

THE MULTI-FAMILY INVESTMENT MARKET

By Lance Coulson, Executive Vice President, CBRE National Apartment Group B.C.

Could It Be Making a Comeback?

After a slow first half of 2019, investors' interest and sales activity for multi-family buildings throughout Metro Vancouver and Greater Victoria appears to be bouncing back as a result of extremely attractive interest rates, clarity in governmental policies, lack of supply, and rising rental rates across the region.

In 2018, total apartment sales reached a total of approximately \$1.4 billion in the Vancouver region. However, for the first half of 2019, apartment transactions have totaled just over \$400 million with approximately 41 rental buildings being sold between January and June 2019, which is an indication that we are off pace to match the 110 rental apartment sales that completed overall in 2018. Some of the main factors that contributed to the slowdown in market activity in the first half of 2019 were:

1. Market Uncertainty In the spring of 2018, Premier John Horgan appointed a Rental Housing Task Force which released 23 recommendations for review by the Provincial Government as potential solutions to better protect renters. Following this in September 2018, the B.C. government reduced the maximum allowable annual rent increase for 2019 from 4.5 per cent down to 2.5 per cent. Then in the Fall of 2018, a referendum on electoral reform took place, and though B.C. voted in favour of maintaining the current first-past-the-post system, this introduced further uncertainty into the market, putting many prospective investors on the side lines.

2. Government Policy Governments at various levels have introduced measures to try and protect tenants from "demovictions" and "renovictions" and made rentals mandatory in new developments in some municipalities. This has caused developers looking to acquire apartment buildings on sites with underlying redevelopment potential, or investors considering underperforming apartment buildings with the intention of adding value through repositioning, to revisit their value assumptions.

It shouldn't be surprising that the effects of the market uncertainty combined with government policy have slowed down sales activity. Possibly, the term "**policy induced recession**" could apply. Especially considering that it was the government's intention to do exactly that to the residential real estate market with the introduction of numerous taxes including: the Foreign Buyers' Tax and higher Property Transfer Tax rates (for residential properties > \$3M), both of which apply to apartment buildings due to them being included under the residential real estate umbrella for tax purposes. The combination of various implemented policies presented investors and apartment building owners with a substantial amount of information and protocols to digest, which led to general uncertainty throughout the market. As a result, many investors chose to sit on the sidelines in order to observe



and reflect on their strategies moving forward, which triggered a slowdown in the market.

STRONG MARKET FUNDAMENTALS

That said, the current fundamentals for apartment buildings remain solid and we are in fact starting to see a renewed interest in investor's appetite to buy rental apartment buildings due to a number of factors:

- Interest rates remain at historically low levels despite the government having expressed the potential of increasing the interest rates at the beginning of 2019. The compressed interest rate environment has provided investors the opportunity to secure extremely favourable long-term debt, which will likely keep cap rates in Metro Vancouver relatively lower to the other major Canadian markets. In fact, most multi-family deals can be financed with Canadian Mortgage and Housing Corporation (CMHC) insured mortgage rates of a low 2 per cent for 5-year terms and low-to-mid 2 per cent for 10-year terms, which are the lowest rates available in the commercial financing sector. **Note that the range of estimated interest rates is current as of Sept. 2019 and may be subject to future changes.*
- British Columbia and Metro Vancouver continue to benefit from positive migration and tenant demand; Vancouver's regional population continues to rise by approximately 40,000 – 50,000 people per year, and for many the cost of home ownership remains out of reach, making renting the only viable option for the foreseeable future.
- Governments have yet to effectively incentivize any real significant amount of new rental stock, ensuring vacancy rates remain low, tenant demand high, and continued upward pressure on rental rates.

MARKET OVERVIEW

Given the softening in the condo sales market within Metro Vancouver, the market is seeing less demand on re-development land which has impacted sales of apartment buildings with high underlying land values. Further, with repositioning of underperforming

apartment buildings being more complex and time-consuming due to government policy on renovations, there are fewer low cap rate transactions from “value-add investors”. However, we have seen a surge of demand among institutional investors for newly-constructed multi-family assets throughout the Lower Mainland and Vancouver Island regions. In addition to these types of assets, we continue to see demand from investors for transit-oriented and well-located assets, as well as better maintained buildings at slightly higher cap rate.

Large-scale institutional investors and REITs are continuing to see opportunity in Metro Vancouver and are not discouraged by a higher price-per-door or by the region’s relative lower capitalization rates. Canadian Apartment Properties Real Estate Investment Trust (CAPREIT), one of Canada’s largest REITs, has been a major player in acquiring new purpose-built apartment buildings in Metro Vancouver, two of which were recently transacted by the CBRE National Apartment Group BC: “The Point Apartments”, a 98-suite luxury rental in Langley, and “The Meridian Apartments”, a 90-suite luxury rental building located across the street from The Point Apartments.

What makes these newly built rental apartment buildings so attractive to institutional investors is the immediate ability to generate market rents as well as the low cost of maintenance and capital expenditures. In comparison to condo pricing in the Lower Mainland which have a benchmark price of \$649,000, these new rental apartment buildings

generally transact below condo per-foot values and trade at slightly higher cap rates, making them appealing investment opportunities.

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Although we are seeing less demand from developers and repositioners in apartment assets, the reality is that Vancouver and Victoria are world-class destinations and investors are drawn to the security of the cash flow that multi-family assets in the region provide.

Incorporating the consistent migration of people into the region, as well as the future influx of high-profile tech companies such as Amazon, Facebook and Apple, the demand from tenants for well-maintained and high-quality apartment rentals will only continue to grow. For the remainder of 2019 and as we progress into 2020, we will continue to see majority of demand coming from both institutional and private investors seeking new purpose-built rental buildings in core areas, and for older improved assets at cap rates that are 500 to 100 basis points higher on average than what was being achieved in 2018.

CBRE LIMITED

NATIONAL APARTMENT GROUP | BRITISH COLUMBIA

A leader in Metro Vancouver and Victoria Apartment sales between 2015 - 2018, with a total sales value in excess of \$774 Million!*

*SOURCE: REALNET AND CBRE (JANUARY 1, 2015 – DECEMBER 31, 2018 COMBINED). INCLUDES TRANSACTIONS WITH CO-OPERATING BROKERS.

CBRE

CBRE LIMITED REAL ESTATE BROKERAGE

**LOCAL KNOWLEDGE
GLOBALLY CONNECTED**

We are a leading apartment sales team in BC that has the ability to reach buyers across the globe with 460+ offices situated in all major markets around the world. We are a team with significant local knowledge and expertise that is globally connected, a combination that is indispensable and creates the most competitive marketing program. We specialize in achieving maximum value for our clients while at the same time maintaining a professional stress free sales process all the way through!

Have a rental apartment property and are considering selling? Wondering if now is the time to sell? Need advice or have questions? **Contact Us!**

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NationalApartmentGroupBC.ca

1606 NELSON STREET, VANCOUVER


FOR SALE



13 SUITES | RECENTLY UPGRADED
Exceptional West End Location with large suites
List Price: \$8,975,000 (3.25% Cap Rate)

2916 LONSDALE AVENUE, NORTH VANCOUVER

FOR SALE



RETAIL PLAZA | PRIME LONSDALE LOCATION
100% leased with rental escalations
List Price: \$11,325,000 (3.25% Cap Rate)

LANGARA ESTATES ONE

FOR SALE



STRATA WIND-UP | 5.63 ACRES
Trophy location on the edge of Langara Golf Course
Status: Bid Process | cbrevancouver.com/LangaraEstatesOne

975 WEST 10TH AVENUE, VANCOUVER


FOR SALE



17 SUITES | DIRECTLY ACROSS FROM VGH
Excellent location & significant rental upside
List Price: \$7,989,000

1383 EAST BROADWAY, VANCOUVER

FOR SALE



30 SUITES | 16,077 SF SITE
Good holding income with future redevelopment
List Price: \$12,250,000

5393 201 STREET, LANGLEY

SOLD



BRAND NEW PURPOSE-BUILT RENTAL APARTMENT
One of the biggest multi-family sales to-date in 2019
Sold: \$39,000,000 (2019)



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HOW CAN WE BE OF ASSISTANCE?

Contact us for a no obligation valuation of your Apartment Property!