The Newsletter for Apartment Owners since 1983

The Goodman Report

FOR APARTMENT OWNERS

www.goodmanreport.com

Issue 37 January 2009

THE PENDULUM HAS SWUNG – WITH A VENGEANCE

2008 – THE YEAR IN REVIEW

What a difference a year makes, or five short months for that matter, during which the global economic order as we know it underwent a seismic shift and was abruptly shaken to its very core. In the present, we are inundated if not pummeled by doomsday predictions among media reports of US banking failures, trillion dollar deficits, rapidly rising unemployment figures, the collapse of commodity prices, unprecedented carnage in global stock markets, threats of hyperinflation, deflation, and the demise of the auto industry's "Big 3". While Canada, relatively speaking, has not yet borne the brunt of the downturn, we have not remained unscathed as the latest economic indicators point to recession conditions for 2009. The question is, how does this troubling backdrop relate to and impact the apartment rental industry in Greater Vancouver?

Based on recent sales activity, buyers are well aware that cap rates, after six years of compression, are finally in an uptrend. Similarly, multi-family listings regardless of location, are experiencing a rapid increase in numbers. Also, from an investors standpoint it's most encouraging that mortgage rates are on the decline with 5 year CMHC financing available in the 3-3.5% range, conventional financing at approximately 4.75% and vacancy rates hovering at all time lows. Needless to say, fewer tenants are prepared to purchase a condo with prices seemingly in a free fall and unemployment rising.

IN THIS ISSUE

News and views from David and Mark Goodman

A YEAR TO YEAR COMPARISON

In comparing the overall sales performance and dollar volume of 2008 with 2007, a decelerating trend is seen to continue as first forecasted last year in the Goodman Report, *The Greater Vancouver Apartment Review 2007 – The Year in Review*. In fact, 2008 apartment transactions declined dramatically to only 68, a telling 50% drop over 2007's 136 buildings. More specifically, Vancouver saw only 31 buildings sold in 2008 compared to 57 sold in 2007, off 46%, while suburban areas saw a 53% marked decrease to 37 buildings from 79 sold in 2007.

The severity of the fall-off is still more pronounced considering that 51 buildings sold during the first 6 months of 2008, while a mere 17 buildings sold from July 1 to December 31, 2008. As for total dollar volumes, $237,506,000 worth of buildings sold in 2008 versus $486,606,300 in 2007 – a 51% drop. Vancouver alone experienced a 52% decline in dollar volume to $114,422,000 from $239,046,000 in 2007, while suburban communities saw a 50% decline to $123,084,000 down from $247,560,300 in 2007. Vancouver's average price per suite in 2008 is up 4% to $188,815 vs. 15% a year earlier, while suburban communities were up 3% in 2008 vs. 10% in 2007. (See matrix on page 2).

MACDONALD Commercial

Macdonald Commercial
301-1770 W. 7th Avenue
Vancouver, BC V6J 4Y6

David Goodman
Tel 604·714·4778
Email david@goodmanreport.com

Mark Goodman
Tel 604·714·4790
Email mark@goodmanreport.com

ACTIVITY HIGHLIGHTS: 2008 COMPARED TO 2007

Buildings Sold

Area	2008	2007	Difference
Vancouver	31	57	-46%
Suburban	37	79	-53%
Total	**68**	**136**	**-50%**

Dollar Volumes

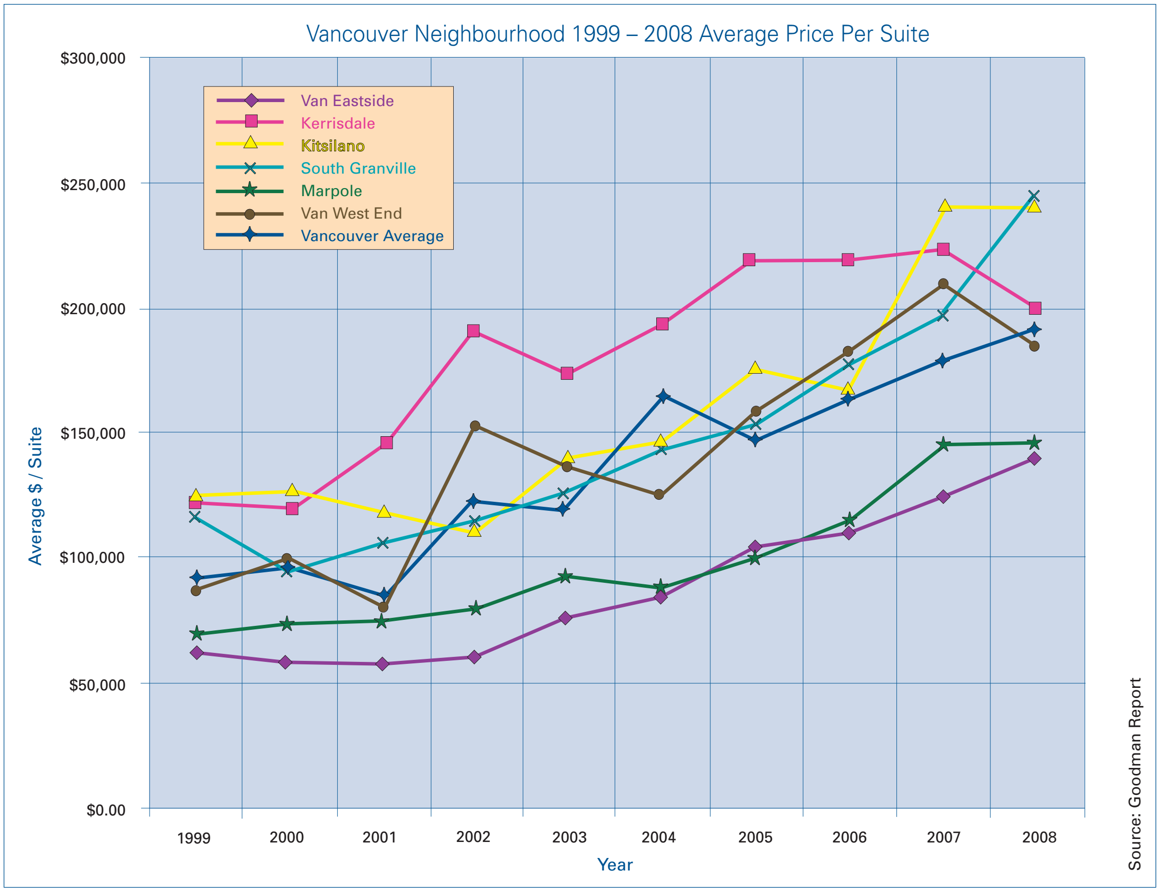
Area	2008	2007	Difference
Vancouver	$114,422,000	$239,046,000	-52%
Suburban	$123,084,000	$247,560,300	-50%
Total	**$237,506,000**	**$486,606,300**	**-51%**

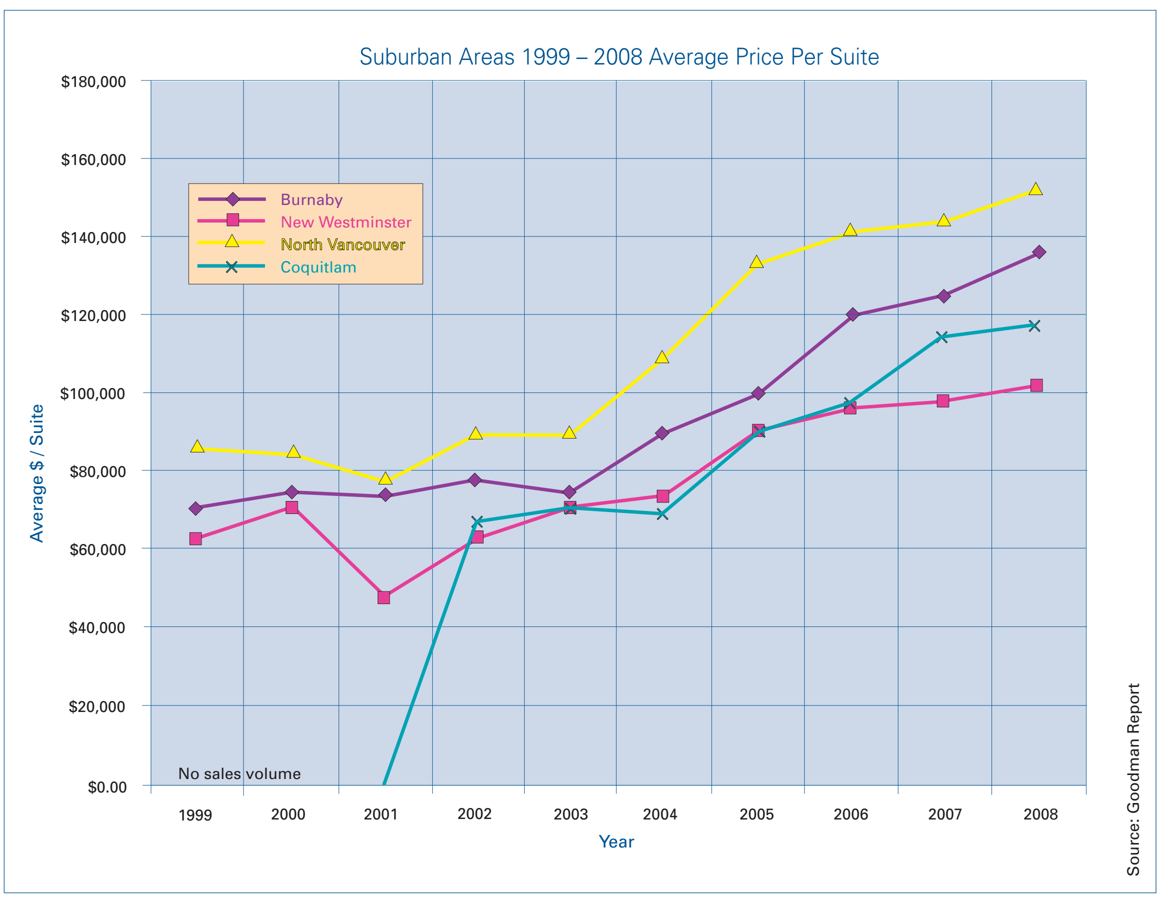
Average Price Per Suite

Area	2008	2007	Difference
Vancouver	$188,815	$180,821	+4%
Suburban	$121,504	$118,337	+3%

Transactions / Average $ Per Suite (Comparisons)

Vancouver Area	2008 Transactions	2007 Transactions	$ Per Suite (2008)	$ Per Suite (2007)	% Change
Eastside	11	20	$140,523	$127,281	+10%
Kerrisdale (incl oakridge and UBC)	1	2	$200,000	$223,504	+11%
Kitsilano	5	5	$274,494	$236,413	+16%
Marpole	2	6	$154,615	$145,917	+ 6%
South Granview/Fairview	4	11	$238,493	$197,536	+21%
West End	8	7	$185,549	$209,338	-11%
Vancouver Area	**2008 Transactions**	**2007 Transactions**	**$ Per Suite (2008)**	**$ Per Suite (2007)**	**% Change**
Burnaby	10	35	$136,145	$125,496	+ 9%
Coquitlam	2	8	$116,861	$114,602	+ 2%
New Westminster	10	15	$101,880	$98,984	+ 3%
North Vancouver	8	12	$152,556	$145,384	+ 5%


Vancouver Neighbourhood 1999 – 2008 Average Price Per Suite
Van Eastside
Kerrisdale
Kitsilano
South Granville
Marpole
Van West End
Vancouver Average
Average $ / Suite
$300,000
$250,000
$200,000
$150,000
$100,000
$50,000
$0.00
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
Year
Source: Goodman Report


Suburban Areas 1999 – 2008 Average Price Per Suite
Burnaby
New Westminster
North Vancouver
Coquitlam
Average $ / Suite
$180,000
$160,000
$140,000
$120,000
$100,000
$80,000
$60,000
$40,000
$20,000
$0.00
No sales volume
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
Year
Source: Goodman Report

APARTMENT BUILDING SALES VANCOUVER LOWER MAINLAND JANUARY 1 TO DECEMBER 31, 2008

ADDRESS	SUITES	$ PRICE	$ PER/UNIT
Vancouver (East Side)			
2066 Triumph	8	1,000,000	125,000
★ 234 E 14th	22	3,215,000	146,136
2144 Dundas	8	960,000	120,000
3437 Kingsway	8	1,030,000	128,750
★ 3122 Quebec St	13	2,305,000	177,308
243 E 13th Ave	11	1,550,000	140,909
★ 2067 Pandora	8	1,525,000	190,625
1660 E Georgia	10	1,368,000	136,800
4910-48 Fraser	57	7,485,000	131,316
1025 E Broadway	10	1,343,000	134,300
1005 E Broadway	16	1,700,000	106,250
Total:	**171**	**23,481,000**	**137,316**
Vancouver (Marpole)			
8619 Hudson	15	2,180,000	145,333
8656 Montcalm	11	1,840,000	167,273
Total:	**26**	**4,020,000**	**154,615**
Vancouver (West End)			
1209 Jervis	45	8,700,000	193,333
850 Bidwell (HR)	43	10,100,000	234,884
1123-31 Burnaby	49	9,000,000	183,673
1169 Pacific	23	3,600,000	156,522
1133 Barclay	27	3,725,000	137,963
990 Bute	36	5,400,000	150,000
1436 Pendrell	14	3,450,000	246,429
Total:	**237**	**43,975,000**	**185,549**
Vancouver (Kerrisdale & UBC)			
★ 5550 Yew St	22	4,400,000	200,000
Vancouver (South Granville))			
1336 W 14th Ave	11	2,250,000	204,545
3075 Willow	8	2,200,000	275,000
3392 Oak	10	2,260,000	226,000
1234 W 14th Ave	44	10,700,000	243,182
Total:	**73**	**17,410,000**	**238,493**
Vancouver (Kitsilano)			
2285 W 6th Ave	20	3,380,000	169,000
2325 York	11	3,250,000	295,455
1475 Laburnum	26	8,100,000	311,538
2880 W 4th Ave (ST)	12	3,406,000	283,833
2445 Cornwall	8	3,000,000	375,000
Total:	**77**	**21,136,000**	**274,494**
White Rock			
★ 1497 Martin St	21	2,542,500	121,071
Richmond			
★ 8200 & 8300 Park Rd	174	23,000,000	132,184
Mission			
32846 14th Avenue	30	2,350,000	78,333

ADDRESS	SUITES	$ PRICE	$ PER/UNIT
Burnaby			
★ 1280 Madison	22	2,910,000	132,273
4105 Albert	26	3,700,000	142,308
3951 Albert	12	1,850,000	154,167
6730 Dow	10	1,460,000	146,000
6729 Marlborough	8	1,345,000	168,125
6822 Arcola	10	1,180,000	118,000
7050 Balmoral	44	5,500,000	125,000
7448 14th Ave	18	2,300,000	127,778
5710 Smith	9	1,350,000	150,000
6592 Dunblane	9	1,360,000	151,111
Total:	**159**	**21,595,000**	**135,818**
New Westminster			
★ 908 Sixth Ave	44	7,525,000	109,058
★ 529 Tenth St	25		
427 Eighth St	15	1,500,000	100,000
727 Fourth Ave	10	1,100,000	110,000
1116 Hamilton	42	4,300,000	102,381
217 Royal	19	1,750,000	92,105
125 Eighth St	11	1,350,000	122,727
405 Tenth St	28	2,320,000	82,857
101 Royal	48	4,800,000	100,000
808 3rd Ave	16	1,640,000	102,500
Total:	**258**	**26,285,000**	**101,8804**
North Vancouver			
375 W 4th St	13	1,700,000	130,769
347 W 4th St	12	1,940,000	161,667
2601 Lonsdale	11	1,750,000	159,091
372 E 3rd St	15	2,270,000	151,333
1629 St Georges	15	2,435,000	162,333
146 E 12th St	17	2,700,000	158,824
220 E 12th St	11	1,900,000	172,727
255 W 3rd	41	5,900,000	143,902
Total:	**135**	**20,595,000**	**152,556**
Coquitlam			
801 Gatensbury	33	4,282,000	129,758
540-542 Rochester	132	15,000,000	113,636
Total:	**165**	**19,282,000**	**116,861**
Port Coquitlam			
2232 Atkins	12	1,420,000	118,333
Langley			
19855 54th Ave (TH)	7	1,500,000	214,286
Maple Ridge			
12003 Edge	7	780,000	111,429
★ 12128 222nd St	45	3,735,000	83,000
Total:	**52**	**4,515,000**	**86,827**

★ SOLD BY THE GOODMAN TEAM

(HR) highrise, (TH) townhouse, (ST) strata, (DS) development site

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

1) Suite Mix; 2) Rents/ft.; 3) Net leasable feet; 4) Buildings' age and condition; 5) Location; 6) Frame or High Rise; 7) Strata vs. Non-Strata; 8) Land Value (Dev. Site); 9) Special financing; 10) Asset vs. Share Purchase.

The information contained herein was obtained from sources which we deem reliable, and while thought to be correct, is not guaranteed by Macdonald Commercial Real Estate Services Ltd.

This is not intended to solicit properties already listed for sale with another agent.

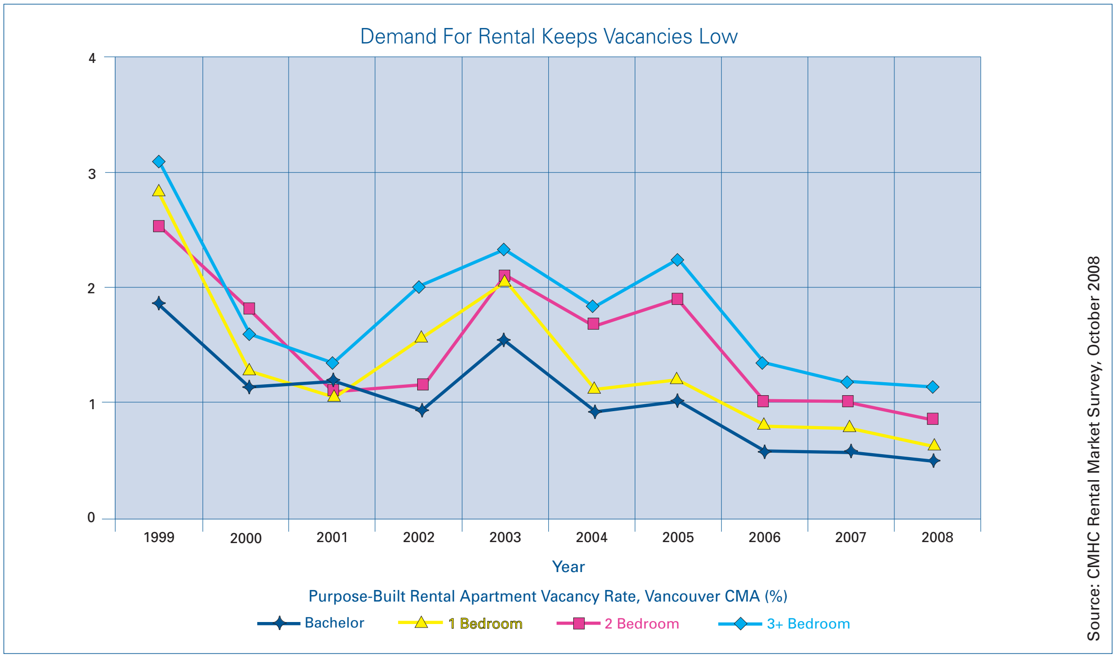
CMHC RENTAL MARKET REPORT

The latest *CMHC Rental Market Report* released in December 2008 paints a uniquely positive picture for Greater Vancouver.

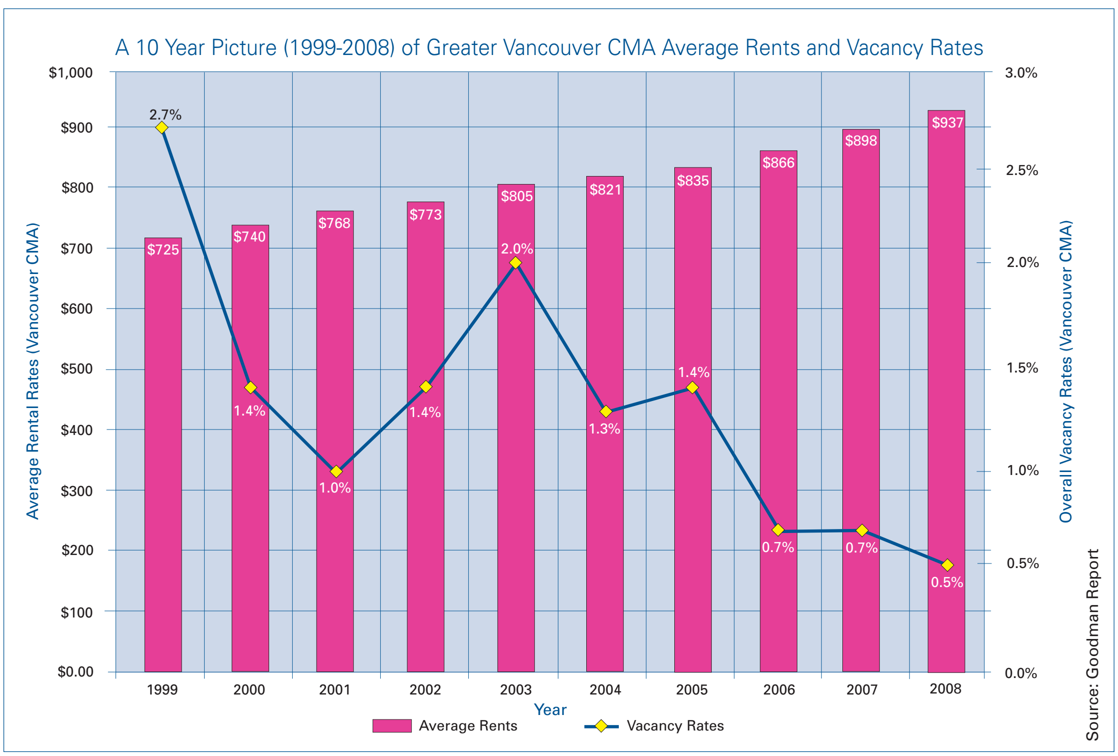
- Vancouver's rental apartment vacancy rate further declined in 2008, after two years of stable but already low vacancies;
- Same sample rents increased at a slightly slower pace than last year;
- The stock of purpose-build rental apartments declined in 2008, while the number of rental apartment condominium units increased;
- The rental condominium vacancy rate rose slightly compared to 2007, but remained below one per cent;
- Vacancy rates will stay below one per cent in 2009, while rents will continue to edge up in the 3—5% range.

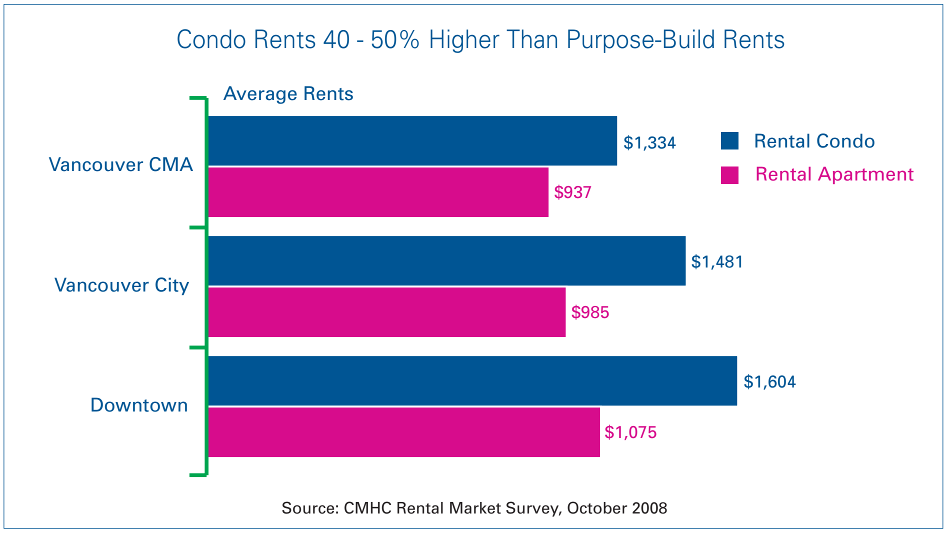
continued on page 6

To the right is a 10 year snapshot of vacancies of purpose-build rental buildings in Vancouver CMA.



As for rent levels in purpose-build buildings, CMHC reports that in the Vancouver CMA, the average rent in 2007 was $898, while in 2008 it was $937 — a 4.3% increase. (See right).





continued from page 5

In our opinion there exists no better source than the above CMHC graph which so vividly reveals the significant upside in potential rental income between older purpose-build and condos. Owners will succeed in narrowing the wide income disparity between these two rental classes given they initiate a comprehensive program of renewal or continue their upgrading efforts. The rewards for reinvestment are proven and substantial.

Also, according to CMHC, condo rents "increased in 2008 at a slightly slower pace than those in purpose-build apartments, however, rents in condominiums remained 40% to 50% higher than in the latter."

A Cautionary Note

While the 2008 CMHC Rental Survey is an upbeat report, it reflects only a historical snapshot of events. Although the Goodman Team does not share their unbridled optimism in this area, CMHC predicts that "vacancy rates for 2009 will stay below 1%." We in turn forecast that owners will experience a more challenging rental market due to a lessening of demand. Having been in contact with owners on a continuous basis throughout Greater Vancouver, we have learned that fewer people are responding to "for rent" ads, more tenants are vacating their suites because of financial hardship, and significant numbers of tenants are moving into their recently purchased condos. Finally, expect significant numbers of frustrated investors, unable to sell their vacant condos, to "throw in the towel" and tenant their suites.

SOME MARKET CONTEXT – A 20 YEAR PICTURE

Markets, being fluid as they are, are in a constant state of flux. Therefore, one should not be surprised by the effect that the current economic environment is having on volumes/pricing, the apartment market, as well as all asset classes locally, provincially, nationwide and for the most part globally. The following is a case study our readership might appreciate:

In 1988-1989 the Greater Vancouver apartment market was on a spectacular tear with approximately 330 buildings sold annually. In a speech before the Vancouver Real Estate Board, then Mayor Gordon Campbell was quoted as saying "We are no longer a secret." *Time Magazine, Forbes Magazine and The Financial Post* had all written glowing statements about our city, further adding to the global forces focusing on Vancouver. When Hong Kong's Li Ka Shing acquired the development site known as BC Place, "all hell broke loose" in our real estate market. This was the green-light that Asian investors in particular and locals were waiting for. Speculation ran rampant and prices soared with numerous examples of buildings being purchased sight unseen and the practice of "flipping contracts" became "de rigueur". Against this frenzied backdrop, investors remained nonplussed over the prospect of negative cash flow. It was all about capital appreciation during those heady times.

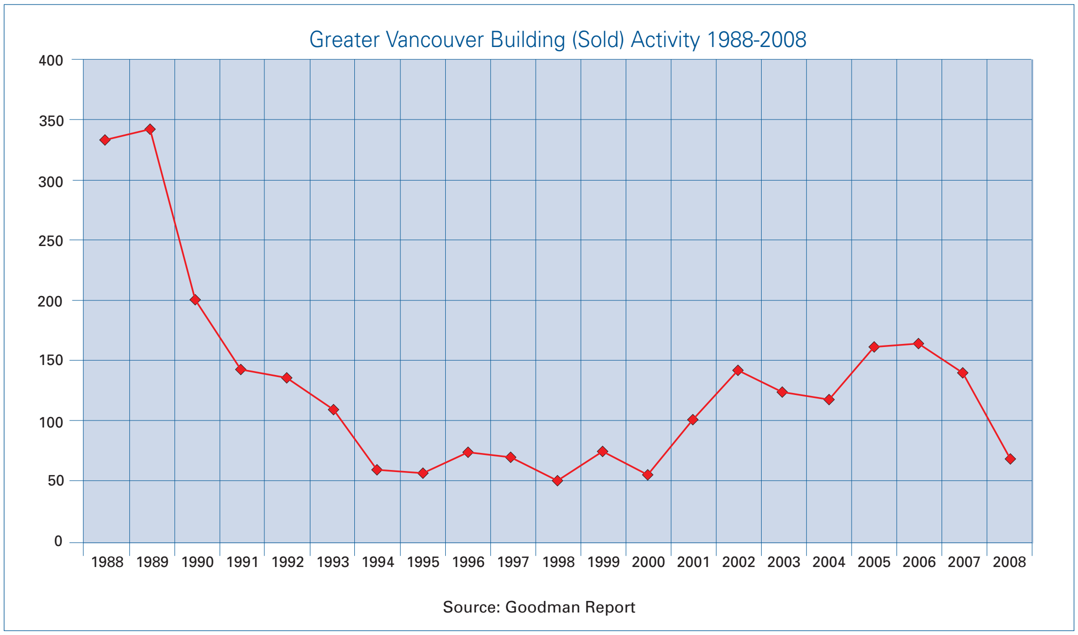
Market Stopped in its Tracks

The following year (1990) the Bank of Canada, concerned about serious and growing inflation, intervened and interest rates soared to 11%. Conversely, and almost overnight, sales volumes plummeted by 38% in 1990 with 198 buildings sold. Within 4 years (1994), due to a confidence-sapping NDP Government in Victoria, combined with a punitive tax on capital gains of 75%, sales dropped a further 70% (approximately) to 51 – 71 buildings sold each year for the balance of the decade. Prices essentially remained flat during the 10 year period (1990 – 2000).

It was only by the year 2001 that we finally saw a breakout to the upside. The catalyst was the return of a Provincial Liberal

Government, a reduction in tax on capital gains to 50% and the Federal Government's determination to rein in spending. Volumes rose, peaking at 164 buildings sold in 2006 (see page 8 for $ volumes). On a similar note, average prices per suite have greatly increased over the past 10 years (see page 3).

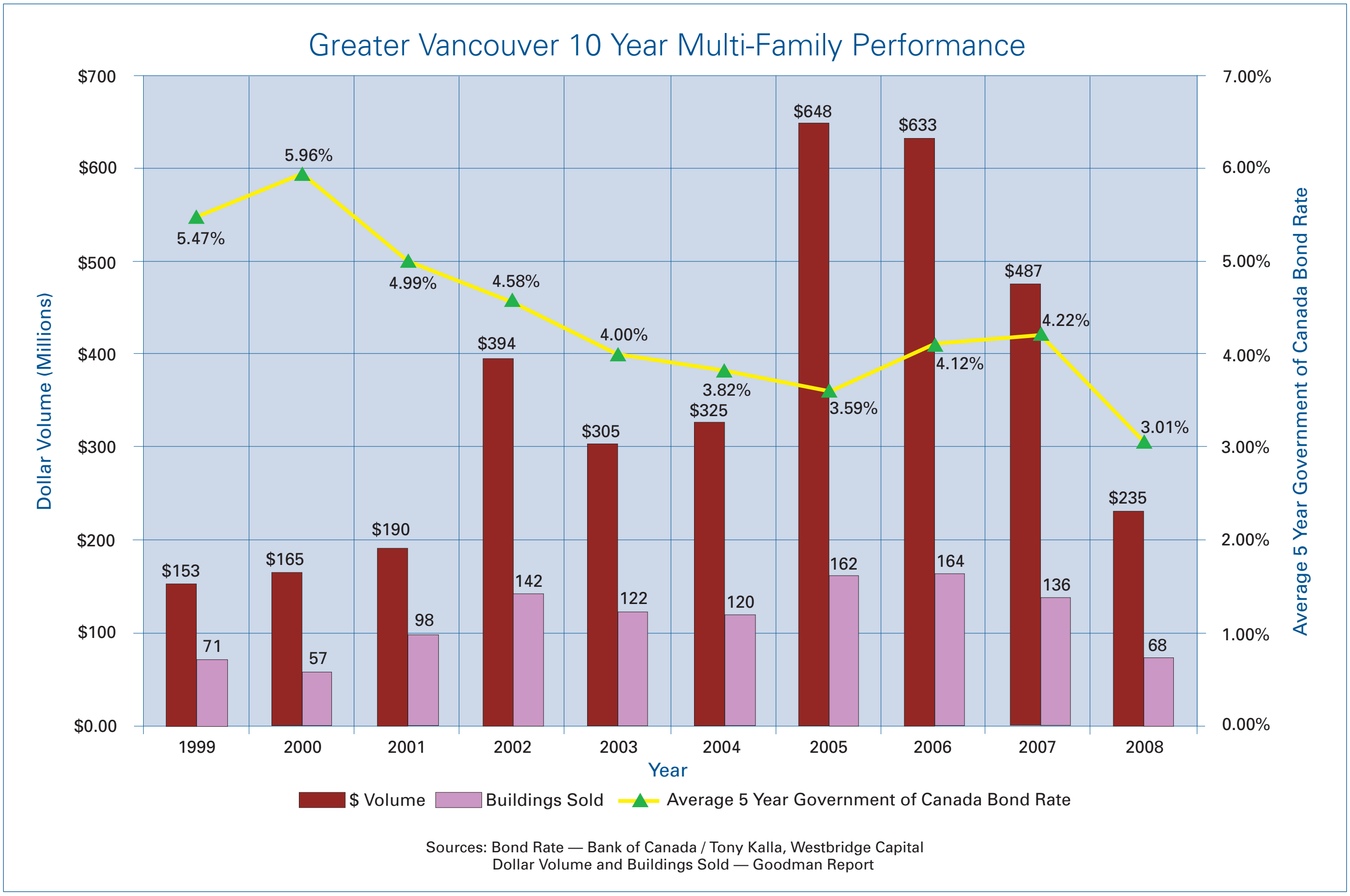
2008's rapid decline to 68 buildings sold from 2007's 136 buildings over one short year stands as a graphic reminder of the financial market's rapid ability to reflect a new paradigm in a radically altered economic environment. In this case, a shocker!



LOOKING AHEAD — GOODMAN'S FORECAST

Based on factors such as historical precedent, present day political maneuvering and a troubled economy, what can we expect for Greater Vancouver's rental industry in 2009?

1. Investors to remain cautious. While the level of transactions not likely to exceed 2008's figures, opportunities to emerge allowing buyers to achieve significant positive cash flow margins, enhanced particularly with CMHC financing.
2. A slowing of escalating values, in conjunction with a sharp reduction in sales signals a plateau, if not a potential decline in prices for 2009.
3. Developers to increasingly explore opportunities to construct purpose-build rentals in light of land and construction costs showing signs of weakening coupled with historically low vacancy rates. It's expected that costs will decline dramatically in the summer/fall of 2009 as virtually all current residential projects will have been completed. As well, the industry to experience very few construction starts as lenders have ceased financing to 2nd tier or below builders. Expect a renewed sense of cooperation from all levels of government to help foster the development of rental projects.
4. Buildings being offered at 2007 or early 2008 pricing to languish on sidelines, attracting little, if any, buyer interest.
5. In the absence of significant sale transactions, agents and appraisers anxious to detect any meaningful trends with respect to pricing (stay tuned on this critical subject).
6. The Provincial Government, while opposed to supporting Vancouver City Council's misguided proposed amendment to the Residential Tenancy Act, to "require landlords to allow tenants evicted for the purpose of renovations to reoccupy their units once renovations are completed at the same rent as they were paying prior to the renovation" will not welcome evidence of landlords treating tenants shabbily, especially prior to the upcoming election.
7. Vacancy rates to rise well beyond CMHC's 2009 forecast (see page 6 "Cautionary Note").
8. Expect short term mortgage rates to remain very attractive as the economy weakens, while long term rates to undergo upward pressure as we move into mid 2009.
9. Considering the amount of money that treasuries and central bankers are injecting into the financial system worldwide, we believe that a sharp rise in inflation and interest rates is on the way. We recommend that current owners and new investors considering long term financing lock in **now**. Rates can change very quickly in view of the unstable money markets and shaky lending environment.
10. Widespread recognition within real estate investment circles that rental apartment buildings continue to provide the least risk for investors and lenders alike.



The Goodman Team remains at the forefront of Greater Vancouver's apartment sales and service. In 2008, we again handled the largest single apartment transaction by successfully selling Dolphin Square, a 174 suite complex in Richmond to Cap Reit for $23,000,000. For 2008, we assisted our clients in selling $52,000,000 worth of apartment buildings representing 22% of the overall dollar volume, more than any other realtor.

We are also proud to have spoken at the Vancouver Real Estate Forum and BCOAMA, to have been mentioned in 11 newspaper articles from *The Vancouver Sun, Business in Vancouver, Georgia Straight and Western Investor* and to have spoken before Vancouver City Council against a proposed amendment to the *Residential Tenancy Act* which would negatively impact landlords. To view a video of David Goodman speaking on this subject before Vancouver City Council, please view our YouTube channel at www.youtube.com/goodmanreport.

Apartment owners are reminded that shelter is not to be treated as a discretionary commodity and as such should be regarded as a basic human need. While the BC economy is experiencing a somewhat more difficult period, purpose-build rental buildings especially in Greater Vancouver are expected to out-perform all other asset classes.

We greatly enjoy working with our clients and the investor community. In these challenging times go with the proven industry leaders. The Goodman Team represents 43 years of experience and commitment. We look forward to facilitating and resolving your real estate needs.

MACDONALD Commercial

Macdonald Commercial
301-1770 W. 7th Avenue
Vancouver, BC V6J 4Y6

David Goodman
Tel 604·714·4778
Email david@goodmanreport.com

Mark Goodman
Tel 604·714·4790
Email mark@goodmanreport.com

Goodman REPORT