

Metro Vancouver Industrial Report

Second Quarter 2010

Economic Summary

European debt woes put a damper on global economic fundamentals as commodities, stock indices and trade volume took a dip from last quarter. While most nations have fully recovered from the economic recession, some worry that burgeoning debt and massive stimulus packages being unravelled in the European Union may cast a shadow on what was several months of steady progress.

Of the nations on path to recovery, Canada has little to worry about. Most forecasts point to positive territory for the national economy both short and long term. While the Canadian Dollar remains on a roller coaster ride, unstable currency prices have had little effect on export trade and demand remains firm. Conversely, with consumer and government spending still strong, Canada's growth is expected to outpace original forecasts for 2010. Real GDP grew by 6.1% over the first quarter of 2010.

In British Columbia, broad-based recovery is being seen with growth projected this year at 3.5%. The rebound of the forestry sector has provided BC's natural resource industry with a much needed jump, and other exports are following suit and are benefitting from stable foreign demand. Locally, continued fiscal spending has generated significant non-residential construction activity. Accordingly, the residential market also remains strong. Looking ahead, two key factors - the introduction of the HST and rising interest rates - will play a key role for the Province's economic growth in the short and medium term.

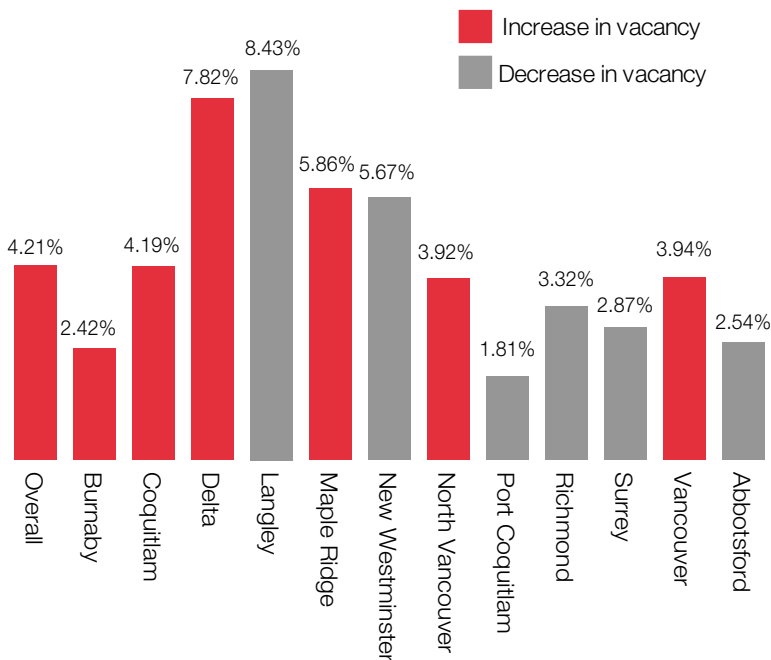
Metro Vancouver Market Summary

The Metro Vancouver Industrial Market saw steady activity in the first half of Q2 2010 as both sales and leasing activity picked up in April and May. Deal volume in June levelled off slightly, parallel in some respects to changing global economic conditions.

Across the region, sales activity remains limited, especially on the investment side where financing and available supply remain tight. Sales volume totalled \$125,000,000 this quarter, which was a surprising drop from the \$194,000,000 worth of sales recorded in the first quarter of 2010. However, strata spaces, both build to suit and existing, remain strong, evidenced by the number of successful projects coming to the market already pre-sold. In terms of the leasing market, it has turned in favor of tenants who are seeing lower rates and better inducement packages in light of softened demand the past several quarters. Accordingly, leasing activity for smaller bay spaces has definitely outpaced larger spaces, which have had difficulty finding tenancy over the past several quarters.

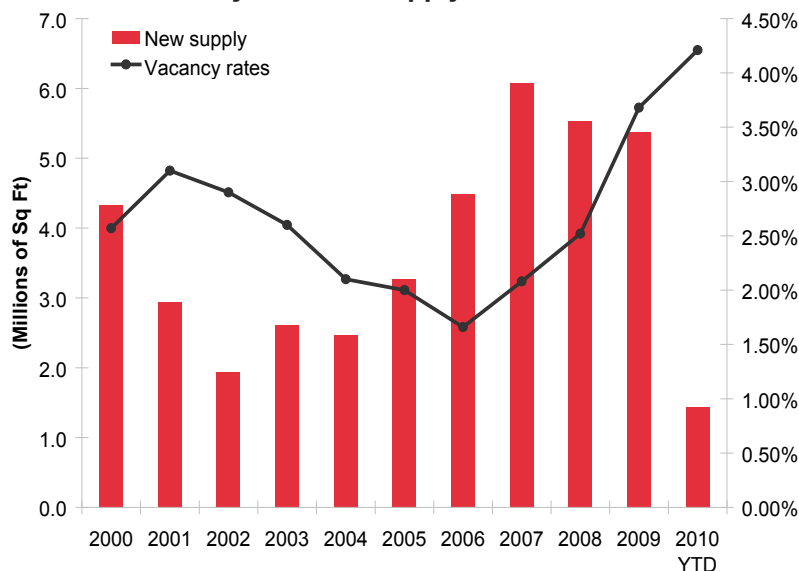
The regional industrial vacancy increased slightly from last quarter, posting a 26 basis point rise from last quarter to stand at

Municipal Vacancy Rates



Source: DTZ Barnicke

Historic Vacancy and New Supply



Source: DTZ Barnicke

Significant industrial leases of Q2 2010

Address	Municipality	Size (sq ft)	Tenant
1020 Derwent Way	Delta	251,076	LG Electronics Canada
10118 Swenson Way	Delta	58,811	Accuristix
1081 Cliveden Avenue	Delta	47,001	Clariant Canada Inc.
13260 Delf Place	Richmond	45,350	Pegasus Pharmaceuticals
10064 River Road	Delta	42,128	Grant Transport Inc.
1525 Broadway Street	Port Coquitlam	25,537	Clearone Sports Ltd.

Source: DTZ Barnicke

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4.21%. Total vacant supply totalled 7,695,480 sq ft. Overall however, little has changed in terms of vacant space, despite over 500,000 sq ft of new supply coming onto the market this quarter.

Vancouver • North Vancouver • Burnaby

Sales and leasing activity in Vancouver levelled off in Q2 2010 as limited supply and product options held some companies back in their expansion plans. However, what has been a positive trend is the number of tours and overall interest generated from new tenants, many of which are seeing opportunity in Vancouver for its central location and accessibility. With an overall vacancy of 3.94%, the Vancouver submarket remains strong with deal velocity expected to increase over the next several quarters.

North Vancouver remained steady heading into Q2 2010 with the market seeing stronger sales activity and some consolidation in the lease market. Overall, the market has experienced an uptick in strata sales, although large bay spaces, be it for sale or lease, have had trouble being absorbed. Despite tenants showing some signs of caution, leasing activity is expected to pick up as businesses begin to exercise more optimism. Vacancy moved up slightly from last quarter (88 basis points) to sit at 3.92%.

Burnaby continues to enjoy strong demand and low vacancies (2.42% this quarter), fueled by demand in the build to suit strata market. Over the second quarter of 2010, 139,000 sq ft of new industrial product came to the market, almost all of which was pre-leased or pre-sold. Spire Corporate Centre, for instance, is enjoying great sales activity, as is Beedie Group's Burnaby Business Park Phase II.

Northeast Sector • Ridge Meadows

Deal volume in the Northeast sector saw a slight downturn this quarter, as sales and leasing demand pulled back from a strong period earlier in the year. With vacancy in Port Coquitlam and Coquitlam at 1.81% and 4.19% respectively, total vacant supply remained relatively unchanged from last quarter. Slower demand, nevertheless, has put some downward pressure on lease rates and has also seen some landlords put up additional inducements.

Ridge Meadows experienced a 118 basis point increase from last quarter to sit at 5.86%. Current options for large users remain limited in the area, although a good supply of small bay space on the market.

Richmond • Delta

The Richmond/Delta submarket posted stronger sales activity this quarter, fueled by demand for larger bay (20,000-50,000 sq ft) product. Despite prices a bit off pace from pre-recession levels, the market appears otherwise steady. In terms of leasing, demand has mainly been for smaller space, where the market remains fairly tight. Larger spaces, however, have seen a drop in demand putting some downward pressure on lease rates.

Total vacancy for Richmond dropped 73 basis points from last quarter to sit at 3.32%. Total vacant supply reached 1,130,014 sq ft - a 249,137 sq ft drop from Q1 2010. Delta's vacant supply totalled 1,689,731 sq ft, which represented 7.82% of the submarket's total inventory.

Surrey • Langley • Abbotsford

The Fraser Valley continues to make gains in the market, evidenced by renewed leasing activity in the mid-size product

Metro Vancouver industrial statistics Q2 2010

Region	Total inventory (sq ft)	Total vacant (sq ft)	Vacancy rate	Average asking lease rate PSF* (NNN)
Abbotsford	4,900,535	124,359	2.54%	\$6.00-\$8.00
Burnaby	26,692,395	646,685	2.42%	\$7.00-\$10.00
Coquitlam	8,564,142	358,451	4.19%	\$6.75-\$9.00
Delta	21,598,012	1,689,731	7.82%	\$6.00-\$8.00
Langley	15,508,095	1,307,764	8.43%	\$6.00-\$8.00
Maple Ridge/Pitt Meadows	2,087,572	122,420	5.86%	\$7.00-\$8.00
N. Vancouver	4,689,978	183,757	3.92%	\$11.75-\$14.00
Port Coquitlam	8,421,663	152,455	1.81%	\$6.50-\$8.50
Richmond	34,010,622	1,130,014	3.32%	\$7.00-\$8.50
Surrey	28,839,397	828,257	2.87%	\$6.00-\$8.00
Vancouver	23,558,246	929,143	3.94%	\$8.25-\$10.00
Total	182,793,657	7,695,480	4.21%	-

Top industrial sales of Q2 2010**

Address	Municipality	Size (sq ft)	Price	Price/sq ft	Profile	Purchaser
450 Derwent Place	Delta	193,492	\$16,500,000	\$85	Investor	Dayhu Investments Ltd.
6940 14th Avenue	Burnaby	60,000	\$11,600,000	\$193	Government	BC Hydro
766 Cliveden Place	Delta	77,908	\$8,395,000	\$108	Investor	Ballperl Investments Ltd.
34079 Gladys Avenue	Abbotsford	57,097	\$5,859,500	\$103	Investor	Brat Investments Ltd.
12172 Horseshoe Way	Richmond	48,755	\$5,700,000	\$117	User	Select Publications
10387 Nordel Court	Delta	11,130	\$4,330,000	\$389	Investor	Domus Nordel Holdings Inc.

Top industrial land sales of Q2 2010**

Address	Municipality	Size (acres)	Purchaser	Price	Profile
7505 Hopcott Road	Delta	22.80	Terasen Gas	\$15,000,000	Government
7575 North Fraser Way	Burnaby	2.44	Montegrappa Enterprises Inc.	\$2,891,400	Investor
26074 30A Avenue	Langley	4.95	N/A	\$1,800,000	Investor
44160 Yale Road	Chilliwack	1.55	Southern Drip Irrigation	\$1,600,000	User
11585 134th Street	Surrey	0.54	N/A	\$950,000	Investor

(5,000-15,000 sq ft) market. Despite still having a large inventory of vacant available space on the market, there has been a gradual uptake of space the past several quarters. Surrey continues to enjoy steady demand and low vacancy (currently at 2.87%), and has been resilient during the recession. Abbotsford has seen a steady absorption of space quarter to quarter to sit at 2.54%. Langley, despite having the highest vacancy in the Fraser Valley, also saw a drop this quarter to sit at 8.43%.

Looking Ahead

- While the market has seen some softening in lease rates the past several quarters, the market is expected to tighten over the next year providing some upward pressure on prices. Looking ahead, despite a drop in sales activity, we expect specific markets - including small bay strata and build to suit - to remain strong over the medium term.

- We expect the regional vacancy rate to plateau over the next several quarters as demand catches up with available supply. Despite the regional vacancy on a ten-year trend of increases, the pace at which the rate is increasing is slowly levelling off.

- Improving economic conditions are giving way to some resurgence in the local industrial market. While the Provincial and National economy has made broad-based gains, true recovery for the regional market will depend on the health of the US economy which in past has provided a steady influx of investment and export activity to the Lower Mainland. To date, employment prospects and recovery remains slow, meaning that companies are not prepared to expand into the Canadian market place just yet. This, we believe, will be the reality for several quarters.

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Definitions

Absorption: Refers to growth or net change in occupied space over time.

Inducements: A form of monetary enticement given by a landlord to a tenant.

New Supply: New space entering the market through new construction.

Under Construction: Projects that are currently being built but are not yet completed.

Vacancy Rate: The current amount of vacant building area compared to the total amount of existing inventory.

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If you would like to receive this report via email, please contact us.



*Properties over 10,000 sq ft only

**Data sourced from RealNet Canada Inc. www.realnet.ca

