THE GOODMAN REPORT

The following is my address to the BC Apartment Owners and Managers Association's semi-annual meeting held October 22, 2003 at the Hyatt Regency.

Rental apartment buildings over the past three years have re-emerged as one of the favourite investment vehicles in Vancouver's Lower Mainland; spurred on primarily by attractive mortgage rates, a pro business provincial government, an improved tax climate and the volatility of the equity markets.

My speech this evening will attempt to put into some broad context the nature of the market by touching on both a historical and current perspective and offering a strategy on how to protect and enhance your valuable asset in a challenging and changing environment.

SLIDE 2

1. **An Overview of the Vancouver Lower Mainland Apartment Market**

2. **An Effective Strategy to Realize Your Building's Full Potential in a Competitive Rental Environmental**

A Report by David Goodman
Macdonald Commercial Real Estate Services Ltd.

First let's rewind to Vancouver's post Expo period. Some 16 years ago, in all levels of real estate, we were experiencing a period of wild exuberance tantamount to a feeding frenzy, particularly so in the apartment sector. Investors, many from offshore, fuelled the market, eagerly snapping up buildings – at times sight unseen. Between 1987 to 1991 in only a four year period, average apartment prices on a per suite basis rose 62% in Vancouver's Eastside to 103% in Kitsilano with the other areas of South Granville, North Vancouver, Burnaby and New Westminster falling somewhere in between, depending on the area.

SLIDE 3

LET'S EXAMINE THE PREVAILING INVESTMENT RATIONALE OF THE LATE 80'S

During this heated period, speculation was running rampant, as was flipping and multiple offers. Escalating real estate values were the talk of the town. New buyers, owners and yes, some real estate agents, simply perceived that continuing capital appreciation into the 90's would compensate investors willing to co-exist with negative cash flow real estate.

Let's remember now – all this occurred during an era of 10 – 11% mortgage rates while cap rates were running at 5 – 7%. – Talking about negative cash flow.

SLIDE 4

WE WERE PROVEN WRONG

The early 90’s brought profound changes to the investment climate in BC, particularly as it related to multifamily rental apartments. It was not merely an NDP Government that was its undoing, but also the Feds ongoing budget deficits and attempts to wrestle inflation to the ground with high interest rates.

The following graph vividly illustrates what happened to volumes (buildings sold) almost overnight. In one year, from 1989 to 1990 we saw volumes drop from 353 sold buildings to 130 buildings, an astonishing 170% decline, then staying in a tight range of 50 – 70 buildings yearly from 1994 to 2000. Getting anyone greatly motivated to act, be it Sellers or Buyers, during this market lull was a tall order indeed – certainly a far cry from the late 80’s.

SLIDE 5

MARKET SENTIMENT – LATE 90’S
THE NEGATIVE FACTORS

Let’s examine some of the troubling factors working against our industry in the mid to late 90’s, especially in light of BC gaining the dubious distinction of becoming a “have not” province. (Read out the list)

Despite all the bad news, there was also a ray of sunshine.

SLIDE 6

10 YEARS OF MARKET INERTIA

To illustrate, the effects of investors almost 10 years of indifference and a languishing market, I’ll briefly touch on average $ per unit in the Lower Mainland in 1991 and compare it 10 years later in 2001. Not surprisingly, we saw only modest increases in Kits and South Granville of 8-9%, flat in Vancouver’s Marpole, Westend and Eastside and Burnaby and about 5-8% lower in North Vancouver and Kerrisdale, and an 18% drop in New Westminster. Again, we are talking about a 10 year time span. This all in sharp contrast to the explosive price increases I just highlighted in the late 80’s.

SLIDE 7

POSITIVE FACTORS

Over the past 36 months however, we’ve seen a dramatic increase in demand and sales of multifamily with 2001 characterized as a “breakout year”.

Lets call this phenomena a convergence, which we define “to cause a trend toward one point”. What had occurred was a long overdue re-alignment of a number of positive factors which contributed to a more optimistic investment climate. I’ve identified some of the factors.

SLIDE 8

By 2002 no longer was there any doubt that we were now experiencing strong sentiment directed towards the multifamily rental sector, benefiting both owner and investor alike. That sentiment continues to this day.

YEAR TO YEAR COMPARISONS
2000 - 2003
Let's review some recent numbers.
Looking at a low point in activity, the year 2000's 57 buildings sold and comparing to 2002's 142 buildings, we observed in just a two year period a 150% increase. For 2003, while interest in apartments remain solid, overall activity it's expected will drop to about 110 buildings sold or a 20% decrease.

SLIDE 9

As for total dollar volume, in 2000 we recorded a figure of $164,874,000, whereas two years later in 2002 there was a significant dollar increase to $394,400,000, a 250% increase. With respect to 2003 it appears that total dollar volume will be off by approximately 20% to $320,000,000.

SLIDE 10

The next graph provides the audience with a complete 15 year picture of sold building activity with 2003 showing a modest decline.

SLIDE 11

The next table is very revealing in that it points out the preference of today's investors.
(Again folks, you have this in your handout #12) Some details - According to the following stats, Buyers today are showing a marked preference for the lower priced areas of Vancouver's Eastside, Marpole, Surrey and New Westminster, where prices on an average $ per suite basis and volumes are up substantially over last year. Conversely, Vancouver's Kerrisdale, North Vancouver and White Rock areas have shown a dramatic decrease in activity while prices are off slightly from 2002. Vancouver's Kits and South Granville areas have shown strong price increases on a per suite basis, although Kits building sold activity has dropped while the West End and Burnaby will likely match or be slightly under last year's numbers. Coquitlam's activity and suite prices are up just marginally.

SLIDE 12

Year to Year Comparison
Summary of Recent Activity
Sales and Pricing Highlights

	2002 12 months			2003 10 months		
	2002 Buildings Sold	2002 $/Suite		2003 Buildings Sold	2003 $/Suite	Variable
VANCOUVER						
East Vancouver	19	$60,429		15	$76,975	+27%
Kerrisdale	8	$191,342		2	$173,055	-10%
Kits	12	$111,435		4	$140,500	+26%
Marpole	13	$80,233		15	$92,787	+16%
South Granville	14	$114,869		14	$128,590	+12%
West End	9	$152,904		6	$136,830	-9%
Burnaby	21	$78,355		12	$74,428	-5%
Coquitlam	2	$65,686		3	$70,410	+7%
New Westminster	17	$63,210		12	$70,770	+11%
North Vancouver	14	$88,823		5	$86,890	-2%
Port Coquitlam	0	-		2	$79,889	-
Surrey	3	$69,374		4	$77,778	+12%
White Rock	9	$88,210		2	$83,212	-6%
West Vancouver	1	$114,285		1	$182,353	+59%
	142			94		

Some examples of major sales.

MAJOR 2003 SALES

SLIDE 13

Address	Suites	Price
5976 Tisdall, Vancouver	47	$8,200,000
603-633 West 8th Avenue, Vancouver	134	$20,000,000 plus
1498 Harwood, Vancouver	55	$6,500,000
1212 Howe St. , Vancouver	150	$21,500,000
1850 Southmere, Surrey	77	$6,020,000
1555 Esquimalt, West Vancouver	51	$9,300,000
20011 56th Avenue, Langley	35	$3,750,000
1310 Caribou, New Westminster	60	$5,500,000
1288 Broughton, Vancouver	42	$5,400,000
2266 W. 1st Avenue, Vancouver	30	$4,200,000
2830 Hemlock, Vancouver	36	$3,600,000
10030 137A, Surrey	57	$4,100,000
215 St. Andrews, North Vancouver	45	$3,500,000
544 Sydney, Coquitlam	74	$6,000,000
1011 Beach Avenue	220	$29,300,000

The three top sales in the $20,000,000 range consisted of two rental strata buildings which capped at 6.5-7.0% and 220 suites on Beach which was under 5%. The 4th highest priced sale was a highrise in West Vancouver that sold just under a 5 cap.

WHERE TO INVEST
Today's investors have interest in the entire Lower Mainland. If I were to highlight some specific areas worth watching, I'd select the growing opportunities to be found in:

SLIDE 14

AREAS TO WATCH:
Great Northern Way – Finning Site – Emily Carr, BCIT, SFU, UBC (we should expect major gentrification in and around this area)
*Terminal Avenue – some rezoning likely going ahead (live work)
S.E. False Creek
Main Street (Mount Pleasant)
Cambie Street - LRT
*Surrey – yes, even Whalley
(Any contrarians in the audience?)
We recently sold a developer a site near Surrey Place to a group who intend to build three rental buildings. They firmly believe that the Whalley area, with the 2 skytrain stations, Surrey Place Shopping Centre and a supportive council will experience excellent growth over the next few years.
*Burnaby's Middlegate area – Bosa Ventures purchased the Middlegate Mall from us and is building a new S/C of 100,000 sq.ft. and four 30-storey towers. In 4-5 years the Middlegate area will be unrecognizable by virtue of intense redevelopment spin off.

Let's profile today's buyers.
New wave of investors made up of numerous first time buyers and others with real estate savvy who are focused/sophisticated, very interested in added value, syndications and strata opportunities, ie. David Andrews' 20/20

Owners of mid-size portfolios, 200 – 500 suites, ie. Christopher Investments, Fred Vertone, Sam Zalkow, Raymond Heung

Older, established families are typically not aggressive. Ie. McIntyre, Liberty Investment, Glassman, Bill Lougheed, Tiampo, Roadburg, Shrum (few exceptions being Hollyburn Properties and the Siddoo family)

Institutions – Grosvenor, Great West, Boardwalk, Wall Financial. All very involved either funding new rentals through mezzanine financing, construction or buying buildings.

Offshore Buyers – have little or no interest – though we are having a number of inquiries from the US as their $ continues to drop in value.

SLIDE 15

MARKET FUNDAMENTALS – THEN AND NOW

Recap:

Why is today's market so totally different from the late 80's?

The two periods both witnessed strong activity and surging prices, but any similarities end there.

SLIDE 16

VACANCIES – A GROWING PROBLEM

Everyone in this room is aware that vacancies have increased – in fact even this association has confirmed vacancies are up in a recent survey. Checkout the classifieds – drive by apartment buildings - signs abound. Landlords have been telling me that increases are tough to achieve and vacant suites more difficult to rent. According to CMHC, a vacancy rate of 3.8% in Metro Vancouver is forecast in the upcoming survey and a further rise to 4.1% predicted for 2004.

As for your tenants, especially those with good jobs, they are finding it increasingly difficult to resist the lure of a new or almost new condo featuring all the bells and whistles, available for a low down payment and low interest rate.

Says Bob Rennie who is marketing the suites being developed by Wall Financial and Macdonald Development at the Hudson at Granville next to The Bay "the bachelor and one bedroom units are aimed at singles, who can convert rental dollars into home ownership dollars". He goes on to say that "it's a triple witching time. We have the lowest inventory of condominiums in eighteen years, the lowest mortgage rates in 40 years and extremely high demand".

SLIDE 17

Bob Rennie States

- Lowest inventory of condos in 18 years
- Lowest mortgage rates in 40 years
- Extremely high demand

At present, there are literally thousands of condos being built in the Lower Mainland. The development industry is being driven by historically low rates and tremendous pent up demand. According to Business in Vancouver there is apparently little chance of the action slowing down. The June, 2003 study *Greater Vancouver Condominium Market Review* by PricewaterhouseCoopers estimates that 2,800 new condominiums and townhomes will be built in downtown Vancouver over the next 24 months – but demand will total 4,600 units. Apparently 40% of the new condos being purchased in the Downtown District, I've heard as much as 70% in some projects, are by investors who place them into the supply pool – I might add, often at attractive rates to your ex customers – those very tenants who gave notice last month – remember?. There is some irony that even these same investors who recently bought suites in the downtown district area to rent out are feeling the same competitive forces at work as they are forced to lower rents to the $1.50/ft. range from an earlier anticipated $1.80 - $2.00/ ft. level. Many tenants are also opting for the upscale, all purpose rental buildings, available with washer and dryer, fireplace, high speed cable wiring, exercise area and an elegant modern decor. So how do you protect your investment from this formidable competition?

YOU GO PROACTIVE

Allow me to share some insights I've gained over 20 years of selling apartment buildings. Having viewed almost a thousand different buildings, I've also had the benefit of reviewing their respective statements and rent rolls and have probably spoken with every appraiser and lender in the field. This has helped me in developing some notions with respect to owners and new buyers achieving the optimum return on their investment.

The successful owners all have one important thing in common, whether they own six or 600 units.

THEY REINVEST IN THEIR BUSINESS **SLIDE 18**

For any business to thrive they must consider their customer's needs by investing in R & D or new capital spending – the apartment business is no different.

To illustrate my point, I've compiled a "before and after" scenario regarding a typical Westside building. Appreciate please this is only an exercise. The subject building is tired and needs some serious TLC. The owner has finally, after all these years decided to take action and reinvest in their building, perhaps this owner is even here tonight? So what do we do now?

SLIDE 19

OPERATION: MAXIMIZE POTENTIAL

With the help of Eric Schapiro of Klondike Contractors, whose company can handle and co-ordinate a major upgrade on behalf of an owner, I've outlined a case study of a Westside building that has undergone a major retrofit; the approximate cost of carrying out the work, and the benefits. (Eric – where are you?)

Some assumptions. It's a 35-year walk up with 20 suites, built in 1968.

SLIDE 20

Assumptions

Apartment: 20 suites
Location: Vancouver's Westside
Construction: Three storey wood frame walk up (stucco exterior)
Year Built: 1968
Parking: Rear surface
Corridor Size: 300 SF
Lobby Size: 400 SF
Ave Unit Size: 600 SF (Mix b/w 1 & 2 bedrooms) – 4 Bach, 14 – 1 Br, 2 – 2 Br
Total leasable 14,800
Windows: 40 (5'x 3' retro-fit)
Patio doors: 20 (Std 5' wide)
Kitchen: 10' galley style (Double banked)
Landscaping: At front along walkway & entrance only
Carpeting: $2.50 supplied & installed
Lighting: Power Smart fluorescent Bulb & Std Fixtures
Exterior: Foot print 75' x 50'
Doors: Solid Core
Balconies: 10' x 5'
Boiler: 400,000 btu
Roof & piping: Done

As this outline #16, which is also in your possession, is somewhat detailed, I invite you all to review it later. Essentially, I've arrived at an estimated cost of $236,500 or $11,825 a suite.

RENOVATION COSTS

SLIDE 21

For Common Area

Upgrade laundry room	$ 2,000
Main entrance restoration (lights, mirror, carpets, wallpaper, paint)	$ 2,500
Landscaping	$ 2,500
New corridor carpeting	$ 5,000
New corridor lighting	$ 5,000
Paint exterior inc. parking lines	$ 7,500
New intercom	$ 5,000
New thermo-paned windows & patio doors	$ 40,000
Paint interior halls	$ 5,000
New doors (entrance (each suite)	$ 10,000
Total	$ 84,500

For Suites

New laminate counters (Kitchen & bathroom)	$ 10,000
New appliances – fridge, stove, 24" dishwasher, microwave otr	$ 40,000
New cabinet covers (Doors only)	$ 15,000
Resurface balconies	$ 7,500

New light fixtures	$ 5,500
Flooring – restore hardwood or new carpeting (inc lino)	$ 24,000
New tubs, toilets and sinks (Includes new faucets)	$ 30,000
Total	$132,000

Heating

Replace boiler for radiant heat & hot water	$ 10,000	
Miscellaneous	$ 10,000	
Total Upgrade Costs	$236,500	÷ 20 units
	$ 11,825	per suite

A BEFORE AND AFTER SCENARIO **SLIDE 22**

UNIMPROVED – BEFORE				**IMPROVED - AFTER**			
Income							
Rents 11,550 sq.ft. x 1.28 =	$			$11,550 x 1.65 sq.ft.	$ 19,800		
Parking 12 stalls x $20 =	240			12 x 30	360		
Laundry	400				550		
	$ 15,400	x 12 =	$184,800		20,700	x 12	$ 248,400
Expenses							
$2,600/unit x 20 U			52,000		$3,000/unit x 20U		60,000
NOI			$132,800				$ 188,400
Assume Cap Rate 5.5%	= $2,414,000	Value		Assume Cap Rate 6%	= $ 3,140,000	Value	
Price per Suite	= $ 120,700			Price per Suite	= $ 157,000		

SLIDE 23

Improved Value	$3,140,000	Potential Gain	$ 726,500		
Unimproved Value	$2,414,000	Cost of Upgrades	236,500		
Potential Gain	$ 726,000	Total Profit	$	490,000 =	220% pro

Upshot – upgrades pay huge dividends. **SLIDE 24**

BENEFITS FROM UPGRADE
1) Higher rents per sq.ft.
2) Lower vacancies
3) Easier to re-rent vacant suites
4) A more valuable asset
5) Easier to refinance
6) Easier to 'insure'

* This group have unlocked the potential revenue and value from their property.

Even after 20 years in the apartment business, I'm often surprised especially in light of these obvious benefits that some owners upgrade or modernize <u>only</u> when absolutely forced to. This in spite of Vancouver's ageing stock of apartment buildings that are probably, on average, 40 years old, and some formidable competition.

Anecdote:
A quick anecdote – 20 years ago, when I first started selling apartment buildings, a well seasoned owner gave me some advice. This after I had peppered him with a series of questions about the market. "Son" he said – that part I really enjoyed – "Let me sum up this business for you in just a few words" – I awaited nervously for his pearls of wisdom – "either the tenants kiss our ass or we kiss theirs" said my mentor. For this greenhorn, it was a rather pivotal moment and, I might add shocking summation. Perhaps it was a truism nevertheless. Essentially he was saying that the market's direction, rental buildings being no difference, is primarily a function of supply and demand. At present, we all agree - the pendulum has swung in favour of the tenants and will likely remain in their corner for the next few years.

Incidentally - I'll let you all in on a not so little secret.

As an agent I receive as many calls from prospective buyers looking for "added value", opportunities as I do well maintained properties.

If you are putting your building up for sale and want to excite Buyers, offer your building with deferred maintenance and low rents, etc. The new breed of investor recognizes that you've given <u>them</u> a golden opportunity to create value. The reality is that <u>they</u> will realize the upside by upgrading what was <u>your</u> building – <u>not you</u> - think about it!

I'd be remiss if I didn't remind you that within BCAOMA there are over 100 very willing associate members, many in the audience offering quality goods and services from new roofs, windows and appliances to repiping, carpeting, insurance and mortgages, etc. They are here to assist you.

Today's owners wear many hats. Again, whether you own 6 – 600 suites, you've probably at one time or another been all or one of the following:

SLIDE 25

JACK OF ALL TRADES
- Bookkeeper
- Social worker
- Carpenter
- Painter
- Psychologist
- Plumber
- Economist
- Cleaner
- Electrician
- Gardener
- Enforcer
- Sanitation engineer

You've stored furniture for tenants who couldn't pay their rent, listened to their stories of joy or heartbreak, have foregone rent increases for older, loyal tenants, seethed with frustration over arbitration decisions and almost cried at the sight of a trashed suite. Who ever said being an apartment owner was a snap, might want to talk to some of the folks in this audience.

To help today's apartment owner stay abreast of what's happening in their industry, they rely on their property managers, caretakers, BCAOAMA which includes, I must add, the associate members and we in the real estate community.

Which leads me to my next subject…

My son Mark and I publish the Goodman Report, an apartment owner newsletter I pioneered some 20 years ago. This past year we began offering a new and very comprehensive website service called, coincidentally, Goodmanreport.com – which we proudly consider to be the definitive source for the Vancouver Lower Mainland apartment market.

We feel that we can play a significant part in <u>your</u> success by disseminating product knowledge through a free online, user friendly service dedicated primarily to the apartment market and available to our ever widening family of subscribers.

SLIDE 26

Its purpose is to help our members optimize the full potential of their valuable real estate assets through in-depth and up to date market reports. Today's fast-paced business environment requires apartment owners to protect their investment by receiving intelligent, concise and timely information. The Goodman Report website, a free online service, brings you the latest news and views pertaining to the Lower Mainland rental apartment markets, including past newsletters, a frequently updated summary of all building sales, comments from industry experts and details of our listings.

Here's a sample of our home page. You'll notice on the right side, we have a Canadian commercial real estate news headline service taken from the media and updated daily. On the left side, we have a navigator bar – let's look at our listing section.
1. Reviewing this listing page, you'll note that we provide all the salient data and a detailed photo tour of the entire property, inside and out. Incidentally, this listing information is sent out to over 3,000 subscribers
2. Sales Activity – We publish for our subscribers all sales in the Lower Mainland by area on a frequent basis.
3. Industry Experts – Finally, every few weeks or so, we provide a commentary by a professional on a topic relevant to our industry. So far we've had articles from a roofer, financial planner, lawyer and a lender. For our associate members who would like to contribute, we want to hear from you.

We'd love to have you all as subscribers and help to keep you informed about our industry. Please check us out at Goodmanreport.com. Incidentally, if you haven't yet picked up our pen with our web address, see Mark or myself.

TO SUMMARIZE

New offerings are meeting with very strong investor interest. This activity bodes well for owners serious about selling and achieving the top end of the pricing model. Despite the strongest market in some 13 years, there still exists a number of offerings well outside market range. Its unlikely that these properties will soon change hands.

It is my opinion that this surge of interest should not be construed as a complete Seller's market but rather a splendid opportunity to catch the wave if you are so included and sell into strength.

My forecast for the next few years, subject to interest rates and the BC economy's direction.

LOWER MAINLAND FORECAST

SLIDE 30

- Increasing sales activity
- Modest price increases - $/suite
- Higher vacancy levels – 3.5 – 4.25 % range
- More competitive rental market – need to upgrade
- Rent increases will not keep pace with inflation

The low rates will enable existing owners to refinance and upgrade their building and/or acquire further assets while encouraging the investor to finance their new acquisition.

Rents

On the subject of rents, while I discussed higher vacancies over the next few years, we must also recognize that Vancouver is rated one of the best cities in the world and in case you haven't heard, we've got the Olympics in 2010. The positive buzz keeps Vancouver in the limelight. Vancouver continues to attract people worldwide to our shores. Over the next 10 years 475,000 people requiring 218,000 new housing units, according to CMHC, are moving to the Lower Mainland and they will need a place to live.

Finally, with respect to the BC Apartment Owners and Managers Association, we've entered into a new and exciting era. The Residential Tenancy Act is about to be implemented, which its expected, will level the playing field somewhat. Also there is renewed speculation that rollover legislation will be considered by our new Prime Minister.

Over the past two years, with Lynda at the helm, and a fantastic group of directors, all levels of membership have soared. Lynda, Jan, Chris and Laura have worked tirelessly to strengthen the organization and its presence. All of us here thank you for your wonderful efforts.

Again, I wish to thank the Executive Director, her staff, directors and membership for the great privilege of addressing you here tonight.