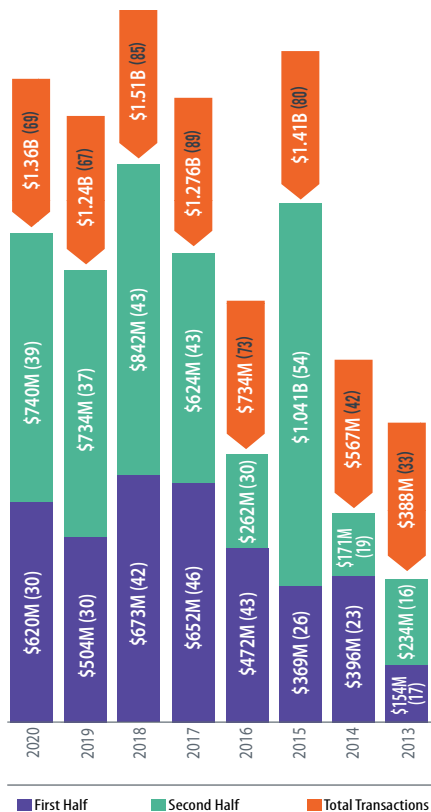


# British Columbia



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



## Demand for BC multi-family assets remained undiminished in 2020 despite pandemic presence

Investors remained exceptionally keen to acquire BC multi-family assets despite the economic fallout related to the arrival of COVID-19 with healthy deal and dollar volume registered in 2020. With 39 sales valued at \$740M in the back half of 2020 following 30 sales valued at \$620M in the first half, annual deal and dollar volume totalled 69 transactions worth \$1.36B, which exceeded sales activity in 2019. BC multi-family investment in 2020 achieved the third highest total on record (behind only 2018 and 2015) as dollar volume in BC surpassed the billion-dollar mark for the fourth consecutive year. While 2018 holds the record for most annual dollar volume (\$1.51B), the record number of multi-family transactions (89) was set in 2017. (Avison Young only tracks multi-family investments trading at more than \$5M for the purposes of this report.)

Transactional activity from institutional investors, private

buyers and REITs alike is being largely motivated by near record-low capital costs, particularly when it comes to acquiring assets of scale. The sale of smaller units tended to take longer to complete as these typically older assets have more deferred maintenance costs but generally offered slightly higher cap rates as a result. This has led to yield compression on new purpose-built rental properties in both primary and secondary markets due to the strong overall demand for the asset class and an institutional push into more non-traditional locales.

While Vancouver remained by far the most active market in BC with 26 sales, Victoria (5), New Westminster (4) and Maple Ridge (4) followed by Kamloops (3), Kelowna (3), Langford (3), Nanaimo (3) and North Vancouver (3) were also key markets for multi-family investors in 2020. Deal velocity in many primary markets in Metro Vancouver such as Burnaby (2),

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Richmond (1) and Surrey (1) was highly constrained in 2020, while secondary markets on Vancouver Island (Esquimalt (2), Duncan (1)), the BC Interior (Lake Country (1), Vernon (1), Penticton (1)) and the Fraser Valley (Abbotsford (1), Langley (1)) as well as White Rock (1) and Campbell River (1) increasingly attracted investors, institutional and otherwise.

Comparatively lower residential land prices in secondary BC markets where rents have moved up, narrowing the gap with rents commonly achieved in primary markets, combined with greater levels of municipal support for multi-family development have proven irresistible for developers and investors alike. Merchant developers can realize greater profits in many secondary markets as the pool of potential purchasers for multi-family assets in these previously overlooked markets has deepened substantially in the past 24 months.

The largest BC multi-family deals in 2020 included the \$170M acquisition of **Aqua at Plaza 88** in New Westminster, the sale of **Plaza 500** (\$82.5M) in Vancouver and the disposition of the **Fontainebleau Apartments** (\$70M) also in Vancouver. Unlike most other asset classes in 2020, institutions were active as purchasers. However, vendors were overwhelmingly private.

Unlike in the previous peak years of 2015 and 2018, BC's multi-family market in 2020 was driven by more traditionally fundamental factors with less foreign investment and syndicators and more broadly institutional capital flowing into the BC market with investors seeking to have a presence in the province because of the positive long-term outlook. The stability of the asset class in 2020 even in the face of COVID-19 thanks to government wage support measures that resulted in net rent collection ratios remaining high further underscored the desirability of multi-family properties with investors.

This influx of institutional capital has ushered in more of a return to multi-family market fundamentals when it comes to evaluating properties; however, slight headwinds have emerged in the form of rapid increases in insurance and maintenance costs as well as property taxes and operating expenses in form of higher energy costs and an increase in fees for many municipal services. Despite these increases, the ultra low cost of capital remained top of mind for purchasers.

"In late February and March 2021, Government of Canada (GoC) bond yields increased dramatically with both the 5- and 10-year yields rising by more than 100%, to 1.00% and 1.55%, respectively. The volatility and short time frame in which the increases took place was unprecedented in recent memory," says **Don Taylor**, senior vice-president, mortgage services with Avison Young. "However, one must keep this in perspective as bond yields were at historical all-time lows during most of 2020. The spreads lenders add to the bonds when pricing their conventional mortgage interest rates have not increased. Today's spreads range from 140 to 220 basis points (bps) with all-in rates ranging from 2.40%-3.20% for 5-year terms and 2.95%-3.75% for 10-year terms."

He adds: "Canadian Mortgage Bond yields, which the majority of CMHC loans are priced from, only saw increases of 85% and 65% to 1.30% and 1.95% for 5- and 10- year terms, respectively. With spreads ranging from 60 bps to 70 bps, the all-in interest rates for 5-year terms range from 1.90%-2.00% and 2.55%-2.65% for 10-year terms. Of note, there is a vast supply of capital available for both conventional and CMHC-insured loans, which makes for a very competitive market for debt today."

Heightened sales activity is expected to carry on through the first half of 2021 as purchaser and vendor expectations increasingly converge and larger institutional investors continue identifying opportunities throughout the province and consolidate their holdings as they expand their portfolios by acquiring additional assets in BC's still fragmented multi-family market. ■

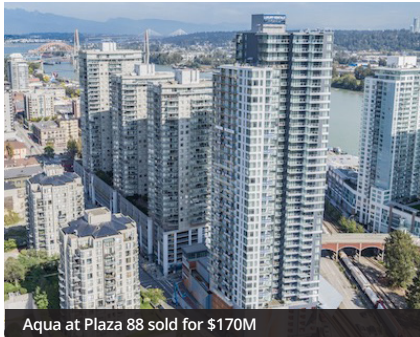


## Regional review

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. ■



Aqua at Plaza 88 sold for \$170M



North Grove in Nanaimo sold for \$42M



Kelowna's TRIO development sold for \$55M

### 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 second half of 2020 were notable in terms of the number of deals completed, many of the larger deals in terms of value were in the suburbs. 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.

### Vancouver Island

Victoria and Vancouver Island's Capital Regional District (CRD) play a substantial role in BC's multi-family investment market. Apartment sales in Vancouver Island communities, particularly Victoria, first increased notably in terms of deal and dollar volume in 2014 (4 sales) and 2015 (7). As multi-family investment surged provincewide in 2015, pricing got ahead of the market in Victoria, which led investors to take a pause in 2016 (1) before returning in 2017 (9) and looking beyond the city's borders to other communities, including Oak Bay, Langford, Esquimalt, Sidney and Saanich. Multi-family sales in Nanaimo have also been on an uptick 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 six sales in Victoria, Esquimalt and Sidney. The flood gates opened in 2019 with 22 transactions in Victoria, Langford, Esquimalt and Saanich. Demand for multi-family assets on Vancouver Island in 2020 – Victoria (5), Langford (3), Nanaimo (3), Esquimalt (2) as well as Duncan (1) and Campbell River (1) – remained strong with the second highest number of sales on record (15) and is anticipated to continue through 2021.

### BC Interior

BC's Okanagan Valley, including the cities of Kelowna, Vernon and Penticton, along with the central interior city of Kamloops, remain 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.

Nine multi-family sales (greater than \$5M) closed in the BC Interior in 2020 (including two sales in Kelowna that each exceeded \$50M) 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 rise in these communities in 2021.

SELECT REGIONAL TRANSACTIONS (BY \$)			
PROPERTY	LOCATION	PRICE	DATE
Aqua at Plaza 88	New Westminster	\$170M	Oct 2020
MC2	Vancouver	\$48.5M	Oct 2020
Queen Anne Apartments	Maple Ridge	\$29.2M	Nov 2020
Arcola Manor & Gable Gardens	Burnaby	\$27M	Dec 2020
Arlington Court Apartments	Vancouver	\$16.3M	Aug 2020

SELECT REGIONAL TRANSACTIONS (BY \$)			
PROPERTY	LOCATION	PRICE	DATE
Crossing at Belmont	Langford	\$60M	Mar 2020
North Grove	Nanaimo	\$42M	Dec 2020
Corona Apartments	Victoria	\$11.18M	Dec 2020
Briarwood Apartments	Victoria	\$10M	Jul 2020
Madrona Manor	Victoria	\$9.5M	Dec 2020
Arbutus	Nanaimo	Share sale	Dec 2020

SELECT REGIONAL TRANSACTIONS (BY \$)			
PROPERTY	LOCATION	PRICE	DATE
TRIO	Kelowna	\$55M	Sep 2020
The Lodges	Kelowna	\$52.75M	Dec 2020
Hilltop Manor	Vernon	\$9.35M	Aug 2020
Sun City Court	Kamloops	\$5.6M	Oct 2020
Orchard	Kelowna	Share sale	Dec 2020

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

PROPERTY	LOCATION	PRICE	VENDOR TYPE	\$ PER UNIT	PURCHASER TYPE	DATE
1270 Foster Street	White Rock	\$5,100,000	Private	\$221,739	Private	Dec 2020
<b>Watermark</b> 2036 South Island Highway	Campbell River	Share sale	Private	NA	Institutional	Dec 2020
<b>Orchard</b> 3641 & 3651 Elliott Road	Kelowna	Share sale	Private	NA	Institutional	Dec 2020
<b>Arbutus</b> 5085 Uplands Drive	Nanaimo	Share sale	Private	NA	Institutional	Dec 2020
<b>Riviera Manor &amp; Windsor House</b> 409 Ash Street & 420 Seventh Street	New Westminster	\$18,475,000	Private	\$228,086	Private	Dec 2020
<b>North Grove</b> 6971, 6973 & 6975 Island Highway North	Nanaimo	\$42,000,000	Private	\$278,146	REIT	Dec 2020
<b>The Lodges</b> 740 Clement Avenue	Kelowna	\$52,750,000	Private	\$333,861	Private	Dec 2020
<b>Somerset House</b> 9977 138th Street	Surrey	\$12,600,000	Private	\$323,077	Private	Dec 2020
1635 East 4th Avenue	Vancouver	\$5,105,000	Private	\$392,692	Private	Dec 2020
<b>Corona Apartments</b> 1430 Stadacona Avenue	Victoria	\$11,178,000	Private	\$254,045	Institutional	Dec 2020
<b>Madrona Manor</b> 1955 Ashgrove Street	Victoria	\$9,522,000	Private	\$226,714	Institutional	Dec 2020
<b>Welmahr Apartments</b> 1090 Jervis Street	Vancouver	\$14,250,000	Private	\$527,778	Private	Dec 2020
<b>Birchwood Manor</b> 33382 George Ferguson Way	Abbotsford	\$7,117,990	Private	\$229,613	Private	Dec 2020
<b>Arcola Manor &amp; Gable Gardens</b> 7035 Arcola Street & 7035 Balmoral Street	Burnaby	\$27,000,000	Private	\$293,478	Private	Dec 2020
<b>The Capri</b> 45 East 16th Avenue	Vancouver	\$7,925,000	Private	\$344,565	Private	Dec 2020
646 East 44th Avenue	Vancouver	\$5,000,000	Private	\$312,500	Private	Dec 2020
<b>Casa Del Mar</b> 122 East 18th Street	North Vancouver	\$8,589,999	Private	\$373,478	Private	Nov 2020
<b>La Vonne Apartments</b> 989 West 20th Avenue	Vancouver	\$5,050,000	Private	\$388,462	Private	Nov 2020
<b>Queen Anne Apartments</b> 12184 224 Street	Maple Ridge	\$29,200,000	Private	\$198,638	REIT	Nov 2020
<b>Bay Plaza Apartments</b> 1630 Burnaby Street	Vancouver	\$11,300,000	Private	\$538,095	Private	Nov 2020
<b>The Caprice</b> 136 East 18th Street	North Vancouver	\$9,693,500	Private	\$334,259	Private	Nov 2020
<b>Sun City Court</b> 383 Arrowstone Drive	Kamloops	\$5,600,000	Private	\$164,707	Private	Oct 2020
<b>Victoria Court</b> 5769 201A Street	Langley	\$6,700,000	Private	\$335,000*	Private	Oct 2020
<b>Aqua At Plaza 88</b> 900 Carnarvon Street	New Westminster	\$170,000,000	Private	\$427,136	Institutional	Oct 2020
<b>MC2</b> 8101 Nunavut Lane & 488 West 64th Avenue	Vancouver	\$48,500,000	Private	\$440,909	Public Co.	Oct 2020
<b>Geo-Ann Apartments</b> 310 East 13th Avenue	Vancouver	\$10,523,000	Private	\$404,731	Private	Oct 2020
<b>Forest Glen Manor</b> 4451 Wellington Road	Nanaimo	\$6,298,000	Private	\$190,848	Private	Oct 2020
<b>Garibaldi Court</b> 11933 223rd Street	Maple Ridge	\$7,300,000	Private	\$162,222	Private	Sep 2020
<b>TRIO</b> 333-337 Dnysdale Boulevard	Kelowna	\$55,000,000	Private	\$314,286	REIT	Sep 2020
<b>Pentagon Apartments</b> 815 S.W. Marine Drive	Vancouver	\$5,400,000	Private	\$284,211	Private	Aug 2020
<b>Elery St. Apartments</b> 837 Elery Street	Esquimalt	\$7,600,000	Private	\$190,000	Private	Aug 2020
<b>Hilltop Manor</b> 4001 34A Street	Vernon	\$9,350,000	Private	\$155,833	Private	Aug 2020
<b>Arlington Court Apartments</b> 233 East 14th Avenue	Vancouver	\$16,300,000	Private	\$301,852	Public Co.	Aug 2020
<b>Galt Street Flats</b> 2328 Galt Street	Vancouver	\$14,900,000	Private	\$532,143	Institutional	Aug 2020
<b>Sussex Lodge, Hillside Manor &amp; Lynn Park Manor</b> 2875 - 2931 Mountain Highway	North Vancouver	\$17,000,000	Private	\$369,565	Private	Jul 2020
<b>Briarwood Apartments</b> 465 Niagara Street	Victoria	\$10,000,000	Private	\$238,095	Private	Jul 2020
1245 & 1255 West 10th Avenue	Vancouver	\$7,370,000	Private	\$335,000	Private	Jul 2020
<b>The Duke</b> 333 East 11th Avenue	Vancouver	Undisclosed	Private	NA	Institutional	Mar 2020
<b>Crossing at Belmont</b> 945 Reunion Avenue	Langford	\$60,000,000	Private	\$384,615	REIT	Mar 2020
<b>Total Deals/Investment</b>	<b>39</b>	<b>\$739,697,492</b>				

\*Includes seven commercial units

Sources: Avison Young, Commercial Edge & RealNet

## New CMHC report reveals impact of COVID-19 on BC's rental markets that saw more supply and less demand

Residential vacancy in BC's large metro markets of Vancouver and Victoria increased notably in 2020 while vacancy in secondary markets decreased, according to a new report from **Canada Mortgage and Housing Corp.** (CMHC).

The purpose-built rental apartment vacancy rate for the Vancouver CMA increased to 2.6% in October 2020 – the highest since 1999 – from 1.1% a year earlier due to higher supply and lower demand. New structures in central areas drove the increase in the vacancy rate, according to CMHC's *2020 Rental Market Report*, which also noted that the pace of average apartment rent increase slowed to 2%; however, prospective tenants faced higher rents than longer-term tenants, with the average asking rent for vacant units being 21.4% higher than the average rent paid for occupied units. CMHC also noted that the number of condominium apartments in the long-term rental market increased by 10.2% (7,137 units) in the Vancouver CMA.

According to CMHC, the 2020 pandemic lowered rental demand in the Vancouver CMA in a range of ways. "Employment losses have been concentrated

among younger people and workers in service industries, both of whom disproportionately rent. These impacts remain ongoing."

CMHC continues: "Facing unemployment or disrupted incomes, affected tenants may have chosen to combine households or relocate to lower priced accommodation, lowering rental demand in central areas with high rents. With international borders closed, migration to the Vancouver CMA has slowed significantly. As migration is responsible for the majority of population growth in the region and new migrants tend to form renter households, this interruption negatively impacted rental demand. This impact may, however, be temporary given that the federal government has announced higher immigration targets for the coming years. With post-secondary education moving online, many students, and especially international students, have relocated away from universities or left Vancouver entirely." ■

For more details visit <https://assets.cmhc-schl.gc.ca/sites/cmhc/data-research/publications-reports/rental-market-reports/2020/rental-market-report-69720-2020-en.pdf>

## SNAPSHOT OF BC RENTAL VACANCY RATES

AREA	OCT 2020	OCT 2019	PERCENTAGE CHANGE
Vancouver CMA	2.6%	1.1%	1.5%
Abbotsford-Mission CMA	0.6%	1.1%	-0.5%
Kamloops CA	2.0%	2.1%	-0.1%
Victoria CMA	2.2%	1.0%	1.2%
Nanaimo CA	1.0%	2.0%	-1.0%
Penticton CA	0.8%	1.9%	-1.1%
Vernon CA	1.0%	1.9%	-1.0%
Kelowna CMA	2.1%	2.7%	-0.6%
British Columbia	2.4%	1.5%	0.9%

Source: CMHC

CMA: census metro area; CA: census area

### For more information, please contact:

**Michael Keenan**, Principal & Managing Director  
Direct Line: 604.647.5081  
michael.keenan@avisonyoung.com

**Andrew Petrozzi**, Principal & Practice Leader, Research (BC)  
Direct Line: 604.646.8392  
andrew.petrozzi@avisonyoung.com

## Multi-Family Team

**Rob Greer,\*** Principal  
604.647.5084  
robert.greer@avisonyoung.com  
\*Robert Greer Personal Real Estate Corporation

**Chris Wieser**, Principal  
604.647.5089  
chris.wieser@avisonyoung.com

**Carey Buntain**, Executive Vice-President  
604.647.1352  
carey.buntain@avisonyoung.com

**Bijan Lalji**, Associate  
604.757.1115  
bijan.lalji@avisonyoung.com

**Please visit our website at:**  
[www.avisonyoung.ca/en\\_CA/web/vancouver-multi-family](http://www.avisonyoung.ca/en_CA/web/vancouver-multi-family)

**Avison Young**  
#2900-1055 W. Georgia Street  
Box 11109 Royal Centre  
Vancouver, BC V6E 3P3, Canada

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