Canadian industrial market report

Q2 2024

AVISON YOUNG

National industrial market trends

01

Post Covid turnover

The e-commerce boom combined with supply chain disruptions during the COVID era had rushed logistics and distribution companies to secure warehousing space as soon as possible, against a backdrop of acute space shortage. The 3-to-5-year leases signed during this period at historically high rental rates are gradually expiring. Tenants who may have overstocked on space are now reviewing their requirements on a backdrop of significantly more availabilities and bargaining power than in 2020-2022. As market conditions stabilize, it is a good time to proceed with right-sizing, relocations and rental rate negotiation strategies.

02

Smaller is better

As demand for logistics and distribution and large fulfilment centres cools off, there are more lease and sub-lease options across the country. Vacancy rates for big-bay industrial are now higher than for small-bay. Demand for small-bay is positive, but new supply is limited due to higher construction and land costs. This supply-demand imbalance has spurred investor interest. Developers are trying to adapt their offering to meet demand from smaller tenants, either by subdividing or developing industrial condos, as has long been done in Vancouver.

03

Sound fundamentals

The steady increase in vacancy rates and fall in rents since the start of 2023 is a correction of a market that overheated. Otherwise, industrial market fundamentals remain sound, and the economic drivers of demand for industrial space are pointing in the right direction for 2025: falling interest rates, weaker loonie, GDP growth forecast at 1.4% (0.6% in 2024) and industrial output at 1.7% (0.2% in 2024). The incremental progression of e-commerce as well as the development of a domestic battery industry, the life sciences, and energy sector prospects are also positive drivers. Noting the slowdown in new developments since 2023, supply may not be sufficient to meet a significant resurgence in demand.

Economic drivers

GDP growth by year end to support industrial market demand

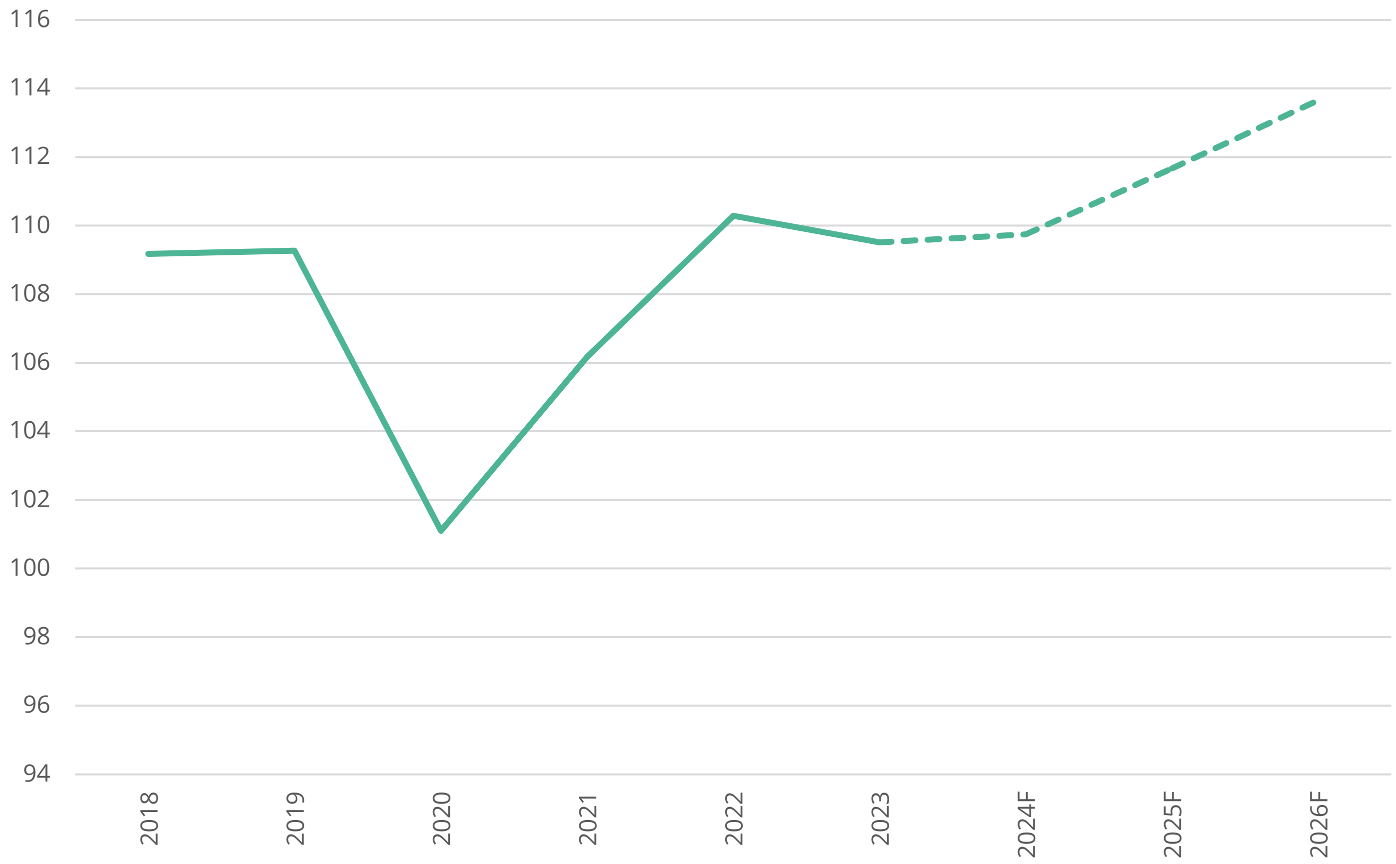
Economic drivers

Canadian real GDP growth forecast

2024 Annual GDP growth is forecast to be below 2023 levels of 1.3%. However, momentum is expected to pick up with growth forecast to rise 1.4% in 2025 and 2.6% by 2026.

Source: Statistics Canada\Haver Analytics. GDP, real, annual growth

Canadian GDP industrial production index
(2007=100)

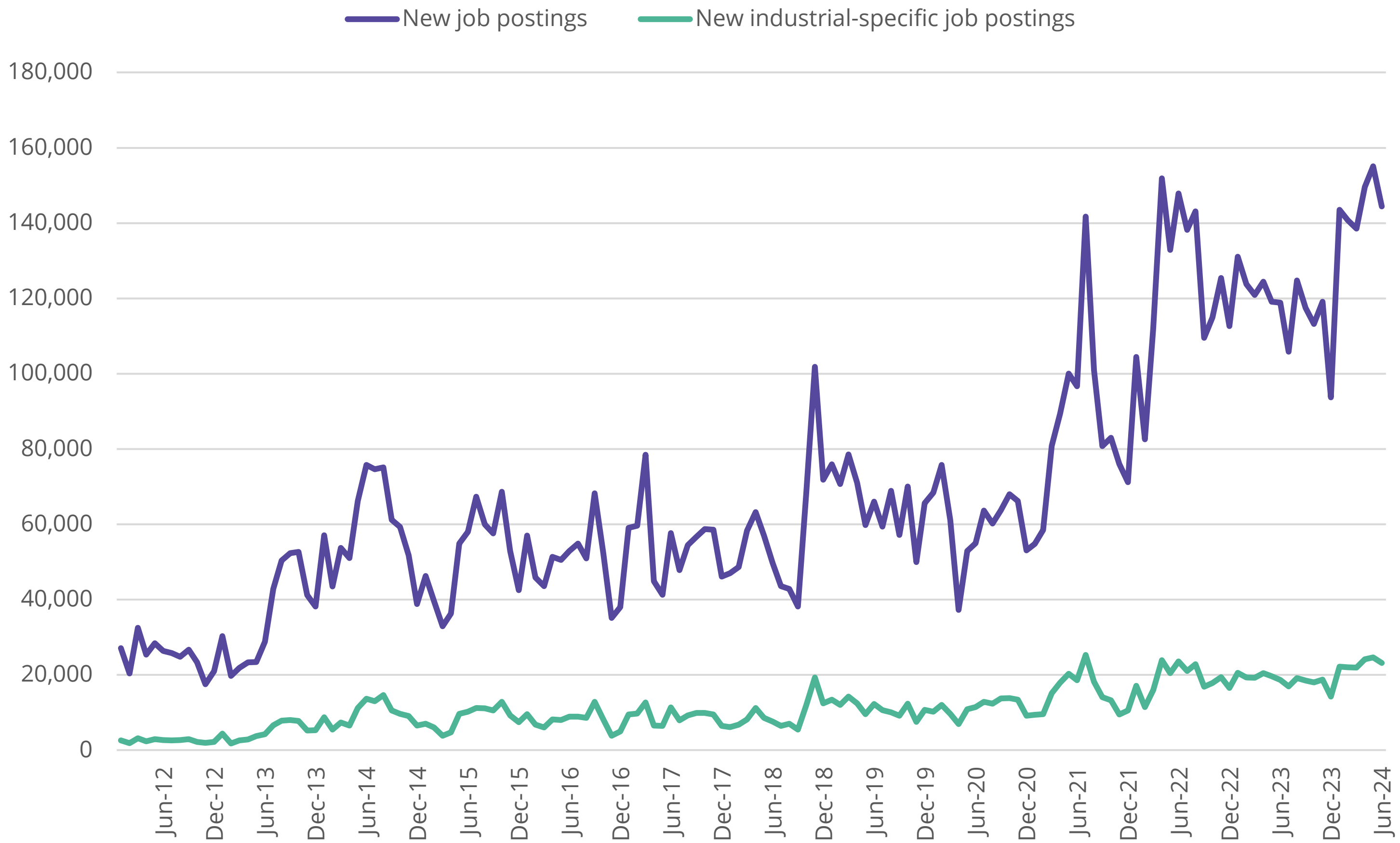


Source: Statistics Canada\Haver Analytics. GDP, industrial production

2024 annual industrial production is forecast to be on par with 2023. Industrial production is expected to grow steadily and exceed levels recorded in 2022, by the end of 2026.

Economic drivers

New job posting volumes (seven major markets)

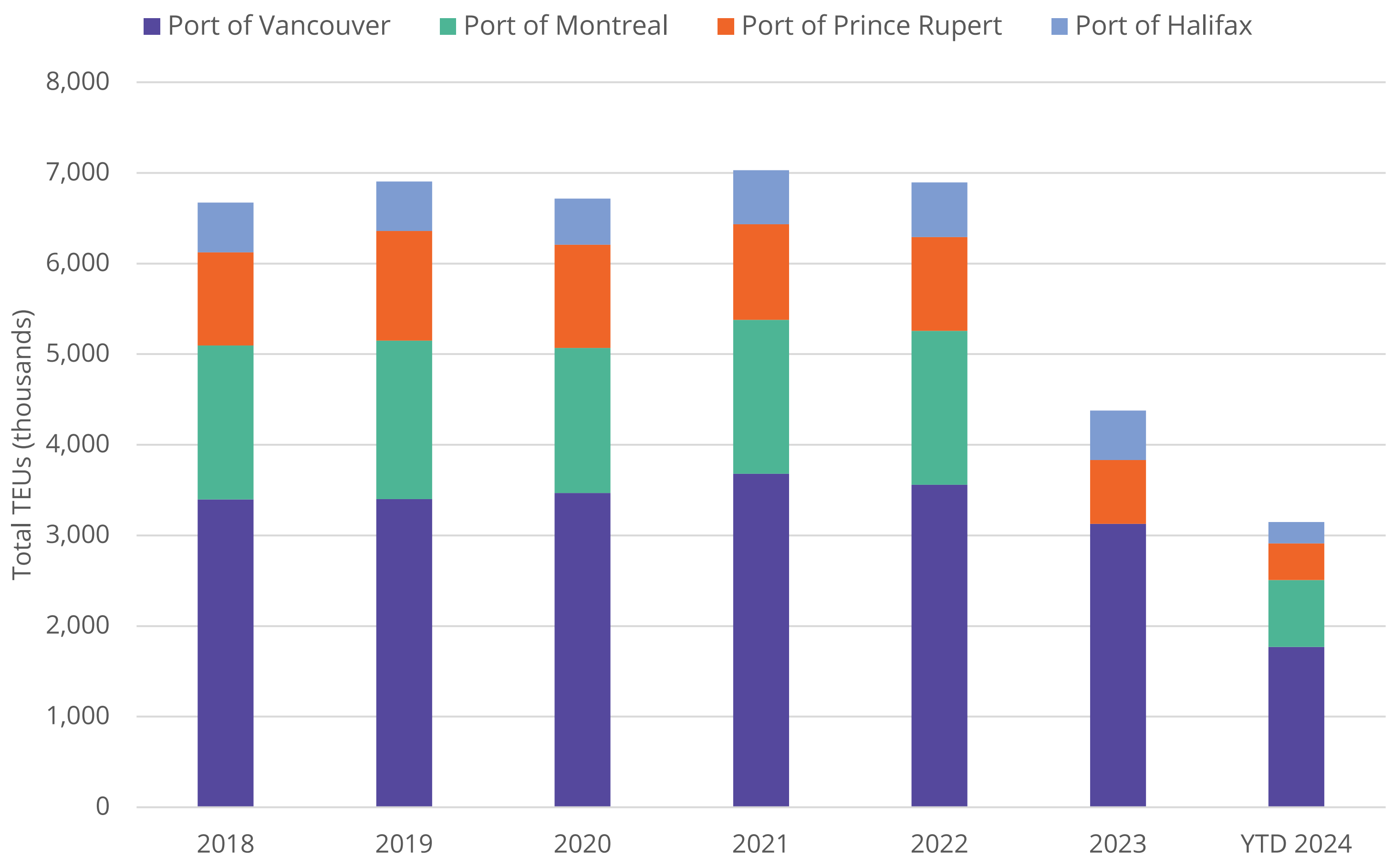


Source: Oxford Economics and Statistics Canada

On average 16% of new job postings year-to-date in 2024 are industrial specific job postings. This is down from the average of 19% during the peak demand experienced between Q2 2020 to Q2 2021.

Economic drivers

Total twenty-foot equivalent units (TEUs) handled at four major container ports

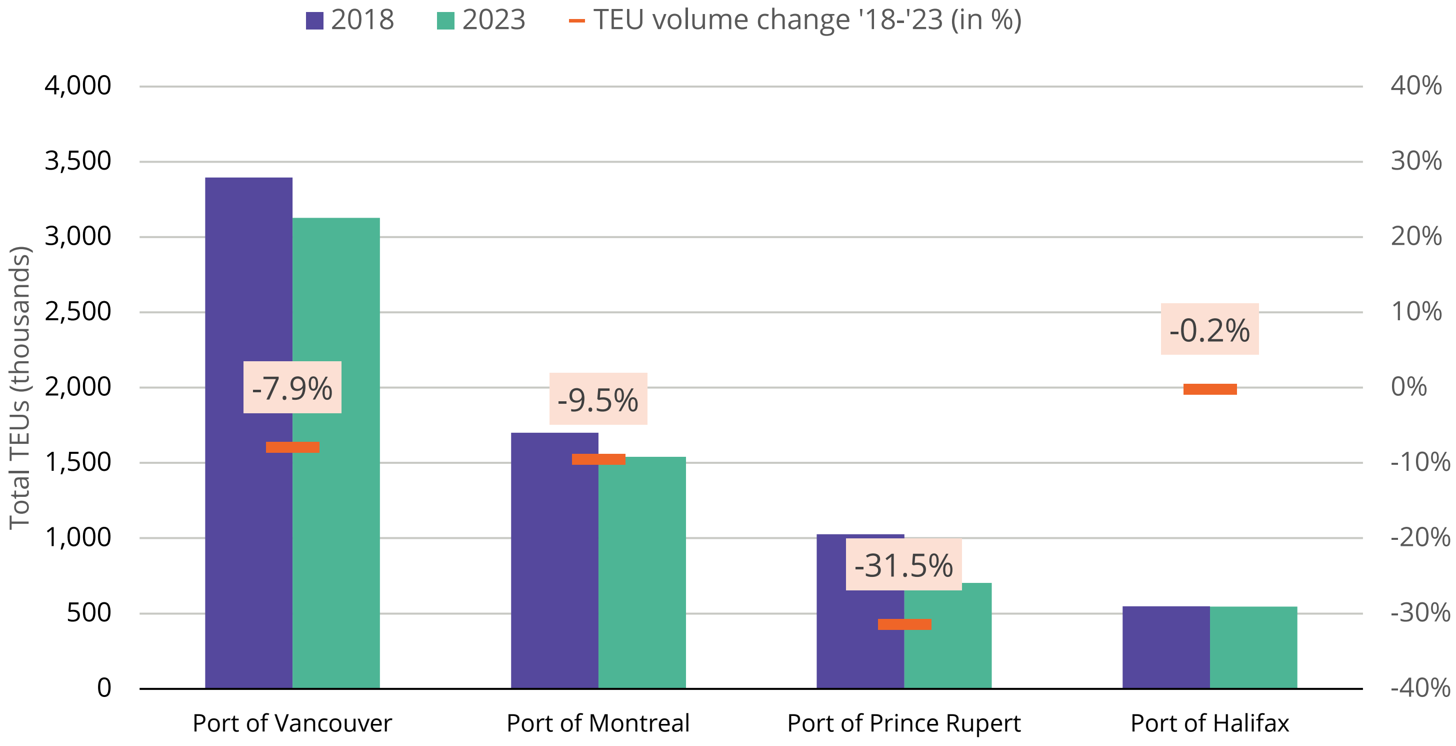


TEU container volume activity has been very strong in 2024, accounting for 72% of the 2023 total at the end of Q2. If this pace is to continue into H2 2024, we may meet or exceed 2023 volumes.

Source: AVANT by Avison Young, Individual Port Authorities

Economic drivers

Total twenty-foot equivalent units (TEUs) handled at four major container ports



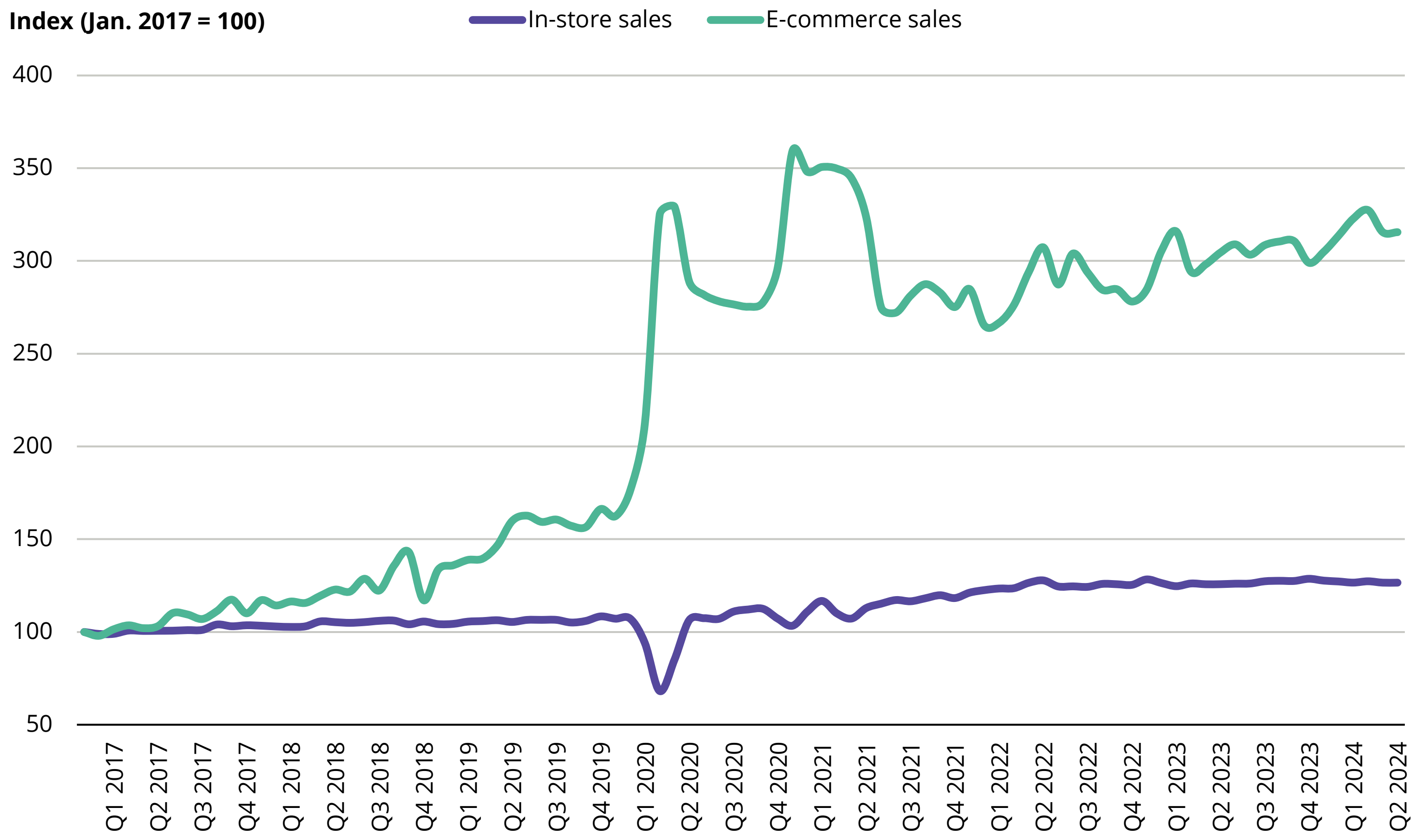
Overall TEU volume decreased by 11.3% from 2018 to 2024 at the four major Canadian ports (Halifax, Montréal, Prince Rupert and Vancouver).

Source: AVANT by Avison Young, Individual Port Authorities

Economic drivers

Canadian e-commerce trends

Indexed monthly retail e-commerce sales vs. in-store sales



Source: Statistics Canada, Monthly Retail Trade Survey

The share of online sales, as a proportion of total retail sales, ranged from 5.8% (Q4 2023) to 6.3% currently.

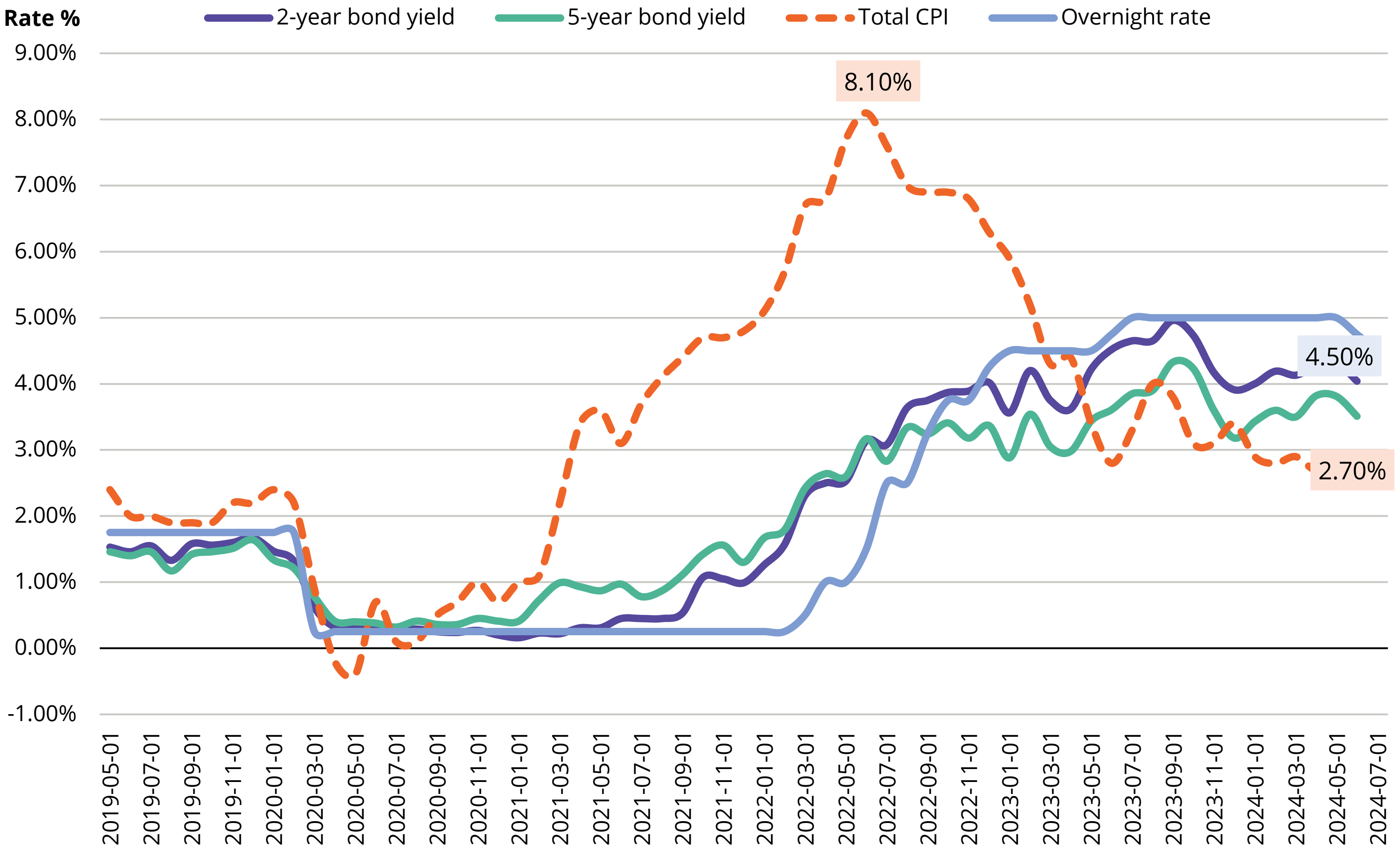
Back in 2020 and 2021, e-commerce sales averaged 7.3% and 6.9% of total retail, respectively.

Investment, capital and debt markets trends

Lower interest rates should bolster investment volume for industrial assets

Investment, capital and debt markets trends

Inflation, interest rates and bond yields



The Bank of Canada cut the overnight interest rate by another 25 basis points (bps) to 4.5% in July, in line with market expectations.

The Bank appears confident that inflation is on a sustainable track towards 2%, which means rate cuts could be quicker than anticipated throughout 2024-2025.

Source: Bank of Canada, Statistics Canada, Capital Economics

Investment, capital and debt markets trends

Debt market trends

	Multi-residential	Industrial	Office	Retail
Current first mortgage lending conditions				
Maximum LTV	**Conventional:** 75% **CMHC MLI:** 95%	70%	60%	70%
Spread over 10-year GoC bond yield	+85 bps	+175 bps	+250 bps	+200 bps
Preferred term	5 years	5 years	5 years	5 years
Longest amortization	50 years	30 years	30 years	30 years
Premium/discount to appraisal cap rates*	+25 bps	+25 bps	+50 bps	+25 bps
Cause of discrepancy from appraisal values	Cap rate	Rents	Vacancy	Cap rate
Cost of non-recourse debt	+0 bps	+75 bps	+100 bps	+50 bps
Change from previous quarter lending conditions				
Loan applications	=	▼	▼	▼
Mortgages in arrears	=	=	▲	=
Mortgages in default	=	=	▲	=
Expected next quarter lending conditions				
Debt cost outlook	▼	=	▲	=

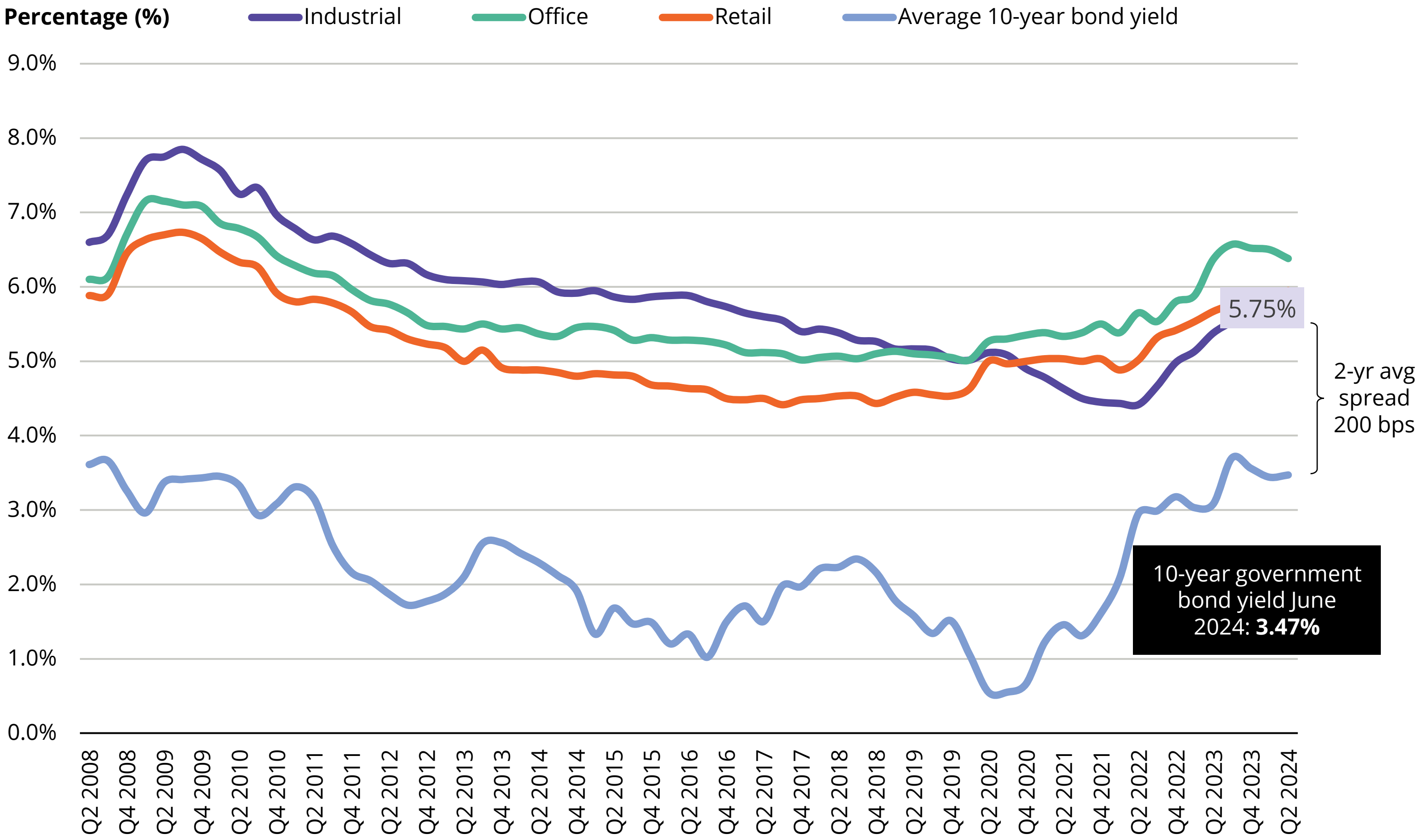
Multi-residential Industrial Office Retail

*Average premium (+) or discount (-) applied by underwriters to the cap rates seen in appraisal reports completed by accredited appraisers.
Source: Avison Young Q2-2024 Cap Rate Survey

Lenders' preferred allocation continues to be for income-producing industrial, multi-residential and grocery-anchored retail.

Capital availability for land and office remains in short supply and reserved for strong sponsors at lower leverage.

Cap rate trends – Altus benchmark asset classes



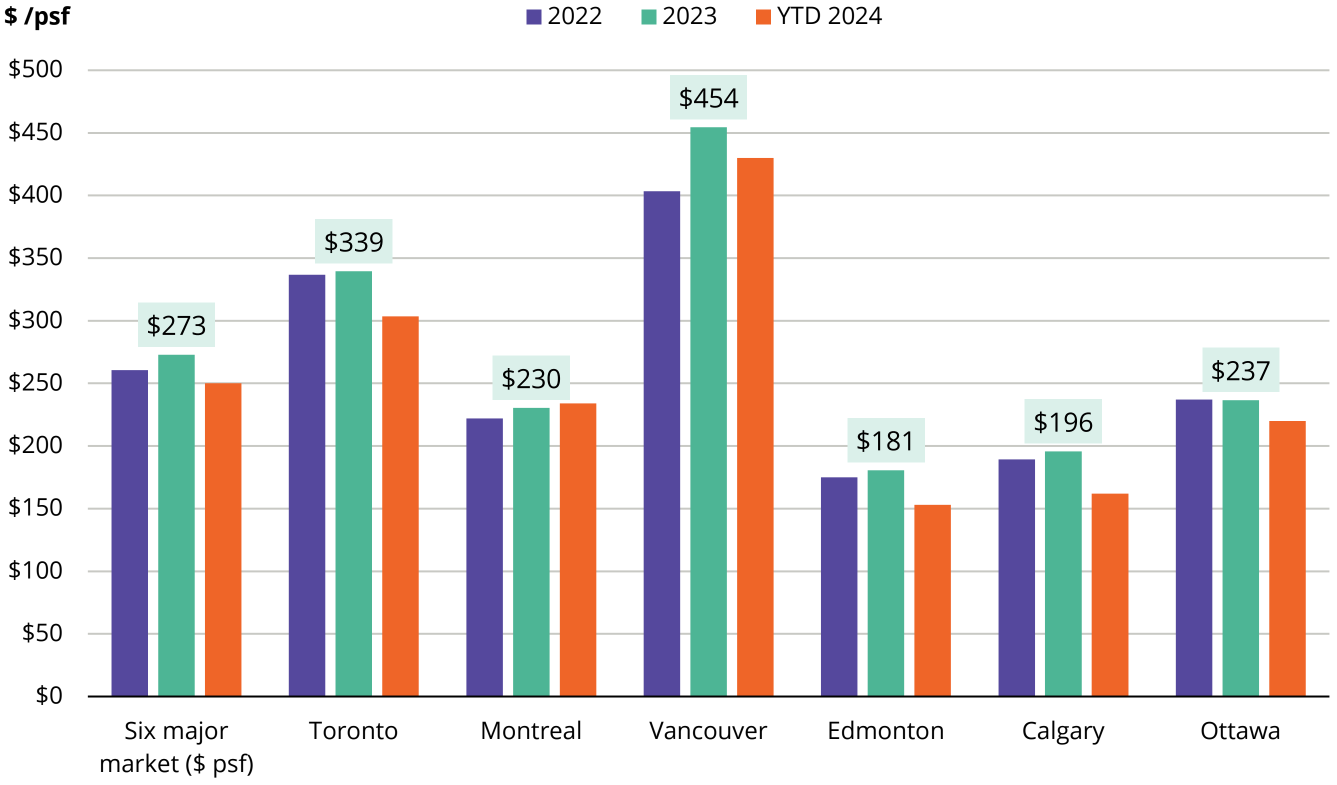
Source: Bank of Canada, Altus ITS Q2 2024

Avison Young cap rate survey results		
	Q2 2024	**Q1 2024**
New single-tenant	5.95%	5.90%
Mature single-tenant	6.40%	6.35%
New multi-tenant	6.15%	6.05%
Mature multi-tenant	6.55%	6.50%

The 10-year Canada bond rate is expected to decline to **3.3%** in October 2024 and **2.7%** by July 2025.

Sustained high interest rates for the first half of 2024 diminished peak sale prices compared to previous levels of 2023

Average unit values (benchmark single-tenant industrial asset)



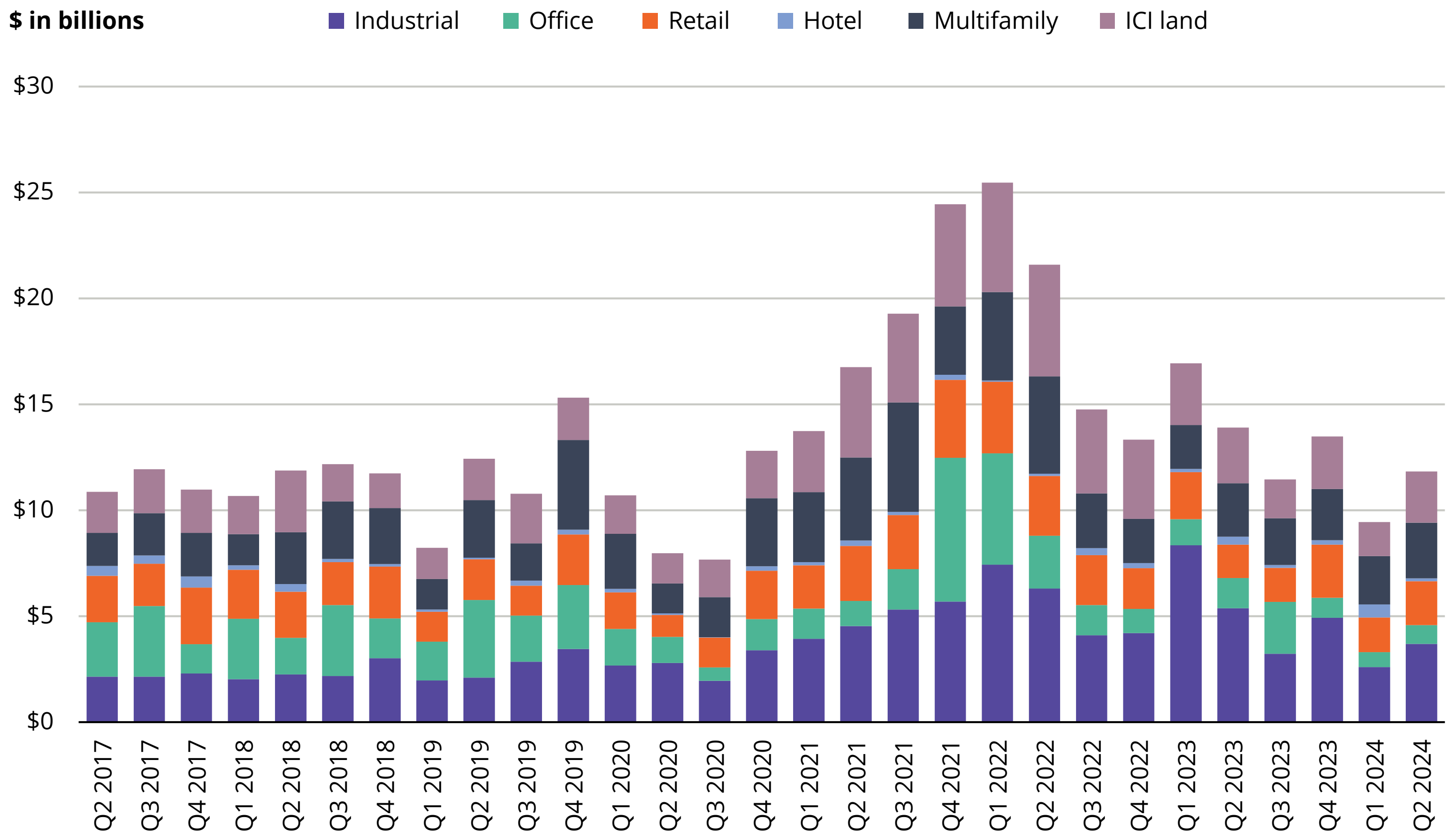
Annual year-over-year (Y-o-Y) percentage growth in unit values $ /per square foot (psf) across six major markets from 2022 to 2024.

Y-o-Y % growth	Six major markets	Toronto	Montréal	Vancouver
2022	26%	31%	26%	34%
2023	-3%	-1%	-9%	0.2%
2024	-4%	-10%	7%	-0.4%

Source: Altus Investment Trends Survey Q2 2024

Quarterly sales volumes

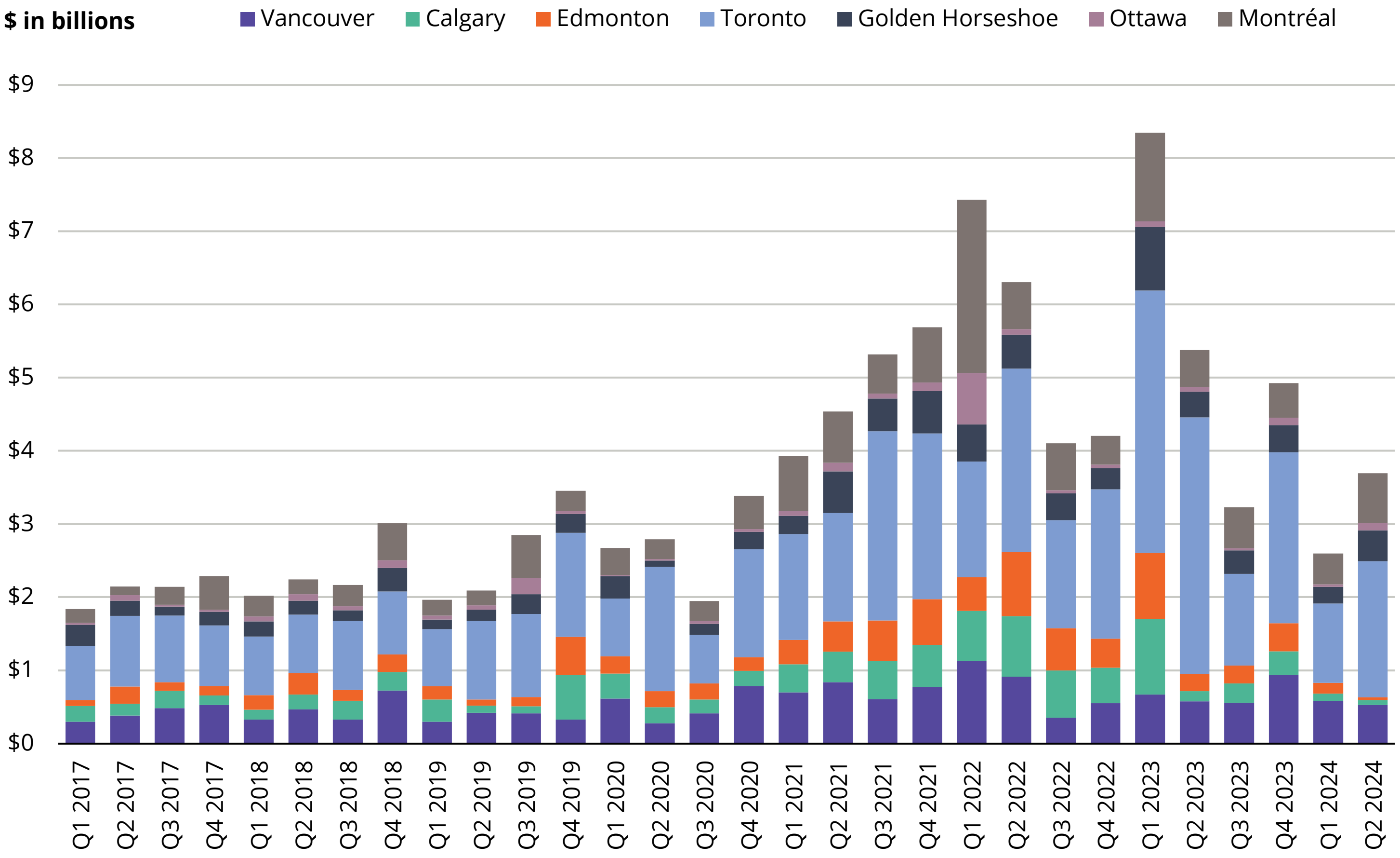
Quarterly sales volume by asset class (seven major markets)



Industrial accounted for 31% of the overall volume in Q2 2024, followed by multifamily (22%), land (20%) and retail (18%).

Source: Altus Data Studio, excludes non-arms and between partner sales

Industrial sales volumes (seven major markets)



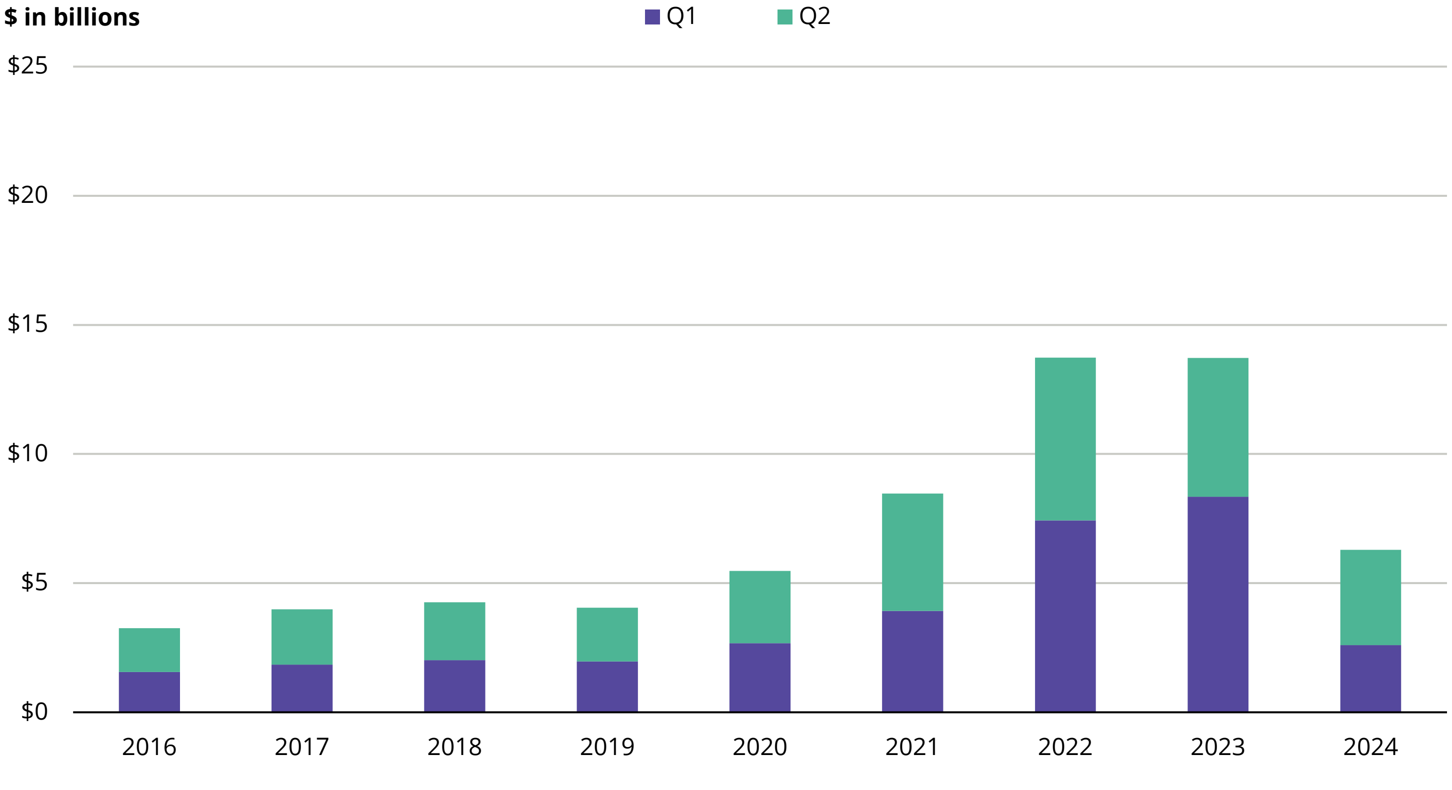
Source: Altus Data Studio, excludes non-arms and between partner sales

Portfolio sales accounted for 4% ($149 million) of total volume in Q2 2024 ($3.7 billion). In the past five quarters, portfolio sales accounted for 14% ($2.8 billion).

Investment, capital and debt markets trends

Industrial sales volumes (seven major markets)

Year-over-year sales volumes are down 31%
($5.4 billion in Q2 2023 vs. $3.7 billion in Q2 2024)



Q2 2024 sales activity points towards normalized transaction levels reminiscent of the levels prior to 2021-2023 highs.

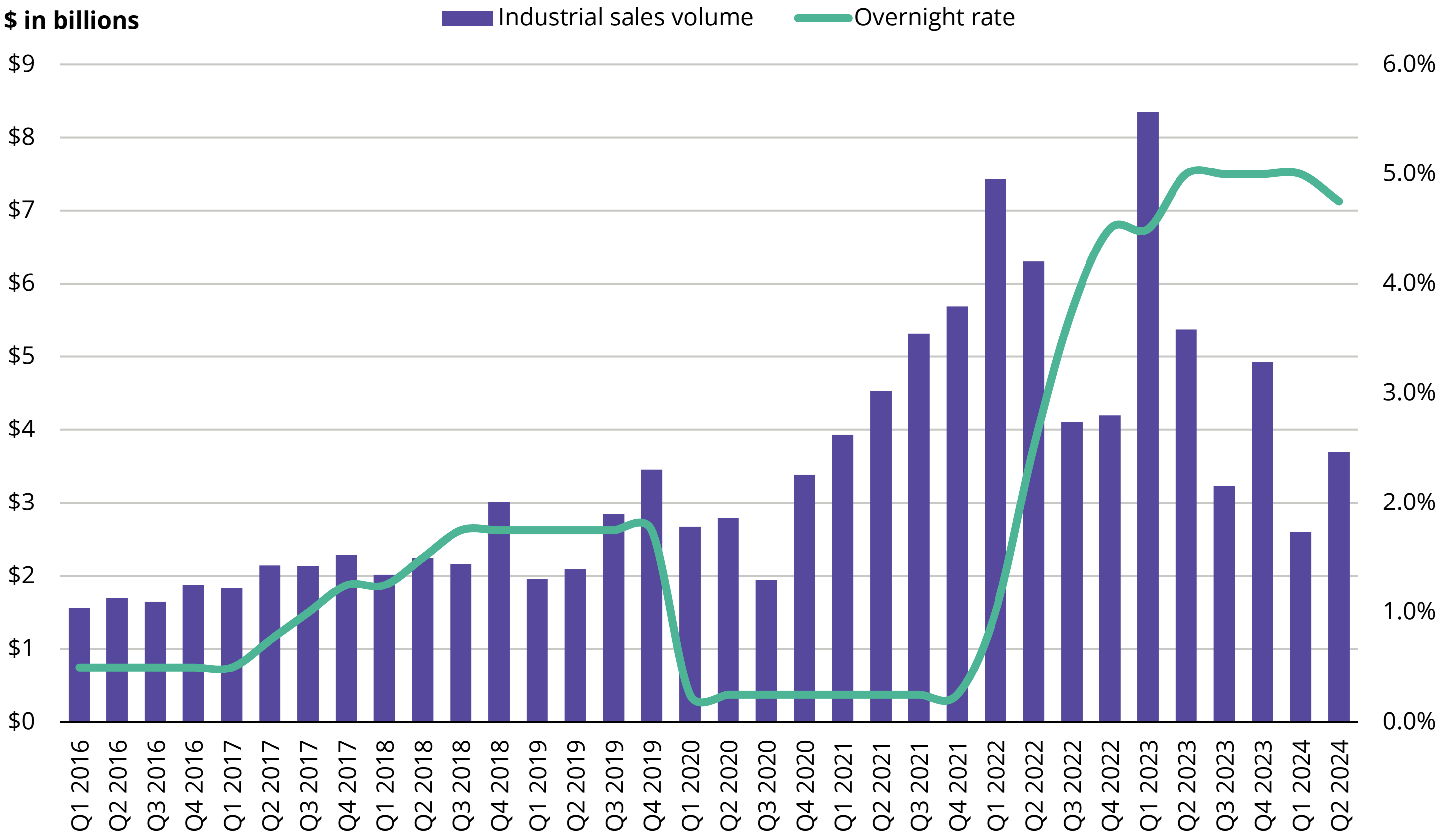
Nonetheless, private and institutional investors remain actively interested in industrial investments' relatively healthy fundamentals.

Source: Altus Data Studio, excludes non-arms and between partner sales

Investment, capital and debt markets trends

Quarterly sales volumes

Quarterly sales volume by asset class (seven major markets)



The June 5th overnight lending rate cut and the June 25th capital gain tax change have influenced the 42% boost in sales volume recorded in Q2 2024.

Source: Altus Data Studio, excludes non-arms and between partner sales

Largest industrial transactions 2024

Address	2600 North Park Drive	Fama Business Park/ 15050 54A Avenue	Gestion Jacad/Vista PF	15 Precidio Court	1302 Derwent	1000 Paul Kane Place
Market/submarket	Brampton, ON	Surrey, BC	Montréal (Anjou), QC	Brampton, ON	Vancouver (Delta), BC	Laval, QC
Sold date	May 2024	May 2024	March 2024	June 2024	March 2024	June 2024
Price sold	$110,000,000	$93,000,000	$87,000,000	$75,600,000	$73,000,000	$67,500,000
Year built	1998	1977	1971	2005	1986	2001
Property type	Single-tenant	Multi-tenant flex	Multi-tenant	Multi-tenant	Multi-tenant	Single-tenant
GLA	331,027	315,128	437,214	293,628	224,000	281,165
Price sold (psf)	$332	$295*	$200*	$257	$326*	$240
Seller	Oxford Properties	CanFirst Capital	Gestion Jacad	AIMCo	Grosvenor Group	Zorg inc.
Buyer	1000144109 Ontario Inc.	Bosa Properties	Vista Properties	Pure Industrial	Dayhu Investments	Groupe Mach

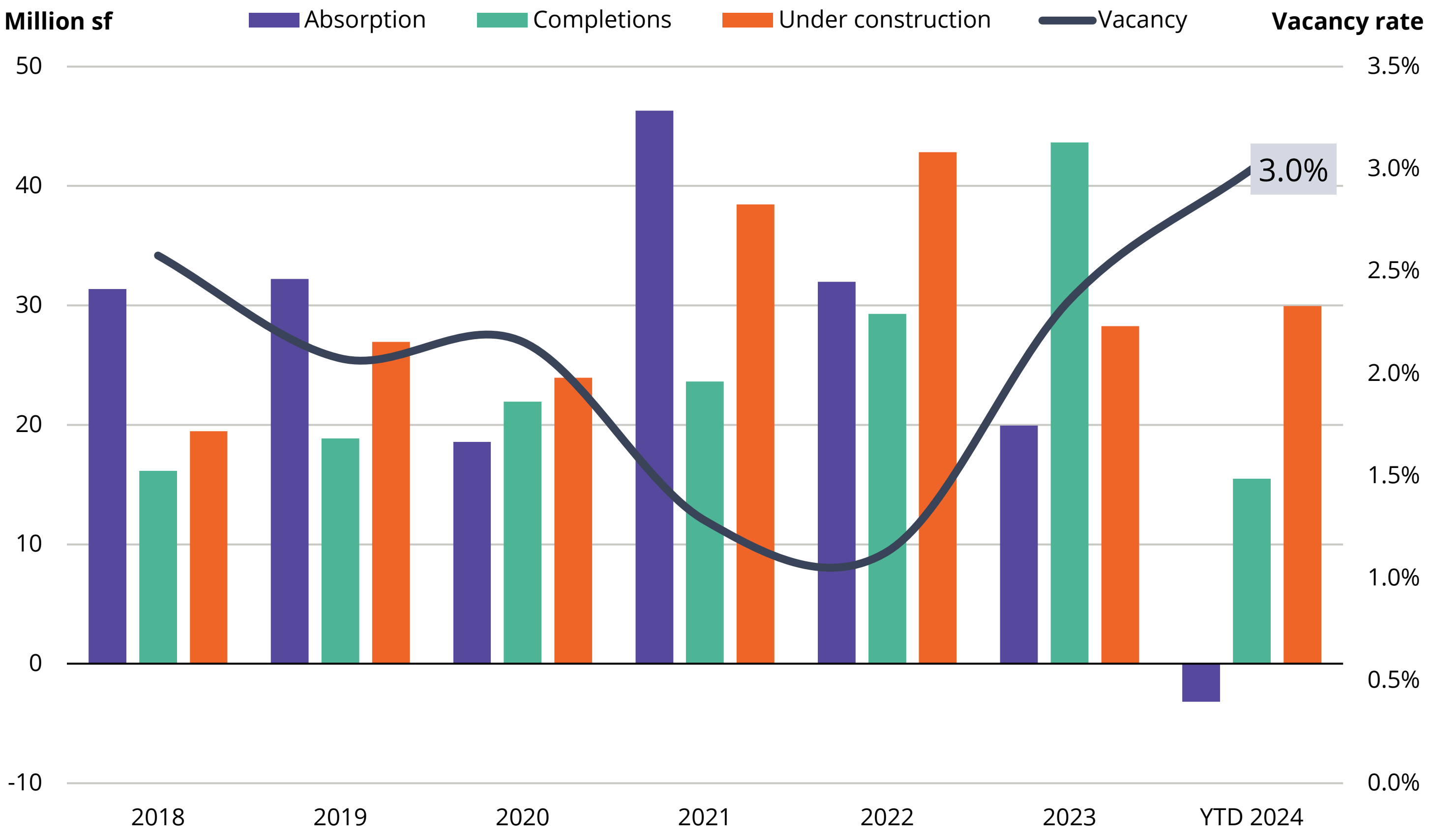
Source: Altus Data Studio

Industrial market leasing fundamentals

Slower and longer recovery as the market still awaits a resurgence in demand

Industrial market leasing fundamentals

Leasing velocity tapers off while new supply completions return to normal



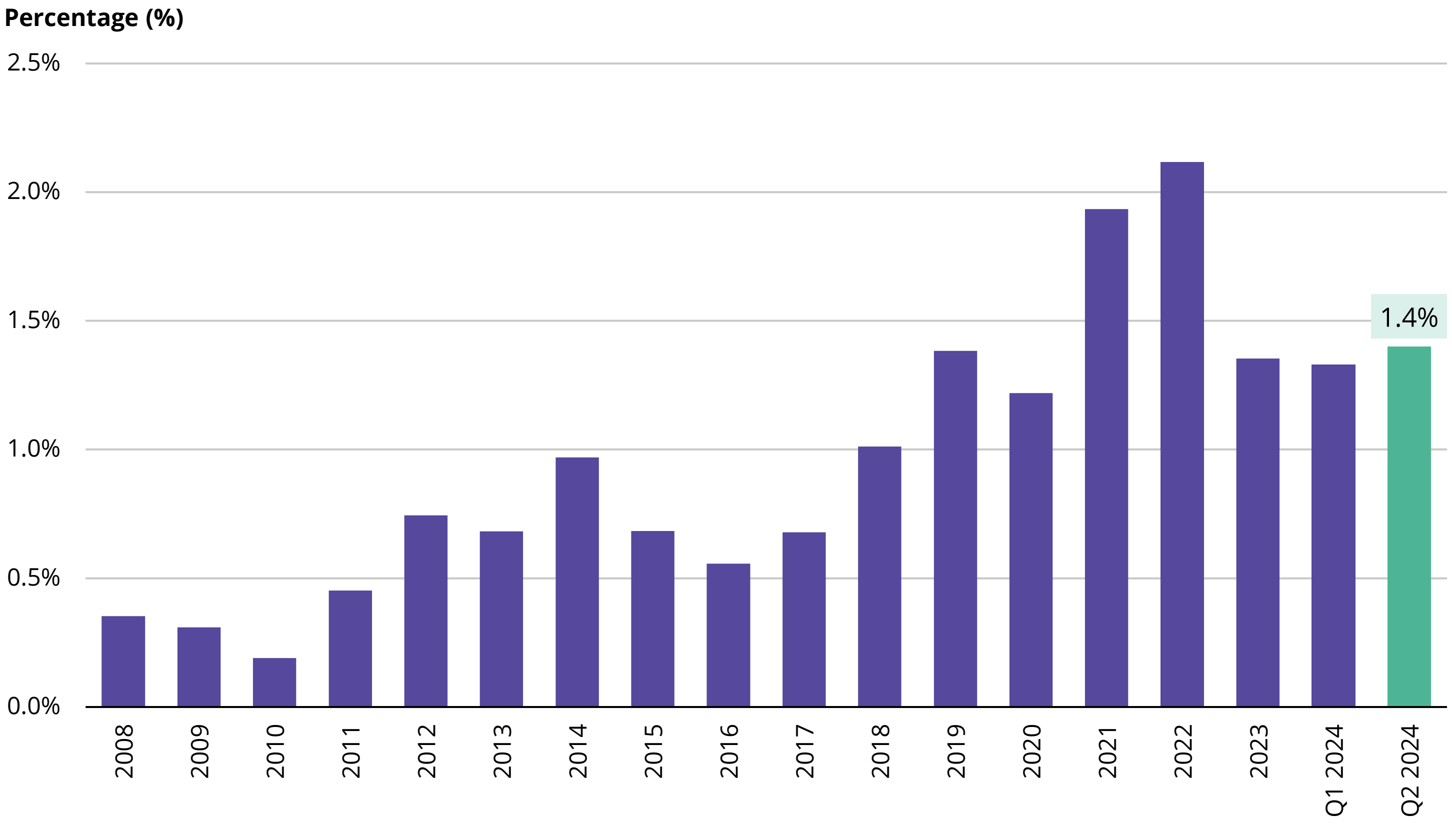
Source: Altus Data Studio and Avison Young Market Intelligence. Seven major markets

With 3.2 million sf (msf) of negative absorption year-to-date, vacancy has risen 60 bps up to 3.0% from the end of 2023.

Industrial market leasing fundamentals

Under construction: historical volumes

Space under construction as a percentage of existing inventory

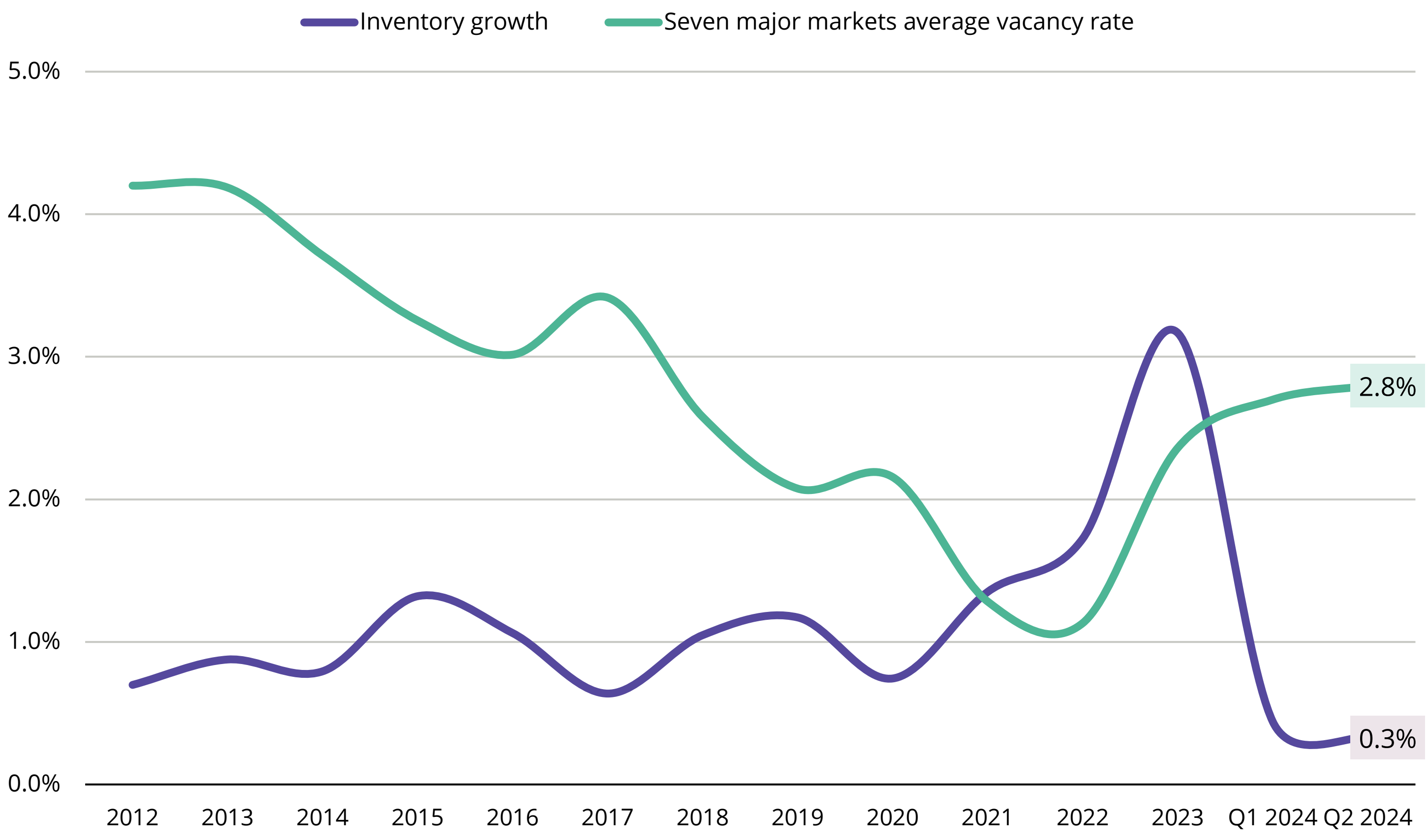


Source: Altus Data Studio and Avison Young Market Intelligence. Seven major markets

The ratio of under construction space to total inventory dropped 70 bps since Q4 2022.

Industrial market leasing fundamentals

New supply deliveries taper off after record high in 2023



Source: Altus Data Studio and Avison Young Market Intelligence. Seven major markets

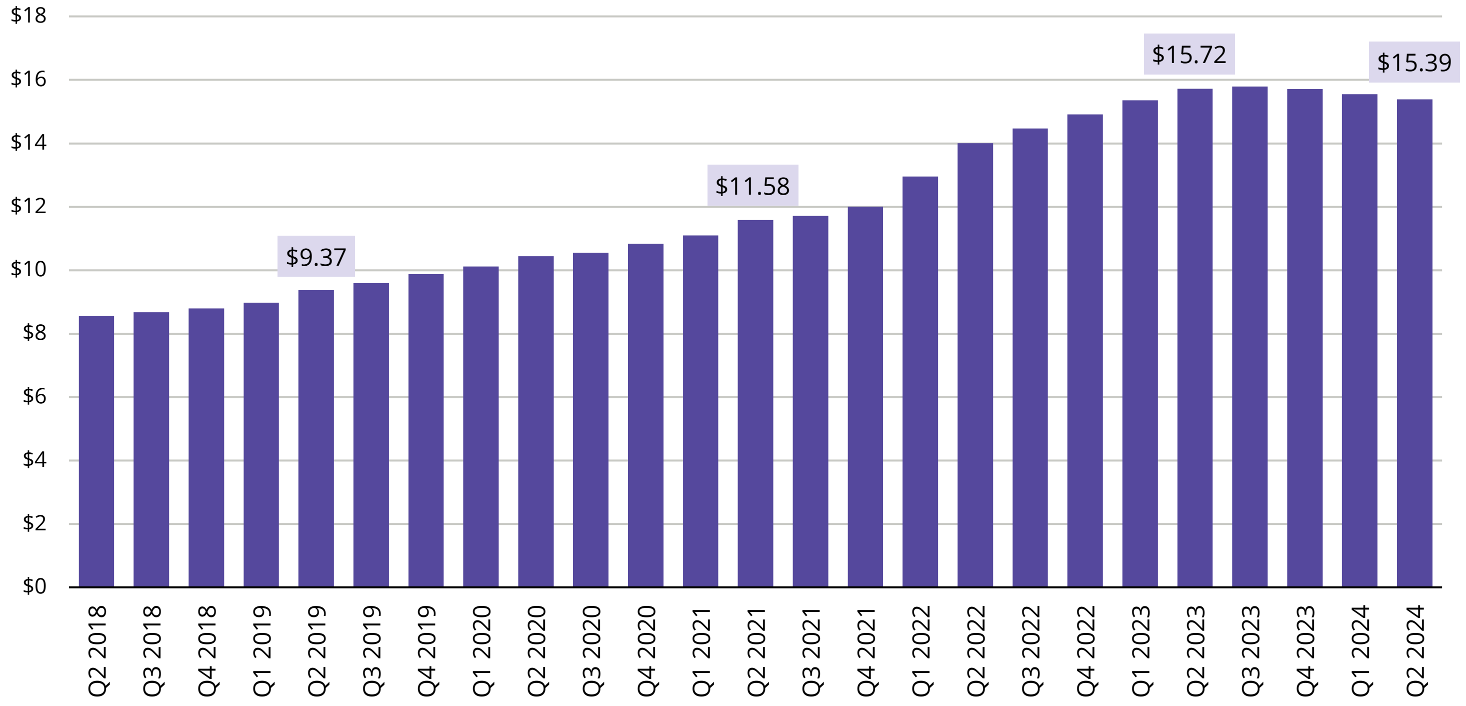
Inventory across the seven major markets grew by 61 msf (3.0%) over the preceding five quarters, and 6.9 msf in Q2 2024.

Industrial market leasing fundamentals

Average asking net rents (seven major markets)

2% percentage decrease in the average asking net rent since Q2 2023, 33% growth in the past three years and 64% growth in the past five years.

Average asking net rent ($ psf)



Source: Altus Data Studio and Avison Young Market Intelligence. Seven major markets

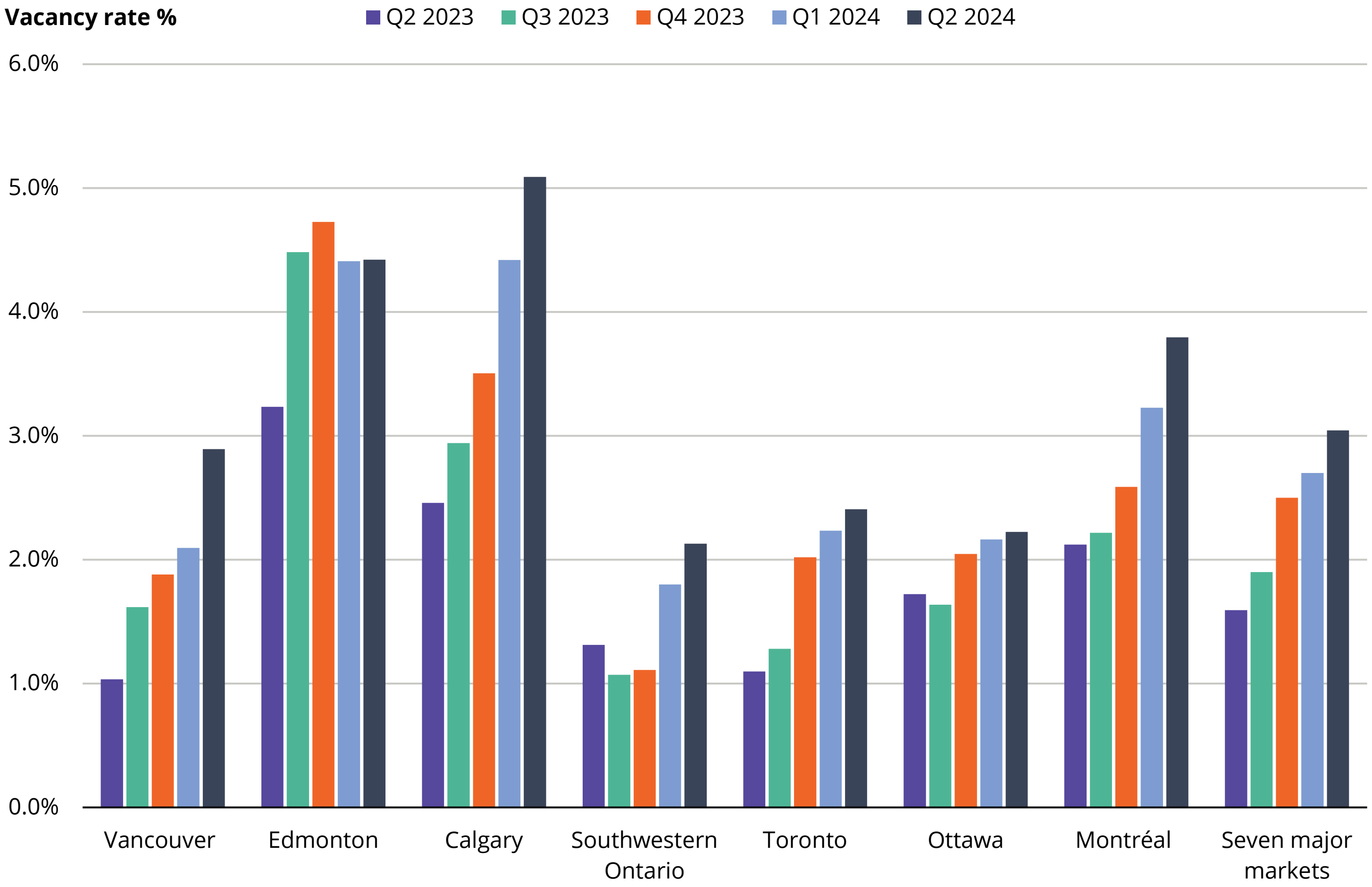
Asking rents have receded from the peak in Q3 2023 and have since compressed for three consecutive quarters, recording an average of $15.39 at the end of Q2 2024.

Major market comparisons and trends

Vacancy and absorption continues to grow, while rents recede as the market remains cautious

Major market comparisons and trends

Vacancy rates continue to rise

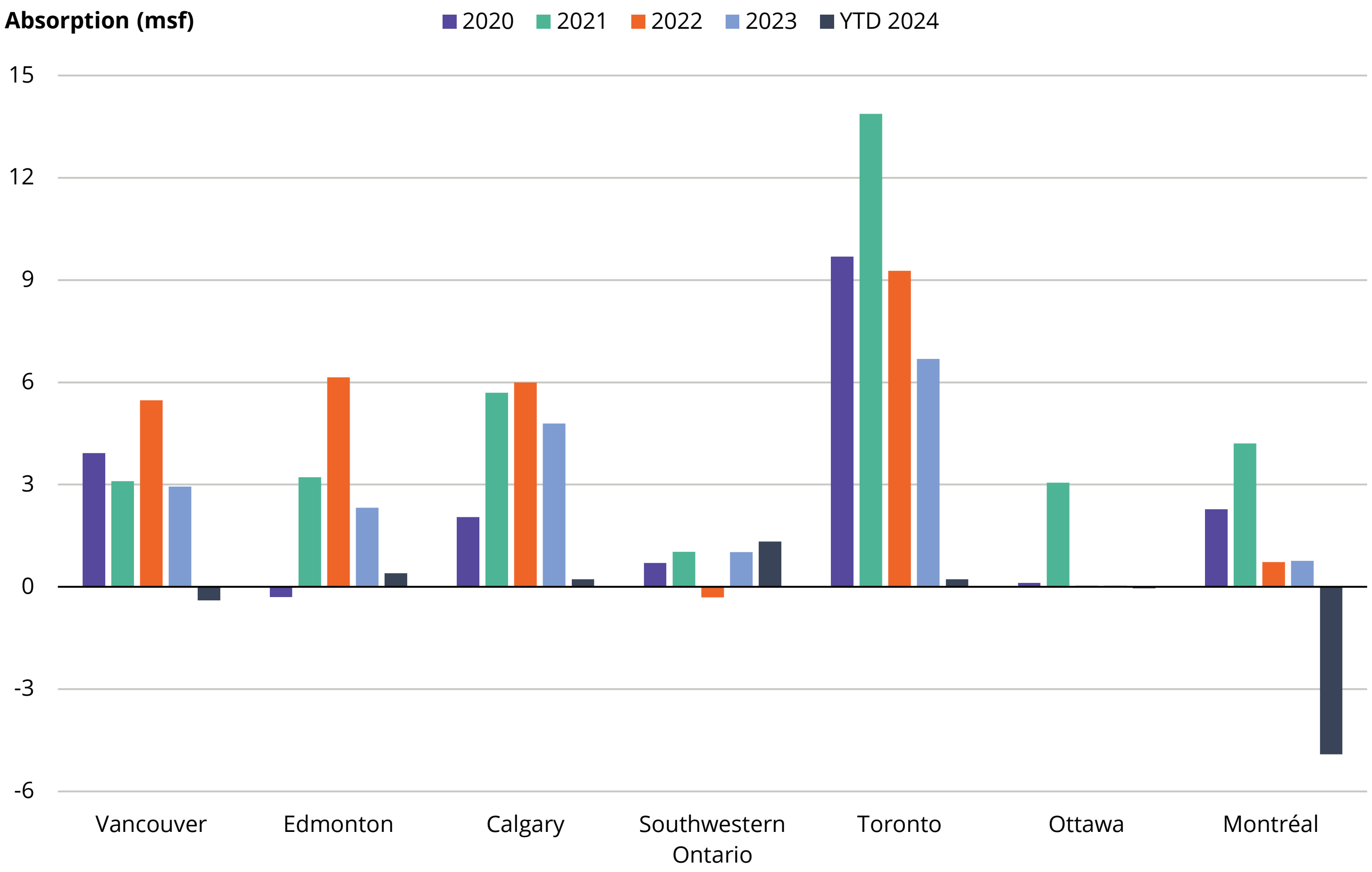


Source: Altus Data Studio and Avison Young Market Intelligence. Seven major markets

Vacancy rates averaged 3.0% across the seven major markets. Rates have risen by 140 bps over the past five quarters.

Major market comparisons and trends

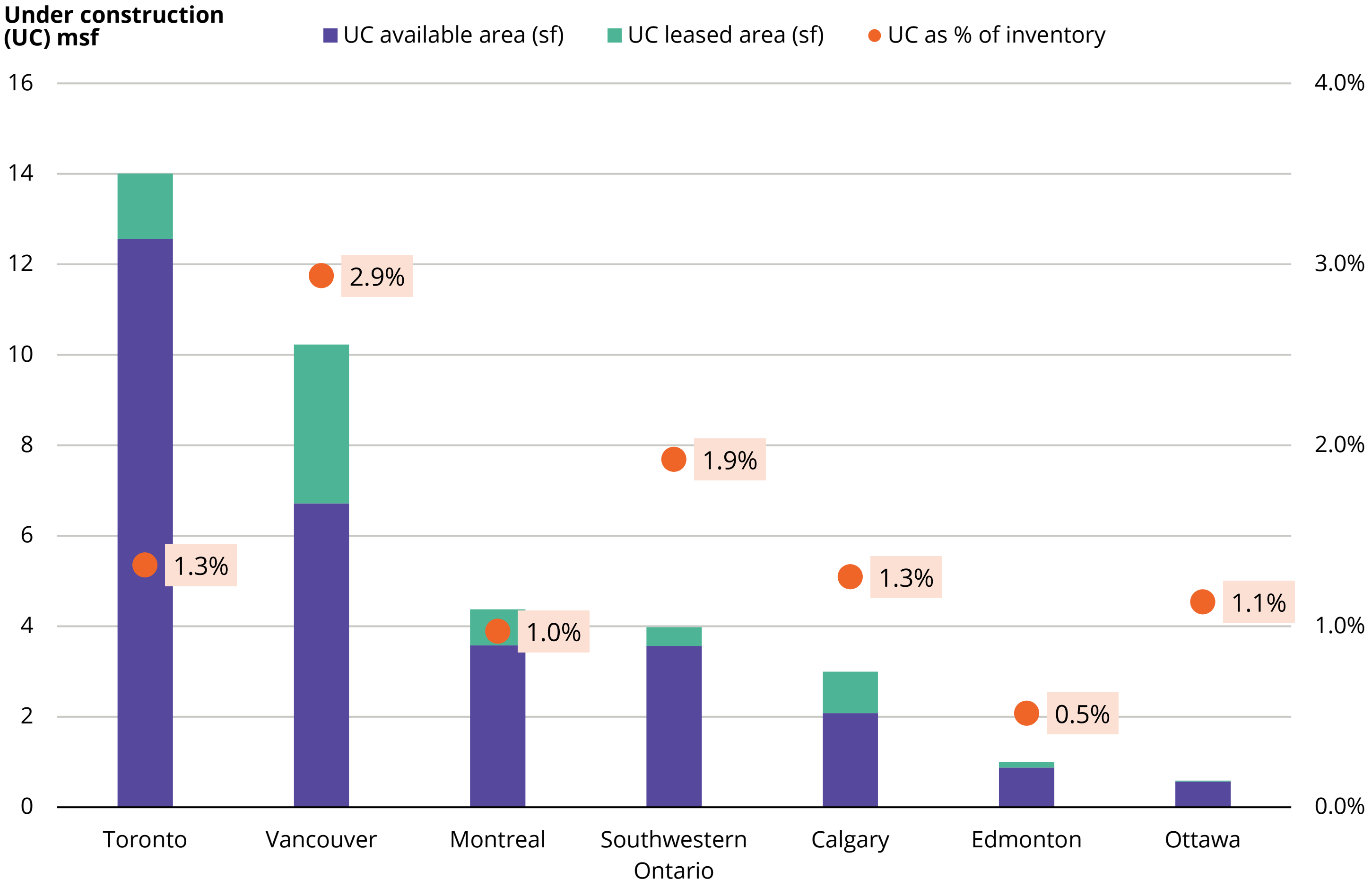
Net absorption by market



Source: Altus Data Studio and Avison Young Market Intelligence. Seven major markets

Net absorption tallied a negative (3.2 msf) YTD. Only Southwestern Ontario, Calgary and Ottawa recorded positive absorption in Q2 2024.

Under construction by market

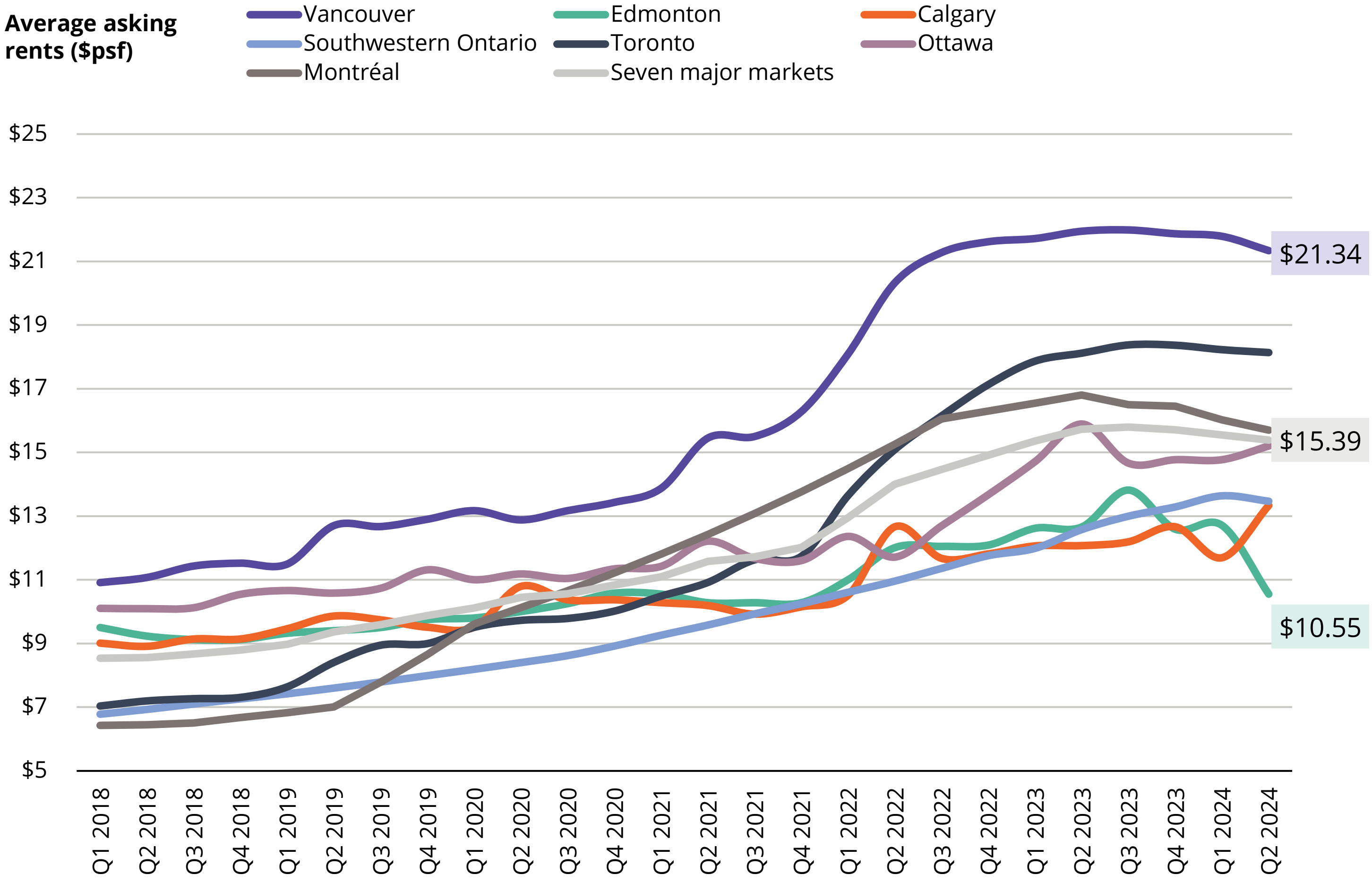


Source: Altus Data Studio and Avison Young Market Intelligence. Seven major markets

Pre-leased space in under construction buildings is down 19% over the past five quarters from 43% in Q2 2023, to 24% in Q2 2024.

Major market comparisons and trends

Asking rent growth stabilized



Source: Altus Data Studio and Avison Young Market Intelligence. Seven major markets

Rental rates averaged $15.39 at the end of Q2 2024. Rents range from a low of $10.55 in Edmonton to a high of $21.34 in Vancouver.

Major market comparisons and trends

Asking rent growth – past five years

Market	Quarter-over-quarter (Q/Q)	Past 12 months	Past three years	Past five years
Vancouver	-2.1%	-2.8%	38%	68%
Edmonton	-17%	-17%	3%	12%
Calgary	14%	10%	31%	35%
Southwestern Ontario	-1.2%	7.1%	41%	77%
Toronto	-0.5%	0.1%	66%	116%
Ottawa	2.9%	-4.3%	24%	44%
Montréal	-2.0%	-6.5%	26%	124%
Seven major markets	-1.0%	-2.1%	33%	64%

Source: Avison Young Market Intelligence. Seven major markets

Rental rate growth has receded in the past three quarters down 0.9% on average. At the current rate of decline, asking rents could dip below $15.00 by year-end.

For more market insights and information visit **avisonyoung.ca**

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