

Canada Industrial, Q1 2016

Sector specific growth fueling real estate decisions—outlook varied by region

Availability Rate
5.5%

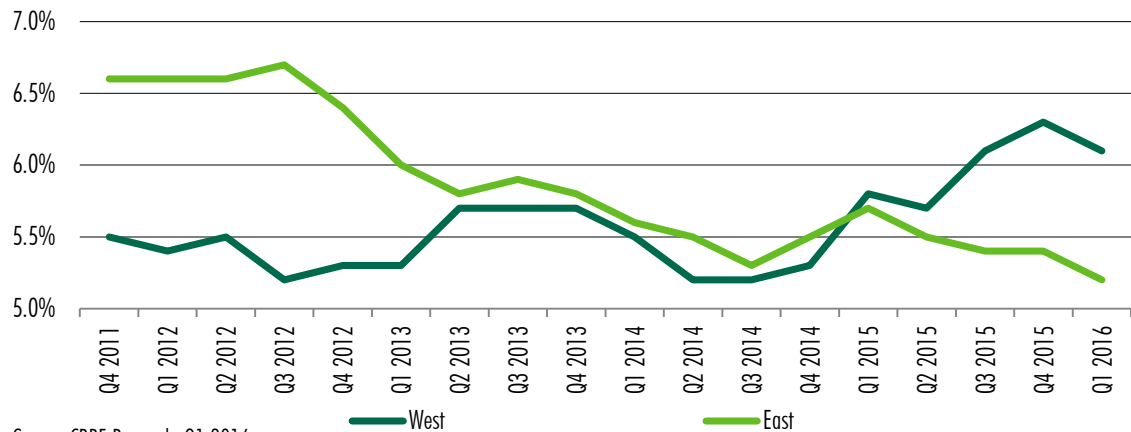
New Supply
3.4 MSF

Average Net Rent
\$6.50 PSF

Net Absorption
5.9 MSF

*Arrow indicates change from previous quarter.

Figure 1: Availability Rates by Eastern vs. Western Canada



Source: CBRE Research, Q1 2016.

- Transportation and warehousing continues to lead the industrial market in Canada. E-commerce, transportation, warehousing and logistics users continue expanding into major distribution hubs, notably in Calgary and the Greater Toronto Area (GTA), which have received the majority of the benefit as a result.
- Manufacturing has shown its resiliency, returning to parts of Southwestern Ontario, Winnipeg, and Edmonton, led by a weaker Canadian Dollar and increasing U.S. demand, are leading the sector towards a recovery.
- There is roughly the same amount of construction activity in Vancouver as there is in the GTA, a market nearly four times the size of Vancouver, though the landscape of the construction market will likely change over the next quarter when 3.8 million sq. ft. of construction is expected to be delivered to the Canadian market, approximately 70% of which is expected to be delivered to the GTA.

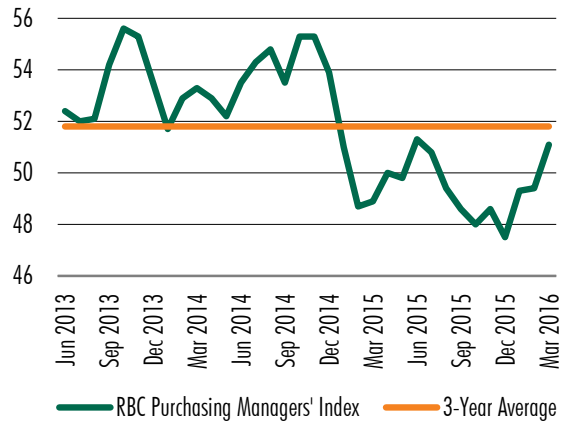
Though it may still be too early to determine, market fundamentals in Western Canada have shown signs of improvement in Q1 2016. Alberta's industrial market closed the quarter on a relatively strong basis, with Edmonton and Calgary experiencing 1.1 million sq. ft. and 391,000 sq. ft. of positive net absorption, respectively. The transportation and warehousing industry started 2016 on another positive run, with major distribution nodes, including Calgary and Toronto exemplifying strong demand for large bay product. In parts of Southwestern Ontario, a recent improvement in manufacturing conditions stemming from a low Canadian Dollar and a relatively strong U.S. economy has resulted in manufacturing exports improving. Canada's overall availability rate decreased by 10 basis points (bps) on a quarter-over-quarter basis and 30 basis points on a year-over-year basis to 5.5% as conditions were generally healthy, while a balanced construction pipeline is anticipated to keep market fundamentals in check.

Canada's unemployment rate reached a three-year high in February, resulting in the net loss of 2,300 jobs. A turnaround in March contrasted the previous month as employment grew by 41,000 jobs and unemployment fell 20 bps to 7.1%. Alberta's labour market performance was surprisingly strong in March, topping provincial employment gains by adding 19,000 jobs, followed by Manitoba at 5,500 jobs and Nova Scotia at 3,400 jobs.

Canada's manufacturing industry witnessed a growing resurgence in 2016. Exports have benefitted from the result of a low Canadian Dollar and strong U.S. demand, and modest strengthening is anticipated based on the growing confidence from industry and economic indicators. The RBC PMI Index recorded a third consecutive month of expansion as results for March reached its highest confidence level since June 2015.

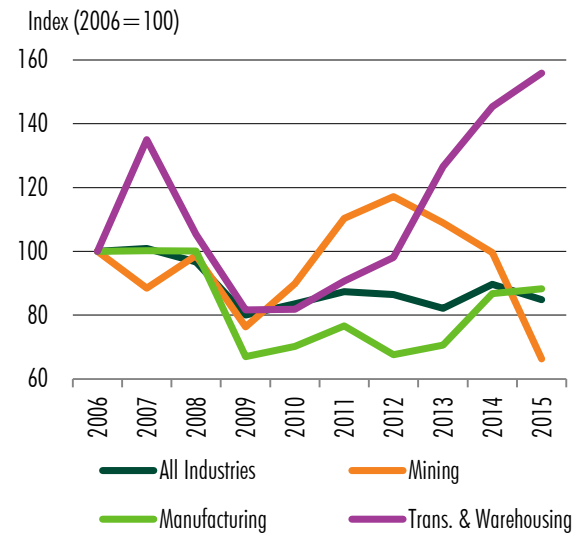
Similar to 2015, transportation & warehousing started the year on a solid trajectory based on growing demand from the retail and e-commerce industry. E-commerce sales are continuing to make up a growing percentage of total retail sales and users are responding with unique and emerging strategies to combat the growing demand for delivery options. Activity for large bay inventory in or near major distribution hubs and small bay inventory near urban centers (used for urban retail replenishment and e-commerce distribution) is garnering the attention of users interested in growing their distribution and logistics platforms.

Figure 2: Manufacturing Purchasing Managers' Index



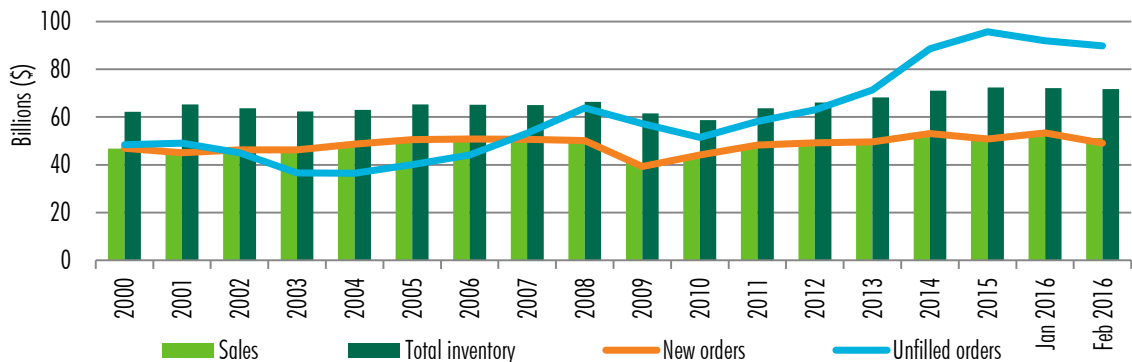
Source: Royal Bank of Canada, April 2016.
 *RBC PMI reading of 50.0 indicates no change, greater than 50.0 indicates expansion, and less than 50.0 indicates contraction.

Figure 3: Capital Expenditure by Industry



Source: Statistics Canada, 2016.

Figure 4: Manufacturing Sales



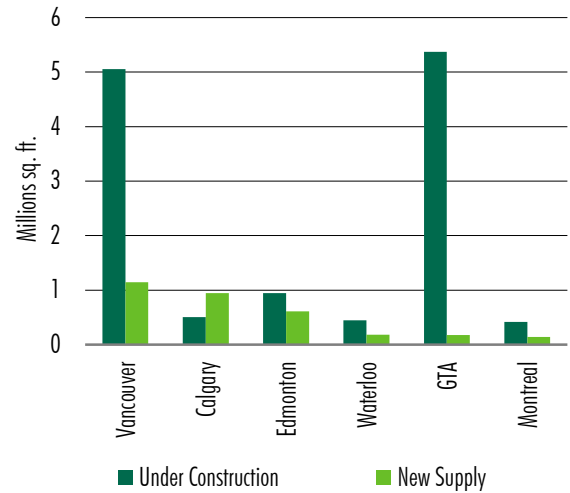
Source: Statistics Canada, 2016.

Western Canada dominated the construction market this quarter, including the delivery of 2.7 million of the 3.4 million sq. ft. across Canada. Notable completions include the 401,000 sq. ft. in the Nose Creek Business Park A & C and 229,000 sq. ft. at the Yellowhead Crossing in Edmonton and the 430,000 sq. ft. TJX Canada distribution center in Delta.

There is roughly the same volume of construction activity in Vancouver as there is in the GTA, a market nearly four times the size of Vancouver. The landscape of the construction market will likely change over the next quarter when 3.8 million sq. ft. of construction is expected to be delivered to the Canadian market, approximately 70% of which is expected to be delivered to the GTA.

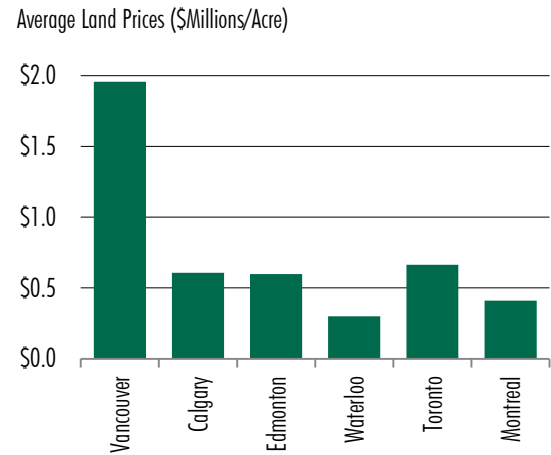
Although there currently exists a relatively small supply of Class A warehouse space on the market, new construction has diminished due to the high cost of construction, limited supply of land and adverse risk for developers. The average cost of land per acre varies widely by market, but Vancouver continues to generate the highest land costs in Canada, reaching nearly \$2 million per acre in Q1 2016, while Calgary, Edmonton, and Toronto follow shortly behind at roughly \$600,000-700,000 per acre. At just over \$100,000 per acre, London has the lowest cost of industrial land available in Canada based on current markets tracked.

Figure 5: Construction and New Supply



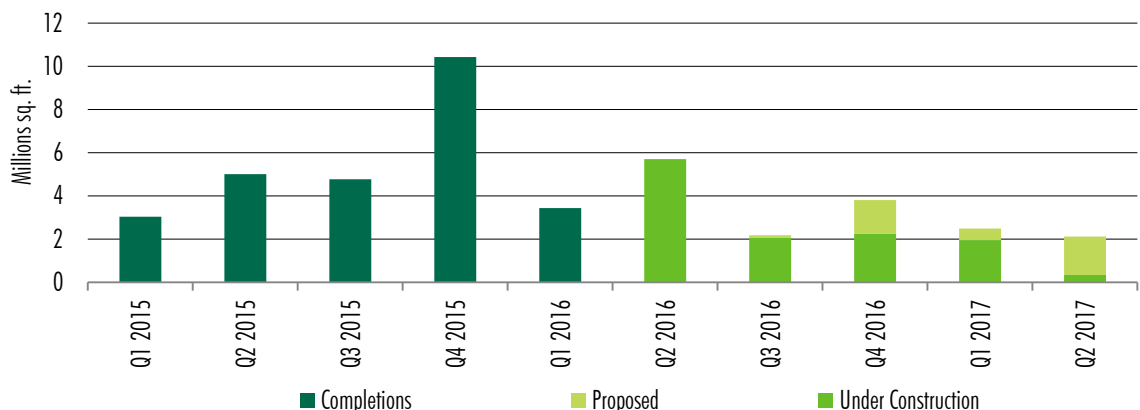
Source: CBRE Research, Q1 2016.

Figure 6: Average Land Cost by Select Market



Source: CBRE Research, Q1 2016.

Figure 7: Estimated Construction Pipeline



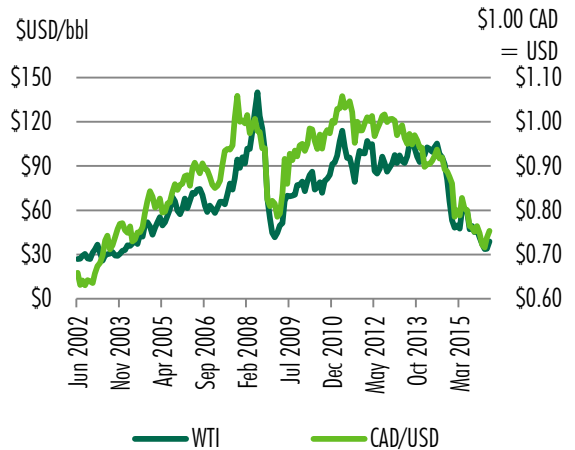
Source: CBRE Research, Q1 2016.

The low Canadian Dollar has led to a booming film and entertainment industry in Vancouver, Toronto and Montreal. Since 2015 film production deals have accounted for nearly 800,000 sq. ft. of space leased in Vancouver. Pinewood Toronto Studios, the largest film and television studio in Canada, recently announced an expansion to build an additional 135,000 sq. ft. of workshop facilities at 225 Commissioners St. in Toronto, where they have 300,000 sq. ft. of existing studio space. The facility is expected to be completed in 2018 and is their first step towards a 600,000 sq. ft. expansion.

Net absorption in Montreal was considerably higher than any quarter in 2015, and signs are pointing to a resurgence based on the benefits from the low Canadian Dollar. Similar to Montreal, a weak Dollar has signaled growing interest for manufacturing and agricultural requirements in parts of Southwestern Ontario. Halifax remained relatively quiet this quarter in comparison to markets with ties to currency fluctuations, but the overall sentiment still remains positive despite a turbulent economic environment and climbing availability rate.

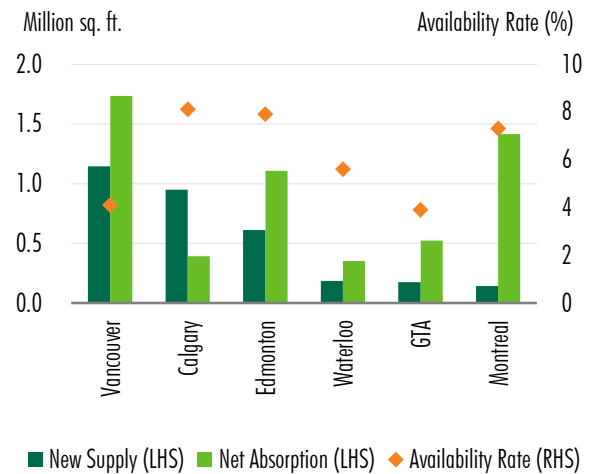
The national net rental rate was relatively flat in Q1 2016, increasing by a marginal \$0.03 per sq. ft. to \$6.50 per sq. ft. Net rental rates continue to compress in Alberta, notably in Calgary where prices have fallen by \$1.15 per sq. ft. from \$8.40 per sq. ft. in Q4 2014.

Figure 8: WTI Crude Oil Price & CAD/USD Exchange Rate



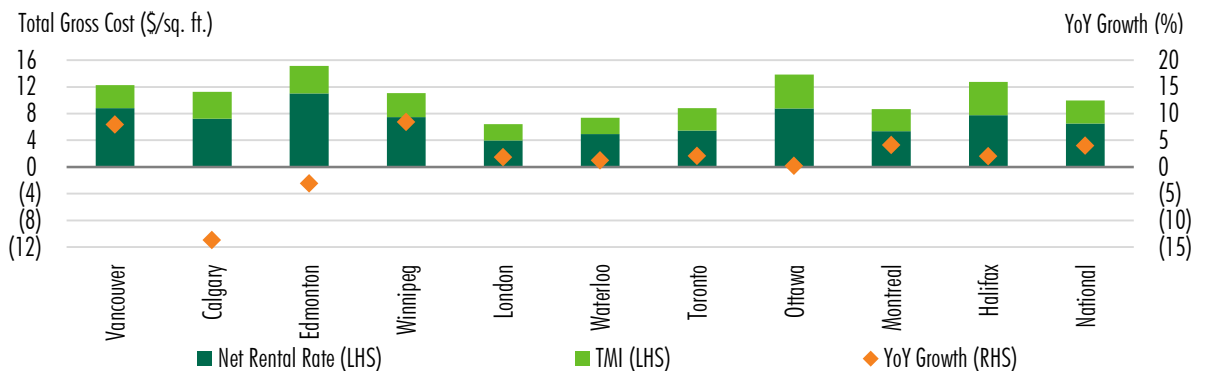
Source: U.S. Energy Information Administration, Thomson Reuters, CBRE Research, Q1 2016.

Figure 9: Market Supply & Demand



Source: CBRE Research, Q1 2016.

Figure 10: Gross Lease Cost by City



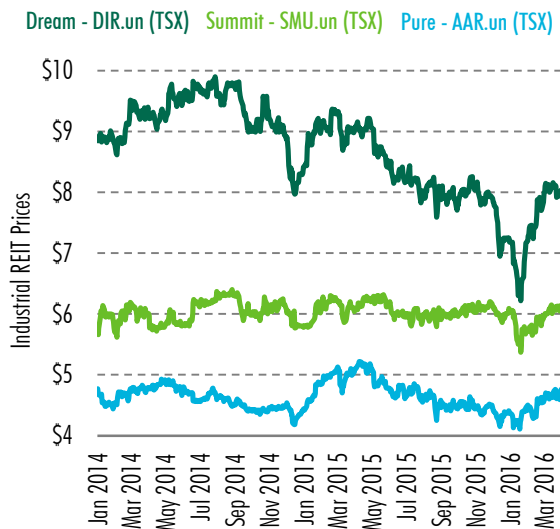
Source: CBRE Research, Q1 2016.

Figure 11: Q1 2016 Market Statistics Summary

Market	Inventory (SF)	Availability Rate (%)	Vacancy Rate (%)	Net Absorption (SF)	New Supply (SF)	Under Construction (SF)	Avg. Net Asking Rent (\$/SF)
VANCOUVER	184,081,262	4.1	2.6	1,733,800	1,145,008	5,056,100	8.84
CALGARY	131,083,798	8.1	7.3	391,783	948,593	507,894	7.25
EDMONTON	113,611,462	7.9	4.0	1,108,822	611,350	948,821	11.03
WINNIPEG	77,301,348	4.9	4.8	(58,449)	0	82,360	7.48
WEST	506,077,870	6.1	4.5	3,175,956	2,704,951	6,595,175	8.76
LONDON	39,208,024	10.7	8.2	442,949	136,794	0	3.96
WATERLOO REGION	112,746,935	5.6	4.6	353,263	186,200	446,752	4.91
GTA	759,767,494	3.9	1.8	524,823	176,218	5,373,939	5.48
OTTAWA	29,882,403	6.4	4.6	22,531	58,285	74,939	8.77
MONTREAL	300,239,238	7.3	7.3	1,414,858	143,000	421,000	5.37
HALIFAX	12,095,964	11.2	11.0	31,486	25,000	147,000	7.74
EAST	1,253,940,058	5.2	3.8	2,789,910	725,497	6,463,630	5.43
NATIONAL	1,760,017,928	5.5	3.9	5,965,866	3,430,448	13,058,805	6.50

Source: CBRE Research, Q1 2016.

Figure 12: Industrial REIT Prices



Source: Thomson Reuters & CBRE Research, Q1 2016.

The large-cap-weighted S&P/TSX Capped REIT index delivered a total return of 10.7% in Q1 2016, ahead of the 4.5% total return by the S&P/TSX Composite Index. The spread between all property asset yields and the 10-year GoC bond yield reached 480 bps, while the spread between industrial yields and the 10-year GoC reached 518 bps. In Q1, industrial REITs returned an average of 3.8%, but Dream Industrial REIT (DIR.un) notably returned a total of 14.6% after falling late in 2015. REITs with heavy exposure to Alberta were faced with some forms of uncertainty over occupancy erosion in the market. Despite challenging conditions faced in the overall REIT environment, fundamentals for industrial REITs are still generally favourable.

Figure 13: Notable Sale Transactions

Size (SF)	Sale Price (\$MM)	Purchaser	Purchaser Type	Address	Price (\$/SF)
568,000	64.9	Bentall Kennedy	Private Investor	12333 Airport Rd., ON	114
293,487	49.5	Bentall Kennedy	Private Investor	8400 & 8500 River Rd., BC	167
448,077	44.3	LPF Realty Industrial Inc.	Institution	2879, 2905, 2951, 2965, Bristol Cir. & 2351 Upper Middle Rd., ON	99
209,900	21.6	PLD Canadian Holding	Private Investor	6170 Edwards Blvd., ON	103
150,681	15.4	FGF Brands	User	10 Woodslea Rd., ON	103

Source: CBRE Research, Q1 2016.

Figure 14: Notable Lease Transactions

Size (SF)	Tenant	Tenant Industry	Address
429,423	Dorel Industries Inc.	Manufacturing	12345 Albert-Hudon, QC
411,264	Intramodal Warehouses Inc.	Transportation & Warehousing	2200 TransCanada Highway, QC
270,000	Connect Logistics	Transportation & Warehousing	12804 184 St., AB
200,516	Procter & Gamble	Transportation & Warehousing	99 Savannah Oaks Dr., ON

Source: CBRE Research, Q1 2016.

Figure 15: Notable New Supply

Size (SF)	Property Name/Address	Developer	Speculative or Design-Build	Pre-Leased (%)
430,000	Boundary Bay Phase II – 8181 Churchill St., Delta, B.C	Dayhu	Speculative	100
229,075	Yellowhead Crossing Building 4 – 186 St. & 116 Ave., Edmonton, AB	Bentall Kennedy	Speculative	100
220,000	Frontier Park, Rockyview, Calgary, AB	Remington	Design-Build	100
216,680	Nose Creek Business Park – Building C, Balzac, AB	Bentall Kennedy	Speculative	0
184,710	Nose Creek Business Park – Building A, Balzac, AB	Bentall Kennedy	Speculative	0

Source: CBRE Research, Q1 2016.

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