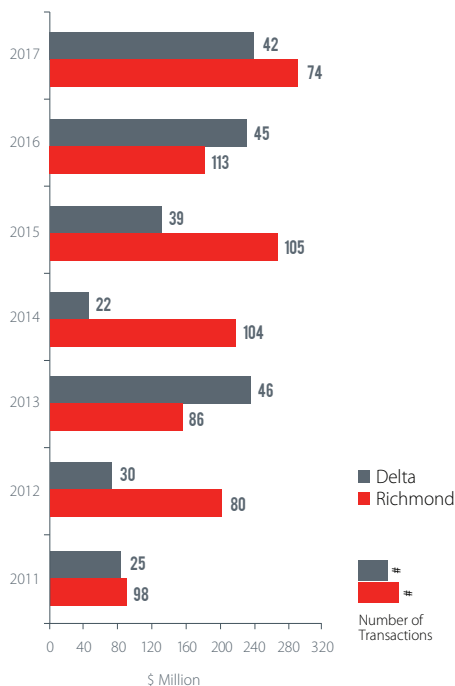


Richmond/Delta, BC

Fall 2018
Richmond/Delta Industrial Report

RICHMOND & DELTA INDUSTRIAL REAL ESTATE SALES AND TRANSACTIONS



Demand drives sales to record levels amid near record low vacancy in Richmond/Delta industrial markets

Demand for industrial space in Richmond and Delta achieved record levels in 2017 and has remained undiminished in the first half of 2018 as pricing continues to rise and vacancy remains extremely tight. New development activity, which remained robust during the past 18 months – albeit increasingly focused on strata projects (particularly in historically owner-occupier-centric Richmond), has done little to alleviate low vacancy and rising rental rates. In Delta, significant logistics/distribution users continue to lease up (or prelease) new buildings of scale that are set to be delivered to the market as the number of suitable development sites dwindles after almost five years of unprecedented growth due to the opening of the South Fraser Perimeter Road (SFPR).

Record dollar volume from industrial sales was achieved in both Richmond and Delta in 2017 despite a slight year-over-year decline in the number of deals completed. Richmond industrial sales involved 74 transactions valued at \$290M in 2017, which exceeded the previous record dollar volume of \$268M (105 sales) set in 2015. In terms of

deal velocity, the 122 industrial sales (valued \$143M) completed in Richmond in 2008 remains the high-water mark. Delta industrial sales hit \$239M with 42 sales in 2017, which surpassed the previous record of \$236M (46 deals) set in 2013 in the run-up to the opening of the SFPR in December 2013. Delta's annual industrial sales volume from 2006 to 2012 averaged 28 deals valued at \$72M per year. Since the opening of the SFPR, Delta's annual industrial sales volume from 2013 to 2017 grew to an average of 39 deals valued at \$177M per year, representing a 146% surge in dollar volume and a 39% increase in the number of sales on an annual basis compared with the seven-year period preceding the opening of the SFPR.

Vacancy in Richmond's 37.7-msf industrial market – Metro Vancouver's largest – increased to 2.3% in fall 2018 from 1% a year earlier due largely to a couple of large vacant listings coming back to market. Delta's 24.7-msf industrial market registered a decline in vacancy to 1.9% in fall 2018, down from

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MARKET OUTLOOK

RICHMOND

DELTA

Cap Rates



Industrial Vacancy



Sales Volume



Absorption



Lease Rates





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Industrial leasing activity strong as sale prices rise

Industrial leasing activity in Delta and Richmond has remained strong since mid-2017 despite near-record low vacancy as industrial asset sales – particularly strata units – continue to achieve record pricing. Much of the leasing activity has been centred in specific industrial nodes, including **Beedie's Delta Link Business Park** in Tilbury.

One of the largest industrial lease deals in Delta history (and the region) involved **The Brick/Leon's Furniture**, which secured approximately 430,000 sf in a build-to-suit facility located in the northwest of Delta Link Business Park. The tenant has a 50% ownership stake in the property and the parcel allows for approximately 100,000 sf of future building area, which would make it one of the largest industrial buildings in BC if/when expanded.

Beedie also constructed a 281,650-sf build-to-suit at Delta Link Business Park for **BMW Canada**. The bulk of the building has been leased by BMW for its new parts distribution and training centre and represented another large lease deal done in Delta since mid-2017. Approximately 83,800 sf is available in the balance of the building.

Varsteel Ltd. completed a 15-year sale-leaseback to the **Dayhu Group** of its 22.66-acre property at 6845 Tilbury Road. The property, which was acquired off-market for \$47.925M, has holding income at a 4.9% cap rate and future long-term redevelopment potential.

PCI Group purchased two multi-tenant buildings at 1600 and 1610 Derwent Way on Annacis Island for \$16.5M from **Goodwyn Enterprises** and is demising and selling off the buildings as individual strata units. The purchase price worked out to \$167 psf for approximately 100,000 sf, which is now selling as strata units for approximately \$250 psf.

The **BC Ministry of Transportation and Infrastructure** sold the **BC Ambulance Service** facility at 8100 Nordel Way to the **City of Delta** for \$9.1M. A 35,000-sf building, is located on a 8.3-acre site of prime industrial land just off the Highway 91 Interchange and close to the South

Fraser Perimeter Road. The City plans to use it as a municipal works yard.

Leasing activity in Richmond has remained steady since mid-2017 with one of the most significant deals in the municipality involving **IKEA** leasing the last speculative building known as phase IV of **Hopewell Distribution Centre**. IKEA has a 10-year lease in the 330,540-sf building, which is located in the industrial submarket of Fraserwood in East Richmond.

Grafton Enterprises previously acquired two multi-tenant buildings at 12331 and 12351 Bridgeport Road for \$13.6M (as reported in the *Spring 2017 Richmond/Delta Industrial Report*). Both buildings have since been stratified and sold. While Grafton acquired the buildings for approximately \$252 psf, the strata units were subsequently priced and sold at \$500 psf. Subsequently, Grafton Enterprises made one of the largest industrial purchases in Richmond since mid-2017 by acquiring a 9-acre property at 9800 Van Horne Way near the Brighthouse area for \$32.75M, which included a 90,000-sf building. This property will be a future strata redevelopment site when the current tenant, **Univar**, vacates.

Austeville Properties acquired 7900 Nelson Road in East Richmond for \$39.03M. The property was the home of **Armtec Infrastructure Inc.** (which is owned by **Brookfield Asset Management**). The 125,000-sf building is located on 15.75 acres and is co-tenanted by **Harris Rebar**.

The largest industrial sale in Richmond since mid-2017 was Ontario-based **Nexus REIT's** acquisition of 1751 & 1771 Savage Road from a private owner for \$57.4M. **Wartsila Canada Inc.**, which recently renewed its lease, occupies approximately half of the 117,490 sf of total building area (which is evenly distributed between two buildings on a 5.48-acre parcel). The remaining gross leasable area is occupied by a new indoor sports facility. The sale boasted a cap rate of 6.5%, which would equate to an average net rent of \$31.75 psf for the entire property. ■

Industrial developments proposed or under construction in Richmond/Delta



More than 3.2 million square feet of new industrial space proposed or under construction by 2022

	Address	Project Name/Address	Developer	Size	Construction Type	Estimated Completion
1	7727 Beedie Way, Delta	Delta Link Business Center Building 2	Beedie	133,765	Development	Q4 2018
2	7750 Beedie Way, Delta	Swiss Water Decaf	Beedie	77,600	Development	Q4 2018
3	8050-8051 92nd Street, Delta	Buckingham Industrial Estates Building 1	Prism Construction Ltd.	56,780	Development	Q1 2019
4 ¹	8050-8051 92nd Street, Delta	Buckingham Industrial Estates Building 2	Prism Construction Ltd.	54,910	Development	Q1 2019
5	11611 No. 5 Road, Richmond	South Shore Business Centre	South Street Development Group	52,347	Development	Q2 2019
6	13571 Sparwood Place, Richmond	Trove - luxury auto storage condos	Hungerford Properties	78,000	Development	Q2 2019
7	11111 Twigg Place, Richmond	IntraUrban Rivershore	PC Urban	256,000	Development	Q2 2019
8	7560 & 7676 Beedie Way, Delta	BMW Canada	Beedie	281,650	Development	Q3 2019
9	7799 Berg Road, Delta	Westpointe Business Centre	Beedie	180,000	Development	Q4 2019
10	15111 Williams Road, Richmond	Richmond Industrial Centre - Phase I - Building 1	Montrose Property Holdings Ltd.	500,000	Development	Q4 2019
11	6311 Graybar Road, Richmond	Series Business Centre (Buildings 1 & 2)	Beedie	150,618	Redevelopment	Q4 2019
12	13201 River Road, Richmond		Grafton Enterprises	72,220	Development	Q4 2019
13	8576, 8594, 8620, 8644 River Road, Delta	8576, 8594, 8620, 8644 River Road (Lot 2)	Wesgroup	365,000	Development	Q4 2020
14 ²	6311 Graybar Road, Richmond	Series Business Centre (Building 3)	Beedie	152,690	Redevelopment	Q4 2020
15	5244 88th Street, Delta	Parkwood Industrial Estates	Beedie/ Pineland Peat Farms Ltd.	66 ha / 163 ac	Redevelopment	Q4 2020
16	13751, 13760 & 13851 Steveston Highway, Richmond		Port of Vancouver/ Dayhu	330,540	Development	Q4 2020
17	Vanguard Road, Richmond	Alliance on Vanguard	Alliance Partners	200,000	Redevelopment	Q4 2021
18 ³	8011 Zylmans Way, Richmond	Richmond Industrial Centre - Phase I - Building 2	Montrose Property Holdings Ltd.	500,000	Development	Q1 2022
19	7969 Highway 91 Connector, Delta		MK Delta Lands Group	62.7 ha / 154.9 ac	Development	TBD
20	12040 No. 5 Road, Richmond		Haydenco Holdings Ltd.	TBD	Development	TBD
21	12586 & 12580 Vickers Way, Richmond		Christopher Bozyk Architects Ltd	35,000	Redevelopment	TBD
22 ³	Blundell Road, Richmond	Richmond Industrial Centre - Phase II - Buildings 3 & 12	Montrose Property Holdings Ltd.	1,800,000	Development	TBD
23	9151 - 9211 Beckwith Road, Richmond		Christopher Bozyk Architects Ltd	95,000	Development	TBD

¹ See number 3 on map for location

² See number 11 on map for location

³ See number 10 on map for location

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2.7% a year ago despite the addition of new inventory. Industrial vacancy in Metro Vancouver's 200-msf industrial market was 1.6% in fall 2018. As vacancy has remained extraordinarily tight across the region – setting a new record low of 1.4% at mid-year 2018 – rental rates have risen rapidly in recent years, a trend expected to continue but gradually slow in the next 12 months.

Average rental rates in Richmond stabilized at \$9.69 psf in the third quarter of 2018, unchanged from 12 months earlier (but up from \$8.87 psf at mid-year 2017). Rental rates have moderated slightly in Delta, slipping to \$8.59 psf in the third quarter of 2018 from \$8.83 psf a year earlier (and lower than \$8.67 psf at mid-year 2017). Operating costs have also increased year-over-year in Richmond and Delta. Capitalization rates for industrial assets in Delta and Richmond remain elusive as few transactions are done on an investment basis. Cap rates for the few assets sold have ranged from 4.2% to 4.9% in Delta and 3.4% to 6.5% in Richmond since mid-2017.

Amazon's recently announced lease of more than 453,000 sf in building one at **Delta iPort** – which is under construction and scheduled for delivery by the end of 2018 – is likely the largest industrial lease deal in Metro Vancouver history. That announcement followed news that **The Brick/Leon's Furniture** and **BMW Canada** has leased approximately 430,000 sf and 280,000 sf, respectively, in **Delta Link Business Park**. Significant leases in Richmond since mid-2017 include **IKEA** leasing 330,540 sf in phase IV of **Hopewell Distribution Centre**, **Groupe Touchette** subleasing 149,560 sf on Blundell Road, and **Coca-Cola Refreshments** (138,450 sf) and **Kuehne + Nagel** (129,780 sf) both renewing on Nelson Road.

Industrial sales in Richmond in the first half of 2018 have shown no signs of slowing with 39 deals valued at \$194M completed (including the \$57.4M acquisition of 1751 & 1771 Savage Road) and is on pace to surpass the record dollar volume registered in 2017. A number of strata sales that are likely to close in the back half of 2018 are also likely to boost deal and dollar volume further due to ongoing increases in strata pricing and increasing frequency in the delivery of strata projects compared with buildings for lease. Delta industrial sales in the first half of 2018, which included 22 sales valued at \$48.9M, is significantly off in terms of dollar volume compared with recent years as deal velocity remains on pace. The \$9.1M acquisition of 8100 Nordel Way was the largest industrial sale in Delta in the first half of 2018.

With little relief in terms of new development coming to either market (many projects are preleased and presold), vacancy is expected to remain tight and purchase opportunities limited for the next 18 months with rents rising at a more measured pace. ■

ADDRESS	MUNICIPALITY	TRANSACTION VALUE	SQUARE FEET (SF)	PER SQUARE FOOT (PSF)	DATE
12351 Bridgeport Road	Richmond	\$4,053,000	8,105	\$500	June 2018
12200 Riverside Way	Richmond	\$5,200,000	16,076	\$323	May 2018
4200 Vanguard Road	Richmond	\$3,600,000	4,800	\$750	April 2018
1751 & 1771 Savage Road	Richmond	\$57,380,000	117,490	\$488	April 2018
12351 Bridgeport Road	Richmond	\$3,610,350	8,003	\$451	April 2018
15100 River Road	Richmond	\$15,500,600	83,902	\$185	April 2018
11880 Machrina Way	Richmond	\$2,500,000	10,284	\$243	April 2018
#1035 & #1040 - 2633 Simpson Road	Richmond	\$3,600,000	6,167	\$584	April 2018
9291 & 9311 River Drive	Richmond	\$27,800,000	206,610	\$135	April 2018
1071 Eburne Place	Richmond	\$2,775,100	9,952	\$279	April 2018
2551 Vauxhall Place	Richmond	\$3,663,700	14,876	\$246	March 2018
12331 Bridgeport Road	Richmond	\$2,702,000	5,403	\$500	March 2018
7900 Nelson Road	Richmond	\$39,030,000	125,000	\$312	March 2018
12331 Bridgeport Road	Richmond	\$3,615,300	8,034	\$450	March 2018
2900 Smith Street	Richmond	\$2,250,000	4,487	\$501	Feb 2018
9800 Van Horne Way	Richmond	\$32,750,000	90,000	\$328	Dec 2017
4211 Vanguard Road	Richmond	\$3,400,000	6,528	\$521	Dec 2017
#2113 & #2118 - 21320 Westminster Hwy.	Richmond	\$1,818,000	6,022	\$302	Nov 2017
13330 Maycrest Way; 13720 Mayfield Place	Richmond	\$9,300,000	36,089	\$258	Nov 2017
#2103 & #2108 - 21320 Westminster Hwy.	Richmond	\$1,937,500	6,012	\$322	Nov 2017
12151 Vulcan Way	Richmond	\$4,275,000	14,087	\$303	Oct 2017
2460 & 2480 Shell Road	Richmond	\$8,250,000	41,809	\$197	Oct 2017
12640 Bridgeport Road; 12631 Vickers Way	Richmond	\$5,455,000	11,407	\$478	Oct 2017
11480-11500 River Road	Richmond	\$28,700,000	222,755	\$129	Sept 2017
16108 Blundell Road	Richmond	\$32,600,000	268,000	\$122	Sept 2017
12180 Vickers Way	Richmond	\$3,500,000	7,250	\$483	Sept 2017
12040 Horseshoe Way	Richmond	\$6,080,000	14,822	\$402	Aug 2017
11951 Hammersmith Way	Richmond	\$2,680,000	9,725	\$276	Aug 2017
4691 Vanguard Road	Richmond	\$7,170,000	42,831	\$167	Aug 2017
12180 Riverside Way	Richmond	\$7,665,000	32,223	\$238	July 2017
#160 - 13900 Maycrest Way	Richmond	\$4,800,000	23,546	\$204	July 2017
2088 No. 5 Road	Richmond	\$1,636,000	4,346	\$376	July 2017
#4 & #5 - 1600 Derwent Way	Delta	\$2,087,000	6,045	\$345	June 2018
8014 Webster Road	Delta	\$5,450,000	22,930	\$238	April 2018
#8-#10 - 1600 Derwent Way	Delta	\$2,900,000	9,048	\$321	April 2018
#219 - 6901 72nd Street	Delta	\$3,060,765	12,002	\$255	April 2018
8100 Nordel Way	Delta	\$9,100,000	34,970	\$260	April 2018
7550 Macdonald Road	Delta	\$6,500,000	33,000	\$197	March 2018
#116 & #117 - 6951 72nd Street	Delta	\$6,525,000	25,085	\$260	March 2018
7858 Hoskins Street	Delta	\$2,575,000	9,818	\$262	Jan 2018
#20 & #21 - 1600 Derwent Way	Delta	\$1,876,595	7,653	\$245	Jan 2018
1519-1531 Derwent Way	Delta	\$17,000,000	81,155	\$209	Dec 2017
7393 Hopcott Road	Delta	\$22,337,500	77,200	\$289	Dec 2017
#208 - 6901 72nd Street	Delta	\$2,340,000	9,445	\$248	Dec 2017
8188 River Way	Delta	\$4,550,000	21,000	\$217	Dec 2017
8168 River Way	Delta	\$4,925,000	18,510	\$266	Nov 2017
7088 Venture Street	Delta	\$2,140,000	9,664	\$221	Sept 2017
6845 Tilbury Road	Delta	\$47,925,000	194,700	\$246	Sept 2017
7237 Wilson Avenue	Delta	\$4,950,000	20,000	\$248	Aug 2017
1331-1349 Derwent Way	Delta	\$9,866,667	52,625	\$187	July 2017
1600-1610 Derwent Way	Delta	\$16,500,000	98,784	\$167	July 2017

Source: Avison Young & RealNet

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