

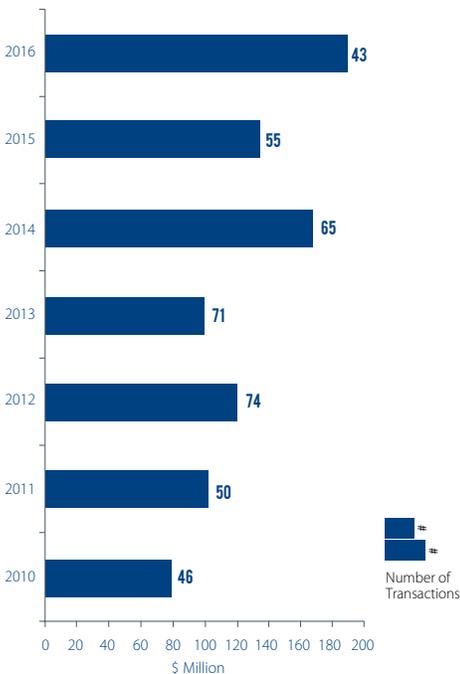


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Vancouver, BC

Winter 2017
Vancouver Industrial Report

VANCOUVER INDUSTRIAL REAL ESTATE SALES AND TRANSACTIONS



Vancouver moving closer to post-industrial future as industrial deal volume drops and pricing increases

Despite the ongoing decline in the number of sales recorded annually since 2012, the total dollar value of industrial transactions in Vancouver has continued to rise, serving to highlight the significant appreciation in pricing registered in the past four years and the tightening supply of those remaining industrial assets in what is rapidly becoming a post-industrial market.

Industrial building sales hit \$192 million in 2016 – the highest dollar volume on record, but that value was based on 43 sales, which, in turn, was the lowest number of deals completed since 2009, when 36 sales transacted in Vancouver’s industrial market (valued at \$34 million). Industrial sales in 2017 (through September 30) totalled 35 deals valued at \$88.5 million, the vast majority of which comprise strata sales. The number of industrial deals in Vancouver (and likely dollar volume) is expected to be elevated in 2017 and 2018 due to dozens of industrial strata unit sales closing in **PC Urban’s IntraUrban Business Park** development in South Vancouver and

Wall Financial’s Strathcona Village, a mixed-use development in East Vancouver. Strata sales in **Conwest Group’s Ironworks** mixed-use project, also in East Vancouver, may also be recorded in 2018 and carry into 2019. Overwhelmingly strong demand for industrial space in Vancouver, which registered a vacancy rate of just 1.6% in the third quarter of 2017, has been a key driver of strata sales as available industrial space for lease (or for sale) has become increasingly rare.

While owner-occupiers have traditionally played an active role in Vancouver’s industrial market, the purchaser profile of free-standing industrial buildings has shifted in the past 18 months to include many more investors and developers. Owner-occupiers are now largely relegated to acquiring strata units (or relocating to another market or shutting down their business entirely) as rapidly rising prices for free-standing industrial assets have priced many business owners out of the market. Industrial land in its traditional sense has largely

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MARKET OUTLOOK

Cap Rates



Industrial Vacancy



Sales Volume



Absorption



Lease Rates





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Industrial sale prices & lease rates continue to rise

Industrial leasing activity remained strong as base (and additional) rents continued to rise throughout Vancouver. The largest industrial lease was completed by **Article**, a local e-commerce furniture company, which relocated its headquarters from Railtown to a 115,000-sf, multi-level historic building at 1010 Raymur Avenue in Strathcona. Elsewhere in East Vancouver, **Flüff Designs**, a furniture rental and home staging company, expanded into 37,677 sf at 1121 William Street. **Promosa**, a production management company, relocated into a 16,690-sf building at 1265 Powell Street. **GC Importers**, an importer of Mexican fruits, vegetables and alcoholic spirits, leased 16,678 sf at 456 Prior Street. **Emco Corp.**, a construction products distributor, leased the former 14,161-sf home of Flüff Designs at 1363 McLean Drive. **Avalon Battery** expanded into 11,289 sf at 1445 Powell Street. In South Vancouver, **West Coast Canning**, a mobile canning service to local breweries, expanded into 25,210 sf at 8250 Borden Street.

Several notable lease renewals took place with **On Side Restoration**, a restoration company, renewing in 46,325 sf at 3157 Grandview Highway, **Heritage Office Furnishings**, an office furniture company, renewed in 44,198 sf at 1588 Rand Avenue, and **Daiya Foods**, a dairy alternative food company, renewed in a total of 34,943 sf in multiple buildings at 2768 Rupert Street.

On the sale side, prices continued to increase with investors and developers leading the charge. A confidential buyer purchased 303 Vernon Drive and 318 Glen Drive for \$45M. The properties total 1.47 acres and include a 20,836-sf building leased to **United Rentals of Canada**.

Living Balance Property Investment Group purchased 1150 Raymur Avenue, a

56,556-sf, multi-tenant building on 1.5 acres leased to the **Greater Vancouver Food Bank Society** and **McGregor & Thompson Hardware Ltd.** An offshore investor purchased 1310-1250 William Street, 1250-1290 Clark Drive & Lot 10 Charles Street, which totals 0.89 acres with multiple buildings and tenants for \$13M. These properties had been purchased just three months prior by **Promerita Group** for \$6.45M. Local investors purchased 704 Alexander Street, a fully leased, 15,971-sf building on 0.19 acres for \$8.45M and 3454 Bridgeway Street, a partially leased, 52,279-sf building on 1.54 acres.

Local developers remained very active. In East Vancouver, **PC Urban** acquired 1055 Vernon Drive, a 0.8-acre site for \$16.5M and **Alliance Partners** purchased 830 Clark Drive, a 0.42-acre site for \$7.6M. It is anticipated that both developers are intending to build multi-level light industrial/office strata developments. **Hungerford Properties** acquired both 2288 and 2218 Clark Drive totalling 0.476 acres for a total of \$11.5M and they also purchased 851 Terminal Avenue, a 0.39-acre site for \$9.5M. In Railtown, **Rendition Development** acquired 353 Railway Street, a 0.151-acre site for \$7.3 M and **PortLiving** acquired 711 Alexander Street, a 0.26-acre site for \$5.1M. Both developers are planning to build six-storey developments. **Kask Ventures Corp.** also acquired 505 Alexander Street, a 0.241-acre site for \$10.6M.

In Mount Pleasant, **1099300 B.C. Ltd.** acquired 137-139 & 141 East 4th Avenue totalling a 0.267-acre site for \$16.3M. The vendor, **Conwest Group of Companies**, acquired these properties seven months earlier for \$7.78M. Hungerford Properties acquired 120 West 3rd Avenue, a 0.42-acre site for \$16.4M as they already owned the adjoining property.

NOTABLE VANCOUVER INDUSTRIAL LEASE TRANSACTIONS

ADDRESS	Tenant	SQUARE FEET (SF)
1010 Raymur Avenue	Article	115,000
3157 Grandview Highway	On Side Restoration (renewal)	46,325
1588 Rand Avenue	Heritage Office Furnishings (renewal)	44,200
1121 William Street	Flüff Designs	37,680
2768 Rupert Street	Daiya Foods (renewal)	34,940
8250 Borden Street	West Coast Canning	25,210
1265 Powell Street	Promosa	16,690
456 Prior Street	GC Importers	16,680
1363 McLean Drive	Emco Corporation	14,160
1445 Powell Street	Avalon Battery	11,290

Traditional industrial land in increasingly short supply due to zoning amendments

Industrial land in Vancouver is becoming an increasingly rare commodity as amended industrial zoning bylaws and community plans trigger the redevelopment of properties that remain industrial in name only after construction is completed.

Much of this redevelopment of traditional industrial properties is being triggered by the City of Vancouver, which continues to erode the city’s supply of traditional industrial land through its land use policies. The City’s policies are also triggering industrial land sales although it is becoming increasingly difficult to distinguish whether a property was acquired for its value as an industrial building or as land for redevelopment.

Avison Young has tracked all industrial land and industrial-commercial land sales in Vancouver since 2016 and then determined if the property fell within four geographic regions that have had their industrial zoning amended recently, including Mount Pleasant, the Railtown Historical Industrial District, the False Creek Flats and the Grandview-Woodland Community Plan.

According to **RealNet** and **Avison Young** research, there has been 29 industrial or industrial-commercial land sales since June 2016 in the city of Vancouver. Of those 29 deals, 23 (or 79%) of the transactions were located in areas where the industrial zoning had been recently amended or updated.

More than 40% of the deals (12) were located in Mount Pleasant, a former industrial node located near the downtown core that is being transformed into a flex light industrial office/showroom cluster that forms part of the city’s “innovation economy”. The same rationale is being used to justify the amendments to the industrial zoning in Railtown and the False Creek Flats, two other areas highlighted as clusters that form part of the city’s “innovation economy.”

Five of the property sales (17%) were located in the area that is covered by the new Grandview-Woodland Community Plan. While the current manufacturing and light industrial zoned uses are to be maintained in Grandview-Woodland, according to the plan, sales along Clark Drive on the western edge of the plan area may indicate speculation on the potential redevelopment to a higher and better use.

Three properties (10%) were sold in the Railtown Historic Industrial District, which saw the recent conversion of the zoning from a manufacturing designation (M-2) to a new industrial designation (I-4.) (Please read this report’s cover story for a more detailed explanation of what this conversion allows.) A limited number of sales in Railtown is likely the result of two factors: 1) the small geographic area and relatively few buildings; and 2) timeliness. This zoning change occurred in the first half of 2017.

Even more recently enacted were the changes to the False Creek Flats plan where three industrial properties (10%) have sold since June 2016. More details about what these changes mean can be found in this report’s cover story. While the changes to the Railtown Historic

Industrial District were more limited in geographic scope and mainly applied to existing buildings, the plan for the False Creek Flats is much more extensive and will have a far greater impact in the future.

Only six industrial properties (21%) have been sold outside of areas that have not recently undergone industrial zoning amendments or updates. Just two properties were located in the traditional industrial area of South Vancouver, while the remaining four were in areas bordering closely to those areas that recently had their industrial zoning changed or updated.

While demand remains strong for industrial land, the City’s ongoing policy of amending the very meaning of what qualifies as industrial will continue to drive sale prices higher as supply tightens further and conventional industrial activity relocates.

VANCOUVER INDUSTRIAL LAND & INDUSTRIAL COMMERCIAL LAND SALES (JUNE 2016 TO SEPT. 30, 2017)				
(>\$1 MILLION)				
Address	Municipality	PRICE	SIZE (ACRES)	DATE
353 Railway Street	Vancouver	\$7,300,000	0.151	September 2017
285 West 5th Avenue	Vancouver	\$7,500,000	0.543	September 2017
Railtown Station	Vancouver	\$5,100,000	0.263	July 2017
830 Clark Drive	Vancouver	\$7,600,000	0.422	July 2017
2218 Clark Drive	Vancouver	\$2,500,000	0.079	June 2017
1937 Triumph Street	Vancouver	\$1,900,000	0.139	June 2017
2200 Ontario Street	Vancouver	\$2,000,000	0.046	May, 2017
1235 East Pender Street	Vancouver	\$3,275,000	0.148	April 2017
137-139 & 141 East 4th Avenue	Vancouver	\$16,300,000	0.267	April 2017
8729 Aisne Street	Vancouver	\$5,000,000	1.001	March 2017
303 Vernon Drive & 318 Glen Drive	Vancouver	\$45,000,000	1.471	March 2017
1223 East Pender Street	Vancouver	\$6,100,000	0.3	March 2017
101 West 6th Avenue	Vancouver	\$5,000,000	0.139	March 2017
130 East 3rd Avenue	Vancouver	\$4,600,000	0.139	February 2017
148 East 6th Avenue	Vancouver	\$5,300,000	0.092	February 2017
2288 Clark Drive	Vancouver	\$9,000,000	0.397	February 2017
224 West 8th Avenue	Vancouver	\$2,500,000	0.079	February 2017
1055 Vernon Drive; 1010 George Street	Vancouver	\$16,500,000	0.8	January 2017
494 Railway Street	Vancouver	\$13,800,000	0.327	January 2017
2103 Columbia Street	Vancouver	\$1,657,000	0.05	January 2017
2250 Yukon Street	Vancouver	\$3,800,000	0.12	December 2017
521-529 West 8th Avenue	Vancouver	\$15,500,000	0.227	December 2016
851-855 Terminal Avenue	Vancouver	\$9,500,000	0.399	December 2016
1553 Powell Street	Vancouver	\$7,150,000	0.573	December 2016
768-772 Southwest Marine Drive	Vancouver	\$5,250,000	0.208	October 2016
450 Railway Street	Vancouver	\$5,399,900	0.15	September 2016
137-139 & 141 East 4th Avenue	Vancouver	\$7,780,000	0.267	August 2016
35 West 6th Avenue	Vancouver	\$3,250,000	0.139	August 2016
1157 Parker Street	Vancouver	\$4,000,000	0.267	July 2016

Located in modified I-1 Mount Pleasant Employment Zone
 Located in updated Grandview-Woodland Community Plan area

Located in modified I-4 Railtown Historic Industrial District
 Located in updated False Creek Flats Plan area

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vanished from the Vancouver market due to a number of factors, including the ongoing erosion of the supply of industrial land through redevelopment, which is being accelerated by amendments to industrial zoning bylaws and increasingly by what the City considers industrial activity in its community plans.

The evolving nature of what the City of Vancouver considers industrial activity has been clearly demonstrated in the changes to industrial zoning in three traditional industrial areas in the city.

Mount Pleasant's rapid transformation, which kicked off in 2014 with amendments to the area's I-1 zoning that permitted more office space and additional office uses to complement the existing light industrial/showroom uses traditional to the area, has led to the creation of the city's hottest new office district. With office rents in Mount Pleasant now rivalling downtown, a rapid escalation in taxes due to climbing values, and land prices achieving record prices due to the new office uses permitted, traditional industrial activity (with few exceptions) has largely been pushed out of the neighbourhood. Much of the remaining "industrial" activity is based on the City's evolving conception of what industrial use means in the 21st century.

The City of Vancouver also altered the zoning in two other industrial nodes in 2017: False Creek Flats and Railtown. When the City updated its False Creek Flats plan, the permitted uses in the area's I-2 zoning were also expanded. In sub areas A & B of the I-2 zoning, photofinishing or photography studios became an approved use, while conditional approved uses include general office use (expanded to cover digital entertainment and information communication technology) and transportation and storage uses (also expanded to include bulk data storage). In sub area B, an additional conditional approved use was manufacturing (expanded to include 'creative products manufacturing (CPM)' - a term coined by the City that is defined as the "creation, development, prototyping, and ancillary marketing of products produced in a physical or digital form that are a result of a customised design process."

Gas stations and mini-storage warehouses were removed from permitted uses in sub areas A and B. Vehicle dealerships were removed as a use in sub area A. While density remained the same in sub area A at 3.0 FSR, sub area B permits building heights to go up to 36.5 metres and density to increase to 4.0 FSR, which can include 3.0 FSR of CPM with other specific use requirements for the 1.0 FSR. These changes – like those in Mount Pleasant – have

VANCOUVER INDUSTRIAL BUILDING SALES TRANSACTIONS (> \$1 MILLION) – JUNE 2016 TO SEPT. 30, 2017					
ADDRESS	MUNICIPALITY	TRANSACTION VALUE	SQUARE FEET (SF)	PER SQUARE FOOT (PSF)	DATE
False Creek Business Centre	Vancouver	\$1,950,000	3,184	\$612	August 2017
1102 East Georgia Street	Vancouver	\$3,363,000	3,200	\$1,051*	July 2017
1156 Kingsway	Vancouver	\$2,839,000	3,870	\$734	June 2017
1700 East Kent Avenue South	Vancouver	\$11,000,000	24,585	\$447	May 2017
3454 Bridgeway Street	Vancouver	\$8,450,000	52,279	\$162	April 2017
1140-1150 Raymur Avenue	Vancouver	\$19,000,000	56,556	\$336	February 2017
1221 Franklin Street	Vancouver	\$3,725,000	4,905	\$759	February 2017
The Workshop	Vancouver	\$1,160,000	2,033	\$571	January 2017
1235 East Pender Street	Vancouver	\$2,500,000	3,180	\$786*	January 2017
8930-8932 Oak Street	Vancouver	\$1,950,000	5,793	\$337	January 2017
422-430 & 460 Railway Street	Vancouver	\$11,500,000	20,670	\$556	December 2016
1641-1643 Venables Street	Vancouver	\$2,300,000	4,884	\$471	December 2016
South Vancouver Business Centre	Vancouver	\$1,700,000	3,502	\$485	November 2016
440 Clark Drive	Vancouver	\$5,350,000	19,200	\$279	November 2016
901-965 Great Northern Way	Vancouver	\$34,600,000	53,865	\$642*	November 2016
1350 East Georgia Street	Vancouver	\$1,715,000	5,576	\$308	November 2016
120-126 West 3rd Avenue	Vancouver	\$16,400,000	35,000	\$469	October 2016
1216 Franklin Street	Vancouver	\$4,820,000	3,085	\$1,562*	September 2016
1310-1250 William Street; 1250-1290 Clark Drive & Lot 10 Charles Street	Vancouver	\$13,000,000	32,800	\$396	August 2016
1538 Venables Street	Vancouver	\$3,250,000	4,113	\$790	August 2016
170 West 6th Avenue	Vancouver	\$3,945,000	5,108	\$772	August 2016
1805 Franklin Street	Vancouver	\$2,000,000	2,350	\$851*	July 2016
8280 Manitoba Street	Vancouver	\$1,664,900	11,785	\$141	June 2016
1250 East Pender Street	Vancouver	\$7,350,000	16,240	\$453	June 2016
1310-1350 William Street; 1250-1290 Clark Drive & Lot 10 Charles Street	Vancouver	\$6,450,000	32,800	\$197	June 2016
149-159 West 7th Avenue	Vancouver	\$14,500,000	33,750	\$430	June 2016

*Pricing based on redevelopment potential

Sources: Avison Young & RealNet

triggered a significant shift away from the traditional industrial uses in the area and opened the door to erosion of traditional industrial activity to those more desktop-focused businesses.

The City also rezoned Railtown, a newly designated neighbourhood in East Vancouver located near the waterfront and the traditional heavy industrial activities of the port. The City rezoned a designated area that had traditionally been zoned M2 Industrial to a newly created zoning, the I-4 Railtown Historic Industrial District, which permits creative products manufacturing and waters down what traditional industrial uses occur in the area by allowing other primarily office-based uses.

All of these amendments and changes to industrial zoning throughout the city have combined to encourage the acquisition of industrial properties by investors and developers

with an eye to redevelopment and placed increasing pressure on the city's diminishing stock of industrial properties.

This pressure has had two key impacts: 1) many local operators are closing up shop; and 2) the adoption of new construction forms featuring mixed-use developments that include industrial space in various formats as well as multi-storey 'industrial' buildings that take advantage of the evolving definition of what qualifies as industrial use in the city. Neither trend is expected to slow. While land prices seem to be starting to stabilize at new highs, rental rates and building pricing are expected to continue to strengthen. Vacancy will remain tight with limited relief expected through new construction as most new projects are likely to feature strata units, which are usually needed to make the pro forma work with the new high land costs in the market due to amended industrial zoning bylaws. ■

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