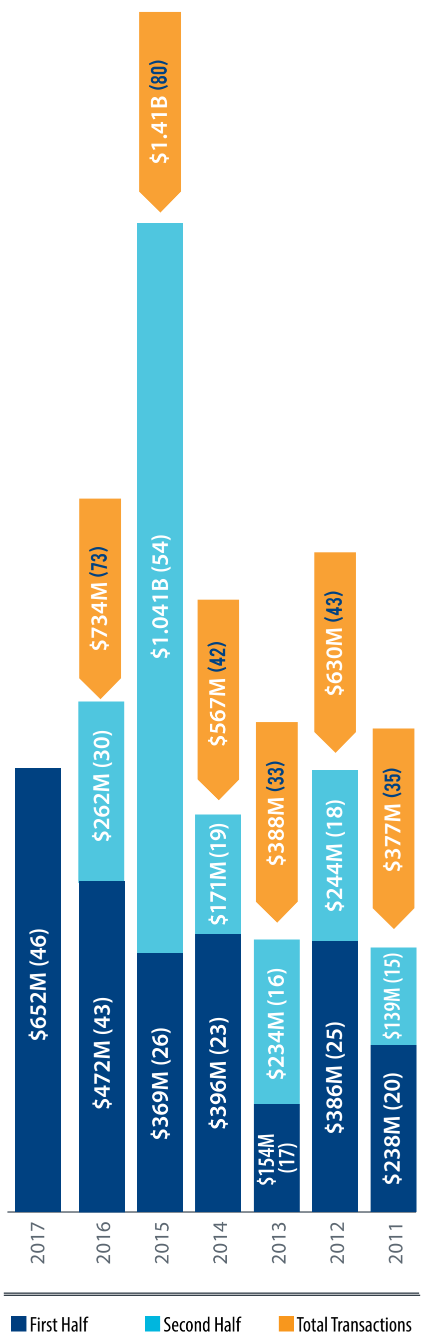
AVISON YOUNG

Fall 2017 Multi-Family Investment Report

British Columbia

MARKET TRENDS
MULTI-FAMILY INVESTMENT SALES
(>$5 million) January 1 to June 30, 2017



BC multi-family sales strong as six-month dollar volume second highest on record

Strong demand accompanied by even stronger pricing and highly compressed cap rates have convinced many long-term holders of multi-family properties in Metro Vancouver to cash out in the first half of 2017 amid a rising interest rate and bond yield environment that could move the market into a post-peak-pricing phase.

Sales of multi-family assets in the first half of 2017 roared back with 47 transactions valued at $658M in the first half of 2017. The second half of 2016 had recorded just 30 transactions valued at $262M while the first half of 2016 registered 43 transactions valued at $472M. Multi-family investment activity in 2017 is on pace to easily surpass the 73 transactions valued at $734M set in 2016. The record was set in 2015 when 80 properties valued at $1.41B traded hands. (Avison Young only tracks multi-family investments trading at more than $5M.)

Further boosting sales volume were the single dispositions of assets that were part of larger portfolios. Properties were individually marketed in order to obtain top dollar and widen the field of prospective buyers when compared with the number of purchasers who would acquire an entire portfolio.

Elevated pricing for multi-family assets is being supported by any latent underlying redevelopment potential that the property may have. In most cases, the lift in value that would come from redevelopment is already being priced in (particularly for buildings in Vancouver and specific areas in Burnaby such as Metrotown) without the necessary zoning and/or permits actually having been acquired. This has pushed investors who are not developers by trade or in nature to consider multi-assets from New Westminster out to the Fraser Valley and to Victoria and Nanaimo on Vancouver Island.

The extreme cap rate compression that has characterized the BC multi-family market (particularly in Downtown Vancouver and residential neighbourhoods in or near the core) since at least 2014 is coming to an end in light of the shifting interest rate environment in Canada. Vendor pricing expectations will likely need to be reconsidered as the cost of capital slowly starts to rise.

"Anyone with a variable rate mortgage knows that rates are up due to the prime rate's recent increases, which have seen it climb from 2.7% to 3.2% over the summer," says **James Paleologos**, a director with **Realtech Capital Group.** "This came as little surprise to those who follow the daily bonds. The Government of Canada's five-year bond rate began its aggressive ascent immediately following the U.S. election by doubling in a month."

"This trend steadily continued throughout the year bringing current five-year Government of Canada bond yields to nearly 1.80, up from 0.65 this time last year," he adds. "The lone bright spot is that lender spreads – their profit above the bond – continue to stay incredibly competitive. Lender spreads for conventional apartment deals have been as low as 150 basis points above the bond [rate] while CMHC-insured spreads have been as low as 95 basis points over the bond [rate]."

The market is currently experiencing a lag between vendor pricing expectations and the rapidly changing financing environment. While the conversation has started, many vendors of both new and old buildings are still seeking 'yesterday's' pricing, which in many cases, is simply no longer viable.

continued on second page

continued from front page

The strong demand for multi-family properties in Metro Vancouver has continued to emanate out to communities across the province. While sales in the first half of 2017 involved properties in Vancouver, West Vancouver, North Vancouver, Burnaby and New Westminster, deals were also registered in White Rock, Maple Ridge, Coquitlam and Surrey as well as Penticton, Vernon and Kamloops. Sales on Vancouver Island transacted in Victoria, Nanaimo, Campbell River and Sidney.

As interest rates have started to climb, low-cap-rate deals have become increasingly difficult to complete. Any prospective owners must have a clear plan to boost income if they purchase properties with highly compressed cap rates or ensure the property has underlying redevelopment potential. Income-producing multi-family assets that have sold recently have often benefited from new investment and upgrades in order to bump up the yield so that purchaser financing makes more sense. However, the need to approach multi-family purchases in Metro Vancouver with an eye to redevelopment has often resulted in pure apartment investors having to look further afield to the Fraser Valley, the Interior or Vancouver Island for available product as evidenced by the near-record level of sales in the first half.

Apartment investors have had to look further afield in part because residential and commercial developers are also actively acquiring multi-family properties in B.C., particularly in core markets, with an eye to redevelopment in the mid- to long-term. These purchasers evaluate each property from a redevelopment perspective with holding income often considered a bonus. They are also reviewing their portfolios for any property that has excess land that can be (re)developed as a multi-family or mixed-use project.

The appetite for purpose-built rental buildings that have recently completed construction as well as purpose-built rental development sites continues to grow with investors and developers. Forward sales of purpose-built rental buildings have also highlighted the strong demand for multi-family assets in the Metro Vancouver market.

B.C. municipalities are becoming increasingly involved in their respective multi-family markets whether through regulations mandating a percentage of new units be offered at 'affordable' rents, the preservation of existing rental supply, a moratorium on the demolition of rental buildings or stipulations that any rental units demolished be replaced or the introduction of a range of fees such as development cost charges (DCCs) or community amenity contributions (CACs). This increase in red tape and costs has often resulted in delays in delivering new supply to the market and has added on additional costs that are passed on to the purchaser or tenant.

Density can be used as a tool to help alleviate some of the issues around affordability and allow for lower rents and encourage the development of more rental, but a long-term view around how much density is permitted, particularly at transit nodes and along transit corridors, is necessary. In the next decade or two, questions as to why multi-family buildings were only permitted to be four or five storeys in these particular high-traffic areas instead of eight to 10 floors (or greater) will intensify.

Vendors continue to receive strong pricing for multi-family assets, particularly those located in desirable neighbourhoods and/or with significant underlying redevelopment value, but those low-cap deals that occurred frequently during the past 36 months are becoming less common and pricing will respond accordingly moving forward into 2018. Demand remains exceptionally strong in Metro Vancouver (and select markets in the Interior and on Vancouver Island) and that sales activity is anticipated to drive annual dollar and deal volume in 2017 to what will be the second strongest year on record. ■

Dan Garrison, Assistant Director of Planning - Housing Policy, City of Vancouver

Q&A

Avison Young speaks with **Dan Garrison**, Assistant Director of Planning - Housing Policy, **City of Vancouver**, about the role the City will play with its 'housing reset' plan and the market impacts it could have

How is the city planning to address concerns regarding ongoing permit delays for multi-family developments?

The City continues to experience record volumes of development activity, with record permit applications seen in each of the past four years. Over the past few years, the city has taken steps to try to adjust to the volumes, including a new technology system and revised processes, but with an increase of over 25% in volume and about only 5% in staff, alongside increasingly complex development policies and projects, the changes have not had enough of an impact on processing times.

In response, we have expanded our efforts to make more systemic changes to reduce overall development times, described in a 10-point plan presented to council on

> *"The City is absolutely prioritizing rental housing, with almost 2/3 of the new supply targets anticipated to be for rental housing."*
>
> *- Dan Garrison*

March 7th of this year. The first item on that plan is a fulsome regulatory review that will address some of the complexity of development in Vancouver by proposing revisions and alignment of outdated bylaws. The City is also pursuing efforts to reduce the use and complexity of rezoning, by increasing the use of area planning and density bonusing provisions under the Zoning and Development Bylaw. As part of the upcoming Housing Vancouver strategy, we will also launch a pilot project this fall to expedite approximately 20 affordable rental projects through rezoning and permitting processes with the goal of reducing approvals times by half. We hope the lessons we learn will be scalable to other development projects if they prove successful.

Why is the city seeking to implement a density bonus by-law on rental housing and how has the city determined $120 psf to be a suitable fee that will not end up acting as a disincentive to rental construction?

We're really pleased that the False Creek Flats plan will create over 2,500 new homes, many of which will be secured rental and social housing. As is the case with all of our plans that enable bonus density, the City has undertaken economic testing by a third party consultant, Coriolis Consulting, to determine the land value that is supportable by the proposed new land uses considered in the plan. That financial testing showed that new residential density, even rental density, could support an amenity charge and still enable rental developments to proceed.

The City places a high priority on the delivery of rental housing, and so we are taking the industry's concerns seriously and reviewing our approach to CACs for rental projects. One concept we're exploring through Housing Vancouver is to secure any additional value created through density bonuses as deeper levels of secured affordability (i.e. lower rents) in a portion of the units in a rental project. This approach would enable rental projects to access additional density, while redirecting a portion of land value increases towards providing affordable housing for moderate income households that might not be able to afford market rents.

How will the city determine how much density should be permitted in light of the costs involved and will it start including those land and construction cost considerations when considering how much density to allow?

As part of the Housing Vancouver strategy, we will be setting aggressive new targets for affordable housing supply to be delivered, at least in part, through new planning initiatives. An example of this new approach is Cambie Corridor Phase 3, and particularly the area around the proposed Municipal Town Centre, where significant density increases are proposed for projects that provide fixed amounts of affordable rental housing. The City is very concerned about speculative behaviour that has driven up property values in some neighbourhoods, and that could present challenges for projects seeking to meet the City's enhanced affordability objectives. In July, Gil Kelley wrote to the membership of UDI to raise awareness of the City's increased expectations around affordability, and seek the industry's assistance in limiting speculative behaviour in the market. This will continue to be a factor in council's consideration of the new housing strategy, as well as the implementation of the strategy following council adoption.

What are the main takeaways from the "housing reset" for the development industry? What makes this action plan different from similar previous declarations from the City?

The big shift in the City's housing policy can be seen in the development of new housing targets that prioritize housing for the "missing middle." We call this a shift towards

continued on page 4

2017 MARKET OUTLOOK

Pricing	New Listings	Vacancy Rate	Sales	Cap Rates
⟷	⟷	⟷	↗	⟷

- Developers are increasingly buying multi-family properties with an eye to redevelopment in the mid-to-long term while developing their existing properties with extra land
- Municipalities are increasingly becoming involved in the multi-family market in order to maintain a supply of affordable housing and to protect existing rental stock
- Short-term thinking on density limits established near transit hubs in metro cores, particularly in Vancouver, will not capture the full potential of development sites
- Sales volume will approach record highs in 2017 as local and offshore investor demand for rental buildings remains strong as hesitant vendors seek to capture peak pricing

MULTI-FAMILY TRANSACTIONS (GREATER THAN $5 MILLION) FIRST HALF 2017

PROPERTY	MUNICIPALITY	PRICE	PRICE PER DOOR	DATE
Santa Monica Apartments 1546 West 12th Avenue	Vancouver	$7,500,000	$625,000	June 2017
1609 & 1619 Cypress Street	Vancouver	$9,580,000	$598,750	June 2017
2121 Franklin Street	Vancouver	$12,400,000	$248,000	June 2017
Brookside Gardens 20834 Dewdney Trunk	Maple Ridge	$10,831,000	$246,159	June 2017
Buena Vista Apartments & Belaire Apartments 10181 149th Street & 14831 101A Avenue	Surrey	$27,100,000	$193,571	May 2017
Regency Square 105 Avenue	Surrey	$13,800,000	$166,265	May 2017
Regency Court 10520 132nd Street	Surrey	$12,300,000	$153,750	May 2017
Regency Manor 105A Avenue	Surrey	$12,300,000	$153,750	May 2017
11926 222nd Street	Maple Ridge	$6,050,000	$140,698	May 2017
Berkeley Manor 2150 Pandora Street	Vancouver	$26,300,000	$260,396	May 2017
2225 West 8th Avenue	Vancouver	$18,500,000	$393,617	May 2017
Balsam Gardens 5410 Balsam Street	Vancouver	$15,500,000	$469,697	May 2017
Westview Manor 549 Dansey Avenue	Coquitlam	$18,000,000	$253,521	May 2017
325 Casey Street	Coquitlam	$5,900,000	$178,788	May 2017
2314 Oak Bay Avenue	Victoria	$6,000,000	$230,769	May 2017
322 Seventh Street	New Westminster	$10,800,000	$200,000	May 2017
1040 Howie Avenue	Coquitlam	$10,128,400	$187,563	May 2017
1000 Brunette Avenue, 985 Adair Avenue and 995 Adair Avenue	Coquitlam	$21,500,000	$170,635	May 2017
Barafield Apartments 1260 Harwood Street	Vancouver	$42,000,000	$385,321	April 2017
1144 Rockland Avenue	Victoria	$9,200,000	$204,444	April 2017
45 Boyd Street	Victoria	$13,611,800	$191,715	April 2017
Roberts Manor 2433 Malaview Avenue	Sidney	$12,920,000	$215,333	April 2017
The Crest Apartments 1285 Martin Street	White Rock	$6,450,000	$222,414	April 2017
1270 Nicola Street	Vancouver	$13,250,000	$358,108	March 2017
275 Nicol Street	Nanaimo	$5,674,000	$126,089	March 2017
Belgrove Apartments 1505 Belcher Avenue	Victoria	$5,864,400	$177,709	March 2017
Wedgewood Terrace 1655 Chambers Street	Victoria	$10,638,000	$177,300	March 2017
Royal Arms 1300 Yates Street	Victoria	$13,184,000	$173,474	March 2017
Debaren Apartments 2550 Departure Bay Road	Nanaimo	$6,855,000	$118,190	March 2017
275 1st Avenue	Campbell River	$5,817,500	$89,500	March 2017
1140 Hugh Allan Drive	Kamloops	$9,000,000	$169,811	March 2017
Southview Gardens 3240 - 3280 East 58th Avenue	Vancouver	$72,185,397	$515,610	March 2017
Edmond's Kourt 735 Royal Avenue	New Westminster	$8,430,000	$227,838	March 2017
1468 Government Street	Penticton	$5,325,000	$102,404	March 2017
1350 - 1352 Kingsway	Vancouver	$6,820,000	$401,176	March 2017
Park Towers 5815 Yew Street	Vancouver	$40,000,000	$481,928	Feb 2017
The Westwind 1550 West 11th Avenue	Vancouver	$12,500,000	$462,963	Feb 2017
Ralf's Garden 7040 Arcola St	Burnaby	$13,250,000	$276,042	Feb 2017
Anthea Manor 15369 Thrift Avenue	White Rock	$5,235,635	$193,912	Feb 2017
1075 Burnaby Street	Vancouver	$26,300,000	$496,226	Feb 2017
Twin Manor Apartments 127 & 129 East 12th Street	North Vancouver	$7,900,000	$316,000	Feb 2017
148 East 6th Avenue	Vancouver	$5,300,000	$294,444	Feb 2017
75 Abbott Street	Penticton	$6,850,000	$139,796	Jan 2017
Brookside Gardens 2310 34th Street	Vernon	$6,300,000	$157,500	Jan 2017
Winston Churchill Apartments 2145 Bellevue Avenue	West Vancouver	$28,300,000	$764,865	Jan 2017
The Duchess Apartments 5850 Vine Street	Vancouver	$8,230,000	$374,091	Jan 2017
Total Deals/Investment	46	$651,880,132		

Sources: Avison Young & RealNet Canada

continued from page 3

the right supply, meaning supply that addresses key gaps in our housing continuum. Affordable rental housing as well as medium-density housing options for families represent two key examples of the right supply. Housing Vancouver will set significantly higher targets across all housing types and tenures, and gear them towards household incomes that aren't currently being served in the Vancouver market (i.e. households with incomes between $30,000 and $80,000). Housing Vancouver will also set specific targets for housing types, such as row houses and townhouses. Setting these targets will influence policy and planning initiatives across the organization, as we refocus on delivering these needed housing types.

For rental developers, the big take away is that the City is absolutely prioritizing rental housing, with almost 2/3 of the new supply targets anticipated to be for rental housing. The shift towards rental development we've seen in recent years needs to continue if we are to meet housing needs and demand. We are also developing new programs that target some of rental supply to households with lower and moderate incomes. For "missing middle" developers and builders, the key take away is that the City has recognized the need for much more supply of medium-density housing that is suitable for families, and will be looking to create many more opportunities for these housing types as we undertake community planning initiatives and review existing lower density zoning districts. ■

BC HOUSING DATA SNAPSHOT

AREA	VACANCY (OCT 2016)	RENTAL UNIT STARTS: 1ST HALF 2017	RENTAL UNIT STARTS: 1ST HALF 2016
Vancouver CMA	0.7%	1,968	3,349
Abbotsford CMA	0.5%	161	71
Chilliwack	1.4%	5	7
Victoria CMA	0.5%	426	839
Nanaimo	1.5%	226	98
Kelowna CMA	0.6%	1,049	379
British Columbia	1.3%	4,013	4,984

Source: CMHC; CMA: census metropolitan area

For more information please contact:

Michael Keenan, Principal & Managing Director
Direct Line: 604.647.5081
michael.keenan@avisonyoung.com

Andrew Petrozzi, Principal & Vice-President, Research (BC)
Direct Line: 604.646.8392
andrew.petrozzi@avisonyoung.com

Sherry Quan, Principal & Global Director of Communications & Media Relations
Direct Line: 604.647.5098
sherry.quan@avisonyoung.com

Multi-Family Team

Rob Greer,* Principal
604.647.5084
robert.greer@avisonyoung.com
* Robert Greer Personal Real Estate Corporation

Chris Wieser, Principal
604.647.5089
chris.wieser@avisonyoung.com

Carey Buntain, Associate
604.647.1352
carey.buntain@avisonyoung.com

Avison Young
#2900-1055 W. Georgia Street
Box 11109 Royal Centre
Vancouver, BC V6E 3P3, Canada

AVISON YOUNG

CANADA'S BEST MANAGED COMPANIES

avisonyoung.com