



Fraser Valley

Fraser Valley industrial real estate market set for record year

As of September 30, 2011, the Fraser Valley industrial real estate market has already exceeded full-year dollar volumes for 2010 and 2009 and is on pace to surpass 2008 and 2007 by December.

With approximately \$217 million in 147 industrial trades transacting in the Fraser Valley during the first nine months of 2011, dollar volume exceeded the \$194 million (155 deals) and \$190 million (146 deals) invested in 2010 and 2009, respectively. For the purposes of this report, Avison Young classifies the communities of Surrey, Langley, Abbotsford and Chilliwack as the Fraser Valley. The highest dollar volume for the region since at least 2006 was achieved in 2008 (\$269 million). The highest number of Fraser Valley industrial transactions during that same period was recorded in 2007 (237 deals).

Market confidence carried over from the second half of 2010 to the first half of 2011. The second quarter of 2011 in particular witnessed a significant amount of activity throughout the Fraser Valley. While overall deal and dollar volume dropped off moving into the second half of 2011, deal flow remains steady, particularly for smaller industrial properties less than 3,500 square feet (sf). Leasing activity slowed as a lack of available product and global economic concerns weighed on owner/operators or

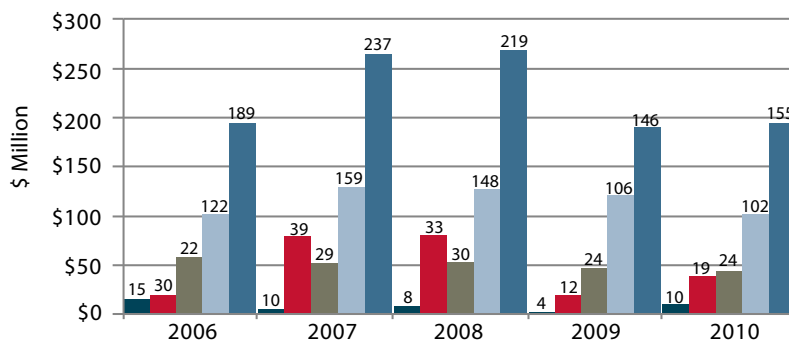
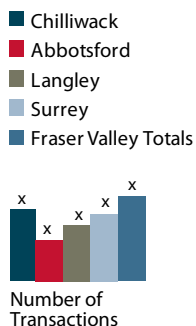
occupiers. Sales demand was strong, but moderated by a lack of available product. The Fraser Valley remains the most active region in the Metro Vancouver when it comes to new industrial construction. (See page 3 for a review of new projects contemplated or under construction.)

Cautious optimism, along with record low interest rates, continues to drive the Fraser Valley industrial market and provide owner/operators and investors alike with the motivation to invest in their business or to expand industrial commercial real estate portfolios. Rental rates remain strong with vacancy tightening and fewer options for tenants to consider if relocating. This, in turn, has dampened the leasing market to an extent as tenants are choosing to remain in their current location because of overall economic unease. Shorter three-year lease terms are also becoming more desirable.

The prevalence of private owners in the Fraser Valley (compared with institutional landlords) impacts market dynamics when it comes to decisions to sell or expand. Strong pricing may not be reason enough to sell for a private owner, who may be more influenced by retirement plans or succession strategies. The current lack of stable investment alternatives may also hinder sell decisions as owners have limited options when redeploying the

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> FRASER VALLEY INDUSTRIAL REAL ESTATE SALES AND DOLLAR VOLUME 2006 - 2010



Source: RealNet Canada Inc.

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OUTLOOK

Cap Rates

Industrial Vacancy

Sales Volume

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Lease Rates

partnership.
performance.

FRASER VALLEY TEAM



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Dollar volumes on the rise in Valley communities

Surrey

More than \$50 million worth of industrial sales transactions in Surrey closed between April 2011 and September 2011. **E.B. Horsman & Son's** \$8.45-million purchase of an 86,845-sf building at 19295 25th Avenue this past July marked the second largest owner/operator purchase in the Fraser Valley since the spring. Other notable transactions included the purchase of 19099 25th Avenue by **Porte Industries** for \$5.075 million. This 39,000-sf building was fully leased at the time of the sale.

The sale of 8632 132nd Street in May generated more than 10 offers and demonstrated owner/operators' desire to purchase industrial real estate in Surrey. **A-1 Building Supplies** subsequently bought the 32,993-sf building for \$4.995 million or approximately \$151 psf.

Langley

Representing one of the largest lease transactions in the Fraser Valley since April, **Noble Building Products** leased approximately 130,000 sf at 20146 100A Avenue in Langley. As a result, there are currently no other spaces greater than 100,000 sf available in the Port Kells/Northwest Langley markets. More than \$12 million in transactions closed between April 2011 and September 2011. Significant sale transactions include the \$3.725-million purchase of the former Pioneer Envelope building at 4875 275th Street in June by **Walton's Woodworking**. The **18Karat** building at 5292 272nd Street also sold in August for \$3.55 million.

Abbotsford

The \$2.8-million sale of the 16,000-sf former **MSA Moving and Storage** building at 2061 Riverside Road in May was the largest sale transaction in Abbotsford since April. It is our understanding that the purchasers intend to convert the building to a crematorium. Other notable sales include the disposition of 31281 Wheel Avenue for \$2.575 million in August and 33815 Enterprise Street for \$1.989 million in July, which was purchased by **Ritchie-Smith Feeds**. There were 12 industrial building sales (including strata) in total. More than \$11 million in industrial trades occurred between April 2011 and September 2011.

Chilliwack

With almost \$15 million dollars in total industrial building sales since April 2011, Chilliwack exceeded both Abbotsford and Langley in dollar volume despite lower deal activity.

The five-year record dollar volume can be primarily attributed to the sale of 43676 Progress Way, which included a 55,000-sf building occupied by **IMW Industries Ltd.**, to a private investor for \$8.753 million. This deal represents the largest single industrial real estate transaction in Chilliwack's history.

The \$3.15-million sale of 43887 Progress Way to **Westeck Windows**, a user already located in the 29,150-sf multi-tenant building, was the only other industrial transaction in excess of \$1 million. Of the seven transactions in total that closed, five were for properties smaller than 10,000 sf. ■

> FRASER VALLEY INDUSTRIAL LAND TRANSACTIONS BY MUNICIPALITY MAY 1, 2011 TO SEPTEMBER 30, 2011 (GREATER THAN \$1 MILLION)

ADDRESS	MUNICIPALITY	PRICE	SIZE (ACRES)	PRICE/ACRE	TRANSACTION DATE
13376 Comber Way	Surrey	\$1,800,000	1.335	\$1,348,315	August 2011
12697 80th Avenue	Surrey	\$4,100,000	2.216	\$1,850,181	July 2011
3451-3505 194th Street	Surrey	\$2,000,000	4.594	\$435,350	July 2011
Cloverdale Industrial Park	Surrey	\$1,060,000	0.969	\$1,093,911	May 2011
12941 115th Avenue	Surrey	\$2,550,000	2.7	\$944,444	May 2011
9440 189th Street	Surrey	\$1,000,000	0.791	\$1,264,222	May 2011
14933 Colebrook Road	Surrey	\$7,700,000	24.989	\$308,136	May 2011
19116 32nd Avenue	Surrey	\$3,300,000	9.49	\$347,734	April 2011
10128 Grace Road	Surrey	\$2,890,000	2.423	\$1,192,736	April 2011
Station Street Industrial Park	Langley	\$9,000,000	9.407	\$956,734	May 2011
2975-2991 Mount Lehman Road	Abbotsford	\$3,000,000	2.251	\$1,332,741	April 2011

Source: RealNet Canada Inc.

New industrial development flourishing in Fraser Valley



WesGroup recently secured **FedEx** as a tenant for **PacificLink** business park. The development permit calls for a 49,750-square-foot crossdock on 16.3 acres.

It should come as no surprise that the majority of newly constructed industrial product in Metro Vancouver is being built south of the Fraser River.

With some notable exceptions (such as the Big Bend area in South Burnaby and **Onni Group's Golden Ears Business Centre** in Pitt Meadows), communities south of the Fraser River such as Surrey and Langley, and to a lesser extent, Abbotsford and Chilliwack, have benefited from continued demand for industrial real estate by owner/operators and investors.

Campbell Heights Business Park in south Surrey and **Gloucester Industrial Estates** in Langley have both emerged as developing regional industrial nodes, as the inventory of suitable industrial land and product dwindles throughout Metro Vancouver. Much of the region's traditional industrial areas are becoming cost prohibitive for businesses to locate in and set up shop.

Campbell Heights Business Park is a master-planned light industrial business park with approximately 1,800 acres slated for development. Only about 260 acres have been rezoned and serviced to date.

The **Beedie Group**, which has been very active south of the Fraser River, has a strong presence in both Surrey and Langley. With three build-to-suit offerings

in Campbell Heights, Beedie also offers large-bay industrial strata units – 13,000 sf to 130,000 sf – for presale at its development, **Campbell Heights II**, at 2455 192nd Street.

Industrial lease developments recently completed or under construction at Campbell Heights Business Park include **Blackthorn II**, which consists of twin buildings of approximately 73,000 sf each featuring mid-sized bays of 12,000 sf. Blackthorn is scheduled for completion in spring 2012.

Campbell Heights South Business Centre, which currently offers small-bay industrial units from 3,600 sf to 31,500 sf, originally envisioned as a strata project, was completed this fall.

Surrey City Development Corp. is offering industrial lots in its **Campbell Heights North** business park development. Subdivision of the first 44-acre phase is underway and servicing will commence in early 2012.

Wesgroup has landed a major Fortune 100 company as a tenant in its 83-acre **PacificLink** business park located in the South Westminster industrial area of Surrey. According to the development permit available on the **City of Surrey's** website, **FedEx** will operate out of a new crossdock facility that will employ 80 people in 49,750 square feet of office and

warehouse space. The project will greatly enhance the efficiency of FedEx's service in the region and will likely take advantage of the South Fraser Perimeter Road that will run just north of the project.

Gloucester Industrial Estates is located in northeast Langley on the north side of Highway 1 at the 264th Street interchange.

The Beedie Group's large-bay industrial strata project, **Bakerview Business Centre**, in Gloucester has only one remaining unit. The developer also holds 40 acres of land in the northeast corner of Gloucester Industrial Estates available for build-to-suit development with optional rail access.

The 40-acre site, which is located adjacent to the **Southern Railway of BC (SRY)**, is one of several locations in the Fraser Valley adjacent to the approximately 100-km mainline. According to the SRY's website, industrial properties and/or parcels of land with potential rail access are also for sale, lease or sublease in Cloverdale, Langley and Abbotsford.

With approximately 75% of Metro Vancouver's vacant industrial land south of the Fraser River, including 35% in Surrey and 10% in the City and Township of Langley, the future of regional industrial development lies in the Fraser Valley. ■

> FRASER VALLEY INDUSTRIAL SALE TRANSACTIONS BY MUNICIPALITY APRIL 1, 2011 TO SEPTEMBER 30, 2011 (GREATER THAN \$1 MILLION)

ADDRESS	MUNICIPALITY	PRICE	SIZE (SF)	PSF	TRANSACTION DATE	BUYER TYPE
43676 Progress Way	Chilliwack	\$8,753,160	55,000	\$159	June 2011	Investor
43887 Progress Way	Chilliwack	\$3,150,000	29,150	\$108	April 2011	User
Total		\$11,903,160				
31281 Wheel Avenue	Abbotsford	\$2,575,000	29,675	\$87	August 2011	User
33815 Enterprise Avenue	Abbotsford	\$1,989,000	23,400	\$85	July 2011	User
2061 Riverside Road	Abbotsford	\$2,800,000	16,000	\$175	May 2011	User
Total		\$7,364,000				
5292 272nd Street	Langley	\$3,550,000	30,200	\$118	August 2011	User
4978 275th Street	Langley	\$3,725,000	29,665	\$126	June 2011	User
20010 100A Avenue	Langley	\$2,100,000	10,032	\$209	April 2011	User
Total		\$9,375,000				
Paragon Business Centre	Surrey	\$1,580,000	11,124	\$142	August 2011	User
19295 25th Avenue	Surrey	\$8,450,000	86,845	\$97	July 2011	User
19099 25th Avenue	Surrey	\$5,075,000	39,000	\$130	July 2011	Investor
18763 & 18771 96th Avenue	Surrey	\$3,200,000	20,915	\$153	July 2011	User
8683 132nd Street	Surrey	\$4,995,000	32,993	\$151	May 2011	User
Pacific Highway Business Park	Surrey	\$1,348,000	7,218	\$187	May 2011	User
Campbell Heights I	Surrey	\$1,643,925	14,296	\$115	April 2011	User
Campbell Heights I	Surrey	\$1,634,400	13,621	\$120	April 2011	User
Total		\$27,926,325				

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Source: RealNet Canada

capital realized from a sale. An institutional owner tends to be motivated by the purely financial aspects of a proposed transaction and may choose to seek scale in its industrial portfolio or execute on disposition plans depending on its mandate. Regardless of how properties come to market, a large pool of investors remain actively engaged in the hunt for suitable product to purchase.

Capitalization (cap) rates in the Fraser Valley have further compressed since spring 2011 to a range of 6.0% to 6.25% for quality product. Demand has remained steady and strong pricing has become characteristic of the market. Low cost debt and equity market instability continue to fuel demand for industrial real estate and affect asset pricing accordingly.

As the primary Fraser Valley industrial market, **Surrey** recorded a nine-month dollar volume of \$128 million and has already surpassed each of the past five full-year totals except

2007 (\$129 million). The number of transactions in 2011 (102) has already met last year's levels (102) and will surpass 2009 totals (106). While the vast majority of deals between April and September have been for less than 5,000 sf, there were eight transactions for greater than 10,000 sf, including two in excess of 30,000 sf and one larger than 85,000 sf. The second largest transaction in the Fraser Valley dollar-wise was the \$8.45-million sale of 19295 25th Avenue in July.

Langley has witnessed \$28 million in 19 transactions year-to-date September 2011. It is unlikely Langley will surpass 2010 and 2009 totals of \$44 million/24 deals and \$47 million/24 deals, respectively. There were three deals in excess of 10,000 sf during the second and third quarters.

While year-to-date September 2011 deal volume (17) in **Abbotsford** has almost surpassed 2010 totals (19) and

exceeded 2009 (12), dollar volume has not kept pace. At \$16.9 million, Abbotsford will likely exceed 2009 totals (\$19.7 million), but be hard pressed to match last year's dollar total (\$38.6 million). Three deals transacted in excess of 10,000 sf between April 2011 and September 2011.

Chilliwack set a new high (since at least 2006) in terms of dollar volume (\$15.9 million) year-to-date September 2011. The largest transaction in the Fraser Valley from April 2011 to September 2011 occurred in Chilliwack. The \$8.753-million purchase of 43676 Progress Way in June marked the largest industrial real estate deal in Chilliwack history.

With historically strong fourth quarter activity and low lending rates continuing to fuel sales, the Fraser Valley industrial market is likely to establish its highest dollar volume since at least 2006 thanks to stronger pricing as a lack of new supply continues to restrict the number of completed transactions. ■

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