The Goodman Report
FOR APARTMENT OWNERS

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2009 – THE YEAR IN REVIEW NEVER A DULL MOMENT

Whiplash, according to *Wikipedia*, "is commonly associated with motor vehicle accidents usually when the vehicle has been hit in the rear. The injury can also be sustained in many other ways, including falls from bicycles or even horses." But since when is the danger of receiving whiplash attributed to volatility in equity or real estate markets? Since now!

A year ago, in *The Goodman Report*, we stated that "the global economical order as we know it underwent a seismic shift and was abruptly shaken to its very core." Money markets were in disarray and unemployment soared, resulting in a wide-spread collapse in consumer confidence. A dark shadow appeared over all North American real estate markets, as sales declined dramatically with alarming price erosion in many asset classes.

Similarly, North American stock market investors had to endure a very trying period, helplessly watching their portfolios decline in value as the TSE alone dropped 55% from their earlier 2007/8 highs. Since March 2009 however, the equity and real estate markets have not only stabilized but have experienced a welcome bounce. In fact, BC's housing market led by Greater Vancouver has now fully recovered and is back to setting both price and sales volume records.

Avery Shenfeld, Chief Economist for CIBC World Markets, says "it's hard to believe it all happened in the same year. This was almost two years economically. We were falling into an abyss in the first part of the year and then staging a fairly nice recovery in the second half."

IN THIS ISSUE

News and views from David and Mark Goodman

A YEAR TO YEAR COMPARISON

Resiliency in the apartment market is seen in 2009's final figures. For Greater Vancouver, a total of 74 buildings sold, up 9% from the 68 transactions in 2008. Vancouver saw 38 buildings change hands in 2009 vs. 31 in 2008, a 23% increase, while suburban areas recorded 36 sales in 2009, 3% less than 2008.

As for overall dollar volumes in Greater Vancouver, sales increased to $626,333,653, a 164% increase over the $237,501,000 in 2008. Moreover, Vancouver volume increased to $426,700,480 in 2009, a dramatic 273% over 2008's figure of $114,422,000. These expanded numbers were aided by the Wosk portfolio sale of Beach Towers and Langara Gardens totalling $274,000,000. Suburban 2009 dollar volumes registered a 62% increase to $199,633,173 from 2008's $123,084,000, with noticeable dollar gains reported for Burnaby, North Vancouver and Coquitlam.

Average prices per suite in Vancouver increased by 8% in 2009 to $204,163 from $188,815 in 2008, while suburban prices compared to 2008 were essentially flat at $122,099. (See table on page 2 for detailed summary by area).

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ACTIVITY HIGHLIGHTS: 2009 COMPARED TO 2008

Buildings & Units Sold

Area	2009 Buildings Sold	2008 Buildings Sold	Difference	2009 Suites Sold	2008 Suites Sold	Difference
Vancouver	38	31	+ 23%	2,090	606	+ 245%
Suburban	36	37	- 3%	1,641	1,013	+ 62%
Total	**74**	**68**	**+ 9%**	**3,731**	**1,619**	**+130%**

Dollar Volumes

Area	2009	2008	Difference
Vancouver	$426,700,480	$114,422,000	+ 273%
Suburban	$199,633,173	$123,084,000	+ 62%
Total	**$626,333,653**	**$237,506,000**	**+ 164%**

Average Price Per Suite

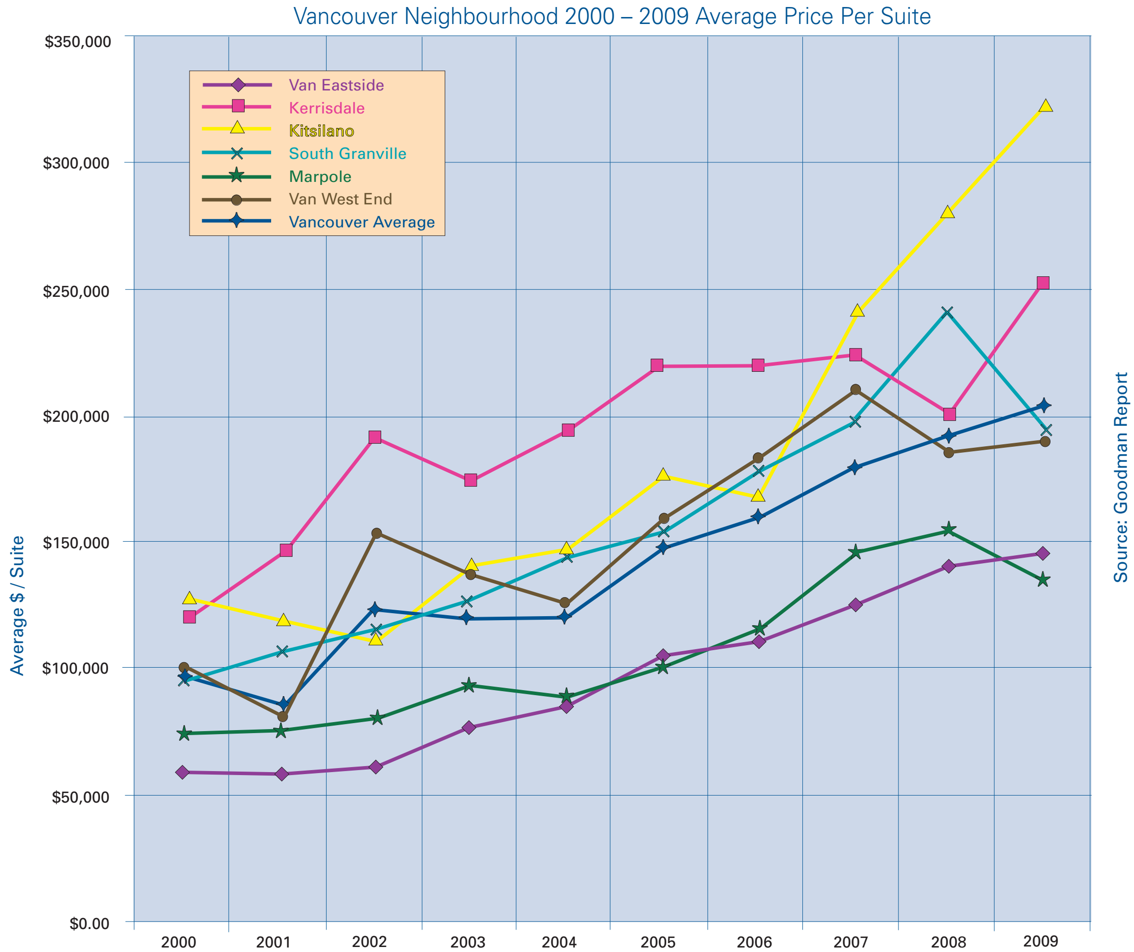
Area	2009	2008	Difference
Vancouver	$204,163	$188,815	+ 8%
Suburban	$122,099	$121,653	—

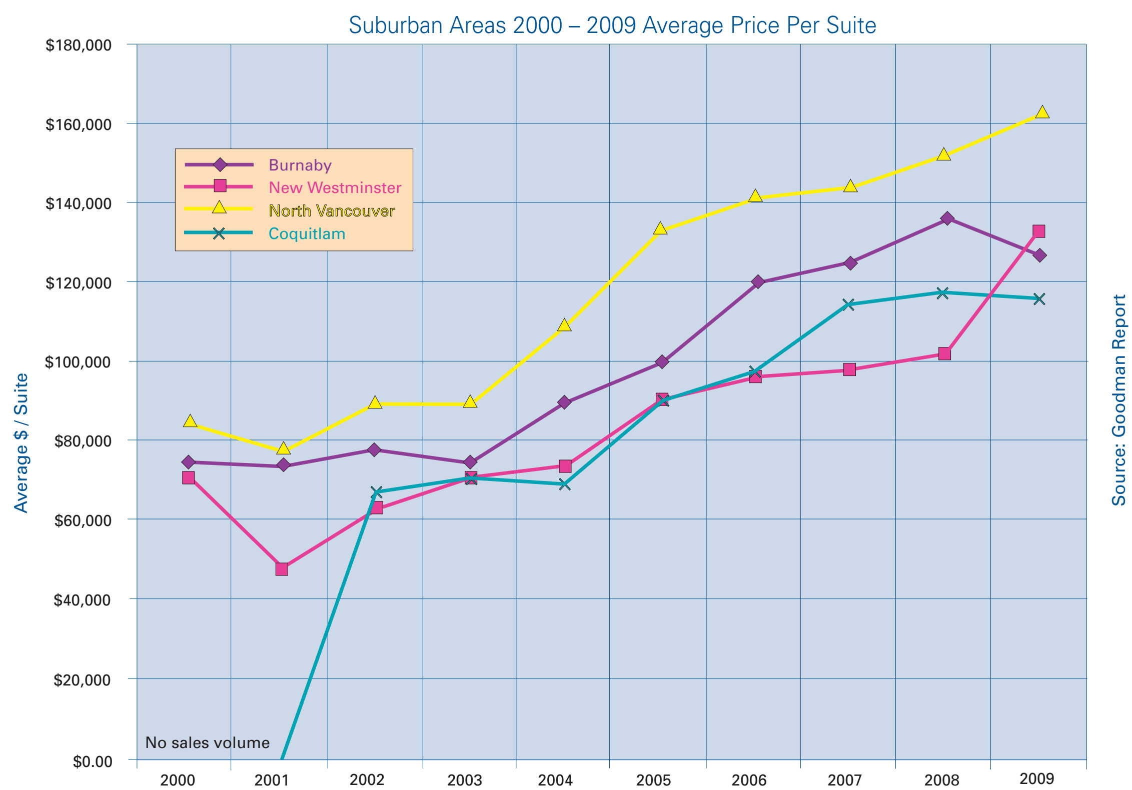
Transactions / Average $ Per Suite (Comparisons)

Vancouver Area	2009 Transactions	2008 Transactions	$ Per Suite (2009)	$ Per Suite (2008)	$ Per Suite Difference
Eastside	8	11	$140,018	$140,523	—
Kerrisdale (incl oakridge and UBC)	3	1	$253,941	$200,000	+ 27%
Kitsilano	3	5	$318,729	$274,494	+ 16%
Marpole	9	2	$129,030	$154,615	- 17%
South Granview/Fairview	7	4	$196,597	$238,493	- 18%
West End	8	8	$189,423	$185,549	+ 2%
Suburban Area	**2009 Transactions**	**2008 Transactions**	**$ Per Suite (2009)**	**$ Per Suite (2008)**	**$ Per Suite Difference**
Burnaby	11	10	$125,658	$136,145	- 8%
Coquitlam	5	2	$114,893	$116,861	- 2%
New Westminster	5	10	$129,144	$101,880	+ 27%
North Vancouver	8	8	$163,201	$152,556	- 7%

Building Size, High-Rise

Type	2009	2008
Size (over 50 units)	16 of 74 sales	3 of 68 sales
High-Rise	8 of 74 sales	1 of 68 sales


Vancouver Neighbourhood 2000 – 2009 Average Price Per Suite
Van Eastside
Kerrisdale
Kitsilano
South Granville
Marpole
Van West End
Vancouver Average
Average $ / Suite
Source: Goodman Report
$350,000
$300,000
$250,000
$200,000
$150,000
$100,000
$50,000
$0.00
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009


Suburban Areas 2000 – 2009 Average Price Per Suite
Burnaby
New Westminster
North Vancouver
Coquitlam
Average $ / Suite
Source: Goodman Report
No sales volume
$180,000
$160,000
$140,000
$120,000
$100,000
$80,000
$60,000
$40,000
$20,000
$0.00
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009

APARTMENT BUILDING SALES VANCOUVER LOWER MAINLAND JANUARY 1 TO DECEMBER 31, 2009

ADDRESS	SUITES	$ PRICE	$ PER/UNIT
Vancouver (East Side)			
★ 1510 E 4th Ave	16	2,600,000	162,500
222 E 15th Ave	12	1,550,000	129,167
2144 Oxford St	18	2,200,000	122,222
868 E 6th Ave	12	1,725,000	143,750
830 E 6th Ave	12	1,700,000	141,667
203 E 6th Ave	19	3,450,000	181,579
618 Commercial Drive	15	1,700,000	113,333
3437 Kingsway	9	1,010,000	112,222
Total	**113**	**15,935,000**	**141,018**
Vancouver (South Granville)			
1745 W 12th Ave (SP)	47	9,275,000	197,340
1578 W 11th Ave	16	2,885,000	180,313
★ 1015 W 13th Ave	11	2,860,000	260,000
1766 W 11th Ave	7	1,830,000	261,429
989 W 20th Ave	13	2,125,000	163,462
1346 W 13th Ave	14	2,618,000	187,000
4141 Oak St	12	1,995,000	166,250
Total	**120**	**23,588,000**	**196,567**
Vancouver (Marpole)			
8655 Laurel	18	2,385,000	132,500
825 SW Marine Dr	17	2,288,000	134,588
8655 Selkirk	32	3,700,000	115,625
1323 W 71st Ave (SP)	54	7,480,000	138,519
1440 W 71st Ave	10	1,400,000	140,000
★ 8666 Heather St	23	2,437,500	105,978
★ 8669 Heather St	23	2,437,500	105,978
1175 W 71st Ave	11	1,750,000	159,091
1444 W 71st Ave	10	1,670,000	167,000
Total	**198**	**25,548,000**	**129,030**
Vancouver (Kitsilano)			
2355 W 1st Ave	17	4,000,000	235,294
2460 Trafalgar (ST)	23	9,179,000	399,087
★ 1622 Vine St	8	2,120,000	265,000
Total	**48**	**15,299,000**	**318,729**
Vancouver (UBC, Kerrisdale, Oakridge)			
5516 Dalhousie	11	3,500,000	318,182
2275 W 39th Ave	10	2,530,000	253,000
501 W 57th Ave (HR) Langara Gardens	621	157,000,000	252,818
Total	**642**	**163,030,000**	**253,941**
Vancouver (West End)			
2054 Comox	23	3,700,000	160,870
1111 Barclay St (HR)	111	14,700,000	132,432
2033 Beach (HR)	36	11,368,000	315,778
★ 1075 Burnaby	20	3,325,000	166,250
1355 Pendrell (HR)	103	19,057,480	185,024
1600 Beach (HR) Beach Towers	598	117,000,000	195,652
1877 Haro	30	6,600,000	220,000
855 Jervis (HR)	48	7,550,000	157,292
Total	**969**	**183,300,480**	**189,165**
West Vancouver			
425 6th St (NC)	16	5,500,000	343,750

★ SOLD BY THE GOODMAN TEAM

ADDRESS	SUITES	$ PRICE	$ PER/UNIT
Burnaby			
★ 7426 6th St	20	2,775,000	138,750
6822 Arcola	10	1,180,000	118,000
6433 McKay	36	4,700,000	130,556
6712 McKay	28	4,275,000	152,679
★ 6550 Nelson	57	5,835,000	102,368
3846 Sunset	14	1,773,173	126,655
6570 Burlington	48	5,865,000	122,188
6580 Dunblane	10	1,420,000	142,000
5978 Wilson	38	4,600,000	121,053
5170 Hastings St	12	1,700,000	141,667
6649 Sussex	10	1,438,000	143,800
Total	**283**	**35,561,173**	**125,658**
North Vancouver			
1630 Chesterfield	11	1,925,000	175,000
★ 1169 E 27th St (NC)	32	9,000,000	281,250
★ 210 W 16th St	28	4,113,000	146,893
225 E 13th St (SP)	47	6,400,000	136,170
135 E 19th St	23	3,338,000	145,130
1621 St Georges	14	2,275,000	162,500
★ 1415 St Georges (ST HR) (incl 10 offices and 4 stores)	72	10,850,000	150,694
328 E 3rd St (SP)	42	6,000,000	142,857
Total	**269**	**43,901,000**	**163,201**
New Westminster			
436 Ash St	14	1,315,000	93,929
★ 525 11th St (HR)	73	10,950,000	150,000
★ 634 Twelfth St	14	1,740,000	124,286
217 Royal	19	2,250,000	118,421
1024-6 4th Ave	26	2,600,000	100,000
Total	**146**	**18,855,000**	**129,144**
Coquitlam			
1200 Howie	66	6,950,000	105,303
1110 Howie	36	3,351,000	93,083
535-555 Shaw Ave	111	11,970,000	107,838
★ 540-542 Rochester	132	14,500,000	109,848
3091 Lincoln Ave (NC)	66	10,450,000	158,333
Total	**411**	**47,221,000**	**114,893**
Maple Ridge			
22225 119th Ave	22	1,780,000	80,909
White Rock			
★ 1580 Everall	57	7,300,000	128,070
1250 Blackwood	26	4,325,000	166,346
Total	**83**	**11,625,000**	**140,060**
Langley			
3100 268th St (TH)	38	4,100,000	107,895
Surrey			
13619-49 Bentley			
10965-75 136 St / 11022-30 136 St	133	11,000,000	82,707
10030 137A (ST)	57	6,273,000	110,053
14840 105th / 14881 104th / 14831 104th	183	13,817,000	75,503
Total	**373**	**31,090,000**	**83,351**

(HR) highrise, (TH) townhouse, (ST) strata, (DS) development site

The sale information provided is a general guide only.
There are numerous variables to be considered such as:

1) Suite Mix; 2) Rents/ft.; 3) Net leasable feet; 4) Buildings' age and condition; 5) Location; 6) Frame or High Rise; 7) Strata vs. Non-Strata; 8) Land Value (Dev. Site); 9) Special financing; 10) Asset vs. Share Purchase (SP); 11) New Construction (NC).

The information contained herein was obtained from sources which we deem reliable, and while thought to be correct, is not guaranteed by Macdonald Commercial Real Estate Services Ltd.

This is not intended to solicit properties already listed for sale with another agent.

INTERPRETING THE NUMBERS

Our extensive use of statistics and charts in *The Goodman Report* over the years has been employed to display a general trend line. However, it comes with a caveat: low sales volumes or unusually high prices may distort the final numbers. For example, in Kitsilano, there were only 3 sales in 2009 with an average suite price of $318,729 up from $274,494 in 2008. One of the sales, a 23 suite strata complex sold for $399,087 a door, which obviously had a telling impact on the final average suite figure. Similarly, in North Vancouver, we sold a newly constructed 32 suite building for $9,000,000 at $281,250 per suite, significantly higher than the $163,201 suite average, and in New Westminster, a totally renovated high-rise we sold located at 525 11th Street sold for $150,000 per suite, well above the normal average of approximately $100,000.

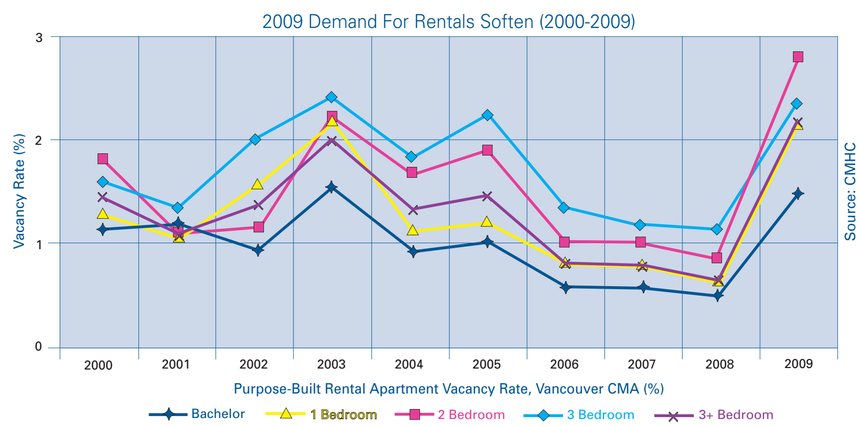
We make every effort in *The Goodman Report* to highlight unusual transactions (i.e., strata, new construction or high-rise sales). Arguably, these atypical sales may skew the averages. Should any peculiar anomaly in our statistics appear to defy logic and require some explanation, we would welcome your emails or calls.

CHMC RENTAL MARKET REPORT

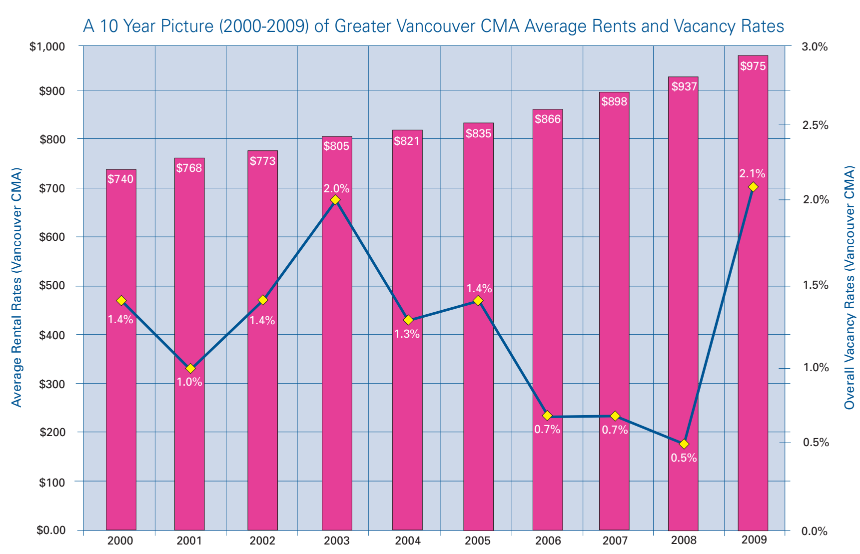
Highlights of the latest *CMHC Rental Market Report* released December 2009.

- Vancouver's rental apartment vacancy rate was significantly higher in 2009 at 2.1% after sitting below 1% for three consecutive years.
- The rental condominium vacancy rate moved up 1.7% from 0.6% last fall.
- Same sample average rents increased at a pace of 2.9% compared to last year's 4.3%.
- For 2009 condominium rents were 20 – 40% higher than regular apartment rental vs. 40 – 50% higher in 2008.
- Steady population growth in 2010 will sustain demand for rental housing. The 40,000 people predicted to move to Greater Vancouver over the next 12 months will form an estimated 16,000 households. Approximately 1/3 of these will be new rental households in need of accommodation.
- The stock of purpose-built rental apartments and townhomes in Greater Vancouver grew by more than 1,000 units to 107,500.

To the right is a ten year snapshot of vacancies of purpose-built rental buildings in Vancouver CMA. The increases in vacancies experienced in 2009 are the largest recorded in the last ten years. Put in some context, of the 104,335 suites available, only 2204 were vacant as of the 2009 survey vs. a paltry 560 vacant suites in 2008. We expect vacancy levels to drop somewhat for 2010.



As for rent levels for purpose-built apartment buildings, CMHC reports that in the Vancouver CMA, the average rent in 2008 was $937, while in 2009 it was $975, a 4% increase. In the last 10 years, average rents have increased 31.7%.



WHY THE BIG GET BIGGER

It's well known in investment circles that the REIT heavyweights in Canada are typically not enamoured with acquiring projects that are "maxed out" income-wise. Instead it's their strategy, upon bringing on new acquisitions, "to add value" for their shareholders with energy and lighting refits and upgrades for garages, balconies, lobbies, etc. Improvements including the suites themselves are typically budgeted at $25,000 – $40,000 a door. If you, as an owner, are not contemplating a sale of your apartment asset, yet are aware of the modus operandi of the "majors", what is stopping you from adding value to your own asset and reaping the upside?

Further to the above, one major REIT who controls over 30,000 suites nationwide shared one of their key strategies with the audience at the recent Canadian Apartment Investment Conference held in Toronto. After acquiring a "tired" building they instituted a rehab program called *Street to Suite* with priority given to the all important "first impressions" that a prospective tenant experiences upon visiting the building.

CMHC FINANCING – STILL THE PREFERRED CHOICE

CMHC insured mortgages remain the "go-to" source. However, as a result of universal standards imposed by the Feds, Greater Vancouver loan-to-value guidelines are much stiffer here than in the rest of Canada. CMHC has established a floor cap rate of approximately 6% on all transactions even if the subject property has been secured at a 4.5% cap rate. While this may prove to be reasonable in Winnipeg, Quebec City or Moncton where cap rates are significantly higher, our lower cap rates put Greater Vancouver buyers at a distinct disadvantage as a higher cash percentage of the purchase price is required, which in turn, hurts leverage. Also, when a buyer seeks the maximum leverage of 85%, premiums are effectively double the cost at 75% leverage. Your mortgage broker can prove very helpful in evaluating other lending options that are readily available.

RATIONALIZING NEW PURPOSE-BUILT RENTALS

Greater Vancouver developers generally appear to support the notion that if they "build rentals the tenants will come." And so they tirelessly seek the "magic bullet; that is grappling with the mystery of how to make a pro-forma work for the construction of a new purpose-built rental. It's proven to be no easy task. They must cope with innumerable challenges such as land and construction costs that are amongst the highest in the country, extreme difficulty in financing and hidden costs which render most projects as losing propositions. To name but a few of the hidden costs–especially in Vancouver: the recent introduction of CAC's, ever increasing DCC's, recently introduced Gold Leeds construction and the developers' requirement to rezone each and every application, coupled with a clear lack of density and height guidelines.

VANCOUVER'S STIR PROGRAM (SHORT TERM INCENTIVES FOR RENTAL)

This program has become a dismal and laughable failure with only two properties approved in spite of Mayor Robertson's publicity campaign extolling with great fanfare the program last spring. Politics, anyone? It's no small wonder with RM, FM and CD1 zoned areas exempt from redevelopment consideration. Essentially, this means that no new rental (STIR) construction can occur on any residential zoned land! The two projects mentioned above were on a former United Church site in the West End and a commercially zoned site on Davie Street. If Vancouver city councillors are truly interested in alleviating the chronic housing shortages, they must consider revisiting the specific sections of the program to encourage new rental development in all multi-family zoned parts of the City.

Prior to discovering the above restrictions, we had been involved with several long-term apartment owners who had indicated interest in working together with reputable developers to demolish and rebuild their out dated or obsolete rental buildings. The general idea was that the existing suites would be replaced "one for one" as per the City's intention under STIR. Additional significant extra density would be required to make the projects economic based on the several issues noted above. The extra density would be strata titled and sold at condominium prices that are much higher than rental values that are typically based on cap rates. Unfortunately income tax rules currently require the apartment owners to pay their entire capital gains tax once the strata units are sold, as their title would be fractured. This is something the federal government should consider, as it is a significant deterrent to participating in the STIR program.

Even so, some of our clients were keen to retain ownership of the new (tax paid) replacement rental units and had planned to have title held in their children's names to encourage them to stay involved in real estate for the long term. Under the STIR program, these new replacement units could also be strata titled but would have a rental restriction for an extended period. The original STIR program suggested there was an option that the units would be required to be rented for at least twenty (20) years and then could be sold as strata units. However, we have since heard that Council have apparently amended the policy and have recently required the rental units be rented for at least sixty (60) years and in some cases in perpetuity. As a long term Realtor, I am very uncomfortable suggesting to my clients that they encumber title to their properties for sixty (60) years or longer. Consider the financial implications on your property if your title had a encumbrance in favour of the City since 1950?

Unfortunately, what once seemed like an innovative idea to encourage new rentals has been stymied either by typical politics or a failure of our City Councillors and their Planning Department to appreciate the economics of our industry.

Speaking of the City of Vancouver and their policies with respect to rezoning, land use and densities, some may find it of interest that the city-owned property located at 100 Block West Georgia called Larwill Park (former Greyhound bus depot) is under consideration for a huge density and height increase to over 700ft. The City appears to be trying to reap the rewards of the potential increase in property value when they sell the site in the future. Clearly, they are smart enough to recognize the importance of increasing density and height on their own properties. I am very hopeful they are actually doing this in anticipation of offering the site for our new world class Vancouver Art Gallery! What a great location!

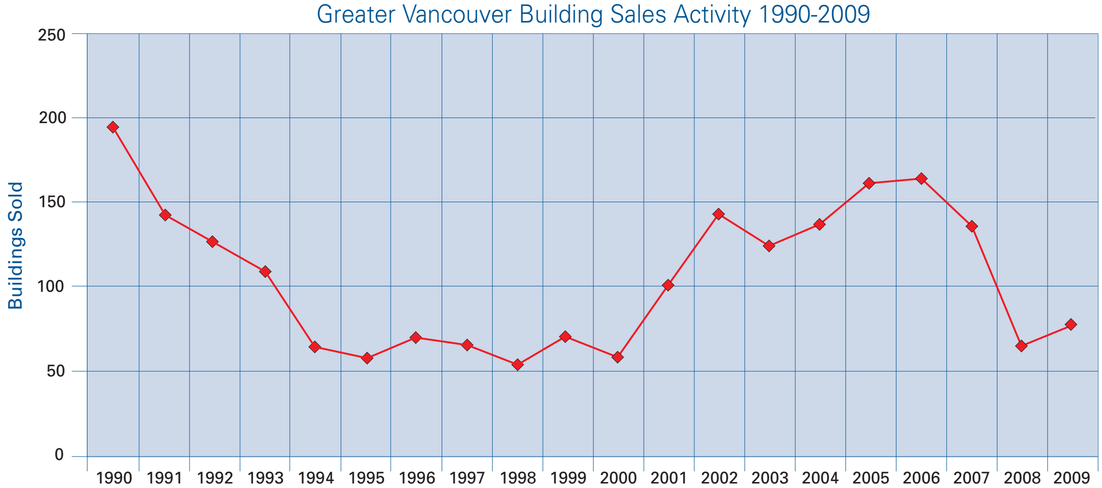
It is also interesting to note that the City recently commenced planning work along the Cambie corridor over the new Canada Line. They are proposing densities be substantially increased for those properties surrounding the new stations. Unfortunately, we understand that the City expects to "extract" from developers (property owners) any increase in property values created through any rezoning. This is called a Community Amenity Contribution ("CAC"). We ask you--why would any property owner along this strategic corridor consider selling at this time based on a visibly socialistic policy? This line of thinking is not exclusive to Vancouver as New Westminster introduced a like policy several years ago. The District of North Vancouver recently proposed a similar policy but Council quickly realized that development would simply cease and are working to come up with an alternative way to raise funds from future development. We must remind our readers (mostly apartment owners) that all extractions paid by developers to the City including DCC's, CAC's, sustainable costs (LEEDS), building fees, school & park levies, affordable housing, etc. are essentially subtracted from your property (land) value. Be advised, all these costs are absorbed by you, not the developer! The reason why all of the discussion above is important is because for many apartment owners in Greater Vancouver, the value of their underlying land is the most valuable component of their property. Have you checked your 2010 assessments? In many instances, up to 95% of the value is attributed to the land component. Please call us if you wish to discuss this further.

MARPOLE–STILL A SLEEPER

2009 saw a sharp increase in transactions in Vancouver's Marpole area with 9 sales vs. only 2 in 2008. Why so? There appears to be wide spread interest in Marpole because of its strategic proximity to YVR, The Canada Line and its relatively low asset prices and rents compared to other Westside locations. We are hoping that Vancouver council will recognize Marpole's untapped potential and encourage gentrification and densification to finally occur.

The graph to the right outlines 20 years of sales activity for Greater Vancouver apartment buildings. Unless rampant inflation returns, the Feds introduce "roll-over" legislation, a reduction in the tax on capital gains is introduced and/or there is a provision to allow rental housing to qualify for "small business" tax treatment, we do not expect the trend of 50 – 200 buildings sold yearly to be broken in the short term.

Greater Vancouver Building Sales Activity 1990-2009



Source: Goodman Report

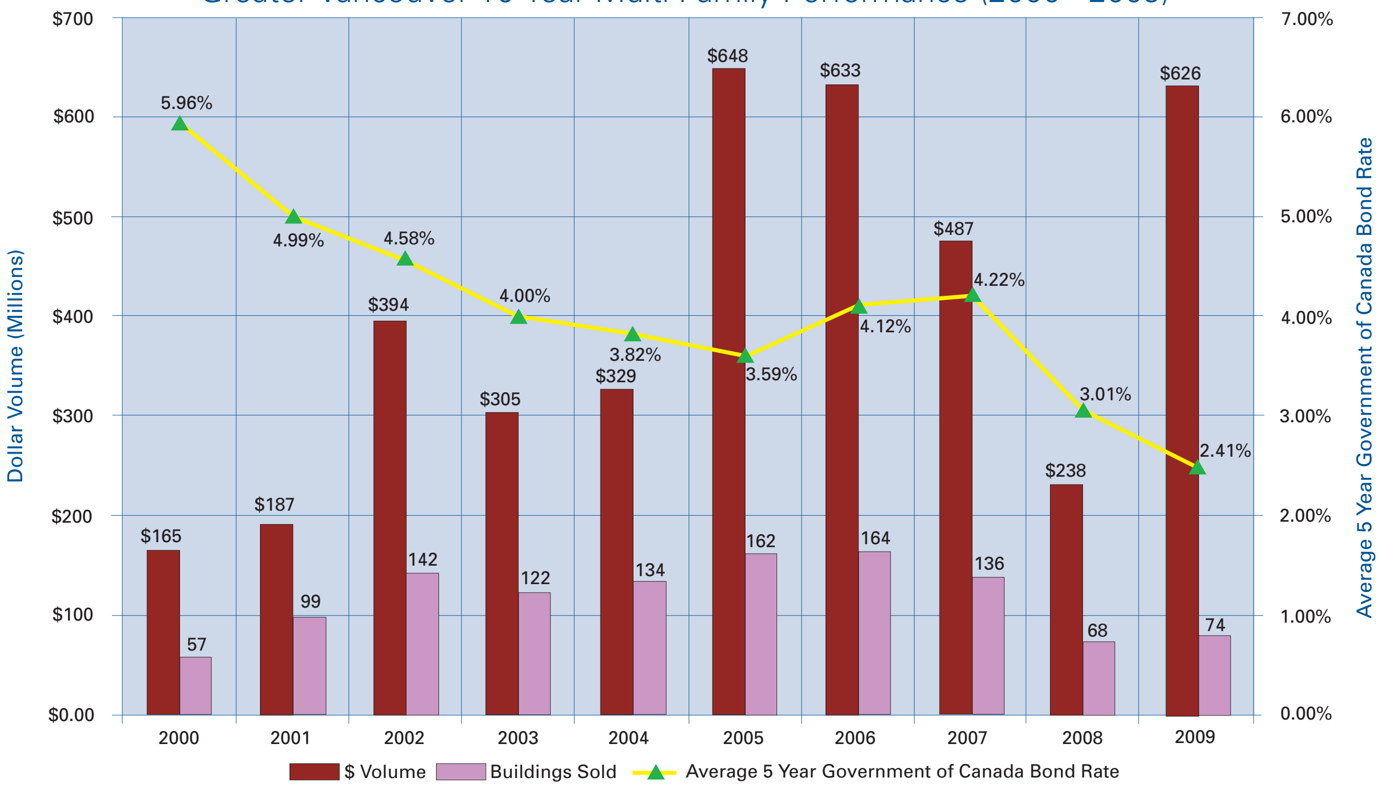
GOODMANS' 2010 FORECAST

1. Investors to bet on a strengthening market by adopting a more aggressive stance on acquisitions. "A" offerings, especially mid-size concrete in prime locations, to sell at sub 4% cap rates
2. Expect to see high level of interest from Mainland Chinese investors
3. Vacancy rates to drop in 2010 due to high levels of immigration, an improved economy and lack of new rental supply
4. Mortgage rates to remain very attractive until mid year – upward pressure on rates expected by the fall
5. Aggressive steps by BCAOMA to be taken to try and mitigate harmful effects of HST
6. With Langara Gardens at 57th and Cambie now in new hands, and in close proximity to the Canada Line, expect development pressure to grow for a major in-fill project
7. Multi-family rental assets in Greater Vancouver will continue to outperform other real estate products
8. Expect more blogging, twittering and scary talk about exploding asset bubbles
9. Increased debate over whether the economic recovery is a V,W, L, or U economic recovery
10. Body scanners at YVR—the ultimate in transparency
11. Crushing US debt levels to continue to negatively impact world economic markets
12. Public to learn the full story of Surrey's extraordinarily ambitious plans to reshape their community. We predict there will be no more "Surrey jokes"

In spite of economic turbulence in 2009, the Goodman Team was involved in 17 transactions totalling $85,000,000 (including a development site and commercial strata deal).

We served as panellists at the Canadian Apartment Investment Conference in Toronto, a symposium at Hotel Vancouver hosted by RealNet Canada Inc., a leading real estate information services company and addressed Vancouver's Urban Development Institute in a keynote speech on the subject of new rental construction. Canadian media outlets, we are proud to say, have contacted us repeatedly for our take on Greater Vancouver's multi-family rental market. We were interviewed for 13 newspaper articles including *The Vancouver Sun*, *The Globe and Mail*, *The National Post*, *Business in Vancouver*, *The Western Investor*, *The North Shore News*, *the Tyee.ca* and *The Georgia Straight*. We thank them for this honour and privilege.

Today's sophisticated sellers are demanding, and rightly so, a massive audience for their properties once their listings are offered to the public. Owners are putting an increased emphasis on their agent's ability to effectively demonstrate their proven sales experience and marketing savvy. This has always been and continues to be the Goodmans' primary mission for our clients.



Sources: Goodman Report • Bond Rate—Tony Kalla, Westbridge Capital