



Industrial Strata

The Rise to Popularity Among Commercial Real Estate Buyers in Kelowna



Accelerating success.

Kelowna Industrial Strata

The past two years have been characterized by an active industrial market in Kelowna resulting in nearly 500,000 square feet of new supply being delivered since the end of 2016. While most of this new supply has been build-to-suit and owner-occupier developments, new industrial strata properties have also appeared during this timeframe. The recent surge in popularity of industrial strata in Kelowna is also being seen throughout other major markets in Western Canada, including Victoria, Vancouver, Calgary and Edmonton. For example, the Edmonton market estimates that just under 340,000 square feet of new industrial strata properties have come online since the second quarter of 2018.

For those small to medium-sized companies looking to permanently secure their real estate location and limit financial changes to future mortgage rate, tax and strata fee changes, industrial strata units offer potential buyers the opportunity to own their own space while building equity (through paying down their mortgage) and reducing business risk through diversification of their holdings. For investors, industrial strata units have been a popular investment choice because of the low available inventory and rising lease rates in the Kelowna industrial market. Furthermore, low interest rates and the relative affordability of the marketplace has also allowed investors to acquire multiple strata units to diversify their income across various tenancies.



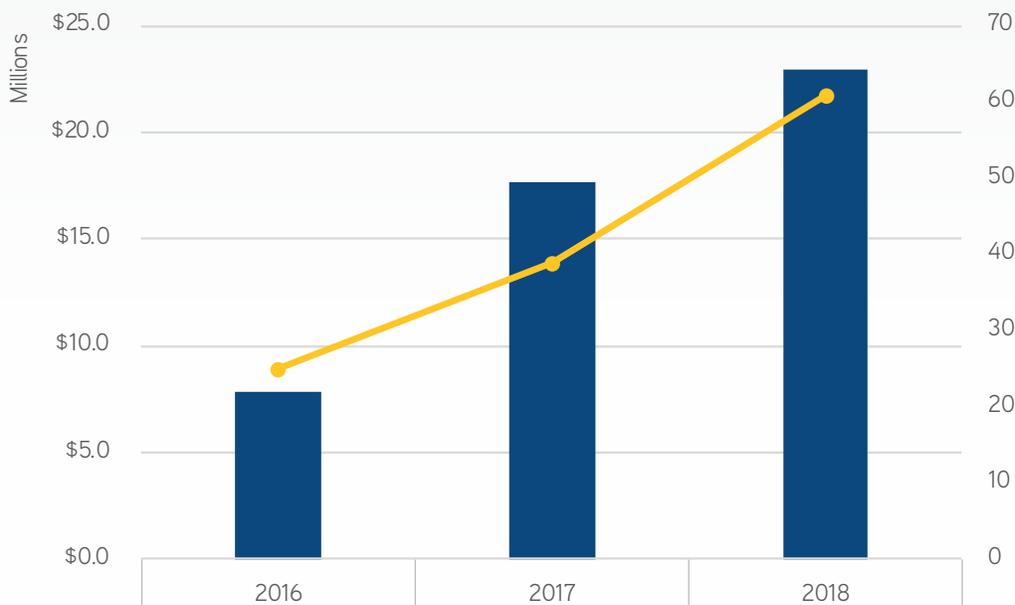
PC Urban, IntraUrban Enterprise

Market Overview

In 2018, 61 industrial strata units sold totaling \$23.0 million, representing an estimated increase of 56% in volume and a 30% increase in value over 2017. Many units sold off-market¹ while others were on the market for less than a week before selling, illustrating the high desirability of this asset class in Kelowna. The attractiveness of industrial strata is also reflected in the average price paid per square-foot, which reached \$268 for improved industrial strata units in 2018, representing a 27.0% increase over 2017 and a 39.6% increase over 2016.

During the first half of 2018, approximately 57,000 square feet of new industrial strata space was added to the market, marking the first new industrial strata units to come online in Kelowna since 2008. The two developments were largely pre-sold prior to completion at an average sale price of \$210 per square-foot; the properties were sold in shell condition meaning that there was no finished interior office or mezzanine (2nd floor) areas included in the property at the time of sale. The developments attracted both owner-occupiers as well as investors. At 210 Lougheed Road, for example, approximately 40% of buyers were investors, who have subsequently successfully leased out their units for \$12.50 to \$13.00 per square foot.

Market Transactions



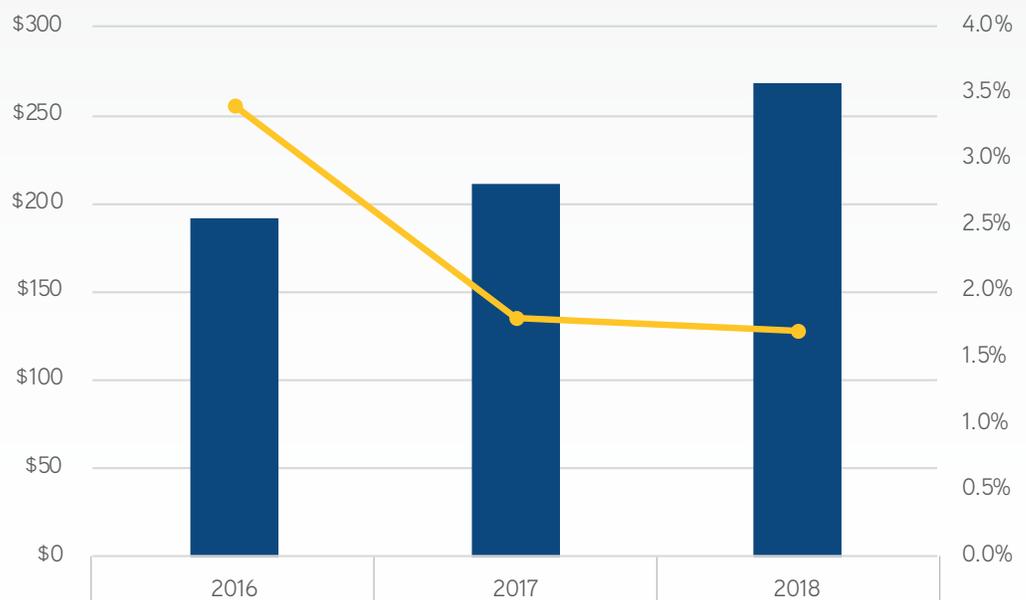
 Transaction Value (in millions)	\$7.8	\$17.7	\$23.0
 Transaction Volume	25	39	61

¹ Off-market sales refer to a sale that was not marketed widely by the seller through direct contact with buyers or using a listing service such as the MLS system.

Market Overview

Currently, there are 75 industrial strata units under construction or proposed for development with asking prices between \$306 and \$453 per square-foot (exclusive of mezzanine space). It is worth noting that these new units will be delivered with bonus mezzanine space which, when this additional space is taken into consideration, reflects an asking price of \$217 to \$310 per square-foot. Factors such as the market's low vacancy, constrained supply, increasing demand and a strong economy have helped drive new development activity in Kelowna. For developers, the returns on industrial strata developments have been fruitful, while buyers continue to benefit from a low interest rate environment.

Average Price PSF vs. Vacancy Rate



	Average Price PSF (Improved Strata Space)	\$192	\$211	\$268
	Kelowna Industrial Vacancy Rate	3.4%	1.8%	1.7%

Note: For comparison purposes, average price per square-foot (PSF) reflects ground floor only (i.e. it omits mezzanine space in the calculation of price PSF).

Drivers Behind the Strong Performance

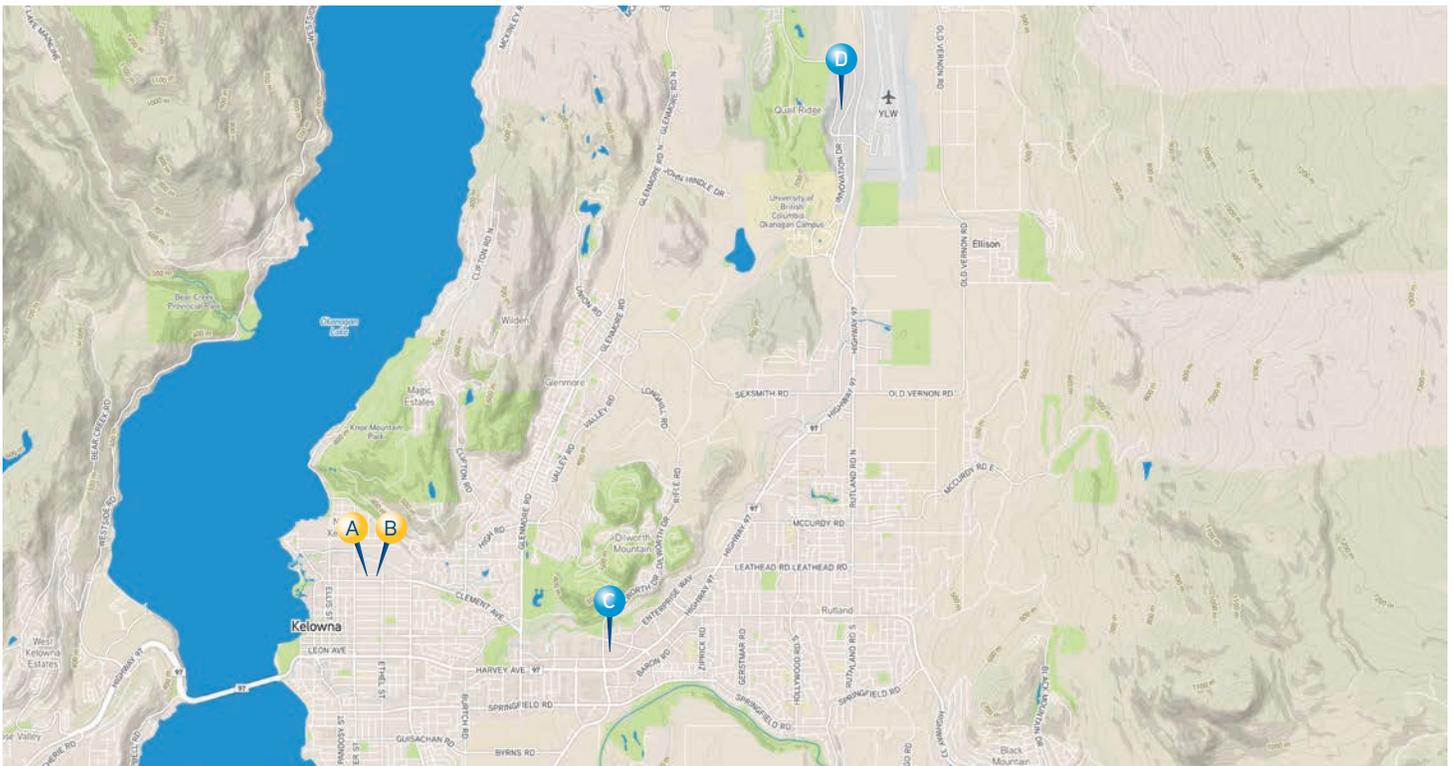
Growing industrial demand	<ul style="list-style-type: none">• Between Q4 2016 and Q4 2018:<ul style="list-style-type: none">• Vacancy rate fell from 3.4% to 1.7%.• Average net lease rates increased from \$11.00 to \$13.51 per square foot.
Spill-over demand from office and retail users	<ul style="list-style-type: none">• Flexible I1 (Business Industrial) and I2 (General Industrial) zoning has allowed non-traditional industrial users (e.g. child care centres, restaurants and offices) to occupy industrial space.
Low cost of entry	<ul style="list-style-type: none">• The availability of smaller strata-titled industrial units has appealed to a wider range of investors as they are much more affordable compared to other commercial properties.• Similarly, the combination of the Okanagan's growing economy and relative affordability of land has attracted investors looking for opportunities outside the relatively more expensive Lower Mainland.
Low interest rates	<ul style="list-style-type: none">• The current low interest rate environment is highly favourable to potential buyers and the Bank of Canada has announced that lower interest rates may now be needed to support the national economy.
Capital growth	<ul style="list-style-type: none">• As with most real estate assets, with continued inflation buyers will likely see their unit appreciate over the long-term and by making mortgage payments instead of lease payments the property will be paid off at the end of the amortization.
Tax benefits	<ul style="list-style-type: none">• Expenses such as mortgage interest, depreciation, property taxes, utilities and insurance are all tax deductible.
Rental returns	<ul style="list-style-type: none">• A rental property provides an investor with a direct income stream, ideally more than offsetting their monthly mortgage payment.
Increasing net worth	<ul style="list-style-type: none">• Real estate assets can be used as collateral by a company to help secure a loan to invest in their business operations often making it possible to secure a larger loan and/or a better rate.
Certainty and control for businesses	<ul style="list-style-type: none">• Property ownership allows business owners to protect themselves against rental rate increases as well as repossession of the unit by the landlord.
Maturation of the strata market	<ul style="list-style-type: none">• Industrial strata ownership is becoming more commonplace. As a result, the liquidity of strata units is increasing helping to eliminate one of the former barriers to ownership, which was the ability to sell a unit when needed.

Looking Ahead

The industrial market is projected to see continued interest from investors, given that market fundamentals are generally healthy and improving in the local and British Columbia economy. Factors such as low vacancy, constrained supply, increasing lease rates and strong demand across the industrial market has resulted in property investors channeling more of their funds into this asset class. This has been further supported by low interest rates and the relative affordability of the market.

Despite this, the intense competition amongst developers for the limited stock of industrial land in Kelowna will start to translate into a higher break-even cost and units in new developments are likely to be priced higher. Sellers of existing or older industrial properties, especially those located in the same vicinity as some of the new developments, are likely to respond with higher asking prices as well. Given the strong demand drivers in the market and the attractive returns that industrial properties can offer, it is expected that industrial strata properties will remain a top choice for investors over the foreseeable future.

Industrial Strata Development Map



● Proposed ● Under Construction

ID	Building Name	Price PSF - Main Floor	Price PSF - Total	Units	Notes
A	816 Clement Avenue	TBA	TBA	20	Development also includes an additional 13 office strata units for sale.
B	Clement Business Park	\$325-\$360	\$238-\$266	13	Development also includes an additional 11 industrial units for lease.
C	IntraUrban Enterprise	\$398-\$453	\$285-\$310	23	
D	The Vaults	\$306-\$343	\$217-\$248	19	Development designed for the storage of vehicles, boats and RVs.

438 offices in 68 countries on 6 continents

United States: **155**

Canada: **48**

Latin America: **20**

Asia Pacific: **94**

EMEA: **119**

\$3.3B

US* in annual
revenue

2B

square feet
under management

17,300

professionals
and staff

*Based on 2018 results

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