



# LEE & ASSOCIATES

COMMERCIAL REAL ESTATE SERVICES





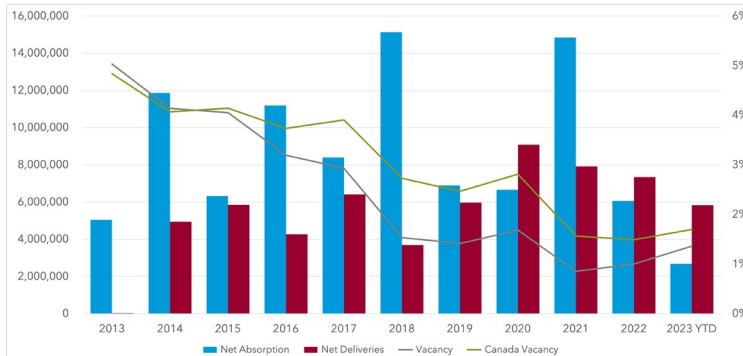
### INDUSTRIAL MARKET OVERVIEW

DANIEL SMITH, *Senior Vice President, Partner*

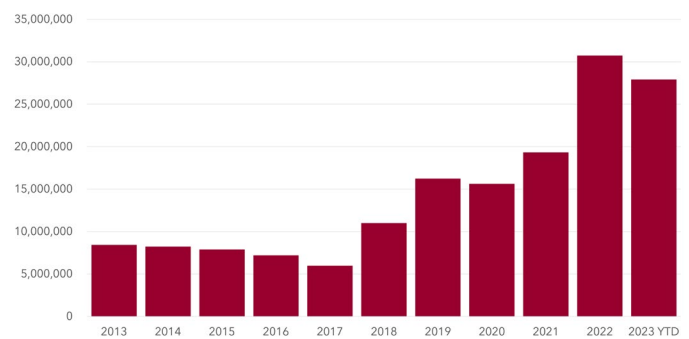
Toronto's industrial vacancies remained lower than the national average in Q2 2023. The high demand caused by the growth in e-commerce, increased manufacturing activity, and a growing population have resulted in the limited supply of industrial leases which will further tighten. As a result, industrial rents within the GTA have been on an upwards trend, reaching a record high average of \$18.70 PSF. This trend in rental costs is projected to continue, as demand is anticipated to outpace supply due to rising construction costs slowing the development of new buildings. Additionally, developers are constrained by the geographic limitations within the GTA such as the greenbelt and the decreasing availability of developable land.

MARKET INDICATORS	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022
▼ 12 Mo. Net Absorption SF	6,378,148	6,640,097	6,066,623	5,740,820	12,193,634
▲ Vacancy Rate	1.4%	1.2%	1.0%	1.0%	1.0%
▲ Avg NNN Asking Rate PSF	\$18.53	\$18.05	\$17.37	\$16.62	\$15.89
▼ SF Under Construction	27,915,191	28,602,898	30,730,734	29,995,623	26,046,398
▲ Inventory SF	862,761,123	860,117,237	856,929,974	854,665,628	853,707,840

#### NET ABSORPTION, NET DELIVERIES, & VACANCY



#### UNDER CONSTRUCTION



TOP SALE TRANSACTIONS BY SF	SIZE	SALE PRICE	BUYER / SELLER	BUILDING CLASS
8574 Boston Church Road Milton, ON	754,704 SF	\$176,000,000** \$233.20 PSF	Pure Industrial TD Asset Management	Class B
150 Signet Drive* Toronto, ON	555,297 SF	Undisclosed	W.P. Carey, Inc. Apotex	Class B
50 Steinway Boulevard* Toronto, ON	516,845 SF	Undisclosed	W.P. Carey, Inc. Apotex	Class C

\* Part of 16 Property Portfolio Sale; \*\*All numbers shown are in Canadian dollars (CAD)

TOP LEASE TRANSACTIONS BY SF	SIZE	LANDLORD	TENANT	TENANT INDUSTRY
1100 Thornton Road S Oshawa, ON	162,753 SF	Crux Capital Corporation	DCM	Advertising Agency
137 Horner Avenue Toronto, ON	149,378 SF	H&R Real Estate Investment Trust	Undisclosed	Undisclosed
4680 Garrard Road Whitby, ON	125,000 SF	Panattoni Canada	Undisclosed	Undisclosed



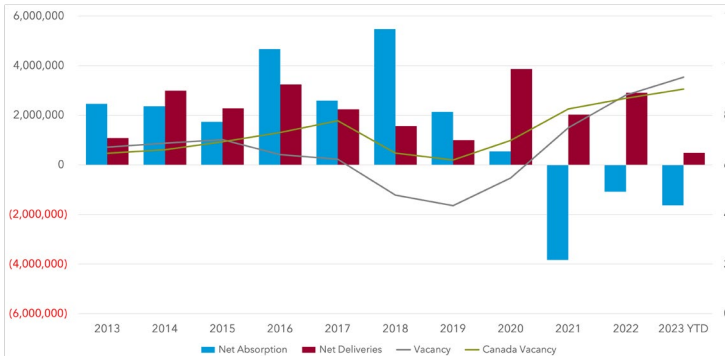
### OFFICE MARKET OVERVIEW

WILL GEHRING, *Senior Vice President*

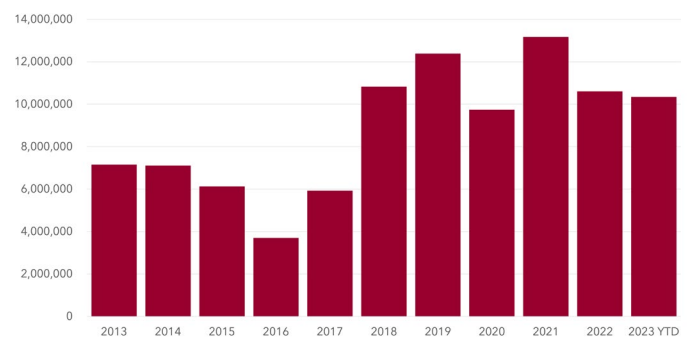
Toronto's office vacancies have continued to rise in Q2 2023. The adoption of the hybrid work model in the post-pandemic era, alongside growing preferences towards remote work, have led to an increase in office space availabilities within the downtown and suburban markets. With an abundance of low-priced sublets, rental rates are experiencing downward pressure. Employers' focus remains on operational efficiencies and long-term growth. Their efforts continue in offering their employees a more attractive balance between coming into the office and working from home. Office tenants with leases coming due over the next 12-24 months will decide to downsize and renew, give up their space in its entirety, or upgrade and relocate to higher quality space.

MARKET INDICATORS	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022
▲ 12 Mo. Net Absorption SF	(1,040,953)	(1,399,171)	(1,083,274)	(2,648,339)	(3,645,588)
▲ Vacancy Rate	9.5%	9.2%	8.8%	8.5%	8.3%
◀ ▶ Avg NNN Asking Rate PSF	\$40.44	\$40.44	\$40.41	\$40.30	\$40.22
▲ SF Under Construction	10,341,175	10,293,948	10,606,244	11,798,408	12,563,907
▲ Inventory SF	287,412,374	287,298,601	286,922,660	285,695,593	284,778,084

#### NET ABSORPTION, NET DELIVERIES, & VACANCY



#### UNDER CONSTRUCTION



TOP SALE TRANSACTIONS BY SF	SIZE	SALE PRICE	BUYER / SELLER	BUILDING CLASS
7070 Mississauga Road Mississauga, ON	244,128 SF	\$72,350,000* \$296.36 PSF	Partners Real Estate Investment Trust GWL Realty Advisors	Class B
1950 Meadowvale Boulevard Mississauga, ON	160,560 SF	\$41,500,000* \$258.47 PSF	Soti Inc QuadReal	Class A
277 Victoria Street (P/O 2 Property Portfolio), Toronto, ON	109,700 SF	\$34,760,259* \$316.87 PSF	Toronto Metropolitan University CreateTO	Class B

\*All numbers shown are in Canadian dollars (CAD)

TOP LEASE TRANSACTIONS BY SF	SIZE	LANDLORD	TENANT	TENANT INDUSTRY
40 King Street W Toronto, ON	89,704 SF	AIMCo, KingSett Capital, Inc	Undisclosed	Undisclosed
40 King Street W Toronto, ON	64,508 SF	AIMCo, KingSett Capital, Inc	Undisclosed	Undisclosed
16 York Street Toronto, ON	59,056 SF	Cadillac Fairview, Ontario Pension Board	Undisclosed	Undisclosed



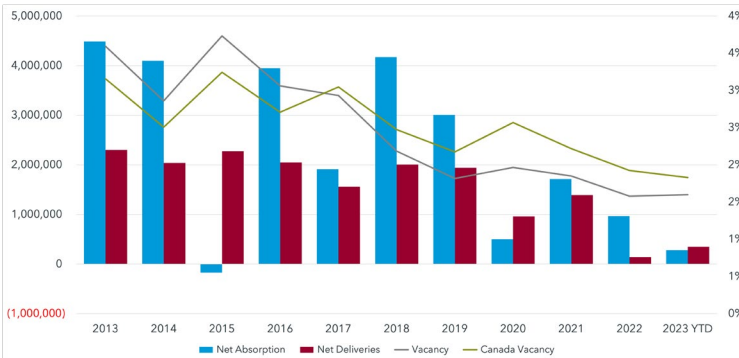
**RETAIL MARKET OVERVIEW**

LUIS ALMEIDA, SIOR, *Executive Vice President, Partner*

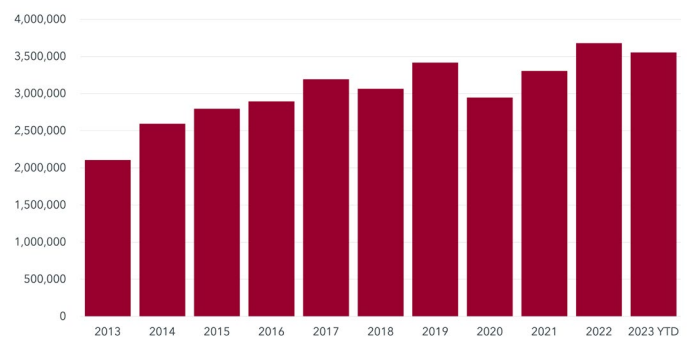
Toronto's retail vacancies continued to remain around 1.6% in Q2 2023. In response to high inflation, the popularity of percentage rent agreements has increased, allowing both landlords and tenants to benefit from any increase in sales. As the economy continues to recover in the post-pandemic era, retail sales are expected to further increase, driving rental rates upward. Despite the Bank of Canada's efforts at quantitative tightening, the job market in Toronto remained robust, fueling consumer spending. As a result, leasing volumes are currently centered around retail centres with essential retail tenants such as banks, grocery stores, and pharmacies. Additionally, luxury storefronts have recently demonstrated strong performances, contributing to the demand for spaces within retail centres.

MARKET INDICATORS	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022
▼ 12 Mo. Net Absorption SF	582,385	1,136,758	968,011	844,235	2,130,824
◀▶ Vacancy Rate	1.6%	1.6%	1.6%	1.7%	1.7%
▲ Avg NNN Asking Rate PSF	\$34.74	\$34.40	\$34.17	\$33.84	\$33.40
▲ SF Under Construction	3,553,482	3,510,300	3,679,651	3,772,656	3,529,609
▲ Inventory SF	303,366,543	303,296,352	303,016,800	303,099,370	303,001,224

**NET ABSORPTION, NET DELIVERIES, & VACANCY**



**UNDER CONSTRUCTION**



TOP SALE TRANSACTIONS BY SF	SIZE	SALE PRICE	BUYER / SELLER	TENANCY TYPE
126 Wellington Street W Aurora, ON	51,673 SF	\$15,950,000* \$308.67 PSF	Liisa Yazdani Harry Rotenberg Real Estate	Multi-Tenant
5328 Highway 7 Markham, ON	26,539 SF	\$26,500,000* \$998.53 PSF	Realtrium Holdings, Inc. Frank Shahidi	Multi-Tenant
76-94 Lakeshore Road W Oakville, ON	25,272 SF	\$1,360,000* \$53.81 PSF	Undisclosed Undisclosed	Multi-Tenant

\*All numbers shown are in Canadian dollars (CAD)

TOP LEASE TRANSACTIONS BY SF	SIZE	LANDLORD	TENANT	TENANT INDUSTRY
909 Lake Shore Boulevard W Toronto, ON	65,000 SF	Ministry of Government and Consumer Services	Therme Spa	Health and Wellness
225 High Tech Road Richmond Hill, ON	31,756 SF	Metrus Properties	rooms + spaces	Home Furniture
1455-1457 McCowan Road Toronto, ON	28,676 SF	Desjardins Insurance	Si Vous Play Sports	Athletic Apparel



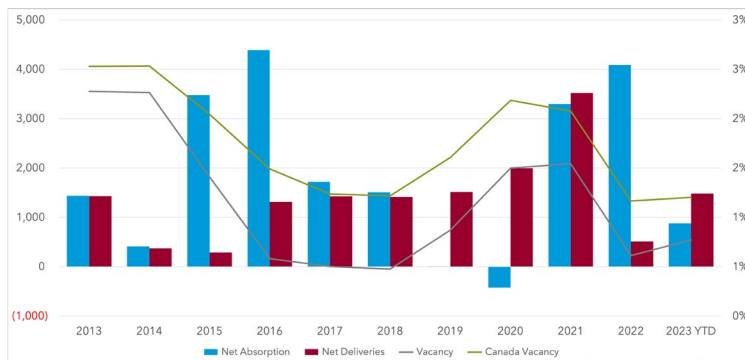
### MULTIFAMILY MARKET OVERVIEW

LUIS ALMEIDA, SIOR, *Executive Vice President, Partner*

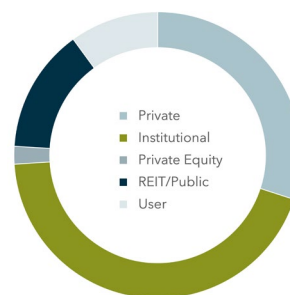
Toronto's multifamily vacancies remained below 1% in Q2 2023. As the Bank of Canada continues quantitative tightening, a rising number of individuals are finding themselves priced out of property ownership despite a robust job market. This resulted in a stronger rental market with demand remaining high throughout the first half of 2023. However, the Ontario government has announced they would cap rental rate increases to 2.5% in rent-controlled buildings during 2023. This may cause a shift in investor demand from older to newer buildings, as landlords will be interested in having rent cash flows remain close to market levels and maximizing the value of their investments.

MARKET INDICATORS	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022
▼ 12 Mo. Absorption Units	1,756	2,807	4,088	5,174	5,331
▲ Vacancy Rate	0.8%	0.7%	0.6%	0.7%	0.8%
▲ Asking Rent/Unit (\$)	\$2,104	\$2,072	\$2,019	\$1,964	\$1,906
▲ Under Construction Units	19,542	16,165	16,713	15,963	12,962
▲ Inventory Units	386,767	386,213	385,283	385,298	385,269

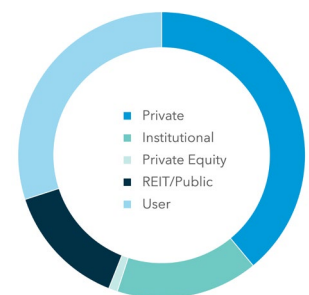
#### NET ABSORPTION, NET DELIVERIES, & VACANCY



#### SALE BY BUYER TYPE



#### SALE BY SELLER TYPE



\*\*Sale by Buyer' and 'Sale by Seller' Data is comprised of data from the previous 12 months.

TOP SALE TRANSACTIONS	SALE PRICE	NUMBER OF UNITS	BUYER / SELLER
2360 Birchmount Road* Toronto, ON	Undisclosed	186	Starlight Investments Ltd Roche Development Group, Inc.
2200 Roche Court* Mississauga, ON	Undisclosed	142	Starlight Investments Ltd Roche Development Group, Inc.
38 Dixington Crest Toronto, ON	\$30,500,000 \$274,774.77 Per Unit	111	Lankin Investments Harry Rotenberg Real Estate

\*Part of a 5-Property Portfolio

TOP SELLERS (PAST 12 MONTHS)	SALES VOLUME	TOP BUYERS (PAST 12 MONTHS)	SALES VOLUME
Starlight Investments Ltd	\$217,580,000	Karl Fay Investments Ltd	\$237,500,000
Woodbourne Capital Mgmt International, LP	\$149,000,000	Power Corporation of Canada	\$185,500,000
Timbercreek Capital Inc	\$116,900,000	First Capital REIT	\$149,000,000
Equiton Inc	\$113,250,000	Golden Hauer Investments (1988)	\$94,500,000
DREAM Unlimited	\$105,545,000	Canadian Apartment Properties REIT	\$90,100,000

## **ABSORPTION**

Refers to the change in occupancy over a given time period. Lease renewals are not factored into absorption unless the renewal includes the occupancy of additional space. (In that case, the additional space would be counted in absorption.) Pre-leasing of space in non-existing buildings (e.g., Proposed, Under Construction, Under Renovation) is not counted in absorption until the actual move-in date.

## **CAP RATE**

The income rate of return for a total property that reflects the relationship between one year's net operating income expectancy and the total price or value. Calculated by dividing the net operating income by the sale price or value.

## **CLASS A OFFICE**

In general, a class A building is an extremely desirable investment-grade property with the highest quality construction and workmanship, materials and systems, significant architectural features, the highest quality/expensive finish and trim, abundant amenities, first rate maintenance and management; usually occupied by prestigious tenants with above average rental rates and in an excellent location with exceptional accessibility. They are most eagerly sought by international and national investors willing to pay a premium for quality and are often designed by architects whose names are immediately recognizable. A building meeting this criteria is often considered to be a landmark, either historical, architectural or both. It may have been built within the last 5-10 years, but if it is older, it has been renovated to maintain its status and provide it many amenities. Buildings of this stature can be one-of-a-kind with unique shape and floor plans, notable architectural design, excellent and possibly outstanding location and a definite market presence.

## **CLASS B OFFICE**

In general, a class B building offers more utilitarian space without special attractions. It will typically have ordinary architectural design and structural features, with average interior finish, systems, and floor plans, adequate systems and overall condition. It will typically not have the abundant amenities and location that a class A building will have. This is generally considered to be more of a speculative investment. The maintenance, management and tenants are average to good, although, Class B buildings are less appealing to tenants and may be deficient in a number of respects including floor plans, condition and facilities. They therefore attract a wide range of users with average rents. They lack prestige and must depend chiefly on lower price to attract tenants and investors. Typical investors are some national but mostly local.

## **CLASS C OFFICE**

In general, a class C building is a no-frills, older building that offers basic space. The property has below-average maintenance and management, a mixed or low tenant prestige, and inferior elevators and mechanical/electrical systems. As with Class B buildings, they lack prestige and must depend chiefly on lower price to attract tenants and investors.

## **GROSS ABSORPTION**

For existing buildings, the measure of total square feet occupied (indicated as a Move-In) over a given period of time with no consideration for space vacated during the same time period. Sublet space and lease renewals are not factored into gross absorption. However, in a lease renewal that includes the leasing of additional space, that additional space is counted in gross absorption. Preleasing of space in non-existing buildings (Planned, Under Construction or Under Renovation) is not counted in gross absorption until actual move in, which by definition may not be any earlier than the delivery date.

## INDUSTRIAL GROSS RENT

A type of Modified Gross lease where the tenant pays one or more of the expenses in addition to the rent. Exact details must be confirmed for each lease.

## INVENTORY

Existing inventory refers to the total square footage of buildings that have received a certificate of occupancy and are able to be occupied by tenants. It does not include space that is either planned, or under construction.

## MODIFIED GROSS

Modified Gross is a general type of lease rate where typically the tenant will be responsible for their proportional share of one or more of the expenses. The Lessor (landlord) will pay the remaining expenses. For example: Plus Electric means the tenant pays rent plus their own electric expense, or Plus Janitorial means the tenant pays the rent plus their own janitorial expense. Both of these are types of Modified Gross Leases, which may vary from tenant to tenant.

## NET ABSORPTION

For existing buildings, the measure of total square feet occupied (indicated as a Move-In) less the total space vacated (indicated as a Move-Out) over a given

period of time. Lease renewals are not factored into net absorption. However, in a lease renewal that includes the leasing of additional space, that additional space is counted in net absorption. Pre-leasing of space in non-existing buildings (Planned, Under Construction or Under Renovation) is not counted in net absorption until actual move in, which by definition may not be any earlier than the delivery date.

## TRIPLE NET (NNN)

A lease in which the tenant is responsible for all expenses associated with their proportional share of occupancy of the building.

## UNDER CONSTRUCTION

Buildings in a state of construction, up until they receive their certificate of occupancy. In order for CoStar to consider a building Under Construction, the site must have a concrete foundation in place.

## VACANCY RATE

Expressed as a percentage - it identifies the amount of New/Relet/Sublet space vacant divided by the existing RBA. Can be used for buildings or markets.

## COMMON LEASE TYPES MATRIX

LEASE TYPE	RESPONSIBILITY FOR EXPENSES	OTHER
Gross (full service)	Landlord pays all or most of the operating expenses and taxes.	Costs of operation must be disclosed in lease.
Modified Gross	Expenses are divided between tenant and landlord.	Costs can be double or triple net depending on terms of lease.
Net	Tenant pays all operating expenses.	Landlord must disclose tenant responsibility in lease.
Triple Net (Net-net-net, or NNN)	Tenant pays all operating expenses, taxes and insurance.	Landlord is responsible for structure, roof and maybe parking lot.

The information and details contained herein have been obtained from third-party sources believed to be reliable, however, Lee & Associates has not independently verified its accuracy. Lee & Associates makes no representations, guarantees, or express or implied warranties of any kind regarding the accuracy or completeness of the information and details provided herein, including but not limited to, the implied warranty of suitability and fitness for a particular purpose. Interested parties should perform their own due diligence regarding the accuracy of the information.

The information provided herein, including any sale or lease terms, is being provided subject to errors, omissions, changes of price or conditions, prior sale or lease, and withdrawal without notice. Third-party data sources: CoStar Group, Inc., The Economist, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, Congressional Budget Office, European Central Bank, GlobeSt.com, CoStar Property, and Lee & Associates Proprietary Data. ©

© Copyright 2023 Lee & Associates all rights reserved. Third-party Image sources: sorbis/shutterstock.com, shutterstock.com, pixabay.com, istock.com