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Media Release

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Media Relations:
Sherry Quan
604.647.5098 or 604.726.0959 cell
email: sherry.quan@avisonyoung.com

Editors/Reporters:
• **Please click on link to view and download Avison Young's *Spring 2017 North America and U.K. Industrial Market Report*:**
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Single-digit vacancy rates define rapidly evolving North America and U.K. industrial sectors

Avison Young releases its Spring 2017 North America and U.K. Industrial Market Report

Toronto, ON — The industrial property sector continues to be characterized by sound fundamentals, irrespective of geography and geopolitical and economic conditions. Record-low or near-record-low vacancy rates, owing to robust demand, are placing upward pressure on rental rates. Development costs are also on the rise, due to dwindling land supply in some markets. Meanwhile, developers strive to deliver modern product to meet evolving tenant demand – increasingly driven by the retail sector and its goal to feed today's insatiable consumer appetite.

These are some of the key trends noted in **Avison Young's *Spring 2017 North America and U.K. Industrial Market Report***, released today.

The report covers the industrial markets in 55 North American and U.K. metropolitan regions: **Calgary**, **Edmonton**, **Halifax**, **Lethbridge**, **Montreal**, **Ottawa**, **Regina**, **Toronto**, **Vancouver**, **Waterloo Region**, **Winnipeg**, **Atlanta**, **Austin**, **Boston**, **Charleston**, **Charlotte**, **Chicago**, **Cleveland**, **Columbus, OH**; **Dallas**, **Denver**, **Detroit**, **Fort Lauderdale**, **Greenville**, **Hartford, Houston**, **Indianapolis**, **Jacksonville, Las Vegas**, **Long Island**, **Los Angeles**, **Miami**, **Minneapolis**, **Nashville**, **New Jersey**, **Oakland**, **Orange County**, **Orlando**, **Philadelphia**, **Phoenix, Pittsburgh**, **Raleigh-Durham**, **Reno**, **Sacramento**, **San Antonio**, **San Diego County**, **San Francisco**, **San Mateo**, **St. Louis, Tampa**, **Washington, DC**; **West Palm Beach**, **Mexico City**, **Coventry, U.K.** and **London, U.K.**

"The industrial property sector's metrics continue to impress the market as occupiers and investors alike are drawn to the sector's stability," comments **Mark E. Rose**, Chair and CEO of Avison Young. "Though traditional manufacturing operations remain part of the industrial fabric, surging demand for online shopping – while causing disruption in traditional brick-and-mortar retail properties – has provided immense opportunities in industrial plant, distribution and warehouse assets as supply chains become increasingly complex and seek efficiencies. An increasing urban population base also means feeding the unquenchable demand of a fickle and growing consumer market that demands cost-effective, same-day delivery options."

He continues: "There is one recurring statistic in virtually every market and country under our coverage – low vacancy rates. All but two markets posted single-digit vacancy at the conclusion of the first quarter of 2017. Keeping pace with demand, the development community delivered more than 218 million square feet (msf) over the past 12 months and had more than 205 msf under construction at the end of the first quarter. In increasingly land-constrained markets, developers are being forced to think outside the traditional warehouse footprint and are even contemplating multi-storey warehouses."

According to the report, of the 55 industrial markets tracked by Avison Young across North America and the U.K., which comprise almost 14 billion square feet, vacancy declined in 40 markets, remained unchanged in two and increased in only 13 during the 12-month period ending March 31, 2017.

The analysis also revealed lower year-over-year industrial vacancy rates in 30 of 41 U.S. markets and seven of 11 Canadian markets. Logistics-driven demand cut Mexico City's industrial vacancy rate by half to 3.2%, while in the U.K., the Coventry and London markets reported vacancy rates of 5.8% and 2.7%, respectively.

CANADA

Building on trends from 2016, Canada's 2-billion-square-foot industrial market continued to display sound property fundamentals in the opening quarter of 2017 despite bifurcation among markets across the country. While supply-demand imbalances remain in the oil patch, other regions with diverse and growing tenant bases are nearing full occupancy. Canada's industrial vacancy rate finished the first quarter of 2017 at 3.7% – down 30 basis points (bps) from the same quarter in 2016. Similar to one year earlier, 10 of the 11 markets surveyed displayed single-digit vacancy rates with five markets posting rates below the national average.

"Canada's industrial market continues to operate under the weight of a supply shortage, despite regional disparities in performance," says **Bill Argeropoulos**, Principal and Practice Leader, Research (Canada) for Avison Young. "Clearly, the supply shortfall in existing product and land supply has kept developers busy, but they remain prudent in delivering product to meet the market's changing needs. A competitive bidding environment persists and, although demand levels differ from one market to the next, rental rates are either holding firm or moving higher as tenants seeking alternative premises face diminishing options."

Argeropoulos continues: "Like everywhere else, e-commerce is driving much of the new development, featuring modern, technologically advanced distribution facilities – with higher clear heights, large bays and ample trailer parking space – near urban centres. However, not to be forgotten, older product in urban centres, once deemed obsolete, remains a hot commodity, offering timely and cost-effective solutions to shorten the last mile of the supply chain."

Notable First-Quarter 2017 Canadian Industrial Market Highlights:

- Vancouver (1.9%) edged out Toronto (2.2%) for the lowest vacancy in the country. Halifax retained both the highest rate (14.7%) and greatest year-over-year change (+280 bps), while Winnipeg (3.1%) recorded the biggest decline (-140 bps).

- In the North American context, Canadian markets are faring well. Vancouver, Toronto, Regina, Winnipeg and Ottawa claimed five of the 10 lowest vacancy rates, while Regina and Edmonton claimed two of the 10 highest average asking net rental rates. Vancouver just qualified for the top 10 development markets, while there were no Canadian markets in the top 10 absorption ranking.

- Regional disparities persist. Vacancy in Canada's Eastern markets retreated 50 bps year-over-year to 3.3%, while the Western markets sit 140 bps higher at a still-low 4.7%.

- Supply constraints resulted in ongoing positive absorption, though it fell short of the previous year's robust figure. Twelve-month absorption totalled 8.3 million square feet (msf) – a notable decline from 25 msf during the previous 12-month period. Due to a strong performance by Vancouver, the West outpaced the East, which was led by Montreal.

- The development community was on par with the previous 12-month tally, delivering slightly more than 16 msf of industrial product. Toronto accounted for 45% of the country's completions – almost twice the level of the next closest market, Vancouver.

- The amount of new construction underway slowed by some 2 msf year-over-year, to 8.2 msf (46% preleased) at the end of the first quarter of 2017. Total industrial area under construction is primarily concentrated in two markets – Vancouver (52%) and Toronto (35%).

- The national average net asking rental rate increased marginally from one year earlier to close the first quarter of 2017 at $8.05 per square foot (psf). Year-over-year, rents grew in seven of the 11 markets (with four markets posting rents above the national average).

Argeropoulos adds: "The industrial market is expected to benefit from the world's largest economy, Canada's neighbour and biggest trade partner – the U.S. The caveat: Uncertainty surrounding the new U.S. administration's protectionist trade policies could pose some risk to the industrial market and Canada in general. Barring any unexpected changes, prevailing trends will continue to define the market in the near term."

U.S.

Landlord-favourable conditions persisted in the U.S. during the 12-month period ending March 31, 2017. Overall vacancy averaged 5.3% in the markets tracked by Avison Young, down from 5.9% one year earlier. Leasing fundamentals in nearly every market demonstrated strength and improvement. There is a supply shortage in some markets, resulting in rental rates growing precipitously.

"Certainly, we've seen no slowdown in leasing activity since this time last year, and market indicators continued to improve broadly across the U.S. Even markets, such as Houston, that were cause for concern in 2016 because of volatile energy prices reported occupancy gains, robust deliveries and controlled new construction," states **Earl Webb**, Avison Young's President, U.S. Operations. "The next cycle for the industrial market could prove to be interesting as data centers, technology and distribution help drive vacancy to new lows and functionally obsolete buildings are converted to other uses. Lack of available supply, the emphasis on the last mile in the supply chain, higher clear heights and land constraints are widespread and common issues."

Notable First-Quarter 2017 U.S. Industrial Market Highlights:

- Seventeen of the 41 markets in the 11.5-bsf U.S. industrial market tracked by Avison Young posted below-average vacancy. The lowest rates in the country were recorded in San Mateo (36 msf/1.8%), Orange County (218 msf/2%) and Miami (182 msf/2.8%).

- U.S. markets posted 232 msf of net absorption during the 12 months ending March 31, 2017 – an increase of 12 msf over the previous 12-month period. Six markets gained 10 msf or more of occupancy: Dallas (27 msf), Los Angeles (26 msf), Atlanta (18 msf), Chicago (17 msf), Detroit (14 msf) and New Jersey (10 msf). Not surprisingly, some of the tightest markets registered the least amount of absorption due to lack of supply, such as in Northern California's San Francisco (29,000 sf) and San Mateo (42,000 sf) markets.

- In first-quarter 2017, overall average asking triple-net rent was $6.97 psf, an increase of $0.44 since the same period in 2016. All but two U.S. markets saw rental rate increases. The leader, by far, was San Francisco, which averaged $19 psf, followed by San Mateo ($14.28 psf) and San Diego ($12.24 psf).

- While most U.S. markets recorded only modest levels of construction completions, some of the nation's strongest performers had a remarkable volume of new supply come online during the 12 months ending March 31, 2017. Dallas delivered 25.5 msf – a whopping 9-msf increase compared with the previous 12-month period. In Los Angeles, 24.7 msf came online – virtually the same amount as in the prior 12 months – followed by Atlanta (20.3 msf/+3.8 msf), Chicago (20 msf/+1.2 msf) and Houston (13.6 msf/+3.6 msf).

- Looking forward, the aforementioned markets with higher-than-average deliveries in the last 12 months will dominate new development in the next year with Philadelphia, which has 17.4 msf currently under construction, joining the leaders. Altogether, 181 msf was underway in the U.S. as of first-quarter 2017, with a 37% prelease rate, pointing to the demand for modern facilities in distribution corridors.

- South Florida's Port Everglades registered record growth in cargo shipments, due in part to more perishable goods arriving from South America, thus increasing the demand for new development. PortMiami is benefitting from the Panama Canal expansion, as it completed its own improvement and can now handle post-Panamax ships. These events are reflected in strong performances by all of the South Florida markets: Miami (182 msf/2.8%), Fort Lauderdale (95 msf/4.7%) and West Palm Beach (41 msf/4.1%).

Webb concludes: "A trend toward more workplace amenities is still needed in industrial parks to attract and retain employees as overall U.S. unemployment declines. Demand for quality, modern space and the needs of e-commerce companies should continue to fuel the industrial market."

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Please turn to the following pages of the report for local market highlights. For comments on individual markets, please contact the Avison Young representatives listed below. Thank you.

pp.4-5 Canada & U.S.:
Bill Argeropoulos, Principal and Practice Leader, Research (Canada), 416.673.4029 or 416.906.3072 (cell) bill.argeropoulos@avisonyoung.com
Margaret Donkerbrook, Principal and Practice Leader, U.S. Research, 202.644.8677 margaret.donkerbrook@avisonyoung.com

Canada
p.13 Calgary
Todd Throndson, Principal and Managing Director, 403.232.4343 todd.throndson@avisonyoung.com

p.14 Edmonton
Cory Wosnack, Principal and Managing Director, 780.429.7556 cory.wosnack@avisonyoung.com

p.15 Halifax
Michael Brown, Managing Director, 902.454.4110 michael.brown@avisonyoung.com

p.16 Lethbridge
Doug Mereska, Managing Director, 403.330.3338 doug.mereska@avisonyoung.com

p.17 Montreal
Denis Perreault, Principal and Managing Director, 514.905.0604 denis.perreault@avisonyoung.com

p.18 Ottawa
Michael Church, Principal and Managing Director, 613.567.6634 michael.church@avisonyoung.com

p.19 Regina
Richard Jankowski, Managing Director, 306.559.9009 richard.jankowski@avisonyoung.com

p.20 Toronto
Martin Dockrill, Principal and Managing Director, 905.283.2333 martin.dockrill@avisonyoung.com

p.21 Vancouver
Michael Keenan, Principal and Managing Director, 604.647.5081 michael.keenan@avisonyoung.com

p.22 Waterloo Region
Ted Davis, Managing Director, 226.366.9040 ted.davis@avisonyoung.com

p.23 Winnipeg:
Wes Schollenberg, Managing Director, 204.947.2886 wes.schollenberg@avisonyoung.com

United States
p.25 Atlanta
Steve Dils, Principal and Managing Director, 404.865.3663 steve.dils@avisonyoung.com

p.26 Austin
Mike Kennedy, Principal and Managing Director, 512.717.3099 mike.kennedy@avisonyoung.com

p.27 Boston
Michael Smith, Principal and Managing Director, 617.575.2830 michael.smith@avisonyoung.com

p.28 Charleston
Chris Fraser, Managing Director, 843.725.7200 chris.fraser@avisonyoung.com

p.29 Charlotte
John Linderman, Principal and Managing Director, 919.420.1559 john.linderman@avisonyoung.com

p.30 Chicago
Danny Nikitas, Principal and Managing Director, 312.940.8794 danny.nikitas@avisonyoung.com

p.31 Cleveland
Chris Livingston, Principal and Managing Director, 216.406.1131 chris.livingston@avisonyoung.com

p.32 Columbus, OH
Scott Pickett, Principal and Managing Director, 614.264.4400 scott.pickett@avisonyoung.com

p.33 Dallas
Greg Langston, Principal and Managing Director, 214.269.3115 greg.langston@avisonyoung.com

p.34 Denver
Alec Wynne, Principal and Managing Director, 720.508.8112 alec.wynne@avisonyoung.com

p.35 Detroit:
Jim Becker, Principal and Managing Director, 313.510.2825 jim.becker@avisonyoung.com

p.36 Fort Lauderdale
Pike Rowley, Principal and Managing Director, 954.938.1807 pike.rowley@avisonyoung.com

p.37 Greenville
Chris Fraser, Managing Director, 843-725-7200 chris.fraser@avisonyoung.com

p.38 Hartford
Andrew Filler, Principal and Managing Director, 860.327.8302 andrew.filler@avisonyoung.com

p.39 Houston
Rand Stephens, Principal and Managing Director, 713.993.7810 rand.stephens@avisonyoung.com

p.40 Indianapolis
Bill Ehret, Principal and Managing Director, 317.210.8808 bill.ehret@avisonyoung.com

p.41 Jacksonville
Pike Rowley, Principal and Managing Director, 954.938.1807 pike.rowley@avisonyoung.com

p.42 Las Vegas
Tony Amato, Principal, 702.475.7542 tony.amato@avisonyoung.com

p.43 Long Island
Ted Stratigos, Principal and Managing Director, 516.962.5399 ted.stratigos@avisonyoung.com

p.44 Los Angeles
Chris Cooper, Principal and Managing Director, 213.935.7435 chris.cooper@avisonyoung.com

p.45 Miami
Donna Abood, Principal and Managing Director**,** 305.447.7857 donna.abood@avisonyoung.com
Michael Fay, Principal and Managing Director, 305.447.7842 michael.fay@avisonyoung.com

p.46 Minneapolis
Mark Evenson, Principal and Managing Director**,** 612.913.5641 mark.evenson@avisonyoung.com

p.47 Nashville
Warren Smith, Managing Director, 615.727.7409 warren.smith@avisonyoung.com

p.48 New Jersey
Jeff Heller, Principal and Managing Director**,** 973.753.1100 jeff.heller@avisonyoung.com

p.49 Oakland
Charlie Allen, Principal and Managing Director, 510.333.8477 charlie.allen@avisonyoung.com

p.50 Orange County
Keith Kropfl, Principal, 949.430.0680 keith.kropfl@avisonyoung.com

p.51 Orlando
Greg Morrison, Principal and Managing Director**,** 407.440.6640 greg.morrison@avisonyoung.com

p.52 Philadelphia
David Fahey, Principal and Managing Director**,** 610.276.1081 david.fahey@avisonyoung.com

p.53 Phoenix
David Genovese, Principal and Managing Director, 480.423.7900 david.genovese@avisonyoung.com

p.54 Pittsburgh
Brad Totten, Principal and Managing Director, 412.944.2132 brad.totten@avisonyoung.com

p.55 Raleigh-Durham
John Linderman, Principal and Managing Director, 919.420.1559 john.linderman@avisonyoung.com

p.56 Reno
John Pinjuv, Managing Director, 775.332.7300 john.pinjuv@avisonyoung.com

p.57 Sacramento
Thomas Aguer, Principal and Managing Director, 916.563.7827 tom.aguer@avisonyoung.com

p.58 San Antonio
Marshall Davidson, Principal and Managing Director, 210.714.8083
marshall.davidson@avisonyoung.com

p.59 San Diego
Jerry Keeney, Principal**,** 858.201.7077 jerry.keeney@avisonyoung.com

p.60 San Francisco
Nick Slonek, Principal and Managing Director, 415.322.5051 nick.slonek@avisonyoung.com

p.61 San Mateo
Randy Keller, Principal and Managing Director, 650.425.6425 randy.keller@avisonyoung.com

p.62 St. Louis
Tim Convy, Principal of St. Louis Operations and Managing Director - Brokerage, 314.650.6601
tim.convy@avisonyoung.com

p.63 Tampa
Ken Lane, Principal and Managing Director, 813.444.0623 ken.lane@avisonyoung.com
Clay Witherspoon, Principal and Managing Director, 813.444.0626 clay.witherspoon@avisonyoung.com

p.64 Washington, DC
Josh Peyton, Principal and Managing Director, 202.644.8688 josh.peyton@avisonyoung.com

p.65 West Palm Beach
Jonathan Satter, Principal and Managing Director, 561.721.7031 jonathan.satter@avisonyoung.com

Mexico
p.67 Mexico City
Guillermo Sepulveda, Principal and Managing Director, 52 55 4123 7570
guillermo.sepulveda@avisonyoung.com

United Kingdom
p.69 Coventry
Robert Rae, Principal and Managing Director, +44 (0)24 7663 6888 robert.rae@avisonyoung.com

p.70 London
Jason Sibthorpe, Principal and Managing Director, +44 (0)20 7046 6514
jason.sibthorpe@avisonyoung.com

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For further information/comment/photos:

- **Sherry Quan**, Principal, Global Director of Communications & Media Relations, Avison Young: **604.647.5098; cell: 604.726.0959** sherry.quan@avisonyoung.com

- **Bill Argeropoulos**, Principal and Practice Leader, Research (Canada), Avison Young: **416.673.4029; cell: 416.906.3072** bill.argeropoulos@avisonyoung.com

- **Margaret Donkerbrook**, Principal and Practice Leader, U.S. Research, Avison Young: **202.644.8677** margaret.donkerbrook@avisonyoung.com

• **Mark Rose,** Chair and CEO, Avison Young: **416.673.4028**

• **Earl Webb**, President, U.S. Operations, Avison Young: **312.957.7610**

www.avisonyoung.com

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