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Avison Young Point of View Multi-Family Investment Report British Columbia

Q2 2009

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Market fundamentals return

The Multi-Family investment market is moving towards a state of stability. Over the last eight months, listings stagnated because vendors sought to achieve yesterday's pricing and purchasers were unwilling to pay it. The market stumbled through the latter part of 2008 and the beginning of 2009 with barely enough sales to indicate new realistic market pricing. Now, that seems to have changed. The market is currently very active with a sense of renewed confidence on the part of investors.

Although there is renewed interest in investing in Multi-Family assets, new sets of parameters have emerged for BC and its submarkets. Purchasers have forced vendors and their agents to market properties based on actual income and opportunities with real returns. Purchasers, while drawn to Canada Mortgage and Housing Corp.'s (CMHC) attractive financing and consistency of Multi-Family returns, have returned to fundamentals with an emphasis on cash flow.

Private investors at forefront of both buying and selling sides

Purchaser: Private investors were the most active purchasers in the first half of 2009. Private, family-owned companies have also become more active in purchasing larger Multi-Family assets while institutional buyers continue to sit on the sidelines. Buyers are looking for smarter investments with strong actual returns and are no longer relying on speculative lifts in property values.

Vendor: Most vendors continue to be private investors who are either retiring or looking to reposition their finances. The most significant change in the vendor profile for the second quarter of 2009 was the emergence of institutional sellers as some had to reposition

Market Trends

Year-Over-Year

	Number of Transactions	Total Dollar Volume
Q2 2009	14	\$89,808,990
Q2 2008	25	\$88,339,700

- Q2 2009 Transactions down 44% vs. Q2 2008 Transactions
- Q2 2009 Total Dollar Volume up 2% vs. Q2 2008 Total Dollar Volume

Quarter-Over-Quarter

	Number of Transactions	Total Dollar Volume
Q2 2009	14	\$89,808,990
Q1 2009	17	\$59,320,530

- Q2 2009 Transactions down 18% vs. Q1 2009 Transactions
- Q2 2009 Total Dollar Volume up 51% vs. Q1 2009 Total Dollar Volume

Sources: Avison Young, RealNet Canada Inc. and other online sources.

STIR Program launched by City of Vancouver

The City of Vancouver has initiated a new Short-Term Incentives for Rental (STIR) program, which will give developers additional breaks when choosing to build new purpose-built Multi-Family rental construction. Some of the incentives include:

- Rental property assessment (on rental units only)
- Development Cost Levy waiver (on rental units only)
- Parking requirement reductions (on rental units only)
- Discretion on unit size
- Increased density
- Expedited permit processing

For additional information on the STIR program, please visit our website: www.aycre.com



Avison Young recently sold this 22-unit, fully-renovated building at 46278 Yale Road in Chilliwack, BC.

their equity in order to deal with challenging refinancing issues. The second quarter also saw the sale of two purpose-built rental buildings in North Vancouver and Coquitlam from a large local developer.

Rising vacancy rates push rents down

Over the last year rental market conditions have eased but remained relatively tight compared to the rest of Canada. According to CMHC's Spring Market Report, the average vacancy rate in urban British Columbia centers rose to 2.3% in April 2009 from 1.1% in April 2008. An increase in rental supply, mainly investor-owned condos, has contributed to the upward movement in vacancy rates. Another factor is the lower demand for rental units. Many renters are becoming first-time homebuyers by taking advantage of lower housing prices and low interest rates. Owners who try to boost rents should be cognizant of local competition.

According to CMHC, average rents have increased by 3.4% from April 2008 to April 2009; however in our discussions with Multi-Family owners, we have found that due to the decrease in rental demand and the rise in vacancy rates, owners are now competing for quality tenants. Rental rates are becoming more competitive in favour of tenants, especially in tertiary markets, whereas 18 months ago landlords were able to set record rental rates. All CMHC reports are available on our website: www.aycre.com.

Both the increase in vacancy rates and the downward pressure on rental rates have forced owners and potential investors to take a more cautious approach with their properties' outlook. Investors are now more conservative in evaluating a building's potential income. Owners are faced with the reality that if they want to push market rents on turnover, the unit may sit vacant for several months. ■

Snapshot of Vacancy Rates

Area	Current Vacancy	% Change April 2009 vs. April 2008
Vancouver	1.9%	+ 1.0%
Abbotsford	4.8%	+ 2.4%
Chilliwack	6.2%	+ 4.2%
Victoria	1.2%	+ .08%
Nanaimo	3.3%	+ 2.7%
Campbell River	7.3%	+ 5.7%

Selling your apartment building: Thinking ahead

By Damon Chisholm, Real Estate Lawyer, Lang Michener

Before owners decide to sell their apartment buildings, they should carefully consider various legal and tax considerations. Given its brevity, this article highlights some of the main items for vendors to consider before they list their apartment buildings.

Current Mortgage: Vendors are often surprised (sometimes horrified!) when they approach their closing date only to receive the payout statement from their current mortgage lender. Depending on the type of mortgage an owner has, payout penalties can range from zero to three months interest, or, in what can be the worst case, interest rate differential for the entire term. The costs can potentially be massive. The best thing for vendors to do is contact their lenders in advance. If the payout amount is too large, vendors may want to explore with their lenders the possibility of porting the mortgage or having a purchaser assume the mortgage.

Tax: Vendors should consult with their accountant regarding the tax implications of their sale. Capital gains are an obvious concern. There are two common pitfalls worth discussing. First, some sales may be deemed to be GST payable. While most apartment buildings are GST exempt, some exceptions apply and vendors should double-check each transaction with their accountants in advance. Canada Revenue Agency (CRA) places responsibility on the vendor to collect and remit GST. If a vendor fails to collect GST on a sale, the vendor will be held responsible by CRA. The second pitfall relates to sales made by non-resident vendors. Non-resident vendors are subject to a 25% to 50% sale proceeds hold-

back (held in trust until CRA issues a clearance certificate). The non-resident holdback can become a major problem if the vendor has a mortgage to pay out and the money needed is tied up in a holdback account (for weeks, if not months). Non-resident vendors should contact their accountants months in advance of a sale to limit the holdback hardship.

Environmental Liability: If a vendor has any concern that the property may be contaminated, selling it will not eliminate liability. In British Columbia, owners, tenants and other users of real estate are subject to joint, several, retroactive and absolute liability for contamination of land. In other words, a previous owner (who may or may not have contributed to the contamination), tenant or operator on the lands can be held responsible for clean-up costs and damages at a later date. If a prospective vendor is not completely confident that the land is clean, they are better off investigating the issue with a qualified professional, remediating the contamination and obtaining paperwork documenting such remediation.

Other Options: As with any major transaction, it is always a good idea for a vendor to consider other options. Depending on the vendor's reasons for wanting to sell, setting up a family trust or syndicating their interest in the property or properties (i.e. selling a share of their interest to other investors), it is best to speak with your lawyer and accountant regarding other options.

There are many other things to think about before you list your property, and it is beyond the scope of this article to discuss them all. The best way to prepare for any sale is to take your time, think through the deal and speak with your broker, lawyer and accountant. ■

*Damon Chisholm can be reached at: 604-691-7464
<http://www.langmichener.ca>*

Q2 2009 Multi-Family Investment Sales

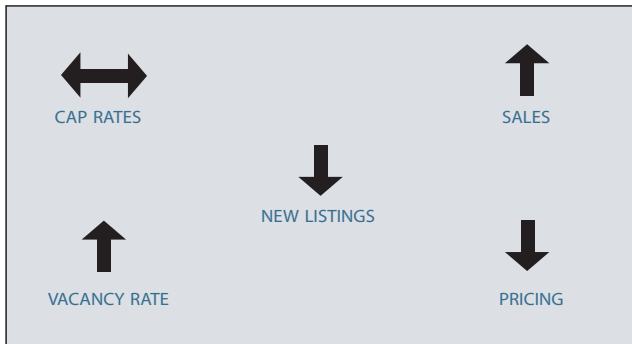
Property	Units	Sale Price	Price per Unit
540-542 Shaw Avenue, Coquitlam	111	\$11,970,000	\$107,838
2033 Beach Avenue, Vancouver	36	\$11,368,000	\$315,778
2460 & 2480 Trafalgar + 2581 & 2589 Broadway, Vancouver	23*	\$10,689,990	\$427,599
3091 Lincoln Avenue, Coquitlam	66	\$10,450,000	\$158,333
1169 E. 27th Avenue, North Vancouver	32	\$9,000,000	\$281,250
2929 & 2959 Tims Street, Abbotsford	108	\$8,500,000	\$78,704
225 E. 13th Street, North Vancouver	47	\$6,400,000	\$136,170
6712 McKay Avenue, Burnaby	28	\$4,275,000	\$152,679
2355 W. 1st Avenue, Vancouver	17	\$4,000,000	\$235,294
8655 Selkirk Avenue, Vancouver	32	\$3,700,000	\$115,625
2054 Comox Street, Vancouver	23	\$3,700,000	\$160,870
9275 Mary Street, Chilliwack	42	\$2,791,000	\$66,452
825 SW Marine Drive, Vancouver	17	\$2,288,000	\$134,588
9396 Nowell Street, Chilliwack	10	\$677,000	\$67,700
Total	-	\$89,808,990	-

* sale includes 2 additional commercial units

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

Q3 2009 Market Predictions

- Sales activity to increase
- Market values to stabilize
- Upward pressure on vacancy rates
- Downward pressure on rental rates
- Stabilization of cap rates
- Return of institutional buyers and syndicates to the market
- Current listings to decrease as sales increase



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Avison Young

VANCOUVER
#2100 - 1055 West Georgia Street
PO Box 11109, Royal Centre
Vancouver BC V6E 3P3
TELEPHONE: (604) 687-7331
FAX: (604) 687-0031
www.avisonyoung.com

For more information please contact:

Rob Greer
Principal
Direct Line: (604)-647-5084
rgreer@ay-bc.com

Michael Brodie
Commercial Real Estate Advisor
Direct Line: (604)-647-5073
mbrodie@ay-bc.com

Matt Saunders
Commercial Real Estate Advisor
Direct Line: (604)-647-5089
msaunders@ay-bc.com

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and Avison Young's current listings
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