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## Fraser Valley's Industrial Land Crunch

**Steady economic growth over the past six years** has given rise to many businesses moving into and expanding in the Fraser Valley but the market and municipalities are barely able to keep up with the demand for industrial space.

Micro-businesses (5 employees or less) are one of the fastest growing segments of the provincial economy and account for 83 % of the labor force. A small business person looking at expanding into a first warehouse is confronted with the choice of buying or leasing a small warehouse and the analysis can be confusing, especially in a hot market.

The average price of industrial land in the Fraser Valley has risen dramatically, from \$600,000 per acre in 2003 up to \$1,000,000 per acre today. Compound that with a skilled labor shortage and construction costs rising over 12 % per year and you have prices for small and medium sized strata units climbing at rates powered not only by rising costs but also by a lack of supply.

Leasing is not without its own challenges and pressures as well. Industrial vacancy rates in the Fraser Valley and GVRD have fallen from 3% in 2003, to 1% today. However, lease rates in the Fraser Valley are trailing the skyrocketing cost of purchasing strata units, leasing rates have moved from an average of \$5.00-\$5.75/ sq. ft. in 2003 to \$7.00-\$8.00/ sq. ft. today.

Double digit increases in lease rates and renewals are not here yet, but landlords know they are in the strong position with the demand for new and existing space outstripping what the market is currently supplying. Another signal that lease rates will be going up is the number of incentives landlords are providing tenants is drying up. In past years short term leases of 3-5 years for small warehouses could expect some free rent or a small build out by the landlord, but as the supply of space is shrinking landlords are providing less and sometimes no incentives to their incoming small tenants.

The market is tight, but tactical decisions about your business's short and long term goals need to be planned out before the decision to lease or purchase is made. Leasing enables a business to reinvest its capital in machinery and stock instead of tying it up in real estate. Owning a building or strata unit on the other hand allows one to pay down a mortgage on an appreciable asset, but that also means coming up with a down payment and paying interest rates above the prime rate..

Today, tenants and owners are pushing back by demanding more flexible space from landlords and developers where they are able to multitask and accomplish warehousing, sales and light manufacturing in their places of business. This in turn has put pressure on municipalities to come up with innovative zoning bylaws to meet the demands of developers and tenants.

When making the first move to leasing or purchasing industrial space, a business person should always consult with a Commercial Realtor® and educate themselves on how to be positioned to meet their present space demands and still be able to grow their business for the future.

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