INDUSTRIAL REAL ESTATE

How Rising Oil Prices Impact Your Industrial Real Estate

Oil prices are making headlines again, but for industrial occupiers, the bigger story isn't at the gas pump. It's what those rising prices mean for the cost of occupying and operating industrial space.

After a year in which tariffs disrupted industrial markets across North America, rising oil prices are emerging as the next major cost pressure. With global supply uncertainty driving inflation back to four percent for the first time in three years, industrial occupiers should be paying close attention to what comes next.

OIL COSTS ARE BUILT INTO YOUR BUILDING

Oil is embedded in many of the materials that keep industrial buildings functioning, from asphalt and roofing systems like TPO and EPDM to insulation, sealants and countless other building products. As oil prices rise, so do the costs of maintaining and replacing those systems. Add higher transportation costs for materials and service providers, and the result is increasing pressure on operating expenses that ultimately flows through to tenants.

The greatest exposure isn't in newly constructed buildings. It's in second and third generation industrial properties where major building systems are beginning to age.

Most new speculative developments remain relatively insulated because construction costs were locked in before projects began, and building systems are still under warranty. Older buildings are a different story. Roof replacements, parking lot rehabilitation and other major capital projects are already costing 30 to 40 percent more than they did just a few years ago.

THE IMPACT SHOWS UP IN TAXES, MAINTENANCE AND INSURANCE

For tenants, this is where the conversation shifts from construction costs to occupancy costs.

Those expenses typically show up in Taxes, Maintenance and Insurance (TMI). In a new building, TMI is generally stable because repair costs are limited. As buildings age, however, operating costs begin to climb.

As Steven Rector, Principal, Industrial Services, explains, "As the systems start to break down, your TMI starts to double, triple, and quadruple."

Following major roof, HVAC or asphalt replacement projects, it's not uncommon for TMI to reach $6 to $8 per square foot. Over the term of a lease, those increases can have a much greater financial impact than modest changes in rental rates.

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WHAT TENANTS CAN DO

The good news is that tenants have more control than they often realize.

A good starting point is to understand exactly how operating expenses are calculated and passed through under your lease. Many occupiers spend considerable time negotiating rental rates but pay far less attention to the provisions governing operating cost recoveries.

Where possible, negotiate caps on controllable operating expenses to help protect against significant increases tied to major building repairs. For larger capital items such as roof and asphalt replacements, occupiers may also be able to negotiate dedicated reserve funds or other lease provisions that help reduce the financial impact over time. If you occupy a self-managed facility, look for operational efficiencies that can reduce controllable costs and improve long-term performance.

Most importantly, plan ahead. Industrial demand across the GTA continues to strengthen, quality space is being absorbed more quickly, and occupiers often have fewer viable options than they did just a year ago. At the same time, the cost gap between maintaining older buildings and occupying newer facilities continues to widen.

That doesn't mean every occupier should move into a new building. It does mean the total cost of occupancy deserves as much attention as the rental rate itself.

The most successful occupiers won't wait until operating costs spike before taking action. They'll model these costs early, negotiate lease protections where available, and build a real estate strategy that anticipates rising expenses rather than reacting to them.

TALK TO OUR INDUSTRIAL TEAM

Operating costs are one part of a much bigger decision. Cresa represents tenants only, and our industrial team works with you across the full occupancy lifecycle. We handle market assessment, site selection and labour analytics before the search, financial modelling and negotiation during the deal, and project management, relocation and lease administration after you sign.

Contact Cresa Toronto to talk through your next move.

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