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OUTLOOK

Capitalization Rates \longleftrightarrow

Industrial Vacancy \longleftrightarrow

Sales Volume \downarrow

Deal Velocity \uparrow

Lease Rates \uparrow

partnership.
performance.

Delta industrial real estate market on road to recovery

Delta's industrial market is showing signs of recovery from the October 2008 global economic downturn.

With 21 transactions completed in the first nine months of 2010, Delta's industrial market activity is likely to surpass the 24 transactions concluded in 2009.

While demand has increased because of stabilizing prices, improved credit conditions and growing market confidence, a lack of available product is holding back a more robust recovery in Delta's industrial market.

Two of the largest industrial investment sale transactions in Metro Vancouver to date occurred in Delta this year: a 234,000-square-foot (sf) complex in Tilbury acquired

for \$28.5 million (September 2010); and a warehouse and distribution facility at 450 Derwent Place sold for \$16.5 million (April 2010).

While the Delta market is improving, it is not expected to return to pre-2008 activity or dollar-volume levels in the near term because of a slow economic recovery, high land costs and a lack of investment-grade product.

A continually weak U.S. economy has led many owners and investors in the Delta industrial market to hold on to existing properties as a hedge against further economic deterioration south of the border.

Several owner-users are considering expansion but remain on the sidelines until they witness sustained improvement in their busi-

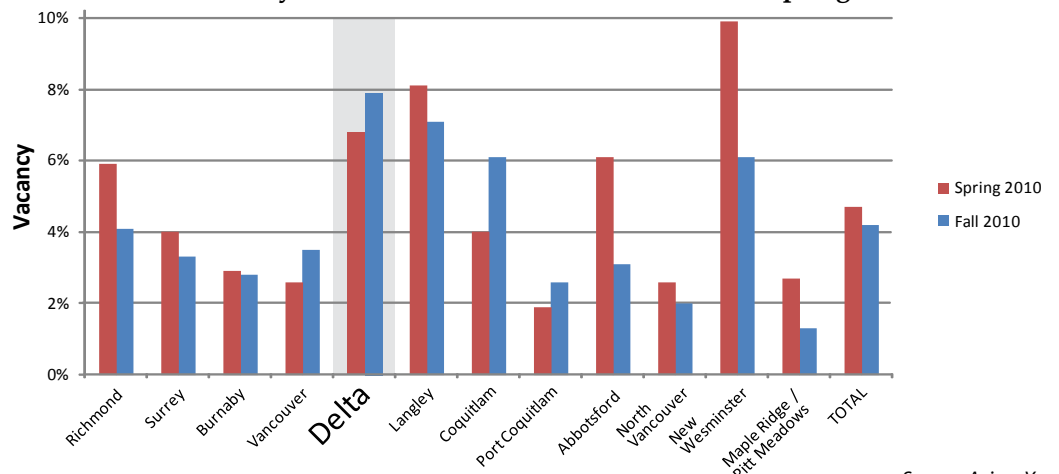
ness and the economy. This inaction further dampens potential deal activity.

Many tenants have elected to renew in existing locations to take advantage of favourable rental rates and inducements as opposed to relocating and incurring additional costs. As a result, the vacancy rate (6.5%) has remained relatively steady since the end of 2009 and is not expected to fluctuate much during the next six to 12 months.

Many tenants and owner-users anticipate future growth once Canadian markets stabilize and the U.S. economy shows signs of a sustained recovery and hence are postponing major real estate decisions until mid-year 2011.

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Delta Industrial Vacancy vs. Other Metro Vancouver Vacancies Spring 2010 vs. Fall 2010



Source: AvisonYoung

DELTA TEAM



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Douglas McMurray has worked in the commercial real estate industry in Canada and overseas for 32 years. An industrial, office and investment specialist, he started as a broker in Calgary in 1978 with a national brokerage firm and was later posted to Poland and Mexico in managing director roles. In November 2007, McMurray returned to Canada with Avison Young and became a principal in 2008.

A Winnipeg native, McMurray holds a Bachelor of Arts degree (1976) from the University of Manitoba and serves as president of the Western Canada chapter of the Society of Office and Industrial Realtors (SIOR).



Dayhu Investments Ltd. acquired this warehouse and distribution facility at 450 Derwent Place in Richmond from Rimrock Investment Corporation for \$16.5 million. It is the second-largest Metro Vancouver industrial property sale to date in 2010.

Annacis Island witnesses large upturn in activity

The following is a summary of sales and leasing activity in Delta since the second quarter of 2010.

Annacis Island

The second-largest Metro Vancouver industrial investment transaction of 2010 to date occurred on Annacis Island at 450 Derwent Place. **Bosa Development Corp.** sold the fully-leased 190,000-square-foot (sf) asset to **Dayhu Investments**. The Avison Young-brokered deal was valued at \$16.5 million in April with a 6.7% capitalization rate.

Annacis Island witnessed a large upturn in market activity during the second quarter of 2010. **Liquidation World** subleased 105,000 sf of 113,000 sf at 1302 Derwent Way, which was head-leased to **Smurfit-Stone**. The 10-year sublease is an encouraging sign for landlords, as positive absorption typically begins with the chipping away of sublease vacancy first.

Ricoh Canada, represented by Avison Young, recently leased 26,427 sf in **Sun Life's** Delta portfolio at 500-819 Cliveden Place for a five-year term. The relocation was the first of a few deals that have kicked off the absorption of an atypical vacant portfo-

lio of prime Annacis Island space. Elsewhere in Sun Life's business park, **Mainland Distribution**, also represented by Avison Young, leased 33,000 sf at 1418 Cliveden Avenue and 1424 Cliveden Avenue on a 10-year term.

Urban Barn has taken approximately 60,000 sf of distribution space for a five-year term in **Grosvenor's Millenium Business Park** on Annance Court. Just down the road, **Euroasia** has leased approximately 80,000 sf from Bosa Development Corp. Euroasia has relocated its operations from Burnaby to the newly-leased Annacis Island facility.

Tilbury

Kingsett Capital acquired a multi-building property (234,000 sf) at Hoskins Street and 82nd Street from **North American Tea & Coffee** for \$28.5 million – the largest industrial property sale to date in Metro Vancouver – on a sale/leaseback.

Great Western Containers (GWC) relocated its operations from 7560 Vantage Way to the **Tonko**-managed 8219 River Way so that **ICI Paints** could occupy the entire facility on Vantage Way for its operations. The deal saw ICI Paints take over approxi-

mately 43,000 sf from GWC and GWC take approximately 40,000 sf that was previously occupied by **Bunzl Distribution**. The latter has since relocated to Joseph Segal's **Kingswood Business Park** in southeast Richmond.

Terasen Gas recently purchased a 22-acre site for \$15 million, or \$657,859 per acre, for an eventual expansion of its adjacent plant from **Western Forest Products**, a subsidiary of **Weyerhaeuser Company**. The narrow site features waterfront acreage and will be leased out to tenants in the foreseeable future.

Buckingham Estates has completed its second land sale to a group that is taking 1.94 acres at just over \$1 million per acre. This second sale has solidified the fact that small parcels of land ready for development can still sell for more than \$1 million per acre to the owner-user market.

Nordel

Avison Young represented the vendors at 10387 Nordel Court in a 10-year sale/leaseback of the land and facility to a private investor. The deal will see the tenant/vendor **TDK Metro Terminals** operate from the facility for at least 10 more years with two options for another five years of leasing following the initial term.

South Fraser Perimeter Road, logistics centre projects ramping up

Major transportation projects that will benefit Delta's industrial real estate market for years to come are ramping up.

In the first significant move, the BC and federal governments have awarded a design-build and construction contract to **Fraser Transportation Group** for the construction of the **South Fraser Perimeter Road (SFPR)** between Deltaport and Surrey. Under the terms of the public-private partnership (P3) agreement, Fraser Transportation will undertake construction work costing \$658 million and design, build and operate the road for 20 years. The contract includes \$200 million in private financing.

As noted in Avison Young's spring

2010 report on the Delta industrial market, Fraser Transportation (a Vancouver-based consortium) was one of three joint-venture groups short listed for the project. The 40-kilometre SFPR will run along the south side of the Fraser River from Deltaport Way in South Delta to 176th Street (Highway 15) in Surrey while connecting to Highways 1, 91, 99 and the Golden Ears bridge between Langley and Pitt Meadows.

In addition to reducing traffic congestion and improving the flow of goods throughout Metro Vancouver, the new route is designed to create commercial/industrial opportunities that will potentially generate 7,000 long-term jobs in Delta and Surrey.

Meanwhile, the **Tsawwassen First Nation (TFN)** is proceeding with plans to develop a new logistics centre on 335 acres of land adjacent to Deltaport in conjunction with private-sector and public-sector partners. A land use plan is expected to be finalized by the end of 2010.

Potential uses include off-dock facilities supporting Deltaport container terminals, container stuffing operations and warehouse and distribution centres.

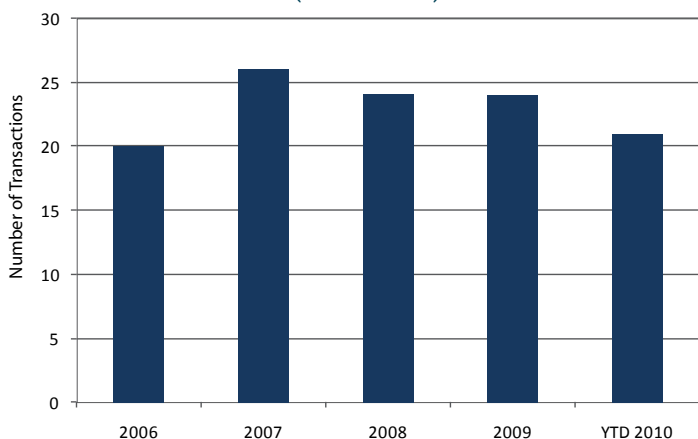
According to a TFN planning document, infrastructure work that will bring services to the industrial development lands will complete by spring 2011. A \$25-million highway overpass at 41B Street, near the entrance to the TFN's

industrial lands, is slated to be completed by 2012.

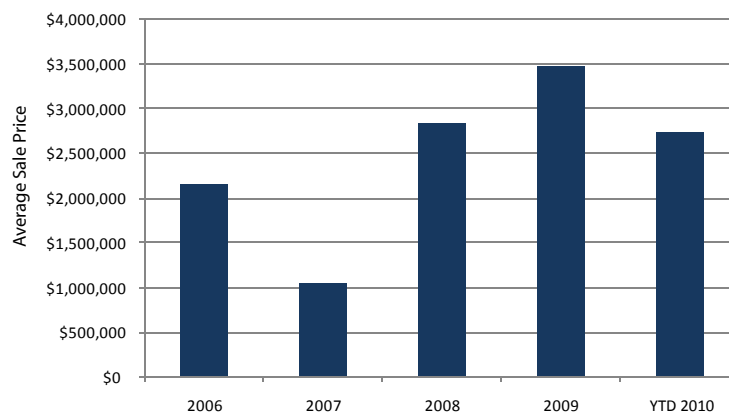
These projects are advancing while air, ocean, rail and truck freight shipments are expected to increase within 18 months. **Scott Galloway**, director of trade development for **Port Metro Vancouver**, recently told Avison Young that signs of continued growth may point to a return to pre-October 2008 levels as early as 2011.

Canada's two major rail carriers, **Canadian Pacific Railway Ltd.** and **Canadian National Railway Co.**, have also reported increases in freight traffic. If maintained, these increases would have a positive impact on long-term demand for industrial lease properties throughout Delta. ■

Delta Industrial Sales Transactions
(2006 - 2010)



Average Delta Industrial Sale Prices
(2006 - 2010)



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Tenants expect businesses to grow, developers remain cautious

Strata developers are also being vigilant. Where development land is available, they are acquiring it for future projects but are being cautious on the timing of bringing any new product to market until the existing supply is absorbed.

High land costs and low rental rates have made the development of rental properties economically unfeasible.

Developers are being very careful

of bringing on speculative inventory for typical industrial properties because market rental rates are not economically feasible due to land costs. As a result, strata projects are the only projects proceeding on a speculative basis in Delta, as is the case in the rest of Metro Vancouver.

The one exception is the first phase of **Onni's** 1 million-square-foot **Golden Ears Business Centre** in Pitt Meadows where the

first 75,000-sf building is under construction.

New transportation infrastructure spending by the province is poised to fuel further industrial development in Delta.

The \$658-million, four-lane South Fraser Perimeter Road connecting **Deltaport** and Surrey will be a major contributing factor to the local industrial market for the next three years during construction and afterwards. It will spur com-

mercial/industrial activities along the corridor and ideally provide the basis for the development of the investment-grade inventory of properties now being sought by investors and owner-users.

The Delta industrial market should begin experiencing positive absorption in 2011 as the various factors highlighted encourage more deals, and improving confidence in the economy translates into action. ■

Delta Industrial Building Sales Transactions (January 1 to September 30, 2010)

Address	Price	Building Size (SF)	Price Per Square Foot	Date
7936 Alexander Road	\$850,000	5,942	\$143	September 2010
7861-7878 82nd Street & 7848 Hoskins Street	\$28,500,000	234,326	\$122	September 2010
1628 Foster's Way	\$980,000	6,259	\$157	July 2010
8380 River Road & 8136 Alexander Road	\$3,000,000	27,858	\$108	July 2010
1520 Cliveden Avenue	\$566,690	2,678	\$212	June 2010
7551 Vantage Way	\$272,500	2,357	\$116	June 2010
1628 Foster's Way	\$1,693,061	11,893	\$142	June 2010
Tilbury Corporate Centre	\$316,000	3,392	\$93	May 2010
7157 Honeyman Street	\$300,000	2,056	\$146	May 2010
8148 River Way	\$800,000	5,914	\$135	May 2010
7177 Vantage Way	\$410,000	2,026	\$202	April 2010
450 Derwent Place	\$16,500,000	193,492	\$85	April 2010
Kingswood II	\$8,395,000	77,908	\$108	April 2010
10387 Nordel Court	\$4,333,000	11,130	\$389	March 2010

Source: RealNet Canada Inc.

The Avison Young Industrial Team

Avison Young's Industrial Team enables investors, landlords and tenants to find their industrial property solutions quickly and easily. Team members provide clients with timely news on industrial market trends across Metro Vancouver.

Whether you are looking to relocate, expand, renew, buy, lease, sell, and/or leaseback your property, Avison Young will help you assess your business objectives and negotiate a solution to meet your short- and long-term business needs.

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. Ranked among Canada's leading national commercial real estate organizations, Avison Young is a full-service commercial real estate company comprising more than 700 real estate professionals in 23 offices across Canada and in the U.S.

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