

Metro Vancouver



Availability of space and labour proximity now primary drivers guiding decision-makers in North America's tightest industrial market

It will not be a surprise to many that Metro Vancouver is North America's tightest industrial market as of third-quarter 2021, and that the region's average industrial rental rate increased by 53% in the past five years. Nor is it newsworthy now that record-setting levels of industrial investment in BC have been set annually since 2017 – and most recently surpassed \$1.1B in the first half of 2021 alone.

Metro Vancouver has become an industrial market of extremes thanks to a range of influences that have been converging since at least the mid-2000s, rooted in the common ground of an impending industrial land shortage, a lack of the political appetite to address land-use issues on a regional basis, the

pandemic-accelerated embrace of e-commerce and a prolonged period of Canadian monetary policy that has kept interest rates historically low since 2008.

All of these factors have led to a rapid price appreciation for industrial assets and land that was further accelerated in late 2020 and into 2021 by the COVID-19 pandemic. This environment encouraged vendors to capitalize on the substantial gains realized during the past four years as well as supporting the development of industrial strata space – a form of industrial ownership that has been abetted by rising land costs, low interest rates and as a potential hedge against the rapid increases in lease rates that started in 2016 after years

[continued on back page](#)



Metro Vancouver's industrial vacancy lowest in North America at 0.4%



Strata space represents almost 30% of total square footage of new supply currently under construction



Rental-rate escalation expected to start to moderate compared with the past three years as tenants acclimatize to evolving market dynamics



More than 5.9 msf of new industrial space still available for lease is under construction/proposed by end of 2023



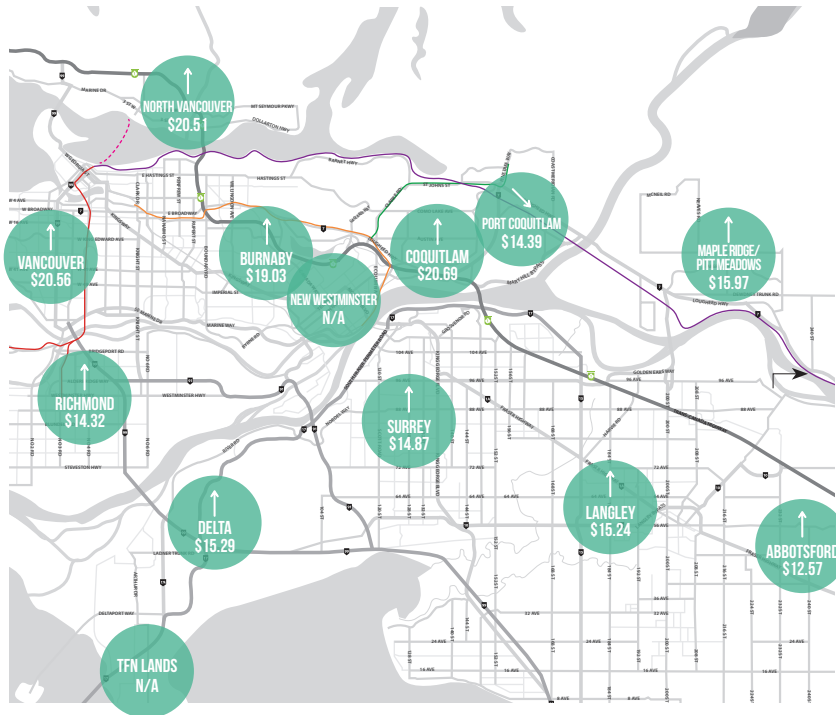
Lease rates hit new record high as Metro Vancouver average achieves \$15.50 psf



Investment in industrial properties surged to record levels in first half of 2021 as the asset class remains the focus of investors of all types

Metro Vancouver Industrial Market Update (Q3 2021)

Average Asking Lease Rates in Metro Vancouver (PSF)



More than 2.2 msf of new inventory will be delivered in the next six months, but 80% of that space is already preleased/presold.

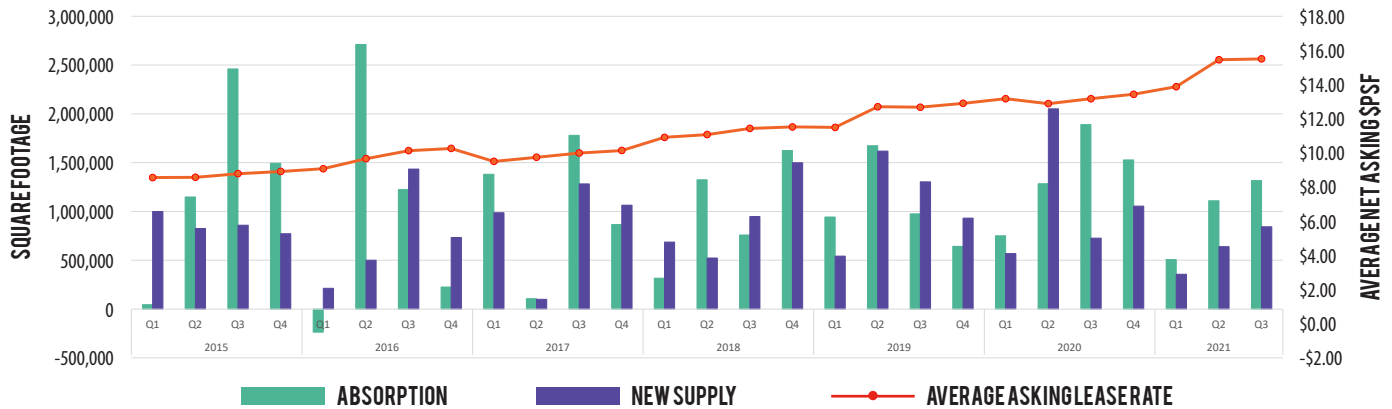
MUNICIPALITY	INVENTORY	Q3 VACANCY
Richmond	38,745,478	0.2%
Surrey	35,847,502	0.3%
Burnaby	29,681,462	0.2%
Vancouver	24,326,910	1.2%
Delta	25,794,452	0.5%
Langley	18,030,686	0.2%
Coquitlam	8,210,738	0.7%
Port Coquitlam	8,753,673	0.2%
Abbotsford	8,796,511	0.2%
North Vancouver	5,340,305	0.2%
New Westminster	4,405,187	0.0%
Maple Ridge/Pitt Meadows	4,647,715	1.0%
Tsawwassen (TFN Land)	1,348,540	0.0%
Metro Vancouver	213,929,159	0.4%

RECENT NOTABLE LEASE TRANSACTIONS IN METRO VANCOUVER SINCE SPRING 2021

MUNICIPALITY	ADDRESS	SF	TENANT	TYPE
Pitt Meadows	Golden Ears Business Park - Phase IV	864,000	Amazon	New
Burnaby	8351 Fraser Reach Court (Riverbend Business Park - Building 5)	707,000	Amazon	New
Richmond	16131 Blundell Road	443,061	Amazon	New
Delta	8579 - 8644 River Road - North (River Road Distribution Centre)	373,073	Lululemon	New
Surrey	15010 & 15030 54A Avenue	256,480	Eddie' Wholesale Garden Supplies	New
Surrey	2929 & 2965 188th Street	176,134	18 Wheels Logistics	New
Surrey	2360 192nd Street	152,084	A52 Warehouse Inc.	Renewal
Delta	7350 Wilson Avenue	112,066	Wallace & Carrey	New
Surrey	12850 112B Avenue	110,125	Damon Motors	New
Surrey	2929 & 2965 188th Street	102,488	NRI Distribution	New
Surrey	2940 190th Street	102,300	18 Wheels Logistics	New
Burnaby	7760 & 7800 Riverfront Gate	101,416	Core-Mark International Inc.	Renewal
Burnaby	7700 Riverfront Gate	82,330	Alpha Technologies	Renewal
Vancouver	1101 William Street	69,848	A&B Rentals	New
Surrey	19288 36th Avenue (Commerce Valley)	61,754	Yusen Logistics	New
Surrey	3570 194th Street	50,609	Confidential	New
Surrey	19322 34A Avenue	49,954	Robertson Electric Wholesale	New
Delta	8219 River Road	42,919	Mauser Packaging Solutions	Renewal
Burnaby	7500 Winston Street	40,960	Spartan Controls	Renewal
Langley	5367 271st Street, Units 1-3	39,640	Laird Plastics	Sublease
Delta	1629 Foster's Way	39,143	Embark Health	Renewal
Burnaby	5250 Riverbend Drive (Riverbend Business Park - Building 3)	37,788	Peloton	New

Sources: Avison Young Research

Metro Vancouver Historical Industrial Trends



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

ADDRESS	VENDOR	PURCHASER	PURCHASE PRICE	PPSF	BUILDING (SF)/ SITE AREA (ACRE)
8310 Prince Edward Street, 403-405 East Kent Ave North, 8385 St. George Street, Vancouver (Marine Drive Industrial Centre)	Morguard Investments	TD Greystone	\$123,400,000	\$293	421,844/ 16.77
175 & 185 Golden Drive, Coquitlam (Mayfair Square)*	Crestpoint Real Estate Investments	MVP (Golden) Properties/ HOOPP	\$48,000,000	\$292	164,577/ 6.28
B. 945 West 1st Street, North Vancouver	677466 B.C.	Veramax Holding	\$44,000,000	\$398	110,460/ 2.80
1385 Crown Street, North Vancouver	Mayfair Properties	Avenue Living Asset Management	\$42,000,000	\$491	85,535/ 1.15
11488 Eburne Way, Richmond	Jennisan Holdings	The Great Little Box Company	\$39,188,000	\$343	114,178/ 5.16
9770 199A Street, Langley	Valley Traffic Systems	Apex Extrusions Land Holdings	\$27,800,000	\$375	74,050/ 5.42
1634 Kebet Way, Port Coquitlam	Wesgar	Brookmere Investments	\$26,500,000	\$336	78,780/ 3.34
20233 100A Avenue, Langley	McKillican Canadian	Costco Wholesale Canada	\$25,000,000	\$430	58,092/ 3.47
1357 Powell Street, Vancouver	Jily Enterprises	Value Property Group	\$24,293,200	\$442	54,946/ 1.64
2625 Douglas Road, Burnaby	Patrick Equipment	Coastal Ford Sales	\$22,000,000	\$666	33,056/ 2.46
8730 River Road, Delta	Royal City Charter Coach Lines	Aheer Transport	\$20,585,000	\$1,158	17,776/ 5.25
17848 56th Avenue, Surrey	Energrated Holdings	Delta Controls	\$19,665,000	\$594	33,120/ 3.51
11211 Twigg Place, Richmond	0957812 B.C.	1305829 B.C.	\$17,000,000	\$1,037	16,387/ 4.00
2848 Norland Avenue, Burnaby	Rolls-Right Industries	Femo Construction	\$16,800,000	\$685	24,510/ 3.08
3400 Lake City Way & 7832 Enterprise Street, Burnaby	The Canadian Red Cross Society	Carlo Inc.	\$16,500,000	\$396	41,635/ 2.52

*Share sale

NOTABLE LAND SALES BY PRICE IN METRO VANCOUVER SINCE SPRING 2021

ADDRESS	VENDOR	PURCHASER	SALE PRICE	SITE AREA (ACRES)	PRICE/ ACRE
2450 United Boulevard, Coquitlam	Coca-Cola Canada Bottling	Beedie Group	\$45,000,000	9.50	\$4,737,475
20580 & 20600 Maple Crescent; Lots 2 & 1110, Block 20600 Maple Crescent, Maple Ridge	Interfor	Conwest Group of Companies	\$40,000,000	30.56	\$1,308,986
46520 Airport Road, Chilliwack	Porter Holdings	Beedie Group	\$28,400,000	15.01	\$1,892,072
8700-8790 Boundary Road, Burnaby	TCE Property Investment	Cedar Coast	\$24,850,000	4.05	\$6,137,318
10064, 10075 & 10104 River Road, Delta	Delta Cedar Products	Conwest Group of Companies	\$22,170,000	8.54	\$2,597,235
2883 & 2931 264th Street; 26292 29th Avenue, Langley	A private individual	Beedie Group	\$21,000,000	7.00	\$2,999,571
12974 88th Avenue, Surrey	1084402 B.C.	AlSCO Uniforms	\$20,000,000	4.97	\$4,024,955
19044 32nd Avenue, Surrey	1142651 B.C.	Punjab Milk Foods Inc.	\$16,600,000	4.49	\$3,697,105
1585 Riverside Road, Abbotsford	Private individual	Cedar Coast	\$15,000,000	13.40	\$1,119,403
17801 64th Avenue, Surrey	Private individual	North Cloverdale Strata Developments	\$15,000,000	3.33	\$4,503,152
20054 96th Avenue, Langley	Private individual	Starline Windows	\$13,000,000	4.86	\$2,676,549
10472 Scott Road, Surrey	Wesgroup Properties	10472 Scott Road Investments	\$12,900,000	3.68	\$3,508,295
43 East 3rd Avenue, Vancouver	Kelico Enterprises	Atelier Capital Partners	\$11,600,000	0.28	NA
11571 Mitchell Road, Richmond	Whitewater Developments	Fairway Recycling	\$10,970,000	2.52	\$4,349,722

Sources: Avison Young Research & Altus Data Studio

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of relative stability. In this inflationary environment, which has been amplified by steady increases in the costs of construction materials, trades and labour as well as transportation and shipping costs, industrial occupiers and investors alike have had to learn to navigate a regional industrial market unique in North America.

Regional vacancy hovered at 0.4% in the third quarter of 2021 – down from 1.2% a year earlier, which was the last time vacancy was greater than 1% in Metro Vancouver. Other Canadian cities such as Toronto (0.7%), Ottawa (1.3%) and Montreal (1.4%) were also among the North American industrial markets with the lowest vacancy rates in the third quarter of 2021. While industrial vacancy in Calgary (3.9%) and Edmonton (6.6%) remained elevated in comparison, both markets had tightened since the first quarter of 2021.

Ongoing strong demand from tenants in Metro Vancouver's heavily space-constrained industrial market continued fuelling a rapid appreciation in the region's average industrial rental rate, pushing it to a record high of \$15.50 psf (the highest in Canada) – up 17.7% from a year earlier. As rates have continued to rise, the rental-rate differential between core and suburban industrial markets has shrunk considerably with Vancouver, Burnaby and the North Shore commanding premium rates. Industrial rents in Vancouver and on the North Shore surpassed the \$20 psf threshold in the third quarter of 2021 for the first time in the region's history. While cost and location are still important considerations for most tenants and business owners, it is physical availability and labour proximity that will drive site-specific demand for industrial real estate in Metro Vancouver moving through 2021 and 2022.

As tenants and owner-occupiers have had to relocate further out from the core to secure space (as much of the new development is located in the outer suburbs and Fraser Valley – the only areas with land left to be developed), access to labour has increasingly become a top concern for decision-makers. While the regional industrial market's upward trajectory has been maintained through 2021, the average industrial rental rate in Metro Vancouver has remained comparable to most of its U.S. West Coast counterparts, including Metro Seattle (C\$15.02), Metro Los Angeles (C\$16.90), Central LA (C\$17.35), Oakland (C\$14.95), Long Beach (C\$16.15) and San Francisco (C\$29.46).*

The recent approval of industrial land uses in Surrey's South Campbell Heights area by Metro Vancouver – which reportedly includes 397 acres for employment uses, 137 acres for conservation and 29.7 acres for agricultural uses – will allow for additional industrial development in the mid-term with the area expected to be built out over the next seven to nine years. This amendment to the regional growth strategy to allow for more supply may contribute to reducing the upward pressure on rates and help achieve a stabilization in both rental rates and asset pricing.

This new addition to the region's industrial land supply, combined with the Bank of Canada (BoC) announcing in October 2021 that it will end its bond-buying stimulus program and accelerate the potential timing of future interest rate increases in 2022 (as early as April) in an effort to constrain inflation (which hit an 18-year high in September at 4.4%) may result in a period of market rationalization as pricing and rate gains from the past 36 to 48 months are monetized by owner-occupiers and investors. BoC's efforts to reduce inflationary pressures are likely to impact Metro Vancouver's industrial real estate market, which has benefited from an escalation in pricing as inflation and shortages of construction materials and trades related to global supply chain issues, manufacturing input shortages and the pandemic converged with the region's chronic land supply issue and permitting bottlenecks to exacerbate the myriad issues the regional industrial market was facing prior to the arrival of COVID-19 in March 2020.

Demand for industrial space – either for sale or lease – as well as efforts at securing supplies of construction materials, trade labour and workers have remained strong throughout 2021 and will remain into 2022 with only the possibility of external intervention in the form of at least one interest-rate hike by the BoC to tamp down inflationary pressures and potentially lowering the temperature a degree or two in Metro Vancouver's frantic industrial market.

The uniqueness of Metro Vancouver's industrial market and the range of pressures it faces have created a crucible of innovation in terms of both forms of development as well as land-use policies. Strata ownership continues to proliferate at rates unseen anywhere else in Canada, new logistics/distribution warehouses are built to 36' and pushing to 40' clear ceiling heights as cubic volume is increasingly considered as important a metric, if not more so, than square footage while pre-built mezzanine space in new development is pushing up density by adding 15% to 30% to the ground floor area. A true multi-level industrial distribution centre is fully preleased and under construction – another first in Canada – as the regional industrial market evolves as a land-constrained 21st-century port city on the west coast of North America, and a national leader in facing and adapting to the challenges of an ever-changing world. ■

*Q3 rental rates using CA-US exchange rate as of November 4, 2021

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