

Industrial investment opportunities abound

Demand for industrial product in the Edmonton market is arguably at the highest level we have seen over the past five-plus years. As 2021 comes to a close, let's recap what the current industrial landscape looks like and what opportunities exist in Edmonton for the foreseeable future.



Availability

Edmonton's availability rate for Q3 2021 was 5.8%. Within the industrial market, this represents a relatively tight market for available space. Due to increasing demand in the Edmonton market, 2022 will continue to trend more in line with other markets, as exemplified when looking at BC and Ontario which have availability rates of 1.2% and 1.6% respectively. These rates signify condensed availability in supply for desirable, well-located sites with plenty of exposure.

Aging product

Since 2019, the average age year-built date of industrial product that has transacted is 1987. The aging product in the Edmonton market has resulted in increased interest in new builds with almost 20% of industrial sales since 2019 being buildings constructed in the last ten years. The highest demand for modern buildings in the last three years comes from industrial condo sales which account for 55% of transactions of buildings built within in last ten years.

Sales

An analysis of industrial sales from 2019 to 2021 further demonstrates the current demand for product in the Edmonton market. Of all the transactions that occurred over the past 36 months, 43.4% of them involved industrial condo deals, which is a 7% increase in demand compared to the previous three years (2016-2018). The demand for industrial condominiums can be attributed to the desire to buy instead of lease buildings.

Buy or Lease?

Due to the low interest environment, many groups have looked to own their real estate rather than lease it. Typically, the savings are substantial, as the difference between lease payments required to rent similar space and the actual mortgage payments provides additional cashflow. The benefit to a company purchasing their asset extends to their balance sheet due to the equity gained throughout the mortgage by way of principal paydown. Numerous lenders have an abundance of capital for owner-user purchases that have a strong business with good financials. Similar to a lease, payments would be fixed for a term of up to 5 years giving the tenant some certainty with payments throughout the term. Lastly the ability to secure higher leverage debt for an owner-user allows for a minimal down payment in order to own their premises.



Nothing is more expensive than a missed opportunity

With new condo builds under high demand, there is a brief timeframe to take advantage of an affordable, modern, and well-located industrial condo. Available new builds are being bought up quick and anything that isn't already under construction is expected to be more expensive due to rising interest rates, material shortages and labour shortages.

Rising interest rates

The Bank of Canada has committed to keep its low interest rates on hold for now, however, it is predictable that borrowing costs will go up soon. Amid rising inflation, the central bank has hinted that the first interest rate hike will take place as soon as Q2 2022. This means that proposed builds that have yet to enter the market won't be completed in-time to beat the rising interest rates, resulting in a higher purchase price.

Supply shortage

Supply chain issues for construction projects increase the build time and causes the price to increase, leaving the finished product more expensive than anticipated. Due to the current supply chain issues in Canada from both the pandemic and floods in BC, getting material to Alberta may prove to be difficult and expensive. Resulting in a projected replacement costs for any new build not currently under construction to be 25-30% higher than budgeted.

Advantage of buying early

Moving forward, as development projects for industrial condos are under construction, we are expecting to see an even greater demand to purchase new product before project completion. Due to the high demand and value of a modern condo, space bought presale has experienced the healthiest return on investment.





Element Business Centre in Edmonton, AB

Alberta

Element Business Centre Phase I and 2*

Pricing at launch: \$195 psf - \$210 psf
 Pricing at completion: \$210 psf - \$215 psf
 Increase of ~10%

Apex Phase I and II*

Pricing at launch: \$180 psf - \$190 psf
 Current listing price: \$230 psf
 Increase of ~30%

*Projects developed by **Beedie**

Mississauga, Ontario

Legacy Business Centre (2 buildings)*

Pricing at launch: \$310psf - \$325 psf
 Pricing at completion: \$390psf - \$400 psf
 Increase of ~30%

From the time projects started to the subsequent completion 18-24 months later, the value for the property increased 10-30%. Additionally, with an expected rise in interest rates and exasperated supply chain issues, we expect property value to surge substantially.



Opportunity in new industrial condos

One of the takeaways from this analysis is that demand for industrial condos has picked up steam off the heels of nearly two years of a global pandemic. Thanks to low interest rates and a supply shortage of modern product, new condo builds are highly sought-after space to purchase instead of lease. With the most value coming from purchasing condo space presale as the value increases by 25-30%. However, with increasing interest rates and supply shortages, we expect the price for an industrial condo to rise in early 2022.

**Get more
information**

Thomas Ashcroft, SIOR
 Principal
 +1 780.990.5364
 thomas.ashcroft@avisonyoung.com

Rob Iwaschuk
 Principal
 +1 780.907.0554
 rob.iwaschuk@avisonyoung.com

Ryan Zabloski
 Principal
 +1 780.993.7474
 ryan.zabloski@avisonyoung.com