



Greater Vancouver Industrial Overview

Fall 2006



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Looking Beyond Our Borders: A Commentary

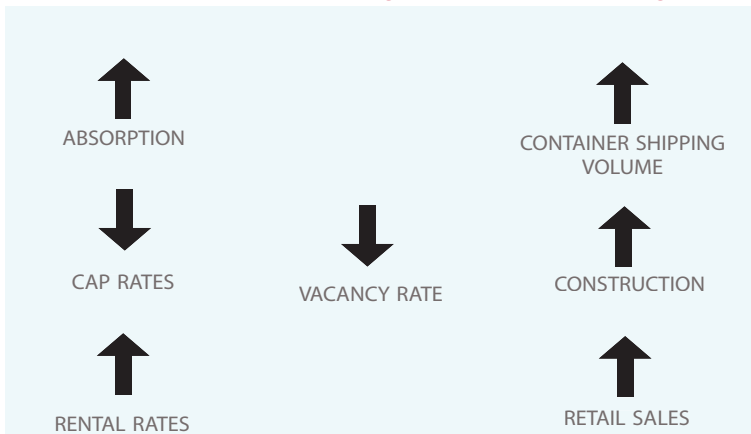
This commentary is about industrial space in the Lower Mainland and British Columbia's dependence on external trade to fuel this real estate sub-market.

An important issue for all involved in developing and marketing industrial space is the continuing need to understand what is happening beyond our borders. The economic health of B.C. and the Lower Mainland is inextricably linked to what is occurring with our major trading partners.

First, B.C. is a producer of resource products, the bulk of which are destined for export markets. The United States is our most important trading partner, particularly for softwood lumber, which is used extensively in the domestic housing market. The forest products industry, which includes lumber, pulp and newsprint, is the primary economic driver in the Province. Importantly, this sector exports three quarters of its softwood lumber production to the US markets. The value of this trade is C\$4 billion per annum, an increase of 29% since 2001.

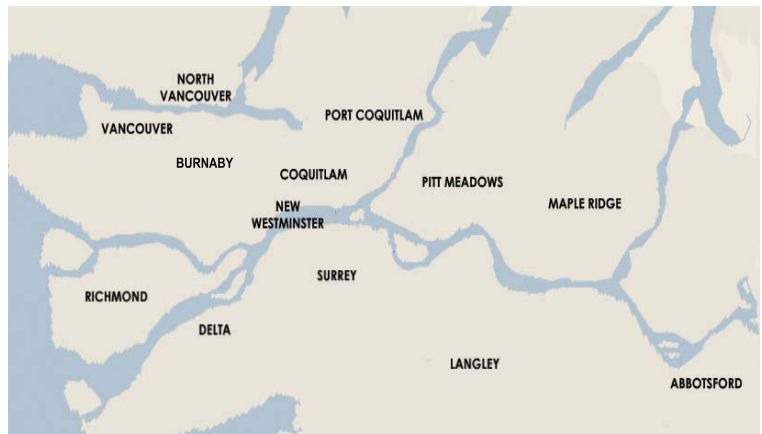
Second, B.C., and the Lower Mainland in particular, is a critical conduit for the flow of goods in and out of the country. South East Asia, parts of which are sometimes referred to as the "workshop of the world", exports a huge variety of consumables, much of which is destined for North American markets, some through the Port of Vancouver for onward distribution via rail and truck to the rest of B.C., Canada and the United States. [...Cont. Back Page](#)

Market Indicators (Change from six months ago)



Greater Vancouver Industrial Market Snap Shot





MARKET	INDUSTRIAL INVENTORY (S.F.)	VACANCY	NET RENTAL RATE (\$ / S.F.)
Richmond	29,256,587	1.2%	\$5.50-\$10.00
Burnaby	24,025,937	1.1%	\$6.00 - \$9.50
Surrey	23,742,518	1.1%	\$6.00 - \$8.00
Vancouver	21,351,770	1.1%	\$6.50 - \$11.00
Delta	19,923,060	2.0%	\$5.75 - \$7.75
Langley	13,040,973	1.6%	\$5.75 - \$8.25
Coquitlam	7,387,394	1.1%	\$5.50 - \$8.50
Port Coquitlam	5,905,309	2.8%	\$5.25 - \$7.00
Abbotsford	4,813,689	1.4%	\$5.50 - \$7.50
North Vancouver	4,570,546	1.5%	\$6.50 - \$12.00
New Westminster	3,682,315	0.2%	\$5.00 - \$7.00
Maple Ridge / Pitt Meadows	2,119,699	1.2%	\$5.00 - \$7.00
TOTALS	159,815,797	1.4%	



Recent Industrial Investment Sales (> \$5 Million)

	VENDOR / PURCHASER	PRICE / YIELD	AREA / PRICE PER S. F.	SITE AREA
	441 - 445 Terminal Avenue & 1405 - 1465 Thornton Street, Vancouver			
	BCR Properties Ltd. / A.L. Scott (Terminal) Inc.	\$12,625,000 / 6.8%	21,400 s.f. / \$590	6.33 acres
	7708 - 80th Street, Delta			
	Craftsman Panel Cutters Ltd. & Janet Lee Wilson / Synergen Georgia Property Inc.	\$10,300,000 / 5.9%	90,362 s.f. / \$114	4.06 acres
	27452 - 52nd Avenue, Langley			
	Infinity Sports Group / Robco Properties Ltd.	\$8,300,000 / N/A	75,000 s.f. / \$111	3.23 acres
	1488 Derwent Way, Delta			
	Western Opportunities Ltd. / Mason Investments Ltd.	\$7,450,000 / 6.0%	62,103 s.f. / \$120	3.38 acres
	26712 Gloucester Way, Langley			
	Chicane Property Ltd.; Teck Lands Ltd.; Teck Properties Ltd. / Buchmann Properties Inc.	\$7,325,000 / 6.7%	70,000 s.f. / \$105	3.97 acres
	2320 & 2340 Rogers Avenue, Coquitlam			
	Port Mann Lumber Remanufacturing Ltd. / 0741779 B.C.Ltd.	\$5,000,000 / N/A	8,365 s.f. / \$598	7.84 acres

Recent Industrial Land Sales (> \$5 Million)

	VENDOR / PURCHASER	PRICE / YIELD	AREA / PRICE PER S. F.	SITE AREA
	<u>Land</u> 10651 No. 6 Road & 13751 - 13851 Steveston Highway, Richmond			
	Riverport Business Park Inc. / Staburn Properties Ltd. (0767606 B.C. Ltd.)	\$20,000,000	587,363 s.f. / \$34	13.484 acres
	<u>Land</u> 2633 Simpson Road, Richmond			
	S.W.B.C. Properties Inc. / Eagle Ridge Enterprises Ltd.	\$7,950,000	261,360 s.f. / \$30	6.00 acres
	<u>Land</u> 8700-8790 Boundry Road, Burnaby			
	Marine Way Estates Ltd. / 0757422 B.C. Ltd.	\$7,800,000	176,374 s.f. / \$44	4.049 acres
	<u>Land</u> 17255-17341 56th Avenue, Langley			
	Gary William Ernest; 338475 B.C. Ltd. / Highway 10 Furniture Park	\$7,544,000	496,192 s.f. / \$15	11.391 acres

Recent Industrial Lease Deals (> 50,000 s.f.)

BUILDING	TENANT	SQUARE FEET
7419 Nelson Road, Richmond	Sylvan Distribution	92,500
26868 56th Avenue, Langley	Hudd Distribution	88,200
109 Braid Street, New Westminster	Holland Imports	82,230
7415 Nelson Road, Richmond	Tech Data	77,772
669 Ridley Place, Delta	Canada Bread Company Ltd	65,290
7280 River Road, Richmond	Richmond Acura (DCH Motors Ltd)	60,480
Grosvenor Building, Delta	Meridian IQ	60,000
16068 Portside Road, Richmond	Totalline Transport Inc	57,600
8330 Chester Road, Vancouver	Inspiration Furniture	56,600

What has this to do with industrial space?

Well, the linkage should be clear. If B.C. has a growing export trade in lumber, the spin-off wealth, largely expended in the Lower Mainland, will manifest itself in a need for an expanded capacity for factor inputs required by the primary producers. Everything from industrial gloves, to bearings, to machine parts will need either to be manufactured, or stored in Lower Mainland facilities. The need for industrial space will grow.

If there is a growing demand for consumer goods, produced by Asian manufacturers, by customers in North America, then the flow of goods through the region should be expected to increase. This will give rise to an increased demand for storage areas to facilitate the flow of goods that are de-stuffed for onward shipment within and without the region.

The converse of the above reasoning i.e. fewer lumber shipments and a reduced flow of containerized goods through the Port of Vancouver should be a cautionary light to indicate a lowering in the demand for industrial space, particularly within the Lower Mainland.

So, what are the facts and where might the industrial market go from here?

Popular commentary is backed by some important statistics. The US economy, by any number of measures, is cooling. Two statistics are revealing; GDP and housing starts.

The latest GDP figures for Q2/06 show the US economy growing at an annual rate of 2.6%, 0.3% less than expected and 3.0% less than the rate recorded in Q1/06. The U.S. Department of Commerce's Bureau of Economic Analysis attributes the decline, amongst other things, to a decline in consumer spending.

Secondly, with respect to U.S. housing starts, at the end of August, privately owned housing starts in the U.S. were at a seasonally adjusted annual rate of 1.67 million, a rate which was 6% lower than the July figures and a whopping 19% below the corresponding August 2005 figure of 2.08 million starts.

Given the declining growth rate of the U.S. economy, and particularly the housing sector, the conclusion should be that the demand for industrial space by firms servicing the forest products industry, directly or indirectly, should decrease.

As for the demand for goods, shipped in containers, and destined for North American markets through the Port of Vancouver, the picture is the reverse.

In 2005, the Port handled 1.7 million 'Twenty-foot Equivalent Units' (TEUs) of containerized cargo, evenly split between inbound and outbound containers.

This traffic, 14.4 metric tonnes, accounted for 19% of all tonnage through the Port and was 43% more than the 1.1 million TEUs recorded in 2001. In the first nine months of 2005 the total number of TEUs was 1.3 million, or 73% of the 2005 total. For the first nine months of 2006, the total number of TEUs was 1.6 million which suggests the year end figure might be 2.2 million, or a staggering increase of 29%. The nine month year to date increase was 26%.

So, we seem to have conflicting messages. The U.S. economy and the housing market in particular seem to be in decline. This suggests that the demand for industrial space is likely to decline as the B.C. forest sector will be directly affected by the U.S. housing situation. On the other hand, the flow of goods through the Port of Vancouver, much of it destined for U.S. markets, is burgeoning which suggests that there is likely to be a growing demand for industrial space in the Lower Mainland.

Which horse would you want to bet on?

Is the port's container traffic a 'pipeline' flow and is a decline in the U.S. economy, resulting in part from a decline in consumer spending, likely to put the brakes on this flow? Is the dip in the U.S. housing market a temporary phenomenon and are we likely to see the export of softwood lumber increase?

For the time being, a very low vacancy rate of 1.4% suggests that there is significant capacity for additional space. However, rampant speculation is nowhere to be seen. This market has the hall-mark of a market where rents are likely to increase in order to ration demand. This probably also goes a long way to explaining the relatively low investment yields, which we are seeing in the Greater Vancouver market.

No wonder real estate developers and investors need the returns they seek!

Notwithstanding the effect of externalities, Avison Young believes that the fundamentals of the Lower Mainland industrial market i.e. a very low vacancy rate, a limited supply of serviced and zoned land and strong domestic demand, in part, from extensive infra-structure works, will ensure that industrial rents continue to increase, at least in the short to medium term.



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