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Media Release

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• Please click on link to view Avison Young's *Spring 2018 North America and Europe Industrial Market Report*:
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Sound fundamentals, e-commerce and innovation drive rapidly evolving North American and European industrial sectors

Avison Young releases its Spring 2018 North America and Europe Industrial Market Report

Toronto, ON — Sound fundamentals, the logistics requirements of e-commerce, and innovations in building design and utilization continue to drive the rapid evolution of the industrial property sector across North America and Europe. An undersupply of available space remains a central issue in most markets, and developers have responded with notable new construction to anticipate occupiers' growing needs. Major online players are altering the supply chain, and new technologies and innovations are determining how, where and what type of industrial product is being built. Meanwhile, the needs of big data and the cannabis industry (in some markets) are adding to an already crowded playing field. Unknown factors potentially impacting the sector – and the global economy in general – include geopolitical changes such as the renegotiation of NAFTA and the U.K.'s exit from the European Union.

These are some of the key trends noted in **Avison Young's *Spring 2018 North America and Europe Industrial Market Report***, released today.

The report covers the industrial markets in 59 North American and European 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**, **Memphis, Miami**, **Minneapolis**, **Nashville**, **New Jersey**, **Oakland**, **Orange County**, **Orlando**, **Philadelphia**, **Phoenix**, **Pittsburgh**, **Raleigh-Durham**, **Reno**, **Sacramento**, **San Antonio**, **San Diego County**, **San Francisco**, **San Jose/Silicon Valley**, **San Mateo**, **St. Louis**, **Tampa**, **Washington**, **DC**; **West Palm Beach**, **Mexico City**, **Coventry**, **U.K.**; **London**, **U.K.**; **Manchester**, **U.K.**; and **Bucharest**, **Romania**.

"Today, I am pleased to share with you Avison Young's insights into the robust industrial market – the commercial real estate sector's hottest asset class," comments **Mark E. Rose**, Chair and CEO of Avison Young. "These insights are drawn from our annual industrial survey, spanning 59 markets across five countries and two continents, with a combined industrial stock of more than 14 billion square feet (bsf)."

He continues: "The push to find cost-effective solutions for same-day or next-day delivery to consumers is continuously challenging the retail sector – and, by association, the industrial sector, which frankly are becoming more intermingled than ever before. Although e-commerce sales make up only a small, but rapidly growing, fraction of overall retail sales, stakeholders looking to service the retail sector are thinking long-term. Strong demand is reflected in declining vacancy rates which, by the way, are at or approaching historic lows in many markets and countries, leading to rising rental rates for industrial space. This situation has increased asset values – a fact that has made industrial assets hot commodities among investors and users as well as occupiers."

"Confidence in the long-term viability of the industrial sector and e-commerce has recently been demonstrated not only by the sheer leasing velocity and demand for space, but also by some notable M&A activity, such as the all-cash transaction valued at C$3.8 billion, including debt, between Blackstone and PIRET earlier this year in Canada, as well as a recently announced merger agreement in which Prologis will acquire DCT and its 71 million square feet (msf) of real estate in a US$8.4-billion stock transaction, including the assumption of debt, in the U.S.," says Rose.

According to the report, of the 59 industrial markets surveyed by Avison Young across North America and Europe, vacancy declined in 38 markets, remained unchanged in three, and increased in 18 during the 12-month period ending March 31, 2018.

The analysis also revealed that, with demand in most markets outpacing new supply, the development of new product has escalated. Nearly 235 msf was completed across all markets surveyed by Avison Young in the 12 months ending with the first quarter of 2018 – an increase of more than 5 msf compared with the prior 12-month period. Meanwhile, the amount of space under construction increased more sharply, jumping more than 13 msf year-over-year to nearly 234 msf.

CANADA

Survey results of 11 Canadian industrial markets, which comprise more than 2 bsf, revealed a record-low national industrial vacancy rate of 3.3% in the first quarter of 2018 – down 40 basis points (bps) year-over-year. Trends from 2017 prevailed in the first quarter of 2018 with insatiable demand outpacing new supply and driving rents higher. Consequently, industrial assets are highly sought-after by investors.

"Canada's industrial market is performing well beyond expectations, and although absorption levels vary from city to city, the industrial market's increasingly strong link to the retail sector – specifically e-commerce – remains a key catalyst for growth," says **Bill Argeropoulos**, Principal and Practice Leader, Research (Canada) for Avison Young. "As a result, large-format distribution/fulfilment centre space is desirable, but scarce. Meanwhile, the overall industrial sector remains challenged by rising land costs, including soaring development charges, and dwindling supply of developable land in some markets."

Argeropoulos continues: “The sector’s encroachment on urban centres – to shorten last-mile delivery – and associated high costs may prompt landlords in Canada to follow the trend seen elsewhere and build multi-storey facilities that better fit into tighter infill markets. Innovative developers will ultimately transform the supply chain by thinking outside of the traditional warehouse box as stakeholders aim to future-proof their assets.”

Notable First-Quarter 2018 Canadian Industrial Market Highlights:

- Despite an improving U.S. market, Canadian markets are faring well on the North American scene. Among larger markets, Toronto (1.7%) and Vancouver (1.8%) boasted the lowest vacancy rates; Vancouver and Regina claimed two of the 10 highest average asking net rental rates (with Ottawa falling just short of the top 10).

- Ten of 11 Canadian markets displayed single-digit vacancy rates with four markets posting rates below the national average. Vacancy declined in eight of 11 markets year-over-year, while Halifax recorded the greatest annual change (-180 bps).

- Collectively, Western markets registered no change in average vacancy (4.7%) during the past year, compared with a decrease (-50 bps to 2.8%) in Eastern markets – widening the West-East spread to 190 bps from 140 bps one year earlier.

- Robust demand, largely from e-commerce, is underscoring the market’s strong performance. Twelve-month absorption totalled 16 msf – almost double the previous 12-month period. This growth was attributed to a strong showing by Toronto, Vancouver and Montreal, with Calgary making significant year-over-year gains.

- Surprisingly, despite historically low vacancy and strong demand, new industrial real estate product deliveries slowed considerably in the 12-month period ending in the first quarter of 2018 as only 8.1 msf – half of the new supply completed in the previous 12 months – came to market. Vancouver edged out Toronto for top spot as the two collectively accounted for 71% of the total annual new supply additions.

- With developers trying to stay ahead of demand, the amount of space under construction almost doubled year-over-year to 16.2 msf (53% preleased) – equating to only 0.8% of the existing inventory. Through the first quarter of 2018, Toronto led Vancouver by a slim margin and, together, these markets accounted for more than half of the total industrial area under construction across Canada.

- Rents are on the rise, pushing asset values higher. Canada’s average industrial net asking rental rate increased $0.25 per square foot (psf) year-over-year to finish the opening quarter of 2018 at $8.30 psf. Annually, rents grew in eight of 11 markets, with five markets recording rents greater than the national average. Rents were highest in Vancouver ($10.91 psf) in the West and Ottawa ($10.10 psf) in the East, while Western markets maintained a healthy $2-psf-plus spread above Eastern markets.

Argeropoulos adds: “The U.S. administration’s desire to revamp NAFTA and introduce protectionist trade policies has the potential to create headwinds for Canada’s industrial market and the economy in general. For now, the industrial market is expected to operate at or near capacity until new supply catches up with demand.”

U.S.

Market conditions in the U.S. were again landlord-favourable during the 12-month period ending March 31, 2018. The 12-bsf U.S. industrial market ended the first quarter with an impressive 5% vacancy rate overall, a decrease of 30 bps year-over-year, even while a significant amount of new construction was delivered. E-commerce and last-mile distribution hubs near population centres, data centres and bio-tech facilities continue to be prevailing demand generators and have had a meaningful impact on industrial vacancy.

“Developers are seeking to meet strong tenant demand by creating the most efficient product possible through innovation and technology,” states **Earl Webb**, Avison Young’s President, U.S. Operations. “Land constraints have supported innovative construction, such as multi-storey development, and technology solutions in supply and distribution logistics. E-commerce and consumer demand for ever-shorter delivery windows as well as ever-growing data-centre requirements have strained industrial markets in the country’s population centres.”

“The industrial sector continues to be a darling asset class in the capital markets,” adds **Erik Foster**, Avison Young Principal and Practice Leader of the firm’s industrial capital markets group. “Because of the solid leasing fundamentals, low vacancies and a lack of available institutional-quality product in most major markets, capital spending in the development space is one of the primary means for investors to gain equitable returns given the certainty of lease-up.”

Notable First-Quarter 2018 U.S. Industrial Market Highlights:

- Vacancy fell or remained flat between first-quarter 2017 and first-quarter 2018 in 28 of the 43 markets that Avison Young tracks in the 12-bsf U.S. industrial market. Nineteen markets reported vacancy levels below the national average.
- Detroit (528 msf) posted the sharpest decline in vacancy (-320 bps/2.9%), and coastal markets charted the lowest rates: San Mateo (35 msf/1.5%), Orange County (217 msf/2.2%), San Francisco (20 msf/2.7%) and Miami (185 msf/2.9%).
- Net absorption was 232 msf, or 1.9% of inventory, across all U.S. markets during the 12-month reporting period ending with first-quarter 2018. The same six markets that registered occupancy gains of 10 msf or more during the previous 12-month period all achieved the feat once again in the period ending March 31, 2018: Los Angeles (26 msf), Dallas (22 msf), Chicago (22 msf), Atlanta (19 msf), Detroit (17 msf) and New Jersey (12 msf).
- The national average triple-net rent as of March 31, 2018 was $7.56 psf, up $0.42 from the previous 12-month period. Although rent growth occurred in all but eight markets, the most notable gains occurred on the West Coast in land-constrained Northern California. The largest uptick was again seen in San Mateo (+$3.12 psf), followed by Oakland (+$2.37 psf). The highest rental rates were found in San Jose/Silicon Valley ($21.72 psf) and San Francisco ($20.02 psf).
- New nation-wide supply was driven by innovation and quality demands. Overall, 209 msf was added to U.S. inventory in the 12 months ending with first-quarter 2018, an increase of 14 msf compared with the previous 12-month period. An astonishing 30 msf of new product was added to the Los Angeles market, and 22 msf was completed in Dallas. Deliveries in Philadelphia represented a significant change year-over-year as 16 msf was delivered – compared with just 3 msf in the prior 12-month period. Other, more mature markets saw their supply pipeline taper when compared with previous reporting periods.

Houston, for example, reported 7 msf of new supply, an amount 6 msf less than the prior year.

- At the end of the first quarter of 2018, a total of 204 msf was under construction. Five markets had more than 10 msf under construction: Los Angeles and Dallas (24 msf each), Philadelphia and Atlanta (17 msf apiece) and New Jersey (12 msf).

Webb concludes: “The U.S. market has experienced a healthy tightening over the last several years, though it must be noted that the rate of improvement has slowed as the overall average reached low single digits. Supply-chain logistics, technology and the availability of affordable power – in the form of electricity or other energy sources – will be key contributors to the long-term health of the industrial sector.”

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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.

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