

FEATURE Owner-users and investors – and even spec builders – are tilting market toward strata sales

Industrial condos

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The condominium trend in Western Canada's three largest cities has spread from residential to the industrial market, with strata space now accounting for a significant share of even the large-bay market.

In Metro Vancouver, industrial strata space now accounts for 38 per cent of transactions, compared with less than 30 per cent three years ago, surveys show.

Constricted availability and fear of even higher land prices are encouraging demand for strata development, noted **Avison Young** principal **James Lecky**. Industrial land prices have stabilized, but still remain in the \$1 million range in most suburban markets.

Beedie Group is moving ahead with 100,000 square feet of strata space at the Campbell Heights business park in Surrey because of buyer demand, according to principal **Ryan Beedie**.

With free-standing industrial buildings trading at \$150 to \$190 per square foot, large-format strata units are appealing because they're often available at a mere \$115 and \$130 a square foot.

"With the lack of free-standing buildings in the market and the premium those buildings achieve, a lot of these larger users – 10,000-to-20,000-square-foot users – are changing their minds and saying, 'I'm going to buy that strata unit and save \$30 a square foot,'" said **Jordan MacDonald**, principal of **Frontline Real Estate Services Ltd.** in Surrey.

The space is more efficient to build and meets the needs of cost-conscious users, he said. But others caution that wary buyers still mean strata is a speculative play.

Jon Bishop, vice-president and general man-



Industrial strata space now accounts for 38 per cent of the Metro Vancouver market and one-third of sales in Edmonton. Some spec builders aim to sell, not lease, in Calgary.

ager of **Devencore Co. Ltd.** (the local office of global tenant representation firm **Newmark Knight Frank Devencore**), doesn't see companies being blithe.

"We're seeing growth, for sure. Companies are now looking at taking on extra space and growing," he said. "But it's a cautious approach nonetheless."

The key considerations are cost and staff impacts; no one wants to pay more than they have to, and no one wants to lose staff as a result of a move. While a company such as manufacturer **Nuheat Industries Ltd.** has opted for new digs in an efficient structure that reduces its space requirements (among other features), **Bishop** said many companies are becoming owners.

"I think we're going to see more interest in ownership over leasing for users over the next few years than perhaps historically," he said, noting that the strata market has especially long legs.

"We're going to see a lot of attention there in the next couple of years."

Edmonton

Increasingly, setting up shop in one of Alberta's two largest cities can be done through com-

mercial or industrial condo ownership rather than leasing.

In Edmonton, for example, close to one third of the new industrial and commercial spaces coming onto the market are condos, according to **Barry Gogal**, president of **Western Realty Group Inc.**, which develops, builds, sells and manages commercial and industrial condo projects in Edmonton and the surrounding southside communities of Leduc, Sherwood Park and Nisku.

Five years ago, that figure might have been 10 per cent, **Gogal** said.

Commercial and industrial condos provide opportunities for **Gogal's** company in the short and long term.

"We buy land. We do the development. We do the construction. We sell the units. About half the project we sell out to owner occupants, then a quarter out to investors, then the other quarter we usually retain. And the investors we sell to, we would usually lease those spaces for them," **Gogal** explained.

Western Realty and its related companies typically then manage and maintain the projects on an ongoing basis.

Newer commercial/business condos developed by Western Realty in higher-end projects

typically sell for around \$300 a square foot in the Edmonton market, with industrial properties going for around \$200 to \$215 per square foot, **Gogal** said, which is higher than in Metro Vancouver.

Western Realty also converts existing leased commercial or industrial buildings to condos. This is usually easier to accomplish with month-to-month tenants rather than long-term leaseholders, **Gogal** explained.

Gogal is bullish on the value of industrialized condos, in part because of low mortgage rates, but also because of relatively high industrial lease rates in Edmonton – rates that can hit \$13 or \$14 per square foot.

"What are the drawbacks?" **Gogal** asked rhetorically. "There aren't any." He added that negative absorption in a market could be one, but he doesn't expect that in Edmonton.

Calgary

In the Greater Calgary area there were 177 sales of industrial condominium units in 2010, according to **Avison Young**.

Those units had a combined total price of \$82 million, up about 4 per cent from 2009, which recorded 78.7 million in sales for 151 transactions.

The last two years were down in sales volume from a more robust 2008, which **Avison Young** says produced over \$106 million in sales in the Greater Calgary area.

"Condominium ownership remains attractive for investors and those users who can safely predict their operational requirements for the next few years," **Avison Young** explained in a recent Calgary market report.

Prices are currently averaging between \$160 and \$205 per square foot for typical new construction bays (less than 4,000 square feet) inside the **City of Calgary** and \$150 to \$180 per square foot for older sites. Meanwhile, in areas surrounding the city, the average price is between \$135 and \$180 per square foot.

Newly completed industrial condominium buildings in the south and in Airdrie have driven prices down, whereas demand seems to be thriving in the north and east areas of the city where prices increased, local agents say. ♦

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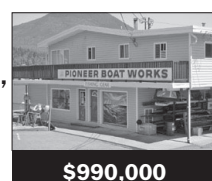


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