

Metro Vancouver Industrial Report

First Quarter 2010

Metro Vancouver Market Summary

Global economic conditions have begun to improve from 2009 as sentiment in both local and international markets is that of “slow but steady recovery”. While some economies continue to falter, most industrialized nations have posted sharp gains in market confidence and investment activity and are on track to full recovery. Global GDP is set to increase by 3.9% over 2010, with Canada posting a projected growth rate of 3.1% supported by continued fiscal spending, low interest rates and stronger market conditions.

In British Columbia, a resurgence of activity in the construction, distribution and manufacturing and service sectors have provided a strong foundation for growth and renewed market confidence. The provincial unemployment rate has continued on its downward trend from mid-year 2009, dropping 40 basis points from last quarter to reach 7.7%. Most provinces have made gains in their employment figures, except for Alberta, which saw a slight increase in unemployment from last quarter.

Renewed economic confidence has provided Metro Vancouver with a resurgence in industrial market activity over the first quarter of 2010. While deal volume came to a standstill during the Olympic games, sales and leasing activity has picked up since, including an increase in sales from last quarter as investors and owner/users capitalize on competitive prices and low interest rates. In terms of leasing activity, relatively higher vacancies continue to keep rates at competitive levels, presenting good opportunities for prospective tenants.

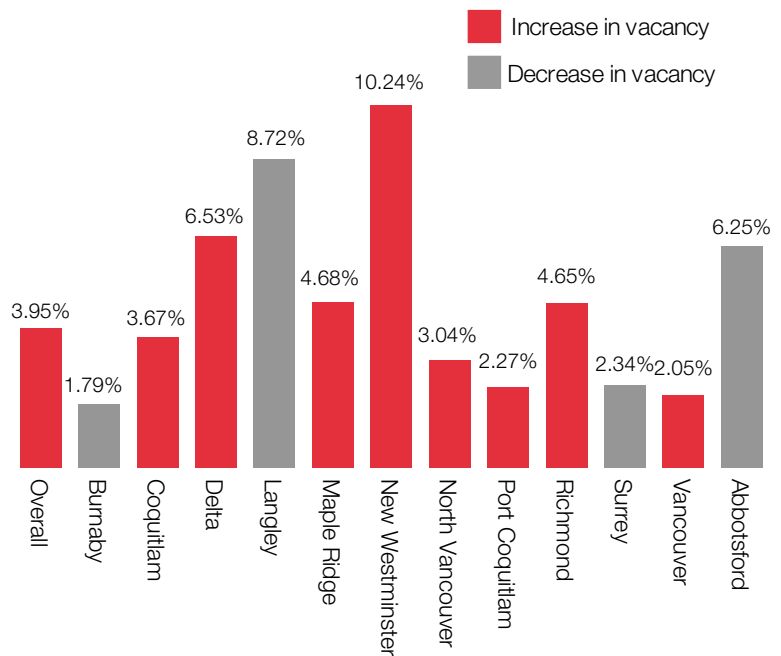
Strata sales continue to dominate the market, as does leasing for smaller bay spaces. Demand for large scale industrial spaces continue to be weak, driving up availabilities in many areas for that size category. Accordingly, overall vacancies increased slightly from last quarter, up 11 basis points from Q4 2009 to reach 3.95%. Vacant industrial space across Metro Vancouver totaled 7,198,325 sq ft, an increase from the 6,778,709 sq ft recorded last quarter.

Vancouver • North Vancouver • Burnaby

Overall market sentiment in Vancouver remained positive heading into the first quarter of 2010 as deal volume and leasing activity picked up from Q4 2009. Despite several large tenants leaving the area (including Sugoi Athletic Apparel from a 90,000 sq ft space in East Vancouver) landlords are seeing genuine interest from prospective tenants, many of whom are leaving space in peripheral markets and locating closer to the central core.

Burnaby saw a tightening in vacancy rates from last quarter, down 72 basis points to reach 1.78%. Vacant space totaled 473,458 sq ft, a 196,777 sq ft drop from Q4 2009 fueled by strong strata sales and a renewed interest in flex industrial/office space leasing.

Municipal Vacancy Rates



Source: DTZ Barnicke

Several development projects also came to market in Burnaby in Q1 2010, including Spire Corporate Centre (78,000 sq ft of strata space) and a portion (97,000 sq ft) of Beedie Group's Burnaby Business Park in the Big Bend industrial area. Additionally, several more projects are under construction, including Glenwood Business Park 6 and 7 and North Fraser Corporate Centre with Q2 2010 completion dates.

The North Vancouver submarket remains among the strongest in the region fueled by limited land supply and available product. While vacancy rates edged up 154 basis points from last quarter to reach 3.04% (due to the departure of several large tenants including ALS Chemex from a 57,000 sq ft space at 212 Brooksbank Avenue), smaller spaces are in limited supply and the market remains tight for tenants looking for less than 10,000 sq ft. Accordingly, lease rates have not budged significantly despite inducements becoming more common to solidify good quality tenants.

Northeast Sector • Ridge Meadows

The Northeast Sector experienced strong market activity over Q1 2010 as deal volume continued on an upward trend from last

Significant industrial leases of Q1 2010

| Address | Municipality | Size (sq ft) | Tenant |
|------------------------|--------------|--------------|-------------------------|
| 7800 Riverfront Gate | Burnaby | 70,552 | Core-Mark International |
| 901 Great Northern Way | Vancouver | 60,000 | Moore Canada |
| 608 Annance Court | Delta | 48,672 | Urban Barn |
| 7781 Alderbridge Way | Richmond | 45,168 | Morgan Furniture |
| 22151 Fraserwood Way | Richmond | 37,000 | Sun Rich Fresh Foods |

Source: DTZ Barnicke

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quarter. While sales and leasing activity slowed during the Olympics, interest - from investors, users and tenants - picked up substantially for the latter half of the quarter.

Strata sales remain strong in the Northeast Sector and prices for new product has hit record highs. The lease market continues to improve as well, due in part to an influx of new businesses and prospective tenants seeing potential in the Northeast Sector.

Overall vacancy in the Northeast Sector/Ridge Meadows submarket moved up slightly from last quarter. Coquitlam experienced a 15 basis point increase from Q4 2009 to reach 3.67%, whereas Port Coquitlam edged up 49 basis points from last quarter to sit at 2.27%. Ridge Meadows experienced a slightly higher jump in vacancy due to several large blocks of space coming back onto the market. The vacancy rate in Ridge Meadows increased 343 basis points to sit at 4.68%.

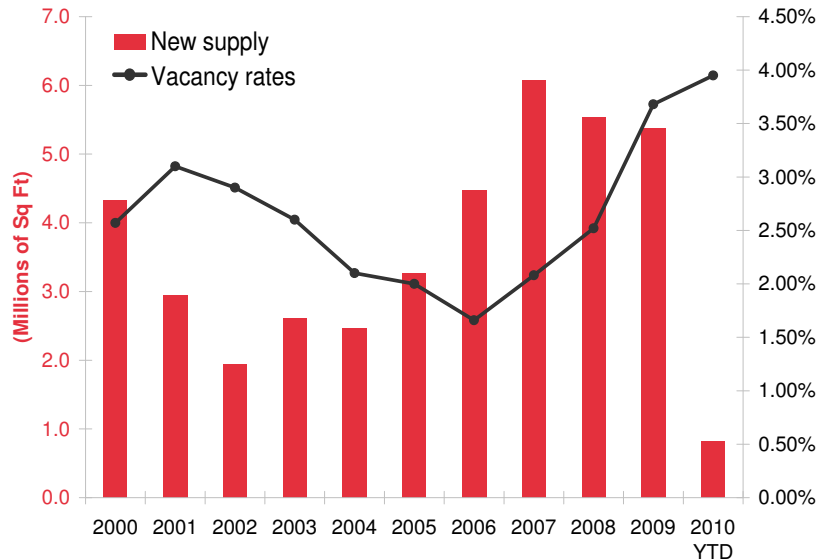
Richmond • Delta

Richmond's vacancy rate increased 32 basis points from last quarter to reach 4.06%. Richmond's high vacancy was the result of several large spaces becoming available on the market, including a 165,000 sq ft warehouse building at 11480 River Road and a 136,000 sq ft distribution space at 16068 Portside Road. Also vacant are a number of buildings in the 25,000 sq ft to 45,000 sq ft range.

Delta's vacancy reached 6.53%, an increase of 96 basis points from Q4 2009. Delta, in similar respects to Richmond, has a significant amount of large scale vacancies on the market including over 215,000 sq ft of vacant space at South Fraser Distribution Centre and over 200,000 sq ft of space at Annacis Business Park.

Overall, the demand for Richmond and Delta has been for smaller size spaces (less than 20,000 sq ft), where both lease and sale activity remain strong. Lease rates have not dropped

Historic Vacancy and New Supply



Source: DTZ Barnicke

significantly, except for the 20,000 sq ft plus market where asking rates have decreased between five to ten percent. While there are investors and owner/users in Richmond and Delta looking for space, a lack of good quality product has also tightened the industrial sales market as both vendors and purchasers look for "quality" deals.

Surrey • Langley • Abbotsford

The Fraser Valley submarket continues to experience high vacancies as low tenant demand and oversupply leave a significant amount of space on the market. Two million square feet remain vacant, representing 32% of the region's total vacancy.

Surrey's vacancy remains the lowest of the three submarkets with an overall rate of 2.34%. This represents a 98 basis point drop from last quarter. Langley also saw some improvement from

Metro Vancouver industrial statistics Q1 2010

| Region | Total inventory (sq ft) | Total vacant (sq ft) | Vacancy rate | Average asking lease rate PSF* (NNN) |
|--------------------------|-------------------------|----------------------|--------------|--------------------------------------|
| Abbotsford | 4,900,535 | 306,347 | 6.25% | \$6.00-\$8.00 |
| Burnaby | 26,494,495 | 473,458 | 1.79% | \$7.00-\$10.00 |
| Coquitlam | 8,564,142 | 314,246 | 3.67% | \$7.00-\$9.00 |
| Delta | 21,598,012 | 1,409,498 | 6.35% | \$6.50-\$8.50 |
| Langley | 15,192,095 | 1,325,261 | 8.72% | \$6.00-\$8.00 |
| Maple Ridge/Pitt Meadows | 2,087,572 | 97,723 | 4.68% | \$7.00-\$8.00 |
| N. Vancouver | 4,689,978 | 143,719 | 3.04% | \$12.00-\$14.00 |
| Port Coquitlam | 8,316,395 | 188,925 | 2.27% | \$6.50-\$8.50 |
| Richmond | 34,010,622 | 1,379,151 | 4.06% | \$7.25-\$8.50 |
| Surrey | 28,831,837 | 675,231 | 2.34% | \$6.00-\$8.00 |
| Vancouver | 23,558,246 | 484,064 | 2.05% | \$8.50-\$10.00 |
| Total | 182,166,929 | 7,198,325 | 3.95% | - |

Source: DTZ Barnicke

Top industrial sales of Q1 2010**

| Address | Municipality | Size (sq ft) | Price | Price/ sq ft | Profile | Purchaser |
|------------------------|--------------|--------------|--------------|--------------|----------|-------------------------------------|
| 3760-3960 Jacombs Road | Richmond | 419,996 | \$35,150,000 | \$84 | User | Ikea |
| 3500 Viking Way | Richmond | 67,511 | \$7,300,000 | \$108 | Investor | Piret Holdings |
| 890-890A Malkin Avenue | Vancouver | 42,000 | \$7,015,000 | \$165 | Investor | Malkin Avenue Developments Inc. |
| 5400 Minoru Boulevard | Richmond | 40,475 | \$10,000,000 | \$247 | Investor | Osaka Investments Ltd. |
| 20380 Langley Bypass | Langley | 29,804 | \$3,425,000 | \$115 | User | Convoy Construction Materials |
| 1450 Hartley Ave | Coquitlam | 12,443 | \$3,650,000 | \$293 | User | Western Pacific Enterprises Ltd. |
| 19077 95A Avenue | Surrey | 12,442 | \$1,600,000 | \$129 | Investor | Sheet Metal Workers Training Centre |
| 10387 Nordel Court | Delta | 11,130 | \$4,333,000 | \$389 | Investor | Domus Nordel Holdings Inc. |

Top industrial land sales of Q1 2010**

| Address | Municipality | Size (acres) | Purchaser | Price | Profile |
|--------------------------|-----------------|--------------|-----------------------------|--------------|----------|
| Lot 2 Boyd Street | New Westminster | 12.824 | Lowe's Companies Canada | \$23,000,000 | User |
| 420 East Kent Avenue | Vancouver | 7.349 | Northwest Waste Systems | \$5,300,000 | User |
| 43779-43797 Progress Way | Chilliwack | 4.166 | Max Swi Technologies Ltd. | \$1,750,000 | Investor |
| 173 Forester Street | North Vancouver | 3.089 | Palladium Development Corp. | \$5,200,000 | Investor |
| 12880 Shell Road | Richmond | 2.306 | Constantini Management Ltd. | \$1,860,000 | Investor |
| 13176 Lilley Drive | Maple Ridge | 1.386 | Private Investor | \$595,000 | Investor |
| 7412-7438 Gilley Avenue | Burnaby | 1.363 | Eusebio Enterprises Ltd | \$2,650,000 | Investor |

last quarter, down 32 basis points to sit at 8.72%. Abbotsford's vacancy sits at 6.25%, due in part to several large vacancies coming onto the market this quarter.

As expected, lease rates have continued to drop in light of slumping demand in the Fraser Valley. Good quality product, particularly in the 20,000 sq ft plus lease market is available and for very competitive rates. Overall sentiment in the market is that rates have not increased from 2009 and are still five to ten percent below pre-recession levels.

Key Market Projections

- Look for a projected increase in lease activity in central submarkets as peripheral industrial markets get hit with a large drop in demand from tenants.

- The concept of "location, location, location" will echo through the industrial

sales market as buyers/investors endure lower cap rates to focus on transportation routes and accessibility. However, lending is still tight in Metro Vancouver and banks are hesitant amidst improving but slow economic conditions.

- Several major construction projects are currently underway across Metro Vancouver and could prove beneficial for some under-accessed industrial markets. The Northeast Sector in particular has benefited from the recent completion of the Coast Meridian connector and is also eagerly awaiting the widening of the Broadway corridor. Additionally, the expansion of the Port Mann Bridge could also increase demand in industrial markets that are within close proximity to major exit/entry points to the highway.

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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

