City incentives, slower condo sales encourage switch to rentals by multi-family developers

Why new rentals are being built

MULTI-FAMILY INVESTMENT

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I have found a great deal of interest by developers in buying land for development of purpose-built multi-family rental properties in Vancouver. The impetus for this market shift includes: incentives from the **City of Vancouver** for rental development that includes the acceptance of smaller rental units; favourable valuations for multi-family rental units in Vancouver; and a softening market for new condominium strata products.

Since the mid-1980s the development of rental housing has decreased significantly in favour of strata-type development. Rental-housing construction reached its peak in 1978 with the development of 2,250 rental units built in Vancouver that year. By 2008 just 200 new rental units were completed, signalling a decline that has continued for years.

Vancouver has one of the lowest apartment rental vacancy rates in Canada, at 1.8 per cent, compared with the provincial average of 2.7 per cent, according to surveys by **Canada Housing and Mortgage Corp.**

With a growing population, sluggish increases in income and a limited new supply of purpose-built rental housing, the demand for modern rental housing has grown significantly.

These factors have created the market conditions that now have many developers considering purpose-built rental projects.

Another market driver is the market value of apartment buildings in Vancouver. The commercial real estate market has been much stronger in the last few years than the residential market, which is characterized by a sluggish condominium and detached-housing market.

As a comparison, it is a sellers' market for apartment buildings. The buy side of this market has increased from the traditional local investor seeking a safe and solid income-producing property to a strong set of newer buyers, including corporate investors, pension funds and real estate investment trusts competing for available product.

One Vancouver land assembly is listed at $220 per-square-foot buildable

The average sale price for a wood-frame apartment building in Vancouver in 2012 was $206,000 per door, compared with $171,477 in Burnaby and $137,000 in suburban markets, all at record highs. The average capitalization rates for Vancouver rental apartment buildings range from 3.5 to 4 per cent.

Bonus zoning

The City of Vancouver's Rental 100 Program or Secured Market Rental Housing Policy is the other main market driver for the development community. The purpose of Rental 100 is to encourage the development of projects where all of the residential units are rental.

The program targets moderate-income households, with a City of Vancouver goal of creating 5,000 new units of market rental housing by 2021.

This policy encourages projects where 100 per cent of the residential rental housing units are secured for 60 years or the life of the building, whichever is greater. Eligible incentives include:

- waiver of development cost levies (DCLs);
- parking-requirement reductions;
- relaxation of minimum unit size to 320 square feet (provided design and location meet the city's livability criteria);
- additional density beyond what is available under existing zoning (for projects that require rezoning); and
- concurrent processing (for projects requiring a rezoning).

Examples

An example of this type of development is a property I sold recently at 1926 East Broadway, one block from the Commercial/Broadway SkyTrain station.

This site is 12,558 square feet and has a floor space ratio (FSR) of 1.2, which allows 15,070 square feet buildable. This site is currently zoned for C-1 commercial, but the purchaer will be rezoning it to build a purpose-built apartment building. This property was listed for $1.78 million, or $142 per buildable foot. The number of units and final FSR is unknown until the rezoning process is completed.

I had a great deal of interest from buyers for this location, which attracted 11 offers.

The current C-1 zoning, the shape of the property and other design constraints made this site unattractive for commercial development. Residential strata development was also not a viable consideration for many of the developers who evaluated this site due primarily to access and parking requirement.

Another property I currently have listed is a potential land assembly of detached house lots located on East 12th Avenue in Vancouver in the Mount Pleasant area west of Main between Ontario and Quebec streets.

The land is currently zoned RM-4N (multi-family) with an FSR of 1.45. Density could be increased by rezoning the property. The potential is for 35,313-square-foot buildable at the current zoning. This potential land assembly is listed at $7,800,000 or $220 per-square-foot buildable. Increasing the FSR ratio could decrease the buildable per-square-foot cost.

Developers are also considering this property as a good fit for purpose-built rental development, a trend that is accelerating in the City of Vancouver.◆

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