon delivery.

## GTA North

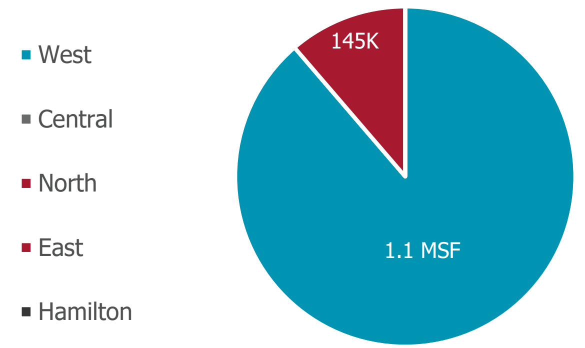
While vacancy trends mirrored those observed in other major markets, the space crunch in GTA North persisted in the first quarter. The overall vacancy rate increased by 20 bps, pushing it to 0.6%, marking the eighth consecutive quarter below one percent. With the exception of Aurora where vacancy plummeted by 180 bps to a record low of 0.3%, the remaining four submarkets posted increases in the range of 10-30 bps. Notably, despite the upward trend in most nodes during the quarter, the vacancy rate held at sub-one precent.

New leasing activity in the market eased back this quarter, contracting by 34% compared to the same period in 2022 and reached a two-year low of 544,000 sf. The Vaughan submarket posted the sharpest quarterly decline, with leasing activity decreasing by 371,000 sf, leading to a 14-year low of 120,000 sf. On the upside, new leasing activity in Aurora surged to a 10-year high of 279,000 sf.

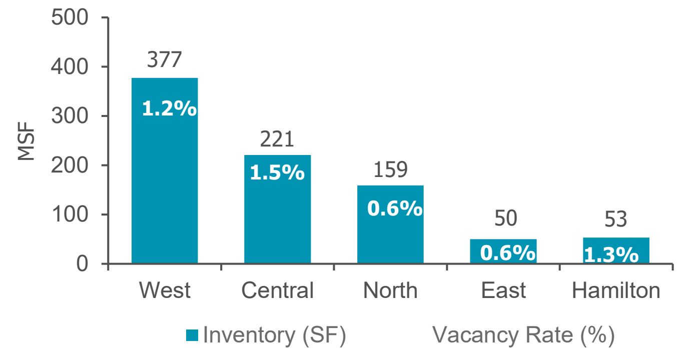
In the first quarter, rental rate trends remained on course, and the average quoted net rent continued to point up, climbing by 5.9% to yet another high of $18.27 psf by the end of the quarter. Among the GTA North nodes, the Markham submarket had the steepest quarterly uptick, registering a rental rate growth of 14.1%.

GTA North's new supply got off to a slow start with a mere 145,000 sf delivered in Aurora across two buildings. As both buildings were 99% pre-leased, the impact on vacancy resulting from the deliveries was minimal. Currently, an additional 2.0 msf is under construction, with scheduled completion timelines in 2023 and beyond.

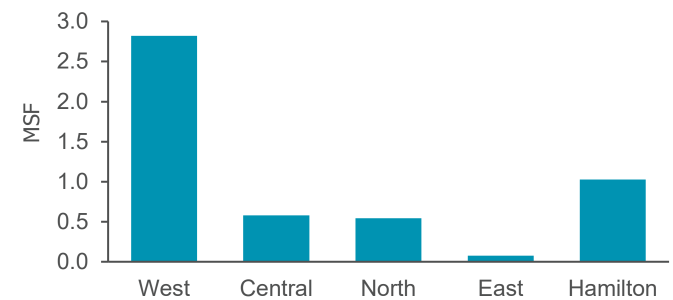
Q1 2023 Distribution of New Supply (MSF)




Inventory vs Vacancy Rate by Market




Q1 2023 Leasing Activity (MSF)




Source: Cushman & Wakefield Research

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## GTA Central

The GTA Central market posted the highest QoQ vacancy uptick across GTA's industrial markets – 40 bps to 1.5%. Four of the six submarkets in GTA Central kicked off 2023 with vacancy hikes. Etobicoke led the way with the sharpest increase, rising by 70 bps to a two-year high of 1.6%. North York and Scarborough also contributed to the increase with vacancy creeping up by 40 bps in both markets to 1.3% and 1.8% respectively. Meanwhile, there remains virtually no vacancy in the Toronto and York nodes of the market as both nodes had vacancy remain sub-one percent.

The average asking net rent in the market decreased modestly by 120 bps to $17.45 psf. This is the first quarterly decline posted since Q3 2021, but the result still represented a year-over-year (YoY) increase of 40% or $4.95 psf. The slump in the quarter's rent growth can mainly be attributed to East York and North York submarkets, where rent fell back by 25% and 8.5%, respectively. In contrast, rent trends remained on an upward trajectory in the Etobicoke, Toronto, and Scarborough submarkets. Despite only a marginal slowdown in rent growth, the Central market lost its position as the market with the second-highest YoY growth, now trailing the GTA East and GTA North markets.

There was a sharp drop in demand in the GTA Central market this quarter, resulting in negative absorption of 946,000 sf - the lowest level posted in almost nine years. New leasing activity remained weak in the quarter dipping to 581,000 sf – a 41% contraction compared to the three-year quarterly average of 984,000 sf. Although the Etobicoke node was the primary focus of market growth in the Central market for the past three years, this quarter marked a reversal of this trend. Absorption plummeted to a five-year low of negative 466,000 sf, while new leasing activity slipped to a three-year low of 136,000 sf, which is slightly over a 41% contraction compared to year-end 2022.

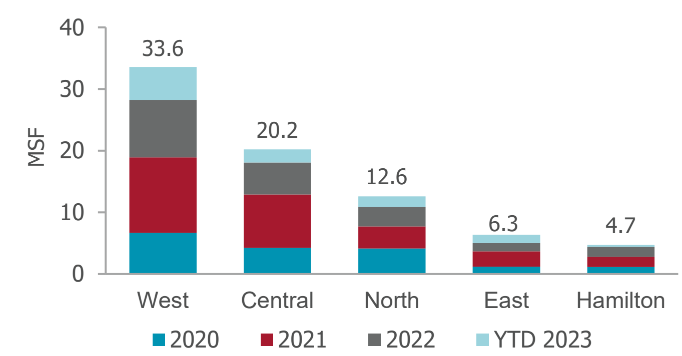
## GTA East

Despite not performing as strongly as year-end 2022, the GTA East market, along with GTA North, remained among the tightest industrial markets in the GTA. The overall vacancy rate ticked up marginally by 30 bps to 0.6%, up from 0.3% in Q4 2022. While the vacancy needle did not budge above zero for a third straight quarter in Whitby, Ajax was the main driver of the East market's increase in vacancy, as the node registered a substantial increase of 110 bps to 1.4% - the largest quarterly increase observed in close to four years. Meanwhile, the Oshawa and Pickering nodes posted modest increases of 10 and 30 bps to 0.3% and 1.0%, respectively.

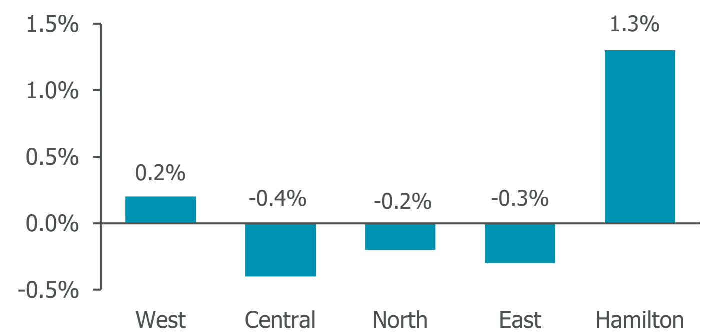
Similar to most of the major markets in the GTA, the East market was not spared from the slowing demand trend. Absorption plummeted to a 10-quarter low of negative 157,000 sf, a considerable drop from the 24-year high of 2.6 msf seen in Q4 2022 where the recognition of pre-leasing for the 2.2 msf of new supply that was delivered bolstered the quarter's positive result. Moreover, new leasing activity contracted by nearly 65% QoQ, falling to a nine-quarter low of 76,000 sf.
Despite slower demand, the average net rent remained on an upward trajectory in the East market. The average quoted rent increased by 9.6% QoQ to reach $16.04 psf, representing the highest quarterly growth rate among the major markets. In addition, the market held onto the top spot for YoY growth in the GTA, registering a 63% increase. With this new high, the average rent in the East market narrowed the gap to the overall GTA average of $17.46 psf, trailing by only 10%.

No new supply was delivered in Q1 2023, however, the East market's development pipeline remained robust with 1.8 msf of new supply scheduled for delivery by the end of 2023. These developments include the Lastman's Bad Boy site at 3550 Sideline 24 in Pickering that is being developed by SmartCentres. An additional 6.9 msf is being considered for delivery by the end of 2027.

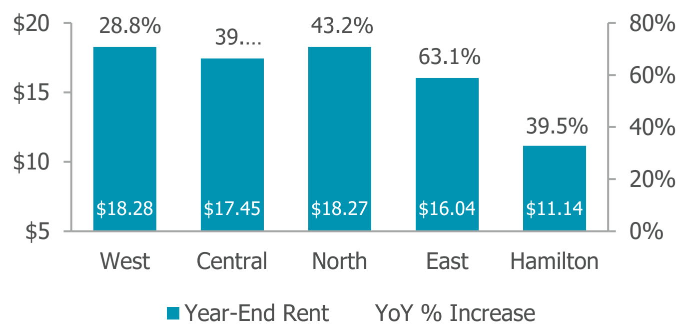
### Sales Activity (MSF)




### YTD Net Absorption as % of Inventory




### Quoted Avg. Asking Net Rent & YoY Growth Rate




Source: Cushman & Wakefield Research

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## Hamilton

Hamilton stood out this quarter with a strong performance, bucking the trend of slow demand and rising vacancy in the four major GTA industrial markets. Vacancy in Hamilton decreased significantly by 130 bps to 1.3% from 2.6% in Q4 2022 – representing the largest quarterly decline in the past six years.

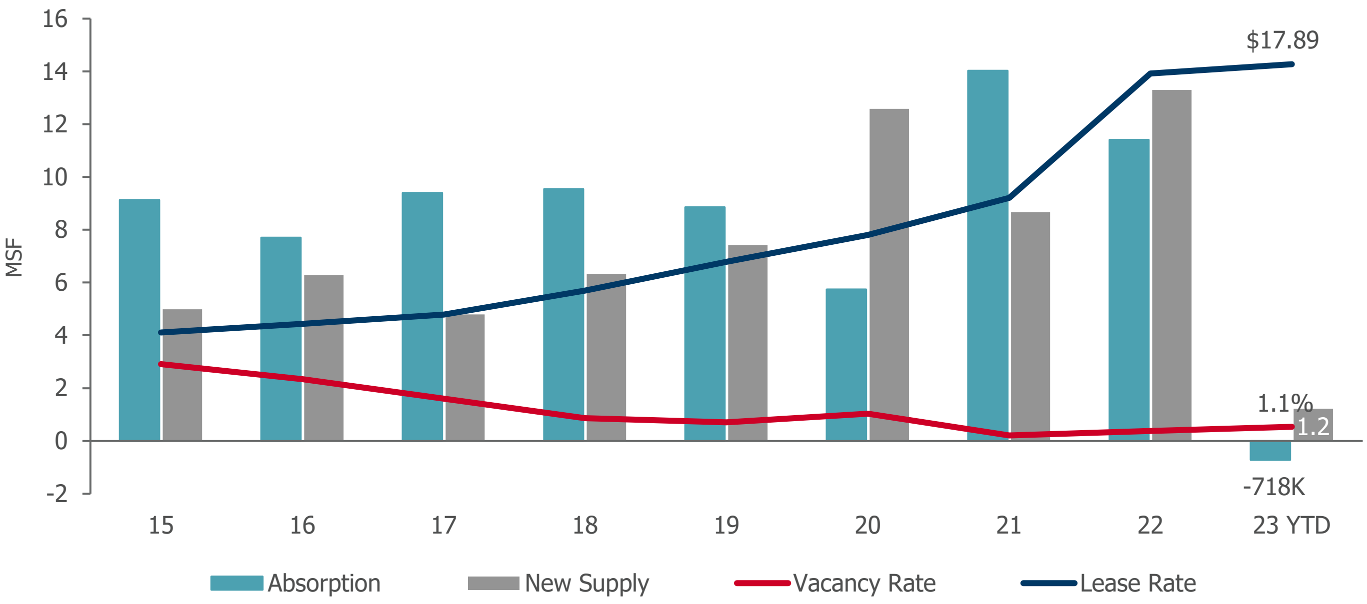
In Q1 2023, Hamilton's new leasing activity reached a six-year peak, surpassing just over 1 msf - almost three times higher than the total leasing activity of 496,000 sf recorded in 2022. Although demand has been in the red since Q1 2022, this year began on a positive note with absorption reaching 689,000 sf. Key transactions during the quarter included Winland Foods' 477,000-sf deal at 8 Burford Road and UPS's pre-leasing transaction for the proposed project on Glover Road.

Although there was a robust level of demand, the average net rental rate in Hamilton trended downward in Q1 2023. The quoted average rent for existing buildings decreased by 9.0% QoQ to $11.14 psf. This represents the first time in four consecutive quarters that Hamilton has posted a decrease in average asking rents. The decline is more reflective of the quality of space available in the market rather than changing demand fundamentals.

For the third consecutive quarter, no new supply was delivered to the Hamilton market. Although there was about 8.6 msf of new supply in Hamilton's pipeline, only 269,000 sf is currently under construction as of Q1 2023. What sets Hamilton's construction pipeline apart is that 1.6 msf of the total 8.6 msf being considered is build-to-suit across 11 buildings. This 19% ratio of build-to-suit versus speculative builds was the highest compared with the major GTA industrial markets.

## Is the Supercharged Growth Cycle Starting to Wane?

### First quarter results point to demand stabilizing to more "normal" levels




Source: Cushman & Wakefield Research

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