



# The Knowledge Report

INDUSTRIAL | AUGUST | 2008



## MARKET INDICATORS

	2007	2008
VACANCY	↓	↔
NET ABSORPTION	↓	↑
CONSTRUCTION	↓	↑
RENTAL RATE	↑	↑

## INDUSTRIAL MARKET NEWS

The Victoria Office is pleased to announce that last year we successfully leased 150,027 sq.ft. of industrial space in the South Island market and completed sales of industrial properties valued at \$22,747,000.

### RAPID APPRECIATION THROUGHOUT MARKETPLACE

Victoria has experienced rapid appreciation in all areas of the industrial market segment. Tenants who 5 years ago were paying \$8.00 per square foot, are now facing net rental rates of \$13.00 to \$14.00 per square foot. Land owners in Victoria's suburbs have seen property values double to \$30.00 per square foot over the same period. Building values have reached \$200.00 per square foot that just 5 years ago were \$120.00 per square foot or less.

All of these scenarios have been fueled by Victoria's limited supply of industrial land and sustained record low vacancy rates.

### VACANCY

For the 4th consecutive year, Victoria has recorded an overall vacancy rate of less than 1%. Although still below the 5 year average of 1.05%, the industrial vacancy rate rose insignificantly from the record setting 0.2% in 2007 to 0.7% in 2008.

With such a low vacancy there are fewer options for industrial users to consider when expanding or relocating their facilities. More importantly, the options now available tend to be more expensive than their existing real estate.

Despite a record amount of new supply over the past year and with even more developments slated for construction in 2009, Victoria's vacancy rate is expected to remain critically low while under-supplied conditions prevail.

### NEW SUPPLY, ABSORPTION AND VACANCY RATES



### ABSORPTION

For the 12th consecutive year, Greater Victoria has witnessed positive absorption of 336,291 square feet. This figure is a new record and far exceeds Victoria's 5 year average of 154,331 square feet.

In previous years, Victoria's absorption rates typically mirrored the new supply figures due to the rapid absorption of new development.

With the market only seeing new construction on a "build-to-suit" basis, Victoria's industrial absorption rates closely follow new supply levels. In addition, with supply being so limited, any new inventory is typically leased in a timely manner.

### NEW SUPPLY

Fueled by record low vacancy rates and strong demand, a record number of new industrial facilities were constructed over the past 12 months. In total 375,156 sq.ft. was built throughout the region, far surpassing the 5 year average of 103,850 square feet.

A number of substantial industrial developments are planned for the coming year in both Central Saanich and Langford, bringing the potential to deliver upwards of 300,000 sq.ft. of new product.

### INVESTMENT SUMMARY

The industrial sector remains one of the most highly sought after product categories in Victoria's real estate market. Investors are attracted by the

very low vacancy and rising rental rates, while owner-users continue to seek ownership positions for their growing businesses.

As land and construction costs have continued to increase over the past year, rental rates have correspondingly appreciated, providing existing landlords with substantial rental increases on lease expiries. Often, when landlords are renewing tenants, they will realize 30% to 40% increases over rental rates negotiated 3-5 years prior.

Although banks have become more conservative for all real estate lending, the industrial marketplace provides a secure and fundamentally sound investment model.

### FEATURED PROPERTIES

New Supply



Dynamex



3934 Quadra



Gescan

Steels



Cloverdale Paint



## UPDATE

Market Comparisons

Buildings	Existing Properties					Absorption		New Supply
	Total Inventory Sq. Ft.	Total Vacant Sq. Ft.	Occupied Space Sq. Ft.	Vacancy Rate 2008	Vacancy Rate 2007	Net Absorption Sq. Ft. 2008	Net Absorption Sq. Ft. 2007	Net New Supply Sq. Ft.
<b>GREATER VICTORIA INDUSTRIAL MARKET</b>								
<b>SIDNEY / NORTH SAANICH</b>								
42	684,344	6,600	677,744	1.0%	1.1%	51,347	2,948	51,200
<b>CENTRAL SAANICH</b>								
45	1,355,746	12,615	1,343,131	0.9%	0.1%	29,049	17,336	40,000
<b>SAANICH</b>								
96	1,834,515	11,072	1,823,443	0.6%	0.5%	152,982	8,074	156,128
<b>CITY OF VICTORIA</b>								
293	2,554,532	13,915	2,540,617	0.5%	0.0%	(13,915)	12,033	-
<b>ESQUIMALT</b>								
51	725,886	-	725,886	0.0%	0.0%	40,000	3,354	40,000
<b>WESTERN COMMUNITIES</b>								
64	881,952	11,000	870,952	1.2%	0.0%	76,828	16,480	87,828
<b>MARKET TOTALS</b>								
591	8,036,975	55,202	7,981,773	0.7%	0.2%	336,291	60,225	375,156

## GRAND TOTALS - YEARLY COMPARISON

2007	581	7,661,819	16,337	7,645,482	0.2%	0.3%	60,225	251,214	55,000
2006	577	7,606,819	21,562	7,585,257	0.3%	0.4%	251,214	126,999	198,211
2005	570	7,408,608	30,083	7,378,525	0.4%	1.2%	126,999	184,808	61,780
2004	568	7,346,828	91,174	7,255,654	1.2%	3.1%	184,808	148,409	53,000
2003	567	7,293,828	227,688	7,066,140	3.1%	3.1%	148,409	132,434	151,261

## CITY OF VICTORIA

Victoria's downtown industrial base has seen a slight increase in vacancy from 0% in 2007 0.5% in 2008. Of the roughly 2.5 million sq.ft. in this market segment only 13,915 sq.ft. was available for lease at the time of our survey.

Tenants renewing their leases are facing rapid appreciation in rental rates, with many groups struggling to expand in locations that are often small and inefficient. Close proximity to downtown Victoria, and lack of alternative space, dictates that many of these companies renew at record setting levels.

## SAANICH

Having not seen much volume in transactions in 2007, the past twelve months have been extremely busy

in the industrial sector throughout Saanich.

An additional 156,128 sq.ft. of new product has been added to the inventory. The most notable being the redevelopment of 76,328 sq.ft. at 3934 Quadra which was sold by Loblaw's to a Vancouver based developer for \$9,200,000. Three large lease transactions have subsequently transformed this former Canadian Wholesale Club food outlet to a well positioned industrial investment.

In addition, Target Mini Storage constructed a 58,000 sq.ft. building at 491-495 Dupplin Road and Campbell Construction developed a 10,000 sq.ft. facility on Kevlin Street.

751 Vanalman Avenue, a 10,177 sq.ft. building, sold to the Red Barn Market for \$2,445,000. An assembly

of industrial/commercial buildings and land sold for \$3,300,000 at the corner of Oak and Shamrock.

## CENTRAL SAANICH

The Keating Industrial Park remains at capacity with several companies finding it very difficult to expand their businesses due to the lack of available space.

The Capital Business Park, planned for at 2070 Keating Cross Road, is slated for construction in 2009, bringing up to 180,000 sq.ft. of new warehouse/service commercial space to the market.

At the time of our survey, only one vacancy is this business park accounted for the entire 12,615 sq.ft. of vacant space.

Of note, the last two remaining strata units in the Veyaness Pacific Business Park sold for \$820,000 or approximately \$200.00 per square foot.

### WESTERN COMMUNITIES

2007 saw a large number of land transactions occur in the Western Communities. In 2008, many of these parcels have now been developed with more currently under construction. In total, 87,828 sq.ft. of new construction was completed during the last 12 months.

Lead by Goldstream Meadows and Hull's Field, the City of Langford has a number of industrial buildings currently under construction and continues to have a record low vacancy rate of 0.1% down from 0.3% the previous year.

During the past year, four buildings have been completed and include 2700 Wilfert Road, a 20,000 sq.ft. facility developed by Steel's Industrial Products, and 2948 Ed Nixon Terrace developed by Winroc Corp with 20,000 sq.ft. Additionally, Hull's Field saw two spec buildings of 21,467 sq.ft. and 26,361 sq.ft. developed by Keycorp Consulting. Both of these buildings garnered a great amount of interest and are now home to Gescan, Cloverdale Paint and UAP Traction amongst others.

Buildings that are scheduled to be completed this Fall include a 45,000 sq.ft. building for Andrew Sheret on Langford Parkway, a 14,500 sq.ft. building anchored by Canpar Freight in Goldstream Meadows, and a 28,485 sq.ft. building anchored by Scanza Construction in Goldstream Meadows. Sysco Foods is also developing a 150,000 sq.ft. distribution facility in Goldstream Meadows.

Transforce Inc. purchased the last 2 acres of land in Goldstream Meadows for \$31.50 per square foot.

As the West Shore's commercial sector continues to try and keep pace with the residential growth that has taken place, many industrial users are clamoring to acquire adequate facilities for their future use.

### ESQUIMALT

The Western Communities has continued to grow, with the Esquimalt Industrial Park continuing to become more attractive to industrial users because of its close proximity to downtown Victoria and surrounding communities. In addition, it's proximity to Victoria Shipyards and the Department of National Defense, two of Victoria's largest employers, makes this a demand area.

Although there have been few lease transactions that have taken place in this municipality over the past year, Westbank Properties did construct a 40,000 sq.ft. facility for Dynamex Couriers on Devonshire Road.

Another notable transaction was a 10,177 sq.ft. warehouse at 905 Ellery Street selling to local investors for \$1,550,000.

### SIDNEY / NORTH SAANICH

Sidney saw little change from the previous year with vacancy moving slightly downward from 1.1% the previous year to 1.0% in 2008.

The Victoria Airport Authority is looking to expand their industrial base with a potential new lease deal with Thrifty Foods. However, like many contemplated "build-to-suit" transactions, the cost of construction continues to be a major barrier to all new construction throughout Greater Victoria.

## 293 OFFICES WORLDWIDE

### 136 Americas

- 99 United States
- 19 Canada
- 18 Latin America

### 95 Europe, Middle East & Africa

### 62 Asia Pacific

- Global \$2.0 Billion in Revenue
- 868 Million SF Under Management
- 11,000 Employees
- 61 Countries
- 6 Continents

## CONTACT INFORMATION

**Andrew Turner**  
Managing Director  
andrew.turner@colliers.com

**Ty Whittaker**  
Associate Vice President  
ty.whittaker@colliers.com

**Michael Miller**  
Vice President  
michael.miller@colliers.com

**Alessandro Roethel**  
Research & Market Analyst  
alessandro.roethel@colliers.com

**Colliers International**  
1175 Douglas Street  
Suite 1110  
Victoria, BC V8W 2E1  
Tel: 250-388-6454  
www.colliers.com/victoria

This report has been prepared by Colliers Macaulay Nicolls for general information only. Information contained herein has been obtained from sources deemed reliable and no representation is made as to the accuracy thereof. Colliers International does not guarantee, warrant or represent that the information contained in this document is correct. Any interested party should undertake their own inquiries as to the accuracy of the information. Colliers International excludes unequivocally all inferred or implied terms, conditions and warranties arising out of this document and excludes all liability for loss and damages arising there from. This report and other research materials may be found on our website at www.colliersmn.com.

Colliers Macaulay Nicolls Inc. and its country subsidiaries are member firms of Colliers International Property Consultants, an affiliation of independent companies with over 290 offices throughout more than 60 countries worldwide. Andrew Turner is licensed with Invermay Holdings Ltd. and has a contractual relationship with Colliers International.

