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Press Release

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Media Contact:
Sherry Quan
604.647.5098; 604.726.0959 cell
email:sherry.quan@avisonyoung.com

Editors/Reporters
• Please click on link to view Avison Young's *Spring 2019 Global Industrial Market Report*:
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Strong demand and tight supply define industrial property sector in markets around the world

Avison Young releases its Spring 2019 Global Industrial Market Report

Toronto, ON — Demand for industrial property across the globe continues to show remarkable strength in most markets. The demand for space continues to be driven by e-commerce and last-mile logistics as retailers seek further supply-chain efficiencies. Online retail giants and their third-party logistics partners are impacting market dynamics with their demand for large facilities near major cities. This trend has resulted in rising land and development costs in many key markets in which the largest companies are driving demand for customized design-build facilities that are fully automated and reliant on new technologies.

These are some of the key trends noted in **Avison Young's *Spring 2019 Global Industrial Market Report***, released today.

The report covers 64 industrial markets in seven countries across the globe: **Canada**, the **United States**, **Mexico**, **Poland**, **Romania**, the **United Kingdom** and **South Korea**.

"Today, I am delighted to share with you Avison Young's insights into the industrial market – a sector that continues to go from strength to even more strength," comments **Mark E. Rose**, Chair and CEO of Avison Young. "These insights are drawn from our annual industrial survey spanning 64 markets across seven countries and three continents, with a combined industrial stock of 15 billion square feet (bsf)."

Rose continues: "E-commerce logistics, distribution and warehousing requirements continue to drive the market and are increasing in line with online retail sales. This strong demand has driven down supply, with developers increasingly becoming more innovative in regard to maximizing value through the repurposing of obsolete assets such as vacant big-box retail stores and aged office buildings, as well as exploring multi-storey facilities in a growing trend that caters to demand for close-in warehousing and distribution."

He adds: "Investor interest in the industrial sector continues to grow unabated and the forecast for the remainder of 2019 is that industry dynamics will continue to be positive, attracting investors and resulting in low yields and rising asset values."

The analysis also revealed that the development pipeline remains robust, in terms of both product deliveries and new space under construction. The significant level of development has seen vacancy increase in some markets. Despite this situation, nearly all industrial markets remain significantly supply-constrained. All markets monitored by Avison Young reported single-digit vacancy rates, while vacancy rates fell or remained flat year-over-year in more than half of the industrial markets surveyed. The strong demand and tight supply continue to put upward pressure on rental rates.

The industrial sector's fundamentals continue to draw capital, as investors are attracted not only to the newest distribution and warehouse facilities, but also to the opportunity to find additional value in older assets near urban areas. The dynamics have created a competitive market, which is reflected in higher asset values and low yields.

CANADA

Canada's industrial market began 2019 on a strong footing, building on the exceptional results achieved in 2018. While Vancouver and Toronto remain key markets for occupiers and investors, scarcity of product was evident in the single-digit vacancy rates posted across the country in the first quarter of 2019. Nationally, the industrial sector remains undersupplied – demand is outpacing new development and will continue to do so, even though almost twice as much space is under construction compared with spring 2018. This supply-demand imbalance has pushed rental rates higher in almost all markets, attracting investors and resulting in low yields and rising asset values.

Canada's industrial vacancy rate remains at a historic low, ending first-quarter 2019 at 3% – down 70 basis points (bps) from the same quarter in 2018. Ten of the 11 markets surveyed reported lower vacancy year-over-year and single-digit vacancy rates, with four markets posting rates below the national average. In the North American context, Canadian markets – Vancouver (1.2%), Toronto (1.5%) and Ottawa (1.6%) – recorded the three lowest vacancy rates through the first three months of 2019.

"E-commerce remains the industrial sector's catalyst for success as retailers and developers strive to perfect the supply chain," says **Mark Fieder**, Avison Young's COO, Canadian Operations.

Online giants such as Amazon are impacting market dynamics in terms of scale and location with their demand for large distribution/fulfilment facilities near urban centres, resulting in rising land and development costs amid dwindling supply of developable land.

Fieder adds: "This situation is most apparent in Toronto – and in Vancouver, where strata units increasingly offer the only opportunities for developers to justify their land costs. A focus on multi-storey facilities may be the next logical step to make the most of restricted urban sites."

Canada's industrial market is expected to remain active throughout 2019 with restricted supply posing challenges for occupiers and investors.

U.S.

Last-mile logistics are fuelling an increasing number of adaptive reuse projects and the 12-bsf U.S. industrial market continues to record exponential supply growth as it adapts to the modern requirements of occupiers.

The world's largest e-commerce companies are driving demand for build-to-suit distribution centres that are fully automated and reliant on technology to create supply-chain efficiencies. In land-constrained metros, the redevelopment of obsolete assets like vacant big-box retail stores and aged office buildings is a growing trend that caters to demand for close-in storage, warehousing and distribution.

The average U.S. industrial vacancy rate was unchanged at 5% compared with one year earlier and the largest U.S. markets remained extremely healthy and landlord-favourable. Despite the strong leasing market indicators, the lack of vacant and available space limited growth opportunities; as a result, net absorption dropped 19% year-over-year to 195 msf. With a rising construction pipeline of 274 million square feet (msf) and that space only partially preleased, the report predicts that vacancy could tick upward slightly in the coming months.

Investment volume climbed to $54.9 billion in the 12 months ending in first-quarter 2019 with demand for product surging and many new entrants trying to get a foothold in the asset class.

"Sale prices rose 15% year-over-year on a price-per-square-foot basis and, interestingly, we saw investors shift to secondary U.S. markets to take advantage of lower land and labour costs," says **Earl Webb**, Avison Young's President, U.S. Operations. "Still, overall sales volume for this asset class was – not surprisingly – driven by the country's largest industrial markets, including Chicago and Los Angeles and the Inland Empire in Southern California."

Webb adds: "Nearly all industrial markets remain supply-constrained and, in spite of added construction, e-commerce and other growth factors will keep industrial vacancy in the single digits over the next 12 months."

Mexico

Industrial assets represent 857 msf, or approximately 40% of the commercial real estate inventory in Mexico. In recent years, continued volatility in the financial markets and complex macroeconomic conditions have provided new opportunities for Mexico's industrial real estate market, resulting in growing supply dynamics. As of the first quarter of 2019, a total of 21.6 msf was under construction – including expansions, build-to-suits and speculative projects.

This activity reflected strong demand (as evidenced by 5.6 msf of net absorption in the trailing 12-month period) and preleases on speculative supply from key manufacturing industries conducting global export business (including automotive, electronics, aerospace and medical devices), which represented US$387.4 million in annual export revenue.

"Activity was led by the country's northern markets as well as the strength of logistics and distribution centres oriented towards servicing regional markets that are being driven by growth in consumer online retail sales," notes **Guillermo Sepulveda**, Avison Young Principal and Managing Director of the firm's Mexico City office.

He adds: "Over the next 12 months, we anticipate that conditions will continue to be on the positive side given the confidence that prevails in manufacturing and logistics. This is in spite of pending approval by the U.S. Congress of the revised NAFTA (now USMCA) and a rocky start by the new Mexican administration."

United Kingdom

Whilst industrial continues to be the best performing U.K. commercial property sector, occupier activity for large warehousing was not immune to the pre-Brexit slowdown during the first quarter of 2019 as the industrial market came off record levels achieved during 2018. However, as online retail sales peaked at record levels in November, big-shed deals for e-commerce occupiers constituted more than a quarter of all demand.

Additionally, third-party logistics companies, including many that serve online retail contracts, accounted for a similar amount of take-up. E-commerce warehousing requirements are increasing in line with the 10% annual rise in online retail sales.

The bespoke requirements for buildings mean design-and-build pre-let activity accounted for two-thirds of take-up during the 12 months ending with the first quarter of 2019. Tenants' intended location changes were emphasized by speculative development occurring in non-prime areas for the first time in more than a decade.

"Occupiers are placing increased importance on the availability and cost of labour," comments **Andrew Jackson**, Avison Young Principal and Managing Director, Industrial, U.K. "This trend will intensify, as sites need the right employment demographics as well as an excellent location to succeed. Not only is labour more plentiful in secondary locations, but it is also more cost-efficient."

The U.K. industrial property supply has risen during the past year, as there have been significant levels of speculative development and large second-hand units have returned to the market. However, the strong demand means that supply levels have remained relatively constrained, with the shortfall amounting to slightly more than a year's worth of take-up based on recent demand.

Poland

The Polish industrial sector posted strong results in 2018, with growth outpacing other countries in the region. Net absorption for the 12 months ending with fourth-quarter 2018 was strong with an increase in occupied area of nearly 2.5 million square metres (sq. m) thanks to robust market demand for new warehouse space that was boosted by the country's rapidly growing economy and ongoing high demand mainly from logistics operators, retail companies and the e-commerce sector.

"The amount of space under construction remained stable year-over-year, with 1.9 million sq. m underway and 64% preleased," notes **Michał Ćwikliński**, Avison Young Principal and Managing Director of the company's Poland region. "In the remainder of 2019, further dynamic development is expected to occur in the warehouse sector."

Nationally, the vacancy rate remained low at 5.3% in the fourth quarter of 2018. Average effective rental rates remained stable year-over-year. In Warsaw, rents in the Inner City submarket ranged between €3.50 per sq. m and €4.50 per sq. m. In other parts of Poland, rents ranged from €2 per sq. m to €3 per sq. m depending on the region and location.

Record investment transaction volume occurred in the last three quarters of 2018, amounting to nearly €1.8 billion – a 75% increase year-over-year. Yields are decreasing slowly, hovering around the high-5% range for long-term build-to-suit projects and low-6% region for prime multi-tenant warehouses.

Romania

Bucharest is Romania's main industrial centre, and the city's industrial inventory continued to expand with nearly 352,000 sq. m added to the market in the 12 months ending with the first quarter of 2019 for a total of 1.86 million sq. m. Of the total new construction delivered between second-quarter 2018 and first-quarter 2019, nearly 40% was preleased. New logistics facilities developed on a speculative basis increased the overall vacancy rate to 3.2% by the end of first-quarter 2019 as compared with the 2% rate registered in fourth-quarter 2018.

"This construction activity is indicative of the ongoing need for new product, especially consumer-goods-distribution facilities," says **David Canta**, Principal of Bucharest Operations and Managing Director of Avison Young's Bucharest office. "The booming activity is being fuelled by increasing consumption as a consequence of the government's minimum-wage increase, which has led to materially higher disposable incomes."

All major local players have projects underway in the dominant A1/West submarket of Bucharest and, as logistics hubs develop further around Romania's major cities, the industrial and manufacturing sectors are searching for new destinations across the country, particularly those offering a more affordable labour force.

Korea

E-commerce retailers' use of third-party logistics to distribute their goods is increasing. In 2018, parcel delivery volume climbed 9.6% year-over-year, according to the Korean Integrated Logistics Association; and online shopping sales volume rose 22.6% year-over-year, according to Statistics Korea. Due to increasing demand for distribution space, the construction of new logistics facilities has been continuous.

The vacancy rate is declining mainly in new large-scale logistics facilities in Seoul's metropolitan area. The lease-up period for newly built logistics facilities has been shortened by nearly half, from 12 to six months after completion, as logistics freight volume has swelled in recent years.

"A new distribution sector known as dawn delivery has emerged in South Korea," states **InJoon Choi**, Avison Young's Principal of Seoul Operations and Managing Director of the firm's Seoul office. "Dawn delivery is aimed at achieving a 12-hour delivery turnaround. Due to the rise of single-person households and consumers' requirement for increased convenience, demand for last-mile distribution facilities that can handle groceries and packaged meals is growing."

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

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

Canada
• **Bill Argeropoulos**, Principal and Practice Leader, Research (Canada), Avison Young: **416.673.4029;** cell: **416.906.3072** bill.argeropoulos@avisonyoung.com
• **Mark Fieder**, Principal and COO, Canadian Operations, Avison Young: **416.673.4051** mark.fieder@avisonyoung.com

United States
• **Margaret Donkerbrook**, Principal and Practice Leader, U.S. Research, Avison Young: **202.644.8677** margaret.donkerbrook@avisonyoung.com
• **Earl Webb**, President, U.S. Operations, Avison Young: **312.957.7610** earl.webb@avisonyoung.com

Mexico
• **Guadalupe Cos**, Head of Marketing and Research, Mexico, Avison Young: **+52 (0) 55 4742 3920** guadalupe.cos@avisonyoung.com
• **Guillermo Sepulveda**, Principal and Managing Director, Mexico City, Avison Young: **52 55 4123 7570** guillermo.sepulveda@avisonyoung.com

United Kingdom
• **Daryl Perry**, Head of Research and Client Engagement, U.K., Avison Young: **+44 (0)20 7911 2340** daryl.perry@avisonyoung.com
• **Andrew Jackson**, Principal and Managing Director, Industrial, U.K., Avison Young: **+44 (0)20 7046 6514** andrew.jackson@avisonyoung.com

Poland
• **Robert Kubiak**, Finance & Operations Manager, Poland, Avison Young: **+48 (0)22 230 2000** robert.kubiak@avisonyoung.com
• **Michał Ćwikliński**, Principal and Managing Director, Poland, Avison Young: **+ 48 605 163 351** michal.cwiklinski@avisonyoung.com

Romania
• **David Canta**, Principal of Bucharest Operations and Managing Director, Bucharest, Avison Young: **+40 727 737 894** david.canta@avisonyoung.com

Korea
• **Myeonghan Yu**, Senior Manager, Research, Seoul, Avison Young: **+82 2 3775 7236** myeonghan.yu@avisonyoung.com
• **InJoon Choi**, Principal of Seoul Operations and Managing Director, Seoul, Avison Young: **+82 2 3775 7204** injoon.choi@avisonyoung.com

www.avisonyoung.com

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