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Waterloo, ON
November 10, 2009

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Economic News/Trends and Analysis – November 10, 2009

Metro Vancouver industrial land values fall by 25% to 30% in past year, but market demonstrates unparalleled resilience relative to other North American markets

Avison Young releases Fall 2009 Metro Vancouver Industrial Review

VANCOUVER, Nov. 10 /CNW/ - Like many markets across the country, the Metro Vancouver industrial sector is feeling the effects of the global economic contraction (typically delayed over the residential sector) as vacant land values experience large discounts over 2008. However, the local market has demonstrated unparalleled resilience relative to other North American industrial markets.

These are some of the key trends noted in Avison Young's Fall 2009 Metro Vancouver Industrial Review, released today.

"Our research indicates that industrial land values have dropped by as much as 25% to 30% over the past year," comments Avison Young Principal Rob Gritten. "If there is no demand to build, it is no surprise vacant land is the first asset to be disposed of. Speculators who entered this market in the late stages of the bubble, and with no income to support carrying costs, have been forced to discount significantly to attract bids."

The market has witnessed few land sales over the past six months and those who are selling have more realistic expectations based on buyers' perceptions of values, according to the report.

Gritten adds that the decrease in value must be taken in context as land values rose significantly in the 36 months prior to the global meltdown and are still above values experienced in 2006 to 2007.

Average land prices doubled between 2003 and 2008, reaching approximately \$600,000 per acre in Abbotsford to \$2 million per acre in Vancouver (and a record \$4 million per acre in some Vancouver locations) before cresting in the latter part of 2008. Over the past year, land values have generally fallen 20% to 25% and in some cases more than 30%. Typical industrial land prices currently range from \$400,000 to \$1 million per acre depending on location and condition (serviced, cleared, filled), with the exception of Vancouver and the North Shore where values remain at \$2 million-plus per acre due to supply constraints.

"The economic contraction has effectively deflated construction costs and, with lower land values, has allowed developers to prepare to deliver future projects that will require lower rental rates for prospective tenants to consider," notes Avison Young Principal John Lecky.

Overall, the current state of the Metro Vancouver industrial market remains relatively stable, with a growing perception amongst local industrial stakeholders that the worst of the economic contraction is over and the marketplace is beginning to witness incremental improvements.

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"The local industrial real estate market continues to outperform all other commercial real estate sectors," says Gritten. "Speculative construction is in check; demand for investment product remains strong with plenty of equity seeking solid, long-term income from leased industrial product; and the region's overall vacancy still ranks as among the lowest in North America."

Vacancy rises

Metro Vancouver's overall industrial vacancy rate notched up to 4.4% in the third quarter of 2009 from 3.2% in spring 2009 and 2.4% in fall 2008 after nestling under the 2% mark between early 2006 and mid-year 2008.

The rise in vacancy is mainly attributed to new speculative construction completions (projects that were launched prior to the economic slowdown but completed in recent months) and an increase in sublease space as tenants continue to cut costs and downsize. Other contributing but less influential factors include bankruptcies and closures - also aftershocks of the global credit crisis.

"While some tenants tried to hang on to see if they could weather the storm, many couldn't and had to close or reduce their square footage," explains Lecky. "However, this trend is not expected to continue as the Metro Vancouver industrial market is dominated by smaller tenants or those servicing the local market as opposed to other Canadian and U.S. markets, which would have a snowball effect on demand. Furthermore, the pace at which sublease space is coming to the market has moderated."

Rental rates dip

The local market is expected to see downward pressure on rental rates until the end of the first quarter of 2010. Rents are then anticipated to trend upward as absorption increases against a dormant speculative industrial development market segment.

The high-water mark of \$9 to \$10 per square foot (psf) for new and class A product in the core areas of Richmond, Burnaby and Vancouver in 2007 and 2008 has decreased to \$8 to \$9 psf. Average asking rents for distribution facilities, which were driven up by high land and construction costs in recent years, have dipped to \$6.50 to \$7.50 psf from \$7 to \$8.50 psf at mid-year 2008. Average rental rates soared approximately 40% between 2003 and 2008 before flatlining in the latter part of 2008.

"Today, some landlords are willing to attract activity by offering inducements and free rent, although these concessions are fairly limited due to the lack of head lease space. Meanwhile, rents being offered for sublease space are still up to 30% lower than rents for head lease space," says Gritten.

Cap rates soften

Demand for investment sale product remains strong; however, property prices have not dropped as low as some buyers had expected as most sellers have not reduced their expectations due to continuing supply constraints.

The average value of vacant industrial buildings increased significantly in recent years, with offerings reaching fever pitch in mid-year 2008 at \$150 to \$170 psf for well-located buildings. Today, average values are closer to \$100 to \$130 psf. Capitalization rates have softened to 6.5% today from a peak of 6% for prime industrial properties at mid-year 2008. Cap rates are expected to stabilize between now and early 2010.

Overall, vacancy is anticipated to level off for some time before falling as user demand continues to be low with few offers for available space (either for lease or for sale) from operating companies. "Tenants looking to buy have temporarily dropped out of sight as they concentrate on reinvesting capital into their core business," notes Gritten.

Lecky adds: "The turbulence inflicted by the economic downturn has fragmented expectations amongst Metro Vancouver industrial stakeholders, thereby creating more divide and resulting in more time needed to consummate transactions. Once more cohesive thinking permeates amongst Metro Vancouver industrial stakeholders, pricing expectations further adjust, and confidence levels return in full, the newly established market fundamentals will be conducive to increasing transaction activity - both for lease and sale."

Founded in 1978, Avison Young is Canada's largest independently-owned commercial real estate services company and the only national, Canadian-owned, principal-managed real estate brokerage firm in the country. Headquartered in Toronto, Ontario and ranked among Canada's leading national commercial real estate organizations, Avison Young is a full-service commercial real estate

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- Grief over stadium roof contract unfounded
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PROJECT NEWS BRIEFS

Updates on Canadian construction projects from Reed Construction Data's research team. [More](#)

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- Orillia Market Square aims for LEED Silver certification (*Jun 25, 2009*)
- Designs for new York Region District School Board building features energy efficiency (*Jun 23, 2009*)
- Vancouver Convention Centre expansion sets new standards for environmental design (*May 22, 2009*)
- IPC Energy considers Milford location for future wind farm (*May 22, 2009*)

company comprising more than 500 real estate professionals in 13 offices across Canada and in the U.S. The company provides value-added, client-centric investment sales, leasing, advisory, management and financial services to owners and users of commercial, industrial and multi-residential real estate properties.

Editors/Reporters:

- Avison Young Fall 2009 Metro Vancouver Industrial Review, full report:

http://www.avisonyoung.com/library/pdf/Van_Research/IND_Fall_09.pdf

If you are unable to open the links, please contact Sherry Quan for PDF version to be emailed. Thank you.

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