

A20 Lower Mainland

WHAT'S HAPPENING IN

British Columbia

Housing "boom" silent out of city

The loud B.C. housing boom that has made Vancouver the most expensive market in Canada quickly falls silent once you get out of town.

A driver heading southeast from the west side of Vancouver, where prices surpassed \$1.9 million in April, will find houses priced at less than 25 per cent of that within 40 minutes. Some Fraser Valley community house prices haven't risen in four years and sales are flat. In Abbotsford, for example, average house prices are 3 per cent lower now than three years ago, at around \$420,000. In Chilliwack sales are down 9 per cent from a year ago and sales volumes are off nearly 20 per cent.

The urban-small town price chasm is even more pronounced when one moves out of the Lower Mainland, according to the **BC Real Estate Association**.

Residential sales in the South Okanagan are 30 per cent lower this spring than in 2010 and **MLS** sales volumes are down 32 per cent, with a similar trend in the Kootenays. Vancouver Island housing sales are running 10.7 per cent behind 2010, which was not a strong year.

Victoria has seen residential sales fall 17.4 per cent this year, with dollar volumes down 21 per cent, the association reports.

Inflation fears driving strata industrial demand

Fears of rising land and lease costs and the low cost of borrowing continue to drive demand for strata industrial space across Metro Vancouver, according to a report from **Avison Young**.

"Owning real estate is an inflationary hedge and with such pressures building in the

short to medium term, the option to purchase is appealing to many owner-users," Avison Young explained.

According to the semi-annual report, 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.

According to Avison Young principal **John Lecky**, more industrial tenants are looking for relocation opportunities as the market outlook improves.

Renewed economic confidence is also generating investor interest in industrial real estate, he says, but that enthusiasm may be tempered by a limited supply of available real estate product.

Metro Vancouver's industrial vacancy rate continues trending lower year-over-year as the lack of land and new development pushes lease rates, as well as deal and dollar volumes, higher. Overall vacancy currently sits at 4.5 per cent compared with 4.7 per cent in spring 2010.

Vacancy will remain low due to a measured increase in speculative supply brought on stream by the handful of large developers that control the majority of the industrial market, according to the report.

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

Pacific drops out of pipeline play

Pacific Northern Gas Ltd. is dropping out of a pipeline project planned in northwestern B.C.

The company plans to sell its 50 per cent stake in **Pacific Trail Pipelines Ltd. (PTP)** for \$50 million to **Apache Canada Ltd.** and **EOC Resources Canada Inc.**, PTP's other project partners.

Following the sale's completion Apache and EOC will own 50.5 per cent and 49.5 per cent of PTP, respectively.

Giant industrial reflects local

The **Beedie Group** is preparing for the construction of the largest single-level warehouse ever to be built in the Lower Mainland in one phase.

The 504,000-square-foot facility for tissue-maker **Kruger Inc.** is another sign that corporate confidence in the region has returned to pre-recession highs.

However, the buzz over the Beedie project, which marks the company's 57-year history, has overshadowed several real estate trends that brokers say include:

- mid-sized companies increasingly wanting to expand square feet;
- more companies that import products via Pacific ports, creating a need for warehouse space; and
- renewed interest in building warehouses large and small.

Beedie is in final negotiations with the **City of Vancouver** for the site of the **Kruger** warehouse.

Kruger considered a range of options to consolidate its 204,000 square feet, the other 110,000 square feet of space.

The paper products manufacturer has been so successful at its **New Westminster** paper mill for storage and party warehouses, said its broker, **Cushman Wakefield** properties **Bob Stokes**.

Kruger considered building its new warehouse east of the Beedie site and therefore closer to **Kruger's** existing facilities, but hiring Beedie to build the structure on 20 acres of land was the best option. "Beedie is the best," Stokes said. "They can build a warehouse more efficiently than anyone."

Kruger's future warehouse won't be Metro Vancouver's largest, but it will be the largest single-level warehouse near the **Braid Street** mill built in the 1980s and is now used in part by **Bes** for storage.

Avison Young principal **Rob Gritten** believes that the end of a lull that started during the 1990s is in power and many companies chose to locate in the region.

"In the last few years there have been several large projects in the 100,000 to 200,000 square-foot size range alone," Gritten said. "That's never been seen that before."

As part of the deal, Pacific Northern Gas will receive its first payment of \$30 million upon closing. It will get the final payment when Apache and EOC decide to proceed with construction of the Kitimat liquefied natural gas pipeline. "We're negotiating this



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