Commercial Focus Realty Inc., Brokerage
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Apartment Digest

Protect Yourself on Ballooning Energy Costs

Economic Indicators:

Real GDP Growth	
Q3 2012	+0.6%
Toronto Employment Growth	
Oct. 2012	+3.1%
Toronto Unemployment Rate	
Oct. 2012	8.6%
Inflation	
Oct.2012	+1.2%
Bank of Canada Overnight Rate	
Nov.2012	1.0%
Prime Rate	
Nov.2012	3.0%
5 Year Mortgage Rate Fixed	
Nov. 2012	5.24%

What does boiling a frog have to do with the cost of your hydro?

Metaphorically speaking, boiling a frog is like the increasing hydro rates all end consumers face. The various regulatory bodies being the administrators are slowly turning up the heat on retail users of hydro – the moral of the metaphor being that users should make themselves aware of gradual change in energy rates lest they suffer eventual undesirable consequences.

So the logical question to ask is why are my rates continually increasing and what are the factors affecting the increase. To answer these two very important questions we first have to understand a little historical perspective of hydro.

In Ontario, as it is in the rest of North America and much of the developed world, our hydro grids are aged, have no intelligence and above all are not very flexible. The world's population has increased to over 7 billion inhabitants and continues to grow. So there is a greater strain on existing infrastructure and dwindling energy resources which has created the urgency to explore alternative sources of energy – in particular renewable sources.

But integrating these new sources of energy comes at a very steep cost to the end consumer. In Ontario, the scope of work includes refurbishing nuclear generators, closing coal fired hydro plants and building out a more intelligent and flexible grid for the production, supply and bi-directional distribution of hydro. All of these things require a very high capital cost which are being recovered and will continue to be recovered by increasing the rate of hydro retail users pay.

"Ontario needs new electricity infrastructure to continue to meet growing energy demands. That means upgrading old transmission lines and hydro plants. It also means shutting down coal plants that pollute the air and moving to cleaner, sustainable sources of electricity…over the next 20 years, including taxes and other charges, residential electricity bills are projected to rise about 3.5 per cent per year on average. In the short term, however, electricity prices are expected to rise by about 7.9 per cent annually for the next five years. This increase will help pay for critical improvements to the electricity infrastructure and investment in new renewable energy generation…after five years, Ontario will have largely completed the transition to a cleaner more reliable system due to the replacement of coal-fired generation and new renewable generation. Once these investments have been made, price increases are expected to level off."
Ontario Ministry of Energy Website

With the preceding as the backdrop it should now begin to make more sense why hydro rates are increasing at levels much higher than the consumer price index and the associated inflation rate (as of Oct 2012 the Canadian inflation rate was 1.2%)? In spite of that the hydro rates increased by nearly 5% for Ontario's retail users in 2012. It is also worth noting that we are still in a relatively stagnant world economy with nominal increases in Gross Domestic Production.

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Energy Costs – Cont'd from Page 1

What impact will a growing economy have on power rates for retail consumers here in Ontario? Our electricity rates continue to rise in spite of this. This fact has been reported in the media at length. The 5 year historical trend confirms what was projected and reported since 2008 – we have seen a more than 40% increase in rates. In 2010, new reports indicated that users can expect to see an additional 46% increase in electricity rates between 2010-2015.

An independent think tank reported the numbers will be much higher than what the government has projected. We have already seen a 27% increase from 2010 – 2012. Where do you think prices are going?

"According to energy analyst Parker Gallant, and University of Guelph's Glenn Fox, the Ontario government's wind and solar energy policies will cost about 40 per cent more than their own estimates. After originally predicting rates would only rise by one per cent, the government admitted a few months ago to increases of 46 per cent and 100 per cent!"

It's clear that even the government can't truly gage what the short, mid, and long term impact on power rates will be given the direction we are taking.

Their initial projections for the short term increases were – well to put it mildly way off. How much confidence can we put in their statement? Exactly what do they mean by levelling off? Levelling off may mean stable price increases.

It should be clear by now that apartment building owners need to explore their options to better manage, control and predict their future power consumption and thus cost.

The control aspect looms very large as **all Ontarians will be moved to Time of Use (TOU) billing by 2014** and the inability to control when your tenants use power will have an unpredictable impact on you electricity bills. This inability to control tenant power usage also adds a layer of complexity for managing your buildings energy consumption that will ultimately be reflected in a greater inability to manage your buildings energy budget.

However, all these challenges can be resolved with Summit Energy as your trusted advisor and supplier. With **Summit's Hydro Price Protection Program** offering you won't end up like the slow boiling frog – Metaphorically speaking of course. The only difference is that you are now more aware of the things impacting the "not so gradual and constant increases" in hydro rates.

So taking action to prevent suffering of those eventual and undesirable consequences is not metaphorically speaking – it will be your reality. Take this statement seriously and take action to protect your buildings against the inevitability of rising electricity prices.

Source: Summit Power

For more information on Summit Energy and how they can help your energy management please contact:

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FOCUS – The Ontario Apartment Market

Ontario is Canada's largest province and contains 622,284 of Canada's rental apartment units. Ontario also contains some of Canada's largest cities and is a social, political, economic, and cultural leader in the nation.

Population growth varies within Ontario, ranging from a low of 0.8% in Thunder Bay to highs of 33.3% in Brampton and 71.4% in Milton. Toronto ranks in the middle with 9.2% population growth from 2001 to 2006. Ontario's largest cities, in declining order of size, are Toronto, Ottawa, Hamilton, Mississauga, London, and Kitchener. Mobility for the province is moderate as the Maritimes have much lower mobility and Alberta and British Columbia much higher. The Ontario apartment market can be considered mature and stable.

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.

Home Prices Up in November but Volume Down

Greater Toronto Area REALTORS® reported 5,793 sales in November 2012 – down by 16 per cent compared to November 2011.

"Transactions have been down on a year-over-year basis since June, after being up substantially in the last half of 2011 and the first half of 2012. Some buyers pulled forward their decision to purchase, which has impacted sales levels in the second half of 2012," said Toronto Real Estate Board (TREB) President Ann Hannah.

"Stricter mortgage lending guidelines, including a reduced maximum amortization period and a purchase price ceiling of one-million dollars for government insured mortgages, have prompted some buyers to move to the sidelines. This situation has been exacerbated in the City of Toronto because the additional upfront Land Transfer Tax takes money away from buyers that otherwise could be used for a larger down payment," continued Hannah.

The average selling price was up by 1.6 per cent annually to $485,328.

The MLS® Home Price Index (MLS® HPI) Composite Benchmark was up by 4.6 per cent compared to last year.

"The moderate annual rate of price growth compared to previous months was largely due to a different mix in detached home sales this year compared to last, particularly in the City of Toronto. The share of detached homes that sold for over one-million dollars was down substantially, which influenced the overall average price," said Jason Mercer, TREB's Senior Manager of Market Analysis.

Source: TREB

Some Recent Sales - GTA

Address	City	Units	Price	Price Per Unit / Cap
1477 Wilson Ave.	North York	42	$3,600,000	$85,700 / 6.25%
197 Vaughan Rd.	York	42	$5,100,000	$121,460 / 3.90%
110 Cottonwood Dr.	North York	44	$6,200,000	$140,900 / --
127 Broadway Ave.	Toronto	60	$7,000,000	$116,700 / --
501 Kingston Rd.	Toronto	75	$11,100,000	$148,000 / 3.9%
47 Wasdale Crs.	North York	28	$3,475,000	$124,000 / --
Source: Realtrack and CFR				

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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 $3.0 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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Brokerage

We have a collection of seasoned Agents that can serve your needs. Whether you are buying of selling, let us show you how we can help. On staff we have appraisers, accountants, mortgage brokers and planners. **This is a total one stop real estate company that can assist you through the entire process.**

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