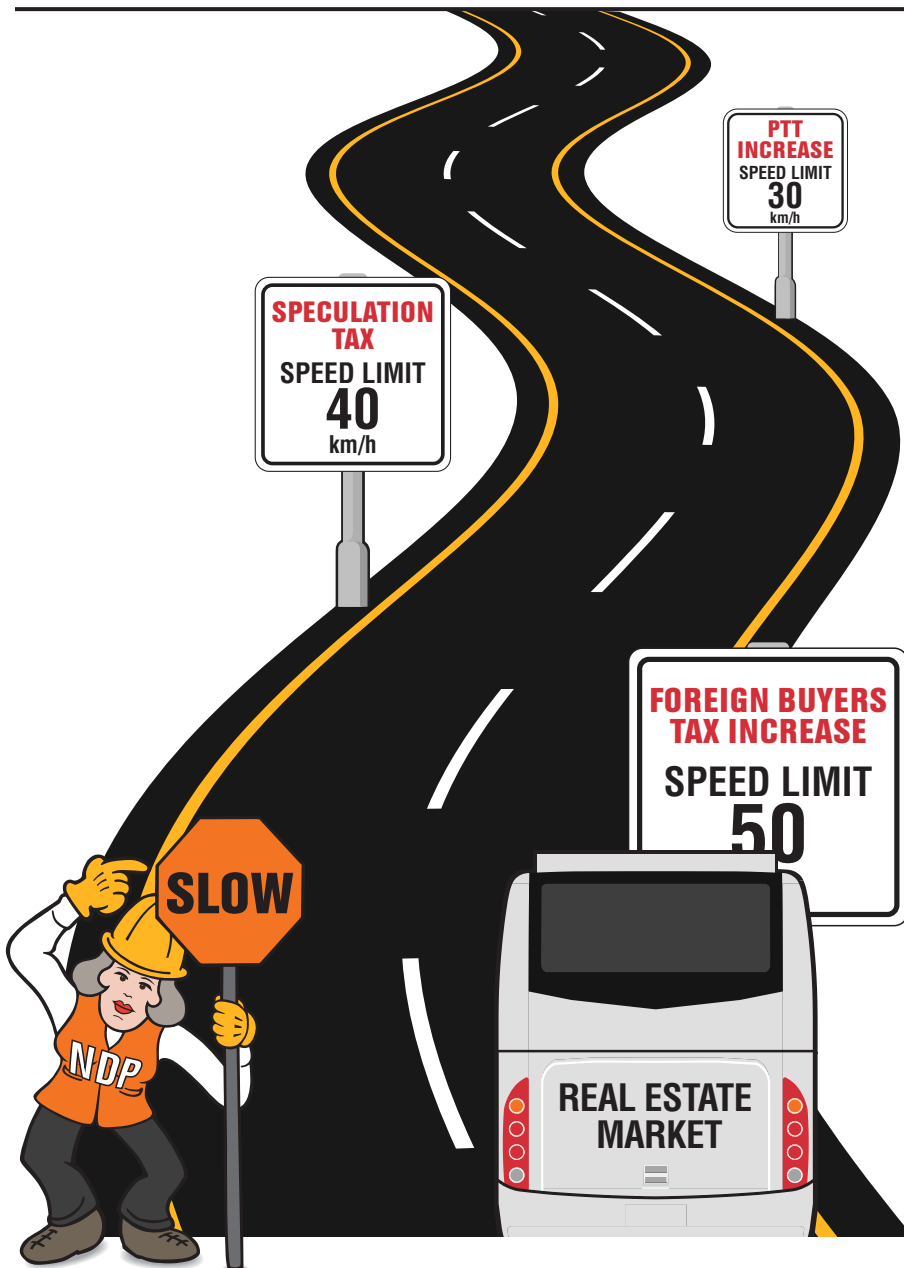


PRESENTS

METRO VANCOUVER'S FIRST EVER POLICY-INDUCED HOUSING RECESSION



MULTI-FAMILY & DEVELOPMENT MARKET INSIGHTS

2019 Top five multi-family investors and land purchasers

DEVELOPMENT HIGHLIGHTS

OCP updates & highlights and how this affects you

REMEMBER THE RENTAL TASK FORCE RECOMMENDATIONS?

How many were implemented?

MARKET FORECAST & BEST BETS FOR 2020

LAND ASSEMBLY MYTH BUSTER

SHANTYTOWN

and more.



THERE ARE SOME THINGS
Brokers **CAN'T DO.**
FOR EVERYTHING MULTI-FAMILY,
THERE'S *ApartmentBlocks.ca*

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By Conrad Yen, CPA

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WHAT IS A POLICY- INDUCED RECESSION?

Central 1's Chief Economist Helmut Pastrick cut through the boring rhetoric of a dismal real estate market by perfectly characterizing 2019 as a policy-induced housing recession. Unlike previous market downturns that were caused by economic factors, this was a result of political policies. The unprecedented volume of new taxes on the residential real estate market broke investor confidence and challenged the economic feasibility of new projects. As we know these were implemented by all levels of government and affect everyone from BC residents to foreign investors.

Is there proof it is policy, not economy?

Other sectors of the real estate market remain in high demand. Industrial, office, and retail continue to see steady price increases and healthy volume transactions. The unemployment rate is low, GDP remains stabilized, and consumer spending has not seen any major shifts. You can paint a clear picture of why the residential market is in this current state.

The damage

Step Up Now released a report that Metro Vancouver lost \$89.2 billion of home equity as a direct result of the tempered market from April 2018 to 2019. This is the first government that is proud to tax your savings, wipe out your equity, and damage the future of fiscally responsible citizens.

Shaken, not broken

The result of the damage was a massive contraction in real estate purchases for both apartment buildings and residential development sites, cancellation or delay of construction and marketing of presales. This means supply took a major dip while Canada experienced record-breaking immigration with many of those newcomers moving to Greater Vancouver.

Easy economics

Everyone needs a place to live. For every new resident, there is an increase in the demand for homes. If you restrict the supply of homes and significantly increase the demand then in a free market the price of those homes will eventually go up. Evidence of these forces at work have already appeared with sales picking up. We expect to see the market steadily rebound throughout 2020.

NEWEST FEATURE ON APARTMENTBLOCKS.CA

Tracking Official Community Plan Updates



Imagine

YOU KNOW A PROPERTY IS
DESIGNATED HIGH-RISE
BEFORE THE OWNER DOES.

MARKET INSIGHTS

Multi-Family



Mover & Shaker Award
Polygon Group purchased
13 development sites in 2019

WHAT'S CHANGED

- ▶ Capitalization rates have increased closer to the 3% figure
- ▶ Prices have reduced by approximately 8%
- ▶ Property taxes are increasing due to governments addition to higher budgets
- ▶ Evicting tenants cost formula increased depending on the length of tenancy
- ▶ Residential prices dropped especially higher priced homes and condos
- ▶ Municipalities making laws to restrict tenant evictions for renovations
- ▶ More rental units approved than last year (16,495 expected to be completed by 2020)

WHAT HASN'T CHANGED

- ▶ Interest rates remain stable with bonds floating around 1.5%
- ▶ Socialist governments in all three levels municipal, provincial and federal
- ▶ Rent increase still at CPI or 2.6%
- ▶ Vacancy rates hovering around 1%
- ▶ Excessive red tape to renovate properties
- ▶ Down payment requirements for building purchases still high (50%–70% down)
- ▶ ApartmentBlocks delivers the best multi-family report on the market

WHAT'S CHANGING

- ▶ Federal government looking at revenue source from foreign buyer's tax
- ▶ Buyers sentiment that the bottom of the market has been reached
- ▶ Many new rental units being built in Burnaby and Kitsilano in the next few years
- ▶ Buyer demand for apartment buildings increasing
- ▶ More foreign capital looking to buy

Burnaby Woodframe Apartment Transactions 2019

Address	Month Sold	Selling Price	Price/Suite	# of Units
Burnaby South Metrotown				
6710 Sussex Avenue	Nov-19	\$3,630,000	\$363,000	10
Total & Average		\$3,630,000	\$363,000	10
Burnaby South Middlegate				
6831 Arcola Street	Jun-19	\$3,734,000	\$287,231	13
Total & Average		\$3,734,000	\$287,231	13
Burnaby North				
7165 Pandora Street	Jan-19	\$3,939,000	\$281,357	14
7070-82 Inlet Drive	Aug-19	\$32,500,000	\$277,778	117
3880 Pender Street	Oct-19	\$8,993,785	\$310,131	29
Total & Average		\$45,432,785	\$283,955	160

Suburban Woodframe Apartment Transactions 2019

Address	Month Sold	Selling Price	Price/Suite	# of Units
New Westminster				
520 9 th Street	Jan-19	\$7,750,000	\$234,848	33
313 Carnarvon Street	Jan-19	\$3,200,000	\$246,154	13
510 9 th Street	May-19	\$6,925,000	\$192,361	36
1117 Hamilton Street	May-19	\$4,250,000	\$202,381	21
700 4 th Avenue	Sep-19	\$11,783,476	\$210,419	56
330 Ash Street	Sep-19	\$13,891,524	\$227,730	61
1001 6 th Street	Oct-19	\$3,780,000	\$270,000	14
720 Queen Avenue	Nov-19	\$25,000,000	\$221,239	113
101 Royal Avenue	Dec-19	\$13,400,000	\$279,167	48
Total & Average		\$89,980,000	\$227,797	395
City and District of North Vancouver				
250 E 2 nd Street	Jan-19	\$15,925,000	\$353,889	45
228 E 15 th Street	Apr-19	\$5,200,000	\$472,727	11
236 E 15 th Street	Aug-19	\$5,225,000	\$653,125	8
155 E 19 th Street	Oct-19	\$11,500,000	\$396,552	29
1220 St. Georges Avenue	Nov-19	\$8,025,000	\$364,773	22
Total & Average		\$45,875,000	\$398,913	115
Abbotsford				
33465 South Fraser Way	Aug-19	\$4,363,000	\$155,821	28
Total & Average		\$4,363,000	\$155,821	28
Coquitlam/Port Coquitlam				
2060 Manning Avenue	May-19	\$4,100,000	\$186,364	22
Total & Average		\$4,100,000	\$186,364	22
Mission				
Total & Average		0	0	0
Langley City/District				
20839 78B Avenue	April-19	\$69,600,000	\$364,398	191
5393 201 st Street	Jun-19	\$39,000,000	\$397,959	98
20727 Fraser Highway	Jul-19	\$6,070,000	\$164,054	37
Total & Average		\$114,670,000	\$351,748	326
White Rock/Delta				
4711 57 th Street	Nov-19	\$6,900,000	\$202,941	34
Total & Average		\$6,900,000	\$202,941	34
Maple Ridge				
12014 220 th Street	Jun-19	\$2,250,000	\$187,500	12
Total & Average		\$2,250,000	\$187,500	12
Surrey				
5772 177B Street	Aug-19	\$14,250,000	\$180,380	79
13555 96 th Avenue	Sep-19	\$56,000,000	\$383,562	146
10235 128 th Street	Oct-19	\$43,500,000	\$195,067	223
Total & Average		\$113,750,000	\$253,906	448
Richmond				
Total & Average		0	0	0
Port Moody				
Total & Average		0	0	0

Shaded grey denotes sales by NAI Commercial

Vancouver Woodframe Apartment Transactions 2019

Address	Month Sold	Selling Price	Price/Suite	# of Units
Vancouver West Marpole				
8687 Selkirk Street	Mar-19	\$5,250,000	\$477,273	11
8755 Oak Street	May-19	\$3,895,000	\$259,667	15
8770 Selkirk Street	Jun-19	\$8,400,000	\$323,077	26
8616 Fremlin Street	Jul-19	\$3,600,000	\$400,000	9
8635 French Street	Dec-19	\$2,850,000	\$407,143	7
Total & Average		\$23,995,000	\$352,868	68
Vancouver West South Granville/Oak				
1676 West 10 th Avenue	Mar-19	\$5,066,000	\$460,545	11
1025 West 11 th Avenue	May-19	\$4,850,000	\$606,250	8
1635 West 12 th Avenue	Sep-19	\$8,350,000	\$417,500	20
Total & Average		\$18,266,000	\$468,359	39
Vancouver West Kerrisdale				
2182 West 39 th Avenue	Oct-19	\$10,000,000	\$476,190	21
Total & Average		\$10,000,000	\$476,190	21
Vancouver West Kitsilano				
2464 West 2 nd Avenue	Jan-19	\$6,600,000	\$660,000	10
2466 W Broadway	Jan-19	\$5,050,000	\$505,000	10
1935 Cypress Street	May-19	\$4,955,000	\$495,500	10
2044 West 3 rd Avenue	Jul-19	\$4,800,000	\$436,364	11
2425 York Avenue	Aug-19	\$13,250,000	\$552,083	24
Total & Average		\$34,655,000	\$533,154	65
Vancouver East Hastings/Grandview				
1727 William Street	Jan-19	\$5,900,000	\$590,000	10
2115 Triumph Street	Feb-19	\$5,200,000	\$288,889	18
2266 Trinity Street	Apr-19	\$6,500,000	\$325,000	20
1415 E Broadway	Apr-19	\$14,200,000	\$338,095	42
1368 E 8 th Avenue	Jul-19	\$9,200,000	\$575,000	16
1771 E Georgia Street	Dec-19	\$12,750,000	\$318,750	40
Total & Average		\$53,750,000	\$368,151	146
Vancouver West UBC				
Total & Average		0	0	0
Vancouver East Mount Pleasant				
55 E 12 th Avenue	Jun-19	\$18,250,000	\$357,843	51
Total & Average		\$18,250,000	\$357,843	51
Vancouver East Fraserview				
7440 Fraser Street	Oct-19	\$12,150,000	\$258,511	47
Total & Average		\$12,150,000	\$258,511	47
Vancouver West West End				
Total & Average		0	0	0

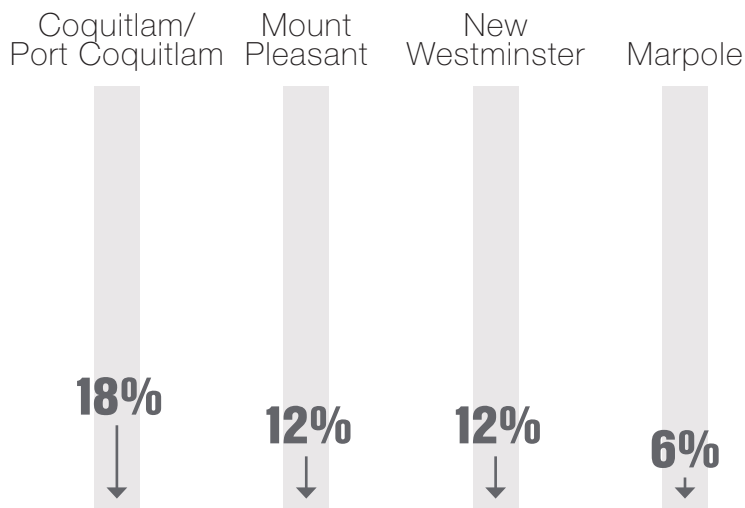
Concrete High/Mid-Rise Apartment Transactions 2019

Address	Month Sold	Selling Price	Price/Suite	# of Units
Concrete Hi/Mid-Rise				
1575 Esquimalt Avenue	Jan-19	\$17,200,000	\$554,839	31
7360-76 Halifax Street	Aug-19	\$90,000,000	\$357,143	252
1629 Haro Street	Nov-19	\$18,500,000	\$462,500	40
Total & Average		\$125,700,000	\$389,164	323

Shaded grey denotes transactions by NAI Commercial

BIGGEST LOSERS OF 2019

Drop in average price per suite from 2018



2019 TOP 5

MULTI-FAMILY INVESTORS

Investor of the Year Award goes to
#1 **STARLIGHT INVESTMENTS**
\$145.0M

#2 **CAPREIT**
\$122.0M

#3 **PRIMEX INVESTMENTS LTD**
\$57.8M

Honourable Mentions

CENTURION APARTMENT REIT | \$56.0M

WESTERN INVESTMENT PROPERTIES | \$32.5M

RENTAL UNITS APPROVED (2018-2019)

Concrete & Woodframe

The People's Choice Award goes to
#1 **VANCOUVER**
3,989 UNITS

#2 **NORTH VANCOUVER**
1,541 UNITS

#3 **SUBURBS**
1,441 UNITS

Honourable Mentions

COQUITLAM/PORT MOODY | 956 UNITS

BURNABY | 238 UNITS

Source: Altus Group

MARKET INSIGHTS

Development



Builder of the Year Award
Concord Pacific built 1,777
condominium units in 2019

WHAT'S CHANGED

- ▶ More Municipal fees mean less money for land owners
- ▶ New Burnaby guidelines make most developments in Metro-town unfeasible
- ▶ Land sales are down 70%
- ▶ Cities creating official community plans and then not adhering to them, creating uncertainty and risk in the market

WHAT HASN'T CHANGED

- ▶ Vancouver's broken promise to deliver faster permit application processing
- ▶ Suburbs lead rental construction
- ▶ City of Vancouver gets in its own way and accounts for approximately 26% of housing cost (*C.D. Howe Commentary No. 513*)

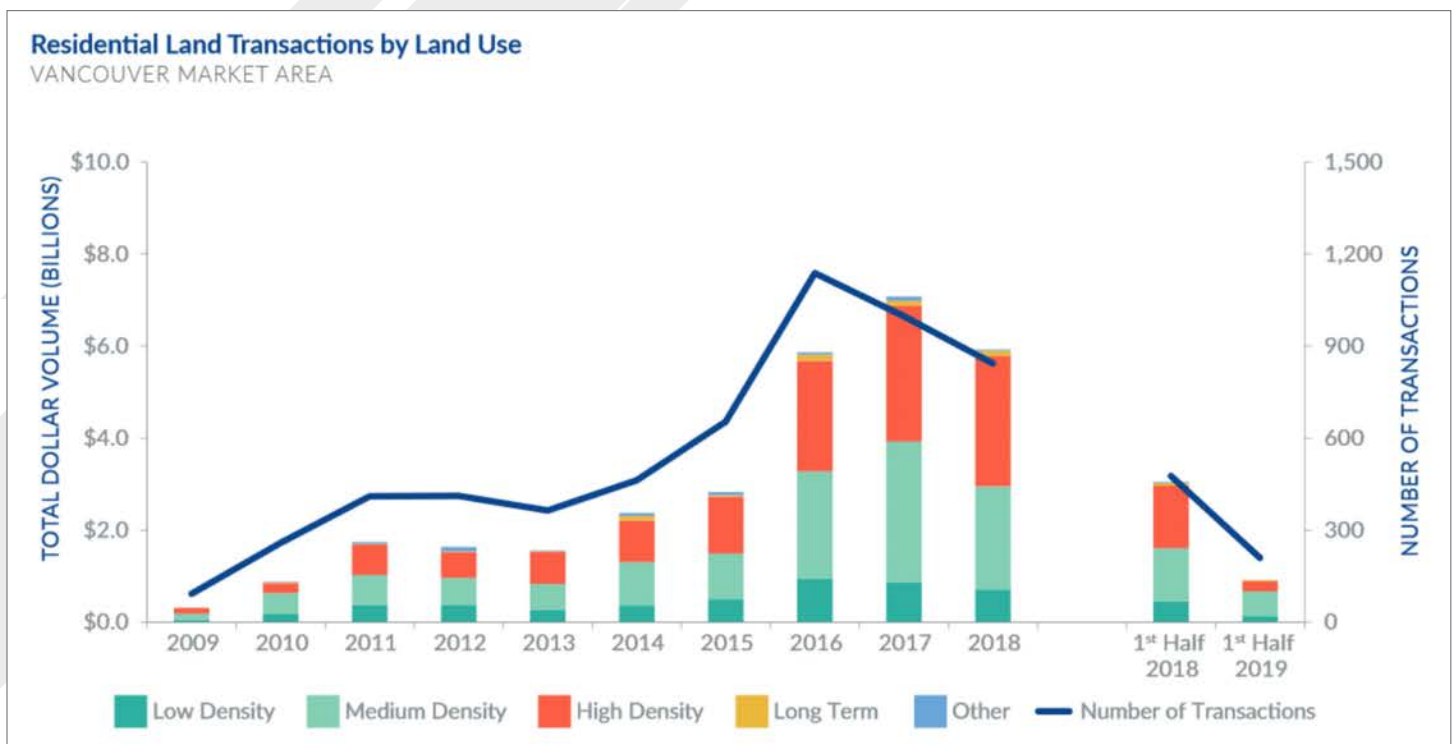
WHAT'S CHANGING

- ▶ Developers sitting on the sidelines are looking to purchase again
- ▶ Vancouver is burdening property owners with cumbersome utility and property tax increases
- ▶ Rental zoning being implemented near arterial routes in Vancouver
- ▶ New proposal in the works for SkyTrain to Surrey
- ▶ First Nations are getting involved in building rental
- ▶ New Broadway Official Community Plan land use map should be available in 2020

RESIDENTIAL LAND SALES DOWN 70%

2019 Q1 & Q2 Land sales are down 70% from the first half of 2018. 2020 will be the year to fill the pipeline back up to cover company overheads.

Time to
turn on the taps.



Source: Altus Group

SOMETHING TO LOOK FORWARD TO

Land assembly outlook 2020

With 2019 behind us, there are some exciting trends to look forward to in 2020. With sales volume rising for the fifth consecutive month, a lack of new projects coming through the pipeline, and the constant driver of immigration, we expect things to get back on track. Others in the industry feel the same way.

Metro Vancouver home sales return to historically typical levels



Source: Real Estate Board of Greater Vancouver (REBGV)

November home sales soar 55.3% in Metro Vancouver, prices rebound

Source: Business In Vancouver (BIV)

CAPREIT raises \$1B in equity in 2019, funds big growth

Source: Real Estate News Exchange (RENX)

VANCOUVER | News

Squamish Nation approves \$3B Sen'ákw development in Kitsilano

Source: CTV News

B.C. housing market recovery 'much quicker than anticipated': Central 1

Source: Business In Vancouver (BIV)

Commercial Real Estate: Optimistic forecast for local commercial property market

Source: Vancouver Sun

2019 TOP 5 RESIDENTIAL LAND PURCHASERS

Powerhouse Award goes to
#1 KUNYUAN INTERNATIONAL
\$77.7M

#2 POLYGON GROUP
\$74.9M

**#3 DARWIN CONSTRUCTION/
QUADREAL PROPERTY GROUP**
\$55.0M

Honourable Mentions

QUALEX-LANDMARK | \$37.6M

PCI GROUP | \$37.4M

Source: Altus Group

[Home](#) > [Real Estate](#)

Commercial real estate market proving robust in Metro Vancouver

Source: Vancouver Is Awesome (V.I.A.)

DEVELOPMENT HIGHLIGHTS

Official Community Plan Updates and How This Affects You

BURNABY

Burnaby's new mayor and council is sending a clear message with the new proposed policies about redeveloping purpose-built rental apartment buildings: OFF LIMITS.

Highlights of the Metrotown Plan

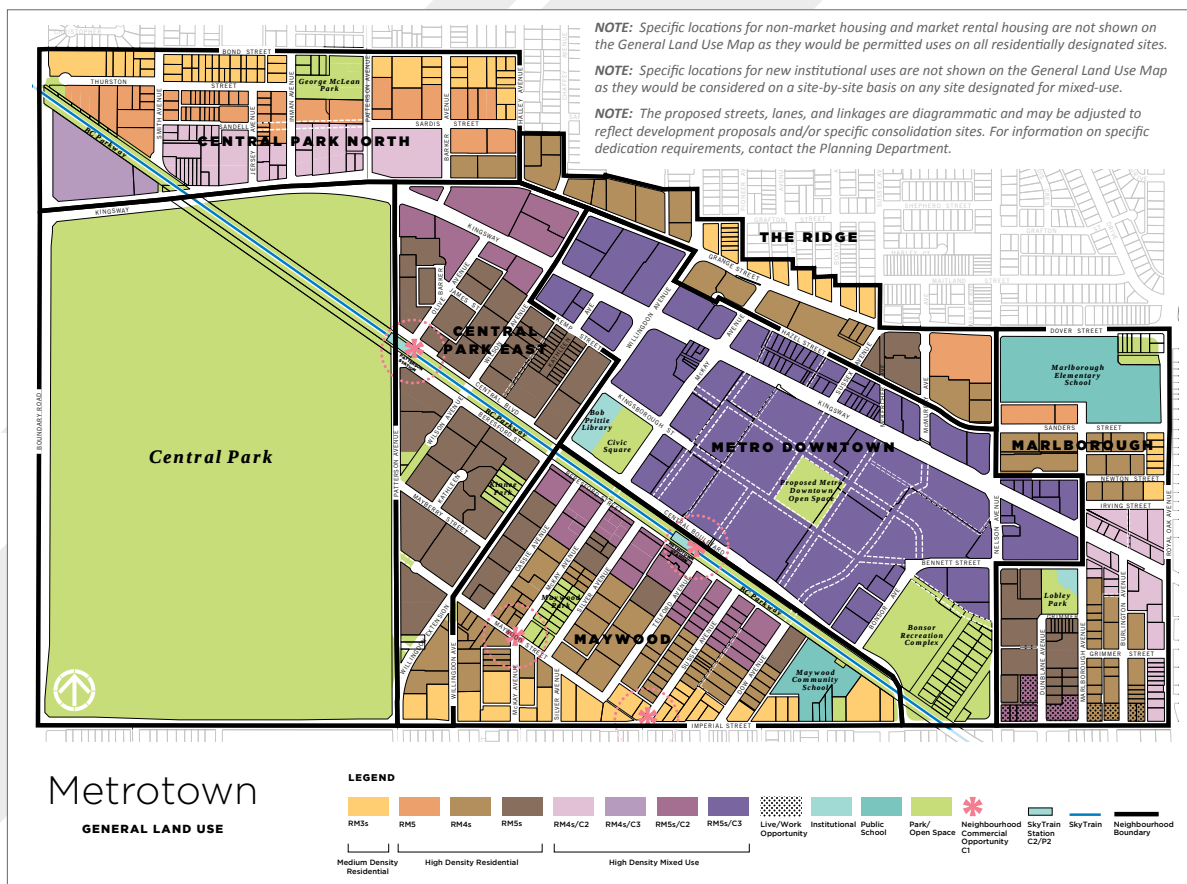
- ▶ 1:1 rental replacement at existing rents with vacancy controls
- ▶ Find displaced tenants three similar accommodation options
- ▶ Top up the tenant's rent if their new rent is higher then existing rent during construction period
- ▶ Pay for moving expenses into temporary accommodation and back into the newly built unit
- ▶ Additional large lump sum payments with monetary support for tenants with special requirements
- ▶ First right of refusal on the new unit at 20% below CMHC value
- ▶ Affect all applications that have not achieved second reading



Timeline

- ▶ Stakeholder consultation: In progress
- ▶ Final Adoption: ASAP

The Good Samaritan Award
Degelder Group built
358 rental units in 2019



Source: City of Burnaby
(Burnaby.ca/Assets/Metrotown+Downtown+Plan.pdf)

COQUITLAM | OAKDALE LAND USE UPDATE

Successful lobbying efforts

Brandon Harding was very active engaging property owners and lobbying for high density. Working together with the community, they sent multiple letters to the Mayor, Council and Planning that registered over seventy-five signatures and led to a plan Coquitlam can be proud of. The requests made in our lobbying to the city were fully incorporated into the Oakdale Land Use update, which you can read about in the latest discussion:

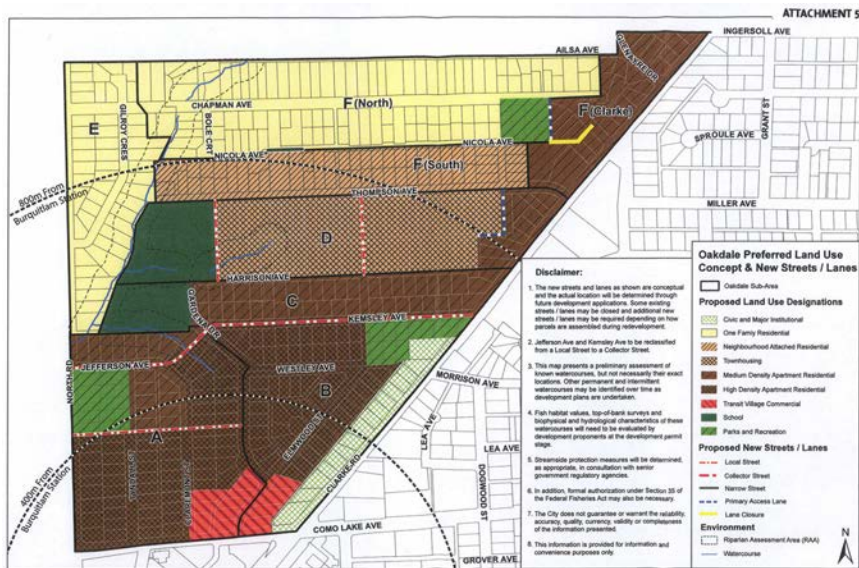


(ApartmentBlocks.ca/2019/11/21/apartmentblocks-successfully-lobbies-high-density-in-oakdale)

Sub Area B letter to Coquitlam Mayor & Council



Oakdale letter to Planning



Highlights of the Oakdale Plan

- ▶ New shops and commercial space closest to the Burquitlam Station
- ▶ Higher density within 800 metres
- ▶ Kemsley and Jefferson Avenues will become collector streets
- ▶ Large increases to parkland
- ▶ Oakdale specific tax to fund parkland acquisition
- ▶ Supportive community for increased density

How this affects you

- ▶ Many land assemblies have already been organized
- ▶ Most of the homes are older with large lots providing significant upside in the land
- ▶ Properties designated for high density have seen up to 3x assessed value
- ▶ Medium designated properties are in strong demand with proven sales
- ▶ Townhousing designations tend to be on the largest lots, which is ideal for development

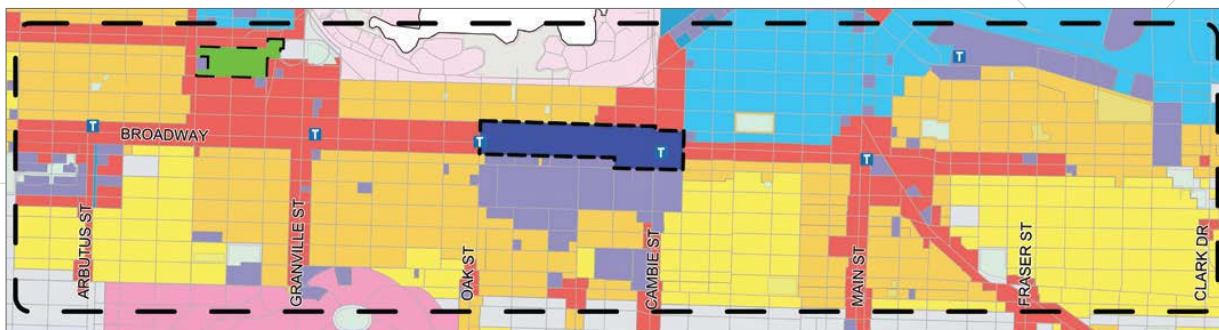
Timeline

- Phase 1 Public Consultation (Spring 2018)
- Analysis, Land Use Concept Development
- Phase 2 Public Consultation, Concept Refinement (Fall 2019)
- Potential Land Use Changes (Late 2019/Early 2020)
- First Reading (Early 2020)
- Final Adoption (Early 2020)

Source: Coquitlam Planning & Development Resources
(Coquitlam.ca/planning-and-development/resources/special-plans/projects/oakdale-land-use-designation-update)

BROADWAY PLAN

Source: City of Vancouver
(Vancouver.ca/files/cov/broadway-corridor-planning-program-presentation-may-2018.pdf)



Note (1) Map above represents the approximate general study area for area planning. Not all areas within will be considered for change. A detailed study area will be confirmed in early 2019.

Note (2) Below market rate rental serves households earning \$30-\$80,000 / year. The City will set the minimum requirement for below market units as part of the planning process based on economic viability in each area.

Areas for Considering Change, Key Priorities & Approach to DCEs¹

Areas Where Change will be Considered

Area	Key Priorities	Approach
Uptown Office C-3A	• Job Space	As per Existing CAC Policy
Burrard Slopes IC		
RM/ FM	• Below Market Rental ²	Maximize Below Market Rental Units
C-3A (Outside Uptown) & C-2	• Job Space	As per Existing CAC Policy
	• Market Strata Residential (Limited Opportunities)	DCE for Amenities & Affordable Housing

Areas Where Change will Not be Considered through Broadway Planning

Industrial Areas
RT Zones

Highlights of the Broadway Plan

- ▶ South of 4th Ave and north of 16th Ave
- ▶ Highest density along Broadway north of 12th Ave
- ▶ City will expect shared gain in density
- ▶ Retention of older purpose-built rental stock and character homes will be a priority

Want to
stay updated?

Check back for future updates at
ApartmentBlocks.ca's new OCP section

Source: City of Vancouver
(Vancouver.ca/home-property-development/broadway-plan.aspx)

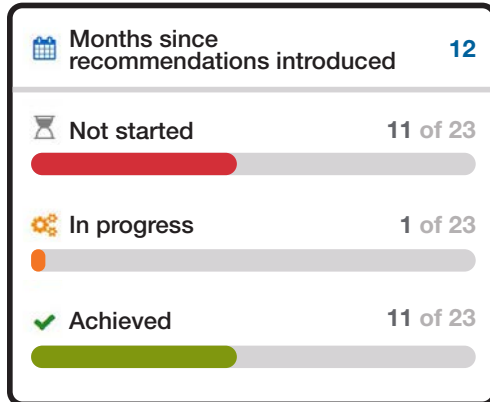
Project timeline

June 2018	●	City Council approves Terms of Reference for Broadway Planning Program
June late 2018	●	Form planning team, do background research, create an engagement strategy, and prepare the planning program
Early 2019	●	Launch the planning program and create guiding principles ▶ Public engagement opportunities
Early 2020	●	Create the plan's emerging directions: form growth scenarios and patterns for change ▶ Public engagement opportunities
Early 2020	●	Refine the plan directions: form a preferred scenario and create a draft Broadway Plan ▶ Public engagement opportunities
Mid 2020	●	Finish the refined plan
Late 2020	●	Present the plan to City Council to consider

How strong is the NDP's force?

RENTAL HOUSING TASK FORCE

Remember the Rental Housing Task Force Recommendations?



HOW MANY WERE IMPLEMENTED?

The NDP government commissioned a neutral report on the status of our current rental policies that included feedback from renters, property owners, and their activists. The debate was centered around vacancy control, tying the rent to the unit. Fortunately, the vocal minority clamoring for this destructive long term policy was ignored and much of the status quo was retained.

#	Recommendation	Status
1	Stop renovictions.	Achieved
2	Work with local governments to develop tenant compensation and relocation guidelines in the case of demolition of purpose-built rental to reduce dislocation, and homelessness of affected tenants.	Achieved
3	Set a clear timeline for a tenant's decision on the use of a right of first refusal.	Achieved
4	Implement a BC-wide rent bank system for low-income people.	In progress
5	Strengthen enforcement of the law, including implementing a clear process for making, investigating and reporting administrative penalty complaints.	Achieved
6	Strengthen penalties for breaking the law, including refusal of service for outstanding administrative penalties.	Achieved
7	Investigate ways to provide affordable access to bailiff services in smaller and more remote communities.	Not started
8	Investigate other options to increase the repayment rate for damages, non-payment of rent and other storage costs if ordered by the residential tenancy branch.	Not started
9	Increase the availability of currently empty strata housing by eliminating a strata corporation's ability to ban owners from renting their own strata units.	Not started
10	Maintain rent tied to the renter, not the unit.	Achieved
11	Work with local governments to develop, implement and enforce short-term rental rules to better protect long-term rental stock.	Achieved
12	Make the residential tenancy branch more responsive, accessible and proactive with more opportunities to learn from and educate landlords and renters on their rights and responsibilities.	Achieved
13	Improve fairness and consistency of the residential tenancy branch dispute resolution hearings process by recording all hearings.	Achieved
14	Improve procedural fairness by expanding review considerations to include more rounds for review.	Not started
15	Require landlords who are filing for eviction for cause, or for renovation, to provide all evidence with any eviction notice to the affected tenants	Achieved
16	If repairs are needed to maintain a rental home and the landlord is refusing to make them in a timely way, have the residential tenancy branch proactively reduce the rent of affected tenants until the repairs are completed.	Not started
17	Allow email as a form of notice of service between landlord and tenants.	Not started
18	Speed up the return of damage deposits to tenants by allowing tenants to make a direct request to the residential tenancy branch for the damage deposit where no damage has been found and reported by the landlord.	Not started
19	Work with the insurance industry to see if rent guarantee insurance, and other improvements to insurance coverage, might be provided for landlords in BC.	Not started
20	Undertake a review to simplify the regulations relating to a landlord's obligation to store abandoned personal property.	Not started
21	Ensure it is clear for all landlords and renters where to go to get help for all forms of residential tenancy.	Achieved
22	Address the specific needs of non-profit housing and supportive housing providers in the residential tenancy act.	Not started
23	Ensure manufactured home park rules are clear and understandable. Clarify what occurs when park rules conflict with lease or contract rules.	Not started

OVER \$2 BILLION SOLD SINCE 1982

We have been around *forever* for a reason.

1982

BOARDWALK
PORTFOLIO

BALFOUR
PORTFOLIO

FEATURED LISTINGS

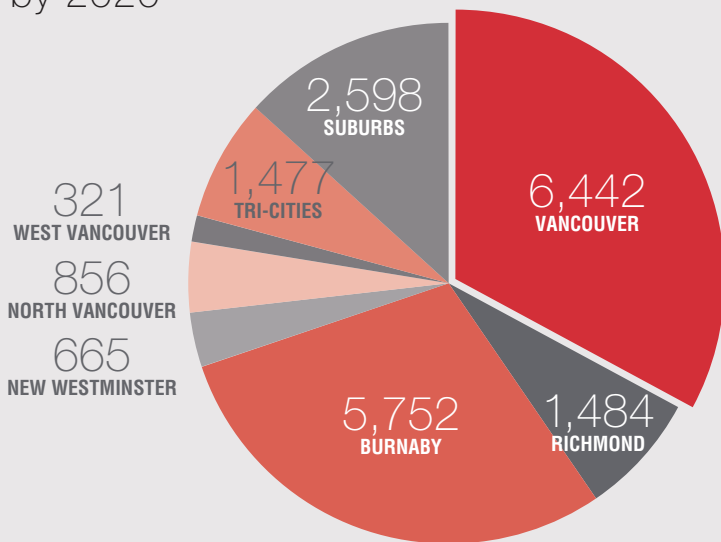
Multi-Family & Development Properties for Sale



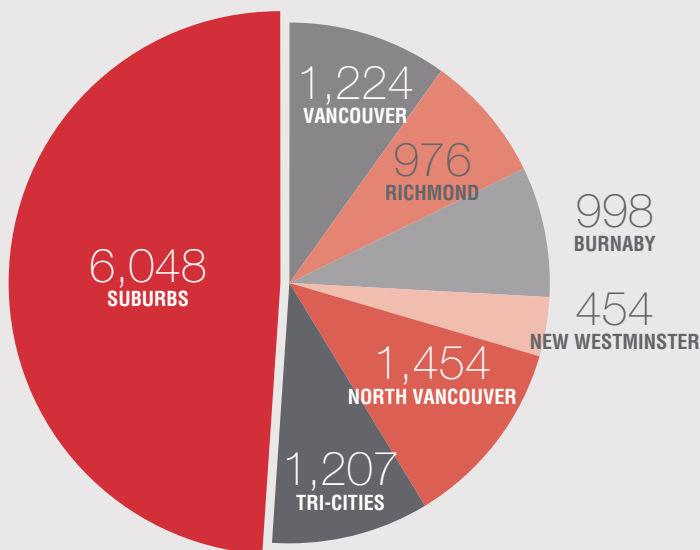
WHAT'S COMING IN 2020?

Urban Analytics Outlook

Concrete Condo Units by 2020



Woodframe Condo Units by 2020



There is an estimated

32,482

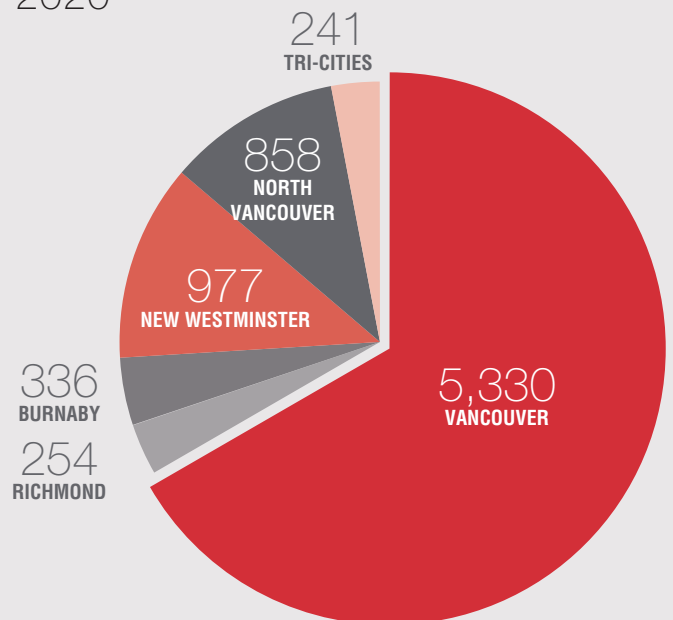
condo units expected for completion by 2020.

There is an estimated

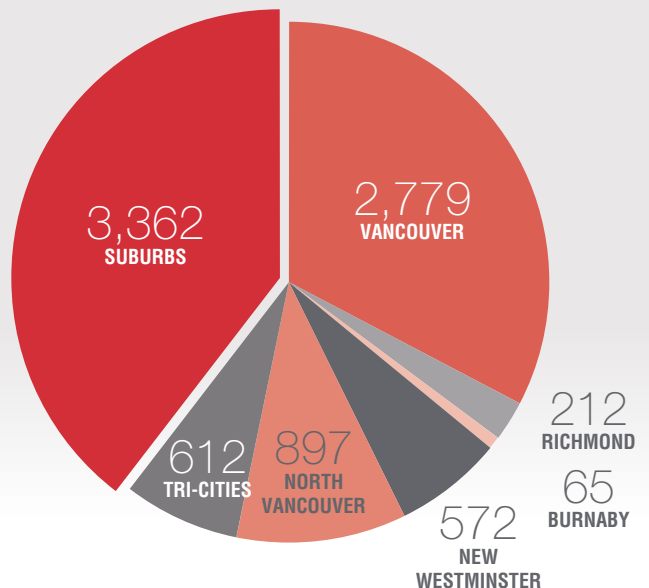
16,495

rental units expected for completion by 2020.

Concrete Rental Units by 2020



Woodframe Rental Units by 2020



Source: Urban Analytics

MARKET FORECAST

The multi-family real estate market will be glad to see 2019 behind us. For the year there have only been 51 wood frame apartment blocks trading hands.

In 2018 there were 74 woodframe sales in the year. This 31% decrease has been caused by many reasons, least of all the policy-induced recession the government has created. Dwelling on the reasons for the decrease in prices and the 8% decrease in values is counter-productive. We are forecasting a different dynamic for 2020, which will lead to an increase in activity, and a flattening or small uptick in prices.

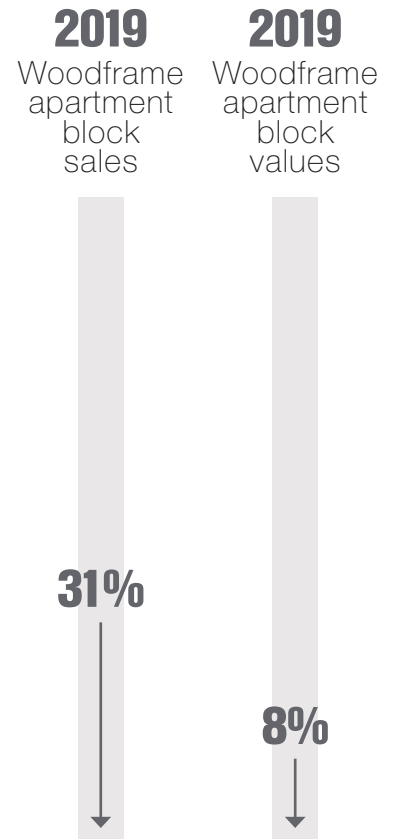
Today's capitalization rates (cap rates) have exceeded CMHC lending rates creating positive leverage. This increase in cap rates, caused by an 8% decrease in values has encouraged many investors to come back to the market.

Buyers that have been sitting in the wings when returns being offered were 2% are now making an appearance with the returns now around 3%. The Asian buyers are still purchasing to a lesser extent. Although it is more difficult to extract funds from China, we are seeing refinancing of previously purchased buildings, many being all cash, and using the leverage to purchase more assets. This purchaser class is expected to remain stable throughout most of 2020.

Interested is expected to increase from Hong Kong base investors and we predict they will have a small impact on the market.

Large investors that have been very active are the Canadian REIT's. They have been involved in the purchases from existing buildings to forward purchases of purpose-built rental projects with cap rates over 4%.

Going forward we expect 2020 to be a much more boisterous year than the last. Prices should be stable with other dynamics like vacancies and interest rates to remain at current levels. The inversion for 10-year bonds indicates interest rates are not expected to increase anytime soon. Many projects that were bought during the peak of the market are coming to completion in 2020 with 16,495 units under construction. Vacancies are anticipated to remain near the 1% range.



Today's capitalization rates have exceeded CMHC lending rates creating positive leverage.

BEST BETS FOR 2020

Last year, we predicted renovated apartment buildings would give the best bang for your buck. The logic was, market rents meant no fighting with tenants or the government. Lenders salivate at the extra cash flow, providing opportunities for smaller down payments, like 60% to 50%, or less. Analyzing interest rates, with an inverted yield curve, borrowers can secure ten-year money similar to five year rates, reducing risk on a refinance.

With the government wrapping renovations in red tape, the investors running a building retrofitting program are getting roadblocked, leaving only a few acquisition possibilities available. Smaller buildings in the Mount Pleasant neighbourhood offer good value as market rents are high, tenant demographics are typically young professionals, and future land use designation increases are possible around the Broadway Extension. Grandview-Woodlands is another desirable area with underlying land value in the official community plan (OCP) for many properties. Most communities have recently updated their OCP, so choosing an investment near future transit is the highest odds of a future lottery ticket from a potential densification.

One area with high rents relative to the acquisition cost is New Westminster, and the opposite is Marpole. Not to say they are riskier areas, but additional market research would be wise before purchasing a property. When buying an apartment building, the same rules always apply, buy as big as you can afford not too far from your ability to manage. Economies of scale are becoming increasingly important with rising expenses.



Top Choice Award
ApartmentBlocks has the best multi-family and development report on the market.

MYTH BUSTER

5 Myths about Land Assembly

By Brandon Harding, Vice President

Whether you feel burdened or blessed with a changing community plan, at some point you are compelled to make a decision about your next move. These are the five most common myths we hear about land assemblies:

MYTH 1

I should wait to sell because my land will go up in value

This one is the most commonly heard reaction. No one has a crystal ball to predict the future, so making this assumption is a bet on the markets. Then in the scenario your land value does go up, it is because the residential market is up as a whole. That means your replacement cost just went up relatively the same. The gain between your replacement cost of the home and the value paid on the land remains the same regardless of when you decide to sell.

MYTH 2

If I hold out I will get more money

Commonly thought, but not said aloud. Working together almost always benefits everyone as a collective. Developers don't want to see "Potential Addition" on a site. Imagine you were buying furniture at IKEA and on the box there was a disclosure "may or may not include all parts". This will impact your decision on buying the furniture the same as this impacts a developer's thinking when buying a land assembly. Preassembling with your neighbours, effectively marketing the property, and collectively bargaining will gain more interest from potential purchasers. More potential buyers generally means an overall better price for your property.

MYTH 3

I am better off waiting for a developer to bring me an offer

Any developer at anytime will buy your property if the land is cheap enough as the decision is objectively based on the feasibility of profits to risk. The developers knocking on your door want to maximize profits by getting a sweetheart deal on the land. The same logic behind listing your house in the residential market to get exposure to all potential purchasers is the same in the commercial market to advertise to all developers and uncover who will pay the most. The less construction in a developer's pipeline, the more they are willing to pay to secure future projects.

MYTH 4

I won't be able to stay in the area or find a suitable home

The reason you would sell as part of a land assembly is the land is worth more than selling the house in the residential market. If you live in the home then you can claim a principal place of residence exemption and receive the money tax free. We find almost 90% of people have secured a home or moved within three months of receiving their lottery ticket earnings.

MYTH 5

I can use my residential realtor to sell my property as a land assembly

Residential realtors' clients are home to home. A land assembler's clients are homes to developer. They need to know changing Official Community Plans, political climate, commercial financing, changing construction costs, recent land sales, and so many more aspects of the development process. That local knowledge will maximize the value of your land and knowing every developer will drive interest and competitive bid pressure to generate the best offer.



APARTMENT OWNERS ARE NOT THE VILLAINS!

By Conrad Yen, CPA, the founder and CA Partner of Strategex Group specializing in Commercial Real Estate accounting

Apartment owners have had it rough lately. It seems like apartment owners are the villains who have been punished with sky high property taxes, increased insurance premiums, rent controls and now the new passive investment income tax rules.

You may not be able to do much about some of these issues but you may be able to improve your income tax result.

I meet at least two to three new clients each month where no tax planning has been done, leading to lost opportunities and a large tax bill. Ensure you get proper tax planning advice to avoid being punished by the Canada Revenue Agency (CRA).

CASE STUDY

Billy is a Canadian tax resident and an apartment owner. He owns a 24-unit apartment building inside a holding company. The apartment is a long term investment and results in \$150,000 of net taxable income each year. The tax rate on passive income held inside of a Canadian Controlled Private Corporation (CCPC) is 50.7%. As such, the corporation paid approximately \$75,000 of corporate tax. Billy was told by his accountant that passive investment income held in a CCPC is taxed at 50.7% and is not taxed at the lower small business rate. Although this is true, there may be ways to lower the effective tax rate on this income.

What Billy's advisor didn't consider was that Billy and his wife report very low income personally. Both Billy and his wife are 65 years old and each earn \$20,000 of income. If some of these ideas discussed below were considered, this could have reduced the corporate taxes in the holding company.

Pay dividends

Passive income is taxed at a high rate of 50.7% because it includes a refundable tax of 30.7% when a taxable dividend is paid. If a dividend was paid to Billy and his wife of say \$30,000 each, this would have reduced the corporate taxes by \$23,000 but would have only resulted in additional personal taxes of approximately \$4,400 each. As such, by paying out a taxable dividend the net savings is just over \$14,000.

Management fees

Billy and his wife manage the apartment building. Rather than have all of the taxable income taxed inside of the corporation at 50.7%, a reasonable salary could be paid personally to utilize their low personal tax rates. Alternatively, a management services company held by Billy and his wife could be used whereby management fees could be charged and may be taxed at active business income rates rather than the high tax rate of 50.7%.

Manage corporate passive income

Passive investment income can come from interest, dividends, capital gains, rents, or royalties. Starting in 2019, once a CCPC's passive investment income exceeds \$50,000, the amount of income eligible for the small business tax rate is reduced by \$5 for every \$1 of passive income earned in excess of \$50,000.

In this example, Billy does not have a separate incorporated active business. However, if Billy did have a separate incorporated entity earning active business income and claiming the small business rate of 11%, these new rules would reduce the small business deduction limit available. At \$150,000 of passive income, the taxpayer will no longer be eligible for the small business deduction. There are various strategies that may be used to mitigate the impact of these rules.

These new rules are complex and without careful planning, you may miss opportunities to lower your overall tax burden, or worse create a tax problem with the CRA. Therefore, you need to consult with your own tax advisor prior to implementing any of these ideas discussed above.

You may not be able to do much about your property taxes or rent controls but you can take control of your tax planning.

For more information, call Conrad at 604 688 2355.

SHANTYTOWN

Municipalities Shut the Door on Rental Renovations

By Brandon Harding

Brandon Harding and his team at ApartmentBlocks are the industry experts on apartment buildings in Greater Vancouver.

If you own an apartment building and are facing a massive capital expenditure, the most crucial thought is, "how am I going to pay for this?" Now or later, that bill needs to be recouped to maintain a feasible investment and upkeep desirable accommodation for tenants. Three municipalities share the common idea that while tenants enjoy low rents, no maintenance, and simple transient capabilities, property owners should be cashing in their pension funds to maintain that lifestyle for them with nothing in return.

A disheartening new proposal by Burnaby City Council wants to bring punitive measures on owners looking to reinvest back into their building. The new measures already implemented to an extent in New Westminster and Port Coquitlam require the following:

Proposed policy	Existing policy
▶ Two options for temporary accommodation with rent top-up, to continue until occupancy of a replacement unit onsite ▶ Replacement unit in new development, with the same rent (+ RTA increases) and same number of bedrooms ▶ Lump sum exception for tenants with prescribed special circumstances ▶ Moving expenses paid or provided in-kind ▶ Right of first refusal to buy a new unit on the site	▶ Compensation equivalent to three months' rent for tenancies of less than 10 years ▶ Compensation equivalent to four months' rent for tenancies of 10 years or more ▶ Right of first refusal to rent or buy a new unit on the site

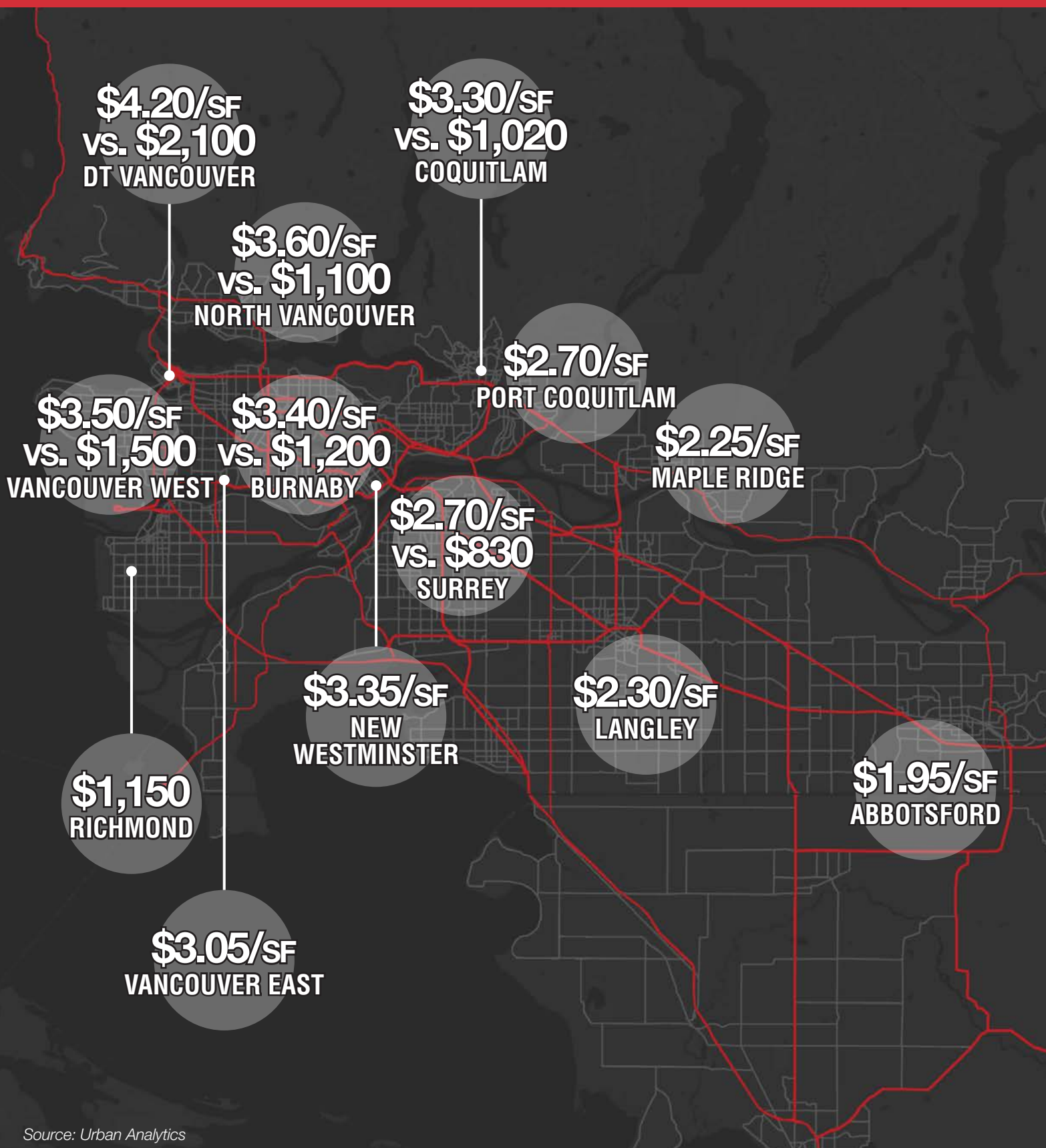
With rental returns at an all-time low thanks to increasing expenses and rising property values, the city is asking property owners to upkeep their properties out of the goodness of their hearts. While this may be achievable for some of the long term owners, any recent purchaser is feeling the squeeze from existing rent controls being reduced to only inflation. Spending upwards of a million dollars on a property for no financial gain makes zero economic sense and will not occur. The cities refuse to take any meaningful monetary responsibility subsidizing the cost.

SHANTYTOWN

As said many times, our purpose-built rental stock is on borrowed time. Now the incentive for any capital expenditures is gone. This means owners will defer, defer, defer maintenance for as long as they own the property. Tenants suffer because this results in pinhole leaks from decayed plumbing, leaking roofs, drafty insulation, mould, and so many more issues that arise from ageing buildings. The buildings will have cosmetic improvements to attract new renters leaving all the underlying problems to manifest. This is one of the only industries in the world the government penalizes investment.

IGM Economic Experts Panel did a survey and found 81% of economists agree that rent control is a bad policy. As put by Milton Friedman: "Rent control is a law that supposedly is passed to help the people who are in housing. And it does help those who are in current housing. But the effect of rent control is to create scarcity, and to make it difficult for other people to get housing." We are in an affordability crisis because of the Grand Canyon between rental construction and rental demand. These councillors refuse to acknowledge the problem and the ones that accept the supply dilemma do not dare to challenge voters. Constituents are not educated in economics and the rhetoric of rent controls being the answer needs to be ignored.

AVERAGE RENTAL RATES VS. CONDO RATES



Source: Urban Analytics

APARTMENTBLOCKS.CA

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Didn't see what you're looking for?



Have comments or questions?



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