



Metro Vancouver Industrial Report

Third Quarter 2010

Economic Summary

As the world's economy recovers from the European debt crisis, it appears that most financial conditions have not been overly damaged. Due to this resilience and slight recovery, financial institutions have kept their lending standards open. While the Bank of Canada has continued to raise the overnight rate, the Bank's main policy rate remains at a historic low. These factors continue to help keep up current levels of investment.

Canada has seen a robust growth in employment, regaining almost all jobs lost during the recession. Even in September with the loss of 6,600 jobs, the national unemployment rate edged down from 8.1% to 8.0%. This has boosted consumer spending, which has accounted for almost half of the quarterly GDP increases. Despite the continued growth, the Canadian economy slowed slightly this quarter, coming down 0.1% in July. To reflect this slow down, the banks have slightly downgraded their forecasts for Q3 and Q4. Despite the economy levelling off, investment in construction has continued, with a 2.9% increase going into the 3rd quarter, reaching a total of \$10.4 billion, up from \$10.1 billion this time last year.

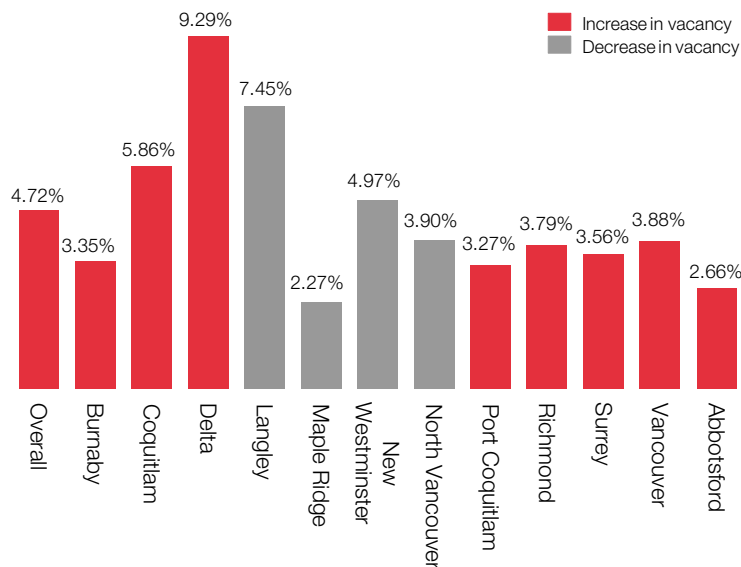
British Columbia has seen a surge in both employment and consumer spending as well. In BC the CPI is up after a 2% increase in July. Unemployment is down to 7.5%, almost 50 basis points lower than the national average. There were an unprecedented number of major construction projects in Q2 and Q3. Some of these projects are now being finished and adding supply to the market. Since 2001 the number of projects has tripled, and their value has more than quadrupled. This trend has been seen in residential construction as well, with BC leading the country in new housing starts this year.

Metro Vancouver Market Summary

The Industrial Market in Metro Vancouver once again saw steady leasing activity. Sales recovered from Q2, with a volume of \$135,000,000 up from last quarter's \$125,000,000 but still down from the \$194,000,000 recorded in the first quarter. Vacant space across Greater Vancouver totaled 8,646,247 square feet, up from 7,695,480 square feet last quarter. Strata sales continued to move. Delta, Langley and Richmond account for over 4.4 million square feet of vacant space, about 52% of the region.

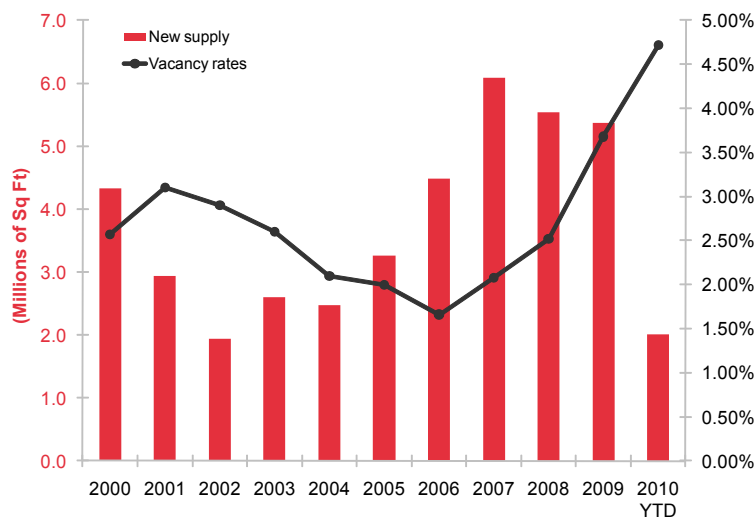
With these fairly large vacancy numbers, and softening demand, landlords must lower their rates or provide increasingly attractive incentives to bring in tenants. Lease rates in general are down about 10% to 15%. Sales of buildings above 40,000 square feet have dropped to as low as \$100 per square foot for new buildings. Very few 100,000 square feet or greater deals have been done recently. Despite these decreased rates, land values are still high, properties as far out as Gloucester being sold at \$850 -

Municipal Vacancy Rates



Source: DTZ Barnicke

Historic Vacancy and New Supply



Source: DTZ Barnicke

Significant industrial leases of Q3 2010

Address	Municipality	Size (sq ft)	Tenant
19575 96th Ave	Surrey	62,312	CGC Inc
2120 Hartley Ave	Coquitlam	35,845	Sanithern Inc.
2808 Ingleton Ave	Burnaby	24,800	Independent Supply Company Inc.
4551 No. 3 Rd	Richmond	22,800	Home Quarters Furnishings Inc.
1510 Derwent Way	Delta	20,002	Morris National Inc.

Source: DTZ Barnicke

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\$950 per acre. This has resulted in many buyers looking at older buildings for retrofitting rather than buying land and building. Smaller deals have also seen strong activity, with strata properties continuing to move.

Regional industrial vacancy increased slightly with a 51 basis point rise to 4.72%. Total vacant supply totalled 8,646,247 square feet. This continued increase in supply has had a softening effect on lease rates and sale prices in most markets with the most pronounced effect in the more distant peripheral markets.

Vancouver • North Vancouver • Burnaby

The City of Vancouver saw a steady quarter, leasing activity remained steady and the availability decreased slightly. New vacancies were closely matched by new leases, resulting in a small amount of absorption this quarter. Consistent with the region, larger properties (30,000 square feet or more) have had little activity. With an overall vacancy of 3.88%, and no room to grow, Vancouver remains a city of high demand and low supply. The lease rates, however, have decreased slightly partially due to the over supply of larger industrial properties (8,000 square feet or more).

North Vancouver saw a slow quarter, with almost no change in vacancy (4 basis point increase), and very little absorption. There seems to be an abundance of flex strata space that has not moved, new construction seems to have been put on pause for the time being until available suites sell. While small strata properties are going strong, Landlords are still having trouble attracting potential tenants to large warehouses. Q3 saw about \$3.8 million in sales, down from \$6 million last quarter.

Burnaby continues to experience a strong demand, but has

seen vacancy increase a bit. This is the result of the difficulty landlords have had moving larger properties. A few larger warehouse lots became available which has resulted in an increase in vacancy. New supply at 8131 Wiggins Street bumped up availability rate. While leasing activity has been high, it has not kept up with the new supply, resulting in the 93 base point increase to the current 3.35% vacancy rate.

Northeast Sector • Ridge Meadows

Overall vacancy in the Northeast Sector/Ridge Meadows sub-market has increased. This was partially due to 50,000 square feet opening up at 2520 Davies Ave in Port Coquitlam, and a 100,000 sq ft. expansion to Sysco's facilities. The third quarter saw a dip in square footage volume, but saw an increase in total sales due to a demand in excess of the limited supply available.

The Ridge Meadows area also saw a quiet quarter, however Pitt Meadows and Maple Ridge saw a sharp decline in availability, down 359 base points to 2.27% due to a few larger buildings that have been taken off the market.

Richmond • Delta

Richmond saw a strong sales activity this quarter fueled by demand for small bay spaces (2,000-10,000 square feet). Despite a large volume of new supply, prices and lease rates have continued to rise in the area.

Total vacancy in Richmond increased by 47 basis points to reach 3.79%. Delta has also seen an increase in vacancy by 147 basis points to 9.29%. Both cities have seen a large amount of new supply (over 300,000 square feet this quarter), which has contributed to these vacancy rates. Following the regional trend, larger spaces have had trouble attracting interest. This has particularly affected this submarket due to the number of larger bay

Metro Vancouver industrial statistics Q3 2010

Region	Total inventory (sq ft)	Total vacant (sq ft)	Vacancy rate	Average asking lease rate PSF* (NNN)
Abbotsford	4,900,535	130,559	2.66%	\$6.50-\$8.25
Burnaby	26,794,495	898,869	3.35%	\$7.50-\$13.25
Coquitlam	8,564,142	502,002	5.86%	\$6.25-\$9.00
Delta	21,698,012	2,016,477	9.29%	\$5.75-\$9.00
Langley	15,508,095	1,154,740	7.45%	\$6.25-\$8.50
Maple Ridge/Pitt Meadows	2,087,572	47,482	2.27%	\$7.75-\$8.50
New Westminster	3,923,000	194,935	4.97%	\$7.75-\$8.75
N. Vancouver	4,689,978	183,038	3.90%	\$10.50-\$14.50
Port Coquitlam	8,521,663	279,069	3.27%	\$6.50-\$11.50
Richmond	34,229,972	1,298,438	3.79%	\$7.00-\$10.75
Surrey	28,891,515	1,027,293	3.56%	\$6.50-\$10.50
Vancouver	23,558,246	913,345	3.88%	\$7.50-\$13.50
Total	183,367,225	8,646,247	4.72%	-

Top industrial sales of Q3 2010**

Address	Municipality	Size (sq ft)	Price	Price/sq ft	Profile	Purchaser
12091 88th Avenue	Surrey	200,000	\$20,100,000	\$101	User	Postmedia Network Inc.
5400 Minoru Boulevard	Richmond	40,475	\$13,550,000	\$335	Investor	Jaitai Realty Inc.
3811 North Fraser Way	Burnaby	93,045	\$8,900,000	\$96	Investor	Madison Pacific Properties
5 Capilano Way	New Westminster	70,171	\$7,600,000	\$108	Investor	Eagle Ridge Enterprises
900 Parker Street	Vancouver	115,929	\$7,100,000	\$61	Investor	Strathpark Holdings Inc.
2381 Rogers Avenue	Coquitlam	25,965	\$6,150,000	\$237	Investor	0718591 B.C. Ltd.

Top industrial land sales of Q3 2010**

Address	Municipality	Size (acres)	Purchaser	Price	Profile
18917 24th Avenue	Surrey	19.48	Loblaw Properties Ltd.	\$8,650,000	Investor
19317 32nd Avenue	Surrey	19.42	Gweb Holdings Ltd.	\$8,000,000	Investor
1270 West 75th Avenue	Vancouver	0.65	Maclure Cabs	\$3,358,000	Investor
3841 Vanderpol Court	Abbotsford	4.52	Golden Valley Holdings Ltd.	\$2,925,000	Investor
Lot 1 96th Avenue	Langley	1.72	Centra Windows	\$1,966,500	User

properties that came on the market this quarter (20,000 to 100,000 square feet).

Surrey • Langley • Abbotsford

The Fraser Valley saw steady activity in the 3rd quarter, with a great deal of activity in the small to mid-size product (2,000 - 10,000 square feet) market. Due to slight oversupply, the Valley saw an increase in vacancy from the second quarter up 10 basis points from 4.59% to 4.69%.

Abbotsford saw steady activity, with a slight increase in vacancy to sit at 2.66%. Surrey has seen steady new supply for the last three quarters, and as a result has once again seen an increase in vacancy to 3.56%. Langley, however, saw some absorption last quarter and saw a drop in vacancy from 8.43% down to 7.45%.

Looking Ahead

- While the market has almost recovered, potential tenants are still weary. This con-

tinues to have a softening effect on lease rates. This has shown itself particularly in larger bay spaces, where landlords have had to drop rates and offer better incentives to attract attention to these larger units.

- Improved economic conditions will continue to open up options for funding for investment transactions. This was seen in the last quarter with a large increase in new non-residential construction. This is true both on a national scale as well as in the markets of BC.

- New construction has led to an oversupply as prospecting tenants take up space in newer buildings in lieu of the cheaper, older construction. This will continue to have a softening effect on rental rates, particularly in larger industrial properties, which have had difficulty moving lately. Smaller, newer strata-type construction will likely hold steady.

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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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*Properties over 10,000 sq ft only

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



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