



Golden Ears Bridge

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Fraser Valley industrial vacancy expected to rise in 2010

Industrial vacancy is on the rise in the Fraser Valley as the market prepares to deal with the after-effects of the **2010 Winter Olympics**.

Now that speculative construction has all but ceased, overall vacancy in the Fraser Valley is not expected to rise as quickly as it did in 2009. However, investors, landlords and tenants should expect vacancy to continue trending upward gradually.

While the Olympics itself has had minimal direct impact on industrial property use, it serves as a soft deadline for lease renewals, influencing vacancy into 2011 and beyond.

Many tenants have timed lease agreements to roll over after the Olympics. Therefore, many contracts will come up for renewal later this year and early in 2011, which will result in more space being added to the market as tenants adjust their real estate requirements to fall in line with the new economic reality.

Going forward, overall Fraser Valley vacancy is expected to increase slowly but steadily. The Port Kells area, which straddles Surrey and Langley, will be an exception to the rising trend due to a lack of new construction and available supply of existing buildings.

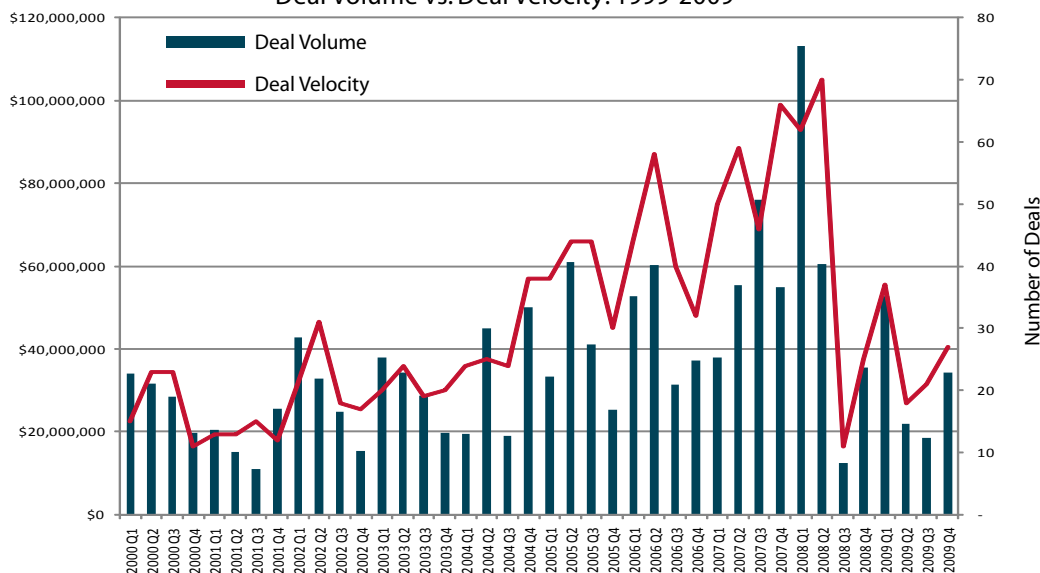
On the other hand, Langley vacancies will easily exceed the Metro Vancouver fall 2009 rate of 4.4% while Surrey's vacancy rate will be slightly below the regional average.

Consequently, Fraser Valley landlords will face ongoing pressure to reduce rental rates and offer more inducements to retain existing tenants and attract new ones.

Deal velocity continues to be subdued on the lease side as tenants continue to delay decisions until the second or third quarter and the effects of the global financial meltdown and U.S. credit crisis play out. Tenants looking to expand will

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Deal Volume vs. Deal Velocity: 1999-2009



FRASER VALLEY TEAM



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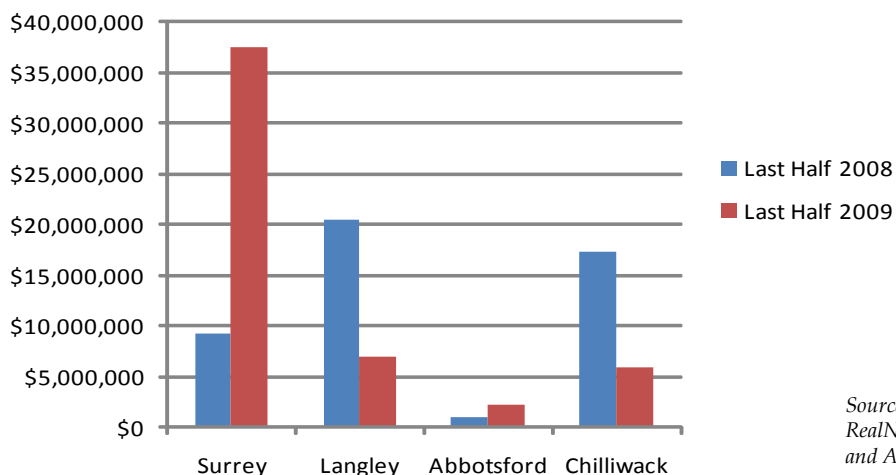
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Manjot Mattu has been specializing in Fraser Valley industrial transactions since becoming a broker with Avison Young in 2008. He is a graduate of British Columbia Institute of Technology's commercial real estate program.

Fraser Valley Industrial Deals Over \$1 Million (since June 30, 2009)

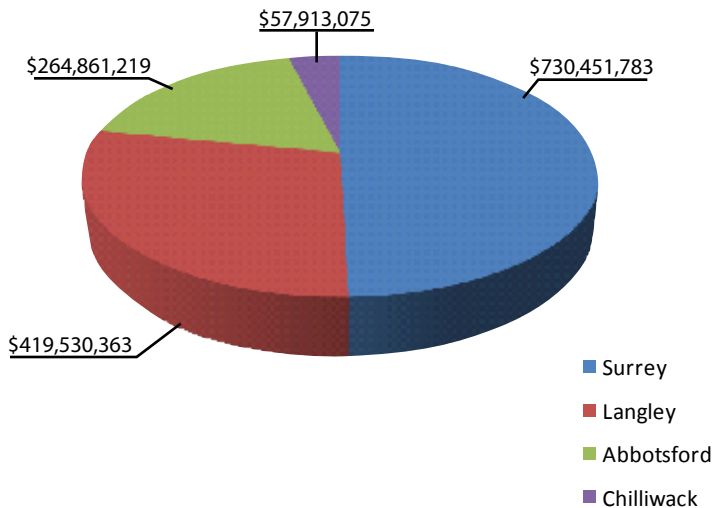
| PROPERTY | PRICE | SIZE (SF) | PSF | DATE |
|-------------------------------|---------------------------|-----------------------|----------------------|--------------|
| Surrey | | | | |
| 13137 82A Avenue | \$5,542,150 | 51,107 | \$108 | December 09 |
| 9688 190th Street | \$3,620,000 | 12,000 | \$302 | November 09 |
| 12160 88th Avenue | \$2,400,000 | 14,666 | \$164 | November 09 |
| 13375 Comber Way | \$4,300,000 | 31,488 | \$137 | November 09 |
| 18785 96th Avenue | \$1,800,000 | 12,640 | \$142 | November 09 |
| 13550 77th Avenue | \$1,018,500 | 7,674 | \$133 | November 09 |
| 7660 134th Street | \$1,300,000 | 9,500 | \$137 | October 09 |
| 8365 124th Street | \$1,625,000 | 9,400 | \$173 | October 09 |
| 19337 Enterprise Way | \$1,710,000 | 8,721 | \$196 | October 09 |
| 5726 Landmark Way | \$3,450,000 | 25,400 | \$136 | October 09 |
| Pattullo Plaza | \$1,800,000 | 15,970 | \$113 | September 09 |
| 18485 53rd Avenue | \$1,051,000 | 7,245 | \$145 | September 09 |
| 9344 192nd Street | \$2,000,000 | 19,000 | \$105 | August 09 |
| 18533 97th Avenue | \$1,650,000 | 13,260 | \$124 | July 09 |
| 13281 Comber Way | \$1,550,000 | 12,500 | \$124 | July 09 |
| 12195 Musqueam Drive | \$3,608,250 | 66,260 | \$54 | June 09 |
| | Total \$38,425,250 | Average 19,802 | Average \$143 | |
| Langley | | | | |
| Bakerview Business Centre | \$1,071,131 | 7,970 | \$134 | October 09 |
| 20071-20112 Industrial Avenue | \$1,550,000 | 10,628 | \$146 | September 09 |
| 27316 Gloucester Way | \$2,875,000 | 23,680 | \$121 | August 09 |
| | Total \$5,496,131 | Average 14,793 | Average \$124 | |
| Abbotsford | | | | |
| 2372 Townline Road | \$3,150,000 | 47,400 | \$66 | October 09 |
| 30488 Great Northern Avenue | \$2,000,000 | 14,000 | \$143 | October 09 |
| | Total \$5,150,000 | Average 30,700 | Average \$105 | |
| Chilliwack | | | | |
| 8966 Nowell Street | \$1,175,000 | 13,384 | \$88 | October 09 |

Fraser Valley Year-Over-Year Industrial Sales Volume

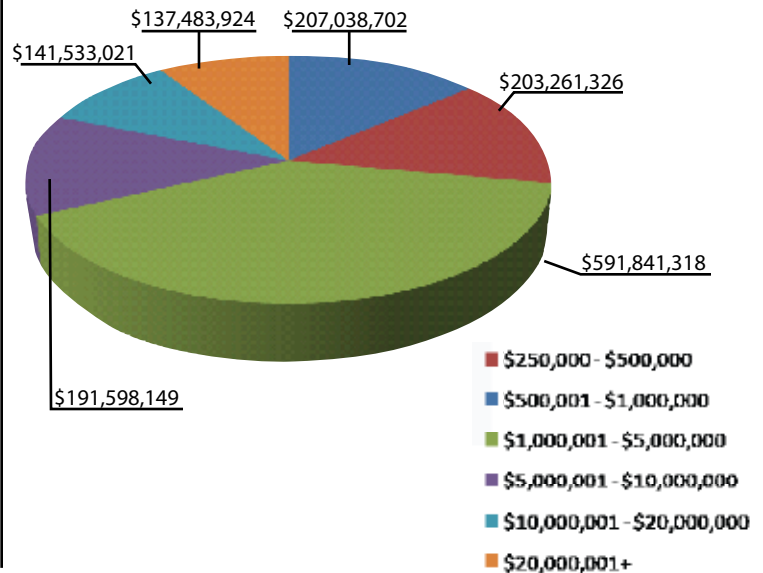


Fraser Valley industrial deals and volume remain strong over past decade

Total Sales Volume by City: 1999-2009



Total Sales Volume by Deal Size: 1999-2009



Surrey development incentives slow to take off

City of Surrey incentives for large commercial real estate developments have yet to spur major new industrial projects.

In March 2009, Surrey Mayor **Dianne Watts** unveiled radical new tax-free economic zones in the City Centre and Bridgeview-South Westminster areas.

Bridgeview-South Westminster is an active industrial area while City Centre focuses on office and residential development.

The city will waive 100% of municipal taxes for three years, and has cut development cost charges in the two areas by 33% and building-permit fees by 50%, on projects valued at more than \$10 million in 2010.

Developers have welcomed the concept of tax-free economic zones. However, the \$10-million benchmark has developers and users proceeding cautiously. No plans for large new projects in Bridgeview-South Westminster have been announced.

Racking rules throughout Fraser Valley aim to guard against earthquake risk

Fraser Valley industrial property owners are adapting to revised permit requirements for shelving and racking units.

A building permit is now required for any rack installed in a new building or replaced in an existing structure.

"It's just like putting on an addition to a building," says **John Knystrya**, the **Township of Langley's** assistant chief inspector. "(Replacement racks in older buildings) have to comply with current standards."

The racking rules are part of changes to the 2006 B.C. Building Code designed to guard against high-magnitude earthquakes.

Each racking unit must be restrained to protect against seismic shifts and meet geotechnical guidelines in accordance with Part 4 of the code.

Barry McLaughlin, sales manager for Delta-based **ARPAC Storage Systems Corporation**, says the old rules were designed to guard against a quake that measured 6.0 on the Richter scale. The new ones are intended to hold racking in place in the event of an earthquake that measures 8.2.

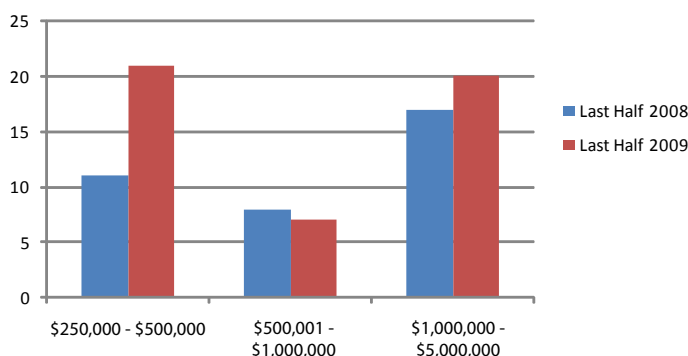
The new rules, he adds, place greater emphasis on testing for particular soil grades, which affect the thickness required for a racking unit's pad.

In the past, says McLaughlin, general soil-grade guidelines were used. "Today, the soils are site-specific."

He also notes a building permit is required if the type of commodity stored on an existing rack changes.

For more information on Langley racking rules, visit: www.tol.ca

Fraser Valley No. of Transactions by Deal Size
Second Half 2008 vs. Second Half 2009



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Available industrial supply remains tight in Abbotsford and Port Kells

likely stay in the Surrey-Langley area, given its easy access to existing customers and supplier base, Highway 1, railway links and the Canada-U.S. border.

Although several blocks of space are available in Surrey's Campbell Heights and Gloucester business parks, supply is still tight in the highly desirable areas of Abbotsford, Port Kells and Surrey's Newton district, with the exception of several buildings in the 20,000 to 30,000-square-foot (sf) range.

The over-supply situation in Gloucester is the result of an over-build based on developer speculation and cash-strapped U.S. companies selling properties or not renewing leases. For example, **Watts Canada** decided not to renew its lease

on 83,000 sf in Gloucester; and **Listo Products** (13137 82A Avenue), as part of its strategy to consolidate operations in the U.S., sold a 51,000-sf building in Surrey to a local private buyer.

As vacancy increased, rental rates decreased 15% to 20%. Most Fraser Valley landlords will continue to face downward pressure on rental rates in the post-Olympic period.

Olympic-related business and provincial and federal infrastructure projects have helped offset the global economic downturn, enabling some tenants and owner-users to retain space that they might have vacated. However, the Olympics have influenced only a fraction of Metro Vancouver's total inventory of 173 million sf, and

Fraser Valley Land Deals (since June 30, 2009)

| PROPERTY | MUNICIPALITY | PRICE | SIZE (ACRES) | PRICE/ACRE | DATE |
|--------------------|--------------|-------------|--------------|-------------|-------------|
| 19388 92 Avenue | Surrey | \$4,000,000 | 4.15 | \$963,855 | December 09 |
| Lot 4 203rd Street | Langley | \$2,522,443 | 2.293 | \$1,100,062 | November 09 |
| 19298 21st Avenue | Surrey | \$2,540,580 | 3.682 | \$690,000 | October 09 |
| 19056 27th Avenue | Surrey | \$1,200,000 | 1.52 | \$789,474 | October 09 |
| 8336 200th Street | Langley | \$2,900,000 | 2.365 | \$1,226,216 | October 09 |
| 8870 196A Street | Langley | \$1,650,000 | 2.96 | \$557,432 | October 09 |

the market should not experience a profound change in the Games' aftermath.

Still, some tenants and buyers remain wary of potential falling rental rates and sale prices in mid-to-late 2010 and beyond. Many prospective purchasers also have concerns about their ability to obtain credit as the U.S. commercial real estate and

lending markets continue to experience difficulties.

Although the North American credit market has loosened to a certain degree, companies of all sizes will face stricter mortgage-qualification requirements. Firms of any size will require strong, clean balance sheets to appease lenders. ■

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 or sell and lease back 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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