

MARKETBEAT

Greater Toronto Area, ON

Industrial Q2 2019



GREATER TORONTO AREA

Economic Indicators

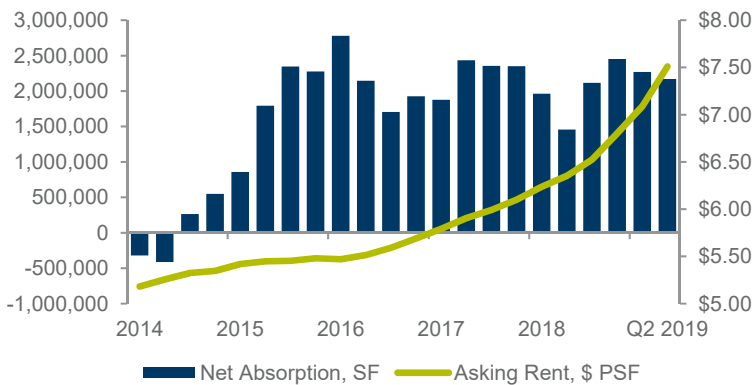
	Q2 18	Q2 19	12-Month Forecast
GTA Employment	3.3 mil	3.5 mil	▲
GTA Unemployment	6.2%	6.3%	▼
Canada Unemployment	5.9%	5.4%	■

Source: Statistics Canada

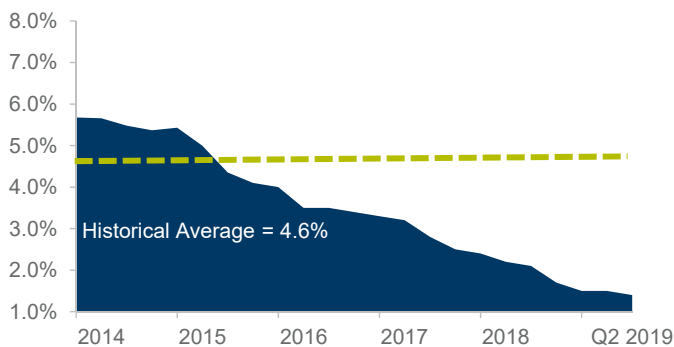
Market Indicators (Overall, All Product Types)

	Q2 18	Q2 19	12-Month Forecast
Overall Vacancy	2.1%	1.4%	▼
Net Absorption (sf)	1,302,865	905,078	▲
Under Construction (sf)	5,191,589	12,850,347	▼
Overall Average Asking Rent	\$6.55	\$8.23	▲

Net Absorption/Overall Asking Rent 4Q TRAILING AVERAGE



Overall Vacancy



Economy

In May 2019, employment was up by 27,700 from the previous month pushing Canada's unemployment rate down to 5.4%, the lowest rate seen since 1976 (when comparable data first became available). Wage growth, while soft, ticked up to 2.8% in May 2019. On the GTA residential side, selling prices showed signs of recovery, up by 3% year-over-year. (RBC Economics)

Market Overview

The second quarter of 2019 was another record-breaking quarter for the GTA industrial markets. As anticipated, due to strong demand and severe supply shortages, industrial availability fell to an historic low of 1.4%. Such incredibly tight conditions continued to exert upward pressure on the overall average asking rental rate, which reached \$8.23 per square foot - a 25.7% year-over-year increase. With a record 13 million square feet (msf) under construction, developers are moving as fast as possible to meet demand.

Three new speculative buildings (10911 Keele Street in Vaughan at 89,940 square feet (sf), 150 Gibraltar Road in Vaughan at 256,000 sf, and 75 Skyway Drive in Mississauga at 99,770 sf) were completed this quarter and fully absorbed. Absorption reached 905,070 sf in the second quarter of 2019, pushing the year-to-date total to 1.5 msf. Of the new supply under construction, speculative builds make up 45% and build-to-suit accounts for 55%. At the end of the quarter, 57.4% of the speculative product was already preleased. GTA West is seeing by far the most construction activity, accounting for 7.5 msf (58%), followed by GTA North at 2.2 msf (17%).

Overall leasing activity in the second quarter of 2019 remained robust at 6 msf, of which 4.2 msf, 70% of the total, took place in the west markets, while the central submarkets accounted for 783,000 sf, 13% of the total.

Outlook

Expect expansionary growth and continued pent-up demand to remain the top stories through the remainder of 2019 as larger preleased buildings come to market in the next two quarters. These buildings include 2200 Yukon Court in Milton, a 1.1-msf build-to-suit for DSV Global Transport and Logistics, 2299 Hogan Drive in Mississauga, 303,918 sf preleased to National Logistics Services and finally, 100 Gibraltar Road in Vaughan at 383,194 sf preleased to Sobseys.

Industrial Market Highlights

Availability 1.4% QoQ Change -20bps YoY Change -80 bps	Avg. Net Rent \$8.14 PSF QoQ Change +7.5% YoY Change +20.8%	Absorption 616K SF YTD Net Absorption 1.42 MSF	Under Construction 7.52 MSF Committed Construction 8.81 MSF	New Supply 100K SF YTD New Supply 227K SF
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Market Overview

Demand in GTA West continued at a strong pace in the second quarter of 2019 with 615,743 sf of positive absorption. Much of this growth can be attributed to the recent transactions involving Global Distribution & Warehousing, a 3PL company that leased 261,360 sf and 3M's expansion for 178,550 sf, both located at 11400 Steeles Avenue East in Milton. These two transactions completed the leasing in the building.

Availability in GTA West dipped to a record-low of 1.4% this quarter. The most notable year-over-year decline occurred in the Milton/Halton Hills node where availability plummeted to 2.2%, down from 9.4% in the second quarter of 2018. Not surprisingly, e-commerce continues to be the main driver demand in GTA West.

Rents

Asking net rates continue to blow away expectations. As of the second quarter, rents had increased by 21% year-over-year to reach an all-time high of \$8.14 psf. Each quarter new rental rate highs are being reached and given the bottom-of-the-barrel availability across GTA industrial markets, this trend shows no signs of slowing down.

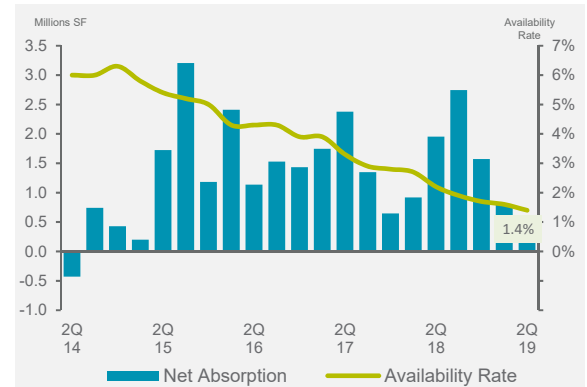
A recent example of the markets strength is 2 Bramkay Street located in Brampton. Although the asking rent at the 399,540-sf facility was listed as negotiable, expectations edged close to \$10.00 psf – an unprecedented high.

Development/Inventory

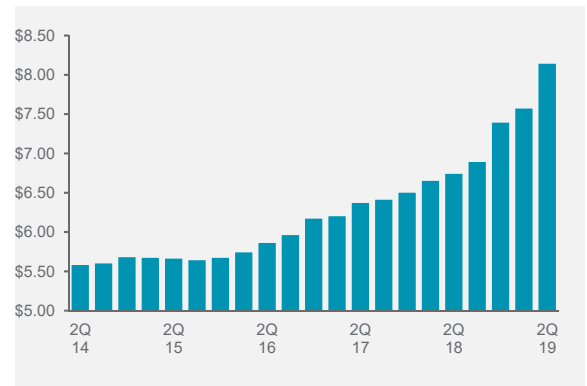
Of the 7.5 msf of new supply in the pipeline, only 2.6 msf will be delivered in 2019. Of that amount, less than half was speculative and has been fully pre-leased. With such strong pre-leasing, new supply will fall significantly short of demand this year.

Currently, 8.8 msf of committed new construction is in the pipeline to launch over the next two years. This represents only 2.4% of the total GTA inventory – further demonstrating the stark imbalance of supply and demand.

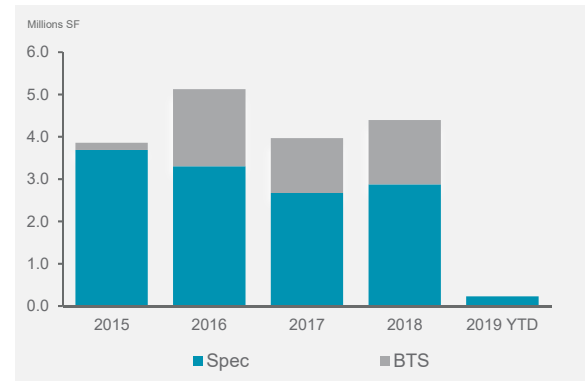
Avg. Absorption vs. Availability



Avg. Net Asking Rent Trend



New Supply



Industrial Market Highlights

Availability 1.5% QoQ Change +10 bps YoY Change -80 bps	Avg. Net Rent \$8.66 PSF QoQ Change +7.9% YoY Change +27.8%	Absorption 146K SF YTD Absorption 213K SF	Under Construction 2.2 MSF Committed Construction 705K SF	New Supply 346K SF YTD New Supply 400K SF
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Market Overview

In the second quarter of 2019 the GTA North continued to see strong demand, posting 145,737 sf of absorption. Although 345,945 sf of new supply was delivered in the second quarter, availability sunk to 1.5%, down 80 basis points year-over-year. Much of the absorption can be attributed to a 256,000-sf new development at 150 Gibraltar located in Vaughan. Phase 1 was delivered fully tenanted by Give & Go foods.

With diminishing availability, a stagnant speculative new supply pipeline and relentless demand, tenants will remain hard pressed to find competitive product and are opting to renew at near market rates.

Rents

Asking rates continue to soar in the GTA North, reaching an all-time average high of \$8.66 psf - a 28% increase year-over-year. Asking net rates in the GTA North this quarter ranged between \$7.66 psf and \$10.34 psf.

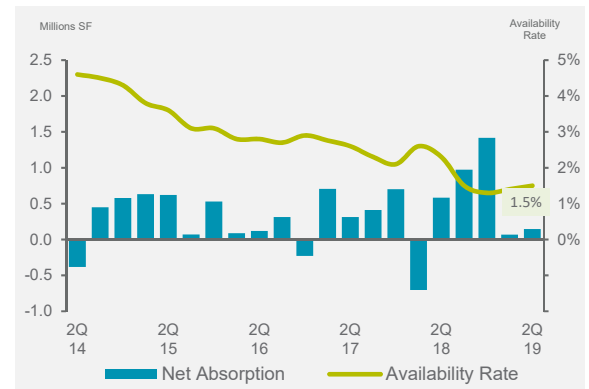
The GTA North inventory is predominantly comprised of small to mid-sized bay product, which historically demands higher rent. In Vaughan, landlord, Pure Industrial Real Estate Trust (PIRET), is pushing small bay rates to unprecedented levels, primarily for Class B product, asking over \$14.00 psf for available space below 50,000 sf.

Development / Inventory

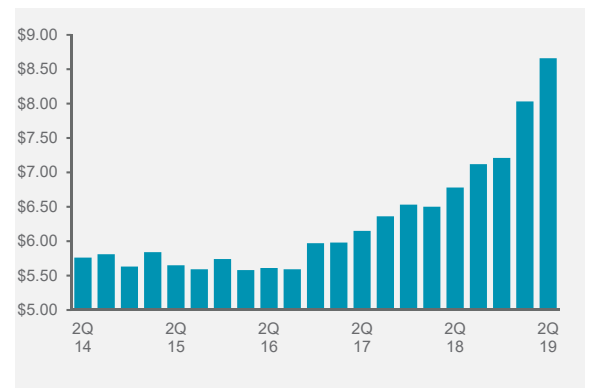
Historically, new construction in GTA North consisted primarily of design build and small-to-mid-sized bay product. Over the last few years, there has been a surge of larger bay product in Vaughan along Hwy 50, which has had very strong pre-leasing rates. Recently, developers have neglected to build Class A small-to-mid sized units, which is in hot demand in Vaughan, Markham and Richmond Hill.

Of the 2.2 msf under construction in GTA North, 1.8 msf is speculative development and of that total only 564,366 sf is available. In total, almost 70% of all spec developments are pre-leased. By the end of 2019 it is expected that approximately 1.6 msf will be delivered to the market.

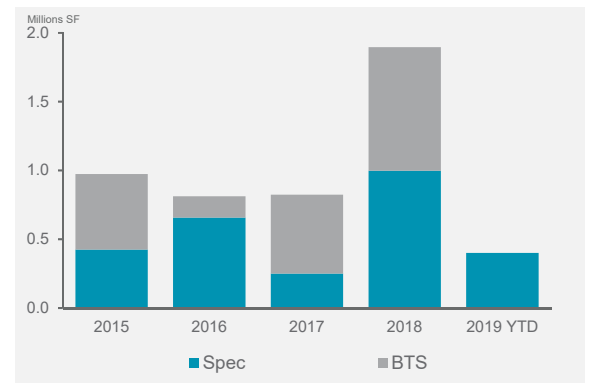
Avg. Absorption vs. Availability



Avg. Net Asking Rent Trend



New Supply



Industrial Market Highlights

Availability 1.3% QoQ Change 0 bps YoY Change -40 bps	Avg. Net Rent \$8.27 PSF QoQ Change +7.7% YoY Change +36.5%	Absorption -108K SF YTD Net Absorption -335K SF	Under Construction 1.97 MSF Committed Construction 1.88 MSF	New Supply 0 SF YTD New Supply 0 SF
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Market Overview

An easing in demand in GTA's Central node resulted in 107,902 sf of negative absorption in the second quarter of 2019. Meanwhile availability held at a low 1.3%.

Etobicoke is currently experiencing a resurgence of interest. Purolator announced that it will build a 'national super hub' in the market to support future growth of parcel delivery related to e-commerce. The 430,000-sf facility at 325 Humber College Blvd, located on 60 acres, is scheduled to open in 2021. Etobicoke's proximity to the downtown core, coupled with strong highway access, has put a spotlight on the node as an effective "last mile" location.

Rents

The average net asking rent reached a record-high of \$8.27 psf in the second quarter of 2019, a record increase of 37% year-over-year. This upward pressure is being driven by a severe lack of functional space.

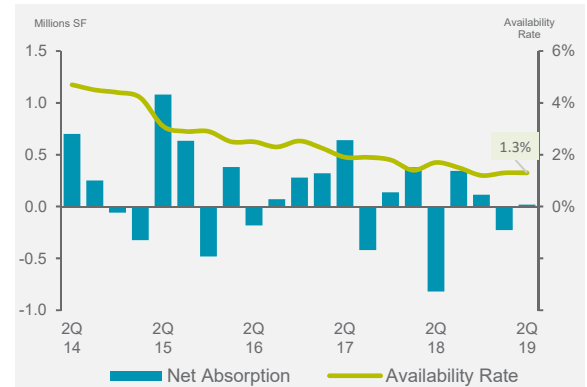
Landlords are continuing to push rents, especially for new buildings. Cartera Private Equity has high expectations for their new 367,480-sf development at 1330 Martin Grove Road in Etobicoke, with a \$9.95 psf asking rate. Cartera is targeting late 2019/early 2020 to commence this development.

Development / Inventory

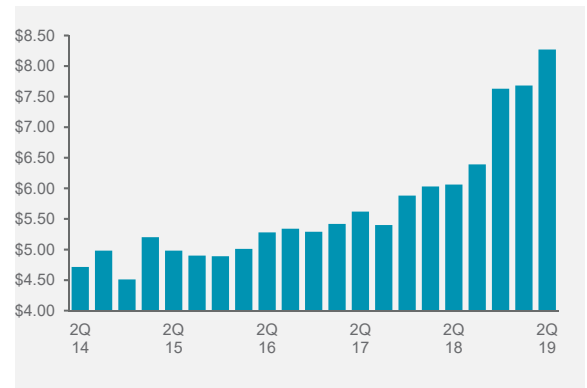
Currently PIRET's 295,087-sf development in Scarborough is the only new Class A product available in the GTA Central submarket. However, new development projects are likely to be announced in the next six months. A number of institutional landlords are targeting sites in south Etobicoke, which could add significant new supply to the central area.

Canada Post recently submitted a proposal for a 583,396-sf facility with a 40' clear height and 667 employee parking spots at First Gulf's site at 1395 Tapscott Road in Scarborough. As the most active parcel delivery service in Canada, Canada Post is setting up their network to handle the continuing growth of e-commerce.

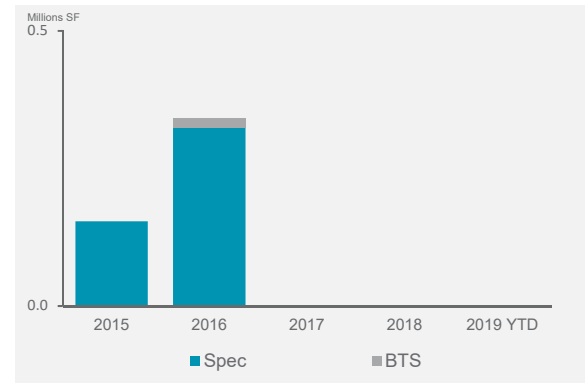
Avg. Absorption vs. Availability



Avg. Net Asking Rent Trend



New Supply



Industrial Market Highlights

Availability 1.4% QoQ Change -60 bps YoY Change -130 bps	Avg. Net Rent \$7.40 PSF QoQ Change 3.3% YoY Change +18.2%	Absorption 251K SF YTD Net Absorption 200k SF	Under Construction 1.14 MSF Committed Construction 1.79 MSF	New Supply 0 SF YTD New Supply 0 SF
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Market Overview

Strong demand and a lack of new vacant space pushed the availability rate down this quarter to just 1.4% in the GTA East market. Absorption rose to 251,500 sf from negative 51,339 sf in the first quarter of 2019. Much of this growth can be attributed to The Shandex Group, a consumer packaged goods company that leased 191,079 sf at 1055 Squires Beach Road in Pickering.

GTA East is capturing renewed interest from developers and investors. Crestpoint recently closed on a 129 Acre site in Ajax and is planning an industrial development upwards of 2 msf. Meanwhile, Ivanhoe Cambridge, is planning an industrial development in Ajax of approximately 1 msf on a site previously slated for retail development. As rental rates continue to rise and land prices remain low, the value proposition for GTA East will continue to attract interest from institutional investors and developers.

Rents

This quarter the net average asking rate continued its upward trajectory reaching a new high of \$7.40 psf, close to a 20% increase year-over-year. The dire lack of available space will continue to support this trend.

A big unknown for the GTA East is the strength of occupier appetite for space in the market and, more importantly, how much they are willing to pay.

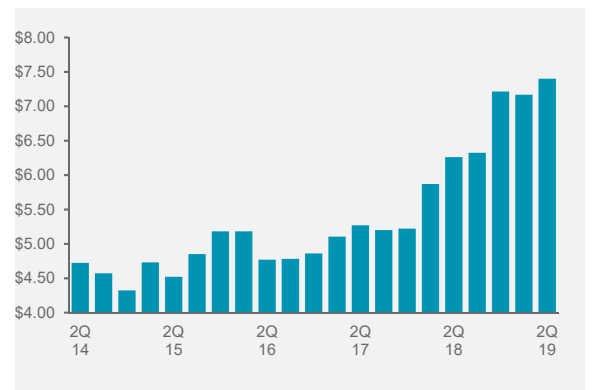
Development / Inventory

A number of new developments are in the pipeline in GTA East. Cartera, which broke ground for a 370,000-sf speculative project in Whitby, is targeting occupancy of the first 185,000-sf phase by late 2019/early 2020. Panattoni is also expected to commence construction on their 630,000-sf development at Thornton and Wentworth in Oshawa within the next few months, while PIRET is also preparing to move forward on their 100,000-sf development in Oshawa. Additional development announcements are expected in the coming months.

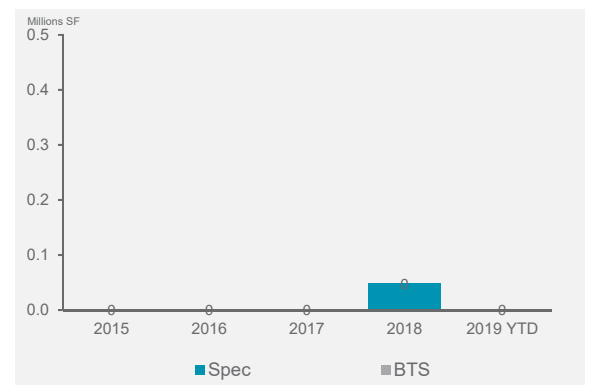
Avg. Absorption vs. Availability



Avg. Net Asking Rent Trend



New Supply



Industrial Market Highlights

Availability 2.5% QoQ Change -20 bps YoY Change -60bps	Rents \$5.94 PSF QoQ Change -4% YoY Change +1.2%	Net Absorption 31K SF YTD Net Absorption 348K SF	Under Construction 101K SF	New Supply 0SF YTD New Supply 0SF
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Market Overview

The Hamilton market continued to benefit from the strong demand from e-commerce related companies. In the second quarter of 2019 Hamilton posted 31,808 sf of absorption and a two-year low availability rate of 2.5%. Given the high cost of land and lack of availability in many GTA markets, investors/developers are beginning to look to Hamilton where land values are significantly lower.

The City of Hamilton is ramping up for future growth and development. Growth in and around the airport is seen as critical, which has put the focus on the Airport Employment Growth District (AEGD) and Redhill South. Consumer goods account for the majority of the cargo coming through the airport. Cargojet, headquartered at the Hamilton Airport, is an overnight air cargo service provider and the airport's largest corporate tenant. Incredibly, the company handles 90% of Canada's e-commerce air freight and is growing rapidly. As a result, a greater demand for Class A warehouse/distribution facilities in Hamilton is expected.

Rents

The average net asking rate in Hamilton reached \$5.94 psf in the second quarter of 2019, a year-over-year increase of 7.4%. Hamilton rents continue to be insulated from the record rental rate pressure experienced throughout the GTA. Rates in Hamilton are determined more by the quality of the product and is less node specific. Upward pressure on rates are expected as Hamilton continues to receive increased attention from investors/developers.

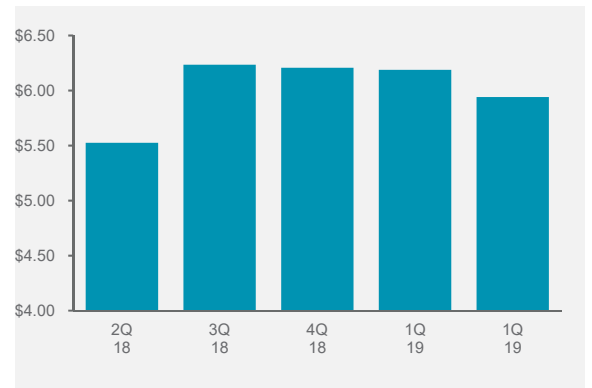
Development / Inventory

Hamilton has traditionally been a manufacturing city with the majority of product being built between the 1950s and 1990s. These older buildings have low clear heights and tighter shipping yards that accommodate 40' trailers at a maximum. With the advent of the 53' tractor trailer, e-commerce growth and the need for last-mile sites, this traditional product makes it challenging for warehousing/distribution companies to locate in this market, and therefore is paving the way for a wave of new development. Developers such as Panattoni are responding to this need with the commencement of their 1-msf development in the Airport Employment Growth District (AEGD) in the coming year.

Avg. Absorption vs. Availability



Avg. Net Asking Rent Trend



New Supply



MARKETBEAT

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Industrial Q2 2019



SUBMARKET	TOTAL BLDGS	INVENTORY (SF)	OVERALL AVAILABLE RATE	YTD LEASING ACTIVITY (SF)	YTD SALES ACTIVITY (SF)	YTD NET OVERALL ABSORPTION (SF)	UNDERCNSTR (SF)	YTD CNSTR COMPLETIONS(SF)	OVERALL WEIGHTED AVG. NET RENT*	OVERALL WEIGHTED AVG. TMI*	OVERALL WEIGHTED AVG. ASKING SALE PRICE
East York	279	16,087,111	0.4%	15,028	99,359	-58,500	0	0	\$7.58	\$3.16	n/a
Etobicoke	1,124	68,736,744	2.0%	315,147	1,049,925	-639,271	210,251	0	\$7.89	\$3.26	\$136.64
North York	1,584	72,669,797	1.6%	531,112	768,027	-110,473	1,059,353	0	\$9.07	\$3.87	\$316.49
Scarborough	1,127	58,949,172	0.8%	437,153	815,358	474,646	700,600	0	\$6.94	\$3.62	\$183.54
Toronto	83	4,255,584	0.0%	0	0	-1,500	0	0	n/a	n/a	n/a
York	201	10,963,680	0.0%	0	0	0	0	0	n/a	n/a	n/a
GTA CENTRAL	4,398	231,662,088	1.3%	1,298,440	2,732,669	-335,098	1,970,204	0	\$8.27	\$3.57	\$166.29
Bolton/Caledon	201	13,959,737	0.4%	992,394	153,633	111,976	2,445,900	0	\$7.12	\$3.23	\$140.03
Brampton	1,071	96,640,084	0.8%	909,707	556,160	-153,048	1,875,210	0	\$9.00	\$3.69	\$241.90
Burlington	481	22,393,474	3.1%	227,107	693,347	-121,280	115,991	0	\$7.51	\$3.36	\$175.63
Milton/Halton Hills	284	26,814,794	2.2%	1,139,584	308,596	654,135	1,693,291	0	\$7.16	\$2.94	\$291.17
Mississauga	3,200	175,310,799	1.2%	3,833,222	2,911,189	745,558	1,352,526	227,399	\$8.44	\$4.12	\$188.96
Oakville	457	23,388,283	2.7%	461,784	169,875	180,754	33,006	0	\$7.76	\$3.09	\$213.68
GTA WEST	5,694	358,507,171	1.4%	7,563,798	4,792,800	1,418,095	7,515,924	227,399	\$8.14	\$3.62	\$189.84
Aurora	105	5,783,436	1.6%	109,068	78,767	60,862	0	0	\$8.76	\$3.85	\$256.85
Markham	704	31,088,869	1.9%	429,093	200,047	-9,756	0	0	\$8.36	\$3.28	\$289.16
Newmarket	151	7,049,830	1.3%	88,413	19,022	-784	0	0	\$7.66	\$3.00	\$0.00
Richmond Hill	252	13,256,651	0.4%	56,552	86,755	112,393	153,752	0	\$10.34	\$5.35	\$325.00
Vaughan	1,614	94,278,925	1.5%	1,798,700	1,200,332	49,976	2,071,631	400,494	\$8.79	\$3.36	\$315.00
GTA NORTH	2,826	151,457,711	1.5%	2,481,826	1,584,923	212,691	2,225,383	400,494	\$8.66	\$3.42	\$308.41
Ajax	137	7,177,227	0.7%	14,793	253,799	-3,502	330,000	0	\$6.00	\$3.68	\$163.31
Oshawa	116	17,675,748	1.5%	1,350	41,551	-34,394	0	0	\$6.63	\$2.95	\$170.00
Pickering	133	8,869,663	0.5%	247,677	186,807	177,174	623,836	0	\$6.17	\$3.46	\$0.00
Whitby	112	8,319,829	2.7%	0	517,181	60,883	185,000	0	\$8.50	\$3.87	\$0.00
GTA EAST	498	42,042,467	1.4%	263,820	999,338	200,161	1,138,836	0	\$7.40	\$3.44	\$167.51
SUBURBAN	9,018	552,007,349	1.4%	10,309,444	7,377,061	1,830,947	10,880,143	627,894	\$8.21	\$3.55	\$209.61
GTA OVERALL	13,416	783,669,437	1.4%	11,607,884	10,109,730	1,495,849	12,850,347	627,894	\$8.23	\$3.56	\$192.80
HAMILTON	824	49,972,367	2.6%	214,183	1,050,913	292,048	101,007	0	\$6.19	\$2.85	\$98.31

* Inventory is based on existing buildings that are equal to or greater than 10,000 sf.*Rental rates reflect asking \$psf/year

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Key Lease Transactions Q2 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
7251 Peddie Road	318,850	3M Canada	New Lease	Milton
6065 Millcreek Drive	292,116	Metro Logistics	New Lease	Mississauga
11400 Steeles Avenue East	261,360	Global Distribution & Warehousing	New Lease	Halton Hills

Key User Sale Transactions Q2 2019

PROPERTY	SF	SELLER / BUYER	PRICE / \$PSF	SUBMARKET
5320 Timberlea Boulevard	106,138	Bosco 2017 Inc. / JM Die Limited	\$15,200,000 / \$143	Mississauga
36 Apple Creek Boulevard	72,438	2172189 Ontario Inc. / Lars Properties Inc.	\$15,250,000 / \$211	Markham
195 Bethridge Road	70,900	Convoy Supply Ltd. / 1857133 Ontario Inc.	\$6,500,000 / \$92	Etobicoke
827-843 Brock Road	60,205	398722 Ontario Limited / Gold Seal Management	\$7,100,000 / \$118	Pickering

Key Properties Under Construction Q2 2019

PROPERTY	SF	DEVELOPER / LANDLORD	EXPECTED COMPLETION DATE	SUBMARKET
10254 Hurontario Street	1,400,000	Panattoni	Q1 2021	Brampton
2200 Yukon Court	1,100,000	DSV Global Transport and Logistics	Q4 2019	Milton
12724 Coleraine Drive	1,021,611	Blackwood Partners	Q1 2020	Caledon
1 Merchant Road	342,821	H&R REIT	Q2 2020	Caledon
6065 Millcreek Drive	292,116	Orlando Corporation	Q1 2020	Mississauga
7275 Fifth Line	268,585	Menkes	Q2 2020	Milton
350 Madill Boulevard	187,021	Orlando Corporation	Q1 2020	Mississauga
1652 Tricont Avenue	185,000	Carttera	Q4 2019	Whitby
1 Abbotside Way	105,134	H&R REIT	Q1 2020	Caledon

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