

The Goodman Report

FOR APARTMENT OWNERS

www.goodmanreport.com

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LOOKING BACK, LOOKING AHEAD

Entering my 23rd year of writing newsletters for apartment owners, I reflect on the recent changes in my practice and the manner in which the Goodman Team services clients today compared to how it was done some 20 years ago. The most important new addition has been my son Mark. He has taught this old dog a few new tricks. As a young man with an enormous amount of energy, natural marketing savvy and computer expertise, he has transformed yours truly into someone who better appreciates the importance and power of the Internet. And now, apparently, so do my competitors.

As pioneers in the industry and Greater Vancouver's leading apartment and development site specialists, the Goodman Team is often copied, but never duplicated. We've entered the age of instantaneous information, and the Goodman Team, with respect to real estate marketing, is leading the charge. We are recognized as the industry leaders — we change, we innovate, we adapt.

Let's examine why our performance stands out from the crowd.

All the salient data related to our clients' property is clearly denoted on our website, **goodmanreport.com** (unlike our competition), so that any potential buyer has immediate and concise access to it. Each time we send out a notification of a new listing to our 6,000 worldwide subscribers, we are inundated with inquiries. In fact, our site exceeds over 35,000 visits per month. Another unique service available exclusively to our email subscribers is our monthly market update which provides timely data, news and views designed to keep members of our industry in the know. Critical to the Goodman Team's success is our personal touch, allowing us to stay closely connected with you, our clients. In particular, we take great pride in our long standing tradition of value-added service, from discussing trends and market statistics to sharing financing ideas and property management tips. 🏠

2005 YEAR END REVIEW

At this time last year, in our Feb '05 Goodman Report Newsletter (Issue 29), we cited factors driving the market such as low interest rates, a further decline in vacancies, a growing economy and the perceived low risks associated with owning apartment investments. Now a year later, while the same conditions prevail, there are additional forces positively influencing

the market. According to Andrew Ramlo of Urban Futures, it is estimated that between 2006 to 2010, new arrivals to the Lower Mainland are expected in the range of 33,000 people each year for a total of approximately 165,000 new residents (see chart on page 2). This dramatic surge in population will have the effect of not only maintaining low vacancy rates in the older

(cont'd p. 2)

IN THIS ISSUE

- 2005 Year End Review
- Greater Vancouver Multi-Family Sales
- B.C.'s Economic Outlook
- Rents – A Bargain or Fairly Priced?
- The Efficient Frontier
- Bubble – A Contrarian's View
- To Sell or Not to Sell



News and views from David and Mark Goodman

SPEAKING ENGAGEMENTS

We are honoured to be a keynote speaker at the BC Apartment Owners and Managers Association's upcoming trade show April 6th, 2006 being held at the Hyatt Regency Hotel. We have also been invited to participate in the multi-family segment of the Vancouver Real Estate Forum also being held at the Hyatt Regency Hotel on April 19th, 2006.



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buildings traditionally monitored by CMHC, but also the many thousands of newer non-reported condo rentals coming on stream in Downtown Vancouver.

Furthermore, as interest rates increase, the affordability of home ownership is reduced. In turn, we can expect rent pressures to grow. Finally, there is a realization by growing numbers of building owners we've spoken to that rents in the Lower Mainland are about to *break out* – more on this subject later.

On a personal note, 2005 was a very

active year. On behalf of our clients, we have successfully handled 26 sales transactions consisting of 21 apartment properties (which include two large multi-family development sites in South Granville), plus a townhouse site in Oakridge, a one-acre industrial development site on Terminal and three office/commercial buildings in Gastown, Kitsilano and West Vancouver.

As for Greater Vancouver, the numbers are in for 2005, and not surprisingly there are substantial increases compared to

2004 in all categories that we've been monitoring. As we have traditionally done at this time of the year, having meticulously tracked known 2005 apartment sales in Vancouver's Lower Mainland, we are delighted to share our findings with our many thousands of e-mail subscribers and recipients of our hardcopy newsletter. Enclosed you will find the **2005 Apartment Sales & Highlights**. Remember, you can also receive these monthly reports online by subscribing to www.goodmanreport.com. 

Annual Migration, Lower Mainland*, 2005 to 2015											
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
International Migration											
Immigration**	35,574	37,712	39,566	41,269	42,788	44,077	45,014	45,797	46,403	46,844	47,484
Emigration	6,588	6,484	6,379	6,275	6,170	6,063	6,162	6,264	6,368	6,473	6,579
Net	28,986	31,228	33,187	34,993	36,618	38,013	38,852	39,533	40,035	40,371	40,905
Interprovincial Migration											
Ins	26,807	27,466	27,970	28,320	28,516	28,556	28,441	28,337	28,243	28,161	28,089
Outs	23,107	22,837	22,633	22,496	22,422	22,414	22,468	22,517	22,559	22,594	22,624
Net	3,701	4,629	5,337	5,825	6,093	6,143	5,973	5,820	5,684	5,566	5,465
Intraprovincial Migration											
Ins	36,828	38,705	40,231	41,406	42,232	42,834	42,834	42,834	42,834	42,834	42,834
Outs	41,416	43,867	45,834	47,317	48,315	48,860	49,095	49,331	49,569	49,808	50,048
Net	-4,588	-5,162	-5,603	-5,910	-6,083	-6,026	-6,261	-6,498	-6,735	-6,974	-7,214

*Lower Mainland comprises the Greater Vancouver, Fraser Valley, and Squamish-Lillooet Regional Districts.
 **Includes change in non-permanent residents. Source: Urban Futures.

GREATER VANCOUVER MULTI-FAMILY SALES & STATISTICS – 2005 COMPARED TO 2004

Activity Highlights:

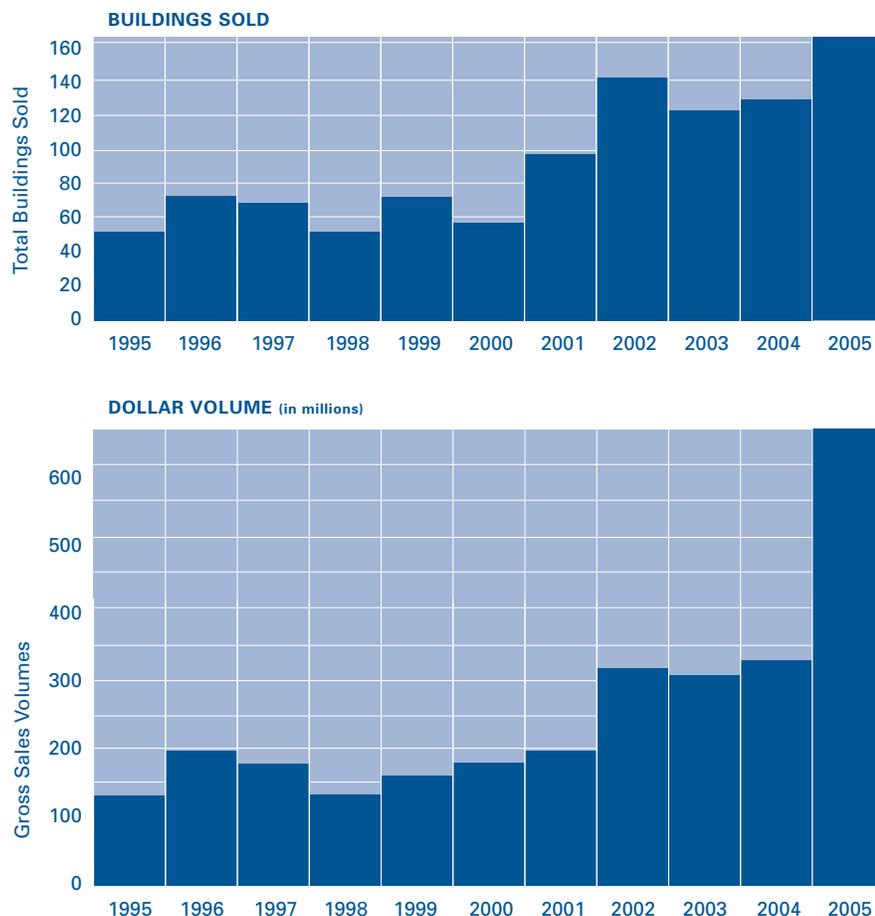
- Total Buildings sold 162 – up 21% over 2004 (Vancouver 83 buildings sold; suburbs 79 buildings sold)
- Total Dollar Volume \$648,473,300 – up 93% over 2004 (Vancouver \$287,531,800; suburbs \$360,941,500)
- Total Suites Sold 5,539 – up 67% over 2004 (Vancouver 1,967 suites; suburbs 3,572 suites)
- Average \$ per suite in Vancouver \$146,777 – up 21% over 2004
- Average \$ per suite in suburban communities \$101,647 – up 21% over 2004

These statistics are very revealing in that 51% of the buildings sold were in Vancouver, while the remaining were in the suburban areas. Moreover, 55% of the total dollar volumes and 65% of the total suites sold originated outside of Vancouver. Both jurisdictions showing

similar 21% increases in average \$/suite over 2004.

As demand remains strong and prices continue to escalate, many long-term owners who've realized substantial capital gains are cashing out at record highs. Conversely, 162 investors

(based on the number of 2005 sales transactions), encouraged by record low interest rates and the perception that current rent levels have significant upside, remain exceedingly bullish on the industry. 



BC'S ECONOMIC OUTLOOK

The outlook for our economy is very positive. The 2010 Olympics will have an enormous impact for our province and particularly Vancouver's Lower Mainland when you consider the required infrastructure. Construction costs alone for the RAV line from Downtown Vancouver to the airport is two billion dollars.

Vancouver real estate prices, especially apartment building values, have gone up - way up this past year, but rents

remain a great value and unquestionably a bargain. We are predicting that rents will continue to increase beyond the rate of inflation for 2006-2007. BC has been recruiting workers from the rest of Canada to feed our construction driven booming economy. The government of BC is awash with more surpluses than its had in the last 30 years due to increased oil and gas royalties and a much higher tax base derived from both corporate and personal. We have

ample surplus revenues for the first time in many years and a plan in place to start reducing debt. BC has amongst the lowest unemployment rate in all of Canada at 4.8%. Can you imagine what would happen to our province if one day oil and gas is discovered off the Queen Charlottes? Forget about the Olympic boom - BC will become *Alberta-lite* and also send \$400 cheques to every man, woman, child and dog. 🏠

RENTS – A BARGAIN OR FAIRLY PRICED?

With vacancies at 1.4% for Greater Vancouver (CMHC 2005 Survey) and under 0.5% for the West End, South Granville, Kits, Marpole, North Vancouver and West Vancouver, one would reasonably assume that demand is

outstripping supply. Given we concur that rents are undervalued, one can also point to many factors that have inadvertently created landlord subsidies. Obviously, BC has de facto rent control; it also has what we refer to as *landlord*

blindness. Landlords love to read industry statistics and assume published average rents must be the going market. Another interesting factor is that some inexperienced new owners assume that because the cap rate on purchase (cont'd p. 4)

WHAT'S HOT

Micro-managing rents (our new mantra)

Development sites – can't get enough of them

Mini-warehouses

86.5 cent Canadian dollar – at par in two years?

Sam Sullivan – bringing rhyme, reason and class back to City Hall

Covenant House (www.covenanthousebc.org)

Gold, Silver and Platinum

Post-election analysis: Canadians sort of liked Stephen Harper and sort of liked Paul Martin. It was just a function of whom we liked the least

Rollover legislation – fingers crossed

WHAT'S NOT

Ford and GM on life support

Soaring construction costs & labour shortages – forget sending your kids to med school, give them a tool kit!

Pre-sales – some condo developers seeing margins erode or virtually disappear as a result of sky-high construction costs

Smart Cars (aka 1/2 cars). Not so smart after all. Daimler Benz is trying to dump them

An American crisis – twin deficits makes for ugly US dollar prospects

Fair weather political party members (Yeah, I'm talking to you Emerson)

Vancouver, the fifteenth most unaffordable city in six countries: Canada, US, UK, Australia, New Zealand and Ireland. *Source: 2006 Second Annual Demographia International Housing Affordable Survey*

Avian flu – hey Cheney, we need you to start shooting more birds

Mortgage rates – they're on the rise

reflected an approximate 4.75% return (the Vancouver average for well located and maintained apartment properties), their rents must be reflective of market. Not surprisingly, we periodically hear about long-time owners who haven't touched their rents for 3-4 years. Talk about the ultimate in landlord subsidies!

Real Returns

Maybe it's time we review the economics of rent by examining underlying market forces. Net revenue or cap rates must reflect the risk of other instruments, or as economists refer, "substitution". Given a Canada long bond yields 4.25% and a well located apartment building yields 4.75% (capitalization rate), is the 50 basis points differential a fair spread? Why would one give up the security of Government of Canada bonds for an additional 50 basis points simply to have the pleasure of fixing a toilet? I don't think anyone would! Instead, one could buy solid REITS in Canada for about a 6% return, which is tax efficient and liquid. Most new buyers anticipate capital gain sometime down the road, if and when rents move up, to supplement such a low cash yield. One may argue that even with future appreciation (and there's no guarantee), the 50 basis point spread is far too low and no one should settle for less than approximately 300 basis points (or a 3% spread) which would then translate into a 7.25% cap rate. Let's examine the following:

An investor has just acquired an 18-suite building, Sunshine Manor, in a prime Vancouver Lower Mainland location yielding about 4.75%. In theory, the income statement could look something like this:

Sunshine Manor

Gross Rental	\$ 172,800 ⁽¹⁾
Other Revenue	10,000 ⁽²⁾
Total Revenue	\$ 182,800
Less Expenses	(59,400) ⁽³⁾
NOI	\$ 123,400
Purchase Price	\$2,597,895 ⁽⁴⁾ (\$144,327 per suite)

(1) 18 suites @ \$800 per month
 (2) Laundry & parking revenue
 (3) \$3,300 per suite (expenses)
 (4) Utilizing 4.75% cap rate

Now, let's take the same data and assume the revenue should support somewhere between a 6% – which is a REIT yield - to a 7.25% return based on a 3% spread on a government bond, just to have the pleasure of being a landlord.

Gross Rental	\$ 237,600 ⁽¹⁾
Other Revenue	10,000 ⁽²⁾
Total Revenue	\$ 247,600
Less Expenses	(59,400) ⁽³⁾
NOI	\$ 188,200
Value	\$ 3,962,105 ⁽⁴⁾

(1) 18 suites @ \$1,100 per month
 (2) Laundry & parking revenue
 (3) \$3,300 per suite (expenses)
 (4) Using 4.75% cap rate

Lagging Rents

This simple analysis suggests that "Sunshine Manor" should yield 7.25% (NOI \$188,200 ÷ Purchase Price \$2,597,895) which reflects a fair risk-reward for the difference between a Government of Canada bond and owning an apartment building. Therefore, each suite should rent for \$1,100 per month.

Doesn't this then suggest that each suite is under-rented by \$300 per month? Probably. From an economic standpoint, one can point to many factors, mostly due to landlords using rent averages obtained from various sources, which are merely reporting averages. As you are aware, averages do not take into account the location, condition, nor how your building stacks up against direct or indirect competition (i.e., condos entering the rental market).

It further begs the question, "Why are my rents so far below economic rent?" Is it possible that some Vancouver landlords accept the status quo far too easily? Actually, a \$300 increase may be just the beginning. Updated, well-managed properties may command an additional \$400 - \$500 per month. To shed further light on the above distortion, we have summarized in the following table on page 5, CMHC average rents for 1-bedroom suites for the years 2000 vs. 2005 for five distinct areas in the Lower Mainland. We have also highlighted the average \$/suite for these areas, again comparing 2000 to 2005. 🏠

Area	Average 1-Bedroom Rents (Source CMHC)			Average \$/Suite (Source Goodman Report)		
	2000	2005	Diff	2000	2005	Diff
Vancouver – S. Granville	\$ 749	\$ 858	+14%	\$ 95,321	\$153,691	+61%
Vancouver – West End	\$ 775	\$ 918	+18%	\$100,383	\$153,220	+53%
Burnaby	\$ 654	\$ 732	+12%	\$ 76,282	\$ 99,415	+30%
City of North Vancouver	\$ 705	\$ 788	+12%	\$ 84,673	\$128,708	+52%
New Westminster	\$ 589	\$ 656	+11%	\$ 69,602	\$ 88,100	+27%

Question: What is wrong with this picture?

Answer: There appears to be a total disconnect. Rents in the above subject areas have increased only 11-18% over the past 5 years, while the average selling price per suite has increased 27%-61% in the same time frame.

THE EFFICIENT FRONTIER

We have already determined that economic rents are not being achieved. Besides the math, our experience has told us that the rental market is not efficient. An efficient market, by definition, is one where the market price is an unbiased estimate of the true value of the investment. Generally the term *efficient* is used as a stock market term, but in understanding economics, it has relevance to our industry. For example, a security trading for \$20 reflects a willing buyer and a willing seller, who both believe \$20 is priced just right (the buyer believing in the company's management, while the seller believing better returns are to be found elsewhere). It is our opinion that the process in determining apartment rents in the Lower Mainland is far from efficient.

The Old School Approach

Let us assume that there are 3 buildings on a particular Vancouver block. Building A has received notice from a tenant and will have a 1-bedroom vacancy come due the 1st of next month. Caretaker A is asked by his owner, "What are the two other similar apartment buildings in the area renting their 1-bedrooms at?" Answer – Building B down the street is renting their 1-bedroom for \$750 but those are smaller suites; Building C next to us is renting at \$800, however, those are larger suites, therefore, our rent should be \$775 a month because we are somewhat in the middle. The owner asks his caretaker, "Are the other buildings full?" Yes. The

owner then looks at CMHC's rental statistics, as well as industry supplied rental data to help justify the business decision. The well intentioned owner then decides, based on the information presented and his own intuition, to ask \$775 for the suite. Sorry, wrong answer - off to the penalty box! One should not determine market rent by merely looking at 2 neighbouring buildings on the block.

In our view, this method of establishing rent only helps perpetuate landlord subsidies. Remember, rental statistics only look at what current rent is, not what rent should or could be! Your job is to filter out those irrelevancies, which do not indicate fair market rent.

In looking at this process, you must agree that this owner's method of determining rent is a far cry from what the efficient market should be. It is our view that CMHC rental statistics, while accurate, help support the fallacy as in the above example, that fair market rents are actually in the \$700 - \$800 range. Another interesting phenomenon is that landlords in Vancouver's Lower Mainland sleep well when their buildings are full. When your building is full with seldom a turnover, perhaps you shouldn't sleep so well. You are likely subsidizing your tenants.

Epiphany of the Day

Let's face it folks, you are running a business. As an owner, you are entitled to achieve true market rent for your unit. If you suspect that your current rent levels

(cont'd p. 6)

Potential Energy Cost Savings

We recently came across new technology from BC based Sempa Power Systems that helps building owners save money on energy costs. The sPs Hybrid Heating™ system cuts heating costs by automatically switching between gas and electricity to use the lowest cost fuel at any time of day or night.

sPs adds boilers to an existing heating system along with intelligent controls to manage the operations. Savings of over 20% can be achieved for apartment buildings with 50+ suites. sPs can help cap a significant portion of building operating costs and in turn, enhance net operating income. sPs engineers software for buildings that control mechanical and electrical systems with minimal disruption to daily operations. sPs also offers a unique financing program where energy cost savings repay 100% lease financing installation costs. With typical capital leases repaid in just 4 years. Their clients include apartments, hotels, shopping centres. sPs is now expanding their services into the rental apartment market throughout BC and Alberta.

For more information contact Randall Jang at 604.639.7950

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are under market, I recommend that on every turnover, since you are limited to only a 4% increase to existing tenants, consider increasing your rent 15-25%. As a landlord, your role is that of providing housing at a market price with decent service in a well-maintained and secure building. You are not in the business of being selfless. The old expression is that “if your building is full you are under-rented” has never been more true than in today’s market.

These government and industry statistics work on the assumption that market forces are driving the rental market. More than likely, in any given month, up to 90% of all rental units are rent controlled and the published statistics create that artificial rental ceiling. Many renters won’t move knowing they have a heck of a deal. Therefore, it is incumbent on you to become more market driven on turnover, by taking control your asset and developing your own pricing model. As an owner, you must manage the manager. Do not delegate the critical task of rent increases solely to your caretaker. This is like the assembly line worker determining the price of a new car. If you are not involved in the vital process of determining rents, why aren’t you?

The New Mantra: Micro-Manage Revenue

We find it interesting that many owners try to increase their margin by micro-managing expenses. Most in fact happen to do it extremely well by checking costs, getting competitive quotes and carrying out timely upgrades. They may even go as far as appealing their tax assessment, finding cheaper insurance, or installing energy saving devices, yet spend little or no time micro-managing revenue. Let’s consider reversing that! *Remember, expenses represent approximately one-third of the total gross income, while the NOI normally represents two-thirds of the total gross.*

Instead, increase your cashflow by micro-managing your revenue side - make it your new mantra. Your goal should be to own the building of which other neighbouring caretakers take notice. Don’t be the follower—be the leader on the block. Yes, you may have the odd vacancy, but at the end of the day, your increased value and cash flow will more than compensate you. You will win by increasing value and cashflow and by leaving a larger estate to your children (and chances are, they’ll now remember to thank you).

Upgrades = Enhanced NOI

“How do I further justify increasing rents so dramatically?” By investing. Invest \$5,000 - \$6,000 on a suite turnover. Install new easy-to-clean good quality carpeting or laminate flooring. Next, redo the kitchen – install a new overhead fan, put in new appliances and add a dishwasher if possible. And please, those Harvest Gold

raising your rents by 25% is dramatic, especially if you have 4.5% mortgage financing in place. Even in Lower Mainland areas where vacancies are between 0.5% to 1.5%, the same strategy applies on a relative basis.

Before and After

Below is an example of the impact of micro-managing your rents. Let us assume a “C” building well located in Vancouver, 30 suites, averaging 650 sq. ft. in size, with a total gross area of 22,425 sq. ft., sold for a respectable \$4,293,474 (\$143,000/unit) reflecting an approximate 4.75% cap rate. This would show a NOI of \$204,000. At the same time, you commit to a major renovation project and you upgrade each suite for \$15,000 for a total of \$450,000. Once renovated, your “C” building becomes a “B” building and commands an average rent of \$1,100 per suite.

	Purchase (Before Renovation)	Rents Micro-Managed (After Renovation)	
Rental	\$ 289,000 ⁽¹⁾	\$ 397,000 ⁽²⁾	(1) Approx. \$800 per month per suite
Laundry/Parking	17,000	17,000	(2) Approx. \$1,100 / month per suite
Less Vacancy	(3,060) ⁽³⁾	(8,280) ⁽⁴⁾	(3) 1% vacancy rate
Total Revenue	\$ 302,940	\$ 405,720	(4) 2% - reflecting top of market rents
Less Expenses	(99,000) ⁽⁵⁾	(111,000) ⁽⁶⁾	(5) Approx. \$3,300 per suite per year
Net Revenue (NOI)	\$ 203,940	\$ 294,720	(6) Approx. \$3,700 per suite reflecting higher upkeep
Cap Rate	4.75%	4.75%	
Value	\$ 4,293,474	\$ 6,201,463	

and Avocado Green toilets, tubs, fridges and stoves should be replaced ASAP! You can put new fronts on old cabinets and make them look modern . Also, if you really want to dress up your suite, install a tile entranceway reflecting a more contemporary look. Landscaping and entrance improvements never hurt the bottom line either.

Imagine how the value of your building would increase over a two year span given that capitalization rates remain constant at approximately 4.75%, if you were able to increase your net cashflow by approximately 25%. The impact on

Perhaps Buildings Are Undervalued

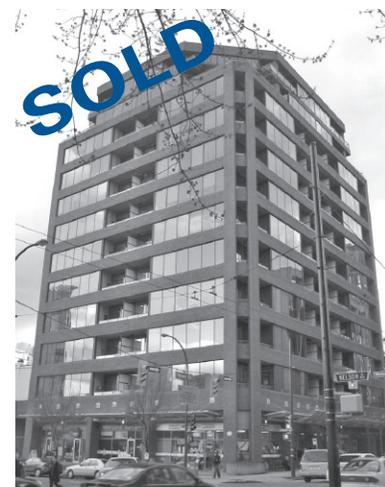
If you are buying a building at a 4.75% cap rate and if you concur with our above hypothesis that rents are undervalued, then your 4.75% cap rate purchase after renovations could translate to a 6.2% cap rate (depending on how undervalued your rental units are).

Why would a building suddenly be worth \$6,200,000 or \$206,000 per suite when 6 – 12 months earlier the same building was only worth \$158,116 per suite (including renovations)? A 30% increase! There are two reasons. Firstly, it always was — the

revenue just needed to be micro-managed. Secondly, is replacement cost – that frame apartment building originally at \$158,116/unit (purchase price plus renovation costs) or approximately \$211/sq. ft (\$4,743,474 ÷ 22,425 sq. ft.) is excellent value compared to what the replacement cost (land and improvements) is at approximately \$400 per foot. Economics always wins – law of

substitution prevails. It is easy to see why the construction of market rental buildings is practically impossible. In fact, Thomas Schwartz, CEO of CAP REIT, one of Canada’s premier apartment owners, was recently quoted as saying “that the apartment business remains one of the few sectors in the real estate industry where we can still buy properties at a fraction of replacement costs.” 🏠

Sold by The Goodman Team



Example of Added Value

Purchase Price	\$ 4,293,474	New NOI	\$ 294,700
Renovation	450,000	Total Cost	\$ 4,743,474
Total Cost	\$ 4,743,474	Real Cap =	6.21%
	or \$ 158,116/unit		

BUBBLE - A CONTRARIAN’S VIEW

With the housing market exploding and new Vancouver Westside condos selling on average at an incredible \$550+ per foot, first time buyers are being forced out of the housing market as they are required to earn over \$120,000 yearly just to qualify for a mortgage. With 35 years of real estate experience, I have observed that markets tend to slow down for a variety of reasons — the first being massive price increases that eventually become unsustainable. To cite an example, the price of multi-family land in Vancouver’s Downtown District only four years ago was \$35 per buildable sq. ft. and condos were selling at approximately \$285/sq. ft. Today, the same land is approximately \$110 - \$120 per sq. ft. buildable and high-rise condo prices have skyrocketed to over \$550/sq. ft.

It’s more than just higher land values, however, driving up condo prices. It is the staggering escalation in construction costs. Developers are facing unprecedented

increases, especially in concrete, steel and labour. At one time, with a high degree of certainty, one could predict within 3% - 5% what the hard and soft costs for new construction would be well in advance of the start date. How times have changed over the past 18 months or so! Now it’s difficult for a construction company or developer to receive a single bid never mind competitive bids from qualified trades. Developers in some areas are concerned that the market may be unable to absorb additional construction costs, higher mortgage rates and increased asking prices. These factors combined will likely help to drive first time buyers out of the market. The subsequent lack of demand will ultimately resonate to the top. This in turn may result in owners of development sites experiencing downward pressure on land values. Could this impact owners of multi-family apartment buildings? Yes, but in a good way. Call or email me – let’s chat about some theories I have. 🏠

Downtown Vancouver
Concrete strata high-rise
1010 Howe Street
130 units + 8 commercial
Asking \$32,000,000

TO SELL OR NOT TO SELL

Okay, you’ve owned your buildings for a long time. You’ve made a huge amount of capital gain and you’re tired of the day-to-day management problems. “David, what should I do with my money if I sell?” I hear this almost every day, without fail.

We have spoken about the value of income trusts before. The most recent

announcement by the Federal Government that they are not reviewing the taxation of income trusts provides a level of comfort which was reflected immediately in the income trust market.

Income trusts differ from common stock in two very important ways. Firstly, income trusts are not a distribution of tax

(cont’d p. 8)

Next time you have a vacancy, go to www.craigslist.com and search Vancouver. Trust me, you will be blown away – a great place to list your vacancies and it’s FREE!

"The ultimate good is better reached by free trade in ideas. The best test of truth is the power of the thought to get itself accepted in the competition of the market."

– Oliver Wendell Holmes Jr.

It's only three months into 2006, and The Goodman Team has already sold 10 buildings for a total of \$59 million, with another \$17 million under contract. For details, visit our website at www.goodmanreport.com.

paid capital like a dividend, and secondly, resource-based and some enterprise-based income trusts' cashflow contains elements of capital, such as a depleting asset. However, most well-run income trusts try to replenish a depleting asset, especially those included in natural resources.

That's why trusts are so attractive. An income trust avoids the corporate tax world as yields are enhanced with capital. There is no integration no dividends. All income from a trust is taxed as interest income and the trust pays no tax. Any of you who sell your building but still wish to have real estate exposure in your portfolio for the long-term benefits that it produces, such as hedge against inflation, supply and demand issues and good leverage, could look at some very well positioned REITs. RioCan, CREIT & Summit Reit, just to name a few, are well run real estate investment trusts that offer a good cashflow yield of 6% - 7% as well as instant liquidity - no listing with the Goodman Team, no contracts to worry about, no conditions precedent to be satisfied – just one simple call to your

2006 FORECAST

Investment in multifamily apartment buildings continues to reward owners with assets in Vancouver's Lower Mainland. Notably the return of offshore investors and institutional buying continues to fuel local demand. Our forecast for 2006 is that vacancies will remain at or near current levels with rent increases on turnovers easily surpassing inflation. Owners will recognize the need to upgrade aging rental stock in order to attract and retain tenants.

As shortages of land in urban areas become more pronounced, expect to see the less efficient 40 to 65 year-old frame rental buildings acquired by developers

stockbroker and you can sell or buy and still be involved in either commercial or residential real estate. Are we telling you to go out and buy real estate investment trusts? Of course not. We are not licensed, nor do we have enough expertise to make this recommendation. However, for those of you who ask us what to do with your money if you sell because you're tired of managing your building, these are viable options that you should discuss with your financial advisor. Your cheques arrive monthly like clockwork and are tax efficient. Your cashflow yield is comprised of income as well as return of capital, which is a non-taxable event. Furthermore, you may dispense with the day to day hassle that accompanies building ownership. That being said, perhaps it's not as much fun as visiting your building and cleaning out the coins from the laundry machines every week or so.

My sincere thanks for help on this article to Larry Jacobson, Fee-Only Financial Advisor, Investment Counsel, of the venerable Macdonald Shymko & Company Ltd. 🏠

to make way for higher density condo projects (both frame and high-rise). It's expected that approximately 30% of new condos sales will become rental stock and help offset the loss of rentals normally attributed to new condo developments.

With respect to apartment values, we expect a consolidation of the gains realized over the past 4 years where prices have increased 27% to 65%. As evidenced by the sales this past year, the trend toward the low cap rates of 3.75 – 6.75 in Vancouver's Lower Mainland will continue unless there is strong upward pressure on interest rates. 🏠

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