

2020 North America Industrial Big Box

Review & Outlook

CBRE RESEARCH



CBRE

Toronto



Toronto's industrial market remains exceptionally strong, with strong demand leading to a record-low vacancy rate. A limited amount of new construction scheduled for delivery in 2021 and early 2022 has already seen significant preleasing activity. Industrial development land prices are at record-highs, underwritten by rapid rent growth and some of the lowest industrial cap rates in North America. Due to the low vacancy and rapid rent acceleration of Greater Toronto's core markets, secondary markets to the east and west have seen a spike in demand and new supply."

– Kyle Hanna, Executive Vice President





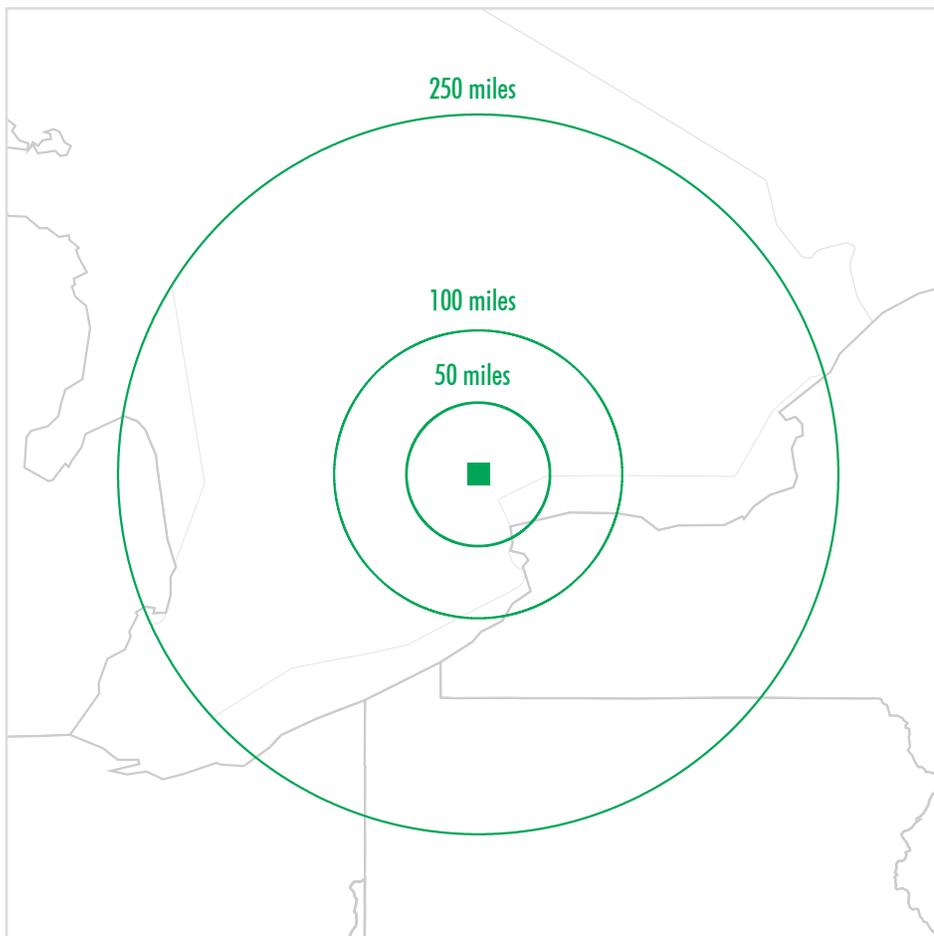
Toronto

Demographics

More than 8.6 million people live within 50 miles of the market core, the highest population concentration in Canada. Population is expected to grow by 7.4% over the next five years. Nearly 15 million people are within 250 miles, with a five-year projected growth rate of 6.4%.

The local warehouse labor force of 129,800 is expected to grow by 14.4% over the next decade. The average hourly wage for a non-supervisory employee is C\$17.76 (US\$13.24), one of the most affordable rates in North America.

Figure 1: Toronto Population Analysis



Distance from Toronto	2020 Total Population	5 Year Growth
50 miles	8,591,028	7.4%
100 miles	10,604,717	7.1%
250 miles	14,480,371	6.4%

Source: Environics Analytics, 2020.

Figure 2: Toronto Warehouse & Storage Labor Fundamentals



Source: Statistics Canada LFS (NOCs), Conference Board of Canada, CBRE Research, December 2020.

*Average hourly wage rate (all levels of experience); Non-Supervisory Warehouse Workers (forklift, warehouse workers).

Location Incentives

Over the past five years, there have been 55 economic incentives deals totaling more than \$196 million at an average of \$44,271 per new job in the Toronto metropolitan area, according to Wavteq.

According to [CBRE’s Location Incentives Group](#), the extent, if any, of province and local incentives offerings for industrial projects in metro Toronto depends on location and scope of the operation.

Figure 3: Toronto Top Incentive Programs

Program	Description
Strategic Innovation Fund (SIF)	Funds 10-50% of project costs for large-scale R&D and innovation projects
Scientific Research & Experimental Development (SR&ED) Program	Tax credits ranging from 15-35% of eligible R&D-related expenses
Industrial Research Assistance Program (IRAP)	Financial contributions provided by the National Research Council (NRC) of up to 60-80% of technical labor and subcontractor expenses to support technical R&D projects
Canada-Ontario Job Grant	Up to \$10,000 in government support per person for training costs
Student Work Placement Program	Wage subsidies of up to \$5,000 for every student hired through placement program
Co-operative Education Tax Credit	Refundable tax credit up to \$3,000 for each qualifying work placement

Source: CBRE Location Incentives Group.

Note: The extent, if any, of state and local offerings depends on location and scope of the operation.

Toronto

Logistics Driver

Toronto has superb access to seven major highways that provide access to locations across Canada and to U.S. border crossings. The market is served by both the Canadian National and Canadian Pacific railways, with intermodal rail yards in Brampton, Caledon, Milton and Vaughan.

Toronto Pearson International Airport processes more than 45% of Canada's air cargo, serving 175 international destinations. The airport is at the center of the region's rail and highway network, making cargo easy to ship to the region's big-box facilities.

Capital Markets



Big-box industrial investment activity in Toronto has been sparse, but not due to a lack of interest in one of Canada's most desirable markets. Many Canadian institutional investors want to increase their allocations to the industrial asset class in Toronto, but few owners are willing to sell. This is expected to change in the coming months as merchant builders look to monetize recently completed buildings. Pricing is expected to break through existing peak levels and going-in yields likely will lower toward the mid-3% range. Pricing will increase due to an abundance of Canadian institutional capital with mandates to invest domestically and a limited amount of best-in-class product for sale.”

– Peter Senst, President, Canadian Capital Markets

Figure 4: Cap Rate Comparison

	Class A	Class B
2020	3.65% - 4.15%	4.25% - 5.25%
2019	3.75% - 4.25%	4.50% - 5.50%

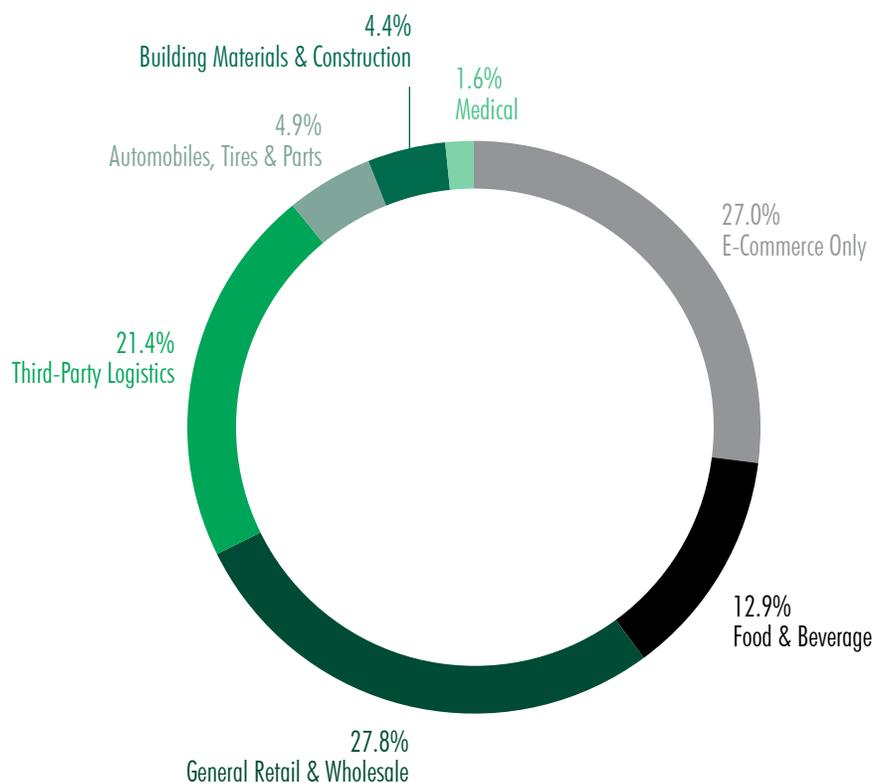
Source: CBRE Research.

Supply & Demand

With 258 million sq. ft. of total inventory, Toronto is the largest big-box market in Canada. The direct vacancy rate is a mere 0.3%, despite 7.6 million sq. ft of construction completions last year. Demand is so high that completions are leased before or at the time of completion and any available existing space is leased prior to being vacated. Transaction volume rose by 38.2% year-over-year in 2020 to 17.2 million sq. ft., with absorption totaling 7.8 million sq. ft.

Developers are buying land farther out from the market core, with 8.9 million sq. ft. currently under construction. Nearly 73% of this is already preleased, including nearly all of the 500,000-sq.-ft. and larger facilities. First-year taking rents rose by 4.6% year-over-year. Toronto will remain one of the most in-demand big-box markets in North America, but the lack of available inventory will keep its vacancy rate at a record low for the foreseeable future.

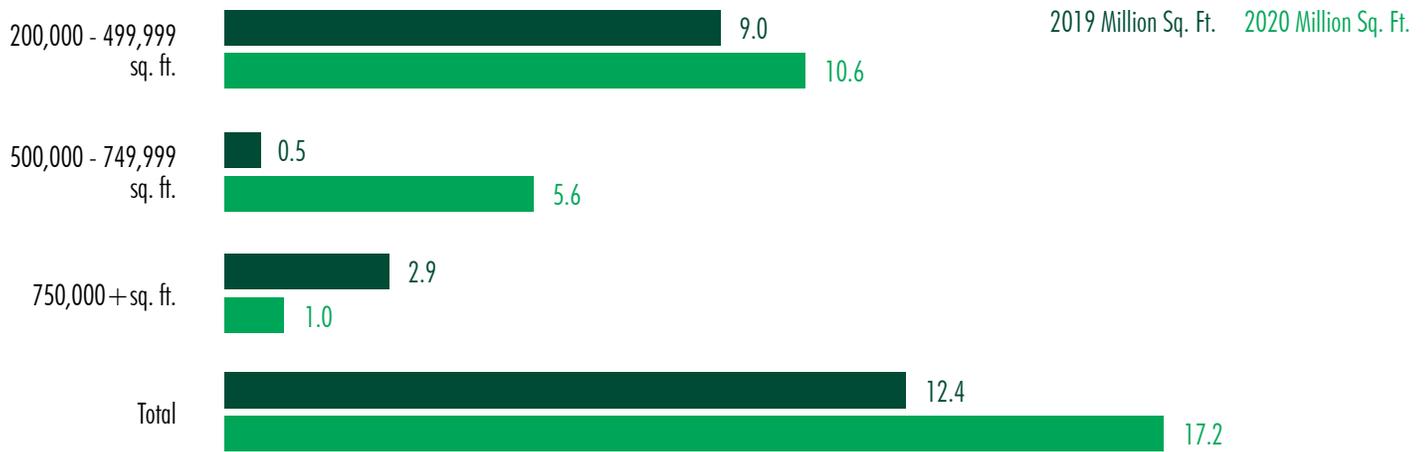
Figure 5: 2020 Occupier Transaction Market Share



Source: CBRE Research.

Toronto

Figure 6: Transaction Volume



Note: Includes new leases, renewals, and user sales transactions 200,000 sq. ft. and above.
Source: CBRE Research.

Figure 7: Big Box Year-Over-Year Data Comparison

2020						
	# of Existing Buildings	Existing Inventory SF	Direct Vacancy Rate	Overall Net Absorption	Construction Completions	First Year NNN Taking Rent psf/yr
200,000-499,999 SF	543	153,891,766	0.4%	4,250,297	3,841,170	\$8.49
500,000-749,999 SF	56	33,337,844	0.4%	380,108	592,636	\$8.90
750,000+ SF	49	70,768,007	0.0%	3,213,534	3,213,534	\$8.64
Total	648	257,997,617	0.3%	7,843,939	7,647,340	\$8.62
2019						
	# of Existing Buildings	Existing Inventory SF	Direct Vacancy Rate	Overall Net Absorption	Construction Completions	First Year NNN Taking Rent psf/yr
200,000-499,999 SF	529	150,050,596	0.9%	3,825,574	3,514,388	\$7.59
500,000-749,999 SF	55	32,745,208	0.4%	743,463	0	\$7.57
750,000+ SF	46	67,554,473	0.0%	3,745,975	3,745,975	\$7.33
Total	630	250,350,277	0.6%	8,315,012	7,260,363	\$7.52

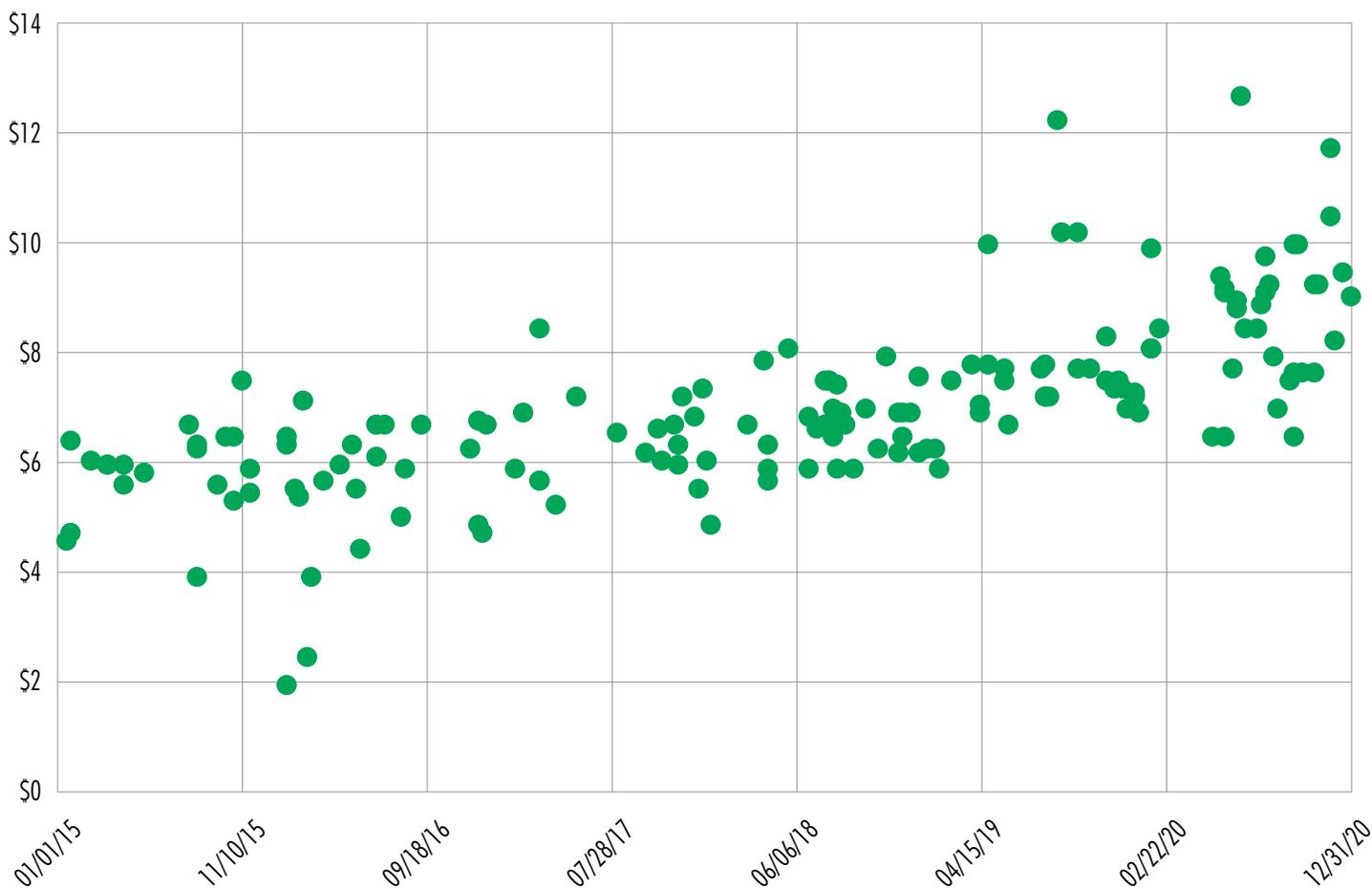
Note: Taking Rents are in \$CAD.
Source: CBRE Research.

Figure 8: Under Construction & Percentage Released

	2020 Under Construction Sq. Ft.	% Released
200,000-499,999 sq. ft.	4,800,791	53.9%
500,000-749,999 sq. ft.	2,260,845	100.0%
750,000+ sq. ft.	1,822,952	88.5%
Total	8,884,588	72.7%

Source: CBRE Research.

Figure 9: First Year Taking Rents (psf/yr)



Note: Includes first year taking rents for leases 200,000 sq. ft. and above. Taking Rents are in \$CAD.
Source: CBRE Research.

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