Goodman report:

FOR APARTMENT OWNERS

The Newsletter for Apartment Owners since 1983

2011: The Year In Review

Issue 44 | January 2012

2011 was a great year for the apartment industry. With a complete year of sales activity recorded and now part of the public record, the multi-family rental sector in Greater Vancouver has further solidified its ranking as one of the leading "go to" real estate asset classes. Vancouver has garnered a reputation throughout North America, if not the world, as a veritable oasis scarcely touched by the economic downturn and political turmoil currently experienced in the US, Britain and particularly the Mideast and the Eurozone. Canada's stable democratic government, secure banking sector, historically low mortgage rates, solid economy, along with Greater Vancouver's eternally low vacancy rates and limited supply opportunities have contributed significantly to buyer demand.

A Perfect Storm

Additional far ranging factors have played a part in the rental apartment market being viewed as a favoured investment category:

- CMHC is offering 5-year 1st mortgages at approximately 2.35% and 10-year at 3%.
- The development industry's unwillingness to construct purpose-built rentals unless government offers some meaningful and creative incentives (i.e., various forms of tax relief, density bonuses, DCC (Development Cost Charges) and CAC (Community Amenity Contributions) mitigation.
- The City of Vancouver's refusal to lift the ill-conceived moratorium on the demolition of aging inefficient low density rentals commonly found in RM-3 zoned areas which ironically suppresses new supply opportunities for long-suffering tenants.
- The high cost of new condos is drawing large numbers to opt for rental suites instead.
- Of late, offshore investors mainly from China have underpinned our local markets by acquiring numerous multi-family rental complexes in Greater Vancouver. Their objective: to preserve wealth.
- Continuing high levels of immigration and job creation.

Investors of all stripes, be they from offshore, Canadian REITS & Institutional, "added value" specialists or local well established family operations desirous of expanding their already significant portfolios, have shown a readiness to accept drastically low cap rates (previously considered unthinkable only a few years back).

Multi-family has the distinction of being the only real estate asset class that trades well below replacement cost (often at a 50% discount). Today's shrewd investors grasp this concept only too well and perceive this market anomaly as a golden opportunity to take rents to where they should be and logically have to go. Increased competition for scarce offerings has pushed the average cap rates in A locations down to 3 – 3.75% with some transactions in the sub 3% range; B locations are trading in the 3.75 – 4.5% range and C locations at 4.5 – 5.25%.

News and views from David and Mark Goodman

IN THIS ISSUE

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HQ Real Estate Services

A Year to Year Comparison—

the Story Behind the Stats

The 2011 trend line compared to last year's numbers show, with few exceptions, that the indices measuring total building transactions, dollar volumes and average prices were substantially ahead.

For Greater Vancouver in 2011, a total of 111 buildings changed hands, up 23% from the 90 buildings sold in 2010. Vancouver registered 58 sales, up 41% from the 41 sales in 2010, while suburban areas had 53 sales, up 8% over 2010's 49 sales.

As for overall dollar volumes in Greater Vancouver, sales showed a 35% increase to $583,494,543 from $431,983,900 in 2010. Moreover, Vancouver's 2011 volume increased to $260,994,200 from 2010's figure of $198,049,000, a 32% increase. Suburban 2011 dollar volumes registered a 38% increase to $322,500,343 from 2010's $233,934,900.

Finally, average prices per suite continue their relentless climb. In Vancouver, the average price increased to $228,741, a 7% increase from 2010's $214,339 figure, while suburban prices at $149,583 were up 11% compared to $135,223 in 2010. The aggregate for all buildings for 2011 was $176,977 per suite, up 9% from 2010's average $162,767.

Vancouver sales spiked sharply in 2011 compared to 2010 with the Eastside (20 sales) and Kitsilano (14 sales) leading the way, while Marpole, South Granville, and the West End were basically flat. No activity reported for Kerrisdale 2 years running (the Goodmans sold a 12 suite Kerrisdale building at a mid 2% cap rate, but it closes January 2012). The 12% decrease in 2011 recorded for the Eastside (average dollar per suite) was caused by a major sale in 2010 of a strata building—this along with only 8 transactions in 2010 artificially inflated the reported average. With South Granville and Kitsilano leading the way, average prices increased 5 – 56%. These 2 communities experienced a number of unique sale situations that served to overstate the averages (i.e., strata, land value and waterfront locations).

Suburban 2011 sales were up only modestly. Noteworthy were Burnaby's 15 sales which reflected a 27% average per suite increase to $188,257 as a result of buildings being acquired by various developers at land value along with a totally renovated high-rise sale at 6545 Bonsor for $214,453 per suite. It's also of some significance that of the 14 trades in New Westminster in 2011, 3 were high-rises. Langley's averages are similarly distorted by a massive strata rental sale at 20159 88th Avenue at $206,593 per suite acquired by Sun Life. North Vancouver performance, while essentially flat, remains the most sought after location of the suburban areas tracked.

Activity Highlights | 2011 compared to 2010

Building Transactions

Area	2011 Buildings Sold	2010 Buildings Sold	% Change	2011 Suites Sold	2010 Suites Sold	% Change
Vancouver	58	41	+ 41%	1,141	924	+ 23%
Suburban	53	49	+ 8%	2,156	1,730	+ 25%
Totals	**111**	**90**	**+ 23%**	**3,297**	**2,654**	**+ 24%**

Dollar Volumes

Area	2011	2010	% Change
Vancouver	$260,994,200	$198,049,000	+ 32%
Suburban	$322,500,343	$233,934,900	+ 38%
Totals	**$583,494,543**	**$431,983,900**	**+ 35%**

Average Price $ Suite

Area	2011	2010	% Change
Vancouver	$228,741	$214,339	+ 7%
Suburban	$149,583	$135,223	+ 11%
Totals	**$176,977**	**$162,767**	**+ 9%**

Transactions / Average $ Per Suite

Vancouver Area	2011 Transactions	2010 Transactions	$ Per Suite (2011)	$ Per Suite (2010)	% Change
East Side	20	8	$142,619	$162,923	- 12%
Kerrisdale	0	0	N/A	N/A	–
Kitsilano	14	6	$357,855	$228,889	+ 56%
Marpole	6	6	$168,732	$160,558	+ 5%
South Granville/Fairview	7	9	$318,603	$221,438	+ 44%
West End	11	12	$257,783	$238,891	+ 8%
Suburban Areas	2011 Transactions	2010 Transactions	$ Per Suite (2011)	$ Per Suite (2010)	% Change
Burnaby	15	17	$188,257	$148,137	+ 27%
Coquitlam	3	3	$127,778	$132,436	- 4%
Langley	3	4	$181,883	$126,528	+ 44%
Maple Ridge	2	4	$80,833	$90,495	- 11%
New Westminster	14	11	$120,453	$104,718	+ 15%
North Vancouver	8	6	$165,851	$162,650	+ 2%

Building Size, Mid/High-Rise

Type	2011	2010
Size (over 50 units)	17 of 111 sales (15%)	9 of 90 sales (10%)
Mid/High-Rise	8 of 111 sales (7%)	4 of 90 sales (4.4%)

CMHC RENTAL MARKET REPORT (Fall 2011)

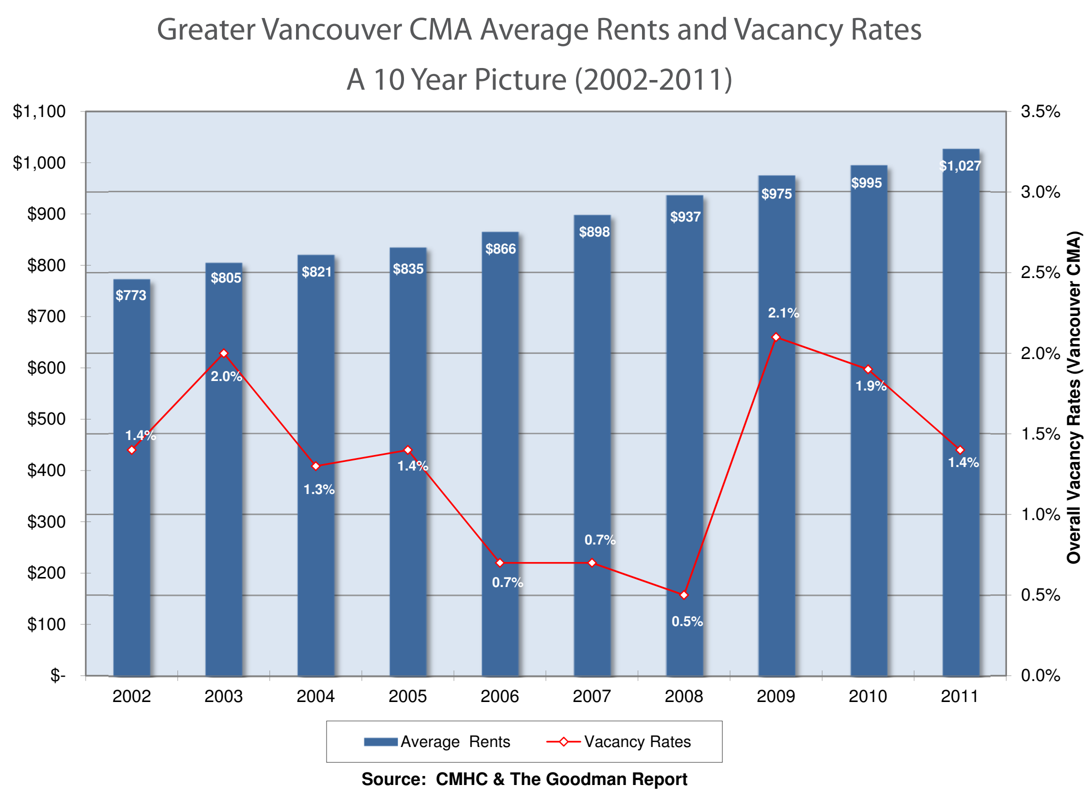
- The rental apartment vacancy rate for Vancouver CMA edged down to 1.4% in October 2011, from 1.9% a year earlier.
- While employment growth has moderated, steady migration continues to the region and purpose-built rentals remain a cost efficient housing option compared to home ownership.
- The rental condominium vacancy rate dropped sharply to 0.9% in October 2011 from 2.2% in 2010.
- Average condo rents are 20 - 30% higher than the average purpose-built apartment rent in 2011 compared to approximately 47% in 2010.
- In the downtown core, condo rents were nearly 40% higher than their purpose-built counterparts.
- The average rate of rent increase between October 2010 and October 2011 was 2.3%, similar to the rate of inflation.
- Vancouver vacancies dropped 0.7% in 2011 from 1.3% in 2010.

Below is a 10 year summary of suite vacancies in purpose-built rentals in Vancouver CMA.

After spiking sharply in 2009 to 2.1%, vacancies are once again on the decline (1.4% as of Fall 2011). Of the 107,806 suites available, only 1,509 were vacant as of the 2011 survey versus 2,021 in 2010.

For purpose-built buildings, CHMC reports that in the Vancouver CMA, the average rent in 2010 was $995, while in 2011 it was $1,027, a 3.2% increase.

In the last 10 years, average rates have increased from $773 to $1,027, a 33% increase.



GOODMAN'S 2012 FORECAST

- Interest rates likely to remain depressed for the year, however, that could change if Chinese purchases of US Treasury Securities continues to slow.
- The specter of inflation being ignited by government, especially the US, should not be discounted—low interest rates will not continue indefinitely.
- Any change in BC's ruling government may emit a business chill.
- Expect to see makeovers and retrofit programs for apartment buildings accelerate as properties change hands and "entrepreneurs" seek to generate reasonable returns.
- Last year at this time we predicted that development along Vancouver's Cambie corridor would be hindered by the planning department's impractical policies. Unfortunately that is precisely what is occurring as the "majors" are pulling out of projects or development proposals are "up in the air".

  Developers have a strong dislike for the unknown and uncertainty—their proformas can only guess at the CACs (Community Amenity Charges) which must be negotiated on a case by case application while the rezoning process is costly, cumbersome and prolonged. Not only are the developers unhappy, but equally so, the homeowners who have little idea as to their property's value. The City's intransigence on this subject seems to defy all logic.
- Expect to see a surge in apartment activity. We are forecasting a significant increase in 2012 transactions as investors recognize the benefits of rental apartment investments and gravitate in growing numbers to this asset class.

Injecting some balance into our forecast, a cautionary note from one of our subscribers, a large apartment portfolio owner, is worth reprinting as a sobering afterthought:

"I am an owner/manager of approx XXXXXXXXX multi-res units principally in XXXXXXX. My corporate name is XXXXXXXXX.

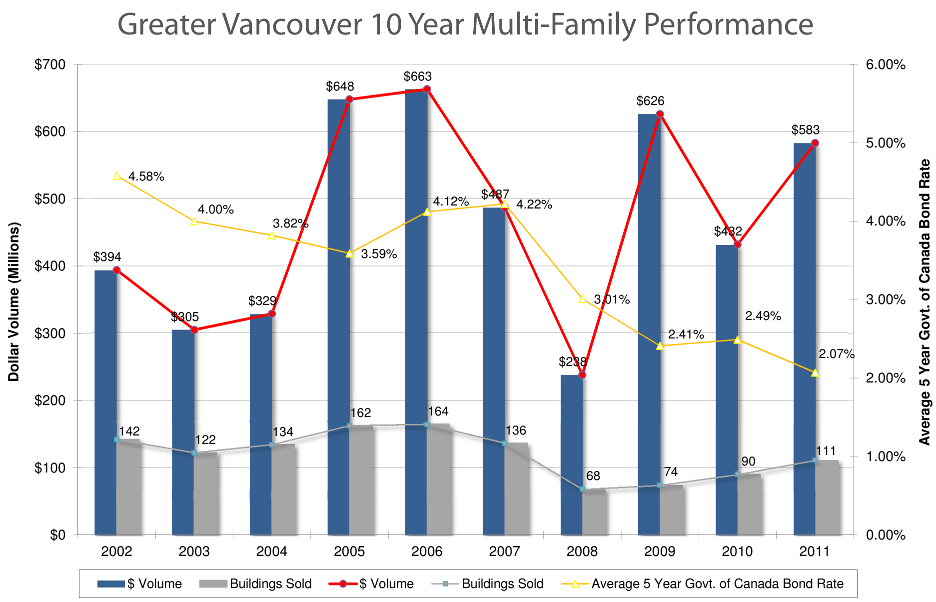
I must compliment you on an interesting article of "asset management" in the November 2011 issue. While I share many of the opinions expressed in the article, I do have some additional comments:

Large institutions (REITS, life insurance companies) have different perspectives compared to family-based real estate investment companies. Their cost of capital is less expensive and their "utility risk" is lower because multi-residential investments form a small percentage of their total assets (REITS of course go to the public market for their equity).

I certainly have been the beneficiary as owner of prime property with historically low mortgage interest rates. However, I am mindful and cautious about being aggressive on acquisition prices because higher prices are, yes, driven by demand, but primarily driven by very low interest rates.

I am cautious about being too aggressive because a return to normal interest rates (when the mortgage is up for renewal) can create negative cash flows and decidedly lower real estate values (possibly wiping out the owner's equity). Large institutions can probably absorb this negative impact—family owners/investors less so.

The challenge, from my perspective, is to continue to compete with the institutions for prime multi-residential properties, given the interest rate risks and uncertain economy."



Source: Goodman Report
Source: Bond Rate - Tony Kalla, Westbridge Capital

Apartment Building Sales | Vancouver Lower Mainland

January 1st to December 31st, 2011

ADDRESS	SUITES	PRICE ($)	UNIT ($)
Vancouver (East Side)			
2416 Fraser	11	2,025,000	184,091
* 234 E. 14th Ave	22	5,400,000	245,455
* 275 N. Garden Rd.	12	1,760,000	146,667
1383 E. Broadway	30	3,800,000	126,667
* 644 E. 8th Ave	11	1,910,000	173,636
1240 Salsbury	17	2,345,000	137,941
90 E. 11th Ave	36	6,300,000	175,000
* 2225 Triumph	42	6,200,000	147,619
1657 E. 12th Ave	12	1,418,000	118,167
520 N. Nanaimo	20	3,037,000	151,850
360 E. 13th Ave	20	3,170,000	158,500
1850 Adanac St	78	9,700,000	124,359
1572 Graveley St	8	1,200,000	150,000
2130 Cambridge (SP)	23	3,050,000	132,609
2250 Dundas St (SP)	18	2,050,000	113,889
3535 Kingsway	22	3,450,000	156,818
577 E. 8th Ave	39	4,000,000	102,564
2165 Oxford (TH)	8	2,230,000	278,750
107 East Broadway	48	4,500,000	93,750
1184 Victoria	6	1,340,000	223,333
Total	**483**	**68,885,000**	**142,619**
Vancouver (Kitsilano)			
2011 York	10	3,400,000	340,000
2425 W. Broadway	9	2,190,000	243,333
2265 W. 3rd Ave	22	5,630,000	255,909
2854-64 W. 4th Ave (DS) 2 Bldgs	14	4,976,000	355,429
2324 W. Broadway	6	1,875,000	312,500
2842 W. 4th Ave (DS)	9	3,050,000	338,889
* 1875 W. 7th Ave	39	9,300,000	238,462
1996 Trutch	11	3,450,000	313,636
2375 York	8	3,180,000	397,500
2460 Trafalgar (ST)	26	12,200,000	469,231
2230 Cornwall	6	4,500,000	750,000
2880 W 4th (ST)	13	6,450,000	496,154
1955 Trafalgar (ST)	13	6,360,000	489,231
Total	**186**	**66,561,000**	**357,855**
Vancouver (Marpole)			
8675 Fremlin	18	2,510,000	139,444
8781 Granville	8	1,375,000	171,875
8580 Oak	17	2,650,000	155,882
8676 Oak	8	1,445,000	180,625
1396 W. 71st Ave	6	1,550,200	258,367
8638 Hudson	10	1,775,000	177,500
Total	**67**	**11,305,200**	**168,734**
Vancouver (S Granville)			
4141 Oak	12	2,160,000	180,000
1255 W. 12th Ave	9	2,100,000	233,333
1175 W. 11th Ave	11	2,775,000	252,273
3075 Willow	8	3,600,000	450,000
2208 Alder (DS)	8	1,900,000	237,500
* 1995 W. 19th Ave	10	4,630,000	463,000
1255 W. 12th Ave	10	4,500,000	450,000
Total	**68**	**21,665,000**	**318,603**
Vancouver (West End)			
1310 Burnaby	28	5,150,000	183,929
935 Jervis	19	5,935,000	312,368
1169 Pacific	23	3,950,000	171,739
2035 Barclay (HR)	28	8,500,000	303,571
1436 Pendrell	13	3,688,000	283,692
* 1414 Davie (HR)	36	7,800,000	216,667
1549 Barclay St	21	3,865,000	184,048
1020 Chilco	6	2,010,000	335,000
1937 Pendrell (HR)	37	13,500,000	364,865
1873 Nelson (MR)	42	10,080,000	240,000
1436 Pendrell	14	4,350,000	310,714
Total	**267**	**68,828,000**	**257,783**
Cambie & Marine			
445 SW. Marine (DS) (TH)	70	23,750,000	339,286

ADDRESS	SUITES	PRICE ($)	UNIT ($)
Burnaby			
6545 Bonsor (HR)	114	24,500,000	214,912
6550 Nelson (DS)	57	10,200,000	178,947
4909 Imperial	8	1,230,000	153,750
6587 Burlington	31	4,540,000	146,452
6659 Dow (DS)	16	2,870,000	179,375
6634 Dow (DS)	28	8,737,288	312,046
6730 Dunblane	11	2,038,000	185,273
4379 Imperial	12	2,038,000	169,833
4330 Maywood St	27	3,740,000	138,519
6509 McKay	8	1,800,000	225,000
6880 Balmoral St	23	3,050,000	132,609
5808 Patterson (DS)	9	2,200,000	244,444
5828 Patterson (DS)	9	2,200,000	244,444
9005 Centaurus	54	7,600,000	140,741
6678 Dow	10	1,760,000	176,000
Total	**417**	**78,503,288**	**188,257**
Coquitlam			
1015 Howie	68	5,900,000	86,765
655 North Road (DS)	52 }	17,100,000	152,679
515 Foster (DS)	60		
Total	**180**	**23,000,000**	**127,778**
Langley			
20672 Eastleigh	28	2,958,000	105,643
5521 203rd St (ST)	18	3,160,000	175,556
20159 88th Ave (ST)	91	18,800,000	206,593
Total	**137**	**24,918,000**	**181,883**
Maple Ridge			
11872 Laity	12	1,237,500	103,125
11682 224th	21	1,430,000	68,095
Total	**33**	**2,667,500**	**80,833**
New Westminster			
315 Agnes	42	4,560,000	108,571
430 11th St	35	3,795,000	108,429
515 Ninth St	47	5,200,000	110,638
520 Tenth	50	5,500,000	110,000
427-429 Eighth (2 buildings)	29	3,650,000	125,862
1116 Hamilton (EST)	42	4,875,000	116,071
810 St. Andrews (HR) (EST)	117	16,500,555	141,030
333 10th Street	41	4,250,000	103,659
* 706 Queens St (HR)	112	14,975,000	133,705
321 Hospital St	37	3,250,000	87,838
414 Royal (DS) }	29	2,200,000	75,862
422 Royal (DS)	22	2,300,000	104,545
735 Carnarvon (HR)	72	10,250,000	142,361
Total	**675**	**81,305,555**	**120,453**
North Vancouver			
130 W. 5th St	48	7,575,000	157,813
* 531 Lonsdale (TH)	15	2,730,000	182,000
216 E. 12th St	13	2,598,000	199,846
260 E. 12th St	60	9,000,000	150,000
* 372 E. 3rd St	16	2,975,000	185,938
1445 Chesterfield	51	7,900,000	154,902
123 E. 3rd St	7	1,635,000	233,571
220 E. 12th St	11	2,240,000	203,636
Total	**221**	**36,653,000**	**165,851**
Port Coquitlam			
2066 Coquitlam	12	1,400,000	116,667
3035 Coast Meridian	6	793,000	132,167
2110 Rowland St (TH)	36	3,790,000	105,278
Total	**54**	**5,983,000**	**110,796**
Richmond			
11671-11675 7th Ave	258	44,000,000	170,543
Surrey			
12730 66th	53	12,200,000	230,189
10425 150th	110	10,950,000	99,545
Total	**163**	**23,150,000**	**142,025**
White Rock			
1340 Fir St	10	1,280,000	128,000
15501 Marine Drive	8	1,040,000	130,000
Total	**18**	**2,320,000**	**128,889**

* SOLD BY THE GOODMAN TEAM

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

1) Suite Mix
2) Rents/sq. ft.
3) Net Leaseable Area
4) Buildings' Age and Condition
5) Location
6) Frame or High Rise
7) Strata vs. Non-Strata
8) Land Value (Development Site)
9) Special Financing

(HR) High-rise
(MR) Mid-rise
(TH) Townhouse
(ST) Strata
(DS) Development Site
(EST) Estimated Price

THE CONTENTIOUS MATTER OF RENT CONTROL

The matter of rent review/rent control has become a personal fixture amongst BC's rental apartment industry. Imposed and modified by previous Provincial Governments, its implementation has proved anathema to landlords and has long been regarded as one of the key obstacles to the expansion of rentals by supply advocates. New purpose-built development remains uneconomic as politicians find it expedient to shift the onus and the burden onto the backs of apartment owners with arbitrarily capped rent levels.

In a recent Wall Street Journal op-ed, dated January 4th, 2012, NYU Law Professor Richard Epstein comments on a New York City landlord's challenge to the city's long-held rent control and stabilization laws. The Fifth Amendment to the U.S. Constitution provides that "No person shall be deprived of life, liberty, or property without due process of law; nor shall private property be taken for public use, without just compensation." The op-ed suggests that rent control collides with the last prohibition, the "takings clause."

While our Canadian Charter of Rights and Freedoms declines to enshrine similar rights with respect to private property, the BC Legislature has recognized and codified such rights by way of the Expropriation Act. Much like the Fifth Amendment, this Act allows the government to unilaterally claim an interest in private property provided that the owner is compensated to the extent that his property rights have been compromised. In particular, Section 31 of the Act specifically requires the compensation to be in accordance with "market value", quite akin to the Fifth Amendment's call for "just compensation".

Indeed, the BC Legislature, by virtue of the Expropriation Act, contemplated and protected a property owner's economic freedom by providing for full value benefits should that freedom be infringed. How, then, can this same government justify a forced suppression of fair market value rents? One may question whether the imposition of rent controls on a landlord is nothing less than a pseudo-expropriation, except without, as Section 31 of the Act so rightly requires, market value compensation.

A legal challenge could prove interesting…

Sales Activity

2250 Dundas Street, Vancouver

- 18-Suite Apartment Building
- Granview neighbourhood
- Asking $2,975,000

130 Stewart Avenue, Nanaimo

- 24-Suite Apartment Building
- One half block from ocean waterfront
- Asking $2,145,000

4311 Kendall Place, Port Alberni

- 16-Suite Townhouse Complex
- 4 buildings with 4 rental units in each
- Asking $1,797,000

20460 Douglas Crescent, Langley

- 57-Suite Strata-Titled Apartment Building
- Central Langley City location
- Asking $12,100,000

New Listings and Recent Sales

20011 56th Avenue, Langley

Mullhulland Place
35 Strata-Titled Units
Asking $5,850,000 (offers)

Built in 2002, Mulholland Place is a high quality 35-suite strata three-storey rental apartment building located in Langley. Exceptionally well maintained, this project incorporates efficient low-maintenance specifications to ensure an investor the highest possible return on investment.

Net Rentable Area	23,854 sq. ft.
Price/Unit	$167,143
Cap Rate	4.5%
GIM	14.4
Year Built	2002
Lot Size	26,043 sq. ft.

Suite Mix	No. Units	Avg. Sq. Ft.
1 Bedroom + Niche	12	643
1 Bedroom + Den	18	654
2 Bedrooms + Niche	5	874

2011 Income and Expenses	
Effective Gross	$398,537
Operating Expenses	(133,698)
Net Operating Income	$264,839

1030 West 14th Avenue, Vancouver

- 32-Suite Apartment Building
- Prime South Granville location
- Asking $8,450,000

6557 Burlington Street, Burnaby

- 31-Suite Apartment Building
- Convenient Metrotown neighbourhood
- Asking $5,295,000

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