Market Report

INDUSTRIAL 3Q/26

Southwestern Ontario

IPA | INSTITUTIONAL PROPERTY ADVISORS

Domestic Recovery and Trade Diversification Counter External Headwinds

Space demand continues to stabilize while trade risks remain. As a key manufacturing and export hub, Southwestern Ontario saw its industrial vacancy rate rise above the national average last year amid cross-border trade disruptions. However, leasing activity rebounded entering 2026, with positive momentum carrying through the first half of the year. Further escalation of Canada-U.S. trade tensions in August and September remains a key challenge for the region's industrial sector. However, ongoing efforts to diversify Canada's export market and a gradual recovery in domestic economic activity are expected to modify the impact. As a result, space demand is projected to remain relatively stable through year-end, supporting occupancy levels.

Developers maintain a cautious approach. Construction activity has recovered, with approximately 2.7 million square feet underway across 20 projects. Nevertheless, projects are now smaller than those delivered during the 2022-2024 construction cycle, reflecting a more cautious sentiment. With demand and financing conditions still uncertain, some developers are also postponing new starts while preserving flexibility. Consequently, construction activity is expected to remain measured, helping to stabilize vacancy.

2026 FORECAST

EMPLOYMENT

10,000	0.6%
Jobs will be created	Increase Y-O-Y

CONSTRUCTION

1,450,000	20%
Sq. ft. will be added	Less than last year

VACANCY

3.7%	60
Vacancy rate	BPS decrease Y-O-Y

RENT

$13.05	0.6%
Average asking rent by year-end	Increase Y-O-Y

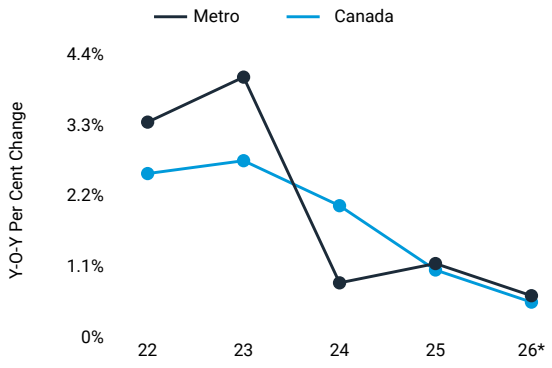
EMPLOYMENT

Job growth has slowed markedly across Southwestern Ontario as persistent trade-related uncertainty and slower population growth weigh on hiring. Through the first eight months of this year, employment gains were roughly half the pace of the same period in 2025. While these headwinds are expected to persist through year-end, the unemployment rate is likely to stabilize as labour force growth continues to lag job growth.

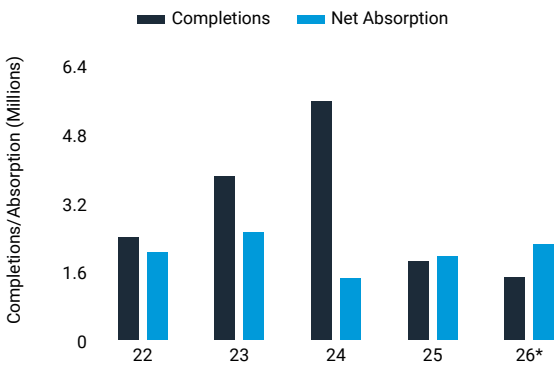
CONSTRUCTION

Deliveries are expected to remain subdued, reflecting a constrained development pipeline since 2024. Although some developers have postponed new projects amid uncertain demand and financing conditions, construction activity could ramp up rapidly once market conditions improve. This year's largest completion will be Phase 2 of the facility at 610 Alyea Street, adding 165,000 square feet, followed by Manikheir Canada's 140,000-square-foot medical-grade nitrile glove manufacturing facility in London.

EMPLOYMENT TRENDS



CONSTRUCTION TRENDS



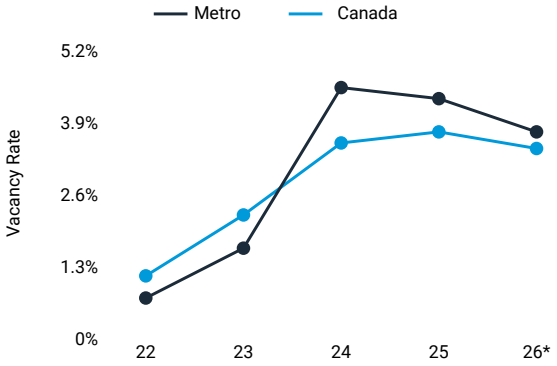
* Forecast

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

VACANCY

The vacancy rate peaked at 4.5 per cent in the third quarter of 2025 and has since trended lower as net absorption gradually improved. However, leasing momentum is expected to moderate through year-end as escalating Canada-U.S. trade tensions disproportionately weigh on occupiers in the manufacturing and trade sectors. Consequently, the vacancy rate is projected to end the year at approximately 3.7 per cent, with demand largely keeping pace with new supply in the second half.

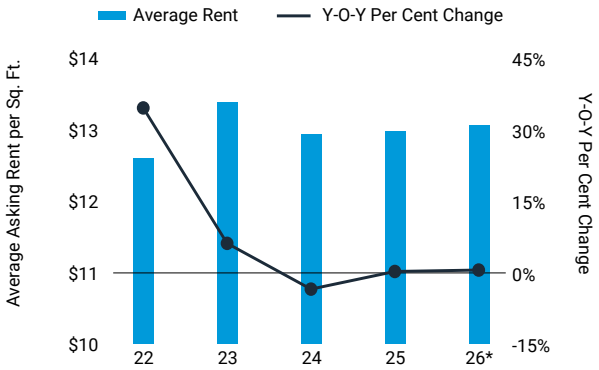
VACANCY TRENDS



RENT

After declining in 2024, the average asking rent has largely stabilized, posting modest growth last year. Improving absorption and a vacancy rate that appears to have peaked have supported owners' pricing power. However, leasing demand remains measured, limiting the potential for significant rent appreciation in the near term. While constrained new supply should help prevent meaningful downward pressure on rents, stronger demand growth will be needed for rental rates to accelerate further.

RENT TRENDS



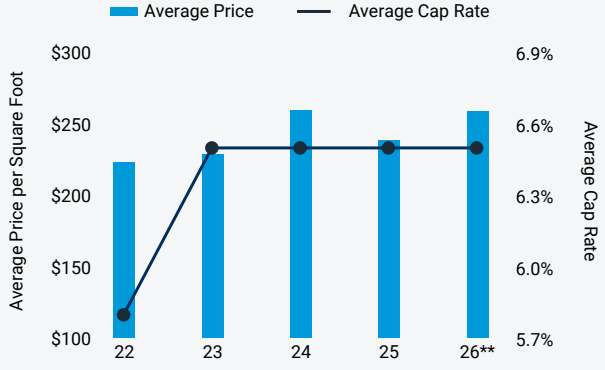
INVESTMENT HIGHLIGHTS

- Investment activity remained muted throughout the first half. Although capital deployment strengthened in the second quarter, transaction volume continued to soften, particularly for assets valued below $10 million. As a result, the trailing 12-month trade count declined 9.2 per cent year-over-year through June, despite a 48 per cent increase in dollar volume. This divergence suggests investor interest remains focused on larger institutional-quality opportunities, while activity in the private capital segment has yet to stabilize.

- In June, Pontegadea Group acquired Amazon's fulfillment centre at 140 Old Mill Road in Cambridge for $326 million, marking one of the largest industrial transactions on record in the metro. The sale underscores the strategic importance of Cambridge and the broader Waterloo Region within Canada's Highway 401 logistics corridor. Despite a more selective investment environment, buyers continue to pursue modern, large-scale logistics assets with strong connectivity, high-quality specifications, and secure covenant-backed income.

- The average sale price over the past four quarters was 8.4 percent above the 2025 mean, largely driven by the sale of Amazon's fulfillment centre at $305 per square foot. Meanwhile, the average cap rate held steady at approximately 6.5 per cent, indicating that pricing remains stable as industrial market fundamentals continue to normalize.

SALES TRENDS



* Forecast; ** Through 2Q

Sources: Altus Data Solutions; CoStar Group, Inc., Oxford Economics

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