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British Columbia Real Estate Multi-Family Investment Report

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**AVISON
YOUNG** Intelligent
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Metro Vancouver

The Metro-Vancouver apartment building investment market continues to be a strong environment for both buyers and sellers. Record low capitalization rates and the area's desirable location have made selling an apartment building investment very attractive for owners, particularly those who have owned their building for a long period of time. At the same time, relatively low vacancy rates have provided buyers with a low risk market for a safe investment with consistent, reliable returns. It is for these reasons we believe the market continues to see activity, although the market has slowed by as much as 30% as of late.

As property values continue to skyrocket in the Lower Mainland, rental apartment buildings have become the primary option for affordable housing ensuring vacancy rates in Metro-Vancouver remain low. This has driven investor interest in the area and buildings continue to sell for extremely low capitalization rate averages of 3.0% & 4.5% in the Vancouver-Burnaby area.

The boom in the condominium market has created competition for many rental building owners in Metro-Vancouver. In some of the newer condominium buildings up to 40% of the units are purchased by investors with the intention of placing them on the rental market in direct competition with the units in your traditional rental buildings. Read more about how rental condominium units are affecting the traditional rental market on page 4.

It is our opinion that this condominium market is becoming an increasingly risky place in which to invest. There is a significant amount of product set to complete within the next 12 months, which may cause an excess of investors looking to sell before having to come up with the funds to complete on their pre-sale investment. The

development of this situation should be of interest to rental building owners as a collapse of this market will make owning a condominium more affordable for those who are currently renting.

Fraser Valley

As development in Metro-Vancouver begins to reach the limitations of the city's geographical surroundings, the Fraser Valley will continue to provide an attractive alternative for investment. The Fraser Valley has established strong yields on Multi-Family real estate investments, which remain higher when compared to Metro-Vancouver. Activity continues to be strong in the area, as **Avison Young** has completed the sale of four Multi-Family properties in the Fraser Valley during the first quarter of 2008. This includes the **sale of 89 Multi-Family strata titled units on Hill Tout Street in Abbotsford**, which sold for over \$104,000.00 per door.

Population growth in the area has strengthened the tenant base for the Fraser Valley, while economic growth has made higher end rental living conditions much more affordable for more and more people. This presents owners with the opportunity to renovate older buildings and achieve higher returns on quality product. The municipalities of Abbotsford and Chilliwack are encouraging the renovation of older rental apartment buildings by providing owners with tax exemptions for money spent on revitalizing the downtown areas. To learn more about revitalization tax exemptions visit your municipality's website or **call Rob Greer directly at 604-647-5084**.



Chilliwack has seen significant development projects undertaken within the last few years. The award winning Garrison Crossing development as well as the Canada Education Park development on the former CFB Chilliwack military base will cause substantial economic growth to Chilliwack. The Fraser Health Authority's planned expansion of the Chilliwack General Hospital and the development of the Abbotsford Regional Hospital and Cancer Centre will also significantly contribute to the area's desirability and liveability. Investors have also taken notice of these new projects, as **we have recently completed the sale of a 33 unit Multi-Family building on Mary Street in Chilliwack, which sold for \$76,121.21 per unit.** The job growth generated by these new developments will benefit the Fraser Valley Multi-Family market.

Vancouver Island

The Vancouver Island Multi-Family market is capturing the interest of many individual local investors as well as major national institutional buyers. Taking advantage of the capitalization rates in the Island's major urban areas of Victoria and Nanaimo, investors are finding these areas provide very low risk investment opportunities, with vacancy rates as low as 0.5% in Metro Victoria. Rental apartment buildings continue to provide capital returns well above 5%, although this is starting to change in Metro-Victoria as owners begin to expect their Multi-Family investments to sell for similar cap rates seen in Metro-Vancouver. **Avison Young's recent successful sale of 1430 Estevan Road and 540 Prideaux Street in Nanaimo** has shown that the market is still providing investors with 6% or above returns on their investments, even though the market is providing a 1% vacancy rate, which is comparable to areas in Metro-Vancouver. Victoria rental rates continue to be much stronger than

the Fraser Valley, where as Nanaimo has yet to surpass other major centres in rental averages. However, the Nanaimo Multi-Family market has become one of great interest for investors. An expanding economy has encouraged development in the area, which has made Multi-Family investments very attractive. We have seen a growing number of investors turn their attention to this market, looking to capitalize on the attractive returns in a low risk environment.

So who is Buying Buildings?

Rental Apartment buildings attract a wide variety of investors. High-net worth individual investors continue to see conservative, long-term yield opportunities, in low-risk environments. These individuals tend to have a history of investing in Multi-Family and other commercial real estate assets. These buyers invest in all areas throughout Metro-Vancouver, the Fraser Valley and Vancouver Island.

Short-term investors have also played a role in recent buyer activity as they look to capitalize on buildings that are not operating at their full potential. These investors tend to be experienced in investing in Multi-Family product with large amounts of capital at their disposal.

Large institutional buyers have also continued to invest in rental apartment buildings, as they are attracted to the diminishing number of affordable rental opportunities in British Columbia's major markets.

...Then Who is Selling?

Investors who have decided to get out of the rental apartment building market are still long-term investors looking to capitalize on the long-term yield of their investment. These tend to be high-net worth, aging individual investors who have decided to leave the real estate investment market due to the need of funds elsewhere or a lack of interest from future generations in owning Multi-Family product.

Short-term investors are also putting top quality product back on the market after investing a lot of money to fix up the building and increasing its operating efficiency. These buildings often possess great long term investment opportunities as they are in great condition and are operating at a maximum, or close to, return rate with high rents and efficient operating costs. Short term yields are very low (3-5% depending on the area); however repairs and maintenance costs should be reduced with rents well above the market average.

New Debt Challenges

As financial institutions tighten up their lending practices, some purchasers will struggle with obtaining financing. It is our opinion that this problem will most significantly affect the larger asset classes above \$5 million, particularly in areas with lower accepted capitalization rates such as Metro-Vancouver. Higher debt-service ratios set by these institutions will force loan to value ratios down, and many potential purchasers have to invest more equity in order to purchase larger assets. There are not too many purchasers who are willing to put down the amount of money required to meet the new low loan-to-values set by lenders. Although this problem has yet to significantly affect market prices and activity, we believe this will be the catalyst of a market slow down if one is to arrive in the near future.

The US Credit and Mortgage Crisis

There is a serious credit and mortgage crisis currently taking place in the United States. Investors are waiting to see if the worst of the problems have yet to arrive and whether or not the crisis will hit British Columbia's investment market. Although we do not foresee a significant affect from this credit and mortgage crisis, we do believe there will be some repercussions. As banks re-group and re-coup from the last six months, the amount of money they will lend to investors will decrease as underwriting standards tighten. The number of qualified buyers will be reduced as banks limit their exposure to some borrowers, who now face lower loan-to-value ratios for commercial loans. Although this will lead to a slow-down in the overall real estate investment market place, we are of the view that the credit crunch will only significantly effect larger investment properties priced over \$5-7 million range, due to potential financing problems.

What's on the Horizon?

As real estate investors we all must be worried about how the deteriorating situation in the US will affect people's overall perception of the real estate market. Although Vancouver's Lower Mainland and Vancouver Island's markets are still very strong and provide a low risk investment option, we may feel the US real estate downfall indirectly

as overall economies begin to slow. This may limit the demand for real estate investment as some potential buyers may be forced out of the market as they will not be able to meet the new tough standards now being imposed by lending institutions.

The rental building moratorium in Vancouver is also a cause for concern for current owners. As rental building properties lose their redevelopment or condominium conversion appeal buyers will be forced to value these properties purely on their capitalization rates or the market's price per door values. This makes it hard for some owners to maximize return on investment, especially with not much flexibility to increase their building's net operating income.

The current limit on rental increases (3.7% for 2008) will seriously hamper long-term owners who are not consistent with increasing rents every 12 months. With low vacancy rates there will not be enough tenant turnovers to bring all below market rents up to a level where owners can significantly increase the value of their apartment building. We believe this will have an influence on overall rental apartment building prices and is a cause for concern for investors looking to sell in the short term.

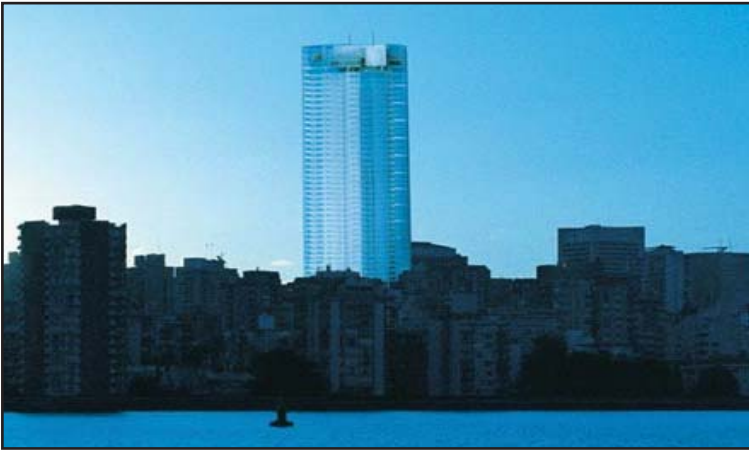
Long term we believe the rental apartment building market will continue its overall ascent and will continue to be a strong and safe investment, especially in Metro-Vancouver, the Fraser Valley, and Vancouver Island. Geographical constraints, coupled with the desirability and affordability of Metro-Vancouver, The Fraser Valley, and Vancouver Island will continue to drive investor interest and support aggressive pricing.

Moving Forward

These new market conditions have provided buyers with many interesting options. With little room left to move in the market capitalization rates, especially in the metro areas, owners can continue to hold on to their investment and try to improve their property's value by increasing rents or by finding alternative ways to supplement their operating income through laundry increases or charging for parking. However, seeing property values move as quickly as they have during the past few years may prove to be quite difficult as rental restrictions only allow for rental increases to be given at a set rate every year.

As banks begin to tighten up their lending practices with lower loan-to-value ratios and higher standards for bor-

rowers, the supply of potential buyers in the market place will decrease. This provides a great environment for those with lots of capital to invest at lower loan-to-values as there is sure to be opportunities to get a better return on your investment for having the ability to buy with cash.



The New Competition

A lack of developable land in Vancouver's Lower Mainland has driven many developers to focus on condominium Multi-Family development projects. It is estimated that up to 40% of these new condominium units are being bought by individual investors to be placed on the rental market to compete directly with the rental building stock. These new condominium units are being built with the purpose of allowing for a longer-term tenant or owner. Hardwood floors, in-suite laundry, kitchens with new appliances, up-to-date bathrooms, and secured parking are some of the common features these new condominiums have for their tenants. Many renters are paying more to rent in these new condominiums as opposed to what they would pay in the traditional rental buildings. We are seeing units in condominium buildings achieve rents at \$2.00-\$2.50 a square foot in areas where units in rental buildings only achieve rents at \$1.60-\$2.00. per square foot. However, this has provided rental building owners with an opportunity to improve the quality of their building to achieve higher rents. Here are a few suggestions on how to improve the units in your building to attract higher quality tenants who are willing to pay higher rents and stay longer in a better product:

1. Improve the outside appearance of your building

Your building's landscaping is important for creating a good first impression to a prospective quality tenant. Good landscaping can make a difference in obtaining tenants who may be comparing your building to others. A new coat of paint will also help improve the general appearance of your building.

2. Upgrade all common areas in your building

New paint, lighting, and carpet in your building's common areas will also improve people's perception of your building.

3. Replace the carpet with hardwood floor

Check to see if the existing carpet in your units is covering up old hardwood floor. Old hardwood floors can be easily re-done and are relatively inexpensive (roughly \$500 per unit).

4. Update the bathrooms in your units

Oftentimes the bathrooms in older rental apartment buildings have become out-dated. Re-spray the toilet and sink and replace the old linoleum shower lining with tile to improve the look of the bathrooms and the overall appeal of your units.

5. Update the kitchens in your units

Install new counter tops and a dishwasher as well as update all old appliances to improve the liveability of your units.

Obviously these renovations can be quite expensive, especially in a larger buildings. Owners should be aware of some incentives certain municipalities are giving to owners who upgrade their buildings through revitalization tax breaks. Contact your municipality to find out what incentives they may provide for Multi-Family building renovations **or Call Rob Greer directly at 604-647-5084.**

The Vancouver Real Estate Forum

We recently attended the Vancouver Real Estate Forum on April 29th, 2008, held at the Hyatt Regency in Downtown Vancouver, at which some of the industry's brightest and most experienced shared their views on the local and global economy and commercial real estate market to over 800 attendees. The following are some of the highlights from the forum, which summarize our sentiment of where the markets are currently at and where they are headed in the near future.

•Global Dependency Shift

Jeff Rubin, Managing Director, Chief Economist and Chief Strategist for CIBC World Markets INC. summarized where he thought the global economy is headed in the near future, stressing the shift of global economies' dependence on the United States as BRICA (Brazil, Russia, India, China, and Africa) generated 35% of the world's GDP between 2004 and 2007. This is a trend that looks to increase in the future. Canada's dollar is also projected to average \$1.05USD in five months which will strengthen our national economy as the US becomes more dependent on Canada as an energy supplier.

Mr. Rubin also predicted that oil would rise to \$130 per barrel in 2008 and \$200 per barrel within the next five years. This will force gasoline prices to \$2.25 per litre, due to the lack of growth in supply but surging demand of oil by oil producing countries.

•Yesterday's News

Although we covered this topic earlier, no longer are people looking at the credit crunch in the US as the pressing issue regarding Canada's economy. Reflation is now regarded as tomorrow's issue as energy costs and food prices continue to rise. Although short term interest rates are projected to come down, reflation will lead to rising interest rates long term. If memory serves anyone correctly, when interest rates go up, they go up much quicker than they came down.

•Moratorium Problems ahead

The current condo-conversion moratorium is continuing to cause problems for many. It was our impression from the real estate forum that there are no developers currently considering purpose built rental buildings with additional strata units to replace older and dated rental product; this is mandated by the rental moratorium in Vancouver on a one-to-one replacement bases. Current height and density restrictions make the option of redevelopment unviable.

•Prominence of the New Competition

New purpose built rental buildings are less economical to build for developers as Vancouver's condo market continues to hold strong. This has caused the inventory of rental buildings to stagnate and allowed for other inventory to enter the rental market. These other secondary rental options include: condominiums, townhomes, accessory suites, and detached homes, which now number approximately 129,000 units or half of the current rental stock in Metro-Vancouver. The most similar of these secondary units to the traditional rental units are the new condominiums, which comprise approximately 31,000 rental units in Metro-Vancouver's rental market. As stated previously, up to 40% of these condominium units in some areas are being placed on the rental market. Their prominence in the market place has forced CMHC to begin to monitor statistics on this unique rental strata product type. Visit CMHC's website or our site, www.ayinvestment.com, for the link to learn more about the growing condominium rental market.

•Buyer's Knowledge

Multi-Family buyers are becoming more knowledgeable about the rental market, as they are now more capable at identifying a property's true value, beyond current cap rates. This may be the reason behind the current market conditions, where sales are down 30% and current inventory is heading up. Buyer's activity, however, is still encouraged, as current interest rates remain very attractive at unprecedented levels and people still regard rental averages in the area as being relatively low, with the potential to increase rents in the near future.

•What are buyers looking for?

Listening to a panel discussion on the Multi-Family rental market at the forum, we heard a Senior Vice President of a large institutional buyer talk about the value add aspect of purchasing a Multi-Family asset. Although most often buyers review a building's below market rents and believe that by increasing them they can add value to the building, it was pointed out that with the current low vacancy rates and low turnover ratio in most markets in Metro-Vancouver, the Fraser Valley and Vancouver Island it is very difficult to bring all, if any, rents up to market levels within a short period of time. In some areas it could take more than ten years to bring even a quarter of the units up to current rental levels.

One way that some buyers now look to add value to a building is by increasing the number of units. There is a huge risk associated with adding non-conforming units

to a building, so be sure to check with your local municipality on the process to add conforming units. Through this process make sure to ask the question why are municipalities complaining about the lack of low income housing units while at the same time making it difficult for rental owners to add more units to their building?

•If you can measure it you can meter it

A new trend for rental building owners emerging from Eastern Canada is the transition to fully metered units. Owners are now metering anything and everything they can. This concept has developed as rental owners are looking to decrease their operating expenses by passing the costs off to their tenants. We are of the view that this concept is most suited for tight rental markets, such as the Multi-Family market in Metro-Vancouver, the Fraser Valley, and Vancouver Island, where low vacancy rates ensure that tenants do not have much of an option but to accept these added costs. This may help off-set current restrictions on rental increases, which have hindered buildings' net operating incomes.

•Transit Densification

There will be a significant push in the near future to increase the density around any major transportation nodes. Currently only 11 of Metro-Vancouver's 47 major transit locations have any densification around it. As the city moves towards eco-density to decrease the environmental impact of the population, these transit areas become obvious choices for higher density projects. The City's focus will be around densification, pedestrian infrastructure and new retail development around the transit nodes to encourage a greener more sustainable society.

•Environmental Savings

Energy efficient initiatives are becoming very popular in the main stream. Although no one ever regarded rental apartment buildings as the catalyst behind the world's current global environmental crisis, there are some initiatives underway in which to make rental buildings environmentally friendly. Many of these initiatives help reduce operating expenses; however owners should be aware of the actual cost benefits associated with environmental improvements. Using energy efficient lighting and replacing old boilers with energy efficient boilers has proven to make economic sense with owners recovering the cost through reduced expenses. Other methods, such as green roofs, are still too new and need more time to develop to determine whether there are cost

benefits, if any.

Concurrently, CMHC has announced the introduction of a 10% rebate on their insured loans for purchasers looking to implement green initiatives on their investments. To learn more about these initiatives please call us, or click on the CMHC's link on our website, www.ayinvestment.com.

•Tenant Management

Owners are now becoming concerned with tenant retention and are putting more pressure on property managers to keep tenants happy and in the building. Asking the right questions to your property manager is very important in understanding why there may be problems with tenant retention. What was the tenant's reason for moving out? Are my rents too high? Do I need to up-date my building? These are some of the questions that your property manager should have answers for.

•Debt

As mentioned previously in this report the current debt markets are going through a tough period. The Commercial Mortgage Backed Securities (CMBS), which made up 25% of the mortgage market, are now completely inactive. Those who are still lending on commercial properties are shortening up their amortization periods, thus lending smaller loan amounts. There is now less money in the lending market and tougher restrictions on loan amounts.

Following the forum we were able to generate a knowledgeable understanding of where the local Multi-Family market is headed in the near future. If you have any questions or comments regarding our summary of the Vancouver Real Estate Forum and any unique ideas of the market place we have formulated please call us directly at 604-647-5084.

www.ayinvestment.com

We are pleased to announce the successful launch of our new website, www.ayinvestment.com, which will feature our current BC investment opportunities as well as up to date market information and investment advice. To learn more please visit us at www.ayinvestment.com and make sure to register to receive our new listings and future market updates.

2007 Market Rental Rates

Address	Bachelor Rental Average	One-Bedroom Rental Average	Two-Bedroom Rental Average	Vacancy Rate
Vancouver	\$760	\$902	\$1,283	0.5%
Burnaby	\$659	\$778	\$974	0.5%
New Westminster	\$590	\$709	\$893	1.3%
North Vancouver	\$764	\$864	\$1,147	0.3%
Surrey	\$539	\$661	\$820	2.4%
Tri-Cities	\$593	\$703	\$879	1.8%
Maple Ridge/ Pitt Meadows	\$494	\$609	\$836	2.4%
Abbotsford	\$520	\$610	\$752	2.1%
Chilliwack	\$467	\$573	\$712	1.5%
Nanaimo	\$460	\$581	\$700	1.0%
Victoria	\$589	\$716	\$907	0.5%

(Source: CMHC)

Market Population and Growth Rates

Area	Population (2007)	2007 Population Growth
Vancouver	611,869	0.8%
Burnaby	216,336	1.5%
New Westminster	62,607	1.9%
North Vancouver	86,954	0.0%
Surrey	423,925	2.6%
Tri-Cities	206,251	0.8%
Maple Ridge/ Pitt Meadows	90,003	1.5%
Abbotsford	131,827	1.4%
Chilliwack	74,819	3.1%
Nanaimo	147,455	1.5%
Victoria	366,162	1.0%

(Source: www.bcstats.gov.bc.ca)

Rob Greer 2008 Sales Activity

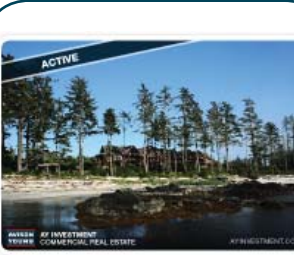
Corner Site Auto Service Station, Burnaby, BC



Mixed-Use/Multi-Family Development Opportunity, Chilliwack, BC



Oceanfront Development Site, Ucluelet, BC



The Urban Building, Kamloops, BC



89 Multi-Family Strata Titled Units, Abbotsford, BC



Multi-Family Development Opportunity Port Coquitlam, BC



28 Multi-Family Units, Chilliwack, BC



33 Multi-Family Units, Chilliwack, BC



Freestanding Office Building Kamloops, BC



Office Building, Burnaby, BC



6-Unit Multi-Family Complex, Abbotsford, BC



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