



LIDD
REAL ESTATE
INTELLIGENCE

GTA INDUSTRIAL: LIDD INSIGHTS Q1 2019

We are an industrial real estate brokerage that is supported by deep supply chain experience. Our expertise goes far beyond finding buildings and negotiating lease agreements. Our fully integrated platform aligns your real estate decisions with warehouse design, material handling and WMS/ERP optimization.

We do not take listings or represent landlords. Our unbiased approach to real estate negotiation allows us to remain focused on your best interests and to street clear of any opposing agendas.

**Capital is Precious
Make Better Decisions.**



Market Facts

821,632,648 SF

Total GTA Inventory

17,036

Total Buildings In the GTA

19

Immediately Available
Properties Over 100,000 SF

2.1%

Vacancy Rate

\$7.19 PSF

Average Net Asking Rent

MARKET OVERVIEW

The GTA industrial market has the lowest vacancy rate in Canada, at 2.1% in Q4 2018, and the lowest vacancy among any major North American city with an industrial inventory over 200 million SF. Vacancy will continue to fall to 2.0% in early 2019, where it will remain throughout the year as supply and demand stay relatively balanced. The construction pipeline is expected to pick up as a response to the low vacancy and strong rental rate growth. Furthermore, as the market has tightened, net absorption has fallen due to the limited amount of space available for lease.

Vacancy has also declined for all types of industrial buildings, with specialized industrial experiencing the tightest conditions with a vacancy rate of only 1.2%, compared to flex at 2.4% and logistics at 2.8%. Even though logistics facilities are experiencing the highest vacancy, they are also the most in demand and availability will continue to decrease into the new year.

Not surprisingly, the western GTA has seen the most new supply and the majority of the larger leases signed in 2018. Some of the significant lease signings in 2018 include: the Toronto Transit Commission (TTC) taking 544,572 SF at 2233 Sheppard Ave. W.; Exel Logistics taking 555,109 SF at 9501 Highway 50 in Vaughan; and Mars Canada preleasing 750,000 SF in a new build at Coleraine Dr. and George Bolton Way in Caledon.

ADVICE FOR TENANTS

Due to a heightened demand and a shortage of supply, industrial tenants must ensure that their supply chain infrastructure (real estate, material handling and IT) is working for them and not against them. Because quality industrial space is in high demand and rental rates continue to rise, it is necessary to ensure that users of space are optimizing their facilities and getting the most out of their WMS and ERP systems.

Square footage costs in the Toronto area are at a record high, and so obtaining the most value out of each rentable foot is of paramount importance. Due to changing market conditions, operators of facilities are encouraged to create a supply chain infrastructure road map to ensure decisions are made wisely over the next five to seven years.

ONE OF THE MOST COMMON FLAWS IN WAREHOUSE DESIGN

* By David Beaudet

David has worked on a wide range of logistics mandates involving network design, warehouse design and expansion, process re-engineering and the selection of warehouse management systems. His experience lies within all segments of the food industry, pharmaceuticals as well as industrial distribution.

If you're expanding or building a new distribution center and think that maximizing storage density in every possible way will give you the biggest bang for your buck, you need to think again. One of the most common warehouse layout flaws I see is shallow docks.

Usually, a shortage in fronts (pick slots) or storage capacity drives the need for more space. But if that extra capacity comes at the expense of a warehouse's dock space, it can end up being more costly than you'd expect. A recent example was when I consulted for a boxed meat wholesaler that ships 30,000 cases a week through a 32' deep dock equipped with 5 doors. It was a real nightmare for this very high turn business.

The previous owner was heavily involved in the design of the facility and wanted to make sure there was enough space to handle opportunistic buys in a highly volatile beef market. Fair enough. But he increased storage space at the expense of dock space in order to stay within budget.

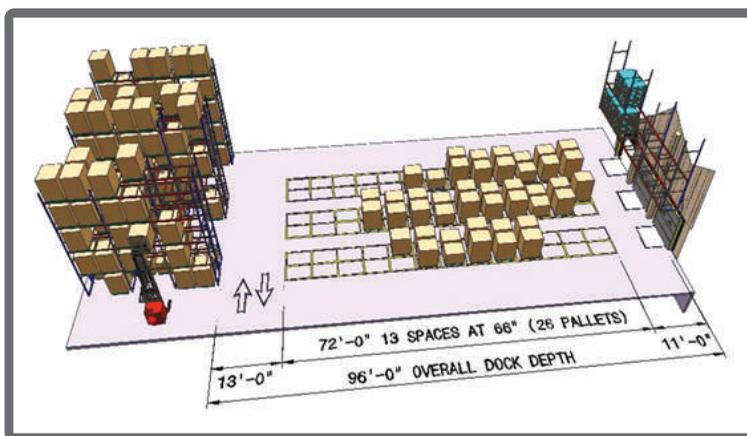
The new operator is now doing an amazing job of growing sales but this came with severe operating penalties due to dock congestion. Not only did this incur additional costs, but the risk of not getting orders out the door threatened service levels.

When we evaluated a range of alternatives for this client, expanding the warehouse was out of the question and extending the dock internally was not a viable option due to capacity constraints. So we transferred the meat processing operation to another facility (their foodservice meat division), which enabled them to convert an entire room into an order staging area. They were then able to reuse space on the dock that had been devoted previously to order staging. While not ideal, these changes freed up the dock and alleviated the gridlock that was hampering their operations.

What is the ideal dock depth?

While different operations will have different needs, following these tips will help your warehouse planning and design:

- ◆ You should be able to unload and stage your largest inbound load without spilling over to adjacent doors
- ◆ The space between each staged pallet should be sufficient so that receivers can access all sides
- ◆ Allow room for a two-way travel aisle between dock staging and storage racks
- ◆ If specific requirements warrant additional space (e.g. reverse line picking), incorporate it



It is now common practice to design for an 80 to 100' deep dock in high volume environments such as food distribution.

In ambient storage, you can address this problem relatively easily by removing rack bays – given that capacity is not an issue. This might expose columns so make sure this constraint is integrated into the warehouse design and have adequate safety measures in place to ensure those columns are visible to traffic.

For refrigerated space, where walls might separate the dock from storage areas, extending the depth of your dock might be more difficult and costly. This requires a feasibility and cost/benefit analysis. That overhead space is not all lost!

What about all that empty space above the dock? If you're designing a new facility, office space represents the obvious choice. Otherwise, you can store empty pallets in racks hanging from the ceiling. And if these options do not suit you, then there is plenty of room to store the boss' winter tires!

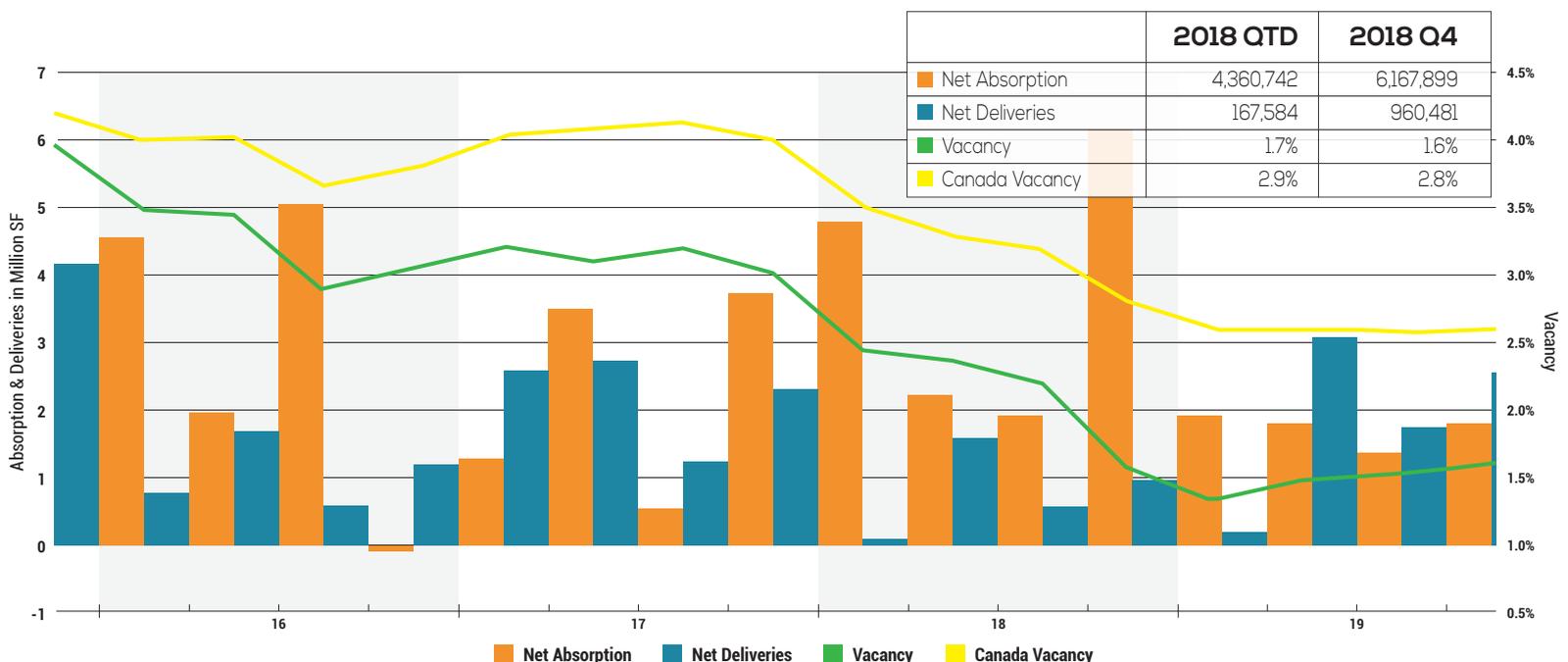
GTA Q1 Lease Report

AVAILABILITY	MARKET	NATIONAL INDEX
Market Ren/SF	\$7.19	\$9.59
Vacancy Rate	1.7%	2.9%
Vacant SF	14 M	46.1 M
Availability Rate	2.6%	4.0%
Available SF	21.8 M	65.1 M
Sublet SF	2.2 M	6.2 M
Months on Market	5.0	5.8

GTA Q1 Inventory Report

INVENTORY	MARKET	NATIONAL INDEX
Buildings	17,036	38,059
Inventory SF	822 M	1.6 B
Average Building SF	48.2 K	42.5 K
Under Construction SF	9.9 M	20.1 M
12 Month Delivered SF	3.4 M	11 M

Industrial Market Trends



TRIVIA ANSWERS:
1-B, 2-C, 3-D, 4-C, 5-A

Trivia

1. Which landlord in the GTA has the largest existing industrial portfolio?

- A Bentall Kennedy
- B Orlando Corporation
- C H&R REIT
- D Prologis

2. Which city has the most expensive industrial real estate market in the world (Rent/PSF)?

- A Dubai
- B Vancouver
- C Hong Kong
- D London

3. What is Canada's National Animal?

- A Moose
- B Polar Bear
- C Goose
- D Beaver

4. Which city in the GTA has the most industrial space currently under construction?

- A Mississauga
- B Vaughan
- C Caledon
- D Brampton

5. In the wall of the CN Tower's LookOut level, you can find:

- A A time capsule with copies of local papers, Canadian coins, letters from children and a letter from Pierre Trudeau
- B The first Canadian flag which was signed by Queen Elizabeth and Pierre Trudeau
- C The handprints of Terry Fox, Margaret Atwood and Wayne Gretzky
- D A mummified cat

LIDD CASE STUDY



SHEPHERD HARDWARE

Company: Shepherd Hardware Products LTD. ("Shepherd") is a distributor of general duty and industrial casters, replacement wheels and floor protection products. The company is headquartered out of Three Oaks, Michigan, and has a global presence with distribution centres in Canada, Mexico, England, France, Australia, China and the United States.

Challenge: Faced with an upcoming lease expiry at their Markham facility, Shepherd wanted to evaluate how to better service their customers, while promoting long term growth and sustainability for the company.

Response: LIDD was hired to help develop a long-term network capacity plan that provided Shepherd with the necessary infrastructure to promote growth in North America and to most effectively reach their consumer market. Concurrently, LIDD's real estate advisory team was engaged to begin a dialogue with Shepherd's current landlord at their Markham facility to discuss their upcoming lease expiry.

Solution: LIDD's integrated model was used to understand Shepherd's operation on a deeper level and to help Shepherd make strategic decisions based on an exhaustive set of data gathered by LIDD's supply chain engineers. A competitive negotiation strategy was created which aided in maximizing leverage with the current landlord. The end result was an extension of Shepherd's 47,000 SF lease with basic rent below market ask, as well as a tenant improvement allowance to allow Shepherd to modernize the facility.

LIDD SERVICES



Real Estate Advisory



Real Estate Brokerage



Operational Audit/Engineering



Facility Engineering



I.T Services



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