



CUSHMAN &
WAKEFIELD

CANADIAN INDUSTRIAL REAL ESTATE REPORT

Shortage of Space Drives Rents Skyward Across Key Landlord Markets

**INDUSTRIAL
GATEWAY MARKETS
EXPERIENCE REMARKABLE
SURGE IN GROWTH**

Canadian industrial real estate markets are undergoing transformational change in response to the rise in e-commerce, driving unprecedented growth across key gateway markets. The result is historically low availability rates and rising rental rate pressure.

Vancouver, Toronto and Montreal have seen explosive logistics and distribution growth since 2015. Toronto's huge industrial market has seen 9 million square feet (msf)

of absorption per annum, a 320% surge over the previous five-year period when absorption averaged 2.8 msf per annum.

Vancouver and Montreal are also feeling the heat, with strong demand against a limited supply response. Space shortages and upward rental rate pressure are challenging tenants as they approach their lease expiry within what has become the strongest landlord market in history.



Annual Absorption (MSF) by Major Market

■ Avg Abs 5 Yrs Ending Q4/14

■ Avg Abs 2015-2018

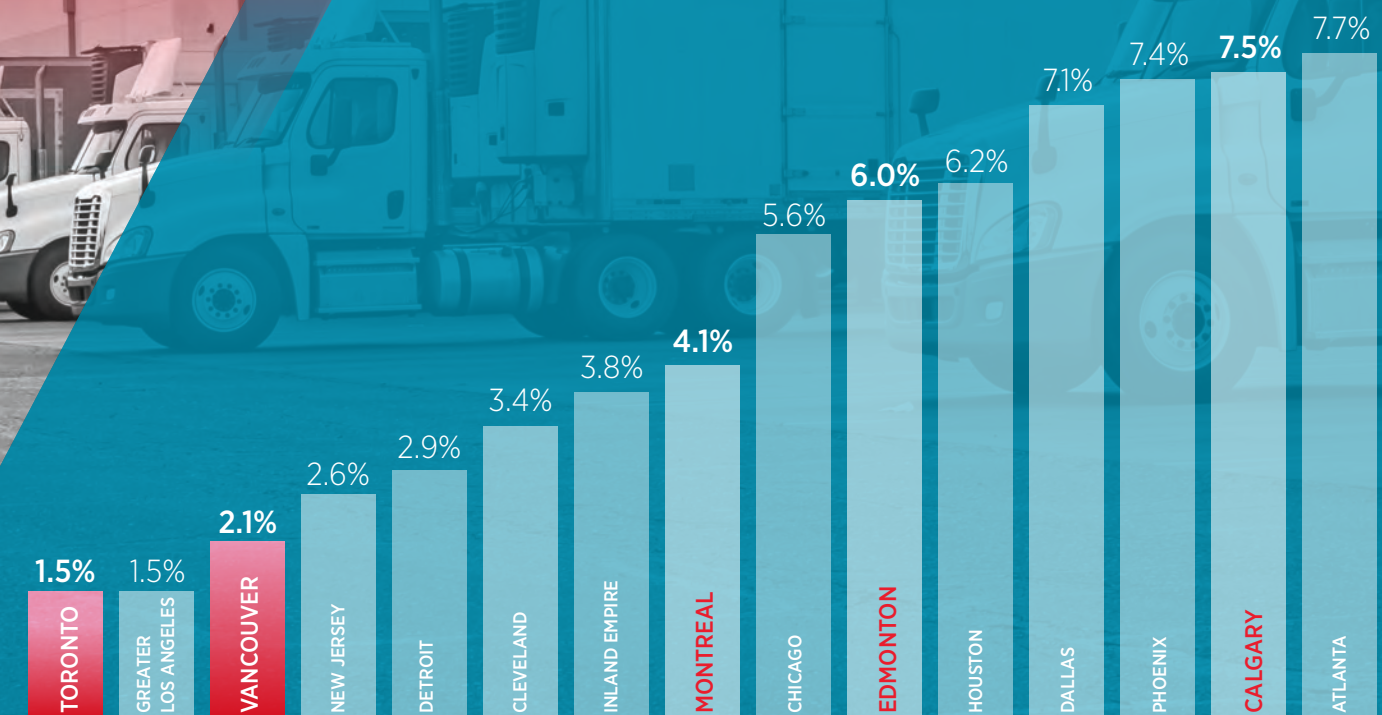
Demand Outpaces Supply

Driving the National Availability Rates to Record Lows

TORONTO AND VANCOUVER RANK AMONG NORTH AMERICA'S TIGHTEST INDUSTRIAL MARKETS

Canada's industrial availability rate fell to 3.1% in Q4 2018, the lowest rate ever recorded. Toronto, Vancouver and Montreal are seeing the lion's share of demand, with availability rates of 1.5%, 2.1% and 4.1% respectively. Toronto is now the tightest industrial market in North America, alongside Greater Los Angeles with 1.5%, with Vancouver ranking third tightest market in North America (see chart below).

From a tenant's perspective, finding modern and efficient distribution premises, given the shortage of product and the scarcity of available land, has become an enormous challenge. Consequently, securing new space is often complicated by competing offers on target premises, which has heightened the need for responsiveness. It has never been more critical for users of space to be "decision ready" across Canadian industrial markets.

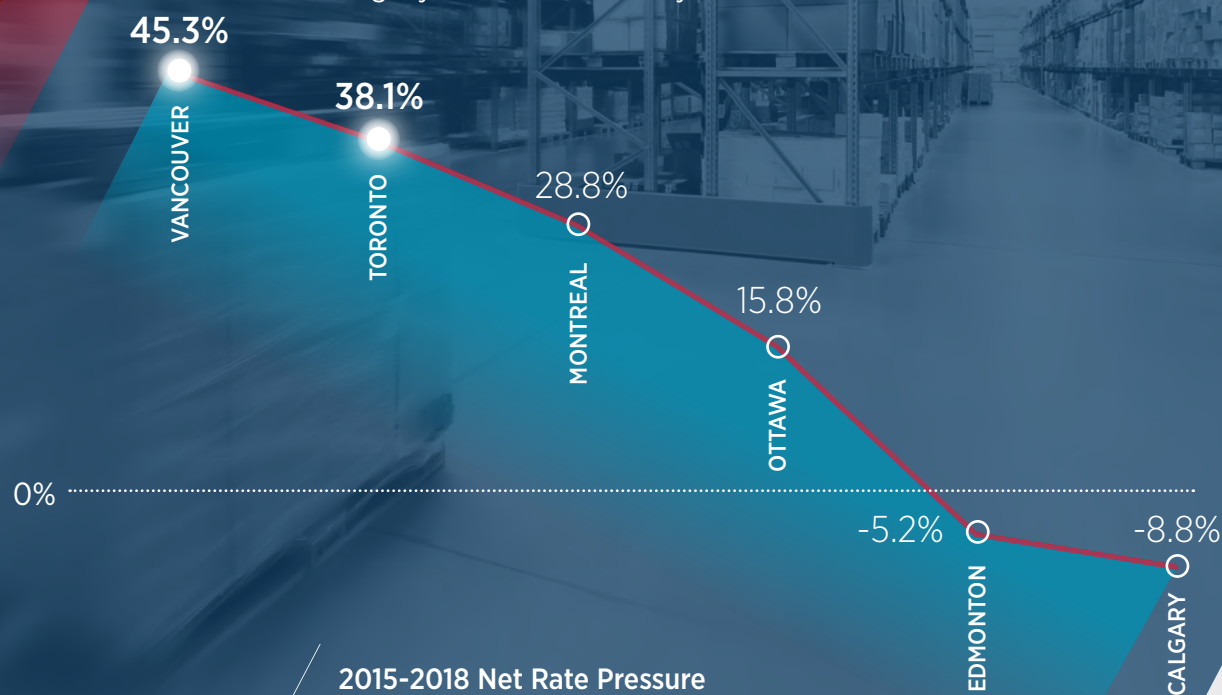


Low Availability and High Demand Drive Rental Rates Upward

**VANCOUVER & TORONTO
TOPPED CANADIAN MARKETS
IN RENTAL RATE GROWTH**

With record low availability and continued growth, the inevitable outcome has been upward pressure on lease rates. Canadian markets have seen record upward pressure in recent years, with average asking rental rates surpassing \$8.00 per square foot (psf) for the first time in history. Canada-wide average rates increased by 10.1% in 2018, the largest single-year increase in history.

Since 2015 rental rate pressure has been staggering, with Vancouver rates ratcheting upward by 45.3%. In Toronto, where inventory exceeds 780 msf, rental rates have increased by 38.1% since 2015. Even Montreal, where rental rate pressure has been notoriously flat for years, asking rental rates have increased by 28.8% over this period.



2015-2018 Net Rate Pressure

○ Rate Pressure Q4/14 to Q4/18

**TORONTO SEES
RECORD RENTAL RATE
GROWTH IN 2018**

2018 brought with it a shift in asking rate momentum, with Toronto taking the lead from Vancouver for the fastest rental rate growth in the country. Over the past year, Toronto's 780+ msf industrial market has seen rent growth of 17.6%. Vancouver

continues to experience double digit rental rate growth, while Montreal is expected to see momentum escalate as we move through 2019.



Tips for Tenants Doing Business in Canada's Hottest Industrial Markets

1

Get involved in real estate strategy discussions well in advance of the natural expiry date of your lease. Late starts eliminate opportunities in challenging markets.

2

Ensure that your advisor has a deep pool of experience allowing you to tap into and explore those critical "off-market" opportunities.

3

Creative deal making can resolve roadblocks! You may not be able to buy that target building, but what about those out-of-the-box opportunities?

4

Stay in tune with the market at all times. Being in a state of readiness allows you to strike when the iron's hot!

5

Understand the financial implications of changing market conditions at the outset and prioritize critical needs in advance of evaluating options.

What's Next? Predictions for Tomorrow's Hottest Markets

1

Vancouver, Toronto and Montreal will remain extremely tight over the next two years, even if overall demand momentum eases.

2

Upward rental rate pressure in the hottest markets will continue, with Toronto and Montreal likely surpassing Vancouver over 2019 and 2020.

3

Stronger investment returns, driven by rising rental rates will spur development growth by late 2020.

4

Smaller tenants will continue to face extreme availability shortages and this will continue to exert upward pressure on rental rates.

5

With space shortages in sought after locations within hot markets, tenants of size may need to consider outlying regions where land availability is greater.

Key Facts

10.1%

Canadian asking rates rose by a record 10.1% in 2018

45.3%

Vancouver saw asking rates rise faster than any other market between 2015 & 2018

17.6%

Toronto saw rent growth escalate to historic highs in 2018

3.1%

Canada hits a 35-year low availability rate in Q4 2018

23.7
MSF

In 2018, Canadian markets saw absorption reach levels unseen since 2000

1.5%

Toronto's Q4 2018 availability rate hits historic low

AT THE CENTRE OF WHAT'S NEXT



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