

Vancouver Industrial, Q1 2016

# Construction activity accelerates as supply of industrial space falls to historical low

▼ Vacancy Rate  
2.6%

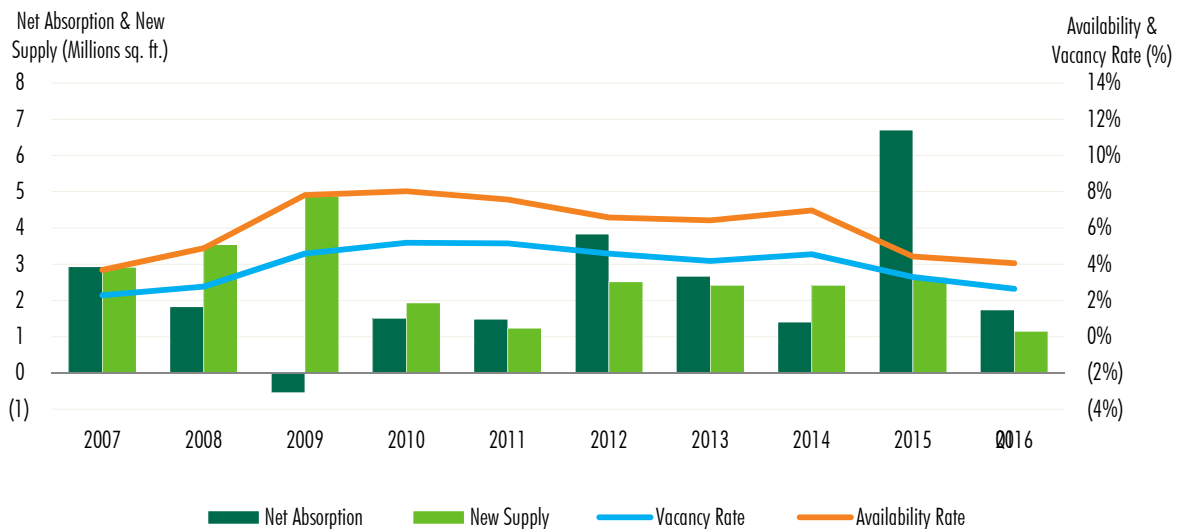
▼ Availability Rate  
4.1%

▼ Net Absorption  
1.7 MSF

▲ Under Construction  
5.1 MSF

\*Arrows indicate change from previous quarter.

Figure 1: Supply & Demand



Source: CBRE Research, Q1 2016.

- Vacancy rates fell to a historical level of 2.6% down from 3.3% in Q4 2015
- Industrial strata projects continue to fare well, representing more than 2/3's of total sale volume for the fourth consecutive quarter
- Construction activity has rapidly accelerated with 45 projects representing over 5 million sq.ft. currently being built versus 2.1 million sq.ft. in Q1 2015
- Average Net Asking Lease Rates have risen steadily increasing 4.5% in the quarter, and 8% in the last year

Demand for industrial space remains very strong as vacancy sank to a new low of 2.6% in Q1 2016. Construction activity has more than doubled in the last year to over 5 million sq.ft. with a further 3.5 million sq.ft. planned. Port related distribution continues to drive demand south of the Fraser River with much of the recent activity concentrated along the South Fraser Perimeter Road. The film industry has also ramped up activity with more than 350 projects filming in Metro Vancouver through 2015, a 40% increase over the previous year. Many of the spaces absorbed for film projects have been short term deals located in primary markets North of the Fraser River. As vacancy continues to plummet, lease rates have edged up 4.5% in Q1 2016 and 8% in the last year.

**VANCOUVER**

The Vancouver industrial market experienced 34,142 sq. ft. of positive net absorption in Q1 2016 with the availability rate edging up 40 basis points to 3.2%. The central industrial markets in close proximity to the Downtown core continue to attract strong interest from investors seeking re-development opportunities. Many of the recent sale transactions have boasted record sale prices. With high demand and limited options available, landlords are repurposing formerly industrial buildings for alternative uses. In South Vancouver, average net rental rates have also seen an increase due to dwindling supply and increasing land values. In addition, new small bay strata development, IntraUrban, in South Vancouver is achieving over \$300 per sq.ft. With a speculative lease development at 8385 Fraser Street nearing completion, 123,477 sq.ft. will be added to the Vancouver industrial inventory.

**NORTH VANCOUVER**

With total available space currently at 103,598 sq.ft. and the availability rate dipping from 2.4% to 1.9%, North Vancouver is experiencing the lowest supply since Q1 2008. Average net lease rates continue to remain the highest in Metro Vancouver, currently at \$12.98 per sq.ft., increasing 5 percent in the last year. The City and District of North Vancouver have been actively rezoning existing industrial properties into mixed-use residential projects. As such, this erosion of industrial, automotive and single story commercial buildings are contributing to an upward pressure in lease rates and sale values.

**BURNABY**

The Burnaby market recorded 374,226 sq.ft. of positive absorption driven primarily by Legion Can TV Productions (a division of Fox Studios) leasing 208,000 sq.ft. at 7105-7205 11th Ave for a 1 year term. This deal also drove the vacancy rate down to 1.2% from 2.3% last quarter. Net rental rates have climbed 14% in the last year to \$9.35 per sq.ft. With only one remaining block of space in excess of 50,000 sq.ft., Burnaby will continue to face a supply crisis until new product is delivered to the market. Currently there are seven projects under construction in the Big Bend submarket in addition to Adera's development at Eastlake Campus, representing a total of 801,083 sq.ft. to be completed by the end of 2017.

**DELTA**

The availability rate in Delta fell from 5.4% to a historical low of 5% in Q1 2016. The 530,985 sq. ft. of positive net absorption represented the seventh consecutive quarter of positive growth for the Delta market. Rolls Right Industries purchased 90,362 sq.ft. at 7708 80<sup>th</sup> Avenue for their transportation division 18 Wheels. Bentall Kennedy purchased 8400 & 8500 River Road (209,903 sq.ft. and 83,587 sq.ft. respectively) from Darrahdi Holdings Ltd. for \$49.5 million (\$167 per sq.ft.). Boundary Bay Phase 2 (8181 Churchill Street) was completed and fully occupied by TJX, accounting for the bulk of positive absorption in the quarter. A further 1,225,391 sq.ft. of industrial space is currently under construction, scheduled for delivery by 2017.

Figure 2: Q1 2016 Notable Sale Transactions

Address	Market	Price (\$ Millions)	Size (Sq. Ft.)	Sale price (\$/Sq. Ft.)	Purchaser
8400-8500 River Road	Delta	\$49.5	276,086	\$179	Bentall Kennedy
7708 80 <sup>th</sup> Avenue	Delta	\$13.9	90,362	\$155	18 Wheels, division of Rolls Right Industries
1345 Cliveden Avenue	Delta	\$17.8	78,350	\$228	Original Cakerie Ltd.
8125 North Fraser Way	Burnaby	\$7.9	42,463	\$186	Private Investor
19470 96 <sup>th</sup> Avenue	Surrey	\$7.0	21,500	\$326	Jim Pattison Developments Ltd
19867 98 <sup>th</sup> Avenue & 9818 198B Street	Langley	\$10.0	20,310	\$492	Private Investor

Source: CBRE Research, Q1 2016.

**SURREY**

Market activity remained strong this quarter in Surrey, with 398,172 sq.ft. of positive net absorption. The availability rate fell from 4.8% to 4.3% as 12091 88<sup>th</sup> Avenue (195,960 sq.ft.) was leased to a film group for an 18 month term. With this space now taken, there are no immediately available existing spaces larger than 100,000 sq.ft. Notable transactions include RAS Industries leasing 44,525 sq.ft. at 3338 190<sup>th</sup> Street in Campbell Heights North.

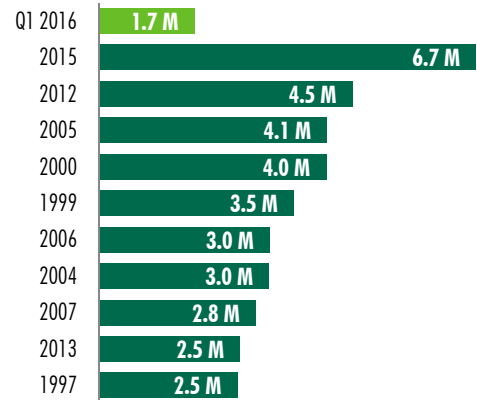
Having the largest share of developable land, Surrey has become an active market for developers as evidenced by 1,308,886 sq.ft. of projects under construction. High development activity continues in Campbell Heights, with four new projects totalling 259,075 sq.ft. being completed this quarter. These include build to suits for CB Supplies and a 50,000 sq.ft. facility for BC Blue Cold Storage Corp. Over the last year, land prices in this area have increased, with prime industrial land selling for well over \$1 million per acre. An example of this is 20 acres of land in Phase IV of Campbell Heights North Business Park being sold for \$29.5 million to Diversified Management Inc.

**RICHMOND**

The availability rate fell to a historical low of 3.4% in the first quarter, with 191,931 sq.ft. of positive absorption. The majority of leasing activity took place in older generation properties and smaller bay opportunities under 5,000 sq.ft, where the number of available spaces was cut in half quarter over quarter. Supply in Richmond remains extremely limited with many properties receiving unsolicited offers to purchase. In addition, virtually all sales activity occurred in small bay strata units as evidenced by strata sales volume rising 20% from last quarter.

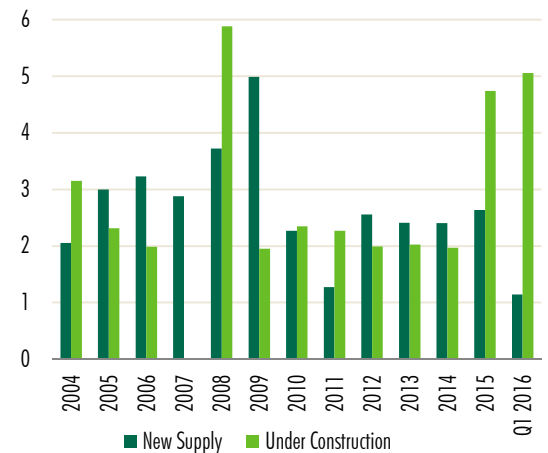
In terms of new product, Greypointe Business Centre Phase 4 was completed, adding 33,300 sq.ft. to the Richmond inventory. With over 400,000 sq.ft. of industrial strata planned for completion by Q1 2017, developers are poised to meet the increasing industrial strata demand.

Figure 3: Historical Net Absorption by Year (Million sq. ft.)



Source: CBRE Research, Q1 2016.

Figure 4: Metro Vancouver Construction & New Supply (Millions sq. ft.)



Source: CBRE Research, Q1 2016.

Larger transactions for Q1 2016 include: 3810 Jacombs Way leased to a recreational user for 47,400 sq.ft., 13471 Crestwood Place leased to Speeders Indoor ProKarts for 51,322 sq.ft. and 13800-14000 Steveston Highway being leased to Saltworks Technologies Inc. for 57,200 sq.ft.

**LANGLEY**

The Langley submarket experienced 56,406 sq.ft. of positive absorption and a rise in availability rates in Q1 2016 from 7.8% to 8%, the second highest availability rate in the region. Parkland Business Centre (5525 272<sup>nd</sup> Street) was completed and delivered this quarter. In terms of leasing activity, Steelform Group, a construction materials producer leased 39,197 sq.ft. at 3168 262<sup>nd</sup> Street in the Aldergrove submarket.

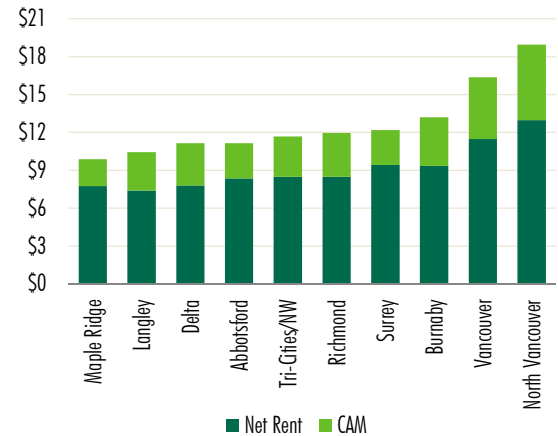
**MAPLE RIDGE & PITT MEADOWS**

Maple Ridge & Pitt Meadows experienced 59,306 sq.ft. of positive absorption with the availability rate increasing from 6.7% to a historical high of 8.2%. At \$9.89 per sq.ft., gross occupancy costs in Maple Ridge & Pitt Meadows are the lowest option in the region, representing excellent value for occupiers. Onni’s Golden Ears Business Park Building 100 was completed in Q1 2016, adding 105,000 sq.ft. to the inventory. A further 453,000 sq.ft. remains under construction in Golden Ears Business Park and will be completed in phases through the remainder of 2016.

**TRI-CITIES/NEW WESTMINSTER**

After three strong quarters in 2015, activity in the Tri-Cities/New Westminster market tapered off in Q1 2016. The availability rate fell by 20 basis points from 4.2% to 4.0% in Q1 2016 with only 33,686 sq.ft. of positive absorption. New supply is expected to be delivered in the second half of 2016 with the completion of Queensborough Logistics Park Phase 3 for 299,383 sq.ft. and River’s Edge Business Park for 51,281 sq.ft. Average net asking rates have increased nine percent in the last year to \$8.50 per sq.ft.

Figure 5: Q1 2016 Gross Occupancy Costs by Market (\$ per sq. ft.)



Source: CBRE Research, Q1 2016.

**ABBOTSFORD**

The Abbotsford market remained stable in Q1 2016 with a small decline in the availability rate from 5.8% to 5.3% and 28,303 sq. ft. of positive net absorption. Options for tenants have become extremely limited, with the majority of available spaces less than 5,000 sq.ft. in size and no large block options over 50,000 sq.ft. No new supply was added in the first quarter, although Teck Construction’s development at 2195 & 2199 Queen Street will add 133,392 sq.ft. of multi-tenant space to the industrial inventory in late 2016. Average net asking rates have increased 15 percent in last year, currently residing at \$8.37 per sq.ft.

Figure 6: Q1 2016 Significant Lease Transactions

Size (Sq. Ft.)	Tenant	Address	Submarket	Tenant Industry	Deal type
208,000	Legion Can TV Productions (division of Fox Studios)	7105-7205 11th Ave	Burnaby	Film	Headlease
195,000	“Film Group”	12091 88th Ave	Surrey	Film	Headlease
57,200	Saltworks Technologies Inc.	13800-14000 Steveston Hwy	Richmond	Water Treatment	Headlease
51,322	Speeders Indoor ProKarts	13471 Crestwood Place	Richmond	Recreation	Headlease
47,400	“Recreation User”	3810 Jacobs Way	Richmond	Recreation	Headlease
44,525	RAS Industries	3338 190th Street	Surrey	Tools Manufacturing	Headlease
32,072	Steelform Group	3168 262nd Street	Langley	Building Materials	Headlease
26,095	Canada Post	4091 McConnell Ct	Burnaby	Logistics	Headlease
21,289	Silver Star Building Supplies	13042 84th Ave	Surrey	Building Materials	Headlease

Source: CBRE Research, Q1 2016.

Figure 7: Q1 2016 Market Statistics Summary

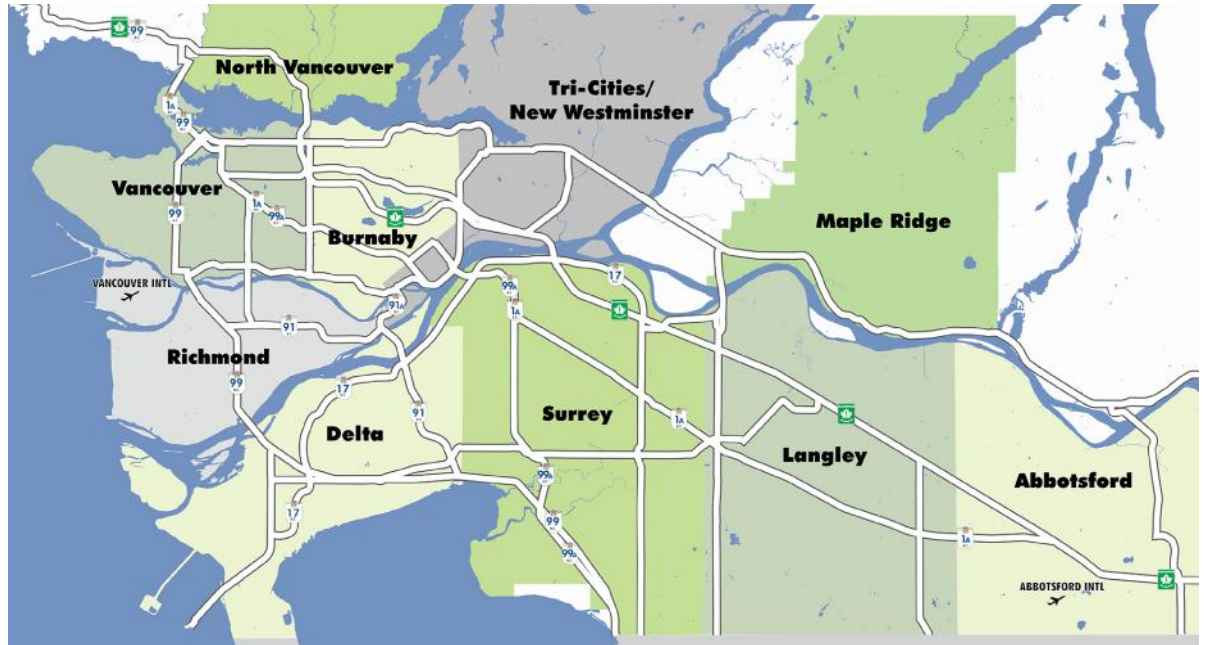
Submarket	Inventory (Sq. Ft.)	Vacancy Rate (%)	Availability Rate (%)	Quarterly Net Absorption (Sq. Ft.)	Quarterly New Supply (Sq. Ft.)	YTD New Supply (Sq. Ft.)	Under Construction (Sq. Ft.)	Net Asking Rent (\$/Sq. Ft.)	T&O (\$/Sq. Ft.)	Gross Rental Rate (\$/Sq. Ft.)
Vancouver	22,618,868	2.2	3.2	34,142	123,477	123,477	261,730	11.47	4.89	16.36
Burnaby	27,361,500	1.2	2.2	328,368	42,662	42,662	801,083	9.35	3.85	13.20
Richmond	35,285,513	2.3	3.4	191,931	33,300	33,300	473,326	8.50	3.45	11.95
Tri-Cities/NW	17,002,737	1.0	4.0	33,686	0	0	350,664	8.50	3.18	11.68
Delta	23,013,999	3.8	5.0	530,985	495,000	495,000	1,225,391	7.81	3.34	11.14
Surrey	30,871,945	3.3	4.3	398,172	259,075	259,075	1,308,886	9.43	2.75	12.18
Langley	14,605,076	4.8	8.0	56,406	86,494	86,494	0	7.40	3.03	10.43
Maple Ridge	2,600,074	4.1	8.2	59,306	105,000	105,000	453,000	7.75	2.14	9.89
Abbotsford	5,374,274	4.3	5.8	28,303	0	0	151,392	8.37	2.78	11.15
North Vancouver	5,347,276	1.9	1.9	26,643	0	0	30,628	12.98	5.97	18.95
Metro Vancouver	184,081,262	2.6	4.1	1,733,800	1,145,008	1,145,008	5,056,100	8.84	3.41	12.25

Source: CBRE Research, Q1 2016.

Figure 8: Vancouver Industrial - Clear Height Analysis Q1 2016

Submarket	< 20'	20-24'	25-27'	≥ 28'	Total	< 20'	20-24'	25-27'	≥ 28'
	Total Available sq. ft.					% of Total Available Space			
Abbotsford	15,885	145,071	-	-	160,956	9.9	90.1	-	-
Burnaby	165,944	257,193	133,815	37,074	594,026	28.0	43.3	22.5	6.2
Delta	163,652	245,055	322,499	342,307	1,073,513	15.2	22.8	30.0	32.0
Langley	73,175	285,954	661,307	85,064	1,105,500	6.6	25.9	59.8	7.7
Maple Ridge	10,418	15,113	25,952	-	51,483	20.2	29.4	50.4	-
Mission	-	7,632	-	-	7,632	-	100.0	-	-
North Vancouver	24,463	28,467	-	-	52,930	46.2	53.8	-	-
Richmond	194,756	447,107	233,126	272,564	1,147,553	17.0	39.0	20.3	23.7
Surrey	134,206	559,442	353,195	163,051	1,209,894	11.1	46.2	29.2	13.5
Vancouver	311,778	123,177	-	214,757	649,712	48.0	19.0	-	33.0
Tri-Cities/NW	174,396	292,449	17,666	136,289	620,800	28.1	47.1	2.8	22.0
Metro Vancouver Total	1,268,673	2,406,660	1,747,560	1,251,106	6,673,999	19.0	36.1	26.2	18.7

Source: CBRE Research, Q1 2016.



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