

# MARKET REPORT INDUSTRIAL TENANT'S GUIDE

T O R O N T O M A R K E T | Q U A R T E R 2 2 0 1 0

## Overview

Availability for industrial space increased once again in the Greater Toronto Area ("GTA") over the first quarter of the year, climbing to 6.4% from 6.3% at the end of 2009. However, the pace of the increase appears to be slowing in part due to the lack of new supply coming to the market. Many landlords and developers who previously built on spec are no longer willing to do so. There has also been some positive news over the past few months for Canadian manufacturing, leading some to speculate that the industrial real estate sector may turn the corner in the next few months.

The best performing area of the city in Q1 2010 was the Central node, where availability actually decreased to 4.6% from 5.0% in the previous quarter. This led to an increase in average net rental rates in the node, from \$4.78 psf in Q4 2009 to \$4.82 psf in Q1 2010. The North and East nodes remained relatively stable in terms of both availability and pricing, with a nominal rise in average net rental rates of \$0.03 psf. The West node was the worst performing area of the city. Availability in the West increased almost 100 basis points (or almost 3.5 million square feet) to 7.6%. Not surprisingly, this was

Sean Hoehn



accompanied by a considerable drop in average net rental rates, from \$5.24 psf in Q4 2009 to \$4.95 psf currently. Despite this rise in availability, the West, along with the North node, saw the most activity over the last quarter.

## SECTOR INSIGHT

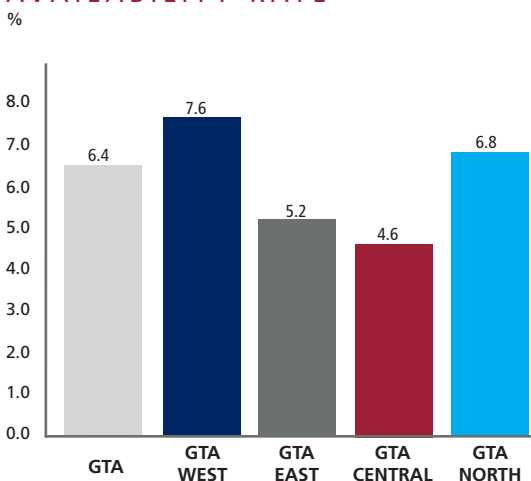
The Kidney Foundation honoured the past and celebrated the future on April 7th, 2010 with Galabration. CresaPartners was proud to attend while honorary chair, Mr. John Bitove of the Bitove Foundation, led the evening with dinner, dancing and fun-filled entertainment.



## Tenant's Perspective

Despite a general sense that the worst may be over, the optimism in the GTA market should be tempered with caution. The Canadian economy remains closely linked to that in the United States, and worrisome employment data and a lack of demand from our U.S. neighbours could limit any Canadian expansion. While landlords appear to be starting to get slightly more bullish about their assets, it remains a tenant's market, particularly for large space users.

## AVAILABILITY RATE



Once again, availability rates continued to increase. The GTA climbed to 6.4% overall. With little new supply coming to the market, this increase in availability can be directly attributed to large reductions in footprints for larger tenants, and many smaller tenants completely closing their operations.

## TRANSACTIONS

### CresaPartners

TENANT	TYPE
<b>Gyptech</b> 6760 Campobello Road 51,894 sq.ft.	Renewal
<b>Hitachi Koki USA Ltd.</b> 450 Export Boulevard, Unit B 55,727 sq.ft.	Renewal
<b>Ostaco Windows Inc.</b> 248 Bowes Road 96,500 sq.ft.	Relocation
<b>Technicolor Canada Inc.</b> 7045 Beckett Drive, Unit 1 149,629 sq.ft.	New Location
<b>Kaz Canada Inc.</b> 510 Bronte Street South 42,114 sq.ft.	Renewal

## CONTACT US

### CresaPartners

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**CresaPartners**  
CORPORATE REAL ESTATE SERVICE ADVISORS

### Saving Money in the Age of Institutional Real Estate

Dean Newman, Founding Principal, Broker of Record

Gone are the days of the entrepreneurial cash flow driven developer/landlord and in its place are the institutional pension fund manager and long term investor. Today's landlord is an asset manager who is most concerned about maintaining the value of a property and that means keeping rental rates high. This may even come at the expense of letting tenants leave the building before dropping prices and in effect admitting that the revenue assumptions promised to pensioners are offside. Does any of this really make sense and will these landlords really ever recover the lost cash flow of vacant periods? Probably not in the conventional sense, but that is small comfort to the tenant trying to do a deal with a seemingly obstinate property company.

So what is a tenant to do when trying to get the maximum financial concessions while renewing a lease or relocating? The first thing is to understand the landlord mentality upfront and go after the many concessions available to tenants attacking landlord profits centres. For instance, many landlords will concede a gross rent free period that could be as much as 3 to 12 months corresponding to the lease up time

for empty space. Also, any landlord's work or tenant improvement allowances can reduce the tenant's financial outlay. Negotiation of operating expense caps and exclusions and space measurement formulas for mezzanines, for instance, can also yield significant savings.

Resist the urge to comply with inflexible pricing policies and bully landlords. Everything is still negotiable to the well advised tenant who is prepared to be aggressive in offering what makes sense for their business! Find alternatives with landlords hungry to do business with you. Ensure that there is a competition among landlords for your tenancy. Lastly, but most importantly, work with an advisor who represents tenants only and is therefore not afraid to draw the institutional asset manager out of his lair and push him off of his "list price" platform. At CresaPartners we work for you, not the landlord, and we don't take no for an answer when it comes to exceeding your expectations!



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#### DISCIPLINE

### Ostaco Windows Inc.



#### SERVICES PROVIDED

- Strategic real estate planning
- Transaction management
- Project management

**CLIENT OBJECTIVES:** Ostaco Windows Inc. ("Ostaco") is a manufacturer of vinyl windows and doors. Since its inception in 1981, Ostaco has regarded itself as a leader in the Canadian window and door industry, providing the highest quality in innovative products with exceptional customer service. The challenge for Ostaco was to find a facility that would meet its growth requirements within specific price parameters, taking into account that 12 months remained on its existing lease.

**APPROACH:** After completing a full needs analysis and real estate strategy, CresaPartners surveyed the market within a specific geographic area determined by

Ostaco. As well, a review was conducted of the current landlord's portfolio for relocation opportunities.

**RESULT:** CresaPartners sourced other buildings owned by Ostaco's existing landlord that were challenging for the landlord to lease due to the building age, systems and general appearance. CresaPartners was able to successfully negotiate aggressive rental rates, including a full turn-key to renovate an older facility into a new state-of-the-art warehouse and distribution centre. Ostaco's growth requirements were met, while eliminating the remaining obligation on the previous lease by negotiating a relocation within the existing landlord's portfolio.