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## Media Release

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• **Avison Young's *Spring 2010 Metro Vancouver Industrial Overview*, full report:**  
[http://www.avisonyoung.com/library/pdf/Van\\_Research/IND\\_Spring\\_2010\\_web.pdf](http://www.avisonyoung.com/library/pdf/Van_Research/IND_Spring_2010_web.pdf)

### **Metro Vancouver industrial market experiences incremental improvements as optimism for economic recovery grows**

#### ***Avison Young releases Spring 2010 Metro Vancouver Industrial Overview***

**Vancouver, BC**— There is growing optimism in Metro Vancouver's industrial marketplace. Although not reflected in the vacancy metrics yet, tour activity and deal velocity have increased from six months ago, and a number of mandates are circulating after an 18-month absence. Rents are also firming up and the pace at which sublease space is being delivered to the market has tapered.

These are some of the key trends noted in **Avison Young's *Spring 2010 Metro Vancouver Industrial Overview***, released today.

"Demand for industrial lease premises has reappeared after an 18-month holiday," comments Avison Young Principal **Rob Gritten**. "Initial interest from small- and medium-sized companies will stop the increases to our vacancy rate, and should lead activity from larger North American-based users."

According to the semi-annual report, demand for investment product remains strong. The chasm between vendors and purchasers and landlords and tenants on transaction expectations continues to narrow, with landlords becoming more aggressive with the tenant inducements they are prepared to offer to secure transactions.

Demand is still down from pre-recession levels, some users are still hesitant to commit, and many companies have significant slack capacity from when they ramped up during the boom times. But overall, business is picking up. Most of the demand is pent up from industries that were less affected by the recession, and users who had put new space decisions on hold over the past 18 months.

"Most of the recent deals are not tied to growth but, rather, to reconfiguring and saving on costs, or forced relocations," says Gritten.

"Even with the generous tenant inducements available in the market, tenants are still taking extra time to consider all of their options with a focus on reducing their overall occupancy costs," notes Avison Young industrial broker **Michael Farrell**.

### **Vacancy continues to climb but at slower pace**

According to the report, the region's industrial vacancy rate continued its upward march over the past six months, but at a slower pace. Vacancy currently sits at 4.7%, up from 4.4% in fall 2009, 3.2% in spring 2009 and 2.4% in fall 2008 after residing below the 2% mark between early 2006 and mid-year 2008.

"The upward trend in vacancy is expected to dissipate through 2010 as this renewed tenant interest – evidenced by recent transactions, particularly in the 10,000-square-foot (sf) to 20,000-sf market segment – takes hold," says Gritten. "Overall, tenants have options for lease right now."

While rental rates have decreased over the past 18 months, due to lack of bids and competition from sublandlords, rates are stabilizing. Driving demand are lower rents and the opportunity for tenants to upgrade to newer premises.

### **Speculative construction in check**

The key challenges facing developers today are securing users to initiate build-to-suit and speculative projects. Moreover, land purchased at the peak is currently not economical to build on given where lease rates have gone.

With much of the speculative supply added to the suburbs in 2009 slow to absorb, many of the new projects are of the build-to-suit variety. "Construction starts will begin to be the topic over coffee, with developers smacking their lips as they look for build-to-suit opportunities resulting from a reduced available inventory," notes Gritten

Construction costs have declined approximately 25% to 30% in recent quarters, which has helped bridge the gap for developers following the drop in rental rates over the past year and a half. However, construction costs have flatlined and are anticipated to hold steady in the latter half of 2010.

### **Land values expected to hold in 2010**

Average prices for zoned and serviced land have likely fallen 10% in desirable areas and approximately 25% to 35% in secondary locations since peaking in mid-2008. Values for designated land (i.e. rezoning required) in secondary locations are estimated to have plummeted 50% since late 2008. To put this in perspective, average land prices doubled between 2003 and 2008, reaching approximately \$900,000 per acre in Abbotsford to \$2 million per acre in Vancouver (and a record \$4 million per acre in some Vancouver locations) before cresting in the latter part of 2008.

"Land prices will remain soft until current inventory is absorbed, and lenders provide debt for construction of speculative product," says Gritten, adding that land values should hold through 2010.

Today, typical industrial land prices range from approximately \$400,000 per acre for designated (but not zoned or serviced) land in Campbell Heights (Surrey) to \$1.5 million per acre for zoned and serviced land in central Burnaby (excluding Vancouver and the North Shore where values remain at \$2 million-plus per acre). Over the past 12 months, the market has witnessed a decade-low 29 transactions comprising parcels of one to 10 acres in Metro Vancouver and the Fraser Valley.

### **Capitalization rates begin to fall**

Sale activity has increased over the past six months due in part to low interest rates, lenders showing more confidence, and investors slowly getting their sea legs back. Capitalization rates have begun to fall owing to the abundance of private money chasing deals of all sizes and asset classes, and the bid-ask gap continuing to narrow. REITS and institutional investors have also become more active.

Cap rates rose to 7% to 8% in 2009 from 6% to 7% in 2007-2008 and have now fallen back to 6.5% to 7.5%.

According to Gritten, investment activity in Vancouver “remains the belle of the ball in Canada, with demand far outstripping supply and yields very near those experienced at the peak.”

Adds Farrell: “Purchasers have increased their activity level, which is welcome news to sellers who have stuck to their guns in terms of pricing throughout all of the economic turmoil. However, as with tenants, greater due diligence is being conducted by both parties – something that was never possible at the top of the market due to overheated demand.”

Farrell says transaction activity in the small bay and strata markets is improving, which is a typical precursor to activity in the larger industrial product. “The main impediments to more sale activity are the paucity of available quality industrial product and a greater supply of credit still needed for the user market.”

On the whole, the Metro Vancouver industrial market is expected to exhibit steady, progressively improving market fundamentals over the next 12 months, with overall vacancy anticipated to hold steady or dip modestly by year-end. Take-up of space is expected to proceed positively but slowly and thoughtfully, and lease rates are forecast to bottom out in this second quarter and hold steady through 2010 as tenants start to respond to incentives being put out in the marketplace. Due to continued strong demand for investment product, cap rates are expected to remain aggressive relative to the rest of the country.

“Despite the increased vacancy over the past 18 months, the Metro Vancouver industrial market remains quite healthy compared to the rest of North America,” says Gritten. “Vancouver is rebounding nicely, proving once again, that this city has real estate fundamentals like no other place in Canada.”

*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 600 real estate professionals in 17 offices across Canada and in the U.S. The company provides value-added, client-centric investment sales, leasing, advisory, management and financial services to owners and occupiers of office, retail, industrial and multi-residential properties.*

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