AVISON YOUNG

Spring 2019 Industrial Overview

Metro Vancouver, BC

New record-low vacancy achieved in Metro Vancouver's industrial market amid ongoing strong demand and constrained land supply

While Metro Vancouver's industrial real estate market has remained largely unchanged since fall 2018 with record-low vacancy, escalating rental rates, an expensive and constrained industrial land supply and an insufficient volume of new development continuing into 2019, some fundamental shifts in market dynamics have started to emerge.

What remains unchanged for the time being is the ravenous appetite for industrial real estate among tenants, owner-occupiers, developers as well as private and institutional investors to date in 2019. Regional industrial vacancy sank to a record low of 1.2% at the end of the first quarter of 2019 – the lowest in Canada – with industrial sale totals exceeding $150 million in the first three months of the year after a record-setting $1.8 billion of investment in 2018. Developers remain unable to keep up with demand as industrial vacancy in Metro Vancouver has now remained at less than 2% for the past three years (and less than 1.5% through 2018) despite the addition of more than 10.2 million square feet (msf) in the past 36 months. Eight of 13 industrial markets in Metro Vancouver posted vacancy rates of less than 1% at the end of the first quarter of 2019 with Maple Ridge/Pitt Meadows, New Westminster and Tsawwassen First Nation (TFN) posting vacancy rates of 0.1% or less. The highest vacancy rate, 2.2%, was recorded in Richmond, the region's largest industrial submarket at 37.7 msf.

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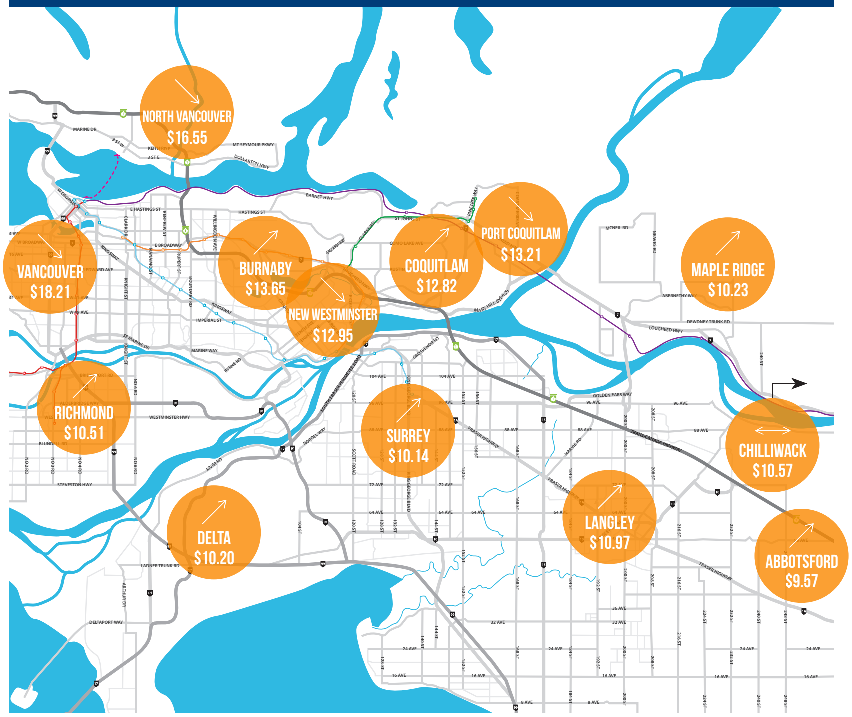
- **Metro Vancouver's industrial vacancy lowest in Canada at 1.2%**
- **Elevated industrial land pricing encouraging developers to build strata projects in order for pro formas to pencil out**
- **Industrial land availability is driving development patterns in Metro Vancouver with new construction focused in Campbell Heights, Pitt Meadows and TFN**
- **Delivery of limited new supply for lease not impacting vacancy as most is preleased in 2019/2020**
- **Due to lack of new supply, lease rate escalation temporarily paused as Metro Vancouver average slipped to $11.49 psf, but escalation to continue**
- **Pricing for industrial assets continues to rise with investors and developers increasingly outbidding owner-occupiers as financing costs remain low**

Metro Vancouver Industrial Market Vacancy (Q1 2019)

Average industrial lease rates in Metro Vancouver (PSF)



Approximately 1.9 million sf of new inventory will be delivered in the next six months, but 59% of that space is already preleased/presold.

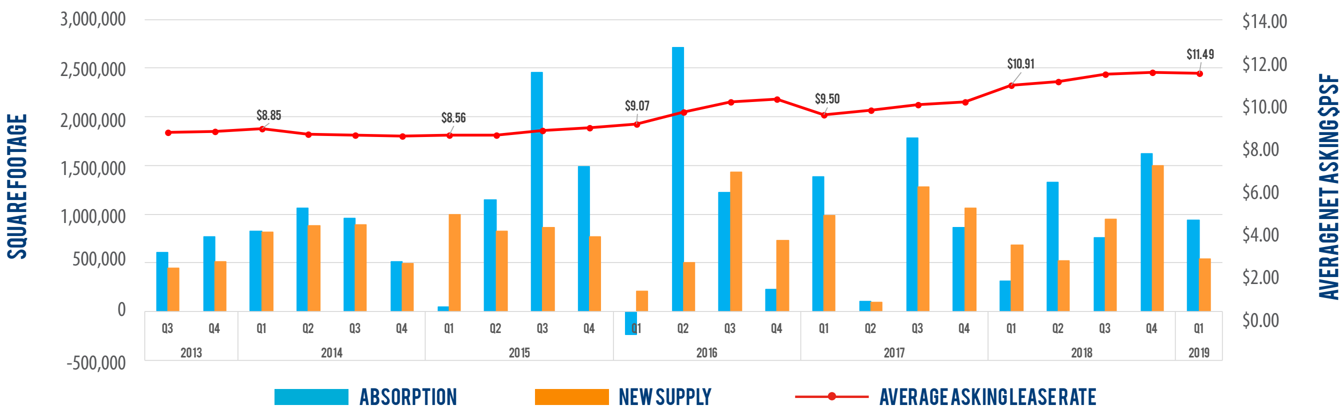
MUNICIPALITY	INVENTORY	VACANCY
Richmond	37,749,869	2.2%
Surrey	32,221,103	0.8%
Burnaby	29,068,868	1.1%
Vancouver	24,049,027	1.0%
Delta	25,025,564	1.7%
Langley	17,346,667	0.9%
Coquitlam	8,210,738	0.8%
Port Coquitlam	7,790,848	0.9%
Abbotsford	7,687,670	1.2%
North Vancouver	5,340,305	0.5%
New Westminster	4,405,187	0.1%
Maple Ridge/ Pitt Meadows	4,427,299	0.1%
Tsawwassen (TFN Land)	563,620	0.0%
Metro Vancouver	**203,886,765**	**1.2%**

RECENT NOTABLE INDUSTRIAL LEASE TRANSACTIONS IN METRO VANCOUVER SINCE FALL 2018

MUNICIPALITY	ADDRESS	SQUARE FEET	TENANT	TYPE
Mission	32923 Mission Way	233,890	Owens Corning	Renewal
Richmond	7451 Nelson Road	230,050	Ingram Micro	Renewal
Delta	4327 Salish Sea Way (Delta iPort building 2)	250,000	Canadian Alliance Terminals Inc.	New
Richmond	Richmond Industrial Centre	200,000	Confidential	New
Surrey	18880 30th Avenue	198,070	SCI Logistics	New
Delta	820 Cliveden Place	174,470	Trail Appliances Ltd.	Renewal/Expansion
Delta	7126 Brown Street	142,530	Mitchell Island Terminals Ltd.	New
Richmond	16111 Blundell Road	123,680	DSV Solutions	New
Delta	7167 Progress Way	119,580	Seaforth Supply Chain Solutions Inc.	New
Coquitlam	49 Schooner Street	106,670	JET Equipment & Tools Ltd.	Renewal
Surrey	19238 54th Avenue	106,340	Confidential	New
Port Coquitlam	1488 Coast Meridian Road	96,140	Direct Limited Partnership	New
Surrey	2945 190th Street	94,500	Green Line Hose & Fittings Ltd.	New
Langley	5205 272nd Street	84,810	Kingspan Insulated Panels Ltd.	Renewal

Sources: Avison Young research & RealNet

Metro Vancouver Five-Year Industrial Trends



NOTABLE INDUSTRIAL INVESTMENT SALES BY PRICE IN METRO VANCOUVER SINCE FALL 2018					
ADDRESS	VENDOR	PURCHASER	PURCHASE PRICE	PPSF	BUILDING (SF)/ SITE AREA (ACRE)
7510, 7530, & 7550 Hopcott Road, Delta	Morguard	PIRET	$151,200,000	$211	717,182 / 106.9
117 East Kent Avenue North, Vancouver	Morguard	Value Property Group	$43,170,000	$360	119,876 / 5.67
7939 Huston Road, Delta	Ocean Ridge Holdings Ltd.	YM Inc.	$42,500,000	$263	161,721 / 7.46
7303 Meadow Avenue, Burnaby	Holly Enterprises Ltd.	Hungerford Properties	$41,900,000	$218	192,637 / 9.66
2323 Quebec Street, Vancouver	Signet Projects Ltd.	Transworld Management Ltd.	$38,000,000	$761	49,918 / 0.83
8651 Eastlake Drive, Burnaby	Canadian Urban Ltd.	PIRET	$30,125,000	$271	111,152 / 4.5
1691 West 75th Avenue, Vancouver	1135536 B.C. Ltd.	FYL (West 75th Ave) Enterprises Ltd.	$23,000,000	$767	30,000 / 2.69
9160 Van Horne Way, Richmond	Beedie	Storguard	$22,000,000	$242	91,000 / 3.75
150 Glacier Street, Coquitlam	Attica Equipment Ltd.	A2Z Capital	$21,993,000	$639	34,400 / 10.31
3555 East 5th Avenue, Vancouver	Freeway Mini Storage Inc.	Nicola Crosby	$18,775,000	$354	53,000 / 2.76
80 & 84 Golden Drive, Coquitlam	Rokstad Power Corp.	Nicola Crosby	$18,250,000	$482	37,834 / 7.05

NOTABLE INDUSTRIAL LAND SALES BY PRICE IN METRO VANCOUVER SINCE FALL 2018					
ADDRESS	VENDOR	PURCHASER	SALE PRICE	SITE AREA (ACRES)	PRICE/ ACRE
20512 64th Avenue, Langley	Private individual	AAA Self Storage Depot (AAA Self Storage Depot Inc.)	$10,200,000	3.76	$2,713,488
3353 194th Street, Surrey	Double Dot Investment Group Ltd. & Haley Management Ltd.	Tag Properties (2018) Ltd.	$8,850,000	4.89	$1,810,186
7582 Cannor Road, Chilliwack	Cattermole Group Holdings Ltd.	Chohan Group of Companies	$8,040,000	13.49	$595,909
3441 196th Street, Surrey	Grand Maison Beef Farm Ltd.	The Concosts Group (1183504 B.C. Ltd.)	$5,100,000	5.00	$1,020,000
14195 256th Street, Maple Ridge	Maple Ridge Business & Industry Park Ltd.	Yavascalar Troy Finance Corp.	$5,000,000	115.84	$43,162
41844 No. 3 Road, Chilliwack	Private individual	C.G. Punjani Investments Ltd.	$4,980,000	6.48	$768,163
19524 36th Avenue, Surrey	Private individuals	Porte Development Ltd. (TA Industrial Inc.)	$4,600,000	4.57	$1,006,344
30982 South Fraser Way, Abbotsford	Nature's Touch Frozen Foods (9491937 Canada Inc.)	Mid-Valley Investments Ltd.	$4,500,000	3.19*	$1,410,658
23360 Fraser Highway, Langley	Dharney's Salvage & Enterprise Ltd. (Dharney's Enterprises Ltd.)	Multiland Pacific Holdings Ltd.	$4,350,000	3.20	$1,359,375
26195 28th Avenue, Langley	Private individuals	Lorval Developments Ltd.	$4,000,000	4.81	$832,293
4365 Niagara Street, Delta	BC Fresh (BC Fresh Warehouse (2017) Inc.)	Maximum Nutrition Inc.	$3,500,000	2.00	$1,748,252

*net useable acres

Sources: Avison Young research & RealNet

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The average asking net rental rate for Metro Vancouver industrial space slipped slightly to $11.49 psf from $11.52 psf three months earlier at year-end 2018. This marked the first time that asking rental rates did not increase quarter-over-quarter since the first quarter of 2017 when the average industrial asking rate in Metro Vancouver briefly slipped to $9.50 psf after surpassing $10 psf for the first time in history in the third quarter of 2016. The reason for this pause in rent escalation is that there was almost no new supply delivered in the first quarter of 2019, and the newer more expensive space had already been leased while older product remained available, which led the average asking rental rate to decline slightly. New deals continue to achieve higher rental rates and asking rates are expected to continue to escalate. Furthermore, lease turnover will continue occurring and new listings will come available, which should also contribute to asking-rent escalation in the near term.

However, another strategy for those renewing (or securing new leased premises) that has emerged is the acceptance by both tenants and landlords of shorter lease terms with three-year deals (as opposed to five or 10 years) becoming more commonplace. This approach is the result of tenants betting that lease-rate appreciation will slow and perhaps even reverse during the course of the lease, while landlords are banking on the rapid increases in rental rates recorded to date will continue.

Industrial land pricing, which continues to rise on a regional basis due to the increasingly limited supply, is progressively influencing development decisions involving new supply. In order to make sense of the industrial land pricing of the past 24 to 36 months, purchase decisions are being largely driven by either end-user requirements or developers contemplating industrial strata development. As a result, land pricing is skewing the composition of new industrial development in favour of strata projects, which is offering little to no relief in regards to vacancy.

While construction of lease product is continuing by institutional investors seeking to hold assets long term as well as by those developers who acquired land at historical costs, the volume is unlikely to have much of an impact on vacancy. Much of this new lease supply is focused on large logistics/distribution users and is often preleased years in advance of completion. Small- to mid-sized industrial tenants are increasingly left with very limited options; however, more sublease opportunities have become available and have boosted availability. Those tenants who have excess space or have operations that do not need to be located in Metro Vancouver are finding it much easier to either sublease their space at very attractive rates or exit from their lease obligations altogether. For those tenants remaining in the market, the lack of options has forced them to become more efficient and to do more with the floor area they have. Tenants are generally no longer able to lease up more space than they need at the time of lease execution to then grow into over the course of the lease. Business growth may be limited by the lack of relocation or expansion options.

In an effort to address the shortfalls in supply, developers are looking to not only increase the heights of distribution/logistics centres (moving towards 40-foot clear ceilings in larger buildings) to improve efficiencies, but also exploring ways of achieving greater density through the construction of multi-storey buildings, particularly in core industrial submarkets such as Vancouver and Burnaby. **PC Urban** confirmed that its stacked, multi-storey development, **IntraUrban Evolution**, in the Clark Drive area would proceed. Other developers such as **Conwest Group**, **Wesgroup Properties**, **Oxford Properties** and **Hungerford Properties** are also exploring the feasibility of multi-storey industrial buildings in the core industrial submarkets.

Some relief is in sight in regards to improving availability in the next six months as substantial new development is delivered to the market. The first-quarter 2019 six-month availability rate improved to 4.0% in Metro Vancouver from 3.7% at year-end 2018 with availability gains in Abbotsford (6.8%), Port Coquitlam (3.6%), Richmond (4.8%), Surrey (6%) and Vancouver (4.1%). Six-month availability declined in North Vancouver (1%), Burnaby (3.3%), Coquitlam (2%), Delta (2.3%), Langley (4.4%), and Maple Ridge/Pitt Meadows (3.7%), while New Westminster (0.1%) remained unchanged.

While provincial economic growth is expected to slow in 2019 due to a correction in the housing market, according to the **Conference Board of Canada**, annual GDP growth is still forecasted to be 2.5%, the third strongest in Canada (after PEI and Newfoundland & Labrador). And with a strong economy and unemployment at 4.5% in February 2019 (the lowest in Canada), the province remains an attractive place to invest and as a market for goods. Strong industrial market fundamentals will support continued growth and foster demand from owner-occupiers along with private and institutional investors and is expected to drive investment volumes to near-record levels of activity for at least the next 18 months. ■

Vancouver Industrial Team

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

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

Mackenzie Forge
604.647.1354
mackenzie.forge@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
mathew.sunderland@avisonyoung.com

Angus Thiele
604.646.8386
angus.thiele@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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