Industrial Report
GTA Q2 2011
Demand steady

Q2 2011

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Executive Summary

- Demand for industrial space remained healthy in the Greater Toronto Area (GTA) as the vacancy rate dropped to 6.5% in Q2 2011 from 7.1% in Q1 2011.

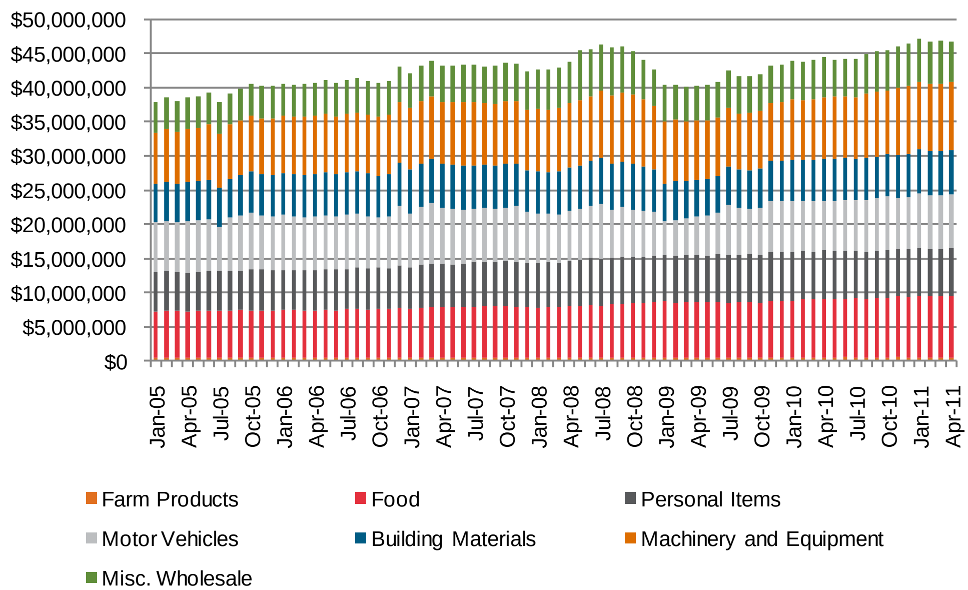
- Third party logistics providers (3PL), logistics centres and warehouses remained the industrial product of choice for users seeking space. However, no new suitable product came to market for industrial users seeking space of over 250,000 square feet, with large bays and high ceilings. Therefore, space of this quality and magnitude was getting absorbed quickly. Meanwhile, there were options in the 70,000 to 100,000 square foot range for manufacturing use scattered around the city.

- Across the GTA, 86.2% of available industrial space was via direct lease and 13.8% was available for sublease.

- Quarter over quarter (q-o-q), industrial average asking net rents decreased by a penny to $4.75 per square foot, or a 0.2% change. This past year GTA industrial rent decreased by 3.3%. Two year rent averages also show a similar picture for industrial products in Toronto with average net rents having decreased by 7.4%.

- There were no new industrial completions for a second quarter in a row this year.

Figure 1: Sources of Industrial Demand (Canada) YoY Comparison



Slower pace of growth predicted for Canadian economy in coming quarter

Last quarter, the Canadian economy continued to show signs of expansion, registering annualized economic growth of 3.9% (following 3.1% in Q4 2010.) However, Q2 economic growth numbers are not expected to be as optimistic as previous quarters. This is due to the impact of global factors such as high gas prices reducing consumer spending, slow job growth, European sovereign debt problems, US fiscal debt challenges, as well as, the global manufacturing sector which was set back due to earthquakes in Japan in March. The culmination of these factors influence consumer confidence which negatively effects demand. Fortunately, Canada's strong commodity market can assist and support the country's growth.

Domestically speaking, accommodating macroeconomic conditions, and demand for consumer goods and commodities, continue to support the Canadian economy. However, RBC predicts a shift in domestic demand from the consumer to business driven growth and investments.

The Institute for Supply Management's (ISM) report on Business PMI index, which tracks manufacturing activities, registered June's PMI at 55.3%. This is the 23rd consecutive month that there has been an expansion in the manufacturing industry. In the last 12 months, the PMI index high was 61.4% whereas its low was 53.5%. Note that a reading above 50 percent indicates that the U.S. manufacturing economy is generally expanding; below 50 percent indicates the U.S. manufacturing economy is contracting.

The unemployment rate continued its downward trend reaching 7.4% in May 2011. In the 12 months following May 2010, 273,000 jobs were added, increasing employment by 1.6% in the country. However, the outlook for job prospects is mediocre as fewer jobs were created in June than in May 2011. Slower job growth will most likely increase the unemployment rate to 7.5% next quarter.

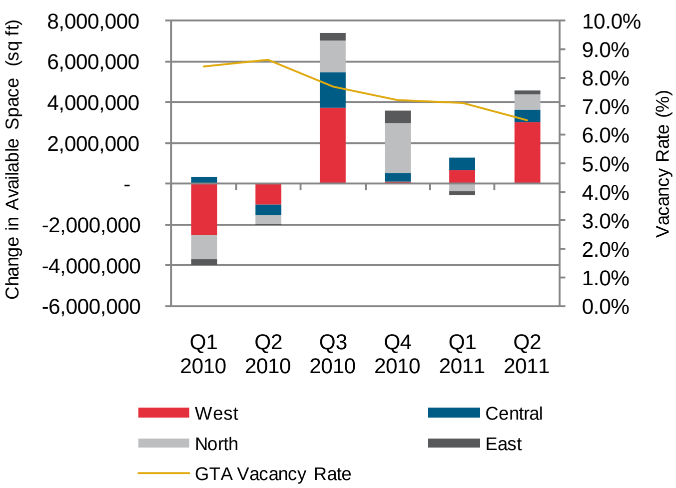
The seasonally adjusted annual rate of housing starts was 183,600 units in May according to the Canadian Mortgage and Housing Corporation (CMHC). This represents a month over month increase of 2.7%. Since the fall of 2010, housing starts have held a steady pace, ranging between 180,000-190,000 new units per month. British Columbia's housing market continued its elevated levels of activity, with housing starts up 33.3% in May, while Ontario saw the largest decrease by 22.9%.

West end industrial markets see the most activity this quarter

- Demand for industrial space picked up this quarter, especially in west end markets such as Oakville, Hamilton, and Burlington. In some instances, buildings were only listed for 30 to 40 days before they were leased or sold.

- The change in available space was positive this quarter as approximately 4.6 million square feet of space was absorbed. All four nodes had a positive change in available space this quarter, a first in 2011. This healthy appetite for industrial space in the Greater Toronto Area helped to push the vacancy rate down to 6.5% in Q2 2011 from 7.1% in Q1 2011. (Figure 2)

Figure 2: Quarterly GTA Change of Available Space by Market



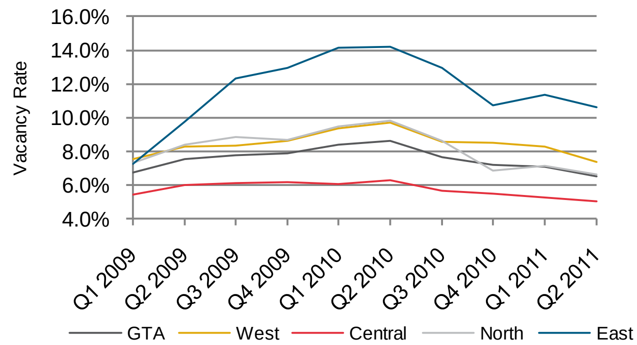
- For a second quarter in a row, the GTA saw no new industrial buildings completed. However, there are 1.2 million square feet of space under construction. As landlord confidence improves, the market may see speculative development return the end of this year.

- The issue hindering development is that the cost of development is still above average market rents and at this time, it does not make sense to develop based on speculation. However once the supply of quality space dwindles down to a level where demand outpaces supply, landlords will return to the market to fill the gap.

- GTA West continued to be the most active node this quarter positively absorbing 3,010,966 square feet of space; a significant increase from Q1 2011's positive change of available space of 690,000 square feet of space.

Available direct and sublet space decreases in the GTA

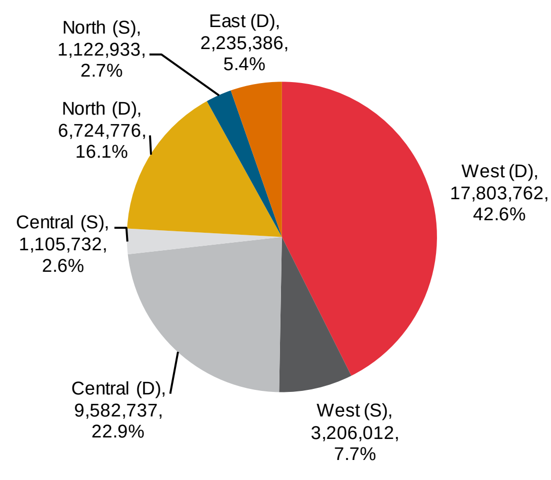
Figure 3: GTA Market Vacancy Rate Comparison



- Industrial vacancy rates have been down-trending since last year; a sign that demand is back following a hibernation period during the financial crisis. On average, the GTA industrial vacancy rate fell 2.1% this past year. In markets such as the GTA North and GTA East, vacancy rates have decreased by three to four percent since Q2 2010. (Figure 3)

- The amount of available direct (D) and sublet (S) space in the city decreased across each node this quarter. In Q2 2011, the GTA West had the greatest amount of available space for users representing 50.3% of all available space in the city, or roughly 21.1 million square feet. Conversely, the GTA East had the smallest amount of available space, representing 5.4% of all available space in Toronto or roughly 2.2 million square feet. (Figure 4).

Figure 4: GTA Direct and Sublet Availability

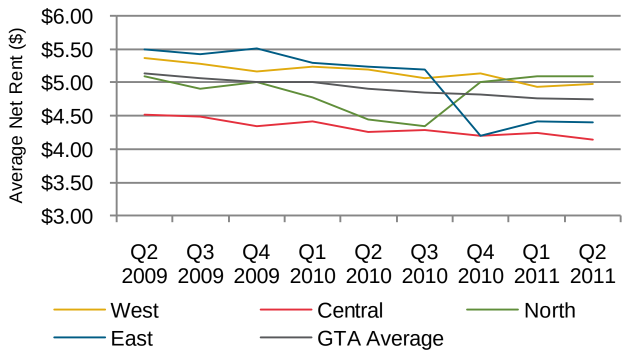


Source: DTZ Barnicke Research

GTA average asking gross rents fairly flat this quarter

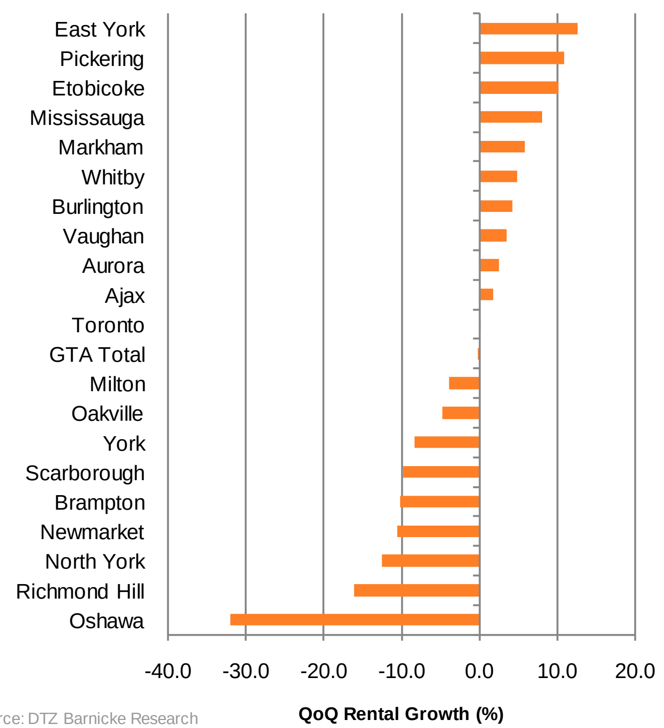
• GTA industrial rents decreased by an inconsequential percentage of 0.2% to $4.75 per square foot this quarter from $4.76 per square foot in Q1 2011. On average, over the past two years, rents have decreased by 7.4% from their high of $5.13 per square foot, and decreased 1.2% this past year. (Figure 5).

Figure 5: Rent Trends All Markets



• Looking at particular markets, East York, Pickering and Etobicoke experienced the greatest increases in rent while Oshawa, Richmond Hill and North York saw rents fall this quarter. (Figure 6).

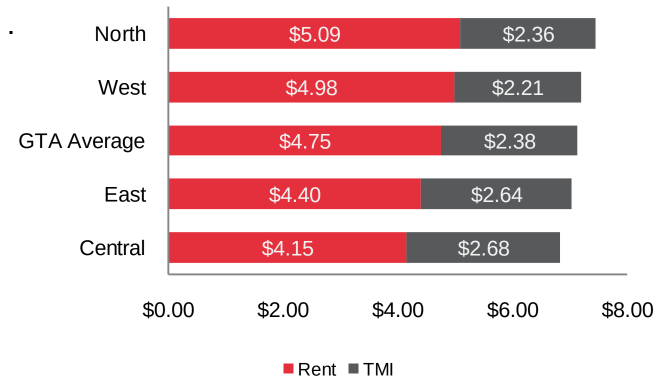
Figure 6: Rent Trends All Nodes



Source: DTZ Barnicke Research

GTA West experienced the greatest rent growth this quarter

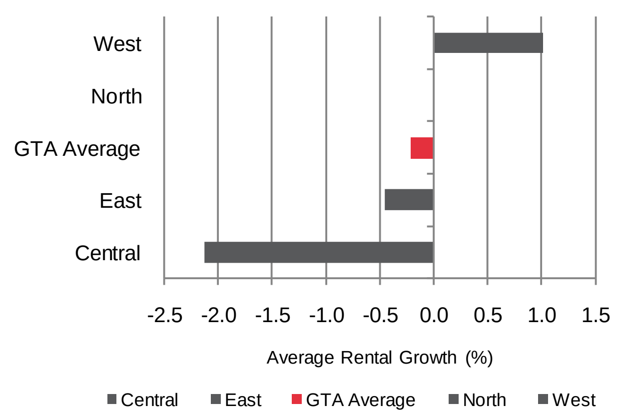
Figure 7: GTA Rent Comparison



• For a second time this year, the GTA North commanded the highest weighted average net rent at $5.09 per square foot. The GTA Central averaged $4.15 per square foot in net rent. (Figure 7).

• There was little change in rent growth among the markets this quarter. Average asking rental rates fluctuated (+/-) 1 to 2%. Rent in the GTA West grew by 1.0% this quarter, while there was no growth in GTA North. (Figure 8).

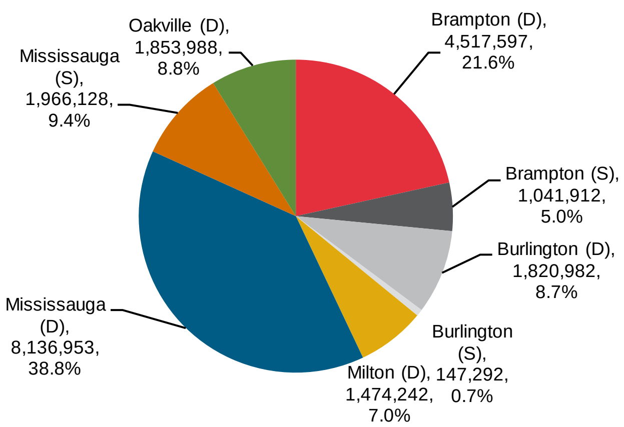
Figure 8: QoQ GTA Market Rental Growth



GTA WEST: Positive absorption drives vacancy rate down

• The GTA West nearly topped its 2010 record for change in available space last year by absorbing 3,010,966 square feet of space. This change in available space sent the vacancy rate down to 7.4% in Q2 2011, just shy of a full percentage point decrease from last quarter.

Figure 9: GTA West Direct and Sublet Availability



• This quarter, in the GTA West, Mississauga had the greatest amount of available space totalling 48.1% of the market's available space. 41% of available space in Mississauga was directly available for lease whereas 8% of space was available as a sublet. (Figure 9).

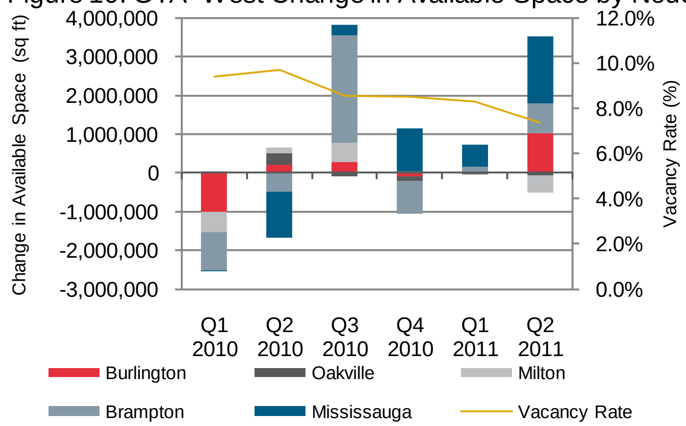
• Milton had the fewest number of industrial options available for lease in the GTA West market, with 7.0% of total available space.

GTA West	Q2 2011 Vacancy Rate	Change in Available Space (sq ft)
Brampton	7.0%	772,877
Burlington	11.7%	1,023,492
Milton	11.5%	-437,577
Mississauga	6.8%	1,729,561
Oakville	6.2%	-77,387
West Total	7.4%	3,010,966

Source: DTZ Barnicke Research

GTA WEST: Lots of activity in Mississauga and Burlington

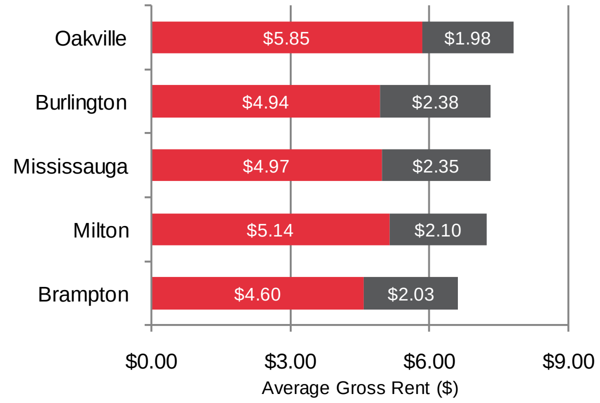
Figure 10: GTA West Change in Available Space by Node



• The GTA West had two nodes which absorbed over one million square feet of space each: Mississauga (1.73 million sq ft) and Burlington (1.02 million sq ft). Brampton also saw significant activity absorbing 772,877 square feet of space. (Figure 10).

• GTA West rents increased 1.0% this quarter after decreasing 4.1% in Q1 2011. Oakville remained the most expensive node in the GTA West commanding an average net asking rent of $5.85 per square foot whereas Brampton's rents were most affordable at $4.60 per square foot. (Figure 11).

Figure 11: GTA West Rent Comparison

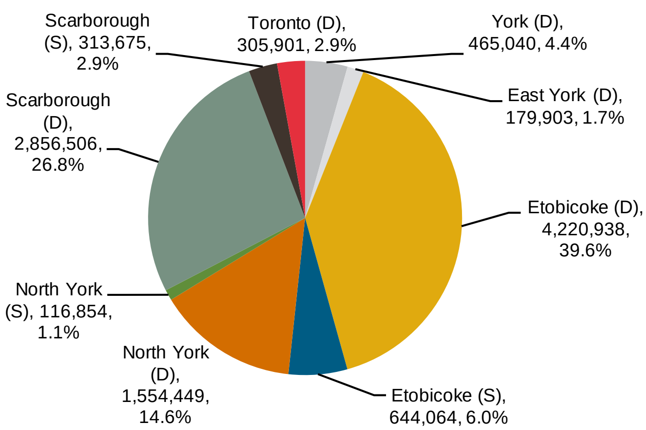


CENTRAL: Second quarter of positive absorption in 2011

- In Q2 2011, 638,088 square feet of industrial space was absorbed in the Central Toronto market. This is the second quarter of positive absorption in Central Toronto as last quarter there was positive net absorption of 589,000 square feet.

- The vacancy rate continued to down trend to 5.1% this quarter from 5.3% last quarter. Central Toronto still maintains the lowest vacancy rate in the GTA.

Figure 12: Central Direct and Sublet Availability



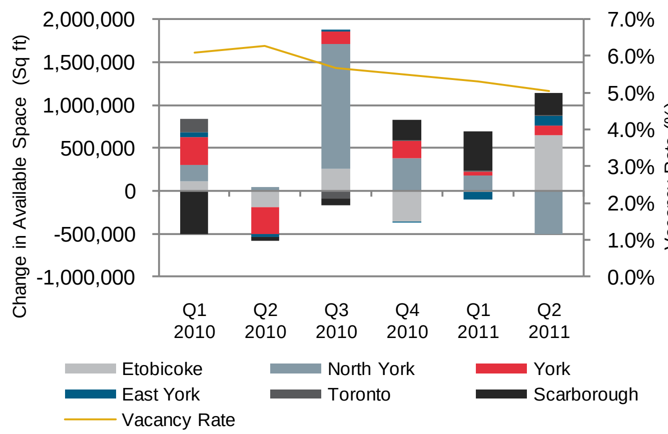
- Etobicoke had the most available industrial space representing 45.6% of the Central market. Scarborough also had a significant amount of space totalling just under 30% of the available space market. (Figure 12).

Central	Q2 2011 Vacancy Rate	Change in Available Space (sq ft)
Toronto	1.1%	8,093
Scarborough	6.7%	264,043
North York	3.0%	-507,286
Etobicoke	7.3%	651,718
East York	4.5%	115,395
City of York	10.3%	106,125
Central Total	5.1%	638,088

Source: DTZ Barnicke Research

CENTRAL: Rents decreased by 2.1% this quarter

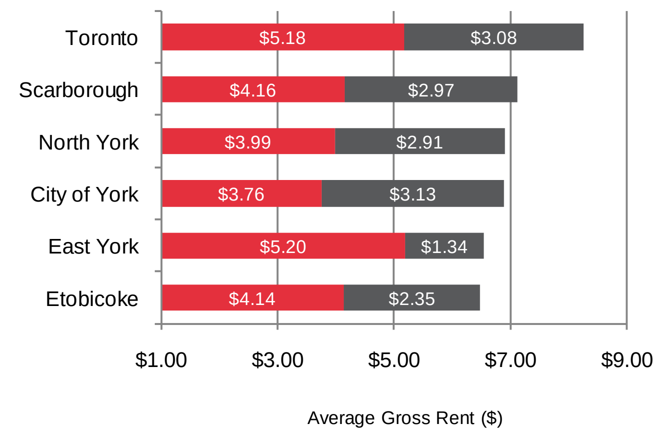
Figure 13: Central Change in Available Space by Node



- All nodes experienced a positive change in available area this quarter except North York, which had negative net absorption of 507,286 square feet of space. Toronto squeezed by with positive net absorption of 8.093 square feet of space, while both Etobicoke and Scarborough's markets were responsible for the bulk of activity in the market this quarter. (Figure 13).

- Central Toronto rents decreased by 2.1% this quarter, in comparison to growth of 1% last quarter. East York was the most expensive node in terms of average asking net rent ($5.20), while the City of York was the most affordable ($3.76). (Figure 14)

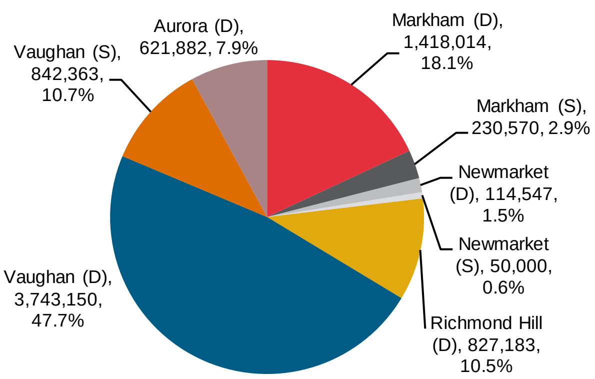
Figure 14: Central Rent Comparison



GTA NORTH: Vacancy rate decreases 3.2% since Q2 2010

• The GTA North vacancy rate continued to trend downward, settling at 6.6% from 7.1% in Q1 2011. Since Q2 2010, the GTA North vacancy rate has decreased by 3.2% year to date. Approximately 733,000 square feet of space was absorbed this past quarter.

Figure 15: GTA North Direct and Sublet Availability



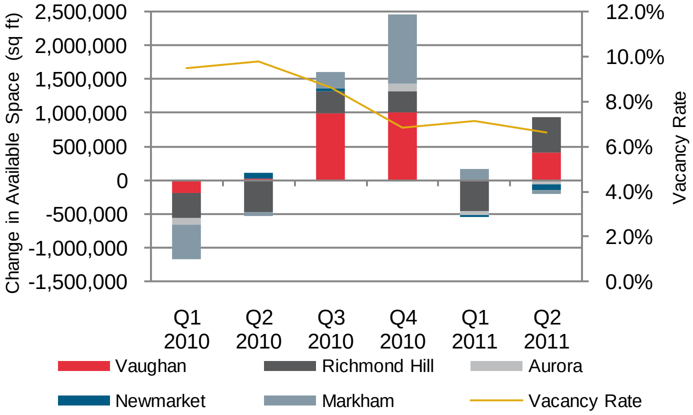
• Vaughan had the greatest amount of available space representing 58.4% of the GTA North market this quarter. In contrast to the previous quarter, Vaughan's available space decreased by 2%. Newmarket and Aurora had the least amount of available space for industrial users this quarter. (Figure 15).

GTA North	Q2 2011 Vacancy Rate	Change in Available Space (sq ft)
Aurora	13.6%	-60,597
Markham	5.5%	-64,077
Newmarket	6.6%	-83,861
Richmond Hill	6.5%	536,734
Vaughan	6.7%	404,885
North Total	6.6%	**733,084**

Source: DTZ Barnicke Research

GTA NORTH: Rents were stable this quarter; no growth

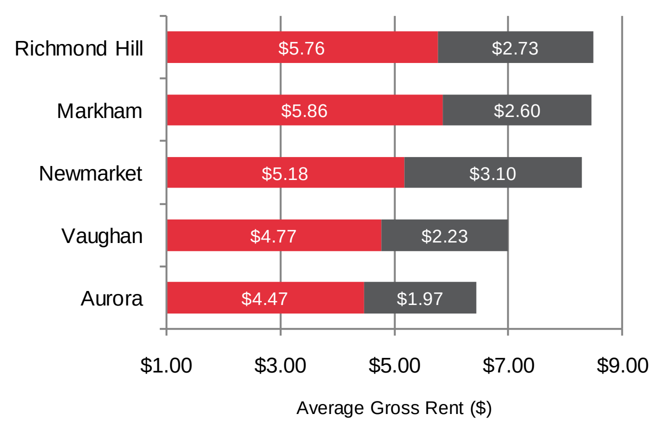
Figure 16: GTA North Change in Available Space



• Richmond Hill and Vaughan were the two nodes with the most activity, absorbing 536,734 square feet and 404,885 square feet respectively. Aurora, Newmarket and Markham all experienced negative net absorption. (Figure 16).

• GTA North rents were flat this quarter, maintaining its market rent from the previous quarter, an average asking net rent price of $5.09 per square foot. However, with the exception of the this past quarter, rents have been steadily increasing in this market since June 2010. The highest rent in this area was registered in Markham ($5.86) while Aurora was the most affordable ($4.47). (Figure 17).

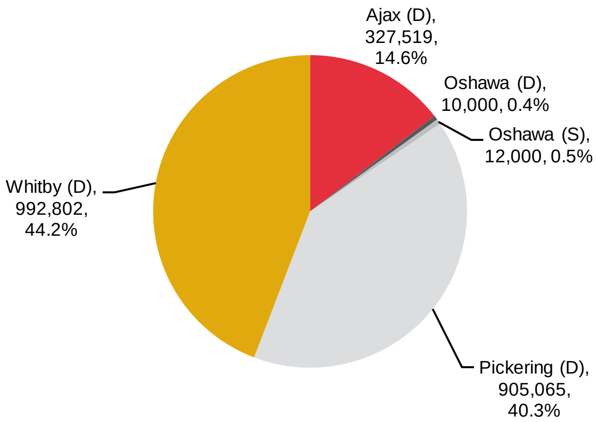
Figure 17: GTA North Rent Comparison



GTA EAST: Sublet space in GTA East is scarce

• Vacancy rates decreased from 11.3% in Q1 2011 to 10.6% in Q2 2011, thanks to positive net absorption of 202,451 square feet in the GTA East. On a year over year basis, the vacancy rate in the GTA East market decreased 3.6% as more activity flocked to the market.

Figure 18: GTA East Direct and Sublet Availability



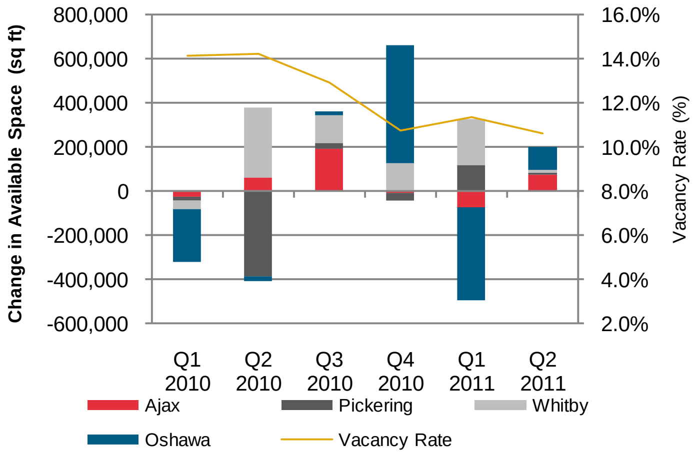
• There were very few sublet options in the GTA East. 99.4% of the available space for lease in the GTA East was directly available whereas only, 0.5% was available via sublet. Whitby had the greatest percentage of available space totalling 44.2% of the GTA East market this quarter. (Figure 18).

GTA East	Q2 2011 Vacancy Rate	Change in Available Space (sq ft)
Ajax	5.7%	75,479
Oshawa	12.4%	107,999
Pickering	11.7%	7,110
Whitby	12.9%	11,863
East Total	10.6%	202,451

Source: DTZ Barnicke Research

GTA EAST: Rents decreased by 0.5% in Q2 2011

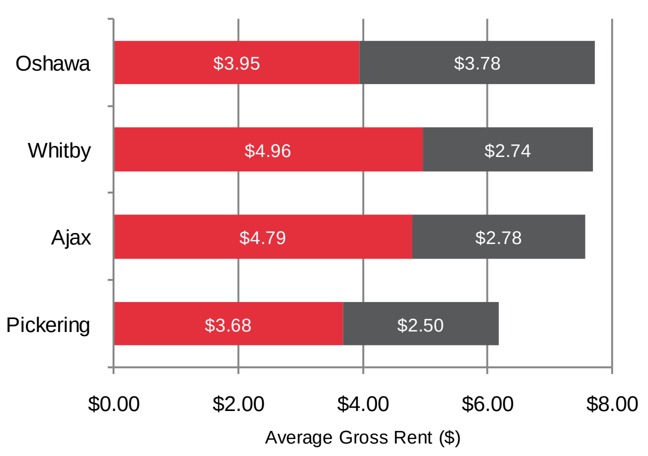
Figure 19: GTA East Change in Available Space



• Absorption was positive across all nodes in the GTA East market. Oshawa absorbed the most space of the four nodes that make up GTA East, absorbing 107,999 square feet of industrial space. Pickering had the lowest amount of space absorbed at 7,110 square feet. (Figure 19).

• GTA East rents decreased by 0.5% this quarter after increasing 5.2% last quarter. Pickering rents made the biggest leap increasing by 10.8% in Q2 2011. Whitby is the most expensive node in the market with average net asking rents at $4.96 per square foot. Pickering registered as the most affordable node with average net asking rents of $3.68 per square foot. (Figure 20).

Figure 20: GTA East Rent Comparison



Q2 2011	Total Inventory (sq ft)	Under Construction (sq ft)	Change in Available Space (sq ft)	Availability Rate (%)	Weighted Average Asking Rent/TMI ($)
West					
Burlington	22,470,660	75,000	1,023,492	11.7%	$4.94/$2.38
Oakville	26,480,614	0	-77,387	6.6%	$5.85/$1.98
Milton	14,691,269	13,342	-437,577	11.5%	$5.14/$2.10
Brampton	89,256,193	0	772,877	7.0%	$4.60/$2.03
Mississauga	170,258,690	60,000	1,729,561	6.8%	$4.97/$2.35
GTA West Total	**323,157,426**	**148,342**	**3,010,966**	7.4%	**$4.98/$2.21**
Central					
Etobicoke	80,350,364	0	651,718	7.3%	$4.14/$2.35
North York	83,951,936	227,287	-507,286	2.9%	$3.99/$2.91
City of York	6,310,537	0	106,125	10.3%	$3.76/$3.13
East York	9,029,002	0	115,395	4.5%	$5.20/$1.34
Toronto	34,575,669	0	8,093	1.1%	$5.18/$3.08
Scarborough	63,855,370	0	264,043	6.7%	$4.16/$2.97
GTA Central Total	**278,072,878**	**227,287**	**638,088**	5.1%	**$4.15/$2.68**
North					
Vaughan	78,889,441	233,286	404,885	6.7%	$4.77/$2.23
Richmond Hill	13,686,944	52,000	536,734	6.5%	$5.67/$2.73
Aurora	5,246,732	43,912	-60,597	13.6%	$4.47/$1.97
Newmarket	5,751,691	48,389	-83,861	6.6%	$5.18/$3.10
Markham	34,183,093	0	-64,077	5.5%	$5.86/$2.60
GTA North Total	**137,757,901**	**377,587**	**733,084**	6.6%	**$5.09/$2.36**
East					
Ajax	7,218,724	425,000	75,479	5.7%	$4.79/$2.78
Pickering	8,722,668	0	7,110	11.7%	$3.68/$2.50
Whitby	8,089,864	0	11,863	12.9%	$4.96/$2.74
Oshawa	3,914,722	0	107,999	12.4%	$3.95/$3.78
GTA East Total	**27,945,978**	**425,000**	**202,451**	10.6%	**$4.40/$2.64**
GTA Total	**766,934,183**	**1,178,216**	**4,584,589**	6.5%	**$4.75/$2.38**

Source: DTZ Barnicke Research

Asking Prices per Square Foot for Current Sale Listings (Q2 2011)

Q2 2011	8,900-24,999 (sq ft)	25,000-49,999 (sq ft)	50,000-99,000 (sq ft)	100,000-199,999 (sq ft)	200,000+ (sq ft)
West					
Brampton	$146.92	$109.11	$85.47	$58.89	$95.81
Burlington	$115.53	$153.43	$103.74	$51.72	N/A
Milton	$148.75	$118.40	$71.78	N/A	N/A
Mississauga	$147.81	$106.88	$72.97	$63.14	$53.46
Oakville	$137.77	$106.28	$75.41	$72.89	N/A
GTA West Total	$143.17	**$111.51**	**$81.92**	**$60.04**	**$64.05**
Central					
City of York	$91.08	$84.56	N/A	N/A	N/A
East York	N/A	$71.87	$49.91	$44.00	N/A
Etobicoke	$107.48	$70.94	$57.12	$51.02	N/A
North York	$103.03	$102.12	$73.56	$58.87	N/A
Scarborough	$122.27	$96.76	$67.79	$56.03	$88.50
Toronto	$163.26	$105.84	N/A	$60.00	N/A
GTA Central Total	**$113.61**	**$90.87**	**$65.02**	**$55.23**	**$88.50**
North					
Aurora	$131.08	$121.09	$93.34	N/A	N/A
Markham	$170.27	$121.27	$116.22	$96.94	N/A
Newmarket	$107.16	$70.17	$69.82	$54.80	N/A
Richmond Hill	N/A	N/A	$109.99	N/A	N/A
Vaughan	$148.43	$125.68	$144.97	$138.22	$50.40
GTA North Total	**$141.25**	**$119.01**	**$109.54**	**$105.02**	**$50.40**
East					
Ajax	N/A	N/A	N/A	$62.96	N/A
Oshawa	$66.91	N/A	N/A	N/A	$13.86
Pickering	$103.51	$82.00	$111.58	$57.84	$50.00
Whitby	$80.67	$64.42	N/A	$77.22	N/A
GTA East Total	**$79.33**	**$76.14**	**$111.58**	**$68.81**	**$31.93**
GTA Total	**$126.38**	**$103.55**	**$79.30**	**$66.17**	**$56.59**

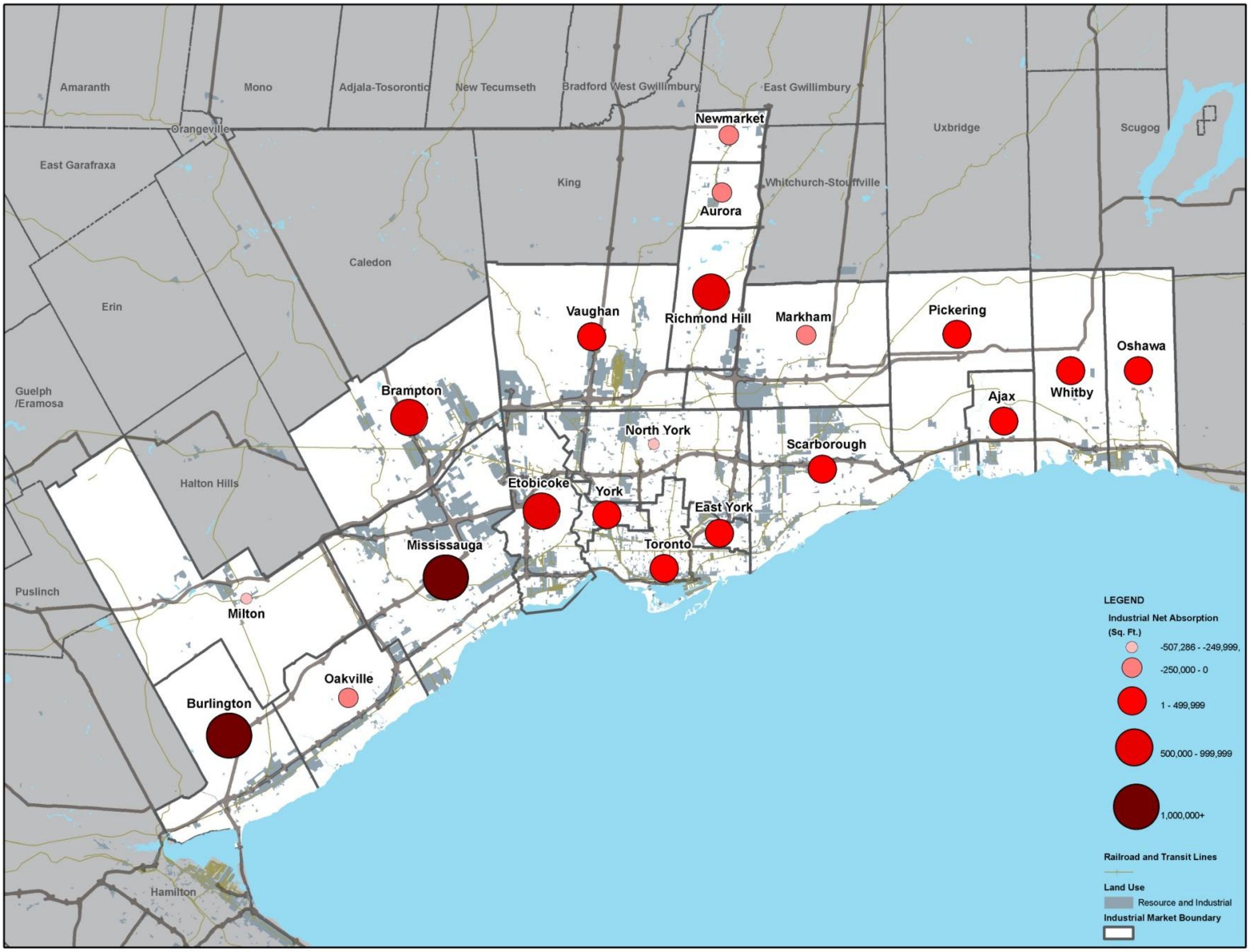
Source: DTZ Barnicke Research

Asking Prices per Square Foot for Clear Height (Q2 2011)

Q2 2011	0 - 17.99 ft	18 - 24.99 ft	25 - 29.99 ft	30+ ft	Overall (0-30+ ft)
West					
Brampton	$107.85	$114.74	$79.45	$56.00	$109.11
Burlington	$112.60	$107.41	N/A	$53.00	$104.82
Milton	$120.33	$128.52	$81.97	N/A	$121.53
Mississauga	$122.35	$110.16	$97.82	$183.05	$116.24
Oakville	$138.83	$93.12	$75.65	N/A	$94.47
GTA West Total	**$117.28**	**$111.60**	**$83.97**	**$118.77**	**$111.70**
Central					
City of York	$83.77	$130.00	N/A	N/A	$88.91
East York	$55.26	N/A	N/A	N/A	$55.26
Etobicoke	$94.25	$61.56	N/A	N/A	$86.08
North York	$87.94	$97.21	N/A	N/A	$91.03
Scarborough	$110.03	$84.92	N/A	$49.96	$97.03
Toronto	$148.90	$60.00	N/A	N/A	$131.12
GTA Central Total	**$97.99**	**$83.02**	**N/A**	**$49.96**	**$92.57**
North					
Aurora	N/A	$121.20	$112.99	N/A	$119.15
Markham	$139.81	$123.01	N/A	N/A	$124.69
Newmarket	$85.61	$93.96	N/A	$54.80	$86.04
Richmond Hill	$128.19	N/A	N/A	N/A	$128.19
Vaughan	$100.04	$133.41	$149.00	$128.49	$130.61
GTA North Total	**$113.65**	**$124.41**	**$131.00**	**$91.65**	**$121.63**
East					
Ajax	N/A	$62.96	N/A	N/A	$62.96
Oshawa	$59.20	$51.95	N/A	N/A	$56.30
Pickering	$107.54	$67.96	N/A	N/A	$87.75
Whitby	$72.55	$72.42	$82.02	N/A	$74.88
GTA East Total	**$83.65**	**$63.89**	**$82.02**	**N/A**	**$74.78**
GTA Total	**$102.50**	**$104.84**	**$93.18**	**$94.79**	**$103.15**

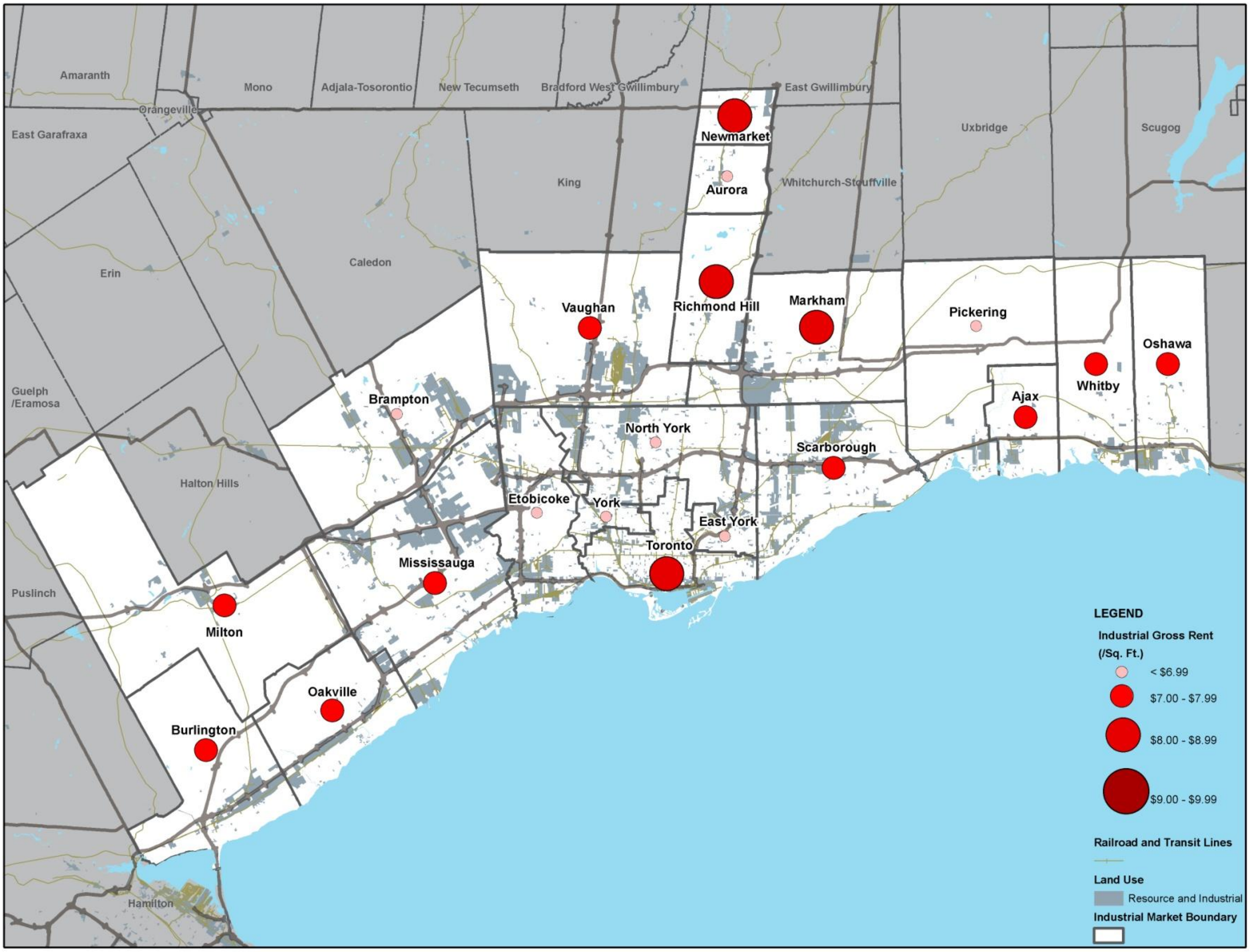
Source: DTZ Barnicke Research

Map 1: GTA Industrial Change in Available Space



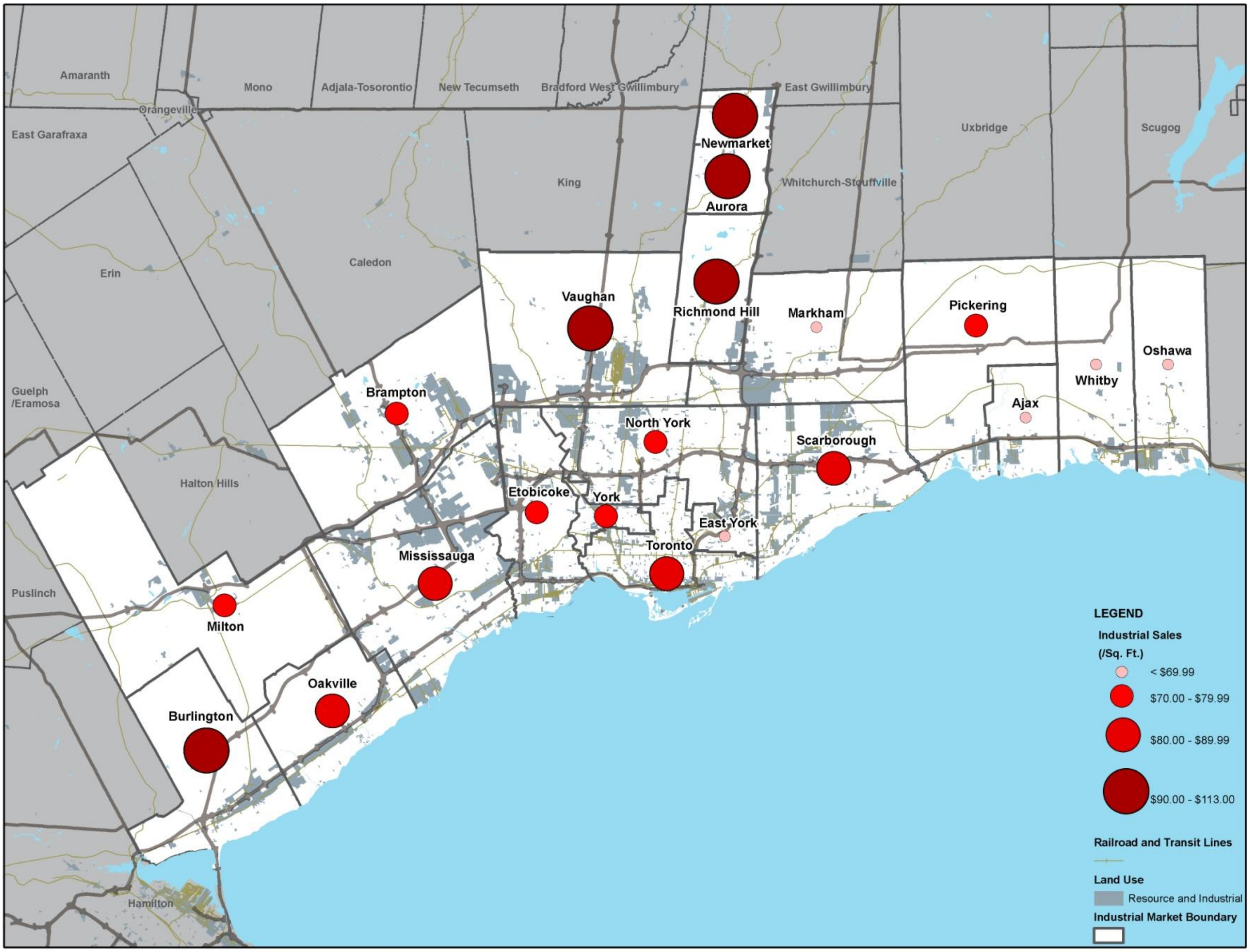
Source: DTZ Barnicke Research

Map 2: GTA Industrial Gross Rent



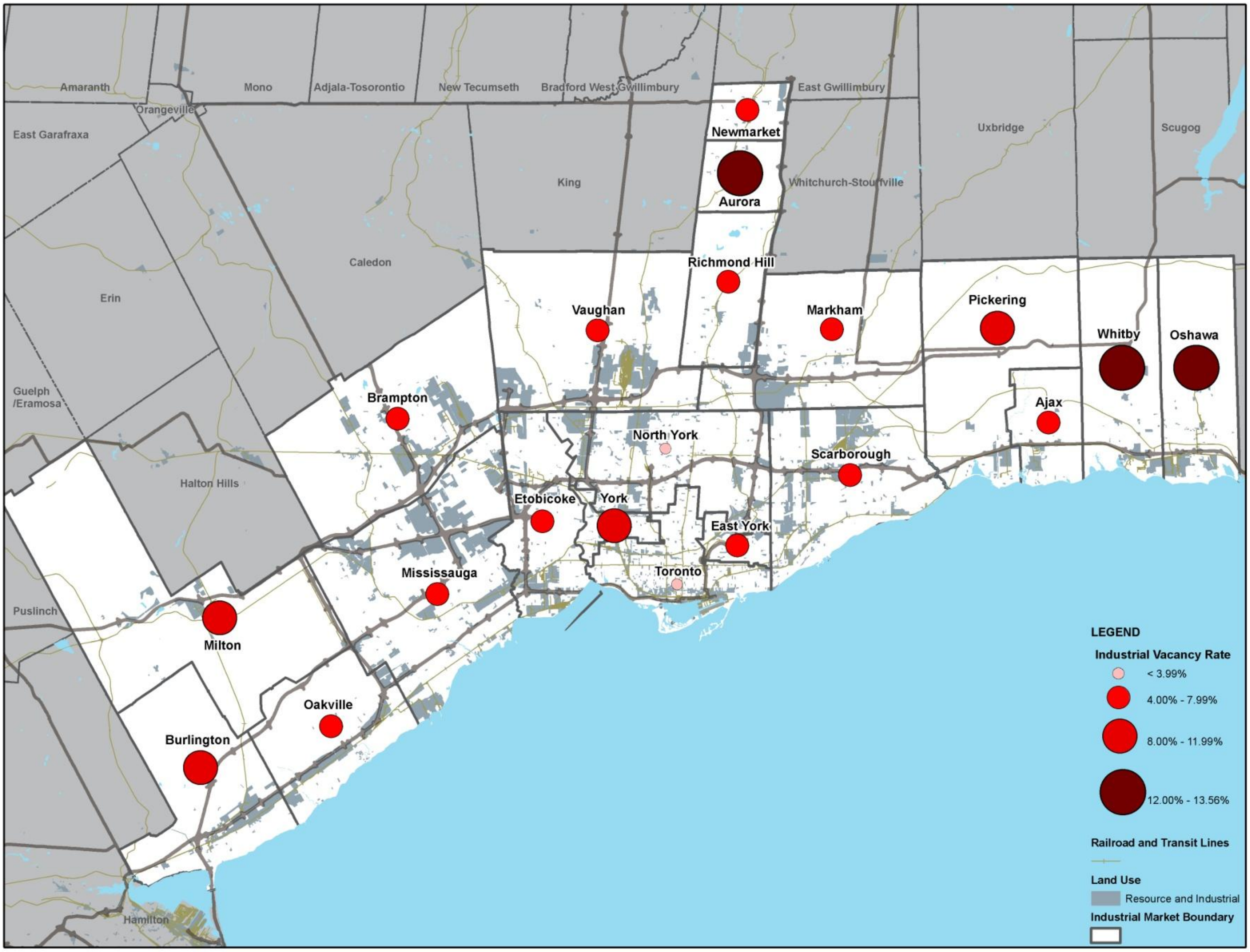
Source: DTZ Barnicke Research

Map 3: GTA Industrial Average Per Square Foot Sales



Source: DTZ Barnicke Research

Map 4: GTA Industrial Vacancy Rate



Source: DTZ Barnicke Research

Report Definitions

Availability:	Marketed space that may or may not be vacant.
Availability ratio:	Industrial space currently available as a percentage of inventory.
Floor space:	Floor area in sq ft adopted throughout is gross internal area.
Inventory:	Total floor space per building measured in square feet.
Building Class:	**Class A:** newly developed or comprehensively refurbished to new standard, including sublet space in new/refurbished buildings not previously occupied **Class B:** buildings of good specification, floor plate efficiency and image usually but not exclusively ten years old or less **Class C:** remaining poorer quality properties
Speculative development:	A newly developed or comprehensively refurbished building undertaken without the benefit of a secured tenant.
Development start:	A development in which work has started on the main contract. This usually excludes demolition and site clearance contracts.
Development completion:	A development in which the main contract has been completed, whether this be to shell and core or developer's finish.
Active demand:	Named entities with appointed agents and a declared requirement for industrial accommodation which it wishes to satisfy within the foreseeable future
Under offer:	Units which a potential tenant has agreed in principle to acquire, subject to negotiation.
Absorption:	Tenant transactions, including the following: (i) industrial buildings leased/sold to an eventual tenant that had not been previously recorded as under offer to that tenant (ii) developments pre-leased/sold to a tenant (iii) owner occupier purchase of a freehold or long leasehold
Net rent:	The rent reported being paid, which may not take account of additional rent or concessions such as rent-free periods, or leasehold improvements.

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Notes

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