MARKET REPORT

Industrial

Edmonton Metro Area

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

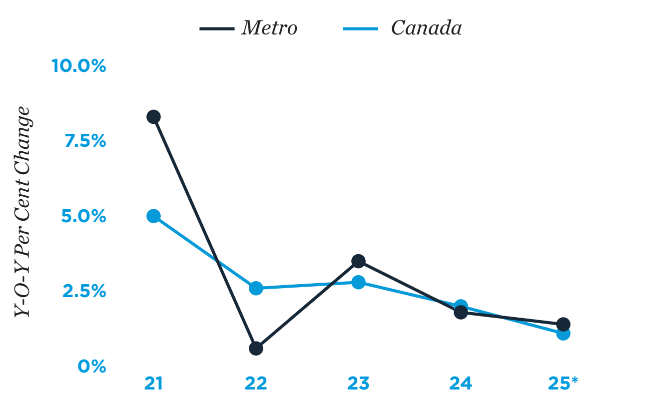
2Q/25

Demand and Supply Dynamics Allow for More Stability in Times of Uncertainty

The industrial sector may navigate challenges. Edmonton was the only major metro to see vacancy fall in 2024, hitting its lowest level in nearly a decade. Population growth was one of the fastest in Canada – and will continue to outpace the national average this year – fuelling a 6.0 per cent rise in provincial retail sales. This pace also aided logistics demand, positioning Edmonton to grow as a distribution center for western Canada. As Alberta's energy servicing hub with growing access to export markets, related employment also tends to be less sensitive to price volatility, helping long-term demand across a wide range of use formats. Along with positive net absorption over the second half of 2024, this may suggest that demand for more industrial space could continue into 2025 amid lower interest rates and demographic tailwinds. Tariff uncertainties pose a material risk to export demand, however, as Edmonton is a western Canada manufacturing hub. At the same time, slowing global economies and lower oil prices could also cause a wait-and-see approach to creep into the market.

Sector not overbuild. In Edmonton, developers have access to affordable land, and entitlements for new projects are fast. Builders have greater flexibility as a result and can be more responsive to market dynamics, allowing demand to be met in strong markets while also managing oversupply in slower times. With this dynamic, Edmonton's industrial market has maintained a relatively balanced state between supply and demand, helping to provide more stable fundamentals despite recently restrictive interest rates and growing uncertainties.

Employment Trends



** Forecast*

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

Industrial 2025 Outlook

11,000 JOBS
will be created

EMPLOYMENT:

Labour gains will slow compared with 2024, as trade uncertainties impact global economies. Nevertheless, job creation in Edmonton will outpace the national average. Not only are most exports USMCA compliant, but a large public sector also offers more stability.

700,000 SQ. FT.
will be completed

CONSTRUCTION:

While demand persists, builders have more flexibility in Edmonton. Amid recently restrictive interest rates and now trade uncertainties, developers have become cautious and pulled back on speculative builds. Deliveries will be the lowest since 2017 as a result.

20 BASIS POINT
decrease in vacancy

VACANCY:

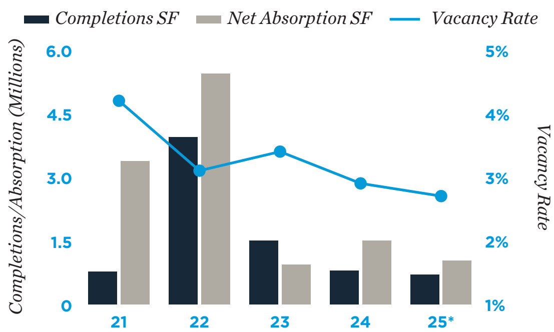
Population gains, lower interest rates and plans signalling increased energy production amid expanded market access may support a more stable market. Vacancy could inch lower and sit just below 3.0 per cent, while tariffs and lower oil prices pose a downside risk.

4.0% INCREASE
in asking rent

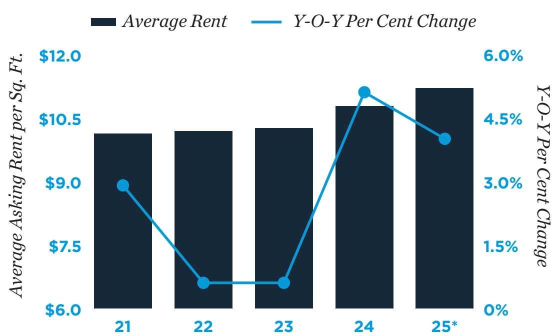
RENT:

Since the pandemic, Edmonton did not see double-digit annual rent growth like other major metros, only recently peaking around 7.0 per cent. Given relatively affordable rents and more stable demand, there could be further room for growth. Rents are forecast to pass $11 per square foot by year-end.

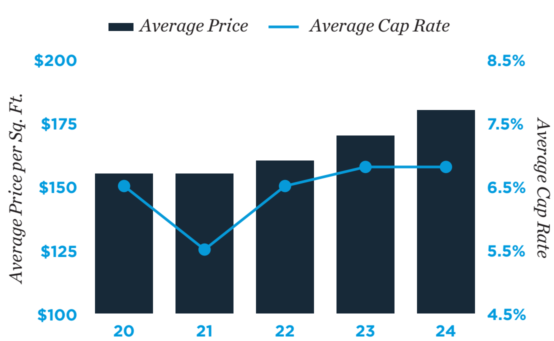
Supply and Demand



Rent Trends



Sales Trends



* Forecast

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

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1Q 2025: Trailing 12-Month Period

CONSTRUCTION

874,000 sq. ft. completed

- Deliveries fell nearly 1 million square feet over the past year, as starts tailed off in 2023 amid demand risks. This has helped stabilize fundamentals.
- Developers have recently been more cautious in building speculative large-bay distribution space. Given Edmonton's specialized place in servicing energy, current construction includes buildings of all sizes and formats.

VACANCY

100 basis point decrease in vacancy Y-O-Y

- Edmonton's economic makeup, along with lower interest rates, drove a 60 per cent increase in absorption last year. Vacancy saw its largest annual drop since 2022 and hit 2.7 per cent — its lowest level in a decade.
- Large bay vacancy was the highest amid more deliveries and easing distribution demand. Specialized space servicing the energy sector held the lowest.

RENT

7.4% increase in the average asking rent Y-O-Y

- Leasing momentum and falling vacancy due to economic growth caused annual rent gains to reaccelerate. The pace of increase was one of the strongest in Canada, above the trailing four-quarter average of 6.0 per cent.
- Vacancy trends have translated over into annual rent growth, with flex and specialized spaces leading, followed by logistics floorplans.

Investment Highlights

- Property fundamentals and more stable long-term demand has fostered positive sentiment for Edmonton's industrial sector. In 2024, while more $20 million-plus sales resulted in a higher multifamily dollar volume figure, total industrial sales held the largest share among major commercial properties at nearly 40 per cent. Restrictive interest rates and moderating demand, however, did cause the number or sales to drop 30 per cent last year.
- An outperforming economy and ongoing rent growth have sustained upwards pressure on average sale prices, which rose roughly 6.0 per cent last year — the third consecutive annual gain. While rising interest rates over the past few years pushed average cap rates up since 2021, the metric held stable at just below 7.0 per cent in 2024, as income growth has kept pace.
- Edmonton offers the highest industrial cap rates among major metros. With institutional competitors largely sidelined, this has provided an opportunity for private buyers to enter the market on the hunt for yield. As a result, this investor profile made up 65 per cent of dollar volume purchased in 2024. Users also accounted for a 10 per cent share, as the metro has many local operators specializing in resource services, as well as local distribution.

Price: $250