Media Release

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Editors/Real Estate Reporters
• Please click on link to view and download Avison Young's *Fall 2016 Metro Vancouver Industrial Overview:*
http://www.avisonyoung.com/fileDownloader.php?file=files/content-files/Offices/Vancouver/Research/2016/Vancouver_IndustrialOverview_Fall2016.pdf

Lease rates rising across Metro Vancouver industrial market amid near record low vacancy

Avison Young releases its Fall 2016 Metro Vancouver, BC Industrial Overview

Vancouver, BC – Despite more than 1.8 million square feet of new construction completions since spring 2016, vacancy in Metro Vancouver's industrial market dropped 100 basis points to 1.8% at the end of the third quarter of 2016 from 2.8% six months earlier, and will likely approach the record all-time low vacancy of 1.4% set in fall 2006. Vacancy is expected to continue tightening as limited new industrial development is scheduled to be delivered before mid-2017. This trend has applied significant upward pressure to lease rates throughout the region, which have climbed by as much as 15% in the past year.

A combination of factors – including a lack of industrial space for sale or lease, the costly and limited availability of industrial land, as well as extended permitting times that pushed out the delivery of the current construction cycle to mid-2017 – are all conspiring to drive vacancy to near record lows. A strong economic outlook for the province (BC is forecast to lead Canada with real GDP growth of 2.7% in 2017, according to the Conference Board of Canada) as well as the low cost of debt are additional factors contributing to the fundamentals underpinning Metro Vancouver's robust but increasingly costly industrial market.

These are some of the key trends noted in **Avison Young's *Fall 2016 Metro Vancouver Industrial Overview***, released today.

Of the nearly 3.8 msf of new industrial space currently under construction throughout Metro Vancouver, more than 42% is located in Surrey, one of the few submarkets with a supply of industrial land. Other submarkets with significant industrial construction underway include Burnaby (12.5%), Vancouver (12%) and Delta (11.4%). Richmond (8.7%) and Maple Ridge-Pitt Meadows (6.6%) also have industrial projects under construction.

Capitalization rates continue to compress due to a lack of supply combined with strong demand and the significant amount of capital available for the acquisition of industrial assets. Cap rates for well-located, quality industrial properties have declined to the low 4% range in Metro Vancouver's core industrial markets. Freestanding industrial buildings in Metro Vancouver are generally difficult to secure – total industrial investment (for assets valued $5 million or greater) was $252 million in the first six months of 2016 – and the majority of those properties that did transact were typically acquired by owner-occupiers who are willing (and able) to pay a significant premium. The acquisition of industrial properties on an investment basis in Metro Vancouver has remained very limited year-to-date.

"Double-digit industrial lease rates are rapidly becoming the rule rather than the exception in core markets of Metro Vancouver," comments Avison Young Principal **Michael Farrell**. "While properties in markets such as North Vancouver and Vancouver have posted lease rates for the best space in excess of $10 psf for some time, submarket nodes such as Big Bend in Burnaby, Coquitlam and Port Kells are approaching or will exceed that rate within a year for new space."

He adds: "Groups are increasingly open to exploring opportunities south of the Fraser River as cost and lack of supply in more traditional core markets – typically north of the Fraser River – force tenants to rethink their relocation/expansion plans."

Notwithstanding a significant economic downtown triggered by a national or global event, demand is expected to remain strong for the next 12 to 24 months. It is also anticipated that such demand will continue to outstrip supply due to the difficulties inherent in the Metro Vancouver market related to delivering new supply. The limited availability and high cost of industrial land combined with lengthy permitting and servicing considerations pose a challenge to delivering new supply in a timely fashion. Those developers with viable projects are proceeding – many on speculation – in the current environment of low vacancy, rising rents and unmet demand.

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