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Multi-Family investment properties remain top performing commercial assets

Multi-Family assets continue to outperform other commercial real estate product during these uncertain economic times. According to **Canada Mortgage and Housing Corporation (CMHC)**, vacancy rates remain steady for rental apartment buildings in Vancouver at below 1% with rental rates holding, whereas other assets are generally seeing increased vacancies and declining rental or lease rates. Although many owners have recently mentioned that it is becoming more difficult to rent out vacant units quickly and at previously achieved rents, we anticipate rents to remain at historic levels and vacancies to stay low in well-located areas in the foreseeable future. This is mainly due to the lack of purpose-built rental projects being undertaken by developers. Competition from condo rentals entering the market will affect overall vacancy, but rental rates required by condo investors tend to be much higher than rents required in traditional rental buildings.

Market Activity

Due in part to the availability of attractive financing through CMHC, Multi-Family assets continued to trade during the first quarter of 2009 with 17 transactions completed and several other deals firm and pending completion. The three main factors that have contributed to the continued activity are:

- 1) change in price expectations from Vendors,
- 2) availability of attractive CMHC-insured financing, and
- 3) above market performance of Multi-Family assets.

Although we have seen an increase in market activity, there continues to be a high number of listings whereby Vendors are still looking to achieve yesterday's prices in today's environment. Market cap rates now seem to be stabilizing at 100 to 150 basis points above the market peak.

Avison Young

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

Q1 2009

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Market Trends

Year-Over-Year

	Number of Transactions	Total Dollar Volume
Q1 2009	17	\$59,320,530
Q1 2008	26	\$92,102,720

- Q1 2009 Transactions down 35% vs. Q1 2008 Transactions
- Q1 2009 Total Dollar Volume down 36% vs. Q1 2008 Total Dollar Volume

Quarter-Over-Quarter

	Number of Transactions	Total Dollar Volume
Q1 2009	17	\$59,320,530
Q4 2008	7	\$29,930,000

- Q1 2009 Transactions up 143% vs. Q4 2008 Transactions
- Q1 2009 Total Dollar Volume up 98% vs. Q4 2008 Total Dollar Volume

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

Vancouver Real Estate Forum 2009

We are pleased to announce that **Avison Young's Rob Greer** was recently a moderator at the **Vancouver Real Estate Forum** on April 23, 2009 at the Vancouver Convention Centre. Rob moderated a panel that examined major issues facing BC's Multi-Family sector. Please view www.aycre.com to review the one-page summary of the panel's discussion.



Sold by Avison Young: the 66-unit property at 1200 Howie Avenue in Coquitlam, BC represents the largest Multi-Family property sold in BC during the first quarter of 2009.

Vendor Profile

Renovated buildings have been a prominent product in both current listings and sales completed in the first quarter of 2009. Investors who purchased undervalued and underperforming assets increased these assets' value through significant renovations in order to sell for a profit. This Vendor group is followed closely by individual owners looking to liquidate their equity holdings in their properties.

Buyer Profile

The most active buyer group has been the high net worth individual investor who is attracted to the now positive spread between cap rates and the cost of debt. The most significant change over the past half year in the buyer profile is the absence of larger Multi-Family institutional buyers from the marketplace. After leading the market in larger asset purchases for the last three to five years, the institutional buyer group has chosen to back off. However, moving into the second and third quarters of 2009, we are seeing increased interest from not only the traditional Multi-Family institutional investors but also from other bigger institutions wanting to complement their portfolios and reduce risk.

City Politics

Residential Tenant Act – Vancouver's City Council Proposed Amendments

At a Vancouver City Council meeting on December 16, 2008 and a subsequent meeting on December 18, 2008, which was attended by Avison Young's Multi-Family Team, Vancouver City Council unanimously agreed that Council proceed with asking the Province to amend the Residential Tenancy Act to:

- Require landlords to allow tenants evicted for the purpose of renovations to reoccupy their units once

renovations are completed at the same rent as they were paying prior to the renovations, with the next annual increase limited to "inflation + 5%" per year

- Limit increases allowed to bring rents to average market rents for comparable units in the vicinity to "inflation + 5%" per year
- Extend the notice period for evictions from 60 to 90 days
- Require that the Residential Tenancy Branch approve a termination of tenancies for the purpose of renovations before eviction notices for the purpose of renovations can be issued
- Require that landlords report rent rolls, rent increases, tenant turnover, number and reason for evictions annually to the Residential Tenancy Branch, and that the Residential Tenancy Branch publish an annual report on rents, rent increases, turnover and evictions
- To look at measures that could open up vacant condo units for rental
- To investigate ways to prohibit landlords from abusing the use of their property, in order to protect tenants from being unfairly evicted

**The above amendments are from the City Council meeting minutes.*

The biggest concern as a result of this proposal is the restriction on landlords, who evict tenants in order to renovate a building or suite, to subsequently increase the rent to the current market rate. This would have drastic effects for landlords as they would no longer be motivated to spend money on their buildings. Tenants would ultimately suffer in the long run as the already aging supply of rental properties in Vancouver would continue to deteriorate.

Although the City has voted in favour of the above recommendations, it does not guarantee that these amendments will be readily amended to the Tenancy Act. The next step required in order to move these amendments forward is for a councillor to take on the responsibility of proposing the amendment to the Province and to begin actively lobbying in favour of them. If there is continued lobbying and merit within the request, the Province will set up a task force in order to investigate the issue further. With the upcoming election in May we do not see this as an active issue that will gain too much momentum. We will continue to update you on this matter as we have requested to be part of any task force that may be formed and consulted upon.

Mortgage Market Update

By Tony Kalla, Westbridge Mortgage Services Ltd.

Despite the ongoing global credit crunch, financing for Canadian Multi-Family properties is readily available with rates lower than ever. With the lack of faith in what used to be the strongest of multi-national corporations, the institutional investment community now places a larger-than-ever premium on government guaranteed debt instruments. With the faltering of many of the world's largest and strongest companies, the difference in rate (or spread) between government and corporate paper has widened significantly, as has that between conventional and CMHC-insured mortgages. Even very low ratio conventional mortgages for well-tenanted shopping centers or industrial facilities (or apartment buildings) are private investments (not unlike corporate bonds) and therefore demand significantly higher rates than those available with CMHC insurance.

The CMHC insurance program effectively makes the mortgage on Multi-Family properties a Canadian government bond. The debt is placed into pools and sold off to a variety of investors in much the same way as the subprime mortgage product that is largely blamed for the U.S. housing market crisis. The main difference, however, aside from the government guarantee on the CMHC mortgage, is the

anticipated means of repayment. CMHC-insured loans are carefully underwritten (by CMHC and lenders) to ensure a significant positive cash flow, whereas subprime loans left unqualified borrowers to service debt on inflated house prices in mysterious ways.

For the apartment investor this translates into readily available funds at historically low interest rates. With five-year rates now significantly below 4%, there has never been a better time for apartment investors to borrow money. Under the CMHC program, borrowers pay CMHC an insurance premium and application fee to have loans insured. The cost of the program (which is capitalized to the loan amount) adds an effective 0.5% - 1% per annum if factored in as a loan fee on a present valuation basis over a five-year term. The insurance, however, stays in place for the amortization period (unless refinanced for longer amortization or more funds at maturity) thereby really only adding a very small cost for the long-term investor holding a Multi-Family property with the intention of eventually eliminating debt. While bond yields remain low and demand for rental housing is steady, the CMHC mortgage insurance program should provide strong support to the Canadian Multi-Family market in these difficult economic times. ■

For more information on today's Mortgage Market please contact Tony Kalla at 604-687-3100

Q1 2009 Multi-Family Investment Sales

Property	Units	Sale Price	Price per Unit
1745 W. 12th, Vancouver	47	\$9,275,000	\$197,340
1580 Everall, White Rock	57	\$7,300,000	\$128,070
1200 Howie, Coquitlam	66	\$6,950,000	\$105,303
6433 McKay, Burnaby	36	\$4,700,000	\$130,556
1110 Howie, Coquitlam	36	\$3,351,750	\$93,104
135 E.19th, North Vancouver	23	\$3,338,000	\$145,130
1578 W. 11th, Vancouver	16	\$2,885,000	\$180,313
1015 W. 13th, Vancouver	11	\$2,860,000	\$260,000
7426 6th St., Burnaby	20	\$2,775,000	\$138,750
1510 E. 4th, Vancouver	16	\$2,600,000	\$162,500
2275 W.39th, Vancouver	10	\$2,530,000	\$253,000
8655 Laurel, Vancouver	18	\$2,385,000	\$132,500
1055 E. Broadway, Vancouver	16	\$2,120,800	\$132,550
1630 Chesterfield, North Vancouver	11	\$1,925,000	\$175,000
1766 W. 11th, Vancouver	7	\$1,830,000	\$261,429
436 Ash, New Westminster	14	\$1,315,000	\$93,929
6822 Arcola, Burnaby	10	\$1,180,000	\$118,000
Total	-	\$59,320,530	-

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

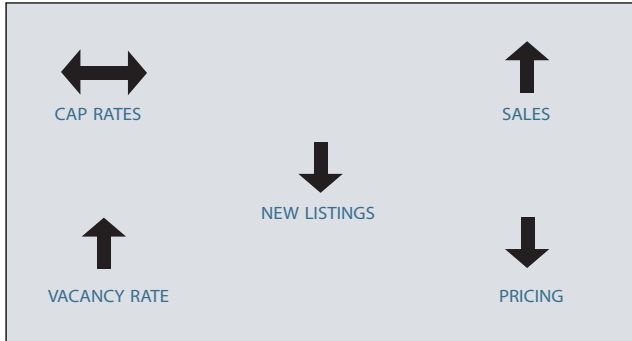
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Q2 2009 Market Predictions

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



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