



Q3 | 2022 Industrial

METRO VANCOUVER MARKET REPORT



Canada and British Columbia have been able to maintain relative stability as the economy is tested with repeated interest rate increases. However, the outlook is uncertain as the Bank of Canada attempts to combat persistent inflation using interest rate hikes, with more expected to come. Most recently, a 75-basis point increase was introduced on September 7 which raised the overnight interest rate to 3.25%, pushing commercial prime mortgage rates to between 5.75 and 6.5%.

Ongoing demand for commodities on both a global and local scale has been beneficial for British Columbia's economy. Strong coal and natural gas prices have improved the value of BC exports. One of the province's largest current infrastructure projects, the \$11.2 billion Coast Link natural gas pipeline, surpassed 70% completion in Q3 2022. This pipeline will help contribute to BC's already impressive export market. The provincial government reported as of June 2022, export of goods were up by 32.1% from 12 months earlier. These higher commodity prices come as a burden to developers who rely on lumber products and now face higher building costs as a result. In addition to the pipeline, the province has several construction mega-projects in progress, such as the Pattullo Bridge replacement and the New St. Paul's Hospital.

We have yet to see developers take drastic measures in reaction to commodity price increases and higher borrowing costs for capital. However, with the expectation of further interest rate hikes, developers may start to adjust their project planning and development, potentially putting projects on pause.

The province currently has a healthy unemployment rate of 4.3%, which is slightly lower than Canada's national rate of 5.2%. This may be a result of the 100,000 jobs added in 2021, which the BC Ministry of Jobs said was leading Canada's economic recovery. In addition, the Ministry stated that the province had seen 30,200 new private-sector jobs in September 2022, signalling excellent growth in the workforce. The film industry has also been thriving in BC, especially as streaming companies like Netflix join the production business.

Real GDP growth for British Columbia is expected to be around 3.2% for 2022, trailing behind the expected 2022 growth for Canada which is 3.8%. Both BC and Canada predict growth to decline in the coming year with expected values of only 1.5% and 2.6%, respectively.

One of the last of the COVID-19 restrictions still in effect in BC was recently lifted, with the ArriveCan platform no longer being required upon re-entry into Canada as of October 1, 2022. This will hopefully encourage more foreign national tourism into the province, helping our economy through the volatility we may face during the next few quarters.

"Outlook is uncertain as the Bank of Canada attempts to combat persistent inflation using interest rate hikes"

MACROECONOMIC FACTORS

BRITISH COLUMBIA	CURRENT	TREND
Population, 15+ years	4,588,32	▲
Unemployment Rate	4.3%	▼
Total Building Permits	\$18.201 Billion	▲
Industrial Building Permits	\$569 Million	▲
CPI	148	▲
CANADA	CURRENT	TREND
Real GDP (Million)	2,056,044	▲
CAD/USD	\$0.73	▼
Prime Lending Rate	5.45%	▲
Overnight Rate	3.25%	▲

Sources: CoStar Group, Inc., Government of British Columbia, Statistics Canada, Bank of Canada, Scotiabank Economic, TD Economics, Central 1 Credit Union, PWC Canada

GDP AT BASIC PRICES, BY INDUSTRY, MONTHLY (× 1,000,000) | JULY 2022

All Industries	Retail	Wholesale	Construction	Real Estate and Rental & Leasing
				
\$2,056,044	\$105,068	\$105,435	\$150,016	\$266,980

Metro Vancouver Remains the Tightest Industrial Market in North America

Throughout 2022, the Bank of Canada has been continuing their policy of aggressive quantitative tightening resulting in five large interest rate hikes over six months. Paired with sky-high inflation rates, the risk of recession is present. However, unrelenting demand for industrial space amid low vacancy rates and a critical land shortage for future development has outweighed the effect of interest rates and inflation to keep Metro Vancouver's industrial market strong.

Limited land for development is one of the key factors driving the market. The City of Surrey made a vital move last quarter to combat demand by expanding the Campbell Heights industrial park to the south by 552 acres, 400 of which will be mixed-employment allowing industrial projects. This may eventually add over 8.5 million SF of building area to Surrey, along with thousands of jobs. Relief from this step will not be felt until the land is developed years into the future, but is needed nonetheless. The hope is that other cities follow suit, especially those in the Fraser Valley including Langley and Abbotsford.

Another way to tackle the obstacle of land constraints is to build multi-level industrial projects. This trend was first seen with

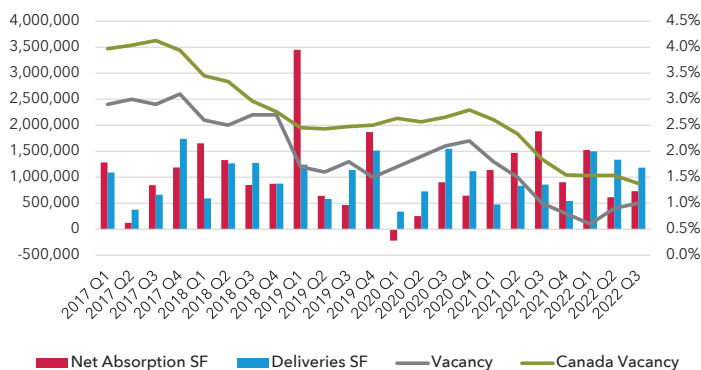
Oxford's Riverbend Industrial Park in Burnaby, which Amazon has been operating in as of August. Now, Wesgroup is bringing the first of this kind of build to the Tri-Cities with ELEVATE in Coquitlam – a 125,000 SF stacked industrial facility coming in 2024. Densification with multi-storey industrial is a creative route for developers and builders to rationalize construction costs and maximize use of the land. The expectation is that more of these stacked projects will be seen in the coming years as they prove to be successful developments.

Forecasted net deliveries for the year is set to out-pace the past few years at 6.2 million SF, with 2023 projected even higher. However, these projects coming to market will not add much relief on demand. Of the nearly 9 million SF currently under construction, 80% is pre-leased or pre-sold. We anticipate that high lease rates and sale prices will persist, but sales transactions may begin to slow in the coming quarters as some potential buyers may not be able to afford lofty prices paired with the high cost of borrowing. Vacancy is expected to remain low, so tenants will have to consider peripheral markets or less optimal options in the search for space.

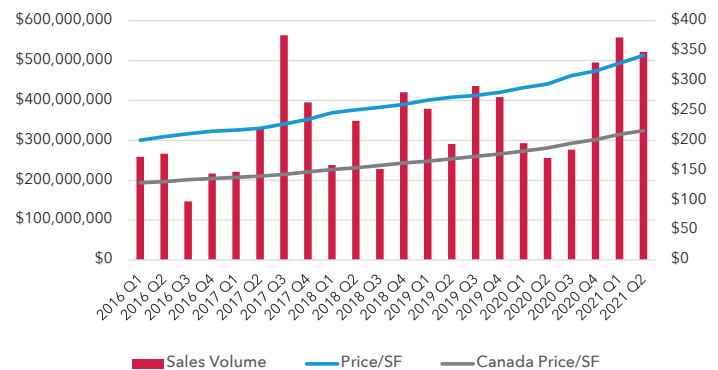
METRO VANCOUVER LEASING STATISTICS

MUNICIPALITY	TOTAL INVENTORY (SF)	UNDER CONSTRUCTION (SF)	12 MO NET ABSORP. (SF)	VACANCY RATE (%)	MARKET RENT/SF	ANNUAL RENT GROWTH	MARKET CAP RATE
Richmond	38,767,263	1,063,792	165,030	0.7%	\$21.85	32%	3.8%
Surrey	38,728,850	3,139,331	401,801	0.8%	\$19.96	29%	3.8%
Burnaby	30,301,180	1,949,041	40,116	0.8%	\$20.65	17%	3.7%
Delta	33,444,620	200,279	(82,033)	1.7%	\$19.42	24%	3.8%
Vancouver	20,995,673	372,662	(136,840)	2.1%	\$22.36	13%	3.8%
Tri-Cities/New West	24,177,601	362,677	98,978	0.4%	\$19.94	21%	3.8%
Langley	19,517,990	99,300	193,926	0.5%	\$20.61	34%	3.9%
North Vancouver	8,246,634	–	(23,162)	0.6%	\$20.90	13%	3.6%
Abbotsford	10,992,729	408,811	28,215	1.1%	\$15.61	11%	4.1%
Maple Ridge/Pitt Meadows	5,478,532	1,285,767	(12,968)	0.9%	\$20.13	35%	3.9%
Chilliwack	5,034,295	54,777	57,201	0.2%	\$14.75	5%	4.1%

ABSORPTION, NEW CONSTRUCTION AND VACANCY



QUARTERLY SALES VOLUME & AVERAGE PRICE



MARKET INDICATOR	TREND	Q1 2021	Q2 2021
Vacancy Rate	◀▶	1.20%	1.20%
Absorption (SF)	▼	(103,487)	(119,886)
Average Asking Rent (PSF)	▲	\$20.50	\$21.30
Average Additional Rent (PSF)	▲	\$7.38	\$7.45
Sales Volume	▼	\$90,404,625	\$63,379,000

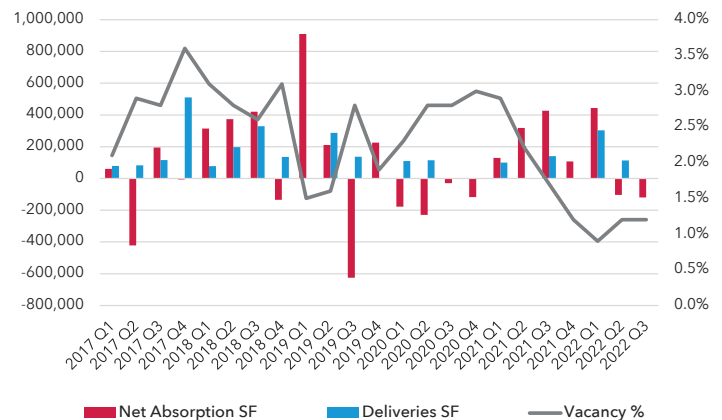
Strong demand and a vacancy rate of 1.2% have maintained high prices in Vancouver, North Vancouver, and Burnaby. These three cities have experienced a solid annual rent growth of 14.3% and exhibit an average asking rent of \$21.30 for Q3. This submarket contains 25.26% of Metro Vancouver's industrial inventory.

A significant event that took place this quarter was Amazon's occupancy of a two-storey 707,056 SF warehouse at Riverbend Business Park located at 8351 Fraser Reach Court in South Burnaby. This building, developed by Oxford Properties, is the first of its kind on a large scale in Canada. As large sections of land become increasingly difficult to acquire, efficient use of space will be seen in vertical expansion rather than building out horizontally – this may be critical in future industrial developments.

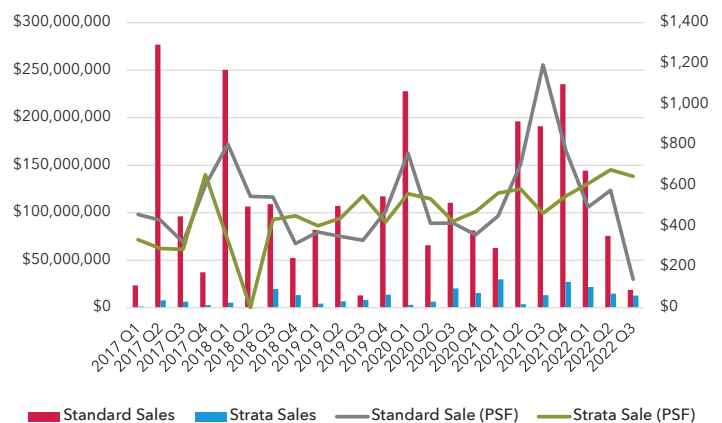
There is a considerable amount of space under construction in this submarket, with the exception of North Vancouver, which has virtually no new construction underway. Burnaby and Vancouver together have 2.32 million SF of space being constructed. Potential barriers to further land development in the North Vancouver and Vancouver regions involve city controls on land use changes and environmental concerns.

Sales slowed down in Q3 and this trend may continue as some buyers opt to lease in order to avoid high interest rates. The asking price range for this region is particularly high, falling between \$600 and \$750 PSF of building area.

ABSORPTION, NEW CONSTRUCTION AND VACANCY



QUARTERLY SALES VOLUME & AVERAGE PRICE



NOTABLE SALE TRANSACTIONS

ADDRESS	MUNICIPALITY	PRICE	PRICE/SF	SIZE (SF)	PURCHASER
8930 Oak Street	Vancouver	\$3,050,000	\$492.41	6,194	1230133 B.C. Ltd.
6891 Macpherson Avenue*	Burnaby	\$8,200,000	\$1,152.49	7,115	6891 Macpherson Avenue Holdings
#100 - 1055 Vernon Drive	Vancouver	\$19,000,000	\$660.07	28,785	Walker Group Ventures



6891 MACPHERSON AVENUE, BURNABY

NOTABLE LEASE TRANSACTIONS

ADDRESS	MUNICIPALITY	SIZE (SF)	TENANT
5589 Trapp Avenue	Burnaby	148,715	Horizon Distributors
8131 Wiggin Street	Burnaby	37,512	Inter Source Trading (renewal)
6741 Cariboo Road	Burnaby	12,770	MX Glass

*Brokered by Lee & Associates

MARKET INDICATOR	TREND	Q2 2022	Q3 2022
Vacancy Rate	▲	0.4%	0.5%
Absorption (SF)	▲	(2,175)	86,010
Average Asking Rent (PSF)	▼	\$20.35	\$20.24
Average Additional Rent (PSF)	▼	\$5.26	\$4.92
Sales Volume	▼	\$37,680,000	\$28,440,000

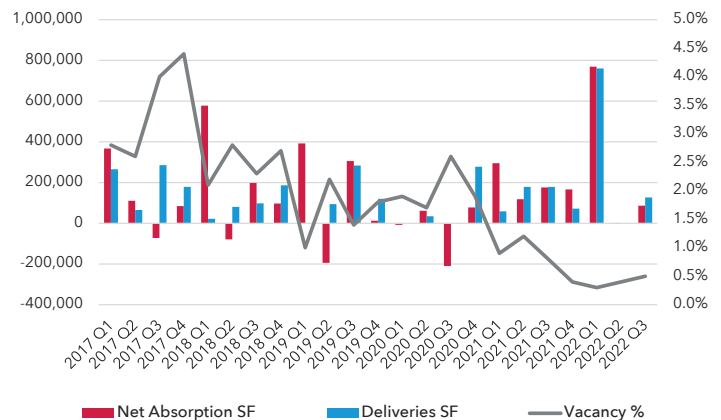
Vacancy for the Tri-Cities-Ridge Meadows submarket remained below 1% for the third quarter of 2022. It increased 10 basis points quarter-over-quarter to 0.5%. There is currently 1.6 million SF of industrial space under construction in the area, however, new deliveries to the submarket are not enough to alleviate demand as many are pre-leased or pre-sold months in advance.

This combination of low vacancy and insatiable demand have kept prices high. The average asking net rents for the Tri-Cities-Ridge Meadows for the third quarter is \$20.24 PSF, although there are many spaces where the asking rent is inching up to the mid \$20s PSF. The largest lease transaction this quarter was a distribution tenant snatching up just under 79,000 SF of space in Onni's Golden Ears Business Park. Expected delivery for Phase 3 of this development is early 2023 and only one building remains available.

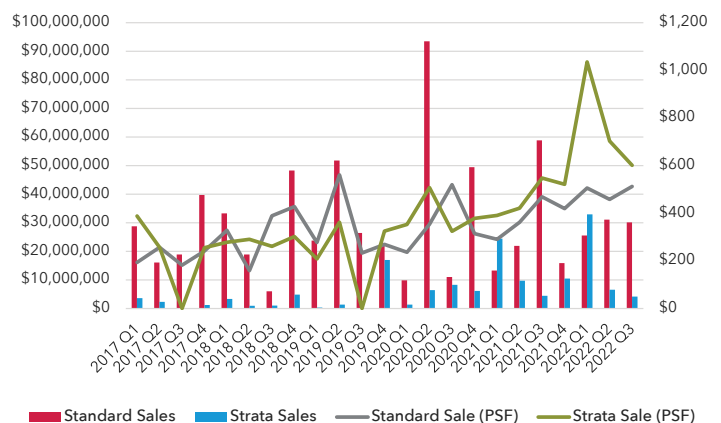
Sales activity has begun to slow down in this submarket, presumably due to the aggressive interest rate hikes over the last two quarters. However, vendors are unyielding as average asking prices remain high in the \$500 to \$600 PSF range. There are also many instances of sellers asking in the \$700s PSF.

Following the trend of densification seen in the Burnaby market with Riverbend, a multi-storey industrial building is also underway in Coquitlam – ELEVATE by Wesgroup will be the first of its kind in the Tri-Cities-Ridge/Meadows area; this speculative project is expected to complete in 2024. With limited land for industrial development, developers are getting creative in order to maximize use of space.

ABSORPTION, NEW CONSTRUCTION AND VACANCY



QUARTERLY SALES VOLUME & AVERAGE PRICE



NOTABLE SALE TRANSACTIONS

ADDRESS	MUNICIPALITY	PRICE	PRICE/SF	SIZE (SF)	PURCHASER
85 North Bend Street	Coquitlam	\$21,500,000	\$546.41	39,348	1363183 B.C.
13176 Lilley Drive	Maple Ridge	\$5,850,000	\$740.51	7,900	N/A



NOTABLE LEASE TRANSACTIONS

ADDRESS	MUNICIPALITY	SIZE (SF)	TENANT
#201-204 - 19265 Airport Way	Pitt Meadows	78,814	Univar Solutions
2043 Kingsway Avenue	Port Coquitlam	37,575	Pacific Blends
#107-108 - 155 Glacier Street*	Coquitlam	11,161	Euro Biological

*Brokered by Lee & Associates

MARKET INDICATOR	TREND	Q2 2022	Q3 2022
Vacancy Rate	▲	0.6%	0.7%
Absorption (SF)	▼	873,336	623,942
Average Asking Rent (PSF)	▼	\$18.03	\$18.73
Average Additional Rent (PSF)	▼	\$5.17	\$4.73
Sales Volume	▼	\$133,847,875	\$67,940,861

Known for its larger land availabilities and therefore larger industrial buildings than elsewhere in Metro Vancouver, the Fraser Valley remains a tight market. The vacancy rate for Surrey-Langley-Abbotsford continues to be on the low end at 0.7%, despite 1.9 million SF of deliveries this year; this is only a 0.1% increase from last quarter.

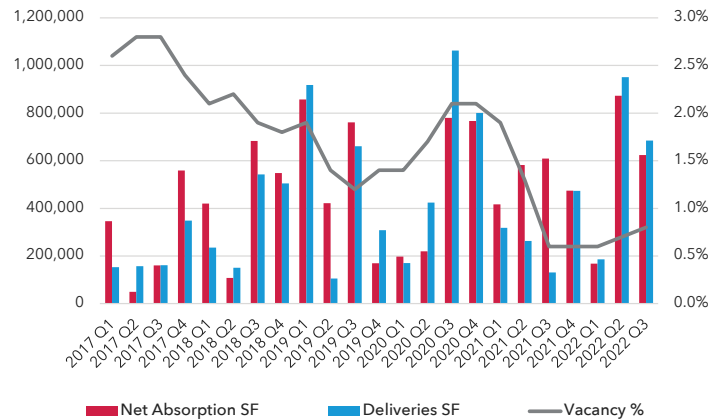
It was announced last quarter that the City of Surrey's request to extend the Campbell Heights industrial lands by 552 acres was approved. This will add over 8.5 million SF of building area, the effect of which will not be felt for several years as the lands need to be developed first. Still, other municipalities in Metro Vancouver should follow this lead with the extremely limited supply of land available for industrial development.

Average asking net rents for Surrey-Langley-Abbotsford increased slightly this quarter to \$18.73 PSF, with some landlords in Surrey and Langley asking in the low to mid \$20s PSF. The three largest lease deals of Q3 were all in Surrey, where 3 million of the 3.56 million SF currently under construction is located.

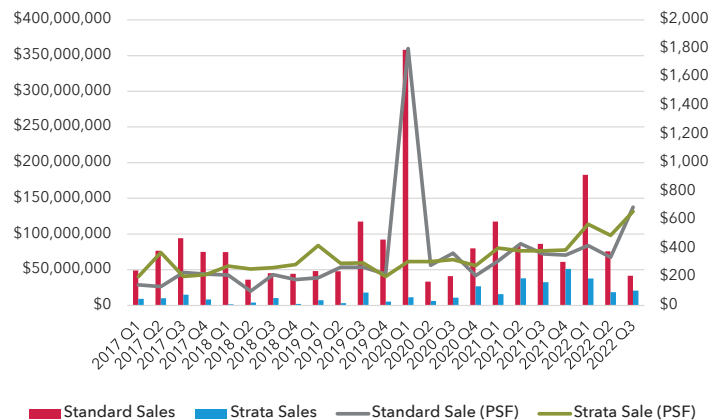
Sale prices are following a similar trend to lease rates, as they have not yet fallen from high interest rates and inflation beginning to push less financially stable purchasers out of the market. The average asking price for this submarket is \$617, with some strata projects pushing well into the \$700 PSF range.

The Fraser Valley is expected to remain a very strong industrial market, as supply cannot seem to catch up to demand. However, sales transactions may slow in the coming quarters if sellers do not release the firm grip on prices.

ABSORPTION, NEW CONSTRUCTION AND VACANCY



QUARTERLY SALES VOLUME & AVERAGE PRICE



NOTABLE SALE TRANSACTIONS

ADDRESS	MUNICIPALITY	PRICE	PRICE/SF	SIZE (SF)	PURCHASER
5425 Production Boulevard	Surrey	\$15,700,000	\$655.94	23,935	1367409 B.C.
9347 193 Street	Surrey	\$6,500,000	\$439.78	14,780	Tricom
11558 132A Street	Surrey	\$8,125,000	\$597.43	13,600	1373607 B.C.



9347 193 STREET, SURREY

NOTABLE LEASE TRANSACTIONS

ADDRESS	MUNICIPALITY	SIZE (SF)	TENANT
19490 92 Avenue	Surrey	39,200	CWS Industries (MFG) Corp.
2365 192 Street	Surrey	21,457	Playbook Logistics
#106-109 - 10425 173 Street*	Surrey	10,845	Dynamic Holdings

*Brokered by Lee & Associates

MARKET INDICATOR	TREND	Q2 2022	Q3 2022
Vacancy Rate	◀▶	1.10%	1.10%
Absorption (SF)	▲	(204,448)	82,997
Average Asking Rent (PSF)	▲	\$19.85	\$20.64
Average Additional Rent (PSF)	▼	\$5.43	\$5.33
Sales Volume	▼	\$107,202,000	\$43,645,208

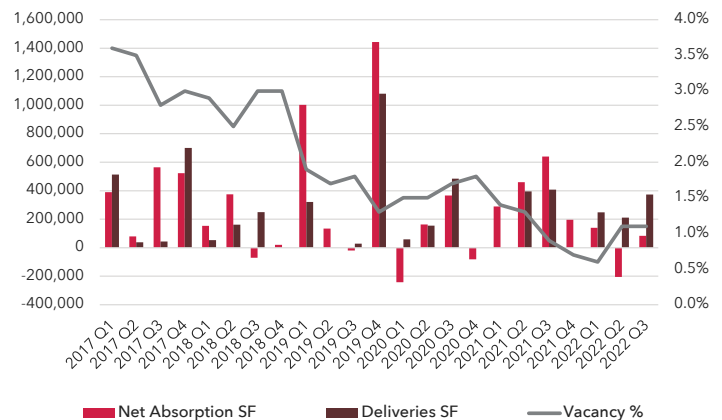
Richmond and Delta are two industrial strongholds, containing around 30.6% of Metro Vancouver's industrial stock. A large portion of the land is designated as Agricultural Land Reserve (ALR), which consequently has been another source of pressure on industrial availability.

Constrained availabilities have resulted in a vacancy rate of 1.2%. This low vacancy is one of the reasons average rental rates have grown by 28% over the last 12 months, currently sitting at \$20.64. Such strong growth signals strong, continued demand for lease space. A notable transaction in Q3 was 153,400 SF of space at 3971 No. 6 Road that was leased by Marine Canada Acquisitions.

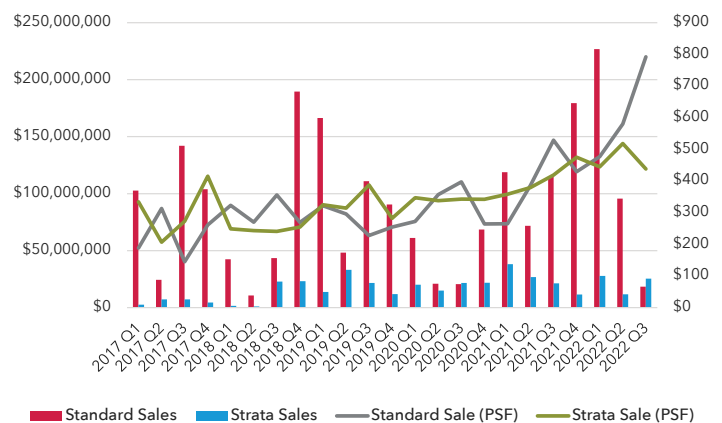
In response to demand, 1.26 million SF of space is currently under construction, although it is unlikely this will alleviate pressure as pre-sales and pre-leasing will consume the vast majority of space offered by the new developments. A substantial construction project currently underway is the Richmond Industrial Centre. This will be one of the largest single-owner industrial complexes in the region once fully completed; 8011 and 8031 Zylmans Way are expected to be completed before the end of the year.

Sales volume for Q3 was lower than Q2 2022, reflecting the constrictive pressures interest rates have upon the purchasing market. The asking price range for this region is typically around \$500 to \$650 PSF, with some properties asking remarkably high prices beyond \$700 PSF. However, the average remains \$619 PSF.

ABSORPTION, NEW CONSTRUCTION AND VACANCY



QUARTERLY SALES VOLUME & AVERAGE PRICE



NOTABLE SALE TRANSACTIONS

ADDRESS	MUNICIPALITY	PRICE	PRICE/SF	SIZE (SF)	PURCHASER
12280 Vickers Way	Richmond	\$7,770,000.00	\$588.59	13,201	JKWG Real Estate Holdings
12140 Vulcan Way	Richmond	\$7,500,000.00	\$625.00	12,000	CTCCA Holding Ltd
#110 - 7585 Hoskins Street	Delta	\$6,450,000.00	\$641.98	10,047	1367091 B.C. Ltd



7433 NELSON ROAD, RICHMOND

NOTABLE LEASE TRANSACTIONS

ADDRESS	MUNICIPALITY	SIZE (SF)	TENANT
3971 No. 6 Road	Richmond	153,400	Marine Canada Acquisitions (renewal)
7433 Nelson Road	Richmond	116,292	Bunzl co (renewal)
785 Derwent Way	Delta	56,734	FBM Canada GSD, Inc.



TOP SALE TRANSACTIONS

	ADDRESS	CITY	SALE PRICE	SIZE (SF)	PURCHASER
1	2844 194 Street (Land)	Surrey	\$17,000,000	204,772	Cedar Coast Holdings Ltd.
2	68 Brigantine Drive	Coquitlam	\$29,500,000	54,153	1137311 BC Ltd.
3	1628 Kebet Way	Port Coquitlam	\$16,500,000	29,453	Brookmere Investments Inc.
4	3945 Myrtle Street	Burnaby	\$7,300,000	26,148	0912878 BC Ltd.
5	1622 Kebet Way	Port Coquitlam	\$12,250,000	25,174	Solid General Contractors Inc.

TOP LEASE TRANSACTIONS

	ADDRESS	CITY	SIZE (SF)	TENANT
1	1710 Coast Meridian Road (Land)	Port Coquitlam	75,794	Federal Express Canada Corporation
2	23699-23737 Fraser Highway (Land)	Langley	55,231	StorageVault Canada Inc.
3	3181 Thunderbird Crescent	Burnaby	30,021	Mavi Jeans Inc.
4	4082 Mcconnell Court	Burnaby	27,804	MB Studios VBC Canada Ltd.
5	7280 Macpherson Avenue	Burnaby	24,395	Fraser Crossing Constructors General Partnership

The Lee & Associates Vancouver office has had a long history of providing exceptional commercial real estate services in Vancouver; our roots go back to 1970 when we were originally established as Town Group Realty. Throughout the past five decades, our team of real estate professionals have represented buyers and sellers as well as landlords and tenants alike in the primary asset classes of industrial sales and leasing, retail sales and leasing, office leasing, land sales and investment sales. We are the first Canadian office in the Lee & Associates network, the largest broker-owned commercial real estate firm in North America with more than 1,000 professionals and growing.

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- ▶ Acquisition
- ▶ Disposition
- ▶ Site selection
- ▶ Landlord representation
- ▶ Tenant/buyer representation
- ▶ Consulting and advisory services
- ▶ Market evaluations
- ▶ Up-to-date market research
- ▶ Strategic marketing

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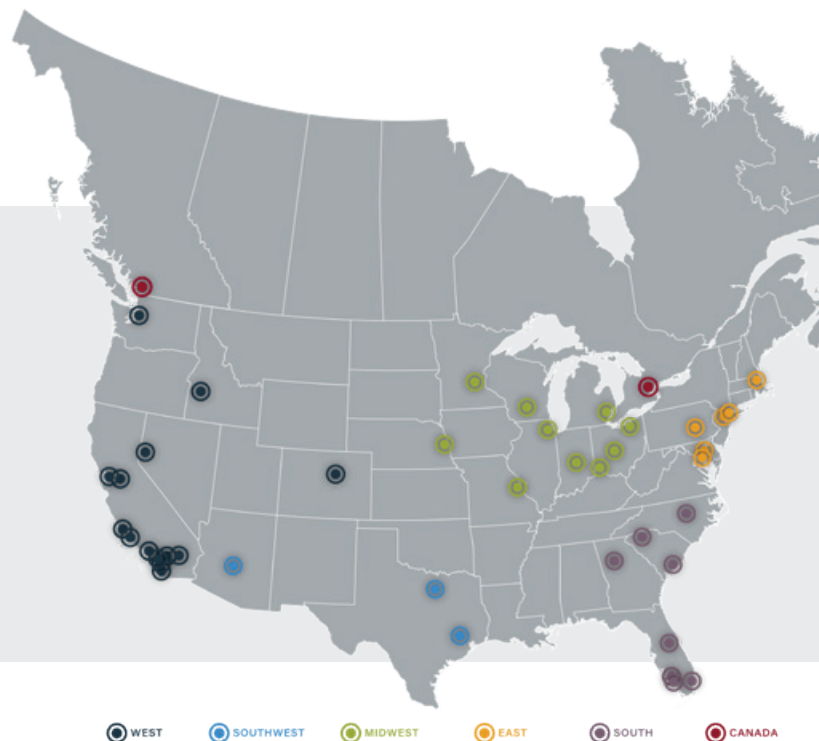


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