

POSTED ON 21/11/06

PROPERTY REPORT / INDUSTRIAL

B.C. city faces different kind of progress

Richmond's industrial land base under pressure from residential, cultural forces

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RICHMOND, B.C. -- On its website, Richmond, B.C., boasts that its residents have the longest life expectancy in all of Canada -- 81.2 years. These days, the city can't say the same for its industrial land base.

Strategically located at the mouth of the Fraser River immediately south of Vancouver, Richmond has the largest single slice of industrial space in British Columbia's Lower Mainland.

But the cheap land that made Richmond a convenient place to set up shop for manufacturers and warehouses is steadily disappearing as a result of a development boom that's remaking the traditional industrial districts with condo towers and shops, an 8,000-seat Olympic speed skating oval and a rapid transit line to Vancouver.

With industrial vacancies at all-time lows, the major projects that promise to remake Richmond in the image of Vancouver's high-density residential cityscape are putting more pressure on industry in an already tight real estate market.

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CB Richard Ellis reports that third-quarter vacancies in Richmond -- which has a fifth of the total industrial space in Greater Vancouver -- sat at 1.1 per cent, second only to the 0.8-per-cent vacancy rate in Vancouver and Surrey.

It's an environment that made it challenging for Reg Stranks, president of **Gemini Packaging Ltd.**, to find new

quarters for the health, beauty and household products manufacturer when it was forced to move out of the path of the Canada Line rapid transit project in northwest Richmond last year.

Gemini bought four acres in south Richmond near the main highway to the United States and built an 85,000-square-foot headquarters and manufacturing plant.

"We probably would have considered leasing directly if we could have found a suitable building, but there just wasn't anything that really was available," Mr. Stranks said. "And, frankly, it might be more difficult to buy the space now."

Although Mr. Stranks looked at moving elsewhere, staying in Richmond made sense even though it was a more expensive alternative to Surrey and other Lower Mainland municipalities that are seeing strong industrial activity.

"We had to stay in Richmond because of our employees," he said. "We could have gone to Surrey and gotten something a lot cheaper, but we would have probably lost most of our employees."

Gemini's move highlights the realignment of industrial properties in Richmond, as users seek to hold their ground against significant pressures from redevelopment.

While other municipalities offer cheaper rates, Richmond boasted the second most active market for industrial construction in Greater Vancouver in the third quarter, adding 141,150 square feet of space (Langley, the front runner, added 277,998 square feet). For the 12 months ended in October, industrial building permit values in eastern Richmond -- where most of the new construction is taking place -- totalled \$72.5-million, more than twice the value issued in the other half of the city.

The 90-acre Kingswood Industrial Park in southeast Richmond is among the developments seeing strong activity. Since Hudson's Bay Co. opened a new 415,000-square-foot warehouse in Kingswood in April, 2003, owner Bontebok Holdings Ltd. has developed upward of 1.5 million square feet. Among the tenants is FedEx Ground Services, which leased 65,000 square feet in the park after the Canada Line forced it to relocate.

Although Kingswood is expected to max out at two million square feet next year, the Fraser River Port Authority has recently made a 700-acre parcel available for lease and development. Calgary-based Hopewell Development Corp. has already started work on a 1.2-million-square-foot distribution centre, the largest warehouse under development in Greater Vancouver.

Burnaby-based Euro Asia Transload Inc. has also signed a lease for 10 acres where it plans to build a 400,000-square-foot warehouse facility, the first phase of which will be ready by mid-2007.

Increased development has pushed up industrial land prices in southeast Richmond to levels almost equal to those in northeast Richmond, said Ron Emerson, project manager for Kingswood. Properties in the southeast that sold for \$150,000 an acre a few years ago are now trading for \$600,000 to \$700,000 an acre, he said. Meanwhile, available development sites in northeast Richmond are trading at \$800,000 to \$1-million an acre.

Rental rates have risen in response to the higher cost of acquiring and developing sites. Kingswood has seen typical lease rates for distribution space rise to \$7 a square foot from \$5.25 over the past 18 months, Mr. Emerson said.

Still, the hot market has pushed down the returns that owners can expect, making new construction a riskier prospect than it has been in the past. "You're taking significant risk on your costing for construction," Mr. Emerson said. "Industrial construction is not as difficult to estimate as residential is, but we're subject to the pressures in the construction business as well."

New space is exactly what Richmond needs to keep industrial users from looking elsewhere. But, as Mr. Stranks found, it isn't easy to find. Most space currently under development has been presold or preleased, and fresh developable land is in short supply.

Despite a Greater Vancouver Regional District report last spring indicating that Richmond has 1,167 acres available for industrial development, many in the industry claim the actual figure is far less because of distance from transportation networks, environmental restrictions and competing uses.

Richmond economic development manager Lee Malleau said the share attributed to Richmond was "accurate but generous." She believes the more realistic figure of readily available land is somewhere closer to 200 acres.

"Global and international companies that are really important to our local economy are coming to us and saying we have no place to go and we're desperately trying to find locations in which they can expand," Ms. Malleau said. "This is a critical business retention issue for us. We're starting to lose business and investment."

The displacement of companies hasn't helped matters; ironically, development has made it worse. "Some of these businesses that are getting displaced by the redevelopment of lands for other uses are not finding locations in Richmond to go, so they're going to alternative municipalities," she said, adding that some have searched as far afield as Chilliwack, a 90-minute drive up the Fraser Valley.

To counter future displacement and loss of industrial tenants, Richmond has begun a study of commercial and industrial space that will produce a new city centre area plan due out next year. Ms. Malleau is overseeing the study, which will look at the type, amount and form of commercial and industrial uses in and around central Richmond.

With a potential downtown population of 120,000 people, Joe Erceg, general manager, planning and development, for Richmond wants to ensure the city preserves a healthy mix of uses.

The last thing Richmond wants to become is a bedroom community, he said. "We're a very, very viable commercial-industrial business location, and that's something that's very important to us. We're not going to put that in jeopardy."

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