The Newsletter for Apartment Owners since 1983

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Goodman report:

2017 GREATER VANCOUVER RENTAL APARTMENT REVIEW

David Goodman, 1978

GREATER VANCOUVER'S AUTHORITY ON APARTMENT BUILDINGS AND DEVELOPMENT SITES

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THE GOODMAN REPORT

With this 2017 year-end issue, we proudly celebrate our 35th year of publishing the Goodman Report. Since 1983 when we pioneered the concept of a newsletter for apartment owners, little that pertains to the Metro Vancouver rental apartment scene has escaped our scrutiny.

True to our original goal, we remain committed to furthering the knowledge of rental apartment owners by transmitting timely opinions, commentary, development news, statistical data, advice and the occasional criticism of certain political policies, impending or enacted.

Alongside the 20,000 readers who eagerly comb our email and hard-copy newsletters for the latest in industry news, thousands more read our reports online. Indeed, it's flattering that our competitors strive to imitate, if not outright copy, our newsletter. The Goodman Report continues in its role as Canada's longest-standing, original, most trusted and best-researched newsletter on the rental apartment industry.

CHANGE IN THE AIR

Where it comes to rental housing, 2017 was far from business as usual. The year brought sweeping new policies designed to address the widely recognized housing inequity at municipal, provincial and federal levels. Over the last few months, we've seen a spate of highly coordinated government announcements relating to programs for solving the affordability crisis. In consequence, the rental apartment industry as we know it is about to undergo a dramatic transformation.

The programs are widespread and diverse. The federal government's $40-billion National Housing Strategy has set a goal of 100,000 new housing units, with repairs of 240,000 more. The B.C. provincial government has committed to building a mix of 114,000 housing units. Most locally, the City of Vancouver's housing plan allows for 72,000 new homes in a range of categories, with two-thirds as rentals. Coincidentally (or not?), the various government programs are all designed for delivery over 10 years.

Reviewing the policies and priorities emanating from these recent press releases, one quickly discerns a striking paradigm shift in that all levels of government are seriously back in the housing game, in some cases after almost a 30-year hiatus. Noteworthy is their unanimous support for affordability, often in the form of rentals, and in almost all cases by way of the public purse.

We applaud government for this renewed interest in housing; however, the devil is in the details. Case in point: the federal government, whose program will start in 2020 after the planning stages, deserves commendation for emphasizing assistance to the less fortunate, yet the plan completely overlooks support for the middle class. Also, it contains the condition that any participating province must match the $2-billion contribution from the feds. Only time will tell whether the provinces join the program.

Meanwhile, the B.C. government's ambitious goals are subject to approval of the highly anticipated February budget and depend on additional resources coming from Ottawa. As a sidebar, and to the relief of the local development community, the Province under the NDP has decided for now not to introduce further measures to dampen speculation and to lessen or restrict the influx of foreign buyers.

The newly announced and long-awaited Housing Vancouver strategy (2018–2027) includes the development of 24,000 purpose-built rentals, 12,000 social housing or co-op units and 36,000 owned housing units. This 10-year housing strategy includes within it the Housing Vancouver 3 Year Action Plan (2018–2020).

Vancouver's rental housing factors

Cause: Massive in-migration, lack of new housing supply
Effect: Low vacancy rates

Cause: Moratorium on demolition of rentals
Effect: Further reductions in available land for development

Cause: Government impediments (GST, rent control, CACs, low densities, long approval processes)
Effect: Limited construction of new rental projects

Cause: Low interest rates
Effect: Key incentives to investors/developers

Cause: Low vacancy rates
Effect: Soaring rents increasing inaffordability

Cause: NIMBYism and timid politicians
Effect: Tired, inefficent buildings often in need of major CapEx, low vacancies and high rental rates

After years of protracted denial and accompanying subterfuge, Mayor Robertson's Vision party has suddenly found religion. In view of the housing proposal's November release and its subsequent passage by Council in less than a week, we must accept the City's keen determination to embrace a radical new housing strategy. In fact, it's inescapable that Vancouver is undergoing a severe housing crisis highlighted by drastic rental shortages and in many cases unaffordable housing: an issue that residents ranked the #1 housing priority in the city. The Housing Vancouver strategy document acknowledges that the problem has "escalated to the point of jeopardizing our city's diversity and long-term economic resiliency": something that the Goodman Report has voiced repeatedly over the past 10 years.

NOVARE

527 Carnarvon Street, New Westminster

New purpose-built rental tower

282 residential & 5 CRUs

Brand new purpose-built rental apartment tower in historic Downtown New Westminster, BC. Known as “Novare”, this 26-storey property features 282 rental units plus 5,035 SF of commercial space with construction having completed in 2017.

Key policy recommendations

At its core, the Vancouver Housing strategy focuses on these key objectives:

- Shifting toward the “right supply”
- Addressing speculation
- Protecting existing affordable housing for the future
- Aligning City processes with housing targets
- Renewing commitment to partnerships for affordable housing
- Focusing on housing supports and protections for renters and the homeless

Aware of the City’s stifling bureaucratic maze and Byzantine administrative procedures, we expect some confusion over the policy’s implementation to prevail initially over the real-estate community, including developers, architects, property owners and realtors, as well as the public at large. We hope, however, that specifics in the 248-page report will be fleshed out, with needed clarity emerging in the coming months.

Within the 10-year Housing Vancouver strategy, the City has mapped out its 3 Year Action Plan. One of the key objectives is to protect our existing affordable housing for the future. The City cited its broad public engagement with Vancouverites over a 14-month period, which drew over 10,000 responses from the public. As part of this engagement, the City hosted a one-day “Big Conversation” workshop where nearly 200 Vancouverites came together to discuss their respective housing challenges.

One of the priorities in the 10-year plan is the expansion of market rental housing by 24,000 units. While there is unquestionable merit to this proposal, it will do little, in our opinion, to alleviate rental stress in our city. This figure represents an increase averaging only 2,400 units per year for 10 years, whereas Vancouver’s population is currently growing by some 30,000–35,000 a year.

The program also stipulates that key steps include “immediate action to address the rampant commodification and speculative demand, shift our housing toward the ‘Right Supply’ and ensure affordability, protection, and support for our most vulnerable residents.”

Compared to market housing demand – made up of owned condos, townhouses and single-family homes, which some want to discourage and even tax aggressively – rental demand is real and not going away. As a region, we’re unable to stem the flow of people moving here. In fact, we were vying for the likes of Amazon’s headquarters, which would have meant up to 50,000 new employees to the area, in addition to the 150,000 people already forecast to move here in the next five years. They would somehow have to cope with Canada’s highest rents and lowest vacancies. While Amazon has since decided that Metro Vancouver is no longer in the running, the very prospect had little feasibility from the start.

CITY SEEKS LAND TO BUILD RENTALS

As we've said, the Housing Vancouver strategy emphasizes achieving the "right supply." The strategy document explains that "Vancouver residents want to see greater diversity in the type of housing choices available to them in appropriate locations and [make it] affordable to people who live and work in the City – like rental, co-op and social housing linked to local incomes." To meet its housing objectives, the City will have to revamp if not redefine how it conducts itself. The land is there, albeit already improved with various forms of housing and commercial buildings. Its future use, to be decided by politicians, is the key to the success or failure of Vancouver's housing goals.

Low-density neighbourhoods

When the conversation turns to expanding housing supply, it's in vogue amongst Vancouver's politicians to cast hungry eyes toward the low-density single-family neighborhoods in the city's western and southern areas. At a high level, the housing policy document underscores this growing trend in referencing the following goal: "To advance the transformation of low density neighbourhoods to increasing housing variety."

A specific example of this new direction was a motion in early December proposed by an NPA councillor to rezone 150 acres of very low-density single family luxury housing in Northwest Point Grey (NWPG) north of West 4th Ave and West of Blanca and locate up to 10,000 people in the area.

Here is a snapshot of uses proposed:

- Continuing to allow single-family homes outright
- Allowing 6-storey multifamily buildings up to 3 FSR, provided that they be any of the following:
  - Secured market rental housing
  - Social housing
  - Supportive or assisted housing for seniors

Clearly aware of having been upstaged by the NPA, Vision as the ruling party quickly slapped the idea down. Yet its very mention nevertheless represents a game-changing concept and perhaps a precursor of things to come. Obviously, any single-family neighbourhood, be it Fraserview, Kerrisdale or Point Grey, cannot alone absorb this kind of profound change, nor would most owners readily accept seeing their communities gutted in such a manner. We'll have to wait and see what happens, especially in an election year.

Vancouver's rental-only zones

As part of the Housing Vancouver strategy, the City has requested the authority from the provincial government to create what it calls "rental-only zones" in which it would "prioritize the delivery and retention of rental housing" and "immediately implement zoning in RM Rate of Change Protected Areas." As journalist Kerry Gold has explained in a recent article in *The Globe and Mail,* the purpose of such zones is "to incentivize rental development and gain greater authority over zoning ("The push for rental-only zoning in Vancouver," November 30, 2017). Gold cites Gil Kelly, the City's general manager of planning, urban design, and sustainability, as arguing that this approach "could be a powerful tool [in dealing with] land price escalation" that would take away a lot of the hassle for developers interested in purpose-built rentals.

A powerful counter-argument holds that this policy could lead to the isolation of neighbourhoods. In the *Vancouver Sun*, Dan Fumaro quotes architect and planner Michael Geller as stating that "rental-only zones could lead to unintended effects," namely a kind of ghettoization ("Renters get their due in new city housing strategy," December 1, 2017). Geller astutely suggests that it is better to have a mix of ownership, rental, co-op, market and income-tied housing rather than strictly rentals.

From a social perspective, we concur with Geller's position. In the same article by Fumaro, Dan Garrison, assistant director, housing policy, cites the successful and widely regarded model of the West End, where over 80% of households are renters. This example is misleading, however, because many of the West End's rental buildings are over 75 years old, amongst Vancouver's earliest, constructed well before there was even strata legislation. Moreover, a moratorium on demolition has existed in that neighbourhood for some 20 years, effectively restricting most new condo development. In addition, since early historic times, the area's appeal to inhabitants has always been its close proximity to downtown, Stanley Park and English Bay.

Moderate Income Rental Housing Pilot Program

Innovative new housing programs in already densified, multifamily areas must necessarily be part of the solution. One of the policy recommendations in the Housing Vancouver strategy is to implement a Moderate Income Rental Housing Pilot Program, which takes inspiration from the Rental 100 program and is designed to test what is possible in different parts of the city. From January to July 1, 2018, staff will select up to 20 proposals to submit applications for review.

Under the guidelines below, we list the zoned areas where additional height and density, DCL waivers and reduced parking requirements may be considered for rental projects under this pilot program. Qualifying proposals must include at least 20% of residential floor area as moderate income rental housing, targeting incomes between $30,000 and $80,000 a year. Such projects would also qualify for the inclusion of smaller units and access to grants and financial programs at both the federal and the provincial levels.

In the left column below is the current Rental 100 program summary. On the right you'll find characteristics of applications that will be considered under this pilot program.

We urge city councillors to allow existing rental apartment buildings in RM zones to be part of this pilot program. Experimenting with a stepped-up four or five-for-one replacement policy with the appropriate densities rather than the oft-mentioned one-for-one policy would serve our city well. After all these years, and based on the dismal supply numbers, how can the City not see that the longstanding and ineffectual one-for-one policy has exacerbated the huge rental mess we're in? No outsiders are to blame here, as tenant demand is local and always has been. Wherever redevelopment might have an impact on existing renters, comprehensive tenant relocation guidelines are in place to protect and assist them. It's our understanding that the planners quietly support this idea but have been unable to persuade their political masters, as the Mayor personally made an "on the floor" change at the eleventh hour essentially to exclude RM zones from the program.

General Guidelines for Additional Height and Density

	100% Secured Market Rental	**Additional Height and Density for Projects that Include at Least 20% of Residential Floor Area as Moderate Income Rental Housing**
C-1	Generally consider C-2 form	Over 4 and up to 6 storeys on arterial streets.
C-2, C-2B, C-2C & C-2C1	Up to 6 storeys	Over 6 and up to 14 storeys at arterial intersections.
C-3A	Consider additional density; adhere to existing height limits and generally to guidelines	Supportable height and density will vary depending on the site.
MC-1	Consider modest increases in height and density	Over 6 and up to 14 storeys at arterial intersections.
CD-1	Consider redevelopment of sites with no existing rental housing	Consider redevelopment of a limited number of highly underutilized sites (e.g. < 0.75 FSR). Supportable height and density will vary depending on the site.
RM zones	Consider redevelopment of sites with no existing rental housing	Consider redevelopment of a limited number of highly underutilized sites with a low number of existing tenants – buildings with a maximum of 3 existing rental units. Up to 6 storeys on arterials. Consider higher forms at arterial intersections. On large sites off-arterials, consider up to 6 storeys where appropriate.
RT zones	On arterials, generally consider RM-4N form of dev.	Over 4 and up to 6 storeys on arterials. Consider higher forms at arterial intersections. On large sites off-arterials, consider up to 6 storeys where appropriate
RS zones	None	
Downtown District ODP (excluding areas A, B, C1, F, K1, K2 & K3)	Consider development sites which allow for residential density where there are no conflicts with existing policies for social housing (e.g. the density bonus for social housing for small sites in the Downtown South). Consider additional density appropriate to context; adhere to existing height policies and limits.	

Source: City of Vancouver website

3591 OAK ST, VANCOUVER

26-suite co-op apartment building.
132′ × 120′ lot. Shaughnessy area

Sold $15,950,000

6310 E BOULEVARD AVE, VANCOUVER

65′ × 122′ (7,930 SF) rare high-exposure C-2 mixed-use redevelopment site in Kerrisdale

List price $14,000,000

420 ELEVENTH ST, NEW WESTMINSTER

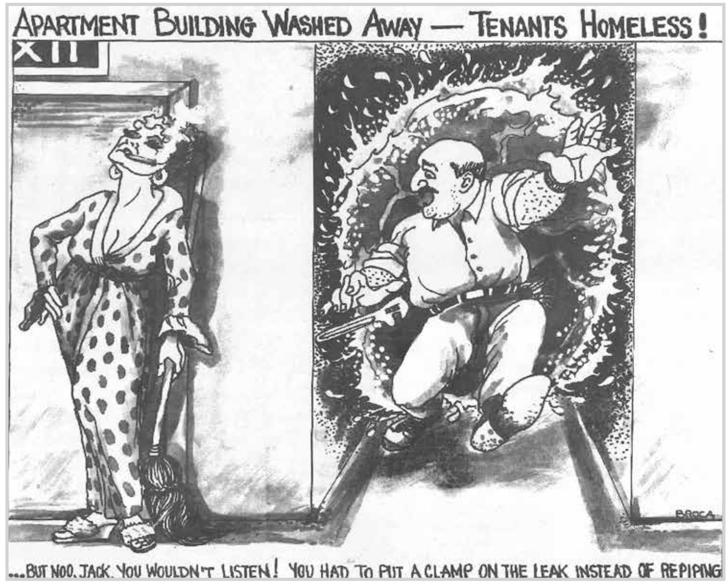
61-suite apartment on massive ~1 acre site.
Brow of the Hill neighbourhood

List price $14,500,000

Tenants treated as cattle: The City's hidden agenda

According to the guidelines on page 6, the City appears to be focusing on the C-1, C-2, C-2B, C-2C, C-2C1, C-3A, MC-1, CD-1, RS (single-family) and RT (duplex) zoned areas for additional, new rental housing opportunities. In Key Strategy 4A of the Housing Vancouver strategy, the City spells out its desire to review its plans to "ensure [that] new housing meets the needs of families" and to "review and modernize the High-Density Housing for Families and Children Guidelines, to improve the supply of family units and the living experience of families with children in higher density housing."

Yet in reviewing the general guidelines above for the RM zones, where probably 95% of existing rental stock now sits, it's abundantly clear that this administration has no appetite for allowing rental redevelopment in quieter urban multifamily RM areas. By barring higher-density renewal from such areas, almost all of which are located on unfrequented roadways, Vancouver's politicians have made a mindful decision to corral future renters, particularly families, together in buildings along key arterials. New buildings along noisy thoroughfares will invariably end up serving as protective sound and pollution buffers for the calmer low-density areas off such roadways as Broadway, 4th, 16th, 41st, 49th, Knight, Hastings, Kingsway, Main, Victoria, Fraser, Oak, Cambie and Rupert. Are these new renters not entitled to some peace and quiet? This policy suggests a crass and politically expedient disregard for the future well-being of Vancouver renters, especially considering that another viable option is available.



"Jack the Caretaker", cartoon created by Lilian Broca. Originally featured in issue #20 of The Goodman Report, 1996.

Retaining and renewing old buildings: *Really* now!

Repeatedly in the Housing Vancouver strategy document, we read about the need to "retain and extend" the "useful life of aging stock," to "retain and renew older rental and non-market housing to ensure no net loss of rental units" and specifically – as requested by the Mayor – to reduce further from six to three units the already ill-conceived threshold that triggers the one-for-one replacement requirement.

In fact, one of the key recommendations is to "explore opportunities to incentivize major structural renovations and energy conservation mechanisms in existing purpose-built rental housing including studying the impact of various measures to encourage major capital improvements in existing rental-housing."

Granted, the vast majority of owners are quite prepared to carry on with their apartment assets despite aging structures and less-than-stellar return on capital. After all, vacancies are non-existent, rents are soaring, especially upon turnover, and there is little competing supply. These factors are positioned against a backdrop of investors with access to low mortgage rates falling over themselves to buy rental assets. There are always sound reasons to retain your building as an investment unless family circumstances or other pressing matters such as the sudden unexpected need for major capital expenditures call for its disposition. We ask whether the entire financial burden would fall on apartment owners to undertake major renovations or whether government will provide any offsetting financial incentives. Is the very success of Vancouver's ambitious plan built on the backs of owners required to improve their old buildings without the ability to pass on the appropriate costs to tenants? Alternatively, will owners take a financial hit because of arbitrarily capped land values under the housing strategy? Owners deserve to realize fair market value for their properties if and when selling!

For owners of rental buildings in these RM areas, however, the bigger issue remains. Unless meaningful programs are implemented to replace aging rentals, we can foresee the same social and physical decay enveloping these areas as in the SRO neighbourhoods. We call upon Landlord BC to clarify its position vis-à-vis the goals of the Housing Vancouver strategy.

VANCOUVER'S RENTAL APARTMENT PICTURE

In Vancouver's multifamily districts zoned RM, CD and FM-1, which allow for both rentals and condos, we count approximately 1,960 purpose-built rental properties, of which 260 (13%) are classified as mid- or highrise concrete structures and were typically constructed about 50–60 years ago.

Gradual and planned densification of select single-family areas will probably occur in time. Yet at the Goodman Report, we contend that an alternate and more immediate solution is available. Not coincidently, it lies in the hands of the numerous apartment owners of Vancouver's approximately 1,700 frame rental buildings, housing nearly 45,000 tenants and situated on an estimated 537 acres of some of the city's sorely underutilized real estate.

In our view, the misuse of this potentially valuable resource is a major contributor to our Vancouver's rental housing mess. These buildings are mostly untouchable and appear destined to remain so, thanks to the moratorium on demolitions now entering its eleventh year. This has resulted in an almost complete curtailment of any higher-density housing renewal in RM-zoned areas and, in turn, costly maintenance for many owners of aging buildings. The few exemptions are those buildings in the revised official community plans (OCPs) for Marpole, the West End, Grandview-Woodland and Joyce-Collingwood.

The Mayor and Council remain fearful of potential tenant backlash and, we assume, lost votes, particularly from residents whose buildings may be subject to demolition. Yet the City readily concedes in the Housing Vancouver strategy that "the existing supply of rental homes is aging and most buildings are in need of major repairs to keep them safe, secure, and energy efficient." Commenting further that it is "positive for the long-term health of Vancouver's rental supply" when owners "redevelop their aging buildings into new rental housing," the strategy document also admits that it has "short term implications for their existing tenants."

The overwhelming majority of the 1,700 rental buildings are three to four-storey wood-frame structures in the West End, South Granville, East Hastings, Mount Pleasant, Fraserview, Kitsilano, Kerrisdale and Marpole. Averaging 60 years in age like others of their type, they're typically built out at a 1.45 FSR and provide rents generally in line with CHMC's posted yearly averages. Let's keep in mind that Vancouver's RM-zoning designation hasn't been modified in over 50 years, a telling statement indeed. The City's height and density guidelines are designed for a far different era, well before Vancouver started experiencing population pressures and scarcity of development sites. Most of these buildings are in core urban areas centrally located near transportation, shopping and various amenities, logically calling for much higher density than the now prevalent 1.45 FSR.

Allowing for certain assumptions, outlined below is a current snapshot of what the Goodman Report perceives to be the salient statistics representing RM-zoned properties in Vancouver:

Vancouver's wood-frame rental stock (assumptions)

# of wood-frame buildings	1,700	
Average lot size	110' × 125'	= 13,750 SF
Total existing land base	1,700 buildings × 13,750 SF	= 23,375,000 SF (537 acres)
Total gross building area	23,375,000 SF × 1.45 FSR	= 33,893,750 gross SF
Total liveable area, assuming 85% efficiency	33,893,750 gross SF × 85%	= 28,809,688 net leasable SF
Total wood-frame suites, assuming 650 SF suites on avg	**28,809,688 net leasable SF / 650 SF**	**= 44,323 suites**

A possible future scenario

We believe there to be a weighty argument for introducing densities averaging no less than a 3.5 FSR and 20 storeys in RM, CD and FM-zoned areas for purpose-built rentals and including social, subsidized and affordable units. Over time these suites would come to replace and supplement the now-existing approximately 44,323 rental units. In some projects located near transit hubs, the City should also consider additional mixes of condos containing still higher densities.

Note: The scenario on page 8 does not include any sites currently zoned commercial (C1, C2, C3A and MC-1), most of which are on arterial routes, nor does it include RS and RT-zoned lots in single-family and duplex-zoned areas.

The following model suggests that over an extended period of time, this more effective use of the 537 acres using a 3.5 FSR would generate at least 106,986 suites, averaging 650 SF and representing 62,663 suites more than now:

Future potential rental stock scenario (assumptions)

Total existing land base	23,375,000 SF (537 acres)	
Density revised 3.5 FSR	23,375,500 SF × 3.5 FSR	= 81,812,500 SF
Total liveable area, assuming 85% efficiency	81,812,500 SF × 85%	= 69,540,625 SF
Total future potential suites, assuming 650 SF suites on avg	**69,540,625 SF / 650 SF**	**= 106,986 suites**

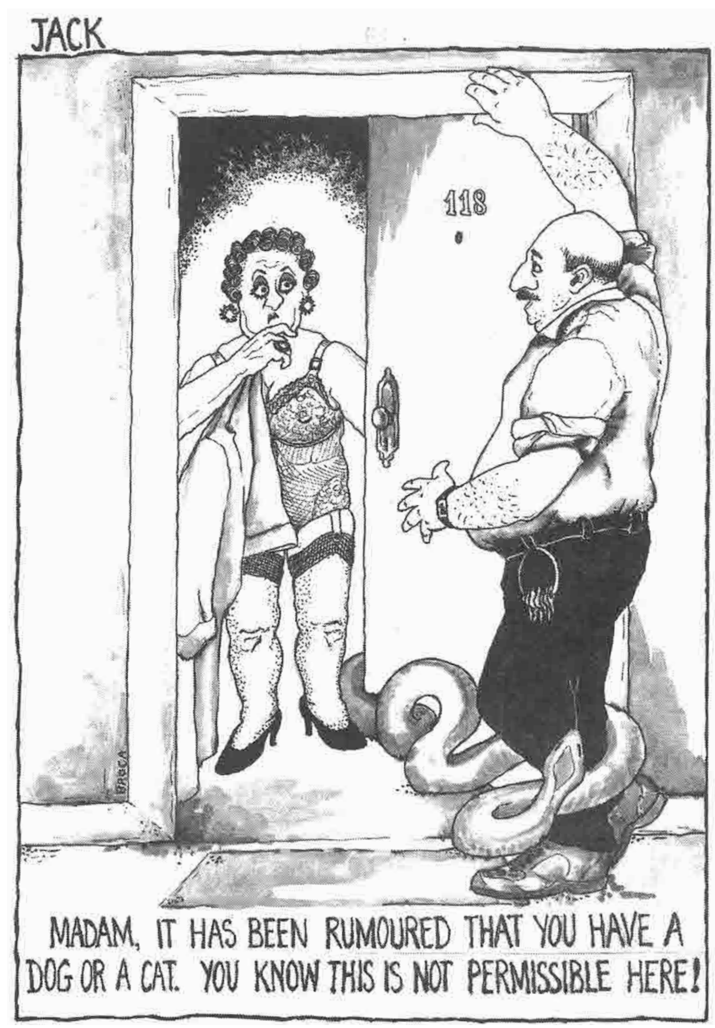
Apartment building owners will decide

It's no secret that the values of Vancouver apartment buildings have soared, especially over the last few years. Prices of $350,000–$650,000 per suite with cap rates of 1.75–3.0% are commonplace, spurred on by limited new supply, high in-migration and low interest rates, in turn driving insatiable investor and tenant demand.

How would owners of rental apartment buildings react if overnight their properties qualified for redevelopment under Vancouver's newly approved plan? Many might well consider the opportunity to liquidate their assets, if they could achieve values deemed to be the "highest and best use." Unfortunately, since the advent of the moratorium in 2007, most building values have been artificially constrained, preventing owners from realizing their often higher values associated with potential development sites.

Highest and best use defined

The reasonable, probable and legal use of vacant land or an improved property that is physically possible, appropriately supported, financially feasible and that results in the highest value (Appraisal Institute of Canada).



"Jack the Caretaker", cartoon created by Lilian Broca. Originally featured in issue #19 of The Goodman Report, 1995.

RENTAL-ONLY ZONES CAP FUTURE VALUE

We've highlighted a random sampling of recent transactions revealing that a rental-only zone, if saddled with the lesser 2.5 FSR, would prove costly for existing owners in RM-zoned areas.

Below you'll see a breakdown of four actual apartment buildings sold in 2017 as compared to what we assume the same buildings would have been worth using the 2.5-FSR density model as a development site.

Our research shows that owners of rental buildings in RM areas should be wary of seeing their properties potentially capped in value by rental-only zoning, even if qualifying for redevelopment. In each of the examples below, and given that the City only permits a 2.5 FSR, the same owners today would receive approximately 20–30% less for their properties as development sites (land value) versus sales using the Income Approach.

Recent sales versus estimated values as rental-only development sites

South Granville

As an apartment building	
Zoning	RM-3 (1.45 FSR)
Building size	27 suites (3-storey frame)
Lot size	15,625 SF (125′ × 125′)
Sale price	$12,500,000
As a development site in the "rental only" zone	
Lot size	15,625 SF
Density	2.5 FSR
Gross buildable	39,063 SF × $240/SF buildable
Potential land value	9,375,000
Difference between potential land value and building	**- $3,125,000 (-25.0%)**

Kerrisdale

As an apartment building	
Zoning	RM-3 (1.45 FSR)
Building size	33 suites (3-storey frame)
Lot size	20,625 SF (165′ × 125′)
Sale price	$15,500,000
As a development site in the "rental only" zone	
Lot size	20,625 SF (165′ × 125′)
Density	2.5 FSR
Gross buildable	51,563 SF × $240/SF buildable
Potential land value	12,375,000
Difference between potential land value and building	**- $3,125,000 (-20.2%)**

Kitsilano

As an apartment building	
Zoning	RM-4 (1.45 FSR)
Building size	10 suites (3-storey frame)
Lot size	6,000 SF (50′ × 120′)
Sale price	$5,200,000
As a development site in the "rental only" zone	
Lot size	6,000 SF
Density	2.5 FSR
Gross buildable	15,000 SF × $240/SF buildable
Potential land value	3,600,000
Difference between potential land value and building	**- $1,600,000 (-30.8%)**

Mount Pleasant

As an apartment building	
Zoning	RM-4 (1.45 FSR)
Building size	28 suites (3-storey frame)
Lot size	14,520 SF (120′ × 121′)
Sale price	$9,800,000
As a development site in the "rental only" zone	
Lot size	14,520 SF
Density	2.5 FSR
Gross buildable	36,300 SF × $200/SF buildable
Potential land value	7,260,000
Difference between potential land value and building	**- $2,540,000 (-25.9%)**

Note: Estimates of development site values are calculated using certain price per buildable square foot figures and the hypothetical assumption of 2.5 FSR.

A spectre of devaluation

Owners of the 1,700 wood-frame buildings under the new plan deserve realistic densities from the City for their lands. As fair compensation, we recommend that any apartment building owner willing to sell to a developer should receive an FSR equivalent of no less than 3.5. Only in this manner could the owner realize a value for the building as a development site that is equivalent to or higher than what he or she would receive under the Income Approach. If not, the prospect of a massive across-the-board erosion of value looms large and would effectively cost owners millions of dollars in lost property values. Under these conditions, there would be little business rationale or financial incentive to redevelop for rental.

NEW SUPPLY IN THE PIPELINE

Since the topic of new rentals is *de rigueur*, we at the Goodman Report provide an ongoing service to our readership: an updated, comprehensive survey that breaks down new purpose-built rentals in various stages of development throughout Metro Vancouver.

At present, Vancouver has 92 rental projects in the pipeline, 25 of which are situated on the Westside, 27 in Downtown and 40 on the Eastside. They comprise 7,493 rental units under construction, approved and/or proposed, all to be finished by 2022 or earlier. Beyond these 92 projects, we're aware of 837 newly built suites in 7 projects added to Vancouver's rental inventory in 2017.

In the suburbs, 74 projects are in play as summarized below, representing 9,736 suites at various stages of development, all slated to be completed by 2022 or sooner. Additionally, we counted 936 suites of newly added inventory in various communities delivered in 2017, representing 10 separate rental projects.

	Completed Units (buildings)	Under Construction Units (buildings)	Approved Units (buildings)	Proposed Units (buildings)	Total Units (buildings)	Cancelled Units (buildings)
Vancouver	837 (7)	2,722 (27)	1,998 (26)	2,773 (39)	8,330 (99)	279 (1)
Suburbs	936 (10)	2,121 (12)	1,455 (15)	6,160 (47)	10,672 (84)	166 (2)
Total	**1,773 (17)** Occupancy 2017	**4,843 (39)** Projected occupancy 2018 – 2020	**3,453 (41)** Projected occupancy 2019 – 2021	**8,933 (86)** Projected occupancy 2020 – 2022	**19,002 (183)**	**445 (3)**

Source: Goodman Report

Metro Vancouver new market rentals in development or completed

For encouraging new rental supply, kudos to Coquitlam, Langley, Maple Ridge, New Westminster, City of North Vancouver, District of North Vancouver, Port Moody and Surrey. However, Delta, Richmond, West Vancouver and White Rock deserve the penalty box for their lacklustre performance in generating new purpose-built rentals. As for Burnaby, in view of the numerous wood-frame buildings in Metrotown being removed for condos, Mayor Corrigan should be facilitating the development of far more new rental units for his community.

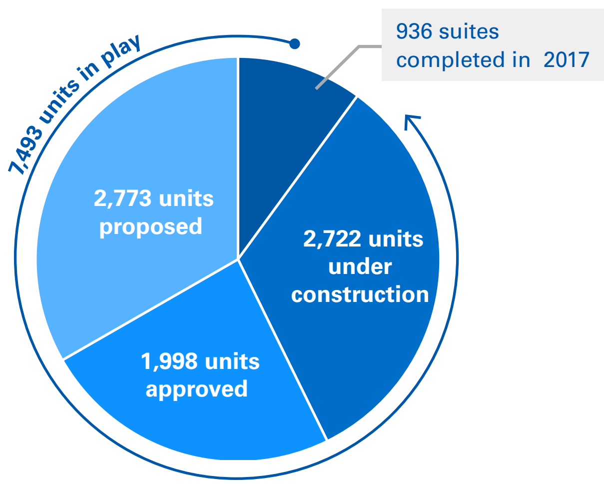
Municipality	Units (buildings) in play	Units (buildings) completed 2017
Burnaby	1,631 (8)	65 (2)
Coquitlam	1,671 (12)	0
Delta	0	0
Langley	372 (3)	90 (1)
Maple Ridge	982 (7)	0
New Westminster	1,252 (9)	459 (3)
North Vancouver, City of	1,043 (14)	99 (1)
North Vancouver, District of	446 (8)	60 (1)
Port Coquitlam	174 (1)	66 (1)
Port Moody	1,096 (5)	0
Richmond	0	0
Surrey	975 (4)	97 (1)
White Rock	29 (1)	0
West Vancouver	65 (2)	0
Suburban total	**9,736 (74)**	**936 (10)**
Vancouver (including UBC)	7,493 (92)	837 (7)
Total	**17,229 (166)**	**1,773 (17)**

Source: Goodman Report

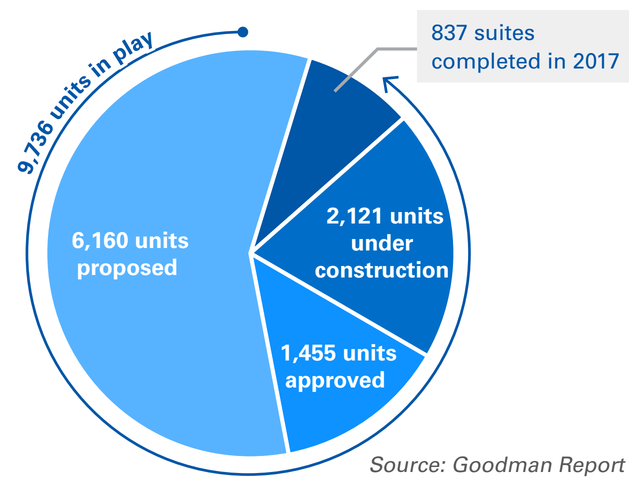
Progress on rental construction

Last year at this time, Metro Vancouver had 9,470 new rental units in the pipeline, at various stages. As of January 2018, we estimate that this number has increased to 17,229: an 82% increase. Please see the following pie charts.

New rental apartment units in the suburbs



New rental apartment units in the City of Vancouver



Source: Goodman Report

LANDLORDS, FEAR NOT

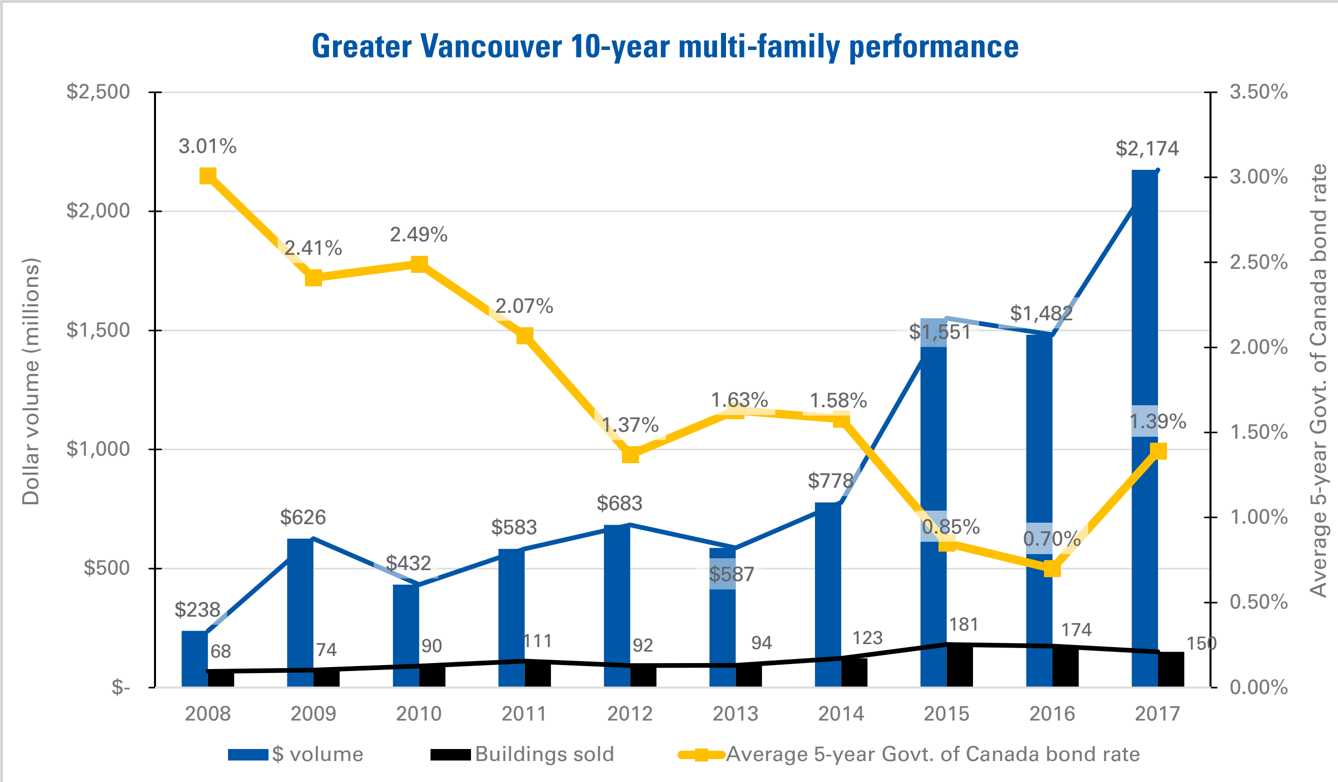
Despite the upsurge in development activity, we forecast that the 17,229 suites slated for Metro Vancouver will do little to satiate unrelenting tenant demand or reverse low vacancy levels. It's expected that at least five years will pass before all these suites come available. In the interim, conditions will remain exceedingly favourable for landlords and investors.

	2010 (total apartment units)	2017 (total apartment units)	Change (units)	Change (%)
City of Vancouver	54,791	57,243	+2,452	+4.48%
Suburban	104,457	108,496	+4,039	+3.9%

Source: CMHC

Where it comes to new purpose-built rental suites in Vancouver, there's a wide discrepancy between the City's claims and the CMHC's assertions. In the Housing Vancouver strategy document, the City states that the STIR and Rental 100 programs have resulted in 7,032 new purpose-built rental units since 2010, exceeding the target set out in the 2012–2021 Housing Strategy. CMHC statistics, however, hold that only 2,452 units were added to Vancouver's housing stock of 57,243 units over this same 7-year period, with only a paltry 225 units newly added since 2016.

In the Strategies and Actions section of the strategy, referring to plans for the Broadway Corridor expansion, the City cites "the need to maintain the important stocks of existing affordable rental housing [via] opportunities to renew and expand the rental stock while preserving affordability." Apartment building owners and Landlord BC should be asking the City for clarity to learn what this really means. Depending on how the City implements its goals, property values may be negatively impacted. Beware!



Source: Goodman Report

Year-over-year performance

2017 was a record year in two of the three categories we track, namely dollar volumes and average prices. In actual buildings sold, a decline occurred. Theories abound as to why the latest 2017 stats appear to signal that contrary market forces are at work. Our take:

Overall dollar volumes rising by 47% could be attributed to:

- Vancouver's total dollar volume increased by 16% over 2016
- Suburban performance soaring to $1.1 billion, far exceeding previous years and demonstrating increasing faith in suburban growth
- Strong performance in Burnaby, Coquitlam, New Westminster, North Vancouver, Surrey and White Rock driven in part by developer activity

Higher average prices by 15% could be attributed to:

- Developers' acquisition of co-ops, strata and other buildings with large land mass
- Newly built rental projects sold at higher prices per suite
- Fewer buildings offered for sale

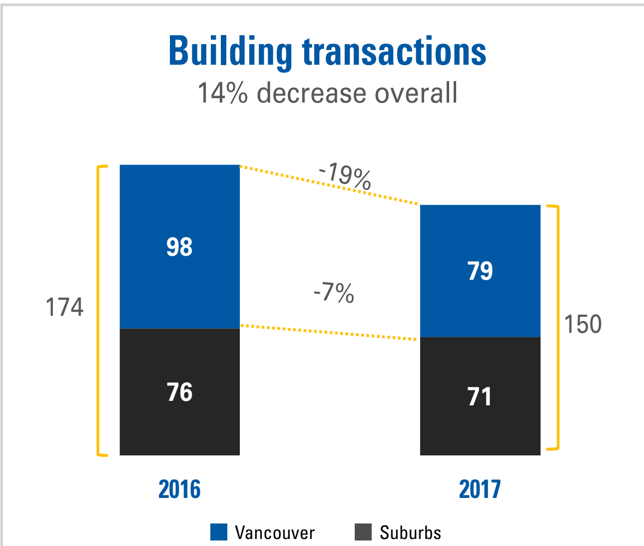
Fewer sales by 14% could be attributed to:

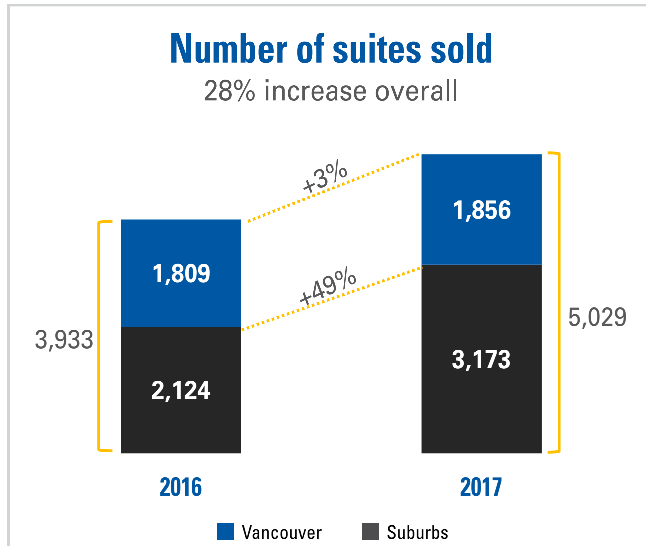
- Owner reluctance to release buildings for sale, in anticipation of still higher prices from developers
- Speculation that underlying land values could increase further with impending density increases
- Investors increasingly leery over rising interest rates, no longer prepared to chase lower cap rates
- Deeply rooted fears that the B.C. government will yet follow the path of restricting foreign buyers
- Investors acquiring assets with higher yields in Kelowna, Victoria, Calgary and Montreal
- Developer concerns that higher land prices, construction costs and rising interest rates narrowing profit margins

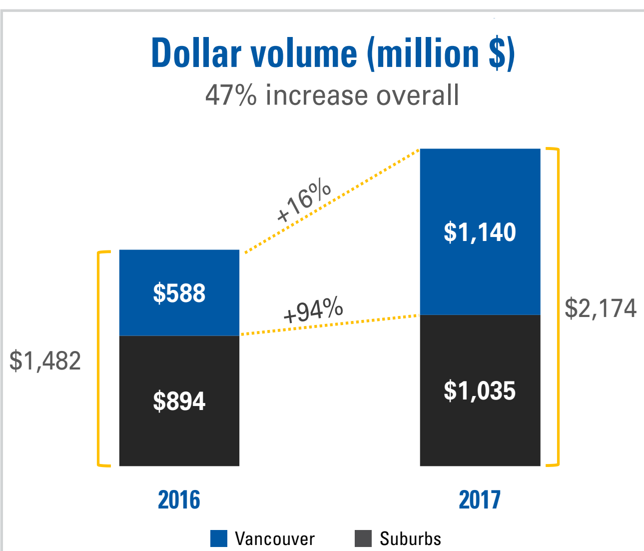
Building transactions

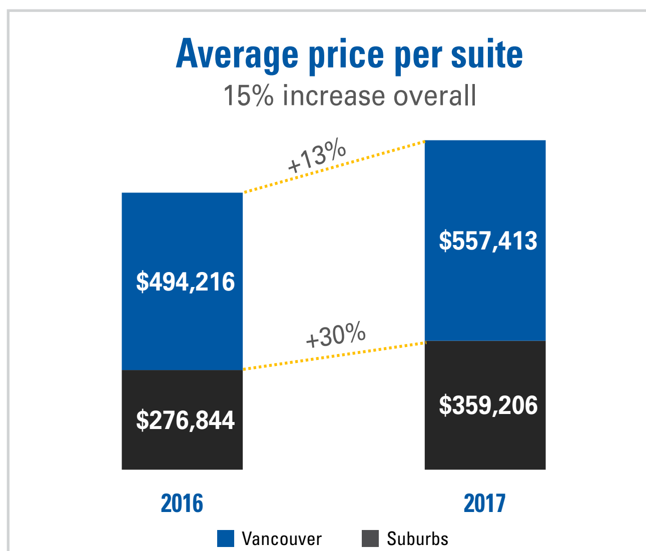
In Metro Vancouver overall, a total of 150 rental buildings changed hands in 2017, down 14% from the 174 sold in 2016.

Vancouver's volume declined to 79 sales, down 19% from the 98 in 2016, while the suburbs experienced a decline to 71 transactions from the 76 recorded in 2016, a 7% decrease. More specifically, amongst Vancouver neighbourhood transactions, Eastside sales grew to 27 versus 24 in 2016, while Kitsilano registered 13, down modestly from the 16 recorded a year earlier. South Granville eased to 11 sales versus 17 in 2016, while Kerrisdale stayed at 8. Marpole's activity at 5 sales shrank significantly from 13 in 2016. The West End declined to 13 sales, slightly under 2016's figure of 17.









Source: Goodman Report

Sales dollar volume

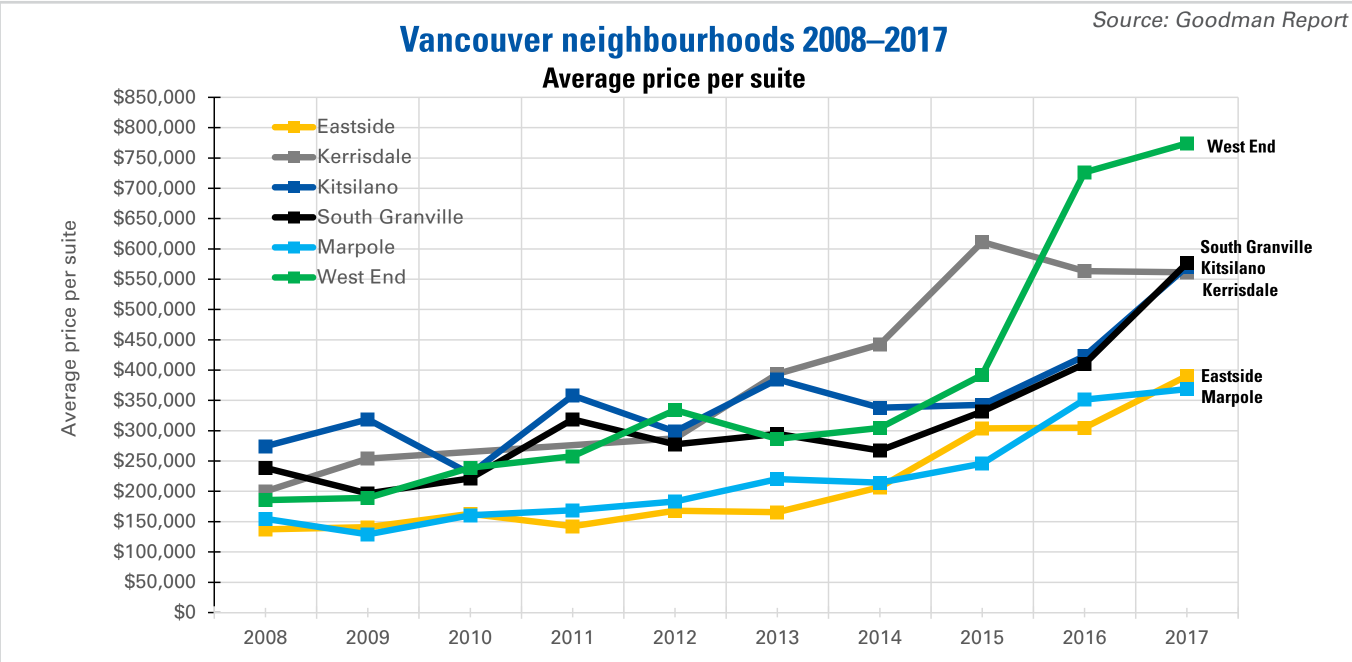
Total dollar volume for Metro Vancouver came in at an awe-inspiring historic high of $2.2 billion, ballooning by 47% from the $1.48 billion in 2016. Broken down by geographic area, Vancouver's total dollar volume rose modestly to $1 billion, a 16% increase over 2016's figure of $894 million. By contrast, suburban dollar volume experienced a stunning recovery to $1.1 billion, representing a 94% increase as compared to 2016's figure of $588.

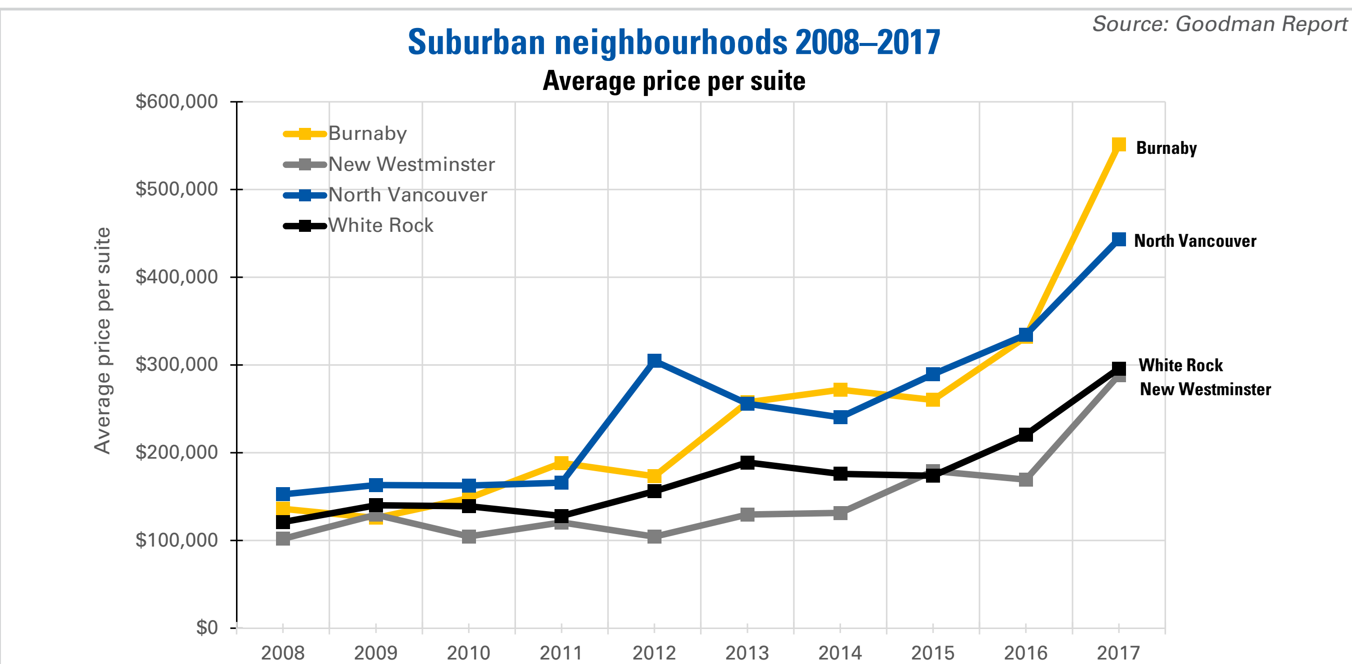
Average price per suite

2017's overall average price per suite for Metro Vancouver jumped by to $432,000 from $377,000 in 2016. Specifically, Vancouver's averages increased to $557,000 up 13% over 2016's figure of $494,000, whereas the suburban figure mushroomed to $359,000 per unit, elevated from 2016's figure of $277,000, a sizeable 30% increase.

Vancouver neighbourhood highlights

For 2017, the average price per suite in Vancouver's six distinct communities for 2017 versus 2016 demonstrated a somewhat upward bias. Kerrisdale values at $561,000 a suite, West End at $774,000 and Marpole at $369,000 were all essentially flat compared to 2016. In South Granville, however, average prices climbed to $577,000 per unit, up 41% over 2016's $410,000 thanks to a highly valued co-op sale and 2 development sites on West Broadway and Oak. The Eastside had a major escalation in pricing up 28% to $390,000 in 2017 as compared to $305,000 in 2016. This is due, in part, to Goodman's major sale of Southview Gardens, a $72-million townhouse complex consisting of 140 units at $516,000 per suite on 6.6 acres of land. Similarly, Kitsilano's values escalated a hefty 35% to $570,000 per unit from $423,000 in 2016, assisted by a pricey co-op sale and 2 development sites on West Broadway. Generally, the stepped-up sales of buildings as development sites help explain the major increases in average suite value, where land value far exceeds the strata breakup or inherent value using the Income Approach.





Suburban highlights

With respect to 2017's suburban activity, Burnaby continues to lead the pack with $397 million from 18 sales, of which an astonishing 16 went to developers of condo highrises, the focus continuing to be in Metrotown. Average prices escalated sharply in 2017 to $551,000 per unit, a sizeable 66% increase compared to $332,000 in 2016 as corresponding land prices, driven by record interest from developers. New Westminster moved up aggressively in price per suite to $288,000 compared with 2016's figure of $169,000, whereas in the category of sales there were fewer at 12 in 2017 ($192 million total) versus 19 in 2016. The Goodmans' sale of a major newly constructed 282-unit highrise rental tower in New Westminster was also a big factor. Surrey witnessed 7 sales ($82 million total) with prices averaging $180,000 per suite compared to 2 sales in 2016 at $155,000 per suite. North Vancouver saw a slight uptick in activity to 13 sales ($183 million total) as compared to 11 a year earlier, with the average price per suite climbing to $443,000 versus $335,000 in 2016, a 33% increase. White Rock recorded 3 sales in 2017 ($26 million total), a similar number to 2016, with the average price per unit up sharply to $296,000 as compared to $221,000 the previous year, a 34% lift. Coquitlam, the new developer's darling, displayed robust activity in 2017 with 10 sales ($164 million total) and averaging $298,000 a suite, compared to only 2 sales in 2016 at $200,000 a suite, a considerable 49% increase. Again, it's noteworthy that 6 of the building sales in Coquitlam were acquired for redevelopment. Langley experienced 2 sales, and on a lesser note, West Vancouver, Port Moody and Delta each had 1 sale. Port Coquitlam, Richmond and Mission recorded no sales in 2017. Please refer to the table on page 17 for full details.

Staying in the loop

In this year-end issue marking the Goodman Report's 35th anniversary, we've delved vigorously into the complex matter of renewed government involvement in rental housing. For owners, investors and tenants alike, noticeable change with impending government programs have been designed to enhance significantly the flow of new and upgraded rental housing. History has taught us that a number of key Metro Vancouver communities will almost certainly be affected by these expansive new policies. Heightened debate centered on land use is expected to dominate city council meetings throughout Metro Vancouver. This could be concerning for our readership but, for some, may also bring new opportunities. Nevertheless, we urge all owners to remain vigilant and involved in their respective communities as planning revisions or restrictive legislation may influence building values and property rights.

The upshot: Come to expect a stepped-up emphasis throughout Metro Vancouver on growing additions to the rental supply – market, subsidized, affordable or social. In time, this emphasis will translate into substantially more housing development and, in turn, increased competition for building owners vying for tenants.

Goodman's performance

2017 was a banner year for Goodman. We successfully sold 18 properties made up of apartment buildings and development sites and totalling $350 million. We welcome the opportunity to serve our existing clientele as well as taking on new mandates. Please feel free to reach out to our team members at any time for a no-cost, no-obligation evaluation of your property. Our collective 75 years of experience should be working for you! We welcome your comments on the latest Goodman Report. And don't forget to check us out online at: www.goodmanreport.com

> To get nowhere, *follow the crowd.*
>
> — ANONYMOUS

ACTIVITY : 2017 COMPARED TO 2016

Dollar volume

Average price

Greater Vancouver	2017 total $ volume	2016 total $ volume	% change	2017 $ per suite	2016 $ per suite	% change
Total	**$2,174,318,700**	**$1,482,053,553**	**+47%**	**$432,356**	**$376,825**	**+15%**
Vancouver areas						
Eastside	$247,481,000	$107,726,600	+130%	$390,349	$305,175	+28%
Kerrisdale	111,730,000	82,810,000	+35%	561,457	563,333	- 0%
Kitsilano	122,071,800	102,865,000	+19%	570,429	423,313	+35%
Marpole	21,750,000	63,958,000	- 66%	368,644	351,418	+5%
South Granville	129,718,000	156,233,000	- 17%	576,524	410,060	+41%
UBC	6,250,000	36,883,500	- 83%	446,429	1,229,450	- 64%
West End	395,557,000	343,560,000	+15%	774,084	726,342	+7%
Vancouver	**$1,034,557,800**	**$894,036,100**	**+16%**	**$557,413**	**$494,216**	**+13%**
Suburban areas						
Burnaby	$397,435,000	$260,391,588	+53%	$551,227	$332,132	+66%
Coquitlam	163,943,400	10,790,000	+1419%	297,538	199,815	+49%
Delta	6,600,000	0	N/A	275,000	N/A	N/A
Langley	8,875,000	4,477,500	+98%	197,222	213,214	- 8%
Maple Ridge	19,981,000	2,220,000	+800%	183,312	105,714	+73%
Mission	0	5,098,000	- 100%	N/A	118,558	N/A
New Westminster	192,412,000	65,585,888	+193%	288,474	169,473	+70%
North Vancouver	182,719,500	141,851,500	+29%	443,494	334,555	+33%
Port Coquitlam	0	34,000,000	N/A	N/A	267,717	N/A
Port Moody	31,750,000	0	N/A	496,094	N/A	N/A
Richmond	0	29,100,000	- 100%	N/A	354,878	N/A
Surrey	81,700,000	12,877,977	+534%	179,560	155,156	+16%
West Vancouver	28,300,000	0	N/A	764,865	N/A	N/A
White Rock	26,045,000	21,625,000	+20%	295,966	220,663	+34%
Suburbs	**$1,139,760,900**	**$588,017,453**	**+94%**	**$359,206**	**$276,844**	**+30%**

Building transactions

Number of suites sold

Greater Vancouver	2017 buildings sold	2016 buildings sold	% change	2017 suites sold	2016 suites sold	% change
Total	**150**	**174**	**-14%**	**5,029**	**3,933**	**+28%**
Vancouver areas						
Eastside	27	24	+13%	634	353	+80%
Kerrisdale	8	8	0%	199	147	+35%
Kitsilano	13	16	- 19%	214	243	- 12%
Marpole	5	13	- 62%	59	182	- 68%
South Granville	11	17	- 35%	225	381	- 41%
UBC	2	3	- 33%	14	30	- 53%
West End	13	17	- 24%	511	473	+8%
Vancouver	**79**	**98**	**- 19%**	**1,856**	**1,809**	**+3%**
Suburban areas						
Burnaby	18	30	- 40%	721	784	- 8%
Coquitlam	10	2	+400%	551	54	+920%
Delta	1	0	N/A	24	N/A	N/A
Langley	2	2	N/A	45	21	+114%
Maple Ridge	3	1	+200%	109	21	+419%
Mission	0	2	- 100%	N/A	43	N/A
New Westminster	12	19	- 37%	667	387	+72%
North Vancouver	13	11	+18%	412	424	- 3%
Port Coquitlam	0	2	- 100%	N/A	127	0%
Port Moody	1	0	N/A	64	0	N/A
Richmond	0	2	- 100%	N/A	82	N/A
Surrey	7	2	+250%	455	83	+448%
West Vancouver	1	0	N/A	37	0	0%
White Rock	3	3	N/A	88	98	- 10%
Suburbs	**71**	**76**	**- 7%**	**3,173**	**2,124**	**+49%**

2017 APARTMENT BUILDING SALES CITY OF VANCOUVER

ADDRESS	SUITES	PRICE ($)	AVG $/UNIT
Vancouver (Eastside)			
3634 E. Hastings St (MU, DS)	9	$3,081,000	$342,333
* 3240 E. 58th Ave (TH)	140	72,185,000	515,607
7849 Knight St	12	2,810,000	234,167
1725 McLean Dr	6	2,975,000	495,833
** 4195 Perry St (MU, DS)	11	3,900,000	354,545
148 E. 6th Ave	18	5,300,000	294,444
2150 Pandora St	101	26,300,000	260,396
* 2274 Oxford St	8	2,360,000	295,000
2416 Fraser St	11	4,900,000	445,455
1574 Kingsway (MU)	10	2,750,000	275,000
1350-52 Kingsway (MU,ST)	17	6,820,000	401,176
3636 Fraser St	14	4,850,000	346,429
4095 Fraser St	13	3,200,000	246,154
2121 Franklin St	50	12,400,000	248,000
1451 E. 7th Ave (DS)	10	6,650,000	665,000
1834 E. Pender St	10	3,278,000	327,800
75 E. 8th Ave (DS)	27	12,500,000	462,963
360 E. 14th Ave	28	9,800,000	350,000
1552 E. Pender St	22	5,888,000	267,636
117 E. 15th Ave	12	6,400,000	533,333
727 E. 17th Ave (SP, NC)	31	23,500,000	758,065
1368 E. 8th Ave	15	5,200,000	346,667
631 Commercial Dr (MU)	8	3,816,000	477,000
* 1615 William St	16	5,379,000	336,188
2325 Glen Dr	10	3,950,000	395,000
2177 Wall St	17	5,100,000	300,000
5085 Main St (NC)	8	2,189,000	273,625
	634	**$247,481,000**	**$390,349**
Vancouver (Kerrisdale)			
* 2346 W. 43rd Ave	9	$4,400,000	$488,889
2181 W. 40th Ave	10	4,600,000	460,000
5410 Balsam St	33	15,500,000	469,697
5850 Vine St	22	8,230,000	374,091
5815 Yew St (HR)	83	40,000,000	481,928
6020 East Boulevard (DS)	13	26,000,000	962,963
6040 East Boulevard (DS)	14		
6060 East Boulevard (DS)	15	13,000,000	866,667
	199	**$111,730,000**	**$561,457**
Vancouver (Kitsilano)			
2225 W. 8th Ave	47	$18,500,000	$393,617
2200 W. 5th Ave	7	5,400,000	771,429
* 1526 Arbutus St (CO)	10	7,600,000	760,000
1609-19 Cypress St (SP)	16	9,580,000	598,750
2023 W. 7th Ave	10	4,888,000	488,800
2150 W. 1st Ave	13	10,500,000	807,692
1925 Maple St	10	5,200,000	520,000
2268 Cornwall Ave	11	7,400,000	672,727
1876 W. Broadway (SP, DS)	21	12,125,000	577,381
1886 W. Broadway (SP, DS, MU)	12	9,150,000	762,500
3506 W. 4th Ave (ST, DS)	13	8,928,800	686,831
2185 W. 8th Ave	20	8,500,000	425,000
1968 W. 2nd Ave (SP)	24	14,300,000	595,833
	214	**$122,071,800**	**$570,429**

ADDRESS	SUITES	PRICE ($)	AVG $/UNIT
Vancouver (South Granville)			
* 1550 W. 11th Ave	27	$12,500,000	$462,963
1616 W. Broadway Ave (DS)	12	9,500,000	791,667
541 W. 13th Ave	9	4,900,000	544,444
1569 W. 12th Ave	10	5,250,000	525,000
* 1546 W. 12th Ave	13	7,500,000	576,923
* 1686 W. 12th Ave (HR)	48	22,818,000	475,375
1225 W. 10th Ave	9	5,000,000	555,556
2777 Oak St (ST, DS)	30	21,500,000	716,667
3819 Cambie St (SP)	22	10,200,000	463,636
1385 W. 15th Ave	19	14,600,000	768,421
* 3591 Oak St (SP, CO)	26	15,950,000	613,462
	225	**$129,718,000**	**$576,524**
Vancouver (Marpole)			
8680 Montcalm St	12	$4,000,000	$333,333
8668 Montcalm St	10	3,100,000	310,000
* 8638 Hudson St	10	3,800,000	380,000
8691 Selkirk St	10	3,550,000	355,000
8580 Oak St	17	7,300,000	429,412
	59	**$21,750,000**	**$368,644**
Vancouver (West End)			
** 1444 Alberni St (DS, HR)	129	$170,000,000	$1,317,829
1075 Burnaby St (SP)	53	26,300,000	496,226
1270 Nicola St (HR)	37	13,250,000	358,108
1260 Harwood St (HR)	109	42,000,000	385,321
1150 Barclay St (CO, DS)	19	18,000,000	947,368
1333 Jervis St	38	26,000,000	684,211
1112 Broughton St	22	10,150,000	461,364
1630 Burnaby St	21	9,000,000	428,571
1104 Haro St (DS)	19	15,850,000	834,211
1066 Harwood St (DS)	23	15,350,000	667,391
1318 Thurlow St (ST, DS)	14	49,657,000	1,211,146
1068 Burnaby St. (DS)	27		
1080 Burnaby St. (DS)			
	511	**$395,557,000**	**$774,084**
UBC			
2265 Acadia Rd (DS)	6	$3,250,000	$541,667
2287 Acadia Rd (DS)	8	3,000,000	375,000
	14	**$6,250,000**	**$446,429**

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

1. Suite mix
2. Rent/SF
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
(CO) Co-op

* Sold by The Goodman Team
** December 2016 sale

2017 APARTMENT BUILDING SALES SUBURBS

ADDRESS	SUITES	PRICE ($)	AVG $/UNIT
Burnaby			
* 7040 Arcola St	48	$12,800,000	$266,667
6450 Telford Ave (DS, ST)	33	33,000,000	1,000,000
6486 Telford Ave (DS)	8	8,600,000	1,075,000
6508 Telford Ave (DS)	10	5,000,000	500,000
6488 – 6498 Telford Ave (DS)	5	4,640,000	928,000
6075 Wilson Ave (DS)	42	45,200,000	1,076,190
* 6390 Willingdon Ave (DS)	58	33,825,000	583,190
6444 Willingdon Ave (DS)	72	41,000,000	569,444
4241 Maywood St (DS)	19	15,550,000	818,421
6688 Willingdon Ave (DS)	45	21,980,000	488,444
6665 Royal Oak Ave (DS, SP)	19	14,340,000	754,737
4362 Maywood St (DS)	62	15,000,000	241,935
6615 Telford St (DS)	55	29,900,000	543,636
9005 Centaurus Circle (SP)	55	15,000,000	272,727
6444 Silver Ave (DS)	45	22,000,000	488,889
6620 Sussex Ave (DS)	50	39,600,000	792,000
6366 Cassie Ave (DS)	59	40,000,000	421,053
6433 McKay Ave (DS)	36		
	721	**$397,435,000**	**$551,227**
Coquitlam			
325 Casey St	33	$5,900,000	$178,788
1040 Howie Ave	54	10,128,400	187,563
1000 Brunette Ave	126	21,500,000	170,635
549 Dansey Ave (DS)	71	18,000,000	253,521
345 Marathon Crt (TH)	22	6,700,000	304,545
705 North Rd (DS, ST)	48	20,220,000	421,250
633 North Rd (DS, ST)	36	13,995,000	388,750
612 Clarke Rd (DS)	50	25,500,000	510,000
625 Como Lake Ave (DS)	54	19,676,000	364,370
620 Lea Ave (DS)	57	22,324,000	391,649
	551	**$163,943,400**	**$297,538**
Delta			
4979 47A Ave	**24**	**$6,600,000**	**$275,000**
Langley			
3175 – 271 St (TH)	6	1,690,000	281,667
5450 204 St	39	7,185,000	184,231
	45	**$8,875,000**	**$197,222**
Maple Ridge			
11926 222 St	43	$6,050,000	$140,698
* 20834 Dewdney Trunk (TH)	44	10,831,000	246,159
22225 119th Ave	22	3,100,000	140,909
	109	**$19,981,000**	**$183,312**
New Westminster			
621 Twelfth St	17	$3,325,000	$195,588
** 503 Agnes St	15	2,965,000	197,667
304 Third Ave	15	2,850,000	190,000
735 Royal Ave	37	8,430,000	227,838
322 Seventh St	54	10,800,000	200,000
222 Ash St (SP)	52	11,200,000	215,385
* Highrise Tower (HR)	282	N/A	N/A
1315 Seventh Ave	23	4,900,000	213,043
1012 Fourth Ave	17	3,400,000	200,000
845 Royal Ave	11	2,917,000	265,182
140 Sixth St (DS)	135	50,000,000	370,370
521 Victoria St (DS)	9	N/A	N/A
	667	**$192,412,000**	**$288,474**

ADDRESS	SUITES	PRICE ($)	AVG $/UNIT
North Vancouver			
904-944 Lytton St (ST, TH, DS)	114	$51,000,000	$447,368
** 1200 Emery Place (DS, TH)	61	39,550,000	648,361
1630 Chesterfield Ave	11	3,550,000	322,727
127 E. 12th St	25	7,900,000	316,000
129 E. 12th St			
357 W. 4th St	12	4,042,500	336,875
156 E. 3rd St	6	2,177,000	362,833
310 E. 2nd St (SP, EST)	48		
321 E. 2nd Ave (SP, EST)	36	51,500,000	408,730
163 W. 5th Ave (SP, EST)	42		
115 Keith Rd E. (DS, SP)	23	9,100,000	395,652
150 E. 11th St (DS)	24	9,800,000	408,333
644 E. Victoria Park (DS)	10	4,100,000	410,000
	412	**$182,719,500**	**$443,494**
Port Moody			
210A Evergreen Dr. (TH)	**64**	**$31,750,000**	**$496,094**
Surrey			
13032 104 Ave (TH)	8	$1,400,000	$175,000
10181 149th St	140	27,100,000	193,571
10520 132nd St	80		
13270 105A Ave	80	38,400,000	158,025
13325 105th Ave	83		
13245 104th Ave	41	$9,675,000	$235,976
10011 150th St (ST)	23	5,125,000	222,826
	455	**$81,700,000**	**$179,560**
West Vancouver			
2145 Bellevue Ave (HR)	**37**	**$28,300,000**	**$764,865**
White Rock			
1285 Martin St	29	$6,450,000	$222,414
15369 Thrift Ave (ST)	27	5,245,000	194,259
14990 North Bluff Rd (DS)	32	14,350,000	448,438
	88	**$26,045,000**	**$295,966**

* Sold by The Goodman Team
** December 2016 sale

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

1. Suite mix
2. Rent/SF
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
(CO) Co-op

CMHC SPEAKS

The 2017 CMHC Rental Market Report – Greater Vancouver, has recently been published. Highly anticipated by developers, politicians, planners, lenders, property managers, investors, appraisers, building owners and realtors, the report focuses on the current state of the rental apartment market by area in the region.

Key analysis findings:

- Despite record construction of new units, strong demand for rental accommodation kept the vacancy rates below 1% for both primary rental apartments and rental condominium apartments.
- The rapid increase in entry-level home prices and higher migration to the region have contributed to rental demand.
- For the third consecutive year, average rents increased faster (5.9%) than the provincially allowable increase (3.7% in 2017).
- Prospective tenants face higher rents than long-term tenants, with the average rent for vacant units being 11% higher than the average rent for occupied units in October 2017.

Vacancy rates remain low, divergence across areas emerges

The rental market continues be very tight in the Vancouver Census Metropolitan Area (CMA), with the vacancy rate for purpose-built apartments remaining below 1% to stand at 0.9% in 2017. In general, vacancy rates moved up slightly in more expensive areas and either remained flat or fell slightly in more modestly priced areas. Despite increased rental construction, the overall vacancy rate has remained under 1% for three years.

Employment growth and migration are the main contributors to growing rental demand

Employment in the Vancouver CMA continues to grow, with total employment increasing 2.7% in the past 12 months to October 2017. The persistently strong job market has contributed to the unemployment rate falling to 4.3%, one of the lowest among major centres across Canada. The strength of the local labour market coupled with the relative weakness seen in other provinces, particularly Alberta, has been the main factor in the substantial year-over-year increases in net interprovincial migration to the Vancouver CMA.

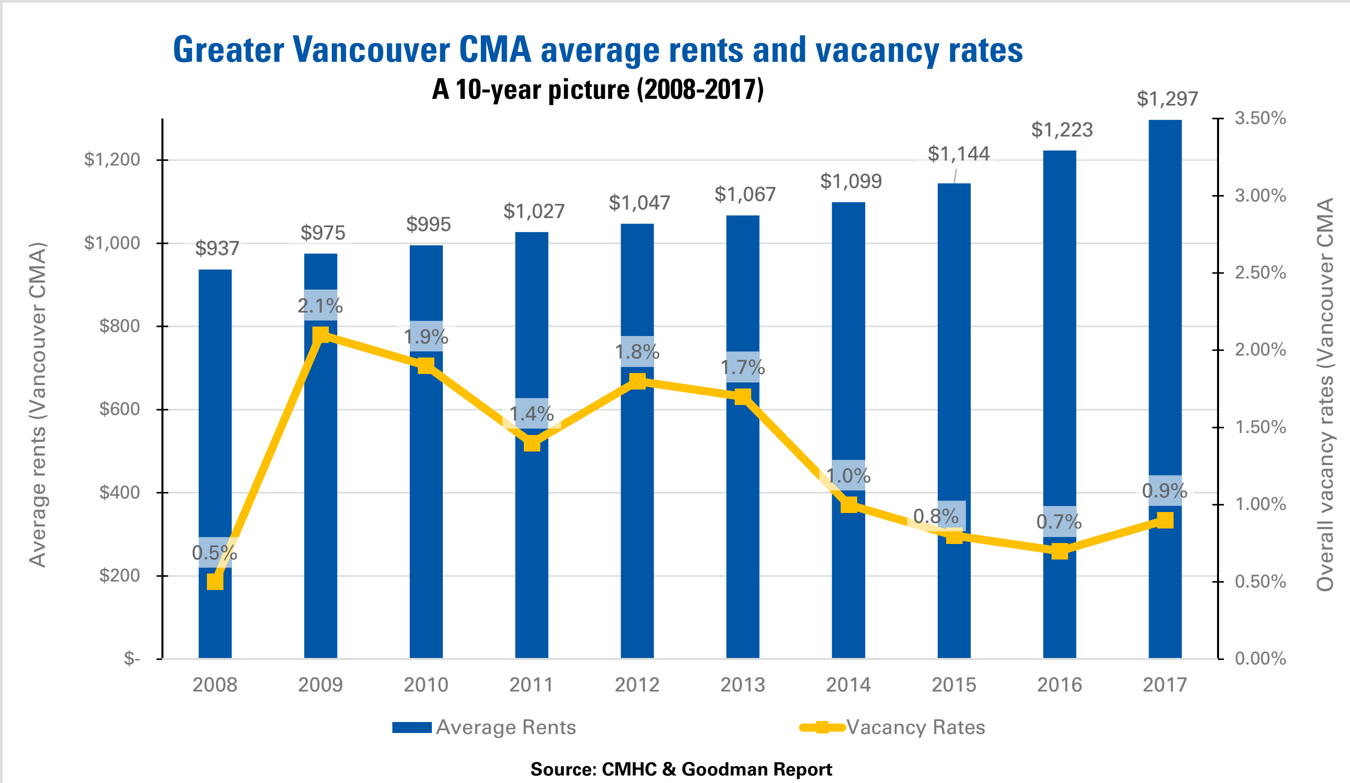
According to recently released 2016 Census data, 59% of net new households added to the Vancouver CMA between 2011 and 2016 were renters, compared with 32% in the preceding five-year period. The near doubling of this measure likely results from a higher share of migrant households to the region renting and a slower movement of households from rental into homeownership due to rising prices. In the City of Vancouver, fully three quarters of net new households between 2011 and 2016 were renter households.

Rising prices of entry-level ownership housing puts pressure on vacancy

As reported in CMHC's 2017 Housing Market Outlook for Vancouver, the resale housing market has been operating at "two speeds" since the middle of 2016. While price growth in the single-detached home segment has slowed in the past year due to many buyers being priced out of the market, apartments and other more affordable units have seen rapid and continuing price growth through 2017.

Current renters looking to purchase their first property, typically an apartment condominium, face two growing barriers: rising carrying costs and rising required down payments. Carrying costs had been relatively flat since 2007 as modest price growth was offset by falling mortgage rates; however, since the second half of 2015, prices have grown quickly with carrying cost increasing despite record low mortgage rates.

With rates now beginning to rise, some renter households will find these carrying costs unaffordable and will be looking to rent long term. Rising entry-level home prices also mean that a larger down payment is required for home purchase. As a result, some renter households may choose to stay in rental housing longer to save for their down payment – further adding to demand.



Sustained low vacancy rates put upward pressure on same-sample rents

Reflective of the tight rental market, same-sample average rents for primary market rental units increased by 5.9% for all bedroom types within the Vancouver CMA over last year. This represents the fourth consecutive year average rents have increased faster than the provincially allowable increase, which suggests that landlords are able to increase rents to market levels that are now much higher than those previously paid by long-term tenants.

Rental rates can be materially higher for vacant units

The average rent for vacant units was 11% higher than the average rent for occupied units in the Vancouver CMA, suggesting that market rents currently faced by prospective tenants are seeing strong upward pressure due to the low number of vacancies in the market. This also suggests that longer term tenants with lower-than-market rents may be less inclined to move to a different suite, as reflected in the lower turnover rate of 13.9%5 observed in 2017.

Supply of purpose-built rental units increasing

Following several decades of relatively few new rental units coming to market, the past five years have seen large increases in rental starts, with the inventory of rental units under construction hitting levels not seen since the 1970s. Rising rents, low financing costs, growing interest from institutional investors and municipal incentive programs have stimulated supply of new units in the rental market. While new units tend to command higher rents than existing units, new units allow renters who desire newer-condition suites to move, freeing up additional supply at other price points. Due to the recent completions of units started in the last couple of years, the universe of rental apartment units enumerated in CMHC's Fall 2017 Rental Market Survey increased by 629 units in the Vancouver CMA; however, the results were not evenly distributed across municipalities, with the Tri-Cities and Burnaby seeing declines of 221 and 234 units respectively due to recent renovations and demolitions.

Apartment condo vacancy rate increases

Strong rental demand, coupled with limited additions to the stock of rental apartment condos, kept vacancy rates below 1%. The (investor-held) rental apartment condominium vacancy rate increased to 0.6% from 0.3% the previous year. In 2017, an estimated 1,841 units were added to the rental condominium apartment stock, compared to the addition of 1,516 units in 2016. Consistent with the sustained low vacancy rates observed, the average monthly rent for apartment condominiums increased to $1,758.

INDUSTRY EXPERTS SPEAK

Are you prepared for a market downturn?

You may think that given this market, when a Vancouver landlord can rent almost anything, it's an odd time to talk about preparing for a downturn. But a downturn will come. It always does.

Over the 30+ years that I've been in the real-estate industry, I've seen cycles come and go, as regularly as clockwork.

Remember 2008? That's when many landlords came to me for advice because they couldn't rent their buildings. It was a tenants' market: vacancies were high, and tenants could afford to be picky. While unprepared landlords scrambled to rent their properties, landlords who had maintained their buildings at higher levels had fewer problems. Their tenants were less likely to make a mass exodus when the market turned.

If I could tell unprepared landlords one thing, it would be this: "Invest in your building in good times, so that you're ready for the bad."

What do I mean by "invest"? I mean that, in addition to regular maintenance such as servicing systems, caulking windows and cleaning gutters, you should make thoughtful upgrades that add value to your building and make tenants appreciate what they're paying for. Things like new tile around tubs, solid surface countertops such as granite or Corian, attractive landscaping, modern lighting and up-to-date plumbing.

The key is to choose long-lasting upgrades. New tilework is durable and can be cleaned back into like-new condition if you have a messy tenant. Similarly, solid-surface countertops that are difficult to cut, burn or break will look clean and modern for years to come. Carpets and paint should be replaced when they are worn, but don't think of them as investments, since they wear quickly and often.

You don't have to make your upgrades all at once. Pick one a year and chip away at them in a 7-year plan. Ask yourself regularly: "What's the one thing I could do this year to make my building better?"

Right now, many landlords are taking all their profits out of their buildings, but this is a short-term gain. Landlords who haven't invested in their holdings will suffer a double whammy when the market turns: they'll need to upgrade to attract tenants, and they'll have less money to do it with thanks to increased vacancy rates.

Always maintain your building as if it were for sale – even if it's not – and you'll be better positioned to handle the market downturn when it comes, as it inevitably will.

Rod Fram is president of Transpacific Realty Advisors, providing full-service property management for residential rental and commercial holdings in Metro Vancouver since 1972. You can reach him at rod@transpacificrealty.com.

MC²

Marine & Cambie, Vancouver

Two concrete rental properties

110 suites

Two concrete rental properties consisting of a four storey 41-suite building and a six storey 69-suite building totalling 110 suites. With its proximity to rapid transit, sustainable design and prominent positioning within an evolving neighbourhood, the MC² project is truly an exceptional offering unmatched in the marketplace.

Legal eye: Owner-developer pitfall

With some large-scale new developments, the owner-developer takes on responsibility for constructing and maintaining common or public amenities, for example, a parking or recreational facility or a public green space. Municipal bodies also sometimes require the owner-developer, as part of the development approval process, to enter into an agreement to construct and maintain public works surrounding the development. Such agreements can be the subject of an easement registered on title or can simply be contained in a formal written agreement between the municipality and the owner-developer. In either of these circumstances, the owner-developer intends to pass its contractual obligation to maintain these works on to the successor owner, often a strata corporation.

Three recent B.C. Supreme Court cases, however, confirm that positive covenants (like an obligation to pay for maintenance) cannot be made to run with the land even if they are contained in an easement or agreement registered on title. Instead, they must be the subject of assumption agreements between the owner-developer and the successor owner if they are to bind the successor owner. This differs somewhat from the law in Ontario, which, unlike B.C.'s, acknowledges exceptions to this general rule. At least two of the three B.C. cases are under appeal, so our own Court of Appeal may weigh in on this shortly and the law may change.

The current state of the law in B.C. nevertheless creates a serious risk for owner-developers who do not properly pass these kinds of positive obligations on to successor owners by way of express assumption agreements. This is particularly concerning in the strata context because the Strata Property Act places restrictions on the owner-developer's ability to enter into a contract with the strata corporation following the first conveyance of a strata lot. In most cases, therefore, it is critical that the owner-developer cause the strata to execute an assumption agreement prior to the first conveyance to avoid the risk of being stuck with these obligations in perpetuity.

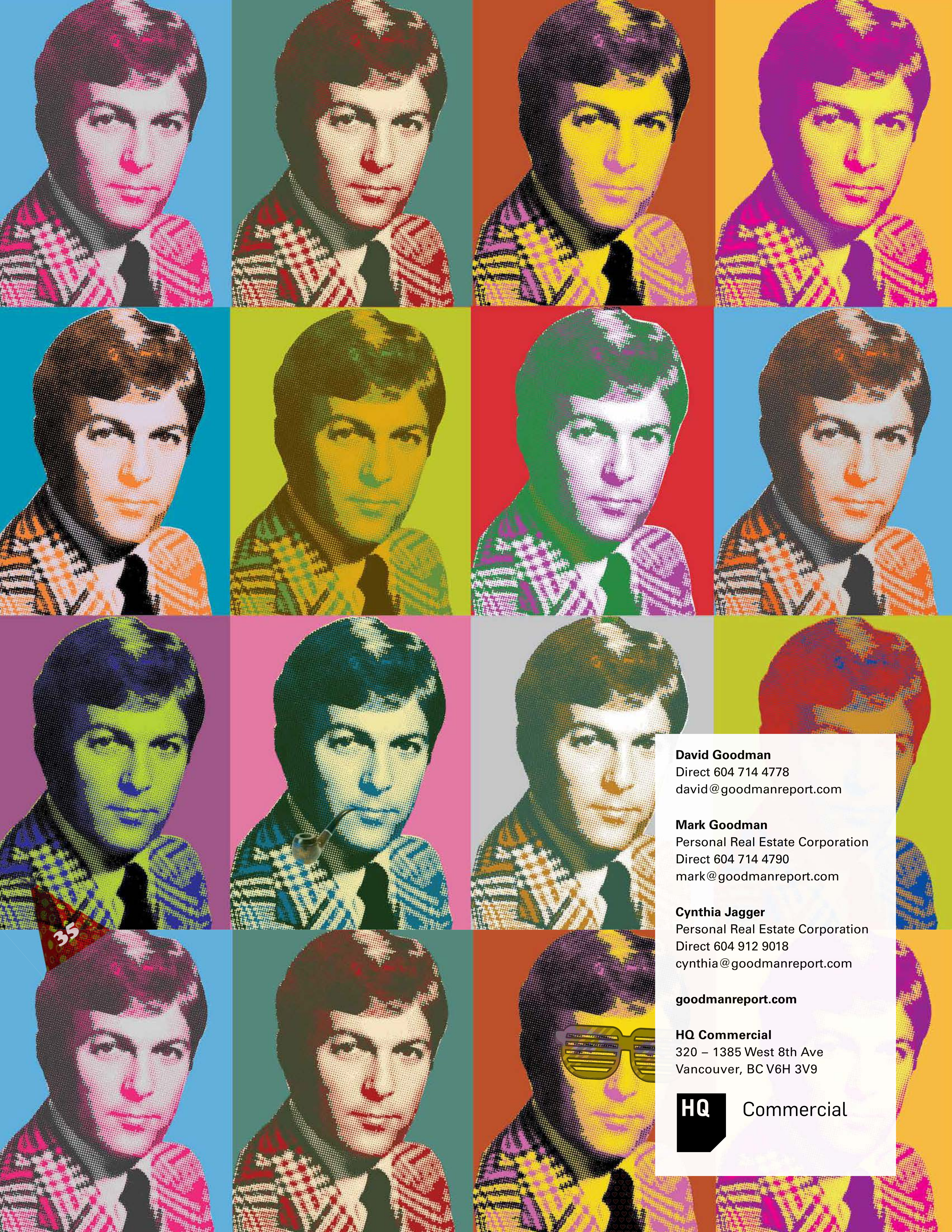
Disclaimer: The foregoing is provided for informational purposes only and is not legal advice. Anyone dealing with issues of this nature is encouraged to seek legal advice. The author, Alexander Bayley, is a commercial litigator at DuMoulin Boskovich LLP located in Vancouver, B.C. and can be reached at 604-669-5500 or alex@dubo.com.

WHAT'S HOT

- Mayor Robertson and his spin doctors on the way out
- Profound changes coming to our rental world as we know it
- Rental vacancies at 0.9% in the City of Vancouver, 0.8% in Vancouver CMA
- Time to talk about a third crossing to the North Shore
- Contrarians looking at Vancouver Island, Alberta and Montreal real estate
- The great work of Covenant House providing a circle of care to our homeless youth
- Prospect of a Stanley Cup parade on Georgia Street (OK, maybe in four years)
- NIMBYism in for a rough ride—finally
- Big move to electric cars
- Goodman sells $350 million dollars of product in 2017
- Green BC party leader Andrew Weaver giving Premier John Horgan a big headache on LNG

WHAT'S NOT

- The tragic opioid crisis
- Interest rates slowly moving up: watch those U.S. bonds
- Vancouver's Empty Home Tax
- Vancouver's Housing Strategy: more questions than answers
- Potential capital gains tax increase in 2018's federal budget
- 4.1% increase in Vancouver property tax: why not cut spending?
- Running into NAFTA hurdles with the U.S.
- Vancouver's development labyrinth (105 Keefer!)
- Adding a bike lane on the Cambie Bridge
- Gang violence out of control
- Frayed nerves within business community awaiting NDP budget



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