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Metro Vancouver Industrial Overview

Fall 2011



Intelligent
Real Estate Solutions

Metro Vancouver industrial market holds steady in challenging economic times

Developers in Metro Vancouver's industrial real estate market are adapting to increasingly volatile global financial markets and the on-going low-cost debt environment by advancing more investment-quality product and speculative construction of strata units to meet demand from owner/operators and investors alike.

A constrained land supply and lack of new product, accompanied by stable rental rates, has provided a pricing floor that permits Metro Vancouver industrial real estate to maintain its value compared to other Canadian and U.S. industrial markets. With the cost of capital low and developers spacing out projects to prevent oversupply in the market, active owner/operators and investors persist with a lingering sense of cautious optimism despite the macroeconomic issues buffeting growth and employment in BC.

Lending continues to occur as investors seek to use low-cost capital to purchase industrial investment properties in response to the diminished returns and instability in the equity markets. Owner/operators continue to take advantage of low interest rates to purchase their own space as opposed to leasing. The overall lack of supply that characterizes the Metro Vancouver industrial market restrains deal and dollar volumes throughout the region despite high demand.

Industrial vacancy has held steady since spring 2011. The absence of significant new supply and a lack of existing space being returned to the market strike an uneasy balance with demand that is fuelled by investors seeking financial stability and owner/operators using leverage for expansion or relocation.

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INSIDE: Q&A with **Todd Yuen, Ron Emerson** and **Ernie Hee** on the impact of low-cost capital on industrial development in Metro Vancouver

> METRO VANCOUVER INDUSTRIAL MARKET SNAPSHOT

Market	Industrial Inventory (square feet)	Vacancy		
		Fall 2011	Spring 2011	Fall 2010
Richmond	34,291,721	4.0%	3.9%	4.1%
Surrey	28,704,725	2.4%	3.4%	3.3%
Burnaby	27,268,092	3.5%	3.3%	2.8%
Vancouver	21,914,062	4.2%	3.9%	3.5%
Delta	20,546,575	8.5%	7.7%	7.9%
Langley	15,574,811	5.5%	7.1%	7.1%
Coquitlam	7,469,071	9.9%	6.5%	6.1%
Port Coquitlam	6,819,942	4.2%	2.7%	2.6%
Abbotsford	5,777,071	6.1%	3.4%	3.1%
North Vancouver	5,074,645	1.8%	2.9%	2.0%
New Westminster	3,682,315	6.9%	4.3%	6.1%
Maple Ridge/Pitt Meadows	2,247,069	5.9%	5.0%	1.3%
TOTAL	179,370,099	4.6%	4.5%	4.4%

> MARKET INDICATORS (CHANGE FROM SIX MONTHS AGO)

ABSORPTION

CAP RATES

RENTAL RATES

VACANCY RATE

CONSTRUCTION

RETAIL SALES

CONTAINER SHIPPING VOLUME

Fundamentals versus financials

The continuing strength of Metro Vancouver’s industrial market has fuelled discussion about what are the true drivers and fundamentals responsible for the region’s ongoing performance.

Avison Young’s Managing Director, Global Products **Amy Erixon** recently sought to place in context the disconnect occurring between commercial real estate pricing and market fundamentals currently being witnessed in many Canadian cities.

“Property, whose historic role in a multi-asset class portfolio is to provide steady income and stable value, is at present being buoyed by external factors such as record low interest rates and perception of relative price reasonableness (compared with investment alternatives of stocks, bonds, commodities, infrastructure, etc.), driving yields to historic lows,” she blogged for Avison Young in late August. “These are the characteristics of a market driven by emotion versus reason. It demands that we pay close attention to actual fundamentals, and understand how each asset class is being affected by these relative comparisons.

“In my view, real estate’s role in a multi-asset class portfolio is increasing in importance, which has and will continue to mean investors accepting lower returns. Everyone is losing patience with the volatility in the stock market. These relatively high valuations might in fact make now a good time to harvest gains on non-strategic property while being patient and careful in the deployment of new resources.”

She continues: “Investment opportunities in both fixed income and real estate spaces will improve during the upcoming year. But in the short term the weight of capital shifting may cause yields to decline further. Properties offer distinct tangible features which still serve to lower overall portfolio volatility relative to other asset classes – such as high replacement value, market barriers to entry, distinctive claim on earnings, and long duration predictable cash flow characteristics.”

Industrial strata proving popular with owner/operators

Low lending rates are fuelling strata industrial developments throughout Metro Vancouver and are driving buyers to purchase investment-grade real estate when and where they can locate it. Vendors have also become more aggressive on pricing as a result of demand and purchasers’ ability to meet price expectations. The lower cost of capital has put downward pressure on capitalization

rates, which translates into higher proceeds for sellers.

But vendors, for the most part, remain reluctant to sell because industrial real estate assets in Metro Vancouver are not easily replaced and the instability of the capital markets has not provided an alternative investment vehicle in which capital derived from a disposition could be safely deployed.

Some companies have consolidated multiple industrial properties in the region into a single, larger location such as the new 500,000-sf



This fully tenanted 85,000-sf manufacturing facility at 5202 272nd Street in Langley was recently acquired by **Bentall Kennedy**.

Kruger Products warehouse being constructed by the **Beedie Group** in New Westminister. While net growth in the size of the overall market has been limited, owner/operators have been actively pursuing relocation plans within Metro Vancouver. **Canada Post’s** new distribution facility on Sea Island in Richmond is another example. Even with industrial properties, employer concerns around relocation and the subsequent impact on employee retention has become increasingly important as has the employers’ desire for access to public transit.

Cautious optimism remains despite current global economic crises

Buyers and tenants remain generally positive but are hesitant and cautious in the face of present external risks. Many owner/operators are comparing the current crises with the downturn in late 2008 and 2009 and weighing the relative impacts on their businesses. An ongoing mixture of positive and negative economic indicators has helped establish equilibrium in the Metro Vancouver industrial market and resulted in the continued measured development of strata industrial product and some speculative construction in Pitt Meadows and Campbell Heights in Surrey.

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> RECENT NOTABLE LEASE DEALS

MUNICIPALITY	ADDRESS	SQUARE FEET	TENANT
New Westminister	345 Gifford Street	504,000	Kruger Products Ltd.
Richmond	16131 Blundell Road	153,168	YRC Logistics Services Inc.
Richmond	16111 Blundell Road	123,681	Acklands-Grainger Inc.
New Westminister	109 Braid Street	93,971	Sears Canada Inc.
Richmond	7431 Nelson Road	70,524	PrimeSource Building Products Canada Ltd.
Delta	915 Cliveden Avenue	55,581	Canamex International Distribution Inc.
Delta	1020 Cliveden Avenue	48,575	FCM Recycling Ltd.
Delta	7984 Wesbter Road	43,560	Pacific Industrial Movers Ltd.

Almost one-quarter of Metro Vancouver industrial lands remains undeveloped, according to the most recent figures from **Metro Vancouver**.

As of mid 2010, there were 28,246 acres of industrial land in Metro Vancouver. Richmond, Delta and the Tsawwassen First Nation (TFN) comprise 30% of the region's total industrial lands; Burnaby/New Westminster and the Northeast sector encompass 24%; and the remaining 22% are located in Surrey/White Rock.

Approximately 76% of the industrial land, or 21,600 acres, has been developed. The remaining 24% of the industrial land base, or 6,600 acres, is vacant. The majority (35%) of the vacant industrial land in the region is located in Surrey/White Rock. Approximately 61% of the region's total industrial land supply is located south of Fraser River (including Richmond).

Vacant industrial lands include lands planned for future industrial use, but not currently utilized for industrial activity. This may include non-industrial uses, as well as environmental issues and other constraints on development. Developed industrial lands include both lands wholly and partially utilized for industrial related purposes.

Approximately 29% (1,900 acres) of the approximately 6,600 acres of vacant industrial land is in the form of parcels less than five acres in size. Parcels of land between five and 20 acres comprise 26% (1,800 acres), while 45% (3,000 acres) are parcels greater than 20 acres. Almost two-thirds (73%) of developed industrial lands were parcels under 20 acres in size.

With 21,600 acres of developed industrial land in Metro Vancouver, approximately 43% (9,300 acres) are in the form of parcels less than five acres in size, 30% (6,400 acres) are parcels between five and 20 acres, and 27% (5,900 acres) are parcels greater than 20 acres.

Roughly 3% (807 acres) of the developed land inventory included properties zoned and utilized for industrial uses but not designated for industrial activities in municipal official community plans (OCPs). Of note, approximately two-thirds of these

lands were within 400 metres of urban centres or existing rapid transit stations. According to Metro Vancouver, these lands are anticipated to convert to non-industrial uses in the future and, therefore, may not form part of Metro Vancouver's long-term industrial land supply.

Approximately 57% of the *developed* industrial lands (12,300 acres) were located south of the Fraser River (including Richmond). A significant amount of developed industrial land was also located in Burnaby/New Westminster (3,200 acres) and the Northeast Sector (2,900 acres). On a proportional basis, the largest concentration of large developed industrial parcels was located on Vancouver's North Shore, the Northeast sector and Maple Ridge-Pitt Meadows. Approximately 55% of the industrial land in the North Shore comprises parcels greater than 20 acres.

Shifts in Metro Vancouver's industrial land inventory (2005 to 2010)

There was a net increase of 1,226 acres to the region's total industrial land inventory between 2005 and 2010, according to Metro Vancouver. This included the addition of industrial lands in the Tsawwassen First Nation (332 acres), the Pitt Meadows airport area (188 acres), Delta/Tilbury (185 acres) and Maple Ridge (105 acres). A loss of industrial lands occurred in Surrey's Campbell Heights (231 acres), during construction of the South Fraser Perimeter Road (200 acres) and at the Fraser Mills site in Coquitlam (65 acres).

In reconciling the net industrial land added and lost from inventory between 2005 and 2010, there was an overall net increase of 1,242 acres of *developed* industrial land over the period. This represents an average land absorption rate of approximately 250 acres per annum over the five-year period. Including the addition of 1,242 acres of developed land to the overall inventory, there was a net decrease of 16 acres of *vacant* industrial land. Overall, there was a net 4.5% increase in the size of the industrial land inventory over the period. ■

All the information in this summary is derived from the Metro Vancouver 2010 Industrial Lands Inventory draft study prepared in April 2011.

> PERCENTAGE OF TOTAL INDUSTRIAL LAND INVENTORY VACANT BY SUB-REGION, 2010

SUBREGIONS	TOTAL INDUSTRIAL LAND (ACRES)	PER CENT OF LAND VACANT BY SUBREGION
North Shore	1,014	6%
Vancouver	1,577	4%
Burnaby/New Westminster	3,590	10%
Northeast Sector	3,053	6%
Richmond	4,487	21%
Delta/Tsawwassen First Nation	3,926	27%
Surrey/White Rock	6,334	36%
City and Township of Langley	2,503	27%
Maple Ridge - Pitt Meadows	1,762	57%
Metro Vancouver	28,246	23%

Q&A

With interest rates at record lows, **Avison Young** spoke with industry insiders about the potential impacts of low-cost debt on the Metro Vancouver's industrial real estate market.

1. In your experience, have current low borrowing rates impacted owner/operator decisions as they relate to leasing or purchasing industrial space? What impact are those decisions having on the market?
2. In your opinion, is the industrial market activity you are witnessing the result of strong market fundamentals or the availability of low-cost debt?
3. What opportunities arise for industrial developers, investors and owner/operators as a result of the current lending rates?
4. Are there any concerns that low-cost debt could support a level of market activity that is fundamentally at odds with other industrial indicators?

Ron Emerson

1. Absolutely. People who used to lease, particularly owner/operators, now want to buy. The impact that is having on the market is creating a very limited availability of land and free-standing buildings. We have had low interest rates for some time. That's why developers like the Beedie Group are able to build larger strata-titled units. A new type of product has been created to service that market.

2. If you are talking about the Metro Vancouver market, that's not even applicable. We don't have really strong market fundamentals. If you drill down, we are like the rest of Canada. There are a lot of companies hanging on by their fingernails. But we do have a real acute shortage of land and that's why our market remains strong. However, the ability to borrow at low rates does have a positive impact on industrial market activity.

3. You can pencil in things that don't work with higher interest rates. It broadens the scope of the market for that very reason. When you pencil something in and your carrying costs are low and you can get a decent mortgage that is an opportunity for sure.

4. Definitely yes. I believe it's no different than someone stretching to buy a house. When the mortgage comes up and, if rates have jumped up a couple of points, you have a problem. There were a few people who got into the industrial market because they thought it was a good deal and they got burned. At this point, those who are doing most of the development have deep pockets. Institutions are offloading deals they want to get off before the market drops further and they become an even bigger issue. Look at Hopcott Road. They are doing leases down there for less than \$5 psf. Why? If the market has all the strong fundamentals, why would that be? The depth of the market isn't particularly deep as far as leasing and tenants go, although it is as far as owner/operators are concerned. But those who are looking for leased space want larger and newer space. If there were real strong basic fundamentals, a location like Hopcott Road would still lease up notwithstanding the low rates.

Ron Emerson

President & Founder,
Emerson Real Estate Group

Emerson has been an active force in the Metro Vancouver real estate market since 1975. While at Royal LePage Commercial he was consistently named a top producer in Vancouver, and then the top salesperson in Canada in 1994. With expertise concentrated primarily in industrial real estate, Emerson has been involved in many significant industrial transactions occurring throughout Metro Vancouver.



Todd Yuen

Vice-President, Industrial Development,
The Beedie Group

Having joined the Beedie Group in spring 2008, Yuen has nearly 15 years experience in commercial real estate brokerage. He was previously a Senior Vice-President at Colliers International and started his career as an industrial broker with JJ Barnicke Vancouver.



Ernie Hee

Leader of Real Estate Practice Group,
Boughton Law Corp.

Hee has represented vendors, purchasers, landlords, tenants and lenders of retail, industrial, office and apartment projects located in Alberta, BC, Ontario, California and Hawaii. Clients include developers, pension funds, real estate investment trusts, limited partnerships, real estate syndicators, institutional entities, mortgage companies, banks, transportation companies and private individuals.



Todd Yuen

1. No, they haven't been the primary driver for the industrial market and the owners we have seen coming in. That's because the industrial market, and the owners who operate within it, are very pragmatic. Typically they focus primarily on operations because that's where they derive their primary income source and profit from. The people we see purchasing our strata projects, or making build-to-suit purchases, are typically more mature businesses. They have been around for a while and the decision to purchase as opposed to lease is really driven by the fact that it is really just the next phase in their businesses' evolution.

2. Low interest rates don't really affect, in our opinion, the leasing market. We are not a merchant developer. We are not playing a spread on the lease rate side. We know debt costs are low, but that doesn't say to us we can afford to be \$0.25 psf lower because of interest rates. That is not a prudent business decision based on the time horizons we operate on. On the sale side, it is people looking at their business first, and deciding whether or not within the business cycle and the evolution of their business if it's the right time to purchase.

3. The number of opportunities are actually less, particularly in Vancouver. If you look at the major players in the industrial market, none of us is motivated by interest rates. It's helpful when we do put term financing on a project, if we choose to do so, but nobody is saying, "I can stretch for that 60-acre site because my financing is going to be cheaper." We still look at fundamentals first. If you look at large development sites, if you base your decision on an interest rate, and it slips two or three per cent, and everyone agrees that at some point interest rates are going to rise in the future, you are going to get caught. From the investment side, it absolutely shrinks the amount of product available. When you look at cap rates right now, there is some function of interest rates in there. Where you have groups of private investors in the \$5 million to \$10 million range, they certainly are looking at the spread between the yield and the interest rate and the positive leverage they are getting is absolutely driving demand, driving cap rates down and limiting the amount of product for investors.

4. No. Again that's the function of the pragmatism of the industrial user. You have groups of businesses, particularly on the industrial side, who often times own and operate based on high volume and low margin. These are owner/operators who are used to really keeping an eye on the bottom line and aren't motivated to act based on one factor like interest rates. They are conservative by nature just by virtue of the type of businesses they are in. They are not going to jump in and make a foolish decision for their business just because of low interest rates. We have yet to see that.

Ernie Hee

1. The current low lending rates are allowing my clients to consider purchasing buildings they might otherwise not be able to do. Traditional or mandated internal rates of return have become achievable because of the low cost of borrowing. The low cost of borrowing has also encouraged users who may otherwise have been tenants to consider purchasing an industrial property. This results in increased activity in the industrial strata market and provides competition for traditional investment purchasers. The result could be further compression of cap rates for industrial properties and an increasing pool of purchasers. In some cases the low cost of borrowing actually results in positive leverage for the purchaser in purchasing the industrial property. Lastly, the low cost of borrowing has assisted or prompted construction of new industrial product.

2. Clearly the Metro Vancouver area is one of the most desirable industrial real estate investment markets available in North America. Industrial property, other than multi-family residential, is the most preferred asset class. These two strong fundamentals are leading to a very strong seller's market. The low cost of borrowing adds to the demand for this asset class. Lenders have shown a great willingness to provide loan funds to my clients for the purchase of industrial properties. Offsetting the purchasing demand we must also keep in mind that the low cost of borrowing is also available to owners who can refinance their properties and, in most circumstances, tax free. As we saw with the great flurry of borrowing by Canadian REITS, we may continue to see a rise in activity of refinancing of industrial properties. However, I believe the positive activity is more linked to strong market fundamentals.

3. Low borrowing costs are allowing purchasers to explore many new opportunities. It also allows owners of industrial real estate the opportunity to complete refinancing and receive loan proceeds tax free. For investors it also creates new opportunities to purchase industrial properties. Investors in syndications can use low borrowing costs to borrow the money for an investment in a pool or syndication to participate with a group to purchase industrial properties. The low cost and availability of construction financing is also fueling new developments.

4. Low cost of debt can artificially support or affect market activity. In the case of Metro Vancouver, my clients still remain committed to market fundamentals when they underwrite the purchase of the property. Each transaction is analyzed on its fundamentals, not on the level of market activity. I am confident that many of them will not be motivated solely to buy properties as a result of low borrowing costs. Most industrial indicators in Canada, and more specifically in Metro Vancouver, still point upwards and, therefore, I have (and my clients have) few concerns about the current level of market activity in the industrial asset class.

Recent Avison Young Transactions



Avison Young Industrial Lease Listings



915 CLIVEDEN AVE, DELTA

- 33,000 sf
- Distribution/yard

Contact: Ryan Kerr / Rob Gritten



1225 E KEITH RD, NORTH VANCOUVER

- 5,287 sf – 13,062 sf available
- CD-168 zoning
- Ample parking

Contact: Ian Whitchelo / Matt Thomas



CAPILANO BUSINESS PARK, NORTH VANCOUVER

- 2,836 sf to 28,539 sf available
- Grade level loading
- Office/showroom/warehouse

Contact: Terry Thies / Ian Whitchelo



2342 WINDSOR ST, ABBOTSFORD

- 22,171 sf total/13,811 sf vacant
- For sale/lease
- I-2 zoning
- Price reduced to \$2,450,000

Contact: Michael Farrell / John Eakin



882 EAST CORDOVA, VANCOUVER

- 16,878 sf of warehouse/office space
- Excellent proximity to downtown core
- Lease for \$7.95/sf
- 20-ft. ceilings

Contact: Struan Saddler/ John Lecky



1598 BAY ST, NORTH VANCOUVER

- 6,632 sf available
- Asking \$9.75 /sf
- Grade loading
- Small office build out

Contact: Matt Thomas / Kyle Blyth



20530 LANGLEY BYPASS, LANGLEY

- 1,760 sf to 6,530 sf units available
- Starting from \$1,800 per month gross rent
- Excellent parking

Contact: Jot Mattu / John Eakin / Michael Farrell



1525 WELCH ST, NORTH VANCOUVER

- Oversized grade loading door
- Excellent exposure
- Central location
- 4,984 sf

Contact: Matt Thomas / Kyle Blyth



27090 GLOUCESTER WAY, LANGLEY

- Warehouse with A/C office space
- ±4,200-sf units
- Grade and dock loading
- 26' clear ceiling
- Starting from \$3,000/month

Contact: Michael Farrell / John Eakin



NORTHWOODS BUSINESS PARK, NORTH VANCOUVER

- Up to 80,000 sf available
- Asking \$14 psf
- CD-19 zoning
- Units from 4,600 sf

Contact: Terry Thies / Ian Whitchelo



91 GOLDEN DR, COQUITLAM

- 4,985 sf to 10,000 sf available
- Warehouse/office space
- Dock and grade loading
- Ample parking

Contact: Kyle Blyth / Ben Lutes / Matt Thomas



126 HARBOUR AVE, NORTH VANCOUVER

- 4,690 sf – 10,550 sf available
- Dock level loading
- Ample parking
- Renovated building

Contact: Terry Thies / Ian Whitchelo

Avison Young Industrial Sublease Listings



10387 NORDELE COURT, DELTA

- 5.5 acres of land
- 11,130 sf of office and warehouse
- Dock & grade loading/18' ceilings

Contact: Ryan Kerr / Doug McMurray



2120 HARTLEY AVE, COQUITLAM

- 10,000 sf
- Warehouse/yard space
- Heavy duty machine shop

Contact: Kyle Blyth / Ben Lutes / Matt Thomas



200-2050 HARTLEY AVE, COQUITLAM

- 25,928 sf of office/industrial space
- Excellent exposure
- Ample parking

Contact: Kyle Blyth / Matt Thomas / Ben Lutes



13680 BRIDGEPORT RD, RICHMOND

- 6,782 sf available
- 7 parking stalls
- Dock & grade loading
- Exposure onto Bridgeport Road

Contact: Kyle Blyth / Ryan Kerr



102-1500 HARTLEY AVE, COQUITLAM

- 2,610 sf available
- Asking \$2,500 per month gross
- Grade loading
- Exposure onto Hartley Avenue

Contact: Ben Lutes / Kyle Blyth



13110 88TH AVE, SURREY

- 7,000 sf of warehouse space
- Oversized grade loading
- Air lines in place
- Signage on 88th Avenue

Contact: Michael Farrell / John Eakin

Avison Young Industrial Sale Listings



10860 124TH ST, SURREY

- 33,105 sf of vacant land
- IL-1 zoning
- \$799,000

Contact: Paul Purewal



10816 & 10840 124TH AVE, SURREY

- 3.3 acres of industrial land
- 7,700-sf building with crane
- Fenced and partially paved

Contact: John Eakin / Michael Farrell



7770 & 8398 NORTH FRASER WAY, BURNABY

- Site A: 4.59 acres
- Site B: 13.04 acres
- CD M2-M5 zoning

Contact: John Lecky / Mark Hannah / Kyle Blyth



2372 TOWNLINE RD, ABBOTSFORD

- 47,400 sf production/warehouse
- Dock and grade loading
- Paved yard with 60 parking stalls
- Purchase for \$2,749,000

Contact: Paul Purewal



1915 STAINSBURY AVE, VANCOUVER

- 12,500 sf of office/showroom/warehouse
- Short-term sale leaseback opportunity
- MC-1 zoning
- \$2,750,000

Contact: Struan Saddler



1496 RUPERT ST, NORTH VANCOUVER

- 7,843 sf of warehouse/showroom
- Purchase for \$1,990,000
- Freestanding building

Contact: Matt Thomas / Kyle Blyth



8424 AITKEN RD, CHILLIWACK

- 14.685 acres
- Zoned and serviced industrial land
- M4 heavy industrial zoning
- \$265,600/acre

Contact: John Eakin / Michael Farrell



1455 EAST GEORGIA, VANCOUVER

- 22,000 sf of warehouse/office space
- Excellent proximity to downtown core
- For sale/lease
- 15 parking stalls

Contact: John Lecky / Struan Saddler



108-2455 DOLLARTON HWY, NORTH VANCOUVER

- 4,229 sf available
- Grade level loading
- Asking price \$1,300,000
- High-quality improvements

Contact: Terry Thies / Ian Whitchelo



9781 186TH STREET, SURREY

- Port Kells location
- 2.86 acres of industrial land
- Faces new Golden Ears Way
- Flexible IL zoning in place

Contact: John Eakin / Michael Farrell



DOLLARTON BUSINESS PARK, NORTH VANCOUVER

- 1,700 sf to 46,886 sf available
- Strata office/warehouse
- Starting at \$290 psf
- CD-33 zoning

Contact: Terry Thies / Ian Whitchelo



4-16-18 SPRUCE ST, NEW WESTMINSTER

- 86,853-sf building on 11.39 acres
- Long-term leases in place

Contact: John Lecky / Darrell Hurst

Recent Industrial Investment Sales



1546 DERWENT WAY, NEW WESTMINSTER

- Vendor: Viam Properties Ltd.
- Purchaser: 0815260 B.C. Ltd.
- Purchase Price: \$6,567,000
- Price Per Square Foot: \$89
- Building Size/Site Area: 74,045 sf / strata



1225 EAST KEITH RD, NORTH VANCOUVER

- Vendor: Keith Business Centre
- Purchaser: KBC Holdings Ltd.
- Purchase Price: \$16,320,000
- Price Per Square Foot: \$217
- Building Size/Site Area: 75,236 sf / 3.95 acres



1765 COAST MERIDIAN RD, PORT COQUITLAM

- Vendor: Sapa Canada Inc.
- Purchaser: Lloyd Investments Ltd.
- Purchase Price: \$8,900,000
- Price Per Square Foot: \$76
- Building Size/Site Area: 116,500 sf / 6.12 acres

> RECENT NOTABLE INDUSTRIAL LAND SALES

ADDRESS	VENDOR	PURCHASER	SALE PRICE	SITE AREA	PRICE/ACRE
20289 102nd Avenue & 20345 102nd Avenue, Langley	Roadstar Transport Company Ltd.	Lions Gate Trailers Ltd.	\$9,000,000	9.407	\$956,734
61 Bewicke Avenue & 60 Fell Avenue, North Vancouver	Imperial Oil Ltd.	0901385 B.C. Ltd.	\$6,300,000	3.426	\$1,838,879
*12697 80th Avenue, Surrey	0834618 B.C. Ltd.	Vancouver Punjab Cloth House Inc.	\$4,100,000	2.216	\$1,850,181
10064 River Road, Delta	70 Golden Drive Ltd.	Roadstar Transport Company Ltd.	\$4,000,000	4.141	\$965,950

* Two existing buildings on site

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The historically low lending rates in place for much of the past three years and predicted into 2013 pose some risk if investors and owner/operators do not take adequate precautions to insulate themselves from a return to higher interest rates. With much of the local market sentiment currently subscribed to the idea of continuously increasing real estate values in Metro Vancouver, the return to a “normalized” credit environment could pose risks for those investments and purchases leveraged in recent months with five-year money set at less than 4%.

While increased rental rates might help offset higher payments resulting from elevated interest rates, capitalization rates will inevitably rise with property sale proceeds dropping as a result. The current lending environment remains ideal for owners to dispose of lower quality buildings and non-core real estate assets. As the cost of debt increases, the lower returns on equity will result in stifled deal activity in the mid- to long-term. Concerns about the long-term impacts of prolonged near-zero interest rates are also on the horizon, albeit insufficiently enough to cause real alarm (yet), as some investors and owner/operators have chosen to ignore the impact of such a significant macroeconomic event.

While stock market volatility has pushed many investors to alternative investments such as commercial real estate, that instability has also impacted the ability of publicly-listed companies such as real estate investment trusts (REITs) to raise money on the capital markets. The result has been the partial sidelining of one of the most active purchasers of commercial real estate in recent years. Investors are taking their money out of the market and purchasing commercial real estate directly instead of purchasing REIT units. REITs now have to contend with declining unit prices at the same time as they try to raise capital to pay higher prices for commercial real estate assets in an attempt to achieve scale in their portfolios.

On the flip side, heightened equity market

instability could trigger the need for institutional and/or private funds to rebalance their portfolios and sell off desirable commercial real estate assets in order to reaffirm prescribed ratio requirements and recover steep losses incurred in the stock market.

Wait and see approach likely until mid-2012

Lease rates have remained particularly strong for quality, small-bay industrial properties, generally 3,000 sf to 10,000 sf with existing office space, because of challenges of locating quality product in that size range. Class AAA distribution space has also continued to deliver strong rental rates. Land prices, particularly for serviced and zoned parcels less than five acres, have returned to the market peaks as far as pricing is concerned. Significant land parcels are generally sought by larger operators, many of whom are not currently engaged in acquisitions due to the economic climate. The cost of zoned and serviced land greater than five acres is prohibitive to all but the largest and most dedicated buyers. Unserviced land remains available in areas such as Campbell Heights in Surrey and Clearbrook, Peardonville and Mount Lehman in Abbotsford.

Interest in those industrial development projects that are proceeding – of which there are several throughout the region – will serve as a barometer as to whether demand exists for future developments. If these new projects are sold or leased up quickly, the market activity may give developers more confidence to start another round of construction. A cautious recovery is anticipated to continue in Metro Vancouver with an increase in smaller transactions beefing up deal volume in the coming months. Metro Vancouver’s saving grace has been the controlled development of industrial projects throughout the region, which has provided stability in volatile times. The sale of the former **Norampac** mill site in Burnaby to **Oxford Properties Group** could signal the start of a new phase of competition among the region’s established industrial developers as other players look at ways to enter the Metro Vancouver industrial market. ■

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

Vancouver Industrial Team

Kyle Blyth
604.647.5088
kyle.blyth@avisonyoung.com

Jeron Dillon
604.647.1330
jeron.dillon@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
604.646.8382
ben.lutes@avisonyoung.com

Douglas McMurray
604.647.5082
doug.mcmurray@avisonyoung.com

Manjot Mattu
604.647.5096
jot.mattu@avisonyoung.com

Paul Purewal
604.646.8381
paul.purewal@avisonyoung.com

Struan Saddler
604.647.5077
struan.saddler@avisonyoung.com

Dan Smith
604.646.8397
dan.smith@avisonyoung.com

Terry Thies
604.646.8398
terry.thies@avisonyoung.com

Matt Thomas
604.646.8383
matt.thomas@avisonyoung.com

Ian Whitchelo
604.647.5095
ian.whitchelo@avisonyoung.com

Andrew Petrozzi
Research Manager
604.646.8392
andrew.petrozzi@avisonyoung.com

Michael Keenan
Managing Director
604.647.5081
michael.keenan@avisonyoung.com