INVESTMENT FORECAST

Industrial

Southwestern Ontario

IPA | INSTITUTIONAL PROPERTY ADVISORS

2026

Conflicting Forces to Define Industrial Market Trajectory in 2026

Vacancy to level off with improving demand towards year-end. Despite higher tariffs and uncertainty, net absorption remained positive for most of 2025. Strategic stockpiling in anticipation of tariffs and relocations by some tenants from the neighbouring GTA in search of lower rents helped sustain leasing activity. The metro's high concentration of food and agri-processing operations — industries that tend to be recession-resistant — also supported space demand. Even so, as the U.S. raised tariffs on steel products in June 2025 and on non-USMCA-compliant imports from Canada in August 2025, pressure on space demand intensified in the third quarter as net absorption turned negative. Looking ahead, the metro will contend with two opposing forces shaping its industrial market. Tariff risks are expected to continue weighing on absorption in the near term. This drag may be offset later by renewed momentum from lower interest rates and a potential improvement in U.S. trade. Over the long term, the metro could benefit from policies that encourage domestic production and reinvestment, including the federal Building Canada infrastructure initiative and Buy Canadian procurement measures that prioritize local suppliers.

INVESTMENT TRENDS

- Despite trade risks, dollar volume rose slightly over the past year ended September. Transactions were largely limited to smaller-bay assets acquired by private investors and owner-users.
- The long-term outlook remains positive, supported by Southwestern Ontario's strategic location and cost advantages. Greater trade clarity should also help lift investor confidence.

2026 Industrial Trends

1.0 MILLION SQUARE FEET
will be completed

CONSTRUCTION:

With speculative development winding down, completions will reach their lowest level since 2020. The largest project is a new food processing plant in Brantford.

30 BASIS POINT
decrease in vacancy

VACANCY:

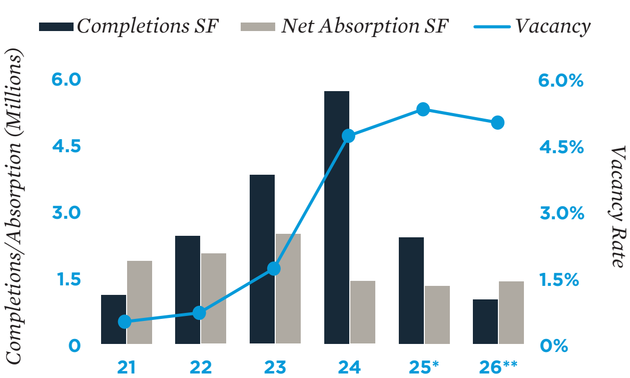
Vacancy may continue to edge higher in early 2026; however, lower interest rates and greater trade clarity, if realized, are expected to improve leasing and help stabilize vacancy around 5.0 per cent by year-end.

0.1% INCREASE
in asking rent

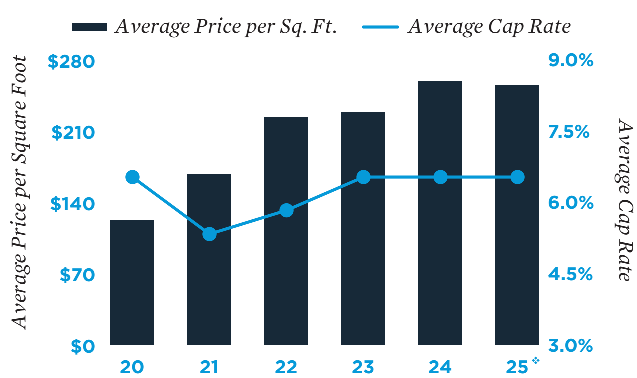
RENT:

Rents began declining year over year in the third quarter of 2024 and may continue to slip as demand softens. Nevertheless, with vacancy projected to stabilize in the second half, rents are expected to do the same towards year-end.

Supply and Demand



Price and Cap Rate Trends



** Estimate; ** Forecast; ⁂ Trailing 12 months through 3Q*

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

Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of February 2026. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Forecasts for employment and retail data are made during the first quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guarantee regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.

Toronto Office:
Rob Walkowiak | *Managing Director, Market Leader - Toronto & Ottawa Regional Manager*
200 King Street W., Suite 1210
Toronto, Ontario M5H 3T4
Tel: (416) 585-4650
Rob.Walkowiak@marcusmillichap.com