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NATIONAL NEWS

Vancouver Industrial Market Recovering Well

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The industrial market recovery is well underway in Vancouver, fuelled in part by strong investor demand for good industrial product.



Additionally, economic growth is expected to continue, with both Canadian and B.C. economies expected to surpass 3% GDP growth this year.

According to [Avison Young](#), "pent-up demand propelled industrial deal velocity in 2010, particularly in the second half of the year. This increased activity is anticipated to continue in 2011 as cap rate compression stagnates, and given that interest rates will not start trending upwards until inflationary pressures build."

"With a slight increase in the value of Canadian treasuries during the past six months, offset to some degree by the compression in the premium charged by lenders, capitalization (cap) rates that typically trade in a very narrow range (about 200 basis points) higher than the Canadian benchmark interest rate, have thus far lessened the impact of a slightly increased lending rate," comments Avison Young Principal Rob Gritten. "In short, until we see a sustained increase in interest rates, we will not see a corresponding increase in cap rates."

It is widely speculated that interest rates will not rise before the summer - and many believe, that given the current economic environment will not rise until closer to the end of the year.

"When interest rates rise to an extent that effectively ends cap rate compression - and triggers

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upward movement more in line with its historical trading range vis-a-vis the lending rate - the subsequent impact on the Metro Vancouver industrial market could affect deal and dollar volume," says Gritten. "Velocity of activity will likely fall because vendors will not react to lower pricing expectations of buyers based on higher debt costs."

This improving market is drawing out industrial tenants, who see it as a good opportunity to relocate. Investors are also beginning to take notice, but the supply is somewhat limited.

The vacancy rate continues to remain low in Metro Vancouver . Overall vacancy is at 4.5% compared to 4.7% from this time last year. While relatively low, the vacancy rate remains above the 2.4% recorded in fall 2008, which was the first rise above 2% for the first time since early 2006.

"Vacancy will remain low going forward due to a measured increase in speculative supply brought on stream by the handful of large developers that control the majority of the land-constrained Metro Vancouver industrial market," says Gritten.

As well, given the currently low interest rate environment, coupled with the knowledge that rental rates are likely going up, many may consider mortgage payments more attractive than rental payments.

"You are going to see more construction in 2011," says Avison Young Principal John Lecky. "The combination of low interest rates and increasing land and construction costs provokes users to seriously contemplate strata ownership versus lease obligations."

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