CUSHMAN & WAKEFIELD

**INDUSTRIAL**
Q2-2018

# Insider Report

**RESEARCH AND STREET-LEVEL INSIGHTS TO SUPPORT YOUR COMMERCIAL REAL ESTATE DECISIONS IN THE GTA**

## Challenges Intensify in High-Growth Market

Free-falling GTA industrial vacancy hit another record-low in the second quarter. Now at 2.1%, for a market of more than 760 million square feet, this is nothing short of astounding for North America's third largest market – and there's no sign of easing demand. Our veteran brokers who have weathered boom-bust cycles before have never seen anything like it. Nine years into the cycle and demand is relentless, rents are soaring, and supply can't keep up. In the GTA West – the distribution hub of Canada – vacancy in Mississauga and Brampton fell to historical lows of 1.4% and 0.8% respectively.

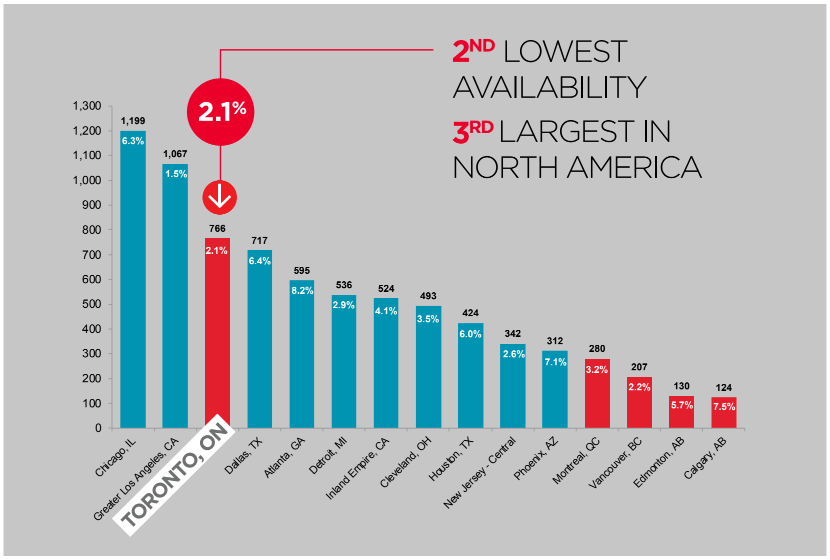
## Our Q2 2018 Stats Paint the Picture

**9.4 msf**
Leased
– a record high!

**18.5%**
Preleasing
High amount of total underscores how anxious users are to lock down space for future use

**35.6%**
Mississauga
highest leasing activity

**25.1%**
Brampton
second highest leasing activity

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## GTA Industrial Construction Pipeline

### TOTAL NEW DEVELOPMENT

9.1 MSF
UNDER CONSTRUCTION

### BUILD TO SUIT

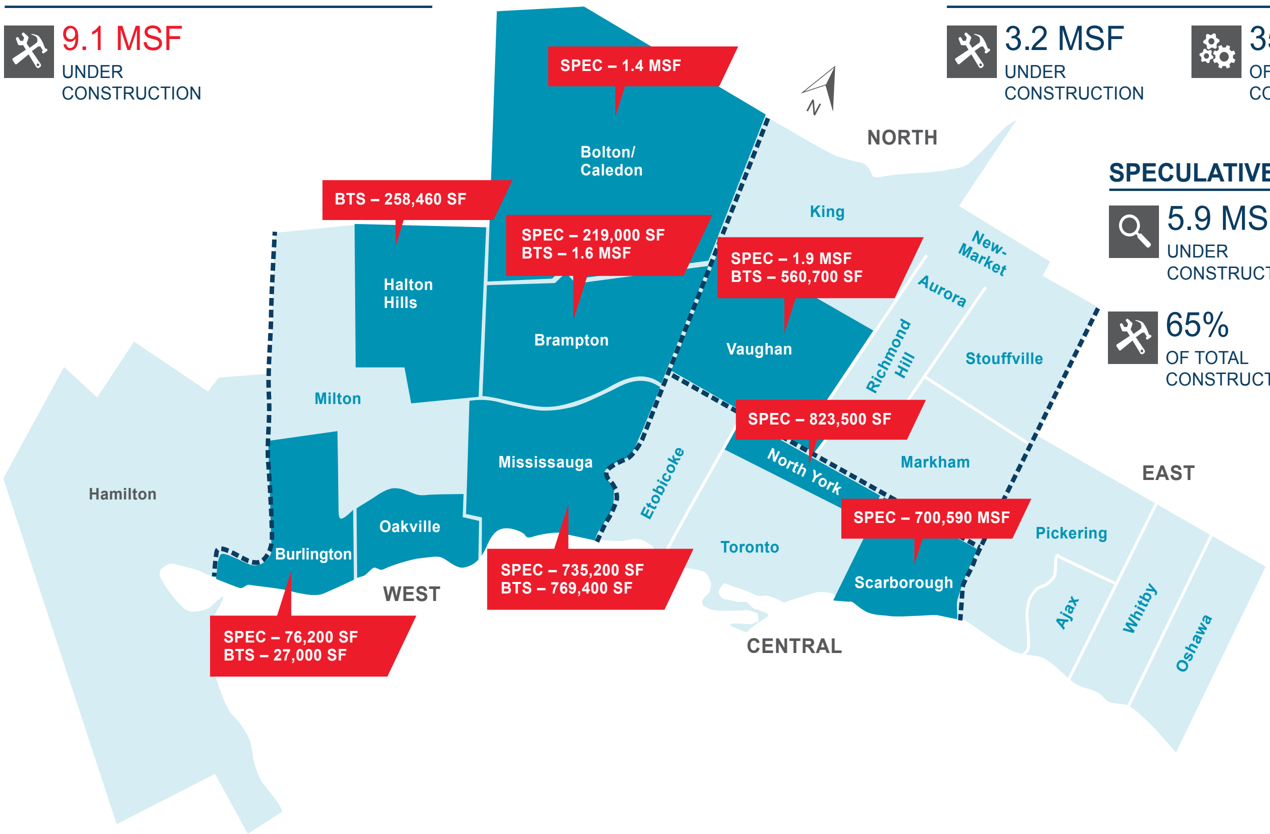
3.2 MSF
UNDER CONSTRUCTION

35%
OF TOTAL CONSTRUCTION

### SPECULATIVE

5.9 MSF
UNDER CONSTRUCTION

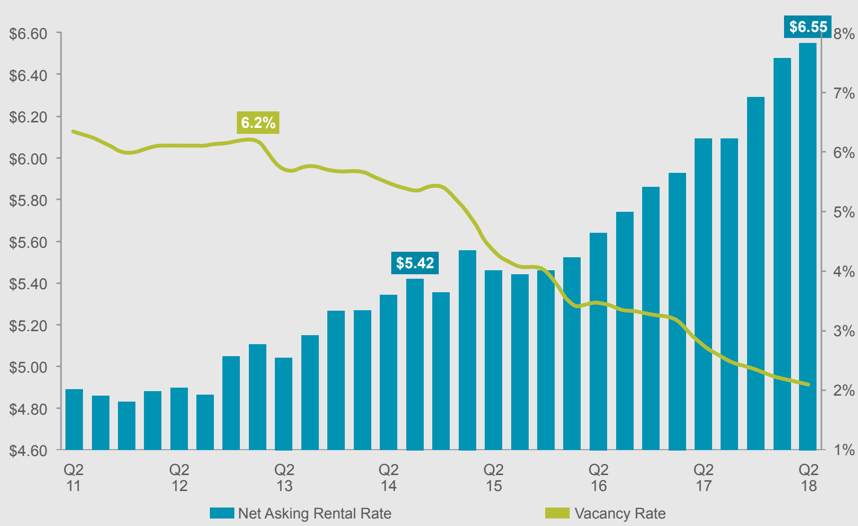
65%
OF TOTAL CONSTRUCTION




## Guess What Direction Rental Rates Are Going?

After many years of barely budging, GTA industrial lease rates are hitting new highs, which is both spurring developers on and causing sticker shock among users. Here are some incredible stats from the quarter:

- The average overall GTA lease rate spiked by 7.5% to $6.55 per square foot (psf)
- Markham saw the highest jump to $7.84 psf (and ultra-low vacancy of 1.7%)



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## Insatiable Demand

As for supply, well the old story, build it and they'll come seems like an understatement in this blazing hot market. Through the second quarter, over 793,000 sf of speculative supply hit the market, yet only 13% remained available, which will soon be absorbed.

On the absorption front, this is really amazing:

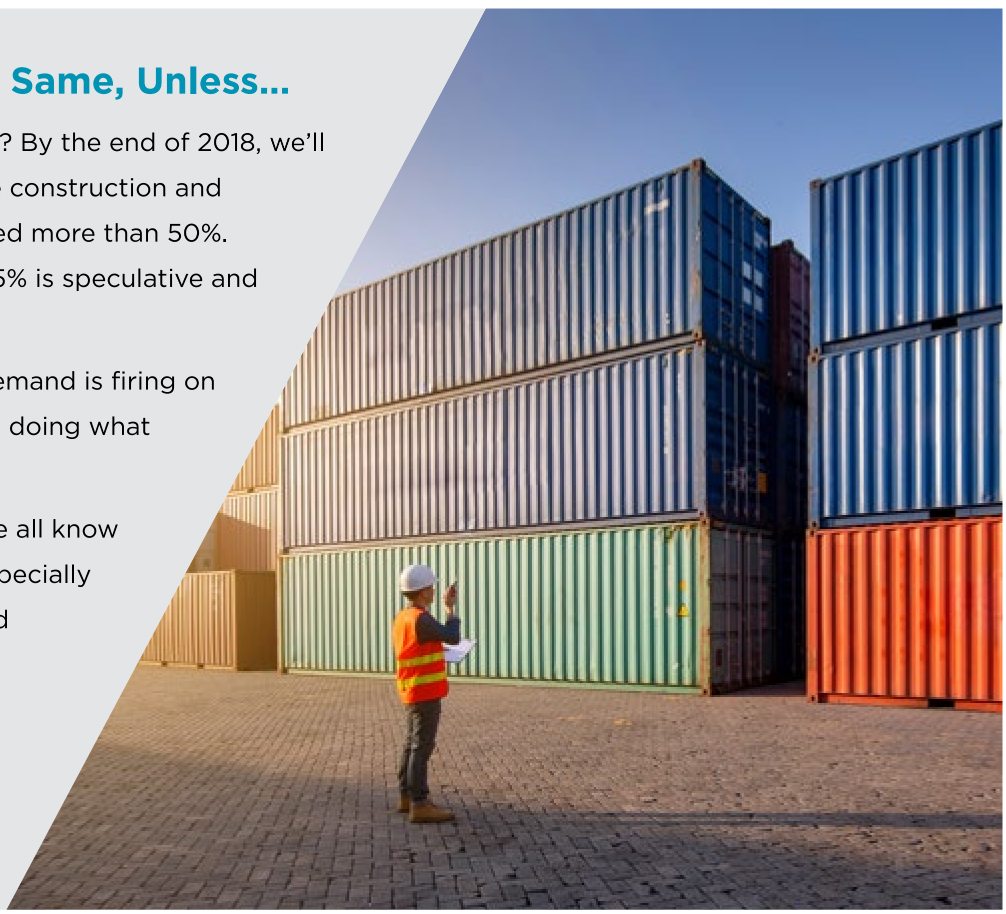
Over 1.3 msf - 250,000 sf more than last quarter, was absorbed by expanding and new tenants. This put yet another exclamation point on what's going on during this unprecedented boom cycle.

## Outlook: More of the Same, Unless...

So, how's this going to play out? By the end of 2018, we'll see about 2.1 msf of speculative construction and preleasing has already consumed more than 50%. Of the 9.1 msf in the pipeline, 65% is speculative and 35% build-to-suit.

That pretty much says it all – demand is firing on all cylinders and developers are doing what they can to keep up.

As for flashing yellow lights, we all know that an escalating trade war, especially if involves the auto sector, could have serious consequences for business, industrial real estate, and the overall economy. We're monitoring this unfolding story very carefully.



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# Street-Level Q&A

## How Can Users and Developers Navigate this Wild Frontier of a Market?

*We turned to veteran industrial brokers Gil Gordon, Senior Vice President, Industrial, and Michael Yull, Vice President, Industrial, in our GTA West office for their "insider" views:*

Gil Gordon

Michael Yull

### *How can users and developers navigate this rapidly changing market?*

**Michael**: We're telling users to get out into the market as early as possible. If you have a lease coming up in a couple of years, the time to start the process is now. In such a tight market, knowing about shadow vacancy and off-market opportunities is crucial.

**Gil**: We expect to see unprecedented increases in lease rates, therefore, we are recommending tenants lock-in long term, if they can. We're also assisting clients improve their operational efficiency to mitigate rising occupancy costs.

### *What are some of the user trends happening now?*

**Michael**: Design-build is becoming more popular as a result of high resale prices approaching replacement costs. Why buy a 30-year-old dysfunctional asset when the cost of a new building is equivalent.

**Gil**: There is a labour shortage across the GTA and we're seeing tenants investing in technology to become more productive and soften the impact of the labour scarcity.

### *Why can't developers keep up? What are some of the stumbling blocks?*

**Gil**: Similar to residential, there's a complete lack of supply of serviced and zoned land. Due to development constraints, the process to bring land on stream is out of sync with user demand. This is a critical challenge that planners and governments need to address.

**Michael**: The GTA industrial market has been one of the strongest in North America, but a crisis is occurring. Development costs are exorbitant including land, construction materials, and development charges. For example, some municipalities are now charging the equivalent of $550,000 per acre in development charges. As a result, unless lease rates increase dramatically there will be a continuation of the supply scarcity.

### *Is the threat of a trade war having an impact on business confidence?*

**Gil**: Most definitely NAFTA needs to be resolved as soon as possible. We see many exporters, including steel and aluminum based industries, losing confidence and curbing their capital investments until NAFTA negotiations are completed.

**Michael**: The tariff issues are also affecting the development community. A major developer in the GTA has postponed a spec development as its steel supplier has jacked prices way above market to account for the uncertainty.

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*For each report, we invite "guest" brokers and professionals to share opinions and insights*

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