



Deltaport

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Delta buyers and tenants become more active after 2009 slowdown

Delta's industrial real estate market is rebounding slowly after a relatively inactive 2009.

Lease transactions are expected to rise in the first half of 2010 as investors and owner-operators regain confidence in the market. Buyers are becoming more active after delaying purchasing decisions due to the turbulent global economy and U.S. credit crisis. Thanks to the regained confidence, investors are discussing purchases and actively searching for properties after taking a wait-and-see approach in most of 2009.

Investors include owner-users, as well as private investors, REITS and institutions (pension funds and insurance firms). All of these groups recognize that they must act on their property needs or risk missing out as more competitors enter the market and lease rates climb after hitting bottom toward the end of 2009.

The improved outlook is slowly lifting a cloud that has overshadowed the Delta industrial marketplace for the past several quarters. Delta's vacancy rate has climbed to 6.5% from 2.5% in spring 2008.

Notable Delta Lease Transactions Second Half 2009

Company	Address	Square Feet
Vic West Steel	7708 80th Street	91,449
Simmons Canada	927 Derwent Way	72,600
Cosmos Furniture	766 Cliveden Place	42,268
Raute Canada	1633 Cliveden Ave.	32,154

Most of the vacancy increase can be attributed to a reduction in container traffic through **Port Metro Vancouver**, which prompted many Delta-based distributors to sublease their surplus warehouse space.

Market activity in the second half of 2009 and early 2010 highlights the renewed sense of optimism. While second-half 2009 dollar volume rose only slightly to \$34 million from \$33.6 million in the first half, the market is witnessing an increase in number of requests for proposals, deals that are under contract, and investors actively seeking income-producing assets.

The renewed confidence points to more purchases this year after the deal total (12) for all of 2009 came in at half the total of 24 completed in 2008.

In all of 2009, deal volume dropped approximately 34% to

\$68 million from \$103 million in 2008. However, both deal totals and volume are on the upswing. Due to increased competition, Delta investors and owner-users came to the realization in the second half of 2009 that decision-making could not be put off any longer.

Both groups are taking the necessary steps to accommodate the potential growth in the recovering industrial market. Meanwhile, tenants are taking advantage of landlords' willingness to offer head lease space at reduced rates with generous inducements.

Renewals are largely responsible for the rise in lease activity. As a result, many of Metro Vancouver's larger lease transactions toward the end of 2009 occurred in the Delta marketplace, most notably on Annacis Island.

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).

Activity picks up in Annacis, Nordel, and Tilbury areas

The following is an overview of recent sales and leasing activity in the Annacis Island, Nordel and Tilbury areas:

Annacis Island

Activity in the Annacis Island market picked up steam toward the end of 2009 and in early 2010. A large lease, which highlighted the fourth quarter of 2009, was **Simmons Canada** renewing for another five years (72,600 square feet (sf) of warehouse space) at 927 Derwent Way.

Meanwhile, **Raute Canada** moved to 1633 Cliveden Avenue (32,154 sf) in February for a 10-year term, relocating from New Westminster. And lastly, **Cosmos Furniture** took up 42,268 sf at 766 Cliveden Place as part of a five-year deal.

On the sales side, demand for smaller product (less than 30,000 sf) remains weak on Annacis due to non-existent availability. As for larger facilities, the **Kodak** building at 1608 Cliveden Avenue (139,276 sf) was sold vacant for \$6.6 million in September 2009 as part of a multi-property transaction to famed Vancouver entrepreneur and commercial real estate investor **Joseph Segal**. In January 2010, Winnipeg-based **ARTIS REIT** purchased a 50% interest in the Kodak Portfolio from Segal's **Kingswood Capital Corporation**.

The Kodak vacancy pits the lease availability in direct competition with **Great West Life's** 91,897-sf facility at 800 Carleton Court, a competitively-priced lease listing and/or sale that has now been on the market for more than a year.



Avison Young photo

Avison Young acted on behalf of the landlord, Equitable Life Assurance Co. of Canada, in the lease of 1633 Clivedon Avenue (32,154 sf) to Raute Canada for a 10-year term.

Nordel

The 16-acre **Delta Cedar** site was sold to the private owners of Coquitlam-based **Lions Gate Truck and Trailer Rentals** for \$538,419 per acre. Unfortunately, this price is not an accurate assessment of Delta land values. The intricacies of the deal include a leaseback to the **Delta Cedar Company**, restricting access to acres on the south side of the parcel that were not part of the agreement. Also, areas of the site require environmental remediation.

Since developable industrial land remains scarce in Delta, investors and owner-operators should not expect other industrial properties in the Nordel area to trade at this price level. (Avison Young research indicates quality Delta industrial land trades for \$900,000 to \$1.1 million per acre.)

Seaside Paper Products has gone ahead with a 10-year sale-leaseback (86,345 sf) with the **Insurance Company of British Columbia (ICBC)**. This \$10.2 million investment, which equates to a 6.7% capitalization rate, was made on behalf of the ICBC pension fund and reflects well-capitalized investors' desire to purchase quality assets in the Delta marketplace.

Tilbury

The **Buckingham Estates** development experienced its first completed sale in October 2009. A private owner-user group purchased the two-acre site for \$2.4 million, illustrating that Tilbury land values have not fallen as low as many once thought they would after the economic downturn. Due to long-term limited availability of facilities for sale, many owner-user groups are likely going to purchase parcels of land and construct purpose-built buildings if they wish to own real estate. (See Tilbury West Corporate Centre article on page 4.)

A notable transaction on Tilbury Island involved **Varsteel**, based in Lethbridge, Alberta, purchasing the former **Super Soils** site at 6845 Tilbury Road in mid-December. The 24-acre site (17.5 acres of usable land), which has been under site work to prepare for use for the past two years, sold for \$12.5 million, or \$714,000 per usable acre.

Tilbury's leasing market continues to favour tenants as the area has appealing exposures of lease and sublease product available. The

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Small-bay space remains scarce

downturn in the manufacturing industry has led to a plethora of 'For Lease' signs in Tilbury. Still, one of the largest lease transactions in Metro Vancouver in 2009 took place in Tilbury last fall as **Vicwest Steel** moved into the former **Craftsman Wood** building (91,449 sf) at 7708 80th Street.

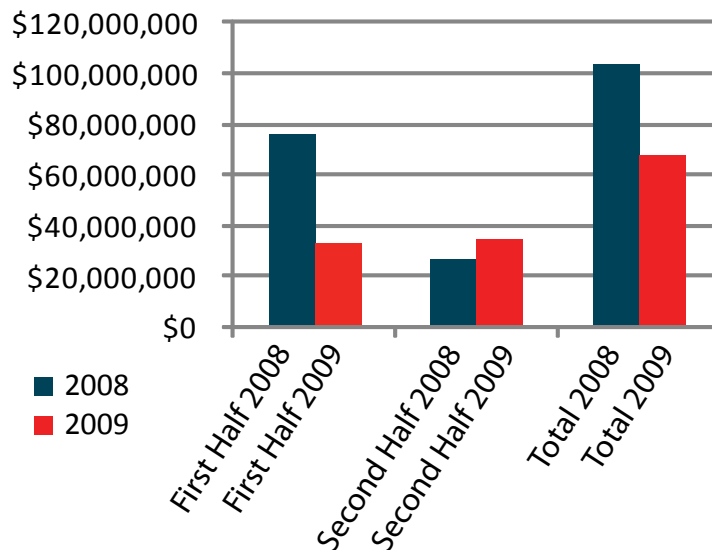
Vacancy in Tilbury is expected to increase further when **Morguard Investments' Ltd.'s Hopcott Centre** becomes available after 2010 Winter Olympic organizer **VANOC** moves out in the summer. However, prospective tenants are already showing strong interest and some leases are expected to be confirmed in the near future. **VANOC** will vacate the premises by July 1, but the building is scheduled to receive

an ESFR (Early Suppression Fast Response) sprinkler system upgrade and will not be ready for occupancy until October 1.

However, availability of small-bay product throughout Delta remains limited while mid-sized vacancies have not come to the market as expected; and development projects are progressing more slowly than anticipated. If not for the pending large vacancy at Hopcott Centre, Delta vacancy would likely begin its descent from its decade high back towards a rate that reflects the typical lack of supply across Metro Vancouver.

As it stands now, vacancy in Tilbury and Delta as a whole will remain relatively high for the next four to six months. ■

Deal Volume 2008 vs. 2009



Source: Realnet Canada Inc.

Delta Industrial Transactions Over \$1 Million (July 1 to December 31, 2009)

Property	Price	Size (Sf)	PSF	Date
1608 Cliveden Avenue	\$6,590,000	139,276	\$47	Sept-09
7858 Hoskins Street	\$1,300,000	9,818	\$132	Sept-09
8228 River Way	\$3,250,000	20,710	\$157	Nov-09
7480 MacDonald Road	\$3,000,000	24,155	\$124	Nov-09
8380 River Road & 8136 Alexander Road	\$3,096,000	27,858	\$111	Dec-09
9999 River Way	\$10,290,000	86,345	\$119	Dec-09
1127 Derwent Way; 591 Chester Road	\$6,436,690	136,976	\$47	Dec-09
Average	\$4,851,813	63,591		
Total	\$33,962,690			

Beedie Group prepares for Phase 2 of Tilbury West

Construction has commenced on the **Beedie Group's** new **Tilbury West Corporate Centre** development.

Beth Harrington, the Beedie Group's development manager, says construction of Phase 1 is scheduled to complete July 1. The Phase 1 structure will consist of 10 strata units within 104,224 sf. Two of the units have been pre-sold and two more are under contract.

Units range in size from 9,400 to 12,750 sf, with prices starting at \$128 per square foot.

The Beedie Group hopes to begin construction of the second phase as the first

building approaches full occupancy.

More Tilbury West buildings are anticipated after the first two speculative purpose-built structures are complete.

Tilbury West is located next to the **Home Depot's** existing distribution centre (412,000 sf) within **Tilbury Industrial Park** on 72nd Street just south of River Road near the Alex Fraser bridge.

Harrington says industrial operators are showing strong interest in Phase 1 and her firm is expecting more offers in the near future.

Phase 2 can be constructed within six to 12 months of Phase 1 completion, she adds.

Delta figures prominently in new South Fraser Perimeter Road

The \$1 billion South Fraser Perimeter Road will soon make its presence felt in Delta.

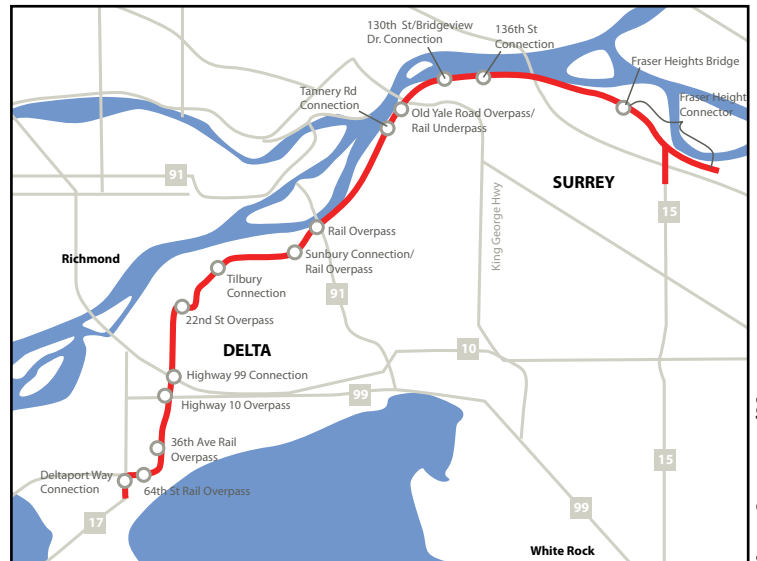
Detailed design work on the 40-kilometre highway between Deltaport and Surrey is slated to finish at the end of 2010. Construction is scheduled for completion by 2013.

Starting from Deltaport, the route will pass through the 36th Avenue rail overpass to Ladner Trunk Road (Highway 10), 72nd Street, Tilbury Industrial Park, Sunbury and then flow along the south arm of the Fraser River to 176th Street in Surrey, connecting with highways 1, 91 and 99 and the Golden Ears bridge in Langley.

Part of the BC government's \$3 billion Gateway Project, the four-lane South Fraser Perimeter Road is intended to complete the network of major roads in Metro Vancouver, reduce overall traffic congestion and increase the flow of container goods domestically and abroad.

Three bidding teams — **Fraser Transportation Group, South River Connector**, and the **Riverway Partnership** — have been short listed for the project, which is being jointly funded by the provincial and federal governments.

The three bidding teams are finalizing their bids and the contract is expected to be



The new South Fraser Perimeter Road will link to major Delta roadways.

awarded momentarily. The early construction work that winning bidder will take over has already begun.

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 600 real estate professionals in 17 offices across Canada and in the U.S.

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