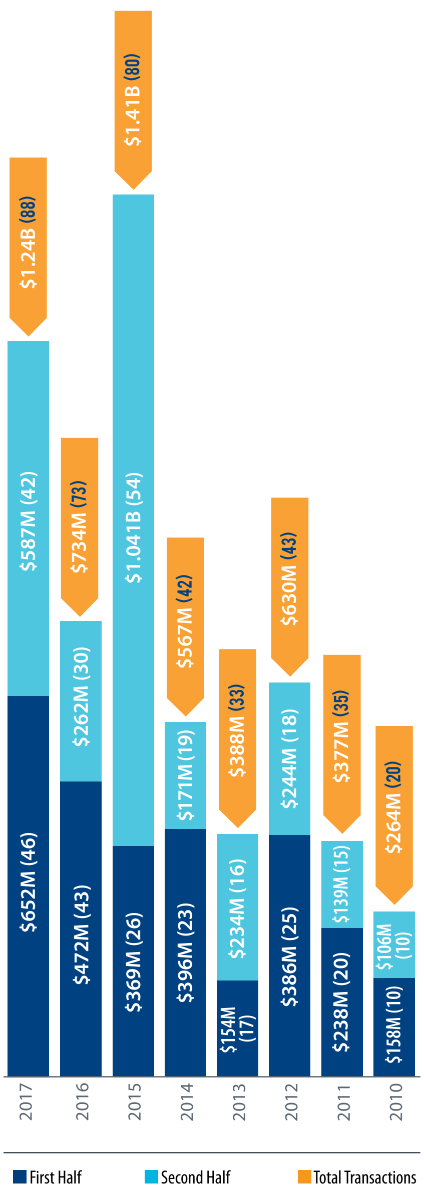
Spring 2018 Multi-Family Investment Report

British Columbia

MARKET TRENDS
MULTI-FAMILY INVESTMENT SALES
(>$5 million) January 1 to December 31



BC multi-family sales activity robust in 2017 with dollar volume second highest on record

Multi-family investment activity surpassed the billion-dollar mark for only the second time in BC history after registering more than $1.24B in 88 sale transactions in 2017. While the number of transactions in 2017, 88, marked a new record, dollar volume fell short of the record set in 2015 when 80 properties valued at $1.41B traded hands. (**Avison Young** only tracks multi-family investments trading at more than $5M.)

Investment activity remained stable in 2017 with sales evenly distributed throughout the year. First-half sales featured 46 transactions valued at $652M, while sales in the back half of the year resulted in 42 deals worth $587M. This represented a significant increase in activity from the second half of 2016, when just 30 deals valued at $262M were recorded.

The three largest sales in the second half of 2017 involved private vendors and private purchasers. All three properties were located in the suburbs. Those deals included the $90.8M forward-sale acquisition of **Novare** (a brand new 26-storey luxury rental apartment tower) and the $50M sale of **Royal Towers**, both located in New Westminster. The $31.75M sale of **The Evergreens** at 210A Evergreen Drive in Port Moody rounded out the top three.

The largest market deals in Vancouver included the sale of the wholly renovated **OceanCrest Apartments** at 1333 Jervis Street for $26M; the sale of **Fraserviews** (another brand new rental apartment building) at 727 East 17th Avenue for $23.5M; and the disposition of the **Leeward,** an 11-storey concrete highrise at 1686 West 12th Avenue for $22.8M.

Purchasers have become more sensitive to pricing expectations and are underwriting multi-family assets more carefully in a rising-interest-rate environment in an effort to give themselves a bit of a cushion in terms of financing. The ultra-low-yield deals that were recorded during the past 24 months are becoming far less frequent as the cost of debt has risen and bond yields increased steadily throughout 2017.

"After a sharp spike in the latter half of 2017, most Government of Canada bond yields have increased by a further 20 to 25 basis points in the early months of 2018," said **James Paleologos**, a director with **Realtech Capital Group**. "The Bank of Canada has kept their overnight interest rate constant through two announcements in 2018; however, the general sentiment with forecasters is that rates will continue to rise in 2018."

He adds: "The increase in rates coupled with the recently implemented policy changes by the provincial government have started to cool the condo market. To avoid the potential risks associated with a cooling condo market, many projects are reverting to a rental pro forma. Fortunately, there are some favourable lending programs available for purpose-built rental construction. Most notably, CMHC's new program, which offers up to 85% construction financing at prime construction rates for market rentals or 95% leverage if there is a minor affordable housing component. These programs also come with a pre-determined CMHC take-out loan upon completion of construction."

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Estate planning and the perception that peak pricing has been achieved was on the minds of many vendors, which when combined with often deferred maintenance costs and rapidly rising land values, resulted in the decision to sell. For others, particularly those owners who used leverage to acquire multi-family assets at a highly compressed cap rate, rising interest rates have also been a consideration.

While cap rates for multi-family assets have remained highly compressed, pricing has moderated slightly as speculative buys have become less frequent due to rising interest rates (actual and forecast) that have made potential purchasers more cautious in their underwriting. Most buyers are building a rising-interest-rate environment into their pro formas to provide themselves with a bit of a cushion should borrowing costs rise even quicker than anticipated, particularly in cases where an asset repositioning and exit strategy take longer than anticipated to execute. For those purchasers who have an established tenant relocation program, higher cap rates on repositioned assets are obtainable after market rents are successfully achieved in the building.

However, implementing these types of relocation strategies now typically carries more risk than in the recent past as a number of factors, including but not limited to a changing political climate at the provincial level, heightened public awareness and sensitivity as well as activist tenant groups, have come to the forefront and increasingly frustrated the execution of such approaches. With a significant turnover of incumbent mayors and city councillors expected in the upcoming municipal elections this fall, it is anticipated that the trend towards the expansion of residential tenant rights will continue to strengthen.

Municipal programs to stimulate development of purpose-built rental apartment buildings has remained largely ineffectual in meeting demand and alleviating the chronic low residential vacancy recorded provincewide as extended municipal permitting processes and delays continue to hinder the delivery of new projects to the market. Efforts to provide additional development sites for multi-family development through changes to strata wind-up rules by the previous provincial government have yet to generate a substantial impact on the market. Rapidly increasing assessment values have pushed pricing expectations of strata owners far beyond what most developers are willing (or able) to pay to acquire the property. Rising construction costs in terms of both materials and labour, which is also facing supply constraints, are also hindering multi-family development activity at time of rising demand.

According to the CMHC's *Housing Market Outlook: British Columbia Region Highlights*, published in fall 2017, strong employment gains, high migration and an under supplied resale market are fuelling demand for rental housing in the province's largest centres. Tight rental markets have prompted an increase in rental construction but the increase in supply will have only a modest impact on the vacancy.

"Vacancy rates are expected to rise gradually through 2019, but remain indicative of a tight rental market in most centres," reports CMHC. "This will continue to push up average rents in these markets. As well, new units entering into the market will also push the average rent up, as new units typically command higher rents."

BC's economy is expected to continue to grow through 2019 but the pace of that growth is expected to slow. According to CMHC, BC's economy has been supported by a low dollar, high consumer spending and a strong housing sector. Over the next two years, housing starts are expected to slow, reducing the sector's contribution to growth. Rental demand will continue to be strong through the forecast period with vacancy rates remaining tight and average rents rising. ■

Selina Robinson, Minister of Municipal Affairs and Housing for British Columbia

Q&A

Avison Young speaks with the **Hon. Selina Robinson**, Minister of Municipal Affairs and Housing for British Columbia, about how private industry can help build 114,000 new units in the next 10 years

In the government's 30-point plan, *Homes for B.C.*, the government indicates that it will work with the private sector "to streamline the creation of new affordable homes in every region of the province" in order to deliver 114,000 homes in the next 10 years. What types of programs does the government plan to use to engage with the private sector to accomplish that goal?

We are piloting new approaches with private developers to build more affordable market housing for prospective renters and homeowners by:

- ➔ working with developers and municipalities to increase density, especially around transit hubs;

> ***"Local governments and UBCM have clearly shown that they are interested in innovative new land use planning tools, such as rental zoning, to deliver the housing that people need"***
>
> *-Selina Robinson*

- working closely with local governments to develop new tools, such as rental zoning that could assist in mitigating the impacts of land speculation and support the development of new rental supply;
- committing $5 million over three years to help local governments gather the data they need to comprehensively assess their unique housing needs. This will help the private sector to adapt housing-project proposals to meet community needs.
- investing in building a new supply of tens of thousands of affordable rental housing units in communities across the province. Even where the building ownership and management is by non-profit housing societies, the construction will be by private sector companies; and
- encouraging the private sector to partner with non-profit societies and bring their affordable housing proposals to us for consideration through our newly created Housing Hub.

As well, our work to address homelessness by creating modular supportive housing is engaging the private sector and growing that sector in BC as they develop innovative design and material options on these new builds.

What does "sustained action, proactive partnering and smart streamlining" in the *Homes for B.C.* 30-point plan actually mean when it comes to working with the private sector? Are you able to provide further details as to what these terms entail and how those words will be translated into action on the ground as it relates to the construction of new homes?

We have established a new Housing Hub within BC Housing. The Hub will take an active role in seeking out partners to build new affordable market-rental housing and owner-purchased housing, giving renters and prospective new homeowners the benefits of long-term stable and affordable housing.

We are beginning the work of identifying partners, such as prospective housing developers in the non-profit and for-profit sectors, community and faith groups, Indigenous organizations, and federal and local governments with unused or underutilized land that would be appropriate for an affordable housing community.

By streamlining, we mean we will be working with local governments, experts, community members and representatives of the development community to develop ways to speed up the delivery of new affordable homes, whether by expediting the permitting process, providing incentives for municipalities, or other new approaches.

What incentives or legislative changes is the provincial government willing to consider to encourage the private sector to engage with the province in its goal of helping build 114,000 homes in the next 10 years? According to government estimates, what percentage of the proposed 114,000 homes over the next 10 years will the private sector need to construct in order for the government to meet that goal?

Local governments and the Union of BC Municipalities (UBCM) have clearly shown that they are interested in innovative new land use planning tools, such as rental zoning, to help them deliver the housing that people need in their communities.

Ministry staff will be working with UBCM, local government and other partners in the near future to explore and move forward on these new ideas.

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2018 MARKET OUTLOOK

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

- Sales volume in 2018 will remain comparable with 2017 as demand for multi-family assets remains strong, particularly for those sites with redevelopment potential
- East Vancouver and Mount Pleasant have joined the West Side and the West End as in-demand areas in Vancouver; demand in Kelowna is heating up while Victoria has cooled.
- Municipal elections in October 2018 likely to result in a change in political leadership in communities throughout Metro Vancouver and a new approach to development
- Rising interest rates will have a lagging effect on the real estate market and will alter underwriting criteria, which will translate into far fewer ultra low-yield deals closing in 2018

MULTI-FAMILY TRANSACTIONS (GREATER THAN $5 MILLION)

PROPERTY	LOCATION	PRICE	$/UNIT	DATE
Oakview Apartments 3591 Oak Street	Vancouver	$15,950,000	$613,462	Dec 2017
Novare** 527 Carnarvon Street	New Westminster	$90,800,000	$316,376	Dec 2017
Bayview Chateau & White Rock Gardens 1371 Blackwood Street & 14989 Roper Avenue	White Rock	$25,250,000	$271,505	Dec 2017
Park Villa Apartments 4979 47A Avenue & 4759 Delta Street	Delta	$6,600,000	$275,000	Dec 2017
10011 150th Street	Surrey	$5,125,000	$222,826	Dec 2017
Hemlock Tower 1385 West 15th Avenue	Vancouver	$14,600,000	$768,421	Nov 2017
Park Manor Apartments 1615 William Street	Vancouver	$5,379,000	$336,188	Nov 2017
The Evergreens 210A Evergreen Drive	Port Moody	$31,750,000	$496,094	Nov 2017
Mauritz Manor 14990 North Bluff Road	White Rock	$14,350,000	$448,438	Nov 2017
Elaine Apartments (50% interest) 3819 & 3821 Cambie Street	Vancouver	$5,100,000	$463,636	Nov 2017
Bay View Apartments 1630 Burnaby Street	Vancouver	$9,000,000	$428,571	Nov 2017
Collingwood Gardens 3504 West 4th Avenue and Units 201-206 & Units 301-306, 3506 West 4th Avenue	Vancouver	$8,928,800	$686,831	Nov 2017
2177 Wall Street	Vancouver	$5,100,000	$300,000	Nov 2017
2268 Cornwall Avenue	Vancouver	$7,400,000	$672,727	Nov 2017
2925 Qu'Appelle Street	Victoria	$6,050,000	$183,333	Nov 2017
1555 Jubilee Avenue	Victoria	$5,250,000	$250,000	Oct 2017
Teja Vista 9010 School Street	Chilliwack	$6,920,000	$230,667	Oct 2017
Freidas Villa 1968 West 2nd Avenue	Vancouver	$14,300,000	$595,833	Oct 2017
2185 West 8th Avenue	Vancouver	$8,500,000	-	Oct 2017
380 & 400 Third Street	Nanaimo	$6,500,000	$94,203	Oct 2017
373 & 421 Battle Street*	Kamloops	$24,000,000	$140,000	Oct 2017
Glenhaven Apartments 1526 Arbutus Street	Vancouver	$7,600,000	$760,000	Sept 2017
Golden Future Apartments 360 East 14th Avenue	Vancouver	$9,800,000	$350,000	Sept 2017
655 Poplar Street	Nanaimo	$8,500,000	$154,545	Sept 2017
2150 West 1st Avenue	Vancouver	$10,500,000	$807,692	Sept 2017
Centaurus Place 9005 Centaurus Circle	Burnaby	$15,000,000	$272,727	Sept 2017
Oakview Court 8580 Oak Street	Vancouver	$7,300,000	$429,412	Sept 2017
1510 Clive Drive	Victoria	$9,185,000	$540,294	Aug 2017
261-263 Arrowstone Drive	Kamloops	$6,200,000	$134,783	Aug 2017
1552 East Pender Street	Vancouver	$5,888,000	$267,636	Aug 2017
2181 Haultain Street	Victoria	$8,450,000	$216,667	Aug 2017
Fraserviews** 727 East 17th Avenue	Vancouver	$23,500,000	-	Aug 2017
Myron Manor 75 East 8th Avenue	Vancouver	$12,500,000	$462,963	Aug 2017
Star Crest Apartments 4362 Maywood Street	Burnaby	$15,000,000	$241,935	Aug 2017
345 Marathon Court	Coquitlam	$6,700,000	$304,545	Aug 2017
1925 Maple Street	Vancouver	$5,200,000	$520,000	Aug 2017
Ashira Court 13245 104th Avenue	Surrey	$9,675,000	$235,976	Aug 2017
2200 West 5th Avenue; 2105-2107 Yew Street	Vancouver	$5,400,000	$771,429	Aug 2017
OceanCrest Apartments 1333 Jervis Street	Vancouver	$26,000,000	$684,211	Jul 2017
Cedar Crest Manor 1569 West 12th Avenue	Vancouver	$5,250,000	$525,000	Jul 2017
The Leeward* 1686 West 12th Avenue	Vancouver	$22,813,000	$475,271	Jul 2017
Royal Towers* 140 6th Street	New Westminster	$50,000,000	$370,370	Jul 2017
Total Deals/Investment	42	$587,313,800		

*Concrete highrise tower **Mixed-use building

Sources: Avison Young, Commercial Edge & RealNet

SNAPSHOT OF BC VACANCY RATES

AREA	OCTOBER 2017	OCTOBER 2016	% CHANGE
Vancouver CMA	0.9%	0.7%	0.2%
Abbotsford-Mission CMA	0.2%	0.5%	-0.3%
Kamloops	1.2%	1.1%	0.1%
Victoria CMA	0.7%	0.5%	0.2%
Nanaimo	1.6%	1.5%	0.1%
Kelowna CMA	0.2%	0.6%	-0.4%
British Columbia	1.3%	1.3%	0%

Source: CMHC; CMA: census metropolitan area

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I am gratified by the number of communities, individuals and groups who have already shown an enthusiasm for partnering with us to achieve housing affordability for British Columbians. They see the seriousness of the problem and they want to be part of the solution.

Our 30-point housing plan outlines investments for nearly 37,000 affordable homes through direct government funding. This includes the 3,700 homes we announced last September (2,000 modular homes with 24/7 support and 1,700 affordable rental homes).

The remaining homes will be built through provincial partnerships with the private sector, community non-profits and others that leverage: federal investments through the National Housing Strategy, investments by local governments that will have new tools to support their work, and transit investments.

BC Housing's new Housing Hub will be leading the charge on many of these partnerships and we will be tracking our progress. ■

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