

# Goodman report:

## 2013 Mid-Year Greater Vancouver Apartment Building Market Review

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## Multi-Family Statistical Overview

Apartment sales activity in Greater Vancouver over the first six months of 2013 vs. the same period for 2012 has weakened. So far this year, 45 buildings have traded hands vs. 53 last year. Of these sales, 26 have been in Vancouver and 19 in suburban areas this year, while 2012 recorded 28 in Vancouver and 25 in suburban areas.

Vancouver's 2013 dollar volume was \$167.8 million, down dramatically from 2012's \$215.6 million: a 22% decrease. Suburban communities registered only \$73.1 million, off a significant 64% from 2012's figure of \$201.9 million. Total dollar volume combining Vancouver and suburbs decreased to \$240.1 million for 2013, down 42% from 2012's \$417.5 million.

The total number of suites sold in Vancouver for 2013 for the first six months was 625: a 20% decrease over the 778 sold in 2012, while suburbia showed a major decline to only 437 suites, down 64% from 2012's 1,210.

In the first six months of 2013, Vancouver's average price per suite was \$268,448, a 3% decrease from 2012's figure of \$277,132. Meanwhile, suburban jurisdictions weighed in at \$167,273, essentially flat compared to 2012's \$166,858 average per suite.

Notably, Marpole is finally beginning to attract a stronger following among investors, with seven sales reported in

the first six months of 2013 as compared to only three last year. Prices are averaging \$220,044 per suite as compared to 2012's \$177,777: an increase of 24%. In this area, which covers a large swath of land in Vancouver South, a new community plan is being developed with support from residents. Intended to replace the older plan from 1979, it recommends significant densification, parking upgrades and innovative housing ideas.

This year, Kerrisdale has recorded two sales, averaging a Metro Vancouver high of \$402,451 per suite. Surprisingly, West End activity has plummeted to three sales in 2013 averaging \$312,500 per suite vs. six sales in 2012 averaging \$352,080 per suite. Vancouver's Eastside registered six sales, down from 2012's 10 sales for the same period; however, average suite prices rose sharply to \$229,263, a 54% increase over 2012's average of \$148,628 per suite. Kitsilano and South Granville's performance generally mirrors last year's numbers. The normally active area of New Westminster recorded only four sales vs. six in 2012, with averages climbing 14% to \$133,507 per suite. North Vancouver has at long last awakened from its prolonged inactivity with four sales averaging \$197,565 per suite. In Burnaby, activity has dropped to seven transactions as compared to 11 for the first six months of 2012. Maple Ridge and White Rock have each recorded one sale, while Langley had two transactions in the first six months of 2013.

### Greater Vancouver Apartment Market: The Numbers

*105,067	Total number of purpose-built rental suites
*48,528	Additional number of condo rental units (26% of total condos)
3,081	Number of rental apartment buildings
	90% are frame
	10% are concrete
	5% are strata-titled
58	Average age in years of purpose-built rental stock
	(95% constructed before 1974)
*1.80%	Average 2012 vacancy rate in Vancouver census metropolitan area (CMA). Expect 2%+ in 2013
*\$1,047	Average monthly rent in Vancouver CMA
68-164	Range of apartment sale transactions per year over last 10 years
\$290-\$683	Range of total dollar volume in millions over last 10 years
2.50-3.25%	Cap rates for prime Triple-A highrises (West Vancouver, prime Westside)
2.75-4.00%	Cap rates for Vancouver frame buildings
3.50-4.00%	Cap rates for North Vancouver frame buildings
4.00-4.50%	Cap rates for Burnaby, New Westminister, White Rock
4.50-5.25%	Cap rates for Abbotsford, Langley, Maple Ridge, Mission, Surrey

\*Source CMHC.  
All other sources The Goodman Report.

## Market Summary



Viewing the 2013 sales stats, we can safely surmise that buyer resistance in Greater Vancouver has set in. Exacerbating the slowdown are some concerns that “U.S. 10-year bonds will shoot up to 3% by year end, nearly twice this year’s lows,” says Tom Porcini, the Royal Bank of Canada’s chief U.S. economist. Listings are sitting longer, with three to six months as the norm. Investors are having difficulty justifying a cap rate of 3–3.5% for a tired 60-year-old building unless it’s a prime highrise or situated on a potential development site, especially when an agent or seller fudges the numbers and reports expenses of \$3,000 per door and a 4.5% cap rate! Sophisticated buyers today know that these estimates are bogus. Rather, expenses in most buildings must be at least \$3,800 per door, probably amounting in turn to cap rates at 3.5%. Our colleagues in appraisal and lending rightly reject these fictitious numbers.

While the data suggests a significant slowdown, prices in general have not declined. Most sellers are not pressed for funds. Their buildings are often at or close to clear title, and until or unless prices are sufficiently compelling, they either won’t sell or they’ll want their agents to assure them that they’re leaving little on the table. Interestingly, it’s the activity outside of Vancouver that has taken the biggest hit. One can conclude that when the going gets tough location becomes increasingly important. A & B locations are still in demand, while C locations and beyond are continuing to languish somewhat.

### Investment Drivers

- Faith that Vancouver offers and will continue to offer a unique haven and lifestyle experience.
- Apartment owners are for the most part risk-averse. This asset class provides a stable investment vehicle with a finite, tangible supply. The task of creating new supply remains a major challenge.
- Even at a 3.75% cap rate, there is positive cash flow.
- Vancouver’s imposition of a moratorium on the demolition of rental buildings since 2007 has effectively suppressed new supply.
- Investors recognize that CMHC average rents generally reflect tired buildings averaging 58 years old, many of which have not undergone major retrofits.
- With a disciplined hands-on approach, an owner has the ability to reposition an aging building quickly. This is the sole option for achieving highest and best use of these properties (often involving a 35–60% lift in income).
- The high cost of new market condos is forcing people to rent. In fact, many have simply given up hope of ever buying.



## The Emergence of Forward Sales

Now that was the big picture. Let examine what's happening behind the scenes. Since 2007, Vancouver has had a moratorium that has prevented the demolition of existing rental stock in apartment-zoned areas. According to the City, its purpose was to protect tenants in older, lower-rent buildings. Until a few years ago, municipalities and developers alike resisted initiatives that embraced new purpose-built rentals; indeed, sentiments were overwhelmingly negative. Despite the fact that 95% of our rental stock was and is made up of buildings constructed before 1974, the economics and political will were lacking that would have allowed for the replacement of aging, increasingly inefficient stock. What a difference a few years make! Today we are witnessing an exciting renaissance in this sector.

What's changed? Local developers, with the help of the Urban Development Institute and in particular the odd noisy realtor who has been harassing the various municipalities through his outstanding industry newsletters and helpful articles in *The Vancouver Sun*, have collectively triggered a change of sentiment amongst city managers, council members, mayors, planners, etc. Yet let's not for a moment assume that the development community has become altruistic. Instead, we must point, with some irony, toward the local condo market, which, after a 12-year stretch in certain areas, is losing some steam. Lenders are typically reluctant to fund condo developments, at least to second-tier developers, without roughly 60-70% in pre-sales. Of late, most developers have found this performance difficult or impossible to achieve. Recognizing that rental buildings are seriously aging commodities often needing replacement or major upgrades, some developers have switched gears and refocused on creating purpose-built rentals, both highrise and frame, in some cases with CRUs and preferably on a forward-sale bases. Interestingly, some major developers such as Cressey Development and Onni Group are retaining their new rental projects rather than offering them for sale.

A few years back, when a developer constructed a purpose-built rental, it was under obligation by the respective municipality, normally by the one-for-one replacement policy or in return for receiving additional density for a condo project.

Fast forward to today. We are witnessing a significant change in our development landscape. There are literally thousands of rental units either in receipt of development permits or in early planning, primarily in Vancouver under the Rental 100 Program, but also to a lesser extent in some outlining areas such as New Westminster and North Vancouver. Under the Rental 100 Program, Vancouver, to its credit, is playing catch-up in select sites zoned CD, C2, C3A, etc., to mitigate the effects of the long-standing shortage of rental stock by providing added density and height bonusing while relaxing parking requirements.

## Developer's Focus, Investor's Expectations

The Goodmans are currently involved in no fewer than a dozen forward-sale projects ranging from 12 to 250 units not on the following list. In general, while extremely proficient as condo developers, the groups talking to us are seeking our guidance on suite sizes, finishings, design, achievable rents and expenses.

In the projects under contemplation, we are encouraging clients to focus on efficient floor plans and suite sizes that stress functionality, built-ins that conserve space and designs that focus on efficiency and durability, yet with attractive finishings. In another words, a look of luxury but able to withstand undue tenant wear and tear.

Below, please find the estimated proforma rent levels in new purpose-built rentals now on the drawing boards in Vancouver CMA. We've also highlighted the average CMHC rents currently achieved in Vancouver CMA in older purpose-built rentals. The rent premiums in new purpose-built projects range from 39% to 47%.

Suite Type	SF	\$/SF	Rent	CMHC Average Rents	Differential
Bachelor	400	3.00	\$1,200	\$864	+39%
1 Bedroom	525	2.75	\$1,445	\$982	+47%
1 Bedroom + den	600	2.60	\$1,560	n/a	n/a
2 Bedroom	725	2.45	\$1,775	\$1,261	+41%

Cap rates on forward sales are expected to range between 4.6% and 5.2%, depending on the area and type of construction. Any major upward shift in the cost of money will impact cap rates.

## Vancouver Rental Apartment Projects awaiting Development Permits

(AS OF JUNE 2013)

Address	Developer	Development	Rentals
1290 Burrard Street	Reliance Properties Ltd. Jim Pattison Developments	54 Storey tower 36 storey tower Total of 810 units Commercial units	86 units of rental market housing
1418 East 41st Avenue	N/A	4 storey mixed use Commercial units	35 units of rental market housing
3068 Kingsway	N/A	6 storey mixed use	30 units of rental market housing
4255 Arbutus Street	Larco Investments Ltd.	6- 7- 8 storeys Commercial units 508 units	64 units of seniors' rental units 45 units of rental market housing
445 Southwest Marine Drive	Concord Pacific	27 storey tower 21 storey tower 514 market residential units – 388,000 sf	70 units of rental market housing 63,000 sf
508 Helmcken Street	Brenhill Development	36 storey mixed use 464 residential units in total 355 strata units (market) Commercial units	109 units of rental market housing
1568 E. King Edward	Richard Wong	6 storey mixed use Commercial units – 7,057 sf Residential units – 48,318 sf	77 units of rental market housing
33-41 East Hastings Street	Atira Development Society	169 residential units Commercial units	67 units of rental market housing
3002-3036 West Broadway	Orr Development Corp.	5 storey mixed use	83 units of rental market housing
650 West 41st Avenue	Ivanhoe Cambridge and Westbank Development	45 storey mixed use– 2,818 units Commercial units	90 units of seniors' housing 391 units of rental market housing
1396 Richards Street	Onni Group	269 units residential 42 storey mixed use	129 units of rental market housing
4320 Slocan Street	Yenik Realty	4 storey mixed use Commercial units 41 residential units	41 units of rental market housing
1412-1460 Howe Street/ 1410-1429 Granville Street/ 710 Pacific Street	Westbank	52 storey residential 407 residential units + 10 storey commercial 6 storey commercial	95 units of rental market housing
665-685 West 41st/ 5675 Madison Street/ 5688 Heather Street	Kellogg Developments	6 storey residential Levels 1, 4 to 6 market residential units.	55 units of rental market housing
5648-5658 Victoria Dr	Bhandal Homes Ltd.	6 storey mixed use Commercial units	30 units of rental market housing
1388 Continental Street	Cressey (Drake) Development LLP	89 residential units -10 storey mixed use with market rental residential. Commercial units	89 units of rental market housing
275 Kingsway	Edgar Development Corp.	13 storey tower	195 units of rental market housing

Compiled by David & Mark Goodman.

## Forward Sales

### The Advantages

1. Investor acquires a new, efficient building. Tenants pay for heat and lockers and have access to co-op car.
2. Today's low interest rates.
3. The numbers are starting to work for developers as densities and height levels are increased and parking requirements and development cost charges are relaxed. In another words, we are seeing developers' margins of 10–20%.

### Drawbacks

1. Investors must buy into the income-and-expense projections.
2. Buyers are normally required to lodge a non-refundable deposit of approximately 10% for a prolonged period.
3. After a wait of two to three years, and upon completion of the project, what will the interest rate be?

# Activity Highlights | 2013 Compared 2012

First Six Months | January 1st to June 30th, 2013

## Building Transactions

Area	2013	2012	Difference
Vancouver	26	28	- 7%
Suburban	19	25	- 24%
<b>Total</b>	<b>45</b>	<b>53</b>	<b>- 15%</b>

## Total Units Sold

Area	2013	2012	Difference
Vancouver	625	778	- 20%
Suburban	437	1,210	- 64%
<b>Total</b>	<b>1,062</b>	<b>1,988</b>	<b>- 47%</b>

## Dollar Volumes

Area	2013	2012	Difference
Vancouver	\$167,779,900	\$215,611,000	- 22%
Suburban	\$73,098,500	\$201,898,000	- 64%
<b>Total</b>	<b>\$240,878,490</b>	<b>\$417,509,000</b>	<b>- 42%</b>

## Average Price Per Suite

Area	2013	2012	Difference
Vancouver	\$268,448	\$277,132	- 3%
Suburban	\$167,273	\$166,858	-
<b>Average Total</b>	<b>\$226,816</b>	<b>\$210,015</b>	<b>+ 8%</b>

## Transactions / Average \$ Per Suite (Comparisons)

Vancouver Area	2013 Transactions	2012 Transactions	\$ Per Suite (2013)	\$ Per Suite (2012)	% Change
Eastside	6	10	\$229,263	\$148,624	+ 54%
Kerrisdale	2	1	\$402,451	\$287,500	+ 40%
Kitsilano	3	4	\$309,639	\$315,759	- 2%
Marpole	7	3	\$220,044	\$177,777	+ 24%
South Granville/Fairview	5	4	\$265,900	\$277,574	- 4%
West End	3	6	\$312,500	\$352,080	- 11%
Suburban Areas	2013 Transactions	2012 Transactions	\$ Per Suite (2013)	\$ Per Suite (2012)	% Change
Burnaby	7	11	\$219,667	\$163,457	+ 34%
New Westminster	4	6	\$133,507	\$116,016	+ 14%
North Vancouver	4	1	\$197,565	\$325,000	- 39%

## Goodman's Forecast

1. Mortgage rates will continue to move up, as will cap rates.
2. Vacancy rates will increase from 1.8% to approximately 2.25% by the time the 2013 *CMHC Rental Market Report* is published in December.
3. Up to 5,000 new rental units will appear over the next three to four years throughout Greater Vancouver. The presence of these new units will force owners of older buildings to renovate their properties or sell them to developers or retrofit investors.
4. Vancouver will ease the moratorium and rate-of-change policy, allowing for some innovative land use in RM-zoned areas for rentals.
5. Overall multi-family activity for 2013 will amount to approximately 87 sales, showing a modest decline from the 92 sales of 2012. Dollar volumes for 2013 will total an estimated \$500 million, as compared to 2012's \$683 million.

# Apartment Building Sales | Vancouver Lower Mainland

January 1st to June 30th, 2013

ADDRESS	SUITES	PRICE (\$)	\$/UNIT	ADDRESS	SUITES	PRICE (\$)	\$/UNIT
<b>Vancouver (Eastside)</b>				<b>Burnaby</b>			
1986 Woodland	7	1,448,000	206,857	** 5895 Barker Ave (DS)	48	12,500,000	260,417
1619 E. Broadway	8	2,224,990	278,124	** 6530 Nelson (DS)	20	5,700,000	285,000
2067 Pandora St.	8	1,620,000	202,500	** 6580 Dunblane (DS)	10	2,360,000	236,000
* 1209 Woodland	6	1,675,000	279,167	** 1325 Madison	12	1,945,000	162,083
* 668 E. 8th	11	3,100,000	281,818	** 6749 Sussex	7	1,328,000	189,714
1831 E. Georgia	17	3,000,000	176,471	6832 Balmoral	8	888,000	111,000
<b>Total</b>	<b>57</b>	<b>13,067,990</b>	<b>229,263</b>	6622 Willingdon	27	4,275,000	158,333
<b>Vancouver (Kerrisdale)</b>				<b>Total</b>	<b>132</b>	<b>28,996,000</b>	<b>219,667</b>
* 6455 W. Blvd	18	7,525,000	418,056	<b>Maple Ridge</b>			
670 - 692 W. 45th Ave (TH)	33	13,000,000	393,939	11682 224th	21	1,650,000	78,571
<b>Total</b>	<b>51</b>	<b>20,525,000</b>	<b>402,451</b>	<b>Langley</b>			
<b>Vancouver (Marpole)</b>				5255 208th	9	1,975,000	219,444
8676 Oak	9	2,450,000	272,222	5450 204th	39	3,600,000	92,308
8675 Laurel	29	5,770,000	198,966	<b>Total</b>	<b>48</b>	<b>5,575,000</b>	<b>116,146</b>
8796 Fremlin	13	2,150,000	165,385	<b>North Vancouver</b>			
* 8018 Cambie (MR) (NC)	110	26,800,000	243,636	** 143 E. 5th St. (DS)	8	1,600,000	200,000
8747 Granville St	14	3,575,000	255,357	130 E. 17th St.	12	2,412,500	201,042
8725 French St	46	7,950,000	172,826	308 Forbes	47	8,700,000	185,106
1347 W. 72nd	7	1,475,000	210,714	644 E. Victoria Park	10	2,500,000	250,000
<b>Total</b>	<b>228</b>	<b>50,170,000</b>	<b>220,044</b>	<b>Total</b>	<b>77</b>	<b>15,212,500</b>	<b>197,565</b>
<b>Vancouver (Kitsilano)</b>				<b>New Westminister</b>			
2438 Pt. Grey	9	5,000,000	555,556	125 Agnes	19	2,100,000	110,526
* 1929 W. 3rd Ave	53	15,200,000	286,792	321 Hospital	40	5,800,000	145,000
2222 Alma	21	5,500,000	261,905	425 12th (ST)	34	5,875,000	172,794
<b>Total</b>	<b>83</b>	<b>25,700,000</b>	<b>309,639</b>	520 11th	51	5,450,000	106,863
<b>Vancouver (S Granville)</b>				<b>Total</b>	<b>144</b>	<b>19,225,000</b>	<b>133,507</b>
2620 Hemlock	17	4,500,000	264,706	<b>White Rock</b>			
1016 W. 13th Ave	11	3,200,000	290,909	15391 Buena Vista	15	2,440,000	162,667
1535 W. 16th Ave	14	4,000,000	285,714	<b>Vancouver (West End)</b>			
1309 W. 14th Ave	23	8,000,000	347,826	** 1689 Robson (DS)	17	5,000,000	294,118
* 1715 W. 11th Ave	65	14,867,000	228,723	1333 Jervis	23	5,750,000	250,000
<b>Total</b>	<b>130</b>	<b>34,567,000</b>	<b>265,900</b>	990 Bute	36	13,000,000	361,111
<b>Vancouver (West End)</b>				<b>Total</b>	<b>76</b>	<b>23,750,000</b>	<b>312,500</b>

\* Sold by The Goodman Team

\*\* December 2012 sales.

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

- 1) Suite Mix
- 2) Rents/SF
- 3) Rent 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  
(MU) Mixed-Use



New Listing

### 2350 West 1st Avenue, Vancouver

16-suite apartment building. Water and mountain views. Excellent suite mix including large 3Br penthouse. Prime Kitsilano.

**\$6,995,000 (open to offers)**



New Listing

### 2094 West 43rd Avenue, Vancouver

5 street-level commercial strata units in Kerrisdale. 4,997 sq. ft. 5% cap rate.

**\$2,898,000**



### 1588 East Hastings, Vancouver

20-suite rental investment. New rental pre-construction offering. 5% cap rate.

**\$4,395,000**



### 6455 West Boulevard, Vancouver

18-suite concrete apartment. C-2 zoned. Rare high exposure mixed-use redevelopment site.

**\$8,550,000**



### 2272 Franklin Street, Vancouver

10-suite apartment building. Views. Two P/H units. Many upgrades. Across from park.

**\$1,975,000**



### 531 Lonsdale Avenue, North Vancouver

15-suite apartment/townhouse. Totally rebuilt to a high-end condo quality.

**\$6,600,000**

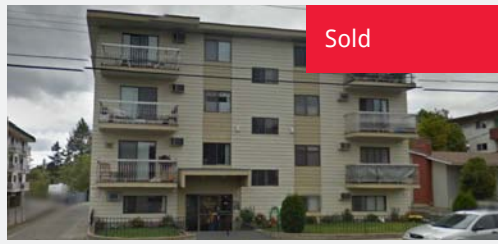


Sold

### 1209 Woodland Drive, Vancouver

6-suite apartment building. Prime Commercial Drive neighbourhood.

**\$1,695,000**



Sold

### 901 Forestbrook Drive, Penticton

31-suite apartment building. Minutes to Okanagan Lake. Excellent suite mix.

**\$2,550,000**



Sold

### 1715 West 11th Avenue, Vancouver

65-suite apartment building. Prime South Granville neighbourhood.

**\$16,500,000**

**Greater Vancouver's #1 Multi-Family Investment Resource**

View details of all listings and sales at [GoodmanReport.com](http://GoodmanReport.com)

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