

SPECIAL REPORT

CANADA MANUFACTURING

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JUNE 2023

Manufacturing Sector Becoming a More Significant Demand Driver for Industrial Space in Canada

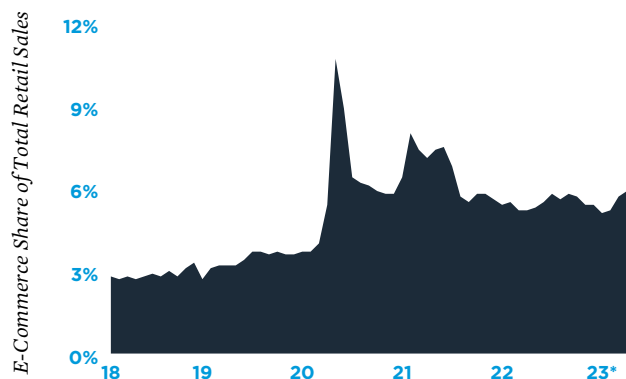
Industrial sector a top performer. Between 2020 and the end of 2022, industrial-related space demand has been fierce amid a rise in e-commerce-related activity brought on by the pandemic. National vacancy fell 70 basis points, reaching a historic low, which helped the average asking rent grow nearly 40 per cent. These robust fundamentals were a byproduct of changing consumer behaviour and the adaptation by retailers to support online shopping. While e-commerce sales are softening as the share of total retail sales is down from the 2020 peak, it still remains well above the long-term average. Despite this easing in demand, new drivers are emerging in Canada's manufacturing sector. Nearshoring, which brings manufacturing closer to home, is gaining momentum as companies look to mitigate supply chain risks brought on by ongoing global insecurity. This growing sector, coupled with still-elevated e-commerce activity, will likely aid industrial performance over the long-term.

Nearshoring becoming more prominent. With the health crisis highlighting the risks associated with global supply chains and international manufacturing, nearshoring is gaining momentum. As many western countries are heavily reliant on China, and with geopolitical concerns and supply chain vulnerabilities continuing to mount, several regions are looking to diversify trades to more stable and trusted nations that are closer to home. Due to this, Canada is well-positioned to benefit and to increase its manufacturing capacity in order to support both domestic demand and international demand stemming from the United States. Industrial space needs in Canada, specifically for manufacturing properties, will likely see an uptick in demand over the coming years.

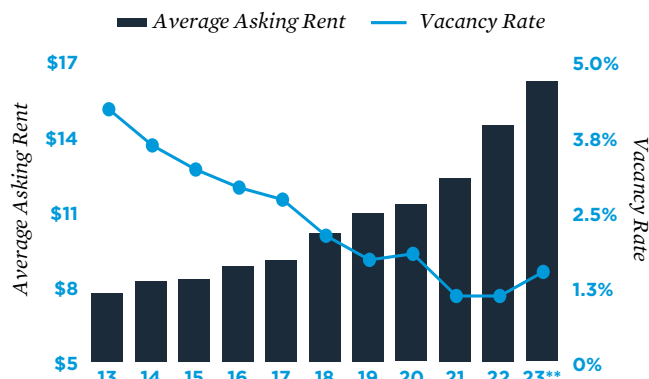
Canada well-positioned. With many companies nearshoring production, Canada is becoming a popular destination for firms headquartered in the U.S. or those with a large American consumer base. Canada's proximity to the U.S., its cultural alignment, skilled workforce, stable business environment and government subsidies are all factors that are driving this ongoing trend. While Canada's industrial rents have seen robust gains over the previous years, occupancy costs in Canada's major metros still remain below many markets in the U.S., which offers cost-savings advantages to firms looking to streamline supply chains, reduce transportation costs and increase response times. This is specifically true for automotive manufacturing, as several international companies — such as Honda, Toyota, Ford and General Motors — have established production facilities in Canada. This trend is expected to continue as Canada is becoming a hotbed for electric vehicle battery manufacturing.

Automotive nearshoring may expand further. Volkswagen has recently announced plans to establish an EV battery manufacturing plant in Canada, along with Stellantis, whose negotiations are ongoing with the federal government. This is due to the countries proximity to the U.S., the vast amount of applicable natural resources required for EV batteries, as well as large government subsidies due to the federal government's goal of achieving net-zero emissions by 2050. As a result, it is expected that more automotive manufacturers will follow as Canada's environment is well-suited for EV battery production. Industrial-related space demand will likely see an uptick from the manufacturing sector, which will provide further support to already healthy fundamentals.

E-Commerce Remains Above Long-Term Trend

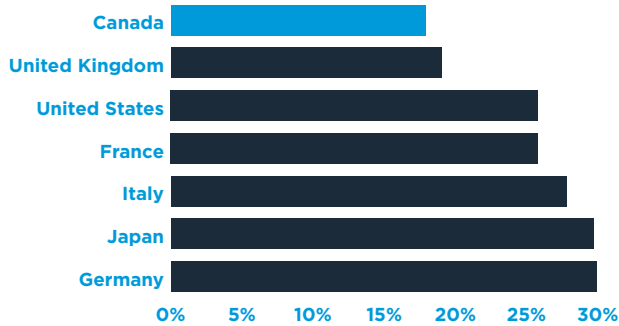


National Industrial Rent and Vacancy Trends



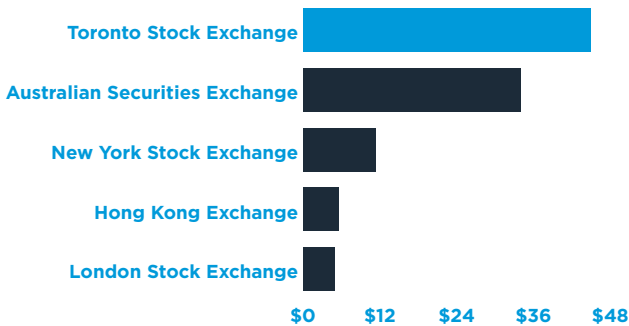
* Through April; ** Forecast
Sources: Marcus & Millichap Research Services; Altus Data Solutions; CoStar Group, Inc.; Statistics Canada; The Globe and Mail

Canada Provides Lowest Tax in G7



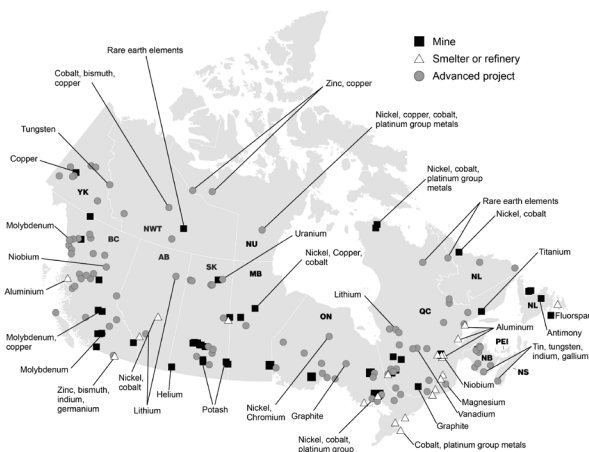
Corporate Tax Rate for Zero-Emissions Technology Manufacturing

Canada Leads Mining Investment



Total Equity Capital Raised (Billions)

Canada is Home to Ample Critical Minerals



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Sources: IPA Research Services; Altus Data Solutions; CoStar Group, Inc.; Government of Canada; Industry Canada; Statistics Canada; The Globe and Mail

Ontario is Canada's automotive hub. Ontario offers skilled workers, infrastructure to access key input materials and proximity to the U.S., making it an attractive location for automotive manufacturing. With Canada aiming for net-zero emissions by 2050, levels of government are offering large incentives for firms investing in green energy. Volkswagen and Stellantis, although the latter is still negotiating terms, recently announced Southwestern Ontario as the location of their new EV battery manufacturing plants. General Motors and Ford have also announced plans to invest over \$1 billion each to produce electric vehicles, as well as batteries in Ingersoll and Oakville, respectively. This ongoing investment will likely support long-term industrial demand, with the impact not only being realized in Ontario, but across the country as Canada has ample amounts of critical minerals — such as lithium, cobalt and nickel — to support EV manufacturing.

Québec benefiting from EV boom. With automakers minimizing their dependence on China and finding new EV supply chains, many firms are turning to Québec. The province has the critical minerals needed and provides cheap, green hydro-power, which aids the energy-intensive task of mining minerals to create cathodes and anodes. Consequently, with the help of government incentives, the region of Bécancour has drawn the attention of several multinational automotive and chemical manufacturers due to its close proximity to highways, railways and shipping lanes. This helps minimize supply chain risks and keeps production closer to end-users.

Ample investment flowing into Québec region of Bécancour. Due to the region's close proximity to critical input materials, coupled with its robust transportation network, Bécancour is witnessing an uptick in industrial investment and development. GM and POSCO reached an agreement to build a \$500 million battery manufacturing facility here, which has already begun construction. This is the first of what is expected to be several subsequent projects by the automaker as GM has also reached an agreement with Vale, which will provide the automaker with nickel sulfate from Vale's proposed plant in Bécancour. Additionally, Ford Motors also signed a letter of intent with EcoPro BM Co., as well as SK On Co., to jointly invest \$704 million for a new cathode factory. This ongoing EV battery boom in Québec is causing large-scale manufacturing investment and development, which will likely further aid long-term industrial performance and signals strong confidence within the manufacturing sector.

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