

# MARKET REPORT

T O R O N T O M A R K E T | Q U A R T E R 4 2 0 1 1

## INDUSTRIAL TENANT'S GUIDE

### Overview

As industrial activity in the Greater Toronto Area ("GTA") is on the path to recovery, more and more landlords are trying to obtain higher net rates and sale prices. However, this increased activity was not reflected in the vacancy levels or average net rents in Q2 2011; both showed little to no overall movement since Q1 2011. The vacancy rate in the GTA decreased slightly at the end of Q3 2011 to 5.2%, while the average net rents fell by \$0.03 psf to \$4.60 psf.

The Central and North nodes experienced positive absorption, with vacancy rates dropping over the last quarter from 4.8% to 4.6% and from 5.4% to 5.2%, respectively. The West node saw little change, remaining at 5.4% vacant, while the East node experienced negative absorption with vacancy raising from 7.2% to 7.5%.

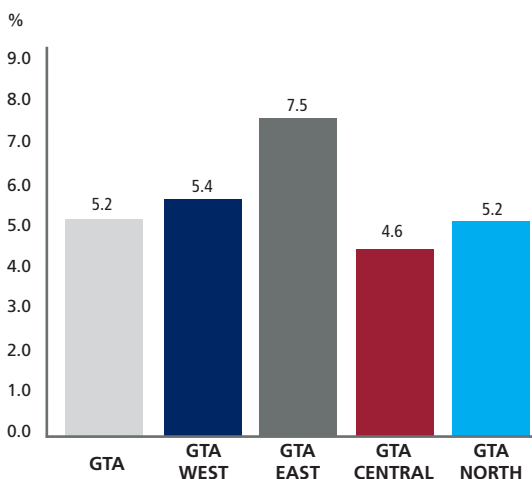
Despite average net rents changing in some areas of the city, the overall GTA rents remained relatively unchanged - down \$0.03 psf at \$4.60 psf, compared to \$4.63 psf recorded at the end of the previous quarter. The net rent in the North, the city's most expensive node, remained unchanged at \$5.15 psf. The West node also held steady and is currently \$4.62 psf. The net rent in the Central node decreased significantly, from \$4.41 psf to the current \$4.15 psf. The East node experienced a slight decrease with the net rent falling from \$4.32 psf to \$4.30 psf. The North and the West nodes make up a majority of the market, thus driving the trends in the GTA, whereas the East and Central nodes have



less impact on the overall rates. The size of the nodes also contributes to the volatility in the vacancy, as well as the average net rents.

Another indication that the GTA industrial market is on the mend is that there is new construction. Landlords are putting up buildings on speculation, or "spec" (no leasing contracts in place), in all four GTA nodes. With a combined 1,178,216 square feet being added to current supply, tenants will have access to new product in all areas of the GTA. With an increasingly positive market outlook and a belief that higher rental rates are on the horizon, landlords are no longer engaging in "blend and extend" discussions. However, there remain opportunities to create the leverage necessary to take advantage of a market that may be bottoming out.

### VACANCY RATE



Vacancy rates changed moderately between Q2 and Q3 of 2011. The largest changes were in the GTA West and GTA East, where we saw almost 2% decrease in each node. Every other node saw little change, with very marginal increases or decreases from Q2 2011.

### TRANSACTIONS

#### CresaPartners

TENANT	TYPE
<b>Woods Industries (Canada) Inc.</b> 331 Alden Road 44,097 sq.ft.	Relocation
<b>AmerisourceBergen Canada Corporation</b> 8030 Esquesing Line 159,360 sq.ft.	New Facility
<b>All Weather Windows Ltd.</b> 3100 Caravelle Drive 132,061 sq.ft.	Relocation
<b>IntraPac Group</b> 310 Matheson Boulevard East 45,384 sq.ft.	Renewal

### SECTOR INSIGHT

On September 2, CresaPartners participated in the Juvenile Diabetes Research Foundation Ride to Cure Diabetes at the Metro Convention Centre; 9,000 people rode stationary bikes for 35 minutes. The CresaPartners team raised almost \$2,000 for diabetes research, and the event raised almost \$2 Million.



### Tenant's Perspective

As the activity in the industrial market continues to climb across the GTA, the end of the "tenant's market" seems to be around the corner. However, the opportunity to take advantage of these times is still a very real possibility. Despite the increase in activity, net rents have not yet begun to rebound, something that will quickly change as the market tightens. With landlords' eagerness to fill holes in their portfolios, aggressive asking rates with a variety of inducements including free rent, moving allowances and large build-outs are still common.

### CONTACT US

#### CresaPartners

CORPORATE REAL ESTATE SERVICE ADVISORS

170 University Avenue  
Suite 1100  
Toronto, Ontario  
M5H 3B3  
tel 416.862.2666  
fax 416.862.2360  
bvandermark@cresapartners.com  
[www.cresapartners.com](http://www.cresapartners.com)

LNR Corporation, Brokerage

**CresaPartners**  
CORPORATE REAL ESTATE SERVICE ADVISORS

# MARKET REPORT INDUSTRIAL TENANT'S GUIDE

T O R O N T O M A R K E T | Q U A R T E R 4 2 0 1 1

## Relocation Checklist

Relocating your industrial facilities can be a challenging task and requires careful planning. It is important that equipment does not get damaged during the move, that the relocation is completed on time to limit disruption to operations and that it is completed within budget.

It is important to research companies that specialize in the transportation of racking and machinery well in advance of the relocation. Be sure to choose a reputable mover, and do not base your decision on pricing alone; the latter can end up costing you more in the end. Try to find a moving company that can provide you turnkey services; it is more manageable, and less stressful, to deal with one project manager as opposed to dealing with several companies with different contacts for different services.

Prepare rough floor plans of the new site outlining where the machinery/equipment should go. Once you have a shortlist of moving companies to provide you with a final quote, have them perform site visits with you in your existing and future home and go over the rough floor plans.

Speak to your distribution or production manager regarding any possible down time and stock requirements, as you do not want your move to affect your relationships with your

customers. Sean Hoehn, Managing Principal, Industrial customers. You may want to consider over-holding machinery in your current facility for a short period and perform a staged relocation by moving certain lines at the most appropriate time.

Someone in your organization should create a timetable for coordinating services with your local providers. A common mistake when planning a relocation is forgetting a services checklist for things like draining of oil, electrical and mechanical disconnects and reconnects, or any other requirement that might apply to your operations.

Obtain budget approval from your associates and make sure they know what moving company you have chosen. Explain the plan to ensure both internal and external stakeholders are comfortable with the relocation and timetable.

CresaPartners and its project management team are well positioned to facilitate your relocation. Our integrated approach enables us to take you through the entire real estate process from strategy development, surveys, market opportunities, negotiations with landlords and renovations/relocations.



**Sean Hoehn,**  
Managing  
Principal,  
Industrial,  
Sales Representative



**Kane Willmott,**  
Principal,  
Investment &  
Capital Markets,  
Broker



**Alex Sharpe,**  
Vice President,  
Investment &  
Capital Markets,  
Sales Representative

## DISCIPLINE

### Converter Core

#### CLIENT OBJECTIVES

Converter Core Inc. (Converter Core) is a sheet paperboard mill company that has been operating in the GTA for over 25 years. Due to the challenging economic environment of the past few years, Converter Core wanted to explore opportunities to decrease its real estate expenditures. Although not unhappy in their existing facility at 155 Orenda Road, Converter Core was willing to look at comparable options in the market that might offer the necessary cost savings. CresaPartners was hired on the merits of providing accurate and objective market information within Converter Core's desired geographic area and within the current landlord's portfolio, in hopes of securing the best lease transaction possible.

#### APPROACH

As the largest tenant in a multi-tenant facility, Converter Core was in an advantageous position in terms of their relationship with the landlord. However, its lease did not expire for three years and thus the urgency of the situation was minimal, providing the landlord with little incentive to begin early negotiations. Converter Core was a longstanding tenant with a strong track record, which allowed CresaPartners to approach the landlord with the objective of aligning their rental costs with current market conditions. Throughout the

negotiations, the landlord expressed an unwillingness to reduce the guaranteed rental income pursuant to the remaining obligation. Recognizing that the landlord could simply delay negotiations due to the future expiry date, CresaPartners identified an alternative option that could meet Converter Core's business requirements in terms of the building layout and features, as well as the timing of the lease expiry. This built leverage with the current landlord and allowed Converter Core to negotiate better terms in the event of a renewal.

#### RESULT

Based on its history and stability as the largest tenant, the landlord was willing to work with CresaPartners to negotiate attractive lease terms. Converter Core and the current landlord agreed to a 10 year renewal at 155 Orenda Road, with an inducement package. Remaining in the existing facility was in the best interest of Converter Core, as it was able to significantly reduce its real estate expenditures without any business interruption and relocation costs. With market knowledge, creating leverage, negotiation tactics, and a commitment to the client's needs and vision, CresaPartners was able to complete a transaction for Converter Core that fell within their financial parameters.



**Steven Rector,**  
Advisor,  
Sales Representative



**Tony Kasioulis,**  
Advisor,  
Sales Representative



**Jesse Micak,**  
Intern