

Understanding the Industrial Property Market

A practical look at how to evaluate, buy, or sell industrial buildings with confidence in today's market.

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What We'll Cover Today

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The Industrial Asset Class

Why industrial is a fundamentally different asset class.

02

Terminology & Types of Properties

Understanding the different industrial property types and the language behind them

03

What Drives Value

The key factors that influence industrial property value

04

Investment Math — How Income Becomes Property Value

Income → NOI → Cap Rate → Property Value

05

Due Diligence & Financing

The due diligence, financing requirements, and steps involved in getting a deal across the finish line.

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The Selling Side

How industrial properties are positioned, marketed, and sold in today's market.



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Section 1

The Industrial Asset Class



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Why Industrial Real Estate Continues To Outperform

\$11.8B+

Industrial CRE transaction volume in Canada (2025)

3.2%

GTA Industrial vacancy rate (near historic lows)


2x – 5x

More Space per Dollar

Industrial properties typically offer significantly more usable space per dollar compared to office and retail space.

 Industrial has delivered some of the strongest total returns among commercial real estate asset classes over the past decade.

 E-commerce, logistics, manufacturing, and emerging uses such as recreation continue to drive long-term demand for industrial space.

 Many industrial leases are structured as triple-net (NNN), reducing landlord operating cost exposure and improving income stability.

Section 2

Terminology & Types of Properties



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Common Industrial Vocabulary

Leasing & Financial Terms

Triple Net (NNN)

- Tenant pays base rent + property tax + insurance + maintenance (operating costs).
- Most common lease structure in industrial real estate.
- Provides predictable income and limited expense exposure for landlords.

Gross Lease

- Tenant pays one all-inclusive rent.
- Landlord pays operating costs.
- More common in office and retail — rarely used in industrial.

GLA vs. GBA

- Gross Leasable Area (rentable) vs. Gross Building Area (total building).
- GLA is typically used to calculate rent.
- Always confirm which measurement is being quoted.

Cap Rate

- $\text{Net Operating Income} \div \text{Purchase Price}$.
- Primary valuation metric for investment property.
- Lower cap rate typically indicates higher value and lower perceived risk.

Net Net (NN)

- Tenant pays base rent + property tax + insurance.
- Landlord typically retains maintenance responsibility.
- Less common in industrial properties.

Additional Rent (TMI)

- Taxes, Maintenance, and Insurance — the operating costs paid in addition to base rent.
- Often quoted as \$/sq ft.
- Always confirm what is included.

Rent Escalations

- Scheduled increases in base rent over time.
- Common in industrial leases — typically 2–4% annually or CPI-linked.
- Critical for forecasting long-term income

NOI (Net Operating Income)

- $\text{Net Operating Income} = \text{Gross Revenue} - \text{Operating Expenses}$.
- Does not include financing costs or capital expenditures.
- Key metric used to value commercial property.

Common Industrial Vocabulary

Physical Specifications

Clear Height

- The usable height inside the warehouse from the floor to the lowest overhead obstruction (typically sprinklers or beams).
- 24 ft is generally the minimum functional standard today; 36–40 ft is considered premium.
- This single metric can significantly impact rent and usability.

Truck-Level Door

- A loading dock raised to trailer height (approximately 4 ft above grade).
- Allows forklifts to move directly between the trailer and warehouse floor.
- The preferred configuration for distribution facilities.

Grade-Level (Drive-In) Door

- A door located at ground level allowing vehicles to drive directly into the building.
- Common for service businesses and smaller operations.
- Typically less efficient than truck-level loading for distribution.

Column Span (Column Grid)

- The distance between structural support columns.
- Wider spacing provides more usable floor area fewer obstructions, and greater layout flexibility.
- 40 × 50 ft is common; 60 × 60 ft or larger is considered premium.
- Important for warehousing, manufacturing, and open-space uses such as recreation and training facilities.

Power Capacity

- The amount of electrical service available to the building.
- Measured in volts and amps.
- Critical for manufacturing, food processing, and data-intensive operations..

Trailer Parking / Truck Court Depth

- The depth of the yard where trucks maneuver and park.
- Minimum ~130 ft for basic operations; 180 ft+ is preferred for efficient movement of standard 53-ft trailers.
- Many older GTA sites are functionally constrained by limited yard depth.

Common Industrial Property Types

Know The Difference



Manufacturing

- Usually Purpose-built for production.
- Heavy power, specialized equipment, often built-to-suit. Rarely changes use.
- Difficult to convert — but very stable tenants.



Warehouse / Distribution

- Designed for storage and logistics.
- High clear heights (28–40 ft+),
- Efficient loading, drive in/truck level
- The backbone of supply chains.



Light Industrial

- Smaller bays (2,000–10,000 sqft)
- Mixed office & Industrial space.
- Ideal for trades, service businesses, small manufacturers.
- Most common industrial format in urban markets.



Flex / R&D

- Higher office component (typically 30–50%).
- Lower clear height and and more finished interior space.
- Attracts tech, medical, showroom tenants.
- Often commands higher rent due to office buildout.



Truck Terminal / Cross-Dock

- Multiple truck-level and grade-level doors.
- Large yard areas for truck circulation and staging.
- Access, yard space, and location drive value.



Recreational Entertainment

- Designed for sports, fitness, and entertainment uses.
- Typically requires higher ceiling heights and open-span layouts.
- Parking, zoning permissions, and building configuration are critical to feasibility.

What Drives Value

What Drives Industrial Value

7 Key Factors That Impact Rent and Asset Value



Location & Access

- Proximity to **400-series highways**, major interchanges, labour availability, and proximity to customers directly influence tenant demand, lease rates, and property value.



Clear Height

- Higher clear height increases storage capacity and operational efficiency.
- 24 ft = functional; 32 ft = desirable; 40 ft+ = premium.
- Clear height is one of the strongest drivers of both lease rates and building value.



Power Supply

- Available amps and voltage determine the types of tenants the building can support.
- Buildings with higher electrical capacity typically attract specialized users, supports higher lease rates, and enhances overall property values.



Loading Configuration

- The number and type of loading doors, truck court depth, and trailer parking capacity directly affect functionality.
- Efficient loading improves tenant demand, leaseability, and long-term property value.



Land Coverage & Zoning

- Site coverage, yard depth, and permitted uses determine how efficiently the property can be utilized.
- More flexible zoning and better land utilization typically support higher lease rates and stronger resale value.



Lease Quality

- Remaining lease term, rent increases, lease structure (**NNN**), and tenant credit quality are key financial drivers.
- Stable, long-term leases with predictable income significantly increase property value.



Building Age & Modern Specifications

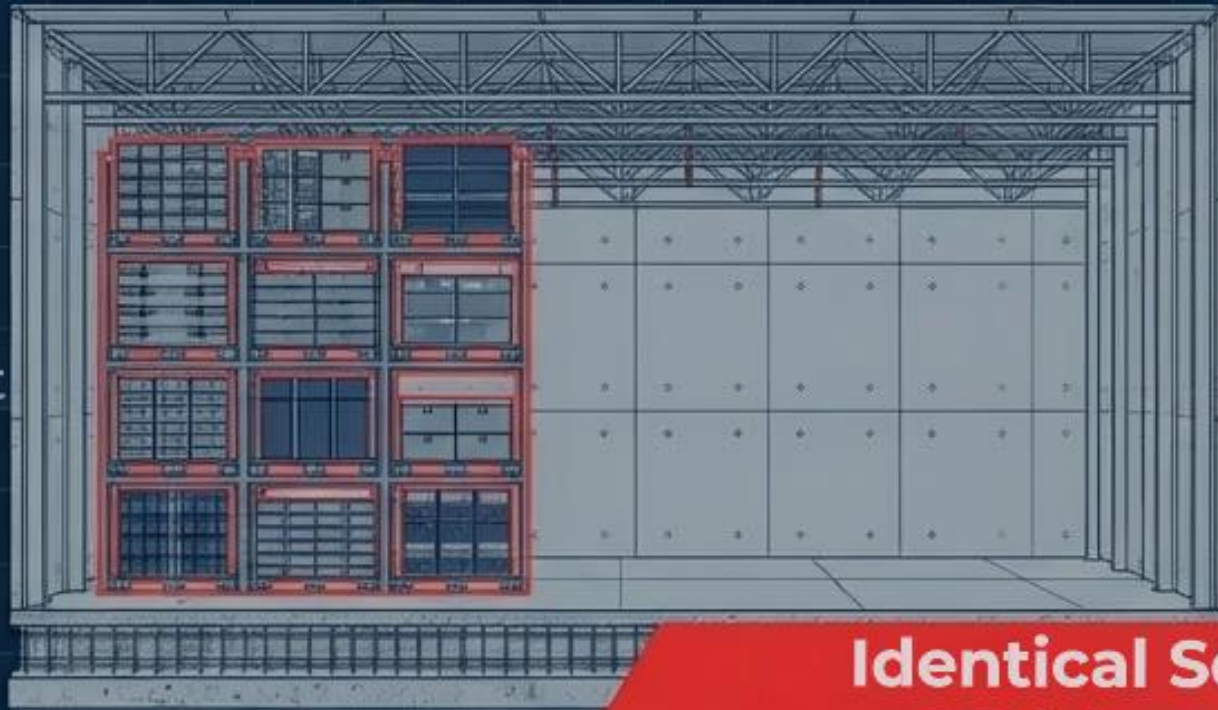
Modern buildings with updated design, column spacing, and building systems are more attractive to tenants. Newer properties with modern specifications typically achieve higher lease rates and command stronger sale values..

Industrial Value is Driven by Cubic Capacity Not Just Square Footage

More cubic capacity = more storage = higher rent potential = higher property value

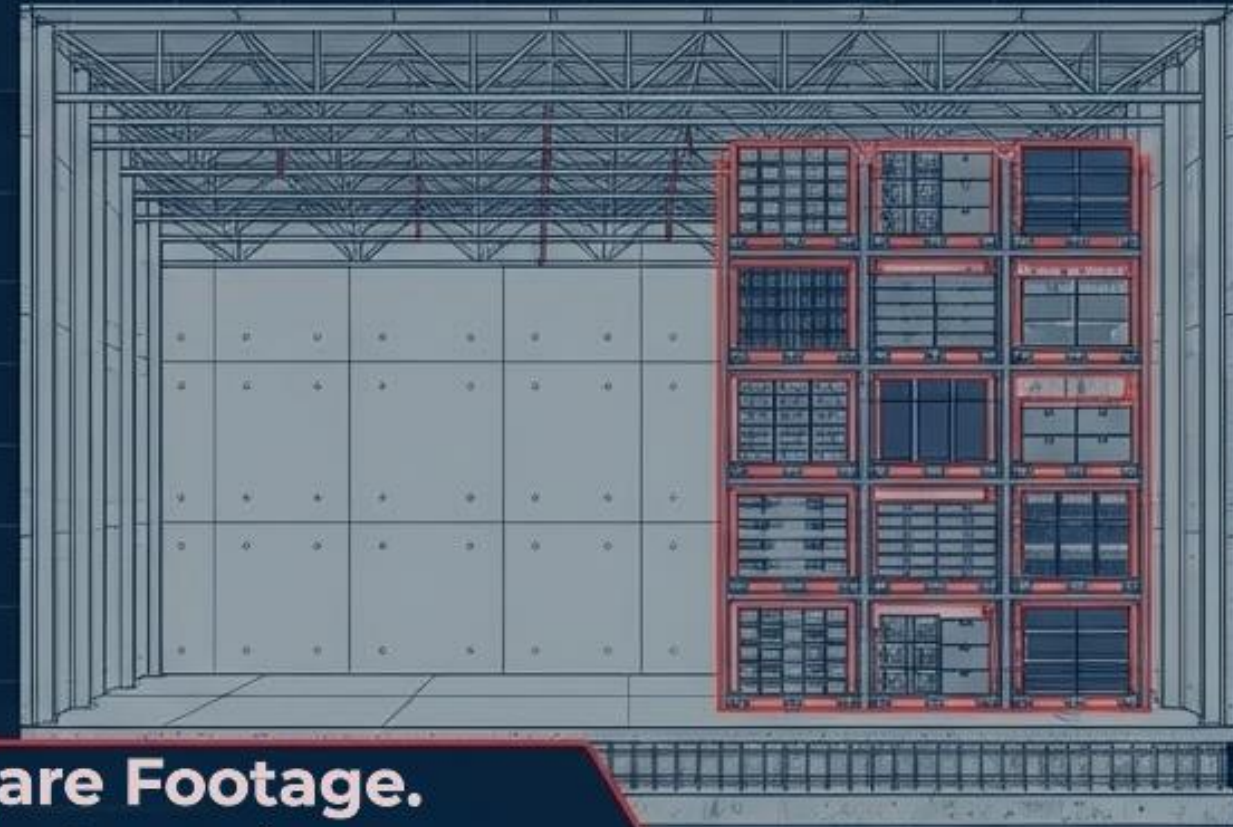
Typical Older Building

Under
24'-Foot
Clear
Height



Modern Facility

32'-40'
Foot Clear
Height



**Identical Square Footage.
67% Greater Capacity.
Higher Lease Rates and Property Value**

Modern industrial space is leased by the square foot but utilized by the cubic foot.
- Higher clear heights improve efficiency, support higher lease rates, and increase property value

Investment Math

How Income Becomes
Property Value



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Understand The Income, and You Understand the Value

GROSS REVENUE

Base Rent: $\$14.50 \times 18,500 \text{ sf} = \$268,250$

TMI Recovered: $\$4.80 \times 18,500 \text{ sf} = \$88,800$

Total Gross Revenue: **$\$357,050/\text{yr}$**

OPERATING EXPENSES

Property Tax: **$\sim\$42,000$**

Insurance: **$\sim\$8,000$**

Mgmt Fee (3%): **$\sim\$10,700$**

Reserve / Misc: **$\sim\$8,000$**

Total Expenses: **$\sim\$68,700$**

Note: In a Triple Net (NNN) lease, most of these costs are recovered from the tenant.

NET OPERATING INCOME (NOI)

$\$357,050 - \$68,700 = \$288,350 \text{ (NOI)}$

$\text{NOI} \div \text{Cap Rate} = \text{Property Value}$

Example:

$\$288,350 \div 4.0\% = \$7,208,750$

Note: Lower cap rate = higher value

Revenue – Expenses = NOI → NOI ÷ Cap Rate = Property Value

Due Diligence & Financing



Industrial Due Diligence

What Buyers Must Verify Before Closing

Title & Legal

- Confirm clear title, easements, right-of-way
- Confirm lot dimensions vs. listing
- Review Survey — note encroachments
- Confirm access rights and easements (especially shared driveways)

Environmental

- Phase I Environmental Site Assessment (ESA) — often required by lenders
- Phase II may be required if risks or concerns are identified
- Check for underground storage tanks (USTs) or past fuel storage
- Review environmental orders or notices registered on title
- Confirm historical uses of the property (e.g., dry cleaning, manufacturing, automotive)
- Environmental reports are typically a buyer cost and part of financing due diligence

Tenancy & Leases

- Review full lease agreement and all amendments
- Confirm assignment and subletting rights and restrictions
- Obtain estoppel certificate from tenant(s)
- Verify TMI recoveries, escalation clauses, and audit rights
- Confirm remaining lease term and renewal options

Physical / Building

- Confirm clear height — measure onsite; do not rely solely on listings
- Assess roof condition and remaining useful life (major capital cost driver)
- Verify structural integrity — columns, slab, loading doors
- Review HVAC systems — type, age, and service capacity
- Confirm electrical service — amps, voltage, and phase (critical for tenant use)

Zoning & Permits

- Confirm permitted uses align with the intended use
- Verify legal use and occupancy status of the building
- Confirm compliance with current fire and building code
- Identify any outstanding work orders, permits, or violations
- Determine whether development charges or levies are deferred or payable

Financial Review

- Confirm whether the property is leased, owner-occupied, or vacant
- Review at least 3 years of operating statements or financial records
- Verify rent roll and lease income matches deposits (if leased)
- Analyze operating expenses — actual vs. recoverable
- Review property tax history and recent assessments
- Identify recent and upcoming capital expenditures

Due diligence determines the true cost of ownership — not just the purchase price.

Industrial Financing How It Differs from Residential

The rules your residential clients are used to often do not apply in commercial real estate.

	RESIDENTIAL	COMMERCIAL INDUSTRIAL
Down Payment	5–20% (CMHC insurance available)	25–40% (35% typical)
Amortization	Up to 30 years	15–25 years (typically 20)
Lender Qualifying	Based on the borrower's personal income (stress test required)	For investment properties: Based primarily on property income. NOI should support the loan (DSCR). For owner-user properties: Based on the borrower's business financials, cash flow, and ability to service the debt.
Appraisal	Available for purchases with less than 20% down	Primarily based on income (NOI) for investment properties; based on market value and comparable sales for owner-user purchases.
Mortgage Insurance	Available under \$1.5M	Generally not available for most industrial properties
Interest Rates	Posted mortgage rates plus lender spread	Prime plus lender spread or fixed commercial rate
Lender Pool	Major banks and mortgage lenders	Banks, credit unions, private lenders, and commercial mortgage lenders
Broker's Role	Mortgage broker often arranges financing	Commercial mortgage broker typically involved to structure financing
Approval Timeline	Typically 2–4 weeks	Typically 4–8 weeks

⚠️ KEY: DSCR (Debt Service Coverage Ratio) — lenders require NOI to be at least 1.25x annual debt payments. This is the primary qualifying hurdle for industrial buyers.

The Selling Side Marketing Industrial Properties



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How Industrial Properties Are Actually Sold

Industrial sales are a controlled process — not just putting a sign on the lawn

Preparation (Before Marketing)

- Verify zoning, permitted uses, and building specifications
- Confirm clear height, power, loading, and functionality
- Review environmental history and building condition
- Assemble accurate financial and lease information
- Identify target buyer profile (user vs investor)

Preparation protects value. Mistakes here cost money later.

Exclusive Marketing Phase (Before MLS)

- Market privately to targeted buyers and investors
- Maintain confidentiality for operations and tenants
- Require NDA before releasing detailed information
- Gather real buyer feedback on pricing and demand
- Refine positioning before public exposure

Control the process before exposing the property to the market.

Public Marketing (MLS & Broad Exposure, If Not Sold During Exclusive Phase)

- Launch on MLS and major commercial platforms
- Distribute full marketing package and financial information
- Schedule tours with qualified buyers
- Create competitive tension where possible
- Monitor activity and adjust pricing or positioning if required

MLS increases visibility — but timing and strategy drive results.

Negotiation and Execution

- Evaluate offers beyond price (conditions, financing, risk)
- Manage due diligence timelines and expectations
- Maintain momentum to closing
- Anticipate lender and legal requirements
- Protect the seller from avoidable delays

Deals fail during execution, not marketing.



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Questions & Answers



No question too basic.

The only bad question is the one your client asks someone else first.

