

Industrial Insight Report



Metro Vancouver | Q2 2019



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Metro Vancouver

Significant Q2 deliveries bring little relief, vacancy rate is likely to remain below 2% through 2019

- Amazon moved into their 453,620 square foot space in Tsawwassen accounting for approximately 41% of the positive absorption in Q2 2019.
- Strata properties continue to be popular among investors and users; 76% of dollar volume for the second quarter of 2019 was attributed to Strata for a total of \$156 million.
- Deliveries surpassed 1.2M square feet in Q2, however construction remained above 4.0M square feet as a few major projects broke ground.

Vancouver's Q2 industrial sales market was ruled by strata with the closing of deals on more than 50 units at IntraUrban Rivershore, Ironworks, and Campbell Heights North Commerce Centre. The weighted average price per square foot of industrial strata in Metro Vancouver surged in 2018, increasing 19.1% over 2017 to reach \$299. Preliminary data for Q2 shows the trend of price increases has continued; at \$328.95 per square foot, prices increased another 10% above the 2018 average.

On the supply side, deliveries increased significantly this quarter as 1.25 million square feet came online. The three largest projects, accounting for a combined 550,000 square feet, were Ironworks (Burnaby), IntraUrban Rivershore (Richmond), and Campbell Heights West Business Park (Surrey). Building 100 at Campbell Heights West has only three units remaining for lease and the other two projects, both strata, were 100% sold before completion. The indication is that even with substantial completions, space coming online does little to alleviate low vacancy.

Construction began on Beedie's 530,563 square foot facility for Sobeys's three temperature distribution warehouse in the Campbell Heights district in Surrey. This is the largest building in Vancouver's industrial pipeline currently under construction, accounting for nearly 20% of space.

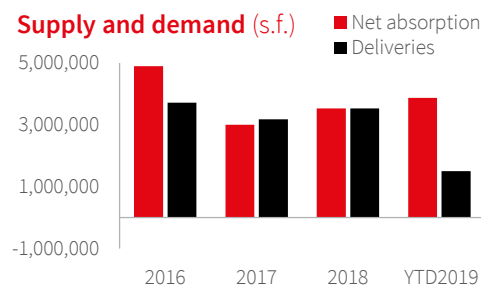
Outlook

Vancouver's leasing market will remain tight; the majority of near-term projects are either build-to-suit or pre-leased and will not alleviate low vacancy rates. The outcome will see rates continue to rise, tenant improvements fall, and an increasingly landlord favourable market. Strata sales among buyers looking for small to mid-size units will remain popular as lower interest mortgage payments offer a financial incentive compared against the rising lease rates.

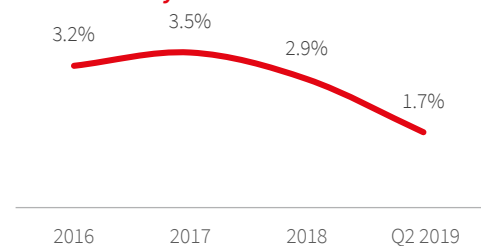
Fundamentals

	Forecast
Total Inventory	220M s.f. ▲
YTD net absorption	3,872,152 s.f. ▲
Under construction	4,300,657 s.f. ▲
Total vacancy	1.7% ▼
Average asking rent (Net)	\$12.30 p.s.f. ▲
Tenant improvements	Falling ▼

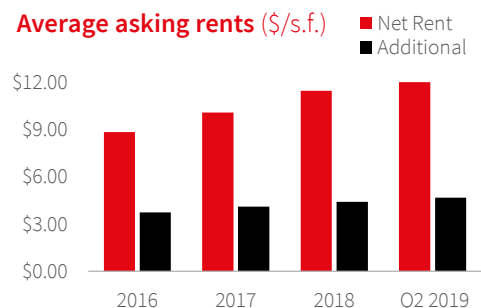
Supply and demand (s.f.)



Total vacancy



Average asking rents (\$/s.f.)



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- Burnaby has the highest year-to-date net absorption of the cities comprising Metro Vancouver.
- Vacancy tumbled during the first half of 2019 by 300 basis points to sit just below the 2% mark at 1.9%.

Lease activity

Absorption slowed this quarter compared with last, though Burnaby has still experienced the highest net absorption of any of the major submarkets. Nearly 50% of year-to-date came as Daiya Foods took occupancy of 396,770 square feet at 3100 Production Way. In terms of new activity, more deals were signed this quarter compared with last. SIM Video International signed a deal for 66,431 square feet at 7588 Winston, the largest deal signed in Burnaby in Q2. Another deal of note came as Olympia Enterprises subleased 34,855 square feet at 8246 Willard street.

Rents

In three years, rents in Burnaby have increased from \$9.45 to above \$13.00 per square foot. The majority of the increase took place between Q4 2016 and Q4 2018, with growth slowing in the first two quarters of 2019. However, less than 6% of Industrial land in Burnaby was vacant according to the latest Industrial lands inventory (2015) and high demand for space in the city will leave developers unable to satisfy it in a manner that would keep rents in check. The outlook is that rents in Burnaby will continue to rise, keeping it one of the most expensive cities to rent space in, not only in the lower mainland, but Canada.

Sales

The largest sale of the quarter was completed at 7435 Lowland Drive. Located in the Big Bend neighborhood, the 32,000 square foot building sold for \$6 million, a price of \$189 per square foot.

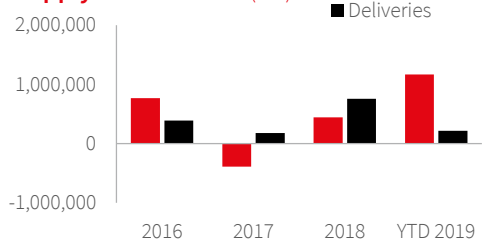
New construction

The only vacant land remaining in Burnaby is in Big Bend, located in South Burnaby. Oxford Properties is developing their riverbend business park at 8211 Fraser Reach Court. The latest completion was building 1 in Q2 2019 which was 153,461 square feet. Building five is expected to complete in Q1 2020 and will be 138,900 square feet. Another development in the neighborhood is Beedie's Glenlyon business park; there are currently two buildings totaling 162,000 square feet under construction.

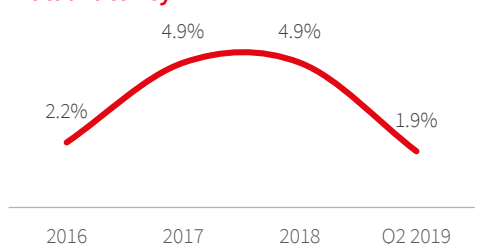
Fundamentals

	Forecast
Total Inventory	33M s.f. ▲
YTD net absorption	1,167,910s.f. ▲
Under construction	531,831 s.f. ►
Total vacancy	1.9% ▼
Average asking rent	\$13.00 p.s.f. ▲
Tenant improvements	Falling ▼

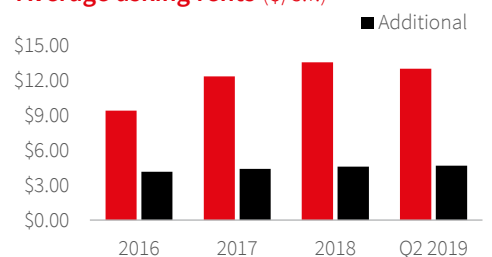
Supply and demand (s.f.)



Total vacancy



Average asking rents (\$/s.f.)



RECENT SALES COMPARABLES

Buyer	Seller	Location	Size (s.f.)	Price (\$/s.f.)
1078530 B.B. LTD.	Lysias Enterprises Canada	7435 Lowland Drive	32,000	\$6,050,000

RECENT LEASE COMPARABLES

Tenant	Location	Size (s.f.)
SIM Video International Inc.	7588 Winston Street	66,431
Christie Lites Vancouver Inc.	4154 McConnel Drive	45,647

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- Amazon took occupancy of their building at 4189 Salish Sea Way at the beginning of June.
- Delta iPort 2 is underway, at 484,920 square feet it is the largest industrial building under construction in Delta and one of the largest in Metro Vancouver.
- Vacancy remained at a staggeringly low 0.7%, and the majority of space in the construction pipeline is preleased or sold.

Lease activity

Two of the three largest Q2 lease deals took place in Delta; Veritiv Operating Company leased 282,526 square feet and Canadian Alliance Terminals leased 242,260 square feet. Canadian Alliance's building is the second Delta iPort building which has only recently begun construction. Spaces leasing before completion is a common trend in Vancouver, and despite iPort 2's significant size (484,920 square feet) it will not alleviate Delta's extremely low vacancy.

Rents

Delta remains the only major submarket with average rents below \$10 per square foot, although, with vacancy at 0.7%, the lowest in the lower mainland it is unlikely that rates will remain below \$10 in the foreseeable future.

Sales

Bridgeview Marine completed a sale and leaseback deal with Kajla Investments for their 19,260 square foot building on 3.44 Acres at 8550 River Road. The tenant has the option to leaseback the property for three years or vacant sooner. The cap rate for the sale was 5.51% which was above the Metro Vancouver range for industrial sales of 3.5% - 4.75%.

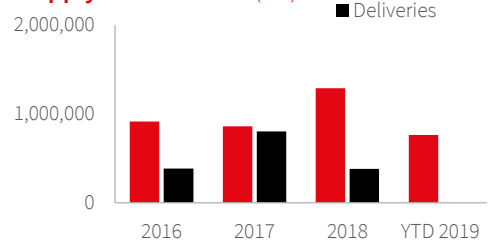
New construction

Two projects are slated to complete by the end of 2019 bringing 288,000 square feet of space online, one of which is the latest building in Beedie's Delta Link Business Park. BMW has already preleased nearly 150,000 square feet in the building and remaining 84,000 feet is also preleased. Given that most of the space completing this year is already preleased, it will not bring any relief to the already extremely low vacancy rate of 0.7%.

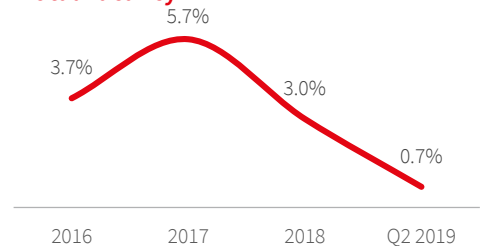
Fundamentals

	Forecast
Total Inventory	33M s.f. ▲
YTD net absorption	761,350 s.f. ▲
Under construction	962,646 s.f. ▲
Total vacancy	0.7% ►
Average asking rent	\$9.43 p.s.f. ▲
Tenant improvements	Falling ▼

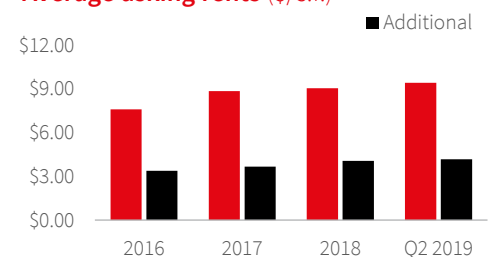
Supply and demand (s.f.)



Total vacancy



Average asking rents (\$/s.f.)



RECENT SALES COMPARABLES

Buyer	Seller	Location	Size (s.f.)	Price (\$/s.f.)
1203373 B.C. LTD	Wanson (Nodel) Holdings Inc.	10128 Nordel Court	10,510	\$495
Kajla Investments Ltd.	Bridgeview Marine	8550 River Road	19,260	\$249

RECENT LEASE COMPARABLES

Tenant	Landlord	Location	Size (s.f.)
Veritiv Operating Company	Dayhu Investments	1425 Derwent Way	282,526
Canadian Alliance Terminals	GWL and HOOPP	4327 Salish Sea Way	242,460

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- Strata sales accounted for more than 75% of second quarter sales dollar volume.
- At 2.5%, vacancy in Richmond is the highest of the major submarkets that comprise Metro Vancouver. Vacancy is split evenly between direct and sublease space.

Lease activity

The Richmond market was active during Q2 2019, with three deals above 100,000 square feet. The largest signed deal was by a confidential tenant for 200,000 square feet at the Richmond Industrial Centre. Acklands-Grainger took the second largest block at 178,787 square feet at 16131 Blundell Avenue

Rents

Net absorption continued to outpace deliveries through the first half of 2019 and vacancy fell by 120 basis points from 3.7% to 2.5%. Sustained high demand for space, as evidenced by multiple deals above 100,000 square feet will keep the Richmond market tight and continue to push down vacancy. The result will make the market increasingly landlord friendly and pushup net rents for tenants. During the second quarter, net rents were \$11.03 per square foot which is a 6.1% increase from 2018 but a 1.8% fall from Q1.

Sales

The Richmond sales market was dominated by strata during the second quarter, in particular sales made at 11111 Twigg Place on Mitchell Island. Sales in the development totaled \$75 million and accounted for 76% of the \$99 million in total sales.

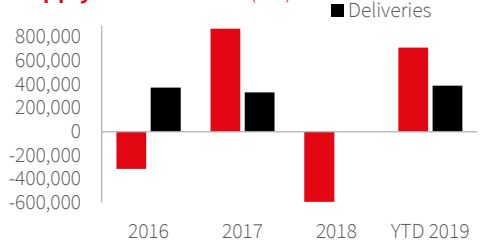
New construction

Ecowaste's 200,000 square foot facility in the Richmond Industrial Centre business park is the largest development under construction in Richmond, though completion is not expected to happen until Q2 2020. Beedie's strata development Series 1 and 2 at 6311 and 6333 are expected to complete at the end of the year bringing a combined 150,618 square feet of space to the market. The project is roughly 70% sold out.

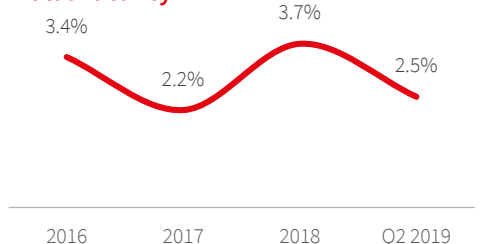
Fundamentals

	Forecast
Total Inventory	43.4M s.f. ▲
YTD net absorption	749,248 s.f. ▲
Under construction	423,604 s.f. ►
Total vacancy	2.5% ▼
Average asking rent	\$11.03 p.s.f. ▲
Tenant improvements	Falling ▼

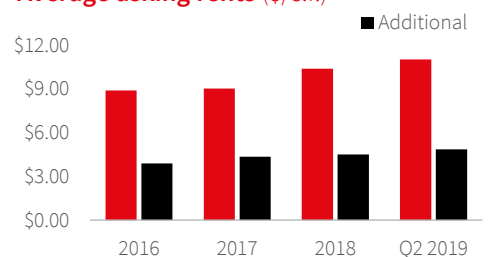
Supply and demand (s.f.)



Total vacancy



Average asking rents (\$/s.f.)



RECENT SALES COMPARABLES

Buyer	Seller	Location	Size (s.f.)	Price (\$/s.f.)
Soka Holdings Ltd.	H. Brum Enterprises Ltd.	16160 River Road	36,200	\$359
1197977 B.C. Ltd.	PC Urban	11111 Twigg Place	34,635	\$270

RECENT LEASE COMPARABLES

Tenant	Landlord	Location	Size (s.f.)
Confidential	Montrose and Omicron	80210 Zylmans Way	200,000
Acklands-Grainger Inc.	Ivanhoe Cambridge	16131 Blundell Road	178,787

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- Surrey is home to the highest volume of construction at 2.2 million square feet. It is also home to the largest development currently under construction, a 530,563 sf BTS for Sobey's.
- Given the high level of construction activity it comes as no surprise that Surrey has the fastest growing industrial inventory of any of the Metro Vancouver markets. Total inventory grew 9.3% between 2015 and 2018.
- Deliveries this year have significantly outpaced net absorption by roughly five times.

Lease activity

Net absorption in Q2 fell by 23,085 square feet as leasing volume remained relatively flat. The largest deal was signed by Metrie Canada Inc. for 98,307 square feet of space at Port Kells; the deal was a renewal at their existing location.

Rents

Rental rate growth eased slightly in Surrey during the first half of 2019; net rents have still increased, but not at the same pace as during 2018. Surrey is the only submarket where vacancy has increased through the first half of 2019 compared with last year.

Sales

Campbell Heights North Commerce Centre completed this quarter; units sold at the complex accounted for nearly half of total dollar sales volume this quarter. Units were sold between \$300 and \$360 psf, the units were all small bay sized between 2,200 and 6,800 square feet.

New construction

Surrey is by far the most active market for industrial construction with nearly 2.4 million square feet of product under construction. The majority of this construction is taking place in Campbell Heights, South East Surrey. Deliveries are the highest they have been in the last three years at 1.7 million sf, but projects under construction continue to keep the pipeline above 4 million square feet. Notably, Beedie began construction on a BTS facility for Sobey's during Q2; at 530,563 square feet, this is the largest development under construction in Metro Vancouver. The pace of deliveries has been rapid this year and will not slow down as another 750,000 square feet of space is expected to complete before the end of the year.

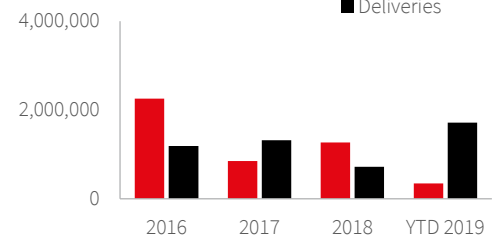
Fundamentals

Forecast

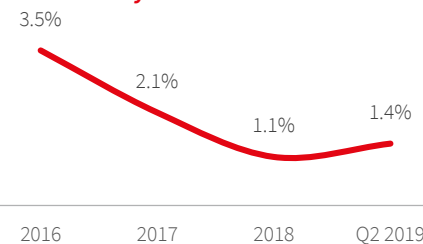
Total Inventory	34.4M s.f. ▲
YTD net absorption	341,869s.f. ▲
Under construction	2,209,209 s.f. ▲
Total vacancy	1.4% ▼
Average asking rent	\$10.37 p.s.f. ▲
Tenant improvements	Falling ▼

Supply and demand (s.f.)

■ Net absorption
■ Deliveries

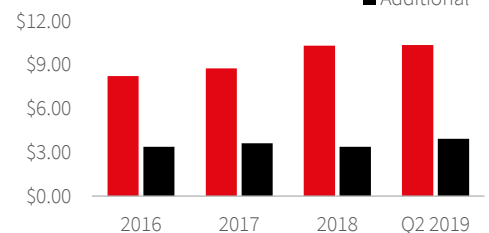


Total vacancy



Average asking rents (\$/s.f.)

■ Net Rent
■ Additional



RECENT SALES COMPARABLES

Buyer	Seller	Location	Size (s.f.)	Price (\$/s.f.)
1190820 B.C. Ltd.	E.P. & E.P. Holdings Inc.	19063 96 th Avenue	19,278	\$280

RECENT LEASE COMPARABLES

Tenant	Landlord	Location	Size (s.f.)
Metrie Canada Inc.	Triovest	9255 194 th Street	98,307



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