Activity in the multi-family sector finds itself at its best levels since the early 90’s. Unrelenting demand for apartment investments continues unabated, fuelled by low interest rates and investment risk, the emergence of an active new breed of local entrepreneur and an apparent decline in vacancies. In 2004, an estimated $327,000,000 worth of product consisting of some 133 buildings has changed hands in Vancouver’s Lower Mainland.

While the extreme lack of supply and low yields are a hindrance, investors desirous of positioning themselves in the market have been bidding up prices and in many instances, surpassing 2003 levels.

To provide some market perspective, the following graphs (p.2) summarize dollar volumes and building transactions over the last 10 years (1994 – 2004). For a further in depth statistical review comparing activity for 2003 to 2004 and detailed Vancouver Lower Mainland sales by area, we invite you to visit our Market Trends section on our website where you can download this free report at: www.goodmanreport.com.

For those of you who receive the newsletter by mail, we have included this data as well. Also, please don’t forget to subscribe in order to receive timely updates of sales transactions, new listings, articles from industry experts, as well as other useful information.

Fast Forward
Mark Twain once said, “News is not when dog bites man, but when man bites dog.” Is there a man waiting to bite dog? It is not a matter of whether or not this explosive market can sustain itself; as we all know there will be a contraction. The question is when and how severe will it be? It has been our experience over the years that changes occur very rapidly. There are usually no overt warnings, except some distinct signs, such as increased listings, more calls from owners inquiring about values, longer listing periods and selling prices at a significant discount to asking prices. Thankfully, we have not arrived at this stage yet, but we are receiving more calls from clients asking us about possibly listing their building to take advantage of this strong market. We have observed that over the past 3-4 years, buildings that are priced at or near the market sell rather quickly; however, buildings that are overpriced with unusually low capitalization rates remain listed for quite some time and receive little or no action. This, in spite of the best market in 14 years.

The current pricing mechanism appears to be significantly different from other boom markets that we have previously experienced. During the late 80’s for example, when a building was sold with multiple and backup offers, astonishing new pricing highs were achieved. Investors were foregoing
yield for expectation of capital gains. Today, due to low interest rates, investors want to buy yield because they can achieve, in most cases, positive leverage. That is, they can buy an apartment building, finance it to a higher percentage than they could 10 years ago, and still have positive cash flow. In the present day market, investors are looking to the long term for increase in value.

British Columbia’s economy has finally turned around with a vengeance. Ten years ago, BC’s economic growth was on a major decline; we were receiving more in transfer payments than we were paying. Our province was only showing moderate export growth with major trading partners. To make matters worse, domestic demand and consumer spending was weaker as well. The only saving grace was that our exports remained buoyed, sustained by a falling Canadian dollar. A decade later, BC’s economy is in an expansion mode. Our exporters are enjoying solid growth in spite of our high currency. Hopefully, domestic and foreign demand are able to compensate. Kudos to Gordon Campbell and his team. Without making a political statement, the pain that we’ve gone through over the last 3 years since the change of government has started to bear fruit. Recently, our Provincial Minister of Finance and our Premier announced a surplus of close to $2 billion. Mind you, $1 billion was a windfall from the Federal Government, but the ends are more important than the means.
Local Impetus

The 2010 Olympics, our general economy, our favourable tax structure, and a progressive provincial government all seem to have attracted people back to BC. Of course, the housing boom has helped to fuel this growth cycle as well. This must bode well for our industry, as positive net migration generally means lower vacancy; however, with the low interest rate environment, there is no shortage of new housing construction especially in the Lower Mainland. Needless to say, new housing projects, especially in the condo sector, will continue to be offered as a “home ownership dream” to your tenants for a dollar down!

For our industry, as positive net migration growth cycle as well. This must bode well for the construction industry is the catalyst creating thousands of jobs. This housing boom, especially in the multi-family residential sector, isn’t showing any signs of slowing down. For example, the buying madness experienced in 2004 saw a 110 suite condo project in Burnaby called Strathmore sell out in 2 weeks without even a stake in the ground. This climate may have abated somewhat, although the market remains robust.

Economy: Heading In The Right Direction

Let us look at the impact of a rising Canadian dollar. The Canadian economy is primarily driven by exports, and with a 78-85 cent dollar, some 400,000 manufacturing jobs could be at risk. We are an exporting nation from both a commodity and a manufacturing standpoint; however, the manufacturing is more prevalent in Quebec and Ontario than in British Columbia. The low Canadian dollar was, to some degree, a reflection of our expanding economy. In particular, trades are in short supply and aging buildings will rise dramatically, led by soaring insurance rates and utility costs. Not forget that the cost of maintaining aging buildings will rise dramatically, led by soaring insurance rates and utility costs. In particular, trades are in short supply and aging buildings will rise dramatically, led by soaring insurance rates and utility costs.

In the short term, we think apartment buildings will continue to be in short supply and values will rise especially if net income increases. While prices may level off, values should not drop unless interest rates rise sharply. Older buildings even with location and charm, will continue to lose their competitive edge to newer condos and updated rental buildings. In fact, some of these older, inefficient apartment buildings that are essentially “land value” will come under greater scrutiny by condo developers eager for more sites in established neighbourhoods. Also, let us not forget that the cost of maintaining aging buildings will rise dramatically, led by soaring insurance rates and utility costs.

We expect interest rates to remain relatively stable to slightly higher throughout much of 2005. A higher Canadian dollar is hurting our exports, but we believe that our economy, with the help of the 2010 Olympics, the RAV Line expansion and net migration, will allow us to weather any short-term storm. By the way, let us not underestimate the importance of the RAV Line to British Columbia. The cost of that line is over $1.75 billion dollars with the majority of that going to jobs, land acquisition, construction and the ancillary spin-offs that light rapid transit will develop. Can you believe that most of COPE voted against that? (Yes, that is political).

There’s More Than Just Vancouver

The economic surge has impacted Vancouver and its surroundings more...
WHAT'S HOT
Janie Goodman —
Mark's newborn daughter &
David's granddaughter

Upcoming provincial
election —
Liberals need a strong
mandate

Terminal Street —
Are densities increasing?

North Shore and Westside
development sites

China's economy
Positive inter-provincial
migration

East Vancouver, Marpole,
Whalley (Surrey) & Burnaby's
Middlegate (Told ya!)

RAV Line — P3

Gas in Chilliwack:
69.9 cents a litre

WHAT'S NOT
NHL impasse —
what knuckleheads!

Sky rocketing construction costs
squeezing margins

US interest rates to increase

Mad Cow —
can anyone say chicken, please?

Vancouver's exorbitant DCL's
especially in S.E. False Creek

Port of Vancouver congestion

Severe trades shortage
causing construction delays

Vancouver's growing scarcity of
industrial land

Cambie Street, once RAV
excavation begins

Gas in Vancouver:
89.9 cents a litre

SELL OR BUY?
THAT IS THE QUESTION

This is the million-dollar question that we
don't always seem to answer. We can tell
you that selling into strong markets is
always better than selling into weak mar-
kets. Is that brilliant or what? No question,
we are experiencing a seller's market.

One of the real rewards of our profession
is meeting so many interesting individuals.
When people ask accountants what they do
for a living, they generally answer they do
accounting for their clients. When people
ask financial advisors what they do for a
living, they generally say they try to help
people best manage their money. Yet, when
we're asked, we usually say we are “prob-
lem solvers”. We will either solve a buyer's
problem, that is, successfully negotiate the
acquisition on their behalf, or a seller's
problem, that is, successfully achieving full
market value for their asset. What could be
simpler? However, sometimes the process
of bringing the buyer and seller together
requires someone with the wisdom of King
Solomon, as well as an enormous amount
of patience. We are blessed. We know we
have the latter, but admittedly, we're still
working on the former.

If you are a buyer, why are you interested
in the multi-family sector? Why would you
want the headaches of management, financ-
ing and tenants when you could simply call
your broker and buy any number of REITs
with liquidity and better yields? Here's why:
- Your asset base is yours; thus, you
control your own destiny
- Historically lower vacancy rates
compared to other real estate classes
- Solid basis for historical appreciation
- Expenses that you control or at a
minimum, highly influence
- Turning a pig's ear into a silk purse
added value)
- The ability to easily leverage which
can add wealth exponentially
- Relative stability
- 100% of value vs. discounted values
for exchange traded REITs

On the other hand, given all the positives
to buy, what motivates a seller to sell?
- Tenants, with the corresponding
headaches
- Realization of significant appreciation
since purchase
- Ineffective caretaker and/or property
management companies and the
need to take an active daily interest
- Better returns in other asset classes
(i.e., commercial properties)
- Inflation not being expressed in
revenue or value
- Estate issues
- Age & health
- Trade-up

There are compelling reasons to either sell
or buy. No one has the optimum solution,
but The Goodman Team, regardless of your
choice or direction, will assist you in all
aspects of the transaction.

Alternate Investments
In previous newsletters, we or our guest
contributors have written about alternative
investment vehicles such as income trusts
or REITs. Why do these investment vehicles
yield more than common stock? The
reason is rather simple: The Government
of Canada has given you a large gift. The
theory of income trusts is that all income
than other parts of BC with caps around 4.25
– 6.25%. We see, however, an opportunity
for apartment purchases in other cities such
as Prince George, Kamloops, Kelowna and
Victoria with higher cap rates than in
Vancouver. Many of our clients who are
prepared to accept a longer gestation
period, are looking at the hinterland as a
place to find the right building to “turn”.
Using skills acquired in managing assets
in Vancouver and applying them in areas
such as Prince George can lead to some
hefty gains.
DEPARTMENT POLICIES: A PARADOX

VANCOUVER’S PLANNING

tax and recapture, if any.

pay approximately 22% - 25% capital gains

an outdated building. If they sell, they must

they hold, owners are required to invest in

The dilemma of whether to hold or sell. If

affluent tenants seek. As a result, many

tain and do not provide the amenities more

buildings in these areas are 40-65 years old

for high-rises. In most instances, apartment

(Floor Space Ratio) for frame and 1.85 FSR

over 35 years. The prescribed density gen-

Marpole has not significantly changed in

The definition of RM-3, the zoning designa-

by the 4th Quarter of 2005 or

However, don’t be surprised if

necessary and test the market

confirmed that vacancies have

levels to your tenants. This

may be “man bites dog.”

Meanwhile, our clients have

contracted with new condo projects have

approximately 40% of suites

This is an interesting occurrence,

VACANCIES FALL

As reported by CMHC in their

fall 2004 rental survey, vacan-

cies are falling and rents are

increasing. There is no doubt

this reduction in vacancy is

from net migration and to some

lessor degree a sharp increase

in housing prices, which in turn,

is affecting “affordability”.

Rental units vacant a year ago

are now being occupied by new

arrivals in BC, many of whom

are seeking to buy a condo in

the near future.

is distributed pre-tax; tax is then paid by

the income trust holder as interest, which

in turn avoids double taxation. Take A & W

Restaurant as an example. They have capi-

talized themselves as an income trust and

the yield is double digits. The question

remains: would you own their common

stock as your retirement vehicle? If not,

why would you own their income trust?

ask that question to your stock market guru.

stock as your retirement vehicle? If not,

remains: would you own their common

stock as your retirement vehicle? If not,

remains: would you own their common

points within the income trust domain that

would have been made in any event and

the sale was negotiated during the course of

the repairs, or after their completion, the

cost should be classified as though no sale

was contemplated.

We advise that you get professional help

If you are unsure of your own situation. Or,

please feel free to contact Daniel Majewski

B.Com, C.A., TEP of Majewski Shaler & Co.,

Chartered Accountants at: 604.742.2250.

Revenue Agency, in its interpretation bulletin

IT 128R, regards such work as capital in

nature, even though in ordinary circum-

stances it would be treated as an expense.

In order to circumvent this problem, the

expenditure should be deferred until the

next taxation year.

On the flip side, if repairs are made in

anticipation of the sale of a property, or as

a condition of the sale, they are regarded

as capital in nature; however, when repairs

would have been made in any event and

the sale was negotiated during the course of

the repairs, or after their completion, the

cost should be classified as though no sale

was contemplated.

We advise that you get professional help

If you are unsure of your own situation. Or,

please feel free to contact Daniel Majewski

B.Com, C.A., TEP of Majewski Shaler & Co.,

Chartered Accountants at: 604.742.2250.

On the flip side, if repairs are made in

anticipation of the sale of a property, or as

a condition of the sale, they are regarded

as capital in nature; however, when repairs

would have been made in any event and

the sale was negotiated during the course of

the repairs, or after their completion, the

cost should be classified as though no sale

was contemplated.

We advise that you get professional help

If you are unsure of your own situation. Or,

please feel free to contact Daniel Majewski

B.Com, C.A., TEP of Majewski Shaler & Co.,

Chartered Accountants at: 604.742.2250.

On the flip side, if repairs are made in

anticipation of the sale of a property, or as

a condition of the sale, they are regarded

as capital in nature; however, when repairs

would have been made in any event and

the sale was negotiated during the course of

the repairs, or after their completion, the

cost should be classified as though no sale

was contemplated.

We advise that you get professional help

If you are unsure of your own situation. Or,

please feel free to contact Daniel Majewski

B.Com, C.A., TEP of Majewski Shaler & Co.,

Chartered Accountants at: 604.742.2250.

On the flip side, if repairs are made in

anticipation of the sale of a property, or as

a condition of the sale, they are regarded

as capital in nature; however, when repairs

would have been made in any event and

the sale was negotiated during the course of

the repairs, or after their completion, the

cost should be classified as though no sale

was contemplated.

We advise that you get professional help

If you are unsure of your own situation. Or,

please feel free to contact Daniel Majewski

B.Com, C.A., TEP of Majewski Shaler & Co.,

Chartered Accountants at: 604.742.2250.

On the flip side, if repairs are made in

anticipation of the sale of a property, or as

a condition of the sale, they are regarded

as capital in nature; however, when repairs

would have been made in any event and

the sale was negotiated during the course of

the repairs, or after their completion, the

cost should be classified as though no sale

was contemplated.

We advise that you get professional help

If you are unsure of your own situation. Or,

please feel free to contact Daniel Majewski

B.Com, C.A., TEP of Majewski Shaler & Co.,

Chartered Accountants at: 604.742.2250.

On the flip side, if repairs are made in

anticipation of the sale of a property, or as

a condition of the sale, they are regarded

as capital in nature; however, when repairs

would have been made in any event and

the sale was negotiated during the course of

the repairs, or after their completion, the

cost should be classified as though no sale

was contemplated.

We advise that you get professional help

If you are unsure of your own situation. Or,

please feel free to contact Daniel Majewski

B.Com, C.A., TEP of Majewski Shaler & Co.,

Chartered Accountants at: 604.742.2250.
SPREADING THE WORD

On the subject of the Vancouver Lower Mainland multi-family apartment market, we’ve been privileged of late to be invited as a keynote speaker for the following events:

Lambda Alpha International, 2005, an honorary land economics society at the Vancouver Club. Talk: Vancouver’s Planning Department: A Paradox

Real Estate Outlook, 2005, hosted by Ozzie Jurock at the Renaissance Hotel and a seminar at SFU. Talk: Risks & Rewards of Investing in Multi-family Real Estate

The Vancouver Real Estate Forum, 2004, held at the Hyatt Regency Hotel. Talk: Trends, Opportunities and Risks in Multi-family Markets.


Urban Development Institute, 2002, held at Pan Pacific Hotel. Talk: Commercial Real Estate: Is It Still A Golden Time To Invest?

If you would like The Goodman Team to address your business group about the current climate in the apartment industry, please give us a call at: 604.714.4778.

recognize that as the “highest and best” use of all land parcels evolve, it has an obligation to both its citizens and property owners to re-visit these strategic RM-3 areas. The City should provide for a liberalization of densities and building forms, including higher height limits (say, 16 floors). This is particularly important if single-family neighbourhoods continue to fight change by rejecting re-zoning applications by the development industry.

An example of an area that requires an extreme makeover is Marpole, especially with the RAV line about to commence construction as well as the overwhelming economic presence and proximity to YVR. Since Vancouver was founded, it seems that Marpole has been seriously neglected often at the expense of more upscale Westside neighbourhoods. Land-use policies with respect to Marpole, South Granville and Kerrisdale should encourage the “highest and best use” of these RM-3 lands by increasing both densities and heights. A significant increase in FSR, for example, would dramatically re-shape Westside neighbourhoods. Land-use policies with respect to Marpole, South Granville and Kerrisdale should encourage the “highest and best use” of these RM-3 lands by increasing both densities and heights. A significant increase in FSR, for example, would dramatically re-shape South Vancouver, decidedly for the better. With YVR being so dominant, Marpole could become the next False Creek. Wake up Vancouver!

Consider the proposed new stations located along the RAV line. Planning should commence immediately to identify and announce specific new zoning for up to 3 to 5 blocks surrounding the new stations. Density in these areas should be at least 1.5 FSR at the outer reaches and increase to 5 FSR to encourage the re-development of the respective neighbourhoods. Reasonable Development Cost Levies (DCLs) will help pay for the RAV stations and infrastructure.

There is also a downside to increasing density. Over the past year, the City of Vancouver has proposed a re-zoning of the former industrial area along the south side of False Creek. After months of meetings and “discussion”, city planners recently informed the private land owners that the City will propose increasing the density up to 3.5 FSR north of 2nd Avenue (total area approximately 2 million sq. ft. and allowing up to 12 to 15 stories in several locations). The City announced they will be seeking DCL’s of $20 per gross buildable square foot. This will result in each property owner paying the City of Vancouver approximately $2.6M for the right to build 100,000 sq. ft. gross area of building (approx. 115 suites).

Unfortunately, this punitive new assessment is in addition to all other City fees and charges. It appears their goal is to raise over $50M in DCL’s from the private property owners. These funds will be used to pay for the total cost of the clean up and part of the infrastructure of City owned lands north of 1st Avenue for the new Olympic Village site as well as their “Principles of Sustainable Development”. Guess who really ends up paying for it?

In summary, all levels of government require vision with respect to long-term re-development that is both sustainable and renewable. This means we must encourage property owners to continually consider the highest and best use of their properties and encourage re-development based on market demand. The federal government can introduce tax amendments to allow the necessary changes to occur. A simple roll over provision would work.
Over the past two years, The Goodman Team has enjoyed unprecedented success selling over $70,000,000 worth of property, consisting of 36 apartment buildings, 7 multi-family development sites and a major shopping centre.

Once a client has made the business decision to sell, their requirements are:

- The sale is to be handled professionally, in an efficient and expeditious manner
- A maximum exposure to qualified parties
- To achieve a top market price

Traditionally, the few apartment specialists, including The Goodman Team, have typically undertaken the following marketing steps upon listing a client's property:

- Media advertising (i.e., The Vancouver Sun & The Western Investor)
- Listing MLS/Exclusive
- Direct mailing of brochures
- Personally contacting prospects

We’ve observed, however, that over the past few years, the “art of the sale” as we know it has changed rather dramatically.

With the advent of the Internet, clients expect, and in our opinion, are entitled to their agents possessing additional cutting edge techniques for marketing their property.

There are compelling reasons why we ask to be considered as your listing agents if you are contemplating the sale of your building. We are different and we are better! Here are some reasons why this is true:

The Portal: www.goodmanreport.com

Designed specifically for the apartment industry, Goodmanreport.com is regarded by some as not only the best in BC, but among the top websites of its kind in North America.

If you haven’t yet, please take a moment to consider the reasons why in only 16 months, we acquired over 4,000 subscribers made up of local apartment owners, investors (many worldwide), Vancouver’s leading CA’s, lawyers, appraisers, lenders and the media. Our site is updated daily with new listings, sales, comprehensive statistical data and articles from industry experts.

Recognized for its attention to detail and refreshing transparency, our website receives thousands of visitors daily searching for multi-family properties and development sites. It has become the portal to Vancouver’s Lower Mainland rental apartment industry.

Once your property is listed with The Goodmans at Macdonald Commercial, it will reach a target audience of 4,000 subscribers within 48 hours. Just imagine 4,000 pairs of eyes taking a virtual tour through your building! This marketing vehicle is unprecedented for our industry and provides investors with all the necessary ingredients needed to make an informed business decision regarding your real estate.

The Deficit-Ridden United States

A wise man once said, “There is no bubble until we hear it pop.”

The Democrats fought the US election on that issue and lost. The Republicans may not get off that easy next time around. The issue of job loss and inflation is the big unknown. The US trade deficit monthly figures announced for December were an overwhelming $60 billion, that’s right $60,000,000,000. The IMF has warned the US that these numbers are simply not sustainable.

By some estimates, the US has lost over 2,000,000 jobs to China over the past 5 years, meaning two million Americans are either unemployed or underemployed; thus, the US has exported jobs and imported consumer goods. Can you say, “Welcome to WalMart?” That’s where many $20 per hour factory workers ended up.

This exporting of jobs is having a profound impact on the US economy and especially on their dollar. The trade deficit in the United States is eroding their currency. Add to the skyrocketing trade deficit, the cost of the Iraq war. Also, the fall in the US greenback has been, for the most part, driving our Canadian dollar up.

Many experts warn that unless controlled, this current fiscal road map may lead to long-term economic hardship; yet, on a more positive note, USA Today reports that 55 leading US economists forecast steady growth for 2005. They anticipate the Feds will boost their target short-term interest rates to 4% by 2006. This is an increase of 1.75% from current levels and will definitely impact US housing, which will further affect our lumber exports.
The Goodman Report / February 2005

Christie’s Great Estates

The Goodman Team is delighted to announce that select apartment owners desirous of selling their building(s) now have an absolutely unparalleled opportunity to expose their gilt-edge property among the world’s investor elite.

How, you ask? For those unique and selective situations, The Goodman Team is prepared to include your apartment listing at no extra charge in the famous Christie’s Great Estates Magazine section which is a wholly owned subsidiary of Christie’s International. It is the largest international network of real estate brokers specializing in the marketing and sale of important properties. As a Canadian affiliate of Christie’s Auction House, Macdonald Commercial and The Goodman Team are ecstatic about being able to bring this exclusive branded service to their valued Vancouver clientele.

The Christie’s Great Estates affiliate network includes 650 offices and 15,000 estate agents, providing both national and international market expertise in 17 countries. In addition, the combined annual sales volume of all affiliated real estate companies is approximately $75 billion.

Properties are showcased four times a year in Christie’s Great Estates magazine. This award-winning magazine enjoys a readership of more than 280,000, reaching a worldwide audience of affluent potential investors. Properties are also featured in a comprehensive international brochure distribution program, in Christie’s Magazine, and on the Christie’s Real Estate web site: www.christiesgreatestates.com.

The Goodman Report Newsletter: For Apartment Owners

Since 1983, The Goodman Report has been geared to help you make informed decisions relating to the multi-family rental market in Vancouver’s Lower Mainland. As you are probably aware by now, we are not ones to tell you that the world is always wonderful and that prices will only rise. As for those of you who have asked us to evaluate their buildings, our valuations may not necessarily be the highest of other realtors. The Goodman Team does not provide dreams or wishes; rather, we provide factual and empirical data to formulate value. At the end of the day, the acid test is what your real estate sells for. We are very accurate in that regard. Often, when a competing realtor receives a listing that we were asked to evaluate, the sale price is ultimately dead on to our numbers. Sixty percent of our sales are consummated without the involvement of outside agents, while over ninety-five percent of our listings are successfully sold. This speaks volumes as to our ability to effectively access investors and market your asset. It is easy to list, but takes expertise to sell!

The Goodman Report Newsletter and our website www.goodmanreport.com, combine to provide depth and breadth you will not find anywhere else in the industry. Examine our renowned timely reports for clarifying statistics and overviews on the current status of the market and emerging trends. The added benefit of our new partnership with Christie’s Great Estates, further demonstrates our ability to bring additional and powerful resources to the sales process. The Goodman Team’s mission is to keep you apprised of the many facets of our industry through timely market intelligence. Furthermore, it is our commitment to our clients who are selling, to acquire the optimum sale price that best reflects the exceptional market environment we are presently experiencing.

Finally, our province has become a have-province again. Let us hope that the voters of BC do not forget where we were just 4 years ago.

P.S. Please drop by our booth between 4:30 pm – 7:00 pm at the upcoming BCAOMA Trade Show to be held at the Hyatt Regency on Friday, March 4, 2005.

“If Patrick Henry thought that taxation without representation was bad, he should see how bad it is with representation.”

– The Old Farmer’s Almanac

THIS IS NOT INTENDED TO SOLICIT PROPERTIES ALREADY LISTED FOR SALE WITH ANOTHER AGENT.

All rights reserved. No part of this newsletter may be reproduced without permission from the publisher. The views expressed in this newsletter are solely those of Mr. Goodman and not necessarily those of Macdonald Commercial Real Estate Services Ltd.