Fall 2016 Industrial Overview

Metro Vancouver, BC

METRO VANCOUVER INDUSTRIAL MARKET VACANCY

Submarket	Inventory	Fall 2015	Spring 2016	Fall 2016
Richmond	37,312,771 sf	2.3%	2.1%	2.9%
Surrey	29,670,164 sf	3.3%	4.1%	2.0%
Burnaby	28,028,853 sf	2.8%	1.8%	1.1%
Vancouver	23,697,556 sf	3.3%	2.8%	1.2%
Delta	23,417,673 sf	4.6%	5.0%	2.0%
Langley	16,983,136 sf	2.9%	4.3%	1.8%
Coquitlam	8,013,519 sf	1.5%	1.4%	1.6%
Port Coquitlam	7,431,948 sf	3.6%	1.9%	1.2%
Abbotsford	7,447,143 sf	1.2%	0.4%	0.3%
North Vancouver	5,452,983 sf	0.8%	0.8%	0.4%
New Westminster	4,405,187 sf	1.6%	0.3%	6.6%
Maple Ridge/Pitt Mead.	3,697,613 sf	2.1%	3.5%	5.1%
Metro Vancouver	**195,558,546 sf**	3.0%	2.8%	1.8%

Fall 2015 Spring 2016 Fall 2016

Lease rates rising across Metro Vancouver industrial market amid near record low vacancy

EXECUTIVE SUMMARY

- Metro Vancouver's industrial vacancy approaching record low set in 2006
- Significant new supply not scheduled for delivery until second half of 2017
- Additional investment pressure may come to bear on the market as foreign investors redeploy capital previously earmarked for residential real estate
- Industrial land pricing exceeding $3 million per acre in select submarkets
- Lease rates registered significant upward pressure of up to 15% during the past year
- Strong demand from owner-occupiers driving strata sale pricing to new heights

Despite more than 1.8 million square feet of new construction completions since spring 2016, vacancy in Metro Vancouver's industrial market dropped 100 basis points to 1.8% at the end of the third quarter of 2016 from 2.8% six months earlier, and will likely approach the record all-time low vacancy of 1.4% set in fall 2006. Vacancy is expected to continue tightening as limited new industrial development is scheduled to be delivered before mid-2017. This trend has applied significant upward pressure to lease rates throughout the region, which have climbed by as much as 15% in the past year.

A combination of factors – including a lack of industrial space for sale or lease, the costly and limited availability of industrial land, as well as extended permitting times that pushed out the delivery of the current construction cycle to mid-2017 – are all conspiring to drive vacancy to near record lows. A strong economic outlook for the province (BC is forecast to lead Canada with real GDP growth of 2.7% in 2017, according to the **Conference Board of Canada**) as well as the low cost of debt are additional factors contributing to the fundamentals underpinning Metro Vancouver's robust but increasingly costly industrial market.

Of the nearly 3.8 msf of new industrial space currently under construction throughout Metro Vancouver, more than 42% is located in Surrey, one of the few submarkets with a supply of industrial land. Other submarkets with significant industrial construction underway include Burnaby (12.5%), Vancouver (12%) and Delta (11.4%). Richmond (8.7%) and Maple Ridge-Pitt Meadows (6.6%) also have industrial projects under construction.

Capitalization rates continue to compress due to a lack of supply combined with

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absorption ↘ | cap rates ↘ | rental Rates ↑ | vacancy ↘ | construction ↗ | retail sales ↗ | container shipping volume ↘

Tsawwassen First Nation readies phase 2 of Deltaport Logistics Centre

With the first phase of its **Deltaport Logistics Centre** development leased, the **Tsawwassen First Nation** (TFN) has brought the remaining 200 acres of its industrial park to market. The first phase, which is close to 100 acres, was primarily leased to **Delta iPort** (57.4 ac), **Port of Vancouver** (11.4 ac) and **Euro Asia Transload** (23.5 ac). Each tenant has a 60-year lease.

Delta iPort will total more than 1 msf.

The TFN signed an urban treaty with the provincial government in 2009, which provided the First Nation with a land base of 1,800 acres, as well as recognition as a full member of the Metro Vancouver regional authority with its own municipal government, taxation authority and control over its economic development. The community subsequently set aside 300 acres for industrial development as the Deltaport Logistics Centre, which will accommodate approximately 4.5 msf of intermodal, goods-handling, light manufacturing, warehousing and distribution services upon completion. The site is located directly adjacent to Port of Vancouver's **Deltaport** container and bulk commodities terminal.

Phase two of the Deltaport Logistics Centre is 200 acres and will be divided into three areas of 80 acres, 100 acres and 20 acres. While smaller sites are available and can be subdivided from these larger areas, the TFN's preference is to lease parcels that are a minimum of 15 to 20 acres. TFN will also encourage higher use of its industrial lands by permitting a maximum 75% site coverage. Sites are available on a long-term lease basis only.

Delta iPort, which will eventually include three distribution centres and total more than 1 msf, is being developed by **GWL Realty Advisors** and **Healthcare of Ontario Pension Plan (HOOPP)**. The first building broke ground in July 2016 and is scheduled for completion by the end of 2017.

As no onsite industrial development has be completed yet and will not be for at least 12 months, there are no vacancy, absorption or inventory statistics to report related to the Deltaport Logistics Centre or the TFN lands in general.

New BC foreign buyers real estate tax not applicable to industrial purchases

The additional 15% property transfer tax placed on foreign nationals and corporations acquiring residential real estate in Metro Vancouver, effective August 2, 2016, does not apply to the purchase of industrial assets.

According to the BC government, "The additional tax on property transfers to foreign entities is15% of the fair market value of the foreign entity's proportionate share of a **residential property** located in whole or in part in the Greater Vancouver Regional District, excluding Tsawwassen First Nation lands.

"**The additional tax does not apply to non-residential property**. The value of the residential portion of a transfer is calculated in the same way as for the property transfer tax. The additional tax does not apply to trusts that are mutual fund trusts, real estate investment trusts or specified investment flow-through trusts."

RECENT NOTABLE INDUSTRIAL LEASE TRANSACTIONS IN METRO VANCOUVER SINCE SPRING 2016

MUNICIPALITY	ADDRESS	SQUARE FEET	TENANT
Langley	20146 100A Avenue	213,640	Adjacent Productions Services Inc.
Burnaby	#100 & #500, 2820 Underhill Avenue	115,048	Sim Video International Ltd.
Delta	7350 Wilson Avenue	112,066	CJ Corp.
Delta	598 Ebury Place	104,193	Kintetsu International Express (Canada) Inc.
Burnaby	8355 Riverbend Court	82,080	The Crossing Studios
Delta	#7979, 7831-7979 Vantage Way	79,174	Leon's Furniture Ltd.
Vancouver	#20-#50, 8385 Fraser Street	78,293	Direct Tap
New Westminster	#301-415 Boyne Street	76,374	Ames Tile & Stone, Ames Bros. Distributors Ltd.
Burnaby	6228 Beresford Street	59,400	Waverider Films
Surrey	18804 -18806 96th Avenue	54,052	Shoemaker LP
Langley	5350 275 Street	53,045	Cascadia Windows

Sources: AY Research & RealNet

NOTABLE INDUSTRIAL LAND SALES BY PRICE PER ACRE IN METRO VANCOUVER SINCE SPRING 2016					
ADDRESS	VENDOR	PURCHASER	SALE PRICE	SITE AREA (ACRES)	**PRICE/ACRE**
11295 & 11307 Maple Crescent, Maple Ridge	0706472 BC Ltd.	Mayfair Properties Ltd. & Chelsea Properties Ltd.	$2,375,000	1.254	**$1,893,939**
11191 Twigg Place, Richmond	City of Richmond	Dava Developments (10688800 BC Ltd.)	$5,125,000	2.768	**$1,851,517**
20142 Logan Avenue, Langley	Conwest Group of Companies (Marinelli Investments Ltd.)	1082959 BC Ltd.	$7,850,000	4.393	**$1,786,934**
45639-45649 Elder Avenue, Chilliwack	Linda Bayliss	Molson Coors Brewing Company (Molson Inc.)	$1,750,000	1	**$1,750,000**
9345-9519 River Road, Delta	Vito Steel Boat & Barge Construction Ltd.	Carlson Construction Group	$6,25,0000	3.616	**$1,728,429**
14529 66th Avenue, Surrey	Fu So Enterprises Ltd.	1068471 BC Ltd. & 1046578 BC Ltd.	$6,300,000	4.289	**$1,468,874**
34279 Manufacturers Way, Abbotsford	Magnum Trailer & Equipment Inc. (Daytona Developments Inc.)	Sumas Land Corp.	$2,200,000	1.5	**$1,466,667**

NOTABLE INDUSTRIAL LAND SALES BY TOTAL PRICE IN METRO VANCOUVER SINCE SPRING 2016					
ADDRESS	VENDOR	PURCHASER	**SALE PRICE**	SITE AREA (ACRES)	PRICE/ACRE
45638-45662 Elder Avenue; 45627-45685 Elder Avenue, Chilliwack	320517 BC Ltd. & K and A Investments Inc.	Molson Coors Brewing Company (Molson Inc.)	**$25,925,497**	35.4	$732,350
20142 Logan Avenue, Langley	Conwest Group of Companies (Marinelli Investments Ltd.)	1082959 BC Ltd.	**$7,850,000**	4.393	$1,786,934
14529 66th Avenue, Surrey	Fu So Enterprises Ltd.	1068471 BC Ltd. & 1046578 BC Ltd.	**$6,300,000**	4.289	$1,468,874
9345-9519 River Road, Delta	Vito Steel Boat & Barge Construction Ltd.	Carlson Construction Group	**$6,250,000**	3.616	$1,728,429
8558 Chilliwack Mountain Road, Chilliwack	Reimer Woodlots Ltd.	Pacific AG Holdings Ltd.	**$6,000,000**	10.687	$561,430
Airport East Business Park, Abbotsford	Mt. Lehman Properties (GPMI) Inc.	1079666 BC Ltd.	**$5,900,000**	13.937	$ 846,667
15410 68th Avenue, Surrey	Gurdev Singh Johal	68th Ave. Truck Park Inc.	**$5,900,000**	5	$1,180,000

NOTABLE INDUSTRIAL INVESTMENT SALES BY PRICE IN METRO VANCOUVER SINCE SPRING 2016					
ADDRESS	VENDOR	PURCHASER	**PURCHASE PRICE**	PRICE PER SF/ SITE COVERAGE	BUILDING / SITE AREA
6849 72nd Street, Delta	Beedie Development (Beedie Delta Lands Ltd.)	Investors Group	**$60,216,945**	$393 / 18%	153,081 sf / 19.50 acres
10239 Grace Road, Surrey	Quik X Transportation Inc.	Nicola Crosby Real Estate	**$26,455,000**	$413 / 11%	64,064 sf / 13.77 acres
11411 Bridgeview Drive, Surrey	City of Surrey	CCBD Realty Holding Corp.	**$21,500,000**	$331 / 26%	65,000 sf / 5.02 acres
149-159 West 7th Avenue, Vancouver	Nicola Crosby Real Estate	Seventh and Columbia Holdings Ltd.	**$14,500,000**	$435 / 80%	33,347 sf / 0.36 acres
18380 McCartney Way, Richmond	McCartney Way (1) Holdings Ltd.	Share sale	**$13,650,000**	$214 / 80%	63,575 sf / 2.53 acres
1310 William Street & Lot 10 Charles Street, Vancouver	Promerita Group	1082058 BC Ltd.	**$13,000,000**	$351 / 49%	37,032 sf / 0.90 acres

Sources: AY Research & RealNet

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strong demand and the significant amount of capital available for the acquisition of industrial assets. Cap rates for well-located, quality industrial properties have declined to the low 4% range in Metro Vancouver's core industrial markets. Freestanding industrial buildings in Metro Vancouver are generally difficult to secure – total industrial investment (for assets valued $5 million or greater) was $252 million in the first six months of 2016 – and the majority of those properties that did transact were typically acquired by owner-occupiers who are willing (and able) to pay a significant premium. The acquisition of industrial properties on an investment basis in Metro Vancouver has remained very limited year-to-date.

The most substantial price increases during the past nine months have been recorded for strata industrial units and available industrial land – an increasingly rare commodity in Metro Vancouver's land-constrained market. Pricing on a per-square-foot basis for select strata projects in Metro Vancouver has increased anywhere from 12.5% to almost 30% in the past nine months. Industrial land sales, which had ranged from $1.0 million to $1.7 million per acre for much of the past three years, are now approaching $2 million per acre for smaller-sized lots in select submarkets. Sites in core markets have exceeded $3 million.

Demand from all size requirements is strong throughout the market, with the lack of recent large industrial lease deals attributed to constrained supply. There have been a few examples of large users deciding to pursue a build-to-suit option as no large-block speculative space has come to the market for some time. This is not anticipated to change for at least another nine months. Businesses seeking more than 20,000 sf of space are recommended to be out in the market at least 24 months before a contemplated move. Those companies seeking less than 20,000 sf should be active in the market at least 12 months prior to a relocation. There are still opportunities to secure space in some of the new projects set for delivery in 2017, but that is expected to change by the end of the year.

Notwithstanding a significant economic downtown triggered by a national or global event, demand is expected to remain strong for the next 12 to 24 months. It is also anticipated that such demand will continue to outstrip supply due to the difficulties inherent in the Metro Vancouver market related to delivering new supply. The limited availability and high cost of industrial land combined with lengthy permitting and servicing considerations pose a challenge to delivering new supply in a timely fashion. Those developers with viable projects are proceeding – many on speculation – in the current environment of low vacancy, rising rents and unmet demand.

Double-digit industrial lease rates are rapidly becoming the rule rather than the exception in core markets of Metro Vancouver. While properties in markets such as North Vancouver and Vancouver have posted lease rates for the best space in excess of $10 psf for some time, submarket nodes such as Big Bend in Burnaby, Coquitlam and Port Kells are approaching or will exceed that rate within a year for new space. This is just one example of a larger shift in the mindset of Metro Vancouver's industrial operators to a more regional outlook when considering where to locate a business. Groups are increasingly open to exploring opportunities south of the Fraser River as cost and lack of supply in more traditional core markets – typically north of the Fraser River – force tenants to rethink their relocation/expansion plans.

In the next six months, absorption is predicted to decline due to a highly constrained supply of new development while cap rates remain stabilized as the desire to place capital remains strong and has been potentially magnified due to the 15% foreign nationals tax on residential real estate pushing investors into other asset classes. Film and television production will continue to compete with more traditional occupiers of industrial space. Upward pressure on lease rates is expected to continue with little relief for tenants anticipated in the near term, while vacancy may achieve a new record low in the coming months until new supply is delivered in 2017. While the next wave of development is being prepared for 2018 and beyond, the shift in fundamentals currently underway will mark this period as a historic departure from the market that preceded it. ■

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