Media Release

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Editors/Real Estate Reporters
• Please click on link to view and download Avison Young's *Spring 2018 Metro Vancouver Industrial Overview:*
https://www.avisonyoung.ca/documents/95750/17687307/MetroVanIndustrialOverview_Spring2018.pdf

Rental rates hit new highs as industrial vacancy in Metro Vancouver among lowest in North America

Avison Young releases its Spring 2018 Metro Vancouver, BC Industrial Overview

Vancouver, BC – Demand for industrial space and properties in Metro Vancouver continues to set new records in spring 2018 as both owner-operator and investor interest in industrial assets strengthen amid an environment of near-record-low vacancy, constrained land supply and rising rental rates throughout the region. That increasing demand is further demonstrated by the investment of more than $1.2 billion in BC industrial assets (properties valued at more than $5 million and overwhelmingly located in Metro Vancouver) in 2017, which marked the first time that industrial investment in BC surpassed $1 billion in a single year.

With regional industrial vacancy at 1.8% at the end of the first quarter of 2018, virtually unchanged from the vacancy rate of 1.9% recorded 12 months earlier despite the addition of more than 3.4 million square feet (msf) of new space in that period, demand from tenants and owner-occupiers has not been satisfied. Metro Vancouver's industrial market is undergoing a rapid change – a shift that has been underway since at least 2015 and is powered by a combination of rising land costs, low interest rates, rental-rate appreciation, relative economic stability and an appetite to own in a market where options to lease are increasingly difficult to secure.

These are some of the key trends noted in **Avison Young's *Spring 2018 Metro Vancouver Industrial Overview***, released today.

Only five Metro Vancouver markets recorded vacancy of 2% or greater in the first quarter of 2018: Coquitlam (2.4%), Delta (2.4%), Burnaby (2.3%), Richmond (2%) and Port Coquitlam (2%). More remarkable is that three Metro Vancouver markets recorded vacancy at 1% or less: North Vancouver (0.5%), New Westminster (0.4%) and Maple Ridge/Pitt Meadows (0.6%).

Metro Vancouver's average industrial asking net rental rate hit a record $10.91 psf in the first quarter of 2018, up from $9.50 psf just 12 months earlier. Vancouver ($17.94 psf) and North Vancouver ($15.30 psf) were the most expensive industrial markets, while Delta ($9.01 psf), Surrey ($9.11 psf) and Abbotsford ($9.17 psf) had the lowest average asking rates in the region.

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Appetite for industrial space in Metro Vancouver has remained voracious with more than 4.13 msf absorbed in 2017 alone and 2.97 msf absorbed since Avison *Young's Fall 2017 Metro Vancouver Industrial Overview* was released in the third quarter of 2017. That demand has also translated into strong sales of strata industrial units even as the price-per-square-foot has continued to rise. While pricing may have previously increased from one phase of construction to another, pricing is now often rising during a single phase, or investors are acquiring units and then flipping them at a higher price, usually to owner-occupiers. Slow but steady interest-rate increases have yet to temper demand or slow rising prices for industrial assets in Metro Vancouver. Despite flat cap rates, higher pricing for industrial asserts can be contributed to rising rents and a narrowing spread between bond yields and cap rates.

"Despite more than 2.2 msf of new space scheduled for delivery in Metro Vancouver in the next six months, vacancy is not expected to rise in the next 12 to 18 months," comments Avison Young Principal **Michael Farrell**. "There are several reasons for this. Many new developments for lease in the pipeline are already preleased to existing tenants in the market or new tenants trying to enter the market. Further complicating matters, in terms of vacancy, is that developers are increasingly deciding to build strata industrial projects."

He continues: "While this decision is partly motivated by strong demand from owner-occupiers and investors in this market as well as the strong pricing that buyers are willing to meet, the cost of industrial land is driving many developers to build strata for sale because the development returns are higher and the risk lower."

While the substantial amount of new strata product set to be delivered in the next 12 to 18 months is likely to help stabilize strata pricing, the lack of new lease product will not address tight vacancy in a meaningful way. While trends in Metro Vancouver's industrial market are mirroring those of many other North American metropolitan areas, the region's unique characteristics will further exacerbate the impact of those trends on market fundamentals.

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