The Goodman Report

FOR APARTMENT OWNERS

www.GoodmanReport.com

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2010: The Year in Review

Much of the world has lived through some of the most turbulent economic times since The Great Depression. As American President Herbert Hoover said during its onset, "Good times are just around the corner." From the standpoint of you as an owner, investor or simply an observer, what could be just "around the corner" is the million-dollar question.

The global debt crisis has caused tepid growth, high unemployment and waning tax revenues. Its fallout has precipitated costly bank rescues and stimulus programs driving up government deficits particularly in Europe and North America. Perhaps the days of Keynesian theory are no more, and with that, the old, true, time-honoured monetary assumptions will not hold up.

Years ago, before the dominant age of technology, a strong economy was based for the most part on manufacturing, which produced goods for consumers and employed many hundreds of thousands of workers. Today, politicians on both sides of the border struggle to deal with this paradigm; on one hand, the high paying blue collar industrial jobs are disappearing, while on the other, lower paying service jobs are increasing. The one bright side is that high tech jobs are plentiful, yet these require different skill sets and higher education.

We have seen enormous wealth wiped out south of the border mainly due to the fall of housing and the mortgage debacle that almost brought the United States' economy to a grinding halt. We would highly recommend that everyone read the book *The Big Short* by Michael Lewis. This book will give you incredible insight into how the subprime mortgage market both made and lost hundreds of billions of dollars for those parties involved. One of the lessons contained is how the borrowers who got caught up in the explosiveness of a boom market in real estate found that the faster a market goes up, the faster it drops. Is this something apartment owners here should be concerned with? Are we in for any more rapid increases like we've seen over the past five years, or are we "on the bubble" and will prices start to decline?

A Year To Year Comparison – The Story Behind The Stats

While not a banner year, 2010's performance again confirmed that investors are drawn to the numerous possibilities available in this asset class. For Greater Vancouver in 2010, a total of 90 buildings sold, up 22% from the 74 sales recorded in 2009. Vancouver saw 41 buildings changing hands, up from 38 sales in 2009, while suburban areas had 49 sales in 2010, up 36% over 2009's 36 sales.

As for overall dollar volumes in Greater Vancouver, sales showed a decrease to $431,983,900, a 31% reduction compared to $626,333,693 in 2009. Moreover, Vancouver's 2010 volume decreased sharply to $198,049,000 from the lofty figure of $426,700,480 in 2009, a 54% decrease. This could be explained by the $274,000,000 in volume attributed to the Wosk portfolio sale of Beach Towers and Langara Gardens. Suburban 2010 dollar volumes registered a 17% increase to $233,934,900 from 2009's $199,633,173.

Finally, average prices per suite in Vancouver increased by 5% to $214,339 from $204,163 in 2009, while suburban prices at $135,223 were up 11% compared to 2009's $122,099 per suite.

Although total apartment sales have increased, Vancouver's performance was surprisingly static for 2010. The West End and South Granville neighbourhoods showed moderate increases in sales, offset by lacklustre activity in Marpole and an absence of any transactions in Kerrisdale. The West End, South Granville and Marpole had average price increases of 13 – 26% while Kitsilano, which suffered a 26% reduction in average prices, saw a doubling of sales to 6 buildings. Vancouver's East Side remained flat

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News and views from David and Mark Goodman

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Activity Highlights | 2010 compared to 2009

Building Transactions

Area	2010 Buildings Sold	2009 Buildings Sold	Difference	2010 Suites Sold	2009 Suites Sold	% Change
Vancouver	41	38	+ 5%	924	2,090	– 56%
Suburban	49	36	+ 36%	1,730	1,641	+ 5%
Total	**90**	**74**	**+ 22 %**	**2,654**	**3,731**	**– 29%**

Dollar Volumes

Area	2010	2009	% Change
Vancouver	$198,049,000	$426,700,480	– 54%
Suburban	$233,934,900	$199,633,173	+17%
Total	**$431,983,900**	**$626,333,653**	**– 31%**

Average Price Per Suite

Area	2010	2009	% Change
Vancouver	$214,339	$204,163	+ 5%
Suburban	$135,223	$122,099	+ 11%

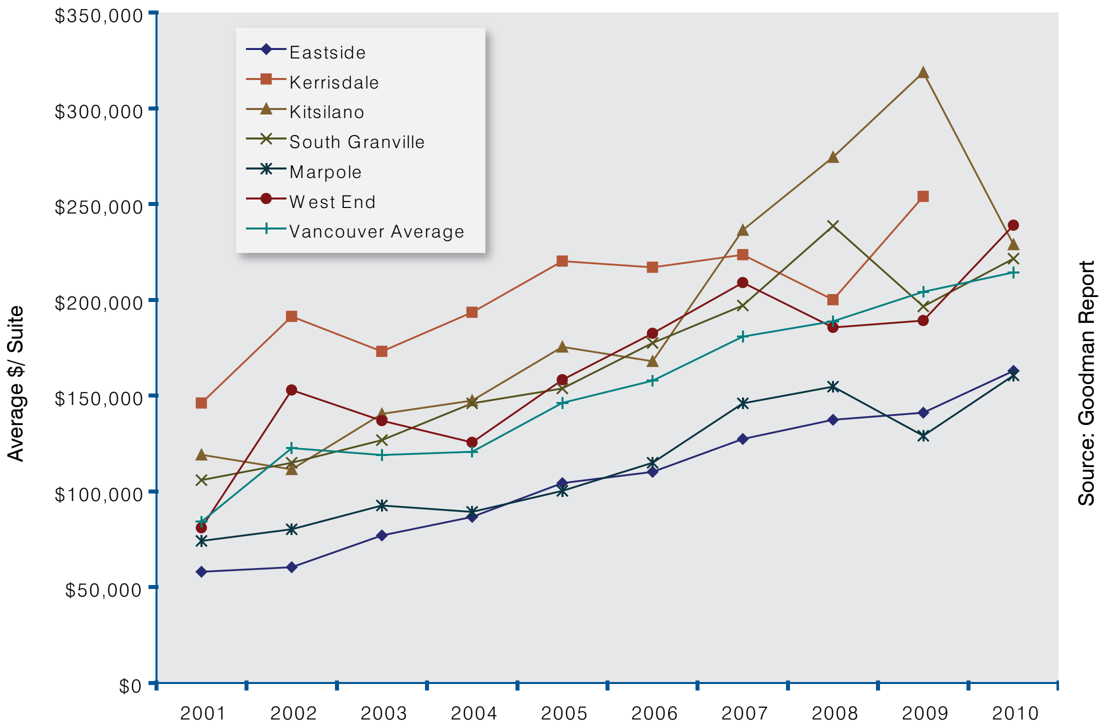
Transactions / Average $ Per Suite (Comparisons)

Vancouver Area	2010 Transactions	2009 Transactions	$ Per Suite (2010)	$ Per Suite (2009)	% Change
East Side	8	8	$162,923	$140,018	+ 16%
Kerrisdale	0	3	N/A	$253,941	–
Kitsilano	6	3	$228,889	$318,729	– 28%
Marpole	6	9	$160,558	$129,030	+ 24%
South Grandville/Fairview	9	7	$221,438	$196,597	+ 13%
West End	12	8	$238,891	$189,423	+ 26%
Suburban Areas	**2010 Transactions**	**2009 Transactions**	**$ Per Suite (2010)**	**$ Per Suite (2009)**	**% Change**
Burnaby	17	11	$148,137	$125,658	+ 18%
Coquitlam	3	5	$132,436	$114,893	+ 15%
New Westminster	11	5	$104,718	$129,144	– 19%
North Vancouver	6	8	$162,650	$163,201	–

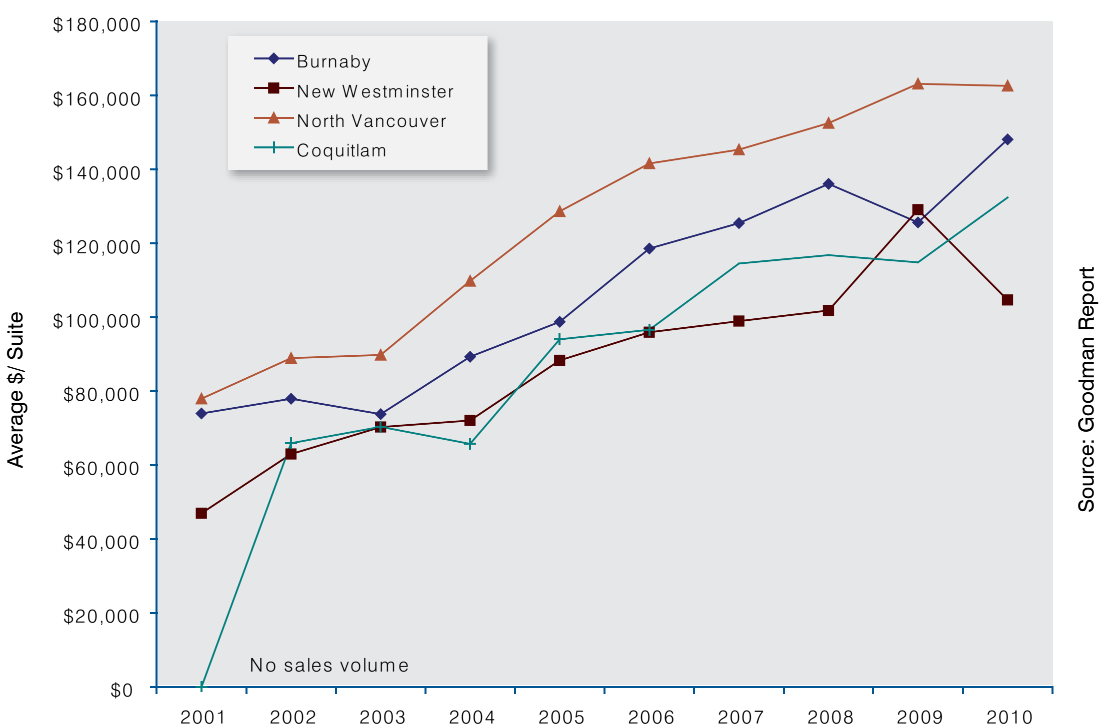
Building Size, High-Rise

Type	2010	2009
Size (over 50 units)	9 of 90 sales	16 of 74 sales
High-Rise	4 of 90 sales	8 of 74 sales

Vancouver Neighbourhood Average Price per Suite



Suburban Areas Average Price per Suite



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in terms of sales, yet average prices increased 16% mainly due to the sale of a strata building at 233 East 14th Avenue.

The combined suburban areas of Greater Vancouver surpassed Vancouver's performance in terms of buildings sold and dollar volumes with the perennial front-runners Burnaby and New Westminster leading the way. Collectively, these two areas represented 28 of the 49 sales and $114,468,900 of the $233,934,900 in total suburban dollar volume. Both Burnaby and Coquitlam experienced significantly higher averages per suite with increases of 18% and 15% respectively. Maple Ridge and Langley also continued to attract growing investor interest with each community registering four sales. A rare sale was recorded in both West Vancouver and Delta while North Vancouver had an off year with only 6 sales occurring with average prices remaining unchanged (see page 2 for Activity Highlights).

Apartment Building Sales | Vancouver Lower Mainland

January 1 to December 31, 2010

ADDRESS	SUITES	$ PRICE	$ PER/UNIT
Vancouver (East Side)			
7950 Knight St	12	1,400,000	116,667
677 E 7th Ave	42	6,400,000	152,381
* **1510 E Pender**	**6**	**998,000**	**166,333**
336 E 7th Ave	18	3,136,000	174,222
288 E 14th Ave (ST)	33	7,200,000	218,182
868 E 6th Ave	12	2,275,000	189,583
833 E Broadway	11	1,275,000	115,909
1016 E 8th Ave	35	4,850,000	138,571
Total	**169**	**27,534,000**	**162,923**
Vancouver (S Granville)			
1160 W 13th Ave	24	5,200,000	216,667
1066 W 11th Ave	14	2,825,000	201,786
1635 W 12th Ave	20	4,000,000	200,000
1565 W 13th Ave	11	2,300,000	209,091
989 W 20th Ave	13	2,650,000	203,846
* **1116 W 16th Ave**	**9**	**2,162,000**	**240,222**
3789 Oak	11	3,020,000	274,545
1655 W 11th Ave	11	3,480,000	316,364
3730 Cambie	24	4,700,000	195,833
Total	**137**	**30,337,000**	**221,438**
Kitsilano & Point Grey (UBC)			
1985 W 8th Ave	8	2,565,000	320,625
2425 W Broadway	9	1,800,000	200,000
4336 W 10th Ave	15	3,050,000	203,333
1876 W Broadway	21	3,670,000	174,762
1728 Yew St	10	2,395,000	239,500
2254 Cornwall	9	3,000,000	333,333
Total	**72**	**16,480,000**	**228,889**
Vancouver (Marpole)			
* **8770 Montcalm**	**21**	**3,125,000**	**148,810**
8780 Fremlin	8	1,528,000	191,000
8726 Hudson	10	1,800,000	180,000
1198 W 70th Ave	17	2,560,000	150,588
8710 Hudson	21	3,120,000	148,571
1235 W 70th Ave.	9	1,675,000	186,111
Total	**86**	**13,808,000**	**160,558**
Vancouver (West End)			
* **1416 Harwood (HR)**	**42**	**8,000,000**	**190,476**
1160 Nicola	14	3,770,000	269,286
1450 W Georgia (HR)	162	37,500,000	231,481
* **1601 Comox (MR)**	**26**	**6,770,000**	**260,385**
* **814 Nicola (ST)**	**6**	**2,000,000**	**333,333**
1250 Nicola (MR)	27	5,400,000	200,000
998 Thurlow (MR)	44	12,100,000	275,000
990 Lagoon (MR)	55	14,000,000	254,545
1170 Barclay	16	3,450,000	215,625
* **1131 - 1151 Haro (DS)**	**38**	**8,000,000**	**210,526**
1851 Haro	22	5,200,000	236,364
1419 Pendrell	8	3,700,000	462,500
Total	**460**	**109,890,000**	**238,891**

ADDRESS	SUITES	$ PRICE	$ PER/UNIT
Burnaby			
6545 Bonsor (HR)	114	22,050,000	193,421
275 Gilmore	35	4,400,000	125,714
3839 Linwood	14	1,670,000	119,286
4250 Maywood	18	2,663,000	147,944
6535 Burlington	10	1,402,800	140,280
6735 Arcola	9	780,000	86,667
6707 Dow	19	2,545,000	133,947
6730 Burlington	18	2,570,000	142,778
* **5977 - 5979 Wilson (DS)**	**62**	**9,000,000**	**145,161**
7111 Linden (DS) (SP)	60	7,300,000	121,667
7065 Linden (DS) (SP)	26	2,700,000	103,846
6780 Sussex (SP)	11	2,135,000	194,091
5468 Hastings St	17	2,650,000	155,882
* **4635 Imperial**	**19**	**2,500,000**	**131,579**
7052 Linden	35	4,100,000	117,143
6661 Marlborough	9	1,500,000	166,667
8350 - 8353 11th Ave	79	12,250,000	155,063
Total	**555**	**82,215,800**	**148,137**
Coquitlam			
544 Austin	48	5,175,000	107,813
600 Smith	106	16,150,000	152,358
1117 Ridgeway	41	4,500,000	109,756
Total	**195**	**25,825,000**	**132,436**
Delta			
4711 57th St	32	3,850,000	120,313
Langley			
20856 56th Ave (ST)	16	2,150,000	134,375
20244 Michaud	14	2,075,000	148,214
20699A Eastleigh Cr. (TH)	14	2,560,000	182,857
2875 273rd St	28	2,325,000	83,036
Total	**72**	**9,110,000**	**126,528**
Maple Ridge			
11742A 224th	24	1,825,000	76,042
22256 119th	36	3,300,000	91,667
12003 Edge St	7	943,000	134,714
* **22182 Dewdney Trunk Rd.**	**30**	**2,710,000**	**90,333**
Total	**97**	**8,778,000**	**90,495**
New Westminster			
335 5th St	26	2,800,000	107,692
420 7th St	37	3,800,000	102,703
405 10th St	28	2,900,000	103,571
1012 4th Ave	17	1,635,100	96,182
230 Eighth St	18	1,868,000	103,778
* **127 8th Ave**	**15**	**1,670,000**	**111,333**
* **220 Manitoba St**	**18**	**2,200,000**	**122,222**
* **910 St. Andrews**	**45**	**4,450,000**	**98,889**
441 Ninth St	12	1,610,000	134,167
* **430 Ash**	**44**	**4,520,000**	**102,727**
101 Royal	48	4,800,000	100,000
Total	**308**	**32,253,100**	**104,718**

ADDRESS	SUITES	$ PRICE	$ PER/UNIT
North Vancouver			
255 E 2nd	24	2,900,000	120,833
3371 Chesterfield Ave	10	1,575,000	157,500
157 E 20th	14	2,260,000	161,429
230 W 4th	17	3,018,000	177,529
125 E 20th St	28	4,700,000	167,857
321 W 4th St	10	2,300,000	230,000
Total	**103**	**16,753,000**	**162,650**
Surrey			
7155 Hall Rd	228	16,700,000	73,246
West Vancouver			
195 21st (HR)	126	36,500,000	289,683
White Rock			
15391 Buena Vista Ave	14	1,950,000	139,286

*** SOLD BY THE GOODMAN TEAM**

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

1) Suite Mix
2) Rents/sq. ft.
3) Net Leaseable Area
4) Buildings' Age and Condition
5) Location
6) Frame or High Rise
7) Strata vs. Non-Strata
8) Land Value (Development Site)
9) Special Financing

(HR) High-rise
(MR) Mid-rise
(TH) Townhouse
(ST) Strata
(DS) Development Site
(EST) Estimated Price
(SP) Share Purchase
(NC) New Construction

Goodman REPORT

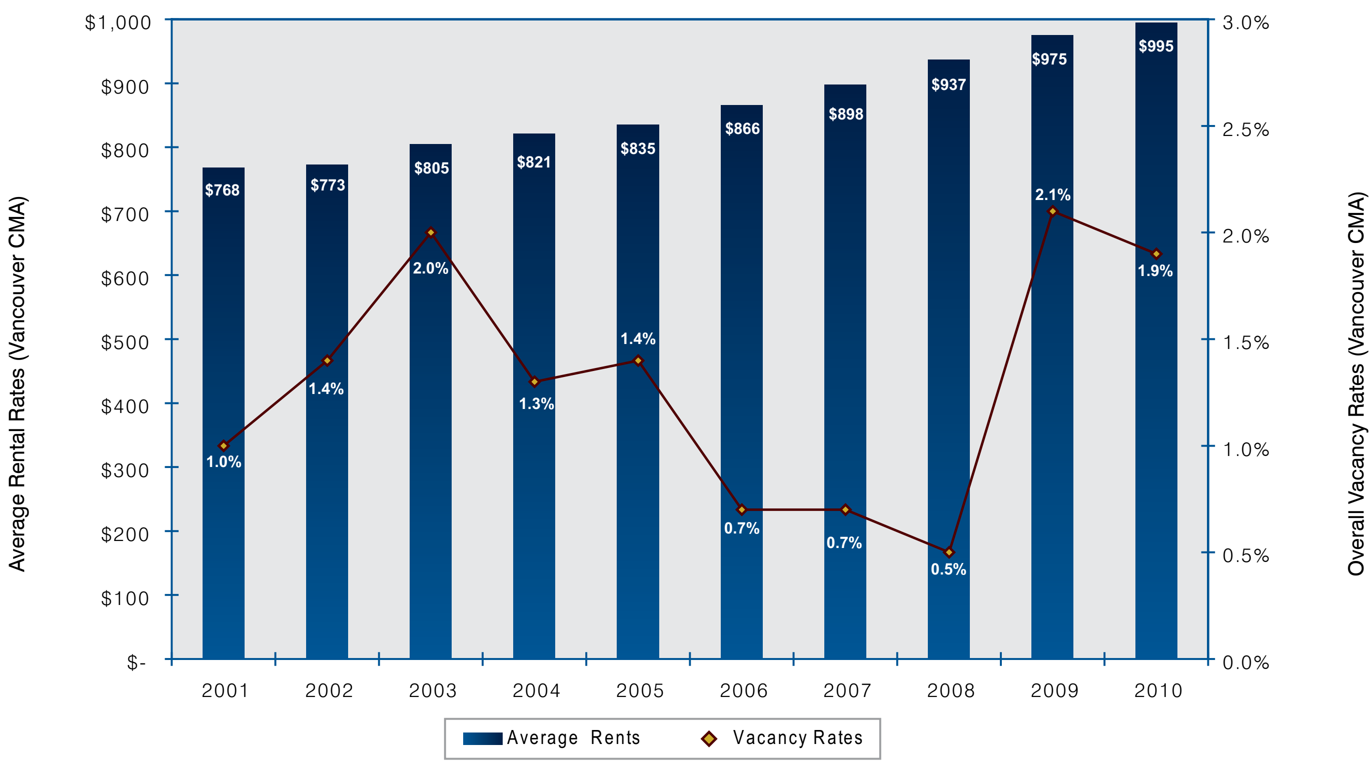
CHMC Rental Market Report (December 2010)

Highlights:

- The rental apartment vacancy rate dipped slightly to 1.9 percent in October 2010, from 2.1 percent a year earlier.
- Employment growth, steady migration to the region and a slowdown in first time home buyer activity has kept rental demand strong.
- The secondary rental pool grew by more than 7,500 units, nearly half of which were investor-owned rental condos.
- The rental condominium vacancy rate increased to 2.2 percent in October 2010 from 1.7 percent in 2009.
- Average condo rents are 47% higher than the average purpose built apartment rent.
- In the downtown core, condo rents were nearly 60% higher than their purpose-built counterparts.
- CHMC forecasts their vacancy rates to dip to 1.8% in October 2011 from 1.9% in October 2010.

Below is a 10 year summary of suite vacancies in purpose-built rentals in Vancouver CMA. After spiking in 2009, vacancies are once again on the decline. Of the 107,587 suites available, only 2,021 were vacant as of the 2010 survey versus 2,204 in 2009. For purpose-built buildings, CHMC reports that in the Vancouver CMA, the average rent in 2009 was $975, while in 2010 it was $995, a 2% increase. In the last 10 years, average rates have increased from $768 to $995, a 29.5% increase.

Greater Vancouver CMA Average Rents and Vacancy Rates
A 10 Year Picture (2001-2010)



Source: CMHC & The Goodman Report

An Attractive Investment Vehicle

During the past decade the Greater Vancouver apartment market has remained fairly active with consistent sales and significant increases in average prices. What has driven this market? The reasons are not all that complex. Primarily it is extraordinarily low interest rates which have created strong on-going demand from yield hungry investors. Moreover, there remains a huge supply of capital, not only in Western Canada but all of North America, looking for secure income generating investment vehicles.

However, this begs the question—why would anyone buy a 40 to 80 year-old apartment building yielding only 4% that has not had significant upgrades and suffers from underperforming rents?

Buyers looking at the revenue stream generated by these older buildings are realizing the potential to capitalize on the rent spread between older verses newer. When one rents an investor-owned condo, it typically includes stainless steel appliances, a fire place, hardwood floors and a recreation centre with gym equipment in a new high rise in Yaletown or Coal Harbour, just to name two of the better locations in Vancouver. There seems to be demand for these suites at anywhere from $2.50 to $3.50 per square foot, whereas a typical 55-year old building in the West End without the glitz and glamour generates approximately $1.85 per square foot (assume a 1-bedroom, 550 sq. ft. at. $1,015/month). This represents a significant difference in rent that the aggressive, savvy investor will attempt to narrow with minimal upgrades. It's apparent that if you had to borrow today at 8%, there would be no demand for buildings. Looking at existing cap and interest rates, the two are very much correlated. Since you can borrow at approximately 3.4% (CMHC 5-year insured rates), and cap rates, with some exceptions, are above 4 %, your return during this period is infinite. CMHC is supporting lenders by insuring loans of somewhere in the range of 75% to 85% of appraised value or purchase price, whichever is the lower, making multi-family rental investments extremely attractive. Investors who acquire such a position in older underperforming building (value-added plays) generally accept that the purchase price cap rate is artificially low. However, they also recognize that upon turnover there are opportunities to significantly increase revenue. One may then appreciate how cash flow can dramatically increase over a relatively short time frame with inexpensive (relatively speaking) upgrades.

The latest *2010 CMHC Greater Vancouver Apartment Report* confirms, yet again, what owners, potential investors and tenants have known for years: that available rental inventory continues to hover near all time lows with little likelihood of imminent change.

Apartment owners for the most part are risk adverse. This asset class provides a stable investment vehicle with a structurally built-in finite supply. While vacancies are indeed a rarity and seldom a worrisome subject for owners, the only variable is whether the landlord is interested or willing to realize the real market rent or is merely satisfied with nominal under performing rent levels. It is also a function of supply. There are approximately 3,060 rental buildings in Vancouver's Lower Mainland. Since 2001, a yearly average of 118 buildings has changed hands. This figure represents an annual turnover of 3.85% of total inventory. Consequently, acquiring a building is no easy feat as hundreds of investors of all stripes actively compete for very limited supply.

This does not mean that we won't face swings and roundabouts, as we certainly will. Markets simply do not increase forever. Vancouver, however, has a great advantage and it's not just our climate, scenic beauty, beloved Canucks, democratic form of government, resources or immigration; rather, it's our geography or better put, "it's all about land or lack of it." And as said earlier, there are vast sums of money on the sidelines waiting to find a home. Why has the stock market over the past 18 months or so increased so dramatically? Why have bonds become so expensive? Why have REITs and preferred shares been so popular? Money chasing returns! This would tend to make one think that over the medium to long term, owning an apartment building is like money in the bank. "Not so fast," says the contrarian, and "Yes, yes, yes," says the one who follows the fundamentals.

What the Future May Hold

Is a bubble about to burst, assuming it even exists? The Bank of Canada increased their lending rate and then abruptly stopped. The US Federal Reserve Bank announced a $600 billion buyback of short-term T-Bills to flood the market with more liquidity to drive down long-term rates and prevent deflation. That's on top of 1.7 trillion dollars in treasuries and mortgage back securities it had purchased in response to the financial crisis.

Conventional wisdom, however, suggests that this course of action is a very inflationary strategy, which is positive to both equities and real estate. Bond rates in Canada are at historically low levels. For example, the current 10-year Government of Canada bond rate of 3.14% makes conventional mortgage borrowing, at say 175 to 225 basis points over that rate, pretty inexpensive. What would happen though, if interest and bond rates moved up, and mortgages were at 6% instead of at 3.4%? Would cap rates remain the same or would they have to rise to compensate the buyer for the increase in borrowing costs? In the academic world, economists looking at their models would normally hypothesize that building values would fall (cap rates to rise) much like bonds do when long term rates increase. We stress, however, the Greater Vancouver rental apartment market has repeatedly demonstrated its unique and resilient qualities. As many local apartment owners possess a strong net worth, they are demanding a premium to even consider selling, regardless of the economics surrounding their property. Buyers in turn will continue to seek a safe haven, perhaps even sacrificing current yield for long term income stability. Still, buildings must be offered within a realistic market range. Investors, at some price point, will not buy just for the sake of acquiring real estate. The Law of Elasticity ultimately prevails. The significantly over-priced buildings normally languish and simply fall off most buyers' radar screens if some price reductions in correlation to rising rates do not occur.

Many landlords are decidedly attached to their buildings, having owned them for many years with enormous pride in the value they have created. They don't care about cap rates, have no interest in economics, and will not sell—period. Another reason why many owners will not part with their building is the embedded tax liability. Ultimately, the tax will be paid, but probably by their heirs. This Vancouver phenomenon trumps economics. We call this the "Vancouver anomaly".

The Elephant in the Room

And then again, what happens if we have deflation? The United States is going through an incredible shift in its economy. No longer are the steel mills of Pittsburgh and the car manufacturers of Michigan driving the US economy. GM and Chrysler required massive government bailouts and if it were not for very large tax incentives both in Canada and United States and significant price reductions in new model cars, you might not have seen General Motors recover from their bankruptcies. Regardless of the recovery of the auto industry, would you buy GM stock?

Deflation is not some myth or fantasy. Some very smart "experts" are concerned. Here are some examples:

James Ballard, President of the Federal Reserve Bank of St. Louis, warned that the Fed's current policies were putting the American economy at risk of becoming "enmeshed in a Japanese-style deflationary outcome within the next several years." Recently, Japan lowered its central bank rate to 0% – pretty deflationary, wouldn't you say?

Paul Krugman, an economist and New York Times writer, wrote on September 2nd, 2010, *Inflation Deflation Debt*. His thesis is that the problem of debt-deflation pushes down values. As the debt increases, buying power decreases.

Another economist, Arun Motianey of Roubini Global Economics wrote, "Financial markets with increasing global debt could bring about a global Japanese style deflation."

Finally, Jim Flaherty, Canada's Minister of Finance, wrote, "A currency war over exchange rates could disrupt trade and nascent economic recovery."

We are not economists, but we happen to read a great deal on the subject. We are not suggesting a world economic collapse. These ideas are just food for thought, especially if you are on the cusp of selling your building.

To sum up, the outlook is probably neutral to somewhat positive. We are not forecasting large increases in values, except by owners who create value by shrewd property management skills. At the same time, we are not predicting any bursting bubble either, even for those owners who do nothing except maintain the status quo. Certainly, there will be continued strong demand from the locally-based family operations and from institutional buyers, but they generally like larger properties to achieve economies of scale. At the other end of the spectrum, the 10 to 30-suite apartment buildings are always very liquid because of the abundance of buyers at a lower price point.

Land Use – A Pitched Battle

In a not so genteel manner, two sharply divided groups against the backdrop of Vancouver City Hall are embroiled in an often heated, pitched battle. Struggling to accommodate the vastly expanding population base with 35,000 to 40,000 people a year moving to BC (with 75% settling in the Lower Mainland), developers, landowners (particularly those with rental buildings), construction companies and architects are pitted against Vancouver's Planning Department, City Councillors, the Mayor, tenant groups and citizenry at large. The stakes are enormous. While both factions readily acknowledge that further housing supply, be it purpose-built rentals or market housing (condos and townhouses) is urgently required, how to achieve this goal lies at the heart of the problem. In past newsletters, we commented extensively on the subject of land availability and how it related to development. We must give credit where credit is due. Vancouver's planners and council have sometimes gotten it right. Over the past 25 years, past councils have created successful projects in South-East False Creek, Downtown District, the Expo Lands and Collingwood area, demonstrating that our city is capable of achieving well-planned, micro area developments of housing projects for its citizens.

These notable projects were of a larger scale, providing a mix of market housing along with some purpose-built rentals. Sufficient densities enabled developers to sell units to investors for rentals, thus providing the City with valuable community benefits. But then the inevitable happened; opportunities to exploit vast tracts of land were all but exhausted. The "low-hanging" fruit had, so to speak, been plucked. Now residents in single-family neighbourhoods, the so-called last bastion, prepare to defend their turf at all costs. In fact, in a recent Business In Vancouver article, *Vancouver city neighbourhoods grapple with development rush*, a Vancouver-based architect who spoke on the condition of anonymity said, "there is public backlash to some projects because developers are running out of land in high-density areas."

City Imposed Obstacles to New Housing

The City has been struggling of late to devise strategies to stimulate new housing opportunities. Recent administrations in Vancouver appear stymied, unable to effectively cope with the complex strategies required to spur the intelligent use of lands for the benefit of all citizens. Instead, they have imposed their heavy hand. Case in point; creating an aura of uncertainty by abandoning most traditional zoning practices and replacing instead with Official Community Plans (OCPs); newly revealed plans for a monumental money-grab from home owners with respect to Community Amenity Charges (CACs) especially along the Cambie Corridor; applications for rezoning applications often taking two years to be approved; and the requirement of costly Gold-Leeds construction. Finally, some 3½ years ago, the City, to protect rental-housing stock, imposed a moratorium on the demolition of any rental buildings in the RM and FM zones in excess of 6 suites.

As our readers know, for the past several years we have provided commentary on the rights and issues of apartment owners and tried to advise them how to optimize the value of their asset, and finally, to secure the highest sales price when they decide to sell. Also, from time to time, we have reported on various policies introduced by all levels of government whether federal, provincial, or municipal. Over the past few weeks, we have discovered a policy in Vancouver that will negatively affect the property values of landowners (mostly homeowners) along the Cambie Corridor from King Edward to Marine Drive.

Please read the December 22, 2010 headline article by Jeff Lee in the Vancouver Sun titled, *City accused of taking too much profit on Cambie*. The article describes how the City is proposing excessive Community Amenity Contributions (CACs) that effectively thwarts builders from being able to assemble sites for development based on their proposed new OCP for the corridor. Consider the City response that accuses landowners, realtors and builders of "setting prices too high." We thought we should provide some additional background, as we instigated the story.

Several weeks ago, a good friend of ours who lives on the Cambie Corridor contacted us to enquire about the idea of assembling a site for future development. We approached the immediate neighbours and explained that a typical developer would require at least 18-24 months to rezone and obtain their development approvals. This is due to the ridiculously long approval process in Vancouver and because public hearings typically stop during the period leading up to civic elections scheduled for Fall 2011.

We also informed the homeowners that unlike City councils in the past many decades, this Council has decided not to zone the Cambie Corridor when the proposed OCP comes for a vote this spring. Instead of zoning the corridor with typical outright zoning like RM-3, RM-4, C3-A, C2, or a special new zoning, they have decided to use an OCP process. This will allow the City's Real Estate Department to "negotiate" CACs from builders seeking to rezone sites. The City cannot negotiate CACs if a property is already zoned.

As part of the CAC process, builders are now required to submit their internal development proforma to the City Real Estate Department who "analyze" the projected selling prices, construction costs, development costs charges (DCLs), art levies, rezoning fees, building permit fees, overhead costs, interest allowance, consultant budgets, marketing and selling expenses, warranty costs, expected selling period, and finally, the expected profit margin. The City's objective is to estimate the market value the builder can afford to pay for the zoned land known in the industry as the land residual. We are informed the City currently estimates market land values along the Cambie Corridor to be $120 - $150 psf buildable upon rezoning.

The City theoretically subtracts the current house value (as if sold separately) from the land residual and the balance is known as the "Land Lift". The City, in its wisdom, has determined it's entitled to the first 75% any increase in land value upon rezoning.

During our assembly work along the Cambie corridor, we became aware of another assembly along Cambie by a builder / friend. We enquired about their "negotiations" with the City regarding zoning, approvals and CACs. The builder and his realtor were still "in shock" when we spoke to them in mid-December. We could not believe what we heard and contacted the City Real Estate Department and confirmed they are negotiating CACs generally as follows:

Typical Lot Area (average)	8,775 sf (65 ft x 135 ft)
Existing Zoning (RS-1)	0.60 floor space ratio (FSR)
Current Market Value	$1,600,000 (typical 50-year-old home)
City Estimate	$710,775 (8,775 sf x 0.60 x $135 psf)
Proposed Cambie Zoning	21,938 sf @ 2.5 FSR (6 storey building)
Increase in Density	1.9 FSR (2.5 FSR – 0.60 FSR)
Increase in Density	16,673 sf (1.9 FSR x 8,775 sf lot area)
Market Value upon Rezoning *(say, $135 psf gross buildable)*	$2,961,563 (8,775 sf x 2.5 FSR x $135 psf)
Land Lift	$2,250,855 (16,673 sf x $135 psf)
City of Vancouver CAC	75% of Land Lift
Proposed CAC	$1,688,141 ($2,250,855 x 75% land lift CAC)
$ Per Square Foot	$76.95 psf ($1,688,141 / 21,938 sf)
Land Residual	$1,273,422 ($2,961,563 - $1,688,141)
Net loss to Landowner	$326,578 ($1,600,000 - $1,273,422)

For the record, the builder above informed us the City proposed to charge $75 psf CAC (approximately $1,645,000 based on a typical 8,775 sf lot). The City must have used slightly less than $135 psf for the estimated market value or tweaked their formula.

It appears one problem with the City formula is that it incorrectly assumes the existing lot value is theoretically only worth $710,775 (8,775 sf x 0.60 FSR x $135 psf). However, even if the City used $1,600,000 market value for the existing home, the CACs payable to the City would still amount to $1,021,172 ($2,961,563 - $1,600,000 x 75%) or $46.55 psf on gross area.

We trust you will now follow why the Vancouver Sun used their headline. Also, appreciate the builder we mentioned must now either drop his project or request his realtor visit the landowners to seek a $1,688,141 price reduction. Good luck! We are surprised there have not been mass protests by the affected parties directed at the City. Please note, if there are errors in our calculations, which have been based on information obtained from the City, we'd appreciate hearing from someone who can clarify matters.

Why should the Cambie Corridor landowners support this most deplorable situation of a proposed OCP if they have little or nothing to gain? Landowners along the corridor should demand outright zoning for their properties and a fixed CAC amount so that everyone will understand the potential development density and costs. Furthermore, as all fair-minded business people know, deals must work for both parties or nothing is done!

CACs are payable in addition to the $10.42 City-wide Development Cost Levy (DCL), $1.81 art levy, and other fees that typically average over $1,500 per unit. In addition, the City requires all new projects in the City to be LEED Gold (cost $5 -$10 psf). Furthermore, all new projects along the Cambie Corridor must be capable of being hooked up to a proposed new District Energy System in the future (approximately $7,500 per unit). The costs keep adding up!

As a result, a typical 100-unit project (approximately 100,000 sf gross area) along the Cambie Corridor could cost $8M to $10M ($80,000 to $100,000 per unit) in CACs and DCLs based on the above calculations in addition to all the other fees and construction costs. This is far in excess of a reasonable contribution for CACs.

In comparison, these are the fees the City currently charges in South East False Creek (SEFC) surrounding the Olympic Village, which is zoned 3.5 FSR:

City-wide DCL	$10.42 per square foot
SEFC DCL	$15.68 per square foot
CAC	$11.50 per square foot
Art Levy	$ 1.81 per square foot
Total	$39.41 per square foot

By the way, we have heard Translink is floating the idea of significant levies for all new developments located near transit stations along the Evergreen Line. Similarly, Richmond is introducing a $6,800 per unit charge for all new apartments located near the proposed new Capstan Station that will be directly absorbed by the landowners.

Let us be clear, it's the landowners, not the developers who absorb 100% of CACs, DCLs, art levies, and all other City fees or special construction requirements like LEED features or special heating systems when they sell. These costs cannot be passed along or added to the prices builders charge as they can only sell at market value. As we all know, market value is not based on cost. Furthermore, buyers have no interest in being forced to pay for silly LEED features that have no realistic cost-effective savings.

It was unfortunate the Vancouver Sun was not able to include the actual proposed CAC costs (approximately $75 psf) in order to provide the City's response due to space constraints. In any event, we trust you will understand that this is a very important issue for all property owners throughout the Lower Mainland. Several municipalities including West Vancouver, North Vancouver District and New Westminster have instituted similar OCP and CAC policies. We suggest you review their latest CMHC Housing stats and appreciate the profound lack of development activity or supply of new housing in those municipalities! We hope you will raise it with all political candidates whether provincial or civic in the coming months. The City of Vancouver has its own Charter that apparently allows it to do whatever they want. Regardless, the Province should be reviewing this CAC issue, as certain municipalities appear to be charging CACs in a reckless and excessive manner.

We all know this City Council focuses on "green" issues and appears more concerned about bike lanes, chicken coops, laneway housing, green roofs, community gardens, and the STIR program that has not produced after 3 years even one single new rental apartment. Unfortunately, this same group is also in charge of the Olympic Village situation that has a real possibility of costing Vancouver taxpayers hundreds of millions of dollars! It certainly appears Council simply relies on City Manager Penny Ballem to oversee the important financial issues.

The Urban Development Institute (UDI) has been actively monitoring the CAC issue on behalf of the development community—not landowners. Paul Sullivan, from appraisal firm Burgess Cawley Sullivan and Chairman of the UDI Taxation Committee, suggests the City establish a set amount for CACs. We strongly agree—provided it is reasonable. We understand the District of North Vancouver recently introduced a flat $15 psf CAC in addition to their DCLs.

More on the Moratorium

In a similar vein, Vancouver apartment owners by way of actions taken by Council have also been severely impacted. This occurred with the imposition of a moratorium on the demolition of rental apartment buildings. Some history: in 2007, City Councillors (including Peter Ladner) and egged on by MLA Gregor Robertson, bowed to a well-orchestrated group of tenants in South Granville/Fairview Slopes. Tenants were angered over demolitions of 10 or so 40-70 year-old apartment buildings in favour of newly constructed high-rise condos. Council caved in to the small but vocal opposition with a resounding 10-0 council vote in favour of the moratorium. As a result, the proverbial baby and bathwater together flew out the window, compliments of our elected officials and planning department. The City congratulated itself having successfully "protected" rental stock at the expense of apartment owners who were forced to maintain their increasingly inefficient properties. By its action the City has unfortunately diminished the land value of each and every rental apartment building in RM and FM zones, as the owners' option to eventually sell their aging assets for "highest and best use", namely the redevelopment option, has been unceremoniously stripped from them. It so happens that these are the same property owners who are saddled with rent control, a 2.3% maximum rent increase for 2011, and now suffer the added burden of HST (all courtesy of the provincial government).

And now for the moratoriums' real impact that the City prefers not to discuss: since 2007, virtually all multi-family construction has literally ceased in Kerrisdale, Kitsilano, Marpole, East Vancouver, South Granville and, of course, the West End where a moratorium on demolition has already been in effect for some 10 years or so. The RM and FM zoned multi-family purpose-built properties, which contain approximately 57,500 suites in 1750 buildings, have effectively been put on ice. Construction jobs have been lost, new tax revenues forfeited and aging buildings, many in need of significant capital expenditures, have increasingly become a financial drain on owners.

However, the good news is that development along the Cambie Corridor and in the RM and FM apartment-zoned areas will never get started with policies like this, keeping condo prices and rents high for existing apartments and condominiums.

Vancouver's Planning Department or Lack Thereof

On planning matters who should call the shots? Should it be the planners who know only too well that existing densities are in many cases too low and certainly comprehend how they can be increased in a reasonable manner, yet are unable to do so under an autocratic Director of Planning? Or should it be the politicians who must deal with the constant complaining from neighbourhood residents when density increases are proposed, such was the recent case in Vancouver's Point Grey. The irony is that councils have been traditionally reliant on property owners and developers to fund their election campaigns, but also rely on residents to vote for them.

Vancouver's Council is for the most part littered with well meaning individuals who clearly possess little or no development or planning background. It appears they can scarcely determine the difference between FSR, CACs and a potted plant. Council members and planners meet with developers and/or the UDI (Urban Development Institute) from time to time. However, we understand these meetings, more often than not, can become somewhat testy, adversarial affairs. A sad state of affairs—indeed!

Housing Renewal in Established Communities

Seldom does Council or planning appreciate or seem to care about the impact their decisions have on apartment owners in Vancouver. Let's examine why launching projects in Vancouver with current policies in place is so difficult.

1. There is a by-law requirement in place that requires builders to first replace the rentable area of demolished buildings before ever considering market housing (condos);
2. The STIR Program (Short Term Incentives for Rental Housing) cannot be applied to multi-family zoned residential lands and requires a 60-year covenant rendering the program often uneconomic for existing long-term apartment owners;
3. Recent Certified Gold Leeds policy that adds significant construction costs to projects;

4. Council and Planning want to negotiate or consider each new proposal independently without a clear indication of zoning.

If anyone suggests that the Goodman Team is merely a shill for the developers, they are mistaken. Our practice over the last 28 years has remained focused on Greater Vancouver's multi-family rental industry. Our clients have been subject to a punitive action by Vancouver's Council—the moratorium on the demolition of rental housing. With this in mind, the Goodman Team wish to pose some questions to Vancouver's politicians and planners.

Would it not be reasonable to increase RM-3 zones' density currently at a 1.85 FSR, up it to 3, and increase the height limits to 16 rather than 12 stories in order to promote the development of new purpose-built rentals and market housing? Or perhaps, can this be accomplished in a 6-storey structure with densities of 2.5 FSR? In exchange for increasing density, builders may consider providing 20% of all saleable area as rental.

Because of their age (averaging 55 years), it is clear that many existing rental buildings are at or near the end of their economic lives. Why won't the City discontinue or modify the demolition moratorium for new projects, particularly those offering a mixed tenure model, which would allow for both rentals and market housing? Also, why not acknowledge that 30-40% of all new condos are rented and include this in the equation when demolishing existing rentals? Similarly, why wouldn't the City factor into their planning process the benefits of the trickle-up effect? By virtue of new pricier rentals being occupied by tenants able to afford better digs, supply of more affordable suites is freed up.

And finally, why won't the City continue the long established practice of outright zoning (use, height and density) for all areas, instead of the current practice that leads to uncertainty, lack of transparency, risk and hostility for many development applications? This sordid practice being imposed on the development community called "Let's make a Deal" must stop. It's a lengthy and contentious tactic, almost extortionist in nature. A more measured, equitable approach injects certainty and eliminates the requirement for developers to waste years negotiating with City planners to rezone. The arrival of enhanced density and improved zoning practices will immediately increase property values and corresponding tax revenues, while encouraging new development.

While we appreciate that Councillors Louie and Meggs, the Mayor and our Director of Planning appear to be acting in the best interests of the City, their track record in providing ample levels of housing, other than in Downtown areas, clearly suggests otherwise.

One can argue that this administration is inept by not attempting to institute creative new models for added residential supply. STIR has been a waste of time! The absence of meaningful action will contribute directly to the stagnation of the City's growth while exacerbating the already chronic affordability problem. The development industry correctly argues that a lack of zoned developable land is the main reason it has been unable to meet demand, thus allowing prices to keep increasing.

The City of Vancouver must realize that developers create housing, which in turn brings residents to our communities. They should be encouraged, not ridiculed. The development industry creates jobs, economic activity and yes, it seeks to make a reasonable profit. Why does the City so glaringly begrudge this notion?

Let's see Vancouver steal a page from one of its closest neighbours. Burnaby's administration, while union supported and left of centre, has nevertheless demonstrated a pragmatic approach to city planning and density, especially in their high-density town centres. Unlike Vancouver, Burnaby provides appropriate densities, a clear bonus density system and allows responsible development to occur.

Most would agree that new development should share a "reasonable" share of the cost higher density brings to our community. However, we really need some healthy debate from others. Our good friend Michael Geller surely has some thoughts and we hope he will comment on his blog. Perhaps Bob Ransford and Michael Goldberg may also wish to contribute their views on this crucial subject through the Vancouver Sun or other media outlets.

What to Do if You Sell

We often get asked the question: "Where can I invest the proceeds?" There are other attractive investment instruments as alternatives to owning apartment buildings and related management issues. Larry Jacobson, of the venerable financial planning portfolio management firm Macdonald, Shymko & Company Ltd., deals with issues like this every day, and as such, are a regular part of his practice. He suggests:

- REITs: very active and liquid, with reasonably strong yields
- Preferred Shares: very tax efficient and like REITs, have strong yields
- ETFs: vehicles in which you can tailor a portfolio based specifically on your risk tolerance profile and capture the market segment you feel most comfortable in

Jacobson cautions his clients that dealing with retirement is not like planning an endless holiday. They have to make sure their estate plans are in order and that their assets will outlive them, rather than the clients outliving their assets. Two million dollars today is not what it used to be, he cautions. Life expectancy is increasing and many of his clients' parents are living well into their 90s!

For many years, we have been following and reading the contrarian point of view regarding economics. Contrarians have made the point that currencies have little or no value, but gold and silver and little else should make up the bulk of one's long-term investment strategy. With gold at $1,368 an ounce, these prognosticators have been right on. Their rationale is that the US money supply is a fraud, as evidenced by the collapse of Lehman Brothers and the massive bailouts of major financial institutions.

They also contend that the world is one more calamity away from a total nervous breakdown. What would happen if, for example, the State of California declared bankruptcy? What would the snowballing effect be? We are not suggesting for a minute that the world is on the verge of collapse. We merely want to inform you about the commonly heard propositions.

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As an aside to the above, for those readers who hold US citizenship, it's important you are aware of the Passive Foreign Investment Company (PFIC) Act. All passive investments have serious US income tax consequences. Apartment buildings that are held in corporations, for the most part, are considered. Also, holdings such as mutual funds, some income trusts, some mining stocks, just to name a few, are caught under this wide sweeping broom. If you own these types of assets, contact your US tax adviser. If you don't have one—get one! There are many capable advisers in Vancouver.

Goodman's Forecast

1. We expect interest rates to slowly edge higher over the next few years.
2. Unless or until the Feds ease the current tax burden, owners will forestall the liquidation of their apartment assets. Regressive taxation policies have become the major cause of restricted supply.
3. Demand for rental apartment buildings will continue to far outstrip supply.
4. As mortgage rates increase, cap rates will necessarily follow suit.

Finally what would a newsletter be without asking for the order? If you are contemplating selling or are just curious as to what your building or development site is worth in today's robust market, call the Goodman Team, the proven leaders in Vancouver multi-family investment sales and service.

In 2010, we are proud to say that we successfully marketed and sold 17 properties totalling $70M on behalf of our clients.

Your feedback over the past 28 years of publishing The Goodman Report is one of our most valuable resources. We welcome any comments—please drop us a line at david@goodmanreport.com.

P.S. We are very pleased to announce that the Goodman Team will be sponsoring a segment of David Berner's new public affairs TV show with a weekly time slot on Shaw Cable. Berner and his guests will dig into the major headlines of the week for some good old-fashioned openness, honestly and transparency.

Multi-Family Real Estate

Why Buy?

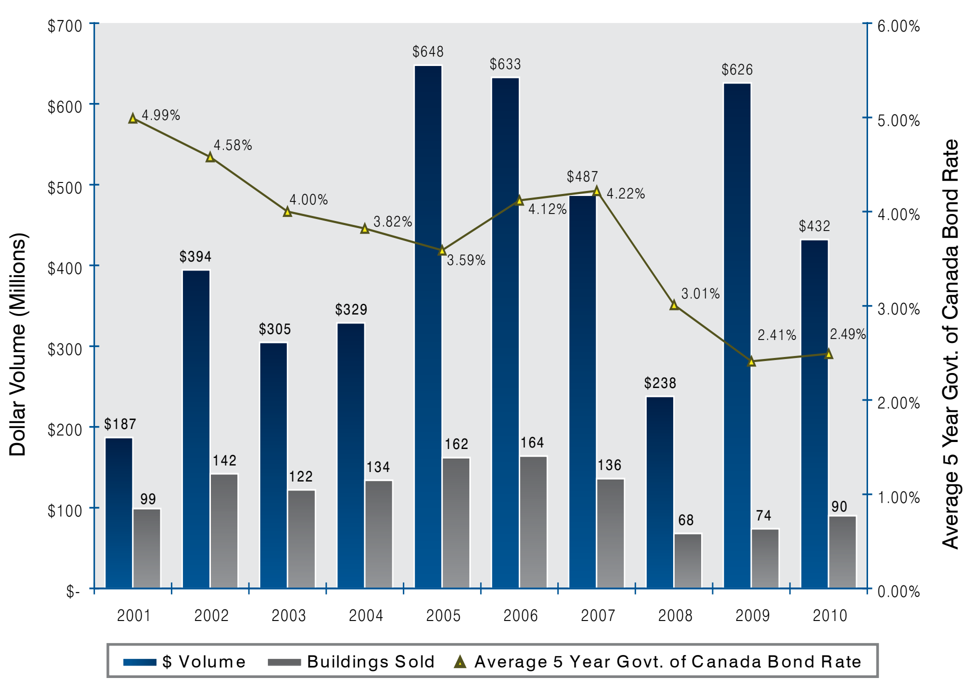
- Hedge against inflation
- Stable income stream
- Shortage of land
- Restrictive municipal building guidelines
- Low interest rates
- Added value by savvy business decisions
- Always demand for apartment units, rarely lose income due to vacancy
- With leverage, outstanding returns
- Tax deferral of income with CCA

Why Sell?

- Management headaches
- Older buildings requiring constant upgrading
- Children of owners have no desire to manage
- Time to enjoy fruits of labour
- Plenty other investment choices with more liquidity in conjunction with retirement and estate planning
- Crystallize gain and pay the tax so estate not forced to sell at a price not commensurate with fair market value
- Potential for deflation or rising interest rates, which could seriously erode value
- Bubble will burst sooner or later. Maybe sooner?
- Need to invest large amounts of capital to cover deferred maintenance or upgrades to sustain value

The following graph highlights a 10 year snapshot of the Greater Vancouver purpose-built rental market. Included is the total yearly dollar volumes, buildings sold and the average 5 year Government of Canada bond rates. While rates have been on a steady 10 year decline, dollar volumes and sales have lagged behind our expectations, particularly in light of the historically low cost of money.

Greater Vancouver 10 Year Multi-family Performance



Source: CMHC & The Goodman Report
Source: Bond Rate - Tony Kalla, Westbridge Capital

New Listings And Recent Sales Activity

NEW LISTING

22-Suite Apartment Building

234 East 14th Avenue, Vancouver

Totally renovated! Dominion House is an exquisite wood frame, 22-suite low-rise apartment building in superb condition located in Vancouver's Mount Pleasant neighbourhood. The property is improved on a large lot (106' x 122') and situated one short block to a wide range of amenities, cafés and bus transportation on Main Street. The completely upgraded suites boast spacious layouts & new appliances. The subject property also features balconies, patios or large yards, parking, storage & bike lockers. In conclusion, Dominion House is a turn-key building with no deferred maintenance and offers tenants easy access to local shops, restaurants and parks.

ASKING $5,995,000; 4.2% CAP RATE

NEW LISTING

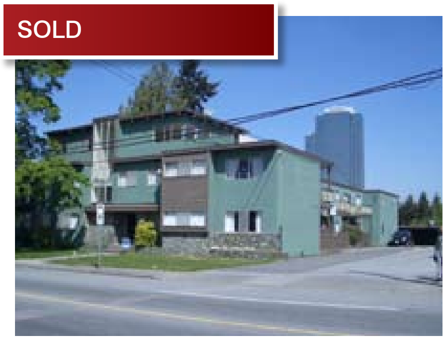
11-Suite Apartment Building

644 East 8th Avenue, Vancouver

Built in 1960, Makee Apartments is an 11 unit frame 3-storey apartment building in good condition located on a quiet tree lined street of Vancouver's Mount Pleasant neighbourhood. The property features an excellent suite mix (6-2Br; 5-1Br suites) parking, electric heat paid by tenants, hardwood floors, storage and many upgrades. Rents significantly under market.

ASKING $1,995,000 ($181,364/UNIT; 4.2% CAP RATE)

SOLD



19-Suite Apartment Building

4635 Imperial Street, Burnaby

Built in 1964, Waverly Court is a 19 unit frame 3-storey walk-up apartment building located in Burnaby's Metrotown neighbourhood. Features an excellent suite mix (9-1Br, 8-2Br; 1-3Br & 1-3Br penthouse) covered surface parking, balconies and individual storage lockers. For sale by court order.

ASKING $2,600,000 ($136,842/UNIT)

PRICE REDUCTION

16-Suite Apartment/ Townhouse Complex

4311 Kendall Place, Port Alberni

A rare offering! Built in 2005 and improved on a large 31,478 sq. ft. lot, College Place is a 16-suite apartment/townhouse complex located in Port Alberni, BC. The subject features 4 buildings with 4 rental units in each with all exterior entrances facing onto a nicely landscaped courtyard. Features an excellent suite mix (15-2Br; 1-1Br), large balconies/patios, electric heat and rear parking. This is truly a carefree rental investment, as the entire complex is leased to one government agency for a 10 year term with rent escalations in place. An investor can also acquire the adjacent development site planned for a similar townhouse designed complex totalling approximately 28 units.

ASKING $1,797,000 ($112,313/UNIT; 6.3% CAP RATE)

For more information, please contact

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