

MARKETBEAT

Greater Toronto Area, ON

Industrial Q3 2019



GREATER TORONTO AREA

Economic Indicators

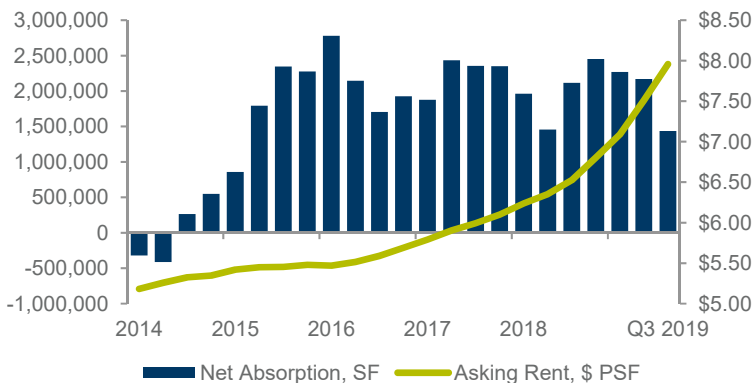
	Q3 18	Q3 19	12-Month Forecast
GTA Employment	3.3 mil	3.5 mil	▲
GTA Unemployment	6.1%	5.9%	▼
Canada Unemployment	5.9%	5.7%	▲

Source: Statistics Canada

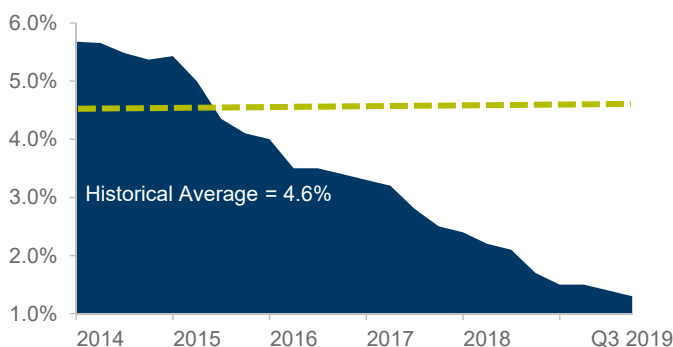
Market Indicators (Overall, All Product Types)

	Q3 18	Q3 19	12-Month Forecast
Overall Vacancy	1.7%	1.3%	▼
Net Absorption (sf)	4,232,840	1,291,800	▲
Under Construction (sf)	9,551,721	17,906,553	▼
Overall Average Asking Rent	\$6.78	\$8.57	▲

Net Absorption/Overall Asking Rent 4Q TRAILING AVERAGE



Overall Vacancy



Economy

Steady job growth through the third quarter of 2019 kept the national unemployment rate at 5.7%. Tellingly for Toronto, which continues to grow at a rapid pace, rental housing vacancy fell below 1%, boosting rents by 4.5% year-over-year.

Market Overview

Demand for GTA industrial product powered forward in the third quarter of 2019, pushing vacancy to an astonishing low of 1.3% -- a 40 basis point drop year-over-year. The overall average asking rental rate has shot up by 26.4% year-over-year to a record \$8.57 per square foot (psf). GTA North saw the highest increase of 31% year-over-year, with rents now at \$9.31 psf.

All three industrial major markets -- west, north and east -- saw availability plunge to new lows this quarter, as voracious demand continued to outstrip supply. In response, new construction hit a record high of 18 million square feet (msf), rising from the 13 msf that was under construction last quarter. Of the properties that are currently under construction, 8.5 msf are speculative builds. Although approximately 7.6 msf should be completed by the end of the year, the majority will be preleased and therefore will offer little relief for users seeking space.

With a new 1.0-msf fulfilment centre underway in Scarborough, and the leasing of 144,000 square feet (sf) in Vaughan and 50,000 sf in Etobicoke, Amazon took centerstage in the third quarter as one of the highest demand users. This helps demonstrate Amazon's strategic approach to achieving one-day and last-mile delivery for its customers and Prime membership.

After a long lull, GTA East has begun to attract the attention of developers, due to the market's lower development charges, land availability and lower land costs. Currently, there is 1.8 msf under construction in GTA East. Two large developments are also in for approval -- Ivanhoe Cambridge for 1.2 msf and Blackwood Partners for 2.2 msf.

Outlook

Despite a record high of 18 msf that is currently under construction, 8.5 msf (47%) is speculative and more than 50% was already preleased by quarter-end. Further, all new supply slated for year-end delivery is already preleased. As a result, given unrelenting strong demand and the fact that new construction will have little effect, it is expected that rental rates will continue rising across the GTA for all classes. Tenants facing renewals should therefore be prepared for sticker shock.

Industrial Market Highlights

Availability 1.2% QoQ Change -20bps YoY Change -70 bps	Avg. Net Rent \$8.33 PSF QoQ Change +2.3% YoY Change +20.9%	Absorption 700K YTD Net Absorption 2.12 MSF	Under Construction 10.3 MSF Committed Construction 4.45 MSF	New Supply 317K YTD New Supply 544k
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Market Overview

The GTA West submarket continued to experience strong growth with 700,000 sf of absorption this quarter. Demand has continued to outpace new supply, resulting in the availability rate dropping by 20 basis points from last quarter to 1.2%. The largest contributor to growth this quarter was the Polar Pak transaction for 399,000 sf at 2 Bramkay Street in Brampton.

Not only are landlords pushing up rental rates, institutional investors are also pushing the envelope on sale prices. In the third quarter of 2019, investors, spurred on by huge rental rate increases, paid an average of \$166 psf - roughly 22% more for assets of 50,000 sf and greater. Just one year ago, the average sale price was \$136 psf. Institutional investors may also be willing to pay a premium for buildings with low-weighted average lease rates, allowing them to capture market rates.

Rents

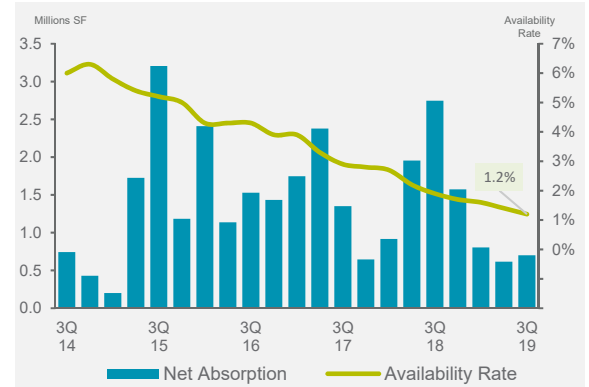
Asking rates in the GTA West soared by 21% year-over-year to \$8.33 psf for existing product across all classes. For new proposed product, asking rates are quickly approaching double digits. More developers are either choosing not to quote rents on new proposed construction or have attached a double-digit rate to the space.

With the lack of existing available space and speculative new supply, developers continue to push the boundaries on rates. It is unclear what the price threshold is for the vast majority of regional and local industrial tenants, especially in the face of choppy economic times.

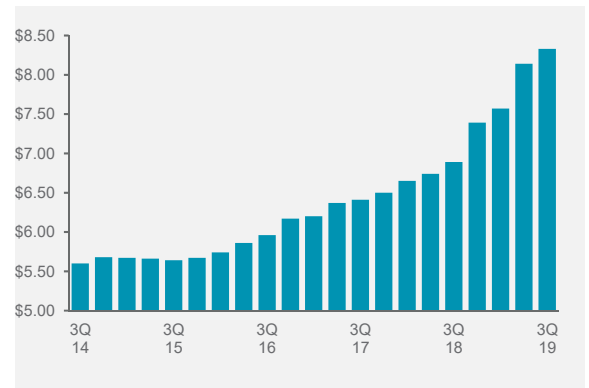
Development/Inventory

In the third quarter of 2019, 3.1 msf of new construction commenced, bringing the total development pipeline in GTA West to 10.3 msf. Of this total, only 4.3 msf is speculative and 2.1 msf is available. Approximately half of the new development is in the Caledon node. Despite a significant amount of new construction, strong pre-leasing and design-build projects will perpetuate the shortage of availability.

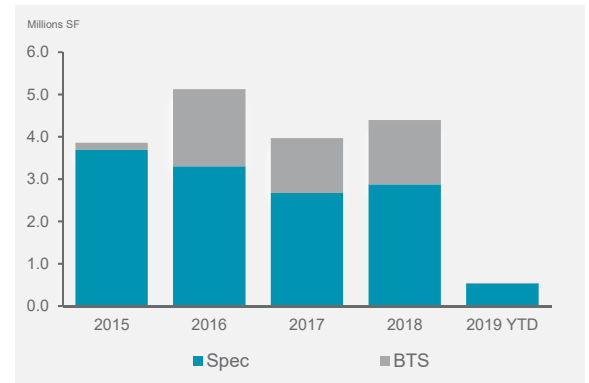
Avg. Absorption vs. Availability



Avg. Net Asking Rent Trend



New Supply



Industrial Market Highlights

Availability 1.2% QoQ Change -30 bps YoY Change -30bps	Avg. Net Rent \$9.31 PSF QoQ Change +7.4% YoY Change +30.8%	Absorption 1.04 MSF YTD Absorption 1.26 MSF	Under Construction 2.6 MSF Committed Construction 80k	New Supply 625K YTD New Supply 1.03 MSF
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Market Overview

GTA North's leasing activity in the third quarter of 2019 reached 1.6 msf; double the activity of last quarter, and contributed to the strong net absorption this quarter. Over 60% of the leasing occurred in the Vaughan submarket. Notable transactions included NAPCO Pipe & Fittings' transaction at 71 Royal Group Crescent, Modern Niagara's relocation to a new 193,000-sf facility at 8300 Highway 50 and Sobey's occupancy of a new 383,000-sf automated online-focused fulfilment center at 100 Gibraltar Road in Vaughan.

There was a notable uptick recently in demand from the food industry. Businesses such as Give & Go Prepared Foods expanded into 634,000 sf in Vaughan and, although not confirmed, Walmart is expected to select a site in Vaughan to develop a new 90' clear facility for its cold storage warehousing.

Rents

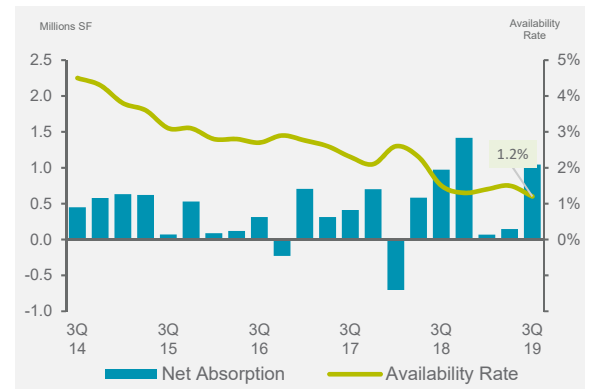
At \$9.31 psf, GTA North's average net asking rent continued to move upward reaching yet another record-high. Strong demand and low availability have resulted in landlords pushing asking rates up to levels that are close to 9% higher than the rest of the GTA.

All product types and classes are experiencing significant upward rental rate pressure. The Zzen Group is quoting \$10.50 psf net for a new 278,000-sf development at 141 New Huntington Road, currently the highest quoted rent in GTA North. Zzen is targeting occupancy by the end of Q1 2021.

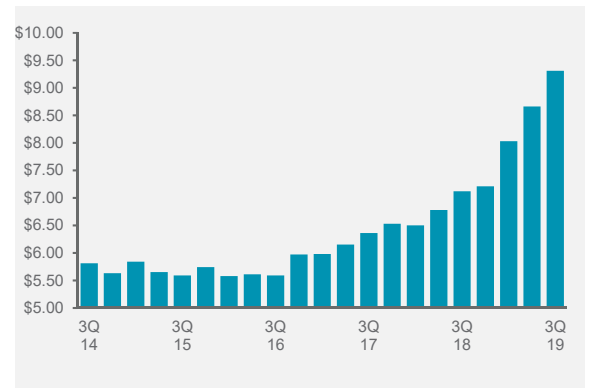
Development / Inventory

Of the 2.6 msf currently under construction, 1.4 msf is speculative, with about half (715,000 sf) available. Only one project commenced this quarter, Zzen Group's 278,000-sf facility at 141 New Huntington Road. With continued strong pre-leasing and a lack of significant speculative construction expected to commence over the next 18 months, new supply is not expected to provide relief to the availability constraints.

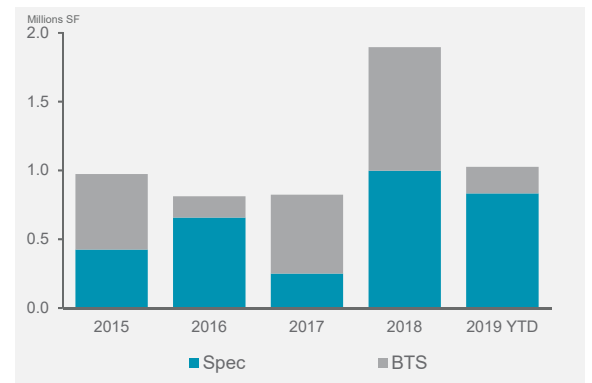
Avg. Absorption vs. Availability



Avg. Net Asking Rent Trend



New Supply



Industrial Market Highlights

Availability 1.5% QoQ Change +20 bps YoY Change 0 bps	Avg. Net Rent \$8.69 PSF QoQ Change +5.0% YoY Change +36.0%	Absorption -511K YTD Net Absorption -846k	Under Construction 3.09 MSF Committed Construction 1.07 MSF	New Supply 0 SF YTD New Supply 0 SF
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Market Overview

The GTA Central market had a very active third quarter of 2019 with availability remaining below the 2% mark as it has for the past two years. Amazon went full-steam ahead with its expansion plans, announcing a new 1.0-msf fulfilment centre in Scarborough, which is currently under construction. Amazon also leased 50,000 sf in Etobicoke to facilitate its last-mile strategy for one-day delivery to Prime members. Although not confirmed, Amazon is also expected to lease a 223,899-sf food facility in Etobicoke for their Whole Foods division.

Rents

Not unlike several other markets, the upward asking rate trend continued across the GTA Central region. With the lack of available product and strong demand, landlords are still dictating terms and this is not expected to change in the near future.

The intense pace of the current market has resulted in some developers holding back on providing written asking rates for new product. This has only added to tenant jitters and reinforced the perception of a “new norm” in a red-hot market. However, sustained rent growth of over 30% is not feasible in the long run, and growth is expected to slow to historical averages.

Development / Inventory

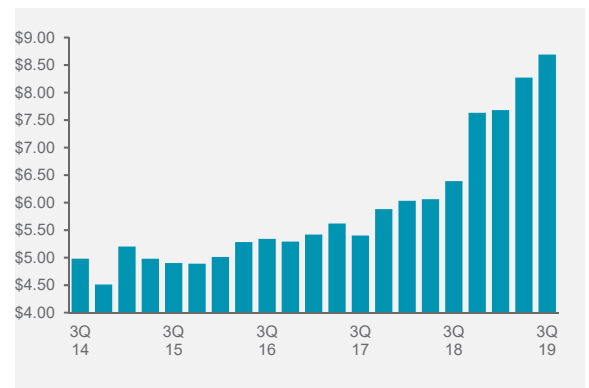
Of the 3 msf under construction, 1.2 msf is speculative. Although 924,000 sf is scheduled for completion by the end of 2019 all of it is accounted for, leaving a mere 300,000 sf of available space - and little relief for occupiers.

Quadreal’s Campbell Soup site, along with PIRET’s purchase of 260 Eighth Street and Oxford’s purchase of 121 Thirteenth Avenue this past quarter, will result in a surge in new supply in South Etobicoke over the next 24 months. Given the central location of these sites along with access to an available labour pool, easy access to downtown and major highways, last-mile facilities will likely be the number-one consideration.

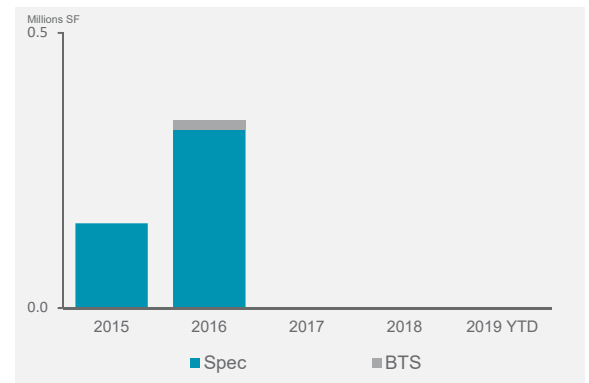
Avg. Absorption vs. Availability



Avg. Net Asking Rent Trend



New Supply



Industrial Market Highlights

Availability 1.1% QoQ Change -30 bps YoY Change -110 bps	Avg. Net Rent \$7.23 PSF QoQ Change -2.3% YoY Change +14.4%	Absorption 60K YTD Net Absorption 260K	Under Construction 1.88 MSF Committed Construction 357K	New Supply 0 SF YTD New Supply 0 SF
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Market Overview

As with all GTA industrial nodes, market conditions tightened further in the GTA East market. Historically a slower demand market, overall availability fell to 1.1% in the third quarter, the lowest result of any GTA industrial market. It is no surprise that there has been heightened interest from many developers. Along with strengthening demand, GTA East currently posts the lowest industrial land prices in the GTA at under \$700,000/acre.

At 2.6 msf, the development pipeline is at an all-time high. Buildings that were kicked off this quarter included Panattoni's new buildings totaling 630,000 sf at 1121 & 1147 Thornton Road in Oshawa. PIRET also moved forward with a 108,000-sf development at 980 Thornton Road and have already pre-leased of 20,000 sf.

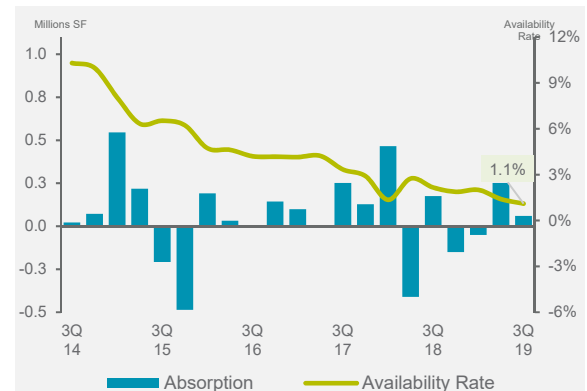
Rents

Since the fourth quarter of 2018, the average net rent in GTA East has remained above the \$7.00 psf mark. At \$7.25 psf, rent is 44% higher than the five-year average prior to the fourth quarter of 2018. Unpriced availabilities are increasingly common, particularly for new developments. Earlier this year 1652 Tricont Avenue located in Whitby posted an asking rate of \$6.95 for their new space; however, given market dynamics, it is likely to rise in step with rates being achieved.

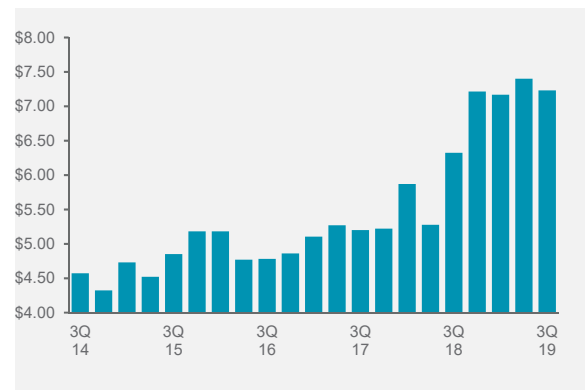
Development / Inventory

Following six years of little new supply, developers have set their sights on GTA East. Ivanhoe Cambridge is expected to go through site plan approval this year for a 1.2-msf facility in Ajax and could commence construction next year. Blackwood Partners is planning to go through site plan approval on a 129-acre site purchased earlier this year for a 2-msf business park. Phase 1 of 700,000-sf is moving forward.

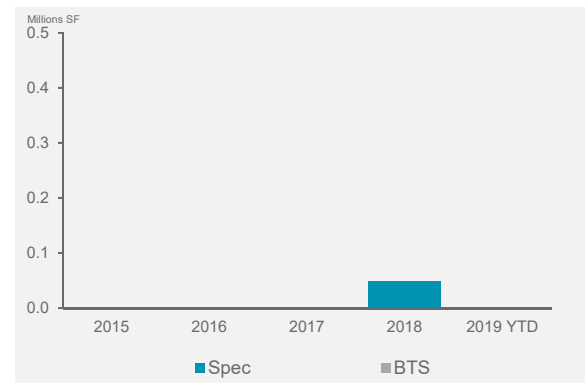
Avg. Absorption vs. Availability



Avg. Net Asking Rent Trend



New Supply



Industrial Market Highlights

Availability 2.9% QoQ Change +40 bps YoY Change -120bps	Avg. Net Rent \$5.93 PSF QoQ Change -0.2% YoY Change -4.8%	Absorption -174K YTD Absorption 174K	Under Construction 330K	New Supply 0 SF YTD New Supply 0 SF
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Market Overview

Activity in Hamilton has picked-up steadily through 2019. This quarter, Prologis purchased 62 acres on Shaver Road, for \$14 million or \$225,335 per acre. Panattoni also purchased more land this quarter, buying 23 acres at Hwy 5 & Hwy 6, Clappison's Corners for \$5 million or \$211,140 per acre.

This is evidenced by the uptick in building permit applications to \$1 billion, a record in only 8 months. These building permits are made up of over 4,500 projects across all asset types, but are lead prominently by industrial projects.

Stelco is poised to be a disruptor in the Hamilton market. With over 600,000 acres of industrial land under consideration for development, Hamilton may see a rise in available product in the near future. They currently have 625,000 sf available across 3 buildings in various configurations for lease with asking rates in the high \$6.00 psf range.

Rents

Despite a visible lack of rate pressures this quarter, the rising rate trend in the GTA is starting to impact the Hamilton market. Panattoni is commencing their 265,000-sf Aeropark business park development this quarter and have posted an asking rate of \$8.50 psf for the entire building or \$8.95 psf for smaller configurations.

The spread between industrial average asking rates is wide and is reflective of location and condition of the building. Despite a lack of Class A product, an adequate building with decent clear heights in the right location will garner a premium and achieve over average market rates.

Development / Inventory

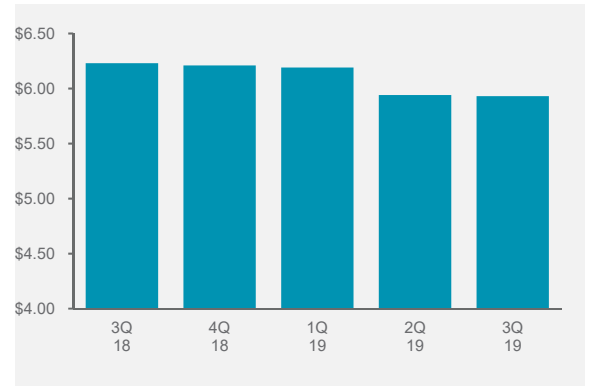
L3 Wescam, a world-leader in electro-optic and infrared imaging technologies, has broken ground on their new research and development, engineering, assembly and office space on 18 acres at Hwy 5 and Hwy 6. L3 Wescam will consolidate their two Burlington facilities into the new 330,000-sf space along with 1,200 employees. Occupancy of their new facility is expected to occur by Q1 2021.

Panattoni is expected to break ground on their new 264,534-sf development at 50 Aeropark Boulevard next quarter. The building will be 40' clear, and have 52 trailer parking stalls. The posted net rent is \$8.50 psf for the entire building.

Avg. Absorption vs. Availability



Avg. Net Asking Rent Trend



New Supply



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SUBMARKET	TOTAL BLDGS	INVENTORY (SF)	OVERALL AVAILABLE RATE	YTD LEASING ACTIVITY (SF)	YTD SALES ACTIVITY (SF)	YTD NET OVERALL ABSORPTION (SF)	UNDER CNSTR (SF)	YTD CNSTR COMPLETIONS(SF)	OVERALL WEIGHTED AVG. NET RENT*	OVERALL WEIGHTED AVG. TMI*	OVERALL WEIGHTED AVG. ASKING SALE PRICE
East York	278	16,071,942	0.9%	111,028	208,967	-38,500	0		\$8.00	\$2.15	n/a
Etobicoke	1,122	68,614,477	2.1%	858,388	1,719,092	-893,575	307,395		\$8.59	\$3.28	\$199.16
North York	1,583	72,439,921	1.9%	767,069	1,790,388	-326,969	1,059,353		\$9.41	\$3.92	\$315.82
Scarborough	1,127	58,955,053	0.9%	527,675	1,242,364	450,973	1,723,959		\$7.04	\$3.79	\$277.09
Toronto	83	4,240,297	0.0%	0	16,500	-37,700	0		n/a	n/a	\$716.67
York	201	10,970,004	0.0%	0	28,324	0	0		n/a	n/a	n/a
GTA CENTRAL	4,394	231,291,694	1.5%	2,264,160	5,005,635	-845,771	3,090,707	0	\$8.69	\$3.62	\$233.26
Bolton/Caledon	201	13,959,737	0.8%	1,050,021	791,051	64,907	3,802,542		\$6.96	\$3.75	\$140.03
Brampton	1,071	96,619,944	0.6%	1,487,232	885,636	84,316	2,836,797		\$8.18	\$3.64	\$286.34
Burlington	482	22,446,607	2.9%	363,437	906,149	-61,032	103,195		\$7.79	\$3.42	\$175.63
Milton/Halton Hills	286	26,825,522	1.5%	1,704,915	386,446	762,763	1,693,291		\$8.34	\$2.85	n/a
Mississauga	3,200	175,599,778	1.2%	4,260,786	3,708,545	1,090,324	1,860,047		\$8.72	\$4.13	\$197.65
Oakville	457	23,385,101	2.8%	485,774	365,299	175,879	33,006		\$8.12	\$3.40	n/a
GTA WEST	5,697	358,836,689	1.2%	9,352,165	7,043,126	2,117,157	10,328,878	544,113	\$8.33	\$3.70	\$199.43
Aurora	105	5,827,173	2.9%	124,736	83,567	-19,608	0		\$8.86	\$4.12	\$277.78
Markham	705	31,144,515	1.3%	1,048,009	322,776	167,156	262,689		\$8.79	\$3.95	\$313.08
Newmarket	152	7,086,298	1.2%	152,178	328,673	38,781	0		\$7.00	\$3.00	\$307.08
Richmond Hill	252	13,264,651	0.7%	143,448	155,781	74,980	194,481		\$9.93	\$4.68	\$265.26
Vaughan	1,617	94,858,550	1.2%	2,611,862	1,350,728	995,170	2,148,714		\$9.67	\$3.50	\$307.00
GTA NORTH	2,831	152,181,187	1.2%	4,080,233	2,241,525	1,256,479	2,605,884	1,026,097	\$9.31	\$3.72	\$305.40
Ajax	137	7,171,955	0.7%	36,303	268,849	-1,992	330,000		\$6.00	\$3.75	\$163.31
Oshawa	116	17,641,730	1.2%	22,512	377,665	-23,232	742,248		\$6.42	\$3.02	n/a
Pickering	133	8,847,212	0.4%	288,513	292,214	185,890	623,836		\$7.88	\$4.25	n/a
Whitby	113	8,319,757	2.2%	14,845	517,181	99,118	185,000		\$8.10	\$3.77	n/a
GTA EAST	499	41,980,654	1.1%	362,173	1,455,909	259,784	1,881,084	0	\$7.23	\$3.47	\$163.31
SUBURBAN	9,027	552,998,530	1.2%	13,794,571	10,740,560	3,633,420	14,815,846	1,570,210	\$8.51	\$3.68	\$225.36
GTA OVERALL	13,421	784,290,224	1.3%	16,058,731	15,746,195	2,787,649	17,906,553	1,570,210	\$8.57	\$3.66	\$228.27
HAMILTON	825	50,074,165	2.9%	348,125	774,902	174,766	330,000	0	\$5.93	\$2.75	\$106.83

* 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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Industrial Q3 2019



Key Lease Transactions Q3 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
2 Bramkay Street	399,543	Polar Pak	New Lease	Brampton
71 Royal Group Crescent	267,071	Napco Pipe & Fittings	New Lease	Vaughan
Hillmount Road	262,689	Estée Lauder	New Lease	Markham

Key User Sale Transactions Q3 2019

PROPERTY	SF	SELLER / BUYER	PRICE / \$PSF	SUBMARKET
12333 Airport Road	568,000	Bentall Kennedy / Pure Industrial Real Estate Trust	\$89,250,000,000 / \$157	Caledon
999 Boundary Road	313,500	Rodenbury Investments Limited / Pure Industrial Real Estate Trust	\$26,850,000 / \$86	Oshawa
195 Harry Walker Parkway	290,000	1191373 Ontario Inc. / Davpart Inc.	\$26,500,000 / \$91	Newmarket
1100-1150 Caledonia Road	310,275	Caledonia Holdings Corporation/ Oxford Properties Group	\$71,500,000 / \$230	North York

Key Properties Under Construction Q3 2019

PROPERTY	SF	DEVELOPER / LANDLORD	EXPECTED COMPLETION DATE	SUBMARKET
6351 Steeles Avenue East	1,023,359	Manulife	Q3 2021	Scarborough
12000-12400 Coleraine Drive	890,175	Hoopp Realty Inc.	Q1 2020	Caledon
1121 Thornton Road South	409,962	Panattoni Development	Q2 2020	Oshawa
2675 Steeles Avenue West	354,132	Orlando Corporation	Q1 2020	Brampton
2220-2260 Matheson Boulevard East	308,545	Panattoni Development	Q4 2020	Mississauga
141 New Huntington Road	285,696	Zzen Group	Q1 2020	Vaughan
0 Hillmount Road	262,689	Woodbine Cachet West Inc	Q4 2019	Markham
12880 Coleraine Drive	255,570	Menkes	Q1 2020	Caledon
2300 North Park Drive	235,423	Carttera	Q2 2020	Brampton

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