

Olympic Impact Vancouver 2010 and the Industrial Real Estate Market



A feature report from Avison Young Commercial Real Estate, Vancouver

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Executive Summary

“The Olympic Games in 2010 are awarded to the City of Vancouver”

- Jacques Rogge, President, International Olympic Committee 2 July 2003

These words generated euphoria across British Columbia. Hosting the Games had been promoted as a tremendous business generator, in a general sense. Companies and individuals are now trying to understand more precisely how they might benefit from Vancouver 2010.

In this report, Avison Young shares some of its findings regarding ways hosting the Olympics will both generate added demand for industrial real estate in Greater Vancouver and create other changes for tenants and owners.

Three ways the Olympics will increase demand for industrial property:

| Demand Type | Low Estimate | High Estimate |
|---|--------------|---------------|
| 1. Direct demand for warehouse space from Olympic organizers, broadcasters and sponsors. | 280,000 | 585,000 |
| 2. Increased demand for space from "Olympic preparation" related businesses, including construction suppliers as well as Olympic materials suppliers. | 100,000 | 200,000 |
| 3. Increased demand for industrial space brought by a growth in the number and size of industrial space users. | 250,000 | 500,000 |

Note: These numbers are not cumulative. Absorption for items 1 & 2 will happen before the Games, and most of this space will be returned to the market afterwards. Item 3 absorption will largely happen after 2010.

Two additional ways the industrial sector could be affected:

- 4. Through an acceleration of redevelopment plans.** Certain older industrial districts will see an acceleration of redevelopment plans to convert industrial property into residential projects or higher density industrial use. Meanwhile, pressure for added industrial space from Games-related users as well as Olympic-induced business expansion may push various municipalities to develop future industrial areas sooner.
- 5. Relocation because of road closures or other related inconveniences.** Road closures from Olympic-related construction before the Games and event-based restrictions during the Games will inconvenience some industrial users; a few may make a decision to relocate to avoid these problems.



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Introduction

Hosting the Olympics will bring opportunities as well as challenges to the Vancouver area. Avison Young undertook this report to understand specifically what the industrial real estate market can expect over the next 6-10 years as a result of hosting the Games.

We examined published reports from previous Olympic Games in Salt Lake City, Atlanta and Sydney as well as conducted interviews with individuals involved in previous Games. The information gathered rarely contained specific square foot numbers or even direct references to required warehouse space. This research report required us to translate other data into an industrial real estate context. We also had to account for Greater Vancouver's peculiarities.

Vancouver is a unique Olympic host city. It is large, geographically constrained, and with the Olympic celebration site and main venues in the central core of the city and not in an industrial suburb. Where industrial space was plentiful or convenient to venues in other host cities, it is neither in Vancouver. Where an Olympic-related user will lease a warehouse elsewhere, they may seek an alternative real estate solution for Vancouver 2010. These factors make predicting the Olympics' impact on Vancouver's industrial market especially challenging.

If we receive new information, we will update this report.

Examination of Industrial Space Requirements

1. Direct Demand from Olympic-Related Users.

*280,000
to 585,000 sq. ft. of demand*

| SPACE USER | USE | APPROX. START | TYPE OF SPACE | SQ. FT. ESTIMATES |
|--|---|---------------|---------------|--------------------------|
| Vancouver's Organizing Committee of the Olympic Games | Storage & distribution of supplies: fences, tents, portable toilets, volunteer uniforms, trash cans, etc. | 2009 | Warehouse | 75,000 - 150,000 |
| Broadcasters | Storage of supplies, equipment and for high end video assembly work | 2008 | Warehouse | 100,000 - 150,000 |
| RCMP & Integrated Public Safety Command Security System | Conducting background checks, processing credentials, staging area, supplies storage. | 2009 | Warehouse | 30,000 - 60,000 |
| Sponsors | Storage, assembly, staging area, preparation. | 2009 | Warehouse | 50,000 - 150,000 |
| Other (including sports governing associations, national olympic committees) | Storage, staging area | 2008-2010 | Warehouse | 25,000 - 75,000 |
| Total | | | | 280,000 - 585,000 |

As this table indicates, most direct needs will be short term -- only a few months. Even the longer term users will only need space for approximately 18 months. Below is an in-depth examination of each space user.

For Athens 2004, the Real Estate Brokerage firm Danos & Associates estimates that 1.1 Million square feet has been leased for Olympic-related use. Because the Winter Games are smaller in terms of venues and athletes, and because Athens has more available industrial space near Games' centres, the Danos data corroborates our estimates for Vancouver

Olympic Impact

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Vancouver's Organizing Committee for the Olympic Games:

The Organizing committee will need space to gather and store an extensive volume of supplies. For example, the 88-page list of materials required to stage the 2002 Olympics contains over 1200 different entries. These include over 65,000 crowd control fences, 5,000 padlocks, 2,000 clothes drying racks, and 48,000 towels. The Vancouver organizers by February 2010 will need to purchase, store and have ready to use a similarly exhaustive list of items. We anticipate their warehouse storage needs to be up to 150,000 square feet. Additionally, we expect that many supplies will be stored in shipping containers, ready for transport to venue sights. Just-in-time delivery from suppliers will also likely be used for some materials.

Broadcasters: (The longer-term users)

The storage needs of larger broadcasters will begin in 2008 following the Beijing Summer Olympics. NBC along with the IOC's own international host broadcasting service will both move their equipment across the Pacific Ocean to Vancouver, and store it until February 2010. In Salt Lake City, NBC leased an 80,000 square foot storage facility, which they used during the Games as a staging area assembling crews to cover the various venues. The exact amount of storage leased by the host broadcaster in Salt Lake is not known, but reliable observers say it is less than NBC. These same observers state that few, if any, other broadcasters lease space outside of what is provided to them in the International Broadcasting Centre.

Security:

In the last months before the Games the security providers will begin assembling their operations. The RCMP will be the lead group within the organizing committee's Integrated Public Safety Command Security System. Other groups involved include the Vancouver Police Department, the Canadian Security Intelligence Service (CSIS), the Canadian Armed Forces, private security services, and specially trained volunteers.

According to the Vancouver 2010 Bid Book, 12,300 individuals will be involved in providing security services. An example of the types of real estate needs security will have comes from Salt Lake City. There the Federal Bureau of Investigations (FBI) headed security and leased over 50,000 square feet of flex/warehouse space, including one stand-alone building that was used to screen athletes and accredited media as well as provide them with passes to enter secure facilities.

Because Vancouver's industrial vacancy rate is typically very low, below 3 per cent, whereas Salt Lake City's sits near 13 per cent, it's possible that the security organization will use office or temporary structures, rather than a warehouse, to fulfill some of their space requirements. For this reason we predict that the industrial real estate that will be leased for security operations will be low, perhaps only 30,000 square feet.



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Sponsors:

Six years before the Games, not all corporate sponsors for Vancouver 2010 are known. But, we do know from past games that some will need to store equipment for displays and/or products to sell or give away; and some will likely want these supplies ready and waiting in Vancouver at least a few weeks before the Games begin.

Does Location Matter?

With the venues concentrated in central Vancouver, north-east Vancouver and north Burnaby, as well as Cypress Mountain, the most convenient warehouse space for organizers, broadcasters and sponsors would be in East Vancouver or Burnaby. Yet, based on choices made in Salt Lake City, proximity to venues may not matter. There, many groups leased space further from venues and relied upon efficient transportation solutions to move their goods to the appropriate locations.

Last Minute Opportunities?

Because many storage requirements will be of short duration, industrial users -- particularly those located near venues or celebration sites -- may have an opportunity to sublease their space for a few weeks to sponsors or other short term Olympic users.



2. The Games Preparation Business

*100,000
to 200,000 sq. ft. of demand*

This category includes absorption related to supplying goods or services needed to construct venues or to run events.

Over the next six years, construction projects promised or proposed as part of the bid process will happen throughout the Lower Mainland and Sea-to-Sky regions. Additionally, municipalities themselves may undertake their own infrastructure upgrades to coincide with the Olympics.

With extra construction happening in the Lower Mainland, the construction supply business may need additional warehouse-distribution or other storage space starting in 2004. Although exact square footage of expansion in Salt Lake City is unknown and hard to track, evidence indicates that it did occur. We are estimating 50,000 to 100,000 square feet of absorption for this purpose.

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Known construction and renovation projects scheduled for 2004-2009*:

| Project | planned start date | completion date |
|--|--------------------|-----------------|
| 1. RAV Rapid Transit Line to Richmond and the Airport | 2005 | 2009 |
| 2. Sea to Sky Highway upgrade | 2004 | 2009 |
| 3. Expanded convention centre | 2004 | 2008 |
| 4. Pacific Coliseum and Agrodome upgrades | Sept 2007 | Mar 2009 |
| 5. Hastings Park temporary speed skating practice facility | Sept 2007 | May 2009 |
| 6. New UBC Hockey Facility | Aug 2005 | Oct 2007 |
| 7. Vancouver Arena (Hockey Training) | Sept 2007 | Aug 2008 |
| 8. General Motors Place upgrade | July 2007 | Aug 2008 |
| 9. South East False Creek (Athletes' Village, and possibly other structures). | Still in planning | Likely 2009 |
| 10. Hillcrest Park / Nat Bailey Stadium area Curling Rink | Apr 2007 | Aug 2009 |
| 11. Speed Skating Oval construction | Jan 2005 | April 2007 |
| 12. Callahan Valley Nordic Centre construction | Apr 2004 | June 2007 |
| 13. Whistler Sliding Centre (bobsled, luge & skeleton facilities) | March 2005 | May 2007 |
| 14. Cypress Bowl upgrades | June 2005 | Nov 2007 |
| 15. Whistler Creekside & Blackcomb upgrades | June 2005 | Nov 2007 |

* As additional information becomes known, we will update this report.

Games Suppliers

The organizing committee will need everything from tables to towels and snow shovels (Salt Lake City's supplies list is 88 pages long). Local, national and international companies will compete to be suppliers. Many of the successful bidders will likely be local companies who will need to expand, or external firms that will need to establish a Vancouver operation in order to fulfill the requirement. We are estimating, conservatively, 50,000 to 100,000 square feet of absorption from Games suppliers -- but several times this amount would not be surprising. Unforeseen needs can arise in hosting an event. For example, in Salt Lake City, in the last weeks before the Games a 30,000 square foot warehouse was rented to paint extra commuter-train cars borrowed from Dallas so that they would match the Salt Lake City cars.



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3. Business Growth From Greater Exposure:

250,000
to 500,000 sq. ft. of demand

Hosting the Olympics provides hundreds of millions of dollars worth of advertising for a host region. Already news editors are drawn to any wire story involving Vancouver or Whistler. Private-public programs to harness this exposure and promote Vancouver's business community are in the planning stages, but expected to be significant and effective. Based on successes in other host cities, we can expect two types of business growth, both of which will place additional demand on the city's commercial real estate inventory:

- Local businesses gaining new contracts, sales or financing as a result of Olympic-related exposure.
- National and international companies choosing to establish an operation in Vancouver, partially as a result of Olympic-related advertising and accompanying business attraction programs.

It should be noted that this type of growth, and corresponding real estate absorption, can be expected to happen primarily after 2009.



Past host city successes:

Atlanta, the 1996 Olympic Games host city, experienced an unprecedented business boom between 1990 and 2000, especially between 1995 and 2000. Atlanta added 566,000 jobs in the 1990s, 218,000 of those in the three years following the Olympics. Although not all of the investment is attributable to the Olympics, games-related exposure and infrastructure construction played key roles. As the former Mayor Sam Massell explained it, the Olympics created **"an image for Atlanta as a city that is a doer and an international center. . . . It helps attract people and their businesses here."**

In Sydney, joint government-private sector commissions attracted 214 new international companies to the Sydney area between 1996 and 2001. An estimated 22 per cent of these companies were users of industrial space, and created approximately 1, 200 jobs absorbing an estimated 600,000 square feet of industrial space. Because Vancouver is half the size of Sydney an equivalent success would be to achieve 300,000 square feet of absorption through new investments in the Vancouver area. But British Columbia's business- and government-led trade missions could do much better than their Sydney counterparts at attracting industrial-based investment. Avison Young would not be surprised to see our high estimate of 500,000 square feet exceeded several times over.

The Greater Vancouver Industrial Challenge

Sufficient developable land exists in the Lower Mainland to accommodate significant industrial business growth. Yet, with Greater Vancouver having the lowest industrial vacancy rate in North America, the challenge for municipalities and industrial developers is to ensure they can make industrial land available for quick development in order to accommodate local business expansion as well as foreign company investment.

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Other Impacts on the Industrial Market

4. Rezoning Industrial Lands into Other Uses

Industrial tenants and owners will also likely be affected by cities rethinking their zoning or development schedules for industrial lands. As the Greater Vancouver Regional District gradually implements its Livable Region Strategic Plan, various industrial areas are already being rezoned and redeveloped as residential, office, or flex-industrial buildings. Hosting the Olympics could accelerate the process of rezoning and redeveloping properties in transitional areas. South East False Creek is one such area where we expect accelerated re-development of older industrial lands as it is the planned location for the Athletes' Village. Few industrial users currently operate in the South East False Creek area, so this change will not displace many. More industrial users may be affected by increased pressure on the city to redevelop adjacent areas to South East False Creek sooner than would have happened without the Olympics.

5. Olympic Construction and Event-Related Delays

Housing Demand and Industrial Districts:

There should be increased demand for housing (particularly rental housing) as the Games approach. The individuals who will gradually arrive in Vancouver to build venues and infrastructure or as employees of Olympic related organizations will need homes. This may lead to more residential construction in such industrial transition areas as Brentwood and Holdom in Burnaby, near Skytrain stations and within easy reach of venues and celebration sites. Already mixed-density residential is permitted in the area under the new official community plans. (For more information on Brentwood and Holdom see our report "End of an Era? The Phasing Out of Industrial Use in Brentwood and Holdom" [Spring 2003].)

In Salt Lake City sufficient apartment vacancy existed that the gradual arrival of Olympic-related workers went largely unnoticed. But when they all suddenly left in March 2002, the rental vacancy rate jumped from 4.1 per cent to 6.6 per cent.

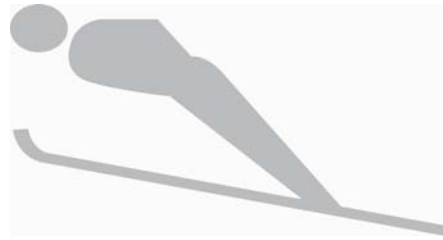
During previous Olympic Games road closures caused delays and losses for some businesses. However, the restrictions are known long in advance, and only last a couple of weeks. Most companies dependent upon quick transport around previous host cities have either significantly reduced operations or simply accepted that for two weeks operating their business would be challenging. Lower Mainland companies will likely cope in similar ways.

The bigger and longer term inconvenience will come from construction-related delays in the years leading up to the Games. Because Vancouver's Games will be in the central core of the city, rather than in outlying industrial suburbs (as with the Sydney and Athens games), most of the venue and road construction will be in the western end of the metro area or on Burnaby mountain. The warehouse distribution businesses who remain in these areas may find the inconveniences too disruptive and choose to relocate.

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Conclusions & Looking Forward

- Overall Games-related absorption will be modest. Our estimates are based on the assumption that non-warehouse options -- such as containers -- will be used for some storage needs.
- Approximately half of Games-related industrial use will be of only a few months' duration.
- Longer term business development as a result of Games-related exposure could bring noticeable absorption, primarily after the Games.



Business Development Opportunity

An unprecedented opportunity exists for industrial land owners and developers to work with their municipal governments to attract new national or international companies, and build new industrial facilities to suit these users. The willingness of governments at all levels to work together, and with business, to attract and retain investment has never been higher. Previous host cities' have attracted dozens even hundreds of new office-using companies to their regions, but have been less successful on the industrial side. We believe the will and creativity exists in the Lower Mainland for much greater business development than the 500,000 square feet of extra absorption that we project in this report.

If you would like more information about how the Olympics and related city events will impact the commercial real estate market, or for specific analysis related to your situation, please contact:

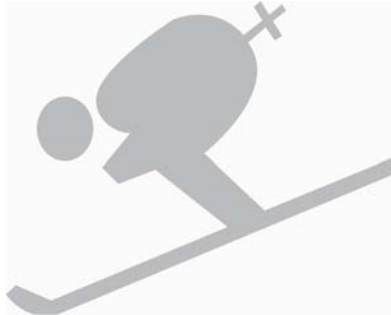
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