Fall 2018 Industrial Overview

Metro Vancouver, BC

Rental rates rising as new supply unable to alleviate record low vacancy in Metro Vancouver industrial market

Metro Vancouver's industrial market has been unable to keep pace with ongoing demand from e-commerce uses, logistics/distribution firms and light manufacturers despite the regional inventory growing by almost 5% in the past 36 months. This expansion represents the net addition of more than 9.2 million square feet (msf) to the market, which grew to almost 202 msf by the third quarter of 2018. Despite this expansion, industrial vacancy in Metro Vancouver remained the second tightest in Canada and one of the tightest in North America at 1.5% in the fall of 2018. Industrial vacancy in Metro Vancouver has not exceeded 2% since the first quarter of 2016. Since the fall of 2014, quarterly industrial vacancy has achieved 4% just once (in the first quarter of 2015). While industrial vacancy has historically been constrained in Metro Vancouver, the market is currently in the longest period of sub-2% vacancy on record.

Industrial rental rates have continued to climb rapidly with the average asking net rent in Metro Vancouver now at $11.43 psf, up from $9.99 psf a year earlier. The combination of tight vacancy, limited new supply, elevated land pricing and rising construction costs, particularly labour and construction materials such as steel and aluminum, are behind the rapid escalation of rents. Tenants in virtually all markets

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- **Metro Vancouver's industrial vacancy second-lowest in Canada at 1.5%**
- **Elevated industrial land pricing encouraging developers to build strata projects in order for pro formas to pencil out**
- **Significant industrial lease deals in excess of 250,000 sf increasingly common as most new space available for lease dedicated to large single users**
- **Delivery of significant new supply not impacting vacancy as most is preleased in 2018/19**
- **Lease rates at record highs as Metro Vancouver average surpasses $11.40 psf**
- **Pricing for industrial assets continues to rise as owner-occupiers rush to acquire limited supply as financing costs increase and vacancy remains tight**

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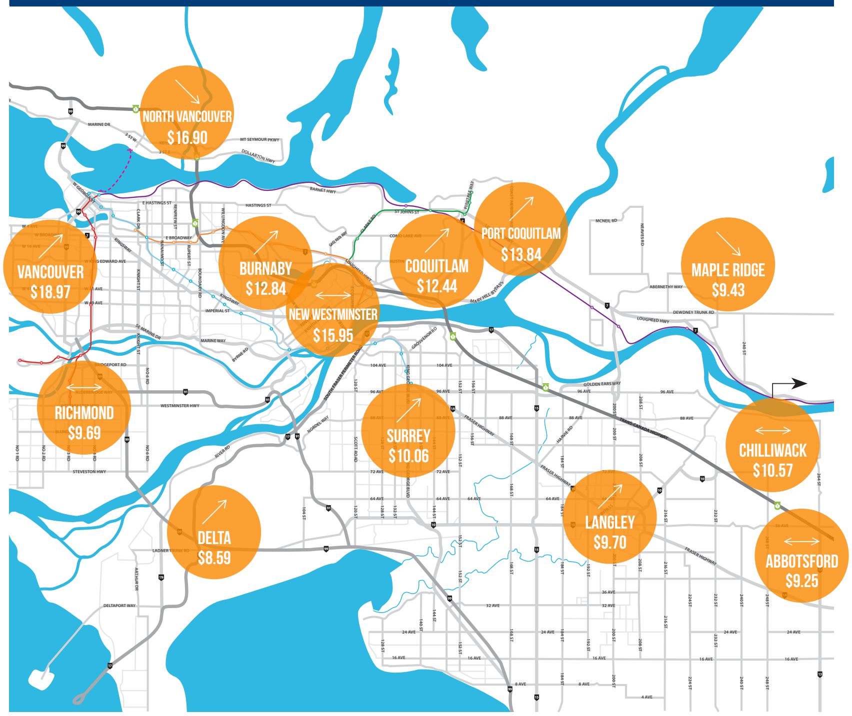
Metro Vancouver Industrial Market Update (Q3 2018)

Average industrial lease rates in Metro Vancouver (PSF)



Approximately 2 million sf of new inventory wil be delivered in the next six months, but 71% of that space is already preleased/presold.

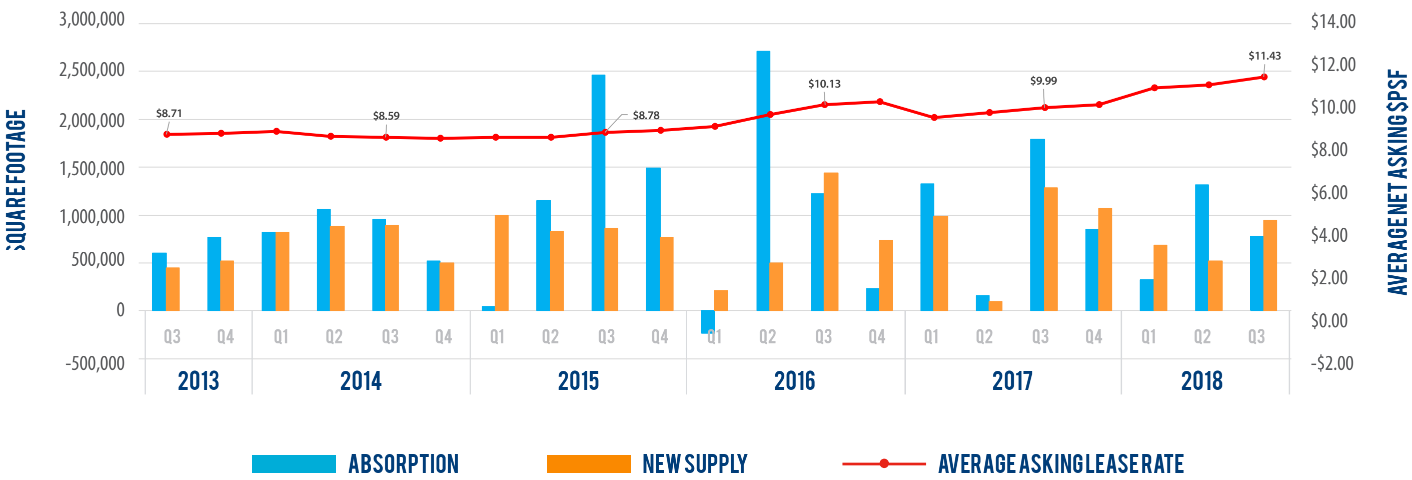
MUNICIPALITY	INVENTORY	VACANCY
Richmond	37,749,869 sf	2.3%
Surrey	31,879,814 sf	1.1%
Burnaby	28,814,123 sf	1.6%
Vancouver	23,990,625 sf	1.3%
Delta	24,702,509 sf	1.9%
Langley	17,240,799 sf	1.5%
Coquitlam	8,210,738 sf	1.3%
Port Coquitlam	7,560,229 sf	2.0%
Abbotsford	7,607,940 sf	0.7%
North Vancouver	5,340,305 sf	0.6%
New Westminster	4,405,187 sf	0.1%
Maple Ridge/ Pitt Meadows	4,378,924 sf	0.3%
Metro Vancouver	**201,881,062 sf**	**1.5%**

RECENT NOTABLE INDUSTRIAL LEASE TRANSACTIONS IN METRO VANCOUVER SINCE SPRING 2018

MUNICIPALITY	ADDRESS	SQUARE FEET	TENANT	TYPE
Delta	4189 Salish Sea Way (Delta iPort Building 1)	453,620	Amazon	Headlease
Surrey	Campbell Heights East	300,000	Walmart	Headlease
Langley	19750 92A Avenue, Unit A	149,738	Philips Lighting	Renewal
Richmond	7419 Nelson Road	129,782	Kuehne + Nagel Ltd.	Renewal
Surrey	2920 188th Street	111,931	Trimlite Mfg Inc.	Headlease
Surrey	18788 96th Avenue	97,430	White's Studios Inc.	Sublease
Delta	7979 Vantage Way, Unit 103	79,117	Inteplast Bags & Films Corp	Headlease
Delta	620 Audley Boulevard	78,818	iBox Packaging Ltd.	Renewal
Langley	20175 100A Avenue	70,768	Ambleside Production Services Inc.	Headlease
Surrey	18822 24th Avenue, Units 203-208	70,036	Pival International	Headlease
Richmond	7411 Nelson Road	52,364	Brother International Corp. Canada Ltd.	Renewal
Burnaby	2751 Production Way	52,000	GPS Logistics and Warehousing Services Ltd.	Headlease
Richmond	3960 Jacombs Road	48,800	Undisclosed tenant (airport-related use)	Headlease
Surrey	18822 24th Avenue, Units 214-217	47,530	Iron Mountain	Headlease
Burnaby	8335-8345 Winston Street, Unit A	47,440	Cascade Raider Holdings Ltd	Headlease
Surrey	18822 24th Avenue, Units 210-213	45,656	Seldat Inc.	Headlease
Delta	1111-1127 Derwent Way	43,017	Golden West Baking Company	Renewal
Richmond	2051 Viceroy Place	38,654	Shed Services Inc.	Expansion
Burnaby	6741 Cariboo Road, Units 119-121	37,120	Goodman Company Canada	Headlease
Surrey	9726 186th Street	36,563	Allmar Inc.	Headlease

Sources: Avison Young Research & RealNet

Metro Vancouver Five-Year Industrial Trends



NOTABLE INDUSTRIAL INVESTMENT SALES BY PRICE IN METRO VANCOUVER SINCE SPRING 2018					
ADDRESS	VENDOR	PURCHASER	PURCHASE PRICE	PPSF	BUILDING (SF)/ SITE AREA (ACRE)
1100 Grant; 1539 & 1575 Vernon Drive, Vancouver	Commonwealth Holding & Vernon Drive Holding	Wesgroup	$57,500,000	$465	39,153 / 2.84
1751 & 1771 Savage Road, Richmond	104 Investments Ltd.	Nexus Richmond GP	$57,380,000	$488	117,490 / 5.48
3000, 3100 & 3200 Beta Avenue, Burnaby	Investors Group	CC&L & Public Sector Pension	$41,675,000	$193	215,970 / 8.04
8351 & 8365 Ontario Street, Vancouver	Fugman Enterprises Ltd.	Hungerford Properties	$29,250,000	$413	70,884 / 2.61
9291 & 9311 River Drive, Richmond	1016138 B.C. Ltd.	1051033 B.C. Ltd.	$27,800,000	$135	206,610 / 6.37
175 & 185 Golden Drive, Coquitlam	Investors Group Trust	Crestpoint Real Estate	$25,500,000	$155	164,577 / 6.28
11511 & 11611 No. 5 Road, Richmond	Winners Only (Novena Holdings Ltd.)	South Street Development Group	$23,520,000	$256	91,740 / 5.0
4220, 4260 & 4300 Vanguard Road, Richmond	Arbutus Roofing	Ai Qiong He, Yong Bin Ma, Jian Zhao	$15,980,000	$936	17,078 / 1.22
15100 River Road, Richmond	Strand River Road LP	1109424 B.C. Ltd.	$15,500,000	$185	83,902 / 4.70
4912 Still Creek Avenue, Burnaby	Jack's New & Used Building Materials Ltd.	Standard Building Supplies Ltd.	$13,000,000	$493	26,343 / 2.37

NOTABLE INDUSTRIAL LAND SALES BY PRICE IN METRO VANCOUVER SINCE SPRING 2018					
ADDRESS	VENDOR	PURCHASER	SALE PRICE	SITE AREA (ACRES)	PRICE/ACRE
1701 Lougheed Highway, Coquitlam	Private individual	Chambers Electric (KKBL No. 629 Ventures Ltd.)	$25,174,000	12.56	$2,004,299
11511 & 11611 No. 5 Road, Richmond	Winners Only (Novena Holdings Ltd.)	South Street Development Group	$23,520,000	5.0	$4,705,882
3583 Mount Lehman Road, Abbotsford	D.L.J. Holdings Ltd.	Hungerford Properties	$15,250,000	28.36	$537,729
930 Dominion Avenue, Port Coquitlam	Private individuals	Conwest Group of Companies	$14,500,000	7.13	$2,032,520
2185 Townline Road, Abbotsford	H&R Son's Holdings Ltd.	Beedie Group	$10,600,000	7.15	$1,481,481
3473 190th Street, Surrey	Lipont Investments Ltd.	CH Strata 5 Developments Ltd	$10,500,000	5.66	$1,855,451
30418 Simpson Road, Abbotsford	Private individual	177422 B.C. Ltd.	$9,119,652	23.78	$383,436
2898 190th Street, Surrey	Private individual	Mayne Inc. (1167854 B.C. Ltd.)	$9,100,000	9.23	$985,488
19437 32nd Avenue & 3338 194th Street, Surrey	0821949 B.C. Ltd.	QRD (CH194) Holdings Inc.	$8,850,000	9.85	$898,751
34499 McClary Avenue, Abbotsford	Vedder Warehousing Ltd.	Univar Canada Ltd.	$8,372,250	5.49	$1,525,000
7582 Cannor Road, Chilliwack	Cattermole Group Holdings Ltd.	Chohan Group of Companies	$8,040,000	13.49	$595,909

Sources: Avison Young Research & RealNet

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are faced with either renewing their lease at notably higher rates or relocating further away from the region's traditional core industrial markets to markets located further south of the Fraser River and further east in the Fraser Valley. Many firms seeking to expand or consolidate in a single larger location are increasingly forced to consider whether they need to stay in their current location. With most new lease projects being occupied by new entrants to the market or those local firms consolidating and/or expanding, business owners are typically required to relocate to where the new space is located. Decisions are increasingly driven by availability as opposed to location preferences.

Most of the new industrial space for lease/sale in Metro Vancouver is located in six large development sites, including Surrey's multi-phase Campbell Heights Business Park, **South Surrey Business Park, Riverbend Business Park** in Burnaby, **Delta Link Business Park** in Delta, **Golden Ears Business Park** in Pitt Meadows, **Richmond Industrial Centre** and on the Tsawwassen First Nation in Delta. **The Exchange** in Abbotsford, a new business park planned by **QuadReal** and **Hungerford Properties**, will serve as a future source of new supply with 1.5 msf planned over several phases.

The average floorplate size of industrial lease deals completed in Metro Vancouver continues to increase in 2018 as e-commerce and logistics/distribution users secure new buildings with the likes of **Amazon** (453,000 sf), **Walmart** (300,000 sf), **The Brick/Leon's Furniture** (430,000 sf), **BMW Canada** (280,000 sf) and **IKEA** (330,540 sf), all recently signing some of the largest industrial lease deals in Metro Vancouver history. A build-to-suit distribution centre deal for 530,000 sf in Surrey was recently negotiated; however, the user is still confidential at the time of this report. While users of this size have historically had difficulty securing buildings for lease at this scale due to factors such as the tight supply of industrial land, patience and planning have begun to pay off in landing these tenants.

However, one of the impacts of landing these large tenants has been overall reduction in the amount of space for lease available to mid-size users. Tenants seeking between 25,000 sf and 150,000 sf are finding it more difficult to secure space for expansion, consolidation or relocation purposes with very few options in all markets. Vacancy in Metro Vancouver has remained sub-2% for the past 30 months due to virtually all new space for lease coming to the market being preleased prior to completion. Add to this, the rising cost of industrial land throughout the region that is making it prohibitive for developers to develop lease space rather than strata units and it becomes clearer why vacancy remains so tight throughout Metro Vancouver.

While the demand for industrial space remains acute in Metro Vancouver, it is a common trend in North America in 2018. Industrial vacancy in the third quarter of 2018 is tight across Canada with the Greater Toronto Area (1.3%) the tightest in Canada, followed by Metro Vancouver (1.5%), Ottawa (3.2%) Montreal (3.7%), Winnipeg (4.2%), Edmonton (6.3%) and Calgary (7.3%). This demand for lease space – and the lack of it – has fuelled the industrial strata market in historically land-constrained Vancouver, a development format that is becoming increasingly common across Canada as vacancy remains tight and financing is easily available to industrial owner-occupiers. Almost $449M was invested in BC industrial assets (valued at greater than $5M) in the first half of 2018, one of the strongest periods of industrial investment in provincial history. More than $301M was invested in BC industrial properties valued at $5M or less – the majority were strata sales.

While industrial asset pricing remains strong and is expected to remain so, capitalization rates have started to rise slightly. Strata pricing continues to rise with subsequent phases of projects often reflecting higher pricing than initial phases. Some relief is in sight in regard to improving availability in the next six months as substantial new development is delivered to the market. The third-quarter 2018 six-month availability rate improved to 4.2% in Metro Vancouver from 3.7% at mid-2018 with availability gains in Abbotsford (4.6%), Delta (4.3%), Langley (4.5%), Richmond (4.6%) and Surrey (5.3%). Six-month availability rates declined in Burnaby (4.3%), Coquitlam (3.4%), Maple Ridge/Pitt Meadows (3.1%), Port Coquitlam (4.2%) and Vancouver (3.1%).

While the slowing residential market may have a minimal impact on small-bay strata sales, other forms of government intervention in the real estate market are not anticipated to have an impact. Market fundamentals remain strong, and demand from owner-occupiers and investors at near record levels is expected to continue for at least the next 18 months. ■

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