

MARKETBEAT

CANADA

OFFICE & INDUSTRIAL
Q1 2022



CUSHMAN &
WAKEFIELD

Industrial Q1 2022

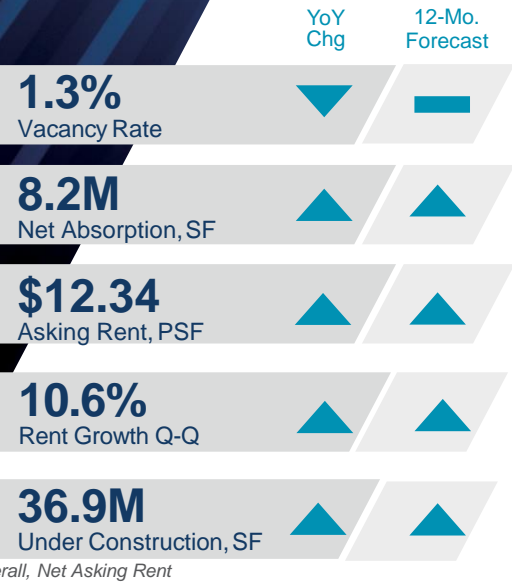
The Industrial Market Maintained its Momentum in Q1 2022

The latest labour force survey released by Statistics Canada painted a fairly rosy picture for Canadian employment. One key highlight was as employment rose by 73,000 in March 2022 compared to last month, the unemployment rate fell 20 basis points (bps) to 5.3%. This marks the lowest the unemployment rate has been since comparable data became available in 1976.

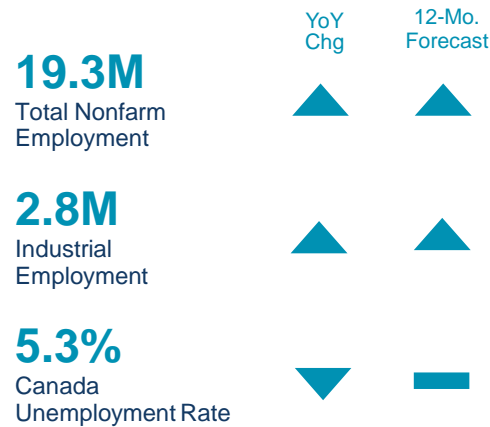
In the goods producing sector employment grew by 31,000 in March and was partially driven by notable employment gains in construction. The manufacturing sector also saw a slight increase month-over-month by 3,000. Although employment did decline slightly in the transportation and warehousing sector this month compared to February 2022, employment in this sector is close to 37,000 higher compared to one year ago.

Industrial demand showed no signs of cooling in the first quarter of 2022, reaching 8.2 million square feet (msf) of positive absorption, just slightly off last quarter's almost record-breaking total. Toronto continued to lead all Canadian markets in absorption with 2.3 msf, although Vancouver, Calgary, Waterloo Region and Ottawa also put in strong showings. For Canada overall this quarter marks the fourth straight quarter where absorption is outpacing new supply, as tenants take occupancy of new buildings or are snapping up any blocks of space that become available. In hot markets the requirement for space is so strong that tenants are already expanding their new premises mere months after they take occupancy, or at times before the original building has even finished completion. Although leasing activity did slow slightly compared to last quarter to 13.5 msf, that total is approximately 2.0 msf higher than the 5-year average. Toronto contributed approximately one-third of all leasing activity in the country, while activity also remained very strong in Vancouver, Calgary and Montreal. Active tenants in the market continue to be ecommerce related as well as third party logistics companies.

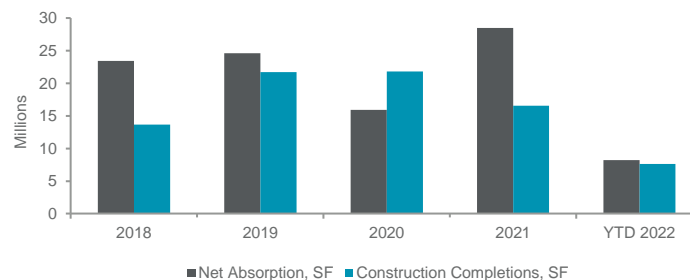
Vacancy has once again ticked downwards this quarter and now sits at 1.3%, 10 bps lower than last quarter. Total vacant space across the country now sits at 21.35 msf, approximately 34.5% lower than what was vacant in the first quarter of 2021. Of all Canadian markets only three had increases in vacancy compared to last quarter, and those were for the most minimal. There are currently five Canadian markets that are either at, or below, 2.0% vacancy.



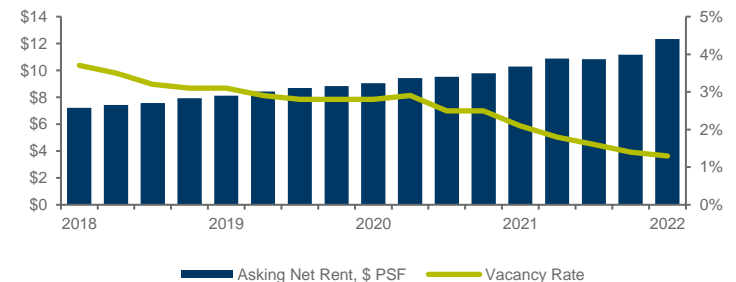
ECONOMIC INDICATORS Q1 2022



SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING NET RENT



There was approximately 7.6 msf of new supply that arrived to the market this quarter, the highest quarterly total since the second quarter of 2020. New supply was focused primarily in the major markets this quarter, including Ottawa. This is noteworthy as the new supply in Ottawa this quarter was represented by one building - a 2.7-msf fulfillment centre for Amazon – which is currently the largest fulfillment centre ever constructed in Canada. Approximately two-thirds of the projects that arrived to the market this quarter were built as speculative builds, however only 224k sf of the space arrived vacant and therefore had no impact on vacancy rates.

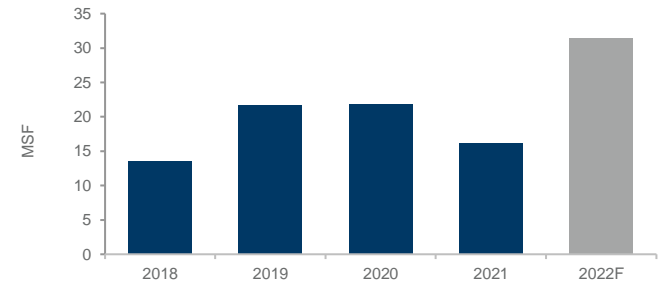
Currently it is anticipated that an additional 23.8 msf is set to be delivered through the remainder of 2022 with substantial totals in Vancouver, Calgary, Toronto and to lesser extent Montreal. If all of this new supply does indeed arrive this year, then it would be the highest annual total of new supply that has arrived across Canada since 1989. As was the case with the first quarter of this year, the majority of the projects that are set to arrive over the next nine months are being built as speculative projects. While many of these buildings currently have vacancy, it is highly likely the majority of this space will be preleased upon completion which unfortunately will provide little relief to tenants.

With vacancy almost non-existent, the overall Canadian net direct asking rent has reached yet another record high, climbing from \$11.16 per square foot (psf) in the last quarter of 2021 to \$12.34 psf in the first quarter of 2022. This marks an annual increase of 20.1%. This double-digit growth factor was found in all of the major markets, with Toronto posting the highest percentage increase year-over-year at 23.2%. Vancouver continued to hold the distinction of having the highest average net rent which currently is \$17.32 psf.

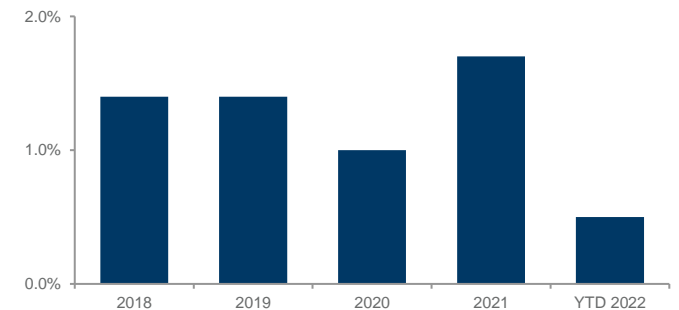
OUTLOOK

- It is anticipated the industrial market will not see any notable cooling through the remainder of 2022.
- Absorption totals will continue to remain high as new supply arrivals are at record levels, even though available space options for tenants to occupy continue to shrink.
- With historic low vacancy, in combination with rising construction costs and the shrinking availability of land, rental rates are anticipated to continue to rise steadily.

NEW SUPPLY



NET ABSORPTION AS % OF INVENTORY



MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	YTD CONSTR COMPLETIONS (SF)	OVERALL WEIGHTED AVG NET RENT*	OVERALL WEIGHTED AVG ADD. RENT	OVERALL WEIGHTED AVG GROSS RENT
Vancouver	221,419,269	1,085,917	0.5%	1,208,482	1,208,482	7,944,107	1,055,461	\$17.32	\$5.95	\$23.27
Calgary	135,507,674	5,851,194	4.3%	929,025	929,025	7,780,915	285,590	\$10.54	\$5.09	\$15.63
Waterloo Region	90,741,108	890,118	1.0%	832,359	832,359	1,090,926	506,506	\$9.18	\$3.85	\$13.03
London	40,070,203	674,138	1.7%	-161,310	-161,310	0	0	\$8.77	\$3.40	\$12.17
Toronto	803,915,615	5,641,165	0.7%	2,309,742	2,309,742	16,873,349	2,037,765	\$13.13	\$4.44	\$17.57
Ottawa	26,700,768	603,172	2.3%	2,610,582	2,610,582	0	2,710,966	\$11.93	\$6.74	\$18.67
Montreal	339,921,517	5,404,812	1.6%	381,381	381,381	3,039,856	1,040,860	\$9.45	\$2.79	\$12.24
Fredericton	475,885	9,591	2.0%	-1,821	-1,821	0	0	\$7.70	\$4.68	\$12.38
Saint John	512,123	62,972	12.3%	8,010	8,010	0	0	\$7.35	\$3.79	\$11.14
Moncton	4,546,001	304,497	6.7%	88,553	88,553	0	0	\$6.07	\$3.23	\$9.30
Halifax	8,274,517	311,519	3.8%	14,468	14,468	151,200	0	\$8.40	\$5.50	\$13.91
St. John's	4,157,602	512,241	12.3%	9,344	9,344	0	0	\$12.02	\$3.48	\$15.50
NATIONAL TOTALS	1,676,242,282	21,351,336	1.3%	8,228,815	8,228,815	36,880,353	7,637,148	\$12.34	\$4.34	\$16.68

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Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 50,000 employees in over 400 offices and 60 countries. In 2021, the firm had revenue of \$9.4 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit www.cushmanwakefield.com or follow @CushWake on Twitter.

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	YoY Chg	12-Mo. Forecast
15.0% Vacancy Rate	▲	▼
-2.1M Net Absorption, SF	▲	▲
\$40.07 Gross Asking Rent, PSF	▲	▬
-0.1% Rent Growth Q-Q	▲	▬
18.9M Under Construction, SF	▼	▬

(Overall, All Property Classes)

ECONOMIC INDICATORS Q1 2022

	YoY Chg	12-Mo. Forecast
19.3M Total Nonfarm Employment	▲	▲
4.9M Office-using Employment	▲	▲
5.3% Canada Unemployment Rate	▼	▬

Source: Statistics Canada

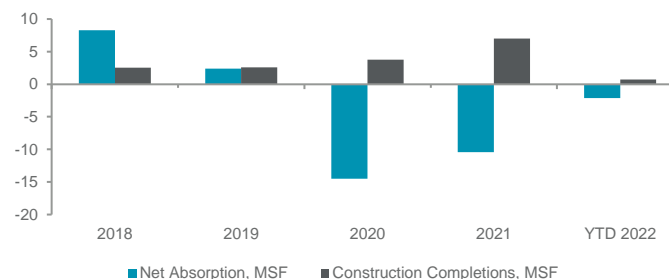
The Overall Office Market Continued to Face a Few Hurdles in Q1 2022

The latest labour force survey released by Statistics Canada painted a fairly rosy picture for Canadian employment. One key highlight was as employment rose by 73,000 in March 2022 compared to last month, the unemployment rate fell 20 basis points (bps) to 5.3%. This marks the lowest the unemployment rate has been since comparable data became available in 1976. Of particular interest to the office market the report states that there has been a continued increase in hybrid work arrangements. As public health measures have eased, more businesses have been able to plan for employees to return to in-person work. As the result the proportion of workers who report that they usually work exclusively from home continued to decline in March 2022 to reach 20.7%. At the same time, the share of workers who report hybrid work arrangements continued to grow, up 140 bps from February 2022 to 5.9% in March 2022. Sectors that have seen the highest growth in this hybrid model include the professional, scientific and technical services sector as well as in the finance, insurance, real estate sector.

Even though pandemic related health measures have been dropping across the majority of the provinces in recent weeks, the rise of new COVID-19 variants in the early part of 2022 likely put a damper on overall office demand. While there were some exceptions such as the positive absorption seen in the overall Vancouver market, which has occurred for the third straight quarter, the remainder of the major Canadian markets experienced negative absorption this quarter – with Toronto and Montreal in particular feeling the impact. While overall absorption for Canada reached negative 2.1 million square feet (msf) in the first quarter of 2022, it is the least amount of negative absorption a quarter has posted since the pandemic began. As overall demand has yet to rebound, overall vacancy did climb to 15.0% this quarter – although it was minimal at just 20 bps compared to last quarter.

Leasing activity continued to be a bright spot in the Canadian office market landscape, as overall activity totals reached approximately 6.6 msf, the highest quarterly total posted since the fourth quarter of 2018. Calgary in particular had a strong showing this quarter as leasing activity increased by a notable 64% compared to last quarter totals. It is the hope that this continued strengthening in leasing activity is an early indicator the outlook for the overall Canadian office market is brightening.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & GROSS DIRECT ASKING RENT



CANADA NATIONAL

Office Q1 2022



New supply arrivals were minimal this quarter with deliveries located in just three markets, totaling 703k sf, and from a square footage perspective was primarily focused in Downtown Toronto. It is noteworthy that Ottawa was one of the markets that had new supply with two buildings delivered in the Central area – the first since 2014. Both were build-to-suits – one for a department of the federal government and the other for co-working company Spaces. Across Canada this new supply did not have a notable impact on vacancy as approximately 83% of the space was pre-leased upon completion.

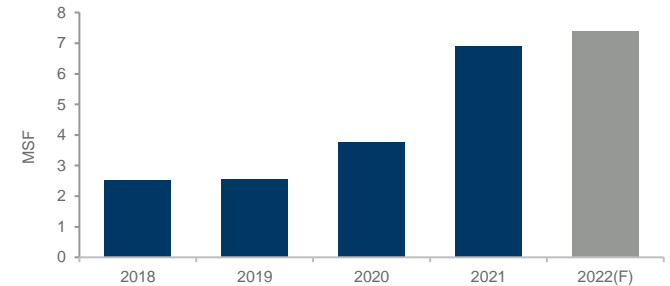
Looking ahead to the remainder of 2022 approximately 6.7 msf of new supply is set to be delivered across the country. The vast majority of that new supply is located in the Central areas of Vancouver and Toronto, although both cities are anticipated to see smaller projects also arrive in their Suburban areas. Gauging the impact that this new supply may have on vacancy in these two cities will be a story that unfolds through the remainder of the year. While these properties have been approximately 84% preleased, there is the possibility that as these tenants move into their new premises shadow vacancy may be generated, unless of course these tenants occupying space represent pure growth for the cities.

Despite the ongoing challenges that most markets are facing, current market conditions continue to have little impact on the overall direct asking net rental rate for Canada, now sitting at \$21.90 per square foot (psf) – almost unchanged from last quarter. This stability was also seen in the overall Class A segment. However, there is a high probability that these posted rates are only telling a small portion of the story as landlords are likely continuing to be generous with tenant inducements such as free rent and/or improvement allowances in attempts to lease up their building(s). Looking towards the remainder of the year, NER's will continue to be competitive while posted rates may increase as vacancy located in new builds possibly arrives to the market, which is generally at a higher price point.

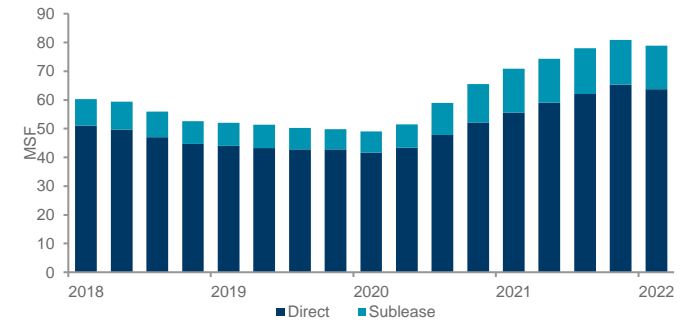
OUTLOOK

- While many companies are looking to bring workers back to the office, this may be hampered somewhat due to the continued prevalence of variants, and subvariants, of COVID-19.
- There remains no clear direction from the majority of the major occupiers across the country on what their return to office plans will be, one of the largest being the federal government and the impact that may have on the Ottawa office market.
- The WFH / Hybrid model will remain a key factor for the remainder of 2022, and will be watched closely to see how that will impact office occupancy.

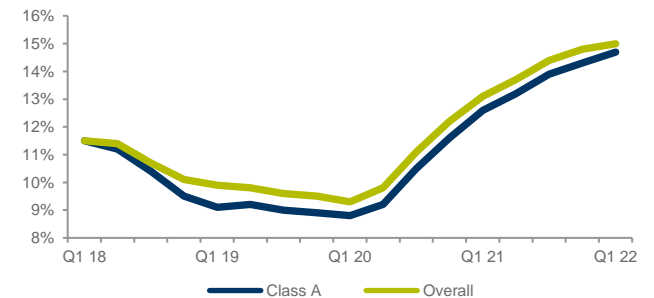
NEW SUPPLY



DIRECT VS. SUBLEASE SPACE VACANCY COMPARISON



CLASS A VS. OVERALL VACANCY COMPARISON



MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION	YTD OVERALL ABSORPTION (SF)	CONSTRUCTION COMPLETIONS (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
Vancouver	64,314,427	1,153,567	4,103,678	8.2%	117,187	117,187	0	8,857,156	\$49.72	\$55.00
Calgary	70,037,472	3,903,783	15,308,740	27.4%	-278,952	-278,952	63,195	0	\$31.80	\$35.33
Winnipeg	15,909,745	106,578	1,858,321	12.4%	23,106	23,106	0	300,000	\$30.40	\$35.34
Toronto	184,861,374	5,711,037	18,456,842	13.1%	-600,900	-600,900	456,346	6,516,632	\$48.44	\$52.78
London	8,206,657	130,138	1,318,942	17.7%	-100,258	-100,258	0	0	\$23.39	\$30.94
Kitchener	5,157,167	115,398	1,131,601	24.2%	-29,915	-29,915	0	422,000	\$28.12	\$29.86
Waterloo	7,432,289	391,689	871,869	17.0%	-85,710	-85,710	0	0	\$26.46	\$28.51
Ottawa	43,348,630	608,685	3,426,808	9.3%	-270,540	-270,540	183,540	0	\$31.02	\$32.52
Montreal	102,497,296	2,931,731	13,538,368	16.1%	-919,082	-919,082	0	2,666,618	\$35.52	\$43.34
Fredericton	2,171,554	0	302,624	13.9%	-9,267	-9,267	0	0	\$26.19	\$30.22
Saint John	2,360,560	20,000	612,828	26.8%	7,702	7,702	0	0	\$22.37	\$29.40
Moncton	2,956,218	16,525	342,069	12.1%	-10,228	-10,228	0	0	\$25.45	\$30.47
Halifax	12,811,869	92,245	1,732,489	14.2%	24,025	24,025	0	179,125	\$29.16	\$32.08
St. John's	3,941,252	21,453	751,638	19.6%	23,287	23,287	0	0	\$34.37	\$39.59
NATIONAL TOTALS	526,006,510	15,202,829	63,756,817	15.0%	-2,109,545	-2,109,545	703,081	18,941,531	\$40.07	\$45.19

*Rental rates reflect direct full service asking

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