

# The Apartment Expert: How to Buy, Sell, & Increase Cash Flow



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# The Economic Outlook:

*“What’s happening?  
Where are we headed?”*



# Economic Outlook

- The current global financial crisis has had a “domino” effect on stock prices and liquidity.
- Capital is constrained.
- Borrower requirements & underwriting have been forced to adjust to increased marketplace volatility and risk.
- Debt/service coverage ratios have increased.
- Tighter underwriting will be the new future reality.



## Economic Outlook *(cont.)*

- Short term? Further economic weakness will be reflected in higher rental apartment vacancies.
- Credit “crunch” is dampening the pace of transactions and will affect prices in the short term.
- Among real estate, Rental Apartments have healthy fundamentals, followed by Warehouses. Office and Retail sectors will be weak in the short term.
- High-profile defaults are mostly high-leverage deals closed at market peak, failed conversions, & speculative developments.



## Economic Outlook *(cont.)*

- The current environment is marked by a “flight to safety” among investors and lenders.
- The market contains plenty of equity and a substantial amount of cash remains on the sidelines, thus investors will be seeking to re-deploy capital beyond the current volatile economic situation.



# Economic Outlook (*cont.*)

- Seller Psychology:
  - Grieving for the loss of value and/or net worth.
- Buyer Psychology:
  - Institutional investors are fearful of making a mistake.
  - Private investors believe they have the upper hand & are waiting for values to drop further.



# It's about buying smart!

*80 % of the money you make  
is made by buying smart.*

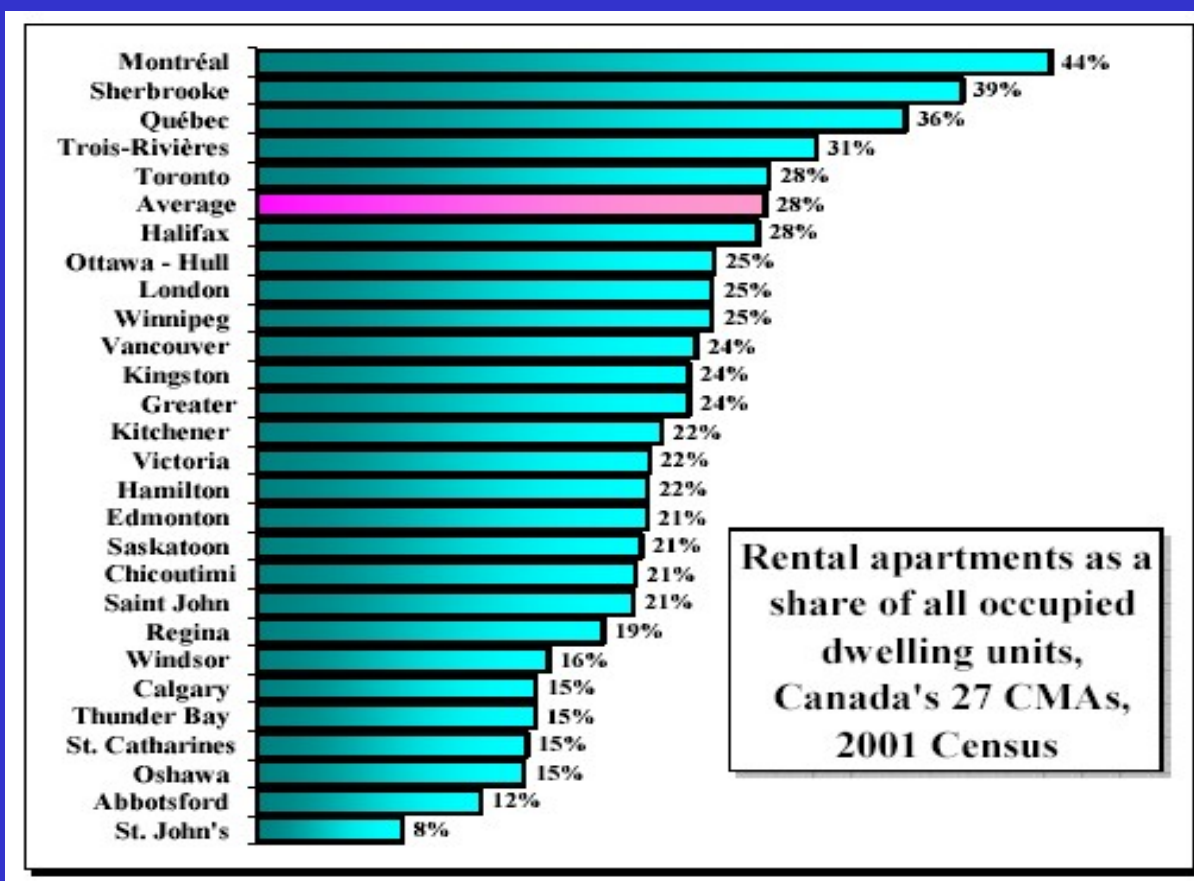


# Apartment Demand & Rent Growth are a Function of:

- Population Growth (Internal & External Immigration)
- Income
- Housing Prices
- Vacancy Rates

*But even if these factors are good,  
there still has to be something to buy!*

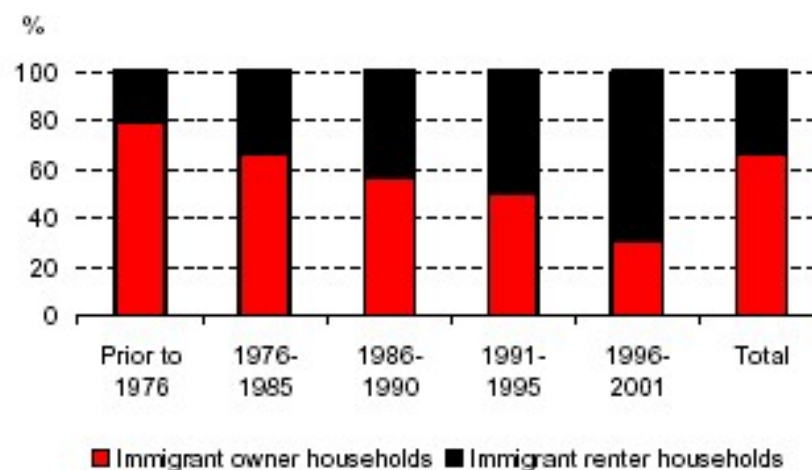
# Population Measures 1



SOURCE: Urban Futures.

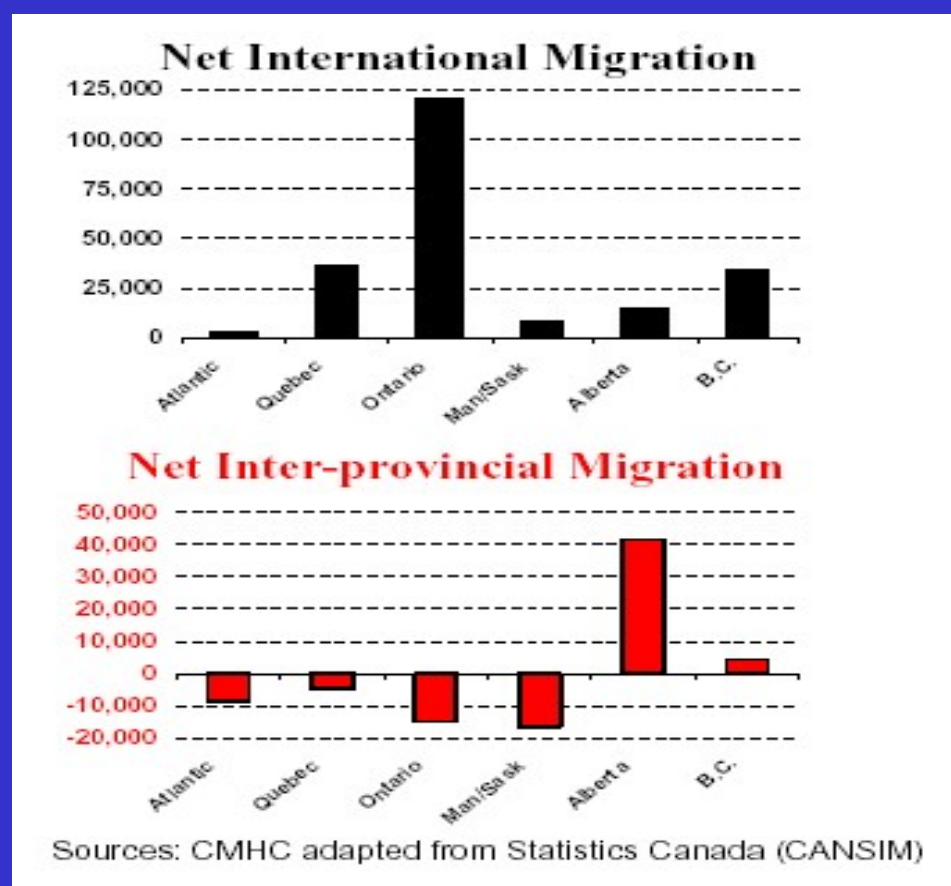
# Population Measures 2

**Immigrants by tenure and period of immigration - Canada**



Sources: CMHC and Statistics Canada (Census 2001)

# Population Measures 3



# Canadian Apartment Universe

Metropolitan Area	No. of Structures (by Building Size)					Total
	Under 6	6 to 19	20 to 49	50 to 199	200+	
Halifax	741	684	289	198	8	1,920
London	839	378	246	217	14	1,694
Calgary	867	944	389	120	20	2,340
Hamilton	499	564	194	222	30	1,509
Winnipeg	326	748	504	213	29	1,820
Ottawa	1,027	1,153	169	229	69	2,647
Edmonton	77	1,347	920	224	21	2,589
Quebec City	3,371	3,285	567	144	11	7,378
Vancouver	532	1,540	1,307	532	14	3,925
Toronto (CMA)	3,053	2,274	1,082	1,306	363	8,078
Montreal (CMA)	30,008	22,892	2,622	794	96	56,412
<b>TOTAL</b>	<b>49,994</b>	<b>43,667</b>	<b>10,115</b>	<b>4,991</b>	<b>701</b>	<b>109,488</b>

SOURCE: CMHC 2006.

# Canadian Apartment Universe

Metropolitan Area	No. of Dwelling Units (by Building Size)					Total
	Under 6	6 to 19	20 to 49	50 to 199	200+	
Halifax	2,789	6,931	9,040	16,548	1,994	37,302
London	3,109	3,655	7,077	22,283	3,188	39,267
Calgary	3,440	10,056	11,570	11,070	5,280	41,416
Hamilton	1,906	5,511	6,183	22,107	7,031	42,738
Winnipeg	1,269	8,761	15,081	20,031	7,904	53,046
Ottawa	3,707	9,809	5,205	24,217	17,581	60,519
Edmonton	315	15,975	25,395	19,193	5,179	66,057
Quebec City	13,180	30,629	17,214	12,856	3,031	76,910
Vancouver	1,923	17,521	41,549	42,373	3,299	106,665
Toronto (CMA)	11,073	21,555	35,585	131,246	103,532	302,991
Montreal (CMA)	109,512	193,221	77,966	71,584	26,532	478,815
<b>TOTAL</b>	<b>185,108</b>	<b>397,180</b>	<b>307,410</b>	<b>462,825</b>	<b>190,620</b>	<b>1,543,149</b>

SOURCE: CMHC 2006.



# Acquisition Strategies

- Identify Missing Niche in Marketplace
- Built Form (High-Rises, Townhouses, no Elevators)
- Scalability



# Acquisition Strategies

## **In Each Market and Sub-Market:**

- Stagnant Portfolios
- Repositioning Opportunities
- Empire Loyalist Building
- Story Buildings

## **New Construction:**

- Better returns over time
- Brochure quality product
- Merchant Builder Relationship

## **Condo Conversion Opportunities (for future exit)**



# The Hidden Value Market Survey

- Select Competitors
- Rank Buildings
- Compare Ranking to Rent Charged
- Determine Neighbourhood Rents
- Test Higher Rents
- Benchmarks



# Ranking Buildings 1

## Apartment Survey Chart:

	Apt #1	Apt #2	Apt #3	Apt #4	Apt# 5	Apt# 6
1. Superintendents	21	22	18	17	19	15
2. Curb Appeal	21	22	20	19	6	5
3. Lobby	21	22	20	19	15	16
4. Common Areas	21	22	19	20	14	14
5. Apartment Appeal	22	20	21	19	17	16
6. Location	14	18	17	16	3	20
7. Security	21	22	20	19	17	6
8. Parking	21	18	19	20	22	12
9. Amenities	17	8	6	5	12	21
<b>TOTAL:</b>	<b>179</b>	<b>174</b>	<b>160</b>	<b>154</b>	<b>135</b>	<b>124</b>
<b>RANKING:</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>

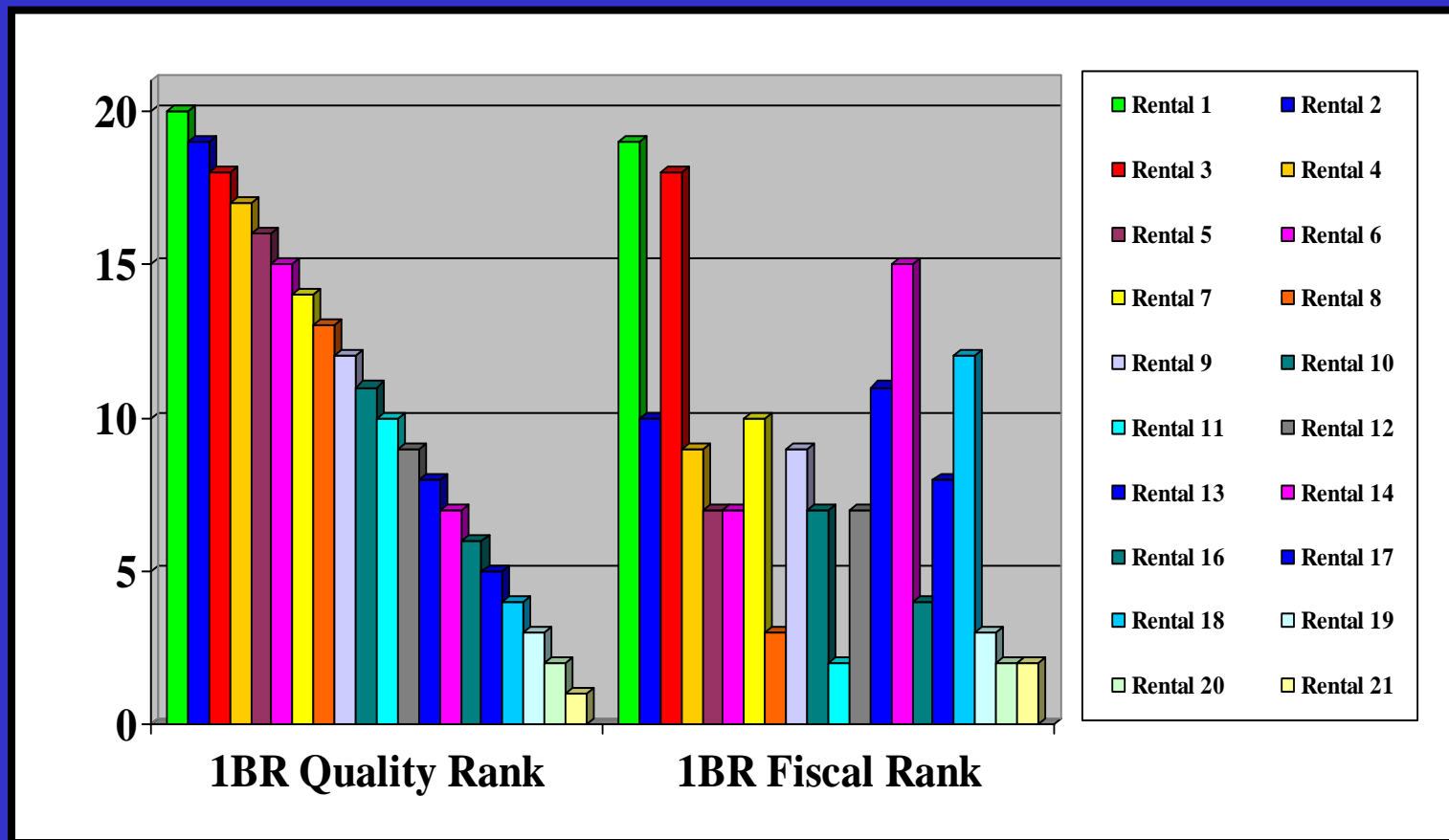


# Ranking Buildings 2

## Apartment Survey Chart:

	<u>Quality Rank</u>	<u>1BR Fiscal Rank</u>	<u>1BR \$</u>	<u>Parking \$</u>	<u>Utilities Incl.</u>
Apartment #1	1	6	605	Incl.	Yes
Apartment #2	2	2	650	\$20	No
Apartment #3	3	3	639	Incl.	No
Apartment #4	4	5	579	Incl.	Yes
Apartment #5	5	4	625	Incl.	Yes
Apartment #6	6	1	719	Incl.	Yes

# Ranking Buildings (Part 3)



# Population Growth

City	Population 2001	Population 2006	Population Growth ( % ) 2001-2006
Calgary (CMA)	951,395	1,079,310	13.4%
Edmonton (CMA)	937,845	1,034,945	10.4%
Lethbridge	67,374	95,196	8.9%
Red Deer	67,707	82,772	22.0%
Grand Prairie	36,983	71,868	22.3%
Medicine Hat	61,735	68,822	11.5%
Wood Buffalo	42,602	52,643	23.6%
Vancouver (CMA)	1,986,965	2,116,581	6.5%
Victoria (CMA)	311,902	330,088	5.8%

SOURCE: Statistics Canada Census 2006.



# Average Rents

City	Average Rents (All Units)
Calgary (CMA)	\$ 992
Edmonton (CMA)	\$ 908
Lethbridge	\$ 740
Red Deer	\$ 798
Grand Prairie	\$ 979
Medicine Hat	\$ 634
Wood Buffalo	\$ 2,193
<i>Vancouver (CMA)</i>	<i>\$ 904</i>
<i>Victoria (CMA)</i>	<i>\$ 774</i>

SOURCE: CMHC 2008.



# Affordability (Income vs. Rents)

## 1 Bedroom Units

City	Median Income (1 Person Household)	1. Est. Affordable Monthly Rent	2. AVG Rent (1 Bedroom)	GAP between 1. and 2.
Calgary (CMA)	\$ 30,432	\$ 845.33	\$ 919	- \$ 74
Edmonton (CMA)	\$ 24,663	\$ 685.08	\$ 837	- \$ 152
Lethbridge	\$ 20,247	\$ 562.42	\$ 690	- \$ 128
Red Deer	\$ 24,292	\$ 674.78	\$ 723	- \$ 48
Grand Prairie	\$ 27,145	\$ 754.03	\$ 903	- \$ 149
Medicine Hat	\$ 20,193	\$ 560.92	\$ 560	\$ 1
Wood Buffalo	\$ 54,267	\$ 1,507.42	\$ 1,858	- \$ 351
Vancouver (CMA)	\$ 26,769	\$ 743.58	\$ 857	- \$ 113
Victoria (CMA)	\$ 24,735	\$ 687.08	\$ 736	- \$ 49

SOURCE: DALA Calculations from CMHC 2008 and Statistics Canada Census 2006.



# Affordability (Income vs. Rents)

## 2 Bedroom Units

City	Median Income (2+ Person Household)	1. Est. Affordable Monthly Rent	2. AVG Rent (2 Bedroom)	GAP between 1. and 2.
Calgary (CMA)	\$ 68,963	\$ 1,915.64	\$ 1,096	\$ 820
Edmonton (CMA)	\$ 62,666	\$ 1,740.72	\$ 1,000	\$ 741
Lethbridge	\$ 53,658	\$ 1,490.50	\$ 783	\$ 708
Red Deer	\$ 60,929	\$ 1,692.47	\$ 866	\$ 826
Grand Prairie	\$ 69,300	\$ 1,925.00	\$ 1,025	\$ 900
Medicine Hat	\$ 54,527	\$ 1,514.64	\$ 670	\$ 845
Wood Buffalo	\$ 94,874	\$ 2,635.39	\$ 2,350	\$ 285
Vancouver (CMA)	\$ 62,168	\$ 1,726.89	\$ 1,071	\$ 656
Victoria (CMA)	\$ 59,936	\$ 1,664.89	\$ 900	\$ 765

SOURCE: DALA Calculations from CMHC 2008 and Statistics Canada Census 2006.

# Vacancy Rates

City	Vacancy Rate (All Units)
Calgary (CMA)	2.0%
Edmonton (CMA)	3.4%
Lethbridge	0.8%
Red Deer	3.2%
Grand Prairie	8.8%
Medicine Hat	2.0%
Wood Buffalo	0.1%
<i>Vancouver (CMA)</i>	<i>0.9%</i>
<i>Victoria (CMA)</i>	<i>0.3%</i>

SOURCE: CMHC 2008.



# Apartment Universe

City	Total Apartment Universe
Calgary (CMA)	37,861
Edmonton (CMA)	60,360
Lethbridge	2,692
Red Deer	4,654
Grand Prairie	2,862
Medicine Hat	2,467
Wood Buffalo	3,260
Vancouver (CMA)	103,962
Victoria (CMA)	23,367

SOURCE: CMHC 2008.

# Rental Units vs. Population

City	No. of Rental Units per 100 People
Calgary (CMA)	3.51
Edmonton (CMA)	5.83
Lethbridge	2.83
Red Deer	5.62
Grand Prairie	3.98
Medicine Hat	3.58
Wood Buffalo	6.19
Vancouver (CMA)	4.91
Victoria (CMA)	7.08

SOURCE: DALA calculation from CMHC 2007 and Statistics Canada.



# Greater Edmonton Market Outlook

- Due to an abundance of housing and condominium units on the Edmonton market, the red-hot condo conversion market has cooled.
- Rental rates in the Edmonton market continue to stabilize and vacancy rates continue to remain historically low at 2.5%.



# Greater Edmonton Market Outlook *(cont.)*

- In the first half of 2008, twenty-two (22) properties sold, totalling \$103 million.
- The overall average price-per-unit at the end of June 2008 was \$124,800, with buildings over 100 units averaging \$97,864 per unit, and buildings with 20-100 units averaging \$133,117 per unit.



# Acquisition Strategies

1. You can only buy where the apartment universe provides.

City	Population 2006	Total Apartment Universe
Calgary, AB	1,079,310	40,333
Hamilton, ON	692,911	42,498

SOURCE: CMHC 2006 and Statistics Canada Census 2006.

# Acquisition Strategies

## 2. People matter.

City	Population Growth ( %) 2001-2006
Okotoks	46.7%
Wood Buffalo	23.6%
Calgary (CMA)	13.4%
Edmonton (CMA)	10.4%
Lethbridge	8.9%
Camrose	5.0%
Brooks	3.5%

SOURCE: Statistics Canada Census 2006.



# Acquisition Strategies

3. You should consider building where the apartment universe is low, but income is high.



# Acquisition Strategies

4. Watch where the seniors are going. The aging population will require larger apartments in retirement-friendly neighbourhoods.



# Acquisition Strategies

*\* Remember, it wouldn't take much to dominate market share in some smaller cities and towns.*



# Questions & Answers



# Questions & Answers...

1. Are there any other key metrics that buyers need to consider?



# Questions & Answers...

2. How are you finding your best deals?



# Questions & Answers...

3. In any given city, how do you evaluate neighbourhoods?



# Questions & Answers...

4. How does the resident profile impact on your financial proforma and buying decision?



## Questions & Answers...

5. Once you have a building under contract, in what order to you execute the components of your due diligence?



# Questions & Answers...

6. What are some of the intangibles you look at when buying?