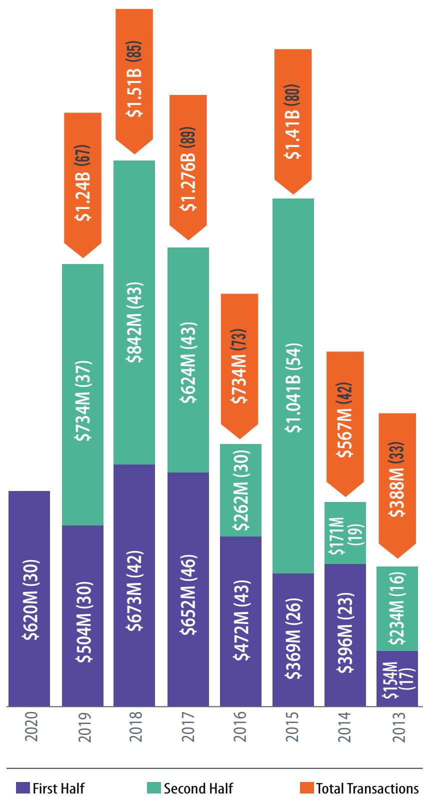
Multi-Family Investment Report / Fall 2020

British Columbia

Value of BC multi-family sales (Greater than $5M)



BC's multi-family investment market proves resilient to pandemic pressure as strong sales activity persists

Investment in British Columbia's multi-family market was largely unscathed by the arrival of COVID-19 in the first half of 2020 with deal and dollar volume remaining healthy and the asset class in strong demand throughout the province.

Multi-family sales in the first half of 2020 involved 30 transactions valued at $620M, the third-highest first-half dollar volume on record and surpassed the dollar volume of first half of 2019 (30 deals/$504M). While dollar volume remained historically strong in 2020, the number of deals completed was down substantially from the first and second halves of 2017 and 2018 and the second half of 2019. While new government regulation involving the rental housing market had stifled multi-family investment activity in Metro Vancouver in the first half of 2019, the renewed investment that had started to manifest in the back half of 2019 was then temporarily sidelined by COVID-19 being declared a public health emergency in BC in March 2020. (Avison Young only tracks multi-family investments trading at more than $5M.)

Most touring activity and some negotiations were delayed in the early days of the pandemic – just six multi-family sales closed in April and May – but a steady start in the first quarter of 2020 and a resumption of sales activity in June helped maintain multi-family deal volume. A number of deals were (re)negotiated during the initial phases of the pandemic and those will likely emerge in the second half of 2020 with new terms and pricing. The possibility of a potential increase to the federal capital gains tax is also fuelling sales.

While private investors made up the majority of vendors and purchasers in the first half of 2020, REITs and institutions are likely to increasingly emerge as buyers, particularly on larger deals, in the back half of the year and into early 2021. Many of the properties likely to sell will involve new

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construction and are of substantial scale, representing higher yields. Value-add investors, who are typically private, remain sidelined and mostly excluded from the market in Metro Vancouver, as new municipal policies redefine the relationship between building owners and tenants. Municipal housing and development policies in many key markets in Metro Vancouver continues to hamper delivery of new supply and redevelopment of existing multi-family properties. This increased risk has led investors to return to more traditional metrics that require higher yields to get deals done. Policy proposals related to the rental market put forward in various political party platforms (including the BC NDP's proposal to freeze residential rents to the end of 2021) during the provincial election campaign in October 2020 has concerned some investors.

Those existing apartment owners with little interest in selling have instead been looking for opportunities to acquire additional multi-family properties, which has resulted in substantial amounts of capital on the sidelines looking for deals. Relatively high rates of rent payment during the first wave of the pandemic (thanks in part to provincial and federal government programs such as the Canada Emergency Response Benefit also assisted in maintaining the stability of apartment buildings as an investment. As a result, pricing has remained largely unchanged with no COVID-discount manifesting in BC's multi-family market despite potential purchasers' perceptions that better deals should be able to be had. Private vendors have not been motivated to sell into this market, which has resulted in buyers and sellers continuing to try to bridge a pricing expectations gap. However, multi-family investors can benefit from low-cost capital, particularly from the **Canada Mortgage and Housing Corp.**

"By now we all know that bond rates are low, down approximately 1% from pre-COVID times. However, most conventional lenders have implemented 'floor rates' whereby they won't fund loans below a specified rate regardless of the lender spread quoted," said **James Paleologos** with **Realtech Capital Group**. "For instance, a conventional quote could be 200 basis points over the 5-year GoC or a floor of 3.25%. This means that the rate will be the greater of the two, which currently is always the floor rate. The bond yield at the time of writing is 0.35% plus an assumed 2% lender spread should be a rate of 2.35% but the floor of 3.25% would in fact be the rate used. These conventional floor rates have made CMHC-insured financing even more attractive. The borrower can still take advantage of the low bond yields, which have produced all-time low historical rates."

As residential vacancy rates have remained low and market fundamentals continue to be strong throughout the province, rental rates have largely remained stable with some softening in those markets where rents had rapidly increased during the past 24 months such as Vancouver and North Vancouver.

However, three factors had emerged by fall 2020 that may impact BC's multi-family investment market moving forward. As government economic support/stimulus programs end or are reduced, higher rates of default on rent payments may occur. Also, select multi-family buildings in specific submarkets that have been traditionally popular with post-secondary students registered higher than normal vacancy when classes commenced in September with both international and domestic students not attending classes in person for the summer and fall semesters in 2020. This may lead to a further softening in rents and increase in vacancy. Also, pandemic-related limits on immigration will likely start impacting the multi-family markets of Metro Vancouver the longer such restrictions remain in place as new immigrants typically first settle in rental accommodations. Investment in BC multi-family assets has held up well in the six months since the arrival of COVID-19 as vacancy remained tight and new supply limited, but the market could face new challenges in 2021. ■

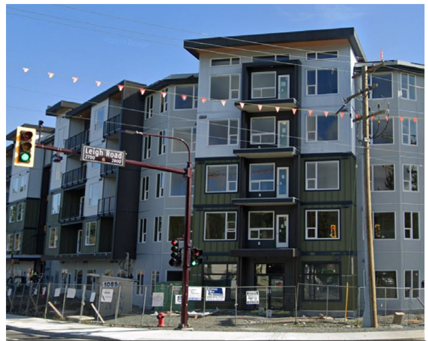
Regional review

Investment activity in BC multi-family assets is increasingly occurring outside of Metro Vancouver

Metro Vancouver remains home to the majority of the province's population, but other BC real estate markets, including Victoria and the Capital Regional District along with other Vancouver Island communities, are joining the Okanagan Valley as well as other BC Interior towns as increasingly attractive locations for multi-family investors seeking higher yields.

While local private investors were typically responsible for much of the past investment activity in markets outside of Metro Vancouver, a flight to higher yields, new construction and municipal business environments that are more conducive to multi-family investment have attracted both large private investors and institutional buyers who are increasingly seeing buy opportunities across the province. ■

Plaza 500 in Vancouver sold for $82.5M



The Star on Goldstream in Langford sold for $52.05M

155 Oriole Road in Kamloops sold for $8.9M

Metro Vancouver

As home to the majority of the province's 5.07 million residents, Metro Vancouver remains the epicentre of BC's multi-family investment market. However, differences in municipal regulations related to rental housing and multi-family development (combined with council politics) have resulted in a significant differentiation in the levels of multi-family investor activity in the core market of Vancouver and the inner (Richmond, Burnaby and the North Shore) and outer (Surrey, Coquitlam, Maple Ridge and Langley) suburbs that make up most of the region.

While multi-family sales in Vancouver in the first half of 2020 were notable in both number and value, this has not been the case for much of the past 24 to 36 months. Municipal regulations around rental properties and multi-family development combined with council politics and a prolonged permitting process, strong pricing and low yields, and constrained supply in the City of Vancouver have frequently resulted in a dampening of enthusiasm to invest in the province's biggest city. This has benefited many of the region's inner and outer suburbs that are typically viewed as friendlier to multi-family investors.

SELECT REGIONAL TRANSACTIONS (BY $)

PROPERTY	LOCATION	PRICE	DATE
Plaza 500	Vancouver	$82.5M	Jun 2020
Fontainebleau Apartments	Vancouver	$70M	Feb 2020
Harley House	Vancouver	$51M	Mar 2020
The Beverley	New Westminster	$48M	Jan 2020
Kathleen Court	Vancouver	$20.2M	Feb 2020

Vancouver Island

Victoria and Vancouver Island's Capital Regional District (CRD) have played a substantial role in BC's multi-family investment market in recent years. Apartment sales in Vancouver Island communities, particularly Victoria, first registered a notable increase in terms of deal and dollar volume in 2014 (4) and 2015 (7) as provincial multi-family investment surged to new highs in 2015 (in advance of the massive increases in the volume of industrial, office and retail investment that subsequently followed in 2016-18), multi-family pricing got ahead of the market in Victoria. This led investors to take a pause in 2016 (1) before returning to Victoria in 2017 (9), while also now looking beyond the city's borders to other communities in the CRD, including Oak Bay, Langford, Esquimalt, Sidney and Saanich. Multi-family sales in Nanaimo had also picked up since 2012. While Vancouver Island apartment sales dried up in the first half of 2018, investors returned in the back half of the year with sales in Victoria (3), Esquimalt (2) and Sidney (1). The flood gates opened in 2019 with transactions in Victoria (11), Langford (6), Esquimalt (3) and Saanich (2). That trend has continued in the first half of 2020.

SELECT REGIONAL TRANSACTIONS (BY $)

PROPERTY	LOCATION	PRICE	DATE
Christie Point Apartments	Victoria	$54M	Jan 2020
The Star on Goldstream	Langford	$52.05M	Jun 2020
The Arc	Langford	$30.525M	Mar 2020
Crestwood Townhomes	Duncan	$6.265M	Mar 2020
803 Esquimalt Rd.	Esquimalt	$5.6M	Apr 2020

BC Interior

BC's Okanagan Valley, including the cities of Kelowna, Vernon and Penticton, along with the central interior city of Kamloops, have grown popular with multi-family investors due to their rising populations, higher yields and typically more business-friendly municipal governments. While more sophisticated private investors and institutions had historically overlooked these markets due to a lack of apartment buildings of scale, new development in recent years has changed their thinking on this popular and growing region of the province.

Four multi-family sales (greater than $5M) closed in the BC Interior in the first half of 2020 compared with five sales in 2019 (three in Vernon and one each in Kelowna and Penticton) and six sales in 2018 (four in Kelowna, and one each in Penticton and Kamloops). The six multi-family sales in 2017 (three in Kamloops, two in Penticton and one in Vernon) marked the arrival of BC Interior markets on investors' radars following three multi-family sales in Penticton in 2016. No multi-family sales greater than $5M were recorded by Avison Young in the BC Interior from 2009 to 2015. Investment activity is expected to continue in these communities.

SELECT REGIONAL TRANSACTIONS (BY $)

PROPERTY	LOCATION	PRICE	DATE
Lake Country Lofts	Lake Country	$20M	Mar 2020
155 Oriole Rd.	Kamloops	$8.92M	May 2020
627 Lilac Ave.	Kamloops	$7M	Dec 2019
257 Scott Ave.	Penticton	$6.5M	Jan 2020

BC MULTI-FAMILY TRANSACTIONS (GREATER THAN $5 MILLION)

PROPERTY	LOCATION	PRICE	VENDOR TYPE	$ PER UNIT	PURCHASER TYPE	DATE
The Star on Goldstream 1085 Goldstream Avenue	Langford	$52,050,000	Private	$313,554	REIT	Jun 2020
22325 St. Anne Avenue	Maple Ridge	$11,000,000	Private	$166,667	Private	Jun 2020
Sea Place Apartments 1371 Harwood Street	Vancouver	$16,440,000	Private	$469,714	Institutional	Jun 2020
Villa Marie Apartments 22182 Dewdney Trunk Road	Maple Ridge	$5,450,000	Private	$181,667	Private	Jun 2020
Plaza 500 500 West 12th Avenue	Vancouver	$82,500,000	Private	$699,153	Private	Jun 2020
Rivermark 6968 Pearson Way	Richmond	$6,044,283	Private	$194,977	Non-Profit	May 2020
155 Oriole Road	Kamloops	$8,920,000	Private	$223,000	Private	May 2020
Lansdowne House 1537 Burnaby Street	Vancouver	$11,400,000	Private	$475,000	Private	May 2020
803 Esquimalt Road	Esquimalt	$5,600,000	Private	$200,000	Private	Apr 2020
4050 Douglas Street	Victoria	$5,000,000	Private	$250,000	Private	Apr 2020
Marlsdon Court 6540 Marlborough Court	Burnaby	$15,000,000	Private	$500,000	Private	Apr 2020
The Arc 2849 Bryn Maur Road	Langford	$30,525,000	Private	$328,226	REIT	Mar 2020
Harley House 1230 Nelson Street	Vancouver	$51,000,000	Private	$476,636	Private	Mar 2020
The Excelsior 8715 Osler Street	Vancouver	$9,150,000	Private	$305,000	Private	Mar 2020
Crestwood Townhomes 1094 Marchmont Road	Duncan	$6,265,000	Private	$216,034	Private	Mar 2020
Lake Country Lofts 10650 Bottom Wood Lake Road	Lake Country	$20,000,000	Institutional	$281,690	REIT	Mar 2020
Mountain View Gardens 1037 East 8th Avenue	Vancouver	$7,500,000	Private	$300,000	Private	Feb 2020
Kathleen Court 1555 Harwood Street	Vancouver	$20,200,000	Private	$492,683	Private	Feb 2020
Carmel Apartments 1122 Burnaby Street	Vancouver	$9,600,000	Private	$417,391	Private	Feb 2020
Magnolia Manor 325 Ash Street	New Westminster	$5,597,000	Private	$207,296	Private	Feb 2020
Fontainebleau Apartments 5455 Balsam Street	Vancouver	$70,000,000	Private	$804,598	Private	Feb 2020
Park Towers 878 Gilford Street	Vancouver	$13,500,000	Private	$540,000	Non-Profit	Jan 2020
Sharon Apartments 1175 Pacific Street	Vancouver	$8,000,000	Private	$347,826	Private	Jan 2020
Nelson Plaza 1019 Bute Street	Vancouver	$8,500,000	Private	$531,250	Private	Jan 2020
The Beverley 508 Agnes Street	New Westminster	$48,000,000	Private	$320,000	Private	Jan 2020
Christie Point Apartments 2861 Craigowan Road	Victoria	$54,000,000	Institutional	$335,404	REIT	Jan 2020
Balmoral Park Apartments 1265 West 13th Avenue	Vancouver	$19,600,000	Private	$445,455	Private	Jan 2020
257 Scott Avenue	Penticton	$6,500,000	Private	$125,000	Private	Jan 2020
627 Lilac Avenue	Kamloops	$7,000,000	Private	$145,833	Public Co.	Dec 2019
Cedar Crest Manor 1569 West 12th Avenue	Vancouver	$5,800,000	Private	$580,000	Private	Dec 2019
Total Deals/Investment	30	$620,141,283				

Sources: Avison Young, Commercial Edge & RealNet

New CMHC rules on use of funds triggered by large increase in refinancing applications

Canada Mortgage and Housing Corp. (CMHC) announced on June 4, 2020 that it would change its underwriting policies for insured mortgages to protect future home buyers and reduce risk and also "suspended refinancing for multi-unit mortgage insurance except when the funds are used for repairs or reinvestment in housing" effective July 1, 2020.

According to the **Canadian Federation of Apartment Associations (CFAA)**, "Under the new rule, refinance proceeds must be used for a permitted purpose in relation to residential housing. This could include one or more of the following: i) purchase; ii) construction; iii) capital repairs/ improvements (including for increased energy efficiency and accessibility); iv) securing permanent financing (including take-out financing to pay off a short-term construction loan); and v) certain other uses permitted on a case-by-case basis (such as funding to deal with COVID-19 rent shortfalls)."

The CFAA reported that the CMHC notice said that "in no event shall equity take-out or distributions to equity holders be permitted, pending industry consultations" and added that "the notice referred to guaranteeing refinancing for equity take-out as an improper use of government resources, and urged CMHC clients to seek private sector solutions for these uses."

The CFAA subsequently issued a list of additional clarifications after meeting with CMHC, including: "i) Insured upward refinancing proceeds can be used for capital repairs or improvements anywhere in a borrower's rental housing portfolio in Canada; ii) Upward refinancing proceeds can be used to fund the acquisition of a new residential rental property anywhere in Canada; iii) CMHC is not imposing any restrictions on the use of a conventional second mortgage to take out equity. That is up to the Approved Lender who has provided the insured (first) mortgage loan; iv) The relevant tests will generally be applied by the Approved Lenders, rather than by CMHC directly, although Approved Lenders may seek clarity from CMHC on its expectations, either generally or on a transactional basis; v) The relevant test will be applied at the level of a group of associated companies. There is no intention to get into the details of corporate structures; and vi) Exceptions to the new rule may permitted on a case-by-case basis (such as funding to deal with COVID-19 rent shortfalls)."

Additional points of clarity regarding the rule change related to "rental housing providers who develop properties" and "points of concern" can be found at www.cfaa-fcapi.org. ■

SNAPSHOT OF BC HOUSING CONSTRUCTION STARTS

AREA	Q3 2020 (YTD)	Q3 2019 (YTD)	VACANCY OCT 2019
Vancouver CMA	16,179	22,229	1.1%
Abbotsford-Mission CMA	917	176	1.2%
Kamloops CA	541	382	2.1%
Victoria CMA	2,347	2,569	1.0%
Nanaimo CA	526	1,164	1.9%
Kelowna CMA	1,585	1,517	2.6%
British Columbia	30,670	39,573	1.5%

Source: CMHC *CMA: census metro area; CA: census area*

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