

REAL ESTATE

Metro's industrial space in demand

Limited land supply sees transactions reach highest point in three years: Avison Young

BY BRIAN MORTON

VANCOUVER SUN

Demand for industrial real estate is surging in Metro Vancouver with nearly \$37 million in transactions in the first half of the year, according to a report released Monday.

Avison Young's Summer/Fall 2011 Vancouver Industrial Report concluded that the number of transactions reached its highest point in more than three years as the economy improved and buyers leveraged lower debt to purchase business space for their own use.

"The dynamics now are positive," Avison Young senior vice-president John Lecky said.

"With the lower cost of capital, a lot of owners are saying that rather than rent, they'd like to secure ownership of their business premises. The cost of debt over the last 15 years has declined, so the ability to purchase is that much easier. The profile of the purchaser is mostly owner-user versus the pure investor."

Lecky said the trend accentuates the positives for users owning their own working space.

"You can touch it, feel it, and actually use it."

He noted that there is a lack of large-dollar space available, with most of the activity in the smaller investment transactions. More than three-quarters of the industrial deals completed during the first eight months of 2011 were for less than \$2 million.

Citing RealNet Canada, the report by the commercial real estate company concluded that Vancouver's industrial market recorded 27 transactions valued at \$36.8 million 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," the report said.

"Of those 27 transactions, 11, or just more than 40 per cent, were strata purchases of small-bay units ranging from 1,300 square feet to 4,000 square feet."

As well, there were 30 transactions worth \$41.6 million in Vancouver's industrial market by the end of August.

The report said the sales were led by the \$8.4-million acquisition of a 39,000-square-foot office and warehouse space property at 285 East First in March followed by a \$3-million purchase of a 25,000-square-



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More businesses are preferring to own their work space.

foot warehouse at 496 Alexander St. in April.

Industrial vacancy rose to 3.9 per cent in the spring of 2011 from 3.5 per cent in the fall of 2010, but is expected to tighten by year end because of reduced availability caused by a lack of new development and a constrained land supply.

The report added that some companies may relocate to lower-cost markets in suburban municipalities.

"Vancouver's industrial lands continue to face ongoing

rezoning pressures within city limits despite city hall's stated intention to preserve such lands.

On the leasing side, the report noted that deals have remained steady, with Acme Analytical Laboratories, a mineral preparation and testing company, leasing one of the largest spaces available in the market, an 82,265-square-foot facility in south Vancouver.

bmorton@vancouver.sun.com

MINING

Ivanhoe Mines face challenge in Mongolia

BY PETER KOVEN

TORONTO — All of a sudden, Robert Friedland is finding renewed trouble on key fronts in Mongolia.

Less than two years after his company, Ivanhoe Mines Ltd., finalized an investment agreement to develop the \$6-billion US Oyu Tolgoi project, politicians want to renegotiate it. And problems are also resurfacing with joint venture partner Rio Tinto Ltd., as the two sides are sending mixed messages ahead of an important arbitration hearing.

The long-simmering issues bubbled to the surface on Monday as Ivanhoe shares fell as much as 21 per cent and ended that day at \$15, the lowest closing price in more than a year. Investor confidence in Mongolia took a beating, and Ivanhoe's low share price raised speculation that Rio could attempt a takeover bid.

In October 2009, Ivanhoe and the government struck an investment agreement on Oyu Tolgoi after years of difficult negotiations. Under the terms of the deal, Ivanhoe got 66 per cent of Oyu Tolgoi and Mongolia got 34 per cent. A separate

arrangement to acquire the mine is owned by Ivanhoe's subsidiary.

This month, the Mongolian government petitioned to claim a bigger share of the project. The move is politically sensitive, especially with elections next year. A senior government official confirmed the deal to discuss the deal. The deal would boost its share from 34 per cent to 49 per cent by 2039. Some want to speed up the deal. Ivanhoe worded that it expects to honour the deal and Rio Tinto comments.

"I think you're constraining investment agreement and we're going to commit the government to the deal," says Ivanhoe CEO McRae, president of Rio Tinto's Mongolia division.

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