

Toronto

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Vacancy rises amid record deliveries, speculative construction remains elevated

Toronto's vacancy rate rose by 20 basis points (bps) in Q3, reaching 2.5%, marking its highest level in five years. Despite this increase, the vacancy rate remains significantly lower than most major markets in North America. Toronto's vacancy is primarily driven by a surge in year-to-date deliveries, which exceeded 13.9 million square feet (msf), compared to a five-year average of just 2.7 msf. Of the 4.6 msf delivered this quarter, over 30% or 1.4 msf was delivered vacant. The current construction pipeline is over 11.1 msf, nearly 80% of which consists of speculative projects that could further impact vacancy if they fail to pre-lease.

Asking rates decline for the second consecutive quarter

Asking rates have declined by 1.5% since its five-year peak in the first quarter of this year, settling at \$17.44 per square foot (psf). This marks the second consecutive quarter of decreases, a trend not witnessed in Toronto since before the pandemic. Falling rents however may not indicate a weakening in tenant demand, as demonstrated by 3.0 msf of positive net absorption this quarter, the highest level since Q2 2022. Notable contributors to positive absorption include Kruger, which leased over 650,000 square feet (sf) at Panattoni Development's newly delivered Class A facility at 4680 Garrard Road in Toronto East, and Trillium Supply Chain's 400,000 sf lease at 100 Ironside Drive in Peel.

Prologis Acquires 1.3 MSF Facility in \$361M Sale-Leaseback

Toronto experienced significant capital markets activity this quarter, with the headline transaction being Prologis' \$361 million acquisition of a 1.3 msf Class A facility from Sycamore Partners. This deal is particularly noteworthy in the context of Sycamore Partners' \$400 million acquisition of RONA's Canadian operations from Lowe's in Q1 of 2023. The sale to Prologis was structured as a sale-leaseback, likely linked to Sycamore's strategic move to unlock capital following its acquisition of RONA.

Key Statistics

	Q3 2023	Q3 2024	Y-O-Y
Inventory	815.6 msf	833.7 msf	+18.1 msf
Vacancy Rate	1.4%	2.5%	+110 bps
Asking Rental Rate	\$17.16	\$17.44	+1.6%
Net Absorption	2.6 msf	3.0 msf	+0.4 msf
Under Construction	24.1 msf	11.1 msf	-12.9 msf
Deliveries	2.7 msf	4.6 msf	+1.9 msf

Outlook

01

Rents are expected to remain historically elevated but may experience a slight decline in the short term as the market absorbs 8.9 msf of speculative space that will be delivered over the next several quarters

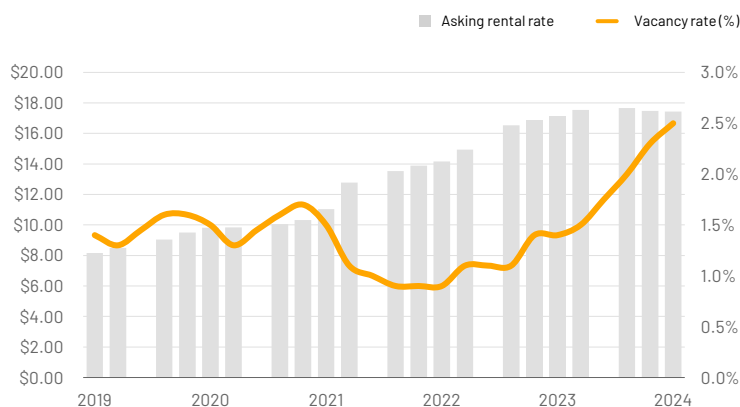
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New construction has slowed significantly, with over a 76% reduction in the past six quarters. This deceleration is expected to continue until capital markets improve and the speculative pipeline leases up

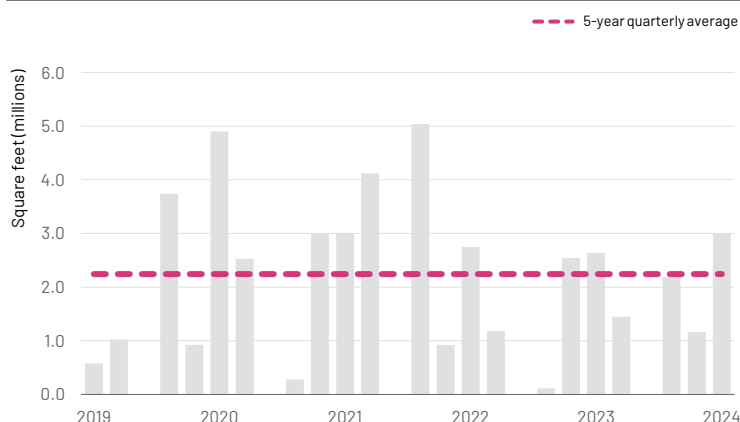
03

Rising vacancies and flat or declining rents provide large occupiers with more options and leverage; over the next several quarters, they will have even more choices in Class A big-box spaces

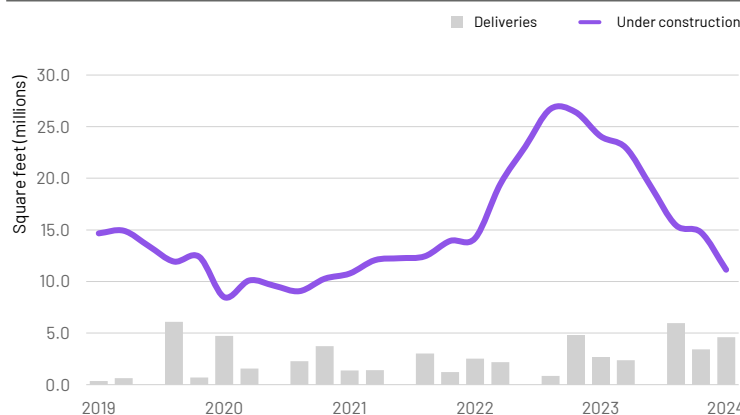
Asking Rent and Vacancy



Net Absorption



Deliveries and Under Construction



Top Leases

Source: Savills Research

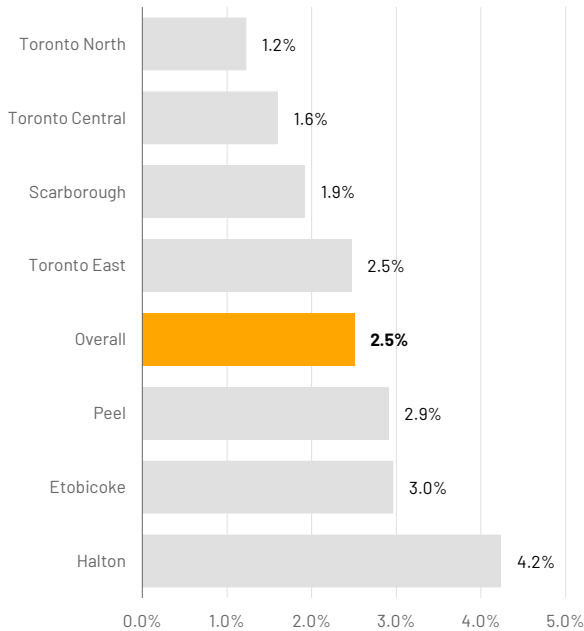
Tenant	Size (sf)	Submarket	Address	Transaction Type	Industry
RONA	1,335,026	Halton	8450 Boston Church Road	Sale-Leaseback	Retailer (Brick & Mortar)
Kruger	650,484	Toronto East	4680 Garrard Road	New Lease	Paper & Packaging
Trillium Supply Chain	439,899	Peel	100 Ironside Drive	New Lease	Logistics & Distribution/3PLs
Lucid Corp	216,377	Toronto North	270 Spinnaker Way	New Lease	Automotive
Priority Wire & Cable	202,234	Toronto North	7939 Keele Street	New Lease	Construction Materials & Building Fixtures

Top Sales

Owner/Buyer	Size (sf)	Submarket	Address	Price / \$/sf	Seller
Prologis, Inc.	1,335,026	Halton	8450 Boston Church Road	\$361 M / \$271	Sycamore Partners
Unilever	744,992	Peel	7900 Airport Road	\$60.7 M / \$163	H&R REIT
Vinyl Window Designs	184,359	Peel	14 Precidio Court	\$56 M / \$304	AIMCo
Rothman Real Estate	165,620	Scarborough	31 Melford Drive	\$34.7 M / \$210	KingSett Capital
Accuenergy	148,266	Scarborough	440 Comstock Road	\$26.3 M / \$177	KingSett Capital

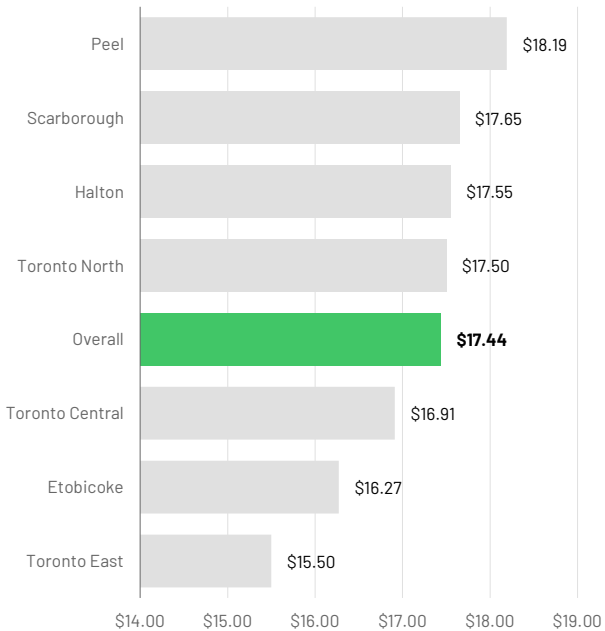
Vacancy Rate Comparison (%)

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Rental Rate Comparison (\$/sf)*

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*based on all classes of available inventory

Toronto Q3 2024 - 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 vacancy and rent data are subject to change due to changes in inventory.

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