

FEATURE Experts say the best rental investments are not in the drum-tight, high-priced city of Vancouver

Attention landlords

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WESTERN INVESTOR

Jaw-dropping prices for Vancouver apartment buildings are finally having an effect on investors who are skirting the city to snap up properties at a near record level in suburban communities, according to **Mark Goodman of HQ Realty** in Vancouver, a specialist in the apartment market.

The rental vacancy rate in Metro Vancouver remains in the 2 per cent range and can be even tighter in some popular neighbourhoods.

The average price now for an older, walk-up apartment building in Kitsilano – where the typical rental building is 40 to 50 years old – is \$294,200 per suite, up 19 per cent from a year ago. In South Granville, prices are up 10 per cent to \$219,844 and the West End has seen prices rise to nearly \$240,000 in the last 12 months. Even in East Vancouver, the average old rental building is demanding a record high of \$161,440 per apartment.

As a result, Goodman notes, the total number of rental suites sold in the **City of Vancouver** in the first six months of this year dropped 17 per cent compared with the first half of 2010, to 504 units in 24 buildings.

It is the suburbs that are now the hot spot, posting an overall increase in unit sales of 178 per cent in the first half, with 28 buildings changing hands.

The reason is both price and capitalization rates. The average suburban apartment building sells for less than \$150,000 and offers better returns than in the city. “Many areas beyond

Vancouver offer superior yields, larger site sizes and, depending on the building’s condition, lower vacancy rates,” Goodman said.

The strong demand for apartment buildings also relates to the lowest-cost financing in the commercial real estate sector. **Canada Mortgage and Housing Corp.** offers loan insurance that reduces the effective mortgage rate to 3.1 per cent for five-year loans and 3.9 per cent for 10-year terms, compared with conventional commercial loans that are from 100 to 150 basis points higher.

Goodman points to New Westminster as one of the promising suburban markets. Apartment building sales there have doubled over the past year, and per-apartment prices have risen 14 per cent to \$119,927.

In North Vancouver, apartment-building sales this year are up 24 per cent from a year ago, and have risen 19 per cent in Coquitlam and 17 per cent in Burnaby. Total dollar volume through the first six months in the suburbs was up 207 per cent to \$193.2 million, while volumes fell 18 per cent in Vancouver to \$109 million.

Top five markets

Ozzie Jurock, a Vancouver-based investor and real estate analyst, said the next year may be a good time for would-be landlords to buy in selected markets in B.C. and Alberta, but there is no hurry. “We have seen the real estate markets – other than the Lower Mainland – already in a fairly sharp downdraft for the last six months, particularly recreational real estate. Do not buy right away. There will be great opportunities ahead as markets recover. And recover they will.”



Multi-family specialists David and Mark Goodman of HQ Realty: jaw-dropping Vancouver prices are moving apartment-building investors toward Metro Vancouver suburbs, where sales soared 178 per cent in the first half of this year.

At our request, Jurock picked his five best condo-rental markets for both potential positive cash flow and equity growth. The picks are based on an investor with a 25 per cent down payment and a 3.25 per cent, five-year term mortgage.

Edmonton

Why? Best-priced real estate of any major city in Canada. The city has oil company head offices, high incomes and the average single-family house price is the lowest among major Canadian cities at \$387,000.

Condo prices are as low as \$90,000 (some six-plexes as low as \$75,000 a suite). Edmonton is probably the easiest city to get cash flow, which means positive rental income versus price paid.

Kamloops

Why? It has the second-best ski resort in B.C., great golf courses and a strong employment base.

The rental vacancy rate is at 2.6 per cent and there is a stable tenant base. Many houses are for sale at \$280,000 to \$350,000; condos are priced from \$99,000.

Port Moody

Why? It is 30 minutes from Vancouver with a location on Burrard Inlet.

Vacancy rate is as low as 2.5 per cent. Buyers can find two-bedroom, two-bath condos for as low as \$200,000 that could see positive cash at \$1,200 rent.

Abbotsford

Why? The international airport expansion is underway; a new **University of the Fraser Valley** has 100 more professors recruited; and a giant regional hospital and cancer centre will soon open.

Vacancy rate is only 2.5 per cent in rental condos; rents are relatively high. Single-family homes’ average price is \$456,000, with new condos as low as \$150,000.

Calgary

Why? Employment in 2011 is forecast to rise 2.1 per cent. The unemployment rate is forecast to decline to 5.4 per cent in 2012. In 2011, total net migration is projected to rise 11 per cent and another 14 per cent in 2012 to 14,000 migrants. Vacancy rate is 4.5 per cent. ♦

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