INVESTMENT FORECAST

Industrial

Toronto

IPA INSTITUTIONAL PROPERTY ADVISORS

2026

Trade Resolution Key to Unlocking Pent-Up Space Demand

Tenants awaiting greater clarity. Last year, Toronto was among the metros most affected by trade tensions. The region hosts much of Canada's core manufacturing capacity in the steel and automotive sectors, along with a dense logistics network and supply chains that are deeply integrated with the United States. As a result, net absorption lagged behind completions, driving up vacancy across the metro. This trend was more notable in Toronto East — a submarket with a high concentration of manufacturing-oriented businesses. Looking ahead, trade relations with the U.S. will remain a key factor closely watched by tenants and investors. Greater clarity on trade policy or a resolution to the current dispute would likely encourage many businesses to reengage expansion and investment plans. Despite the uncertainty surrounding trade, an accommodative monetary backdrop should continue to support consumer spending, sustaining demand in the transportation, distribution and warehousing sectors. Meanwhile, fundamentals in the small-bay segment are expected to stay robust. These facilities are typically occupied by local businesses, which are more insulated from the trade-exposed volatility elsewhere in the economy.

INVESTMENT TRENDS

- Despite a slowdown in overall investment activity last year, small-bay acquisitions held steady as investors gravitated towards lower-risk, locally connected assets amid limited supply.
- Many investors targeting large-bay assets have adopted a wait-and-see approach. If trade tensions ease following the 2026 USMCA joint review, activity could meaningfully pick up.

2026 Industrial Trends

CONSTRUCTION:

6.8 MILLION SQUARE FEET
will be completed

As the construction pipeline winds down, completions are forecast to fall by 35 per cent in 2026. Most new projects consist of large-bay facilities in key industrial nodes like Brampton and Vaughan.

VACANCY:

30 BASIS POINT
decrease in vacancy

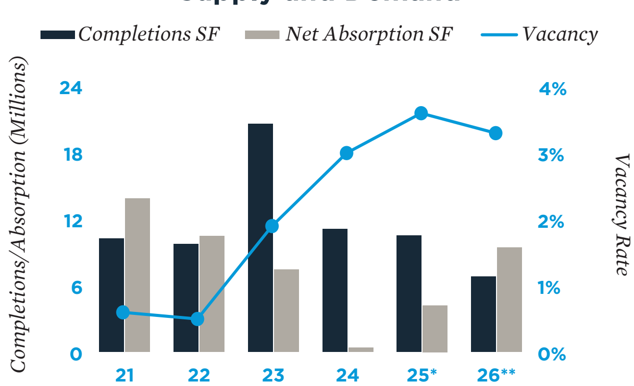
Vacancy is projected to fall modestly in 2026 to just below 3.5 per cent, driven by recovering space demand amid lower interest rates. That said, this is dependent on some trade clarity, which remains a key risk.

RENT:

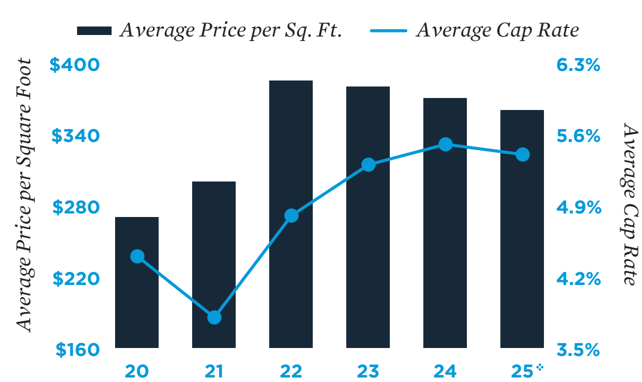
0.3% INCREASE
in asking rent

After falling to their lowest level in three years, industrial rents may stabilize on the back of recovering space demand. Annual declines may persist in early 2026, but a recovery could materialize by 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.

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