

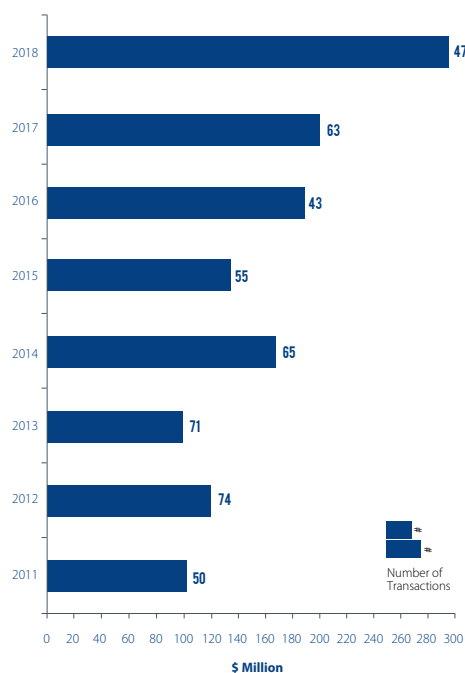


*Ironworks by Conwest Group*

## Vancouver, BC

Spring 2019  
Vancouver Industrial Report

### VANCOUVER INDUSTRIAL REAL ESTATE SALES AND TRANSACTIONS



### Rising Vancouver industrial real estate prices pushing out users as developers and investors secure limited inventory

Dollar volume from Vancouver industrial sales continued to rise in 2018 as the number of deals completed declined with investors and developers increasingly challenging the historical dominance of owner-occupiers in terms of transactional volume. Despite recording the second fewest deals (47) completed in a year since 2010, Vancouver industrial dollar volume hit a new record of \$295.6M – far surpassing the previous dollar volume record of \$201M set in 2017.

Three key deals made up a significant portion of the dollar volume in 2018: the sales of **Main Industrial Park** (\$43.17M), 8351 & 8365 Ontario Street (\$29.25M) and 1691 West 75th Avenue (\$23M), all of which were acquired by private investors/developers for a total consideration of \$95.42M (or 32% of the total). Other substantial deals included 3555 East 5th Avenue (\$18.775M) and 8804-8828 Osler Street (\$14.25M), also both acquired by private investors/developers. Many industrial sales in Vancouver are increasingly considered ICI land deals.

Owner-occupiers, once a dominant force in Vancouver's industrial market (particularly in East and South Vancouver) remained largely excluded from the market to acquire freestanding buildings in 2018 and were primarily involved in buying strata units. Strata space sold at **The WorkSpaces at Strathcona Village** and the soon-to-be-delivered **Ironworks** will mark the start of the delivery of a much needed supply of new industrial strata to Vancouver's dwindling traditional industrial market. A handful of smaller strata units in older projects such as **Fraser Business Centre**, **Shaughnessy Business Park**, **Grant Business Park** (formerly City Centre Business Park) and **South Vancouver Business Centre** also traded hands in 2018.

Demand among owner-occupiers for industrial strata in more traditional industrial sub-markets remains strong with new projects such as **Ironworks**, **IntraUrban Evolution**, **Alliance on Clark** and **West75th** coming

*continued on page 4*

### MARKET OUTLOOK

Cap Rates



Industrial Vacancy



Sales Volume



Absorption



Lease Rates





**Russ Bougie, Principal**  
604.757.5115  
russ.bougie@avisonyoung.com



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



**Struan Saddler, Principal**  
604.647.5077  
struan.saddler@avisonyoung.com



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

## Sale values increasing while leasing activity slows

Industrial leasing activity in Vancouver has remained strong; however, base rents have started to level out in some areas in order to offset increases in additional expenses. While sales volume is down, pricing continues to rise amid continuing strong demand from owner-occupiers.

**4H Productions Inc.**, a television and movie production company, leased a 42,000-sf free-standing building in South Vancouver at 8324 Fraser Street. Elsewhere in South Vancouver, **FreeYumm Foods**, a kids health food company, expanded its operations into 23,375 sf at 54 East 69th Avenue and **Can-West Display Services**, a trade show product and service provider, leased 11,250 sf at 1586 Rand Avenue.

In East Vancouver near Boundary Road, **SIM Video International**, a video equipment rental company, expanded its local operations into 32,310 sf at 3645 Grandview Highway, **Impact Office Furnishings**, one of Vancouver's largest office furniture showrooms, relocated from Powell Street into 19,584 sf at 3695 Grandview Highway and **HVA Air System Supplies**, an air products distributor, renewed in 11,900 sf at 3610 East 1st Avenue. In the Grandview-Woodland area, **Fresh Prep Foods**, a meal prep delivery service, leased a 25,387-sf freestanding building at 188 Victoria Drive.

On the sales side, prices continued to rise with local developers securing sites for their future development potential. In South Vancouver, one of the largest industrial transactions in the city in the past decade (in terms of square footage) occurred when **Hungerford Properties** acquired 86 SE Marine Drive and 101 East 69th Avenue for \$90.39M. These two properties totalled more than 12.45 acres and the seller was **Wal-Mart Canada**. Hungerford

also acquired 8351 & 8365 Ontario Street for \$29.25M, which included an almost fully leased 70,884-sf building on 2.61 acres. Also in South Vancouver, **Value Property Group** added to its extensive portfolio in the area by acquiring **Main Industrial Park** (117 East Kent Avenue N and 8417 & 8447 Main Street) for \$43.17M. These properties total 5.69 acres with more than 119,000 sf of rental area in multiple buildings. A private investor acquired 1691 West 75th Avenue, a 30,000-sf building on 2.69 acres fully leased to **Westport Fuel Systems**, for \$23M.

In East Vancouver, **Wesgroup** was very active in acquiring multiple future development sites. Most notably, they acquired three adjoining properties located at 1539 & 1575 Vernon Drive & 1100 Grant Street for approximately \$57.5M. These properties total 2.83 acres and have varying amounts of term remaining on the existing leases. Wesgroup also acquired 1716 & 1750 Clark Drive, totalling 0.63 acres, for \$13.55M. Elsewhere in East Vancouver, **Nicola Crosby Real Estate** acquired a 2.76-acre site fully leased to a mini storage user for \$18.775M at 3555 East 5th Avenue. Meanwhile, **Cado Bancorp Ltd. (NationWide Self Storage)**, acquired 2055 Boundary Road, a 0.66-acre site, for \$12.1M with the intent of developing a self-storage facility with a ground-level car wash.

Other notable sales include **Source Office Furnishings'** purchase of 3083 Grandview Highway, a 11,089-sf multi-tenant building on 0.43 acres, for \$6.785M as well as **Sunshine Coast Education Group** purchasing 851 Terminal Avenue, a vacant 13,500-sf building on 0.39 acres, for \$11.5M. A private investor purchased 828 Powell Street, a vacant 12,125-sf building on 0.35 acres, for \$9.25M.

### NOTABLE VANCOUVER INDUSTRIAL LEASE TRANSACTIONS

ADDRESS	Tenant	SQUARE FEET (SF)
8324 Fraser Street	4H Productions Inc.	42,000
3645 Grandview Highway	SIM Video International Inc.	32,310
188 Victoria Drive	Fresh Prep Foods Inc.	25,387
54 East 69th Avenue	FreeYumm Foods Ltd.	23,375
3695 Grandview Highway	Impact Office Furnishings Ltd.	19,584
3610 East 1st Avenue	HVA Air Systems Supplies Ltd.	11,900
1586 Rand Avenue	Can-West Display Services Ltd.	11,250



## South Vancouver back in play as industrial buying spree triggers increase in activity

Industrial sales in South Vancouver have surged in the past 18 months as industrial assets and land have changed hands after years of relative inactivity. While much of the spotlight has recently focused on the transformation of Mount Pleasant from a gritty industrial area to up-and-coming office precinct popular with technology companies, other traditional industrial areas such as East Vancouver and more recently, South Vancouver, have remained largely under the radar.

While the face of industrial development in East Vancouver is already changing thanks to projects such as **Alliance Partners' Alliance on Clark**, **PC Urban's IntraUrban Evolution**, **Porte Commercial's The George** as well as the recently completed **Ironworks** by **Conwest Group** and **Wall Financial's The WorkSpaces at Strathcona Village**, the transformation of South Vancouver's industrial submarket is now underway.

While formerly oriented towards industrial operations along the Fraser River and home to the Vancouver South Waste Transfer Station, the industrial areas of South Vancouver had remained largely untouched from the (re)development pressures that have occurred throughout Vancouver. The success of **PC Urban's IntraUrban Business Park** at 8811 Laurel Street – the site was acquired in April 2015 – highlighted what was possible in the area, which triggered a number of significant industrial land sales and the acquisition of some key assets in 2018 after years of relatively limited industrial sales activity in the submarket.

**Hungerford Properties** has taken a significant position in South Vancouver at pricing that will require redeveloping the sites to a higher density than what was previously in place. While specific plans remain under discussion, Hungerford has indicated that its sites at 86 SE Marine Drive and 396 SW Marine Drive would be “redeveloped in conjunction with the City of Vancouver into mixed-use, commercial and retail sites, with new employment-generating opportunities.” Plans for 8351 & 8365 Ontario Street, which currently has a multi-tenanted industrial building on site, have not been disclosed.



**Alliance on Clark** is one of the next-generation industrial developments planned in East Vancouver.

**Value Property Group** acquired **Main Industrial Park** at 117 East Kent Avenue North from **Morguard** for \$43.17M in November 2018. The three-building industrial business park totalled 119,876 sf of rentable area and was 96% occupied at the time of sale. The site area is 246,985 sf. Plans for the property have not been disclosed.

Located to the west of these sites, the **Conwest Group** has started pre-marketing its **West75th** project at 1550 West 75th Avenue

– the site was acquired in December 2015 – in South Vancouver. Conwest has indicated the mixed-use project will offer a “selection of office, warehouse, and showroom spaces.”

Land values in South Vancouver are quickly catching up with comparable areas in East Vancouver as the employment-generating opportunities likely utilizing new building forms mixed with other commercial/retail uses marks a break from the area's more traditional industrial past. ■

SOUTH VANCOUVER INDUSTRIAL ASSET & LAND SALES (BY PRICE) (DECEMBER 1, 2017 TO DECEMBER 31, 2018) (>\$5 MILLION)					
Building name & address	Submarket	Price	Purchaser	Building size (SF)	Date
<b>Main Industrial Park</b> 117 East Kent Avenue North	South Vancouver	\$43,170,000	Value Property Group	119,876	November 2018
8351 & 8365 Ontario Street	South Vancouver	\$29,250,000	Hungerford Properties	70,884	July 2018
1691 West 75th Avenue	South Vancouver	\$23,000,000	FYL (West 75th Ave) Enterprises Ltd.	30,000	October 2018
8695 Barnard Street	South Vancouver	\$7,300,000	Chies Holding Ltd.	6,400	March 2018
Property address	Submarket	Price	Purchaser	Site Area (SF)	Date
86 SE Marine Drive & 101 East 69th Avenue	South Vancouver	\$90,390,000	Hungerford Properties	542,887	April 2018
396 SW Marine Drive	South Vancouver	\$44,000,000	Hungerford Properties	135,646	December 2017
450 SE Marine Drive	South Vancouver	\$27,600,000	1187025 BC Ltd.	116,131	December 2018
8729 Aisne Street	South Vancouver	\$16,280,000	Bene Development	43,560	September 2018
8690 Ash Street	South Vancouver	\$7,288,000	Skye Development	23,348	July 2018
768-772 SW Marine Drive	South Vancouver	\$6,880,000	Port Capital Group	9,060	March 2018
762 SW Marine Drive	South Vancouver	\$5,280,000	Bene Development	9,050	May 2018

continued from page 1

online in the next 24 months. However, much of the I-1 zoning-mandated industrial components of mixed-use developments such as **Nickel** and **The Beltline Off Broadway** in the former industrial node of Mount Pleasant remain available. Most traditional industrial users, while still active in the few older freestanding industrial buildings remaining in Mount Pleasant, have been unable to rationalize the lease rate/price per square foot necessary to occupy industrial space in the new construction.

The expansion of permitted uses in former industrial areas in Vancouver such as Mount Pleasant has accelerated an increase in property values, which only in the past 12 to 24 months has started to be reflected in property assessments. While strong demand and limited supply have also played a role, these property assessments are frequently pushing perceived values ahead of what the market can actually pay to acquire such properties. Government property assessments have also bolstered vendor expectations even further in a market that had started to show signs of softening in 2018 after years of rapid growth in pricing. Peak pricing has started to max out the ability of redevelopment scenarios to cover costs and still generate some profit in core industrial markets such as Vancouver. Justifying assessed values to potential purchasers has become even more challenging with many investors simply choosing to disregard assessed values as unrealistic when determining the price they are willing to pay to acquire an asset. The bid-ask gap has increasingly become a drag on deal velocity even as pricing remains strong. This trend is likely to continue into 2019.

Investors/developers are likely to continue to gain ground on owner-occupiers in terms of the number of deals completed in 2019 as many users are priced out of Vancouver and/or selling their properties to investors/developers in an effort to take advantage of the price appreciation of the past three years. Owner-occupiers will be increasingly limited to strata sales in 2019 and beyond.

Industrial leasing activity has slowed with vacancy at 1.4% at year-end 2018 and there is limited new space for lease in the development pipeline. Rising rental rates combined with an increasingly shallow pool of tenants and few, if any, options, available in older buildings will keep leasing activity to a minimum in 2019 and the foreseeable future until rates come down and availabilities increase. While neither outcome is likely in the short term, the increased density being contemplated in the multi-storey industrial developments being proposed

ADDRESS	MUNICIPALITY	TRANSACTION VALUE	SQUARE FEET (SF)	PER SQUARE FOOT (PSF)	DATE
1615, 1625 & 1633 Franklin Street	Vancouver	\$9,782,630	14,264	\$686	December 2018
1215 Frances Street	Vancouver	\$4,000,000	4,000	\$1,000	December 2018
3555 East 5th Avenue	Vancouver	\$18,775,000	53,000	\$354	December 2018
1829-1835 Pandora Street	Vancouver	\$3,574,152	7,000	\$511	December 2018
143 East 3rd Avenue	Vancouver	\$3,817,423	4,600	\$1,245	December 2018
676-680 Industrial Avenue	Vancouver	\$4,250,000	4,217	\$1,008	December 2018
<b>South Vancouver Business Centre</b>	Vancouver	\$1,900,000	3,502	\$543	November 2018
<b>Main Industrial Park</b>	Vancouver	\$43,170,000	118,500	\$360	November 2018
294 East 1st Avenue	Vancouver	\$5,950,000	8,407	\$708	November 2018
1691 West 75th Avenue	Vancouver	\$23,000,000	30,000	\$767	October 2018
<b>IntraUrban Business Park</b> (phase I)	Vancouver	\$1,550,000	3,293	\$471	October 2018
868 East Cordova Street	Vancouver	\$1,825,000	2,154	\$847	October 2018
316 East 1st Avenue	Vancouver	\$5,850,000	7,820	\$748	August 2018
8351 & 8365 Ontario Street (50% interest)	Vancouver	\$14,625,000	70,884	\$413	July 2018
8351 & 8365 Ontario Street (50% interest)	Vancouver	\$14,625,000	70,884	\$413	July 2018
1222 & 1238 Franklin Street	Vancouver	\$9,288,807	11,515	\$807	July 2018
1924 Triumph Street	Vancouver	\$2,600,000	6,159	\$422	July 2018
786 Powell Street	Vancouver	\$1,927,520	3,031	\$636	July 2018
<b>The WorkSpaces at Strathcona Village</b>	Vancouver	\$2,800,000	8,332	\$336	July 2018
<b>The WorkSpaces at Strathcona Village</b>	Vancouver	\$1,125,000	3,108	\$362	June 2018
1270 Frances Street	Vancouver	\$3,850,000	5,617	\$685	June 2018
851-855 Terminal Avenue	Vancouver	\$11,500,000	13,500	\$852	June 2018
3081-3089 Grandview Highway	Vancouver	\$6,785,000	11,089	\$612	June 2018
1822 Franklin Street	Vancouver	\$3,253,000	4,848	\$671	June 2018
1336 Clark Drive	Vancouver	\$1,398,000	1,898	\$737	May 2018
1245 Frances Street	Vancouver	\$3,280,000	6,278	\$522	May 2018
116 West 8th Avenue	Vancouver	\$3,100,000	3,987	\$778	May 2018
8804-8828 Osler Street	Vancouver	\$14,250,000	11,140	\$1,279	May 2018
36 East 5th Avenue	Vancouver	\$6,125,000	4,325	\$1,416	May 2018
<b>Grant Business Park</b> (formerly: City Centre Business Park)	Vancouver	\$1,172,500	1,943	\$603	May 2018
<b>Shaughnessy Business Park</b>	Vancouver	\$1,075,000	2,481	\$433	April 2018
310 Commercial Drive	Vancouver	\$5,750,000	6,000	\$958	April 2018
19 East 5th Avenue	Vancouver	\$2,350,000	2,475	\$949	March 2018
8695 Barnard Street	Vancouver	\$7,300,000	6,400	\$1,141	March 2018
1253 & 1261 West 76th Avenue	Vancouver	\$3,100,000	6,225	\$498	March 2018
422-430 Railway Street	Vancouver	\$10,400,000	17,550	\$593	February 2018
828-832 Powell Street	Vancouver	\$9,250,000	12,125	\$763	February 2018
<b>IntraUrban Business Park</b> (phase II)	Vancouver	\$3,200,000	6,902	\$464	January 2018
<b>Empire Stevedoring Building</b>	Vancouver	\$11,800,000	16,950	\$696	January 2018
1360-1370 East Georgia Street	Vancouver	\$6,100,000	15,165	\$402	January 2018
<b>Fraser Business Centre</b>	Vancouver	\$1,800,000	4,032	\$446	January 2018

Sources: Avison Young & RealNet

and explored may start to provide some relief and provide homes to those industrial operations that can not only manufacture goods but also sell what they produce on site and pay a premium to continue to call Vancouver home.

While the number of industrial sale listings

may be on the rise in Vancouver in 2019, the key is to be able to demonstrate that the prices being asked represent the true value of a property at a time of a significant shift in the understanding of what industrial activity entails in high-value markets like Vancouver. ■

For more information please contact:

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

**Andrew Petrozzi,**  
Principal & Vice-President, 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

**AVISON  
YOUNG**

**BEST  
MANAGED  
COMPANIES**

avisonyoung.com

© 2019 Avison Young. All rights reserved.

E. & O.E.: The information contained herein was obtained from sources that we deem reliable and, while thought to be correct, is not guaranteed by Avison Young Commercial Real Estate (B.C.) Inc.; DBA, Avison Young.