

Toronto

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Industrial market remains landlord-favorable amid new deliveries

Despite the persistent discourse surrounding an impending economic downturn within Canada, the industrial real estate sector in the Greater Toronto Area (GTA) demonstrates remarkable resilience. The delivery of 2.7 million square feet of new construction to the market during the third quarter has had no impact on overall vacancy, which held steady at a very low 1.4%. Moreover, asking rates have once again experienced an upward trajectory, increasing from \$16.85 to \$17.17 per square foot over the quarter and remain up 21.3% year over year. The prevailing conditions within the GTA's industrial property landscape continue to favor landlords, as the demand for available space exceeds supply in all submarkets across the region.

Developers remain confident in face of economic headwinds

The ongoing construction of 24.1 million square feet (msf) of industrial product in Toronto shows developer confidence in this market which is clearly in need of new inventory given the historically tight conditions. However, this also means that new supply is on the way which will likely lead to higher vacancy and decelerating rent growth as market dynamics move back towards equilibrium over the next year.

Fast absorption of new supply demonstrates demand for modern, functional warehouse space

The expectation of easing conditions for tenants in the industrial market due to new construction has not yet materialized. This is largely a result of the prevalence of pre-leasing agreements and build-to-suit options which means the bulk of new product is already spoken for. The pre-leasing trend also indicates the popularity of new construction among occupiers as modern spaces allow for efficient operations with adequate clear heights, layout and loading. Exemplifying these trends is Breadsource's 102,000-square-foot build-to-suit in Scarborough. The producer of baked goods will open a new fully-automated processing facility, tripling its current production.

Key Statistics

| | Q3 2022 | Q3 2023 | Y-0-Y |
|--------------------|-----------|-----------|-----------|
| Inventory | 808.8 msf | 815.6 msf | + 6.8 msf |
| Vacancy Rate | 0.9% | 1.4% | +50 bps |
| Asking Rental Rate | \$14.16 | \$17.17 | +21.3% |
| Net Absorption | 2.7 msf | 2.6 msf | -0.1 msf |
| Under Construction | 14.2 msf | 24.1 msf | +9.9 msf |
| Deliveries | 2.5 msf | 2.7 msf | +0.2 msf |

Outlook

01 Asking rates will likely continue to grow in the near term, as new deliveries this quarter did not ease tight conditions

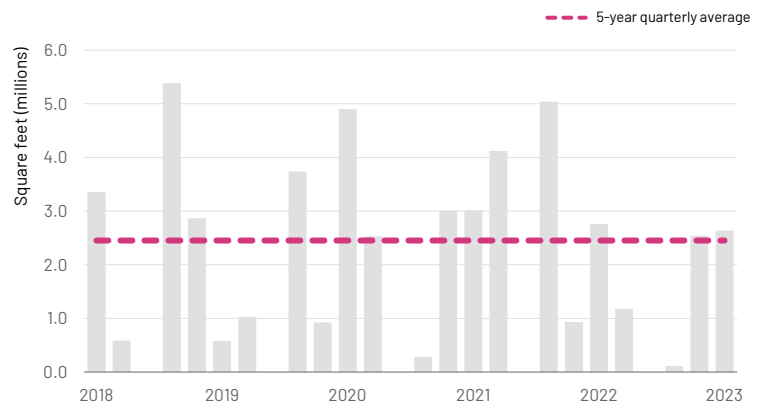
02 Demand remains strong for quality new builds

03 Vacancy is expected to rise over the next year as the impact of new supply and a weaker economy plays out

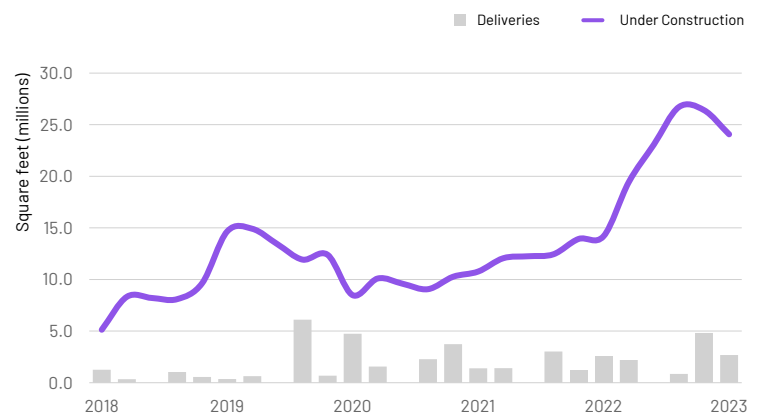
Asking Rent and Vacancy



Net Absorption



Deliveries and Under Construction



Top Leases

Source: Savills Research

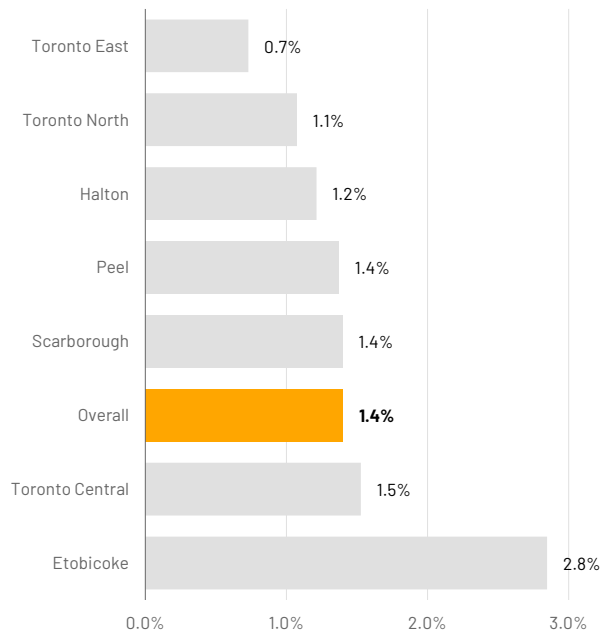
| TENANT | SIZE (SF) | SUBMARKET | ADDRESS | TRANSACTION TYPE | INDUSTRY |
|----------------------------------|-----------|--------------|-----------------------|------------------|--|
| Lactalis Canada | 379,000 | Toronto East | 1680 Thornton Road N | New Lease | Food & Beverage |
| ProLift Rigging Company | 162,500 | Peel | 96 Inspire Boulevard | New Lease | Logistics & Distribution/3PLs |
| Handy Foods | 105,896 | Peel | 15 Newkirk Court | New Lease | Food & Beverage |
| Downsview Lumber and Supply Ltd. | 105,193 | Peel | 2165 Williams Parkway | New Lease | Construction Materials & Building Fixtures |
| Breadsource | 102,289 | Scarborough | 895-925 Milner Avenue | New Lease | Food & Beverage |

Top Sales

| OWNER/BUYER | SIZE (SF) | SUBMARKET | ADDRESS | PRICE / \$/SF | SELLER |
|---------------------------------|-----------|---------------|-------------------------|-----------------|-------------------|
| Roycourt Inc. | 281,265 | Toronto North | 81 Royal Group Crescent | \$81.5M / \$289 | Oxford Properties |
| Groupe Mach | 170,107 | Toronto East | 1840-1842 Clements Road | \$40.3M / \$236 | King Sett |
| Dream REIT | 149,635 | Peel | 250 Chrysler Drive | \$44.0M / \$294 | BentallGreenOak |
| Nobel REIT Group Inc. | 141,534 | Oakville | 3430 Harvester Road | \$48.4M / \$342 | Bre Fund Group |
| Professional Court Holdings Ltd | 104,308 | Peel | 6740 Professional Court | \$50.5M / \$484 | Tridel |

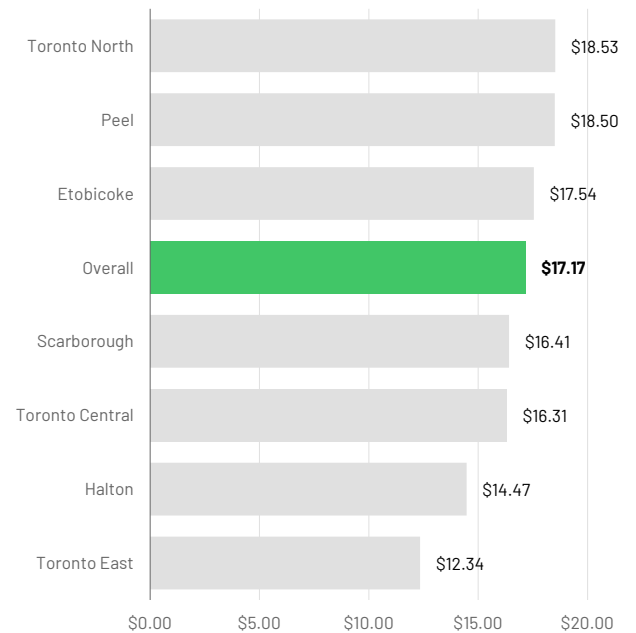
Vacancy Rate Comparison (%)

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Rental Rate Comparison (\$/sf)*

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*based on all classes of available inventory

Toronto Q3 2023 - Industrial

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Unless otherwise noted, all rents quoted throughout this report are average asking net (NNN) rents per square foot. Statistics are calculated using both direct and sublease information. Current and historical availability and rent data are subject to change due to changes in inventory.

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