



Richmond shifting industrial land area out of city centre

As it updates its official community plan (OCP), the **City of Richmond** is seeking to reposition its city centre industrial land supply.

The municipality's updated OCP, which will take into account the municipality's *City Centre Area Plan (CCAP)* and *2041 Employment Lands Strategy (ELS)* reports, is intended to respond to new pressures on Richmond's land base from densification demands related to new transit infrastructure and regional growth objectives.

With an industrial inventory of more than 34.5 million square feet (msf), according to **Avison Young**, Richmond is home to the largest concentration of industrial space in Metro Vancouver. Dominated by flex office space and small-bay strata units, the Richmond industrial real estate market remains one of the most active in the region despite a lack of the more traditional heavy industrial activity common in nearby communities.

According to **RealNet Canada**, 115 transactions worth a total value of \$207 million closed in Richmond in 2010 compared with 73 transactions valued at \$69 million in 2009. In the first quarter of 2011, 18 transactions were completed for a total of \$22.3 million. The vast majority of those first quarter transactions were less than \$500,000 and comprised strata units smaller than 3,200 square feet (sf).

Industrial vacancy in Richmond declined to 3.9% in spring 2011 from 5.9% in spring 2010. The low cost of debt has encouraged owner/users to acquire rather than lease space, and vendors are taking advantage of the favourable disposition environment.

Small strata sales have been fuelled in part by vendors executing transactions as part of a long-term financial strategy to realize the highest possible return on industrial real estate investments in preparation for retirement. Only five transactions (of 18) during the first quarter were valued at more than \$1 million.

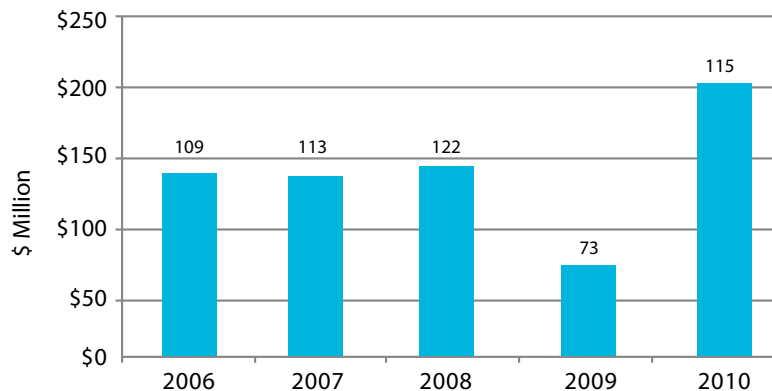
Changing land-use plans in the city centre area has sparked the conversion of former industrial income properties into redevelopment sites. Most owners are ill-equipped to secure the highest and best value that is derived through rezoning and either partner up with a developer or sell.

Richmond's proximity to downtown Vancouver, the international airport and related transportation infrastructure has traditionally positioned the city as a popular choice for light industrial users and knowledge-based industries – a trend encouraged by the municipal government.

Lease rates are expected to remain steady into the fall as

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> RICHMOND INDUSTRIAL REAL ESTATE SALES TRANSACTIONS 2006 - 2010



Source: RealNet Canada Inc.

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OUTLOOK

Cap Rates

Industrial Vacancy

Sales Volume

Absorption

Lease Rates

partnership.
performance.



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The Avison Young Industrial Team

Avison Young's industrial team assists investors, landlords and tenants in identifying and executing best-in-class real estate solutions. Team members provide clients with timely news on industrial market trends across Metro Vancouver.

Whether you are looking to relocate, expand, renew, buy, lease, sell, and/or 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. Headquartered in Toronto, Ontario and ranked among Canada's leading national commercial real estate organizations, Avison Young is a full-service commercial real estate company comprising more than 700 real estate professionals in 23 offices across Canada and in the U.S. The company provides value-added, client-centric investment sales, leasing, advisory, management, financing and mortgage placement services to owners and occupiers of office, retail, industrial and multi-residential properties.

Richmond industrial sale and lease transactions fuelling new development activity

The following is a summary of notable industrial property sales and leasing transactions in Richmond since December 2010.

The **Onni Group of Companies** has been an active investor in Richmond in the first half of 2011, acquiring three properties.

Onni's first purchase was a multi-tenant industrial building at 14251 Burrows Road with **Bekins Moving & Storage Canada** as one of the tenants. The other two Onni acquisitions are medium-term redevelopment properties located at 7731 and 7771 Alderbridge Way. The site is currently a tenanted big box retail centre but is slated for mixed-use redevelopment. The Alderbridge transactions closed at the end of May.

Meanwhile, **Ideon Packaging** leased 22,500 sf at 12000 Jacobson Way in South Richmond. Ideon filled this long-term vacancy as expansion space to augment its main facility at 11251 Dyke Road.

Nedco, which was represented by **Avison Young**, also renewed its 66,000-sf lease at **Sun Life's** 4455 No. 6 Road facility.

In other news, **Hopewell Developments** is proceeding with the third and final phase of its **Hopewell Distribution Centre** at 16131 Blundell Road in East Richmond. Hopewell elected to proceed on a speculative basis with this 280,000-sf distribution centre as a result of the successful lease-up of phase two to tenants such as **Acklands Grainger**, **YRC Logistics** and **BMW**.

Canada Post also recently announced it would build a 700,000-sf distribution centre on **Vancouver International Airport** (YVR) lands on Sea Island and subsequently sell its downtown Vancouver facility at 349 West Georgia upon completion of the new building.

Summit REIT recently sold 13911 Garden City Road to the **Beedie Group** for \$4.845 million. This 23.34-acre site is improved with two buildings (totalling more than 500,000 sf), which are used for manufacturing and distribution purposes. The site is solely occupied by **Crown Packaging**. Crown's under-market lease rate, which runs to 2034, was the contributing factor in the modest \$9 psf achieved in the sale transaction.

ICS Courier, which was also represented

by Avison Young, relocated from its South Vancouver facility at 1586 Rand Avenue to building 5 in **Kingswood Business Park** at 130-7431 Nelson Road. On a related note, **UPS** recently announced it would not renew its lease at building 2 in Kingswood Business Park. As a result, more than 100,000 sf will be available in one of Metro Vancouver's premier distribution hubs.

Ball Packaging Products Canada sold its 205,000-sf canning facility at 1700 No. 6 Road at Vulcan Road to the **Hungerford Group**. Ball Packaging's long-term home was sold on a short-term leaseback basis and will ultimately result in the metal food and household products packaging group departing the Metro Vancouver market after decades of operation.



Nedco, represented by **Avison Young**, renewed its lease at 4455 No. 6 Road in Richmond

JVC Canada sold its 37,000-sf building at 13040 Worster Court to **Arctic Pearl Ice and Cold Storage** for \$6.6 million. The purchaser paid a premium price of \$175 psf to reflect the property's underlying redevelopment potential and excess land component.

Value Group sold its 54,000-sf multi-tenant facility at 2771 Viscount Way to a private investor for \$5.63 million, or \$104 psf, in December 2010.

English Bay Construction's strata development on Mitchell Island has only a few units remaining. The developer plans on commencing construction of another 120,000 sf of industrial strata space in its next phase of development once the remaining units are purchased. ■

Richmond repositioning industrial land supply and development

The **City of Richmond** will focus the expansion and densification of its industrial lands in three key geographic locations over the next 30 years, according to the municipality's *Employment Lands Strategy*.

The report also highlights that the city will have 655 acres of excess industrial land by 2041 based on Richmond's current official community plan (OCP) designations. According to the city, the total current supply of industrial land (4,216 acres) is anticipated to meet future employment land needs (3,561 acres).

Richmond plans to boost the industrial square footage and acreage in East and South Richmond, as well as Sea Island. North Richmond and Steveston will also see increases in the coming years, but to a lesser extent in terms of acreage and square footage. Richmond city centre will see its industrial land supply decline by 34 acres, but industrial space in the area is planned to increase by 608,000 sf to 2.5 msf in 2041 from 1.9 msf in 2009. There is no industrial land or space in Central Richmond. According to the report, Richmond's overall industrial square footage will need to increase by approximately 20% to 47.1 msf in 2041 from 39.3 million in 2009.

With no plans to rezone the excess available industrial land projected for 2041 – the full 655 acres will continue to be designated for industrial purposes – there are two important factors that may influence the degree to which such industrial land exists in the future.

- Some of these designated industrial lands are limited to certain types of users (i.e. port, airport) and the uses allowed under their respective land management plans, which restrict the lands' potential availability to all users. As a result, the remaining available land area may be less than indicated. Specifically, the limitation to airport-related and port-related uses may make

the majority of the industrial lands under the jurisdiction of the **Vancouver International Airport Authority** and **Port Metro Vancouver** unavailable for small- and medium-sized traditional manufacturing uses. As a result, it is conceivable that some industries in the city will over time relocate to another municipality.



- The projected remaining available industrial land is also contingent on the ability to convert all of the OCP designated and yet to be redeveloped property to employment land uses. If some of this expected redevelopment does not occur, then the remaining available land will be reduced.

A number of external stakeholders are currently investigating the availability of industrial land at the regional, and by association, the local levels. The outcomes of these reviews may or may not influence the degree to which the 655 acres of remaining available industrial land in Richmond exists in the future.

The strategy also includes a number of recommendations to be explored during the ongoing 2041 OCP update related to development cost charges (DCCs) and zoning, including:

- A review of light industrial DCCs to explore the practice of basing DCC charges on land area as opposed to building area;
- Consider the creation of an incentive to encourage multi-storey, non-residential buildings, particularly industrial development, by lowering DCCs on upper storeys;
- Review how DCCs, which are currently applied as a one-time charge versus ongoing municipal taxes, affect the development of employment lands;
- Consider simplifying the list of permitted uses, especially in industrial and commercial zones, to facilitate a broader range of employment;
- In order to encourage industrial development, the need to require minimum and maximum floor-area ratios in industrial zones should be explored where adequate city services exist and where sufficient parking/loading is provided;
- In order to encourage the intensification of industrial lands, the maximum building height should be increased from 12 metres to 20 metres or removed altogether in industrial zones except where industrial development is adjacent to residential land uses;
- In order to encourage industrial development, the maximum lot coverage should be increased from 60% to 75% or removed altogether in industrial zones provided that parking and loading requirements are met on site;
- Consider allowing hotels as permitted uses within industrial business park zones in limited locations outside the city centre where the site is adjacent to major roads/intersections and near local commercial districts. ■

All information in this summary was derived from the City of Richmond Summary Employment Lands Strategy.

> BREAKDOWN OF RICHMOND INDUSTRIAL EMPLOYMENT LANDS 2009 - 2041

	Industrial square footage (2009)	Estimated industrial square footage (2041)	Industrial zoned land (2009)	Estimated required industrial land (2041)
City Centre	1.9 million	2.5 million	245 acres	211 acres
Sea Island	9.8 million	12.5 million	600 acres	795 acres
North Richmond	12.7 million	14.2 million	990 acres	1,080 acres
East Richmond	9.3 million	10.9 million	910 acres	1,020 acres
South Richmond	4.9 million	5.7 million	300 acres	360 acres
Steveston	700,000	1.3 million	70 acres	95 acres
City of Richmond	39.3 million	47.1 million	3,115 acres	3,561 acres

Source: City of Richmond Summary of Employment Lands Strategy

> RICHMOND INDUSTRIAL BUILDING SALE TRANSACTIONS OCTOBER 1, 2010 TO MAY 31, 2011 (GREATER THAN \$1 MILLION)

Address	Municipality	Transaction Value	Square feet	PSF	Date
2511 Vauxhall Place	Richmond	\$1,475,000	6,875	\$215	May 2011
Mitchell Island Business Centre	Richmond	\$1,053,030	6,382	\$165	April 2011
12391 Horseshoe Way	Richmond	\$2,100,000	47,739	\$44	April 2011
2351 Vauxhall Place	Richmond	\$2,820,000	16,000	\$176	March 2011
13040 Worster Court	Richmond	\$6,600,000	37,800	\$175	March 2011
13911 Garden City Road	Richmond	\$4,845,000	511,176	\$9	March 2011
Riverside Centre	Richmond	\$1,800,000	17,839	\$101	February 2011
4360 Vanguard Road	Richmond	\$1,320,000	14,676	\$90	January 2011
2771 Viscount Way	Richmond	\$5,628,888	54,060	\$104	December 2010
8991 River Road	Richmond	\$1,400,000	4,000	\$350	December 2010
5800 Minoru Boulevard	Richmond	\$6,380,000	35,000	\$182	December 2010
5400 No. 6 Road	Richmond	\$1,500,000	25,700	\$58	December 2010
1700 & 1900 No. 6 Road	Richmond	\$14,700,000	205,170	\$72	December 2010
Steveston Industrial Estates	Richmond	\$7,775,000	70,417	\$110	November 2010
Fraserwood Business Centre	Richmond	\$1,464,800	10,511	\$139	October 2010
4200 Vanguard Road	Richmond	\$1,226,000	4,800	\$255	October 2010

Source: RealNet Canada Inc.

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the vacancy rate drops slightly. A declining vacancy rate partially reflects the impact of fundamental changes to Richmond's approach to its industrial land supply and overall zoning plans contained in its 2041 ELS and City Centre Area Plan.

With little new industrial construction planned for 2011, there is increasing demand on existing inventory as bullish investors and owner/users view an improved economic outlook as a trigger to transact. Further exacerbating the supply and demand economics for the Richmond industrial market is the removal of existing industrial inventory linked to densification plans around Canada Line SkyTrain stations. Industrial users are being displaced from the city centre area to East Richmond and Annacis Island. Others have relocated out of Richmond altogether – a scenario anticipated by the municipality in its 2041 ELS. South Burnaby's Big Bend region has been a beneficiary of industrial users shifting out of the Richmond market.

To maintain an industrial presence in the city centre area, Richmond has

proposed the establishment of two industrial land reserves totalling 90 hectares (223 acres) – one adjacent to the proposed Bridgeport Village in the Van Horne industrial area, and the other to the east of the proposed Aberdeen Village.

According to Richmond's City Centre Area Plan: "Rising land costs, spurred on by residential and commercial demand, are pricing industry out of Metro Vancouver's urban centres; however, growing numbers of light industrial businesses and workers are becoming dissatisfied with remote, car-dependent locations and are seeking cost-effective, urban alternatives offering better proximity to amenities, transit, and housing."

The industrial activity encouraged within the city centre includes "processing, distribution, and repair industries that directly serve downtown commercial and public sector businesses and residents; progressive sectors (e.g. knowledge-based industries) that prefer urban locations that better meet the needs of their workers and help to reduce their 'environmental footprints'; and emerging and new technologies

that can readily adapt to denser, more urban building types and ways of doing business."

According to the 2041 ELS, most of the industrial building area growth between 2009 and 2041 will occur on Sea Island, and in East and North Richmond. Central Richmond has no potential industrial building area because it has no lands zoned or designated for industrial purposes.

Current capitalization (cap) rates of approximately 6% could see further compression of 25 basis points for quality multi-tenant facilities in Richmond due in part to a large pool of interested buyers, the historical strength of the market and a favourable lending environment.

Even with some evidence of industrial users shifting to South Burnaby due in part to municipal rezoning, the overall Richmond industrial market remains strong. Tenants have resurfaced and the resurgence of corporate decision-making has resulted in heightened transaction levels. Quality industrial parks with good amenities are seeing strong leasing activity and deal volume remains brisk. ■

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