



USD - CAD Noon Rate

02/11/07: **1.0685**

(1 CAD = 1.0685 USD)

partnership.
performance.

A Commentary: Industry and the Canadian Dollar

In this report we are shifting our focus from the environment to the economy and specifically to the effects of the soaring value of the Canadian dollar on Metro Vancouver's industrial real estate market.

In 2003, the Loonie was in the dumps. It was languishing in the economic cellar and trading at around US\$0.63. Crossing the 'line' to take a vacation in the States, or going south for a week-end game of golf with the guys were purchasing decisions not to be taken lightly.

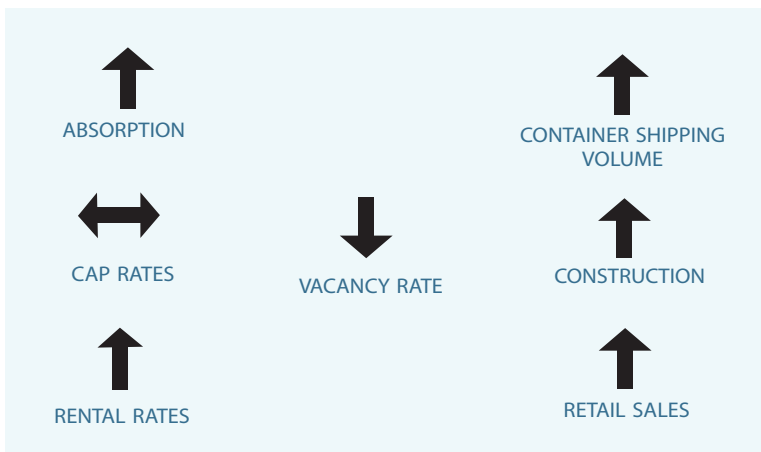
How times have changed. As this commentary is being written, the Canadian Dollar has risen to the giddy heights of US\$1.07; a recent historical high.

While all this talk about premiums against the U.S. Dollar brings out a degree of jingoistic pride in ordinary Canadians, should we be concerned?

Well, the answer, of course, is the economist's usual response of "it depends, on the one hand, "yes" but on the other hand "no."

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Market Indicators (Change from six months ago)



Greater Vancouver Industrial Overview

Fall 2007



Intelligent
Real Estate Solutions

Greater Vancouver Industrial Market Snap Shot

MARKET	INDUSTRIAL INVENTORY (S.F.)	VACANCY	NET RENTAL RATE (\$ / S.F.)
Richmond	30,170,940	1.3%	\$5.50-\$12.00
Burnaby	24,789,929	2.0%	\$6.00-\$12.00
Surrey	24,769,665	1.2%	\$6.00-\$8.50
Vancouver	21,469,527	0.9%	\$6.50-\$14.00
Delta	20,090,396	2.7%	\$5.75-\$8.00
Langley	13,845,041	2.2%	\$5.75-\$8.50
Coquitlam	7,432,394	2.0%	\$5.50-\$9.50
Port Coquitlam	5,990,309	0.8%	\$5.25-\$8.00
Abbotsford	4,887,225	1.4%	\$5.50-\$8.00
North Vancouver	4,782,542	0.6%	\$6.50-\$14.00
New Westminster	3,682,315	0.0%	\$5.00-\$8.50
Maple Ridge / Pitt Meadows	2,138,033	1.0%	\$5.00-\$8.00








Recent Industrial Investment Sales (> \$5 Million)



Vendor / Purchaser	Price	Area / Price p.s.f.	Site Area
1337 Townline Road, Abbotsford			
Cascade Aerospace Inc. (Conair Group Inc.) / Aeroterm Management Company	\$45,000,000	231,000 sq. ft / \$195	22 acres
2400 Boundary Road, 3700 Henning Drive & 3880 Henning Drive, Burnaby			
B.C. Pavillion Corpora- tion (PavCo) / Bridge Studios Holdings Ltd (Larco)	\$40,000,000	189,600 sq. ft / \$211	14.24 acres
9305 194th Street & 19415 94th Avenue, Surrey			
Private Investor / Bosa Properties	\$15,170,000	112,000 sq. ft / \$135	7.4 acres
2390 - 2440 Canoe Avenue, Coquitlam			
4992815 Manitoba Ltd / Standard Life	\$10,600,000	100,527 sq. ft / \$105	4.77 acres
4460 Jacombs Road, Richmond			
Lomark Inc. / Viksun Enterprises Inc.	\$7,750,000	35,884 sq. ft / \$216	2.10 acres
4693 & 4771 Vanguard Road, Richmond			
718591 B.C. Ltd / Carnarvon Properties Ltd	\$5,700,000	65,858 sq.ft / \$87	2.64 acres
1781 West 75th Avenue, Vancouver			
Jamieson Laboratories Ltd / Alexandria Real Estate Equities Inc.	\$5,400,000	46,000 sq.ft. / \$117	1.38 acres

Recent Industrial Land Sales (> \$7 Million)

	Vendor / Purchaser	Price	Site Area	Price Per Acre
	8398 North Fraser Way, Burnaby			
	Anthem Properties / Beedie Group	\$34,000,000	48.45 acres	\$701,754
	11177 - 11295 Harris Road, Pitt Meadows			
	Village Farms Canada Inc. / 0790792 B.C. Ltd. (Onni Group)	\$15,450,000	34.965 acres	\$441,870
	11811 103A Avenue, Surrey			
	Wesgroup Investments (Pacific Link Industrial Park Ltd) / Pepsico Canada ULc	\$8,550,000	11.391 acres	\$750,593
	2133 191st Street & 19082 21st Avenue, Surrey			
	Primex Manufacturing Ltd / Beedie Group	\$8,120,000	10.156 acres	\$799,527
	8850 Ash Street, Vancouver			
	Greater Vancouver Transportation Authority / Concert Properties Ltd	\$7,800,000	5.024 acres	\$1,552,548

Recent Industrial Lease Deals (> 75 ,000 s.f.)

ADDRESS	MUNICIPALITY	TENANT	SQUARE FEET
1600 Blk Portside Road	Richmond	Simard Westlink Inc.	150,800
48A Avenue & 275th Street	Langley	Jeld-Wen of Canada Ltd	126,500
18351 McCartney Way	Richmond	Canadian Dry Storage	125,000
18223 Blundell Road	Richmond	Purolator Courier Ltd	105,990
275th Street	Langley	Oldcastle Building Products Ltd	103,550
2440 Viking Way	Richmond	Holey Shoes Canada	84,805
2365 192nd Street	Surrey	Peak Products Manufacturing Inc.	84,571
969 Cliveden Avenue	Delta	Kal Tire Distributors Ltd	79,618
1511 Derwent Way	Delta	Can Am Logistics Inc.	78,649
200th Street & 92A Avenue	Langley	Purolator Courier Ltd	76,000

The value of the Canadian dollar reflects nothing other than the demand for and the supply of Canadian currency. Foreign importers of Canadian goods purchase Canadian dollars to pay their bills. It would seem that the demand for commodities, particularly from China, has put upward pressure on the Loonie.

In British Columbia, an economy operating at close to full tilt, exports, particularly to the United States, are the life-blood helping to sustain a high standard of living.

With a high value for the Canadian dollar, commodities earned in U.S. dollars now translate to considerably fewer Canadian dollars on exchange, compared to say, two years ago.

With Canadian production costs relatively fixed, Canadian exporters are being threatened with operating losses as a result of the strength of the domestic currency.

For some industries then, the relatively high value of the Canadian dollar is no laughing matter either for shareholders, management, or employees.

The threat to jobs is direct and brutal. Cutting labour costs is a first line of defence. If companies are to survive in the long-term, they must cover fixed costs.

Firms may introduce operating efficiencies but that is a long process of continual improvement. It doesn't occur overnight and, for most firms going forward, the efficiencies gained at the margin will not overcome the immediate need to cut labour costs i.e. redundancies.

What does this have to do with the price of industrial land? Well, one doesn't need to be an economist to understand that lower corporate earnings will ultimately mean fewer jobs and less space required to house workers, production processes and storage.

As the exporter's mentality switches from growth to steady as she goes and, if things deteriorate for too long, to contraction, the pace of the downturn will pick-up speed.

As the demand for space cools off, so does the price that competing users are willing to pay for space by way of rent. Lower rents and the prospect of limited growth in future rents translate immediately into higher capitalization rates and lower valuations for industrial land.

Is there anything new in all of this? No. One can think back to economic downturns in the 1970's, 1980's and 1990's. What makes the 2000's so special? Nothing really, it is all a matter of degree and the timing of the economic cycle. The run-up on this cycle has been protracted but perhaps the sky-rocketing Loonie will bring the tipping point closer.

As an investor, or occupier of industrial space, the key to success in uncertain times is the management of operational and financial risk. Those that think strategically will survive. Those who are less pro-active, with a market threatening to

head south, will need to be concerned with the survival of their businesses.

In summary, the relatively high value of the Canadian dollar is a concern and a threat to the well-being of the British Columbian and Canadian economies, including industrial land markets.

To underscore the point, the outgoing Governor of the Bank of Canada, in a recent speech, attempted to "talk down" the value of the dollar in an effort to ease the pressures being faced by Canadian exporters. Will his entreaties be successful? Only time will tell.

We would encourage all industrial land owners and occupiers to take a view on the direction of the British Columbia economy, decide a course of action and execute accordingly.

As Feste, the jester, in Shakespeare's Twelfth Night, knowingly put it – "What's to come is still unsure, in delay there is no plenty."

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