Rental Study Report

Prepared for
City of Vancouver

Mr. David McLellan
General Manager, Community Services Group
City of Vancouver
453 West 12th Avenue
Vancouver, BC V5Y 1V4

Prepared by

ALTUS GROUP LIMITED

RENTAL HOUSING STRATEGY
STUDY #2C: PURPOSE BUILT RENTAL INVESTMENT CLIMATE FOR EXISTING STOCK

City of Vancouver

Effective Date: October, 2009

Independent Real Estate Intelligence

Altus Group

December 18, 2009

Altus File Ref. #V902378
City of Vancouver Agreement No.: 45-429906

Mr. David McLellan
General Manager, Community Services Group
City of Vancouver
453 West 12th Avenue
Vancouver, BC V5Y 1V4

Cc: Mr. Dale McLanaghan

Dear Mr. McLellan,

Re: Purpose Built Rental – Investment Climate for Existing Stock
City of Vancouver

In accordance with your request, we have prepared a report to examine the financial viability of the existing rental housing stock within the City of Vancouver. We understand that this report is intended to assist you as part of a larger multi-phase study examining potential policies and approaches which can be used to increase the supply of affordable rental housing stock.

We trust that this report will meet your current requirements, however should you have any questions regarding the information contained herein, please do not hesitate to contact the undersigned.

Yours very truly

ALTUS GROUP LIMITED

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EXECUTIVE SUMMARY

INTRODUCTION

- This study (2C) is one of a number of studies on the rental housing market being undertaken on behalf of the City of Vancouver. The purpose of Study 2C is to examine the economic parameters impacting the investment market and financing vulnerability of the existing purpose-built rental stock.

- The scope of the analysis has involved the following key elements:

  - An overview of the existing rental housing stock (as detailed in studies 2A – "Inventory and Risk Analysis", and 2B – "Building Condition and Major Repair Replacements") in order to identify and describe prototypical buildings for the purpose of analyzing anticipated investment returns

  - A review of the parameters affecting the decision making processes in the investment market for purpose-built multi-family residential property. This includes a review of both current and historic trends in rates of return (capitalization rates), rental rates, vacancy rates, operating costs etc.

  - An analysis of sales over the 2000 – 2009 period to provide insight into sales volumes, liquidity, holding periods and average price levels

  - Conducting a questionnaire of market participants to identify investor and market characteristics

  - A review of Study 2B in order to identify lifecycle costs in prototypical buildings

  - A detailed analysis of the projected cash flows after tax and financing taking into account the lifecycle costs identified in Study 2B. Observations on the rates of return on investment implied by the analysis

  - Qualitative discussion of the rate of change mechanism and observations on alternative policy responses to protect existing housing stock

Analysis of Existing Purpose Built Rental Inventory

Physical Characteristics

- The characteristics of the existing purpose built rental stock are outlined in Study 2A. Highlights of this study (to identify prototypical models for further analysis) are summarized:
    - The areas with the highest proportion of existing purpose-built rental housing are Fairview/ Kitsilano (24.5% of total units), Mount Pleasant/Northeast (20%) and the West End (29.8%).
    - The largest proportion of the purpose-built rental housing was constructed in the 1950's and 60's.
    - The majority of rental buildings (54%) contain less than 5 units, but comprise only 13.6% of the total stock of units. Conversely, 17% of total units are located in buildings with more than 100 units. These comprise only 1.3% of the total number of buildings.
    - 66% of purpose-built rental units are located in low-rise buildings (4 storeys or less); 34% are in buildings with 5 or more storeys.

Investor Characteristics

- A review of sale transactions reported by Realnet indicate that private investors make up the majority of purchasers. Of the 4,097 units sold in 2006 - 2009, 91.6% percent were acquired by purchasers categorized by them as domestic private investors.

- From the responses to our questionnaire survey, the majority of acquisitions are through corporations rather than individuals.

- Typical holding patterns were also reviewed for this type of asset through a survey of stakeholders within the real estate market and a review of sale transactions from 2006 to October 2009 within the City of Vancouver. Survey participants indicated that a 10 – 20 year hold period was most prevalent for their company and/or clients. 69% of respondents reported a typical holding period would be 10 years or more.

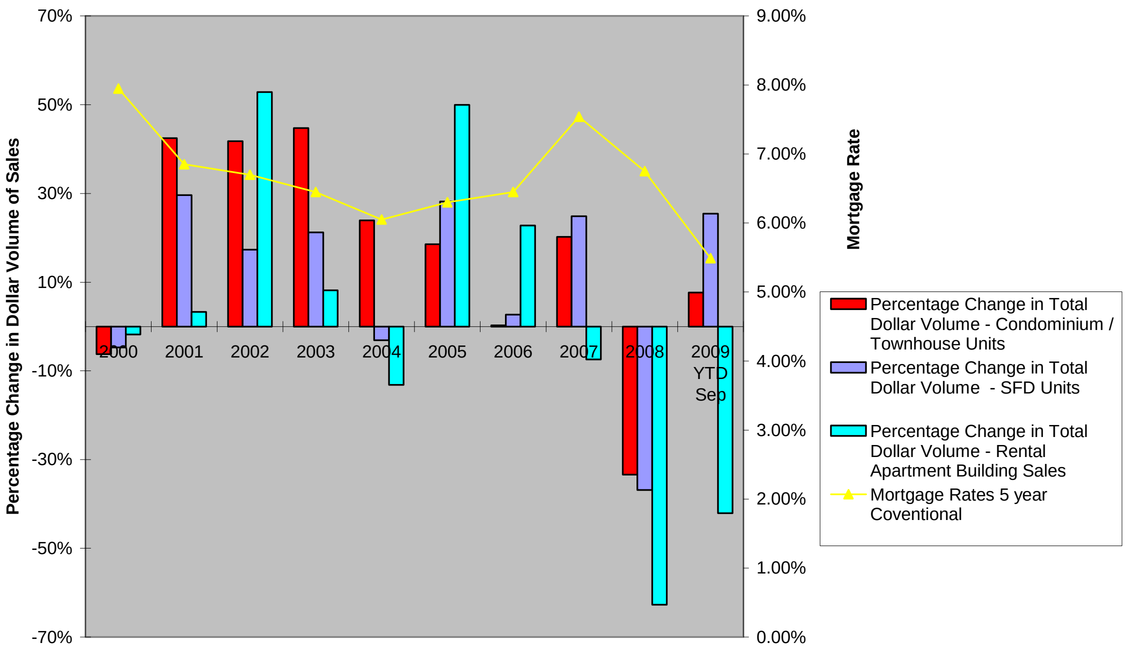
- An analysis of actual sale data between 2006 and 2009 indicates that 51% of properties sold in this period had been held for 11 years or more. A significant number, however, had been held for less than 5 years during this period:

Investment Market Analysis

Transaction Activity and Value Parameters

- The purpose-built multi-family market within the City of Vancouver has been active in recent years. In common with other sectors of the investment market, the volume of sales has declined significantly in 2008/9.

Percentage Change in Transaction Activity by Asset Type



- Over 870 properties were identified as being sold during this period equating to approximately $2 billion worth of property. Over this period, annual sales volumes peaked in 2006 at almost $350 million.

- Volumes have not been spread evenly over this period, and have followed other trends in market activity and other market factors such as interest rates and availability of capital.

- From a review of transaction data from 2000 to the present, market values have generally been increasing. This has been driven partly by a decline in capitalization rates as noted from an analysis of specific transactions between January 2003 and September 2009.

- The average price per unit in Vancouver (another typical measure of value) has increased from under $100,000 to almost $250,000 between 1999 and 2008.

CMHC Surveys – Rents and Vacancy Rates

- CMHC prepare annual reports measuring "Average Rents" and Vacancy Rates. Average Rents are compiled from a survey of landlords and property managers and blend both asking rents and rents in place.

- From 1998 to 2008 compounded annual growth rates across Vancouver neighbourhoods ranged between 0.98% and 3.27% per annum. The rental growth rate for the City of Vancouver, as a whole, over 1998 to 2008 was calculated to be 2.82% per annum compounded. This is slightly higher than the rate for the CMA as a whole over the same period – 2.64% per annum.

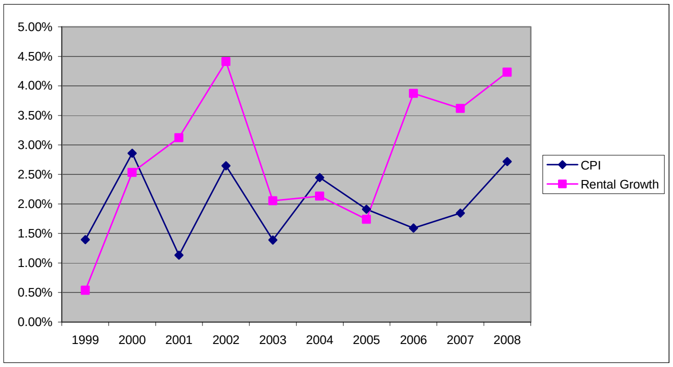
- Our own observations indicate that rents in place at any point in time (being the rents actually paid by tenants) are typically below what might be achieved for vacant units (the "market" rent).

- The rate of change in average rental rate reported by CMHC has generally exceeded the Consumer Price Index over this period by around 1% point. Although respondents to the questionnaire indicated that the general practice of landlords was to increase rents by the maximum allowed under the legislation (2% points above the CPI) the data does not indicate this is a universal practice.

Consumer Price Index Increase vs. Reported CMHC Rental Rate Increases - City of Vancouver

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Compounded Annual Change 2003 to 2008	Compounded Annual Change 1999 to 2008
Reported Rental Increase [i]	0.54%	2.53%	3.12%	4.41%	2.05%	2.13%	1.74%	3.87%	3.62%	4.23%	3.11%	2.82%
source: CMHC												
CPI Index	94.4	97.1	98.2	100.8	102.2	104.7	106.7	108.4	110.4	113.4		
CPI Increase	1.40%	2.86%	1.13%	2.65%	1.39%	2.45%	1.91%	1.59%	1.85%	2.72%	2.10%	1.85%
source: BC Stats												
Difference	-0.86%	-0.33%	1.99%	1.77%	0.66%	-0.32%	-0.17%	2.28%	1.77%	1.52%	1.01%	0.97%

[i] *Rental Increase reported includes all unit types.*



Stakeholder & Financial Interviews

- Two surveys were undertaken; one for "stakeholders" (owner, broker, property manager) and the other for the "financial" sector (lender, mortgage broker, or insurer). A total of 21 interviews were conducted. Collectively, the respondents are believed to represent a significant proportion of those involved in the multi-family residential investment market. The following is a brief summary of some of the survey highlights:

  - Most stakeholders indicate they always undertake a building condition and capital expenditure assessment prior to purchase. However, use of a replacement reserve is less common.

  - Most stakeholders envisage a holding period of 10 - 20+ years after purchase; a minority (just over 25%) indicated less than 10 years.

  - The most frequently reported barrier to sale was reported to be "Building Condition." Availability of financing was "rarely" or "never" reported to be a barrier to sale. Paradoxically, lack of available financing was reported to be a constraining factor in the current market. This was also cited by financial respondents as being the main constraint in CMHC financing. CMHC loans were reported to be "very prevalent" in this market by 86% of respondents.

  - Factors constraining the multi-residential market were mostly focused on loan to value ratios required by lenders and the more stringent approach to appraised values currently being adopted by CMHC.

  - All respondents believed the existing housing stock would decline in quality without policy changes. 92% felt that current policies affecting rental housing provided no incentives to undertake capital expenditure.

  - In reply to questions about the City's Rate of Change Policy, the majority of respondents (73%) felt that values had not been adversely affected. Some respondents (36%) felt that new capital investment had been adversely affected.

Analysis of Returns on Investment in Multi Family Property

- The purpose of the financial analysis was to identify expected returns to investors in three of the most typical investment property types in the purpose-built multi-residential market. From a review of the most prevalent types of properties within the City of Vancouver, three prototypes were selected to review on a 20 year investment horizon basis:

  - Kitsilano ……….. Lowrise
  - Mount Pleasant Lowrise
  - West End ………. Highrise

- The first part of the analysis focused on the identification of typical financial parameters such as rents, operating costs, vacancy rates and capitalization rates based on detailed analysis of market transactions. From this analysis, a hypothetical net operating income and an investment value (representing the assumed initial purchase price) was estimated using capitalization rates of 4.5% to 5.0% depending on the product.

- A cash flow model was created for each property and estimates were made for revenues, expenses, inflation rates, income tax rates (reflecting CCA allowances), and financing. The capital expenditures estimated for the properties in Study 2B were included in the cash flow models to reflect the required levels of capital expenditure and maintenance identified in that study. It was noted that these levels of expenditure are often not specifically quantified by investors at the commencement of the investment period. Nevertheless, such expenditures should be anticipated. If incurred, they represent a real deduction from the cash flow.

- Although hypothetical, the results of the return analysis indicate a range of internal rate of return (IRR) on equity (Equity IRR's) of between 5.88% – 6.66%, after financing and Income Tax. The unlevered (i.e no financing) pre-tax IRR ranged from 6.40% – 6.74%.

- For comparison purposes, the unlevered, pre-tax IRR was compared with the IRR using typical valuation parameters regarding repairs and maintenance. Because the typical parameters for maintenance and repairs are generally below the costs projected in 2C, the returns increased slightly, the range being 6.63% to 7.15%. The relationship between these returns and capitalization rates was found to be generally consistent with other forms of real estate investment.

Rate of Change Policy Issues

The requirements set out in the rate of change policy have a negative impact on the economics of redevelopment of rental buildings for alternative uses (in particular strata title residential). Consequently, if the value of multi-family properties in general were significantly affected by redevelopment potential, downward pressure on values would have been expected as a result of the introduction of the rate of change policy. However, while there will be some instances where the policy may have affected value (i.e. those with high redevelopment potential) there is no empirical market evidence to suggest a general decline in the value of rental properties was caused by the policy. This observation was confirmed by the majority of respondents to the questionnaire who felt that market values had not been adversely affected. The implication of this is that, in the majority of instances, the primary driver of value is income generation rather than redevelopment.

Observations Regarding Alternative Policy Responses to Protecting Existing Stock

The study considered the impact of modifying income tax provisions as a means of strengthening the financial performance of long-term rental assets. It was found that the majority of the policy suggestions provided to us are likely to have a marginal impact only on cash flow and return on investment. Expanding the availability of the small business tax provisions is likely to have the most positive impact on cash flow and the incentive to reinvest in the asset.

1.0 INTRODUCTION

1.1 Project Overview

The purpose of this study is to examine the economic parameters impacting the investment market and financing vulnerability of the existing purpose-built rental stock.

As outlined in the scope of work provided to us:

"For the well maintained housing stock, investors and building owners need to attract re-investment in major building components. This study will evaluate the rate of return on rental investment, profitability and access to capital. The sources of re-investment may take the form of accumulating replacement reserves, refinancing with additional mortgage debt, sale to private or REIT investors or other forms of equity. It is possible that the current housing finance mechanisms are functioning well and interviews with key players in the system (CMHC, lenders, brokers and owners) will be an important component of the analysis. The study will analyze anticipated financial impacts of rates of change bylaws or alternative measures targeted to the protection of the existing rental stock. Whereas this study will measure the financial health of the existing purpose-built rental housing stock, it does not address the viability of creating new purpose-built rental buildings. The combination of factors for new rental hosing is addressed in Study #2D and that study will examine, among other things, the cost of new construction, rent levels, financing costs and residential land values for condo or alternatively rental development."

1.2 Scope of Analysis

The Key Elements to the study were highlighted in the Scope of Work provided. They are as follows:

a) Analysis of sales and purchase data including "cap rates";
b) Review of existing and projected rent levels & vacancy rates as reported by CMHC, and supplemented by real estate transaction information and key player interviews;
c) Review of operating costs based on standardized observations from real estate transaction information;
d) Research on sources of capital & financial structure;
e) Analysis of rate of return on rental investments on a standardized basis;
f) Analysis of concentration of ownership;
g) Categorization of investor types;
h) Comment on transaction liquidity in the market;
i) Comment on various terms of holding for residential real estate investments;

j) Analysis of typical capital gains and taxation issues (GST, income tax, excluded from small business tax rate; depreciation rates);
k) Qualitative discussion of rate of change mechanisms; and,
l) Provide non-comprehensive observations of alternative policy responses to protect existing stock.

The above elements of scope were undertaken in several stages of analysis. As summarized within Section 2.0, we first completed a review of the physical characteristics of the existing rental housing stock (as detailed in studies 2A – "Inventory and Risk Analysis", and 2B – "Building Condition and Major Repair Replacements") in order to identify and describe prototypical buildings for the purpose of analyzing anticipated investment returns.

Next, in Section 3.0, we undertook a review of the parameters affecting the decision making processes in the investment market for purpose-built multi-family residential property. This included a review of both current and historic trends in rates of return (capitalization rates), rental rates, vacancy rates, operating costs etc. A further analysis of sales over the 2000 – 2009 period to provide insight into sales volumes, liquidity, holding periods and average price levels for the existing rental stock within the City of Vancouver.

In Section 5.0, we have presented our detailed analysis of the projected cash flows and investment returns after tax and financing taking into account the lifecycle costs identified in Study 2B. Section 4.0 summarizes a questionnaire of market participants to identify investor and market characteristics which were key to supporting assumptions for this analysis.

Lastly, Section 6.0 provides a qualitative discussion of the rate of change mechanism and observations on alternative policy responses to protect existing housing stock.

1.3 Specific Assumptions & Limiting Conditions

ASSUMPTIONS / KEY SOURCES OF INFORMATION

- Coriolis Consulting has prepared Study #2A – Purpose Built Rental Housing – Inventory and Risk analysis. We have relied on information provided Coriolis Consulting regarding the inventory characteristics of the existing rental building stock in the City of Vancouver. The Coriolis data set, included for reference in the appendix Tab A, summarizes details regarding the existing building characteristics, including age, number of units, number of storeys, and neighborhood and forms the basis for the selection of standardized models presented herein.

- Altus Group Cost Consulting has prepared Study #2B – Existing Purpose Built Rental – Building Condition and Major Repair Replacements. Additionally, we have relied on information provided the Altus Group Cost Division regarding typical Building Condition and Major Replacement costs for the existing rental building stock, as concluded within their study #2B "Existing Purpose Built Rental – Building Condition and Major Repair Replacements." Further detail regarding the input assumptions are provided within Section 5.0 – Analysis of Returns on Investment in Multi Family Property.

- For the purposes of the various analyses presented herein, we have referenced various sources of information available in the market including, Realnet Canada Ltd. data relating to the City of Vancouver apartment rental sales, 'Goodman Report' by MacDonald Commercial, and Canada Mortgage and Housing Corporation Rental Market Reports for Vancouver and Abbotsford CMA's, as well as in-house Altus Group appraisal data. We have relied upon summary information as published to the market and as documented for appraisal file purposes, and have assumed that this information is correct and complete.

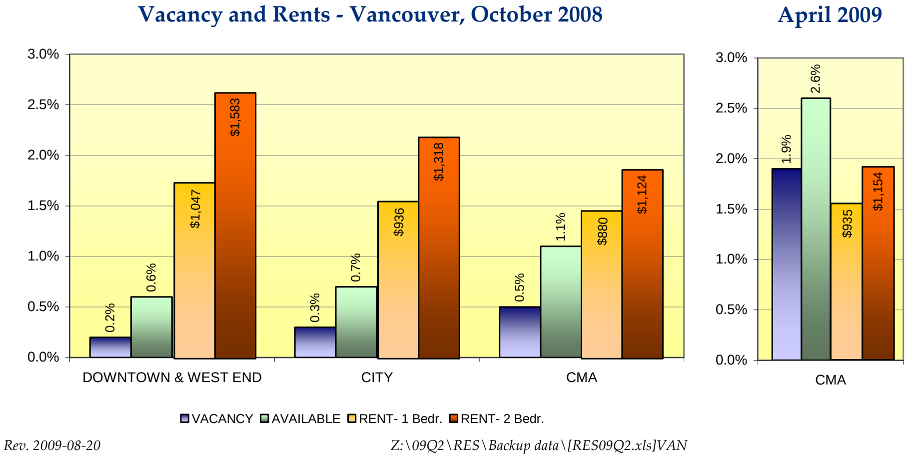
LIMITING CONDITIONS

- The prototype models are entirely hypothetical in nature and any estimate of value arrived at is purely theoretical. These estimates are not considered an appraisal nor are they to be used as an estimate of current market value.
- We have not considered any implications regarding the Provincial Government's legislation regarding HST (Harmonized Sales Tax) nor any GST implications in our models or otherwise.
- We have assumed that the information from Studies 2A and B are correct and complete. We have assumed that the cost information sourced from 2B relates to typical properties in the specific neighbourhoods we have highlighted (Kitsilano, Mount Pleasant, West End).

2.0 ANALYSIS OF EXISTING PURPOSE BUILT RENTAL INVENTORY & INVESTOR CHARACTERISTICS

2.1 Overview – Lower Mainland Rental Market

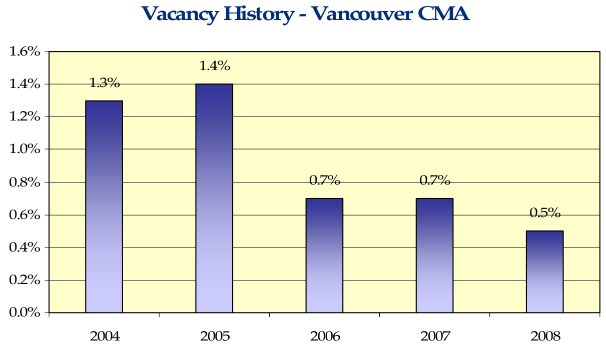
Overall, the Vancouver CMA area market remains stable for residential apartment use. Vacancy rates remain low as compared to the rest of Canada and rental rates continue to increase.



Source: CMHC Rental Market Report - CMA, Housing Information Monthly and Housing Market Outlook

Vancouver's Census Metropolitan Area (CMA) vacancy stood at a five-year low of 0.5% in October 2008, but, likely as a result of the "Recession", has climbed to 1.9% in April 2009.

The April 2009 vacancy rate, broken down by unit size, is as follows: 0.7% for bachelor units, 1.9% for one-bedroom units and 2.1% for two-bedroom units. CMHC has not disclosed information for three-bedroom units or greater.



New rental housing unit completions totalled 224 units in 2004, 13 in 2005, 509 in 2006, 615 in 2007 and 561 in 2008.

Two-bedroom rental rates increased by 4.1% in 2006, 3.7% in 2007 and 3.7% in 2008. A similar increase was anticipated for 2009, but the April 2009 data show a 12-month increase of 7.7%.

2.2 Inventory: Characteristics of Existing Purpose-Built Rental Housing Stock

As described within 1.3 Specific Assumptions, we have relied on information provided by Coriolis Consulting regarding the inventory characteristics of the existing rental building stock in the City of Vancouver.

According to the Coriolis data the existing rental purpose-built rental housing stock is comprised of a wide variety of types of buildings. Our analysis of the inventory has focused on the following factors to provide background for this study:

- Number of rental properties by neighbourhood
- Age characteristics
- Size of buildings (number of units per building)
- Number of storeys and construction type for specific properties

2.2.1 REVIEW OF RENTAL STOCK BY NEIGHBOURHOOD

As evidenced from the Coriolis data, the concentration of existing purpose built rental units is highest in the Fairview/ Kitsilano, Mount Pleasant / Northeast and West End neighbourhoods.

Neighbourhood	**Number of Properties**	**Share of Total Properties**	**Total Units**	**Share of Total Units**
Downtown	36	0.7%	2,061	3.1%
East Side	1,066	21.7%	9,582	14.3%
Fairview/Kitsilano	1,528	31.2%	16,438	24.5%
Mount Pleasant/Northeast	1,541	31.4%	13,403	20.0%
West End	435	8.9%	19,984	29.8%
West Side	296	6.0%	5,498	8.2%
Total	**4,902**	100.0%	**66,966**	100.0%

2.2.2 AGE CHARACTERISTICS

As presented within the Altus Group Cost Division Study #2B "Existing Purpose Built Rental – Building Condition and Major Repair Replacements", the existing purpose- built rental stock is predominantly made up of properties constructed over the 50's, 60's and 70's, with relatively few properties having been constructed since 1991.

2.2.3 SIZE CHARACTERISTICS

Smaller buildings of between 3 to 20 units make up approximately 82% of the existing purpose built rental buildings, however their share of total rental units is only 35.9% of the existing stock.

Number of Units at Property	Number of Properties	Share of Total Properties	Total Units in Segment	Share of Total Units
3 to 20	4,022	82.0%	24,028	35.9%
21 to 50	654	26.0%	24,789	37.0%
50 to 100	158	4.3%	10,889	16.3%
100+	68	1.4%	11,369	17.0%

2.2.4 REVIEW OF NUMBER OF STOREYS AND CONSTRUCTION TYPE

A review of the Coriolis data indicates that only approximately 6.12% of the rental buildings are high-rise.[1], (greater than 5 storeys), however these high-rise buildings comprise over 30% of the total number of rental units, within the City of Vancouver.

Summary of properties by Neighbourhood and Building Height (in number of floors)

Total		Properties with 4 Floors or Less		Properties with 5 Floors or More			
Number of Properties	Total Units	Number of Properties	Total Units	Number of Properties	%Share of Total Properties	Total Units	% Share of Total Units
4,902	66,966	4,602	44,359	300	**6.12%**	22,607	**33.76%**

These high-rise structures are typically of concrete construction; properties which are under 5 storeys are often of woodframe construction.

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[1] *The Coriolis Data set does not allow for a midrise building category. It should be noted that the Altus Group's definition of low rise is 1-3 storeys, midrise is 4-6 storeys and highrise is 7+ storeys.*

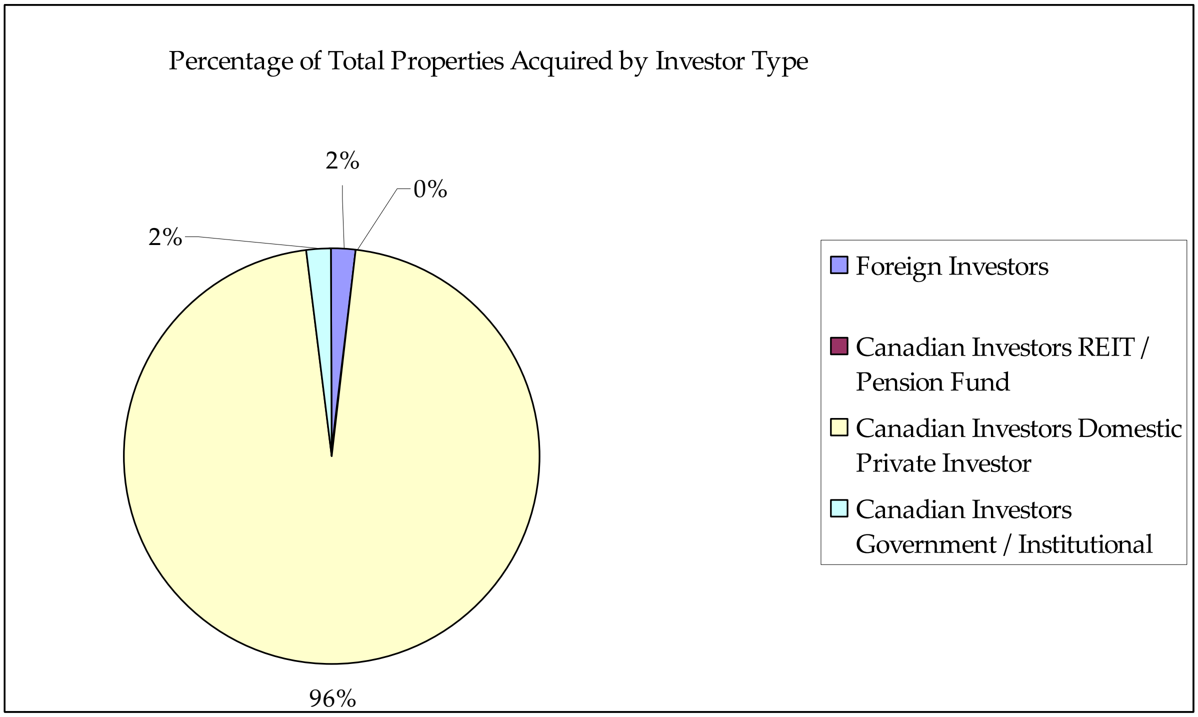
2.3 Review of Investor Characteristics

2.3.1 PROFILE OF INVESTORS, INVESTOR TRENDS, CONCENTRATION OF OWNERSHIP

To garner insight into ownership types and recent investor trends, we have reviewed acquisitions within the City of Vancouver between July 2006 and September 2009 from Realnet Canada transaction records. Realnet Canada Inc. provides information nationally relating to the commercial real estate market (and residential market in the GTA). RealNet contains detailed information on real estate asset sales greater than $1,000,000 in the Greater Toronto Area (GTA), $500,000 in the Greater Calgary Area (GCA) and $250,000 in the Greater Vancouver Area (GVA). The results of our review of ownership types of multi-family transactions in the City of Vancouver are summarized as follows:

Summary of Ownership Type Across Acquisitions July 2006 to September 2009 - City of Vancouver

	Ownership Type				Total Acquisitions
	Foreign Investors	Canadian Investors			
		REIT / Pension Fund	Domestic Private Investor	Government / Institutional	
Total No. Properties	4	0	185	4	193
Total No. Units	110	0	3754	233	4097



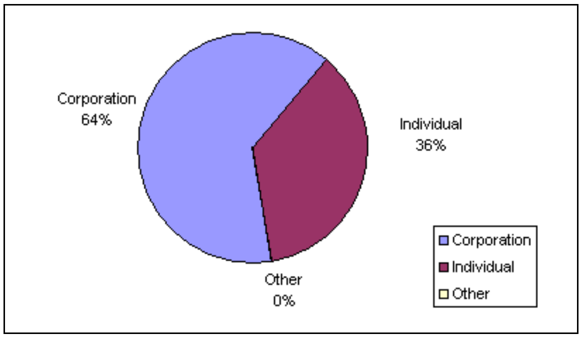
As illustrated in the previous graph, purchases of existing purpose rental building properties have been dominated by Canadian investors for the most part, with purchasers indentified as "foreign investors" accounting for approximately 2% of activity between 2006 and 2009. It is noted however that this figure may not capture the true foreign ownership component of the market as some provincially numbered companies may in fact be owned by foreign based directors. Real Estate Investment Trusts and Pension funds have not been active in the City of Vancouver over this same period. A limited amount of government / institutional investment has taken place, representing approximately 2% of the total unit acquisitions within the City of Vancouver. It would appear that the majority of buyers of this type of property are private local companies.

2.3.2 CORPORATION OR INDIVIDUAL OWNERSHIP

In order to obtain guidance relating to investment ownership, our investor survey for the Stakeholder asked the following question of participants:

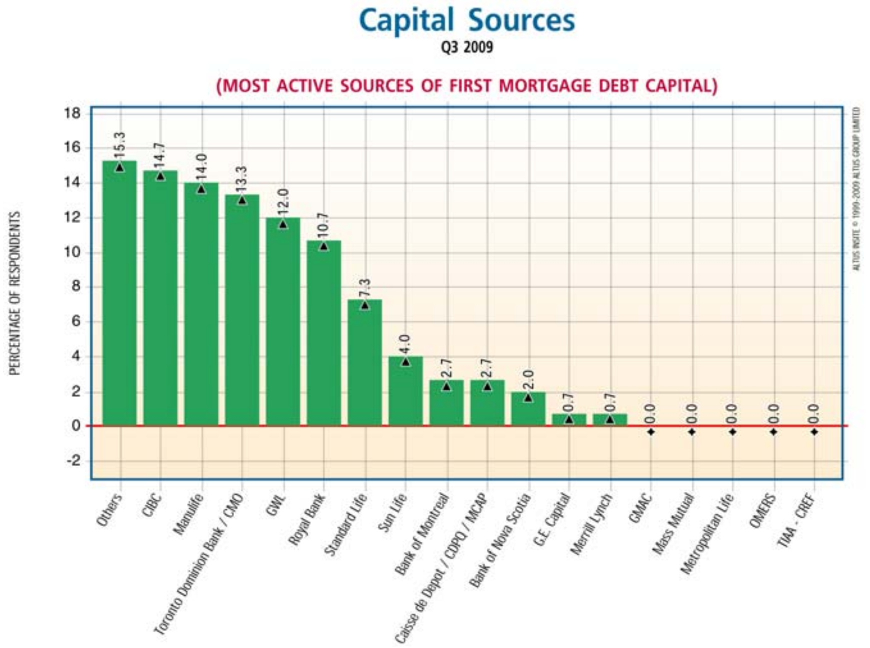
Do you or your clients typically purchase properties as a corporation, as an individual, or other?

As can be seen from the following chart, the majority of respondents indicated they (or their clients) purchased this type of asset as a corporation.



2.3.1 SOURCES OF CAPITAL & FINANCIAL STRUCTURE

To provide background on sources of financing in Canada across income producing assets, including Multi-residential apartment assets, we have sourced data from the 'Debt Outlook' Altus Investment Trends survey prepared for Q3 2009. Across Canada, respondents were questioned 'What three companies are the most active sources of first mortgage debt capital for major asset types – Multiple Unit Residential, Downtown Class 'AA' office, Suburban Class 'A' office, Tier 1 Regional Mall and Multiple Tenant Industrial.[2]



The arrows above each bar on the graph represent the direction of change from the previous survey. The survey indicates that an increase in smaller, private lending arrangements (denoted as 'Others') has been evident since the previous quarter. CIBC, Manulife and TD Canada Trust rank next highest, with public pension fund GWL ranking fifth overall. Standard Life, Sun Life and Caisse de Depot rank 7th, 8th and 10th respectively.

According to respondents, conventional rates for multi-res assets are expected to remain stable in the next three months. This result is similar to expectations regarding other asset types, Downtown Class AA office, Tier 1 Regional Malls and Multi-tenant Industrial.

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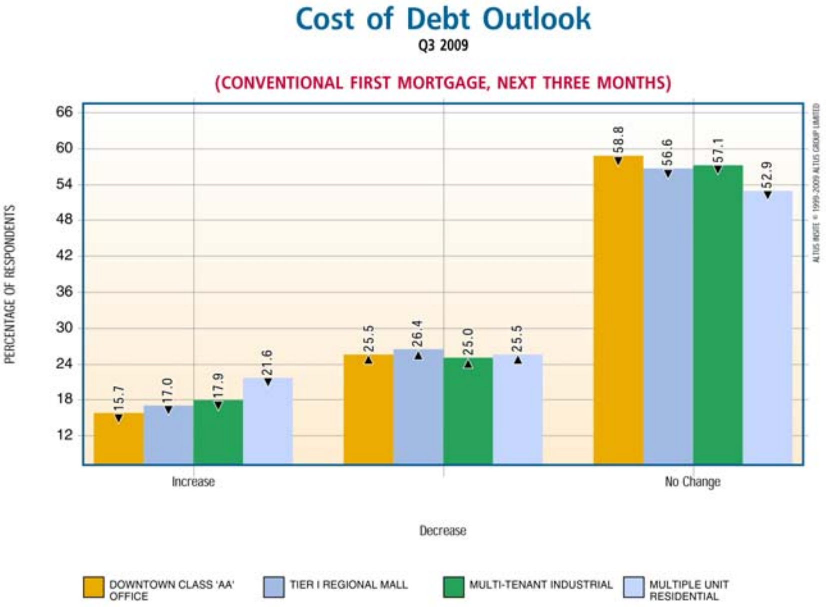
[2] *Close to 275 senior decision makers belonging to the Respondent Categories shown on the following graph are contacted by senior Altus Group consultants. From these contacts, we obtain approximately 500 responses per year.*



As part of this study, we have completed survey work relating to the multi-family investment market. Our investment survey for the financial sector (ie. lender, commercial mortgage broker, mortgage insurer) asked the following question of participants:

"How prevalent are CMHC insured loans with this asset type?"

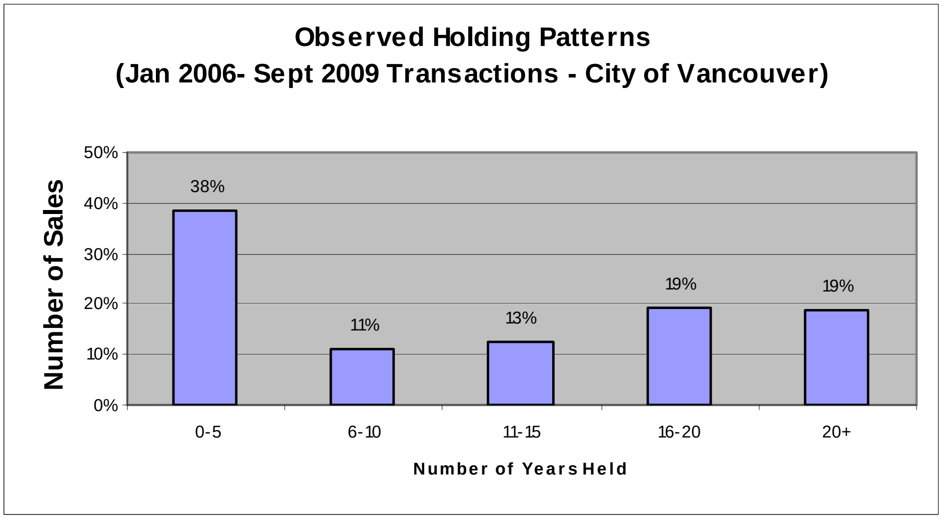
Survey participants were asked to answer based on whether they considered CMHC insured loans as "not prevalent", "somewhat prevalent" or "very prevalent." The collection of answers indicated that 86% considered CMHC insured loans to be "very prevalent" and the balance of respondents indicated "somewhat prevalent."

Survey participants were also asked what percentage (0 – 100%) of applicants for multi-family asset owners secured conventional mortgage debt. Survey answers indicated a mean of 26.07% of asset owners secured conventional mortgage debt, with a low of 0% and a high of 50%.

2.3.4 HOLDING PATTERNS FOR RESIDENTIAL REAL ESTATE INVESTMENTS

In order to establish the "typical" investor holding pattern for multi-residential properties in the City of Vancouver, we first reviewed sale transactions of purpose built multi-family properties since January 1, 2006 to September 25, 2009. All relevant sales were identified. Information regarding the previous sale was obtained from a Tax Detail document for each of the transactions. This provided the prior sale date thus indicating how long the seller had held the property before divesting. This data was then aggregated and sorted.

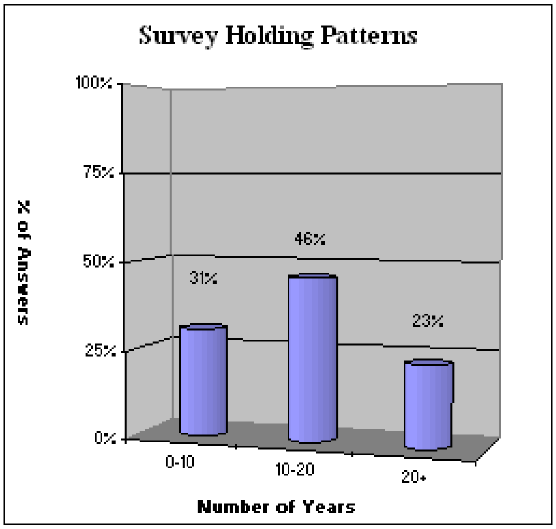
We have included a chart below which details all of the transactions along with their previous sale date. Transactions where limited or incomplete information was available were excluded from our analysis.



In addition to the empirical analysis described above, our investor survey for the "Stakeholder" (ie. rental property owner, broker, property manager) asked the following question of participants:

> *"What are typical investor intentions/ expectations upon purchase, in terms of holding patterns?"*

Participants were asked to answer in terms of years in similar categories to the above noted ranges, though slightly longer terms (ie. 0-10, 10-20 or 20+). Answers have been summarized in a chart below.



Of those who participated in the Stakeholder survey stated a varied amount of holding pattern objectives. Almost 50% of respondents indicated that the 10 – 20 year time frame was there expectation for holding a property at the point of acquisition.

3.0 INVESTMENT MARKET ANALYSIS

3.1 Multi-family Property Investment Overview

The investment market for purpose built multi-family properties is similar to that of other commercial properties such as office building, industrial properties and retail properties. When an investor is considering the purchase of a real estate investment property, a period of due diligence or review of property characteristics is completed. In order to make a decision, the investor must review similar investment opportunities to establish whether the particular asset under review is appropriate for their investment needs.

Generally, the most important and most prevalent method of comparison is the "rate of return". The appropriate rate of return applicable varies across commercial real estate assets. For multi-family apartment buildings, the overall capitalization rate (OCR) is the prevailing means of comparison. In order to establish a rate of return applicable to a multi-family rental property, the first step is to establish the Stabilized Net Operating Income for the subject property.

3.1.1 STABILIZED NET OPERATING INCOME CALCULATION

The calculation for a stabilized net operating income (NOI) is shown below. Each of the financial categories is considered in turn.

Stabilized NOI Calculation
Effective Gross Revenue (EGR)
(-) Operating Expenses (Op Costs)
= Net Operating Income (NOI)

To ascertain the year one Effective Gross Revenue, the investor will first review the asset's current rent roll documentation. This provides details regarding the tenants and rents in place. A typical format is as follows:

Suite #	Suite Type	Tenant Name	Rental Rate (mthly)	Move In Date
101	1 Bedroom	John Smith	$900	1-Aug-09

The monthly “in place” rent is summed for all tenants and multiplied by 12 months in order to arrive at an annual estimate. Under the Residential Tenancy Act the maximum allowable increase has been set by the Provincial Government at 3.2% for 2010 (being 200 basis points above the rate of inflation). In estimating stabilized income, the units that had not been increased for the fiscal year would be forecast to increase by the allowable increase percentage. An investor would also establish a market rent for each unit per month and subsequently per year. The sum of this figure is the annual market rental estimate. A typical turnover rate is estimated based on the building’s historical turnover (move out) rate and / or by comparing the turnover rates of similar properties in the area. Assuming a turnover rate of 30% a blended or stabilized forecast of year 1 revenue would incorporate 70% of the “in place” rents (including maximum allowable increases) and 30% of the market rents.

Following the establishment of rental income, parking, laundry and any other income (such as storage or commercial income) is added to the rental income. Following this an allowance is made for vacancy. A stabilized vacancy rate is deducted from the Gross Revenue to account for any units that turnover and are not re-rented immediately. A review of vacancy rates from CMHC as well as the asset’s historical vacancy rates is typically conducted. A review of CMHC statistics is detailed in the following section of this report.

The Annual Gross Income minus the stabilized Vacancy Rate equals the Effective Gross Revenue / Income (EGR or EGI). Operating Costs are then subtracted form this figure. Examples of such expenses are property taxes, management fees, staffing, repair and maintenance fees, etc. A more detailed review of typical operating costs for an apartment building is included in the next section.

Once the Stabilized Net Operating Income (NOI) has been established for the subject property, a capitalization rate (or rate of return) can be applied to arrive at an estimate of value. The calculation is as follows and is considered in a later section:

Market Value Estimate

$$\frac{\text{Net Operating Income (NOI)}}{\text{Market Cap Rate (OCR)}} = \text{Market Value Estimate}$$

3.1.2 REVIEW OF OPERATING COSTS

Operating costs are generally compared on a percentage basis (Operating Expense Ratio) and reflect the total operating cost divided by the Effective Gross Income (EGI). EGI is calculated as the Gross Income from suites, laundry, parking, etc. less a stabilized vacancy allowance. A table demonstrating a selection of comparable properties, sorted by date and indicating the property type (low-rise, mid-rise, and high-rise) have been included below. This information has been sourced from our internal files as well as our database of analyzed sale comparables.

No.	Value Date	Municipality	Building Type	Expense Ratio (%)
1	Feb-08	Vancouver	High-rise	35.20%
2	Feb-08	Vancouver	High-rise	38.90%
3	Feb-08	Vancouver	High-rise	34.73%
4	Mar-08	Vancouver	Mid-rise	32.29%
5	Mar-08	Vancouver	Mid-rise	32.23%
6	Sep-08	Vancouver	Low-Rise	32.10%
7	Nov-08	Vancouver	Low-Rise	27.90%
8	Dec-08	Vancouver	Low-Rise	35.10%
9	Mar-09	Vancouver	Low-Rise	24.30%
10	Mar-09	Vancouver	Low-Rise	28.30%
11	Mar-09	Vancouver	Low-Rise	28.40%
12	Apr-09	Vancouver	High-rise	29.39%
13	Apr-09	Vancouver	Low-Rise	40.90%
14	Apr-09	Vancouver	Low-Rise	36.10%
15	Apr-09	Vancouver	Low-Rise	23.90%
16	May-09	Vancouver	Low-Rise	35.55%
17	Jun-09	Vancouver	High-rise	29.10%
18	Jun-09	Vancouver	Low-Rise	28.60%
19	Jul-09	Vancouver	Low-Rise	29.10%
21	Aug-09	Vancouver	Low-Rise	35.80%

As is evident from the information above, there is a broad range of expense ratios applicable to different property types within the City of Vancouver (24 – 40% range). The majority of the expense ratios appear to fall within the 28 – 34% range. The average is 31.9%.

It is important to note that individual properties all exhibit different expense ratios depending on their specific characteristics. There does not appear to be a standard ratio based on any one characteristic such as location, age or size. The expense ratio for any given building varies on a case by case basis and can depend on many factors including revenues in place, historical maintenance programs, staff in place, etc..

3.1.3 STABILIZED CAPITALIZATION RATE

When an investor acquires a real estate property, they are essentially purchasing an expected future benefit. The most likely of future benefits is cash flow (annual) and capital gain or asset appreciation over the holding period which is realized at the time of disposition.

Once the normalized or stabilized revenue and expenses have been forecast, a review of market transactions for similar properties is necessary. A list of market comparable transactions can take many forms. The Altus Group database exports are similar chart to the following:

Complex Address	Closing Date Firm Date Adjusted Price Status	Building Type Number of Suites	$/Suite	Stabilized CR
Sample Apartments 123 Apple Street Vancouver, BC	6/1/2009 3/1/2009 $1,000,000 Closed	Low-Rise 10	$100,000	4.00%

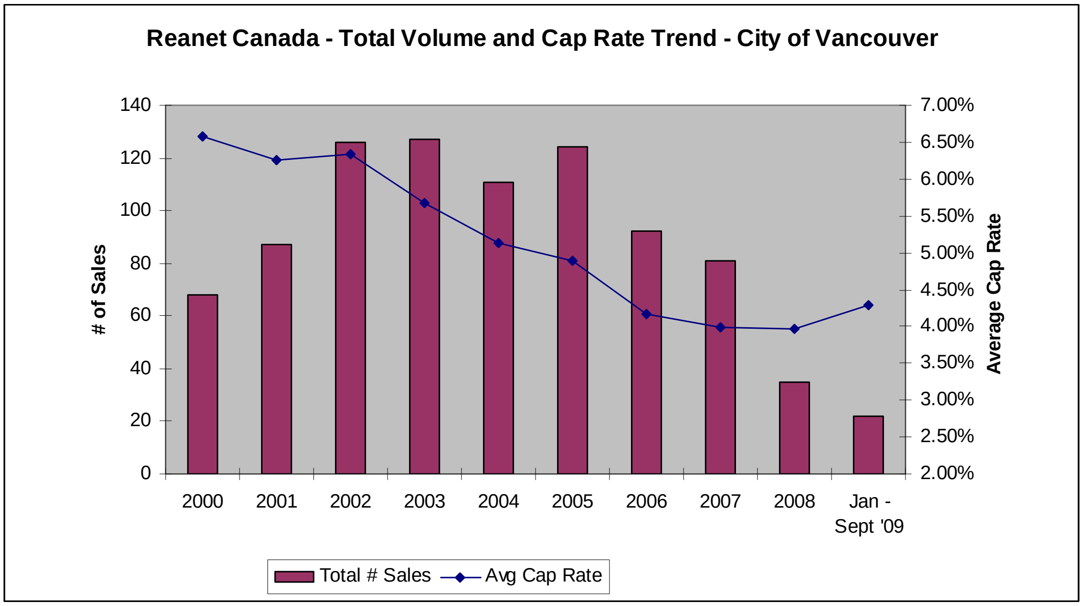
From this sale, the NOI would have been $40,000 per annum resulting in a capitalization rate of 4% (ie. return on investment based on the stabilized NOI). A market capitalization rate can then be applied to the investment property at hand using this type of chart (assuming more comparable sales would be included) as evidence of current market criteria.

Other than the rate of return there are a few additional financial units of comparison for multi-family properties. Price per suite, Gross Income Multiplier comparison and average income per unit are all typically considered when comparing an investment property to its competition. A description of these types of comparison has been included in the Definitions section of the Appendix.

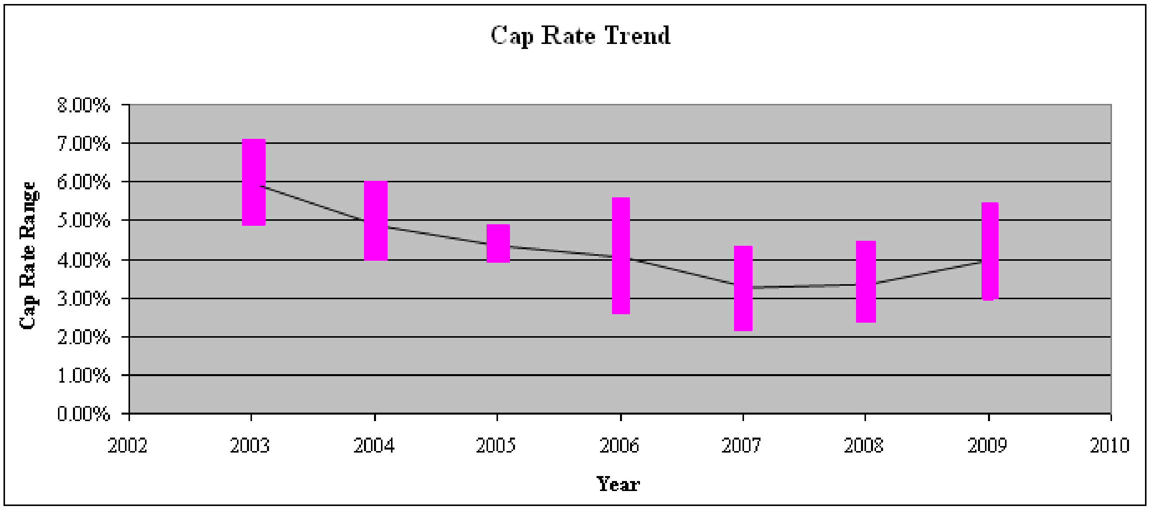
3.2 Analysis of Market Factors

3.2.1 INVESTMENT RETURNS

In order to provide an indication of market trends in recent years, we have reviewed transactions and capitalization rates from both our internal files as well as Realnet Canada. The following chart indicates the trend of average capitalization rates and volume of transactions as sourced from Realnet.

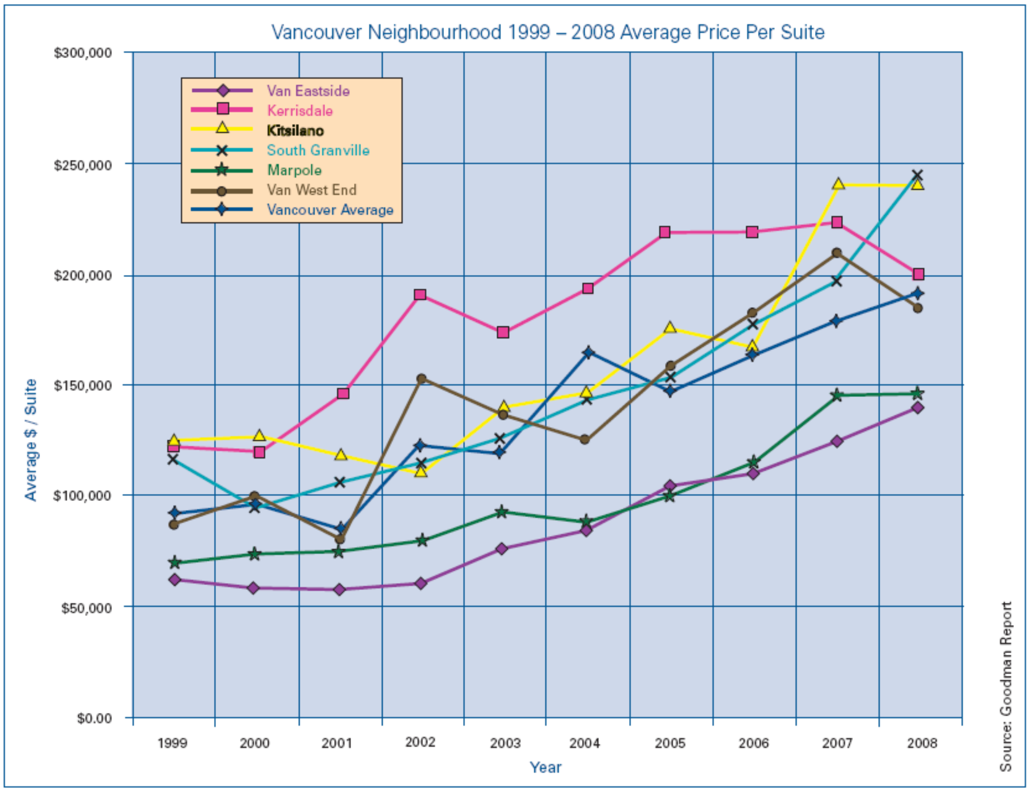


Our review of in-house files covers sales of multi-family properties in the City of Vancouver from January 2003 to September 2009. It is noted that this does not reflect a comprehensive sample of all sales in each year, rather a general trend that corroborates the Realnet data above. The sample size for the chart below is 55 sales.

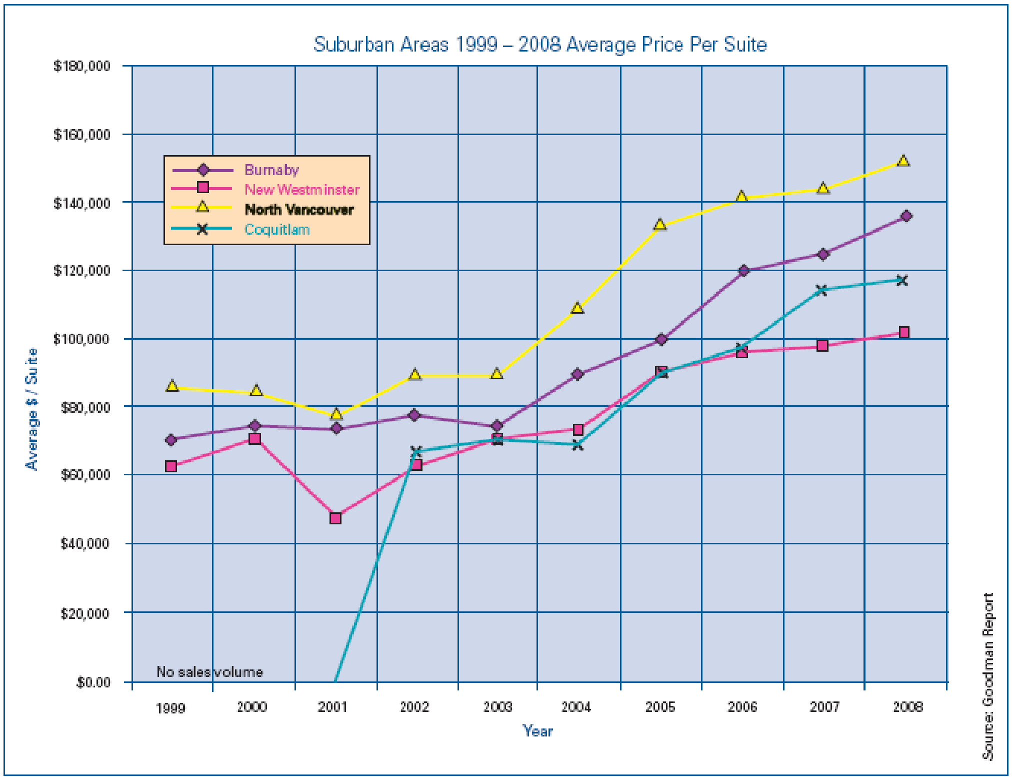


As can been seen from this analysis, stabilized capitalization rates had been trending downwards for a number of years in the City of Vancouver. This led to increases in market values for apartment buildings. Most recently, cap rates have begun to trend slightly upward (putting downward pressure on values) which is reflective of the economic slow down in the fall of 2008.

This trend can also be observed from our analysis of sales referred to in our review of Transaction Liquidity below. As a comparison between specific areas within the City of Vancouver, we have included a chart which compares the average price per suite for apartment buildings. This has been sourced from the Goodman Report 2008. The trend of increasing values over this period is reflected in this data.



Suburban area sales in the Lower Mainland show a similar trend when looking at the average price paid per suite for this asset class, albeit at a lower average rate.



3.2.2 TRANSACTION LIQUIDITY

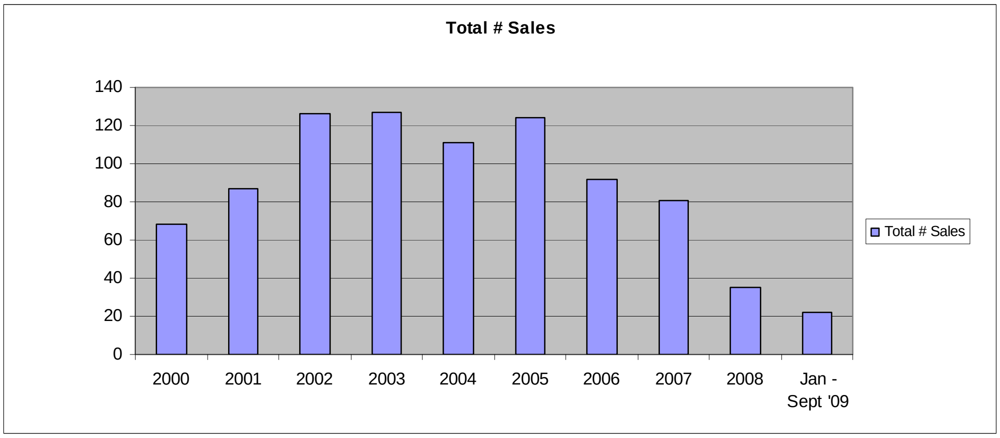
In order to provide a measure of the volume of transactions for this type of investment, we reviewed transactions of multi-family properties in the City of Vancouver from January 2000 to September 2009. This information has been sourced from Realnet Canada Inc. (http://www.realnet.ca/). A total of approximately 873 sales transacted within the City of Vancouver during this period. Hotel properties, Single Room Occupancy (SRO) properties and transactions below $250,000 were excluded from our analysis. We have also excluded any transactions deemed to be non-arms length or distress situations.

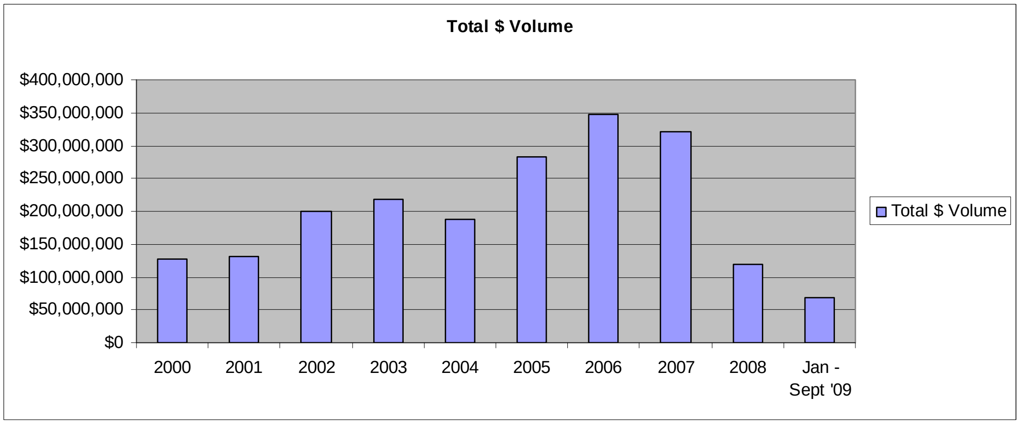
Details of each individual sale were compiled and the key elements of the data reviewed. The following is a summary of the information compiled:

	Total # Sales	Total # Units	Total $ Volume	Avg $ / Unit	Avg Cap Rate
2000	68	1,381	$127,272,317	$95,620	6.58%
2001	87	1,508	$131,482,186	$94,744	6.26%
2002	126	1,912	$200,923,459	$103,372	6.34%
2003	127	2,054	$217,396,572	$110,704	5.67%
2004	111	1,576	$188,813,350	$126,761	5.14%
2005	124	1,998	$283,139,417	$154,605	4.90%
2006	92	2,060	$347,676,041	$180,169	4.17%
2007	81	1,685	$321,916,295	$187,462	3.98%
2008	35	639	$120,149,700	$200,185	3.96%
Jan - Sept '09	22	342	$69,618,490	$196,832	4.29%
	873	15,155	$2,008,387,827		

** Source: Realnet Canada Inc.*

Graphs indicating the total transactions as well as dollar volumes have been included below:

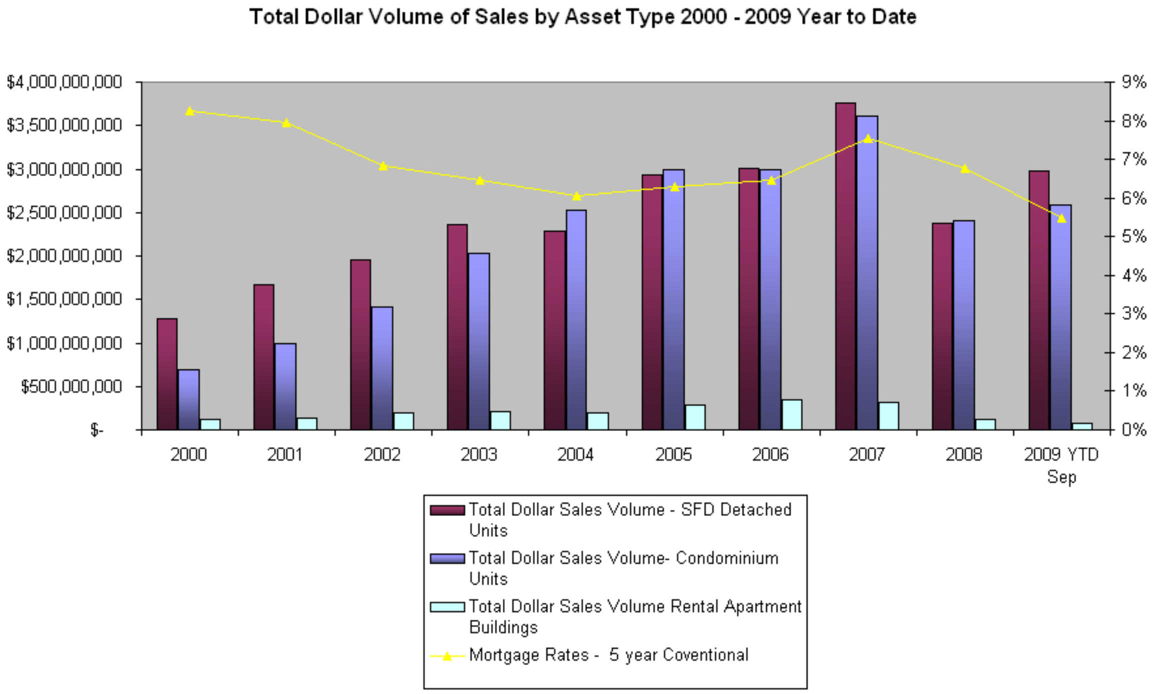




As can be seen from above, the multi-family market generally shows an increasing number of sales in dollar volume from 2000 through to the end of 2007. 2008 was a slower year with limited activity as compared to the previous number of years, a reflection of the general decline in market activity during that period.

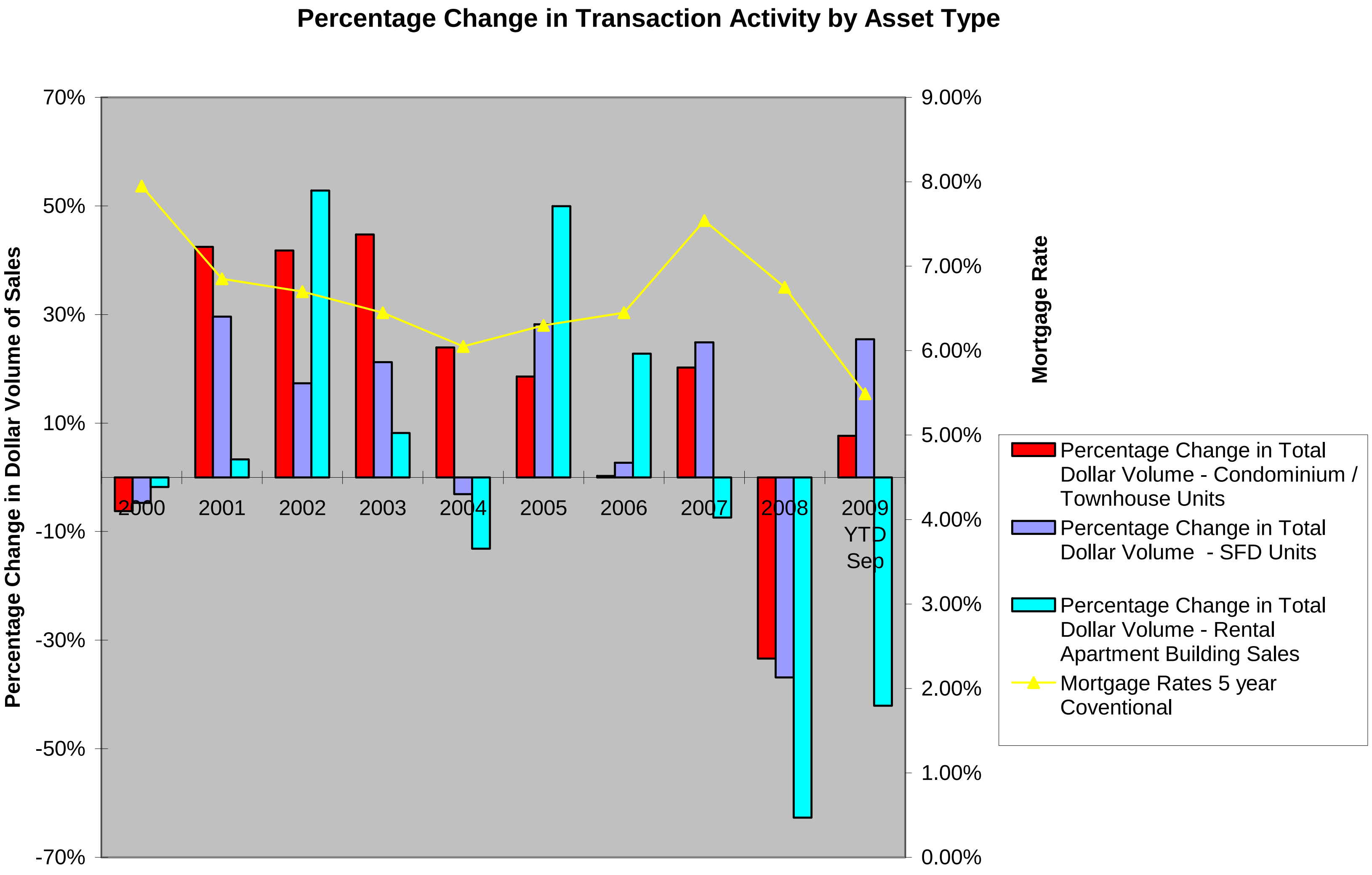
The number of transactions dipped from 81 in 2007 ($322 million in sales) to only 35 transactions ($120 million in sales). This can mostly be attributed to the slowdown in the residential market as well as the economic downturn in the fall of 2008.

In order to observe the general pattern of other aspects of the residential real estate market, we have also reviewed single family home sales and condominium sales in the City of Vancouver over the same period. As can be seen in the next chart, the multi-family investment market has exhibited a similar pattern to the residential market, though is lagging in its recovery. The City of Vancouver has seen a dramatic increase in number of sales as well as dollar volumes for 2009 in the ownership sector which have not been mirrored in the apartment investment market.



We have contrasted the total dollar volume of each asset type with conventional 5 year mortgage rates. The historical trend has been that dollar volumes generally increase as interest (or mortgage) rates decrease. This has been the case for single family homes, condominiums and rental apartment investment buildings as can be seen above. The inverse is true of 2008 where, despite a decrease in mortgage rates, there was limited activity in all sectors. This can be attributed to the tightening of capital markets and the overall economic slowdown. As described above, the multi-family investment market has lagged the other residential real estate types in recovery for 2009.

We have further refined the above data to show the percentage change in total dollar volume for each of the residential real estate types. This information is presented on the following page.


Percentage Change in Transaction Activity by Asset Type
Percentage Change in Dollar Volume of Sales
70%
50%
30%
10%
-10%
-30%
-50%
-70%
Mortgage Rate
9.00%
8.00%
7.00%
6.00%
5.00%
4.00%
3.00%
2.00%
1.00%
0.00%
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009 YTD Sep
Percentage Change in Total Dollar Volume - Condominium / Townhouse Units
Percentage Change in Total Dollar Volume - SFD Units
Percentage Change in Total Dollar Volume - Rental Apartment Building Sales
Mortgage Rates 5 year Coventional

Dollar volume changes have generally been less significantly positive for the multi-family investment market as compared to single family homes and attached (condominium and townhouse) units. As would be expected, the multi-family investment market showed a more significant decrease in dollar volume in 2008. Additionally, it has lagged the residential market year to date 2009.

3.3 Rental Rate & Vacancy Analysis

The only consistently available statistics on rental units and vacancy rates are those published by CMHC. In accordance with our terms of reference, we have undertaken a review of CMHC vacancy and average rental rate statistics. We have considered the period from 1998 to 2008. Further analysis of rents for our assumptions relating to the standardized models is included within Section 5.0. Our summary of the CMHC trends is as follows:

3.3.1 CMHC VACANCY RATES

According to the summary of vacancy statistics sourced from the CMHC *Rental Market Report – Vancouver CMA*, included below, over the period from 1998 to 2008, vacancy rates for the City of Vancouver as a whole fluctuated between 0.3% and 1.7% per annum. Vacancy rates have decreased over this period, peaking in 2003 at 1.7% and subsequently falling below 1.0% over 2004 to 2008. The most recent statistics for the City of Vancouver recorded vacancy at 0.3% in October 2008. Across Vancouver CMA vacancy rates were generally 0.3% to 0.7% higher than in the City of Vancouver proper. CMHC forecasts predicted an increase in vacancy across Vancouver CMA, jumping from 0.5% in 2008 to 1.2% in 2009.

HISTORICAL VACANCY ANALYSIS

CMHC - All Structures

Zone	Oct-98	Oct-99	Oct-00	Oct-01	Oct-02	Oct-03 [i]	Oct-04	Oct-05	Oct-06	Oct-07	Oct-08	Oct- 09 Forecast
West End / Downtown	0.9%	1.1%	0.4%	0.3%	0.6%	2.0%	0.5%	0.3%	0.2%	0.2%	0.2%	
South Granville / Oak	0.7%	1.0%	0.6%	0.9%	1.2%	1.0%	0.4%	0.3%	0.2%	0.3%	0.2%	
Kitsilano / Point Grey	0.7%	1.2%	0.5%	0.5%	1.4%	0.8%	0.4%	0.3%	0.0%	0.1%	0.1%	
Kerrisdale / Westside	0.7%	0.6%	0.4%	0.2%	0.9%	0.6%	0.6%	0.2%	0.1%	0.4%	0.3%	
Marpole	1.8%	1.9%	0.7%	0.3%	1.0%	2.2%	1.6%	1.5%	0.6%	0.8%	0.7%	
East Hastings	3.4%	3.4%	1.7%	1.6%	1.5%	2.2%	0.5%	2.1%	1.7%	1.0%	0.4%	
Mount Pleasant / Renfrew Heights [ii]	-	-	-	-	-	-	0.5%	1.2%	0.3%	1.1%	0.5%	
South East Vancouver & Area	3.2%	1.8%	0.9%	0.6%	1.4%	1.8%	1.1%	1.5%	0.4%	1.1%	0.5%	
City of Vancouver	1.5%	1.6%	0.8%	0.7%	1.1%	1.7%	0.6%	0.7%	0.3%	0.5%	0.3%	
Vancouver CMA	2.7%	2.7%	1.4%	1.0%	1.4%	2.0%	1.3%	1.4%	0.8%	0.7%	0.5%	1.20%

[i] *In 2004, area boundaries were redrawn according to Census boundaries. For the years 1998 to 2004, South East Vancouver & Area represented the 'Remainder Areas' of the City.*

[ii] *Prior to 2004, 'Mount Pleasant and Renfrew Heights Area' was included within East Hastings Area.*

In October 2008 (the most recently available published data), the lowest vacancy rates were recorded for the Downtown / West End, South Granville and Kitsilano / West End Neighbourhoods within the City of Vancouver, ranging from 0.1% to 0.2%. The highest vacancy rate, at 0.7%, was experienced by the Marpole area, which has trended above the City of Vancouver average since 2004. East Hastings, and South East Vancouver have also typically represented neighbourhoods with higher vacancy rates, peaking at 2.2% and 1.8% in 2003. In October 2008 these neighbourhoods were at 0.5% vacancy, slightly above the City of Vancouver average, but in line with the Vancouver CMA average in 2008.

Overall, the evidence indicates vacancy rates in the City of Vancouver have remained relatively low, reflecting a generally limited supply of rental units and strong demand conditions.

3.3.2 CMHC AVERAGE RENT LEVELS

Overview

The average monthly rents across all unit types sourced from the CMHC *Rental Market Report - Vancouver CMA* from 1998 to 2008 YTD, are shown in the following table. In reviewing the data it is important to understand what CMHC is measuring as the "average rent" and the source of that data. Discussions with representatives of CMHC indicated that the reported average rents are based on surveys of landlords and property managers rather than a statistical analysis of comprehensive financial information. The results are intended to serve as a gauge of the monthly rental amount the typical renter would pay for a unit within the various neighbourhoods, representing a combination of surveyed rents in place and asking rents for existing vacant units at the time of surveying. Because the figures derived represent both of these rental measures, they do not measure "market rent" as such.

AVERAGE CMHC RENTAL ANALYSIS - City of Vancouver 1998 -2008

Average Rents Across All Unit Types

Zone	1998	1999	2000	2001	2002	2003 [i]	2004	2005	2006	2007	2008
West End / Downtown	**$ 779**	**$ 785**	**$ 792**	**$ 835**	**$ 874**	**$ 896**	**$ 925**	**$ 941**	**$ 977**	**$ 1,018**	**$ 1,075**
South Granville / Oak	**$ 767**	**$ 768**	**$ 796**	**$ 782**	**$ 811**	**$ 820**	**$ 855**	**$ 895**	**$ 923**	**$ 963**	**$ 993**
Kitsilano / Point Grey	**$ 780**	**$ 799**	**$ 831**	**$ 837**	**$ 889**	**$ 895**	**$ 903**	**$ 920**	**$ 967**	**$ 1,038**	**$ 1,012**
Kerrisdale / Westside	**$ 922**	**$ 898**	**$ 925**	**$ 955**	**$ 1,015**	**$ 1,050**	**$ 1,020**	**$ 1,143**	**$ 1,157**	**$ 1,168**	**$ 1,222**
Marpole	**$ 627**	**$ 634**	**$ 631**	**$ 644**	**$ 672**	**$ 679**	**$ 706**	**$ 706**	**$ 734**	**$ 748**	**$ 789**
East Hastings	**$ 601**	**$ 590**	**$ 623**	**$ 660**	**$ 657**	**$ 683**	**$ 694**	**$ 691**	**$ 742**	**$ 729**	**$ 812**
Mount Pleasant / Renfrew Heights[ii]	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 741**	**$ 756**	**$ 765**	**$ 828**
South East Vancouver & Area[iii]	**$ 840**	**$ 853**	**$ 870**	**$ 923**	**$ 923**	**$ 929**	**$ 954**	**$ 867**	**$ 901**	**$ 924**	**$ 926**
City of Vancouver[i]	**$ 746**	**$ 750**	**$ 769**	**$ 793**	**$ 828**	**$ 845**	**$ 863**	**$ 878**	**$ 912**	**$ 945**	**$ 985**
Vancouver CMA	**$ 722**	**$ 725**	**$ 740**	**$ 768**	**$ 793**	**$ 805**	**$ 821**	**$ 835**	**$ 866**	**$ 898**	**$ 937**

[i] *In 2004, area boundaries were redrawn according to Census boundaries. For the years 1998 to 2004, South East Vancouver & Area represented the 'Remainder Areas' of the City.*

[ii] *Prior to 2004, 'Mount Pleasant and Renfrew Heights Area' was included within 'East Hastings Area' according to CMHC.*

[iii] *Prior to 2004, 'South East Vancouver & Area' represented the 'Remainder Areas' of the City according to CMHC*

The current average market rent indicated by the CMHC for the City of Vancouver is $985 per month, approximately $48 above average rents for the Vancouver CMA. Highest rents were recorded for the Kerrisdale / Westside neighbourhood at $1,222 per month, followed by Kitsilano Point Grey and West/End Downtown neighbourhoods at $1,012 and $1,075 respectively.

Rental Changes 2006 - 2008

A detailed breakdown by unit type and neighbourhood for the City of Vancouver is included overleaf for the years 2006 to 2008.

AVERAGE CMHC RENTAL ANALYSIS 2006

	Bachelor				One Bedroom				Two Bedroom				Three Bedroom				Total			
	2005	2006	%	Total Units	2005	2006	%	Total Units	2005	2006	%	Total Units	2005	2006	%	Total Units	2005	2006	%	Total Units
City of Vancouver	$701	$727	*3.58%*	*8,602*	$837	$868	*3.57%*	*37,071*	$1,192	$1,241	*3.95%*	*9,258*	$1,450	$1,533	*5.41%*	*735*	$878	$912	*3.73%*	*55,666*
Downtown/W.End	$738	$768	*3.91%*	*3,736*	$918	$948	*3.16%*	*14,275*	$1,413	$1,474	*4.14%*	*2,323*	$1,967	$2,031	*3.15%*	111	$941	$977	*3.68%*	*20,445*
South Granville Oak	$710	$722	**1.66%**	*1,305*	$858	$881	**2.61%**	*4,484*	$1,192	$1,254	**4.94%**	*1,388*	$1,507	$1,598	*5.69%*	*50*	$895	$923	**3.03%**	*7,627*
Kitsilano / Point Grey	$776	$816	**4.90%**	*964*	$867	$910	**4.73%**	*4,753*	$1,227	$1,288	**4.74%**	*1,293*	*	*	-	*63*	$1,143	$1,557	**26.59%**	*7,073*
Westside/Kerrisdale	$707	$729	**3.02%**	*208*	$946	$974	**2.87%**	*1,752*	$1,486	$1,488	**0.13%**	*1,019*	$2,093	$1,992	*-5.07%*	*115*	$1,143	$1,157	**1.21%**	*3,094*
Marpole	$591	$615	**3.90%**	*399*	$683	$712	**4.07%**	*2,904*	$875	$905	**3.31%**	*656*	$1,017	$1,194	*14.82%*	*22*	$706	$734	**3.81%**	*3,981*
Mount Pleasant / Renfew Heights	$603	$645	**6.51%**	*878*	$723	$729	**0.82%**	*4,144*	$912	$942	**3.18%**	*1,000*	$1,033	$1,066	*3.10%*	*120*	$741	$756	**1.98%**	*6,141*
East Hastings	$589	$601	**2.00%**	*880*	$672	$721	*6.80%*	*3,348*	$877	$955	*8.17%*	*907*	$920	$929	*0.97%*	*129*	$691	$742	*6.87%*	*5,264*
Southeast Vancouver	$688	$704	*2.27%*	*232*	$771	$794	*2.90%*	*1,011*	$1,059	$1,099	*3.64%*	*674*	$1,015	$1,151	*11.82%*	*124*	$867	$901	*3.77%*	*2,041*
Maximum			**6.51%**				**6.80%**				**8.17%**				**27.95%**				**26.59%**	
Minimum			**-0.25%**				**0.82%**				**-1.55%**				**-14.08%**				**1.21%**	

AVERAGE CMHC RENTAL ANALYSIS 2007

	Bachelor				One Bedroom				Two Bedroom				Three Bedroom				Total		
	2006	2007	%	*Total Units*	2006	2007	%	*Total Units*	2006	2007	%	*Total Units*	2006	2007	%	*Total Units*	2006	2007	%
City of Vancouver	$727	$760	*4.34%*	*8,922*	$868	$902	*3.77%*	*36,782*	$1,241	$1,283	*3.27%*	*8,733*	$1,533	$1,457	*-5.22%*	*605*	$912	$945	*3.49%*
Downtown/ W.End (Z. 1-3)	$768	$798	*3.76%*	*3,969*	$948	$995	*4.72%*	*14,287*	$1,474	$1,536	*4.04%*	*2,125*	$2,031	$2,276	*10.76%*	*78*	$977	$1,018	*4.03%*
South Granville Oak	$722	$732	*1.37%*	*1,378*	$881	$912	*3.40%*	*4,589*	$1,254	$1,334	*6.00%*	*1,332*	$1,598	$1,765	*9.46%*	*45*	$923	$963	*4.15%*
Kitsilano / Point Grey	$816	$876	*6.85%*	*1,093*	$910	$975	*6.67%*	*4,753*	$1,288	$1,409	*8.59%*	*1,256*	$2,048	$1,701	*-20.40%*	*54*	$967	$1,038	*6.84%*
Westside/Kerrisdale	$729	$736	*0.95%*	*200*	$974	$997	*2.31%*	*1,760*	$1,488	$1,551	*4.06%*	*958*	$1,992	$2,056	*3.11%*	*118*	$1,157	$1,168	*0.94%*
Marpole	$615	$642	*4.21%*	*383*	$712	$721	*1.25%*	*2,883*	$905	$929	*2.58%*	*718*	$1,194	$1,057	*-12.96%*	*31*	$734	$748	*1.87%*
Mount Pleasant / Renfew Heights	$645	$642	*-0.47%*	*784*	$729	$733	*0.55%*	*4,191*	$942	$954	*1.26%*	*1,086*	$1,066	$1,036	*-2.90%*	*106*	$756	$765	*1.18%*
East Hastings	$601	$677	*11.23%*	*910*	$721	$709	*-1.69%*	*3,339*	$955	$866	*-10.28%*	*730*	$929	$880	*-5.57%*	*183*	$742	$729	*-1.78%*
Southeast Vancouver	$704	$722	*2.49%*	*206*	$794	$829	*4.22%*	*1,044*	$1,099	$1,117	*1.61%*	*647*	$1,151	$1,054	*-9.20%*	*93*	$901	$924	*2.49%*
Maximum			*11.23%*				*6.67%*				*9.35%*				*27.04%*				*6.84%*
Minimum			*-0.47%*				*-1.69%*				*-10.28%*				*-20.40%*				*-1.78%*

AVERAGE CMHC RENTAL ANALYSIS 2008

	Bachelor				One Bedroom				Two Bedroom				Three Bedroom				Total			
	2007	2008	%	Total Units	2007	2008	%	Total Units	2007	2008	%	Total Units	2007	2008	%	Total Units	2007	2008	%	Total Units
City of Vancouver	$760	$779	2.44%	8,098	$902	$936	3.63%	36,840	$1,283	$1,318	2.66%	8,946	$1,457	$1,749	16.70%	558	$945	$985	4.06%	54,442
Downtown/W.End (Z. 1-3)	$798	$839	4.89%	3,693	$995	$1,047	4.97%	14,150	$1,536	$1,583	2.97%	2,240	$2,276	$2,389	4.73%	105	$1,018	$1,075	5.30%	20,188
South Granville / Oak	$753	$732	-2.87%	1,326	$912	$952	4.20%	4,686	$1,334	$1,364	2.20%	1,273	$1,765	$1,538	-14.76%	51	$963	$993	3.02%	7,336
Kitsilano / Point Grey	$876	$800	-9.50%	862	$975	$953	-2.31%	4,881	$1,409	$1,365	-3.22%	1,182	$1,701	$2,036	16.45%	33	$1,038	$1,012	-2.57%	6,957
Westside/Kerrisdale	$736	$763	3.54%	195	$997	$1,037	3.86%	1,752	$1,551	$1,562	0.70%	966	$2,056	$2,148	4.28%	97	$1,168	$1,222	4.42%	3,010
Marpole	$642	$663	3.17%	388	$721	$761	5.26%	2,858	$929	$967	3.93%	746	$1,057	$1,085	2.58%	18	$748	$789	5.20%	4,009
East Hastings	$677	$713	5.05%	757	$709	$770	7.92%	3,165	$866	$1,043	16.97%	898	$880	$991	11.20%	70	$729	$812	10.22%	4,889
Mount Pleasant / Renfrew Heights	$642	$620	-3.55%	727	$733	$778	5.78%	4,231	$954	$1,029	7.29%	974	$1,036	**	-	121	$765	$828	7.61%	6,053
Southeast Vancouver & Area	$722	$681	-6.02%	151	$829	$821	-0.97%	1,161	$1,117	$1,120	0.27%	688	$1,054	$1,141	7.62%	73	$924	$926	0.22%	2,074
Maximum			5.96%				7.92%				16.97%				27.95%				10.22%	
Minimum			-9.50%				-2.31%				-3.22%				-14.76%				-2.57%	

As indicated in the preceding charts, for the City of Vancouver average monthly rental rates across Bachelor units, ranged from around $701 per month in 2005, increasing to $779 in 2008. This represented an increased between 2.44% to 4.34% per annum. Average rents for One Bedroom units were recorded at $837 in 2005, increasing to $936 by 2008, representing a narrower range of increase of between 3.57% and 3.77% per annum. Average rents over 2005 to 2006 for Two Bedroom were approximately $1200 to $1300, while three bedroom units were in the range of around $1450 to $1750. In 2008, the increase in rent for two bedroom units was lower than one bedroom units, at 2.66%. Higher fluctuations were recorded for the increase in rent associated with three bedroom units, 16.70% in 2008, after a decline in 2007 of -5.22%; however this is likely due in part to the higher sensitivity to each observation as there is a relatively small inventory of three bedroom rental units across the City in comparison to other unit types.

Rental Changes 1998 - 2008

The recorded average rental rate growth for the period from 1998 to 2008, calculated from the change in average rents year over year, is summarized below. According to the figures, average rental rates increased in every year of the period within the City of Vancouver.

AVERAGE CMHC RENTAL GROWTH ANALYSIS - City of Vancouver 1998 -2008
Average Rental Growth Across All Unit Types

Zone	1998	1999	2000	2001	2002	2003 [i]	2004	2005	2006	2007	2008	High	Low
West End / Downtown	0.77%	0.89%	5.43%	4.67%	2.52%	3.24%	1.73%	3.83%	4.20%	5.60%		5.60%	0.77%
South Granville / Oak	0.13%	3.65%	-1.76%	3.71%	1.11%	4.27%	4.68%	3.13%	4.33%	3.12%		4.68%	-1.76%
Kitsilano / Point Grey	2.44%	4.01%	0.72%	6.21%	0.67%	0.89%	1.88%	5.11%	7.34%	-2.50%		7.34%	-2.50%
Kerrisdale / Westside	-2.60%	3.01%	3.24%	6.28%	3.45%	-2.86%	12.06%	1.22%	0.95%	4.62%		12.06%	-2.86%
Marpole	1.12%	-0.47%	2.06%	4.35%	1.04%	3.98%	0.00%	3.97%	1.91%	5.48%		5.48%	-0.47%
East Hastings	-1.83%	5.59%	5.94%	-0.45%	3.96%	1.61%	-0.43%	7.38%	-1.75%	11.39%		11.39%	-1.83%
Mount Pleasant / Renfrew Heights[ii]	-	-	-	-	-	-	-	2.02%	1.19%	8.24%		8.24%	1.19%
South East Vancouver & Area[iii]	1.55%	1.99%	6.09%	0.00%	0.65%	2.69%	-9.12%	3.92%	2.55%	0.22%		6.09%	-9.12%
City of Vancouver	0.54%	2.53%	3.12%	4.41%	2.05%	2.13%	1.74%	3.87%	3.62%	4.23%		4.41%	0.54%
Vancouver CMA	0.42%	2.07%	3.78%	3.26%	1.51%	1.99%	1.71%	3.71%	3.70%	4.34%	8.63%[iv]	4.34%	0.42%

[i] *In 2004, area boundaries were redrawn according to Census boundaries. For the years 1998 to 2004, South East Vancouver & Area represented the 'Remainder Areas' of the City.*

[ii] *Prior to 2004, 'Mount Pleasant and Renfrew Heights Area' was included within 'East Hastings Area' according to CMHC.*

[iii] *Prior to 2004, 'South East Vancouver & Area' represented the 'Remainder Areas' of the City according to CMHC*

[iv] *The 2008 growth rate is reported from the Spring 2009 CMHC Rental Market Report from April 2008-2009*

3.3.3 CONCLUSION

Because of the survey methods described, this rental growth data is considered most useful to indicate trends over a longer term, rather than being a precise indication of short-term trends or an absolute reference for specific unit types and neighbourhoods at a particular point in time. Compounded annual growth rates over the 10 year period across neighbourhoods, as summarized in the table below, ranged between 0.98% and 3.27% per annum.

ANNUAL COMPOUND RENTAL GROWTH RATES 1998 - 2008

Zone	Per Annum Compounded
West End / Downtown	**3.27%**
South Granville / Oak	**2.62%**
Kitsilano / Point Grey	**2.64%**
Kerrisdale / Westside	**2.86%**
Marpole	**2.32%**
East Hastings	**3.05%**
Renfrew Heights[i]	**-**
South East Vancouver & Area[ii]	**0.98%**
City of Vancouver	**2.82%**
Vancouver CMA	**2.64%**

[i] *Prior to 2004, 'Mount Pleasant and Renfrew Heights Area' was included within 'East Hastings Area' according to CMHC.*

[ii] *Prior to 2004, 'South East Vancouver & Area' represented the 'Remainder Areas' of the City.*

The second highest increase over the 1998 to 2008 period was for East Hastings, with a compound annual growth rate of 3.05%, however this result is skewed by recent rental increases over the 2005 to 2007 period, during which some locations within this area experienced a period of revitalization and renewal. Kerrisdale / Westside indicated a compound annual growth rate of 2.86% per annum over the 10 year period, with South Granville and Kitsilano areas averaging 2.62% and 2.64% respectively. The lowest rental rate increases were recorded within the Southeast Vancouver & Area neighbourhood, which indicated approximately 0.98% per annum over the same 10 year period. The rental growth rate for the City of Vancouver, as a whole, over 1998 to 2008 was calculated to be 2.82% per annum compounded.

In a later section, we considered the relationship between rental growth rates as identified above and inflation (CPI) rates over this period.

4.0 STAKEHOLDER & FINANCE INTERVIEWS

As part of our analysis, we have undertaken a series of interviews of market participants to collect feedback regarding the investment objectives and issues impacting the financial viability of the existing purpose built rental stock within the City of Vancouver.

4.1 Selection of Interview Participants

Two separate streams of participants were targeted for commentary. A 'Stakeholder Interview' was conducted to obtain information regarding financing constraints, investor objectives, rental policy issues, and typical building characteristics relating to turn over of units, and percentage rent increases. The following is a general list of the types of participants targeted:

4.1.1 STAKEHOLDER INTERVIEW CONTACTS:

- *Investment Brokers from local brokerage houses including Colliers, Avison Young, Cushman & Wakefield, MacDonald Commercial, Re/Max*
- *Property Managers*
- *Senior Asset Managers at REITS / Pension Funds*
- *Acquisition Managers*
- *Owners of Multi-Residential Assets*

A second interview process was directed at the lending community to obtain commentary regarding general lending practices and to support suitable model assumptions relating to typical financing terms (loan to value ratios, amortization terms, interest rates) and conditions to be incorporated in the standardized models outlined in Section 5.0. The following is a general summary of the types of participants targeted for this survey:

4.1.2 FINANCE INTERVIEW CONTACTS:

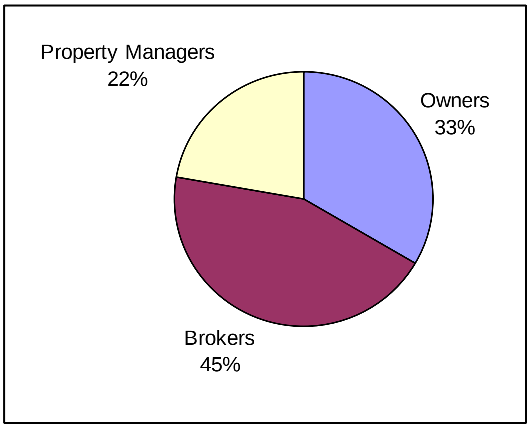
- *Mortgage Brokers*
- *Chartered Bank Lenders*
- *Private Lenders*
- *Mortgage Insurers*

4.2 Interview Process

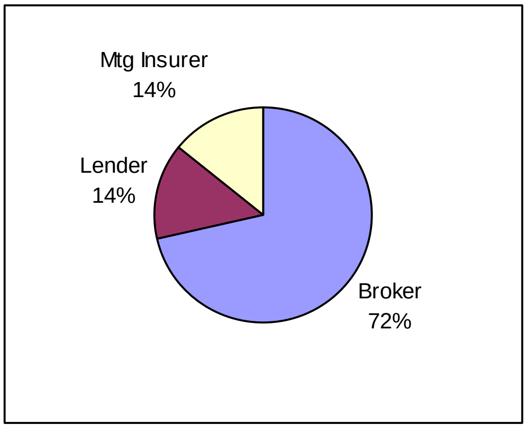
Participants were contacted over a series of weeks via email and telephone. Interviews were then conducted with the above participants to obtain feedback on a variety of issues. A copy of the series of questions posed to each group has been included in the Appendix, Tab B.

A total of 31 participants were targeted, with responses collected from 22 participants. The breakdown of contacts by type for which we obtained responses is as follows:

Stakeholder Interview Responses



Finance Interview Responses



The responses from this interview process have been incorporated throughout our report, as they relate to the specific sections of our analysis. A full summary of the responses is included in the Appendix at Tab B.

5.0 ANALYSIS OF RETURNS ON INVESTMENT IN MULTI FAMILY PROPERTY

This part of our report looks at the investment returns a purchaser of each of three prototypical multi-residential properties may be expected to achieve over a 20 year period. Although considered to be representative of the specified property types, it is emphasized that the analysis is not intended to relate to actual buildings and any values shown here should not be interpreted as such.

In order to analyze the expected returns, the following steps have been taken:

- Selection of three building prototypes
- Review of assumed physical characteristics
- Review of market parameters such as market rents, operating costs and capitalization rates in order to establish the initial investment (purchase price) and future disposition price.
- Analysis of anticipated rental income and expenses
- Consideration of financing and taxation parameters and their impact on annual cash flows
- Creation of a 20 year cash flow models for each of the three property types
- Analysis of investment returns using selected criteria

Each of these steps will be discussed in greater detail in the following section.

5.1 Selection of Building Prototypes

In selecting appropriate prototypical buildings for our analysis, we have consulted with Altus Group Cost Division regarding their "Building Condition and Major Repair Requirements Study" (2B) as well as the Database of properties provided by the City of Vancouver and supplemented by Coriolis Consulting. We have selected two low rise building and one high rise. They are located in Mount Pleasant (20% of units), Kitsilano (24.5% of units) and the West End area (29.8% of units). These property types were selected because they fell within the areas with the highest number of apartment units as previously described in our report.

The selection of buildings was further refined in order to identify the most common building type in these neighbourhoods. Study 2 (B) categorized the City's rental properties in each neighbourhood by age and height: low rise (four storeys and below) and mid to high rise (5 storeys and greater). Within the three neighbourhoods selected above, those with the largest share of total units within their age category were labeled "K 1" for Kits, "MP 1" for Mount Pleasant and "W 1" for West End as shown in the following charts.

Four Storeys or Less - Summary of Properties and Units

	West End		**Kitsilano**		**Mount Pleasant**	
Year Built		Number of Units		Number of Units		Number of Units
Pre 1901		12		11		51
1901 to 1910		314		103		383
1911 to 1920		46		331		489
1921 to 1930		435		933		99
1931 to 1940		256		198		13
1941 to 1950		234		402		23
1951 to 1960		2,244		1,919		430
1961 to 1970		209	K1	3,913	MP1	4,198
1971 to 1980		202		1,009		1,965
1981 to 1990		0		134		194
1991 to 2000		0		390		108
2001 to 2009		0		43		49
Total		**3,952**		**9,386**		**8,002**

Five Storeys or More - Summary of Properties and Units

	West End		**Kitsilano**		**Mount Pleasant**	
Year Built		Number of Units		Number of Units		Number of Units
Pre 1901		0		0		0
1901 to 1910		298		0		14
1911 to 1920		201		117		106
1921 to 1930		0		0		0
1931 to 1940		145		0		0
1941 to 1950		0		0		45
1951 to 1960		2,153		0		0
1961 to 1970	W1	11,242		1,488		0
1971 to 1980		1,433		347		119
1981 to 1990		0		0		12
1991 to 2000		0		51		0
2001 to 2009		199		0		0
Total		**15,671**		**2,003**		**296**

Based on the above, the Altus Group Cost Division recommended the following specific building types within the three neighbourhoods.

Prototype Number	**Study 2B Reference**	**Location**	**Building Type**	**Construction Type**	**No. Suites**	**Approx. year built**	**Storeys**
MODEL 1	***Property # 11***	Kitsilano	Low Rise	Wood Frame	**39**	**1964**	3
MODEL 2	***Property # 18***	Mount Pleasant	Low Rise	Wood Frame	**11**	**1966**	3
MODEL 3	***Property # 25***	West End	High Rise	Concrete	**101**	**1969**	14 + Parkade

For each of the models, the template document was first populated with the assumptions regarding characteristics (site size, building suite mix, average suite size where available, number of parking stalls, etc.) of a typical building with a similar size, location and construction. Revenue and operating expense figures were projected for each along with financing assumptions assuming an acquisition at the start of the investment horizon. Tax and capital gain implications were considered throughout the horizon and specifically at disposition of the assumed holding term of 20 years.

Each of the input categories have been explained in further detail in the following section of the report.

5.2 Summary of Inputs

5.2.1 OVERVIEW

Building Characteristics

As previously described, our prototype buildings have been selected as follows:

Model One:	Low Rise Kitsilano
Model Two:	Low Rise Mount Pleasant
Model Three:	High Rise West End

For each property, a prototype was selected from Study 2B. The property numbers from the Cost Division report related to Models 1 – 3 are #11, #18, #25. All building suite breakdowns and number of total units were sourced from this study. If specific suite sizes were available, they were incorporated. Otherwise we have estimated an average suite size for each type based on the total gross area and the total number of units.

Elements of the Cash Flow

Annual cash flows are a function of five principal components:

- The annual income resulting from the rent of the units plus ancillary income, less operating costs and property taxes (Net Operating Income or NOI)
- Capital and other costs not included in the operating costs used in the NOI analysis
- The purchase and sale price at the beginning and end of the investment period
- Financing and debt service costs
- Income taxes.

The derivation of the figures and assumptions used in our model for each of the above components is discussed in the following sections.

5.2.2 ANNUAL NET OPERATING INCOME

In our analysis the estimate of NOI is used in two ways: first to define the stabilized annual income for deriving the acquisition price at the beginning of the cash flow period and second to provide the basis for the cash flow in each year during that period. The elements of the NOI are rental revenue, operating costs and property taxes. These elements are discussed next.

Revenue

- ***Market Rents - Apartments***

  Suite rentals are the primary source of revenue, together with ancillary income such as laundry and parking. Suite rents will typically be at market or below market. The potential for rentals to increase is therefore a factor affecting the cash flow projections. The method by which this potential can be reflected is one of the main factors of analysis in an investment decision.

  In our analysis, market rents have been estimated for each unit type in each area (Kits, Mt. Pleasant and the West End). These rates have been selected based on an analysis of the CMHC data reviewed in section 3.0, and neighbourhood market surveys for existing buildings completed by the Altus Group. These surveys (3) have been included in Appendix Tab C. The rents incorporated for each model and each unit type are therefore as shown on the following chart.

  As noted in a previous section of this report, the rents measured by CMHC reflect a combination of both rents in place and asking rents for vacant units. The average rent reported therefore tends to be lower than market rent, but the data is typically used to provide general guidance for owners and investors.

Market Rents for Prototype

	MODEL 1 (Kits LR)				***MODEL 2 (Mt. Pleasant LR)***				***MODEL 3 (W.End HR)***			
Unit Type	**No. Units**	**CMHC Rent** [1]	**Survey Rent**	**Market Rent** [2]	**No. Units**	**CMHC Rent**	**Survey Rent**	**Market Rent**	**No. Units**	**CMHC Rent**	**Survey Rent**	**Market Rent**
Bachelor	19	$800	$1,000-1,150	$1,050	4	$620	$700-825	$800	0	n/a	n/a	n/a
One Bedroom	19	$953	$1,100-1,500	$1,200	7	$778	$800-1,050	$950	101	$1,031	$1,050-1,500	$1,150
Two Bedroom	1	$1,365	$1,400-1,725	$1,450	0	n/a	n/a	n/a	0	n/a	n/a	n/a
Three Bedroom	0	n/a	n/a	n/a	0	n/a	n/a	n/a	0	n/a	n/a	n/a

[1] CMHC rent based on Oct 2008 figures

[2] Market rent has been incorporated into the model for each prototype

- ***In Place Rents***

  For a number of reasons, average rents in-place (the rents actually paid by tenants at a particular point in time) are typically below the market rate.

  Because each of our models model represents a typical (but hypothetical) property within the City of Vancouver there is no actual rent roll data. Consequently, in order to establish an estimate of in place or contractual rents we have reviewed comparable sale transaction rent rolls and in-house files in order to establish a realistic assumption regarding the amount by which in-place rents would be below market rents.

  A review of the total in-place rent was conducted and compared to the market rent for each property type and has been summarized in the following chart.

CONTRACTUAL RENT VS. MARKET RENT

Index No.	Neighborhood	Type	No. of Suites	Average Contractual Rent / Suite	Average Market Rent / Suite	Contractual Rent as a % of Market Rent
Vancouver						
1	Eastside	Low-rise	42	$915	$966	94.7%
2	Downtown	High-rise	235	$1,635	$1,642	99.6%
3	South Granville	High-rise	135	$1,228	$1,265	97.0%
4	Kitsilano	Low-rise	48	$1,358	$1,394	97.4%
5	West End	High-rise	150	$921	$1,034	89.1%
6	West End	High-rise	170	$934	$1,051	88.9%
7	Cambie / South Van.	Low-rise	44	$1,774	$1,814	97.8%
8	Cambie / South Van.	Low-rise	140	$1,371	$1,557	88.1%
9	Cambie / South Van.	High-rise	84	$1,239	$1,393	88.9%
10	West End	Low-rise	29	$742	$786	94.5%
11	Mount Pleasant	Low-rise	12	$625	$829	75.4%
12	Marpole	Low-rise	17	$789	$865	91.2%
13	Mount Pleasant	Low-rise	14	$737	$868	84.9%
14	South Granville	Low-rise	44	$1,092	$1,180	92.5%
15	Mount Pleasant	Low-rise	16	$993	$1,015	97.8%
	Maximum					***99.6%***
	Minimum					***75.4%***
	Average Highrise					***77.3%***
	Average Lowrise					***91.4%***

From this analysis, we were able to estimate the in place rent as a percentage of market rent established previously for each property. We have incorporated the following parameters for each model based on the analysis above.

In Place Rent as a % of Market Rent

Kits	**Mt. Pleasant**	**West End**
90%	90%	87.5%

- ***Additional Revenue (Laundry & Parking)***

  Laundry has been forecast based on a stabilized value of $15 per suite. Parking has been assumed based on the rental survey included in the Appendix at Tab C. The average parking rates for each area are as follows:

Average Parking Rents per Stall per Month

Kits	**Mt Pleasant**	**West End**
$50	$30	$50

The Kitsilano (model 1) property is assumed to feature 6 surface stalls while the Mount Pleasant (model 2) property is assumed to feature 8 surface stalls. The West End property (model 3) assumes there is an underground parkade. We have reviewed the parking square footage and assumptions from the Altus Group Cost Division's report. As such, we have assumed a similar amount of stalls at approximately 1 per suite or 100 underground stalls.

- ***Vacancy & Rollover***

  Vacancy has been forecast for each prototype depending upon their location and the building type. Information has been sourced from CMHC data as well as information from our stakeholder surveys.

HISTORICAL VACANCY ANALYSIS

CMHC - All Structures

Zone	Oct-04	Oct-05	Oct-06	Oct-07	Oct-08
West End / Downtown	0.5%	0.3%	0.2%	0.2%	0.2%
Kitsilano / Point Grey	0.4%	0.3%	0.0%	0.1%	0.1%
Mount Pleasant / Renfrew Heights [ii]	0.5%	1.2%	0.3%	1.1%	0.5%
City of Vancouver	0.6%	0.7%	0.3%	0.5%	0.3%
Vancouver CMA	1.3%	1.4%	0.8%	0.7%	0.5%

Based on the above, we have incorporated a stabilized vacancy forecast of 0.5% for the West End and Kitsilano properties (models 1 & 3) and a 0.75% allowance for the Mount Pleasant property (model 2).

Operating Expenses and Property Taxes

In estimating operating expenses for the subject we have made reference to the following sources of information:

- *Operating cost data obtained from other similar buildings analyzed by our office*
- *The InSite Altus Investment Trends Survey ("ITS"), First Quarter 2009 and Third Quarter 2009*

The ITS is a quarterly survey of investors and decision makers in the real estate industry with regard to issues such as operating expenses, market conditions, and pricing as it pertains to an Altus benchmark building. The ***InSite Altus Investment Trends Survey*** describes an Altus benchmark suburban multiple unit residential building as:

- *150-300 suites, high-rise*
- *25 years old*
- *Well maintained with no deferred maintenance*
- *Good suburban location*
- *Good proximity to retail and transportation facilities*
- *Stabilized rents with stabilized operating expenses*
- *Average of 15-25% annual tenant turnover*
- *25% cash to first mortgage at current rents*

While the benchmark building is in Burnaby, it nonetheless provides some general perspective on operating costs for apartment buildings throughout the Lower Mainland.

- ***Management Fees (% of Effective Gross Revenue)***

  Within the Vancouver area, it is our experience that typical management fees range from 3.00% to 4.00% of gross income.

  Considering the quality of the subject building and the market evidence available we have adopted 3.50% of EGI as our management figure estimate for each of the three prototype buildings.

- ***Utilities***

  Utilities have been based on an estimated amount per suite. We have reviewed comparable properties to those of the three prototypes.

Utilities

	$ / Suite	**# of Suites**	**Utilities / Yr**
Model 1 - Kits	$1,000	39	$39,000
Model 2 - Mt Pleasant	$950	11	$10,450
Model 3 - West End	$1,100	101	$111,100

- ***Repair & Maintenance (R & M)***

  When considering an asset for purchase, we have observed that investors will typically rely more heavily on their own internal estimates of maintenance and repairs. The reason for this is that investors will generally consider the costs to be incurred based on individual management styles, which are likely to vary between investors. As the three prototype properties are hypothetical in nature, we have not been provided with any historical or budgeted figures for repairs and maintenance.

  It is our experience that the level and cost of maintenance will be largely dependant on the standard of the accommodation offered, age of improvements, scale, and degree of ongoing maintenance. For example, a luxury rental building would be expected to require a higher standard of maintenance.

We have reviewed the forecast of Repairs & Maintenance for other low and high rise properties in the area for each of the three properties. We have assumed each of the properties offer accommodation at a typical standard as compared to similar properties. Taking into account the moderate level of standard, scale, and amount of parking for each we have forecast the following figures on a price per suite per annum:

Repairs & Maintenance

	$ / Suite	**# of Suites**	**R&M / Yr**
Model 1 - Kits	$800	39	$31,200
Model 2 - Mt Pleasant	$800	11	$8,800
Model 3 - West End	$1,100	101	$111,100

- ***Staffing***

Our forecast results in a charge of $550 - $700 per suite per annum. These figures are generally within the range of the typical industry expectation. They are considered to be appropriate given the subject's unique location, large size, and calibre.

- ***Remaining Cost***

The remaining costs are relatively minor and relate to General & Administration, Insurance, and Advertising. Our forecast is based on a review of comparable properties and is tempered by our experience.

The operating expenses have been subtracting from the effective gross revenue to arrive at a stabilized net operating income (NOI) for each of the prototype properties. Each of the net operating incomes for each model in year one has been capitalized to arrive at a hypothetical value estimate. This figure is utilized in the model for income tax and capital gains purposes. A review of the selection process for a stabilized cap rate for each property is included in the following pages.

- ***Property Taxes***

Property taxes have been estimated by reference to properties similar to the prototype models.

- ***Summary***

Overall, the operating costs and taxes as a proportion of gross income are between 30% and 35% in our models. This is consistent with the analysis described earlier.

Capital Costs and Other Repairs and Maintenance

In estimating the value of the asset at the commencement and end of the investment period, it should be noted that remedial costs for major repair requirements are not typically deducted as an annual expense, nor are reserves for future replacements. The former (if requiring immediate attention) are considered as a single deduction from value at the time of purchase or sale, whilst the latter are not normally allowed for in the NOI estimated by typical investors and appraisers in considering value parameters.

In reality, well-maintained buildings are better able to maintain average to above-average market rents. Continued capital expenditures will contribute to the longevity of the building as an income-producing asset; however, the amounts of these expenditures are to some extent at the discretion of the owner. As noted above, in typical valuation practice using the income approach, no deduction is made for future capital expenditures in estimating a stabilized income. We have therefore adopted this approach in estimating the value of the asset at the start and end of the investment period. Nevertheless, because capital expenditure is needed during the investment period, and because we are projecting actual cash flow during that period, it has been necessary to allow for these costs as they are expected to occur in each year of the cash flow model.

In order to address the issue of amount and the frequency of these costs, Altus Group Cost Division has completed a review of capital and maintenance expenditure requirements on a building by building basis (Study 2B). Their conclusions have been used in our cash flow analyses. It is important to note that the total costs estimated by the Altus Group Cost Division in Study 2B include the elements already reflected in the Repairs and Maintenance component Operating Costs used to derive the NOI. We have therefore made allowance for this in estimating annual cash flows over the investment period.

The following extracts from Study 2B summarize the annual expenditures on capital and maintenance items anticipated over the 20 year investment period. Because of different tax treatments, we have differentiated between the capital items (major repairs such as a roof replacement) from those deemed to be expense items (typical repair and maintenance). Capital items are non-recurring in nature and are identified in blue on the following charts.

City Of Vancouver Rental Housing Study - 2B
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Expenditure Forecast

🟦 **- assumed to be a capital item (not expensed)**

Cost Ref #11	**Kitsilano Wood Frame**	
GFA	25,647	sq.ft.
Number of Suites	39	no.
Number of Stories	3	no.
Av. Suite area	658	sq.ft.
Replacement Cost	$4,206,026	total
	$164	per sq.ft.

MODEL 1

	Description		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	**Total**	**Notes**
																							$	
1	Maintenance & Repair		2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	**50,000**	projected historic trend (average)
2	Capital Upgrade						117,000											80,000					**197,000**	window replacement ($3k per suite), Exterior Siding
3	Roof			100,000																			**100,000**	re-roof
4	Parkade																						**0**	not applicable
5	HVAC				100,000																		**100,000**	boiler room upgrade planned
6	Electrical				3,000			21,000		3,000			3,000			3,000			3,000			3,000	**39,000**	projected historic trend & routine testing
7	Plumbing		321,168																				**321,168**	re-pipe planned
8	Elevators																						**0**	not applicable
9	Appliances		2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	**40,000**	Per suite ratio split over 10 years
10	Suites		6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	**120,000**	$1.5k per suite per 10 years
11	Painting & Decorating				50,000										50,000								**100,000**	exterior
12	Flooring							25,000										25,000					**50,000**	10 year cycle (last replaced 2004)
	TOTAL		**331,668**	**110,500**	**163,500**	**10,500**	**127,500**	**56,500**	**10,500**	**13,500**	**10,500**	**10,500**	**13,500**	**10,500**	**60,500**	**13,500**	**10,500**	**115,500**	**13,500**	**10,500**	**10,500**	**13,500**	**1,117,168**	
	% of total		30%	10%	15%	1%	11%	5%	1%	1%	1%	1%	1%	1%	5%	1%	1%	10%	1%	1%	1%	1%	100%	
	Cost per sq.ft.		$12.93	$4.31	$6.38	$0.41	$4.97	$2.20	$0.41	$0.53	$0.41	$0.41	$0.53	$0.41	$2.36	$0.53	$0.41	$4.50	$0.53	$0.41	$0.41	$0.53	$43.56	
	FCI																						27%	FCI (future costs/total RC)
	Cost/sq ft (10 year period)																						$ 4	per sq ft per annum

RVA Model 1 Assumptions	**Assumed Capital Items**	$321,168	$100,000	$100,000		$117,000											$80,000				
	Assumed R & M	$10,500	$10,500	$63,500	$10,500	$10,500	$56,500	$10,500	$13,500	$10,500	$10,500	$13,500	$10,500	$60,500	$13,500	$10,500	$35,500	$13,500	$10,500	$10,500	$13,500
	Total	**$331,668**	**$110,500**	**$163,500**	**$10,500**	**$127,500**	**$56,500**	**$10,500**	**$13,500**	**$10,500**	**$10,500**	**$13,500**	**$10,500**	**$60,500**	**$13,500**	**$10,500**	**$115,500**	**$13,500**	**$10,500**	**$10,500**	**$13,500**

Cost Ref #18	**Mount Pleasant Wood Frame**	
GFA	7,579	sq.ft.
Number of Suites	11	no.
Number of Stories	3	no.
Av. Suite area	689	sq.ft.
Replacement Cost	$1,136,850	total
	$150	per sq.ft.

MODEL 2

	Description		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	**Total**	**Notes**
																							$	
1	Maintenance & Repair		1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	**30,000**	Contingency sum
2	Capital Upgrade					22,000																	**22,000**	window replacement ($2k per suite)
3	Roof							15,000															**15,000**	re-roof
4	Parkade																						**0**	not applicable
5	HVAC									30,000													**30,000**	boiler and furnace replacement
6	Electrical			1,500			7,000			1,500			1,500			1,500			1,500			1,500	**16,000**	Contingency sum
7	Plumbing								50,000														**50,000**	re-pipe
8	Elevators																						**0**	not applicable
9	Appliances		1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	**20,000**	Per suite ratio split over 10 years
10	Suites		1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	**35,000**	$1.5k per suite (av 1 per annum over 10 years)
11	Painting & Decorating						7,000					15,000										22,000	**44,000**	exterior (10 year cycle)
12	Flooring				10,000										10,000								**20,000**	common areas
	TOTAL		**4,250**	**5,750**	**14,250**	**26,250**	**18,250**	**19,250**	**54,250**	**35,750**	**4,250**	**19,250**	**5,750**	**4,250**	**14,250**	**5,750**	**4,250**	**4,250**	**5,750**	**4,250**	**4,250**	**27,750**	**282,000**	
	% of total		2%	2%	5%	9%	6%	7%	19%	13%	2%	7%	2%	2%	5%	2%	2%	2%	2%	2%	2%	10%	100%	
	Cost per sq.ft.		$0.56	$0.76	$1.88	$3.46	$2.41	$2.54	$7.16	$4.72	$0.56	$2.54	$0.76	$0.56	$1.88	$0.76	$0.56	$0.56	$0.76	$0.56	$0.56	$3.66	$37.21	
	FCI																						25%	FCI (future costs/total RC)
	Cost/sq ft (10 year period)																						$ 4	per sq ft per annum

RVA Model 2 Assumptions	**Assumed Capital Items**				$22,000		$15,000	$50,000	$30,000												
	Assumed R & M	$4,250	$5,750	$14,250	$4,250	$18,250	$4,250	$4,250	$5,750	$4,250	$19,250	$5,750	$4,250	$14,250	$5,750	$4,250	$4,250	$5,750	$4,250	$4,250	$27,750
	Total	**$4,250**	**$5,750**	**$14,250**	**$26,250**	**$18,250**	**$19,250**	**$54,250**	**$35,750**	**$4,250**	**$19,250**	**$5,750**	**$4,250**	**$14,250**	**$5,750**	**$4,250**	**$4,250**	**$5,750**	**$4,250**	**$4,250**	**$27,750**

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Altus Group Cost Consulting
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Expenditure Forecast

🟦 **- assumed to be a capital item (not expensed)**

Cost Ref #25	**West End Concrete High Rise**	
GFA	55,275	sq.ft.
Number of Suites	101	no.
Number of Stories	14	no.
Av. Suite area	547	sq.ft.
Replacement Cost	$16,085,025	total
	$291	per sq.ft.

MODEL 3

	Description		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	**Total**	**Notes**
																							$	
1	Maintenance & Repair		4,500	24,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	**110,000**	projected historic trend (average)
2	Capital Upgrade					200,000	305,000							20,000									**525,000**	window upgrade 30 year cycle $5k/suite, Minor stucco repair
3	Roof				2,500				2,500														**5,000**	not due for replacement
4	Parkade		35,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	**206,000**	projected historic trend
5	HVAC				150,000																		**150,000**	boiler
6	Electrical		3,000					3,000	15,000			3,000			3,000			3,000			3,000		**33,000**	projected historic trend & infa-red testing
7	Plumbing																						**0**	repipe completed in 2002
8	Elevators											50,000											**50,000**	projected historic trend
9	Appliances		5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	**100,000**	projected historic trend
10	Suites		25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	**500,000**	$2.5k per suite
11	Painting & Decorating			20,000					202,000										202,000				**424,000**	exterior and interior @ a rate per suite
12	Flooring					50,000										50,000							**100,000**	10 year cycle (last updated 2002)
	TOTAL		**72,500**	**83,500**	**196,000**	**293,500**	**348,500**	**46,500**	**263,000**	**43,500**	**43,500**	**96,500**	**43,500**	**63,500**	**46,500**	**93,500**	**43,500**	**46,500**	**245,500**	**43,500**	**46,500**	**43,500**	**2,203,000**	
	% of total		3%	4%	9%	13%	16%	2%	12%	2%	2%	4%	2%	3%	2%	4%	2%	2%	11%	2%	2%	2%	100%	
	Cost per sq.ft.		$1.31	$1.51	$3.55	$5.31	$6.30	$0.84	$4.76	$0.79	$0.79	$1.75	$0.79	$1.15	$0.84	$1.69	$0.79	$0.84	$4.44	$0.79	$0.84	$0.79	$39.86	
	FCI																						14%	FCI (future costs/total RC)
	Cost/sq ft (10 year period)																						$ 4	per sq ft per annum

RVA Model 3 Assumptions	**Assumed Capital Items**			$150,000	$200,000	$305,000															
	Assumed R & M	$72,500	$83,500	$46,000	$93,500	$43,500	$46,500	$263,000	$43,500	$43,500	$96,500	$43,500	$63,500	$46,500	$93,500	$43,500	$46,500	$245,500	$43,500	$46,500	$43,500
	Total	**$72,500**	**$83,500**	**$196,000**	**$293,500**	**$348,500**	**$46,500**	**$263,000**	**$43,500**	**$43,500**	**$96,500**	**$43,500**	**$63,500**	**$46,500**	**$93,500**	**$43,500**	**$46,500**	**$245,500**	**$43,500**	**$46,500**	**$43,500**

Capitalization and Price

For each of the prototypes, it is necessary to estimate the purchase price at the beginning of the investment period and the selling price at the end. This is done by capitalizing the Stabilized Net Operating Income (NOI) at each of those dates, using the analysis described in the previous sections.

- ***Capitalization Rates***

A capitalization rate has been selected for each prototype based on their size, location, revenue and expense profile, etc. The source for this information is described in Section 3 of this report.

We have reviewed comparable transactions separated by neighbourhood (Kitsilano, Mount Pleasant and the West End) and by size / type in order to properly estimate an applicable stabilized capitalization range for each prototype.

Based on our analysis of the comparable sale transactions we have forecast the following cap rate ranges for each of the prototype properties:

Stabilized Capitalization Rate

	Cap Rate Range	Midpoint
Model 1 - Kits	3.75 - 5.25%	4.50%
Model 2 - Mt Pleasant	4.50 - 5.50%	5.00%
Model 3 - West End	4.00 - 5.00%	4.50%

- ***Selling Commissions***

In order to reflect net disposition revenue at the end of the investment period, brokerage fees associated with the sale have been allowed for in the last year of the cash flow models. Based on typical market parameters (including those identified in our questionnaire survey), we have adopted a real estate broker fee of 2.5% of the disposition price for the smaller assets and 2% for the larger West End asset.

Inflation Assumptions

Using the direct capitalization formula described above for the purpose of establishing the purchase price at the commencement of the investment period it is not necessary to project annual future income growth. In that context only the income for the first year of the cash flow period is relevant. However where projections of future cash flows are being made, consideration needs to be given to future growth in income and expenses. The basis for our assumptions is discussed next.

- ***In Place Rent Inflation Rate***

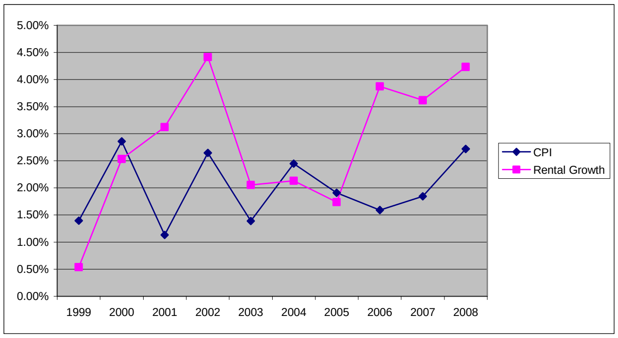
The Provincial Government sets the maximum allowable increase for conventional residential tenancies annually (typically released in the fall) for the following calendar year, permitting '*an Annual Rent Increase up to, but not greater than, the percentage amount calculated as follows: inflation rate* + 2%.' A statement was released August 31st, 2009 from the Residential Tenancy Branch of BC that the maximum allowable rent increase that takes effect in 2010 is 3.2 per cent, which assumes the inflation rate to be 1.2% for this period. The probable increase in rents in a building over time will therefore be a function of both the statutory permitted increases and the normal forces of supply and demand.

We have reviewed the general relationship between inflation and apartment rental rate growth within the City of Vancouver. The reported rental increase, sourced from CMHC statistics on average rents as discussed previously in the report, has been compared to the consumer price index recorded for the City of Vancouver for the period from 1999 to 2008. According to the graph of these two variables, apartment rental growth exhibits similar patterns of increases and decreases as CPI, however rental growth is shown to have experienced higher rates of increase, in the range of 2.82% (1999 – 2008) to 3.11% (2003 – 2008) per annum compounded, versus a 0.97% to 1.01% increase per annum associated with CPI for the same period.

Consumer Price Index Increase vs. Reported CMHC Rental Rate Increases - City of Vancouver

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Compounded Annual Change 2003 to 2008	Compounded Annual Change 1999 to 2008
Reported Rental Increase [i]	0.54%	2.53%	3.12%	4.41%	2.05%	2.13%	1.74%	3.87%	3.62%	4.23%	3.11%	2.82%
source: CMHC												
CPI Index	94.4	97.1	98.2	100.8	102.2	104.7	106.7	108.4	110.4	113.4		
CPI Increase	1.40%	2.86%	1.13%	2.65%	1.39%	2.45%	1.91%	1.59%	1.85%	2.72%	2.10%	1.85%
source: BC Stats												
Difference	-0.86%	-0.33%	1.99%	1.77%	0.66%	-0.32%	-0.17%	2.28%	1.77%	1.52%	1.01%	0.97%

[i]- *Rental Increase reported includes all unit types.*



Overall, based on the above comparison, and corroborated with discussions with market participants, we have assumed market rent inflation to be approximately 1.0% above the CPI of 1.2% for the period, which results in a forecast of 2.2% per year for the investment horizon in the prototype models. This is slightly below the maximum allowable rate per year in 2010 of 3.2%.

5.2.3 FINANCING ASSUMPTIONS

Up to this point we have described the way in which net income is estimated, before allowing for the annual costs of debt service. Real estate investments are typically financed and the ability to leverage the returns is an important aspect of the investment decision. This section summarizes the basis for our assumptions regarding financing and debt service.

Our primary source has been discussions with commercial mortgage brokers, conventional financing contacts and chartered bank contacts. Based on these discussions, we have assumed similar parameters for all three prototypes. We were advised there would be few differences between the prototype properties in the key elements of the loan such as loan to value ratio, amortization period and interest rate. In an established market such as Vancouver, loans are reportedly administered taking into account the covenant of the borrower as well as the multi-family property being financed or refinanced.

We were also informed that a high proportion of purchasers of apartment buildings secure CMHC insured loans as opposed to conventional loans. CMHC loans reportedly offer the borrower a lower interest rate as compared to conventional sources, but feature a premium or fee to be paid up front. We have therefore assumed CMHC financing incorporating a 2% premium (on loan amount) in our analysis for all three models. A 65% loan to value ratio has been used for each of the properties. A number of sources indicated that CMHC typically will provide loans up to 80% of the value of the property. However, CMHC's parameters are typically more stringent than market parameters resulting in a lower value and consequently lower loan value. Based on our discussions, an annual interest rate of 3.5% (compounded semi-annually) and a 25 year amortization period have also been incorporated.

5.2.5 TAX ASSUMPTIONS

The impact of tax on the cash flow is a function of the characteristics of the investor as well as those of the investment. An individual, for example, will pay a tax at a different rate to a corporation; the size of the corporation will also impact tax liability. Because of the complexity of the tax rules, we have considered it appropriate to focus on the most typical type of investment vehicle: a corporation subject to the typical corporate tax rate of 45.67% (in 2009). The principal assumptions we have made with respect to tax liability in this context are summarized next.

Income Tax

- Applied on taxable income (after Capital Cost Allowance) at the corporate rate of 45.67%.
- No allowance for refundable taxes.

Capital Cost Allowance (CCA)

- Assumed at 2% of allocated building value in first year (the "half-year rule"), 4% on previous balance of undepreciated cost in subsequent years.
- No specific allocation assumed for furnishings and equipment (impact on analysis assumed to be minor). Similar assumption made with respect to paving, fencing etc.
- Allocation of purchase price between land and buildings assumed to be based on typical ratio for assessment purposes. For the purpose of allocation on disposition, we have assumed the land would be attributed a higher component of the sale price (net of disposition costs).

- Building cost base assumed to be increased by the amount of capital expenditure (as defined above) in each year as incurred.
- Building value on disposition for CCA recapture purposes is calculated as being:

Original Building Value allocation
Plus: Capital expenditure
Less: Undepreciated Balance

Capital Gain

- One half of the Capital Gain on the two components (Land and Buildings) is included in income in the disposition year. The liability for each component is calculated separately.
- The Capital Gain on land is the difference between the allocated value on disposition and the allocated value at the commencement of the investment period.
- The Capital Gain on the buildings is the allocated price on disposition less the original (undepreciated) price plus capital expenditure.
- If there is a theoretical terminal loss on the building, the proceeds are re-allocated between land and buildings such that there is no building loss.

The above parameters have been included in the cash flow models which are discussed next.

5.3 Prototype Model Findings

Each of the three prototype models have been included below. Inputs have been discussed previously and a summary of return parameters is included.

Prototypical Apartment Building
Investment Pro Forma Worksheet
MODEL ONE - Low Rise Kitsilano

Building Information

Revenue Units	Count	Mkt $/Mth	Avg Size
Bachelor	20	$ 1,050.00	515
1 Bedroom	18	$ 1,200.00	675
2 Bedroom	1	$ 1,450.00	900
3 Bedroom	-	$ -	0
	39	$ 1,129.49	599
Site Area (Acres)	0.5		
Building Efficiency Factor	90.0%		
Site Coverage % Est.	39.7%		
Storeys	3.0		
Building Area (Buildable)	25,944		
Building Area (Rentable)	23,350		
Parking Revenue $ / Stall / Month	$ 50.00		
Number of Stalls	6		
Laundry Revenue / Unit / Month	$ 15.00		
In Place Rent as % of Market	90.0%		
Percentage Rollover Per Year	30.0%		
Vacancy Factor	0.5%		
Overall Capitalization Rate	4.5%		
Selling Costs	2.5%		
Net Operating Income Year 1	$ 348,670		
Capitalized Value	$ 7,750,000		
Capitalized Value Less Capital Expenditure *(Year 1)*	$ 7,430,000		

Financing Information

Original Loan to Value Proposed	65.0%
Loan to Value Ratio	65.0%
Loan Value	5,037,500
CMHC Premium	2.0%
Loan Value incl CMHC Premium	5,138,250
Nominal Rate (comp.semi-annually)	3.50%
Effective Rate	3.53%
Nominal Monthly Rate	3.474749%
Amortization Period (years)	25.00

Tax Information

CCA Rate	4.0%
1/2 Year Rule CCA Rate	2.0%
Selling Year CCA Rate	0.0%
Tax Rate	45.7%
Capital Gains Inclusion Rate	50.0%

Inflation Information (Annual)

Market Rent Inflation	2.20%
Expense Inflation	2.20%
Capital Program Inflation	2.20%

Model Cash Flow				Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20
Pro Forma Stabilized Unit Income				491,598	502,415	513,469	524,766	536,312	548,112	560,171	572,495	585,091	597,964	611,120	624,565	638,306	652,350	666,702	681,370	696,361	711,681	727,339	743,341
Parking Revenue				3,600	3,679	3,760	3,843	3,927	4,014	4,102	4,192	4,285	4,379	4,475	4,574	4,674	4,777	4,882	4,990	5,099	5,212	5,326	5,443
Laundry Revenue				7,020	7,174	7,332	7,494	7,658	7,827	7,999	8,175	8,355	8,539	8,727	8,919	9,115	9,315	9,520	9,730	9,944	10,163	10,386	10,615
Potential Gross Revenue				502,218	513,269	524,561	536,103	547,898	559,952	572,272	584,863	597,731	610,881	624,322	638,057	652,095	666,442	681,104	696,089	711,404	727,055	743,051	759,399
Less:																							
Vacancy & Collection Loss @	0.5%			(2,511)	(2,566)	(2,623)	(2,681)	(2,739)	(2,800)	(2,861)	(2,924)	(2,989)	(3,054)	(3,122)	(3,190)	(3,260)	(3,332)	(3,406)	(3,480)	(3,557)	(3,635)	(3,715)	(3,797)
Effective Gross Revenue (EGR)				**499,707**	**510,702**	**521,939**	**533,422**	**545,158**	**557,153**	**569,411**	**581,939**	**594,742**	**607,827**	**621,200**	**634,867**	**648,835**	**663,110**	**677,699**	**692,609**	**707,847**	**723,420**	**739,336**	**755,602**
Total Expenses	**3,873**	**30.2%**	**151,037**	**151,037**	**154,360**	**157,756**	**161,226**	**164,773**	**168,398**	**172,103**	**175,889**	**179,759**	**183,713**	**187,755**	**191,886**	**196,107**	**200,422**	**204,831**	**209,337**	**213,943**	**218,649**	**223,460**	**228,376**

				Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20
Net Operating Income				**348,670**	**356,343**	**364,183**	**372,196**	**380,385**	**388,754**	**397,308**	**406,049**	**414,983**	**424,114**	**433,445**	**442,981**	**452,728**	**462,688**	**472,868**	**483,272**	**493,904**	**504,771**	**515,876**	**527,226**
Capital and Expense Items		**Year Start**	**Term (Yrs)**																				
Annual Budgeted Capital and Expense Programme																							
Expense Items	From Cost Report	1	20	10,500	10,731	66,325	11,208	114,558	62,995	11,965	15,721	12,497	12,772	16,782	13,340	78,554	17,914	14,240	49,203	19,123	15,200	15,535	20,413
Less Repairs and Maintenance (from Operating costs)				31,200	31,886	32,588	33,305	34,038	34,786	35,552	36,334	37,133	37,950	38,785	39,638	40,510	41,402	42,312	43,243	44,195	45,167	46,161	47,176
Net Annual Expense				(20,700)	(21,155)	33,737	(22,096)	80,521	28,208	(23,587)	(20,612)	(24,636)	(25,178)	(22,003)	(26,298)	38,043	(23,487)	(28,073)	5,960	(25,072)	(29,966)	(30,626)	(26,763)
Capital Items	From Cost Report	1	20	321,168	102,200	104,448		127,641											110,880				
Total Capital and Expense items				300,468	81,045	138,185	(22,096)	208,161	28,208	(23,587)	(20,612)	(24,636)	(25,178)	(22,003)	(26,298)	38,043	(23,487)	(28,073)	116,840	(25,072)	(29,966)	(30,626)	(26,763)
Net Income before Tax and Financing				48,202	275,298	225,998	394,292	172,224	360,546	420,895	426,662	439,620	449,292	455,448	469,280	414,684	486,176	500,941	366,432	518,976	534,737	546,502	553,990
Financing and Taxes																							
Less: Income Taxes Payable				68,468	58,450	63,390	68,478	75,669	80,649	88,182	95,846	103,647	111,592	119,689	127,944	136,365	144,958	153,731	162,693	169,824	179,265	188,914	216,197
Less: Mortgage Payments				307,845	307,845	307,845	307,845	307,845	307,845	307,845	307,845	307,845	307,845	307,845	307,845	307,845	307,845	307,845	307,845	307,845	307,845	307,845	307,845
After Tax Cash Flow (ATCF)				**(328,111)**	**(90,997)**	**(145,237)**	**17,969**	**(211,290)**	**(27,948)**	**24,868**	**22,971**	**28,128**	**29,855**	**27,914**	**33,491**	**(29,525)**	**33,373**	**39,364**	**(104,106)**	**41,307**	**47,627**	**49,743**	**29,948**

Equity IRR - After Tax and Debt Service	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20
Equity Investment	(2,392,500)																				
After Tax Cash Flow		(328,111)	(90,997)	(145,237)	17,969	(211,290)	(27,948)	24,868	22,971	28,128	29,855	27,914	33,491	(29,525)	33,373	39,364	(104,106)	41,307	47,627	49,743	29,948
After Tax Equity Reversion																					9,220,696
Net Annual Cash Flow	(2,392,500)	(328,111)	(90,997)	(145,237)	17,969	(211,290)	(27,948)	24,868	22,971	28,128	29,855	27,914	33,491	(29,525)	33,373	39,364	(104,106)	41,307	47,627	49,743	9,250,644
Equity IRR Calculation	**5.88%**																				
Unlevered IRR - Before Tax and Debt Service																					
Purchase Price	(7,430,000)																				
NOI (Assuming Cap Ex per Study 2B)		48,202	275,298	225,998	394,292	172,224	360,546	420,895	426,662	439,620	449,292	455,448	469,280	414,684	486,176	500,941	366,432	518,976	534,737	546,502	553,990
Sale Price																					11,674,556
Net Annual Revenue	(7,430,000)	48,202	275,298	225,998	394,292	172,224	360,546	420,895	426,662	439,620	449,292	455,448	469,280	414,684	486,176	500,941	366,432	518,976	534,737	546,502	12,228,546
Unlevered IRR Calculation	**6.39%**																				

Prototypical Apartment Building
Investment Pro Forma Worksheet

MODEL TWO - Low Rise Mount Pleasant

Building Information

Revenue Units	Count	Mkt $/Mth	Avg Size
Bachelor	4	$ 800.00	550
1 Bedroom	7	$ 950.00	650
2 Bedroom	-	$ -	
3 Bedroom	-	$ -	0
	11	$ 895.45	614
Site Area (Acres)	0.17		
Building Efficiency Factor	90.0%		
Site Coverage % Est.	33.8%		
Storeys	3.0		
Building Area (Buildable)	7,500		
Building Area (Rentable)	6,750		
Parking Revenue $ / Stall / Month	$ 30.00		
Number of Stalls	8		
Laundry Revenue / Unit / Month	$ 15.00		
In Place Rent as % of Market	90.0%		
Percentage Rollover Per Year	30.0%		
Vacancy Factor	0.75%		
Overall Capitalization Rate	5.0%		
Selling Costs	2.5%		
Net Operating Income Year 1	$ 74,218		
Capitalized Value	$ 1,480,000		

Financing Information

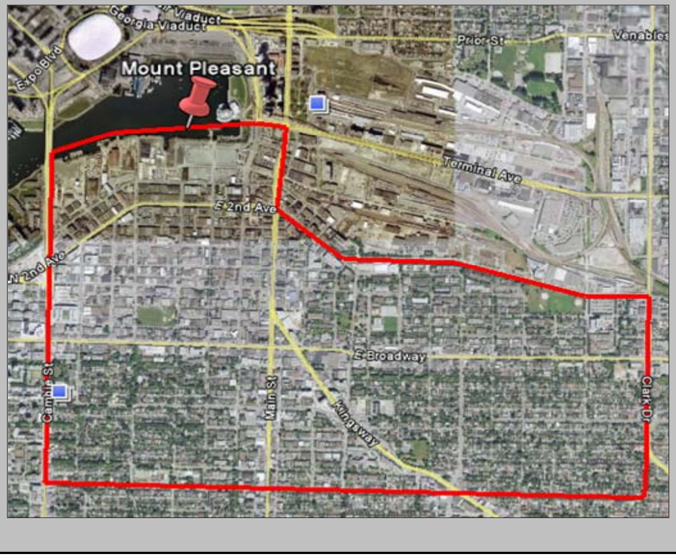
Original Loan to Value Proposed	65.0%
Loan to Value Ratio	65.0%
Loan Value	962,000
CMHC Premium	2.0%
Loan Value incl CMHC Premium	981,240
Nominal Rate (comp.semi-annually)	3.50%
Effective Rate	3.53%
Nominal Monthly Rate	3.474749%
Amortization Period (years)	25.00

Tax Information

CCA Rate	4.0%
1/2 Year Rule CCA Rate	2.0%
Selling Year CCA Rate	0.0%
Tax Rate	45.7%
Capital Gains Inclusion Rate	50.0%

Inflation Information (Annual)

Market Rent Inflation	2.20%
Expense Inflation	2.20%
Capital Program Inflation	2.20%



Model Cash Flow

Model Cash Flow				Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Pro Forma Stabilized Unit Income				109,926	112,346	114,819	117,346	119,928	122,567	125,265	128,021	130,838	133,718
Parking Revenue				2,880	2,943	3,008	3,074	3,142	3,211	3,282	3,354	3,428	3,503
Laundry Revenue				1,980	2,024	2,068	2,114	2,160	2,208	2,256	2,306	2,357	2,408
Potential Gross Revenue				114,786	117,313	119,895	122,533	125,230	127,986	130,802	133,681	136,623	139,629
Less:													
Vacancy & Collection Loss @	0.75%			(861)	(880)	(899)	(919)	(939)	(960)	(981)	(1,003)	(1,025)	(1,047)
Effective Gross Revenue (EGR)				**113,925**	**116,433**	**118,996**	**121,614**	**124,291**	**127,026**	**129,821**	**132,678**	**135,598**	**138,582**
Total Expenses	**3,610**	**34.9%**	**39,707**	**39,707**	**40,581**	**41,473**	**42,386**	**43,318**	**44,271**	**45,245**	**46,241**	**47,258**	**48,298**
				Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**
Net Operating Income				**74,218**	**75,853**	**77,522**	**79,229**	**80,973**	**82,755**	**84,576**	**86,438**	**88,340**	**90,284**
Capital and Expense Items		**Year Start**	**Term (Yrs)**										
Annual Budgeted Capital and Expense Programme													
Expense Items	From Cost Report	1	20	$4,250	$5,877	$14,884	$4,537	$19,910	$4,739	$4,843	$6,696	$5,058	$23,415
Less Repairs and Maintenance (from Operating costs)				8,800	8,994	9,191	9,394	9,600	9,812	10,027	10,248	10,473	10,704
Net Annual Expense				(4,550)	(3,117)	5,692	(4,857)	10,309	(5,073)	(5,185)	(3,552)	(5,415)	12,711
Capital Items	From Cost Report	1	20				$23,484		$16,724	$56,974	$34,936		
Total Capital and Expense items				(4,550)	(3,117)	5,692	18,627	10,309	11,651	51,789	31,384	(5,415)	12,711
Net Income before Tax and Financing				78,768	78,970	71,830	60,602	70,663	71,104	32,787	55,053	93,755	77,573
Financing and Taxes													
Less: Income Taxes Payable				15,126	13,032	14,479	15,946	17,007	18,537	19,786	20,338	21,360	23,072
Less: Mortgage Payments				58,788	58,788	58,788	58,788	58,788	58,788	58,788	58,788	58,788	58,788
After Tax Cash Flow (ATCF)				**4,854**	**7,149**	**(1,437)**	**(14,133)**	**(5,132)**	**(6,222)**	**(45,787)**	**(24,073)**	**13,607**	**(4,287)**
Equity IRR - After Tax and Debt Service			**Year 0**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**
Equity Investment			(518,000)										
After Tax Cash Flow				4,854	7,149	(1,437)	(14,133)	(5,132)	(6,222)	(45,787)	(24,073)	13,607	(4,287)
After Tax Equity Reversion													
Net Annual Cash Flow			(518,000)	4,854	7,149	(1,437)	(14,133)	(5,132)	(6,222)	(45,787)	(24,073)	13,607	(4,287)
Equity IRR Calculation	**6.20%**												
Unlevered IRR - Before Tax and Debt Service													
Purchase Price			(1,480,000)										
NOI				78,768	78,970	71,830	60,602	70,663	71,104	32,787	55,053	93,755	77,573
Sale Price													
Net Annual Revenue			(1,480,000)	78,768	78,970	71,830	60,602	70,663	71,104	32,787	55,053	93,755	77,573
Unlevered IRR Calculation	**6.74%**												

Model Cash Flow	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20
Pro Forma Stabilized Unit Income	136,660	139,667	142,741	145,882	149,092	152,372	155,725	159,152	162,654	166,233
Parking Revenue	3,580	3,659	3,739	3,822	3,906	3,992	4,079	4,169	4,261	4,355
Laundry Revenue	2,461	2,516	2,571	2,627	2,685	2,744	2,805	2,866	2,929	2,994
Potential Gross Revenue	142,702	145,842	149,051	152,331	155,683	159,108	162,609	166,187	169,844	173,581
Less:										
Vacancy & Collection Loss @	(1,070)	(1,094)	(1,118)	(1,142)	(1,168)	(1,193)	(1,220)	(1,246)	(1,274)	(1,302)
Effective Gross Revenue (EGR)	**141,631**	**144,748**	**147,933**	**151,188**	**154,515**	**157,915**	**161,390**	**164,941**	**168,570**	**172,279**
Total Expenses	**49,360**	**50,446**	**51,556**	**52,690**	**53,849**	**55,034**	**56,245**	**57,482**	**58,747**	**60,039**
	Year 11	**Year 12**	**Year 13**	**Year 14**	**Year 15**	**Year 16**	**Year 17**	**Year 18**	**Year 19**	**Year 20**
Net Operating Income	**92,271**	**94,302**	**96,377**	**98,498**	**100,666**	**102,881**	**105,145**	**107,459**	**109,824**	**112,240**
Capital and Expense Items										
Annual Budgeted Capital and Expense Programme										
Expense Items	$7,148	$5,399	$18,502	$7,630	$5,764	$5,891	$8,145	$6,153	$6,288	$41,959
Less Repairs and Maintenance (from Operating costs)	10,939	11,180	11,426	11,677	11,934	12,197	12,465	12,739	13,020	13,306
Net Annual Expense	(3,791)	(5,781)	7,076	(4,047)	(6,171)	(6,306)	(4,320)	(6,587)	(6,732)	28,653
Capital Items										
Total Capital and Expense items	(3,791)	(5,781)	7,076	(4,047)	(6,171)	(6,306)	(4,320)	(6,587)	(6,732)	28,653
Net Income before Tax and Financing	96,063	100,083	89,301	102,546	106,836	109,187	109,465	114,046	116,555	83,587
Financing and Taxes										
Less: Income Taxes Payable	24,811	26,579	28,376	30,205	32,067	33,963	35,896	37,867	39,878	46,565
Less: Mortgage Payments	58,788	58,788	58,788	58,788	58,788	58,788	58,788	58,788	58,788	58,788
After Tax Cash Flow (ATCF)	**12,463**	**14,715**	**2,136**	**13,552**	**15,981**	**16,436**	**14,781**	**17,390**	**17,889**	**(21,766)**
Equity IRR - After Tax and Debt Service	**Year 11**	**Year 12**	**Year 13**	**Year 14**	**Year 15**	**Year 16**	**Year 17**	**Year 18**	**Year 19**	**Year 20**
Equity Investment										
After Tax Cash Flow	12,463	14,715	2,136	13,552	15,981	16,436	14,781	17,390	17,889	(21,766)
After Tax Equity Reversion										1,741,427
Net Annual Cash Flow	12,463	14,715	2,136	13,552	15,981	16,436	14,781	17,390	17,889	1,719,661
Unlevered IRR - Before Tax and Debt Service										
Purchase Price										
NOI	96,063	100,083	89,301	102,546	106,836	109,187	109,465	114,046	116,555	83,587
Sale Price										2,236,844
Net Annual Revenue	96,063	100,083	89,301	102,546	106,836	109,187	109,465	114,046	116,555	2,320,431

Prototypical Apartment Building
Investment Pro Forma Worksheet
MODEL THREE - High Rise West End

Building Information

Revenue Units	Count	Mkt $/Mth	Avg Size
Bachelor	-	$ -	
1 Bedroom	101	$ 1,150.00	500
2 Bedroom	-	$ -	
3 Bedroom	-	$ -	
	101	$ 1,150.00	500
Site Area (Acres)	0.4		
Building Efficiency Factor	90.0%		
Site Coverage % Est.	23.0%		
Storeys	14.0		
Building Area (Buildable)	56,111		
Building Area (Rentable)	50,500		
Parking Revenue $ / Stall / Month	$ 50.00		
Number of Stalls	100		
Laundry Revenue / Unit / Month	$ 15.00		
In Place Rent as % of Market	87.5%		
Percentage Rollover Per Year	30.0%		
Vacancy Factor	0.75%		
Overall Capitalization Rate	4.5%		
Selling Costs	2.0%		
Net Operating Income Year 1	$ 884,702		
Capitalized Value	$ 19,660,000		

Financing Information

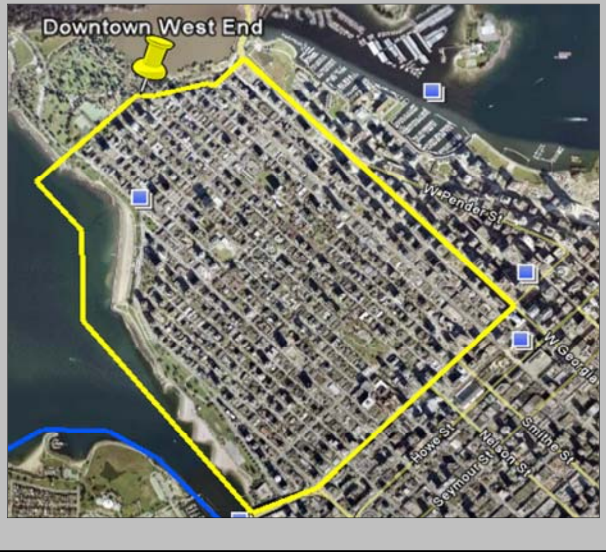
Original Loan to Value Proposed	65.0%
Loan to Value Ratio	65.0%
Loan Value	12,779,000
CMHC Premium	2.0%
Loan Value incl CMHC Premium	13,034,580
Nominal Rate (comp.semi-annually)	3.50%
Effective Rate	3.53%
Nominal Monthly Rate	3.474749%
Amortization Period (years)	25.00

Tax Information

CCA Rate	4.0%
1/2 Year Rule CCA Rate	2.0%
Selling Year CCA Rate	0.0%
Tax Rate	45.7%
Capital Gains Inclusion Rate	50.0%

Inflation Information (Annual)

Market Rent Inflation	2.20%
Expense Inflation	2.20%
Capital Program Inflation	2.20%



Model Cash Flow				Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20
Pro Forma Stabilized Unit Income				1,271,843	1,299,825	1,328,422	1,357,648	1,387,517	1,418,043	1,449,241	1,481,125	1,513,711	1,547,013	1,581,048	1,615,832	1,651,381	1,687,712	1,724,842	1,762,789	1,801,571	1,841,206	1,881,713	1,923,112
Parking Revenue				60,000	61,320	62,669	64,048	65,457	66,897	68,369	69,873	71,410	72,981	74,586	76,227	77,904	79,618	81,370	83,160	84,990	86,859	88,770	90,723
Laundry Revenue				18,180	18,580	18,989	19,406	19,833	20,270	20,716	21,171	21,637	22,113	22,600	23,097	23,605	24,124	24,655	25,197	25,752	26,318	26,897	27,489
Potential Gross Revenue				1,350,023	1,379,725	1,410,080	1,441,102	1,472,807	1,505,210	1,538,325	1,572,169	1,606,758	1,642,107	1,678,234	1,715,156	1,752,890	1,791,454	1,830,867	1,871,147	1,912,312	1,954,384	1,997,381	2,041,324
Less:																							
Vacancy & Collection Loss @	0.8%			(10,125)	(10,348)	(10,576)	(10,808)	(11,046)	(11,289)	(11,537)	(11,791)	(12,051)	(12,316)	(12,587)	(12,864)	(13,147)	(13,436)	(13,732)	(14,034)	(14,342)	(14,658)	(14,980)	(15,310)
Effective Gross Revenue (EGR)				**1,339,897**	**1,369,377**	**1,399,504**	**1,430,294**	**1,461,761**	**1,493,921**	**1,526,788**	**1,560,378**	**1,594,707**	**1,629,791**	**1,665,647**	**1,702,292**	**1,739,743**	**1,778,018**	**1,817,135**	**1,857,113**	**1,897,970**	**1,939,726**	**1,982,401**	**2,026,014**
Expenses - Base Year	Base Yr/Suite	% of EGR	Base Year																				
Total Expenses	**4,507**	**34.0%**	**455,195**	**455,195**	**465,210**	**475,444**	**485,904**	**496,594**	**507,519**	**518,684**	**530,095**	**541,758**	**553,676**	**565,857**	**578,306**	**591,029**	**604,031**	**617,320**	**630,901**	**644,781**	**658,966**	**673,463**	**688,280**
				Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20
Net Operating Income				**884,702**	**904,167**	**924,060**	**944,390**	**965,167**	**986,402**	**1,008,103**	**1,030,282**	**1,052,949**	**1,076,115**	**1,099,790**	**1,123,986**	**1,148,715**	**1,173,987**	**1,199,815**	**1,226,212**	**1,253,189**	**1,280,760**	**1,308,937**	**1,337,734**
Capital and Expense Items		Year Start	Term (Yrs)																				
Annual Budgeted Capital and Expense Programme																							
Expense Items	From Cost Report	1	20	$72,500	$85,337	$48,046	$99,808	$47,456	$51,845	$299,682	$50,658	$51,772	$117,378	$54,075	$80,674	$60,376	$124,072	$58,993	$64,449	$347,749	$62,973	$68,797	$65,774
Less Repairs and Maintenance (from Operating costs)				111,100	113,544	116,042	118,595	121,204	123,871	126,596	129,381	132,227	135,136	138,109	141,148	144,253	147,427	150,670	153,985	157,372	160,835	164,373	167,989
Net Annual Expense				(38,600)	(28,207)	(67,996)	(18,787)	(73,748)	(72,026)	173,086	(78,723)	(80,455)	(17,759)	(84,034)	(60,474)	(83,877)	(23,355)	(91,677)	(89,536)	190,377	(97,862)	(95,576)	(102,215)
Capital Items	From Cost Report	1	20			$156,673	$213,493	$332,739															
Total Capital and Expense items				(38,600)	(28,207)	88,677	194,705	258,991	(72,026)	173,086	(78,723)	(80,455)	(17,759)	(84,034)	(60,474)	(83,877)	(23,355)	(91,677)	(89,536)	190,377	(97,862)	(95,576)	(102,215)
Net Income before Tax and Financing				923,302	932,374	835,383	749,685	706,177	1,058,427	835,017	1,109,006	1,133,405	1,093,874	1,183,824	1,184,460	1,232,592	1,197,342	1,291,492	1,315,748	1,062,813	1,378,621	1,404,513	1,439,949
Financing and Taxes																							
Less: Income Taxes Payable				91,860	2,689	25,785	46,077	65,529	83,062	107,038	131,151	155,426	179,888	204,561	229,471	254,642	280,099	305,867	331,972	358,437	385,288	412,552	548,571
Less: Mortgage Payments				780,933	780,933	780,933	780,933	780,933	780,933	780,933	780,933	780,933	780,933	780,933	780,933	780,933	780,933	780,933	780,933	780,933	780,933	780,933	780,933
Add: Sale Proceeds net of taxes and mortgage?																							
After Tax Cash Flow (ATCF)				**50,509**	**148,752**	**28,665**	**(77,326)**	**(140,286)**	**194,432**	**(52,955)**	**196,921**	**197,045**	**133,053**	**198,330**	**174,056**	**197,016**	**136,309**	**204,691**	**202,842**	**(76,558)**	**212,400**	**211,028**	**110,445**
Equity IRR			Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20
Equity Investment			(6,881,000)																				
ATCF				50,509	148,752	28,665	(77,326)	(140,286)	194,432	(52,955)	196,921	197,045	133,053	198,330	174,056	197,016	136,309	204,691	202,842	(76,558)	212,400	211,028	110,445
ATER																							21,205,503
Net Annual Cash Flow			(6,881,000)	50,509	148,752	28,665	(77,326)	(140,286)	194,432	(52,955)	196,921	197,045	133,053	198,330	174,056	197,016	136,309	204,691	202,842	(76,558)	212,400	211,028	21,315,948
Equity IRR Calculation	**6.66%**																						
Unlevered IRR																							
Purchase Price			(19,660,000)																				
Cash Flow (EBITDA)				923,302	932,374	835,383	749,685	706,177	1,058,427	835,017	1,109,006	1,133,405	1,093,874	1,183,824	1,184,460	1,232,592	1,197,342	1,291,492	1,315,748	1,062,813	1,378,621	1,404,513	1,439,949
Sale Price																							29,773,816
Net Annual Cash Flow			(19,660,000)	923,302	932,374	835,383	749,685	706,177	1,058,427	835,017	1,109,006	1,133,405	1,093,874	1,183,824	1,184,460	1,232,592	1,197,342	1,291,492	1,315,748	1,062,813	1,378,621	1,404,513	31,213,765
Unlevered IRR Calculation	**6.59%**																						

5.3.1 CONCLUSIONS

As presented within the previous models, the results of our prototype models are as follows:

Prototype Model Return Summary - 20 year horizon

	MODEL 1 (Kits)	MODEL 2 (MP)	MODEL 3 (W End)
# Units	39	11	101
Storeys	3	3	14
Type	Lowrise Woodframe	Lowrise Woodframe	Highrise Concrete
Approximate GFA	25,944	7,500	56,111
Yr 1 Potential Gross Income	$502,218	$114,786	$1,350,023
Average Rent / Suite / Mth	$1,129	$895	$1,150
Vacancy Rate	0.50%	0.75%	0.75%
Yr 1 Effective Gross Income	$499,707	$113,925	$1,339,897
Operating Costs	$151,037	$39,707	$455,195
NOI	$348,670	$74,218	$884,702
Expense Ratio	30.2%	34.9%	34.0%
Yr 1 After Tax Cash Flow	($328,111)	$4,854	$884,702
ATCF Avg Yrs 1 - 5	($151,533)	$77,559	$2,063
ATCF Avg Yrs 6 - 10	$15,574	$86,479	$133,699
ATCF Avg Yrs 11 - 15	$20,923	$96,423	$182,080
ATCF Avg Yrs 16 - 20	$12,904	$107,510	$132,031
Total Capital Item Cost *(over 20 yr horizon)*	$766,337	$132,119	$702,904
Equity IRR (After Tax and Debt Service)	5.88%	6.20%	6.66%
Unlevered IRR (Before Tax and Debt Service)	6.39%	6.74%	6.59%

[1] *The prototype models are hypothetical in nature and are not intended to reflect the value of any specific building.*

[2] *We have not considered any implications regarding the Provincial Government's legislation regarding HST (Harmonized Sales Tax) nor any GST implications in our models or otherwise.*

[3] *We have assumed that the information from Studies 2A and B are correct and complete. We have assumed that the cost information sourced from 2B relates to typical properties in the specific neighbourhoods we have highlighted (Kitsilano, Mount Pleasant, West End).*

Although hypothetical, the results of the return analysis indicate a range of internal rate of return (IRR) on equity (Equity IRR's) of between 5.88% – 6.66%, after financing and Income Tax. The unlevered (i.e no financing) pre-tax IRR ranged from 6.39%– 6.74%.

For comparison purposes, the unlevered, pre-tax IRR was compared with the IRR using typical valuation parameters regarding repairs and maintenance. Because the typical parameters for maintenance and repairs are generally below the costs projected in 2C, the returns increased slightly, the range being 6.63% to 7.15%.

For further context, we have included information below regarding average estimates of parameters for other types of commercial real estate investment. This data has been sourced from the Q4 2009 Investment Trends Survey (ITS) and is representative of answers to questions regarding Greater Vancouver assets.

Altus Group ITS Q4 2009		
Type	**Avg OCR**	**Avg IRR**
Industrial	7.10	8.10
Office	6.50	8.00
Retail	7.40	8.50
Multi-Residential	5.30	7.00

The asset classes above refer to multi-tenant industrial buildings, downtown Class A buildings, enclosed community shopping malls and suburban multi-unit residential. As can be seen, average Overall Capitalization Rates (OCR) and Internal Rates of Return (IRR) for multi-residential properties are typically lower than for other types.

For multi-res properties the spread between OCR and IRR is slightly higher than for other asset types. This yield results from our financial models are therefore consistent with this data.

6.0 POLICY IMPLEMENTATION

6.1 Qualitative Discussion of Rate of Change Mechanisms

CURRENT POLICY

Council adopted a zero rate of change for all RM, FM and CD-1 zoning districts of the city on May 24, 2007, along with mitigation measures, as recommended by a report entitled "Protection of Rental Housing Stock: Rate of Change Regulations." According to the zoning information recorded within the Coriolis data set, this policy has impacted a total of 1,983 properties or +/-21,100 units within the Downtown/ West End, East-side, Fairview/Kits, Mount Pleasant and West Side rental neighborhoods.

The following is an excerpt from this report which was presented to the Council from the Director of Housing Centre in consultation with the Director of Planning, Co-Director of Development Services, and Director of Legal Services:

"RECOMMENDATION:

B. THAT the Director of Planning make application to prepare a by-law amending the Zoning and Development By-law, generally as set out in Appendix B, relating to the RM-2, RM-3, RM-3A, RM-4 and RM-4N, RM-5,RM-5A, RM-5B and RM-5C, RM-6, and FM-1 District or District Schedules, to provide that:

a) "rate of change" means the percentage net loss of rental housing units in a zoning district in the 365 days preceding the date on which a person submits a rezoning or development application for a multiple dwelling consisting of six or more dwelling units, on real property in that zoning district, as determined by the Director of Housing Centre;
(b) the rate of change is 0%;
(c) a "rental housing unit" means a dwelling unit, housekeeping unit, or sleeping unit on a site that a tenant rents, or has rented, for the purpose of living accommodation but does not include a unit rented by a not for profit housing cooperative to a member of the cooperative or a unit in a special needs residential facility;
(d) a multiple dwelling consisting of five or fewer dwelling units is an outright approval use;
(e) a multiple dwelling consisting of six or more dwelling units is a conditional approval use;
(f) a multiple dwelling consisting of six or more dwelling units is not permissible unless:
  (i) its development does not require the demolition or change of use or occupancy of one or more rental housing units,
  (ii) its development requires the demolition or change of use or occupancy of one or more rental housing units but does not exceed the rate of change within the zoning district, or
  (iii) its development requires the demolition or change of use or occupancy of one or more rental housing units, and exceeds the rate of change within the zoning district, and the registered owner of the site enters into a housing agreement with the city, under section 565.2 of the Vancouver Charter, in which the registered owner agrees with the city to:
    (A) include in the new development on the site that number of rental housing units which equals the number of then existing rental housing units, and to give the city security for the continued operation of such replacement rental housing units including a section 219 covenant for registration against title to the site, which housing agreement and security must be on terms and conditions satisfactory to Council, or
    (B) provide rental housing units, or contribute to the provision of rental housing units, in another manner or at another location, or to provide another form of affordable housing, and to give the city security for the continued operation of such replacement rental housing units or other form of affordable housing including

> *a section 219 covenant for registration against title to the subject real property, which housing agreement and security must be on terms and conditions satisfactory to Council; and*
>
> *(g) neither the Development Permit Board nor Director of Planning may issue a development permit for a multiple dwelling consisting of six or more dwelling units unless the development permit contains a condition requiring compliance with any housing agreement, and the security for it, referred to in section 3.2.DW of any such District or Districts Schedule."*

For existing rental properties which fall under the zoning areas identified, the by-law requires rental housing units to be replaced on a 1:1 basis; in other words, every rental housing unit that is demolished must be replaced. A conversation with a representative of the City of Vancouver has indicated that no regulation currently exists that stipulates anything about the size (i.e. square feet) of the units. Therefore, it seems there is the possibility of demolishing a larger rental housing unit and replacing it with a smaller rental housing unit. No further detail has been made available with respect to this issue and so it remains open to interpretation. A copy of the Official Development Plan –Rental Housing Stock has been included in Tab D of the Appendix.

ANALYSIS OF IMPACTS OF THE RATE OF CHANGE MECHANISM- STRENGTHS / WEAKNESSES

Discussions with market participants in our Stakeholder interviews, as outlined in Section 4.0, indicated varying perceptions of impact of the Rate of Change Mechanism on the existing rental stock. While the majority of respondents considered this policy to directly impact the supply and demand factors for new rental stock first and foremost, approximately 55% of respondents also indicated that they perceived a decrease the volume of sales of existing multi-res properties as a result of the policy. Respondents indicated that the policy lessened the attractiveness of a rental building as a holding property, due to the fact that the policy decreased the future redevelopment potential. Additionally, 36 % of respondents considered the policy to decrease the capital expenditure investment in the existing rental stock. Approximately, 27% of respondents indicated that the policy decreased market values of existing rental properties. Overall, the majority of respondents indicated that the Rate of Change policy did not affect market values, capital investment levels, vacancy or rents associated with the existing rental building stock.

From our analysis of value changes, volume of sales and liquidity, it is not possible to identify objective evidence as to the impact of (if any) the rate of change policy on the market.

6.2 Observations Regarding Alternative Policy Responses to Protecting Existing Stock

A number of changes to tax policies have been suggested as a means to protect the existing multi-family housing stock. The purpose of this part of our report is to review the implications of these policies with respect to the specific goal of protecting the condition of the stock.

As can be seen from the cash flow models, the obligation to pay income and capital gains taxes together with the ability to shelter tax that might otherwise be payable directly affects the return on investment. Changes to current tax policies therefore have the potential to affect these returns and, as a consequence, the way in which properties are managed.

BASIS OF THE ANALYSIS

In this context, we have been asked to consider the implications of the following changes to current tax policy:

1. Increase the current level of Capital Cost Allowance (CCA) from 4% to 6%.
2. Eliminate the "half year" rule whereby CCA is charged at 50% of the CCA in the first year of ownership.
3. Eliminate Capital Gains recapture on the sale of the property.
4. Permit Capital Gains rollover on the sale of the property.
5. Use the small business tax rate rather than the personal tax rate.
6. Allow all expenses to be zero-rated for GST/HST purposes.

In order to address these we have reviewed our financial models and amended the inputs to reflect those changes which are readily calculable. From this, a quantitative assessment can be made for the first three items. Because of the greater complexity involved, the last three can better be discussed qualitatively. The purpose of these observations is to gauge the extent to which the financial performance of these long-term rental assets may be strengthened in order to potentially encourage re-investment and support long-term maintenance.

With respect to the first three proposed changes, the financial models indicate the following:

PROTOTYPICAL APARTMENT BUILDINGS - INVESTMENT RETURNS RENTAL POLICY OPTIONS - SENSITIVITY ANALYSIS

	Sensitivity			
	Base Case	1. 6% CCA	2. No Half Year Rule	3. Remove Capital Gains Tax
1. Low Rise Kitsilano				
Equity Return (After Tax)	5.88%	5.97%	5.98%	6.51%
2. Low Rise Mount Pleasant				
Equity Return (After Tax)	6.20%	6.31%	6.34%	6.83%
3. High Rise West End				
Equity Return (After Tax)	6.66%	6.89%	6.94%	7.45%

The first column in the above table identifies the financial model outlined earlier in the report. It also identifies the element in the models which has been used to compare the effect of changing the variables; in this case it is the Equity Return (After Tax).

The second column shows the "Base Case" return which is the return under current tax rules, as shown previously in the financial models. The impacts of changes are shown cumulatively in the third to fifth columns.

The third column shows the effect of increasing the CCA to 6%; the fourth shows the additional impact of eliminating the half-year rule and the fifth indicates the further impact of eliminating capital gains tax. By way of example, the total impact of implementing <u>all</u> the changes for Model 1 is the difference between 6.51% and 5.88%.

What the above data reveals with respect to the first three policy changes is therefore as follows:

1. Increasing the CCA from 4% to 6% has a minor impact on the return. Lower taxes resulted in a slight increase in net cash flow. It may be noted that the impact is greater, the higher the proportion of value attributed to the building. Consequently, the lowest impact is on Model 1 where the building value is 15% of value. The impact on Model 2 is slightly higher (25% building value). At 45% building value, the positive impact on cash flow and return is greatest in Model 3.

2. Eliminating the half-year rule has an almost imperceptible effect on returns in all cases.
3. The greatest impact results from the elimination of the capital gains tax. It is important to note, however, that this change would have no impact on the annual cash flow during the investment holding period. The only impact is on the net proceeds of sale which, in the financial models, occurs in year 20. As a result, the impact on the average return over the life of the investment in each model is approximately one half a percentage point.

With respect to the three remaining policy changes, we would comment as follows:

4. The impact of allowing rollover will tend to be similar (but less than) the impact of eliminating the capital gains tax altogether.
5. Allowing a small business tax rate (currently 13.5% on the first $400,000 of earnings rising to a maximum of 30%) would have a significant impact on cash flow in all models. Because the ability to shelter tax is currently greater in properties with higher building value components (such as Model 3) the impact on cash flow of reducing the tax rate will tend to be more significant in those properties with low building value components. These will typically be the older, low-rise housing stock. It may also be noted that for the benefits of the lower tax rate to be maintained, it is necessary to retain the earnings in the corporation. Under these circumstances, the revenue available for reinvestment is greater than if income were taxable in the hands of an individual.
6. Allowing a zero-rating for GST/HST for expense items would tend to increase the cash flow.

FINAL OBSERVATIONS

- The majority of the policy suggestions referred to are likely to have a marginal impact only on cash flow and return on investment.
- Expanding the availability of the small business tax provisions (No. 5) is likely to have the most positive impact on cash flow and the incentive to reinvest in the property.

Appendices

Appendix Tab A

Definitions

The following definitions have been sourced from the Appraisal of Real Estate, Second Canadian Edition, except as noted.

Average Income per Unit

$$= \frac{\text{Stabilized Net Operating Income}}{\text{Total number of Suites}}$$

Capitalization Rate

"An income rate for a total real property interest that reflects the relationship between a single year's net operating income and the total property price or value; used to convert net operating income into an indication of overall property value."

Typically, the overall capitalization rate is calculated as follows:

$$\text{Overall Capitalization Rate} = \frac{\text{Stabilized Net Operating Income}}{\text{Sale Price}}$$

The calculation of the stabilized capitalization rate is detailed within Section 3.1.3 of the report.

Capital Cost Allowance Rate (CCA Rate)[1]

Capital Cost Allowance (CCA), according to the Canada Revenue Agency as a deduction that is applied as follows:
"In the year you buy a "depreciable property" such as a building, you cannot deduct its full cost. However, since this type of property wears out or becomes obsolete over time, you can deduct its capital cost over a period of several years. This deduction is called CCA. When we talk about CCA, a reference is often made to class. You usually group depreciable properties into classes. You have to base your CCA claim on the rate assigned to each class of property."

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[1] Canada Revenue Agency, '*Capital Gains 2008 T4037(E) Rev. 08.*' Online Booklet. http://www.cra-arc.gc.ca/E/pub/tg/t4037/t4037-08e.pdf.

Capital Gains[2]

Capital Gain, according to the Canada Revenue Agency, results *"when you sell, or are considered to have sold, a capital property for more than the total of its adjusted cost base and the outlays and expenses incurred to sell the property.* Adjusted cost base (ACB) is defined as *"the cost of a property plus any expenses to acquire it, such as commissions and legal fees. The cost of a capital property is its actual or deemed cost, depending on the type of property and how you acquired it. It also includes capital expenditures, such as the cost of additions and improvements to the property. You cannot add current expenses, such as maintenance and repair costs, to the cost base of a property."*

Construction Type – Rental Apartment Buildings

Low Rise – one to three storeys
Mid Rise – four to six storeys
High Rise – seven or more storeys

Debt Service

"The periodic payment that covers interest on and the retirement of, the outstanding principal of the mortgage loan."

Effective Gross Income

"Effective gross income (EGI) is the anticipated income from all operations of the real property adjusted for vacancy and collection losses. This adjustment covers losses incurred due to unoccupied space, turnover and non-payment of rent by tenants."

The EGI calculation in this analysis is calculated as the Gross Income from suite, laundry, parking revenues etc. less a stabilized vacancy and credit allowance, as detailed within Section 3.1.2 in the report.

Gross Income Multiplier (GIM)

The relationship or ratio between the sale price or value of a property and its gross income from rent and other income sources.

Typically calculated as:

$$= \frac{\text{Sale Price}}{\text{Gross Income}}$$

---

[2] Ibid.

In Place Rent or Contract Rent

"Contract rent is the actual rental income specified in a lease. It is the rent agreed on by the property owner and the tenant and may be higher than, less than, or equal to market rent."

For the purposes of the analysis set out herein, 'in place rent' is defined as the rental income owed to the rental apartment owner as stipulated within the existing tenant lease agreements.

Internal Rate of Return (IRR)

The internal rate of return is the rate of return on capital that is generated within an investment over a period of ownership. Specifically, the IRR is the rate of discount that makes the difference between the present value of all expected investment benefits and the present value of all the capital outlays equal to zero. Two rate of return calculations have been undertaken, as follows:

> **Equity IRR Calculation (After Tax and Debt Service)**
> In the case of the analysis herein, the Equity IRR is expressed as a rate of return over the investment horizon taking into account the initial purchase price, forecast of capital expenditures, debt service, income tax and the disposition price at reversion. Reversion is defined as '*the lump-sum benefit an investor receives or expects to receive upon the termination of an investment*' [ie. upon the sale of the asset at the end of the investment horizon].
>
> **Unlevered IRR Calculation (Before Tax and Debt Service)**
> The unlevered IRR is expressed as a rate of return over the investment horizon taking into account the initial purchase price, forecast of capital expenditures, and the disposition price at reversion, but before debt service, and income tax considerations.

Market Value

"The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. *Buyer and seller are typically motivated;*
2. *Both parties are well informed or well advised, and acting in what they consider their best interests;*
3. *A reasonable time is allowed for exposure in the open market;*
4. *Payment is made in terms of cash in Canadian dollars or in terms of financial arrangements comparable thereto; and*
5. *The price represents the normal consideration for the property sold, unaffected by special or creative financing or sales concessions granted by anyone associated with the sale."*

(Source: Canadian Supplement to 2008 Uniform Standards of Professional Appraisal Practice)

Market Rent

"The rental income that a property [or rental unit] *would probably command in the open market; indicated by current rents that are either paid or asked for comparable space as at the date of appraisal."*

The estimate of market rents is detailed within Section 5.2.2 of the report.

Operating Costs

Operating costs are costs which the Landlord incurs directly or indirectly to manage, operate, maintain, repair, replace, or preserve the land, rentable and non-rentable areas of the rental apartment building. Examples of such expenses include property taxes, management fees, staffing, repair and maintenance.

Operating Expense Ratio

$$= \frac{\text{Total Operating Costs}}{\text{Effective Gross Income}}$$

Potential Gross Income

"Potential gross income (PGI) is the total potential income attributable to the real property at full occupancy, before operating expenses are deducted."

Price per Suite

$$= \frac{\text{Total Rental Apartment Asset Price}}{\text{Total Number of Residential Suites}}$$

Stabilized Net Operating Income

"Net operating income (NOI) is the actual or anticipated net income remaining after all operating expenses are deducted from effective gross income, typically expressed as an annual amount." In the income capitalization application, a single year's net operating income is taken to represent a steady stream of fixed income, or a 'stabilized net operating income', that is expected to continue for a number of years. The calculation of stabilized net operating income is detailed within Section 3.11 of the report.

Appendix Tab B

Existing Purpose Built Rental Stock - City of Vancouver
Stakeholder Survey

Contact Information

Name / Company ____________________

Area of Practice (check box) *Broker* ☐ *Owner* ☐ *Property Mngr* ☐

Contact email ____________________

Questions

At purchase and sale

Q1 Do you or your clients typically purchase properties:

- *As a corporation* ☐
- *As an individual* ☐
- *Other* ☐

Q2 What due diligence, in terms of building condition / estimates re: future cap ex. required, do investors undertake prior to acquisition?

	Always	**Sometimes**	**Never**
Building Condition Reports?	☐	☐	☐
Capital Expenditure	☐	☐	☐
Replacement Reserve	☐	☐	☐

Q3 What are typical investor intentions/ expectations upon purchase, in terms of holding patterns? (# of years)

- *0-10* ☐
- *10-20* ☐
- *20+* ☐

Q4 To what extent are the followng barriers to sale?

	Often	**Rarely**	**Never**
Ability to Finance?	☐	☐	☐
Building Condition?	☐	☐	☐
Environmental Concerns?	☐	☐	☐

Q5 What are the major financing constraints impacting the existing purpose built multi-res market?
(Please circle one number for each line: 1 is not important / 5 very important)

Debt servicing ratio	1	2	3	4	5
Loan to Value	1	2	3	4	5
Lack of availability	1	2	3	4	5
Low appraised value in relation to market	1	2	3	4	5

Existing Purpose Built Rental Stock - City of Vancouver
Stakeholder Survey

Q6 Do you have any concerns / issues with current CMHC insurance practices?

(Please circle one number for each line: 1 is not important / 5 very important)

Debt servicing ratio	1	2	3	4	5
Loan to Value	1	2	3	4	5
Lack of availability	1	2	3	4	5
Low appraised value in relation to market	1	2	3	4	5

Specific asset questions

Q7 What is the typical annual % turnover of units for the following types of buildings currently?

Highrise in the West End ________ %

Low Rise in Kits ________ %

Low Rise in Mount Pleasant ________ %

Q8 What is a typical broker fee (%) for selling this type of asset? ________ %

Q9 Do you or your clients set aside a cash reserve for capital expenditures and replacements? If so, what % of Annual Gross Income would this typically be?

________ %

Q10 Which valuation methods are typically used by investors when acquiring this type of asset?

	Often	**Rarely**	**Never**
Cap of Net Income	☐	☐	☐
Gross Income Multiplier	☐	☐	☐
$ / Suite	☐	☐	☐
Discounted Cash Flow Analysis (ie. 10 yr cash flow projection)	☐	☐	☐

Q11 Upon turnover of a unit is do you / or client contacts tend to increase the monthly rent to maximum allowable by the Residential Tenancy Act Guidelines? (3.2% for 2010)

Always	☐
Most of the time	☐
Some of the Time	☐
Rarely	☐

Policy oriented questions

Q12

	YES	**NO**	**Unknown**
a. *Do you think the existing stock will decline in quality without policy changes?*	☐	☐	☐
b. *Is there any incentive to undertake capital expenditures given current policies in place?*	☐	☐	☐

c. *In your view, what are the main issues impacting the financial performance of the existing stock? (please comment)*

Q13 Since the introduction of the Rate of Change Policy, what effects have you observed on the following?
(For more information see: http://vancouver.ca/ctyclerk/cclerk/20070417/documents/p4.pdf)

Please indicate one on each line

	Increase	**Decrease**	**No change**
Market Value	☐	☐	☐
Volume of sales	☐	☐	☐
Capital Investment in building	☐	☐	☐
Vacancies	☐	☐	☐
Rents	☐	☐	☐

Any additional commentary can be included on the following page.

Existing Purpose Built Rental Stock - City of Vancouver
Stakeholder Survey

Additional commentary?

Existing Purpose Built Rental Stock - City of Vancouver

Financial Survey

Contact Information

Name / Company ____________________

Area of Practice (check box) *Broker* ☐ *Lender* ☐ *Mtg Insurer* ☐

Contact email ____________________

Questions

Q1 What are the major financing constraints impacting the purchase and sale of existing purpose built properties?

(Please circle one number for each line: 1 is not important / 5 very important)

Debt servicing ratio	1	2	3	4	5
Loan to Value	1	2	3	4	5
Lack of availability of financing	1	2	3	4	5
Low appraised value in relation to market	1	2	3	4	5
Other Criteria (please specify) ___________________________	1	2	3	4	5

Q2 How prevalent are CMHC insured loans with this asset type?

Very Prevalent ☐ **Not Prevalent** ☐ **Somewhat Prevalent** ☐

What percentage are conventional? ____________ %

Q3 Do you see any issues with current CMHC insurance practices in place?

(Please circle one number for each line: 1 to 5)

Debt servicing ratio	1	2	3	4	5
Loan to Value	1	2	3	4	5
Lack of availability of financing	1	2	3	4	5
Low appraised value in relation to market	1	2	3	4	5
Use of non-market valuation parameters (eg. Cap rate)	1	2	3	4	5

Q4 What are some of the motivations behind buying a purpose built multi-res properties in Vancouver?

Existing Purpose Built Rental Stock - City of Vancouver

Financial Survey

Q5 What are some of the motivations behind selling a purpose built multi-res properties in Vancouver?

Q6 Do you or your lending contact set aside a cash reserve for capital expenditures and replacements during the underwriting process?

Yes	*No*

If so, what % of Annual Gross Income would this typically be?

________ %

Q7 How easy is it to obtain financing for capital expenditure projects?

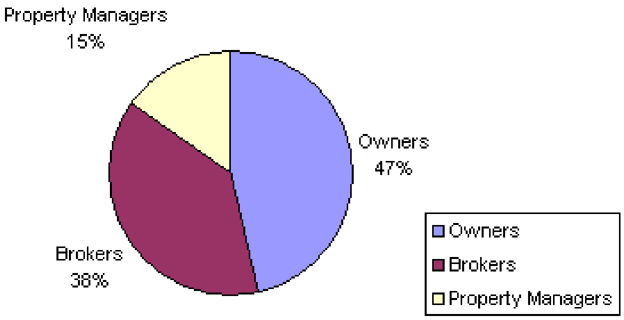
1	2	3	4	5

Additional commentary?

City of Vancouver Study – Survey Results

Stakeholder Survey:

Respondent types (owner, property manager, commercial real estate agent)



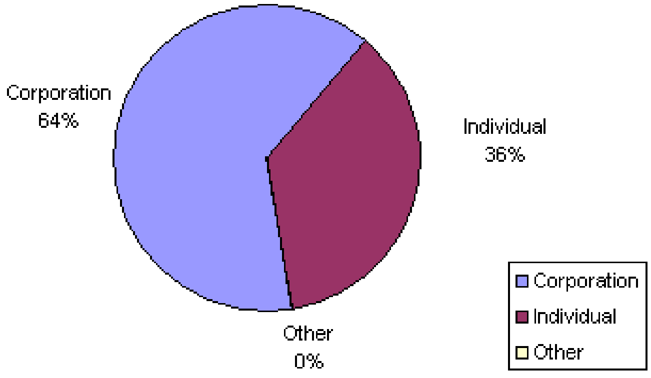
Q1

Do you or your clients typically purchase properties:

As a corporation ☐

As an individual ☐

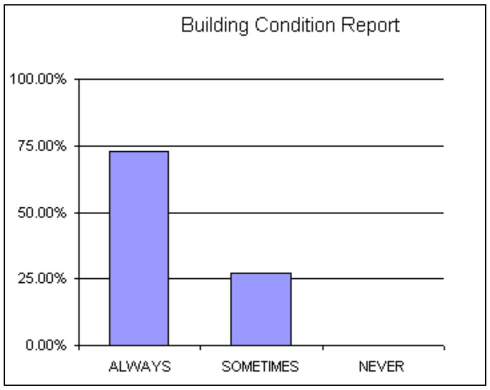
Other ☐

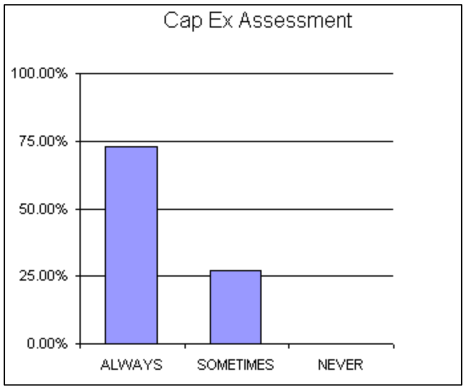


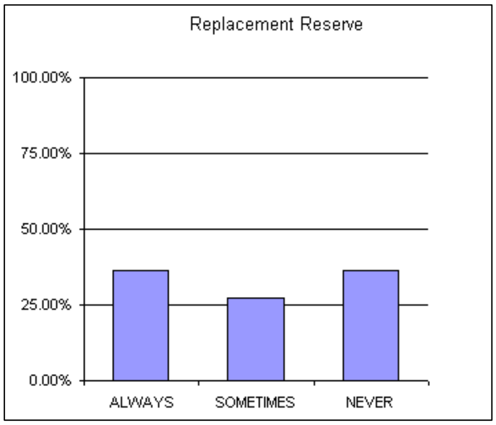
Q2

What due diligence, in terms of building condition / estimates re: future cap ex. required, do investors undertake prior to acquisition?

	Always	**Sometimes**	**Never**
Building Condition Reports?			
Capital Expenditure			
Replacement Reserve			



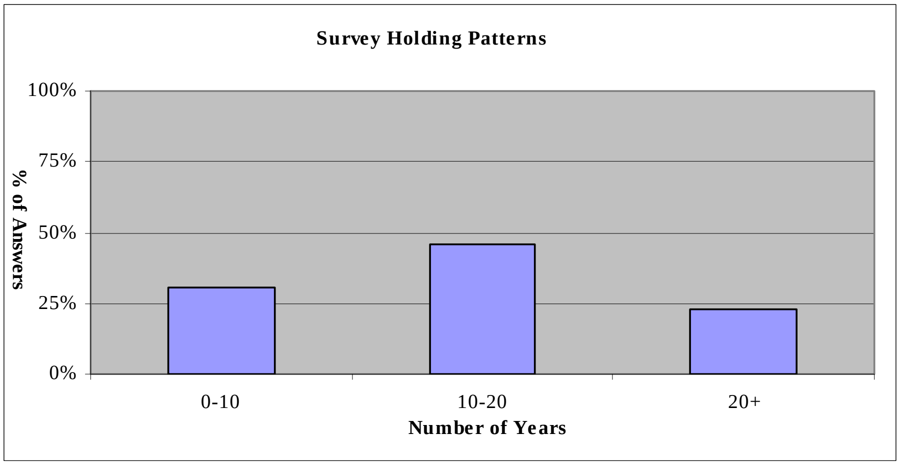




Q3

What are typical investor intentions/ expectations upon purchase, in terms of holding patterns? (# of years)

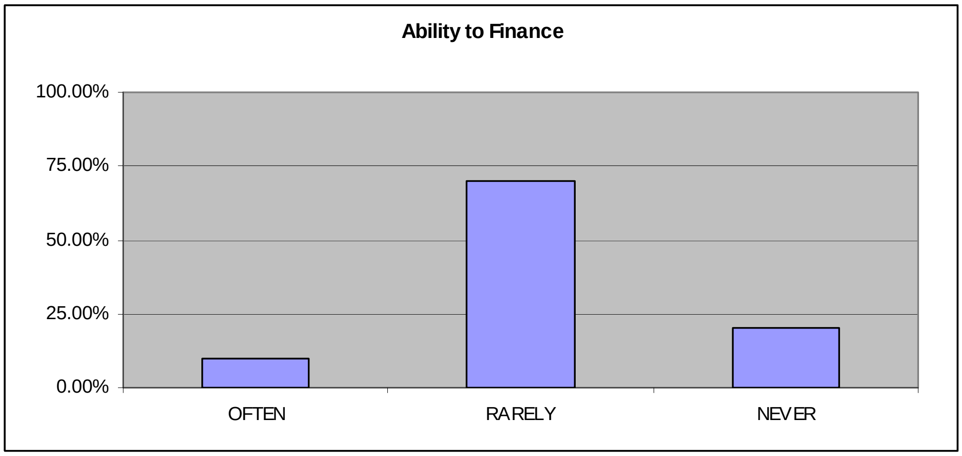
0-10	☐
10-20	☐
20+	☐

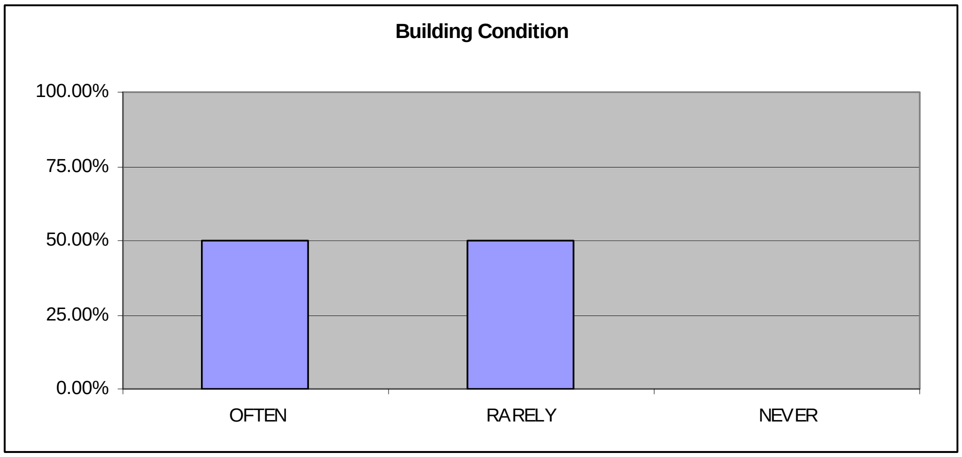


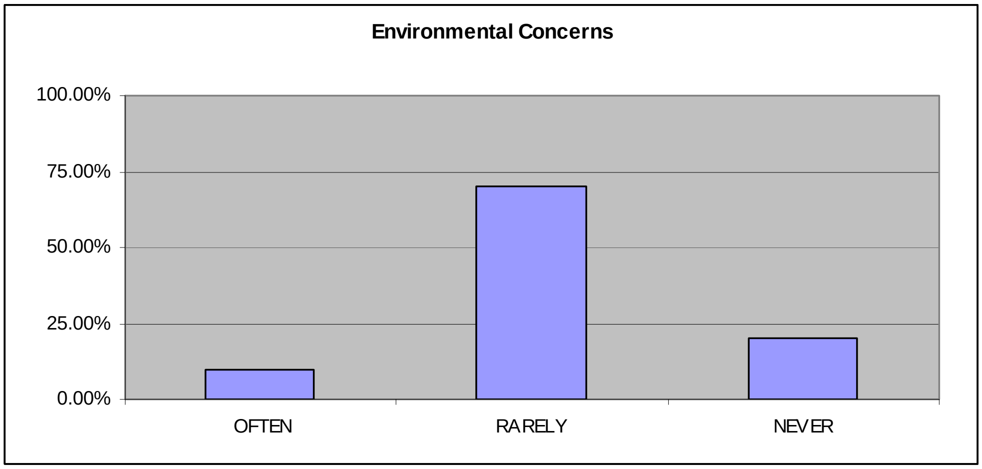
Q4

To what extent are the followng barriers to sale?

	Often	**Rarely**	**Never**
Ability to Finance?	☐	☐	☐
Building Condition?	☐	☐	☐
Environmental Concerns?	☐	☐	☐



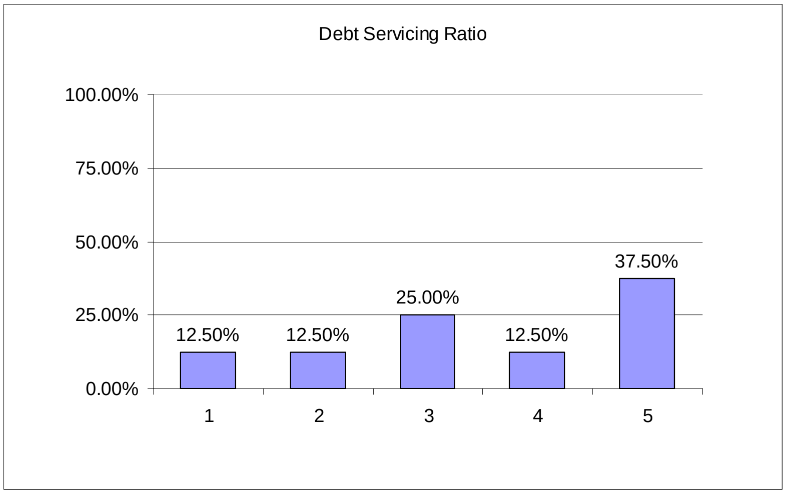


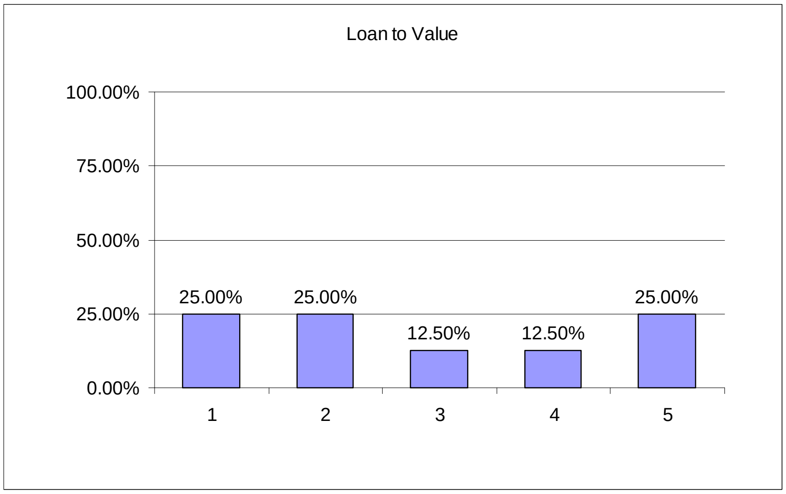


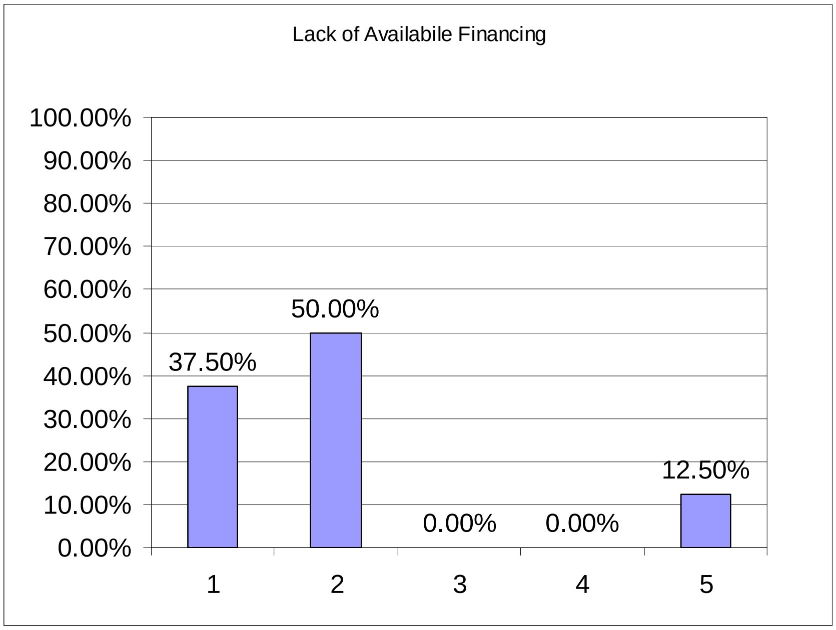
Q5

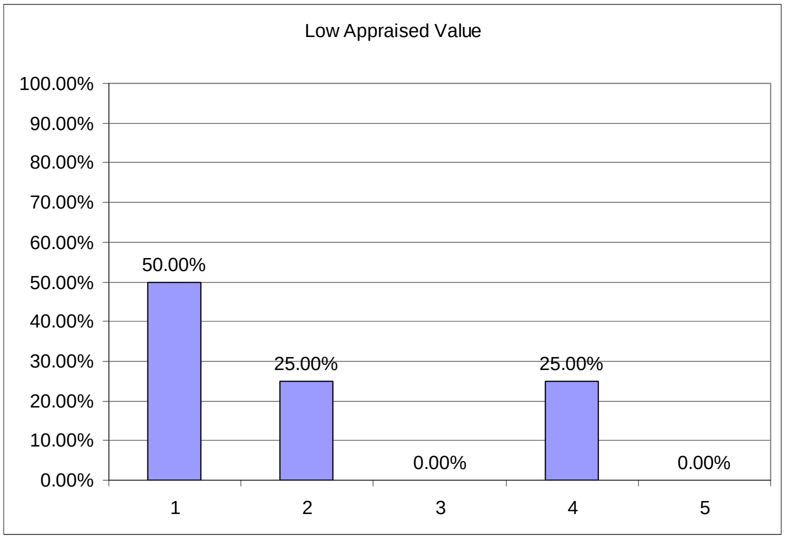
What are the major financing constraints impacting the existing purpose built multi-res market?
(Please circle one number for each line: 1 is not important / 5 very important)

Debt servicing ratio	1	2	3	4	5
Loan to Value	1	2	3	4	5
Lack of available financing	1	2	3	4	5
Low appraised value in relation to market	1	2	3	4	5


Debt Servicing Ratio
100.00%
75.00%
50.00%
25.00%
0.00%
12.50%
12.50%
25.00%
12.50%
37.50%
1
2
3
4
5


Loan to Value
100.00%
75.00%
50.00%
25.00%
0.00%
25.00%
25.00%
12.50%
12.50%
25.00%
1
2
3
4
5


Lack of Availabile Financing
100.00%
90.00%
80.00%
70.00%
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%
37.50%
50.00%
0.00%
0.00%
12.50%
1
2
3
4
5

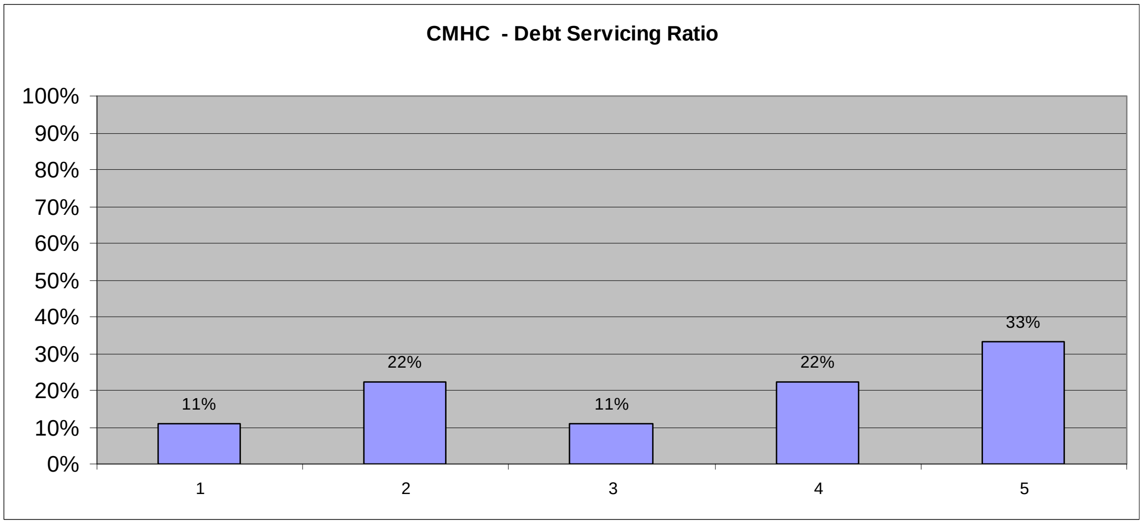


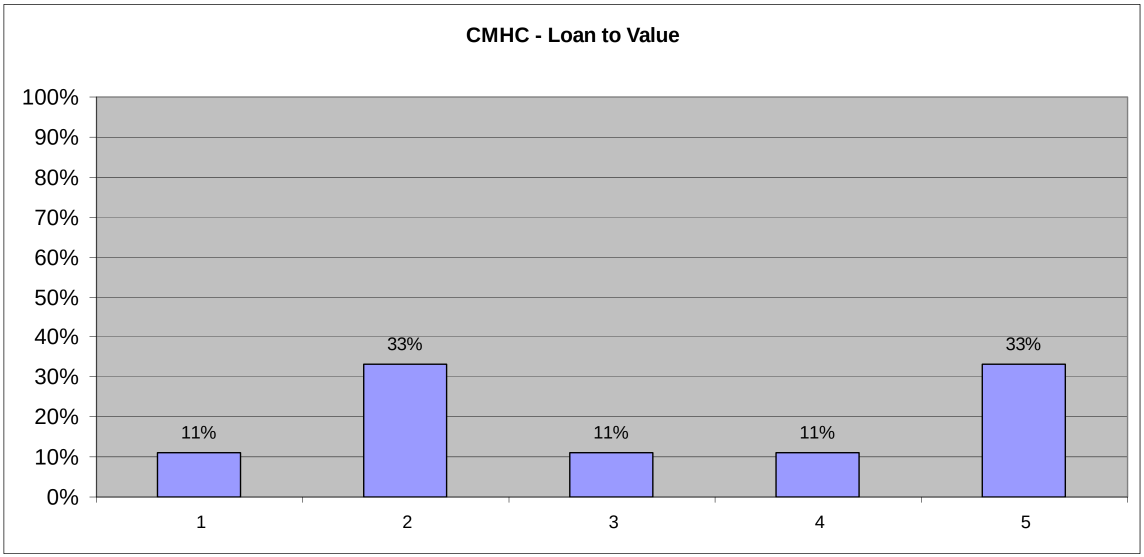
Q6

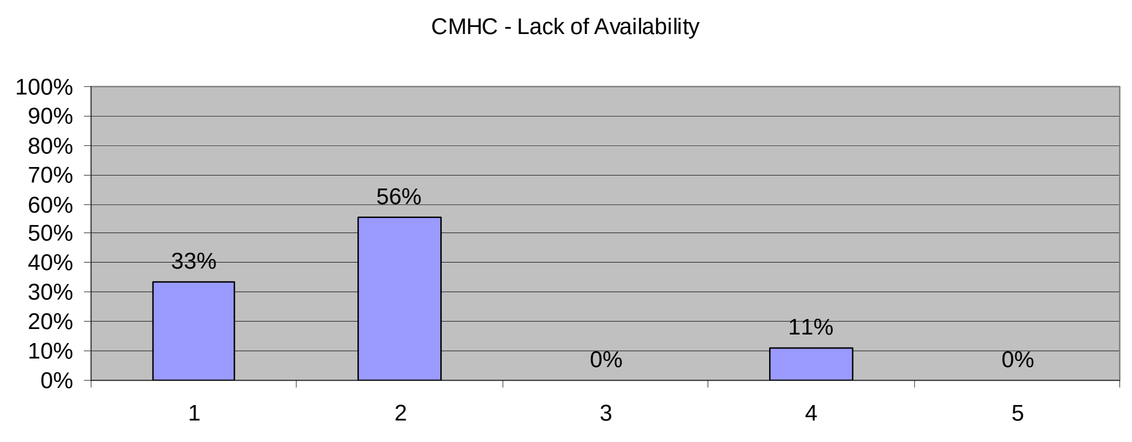
Do you have any concerns / issues with current CMHC insurance practices?

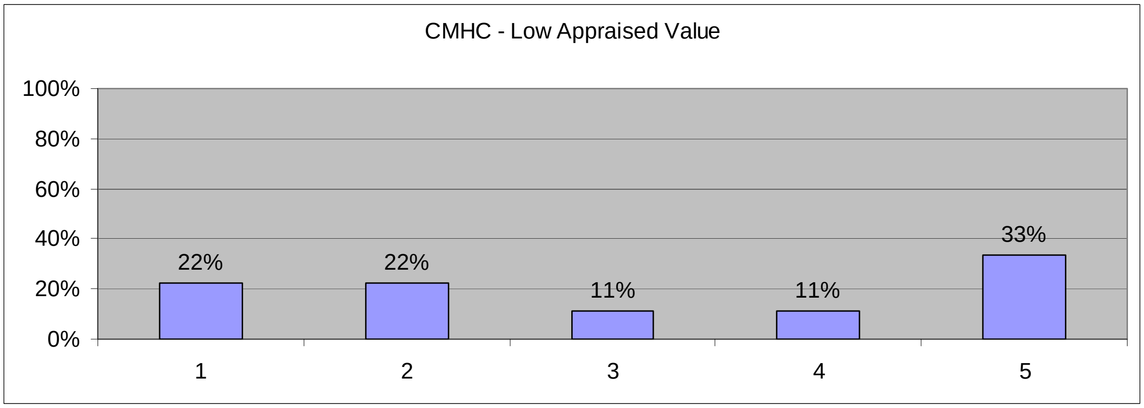
(Please circle one number for each line: 1 is not important / 5 very important)

Debt servicing ratio	1	2	3	4	5
Loan to Value	1	2	3	4	5
Lack of availability	1	2	3	4	5
Low appraised value in relation to market	1	2	3	4	5




CMHC - Loan to Value
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
11%
33%
11%
11%
33%
1
2
3
4
5


CMHC - Lack of Availability
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
33%
56%
0%
11%
0%
1
2
3
4
5


CMHC - Low Appraised Value
100%
80%
60%
40%
20%
0%
22%
22%
11%
11%
33%
1
2
3
4
5

Q7

What is the typical annual % turnover of units for the following types of buildings currently?

Highrise in the West End ________ %

Low Rise in Kits ________ %

Low Rise in Mount Pleasant ________ %

Answers (in %)

	Low	High	Mean
Highrise in the West End	5	45	21%
Low Rise in Kits	3	30	19%
Low Rise in Mt. Pleasant	4	40	21%

Q8

What is a typical broker fee (%) for selling this type of asset? ________ %

Answers (in %)

	Low	High	Mean
Broker Fee as % of Sale Price	1.50%	2.75%	2.33%

Q9

Do you or your clients set aside a cash reserve for capital expenditures and replacements? If so, what % of Annual Gross Income would this typically be?

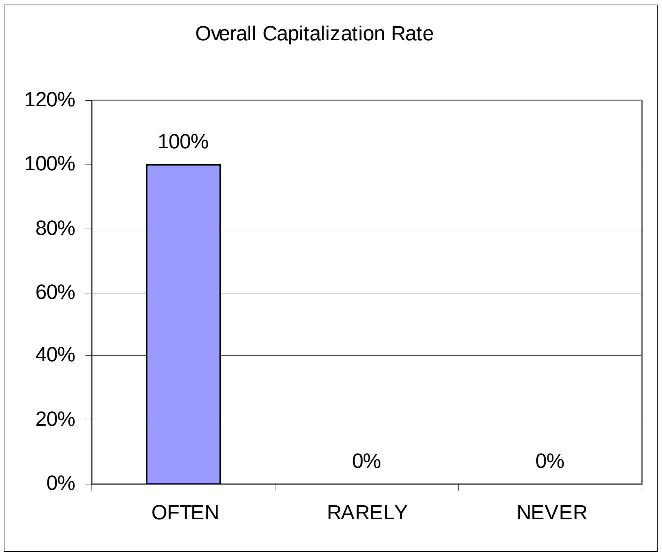
________ %

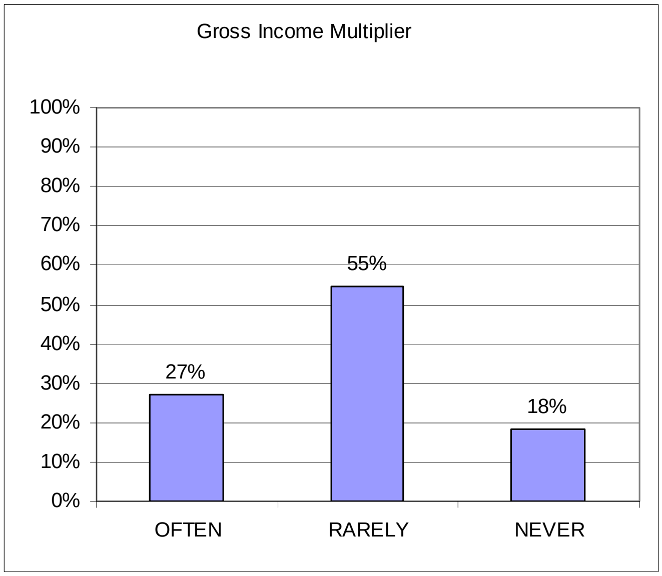
5-10% income or in Repair & Maintenance estimate or None

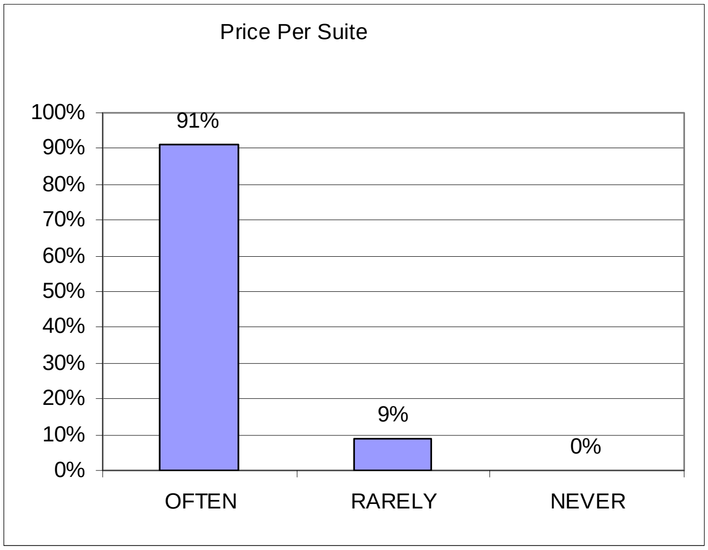
Q10

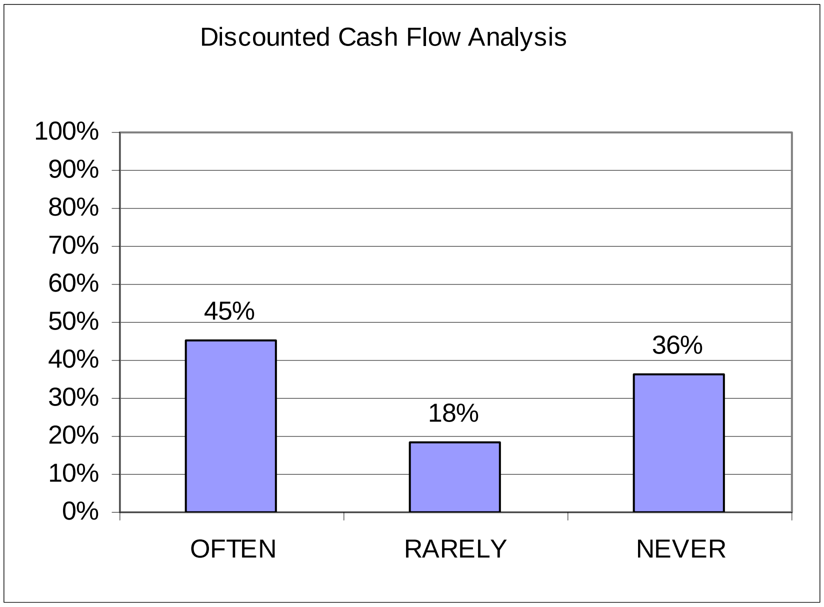
Which valuation methods are typically used by investors when acquiring this type of asset?

	Often	**Rarely**	**Never**
Cap of Net Income	☐	☐	☐
Gross Income Multiplier	☐	☐	☐
$ / Suite	☐	☐	☐
Discounted Cash Flow Analysis (ie. 10 yr cash flow projection)	☐	☐	☐


Overall Capitalization Rate
120%
100%
80%
60%
40%
20%
0%
100%
0%
0%
OFTEN
RARELY
NEVER

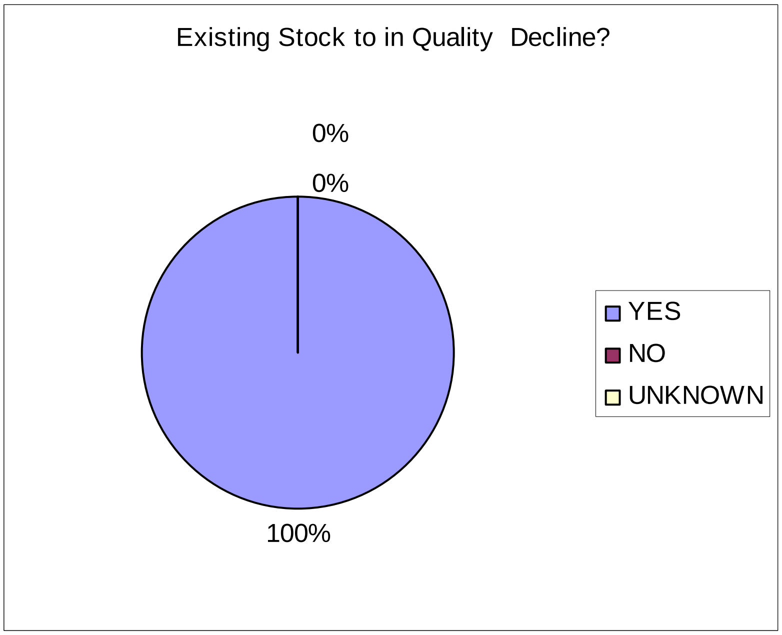

Gross Income Multiplier
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
27%
55%
18%
OFTEN
RARELY
NEVER

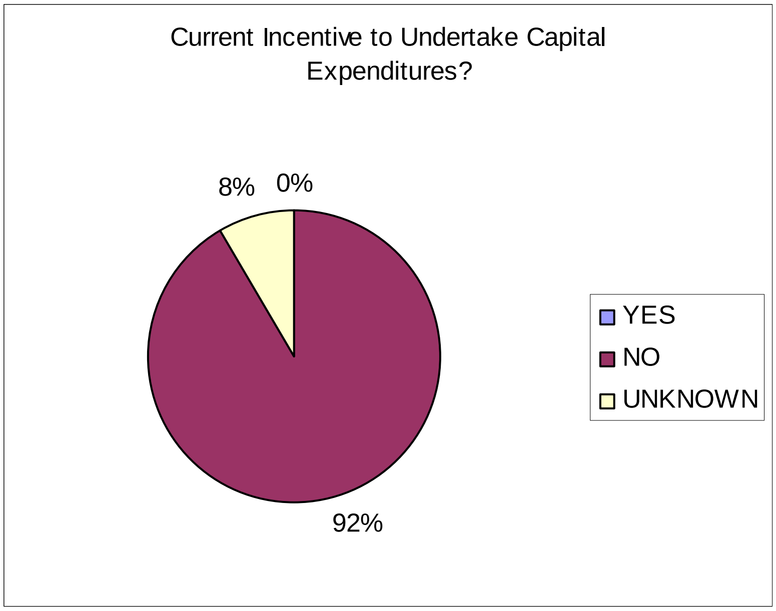

Price Per Suite
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
91%
9%
0%
OFTEN
RARELY
NEVER



Q11

	YES	NO	Unknown
a. *Do you think the existing stock will decline in quality without policy changes?*			
b. *Is there any incentive to undertake capital expenditures given current policies in place?*			



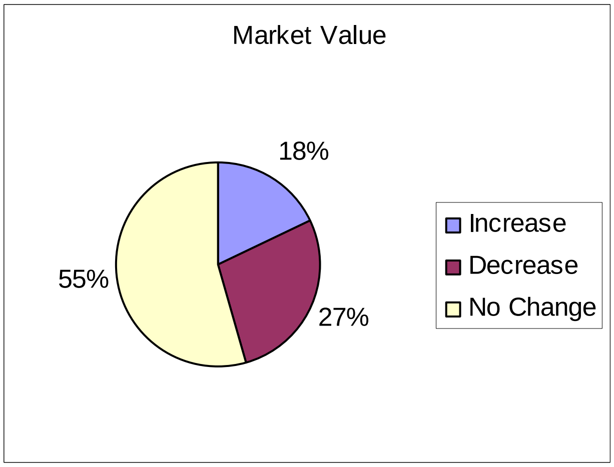


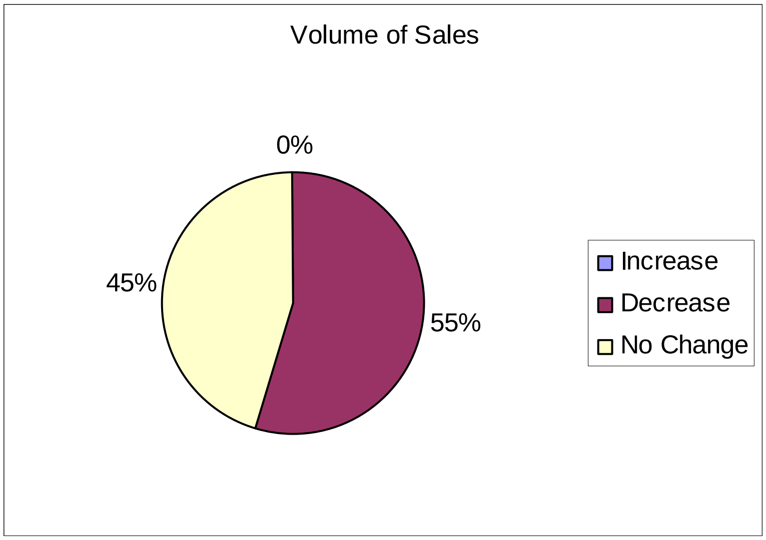
Q12

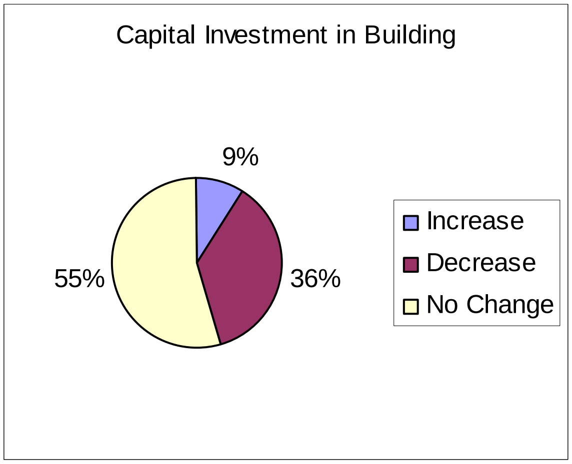
Since the introduction of the Rate of Change Policy, what effects have you observed on the following?
(For more information see: http://vancouver.ca/ctyclerk/cclerk/20070417/documents/p4.pdf)

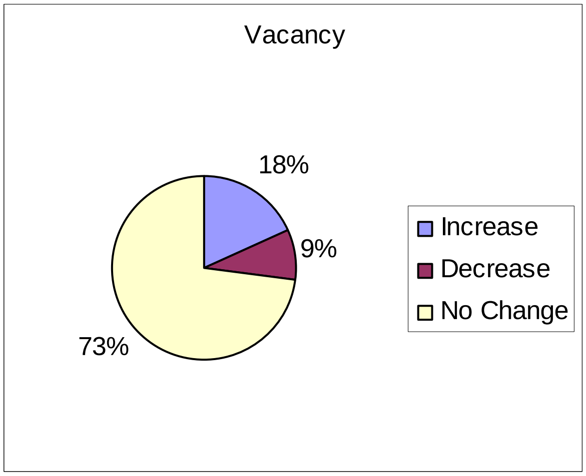
Please indicate one on each line

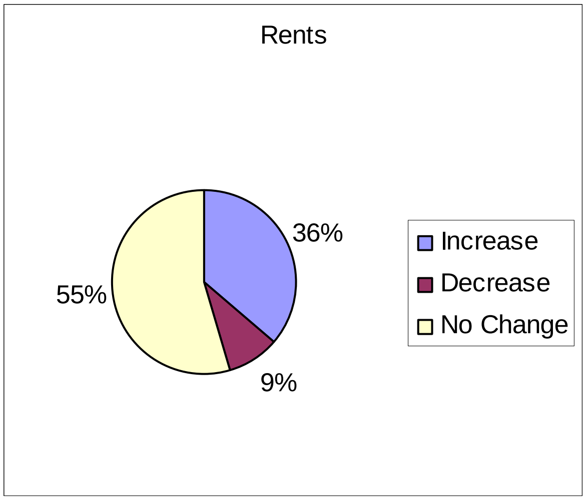
	Increase	**Decrease**	**No change**
Market Value	☐	☐	☐
Volume of sales	☐	☐	☐
Capital Investment in building	☐	☐	☐
Vacancies	☐	☐	☐
Rents	☐	☐	☐




Volume of Sales
0%
45%
55%
Increase
Decrease
No Change

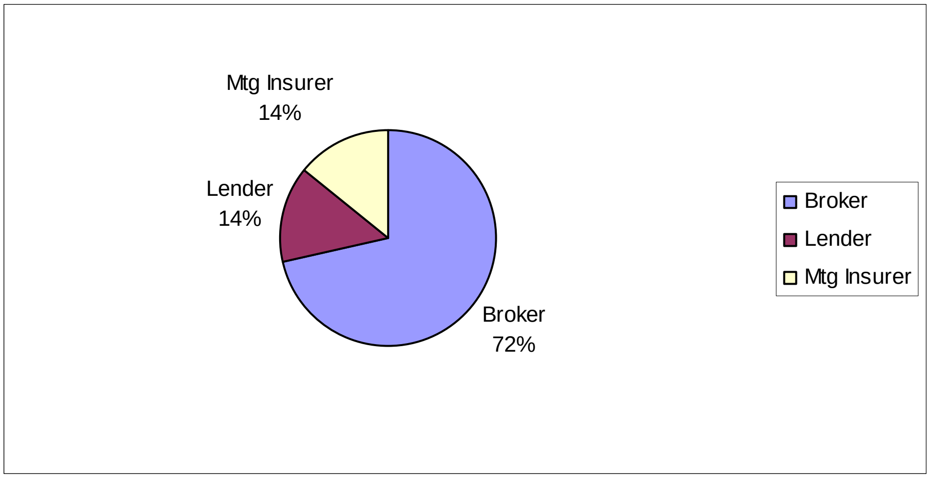

Capital Investment in Building
9%
55%
36%
Increase
Decrease
No Change


Vacancy
18%
9%
73%
Increase
Decrease
No Change



Financial Survey:

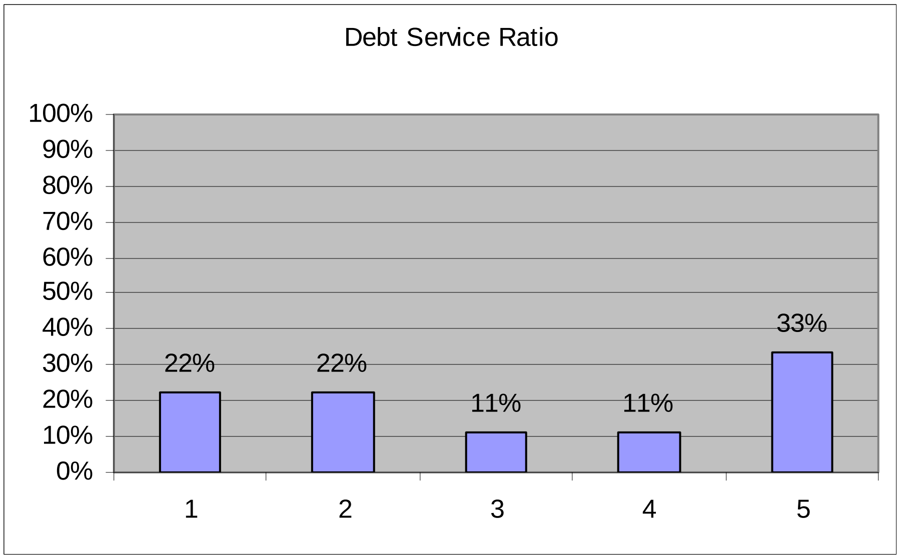
Respondent types

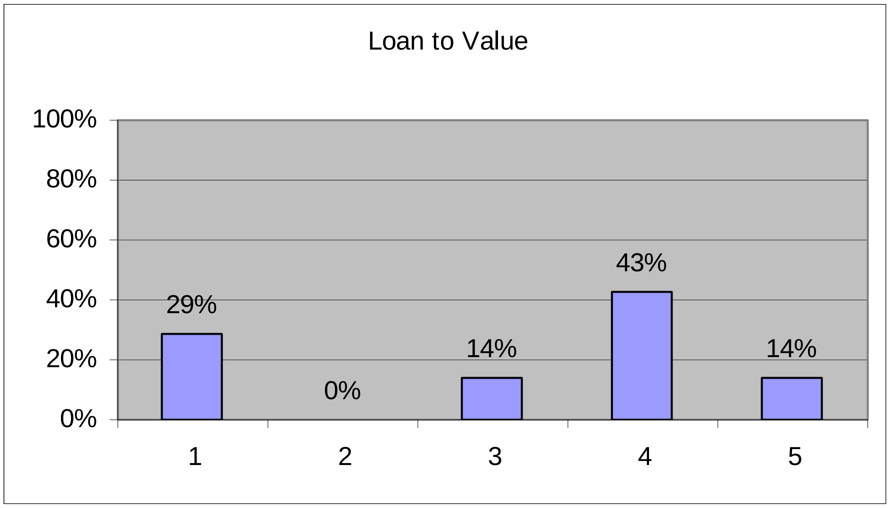


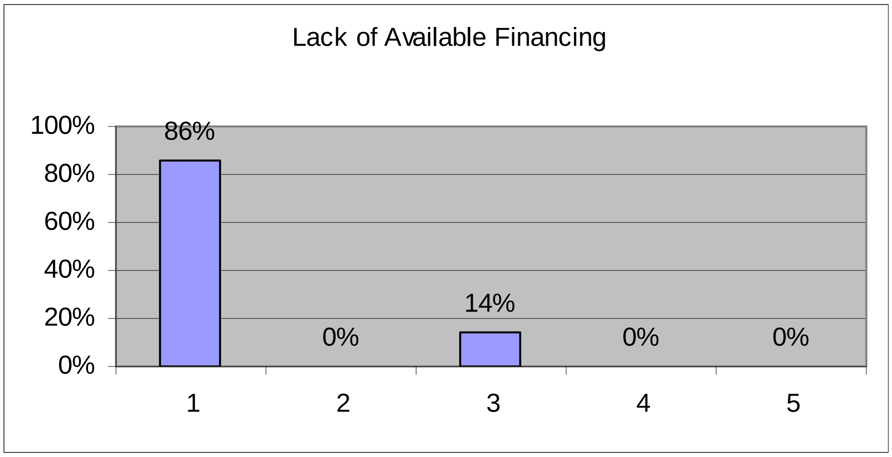
Q1

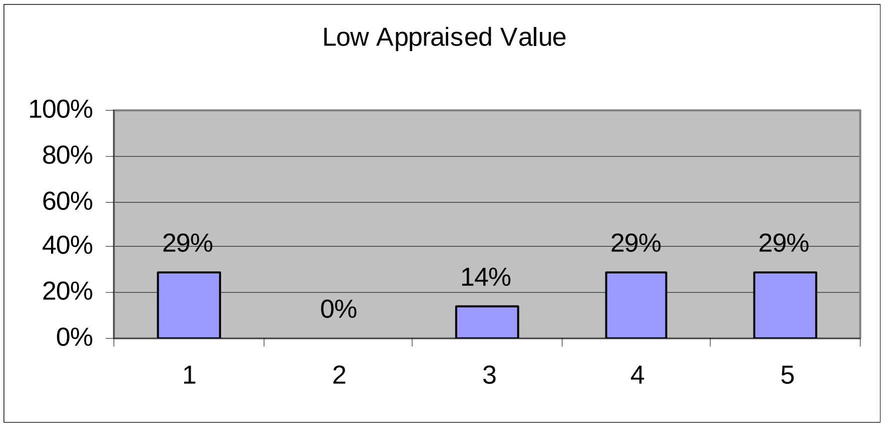
Do you see any issues with current CMHC insurance practices in place?
(1 - least issue of concern / 5 highest issue of concern)

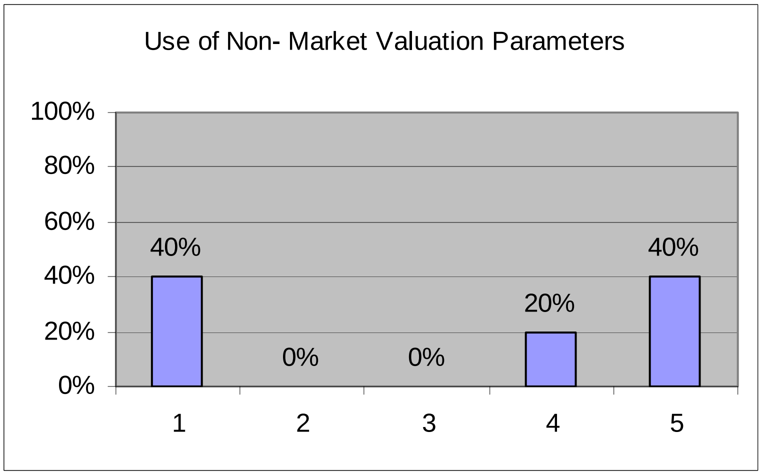
Debt servicing ratio	1	2	3	4	5
Loan to Value	1	2	3	4	5
Lack of availability of financing	1	2	3	4	5
Low appraised value in relation to market	1	2	3	4	5
Use of non-market valuation parameters (eg. Cap rate)	1	2	3	4	5


Debt Service Ratio
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
22%
22%
11%
11%
33%
1
2
3
4
5


Loan to Value
100%
80%
60%
40%
20%
0%
29%
0%
14%
43%
14%
1
2
3
4
5


Lack of Available Financing
100%
80%
60%
40%
20%
0%
86%
0%
14%
0%
0%
1
2
3
4
5


Low Appraised Value
100%
80%
60%
40%
20%
0%
29%
0%
14%
29%
29%
1
2
3
4
5


Use of Non- Market Valuation Parameters
100%
80%
60%
40%
20%
0%
40%
0%
0%
20%
40%
1
2
3
4
5

Q2

How prevalent are CMHC insured loans with this asset type?

Very Prevalent	**Not Prevalent**	**Somewhat Prevalent**
☐	☐	☐

Very Prevalent	Not Prevalent	Somewhat Prevalent
%	%	%
86%	0%	14%

Q3

What percentage are conventional? __________ %

Low	High	Mean
0	50	26.07

Q4

What are some of the motivations behind buying a purpose built multi-res properties in Vancouver?

Motivations for buying?

- Capital appreciation, no vacancy risk
- Stability of income, low vacancy, never overbuilt rental
- Future cashflow, low interest rates, value appreciation
- Lack of liquidity in other asset classes, rents are perceived as more stable, few other attractive options currently
- Ultimate in security, growing population, always going to be stable, can buy below replacement value
- Market in Vancouver is extremely stable / conservative --> vacancy always so low and expected to be so in the future.

Q5

What are some of the motivations behind selling a purpose built multi-res properties in Vancouver?

Motivations for selling?

- Estate issues, realizing gains
- Succession plans, general planning, deferred maintenance issues
- Low market cap rates
- View that the market for rental will come down, owners facing liquidity, cashflow issues
- Getting older, hassle of up keep, splitting up assets for children

Q6

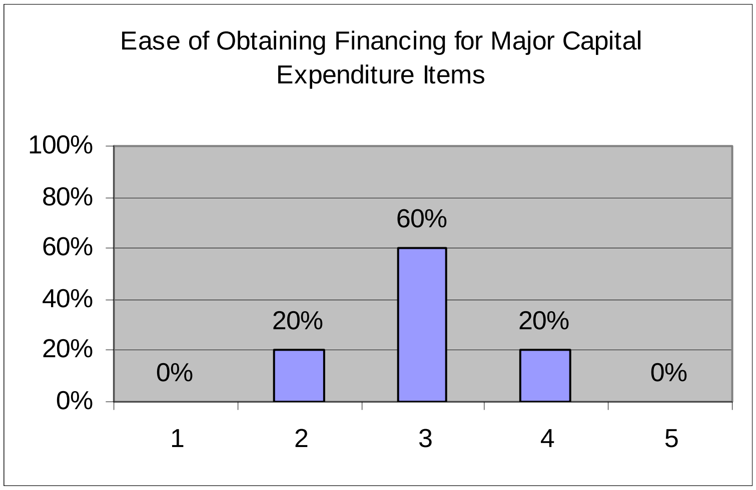
Do you or your lending contact set aside a cash reserve for capital expenditures and replacements during the underwriting process?

Yes	*No*

YES	NO	UNKNOWN
%	%	%
14%	86%	0%

Q7

How easy is it to obtain financing for capital expenditure projects?
(1 easy / 5 difficult) 1 2 3 4 5



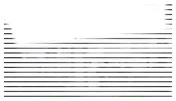
Appendix Tab C

RENTAL APARTMENT SURVEY
Kitsilano

						Parking			
		Address	Bachelor	1 Bedroom	2 Bedroom	In	Out	Hydro	Comments
	Model 1	**Kitsilano Area**							**39 Unit Wood Frame Walk Up. Limited Views.**
1	**The Royal** 	1848 West 3rd Avenue	**$1,100**	**1,150**	**n/a**	**$50**	**n/a**	Heat and hot water included.	Located at 3rd and Burrard. Suites have been updated and there is 24 hour laundry on site
2	**Larchway Gardens** 	2475-2485 West Broadway	**-**	**$1250-$1325**	**$1650-$1725**	**$51**	**n/a**	Heat and hot water included.	Midrise building located near Larch and Broadway. Facility includes a social room, laundry facilities and a garden
3	**Reid Manor** 	1875 - 1885 West 7th Avenue	**$1,150**	**$1650-$1850**	**n/a**	**n/a**	**$50**	Heat and hot water included.	Located at Cypress and 7th. Suites come with a fridge and stove. Recently upgraded roof, piping, and inits painted to restore parts of the premises
4	**Collingwood Manor** 	3520 West Broadway	**-**	**$1,150**	**n/a**	**$50**	**n/a**	Heat and hot water included.	Midrise building situated at Collingwood Street and West Broadway Ave. Older building and inferior to the subject.
5	**Dunway Court** 	3550 West Broadway	**-**	**1250-1325**	**$1650-$1725**	**$55**	**n/a**	Heat and hot water included.	Midrise building situated at Collingwood Street and West Broadway Ave. Older building and inferior to the subject.
6	**Yorkshire Apartments** 	2145 York Avenue	**-**	**$1,250**	**$1,500+**	**$40**	**n/a**	Heat and hot water included.	Lowrise building located at York Avenue and Arbutus Street Close to Kitsilano Beach. Older than the subject.
7	**Sunshine Manor** 	1815 Cornwall Avenue	**-**	**$1,100**	**n/a**	**$25**	**n/a**	Heat and hot water included.	Older lowrise building located at Cornwall and Cypress Street. No amenities.
7	**Kits Court** ***No picture available***	West 4th Avenue	**-**	**$1200-$1300**	**$1400-1450**	**$50**	**n/a**	Heat and Hot water included.	Mid rise building between Larch and Balaclava. Unit includes insuite laundry and dishwasher.

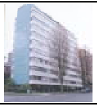
RENTAL APARTMENT SURVEY

Mount Pleasant

						Parking			
		Address	Bachelor	1 Bedroom	2 Bedroom	In	Out	Hydro	Comments
	Model 2	**Mount Pleasant Area**							**11 Unit Wood Frame Walk Up. Limited Views.**
1	**Vancouver View Terrace** 	807 E. 6th Avenue	**$700**	**$800**	**n/a**	**$25**	**n/a**	Heat and hot water included.	Midrise building situated at St. Catherine, between Fraser and Clark. Older building with 188 suites.
2	**McLean Apartments** 	1417 E. 8th Avenue	**n/a**	**$1,000**	**n/a**	**$35**	**n/a**	Heat and hot water included	Unit includes dishwasher. Lowrise building located at Clark Avenue. Close to Commercial Drive Skytrain.
3	**Rosyln Apartments** 	1635 E. 6th Avenue	**$825**	**$1,000**	**$1350-$1950**	**$30**	**n/a**	Heat and hot water included.	Lowrise building located near Commercial and Broadway. Most units include dishwashers.
4		145 E. 15th Avenue	**n/a**	**$975**	**n/a**	**$25**	**n/a**	Heat and hot water extra. Hydro extra ($20)	South facing unit including balcony and hardwood floors. Situated one block from Main Street.
5	**Acacia Grove** 	1555 E. 6th Avenue	**$825**	**$1,050**	**n/a**	**$25**	**n/a**	Heat and hot water included.	Prices for second and third floor units. Older lowrise building located near Main and Broadway. No amenities.
6	**Graham Apartments** 	2365 McClean Drive	**n/a**	**$1,000 - $1,050**	**$1,400**	**$35**	**n/a**	Heat and hot water included.	Older lowrise building located near Nanaimo and Broadway. Dishwasher included

RENTAL APARTMENT SURVEY

West End

							Parking			
			Address	Bachelor	1 Bedroom	2 Bedroom	In	Out	Hydro	Comments
	Model 3	**West End / Downtown Area**								**High-rise Concrete Building. Limited Views. Hardwood flooring.**
1		**Nicola Place**	1228 Nicola Place	**N/A**	**$1200 *no view $1400 *ocean view**	**N/A**	**$50**	**-**	Heat and hot water included.	1 bedroom apartments with balconies, new kitchen, dishwashers, Storage locker included. There is insutie laundry on site. Managed by Hollyburn Properties.
2		**Crystal Court**	1434 Burnaby Street	**N/A**	**$1150-1200 *no view" $1200 - $1300 *ocean view**	**N/A**	**$50**	**-**	Heat and hot water included.	Gym, storage and laundry on site. No pets. Kitchen, dishwasher are included in suite. Managed by Hollyburn Properties.
3		**English Bay Tower**	1750 Davie Street	**Junior One Bedrooms $1000 - $1100**	**$1100 - $1250 *no view $1300 - $1400 *ocean view**	**N/A**	**$50**	**$50**	Heat and hot water included.	Renovation underway on the building. Hardwod flooring and dishwasher. Gym and laundry on site. No pets.
4		**Cameo Manor**	1120 Barclay Street	**N/A**	**$960-$1100 smaller 1 BR $1200- $1500 1 BR+Den**	**N/A**	**$80**	**$60**	Heat and hot water included	Sauna and gym in the building.
5		**Bay Tower**	1461 Harwood Street	**$1,100**	**$1200 - $1300 *ocean view**	**$1650 - $1750 *ocean view**	**$50**	**$50**	Heat and hot water included	Newly renovated in 2007. All units with hardwood floors and dishwashers. Token laundry in the basement.
6		**Lincoln House**	1155 Harwood Street	**$990**	**$1050 - $1100 *no view $1150 - $1300 *ocean view**	**N/A**	**$50**	**-**	Heat and hot water included	Indoor swimming pool , laundry on site, and sauna. Only underground parking available.
7		**Hendry House**	1265 Burnaby Street	**N/A**	**$1200 - $1300 *ocean view**	**N/A**	**$50**	**-**	Heat and hot water included	Dishwasher, garburator, gated parking, gym, pool, storage available. No pets.
8		**Beachview Tower**	1433 Beach Avenue	**N/A**	**$1100 - $1200 *ocean view**	**N/A**	**$35**	**$25**	Heat and hot water included	All suites have ocean facing, living room views. Some bedrooms are located facing north.
9		**Casa Del Vandt**	1265 Cardero Street	**N/A**	**$1400-$1500 *ocean view**	**$1700-$1800 *ocean view**	**$50**	**$50**	Heat and hot water included.	Dishwasher and hardwood flooring in units. Laundry and storage on site. No pets. Managed by Hollyburn Properties

Appendix Tab D

SCHEDULE A

CITY OF VANCOUVER

OFFICIAL DEVELOPMENT PLAN REGARDING AREAS OF REAL PROPERTY IN CERTAIN RM, FM, AND CD-1 ZONING DISTRICTS

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OFFICIAL DEVELOPMENT PLAN REGARDING AREAS OF REAL PROPERTY IN CERTAIN RM, FM, AND CD-1 ZONING DISTRICTS

SECTION 1
INTERPRETATION

Definitions

1.1 In this instrument:

"ODP" means this instrument, being the official development plan for the real property in the zoning districts;

"rate of change" means the percentage net loss of rental housing units in a zoning district in the 365 days preceding the date on which a person submits a rezoning or development application for a multiple dwelling consisting of six or more dwelling units, on real property in that zoning district, as determined by the Director of the Housing Centre or successor in function;

"rental housing unit" means a dwelling unit, housekeeping unit, or sleeping unit on a site that a tenant rents, or has rented, for the purpose of living accommodation but does not include a unit rented by a not for profit housing cooperative to a member of the cooperative or a unit in a community care facility or group residence; and

"zoning districts" mean the RM-2, RM-3, RM-3A, RM-4 and RM-4N, RM-5, RM-5A, RM-5B and RM-5C, RM-6, FM-1, and CD-1 zoning districts referred to in section 9.1 of the Zoning and Development By-law, the boundaries of which the Zoning District Plan, and amendments to it, attached as Schedule D to the Zoning and Development By-law, delineate.

Imported definitions

1.2 Except for the definitions set out in section 1.1, the definitions in section 2 of the Zoning and Development By-law apply to this ODP.

Incorporation by reference

1.3 This ODP incorporates by reference all policies and guidelines referred to herein.

Table of contents and headings

1.4 The table of contents and headings in this ODP are for convenient reference only, and are not for use in interpreting or enforcing this ODP.

Severability

1.5 A decision by a court that any part of this By-law is illegal, void, or unenforceable severs that part from this By-law, and is not to affect the balance of this By-law.

Application

1.6 This ODP applies to real property in the zoning districts.

SECTION 2

RENTAL HOUSING POLICY

CityPlan policy about rental housing

2.1 On June 6, 1995, Council adopted "CityPlan: Directions for Vancouver" which, under the title "Addressing Housing Costs", includes a specific policy to "maintain a stock of rental housing", and, in the years since the adoption of "CityPlan", Council has continued to address the issue of rental housing.

Concerns about rental housing

2.2 Council has concerns about the reserve of rental housing stock because, among other things, of the scarcity of federal or provincial incentives to develop rental housing; competition from the condominium industry; the lack of new development of purpose built rental housing; the number of rental housing units demolished or targeted for demolition; the fact that 56% more or less of households occupy rental housing units and that 31% more or less of those households are in core need; the low vacancy rate for rental housing units; the limited remaining capacity of industrial areas "let go" by Council for residential development; the limited future capacity for the development of rental housing in other areas of the city; and the growing demand for rental housing.

Location of rental housing

2.3 The zoning districts include a significant supply of rental housing.

Rental housing policy

2.4 Council's policy regarding real property in the zoning districts is that development on any site of a multiple dwelling consisting of six or more dwelling units that requires the demolition or change of use or occupancy of a rental housing unit on that site, or that would have required such demolition or change of use or occupancy had a person, during the 3 years preceding the date of application for a development permit for a multiple dwelling, not demolished one or more rental housing units or changed their use or occupancy, and that exceeds a rate of change of 0% for the district in which the site is situate, is not permissible unless a housing agreement, satisfactory to Council, provides for the replacement of, or contribution to the replacement of, such rental housing units, on or off site, or the provision of another form of affordable housing.

Affordable housing and special needs housing policies

2.5 Council's existing policies respecting affordable housing and special needs housing are to continue to apply to real property in the zoning districts. Such policies include, among others CityPlan: Directions for Vancouver adopted by Council on June 6, 1995; Affordable Housing Policies adopted by Council on May 8, 1989, October 17, 1989, May 16, 1991, October 16, 2001, June 14, 2005 (Homeless Action Plan), and September 22, 2005 (Housing Plan for the Downtown Eastside); and Community Care Facility and Group Residence Guidelines.