






## INSIDE

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## OUTLOOK


Capitalization Rates 

Industrial Vacancy 

Sales Volume 

Lease Rates 

Supply 

Demand 

partnership.  
performance.

## Strata strengthening new inventory supply in tight market

Vancouver's industrial inventory supply remains tight with low vacancy entering 2011, a characteristic entrenched in the marketplace and generating upward pressure on real estate costs.

Constricted availability and high land prices are encouraging demand for strata development, currently the only source of new inventory in the Vancouver market.

Transaction dollar volume surged by 130% between 2009 and 2010, according to **RealNet Canada**, with 46 transactions generating \$78.2 million in 2010 compared with \$33.9 million (36 deals) the year previous. Dollar volume has not surpassed \$80 million since 2007 (\$85.9 million/59 transactions) after hitting the five-year peak of \$102.9 million (66 transactions) in 2006.

An improved debt market and optimistic economic outlook are spurring demand and expansion plans as

businesses servicing the metropolitan core capitalize on reduced lending criteria and low interest rates to fuel growth.

With the average selling price per square foot (psf) holding above \$200 (including strata) since 2007 – hitting a five-year high-water mark in 2008 at \$227 psf before dipping to \$217 psf in 2010 – many owner-users are preferring strata ownership to leasing. Demand for strata-titled industrial premises will remain strong as long as the cost of debt remains relatively low and land costs high.

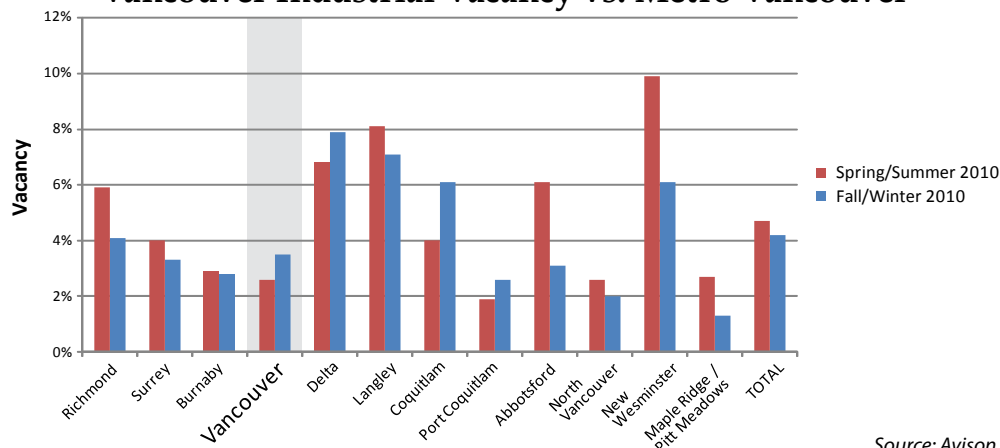
While strata ownership is more expensive than leasing, small owner-users are able to rationalize the expense as an equity investment. Modern strata premises' more efficient layouts accompanied by higher ceilings/floor-load capacity are sought after by tenants because much of Vancouver's older industrial inventory lacks such improvements.

Leasing activity is increasing incrementally although some softness in rental rates is likely as tenants find more opportunities to relocate as other renters downsize or leave the market.

Seventeen transactions involving strata properties – 38% of total sales – occurred in Vancouver in 2010, with the majority of premises ranging from 1,100 sf to 3,700 sf. Strata made up 42% of all sales transactions in Vancouver in 2009, 32% in 2008, 24% in 2007 and 27% in 2006. The challenge ahead will be finding sites in Vancouver for any form of industrial development, strata or otherwise.

Some companies will start considering relocation plans because of Vancouver's higher-cost environment. Expanding existing premises could prove more costly than relocating outside the market. Upgrading to larger premises within Vancouver is increasingly unlikely as suitable listings are scarce and land limited. ■

### Vancouver Industrial Vacancy vs. Metro Vancouver



Source: Avison Young

## VANCOUVER TEAM



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Struan Saddler specializes in East Vancouver industrial sales and leasing, tenant representation, and other commercial real estate investments. 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).



**Avison Young** represented the vendor at 900 Parker Street in the \$7.1 million sale of the 115,929-sf warehouse and distribution facility tenanted by **General Paint**

## Sales and leasing activity picking up pace in Vancouver industrial market

The Vancouver industrial market continued to witness more sale and lease transactions in 2010 as the economy improved. The following is a summary of industrial property sales and leasing activity within Vancouver city limits since spring 2010.

In the last half of 2010, decorative plumbing and hardware distributor **Cantu Bathrooms and Hardware Ltd.** leased one of the largest spaces available in the market, 40,600 square feet (sf), located at 8351 Ontario Street. Vancouver-based real estate developer **PCI Group** leased 14,778 sf for its **Marine Gateway** showroom at 8515 Cambie Street. Meanwhile, **Midland Appliance Ltd.** (2015 Columbia Street), video editing company **Super Suite Digital**

**Studios Ltd.** (15 East 4th Avenue) and tile and stone company **Newport Stone & Tile Ltd.** (970 Malkin Avenue) each leased approximately 12,000 sf at their respective locations. Lease rates in Vancouver continue to vary widely, but have consistently remained higher than lease rates found elsewhere in Metro Vancouver.

On the sale side, the two largest transactions in the last half of 2010 traded in September with a total value of \$12.1 million. **Avison Young** represented the vendor at 900 Parker Street where private investors sold an 115,929-sf warehouse and distribution facility for \$7.1 million. At the time of sale, the 1.29-acre Parker Street property was fully leased to **General Paint**. The other notable

transaction involved an owner-user's \$5 million purchase of 116-144 East 7th Avenue, a 32,265-sf office/manufacturing facility.

Notable November 2010 deals included the \$5 million acquisition of a 20,100-sf warehouse and distribution facility at 110-128 West 4th Avenue by a private investor, which at the time of sale was fully occupied by **A&B Partytime Rentals and Dream Dance Studios**. A private investor also purchased 201-217 West 6th Avenue, a 19,540-sf multi-tenant, office and industrial building, for \$4.58 million.

The second half of 2010 witnessed increased deal velocity involving larger properties and higher average prices, a trend likely continue through 2011. ■

### Vancouver industrial strata transactions (June 1 to December 31, 2010)

ADDRESS	PRICE	SQUARE FEET (SF)	PER SQUARE FOOT (PSF)	DATE
Fraser Business Centre	\$2,900,000	16,022	\$181	November 15, 2010
9005 Shaughnessy Street	\$335,000	1,122	\$299	November 2, 2010
Boundary Business Centre	\$880,000	3,718	\$237	October 1, 2010
1089 East Kent Avenue North	\$395,000	2,946	\$134	August 23, 2010
Shaughnessy Business Park	\$660,000	3,310	\$199	July 6, 2010
658 Evans Avenue	\$730,000	2,722	\$268	June 30, 2010
Rand Centre	\$483,000	2,683	\$180	June 15, 2010
<b>Total</b>	<b>\$6,383,000</b>		<b>Average \$214</b>	<i>Source: RealNet Canada</i>

## Port looking beyond Vancouver for future supply of industrial lands

Greater Vancouver's future industrial land needs may not be secure under a new regional planning strategy designed in part to ensure an adequate amount of such land remains available for industry.

**Metro Vancouver's** plan to preserve industrial land in the Lower Mainland is failing to take into account the predicted growth of the primary economic generator in the region, according to **Port Metro Vancouver's** vice-president of real estate, **Tom Corsie**. He labelled the *Regional Growth Strategy (RGS)* document as a "one-dimensional land use plan devoid of economics."

The potential shortage of industrial land for off-dock facilities such as warehousing/distribution centres for the growing container trade is concerning for the port, which is federally mandated to protect and promote trade.

Corsie estimated that 40% to 50% of all industrial land in Metro Vancouver is currently used for distribution and related purposes. If the predicted increases in container traffic continue to manifest, there is concern that insufficient industrial land will be available to handle expansion of the off-dock operations needed. Improved efficiency generated through the port's

container capacity improvement program can only go so far in terms of boosting productivity on existing lands.

Of the 6,000 or so acres of vacant industrial land in Metro Vancouver, only 2,500 acres are useful to the logistics industry, said Corsie, echoing sentiments shared by **Richard Wozny**, principal of **Site Economics Ltd.**, during his presentation on the impact of the *RGS* on the industrial land supply at a recent **Urban Development Institute (UDI)** event reviewing the proposed land use strategy. **Andrew Grant**, president of the **PCI Group** and **Kevin Layden**, president and CEO of **Wesbild Holdings Ltd.**, expressed reservations during the event about adopting the *RGS* in its current incarnation.

"There is this disconnect between Metro Vancouver's *RGS* and the economy," says Corsie. "The economy, we would say, is an economy of trade. You need to plan to make sure that economy is competitive going forward. That should be the fundamental underpinning of your long-term economic regional land supply and use strategy. It's not that at all."

In an effort to preserve as much industrial land as possible, the port has spent



**Port Metro Vancouver** is buying industrial land to preserve for future use

\$127 million to purchase about 340 acres since 2008, including **Canfor's** former 13-acre site in south Vancouver, which remains fully leased to **Oji Paper Co. Ltd.**, along with sites in New Westminster and Richmond. However, he says, it is not feasible for the port to secure all the land necessary for foreseeable future needs.

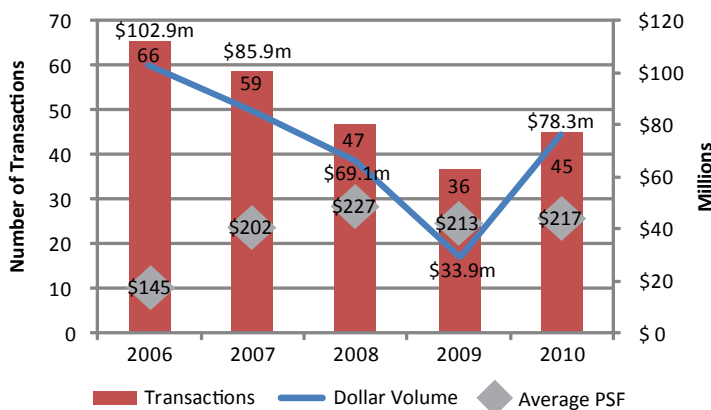
Wozny indicated in his presentation that the congestion of and a shortage of well-located vacant land would hinder the long-term growth of the port and its competitiveness. He added that the most obvious and important locations for additional port-related lands are found in Delta and Richmond, but that the *RGS* "inhibits these industrial land bases being expanded when needed."

He also suggested that small old

industrial lands such as inner urban locations near transit stations are not of high value due to congestion and could be rezoned.

With virtually no undeveloped industrial land in Vancouver city, the port has focused its attention on the region's "industrial heartland" – stretching along the north and south banks of the Fraser River around Annacis Island – with a "keen" awareness and focus on undeveloped industrial land at the south foot of No. 8 Road in Richmond. Delta, Coquitlam, Richmond, Burnaby and New Westminster all have industrial sites of interest to Port Metro Vancouver. It will also continue lobbying, working with First Nations and considering the acquisition of agricultural land to ensure an adequate supply of industrial land in the years ahead. ■

### Vancouver Industrial Sale Transaction Volumes (2006-2010)



Source: RealNet Canada Inc.

### Notable Vancouver Industrial Lease Deals

Tenant	Address	Square Feet
Cantu Bathrooms & Hardware Ltd.	8351 Ontario Street	40,600
PCI Group	8515 Cambie Street	14,778
Midland Appliance Ltd.	2015 Columbia Street	12,560
Super Suite Digital Studios Ltd.	15 East 4th Avenue	11,866
Newport Stone & Tile Ltd.	970 Malkin Avenue	11,500
Taylor B Canada Ltd.	105-111 West 2nd Avenue	11,147
Unipro Apparel Inc.	1305 Odium Drive	10,800

## Vancouver industrial sales transactions greater than \$1 million (June 1 to December 31, 2010)

ADDRESS	PRICE	SQUARE FEET (SF)	PER SQUARE FOOT (PSF)	DATE
130 West 4th Avenue	\$1,510,000	5,865	\$257	December 21, 2010
15 East 6th Avenue	\$1,775,000	7,498	\$237	December 15, 2010
Selkirk Building	\$2,385,000	17,973	\$133	December 1, 2010
117 West 5th Avenue	\$2,200,000	9,076	\$242	December 1, 2010
Fraser Business Centre	\$2,900,000	16,022	\$181	November 15, 2010
325 West 6th Avenue	\$1,200,000	4,800	\$250	November 8, 2010
110-128 West 4th Avenue	\$5,000,000	20,100	\$249	November 8, 2010
201-217 West 6th Avenue	\$4,580,000	19,540	\$234	November 1, 2010
900 Parker Street	\$7,100,000	115,929	\$61	September 15, 2010
116-144 East 7th Avenue	\$5,000,000	32,265	\$155	September 8, 2010
3083-3089 Grandview Highway	\$2,565,000	10,900	\$235	August 31, 2010
19 East 3rd Avenue	\$1,275,000	3,979	\$320	August 26, 2010
1234-1268 Glen Drive	\$1,500,000	11,830	\$127	August 18, 2010
8236 & 8240 St. George Street	\$1,150,000	4,040	\$285	July 30, 2010
1111-1123 Venables Street & 1140 Union Street	\$1,790,000	9,900	\$181	July 28, 2010
1201 East Pender Street; 438 Vernon Drive	\$1,300,000	10,200	\$127	July 2, 2010
43 East 7th Avenue	\$2,575,000	9,168	\$281	June 28, 2010
1771 East Hastings Street	\$1,000,000	5,236	\$191	June 25, 2010
<b>Total \$46,805,000</b>			<b>Average \$208</b>	

Source: RealNet Canada Inc.

### The Avison Young Industrial Team

**Avison Young's** Industrial Team enables investors, landlords and tenants to find their industrial property solutions quickly and easily. 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 leaseback 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. 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.

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