Goodman report:
FOR APARTMENT OWNERS

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News and views from
David and Mark Goodman

IN THIS ISSUE

Canadian Apartment Investment Conference

The first speaker at the Canadian Apartment Investment Conference held Wednesday, September 14, 2011 at the Metro Toronto Convention Center was Benjamin Tal Deputy Chief Economist, CIBC World Markets. Tal boldly stated, straight out of the gate, that America's Federal Reserve Chairman, Ben Bernake and Bank of Canada's Finance Minister Mark Carney have no clue what is going on in world economic markets and suggested that the current financial situation is very uncertain. According to Tal, the key question we should ask is what these two individuals are going to do from a fiscal management standpoint, as they have no precedence or experience for steps they should be taking to address the financial crisis.

Tal predicted that over the next 12 months, the two will adopt very conservative positions and suggested it could be 2008 all over again. He mentioned that the key to the recent equity market weakness is that financial markets now realize global growth is deteriorating. Additionally, the US employment rate is at 9 1/2% and not likely to improve for some time. The US has a severe labor market, and in fact it's probably the worst since 1929 with 12.6 million homeowners in a negative cash position. Ironically the only thing expanding in the US is manufacturing of luxury brand items. The US is exporting substantial amounts of higher end products to 200 million or so new consumers in China, India and Brazil. Tal wondered whether this could herald in a new renaissance in US manufacturing. Meanwhile, he's very bearish on the eurozone, particularly Greece, which he suggests will more than likely default.

With respect to Canada, he feels that the Bank of Canada realizes that inflation is not being caused by any Canadian-made factors, but that we are in fact importing inflation. He doesn't feel the Bank of Canada will touch interest rates soon, as global forces account for two-thirds of CPI volatility. He predicts that inflation will remain muted in North America with it generally being in the 1 1/2 to 2% range over the next 2 to 3 years. He goes on to say that to really crush housing in Canada, interest rates would have to rise sharply or we'd have to fall into a subprime mortgage situation, neither of which seems imminent. With respect to the Vancouver housing picture, Tal stated that if you remove Vancouver's Westside and Richmond, we have a normal market. He stated categorically the key to growth in these areas is the strong activity of Asian buyers. Further, he stated that Canada's housing market of tomorrow will be stagnant and could in fact decline by 5 to 10% over the next few years, but reiterates that our local housing markets have "nine lives and continues to defy gravity." Tal does point out, however, that BC has the highest share of householders with more than a 40% debt service ratio, with 8% of the overall BC population falling into this category and 9% in Vancouver.

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The second speaker was Mathieu Laberge, Deputy Chief Economist at Canada Mortgage and Housing Corporation. He predicted a very stable housing market for 2011 and 2012 and felt that migration will remain a prime supporter of housing starts and rentals with 250,000 new immigrants arriving in Canada in 2011. He also forecasted that yearly housing starts will remain at the 175,000 range with multi-family construction representing half of the starts and condos taking up 70% of the new multi-family construction and purpose built rentals across Canada 30%.

Laberge predicted that moderate economic growth is expected for 2011 and 2012, as employment has improved and was back to pre-recession levels in February 2011. Net migration will remain supportive of housing markets with housing starts back in line with the demographics. An interesting statistic is that purpose-built rental vacancy rates vary across Canada's local markets. Not surprisingly, Windsor is the highest at around 11% followed by Abbotsford at about 6 1/4%, whereas areas like Vancouver, Saguenay, Québec, Ottawa, Victoria, Kingston and Winnipeg are all under 2%. For two bedroom purpose-built rentals, Vancouver, Toronto, Calgary and Ottawa show the highest rents averaging over $1000 per month with the lowest two bedroom rents in the $600 – $700 range in Montréal, Québec, Moncton, St. John, Sherbrook, Saguenay and Three Rivers.

The next presentation was entitled Landmark Transactions and Developments: Strategies and Tactics behind the Biggest Moves of 2011.

One of the key panelists was Mark Kenney of CAP REIT. They have has been very active in both the West Toronto and Greater Montréal regions acquiring almost 2,500 suites in the last four quarters. As an example, in one of their projects they acquired eight buildings from the Leith Hill and Towne Garden portfolios. The following upgrades were carried out almost immediately after acquisition; lighting retrofits, carpet replacement, control systems, new boiler equipment, hallway renovation, sub-metering, waste management/compactors, laundry machines and utility meters for gas. Accordingly, CAP REIT received positive reaction from tenants with improved financials immediately apparent. We consider CAP REIT to be one of the very best apartment operators in Canada who "invest in quality".

Probably one of the more engaging sessions was The Implications for Deferred CapEx on Asset Evaluation: How are Capital Requirements Being Incorporated into the Deal?

Professionals made up of major investors and engineers actively debated both acquisition and screening practices in a highly competitive market environment. Differences quickly emerged amongst the panelists.

Some felt that as major capital expenses are not often known when offering, it's necessary to "grind" the sellers once all the consultants' reports are in and unexpected, very costly deficiencies are uncovered. Another panelist insisted that a sophisticated buyer can assess most the required upgrades before making an offer. Admittedly, their offer may not be accepted by the seller as they have built-in all of the CapEx and the offering price is below the competitors who made little or no allowances for the potential CapEx. Actually, one group was strongly against the "grind" process. While concerned about losing out in the bidding, they build their inspection results into the price so as to avoid unpleasant surprises at the end for the owner.

Mention was made that some Sellers disclosed, through their agent's sale packages, any known CapEx requirements (i.e., roof and piping). While important, the panel generally felt that it is impossible to have every aspect of the building covered by owners, in spite of their best intentions.

One panelist commented that pricing from a buyer's stand point is always easier if the deficiencies are immediately noticed and obvious. If a roof has 10 years of life according to the owner, yet the buyer's consultant suggests only four years of life remains, pressure to adjust the price downward grows.

Another participant stated that as the market is so competitive, one must necessarily have access to the building before it hits the market. There recommendation: do your homework–preparation is the key to success. One group expressed the importance of establishing trust with the vendor as most buyers greatly dislike going back to the owner to renegotiate. It is also their policy to offer the shortest possible fuse (subject period) which provides them with a better chance of acquiring the property.

There was consensus, however, when it came to certain priorities of re-positioning the assets. They all agreed the lobbies, balconies, landscaping and suites be upgraded well before the roofs and garages, which should only be done when necessary. Needless to say, especially in Montreal and Toronto, underground garages and environmental issues are always major concerns for investors.

Again, because of the lack of product, and a very competitive investment environment, a major Toronto landlord acknowledged "there is a certain irony that they must pay for the privilege of taking on a Sellers' poor management, lighting and heating deficiencies and under performing rent levels in order to expand their portfolios." Some additional priorities on addressing CapEx include addressing rot and water penetration, replacing exterior cladding and mold and fixing code problems (i.e., health and safety issues such as low banisters on balconies).

Most of the panelists showed a strong preference for concrete ownership over wood frame. They agree that while more is spent on concrete, the repairs last longer, with "function obsolescence" more pronounced in frame buildings.

One of the panelists recognized that smaller operators are at a distinct disadvantage competing against the larger well financed groups especially when it came to capital requirements for upgrades. They suggested that the capital requirements create a need for flexibility in borrowing. A possible solution was to take a conventional, shorter term mortgage for one year, then financing through CMHC after the building has been upgraded and has substantially higher income.

In the next session called Repositioning Your Property: Effective Retrofits to Increase Occupancy, Rents, and Asset Value, there were four outstanding speakers.

A major Vancouver apartment owner revealed to the audience a brilliant tactic to appreciably enhance their rental income and overall value in a prime "A location". He outlined the steps they took with the acquisition of a large concrete building where the rents were well under market value. They succeeded in increasing rents from $350-$700 per suite in approximately 25% of the suites while increasing the value of their building by $4.4 million over one year at a cost of $1,200,000.

Another group out of Toronto, Conundrum Residential Group, acquired 1,000 units in a three high-rise tower complex and allowed themselves a 5 to 7 year window to turn the project. The group spent $7,500,000 including $1,700,000 on the heating areas which resulted in a 34% reduction in natural gas consumption. They also spent a further $2.8 million on energy initiatives, $845,000 on building improvements, $275,000 on common areas, $150,000 on appliances and building equipment and $1,730,000 in other areas. For their efforts they got an average return on capital in four years. The completion of the project resulted in NOI growth of 32% from purchase to present. The lighting improvements provided at 3 and a half year payback, and the program was completed in just 4 and a half years. They maximized shareholder value to the tune of $20 million.

The next speaker was Stephen Gross of Bentall Kennedy LP, who manages $24 billion of real estate assets in North America. He provided the audience with a vivid portrait of a 48-suite building "believed to be in Alberta", acquired as a "value added" project, and made up of 31 one bedrooms (avg. 700 sq. ft.) and 18 two bedrooms (avg. 825 sq. ft.) The subject property was in an area that competed with condo rentals. Aside from upgrading the suites, they closed down the combined laundry and underutilized social room and added a washer and dryer in each suite. They then converted the laundry/social room into an additional new suite. Remember, this is a major company who undertook this most profitable "value added" opportunity. They felt the building had lent itself to having in-suite laundry installed. By spending $133,000, they were able to achieve a net value gain of $842,000–an amazing return on investment.

The last example, following the same theme was a presentation by Kevin Green, President of Greenwin Inc. This example was for some "C buildings" that they acquired in Toronto. It was made up of 1,214 units in a 4-tower complex call The Oaks which at the time was a rundown, crime ridden project. Upon acquisition they immediately advised the entire community what they were planning to do, which essentially was to turn the project around. The plan was to take away garbage immediately, clean the hallways, fix the fences, change the locks, re-landscape the grounds, eliminate graffiti, hire full-time security, fix the security cameras, as well as repair broken windows and respond immediately to tenants needs. This was an inexpensive, intelligent way of taking back the complex. The tenants eagerly bought into the program and according to Green, even protected the new landscaping from some of the few disruptive tenants. Finally they revitalized the recreational areas with corporate sponsorship from TD Bank.

The next session was entitled The Cross-Canada Investment Roundtable for 2011 and 2012: Where Will the Multi-Res Market Surge Next?

Over shadowing a Canadian economy is increasing global uncertainty including a US double dip recession, mid-east political instability and a European financial crisis. Canada was described as the "Belle of the Ball" with a good balance sheet, strong housing and employment markets with debt and equity plentiful across all asset classes. The panelists uniformly agree that:

1. All assets are attracting bids except C properties priced as A.

2. Desire for clear title buildings or those with good mortgages in place.

3. Majors seeking buildings with poor management in place and rents below market.

The panel also agreed that cap rates have dropped half a percent over the past year. With CMHC financing under 3% for a 5 year term it is like "rocket fuel" in the market place. One panelist begs the question, "Are you overpaying for the building because of the very low cost of money?"

Executive Round Table: What is the Outlook for 2012, and Where Are You Focusing Your Attention?

The overview from the moderators was that there will increasingly be consolidations from the majors and once a major acquires a building, it's typically off the market for 20 years. They attribute the current bond yield as the major influence behind cap rate depression.

This was an insightful discussion with leading multi-family owners and apartment operators who examined the challenges they are facing and where they will be focusing their attention over the next 12- 18 months.

Shay Braverman, CEO of Elad Canada, operates 3,000 suites. He perceives Canada as a safe haven and is also looking at key areas in the US. He believes cap rates will be even lower one year from today.

Philip Gillin, Senior Managing Director and Head of Canadian Real Estate, Sun Life Assurance Company of Canada: With 5,000 units and 4.5 billion dollars in real estate assets, Sun Life recognizes that the real estate sector is awash in private capital and that there is unlimited demand and limited supply, thus, extremely competitive. They are not financing engineered assets; to Sun Life, multi-family is real and tangible. They have important criteria for investment which hinges on immigration, employment and supply and demand. Sun Life requires diversified investments with excellent long term protection and a premium over fix terms investments. They feel rates will remain flats in the next 12 -18 months.

Richard Morantz, President of Globe General Agencies: They have 6,000 units with a strong focus in Winnipeg and Montreal. They like 30 year old high-rises and have been striving to re-finance their portfolio with the current low rates. While they have a heavy concentration in Winnipeg, they remain very open minded and flexible. He predicts even lower cap rates and interest rates next year, but cautions of a potential inflation surge.

Tyler Seaman, Vice President, Multi-Residential, Oxford Properties Group Inc: Oxford has 6,000 units. They are primarily invested in Eastern Canada and not interested in BC unless it's in the Fraser Valley. They have large asset holdings in Texas, and enjoy their US experience as yields are vastly higher. Seaman predicts that spread and yields will widen, and remains very sensitive to this issue. Seaman is one of the few who predicts that the cap rates will increase over the next 12 months.

Tom Schwartz., President and CEO of CAP REIT: As a public company they are very transparent in their disclosure policy. Schwartz feels it is OK to pay a little more for quality, but not for marginal properties. He realizes that there is a finite supply of good product, yet there is increasing demand for these quality assets. With 68% of their 30,800 suites located in Ontario, CAP REIT wants to reduce this to 60% and expand in Calgary, Montreal, and Vancouver. He considers the current environment a "perfect storm" and reminded the audience that the "world loves Canada." He predicts that the yields will drop even lower (25-50 points) because of extreme world demand in quality Canadian assets.

Unlocking Property Values

The question has come up from time to time from our readership as to how they can increase and/or unlock their property values. Many rental buildings are now between 40 and 60 years old and growing increasingly inefficient and costly to maintain. Often they are located in prime urban areas resulting in grossly underutilized land. In these situations, the underlying properties may have greater value than present day value based on the Income Approach. Value may be increased by improving density on the property. Many local municipalities, at times unbeknownst to owners, have implemented policies of densification in respect to multi-family housing. A timely review of your property may help to increase your ultimate asset value not currently reflected under the Income Approach.

In order to assist our valued clients and reader base, we have made arrangements with a well established development management and construction firm to assist us and our clients in analyzing this potential for increasing value of their investment, or to analyze the possibility of liquefying their investment. This company has been in the business for over 40 years and is well recognized in BC. We are pleased to be able to team up with them.

There are many ways in which your property can realize enhanced value including:

- Re-positioning the building into a higher income use
- Increasing density (adding additional income-producing structure(s) to vacant space on the property)
- Increasing value by demolishing existing facilities and selling as high density development site
- Enter into joint-venture development agreement in order to redevelop the property
- Sell the building based on a new development scenario

If you are interested in any of the above options, please contact us for a no-obligation evaluation report at 604.714.4778 or david@goodmanreport.com

Apartment Building Sales | Vancouver Lower Mainland

January 1st to October 28th, 2011

ADDRESS	SUITES	PRICE ($)	UNIT ($)
Vancouver (East Side)			
2416 Fraser	11	2,025,000	184,091
234 E 14th Ave	22	5,400,000	245,455
275 N. Garden Rd.	12	1,760,000	146,667
1383 E Broadway	30	3,800,000	126,667
644 E 8th Ave	11	1,910,000	173,636
1240 Salsbury	17	2,345,000	137,941
90 E 11th Ave	36	6,300,000	175,000
2225 Triumph	42	6,200,000	147,619
1657 E 12th Ave	12	1,418,000	118,167
520 N Nanaimo	20	3,037,000	151,850
360 E 13th Ave	20	3,170,000	158,500
1850 Adanac St	78	9,700,000	124,359
1572 Graveley St	8	1,200,000	150,000
Total	**319**	**48,265,000**	**151,301**
Vancouver (Kerrisdale/Shaughnessy)			
1995 W 19th Ave	10	4,630,000	463,000
Vancouver (S Granville)			
4141 Oak	12	2,160,000	180,000
1255 W 12th Ave	9	2,100,000	233,333
1175 W 11th Ave	11	2,775,000	252,273
3075 Willow	8	3,600,000	450,000
Total	**40**	**10,635,000**	**265,875**
Vancouver (Kitsilano)			
2011 York	10	3,400,000	340,000
2425 W. Broadway	9	2,190,000	243,333
2265 W. 3rd Ave	22	5,630,000	255,909
2854-64 W. 4th Ave (DS) 2 Bldgs	14	4,976,000	355,429
2324 W. Broadway	6	1,875,000	312,500
2842 W. 4th Ave (DS)	9	3,050,000	338,889
1875 West 7th Ave	39	9,300,000	238,462
1996 Trutch	11	3,450,000	313,636
2375 York	8	3,180,000	397,500
Total	**128**	**37,051,000**	**289,461**
Vancouver (Marpole)			
8675 Fremlin	18	2,510,000	139,444
8781 Granville	8	1,375,000	171,875
8580 Oak	17	2,650,000	155,882
8676 Oak	8	1,445,000	180,625
1396 W 71st Ave	6	1,550,200	258,367
Total	**57**	**9,530,200**	**167,196**
Vancouver (West End)			
1310 Burnaby	28	5,150,000	183,929
935 Jervis	19	5,935,000	312,368
1169 Pacific	23	3,950,000	171,739
2035 Barclay (HR)	28	8,500,000	303,571
1436 Pendrell	13	3,688,000	283,692
1414 Davie (HR)	36	7,800,000	216,667
1549 Barclay St	21	3,865,000	184,048
1020 Chilco	6	2,010,000	335,000
1937 Pendrell (HR)	37	13,500,000	364,865
Total	**211**	**54,398,000**	**257,810**
Cambie & Marine			
445 SW Marine (DS) (TH)	70	23,750,000	339,286
North Vancouver			
130 W. 5th St	48	7,575,000	157,813
531 Lonsdale (TH)	15	2,730,000	182,000
216 E 12th St	13	2,598,000	199,846
260 E 12th St	60	9,000,000	150,000
372 E 3rd St	16	2,975,000	185,938
1445 Chesterfield	51	7,900,000	154,902
123 E 3rd St	7	1,635,000	233,571
220 E 12th St	11	2,240,000	203,636
Total	**221**	**36,653,000**	**165,851**
Burnaby			
6545 Bonsor (HR)	114	24,500,000	214,912
6550 Nelson (DS)	57	10,200,000	178,947
4909 Imperial	8	1,230,000	153,750
6587 Burlington	31	4,540,000	146,452
6659 Dow	16	2,870,000	179,375
6634 Dow (DS)	28	8,737,288	312,046
6730 Dunblane	11	2,038,000	185,273
4379 Imperial	12	2,038,000	169,833
4330 Maywood St	27	3,740,000	138,519
6509 McKay	8	1,800,000	225,000
6880 Balmoral St	23	3,050,000	132,609
5808 Patterson	9	2,200,000	244,444
5828 Patterson	9	2,200,000	244,444
Total	**353**	**69,143,288**	**195,873**
Richmond			
11671-11675 7th Ave	258	44,000,000	170,543
Westminster			
315 Agnes	42	4,560,000	108,571
430 11th St	35	3,795,000	108,429
515 Ninth St	47	5,200,000	110,638
520 Tenth	50	5,500,000	110,000
427-429 Eighth (2 buildings)	29	3,650,000	125,862
1116 Hamilton (EST)	42	4,875,000	116,071
810 St. Andrews (HR) (EST)	117	16,500,555	141,030
333 10th Street	41	4,250,000	103,659
* 706 Queens St (HR)	112	14,975,000	133,705
321 Hospital St	37	3,250,000	87,838
414 Royal (DS)	29	2,200,000	75,862
422 Royal (DS)	22	2,300,000	104,545
Total	**603**	**71,055,555**	**117,837**
White Rock			
1340 Fir Street	10	1,280,000	128,000
15501 Marine Drive	8	1,040,000	130,000
Total	**18**	**2,320,000**	**128,889**
Langley			
20672 Eastleigh	28	2,958,000	105,643
Coquitlam			
1015 Howie	68	5,900,000	86,765
655 North Road (DS)	52	17,100,000	152,679
515 Foster (DS)	60		
Total	**180**	**23,000,000**	**127,778**
Maple Ridge			
11872 Laity	12	1,237,500	103,125
11682 224th	21	1,430,000	68,095
Total	**33**	**2,667,500**	**80,833**
Surrey			
12730 66th	53	12,200,000	230,189
Port Coquitlam			
2066 Coquitlam	12	1,400,000	116,667
3035 Coast Meridian	6	793,000	132,167
Total	**18**	**2,193,000**	**121,833**

* 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

New Listings and Recent Sales

6557 Burlington Street, Burnaby

- 31-Suite Apartment Building
- Convenient Metrotown neighbourhood
- Asking $5,295,000

2250 Dundas Street, Vancouver

- 18-Suite Apartment Building
- Granview neighbourhood
- Asking $2,975,000

4225 Grange Street, Burnaby

- 48-suite Apartment Building
- Prime Metrotown location
- Asking $7,950,000

2095 West 44th Avenue, Vancouver

- 12-Suite Apartment Building
- Central Kerrisdale neighbourhood
- Asking $3,950,000

32846 14th Avenue, Mission

- 30-Suite Apartment Building
- 1.81 acre lot
- Asking $2,888,000

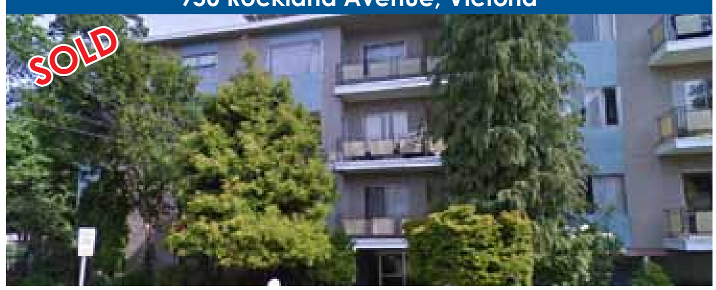
1875 - 1885 West 7th Avenue, Vancouver

- 39-Suite Apartment Building
- Prime Kitsilano. Totally renovated
- Asking $9,795,000

1995 West 19th Avenue, Vancouver

- 10-Suite Rental Mansion
- Prime Shaughnessy neighbourhood
- Asking $4,725,000

950 Rockland Avenue, Victoria



- 40-Suite Apartment Building
- Popular Rockland neighbourhood
- Asking $5,150,000

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View properties online at www.goodmanreport.com

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