Q1 2022 Industrial Occupier

Calgary Industrial Market

An Insight into the Calgary Industrial Market

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Market Overview

Industrial Market

Calgary's industrial sector, comprised of 156 million square feet, had a record year in 2021. Spurred on by a dramatic increase in online shopping during the pandemic, demand for distribution space spiked leading to the highest level of net absorption per annum, 8.8 million square feet, more than double the previous best year, 2018, which saw 3.8 million square feet absorbed. The market was well positioned heading into 2021, with a vacancy rate of 7% which ensured ample options for tenants looking to expand their industrial presence in Calgary. Vacancy rates currently sit at 3.72%.

Calgary is a strategic location as a logistics and distribution hub for western Canada. Major retail players such as the Home Depot, Lowe's, and Amazon have all committed to large amounts of distribution space.

Many of these firms have taken advantage of declining rental rates and market prices over the past five years while also taking into consideration falling corporate tax rates, from 12% to 8%. In the past five years, rates have ranged from $9.70 to $10.40 per square foot, and currently sit at $10.00 per square foot net. Rental rates across industrial property types (specialized, logistics, flex) are all now recording positive growth, with further growth projections throughout 2022. Overall aggregated year-over-year industrial rates are expected to grow by 5% by the end of 2022 to $10.30 per square foot net.

Comparing to other major markets in Canada, Calgary's industrial rents are considered to be good value, and will remain so for the foreseeable future, despite the projected growth for the year ahead. Industrial properties may see a slight decline in property tax in 2022 as residential properties are expected to contribute more to city tax revenue after an overall 6% growth in value. The overall value of industrial properties in 2021 was down by 2%, outperforming the overall non-residential group which declined by 5%.

Calgary has consistently been above two million square feet under construction since the second quarter of 2020, reaching five million square feet in the third quarter of 2021. Currently the region has 7.2 million square feet underway, approximately 2% of the existing inventory, slightly above the national average. The City of Calgary has identified over 2,000 gross acres of serviced industrial land, primarily located in the Northeast and Southeast quadrants which will provide on-going opportunities for future construction within city limits, in addition to those opportunities located in nearby communities that lay outside city boundaries.

Calgary's industrial market conditions are not expected to change dramatically in the coming year. Vacancy rates are projected to remain sub 4% while overall cap

rates will plateau at the 6% range. Well-located high-quality assets will attract significant interest, achieving cap rates in the sub 5% range. Relative to other major industrial centres in Canada, opportunities will be more plentiful however the performance of the past year and the potential growth opportunities will continue to attract interest resulting in a highly competitive marketplace.

Calgary Industrial Notable Transactions

Tenant	Building Address	Area	Type
Undisclosed	Interlink Logistics Park, Bldg 1A	584,556 sf	Headlease
Walmart	High Plains Industrial Park Bldg 7	430,000 sf	Headlease
Undisclosed	South Calgary Distribution Centre	285,834 sf	Headlease
XTL Logistics	Oxford Airport Business Park	194,425 sf	Headlease
McIntyre Group	5667 - 69 Avenue SE	169,257 sf	Headlease
Western Logistics Inc.	Grasslands Logistics Centre	40,867 sf	Headlease
Suncoast Enclosures	7803 - 35 Street SE	23,883 sf	Headlease

Leasing

The Calgary industrial market has had a tremendous run in the past 12 months; net absorption over the past year has eclipsed the three year average of 3.7 million square feet coming in at 6.5 million square feet while vacancy has declined from 5.6% to the current 3.72%. The market now finds itself with an increasing need for additional space to capture the tenants that are either arriving from even tighter markets or are growing their businesses and services within the Calgary region.

Of the 7.2 million square feet currently under construction, nearly all of the space is expected to deliver before the end of 2022. Approximately 65% of the space has already been spoken for, indicating the much more active pre-leasing market in the past year. As a result, vacancy rates aren't expected to increase dramatically, and are likely to remain in the mid 3% range throughout the year.

Calgary is playing a greater role as a centre for distribution and logistics, accelerated by the pandemic demand from major distribution tenants. In particular, home improvement giant Lowe's announced, and has since taken occupancy, of its new 1.2 million square foot distribution centre as part of its strategy to optimize its distribution network to better meet the needs and expectations of its in-store and online customers. The initial significant increase in online sales in early 2020 has subsided however consumers will continue to turn to e-commerce as a viable shopping option going forward. More recently, Channel Control Merchants, a reverse logistics firm took possession of 233,000 square feet at 293026 Colonel Robertson Way, a potentially significant niche market that addresses the consumer return backlog and is an indicator of the ongoing demand for on-line shopping. Calgary was positioned well for this accelerated spike in activity, resulting in many more retailers and distribution companies turning to the region to keep pace with the sudden uptick in online demand.

Rental rates are turned the corner into growth territory in the fourth quarter of 2021, but still remain low compared to other markets such as Vancouver and Toronto providing further incentive for national players to secure long-term leases in Calgary. Overall rental rates have climbed by 3.6% over the course of the last year to $10.00 per square foot, well below the national average growth rate of 11.3%. Continued demand, a decreasing vacancy rate, inflation and rising construction costs all will place upward pressure on rental rates.

Industrial Supply

156,297,910 sf

Industrial Vacancy

3.72%

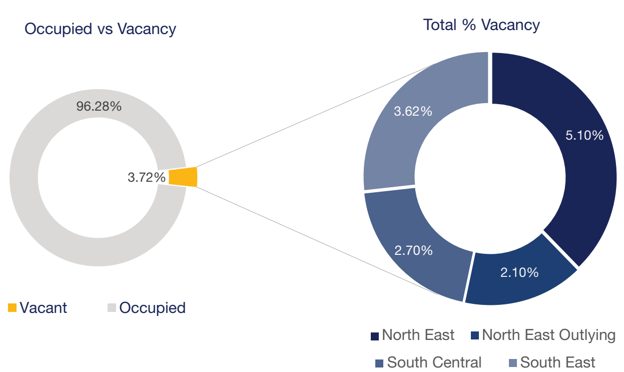
Overall Industrial Vacancy

5,807,536 sf

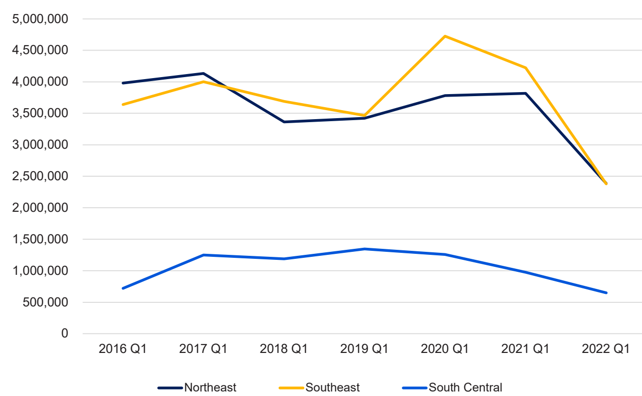
Q1 2022 Vacancy Summary, Industrial

QUADRANT	TOTAL INVENTORY (sf)	HEADLEASE (sf)	HEADLEASE (%)	SUBLEASE (sf)	SUBLEASE (%)	TOTAL (sf)	TOTAL (%)
North East	46,761,319	2,038,117	4.36%	348,465	0.75%	2,386,582	5.10%
North East Outlying	11,335,570	238,366	2.10%	0	0.00%	238,366	2.10%
South Central	24,003,935	614,180	2.56%	34,145	0.14%	648,325	2.70%
South East	65,803,363	2,200,191	3.34%	180,043	0.27%	2,380,234	3.62%
Other	8,393,723	128,361	1.53%	25,668	0.31%	154,029	1.84%
Total Industrial	**156,297,910**	**5,219,215**	**3.34%**	**588,321**	**0.38%**	**5,807,536**	**3.72%**

Breakdown of Vacancy by Submarket

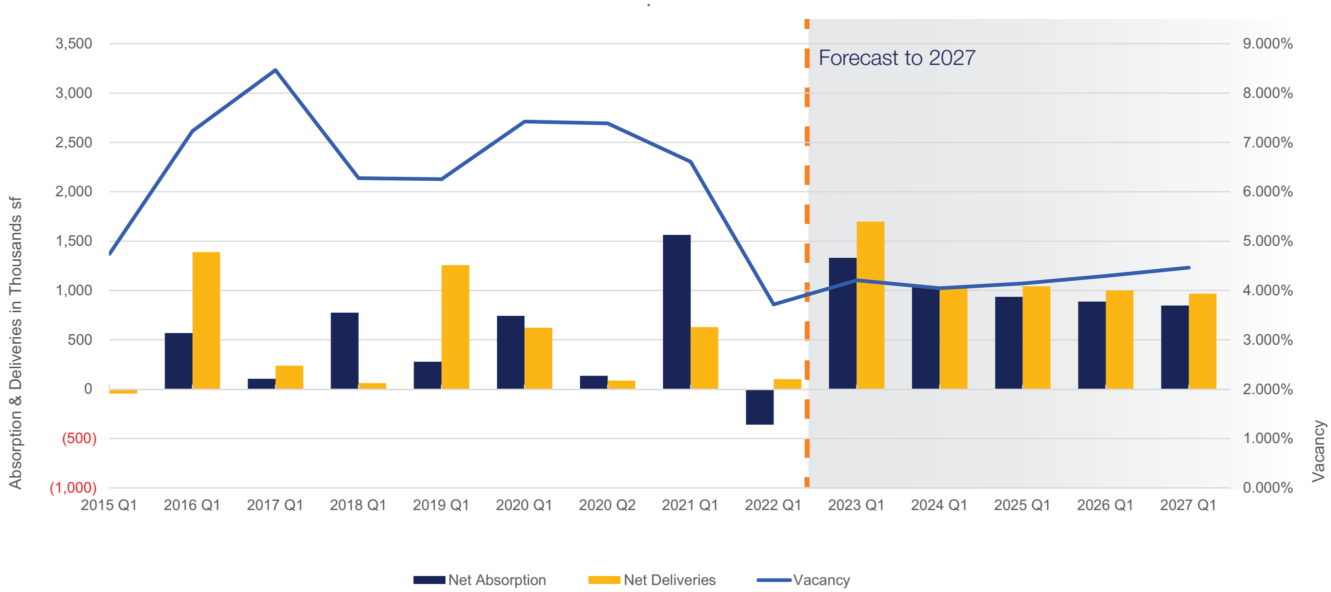


Historical Industrial Vacancy



Historical Absorption and Forecast

Reported Submarkets



All data sourced from: CoStar Realty Information, Inc.

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