

APARTMENTBLOCKS.CA

Multi-Family Market Report

RENTAL HOUSING TASK FORCE RECOMMENDATIONS • POLITICAL HEADWINDS
FLAWED COMMUNITY PLANS • ALL THE SALES • BEST BETS



Why?!
**SPEND A CENT
FOR NO RENT?**

**WHO OWNS PROPERTY?
TENANTS OR
LANDLORDS?**

**DEFEND OUR
Charter of Rights
& Freedom**

**SOCIALISM IS
NOT
THE ANSWER**

**No Support
for
Property
Owners**

**No
Vaca
Cont**

**LIVABLE
HOUSING
NO COST
MONEY**

**NO
Vacancy
Controls**

**TENANTS ARE
GREEDY
NOT
LANDLORDS**

**UPGRADES FOR
FREE
GOVERNMENT STILL
UNHAPPY**

**OUR DEMAND
THE VOICES**

**RENT CONTROLS
=
NO NEW SUPPLY**

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INTRODUCTION

Summary

POLITICAL HEADWINDS

New government means new changes. 2018 was the year of political fatigue as many parties were overthrown on the premise of change. Millennials marching to the voting boxes have, for the first time, surpassed the voting majority of the previous Baby Boomer generation. This new generation of voters has different fiscal ideals and values, which will shape coming policies promised during election campaigns. The hot-button topic continues to be the deeply rooted issue of the supply of affordable and rental housing. There is a lot of talk regarding the problems and a lot promised, but very little action.

WE ARE LOBBYING FOR YOU!

For the first time, renters make up the majority of voters in Greater Vancouver. This is a monumental shift that landlords need to be aware of because this significant fact is going to shape future policies for many years. As renters continue to be a growing force in the political landscape, they increasingly vocalize their concerns of rising household expenses and the rising allocation of household income towards their living costs. We do not feel enough is being said for landlords. We are taking a stand by opening the dialogue with local MLAs to make sure they maintain a balanced approach to finding a solution to the rental crunch.

“Now is the worst time in Vancouver’s history to bring in vacancy controls” is an article recently circulated to our Mayor, councillors, housing minister, and more influential individuals.

If you have concerns or opinions that you would like forwarded please contact us and we will make sure your voice is heard.



We are pleased to donate this year to the YoBro YoGirl youth initiative. YoBro YoGirl runs programs to help guide youths with troubled upbringing tackle challenges they may face in high school. If you would like to find out more or help contribute with this great cause, please check out their website at: YBYG.ca

THE SKY IS FALLING! ...OR IS IT?

With a charged political climate, rising interest rates, and the new rental task force report looming there is some skepticism surrounding the stability of the multi-family market. All these factors are working against the freedoms and affordability of every landlord. However, this may not mean Chicken Little is right.



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VACANCY RATES WILL TREND DOWN

When markets begin to shift people also shift, towards renting. This shelters against an uncertain condominium market, but pushes a near zero vacancy rate even lower, creating upward pressure on rents.

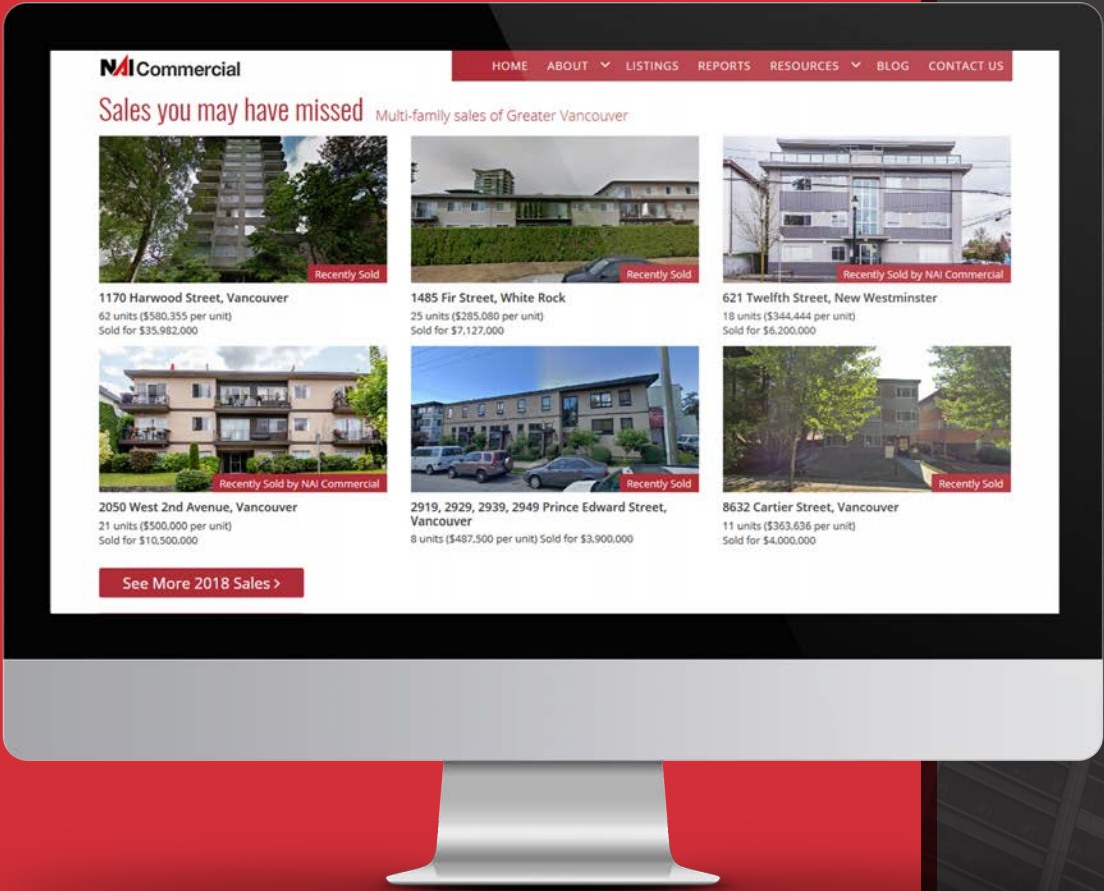
CREDIT CRUNCHES ENSUE

Financing is becoming more challenging for buyers who are unable to afford purchasing what they want, but still able to rent the quality they desire. As condominium projects begin to get shelved and supply drops even further the supply crisis, is exasperated.

APARTMENTBLOCKS.CA FEATURED UPDATES

Sales You May Have Missed & 2018 Sales

#SYMHM



WANT TO MONITOR THE MARKET'S RECENT SALES?

Multi-family sales across Greater Vancouver updated Monday weekly.



**SIMPLE,
CONVENIENT,
& ACCESSIBLE**

*wherever
you go.*

START YOUR WEEK — HAVING YOUR FINGER ON THE PULSE

Find the sales you may have missed on the homepage of ApartmentBlocks.ca



MARKET OVERVIEW

Greater Vancouver

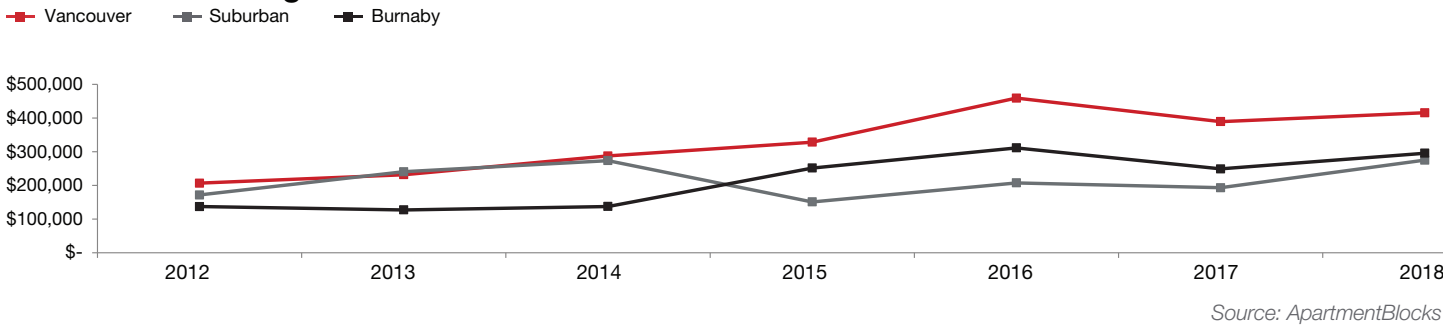
SEVERAL MARKET ISSUES

Traditionally the market will advance quickly for an extended period of time usually six years followed by a flattening out for approximately two to three years. Sometimes this involves rent corrections, which may cause a marginal decline in prices. We believe this is now the precipice, or some may argue the downside trend of the market, with prices levelling off, or going down a few percent. However, any decline is more likely the previous unreasonable asking price of a few sellers. Those listings that were priced well have either sold or are getting activity. Rents seem to be softening a few percent off their peak of a few months ago.

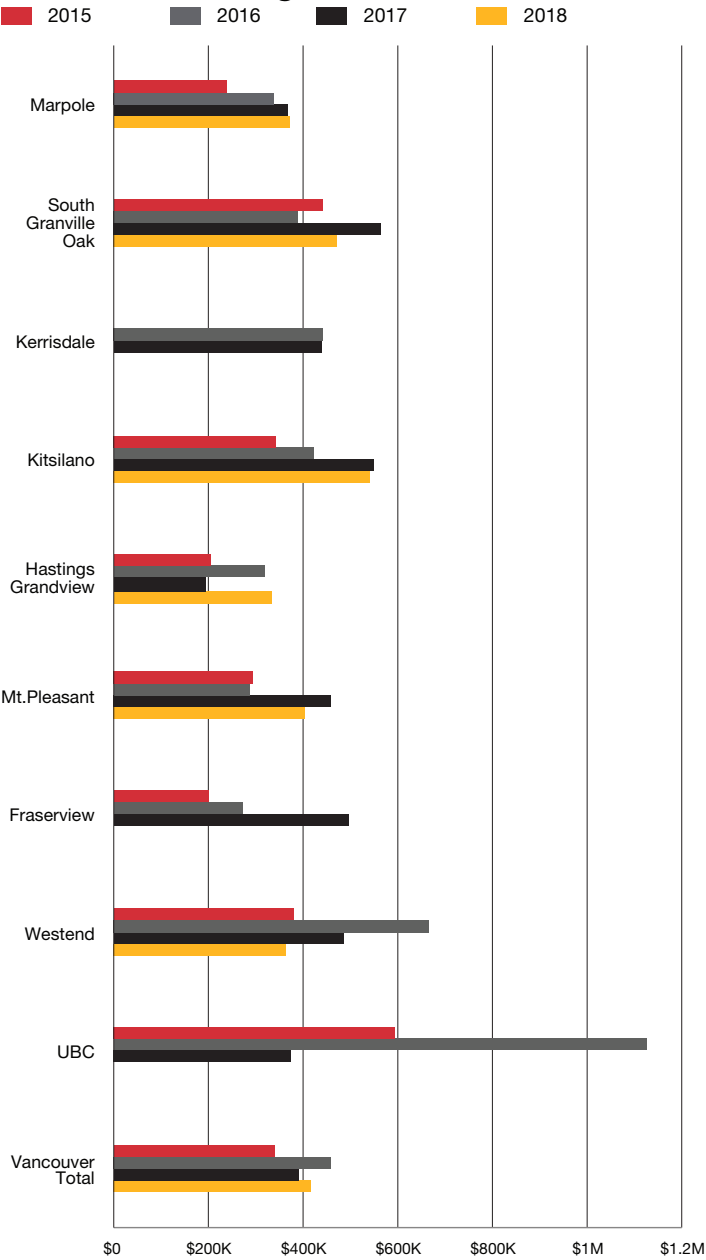
The elephant in the room is the current government, and their meddling with rent controls, which have caused some concern among the apartment family. The maximum annual rental increase reduction from 4.50% to 2.5%, and the rental task force report, both were commissioned by the NDP and will make it more difficult for landlords. The task force report suggestions floated around which in our opinion would harm the multi-family market. These items are vacancy controls, longer terms for evictions, removal of the direct request application for non-payment of rent and longer terms for notice to respond.

Vacancy remains at all-time lows and the government should be stimulating housing supply. Most of their policies are having the opposite effect. Real estate experts, investors, entrepreneurs, activists etc. keep reiterating an obvious supply problem which policy makers continue to ignore. The policy of tighter rent controls, lower densities and massive red tape to get any project approved, not to mention the high government taxes to do any project will not stimulate rental development. Until this gets recognized not much will change except the government using the opportunity to mount additional taxes. Vacancy shall remain at all-time lows with little changing for the foreseeable future.

2012 – 2018 Average Price Per Suite



Vancouver Average Price Per Suite

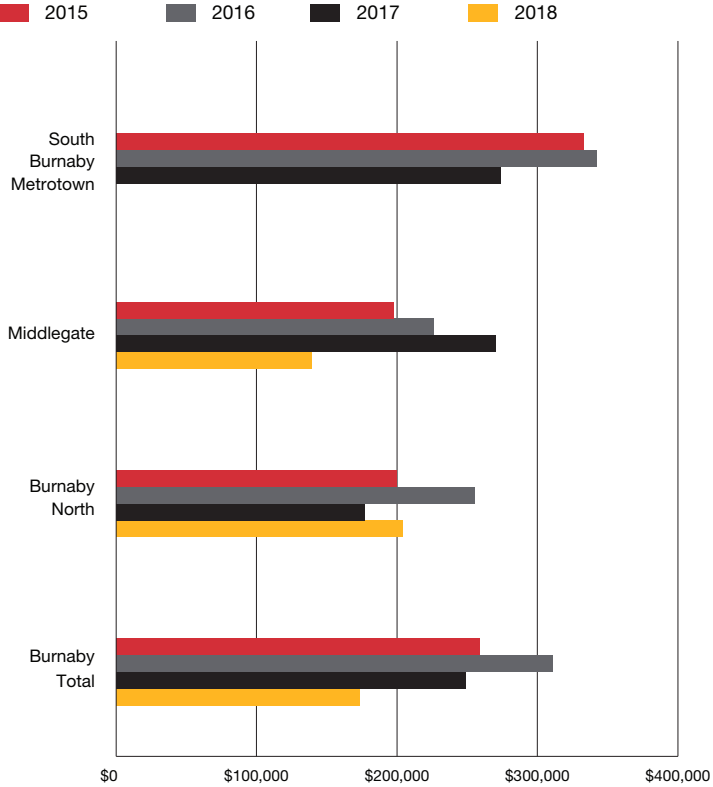


Vancouver Wood-Frame Apartment Transactions 2018

Address	Month Sold	Selling Price	Price/Suite	# of Units
Vancouver West Marpole				
8860 Montcalm Street	Feb-18	\$7,800,000	\$325,000	24
8623 Selkirk Street	May-18	\$11,880,000	\$383,226	31
8616 Fremlin Street	May-18	\$2,840,000	\$355,000	8
1133 W 70 th Avenue	Jun-18	\$8,500,000	\$326,923	26
8632 Cartier Street	Oct-18	\$4,000,000	\$363,636	11
8580 Oak Street	Dec-18	\$8,800,000	\$517,647	17
Total & Average		\$43,820,000	\$374,530	117
Vancouver West South Granville/Oak				
1110 West 10 th Avenue	Feb-18	\$10,420,000	\$453,043	23
Total & Average		\$10,420,000	\$453,043	23
Vancouver West Kerrisdale				
Total & Average		0	0	0
Vancouver West Kitsilano				
2425 York Avenue	Apr-18	\$12,100,000	\$504,167	24
1406 Laburnum Street	Apr-18	\$6,825,000	\$682,500	10
2035 West 5 th Avenue	May-18	\$4,600,000	\$511,111	9
2293 West 6 th Avenue	May-18	\$6,850,000	\$570,833	12
2358 York Avenue	Jun-18	\$7,800,000	\$709,091	11
3495 West 4 th Avenue	Jun-18	\$8,256,000	\$688,000	12
2225 West 1 st Avenue	Aug-18	\$6,500,000	\$541,667	12
1833 Yew Street	Sep-18	\$10,500,000	\$420,000	25
2050 West 2 nd Avenue	Oct-18	\$10,500,000	\$500,000	21
Total & Average		\$73,931,000	\$543,610	136
Vancouver East Hastings/Grandview				
2185 Oxford Street	Jan-18	\$2,672,000	\$334,000	8
2065 Triumph Street	Jan-18	\$5,500,000	\$366,667	15
2067 Pandora Street	Mar-18	\$3,200,000	\$400,000	8
2333 Oxford Street	May-18	\$16,260,870	\$318,841	51
325 N Garden Drive	May-18	\$5,739,130	\$318,841	18
1908 E 5 th Avenue	Jul-18	\$3,285,000	\$469,286	7
2154 Dundas Street	Oct-18	\$6,796,200	\$377,567	18
2285 Triumph Street	Jul-18	\$6,000,000	\$375,000	16
230 Princess Street	Apr-18	\$2,300,000	\$176,923	13
Total & Average		\$51,753,200	\$336,060	154
Vancouver Concrete Hi/Mid-Rise				
150 E Keith Rd	Apr-18	\$26,493,283	\$679,315	39
1005 Jervis Street	Apr-18	\$65,115,338	\$482,336	135
1755 ` Street	Apr-18	\$74,459,574	\$539,562	138
1501 Haro Street	Apr-18	\$81,850,843	\$568,409	144
1958 Barclay Street	Jun-18	\$19,650,000	\$467,857	42
1435 Burnaby Street	Aug-18	\$15,050,000	\$501,667	30
1450 W Georgia Street	Sep-18	\$70,000,000	\$432,099	162
1170 Harwood Street	Oct-18	\$35,982,000	\$580,355	62
1155 Haro Street	Jun-18	\$16,000,000	\$320,000	50
1450 Burnaby Street	Feb-18	\$18,350,000	\$436,905	42
Total & Average		\$422,951,038	\$501,127	844
Vancouver West UBC				
Total & Average		0	0	0
Vancouver East Mount Pleasant				
825 E 8 th Avenue	Feb-18	\$14,350,000	\$350,000	41
275 E 13 th Avenue	May-18	\$9,450,000	\$410,870	23
243 E 13 th Avenue	Jul-18	\$6,180,000	\$561,818	11
252-254 East 12 th Avenue	Aug-18	\$12,200,000	\$348,571	35
95 East 13 th Avenue	Sep-18	\$9,000,000	\$346,154	26
2919-49 Prince Edward	Oct-18	\$3,900,000	\$487,500	8
4655-73 Main Street	Oct-18	\$5,900,000	\$536,364	11
230 W 10 th Avenue	May-18	\$9,546,200	\$502,432	19
Total & Average		\$70,526,200	\$405,323	174
Vancouver East Fraserview				
Total & Average		0	0	0
Vancouver West West End				
1537 Burnaby Street	Jun-18	\$8,750,000	\$364,583	24
Total & Average		\$8,750,000	\$364,583	24

Shaded grey denotes sales by NAI Commercial

Burnaby Average Price Per Suite



Burnaby Wood-Frame Apartment Transactions 2018

Address	Month Sold	Selling Price	Price/Suite	# of Units
Burnaby South Metrotown				
Total & Average		0	0	0
Burnaby South Middelgate				
7110 Linden Avenue	Jan-18	\$8,400,000	\$280,000	30
7227 Arcola Street	Apr-18	\$11,350,000	\$315,278	36
7265 Arcola Street	Sep18	\$16,000,000	\$333,333	48
Total & Average		\$35,750,000	\$313,596	114
Burnaby North				
7070-7082 Inlet Drive	April-18	\$32,500,000	\$277,778	117
Total & Average		\$32,500,000	\$277,778	117

Shaded grey denotes sale by NAI Commercial

WHAT'S TRENDING

Vancouver

Asking Price

Rent

Cap Rate

Vacancy Rate

West End

Vacancy Rate

Asking Price

Cap Rate

Rent

Burnaby

Cap Rate

Vacancy Rate

Asking Price

Rent

MARKET INSIGHT

Greater Vancouver

WHAT'S CHANGED

- ▶ Rising bond and interest rates coupled with stabilized capitalization means higher down payments
- ▶ Vacancy rates have declined
- ▶ The CPI formula has been modified to inflation with the extra 2% removed
- ▶ CMHC claims a 6.2% increase in average rents over the past year
- ▶ Foreign tax increases to 20%
- ▶ Property purchase tax on purchases over three million dollars was increased to 5%
- ▶ Renters now make up the majority of voting base in Greater Vancouver
- ▶ The Residential tenancy branch received increase funding to provide faster services to landlords and tenants
- ▶ China has successfully cracked down on outflow money

WHAT HASN'T CHANGED

- ▶ Governments continue to deny supply of rental units as a major factor in the affordability crisis and instead focus on taxes
- ▶ Development costs charged by the city account for 26% of final housing prices according to Burgess, Cawley, Sullivan and Associates Ltd.
- ▶ Operating expenses continue to surge
- ▶ Owners continue to hold out for their pricing expectations

WHAT'S CHANGING

- ▶ Rental task force will bring forward regulation recommendations unfriendly to landlords
- ▶ Local governments have promised more streamlined permitting process
- ▶ Due diligence periods in offers are lengthening
- ▶ Longer closing dates are becoming more acceptable, especially on development sites
- ▶ Evicting tenants for renovations is becoming much more challenging
- ▶ Municipalities bringing in rental replacement for developments
- ▶ Province increasing taxes on many forms of real estate
- ▶ Government crack down on money coming into the province
- ▶ City of Vancouver adjusting Charter to limit evicting tenants for renovations

Suburban Wood-Frame Apartment Transactions 2018

Address	Month Sold	Selling Price	Price/Suite	# of Units
New Westmintser				
610 Blackford Street	Jan-18	\$6,670,000	\$230,000	29
329 7 th Street	Jan-18	\$4,830,000	\$230,000	21
404 7 th Street	Jan-18	\$9,250,000	\$220,238	42
1024 St. Andrews Street	Feb-18	\$6,420,000	\$279,130	23
420 11 th Street	Apr-18	\$13,400,000	\$219,672	61
530 9 th Street	May-18	\$3,600,000	\$257,143	14
311 Ash Street	May-18	\$6,480,000	\$240,000	27
1210 7 th Street	Jun-18	\$5,650,000	\$353,125	16
304 3 rd Avenue	Jun-18	\$5,900,000	\$347,059	17
732 5 th Avenue	Jul-18	\$5,750,000	\$230,000	25
76 Coburg Street	Jul-18	\$3,500,000	\$291,667	12
1222 5 th Avenue	Jul-18	\$6,950,000	\$330,952	21
508 8 th Street	Aug-18	\$9,750,000	\$232,143	42
520 8 th Street	Oct-18	\$12,650,000	\$225,893	56
621 12 th Street	Oct-18	\$6,200,000	\$364,706	17
1315 7 th Street	Oct-18	\$9,250,000	\$355,769	26
Total & Average		\$116,250,000	\$258,909	449
City and District of North Vancouver				
109-115 East 1 st Avenue	Jul-18	\$7,300,000	\$365,000	20
215-225 East 12 th Street	Sep-18	\$11,200,000	\$430,769	26
121 West 12 th Street	Sep-18	\$10,350,000	\$356,897	29
269 W 4 th Street	Apr-18	\$19,400,000	\$412,766	47
Total & Average		\$48,250,000	\$395,492	122
Abbotsford				
32043 Tims Avenue	Jan-18	\$1,860,000	\$232,500	8
33554 Switzer Avenue	May-18	\$2,788,888	\$139,444	20
2779 Maple Street	Jul-18	\$3,200,000	\$152,381	21
Total & Average		\$7,848,888	\$160,181	49
Coquitlam/Port Coquitlam				
1411 Hachey Avenue	Feb-18	\$4,500,000	\$204,545	22
1035 Howie Avenue	Aug-18	\$10,100,000	\$240,476	42
Total & Average		\$14,600,000	\$228,125	64
Mission				
33359 2 nd Avenue	April-18	\$1,440,000	\$120,000	12
Total & Average		\$1,440,000	\$120,000	12
Langley City/District				
20669 Eastleigh Crescent	Jan-18	\$2,745,000	\$392,143	7
5363 201 Street	Aug-18	\$33,000,000	\$366,667	90
Total & Average		\$35,745,000	\$368,505	97
White Rock/Delta				
15989 Marine Drive	Feb-18	\$2,499,999	\$277,778	9
4564 Evergreen Lane	Jun-18	\$5,300,000	\$220,833	24
1485 Fir Street	Oct-18	\$7,127,000	\$285,080	25
1509 Martin Street	Feb-18	\$11,700,000	\$278,571	42
Total & Average		\$26,626,999	\$266,270	100
Maple Ridge				
22535 Royal Crescent	Jun-18	\$1,650,000	\$150,000	11
Total & Average		\$1,650,000	\$150,000	11
Surrey				
17719 58A Avenue	May-18	\$6,630,000	\$170,000	39
Total & Average		\$6,630,000	\$170,000	39
Richmond				
Total & Average		0	0	0
Port Moody				
Total & Average		0	0	0

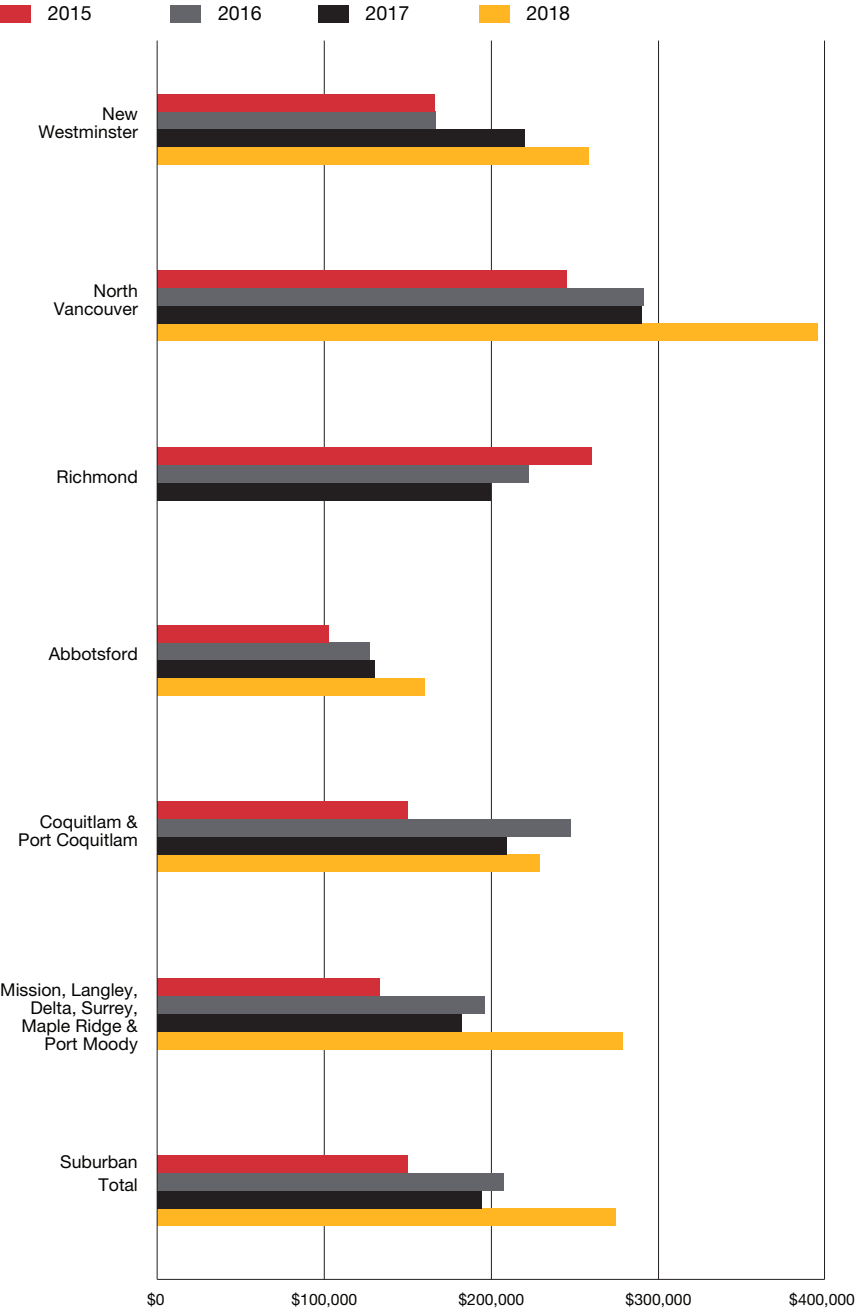
Shaded grey denotes sales by NAI Commercial

Politically Vancouver is vertically saddled with three left leaning governments, (Municipal, Provincial and Federal). These anti-business governments discourage investment as we have seen through multiple taxes. They have restricted foreign investment with onerous FINTRAC requirements and have reduced lenders ability to supply credit.

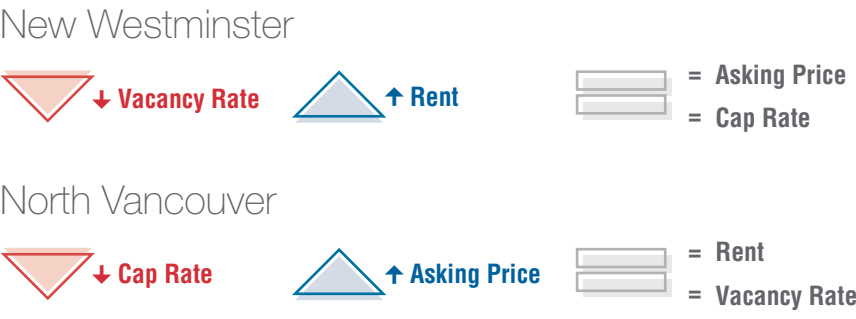
If you compare our 2016 multi-family report the average prices were \$242,000 in Marpole, \$346,000 in Kitsilano, \$312,000 in Burnaby and \$166,000 in New Westminster. We are now seeing prices 33% above the 2015 averages, while rents over the same period have increased by less than 8%. Due to the insatiable demand over the last three years buyers had been submitting no subject offers to be competitive. This has now changed which we find a welcome relief. For a buyer to not have the opportunity complete their due diligence is not sustainable. It is much healthier for investors to take a more thorough approach to their purchase with a reasonable subject period.

We are seeing an increasing supply of buildings that have been renovated with rents brought to market levels, and then made available for sale. There are several groups who have turned this into a successful business model. These groups have been using their own money with no government assistance to improve the building, gentrifying a location in many cases, and giving a much needed improvement to an aging rental stock. However, we are seeing the government and tenant advocacy groups voicing concern over the displacement of tenants and beginning to implement stricter guidelines. Buildings that are already repositioned will carry an added premium in value in the future. It is very likely that going into next year we will see a dramatic decline of retrofitted apartments as we anticipate that the government will refuse to allow a landlord to raise the rent to market after they have done the work, but expect them to bring the tenant back into the suite at the same rent. The obvious outcome to this is landlords will not improve their buildings and the quality of the rental stock will diminish and no new supply to provide renters with choice.

Suburban Average Price Per Suite



WHAT'S TRENDING

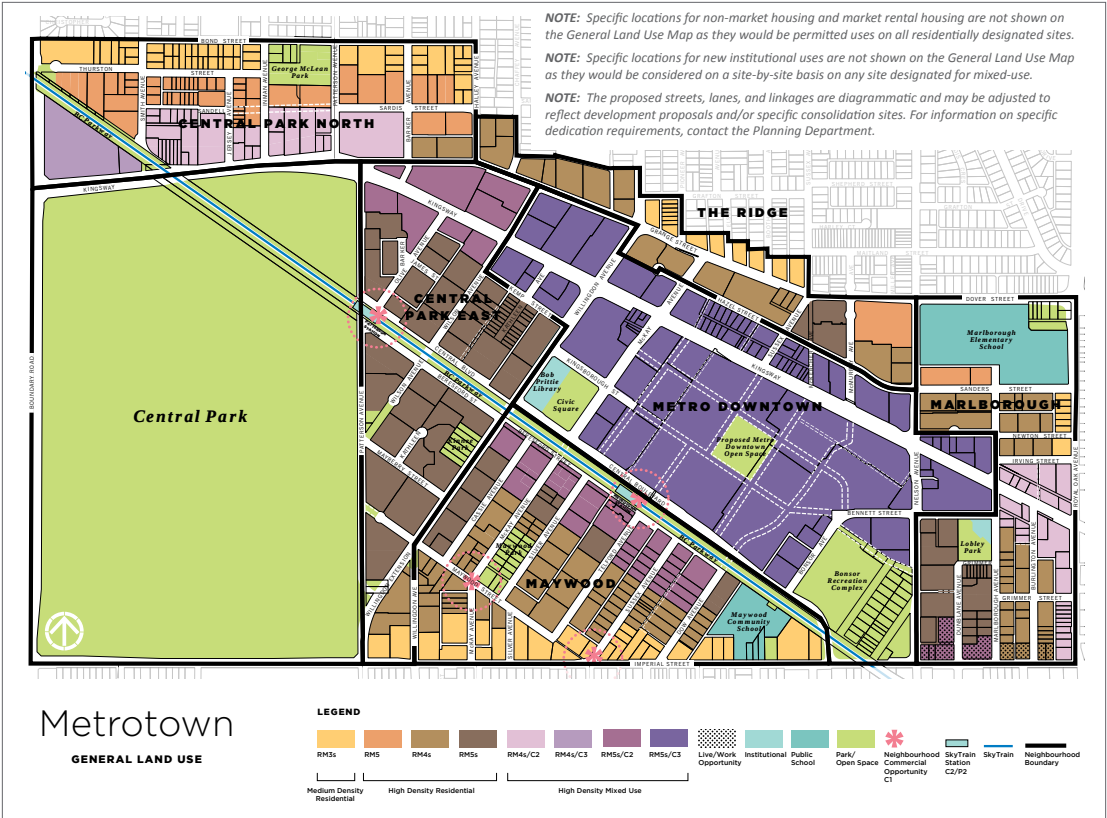


DEVELOPMENT HIGHLIGHTS

Changing Communities

METROTOWN | RENTAL REPLACEMENT RISK

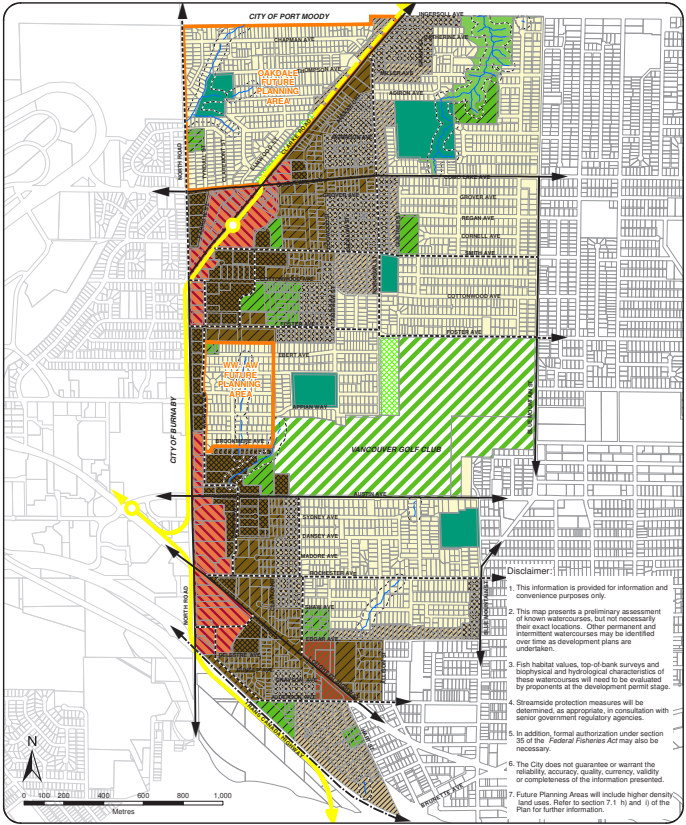
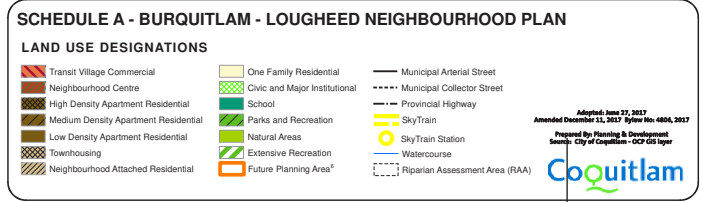
Last year the Official Community Plan was finally adopted after years of an unofficial release. Introduced by Derek Corrigan, there was no provision for rental replacement like Vancouver’s policy, as affordable housing is a provincial issue. However, to keep voters content Burnaby allowed legalization of basement suites to help offset the loss of lower income housing. The new mayor does not feel this goes far enough. Riding a tidal wave of voters rallying against densification he plans to push new affordable housing initiatives like rental replacement. The current proposal was to replace existing rental units in the development at the same rents as before. Unlike other municipalities this will be granted as additional density on top of what is currently allocated. This may be a happy middle ground as copying the Vancouver model will destroy the feasibility of many recently purchased sites and could lead to projects being shelved.



There was no provision for rental replacement like Vancouver’s policy, as affordable housing is a provincial issue.

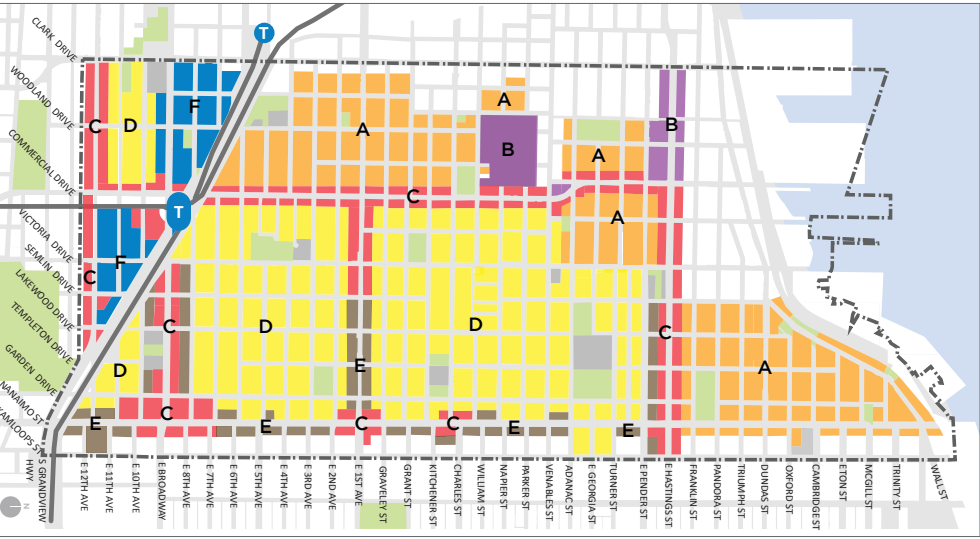
COQUITLAM | OAKDALE

Coquitlam also finalized their plan last year. One area left for future planning was Oakdale after strong resistance to the proposed changes. Shortly after adoption, a petition signed by over one hundred Oakdale residents has initiated planning to finalize a plan. The area is polarized between the petitioners, who are mostly located close to arterial routes, and the anti development group with homes more insular in the neighbourhood. The group that has the most to gain are the petitioners as history dictates higher density closer to arterial routes. The anti development group realize there is less or no gain for them so they tend to be the opposed owners. This is a polarized topic. We have seen these two groups clash in spats at local information events hosted by Coquitlam planning.



GRANDVIEW-WOODLAND | FUNDAMENTALLY FLAWED

Developers and landlords alike are perplexed by an unnecessary policy called rate of change. This mandates the city will only rezone five sites every three years with existing rental structures. These limitations are slowing down an already painfully slow process and have large impacts on land values. Developers have no certainty when these sites will be cherry picked by the rate of change committee, causing significant increases in holding costs and development horizons.



RENTAL HOUSING TASK FORCE

Recommendations

The rental housing task force has released the much-anticipated report filled with suggestions on updating the Residential Tenancy Act. Our team submitted multiple emails and articles to council and staff in order to defend home providers. We feel the changes in this report provide a more balanced approach than anticipated.

The theme of the report is increase the power and authority of the residential tenancy branch to maintain the rules and regulations of the act and educate people on what the rules and regulations are. This would benefit both renters and housing providers.

See below for a list of the recommendations. We have highlighted some important suggestions.

Recommendation 1:	Stop renovations.
Recommendation 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.
Recommendation 3:	Set a clear timeline for a tenant's decision on the use of a right of first refusal.
Recommendation 4:	Implement a BC-wide rent bank system for low-income people.
Recommendation 5:	Strengthen enforcement of the law, including implementing a clear process for making, investigating and reporting administrative penalty complaints.
Recommendation 6:	Strengthen penalties for breaking the law, including refusal of service for outstanding administrative penalties.
Recommendation 7:	Investigate ways to provide affordable access to bailiff services in smaller and more remote communities.
Recommendation 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.
Recommendation 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.
Recommendation 10:	Maintain rent tied to the renter, not the unit.
Recommendation 11:	Work with local governments to develop, implement and enforce short-term rental rules to better protect long-term rental stock.
Recommendation 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.
Recommendation 13:	Improve fairness and consistency of the residential tenancy branch dispute resolution hearings process by recording all hearings.
Recommendation 14:	Improve procedural fairness by expanding review considerations to include more rounds for review.
Recommendation 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
Recommendation 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.
Recommendation 17:	Allow email as a form of notice of service between landlord and tenants.
Recommendation 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.
Recommendation 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.
Recommendation 20:	Undertake a review to simplify the regulations relating to a landlord's obligation to store abandoned personal property.
Recommendation 21:	Ensure it is clear for all landlords and renters where to go to get help for all forms of residential tenancy.
Recommendation 22:	Address the specific needs of non-profit housing and supportive housing providers in the residential tenancy act.
Recommendation 23:	Ensure manufactured home park rules are clear and understandable. Clarify what occurs when park rules conflict with lease or contract rules.

Source: BC Rental Housing Task Force - Rental Housing Review: Recommendations & Findings

25-SUITE APARTMENT BUILDING 100 METRES TO KITSILANO BEACH



Bayshore
MANOR

FEATURED LISTINGS

Multi-Family & Development Listings for Sale



Elizabeth Manor
85

17700 58th Avenue, Surrey

25 UNITS **27,087** SF CORNER LOT **1965** YEAR BUILT

\$4,990,000 PRICE

PRICE REDUCED



Nanni Apartments
84

6710 Sussex Avenue, Burnaby

10 UNITS **8,560** SF LOT **1968** YEAR BUILT

\$4,800,000 PRICE

PRICE REDUCED



POTENTIAL 6 STY

143, 145 & 153 East 4th Street, North Vancouver

23,989 SF LOT **62,371** TOTAL BUILDABLE SF

CONTACT AGENTS PRICE



HIGH-RISE DEVELOPMENT SITE 87

4214 & 4250 Maywood Street, Burnaby

27,212 SF LOT **47,483** POTENTIAL SITE SF

CONTACT AGENTS PRICE

2018 SUCCESS STORIES

Development & Multi-Family Transactions by Apartment Blocks Team



621 Twelfth Street
New Westminster



2050 West 2nd Avenue
Vancouver



7227 Arcola Street
Burnaby



1024 St. Andrews Street
New Westminster



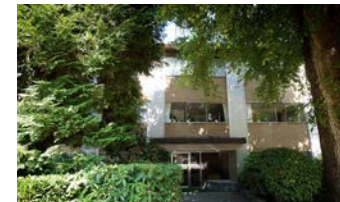
1222 Fifth Avenue
New Westminster



1875 Yew Street
Vancouver



230 West 10th Avenue
Vancouver



2425 York Avenue
Vancouver



610 Blackford Street
New Westminster



329 Seventh Street
New Westminster



825 East 8th Avenue
Vancouver



404 Seventh Street
New Westminster



313 Carnarvon Street
New Westminster



8580 Oak Street
Vancouver



6675 & 6691 Dow Avenue
Burnaby



6730 Burlington Avenue
Burnaby



6622 Willingdon Avenue
Burnaby



739 Como Lake Avenue & 804 Robinson St, Coquitlam



4330 Maywood Street
Burnaby



6730 Dow Avenue
Burnaby

MARKET FORECAST

Best Bets for 2019

MARKET FORECAST

It is our opinion that to purchase a building now, with the anticipation of stability and short-term slower growth, is what you can expect. In most areas we have seen rents stabilize along with prices. This is an opportunity to be more selective when looking for a desired building in a size and area that works for you.

Waiting for the market to rebound will be following the herd and may forgo the edge of purchasing now. We believe there is an opportunity to take advantage of the increased supply currently on the market. Buyers typically look at multi-family as pensions, so the nuances of the momentary fluctuations are not as relevant as solid long-term growth. During a market slowdown the outlying areas carry the most risk, as they are the last to increase in value, but the first to go down.

In the summer of 2018 we began to see moderation in pricing that will likely continue over the next year. Political storm clouds and increasing interest rates will likely keep the market slower for the near future. This is not to say the sky is falling but do expect some changes. Since 2002 the market has seen straight-line increases in values with only a short blip in 2008 during the world market crash, which only affected this market for six months before values started to increase again. Multi-family buildings are generally considered recession-proof. As condominium values decrease, to avoid risk people shelter their exposure by renting. This stability gives investors the confidence to view multi-family as a “bond type” investment, waiting out short-term fluxes, as values will variably increase. A flattening of the market should be considered positive, as consistent quick increases can form a bubble that can cause devastation to the market. The underlying strength in the multi-family sector is the very low leverage banks have forced on borrowers and an extremely low vacancy rate. Most buildings have less than 50% financing and 100% occupancy which protects investors from market changes.

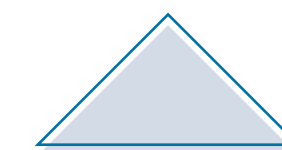
BEST BETS FOR 2019

If you had followed our best bets you would have made out like bandits. We have consistently considered North Vancouver to be an area of the best appreciation. Values there are like Marpole with 15% higher rents. Tenants are more stable and less problematic. We also see New Westminster emerging with high rents, yet prices are the lowest in the Lower Mainland west of the bridges. With higher rents we are seeing capitalization rates in the mid 4%, for renovated buildings in New Westminster. The West End is also a dynamic area although building turnover is limited. Rents are strongest in this area fueled by tight vacancy.

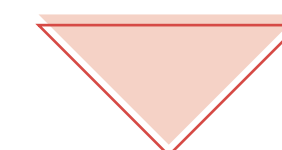
The simple answer to best bets is to find a building in your desired area, preferably close to home so oversight is not a chore and buy the largest asset you can afford. The first year will prove the most difficult, but once you have transitioned management and managed the building for a year the process becomes streamlined.

We like the values of the renovated building for a number of reasons. Firstly, financing is easier and usually 65% loan to value are available, whereas its 50% for non-renovated buildings. Also, in the event we see vacancy controls, or just the fact rents can only be increased by 2.5%, it will end in a never-ending game of chase to get market rents. We see getting a 10-year mortgage and just holding at 65% LTV the best play. We are seeing that five and ten year money is available for similar rates, which is quite unusual.

MARKET PREDICTIONS



↑ Interest Rates
↑ Local Demand



↓ Apartment Buildings
↓ Development Demand
↓ Foreign Demand



= Local Demand

Over **\$200 million** transacted in 2018

THE GOLDEN AGE

Of Purpose-Built Apartment Building

By Derek Townsend, Principal of CitiFund

For decades, existing apartment buildings have been the most sought-after asset class by investors and led the market with the lowest cap rates. Apartments win the popularity contest, every year. What is changing is the feasibility and economics of constructing purpose built apartments. British Columbia's population continues to grow, rental revenue is climbing, interest rates remain very low and now new purpose-built rental construction financing programs are turbocharging the purpose-built rental market.

MUNICIPAL SUPPORT

Municipalities across the province are encouraging purpose-built rental construction by creating incentive-based programs to promote the private-sector development of housing. Some municipalities only requirement is that the building remaining a market rental apartment for the long-term (no option to convert to condominium). Some municipalities are integrating affordability and low-income options in all of their rental programs. Every municipality is taking a different approach. For example, in Vancouver, the Rental100 program sets the rental rates at their deemed affordable rate, development cost levies are waived, parking and unit size requirements are reduced and an increase in density is considered - making these projects more affordable for renters and more appealing to developers. In North Vancouver, the city requires 20 units to be maintained at 20% below market for 20 years and offers some of the same incentives as Rental100.

THE CMHC ADVANTAGE

With Canada's interest rates still at relatively historic lows, income-based debt service tests still allow for impressive loan amounts allowing borrowers to minimize their equity requirement. With interest rates expected to rise, the income-based tests will start to decrease loan amounts. Thankfully, CMHC insures both construction and term financing, creating very attractive and affordable funding for the development, renovation and acquisition of rental buildings. CitiFund is placing insured mortgages for 2.99% (5-year rates) and 3.13% (10-year rates) both using December 5th bonds. As a comparison, the conventional pricing premium is even more extensive than usual with approximately 4.00% (5-year rates) and 4.35% (10-year rates) using December 5th bonds.

New or renovated buildings allow for increased amortization periods above the standard 25-year term. Conventionally, 30-year amortizations are available on an exception basis and CMHC will allow up to 40-year amortizations. This increased payment period increases the loan amount available and improves the asset's cash flow.

CMHC'S TWO NEW PRODUCTS

In addition to the longer amortizations that CMHC offers, they have also developed two insured construction financing programs for purpose-built rental projects. The first, Rental Construction Financing Initiative (RCFI) program is a federally backed CMHC Direct lending program for new projects only. Within this program, CMHC will offer up to 100% of total project cost financing, that is just restricted by the debt serviceability of the end product and not the value. With this program, CMHC uses up to 50-year amortization, a 1.10x debt service ratio and today's 10-year rate which provides exceptional leverage. A significant benefit to this program is that the 10-year term rate is set and held from the first construction advance thus removing any interest rate risk through construction and rent up. To qualify for this program, a Social Outcome Point System determines which projects are awarded this insured product and are prioritized based on the number of points received in the application. Points are awarded for affordability, viability, accessibility and the environmental aspects of the project. While not necessarily easy to qualify for, the construction rate lock feature and loan to cost flexibility make RCFI merely a "dream come true" construction financing product.

The second CMHC construction financing program is the Affordable Mortgage Loan Insurance (MLI Flex) program. This option offers a higher leverage product at lower premiums for construction and term financing for to-be-built or recently completed rental product. CMHC offers up to 95% of cost financing restricted by a 1.10x debt service ratio and a 40-year amortization and reduced CMHC premiums. To qualify for MLI Flex, total rents need to be 10% below market (appraisal required) and 20% of the rents below the 30% median family income for the area (\$1,998 for the Vancouver area) or the development is approved under a government affordable rental program (federal, provincial, municipal, or other). These affordability criteria must be maintained for 10 years.

While CMHC is a massive force in apartment financing, the conventional debt market remains healthy and there are a wide variety of construction, bridge and repositioning products available. Interest-Only loans with compressed debt cover ratios are available for projects looking to maximize cash flow. Construction loans are available for the development or renovation of buildings up to 85 percent of total project costs. There are a lot of options available to a developer looking to build, buy, renovate or hold rental apartment buildings.

CitiFund Capital Corporation is an independent commercial mortgage brokerage company based in Vancouver, BC. As market leaders, each year our brokers complete financing for a significant number of projects that include many of the largest, most complicated deals in the country. This volume of work provides us with an unmatched base of knowledge, unique market perspective and a vast network of active lender relationships. As a result, we're able to structure the capital stack in ways that will increase your liquidity, improve your return on equity and meet the most challenging deadlines. That's to say, not only do we deliver the best possible terms, we work hard to provide our clients with value beyond the rate.

All loans and interest rates are subject to the borrower's financial strength, the subject property and lender requirements.

More information can be found at:

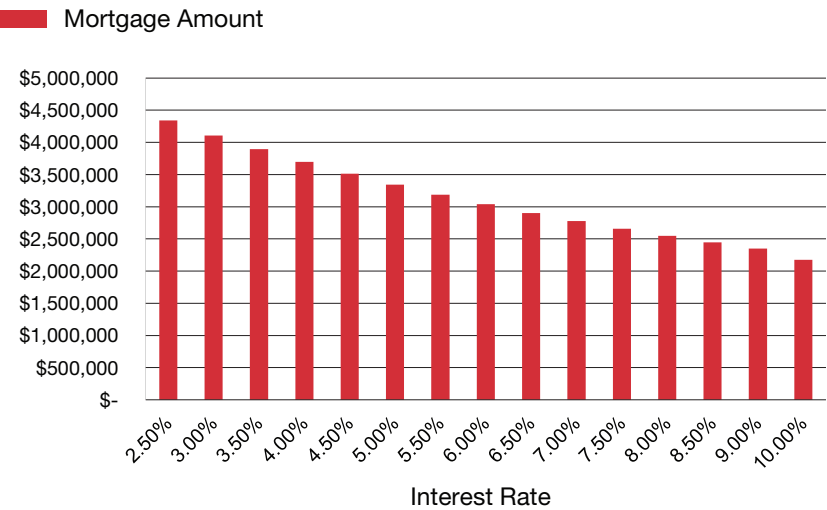
- **City of Vancouver:** Vancouver.ca/people-programs/creating-new-market-rental-housing.aspx
- **CitiFund:** CitiFund.com

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EXAMPLE

Effects of Interest Rates on Apartment Mortgage

Gross Effective Income: \$360,000
Operating Expenses: \$110,000
Net Operating Income: \$250,000
Amortization: 25 years
Debt Service Coverage Ratio: 1.20



ADVICE & OPINIONS

Worst Timing in Vancouver's History to Bring in 'Vacancy Controls'

By Brandon Harding

Rent controls already force Vancouver landlords to follow strict rules, but this is not enough for some tenant advocacy groups pushing a controversial policy they call “vacancy controls.”

They argue the right of landlords to charge market rates when a suite becomes vacant is unfair to tenants, and that rents should be maintained at the previous rates upon new occupancy.

This comes with the benefit of maintaining low rental rates on all units, but as this article will detail, it creates a slew of problems for long-term viability.

WHY IS NOW THE WORST TIME, POSSIBLY EVER, FOR A GOVERNMENT TO ENACT VACANCY CONTROLS?

Our rental stock is old. Due to lack of government incentives and stern rent controls, the private sector has built few rental buildings since the 1970s, leaving the majority of units which are available to renters between 60 and 70 years old.

According to Integral Consultants, “Usually at age 55, the (multi-family) building needs to be stripped of its finishes, features, etc. down to the bare bones and redesigned and refurbished to suit current needs.”

Across the board our current rental stock has reached the end of the structures’ life expectancies. Landlords have large bills ahead in order to provide safe, habitable living for Vancouverites.

This means a choice is going to be required of all landlords. Do they spend hundreds of thousands of dollars required to keep operations running smoothly, or let the building slide and decay?

OUR CURRENT RENTAL STOCK IS AT THE END OF ITS LIFE EXPECTANCY

Let’s consider what could happen if our provincial government ignores landlord advocates and economic theory to introduce strict vacancy controls.

Every landlord understands a large portion of rents must be held aside for future capital expenditures. LandlordBC did an analysis from statistical data derived by Stats BC.

The analysis discovered during the time studied average expenses increased 7.6 per cent, but during the same period the allowable rental increases averaged 4.5 per cent. The province has been no friend to property owners with large increases in property tax, water, sewer, gas and hydro bills.

If there is no relief for landlords, the surplus between average income and cost can become negative. Throw in a mortgage and landlords could be faced with covering a negative cash flow to finance the property. Now the average landlord cannot afford to reinvest back into the building even if they plan to.

Not to mention there is no incentive to invest in improving a building when there is no return for the landlord.

EXPECT NO NEW RENTAL STOCK

Economics drive new rental properties, not libertarian ideals. Vacancy controls will have detrimental impacts on the pro forma of new developments.

With rents for the first time in almost 40 years driving apartments as a feasible asset class to build, we are seeing a record number of projects breaking ground. This relief is much needed as the ratio of renters to owners continues to widen.

If the rules and regulations regarding rent controls are negatively modified, all these current and future projects could be shelved, leaving Vancouver in a never-ending shortage of rentals.

“

USUALLY AT AGE 55, THE (MULTI-FAMILY) BUILDING NEEDS TO BE STRIPPED OF ITS FINISHES, FEATURES, ETC. DOWN TO THE BARE BONES AND REDESIGNED AND REFURBISHED TO SUIT CURRENT NEEDS.

—INTEGRAL CONSULTANTS

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WHAT IS FAIR?

Tenant advocacy groups rally behind the concept of fairness, but what is fair?

Land has to be purchased and maintained by individual owners and investors. Landlords have invested life savings into these properties knowing that British Columbia will maintain tight rental controls.

Should a landlord be penalized for the longstanding hard work, commitment and dedication involved in saving up for a rental property with new restrictions?

Many owners work nights and weekends to care for tenant needs, showing suites, cleaning, organizing repairs, and so much more. This goes from rectifying small situations such as a leaky sink or broken toilet to burst pipes which are potentially damaging to residents’ personal possessions.

As a tenant you expect your landlord to do all the work maintaining your home, and be responsible for liability. There is a price for that convenience.

A range of housing supply is vital to the success and future of every city, especially a landlocked one such as Vancouver. When strategizing policy and action that will modify the current landscape of available rental housing, landlords and tenants need to work together in a balanced approach. Rushing to appease one side or the other will lead to long-term consequences that are even more challenging to rectify.

Vacancy controls are short-sighted and one-sided. We want to maintain quality living accommodations that provide landlords the means to do so while keeping current and future tenants happy with their living situation. This is the wrong approach.

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