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B.C. apartment sales drop by half

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The commercial market for apartment buildings in British Columbia has “come to a near standstill,” according to a report issued Monday by real estate firm Avison Young (Canada) Inc.

“There is now a standoff between purchasers, who in the wake of the global credit meltdown have changed their pricing expectations, and vendors, who are looking for yesterday's pricing in a much more challenging market,” Avison Young principal Rob Greer said in releasing the report.

The number of real estate transactions in British Columbia's “multi-family market” has dropped to 76 so far this year, down from 153 in the corresponding period of 2007, according to a survey by Avison Young.

“The total value of multi-family investment transactions year-to-date ... amounts to \$270-million – approximately 52 per cent of the \$519-million recorded in all of 2007,” Avison Young said.

Local private investors accounted for the majority of buyers and sellers in 2008.

Prices for apartment buildings are likely to fall even more next year, Mr. Greer said.

“Should financing troubles continue through 2009, we may see values move as much as 20 per cent as investors re-evaluate their required returns on investment,” Mr. Greer said.

Avison Young said in its report that the “once prevalent multiple-offer situations have shifted to ones of price reductions and lingering listings.

“Of the current 130 listings on the market, approximately one-quarter have received at least one price reduction in recent months. This does not include any recent sales that involved a price reduction to induce the sale,” according to the report.

Michael Brodie, an adviser with Avison Young, said tighter credit has hurt the commercial real estate market in B.C. and elsewhere in Canada.

“The inability to get yesterday's lending has driven many potential purchasers from the market simply because they don't have enough equity,” Mr. Brodie said.

Credit issues will also hurt “highly-leveraged” building owners who have to refinance in 2009, said Mr. Greer.

However, he said, B.C.'s market has not been affected as significantly as other markets, and apartment buildings are still among the most stable commercial real estate investments.

“Housing is also one of the last places people stop spending money, and we can expect the region's average rental vacancy rate, currently less than 1 per cent, to remain at historically low levels,” Mr. Greer said.

Mr. Brodie added that “investors requiring high leverage may be sidelined for now, but even if the credit markets remain tight for the foreseeable future, multi-family assets should perform well operationally and provide relatively stable cash flows.”

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