

RESEARCH REPORT



The Impact of Investors on the Market for Apartment Condominiums in Selected Markets in the Vancouver CMA



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The Impact of Investors on the Market for
Apartment Condominiums in Selected Markets
in the Vancouver CMA

Prepared by

**PricewaterhouseCoopers LLP
Vancouver, BC**

For

**Project Managers
Cameron Muir
Charles King
Canada Mortgage and Housing Corporation
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Résumé

Survol

La Société canadienne d'hypothèques et de logement (SCHL) s'intéresse à l'incidence des logements en copropriété sur l'offre de logements locatifs dans la région métropolitaine de recensement (RMR) de Vancouver, en particulier dans la zone d'étude, qui englobe les villes de Vancouver (centre-ville, secteur Ouest et secteur Est), de Burnaby et de Richmond. Certaines informations anecdotiques indiquent que les investisseurs ont acheté une proportion importante des nombreux logements en copropriété construits dans la zone d'étude depuis 1990, pour les offrir en location. Cependant, les renseignements disponibles sur ces copropriétés locatives, y compris sur leur nombre, sont incomplets, en partie parce qu'il est difficile de distinguer les copropriétés occupées par leur propriétaire de celles qui sont louées. Par ailleurs, les promoteurs ont fait construire très peu d'ensembles d'appartements destinés au marché locatif depuis 1990.

La SCHL a choisi PricewaterhouseCoopers LLP (PwC) pour examiner le marché des logements en copropriété offerts en location dans la zone d'étude durant la période de 1990 à 2001. Pour mener son enquête, PwC a obtenu des renseignements de diverses sources, notamment de la SCHL, de sa propre base de données sur les copropriétés, de la British Columbia Assessment Authority (BCAA), de documents publiés et d'entretiens réalisés avec des promoteurs de logements en copropriété, des gestionnaires immobiliers et des agents immobiliers bien au fait de ce marché.

Survol du marché des logements

neufs en copropriété,

de 1990 à 2000

Le marché des logements neufs en copropriété a suivi un cycle durant la période de 1990 à 2000. Les mises en chantier ont atteint un sommet en 1993, puis un creux en 2000. Selon les données de la SCHL sur le secteur de la construction, le nombre de copropriétés mises en chantier au cours de cette période de 11 ans s'élève à 36 985. Selon des renseignements à caractère commercial obtenus auprès de promoteurs, il y en a eu 38 943 (voir le tableau 0-1). Toujours d'après ces données commerciales¹, 14 366 logements en copropriété ont été mis en chantier au centre-ville de Vancouver, le reste étant réparti presque également entre les autres secteurs visés par l'étude. Environ 58 % des copropriétés mises en chantier étaient situées dans des immeubles de grande hauteur et le reste, dans de petits immeubles. En outre, 33 % se trouvaient dans des immeubles de grande hauteur au centre-ville de Vancouver. Seulement 6 835 (soit 18 %) étaient

¹ Les données portant sur les copropriétés dans le reste de cette sous-section du rapport sont fondées sur des renseignements à caractère commercial tirés de la base de données de PwC sur les copropriétés.

destinées à être achetées par des investisseurs; 66 % de ces copropriétés étaient situées au centre-ville de Vancouver et 83 %, dans des immeubles de grande hauteur.

Tableau 0-1 – Nombre de mises en chantier de logements en copropriété (selon des renseignements de nature commerciale) dans la zone d'étude, selon le type d'immeuble, 1990-2000

Type d'immeuble	Sous-secteur					Total	
	Centre-ville	Ouest	Est	Burnaby	Richmond		
Imm. de grande hauteur	12 846	2 313	1 567	2 891	2 298	21 915	56 %
Lofts-imm. de grande hauteur	696	77	120	-	-	893	2 %
Petits immeubles	375	4 244	3 507	1 834	3 055	13 015	33 %
Lofts-petits immeubles	362	125	398	455	-	1 340	4 %
Logements en rangée superposés	87	589	328	603	173	1 780	5 %
Total	14 366	7 348	5 920	5 783	5 526	38 943	100 %
	37 %	19 %	15 %	15 %	14 %	100 %	100 %

Source : PricewaterhouseCoopers

La taille moyenne des copropriétés neuves a varié durant la période de 1990 à 2000. Elle a été de 980 pieds carrés en moyenne, si l'on exclut les balcons extérieurs et les aires de rangement (voir le tableau 0-2). Les copropriétés situées dans des immeubles de grande hauteur et les copropriétés en rangée superposées sont celles qui avaient la plus grande superficie, et les copropriétés situées dans des lofts-petits immeubles, la plus petite. Par ailleurs, c'est au centre-ville de Vancouver que l'on trouvait les logements en copropriété les plus grands, les plus petits étant situés dans le secteur Est de Vancouver.

Tableau 0-2 – Résumé des données sur les logements neufs en copropriété ayant fait l'objet de l'étude, 1990-2000

Type d'immeuble	Taille moyenne (pieds carrés)	Prix moyen (en dollars) ¹	Prix moyen par pied carré (en dollars)
Imm. de grande hauteur	1 105	327 408 \$	296
Lofts-imm. de grande hauteur	933	200 097	214
Petits immeubles	888	186 266	210
Lofts-petits immeubles	848	192 769	227
Logements en rangée superposés	1 056 \$	213 504	202
Moyenne pondérée	980 \$	240 009 \$	245
Sous-secteur			
Centre-ville	1 065	321 794 \$	302
Ouest	985	261 244	265
Est	846	158 144	187
Burnaby	976	185 074	190
Richmond	1 013	189 736	187
Moyenne pondérée	980	240 009 \$	245

Nota :

1. Exclut la TPS

Source : PricewaterhouseCoopers

Durant la période de 1990 à 2000, le prix moyen des logements neufs en copropriété s'est établi à 240 009 \$ (voir le tableau 0-2). Les copropriétés situées dans des immeubles de grande hauteur affichaient le prix moyen le plus élevé, et celles situées dans de petits immeubles, le plus bas. En outre, c'est au centre-ville de Vancouver que les copropriétés étaient les plus chères, en moyenne; les moins chères se trouvaient dans le secteur Est de Vancouver.

Le prix moyen par pied carré des logements neufs en copropriété était de 245 \$ pour la période de 1990 à 2000 (voir le tableau 0-2), le plus cher ayant été relevé dans les immeubles de grande hauteur et le plus bas, dans des ensembles de logements en rangée superposés. Par ailleurs, c'est au centre-ville de Vancouver que le prix moyen par pied carré était le plus élevé. Le plus abordable a été enregistré dans l'Est de Vancouver, à Burnaby et à Richmond.

Facteurs influant sur la construction de logements en copropriété

En 2000, l'offre d'appartements locatifs (ceux qui étaient à l'origine destinés au marché locatif) dans la zone d'étude se chiffrait à 71 989, en hausse de moins de 5 % par rapport à 1990. Durant cet intervalle, la population de la zone d'étude s'est accrue de 23 % (c'est-à-dire de 174 000 personnes). Malgré cette croissance, peu d'ensembles locatifs ont été construits, parce qu'il était plus avantageux pour les promoteurs de produire des copropriétés que des logements locatifs, les loyers pratiqués étant insuffisants pour couvrir le coût lié à la construction d'ensembles locatifs (y compris le profit du promoteur). En outre, pour beaucoup de gens, il coûtait presque aussi cher de louer une habitation que d'en acheter une compte tenu des bas taux hypothécaires, de sorte que certains locataires ont décidé de devenir propriétaires.

Dans les années 1990, la nature cyclique de l'économie dans la RMR de Vancouver, l'offre de terrains limitée, certains événements survenus à l'étranger (la rétrocession de Hong Kong à la Chine, par exemple) et l'attrait exercé par les formes d'investissement autres que l'immobilier sont autant de facteurs ayant eu des répercussions positives ou négatives sur le marché des logements en copropriété.

Certains facteurs ont nuit à ce marché, entre autres le problème lié à la défaillance des enveloppes de bâtiment, qui a touché une partie des copropriétés construites dans les années 1990 dans la RMR de Vancouver, les changements apportés au code du bâtiment et la nouvelle loi de la Colombie-Britannique sur les copropriétés – la *Strata Property Act* –, qui permet notamment à un syndicat de

copropriétaires de limiter le nombre de copropriétés offertes en location dans leur immeuble.

Commentaires de gestionnaires, d'agents et de promoteurs immobiliers au sujet des copropriétés achetées par des investisseurs et offertes en location

Les gestionnaires et agents immobiliers interrogés estiment qu'entre 50 et 90 % des investisseurs sur le marché de la copropriété ne possèdent qu'un seul logement. Il s'agit d'investisseurs à long terme. La plupart ont l'intention de garder leur copropriété au moins cinq ans. Les investisseurs se préoccupent surtout du rendement de leur investissement et se soucient peu de la forme des logements. Ils ont tendance à préférer les copropriétés de petite taille qui ne présentent aucune caractéristique particulière et ne montrent pas de préférence pour ce qui est du type d'habitation.

Même si, habituellement, le taux de rendement n'est pas élevé, les investisseurs estiment que l'investissement sur le marché des logements en copropriété présente de faibles risques compte tenu des bas taux d'inoccupation. Les personnes qui louent une copropriété ont en général un meilleur revenu que celles qui occupent d'autres types de logements locatifs. En outre, il s'agit le plus souvent de personnes seules ou de couples sans enfant.

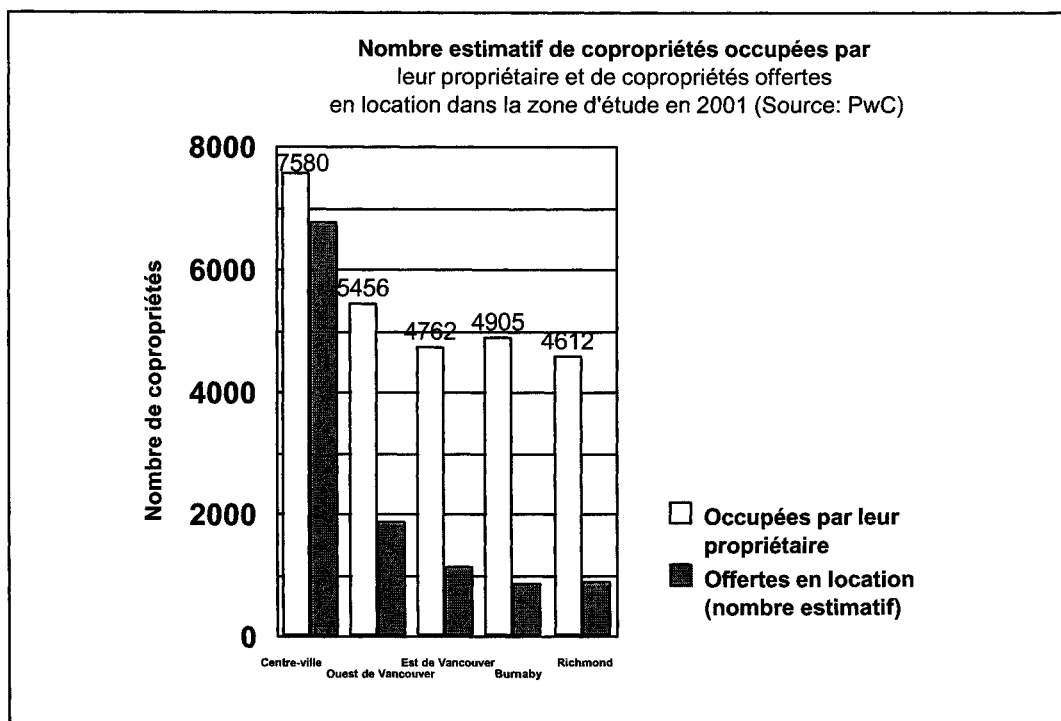
Les entretiens réalisés avec des promoteurs indiquent que ces derniers s'intéressent surtout au segment des copropriétés occupées par leur propriétaire plutôt qu'à celui des copropriétés offertes en location. Les investisseurs n'ont pas particulièrement influé sur la composition ou la conception de leurs ensembles de copropriétés, bien que la tendance actuelle vers la construction de petits immeubles au centre-ville de Vancouver soit susceptible d'attirer les investisseurs.

Copropriétés appartenant à des investisseurs et ventes de copropriétés existantes dans la zone d'étude en 2001

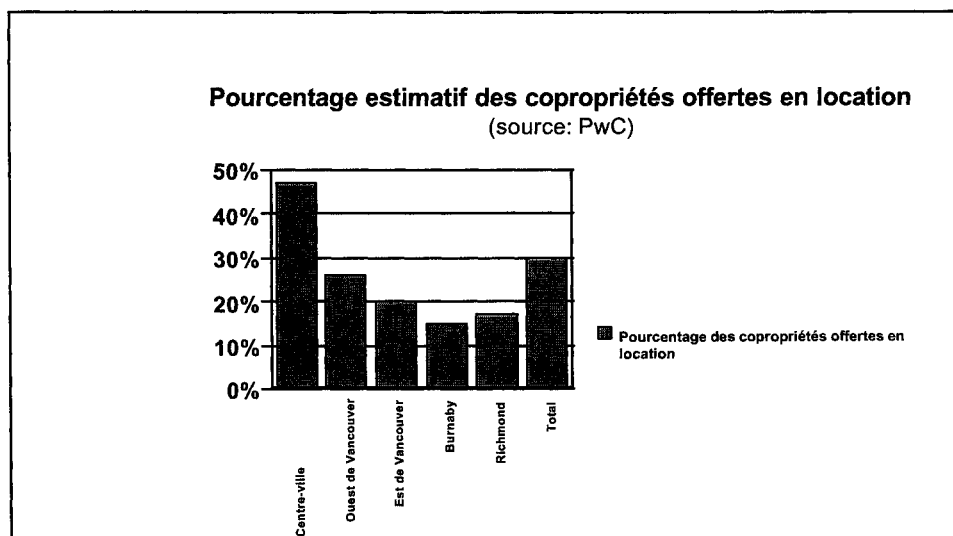
Environ 30 % des logements en copropriété construits entre 1990 et 2000 étaient offerts en location (soit approximativement 11 627), selon l'échantillon examiné, qui représente 10 % des ensembles de logements en copropriété produits dans la zone d'étude durant cette période.

Parmi les cinq secteurs de la zone d'étude, c'est celui du centre-ville de Vancouver qui détenait le plus grand nombre estimatif (environ 6 786) et la plus forte proportion (47 %) de copropriétés offertes en location (voir les graphiques 0-1 et 0-2).

Graphique 0-1



Graphique 0-2



Tous secteurs confondus, les logements en copropriété vendus en 2001 avaient en moyenne une superficie de 946 pieds carrés. C'est au centre-ville de Vancouver

qu'on a enregistré la superficie moyenne la plus petite (817 pieds carrés) et à Richmond, la plus grande (1 161 pieds carrés). Les studios avaient la plus faible superficie moyenne (431 pieds carrés) et les logements d'au moins trois chambres, la plus importante (1 510 pieds carrés). La superficie moyenne des copropriétés *offertes en location* (798 pieds carrés) était inférieure de 19 % à celle des copropriétés occupées par leur propriétaire (983 pieds carrés), en grande partie parce que 76 % des copropriétés locatives étaient situées au centre-ville de Vancouver, où les copropriétés étaient plus petites qu'ailleurs; on trouvait dans ce secteur seulement 28 % des copropriétés occupées par leur propriétaire. Pour ce qui est de la superficie moyenne des copropriétés offertes en location, c'est au centre-ville de Vancouver qu'on a enregistré la plus faible (754 pieds carrés) et à Richmond, la plus grande (1 145 pieds carrés). La plus petite a été observée parmi les studios (402 pieds carrés) et la plus importante, du côté des logements d'au moins trois chambres (1 711 pieds carrés).

Le prix moyen des logements en copropriété dans la zone d'étude s'élevait à 189 215 \$. C'est dans l'Ouest de Vancouver qu'il était le plus élevé (219 335 \$) et dans l'Est, le plus bas (152 438 \$). Le prix moyen le moins cher était celui des studios (112 831 \$) et le plus cher, celui des logements d'au moins trois chambres (262 753 \$). Celui des copropriétés *offertes en location* (196 390 \$) était supérieur de 5 % à celui des copropriétés occupées par leur propriétaire (187 839 \$). Cet écart s'explique par le fait que 76 % des copropriétés locatives se trouvaient au centre-ville de Vancouver, où les prix étaient hauts; seulement 28 % des copropriétés occupées par leur propriétaire étaient situées dans ce secteur. Du côté des copropriétés offertes en location, le prix moyen le plus élevé a été enregistré au centre-ville de Vancouver (202 059 \$) et le plus bas, à Burnaby (162 917 \$). Le plus abordable a été relevé du côté des studios (117 275 \$) et le moins accessible, du côté des logements de trois chambres ou plus (444 750 \$).

Dans l'ensemble de la zone d'étude, le prix moyen par pied carré des copropriétés était de 200 \$. C'est au centre-ville de Vancouver qu'il était le plus élevé (250 \$) et à Richmond, le plus bas (152 \$). Le plus fort a été observé parmi les studios (262 \$) et le plus petit, parmi les logements d'au moins trois chambres (174 \$). Le prix moyen par pied carré des copropriétés *offertes en location* (246 \$) était supérieur de 29 % à celui des copropriétés occupées par leur propriétaire (191 \$), en grande partie parce que 76 % des copropriétés locatives étaient situées au centre-ville de Vancouver, où les copropriétés étaient plus petites et plus chères qu'ailleurs; on trouvait dans ce secteur seulement 28 % des copropriétés occupées par leur propriétaire. Du côté des copropriétés offertes en location, le prix moyen par pied carré le plus élevé a été enregistré au centre-ville de Vancouver (268 \$) et le plus bas, à Richmond (143 \$). Par ailleurs, c'est du côté des studios qu'il était le plus haut (292 \$), le plus faible ayant été observé du côté des logements de

deux chambres (220 \$). Au centre-ville de Vancouver, le prix moyen par pied carré des copropriétés locatives situées dans un immeuble où plus de la moitié des logements étaient offerts en location (277 \$) était supérieur de 12 % à celui des copropriétés locatives situées dans un immeuble comptant une plus faible proportion de logements offerts en location (248 \$).

Le temps nécessaire à la vente d'une copropriété dans la zone d'étude s'élevait à 89 jours en moyenne. Le plus court a été observé au centre-ville de Vancouver (77 jours) et le plus long, à Burnaby (121 jours). Il fallait beaucoup moins de temps pour vendre des copropriétés destinées à être offertes en location au centre-ville de Vancouver (71 jours, soit le délai le plus court) qu'à Richmond (205 jours, soit le délai le plus long).



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Executive Summary

Overview Canada Mortgage and Housing Corporation (“CMHC”) is interested in the role that apartment condominiums play in the supply of rental housing in the Vancouver CMA, specifically in a Study Area consisting of the cities of Vancouver (Downtown, Westside and Eastside), Burnaby and Richmond. Anecdotal information suggests that investors have purchased a significant share of the many new apartment condominiums developed in the Study Area since 1990, and then leased them as rental apartments. However, information about these rental condominiums, including the number of them, is sketchy due partially to the difficulty of distinguishing between owner-occupied and rental condominiums. In contrast, developers have built very few new purpose-built rental-only apartment buildings since then.

CMHC retained PricewaterhouseCoopers LLP (“PwC”) to investigate the rental market for apartment condominiums in the Study Area over the 1990 to 2001 period. PwC obtained information for this investigation from various sources including CMHC, the PwC Condominium Database, the British Columbia Assessment Authority (“BCAA”), published literature, and interviews with condominium developers, property managers and real estate agents familiar with this market.

*Overview of New
Condominium Market,
1990-2000*

The market for new apartment condominiums experienced a cycle over the 1990 to 2000 period. Starts reached a high in 1993, and a low in 2000. Over this 11-year period, CMHC reported “construction” starts totaling 36,985 condominiums, with developers reporting “marketing” starts¹ totaling 38,943 condominiums (see Table 0-1). Downtown Vancouver accounted for 14,366 of the marketing starts, with the remainder distributed almost equally amongst the remaining Study Area. Approximately 58% of them were some type of high rise, with the balance being low rise. High rise condominiums in Downtown Vancouver accounted for 33% of all apartment condominiums. Only 6,835 (18%) of the marketing starts targeted investors, of which 66% were in Downtown Vancouver and 83% in high rises.

¹ The information about condominiums in the remainder of this subsection is based upon marketing information obtained from the PwC Condominium Database.

Table 0-1 – Number of Marketing Starts of Apartment Condominiums
in Study Area by Product Type, 1990-2000

Product Type	Subarea					Total	
	Downtown	Westside	Eastside	Burnaby	Richmond		
High Rise	12,846	2,313	1,567	2,891	2,298	21,915	56%
Loft-High Rise	696	77	120	-	-	893	2%
Low Rise	375	4,244	3,507	1,834	3,055	13,015	33%
Loft-Low Rise	362	125	398	455	-	1,340	4%
Stacked Townhouse	87	589	328	603	173	1,780	5%
Total	14,366	7,348	5,920	5,783	5,526	38,943	100%
	37%	19%	15%	15%	14%	100%	

Source: PricewaterhouseCoopers

The average size of a new condominium varied over the 1990 to 2000 period, averaging 980 square feet, excluding external balconies and storage space (see Table 0-2). High rise and stacked townhouse condominiums were the largest, and loft-low rises the smallest. Geographically, condominiums in Downtown Vancouver were the largest, and those in Eastside Vancouver the smallest.

Table 0-2 - Summary Information about New Apartment Condominiums
Developed in Study, 1990-2000

	Average Size (sq.ft.)	Average Asking Price ¹	Average Asking Price/Sq. ft.
By Product Type			
High Rise	1,105	327,408	\$ 296
Loft-High Rise	933	200,097	214
Low Rise	888	186,266	210
Loft-Low Rise	848	192,769	227
Stacked Townhouse	1,056	\$ 213,504	202
Weighted Average	980	\$ 240,009	\$ 245
By Subarea			
Downtown	1,065	\$ 321,794	\$ 302
Westside	985	261,244	265
Eastside	846	158,144	187
Burnaby	976	185,074	190
Richmond	1,013	189,736	187
Weighted Average	980	\$ 240,009	\$ 245

Notes:

1. Excludes GST.

Source: PricewaterhouseCoopers

The average asking price of a new apartment condominium was \$240,009 over the 1990 to 2000 period (see Table 0-2). High rise condominiums had the highest average price, and low rise condominiums the lowest one.

Geographically, the average asking price was highest in Downtown Vancouver and lowest in Eastside Vancouver.

The asking price per square foot of a new apartment condominium averaged \$245/square foot over the 1990 to 2000 period (see Table 0-2). High rise condominiums had the highest average asking price per square foot, and stacked townhouses the lowest one. Geographically, the average price per square foot was highest in Downtown Vancouver, and lowest in Eastside Vancouver, Burnaby and Richmond.

*Factors Affecting
Development of
Apartment
Condominiums*

The supply of purpose-built rental apartments in the Study Areas totaled 71,989 units in 2000, an increase of less than 5% since 1990. Meanwhile, the population of the Study Area grew by 174,000 people (23%). Few new purpose-built rental housing was developed, however, because developers found it more profitable to develop condominiums than rental units as prevailing rents were not sufficient to cover the cost, including developer's profit, of developing them. As well, with low mortgage rates, the cost of renting compared with owning was about the same for many people; consequently, some renters opted to own rather than rent.

The cyclical nature of the Vancouver CMA's economy, its constrained land supply, and events in other countries (e.g. the repatriation of Hong Kong to China), plus the attractiveness of alternative investments to real estate during the 1990s were all factors that either positively or negatively affected the apartment condominium market.

The problem with building envelope failures in a number of condominiums built during the 1990s in the Vancouver CMA, building codes changes, and the new BC Strata Property Act that, among other things, allows a condominium building strata council to limit the supply of rental condominiums in its building, were all factors negatively affecting the apartment condominium market.

*Feedback from
Property Managers,
Real estate agents and
Developers regarding
Investor Owned Rental
Condominiums*

The property managers and real estate agents interviewed estimate that between 50% and 90% of apartment condominium investors own only one condominium. They are long-term investors. The majority of investors intend to hold their condominiums for five or more years. Investors are concerned primarily with their return on investment, and less with the design aspects of condominiums. They tend to prefer smaller condominiums that don't have special features, and have no preference for a particular product type.

Although the return on investment is usually not high, investors perceive that investing in apartment condominiums is lower risk due to low rental vacancy rates. Tenants of rental condominiums typically have higher incomes than tenants in other types of rental housing, and are most often singles or couples without children.

From interviews with developers, they have primarily focused on the owner-occupied segment of the apartment condominium market rather than the rental one. Investors have not significantly influenced the product mix or design of their apartment condominium projects, although the current trend towards smaller units in Downtown Vancouver favours prospective investors.

*Profile of Investor
Owned Condominiums
and Re-sales in Study
Area in 2001*

Rental condominiums accounted for approximately 30% (an estimated 11,627 condominiums) of the apartment condominiums developed between 1990 and 2000, based upon a 10% sample of the apartment condominium projects developed in the Study Area between 1990 and 2000.

Downtown Vancouver had both the highest number (an estimated 6,786) and highest proportion (47%) of rental condominiums of the five subareas in the Study Area (see Exhibit 0-1 and Exhibit 0-2).

Exhibit 0-1

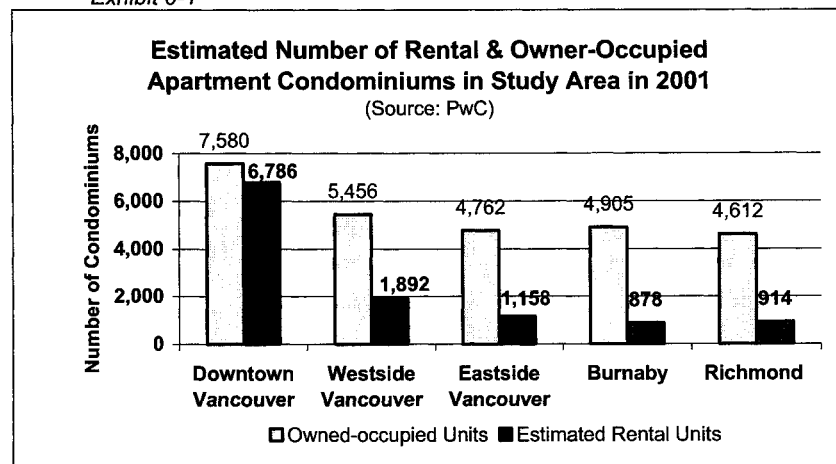
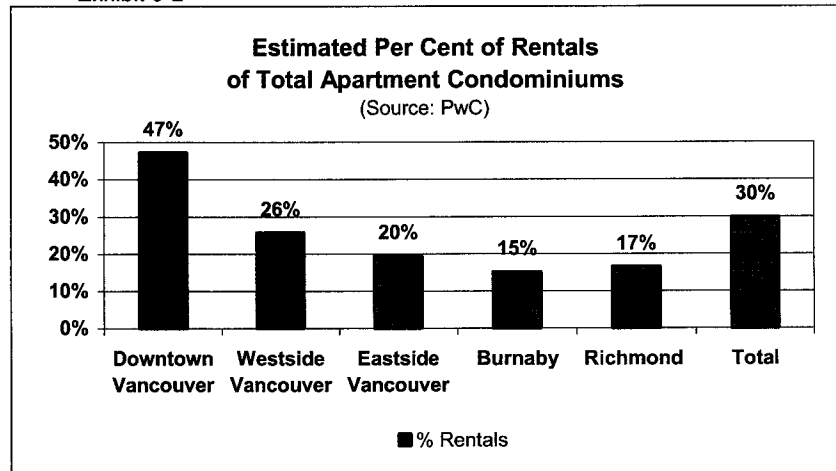


Exhibit 0-2



The combined average size of an apartment condominium sold in 2001 was 946 square feet. By subarea, it was smallest in Downtown Vancouver (817 square feet) and largest in Richmond (1,161 square feet). By product type, it was smallest for a studio (431 square feet) and largest for a condominium with three or more bedrooms (1,510 square feet). The average size of a *rental* condominium (798 square feet) was 19% smaller than an owner-occupied one (983 square feet), largely because of 76% of the rental units sold were in Downtown Vancouver, where the condominiums sold were smaller, compared with only 28% of the owner-occupied ones. By subarea, the average size of a rental condominium was smallest in Downtown Vancouver (754 square feet) and largest in Richmond (1,145 square feet). By product type, it was smallest for a studio (402 square feet) and largest for a condominium with three or more bedrooms (1,711 square feet).

The combined average sale price of an apartment condominium was \$189,215. By subarea, it was highest in Westside Vancouver (\$219,335) and lowest in Eastside Vancouver (\$152,438). By product type, it was lowest for a studio (\$112,831) and highest for a condominium with three or more bedrooms (\$262,753). The average sale price of a *rental* condominium (\$196,390) was 5% more than an owner-occupied one (\$187,839), largely because of 76% of the rental units sold were in Downtown Vancouver, where the condominiums sold had a higher selling price, compared with only 28% of the owner-occupied ones. For a rental condominium, the average sale price was highest in Downtown Vancouver (\$202,059) and lowest in

Burnaby (\$162,917). By product type, it was lowest for a studio (\$117,275) and highest for a condominium with three or more bedrooms (\$444,750).

The combined average sale price per square foot of an apartment condominium was \$200/square foot. By subarea, it was highest in Downtown Vancouver (\$250/square foot) and lowest in Richmond (\$152/square foot). By product type, it was highest for a studio (\$262/square foot) and lowest for a condominium with three or more bedrooms (\$174/square foot). The average sale price per square foot of a *rental* condominium (\$246/square foot) was 29% more than for an owner-occupied one (\$191/square foot), largely because of 76% of the rental units sold were in Downtown Vancouver, where the condominiums sold were smaller and had a higher selling price, compared with only 28% of the owner-occupied ones. By subarea, the average sale price per square foot of a rental condominium was highest in Downtown Vancouver (\$268/square foot) and lowest in Richmond (\$143/square foot). By product type, it was highest for a studio (\$292/square foot) and lowest for a 2-bedroom condominium (\$220/square foot). In Downtown Vancouver, the average sale price per square foot of a rental condominium (\$277/square foot) was 12% higher in a project in which more than half of the condominiums were rentals compared to one in a project with a lower proportion of rental condominiums (\$248/square foot).

The average selling time of an apartment condominium in the Study Area was 89 days. It was the lowest in Downtown Vancouver (77 days) and highest in Burnaby (121 days). *Rental* condominiums in Downtown Vancouver had the shortest selling time (71 days), while those in Richmond had the longest selling time (205 days).

1. Introduction

1.1 Background

Canada Mortgage and Housing Corporation (“CMHC”) is interested in the role that apartment condominiums play in the supply of rental housing in the Vancouver CMA. Anecdotal information suggests that investors have purchased a significant share of the many new apartment condominiums developed in the Vancouver CMA since 1990, and then leased them as rental apartments. In contrast, developers have built very few new purpose-built rental apartment buildings since then.

Information about these rental condominiums, including the number of them, is sketchy. CMHC excludes them in its rental market survey of the Vancouver CMA. One reason for excluding them is the difficulty of collecting reliable, relevant and timely information about them, including the difficulty of distinguishing rental condominiums from owner-occupied and unsold ones.

Reliable and relevant information is important to understand and forecast the market for rental housing and apartment condominiums. The lack of this information can have significant implications, such as for CMHC’s mortgage underwriting practices for apartment condominium buildings containing rental apartments and the overall apartment condominium market. Investors, for example, who sell their rentals could create an oversupply of apartment condominiums while reducing the total effective supply of rental housing. Consequently, CMHC is seeking information and insight that will give it and others:

- a better estimate of the supply of rental apartment condominiums; and,
- a better understanding of the role that apartment condominiums play in the supply of rental housing.

1.2 Scope of Work

1.2.1 Study Area

CMHC retained PricewaterhouseCoopers LLP (“PwC”) to investigate the investor market for apartment condominiums in the following cities or subareas (the “Study Area”) in the Vancouver CMA:

- Vancouver – specifically the following subareas:
 - * Downtown Vancouver (the downtown Vancouver peninsula from approximately Main Street west to Stanley Park);
 - * Westside Vancouver (the remainder of Vancouver, west of Main Street);
 - * Eastside Vancouver (the remainder of Vancouver, east of Main Street);
- Burnaby; and
- Richmond.

1.2.2 Task

Part One

1. Estimate the total inventory of condominiums built since 1990 for the subareas in the Study Area;
2. Provide a literature review of all pertinent material relating to investors and the Vancouver housing market in these areas since 1986;
3. Compare and contrast external and internal forces in the investor condominium market. Identify issues impacting supply/demand such as building code changes, pre-sales requirements based on institutional policies, financial objectives of developers, and changes to land supply. Also structural changes impacting the condominium market, such as modifications to the Condominium Act (now “Strata Property Act”), and other regulation regarding condominiums;
4. Contact five to eight of the largest condominium developers in the Study Area to ascertain if/how new condominium design has been/is influenced by the number of condominiums being sold to investors. Determine the

typical proportion of each new condominium apartment project marketed/sold to investors, including any ‘rules of thumb’ and emerging trends.

Part Two

1. Estimate the percentage of condominiums built since 1990 that are owned by investors in the housing market and currently in the rental market;
2. Estimate rents per square foot of condominium investor condominiums built since 1990, and express the rents per square foot as a ratio or relation to assessed value;
3. Assess condominium apartment investment compared to other competing real estate alternatives. Create a ‘what if’ scenario to illustrate any benefits from condominium apartment investment;
4. Identify market reaction to projects with high proportion of investor condominiums by determining if any discounting of price is occurring in the marketplace between buildings with a high proportion of investor condominiums versus buildings predominantly owner occupied;
5. Identify any risk associated with condominium projects having a high number of investor condominiums, both now and in the future (i.e., non-market external shocks, and unexecuted presales);
6. Identify key variables influencing rental values and compare and contrast the investor condominium apartment market with the purpose built rental apartment market.

This report presents the research and findings of Part 1.

1.3 Glossary

Defined below are the terms used in this report:

- *Condominium or condominium unit* – An individually owned dwelling in a multi-dwelling property in which the owners of all the dwellings jointly own the common use property, such as the land or common areas of the property. In British Columbia, the “Strata Property Act” governs condominiums, which the Act calls “strata lots.”

For the purposes of this report, only condominiums bought and sold freely in the marketplace are considered. Non-market condominiums, owned by government or non-profit groups for example, are not considered unless otherwise noted;

- *Row condominium or grade-access townhouse* – A ground-oriented condominium attached to two or more other condominiums so that the resulting row structure contains three or more condominiums. (This definition is adapted from CMHC’s definition of a “row dwelling.”)

PwC refers to a row condominium by the term “grade-access townhouse;”

- *Apartment condominium* – A condominium that is not a row condominium. (This definition is adapted from CMHC’s definition of an “apartment dwelling.”)

For the purposes of this report, an apartment condominium only refers to a high rise, low rise or loft-style condominium or a stacked townhouse, as defined below; it does not include an apartment condominium in a duplex, triplex, double duplex or row duplex unless otherwise noted;

- *Apartment building* – A building containing apartment condominiums;
- *Low rise condominium* – An apartment condominium in an apartment building of four storeys or less. (This definition is an adaptation of CMHC’s definition for this type of dwelling);
- *High rise condominium* – An apartment condominium in an apartment building of five storeys or more. (This definition is an adaptation of CMHC’s definition for this type of dwelling).

The planning regulations for apartment buildings in some municipalities, such as the City of Vancouver, often specify a requirement to include ground-oriented condominiums. PwC classifies these condominiums as either grade-access or stacked townhouses, as defined in this subsection, even though they are structurally part of the apartment building;

- *Loft-style condominium* – An apartment condominium that is distinct from other types of apartment condominiums by having an over-height ceiling, a minimum of interior partitions, and main and mezzanine levels.

Most loft-style apartments have a studio layout, i.e., no separate bedrooms. A loft-style condominium can be built in either a low rise or high rise apartment building;

- *Stacked townhouse* – A ground-oriented low rise apartment condominium that has other condominiums of this type located either above or below it;
- *Rental condominium* – an apartment condominium that is owned by a person as an investment and leased for rent.

1.4 Sources of Information

The quantitative information used in this investigation comes from several sources:

- *CMHC* – We obtained information on starts, completions and absorptions of apartment condominiums, and rental housing by subarea within the Study Area;
- *PwC Condominium Database* – This database contains information on all new residential apartment and townhouse condominium projects containing ten or more condominiums each and developed in the Vancouver CMA over eleven years between and including 1990 and 2000, the last year that it was updated. In all, the database contains information on over 2,000 projects. In general, each apartment condominium project corresponds to an apartment building.

We track each project from the time it begins marketing until all the condominiums are sold; however, we do not track any re-sales of condominiums. The information collected on each project includes: type (e.g. townhouse, low rise or high rise apartment); number of condominiums by type (e.g. studio, one bedroom) and price range; and, target buyer (e.g. investor, or type of owner-occupier).

- *British Columbia Assessment Authority* (“BCAA”) – BCAA collects information used in determining the assessed value of a property in British Columbia (“BC”) for property tax purposes. We have used this information to identify rental condominiums in a representative sample of existing apartment buildings developed in the Study Area between

1990 and 2000. We selected these buildings by drawing a random sample of apartment buildings from the PwC Condominium Database.

To identify rental condominiums in each selected apartment building, we first obtained assessment information for all condominiums in it. This information contains the address of the condominium and the address where BCAA sends its assessment notice, generally the owner's address. If the two addresses differ, then we assumed that the condominium is a rental condominium.

1.5 Limitations of Investigation

This report is based upon documents and information provided to us by others. We do not warrant their accuracy or completeness.

We do not assume any responsibility or liability for losses suffered by CMHC or any other user of this report as a result of its circulation, publication, reproduction or use.

All amounts are in Canadian dollars unless otherwise indicated.

2. Summary of Apartment Condominium Market since 1990

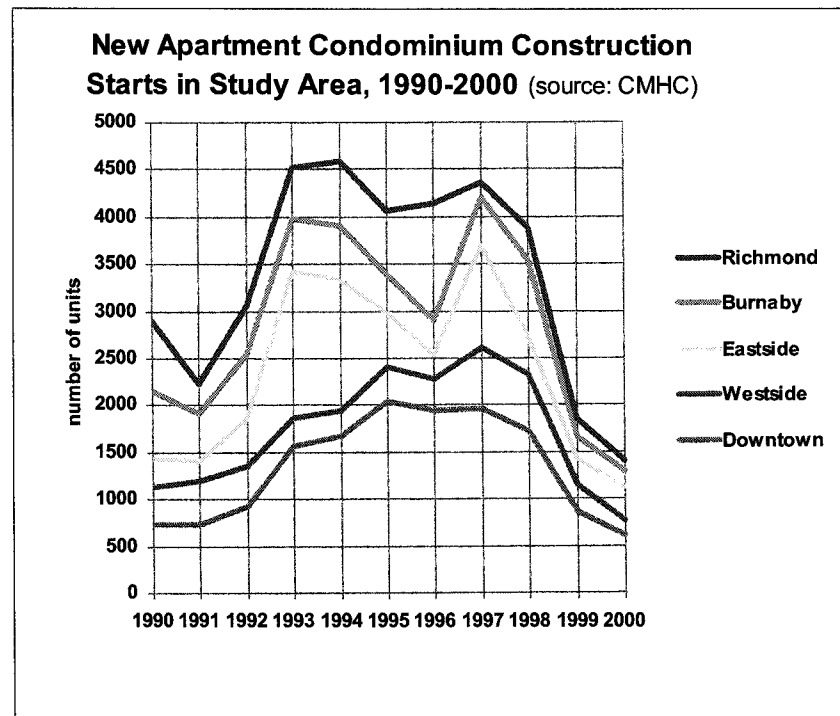
This section presents a summary of the apartment condominium market in the Study Area between 1990 and 2000. This review provides a summary of the following market characteristics:

- Supply of new apartment condominiums (1990-2000);
- Apartment condominium marketing starts;
- Investor activity;
- Market activity by product type;
- Trends in condominium sizes; and
- Trends in asking prices.

2.1 Supply of New Apartment Condominiums (1990-2000)

Exhibit 2-1 below provides a summary of new apartment condominium construction starts for the years 1990 to 2000.

Exhibit 2-1



Over the 11-year period from the beginning of 1990 to the end of 2000, the Vancouver CMA apartment condominium market experienced periods of high (1993-1998) and low construction starts (1991-1992 and 1998-2000, respectively). CMHC statistics show that construction starts in the Study Area totaled 36,985 apartment condominiums over this 11-year period. The most active years were in 1993 and 1994, with over 4,582 construction starts occurring in the Study Area in the latter year. Since 1997, however, the number of construction starts each year has fallen dramatically, with only 1,403 apartment condominiums started in the Study Area in 2000.

2.2 Apartment Condominium Marketing Starts

Many new apartment condominium projects, especially high rises, start marketing before construction begins. This is largely undertaken to prove that a market for the project exists for the project, and to satisfy the financial

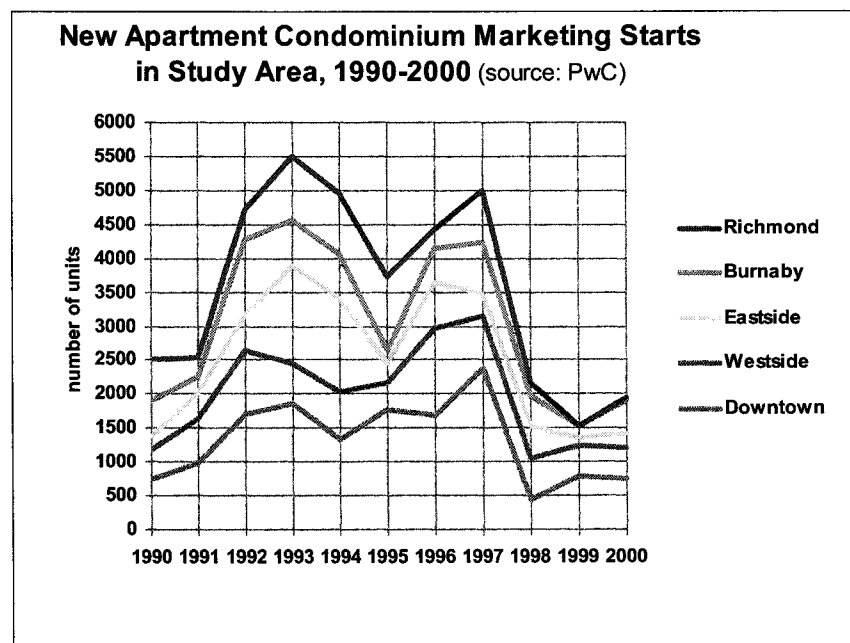
lender of its viability. Consequently, most new high rise condominium projects are at least 50% sold prior to construction beginning.

Often construction does not commence until at least six months after the marketing starts. Since high rise condominium projects often take about 18 months to construct, it can take up to 24 months before purchasers take possession of their new condominiums. Consequently, a review of new apartment condominium projects by marketing start date can present a more accurate indication of the state of the apartment condominium market at any given time.

*New Apartment
Condominium
Marketing Starts*

Exhibit 2-2 shows new apartment condominium marketing starts from the PwC Condominium Database for the years 1990 to 2000. The marketing start trends are similar to CMHC's construction start trends presented in Exhibit 2-2.

Exhibit 2-2



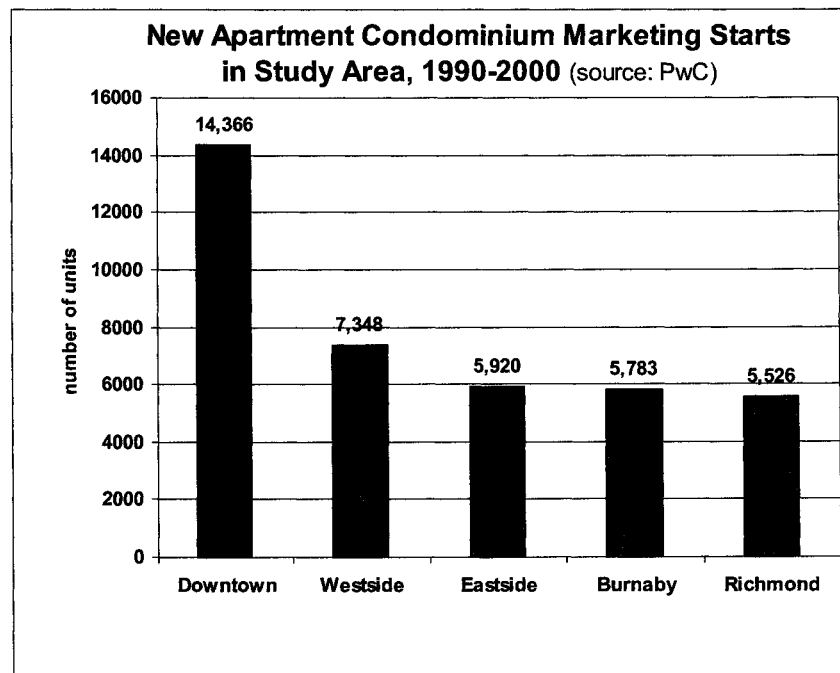
Over this 11-year period, the PwC Condominium Database shows that 38,943 apartment condominiums started marketing in the Study Area, which is slightly more than the CMHC construction start figure. Like CMHC's starts, the most active years were also 1993, when 5,494 apartment condominiums started marketing in the Study Area, and 1994. The low point

was 1999, when only 1,519 apartment condominiums started marketing. In 2000, the number of marketing starts in the Study Area, increased slightly to 1,938 apartment condominiums.

*New Apartment
Condominium
Marketing Starts by
Subarea*

As Exhibit 2-3 shows, Downtown Vancouver was the most active subarea for new apartment condominium development, with marketing starts totaling 14,366 condominiums for the years 1990 to 2000. By comparison, the other subareas had substantially fewer marketing starts.

Exhibit 2-3



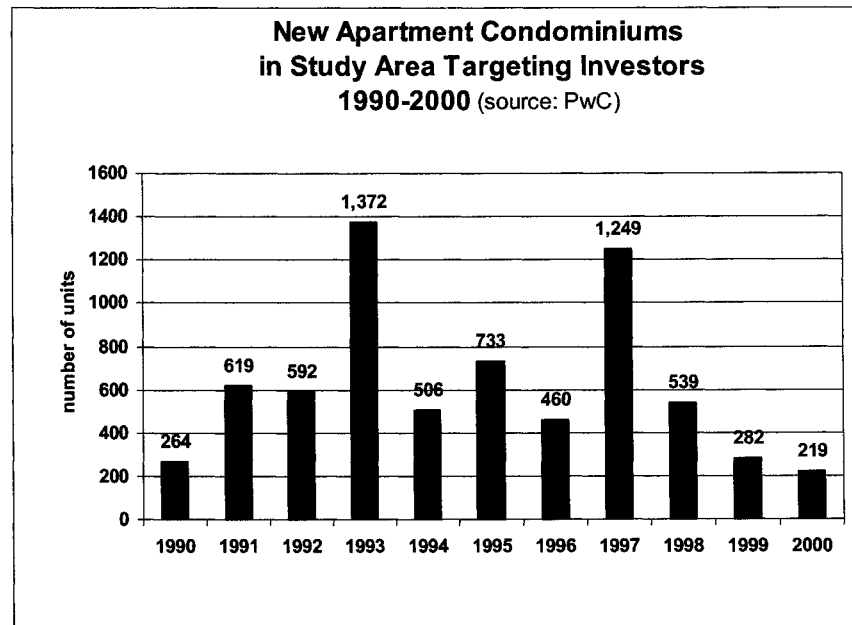
2.3 Investor Activity

PwC tries to obtain information on the target market of each new condominium project. Based on information obtained from the developer's marketing team, a project is classified as targeting one or more of the following target markets: young singles, young couples, families with children, mature couples, and/or investors. Alternatively, the project may not have a specific target market.

New Apartment Condominiums Targeting Investors

While the classification of projects by target market is by no means a complete indicator of whether or not investors purchased condominiums in a project, it does show an interesting pattern over time. Exhibit 2-4 shows the number of new apartment condominium marketing starts targeted at investors for the years 1990-2000, totaling 6,835 condominiums. The peaks occurred in 1993 and 1997, periods of significant growth in condominium development. More recently, very few apartment condominium projects have targeted investors.

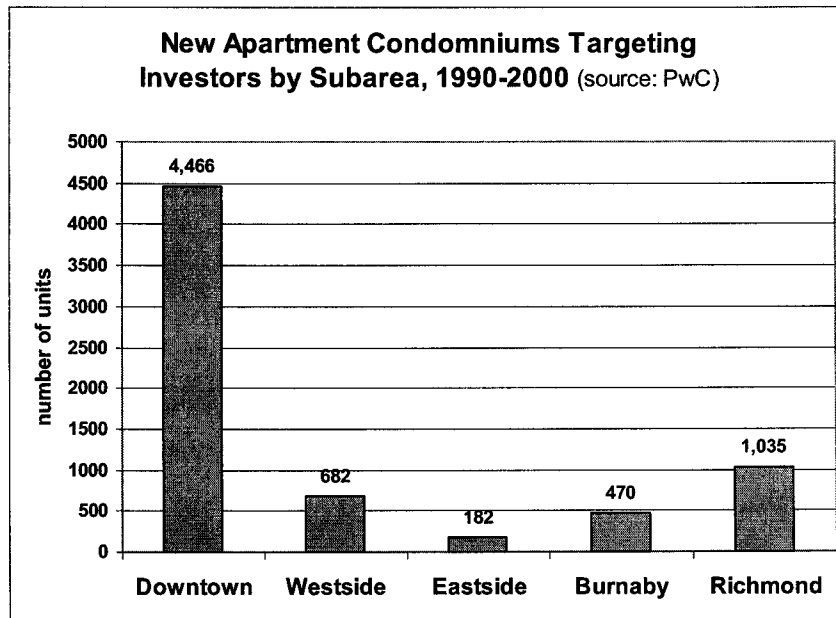
Exhibit 2-4



*New Apartment
Condominiums
Targeting Investors by
Subarea*

As Exhibit 2-5 shows, 65% of these condominiums were purchased in Downtown Vancouver. Richmond accounted for another 15%. The remaining subareas accounted for very few of them.

Exhibit 2-5



2.4 Market Activity by Product Type

PwC's database of new condominium projects classifies condominiums in new development projects into six product types, as defined earlier, i.e.:

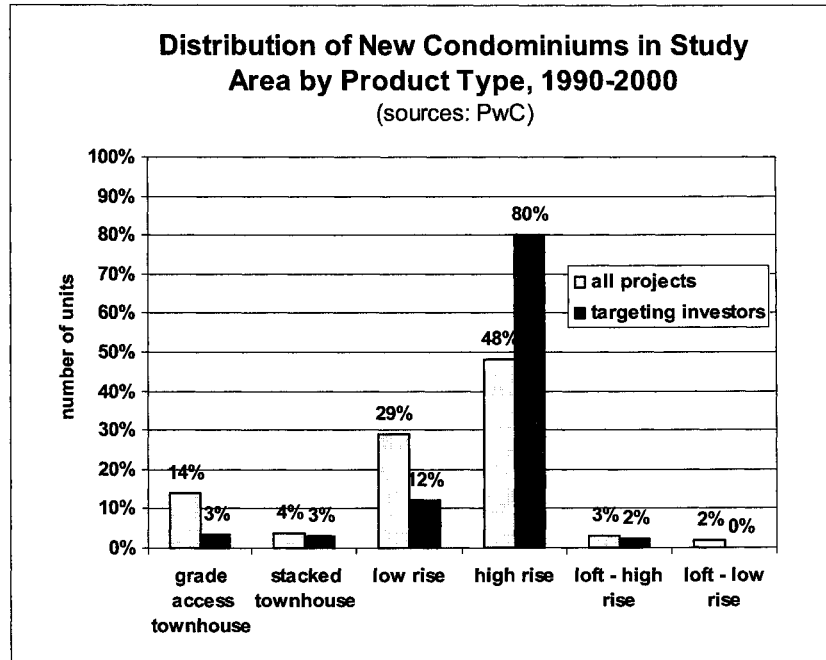
- (Grade-access) townhouse;
- Stacked townhouse;
- Low rise condominium;
- High rise condominium; and
- Loft-style condominium.

*Product Type for All
Condominiums*

Exhibit 2-6 shows the distribution of new condominiums in the Study Area by product type. Between 1990 and 2000, high rise condominiums accounted for 49% of the new condominiums (45,142 units), with 59% of these located in Downtown Vancouver. Low rise condominiums accounted for 29% of the

new condominiums, with nWestside (33%) and Eastside (27%) Vancouver and Richmond (23%) accounting for 83% of them.

Exhibit 2-6



*Product Type for
Condominiums
Targeting Investors*

Exhibit 2-6 and Table 2-1 summarize the number of new condominiums targeting investors during the 1990 to 2000 period by product type and subarea. Investors overwhelmingly favoured high rise condominiums. They accounted for 80% of these condominiums, of which 76% were in Downtown Vancouver.

Table 2-1

Product type	Downtown	Westside	Eastside	Burnaby	Richmond	Total	
Townhouse	35	26	44	12	114	231	3%
Apartments							
Stacked townhouse	20	189	-	-	-	209	3%
Low Rise	-	165	55	79	511	810	11%
High Rise	4,301	314	127	391	524	5,657	80%
Loft style: low rise	145	14	-	-	-	159	2%
Loft style: high rise	-	-	-	-	-	-	0%
Subtotal Apartments	4,466	682	182	470	1,035	6,835	97%
Total	4,501	708	226	482	1,149	7,066	100%
	64%	10%	3%	7%	16%	100%	

Source: PricewaterhouseCoopers

Low rise condominiums and stacked and (grade access) townhouses made up only 20% of the mix. Most low rise condominiums were in Richmond (63%). Very few (grade-access) townhouses were targeted at investors, with Richmond accounting for most of them.

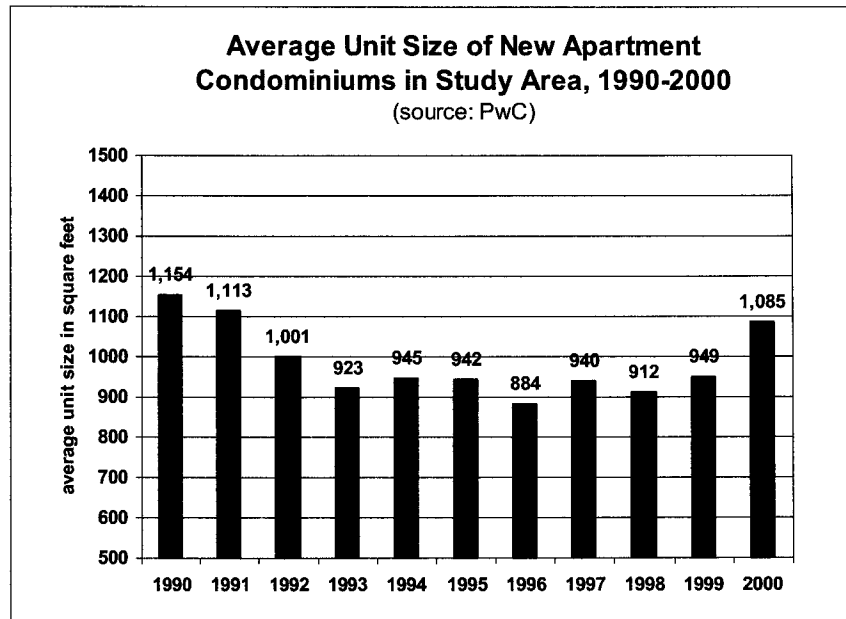
Almost all of the condominiums targeting investors in Downtown Vancouver were high rise. In Richmond, the mix was almost equally split between low (44%) and high rise (46%) condominiums. In Eastside Vancouver, high rise condominiums accounted for 56%. In Westside Vancouver, the mix was split between high rise (44%) and low rise (23%) condominiums and stacked townhouses (27%).

2.5 Trends in Condominium Sizes

Average Size of New Apartment Condominiums

Exhibit 2-7 shows the trend in average unit size for new apartment condominiums in the Study Area between 1990 and 2000.

Exhibit 2-7



The average size of new apartment condominiums decreased during most of the 1990s. At the beginning of the 1990s, the average apartment condominium in the Study Area was 1,154 square feet, excluding external balcony and storage space. By the mid-1990s, the average size had declined to around 940 square feet. This period coincided with a major increase in the number of condominium starts, and with more of them targeting investors (i.e., developers were building more but smaller condominiums).

During 1999-2000, the average size started to increase again, averaging 1,085 square feet in 2000. Two significant changes in the marketplace occurred to explain this increase:

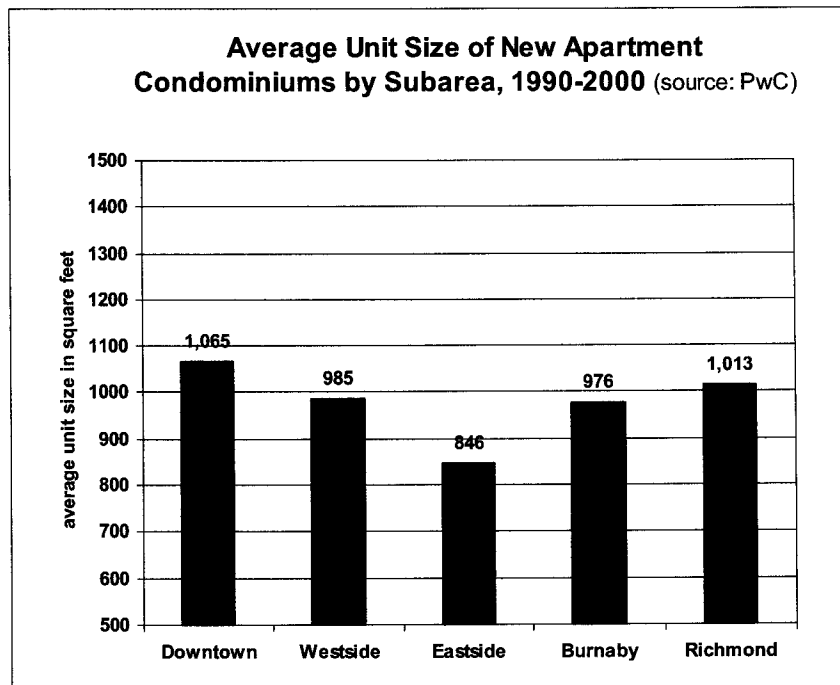
- The volume of condominium development had decreased significantly since the mid-1990s, with very few of these projects targeting investors; and,

- In the late 1990's, especially in Downtown Vancouver, more new developments began targeting owner-occupants and marketing luxury condominiums.

*Average size of New
Apartment
Condominiums by
Subarea*

Between 1990 and 2000, the average size of new apartment condominiums varied by subarea, as shown in Exhibit 2-8. On average, Downtown Vancouver tended to have the largest apartment condominiums, averaging 1,065 square feet, while Eastside Vancouver had the smallest ones, averaging 846 square feet.

Exhibit 2-8

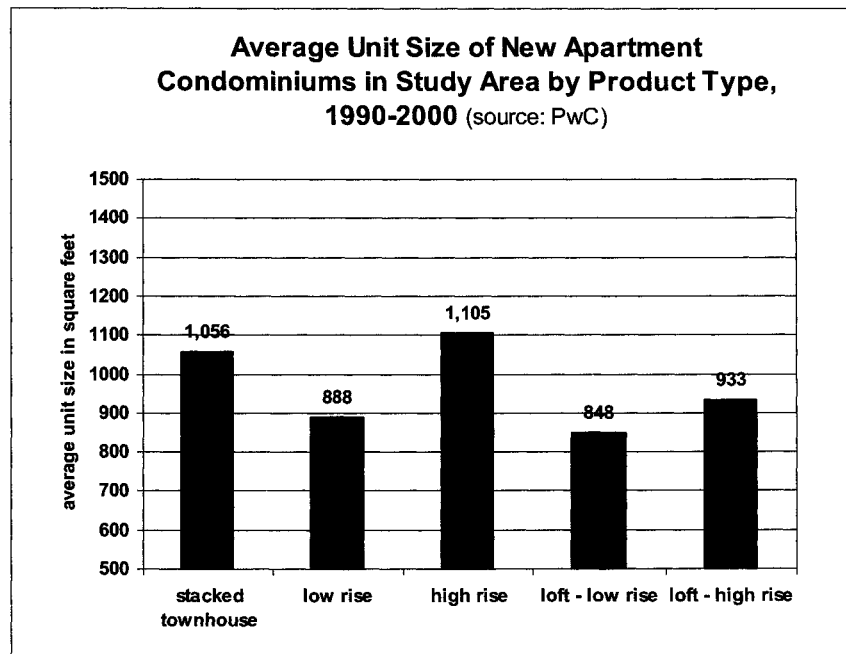


The differences in average size by subarea were to a large extent a reflection of differences in the project mix in each subarea. New apartment condominiums in Downtown Vancouver were mostly high rises, which had an average size of 1,100 square feet. By comparison, most of the new condominiums in Eastside Vancouver were low rises, which had an average size of around 890 square feet.

*Average Size of New
Apartment
Condominiums by
Product Type*

New high rise condominiums followed by stacked townhouses had the largest average sizes, as shown on Exhibit 2-9. Low rise condominiums of all product types were smaller on average.

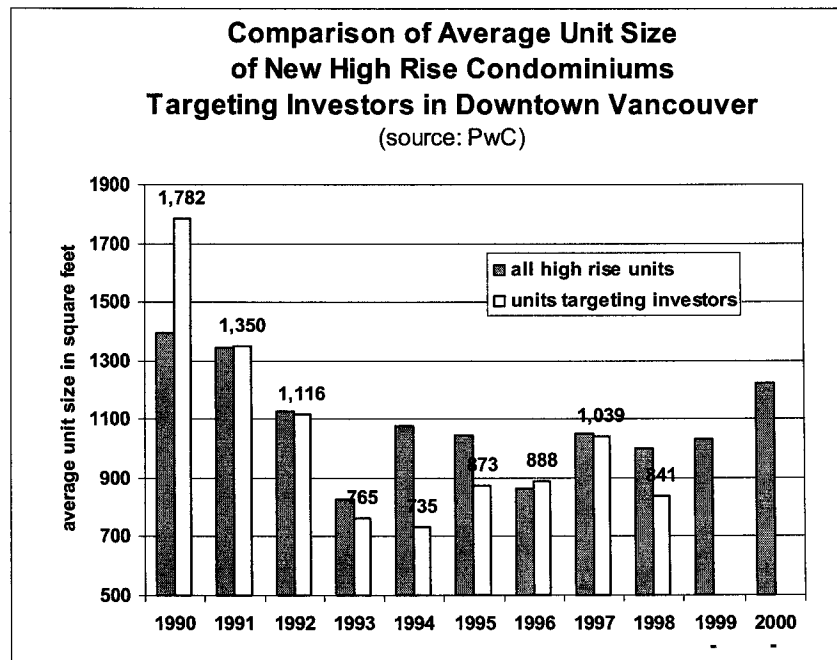
Exhibit 2-9



*Average Size in New
High Rise
Condominiums
Targeting Investors in
Downtown Vancouver*

Most of the new condominiums targeting investors between 1990 and 2000 were high rise in Downtown Vancouver. Exhibit 2-10 presents the average size of these condominiums compared with all new high rise condominiums.

Exhibit 2-10



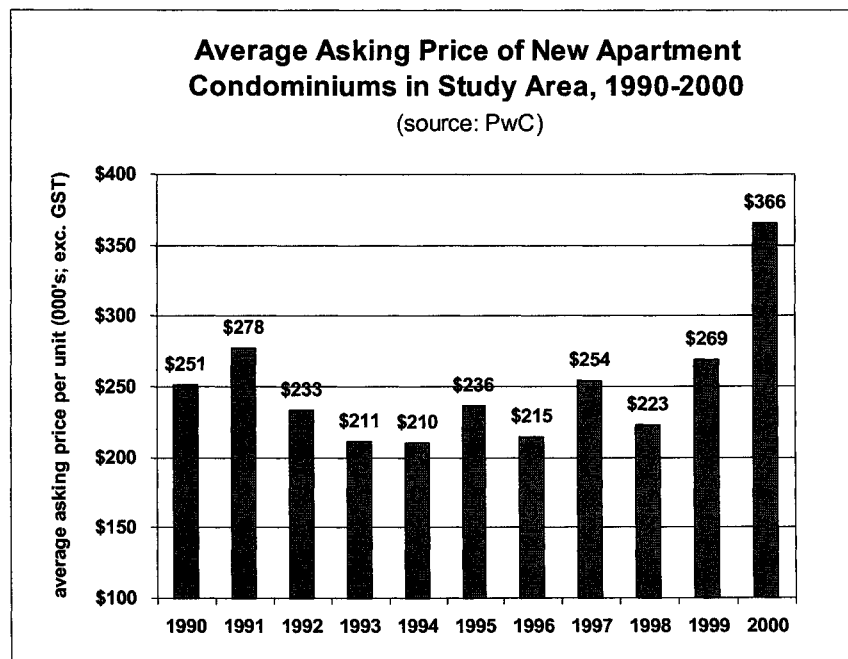
During the 1990 to 2000 period, the average size of new high rise condominiums targeting investors in Downtown Vancouver was smaller compared with new high rise condominiums in general there. While little difference occurred in 1991 and 1992, the average size for new high rise condominiums targeting investors was substantially less from 1993 to 1995. The greatest difference occurred in 1994 when the average size of all new high rise condominiums was 1,074 square feet compared with 735 square feet for those targeting investors. In 1999 and 2000, no new high rise condominiums were started in Downtown Vancouver that targeted investors.

2.6 Trends in Asking Prices

Average Asking Price of New Apartment Condominiums

The PwC Database records the lower and upper asking prices, excluding GST, of each condominium type (studio, one bedroom, one plus den, etc.) in each condominium project. The mid-point of each range is used to compute an overall average asking price for the condominiums in each project. Exhibit 2-11 shows the average asking price of new apartment condominiums in the Study Area between 1990 and 2000.

Exhibit 2-11



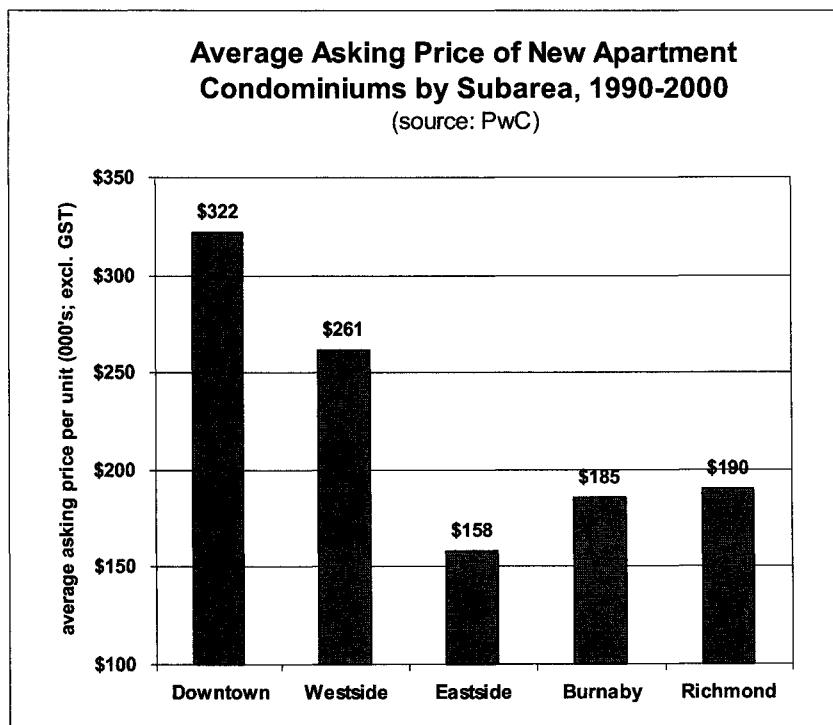
During most of the 1990s, the average asking price of a new apartment condominium in the Study Area ranged between \$210,000 and \$260,000. In the mid-1990s, during which developers marketed an increasing number of smaller condominiums, the average asking price was substantially lower. In 1993, 1994 and 1996, it was around \$215,000. In 2000, the average asking price shot up to \$366,000 as developers focused on large, luxury condominiums.

Average Asking Price of New Apartment Condominiums by Subarea

The average asking price of a new apartment condominium varied even more by subarea than by average size, as shown in Exhibit 2-12. The most expensive condominiums were in Downtown Vancouver, where the average asking price during the 1990 to 2000 period was \$322,000. The most

affordable new apartment condominiums were in Eastside Vancouver, where the average asking price was \$158,000.

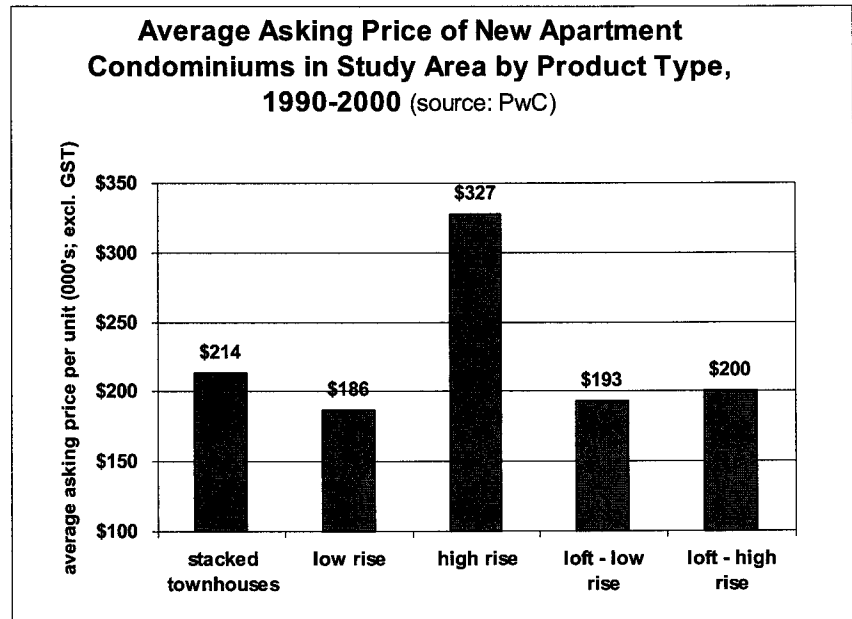
Exhibit 2-12



*Average Asking Price
of New Apartment
Condominiums by
Product Type*

Between 1990 and 2000, new high rise condominiums had the highest average asking price at \$327,000, as shown in Exhibit 2-13. The other product types were considerably more affordable, averaging around \$200,000.

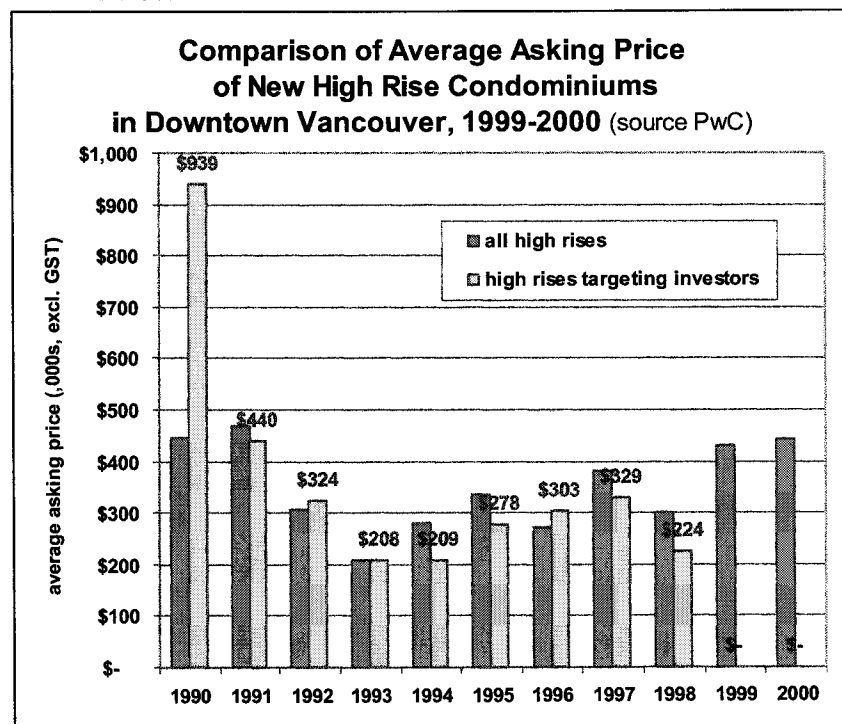
Exhibit 2-13



*Average Asking Price
of New Apartment
Condominiums
Targeting Investors in
Downtown Vancouver*

In 1990, only one new high rise condominium project in Downtown Vancouver was targeting investors. With asking prices in this project averaging \$939,000, however, the number of condominiums sold to investors is questionable. The years following 1990 were more typical of asking prices for high rise condominiums targeting investors, as shown in Exhibit 2-14. In general, they were lower than the average for all new high rise condominiums in Downtown Vancouver. In 1999 and 2000, no new high rise condominiums were started in Downtown Vancouver that targeted investors.

Exhibit 2-14



In 1993, the average asking prices of all new apartment condominiums and those targeting investors were the same—\$208,000. This is not surprising since 70% of all new high rise condominiums that started marketing that year targeted investors. The average asking price for high rise condominiums targeting investors in 1994 was \$209,000 compared with \$279,000 for all new high rise condominiums. In 1995 and 1996, the price differences were considerably less. In 1999 and 2000, no new high rise condominiums were started in Downtown Vancouver that targeted investors.

3. Literature Review

3.1 Introduction

This section provides a review of relevant literature related to the rental housing market, with specific reference to BC, and the issues and factors affecting decisions by developers to develop new purpose-built rental housing.

3.2 Overview of Sources

The following agencies were contacted as part of this literature review:

- CMHC; Research Division;
- BC Ministry of Community, Aboriginal and Women's Services;
- Statistics Canada;
- University of Berkley, Oakland, California;
- City of Vancouver, Social Housing Group;
- City of Toronto, Planning Department;
- Department of Housing and Urban Development, USA;
- BC Housing; and,
- Greater Vancouver Housing Corporation.

Appendix A contains the bibliography of the literature reviewed.

3.3 Trend in Rental Housing

Global Trends A study of rental housing markets in Europe, Scandinavia, the Pacific Rim and North America found that, in general, the proportion of rental housing as part of the overall housing market within each country had declined. The study identified the following historical trends²:

² "Private Rental Policies and Programs: Review of the International Experience"
CMHC Socio-economic Series Issue 66

In most countries the private rental stock accounted for more than half of each country's stock in the pre-war period;

From 1945 to 1970, housing policy focused on major construction initiatives emphasizing public or social housing and home ownership, with the result that the proportion of rental housing provided by the private sector decreased;

Since the 1970s, the amount of privately owned rental stock has continued to decrease in most of the countries studied;

Since the 1980s, an aging population that is generally more financially capable of purchasing vs. renting housing, and historically low mortgage rates, have contributed to the decreased demand for rental housing;

However, the most important reason for the limited development of new rental housing by the private sector was the poor rate of return for developers.

BC Trends Similar trends to those described above are evident in BC. Between 1980 and 1995, the amount of new purpose-built rental housing constructed each year by the private sector has generally declined.

The Government of British Columbia (the "BC Government") has made attempts to stimulate it. In the early 1980s, it introduced several programs to promote new development by the private sector. In 1988, the BC Government introduced the "BC Rental Supply Program" which provided interest rate reductions to qualified new rental housing projects. Since 1988, purpose-built rental housing construction has been relatively stable at approximately 2,000 units per year.³ In the first half of the 1990s, BC added 10,000 new renter households per year.⁴ This gap in supply was largely filled by the growing supply of non purpose-built rental housing units such as secondary suites and investor-owned condominiums.

³ "Rental Housing Trends in British Columbia" British Columbia Ministry of Community, Aboriginal and Women's Services

⁴ Ibid

Explaining the decline in rental housing completions can be attributed to a number of factors, including a severe recession and high interest rates during the 1980s.

However, in the 1990s, when housing construction was booming in BC, purpose-built rental housing construction remained low, despite strong migration to BC, low vacancy rates, low interest rates and the lack of government regulation of rental housing.

These circumstances should have stimulated investment and construction of new purpose-built rental housing; however, this did not occur. A number of the contributing factors for this are discussed in the next subsection.

3.4 Supply & Demand Issues Impacting Rental Development

3.4.1 Supply Issues

From a supply perspective, three factors impact the supply of new rental housing:

- Development profitability;
- Financing rental housing; and
- Capital Cost Allowance (CCA) and capital gains tax.

Development Profitability

Despite demand, a developer cannot afford to develop and operate new purpose-built rental housing if the monthly mortgage and operating costs ("economic rent") of the units exceeds the amount that renters can afford or are willing to pay to rent them.

From a development perspective, it is more profitable for a developer to build and sell condominiums than to rent them. The return on investment of a condominium development is more attractive. The developer also does not face the risks of long-term ownership since the condominium units are sold.

A study of development alternatives for a site in Kerrisdale in the City of Vancouver illustrates this point. Although the study is dated (1989), the economic issues of developing rental housing remain the same today. The study compared developing a high rise residential building as a rental vs.

condominium units. It found that developing condominium units produced a greater return on investment for the developer.⁵

*Financing Rental
Housing*

Interest rates are a major factor impacting the financial feasibility of a development and, therefore, a developer's decision to proceed with it. The impact is greater when interest rates, and therefore financing costs, are high. The development of new rental housing becomes less profitable, and less feasible.

In 1988, when interest rates were high, the BC Government introduced the BC Rental Supply Program ("BCRSP") to stimulate the development of new rental housing. The program offered developers financial subsidies for the first five years of each new rental housing project. The subsidy equaled the difference between the developer's actual financing costs, based upon the prevailing mortgage rate, and an 8% mortgage rate.

Although this program did stimulate some interest in the development of new rental housing, many of the developers pursued the program to obtain a lower financing rate and subsequently attempted to transfer the rental housing into condominium strata developments once the project was completed.⁶

*CCA and
Capital Gains Tax*

The effects of CCA and the capital gains tax are mentioned as deterring the development of new purpose-built rental housing that are "income properties" for their owners. The CCA deduction is a yearly non-cash expense used in determining Canadian taxable income. It accounts for the depreciating value of a capital improvement, such as a purpose-built rental apartment building, over time. In general, the CCA rate for calculating the deduction is 4% for most buildings, including purpose-built rental apartment buildings, applied yearly to the declining balance of the building's initial capital cost. CCA does not apply to land; and, the deduction cannot be used to create an income loss.

The capital gains tax applies to the gain that an owner of an income property, such as a purpose-built rental apartment building, sells it

⁵ "Rental Housing A Study of Selected Local Markets" Clayton Research Associates Limited in association with Jules Hurtubise, Economist and City Spaces Consulting Ltd., July 1991

⁶ "Rental Housing Trends in British Columbia" British Columbia Ministry of Community, Aboriginal and Women's Services

for more than it paid. The amount of tax is calculated by multiplying the current capital gains tax rate (currently 49.29%) to half of the capital gain—effectively approximately a 25% tax on the gain. (Income taxes also apply to the recapture of the CCA deduction when a building is sold, although we do not discuss it in this report.)

3.4.2 Demand Issues

From a demand perspective, two issues impact demand for new rental housing:

- Income distribution of renters;
- Supply of non purpose-built rental housing.

Income Distribution of Renters

By way of example, in 1967, 38% of households in the lowest income quartile of the population in Canada were renters. By 1986, the proportion had risen to 66%. This quartile known as the residual market do not have the income to own their home and therefore remain part of the rental market. However, the ability of a developer to provide rental accommodation at lower monthly rates is limited due to the economics of development.⁷

One of the key issues that emerged from reviewing literature in the United States (Department of Housing and Urban Development, “HUD”) was the growing impact of condominium conversions upon low-income and elderly households. Those affected not only lost their homes, but also faced limited options for obtaining other quality rental accommodation.

Supply of Non Purpose-built Rental Housing

As purpose-built rental housing has decreased based on new construction starts, the literature suggests that this has reduced the overall rental housing stock. However, the introduction of secondary suites and condominium rentals, not traditionally considered part of the rental stock, has now become a significant component of the overall rental market.⁸

⁷ Ibid

⁸ “Conversion, Condominiums and Capital Gains: The Transformation of the Ontario Rental Housing Market” Marion Steele

3.4.3 Factors Impacting Investor Decisions

An investor's decision to develop rental housing is based upon financial returns. A developer's decision is impacted based on the following:⁹

- Interest rates;
- Tax policies which provide little incentive to encourage conversion into rental investment;
- Municipal regulatory environment which requires additional costs through studies and lengthy approval times;
- Municipal development cost charges, which add significant upfront costs to a new development project.
- Lenders requiring approximately 35% equity before considering financing for rental project;
- Land costs, (which have been driven up by a strong condominium market).

Ultimately, the factors that are required to make rental housing more attractive to developers and investors include:

- Lower interest rates;
- Higher amounts of equity;
- Decreased project costs;
- Increases in rents.

A 1991 study conducted for CMHC and BC Housing Management Commission that assessed selected rental markets in Canada, including Vancouver, found that to develop a feasible new rental housing project in the Vancouver CMA, the following conditions would be necessary:¹⁰

⁹ "Rental Housing: A Study of Selected Local Markets" 1991; Clayton Research, prepared for CMHC and British Columbia Housing Management Commission

¹⁰ Ibid

- Project costs would have to be 25% lower; and
- Rents would have to increase 20%.

3.5 Summary of Literature Review

The literature that we reviewed indicated that a major factor contributing to the decline of rental housing in the Vancouver CMA is that developers cannot afford to develop rental accommodation. In its simplest terms, the mortgage and operating costs (“economic rent”) of providing new rental units is greater than renters can afford or are willing to pay (“market rent”).

According to the literature that we reviewed, the main barrier to new rental construction is the growing gap between economic and market rents due to:

- Lower prevailing rent levels in the older rental stock that new units must compete with, compared with the higher rent it takes to pay for the new units;
- New units cannot be built cost effectively to compete with the existing rental stock;
- From a developer’s perspective, the rent required to carry a new unit’s mortgage being roughly equivalent to what tenants could pay to own their home;
- Over the last ten years tenants’ purchasing power (relative increase in incomes) has lagged behind the rising costs of new development (including land prices, construction and materials and financing costs).

The literature indicated that until it is economically feasible to develop rental housing, new rental housing would be largely limited to condominium rentals and secondary suites.

4. Factors Affecting the Apartment Condominium Market

4.1 Introduction

This section presents a high level discussion of some of the external and internal factors affecting the demand and supply for new rental apartment condominiums in the Vancouver CMA and the Study Area. The discussion is based upon both quantitative and qualitative information.

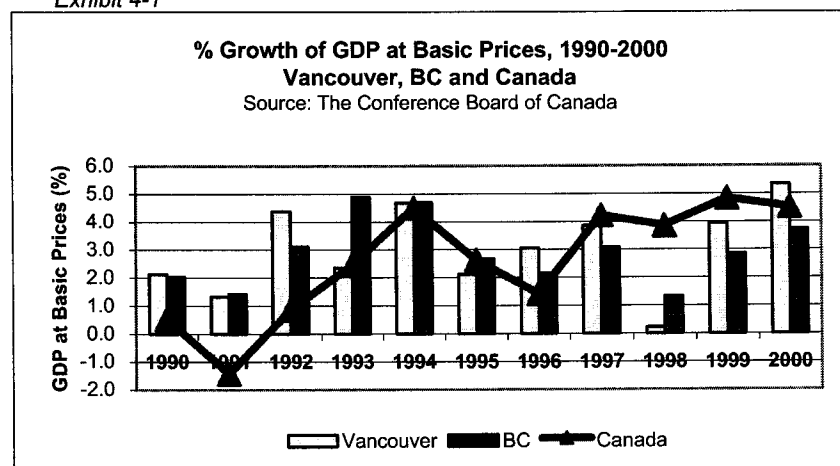
4.2 External Factors

4.2.1 Economic

The strength of the economy affects decisions regarding investment in rental apartment condominiums, and the development and purchasing of housing in general. In a stronger economic climate, the demand for new housing is generally higher, and lower in a weaker one.

The Vancouver CMA experienced stronger economic growth during the early and mid 1990s during which it generally outperformed the Canadian economy, as shown in Exhibit 4-1. These periods, especially during the early 1990s, corresponded to the greatest demand by investors for new rental

Exhibit 4-1

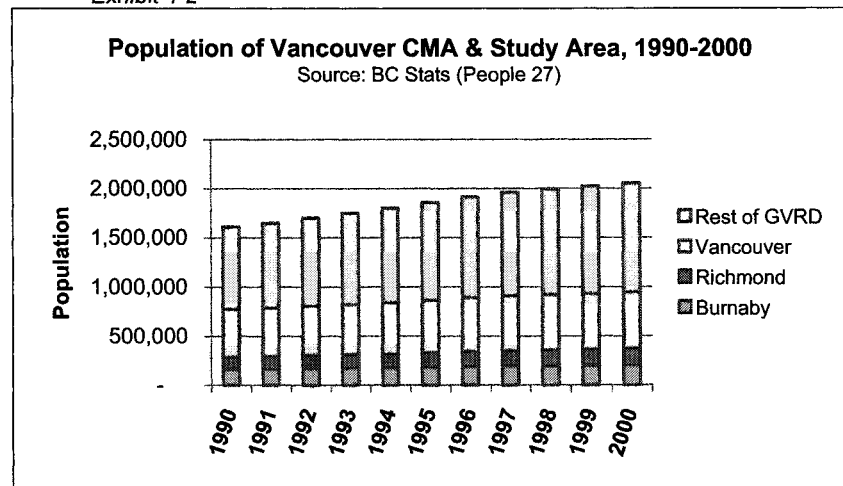


apartment condominiums in the Study Area. During the late 1990s, the growth of the Vancouver CMA's economy slowed, under-performing the Canadian economy for several years. As well, 1998, when the economic growth of the Vancouver CMA was lowest, corresponded to the economic crisis in Asia. This indicates the importance of these economies to the economy of the Vancouver CMA. This period also corresponded to the years of lowest demand by investors for new rental apartment condominiums.

4.2.2 Population Growth

Population growth, coupled with the formation of new households, is a major factor driving the demand for new housing, including for new rental and owner-occupied apartment condominiums. The population of the Vancouver CMA increased by 443,000 people or 28% during the 1990 to 2000 period, as Exhibit 4-2 shows. The Study Area grew by 174,000 people or 23% over this period. Within the Study Area, Vancouver grew by almost 92,000 or 19% followed by Richmond (43,000 people or 35%) and Burnaby (39,000 people or 24%) which both experienced higher rates of growth than Vancouver.

Exhibit 4-2



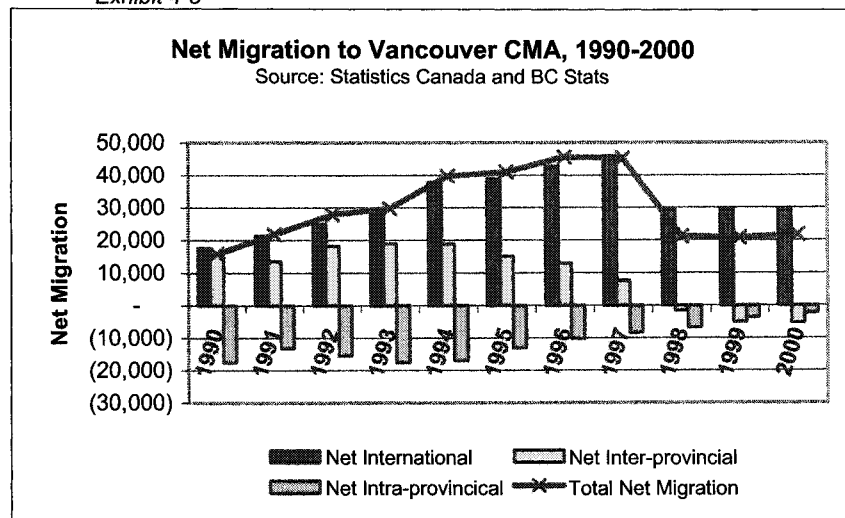
4.2.3 Net Migration

Total Net Migration

Population growth comes from two sources, positive net migration and net births-less-deaths. In the Vancouver CMA, net migration accounted for the majority of this growth, with international and inter-provincial net migration accounting for all of the growth from 1990 to 2000, as shown in Exhibit 4-3.

Total net migration increased steadily during the early 1990s, peaking at 45,512 people in 1996. However, it significantly decreased during the years 1998 and 2000 averaging only around 21,000 people each year, and sustained only by positive net international migration. This decrease largely occurred because of the weakening BC economy (see Exhibit 4-3) and the comparative strength of the other provincial economies in Canada, especially Alberta and Ontario, coupled with the Asian economic crisis.

Exhibit 4-3



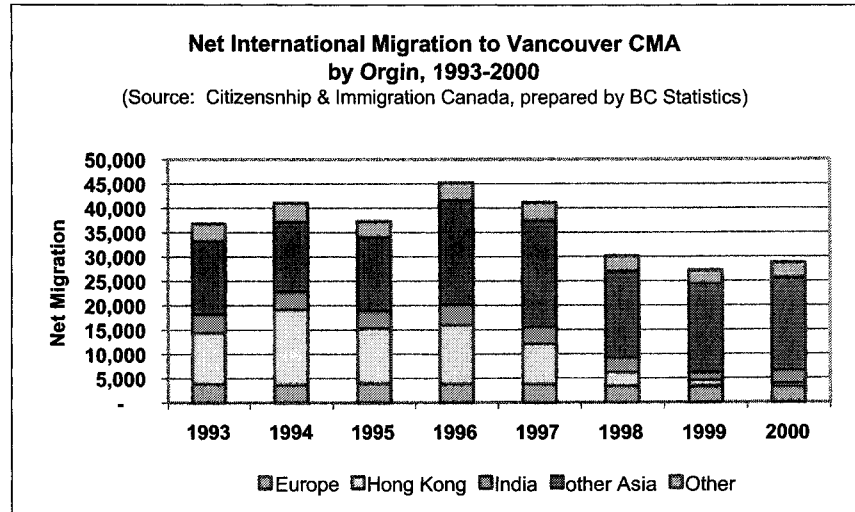
Origin of International Migration

Net international migration accounted for the largest share of total net migration to the Vancouver CMA, ranging from 17,590 people in 1990 to 45,833 people in 1997, and averaging just over 29,000 people per year between 1998 and 2000. The majority of these immigrants came from Asia, as shown in Exhibit 4-4, averaging 80% between 1993 and 2000.¹¹ Between 1993 and 1996, immigrants from Hong Kong accounted for the largest share of Asian immigrants, peaking at 46% in 1994. Since then, the share of immigrants from Hong Kong has steadily decreased, accounting for only 3% of Asian immigrants in 2000. Between 1997 and 2000, Asian immigrants

¹¹ The statistics for Net Migration and Total International Migration by Origin for the Vancouver CMA are from two different sources. Total International Migration is the total of all migrants to the Vancouver CMA, and does not deduct those that return to their countries of origin while maintaining there landed immigrant status in Canada. Consequently, Total International Migration in a year may overestimate the number of international migrants, although the extent of it is not known.

have mostly come from Mainland China, Taiwan and other Southeast Asian countries.

Exhibit 4-4



Inter- and Intra-Provincial Migration

Net inter-provincial migration accounted for the next largest share. It steadily increased during the early 1990s, peaking at 18,889 people in 1993. Since then it has steadily decreased, with net out-migration to other Canadian provinces, largely to Alberta and Ontario, occurring since 1998.

Net intra-provincial migration was negative throughout 1990 to 2000, with Vancouver CMA residents choosing to move to other parts of BC. This out-migration was greatest in the early 1990s, peaking at 17,544 people in 1993. It has declined since then, reaching a low of 2,310 people in 2000.

4.2.4 Limited Supply of Land for Residential Development

Topography and government legislation have constrained the supply of land available for new urban development in the Vancouver CMA. Unlike most other major Canadian regions and cities (e.g. Calgary), the Lower Mainland, the region in which the Vancouver CMA is located, cannot expand its boundaries to accommodate population growth. The ocean, rivers and mountains that combine to define the Lower Mainland, and hence the Vancouver CMA, are major topographic constraints. The Agricultural Land Reserve (ALR), in which non-agricultural uses and development are largely prohibited, is the major legislative constraint. These constraints combined have had the effect of increasing the cost of raw land for development,

which, coupled with the high cost of municipal infrastructure and rising municipal Development Cost Charge (“DCC”) rates, has resulted in the increasing the cost of serviced land for housing development.

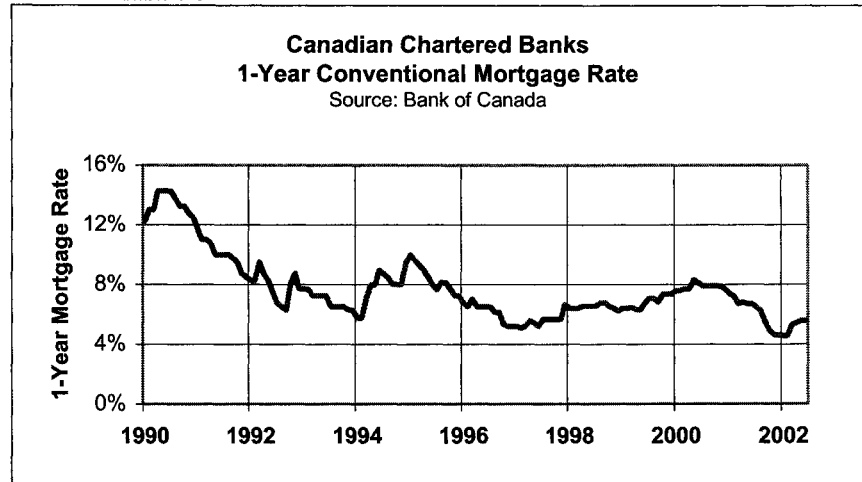
These constraints have had the greatest effect upon new residential development in the Lower Mainland and the Vancouver CMA, since residential uses account for the majority of occupied urban land. Most municipalities in the Vancouver CMA do not accurately track the amount of undeveloped “greenfield” land for residential development. However, the general view is that few large “greenfield” tracts remain. The few that do remain are mostly in outlying suburban municipalities such as Langley, Maple Ridge and Surrey. With the exception of the proposed development at Simon Fraser University on Burnaby Mountain, no other large tracts of “greenfield” land for new residential development (or for other uses) exist in the Study Area.

To accommodate continued population growth, most of the residential development in the Study Area has occurred through redevelopment of existing developed land, plus some in-fill. Higher density condominiums account for most of this redevelopment because of the scarcity and resulting high price of land.

4.2.5 Historically Low Mortgage Rates

Mortgage interest rates currently are near historical lows. During the 1990 to 2000 period, the average 1-year conventional mortgage rate offered by Canadian chartered banks decreased from a high of 14.25% in July 1990 to 7.70% in December 2000, as shown in Exhibit 4-5. It has decreased still further since then, reaching a low of 4.55% in January 2002.

Exhibit 4-5



The decrease in mortgage rates during the 1990 to 2000 period, and more recently, has had a strong and largely beneficial impact upon the housing market in the Vancouver CMA, although it was only one of a number of complementing and offsetting factors. In general, low interest rates increased buyer purchasing power. This made it easier for people to afford to purchase housing, including to invest in new rental apartment condominiums. Arguably, the beneficial effect for investors purchasing rental housing was somewhat offset by some renters taking advantage of the lower mortgage rates to purchase and own, rather than rent, housing. Nevertheless, this effect on investors was likely negligible in comparison to other factors, such as other more attractive investments.

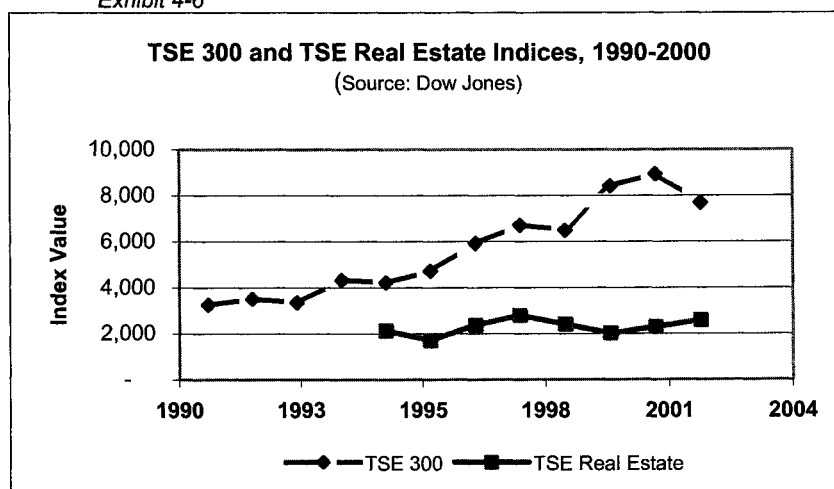
4.2.6 Investments Competing with Real Estate

During the 1990 to 2000 period, the Canadian stock market enjoyed sustained growth in value as measured by the benchmark TSE 300 index (see Exhibit 4.6), led primarily by technology-related stocks (e.g. Nortel). By comparison, the TSE Real Estate Index, an indicator of investment value and investor interest in real estate, moved only cyclically. This suggests that, despite low interest rates, investors were more interested in investing in the stock market than in real estate, including new rental apartment condominiums, because the stock market offered higher expected returns.

Since 2000, however, stock markets worldwide have experienced significant downward corrections due to a combination of factors including market reaction to overvalued technology stocks, a weakening US economy, issues surrounding the reporting of corporate financial results, and global security and related concerns following the events of September 11th, 2001. In response, investors of all types have rebalanced their investment portfolios to include more tangible and stable income-producing assets to reduce their risk exposure and to protect their capital. Consequently, real estate offering these characteristics, especially well-located rental apartment and industrial properties, is in favour with investors.

The extent that these events and factors have affected investor demand for apartment condominiums is difficult to determine, especially since this demand is also influenced, and possibly overshadowed, by more local events and factors, as subsequently discussed. For example, the limited amount of

Exhibit 4-6



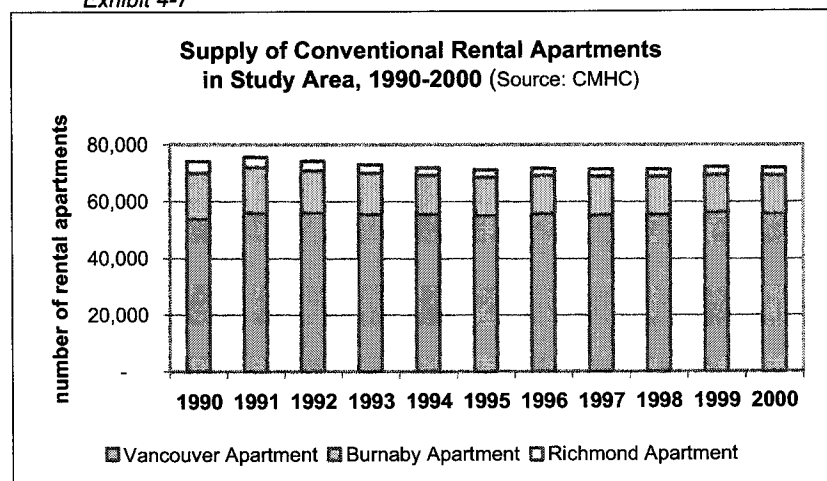
purpose-built rental apartment development in Downtown Vancouver since 1990 has resulted in investors purchasing approximately 47% of the new apartment condominiums developed there since then. However, based upon PwC's research, investors in apartment condominiums are not large institutional or corporate investors, but instead small private ones. Furthermore, the majority of them purchase only one unit, probably because they only have limited funds available for investment. As well, based upon anecdotal information, they are primarily seeking longer-term capital gains from the appreciation of their rental condominiums rather than receiving a steady flow of net rental income, although they want to recover their rental expenses.

4.2.7 Market for Purpose-built Rental Apartments

The market for purpose-built rental apartments in the Study Area is a key factor affecting the market for new rental apartment condominiums. Within the Study Area, Vancouver accounts for the majority of rental apartments—77% in 2000—with Burnaby and Richmond only accounting for 19% and 4% of them respectively in 2000.

Between 1990 and 2000, the number of rental apartments in the Study Area decreased by almost 5%, from a high of 75,597 rental apartments in 1991 to 71,979 rental apartments in 2000, as shown in Exhibit 4-7. Burnaby and Richmond accounted for most of these decreases, totaling 2,611 and 1,376 condominiums respectively over this period. In contrast, the number of rental apartments marginally increased in Vancouver by 1,864 apartments.

Exhibit 4-7



4.3 Internal Factors

4.3.1 Building Envelope Failures

Building envelope failures began emerging as a major problem in the coastal climate zone of BC, including the Vancouver CMA, in about 1995. The typical problem arises when rainwater infiltrates the external envelope of a low rise wood-frame condominium building, and cannot drain properly. The rainwater consequently soaks the materials in the building envelope and other building elements, causing them to fail prematurely. Repairs to mitigate the problem generally involve the redesign of the building envelope (see Section 4.3.2) and replacement of the damaged building materials. CMHC has contributed \$1.3 million to research and education into solutions to overcome this problem.

The number of condominiums affected by building envelope failures totals an estimated 65,000 units in BC's coastal climate zone,¹² with the Vancouver CMA accounting for most of them. Wood frame low rise apartment condominium buildings account for most of these units, although some concrete high rise apartment condominium buildings have also been affected. Condominiums built between 1990 and 1994 account for approximately 55%¹³ of the number affected by building envelope failures.

For the affected apartment condominium buildings, the repair costs have generally been high. They have exceeded \$23,922 per condominium, based upon the average loan amount approved by the BC Government's Home Protection Office (the "HPO"). The owners of the condominiums in these buildings have had to pay these repair costs, with some receiving assistance from the HPO. Homeowner insurance has not covered them. As well, for some of these owners their new home warranty insurance ceased with the bankruptcy in 1999 of New Home Warranty of British Columbia Inc. ("NHW") due to its inability to meet the number of claims from owners of condominiums affected by building envelope failures. At the time, this new home warranty insurance was optional in BC and provided exclusively by industry sponsored NHW. The costs of these unexpected repairs resulted in financial hardship for some of these owners.

¹² Estimate of the BC Government's Home Protection Office ("HPO")

¹³ Based upon the distribution of loan applications that the HPO had approved by August 2002

*BC's Homeowner
Protection Act*

In 1998, the BC Government stepped in to assist in dealing with the problem by establishing the Barrett Commission to inquire into the quality of residential construction in BC. The Commission was subsequently re-appointed in 1999 to inquire into: the quality of condominium construction in BC, which is largely concentrated in the Vancouver CMA; the financial failure of NHW; and, the impacts upon homeowners, and the house building industry and economy.

The Commission's report led the BC Government to pass the "Homeowner Protection Act" in 1998, which also created the HPO. The main purposes of the Act are to strengthen consumer protection for buyers of new homes, and to improve the quality of residential construction in BC. In summary, the Act requires the licensing by the HPO of all residential builders applying for building permits, excluding owner-builders. It also requires that these builders provide home warranty insurance for all new houses, with the insurance obtained from third-party providers authorized by the BC Financial Institutions Commission. The minimum coverage and standards for home warranty insurance are set by regulation pursuant to the Act. The minimum coverage includes 2 years for labour and materials, 5 years for the building envelope and 10 years for the structure. The Act applies to all forms of housing requiring a building permit, including apartment condominiums. However, it does not apply to existing housing.

*HPO Assistance for
Owners of
Condominiums Affected
by Building Envelope
Failures*

The HPO also provides financial assistance to qualifying homeowners for the cost of repairing condominiums affected by building envelope failures. It assists with "no-interest" or deferred payment loans, and rebates of BC's provincial sales tax. In general, lending institutions (banks, credit unions, etc.) finance the "no-interest" loans, with HPO guaranteeing and paying the lender the interest portion of them. HPO finances the deferred loans. An assessment (currently \$750 per unit) on new multifamily housing in BC's coastal climate zone, which includes the Vancouver CMA, funds HPO's financial assistance program and some of its other operations. The assessment does not apply to new purpose-built rental and social housing.

The building envelope failure problem has had a negative effect upon the development and re-sale condominium industries. Quantifying its effect, however, is difficult especially in light of the overall slowdown of the economy and housing development in the Vancouver CMA since the late 1990s. The market for wood frame low rise apartment condominiums has been the most negatively affected and stigmatized for buyers, including

investors. Government regulations (Homeowner Protection Act and building code revisions) and industry (construction practices and warranties) have taken action to solve the problem so that it does not recur.

4.3.2 Building Codes

The British Columbia Building Code (the “BCBC”) provides minimum standards for constructing buildings in British Columbia. It is based upon the National Building Code (the “NBC”). The standards in the BCBC are mandatory regulations for municipalities in BC, except for the City of Vancouver and federal properties. The City of Vancouver has its own Building By-law that is based upon the NBC. Some municipalities have by-laws that require higher building standards.

The 1998 BCBC is the most recent one, although the BC Government has made amendments to it since then. The 1998 BCBC includes new standards for the design and construction of building envelopes, including for apartment condominium buildings. They were introduced to address the building envelope failure problem. These standards reflect changes to the 1995 NBC. CMHC funded research to develop these standards.

The City of Vancouver’s Building By-law was similarly amended in 1996 and again in 1999. The amendments include requirements that new apartment buildings have a 3-4 inch wide external wall cavity for rain screen protection. They also require that qualified professionals be involved in the design and inspection of building envelopes, although City staff indicated that this requirement is not enforceable. According to them, the amendments have resulted in better building designs that should address the building envelope failure problem.

PwC has independently done a high level comparison of the sales rates of currently marketing new low rise apartment condominiums in the Vancouver CMA built before and after the introduction of the current building codes. We found that the sales rates for condominiums built in accordance with new building codes were higher. This finding suggests that condominium buyers, including investors, of condominiums built according to the current building codes are less concerned about building envelope failures arising.

4.3.3 Strata Property Act

The Strata Property Act (the “SPA”) is the legislation that governs condominiums in BC. It came into effect in 2000. It includes the rules under

which a strata corporation in a condominium building is created and operates, including: governance procedures; financial and property management, and other matters; by-law creation and enforcement; and, arbitration. Among other things, the SPA specifies the roles and responsibilities of the developer, strata corporation, manager, and owners and tenants of a condominium building. It applies to condominiums developed under the former Condominium Act and ones developed since the SPA came into effect.

The SPA replaced the Condominium Act, which had last undergone a major revision in 1978. In general, the SPA largely clarified and enhanced rather than changed the provisions of the Condominium Act.

The SPA requires that a strata corporation have bylaws. They provide for the control, management, maintenance, use and enjoyment of the strata lots, common property and common assets of the strata corporation and for the administration of the strata corporation. The strata corporation can create or amend its by-laws by $\frac{3}{4}$ s of the strata corporation members voting in favour of the new or amended by-law (e.g. to limit rentals) at an annual or special general meeting.

*SPA and Condominium
Rentals*

Part 8 - Rentals of the SPA contains provisions covering the rental of condominiums by its developer and condominium owners in a condominium building. These include:

“141 (1) The strata corporation must not screen tenants...except as provided in subsection (2).

141 (2) The strata corporation may only restrict the rental of a strata lot (condominium) by bylaw that:

(a) prohibits the rental of residential strata lots¹⁴, or

(b) limits one or more of the following:

(i) the number of or percentage of residential strata lots that may be rented;

¹⁴ The condominium owner can apply to the strata corporation for an exemption.

(ii) the period of time for which residential strata lots may be rented.

141 (3) A bylaw under subsection (2) (b) (i) must set out the procedure to be followed by the strata corporation in administering the limit.”¹⁵

Part 8 also specifies the responsibilities of the owner as landlord and the tenant. For example:

- The landlord must give the prospective tenant copies of the current bylaws and rules of the strata corporation, and a Notice of Tenant’s Responsibilities;
- Following the landlord and tenant entering into a lease agreement for the condominium and the tenant signing the Notice of Tenant’s Responsibilities, the landlord must advise the strata corporation within two weeks;
- The landlord may assign to a tenant, upon advising the strata corporation, some or all of the powers or duties of the landlord arising from the SPA, except for fines or the costs of remedying a contravention of the bylaws or rules of the strata corporation;
- The landlord must not deal with its interest in the condominium in a way that unreasonably interferes with the rights of the tenant under the lease or assignment.

The effect of the SPA on current and future interest from investors in purchasing rental apartment condominiums is difficult to determine since no hard evidence is available. Although the SPA does not prohibit rentals, it is prescriptive in how strata corporations can prohibit or limit them. It is also more restrictive than the former Condominium Act, which prohibited an absolute prohibition on rentals. On balance, we feel that the SPA is more discouraging to prospective investors than the former Condominium Act. However, the SPA probably does not have as a great impact on limiting or prohibiting rentals in a building in which more than 25% of the condominiums are already rentals because it is unlikely that the strata corporation could achieve the $\frac{2}{3}$ s majority necessary to approve the by-law.

¹⁵ This provision does not apply to family members of the owner.

This is especially the case in Downtown Vancouver where most of the condominium rentals are located, as discussed in greater detail in Section 6.

4.3.4 Mortgage Financing

We contacted several Canadian financial institutions regarding their lending practices in the Vancouver CMA for loans to developers planning to develop apartment condominium buildings targeted at investors, and to investors that purchase apartment condominiums for rental purposes. All these financial institutions said that they did not have special lending practices for these loans. They followed their normal lending practices.

4.4 Conclusions

The internal and external factors discussed above have positive and negative effects upon the demand for rental apartment condominiums. Their combined effect is difficult to determine. As well, many of these factors, such as population, apply to the overall demand for apartment condominiums.

5. Views of Developers, Property Managers & Real Estate Agents

5.1 Views of Condominium Developers

5.1.1 Background

This section presents a summary of the comments that we obtained from interviewing five of the largest condominium developers that have been active in the Study Area. The objectives of the interviews were to:

- determine if and how new condominium design has been influenced by the number of units sold to investors; and
- determine the typical proportion of a new apartment condominium project marketed and sold to investors, plus any “rules of thumb” and emerging trends.

5.1.2 Selection of Interviewees

We selected the companies that we interviewed using the following approach:

1. We prepared a list of apartment condominium projects completed and sold out in the Study Area during the 1990 to 2000 period, using the PwC Condominium Database;
2. We drew a 10% random sample of projects from this list;
3. We obtained contact information on all condominiums in these projects using the property information from Vancouver Real Estate Board, which in turn it obtains from the BC Assessment Authority;
4. We identified those condominiums in each of these projects that are likely owned by investors by comparing the address of each condominium with its mailing address for property tax purposes. If the addresses differed, we assumed that the condominium was investor owned. We then summarized this information by project;

5. We identified those developers that had the largest number of investor condominiums in their projects, and selected the largest five developers to interview.

We then contacted and interviewed senior marketing and sales personnel of each developer. We also prepared and used an interview guide in the interviews (see Appendix B).

5.1.3 Development Companies Interviewed

We interviewed the following developers during March and April 2002:

- Polygon Development Corporation: Neil Crystal, Executive Vice President Sales and Marketing;
- Concert Properties Ltd.: Bob MacKay, Senior Vice President;
- Millennium Development Corporation: Shahram Malek, Director;
- Concord Pacific Development Corporation: Dan Ulinder, Senior Vice President Marketing and Sales;
- Adera Development Corporation: Howard Steiss, Vice President, Marketing and Sales.

5.1.4 Summary of Comments

The following is a summary of the comments of the five developers that we interviewed. For confidentiality reasons, the comments in this summary are not attributed to specific companies or people.

What are the target markets (investors vs. owners, singles, young couples, retirees, etc.) for these developments?

<i>Investors vs. Owner-occupier</i>	All five developers indicated that their marketing efforts are spent on assessing and attracting the “owner-occupier” market segment. They spend little marketing effort, if any, on the “investor” market segment, although they recognize that some condominiums are sold to investors.
<i>Singles, Young Couples, Retirees</i>	Only two developers were willing to provide a breakdown of their target markets. The other three developers deferred on this question since each one felt that this information provided it with a competitive advantage in the marketplace.

Those responding indicated that their companies targeted singles, young couples and to a lesser extent retirees. Singles and young couples were specifically targeted in condominium projects in Vancouver.

What is the product mix (number of condominiums by type) within those developments?

Three of the five developers interviewed provided information related to product mix. Table 5-1 provides the name of several of their recent development projects in the Vancouver CMA, and their product mixes.

Table 5-1 – Condominium Product Mix (%)

Development	Location	Studio	1 Bdrm	1 Bdrm plus Den	2 Bdrm	3 Bdrm	Total
1005 Beattie	Vancouver			35%	50%	15%	100%
901 Beattie	Vancouver	20%	60%		20%		100%
Alexandra House	Vancouver		18%	46%	20%	16%	100%
Lanesborough	Vancouver		29%		71%		100%
Lumiere	Vancouver					100%	100%
Nexus	Vancouver	10%	40%	25%	25%		100%
Yaletown	Vancouver	25%	50%		25%		100%
Mayfair	Burnaby			15%	70%	15%	100%

Source: PwC interviews with Developers

Generally, the developers indicated that their product mix varied depending upon the market (e.g. Vancouver, Richmond or Burnaby). Developers also re-evaluate the product mix of each project throughout its government approvals process. They then select the final product mix of a project based upon their understanding of general market trends, rather than detailed market assessments or studies.

One developer mentioned that an emerging trend was for larger size condominiums catering to empty nesters looking for smaller residences and a lifestyle change.

Have “investors” impacted your marketing activities and focus? If yes in what way?

Three of the five developers interviewed indicated that the “investor” market segment had not impacted their marketing activities and focus. Their focus is to attract the “owner-occupiers,” rather than the “investors”.

One developer indicated that “investors” have not as yet impacted its marketing. However, it is seeing more investors in some buildings. Existing owner-occupants of condominiums have complained to the developer, and would prefer only owner-occupants in their buildings rather than rentals. An emerging trend is that strata council bylaws to prevent rental condominiums are becoming more common.

The other developer has not changed its marketing approach. It has noticed that the development of smaller condominiums (studios) in Downtown Vancouver has attracted investors because of the potential for earning rental income. It also noted that over the past year, the majority of condominium projects in Downtown Vancouver were sold out of studio condominiums prior to selling other product types.

Has the product mix/design been influenced by the investor (rental accommodation) market? If yes, in what way?

Three of the five developers indicated that there has been no impact on the product mix/design of their projects as a result of investor demand. Three developers intend to continue with a product mix/design targeted at “owner-occupiers.”

However, two developers active in Downtown Vancouver indicated that they recently have noticed an increase in the demand for studios and smaller one-bedroom condominiums for investment purposes. The monthly rental price for these condominiums is sufficient to cover the monthly mortgage payment, assuming a 25% down payment and aided by the current low interest rates. Larger one bedroom and two bedroom condominiums are not as attractive to investors. The suburban market has not experienced a similar trend.

The developers also felt that the recent interest in investing in condominiums was a result of the poor performance and volatility of the stock market.

Over the last ten-year period have you noticed a trend in the demand for rental housing?

The developers indicated that the demand for rental housing is not a key consideration for most condominium developers. Financial considerations are the primary ones. If a developer can make more money developing rental housing, then it will do so. However, for the most part, developing purpose-built rental housing has not been financially feasible.

In general, the developers indicated that the trend is moving toward more owner-occupiers than investors purchasing apartment condominiums. This trend is evident in the resale market. Investment condominiums now are predominantly sold to owner-occupiers.

One developer indicated that it had intended to develop a purpose-built rental housing project in 2001-2002 in Downtown Vancouver. This developer, on behalf of several pensions funds, was attracted to developing rental units because of the stable monthly revenue. While the initial pro forma indicated that the rental project was marginally feasible because of the developer's low cost of capital and assuming mortgage rates remained low, the developer decided not to proceed because of cost increases. Rental revenue would not have been sufficient for the developer to earn its minimum return on investment.

What are the key emerging trends impacting investors?

The developers mentioned the following key trends:

- Recently, with low interest rates, investor activity has increased specific to smaller condominiums (studios, and small one bedrooms). Smaller condominiums generate a larger rent per square foot than the larger condominiums;
- Although interest rates are at an all time low, developers generally cannot develop rental housing that satisfies their financial requirements at a rental rate that renters can afford;
- In relation to other Canadian cities, one developer noted that rents in Vancouver are lower than those in Toronto. It believed that as the “inner city” of Vancouver becomes more urbanized, the demand for rental housing and rental rates should increase to levels that make it financially feasible to develop rental housing there.

5.1.5 Comments

Below are the key observations from these interviews:

- Developers of apartment condominiums are focusing the majority of their marketing on “owner-occupiers” and are putting little or no effort into marketing to “investors;”

- The majority of apartment condominium developers have not changed their marketing activities or product mix/design to accommodate specifically the “investor;”
- A trend exists towards the development of smaller apartment condominiums (studios and small one bedroom condominiums) in Downtown Vancouver for investment purposes. The extent of this investor niche, however, depends upon low interest rates;
- Smaller apartment condominiums generate more rent per square foot than larger condominiums. Consequently, smaller apartment condominiums are more attractive to investors in Downtown Vancouver;
- Developers have assessed the feasibility of developing purpose-built rental housing projects, however market rents are generally not sufficiently high to warrant their development.

5.2 Views of Property Managers

5.2.1 Background

This section presents a summary of information obtained from a survey of property management companies knowledgeable about the rental apartment condominium market in the Study Area.

5.2.2 Description of Survey

Method

We used the following approach to obtain information regarding the rental apartment condominium market in the Study Area from the property management companies:

1. We identified companies most likely to have direct involvement in and knowledge of this segment of the rental market in the Study Area;
2. We prepared and sent out a questionnaire, along with a covering letter, to 18 companies requesting that they complete the questionnaire and return it to us. Appendix C contains a copy of the letter and questionnaire as well as a list of the companies contacted.
3. We made follow-up calls as reminders to recipients.

Survey Responses

Only three companies fully completed the survey questionnaire. Nevertheless, through telephone interviews, several more companies answered the narrative questions in the survey questionnaire.

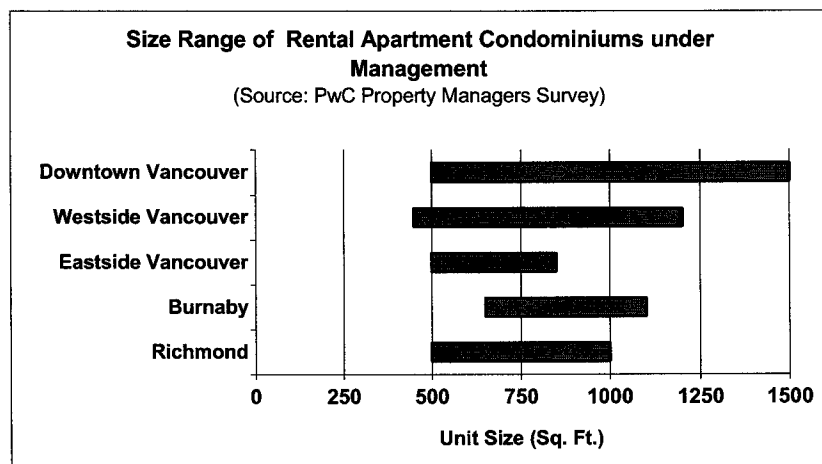
Companies that did not complete the questionnaire cited various reasons. Several said that they do not manage apartment condominium rentals. Others said that they did not track their rentals in the detail requested in the questionnaire. A few simply declined to participate.

5.2.3 Summary of Results

Summary of Size & Monthly Rent for Rental Apartment Condominiums

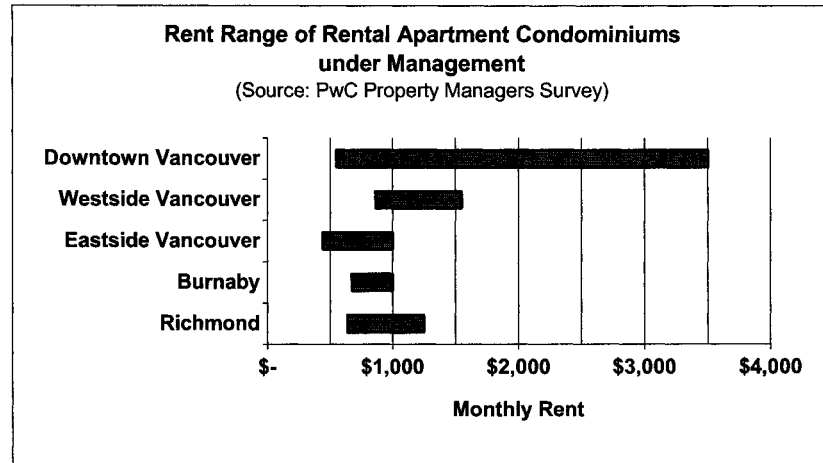
Table 5-2 to Table 5-6 summarize information on minimum and maximum floor areas and monthly rents for rental apartment condominiums in each subarea of the Study Area. Exhibit 5-1 and Exhibit 5-2 summarize this information.

Exhibit 5-1



Respondents were unable to provide detailed information regarding the monthly rent per square foot. Unfortunately, it cannot be calculated from the reported results since, for example, average minimum monthly rent does not necessarily correspond with the average minimum floor size.

Exhibit 5-2



Downtown Vancouver

According to respondents, Downtown Vancouver apartment condominiums tend to be small and expensive, with one-bedroom units the most common type for rent.

Table 5-2 – Average Size and Rent Range of Managed Rental Apartment Condominiums, Downtown Vancouver

Unit Type	Average Minimum Floor Area (Sq. Ft.)	Average Maximum Floor Area (Sq. Ft.)	Average Minimum Monthly Rent	Average Maximum Monthly Rent
	Area (Sq. Ft.)	Area (Sq. Ft.)	Monthly Rent	Monthly Rent
studio/bachelor	500	600	\$550	\$825
1 bedroom	550	700	\$650	\$1,275
1 bedroom+den	620	800	\$990	\$1,275
2 bedroom	700	1,300	\$1,200	\$2,300
2 bedroom+den	n/a	1,500	n/a	\$3,500

Source: PwC survey of Property Managers

Westside Vancouver

Westside Vancouver rent, similar to Downtown Vancouver, was reported as high relative to other locations in the Study Area. It differs from Downtown Vancouver in that more two-bedroom units are rented.

Table 5-3 – Average Size and Rent Range of Managed Rental Apartment Condominiums, Westside Vancouver

Unit Type	Average Minimum Floor Area (Sq. Ft.)	Average Maximum Floor Area (Sq. Ft.)	Average Minimum Monthly Rent	Average Maximum Monthly Rent
	Area (Sq. Ft.)	Area (Sq. Ft.)	Monthly Rent	Monthly Rent
studio/bachelor	450	500	\$865	\$1,000
1 bedroom	800	1,000	\$825	\$1,150

Unit Type	Average Minimum Floor	Average Maximum Floor	Average Minimum	Average Maximum
	Area (Sq. Ft.)	Area (Sq. Ft.)	Monthly Rent	Monthly Rent
2 bedroom	900	1,600	\$1,020	\$1,600
2 bedroom+den	1,200	1,200	\$1,550	\$1,550

Source: PwC survey of Property Managers

Eastside Vancouver

Some of the smallest rental apartment condominiums are in Eastside Vancouver. Respondents reported this area as having the lowest rent in the Study Area. One-bedroom units are the most common type of apartment rented or for rent, followed by studio/bachelor units.

Table 5-4 – Average Size and Rent Range of Managed Rental Apartment Condominiums, Eastside Vancouver

Unit Type	Average Minimum Floor	Average Maximum Floor	Average Minimum	Average Maximum
	Area (Sq. Ft.)	Area (Sq. Ft.)	Monthly Rent	Monthly Rent
studio/bachelor	500	500	\$440	\$460
1 bedroom	500	600	\$460	\$575
1 bedroom+den	600	750	\$725	\$775
2 bedroom	700	850	\$500	\$1,000

Source: PwC survey of Property Managers

Burnaby

A higher percentage of two-bedroom units was reported in Burnaby compared with Vancouver. Rent in Burnaby is higher on average than in Eastside Vancouver, but lower than in Downtown Vancouver and Westside Vancouver.

Table 5-5 – Average Size and Rent Range of Managed Rental Apartment Condominiums, Burnaby

Unit Type	Average Minimum Floor	Average Maximum Floor	Average Minimum	Average Maximum
	Area (Sq. Ft.)	Area (Sq. Ft.)	Monthly Rent	Monthly Rent
1 bedroom	650	850	\$675	\$720
2 bedroom	850	1,100	\$700	\$1,000

Source: PwC survey of Property Managers

Richmond

Respondents who managed units in Richmond noted that it differs from other subareas, such as Burnaby, because the units are generally smaller, with rents more comparable to those in Westside Vancouver.

Table 5-6 – Average Size and Rent Range of Managed Rental Apartment Condominiums, Richmond

Unit Type	Average Minimum Floor	Average Maximum Floor	Average Minimum	Average Maximum
	Area (Sq. Ft.)	Area (Sq. Ft.)	Monthly Rent	Monthly Rent
1 bedroom	500	800	\$640	\$745
1 bedroom+den	650	650	\$875	\$875
2 bedroom	800	1,000	\$775	\$1,250

Source: PwC survey of Property Managers

Other Results

Estimated Proportion of Rental Condominiums under Management

Only one of the three companies completing the survey questionnaire gave an estimate of the proportion of the rental condominiums in the condominium portfolio that it managed. It estimated that they made up approximately 8%.

Vacancy Rates for Rental Apartment Condominiums

Reported vacancy rates for rental apartment condominiums varied. In general, however, the respondents agreed that rental apartment condominiums rented very quickly, resulting in near zero percent effective vacancy rate.

Amenities in Rental Condominiums

Respondents noted that older apartment condominiums tend not to differ much from purpose-built rental apartments with regards to amenities. Newer units, however, often have modern amenities such as in-suite laundry.

Number of Apartment Condominium Owned by Investors

Respondents estimated that 50% to 90% of investors owned only one apartment condominium, while 5% to 30% owned two units, and 5% to 10% owned three units or more.

Apartment Condominium Tenant Characteristics

Respondents reported that apartment condominium renters generally tend to have higher incomes than other renters, and are most often singles or couples without children.

Length of Ownership of Investor Condominium Units

Respondents reported that over 90% of investors intend to hold their units for more than three years, with the majority of them hold their units for five years or longer.

Key Trends Impacting the Availability of Rental Apartment Condominiums in Greater Vancouver

Respondents believe that recent changes to the Strata Property Act (“SPA”) will significantly affect the apartment condominium segment of the rental market, with each strata council having the authority, by passing a bylaw, to prohibit rental units in its condominium building. Consequently, the availability of rental condominiums in certain subareas could be reduced.

Effect of the Investment Buyer Market on Apartment Design Trends, with Regard to Product Mix and Size

The general opinion of respondents was that the investor market has had little effect on the design of apartment condominiums in Greater Vancouver. Nonetheless, the overall trend towards building smaller units in condominium projects has made purchasing apartment condominiums more attractive to investors. Also, some recent projects in South Burnaby were reported to have included a large proportion of three-bedroom units, as these units were felt to be attractive to investors wishing to rent to families.

Future Trends in Rental Apartment Condominium Accommodation

One respondent in particular saw the availability of rental condominiums increasing in areas of Greater Vancouver, especially Richmond, where there is a significant Asian-immigrant, apartment-dwelling population. In other areas, he foresaw the availability of rental condominiums declining due to changes in the SPA. Other respondents envisaged availability increasing in Downtown Vancouver, but declining elsewhere in response to the SPA.

5.2.4 Conclusions

Below are our key conclusions based upon the property managers that we surveyed:

- Apartment condominiums rent very quickly when available;
- Downtown Vancouver is the most expensive subarea in which to rent an apartment condominium;

- Most investors own only one apartment condominium;
- Most investors intend to keep their apartment condominiums for five years or longer;
- In the future, the SPA could limit the availability rental apartment condominiums;
- The views of the property managers regarding the future of the investment market for rental apartment condominiums are mixed.

5.3 Views of Real Estate Agents

5.3.1 Background

This section presents a summary of information obtained in interviews with real estate agents active in condominium sales in the Study Area.

5.3.2 Selection of Real Estate Agents

The real estate agents that we interviewed were selected based upon the following:

1. We researched and prepared a list of real estate agents working in the Study Area;
2. We contacted these real estate agents by telephone, and asked those knowledgeable about the investment market for rental apartment condominiums for an interview;
3. We completed telephone interviews with those real estate agents who agreed to participate. Appendix D contains a copy of the Interview Guide that we used.

5.3.3 Summary of Interviews

We interviewed six real estate agents knowledgeable about the investment market for rental apartment condominiums in the Study Area. At least one real estate agent worked in each subarea of the Study Area, although the majority worked in Downtown and Westside Vancouver. For confidentiality reasons, the comments in this summary are not attributed to specific companies or real estate agents.

On average, how many rental apartment condominiums do you sell each year?

Those real estate agents most active in Downtown and Westside Vancouver said that investors in rental apartment condominiums accounted for 20 – 30% of their sales. Those active in other subareas were less likely to deal with investors on a regular basis.

Is the number of rental apartment condominiums that you sell increasing or decreasing or stable? How important are investment sales to your business?

About two-thirds of the real estate agents stated that investor sales were increasing, with the remainder viewing them as declining. Those operating in Downtown or on Westside Vancouver saw investor sales as an important segment of their business, with these sales accounting for up to 30% of their total transactions. Two real estate agents noted that the stable rate of return of a rental apartment investment was a strong selling point, especially in light of the recent poor performance of the stock market. Others, however, pointed out that the investment return on a rental unit is still a low one and that regulations contained in the Strata Property Act serve to hinder investment opportunities.

What type of condominium units are investors buying?

No one unit type (i.e., studio, one-bedroom, etc.) appeared to stand out in the opinion of the real estate agent, although some expressed that investors do tend to prefer smaller, “no-frills” units. Nevertheless, investors are primarily interested in the rate of return they can earn.

What is the profile of a typical investor?

Investors are typically 45+ years in age, are local residents and homeowners, and have an annual household income over \$65,000. As well, Asian investors are active, while US investors are also in the market but to a lesser extent.

5.3.4 Conclusions

Below are our key conclusions based upon the real estate agents that we interviewed:

- Investor activity in rental apartment condominiums is most active in Downtown Vancouver in comparison with other subareas;

- Future investor activity will depend upon the performance of alternative investments (i.e., the stock market), and to the extent that strata councils prohibit rentals;
- Investors are less interested in unit type and more interested in the return on investment that they will earn.

6. Profile of Rental Apartment Condominium Market

6.1 Introduction

This section profiles the re-sale market for rental apartment condominiums in the Study Area in 2001. This profile is based upon sales in a 10% sample of the apartment condominium projects developed there between 1990 and 2000. The profile includes an estimate of the number of rental apartment condominiums, and an analysis comparing the average sizes, sale prices, and selling times by subarea and product type of rental (investor owned) and owner-occupied apartment condominiums.

6.2 Method

We estimated the number of apartment condominiums in the Study Area that were rented in 2001 and developed between 1990 and 2000, based upon a 10% random sample of the apartment condominium projects developed during this period.

We used the following method to profile the market for rental apartment condominiums:

1. Using the method described on page 50, we identified the owner-occupied and rental (investor owned) apartment condominiums in a 10% sample of apartment condominium projects developed in the Study Area between 1990 and 2000. The sample amounted to 72 projects totaling 5,845 apartment condominiums. The sample was drawn and is of sufficient size to be representative of all apartment condominiums developed during this period;
2. From BC Assessment Authority, we obtained a list of the re-sale transactions in 2001 that occurred in each project in the sample;
3. From the Real Estate Board of Greater Vancouver's online database, we obtained sales information on unit size, sale price and selling time by subarea and product type for each re-sale transaction.

6.3 Distribution of Rental Apartment Condominiums

An estimated 11,627 apartment condominiums were rentals in 2001, based upon the sample (see Table 6-1). These rentals represent approximately a 30% share of all apartment condominiums developed in the Study Area during this period.

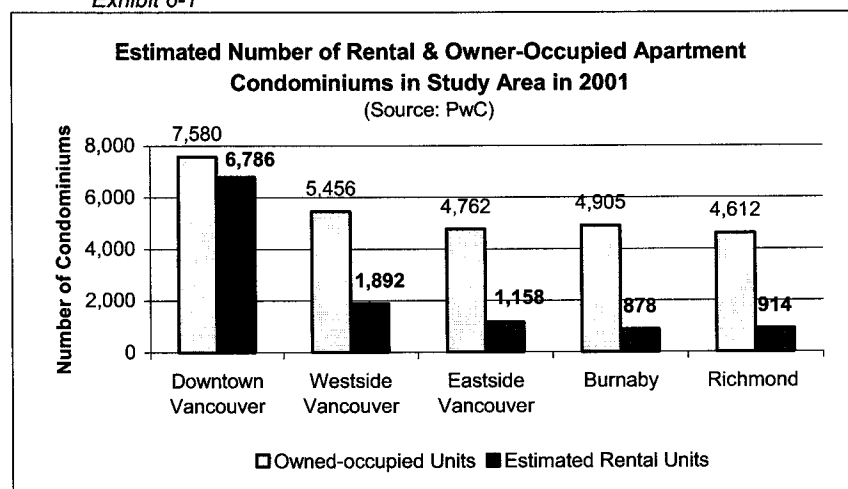
Table 6-1 – Estimate of Rental and Owner-occupied Apartment Condominiums in Study Area in 2001

	Downtown Vancouver	Westside Vancouver	Eastside Vancouver	Burnaby	Richmond	Total
10% Sample of Condominium Projects						
Rental Units	1,137	95	158	156	204	1,750
Owned-occupied Units	1,270	274	650	871	1,030	4,095
Total	2,407	369	808	1,027	1,234	5,845
% Rentals	47%	26%	20%	15%	17%	30%
Estimates for Entire Supply of Condominiums						
Rental Units	6,786	1,892	1,158	878	914	11,627
Owned-occupied Units	7,580	5,456	4,762	4,905	4,612	27,316
Total	14,366	7,348	5,920	5,783	5,526	38,943
% Rentals	47%	26%	20%	15%	17%	30%

Source: PricewaterhouseCoopers

Of the five subareas, Downtown Vancouver accounted for the largest number (an estimated 6,786) and share (47%) of rental apartment condominiums. As shown in Exhibit 6-1, the number and share of rental apartment condominiums decreased significantly as the distance from Downtown Vancouver increased.

Exhibit 6-1



6.4 Number of Sales in Sample

Of the 5,845 apartment condominiums in our sample, 578 condominiums (10%) were sold in 2001. Of these sales, 485 sales (84%) were owner-occupied, and 93 sales (16%) were rentals as shown in Table 6-2.

Table 6-2 – Number of Apartment Condominium Sales in Sample in 2001

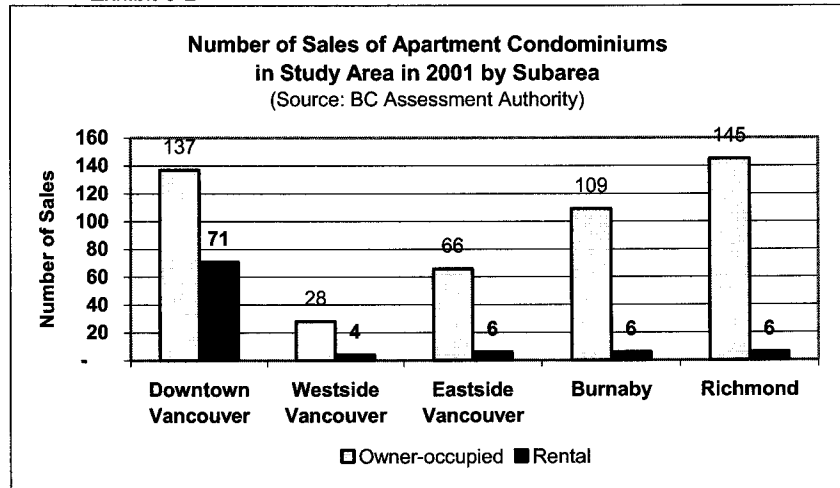
	Studio / Bachelor	1-Bedroom	2-Bedroom	3-Bedroom & greater	Total	
Rental						
Downtown Vancouver	12	37	17	5	71	77%
Westside Vancouver	-	2	2	-	4	5%
Eastside Vancouver	-	2	4	-	6	6%
Burnaby	-	-	6	-	6	6%
Richmond	-	2	3	1	6	6%
Subtotal	12 13%	43 46%	32 34%	6 7%	93 100%	100%
Owner-occupied						
Downtown Vancouver	9	62	59	7	137	28%
Westside Vancouver	-	10	18	-	28	6%
Eastside Vancouver	3	23	23	17	66	14%
Burnaby	-	13	75	21	109	22%
Richmond	-	30	69	46	145	30%
Subtotal	12 2%	138 29%	244 50%	91 19%	485 100%	100%
Combined						
Downtown Vancouver	21	99	76	12	208	36%
Westside Vancouver	-	12	20	-	32	6%
Eastside Vancouver	3	25	27	17	72	12%
Burnaby	-	13	81	21	115	20%
Richmond	-	32	72	47	151	26%
Total	24 4%	181 31%	276 48%	97 17%	578 100%	100%

Source: Real Estate Board of Greater Vancouver

By Subarea Downtown Vancouver accounted for the largest number of combined sales (36%), followed by Richmond (26%).

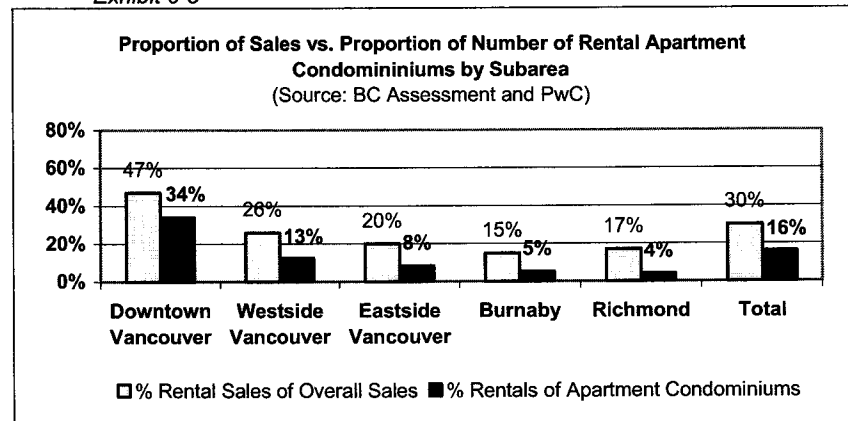
An estimated 77% of the sales of rental condominiums in the sample occurred in Downtown Vancouver, with the balance approximately evenly distributed amongst the remaining subareas (see Exhibit 6-2). In contrast, the sales of owner-occupied condominiums were more evenly distributed amongst the subareas, with only 28% of them occurring in Downtown Vancouver.

Exhibit 6-2



The proportion of rental sales of overall apartment condominium sales is lower, based upon the sample, than the proportion of rental condominiums of overall apartment condominiums in each subarea and in total (see Exhibit 6-3). A possible explanation is that, on a proportional basis, investors hold their rentals longer before selling them than owner-occupants.

Exhibit 6-3



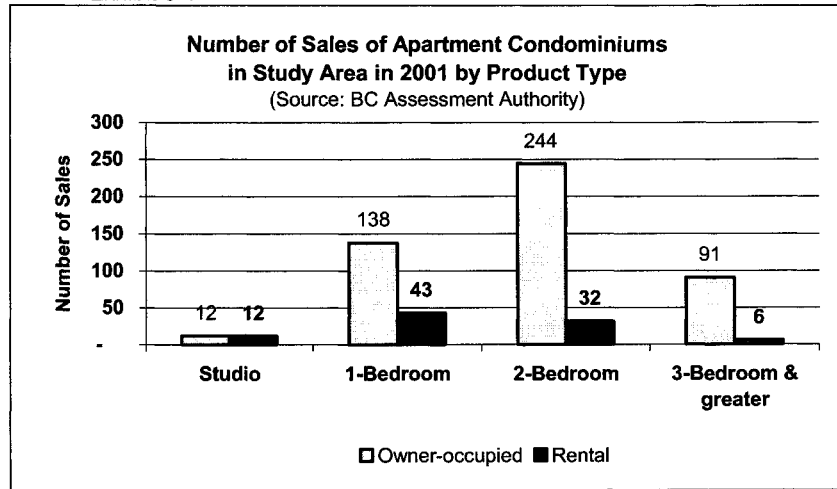
By Product Type

Sales of 1- and 2-bedroom apartment condominiums accounted for 79% of the combined sales, with 2-bedroom condominiums accounting for the larger share (48%). Sales of studios accounted for the smallest share, only 4%.

Sales of 1- and 2-bedroom rental apartment condominiums accounted for 80% of the rental sales (see Exhibit 6-4), with 1-bedroom condominiums

accounting for the larger share (46%). Sales of studios accounted for 13% of the sales. Sales of condominiums with three or more bedrooms had the smallest share.

Exhibit 6-4



6.5 Average Condominium Size

The combined average size of an apartment condominium sold in the Study Area in 2001 was 946 square feet, based upon the sample (see Table 6-3). Average sizes, however, varied significantly depending upon location and product type. On average, the size of a rental condominium was 19% smaller than an owner-occupied one, largely because of 76% of the rental units sold were in Downtown Vancouver, where the condominiums sold were smaller, compared with only 28% of the owner-occupied ones.

Table 6-3 – Average Size of Apartment Condominiums in Sample in 2001
(square feet)

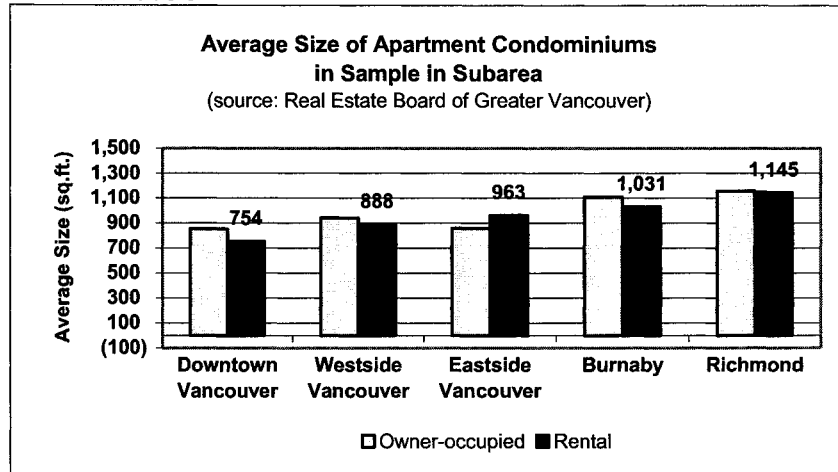
Rental	Studio / Bachelor	1-Bedroom	2-Bedroom	3-Bedroom & greater	Average
Rental					
Downtown Vancouver	401	660	966	1,646	754
Westside Vancouver		617	1,160		888
Eastside Vancouver		759	1,048		963
Burnaby			1,032		1,031
Richmond		706	1,007	2,384	1,145
Average	402	661	997	1,711	798
Owner-occupied					
Downtown Vancouver	460	685	1,008	1,558	852
Westside Vancouver		672	1,083		939
Eastside Vancouver	500	635	878	1,273	859
Burnaby		726	1,063	1,515	1,109
Richmond		711	1,093	1,532	1,156
Average	467	684	1,041	1,484	983
Combined					
Downtown Vancouver	425	675	998	1,597	817
Westside Vancouver		663	1,091		933
Eastside Vancouver	500	644	909	1,273	866
Burnaby		726	1,061	1,515	1,105
Richmond		711	1,089	1,548	1,161
Average	431	678	1,035	1,510	946
% Difference Rental & Owner-occupied					
Downtown Vancouver	-13%	-4%	-4%	6%	-12%
Westside Vancouver		-8%	7%		-5%
Eastside Vancouver		20%	19%		12%
Burnaby			-3%		-7%
Richmond		-1%	-8%	56%	-1%
Average	-14%	-3%	-4%	15%	-19%

Source: Real Estate Board of Greater Vancouver

By Subarea The combined average size of an apartment condominium was largest in Richmond (1,161 square feet) and smallest in Downtown Vancouver (817 square feet).

The average size of a rental condominium was largest in Richmond (1,145 square feet) and smallest in Downtown Vancouver (754 square feet). Rental condominiums were smaller than owner-occupied ones in each subarea, except in Eastside Vancouver (see Exhibit 6-5).

Exhibit 6-5

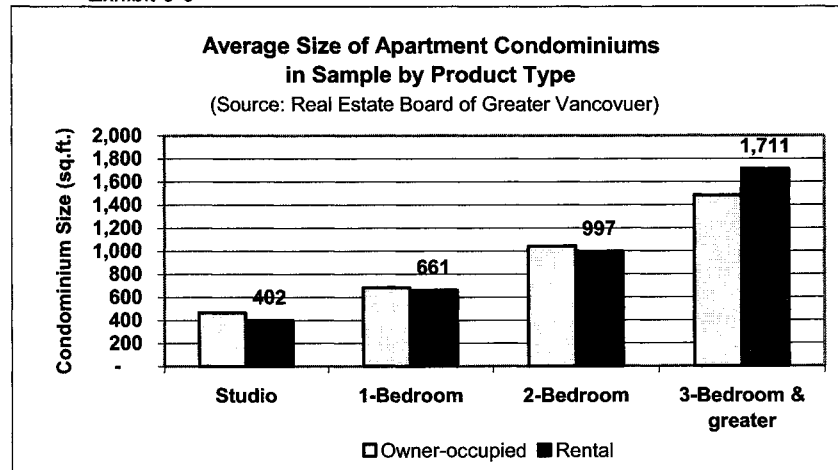


By Product Type

The combined average size of an apartment condominium ranged from 431 square feet for a studio to 1,510 square feet for a condominium with three or more bedrooms.

The average size of a rental condominium ranged from 402 square feet for a studio to 1,711 square feet for a condominium with three or more bedrooms (see Exhibit 6.5), although the latter involved only six sales. The average size

Exhibit 6-6



of a rental condominium was generally smaller than for an owner-occupied one in each product type, except for rentals with three or more bedrooms.

6.6 Average Sale Prices

6.6.1 Average Sale Price per Condominium

The combined average sale price of an apartment condominium sold in the Study Area in 2001 was \$189,215, based upon the sample (see Table 6-4). Average sale prices, however, varied significantly depending upon the location and product type. On average, a rental condominium sold for an estimated 5% more than an owner-occupied one, largely because of 76% of the rental units sold were in Downtown Vancouver, where the condominiums sold had a higher selling price, compared with only 28% of the owner-occupied ones.

Table 6-4 – Average Sale price of Apartment Condominiums in Sample in 2001

Rental	Studio / Bachelor	1-Bedroom	2-Bedroom	3-Bedroom & greater	Average
Rental					
Downtown Vancouver	\$117,275	\$173,794	\$246,176	\$464,700	\$ 202,059
Westside Vancouver		\$137,250	\$255,450		\$ 196,350
Eastside Vancouver		\$136,250	\$225,125		\$ 195,500
Burnaby			\$162,917		\$ 162,917
Richmond		\$94,500	\$149,400	\$345,000	\$ 163,700
Average	\$ 117,275	\$166,660	\$219,441	\$444,750	\$ 196,390
Owner-occupied					
Downtown Vancouver	\$116,682	\$167,263	\$237,210	\$388,932	\$ 205,433
Westside Vancouver		\$155,080	\$260,139		\$ 222,618
Eastside Vancouver	\$83,500	\$121,309	\$149,413	\$195,615	\$ 148,523
Burnaby		\$129,869	\$188,247	\$260,004	\$ 195,109
Richmond		\$110,805	\$159,712	\$245,880	\$ 176,929
Average	\$ 108,386	\$142,925	\$193,684	\$250,753	\$ 187,839
Combined					
Downtown Vancouver	\$117,021	\$169,704	\$239,293	\$420,502	\$ 204,281
Westside Vancouver		\$152,108	\$259,670		\$ 219,335
Eastside Vancouver	\$83,500	\$122,504	\$160,630	\$195,615	\$ 152,438
Burnaby		\$129,869	\$186,371	\$260,004	\$ 193,430
Richmond		\$109,786	\$159,282	\$247,989	\$ 176,404
Average	\$ 112,831	\$ 148,564	\$ 196,670	\$ 262,753	\$ 189,215
% Difference Rental vs. Owner-occupied					
Downtown Vancouver	1%	4%	4%	19%	-2%
Westside Vancouver		-11%	-2%		-12%
Eastside Vancouver		12%	51%		32%
Burnaby			-13%		-16%
Richmond		-15%	-6%	40%	-7%
Average	8%	17%	13%	77%	5%

Source: Real Estate Board of Greater Vancouver

By Subarea The combined average sale price of an apartment condominium was highest in Westside Vancouver (\$219,335) followed by Downtown Vancouver (\$204,281) and Burnaby (\$193, 430). It was lowest in Eastside Vancouver (\$152,438).

The average sale price of a rental condominium was highest in Downtown Vancouver (\$202,059), followed by Westside (\$196,350) and Eastside (\$195,500) Vancouver. On average in each subarea, a rental condominium sold for less than an owner-occupied one (see Exhibit 6-7), except in Eastside Vancouver.

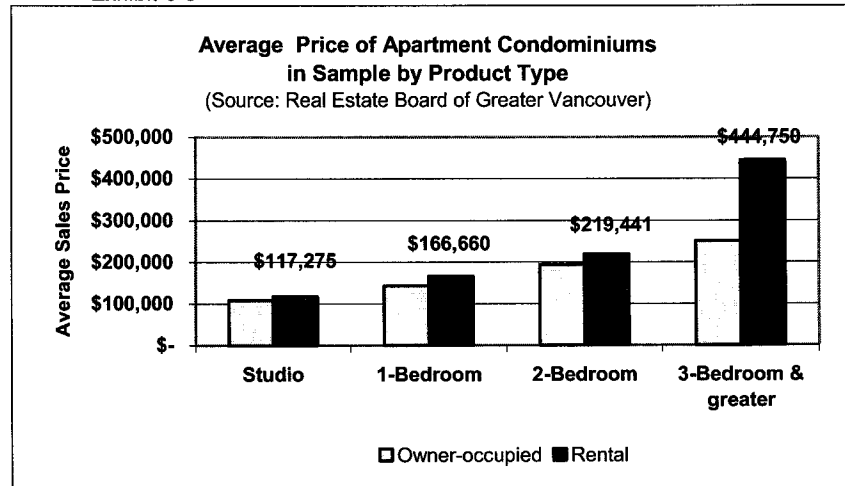
Exhibit 6-7



By Product Type The combined average sale price of an apartment condominium ranged from \$112,831 for a studio to \$262,753 for a condominium with three or more bedrooms.

The average sale price for a rental condominium ranged from \$117,275 for a studio to \$444,750 for condominium with three or more bedrooms (see Exhibit 6-8), although the latter involved only six sales. The average sale price of a rental condominium was higher than for an owner-occupied one in each product type.

Exhibit 6-8



6.6.2 Average Sale Price per Square Foot

The combined average sale price per square foot of an apartment condominium sold in the Study Area in 2001 was \$200/square foot, based upon the sample (see Table 6-5). Average sales prices per square foot, however, varied significantly depending upon the location and product type. On average, a rental condominium sold for an estimated 29% more per square foot than an owner-occupied one, largely because of 76% of the rental units sold were in Downtown Vancouver, where the condominiums sold were smaller and had a higher selling price, compared with only 28% of the owner-occupied ones.

Table 6-5 – Average Sale price/Sq.ft of Apartment Condominiums in Sample

Rental	Studio / Bachelor	1-Bedroom	2-Bedroom	3-Bedroom & greater	Average
Rental					
Downtown Vancouver	\$292	\$263	\$255	\$282	\$268
Westside Vancouver		\$222	\$220		\$221
Eastside Vancouver		\$179	\$215		\$203
Burnaby			\$158		\$158
Richmond		\$134	\$148	\$145	\$143
Average	\$292	\$252	\$220	\$260	\$246
Owner-occupied					
Downtown Vancouver	\$253	\$244	\$235	\$250	\$241
Westside Vancouver		\$231	\$240		\$237
Eastside Vancouver	\$167	\$191	\$170	\$154	\$173
Burnaby		\$179	\$177	\$172	\$176
Richmond		\$156	\$146	\$161	\$153
Average	\$232	\$209	\$186	\$169	\$191
Combined					
Downtown Vancouver	\$276	\$251	\$240	\$263	\$250
Westside Vancouver		\$230	\$238		\$235
Eastside Vancouver	\$167	\$190	\$177	\$154	\$176
Burnaby		\$179	\$176	\$172	\$175
Richmond		\$154	\$146	\$160	\$152
Average	\$262	\$219	\$190	\$174	\$200
% Difference Rental of Owner-occupied					
Downtown Vancouver	15%	8%	8%	13%	11%
Westside Vancouver		-4%	-8%		-7%
Eastside Vancouver		-6%	26%		17%
Burnaby			-11%		-10%
Richmond		-14%	2%	-10%	-7%
Average	26%	21%	18%	54%	29%

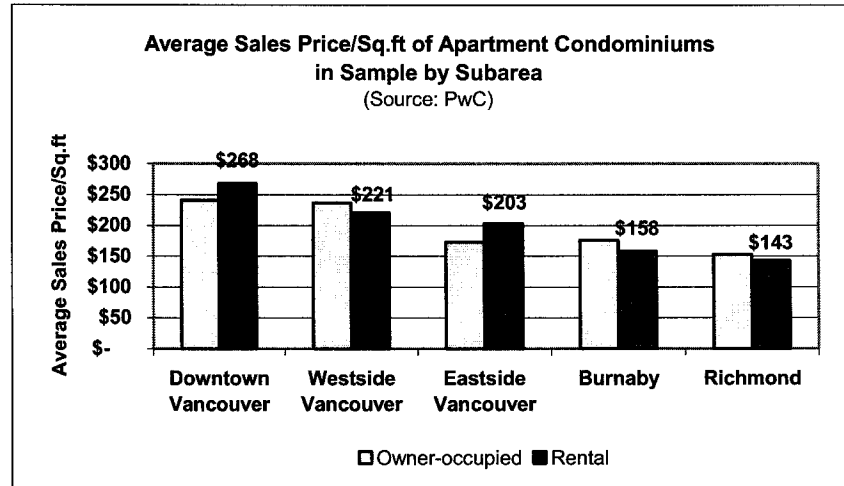
Source: Real Estate Board of Greater Vancouver and PwC

By Subarea The combined average sale price per square foot of an apartment condominium was highest in Downtown Vancouver (\$250/square foot), followed by Westside Vancouver (\$235/square foot). It was lowest in Richmond (\$152/square foot).

The average sale price of a rental condominium was highest in Downtown Vancouver (\$268/square foot), followed by Westside Vancouver (\$221/square foot), and lowest in Burnaby (\$158/square foot) and Richmond (\$143/square foot) (see Exhibit 6-9).

Rental condominiums in Downtown (11% more) and Eastside (17% more) Vancouver sold at a higher price per square foot than owner-occupied ones. In Burnaby, Richmond and Westside Vancouver, the reverse occurred.

Exhibit 6-9

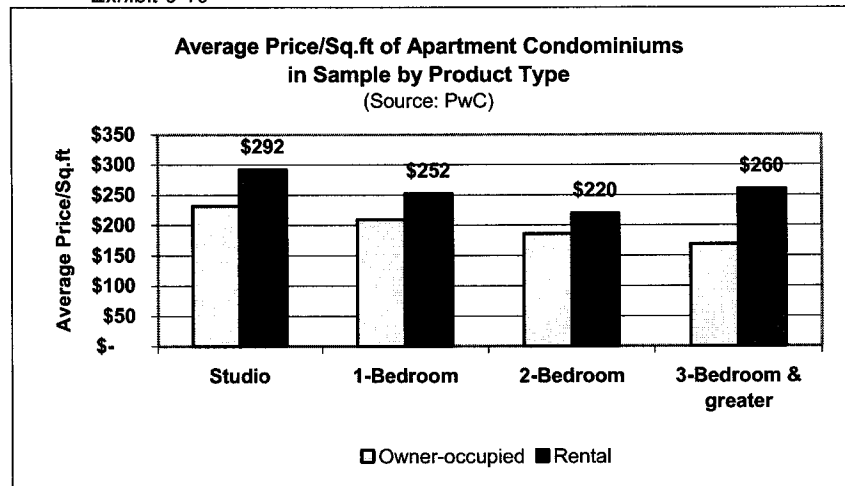


by Product Type

The combined average sale price of an apartment condominium ranged from \$262/square foot for a studio down to \$174/square foot for a condominium with three or more bedrooms.

The average sale price per square foot of a rental condominium ranged from \$292/square foot for a studio down to \$220 per square foot for a 2-bedroom condominium (see Exhibit 6-10). The average sale price per square foot of a rental condominium was higher than for an owner-occupied one in each product type.

Exhibit 6-10



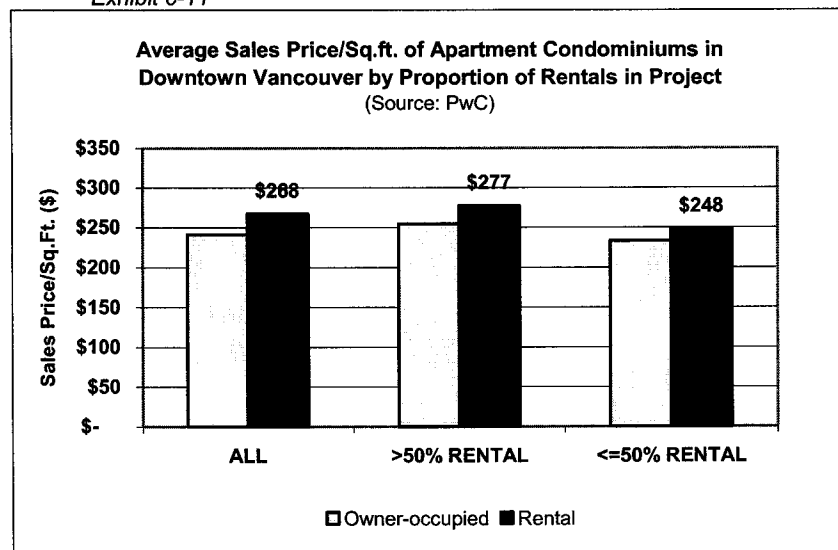
6.6.3 Comparison of Average Sale Price/Sq. ft. in Projects Containing More and Less Than 50% Rental Condominiums

An estimated 1,146 of the 2,407 apartment condominiums in Downtown Vancouver in the sample were in projects in which more than half of the condominiums were rentals. These projects accounted for 57% of the rental condominiums and 39% of the owner-occupied ones in Downtown Vancouver.

The combined average sale price per square foot of an apartment condominium in projects containing more than 50% rental condominiums was \$265/square foot in 2001—averaging \$277/square foot for a rental condominium and \$255/square foot for an owner-occupied one. By comparison, the overall combined average price per square foot of an apartment condominium in Downtown Vancouver was \$250/square foot.

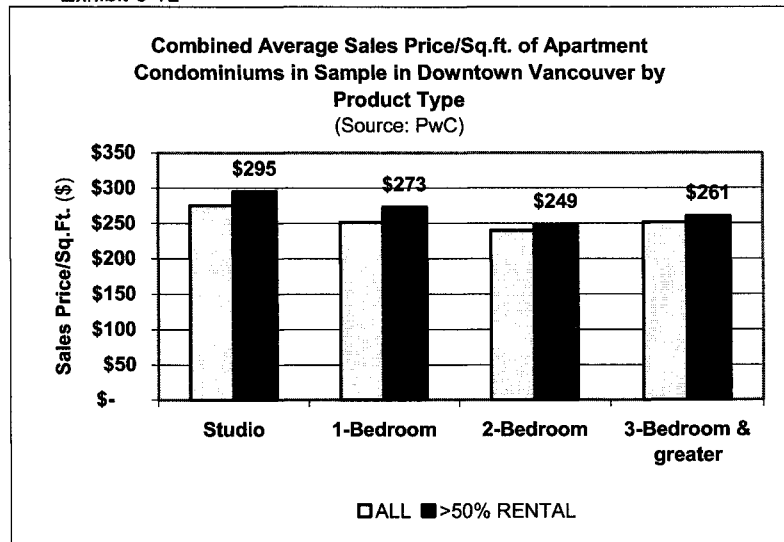
The average sale price per square foot of a rental condominium was 12% higher in a project in which more than half of the condominiums were rentals compared to one in a project with a lower proportion of rental condominiums (see Exhibit 6-11). Similarly, the average sale price per square foot of an owner-occupied condominium was 9% more in a project in which more than half of the condominiums were rentals compared to one in a project with a lower proportion of rental condominiums.

Exhibit 6-11



For each product type, the combined average sale price per square foot in a project in which more than half of the condominiums were rentals was higher compared to one in a project with a lower proportion of rental condominiums (see Exhibit 6-12). It was greatest for studio (7% more) and 1-bedroom (9% more) condominiums.

Exhibit 6-12



6.7 Average Selling Time

The selling time is the number of days an apartment condominium is on the market, measured from the listing date to the closing date of the sale. In general, the selling time in the sample did not differ greatly between rental (85 days) and owner-occupied (90 days) condominiums (see Table 6-6).

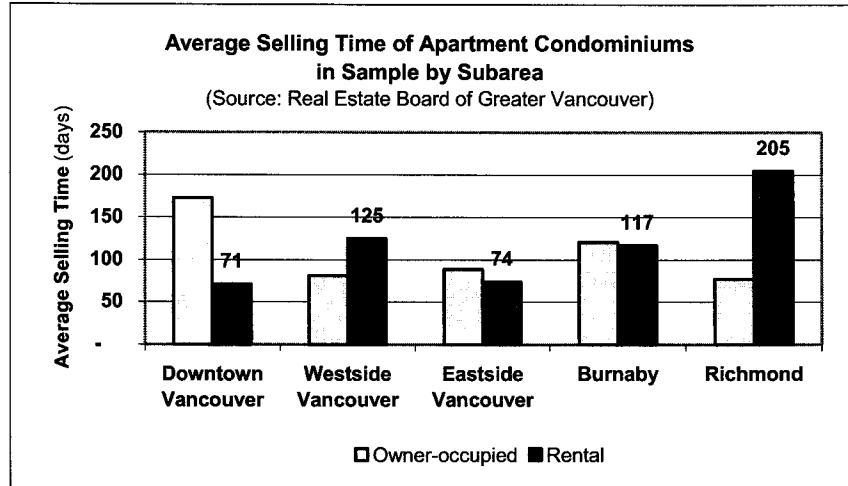
Table 6-6 – Average Selling Time for Apartment Condominiums in 2001
in Sample

Rental	Studio / Bachelor	1 Bedroom	2 Bedroom	3-Bedroom & greater	Average
Rental					
Downtown Vancouver	45	89	65	21	71
Westside Vancouver		134	116		125
Eastside Vancouver		98	59		74
Burnaby			117		117
Richmond		71	305	175	205
Average	45	90	101	46	85
Owner-occupied					
Downtown Vancouver	76	92	74	32	173
Westside Vancouver		96	73		81
Eastside Vancouver	164	98	99	54	89
Burnaby		132	115	133	121
Richmond		95	85	53	77
Average	94	98	92	68	90
Combined					
Downtown Vancouver	59	91	72	28	77
Westside Vancouver		100	75		84
Eastside Vancouver	164	98	94	54	88
Burnaby		132	115	133	121
Richmond		94	95	56	83
Average	70	96	93	67	89

Source: Real Estate Board of Greater Vancouver

By Subarea Rental condominiums in Richmond and Westside Vancouver took significantly longer to sell than owner-occupied ones (see Exhibit 6-13). By comparison, rental condominiums in Downtown and Eastside Vancouver, and Burnaby experienced shorter selling times. A rental condominium in Downtown Vancouver had the shortest selling time (71 days), with Richmond the longest one (205 days).

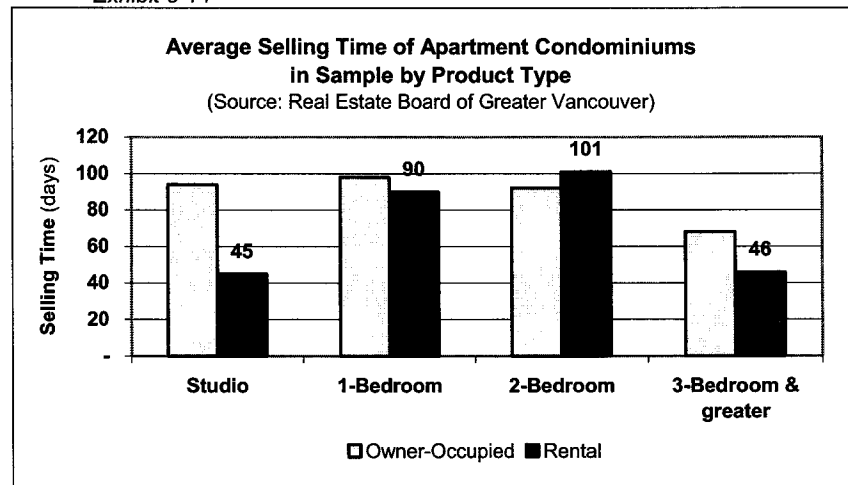
Exhibit 6-13



By Product Type

For each product type, a rental condominium generally took less time to sell on average than an owner-occupied one, except for a 2-bedroom rental (see Exhibit 6-14). A studio rental took less than half the time to sell than an owner-occupied one. A studio rental (45 days) and a rental with three or more bedrooms (46 days) took the least time to sell, while a 2-bedroom rental (101 days) took the most time.

Exhibit 6-14



6.8 Other Information

6.8.1 Total Number of Rentals in Study Area

The total number of rentals in the Study Area equals the sum of the number of purpose-built rental apartments plus the estimated number of rental condominiums. Table 6-7 shows the breakdown of the estimated number of rentals in 2001, totaling 83,186 units. Richmond had the highest proportion of rental condominiums at 26%, while it was 15% in Vancouver.

Table 6-7 – Estimated Number of Rental in Study Area in 2001

	Vancouver	Burnaby	Richmond	Total	
Rental Condominiums (estimated)	9,836	878	914	11,628	14%
Rental Apartments	55,613	13,386	2,559	71,558	86%
Total No. of Rentals	65,449	14,264	3,473	83,186	100%
	79%	17%	4%	100%	
% Rental Condominiums	15%	6%	26%	14%	

Source: PwC and CMHC

6.8.2 Financial & Market Risks Associated with Rental Condominiums

As discussed earlier, the development of conventional rental apartments in the Study Area was limited between 1990 and 2000. Meanwhile, the population of the Study Area grew by 174,000 people, including a portion wanting rental housing. As our findings indicate, investor-owned rental condominiums have helped to fill some of this demand for rental housing, especially in Downtown Vancouver.

Nevertheless, having a significant portion of the overall stock of rental apartments in the Study Area consist of rental condominiums presents some potential risks to lenders and others in the condominium and rental markets. These risks are largely inherent with the profile of these investors who, in comparison to most owners of purpose-built rental apartment buildings, are often inexperienced in owning and operating rental property, which they usually treat as a passive investment. Consequently, some condominium investors may not have the financial resources to properly maintain their investments, which may reduce their value. Furthermore, some investors are ill-prepared or lack the financial resources to manage their investments during economic downturns, thus potentially exposing their lenders to higher default risk.

Having a significant portion of the overall stock of rental apartments in the Study Area consist of rental condominiums also could result in less stable

and more volatile rental and condominium markets, especially in the event of a negative shock, such as a sharp rise in interest rates. Faced with suddenly higher mortgage payments, rental condominium investors could suddenly flood the market with condominiums for sale in an effort to reduce their debt, thus pushing down condominium prices and values to bring supply and demand into balance. If a large portion of the buyers of these condominiums occupied these condominiums, then the size of the overall rental market (purpose-built rental apartments plus rental condominiums) would correspondingly contract, which, in turn, would put upward pressure on rental rates.

6.8.3 Factors Influencing Rental Values of Rental Condominiums

The factors influencing rental values in rental condominiums are the same ones influencing purpose-built rental apartments since both are segments of one overall rental market, noting that this conclusion is based upon only anecdotal observations and not a detailed assessment.

The key supply factors influencing rental values are location; unit size, type, and availability; and competing supply in the owner-occupied market. The key demand factors are the number and growth of households; their structure, size and income; and the demand for competing supply in the owner-occupied market.

Appendix A: Bibliography

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A Comparison of Resident and Non Resident Condominium Owners in the City of Toronto, York University (Valerie Preston, Robert Murdie, David Northrop), 1993

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Greater Toronto Condominium Report, Canada Mortgage and Housing Corporation, Fall 2001

Housing Patterns and Prospects in Metro, Metropolitan Toronto Planning Department, June 1996

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Appendix B: Developers' Interview Guide

Questionnaire Guide for Developers

Background

PricewaterhouseCoopers LLP has been retained by the Canada Mortgage Housing Corporation (“CMHC”) to review the investor impact of the condominium market on rental accommodation in Vancouver. The objective of the research is to:

- gain a better estimate of the size of the rental housing market; and,
- gain a better understanding of the role that condominiums play in the delivery of rental housing.

Understanding condominium market characteristics and investor patterns over time would provide CMHC, planners, policy makers and market specialists with valuable information and insight into the rental housing issue.

Process

As part of this review process we would like to interview development firms/key property management firms in the Vancouver marketplace (defined as Vancouver, Richmond and Burnaby) to ascertain information on the current condominium rental stock, suite characteristics and product mix, market trends and future implications.

We would appreciate 15-30 minutes of your time to complete the following questionnaire. The suggested process involves a telephone discussion with you to review the questionnaire guide and obtain relevant information pertaining to our study. In appreciation, we are forwarding a small gift to your office.

Confidentiality

Any information provided will be held in the strictest of confidence. Information pertaining to each survey will be confidential and not reproduced “as is”, but will be consolidated as a summary of findings based on the interviews completed.

The questionnaire is attached as part of this email.

Thank you.

Questionnaire for Developers

The following provides a general guideline upon which we would like to conduct this interview. Please feel free to elaborate on any topic of interest to you.

What is the name of your development firm?

What development projects are currently being marketed (name, municipal location, current development status-“proposed”, “under construction” or “recently” completed)?

1. _____
2. _____
3. _____
4. _____
5. _____
6. _____

What are the target market sectors (investors vs. owners, singles, young couples, retirees, etc.) for these developments (%)?

Development Name	Investors(%)	Owners(%)	Singles(%)	Couples(%)	Retirees(%)
1					
2					
3					
4					
5					
6					

What is the product mix (number of units by type) within those developments?

Development Name	Studio	1 Bedroom	1 Bedroom plus Den	2 Bedroom	2 Bedroom plus Den
1					
2					
3					
4					
5					
6					

Has the emergence of the “investor” impacted your marketing activities and focus? If yes in what way?

Has the product mix/design been influenced by the rental accommodation market? If yes in what way?

Over the last ten-year period have you noticed a trend in the demand for rental accommodation? Do you have any “rules of thumb” regarding marketing investors?

What are the key emerging trends impacting the investors?

If you have any questions please contact either Russ Tyson at 604 806 7537 or Neil Atchison at 604 806 7848.

Thank you for your co-operation.

Appendix C: Property Management Company Questionnaire and Contact List



September 10, 2002

(Property Manager)
(company)
(email address/ fax no.)

Dear....

The Impact of the Investor Apartment Condominium Market in Vancouver, Burnaby & Richmond - Survey of Property Managers

Canada Mortgage Housing Corporation (CMHC) is the Government of Canada's Housing Agency. One of CMHC's essential services to Canada's housing industry is to gather and analyze Canada's housing market and provide developers, lenders, landlords and property managers with accurate and up-to-date information on housing and tenure in all parts of the country.

Currently, CMHC needs to assess the impact of condominium investors on the supply of apartment rental accommodation in Vancouver, Burnaby and Richmond. Therefore, CMHC retained PricewaterhouseCoopers to undertake a survey of property managers who look after rented apartment condominium units in those three cities. We need your help.

It would be of considerable assistance to CMHC if you could complete the following one-page table, which asks you about your rental portfolio. We would like to follow up with a short telephone interview to obtain your valuable insights into the role of condominiums in the rental market. The questions we will ask you during the telephone interview are included with this letter. The information that you provide will be held in strictest of confidence. Also, to protect your privacy, we will only report the results in summary form, along with those of the other participants in these interviews.

The objective of the research is to gain a better estimate of the number of apartment condominium units that are rented in these markets, and a greater understanding of the role that rental condominiums play in the overall delivery of rental housing. We hope to be able to estimate the number of rental apartment condominium units in Vancouver, Burnaby and Richmond, types, rental rates, etc., as well as learning something about the general profile of their owners and renters.

Please fax back the completed table (and questions if you choose) to 604-903-0736 as soon as possible. We will contact you shortly to arrange a convenient time for the interview.

Thank you for your cooperation and assistance. Please contact me on my private line 604-903-0735 if you have any questions, or alternatively, call Cameron Muir (604-737-4144) of CMHC.

Yours truly,

John Bowen



Please complete the table below for Rental Apartment Condominium Units managed by your company and fax completed form to 604-903-0736. Thank you.

Characteristics of Rental Apartment Condominium Units Managed by _____ (company)							
CITY/AREA AND UNIT TYPE	TOTAL NO. OF ALL APT. CONDO UNITS MANAGED	NO. OF RENTAL APT. CONDO UNITS	VACANCY RATE OF RENTAL APT. CONDO UNITS (%)	MINIMUM FLOOR AREA OF RENTAL APT. CONDO UNITS (SQ.FT)	MAXIMUM FLOOR AREA OF RENTAL APT. CONDO UNITS (SQ. FT.)	MINIMUM MONTHLY RENT FOR RENTAL APT. CONDOS	MAXIMUM MONTHLY RENT FOR RENTAL APT. CONDOS
Vancouver: Downtown/West End							
studio/bachelor							
1 bedroom							
1 bedroom+den							
2 bedroom							
2 bedroom+den							
3 or more bedrooms							
Vancouver: West Side							
studio/bachelor							
1 bedroom							
1 bedroom+den							
2 bedroom							
2 bedroom+den							
3 or more bedrooms							
Vancouver: East Side							
studio/bachelor							
1 bedroom							
1 bedroom+den							
2 bedroom							
2 bedroom+den							
3 or more bedrooms							
Burnaby							
studio/bachelor							
1 bedroom							
1 bedroom+den							
2 bedroom							
2 bedroom+den							
3 or more bedrooms							
Richmond							
studio/bachelor							
1 bedroom							
1 bedroom+den							
2 bedroom							
2 bedroom+den							
3 or more bedrooms							

Name: _____ Title/Position _____ Tel _____



QUESTIONNAIRE FOR PROPERTY MANAGERS ON THE IMPACT OF THE INVESTOR CONDOMINIUM MARKET IN VANCOUVER, BURNABY & RICHMOND

(For telephone interview - to be arranged)

QUESTION 1: Referring to the table *Characteristics of Rental Apartment Condominium Units* you completed for us, what amenities are generally provided in rental condominium apartments compared with those in owner-occupied apartment condominiums, and what are the trends regarding types of amenities in rental condominiums?

QUESTION 2: Concerning rental apartment condominium owner characteristics:

Roughly what proportion of rental owners in your portfolio own:

only one apartment condominium unit	_____ %?
two apartment condominium units	_____ %?
three apartment condominium units	_____ %?
more than three apartment condominium units	_____ %?

QUESTION 3: Please describe the profiles of typical tenants of rental apartment condominium units (e.g. household size, age, origin, income, etc.) in your portfolio. Do they differ from the profiles of tenants in rental only apartment buildings?

QUESTION 4: How many years do rental owners in your portfolio typically plan to retain ownership in their rental condominiums:

_____	less than one year?
_____	1 to 2 years
_____	3 to 5 years
_____	5 to 10 years
_____	more than 10 years

QUESTION 5: In your opinion, what are the key trends impacting the availability of rental apartment condominiums in the portfolio that you manage?

QUESTION 6: Has the development industry modified its current design standards in any way that you can discern to accommodate renters, in regard to product mix and size?

QUESTION 7: Based on your experience with the portfolio you manage, what would you say are the future trends in rental apartment condominium accommodation? Do you foresee increasing or decreasing availability and why?

Thank you for your assistance. Your answers will contribute to a better understanding of the housing market and will be treated in strict confidence.

Property Management Companies Contacted

- Ascent Management
- Baywest Property Management Services Ltd.
- Century 21 Prudential Estates (Rmd) Ltd.
- Colliers International
- Colyvan Pacific Real Estate Management Services Ltd.
- Coronet Property Management Ltd.
- Crosby Property Management Ltd.
- Gateway West Management Corporation
- Kyle Properties Ltd.
- MacDonald Commercial Real Estate Services Ltd.
- PCI Group
- Prudential United
- Rancho Management Services
- Realty World
- Re/Max Property Management Services
- Sutton Centre Realty
- Vancouver Condominium Services Ltd.
- York West Asset Management Group (BC) Inc.

Appendix D: Real Estate Agent Interview Guide

Interview Guide

Interviews with Realtors about the Rental Apartment Condominium Market in Vancouver, Burnaby and Richmond - September, 2002

(The following is a guide, or checklist to ensure points of inquiry are covered during the interview. Questions can be paraphrased and do not need to be read verbatim. The order of the subjects can be changed to give the respondent room to order his/her thoughts as they occur. Interviewer cues are in brackets, bolded, in italics)

1. SALUTATION (*Hi..., good evening or whatever fits best*). I'm (*your name*) with Price Waterhouse. CMHC, Canada Mortgage and Housing, hired Price Waterhouse to find out what role rental condominiums play in the apartment rental markets of Vancouver, Burnaby and Richmond. I understand you know something about that segment of the market and especially about investors who buy condos to rent out. (*wait for acknowledgement*). Can we talk about investors in rental condos for a few minutes.
2. Do you deal with rental-condo sales, or investor buyers yourself? If so how many a year. How important a part of your business are they? (*If he/she seems to know little about the subject, politely terminate the interview*).
3. In rough percentage terms, what proportion of apartment condo sales in Vancouver, Burnaby and Richmond involve investors who buy the condo unit to rent out rather than to live in?
4. Are investor buyers becoming a more important, or less important part, of the apartment condo buyer market, as compared to owner-occupant buyers? (*wait for answer, then ask*) Why is that, do you think?
5. What is different, if anything, about the type of apartment condo units typically bought by investors, from those bought by owner-occupant buyers?
6. How would you describe the demographics of the people who buy and rent out their condo apartment units, (*qualify as follows, if necessary*) in terms of age, origin, income, occupation etc.
7. (*ask only if respondent seems to be well informed*) Let me ask you a similar question, in case you know, about renters or tenants of rented-condos? How would you describe the demographics of renters of rental-condos. Do they differ from apartment renters, in general?
8. Can you tell me which companies or individuals deal with a lot of investor-buyers of individual apartment condominiums, who I might speak to for more information on the subject?

Thank you very much for your time.