

Toronto Industrial, Q1 2015

Lowest level of net quarterly absorption since Q3 2009

 **New Supply**
1.1 million sq. ft.

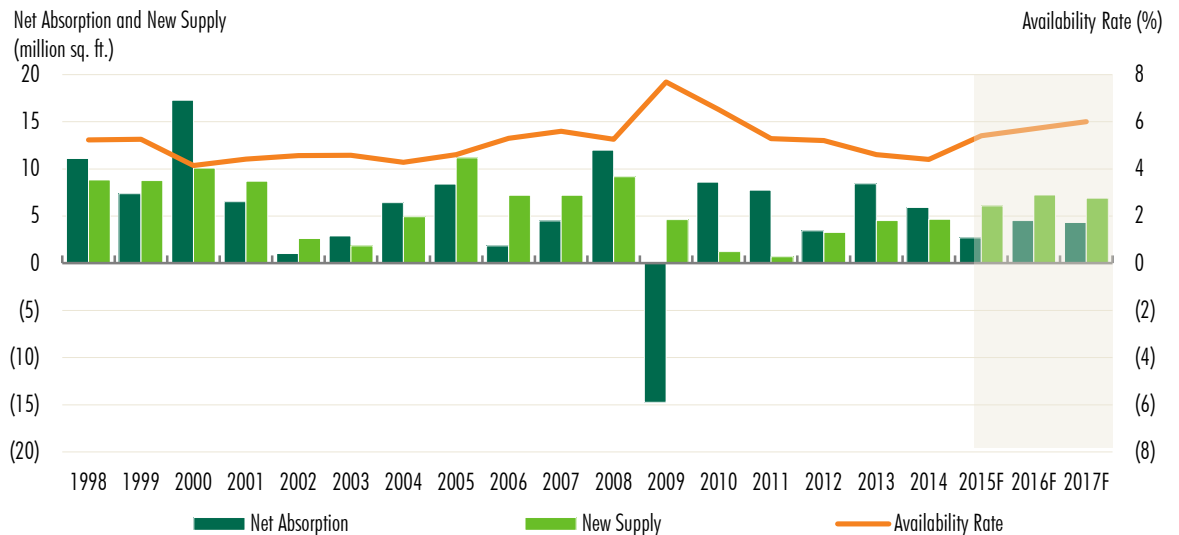
 **Under Construction**
5.3 million sq. ft.

 **Ave. Ask Lease Rate**
\$5.37 per sq. ft.

 **Ave. Ask Sale Price**
\$110.47 per sq. ft.

*Arrows indicate change from previous quarter.

Figure 1: GTA Industrial Market Fundamentals – All Classes



Source: CBRE Research, Q1 2015.

- After a sizable drop in industrial space available for sale in Q4 2014 (3.0 million sq. ft.), Q1 2015 sale availabilities got back their standard level (10.1 million sq. ft.). The 5-year average is just over 11.3 million sq. ft.
- Property owners have been capitalizing on soaring sale prices leading to an increase of properties for sale.
- Demand fundamentals remained strong as Q1 2015 user activity increased by 2.0% in comparison to Q1 2014. Nevertheless, supply levels remain insufficient to fully meet demand.
- Total inventory in the Toronto West market is expected to increase by as much as 1.4% by 2016, as 4.3 million sq. ft. of space is planned for delivery.

Summary

Inventory	753,344,500 sq. ft.
Availability Rate	4.8%
Average Days on Market	492
Average Land Cost (\$/acre)	\$597.00
Number of Buildings Available Over 100,000 sq. ft.	28

Despite the highest availability rate in almost 6 years, the Greater Toronto Area (GTA) industrial market has been experiencing supply/demand imparity amid a bearish supply outlook and growing demand. Demand fundamentals remained strong in Q1 2015 (user activity increased by 2.0% in comparison to Q1 2014), with the available space insufficient for the current users in the market, specifically those looking for industrial and logistics space with clear heights over 26'. At 2.5%, Toronto West was the only GTA market with availability rates greater than 1.0% for space with such clear heights.

Primary drivers of demand included proximity to highways, particularly HWYs 401, 407 and 400, and ample outside storage. Users continued to look for industrial properties in the vicinity of bigger consumer markets and good labour pools, such as Mississauga.

Industrial properties over 100,000 sq. ft. have been primarily used as large warehouse distribution or fulfillment facilities. New users in the market looking for distribution facilities favour space with clear heights over 30', with apt shipping capabilities.

Investor demand for industrial real estate has picked up despite some economic pressure, which has pushed up rents and the volume of occupied space.

Record low interest rates have reduced borrowing costs, thus stimulating interest to acquire real assets. On the other hand, property-owners have been capitalizing on soaring sale prices by putting their properties up for sale. The rising sale prices have mainly been the result of a shortage of quality space for active users searching for bigger and better facilities. The increased amount of space available for sale in the GTA caused the availability rate to rise by 40 bps quarter-over-quarter to 4.8% in Q1 2015. The jump in the volume of industrial space listed for sale affected net absorption for the quarter, which, at negative 2.1 million sq. ft., was at its lowest level since Q3 2009.

Just under 1.1 million sq. ft. of new industrial space was added to the market this quarter, bringing up the total inventory to 753.3 million sq. ft. There are currently 5.3 million sq. ft. of modern industrial and logistics space under construction, with 82.0% being constructed in the Toronto West market.

With phase one of the Highway 407 extension scheduled to be completed in Q4 2015 and phase two set to start in December 2015, there is new optimism surrounding Durham's industrial market. Adding to these infrastructural investments, the region's relatively low development charges and favourable zoning bylaws along the 407 could foster future industrial developments in that region.

Figure 2: Q1 2015 Select Transactions

User	Size (sq. ft.)	Address	City	Market
Exel Logistics Canada	435,000	100 Ironside Dr	Brampton	Toronto West
Ryder Integrated Logistics	407,156	5900 Avebury Rd	Mississauga	Toronto West
Emblem Logistics	377,072	7825 Winston Churchill Blvd	Brampton	Toronto West
Medline Canada Corp.	252,782	8690 Escarpment Way	Milton	Toronto West
Walmart Canada Corp.	223,876	80 Enterprise Rd	Etobicoke	Toronto Central
Nippon Express Canada Ltd.	169,414	6250 Edwards Blvd	Mississauga	Toronto West
National Logistics Services Inc.	150,192	26 Monogram Pl	Etobicoke	Toronto Central
Graphic Transportation Services Inc.	133,547	155 Delta Park Blvd	Brampton	Toronto West
East Penn Canada	126,291	1005 Copperstone Dr	Pickering	Toronto East
TriCan Tire Distributors Inc.	117,200	1251-1 Tapscott Rd	Scarborough	Toronto Central

Source: CBRE Research, Q1 2015.

Figure 3: Q1 2015 Industrial Market Statistics

Submarket	Inventory (sq. ft.)	Vacancy Rate (%)	Avail. Rate (%)	Q1 2015 Net Absorption (sq. ft.)	2015 Net Absorption (sq. ft.)	Under Construction (sq. ft.)	Avg. Net Asking Lease Rate (\$ per sq. ft.)	Avg. Net Asking Sale Price (\$ per sq. ft.)
Pickering	9,457,322	4.0	6.1	238,598	238,598	0	4.21	78.43
Ajax	7,499,341	1.1	5.5	(136,797)	(136,797)	0	4.11	66.65
Whitby	6,092,186	6.5	13.3	(290,963)	(290,963)	0	5.14	64.74
Oshawa	26,928,966	1.8	3.8	(327,522)	(327,522)	0	4.16	59.13
Toronto East Totals	49,977,815	2.7	5.6	(516,684)	(516,684)	0	4.45	65.80
Toronto	23,064,534	0.6	1.5	(7,394)	(7,394)	0	7.14	143.56
North York	87,026,467	1.1	3.0	(301,596)	(301,596)	0	4.82	97.67
Scarborough	68,184,630	2.0	3.4	(124,235)	(124,235)	353,922	4.74	114.88
Etobicoke	81,254,171	2.0	4.2	(460,487)	(460,487)	0	4.56	101.03
East York	7,991,140	0.9	1.3	2,638	2,638	0	6.06	122.16
York	7,179,602	0.0	0.2	23,627	23,627	0	4.77	119.50
Toronto Central Totals	274,700,544	1.5	3.2	(867,447)	(867,447)	353,922	4.80	105.66
Markham	35,656,424	0.9	3.4	(113,287)	(113,287)	0	5.36	146.45
Richmond Hill	12,756,685	2.8	7.6	431,774	431,774	110,000	6.59	124.79
Vaughan	66,527,102	2.4	4.9	(44,273)	(44,273)	491,479	5.41	94.61
Aurora	5,458,420	0.2	1.6	45,397	45,397	0	4.84	102.40
Newmarket	4,603,658	1.6	16.2	(198,447)	(198,447)	0	5.30	61.72
Whitchurch-Stouffville	988,775	0.0	4.6	(35,081)	(35,081)	21,800	4.94	141.99
Toronto North Totals	125,991,064	1.9	5.0	86,083	86,083	623,279	5.56	105.80
Mississauga	155,559,394	1.5	5.4	(743,746)	(743,746)	1,349,796	5.84	128.00
Brampton	80,980,416	1.6	5.2	1,010,023	1,010,023	1,349,348	5.41	106.75
Oakville	18,111,186	1.6	5.4	(249,139)	(249,139)	0	6.27	126.83
Milton	15,685,336	2.7	14.0	(1,507,660)	(1,507,660)	105,459	5.89	130.49
Burlington	20,771,222	2.5	5.6	2,580	2,580	25,000	4.84	108.21
Caledon	11,567,499	3.7	11.2	678,586	678,586	1,494,137	6.10	204.27
Toronto West Totals	302,675,053	1.8	6.0	(809,356)	(809,356)	4,323,740	5.72	127.48
GTA Totals	753,344,476	1.7	4.8	(2,107,404)	(2,107,404)	5,300,941	5.37	113.57

Source: CBRE Research, Q1 2015.

TORONTO NORTH

At positive 86,083 sq. ft., Toronto North experienced the highest level of net quarterly absorption of all GTA markets, mainly due to the high volume of user activity recorded throughout its submarkets (2.8 million sq. ft.) and relatively large level of new supply.

The Toronto North market was second only to the Toronto West in terms of new supply and space under construction. The Toronto North market delivered 453,000 sq. ft. of industrial and logistics space in Q1 2015, with the most notable being the new design-built Viva Transport Maintenance and Storage Facility in Richmond Hill.

Average asking lease rates were very stable in the Toronto North market, making a mere \$0.02 leap to net \$5.56 per sq. ft., the lowest change in rent recorded across all GTA markets. At gross \$8.63 per sq. ft., the Toronto North and Toronto West markets share the highest gross average asking lease rate in the GTA.

TORONTO EAST

Availability in the Toronto East market increased by 130 bps quarter-over-quarter to 5.6% in Q1 2015, driven primarily by slight availability increases in Whitby, Oshawa, and Ajax. Toronto East is the only market in the GTA with more industrial and logistics space being available for sale than lease.

The Toronto East market recorded 1.3 million sq. ft. of negative net absorption, which is the result of a low level of completions and an upsurge in the amount of space being available for sale.

Current and upcoming infrastructural investments, like the HWY 407 extension and development of HWY 418, have the potential to ignite new industrial investments in the Toronto East market. Relatively low development charges and favourable zoning bylaws along the new highway construction can foster future growth in the region.

TORONTO CENTRAL

The Toronto Central market had the largest amount of space available for sale of all GTA markets in Q1 2015, reaching almost 3.3M sq. ft. The Average asking sale price stood at \$105.66 per sq. ft., displaying a \$16.29 dollar increase quarter-over-quarter.

For the first time in three quarters, the average asking lease rate saw an increase in the Toronto Central market. The \$0.29 quarter-over-quarter increase can be attributed to the relatively low level of completions in the last few quarters and the growing user demand in this market.

At over 1.6 million sq. ft., the Toronto Central market had the second largest volume of user activity of all the GTA markets during Q1 2015.

The Prologis Tapscott Distribution Centre is the only project under construction in the Toronto Central market as of Q1 2015. The brand new facility is set to be completed in the second quarter this year.

TORONTO WEST

Despite strong user demand in the Toronto West market, availability increased by another 40 bps over the quarter to 6.0% in Q1 2015. Availability in the Toronto West market has increased by 1.5% in the past six months. The rises in availability are further magnified by the large amount of new developments (2.8 million sq. ft.) which hit the market in the latter half of 2014. As a result, absorption registered at negative 809,356 sq. ft. in Q1 2015.

The majority of active users in the market are now seeking big box distribution center options. While over 82% of all GTA construction activity is occurring in the West region, the supply side remains tight with projects under construction seeing a high degree of activity. There is a good pipeline of large tenant deals in the market over 200,000 sq.ft. indicative of the “flight to quality” exhibited by larger tenants who are steadily moving to larger, higher premises. The increase of larger tenant deals in newer facilities is fueling the rise in net asking rates which have increased slightly quarter-over-quarter.



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