



VICTORIA BRITISH COLUMBIA

Greater Victoria Apartment Investment Overview



BC MARKET: Colliers has five offices in British Columbia: Vancouver, Kelowna, and Surrey on the lower mainland, and Nanaimo and Victoria on Vancouver Island.

2011 MARKET INDICATORS

VACANCY ▲ 4.0%

SALES VOLUME ◆

CAP RATES ◆▶ 5.0%



Sustained, historically-low interest rates continue to be the leading market driver in all commercial real estate investment product segments, including multi-residential. Combined with this, the market continues to experience a disproportionately high demand for quality product relative to supply, which continues to keep downward pressure on capitalization rates in all sectors. A flight of capital to real estate from many investors- public as well as private- given the turmoil in the national and global equity markets, remains a contributing driver to overall demand fundamentals as well. As such, in spite of the lower returns typically associated with the apartment investment segment, we see that these concerns take a back seat relative to the security, stability, and revenue predictability that this product type consistently delivers over the long term.

Vacancy

As we look forward to the release of CMHC’s Rental Market Report in mid-December, all indicators are pointing toward rising vacancy rates in the South Island region. There are three main drivers that are contributing to this dynamic:

1. Encouraged by today’s attractive interest rate environment, renters, with an appropriate level of savings to apply to a down payment, are now in a position to acquire ownership of a newly-constructed condominium with a monthly mortgage payment which, in many cases, is equivalent to their current monthly rental obligation. As such, these buyers can enjoy the “wow factors” associated with amenities such as granite counter tops, hardwood floors, and stainless steel appliances delivered by developers active in Greater Victoria’s vibrant condominium construction market.
2. Provincial Government cutbacks, combined with economic uncertainties overhanging the market, have meant that unemployment levels are stressing some sectors of the rental market. This is not only impacting vacancy levels, but is holding back rental increases in some sectors, leading to the resurgence of rental inducements such as free cable, heat, hydro, etc.
3. With the delivery of a significant number of newly-constructed condominiums in the Greater Victoria market, many units are being purchased by investors and are being returned to the market in the form of rental product. It is estimated by CMHC that just over 50% of new apartment rental product may now be supplied by investor/owner condominium units.

Taking the above factors into consideration, we estimate that market vacancy rates overall will be in the 4-5% range for 2011.



Forecast

Investment activity will see strong momentum with respect to the frequency of transactions, but the market- up to this point in the year anyway- has failed to deliver any significant portfolio trades. As such, we anticipate that both our total number of transactions and dollar volumes at this year-end will be lower than 2010.

Additionally, as in years past, delivery of new, conventional rental product is still out of reach of sound economic considerations. Based on cost levels associated with both land and construction, market rental rates continue to fall short of providing any acceptable economic return considerations.

Strong employment considerations associated with the recent awarding of an \$8 billion Federal Government shipbuilding contract to the Washington Group, a sizeable portion of which will be completed by their local subsidiary Victoria Shipyards, will have a positive impact on vacancy levels.

Interest rate fundamentals will continue for at least the next 12 to 18 months which will continue to drive investor interest while benefiting owners who are fortunate enough to be in a position to renew existing mortgage obligations in the near to mid-term.

Capital Markets & Mortgage Financing

Our Capital Markets Division has the capacity to source the most competitive mortgage terms, both CMHC and conventional, to fit our client's individual requirements. Today's historically-low interest rates provide the ideal environment to refinance existing assets in order to undertake capital improvements, or to make additional acquisitions.

Colliers Apartment Investment Division

Our Colliers Apartment Investment Division service platform continues to expand, serving the South Island and Mid Island owners/investors from both our Victoria and Nanaimo Colliers offices.

We continue to work toward our goal of providing our Vancouver Island Colliers professionals with the platforms that will enable us to deliver service excellence to the local, regional, and national apartment owner/investor base.

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512 offices in 61 countries on six continents

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Canada:	36
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Asia Pacific:	32
EMEA:	117

- \$1.53 billion in annual revenue
- 978.6 million square feet under management
- More than 12,500 professionals

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