

Metro Vancouver



Industrial investment activity surpassed the half-billion-dollar mark in the first quarter of 2022

Metro Vancouver's red-hot industrial real estate market may start to normalize and return to pre-pandemic levels as the Bank of Canada (BoC) introduces more interest rate hikes this year.

But this anticipated market calmness is not a major cause for concern. Even after the market experienced more than a decade of exceptionally robust demand, the COVID-19 pandemic induced two years of accelerated growth. Normalcy, as it relates to the market's frenetic nature, may return. But there is still an extremely high need for industrial space across the region, and traditional market pressures – ongoing strong demand, lack of new and existing supply, and perpetually tight vacancy – will prevail for years to come.

Demand, sale prices and lease rates will likely continue to escalate rapidly – but not at the warp speed prevalent in recent months and years.

The calming effect will impact the cost of capital, which in turn will mainly impact developers, investors and owner-users using leverage in the acquisitions. The rapid pricing appreciation experienced over the past six to 12 months may slow but is generally not expected to stop especially when paired with inflationary pressures in the general economy. However, with an extreme scarcity of existing product available for purchase, no major pricing adjustments are expected to occur in the near term. Nor are significantly higher interest rates expected to stay for the long term.

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Metro Vancouver's industrial vacancy lowest in North America at 0.5%



Strata development represents one fifth of total square footage of new supply currently under construction



Rental-rate escalation expected to continue at a slower rate due to interest rate hikes



Delivery of new space for lease unable to alleviate chronically tight vacancy as majority is preleased through 2022



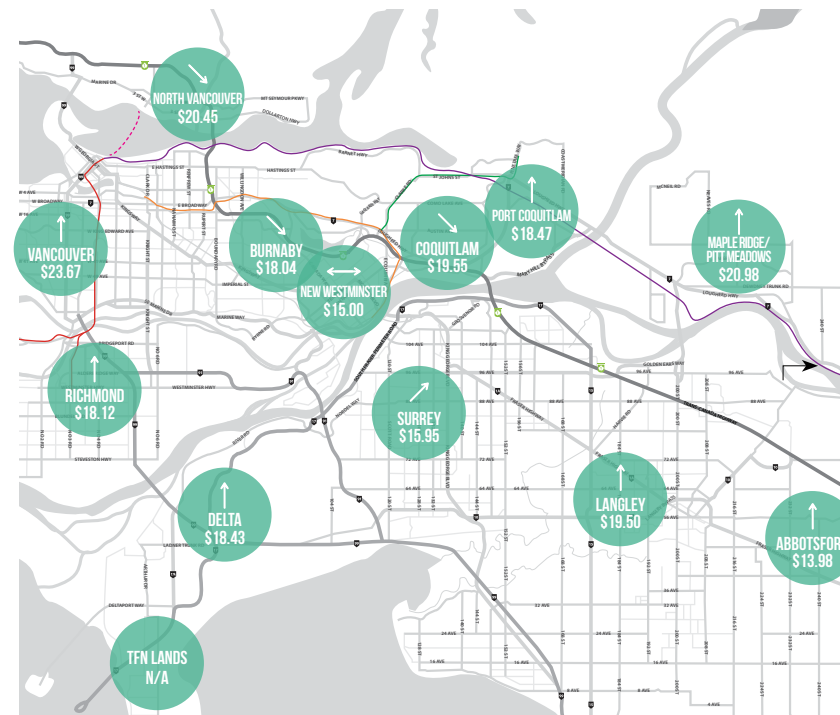
Lease rates hit new record high as Metro Vancouver average achieves \$18.09 psf



Investment in industrial properties continues to rise as the asset class outperforms other commercial real estate asset classes and remains the focus of investors of all types

Metro Vancouver Industrial Market Update (Q1 2022)

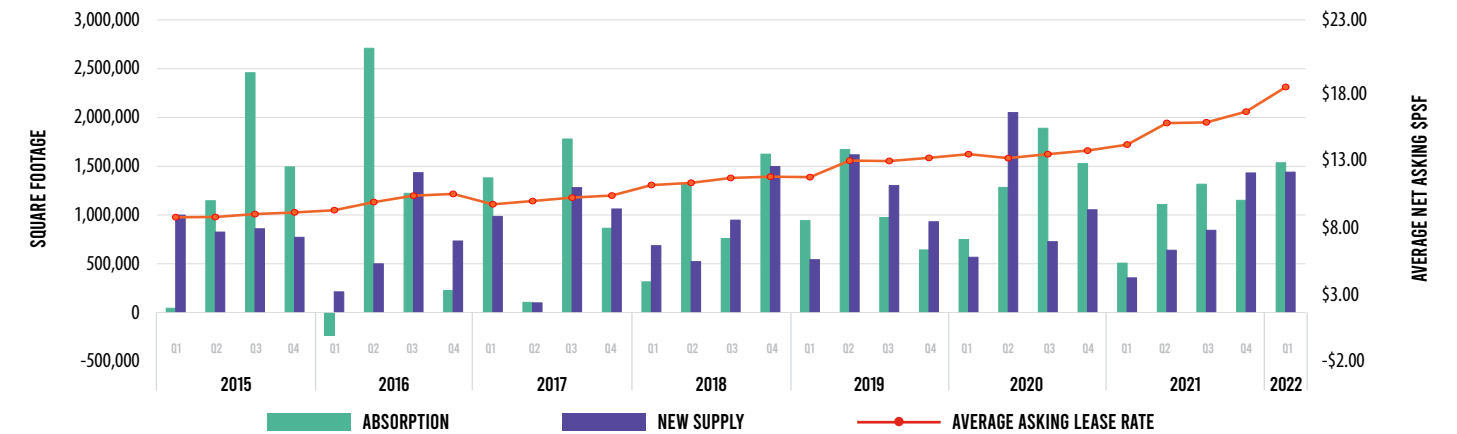
Average Asking Lease Rates in Metro Vancouver (PSF)



Approximately 2.8 million square feet of new inventory will be delivered in the next six months, but 85% of that space is already preleased/presold.

MUNICIPALITY	INVENTORY	Q1 VACANCY
Richmond	38,993,468	0.2%
Surrey	37,516,717	1.2%
Burnaby	29,681,462	0.2%
Vancouver	24,395,200	0.9%
Delta	25,808,754	0.3%
Langley	18,093,126	0.1%
Coquitlam	8,210,738	0.4%
Port Coquitlam	9,116,037	0.1%
Abbotsford	9,098,893	0.4%
North Vancouver	5,340,305	0.3%
New Westminster	4,405,187	0.0%
Maple Ridge/Pitt Meadows	4,793,233	0.9%
Tsawwassen (TFN Land)	1,348,540	0.0%
Metro Vancouver	216,801,660	0.5%

Metro Vancouver Five-Year Industrial Trends



NOTABLE INDUSTRIAL INVESTMENT SALES BY PRICE IN METRO VANCOUVER SINCE FALL 2021

ADDRESS	VENDOR	PURCHASER	PURCHASE PRICE	PPSF	BUILDING (SF)/ SITE AREA (ACRE)
3100 Production Way, Burnaby	Blackwood Partners	Fiera Real Estate	\$185,000,000	\$429	431,050/ 18.72
5744 268th Street, Langley	Eddi's Wholesale Garden Supplies	Kingsett Capital	\$60,000,000	\$385	155,800/ 8.92
2021, 2080 Carpenter Street & 2076 Townline Road, Abbotsford	479336 B.C.	CanFirst Capital Management	\$46,000,000	\$262	175,363/ 7.68
5140 North Fraser Way, Burnaby	Coanda Research & Development	5140 North Fraser Way Holding	\$35,000,000	\$465	75,251/ 4.37
19315, 19325 & 19335 96th Avenue, Surrey	Ceekeel Holdings	Beedie Group	\$34,750,000	\$357	97,424/ 6.103
1345 Cliveden Avenue; 789-801 Carleton Court, Delta	Original Cakerie	DH Can Owner	\$31,002,669	\$258	120,000/ 4.00
12650 82nd Avenue, Surrey	Reenrege Holdings	Bosa Properties	\$29,000,000	\$360	80,640/ 4.12
4505-4595 Still Creek Avenue, Burnaby	Altamont Properties	Spargus Industries	\$28,000,000	\$691	40,516/ 2.15
800 Boyd Street, New Westminster	A private individual	Nicola Wealth	\$27,500,000	\$434	63,321/ 2.97
17260 Heather Drive (IntraUrban CrossRoads - Building 2), Surrey	PC Urban	PAWA Group Investments	\$27,477,300	\$360	76,376/ strata
1717 & 1727 West 5th Avenue, Vancouver	Chateau Canada Trading	OpenRoad Auto Group	\$25,000,000	\$1,437	17,400/ 0.45
12080 Bridgeport Road & 30320 No. 5 Road, Richmond	Broadway Properties	1327191 B.C.	\$24,680,000	\$535	46,149/ 1.76
3115, 3149 & 3183 Norland Avenue, Burnaby	Nor Land Limited	Femo Construction	\$23,900,000	\$678	35,253/ 2.91
585 Seaborne Avenue, Unit 2140 (Riverwood Business Park), Port Coquitlam	The Circadian Group	Make Space Capital Partners	\$22,800,000	\$375	60,770/ strata
11820 Mitchell Road, Richmond	Broadway Properties	Container West	\$22,700,000	\$673	33,705/ 5.02
3653 Wayburne Drive, Burnaby	Armstrong Developments	1331332 B.C.	\$22,254,000	\$573	38,836/ 2.28
27426 60th Avenue, Units 120-160 (60th Avenue Business Centre), Langley	Beedie Group	1311700 B.C.	\$22,227,073	\$497	44,703/ strata
1285 Franklin Street, Vancouver	Kains & Strongman	Key Self Storage Ltd.	\$21,500,000	\$881	24,400/ 1.25

NOTABLE LAND SALES BY PRICE IN METRO VANCOUVER SINCE FALL 2021

ADDRESS	VENDOR	PURCHASER	SALE PRICE	SITE AREA (ACRES)	PRICE/ACRE
86 S.E. Marine Drive & 168 S.E. Marine Drive, Vancouver	Hungerford Properties	Amazon	\$149,999,996	12.45	\$12,047,225
7590, 7664 & 7688 80th Street, Delta	Cosulich Group Investments	Beedie Group	\$117,000,000	22.60	\$5,176,991
7233 Progress Way, Delta	Canadian Autoparts Toyota	Beedie Group	\$82,680,000	14.19	\$5,828,281
1560-1590 Rand Avenue, Vancouver	TPMG Capital	Keltic Canada Development	\$73,000,000	5.07	\$14,398,422
9800 Van Horne Way, Richmond	Pacific Bay Development	Cedar Coast	\$59,980,000	9.00	\$6,662,964
11760 Mitchell Road, Richmond	Broadway Properties	Richmond Steel Recycling Limited	\$37,400,000	8.20	\$4,560,976
8696, 8698 & 8700 Barnard Street, Vancouver	McLean Projects	PC Urban	\$34,356,500	2.79	\$12,309,746
9698 192nd Street, Surrey	GMW Properties	Beedie Group	\$25,475,000	3.99	\$6,378,317
8411 Lougheed Highway, Burnaby	A private individual	Hungerford Properties	\$25,000,000	2.75	\$9,090,909
9744 176th Street, Surrey	Pentecostal Tabernacle of British Columbia	1316407 B.C.	\$22,000,000	7.54	\$2,916,998
1950 Brigantine Drive, Coquitlam	Pacific Custom Log Sorting	Kiewit Corporation	\$21,000,000	6.76	\$3,107,428
16425, 16531 & 16441 Old McLellan Road, Surrey	A private individual	Cedar Coast	\$18,776,250	11.14	\$1,685,480
8818 & 8823 Greenall Avenue, Burnaby	Jag Management	Femo Construction	\$18,500,000	4.62	\$4,004,329
9714-9718 192nd Street, Surrey	9714 Port Kells Holdings	Beedie Group	\$14,000,000	2.00	\$7,000,000
5317 & 5371 Byrne Road, Burnaby	BSBP Developments	1344852 B.C. Ltd.	\$13,800,000	1.76	\$7,840,909
3409 196th Street, Surrey	A private individual	Cedar Coast	\$12,800,000	4.00	\$3,200,000
590 Dominion Avenue, Port Coquitlam	A private individual	590 Dominion Development	\$10,650,000	5.00	\$2,130,000
6074 Thorne Avenue, Burnaby	1278531 B.C. Ltd.	Everland Foods	\$10,400,000	1.48	\$7,027,027

RECENT NOTABLE LEASE TRANSACTIONS IN METRO VANCOUVER SINCE FALL 2021

MUNICIPALITY	ADDRESS	SF	TENANT	TYPE
Richmond	8011 Zylmans Way (Richmond Industrial Centre - Building 2)	504,400	Wayfair	New
Surrey	2325 190th Street	427,969	Confidential	New
Richmond	13320 River Road	214,400	Flexstar Packaging	Renewal
Richmond	8040 Zylmans Way (Richmond Industrial Centre - Building 4)	208,900	Coca-Cola Canada Bottling	New
Burnaby	7800 - 7884 Express Street	182,037	Service Pro Truck Lines	New
Delta	6988, 7007, 7008 Venture Street	172,926	FPI Fireplace Products International	Renewal
Abbotsford	1190 Cornell Street	147,640	Tradex Fraser Valley Exhibition Centre	Renewal
Burnaby	7200 Nelson Road	138,844	Coca-Cola Canada Bottling	Renewal
Burnaby	9788 Glenlyon Parkway	120,000	Amazon	New
Delta	608 Annance Court	102,064	Uno Foods	New
Surrey	2365 192nd Street, Units 102-108	99,006	Flynn Canada	New
Vancouver	9050 Shaughnessy Street	86,272	Bureau Veritas Commodities Canada	Renewal
Surrey	5355 152nd Street	81,810	Coastal Pacific Xpress	Renewal
Coquitlam	1 Burbidge & 3A Burbidge Street	81,083	18 Wheels Logistics	New

Sources: Avison Young Research & Altus Data Studio

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In the first quarter of 2022, the BoC announced its first 0.5% policy interest rate hike since May 2000, and another 0.5% in the first week of June. The central bank is shifting away from a prolonged policy of low interest rates as part of a bid to curb inflation, which reached a 31-year high of 6.7% in March 2022. But factors that led to rapid industrial asset and land price appreciation – and were exacerbated by the COVID-19 pandemic – will likely have a greater influence than rising interest rates on the Metro Vancouver industrial market.

Vendors are still well-positioned to capitalize on the substantial gains that they have enjoyed during the past four-plus years. Furthermore, the prevailing tight market conditions will continue to support the development of strata industrial space, which will remain in high demand and continue to serve as a potential hedge against lease rates that continue to escalate rapidly.

Strata prices may appreciate less rapidly and eventually level off – but they are unlikely to face downward pressure. Accordingly, rental-rate growth will be significant well into the future. Tenants will continue to line up for limited new and existing availabilities, due to years-long supply constraints brought on by rapidly increasing demand and an impending industrial land shortage that local and provincial governments continue to sidestep.

But land-use changes in Surrey's South Campbell Heights area, approved by Metro Vancouver this year, will allow for more industrial development planning and shovels in the ground over the next year or two, lead to more deliveries in the mid-term, and ultimately help stabilize rental rates and sale prices, albeit slightly. However, the full benefits of the land-use changes will likely not be felt for a number of years.

More development projects are expected to be announced in coming months as reduced supply-chain bottlenecks make some construction materials more affordable, lease rates and resale prices continue to reach record levels, and owner-occupiers continue to be challenged to find space that suits their needs. In the first quarter of 2022, industrial investment activity surpassed the half-billion-dollar mark (\$605,862,403), a 25% increase compared to the same quarter in 2021, indicating that investor appetite remains strong and is unlikely to decline soon.

Institutional investors' purchasing decisions will come down to opportunities to acquire preferred property types. Foreign investment is expected to be limited. However, foreign-ownership restrictions on residential properties may encourage some foreign investors to enter the commercial market, in particular the industrial sector, if possible.

Although rising interest rates may cause headwinds in the near term, the supply constraints will continue to impact the overall Metro Vancouver industrial market in a big way. As a result, leasing demand will continue to outpace supply by a wide margin as rent increases continue to accelerate.

Overall, the market vacancy remained unchanged between the first quarter of 2022 and the fourth quarter of 2021, sitting at 0.5%, the lowest in the country, while Toronto registered the second-lowest rate at 0.9%. The Metro Vancouver industrial market has been operating at or below 1% vacancy for the last six consecutive quarters and at or below 2% during the past six years. Albeit unsustainable, this low vacancy is not expected to change in the near term. As tenants continue to display strong appetite for small and mid-sized spaces, several market entrants are also leasing large-format warehousing and distribution space.

As a result of the overall prevailing pressures, some existing tenants may need to relocate, and new tenants may have to choose different areas, within the region. Tenants who have secured spaces will be well-advised to lock them up for as long as possible. At the end of first-quarter 2022, the Metro Vancouver average industrial lease rate hit another record high at \$18.09 per square foot, marking a 30% increase from the same quarter in 2021. Metro Vancouver is not only the most expensive industrial market, but the region has also held the record for the past six consecutive quarters as the tightest market in Canada.

Hence, some Metro Vancouver users have taken up space in secondary and tertiary markets on Vancouver Island, in the Okanagan Valley, and elsewhere in British Columbia. In those markets, traditional developments have comprised smaller buildings with at-grade loading capabilities. But developers are now showing more desire to acquire land and build mid-sized and large product for distribution purposes.

Ultimately, despite the rising interest rates, there will be no pressure release for the Metro Vancouver industrial market any time soon. Some groups will likely be pushed out of the market completely and look to other parts of Canada to fulfill their requirements. ■

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