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British Columbia Real Estate
Multi-Family Investment Report

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AVISON YOUNG Intelligent Real Estate Solutions

B.C.'s Multi-Family investment market faces repricing as global economy slows sharply

Global Meltdown

Our previous Multi-Family Report mentioned the growing concern we had for the problems arising from the U.S. credit crunch. It is quite clear now that those problems are much greater than most experts anticipated. The fall of major Wall Street banks has created a trickle-down effect, resulting in a limited amount of credit made available for retail banks to lend. The massive sell-off on the stock market due to the collapse of these institutions has further deflated investor confidence.

Market Stall

Multi-Family sales felt an impact even before the credit squeeze reached a full state of crisis, and financing troubles have provoked some investors to take a wait-and-see approach until 2009. As a result, sales in BC's Multi-Family market have slowed to an almost standstill. As seen in our 2008 sales table on p. 3, sales year-to-date November 2008 represent only 50% of total sales in 2007.

There is now a standoff between purchasers, who in the wake of the global economic credit meltdown have changed their pricing expectations, and vendors, who are looking for yesterday's pricing in a much more challenging market. The once prevalent multiple-offer situations have shifted to ones of price reductions and lingering listings. The main culprit behind this market shift is the complete meltdown of the debt market created by the sub-prime crisis in the U.S. Purchasers can no longer achieve the loan-to-value ratios (needed for their required cash-on-cash returns) they have become accustomed to.

A purchaser who could once get 75% loan-to-value at a 5% capitalization rate purchase of a Multi-Family asset is now facing 60% to 65% loan-to-value amounts for CMHC (Canada Mortgage and Housing Corp.) insured loans. Going forward, one of two things must happen: either purchasers change their required return on investment (ROI) or vendors adjust their pricing expectations. As per all negotiations, the answer lies somewhere in between.

Values

Multi-Family cap rates may be a cause of concern for some investors. We reached record low cap rate territory in 2007 and early 2008. However, as investors need a higher cap rate on their investment to match their cash-on-cash return achieved in yesterday's lending markets, cap rates will have to adjust accordingly.

Although this is true for all commercial real estate assets, it may have a much larger effect on the values of Multi-Family properties. Because apartment buildings traditionally warrant a much lower selling yield due to the low risk investment opportunity, the change in the debt market will force adjustments in selling cap rates. As purchasers face new realities in purchasing, Multi-Family assets will have to adjust up to 20%, especially in the more prominent metro areas. The lower the yield, the larger the effect on the overall value as this debt crisis has forced buyers

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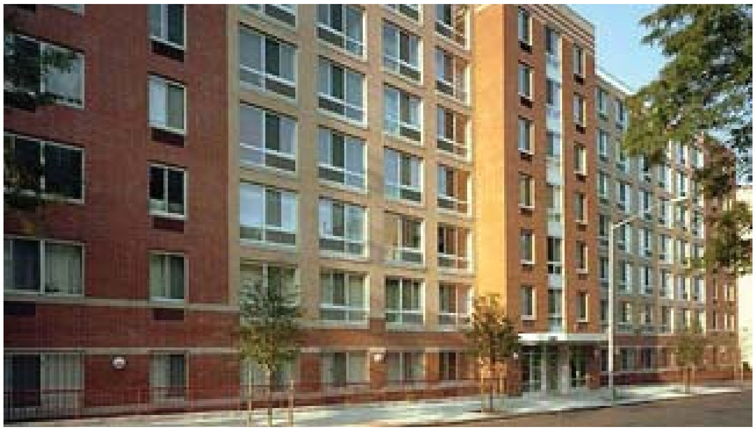
		Capitalization Rate			
Debt Service	Loan-To-Value	3.5%	4%	4.5%	5%
	1.20	41%	47%	53%	59%
	1.30	38%	43.5%	49%	54%

*Given a 30-year amortization and a 6% interest rate



to come up with more cash. Fortunately, the productivity of Multi-Family assets are least affected during tough economic times compared to other asset classes. Housing is one of the last places people stop spending money, and we can expect the region's average rental vacancy rate (currently less than 1%) to remain at historically low levels.

Market Listings

The number of listings in Metro Vancouver and the Fraser Valley continues to grow. As we go to print there are currently 130 listings on the market. Thirty-two (or approximately 25%) of these 130 listings have received at least one price reduction in recent months. This does not include any recent sales that also involved a reduction in price to induce the sale.

Price Reductions

If you are one of the many owners whose property is currently listed for sale but not generating offers at the original price expectation you and your listing agent set out to achieve, you are not alone. The change in the global economy has caused a significant reduction in sales volume as well as buyers' purchase price expectations. Although there are still buyers in the market, pricing your building has become much more important, given the amount of product available. If your listing isn't generating the kind of interest you originally anticipated, you may want to consider a price reduction coupled with a different marketing plan.

A price reduction is sometimes an effective way to generate more interest on a stagnant listing; however, there are also problems that may arise if it is not executed properly. First off, we must determine why a price reduction is needed. One reason is that the original valuation of the property was well off the current market prices i.e. the property is listed with an asking price that deters investors from even considering making an offer on the property. The other reason, which is the primary reason we are seeing now, is when market conditions shift rapidly and buyers' expectations are no longer where they were when the original valuation was completed.

When caught in a position where your property isn't generating any interest at the price level originally expected, reducing the list price has its benefits as well as its detriments. Achieving a sale is completely dependent on how your listing agent has positioned your asset in comparison to the competition as well as with buyers' expectations. In the first case, where the agent has positioned your property in the market at an unrealistic value and a major price reduction is needed, it is likely that potential purchasers will disregard a minor change in price.

If you are looking for a timely sale, a major reduction is needed to gain the interest of potential purchasers. Regenerating buyers' interest in a new price can prove to be quite difficult. Overshooting the market will imply to potential purchasers that you are desperate to sell and may start a low-ball-offer situation. Your expectations and objectives have been lost as your perception in the marketplace has deteriorated.

It is much more likely, however, that you fall in the category where your property was priced right six months ago, but the market has since shifted due to an economic slowdown. New listings are coming to the market at more attractive pricing, pushing your building to the back of purchasers' lists. In this case, it is much more important to pay attention to the competition.

There will always be buyers in the market interested in purchasing Multi-Family assets, so positioning your building against comparable listings is essential to achieving a timely sale. A minor price reduction can make your building more attractive and position it higher up on buyers' lists. Establishing your objectives and stating them clearly can help you and your agent determine the next course of action.

Annual Rent Increases

The provincial government announced in September 2008 that it will limit the allowable annual rent increase at 3.7% for 2009. This comes in spite of rising expenses for apartment building owners, a common concern that has not been addressed by local municipalities. Owners must continue to find alternate solutions to increase income by adding higher charges for laundry, parking and storage.

Do-Not-Call List

Due to recent regulations, a national do-not-call list has been created by Bell Canada. This has limited our ability to provide you with further market updates. We believe we provide an excellent service to Multi-Family investment owners by keeping you up-to-date with valuable market information. These include our quarterly market reports and recent sales lists. We will continue to keep you updated through postal mail; and our website **www.aycre.com** will allow us to keep in contact via e-mail as well. If you would like to hear from us directly by phone or e-mail, feel free to register on our site to stay current with BC's commercial real estate marketplace, or call us any time at (604) 687-7331.

Multi-Family Outlook

The economic outlook moving into 2009 seems uncertain, even with the enormous amounts of money being pumped back into the economy by governments around the world. However, there are positive signs pointing to Multi-Family assets. Times like these are often when the benefits of owning Multi-Family investments, compared to other commercial properties, pay off. A recent report by the Urban Land Institute and Pricewaterhouse Coopers LLP rates Multi-Family assets as the only buy for commercial real estate investors during these times. The report goes on to say that Vancouver is the best Canadian city for commercial real estate investment and development. Moreover, according to a recent report by the Institute of Chartered Accountants of BC, a strong provincial budget, well-performing economy, relatively low unemployment rate, competitive tax rates and a business friendly regulatory regime will help BC muscle through these tough economic times. ■

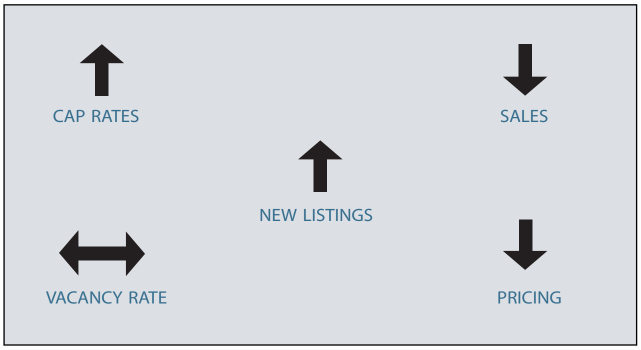
Multi-Family Investment Market Summary

Area	Total Sales 2007	Sales Year-To-Date November 2008	Average Price per Unit Year-End 2007	Average Price per Unit Year-To-Date November 2008
Vancouver West	27	10	$206,322	$200,010
Downtown Vancouver	13	7	$239,002	$183,534
East Vancouver	22	11	$141,110	$141,642
North Shore	12	8	$152,053	$143,414
Burnaby	35	11	$126,203	$141,226
New Westminster	13	9	$96,236	$102,403
Tri-Cities	9	3	$116,716	$120,575
Maple Ridge / Pitt Meadows	1	3	*	*
Surrey / Langley / White Rock	3	4	*	*
Abbotsford	11	5	$81,715	$115,322
Chilliwack	7	5	$68,905	$70,251
Total	**153**	**76**	**-**	**-**

* Sales information does not reflect realistic market price.

Please visit www.aycre.com to view all area sales lists.

Predictions



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