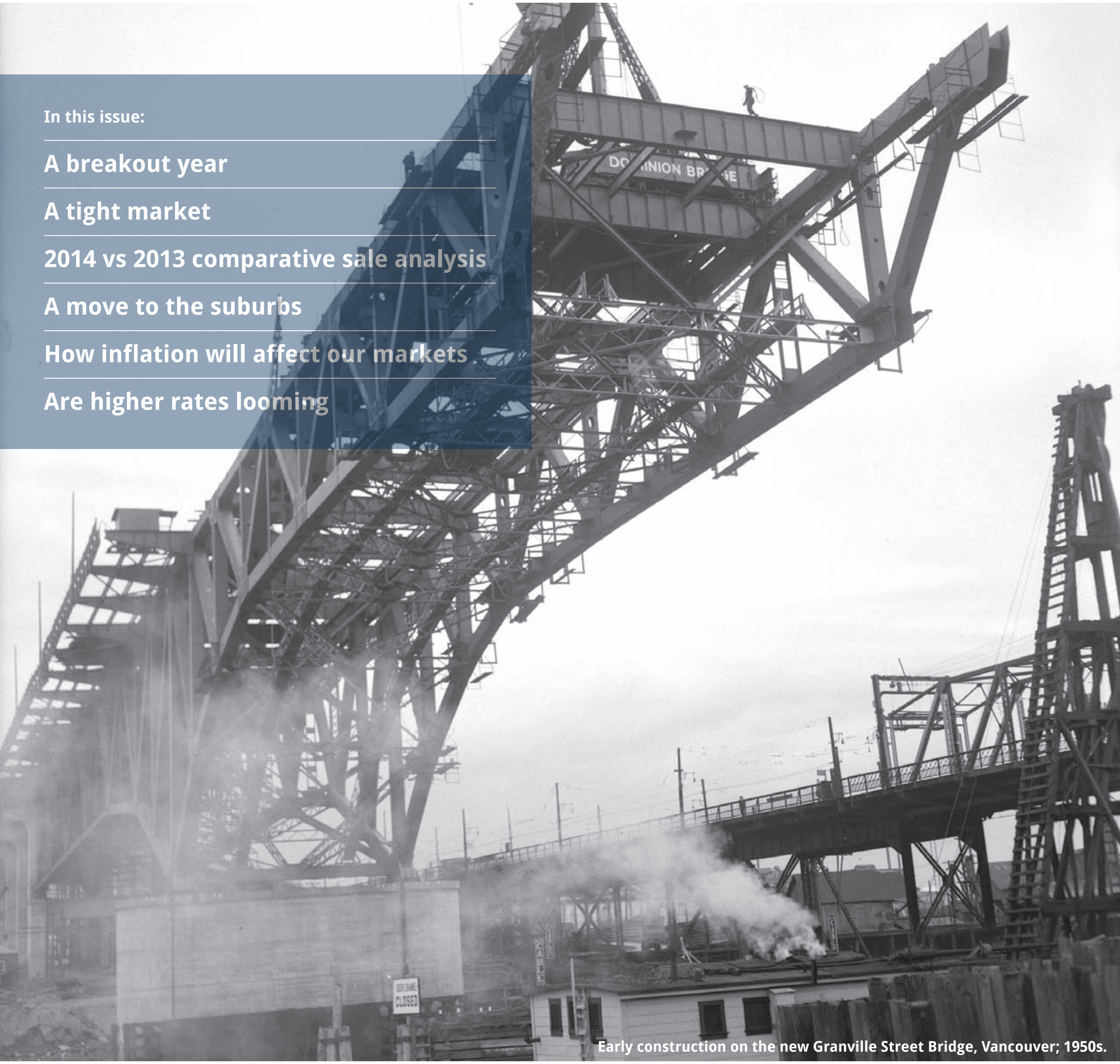
The Newsletter for Apartment Owners since 1983

Issue 50 | July 2014

Goodman report:

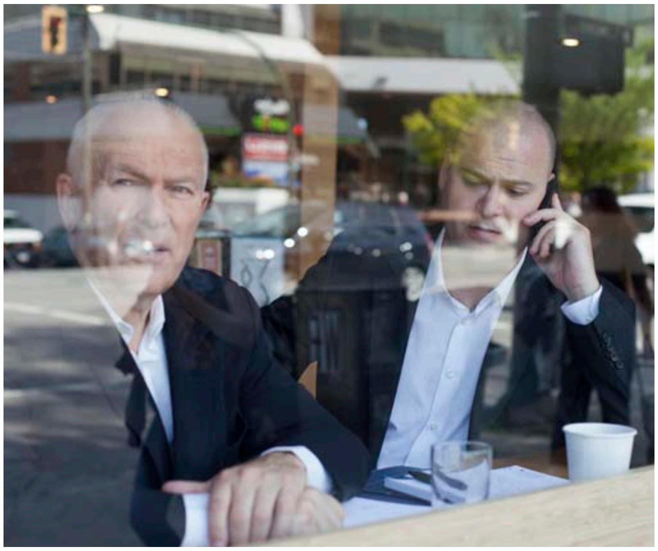
2014 Mid-Year Greater Vancouver Apartment Building Market Review

In this issue:



Early construction on the new Granville Street Bridge, Vancouver; 1950s.

Multi-Family statistical overview



In the various categories tracked by *The Goodman Report*, the number of rental apartment building sales and its corresponding dollar volume, in particular, has strengthened measurably during the first six months of 2014 against those in the equivalent period in 2013.

A breakout year

A discernible trend in building transactions and dollar volumes is signalling a bullish breakout. Sensing that business, political and economic signs remain positive, new buyers both offshore and local have been relentlessly pursuing older three-storey frame and highrise buildings for retrofit opportunities. Further, new purpose-built rentals to be acquired on a forward sale basis are still very much being sought after. So far in this calendar year (first six months), 61 sales in total have occurred versus 45 last year, a 36% increase. Of these sales, 30 have been in Vancouver and 31 in suburban areas, while 2013 recorded 26 sales in Vancouver and 19 in the suburbs.

From 2004 to 2007 inclusively, an average of 149 apartment buildings sold per year, with an average annual volume of $538 million. With the onset of the recession in 2008 to and including 2013, an average of 88 buildings sold yearly, with volume averaging $530 million. On the basis of the first six months of 2014, it's expected that approximately 125 buildings will sell this calendar year, with a dollar volume over $800 million: a breakout year indeed. A further testament to the market's underlying strength is the acquisition by Toronto-based REIT Realstar of Boardwalk Rental Communities' remaining B.C. portfolio of 633 suites for a reported $140 million.

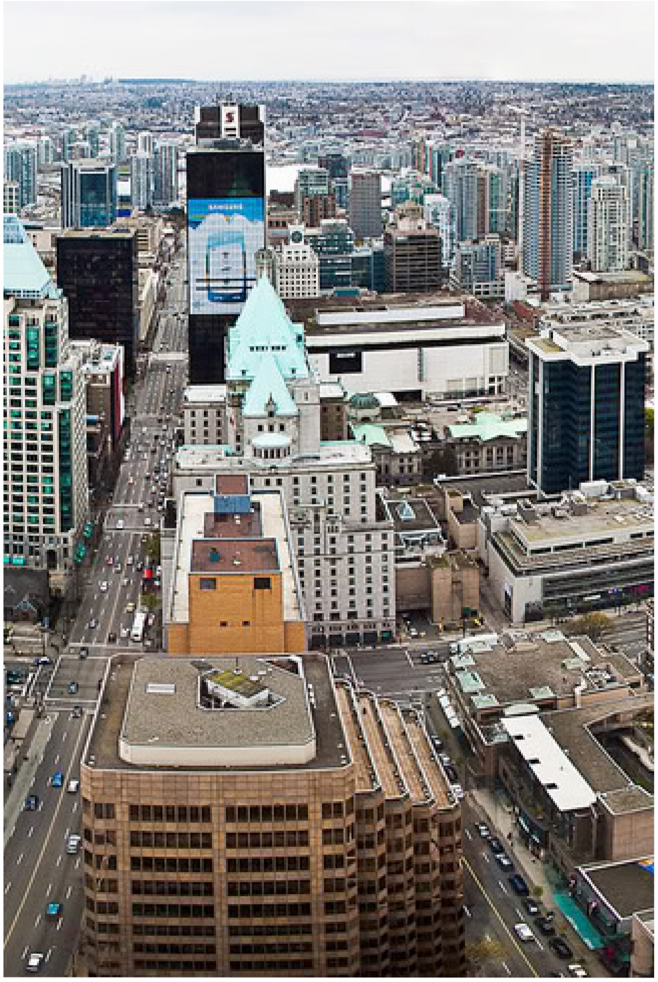
For the equivalent first six month period, total dollar volume for the combination of Vancouver and suburbs increased greatly to $436.7 million for 2014, up 81% from 2013's $240.9 million. Conversely, Vancouver's 2014 dollar volume was $158 million, down from 2013's $167.8 million: a 5% decline. Suburban communities registered a dollar volume of $278.7 million: a telling 281% over 2013's figure of $73.1 million.

The total overall number of suites in Greater Vancouver sold in the first six months of 2014 was 1,887, representing a 77% increase over the 1,062 sold in 2013, with the suburbs showing a 212% increase to 1,346, up from 437 in 2013. Vancouver experienced a 16% decline to 523 suites from 2013's figure of 625.

For the first six months of 2014, the average overall price per suite for Greater Vancouver was $231,429, up 2% over 2013's figure of $226,816. Vancouver's average was $302,179 per suite, 13% up from the 2013 figure of $268,448. Meanwhile, suburban jurisdictions weighed in at an average of $204,302 in 2014, up dramatically from 2013's $167,273: a 22% increase.

While average suite prices in most locals for 2014 have registered only modest changes as compared to 2013, there were a few neighbourhoods which showed significant increases in value.

Vancouver's tony community of Kerrisdale, for example, helped boost the overall values per suite for Vancouver proper. Average suite prices were a lofty $413,901, with four of the six sales being over $400,000 a suite. The simple explanation is that developers are snapping up rental and co-op apartment buildings on C-2 sites, paying over $250 per square foot buildable along the East and West Boulevard corridors.



Similarly in Burnaby, where the city has extended the welcome mat to the development community, the areas of Edmonds, Brentwood and Metrotown over the next 10 years or so could see explosive growth with approximately 50 to 60 new highrises led by Metrotown's development activity. Burnaby's average suite price for the first six months of 2014 was $271,535, a 24% increase over the 2013 figure of $219,667 for the same time period. Five of the 12 rental apartment buildings sold were acquired for land value and will be demolished and rebuilt as highrise condos.

Finally, North Vancouver's average suite prices for the first six months for 2014 was a hefty $233,195, up 18% over 2013's figure of $197,565 for the same time period, thanks to an 88-suite highrise that the Goodmans sold at 151 E. Keith Road for $25,500,000 ($289,773 per suite).

A tight market

Owners of rental buildings throughout Greater Vancouver are sitting pretty. Investor demand far outstrips supply with current offerings reportedly at an all-time low. Despite what is arguably a sellers' market, there are approximately 21 MLS listings currently available for sale (for an average period of 6.4 months), 12 of which are in Vancouver. Notwithstanding market pressures, today's investors are an increasingly savvy lot, meticulously carrying out research. While they may "reach" for product, the overwhelming evidence demonstrates that they don't typically overpay.

Contributing to the reluctance of owners to part with multi-family assets have been the unprecedented long-term interest rates below 3.5% into which many over the last three to four years have had the good fortune to roll over their mortgages, insulating themselves from sudden and unexpected spikes. Additionally, the ongoing lack of rollover legislation, the impact of capital gains and the "What to do with the money?" dilemma continue to trouble many owners.

As to occupancy rates, vacancies in the Vancouver census metropolitan area as reported by the most recent *Rental Market Report* by the Canada Mortgage and Housing Corporation are hovering at only 1.7%, while rental condominium apartments are at 1.1%. So far, local enhancement efforts such as Vancouver's Rental 100 Program, laneway housing initiatives and rental initiatives in the suburbs have had little or no impact on vacancy rates. In checking with landlords across Greater Vancouver almost daily, we're getting no indication of an uptick in vacancies. Helping to underpin the rental market is the fact that many prospective buyers of condos who might otherwise be poised to buy are in some cases deferring a purchase faced with numerous projects competing for their attention and apprehensive over talk of a bubble. Unsurprisingly, rental units ranging from the few newer purpose-built rentals to extensively renovated suites offer tenants compelling value with regard to opportunity cost. In *The Globe and Mail*, business writer Rob Carrick describes a Vancouverite who opted for renting over buying 13 years ago with no misgivings, citing the "freedom" and lifestyle benefits the choice has brought ("A renter's story: No regrets, says Vancouver accountant ," June 23, 2014). Also worth checking out in our *2013 Year End Review* is an article we wrote aptly titled "Tenants have an opportunity cost advantage."

Activity highlights | 2014 compared 2013

First six months | January 1st to June 30th, 2014

Building transactions

Area	2014 buildings sold	2013 buildings sold	% change
Vancouver	30	26	+ 15%
Suburban	31	19	+ 63%
Totals	**61**	**45**	**+ 36%**

Total units sold

Area	2014 suites sold	2013 suites sold	% change
Vancouver	523	625	– 16%
Suburban	1,364	437	+ 212%
Totals	**1,887**	**1,062**	**+ 77%**

Dollar volumes

Area	2014	2013	% change
Vancouver	$158,039,500	$167,779,900	– 5%
Suburban	$278,667,465	$73,098,500	+ 281%
Totals	**$436,706,965**	**$240,878,490**	**+ 81%**

Average price per suite

Area	2014	2013	% change
Vancouver	$302,179	$268,448	+ 13%
Suburban	$204,302	$167,273	+ 22%
Average totals	**$231,429**	**$226,816**	**+ 2%**

Transactions / average $ per suite (comparisons)

Vancouver areas	2014 transactions	2013 transactions	$ per suite (2014)	$ per suite (2013)	% change
Eastside	6	6	$219,160	$229,263	– 4%
Kerrisdale	6	2	$413,901	$402,451	+ 3%
Kitsilano	7	3	$336,845	$309,639	+ 9%
Marpole	3	7	$207,920	$220,044	– 5%
South Granville/Fairview	4	5	$263,108	$265,900	– 1%
West End	4	3	$296,236	$312,500	– 5%
Suburban areas	**2014 transactions**	**2013 transactions**	**$ per suite (2014)**	**$ per suite (2013)**	**% change**
Burnaby	12	7	$271,535	$219,667	+ 24%
New Westminster	6	4	$131,313	$133,507	– 2%
North Vancouver	6	4	$233,195	$197,565	+ 18%

Apartment building sales | Greater Vancouver

January 1st to June 30th, 2014

Address	Suites	Price ($)	$/Unit
Vancouver (Eastside)			
* 242 E. 14th Ave	20	4,420,000	221,000
609-619 Heatley Ave	19	3,700,000	194,737
** 7350 Fraser (DS)	22	6,500,000	295,455
2035 Pandora	7	1,380,000	197,143
* 2038 Pandora	6	1,200,000	200,000
555 E. 6th Ave	45	8,880,000	197,333
Total	**119**	**$26,080,000**	**$219,160**
Vancouver (Kerrisdale)			
* 6455 W. Boulevard (DS; SP) }	18	9,000,000	500,000
6415 W. Boulevard (DS)	20	8,100,000	405,000
6367 W. Boulevard (DS) }	22	11,000,000	500,000
2109 W. 48th Ave (DS)	11	4,400,000	400,000
5926 Yew	14	4,500,000	321,429
2182 W. 39th Ave	21	6,873,500	327,310
Total	**106**	**$43,873,500**	**$413,901**
Vancouver (Kitsilano)			
2200 Vine (MU)	6	2,000,000	333,333
1855 W. 2nd Ave	36	8,640,000	240,000
* 2358 York Ave	11	3,938,000	358,000
2358 Cornwall	8	5,025,000	628,125
2280 Vine St	18	5,150,000	286,111
* 2174 York	11	3,800,000	345,455
2394 Cornwall	20	8,500,000	425,000
Total	**110**	**$37,053,000**	**$336,845**
Vancouver (Marpole)			
1425 W. 70th Ave	6	1,200,000	200,000
1125-1157 W. 71st Ave	19	3,998,000	210,421
Total	**25**	**$5,198,000**	**$207,920**
Vancouver (S Granville)			
* 2930 Cambie	14	3,070,000	219,286
2880 Fir	8	2,600,000	325,000
1009 W. 10th Ave	41	11,000,000	268,293
1676 W. 10th Ave	11	2,800,000	254,545
Total	**74**	**$19,470,000**	**$263,108**
Vancouver (West End)			
1540 Burnaby	22	6,300,000	286,364
1075 Nelson (DS)	23	9,000,000	391,304
* 1325 Pendrell St	21	5,175,000	246,429
1168 Pendrell St	23	5,890,000	256,087
Total	**89**	**$26,365,000**	**$296,236**

* Sold by The Goodman Team

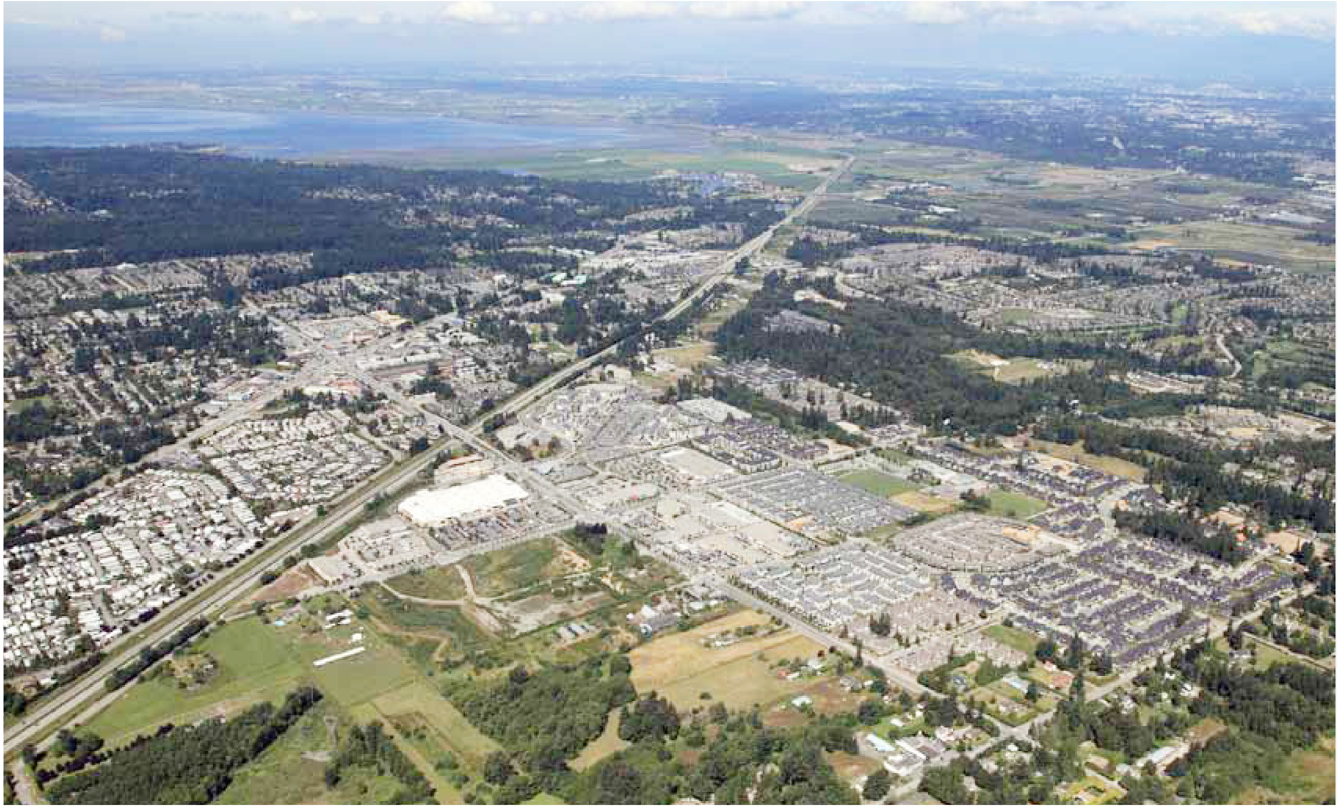
** *December 2013 sales.*

Address	Suites	Price ($)	$/Unit
Burnaby			
6018 Wilson (DS)	21	9,350,000	445,238
4250 Maywood	18	3,450,000	191,667
6377 McKay (DS)	7	2,200,000	314,286
7110 Linden	30	4,700,000	156,667
4505 Grange	30	5,835,000	194,500
6616 Nelson (DS)	23	6,200,000	269,565
6635 Dunblane (DS)	38	10,500,000	276,316
6779 Sussex	9	2,115,000	235,000
5900 Olive (DS)	71	25,500,000 (EST)	359,155
4325 Maywood	16	3,500,000	218,750
4960 Sanders (HR) } 5050 Sanders (HR)	206	54,000,000 (EST)	262,136
Total	**469**	**$127,350,000**	**$271,535**
Coquitlam			
1035 Howie	**42**	**$5,800,000**	**$138,095**
Langley			
5630-40 201A St	**43**	**$3,815,000**	**$88,721**
Maple Ridge			
11960 222nd St	**59**	**$4,800,000**	**$81,356**
New Westminster			
* 516 Ash St	28	3,375,000	120,536
420 Ash St	42	5,728,000	136,381
206 Carnarvon St	12	1,550,000	129,167
503 Agnes St	15	2,100,000	140,000
1009 Third Ave	35	4,200,000	120,000
221 Seventh St	39	5,501,465	141,063
Total	**171**	**$22,454,465**	**$131,313**
North Vancouver			
170 W. 4th	36	7,000,000	194,444
* 151 E. Keith	88	25,500,000	289,773
141 & 147 E. 21st St	39	7,800,000	200,000
163 W. 5th	42	8,900,000	211,905
170 W. 4th	36	7,000,000	194,444
Total	**241**	**$56,200,000**	**$233,195**
Port Coquitlam			
** 2550 Gordon Ave	**11**	**$1,193,000**	**$108,455**
Port Moody			
3048 Henry	**37**	**$4,930,000**	**$133,243**
Surrey			
9801 King George (HR)	**266**	**$48,000,000** (EST)	**$180,451**
White Rock			
15151 Prospect	**25**	**$4,125,000**	**$165,000**

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

1) Suite mix
2) Rental/sq. ft.
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

(HR) Highrise
(MR) Midrise
(TH) Townhouse
(ST) Strata
(DS) Development site
(EST) Estimated price
(SP) Share purchase
(NC) New construction
(MU) Mixed-use



A move to the suburbs

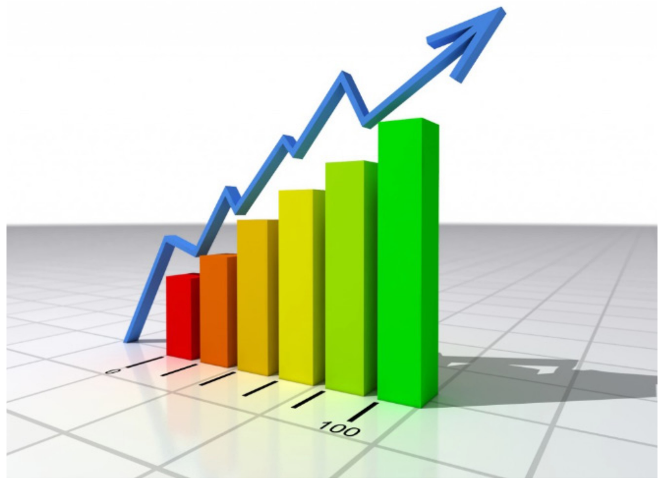
Heightened activity over these first six months signals a warm embrace by investors of suburban living in particular. There are approximately 3,100 rental apartment buildings in Greater Vancouver's inventory, of which approximately 1,800 (58%) are situated in Vancouver and 1,300 (42%) in suburban communities. Despite disproportionately higher supply in Vancouver, 51% of the 61 building sales occurred in suburban areas, while an impressive 72% of the suites sold and 64% of the total dollar volume recorded also occurred in the suburbs.

There is ready acceptance that higher population growth in Greater Vancouver's suburbs will be spurred on by transportation improvements, land availability and immigration trends as well as by the rental affordability, superior to that of Vancouver proper. Investors have been noticeably attracted to the vastly larger lot sizes, unused densities and higher cap rates available in the surrounding communities. Finally, developers in areas where land-use policies are far less restrictive recognize that the fate of rental buildings and their highest and best use are often one and the same, namely redevelopment.

Speaking of which, Barbara Yaffe has recently reported in *The Vancouver Sun* of the very strong interest displayed by developers in sites throughout most of Greater Vancouver. Their far-reaching quest for development opportunities focuses on Burnaby's Metrotown, Surrey and, in Vancouver, the Oakridge Centre and Cambie Corridor, the southwest corner of BC Place, the West End and finally the Eastside areas of Kingsway, Mount Pleasant and Boundary ("Metro development surging on," June 18, 2014).

How inflation will affect our markets

In the late ’70s and the ’80s, the Canadian economy faced severe wage and price pressures and in turn heightened levels of inflation. In response, the Bank of Canada raised interest rates. Many of our readers will recall the economic severity and impact of the central bank’s actions as business activity slowed perceptibly. Likewise in real estate, soaring interest rates caused the upward momentum in pricing to stall noticeably. Sales volume and prices leading up to the introduction of significantly higher mortgage rates pushed to the tipping point, finally plateaued, then effectively entered an extended decline into the early ’80s and the ’90s.



Are higher rates looming?

The actions of Bank of Canada governor Stephen Poloz and his position on interest rates have been coming under increased scrutiny with growing signs that inflation pressures are returning. Statistics Canada recently reported that Canada’s consumer price index rose to 2.3% on a year-over-year basis in May, up from 2.0% in April, well ahead of economic expectations. The question now being asked is whether rates will be increased as current inflationary levels are clearly above the legally stated figure of 2.0% to which the bank is supposed to adjust its official interest rates to cool inflation when it trends above that level.

In the *Financial Post*, James Paulsen, chief investment strategist at Wells Capital Management in the United States is quoted as saying that “continued good news on Main Street could soon become bad news for Wall Street.” Paulsen expresses the view that “better economic numbers in the U.S. have boosted stock markets this year” but “thinks that could change if growing inflation fears become reality.” He suggests that with U.S. unemployment rates declining, wage gains are poised to quicken in the next few months and that it may not take much in the way of higher wages for the Federal Reserve to consider raising its overnight lending rates sooner. Paul Ashworth, chief North American economist at Capital Economics, predicts a rate hike by March of next year, with rates rising to 1.25% by end of 2015 and 3% by late 2016 (David Pett, “Here’s why investors are suddenly so worried about interest rate hikes,” July 3, 2014).

U.S. Fed chief, Janet Yellen is in agreement. In her very recent testimony mid-July to Congress she is quoted as saying, “If the labour market continues to improve more quickly than anticipated, then increases in the federal funds rate likely would occur sooner and be more rapid than currently envisioned.”

Probably the single most compelling factor fuelling the surge in prices and the lower cap rates of apartment buildings is the seemingly endless supply of cheap money. The prevailing interest-rate environment has resulted in an unyielding appetite among investors for apartment assets, propelling prices in many cases to newly established highs.

In the *Quarterly Bulletin* of 2011, the Bank of England observed that once inflation pressures return, along with GDP growth, asset prices typically return to more normal levels. Historically, in Vancouver, sudden increases in interest rates have dampened activity and values, particularly in the rental apartment market. We should remain vigilant.

Goodman report:

New Listings and Recent Sales
www.goodmanreport.com

New

1032 North Park Street, Victoria

11-suite apartment building.
Pre-construction purpose-built rental.

$2,795,000

New

7340 Highland Drive, Port Hardy

47-suite apartment building. Extensively renovated.
2.02 acre site on Vancouver Island. 9.5% cap rate.

$1,900,000

Under Contract

7915 Knight Street, Vancouver

12-suite apartment building.
Foot of the Knight Street Bridge in SE Vancouver.

$1,980,000

Redevelopment

865 West 10th Avenue, Vancouver

9,000 sq. ft. gross leasable. Vacant office building.
Across from VGH. Ideal for redevelopment.

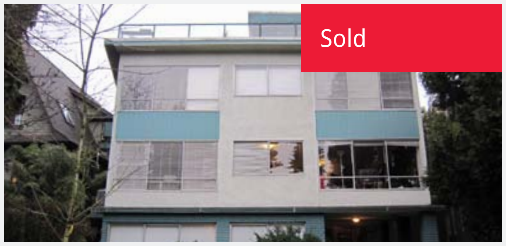
$3,795,000

Redevelopment

5349 Imperial Street, Vancouver

Industrial property. OCP allows for 2.2 FSR mixed-use.
Royal Oak Urban Village area. Site size 10,280 sq. ft.

$2,100,000



Sold

2174 York Avenue, Vancouver

11-suite apartment building.
Prime Kitsilano location—close to Kits Beach.

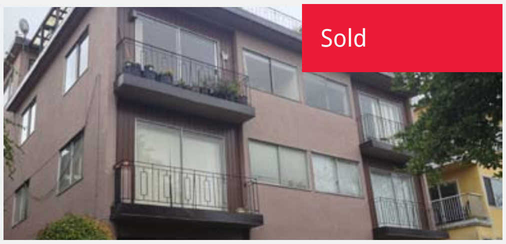
$3,888,000

Sold

1325 Pendrell Street, Vancouver

21-suite apartment building.
Popular West End neighbourhood. Well maintained.

$5,275,000

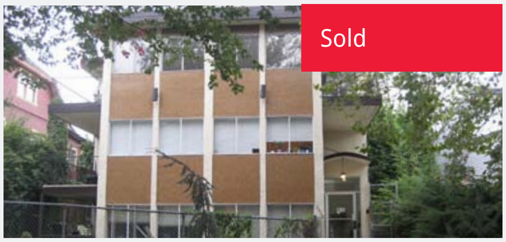


Sold

2358 York Avenue, Vancouver

11-suite apartment building with stellar PH views.
Prime Kitsilano location—close to Kits Beach.

$4,000,000



Sold

2038 Pandora Street, Vancouver

6-suite apartment building.
Grandview-Woodland area of Vancouver.

$1,245,000

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