The Newsletter for Apartment Owners since 1983

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Goodman report:

2015 Mid-Year Greater Vancouver Apartment Building Market Review

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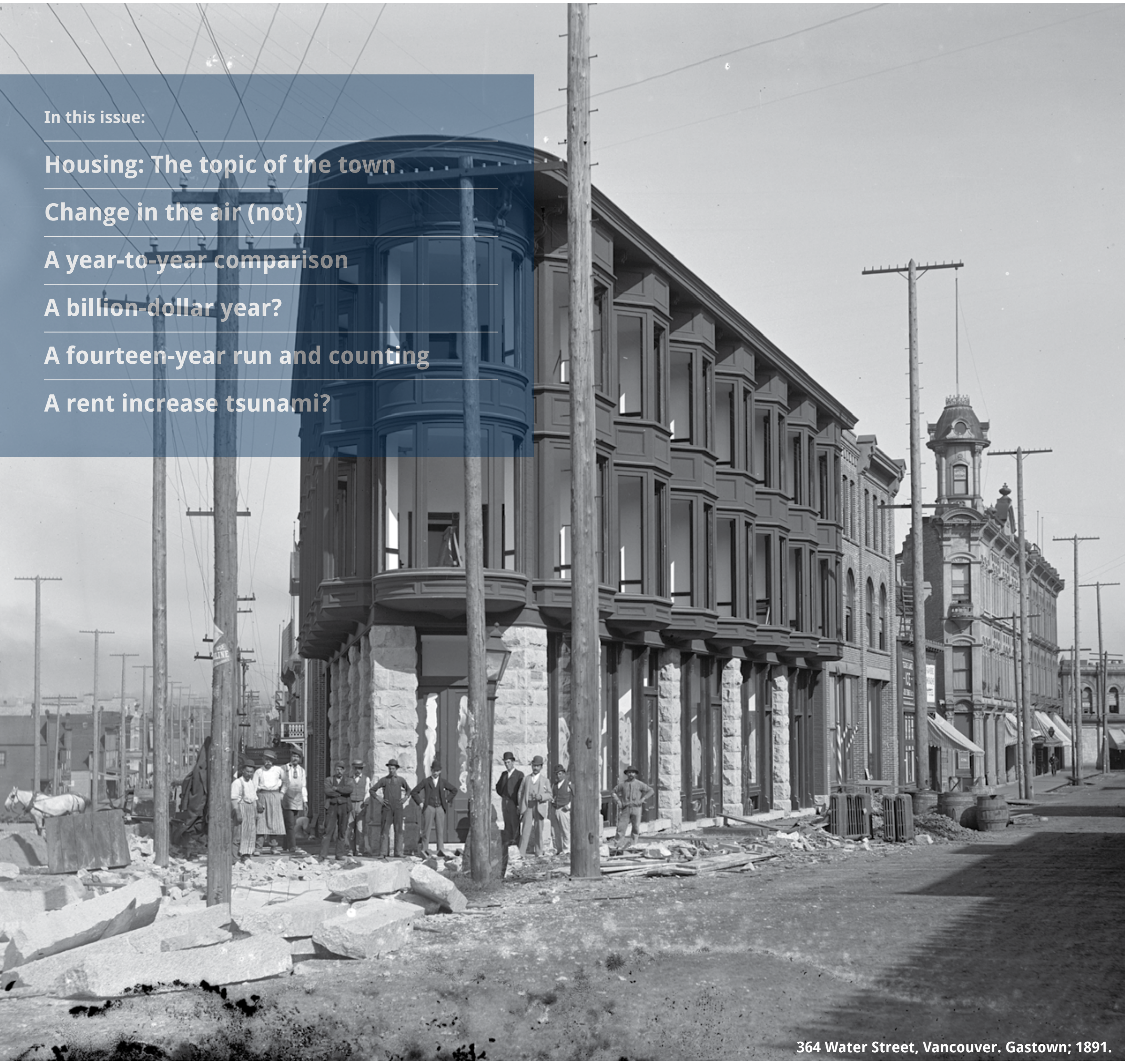

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Housing: The topic of the town

Scarcely a day passes in Greater Vancouver without debate in the media on housing. Commentary covers a myriad of controversial issues revolving around affordability and low interest rates, supply shortages and bidding wars, low vacancies, Airbnb, resentment of offshore buyers and flipping, NIMBY, height and density, micro-suites, and infill. Amid a climate of community pushback, Vancouver's mayor and B.C.'s premier have had heated exchanges on the question of a speculation tax, while municipal governments combine inaction with noise about rental replacement. Particularly troubling is the exodus of Vancouverites unable to cope with our costly real estate. Severe pricing pressure is driving numerous individuals and families to rent instead of buying. With vacancy rates hovering around 0.5%, landlords are capitalizing on chronic shortages and unrelenting demand. Within the Vancouver census metropolitan area (CMA), rent increases in the 10–20% range are becoming commonplace at suite turnover.

Change in the air (not)

The City of Vancouver remains steadfastly opposed to any innovative rental concepts in RM, FM and CD multi-family zoned areas. The Rental 100 Program, ostensibly designed to encourage new purpose-built rental projects, in fact ensures the status quo. Moreover, the word on the street is that the city may even wish to expand the restricted boundaries now off limits for demolition to also include RT-2.

Recently, we learned of an apartment owner's bizarre but unsurprising experience with City of Vancouver Planning and Development Services. Possessing a 60-year-old 16-suiter in a Westside RM zone, the owner applied for approval to replace the units with approximately 80 new suites: a five-to-one ratio (no, this is *not* a typo). Vancouver's politicians, unprepared to deviate from their tired script, rejected the request, lacking the backbone and (pun intended) "vision" to allow for a shift in policy context. Council appears terrified at the prospect of having to answer to 16 irate displaced tenant groups despite knowing full well that 80 very appreciative ones would inhabit the new building in turn. A travesty!

A year-to-year comparison

A billion-dollar year?

Investor appetite for apartment rental buildings has registered significant gains during the first six months of activity in 2015 as compared to the same period of 2014. So far in this calendar year (first half), 73 sales in total have occurred versus 61 over the equivalent period last year: a 20% increase. These sales have generally been balanced, with 36 in Vancouver and 37 in suburban areas, while 2014 recorded 30 sales in Vancouver and 31 in the suburbs.

On the basis of activity in the first six months of 2015, we forecast that approximately 155 buildings will sell this calendar year, with volume around $1 billion. These figures are as compared to 123 buildings sold and $778 million in volume in 2014.

For the first six-month period of 2015, total dollar volume for the combination of Vancouver and suburbs increased to $455 million, up 4% from 2014's $437 million. Conversely, within the period, Vancouver's 2015 dollar volume was $215 million, up from 2014's $158 million: a 36% increase. Suburban communities registered a dollar volume of $240 million: a 14% decrease over 2014's figure of $279 million.

The total number of suites in Greater Vancouver sold in the first six months of 2015 was 1,915, a 1% increase over the 1,887 sold in 2014, with the suburbs showing a 7% decrease to 1,268, down from 1,364 in 2014. Vancouver experienced a 24% increase to 647 suites from 2014's figure of 523.

For the first six months of 2015, the average overall price per suite for Greater Vancouver was $238,000, up 3% over 2014's figure of $231,000. Vancouver's average was $333,000 per suite, 10% up from the 2014 figure of $302,000. Meanwhile, suburban jurisdictions weighed in at an average of $189,000 in 2015, a decrease from 2014's $204,000, a 7% drop.

Price anomalies

As in the past, we seek to highlight pricing examples that fall well outside the norm.

In Kerrisdale, the three buildings sold by the Goodmans to Cressey were for land value (C-2 zoning) at $597,000 per suite, thus well above the normal neighbourhood average of approximately $350,000 per suite.

In South Granville, two of the five sales at $380,000 and $535,000 per suite respectively for smaller buildings skew the averages in that neighbourhood well beyond reasonable limits. The West End registered two sales on Harwood and Thurlow, a development site for $24 million or $510,000 per suite. These transactions were similarly pegged at a significant premium over the normal average of $300,000 per suite. Finally, in Burnaby, a perennial volume leader, 14 (representing 346 suites) of the 18 total sales are of buildings that will be demolished to make way for condos, all in Metrotown. With a suite average of $284,000, these 14 went for approximately 40% over values that are for typical buildings where there is no redevelopment potential.

Finally, with respect to suburban average suite prices falling to $189,000, we must point out that a major sale occurred in Surrey consisting of 331 suites at $102,000 a suite. This sizable transaction has had a major downward impact on suburban average values and not representative of overall suburban trends.

Activity highlights | 2015 compared 2014

First six months | January 1st to June 30th, 2015

Building transactions

Area	2015 buildings sold	2014 buildings sold	% change
Vancouver	36	30	+ 20%
Suburban	37	31	+ 19%
Totals	**73**	**61**	**+ 20%**

Total units sold

Area	2015 suites sold	2014 suites sold	% change
Vancouver	647	523	+ 24%
Suburban	1,268	1,364	– 7%
Totals	**1,915**	**1,887**	**+1%**

Dollar volumes

Area	2015	2014	% change
Vancouver	$215,136,001	$158,039,500	+ 36%
Suburban	$240,025,879	$278,667,465	– 14%
Totals	**$455,161,880**	**$436,706,965**	**+ 4%**

Average price per suite

Area	2015	2014	% change
Vancouver	$332,513	$302,179	+ 10%
Suburban	$189,295	$204,302	– 7%
Average totals	**$237,682**	**$231,429**	**+ 3%**

Transactions / average $ per suite (comparisons)

Vancouver areas	2015 transactions	2014 transactions	$ per suite (2015)	$ per suite (2014)	% change
Eastside	7	6	$192,724	$219,160	– 12%
Kerrisdale	3	6	$597,727	$413,901	+ 44%
Kitsilano	5	7	$339,266	$336,845	+ 1%
Marpole	6	3	$246,525	$207,920	+ 19%
South Granville/Fairview	7	4	$331,158	$263,108	+ 26%
West End	7	4	$355,126	$296,236	+ 20%
Suburban areas	**2015 transactions**	**2014 transactions**	**$ per suite (2015)**	**$ per suite (2014)**	**% change**
Burnaby	18	12	$284,183	$271,535	+ 5%
New Westminster	5	6	$140,100	$131,313	+ 7%
North Vancouver	2	6	$233,594	$233,195	no change

Apartment building sales | Greater Vancouver

January 1st to June 30th, 2015

Address	Suites	Price ($)	$/Unit
Vancouver (Eastside)			
1925 Woodland Dr	30	$5,250,000	$175,000
7884 Knight St	14	2,300,000	164,286
* 3551 Commercial St	6	1,808,000	301,333
675 Victoria Dr	10	2,150,000	215,000
2163 - 2167 Dundas St	35	4,798,000	137,086
* 1533 E. Broadway	12	3,050,000	254,167
3917 Knight St	9	3,000,000	333,333
Total	**116**	**$22,356,000**	**$192,724**
Vancouver (Kerrisdale)			
* 6347 W. Boulevard (DS)	22		
* 2109 W. 48th Ave (DS)	11	$26,300,000	$597,727
* 2108 W. 47th Ave (DS)	11		
Total	**44**	**$26,300,000**	**$597,727**
Vancouver (Kitsilano)			
* 1968 W. 2nd Ave	24	6,150,000	256,250
2154 York Ave	11	4,550,000	413,636
2121 Alma St (HR)	43	14,500,000	337,209
2235 W. 6th Ave	20	7,000,000	350,000
2325 York Ave	11	4,780,000	434,545
Total	**109**	**$36,980,000**	**$339,266**
Vancouver (Marpole)			
1377 W. 70th Ave	8	$1,730,000	$216,250
1387 - 1397 W. 71st Ave	19	4,258,000	224,105
8590 Osler St	11	2,750,000	250,000
1198 W. 70th Ave	17	3,650,000	214,706
1425 W. 70th Ave	6	2,650,000	441,667
Total	**61**	**$15,038,000**	**$246,525**
Vancouver (S Granville)			
1446 W. 13th Ave	11	$3,267,000	$297,000
1675 W. 11th Ave	10	2,300,000	230,000
1550 W. 10th Ave (HR)	33	11,500,000	348,485
1346 W. 11th Ave	10	3,600,000	360,000
1646 W. 10th Ave	8	4,280,001	535,000
1395 W. 14th Ave	23	6,200,000	269,565
2975 Laurel St	6	2,300,000	383,333
Total	**101**	**$33,447,001**	**$331,158**
Vancouver (UBC)			
2225 Acadia Rd (DS)	**18**	**$10,700,000**	**$594,444**
Vancouver (West End)			
1540 Haro St	28	$7,590,000	$271,071
* 1847 Pendrell St	23	8,225,000	357,609
** 1249 Granville St	45	15,150,000	336,667
1310 Burnaby St	27	7,300,000	270,370
* 1250 Nicola St	28	TBA	TBA
1065 Harwood St (DS)	47	24,000,000	510,638
1332 Thurlow St (DS)			
Total	**198**	**$70,315,000**	**$355,126**

* Sold by The Goodman Team

*** December 2014 sales.*

Address	Suites	Price ($)		$/Unit
Burnaby				
6380 Silver Ave (DS)	38	$38,411,579		352,400
6420 Silver Ave (DS)	71			
6280 Cassie Ave (DS)	56	18,000,000	(EST)	321,429
512 Springer Ave	16	3,100,000		193,750
* 5220 Capitol Dr	30	5,700,000		190,000
6585 McKay Ave	8	1,600,000		200,000
* 6390 Willingdon Ave	58	11,300,000		194,828
4675 Imperial St (DS)	64	16,158,000		252,469
6688 Dunblane (DS)	8	2,949,200		368,650
6730 Dunblane (DS)	11	3,298,900		299,900
6709 Marlborough Ave (DS)	9	3,250,000		361,111
6661 & 6687 Marlborough Ave (DS)	17	5,963,200		350,776
6660 Marlborough (DS)	22	4,425,000	(EST)	201,136
5025 Imperial St (DS)	23			
6750 Dunblane (DS)	11	16,000,000		320,000
6789 Marlborough Ave (DS)	8			
6729 Marlborough Ave (DS)	8			
Total	**458**	**$130,155,879**		**$284,183**
Coquitlam				
1134 - 1214 King Albert Ave	66	$9,350,000		$141,667
345 Marathon Co	22	3,100,000		140,909
Total	**88**	**$12,450,000**		**$141,477**
Ladner				
4630 Evergreen Lane	16	$2,490,000		$155,625
5262 Ladner Trunk Rd	28	4,650,000		166,071
Total	**44**	**$7,140,000**		**$162,273**
Maple Ridge				
11695 224th St	31	$2,250,000		$72,581
22501 Royal Cr	9	1,200,000		133,333
** 21387 Dewdney Trunk Rd	48	4,700,000		97,917
Total	**88**	**$8,150,000**		**$92,614**
New Westminster				
** 319 Knox St	42	$6,000,000		$142,857
210 Agnes St	17	2,350,000		138,235
727 Fourth Ave	10	1,335,000		133,500
1321 Cariboo St	8	975,000		121,875
1015 Third Ave	23	3,350,000		145,652
Total	**100**	**$14,010,000**		**$140,100**
North Vancouver				
110 E. Kings Rd	19	$3,650,000		$192,105
* 140 W. 17th Ave	45	11,300,000		251,111
Total	**64**	**$14,950,000**		**$233,594**
Port Moody				
3002 Henry St	**23**	**$3,365,000**		**$146,304**
Richmond				
8251 Cook Rd	**45**	**$11,700,000**		**$260,000**
Surrey				
10772 150th St	**331**	**$33,650,000**		**$101,662**
White Rock				
14884 North Buff Rd	**27**	**$4,455,000**		**$165,000**

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

1) Suite mix
2) Rental/sq. ft.
3) Rent leaseable area
4) Buildings' age and condition
5) Location
6) Frame or highrise
7) Strata vs. non-strata
8) Land value (development site)
9) Special financing

(HR) Highrise
(MR) Midrise
(TH) Townhouse
(ST) Strata
(DS) Development site
(EST) Estimated price
(SP) Share purchase
(NC) New construction
(MU) Mixed-use

A fourteen-year run and counting

Since 2001, interrupted only briefly by the 2008–09 recession, Greater Vancouver's rental buildings have been on a tear, with an overall increase in values averaging well over 250%. Notwithstanding the potentially destabilizing euro crisis precipitated by Greece's fiscal woes, a troubling Chinese stock market and even the weakening Canadian dollar and recession talk, the Goodman Report maintains that Canada's real estate and, more specifically, Greater Vancouver's elevated price structure are still priced for perfection. What might now be the tipping point?

Aside from high consumer confidence and increased foreign demand, a prolonged period of low rates has, by most accounts, been the primary catalyst for sharp increases in value, helping to underpin the elevated prices particularly in our area's rental market over the last four years. Five-year CMHC mortgages are generally available at 1.80% and 10-year ones at 2.7%, whereas cap rates are generally in the 2.75–4.25% range. In other words, we're still in positive cash-flow territory. Once mortgage rates start climbing – and they will – the bloom will be off the rose. We should expect cap rates to rise similarly. History tells us that prices level off or ease.

Hidden behind the financial curtain, one can only speculate on the dilemma faced by Canada's finance minister Joe Oliver. On the one hand, the Bank of Canada has announced a further 0.25% cut in its trendsetting rate to 0.50%, as our country's economic slump has proven deeper and more prolonged than expected. On the other, U.S. Federal Reserve chair Janet Yellen is indicating that the Fed will move with a rate hike this year, its first in nearly a decade. It's likely that the Canadian dollar will take a major hit.

In our opinion, even a modest interest rate bump in the U.S. will in time have an impact on the Bank of Canada, and in short order, Canadian rates could quickly reverse and move up, if not in tandem, then in sympathy. The market will reveal whether higher rates might temper investor demand. On the flip side, higher interest rates, which make monthly mortgage payments even less affordable, could further heighten already unprecedented tenant demand.

Intelligence tidbits

Once again, CMHC justifies its well-deserved reputation for excellence with its mid-year Housing Market Outlook. We include a full except of the economic outlook from its British Columbia Region Highlights:

> The British Columbia economy is forecast to expand in 2015 and 2016. Population-driven demand for goods and services will contribute to growth in consumer spending. An expected pick up in pace of US economic growth, coupled with a lower-valued Canadian dollar relative to the US dollar, will grow British Columbia exports. Low oil prices are expected to have a small net positive impact on the British Columbia economy, as consumers and businesses benefit from lower transportation costs, and interest rates remain relatively low and stable.
>
> Projected population growth of just over one per cent per year is expected to add a demand for ownership and rental housing. While people moving to BC from other countries will be the main source of population growth, people moving to BC from other provinces will add to the population as well. Net interprovincial migration turned positive in 2014 adding more than 10,000 people to the province's population, compared to net outflows in 2012 and 2013. Mortgage rates will continue to be supportive of housing demand. Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to remain at or very close to current levels over the forecast horizon (2).

To highlight further why all levels of government should do more to introduce innovative programs creating housing for renters in Greater Vancouver, we summarize a telling picture, citing CMHC's statistical reports. The tables reveal how market conditions, already tight, have been deteriorating further in 2015 as compared to the first six months of 2014.

Properties: Privately initiated rental row and apartment structures of three units or over

Vancouver CMA, April 2014 – April 2015

Vacancy rates				
	Bachelor	1 bed	2 bed	3 bed
April 2014	1.2%	1.7%	2.1%	3.0%
April 2015	0.9%	1.2%	2.0%	1.0%
Difference*	-25%	-30%	-0.05%	-66%

*Note: severe drop in vacancies of 25–66% for bachelor, one-bedroom and three–bedroom suites

Vacancy and availability rates			
	Universe	1 bed	2 bed
April 2014	109,427 suites	2.8%	1.8%
April 2015	110,061 suites	1.8%	1.3%
Difference*	+0.57%	-36%	-28%

*Note: 28% decline in overall vacancies with only 634 additional suites added to supply

A rent increase tsunami?

In the third table, below, also adapted from CMHC's mid-year Housing Market Outlook, we unearthed a significant statistical trend with respect to rent increases year to year for Vancouver CMA. Of particular significance are the two-bedroom suites, which have registered an increase of 5.6% in the first six months of 2015 as compared to 2014.

Average rents				
	Bachelor	1 bed	2 bed	3+ bed
April 2014	$903	$1,039	$1,280	$1,443
April 2015	$931	$1,062	$1,352	$1,461
Difference	+3.1%	+2.2%	+5.6%	+1.2%

Considering that only 30% of suites in rental apartment buildings change owners yearly, with the vast majority receiving only the maximum allowable 2.5% increase, a 5.6% average increase for two-bedroom suites is a remarkable telltale sign that sizable rent increases of 10–20% are regularly occurring on turnover. Is this an aberration or a harbinger of things to come? We contend the latter. Historically, in Greater Vancouver, rent levels have not kept pace with soaring real-estate prices. In fact, we'd argue that in relation to home prices, they're a bargain. The Goodman Report forecasts that over the next few years, in the face of ever-growing demand, tenants will need to brace themselves as annual rent increases will play catch-up and far surpass inflation rates.

ISSUES & IDEAS

GORDON FISHER *President* | HAROLD MUNRO *Editor* | VALERIE CASSELTON *Associate Editor* | ADRIENNE TANNER *Deputy Editor* | GILLIAN BURNETT *Deputy Editor*

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Playing politics with rental policy

Laughable plan: Roadblocks put up by Vancouver to redeveloping old buildings make problem worse

DAVID GOODMAN
SPECIAL TO THE SUN

Cultivating a market-driven philosophy and creating a separate body to fast-track approvals would enable developers to build what tenants need, including micro units, says David Goodman, a Vancouver-based real estate agent specializing in rental apartment building development.

Greater Vancouver's housing market appears to be reaching a cyclical high. Rapidly deteriorating supply and growing lack of accessibility of housing for residents are reaching untenable proportions.

The media bombards us with tales of unfettered demand and heart-stopping prices, citing the usual suspects: low interest rates, lack of development sites, immigration and offshore buyers. Reports abound of angst and fear from those seeking viable housing opportunities.

Our supply of single-family homes is essentially fixed. As pricing pressure mounts, residents are forced increasingly to consider renting. Against a backdrop of 0.5 per cent vacancies in Vancouver (CMHC rental market report in the fall of 2014), the plight of those desperately seeking rental accommodation is well documented. Less known: the Kafkaesque tactics perpetrated by Vancouver's government relating to the creation of new rental stock.

Vision councillor Geoff Meggs recently announced that "city council is considering tightening even further the protection of rental stock to close potential loopholes being exploited by the robust condo construction market." It gives the impression the city has made exemplary efforts to "encourage developers to build long-term assured rental units" (Vancouver Sun story by Jeff Lee and Bethany Lindsay: Condo conversions exacerbate scarcity of rental units, May 7).

Vancouver city council, reacting in 2007 to a group of westside tenants concerned over a proposed highrise condo project to be built in place of existing rental buildings, established a "temporary" (2.5-year) moratorium on the demolition of all rental buildings (six suites or more) in the RM (multiple dwelling district), FM (multiple dwelling district-Fairview Slopes) and CD-1 (comprehensive development district) zones. The moratorium was imposed despite the condo development falling well within the rate-of-change guidelines. The areas include the West End, Kitsilano, East Vancouver, South Granville and essentially all other apartment-zoned neighbourhoods. The idea was to develop a comprehensive plan to address the potential erosion of rental supply. Eight years later, there's no visible solution to the rental situation in these areas, and Vancouver remains among the few Canadian jurisdictions with a punitive short-sighted policy forbidding owners of rental apartment buildings from redeveloping their properties.

Three weeks ago, Meggs, perhaps tipped off to the potential redevelopment of a west-side block occupied by low-density fourplexes, recommended a further widening of the moratorium to include RT-2 (two-family dwelling district) zoned properties. Such policies render owners unable to redevelop low-density rentals averaging 60 years old, which continue to deteriorate into obsolescence. Not only do owners have little incentive to upgrade because of insufficient returns, but worse, they're required to analyze the financial benefits of improvements such as roofs, windows, piping, balconies, kitchens and bathrooms. What will happen to such buildings over the next 10 years? Will hundreds of aging properties fall down or become unsafe for tenants?

The city's claim to foster rental stock development under the original short-term incentives for rentals program and the newer Rental 100 Program is laughable if not disingenuous. Only about 1,500 rental units have been built in Vancouver over the past six years.

Vancouver developers are willing to build to satisfy tenant and investor needs. Yet they face consistent frustrations both in their attempts to locate zoned property and in dizzying levels of red tape, disincentives, financial extractions, sustainability requirements and other demands from city planners. A developer also encounters a snail's-pace vetting process of at least two to three years of difficult city negotiations before receiving a building permit.

Palmer will be back

Vaughn Palmer's column returns tomorrow.

Vancouver's resistance to supporting creative new land-use programs outside Rental 100 can best be described as blatant political expediency. Presumably, the mayor rejects innovative programs because protected tenants with modest rents in prime locations are likely to vote for the party maintaining the moratorium. Ironically, the very tenants whom politicians profess to protect are the same ones having to endure an aging, scarce, non-renewable supply.

Rental 100's stated goal is to create a total of 5,000 units of market rental housing by 2021. Even with this goal achieved, the perilously low vacancy rates will result in little improvement as our population growth will far out-strip new supply. The city of Vancouver readily concedes 1,500 rental units a year are required just to keep pace with demand. Lifting the moratorium in lower-density multi-family areas to open land for higher densities would serve our residents well. Cultivating a market-driven philosophy and creating a separate body to fast-track approvals would enable developers to build what tenants need, including micro-units. The needs and fears of low-income renters could be addressed with a relocation program. Additionally, extra compensation could be paid to tenants based on their length of residency.

All segments of society would benefit. Tenants would have more choice, the city would increase its tax base, and thousands of new construction jobs would result. We must deal with building rentals as a priority, or very serious social and economic consequences will follow.

David Goodman, publisher of The Goodman Report and principal of HQ Commercial, is a Vancouver-based real estate agent specializing in rental apartment building sales and development sites.