

Research &
Forecast Report



Accelerating success.

GREATER VICTORIA MULTIFAMILY MARKET

Second Quarter 2018



4398 West Saanich Road - Radius at Royal Oak
Tri-Eagle Development & Jawl Residential





Greater Victoria Multifamily Market Overview

Investment Overview

Market fundamentals within the South Island apartment rental sector remain strong. Record low vacancy levels, strong tenant demand, and low inventory continue to drive average rental rate growth, which is now reaching unprecedented levels. This current market dynamic, along with a shortage of appealing apartment assets for sale in primary markets, attracts the Canadian investment community to our market. Profiled below are some of the market fundamentals that command investor interest.

- Significant levels of new purpose-built rental product have not yet been delivered in the region, resulting in high rental rates and vacancy rates near zero
- Investors in '60s and '70s era rental properties are benefiting from lower prevailing rental rates that grew over time, resulting in a lift in revenues, while new rental product is commanding record high rental rates
- According to the B.C. Non-profit Housing Association, approximately 6,200 affordable rental apartment units are needed in Greater Victoria to satisfy demand from households with annual incomes of less than \$55,000, and demand for rental housing in this market segment is forecast to grow to over 34,000 units by the year 2038

- Bank of Canada key interest rate increases, combined with stricter mortgage qualification criteria, has kept many aspiring first-time home buyers in the rental market as they strive to meet higher qualification requirements

In addition to these sales, there were two major reporting share sales transactions. These share sale transactions were completed by a national apartment REIT and, as such, no purchase price details are available.

Development Update: Purpose Built Rental

As of June 1st, 2018, Yellow Sheet Construction Data & Analytics reported the following statistics for multi-family units in various stages of the development cycle in the Greater Victoria Region:

Market Indicators Relative to prior period	Victoria Q4 2017	Victoria Q2 2018	Victoria 2018* Trend
Vacancy	0.7%**	0.7%**	↔
Price Per Suite	\$215,132	n/a	↑
Sales Volume	\$146M	n/a	↓
Average Cap Rate	4.02%	n/a	↓

*Forecasted

**Source: Fall 2017 CMHC Rental Market Report

***Price/unit skewed high based on premium pricing for smaller buildings

**** Source: BC Non-Profit Housing Association

***** Source: Statistics Canada 2018

***** Source: Yellowsheet Construction Data + Analytics

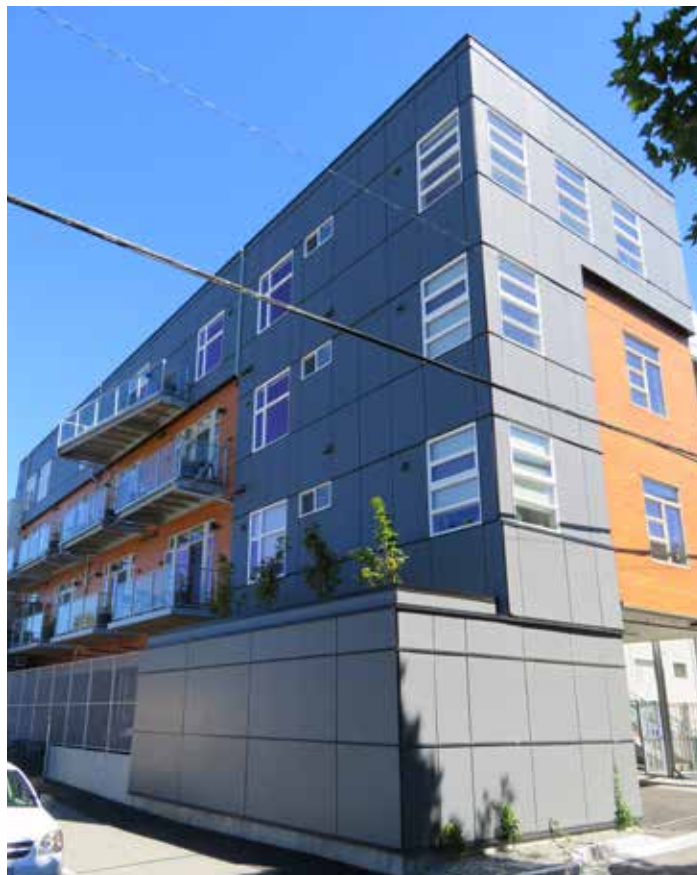
No. Of Units: Development Applications; (Rezoning or Dev. Permit App.)	2,460
No. Of Units: Pre-Construction Stage:	3,688
No. Of Units: Under Construction	2,242
Total:	8,390

These projections are consistent with those discussed in our Q4 2017 multi-family report and support the positive fundamentals currently in place within the rental market.

Based on the rising costs associated with land, labour, and construction materials, we anticipate that the economics surrounding the delivery of additional purpose-built rental product currently in the rezoning or application stages may become more challenging. However, with in-migration levels and tenant demand expected to remain strong, the market is positioned to absorb the delivery of new inventory which will support investor return expectations and demand.



1488 Cook Street

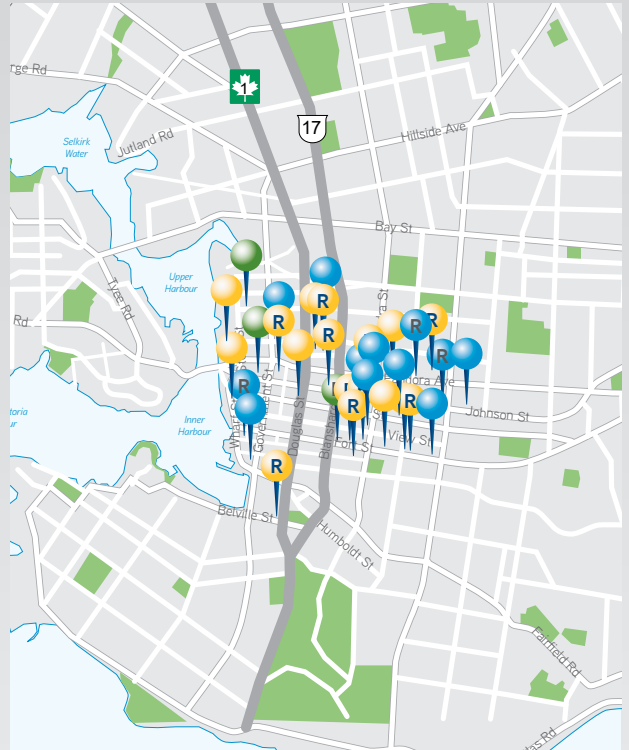


The Urbanite - 2560 Quadra Street

Downtown Development - Rental			
DEVELOPER	DEVELOPER LOCATION	BUILDING NAME	UNITS
Concert Properties	Vancouver	Tapestry	131
Alpha Project Development	Victoria	1400 Quadra Street	113
Gordon Nelson Inc	Vancouver	937 View Street	231
Salient Group	Vancouver	825 Fort Street	110
Cox Development Ltd	Victoria	1088 Johnson Street	37
Pacific Arbour Six Residences & Parc Retirement Living	Vancouver	Fort and Parc	276
Bosa Development	Vancouver	Residences at the Empress	72
Chard Developments	Vancouver	1312 Broad Street	59
Norwood Holdings Ltd & Salient Group	Victoria & Vancouver	The Sawyer	63
BlueSky Properties	Vancouver	BlueSky Victoria	195
Nicola Crosby Real Estate	Vancouver	Wellburns Market	75
Alston Properties	Victoria	727 Johnson Street	30
Reliance Properties	Vancouver	506 Fort Street	9
Nvision Properties	Victoria	1010 Fort Street	54
Total:			1,517

***** Source: Yellowsheet Construction Data + Analytics

Downtown Residential Development Map



● Proposed
 ● Under Construction
 ● Approved
 R= Rental or Partial Rental



Yello on Yates - 819 Yates Street

Downtown Development - Condo/Strata			
DEVELOPER	DEVELOPER LOCATION	BUILDING NAME	UNITS
Townline	Richmond	Hudson Place One	176
Chard Developments	Vancouver	The Yates on Yates	118
Chard Developments	Vancouver	Vivid at the Yates	135
Alpha Projects Developments	Victoria	Legato	88
Cox Developments Ltd	Victoria	989 Johnson Street	206
Townline	Richmond	Hudson Place Two	170
Concert Properties	Vancouver	Tapestry	42
Sakura Project Management	Victoria	930 Fort Street	62
Kang & Gill Construction Ltd	Victoria	926-932 Pandora Avenue	145
Mosaic Properties Inc	Victoria	The Jukebox	215
Reliance Properties	Vancouver	Johnson Street Gateway	103
Triad Holdings	Victoria	The Pearl Residences	133
Cielo Properties	Victoria	Customs House	57
Chard Developments	Vancouver	Duck's Building	108
Homewood Constructors	Victoria	Cityzen Residences	32
Mosaic Properties Inc	Victoria	The Ventana	21
Le Fevre & Company	Victoria	Ironworks	164
		Victoria Plaza Hotel	100
Tenfold Projects	Victoria	The Wade	102
Total:			2,177

***** Source: Yellowsheet Construction Data + Analytics

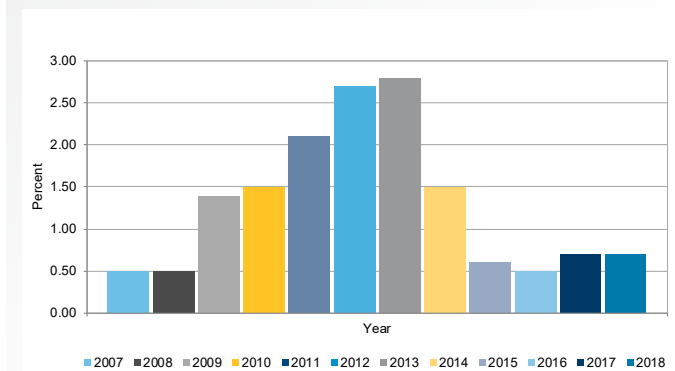
Vacancy Overview

According to the most recent CMHC survey data, the vacancy rate for the Victoria CMA (Census Metropolitan Area) remains at the 0.7 % level. These historically low vacancy levels are attributed to the following rental market dynamics:

Record low unemployment levels and a strong economic growth forecast predicting a 4.3% unemployment rate for 2018 , the lowest across Canada.

- › Forecast public sector growth under new NDP provincial government.
- › Sustained employment demand stemming from the notable growth of Victoria’s tech sector.
- › Strong net in-migration targeting the region, with younger demographics taking advantage of employment opportunities and older demographics relocating for lifestyle amenities
- › A local, national, and international student population attending the three major educational institutions located in the South Island: University of Victoria, Royal Roads University, and Camosun College.
- › Tightened mortgage qualifications for first-time buyers, combined with the rising costs of housing, tend to keep more renters in their existing accommodations.
- › As a result, taking into consideration the potential delivery of approximately 2,742 units currently under construction in Greater Victoria this year and throughout 2019, we are forecasting only moderate upward pressure on vacancy rates.

Apartment Vacancy Rate 2018



**Source: Fall 2017 CMHC Rental Market Report

Market Transactions

Demand and a lack of available rental product in Lower Mainland markets supports a migration of many investors over to South Island markets. However, a lack of available rental product in the region resulted in increased demand for Greater Victoria properties that could not be met for the first half of 2018. Reported sales of purpose-built rental properties valued at over \$1 million totaled \$25.8 million. However, based on the unreported sale of a total 356 units in 2 newly constructed purpose built rental developments – Yello On Yates at 209 units and Hoy Lake Road in Langford at 147 units, we will have easily exceeded reported sales volumes for the same period in 2017 which totaled \$108 million.

Moving forward, we anticipate that the availability of investment product, as well as sales activity, will remain tight for the following reasons:

- › A desire by the existing owner base to hold on to their properties to avoid the tax consequences associated with a significant capital gain
- › Hesitation on the part of investors due to recent interest rate increases, with the concern that future increases are on the horizon
- › A growing disconnect between buyer and seller transactional expectations
- › A meagre supply of available product in the face of sustained investor demand

Market Rental Rates (\$)

	Greater Victoria Q4 2017
1 Bedroom	988
2 Bedroom	1,288
3 Bedroom	1,568

* Source: Fall 2017 CMHC Rental Market Report

Market Transactions Over \$1 Million - Second Quarter 2018						
NAME	ADDRESS	CLOSED	PRICE	CAP RATE	SUITES	PRICE/SUITE
-	2653 Sooke Road	1/5/2018	\$2,095,000	-	20	\$104,750
-	645 Battery Street	1/5/2018	\$1,250,000	-	4	\$312,500
Glen Eagle Apartment	611 Admirals Road	1/10/2018	\$4,150,000		25	\$176,000
-	636 Simcoe Street	2/1/2018	\$1,246,250		4	\$311,563
-	1148 Oscar Street	2/16/2018	\$1,775,000	3.32%	9	\$197,222
-	1044 Hillside avenue	3/1/2018	\$2,400,000	3.86%	8	\$300,000
-	2220 Cook Street	3/29/2018	\$2,250,000		10	\$225,000
-	217 Cook Street	3.29/2018	\$2,250,000	2.80%	6	\$375,000
-	1131 Collinson Street	4/6/2018	\$2,175,000	3.50%	6	\$362,500
-	920 Hillside Street	4/27/2018	\$3,200,000	4.00%	12	\$266,667
-	531 Linden Avenue	5/1/2018	\$1,800,000	3.47%	4	\$450,000
Yello on Yates	819 Yates Street	5/1/2018	-	-	209	-
Hoylake Apartments	691-697 Hoylake Avenue	5/1/2018	-	-	148	-
	2566 Prior Street	6/20/2018	\$1,200,000	-	4	\$300,000
TOTAL	14 Transactions		n/a	n/a	469	-

As noted in the table following, the reported \$25.8 million in sales volumes, for the first half of this year, resulted from the completion of a total of only 14 transactions.

However, it is important to note that the majority of reported sales traded within a price range of \$1 million to \$3 million. Typically, premium pricing is a factor in smaller transactions, with the result that capitalization rates were skewed low while price per unit values were very high in relative terms for these sales. As such, in the absence of any detailed information for the sales that comprised the vast majority of total transactions for the first half of this year, we were unable to rely on cap. rate and price per unit criteria as an accurate representation of market reality.

Multifamily Market Forecast

We anticipate that investor demand for apartment rental product will remain robust, given strong regional economic fundamentals. This will be sustained by the influx of a younger demographic attracted by the growing tech industry as well as retiring baby boomers seeking lifestyle amenities available in the South Island. On the employment front, Statistics Canada reports that Greater Victoria once again boasts the one of the lowest unemployment rates in Canada at 4.2%. The national rate of unemployment is 5.8%. This contributes to a robust rental market environment.

Demand from tenants for new purpose-built rental product is forecast to remain strong. Due to the surge of house prices in the Victoria residential market, many consumers continue to rent rather than becoming first time homebuyers. As a result, this will put more pressure on the rental market, and will cater to the demand for amenities such as in-suite laundry and upscale finishes. In addition, this new product will provide a viable option for renters looking to upgrade their accommodation from the aging rental stock that currently makes up over 80% of purpose-built rental inventory.

***** Source: Statistics Canada 2018



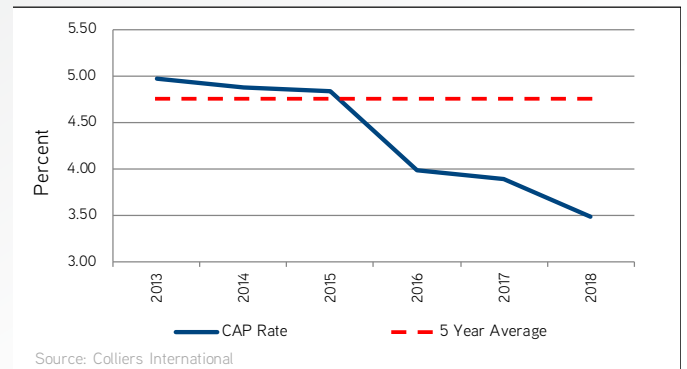
691-697 Hoylake Avenue

Multifamily Financing

The Government of Canada’s five and 10-year bond yields have been on the rise for the past 18 months and hit a high in mid-May of 2.33% and 2.52% respectively. Since this time, we have seen a reduction of approximately 30+ basis points in both the five and 10-year bond yields, which fell to their lowest levels since March of this year.

There is still an ample supply of mortgage capital for income producing properties and CMHC insured financing, but recently financial institutions tightened up their capital supply on both land acquisition and construction financing, and they are taking a more measured approach to underwriting. The lenders with capital to lend in that space can selectively screen deals they would like to proceed with, which has resulted in more alternative lenders stepping in to fill the void.

Capitalization Rate Change - Past 5 Years



Source: Colliers International

First Mortgage Interest Rates

Type of Financing	Term	Bond Yield*	Lender Spread**	Interest Rate	Interest rate Dec. 2017
Conventional	5	2.07	1.50	3.57	3.53
	10	2.16	1.50	3.66	3.78
CMHC Insured***	5	2.46	0.55	3.01	2.95
	10	2.60	0.55	3.15	3.20

* Bond yield based on July 2018 GoC bond yield

** Spreads represent current risk premium associated with investment grade assets and qualified investors.

*** Based on CMB commercial bond yields effective July, 2018

413 offices in 69 countries on 6 continents

United States: **145**

Canada: **28**

Latin America: **23**

Asia Pacific: **86**

EMEA: **131**

\$2.7B

US* in annual
revenue

2B

square feet
under management

15,400

professionals
and staff

*Based on 2017 results

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