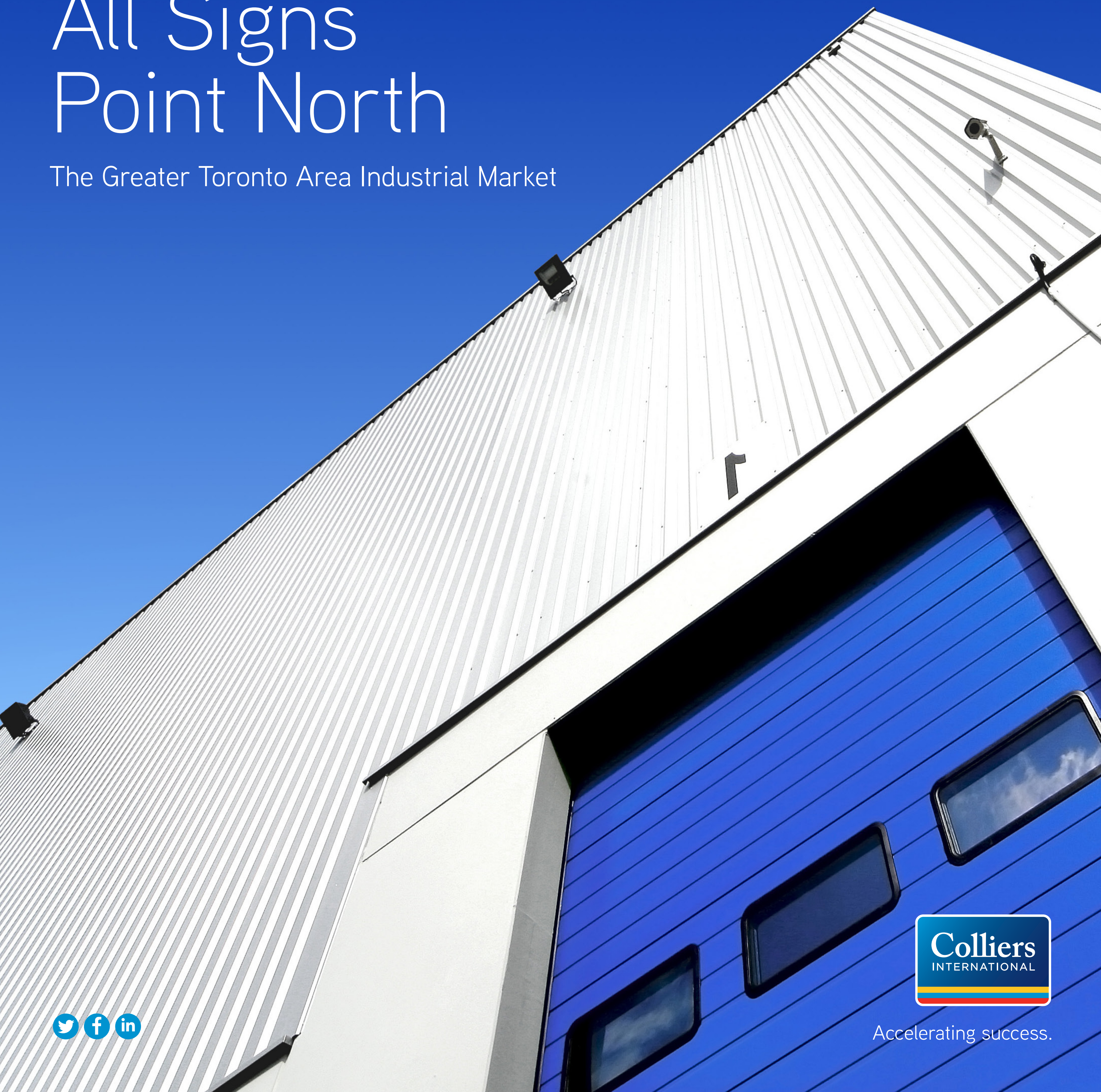
SPARK

All Signs Point North

The Greater Toronto Area Industrial Market



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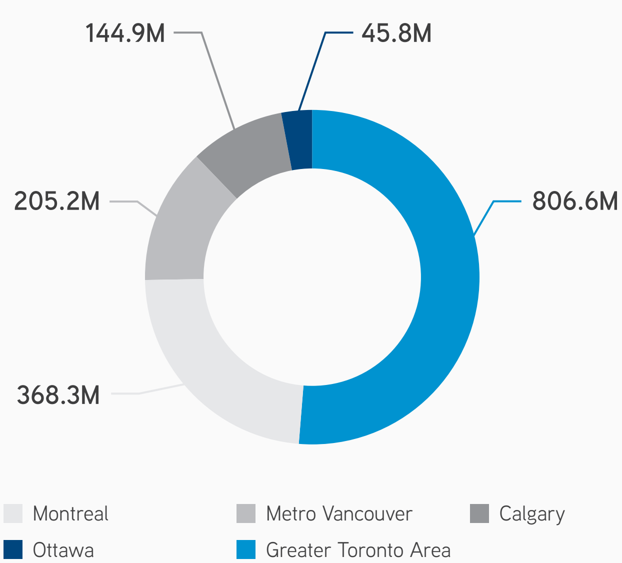
This report analyzes the fundamentals of Canada's leading industrial market compared to that of the United States (U.S.). Based on our findings, the Greater Toronto Area (GTA) industrial market holds its own when compared to the leading markets in the U.S. Its inventory is the fifth largest, vacancy rate is by far the lowest, while rental rates remain comparably inexpensive. This explains why the GTA industrial market remains attractive to global industrial occupiers and investors.

The GTA's industrial real estate market is the largest in Canada (Figure 1). At over 806 million SF of inventory, it is larger than the combined industrial markets of Vancouver, Montreal, Calgary, and Ottawa, Canada's four next most populous cities, according to the 2016 Census.

Figure 1: Canadian Industrial Inventory (SF)



Source: Colliers International, Q4 2018

This report provides a comparative analysis of the GTA with the 10 largest U.S. industrial markets by inventory at the end of Q4 2018. Those 10 markets are:

Atlanta	Houston
Chicago	New York City Metro[2]
Dallas-Fort Worth	Philadelphia
Detroit	San Francisco Bay
Greater Los Angeles[1]	South Florida

1. Greater Los Angeles includes: Los Angeles, Inland Empire, and Orange County
2. New York City Metro includes: Central New Jersey, Northern New Jersey, and Long Island

In addition to inventory, other performance metrics analyzed include:

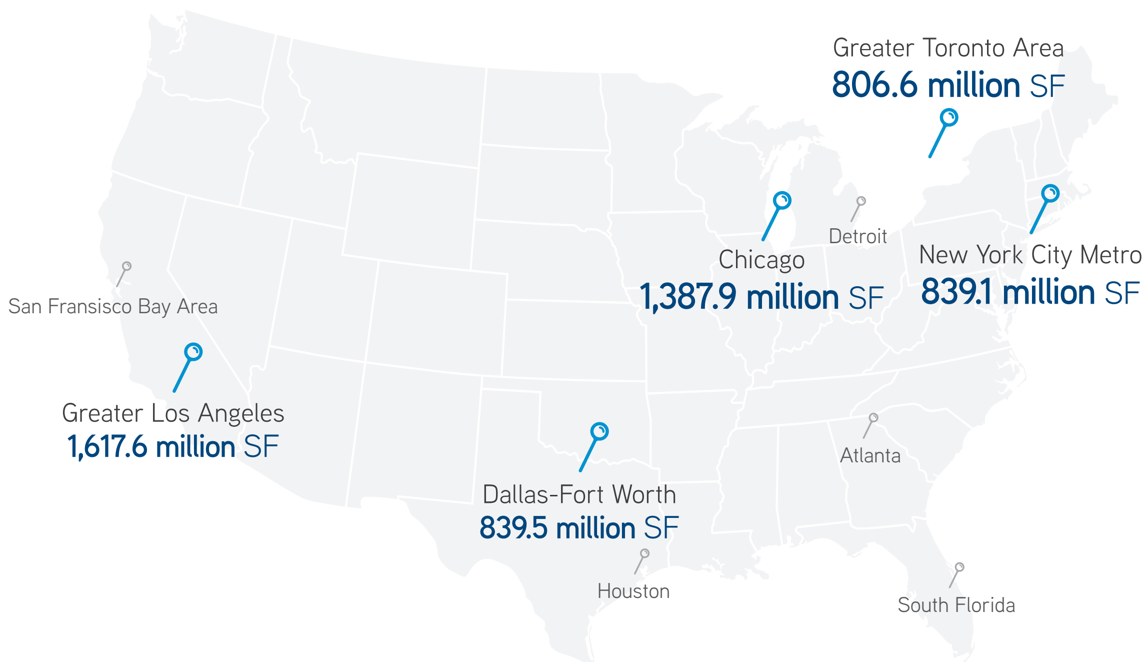
- **Vacancy rate** — the amount of listed vacant space compared to overall inventory
- **Average asking net rent ($PSF)**
- **Current construction / new supply**
- **Industrial construction** — This proportionally measures how much new square footage will be added to each market in the near future.

As the GTA's industrial market continues to pick up momentum throughout 2019 and beyond, driven by strong tenant demand and record low vacancy, it will solidify its position as one of the top industrial markets in North America.

INVENTORY | GTA — The 5th Largest Industrial Market in North America

The GTA's industrial market ranks as one of the largest when compared to the major U.S. markets (Figure 2), at the end of 2018. It ranks **fifth in industrial square footage,** just behind Dallas-Fort Worth and New York City Metro.

Figure 2: Major American Markets Industrial Inventory

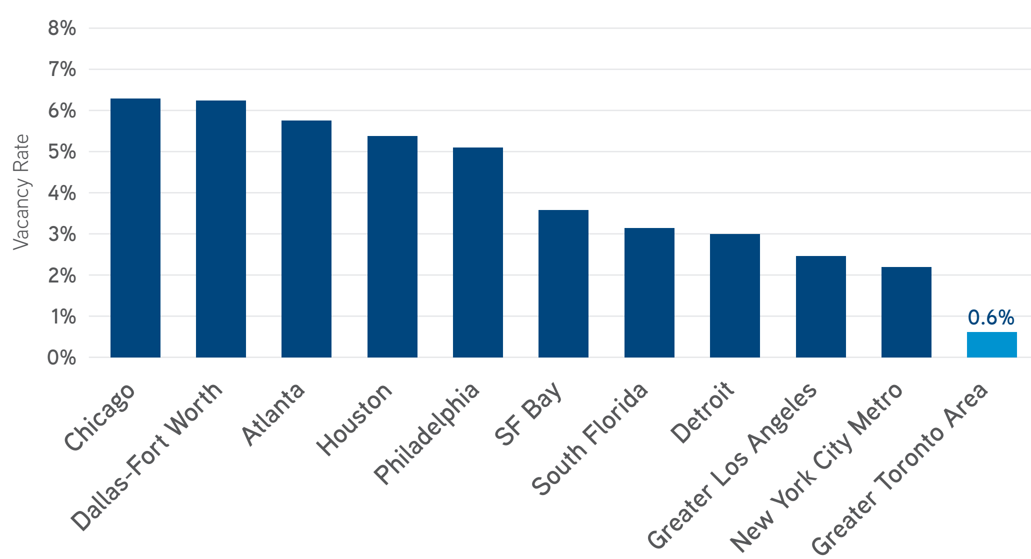


Source: Colliers International, Q4 2018

VACANCY | GTA — The Tightest Market in North America

Vacancy rate in the GTA is the lowest when compared to the major U.S. industrial markets by a significant margin (Figure 3). In fact, even when comparing the U.S. markets' vacancy rates to the GTA's overall availability rate — all listed space — the GTA still ranks the lowest. Since Q1 2016, the spread in vacancy between the GTA and the next lowest U.S. market has never been greater. At the end of 2018 the spread between the GTA and the second lowest market was nearly 200 basis points. Since Q1 2016, the average spread between the GTA's vacancy rate and the second lowest market has been 45 basis points.

Figure 3: Q4 2018 Industrial Vacancy Rate



Source: Colliers International, Q4 2018

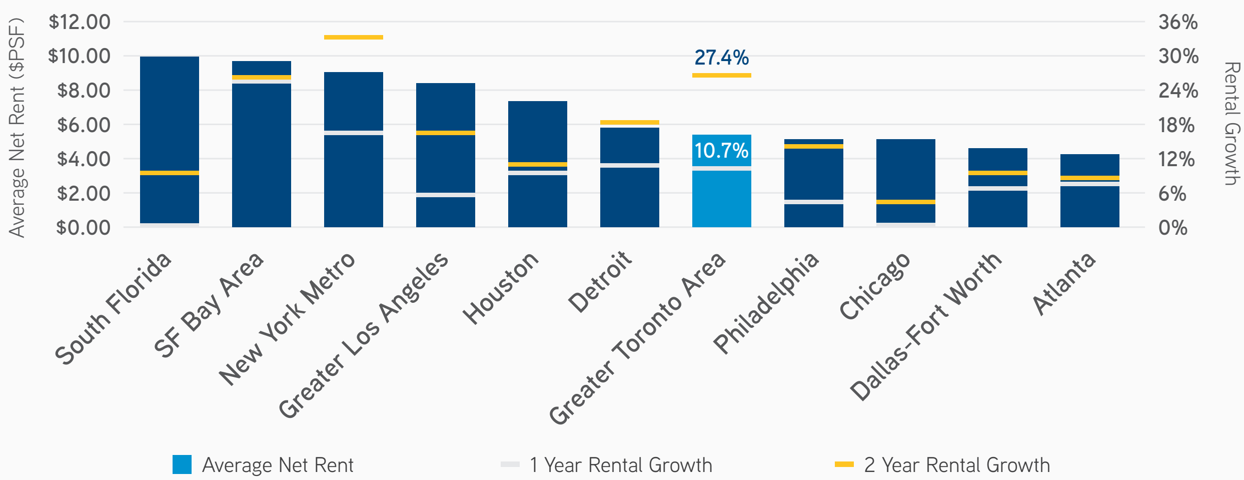
ASKING NET RENT | Recent Historic Rental Growth Rate, But Still Undervalued Compared to U.S. Markets

To compare the GTA to the U.S. industrial markets, the GTA's asking net rental rate has been converted into US dollars (USD) (Figure 4). At the end of Q4 2018, the GTA's net rental rate was amongst the lower end of the group at $5.49 USD PSF.

When looking at both one and two-year rental rate growth, the GTA has the second highest two-year rental growth rate, at over 27% since the end of Q4 2016, and nearly 13% annually compounded. Even with the CAD to USD exchange rate applied, the GTA's industrial asking rent growth picked up a lot momentum over the course of 2017. Additionally, the GTA's rate of increase over the last year was nearly 11%. This growth rate is above the median quartile when compared to the largest American industrial markets, a testament to the strength of the GTA.

The difference between the GTA's 2017 and 2018 rental growth rate was the second highest relative to its peers, at just under 17%.

Figure 4: Q4 2018 Industrial Rental Rate Growth

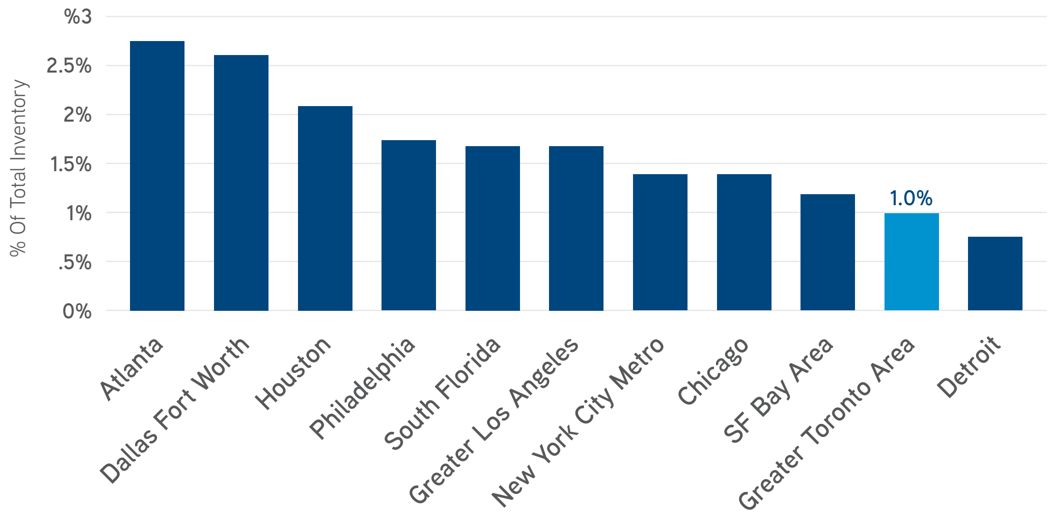


Source: Colliers International, Q4 2018
The U.S. figures are based on warehouse rents.

CONSTRUCTION & SUPPLY | Geographic Location Affecting the Industrial Pipeline

Under construction industrial inventory as a percentage of total existing inventory makes up just under 1% in the GTA, the second lowest when compared to the major U.S. industrial markets (Figure 5). Only three markets recorded a figure higher than 2% — Atlanta, Dallas-Fort Worth, and Houston. One distinguishing characteristic of these three markets is the **geographic flexibility to expand industrial supply in all directions.** Much of the GTA sits on the shoreline of Lake Ontario and it restricts to a degree the areas where the industrial market can expand. The rest of the GTA is also constrained by the Greenbelt including the Oak Ridges Moraine, the Niagara Escarpment and the Rouge River Valley.

Figure 5: Under Construction as a Percentage of Total Industrial Inventory



Over the course of 2018, the GTA's steel prices per square foot increased nearly 40%, while the price per acre of industrial land increased over 50%. With these factors in place, the GTA's industrial market is well positioned to experience further rental growth. With strong tenant demand and record low vacancy, this solidifies the GTA's position as one of the top industrial markets in North America.

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US* in annual revenue

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square feet under management

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*Based on 2018 results

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