

## Industrial Q4 2023

YoY  
Chg 12-Mo.  
Forecast**2.7%**

Overall Vacancy Rate

**9.5M**

2023 Overall Net Absorption, SF

**\$16.80**

Asking Rent, PSF

**4.0%**

Rent Growth YOY

**40.8M**

Under Construction, SF



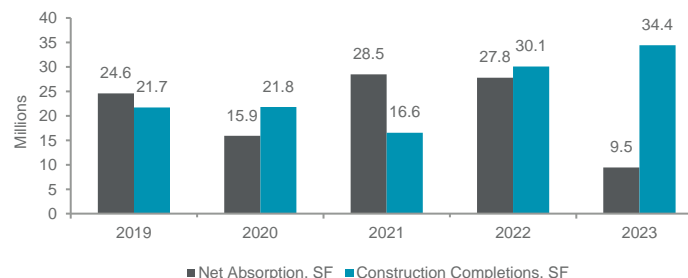
Overall Market, Net Asking Rent

**ECONOMIC INDICATORS  
Q4 2023**YoY  
Chg 12-Mo.  
Forecast**20.1M**Total Nonfarm  
Employment**2.9M**Industrial  
Employment**5.8%**Canada  
Unemployment Rate**Key Performance Indicators Have Continued To Soften In 2023**

In its latest Labour Force Survey, Statistics Canada is reporting virtually no change in employment in December 2023 compared to last month, and the unemployment rate remained flat at 5.8%. Employment growth has slowed in the second half of 2023, averaging 23,000 per month, compared with the first six months of 2023, when it averaged 48,000 per month. The employment rate has also trended downwards this year as population growth (largely driven by immigration) has outpaced employment growth as slowing economic growth is weighing on employment gains. More of the same is anticipated in 2024. For the sectors most closely linked to the industrial market – manufacturing along with transportation and warehousing – both had minor decreases in employment in December compared to last month. However, on a year-over-year basis both sectors have seen employment rise by 1.5% and 7.4% respectively.

The overall industrial vacancy rate has crept slowly upwards since the mid-way point of 2022, generally by 10 basis points (bps) quarter-over-quarter (QOQ). That growth rate however has accelerated over the last half of 2023 with vacancy now at 2.7%; 60 bps higher than last quarter and 130 bps higher than one year ago. While this consistent uptick in vacancy has not been witnessed across all Canadian markets over the course of 2023, it has occurred in all of the major Canadian markets. It is important to note that from a historical perspective vacancy is still tight. The vacancy rate remains 10 bps lower than the rate seen immediately before COVID-19 began to impact the markets, and also remains below the five-year average vacancy rate prior to the pandemic of 3.7%.

Overall vacant industrial space has now reached 47.8 million square feet (msf), which is an increase of approximately 108% from the final quarter of 2022. The component of this space that is available for sublease has also grown during this time. The overall sublease vacancy rate remains quite low at 0.4%, but from the perspective of vacant sublet space as a percentage of total vacant space that rate has climbed from 10.8% in the fourth quarter of 2022 to 15.0% this quarter. The driving factors behind this sublet vacancy increase can be traced back to tenants who may be re-evaluating their space requirements in the current environment due to slowing demand for goods in combination with higher occupancy and/or financing costs.

**SPACE DEMAND / DELIVERIES****OVERALL VACANCY & ASKING NET RENT**



As vacancy has climbed absorption levels have begun to moderate, declining back to levels the market was seeing prior to the pandemic. In the fourth quarter of 2023 this softening was substantial at negative 758k square feet (sf), the first time industrial absorption has been negative since the third quarter of 2013. With this fourth quarter total it brings the overall 2023 total to just shy of 9.5 msf, a significant decrease from the 27.8 msf total from 2022. This deacceleration in absorption is noteworthy in that it occurred despite the record breaking 34.4 msf of new supply that was delivered over the course of 2023, a very good indication that demand is continuing to slow and vacant space is coming on the market in increasing amounts over the last six quarters – both in existing stock and new builds. It is anticipated that absorption should rebound in the first quarter of 2024 as this quarter the negative absorption total was primarily driven by the significant 1.9 msf of negative absorption posted in Montreal.

New supply arrivals totaled 10.6 msf across the country this quarter and brought the 2023 total to 34.4 msf, a new annual record. Breaking out the type of buildings that were delivered in the fourth quarter, close to 9.0 msf consisted of projects build on “spec” or 84.5% of the overall total, while the remainder were build-to-suits. Toronto has been at the epicentre of new industrial construction in Canada since 2020 and that market alone has seen approximately 49 msf of new supply arrive during the past four years. In 2023 new supply reached over 14.0 msf in that market, a level that has not been seen in decades.

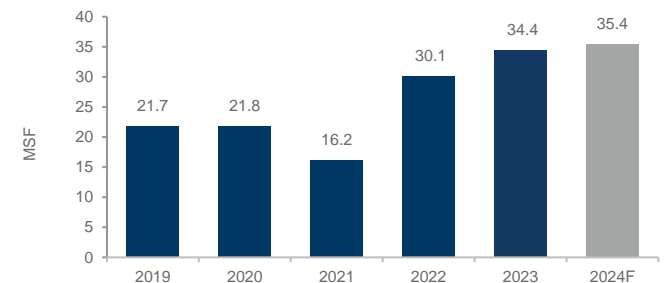
Next year is shaping up to be another banner year for construction completions, with an approximate 35.4 msf scheduled to be delivered – the lions share in the first quarter with 14.4 msf set to arrive to the market. Similar to this year the delivery of this new supply will in no doubt impact vacancy and absorption levels, particularly as the overwhelming majority of these projects are being built on a speculative basis.

The overall average net asking rental rate declined QOQ to reach \$16.80 per square foot (psf), marking the first time the average rent has declined in comparison to the previous quarter since the first quarter of 2016. While Toronto had a slight increase in its overall asking rent, the remaining major markets saw declines. Given the slowdown in the industrial market this decrease was not unexpected, but a key influence on rates looking to 2024 will be the amount of vacant space that arrives in these new builds and the pricing attached to it.

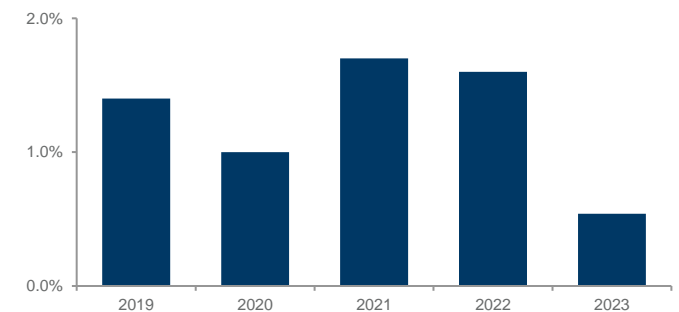
## OUTLOOK

- Another record year of new deliveries is anticipated in 2024 and will have a notable impact on the overall performance of the market.
- Vacancy is anticipated to continue to increase due to a combination of slowing demand and vacancy arriving in speculative projects.
- Overall absorption will continue to moderate as the demand for goods continues to slow and weakening economic conditions.

## NEW SUPPLY



## NET ABSORPTION AS % OF INVENTORY





## Industrial Q4 2023

## MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	YTD CNSTR COMPLETIONS (SF)	OVERALL WEIGHTED AVG NET RENT	OVERALL WEIGHTED AVG ADD. RENT	OVERALL WEIGHTED AVG GROSS RENT
Vancouver	241,640,362	5,222,967	2.2%	240,522	3,819,034	8,023,946	7,984,510	\$20.65	\$5.27	\$25.92
Calgary	150,242,008	5,519,333	3.7%	971,744	5,267,028	6,756,705	6,412,439	\$10.92	\$4.53	\$15.45
Saskatoon	24,288,088	594,931	2.4%	201,311	678,395	179,385	522,704	\$12.26	\$4.63	\$16.89
Waterloo Region	92,572,193	1,107,470	1.2%	-220,500	1,191,211	3,565,343	1,564,774	\$14.49	\$3.83	\$18.32
London	41,648,149	637,434	1.5%	287,136	354,442	890,710	414,608	\$10.16	\$4.07	\$14.23
Toronto	819,946,286	21,271,674	2.6%	-374,119	259,184	16,775,767	14,407,264	\$18.43	\$4.14	\$22.57
Ottawa	27,186,943	756,054	2.8%	-50,863	27,242	1,146,984	145,733	\$14.07	\$6.52	\$20.59
Montreal	342,167,997	11,541,451	3.4%	-1,914,147	-2,154,922	2,882,012	2,595,490	\$15.16	\$4.45	\$19.61
Fredericton	523,015	3,892	0.7%	0	13,440	11,250	0	\$8.10	\$4.95	\$13.05
Saint John	522,603	37,100	7.1%	2,000	11,332	0	0	\$8.56	\$4.04	\$12.60
Moncton	4,676,935	177,120	3.8%	41,907	-41,709	403,624	0	\$6.79	\$3.51	\$10.30
Halifax	9,006,795	473,622	5.3%	38,616	91,366	167,984	269,884	\$9.37	\$5.97	\$15.34
St. John's	4,414,947	505,120	11.4%	17,876	-53,821	0	0	\$12.82	\$3.62	\$16.43
<b>NATIONAL TOTALS</b>	<b>1,758,836,321</b>	<b>47,848,168</b>	<b>2.7%</b>	<b>-758,517</b>	<b>9,462,222</b>	<b>40,803,710</b>	<b>34,429,851</b>	<b>\$16.80</b>	<b>\$4.42</b>	<b>\$21.22</b>

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