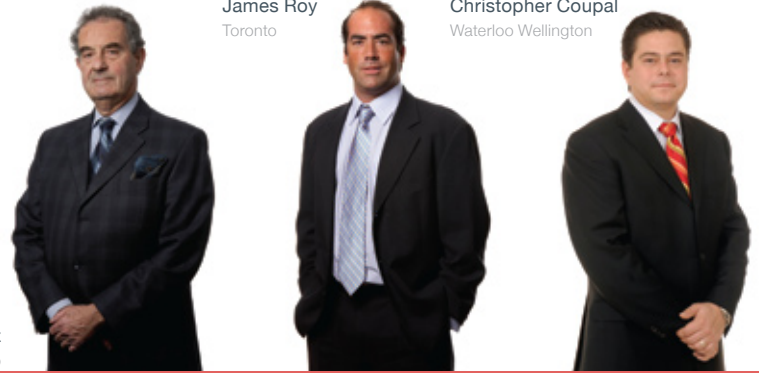


National multi-family report

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Multi-family investment assets continue to perform well. Although transaction volume was down slightly from 2006, due to the limited supply of quality assets at reasonable prices, the multi-family investment market remained strong throughout 2007 with over \$2.3 billion in transactions in the major markets of Toronto, Calgary and Vancouver alone. This strong performance can be attributed to the ever-changing demographics of this country, more specifically population growth, which continues to support strong demand for rental accommodations. In addition, the multi-family asset class is perceived as a stable investment vehicle in both prosperous and difficult financial times. With strong demand and limited supply, expect to see continued momentum in 2008 for this product type.

Purchase activity is mostly domestic in nature with pension funds, REITs and individuals seeking a stable and reliable source of income. Generally, it is those already established in the multi-family market that are completing the majority of the transactions and expanding their portfolio strength. While there is strong interest in secondary and tertiary markets, financing in those markets is proving to be increasingly more difficult, another by-product of the sub-prime meltdown in the US. On the sell side, supply of product is coming from private owners, many of whom have been long-term asset holders now looking to cash out.

Rental market dynamics

Market vacancy is generally stable across the country, averaging 2.6% nationally as of October 2007 according to the Canada Mortgage and Housing Corporation (CMHC). Strong demand for rental accommodations is supported by solid employment growth, income gains and immigration. Vacancy ranges from a high of 12.8% in Windsor to a low of 0% in Kelowna.

While the shift to home ownership has taken many 'quality tenants' out of the rental market, there has been no major effect on rental rates from this shifting home ownership trend. The

trend is mainly offset by those new immigrants demanding rental accommodations. However, rental rates have continued to increase due to tight supply, although not nearly as fast as building values themselves. Not surprising, rent increases were highest in markets where vacancy rates were lowest. For example, average rents in Edmonton increased 18.8% year over year in 2007.

Many provinces have rental rate guidelines in place to protect tenants from significant rent escalations. In Ontario, for example, the maximum percentage by which a landlord can increase the rent for most existing residential tenants without approval from the Landlord and Tenant Board is 1.4% for 2008. This rate cap combined with increased taxes, maintenance costs, water and sewer costs, and borrowing costs pose a challenge to owners and investors looking to increase investment returns. Nonetheless, strong demand and limited supply of this asset class helps to offset these factors.

Supply conditions

Across the country, there is not much new supply of multi-family rental properties being built. This is due primarily to the high construction and land costs relative to the rents that could be achieved. While there are a few exceptions where new rental supply is being added, the City of London for example, in general developers are choosing to build more profitable high-end condominium units instead. This trend is likely to continue into the future until rental rates are comparable to the construction costs associated with new projects. With continued strong population growth and little in the way of new construction, vacancy will remain tight and rents will continue to experience upward pressure in 2008.

Pricing

In general, prices are up from last year. On an average per suite basis, prices range across the country from \$93,500 in Halifax to \$159,000 in Vancouver. Cap rates are currently between 5.2%-6.8% depending on the market, according

to the Q3 2007 Altus Group Investment Trends Survey. However, further analysis into market transactions show that the survey responses are generally less aggressive than actual achieved rates in the market. For example, cap rates for prime properties are thought to be more in the 3.5% range in Calgary rather than the survey response of 5.6%. It is expected that values and cap rates will remain stable in 2008 unless there are more significant changes in financing availability and interest rates.

Looking ahead

Overall, the multi-family market continues to be an attractive, yet difficult, market to break into. Relatively few buyers are achieving most of the deals due to the very limited product available for sale. As with other asset classes the main challenge for the national multi-family market in 2008 will be the lack of available product. Debt costs and unexpected capital costs are major concerns for investors. The strength of the economy and shortage of available properties means it is unlikely there will be a decline in prices, even if there is upward pressure on rates and terms.

