



# Lethbridge industrial market report

Q1 2024

**AVISON  
YOUNG**

# Lethbridge market indicators

▲ **10.25M**

**square feet (sf) estimated total inventory**  
up from 10.11M in Q1 2023

▲ **4.08%**

**industrial vacancy rate**  
up from 4% from Q4 2023

▼ **50,000**

**sf planned development for 2024**  
from 126,000 sf in Q1 2023

**\$10.65**

**average \*effective rent rate (per square foot/year)**  
of leases signed in 2023-2024

▼ **\$3.69**

**average additional rent rate (per square foot/year)**  
down from \$3.80 in Q1 2023

▼ **-28,400**

**average absorption 2023 (sf)**

\*Effective rent is the average of the rental rate over the period of the lease including escalations

The information contained herein is based on the CRE transactions completed through our office internal reporting, and, while thought to be correct, is not guaranteed by Avison Young.

# Lethbridge industrial market trends

## 01.

### Industrial base rent rates

Although national industrial base rent growth has stabilized, posting a slight decline in Q1 2024, Lethbridge lease rates will likely continue to see strong growth. Although the overall average base rent has stabilized in line with the national trend, this number predominantly represents existing leases and does not accurately reflect the current market expectation for new leases. **The average effective rent rate of deals signed in 2023-24 is significantly higher than historical lease rates.** At \$10.65 per square foot (psf), the average effective rent rate is over 15% higher than pre-pandemic. Average lease rates in Lethbridge are still below those of other comparable communities, so we can expect to see sustained growth that outpaces inflation. **Tenants looking to renew in 2024 should anticipate rates to exceed \$9.50 psf.**

## 02.

### Industrial vacancy rate

The **industrial vacancy rate in Lethbridge has only moderately increased since 2022**, after that year saw the lowest historical vacancy in the Lethbridge market. Although this increase follows the national trend, the majority of Lethbridge vacancies come from obsolete inventory. The volume of vacant properties is also much smaller than the vacancy rate indicates, as it is described on a psf basis, and the Lethbridge market has mostly large-format vacancies. However, we are **expecting to see vacancy begin to tighten again in 2024** as a lag in new development last year catches up to continued demand. With narrow vacancy and inflationary pressures, we are expecting 2024 to be a landlord's market. We will also likely see an increase in new builds and redevelopment projects, which will continue to put upward pressure on lease rates as construction costs remain high.

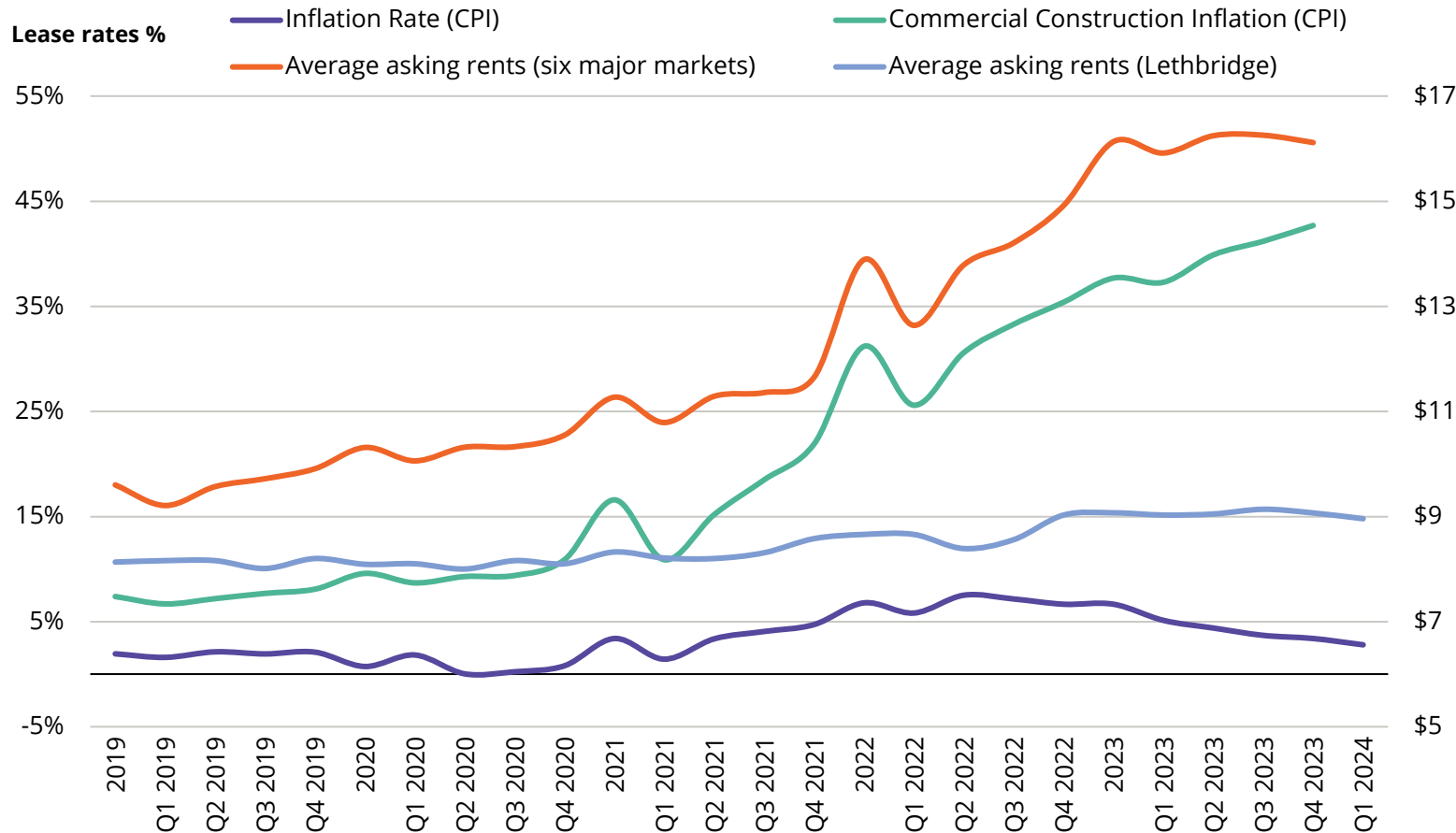
## 03.

### Absorption

Absorption describes the positive or negative change in sf of leased or sold space against vacant sf. In Lethbridge, absorption is generally not used as an indicator of larger trends because the total square footage available for lease is low. However, because **most new construction in Lethbridge is pre-leased**, absorption combined with the vacancy rate, gives a good picture of specific activity in Lethbridge such as new building completions, or a large-format tenant entering the local market. Sale and lease transactions in Lethbridge have moderately slowed in 2023 with a negative absorption of -28,400 sf. The **most notable downtrend in transaction volumes has been in investment sales while owner-users continue to be active in our market.** Land transactions will also likely gain momentum in 2024 among both owner-users and investors.

# Industrial lease rates

## National trends



## Industrial lease rates

The inflated cost of construction materials has been directly informing lease rates in new industrial developments nationally. As demonstrated on the adjacent graph, there is a nearly congruent relationship between national average asking rents and commercial construction inflation. With overall CPI down-trending at the end of 2023, the cost of construction materials will likely follow suit but will not see a return to pre-pandemic prices. As such, investors and developers have begun to adjust their expectations of building costs and will continue to set lease rates accordingly.

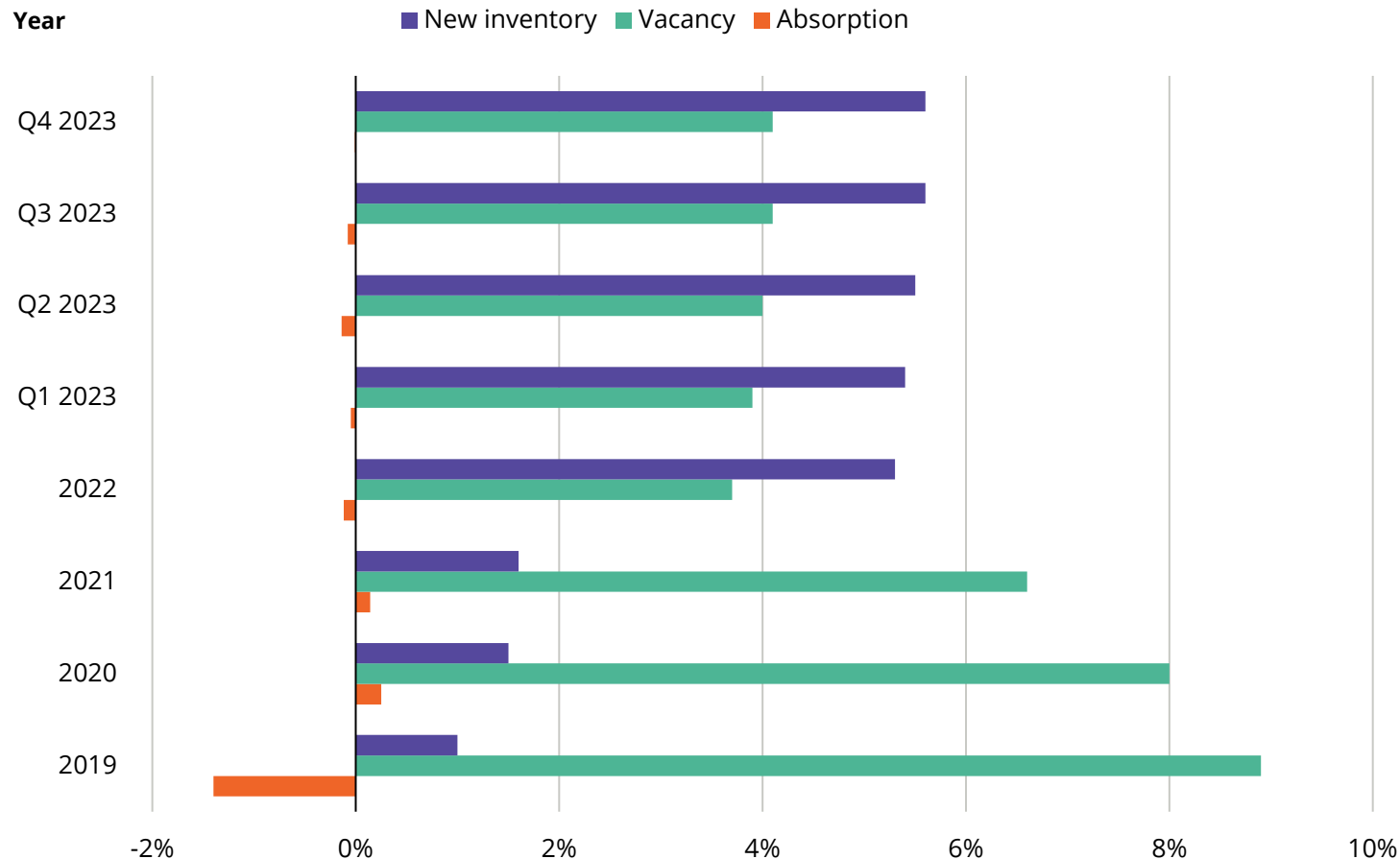
In Lethbridge, there is a polarization between lease rates in new and existing space. With the issue of obsolete spaces, much of the existing inventory requires updating or redevelopment to appeal to modern industrial users. However, with industrial lease rates in Lethbridge historically below those of other comparable markets, Lethbridge will likely see sustained growth in existing class A and class B spaces. Similarly, industrial leases over 10,000 sf which previously had the lowest rates in our market, have escalated to an average of \$8.58 psf overall, and \$9.87 psf in class A space. Industrial rents in Lethbridge are estimated to outpace inflation with a projected growth rate of 5% per year.

**“Lethbridge is a dynamic market, and 2024 is already looking very different from previous years. For example, we used to see large-format users at significantly lower rates; now we are not seeing any industrial leases at rates less than \$9.50 per square foot.”**

– Josh Marti, Principal and Senior Associate

# Vacancy and new supply

## Lethbridge vacancy vs. inventory



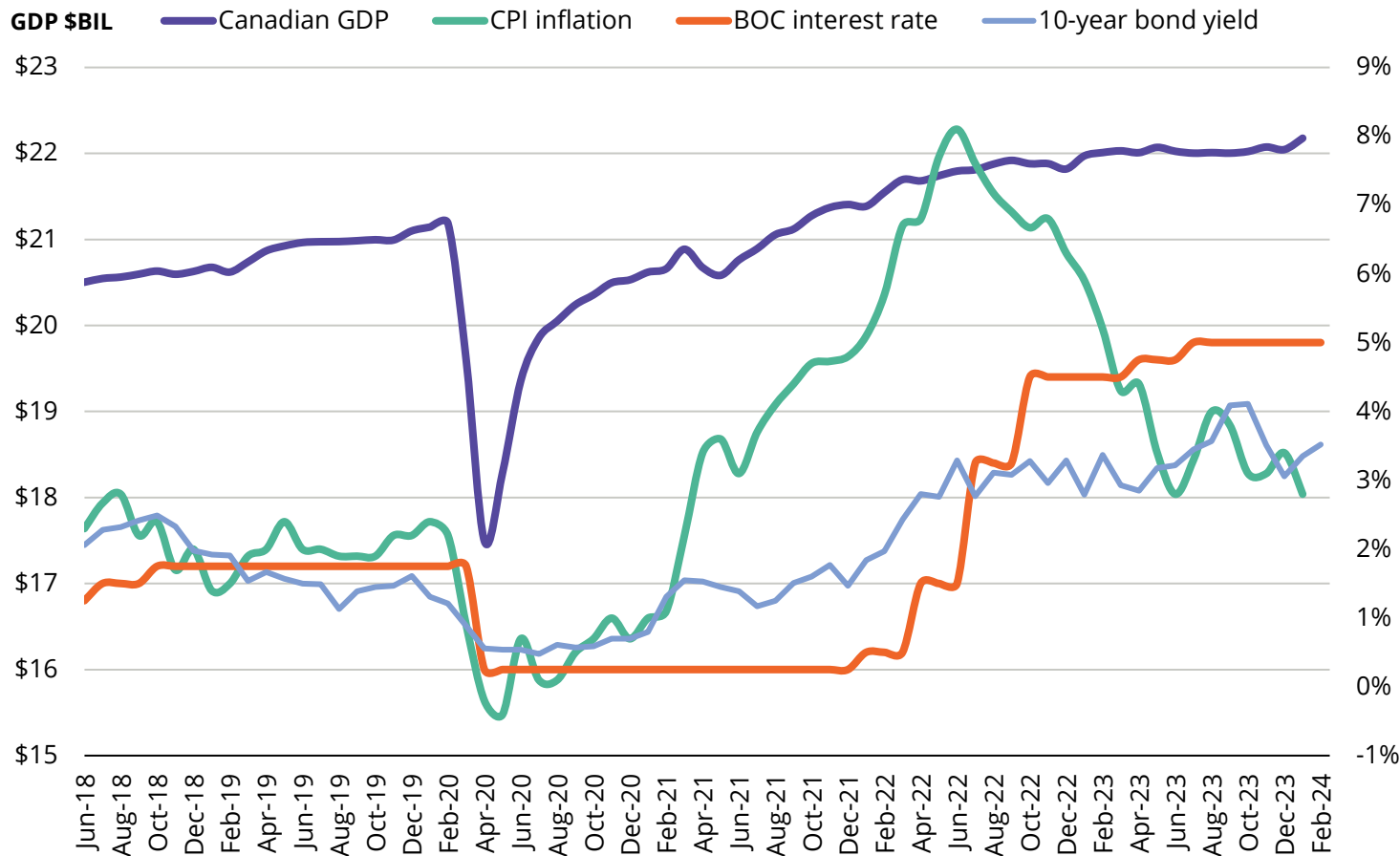
## Industrial vacancy

Nationally, industrial vacancy continues to increase in nearly all major markets. However, it is important to note that the six Canadian capital markets saw a record delivery of new supply of approximately 40 million square feet by the end of 2023. Lethbridge has seen industrial vacancy increase by less than 1% since Q1 2023. At 4.08%, Lethbridge inventory is still extremely tight, especially considering that the majority of that space is either obsolete or large-format. There are also some spaces in the market that are essentially 'awaiting the right user' in that they have atypical floorplans, few docks or overhead doors, low ceilings, etc., but are still very serviceable spaces.

Despite the nominal increase in vacancy, we are expecting a shortage of available space in the next 18-24 months. With inflated construction costs and conservative market sentiment, there has been less new development in Lethbridge in 2023, which will create a lag in new space coming to the market in 2024. Even though Lethbridge has had higher industrial construction rates than pre-pandemic, new construction is still outpaced by growing demand. Vacancy will likely continue to tighten and support rental rate growth for the foreseeable future. Industrial tenants will be wise to plan well ahead of upcoming renewals and, for large format users, by as much as two to three years. For tenants looking to move into new or built-to-suit space, they need to act proactively, as a large proportion of new space is pre-leased or developed by owner-users.

# Market conditions

## Major market indicators



## Market indicators

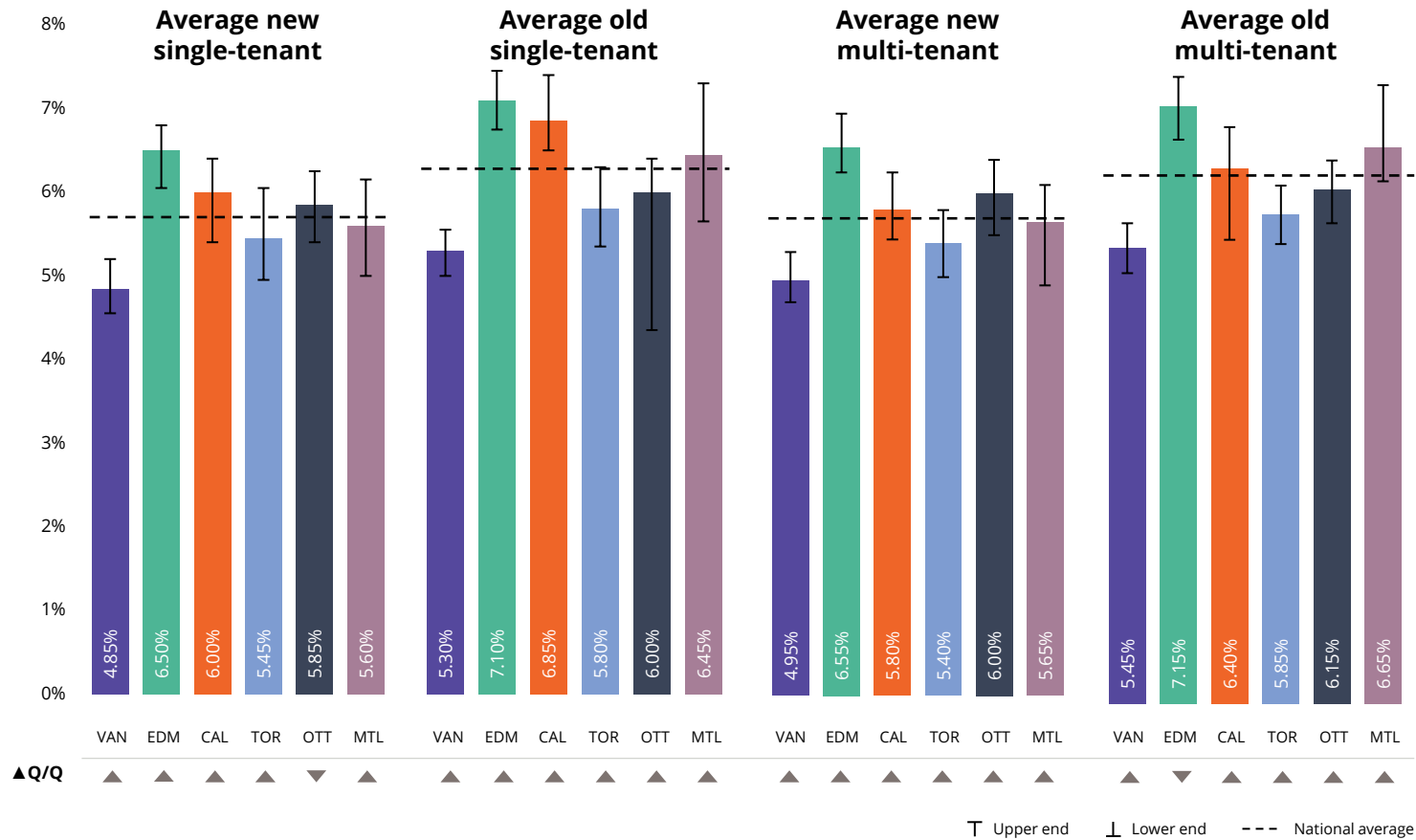
CPI inflation continues to trend down, although it is still projected to remain above the Bank of Canada’s (BOC) 2% target in 2024. In its last rate announcement, the BOC continued to hold the overnight interest rate at 5% and will likely continue to do so until mid-year. However, with the national GDP contracting in Q3 2023 and a low projected growth rate for 2024, the BOC is under pressure to stimulate the economy with a rate drop. The slowing GDP is in large part due to Canadians continuing to tighten debt spending, particularly in residential and business investment. With many mortgages (both private and commercial) anticipating renewal in the next 24 months, debt spending is expected to remain low. However, the Alberta GDP is projected to outpace national economic growth at 2.1%, according to ATB Economics. In Lethbridge, local economic growth remains strong, particularly in agri-business and related services. With a diverse work force, a low cost of living, and ample available land for industrial expansion, Lethbridge has seen strong industrial interest in 2023 and into 2024.

**“For a smaller community of over 106,000 residents, Lethbridge supports some major industrial development, including the 150-million-dollar plant phase II development, the 600-million-dollar McCain Foods expansion, and the 85,000-square-foot expansion of local business Southland Trailer Corp. Lethbridge is an attractive place for industrial businesses and national tenants.”**

– Vinko Smiljanec, Associate

# Investment trends

## National industrial cap rate survey results



## Industrial investment trends

Investment transactions in Lethbridge have slowed in 2023, following the national trend. With sticky inflation and higher interest rates, banks are still exercising conservative lending parameters for investment sales. Additionally, market sentiment has been slow to adapt to new cap rate expectations since the BOC interest rate increases. In our market, we have seen seller sentiment shift to a per-square-foot valuation, where the price of a property is evaluated as its relative cost to build new and factors in the inflated cost of construction and lease rate growth, especially in renewals. Investor perception is shifting to focus on long-term growth over cap rates with the understanding that increased development costs drive up the end price, narrowing margins in new builds. Industrial property purchasers in 2023 have been predominantly owner-users who are taking advantage of favorable lending terms and purchasing their own space. Although the increased interest rates drive up overall costs, the tightening of major banks' fiscal policy favors an owner-user purchaser, and they may qualify for up to 100% financing from some lenders.

**“While investors have started to adjust their cap rate expectations in light of current market conditions, there is a bit of a disconnect from buyers who are still expecting the kind of cap rates we saw in 2022. There is an appetite for industrial investment, but our main challenge is aligning buyer and seller expectations.”**

- Doug Mereska, Broker and Managing Director

## Industrial land development

We anticipate increased interest in industrial land parcels to support new development in 2024. The market price for in-fill lots in the city's industrial parks ranges from \$300-350K per acre, with a new benchmark of \$365K per acre having been set on a recent transaction in Churchill Industrial Park. Land prices will likely remain static until the current available land in our market is absorbed, but for new land parcels the increase in land servicing costs will drive higher asking prices in the future.

### 1. Sherring Industrial Park

Owned by the City of Lethbridge, these lots have been slow to transact as the market adjusts to new price expectations. However, with pent-up demand and other market factors, we predict an increase in sales volume by the end of 2024.

### 2. Frontier Business Park

This new business park, situated on the east side of 43<sup>rd</sup> Street on Lethbridge County Land, will see phase I improvements completed in spring 2024. With many of the lots pre-sold, the park is in high demand; lower Lethbridge County taxes attract buyers who are looking to reduce costs while utilizing the workforce, amenities, and infrastructure of the City of Lethbridge.

### 3. Coaldale West Industrial Park

This new industrial park in Coaldale is less than fifteen minutes outside Lethbridge. This satellite community is primed for industrial development and also benefits from lower taxes and proximity to the City of Lethbridge. Although still in pre-development, the site is nearly 50% pre-sold.

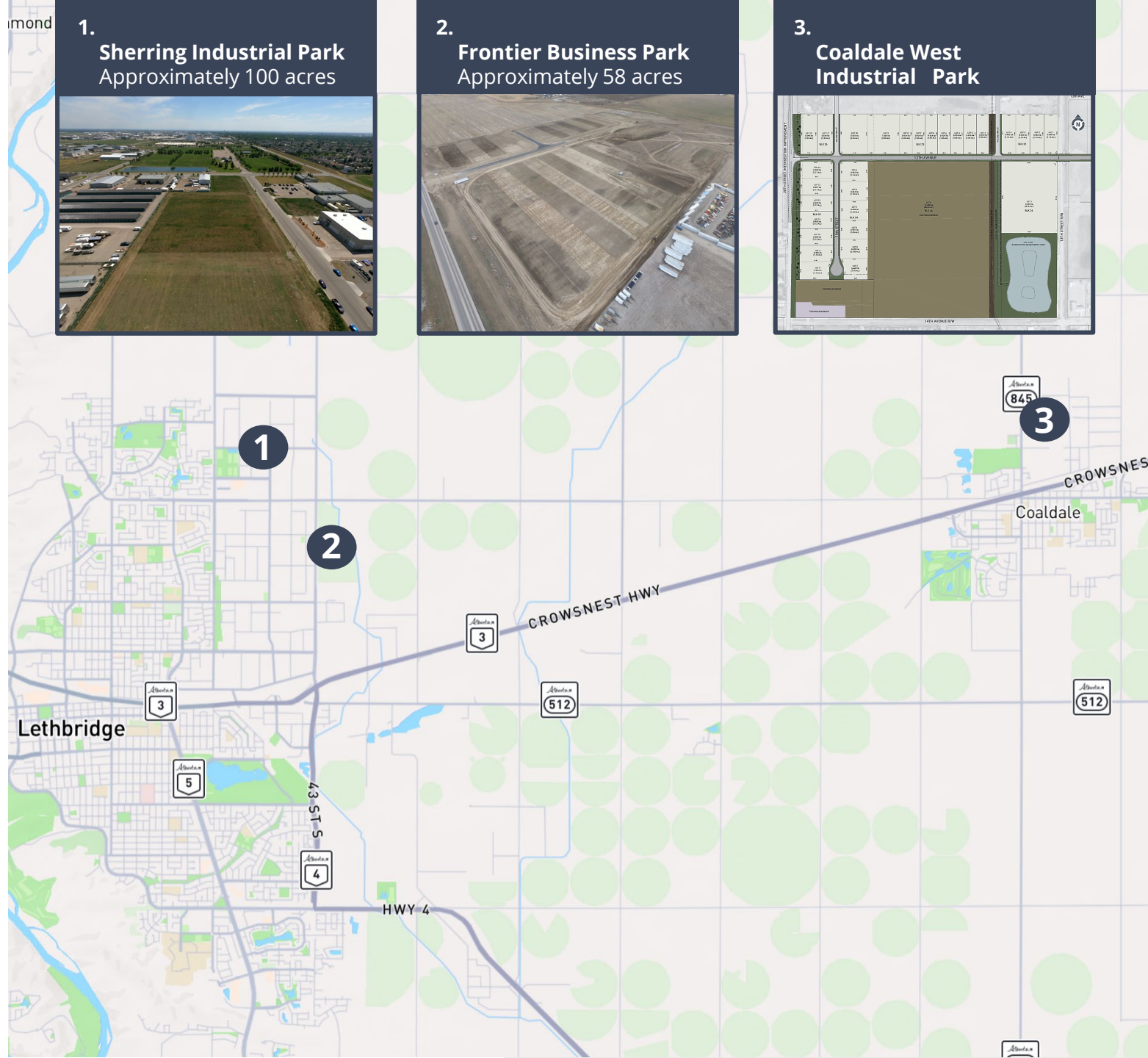
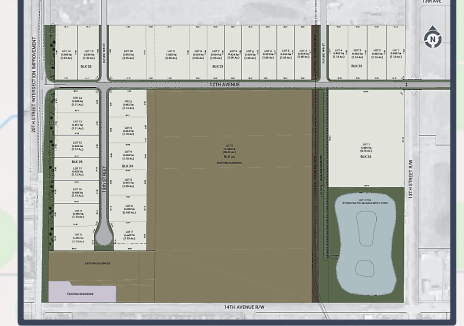
1. **Sherring Industrial Park**  
Approximately 100 acres



2. **Frontier Business Park**  
Approximately 58 acres



3. **Coaldale West Industrial Park**





# Lethbridge area market information

	Existing inventory (sf)	YTD deliveries (sf)	Total vacancy (%)	Vacancy (sf)
Lethbridge total	10,249,578	100,000	4.08%	418,505

## Under construction by building size

Location	Use	Building size (sf)	Acres	Zoning	City
2604 34 Street North	Animal care, minor	6,000 (est.)	1.54	Direct Control	Lethbridge
388 39 Street North	Service, repair garage	12,520	1.16	General Industrial	Lethbridge
526 39 Street North	Building trades and contractors	9,120	1.49	General Industrial	Lethbridge
2920 16 Avenue North	Building trades and contractors	1,800	1.12	General Industrial	Lethbridge
2901 Stafford Drive North	Storage, warehouse	1,750	5.30	Medium Density Residential	Lethbridge
234 28 Street North	Manufacturing	163,125	22.98	Heavy Industrial	Lethbridge
4305 14 Avenue North	Machinery and equipment	TBA	5.39	Rural General Industrial	Lethbridge County

Source: City of Lethbridge Monthly Building statistics – Permit Report

# Lethbridge industrial market activity

## Leasing transactions

Address	Size (sf)	Commencement	Transaction type	Lease type	Base lease rate (psf/yr)	Additional rent (psf/yr)
3690 36 Street North	75,500	Apr-24	New	Triple-Net	\$10.25	\$2.75
2910 12 Avenue North	5,200	Dec-23	New	Triple-Net	\$12.00	\$3.50
3020 36 Street North	5,811	Oct-23	New	Triple-Net	\$10.00	\$3.50
3510 5 Avenue North	6,016	Sep-23	New	Triple-Net	\$12.00	\$5.50
3741 5 Avenue North	4,160	Sep-23	New	Triple-Net	\$10.00	\$3.50

## Industrial buildings transactions

Address	Sale type	Buyer	Sale date	Sale price	Square feet	Acres	Sale price (psf)	Seller
2525 36 Street North	Investment	Brookstone Investment Corp.	Jan-24	\$4,375,000	43,966	5.63	\$100	Alpha 11 Investments Inc.
426 10 Street North	Owner-user	HODL Holdings Inc.	Jan-24	\$535,000	5,412	0.42	\$99	1544012 Alberta Ltd.
711 2A Avenue North	Owner-user	Streets Alive Family Support Association	Nov-23	\$2,100,000	17,058	2.59	\$123	Eldorado RV Sales Ltd.
3216 3 Avenue South	Investment	Shift REI Investments Ltd.	May-23	\$1,500,000	12,130	1.74	\$124	Gilmar Crane Inc.
1253 30 Street North	Investment	Urbanex Enterprises Ltd.	Apr-23	\$1,350,000	9,600	1.07	\$141	Concept. Investment Partners Ltd.

## Industrial land transactions

Location	Buyer	Sale date	Sale price	Acres	Sale price (acre)	Zoning	Seller
43 Street North, Lethbridge County	SUMUSMSK (Frontier) Developments LP	Nov-23	\$3,480,400	63.28	\$55,000	Rural General Industrial	1000824 Alberta Ltd.
3802 14 Avenue North	Ward Bros Construction Ltd.	Aug-23	\$365,000	1.00	\$365,000	General Industrial	2136202 Alberta Ltd.
2771 34 Street North	SUMUS Property Group Ltd.	Jun-23	\$1,398,400	6.00	\$233,067	Direct Control	City of Lethbridge

# Summary

Industrial **tenants** in Lethbridge will likely be in a landlords' market by the end of 2024 as the continued demand further compresses the vacancy rate. As the asking base rent rate pushes up, tenants will need to adjust their expectations. This is especially relevant to new builds where the lease rates are further driven by inflated construction costs. Tenants in large-format spaces who previously had the lowest lease rates in the Lethbridge market can now expect starting rates of more than \$9.50; with smaller spaces being priced higher on a per-square-foot basis. Tenants need to anticipate high build-out costs as well, which are on average more than double what they would have been pre-pandemic. Industrial tenants should start planning for renewals early and anticipate higher rates.

Likewise, **landlords** expecting mortgage renewals in 2024-2025 will need to adjust their margin expectations accordingly. Landlords with older or class C space, may need to invest in updating or offering tenant inducements to secure lease renewals, particularly if they will be asking higher rates. Although Lethbridge will likely be a landlords' market, modern industrial tenants favor class A space with features such as higher ceilings, more loading docks, energy efficiency, and LED lighting.

**Owner-users** in Lethbridge are well positioned to purchase their own space in 2024. By owning, they can better control costs and build property equity which will give them more leverage for future expansion. With land acquisition costs predicted to rise in the next phase of industrial land development, now is the best time for an owner-user to acquire land. Although inflation is trending down, it is unlikely that construction costs will ever return to pre-pandemic prices, and this 'new normal' will be informing the future cost expectations for new builds. However, with

favourable lending parameters, overall inflation beginning to ease, and predicted interest rate cuts in the latter half of the year, 2024 may be the best time for owner-users to build their own space.

**Investor** sentiment has begun to shift in anticipation of changing market conditions. With 2022 being an incredible boom year for industrial real estate transactions, 2023 found investors acting conservatively in light of market uncertainty and increased interest rates. Locally, we have seen investment volumes decrease in 2023 in line with the national trend. However, the pent-up demand and likelihood of a BOC rate drop may stimulate a sudden increase in investment transactions in 2024.

Lethbridge industrial real estate remains a strong asset class with room for growth in 2024. With continued demand for industrial development, ample land, a strong workforce with steady job and population growth, and a strategic location between Calgary and the U.S. border, Lethbridge has foundational strength that makes it a great place for industrial operations. Despite the challenges of a changing economy, Lethbridge industrial real estate remains a growth area for the market.

**“There is a lot to be excited about in Lethbridge industrial real estate for the coming year. There have been some long-anticipated projects in the community that will likely be ready to break ground before the end of 2024. Pent up demand, combined with the Bank of Canada presumably beginning to lower the overnight interest rate later this year, may also catalyze many new projects into action.”**

– Doug Mereska, Broker and Managing Director



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information visit **avisonyoung.com**

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