Goodman report: 2017 Q3 Greater Vancouver Rental Apartment Review

SALES ACTIVITY DOWN, DOLLAR VOLUME AND VALUES UP

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ACTIVITY HIGHLIGHTS: 2017 COMPARED TO 2016

First nine months | January 1 to September 30

The first nine months of 2017’s Metro Vancouver multifamily rental market have proven eventful indeed. Our analysis indicates that sales activity in the rental apartment scene has declined in this period as compared to the same timeframe in 2016. The election of an NDP coalition government, coupled with two modest interest rate hikes, Chinese government currency controls and growing “bubble” talk may be signalling a noteworthy shift in investor sentiment.

We report that 114 buildings sold throughout the region during the first nine months of 2017 as compared to 148 for the same time period a year earlier, a 23% decline. Paradoxically, overall dollar volume for 2017 climbed by 35% over 2016, partially fuelled by developers who purchased aging apartment buildings for their redevelopment potential. Meanwhile, the average dollar per suite category has increased a more modest 8%. Check out the matrix below for a more detailed overview of market activity:

### Building transactions

<table>
<thead>
<tr>
<th>Area</th>
<th>2017 transactions</th>
<th>2016 transactions</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vancouver</td>
<td>62</td>
<td>86</td>
<td>-28%</td>
</tr>
<tr>
<td>Suburbs</td>
<td>52</td>
<td>62</td>
<td>-16%</td>
</tr>
<tr>
<td>Total</td>
<td>114</td>
<td>148</td>
<td>-23%</td>
</tr>
</tbody>
</table>

### Neighbourhood transaction highlights

<table>
<thead>
<tr>
<th>Vancouver areas</th>
<th>2017 transactions</th>
<th>2016 transactions</th>
<th>Suburban areas</th>
<th>2017 transactions</th>
<th>2016 transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eastside</td>
<td>22</td>
<td>21</td>
<td>Burnaby</td>
<td>13</td>
<td>26</td>
</tr>
<tr>
<td>Kerrisdale</td>
<td>7</td>
<td>8</td>
<td>New Westminster</td>
<td>12</td>
<td>14</td>
</tr>
<tr>
<td>Kitsilano</td>
<td>7</td>
<td>15</td>
<td>North Vancouver</td>
<td>10</td>
<td>8</td>
</tr>
<tr>
<td>South Granville</td>
<td>10</td>
<td>15</td>
<td>Surrey</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Marpole</td>
<td>5</td>
<td>9</td>
<td>White Rock</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>West End</td>
<td>9</td>
<td>15</td>
<td>Maple Ridge</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>UBC</td>
<td>2</td>
<td>3</td>
<td>Coquitlam</td>
<td>5</td>
<td>1</td>
</tr>
</tbody>
</table>

### Dollar volume

<table>
<thead>
<tr>
<th>Area</th>
<th>2017 dollar volume</th>
<th>2016 dollar volume</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vancouver</td>
<td>$852,000,000</td>
<td>$798,000,000</td>
<td>+7%</td>
</tr>
<tr>
<td>Suburbs</td>
<td>$838,000,000</td>
<td>$450,000,000</td>
<td>+86%</td>
</tr>
<tr>
<td>Total</td>
<td>$1,690,000,000</td>
<td>$1,248,000,000</td>
<td>+35%</td>
</tr>
</tbody>
</table>

### Dollar average per suite

<table>
<thead>
<tr>
<th>Area</th>
<th>2017 average per suite</th>
<th>2016 average per suite</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vancouver</td>
<td>* $536,000</td>
<td>$505,000</td>
<td>+6%</td>
</tr>
<tr>
<td>Suburbs</td>
<td>** $339,000</td>
<td>$271,000</td>
<td>+25%</td>
</tr>
<tr>
<td>Total averages</td>
<td>$415,000</td>
<td>$383,000</td>
<td>+8%</td>
</tr>
</tbody>
</table>

* based on 1591 suites  
** based on 2478 suites

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The Metro Vancouver development industry remains eager to acquire multifamily housing sites thanks to continued strong condo and townhouse sales. Many developers are currently looking to acquire older, mostly low-density and inefficient purpose-built rentals, co-ops and strata complexes for the redevelopment of rental or market housing. In fact, of the 114 apartment buildings sold this year to date, we estimate that 28 will ultimately be redeveloped (11 in Vancouver and 17 in the suburbs). With increased construction, reports of labour shortages and escalating costs are a constant theme as we talk to our developer clients. We expect that the added burden of increased costs will ultimately be passed on to the consumer in the form of higher condo prices and rents in the coming months and years.

As most of you know, key reasons explain why local residential market pricing (including rents) has increased profoundly over the past several years:

- Strong immigration to B.C. (~10,000 families per year to the Lower Mainland);
- Limited land zoned for new rental buildings (the City of Vancouver’s moratorium on rental demolitions is still in place after 11 years);
- Long approval periods (up to seven years in the City of Vancouver);
- Development uncertainty (developers have no idea what is approvable as it changes weekly);
- Higher construction costs (new sustainability requirements and building code changes);
- Investor/speculators competing with traditional home buyers (these days 30% of all condo sales go to investors);
- Exceedingly low interest rates (~2.5–3% for five-year mortgages);
- Politics (all levels of government try to blame developers, realtors or landlords for lack of supply or higher rents and prices);
- Planning (cities and municipalities simply refuse to zone land with clear entitlements);
- NIMBYism (developers are required to rezone each project with long and uncertain public processes);
- GST (5% charged by the federal government on the full market value of any new rental project);
- NDP ignorance (promising completion of 10,000 affordable housing units per year – what is Victoria smoking?).

Reversing a longstanding trend

With long-term interest rates starting to increase, we forecast that capitalization rates may also follow suit over the coming months. Instead of continuing their downward momentum of over 20 years, cap rates may actually trend up now, meaning that typical investors may well consider paying less for properties than they would have done six months ago. Dividend yields on many TSE-listed REITs have been increasing over the past six months, indicating that a shift is occurring.

Some aspiring buyers to remain as tenants

It’s expected many will forgo buying and continue renting. New mortgage stress-testing is certain to impact the ability of all types of home purchasers, particularly in the more expensive single-family markets. Janet McFarland and James Bradshaw highlighted this in the Globe and Mail: “Many less wealthy home-buyers could be shut out of the housing market and forced to continue renting if proposed mortgage stress-testing rules are adapted by Canada’s banking regulator, an association representing Canadian credit unions has warned” (“Punitive’ rules to shut out house buyers: Credit unions,” September 28, 2017). This has now been approved.
New Rental Stock – 2017

From research undertaken by the Goodman Report, it appears that the number of new rental units in the pipeline is slowly increasing as compared to previous years. We’ve compiled the following building and suite count in five distinct categories: completed, under construction, approved, proposed and cancelled. For ease of reference, we’ve separated the data out into two jurisdictions: Vancouver and suburbs.

<table>
<thead>
<tr>
<th></th>
<th>Completed Units (Buildings)</th>
<th>Under Construction Units (Buildings)</th>
<th>Approved Units (Buildings)</th>
<th>Proposed Units (Buildings)</th>
<th>Total Units (Buildings)</th>
<th>Cancelled Units (Buildings)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Vancouver</strong></td>
<td>837 (7)</td>
<td>2,271 (22)</td>
<td>1,456 (21)</td>
<td>3,160 (39)</td>
<td>7,724 (89)</td>
<td>276 (1)</td>
</tr>
<tr>
<td><strong>Suburbs</strong></td>
<td>1,024 (11)</td>
<td>2,287 (14)</td>
<td>1,189 (13)</td>
<td>3,954 (32)</td>
<td>8,454 (70)</td>
<td>166 (2)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,861 (18)</strong></td>
<td><strong>4,558 (36)</strong></td>
<td><strong>2,645 (34)</strong></td>
<td><strong>7,114 (71)</strong></td>
<td><strong>16,178 (159)</strong></td>
<td><strong>442 (3)</strong></td>
</tr>
</tbody>
</table>

Source: Goodman Report

Vacancies in all rental categories remain exceptionally low throughout Metro Vancouver and are expected to come in below last year’s CMHC Rental Market Report figure of 0.7% for the Vancouver CMA. In fact, the numbers above quickly dispel any notion that the new market rentals currently in the pipeline will address the extreme shortfall of supply.

In Vancouver there are 89 separate projects numbering 7,724 units either recently completed, under construction, approved or proposed. If all of the units above are developed, most won’t be available until 2022 at the earliest. For 2017, we calculate that only 837 suites consisting of 7 projects will be added to Vancouver’s inventory. As for the entire suburban category, there are 70 projects numbering 8,454 suites in various approval stages. Additionally, we estimate that 11 developments completed in 2017 will have added 1,024 rental units and a further 7,430 units over the next 5 years. For the two areas combined, a total of 16,178 rental units are expected for delivery into Metro Vancouver’s rental pool by 2022.

Meanwhile, according to the Metro 2040 Residential Growth Projections Report, the population of Vancouver and surrounding areas is expected to grow by approximately 30,000 per year (~10,000 families), translating into an additional 150,000 by 2022. Are Metro Vancouver’s municipal governments really doing enough to address the dire shortages of market rental housing? We think not.
Warning!

Note of caution to all municipalities: the proposed projects noted in our chart could quickly disappear should public officials adopt punitive polices that create disincentives for developers to build rentals. Regrettably, we’ve learned recently that the City of Vancouver is trying to impose significant CACs for most new market rental projects. We’ve heard that staff has requested as much as $5,000,000 for a 60-unit project—that is over $80,000 per unit! We also understand that a well-known apartment owner wanting to redevelop their prime site with new rentals decided instead to list it for sale after receiving an outrageous city demand for CACs. The sad stories never seem to end. We strongly believe CACs should never be applied to rental projects.

In a recent address to Vancouver’s mayor and council, the Urban Development Institute (UDI) expressed concern about the city’s application of incremental tax or amenity contributions to new rental construction as they would act as an impediment to supply. Typically, the city ignored the UDI and proceeded to require up to $120 per square foot bonus payments for new rental in the False Creek Flats. The following information comes from page 16 of the city’s Policy Report:

Density Bonus Zone Contribution

A density bonus provision has been included in two districts to provide an opportunity for amenity share contributions, to be offered in exchange for additional density. Two district schedules contain a density bonus zone contribution that would be offered as follows:

- In the I-3 sub area A, the rate of $107.63 per square metre ($10 per square foot) for additional density between 3.0 FSR and 5.0 FSR.
- In sub area E of FC-2, a rate of $1,291.67 per square metre ($120 per square foot) for additional density between 3.0 FSR and 6.5 FSR.

The real story behind the scenes

In our opinion, Vancouver’s voters should take a greater interest in what we view as the mysterious, inconsistent and ever-changing approval process for new rentals – up to a seven-year wait. Citizens visiting council meetings and questioning planners and council members about their process would help to shed light on the seemingly bizarre and twisted logic emanating from the hallowed halls of 12th and Cambie. Obstacles and policies, often incomprehensible from our perspective, stymie rental supply. Want proof? Check out why only 837 new rental suites are being delivered this year, while demand from tenants, developers and investors remains insatiable. Fear of retribution makes it unlikely that developers will ever publicly chastise our heavy-handed and bureaucratic city administration.

Goodman’s 2017 performance to date

The first three quarters of 2017 have been stellar here at Goodman. We successfully sold 17 properties made up of apartment buildings and development sites, totalling $337 million. Additionally, we have 9 properties for sale totalling $200 million. Please don’t hesitate to contact us for a no-cost, no-obligation evaluation of your property. And don’t forget to check us out online at www.goodmanreport.com
<table>
<thead>
<tr>
<th>ADDRESS (Eastside)</th>
<th>ADDRESS (Kerrisdale)</th>
<th>ADDRESS (Kitsilano)</th>
<th>ADDRESS (South Granville)</th>
<th>ADDRESS (Marpole)</th>
<th>ADDRESS (West End)</th>
<th>ADDRESS (UBC)</th>
</tr>
</thead>
<tbody>
<tr>
<td>3420 E. 56th Ave (TH)</td>
<td>2945 W 64th Ave (TH)</td>
<td>22 6th Ave (ST)</td>
<td>1550 W. 11th Ave</td>
<td>8680 Montmarte St</td>
<td>1444 Abbott St (DS, HR)</td>
<td>2265 Acadia Rd (DS)</td>
</tr>
<tr>
<td>3400 Knight St</td>
<td>2262 W. 64th Ave (TH)</td>
<td>17 14th Ave</td>
<td>1063 W. Broadway Ave (DS)</td>
<td>8680 Montmarte St</td>
<td>1075 Burnaby St (SP)</td>
<td>2267 Acadia Rd (DS)</td>
</tr>
<tr>
<td>1725 Melville St</td>
<td>1574 Kingway (MU)</td>
<td>1550 W. 11th Ave</td>
<td>951 W. 12th Ave</td>
<td>3833 E. 12th Ave</td>
<td>1075 Burnaby St (SP)</td>
<td>2287 Acadia Rd (DS)</td>
</tr>
<tr>
<td>2274 Oxford St</td>
<td>1532-50 Kingway (MU, ST)</td>
<td>8 14th Ave</td>
<td>1141 E. 12th Ave</td>
<td>8646 Melville Ave (DS)</td>
<td>1075 Burnaby St (SP)</td>
<td>2303 E. 10th Ave (DS)</td>
</tr>
<tr>
<td>2416 Fraser St</td>
<td>3638 Fraser St</td>
<td>16 14th Ave</td>
<td>8646 Melville Ave (DS)</td>
<td>20834 Dewdney Trunk (TH)</td>
<td>1020 12th St</td>
<td>2287 Acadia Rd (DS)</td>
</tr>
<tr>
<td>2190 Pemberton St</td>
<td>1926 W. 12th Ave</td>
<td>10 14th Ave</td>
<td>2181 W. 40th Ave</td>
<td>20834 Dewdney Trunk (TH)</td>
<td>1020 12th St</td>
<td>2303 E. 10th Ave (DS)</td>
</tr>
<tr>
<td>2190 Pemberton St</td>
<td>20834 Dewdney Trunk (TH)</td>
<td>16 14th Ave</td>
<td>5490 Cambie St (ST)</td>
<td>2150 Pandora St</td>
<td>1075 Burnaby St (SP)</td>
<td>2287 Acadia Rd (DS)</td>
</tr>
</tbody>
</table>

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

1. Suite mix
2. Rent/SF
3. Rent leaseable area
4. Buildings’ age and condition
5. Location
6. Frame or highrise
7. Strata vs. non-strata
8. Land value (development site)
9. Special financing

For apartment owners

**Strata vs. non-strata**

- Strata
  - Higher maintenance costs
  - Generally more secure and controlled access

- Non-strata
  - Lower maintenance costs
  - More flexibility in usage (e.g., rental, airbnb)

**Rent/SF**

- Higher rent
  - Rent/square foot higher due to location and amenities

- Lower rent
  - Rent/square foot lower in more affordable locations

**Frame or highrise**

- Frame
  - Generally more affordable due to construction costs

- Highrise
  - Higher construction costs

**Strata vs. non-strata**

- Strata
  - Higher insurance costs
  - Higher property taxes

- Non-strata
  - Lower insurance costs
  - Lower property taxes

For commercial property owners

**Land value (development site)**

- Land value
  - Higher due to location and potential development

- Development site
  - Higher due to potential for future development

The Goodman Team

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Since 1983
Greater Vancouver’s authority on apartment buildings and development sites
goodmanreport.com

**Goodman report:**

**2231 ETON ST, VANCOUVER**
16-suite well maintained building. Views. Grandview-Woodland neighbourhood
$5,850,000

**2215 E HASTINGS ST, VANCOUVER**
Newer 37-suite apartment building with ground level commercial**
$21,800,000

**2778 E HASTINGS ST, VANCOUVER**
Newer 34-suite apartment building with ground level commercial**
$18,500,000

**5363 201 ST, LANGLEY**
90-suite new luxury rental apartment building—phenomenal assumable mortgage
$34,500,000

**275 E 13TH AVE, VANCOUVER**
Well maintained 23-suite apartment building. Mount Pleasant—just off Main Street
$10,500,000

**3591 OAK ST, VANCOUVER**
26-suite co-op apartment building. 132’ x 120’ lot. Shaughnessy area
$17,000,000 (reduced $1.5 million)

**1615 WILLIAM STREET, VANCOUVER**
16-suite apartment building. Commercial Drive neighbourhood
PRICE TBA

**6390 WILLINGDON AVENUE, BURNABY**
Metrotown high density residential development site; ~1 acre
SOLD $32,000,000

**6310 E BOULEVARD AVE, VANCOUVER**
65’ x 122’ (7,830 SF) rare high-exposure C-2 mixed-use redevelopment site in Kerrisdale
PRICE TBA

**420 ELEVENTH ST, NEW WESTMINSTER**
61-suite apartment on massive ~1 acre site. Brow of the Hill neighbourhood
SOLD $14,500,000

**1526 ARBUTUS, VANCOUVER**
10-suite co-op apartment building. Across from Kitsilano Beach
SOLD $7,600,000

**655 POPLAR ST, NANAIMO**
55-suite apartment building. Renovated & well located; 4.3% cap rate
SOLD $8,450,000

**REDUCED**

**SOLD**

**SOLD**

**SOLD**

**SOLD**

**SOLD**

**SOLD**

**SOLD**

**SOLD**

**SOLD**

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