

Goodman report:

2017 Q3 Greater Vancouver Rental Apartment Review

**SALES ACTIVITY DOWN,
DOLLAR VOLUME AND VALUES UP**

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

| Area | 2017 transactions | 2016 transactions | % change |
|--------------|-------------------|-------------------|-------------|
| Vancouver | 62 | 86 | -28% |
| Suburbs | 52 | 62 | -16% |
| Total | 114 | 148 | -23% |

Neighbourhood transaction highlights

| Vancouver areas | 2017 transactions | 2016 transactions | Suburban areas | 2017 transactions | 2016 transactions |
|-----------------|-------------------|-------------------|-----------------|-------------------|-------------------|
| Eastside | 22 | 21 | Burnaby | 13 | 26 |
| Kerrisdale | 7 | 8 | New Westminster | 12 | 14 |
| Kitsilano | 7 | 15 | North Vancouver | 10 | 8 |
| South Granville | 10 | 15 | Surrey | 5 | 2 |
| Marpole | 5 | 9 | White Rock | 3 | 3 |
| West End | 9 | 15 | Maple Ridge | 3 | 1 |
| UBC | 2 | 3 | Coquitlam | 5 | 1 |

Dollar volume

| Area | 2017 dollar volume | 2016 dollar volume | % change |
|--------------|------------------------|------------------------|-------------|
| Vancouver | \$852,000,000 | \$798,000,000 | +7% |
| Suburbs | \$838,000,000 | \$450,000,000 | +86% |
| Total | \$1,690,000,000 | \$1,248,000,000 | +35% |

Dollar average per suite

| Area | 2017 average per suite | 2016 average per suite | % change |
|-----------------------|------------------------|------------------------|------------|
| Vancouver | * \$536,000 | \$505,000 | +6% |
| Suburbs | ** \$339,000 | \$271,000 | +25% |
| Total averages | \$415,000 | \$383,000 | +8% |

* 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.

| | Completed | Under Construction | Approved | Proposed | Total | Cancelled |
|--------------|-------------------|---------------------------------|---------------------------------|---------------------------------|---------------------|-------------------|
| | Units (Buildings) | Units (Buildings) | Units (Buildings) | Units (Buildings) | Units (Buildings) | Units (Buildings) |
| Vancouver | 837 (7) | 2,271 (22) | 1,456 (21) | 3,160 (39) | 7,724 (89) | 276 (1) |
| Suburbs | 1,024 (11) | 2,287 (14) | 1,189 (13) | 3,954 (32) | 8,454 (70) | 166 (2) |
| Total | 1,861 (18) | 4,558 (36) | 2,645 (34) | 7,114 (71) | 16,178 (159) | 442 (3) |
| | Occupancy 2017 | Projected occupancy 2018 – 2020 | Projected occupancy 2019 – 2021 | Projected occupancy 2021 – 2022 | | |

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 policies 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

2017 APARTMENT BUILDING SALES: METRO VANCOUVER

First nine months | January 1 to September 30

| ADDRESS | SUITES | PRICE (\$) | AVG \$/UNIT |
|------------------------------------|------------|----------------------|------------------|
| Vancouver (Eastside) | | | |
| * 3240 E. 58th Ave (TH) | 140 | \$72,185,000 | \$515,607 |
| 7849 Knight St | 12 | 2,810,000 | 234,167 |
| 1725 McLean St | 6 | 2,975,000 | 495,833 |
| ** 4195 Perry St (MU, DS) | 11 | 3,900,000 | 354,545 |
| 148 E. 6th Ave | 18 | 5,300,000 | 294,444 |
| 2150 Pandora St | 101 | 26,300,000 | 260,396 |
| * 2274 Oxford St | 8 | 2,360,000 | 295,000 |
| 2416 Fraser St | 11 | 4,900,000 | 445,455 |
| 1574 Kingsway (MU) | 10 | 2,750,000 | 275,000 |
| 1350-52 Kingsway (MU,ST) | 17 | 6,820,000 | 401,176 |
| 3636 Fraser St | 14 | 4,850,000 | 346,429 |
| 4095 Fraser St | 13 | 3,200,000 | 246,154 |
| 2121 Franklin St | 50 | 12,400,000 | 248,000 |
| 1451 E. 7th Ave (DS) | 10 | 6,650,000 | 665,000 |
| 1834 E. Pender St | 10 | 3,278,000 | 327,800 |
| 75 E. 8th Ave (DS) | 27 | 12,500,000 | 462,963 |
| 360 E. 14th Ave | 28 | 9,800,000 | 350,000 |
| 1552 E. Pender St | 22 | 5,888,000 | 267,636 |
| 117 E. 15th Ave | 12 | 6,400,000 | 533,333 |
| 727 E. 17th Ave (SP, NC) | 31 | 23,500,000 | 758,065 |
| 1368 E. 8th Ave | 15 | 5,400,000 | 360,000 |
| 631 Commercial Dr (MU) | 8 | 3,816,000 | 477,000 |
| | 574 | \$227,982,000 | \$397,181 |
| Vancouver (Kerrisdale) | | | |
| * 2346 W. 43rd Ave | 9 | \$4,400,000 | \$488,889 |
| 2181 W. 40th Ave | 10 | 4,600,000 | 460,000 |
| 5410 Balsam St | 33 | 15,500,000 | 469,697 |
| 5850 Vine St | 22 | 8,230,000 | 374,091 |
| 5815 Yew St (HR) | 83 | 40,000,000 | 481,928 |
| 6020 East Boulevard (DS) | 13 | 26,000,000 | 962,963 |
| 6040 East Boulevard (DS) | 14 | | |
| | 184 | \$98,730,000 | \$536,576 |
| Vancouver (Kitsilano) | | | |
| 2225 W. 8th Ave | 47 | \$18,500,000 | \$393,617 |
| 2200 W. 5th Ave | 7 | 5,400,000 | 771,429 |
| * 1526 Arbutus St | 10 | 7,600,000 | 760,000 |
| 1609-19 Cypress St (SP) | 16 | 9,580,000 | 598,750 |
| 2023 W. 7th Ave | 10 | 4,888,000 | 488,800 |
| 2150 W. 1st Ave | 13 | 10,500,000 | 807,692 |
| 1925 Maple St | 10 | 5,200,000 | 520,000 |
| | 113 | \$61,668,000 | \$545,735 |
| Vancouver (South Granville) | | | |
| * 1550 W. 11th Ave | 27 | \$12,500,000 | \$462,963 |
| 1616 W. Broadway Ave (DS) | 12 | 9,500,000 | 791,667 |
| 541 W. 13th Ave | 9 | 4,900,000 | 544,444 |
| 1569 W. 12th Ave | 10 | 5,250,000 | 525,000 |
| * 1546 W. 12th Ave | 13 | 7,500,000 | 576,923 |
| * 1686 W. 12th Ave (HR) | 48 | 22,818,000 | 475,375 |
| 1225 W. 10th Ave | 9 | 5,000,000 | 555,556 |
| 2777 Oak St (ST) | 30 | 21,500,000 | 716,667 |
| 3819 Cambie St (EST) | 22 | 6,000,000 | 272,727 |
| 1385 W. 15th Ave (EST) | 19 | 15,000,000 | 789,474 |
| | 199 | \$109,968,000 | \$552,603 |
| Vancouver (Marpole) | | | |
| 8680 Montcalm St | 12 | \$4,000,000 | \$333,333 |
| 8668 Montcalm St | 11 | 3,100,000 | 281,818 |
| * 8638 Hudson St | 10 | 3,800,000 | 380,000 |
| 8691 Selkirk St | 10 | 3,550,000 | 355,000 |
| 8580 Oak St | 17 | 7,300,000 | 429,412 |
| | 60 | \$21,750,000 | \$362,500 |
| Vancouver (West End) | | | |
| ** 1444 Alberni St (DS, HR) | 129 | \$170,000,000 | \$1,317,829 |
| 1075 Burnaby St (SP) | 53 | 26,300,000 | 496,226 |
| 1270 Nicola St (HR) | 37 | 13,250,000 | 358,108 |
| 1260 Hanwood St (HR) | 109 | 42,000,000 | 385,321 |
| 1150 Barclay St (CO, DS) | 19 | 18,000,000 | 947,368 |
| 1333 Jervis St | 38 | 26,000,000 | 684,211 |
| 1112 Broughton St | 22 | 10,150,000 | 461,364 |
| 1630 Burnaby St | 21 | 9,000,000 | 428,571 |
| 1104 Haro St (DS, EST) | 19 | 11,000,000 | 578,947 |
| | 447 | \$325,700,000 | \$728,635 |
| UBC | | | |
| 2265 Acadia Rd (DS) | 6 | \$3,250,000 | \$541,667 |
| 2287 Acadia Rd (DS) | 8 | 3,000,000 | 375,000 |
| | 14 | \$6,250,000 | \$446,429 |

| ADDRESS | SUITES | PRICE (\$) | AVG \$/UNIT |
|--------------------------------|------------|----------------------|------------------|
| Burnaby | | | |
| * 7040 Arcola St | 48 | \$12,800,000 | \$266,667 |
| 6450 Telford Ave (DS, ST) | 33 | 33,000,000 | 1,000,000 |
| 6486 Telford Ave (DS) | 8 | 8,600,000 | 1,075,000 |
| 6508 Telford Ave (DS, EST) | 10 | 5,000,000 | 500,000 |
| 6444 Willingdon Ave (DS) | 72 | 41,000,000 | 569,444 |
| * 6390 Willingdon Ave (DS) | 58 | 33,825,000 | 583,190 |
| 6075 Wilson Ave (DS) | 42 | 45,200,000 | 1,076,190 |
| 4241 Maywood St (DS) | 19 | TBA | TBA |
| 6688 Willingdon Ave (DS) | 45 | 21,980,000 | 488,444 |
| 6665 Royal Oak Ave (DS, EST) | 19 | 15,000,000 | 789,474 |
| 4362 Maywood St (DS) | 62 | 15,000,000 | 241,935 |
| 6615 Telford St (DS) | 55 | 29,900,000 | 543,636 |
| 9005 Centaurus Circle (EST) | 54 | 15,000,000 | 277,778 |
| | 525 | TBA | TBA |
| Coquitlam | | | |
| 325 Casey St | 33 | \$5,900,000 | \$178,788 |
| 1040 Howie Ave | 54 | 10,128,400 | 187,563 |
| 1000 Brunette Ave | 126 | 21,500,000 | 170,635 |
| 549 Dansey Ave (DS) | 71 | 18,000,000 | 253,521 |
| 345 Marathon Crt (TH) | 22 | 6,700,000 | 304,545 |
| | 306 | \$62,228,400 | \$203,361 |
| Maple Ridge | | | |
| 11926 222 St | 43 | \$6,050,000 | \$140,698 |
| * 20834 Dewdney Trunk (TH) | 44 | 10,831,000 | 246,159 |
| 22225 119th Ave | 22 | 3,100,000 | 140,909 |
| | 109 | \$19,981,000 | \$183,312 |
| New Westminister | | | |
| 621 Twelfth St | 17 | \$3,325,000 | \$195,588 |
| ** 503 Agnes St | 15 | 2,965,000 | 197,667 |
| 304 Third Ave | 15 | 2,850,000 | 190,000 |
| 735 Royal Ave | 37 | 8,430,000 | 227,838 |
| 322 Seventh St | 54 | 10,800,000 | 200,000 |
| 222 Ash St (SP) | 52 | 11,200,000 | 215,385 |
| * Highrise Tower (HR) | TBA | TBA | TBA |
| 1315 Seventh Ave | 23 | 4,900,000 | 213,043 |
| 1012 Fourth Ave | 17 | 3,400,000 | 200,000 |
| 845 Royal Ave | 11 | 2,917,000 | 265,182 |
| 140 Sixth St (DS) | 135 | 50,000,000 | 370,370 |
| 521 Victoria St (DS) | 9 | 1,650,000 | 183,333 |
| | 385 | TBA | TBA |
| North Vancouver | | | |
| 904-944 Lytton St (ST, TH, DS) | 114 | \$51,000,000 | \$447,368 |
| ** 1200 Emery Place (DS, TH) | 61 | 39,550,000 | 648,361 |
| 1630 Chesterfield Ave | 11 | 3,550,000 | 322,727 |
| 127 E. 12th St | 25 | 7,900,000 | 316,000 |
| 129 E. 12th St | 25 | | |
| 357 W. 4th St | 12 | 4,042,500 | 336,875 |
| 156 E. 3rd St | 6 | 2,205,000 | 367,500 |
| 310 E. 2nd St (SP, EST) | 48 | 42,000,000 | 333,333 |
| 321 E. 2nd Ave (SP, EST) | 36 | | |
| 163 W. 5th Ave (SP, EST) | 42 | | |
| | 355 | \$150,247,500 | \$423,232 |
| West Vancouver | | | |
| 2145 Bellevue Ave (HR) | 37 | \$28,400,000 | \$767,568 |
| Surrey | | | |
| 13032 104 Ave (TH) | 8 | \$1,400,000 | \$175,000 |
| 10181 149th St | 140 | 27,100,000 | 193,571 |
| 10520 132nd St | 80 | 38,400,000 | 158,025 |
| 13270 105A Ave | 80 | | |
| 13325 105th Ave | 83 | | |
| | 391 | \$66,900,000 | \$171,100 |
| White Rock | | | |
| 1285 Martin St | 29 | \$6,450,000 | \$222,414 |
| 15369 Thrift Ave (ST) | 27 | 5,245,000 | 194,259 |
| 14990 North Bluff Rd (DS) | 32 | 14,000,000 | 437,500 |
| | 88 | \$25,695,000 | \$291,989 |

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

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

* Sold by The Goodman Team

** December 2016 sale

Goodman report:

Greater Vancouver's authority on apartment buildings and development sites
goodmanreport.com



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

**Can be purchased together (total 71 suites)



5363 201 ST, LANGLEY

90-suite new luxury rental apartment building—phenominal 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
PRICETBA



6310 E BOULEVARD AVE, VANCOUVER

65' x 122' (7,930 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



6390 WILLINGDON AVENUE, BURNABY

Metrotown high density residential development site; ~1 acre
SOLD \$33,000,000



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



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