MARKET REPORT

Industrial

Calgary Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS
A DIVISION OF MARCUS & MILLICHAP, BROKERAGE

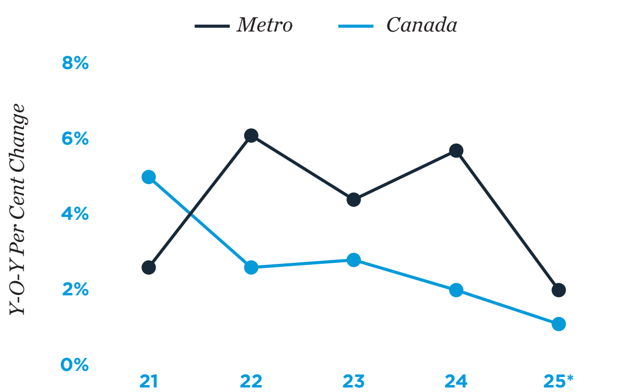
2Q/25

Energy's Impact on Economy Provides Cushion Amid Changing Trade Policy

Metro is well-positioned. Calgary's industrial outlook was positive entering 2025, as lower interest rates fuelled economic expansion. While growth may be more moderate than originally forecast due to trade risks, the metro's economy and industrial sector could outperform. Population gains, as well as energy producers seeking to increase output and expand beyond the United States, provide some opportunities. Lower interest rates, coverage from the USMCA trade agreement, a diversifying economy and a Federal election offering more domestic stability also cushion the metro from the ongoing trade tensions with the United States. Even so, 60 per cent of Calgary's GDP is tied to U.S. imports, such as petrochemicals, agriculture and manufacturing. While most are trade complaint, a slowing global economy could have spillover effects into Calgary's industrial sector.

Build cycle largely over. Deliveries will edge down in 2025 – hitting the lowest level since 2020 – as softening fundamentals curbed development. Demand-side uncertainties could challenge industrial performance in the short term, yet Calgary's historic build cycle is largely over, providing a backstop to trade risks. Meanwhile, Calgary's population has grown nearly 20 per cent since 2020, while asking rents on average have sat 15 per cent lower than the national level and 35 per cent below Vancouver, making the metro a growing and lower-cost distribution hub servicing Western Canada. Although recent deliveries have pushed availability up in this segment, future supply, geared towards small to mid-sized users, is seeing stronger demand.

Employment Trends



** Forecast*

Sources: Altus Data Solutions; CoStar Group, Inc.; Statistics Canada

Industrial 2025 Outlook

EMPLOYMENT:

18,000 JOBS
will be created

Job gains will ease, yet outpace the national level. While tariffs are a major risk that will weigh on business confidence and hiring, as exports are largely complaint with the USMCA trade agreement, the impact may be modest.

CONSTRUCTION:

1.2 MILLION SQ. FT.
will be completed

As demand waned and rent growth eased down from 18 per cent in 2022 amid elevated interest rates, the construction pipeline tailed off in 2024. Deliveries this year will sit roughly 50 per cent below the 15-year average and are mostly smaller bay product.

VACANCY:

10 BASIS POINT
increase in vacancy

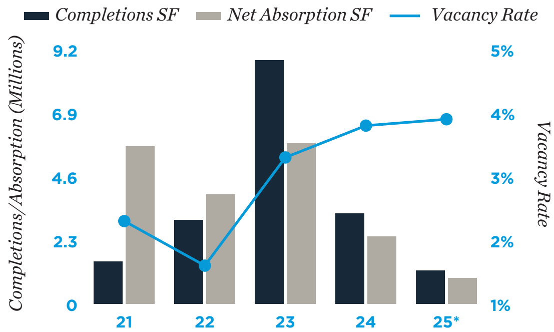
While moderating, positive absorption could hold this year amid a dwindling supply cycle, which would situate vacancy just below 4.0 per cent. Tariff uncertainties pose the biggest risk; if escalated, they could put further upwards pressures on vacancy.

RENT:

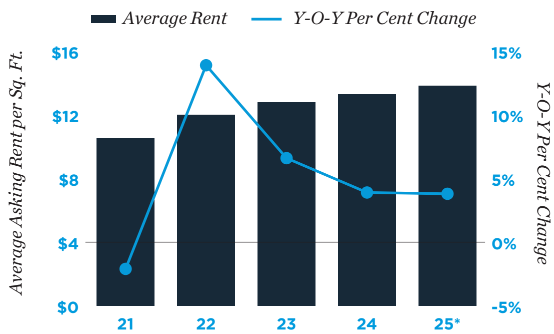
3.8% INCREASE
in asking rent

Annual rent growth will moderate slightly, driven by elevated availability in the midst of trade uncertainties. Asking rents for smaller-bay specialized product, however, could outpace the marketwide rate. The average rent will still see strong gains and sit 23 per cent above the pre-pandemic level.

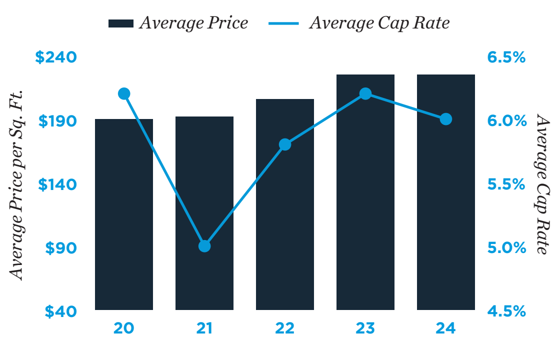
Supply and Demand



Rent Trends



Sales Trends



* Forecast

Sources: Altus Data Solutions; CoStar Group, Inc.; Statistics Canada

1Q 2025: Trailing 12-Month Period

CONSTRUCTION

2,956,300 sq. ft. completed

- After a historic amount of new supply in 2023, deliveries over the past yearlong period ended March were down 66 per cent annually and largely aligned with the metro's trailing 10-year average.
- Deliveries have mainly been concentrated in Rocky View County, particularly in Balzac, given its strategic location and available development land.

VACANCY

10 basis point decrease in vacancy Y-O-Y

- As lower interest rates began to feed through amid a healthy energy sector and economic diversification, absorption gained momentum over the latter part of last year. As a result, the metro's vacancy stabilized at 3.5 per cent.
- Calgary was one of two major metros to see vacancy drop over the past year. Easing supply pressures and stronger economic prospects aided this decline.

RENT

7.8% increase in the average asking rent Y-O-Y

- As vacancy inched lower, annual rent growth accelerated, becoming the largest of major Canadian metros. Small-bay specialized properties stood out.
- Due to slowing demand for large-bay space, this segment had higher availability, accounting for roughly 30 per cent of total sublet space. Although logistics still saw healthy rent gains, growth was easing more notably.

Investment Highlights

- The total number of industrial transactions in 2024 rose 7.1 per cent over the prior year. At the same time, the sector composed the largest share of total sales among major commercial property types in 2024, making up just over 30 per cent. While both apartment and retail trades held a larger dollar volume measure amid more $20 million-plus sales, industrial dollar volume was largely aligned with the metro's trailing 15-year average. The property type continued to generate positive investor sentiment, as economic and demographic tailwinds paint an optimistic long-term outlook.
- Over the past year, domestic private investors accounted for the largest share of dollar volume purchased at nearly 50 per cent. End users have also been one of the more active buyers – holding a 20 per cent share – as these market participants looked to have more control over their real estate costs, while also seeking to secure properties that can help expand operations.
- The average sale price has inched up since 2019, as falling vacancy and rising rents put upwards pressure on values. While industrial assets were a preferred investment in 2024, elevated interest rates caused prices to stabilize. Nevertheless, with financing costs edging down, cap rates fell to 6.0 per cent.

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