



Industrial deal volume on the rise as owner/users purchase space

Demand for industrial real estate in Vancouver, BC reached its highest point in more than three years during the first half of 2011 as owner/users leveraged inexpensive debt to purchase business space.

Led by the \$8.4-million acquisition of 251-285 East 1st Avenue this past March, the market witnessed 27 transactions valued at \$36.8 million in total during the first half of 2011. This total marked the highest first-half dollar volume since 2007 and the greatest number of first-half transactions since 2008. Of those 27 transactions, 11, or just more than 40%, were strata purchases of small-bay units ranging from 1,300 sf to 4,000 sf.

Overall, there were 30 transactions worth a total of \$41.6 million in Vancouver's industrial market by the end of August, according to **RealNet Canada**.

While the lack of available large floorplate industrial space hampered overall dollar volume, small-bay transaction activity demonstrated the depth and stability of the Vancouver industrial market despite ongoing global economic concerns. With organic growth among Vancouver tenants behind much of the deal activity, the city's industrial lands are generally insulated from external economic factors more so than other industrial zones in Metro Vancouver. Vancouver's industrial lands

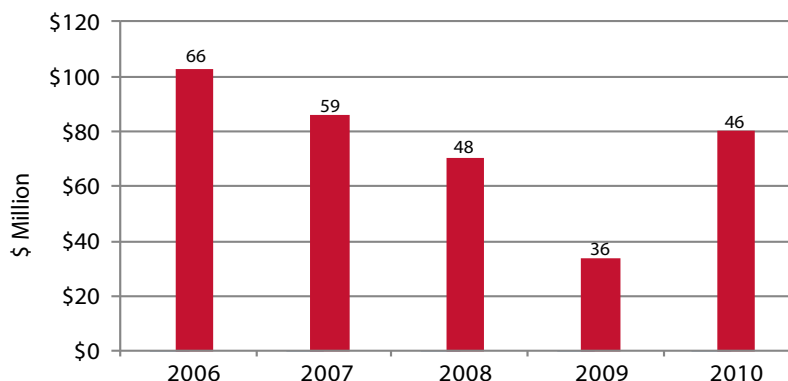
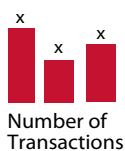
continue to face ongoing rezoning pressures within city limits despite city hall's stated intention to preserve such lands. A constrained land supply is placing further pressure on opportunities to expand the industrial building inventory within the city.

Rental rates were stable in the first half of 2011 and are expected to remain so for the next six to 12 months as landlords work to keep buildings fully tenanted in the face of low-cost debt-fuelled acquisitions. A lack of large development sites and industrial buildings suited for redevelopment has kept new supply at a minimum. The only new strata product currently available for purchase is phase two of the **Beedie Group's Shoreline Business Centre** in South Vancouver, which offers units from 16,000 sf to 127,600 sf.

Vancouver's industrial vacancy rate is expected to tighten moderately by year-end from the 3.9% registered in spring 2011 (which was up from 2.6% in spring 2010). Outside South Vancouver, no significant development activity is anticipated in the Mount Pleasant industrial area (see feature story on page 3) or in East Vancouver. While there is some demand from outside Vancouver for industrial space from companies associated with the film, television and video game industries as well as

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> VANCOUVER INDUSTRIAL BUILDING SALE TRANSACTIONS 2006 -2010



Source: RealNet Canada Inc.

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OUTLOOK

Cap Rates

Industrial Vacancy

Sales Volume

Absorption

Lease Rates

partnership.
performance.

VANCOUVER TEAM



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Struan Saddler specializes in East Vancouver industrial sales and leasing and tenant representation. A Vancouver native, he began his career with Avison Young in 2008 after obtaining a commercial real estate marketing diploma from the British Columbia Institute of Technology.

Since joining the company, Saddler has represented such clients as Granville Island Brewery, Front Street Pictures Ltd., Aritzia and Morrey Mazda. He has negotiated the successful disposition of more than \$22 million worth of East Vancouver commercial real estate properties.



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John Lecky specializes in industrial sales and leasing transactions within Vancouver's city limits, providing corporate real estate advisory services that focus on asset disposition, tenant mandate and design-build assignments. For the past decade, he has enjoyed growing success while acting for clients invested in the Metro Vancouver marketplace.

His major transactions include the sale of the Taiga Building Products portfolio (\$42 million) and Lions Gate Studios (\$42 million).

Sale transactions increase as leasing activity holds steady



The Vancouver Opera Association leased 30,389 sf at 1945 McLean Drive in Vancouver

The following is a summary of industrial sales and leasing activity within the Vancouver city limits for the first eight months of 2011.

The Vancouver industrial real estate market has witnessed increased sales activity since early 2011 as the economy improved, while leasing activity remained steady.

In the first half of 2011, **Acme Analytical Laboratories Ltd.**, a mineral preparation and testing company, leased one of the largest spaces available in the market. Located at 9030-9050 Shaughnessy Street in South Vancouver, the 82,265-sf space allowed Acme to consolidate its Lower Mainland sites into a single location.

Canada's second largest opera company, the **Vancouver Opera Association**, leased a total of 30,389 sf in three units located at 1945 and 1955 McLean Drive as well as 1360 East 3rd Avenue. The multi-tenant building is located at the intersection of McLean and East 3rd Avenue.

Meanwhile, **Barco Supply Ltd.** leased a total of 11,445 sf in several units at 265 – 275 East 1st Avenue, located in the False Creek Flats industrial area. The **Thouin Group** leased a total of 7,834 sf in the same complex at 285 East 1st Avenue.

IBC Technologies also leased 12,000 sf at 1445 Charles Street.

Industrial lease rates in Vancouver continue to vary widely, though remain higher than those found elsewhere in Metro Vancouver.

On the sale side, the two largest transactions in the first half of 2011 totalled \$11.4 million. Most notably, a private investor purchased 251-285 East 1st Avenue for \$8.4 million. The subject property is a 39,025-sf multi-tenant facility consisting primarily of office and warehouse space on a 1.94-acre site. The other notable transaction was the purchase of 418-422 and 474-496 Alexander Street (25,062 sf) for \$3 million by **Alexander Warehouse Ltd.**

Other notable transactions included the private acquisition of an 11,034-sf office and warehouse facility at 53 and 65 East 6th Avenue for \$2.55 million, which at the time of sale was occupied by **Bear Studios** and **Stage 6**. An owner/user purchased 1683 East Pender Street, a 19,212-sf warehouse and office building, for \$2.515 million.

More than 75% of the industrial deals completed during the first eight months of 2011 were for less than \$2 million.

In terms of new construction, **BC Transmission Corp.** is constructing a new two-storey public utility building for the Mount Pleasant area substation at 338 West 6th Avenue at Alberta Street. ■

> NOTABLE VANCOUVER INDUSTRIAL LEASE DEALS

TENANT	ADDRESS	SQUARE FEET
Acme Analytical Laboratories Ltd.	9030-9050 Shaughnessy Street	82,265
Vancouver Opera Association	1350 East 3rd Avenue	30,389
IBC Technologies	1445 Charles Street	12,000
Barco Supply Ltd.	265 – 275 East 1st Avenue	11,445
The Thouin Group	130 & 140 245 East 1st Avenue	7,834

Mount Pleasant industrial area proposed to host more office and service uses



Office and service uses are to become more common in the Mount Pleasant industrial area

One of the last remnants of manufacturing activity close to Vancouver’s downtown core will remain zoned as light industrial with **City of Vancouver** planning staff set to recommend to council that the I-1 zoning for the Mount Pleasant production, distribution, repair (PDR) area be amended to permit “modest office and service uses.”

The role of the city in the Mountain Pleasant PDR area, as determined in the Metropolitan Core Jobs and Economy Land Use Plan and adopted by council in 2010, was to:

“Strengthen and enhance the Mount Pleasant industrial area’s role of providing centrally located, affordable production, distribution, and repair space by providing opportunities to increase job intensity through modest amounts of office and service uses, without displacing light industrial functions.”

The three proposed amendments to the I-1 zoning district schedule that planning staff are

anticipating bringing forward to council this October include:

- 1) Add to the types of office and service uses permitted;
- 2) Increase the permitted office and service use densities; and
- 3) Remove booming ground, marine terminal/berth and railway station/railyard from permitted uses.

The city will continue to prohibit new residential uses in the area and maintain current limitations on retail uses, while introducing modest amounts of office and service uses and provide a parking strategy for the area. The city will maintain the overall density maximum at 3.0 FSR and the maximum height at 18.3 metres, with the built form guidelines remaining unchanged. A public hearing on the proposed amendments is scheduled for early 2012.

“It was one area that was looked at in detail and determined that given the nature and the role

of the jobs, and the density of the jobs, that it was an important area for the functioning of the Metro core economy,” said City of Vancouver central area planner **Richard Johnson**. Similar proposals – adding office and services potential while restricting residential development – are also under consideration for the Burrard Slopes light industrial area, located southwest of Granville Island, he confirmed.

New service uses that are proposed to be permitted in the Mount Pleasant industrial area include:

- Barber shop or beauty parlour
- Laundromat or dry cleaning
- Photofinishing or photography studio
- Neighbourhood public house (must include a minimum of 25% of the floor space as manufacturing (brewing) and must not be located within 300 metres of an existing neighbourhood house)
- Repair shop (class B)
- Restaurant (class 2) (must not be located within 200 metres of an existing class 2 restaurant)
- Business school

Previous restrictions on the types of office uses permitted would also be removed. Health enhancement centres would also be allowed under the amended I-1 zoning.

Existing restrictions on residential remain in place in the area. If remaining residential buildings cease to meet the relevant date of existence and continuous use provisions (October 25, 1988 for dwellings and September 10, 1996 for artist live/work space), those permitted residential uses that were grandfathered in the area’s I-1 zoning no longer apply. ■

All information in this summary was derived from an interview with city staff and a mailer from the City of Vancouver that was provided to business owners in the Mount Pleasant PDR area at the end of August 2011.

> NOTABLE VANCOUVER INDUSTRIAL SALE AND LEASE OPPORTUNITIES



1455 EAST GEORGIA, VANCOUVER
 • 22,000 sf of warehouse/office space
 • Excellent proximity to downtown core
 • For sale/lease
 • Available immediately



882 EAST CORDOVA, VANCOUVER
 • 17,000 sf of warehouse/office space
 • Newly renovated
 • For lease
 • Available immediately



1550 EAST HASTINGS, VANCOUVER
 • 36,196 sf site
 • MC-1 zoning
 • For sale
 • Excellent proximity to downtown core

> VANCOUVER INDUSTRIAL BUILDING SALE TRANSACTIONS JANUARY 1, 2011 TO AUGUST 31, 2011 (GREATER THAN \$750,000)

Chart sources: RealNet Canada Inc.

PROPERTY	MUNICIPALITY	PURCHASE PRICE	SQUARE FOOTAGE (SF)	PRICE/SQUARE FOOT (PSF)	TRANSACTION DATE
396 Alexander Street	Vancouver	\$1,398,000	10,000	\$140	August 2011
620 Clark Drive	Vancouver	\$2,150,000	12,708	\$169	July 2011
854 East Cordova Street	Vancouver	\$1,260,000	7,115	\$177	July 2011
Foreshore Business Park	Vancouver	\$1,350,000	8,333	\$162	June 2011
The Centro Building	Vancouver	\$899,000	1,813	\$496	June 2011
1683 East Pender Street	Vancouver	\$2,515,000	19,212	\$131	June 2011
294 East 1st Avenue	Vancouver	\$1,850,000	7,774	\$238	May 2011
1330 & 1356 Frances Street	Vancouver	\$1,800,000	10,849	\$166	May 2011
418-422, 474-496 Alexander Street	Vancouver	\$3,000,000	25,062	\$120	April 2011
1990 Powell Street	Vancouver	\$1,590,000	8,520	\$187	April 2011
8809 Heather Street; 835 West Kent Avenue North	Vancouver	\$1,856,000	11,000	\$169	April 2011
757 East Hastings Street & 750 East Cordova Street	Vancouver	\$1,225,000	9,150	\$134	March 2011
1955 East Hastings Street	Vancouver	\$935,000	8,138	\$152	March 2011
251-285 East 1st Avenue	Vancouver	\$8,400,000	39,025	\$215	March 2011
Fraser Business Centre	Vancouver	\$850,000	4,032	\$211	February 2011
1831 Franklin Street	Vancouver	\$1,600,000	11,132	\$144	January 2011
53 & 65 East 6th Avenue	Vancouver	\$2,550,000	11,034	\$231	January 2011
Fraser Business Centre	Vancouver	\$825,000	4,032	\$205	January 2011
TOTAL		\$36,053,000			

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select local interests, unwilling vendors and a lack of supply have hampered industrial deal and dollar flow in Vancouver.

Capitalization rates/yields continue to compress. The ideal selling conditions currently persisting in the market have yet to draw out vendors in significant numbers despite an ability to realize higher proceeds from any dispositions. A lack of available quality product remains the key obstacle to answering demand in Vancouver's industrial real estate market.

The lack (and costs) of a significant parcel of land in Vancouver is hindering development of mid-sized strata industrial units to accommodate owner/users who are seeking more than 4,000 sf but are not in the market for units in excess of 15,000 sf. Land costs will continue to make the economics unfeasible for many industrial uses and strata developments in Vancouver proper.

Accommodating the growth of industrial users currently situated within city limits will place increasing pressure upon the limited industrial land supply and may result in some companies choosing to relocate to lower-cost markets in suburban

municipalities. The barrier to entry for those not already located in the Vancouver industrial market will remain prohibitively high for many and likely result in the reconsideration of Vancouver as a destination for large-scale industrial investment. ■

> VANCOUVER INDUSTRIAL STRATA TRANSACTIONS JANUARY 1, 2011 TO AUGUST 31, 2011

PROPERTY	PURCHASE PRICE	SQUARE FOOTAGE (SF)	PRICE/SQUARE FOOT (PSF)
Angus Business Centre	\$425,000	1,680	\$253
Foreshore Business Park	\$1,350,000	8,333	\$162
Foreshore Business Park	\$420,000	1,361	\$309
The Centro Building	\$899,000	1,813	\$496
Foreshore Business Park	\$290,000	1,358	\$214
Oak Street Business Centre	\$320,000	1,750	\$183
8783 Cambie Street	\$725,000	3,992	\$182
Fraser Business Centre	\$850,000	4,021	\$211
Foreshore Business Park	\$330,000	1,718	\$192
Fraser Business Centre	\$825,000	4,032	\$205
Oak Street Business Centre	\$325,000	1,188	\$274
TOTAL	\$6,759,000	Average PSF	\$244

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