



## Spring 2020 Industrial Overview

Metro Vancouver, BC

Solid industrial market fundamentals leave Metro Vancouver well-positioned in face of economic downturn triggered by global pandemic

While industrial activity in Metro Vancouver may be initially bruised by the emergence of the COVID-19 pandemic, the regional industrial market is meeting government-imposed restrictions and a subsequent economic downturn from a position of strength. While forthcoming statistical indicators for the second quarter of 2020 will provide a first full look at the initial impacts of COVID-19, the benchmark data from the first quarter of 2020 highlight a regional industrial market that posted near-record-low vacancy and achieved record-high rental rates while persistent strong demand for industrial space on a sale and lease basis had maintained new construction activity at a frenzied pace.

Metro Vancouver's 208.3-million-square-

foot (msf) industrial market posted a vacancy rate of 1.4% for the first quarter of 2020, down from 1.5% at the end of 2019, but up slightly from the record-low vacancy of 1.2% recorded a year earlier. Regional industrial vacancy has been less than 2% since the second quarter of 2016 and remains among the lowest in North America despite adding an average of 3.5 msf of new space to inventory annually since 2015. Seven (of 13) industrial submarkets in Metro Vancouver posted vacancy of less than 1% at the first quarter of 2020, while only two – Burnaby and Vancouver – recorded vacancy in excess of 2%. Almost 750,000 sf of industrial space was absorbed in the first three months of 2020.

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Metro Vancouver's industrial vacancy 2nd lowest in Canada at 1.4%



Vendor expectations remain in line with pre-COVID pricing on land, but it remains to be seen if purchasers will meet those expectations



Industrial development activity largely on schedule throughout the region with trades continuing to work due to construction being deemed essential service



Impacts of COVID-19 on regional industrial market statistics will not be seen until mid-2020 at the earliest

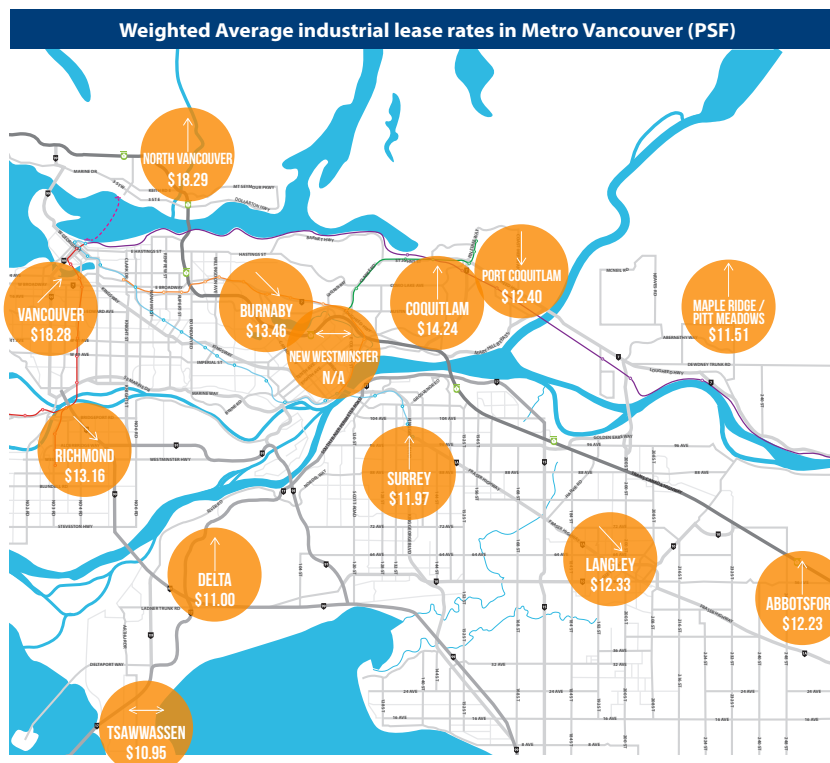


Average industrial lease rate hit record high in Metro Vancouver at \$13.17 psf, an increase of almost 15% in the past year



Value of industrial assets not expected to slip as a result of 'pandemic pricing' with investors, developers and select owner-occupiers remaining actively engaged

## Metro Vancouver Industrial Market Vacancy (Q1 2020)



*Approximately 3 million sf of new inventory will be delivered in the next six months, but 62% of that space is already released/presold.*

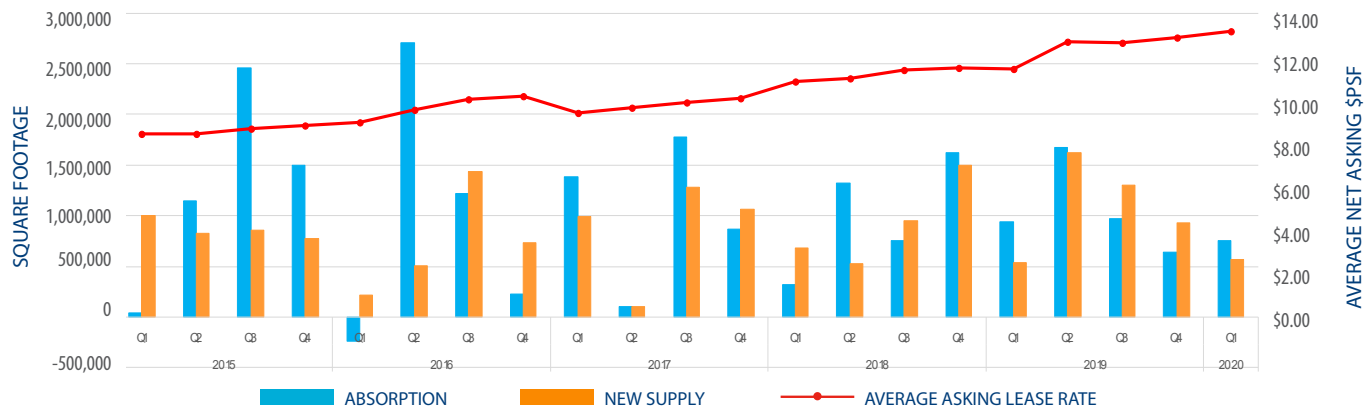
MUNICIPALITY	INVENTORY	VACANCY
Richmond	38,356,876	1.5%
Surrey	33,804,888	0.5%
Burnaby	29,149,733	2.0%
Vancouver	24,279,496	3.5%
Delta	25,343,664	1.2%
Langley	17,478,320	0.9%
Coquitlam	8,210,738	1.0%
Port Coquitlam	8,059,995	0.6%
Abbotsford	8,366,468	0.4%
North Vancouver	5,340,305	0.6%
New Westminster	4,405,187	0.0%
Maple Ridge/ Pitt Meadows	4,647,715	0.2%
Tsawwassen (TFN Land)	863,620	0.0%
<b>Metro Vancouver</b>	<b>208,307,005</b>	<b>1.4%</b>

### RECENT NOTABLE LEASE TRANSACTIONS IN METRO VANCOUVER SINCE FALL 2019 (UNTIL Q1 2020)

ADDRESS	MUNICIPALITY	SQUARE FEET	TENANT	TYPE
18880 30th Avenue (South Surrey Business Park - Bldg. 3)	Surrey	198,070	Amazon Fulfillment Services ULC	Sublease
3261 192nd Street	Surrey	160,928	IEM Canada Inc.	New
19061 32nd Avenue	Surrey	136,000	Confidential	New
13320 River Road	Richmond	124,800	Flexstar Packaging Inc.	Renewal
#801-#806 19055 Airport Way	Pitt Meadows	119,306	SIM Video International Inc.	New
175 Golden Drive	Coquitlam	103,264	Iron Mountain	Renewal
8211 Fraser Reach Court (Riverbend Business Park - Bldg. 1)	Burnaby	97,000	Wismettac Asian Foods Inc.	New
12160 103A Avenue	Surrey	77,000	Custom Space	New
12291 Riverside Way	Richmond	74,042	SCI Logistics Inc.	Renewal
19051 27th Avenue (27th Avenue Business Centre)	Surrey	72,196	Stevens Company Ltd.	New
18452 96th Avenue	Surrey	63,655	Cummins Inc.	Renewal
780 Derwent Way	Delta	60,450	18 Wheels Logistics Ltd.	New
27420 Gloucester Way	Langley	60,000	Michelin North America (Canada) Inc.	Renewal
8211 Fraser Reach Court (Riverbend Business Park - Bldg. 1)	Burnaby	55,575	Sunco Foods Inc.	New
8011/ 8051 92nd Street (Bldg. 2)	Delta	54,910	Prepac Manufacturing Ltd.	New
13100 Mitchell Road (Greypointe Business Centre)	Richmond	53,800	Conglom Inc.	Expansion
40 Gostick Place	North Vancouver	51,430	DarkVision Technologies Inc.	New
927 Derwent Way	Delta	50,959	Rosedale Transportation	New
18800-18806 96 Avenue	Surrey	50,010	CJ Logistics Canada Corp.	New

Source: Avison Young research

## Metro Vancouver Five-Year Industrial Trends



### NOTABLE INDUSTRIAL INVESTMENT SALES BY PRICE IN METRO VANCOUVER SINCE FALL 2019 (UNTIL Q1 2020)

ADDRESS	VENDOR	PURCHASER	PURCHASE PRICE	PPSF	BUILDING (SF)/ SITE AREA (ACRE)
7725 Lougheed Highway; 3131, 3151 & 3171 Lake City Way, Burnaby	Golden Boy Foods Inc.	Larco Investments	\$146,000,000	\$577	252,883/ 18.97
6064 Spur Avenue & 8335 Meadow Avenue, Burnaby	KingSett Capital	A2Z Capital	\$51,000,000	\$182	279,900/ 13.38
3671 & 3691 Viking Way, 13511 & 13520 Crestwood Place, Richmond	Morguard Investments Ltd.	PC Urban	\$49,200,000	\$308	159,954/ 9.71
4560 Tillicum Street, Burnaby	Officemax Grand & Toy (Grand & Toy Ltd.)	Beedie Group	\$40,650,000	\$347	117,000/ 9.09
7708 80th Street, Delta	Synergen Georgia Property Inc.	Ocean Ridge Holdings Ltd.	\$21,650,000	\$237	91,322/ 4.06
23011 & 23111 Fraserwood Way, Richmond	Fine Choice Foods	1236599 BC Ltd.	\$15,650,000	\$310	50,496/ 2.30
5370 271st Street, Langley	Barr Building Products Ltd.	Beedie Group	\$15,200,000	\$202	75,350/ 2.74
#140, #145 & #150 6333 Graybar Road, Richmond	Beedie Group	TMG Industrial Investment Group Inc.	\$13,628,318	\$319	42,722/ Strata
12720 82nd Avenue, Surrey	XL Ironworks (Pacor Holdings Inc.)	Mainland Group of Companies	\$13,100,000	\$252	52,000/ 4.16
11476 Kingston Street, Maple Ridge	Simpson Strong-Tie Canada Ltd.	0998336 B.C. Ltd.	\$12,600,800	\$218	57,750/ 1.00

### NOTABLE INDUSTRIAL LAND SALES BY PRICE IN METRO VANCOUVER SINCE FALL 2019 (UNTIL Q1 2020)

ADDRESS	VENDOR	PURCHASER	SALE PRICE	SITE AREA (ACRES)	PRICE/ACRE
3231 No. 6 Road, Richmond	KingSett Capital	Conwest Group of Companies	\$42,000,000	9.51	\$4,418,727
9930 197th Street, Langley	Trimac Transportation Ltd.	Hall Constructors Corp.	\$40,184,000	14.54	\$2,763,686
5353 192nd Street & 19060 54th Avenue, Surrey	Jeem Holdings Inc.	Cedar Coast	\$23,000,000	10.97	\$2,096,627
1310-1350 William Street; 1250-1290 Clark Drive & Lot 10 Charles Street, Vancouver (share sale)	1082058 B.C. Ltd.	1082058 B.C. Ltd.	\$18,688,000	0.90	\$20,887,447
9697-9765 190th Street, Surrey	The Futura Corp.	Beedie Group	\$17,100,000	5.73	\$2,985,856
Lot 70 62nd Avenue, Langley	Alumet MFG. Inc.	Silverwynde Properties Inc.	\$16,500,000	5.13	\$3,215,747
10905 Scott Road, Surrey	7 Seas Fish Co.	TransCold Distribution	\$12,800,000	4.45	\$2,877,698
3441 196th Street, Surrey	The Concots Group	Cedar Coast	\$11,100,000	5.00	\$2,220,000
31786 Marshall Road, Abbotsford	Global Bolting Systems Ltd.	Horizon Pacific Management Inc.	\$10,800,000	9.89	\$1,092,454
820 Seaborne Avenue, Port Coquitlam	BC Transportation Financing Authority	Cosulich Group Investments Inc.	\$10,400,000	3.28	\$3,172,666
7590 80th Street, Delta	British Columbia Christian Academy Society	Flood Tide Capital Corp.	\$10,000,000	5.65	\$1,770,852
19708 86th Avenue, Surrey	0959700 B.C. Ltd & 0959710 B.C. Ltd.	DENCITI Development Corp.	\$8,600,000	5.98	\$1,438,127

Sources: Avison Young research & RealNet



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The average asking net rental rate for Metro Vancouver industrial space rose to a record \$13.17 psf in the first quarter of 2020, up almost 15% from \$11.49 psf a year earlier. Vancouver (\$18.28 psf) and North Vancouver (\$18.29 psf) were virtually tied as the most expensive industrial market in the region while Delta and Port Moody were tied for the least expensive at \$11 psf. (Tsawwassen First Nation was technically the lowest at \$10.95 psf, but the small submarket of less than 1 msf remains largely limited to a single development.) Rental rates in most other industrial markets averaged between \$11.50 psf and \$13.50 psf. Additional costs for Metro Vancouver industrial space averaged \$4.32 psf – a slight dip from the \$4.36 psf registered three months earlier. North Vancouver recorded the highest additional costs (\$7.78 psf) in the region, while Maple Ridge/Pitt Meadows was the lowest (\$2.99 psf).

The statistics from the first quarter of 2020 mark the last pre-COVID-19 benchmark prior to the arrival of government-mandated containment measures that subsequently triggered the largest economic collapse since the Great Depression, accompanied by mass unemployment and a severe interruption to business operations throughout the province. However, initial indications are that industrial-based businesses were the least impacted by COVID-19 containment measures with many industrial and related operations deemed as essential services in BC.

The nature of Metro Vancouver's industrial market, which in recent decades has become more aligned with port operations and logistics/distribution uses as well as niche manufacturing and food and beverage processing, has helped cushion the blow on substantial swathes of the market from COVID-19 containment measures. While virtually no industrial operator in BC has emerged unscathed by the economic fallout triggered by the pandemic, the resiliency of the market has served to highlight the appeal of the asset class.

While a number of new sublease opportunities did emerge initially in April, most were less than 5,000 sf in size. More recently, a handful of larger sublease industrial spaces (25,000 sf+) have also started to appear on the market. However, after an initial pause as business owners focused on operational needs, interest in these spaces returned as market activity has started to recommence with the resumption of touring activity and lease renewal negotiations. While overall vacancy in Metro Vancouver is expected to rise by mid-year 2020, the increase is not anticipated to be substantial. A large majority of industrial tenants in Metro Vancouver were able to continue paying rent in the opening months of the COVID-19 crisis with few deferrals and virtually no abatements. Even if the amount of existing vacant space tripled in Metro Vancouver, the regional vacancy rate would still be less than 5%, which is considered the minimum for a balanced landlord-tenant market. So far, industrial lease rates throughout Metro Vancouver remain largely unchanged from those negotiated in the first three months of the year and there has been virtually no discounting or rate reductions at renewal for deals completed after the end of the first quarter of 2020.

While industrial deal velocity clearly slowed from April 2020 onwards, asset pricing has remained largely unchanged with those seeking to acquire discounted or distressed properties finding few if any opportunities during the opening weeks of the crisis. While there may have been a number of sale-leaseback opportunities emerge for small to mid-sized industrial owners seeking to recapitalize their businesses, it was small-bay industrial strata units that initially came up for sale. However, demand for these spaces resumed as the cost of capital for qualified buyers remained low and the pool of potential buyers seeking relief from rapidly rising rental rates and the record-low regional vacancy of the past four years seized the opportunity to get into the market.

Interest in acquiring industrial land also remained top of mind this spring for investors, developers and business owners seeking to acquire sites in the region's increasingly limited supply of industrial land. Based on transactions that closed in the first quarter of 2020, land pricing was on an upward trajectory but it remains to be seen if there will be any impact on per-acre pricing as a result of COVID-19 containment measures.

An increased degree of volatility is anticipated to characterize Metro Vancouver's industrial market through 2020; however, a deterioration of lease rates, significantly heightened vacancy or substantially discounted pricing for industrial assets are not expected to manifest in the course of the year. (This assumes that the potential for a 'second wave' of infections later in 2020 does not result in a return to more stringent containment measures.) ■

*The spread of COVID-19 and the containment policies being introduced are changing rapidly. While information is current as of the date written or otherwise noted, the views expressed herein are subject to change and may not reflect the latest opinion of Avison Young. Avison Young relies on government and related sources for information on the COVID-19 outbreak. The content provided herein is not intended as investment, tax, financial or legal advice and should not be relied on as such.*

## Vancouver Industrial Team

**Lucy Barton**  
604.646.8384  
lucy.barton@avisonyoung.com

**Kyle Blyth\***  
604.647.5088  
kyle.blyth@avisonyoung.com

**Russ Bougie\***  
604.757.5115  
russ.bougie@avisonyoung.com

**Bryn Cartwright**  
604.647.5093  
bryn.cartwright@avisonyoung.com

**Ben Cummings**  
604.647.1349  
ben.cummings@avisonyoung.com

**Jennifer Devlin**  
604.757.4950  
jennifer.devlin@avisonyoung.com

**John Eakin**  
604.646.8399  
john.eakin@avisonyoung.com

**Michael Farrell**  
604.646.8388  
michael.farrell@avisonyoung.com

**Rob Gritten**  
604.647.5063  
robert.gritten@avisonyoung.com

**Megan Hymanyk**  
604.757.5255  
megan.hymanyk@avisonyoung.com

**Kevin Kassautzki**  
604.646.8393  
kevin.kassautzki@avisonyoung.com

**Ryan Kerr\***  
604.647.5094  
ryan.kerr@avisonyoung.com

**John Lecky**  
604.647.5061  
john.lecky@avisonyoung.com

**Joe Lehman**  
604.757.4958  
joe.lehman@avisonyoung.com

**Ben Lutes**  
604.646.8382  
ben.lutes@avisonyoung.com

**Gord Robson**  
604.647.1331  
gord.robson@avisonyoung.com

**Githa Selamet**  
604.647.1345  
githa.selamet@avisonyoung.com

**Mathew Sunderland\***  
604.647.1346  
mathewsunderland@avisonyoung.com

**Madison Talling**  
604.647.1354  
madison.talling@avisonyoung.com

**Terry Thies\***  
604.646.8398  
terry.thies@avisonyoung.com

**Matt Thomas**  
604.646.8383  
matt.thomas@avisonyoung.com

**Ian Whitchelo\***  
604.647.5095  
ian.whitchelo@avisonyoung.com

**Garth White\***  
604.757.4960  
garth.white@avisonyoung.com

**Jennifer Williams**  
604.757.4955  
jennifer.williams@avisonyoung.com

**Cally Zering**  
604.757.5116  
cally.zering@avisonyoung.com

\* Personal Real Estate Corporation

For more information, please contact:

**Michael Keenan, Principal & Managing Director**  
Direct Line: 604.647.5081  
michael.keenan@avisonyoung.com

**Andrew Petrozzi, Principal & Practice Leader, Research (BC)**  
Direct Line: 604.646.8392  
andrew.petrozzi@avisonyoung.com

Avison Young  
#2900-1055 W. Georgia Street  
Box 11109 Royal Centre  
Vancouver, BC V6E 3P3, Canada

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