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Apartment-block sales sizzle

Solid investment amid recession as demand outstrips local supply

By: Murray McNeill

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WAYNE GLOWACKI / WINNIPEG FREE PRESS Agents Trevor Clay and Robert Scaletta of CB Richard Ellis in front of property at 471 William Ave., currently on the market.

Apartment buildings have become the darlings of the local investment world, and the economic recession has done nothing to diminish their appeal.

"There is definitely a strong level of interest in terms of investors," Trevor Clay, a commercial real estate agent with CB Richard Ellis Chartier & Associates and a member of CB Richard Ellis' national apartment team, said in an interview.

"If it's a good product and it's priced at market value... it's sold," said Derrick Chartier, president of the Winnipeg real estate firm.

Chartier said the company recently listed a 275-suite building in Thompson. It attracted multiple inquiries and sold for close to the asking price -- more than \$14 million -- in spite of the remote location.

Clay and fellow CB Richard Ellis agent Robert Scaletta have also received multiple inquiries about two other apartment blocks they have listed for sale -- one in Winnipeg and one in Selkirk. The calls have come from other agents as well as local private investors.

Chartier said the demand for apartment blocks has been strong for the last five years.

But last year was the busiest in the last five years for apartment-building sales, according to the Wayne Johnson, a sales and leasing agent with Royal LePage Dynamic Real Estate.

Johnson, who publishes a twice-yearly report -- *The Johnson Report* -- on commercial real estate transactions in Winnipeg, said 40 apartment blocks, with a total of 1,258 suites, changed hands last year in the city. That was 13 more buildings and twice as many suites as in 2007.

Last year's suites total was the highest in five years, while the dollar volume of sales was the highest in at least a decade.

Johnson said 2008's dollar-volume and suites totals were bolstered by the sale of the downtown Cumberland House highrise, which has 256 suites and sold for \$12.8 million.

Nothing anywhere near that size sold in 2007.

Last year's sales also included several multi-property portfolios, which Johnson said could partly explain the jump in building sales.

However, if the first few months of 2009 are any indication, last year wasn't the start of a new trend because product (for sale) is once again hard to come by.

"The supply definitely doesn't meet the demand, especially with larger properties," Chartier said. "There is a huge appetite for those and none on the market."

He and Clay had several possible explanations for why the demand for Manitoba apartment buildings remains so high.

For one thing, apartment buildings are generally considered a more stable investment than office, industrial or retail buildings -- especially during tough economic times.

"Everybody needs a place to live," Chartier said.

"And if you have 20 suites in an apartment block you have 20 different tenants," Clay said. "So even if one moves out, it's fairly easy to replace that one tenant..." -- especially with Winnipeg's overall apartment vacancy rate at its lowest level on record, a scant one per cent.

Because they're usually considered less risky investments, most lenders are also more willing to provide financing for apartment-block purchases, Clay said, and often at reduced lending rates.

One local commercial mortgage broker -- Ron Margolis of Margolis Capital Group Inc. -- said that's particularly true with apartment blocks in Manitoba, which didn't see the kind of price run-ups and

overbuilding that cities like Calgary and Toronto experienced during the recent real estate boom.

"Lenders are viewing our market as one they're very comfortable being in," Margolis said. "It's very balanced."

He also noted the interest rate on some Canada Mortgage and Housing Corp.-insured apartment mortgages has fallen to about 3.5 per cent from 4.5 to five per cent a year ago.

"I've even seen deals in the 3.1 or 3.2 range," he said.

"It's lower now that I think it's ever been."

CMHC-insured apartment mortgages also require smaller down payments -- as little as 15 per cent compared to 25 or 30 per cent for many commercial buildings, Johnson said. That also appeals to investors.

Know of any newsworthy or interesting trends or developments in the local office, retail, or industrial real estate sectors? Let real estate reporter Murray McNeill know at the email address below, or at 697-7254.

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Last year was the busiest year in five years for apartment building sales in Winnipeg. Here is a list of transactions worth \$1 million or more:

Address Age No. of suites Selling price

360 Cumberland Ave. 1971 256 \$12.8 million

180 Beliveau Rd. 1970 79 \$6.1 million

2391 Portage Ave. 1959 56 \$2.8 million

433 Edison Ave. 1968 46 \$2.3 million

441 Edison Ave. 1968 46 \$2.3 million

1080 Moncton Ave. 1968 48 \$2.2 million

100 Killarney Ave. 1969 42 \$2.1 million

260 Wentworth St. 1953 21 \$1.3 million

737-743 Sargent Ave. 1914 40 \$1.1 million

333 Edison Ave. 1972 27 \$1.1 million

825 Corydon Ave. 1955 21 \$1.1 million

92 Young St. 1916 15 \$1.01 million

---- Source: The Johnson Report

Dollar value

lofty last year

The dollar volume of apartment building sales hit its highest level in more than a decade in 2008. Here are the totals for each of the last 10 years:

1999 \$35.5 million

2000 \$32.9 million

2001 \$30.1 million

2002 \$50.6 million

2003 \$36.3 million

2004 \$14.3 million

2005 \$29.9 million

2006 \$19.5 million


2007 \$20.7 million

2008 \$58.4 million

-- Source: The Johnson Report

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