



Proposed Surrey City Hall

Fraser Valley flush with industrial real estate confidence

Confidence has returned to the Fraser Valley industrial real estate market as transaction volumes stabilized in 2010 setting the stage for robust expansion in 2011.

With deal velocity and the pace of land sales in the Fraser Valley increasing and rental rates facing upward pressure, early indications are pointing to an active industrial real estate market in 2011. For the purpose of this report, **Avison Young** classifies the communities of Surrey, Langley, Abbotsford and Chilliwack as the Fraser Valley.

According to **RealNet Canada**, 155 industrial real estate sale transactions valued at **\$194 million** in total closed in the Fraser Valley in 2010. This is a slight improvement over 2009 when 146 transactions were completed with a total value of **\$191 million**. As highlighted in the graph below, stabilized dollar and deal volumes in 2009 and 2010 marked the return to a more normalized market after exceptional sales activity in 2007 and 2008.

An appetite for quality industrial product accompanied by available inventory, particularly in Abbotsford, led to the elevated deal and dollar volumes witnessed in 2007 and 2008. When a similar enthusiasm re-emerged in 2010, a lack of product restricted overall sales activity.

Strata remains a popular choice in the Fraser Valley as

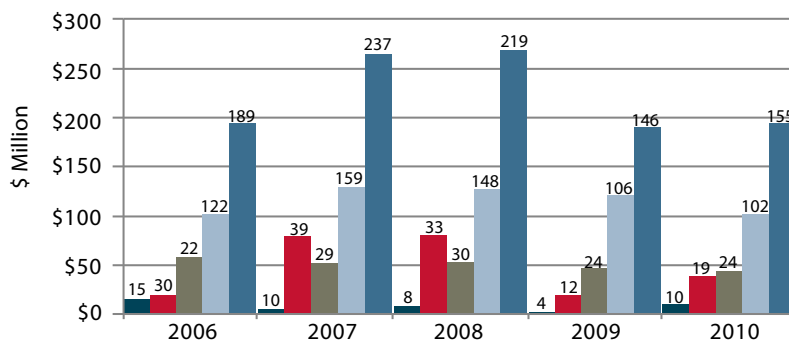
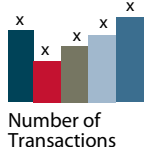
the low cost of debt encourages ownership when compared with leasing. With rental rates expected to rise this year, demand for strata has made it a primary source of new product in the area and one of the most cost-effective for larger-bay users who currently pay about \$130 psf on average for a shell unit.

The Beedie Group is a very active developer of large-bay industrial strata projects, including recent buildings in **Campbell Heights Business Park** in Surrey (and **Tilbury Industrial Park** in North Delta). Phase one of both projects sold out and comprised much of the speculative construction in the region. The second phases of both developments are projected to break ground in mid to late 2011. Until new product comes to market, there remain limited options for mid- to large-bay users. This year will likely see increased activity due to pent-up demand, lower vacancy rates and upward pressure on lease rates as inventory is reduced even further.

There has been significant positive absorption in Campbell Heights and **Gloucester Industrial Estates** in northeast Langley during the past 12 months, which underlies the improved confidence industrial users and tenants have in the economy. Inventory levels in existing projects are tightening due to demand from

continued on page 4

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



Source: RealNet Canada Inc.

INSIDE

Sales Summary	p. 2
Campbell Heights Deal Tracker	p. 3
	p. 4

OUTLOOK

Cap Rates

Industrial Vacancy

Sales Volume

Absorption

Lease Rates

partnership.
performance.

FRASER VALLEY TEAM



John Eakin
604.686-8399
john.eakin@avisonyoung.com

Specializing in the sale/leasing of industrial property in the Fraser Valley since 1996



Michael Farrell
604.646.8388
michael.farrell@avisonyoung.com

A broker since 2006, Michael is known for hard work, loyalty and market knowledge.



Jot Mattu
604.647.5096
jot.mattu@avisonyoung.com

Jot specializes in land and building sales/leasing in Campbell Heights Business Park.



Paul Purewal
604.646.8381
paul.purewal@avisonyoung.com

Paul specializes in land and building sales in the Surrey and Langley markets.

Valley sales and leasing activity building momentum

Surrey

The **Surrey City Development Corp. (SCDC)** is working to complete its first major industrial deal in the form of a built-to-suit lease. A 100,000-sf concrete tilt-up facility will be constructed on SCDC's 6.5-acre property in **East Bridgeview Industrial Park** where the prospective tenant will join **AVS Windows, Day & Ross, Crosstown Metal Industries, Sun Glow Food Service** and **Cougar Metals**. The City of Surrey extended development incentives in the area and is encouraging development along the South Fraser Perimeter Road, which is scheduled to be operational in 2012. **Campbell Heights Business Park** remains a hive of activity with several groups jockeying to serve the small-lot (less than two acres) market with subdivision, pricing and zoning all ongoing issues.

Langley

The **Beedie Group** has finalized a deal with **CAT Logistics** for a 124,000-sf build-to-suit lease on 275th Street in **Gloucester Industrial Estates**. CAT is a third-party logistics provider. Vacancy in Gloucester dropped to 8.75% from 13.5% in the first quarter of 2010. Beedie Group is witnessing continued interest in industrial product. Those few individuals who own vacant land in the park are experiencing renewed interest from users on a purchase basis. **Onni Group** continues to see strong leasing activity at its latest multi-tenant warehouse, **Onni Corporate Centre**.

Abbotsford

After being on the market for 10 months, 3067 Turner Street has sold for \$2,660,000 to **0899771 B.C. Ltd.**, a user based out of North Vancouver. This 3.38-acre property was improved with a small warehouse office building, rail spur and fenced and paved yard area. The **City of Abbotsford's** City in the Country plan, which removed almost 450 acres of land from the Agricultural Land Reserve for development as light industrial land and business park, is having muted success. Notable recent construction includes **Golden Valley Foods'** new 72,700-sf facility and the **Vanderpol Court** subdivision. Large-scale development has not been spurred by the sudden availability of land due to unrealistic vendor expectations (which are starting to align with the market), uncertainty surrounding servicing and topographical and environmental constraints. Large-scale development would benefit the Abbotsford market by providing high-quality product at a competitive price.

Chilliwack

Construction activity in the industrial sector has been very slow in the Chilliwack area, but there has been some reasonable sales activity of existing industrial buildings. Chilliwack still boasts the most plentiful supply of serviced industrial land in Metro Vancouver and the Fraser Valley; however, developers are holding steady and waiting for the right user to pay their price. ■

> FRASER VALLEY INDUSTRIAL LAND TRANSACTIONS BY MUNICIPALITY OCTOBER 1, 2010 TO MARCH 31, 2011 (GREATER THAN \$1 MILLION)

ADDRESS	MUNICIPALITY	PRICE	SIZE (ACRES)	PRICE/ACRE	TRANSACTION DATE
8050 Lickman Road	Chilliwack	\$3,650,000	7.54	\$484,085	February 2011
45086 Yale Road	Chilliwack	\$1,250,000	0.971	\$1,287,333	November 2010
3067 Turner Road (with improvements)	Abbotsford	\$2,660,000	3.38	\$786,982	February 2011
34315 Manufacturers Way	Abbotsford	\$1,350,000	1.499	\$900,600	February 2011
Lot 3 Townline Road	Abbotsford	\$4,902,000	12.694	\$386,167	October 2010
27265 Gloucester Way	Langley	\$1,320,000	2.399	\$550,229	January 2011
9228 200th Street	Langley	\$1,000,000	1.202	\$831,947	December 2010
4937 275th Street	Langley	\$2,106,000	2.343	\$898,848	October 2010
22652 Fraser Highway	Langley	\$6,152,559	7.502	\$860,112	October 2010
Campbell Heights North Business Park (phase 2)	Surrey	\$14,789,000	43.984	\$336,236	February 2011
5554 176th Street	Surrey	\$1,080,000	0.788	\$1,370,558	December 2010
9712 190th Street	Surrey	\$3,150,000	2.325	\$1,354,839	November 2010

Campbell Heights developers building rapport with industrial users and owners

Improving demand for industrial product in Campbell Heights, an 1,800-acre site designated for light industrial and business park uses in south Surrey, has highlighted the heightened competition among developers in the area seeking to capitalize on resurgent demand for industrial space.

With approximately 260 acres currently zoned and serviced in **Campbell Heights Business Park**, business has been brisk since mid-2010 and increasingly so in 2011 as the BC and Canadian economies normalize.

A flurry of leasing activity during the past 12 months has resulted in much of the small-bay and mid-sized space in Campbell Heights being leased up. With only one large vacancy remaining (85,000 sf), it is expected that new projects will break ground this year to boost supply.

The **Beedie Group's** 133,000-sf industrial strata development in Campbell Heights recently sold out with a second phase expected to break ground in 2011. Beedie Group owns approximately 70 acres in the business park and is also offering various land and building packages for sale or lease. The **Conwest Group of Companies'** 14-unit, 128,000-sf **Campbell Heights I** project is 80% leased. The company also recently completed an 110,000-sf build-to-suit assignment for the **Tulsa Winch Group** in a deal brokered by **Avison Young**.

Cloverdale Cold Storage Ltd. was initially constructing a 137,710-sf build-to-suit project for its own use, but subsequently leased it to **Atlas Logistics**, while **Kuusamo Developments (BC) Ltd.** is in the planning stages for its two-building, 11-unit speculative industrial strata project totaling 58,284 sf. **Flynn Canada Ltd.** also recently expanded its existing building.

While there have been no land deals in 2011 to date, **Loblaw Properties Ltd.** could bring up to 17.2 acres to market this summer, while **Anthem Properties** is offering three contiguous sites – 1.92 acres, 1.88 acres and 3.78 acres. Two private vendors also have land for sale in the business park.

Meanwhile, the 250-acre **Campbell Heights North** development site, which would subsequently be owned by **Surrey City Development Corp. (SCDC)** over the course of the next five years as it exercises options to purchase the site in five phases, has received the preliminary land approval for its first phase. According to a spokesperson speaking on behalf of SCDC CEO **Jim Cox**, the SCDC is currently working on servicing design and expects to commence construction of services later this year. The SCDC, which is owned by the **City**



Developing industrial land potential: Campbell Heights in south Surrey has experienced increased deal flow during the past 12 months as demand for industrial land strengthens in the region.

of Surrey and includes city mayor **Dianne Watts** on its board, exercised its option to purchase a second land parcel in February 2011. There are five parcels on offer in total.

In October 2010, it came to light that private developers in the area, including the Beedie Group and Anthem Properties, were opposed to SCDC's purchase of land in Campbell Heights citing unfair competition and its perceived unfamiliarity with development industry fundamentals.

The spokesperson said the SCDC has been in ongoing communications with the development community and believes it is "undertaking appropriate practices and procedures." He also said that the SCDC "has no intention of flooding the market" with product and that it is "well aware of

market conditions and will bring land to market in response to supply and demand."

He also confirmed there had been "some strengthening" in the Campbell Heights market in 2011.

"SCDC is in frequent communication with other participants in the development industry and are making best efforts to minimize their concerns with their practices," he said. "They are in joint venture partnerships with private sector partners on several projects and in discussions about joint venturing aspects of the Campbell Heights North project."

Private developers who are active in Campbell Heights and were contacted by Avison Young declined to comment on the SCDC and its activities in the area. ■

> FRASER VALLEY INDUSTRIAL SALE TRANSACTIONS BY MUNICIPALITY OCTOBER 1, 2010 TO MARCH 31, 2011 (GREATER THAN \$1 MILLION)

ADDRESS	MUNICIPALITY	PRICE	SIZE (SF)	PSF	TRANSACTION DATE	BUYER TYPE
9255 194th Street	Surrey	\$18,380,000	185,123	\$99	March 2011	Investor
8717 132nd Street	Surrey	\$5,750,000	67,000	\$86	March 2011	Investor
11415 132A Street	Surrey	\$1,185,000	9,360	\$127	February 2011	User
15055 54A Avenue	Surrey	\$10,500,000	90,711	\$116	February 2011	Investor
5510 192nd Street	Surrey	\$1,630,000	6,800	\$240	February 2011	Investor
7925 128th Street	Surrey	\$1,550,000	10,680	\$145	January 2011	User
7935 128th Street	Surrey	\$1,550,000	10,680	\$145	January 2011	User
12850 87th Avenue	Surrey	\$1,915,000	24,850	\$77	January 2011	User
17761 66th Avenue	Surrey	\$6,100,000	30,350	\$201	December 2010	User
19545 Telegraph Trail	Surrey	\$3,593,500	12,360	\$291	October 2010	User
Total		\$52,153,500				
Willowbrook Business Park	Langley	\$19,377,500	92,199	\$210	January 2011	Investor
27487 55th Avenue	Langley	\$1,951,000	20,915	\$93	January 2011	User
5620 198th Street	Langley	\$1,590,000	11,012	\$144	January 2011	User
26695 Gloucester Way	Langley	\$4,500,000	36,000	\$125	January 2011	User
Total		\$27,418,500				
33541 Maclure Road	Abbotsford	\$3,350,000	32,000	\$105	January 2011	User
28686 Fraser Highway	Abbotsford	\$9,000,000	53,100	\$169	December 2010	User
Total		\$12,350,000				
44580 Yale Road	Chilliwack	\$2,750,000	13,040	\$211	November 2010	User

Source: RealNet Canada Inc.

continued from page 1

expansion-minded owner/users.

Capitalization (cap) rates in the Fraser Valley have declined to the 6.0% to 6.5% range from 7% in recent months as pricing strengthened. The decline in cap rates is a direct result of investors placing capital in industrial real estate as a preferred alternative to low yields offered by bond markets and equity market instability. An attractive debt market, with record low lending rates and appealing loan-to-value ratios, has created the leverage investors require to meet vendor-pricing expectations when quality product is available.

As the dominant Fraser Valley industrial market in terms of deal and dollar volume, **Surrey** tallied 102 transactions totalling \$101 million in 2010, a dip from the 106 transactions (\$121 million) achieved in 2009.

Industrial user expectations that prices would moderate in 2010 – which did not materialize – and the slow return of confidence impeded

2010 deal flow and subsequently impacted dollar volume. The slight decline in 2010 compared with 2009 is not interpreted as an indication of a weakening Surrey market.

In addition, the new 10-lane Port Mann Bridge, expected to be complete by 2013, should further boost existing demand for industrial assets in Surrey and the Fraser Valley in the coming years.

The majority of sales completed in Surrey since Avison Young's last report in October 2010 were for spaces less than 3,000 sf in size. There were five deals for properties between 10,000 sf and 50,000 sf and three transactions in excess of 50,000 sf.

Langley witnessed 24 transactions totalling \$44 million in 2010 – not far off 2009, which saw 24 transactions valued at \$47 million. Both years marked a decline from 2008 and 2007, which saw 30 deals (\$53 million) and 29 deals (\$51 million) transact, respectively.

Almost half of the sales transactions in Langley since last October were in excess of 10,000 sf, with two between 20,000 sf and 50,000 sf and one in excess of 50,000 sf. The remainder were between 2,500 sf and 5,000 sf.

Abbotsford, which witnessed a massive spike in deal and dollar volumes in 2008 and 2007, posted 19 transactions valued at \$39 million in 2010. This was a marked increase over 2009, when just 12 transactions valued at \$20 million closed. Only two deals in excess of 20,000 sf were completed, including one in excess of 50,000 sf.

Chilliwack, which still has a developing industrial market, witnessed 10 transactions valued at \$10 million in 2010. While home to a very small percentage of industrial real estate activity, Chilliwack enjoyed a significant increase in 2010 compared with 2009 when four deals (\$3 million) transacted and 2008 when eight sales worth approximately \$9 million closed. ■

AY Vancouver Industrial Team

Kyle Blyth
604.647.5088
kyle.blyth@avisonyoung.com

John Eakin
604.646.8399
john.eakin@avisonyoung.com

Michael Farrell
604.646.8388
michael.farrell@avisonyoung.com

Rob Gritten
604.647.5063
robert.gritten@avisonyoung.com

Kevin Kassautzki
604.646.8393
kevin.kassautzki@avisonyoung.com

Ryan Kerr
604.647.5094
ryan.kerr@avisonyoung.com

John Lecky
604.647.5061
john.lecky@avisonyoung.com

Bennett Lutes
604.687.7331
ben.lutes@avisonyoung.com

Douglas McMurray
604.647.5082
doug.mcmurray@avisonyoung.com

Manjot Mattu
604.647.5096
jot.mattu@avisonyoung.com

Ronan Pigott
604.647.5083
ronan.pigott@avisonyoung.com

Paul Purewal
604.646.8381
paul.purewal@avisonyoung.com

Struan Saddler
604.647.5077
struan.saddler@avisonyoung.com

Terry Thies
604.646.8398
terry.thies@avisonyoung.com

Matt Thomas
604.646.8383
matt.thomas@avisonyoung.com

Ian Whitcho
604.647.5095
ian.whitcho@avisonyoung.com

AVISON YOUNG COMMERCIAL
REAL ESTATE (B.C.) INC.
Suite 2100, 1055 West Georgia St
PO Box 11109 Royal Centre,
Vancouver, BC, Canada V6E 3P3
P 604.687.7331

www.avisonyoung.com