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Industrial land squeeze pushes Metro Vancouver to North America's lowest vacancy rate

Razor-thin industrial vacancy in the region pushes up land values, lease rates and makes business a tougher prospect.

DERRICK PENNER (HTTPS://VANCOUVERSUN.COM/AUTHOR/DEPENNER) Updated: May 9, 2019

For Metro Vancouver, winning the race to the lowest industrial-land vacancy rate in North America isn't an enviable accolade, instead it's pushing the region closer to crisis mode.

Metro has surpassed Toronto, with an industrial vacancy rate of 1.2 per cent versus 1.5 per cent, according to a new report from Avison Young, which pushes up land values and lease rates in addition to making it incredibly difficult for businesses that want to land here or expand.

"It's not good for local business, that's for sure," said Russ Bougie, an Avison Young principal in its industrial department. "It does not help support growth."

Inside Vancouver itself, the soaring industrial property values that come with shrinking vacancies are creating an affordability crisis for businesses, said Pietra Basilij, manager of industrial initiatives for the Vancouver Economic Commission (VEC).

"It's the last two or three years that we've really seen that big shift," Basilij said, where industrial property values have shot up 50 per cent per year on average, particularly in central districts such as Mount Pleasant and the False Creek Flats.

And with many businesses there in the middle of three- or five-year leases, Basilij said the VEC is still bracing for the full impact of soaring land values, lease rates and corresponding taxes.

Commercial realtor CBRE Group Inc. reported last August that Vancouver lease rates were up 29 per cent, year-over-year, compared with a three-per-cent increase globally.

Tight industrial vacancy has been the story in Metro for more than a decade, with the region losing land to pressures for housing growth and other uses, but the pressures have become more acute in recent years.

The Ironworks building, an example of multi-level industrial space instead of flat warehouses as Metro Vancouver surpasses Toronto to have the lowest industrial vacancy rate in Canada, putting a severe squeeze on the city for future development, in Vancouver, BC., May 8, 2019. *NICK PROCAYLO / PNG*

The Metro regional district has a long-standing industrial lands strategy task force that has been tracking the region's inventory and cataloguing industry concerns that need policy attention.

And in Vancouver itself, some 10 per cent of industrial businesses reported that they needed to move within two years and another 40 per cent suspected they might have to, Basilij said, mainly because of the cost.

"That's where we see really big challenges around affordability," she said.

Explosive growth of ecommerce, with its need for warehouse space to ease last-mile distribution near the city is a big reason why demand is racing ahead of developers' ability to supply space, said Bougie, along with the solid growth in technology and food manufacturing.

And it's a phenomenon across the continent, according to the Avison Young report. It found that, nationally, Canada's average vacancy stood at three per cent. In the U.S. it was five per cent.

"We still aren't at crunch-stage yet, because there are land options for developers to build," Bougie said, "but there aren't a lot of choices for tenants."

The continuing squeeze is forcing industrial developers to become more innovative by pushing buildings higher, since they can't sprawl, and increasing density any way they can. Bougie said that has included building ceiling heights up to 40 feet to accommodate warehouse racking and lift systems to reach higher levels, and strata-titled developments where businesses buy their space instead of leasing.

In an environment of soaring costs, Bougie said ownership, versus leasing, gives businesses an element of control over the real estate they occupy as well as appreciation in the value of it as an asset. On the downside, the strata-ownership trend has created "a bit of a challenge for users in Vancouver because there aren't many buildings being built to lease."

In building higher, Metro municipalities have become more amenable to allowing multi-storey industrial buildings, such as the Ironworks development on Victoria Drive and Franklin Street in Vancouver, Bougie said.

"The City of Burnaby seems to be flexible in allowing (multi-storey industrial buildings), and a developer is ready to go," Bougie said, "and I suspect you'll see some multi-storey development adjacent to Vancouver where land values are sufficiently high."

Basilij said Vancouver is also looking to experiment with applying affordability policies similar to what is being done for housing to industrial property, such as using money collected from density-bonus charges to create affordable industrial space or making city-owned land available for the purpose.

The loss of industrial businesses doesn't just cost Vancouver jobs, Basilij said, but degrades what she refers to as the "economic infrastructure" for businesses, because the machine shops and repair firms that leave provide important services for other industries.

"We all need to recycle our cans, get food delivered to local grocery stores, get HVAC systems repaired," Basilij said. "So, if that economic infrastructure no longer exists, those services are harder to come by."

And the lack of affordable industrial space makes it harder for new businesses to start up in Vancouver, such as the emerging clean-technology sector where companies are "scaling up really quickly," Basilij said. "If we're unable to support those types of businesses in their nascent stages, they can't grow into economic anchors in the future."

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