Industrial Overview Report / Fall 2020

Metro Vancouver

Pandemic pressures exacerbate Metro Vancouver industrial supply constraints while highlighting market dichotomy

Metro Vancouver's industrial market appears to have remained largely pandemic-proof six months after the introduction of COVID-19-containment measures in March with record-high rental rates and record-low vacancy registered at the end of the third quarter of 2020. While COVID-19 has adversely impacted select industrial operators, a significant proportion of industrial activity in Metro Vancouver has not only endured the imposition of containment protocols, but has prospered as a result. The pandemic has also highlighted the region's ongoing inability to build meaningful amounts of new supply at a rate rapid enough to meet the persistent demand from tenants and owner/occupiers.

Those businesses benefiting from the pandemic have included virtually all e-commerce and related logistics/distribution operations along with food production, building material and home improvement suppliers/manufacturers, traditional and refrigerated warehousing as well as the resumption of film and television production are just some aspects of the regional industrial economy that have flourished. Growth in these sectors – and others – has rapidly backfilled space that emerged from groups who were/are struggling as a result of impacts related to COVID-19.

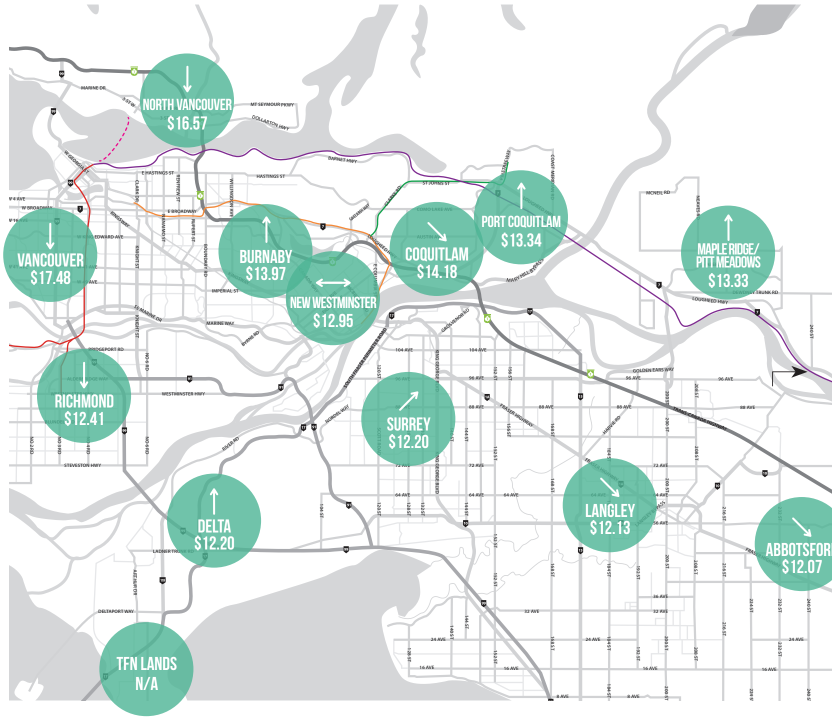
Industrial vacancy in Metro Vancouver fell to 1.2% at the end of the third quarter of 2020 – down 50 basis points from 1.7% just three months earlier (and 20 basis points less than the 1.5% recorded a year earlier). This rapid decline was the result of pent-up demand that had resulted from a general pause in activity in the second quarter as citizens and

continued on back page

- Metro Vancouver's industrial vacancy tied for lowest in Canada at 1.2%
- Strata development represents half of the total square footage of new supply currently under construction
- Rental rate escalation expected to continue as region appears unable to build meaningful amounts of supply without drastic action
- Delivery of new space for lease not impacting vacancy as majority is preleased through 2020/21
- Lease rates hit new record high as Metro Vancouver average achieves $13.17 psf
- Investment in industrial properties will continue to rise as the asset class outperforms other commercial real estate asset classes through the pandemic due to accelerated rise in ecommerce

Metro Vancouver Industrial Market Update (Q3 2020)

Average Asking Lease Rates in Metro Vancouver (PSF)



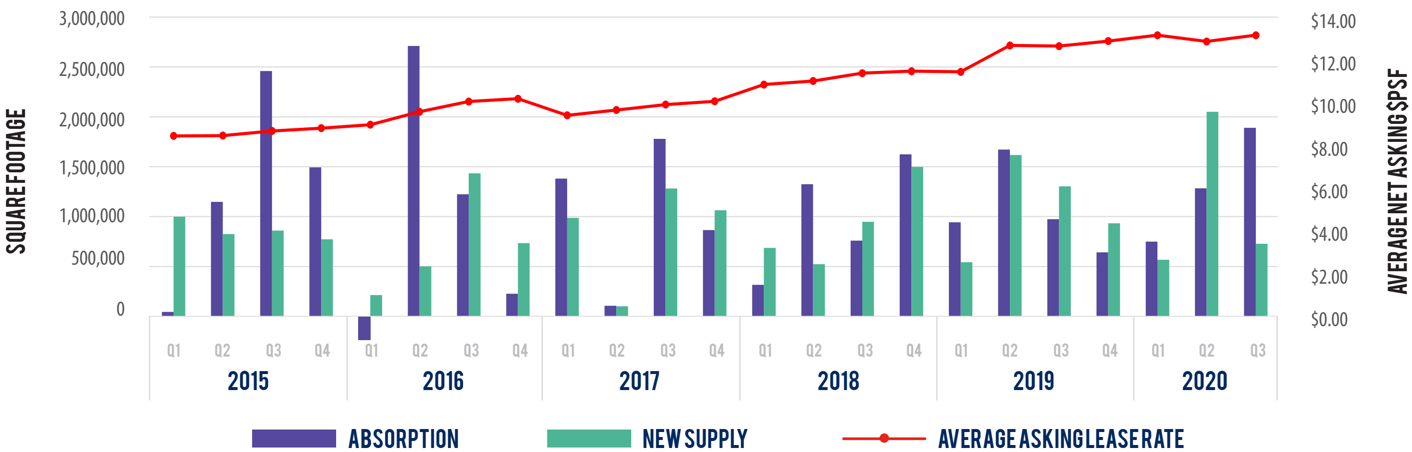
Approximately, 1.1 million sf of new inventory will be delivered in the next six months, but 70% of that space is already preleased/ presold.

MUNICIPALITY	INVENTORY	Q3 VACANCY
Richmond	38,556,876	0.8%
Surrey	35,279,024	1.0%
Burnaby	29,420,712	1.0%
Vancouver	24,279,496	2.4%
Delta	25,343,664	1.5%
Langley	17,586,648	1.1%
Coquitlam	8,210,738	0.8%
Port Coquitlam	8,089,229	0.9%
Abbotsford	8,576,407	2.0%
North Vancouver	5,340,305	0.7%
New Westminster	4,405,187	0.0%
Maple Ridge/Pitt Meadows	4,647,715	0.3%
Tsawwassen (TFN Land)	1,348,540	0.0%
Metro Vancouver	211,084,541	1.2%

RECENT NOTABLE INDUSTRIAL LEASE TRANSACTIONS IN METRO VANCOUVER SINCE SPRING 2020				
MUNICIPALITY	**ADDRESS**	**SQUARE FEET**	**TENANT**	**TYPE**
Port Coquitlam	1419-1515, 1579 Kingsway Avenue	341,113	Lordco	New
Delta	4327 Salish Sea Way (Delta iPort)	242,460	Samsung	New
Surrey	19317, 19329 32nd Avenue & 3230 192nd Street	233,000	Confidential	New
Langley	5636 272 Street (Grubner Centre)	169,000	Confidential	New
Langley	26977 56th Avenue	142,475	FT Synthetics	Sublease
Surrey	3023 188th Street	130,642	Klondike Cold Storage	New
Surrey	18991 34A Avenue	122,698	Save-On-Foods	New
Port Coquitlam	1845 Kingsway Avenue, Units #1105-#1140	117,625	Corporate Express Canada	New
Coquitlam	71 Glacier Street	117,246	Confidential	Extension
Delta	7990 Hoskins Street	111,381	XTL Transport Inc.	New
Coquitlam	91-93 Glacier Street	97,780	Uni-Select	Extension
Burnaby	2350 Willingdon Avenue	80,640	18 Wheels Logistics	New
Pitt Meadows	19055 Airport Way, Units #606-#609	75,156	Costco	Sublease
Surrey	2945 190th Street	67,464	Amazon	New
Richmond	13248 Worster Court	64,383	Manly Shore Productions	New
Burnaby	8315 Riverbend Court	64,136	Westkey Graphics Ltd.	Renewal
Abbotsford	3311 Mt. Lehman Road (Bldg. 2)	58,000	Hello Fresh	New
Burnaby	5250 Riverbend Drive (Riverbend Business Park)	55,075	Mercedes-Benz	New
Richmond	18233 Blundell Road	53,021	CEVA Freight Canada Corp.	Renewal
Langley	19930 Fraser Highway	48,030	FLS1 Productions Inc.	New
Burnaby	7527 Lowland Drive	46,244	Mustang Survival	Renewal
Richmond	6651 Fraserwood Place	43,984	Whitewater West Industries Ltd.	New
Surrey	3265 190th Street	42,746	Naturally Home Grown Foods Ltd.	New
Langley	27475 52nd Avenue	40,930	Amico Canada Inc.	Renewal
Langley	5350B 275th Street	36,679	Cascadia Windows Ltd.	New
Richmond	7277 Nelson Road	35,124	ASI Computer Technologies Canada Inc.	New

Sources: Avison Young Research & RealNet

Metro Vancouver Five-Year Industrial Trends



NOTABLE INDUSTRIAL INVESTMENT SALES BY PRICE IN METRO VANCOUVER SINCE SPRING 2020

ADDRESS	VENDOR	PURCHASER	PURCHASE PRICE	PPSF	BUILDING (SF)/ SITE AREA (ACRE)
5300 & 5350 Byrne Road, Burnaby	K & L Holdings Co. Ltd.	Femo Construction	$22,500,000	$388	58,000/ 4.77
2595 Deacon Street, Abbotsford	Braun Investment Group Inc.	Bill's Trucking Ltd.	$17,100,000	$1,284	13,315/ 8.91
3455 Gardner Court, Burnaby	0902555 BC Ltd.	Alliance Mercantile Inc.	$16,000,000	$341	46,874/ 2.47
3195 Production Way, Burnaby	B.C. Turf Ltd.	Beedie Group	$15,260,000	$893	17,090/ 2.37
8985 Fraserwood Court, Burnaby	BCB Corporate Services Ltd.	0939044 BC Ltd.	$14,000,000	$278	50,415/ 2.10
50 Fell Avenue, North Vancouver	Mayfair Properties Ltd.	Pure Industrial Real Estate Trust	$13,750,000	$436	31,529/ 1.28
1001 Coutts Way, Abbotsford	635070 BC Ltd.	The Jim Pattison Group	$11,500,000	$505	22,760/ 3.09
4098 McConnell Drive, Burnaby	Private Individual	Vinson Holdings Ltd.	$11,250,000	$339	33,140/ 1.54
2381 Hawkins Street, Port Coquitlam	Hawkins Street Holdings Ltd.	RHRS Investments Inc.	$10,992,290	$366	30,000/ 1.54
7060 Waltham Avenue, Burnaby	1121035 BC Ltd.	PC&F Alliance Waltham Project Nominee Ltd.	$10,650,000	$321	33,214/ 0.92
6990 Greenwood Street, Burnaby	Direct Liquidation	Swiss Water	$10,600,000	$402	26,342/ 1.00
12155 Riverside Way, Richmond	GR8 Companies	1245430 BC Ltd.	$10,000,000	$409	24,453/ 1.21

NOTABLE INDUSTRIAL LAND SALES BY PRICE IN METRO VANCOUVER SINCE SPRING 2020

ADDRESS	VENDOR	PURCHASER	SALE PRICE	SITE AREA (ACRES)	PRICE/ ACRE
26074 30A Avenue, Langley	AP Tire Services Ltd.	Chohan Carrier Ltd.	$12,500,000	4.96	$2,522,704
11711 130th Street; 12742 Bridgeview Shore; 11685 126A Street, Surrey	Mill & Timber Products Ltd.	0800957 BC Ltd.	$12,000,000	4.56	$2,633,311
2974 192nd Street, Surrey	Canada Storage Station Ltd.	1205789 BC Ltd.	$11,800,000	5.00	$2,360,000
26035 28th Avenue & 2880 260th Street, Langley	Private Individual	Lorval Developments Ltd.	$10,000,000	4.87	$2,055,076
21476 83rd Avenue, Langley	Private Individual	Mitchell Group	$9,250,000	2.50	$3,700,000
31787 King Road, Abbotsford	1061688 BC Ltd.	Cedar Coast	$8,500,000	4.46	$1,907,969
12120 No. 5 Road, Richmond	Private Individual	1243059 BC Ltd.	$6,060,000	1.65	$3,663,845
10440 & 10454 King George Boulevard, Surrey	Private Individual	Northwest Freightways Ltd.	$4,200,000	0.40	NA
12787 78th Avenue, Surrey	Samta Enterprises Corp. & 503350 BC Ltd.	One 2376 Holdings Ltd.	$4,100,000	0.67	NA
2888 260th Street, Langley	Private Individual	Lorval Developments Ltd.	$4,000,000	2.42	$1,656,315
19426 32nd Avenue, Surrey	Private individual (50%) & Stillwater Holdings Ltd. (50%)	Cedar Coast	$3,700,000	1.94	$1,907,216
23359 Fisherman Road, Maple Ridge	M. Salo & Sons Recycling Ltd.	Millberry Management Corp.	$2,300,000	1.84	$1,250,000
24040 Lougheed Highway, Maple Ridge	Private Individual	Private Individual	$770,000	2.00	$384,615
5640 199th Street, Langley	Pen-West Developments Inc.	Private Individual	$740,000	0.46	NA

Sources: Avison Young Research & RealNet

continued from front page

businesses tried to understand and react to the opening phase of the pandemic restrictions issued by all levels of government. Third-quarter 2020 industrial vacancy of 1.2% is the record low for Metro Vancouver and marks the third time the market has achieved this distinction after regional vacancy first reached 1.2% in the first and second quarters of 2019.

Despite averaging more than 2.9-million-square-feet (msf) of new construction annually from 2014 to 2019 (including almost 4.4 msf in 2019 alone), Metro Vancouver's industrial vacancy has remained less than 2% since the second quarter of 2016. The addition of more than 3.3 msf of new supply through three quarters in 2020 will not relieve the record-low vacancy that has become a chronic structural characteristic of Metro Vancouver's industrial market. Thanks to rapidly appreciating industrial land costs since 2015, a bias towards strata development has skewed the new development being delivered through 2021 to include only limited amounts of new space for lease. This lack of leasable space translates into fewer options for tenants and continued rental rate appreciation as ongoing supply constraints limits availability. This rental rate assumption is further supported by the annual escalations currently being negotiated and approved in a majority of industrial leases signed since April 2020. Delays in municipal approvals/permitting combined with construction schedules has resulted in development cycles that can stretch up to 48 months, which has led to much of the new supply being delivered in 2020 as the first wave of projects built on industrial land acquired after pricing had started escalating.

The decision to develop and market strata projects versus lease projects is strongly tied to the price paid for the land the project and many developers who acquired land in the past five years largely deciding that the pricing per square foot achievable through strata sales is the preferred way to justify the cost of the land and earn a return on their investment. In some cases the developing and stabilizing of lease projects on market land prices will lead to developers taking a loss. Developers who banked land acquired at more historical costs or have been able to utilize their development expertise by acquiring large-scale greenfield sites are those who are best able to viably develop new space for lease, particularly if the sites are of a scale that permits a reduction in construction costs (larger than 10 acres), a factor that has taken on increased importance as the cost of materials and labour has spiked in recent years.

Investment in BC industrial assets (valued at more than $1M) through the first nine months of 2020 totalled $1.02B, slightly less than $1.06B invested during the same period in 2019. Despite this slight decline, industrial dollar volume still led all other asset classes at the end of the third quarter of 2020. The minor drop is largely attributed to a lack of assets available for sale and a general pause on activity in the market in April and May. Demand for BC industrial properties remains extraordinarily strong.

While many projects in the development pipeline that remain in the planning phase could proceed as either lease or strata projects, those buildings currently classified as under construction and completing through 2021 are evenly split in terms of total square footage: strata (1.05 msf) and lease (1.07 msf). Approximately 200,000 sf of new development still remained uncommitted to one format or the other at the end of the third quarter of 2020. In terms of total square footage, new strata development is primarily focused in Surrey (258K), Delta (247K), Vancouver (172K) and Abbotsford (157K), while new lease space under development is primarily located in Delta (215K), Port Coquitlam (191K), Langley (169K) and Surrey (146K).

While strata development may be displacing some projects that could offer additional space for lease and provide some vacancy relief in the short- to mid-term, the resultant upward pressure on rental rates due to the lack of new supply will ultimately provide the financial justification to build more lease product. While this process may take a number of years for rental rates to catch up to the cost of acquiring industrial land, rental rate appreciation will be necessary if the Metro Vancouver market is ever to return to reasonable vacancy rates of 5% to 8%. Tenants are likely looking at annual escalations of 2.5% to 4% in the current leasing environment as multiple offer situations are commonplace for distribution-oriented space. COVID-19 has not slowed this appreciation; if anything, it has accelerated the trend. Hopes that the region will build itself out of this conundrum continue to fade with each passing year unless more drastic actions are taken to designate additional land as industrial and to protect the existing industrial land supply from being redesignated to other uses.

Metro Vancouver released its *Regional Industrial Lands Strategy Report* in June 2020, which was developed between 2018 and 2020 through the Industrial Lands Strategy Task Force and establishes a vision for the future of industrial lands across the region to 2050. The four main challenges included: a) a constrained land supply, b) pressure on existing industrial lands, c) site and adjacency issues, and d) a complex jurisdictional environment. The report, which is available online, also made 34 recommendations and identified 10 priority actions.

While demand for traditional industrial space remains strong in Metro Vancouver, particularly in established suburban industrial nodes, the desire to acquire more expensive strata flex industrial/office space seems to be more tempered. As COVID-19 has exacerbated existing structural issues within the regional industrial market, it has also reshaped demand, which may ultimately alter the trajectory of new development and perhaps highlight a path forward that helps alleviate some of the growing concerns that have bedevilled users, planners and developers alike. ■

Vancouver Industrial Team

Lucy Barton
604.646.8384
lucy.barton@avisonyoung.com

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

Ben Cummings
604.647.1349
ben.cummings@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

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

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

Madison Talling
604.647.1354
madison.talling@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

** 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

The spread of COVID-19 and the containment policies being introduced are changing rapidly. While information is current as of the date written or otherwise noted, the views expressed herein are subject to change and may not reflect the latest opinion of Avison Young. Avison Young relies on government and related sources for information on the COVID-19 outbreak. The content provided herein is not intended as investment, tax, financial or legal advice and should not be relied on as such.

Avison Young
#2900-1055 W. Georgia Street
Box 11109 Royal Centre
Vancouver, BC V6E 3P3, Canada

BEST MANAGED COMPANIES
Platinum member

avisonyoung.com