Industrial Overview / Fall 2022

Metro Vancouver

The overall vacancy of Metro Vancouver in the third quarter remained unchanged

Metro Vancouver's industrial market continues to be resilient through the economic and geopolitical headwinds of 2022. The Bank of Canada (BoC) announced another interest rate increase of 50 basis points (bps) on October 26, bringing the national benchmark rate to 3.75%.

Construction costs continue to be volatile and labour shortages have been highlighted across multiple disciplines. Fortunately, inflation is showing signs of subsiding but remains elevated at 6.86%[1]. Despite these complex factors, limited supply and pent-up demand are expected to carry the market through the choppy waters forecast for 2023.

The overall vacancy of Metro Vancouver in the third quarter of 2022 was 0.4% — unchanged from the same quarter last year, which was the first time the market hit a 0.5% vacancy environment; however, when compared with second-quarter 2022 (0.3%), vacancy notched up slightly by 10 bps. This has been the longest streak (five consecutive quarters) of a sub 0.5% vacancy and it is unlikely that the market will exceed this new

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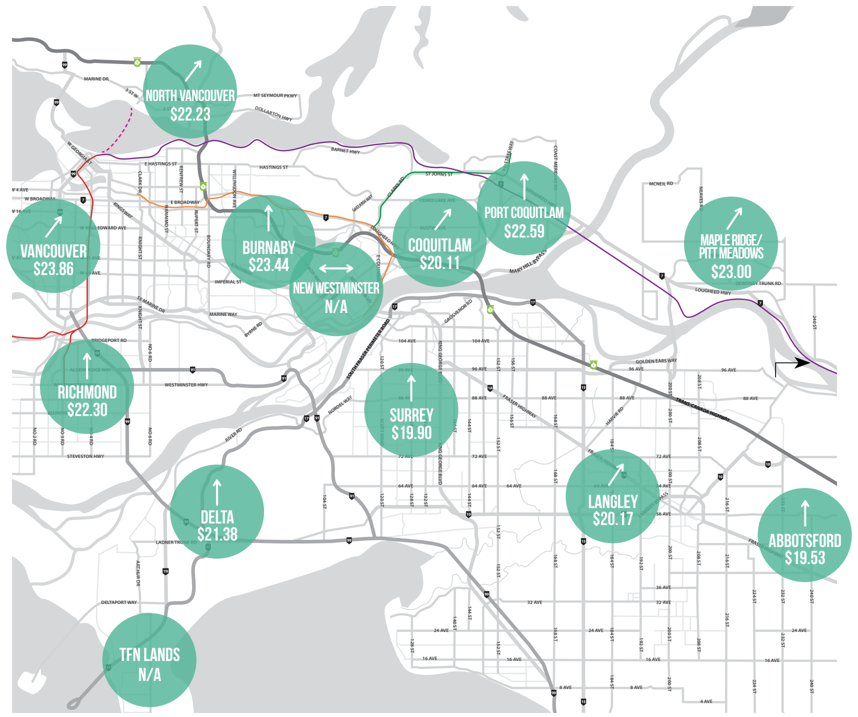
- Metro Vancouver's industrial vacancy lowest in Canada at 0.4%
- Strata development represents 23% of total square footage of new supply currently under construction
- Rental-rate escalation expected to continue at a slower rate due to more cautious occupiers
- Delivery of new space for lease unable to alleviate chronically tight vacancy as majority is preleased through the first half of 2023
- Lease rates hit new record high as Metro Vancouver average achieves $21.28 psf
- Industrial remains the preferred asset class for all investor types and is expected to remain so in the long term

[1] *https://ycharts.com/indicators/canada_inflation_rate*

Metro Vancouver industrial market update (Q3 2022)

Average Asking Lease Rates in Metro Vancouver (PSF)



Approximately 3.1 million square feet of new inventory will be delivered in the next six months, but 90% of that space is already preleased/presold.

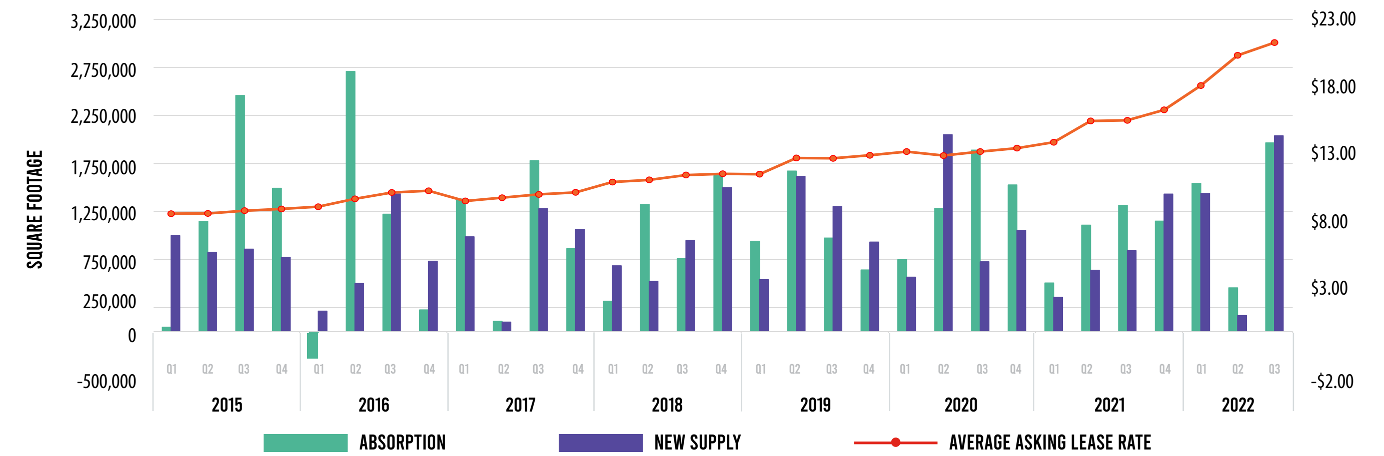
MUNICIPALITY	INVENTORY	Q3 VACANCY
Richmond	38,993,468	0.4%
Surrey	37,938,333	0.3%
Burnaby	30,388,462	0.3%
Vancouver	24,398,200	1.0%
Delta	26,572,556	0.2%
Langley	18,216,545	0.4%
Coquitlam	8,210,738	0.2%
Port Coquitlam	9,243,509	0.0%
Abbotsford	9,159,134	0.4%
North Vancouver	5,340,305	0.5%
New Westminster	4,405,187	0.0%
Maple Ridge/Pitt Meadows	4,793,233	0.2%
Tsawwassen (TFN Land)	1,348,540	0.0%
Metro Vancouver	**219,008,210**	**0.4%**

RECENT NOTABLE LEASE TRANSACTIONS IN METRO VANCOUVER SINCE SPRING 2022

MUNICIPALITY	ADDRESS	SF	TENANT	TYPE
Richmond	8031 Zylmans Way (Richmond Industrial Centre)	385,000	Confidential	New
Surrey	19088 38th Avenue	371,123	UPS Canada	New
Richmond	3971 No. 6 Road	153,400	Marine Canada Acquisitions	Renewal
Burnaby	5589 Trapp Avenue	148,715	Horizon Distributors	Extension
Richmond	7271 Nelson Road	141,860	Stryder Motorfreight Canada	Extension
Richmond	21720 Fraserwood Way	138,058	Volkswagen Group Canada	Renewal
Richmond	7433 Nelson Road	116,292	Bunzl	Renewal
Richmond	14260 Knox Way	113,943	TransLink	New
Surrey	19225 32nd Avenue (Parallel 32)	111,815	Darwynn Fulfillment	New
Burnaby	8651 Eastlake Drive	100,675	Confidential	New
Surrey	18822 24 Avenue	93,314	Iron Mountain	Extension/Expansion
Richmond	16111 Blundell Road, Unit 136	91,505	Container World	New
Pitt Meadows	19265 Airport Way, Units 201-204	78,814	Univar Solutions	New
Abbotsford	2278 Peardonville Road, Units 8-13	69,395	NCS International	New
Kamloops	325 Silver Stream Road	65,517	Confidential	New
Pitt Meadows	19265 Airport Way, Units 207-209	58,987	VK Delivery & Moving Services	New
Delta	785 Derwent Way, Units 101-103	56,734	FBM Canada GSD	New
Abbotsford	2278 Peardonville Road, Units 1-5	56,432	Hi-Performance Distributors	New
Pitt Meadows	19265 Airport Way, Units 205-206	39,426	Radial	New
Surrey	19490 92nd Avenue	39,200	CWS Industries	Renewal
Burnaby	5250 Riverbend Drive (Riverbend Business Park - Building 3)	37,789	XPO Logistics	New
Port Coquitlam	2043 Kingsway Avenue	37,575	Pacific Blends	New

Sources: Avison Young Research & Altus Data Studio

Metro Vancouver five-year industrial trends



NOTABLE INDUSTRIAL INVESTMENT SALES BY PRICE IN METRO VANCOUVER SINCE SPRING 2022

ADDRESS	VENDOR	PURCHASER	PURCHASE PRICE	PPSF	BUILDING (SF)/ SITE AREA (ACRE)
19500 56th Avenue, 5555 & 5533 Production Boulevard, Surrey	Revolution Equipment	Greater Vancouver Water District	$38,000,000	$989	38,440/5.32
12380 Horseshoe Way, Richmond	Quadra Equities	Herbaland Naturals	$35,000,000	$547	64,017/3.75
8910 Shaughnessy Street, Vancouver	Roberto Schwartz & Atlantic Investments & Schwartz Financial Research	Greater Vancouver Water District	$31,800,000	$494	64,366/2.58
2870 Lake City Way & 7802 Express Street, Burnaby	Shindler Enterprises	Austeville Properties	$29,500,000	$560	52,708/3.21
44109 & 44137 Progress Way, Chilliwack	Triton Transport	Martini Construction and Development	$27,500,000	$1,576	17,451/6.69
2611 Viscount Way, Richmond	Broadway Properties	Conwest	$23,000,000	$523	44,000/2.57
19077 33rd Avenue, Surrey	FTS Holdings	1357336 B.C.	$22,500,000	$657	34,233/2.33
9274 194th Street, Surrey	Pairus Holdings	1344035 B.C.	$22,000,000	$267	82,455/2.00
19168 39th Avenue, Units 109-116, Surrey (Thirty8 Avenue)	Beedie	1346778 B.C.	$21,506,263	$288	74,728/strata
85 North Bend Street, Coquitlam	Reliable Parts	1363183 B.C.	$21,500,000	$546	39,348/2.00
3454-3468 Bridgeway Street, Vancouver	A.T. Storrs	Bosa Properties	$20,700,000	$409	50,659/1.54
3577 194th Street, Units 107-108, Surrey (Cedar Coast South Surrey)	1231541 B.C.	108 3577 194 Street Holdings	$19,950,000	$609	32,770/strata
8508 Ash Street, Vancouver	Sing Tao Newspapers	459795 B.C.	$19,800,000	$586	33,786/0.84
1055 Vernon Drive, Vancouver	PC Urban	Walker Group Ventures	$19,000,000	$660	28,785/strata
6600 Fraserwood Place, Richmond	R Lam Holdings	Sunlife Nutrition	$17,500,000	$564	31,051/1.52

NOTABLE LAND SALES BY PRICE IN METRO VANCOUVER SINCE SPRING 2022

ADDRESS	VENDOR	PURCHASER	SALE PRICE	SITE AREA (ACRES)	PRICE/ ACRE
19356, 19438 16th Avenue & 1417 194th Street, Surrey	CH Holdings, CH 2 Holdings & CH 4 Holdings	Cedar Coast & BentallGreenOak	Share sale	62.49	N/A
19469 & 19511 92nd Avenue, Surrey	Lloyd Investments	Conwest Group	$111,000,000	14.21	$7,811,400
43645 & 43701 Industrial Way, Chilliwack	Doc's Auto Body	Southern Drip Irrigation	$50,000,000	11.62	$4,302,926
26575, 26601, 26695 56 Avenue & 5670 264 Street	A private individual	Conwest Group	$43,148,000	18.76	$2,300,000
15700 River Road, Richmond	Gaea Holding BC	Canadian National Railway Company	$30,000,000	5.40	$5,551,443
770 Evans Avenue. Vancouver	Unimet Homes	Abcellera Biologics	$25,000,000	1.28	$19,531,250
2660 Barnet Highway, Coquitlam	Alumet MFG	PC Urban & Nicola Wealth Real Estate	$24,125,000	3.48	$6,932,471
323 Alexander Street, Vancouver	Atira Development Society	323 Alexander Property	$23,866,667	0.59	N/A
18872 52nd Avenue, Surrey	1027756 B.C.	A-1 Trusses	$20,500,000	4.88	$4,201,681
1812 Foy Street, Abbotsford	Ross Power Properties	U-Haul	$20,500,000	4.91	$4,176,003
950 Raymur Avenue	Sherwin-Williams Canada	Beedie	$19,300,000	1.56	$12,371,795
2844 194th Street, Surrey	Timberland Tourist Facilities	Cedar Coast	$17,000,000	4.71	$3,609,342
18942 20 Avenue, Surrey	0958547 B.C.	1366226 B.C.	$16,000,000	4.85	$3,302,374
18715 92nd Avenue, Surrey	A private individual	1154427 B.C.	$12,600,000	7.86	$1,603,052

*Share sale

Sources: Avison Young Research & Altus Data Studio

Industrial development timeline

	GOLDEN EARS BUSINESS PARK, 19265 AIRPORT WAY (BUILDING 2)	RICHMOND INDUSTRIAL CENTRE, 8011 ZYLMANS WAY (BUILDING 2)	PANORAMA RIDGE INDUSTRIAL, 15030 54A AVE (BUILDING 1)	PARALLEL 32, 19225 32ND ST	COASTAL HEIGHTS DISTRIBUTION CENTRE, 2325 190TH ST	GOLDEN EARS BUSINESS PARK, 19265 AIRPORT WAY (BUILDING 3)
						
	Q4 2022	Q4 2022	Q4 2022	Q4 2022	Q4 2022	Q1 2023
MARKET	Pitt Meadows	Richmond	Surrey	Surrey	Surrey	Pitt Meadows
DEVELOPER	Onni	Montrose Properties	Beedie	Beedie	PIRET/ Cedar Coast	Onni
BUILDING SIZE (SF)	236,270	504,400	256,480	192,232	427,969	111,095
STATUS	Under Construction	Under Construction	Under Construction	Under Construction	Under Construction	Under Construction
TENANTS	VK Delivery & Moving Services Univar Solutions Radial	Wayfair	Eddie's Wholesale Garden Supply	Darwynn Fullfilment Robar Industries	Confidential	N/A
OCCUPANCY	100%	100%	100%	100%	100%	0%

	1873 FORGE PLACE	2278 PEARDONVILLE ROAD	2940 190TH STREET	SUNMARK INDUSTRIAL CAMPUS, 18750 28TH AVENUE (BUILDING A)	CHOICE INDUSTRIAL CENTRE, 18899 24TH AVENUE	PACIFIC CORPORATE CENTRE, 19550 36TH AVENUE (BUILDING A)	PACIFIC CORPORATE CENTRE, 19550 36TH AVENUE (BUILDING B)
							
	Q1 2023	Q2 2023	Q2 2023	Q3 2023	Q3 2023	Q3 2023	Q3 2023
MARKET	Abbotsford	Abbotsford	Surrey	Surrey	Surrey	Surrey	Surrey
DEVELOPER	Horizon Pacific	B&E Investments	Pacific Country Investments	Sunmark Development	Choice Properties REIT Pacific Land Groups	BentallGreenOak Cedar Coast	BentallGreenOak Cedar Coast
BUILDING SIZE (SF)	105,496	143,830	102,300	193,000	353,476	212,358	232,185
STATUS	Under Construction	Under Construction	Under Construction	Under Construction	Under Construction	Under Construction	Under Construction
TENANTS	Artika for Living Matteo Lighting Portable Storage Canada	Hi-Performance Distributors NCS International	18 Wheels Warehousing & Trucking	Industrial Equipment Manufacturing (IEM)	N/A	N/A	N/A
OCCUPANCY	100%	85%	100%	100%	0%	0%	0%

Updated as of October 31, 2022

Industrial development timeline

	RICHMOND INDUSTRIAL CENTRE, 8031 ZYLMANS WAY (BUILDING 1)	RICHMOND INDUSTRIAL CENTRE, 8031 ZYLMANS WAY (BUILDING 4)	XCHANGE BUSINESS PARK, MOUNT LEHMAN ROAD (BUILDING 1)	XCHANGE BUSINESS PARK, MOUNT LEHMAN ROAD (BUILDING 2)	GOLDEN EARS BUSINESS PARK, 19300 AIRPORT WAY (BUILDING 1)	19283 28TH AVENUE
						
	Q4 2023	Q1 2024	Q1 2024	Q1 2024	Q1 2024	Q1 2024
MARKET	Richmond	Richmond	Abbotsford	Abbotsford	Pitt Meadows	Surrey
DEVELOPER	Montrose Properties	Montrose Properties	QuadReal Hungerford	QuadReal Hungerford	Onni	Natt Development
BUILDING SIZE (SF)	385,000	275,200	120,760	138,189	864,000	103,571
STATUS	Under Construction	Under Construction	Proposed	Proposed	Proposed	Proposed
TENANTS	Confidential	Coca-Cola	N/A	N/A	Amazon	N/A
OCCUPANCY	100%	82%	0%	0%	100%	0%

	CAMPBELL HEIGHTS INDUSTRIAL CENTRE V, 2888 194TH STREET	NORDEL POINT, 10064, 10075, 10104 RIVER ROAD	7233 PROGRESS WAY	VAN HORNE 9800, 9800 VAN HORNE WAY	19116 32ND AVE BUILDING B	POWERWOOD, 9760 190TH STREET
					 *Stock image | Source: Getty Images*	 *Stock image | Source: Getty Images*
	Q1 2024	Q2 2024	Q2 2024	Q2 2024	Q2 2024	Q2 2024
MARKET	Surrey	Delta	Delta	Richmond	Surrey	Surrey
DEVELOPER	Farrell Estates	Conwest	Beedie	Cedar Coast	Beedie	Beedie
BUILDING SIZE (SF)	116,000	225,000	373,808	243,841	166,661	121,263
STATUS	Proposed	Proposed	Proposed	Proposed	Proposed	Proposed
TENANTS	N/A	N/A	N/A	N/A	N/A	N/A
OCCUPANCY	0%	0%	0%	0%	0%	0%

Updated as of October 31, 2022

TODD YUEN
PRESIDENT, INDUSTRIAL - BEEDIE

What do you forecast the average industrial lease rate for distribution space will be in 2025?

$23 psf (shell). Despite the headwinds in the economy, the die has been cast with respect to the new benchmark for industrial lease rates. Recent transactions for larger deals in the Toronto market are now north of $19 psf and that market is lagging Metro Vancouver. More importantly, while we could see a slowdown in momentum due to macroeconomic factors, the reality remains we are in an almost zero percent vacancy market for tier-one distribution space. Through our discussions with various users, we see no major reductions in demand forthcoming, and we are a long way away from being in an environment where supply is even close to meeting current requirements in the market.

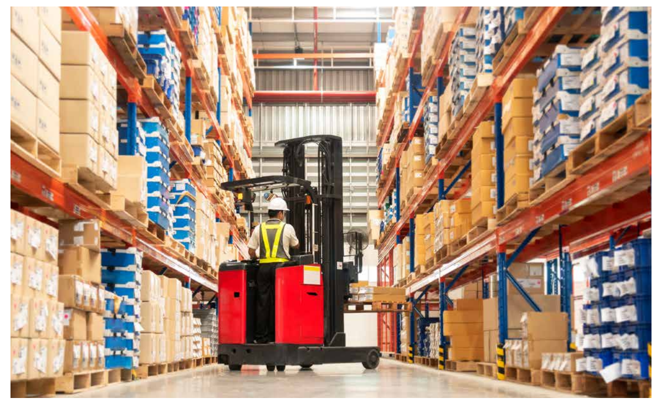
The same realities that we have always known about Metro Vancouver remain true today. We are a major port city in a land-constrained market where the timelines to deliver product are long, and the barriers to entry are significant. This is not a condition that is likely to change anytime soon irrespective of interest rates and inflation.

Are you readjusting your strata and lease development portfolio given the current market conditions? For example, are there projects you are considering shifting from speculative strata to speculative lease?

Absolutely. But this isn't just because of a market shift. Our underwriting has always been based on having flexibility and our ultimate objective on any site is to build and hold with a long-term tenant in place. If you look at the acquisition of the Delco site and now Progress Way, both of those acquisitions were originally thought to be future strata products. We have now locked down a tenant for the entire site at Delco and are proceeding with what we think will be one of the best logistics facilities in the market at Progress Way.

On our smaller strata sites, we are now speaking to larger single-users and other potential tenants as opposed to focusing on strata. We think we de-risk a lot of deals through our ability to be flexible and pivot quickly. Further, the user and brokerage communities both know we're as good as anyone at delivering a build-to-suit so that opens a lot of doors for us.

How is increasing interest rates impacting your business and how are you approaching acquisitions, refinancing and strata project sales?



Cap rates have obviously gapped out considerably due to the recent interest-rate increases. This simply changes your underwriting, and you can't offer on the same metrics as you could six to eight months ago. On a refi, there's a bit of a balance as our rollovers often coincide with a renewal so in those cases, we have a big rental-rate bump to offset the increase in rates. There's no question that some of the momentum in the strata market has been hamstrung due to the cost of borrowing increasing. The good news is, we're very comfortable with where we purchased all our proposed strata sites, so we have the ability to develop, build and then price to meet the changing environment.

While we didn't win every bid for the land sites we offered on over the past two years, our underwriting has always been conservative so when we lost, we were comfortable with it. We never blue-skyed our proformas. This allowed us to stay flexible and with the continued strength in the leasing market, some strata sites are now viable as leasing projects.

In your opinion, have you seen any adjustments in industrial land prices over the past six months and how do you expect them to trend over the next 12 months?

It hasn't happened yet. I get a lot of calls from groups who say, "I'm willing to do that deal I said no to six months ago". Unfortunately, that's no longer a deal we're prepared to do. What I'm not getting is a second call saying, "well now I'm willing to come off my price". I think we need to remember that a lot of people who own industrial land have either done so for years and have built up a ton of equity and/or have the financial capacity to wait for market conditions to re-normalize. Metro Vancouver has never seen a market with

significant panic-selling. I expect we will eventually see some more aggressive "price rationalization" from some sellers towards the end of the year and into 2023 but I don't think this is going to be commonplace. It's very hard for someone to sell for a massive discount to what a site sold down the street for eight months ago. While market conditions may dictate that there's a new pricing regime required for a buyer to react, that doesn't mean a seller has to cooperate.

That's a long way of saying that pricing will come off for some sites based on that owner's individual circumstances and motivations, but I don't think you're going to see a lot of fire sales.

Is there a specific type of industrial product that you are bullish on? e.g. multi-storey, strata, co-warehousing, small bay versus large bay, etc.?

I think it's hard to ignore any segment of the leasing market. The area is so underserved, and demand isn't going away any time soon. Nationally, and in our project in the states, we're looking at catering to market segments on the leasing side, which have been a bit more ignored as we think we can provide some attractive alternatives to those prospective tenants.

Have you experienced any of the tenants in your portfolio relocating to Alberta due to costs and/or supply constraints in BC or perhaps due to other factors? How is the BC industrial market compared to Ontario and your appetite to move to a landlord position in that market versus only speculative strata?

To my knowledge, we've only had one tenant elect not to renew with us and relocate to Alberta. That tenant wanted to own their facility and couldn't rationalize pricing in Metro Vancouver. They weren't tied to their location with us from either an employee or supply-chain perspective, so Calgary was an easy move for them. For most of our other tenants though, the notion of moving to Alberta solely for lower rents just isn't that easy. Once you've spent time and money establishing a presence in a market, it makes you kind of sticky.

There are a lot of parallels between BC and Ontario. Clearly Ontario is a much larger market and the sheer scale of projects there is incredible. Everything is just bigger in Ontario where a 1-million-square-foot speculative development is commonplace, and a 100,000-square-foot tenant is small. All of this being said, there is an incredibly low vacancy rate in the Greater Toronto Area (GTA) and they have the same barriers to entry that we do. I'd say generally, there's a bit more opportunity in Ontario but that doesn't make it easier to be a developer and make money. It's becoming an increasingly expensive market and the development process is arguably slower and more cumbersome than what we deal with here.

We fully intend to expand our suite of offerings to the market in the GTA and, as I mentioned earlier, we are already looking to reposition some of our intended strata sites to lease product. As expected, we're starting to hear from people looking for build-to-suits so with time, we hope to be able to mirror what we do in Vancouver and Calgary in Toronto. But we're going to make sure we're fully capable of walking proficiently before we run.

What keeps you up at night?

Honestly, not much work-wise. We feel very fortunate to be working in the industrial market. We've seen incredible growth over the past three years based on strong underlying fundamentals. Our customers are the same industry groups as they were three years ago, and those businesses are highly analytical and critical in their thinking. Nobody leases a warehouse or purchases a strata unit out of emotion. Historically, that's what has made our market so steady and dependable. COVID changed everything and all of the sudden your supply chain and the need to onshore forced businesses to reassess their need for warehouse space. Combine that with the e-commerce surge, which isn't going anywhere, and it would appear that we have a great recipe for continued and steady growth in the industrial market.

This isn't to say that the headwinds and pending recession (if we aren't in one already) won't change the calculus of the industrial market for us. There will unfortunately be some hardship felt in our sector, but we aren't expecting anything overly drastic to occur.

READE WOLANSKY
VP, DEBT AND EQUITY FINANCE - AVISON YOUNG

With the rapidly changing capital markets landscape throughout 2022, what sort of patterns have you noticed emerge in the Canadian real estate lending market?

With exogenous factors such as central bank rate hikes, yield curve inversion, cost and labour volatility, and municipal delays, the commercial real estate lending environment has endured an array of headwinds in 2022. Coupled with the rate of change of these factors, both borrowers and lenders are taking an ever-increasing critical review of each transaction.

Construction financing is facing increased criticism due to softening product absorptions (driven by financing challenges of purchasers) or cost challenges persistently present in the market, and are thus presenting a drag on overall sentiment.

Seasoned real estate lenders have adjusted their lending guidelines to compensate for the increased level of uncertainty, which in turn has affected spreads, total leverage, and for some, asset allocation. Incoming regulatory changes for OSFI (Office of the Superintendent of Financial Institutions)-regulated financial institutions have also factored into how potential lenders address existing and future loan portfolio composition.

All that said, there is appetite for most deals on a selective basis. Liquidity, although reduced compared to our recency bias during the boon of low rates, is still available.

Have you noticed trends developing in the types of groups that are actively financing transactions? Are institutional lenders showing changes in lending activity compared to regional/ high-yield groups? Are some groups behaving more cautiously than others?

Broadly speaking, market participants appear to be to selectively targeting asset classes and loan types and/or reserving capital for established clientele. This represents a shift from the steep growth in real estate lending the market benefitted from starting in Q3 2020. Real estate lending as a whole is anticipated to slow given the economic implications of short-term interest rates, bond yields and costs. The advantageous financial conditions of the previous two years have set a high watermark to rank second-half 2022 and year-end 2023 against, but committed lenders will continue to be active, albeit with adjusted risk tolerance. Non-bank/private sources of capital vary depending on funding source and geographic preferences but there remain active groups to support a somewhat competitive landscape. Land financing remains limited due to slower development approval timelines (and subsequent conversion to construction loans) as well as portfolio exposure limits. Construction financing is being impacted due to conventional construction margins eroding over the past year and the enhanced level of discipline being enforced by risk groups upon the business lines. Higher yielding capital will undoubtedly benefit from higher loan and borrower quality due to the shift in the conventional lending market.

Have you noticed trends developing in risk tolerances for certain asset classes or regions? Are industrial and multi-family assets in core markets still the highest priority for lenders? Have rising interest rates and bond yields made the already-riskier asset classes and markets even less attractive to investors?

Flight-to-quality security, such as multi-family rental and industrial assets, continues to be a theme in the market with the latter asset class exhibiting historically low vacancy and sustained pressure on rents/lease rates. Lower loan-to-value ratios driven by takeout financing feasibility is necessitating an adjustment of expectations as the market previously benefitted from historically low floating rates and bond yields. Naturally, the rapid increases are beginning to play a critical role on both a capital planning and financing standpoint.

Since rising bond yields throughout the second half of 2022 have added costs and uncertainty to capital stacks and effectively priced-out many transactions from occurring, have you noticed any emergence of non-traditional capital structures (such as joint-ventures and vendor take-back financings) as investors have been forced to get creative?

The fixed-income market has effectively driven leverage back down from the historically high levels on income-producing commercial real estate. The rapid increase in the prime lending rate has forced its hand within construction budgets and land acquisitions making the return on cost evaluation ever more problematic to solve. Uncertainty in cap rates, values and mortgageability all line up for 2023 to reward those with creative capital structures and lending partners.

Joint ventures, with land being vended in by one party with a low historical cost, institutional partnerships, and extended option and closing timelines, are examples of a deviation from the plain-vanilla approach that may have pencilled out a mere 18 months ago.

VTB (vendor take-back) financing is becoming a topic of conversation more than in past years as sellers realize the purchasers' reality from a financing perspective for each transaction.

For a typical class A industrial income-producing property acquisition in Metro Vancouver's core industrial markets, what would you recommend as a current benchmark for the loan-to-value (LTV) ratio, the debt-service coverage ratio (DSCR), and the interest rate for a borrower with strong covenants? How do these metrics compare to lower-quality income assets and to land and construction loans for industrial development projects?

Conventional pricing will be asset and lender specific; as this market still benefits from record-low vacancies and sustained demand, one can expect leverage to be limited mostly by debt-service ratios as interest-rate increases have outpaced cap rate increases. Lender-specific comfort on each asset, the composition of the cash flow, and sponsorship, are all considered when generating financing terms. For construction loans, the exit strategy and rate assumptions will be key to each lender's analysis.

Based on your discussions with institutional and private lenders, where do you see mortgage investment volumes trending over the next six to 12 months? What sort of advice do you have for real estate investors and developers seeking to deploy capital with these trends in mind?

Generally speaking, there is the consensus that deal flow will decrease, but there is still appetite for deals that meet the risk tolerance levels for each specific lender. With lower potential volumes, the top quartiles of deals in the market may see heightened interest and increased competition to the borrower's benefit.

In summary, although sales targets may not increase across the board, groups with a mandate to lend and meet objectives are inclined to do deals. A savvy investor or developer will focus on the relationship, transparency and execution as loans become slightly less of a commodity compared to past years. Pricing and fees may not be as of a concern compared to confidence in execution this year.

What keeps you up at night?

Pondering the financial fragility of our post-global-financial-crisis economic world.

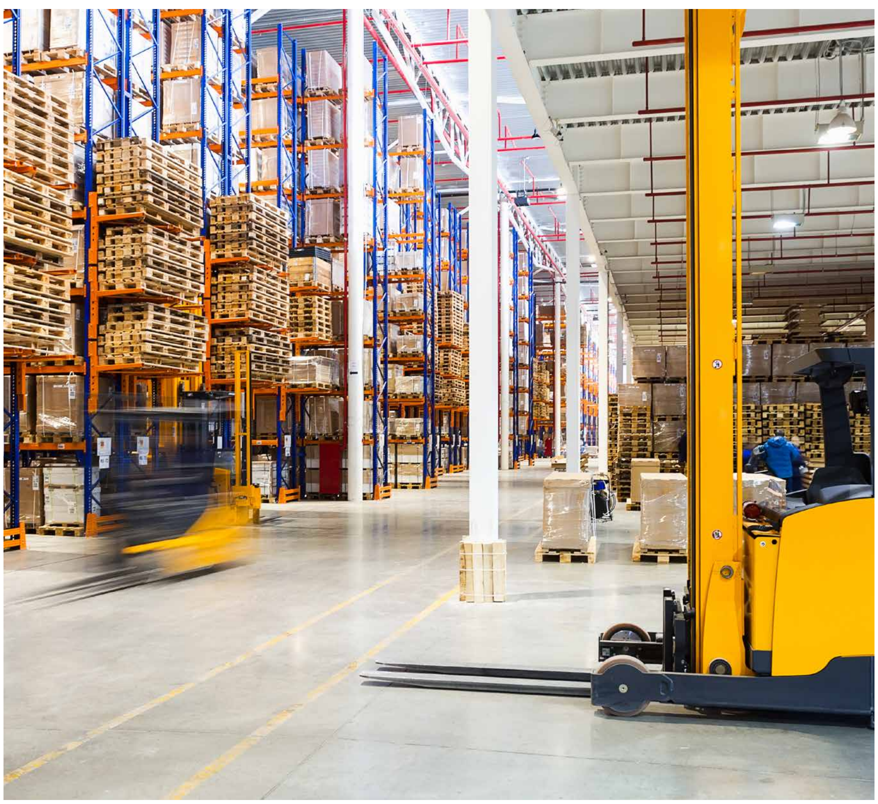
continued from front page

threshold in the near term. More than 2.5 million square feet (msf) is expected to be delivered in the last quarter of 2022, but a staggering 95% of the space has been committed as of the end of the third quarter.

Lease rates continue to ascend across the Lower Mainland, driven by strong demand and constant supply constraints. This has led to record-breaking average asking rental rates — a record broken every single quarter since spring 2017. At the end of the third quarter of 2022, average asking base lease rates hit an all-time high of $21.28 psf, making Metro Vancouver the only industrial market in the nation to surpass $20 psf. Toronto was the second priciest industrial market, sitting at $16.15 psf, 32% lower than Metro Vancouver's rate. Although the gap seems to widen nationally, the opposite is true when compared with other port cities in the U.S. West Coast, such as Seattle-Tacoma, Long Beach, Inland Empire and San Francisco, which also have asking rates north of C$20 psf.

Other industrial markets in Canada are finally starting to see meaningful new availability coming online as well as substantial projects being added to development pipelines. This has helped initiate conversation of oversupply. However, in a land constrained area like Metro Vancouver natural barriers and land use policies have historically prevented the market from overbuilding.

The presale strata market has been affected by the macroeconomic headwinds during the second quarter of 2022. Investors, owner occupiers, and developers are continuing to navigate through this unpredictable environment with developers holding firm on pricing, while investors and occupiers are waiting for a more stable interest rate environment before committing to new purchases. This combination of factors will likely result in a slower market into the fourth quarter and into early 2023.



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