MARKETBEAT

CANADA NATIONAL

Industrial Q3 2022

	YoY Chg	12-Mo. Forecast
1.3% Overall Vacancy Rate	▼	—
2.5M Overall Net Absorption SF	▼	—
$14.84 Asking Rent, PSF	▲	—
6.7% Rent Growth Q-Q	▲	—
45.0M Under Construction, SF	▲	▼

Overall Market, Net Asking Rent

ECONOMIC INDICATORS Q3 2022

	YoY Chg	12-Mo. Forecast
19.3M Total Nonfarm Employment	▲	▲
2.7M Industrial Employment	—	▲
5.2% Canada Unemployment Rate	▼	—

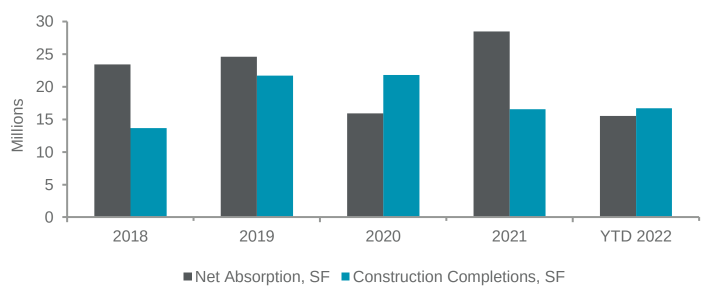
Source: Statistics Canada

Red-Hot Industrial Market Showing Signs of Stabilizing

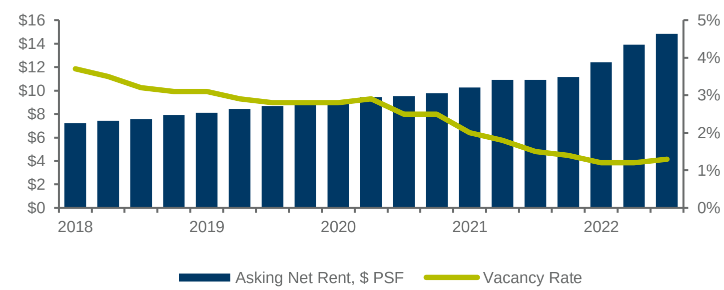
The September 2022 labour force survey released by Statistics Canada reported little change in employment this month, and while the unemployment rate declined to 5.2%, 20 basis points (bps) lower than last month, this decrease was primarily driven by fewer people searching for work. As the country continues to adapt to a post-lockdown world, there are factors that are having an impact on the labour market and will likely continue to do so for the foreseeable future. One is the work from home / hybrid work model that many companies are continuing to navigate with their employees. Recent months have also seen a growing number of Canadians leaving the workforce due to retirement, something that was largely put on hold during the pandemic. This will initially impact some employment sectors more than others, but in time will have a larger influence on the labour market as a whole.

Industrial demand while remaining strong by historical standards did show some signs of stabilizing in the third quarter of 2022. Absorption totals reached just over 2.5 million square feet (msf), a notable drop from last quarter. This can be attributed to the majority of the major markets posting lower amounts of absorption compared to last quarter, and in Montreal's case negative absorption of close to 587k square feet (sf), the first-time absorption has been negative in that market since the second quarter of 2016. Coinciding with this decline in absorption was also a deceleration in overall leasing activity which reached close to 10.7 msf this quarter - again a strong total as it is just shy of the long-run average pre-pandemic, but is the lowest amount posted since the second quarter of 2020. The circumstances behind this slowdown in demand are likely a combination of numerous factors and will differ from market to market. A common denominator is likely high inflation and the threat of a looming recession. This could be leading many industrial occupiers, particularly smaller tenants who are more price sensitive, particularly in this continued high rent environment, to hold off on any space decisions. From an absorption perspective, the GTA has consistently been the primary driver in Canada – particularly during the past two years. New supply has trended slightly downwards over the past two quarters in the GTA and with less new supply comes less space to absorb. This quarter specifically there was approximately 455k sf of vacant space that arrived on the market within the new supply, not significant from a GTA or national vacancy perspective, but an occurrence that has not often been seen in the GTA over the last two years.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING NET RENT



With lower absorption totals and an uptick in the amount of vacant space on the market, overall vacancy did increase slightly to 1.3% which still represents a very tight market. Total vacant space across the country (in existing inventory) currently totals just over 22 msf. While this an increase from last quarter's totals, it is still approximately 10.6% lower than what was vacant in the third quarter of 2021. While the majority of the Canadian markets did see vacant space climb this quarter compared to last, one of the drivers of the overall increase in the third quarter was the result of the Montreal industrial market having five properties all placing over 100,000 sf of vacant space on the market.

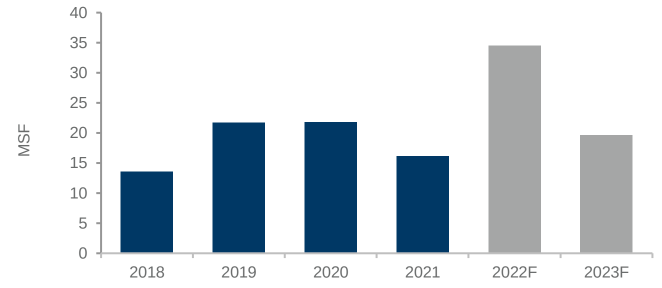
There was a slight uptick in the total square footage amount of new supply arrivals this quarter compared to last at close to 5.0 msf, with developments arriving in more than half of all Canadian markets. Significant totals of over a million square feet were located in Vancouver, Calgary, and Toronto. In Vancouver the arrival of this new supply was of no assistance to occupiers in need of space as all of the buildings were fully-preleased, while in Calgary two speculative properties arrived vacant, and an additional building being delivered with 60k sf remaining to be leased. In the GTA the vacant space that arrived in new supply was the highest in the country at 455k sf; but given the sheer size of the market that total is negligible. As it stands currently the Canadian market is set to see a flood of new supply arrive in the last quarter of 2022 at close to 18 msf, a quarterly total that historically is unprecedented. Even if only half of this new supply arrives next quarter it will certainly impact the market in some way, whether it is absorption, vacancy or rental rates – all hinging on how much of this space has been preleased once it is delivered.

Although we saw other metrics stabilize in the third quarter of 2022, this was not the case for rents as the average net rent rose to $14.84 per square foot (psf). This is 6.0% higher than last quarter and 36.0% higher than one-year-ago. Given the still tight market conditions in many markets, there is no expectation that rents will start to decline in the near future; in fact, there may be some continued upward movement if there is vacancy that arrives in new supply as generally space in brand new properties will command a higher asking rent.

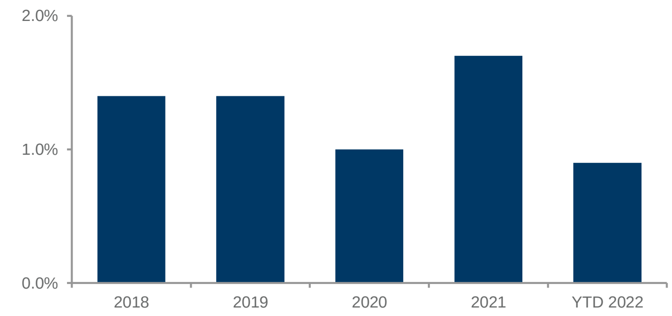
OUTLOOK

- Absorption is expected to remain strong into 2023; however, totals are likely to stabilize and be closer in line with the annual totals seen pre-pandemic.
- Coming off what will likely be a record year for new supply, the pace of new construction arrivals will slow in 2023 but remain healthy.
- In the short term it is unlikely that there will be any significant increase to vacancy, as industrial occupiers are not looking to shed space. If an increase were to occur, it will likely be the result of vacant space arriving in new builds.

NEW SUPPLY



NET ABSORPTION AS % OF INVENTORY



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MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	YTD CONSTR COMPLETIONS (SF)	OVERALL WEIGHTED AVG NET RENT	OVERALL WEIGHTED AVG ADD. RENT	OVERALL WEIGHTED AVG GROSS RENT
Vancouver	225,887,188	1,226,589	0.5%	945,057	2,971,616	8,671,487	2,957,637	$21.15	$6.52	$27.67
Calgary	138,055,554	5,060,192	3.7%	1,330,100	3,931,314	8,419,522	2,567,189	$11.05	$5.13	$16.18
Waterloo Region	90,966,089	1,047,263	1.2%	-192,236	872,877	1,038,858	704,169	$10.12	$3.41	$13.53
London	40,332,977	722,361	1.8%	21,961	-200,874	1,465,150	266,200	$8.96	$3.38	$12.35
Toronto	805,504,930	6,171,374	0.8%	1,037,775	4,749,858	21,472,971	5,414,398	$15.77	$4.38	$20.15
Ottawa	26,720,676	544,780	2.0%	-28,817	2,600,133	555,587	2,710,966	$11.95	$7.12	$19.07
Montreal	340,585,022	6,377,551	1.9%	-586,787	417,507	3,167,220	2,024,606	$12.48	$3.95	$16.43
Fredericton	475,885	5,691	1.2%	1,650	2,079	0	0	$7.74	$4.68	$12.42
Saint John	512,123	62,832	12.3%	0	8,150	0	0	$8.60	$3.69	$12.29
Moncton	4,605,398	249,262	5.4%	26,656	203,185	62,475	59,397	$6.15	$3.19	$9.34
Halifax	8,492,990	385,926	4.5%	-49,261	-59,939	188,700	0	$8.56	$5.52	$14.08
St. John's	4,160,863	442,526	10.6%	16,401	29,059	0	0	$12.02	$3.54	$15.57
NATIONAL TOTALS	**1,686,299,695**	**22,296,347**	**1.3%**	**2,522,499**	**15,524,965**	**45,041,970**	**16,704,562**	**$14.84**	**$4.61**	**$19.44**

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