



Metro Vancouver Industrial Report

Second Quarter 2009

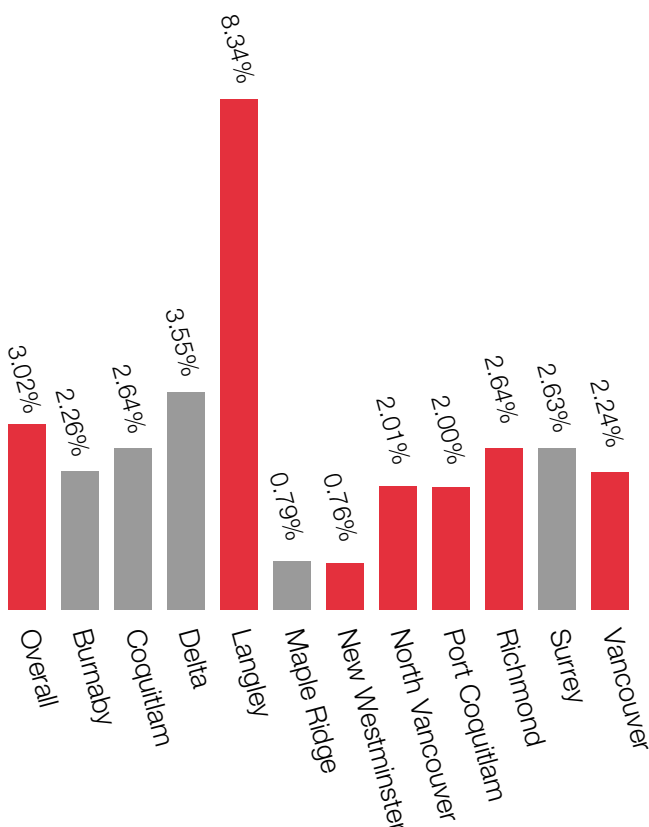
Economic Summary

Over the second quarter, global financial conditions have improved marginally, owing mainly to massive public intervention and injections of fiscal and monetary stimulus. Although recovery has not yet arrived, BC has predicted a 1.3% growth rate for the second half of 2009, and recent data has provided evidence that the rate of decline in global economic activity is moderating, suggesting the world economy is slowly beginning to pull out of the deepest recession since the Second World War. The current recession is expected to shrink the global economy 1.4% in 2009, while a meager growth rate of 2.5% is predicted for 2010.

Although the Canadian economy is set to outperform nearly all industrialized nations both this year and next, the global economy remains fragile, and will continue to restrict Canada's recovery. Like the rest of the world, Canada's recovery will largely depend on how well the US economy performs.

Manufacturing industries have struggled with steep declines in both domestic and foreign demand, energy prices have fallen more than 33% since 2006, and record low housing starts in the US have shrunk demand for Canadian lumber. Since peak employment in October of 2008 Canada has lost more than 365,300 jobs, bringing the Canadian jobless rate to an 11-year high of 8.4%.

Municipal vacancy rates



Top industrial leases of Q2 2009

Address	Municipality	Size (sq ft)	Tenant
1488 Derwent Way	Delta	62,111	Western Waffles Corp.
15110 54A Avenue	Surrey	60,050	Federal Express Canada
1425 Kebet Way	Port Coquitlam	47,693	Iotron Industries Canada
9499 198 Street	Langley	24,492	Accurate Screen Ltd.
120/220 - 175-185 Golden Dr.	Coquitlam	22,997	Kiewit/Flatiron Partnership
12000 Jacobson Way	Richmond	22,005	Government of Canada
725 Eaton Way	Delta	16,040	Eclipse Medical Inc.
19066 95A Avenue	Surrey	15,871	Elrus Group of Companies
100 - 14351 Burrows Road	Richmond	13,800	Chemtech International
1454 Riverside Road	Abbotsford	13,640	Master Halco Corp

By the end of 2009, Canadian exports are forecast to tumble 21% due to weak global demand for raw materials and manufactured goods. The auto industry is forecast to repeat the 2008 drop of 22% this year, while the forestry sector is forecast to fall 14% in 2009 as pulp and lumber shipments falter.

There are signs of encouragement though, as the value of building permits issued nationally in May surpassed the \$5-billion mark for the first time since October 2008, and the number of single family homes being built in the US jumped 14.4% in June, the biggest jump in more than four years.

There are also signs that the construction industry in BC has now reached the bottom of the market, and is now on an upward trend. The value of building permits issued in Southwestern BC soared by more than 36% in the month of May, led by a 95% rebound in non-residential permits compared to the month prior.

Quick Facts:

- BC's GDP has grown 3.5% over the past year.
- Since December 2008, the Bank of Canada has cut its key lending rate from 4.25% to 0.25%
- Canada's Prime Business Rate is currently at 2.25%, down 0.25% since last quarter and 2.5% from last year.
- BC's population has grown 1.7% over the past year, Canada's grew 1.2%.
- Provincially the unemployment rate is at 7.6%, substantially lower than the national rate of 8.4%.
- Globally, The City of Vancouver is currently the 93rd most-expensive city to reside in, down from 64th in 2008.

N. Vancouver / Vancouver / Burnaby

North Vancouver and Vancouver both saw drops in their vacancy rate over the second quarter of 18 and 17 basis points respectively. In Vancouver this was due to a positive absorption of over 90,000 SF which included 2 strata warehouse projects completing with 6 of 15 units already sold and Albion Fisheries leasing over 60,000 SF on Great Northern Way. We expect a

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large increase in vacancy in Vancouver in Q3 as more head lease space is being returned to the market as companies choose not to renew or downsize. North Vancouver had no new construction complete and a positive absorption of just over 8,000 SF has dropped vacancy to 2.01%. Over 90,000 SF of space is currently available, mostly in blocks of 5,000 SF or smaller. Burnaby had over 135,000 SF of new construction complete this quarter over three buildings located in the New Haven, Glenwood, and Glenlyon developments. This flood of new space resulted in a negative absorption of only 88,000 SF which in turn increased vacancy by 61 basis points to 2.26%.

Richmond / Delta

Richmond and Delta both saw increases in their vacancy of 12 and 39 basis points, respectively. In Richmond this relatively large jump can be attributed to several building completions including Phase II of Hopwell's new distribution centre (443,000 SF) and Th Beedie Group's two spec buildings (111,000 SF combined) in Fraser Reach Industrial Park. In addition to this vacancy, both of these markets continue to experience large blocks of space available in the sublease market which has undermined head lease rates and shifted market power to tenants requiring bulk distribution space over 20,000 SF. This trend continues for space under 20,000 SF in Delta; however in stark contrast there is very little available in this range in the Richmond market. Please see our Investment Update on Page 4 for more information on this region.

Surrey / Langley

Surrey saw vacancy rise 53 basis points to 2.63% and in Langley 68 basis points to 8.34%. In Surrey this was partially due to completion of three spec buildings totaling almost 145,000 SF in Campbell Heights whereas Langley saw an additional 187,000 SF added to the market with no new construction completed. The Surrey market has mimicked the overall market with proportionate gains and vacancy; whereas Langley continues to see a glut of space in the Gloucester sub-market despite the prospect of generous landlord inducements.

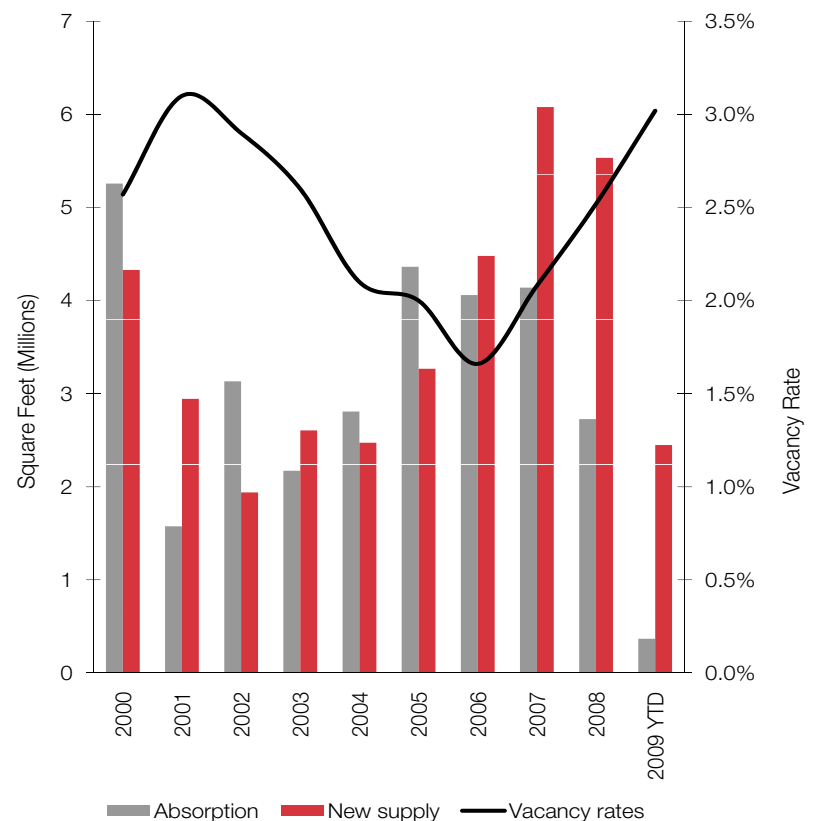
Northeast Sector / Ridge Meadows

There was no construction completed in this region, with the exception of over 550,000 SF in Port Coquitlam owed mostly to Beedie Groups build-to-suit for Brewers Distributor Ltd, a wholesaler jointly owned by Molson and Labatts. Vacancy remained virtually unchanged in Port Coquitlam despite the majority of the remaining new space being spec development. Coquitlam saw an increase in vacancy of 89 basis points to 2.64% as over 75,000 SF were returned to the market in blocks of 10,000 to 20,000 SF.

Industrial land sales: volume vs. price per acre



Absorption, new supply, and historical vacancy comparison



Top industrial sales of Q2 2009

Address	Municipality	Size (sq ft)	Price	Price/ sq ft	Profile	Purchaser(s)
2000 Hartley Avenue	Coquitlam	134,194	\$13,500,000	\$100	User	0854995 B.C. Ltd.
1658 Industrial Avenue	Port Coquitlam	42,956	\$6,373,000	\$148	User	JSV Architectural Veneering & Millwork
3210 McCallum Road	Abbotsford	59,000	\$5,957,016	\$101	User	Versacold Logistics Canada Inc.
8717 132nd Street	Surrey	67,371	\$5,320,000	\$79	Investor	8717 132nd Street Ltd.
7432-7440 Fraser Park Drive	Burnaby	39,760	\$5,175,000	\$131	Investor	0848233 B.C. Ltd.
7880 128th Street	Surrey	46,154	\$5,000,000	\$108	User	Madsen Properties Ltd. (Share Sale)

Top industrial land sales of Q2 2009*

Address	Municipality	Size (acres)	Purchaser	Price	Profile
2901 Commissioner Street	Vancouver	3.70	Vancouver Fraser Port Authority	\$6,000,000	User
18838 32nd Avenue	Surrey	9.19	Never Idle Holdings Ltd.	\$3,500,000	Investor
18833 52nd Avenue	Surrey	3.73	0810659 B.C. Ltd.	\$2,400,000	Investor
20159 115A Avenue	Maple Ridge	1.10	M.D.Z. Developments Ltd.	\$1,050,000	Investor
409-415 Boyne Street	New Westminster	0.72	Boyne Developments Ltd.	\$684,300	Investor

Metro Vancouver industrial statistics Q2 2009

Region	Total inventory (sq ft) March 2009	Total vacant (sq ft)	Vacancy rate	Average asking lease rate PSF (NNN)	Average asking sale price PSF	Average asking land price per acre
N. Vancouver / Vancouver / Burnaby	54,287,055	1,210,155	2.23%	\$9.32	\$156	\$4,127,843.97
Richmond / Delta	54,208,304	1,620,339	2.99%	\$7.33	\$140	\$1,255,806.33
Surrey / Langley	42,237,945	1,967,722	4.66%	\$7.24	\$154	\$1,002,290.96
Northeast Sector / Ridge Meadows	22,852,841	437,883	1.92%	\$7.31	\$130	\$1,103,703.21
Total	173,586,145	5,236,099	3.02%	\$7.60	\$148	\$1,171,497.87

Land Update (see chart)

Over the past few years the price of industrial land in Metro Vancouver has continued the upward march towards an average price of \$1,000,000 per acre. This growth peaked in the second quarter of 2008 after a record deal volume of over \$140 million in the first quarter of that year. Deal volume has since plunged and although the first quarter of 2009 appears to show some recovery in volume and pricing, it is much less impressive when the almost \$45 million sale of the Canfor property in New Westminster to Port Metro Vancouver is removed from the analysis. Second quarter data for 2009 shows that local users will still pay in the range of \$650,000 to \$1,200,000 per acre for well located, serviced, and zoned industrial land, but volume continues to be very low. Those properties that require rezoning, filling, preloading, servicing, or road work have seen prices drop as much as half as speculators have been almost entirely removed from the market. Although demand has cooled, as the economy picks up and credit becomes more available upward price pressure will continue for industrial land that is ready for development. Stakeholders, including municipalities and developers, should take the current environment of cheaper raw land prices and servicing costs to increase supply.

Investment Update

Two large portfolio sales completed in the second quarter which many market participants looked to as a barometer for the local industrial investment climate. ING Real Estate sold three properties (2700 Simpson Road, Richmond; 7158-7168 Progress Way, Delta; 721 Alford Avenue, Delta) which totaled 377,145 SF on 15.84 acres for a price of \$21.5 million. The second portfolio was Grosvenor's two buildings (520-600 Chester Road, Delta and 1175-1177 Derwent Way, Delta) which totaled 216,000 SF on 11.27 acres and sold for \$19 million. Both transactions included B class multi-tenant distribution style buildings constructed in the 1970's and 1980's. Both portfolios were purchased by Vancouver based private landlords and the capitalization rate on both sales is reportedly 7.25%. This represents a jump of at least 100 basis points over what similar product would have sold for 18 months ago which should help align vendor's expectations with the reality of today's investment climate.

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



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