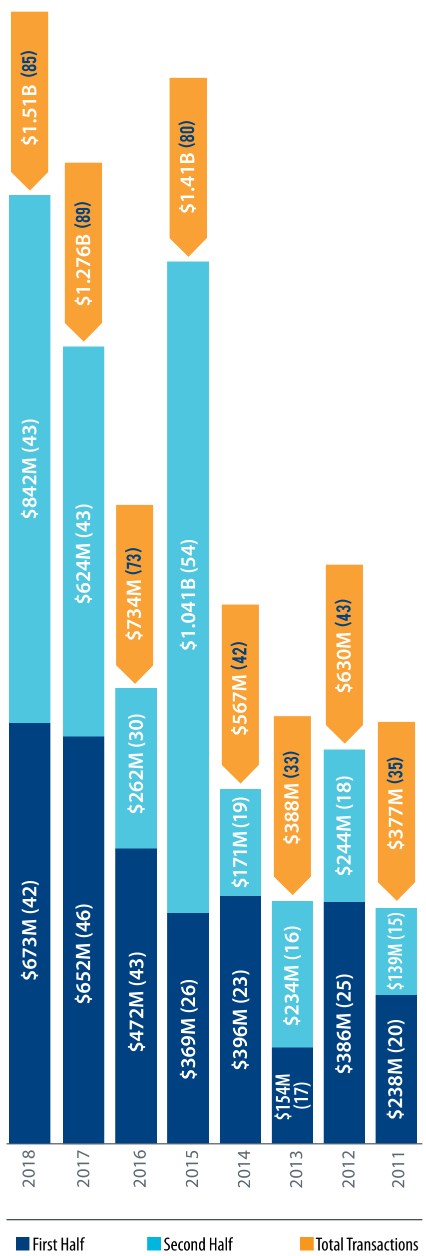
BC Multi-Family Investment Report

Spring 2019

MARKET TRENDS
MULTI-FAMILY INVESTMENT SALES
(>$5M) January 1 to December 31, 2018



Record BC multi-family investment dollar volume in 2018 obscures shifting market dynamics

Multi-family investment activity surpassed the billon-dollar mark for the second consecutive year in 2018 with 85 transactions valued at $1.51B, setting a new dollar volume record. While the number of transactions in 2017, 89, still holds the record in terms of number of deals, the dollar-volume record of $1.41B (which had actually been set in 2015) was finally surpassed in 2018. (Avison Young only tracks multi-family investments trading at more than $5M.)

Investment activity remained stable throughout 2018, but dollar volume increased in the second half of the year with 43 deals valued at $842M compared with 42 transactions worth $673M in the first half. The five largest multi-family sales in the province in 2018 included the $130M sale of **Wesley Place** (1022 Nelson St.) in Vancouver's West End; the $97.5M sale of **Woodland Park** (1030 Cecile Dr.) in Port Moody; and a portfolio sale that included **Paul Plaza** (1501 Haro St. - $81.85M), **Peter Manor** (1755 Haro St. - $74.5M) and **Matthew Court** (1005 Jervis St. - $65.1M), all of which were also located in the West End. These five deals alone make up 30% of the total multi-family dollar volume investment in BC in 2018.

While pricing remained strong in 2018, low-yield deals were largely absent in the market in the second half as some investors started reconsidering their asset repositioning strategies. Political intervention, which started with the recommendations from the provincial Rental Housing Task Force – particularly the change to the province's rent increase formula that saw the current formula of inflation plus 2% reduced to inflation only – has had a significant impact on the multi-family market. Municipal elections in October 2018 also resulted in many local city councils adopting more of a pro-tenant stance and displaying more anti-development bias. This has largely resulted in the exit of most of the aggressive value-add investors from the Metro Vancouver market. Many of these purchasers had also been driving down cap rates as they ignored this traditional metric of value to focus on tenant churn. The departure of these investors will likely result in a decline in the number of completed deals in 2019 (particularly in the first half) as remaining multi-family investors return to a refocused approach utilizing more conventional metrics such as yield on income, financeability and natural tenant turnover.

Municipalities moved decisively into the corner of tenants in the second half of 2018. New Westminster was the first municipality in BC to impose a rental-only zoning by-law that affected several apartment buildings within city limits (which is being challenged in court). The city also passed a by-law in February 2019 that could result in fines or the denial of a business license to landlords who utilized a former loophole in provincial legislation that led to "renovictions", a tactic frequently misused as a quick means to boost rental income. Port Coquitlam also recently amended its by-laws to crackdown on the practice. Vancouver and Burnaby have also taken further steps to strengthen and protect tenant rights.

Investors are increasingly seeking multi-family acquisition opportunities in markets outside of Metro Vancouver – particularly Vancouver Island, as well as the Okanagan

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and Fraser Valleys, as greater yields are more achievable in these markets with most municipalities open to investment and the redevelopment of older buildings and construction of new purpose-built rental.

The demand for multi-family properties outside Metro Vancouver was strong throughout the province in 2018, resulting in substantial deals in secondary markets such as Chilliwack, Esquimalt, Sidney, Langley, Nanaimo and Kelowna. While Vancouver remained the most active market in 2018 with 35 sales, New Westminster was second with 16 deals, followed by the North Shore (6). Burnaby, which had been very active in recent years, slipped to just four deals in 2018 – the same as Kelowna, which was home to the largest deal ($50M) outside of Metro Vancouver in 2018. Victoria, which had been quiet in the first half of 2018, recorded three sales in the back half of the year.

Despite a tightening of underwriting criteria, particularly related to acquisitions that involve a significant land and/or redevelopment component contributing to the overall value proposition, access to financing remained key in a record-setting 2018 as potential interest hikes failed to materialize in the latter half of the year. As a result, the cost of capital for qualified buyers remained low by historical standards and will likely remain so for the near term.

"In the past five months or so since early October 2018, Government of Canada bonds are down 85 basis points. This has balanced out the steady gains of mid-2017 to 2018," says **James Paleologos**, a director of **Realtech Capital Group**. "Interest rates appear poised to remain low as economists continue to remind the Bank of Canada how dangerously close they are to creating an inverted yield curve. This is an interest-rate environment in which long-term debt instruments have a lower yield than short-term debt instruments of the same credit quality and the result of which has spelled certain doom for the economy in the past as a strong signal of an impending recession. The Bank of Canada appears to be paying attention and the result should be a low-interest-rate environment for the short- to mid-term."

Due to the greater instability arising from shifts in investor sentiment, the residential land market remains in flux – particularly in markets where municipal processing times and political grandstanding further contribute to heightened risk. This situation may lead to a slowing in the development of the new rental housing supply being promised by municipal and provincial governments. This will also contribute to the likely slowing of deal velocity in 2019.

According to the CMHC, demand for rental housing in BC increased in 2018 while the supply of new purpose-built rental also increased, which was a factor that contributed to rising vacancy rates and led to "easing market conditions." BC continued to have a strong labour market with one of the lowest unemployment rates in Canada. Population growth drove rental demand, particularly among individuals aged 20-34 and 65 and older. Provincial in-migration played an important role in rental demand as many new arrivals tend to rent before looking into homeownership. CMHC concluded that "elevated home prices and rising mortgage rates have contributed to a higher overall cost of homeownership, which may be contributing to sustained strong rental demand."

Vendors that moderate pricing expectations in an environment of enhanced economic and political risk and who understand that market fundamentals remain strong in 2019 will find an active pool of potential buyers seeking to place capital in the multi-family asset class. While investors may be attracted to higher yields available outside Metro Vancouver markets in 2019, demand for quality, well-located product in the core remains undiminished and pricing attractive for vendors looking to capitalize. ■

Michael Ferreira, Managing Principal, Urban Analytics Inc.

Q&A

Avison Young speaks with **Michael Ferreira**, Managing Principal of **Urban Analytics**, about the true state of Metro Vancouver's rental market and whether the projected rental housing starts are anywhere close to what is being called for by government.

Will the current supply of rental housing be able to meet demand in light of ongoing municipal permitting delays and the disincentives to invest in rental housing arising from many of BC's Rental Housing Task Force's recommendations?

Unfortunately, rental housing is not being approved quickly enough to not only meet the amount of demand that exists today, but also to encourage more developers to build rental housing. The economics are challenging enough in today's market to make the development of rental apartment product economically viable with current

> ***"There is tremendous skepticism as to whether the governments' proposed targets can be achieved and are widely considered to be unrealistic."***
>
> *- Michael Ferreira*

construction costs, municipal fees and requirements, and the recommendations from BC's Rental Housing Task Force. The decision to limit rent increases to the inflation rate as opposed to the inflation rate plus 2% has been the biggest disincentive to pursuing rental development opportunities. The delays in municipal approvals only make the process more costly and the projects less viable due to the increased holding costs that result from the delays.

Are the provincial and municipal governments' proposed targets to build rental housing units realistic and achievable? What are some of the fundamental roadblocks to achieving their proposed unit totals?

Based on conversations with our rental developer clients, there is tremendous skepticism as to whether the governments' proposed targets can be achieved and are widely considered to be unrealistic. The primary reason for the skepticism is the amount of time municipalities are taking to approve new projects. Other reasons are economic in nature; the current construction labour force has been operating at near-capacity for the past several years and is expected to continue operating as such for the foreseeable future unless we see a significant pull-back in the start of new market condominium projects. Further, the economics of building rental projects are becoming increasingly difficult, which is in turn causing many developers to reconsider their intentions as they relate to developing rental buildings.

What are some of the most enlightening data points that highlight the issues the region faces around rental housing and its development?

Our NHS Live rental database currently shows nearly 19,700 rental apartment units being contemplated for Metro Vancouver. Most of these units are part of formal development applications while others are in the pre-application stage. So clearly, in spite of the challenges facing rental apartment developers, there is still a desire to build this product to try and satisfy the demand. However, since January 1, 2018, just over 2,500 units have been released to the market. Further, only 1,619 new rental apartment units are scheduled to complete in 2019. Given current vacancy rates and the evident demand for new rental housing, the current pace of approvals is preventing the market from delivering the amount new rental supply required by the market.

The government has acknowledged the need for private industry to build the majority of new rental stock. Has it been able to entice the development community to do so? If not, what more does it need to do?

The first step should be to eliminate GST from the cost of developing rental apartment projects. This would have the most immediate and significant impact on developers' ability to make the construction of new rental product viable. Bring back the ability to increase rents by 2% plus the inflation rate. Reduce parking stall to unit ratios. Too many municipalities are requiring the same parking-stall ratios as condominium buildings in spite of research showing far fewer renters need cars. Further, the ability to rent a parking space increases the achievable rent of apartments. As such, reducing parking-stall requirements would reduce rents. Fast-track the approval of new rental project development applications that meet zoning guidelines. Selectively and carefully pre-zone appropriate areas as rental only to limit land cost increases.

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2019 MARKET OUTLOOK

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

- Changing market conditions will result in fewer sales as aggressive value-add purchasers are pushed out of the market by government legislation and regulation
- Demand for rental housing continues to grow in 2019 as construction starts slow due to permitting delays and retrenchment of development community
- Lack of political leadership and incentives fail to convince private developers to construct more purpose-built rental projects in Metro Vancouver
- Market fundamentals such as unemployment and population growth support continued investment in multi-family assets as pricing stabilizes after years of rapid growth

SECOND-HALF 2018 MULTI-FAMILY TRANSACTIONS (GREATER THAN $5 MILLION)

PROPERTY	LOCATION	PRICE	VENDOR TYPE	$/UNIT	PURCHASER TYPE	DATE
Woodland Park 1030 Cecile Drive *(townhomes)*	Port Moody	$97,500,000	Private	$487,500	Private	Dec 2018
Sunrise Heights Place 2215 East Hastings Street**	Vancouver	$19,650,000	Private	$517,105	Public Co.	Dec 2018
East Village Place 2778 East Hastings Street**	Vancouver	$16,500,000	Private	$458,333	Public Co.	Dec 2018
2466 West Broadway	Vancouver	$5,050,000	Private	$505,000	Private	Dec 2018
Logan Place & Logan Manor 9245 & 9259 Edward Street	Chilliwack	$10,500,000	Private	$152,174	Private	Dec 2018
Somerset Manor 5600 Dalhousie Road	Vancouver	$20,060,000	Private	$573,143	Institutional	Dec 2018
Colonial House 5450 University Boulevard	Vancouver	$14,190,000	Private	$567,600	Institutional	Dec 2018
Oakview Court 8580 Oak Street	Vancouver	$8,800,000	Private	$517,647	Private	Dec 2018
The Somerset Apartments 525 Tenth Street	New Westminster	$5,950,000	Private	$238,000	Private	Dec 2018
Esquimalt portfolio 843 & 866 Craigflower Street, 925 Esquimalt Road and 1340 Sussex Street	Esquimalt	$38,285,000	Private	$186,756	Private	Dec 2018
Wesley Place 1022 Nelson Street*	Vancouver	$130,000,000	Non-profit	$653,266	Private	Nov 2018
Mount Tolmie Ridge Apartments (50% interest) 1900 Mayfair Drive	Victoria	$10,250,000	Private	$191,589	Private	Nov 2018
Glenmore Valley Landing 724 Valley Road	Kelowna	$50,000,000	Private	$301,205	Private	Oct 2018
Seascape Apartments 1170 Harwood Street*	Vancouver	$36,000,000	Private	$580,645	Private	Oct 2018
520 8th Street	New Westminster	$12,650,000	Private	$225,893	Private	Oct 2018
White Birch Apartments 1485 Fir Street	White Rock	$7,127,000	Private	$285,080	Private	Oct 2018
The Arvan Ann 621 Twelfth Street	New Westminster	$6,200,000	Private	$344,444	Private	Oct 2018
Lord Harley & Lady Harley Apartments 3220 & 3234 Quadra Street	Victoria	$34,500,000	Private	$244,681	Institutional	Oct 2018
Royal Beach Apartments 628 Dallas Road	Victoria	$8,250,000	Private	$266,129	Institutional	Oct 2018
The Flamingo 2050 West 2nd Avenue	Vancouver	$10,500,000	Private	$500,000	Private	Oct 2018
Sylvia Apartments 1315 Seventh Avenue	New Westminster	$9,250,000	Private	$402,174	Private	Oct 2018
Mandalay Terrace 325 Ward Street	New Westminster	$14,800,000	Private	$259,649	Private	Oct 2018
Tudor Manor 121 West 21st Street	North Vancouver	$10,350,000	Private	$356,897	Private	Sep 2018
Lombardy Park Apartments 1310-1314 Lawson Avenue	Kelowna	$10,500,000	Private	$164,063	Private	Sep 2018
467 Lampson Street	Esquimalt	$7,225,000	Private	$185,256	Private	Sep 2018
Sea Vista & Mount Vista Apartments 215 - 225 East 12th Street	North Vancouver	$11,200,000	Private	$430,769	Private	Sep 2018
Manoa Yew 1875 Yew Street	Vancouver	$10,500,000	Private	$420,000	Private	Sep 2018
Doulton Arms Apartments 7265 Arcola Street	Burnaby	$16,250,000	Private	$338,542	Private	Sep 2018
2433 Malaview Avenue & 10129 Fifth Street	Sidney	$17,400,000	Private	$290,000	Institutional	Sep 2018
95 East 14th Avenue	Vancouver	$9,000,000	Private	$346,154	Private	Sep 2018
Rose Garden Apartments 170 West 5th Street	North Vancouver	$7,850,000	Private	$436,111	Private	Sep 2018
2225 West 1st Avenue	Vancouver	$6,500,000	Private	$541,667	Private	Aug 2018
Kingsway Manor 254 East 12th Avenue	Vancouver	$12,200,000	Private	$348,571	Private	Aug 2018
Maryon Manor 1035 Howie Avenue	Coquitlam	$10,100,000	Private	$240,476	Private	Aug 2018
Villa Contessa 1433 Burnaby Street*	Vancouver	$15,050,000	Private	$501,667	Institutional	Aug 2018
Libby Manor 508 Eighth Street	New Westminster	$9,750,000	Private	$232,143	Private	Aug 2018
The Meridian Apartments 5363 201st Street	Langley	$34,310,000	Private	$381,222	REIT	Aug 2018
Eagle Crescent Apartments 1805 & 1825 Summerhil Place	Nanaimo	$45,150,000	Private	$255,085	Private	Jul 2018
Shelby Apartments 243 East 13th Avenue	Vancouver	$6,180,000	Private	$561,818	Private	Jul 2018
Santa Monica Apartments** 109 - 115 East 1st Street	North Vancouver	$7,300,000	Private	$365,000	Private	Jul 2018
Impala Manor 732 Fifth Avenue	New Westminster	$5,750,000	Private	$230,000	Private	Jul 2018
Okanagan Place Apartments 1950, 1955, & 1960 Pacific Court	Kelowna	$16,600,000	Private	$153,704	REIT	Jul 2018
1222 Fifth Avenue	New Westminster	$6,950,000	Private	$330,952	Private	Jul 2018
Total Deals/Investment	**43**	**$842,127,000**				

*Concrete highrise tower **Mixed-use building

Sources: Avison Young, Commercial Edge & RealNet

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Waive or significantly reduce development fees and community amenity contributions for long-term secured rental apartments. Finally, there needs to be a fundamental shift in the relationship between different levels of government and the development community. So much more could be accomplished if the various stakeholders worked together to overcome the obstacles and challenges preventing new rental apartment housing from being developed more quickly. ■

SNAPSHOT OF BC VACANCY RATES

AREA	OCTOBER 2018	OCTOBER 2017	% CHANGE
Vancouver CMA	1.0%	0.9%	+0.1%
Abbotsford-Mission CMA	1.0%	0.2%	+0.8%
Kamloops	1.3%	1.2%	+0.1%
Victoria CMA	1.2%	0.7%	+0.5%
Nanaimo	2.5%	1.6%	+0.9%
Kelowna CMA	1.9%	0.2%	+1.7%
British Columbia	1.4%	1.3%	+0.1%

Source: CMHC; CMA: census metropolitan area

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