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APARTMENT DIGEST

The Canadian Apartment Market

Economic Indicators:

Real GDP Growth	
Q2 2012	+1.8%
Toronto Employment Growth	
Sep. 2012	+2.3%
Toronto Unemployment Rate	
Sep. 2012	8.5%
Inflation	
Sep.2012	+1.2%
Bank of Canada Overnight Rate	
Oct. 2012	1.0%
Prime Rate	
Oct. 2012	3.0%
5 Year Mortgage Rate Fixed	
Oct. 2012	5.24%

Like the Canadian climate, the Canadian apartment market is a land of extremes. The Canadian apartment universe is fractured and in many cities too small for institutional investment or scalability.

If we define institutional quality buildings as 200+ units, then there are only 691 buildings in Canada that match this criteria in the 18 cities we reviewed.

This puts restrictions on the number of buildings that could be available for purchase by institutional apartment investors. It also means that choice is limited and investors may have to wait for a while to get the right properties they need for their portfolios. As the industry consolidates, growth through acquisition is going to become more difficult. Investors will need to go down-market or build new apartments.

While Toronto and Montreal are the two largest apartment markets in Canada, the two could not be more different. The Montreal apartment market is the largest in the country, containing over 56,000 apartment buildings. However, since most buildings are small in size, consolidation would be a challenge. By comparison, Toronto has just over 7,000 apartment buildings however over 330 of these buildings contain more than 200 apartment units.

This makes Toronto a much more attractive investment community for institutional apartment investors.

Investors therefore need to focus on where properties are located in Canada. For example, it would surprise most apartment investors to realize that Hamilton (Ontario) has more units and larger buildings than Calgary (Alberta).

It should be noted that both cities have a similar sized apartment universe, but very different populations—Calgary is 1/3 larger.

Although Hamilton has approximately 2,000 more apartment units than Calgary, it has nearly 800 fewer apartment buildings. And, while Calgary's population grew by 13.4% from 2001 to 2006, Hamilton showed virtually no population growth over the same period.

Ontario is Canada's largest province in terms of population and contains the nation's largest rental apartment market with approximately 622,465 rental apartments with an overall provincial vacancy rate of 2.7%.

The biggest markets inside Ontario with over 5,000 rental apartments are in order: Toronto, Ottawa, London, Hamilton, Mississauga, Kitchener, Windsor, Kingston, Brampton, Oshawa, Burlington, Guelph, Peterborough, Sarnia, and Waterloo.

Not all of these apartment markets are doing well, however, and investors should be wary of Windsor and Peterborough in particular, since both have shown a trend of significantly increasing vacancies, while Oshawa has a questionable future. On the other hand, markets such as Waterloo and Burlington are favourable markets for apartment owners with good choice and opportunities for investors.

Source: Canadian Apartment Magazine

The Toronto Condo Market Q3 2012

Greater Toronto Area REALTORS® reported 4,541 condominium apartment sales through the Toronto MLS system in the third quarter of 2012. This result represented a 20.5 per cent decline in transactions compared to the third quarter of 2011.

Over the same period, the number of new listings was up by more than 6.5 per cent to 11,456.

“The condominium apartment market was the best supplied market segment in the third quarter of this year. Strong condominium apartment completions in 2011 and the beginning of 2012 resulted in many investor-held units listed for sale.

At the same time, sales dropped off relative to last year as some buyers moved to the sidelines as stricter mortgage lending guidelines resulted in increased costs of home ownership,” said Toronto Real Estate Board (TREB) President Ann Hannah.

The average selling price for condominium apartments in the third quarter, at $334,204, was flat in comparison to the same period last year.

“With more listings to choose from and fewer sales, condo buyers have not been as aggressive with regard to offers, and sellers have had to price their units competitively.

The result was little upward pressure on the average selling price compared to last year. Given the supply of listings currently in the market place, the average rate of price growth for condo apartments should continue to lag price growth for low-rise home types over the next year,” said Jason Mercer, TREB’s Senior Manager of Market Analysis.

Source: TREB

Condominium Apartment Market Summary Third Quarter 2012

	2012		2011	
	Sales	Average Price	Sales	Average Price
Total TREB	4,541	$334,204	5,719	$332,969
Halton Region	91	$331,699	88	$296,067
Peel Region	721	$253,239	869	$253,615
City of Toronto	3,219	$357,030	4,117	$355,561
York Region	388	$329,527	535	$319,573
Durham Region	113	$227,181	99	$201,887
Other Areas	9	$227,222	11	$272,455

Vacancy Rates on their way DOWN….

"A weaker outlook … will bring moderation in housing starts next year," said Mathieu Laberge, a CMHC economist. "Nevertheless, employment growth and net migration will help support housing starts activity going forward."

Canada's new home market is expected to continue to moderate in the last quarter of 2012 and into 2013, writes the Crown corporation in its 2012 fourth quarter report, released Monday.

In the meantime, activity in the existing home market is expected to hold steady, leading to house price growth in line with or slightly below inflation."

Those factors have collectively contributed to the CMHC's forecast for vacancy rates, projected to hold steady at 2.2 per cent in 2012 before declining to 2.0 per cent in 2013. The drop – higher in Toronto and other key urban centres – reflects slowing rental construction and strong rental demand due to high migration.

"Low vacancy rates are expected to help support the multiple starts housing segment, through expansion of the rented condominium market," according to the CMHC outlook.

Still, investors, even in areas with decreasing vacancy rates are likely to find their own acquisition plans hampered by a tighter lending market. The phenomenon is being blamed on government changes to mortgage rules coupled with new guidelines for federally-regulated lenders. It's a double whammy that may ultimately hurt Canada's fragile economic recovery, charge some analysts.

Source: Canadian Real Estate Wealth

Developers turning into Landlords

Those high-rise builders are now bypassing the condo investors and renting out units that would otherwise languish on the market.

"No one wants to hold onto real estate, but this is a natural because the rental market is so crazy," condo developer Paul Golini, with Empire Communities, told the Toronto Star.

He's not alone with other condo builders moving to capitalize on a hot market as their own cools.

While condo sales in the GTA flatlined with the introduction of new tighter mortgage rules, occupancy rates have continued to edge skyward as the city struggles to meet demand from new migrants and others looking to the downtown core for shelter.

Their eagerness continues to spur rental price growth, a lure for developers trying to shift units as as an increasing number of buyers adopt a wait-and-see position.

The newfound interest of developers may ultimately lower the heat under the rental market of rental inventory spikes in the short-term.

Still, that kind of phenomenon in the long-term is unlikely, say analysts, pointing to rental demand that is forecast to dwarf the thousands of units under construction.

Source: Canadian Real Estate Wealth

LARGER SALES OUTSIDE THE GTA

Address	City	Units	Price	Price/Unit
47 Memorial Dr.	Brantford	119	$10.9MM	$91,600
285 Erb St.	Waterloo	101	$10.75MM	$106,400
6515 Mcleod Rd.	Niagara Falls	65	$15.5MM	$242,200
195 Hughson St. N.	Hamilton	192	$12.5MM	$65,000
17-19 Barker St.	Paris	80	$5.25MM	$65,600
737 Oullette Ave.	Windsor	200	$10.0MM	$50,000
Source: Realtrack				

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About The Apartment Group

The Apartment Group is a dedicated team of professionals specializing in the sale of multi-residential investment properties. With over 40 years of combined experience, the team brings together their strengths including strong negotiation and sales skills along with highly technical market analysis and appraisal methods.

The Group has been involved in the sale and acquisition of all types of multi residential real estate from small 10 suite walk up to portfolios over 800 suites in scale.

The Group has experience with those first time buyers and sellers who need that extra level of attention and experience with larger institutional buyers and REITs.

Their success is proven with the fact that over the past decade they have sold over $2.0 billion worth of apartment buildings across Ontario and throughout Canada.

The market today is very tight. Having the right Broker working for you is more important than ever.

Can your Broker bring you off market deals? Can they realistically analyze the deals they bring you? Can they be creative and show you the upside? Can they assist you in working through the mortgage mind field today?

Please call us to see how we can help you.

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