

# Calgary rental owners pressured by building boom



DAVID PARKER

REPORT ON REAL ESTATE

The residential tower that is to be built on the east end of the lot where Calgary Co-op is building its Midtown Market store was slated to hold around 350 rental apartment units. Part of the reason for the delay in starting the new Co-op was that the financial backer decided against the tower development which had the original consortium scrambling for new financing.

They have it now that Pointe de View has stepped up to the plate but there's a

big change, the suites have been made condominiums — meaning if you want to live there you will have to buy your unit.

I think it's a great location. Across the parking lot from a grocery store, above a Co-op liquor store, well on the way out west and an easy walk across the railway tracks to the west end of downtown and the Bow River.

But the loss of an anticipated few hundred apartments had me wondering just how the rental market is faring in this city. I paid a visit to one of the men who has his finger on the pulse, Bob Dhillon, president and CEO of Mainstreet Equities.

His successful company is focused on acquiring and managing multi-family residential properties across Canada with a mandate to be market leader in mid-tier products. Founded in 1999, it has grown its portfolio to 2,730 units and expects to increase that number to 4,900 over the next two years.

In Calgary it currently owns 1,517 suites and is looking for 30 per cent growth to 1,500.

Although first-quarter earnings

show a steady improvement, Dhillon says he's had to weather a tough time, one that has been really hard on the smaller mom and pop owners.

Just two years ago apartments here were full, but a number of market dynamics have dramatically changed conditions.

Lower interest rates have led to a strong supply of new homes and condos giving renters the opportunity to buy their own home and get some equity. Then, the construction industry is very efficient and real estate today is quickly and inexpensively built.

As a result, landlords are suffering higher vacancy rates. Add an increase in gas and electricity costs, higher insurance rates, more expensive property taxes and a large turnover due to stronger competition and the problems mount. Turnover means higher marketing costs and lower rents thanks to more supply and strong competition.

Dhillon says a good number of absentee landlords must be struggling with these market conditions and buildings with deferred maintenance, inefficient

operations and non-hands on managers are suffering greatly.

Mainstreet is somewhat insulated from these problems because it concentrates on mid-tier, mid-size products. And being a public company, Mainstreet has the capital to invest in new properties as they become available and renovate them to a high standard by tearing down walls and opening up kitchens, installing new hardwood floors, new appliances and increasing energy efficiency which, in the long run, is a big cost saving.

He says he can do this while keeping rents at an average of \$705 per month. Dhillon claims that rents higher than \$800 are at the greatest risk.

Forty per cent of Mainstreet's customers are single women so it also pays particular attention to security and a doubling of uniformed maintenance staff; no one wants to come home to a leaky faucet and not be able to get it fixed in a hurry.

Earlier I mentioned the cost of marketing in a competitive industry. Besides the usual newspaper advertisements, direct mail, web advertising

and visits to human resources personnel, Mainstreet pays for hook ups when customers move in and even supplies pizza coupons on the actual moving day.

It costs big-time to change an address — like moving companies, damage deposits and up-front rent. Dhillon has reduced damage deposits by half and seniors pay a maximum of \$50. He also offers a couple of week's free rent.

Having units in four Canadian cities offers a cushion during down times.

Renting is not an easy business; it's cyclical and owners have to be able to judge the ups and downs. As well, apartment buildings are selling below replacement costs; which is why I don't expect too many new apartment blocks to be built in Calgary for a while.

DAVID PARKER WRITES ABOUT TOWN AND ABOUT PEOPLE COLUMNS IN THE HERALD'S BUSINESS SECTION. HE CAN BE REACHED AT 830-4622 OR INFO@DAVIDPARKER.CA