Burnaby/Coquitlam Industrial Report

Fall 2013

Burnaby sales stumble as Coquitlam leasing activity accelerates

Transaction velocity for Burnaby industrial assets fell markedly in the first three quarters of 2013 compared with previous years, with just 24 transactions recorded to the end of September. With three months remaining in 2013 it is highly unlikely the number of industrial sales will exceed the level of transactional volume recorded in either 2012 (64), 2011 (56) or 2010 (42). Dollar volume has remained comparable as those assets that do trade hands reflect premium pricing due to a lack of new supply and continuing tight vacancy.

With Burnaby industrial vacancy tightening slightly to 4.3% at fall 2013 compared with 4.6% in spring 2013 (but up from 3.8% a year earlier), both owner/users and investors remain in the hunt for suitable product. Rental rates have also remained steady with minimal upward pressure due to the limited availability of both new and older product. The desire to acquire industrial assets in Burnaby has pushed some institutional owners to re-examine their portfolios and trim non-core assets in order to achieve potentially peak financial returns.

New build product on the market includes a 25,000-sf strata unit in the **Beedie Group's North Fraser Pointe** development as well as five 10,000-sf strata units in the **Spire Business Centre**. Both are located in South Burnaby. In terms of lease product, **Kask Corporate Centre** and **Riverway Business Park** in South Burnaby offer small-bay units. No additional new supply has been added to Burnaby's industrial inventory since spring 2013 and there is little in the near-term pipeline besides phase two of **Amacon's New Haven Business Park**. However, development of **Oxford Properties'** 64.4-acre **Norampac** site and phase two of **Glenlyon Business Park** will likely meet most mid- to long-term industrial expansion plans in the market.

Much of the industrial leasing activity of the past six months have involved 15,000-sf to 20,000-sf units, while owner/users typically have purchased units ranging from 2,000 sf to 7,000 sf. Vacancy remains tight for quality product, but there are pockets of vacancy in the Winston Street and Lake City areas due to the presence of older buildings. However, this older stock could represent an opportunity for value-add investors who are seeking to purchase an older asset for a discounted price (relative to the market), reconfigure the building and bring it back to the market as lease product. Otherwise many industrial buildings that are currently vacant will likely remain so.

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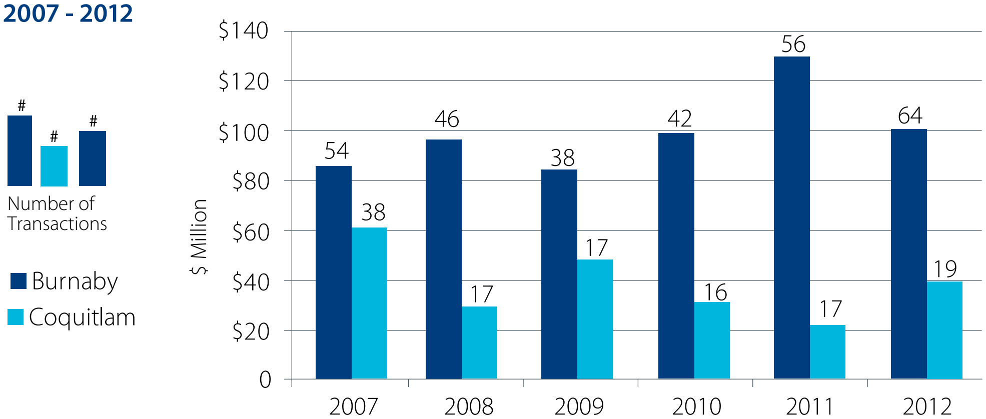
Burnaby/Coquitlam Industrial Real Estate Sales Transactions

2007 - 2012



Inside

Market Outlook

	Burnaby	Coquitlam
Cap Rates	↔	-
Industrial Vacancy	↔	↘
Sales Volume	↗	↔
Absorption	↔	↗
Lease Rates	↔	↗

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Leasing driving Coquitlam industrial revival; Burnaby remains stable

Burnaby

A good balance of users and investors have been acquiring assets within Burnaby during the past six months. More users would acquire real estate if more options were available for purchase.

While institutions remain active in the market – **Sun Life Assurance Co.** sold 7820-7870 & 7825 Venture Street in Lake City Industrial Park to a private investor – users and private investors are also engaged. Private investors acquired 4163 McConnell Drive and 8125 North Fraser Way, while a user (**Quilts Etc.**) purchased 8168 Glenwood Drive and relocated its manufacturing from North Burnaby. Due to current market conditions and continued low interest rates, users find it attractive to purchase buildings rather than leasing if they can find a suitable building for sale.

Meanwhile, **Brite Blinds Ltd.** completed a 22,500-sf lease at 4275 Phillips Avenue in order to consolidate its multiple Burnaby locations. **UAP Inc.** leased 16,200 sf at 3054 Beta Avenue for distribution purposes. **Seaforth Supply Chain Solutions Inc.** secured 48,630 sf at 3676 Bainbridge Avenue and is utilizing the space for storage/distribution purposes.

Coquitlam

Industrial leasing activity has been on an upward trend through most of 2013. With strong activity across all floorplate sizes, lease rates have risen to the mid $7s and low $8s (on a five-year term). Landlords continued to offer moderate inducements, but not on the scale seen in 2011 and for most of 2012. With construction related to the Port Mann Bridge and Highway 1 expansion in its final phase, Coquitlam's industrial leasing market is experiencing a revival.

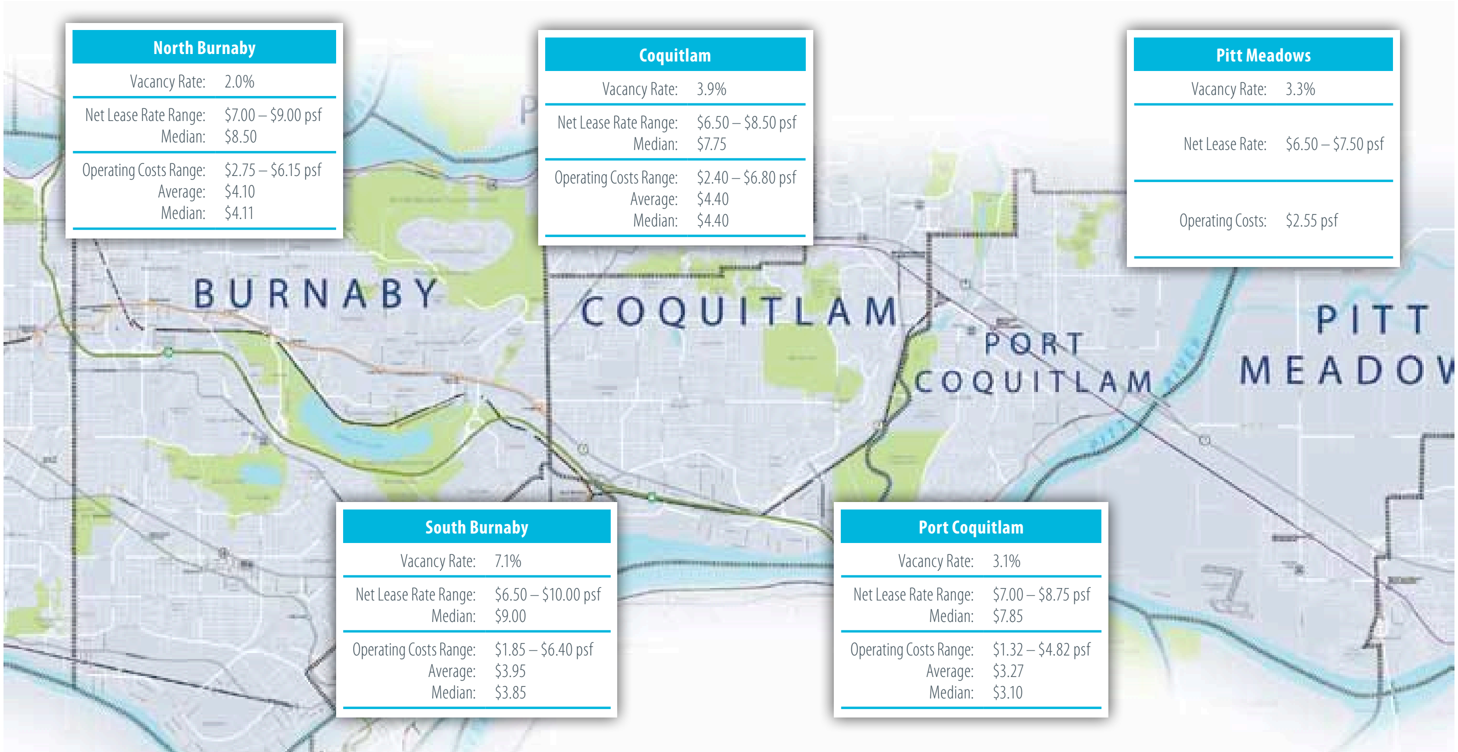
A number of mid-sized leases were recently concluded as tenants such as **QMI Manufacturing** relocated from Burbidge Street to Ketch Court. Tenants from other Metro Vancouver markets relocated to Coquitlam, including **Pony Graphics Inc.** and **eSecure Data**. **Poco Pump and Blower Inc.** also moved in to the market. **Kanto Distribution Inc.** relocated from Richmond.

Industrial sales volume has declined significantly in 2013. A lack of quality freestanding product has been the contributing factor. The only large sale was the disposition of a 50% share in 1505 Brigantine Drive, which was sold to a private investor who bought out **Stoney Creek Cabinets** before the cabinet company moved. The building was subsequently leased to **Natural Factors**. ■

BURNABY & COQUITLAM INDUSTRIAL LEASE TRANSACTIONS
APRIL 1, 2013 TO AUGUST 31, 2013

ADDRESS	MUNICIPALITY	TENANT	SQUARE FEET (SF)
3676 Bainbridge Avenue	Burnaby	Seaforth Supply Chain Solutions Inc.	48,630
8508 Glenlyon Parkway, building C	Burnaby	New B Innovations Ltd.	46,780
200-3811 North Fraser Way	Burnaby	VanRx Pharmasystems Inc.	32,500
2474 Douglas Street	Burnaby	Acklands Grainger Inc.	30,680
3171-3179 Thunderbird Crescent	Burnaby	Hillman Group of Companies	29,030
4275 Phillips Avenue	Burnaby	Brite Blinds Ltd.	22,500
3054 Beta Avenue	Burnaby	UAP Inc.	16,200
6932 Greenwood Street	Burnaby	Werkmaster Grinders & Sanders	13,540
1505 Brigantine Drive	Coquitlam	Natural Factors	36,000
2050 Hartley Avenue	Coquitlam	Christopher's Furniture Services Ltd.	26,000
2390 Canoe Avenue	Coquitlam	Kanto Distribution Inc.	12,600
2380 United Boulevard	Coquitlam	Poco Pump and Blower Inc.	11,600
1314 Ketch Court	Coquitlam	QMI Manufacturing	9,300
1478 Hartley Avenue	Coquitlam	eSecure Data	8,250
86 North Bend	Coquitlam	Pony Graphics Inc.	5,700

Infrastructure investment altering industrial markets as new access to old areas improve



Note: Rental rates vary depending on a wide range of factors, including location, age and construction type

Burnaby vacancy and rental rates have remained steady since spring 2012, while vacancy has decreased and lease rates have increased in Coquitlam.

Infrastructure investment is reshaping many of Metro Vancouver's transportation corridors as a number of high-profile construction projects that commenced in the lead up to the 2010 Winter Olympics are completed. Coquitlam's industrial market and, to a lesser extent, Burnaby, already appear to be benefitting from the investment.

Industrial vacancy has fallen by more than half in Coquitlam since fall 2011 after peaking at 9.9% during the height of construction on the Port Mann Bridge and Highway 1. Vacancy had declined to 4.4% by fall 2013. Industrial vacancy in Burnaby rose slightly in the 24 months since fall 2011, rising 80 bps from 3.5% to 4.3%. Overall industrial vacancy in Metro Vancouver declined 70 bps to 3.9% from 4.6% in that time period.

"We are seeing an increase in the amount of warehouse and distribution companies locating in Coquitlam," says **David Munro**, Manager, Economic Development for the City of Coquitlam."With the Port Mann/Highway 1 Improvement Project nearing completion, there has definitely been more interest in the industrial lands available along this corridor. We believe this interest stems from the access and infrastructure improvements enhancing the flow of goods, services and people."

Interest in Coquitlam's industrial properties, whether for sale or lease, has been fairly strong in 2013, according to Munro.

"This can be attributed to the nearing completion of the Port Mann/Highway 1 Improvement Project and the availability of small to mid-sized bay properties," he says. "Positive absorption resulted from the increase in activity."

Some of the notable industrial businesses to have relocated to or expanded operations in Coquitlam in 2013 include **A Plus Countertops, BFI Canada**, **Rokstad Power**, **Tri-City Power Equipment** and **Wakefield Canada**.

"Leasing activity for smaller spaces in the Coquitlam industrial market has been fairly strong," Munro adds. "This can be attributed to smaller operations seeking slightly larger sites, while taking advantage of the incentives offered by local industrial landlords."

Coquitlam is not the only market to experience a change in fortunes as a result of infrastructure investment.

The completion of the South Fraser Perimeter Road (SFPR), which is scheduled for December 2013, has already had an impact on leasing activity, land prices and investment along the roadway in Surrey and Delta. While the new trucking route's impact is being felt south of the Fraser River, the tertiary effects could cross to the river's northern shores thanks to another piece of infrastructure investment: the Port Mann/Highway 1 Improvement Project. Add to that the pressing need to upgrade or replace the Pattullo Bridge and the province's proposal to build a new bridge to replace the Massey Tunnel, and the rewiring of the regional goods movement network is nearly completed.

BURNABY & COQUITLAM INDUSTRIAL SALES TRANSACTIONS (>$1 MILLION) DECEMBER 1, 2012 TO SEPTEMBER 30, 2013					
ADDRESS	MUNICIPALITY	TRANSACTION VALUE	SQUARE FEET (SF)	PER SQUARE FOOT (PSF)	DATE
8125 North Fraser Way	Burnaby	$6,800,000	42,463	$160	September 2013
1480 Boundary Road	Burnaby	$1,620,000	7,200	$225	August 2013
4155 McConnell Drive	Burnaby	$4,485,000	33,618	$133	August 2013
5371 Regent Street	Burnaby	$4,000,000	41,000	$98	July 2013
5271 Regent Street	Burnaby	$3,125,000	11,250	$278	July 2013
4482 Juneau Street	Burnaby	$1,925,000	11,160	$172	May 2013
2853-2857 Douglas Road	Burnaby	$6,150,000	39,945	$154	May 2013
7820-7870 & 7825 Venture Street	Burnaby	$10,905,000	82,921	$132	April 2013
4481 Dawson Street	Burnaby	$1,250,000	3,410	$367	April 2013
Robert M. McIntosh Building	Burnaby	$5,000,000	21,315	$235	April 2013
6909-6919 Russell Avenue	Burnaby	$2,450,000	14,472	$169	April 2013
3900 North Fraser Way	Burnaby	$4,015,000	20,000	$201	March 2013
4606 Canada Way	Burnaby	$16,756,700	59,089	$284	February 2013
7269 Curragh Avenue	Burnaby	$1,649,000	6,713	$246	January 2013
3955 Graveley Street	Burnaby	$1,710,000	7,260	$236	January 2013
7112 Russell Avenue	Burnaby	$1,200,000	3,790	$317	January 2013
7488 & 7542 Gilley Avenue	Burnaby	$6,500,000	46,730	$139	January 2013
Riverway Business Park	Burnaby	$1,525,000	6,993	$218	January 2013
Lake City Court II	Burnaby	$26,000,000	111,365	$234	December 2012
Pacific Reach Industrial Park	Coquitlam	$1,275,000	6,928	$184	March 2013

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An improving lease market in Coquitlam has driven vacancy down significantly during the past year as strata dispositions dominated industrial sales activity. The almost complete absence of available, free-standing buildings in the market reduced dollar volume to less than $5 million for the first nine months of 2013. Just nine transactions have been completed to date, with all but one being a strata sale.

The Coquitlam industrial market is dominated by owner/users and developer/landlords who are reluctant to sell and, as a result, there are few private investors and limited transactional volume. An extreme lack of new product and available land suitable for development magnifies the shortcomings of the market's inventory mix and reveals its reliance on strata product to fuel sales activity.

Leasing activity has rebounded strongly since fall 2012, with vacancy plunging to 4.4% from 8.6% in just 12 months. Much of this decline has been attributed to the near completion of the Port Mann Bridge and Highway 1 infrastructure improvement project and the resultantly improved access to the area (see feature story on page 3 for more details). Rental rates have also increased. There is minimal new industrial construction currently contemplated for Coquitlam.

Much of Coquitlam's industrial leasing activity occurred in premises from 3,000 sf to 5,000 sf with the largest deal being 36,000 sf. An emerging trend has been the departure of manufacturers from the Coquitlam industrial market as they move further east or close up shop altogether. Manufacturers have vacated approximately 60,000 sf since June. Half of that space was absorbed by distribution companies, while a portion remains vacant. The other portion was leased up by an existing Coquitlam tenant seeking to expand. The evolving profile of Coquitlam's industrial tenant base will require further study as the full impact of improved highway access reverberates through the community.

Leasing will continue to drive the Coquitlam market in 2014 as strata sales remain stable and the disposition of freestanding industrial buildings remains very limited. This will drive the further absorption of remaining quality space and tighten vacancy further. Rental rates will likely continue to rise. Many of those buildings that remain vacant are likely highly challenged with little to no redevelopment potential. ■

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