

Greater Toronto Area

Declining pre-leasing activity served as a strong driver of demising flexibility among landlords

- Vacancy increased 20 basis points QoQ to 1.4% while availability increased 60 basis points to 2.4%.
- Average net asking rents increased to a new market high of \$18.54.
- The GTA's construction pipeline reached a cyclical high of 18.8 million square feet.
- Demise options are now largely expected for listed big box product.

Q2 2023 proved to be a strong quarter for tenant movement after the hesitations observed in Q1, with major leasing activity sitting at a sizeable 5.7M SF. Average net asking rents climbed up to \$18.54, a 1.5% increase QoQ and a 21.0% increase YoY. The relatively modest QoQ increase suggests that the pattern of massive rental increases seen during the pandemic is losing momentum as landlords receive pushback from both incumbent and new tenants in the market. Vacancy and availability rates increased 20-basis points to 1.4% and 60-basis points to 2.4% QoQ respectively. Such increases are due in part to the delivery of unleased big-box industrial product and longer negotiation periods as landlords and tenants attempt to find agreement regarding pricing expectations.

In line with rising vacancy and availability rates, the GTA's under construction pipeline rose to 18.8M SF in Q2, a cyclical market high, with 3.8M SF delivering during the quarter. Deliveries included Orlando's 670,485 SF site at 10750 Highway 50, while notable ground-breakings included Prologis' 975,000 SF mass timber and prefabricated panel development at 5525 Highway 50, the first of its kind in the Americas. Deliveries in Q2 were 75.6% pre-leased, the lowest pre-lease rate seen since Q2 2019. A landlord's ability to maintain leasing activity now relies upon their willingness to provide demising options as tenant preferences shift towards mid-bay product.

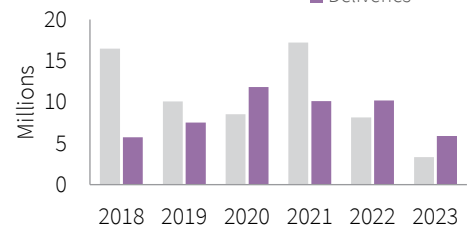
Despite the rising cost of debt, quarterly sales were robust, with total transactional volumes reaching \$2.5 billion. The most notable contributor was W.P Carey's \$468.0M sale-lease back of four pharmaceutical manufacturing and R&D campuses with Apotex Pharmaceutical holdings Inc., the largest generic drug manufacturer in Canada.

Outlook

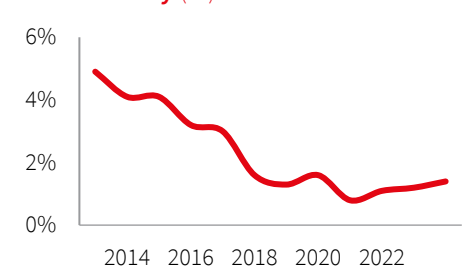
As parts of the GTA's massive construction pipeline reaches delivery, we continue to expect a modest increase in vacancy rates into late 2023 and low-to-moderate QoQ increases in average net asking rents by extension. Availability rates, despite being near historic lows, will remain slightly elevated into the near future as landlords grapple with a new, tempered market calling for more flexibility and smaller spaces.

Fundamentals	Forecast
YTD net absorption	3,342,620 s.f. ▲
Under construction	18,848,138 s.f. ▲
Total vacancy	1.4% ▲
Sublease vacancy	1,027,076 s.f. ▲
Direct asking rent	\$18.54 p.s.f. ▲
Sublease asking rent	\$15.56 p.s.f. ▲
Concessions	Increasing ▲

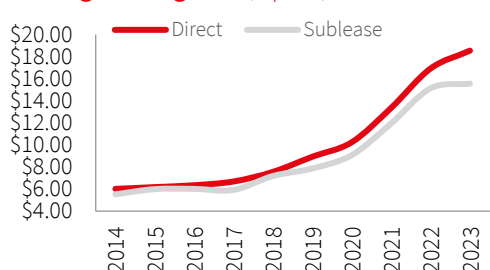
Supply and demand (s.f.)



Total Vacancy (%)



Average asking rent (\$ p.s.f.)





Industrial Statistics

	Inventory (s.f.)	Quarterly total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Total vacancy (%)	Total availability (%)	Direct average asking net rent (\$ p.s.f.)	Quarterly Completions (s.f.)	YTD Completions (s.f.)	Under construction (s.f.)
East York	4,667,545	3,552	-54,257	-1.2%	1.4%	1.2%	\$15.07	0	0	0
Etobicoke	65,152,646	-60,765	-202,117	-0.3%	1.9%	2.5%	\$18.74	0	0	689,485
North York	66,467,307	-88,195	-246,683	-0.4%	1.9%	2.5%	\$17.77	194,708	274,882	251,800
Scarborough	60,513,701	230,654	-297,715	-0.5%	2.2%	3.6%	\$16.32	0	26,000	423,720
Toronto	12,739,472	20,626	-18,169	-0.1%	0.7%	0.8%	\$15.50	0	0	0
York	10,096,496	50,036	-156,208	-1.5%	2.0%	5.0%	\$18.91	0	0	0
Greater Toronto Central	219,637,167	155,908	-975,149	-0.4%	1.9%	2.8%	\$17.54	194,708	300,882	1,365,005
Ajax	9,606,382	-180,821	488,976	5.1%	4.2%	4.1%	\$15.50	0	716,837	375,774
Pickering	11,265,834	46,476	5,730	0.1%	2.2%	3.2%	\$16.46	233,000	233,000	0
Oshawa	15,159,050	21,750	209,919	1.4%	0.3%	0.8%	\$16.26	0	0	60,000
Whitby	10,786,039	-125,965	-104,121	-1.0%	1.4%	1.7%	\$16.50	0	0	1,203,251
Outlying Durham	6,699,454	6,609	-12,541	-0.2%	0.6%	0.3%	\$12.00	15,000	15,000	34,961
Greater Toronto East	53,516,759	-231,951	587,963	0.8%	1.6%	2.0%	\$15.92	248,000	964,837	1,673,986
Aurora	5,880,238	17,645	36,680	0.6%	2.4%	2.1%	\$17.73	0	0	163,870
Markham	35,772,642	110,720	167,529	0.5%	0.6%	2.3%	\$18.97	0	0	279,516
Newmarket	7,781,125	7,212	39,675	0.5%	0.1%	1.6%	\$17.16	0	0	57,500
Richmond Hill	14,373,230	-6,747	280,994	2.0%	0.7%	1.1%	\$18.43	0	223,889	106,950
Vaughan	103,356,561	421,077	390,787	0.4%	0.8%	1.8%	\$19.05	554,501	800,680	2,500,652
Outlying York	5,667,019	-3,600	-9,440	-0.2%	0.2%	1.8%	\$19.23	0	0	1,561,995
Greater Toronto North	172,830,815	546,307	906,225	0.5%	0.8%	1.9%	\$18.96	554,501	1,024,569	4,670,483
Brampton	100,101,959	1,803,310	1,685,080	1.7%	1.1%	2.8%	\$19.92	1,302,348	1,302,348	3,919,214
Burlington	24,906,719	177,819	330,485	1.3%	0.9%	2.2%	\$15.09	0	141,399	609,009
Caledon	21,634,635	152,636	119,890	0.6%	0.8%	1.3%	\$18.51	280,865	280,865	591,191
Milton / Halton Hills	35,942,267	-490,857	452,641	1.3%	3.3%	4.7%	\$18.49	569,083	1,120,647	3,007,357
Mississauga	178,610,007	36,287	327,648	0.2%	1.6%	2.1%	\$19.02	646,108	776,124	2,262,855
Oakville	24,350,149	28,183	-92,163	-0.4%	1.1%	1.9%	\$17.71	0	0	749,038
Greater Toronto West	385,545,736	1,707,378	2,823,581	0.7%	1.5%	2.5%	\$19.02	2,798,404	3,621,383	11,138,664
Greater Toronto Area Total	831,530,477	2,177,642	3,342,620	0.4%	1.4%	2.4%	\$18.54	3,795,613	5,911,671	18,848,138