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Media Release

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Editors/Real Estate Reporters
• Please click on link to view and download Avison Young's *Spring 2017 Metro Vancouver Industrial Overview:*
http://www.avisonyoung.com/fileDownloader.php?file=files/content-files/Offices/Vancouver/Research/2017/Vancouver_IndustrialOverview_Spring2017.pdf

Metro Vancouver industrial market tightest in Canada as rental rates, land and sale prices soar

Avison Young releases its Spring 2017 Metro Vancouver, BC Industrial Overview

Vancouver, BC – Robust demand, restricted land supply and municipal delays have conspired to push Metro Vancouver's 197.3-million-square-foot (msf) industrial market to near-record-low vacancy for the region at 1.9% – and the lowest in Canada at the end of the first quarter of 2017. This market crunch is driving rental rates, land prices and building values higher while crimping expansion or relocation plans of businesses left with few options to grow or set up shop in the region.

The pressure resulting from this collision of factors (predicted by **Avison Young** since at least 2015) has been building during the past 18 months. Despite attempts by the development industry to meet the demand for additional industrial space, positive absorption that totalled more than 10 msf in the 24 months ending March 2017 (and which trailed only Toronto's exponentially larger industrial market in that period nationally) has all but erased any relief that new supply would provide tenants or owner-occupiers.

These are some of the key trends noted in **Avison Young's *Spring 2017 Metro Vancouver Industrial Overview***, released today.

Despite more than 4.3 msf of industrial space currently under construction in Metro Vancouver, vacancy is not expected to rise in the foreseeable future as most of the space that will be ready for occupancy by early 2018 is already spoken for. Vacancy is forecast to tighten through 2017 and will likely approach the record low vacancy of 1.4% that was registered in Metro Vancouver in fall 2006. The major difference is that Metro Vancouver's industrial market has expanded 25% since then due in part to the expansion of regional transportation infrastructure that was, in turn, driven by rising demand, particularly from logistics/bulk distribution/warehouse users. The need for this investment was underpinned by the shortage of industrial land in Metro Vancouver and the need to better access port facilities and the developable industrial land that was available.

The strong demand for industrial space, whether for lease or sale, by investors and developers (as well as tenants and owner-occupiers) has resulted in landlords' asking rental rates and vendor pricing expectations being met. This has resulted in even more competition for industrial assets and, more importantly, development sites, leading to higher prices and greater cap rate compression throughout the market. Historically, owner-occupiers were generally willing to pay more to acquire industrial assets as they were less likely to seek the returns necessary for an investor to justify an acquisition.

"Due to rising rental rates and the increases in strata pricing now being achieved for industrial strata units in Metro Vancouver, investors are justifying the high costs of acquiring an industrial property for redevelopment now or in the future," comments Avison Young Principal **Russ Bougie**. "This has led to developers, particularly in core industrial markets such as Vancouver and Burnaby, to acquire sites to develop multi-storey buildings. Projects in Vancouver's Mount Pleasant and Strathcona neighbourhoods currently command the highest pricing for non-typical industrial developments (which often include extra density with flex office and showroom space) as developers seek to capture the higher rents and the pricing these units can command."

Bougie adds that these types of industrial developments are primarily located in Vancouver at this stage. "Boosting the efficiency of industrial space and the industrial land remaining will be a key focus of industrial users and developers moving forward."

"The expense and difficulty of securing new or expanded premises will force owner-occupiers and tenants to make the most of the space they have, and perhaps curtail growth in order to remain in their current space," says Avison Young Principal **Michael Farrell**. "While a strong industrial market is a characteristic of a strong economy, near-record-low vacancy and rising prices for buildings and land can start to slow business expansion, force companies to relocate outside Metro Vancouver, or limit new companies from entering the market in the first place."

He adds: "The growth of industrial development in the Fraser Valley is starting to show signs of slowing as industrial land in the communities of Surrey, Langley, Abbotsford and Chilliwack is in increasingly short supply and vacancy in those markets is among the tightest in Metro Vancouver."

With vacancy continuing to tighten and rental rates rising in 2017, Metro Vancouver's industrial market is facing its first test at the start of a new era where the constrained supply of costly industrial land is beginning to impact market fundamentals, and where new supply cannot be delivered in a timely enough fashion to boost availability or meet demand. The next steps will require some political risk and a nuanced approach to industrial development that the market has yet to embrace.

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