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Media Release

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Editors/Real Estate Reporters
• Please click on link to view and download Avison Young's *Fall 2015 Metro Vancouver Industrial Overview:*
http://www.avisonyoung.com/fileDownloader.php?file=files/content-files/Offices/Vancouver/Research/2015/Vancouver_MetroVancouver_Fall2015.pdf

Metro Vancouver industrial vacancy tight as absorption depletes new supply

Avison Young releases its Fall 2015 Metro Vancouver, BC Industrial Overview

Vancouver, BC – A nearly unprecedented level of positive absorption in the past six to 12 months has effectively depleted much of the new supply of industrial space delivered in Metro Vancouver since 2014, with vacancy approaching the record lows last achieved when demand previously peaked in 2006/07. Despite Metro Vancouver's industrial inventory growing by more than 3.2 million square feet (msf) to 192.6 msf during the past 12 months, overall vacancy has tightened further, dropping to 3% at fall 2015 from 3.6% at fall 2014. Multiple Metro Vancouver municipalities have registered industrial vacancy rates of approximately 1.5% or less.

Most of the space from the last development cycle has been effectively leased due to a combination of pent-up demand and the availability of new product. The movement of tenants from class B to class A space has also allowed tenants in class C premises to move up in a tight market. Older and inefficient industrial premises are also being increasingly considered and, in many cases, leased as the lack of viable options forces tenants to either consider what is available, prelease space, or risk not securing a suitable location.

These are some of the key trends noted in **Avison Young's *Fall 2015 Metro Vancouver Industrial Overview***, released today.

Vacancy is expected to tighten even further in 2016 with limited new product scheduled for delivery as developers seek to prelease projects with completion dates in 2017 and 2018. Even with more than 5.6 msf of new inventory under construction in Metro Vancouver (including lease, strata and build-to-suit projects), options for owner-occupiers and tenants remain limited, particularly in markets such as North Vancouver, Coquitlam and New Westminster. With the vast majority of new construction located in Surrey, Delta, Maple Ridge-Pitt Meadows and Burnaby, industrial tenants and owner-occupiers are increasingly required to consider properties outside the traditional core – which consists of Vancouver, Burnaby, Richmond and New Westminster – to where Metro Vancouver's rapidly diminishing supply of industrial land remains.

Average net asking rental rates for industrial space in Metro Vancouver rose to $8.78 psf in the third quarter of 2015 from $8.59 psf a year earlier. Additional rents (i.e. taxes and operating costs) remained stable at $3.88 psf in the third quarter of 2015 versus $3.81 psf 12 months ago. North Vancouver continued to have the highest average net rental rate in Metro Vancouver ($13.06 psf), followed by Vancouver ($11.93 psf) and Burnaby ($9.42 psf). Delta ($7.48 psf), Abbotsford ($6.97 psf) and New Westminster ($6.49 psf) posted the lowest average net rental rates in the region.

With Metro Vancouver's industrial land supply quandary still remaining largely unsolved by municipalities, regional authorities or the province, the supply crunch (which Metro Vancouver estimates could start to manifest as early as 2021/22) remains a prime factor in the rising value of land. The ongoing inability to highlight where the new supply of land will emerge is a key factor driving heightened costs. While many of the developments currently under construction and available for prelease are being built in phases – which means additional buildings can be constructed to meet rising demand moving forward – the number of sites in Metro Vancouver to locate projects of similar scale have rapidly diminished. This development cycle – with project delivery set for 2017/18 – may be one of the last completed before the next cycle pushes up against the threshold of the regional industrial land supply crunch that is anticipated.

"Sustained low vacancy and heightened demand are starting to lead to shorter periods of free rent, lower inducements and increased upward pressure on rental rates throughout the region," notes Avison Young Principal **Ryan Kerr**, who is based in Vancouver and specializes in industrial sales and leasing. "These rental increases are starting to occur in a number of submarkets and are likely to spread throughout the region as demand remains strong, vacancy tightens and new, more efficient industrial developments replace older and tired facilities, driving up overall rental rates."

Kerr adds: "Metro Vancouver's industrial market will be active on all fronts in 2016 as tenants and owner-occupiers try to reposition themselves in a supply-constrained market."

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