



Vancouver, BC Industrial Report

Summer 2016

Pricing surges as strong demand outstrips industrial supply

An increasingly acute shortage of available industrial land and buildings combined with ongoing strong demand from both owner-occupiers and investors drove pricing of industrial properties in Vancouver to new heights in the first half of 2016. This confluence of factors – underpinned by inexpensive debt and the elevated value of the industrial properties held in the portfolios of owner-occupiers and investors active in the market – has led developers to explore novel forms of industrial development to capitalize on demand and maximize available density.

While dollar volume and deal velocity for industrial sales in Vancouver slipped to 55 transactions valued at \$135.6M from 65 deals worth \$164.5M in 2014, market activity has remained strong in 2016. More than \$96M was spent on 30 properties in the first half of 2016 as a lack of new supply and very limited opportunities to purchase industrial land or buildings has restrained further investment activity. The result has been a sharp escalation on the price per square foot being achieved on a building and/or land basis in 2016.

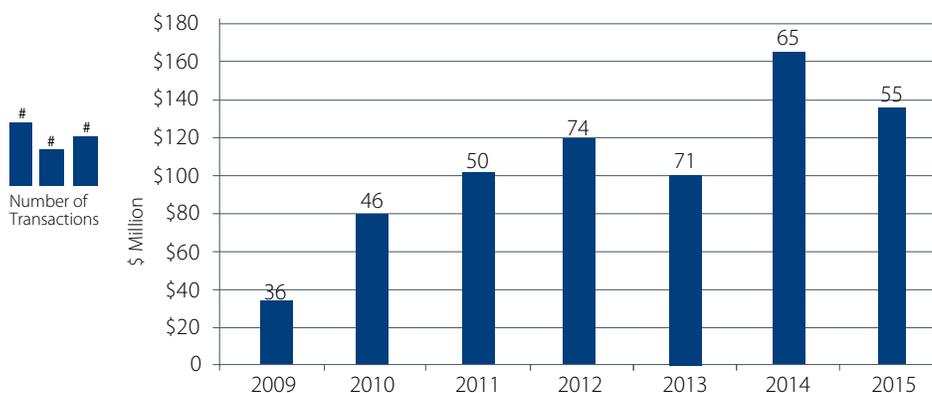
With virtually no new inventory available (**PC Urban's IntraUrban** project, a 167,000-sf strata industrial development in South Vancouver, was

sold out before construction commenced; and the **Glassman Group's** 140,000-sf industrial development at 8385 Fraser Street has been fully leased) and increasing redevelopment pressure on those remaining industrial nodes in Mount Pleasant and East Vancouver pushing industrial operators out of the submarket, the next wave of industrial development will likely look very different than the recently completed projects that will have preceded it.

Kevington Building Corp. Ltd. is retrofitting four properties it recently acquired – 1659-1663 and 1675-1685 Venables Street – and will offer them for lease, but there is very limited conventional industrial development underway. **Wall Financial's theWorkSpaces @ Strathcona Village** on East Hastings will offer 55,000 sf of light industrial strata space over two floors when completed. The mixed-use development also includes residential, retail and office space – a North American first, according to the developer. The **Conwest Group of Companies** will soon offer two multi-level strata buildings with 188,000 sf of showroom/office/light industrial space at 200 Victoria Drive, the site of the former **Terminal City Ironworks**. **Onni Group**

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Historic Vancouver Industrial Real Estate Sales Transactions



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Leasing activity strong despite limited availability as sale prices continue to climb

Industrial leasing activity rose in Vancouver during the first half of 2016 compared with the back half of 2015; however, availability remains limited. Vancouver's newest warehouse facility at 8385 Fraser Street has been 100% preleased. **Direct Tap**, a logistics and distribution company for the BC craft brewing industry, leased 78,293 sf of new shell warehouse space. The remaining space was leased by **Burritt Bros.** and **Colin Campbell** as well as an undisclosed tenant.

Lush Manufacturing Ltd., a local handmade cosmetics company, expanded into 37,453 sf at 403 East Kent Avenue North and **Factory Brewing Ltd.**, a new contract craft brewery, has subleased 24,602 sf at 1575 Vernon Drive, Direct Tap's former space. **Le Kiu Importing Co. Ltd.** relocated a portion of its facility to 403 East Kent Avenue North and leased 12,426 sf. **4Cats Enterprises Inc.**, an art studio and store, leased 10,811 sf at 1590 Rand Avenue.

In East Vancouver, **Powell Street Craft Brewery** expanded into an adjoining unit at 1357 Powell Street for a total of approximately 10,000 sf.

Daytona Motorsports, a motorcycle sales and service business, relocated from East Hastings Street to 837 East Cordova Street. **Grin Technologies**, a company specializing in electric bicycle conversion kits, relocated to 950 Powell Street.

On the sales side, two of the three largest transactions were off-market deals. A local investor purchased 60 West 7th Avenue, a 16,038-sf two-storey building on 0.28 acres, for \$8.9M. The vendor is leasing back the majority of the property, while the remaining space is leased to a third party. **Herschel Supply Co.**, a local backpack and bag company, purchased 494 Railway Street, a 9,443-sf showroom/office building on 0.32 acres for \$7.3M, and will use the property for its own purposes. The largest listed property sale was 1250 East Pender Street, a 16,240-sf manufacturing building on 0.45 acres, which was

purchased for \$7.35M by the **Lazy Gourmet**, a local catering and event planning company.

In the Mount Pleasant area, **Conwest Developments** purchased 43 West 6th Avenue, a 0.25-acre development site, for \$5.7 million with the intention of developing a new multi-tenant office/light industrial building. **Madison Pacific Properties Inc.** purchased 148 West 6th Avenue, a single tenant, 8,416-sf building on 0.23 acres, for \$4.75M.

In the Clark Drive area, **Shift Health Paradigms**, a Canadian medical company, purchased 2288 Clark Drive, a vacant 13,850-sf, two-storey office/warehouse building on 0.40 acres, for \$7.25M.

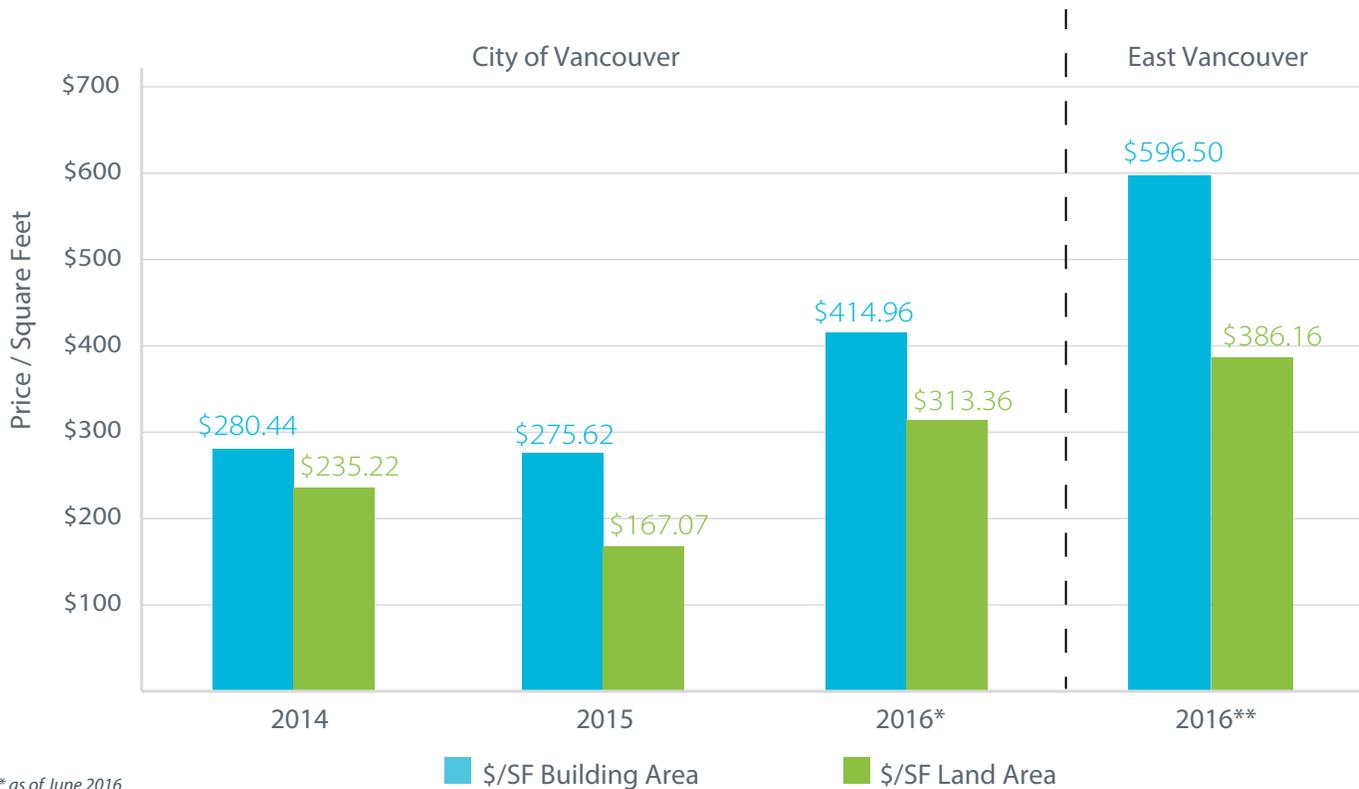
Six on the Drive Project Inc., a private investor, purchased the old **Woodland Smokehouse and Commissary** building at 485 Commercial Drive & 1691 East Pender Street. The 18,000-sf building on 0.29 acres was previously damaged by fire and the new owners are in the process of fully renovating the property, which is concurrently being marketed for lease. A private investor purchased 1239 Odium Drive for \$3.42M, a 13,278-sf warehouse on 0.32 acres fully leased to **D Way Foods Inc.** as well as 1375 Adanac Street for \$1.58M, a 6,500-sf manufacturing building on 0.18 acres fully leased to **Benny's Bagels. Vedado Properties Ltd.** continued to acquire industrial properties in the area with its latest acquisitions being 1712 & 1740 Powell Street, two buildings totalling 9,450 sf on 0.60 acres leased to **Tesla Motors Inc.** and **Clark Auto Body Ltd.**, for \$4.5M; and 837 East Cordova Street, a vacant 9,400-sf building on 0.39 acres, for \$2.675M.

In South Vancouver, **Geo Pacific Consultants Ltd.**, a local geotechnical engineering firm, purchased a 14,624-sf flex building on 0.46 acres for \$4.8M. **Gardenia Investments Ltd.** purchased 728 East Kent Avenue South, a 12,563-sf building on 1.47 acres, for \$4.72M. The latter property had formerly been utilized by **ICBC** as an AirCare facility. ■

NOTABLE VANCOUVER INDUSTRIAL LEASE TRANSACTIONS

ADDRESS	TENANT	SQUARE FEET (SF)
#20 - #50 – 8385 Fraser Street	Direct Tap	78,293
403 East Kent Avenue North	Lush Manufacturing Ltd.	37,453
#55 & #60 – 8385 Fraser Street	Burritt Bros. & Colin Campbell	25,446
1575 Vernon Drive	Factory Brewing Ltd.	24,602
#19 - #21 – 403 East Kent Avenue North	Le Kiu Importing Co. Ltd.	12,426
1580 Rand Avenue	4Cats Enterprises Inc.	10,811
837 East Cordova Street	Daytona Motorsports	9,664
#204 - #205 – 950 Powell Street	Grin Technologies	7,360
1480 Frances Street	Legend Power	6,680
1485 Frances Street	Earnest Ice Cream	5,200

Average price of industrial building sales achieved per square foot continues to accelerate



* as of June 2016

** Recent firm & under contract sales in East Vancouver

Average industrial building values increased more than 50% on a per-square-foot basis in Vancouver from 2015 to 2016

Rapidly rising costs for industrial buildings and land are increasingly altering the shape and composition of Vancouver's industrial submarket. This is having numerous impacts on the submarket and the surrounding area.

- 1) Many owner-occupiers own other real estate in Vancouver or they own multiple industrial buildings in the city. Many of the owner-occupiers located in Vancouver typically have other industrial holdings and are actively seeking to acquire properties in order to facilitate expansion. Due to the lack of supply of either existing or new large industrial buildings, owner-occupiers typically have to acquire multiple properties to accommodate growth and that is proving to be a significant driver of demand and pricing in the market.
- 2) Many investors are highly capitalized and demand for industrial properties among them in Vancouver remains very strong. Many investors no longer rely on historical metrics such as capitalization rates in order to justify an acquisition. Likely significant rental rate increases and redevelopment potential in the mid term are what underline many investors' justification to purchase industrial land and/or buildings in Vancouver on a speculative basis, which is driving up pricing further and tightening supply. Buyers are taking a position in a transitioning market.
- 3) Existing industrial tenants in Vancouver are increasingly being forced to relocate to other submarkets or shut down due to rising rental rates as well as taxes and operating costs. This has particularly been the case in the Mount Pleasant employment area with many seeking to relocate to East and South Vancouver.
- 4) While heightened prices have encouraged more people to sell, the enormous appetite for industrial assets has largely negated any improvement in terms of an increase in supply. Sales remain constrained by a lack of available assets. Lease rates have also increased as property values have risen and owners seek to recoup their investment.
- 5) Strong pricing and a severe lack of supply accompanied by rapidly increasing property taxes due to a rise in assessed values will increase pressure on the city to allow more density in order to satisfy demand and keep pricing in check.
- 6) All the factors mentioned above are encouraging developers to get more creative in terms of maximizing the density available on industrial sites with multi-level developments proposed and mixed-use projects which combine industrial along with residential, retail and office uses. This will further increase pressure on the city to broaden the scope of what is classified as "industrial". ■

VANCOUVER INDUSTRIAL BUILDING SALES (>\$1 MILLION) OCTOBER 2015 TO JUNE 30, 2016

ADDRESS	MUNICIPALITY	TRANSACTION VALUE	SQUARE FEET (SF)	PER SQUARE FOOT (PSF)	DATE
8280 Manitoba Street	Vancouver	\$1,664,900	NA	NA	June 20, 2016
1250 East Pender Street	Vancouver	\$7,350,000	16,240	\$453	June 15, 2016
149-159 West 7th Avenue	Vancouver	\$14,500,000	33,750	\$430	June 1, 2016
1310 William Street & Lot 10 Charles Street	Vancouver	\$6,450,000	NA	NA	June 1, 2016
2288 Clark Drive	Vancouver	\$7,250,000	13,850	\$523	May 16, 2016
60 West 7th Avenue	Vancouver	\$8,900,000	16,038	\$555	May 12, 2016
False Creek Business Centre	Vancouver	\$2,700,000	6,284	\$430	April 15, 2016
1270 Frances Street	Vancouver	\$2,125,000	5,050	\$421	April 14, 2016
False Creek Business Centre	Vancouver	\$2,125,000	6,058	\$351	April 8, 2016
494 Railway Street	Vancouver	\$7,300,000	9,443	\$773	March 31, 2016
43 West 6th Avenue	Vancouver	\$5,700,000	6,921	\$824	March 16, 2016
1811 Pandora Street	Vancouver	\$2,260,000	8,164	\$277	February 9, 2016
14-16 East 6th Avenue	Vancouver	\$3,900,000	7,364	\$530	February 1, 2016
724-726 Powell Street	Vancouver	\$1,660,000	4,425	\$375	February 1, 2016
148 West 6th Avenue	Vancouver	\$4,650,000	8,416	\$553	January 26, 2016
647 Powell Street	Vancouver	\$1,900,000	5,000	\$380	January 18, 2016
485 Commercial Drive; 1691 East Pender Street	Vancouver	\$5,200,000	18,194	\$286	January 15, 2016
1344 Franklin Street	Vancouver	\$1,335,000	1,880	\$710	January 14, 2016
822-840 East Cordova	Vancouver	\$4,210,925	7,175	\$587	December 30, 2015
8276 St. George Street	Vancouver	\$1,050,000	5,955	\$176	December 29, 2015
1779 West 75th Avenue	Vancouver	\$4,800,000	14,624	\$328	December 16, 2015
625 Clark Drive	Vancouver	\$1,930,000	5,480	\$352	December 15, 2015
837 East Cordova	Vancouver	\$2,675,000	9,400	\$285	December 15, 2015
1239 Odium Drive	Vancouver	\$3,420,000	13,278	\$258	November 12, 2015
1375 Adanac Street	Vancouver	\$1,580,000	6,500	\$243	November 12, 2015
1712 & 1740 Powell Street	Vancouver	\$4,500,000	9,450	\$476	November 12, 2015
728 East Kent Avenue South	Vancouver	\$4,720,000	12,563	\$376	November 2, 2015
SC Building	Vancouver	\$4,259,065	28,249	\$151	October 30, 2015
1490 East Georgia Street	Vancouver	\$3,580,000	12,000	\$298	October 30, 2015
950 East Cordova Street	Vancouver	\$2,750,000	8,235	\$334	October 26, 2015
1253 & 1261 West 76th Avenue	Vancouver	\$1,195,000	6,225	\$192	October 20, 2015
1758-1760 West 2nd Avenue	Vancouver	\$1,900,000	10,050	\$189	October 5, 2015

Source: RealNet/Avison Young

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is proposing an 86,407-sf storage warehouse that would be located on the fifth level of underground parking at its **Voxel** project near Great Way Northern Way.

New construction activity remains strong in the Mount Pleasant employment area but these projects are increasingly focused on maximizing the allowable office space, and rental rates reflect that usage. Many true industrial owner-operators are leaving the area and selling to capitalize on the staggering increase in the value of their properties since 2013. Others are simply selling and closing down their operations. Substantial numbers of industrial tenants are vacating the area because they can no longer afford the rent and/or increased operating costs – property assessments and associated taxes have spiked substantially – or the building they were leasing is slated for redevelopment.

With industrial vacancy in Vancouver at 1.7% as of June 30, 2016, upward pressure on rental rates has continued to manifest throughout all segments of the submarket. A shallow pool of aggressive investors is being pushed by a top few who are well capitalized and stretching to ensure they acquire properties. Sale comparables are generally no longer applicable when it comes to establishing industrial property values for land or buildings and capitalization rates are largely irrelevant due to the rapid escalation in prices. As what constitutes industrial activity in Vancouver continues to evolve, so do the building forms of the new industrial developments being proposed in a submarket where land is at a premium, supply is highly constrained and values remain some of the highest in Canada. ■

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