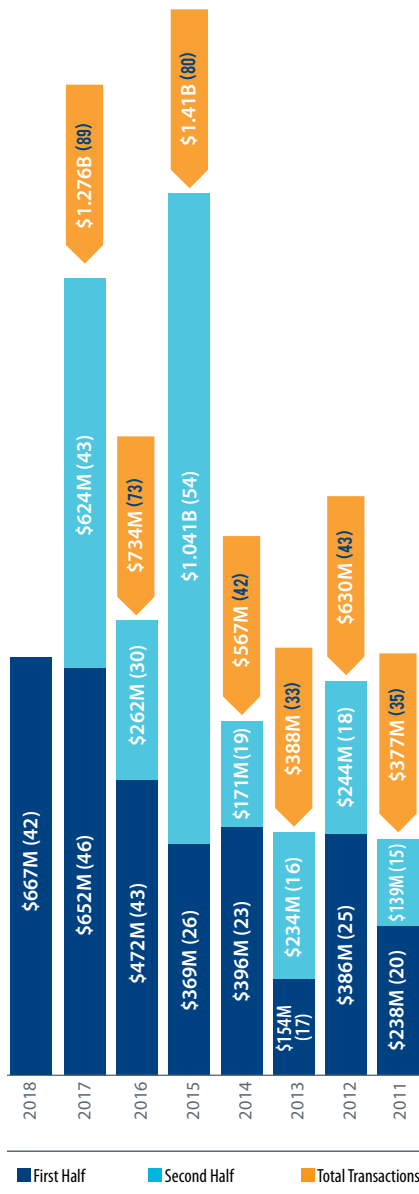


**MARKET TRENDS**  
**MULTI-FAMILY INVESTMENT SALES**  
(>\$5 million) January 1 to June 30



## BC multi-family market's impressive first half of 2018 reveals signs of a likely slowing in sales activity

Sales activity of BC multi-family assets remained at historic heights in the first half of 2018 with 42 transactions valued at \$667M. While the number of deals fell just short when compared with the first half of 2017 (46), the first half of 2018 did surpass the first half of 2017 in dollar volume (\$652M) and the second half of 2017 in both dollar volume and number of deals (\$624M/43). While the number of transactions in 2017, 89, marked a new record, dollar volume of \$1.275B fell short of the record set in 2015 when 80 properties valued at \$1.41B traded hands. Despite the strong start to 2018, a new record for multi-family investment is not anticipated in 2018. (Avison Young only tracks multi-family investments trading at more than \$5M.)

The rapid escalation in residential land prices and the cost of multi-family assets, particularly those priced greater than \$20M, are currently being viewed by investors and developers with four factors in mind: 1) provincial and federal government regulation related to rental housing and cooling residential real estate activity and pricing; 2) municipal elections in BC in October 2018; 3) a rising interest-rate environment in the U.S. and Canada; and 4) the overall affordability issue surrounding housing in Metro Vancouver, which has become a polarizing political issue in virtually all communities and fostered an increasingly anti-development sentiment among the electorate.

The affordability issue is limiting the price-per-buildable-square-foot that developers are willing to pay for land. Also, in light of the government-induced reduction in demand for luxury condos,

greater uncertainty attached to rezoning risk, and higher borrowing costs facing most home buyers, there is an increasing perception that land pricing based on its potential value may be undermined by the election of mayors and councils who are less likely to be supportive of rezoning applications and new developments that do not include significant below-market and social housing components, which may make the project financially unfeasible. All these factors will likely contribute to a slowing in multi-family investment activity in the second half of 2018 and first quarter of 2019, which will not only serve to establish stability or a new baseline in the market, but provide acquisition opportunities for adept investors and developers as well.

The likely pause in the market will allow for potentially better pricing to be achieved on properties than what has been available recently as vendors who had continued to hold pricing expectations that no longer accurately reflect the current market environment start reconsidering revised offers to purchase with the fear that prices may fall further. As these properties start selling at prices that take into consideration new market dynamics and realities, purchasers will gain more certainty and a greater understanding of what pricing the market can support. A resumption of more historically typical periods of due diligence and subject removals, which had already started to return in early 2018, will accompany and form part of the coming market rationalization.

With rising interest rates and debt markets becoming a bit more

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challenging, lenders are getting more selective and in many cases, buyers may not be aware how much rates have changed in the past six to 12 months.

"After a slight retreat in Government of Canada bond yields at the end of 2017, the first few months of 2018 saw yields increase by as much as 60 basis points. Since the initial spike in 2018, bond yields have been somewhat unpredictable with multiple 20 to 30 basis point swings throughout the year," says **Dave Genest** of **Realtech Capital**. "Over the past 12 months the spread between five-year and 10-year Government of Canada bond yields has fallen from a 35-basis-point difference down to a 5 to 10 basis point difference. Many multi-family apartment owners have taken advantage of this minimal spread and have locked in 10-year terms on new purchases and refinances. The Bank of Canada has increased its overnight interest rate four times since July 2017, resulting in a 100-basis-point increase over that time. While they held off on another increase during its September 2018 policy announcement, there is general belief that there could be additional increases to come. Economists in general expect a modest increase in mortgage rates over the next 12 months".

While the overwhelming majority of purchasers and vendors were private, a single institutional purchaser, **Starlight Investments**, was responsible for acquiring a four-property portfolio located in Vancouver/North Vancouver as well as a townhome development in North Vancouver for more than \$290M, or approximately 43% of the total dollar volume recorded in the first half of 2018.

The largest private acquisition was the \$32.5M purchase of **Oceania Court** in Burnaby by **Anthem Properties**. REITs, who have historically been fairly active in the BC multi-family market, were involved in only a single transaction as a buyer and none as a vendor. All but one vendor was a private owner in the first half of 2018.

The vast majority of multi-family transactions were located in Metro Vancouver with almost 50% located in Vancouver and almost a quarter in New Westminister. Burnaby, which had been one of the most active markets in Metro Vancouver, recorded just three deals. Multi-family sales activity declined significantly in the first half of 2018 on Vancouver Island with just a single sale in Nanaimo. A single multi-family sale was registered in each of Penticton, Kelowna and Kamloops.

## Change in government regulations

On September 26, 2018, the BC provincial government accepted a recommendation from its recently struck Rental Housing Task Force to alter the allowable maximum rent increase formula for residential housing. The recommendation was to change the existing formula from the rate of inflation plus 2% to inflation only. The recommendation also included a yet-to-be-defined provision to include a form of an 'above guideline increase' mechanism that exists in other provinces if the new formula does not cover maintenance and other incurred costs. According to the BC government: "The Residential Tenancy Branch will work closely with landlord advocacy groups on expanded circumstances under which landlords could apply for an additional rent increase to reflect the costs of maintaining their rental properties."

The Pacific region chapter of the **Urban Development Institute** (UDI) in Vancouver has indicated that "this seemingly hasty and short-sighted recommendation lacks economic evidence to substantiate this significant change." UDI also cited research from **LandlordBC** (see Q&A with LandlordBC CEO **David Hutniak** in this report) that documented the increasing costs faced by rental providers, which UDI indicated was "in stark contrast to the rationale provided by the Rental Housing Task Force to justify this recommendation." ■



**David Hutniak**, CEO of **LandlordBC**

## Q&A

Avison Young speaks with **David Hutniak**, CEO of **LandlordBC**, about BC's decision to change the formula used to calculate allowable annual rent increases

[How will BC landlords be impacted by the provincial government's decision to limit the permitted annual rental rate increase to the rate of inflation as recommended by the Residential Task Force \(RTF\) and accepted by the BC government? What are the ramifications of this decision?](#)

We understand that renters across the province are frustrated by the cost of housing and record low vacancy rates. In the face of increasing maintenance costs, property taxes, utilities and insurance, landlords are similarly frustrated with the pressures to keep up with the ever-increasing costs to maintain safe, high-quality homes.

The consumer price index is a poor measure of building maintenance cost inflation, particularly given the age and condition of existing rental housing stock in BC. Furthermore, it is not simply repair and maintenance costs that are experiencing

exponential growth in our industry. Our core operating expenses, many of which we cannot control, have been increasing exponentially too. We are of course referring to property taxes, increases to utility rates, and insurance costs, to name a few.

This decision will mean less cash flow for owners of rental housing to invest in their units and buildings, which will mean further deterioration in the quality of existing rental stock. Of even greater concern is the potential negative impact this legislation will have on the building of new secure purpose-built rental (PBR) housing. The numbers to make a PBR project work are challenging enough. This change will cause some developers to shift these projects to condos, which would be an unfortunate outcome just as we were starting to see some PBR traction.

LandlordBC has always worked professionally and collaboratively with the government and the Housing Minister in particular, and we will continue to do so. We have encouraged the Minister to take the necessary time to study the economic impact of this change to the Residential Tenancy Act (RTA) and any other changes that may be contemplated when the task force provides her and the Premier with its full report. We need to ensure we have a truly viable rental housing industry and diverse rental housing options for British

Columbians. In our view there is much more work that needs to be done before any further decisions are taken.

**The RTF also recommended an ‘above guideline increase (AGI)’ mechanism to allow landlords to apply for a greater annual rental rate increase than permitted under the recommended rate of inflation only increase. How will AGI work in BC?**

As of October 3, we have no details other than the process will be similar to what’s currently employed in Manitoba and Ontario. We are very familiar with rental housing legislation in those two jurisdictions and dispute suggestions that the AGI process works effectively in either. This will be an onerous, bureaucratic process and begs the question: how will the BC Residential Tenancy Branch possibly administer this process?

LandlordBC recently spoke to a major rental housing provider in Winnipeg who has been developing and managing residential rental properties in that city for over 60 years. They indicated that because of rent controls in their province and the unabated increase in their operating costs, they are forced to apply for AGI increases in 70% to 100% of their units annually. They have had to hire more staff and the cost to administer and manage this process is considerable. They added that because they have a certain critical mass in terms of buildings and units they own and manage,

they have the wherewithal to navigate this hugely bureaucratic process; however, smaller landlords are left on the sidelines. Smaller landlords simply do not have the capacity or financial resources to apply for AGI increases in Manitoba and so every year they fall further and further behind in their repairs and maintenance, and the quality of the rental housing they provide continues to deteriorate. British Columbia has a lot of smaller landlords.

A major BC-based rental housing developer who owns and operates 25 purpose-built rental buildings in Toronto spoke to LandlordBC about the AGI process in Ontario. This is a large, sophisticated landlord. They advised that the AGI process in Ontario is an inefficient, administratively burdensome process that would be inaccessible to them if it wasn’t for their critical mass and internal resources. They advised that the Ontario system is completely stacked against smaller landlords. As the government knows, the BC rental market is primarily smaller landlords. This landlord advised LandlordBC that it can take at least a year for AGIs to be approved in Ontario and, in the interim, they are never able to fully capture rent increases as tenants dispute the AGI or simply refuse to pay.

**Tenant rights advocates claim this formula change has not gone far enough and advocate for greater rental control by the**

*continued on page 4*

## 2018 MARKET OUTLOOK

Pricing



New Listings



Vacancy Rate



Sales



Cap Rates



- Sales are slowing outside of Metro Vancouver, particularly on Vancouver Island where demand for multi-family properties in Victoria/Nanaimo has been strong since 2015
- Pricing continues to remain strong even as cap rates rise slightly and the competition to acquire assets tapers off with fewer purchasers active in the market

- 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
Garden Manor Apartments 2285 Triumph Street	Vancouver	\$6,000,000	\$375,000	Jun 2018
Evergreen Gardens 4564 Evergreen Lane	Delta	\$5,300,000	\$220,833	Jun 2018
Jericho Villa 3495 West 4th Avenue	Vancouver	\$8,266,000	\$688,833	Jun 2018
Westview Manor 1210 7th Avenue	New Westminster	\$5,650,000	\$353,125	Jun 2018
1133 West 70th Avenue	Vancouver	\$8,500,000	\$326,923	Jun 2018
Landsdowne House 1537 Burnaby Street	Vancouver	\$8,750,000	\$364,583	Jun 2018
Alexandra Apartments 888 Fairview Road	Penticton	\$5,800,000	\$126,087	May 2018
Oxford Manor 2333 Oxford Street	Vancouver	\$16,260,870	\$318,841	May 2018
225 North Garden Drive	Vancouver	\$5,739,130	\$318,841	May 2018
Maple Manor Apartments 304 Third Avenue	New Westminster	\$5,900,000	\$347,059	May 2018
2340-2350 St. Johns Street	Port Moody	\$5,110,000	\$511,000	May 2018
275 East 13th Avenue	Vancouver	\$9,450,000	\$410,870	May 2018
The York Apartments 2358 York Avenue	Vancouver	\$7,800,000	\$709,091	May 2018
Lagoon Villa Apartments 1958 Barclay Street	Vancouver	\$19,650,000	\$467,857	May 2018
Cedarvale Apartments 311 Ash Street	New Westminster	\$6,480,000	\$240,000	May 2018
Kolumbia Garden 17719 58A Avenue	Surrey	\$6,629,981	\$170,000	May 2018
Malibu Apartments 1979 Pandosy Street	Kelowna	\$5,325,000	\$197,222	May 2018
230 West 10th Avenue	Vancouver	\$9,546,200	\$502,432	May 2018
Mar Van Apartments 8623 Selkirk Street	Vancouver	\$11,880,000	\$383,226	May 2018
Twin Lakes Estates 3701-3817 Princess Avenue	North Vancouver	\$42,250,000	\$741,228	Apr 2018
Northridge Apartments 269 West 4th Street	North Vancouver	\$19,400,000	\$412,766	Apr 2018
Oceania Court 7070-7082 Inlet Drive	Burnaby	\$32,500,000	\$277,778	Apr 2018
1680 Tranquille Road	Kamloops	\$8,500,000	\$118,056	Apr 2018
7227 Arcola Street	Burnaby	\$11,350,000	\$315,278	Apr 2018
Heatherlea Apartments 1406 Laburnum Street	Vancouver	\$6,825,000	\$682,500	Apr 2018
Paul Plaza 1501 Haro Street	Vancouver	\$81,850,843	\$568,409	Apr 2018
Monika Vista 150 East Keith Road	North Vancouver	\$26,493,283	\$679,315	Apr 2018
Matthew Court 1005 Jarvis Street	Vancouver	\$65,115,338	\$482,336	Apr 2018
Peter Manor 1755 Haro Street	Vancouver	\$74,459,574	\$539,562	Apr 2018
Bayshore Manor 2425 York Avenue	Vancouver	\$12,100,000	\$504,167	Apr 2018
Mon Tru Manor 420 11th Street	New Westminster	\$13,400,000	\$219,672	Apr 2018
1110 West 10th Avenue	Vancouver	\$10,240,000	\$445,217	Feb 2018
Woodgrove Pines 6597 Applecross Road and 6439 Portsmouth Road	Nanaimo	\$20,700,000	\$151,095	Feb 2018
Sherwood Apartments 5875 177B Street	Surrey	\$7,400,000	\$185,000	Feb 2018
Martin Manor 1509 Martin Street	White Rock	\$11,700,000	\$278,571	Feb 2018
Parkcrest Court 1024 St. Andrews Street	New Westminster	\$6,420,000	\$279,130	Feb 2018
Crystal Court Apartments 8860 Montcalm Street	Vancouver	\$7,800,000	\$325,000	Feb 2018
Starlite Apartments 1450 Burnaby Street	Vancouver	\$18,350,000	\$436,905	Feb 2018
7110 Linden Avenue	Burnaby	\$8,400,000	\$280,000	Jan 2018
Glen Oaks Apartments 825 East 8th Avenue	Vancouver	\$14,350,000	\$350,000	Jan 2018
Key Manor Apartments 610 Blackford Street	New Westminster	\$6,670,000	\$230,000	Jan 2018
Lori Ann Apartments 404 Seventh Street	New Westminster	\$9,250,000	\$220,238	Jan 2018
<b>Total Deals/Investment</b>	<b>42</b>	<b>\$673,561,219</b>		

Sources: Avison Young, Commercial Edge & RealNet

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province and possibly the city including a rent freeze. What would be the impact if such a measure was passed?

Any further “tightening” on the rent control front by the province would be hugely impactful on our industry and let’s be frank here, it is renters who would ultimately suffer the most. The reason we have a rental housing crisis is because we have inadequate rental supply especially secure PBR supply. Any suggestion that new construction of PBR will be “ok” under more stringent rent controls is simply wrong. We are already hearing that the CPI-only regulation means some PBR projects that were in the pipeline will either be delayed or shelved entirely, jeopardizing the government’s goal of building 114,000 units over the next 10 years. What is concerning to LandlordBC – and should be especially concerning to the provincial government, municipalities and affordable housing advocates alike – is that many of the PBR buildings in the pipeline that integrated below-market or social housing are dependent upon market rents subsidizing the social housing units. The CPI-only change has already negatively impacted the viability of these new PBR projects in our view. Any further changes will see investors and pension funds take their money out of BC and build PBR elsewhere. In our view, there’s much more work that needs to be done to assess the economic impacts before any further legislative decisions are contemplated. ■

BC HOUSING DATA SNAPSHOT			
AREA	VACANCY (OCT 2017)	NON SINGLE-DETACHED HOUSING STARTS: JAN TO AUG '18	NON SINGLE-DETACHED HOUSING STARTS: JAN TO AUG '17
Vancouver	0.9%	13,714	13,309
Abbotsford-Mission	0.2%	311	940
Kamloops	1.2%	-	-
Victoria	0.7%	2,178	1,477
Nanaimo	1.6%	-	-
Kelowna	0.2%	1,353	1,893
British Columbia	1.3%	20,462	18,838

Source: CMHC

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