MARKETBEAT

Calgary, AB

Industrial Q3 2019

CALGARY INDUSTRIAL

Economic Indicators

	Q3 18	Q3 19	12-Month Forecast
Calgary Employment	828K	882K	▬
Calgary Unemployment	8.2%	7.1%	▬
Canada Unemployment	6.0%	5.7%	▲

Market Indicators

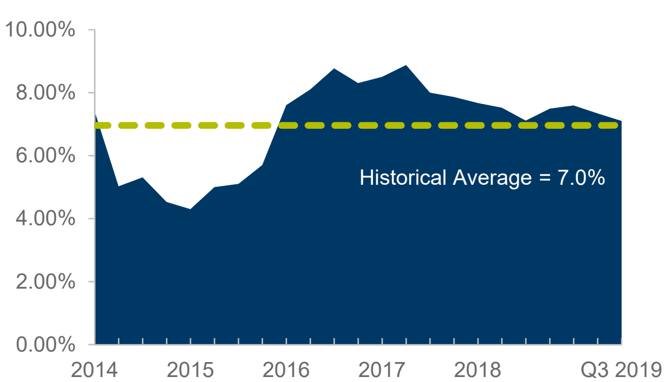
	Q3 18	Q3 19	12-Month Forecast
Overall Vacancy	7.1%	7.1%	▬
YTD Net Absorption (msf)	1.27	4.50	▬
Under Construction (msf)	3.72	1.84	▬
Average Asking Rent*	$9.03	$7.86	▬

*Rental rates reflect direct net asking $psf/year

Overall Net Absorption/Overall Asking Rent

4Q TRAILING AVERAGE

Overall Vacancy



Economy

Despite two major economic hurdles being cleared this year – the provincial election in April and the Federal Government's re-approval of the Trans Mountain Pipeline – sentiments of uncertainty have lingered throughout the third quarter of 2019, as the federal election left many to take a wait-and-see approach. Calgary's industrial-using sectors accounted for nearly one-third of the city's total employment however, year-over-year comparisons saw a 3.2% decline, much of which was gained by the service and hospitality industries. Overall, Calgary saw positive job growth of 5.9% in the past 12 months, helping to edge the city's unemployment rate down by 110 basis points (bps) to close September 2019 at 7.1%.

Market Overview

The announcement of municipal tax increases for Calgary earlier this year continued to have reverberations in the market as many businesses with near-term lease expirations considered options in Rocky View County and the City of Airdrie, both of which offer substantially lower taxes and close proximity to the Calgary International Airport. However, while talk of tenants striking out of the city remained plentiful, new leasing activity figures indicate there has been limited action behind the statements. Overall, new leasing remained on par with historical averages, closing the third quarter of 2019 at 2.0 million square feet (msf), and bringing the year-to-date total to just under 6.6 msf. Tracking leasing activity, year-to-date absorption continued to trend positive, closing at 4.5 msf, partially boosted by larger distribution users earlier this year.

Developers have continued to keep up with tenant demand for eCommerce, distribution centres, and general flight-to-quality. The third quarter of 2019 closed with a year-to-date total of 4.4 msf of new supply and another 1.8 msf under construction. Given the amount of new supply, the construction cycle is expected to slow following this next wave of new deliveries. While vacancy rates have remained in check so far – closing at 7.1% in the third quarter, just 10 pbs higher than the historical average – the glut of new supply could edge the rate higher.

As newer, higher-rent buildings have leased up, and older, less expensive product remains on the market, asking rents on available product have started to slip. Direct asking rents averaged $7.86 per square foot (psf). With additional operating expenses and taxes averaging $4.53 psf, gross rents closed the third quarter of 2019 at $12.39 psf.

Outlook

Calgary's industrial market is well positioned to capitalize on tenant demand. The city's proximity to Western Canada's agriculture sector is expected to continue to attract regional and national headquarter relocation – as was already seen with BASF's move from Mississauga, Ontario. Additionally, Calgary's older, inner city industrial product will continue to cater to the city's growing services sector, particularly with the rise of craft breweries and cideries.

Overall, headwinds of economic uncertainty will continue through 2020. While the City of Calgary has made efforts to diversify its employment base with the Opportunity Calgary Investment Fund, the city remains heavily dependent on the oil and gas industry. Given tepid growth and a cautious economic outlook, fundamentals in Calgary's industrial market are expected to hold flat.

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CUSHMAN & WAKEFIELD

SUBMARKET	INVENTORY (SF)	YTD LEASING ACTIVITY (SF)	OVERALL VACANCY RATE	CURRENT QUARTER ABSORPTION (SF)	YTD NET OVERALL ABSORPTION (SF)	UNDER CNSTR (SF)	YTD TOTAL CNSTR COMPLETIONS (SF)	OVERALL WEIGHTED AVG . NET RENT*	OVERALL WEIGHTED AVG. ADD. RENT	OVERALL WEIGHTED AVG. GROSS RENT
Northeast	46,534,452	2,239,940	8.4%	295,847	2,871,550	760,556	3,351,009	$7.94	$4.56	$12.50
Southeast	57,757,879	3,488,042	6.8%	234,447	1,374,266	994,441	1,027,920	$7.65	$3.78	$11.43
Central	25,397,234	861,926	5.4%	135,071	257,182	89,752	0	$8.16	$4.96	$13.12
CALGARY TOTALS	129,689,565	6,589,908	7.1%	665,365	4,502,998	1,844,749	4,378,929	$7.86	$4.53	$12.39

*Rental rates reflect asking $psf/year

Key Lease Transactions Q3 2019

PROPERTY/AREA	SF	TENANT	TRANSACTION TYPE	SUBMARKET
7140 40th Street SE	351,306	PlyGem Building Products (aka Gienow)	Renewal	Southeast
5801 72nd Avenue SE	252,966	Walmart Canada	Headlease	Southeast
2730 39th Avenue NE	41,917	AGAT Laboratories	Renewal	Northeast
2880 45th Avenue SE	17,851	Delcan Manufacturing Ltd.	Headlease	Southeast

Key Sales Transactions Q3 2019

PROPERTY	SF	SELLER | BUYER	PRICE | $PSF	SUBMARKET
Hopewell Business Park – Bldg C & D	172,054	Canadian Urban Ltd. | I.G. Investment Management Ltd.	$26,500,000 | $154	Northeast
7017 Farrell Road SE	22,176	Woodspring Inc. | Allied Projects Inc.	$3,000,000 | $135	Southeast
5210 56th Avenue SE	17,316	Shell Canada Ltd. | Place-Crete Systems Inc.	$3,150,000 | $182	Southeast
12222 44th Street SE	16,182	Snow Dogz Real Estate Corp. | Pakhus Inc.	$3,500,000 | $216	Southeast

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