Rental buildings a hot trend for investors, report finds

B.C. sales totalled $238 million in first half of 2011, a 51-per-cent jump over the same period last year, Avison Young says

By Brian Morton, Vancouver Sun September 13, 2011

Investors like the steady income streams from apartment buildings.

Photograph by: Bill Keay, PNG Files, Vancouver Sun

A new study suggests Metro Vancouver apartment rental buildings are increasingly a hot item for investors despite rising vacancy rates.

"Demand for multi-family residential rental properties remains insatiable for a number of fundamental reasons," Michael Keenan, managing director of Avison Young, Metro Vancouver, said Monday in reference to his commercial real estate services company's Summer/Fall 2011 B.C. Multi-Family Investment Report.

"Apartment buildings are a lowrisk investment, offer secure income streams and are the most easily financed commercial real estate commodity of all, thanks to rates guaranteed by the Canada Mortgage and Housing Corporation."

Keenan also said rental apartment buildings continue to rise in value as investors seek safe havens for their capital.

Other factors influencing demand, the report said, include low investment risk and the opportunity for tenant turnover to increase rental rates and improve yields.

According to the semi-annual report, which tracked investment deals valued at more than $5 million, in the first half of 2011 total multi-family rental building sales amounted to $238 million - a 125-per-cent increase over the second half of 2010 ($106 million) and a 51-per-cent jump over the first half of 2010 ($158 million).

The report said institutional and overseas buyers look to B.C. for opportunities, but that investments in the suburbs are drawing buyers out of Vancouver as the supply of large, institutional-grade apartment buildings available for sale within city limits shrinks.

Seven of the large institutionalgrade transactions were in Vancouver, three in New Westminster, two each in Coquitlam, Burnaby, the North Shore and Surrey, and one each in Surrey, Richmond, Abbotsford and Chilliwack.

The three largest acquisitions in the first half of 2011 were the $44-million purchase of Ocean Residences in Richmond, the $24.5-million purchase of Bonsor Apartments in Burnaby, and the $23.75-million purchase of Marine Garden Village in Vancouver.

The report noted that the movement of renters to home ownership continued into 2011, and that apartment buildings faced increased competition from the secondary rental market, including suites in homes and investor-owned condos available for rent.

Asked why rising vacancy rates - up to 2.8 per cent in April from 2.2 per cent in April 2011 - aren't hindering investment, Keenan said that apartment vacancy has always been low in Metro Vancouver and "the slight upward spike currently being experienced is temporary and not worthy of great concern."

Keenan also said that "vacancies can usually be easily filled at a low cost, unlike virtually any other type of commercial real estate. When a new tenant occupies a suite, the rent can be set at what the market will bear. Rent controls simply limit how much of an increase the landlord can charge on an annual basis."

However, Marg Gordon, CEO of the BC Apartment Owners and Managers Association, said building owners and landlords face escalating costs.

"The challenges right now in a nutshell are controlled revenues and uncontrolled costs."

Gordon said that although the HST is on the way out, it will still increase costs by between 1.5 and three per cent until the tax is gone.

She said that the rise in the allowable rent increase in 2012 to 4.3 per cent from 2.3 per cent this year is good news, but just covers rising maintenance and operating costs.

"Then we're faced in Vancouver with the problem of aging buildings. The average [age] is 57 or 58 years old. They all need renovating, upgrading and improvements."

bmorton@vancouversun.com