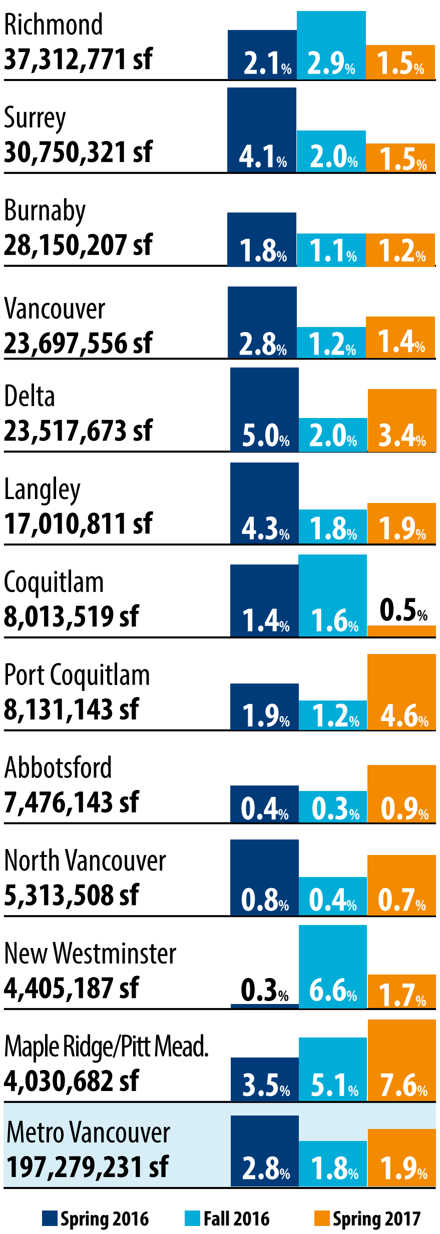
Spring 2017 Industrial Overview

Metro Vancouver, BC

METRO VANCOUVER INDUSTRIAL MARKET VACANCY



Metro Vancouver industrial market tightest in Canada as rental rates, land and sale prices soar

EXECUTIVE SUMMARY

- Metro Vancouver's industrial vacancy lowest in Canada and still tightening
- Lengthy municipal permit times delay new construction and add costs
- Significant new supply not expected to relieve tight vacancy in 2017/18
- Lease rates still rising in 2017 albeit at a slower pace than recorded in 2015/16
- Developers now willing to compete with end users on land prices due to the rising prices now attainable in the industrial strata sale market
- Rising land costs due to an increasingly short supply is driving up development costs for build-to-suit projects and lease and strata construction alike

Robust demand, restricted land supply and municipal delays have conspired to push Metro Vancouver's 197.3-million-square-foot (msf) industrial market to near-record-low vacancy for the region at 1.9% – and the lowest in Canada at the end of the first quarter of 2017. This market crunch is driving rental rates, land prices and building values higher while crimping expansion or relocation plans of businesses left with few options to grow or set up shop in the region. The pressure resulting from this collision of factors (predicted by **Avison Young** since at least 2015) has been building during the past 18 months. Despite attempts by the development industry to meet the demand for additional industrial space, positive absorption that totalled more than 10 msf in the 24 months ending March 2017 (and which trailed only Toronto's exponentially larger industrial market in that period nationally) has all but erased any relief that new supply would provide tenants or owner-occupiers.

Despite more than 4.3 msf of industrial space currently under construction in Metro Vancouver, vacancy is not expected to rise in the foreseeable future as most of the space that will be ready for occupancy by early 2018 is already spoken for. Vacancy is forecast to tighten through 2017 and will likely approach the record low vacancy of 1.4% that was registered in Metro Vancouver in fall 2006. The major difference is that Metro Vancouver's industrial market has expanded 25% since then due in part to the expansion of regional transportation infrastructure that was, in turn, driven by rising demand, particularly from logistics/bulk distribution/warehouse users. The need for this investment was underpinned by the shortage of industrial land in Metro Vancouver and the need to better access port facilities and the developable industrial land that was available.

This expansion has pushed industrial activity from the traditional core markets of Burnaby and Richmond – still two of the three largest industrial submarkets in the region – into submarkets south of the Fraser River such as Surrey, Langley and Delta. The latter is home to

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ABSORPTION	CAP RATES	RENTAL RATES	VACANCY	CONSTRUCTION	RETAIL SALES	CONTAINER SHIPPING VOLUME
↘	↔	↗	↘	↘	↗	↗

Industrial workspaces of the future beginning to manifest in Vancouver

Rapidly rising land costs and a shortage of industrial land in core markets such as Vancouver are creating opportunities for a new form, shape and very definition of what constitutes new industrial development. This requires a fundamental change in how the market – tenants, owner-occupiers and investors alike – as well as the development community views industrial space in the core moving forward.

Conwest's Ironworks development is a mix of warehouse, office and showroom space.

From **Conwest's Ironworks** project in East Vancouver, which features a mix of warehouse, office and showroom space on multiple floors; to **theWorkSpaces @ Strathcona Village** by **Wall Financial**, which includes 55,000 sf of industrial-retail flex and office space over two floors located underneath residential units; to **Onni Group's Voxel** project which would include 86,407 sf of warehouse space several levels underground, industrial development is starting to embrace its own form of Vancouverism – the design trend that reshaped the city's core into one of the world's leading examples of mixed-use development.

It is not just developers who are adapting their projects to Vancouver's unique environment, but local government itself is redefining its approach to industrial development through new land-use designations and zoning regulations that permit varying degrees of office, showroom, retail and light industrial uses on a neighborhood-wide basis. Mount Pleasant is one example where the allowance of more office space in the name of supporting "creative products manufacturing" and the "innovation economy" have clearly recast what industrial development means. The recent debate in Railtown regarding its I-4 zoning designation reveals the city's evolving attitude towards what constitutes industrial uses and development. These new considerations are reshaping the industrial workspaces of the future that are being planned and constructed today. ■

RECENT NOTABLE INDUSTRIAL LEASE TRANSACTIONS IN METRO VANCOUVER SINCE FALL 2016

MUNICIPALITY	ADDRESS	SQUARE FEET	TENANT
Delta	7003 72nd Street	412,057	BC Liquor Distribution Branch
Burnaby	2821 Production Way	236,685	Stemcell Technologies
New Westminster	415 Boyne Street	223,009	Aritzia LP
Vancouver	900 Parker Street	116,921	Article Furniture
Burnaby	100-400 Fraser Reach Court	115,384	K-Bro Linen Systems Inc.
Richmond	9300 Van Horne Way	114,045	DWS Logistics
Delta	598 Ebury Place	104,193	Kintetsu World Express (Canada) Ltd.
Delta	820 Cliveden Place	87,165	Trail Appliances Ltd.
Delta	8500 River Road	71,596	Heli-One
Burnaby	5555 Trapp Avenue	69,994	Technosport
Surrey	15050 54A Avenue, Building 4	67,371	Cott Beverages West Ltd.
Delta	10118 Swenson Way	58,811	Prepac Manufacturing
Burnaby	1-5450 Byrne Road	55,000	Western One Rentals & Sales
New Westminster	230 Brunette Avenue, Unit B	51,509	Fit Foods Ltd.
Langley	19855 98th Avenue	45,150	Westcan Engineering & Machine Ltd.
Vancouver	1582A, 1584 -1588 & 1592 Rand Avenue	44,198	Heritage Office Furnishings Ltd.
Richmond	22171 Fraserwood Way	40,394	Schneider Electric
Richmond	22151 Fraserwood Way	37,736	Sun Rich Fresh Foods Inc.
Burnaby	3737 Marine Way	37,291	Acme Prop Shop Ltd.
Richmond	13600 Maycrest Way	35,449	Miniso Store Inc.

Sources: AY Research & RealNet

NOTABLE INDUSTRIAL LAND SALES BY PRICE PER ACRE IN METRO VANCOUVER SINCE FALL 2016

ADDRESS	VENDOR	PURCHASER	SALE PRICE	SITE AREA (ACRES)	PRICE/ACRE
12160 Vickers Way, Richmond	Heather Equipment Ltd.	1087799 BC Ltd.	$8,000,000	2.03	$3,940,887
13551 & 13571 Sparwood Place, Richmond	Lublin Development Ltd.	13571 Sparwood Place Properties GP Ltd.	$6,950,000	1.915	$3,629,243
5317 & 5371 Byrne Road, Burnaby	Foon Lee	BSBP Developments Ltd.	$4,350,000	1.76	$2,471,591
9425 & 9469 190th Street, Surrey	Joseph Papais	Great West Investments Ltd.	$6,100,000	2.894	$2,107,809
19715 96th Avenue, Langley	Great West Investments Ltd.	North Langley Strata Developments Ltd.	$5,869,825	2.988	$1,964,466
13980 Mitchell Road, Richmond	Fosco Investment Corporation	Lehigh Hanson Materials Ltd.	$3,750,000	1.93	$1,943,005
8121-8141 92nd Street, Delta	United Earth Contractors Corp.	1064395 BC Ltd.	$4,086,000	2.271	$1,799,207
6311 Graybar Road, Richmond	Mill & Timber Products Ltd.	Beedie Development	$21,787,200	12.825	$1,698,807
921 Seaborne Avenue, Port Coquitlam	Teralink Investment Group Inc.	M&J SPS Holdings Ltd.	$2,616,856	1.546	$1,692,662

NOTABLE INDUSTRIAL LAND SALES BY TOTAL PRICE IN METRO VANCOUVER SINCE FALL 2016

ADDRESS	VENDOR	PURCHASER	SALE PRICE	SITE AREA (ACRES)	PRICE/ACRE
8576, 8594, 8620, 8644 & Lot 2 River Road, Delta	1077331 B.C. Ltd.	Wesgroup Properties	$24,500,000	41.125	$595,745
6311 Graybar Road, Richmond	Mill & Timber Products Ltd.	Beedie Development	$21,787,200	12.825	$1,698,807
10900, 11111, Lot A & Lot B Twigg Place, Richmond	English Bay Batter (RJ Oil Inc.)	PC Urban	$20,281,250	13.876	$1,461,606
494 Railway Street, Vancouver	Herschel Supply Co.	Omicron Development Inc., Rendition Developments Inc., Nicola Crosby Real Estate	$13,800,000	0.327	N/A
3311 Mount Lehman Road, Abbotsford	Conwest Group of Companies	Wesgroup Investments Ltd.	$9,850,000	8.863	$1,111,362
16268 River Road, Richmond	H. Brum Enterprises Ltd.	1094098 BC Ltd.	$8,600,000	6.183	$1,390,911
1553 Powell Street, Vancouver	Ekard Holdings Inc.	West Coast Reduction Ltd.	$7,150,000	0.573	N/A
88 Golden Drive, Coquitlam	70 Golden Drive Ltd.	1098799 BC Ltd.	$7,000,000	6.820	$1,026,393
13551 & 13571 Sparwood Place, Richmond	Lublin Development Ltd.	Hungerford Properties	$6,950,000	1.915	$3,629,243
580 Nicola Avenue, Port Coquitlam	PT Poco Enterprises Ltd.	Teck Construction	$6,577,200	4.176	$1,575,000

NOTABLE INDUSTRIAL INVESTMENT SALES BY PRICE IN METRO VANCOUVER SINCE FALL 2016

ADDRESS	VENDOR	PURCHASER	PURCHASE PRICE	PRICE PER SF/SITE COVERAGE	BUILDING / SITE AREA
3505-3645 Grandview Highway; 2727 & 2755 Boundary Road, Vancouver	The McLean Group	Alberta Teachers' Retirement Fund, Anthem Properties Corp.	$150,000,000	$530 / 43%	282,922 sf / 15.26 acres
901-965 Great Northern Way, Vancouver	Bradea Properties Ltd.	Low Tide Properties Ltd., PCI Group	$34,600,000	$642 / 75%	53,865 sf / 1.85 acres
480 Audley Boulevard, Delta	Stancor Enterprises Ltd.	The Washington Companies	$31,200,000	$695 / 46%	45,090 sf / 14.97 acres
1700 No. 6 Road, Richmond	Hungerford Properties	Port of Vancouver	$25,500,000	$123 / 56%	206,710 sf / 8.49 acres
1488 Coast Meridian Road, Coquitlam	Sears Canada Inc.	1488 Coast Meridian Rd Holdings Ltd.	$22,450,000	$225 / 20%	100,000 sf / 11.48 acres
1140-1150 Raymur Avenue, Vancouver	Republic Industries Inc.	Living Balance Property Investment Group	$19,000,000	$336 / 87%	56,556 sf / 65,340 sf

Sources: AY Research & RealNet

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GCT Deltaport, the largest container terminal in Canada, and the **South Fraser Perimeter Road**, a new dedicated transportation corridor connecting port operations to the regional highway network, which also triggered additional industrial development along its route. The rise of activity involved in film and television production has also placed further pressure on the already limited supply of existing industrial buildings available for lease.

While Metro Vancouver was the tightest industrial market in Canada at the end of the first quarter of 2017, industrial vacancy was on the rise in Calgary (8.5%) and Edmonton (6.3%) year-over-year with rental rates slipping. Demand for industrial space in Metro Vancouver was the strongest on record in 2016. Regina (3.2%) and Winnipeg (3.1%) also remained active markets at the end of the first quarter of 2017 along with the 876.5-msf Toronto market, which recorded vacancy of just 2.2%.

The strong demand for industrial space, whether for lease or sale, by investors and developers (as well as tenants and owner-occupiers) has resulted in landlords' asking rental rates and vendor pricing expectations being met. This has resulted in even more competition for industrial assets and, more importantly, development sites, leading to higher prices and greater cap rate compression throughout the market. Historically, owner-occupiers were generally willing to pay more to acquire industrial assets as they were less likely to seek the returns necessary for an investor to justify an acquisition. Due to rising rental rates and the increases in strata pricing now being achieved for industrial condo units in Metro Vancouver, investors are justifying the high costs of acquiring an industrial property for redevelopment now or in the future. This has led to developers, particularly in core industrial markets such as Vancouver and Burnaby, to acquire sites to develop multi-storey buildings. Projects in Vancouver's Mount Pleasant and Strathcona neighbourhoods currently command the highest pricing for non-typical industrial developments (which often include extra density with flex office and showroom space) as developers seek to capture the higher rents and the pricing these units can command. These types of industrial developments are primarily located in Vancouver at this stage. Boosting the efficiency of industrial space and the industrial land remaining will be a key focus of industrial users and developers moving forward.

The expense and difficulty of securing new or expanded premises will also force owner-occupiers and tenants to make the most of the space they have, and perhaps curtail growth in order to remain in their current space. While a strong industrial market is a characteristic of a strong economy, near-record-low vacancy and rising prices for buildings and land can start to slow business expansion, force companies to relocate outside Metro Vancouver or limit new companies from entering the market in the first place.

The growth of industrial development in the Fraser Valley is starting to show signs of slowing as industrial land in the communities of Surrey, Langley, Abbotsford and Chilliwack is in increasingly short supply and vacancy in those markets is among the tightest in Metro Vancouver. While much of the new supply under construction is located in industrial markets south of the Fraser River, future industrial development sites are increasingly difficult to locate on either side of the river.

Further complicating matters has been significant delays in obtaining municipal approvals across Metro Vancouver with the process from permit application to construction completion taking up to 18 to 24 months. The Vancouver chapter of **NAIOP's** most recent *Regional Industrial Development Cost Survey* (published in fall 2015) indicated just six municipalities (Chilliwack, City and District of Langley, Richmond, Abbotsford and Mission) where approvals could be obtained for industrial developments in less than 120 days. Municipalities such as Delta, Burnaby and Maple Ridge took longer at 150 days, while Vancouver took 180 days. Permit approvals in Surrey, Coquitlam and the City of North Vancouver took 210 days, while the District of North Vancouver (240 days), Port Coquitlam (270 days) and New Westminster (300 days) took the longest. In most cases, municipal permit processing times have worsened since 2015. These delays impact how effectively developers can deliver new product to the market and avoid issues such as swings in vacancy related to construction-cycle timing.

With vacancy continuing to tighten and rental rates rising in 2017, Metro Vancouver's industrial market is facing its first test at the start of a new era where the constrained supply of costly industrial land is beginning to impact market fundamentals, and where new supply cannot be delivered in a timely enough fashion to boost availability or meet demand. The next steps will require some political risk and a nuanced approach to industrial development that the market has yet to embrace. ■

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