

Emerging Industrial Markets: Southwestern Ontario, Canada

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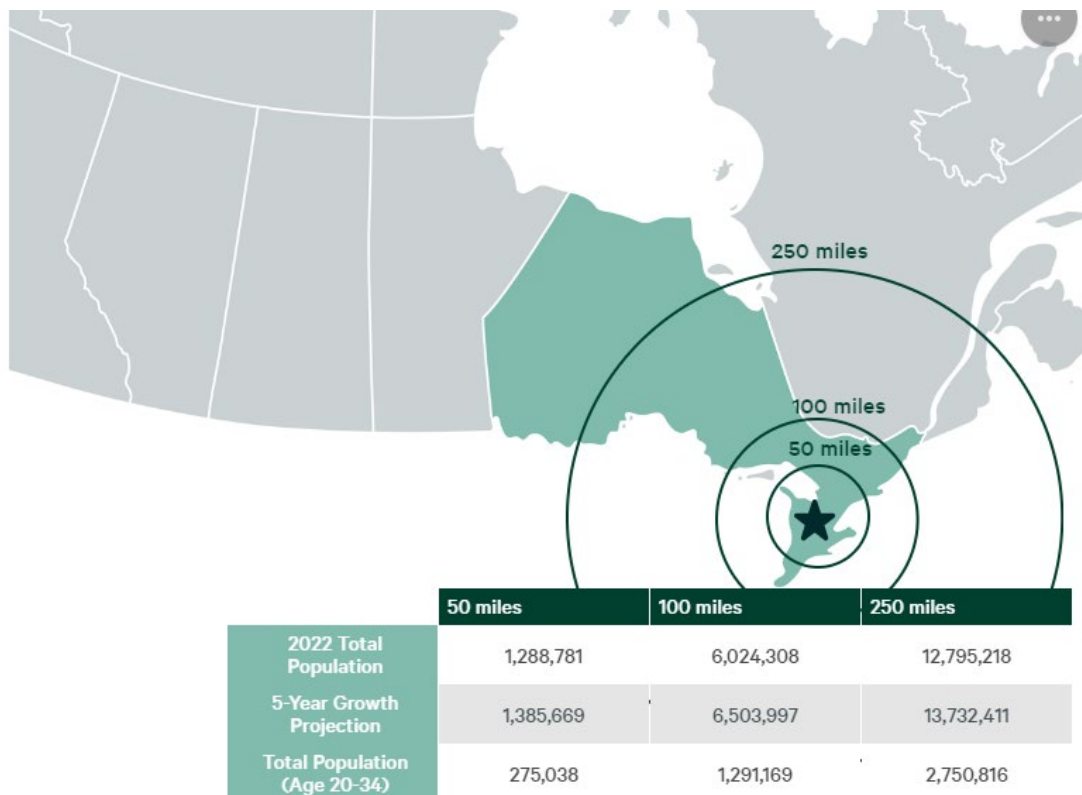
“Southwestern Ontario has a long history as an automotive hub but is evolving to lead Canada’s EV future. The world’s largest automotive companies are planning multi-billion dollar battery facilities here. Midwestern Ontario will connect Canada’s mining resources in the north with manufacturing in the south, while allowing for quick transport to the United States.”

Amanda Fediuc
CBRE Managing Director, Southwestern Ontario, Canada

Demographics

Nearly 1.3 million people - 22% aged 20 to 34 - live within 50 miles (80 kilometers) of Southwestern Ontario, and 12.8 million consumers are within 250 miles (402 kilometers).

Figure 1: Southwestern Ontario Population Analysis



Note: Analysis is inclusive of Canadian population only.

Source: Sitewise, CBRE Research, 2023.

The market’s local transportation and warehouse labor force of 21,040 is expected to grow by 43% by 2033. The average salary for a non-supervisory warehouse worker is C\$20.68 per hour.

Figure 2: Southwestern Ontario Warehouse & Storage Labor Fundamentals



Note: Above is for combined London & Windsor
Source: Oxford Economics, Government of Canada Job Bank, 2023.

Location Incentives

Discretionary cash grants and tax abatements are among the top incentives offered in Southwestern Ontario. Local and provincial governments can also provide:

- Job creation grants for specific industrial sectors
- Discounts and exemptions for industrial project expansions
- Loan assistance for businesses, municipalities and non-profit organizations
- Incentives for brownfield remediation projects

Figure 3: Top Incentive Programs

Industrial Development Charge Exemption

This is a discount for projects that increase the gross floor area (GFA) of an existing industrial building. Expansions by up to 50% are fully exempt. There are development charges for GFA over that but certain municipal exemptions may cover this too.

Southwestern Ontario Development Fund

This provides support for projects and investments to businesses, municipalities and non-profits for economic development via business and community projects. Developers can receive loans up to 15% of eligible project costs.

Ontario Innovation Tax Credit

Qualifying corporations can claim a refundable tax credit for certain expenditures on Ontario-based scientific research and experimental development. This provincial tax credit covers 8% to 10% of expenditures.

Industrial Corridor Enhancement Grant Program

London's program provides a grant equal to 50% of the cost of eligible fencing, landscaping, tree planting and public art on industrial properties (\$25,000 cap).

Brownfield Remediation Programs

These tax incentive programs for remediation projects include Windsor's Brownfield Redevelopment CIP, Brownfield Financial Tax Incentive Program and London's CIP for Brownfield Incentives.

AIME Manufacturing Innovation Grant

AIME Global initiative offers manufacturers in southern, central and eastern Ontario grants to offset training expenses for innovation and gaining competitive advantages. Funding is up to \$100,000, with 50% shared costs for first-time applicants and 25% shared costs with second-time applicants.

Industrial Energy Efficiency Program

The IESO's Save on Energy Industrial Energy Efficiency Program (IEEP) supports industrial customers across Ontario in improving industrial processes and implementing system optimizations. The program offers up to \$5 million in financial incentives for each large, complex industrial energy-efficiency project accepted into the program.

Windsor's Grant Programs

Windsor subsidizes up to 100% of a completed project's municipal property tax increase for up to 10 years after project completion, if either:

- 20 jobs are created in targeted sectors (50 for manufacturing)
- 35 jobs are retained in targeted sectors (50 for manufacturing)
- The business has less than 20 employees in targeted sectors
- (50 for manufacturing)

Logistics Drivers

Southwestern Ontario contains two major markets: London and Windsor. London is in the center of the region's manufacturing and agricultural zones, approximately two hours down Ontario Highway 401 from the Greater Toronto Area (GTA). Locating to this market is a cost-effective alternative, with close proximity to Canada's premier economic hub. Windsor is located on the southwestern tip of Ontario, directly across the Detroit River from Detroit, Michigan. Other small cities along the 401 Highway, including Woodstock, Ingersoll, St. Thomas and Chatham, provide further investment value and often fewer zoning restrictions than larger cities.

The 401 Highway offers convenient access to major areas, both in and out of the country. London and Windsor are two hours apart, while Windsor and Toronto are four hours apart. Ontario Highway 402, which connects London to Sarnia in one hour, also helps facilitate cross-border trade with Port Huron, Michigan. Buffalo, New York is only 2.5 hours away.

Construction of the [Gordie Howe International Bridge](#) is projected to further stimulate international trade. The \$5.7 billion project will allow cross-border traffic between Windsor and Detroit, Michigan, increased daily traffic capacity and a streamlined customs process. It will span 1.6 miles (2.6 kilometers), making it the longest cable-stayed bridge in North America. Development is expected to complete in Q3 2024.

By air, [London Air Cargo](#), located at the London International Airport, provides 24-hour Canada Border Services Agency assistance, international air cargo services and a 40,000 sq. ft. multi-unit cargo terminal. Major manufacturers and shippers can easily reach local and international destinations.

By rail, Canadian Pacific and Canadian National Railways serve London, and both own large local railyards. This central hub allows streamlined access to multiple key economic nodes, such as the GTA, other cities, airports, various industrial districts and major Great Lakes ports. These lakeports in Sarnia, Goderich and Hamilton are yet another logistical driver, facilitating further domestic and international trade. The [Port of Hamilton](#) has direct access to the Atlantic Ocean via the St. Lawrence Seaway. It is the largest port in Ontario, handling more than one million tonnes of exports annually.

Supply & Demand

The market has 99.8 million sq. ft. of industrial warehouse space, with Windsor containing 58.4 million sq. ft. and London holding 41.4 million sq. ft. The overall availability rate fell to 2.2% by the end of Q1, a 1.1% quarter-over-quarter decline. Average asking rents climbed by 54% over the past five years, as demand has risen for industrial warehouse and manufacturing space. Rents stood at C\$9.48 per sq. ft. per year as of Q1, with the region offering some of the most affordable rents in the country. Canada's national average climbed to C\$15.99 per sq. ft. per year.

Construction has increased in Southwestern Ontario:

- Broccolini completed construction of Amazon's 2.8 million sq. ft. facility in 2022
- Stellantis' and LG's joint venture, a \$5 billion electric vehicle battery plant, is underway in Windsor

- Volkswagen will break ground on its \$7 billion electric vehicle battery plant in St. Thomas, just south of London (announced this year)
- Ford is investing \$2 billion in new electric car models and engines at its existing Windsor plants
- Several other major projects in-progress in the e-commerce, food & beverage, and retail wholesaler sectors

Canada’s government and private sector are committed to the automobile industry and its EV future. Canada was second in BloombergNEF’s annual global electric battery supply chain rankings, only behind China. Detailed in its recently released 2023 budget, the federal government is providing \$60 billion in clean energy tax credits and \$20 billion toward sustainable infrastructure. This is in response to the U.S.’s green investment policies such as the Inflation Reduction Act. Ontario is investing over \$4.7 billion via its Skills Development Fund to stimulate job growth in the automotive manufacturing sector. This will provide career training in the EV field, as well as machine operations, assembly and logistics.

Southwestern Ontario’s proximity to the U.S., its expanding automotive sector and projected regional job growth demonstrate its continued strong value for industrial occupiers and investors.

Figure 4: Southwestern Ontario Historical Data

	Q1 2023	2022	2021	2020	2019	2018
Inventory	99,843,406	99,702,191	97,856,941	97,224,480	97,026,636	96,549,607
Overall Vacancy Rate	2.2%	3.3%	1.2%	2.2%	3.1%	3.6%
YTD Net Absorption	1,275,715	-1,604,694	1,460,125	1,481,656	251,232	1,155,772
Average Asking Rental Rates (Direct/SF/Year)	\$9.48	\$9.14	\$8.03	\$7.10	\$6.13	\$6.16
Construction Completions	141,215	1,545,727	100,103	142,235	132,327	398,750

Note: Above historical statistics are reflective of only London, ON and Windsor, ON.

Source: CBRE Research, Q1 2023.

Figure 5: Southwestern Ontario Breakdown by City

	London	Windsor
Inventory (SF)	41,429,235	58,414,171
Overall Availability Rate	0.6%	3.3%
YTD Net Absorption	233,872	1,041,843
Average Asking Lease Rates (Direct/SF/Year) C\$	\$9.67	\$9.35

Source: CBRE Research, Q1 2023.