



Canadian industrial market report

Q3 2024

Marie-France Benoit

Principal, Director, Market Intelligence,
Canada

Warren D'Souza

Senior Manager and Industrial Lead,
Market Intelligence

**AVISON
YOUNG**

National industrial market trends

01

Labour and productivity constraints

Macroeconomic data shows the challenges Canadian industrial sectors face. Manufacturing and construction have seen years of falling productivity, which contributed to a decline in their real gross domestic product (GDP) in 2024 compared to the previous year. Rising wages in these sectors have increased business costs, making them more vulnerable to reduced overall demand in the economy. This has led to job and production cuts. Meanwhile, the transportation and warehousing sector managed to grow its real GDP by 2% to 4% year-over-year (YoY) each month in 2024. However, productivity in this sector has stalled, and job openings are now outpacing the number of available workers.

02

Development continues towards the peripheries

During the industrial market peak in 2022, focus for industrial developers and investors began to shift to peripheral industrial areas of major markets. At that time, vacancies were historically low, land supply was short, and rent increases tapered off in core areas. While market conditions have since stabilised, developers and investors continue to be drawn to peripheral markets. These include larger tracts of available land, higher realty tax savings, and upside rental potential in locations with relatively affordable rental costs compared to other hubs in the same or neighbouring markets.

03

Primary sector strength to boost demand

Canada's primary sector has been a strong performer in 2024, with real GDP growing faster than the overall economy since the start of the year. Key factors driving this growth include the opening of the Trans Mountain Pipeline extension in May, the restart of the Terra Nova oil field in Atlantic Canada, as well as a wave of liquefied natural gas (LNG) projects and supply agreements. Demand for uranium is increasing as nuclear energy gains traction as a sustainable solution. Potash demand has also risen sharply to address global fertilizer shortages. Additionally, Canada's steady crop and metal production benefits from higher prices driven by sanctions, political instability, and climate-related disruptions in supply chains.

Economic drivers

Modest GDP growth in the next 12-18 months should support industrial market demand.



Economic drivers

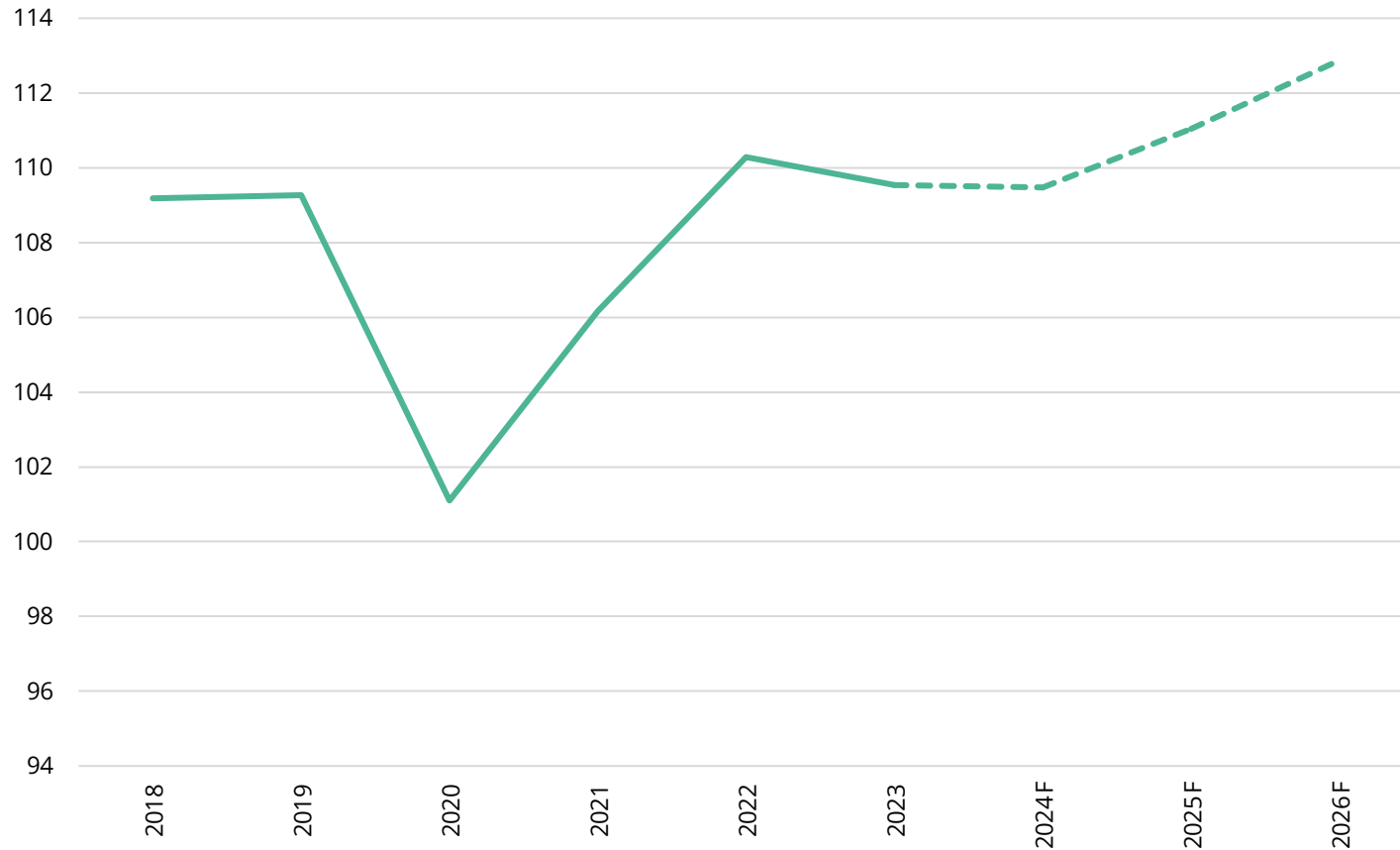
Canadian real GDP growth forecast



Q3 2024 GDP growth was well below the Bank of Canada's (BoC) latest forecast. Weak growth is expected to persist throughout the rest of 2024 and much of 2025. Current headwinds include a shrinking population and more tariffs on Canadian exports to the U.S.

Economic drivers

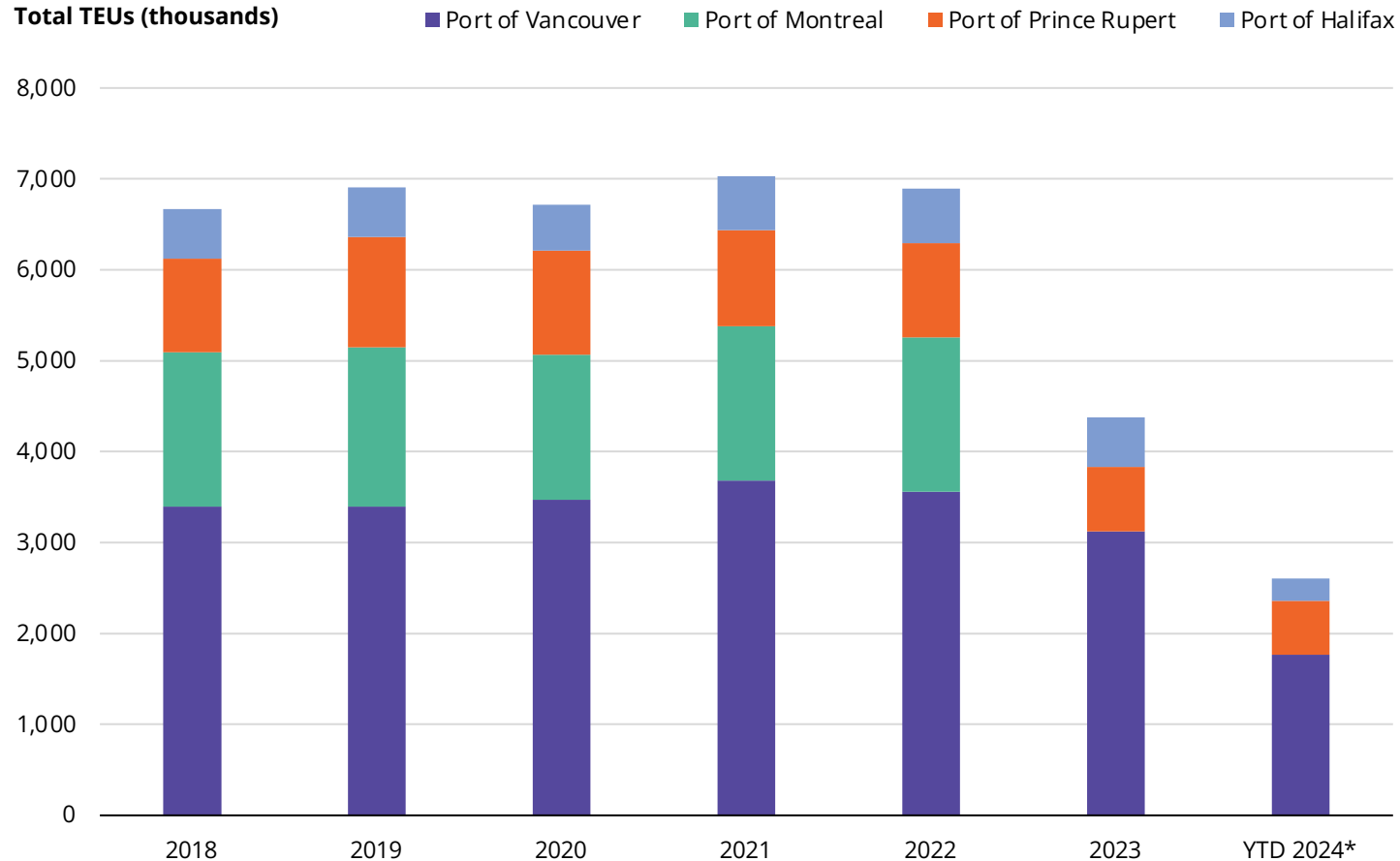
Canadian GDP industrial production index (2007=100)



2024 annual industrial production is forecasted to be on par with 2023. Industrial production is expected to grow steadily in 2025 and exceed levels recorded in 2022 (110), by the end of 2026 (113).

Economic drivers

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

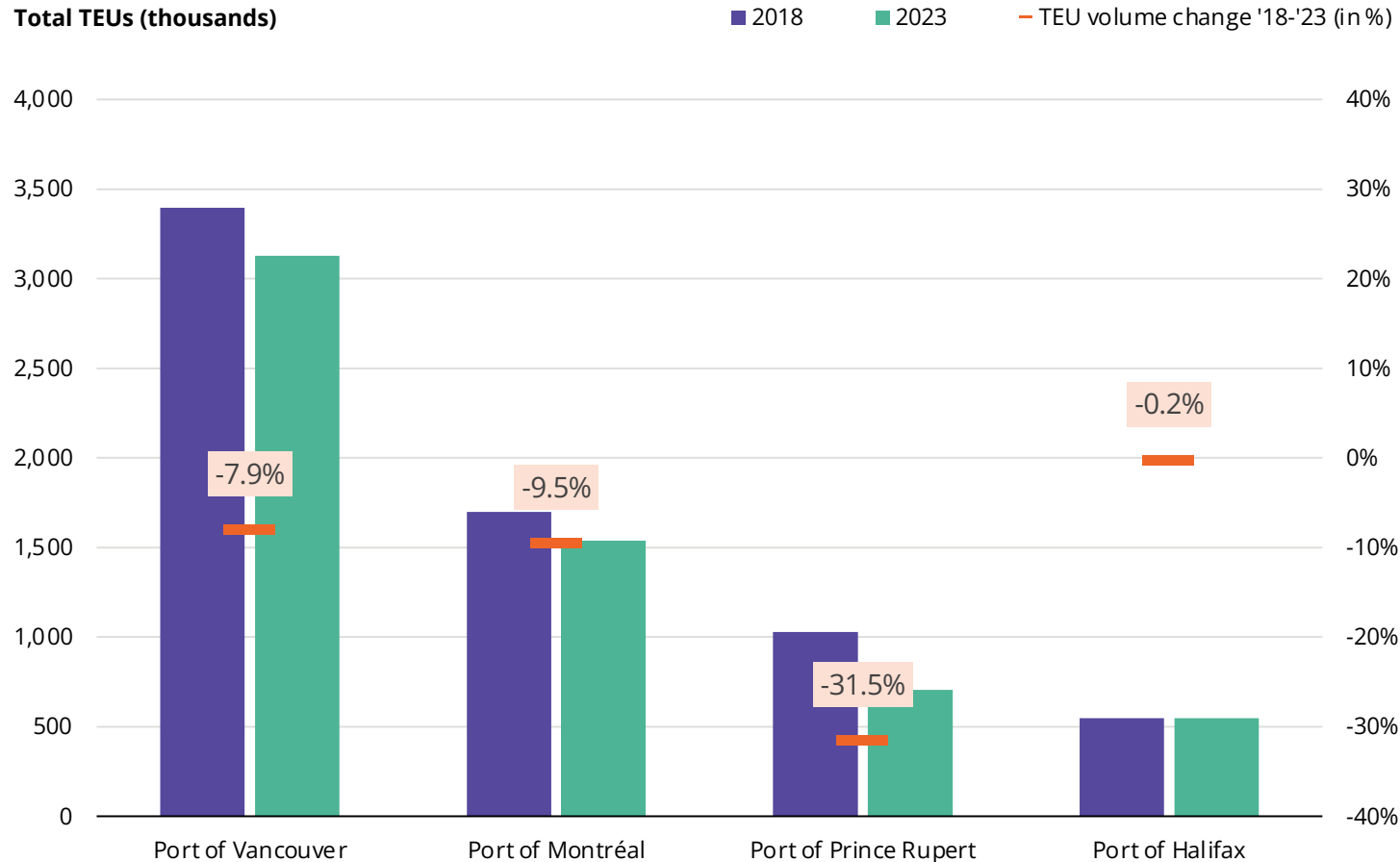


Port activity thus far in 2024 accounts for 59% of 2023's total volume. With multiple port strikes in the second half of 2024, TEU container volume activity has slowed dramatically. The system will need to recover from the strike-induced backlogs before resuming to normal levels of activity.

[Read our latest analysis here](#)

Economic drivers

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



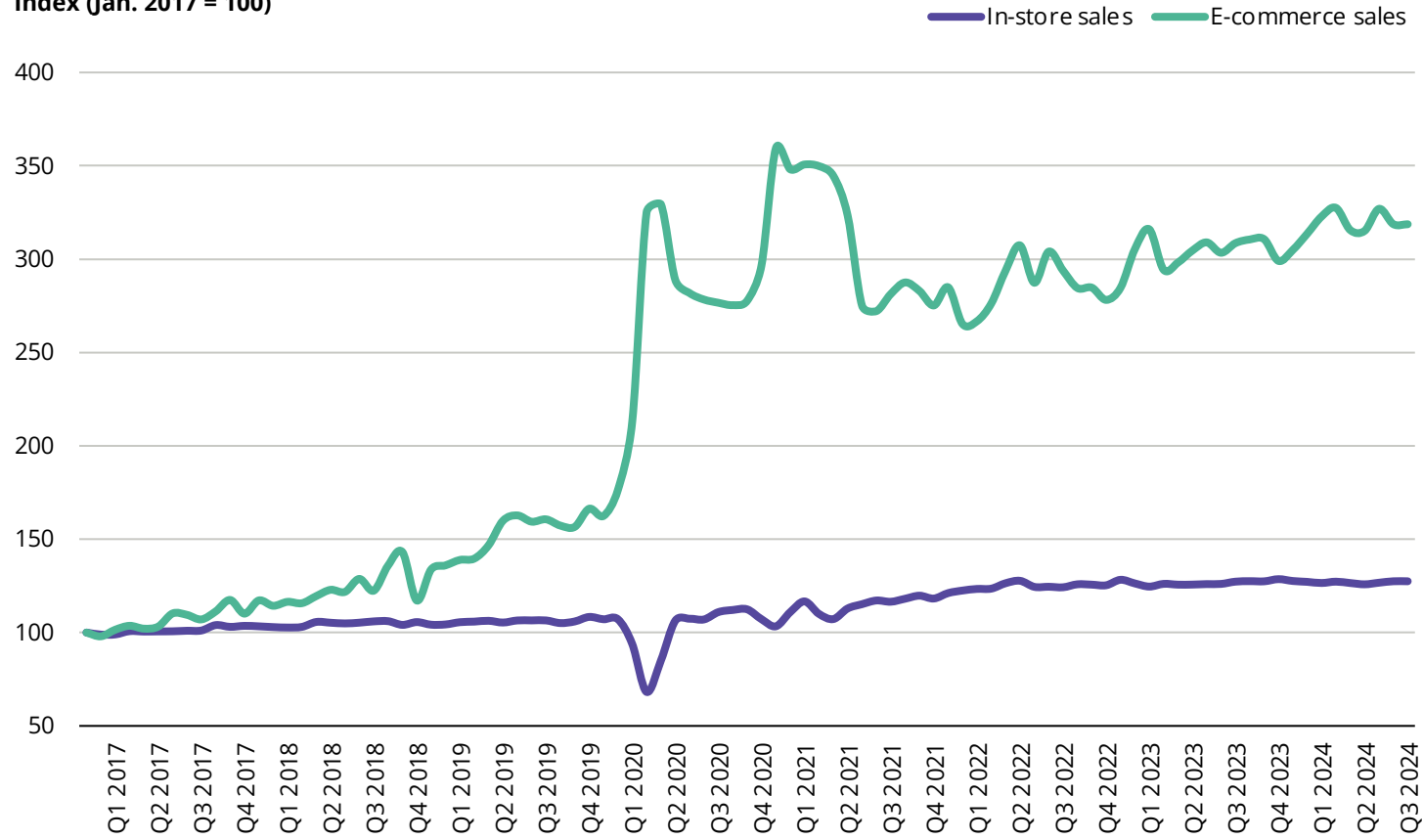
Overall TEU volume decreased by 11.3% from 2018 to 2023 at the four major Canadian ports (Halifax, Montréal, Prince Rupert and Vancouver).

Economic drivers

Canadian e-commerce trends

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

Index (Jan. 2017 = 100)



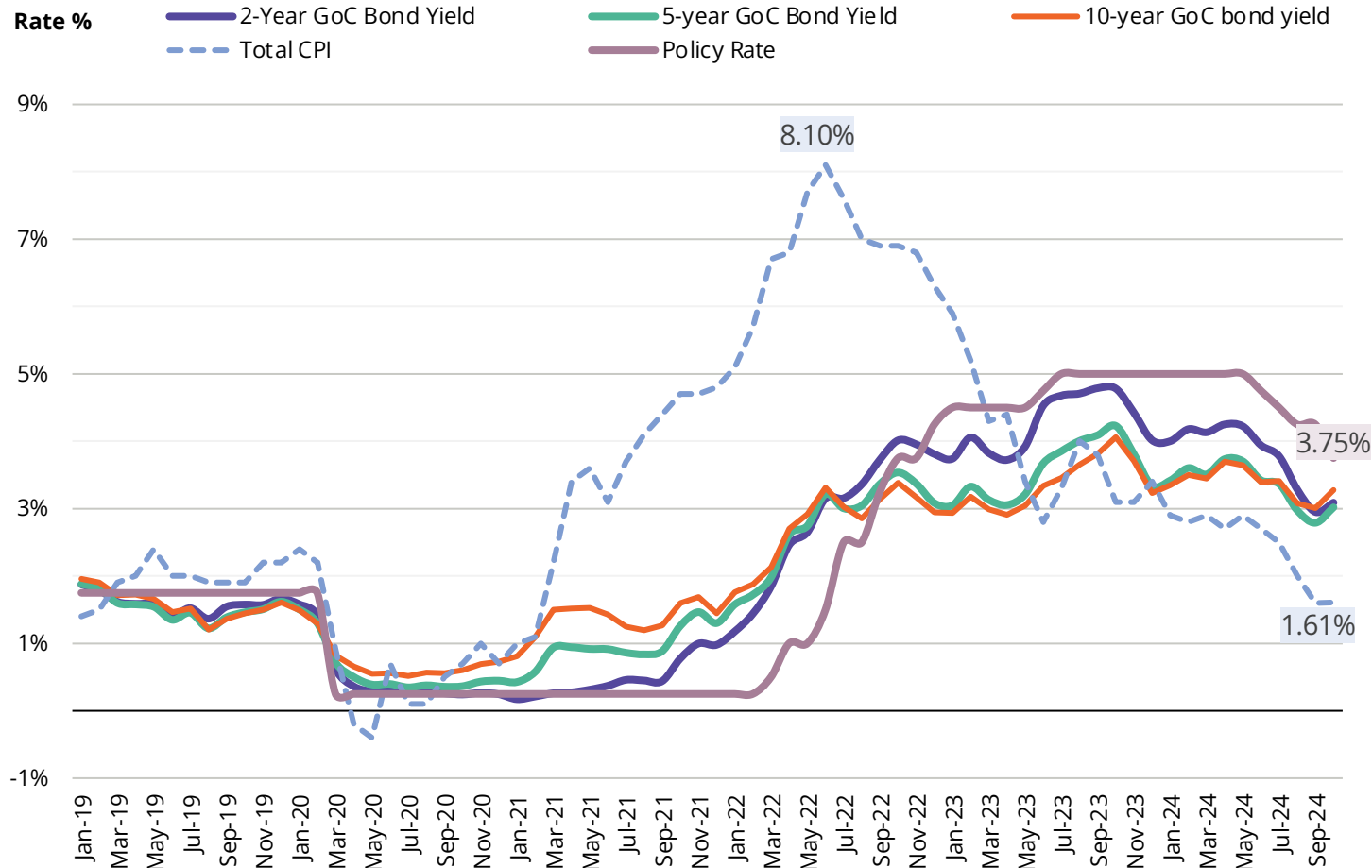
E-commerce sales as a total of retail sales has diminished from the 7.3% peak in 2020 to 6.6% in Q3 2024. Quarter-over-quarter (QoQ) e-commerce sales have grown by 6.4% compared to 1.5% for in-store sales.

Investment, capital and debt markets trends

Lower interest rates should bolster investors' appetite for industrial assets in 2025.











Inflation, interest rates and bond yields



The BoC cut its key interest rate by 50 basis points (bps) down to 3.75% on October 23. There is a strong case for the BoC to further cut the policy rate at the next meeting on December 11.

Avison Young survey: debt market trends

				
Current first mortgage lending conditions				
Maximum LTV	Conventional: ≤70% CMHC MLI: 95%	≤70%	≤60%	≤70%
Spread over 5-year GoC bond yield	Conventional: +175 bps CMHC MLI: +85 bps	+175 bps	+250 bps	+170 bps
Preferred term	5 years	5 years	5 years	5 years
Longest amortization	Conventional: 30 years CMHC MLI: 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	Conventional: Trending up CMHC MLI: Increasing	Trending up	Trending up	Trending up
Mortgages in arrears	Stable	Stable	Stable	Stable
Mortgages in default	Increasing	Increasing	Increasing	Increasing
Expected next quarter lending conditions				
Debt cost outlook	Stable	Stable	Stable	Stable

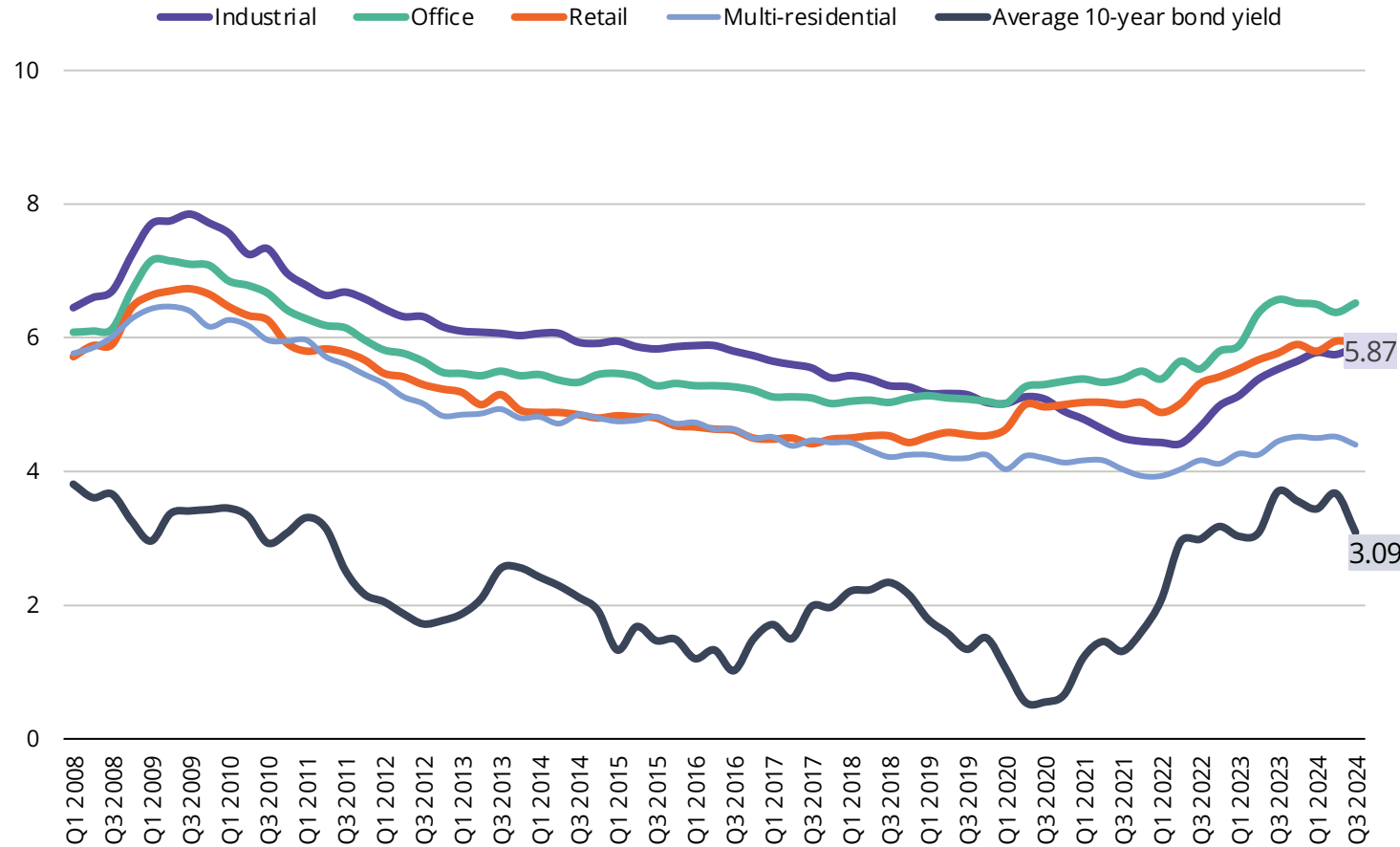
 Multi-residential  Industrial  Office  Retail

Underwriters' rental rates parameters are more conservative than current appraisal assumptions.

*Average premium (+) or discount (-) applied by underwriters to the cap rates seen in appraisal reports completed by accredited appraisers
Source: Avison Young Q3-2024 Cap Rate Survey

Investment and capital markets trends

Cap rate trends: Altus benchmark asset classes



Avison Young cap rate survey results

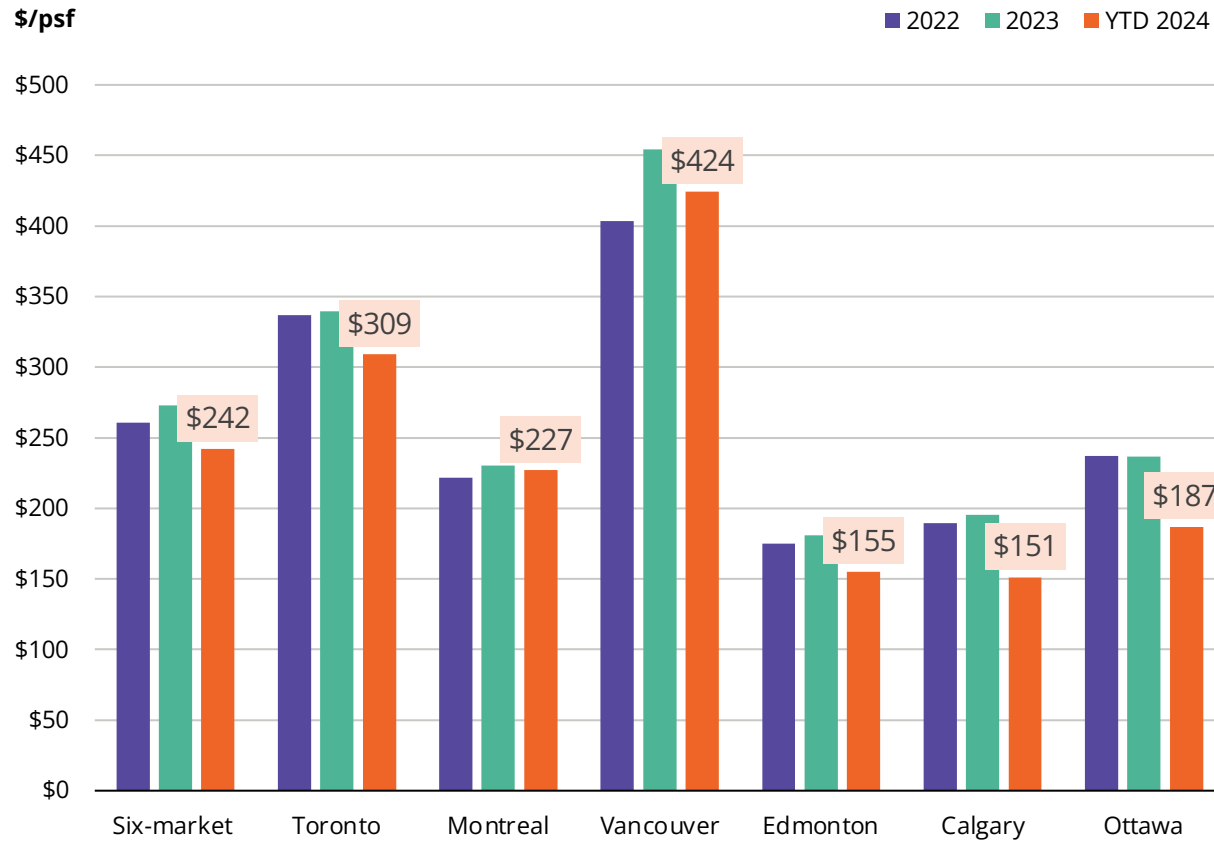
	Q2 2024	Q3 2024
New single-tenant	5.95%	5.95%
Mature single-tenant	6.40%	6.35%
New multi-tenant	6.15%	6.05%
Mature multi-tenant	6.55%	6.45%

The 10-year Canada bond rate is expected to stabilize to 3.1% by the end of next quarter and reach 2.9% by the end of 2025.

Source: Bank of Canada, Altus ITS Q3 2024, Survey of International Economic Forecast

Year-over-year unit values dip into negative \$/psf growth

Average unit values \$/psf (benchmark ST industrial asset)

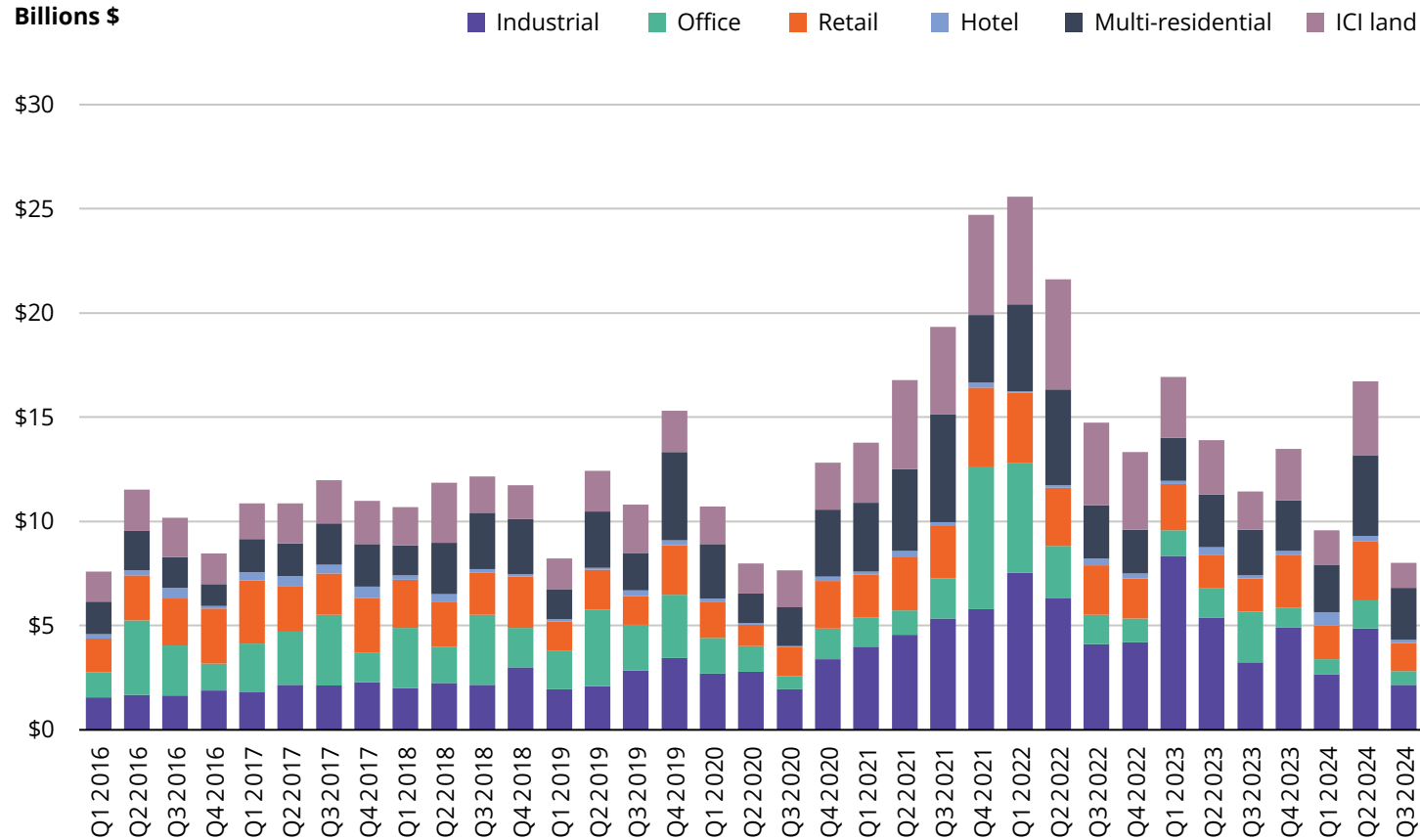


Year-over-year (YoY) percentage growth in unit values \$/psf across six major markets from 2022 to 2024.

Y-o-Y % growth	Six major markets	Toronto	Montréal	Vancouver
2022	26%	31%	26%	34%
2023	-3%	-1%	-9%	0.2%
2024	-11%	-9%	-1%	-6.6%

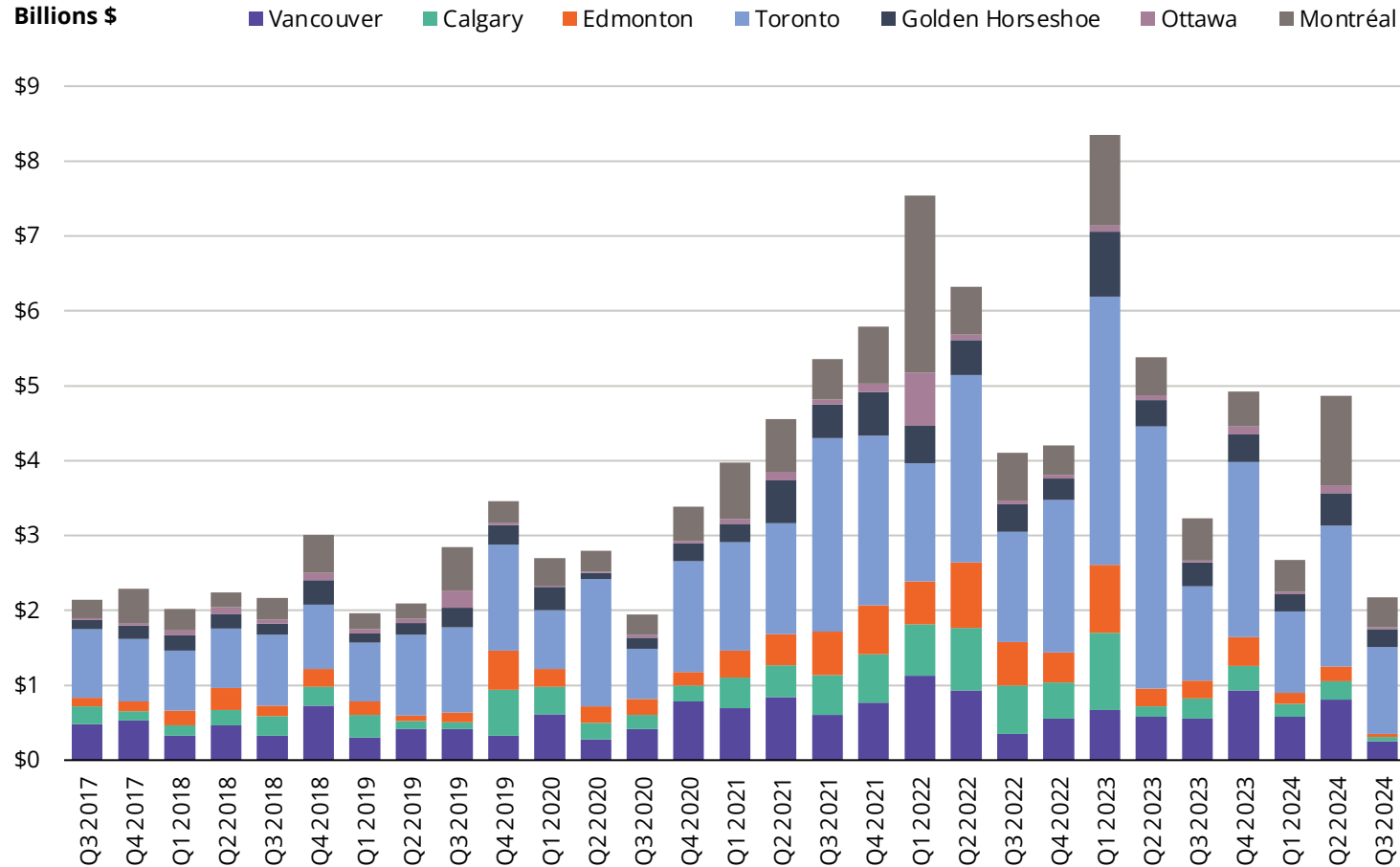
Quarterly sales volumes

Quarterly sales volume by asset class (seven major markets)



Multi-residential accounted for 31% of the overall volume in Q3 2024, followed by industrial (27%), and retail (17%) and office (8%).

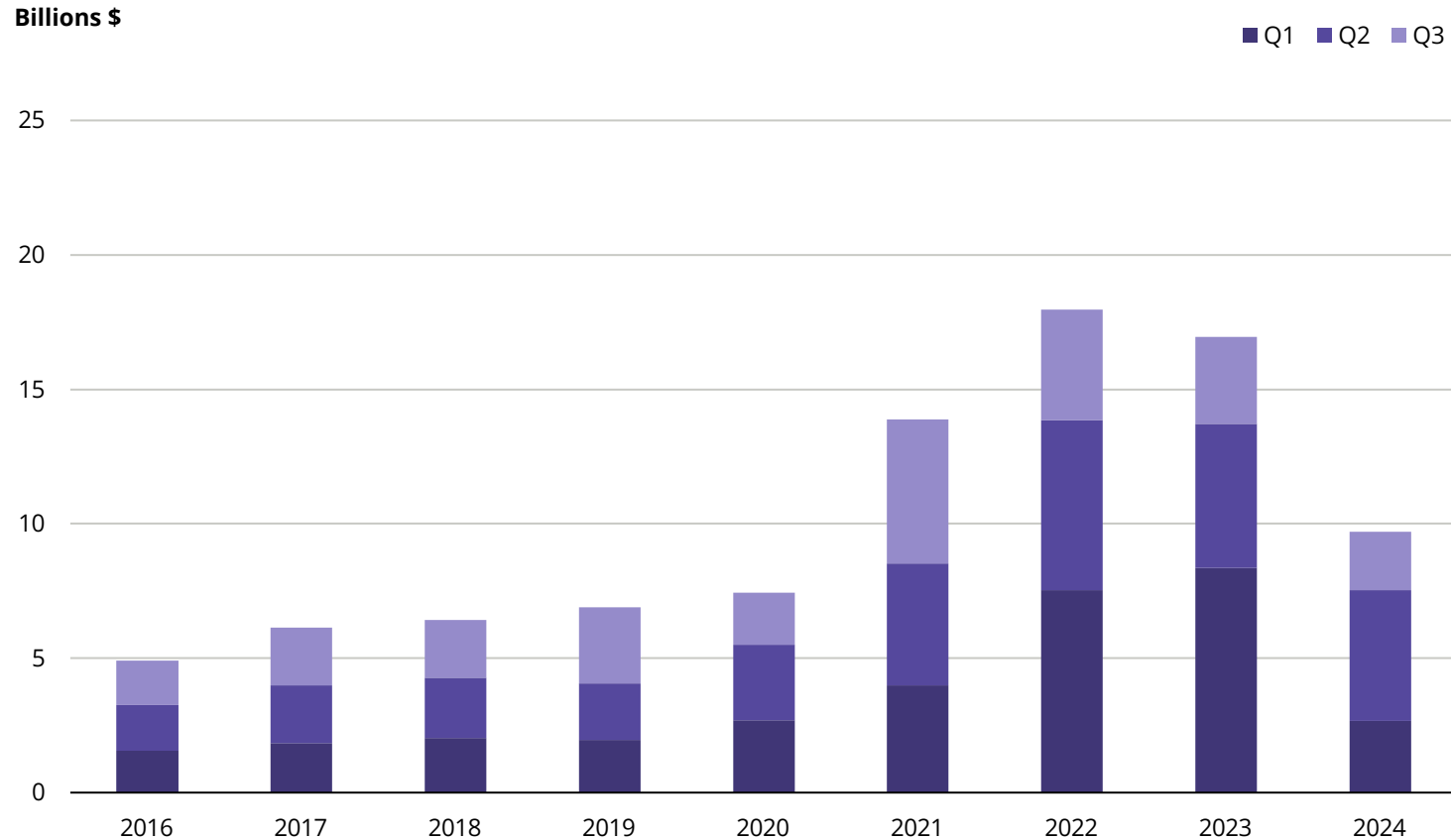
Industrial sales volumes (seven major markets)



There were no portfolio sales in Q3 2024. However, year-to-date portfolio sales have accounted for 3% (\$276 million) of overall 2024 volume (\$9.7 billion). In the past five quarters, portfolio sales accounted for 9% (\$1.7 billion).

Industrial sales volumes (seven major markets)

Year-over-year sales volumes are down 33% (\$3.2 billion in Q3 2023 vs. \$2.2 billion in Q3 2024)



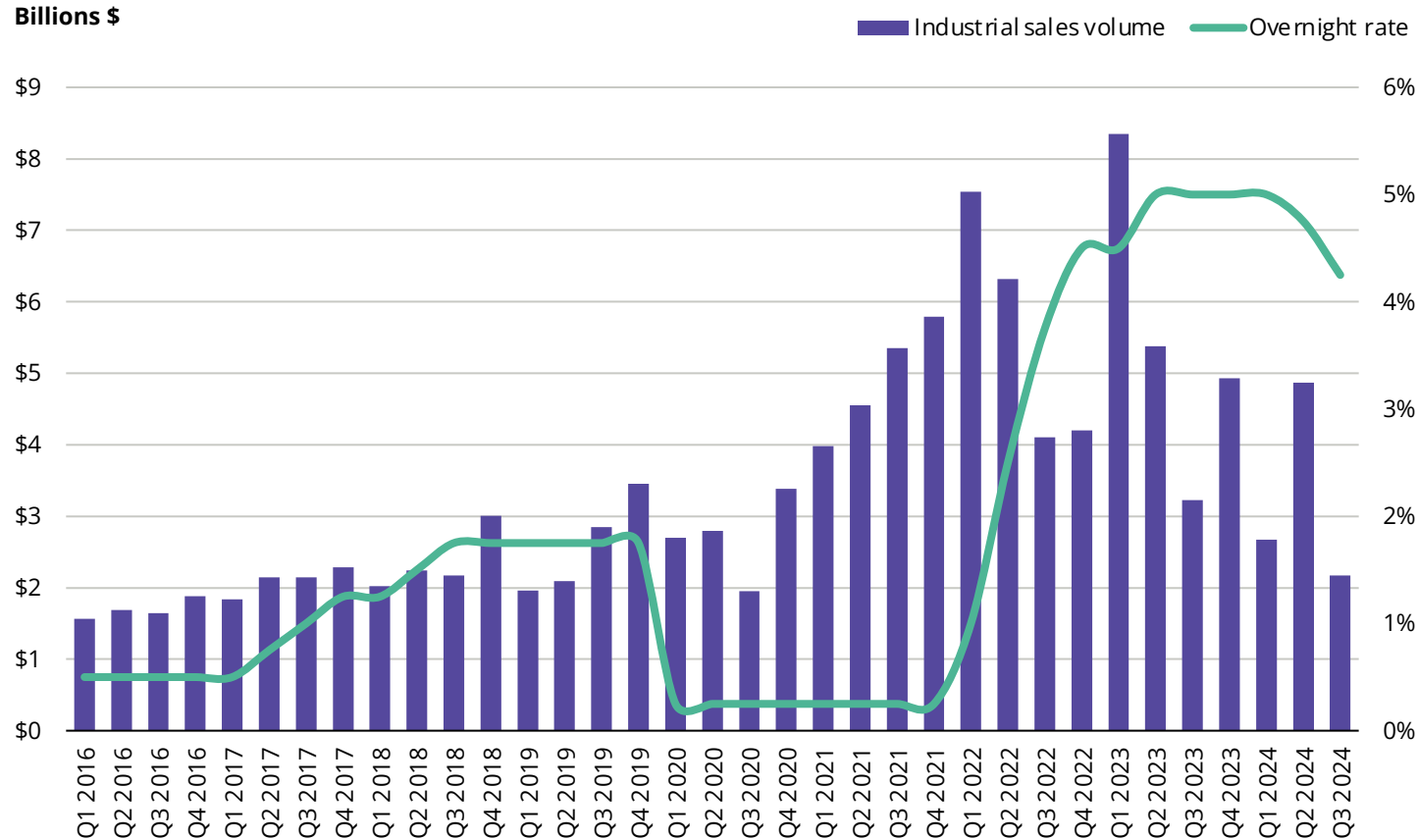
Sales activity in Q3 2024 suggests a return to more typical transaction levels, similar to those seen before the high activity period of 2021-2023.

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

Investment, capital and debt markets trends

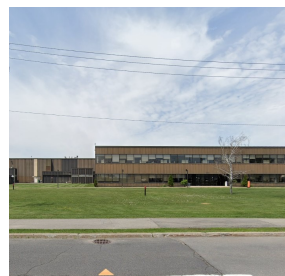
Quarterly sales volumes

Quarterly sales volume by asset class (seven major markets)



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

Select large industrial transactions Q3 2024



Address	8450 Boston Church Road	6941 Kennedy Road	7171 de la Côte-Vertu Boulevard	1575 South Gateway Road	261 Abbotside Way	1625 32e Avenue
Market/submarket	Milton, ON	Mississauga, ON	Montréal, QC	Mississauga, ON	Caledon, ON	Montreal (Lachine), QC
Sold date	August 2024	September 2024	September 2024	September 2024	September 2024	August 2024
Price sold	\$361,000,000	\$89,6000,000	\$53,300,000	\$53,530,000	\$48,585,000	\$43,900,000
Year built	2012	1995	1972	1999	2023	1986
Property type	Single-tenant	Single-tenant	Single-tenant	Multi-tenant	Multi-tenant	Multi-tenant
GLA	1,335,000	711,000	265,000	161,100	139,000	192,300
Price sold (psf)	\$270	\$252	\$201	\$326	\$350	\$228
Buyer	Prologis	Crestpoint	FTAIC Aviation Inc.	Enticor Properties	D.H. Management	Lachine Investissement
Seller	Sycamore Partners	Shoppers Realty	Lockheed Martin	KingSett Capital	GWL Realty	Immeubles Cansett

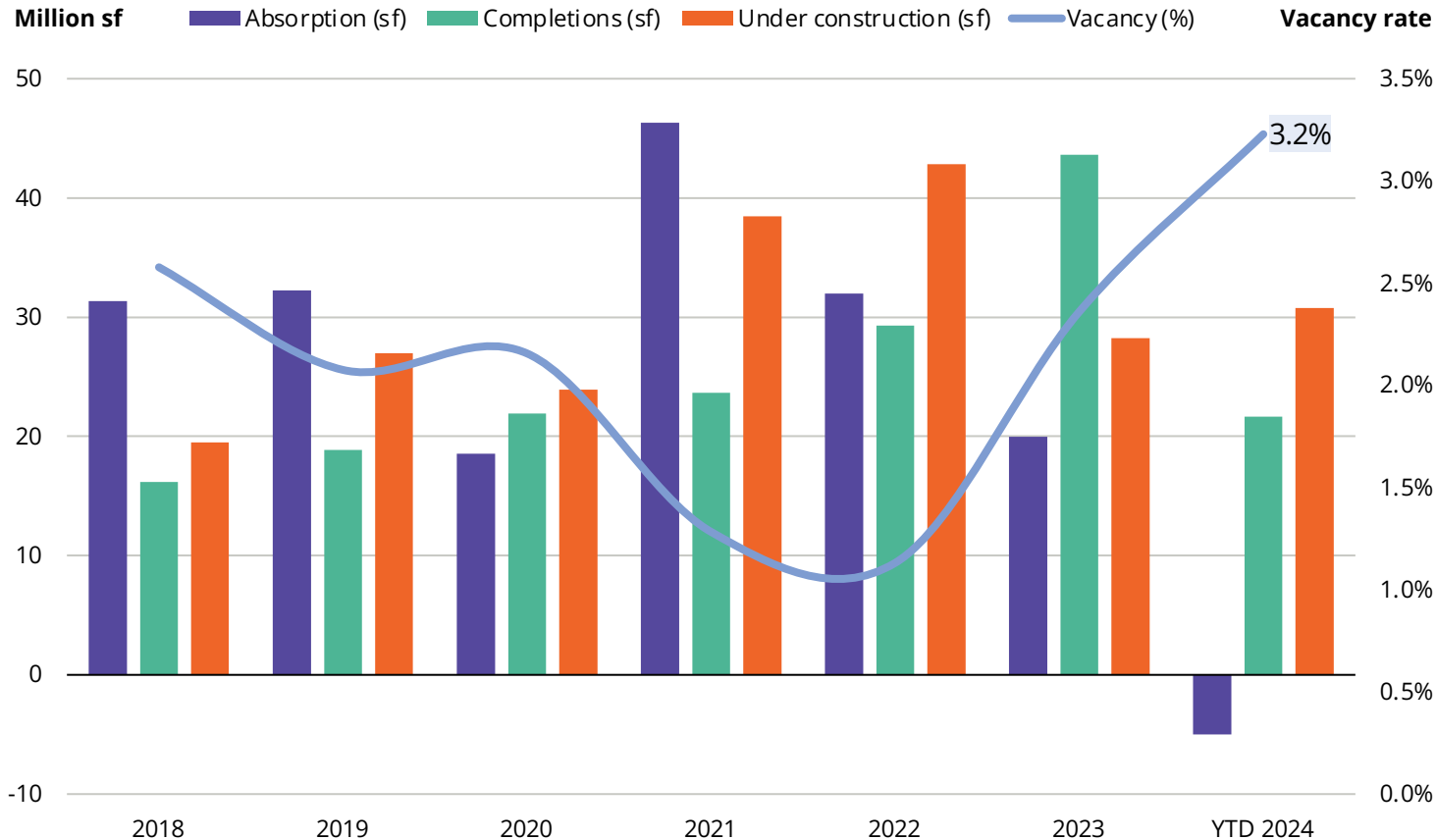
Industrial market leasing fundamentals

The leasing market is seeing a surge in sublet availabilities across Canada



Industrial market leasing fundamentals

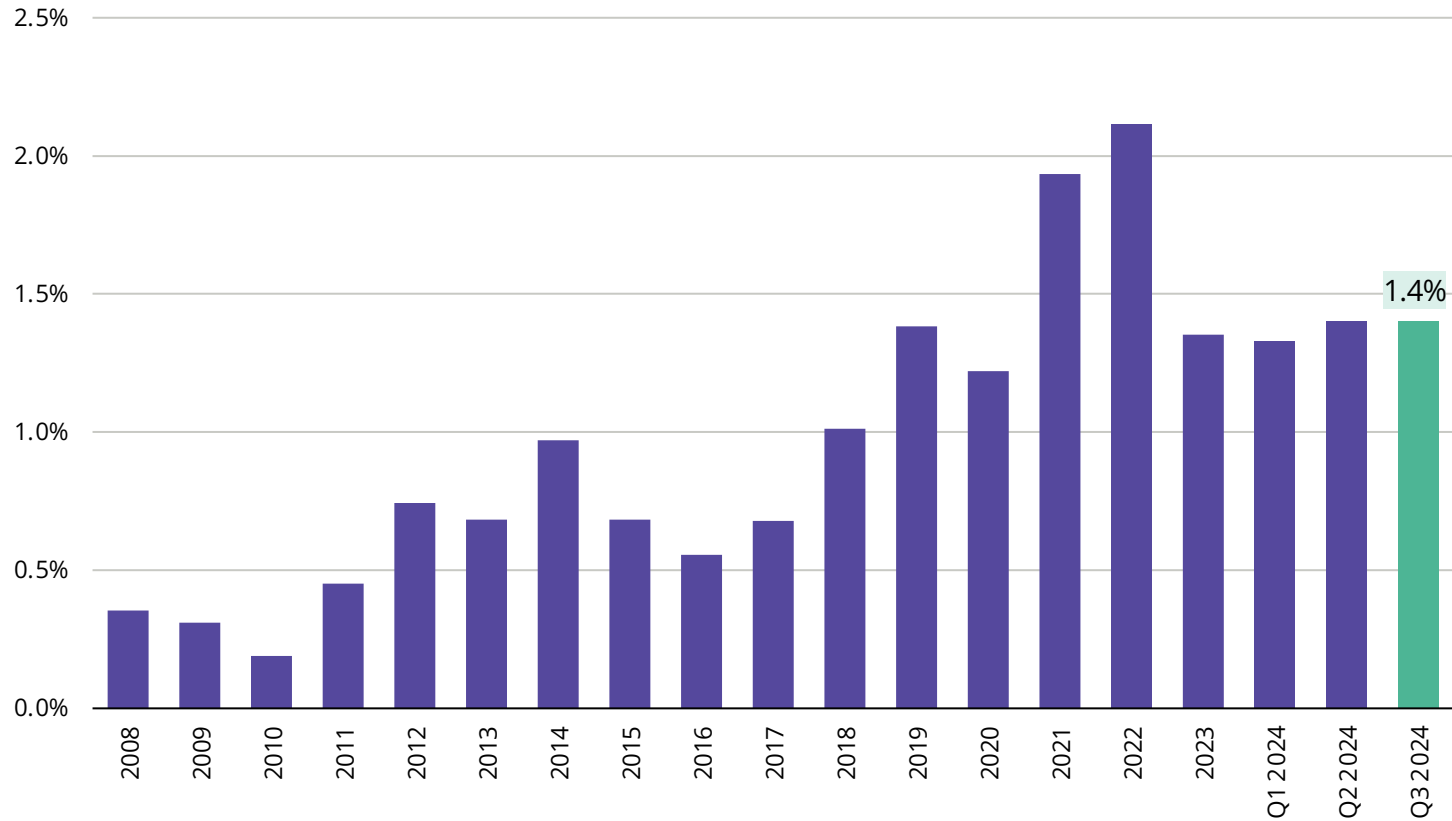
Leasing velocity tapers off while new supply completions return to normal



With 5.0 million sf (msf) of negative absorption year-to-date, vacancy has risen 90 bps in 2024, up to 3.2% from the end of 2023.

Under construction: historical volumes

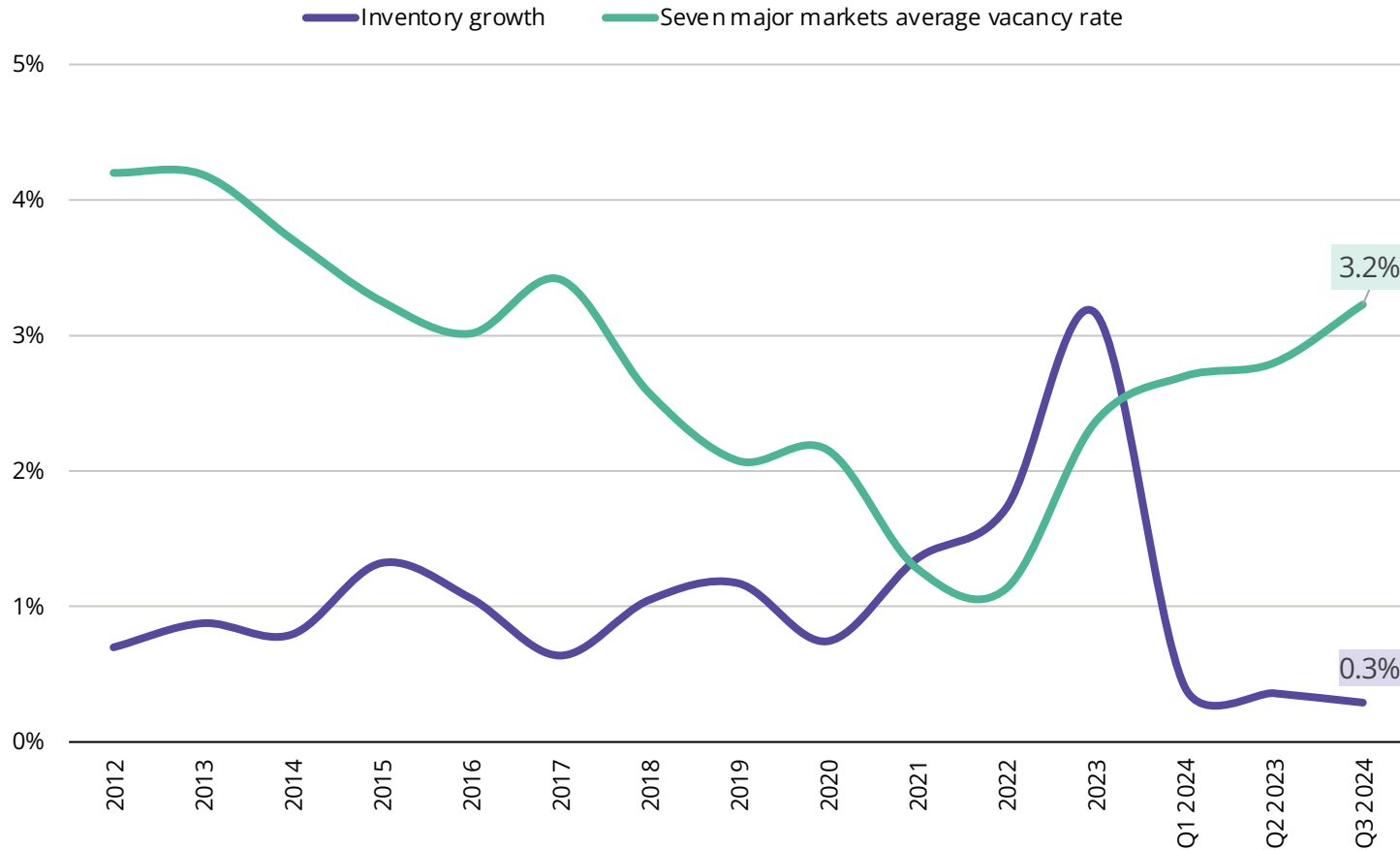
Space under construction space as a percentage of existing inventory



The proportion of space under construction compared to total inventory has fallen by 50 bps since Q4 2022, driven by the impact of rising interest rates in 2022-2023.

Industrial market leasing fundamentals

New supply deliveries taper off after record high in 2023



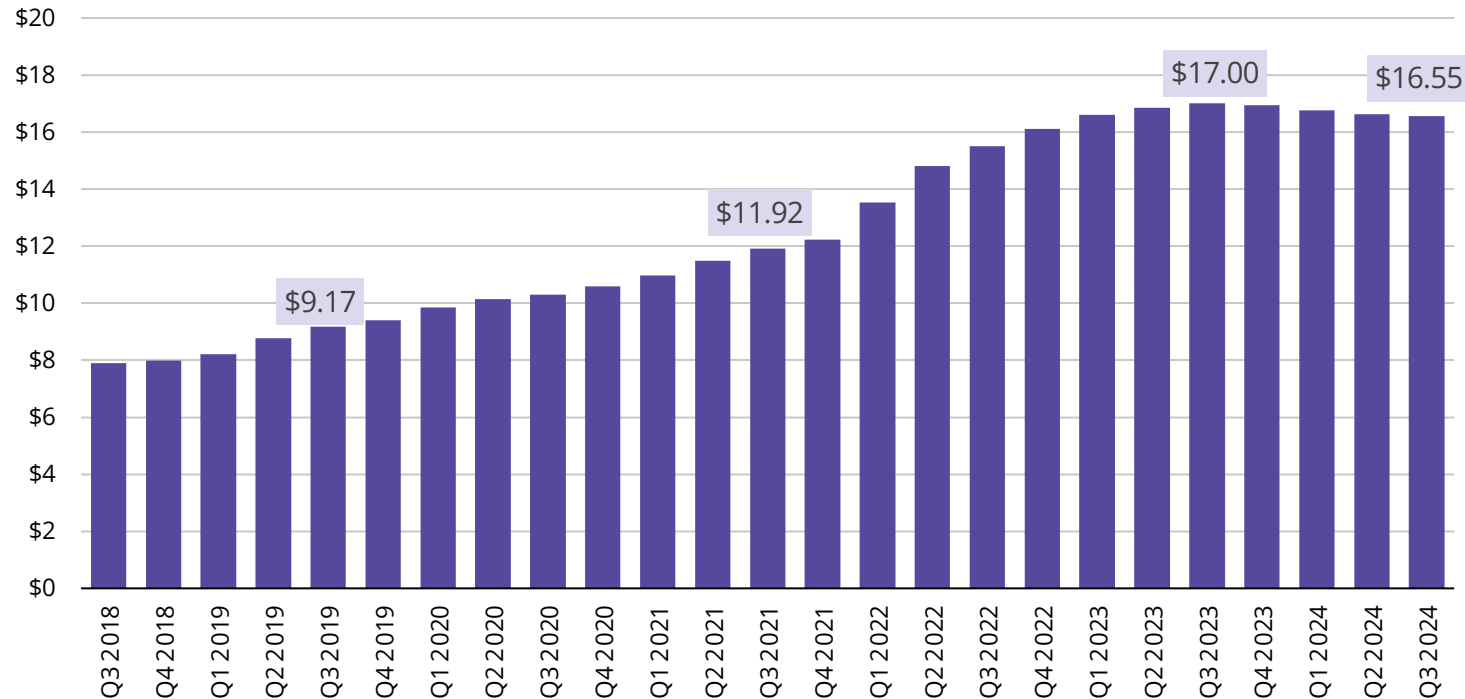
Inventory across the seven major markets grew by 58 msf (2.8%) over the past five quarters, and 6.1 msf in Q3 2024.

Industrial market leasing fundamentals

Average asking net rents (seven major markets)

2.6% percentage decrease in the average asking net rent since Q3 2023,
39% growth in the past three years, and 181% growth in the past five years.

Weighted average asking net rent (\$ psf)



Asking rents have receded from the Q3 2023 peak and have since compressed for four consecutive quarters, recording an average of \$16.55 psf at the end of Q3 2024.

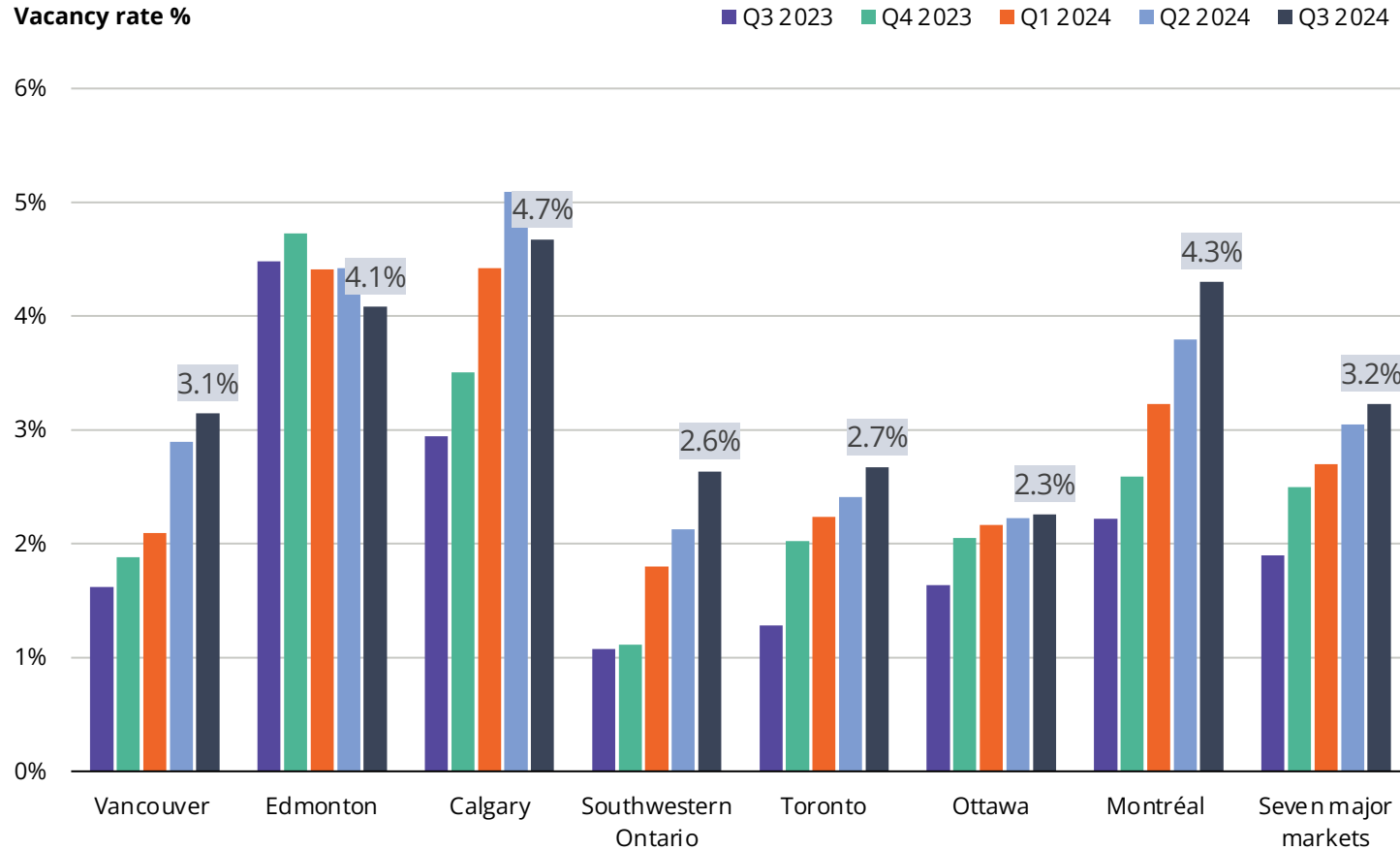
Major market comparisons and trends

Negative net absorption is still contributing to vacancy growth, while rental rate decreases instill caution among investors.



Major market comparisons and trends

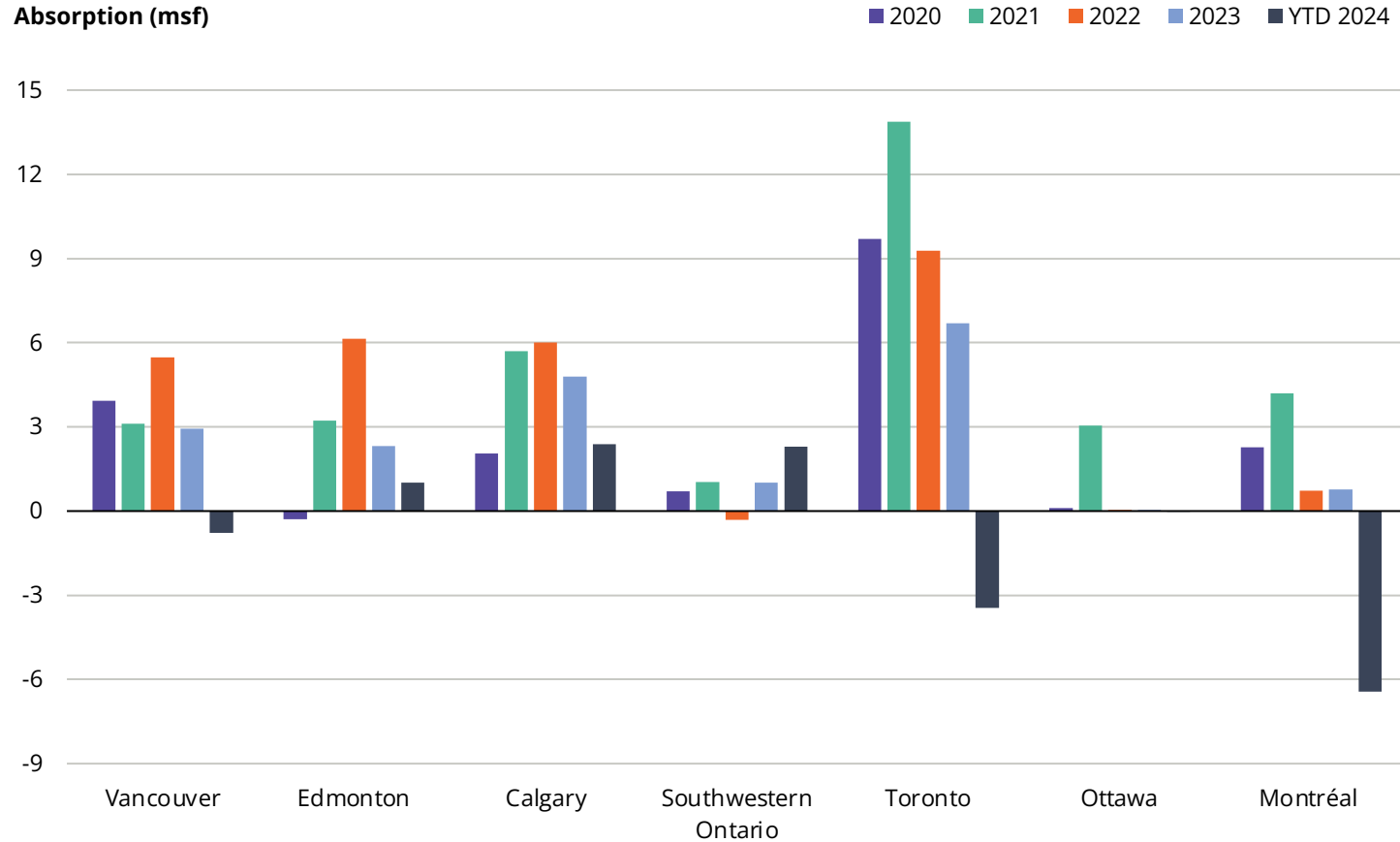
Vacancy rates continue to rise



Vacancy rates averaged 3.2% across the seven major markets. Rates have risen by 130 bps over the past five quarters.

Major market comparisons and trends

Net absorption by market

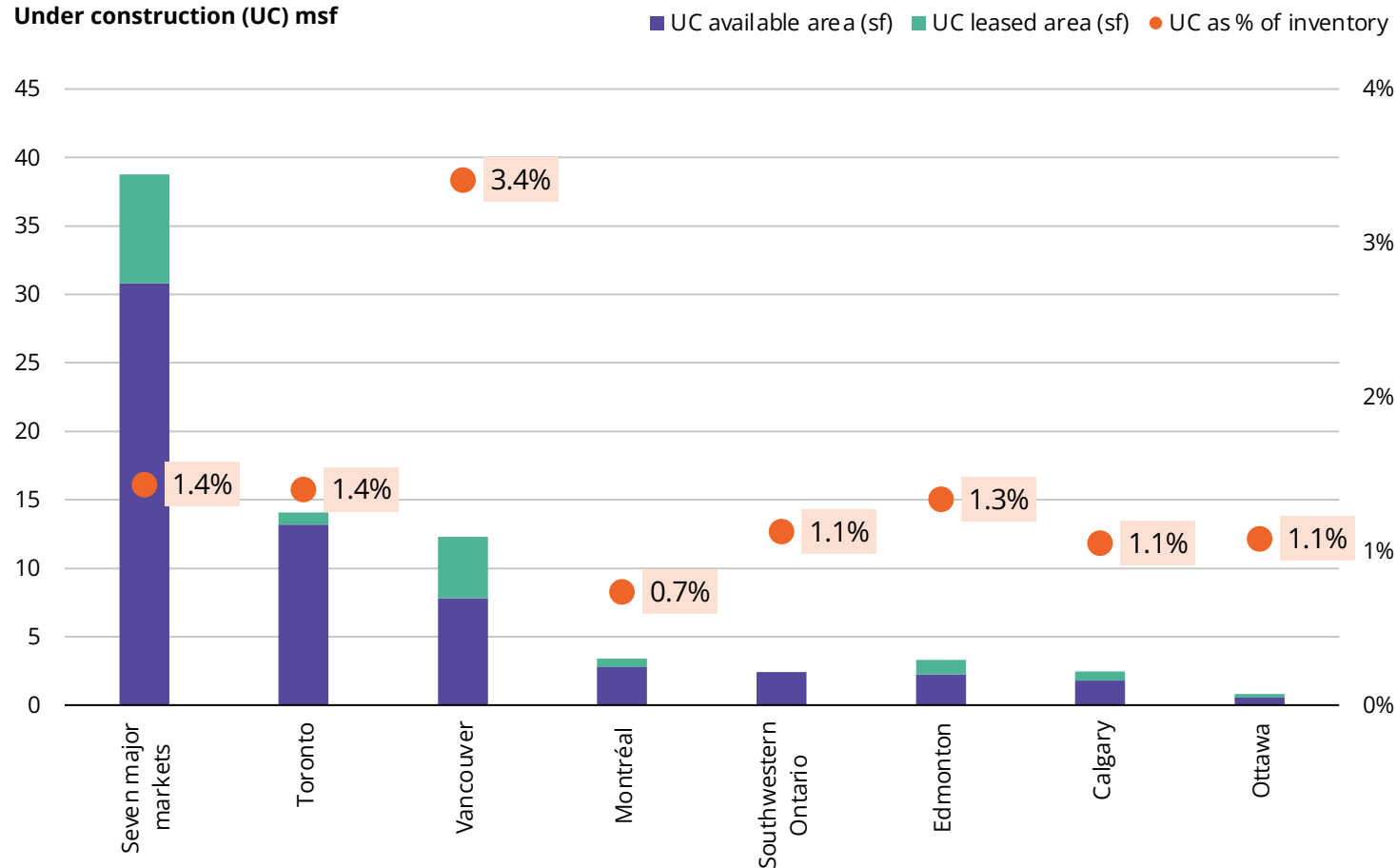


Net absorption tallied a -5.0 msf year-to-date, due to Montréal and Toronto.

Southwestern Ontario, Calgary and Edmonton recorded positive absorption thus far in 2024.

Major market comparisons and trends

Under construction by market

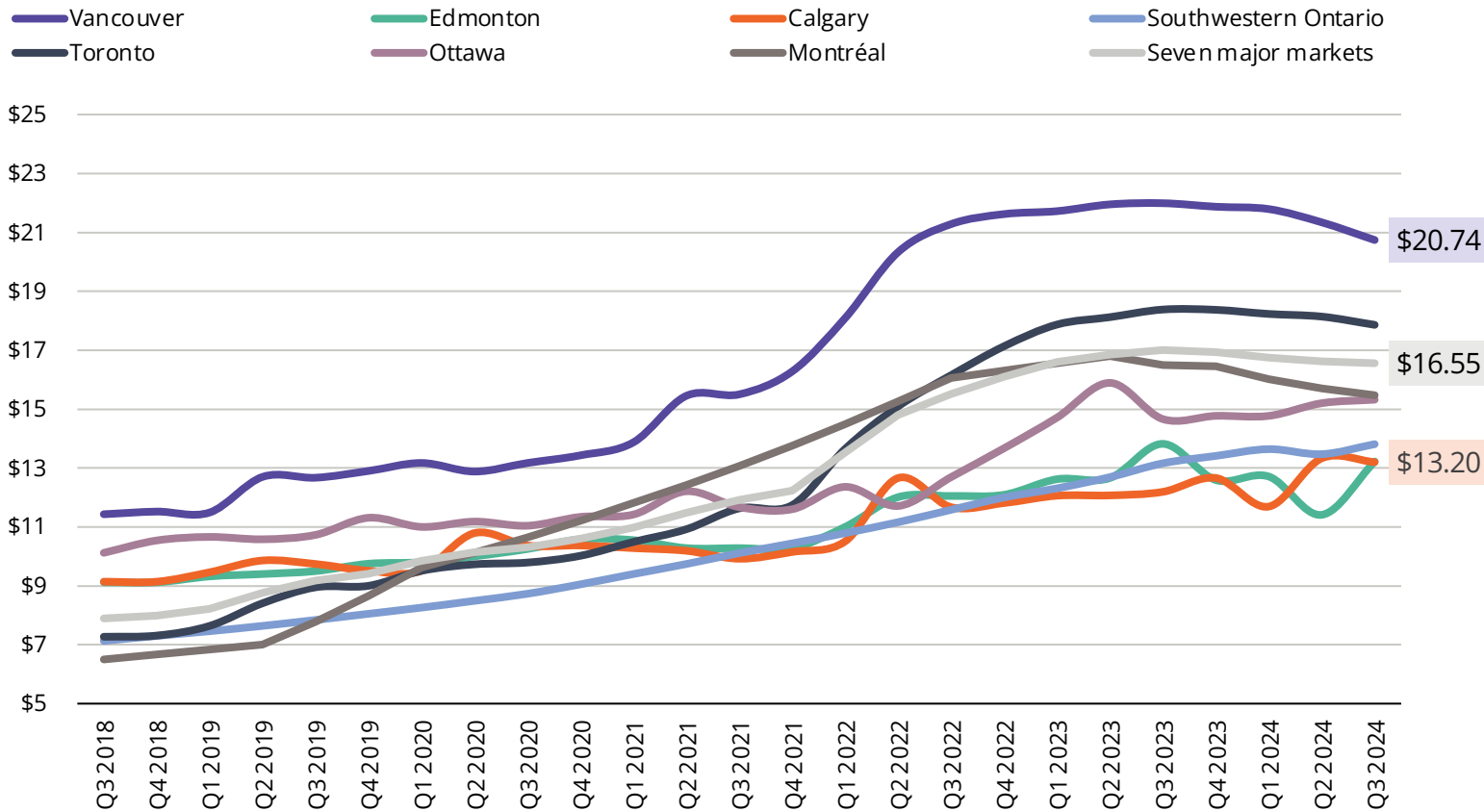


Pre-leased space in buildings under construction is down 18% over the past five quarters, from 44% in Q3 2023 to 26% in Q3 2024.

Major market comparisons and trends

Asking rent growth stabilized

Average asking rents (psf)



Rental rates averaged \$16.55 psf at the end of Q3 2024. Rents range from a low of \$13.20 psf in Calgary to a high of \$20.74 psf 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	-2.8%	-5.7%	34%	64%
Edmonton	15.9%	-4.3%	29%	39%
Calgary	-1.0%	8.3%	33%	36%
Southwestern Ontario	2.5%	4.9%	37%	76%
Toronto	-1.5%	-2.8%	54%	100%
Ottawa	0.8%	4.5%	31%	43%
Montréal	-1.5%	-6.2%	18%	99%
Seven major markets	-0.4%	-2.6%	39%	81%

Rental rate growth has decreased in the past four quarters, down 2.6% on average. At the current rate of decline, asking rents could reach the low \$16's in in the next two quarters.

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

Marie-France Benoit

Principal, Director Market Intelligence, Canada
+1 541 392 5772
mf.benoit@avisonyoung.com

Warren D'Souza

Senior Manager and Industrial Lead, Market Intelligence
+1 905 283 2331
warren.dsouza@avisonyoung.com