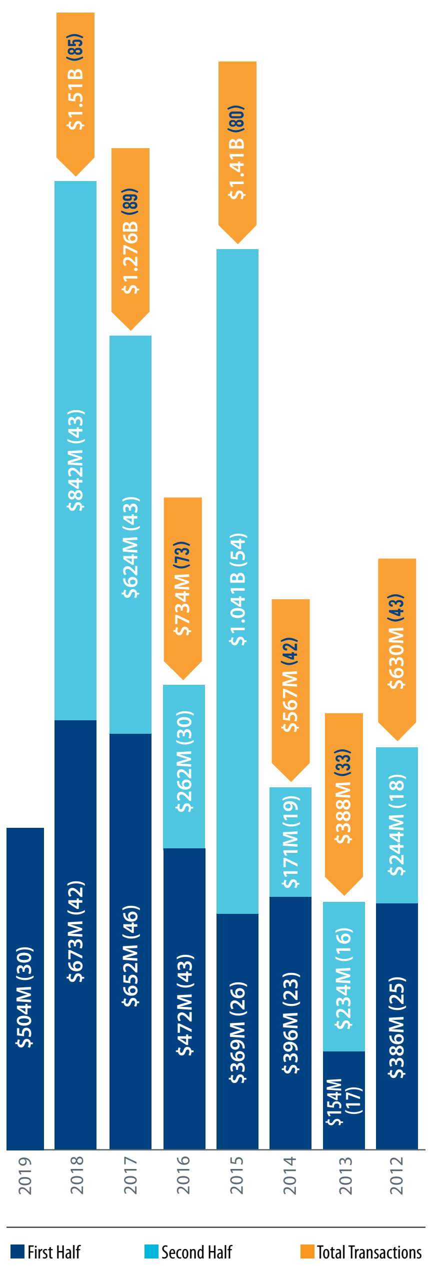
BC Multi-Family Investment Report

Fall 2019

MARKET TRENDS
MULTI-FAMILY INVESTMENT SALES
(>$5M) January 1 to June 30, 2019



BC multi-family investment activity shifting gears amid market changes and planning uncertainty

British Columbia's multi-family market was impacted in the first half of 2019 by new regulations and a heightened sense of uncertainty surrounding new residential development emanating from many municipalities in the Lower Mainland since October 2018, which has led private and institutional investors alike to pursue higher yields in secondary markets outside of Metro Vancouver's core markets.

Sales velocity of BC multi-family assets slowed substantially in the first half of 2019 with 30 sales valued at almost $504M. While dollar volume remained historically strong, the number of deals completed was down substantially from the first halves of 2018 and 2017 – and also marked a steep decline from the second half of 2018, the second strongest half in terms of deal and dollar volume on record. However, the number of sale listings has increased swiftly this fall as private owners of mostly older buildings, who are frustrated by rising costs and burdensome government regulation, look to exit the market. Despite this spike in activity midway through the second half of 2019, annual deal and dollar volume is not expected to maintain the record-setting pace that has defined BC's multi-family market since 2015. Annual dollar volume exceeded $1.25B in 2015, 2017 and 2018, while the average number of deals completed annually since 2015 was 82. (Avison Young only tracks multi-family investments trading at more than $5M.)

The largest multi-family sale in the first half of 2019 was the $78M acquisition of the recently constructed 280-unit **Mission Flats** in Kelowna. Virtually all substantial multi-family sales were concluded outside Metro Vancouver's core markets, including two apartment sales in Langley totalling $108.6M, which included the forward sale of an upcoming purpose-built rental building and the acquisition of a recently constructed purpose-built rental building.

Six multi-family sales were completed in Victoria in the first half of 2019, including the $33M acquisition of a 50% interest in **V1488**, a new 134-unit purpose-built rental building, after sales of multi-family buildings had slowed substantially in the capital city through much of 2018. Multi-family sales on Vancouver Island, which made up more than 43% of the total number of sales in BC in the first half of 2019, included a $40.3M three-building portfolio sale in Langford and single sales in Saanich, Esquimalt and Nanaimo

Of the eight sales recorded in Vancouver, only one, the $18.25M sale of **Fairview Court**, exceeded $10M. Single sales in West Vancouver ($17.2M) and North Vancouver ($15.925M) and two sales in New Westminster (totalling $14.67M) rounded out multi-family sales activity in Metro Vancouver.

A flight to higher yield characterized purchaser sentiment in the first half of 2019 as private and institutional investors along with REITs secured multi-family assets in primarily secondary markets throughout the province. Much of the investment was focused on securing recently constructed purpose-built rental buildings. Value-add investors looking at acquiring existing buildings have largely departed the Metro Vancouver market

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in search of not only higher yields, but also municipalities that have weaker regulations related to the renovation/demolition of older multi-family buildings. Institutional investors have also grown more comfortable acquiring assets in smaller secondary markets as rent escalation in recent years has led to rental rates that are comparable to those achieved in primary markets. In particular demand are new purpose-built rental buildings in secondary markets that will require little to no capital expenditures in the next decade, offer a higher yield than comparable properties in core markets, and that command top rents in their respective communities.

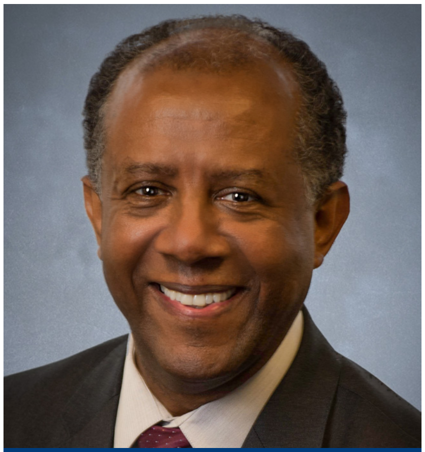
In terms of dollar volume, REITs (38%) outweighed institutions (29%) and private (33%) buyers in the capital invested in the first half of 2019, marking the first time since Avison Young started tracking the multi-family market in 2008 that REITs outspent private and institutional investors in a given half. On the other side of the ledger, all multi-family vendors in the first half of 2019 were private. Deal velocity is likely to increase in the second half of 2019 as private owners adjust pricing expectations that had been based on the market of 12 to 18 months ago. While demand for multi-family assets remains strong among investors of all stripes, purchasers have become much more circumspect when acquiring older properties in core markets that require substantial capital expenditures and/or renovations as value-add opportunities have become substantially more challenging to execute on in a reasonable time frame. However, the low cost of capital has continued to support the acquisition of multi-family assets at all price points across BC.

"Government of Canada (GoC) bond yields have continued falling and reached two-year lows in mid-August 2019. The five-year GoC's all-time low of 0.48% in February 2016 was followed by a steady two-year climb of 200 basis points peaking at 2.48% in October 2018," said **James Paleologos**, a director at **Realtech Capital Group**. "Since that peak last fall, the five-year GoC has dropped by 107 basis points to its current yield of 1.41%, the lowest it has been since June 2017. Low bond yields have created very attractive apartment financing options with CMHC rates in the low 2%'s. Bond yields became inverted in August 2019 and have remained that way for the past six weeks. A low-interest rate environment continues to be the outlook from economists for the short to mid-term."

While construction of purpose-built rental buildings remains a priority for many levels of government, annual targets in cities such as Vancouver have not been achieved as many developers have found that incentives have not been enough to support the development of such projects. The City of Vancouver's new incentive program, the Moderate Income Rental Housing Pilot Program (MIRHPP), is a "limited pilot program that enables up to 20 rezonings for new buildings that provide 100% of the residential floor area as secured market rental housing, with a minimum of 20% permanently secured for moderate income households."

In exchange, "the MIRHPP offers greater incentives beyond what is available under other rental incentive policies, including opportunities for additional height and density beyond what is granted under the existing zoning, parking relaxations, and relaxation of unit size and configuration requirements. The MIRHPP also enables opportunities to consider proposals on a wider range of sites across the city, including those not located on arterial roads."

According to July 2019 media reports, of the 20 projects initially selected by the city to submit rezoning applications under the program, six had withdrawn. Those six were subsequently replaced by others that had been waitlisted. The first MIRHPP-associated rezoning applications are expected before Vancouver city council this fall. ■



Sam Assefa, City of Seattle

Q&A

Avison Young speaks with **Samuel Assefa**, Director, Office of Planning and Community Development with the **City of Seattle**, about lessons learned around encouraging the rapid development of new rental housing

What market conditions triggered Seattle to get involved in making sure there was an adequate supply of rental housing available to the public? Why?

Seattle's growth has been tied to technology innovation since the days of Bill Boeing and the rise of the jet age. Amazon's explosive expansion in the last decade was a major gamechanger. The company knew its growing workforce (well-educated and well-paid) was looking for the rich cultural experiences that only cities can provide. Amazon established a new urban campus Downtown that has attracted thousands of workers. Many other e-commerce and technology companies have joined the same dynamic ecosystem.

Seattle is now growing faster than all King County suburbs combined. This decade, Seattle attracted 150,000 new residents, 140,000 new jobs. New residents drove up demand for housing (both rental and for sale), generating 60,000 new housing units. Sale prices and rents have also grown dramatically; the average one-bedroom costs 30% more today than just five years ago. Our housing costs were rising the fastest in the country. We now have roughly 50,000 households that spend more than half their income on housing – most of them renters.

Seattle's growth is guided by the State's Growth Management Act established in early 1990 that requires jurisdictions to manage local and regional growth, improve sustainability, reduce sprawl and support denser urban areas. Seattle has used an urban village strategy to focus growth around transit. As a result, city policies target more than 80% of the growth towards 18% of land. Zoning changes have increased residential and commercial capacity. The City also provides incentives or requirements for housing for people across a range of incomes in a variety of housing types.

While the City has control over development capacity to encourage housing, decisions on the supply of rental versus ownership housing are primarily driven by market demand. City-funded, income-restricted housing represents only 8% of total housing stock. Out of the 60,000 new housing units built since 2010, only 2% are condominiums (ownership units in multi-family buildings).

How did Seattle engage with developers and the private sector in general in order to stimulate the development of new rental buildings?

To address affordability, the Mayor and the City Council established an advisory committee in 2014 to develop a broad set of recommendations to help ease rising housing costs. For the first time, we were able to bring together the development community and the non-profit housing community to develop a win-win strategy. Some of these folks had never met each other. Many of them didn't see eye-to-eye on how to respond to the economic pressures in our growing city. But everyone agreed that the path we were on was unsustainable. If we wanted to retain the diversity of Seattle that makes us such a vibrant, thriving community, we needed to think outside the box.

After nearly a year of discussion, the group put forward the Housing Affordability and Livability Agenda (HALA). It included 67 recommendations of what the City could do to temper these dramatic housing cost increases. We've been steadily enacting these recommendations over the last five years.

"Everyone agreed that the path we were on was unsustainable."

- Samuel Assefa

Perhaps the biggest (and most controversial) move was the launch of Mandatory Housing Affordability. We had a voluntary Incentive Zoning program in the past that granted additional development capacity in certain locations in exchange for community benefits, including affordable housing. But almost everyone agreed that we needed to move from a voluntary program to a mandatory program. And we needed to take the idea citywide, to every neighbourhood.

So that's what we did. In exchange for an increase in development capacity in every neighbourhood, we are now requiring all new multi-family residential and commercial development to contribute income-restricted affordable housing. It supports new capacity for market-rate housing and ensures that all development contributes new rent-restricted homes for lower-income people. All new buildings will either include rent-restricted homes or make a payment to our Office of Housing for their construction elsewhere.

What have been the impacts and results of the city's efforts in terms of new construction, vacancy, rental rates and building amenities?

Very little new housing was built in Seattle between 2009 to 2012 – about 3,000 apartments a year. But as we emerged from the global economic downturn, our developers launched a building boom we haven't seen here in decades. But beginning in 2013, builders completed 6,000 new apartment homes, and that number has risen steadily, now reaching about 10,000 new homes each year. More than 20,000 new homes have been permitted but not yet completed.

Much of this new construction has been focused in Downtown and South Lake Union – always the centre of employment and today our fastest growing residential neighbourhoods. We knew we needed to add more capacity there first, where market demand was already driving most new development. We started implementing MHA in 2017 with upzones there and in the University District so that more people could live near major employment centres.

We are beginning to see the results of that 2017 upzone today, as new developments are taking advantage of the additional capacity while making contributions to income-restricted housing. The U District – with its new light rail station that will ensure a 10-minute commute to Downtown – is poised for the most dramatic growth. Nine new towers are coming, adding an additional 2.5 million square feet of development. We will add thousands of new walkable homes within minutes of the light rail station. And we will have collected an estimated $50 million to support income-restricted housing.

Many new homes are smaller apartments in highrises that serve higher-income earners attracted to walking to work and Downtown amenities. But the growth in the high-end market has made a difference in all neighbourhoods. The dramatic rent increases have slowed, even reversed in some areas. This new construction is helping mitigate displacement pressures in lower-income neighbourhoods.

What tips do you have for a city administration that has been facing record-low residential vacancy for an extended period and needs to encourage the private sector to build a lot more new rental developments?

We needed to expand growth to all neighbourhoods served by excellent transit to meet our housing and climate action goals. We want to encourage our young

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FIRST-HALF 2019 MULTI-FAMILY TRANSACTIONS (GREATER THAN $5 MILLION)

PROPERTY	LOCATION	PRICE	VENDOR TYPE	$/UNIT	PURCHASER TYPE	DATE
Roberts Landing 772 Hockley Avenue	Langford	$6,945,145	Private	$347,257	REIT	Jun 2019
Village Walk West Portfolio 778, 784 and 790 Hockley Avenue	Langford	$24,548,692	Private	$285,450	REIT	Jun 2019
Roberts Place 777 Hockley Avenue	Langford	$9,223,000	Private	$307,433	REIT	Jun 2019
Summerhill Apartments 260 Michigan Street	Victoria	$6,525,000	Private	$271,875	Institutional	Jun 2019
The Point Apartments 5393 201st Street	Langley	$39,000,000	Private	$397,959	REIT	Jun 2019
Walnut Court 8770 Selkirk Street	Vancouver	$8,400,000	Private	$164,706	Private	Jun 2019
Royal Reef Apartments 11 Paddon Avenue	Victoria	$9,325,000	Private	$291,406	Institutional	Jun 2019
Fairview Court 55 East 12th Avenue	Vancouver	$18,250,000	Private	$357,843	Private	Jun 2019
Brentwood Villa 7088 Wallace Drive	Saanich	$6,700,000	Private	$197,059	Private	Jun 2019
V1488 1488 Cook Street (50% interest)	Victoria	$33,000,000	Private	$492,537[4]	REIT	May 2019
Confidential Victoria sale	Victoria	$8,000,000	Private	$235,294	Private	May 2019
Albion Court & **Rockmeare Manor** 1144 Rockland Avenue & 45 Boyd Street	Victoria	$30,000,000[3]	Private	$258,621	Institutional	May 2019
Tiffany Centre[2] 901 Esquimalt Road	Esquimalt	$7,000,000	Private	$388,889	Private	May 2019
Berwyn Court 510 Ninth Street	New Westminster	$6,925,000	Private	$192,361	Private	May 2019
Dunsmuir House 831 Dunsmuir Road	Esquimalt	$19,100,000	Private	$224,706	Private	May 2019
Sir Francis Drake 335-337 St. James Street	Victoria	$22,700,000	Private	$238,947	Institutional	May 2019
2266 Trinity Street	Vancouver	$6,500,000	Private	$325,000	Private	Apr 2019
Willoughby Walk 20839 78B Avenue	Langley	$69,600,000	Private	$364,398	REIT	Apr 2019
Edward Manor 9219 Edward Street	Chilliwack	$5,625,000	Private	$156,250	Private	Apr 2019
Noraleen Apartments 1676 West 10th Avenue	Vancouver	$5,066,000	Private	$460,545	Private	Mar 2019
Georgian Manor 8687 Selkirk Street	Vancouver	$5,250,000	Private	$477,273	Private	Mar 2019
Triumph Apartments 2115 Triumph Street	Vancouver	$5,200,000	Private	$288,889	Private	Feb 2019
Kitsilano Court 2464 West 2nd Avenue	Vancouver	$6,600,000	Private	$660,000	Private	Jan 2019
Cedar Terrace[1] 1575 Esquimalt Avenue	West Vancouver	$17,200,000	Private	$554,839	Private	Jan 2019
The McTavish 1727 William Street	Vancouver	$5,900,000	Private	$590,000	Private	Jan 2019
Mission Flats 1459 & 1469 KLO Road	Kelowna	$78,000,000	Private	$278,571	Institutional	Jan 2019
Belmont Place 250 East 2nd Street	North Vancouver	$15,925,000	Private	$353,889	Private	Jan 2019
Confidential Nanaimo sale	Nanaimo	$8,000,000	Private	$126,984	Private	Jan 2019
2902 South Main Street	Penticton	$12,000,000	Private	$155,844	REIT	Jan 2019
Burton Manor 520 Ninth Street	New Westminster	$7,750,000	Private	$234,848	Private	Jan 2019
Total Deals/Investment	**30**	**$503,807,692**				

[1]Concrete highrise tower [2]Mixed-use building [3]Estimated [4]Based on 100% interest

Sources: Avison Young, Commercial Edge & RealNet

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parents to raise their kids here. Many seniors want to downsize to smaller homes. A one-size-fits-all approach doesn't work if we want to support a range of housing choices in every neighbourhood.

We added more development capacity and implemented MHA in our smaller neighbourhood centres, while also increasing funding for transit. This was a controversial move, especially in the 6% of the single-family neighbourhoods where we proposed multi-family development for the first time. And we focused more growth in areas with lower risk of residential displacement – neighbourhoods with higher home prices and higher family incomes.

The City Council – after two more years of community engagement – acted unanimously to implement our plan. We are just beginning to see new townhome developments in some of our quieter neighbourhoods – places that have been off limits for new housing for nearly a century. And we enacted new incentives for backyard cottages and in-law apartments in every single-family neighbourhood.

In July 2019, Mayor Jenny Durkan released Housing Seattle Now to add new resources and build on recent successes. My office recently launched Housing Choices to inform the conversation about the private housing market and what we could or should do to help ensure that it better meets our community's needs.

We will continue to do more to support racial equity and economic diversity. Our Office of Housing issues millions in grants each year to non-profits who build income-restricted homes. And we launched an Equitable Development Initiative to fund non-profit organizations that are investing in community-based solutions to combat displacement. We continue to encourage transit-oriented growth here, while preserving a place for historically marginalized communities. ■

SNAPSHOT OF BC HOUSING CONSTRUCTION STARTS

AREA	YTD Q3 2019	YTD Q3 2018	VACANCY OCT 2018
Vancouver	22,229	18,055	1%
Abbotsford-Mission	1,153	555	1%
Kamloops	382	916	1.3%
Victoria	2,569	3,028	1.2%
Nanaimo	1,164	620	2.5%
Kelowna	1,517	1,838	1.9%
British Columbia	33,100	28,771	1.4%

Source: CMHC

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