



**Ozzie Jurock**

**REAL ESTATE  
OUTLOOK  
2005**

*Renaissance Hotel*

*September 11, 2004*

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1. **An Overview of the Vancouver Lower Mainland Apartment Market**
2. **The Risks and Rewards of Investing in Vancouver's Multifamily Rental Market**

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*A Report by David & Mark Goodman  
Macdonald Commercial Real Estate Services*

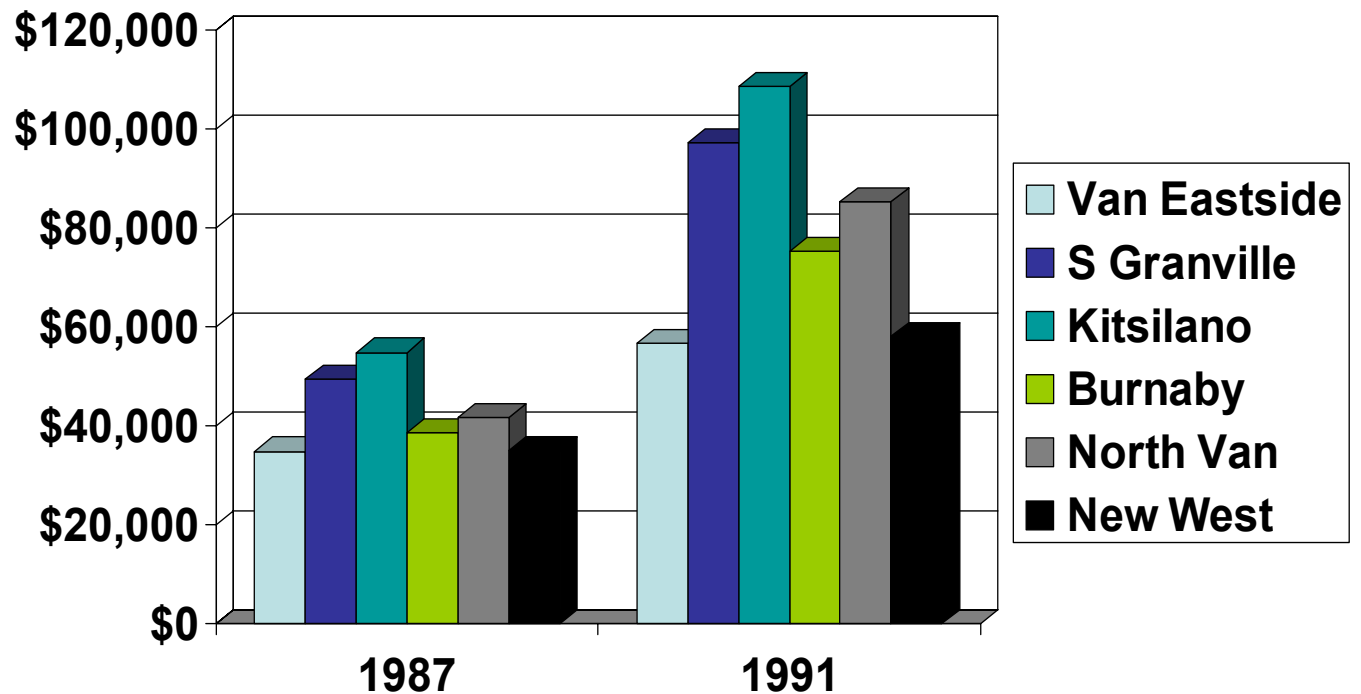




# SEVENTEEN YEARS AGO

A Period of Wild Exuberance:

Between 1987 – 1991 Average \$ / Suite Increased 62% - 103% Depending on the Area.



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# ***INVESTMENT RATIONALE***

## **Boom of the Late 1980s**

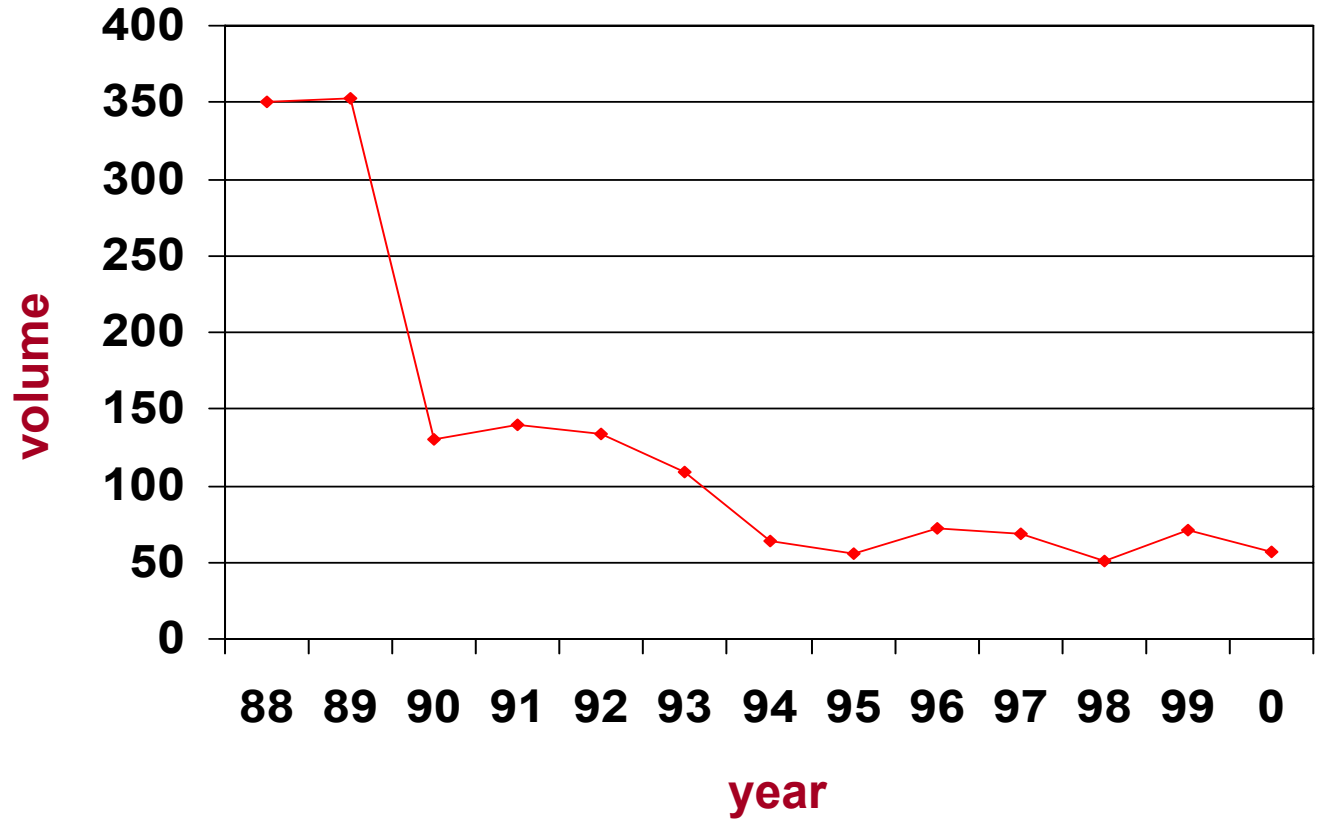
- Period of high inflation
- Capital appreciation vs NCF
- Speculation / flipping / multiple offers
- Off shore investors

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# MARKET ACTIVITY

Sold Buildings 1988-2000:



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## ***MARKET SENTIMENT: mid to late 90s***

**Negative Factors Working  
Against the Industry Under  
the Previous Government**

- Poor global view of BC
- High taxes
- Intrusive government policies
- Leaky condo scare
- Migration of population

***A POSITIVE: Mortgage rates in decline!***

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# MARKET INERTIA

## 1991 vs 2001

### Average \$ / Suite:

	1991	2001	Variance
<i>Kits</i>	108,523	117,137	<b>8.0%</b>
<i>S Granville</i>	97,130	105,825	<b>9.0%</b>
<i>West End</i>	80,881	80,738	<b>0</b>
<i>Marpole</i>	74,957	74,160	<b>-1%</b>
<i>Kerrisdale</i>	154,486	146,042	<b>-5.7%</b>
<i>Van East</i>	56,689	58,007	<b>2.3%</b>
<i>North Van</i>	85,141	78,070	<b>-8.0%</b>
<i>Burnaby</i>	75,166	74,371	<b>-1.0%</b>
<i>New West</i>	58,080	47,519	<b>-18.0%</b>

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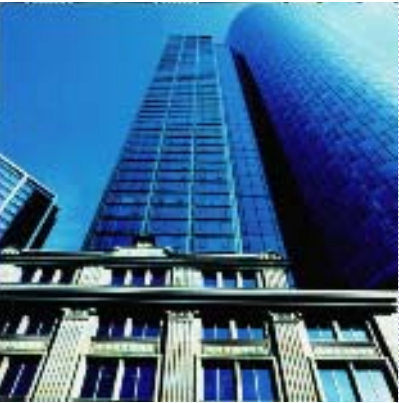
# ***POSITIVE FACTORS 2001***

## **A Convergence**

- New Liberal government
- Lower provincial taxes
- Capital gains reduction
- New rental construction
- Lower vacancy rates (up to 2003)
- Low mortgage rates
- Institutional investors
- New Residential Tenancy Act
- Stock market woes

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# MARKET FUNDAMENTALS

## Then and Now

Why is today's market so totally different from the late 1980s?

Late 1980s	2004
• Inflation	• No inflation
• Speculation	• Buying on fundamentals
• 10% mortgages	• 4.5% - 5.5%
• 5.5% - 7.5% cap	• 4.5% - 7.0% cap
• NCF	• PCF

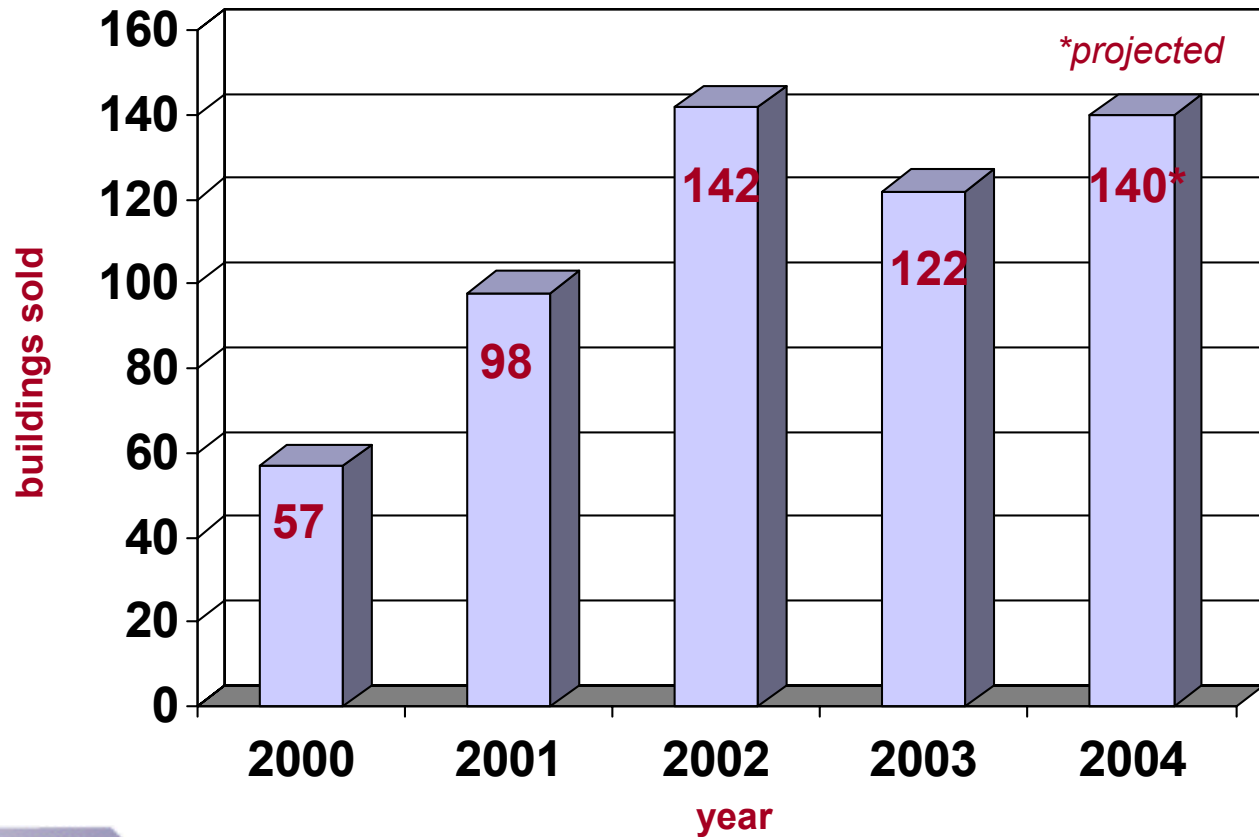
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# YEAR TO YEAR COMPARISONS

## Buildings Sold (Volume)

2000-2004



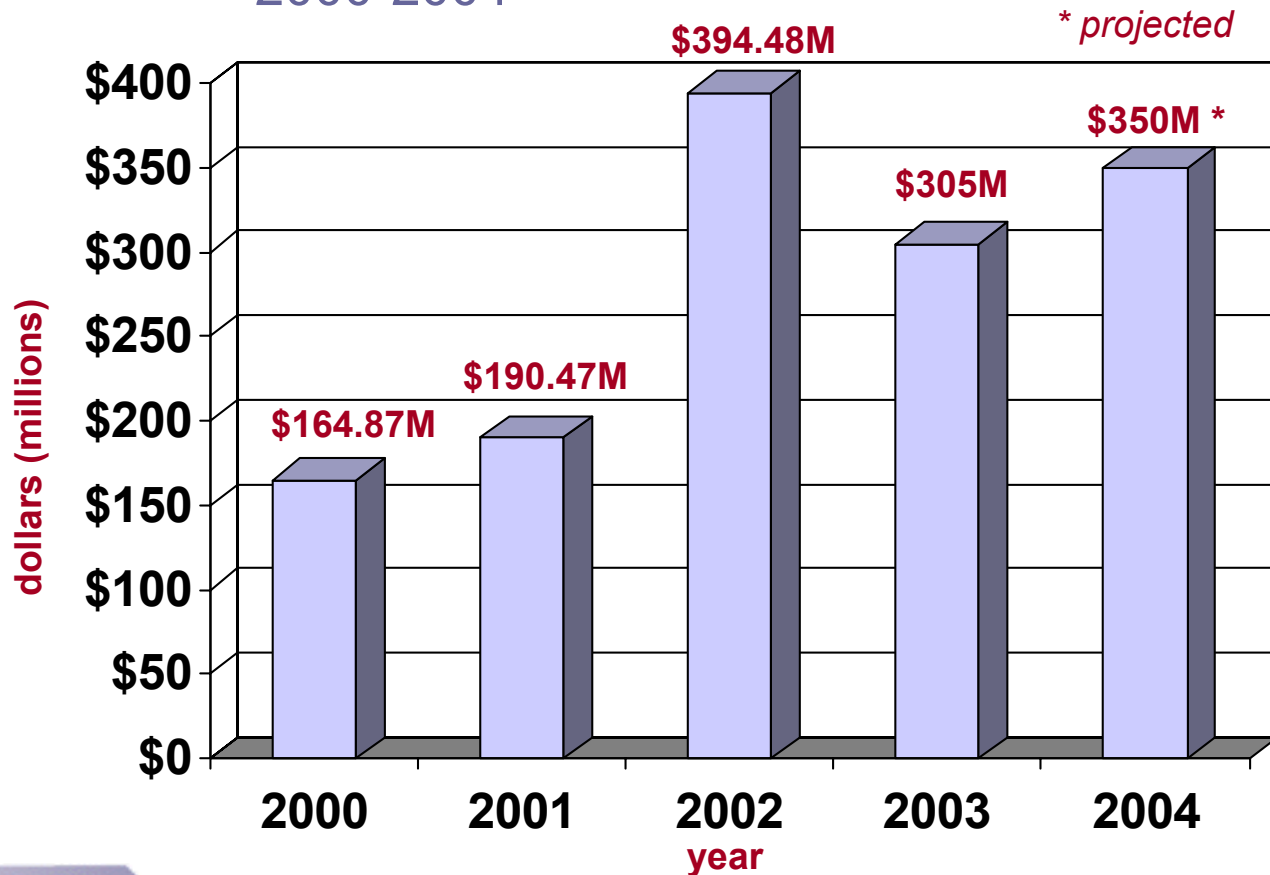
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# YEAR TO YEAR COMPARISONS

## Dollar Volume (Millions)

2000-2004



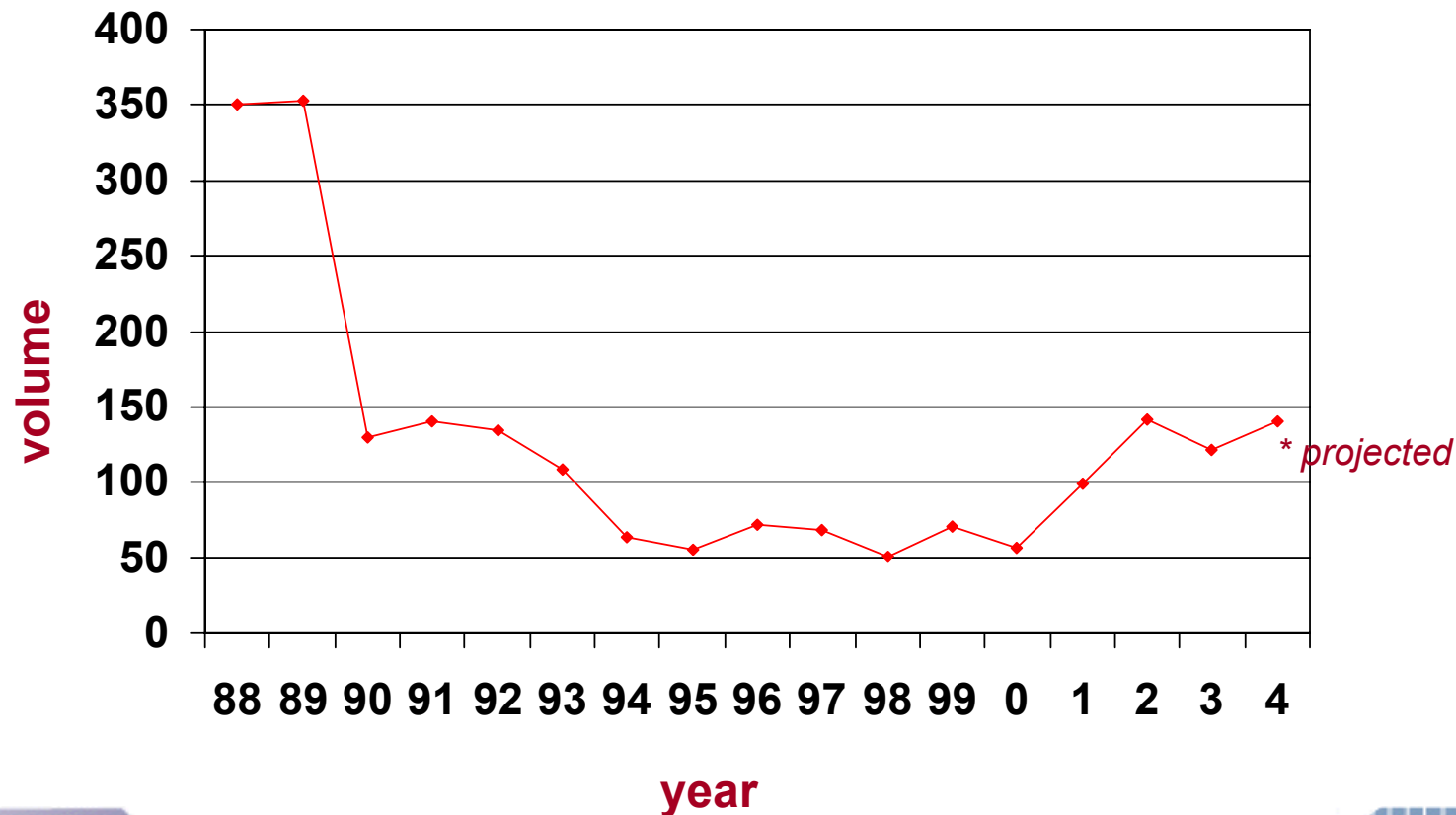
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# YEAR TO YEAR COMPARISONS

## Buildings Sold (Volume)

1988-2004



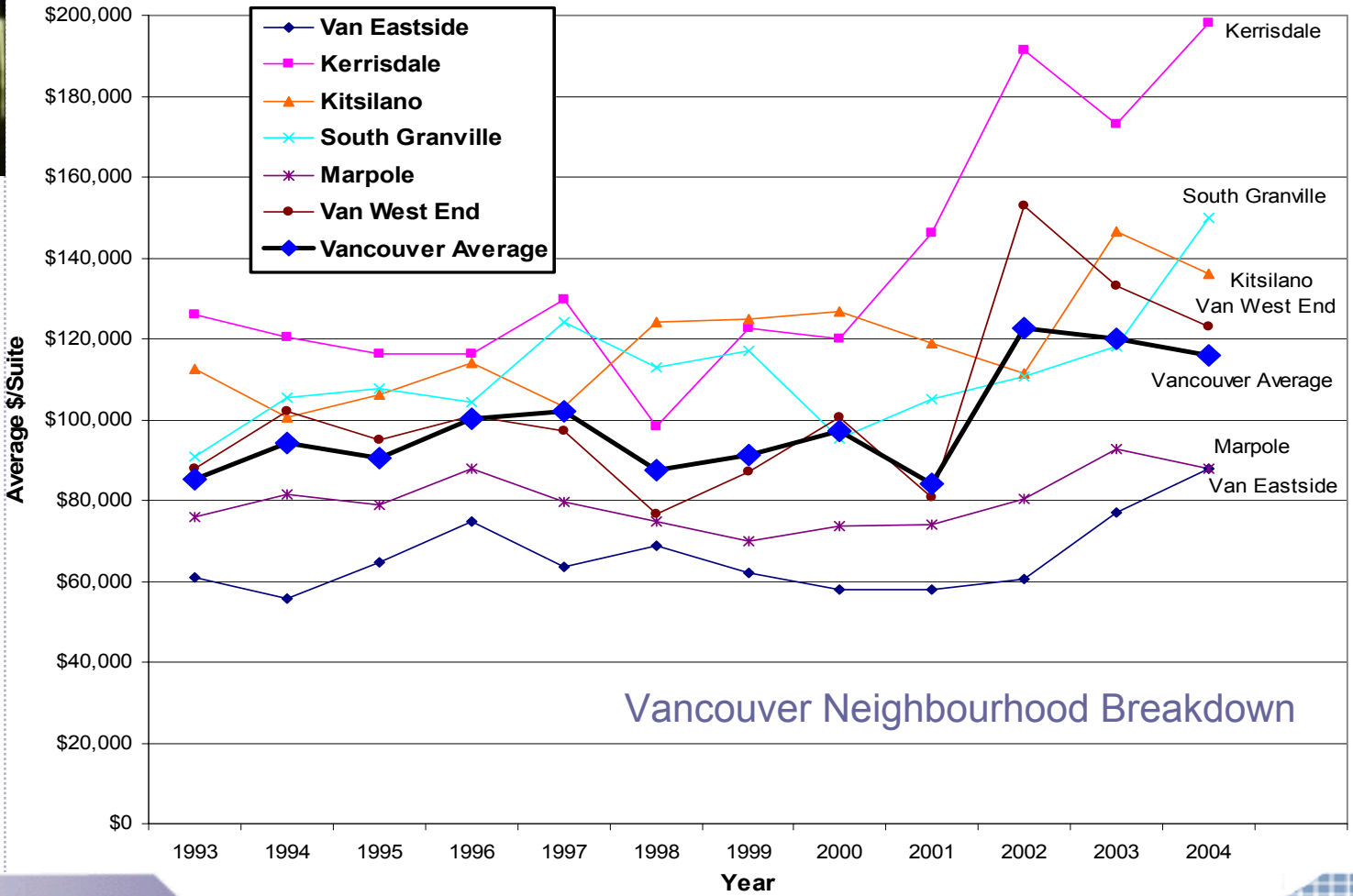
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# HISTORICAL PICTURE

## 1993 – 2004 Average Price Per Suite



Vancouver Neighbourhood Breakdown



# KEY AREAS

## Vancouver Lower Mainland Apartment Sales 2004 Activity (8 months)

Area	2003 (12 months)			* 2004 (8 months)		
	# of Buildings	\$ Volume	Avg. \$/ Suite	# of Buildings	\$ Volume	Avg. \$ / Suite
Van. E/Side	15	20,244,500	76,975	22	28,299,000	87,885
Marpole	17	19,257,000	92,582	12	19,471,000	87,709
West End	6	65,815,000	136,830	4	23,762,000	123,119
Kitsilano	5	12,364,000	140,500	12	28,130,000	136,553
S. Granville	20	51,196,000	126,723	4	12,010,000	150,125
Burnaby	21	38,542,000	73,835	11	15,118,000	88,409
Surrey	4	15,400,000	77,778	3	20,362,222	59,538
New West.	13	21,024,000	70,314	8	23,934,000	71,020
North Vancouver	12	24,390,000	91,348	8	11,007,500	106,868

\* extrapolated

## 2004 HIGHLIGHTS *(8 months)*

- Vancouver Eastside showed 22 sales for first 8 months of 2004 compared to 15 sales for 2003. Average prices up 14%.
- Marpole sales activity up (12 sales) vs. 17 for 2003. \$ volume up sharply.
- West End transactions have slowed somewhat with prices down 10% and \$ volume down 45% over 2003.
- Kitsilano has experienced 12 sales in first 8 months compared to only 5 transactions for all of 2003. Prices down 3% compared to 2003.
- South Granville actually slowed dramatically reporting only 4 sales for the first 8 months of 2004 compared to 20 sales for 2003. Prices up 18%.
- Burnaby is on par with last year's number of transactions, but has shown an increase in average suite prices of 20%.
- Surrey reported 3 sales so far this year with a significant decrease in price of 30% (average \$/suite), but \$ volumes up sharply over 2003.
- New Westminster average prices holding steady while \$ volume up strongly over 2003.
- North Vancouver reports 8 sales for 2004 on par with 2003 while prices per suite up 16% over 2003.



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# SYNOPSIS

2003 vs. 2004 (8 months)

	2003 (12 months)	2004 (8 months)
<b>Buildings Sold</b>	122	93
<b>Total Suites</b>	3066	2215
<b>Total \$ Volume</b>	\$305,000,000	\$213,006,022
<b>Avg. \$ / Suite (Vancouver)</b>	\$120,000	\$116,032
<b>Avg. \$ / Suite (Non-Vancouver)</b>	\$80,593	\$76,279

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# SYNOPSIS

## 2003 vs. 2004 (8 months)

- Total number of buildings sold up 14% in 2004 over 2003.
- Total number of suites sold up 8% in 2004 over 2003.
- Total \$ volume up 4.75% in 2004 over 2003.
- Average \$ / suite Vancouver down 3% over 2003.
- Average \$ / suite (non-Vancouver) down 5% over 2003.
- Overall, investor demand remains extremely strong with shortages of multi-family product apparent throughout the Lower Mainland. Of the 93 buildings sold in the Lower Mainland, 63% are situated in Vancouver. Cap rates holding at their all time lows. Occupancy rates firming except West End.

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## ***AREAS TO WATCH***

- **Great Northern Way - Finning site - BCIT, SFU, UBC, ECIAD**
- **Terminal Avenue – rezoning likely to go ahead**
- **Main Street / Mount Pleasant**
- **Cambie Street – RAV line**
- **Surrey Centre**
- **Burnaby's Middlegate Area – Bosa's development**
- **New Westminster**



# CASE STUDY 1

## 840 E 6<sup>th</sup>, East Vancouver

- Selling Price: \$900,000
- GRM: 12.2
- CAP Rate: 5.1
- \$/Suite: \$81,818
- Suites: 11
- Mix: 4 Bach, 7- 1 BR
- Age: 1966
- Gross Income: \$73,876
- Expenses: \$27,500 (37.2%)
- NOI: \$46,377

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## ***CASE STUDY 2***

### **3848 Pender St., Burnaby**

- Selling Price: \$2,775,000
- GRM: 9.28
- CAP Rate: 6.4
- \$/Suite: \$77,083
- Suites: 36
- Mix: 3 Bach, 31- 1 BR, 2- 2 BR
- Age: 1968
- Gross Income: \$299,140
- Expenses: \$120,000 (40%)
- NOI: \$179,140

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# CASE STUDY 3

## 2280 Cornwall Ave., Kitsilano

- Selling Price: \$4,750,000
- GRM: 16.3
- CAP Rate: 4.25
- \$/Suite: \$197,500
- Suites: 24
- Mix: 2 Bach, 22- 1 BR
- Age: 1972
- Gross Income: \$287,000
- Expenses: \$85,000 (30%)
- NOI: \$202,000

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## **CASE STUDY 4**

**1848 W 3<sup>rd</sup> Ave., Kitsilano**

- Selling Price: \$5,275,000
- GRM: 14.6
- CAP Rate: 4.58
- \$/Suite: \$128,658
- Suites: 41
- Mix: 12 Bach, 28- 1 BR, 1- 2 BR
- Age: 1972
- Gross Income: \$360,000
- Expenses: \$118,000 (33%)
- NOI: \$241,623

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# MAJOR APARTMENT SALES 2004



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Address	Suites	Price	\$/Suite
4682 Fraser	33	\$4,575,000	\$138,636
5955 Yew Street	22	\$3,110,000	\$141,363
**2280 Cornwall	24	\$4,750,000	\$197,917
**1848 W. 3 <sup>rd</sup>	41	\$5,275,000	\$128,659
1890 Haro	41	\$5,460,000	\$133,171
1690 Nelson	39	\$5,500,000	\$141,026
675 North Road CQ	76	\$4,500,000	\$59,211
1765 Duchess WV	45	\$6,650,000	\$147,778
10831-164 <sup>th</sup> St., SU	183	\$10,850,000	\$59,290
10215-150 <sup>th</sup> SU	138	\$8,290,000	\$60,072
1076 W. 14 <sup>th</sup>	44	\$6,250,000	\$142,045
329 Sherbrooke NW	60	\$4,200,000	\$70,000
65 First NW	61	\$5,709,000	\$93,590

**\*\*Sold by David & Mark Goodman**



# ***JACK OF ALL TRADES***

## **The Many Hats Owners Wear:**

- Bookkeeper
- Social-worker
- Carpenter
- Painter
- Psychologist
- Plumber
- Economist
- Cleaner
- Electrician
- Gardener
- Enforcer
- Sanitation-engineer

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# ***WHO ARE TODAY'S BUYERS?***

## **A Profile**

- Owners of mid-sized portfolios (200-500 suites)
- Institutions
- Older, established families
- First time buyers

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## ***COMMON QUESTIONS FOR BUYERS***

- Has the building been re-piped?
- How's the furnace?
- How old is the roof?
- What is the financing?
- The appliances renewed?
- Any underground oil tank?
- And of late - Any vacancies?

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# ***MAKING AN OFFER TO PURCHASE***

## **Subject to:**

- Financing – CMHC or conventional  
*Use a mortgage broker*
- Inspection of premises  
*Use engineer or building inspector*
- Stage 1 Environmental
- Review of statements and rent roll

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# ***MAINTAIN & PROTECT YOUR INVESTMENT***

- Cosmetic and mechanical upgrade
- Caretakers who care, dress appropriately, who smile rather than scorn
- Timely suite upgrades (cabinets, counters, appliances, flooring)
- High-speed internet
- Security
- Clean grounds
- Competitive rent levels
- Attractive lobby and landscaping

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# ***UPGRADES PAY HUGE DIVIDENDS***

## **Benefits from Upgrade:**

- Higher rents per square foot
- Lower vacancies
- Easier to re-rent vacant suites
- A more valuable asset
- Easier to refinance
- Easier to “insure”

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# ***VANCOUVER'S LOWER MAINLAND RENTAL APARTMENT INDUSTRY***

## **Industry Factoids:**

- Approximately 110,000 rental suites
- Approximately 3,300 buildings
- Approximately 2,000 separate owners
- Capital value \$10 billion
- Average suite \$90,000
- Average rent \$750/ suite
- Total monthly rent \$82.5 million
- Total monthly expenses \$28.85 million (goods & services)
- Total net \$53.65 million (to owners + debt service)

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# NEWSLETTER

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# ***LOWER MAINLAND FORECAST***

## **What's Ahead:**

- Increasing sales activity
- Modest price increases - \$/suite
- Higher vacancy levels – 3.5% to 4.0% range
- More competitive rental market – need to upgrade
- Only slight rental increases
- Higher interest rates

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