

# APARTMENT DIGEST

## 2012 Apartment Market – “More of the Same?”

### Economic Indicators:

<b>Real GDP Growth</b>	
Q4 2011	+1.8%
<b>Toronto Employment Growth</b>	
February 2012	-1.3%
<b>Toronto Unemployment Rate</b>	
February 2012	8.6%
<b>Inflation</b>	
February 2012	+2.6%
<b>Bank of Canada Overnight Rate</b>	
March 2012	1.0%
<b>Prime Rate</b>	
March 2012	3.0%
<b>5 Year Mortgage Rate Fixed</b>	
March 2012	3.0%

In our previous Digest, we discussed the 2011 market. Declining cap rates and rising prices were the norm. In fact this has been the case for the past decade in this market.

While demand for apartments like all sectors fluctuates it does so in a much narrower band. This is a result of stability of income and low risk of this asset class. At the same time, supply of buildings for sale is ALWAYS low for basically the same reason.

This supply and demand imbalance always shelters this sector from massive downward shifts in value.

One thing that has a huge influence on apartment values is interest rates. The chart below shows the relationship between long term Canada Bond Rates (LTCB) and Cap Rates (CR). You cannot not get a higher correlation than what the chart shows.

LTCB rates have declined from 5.65% in 2002 to around 2.5% today. That over a 50% decline. At the same time GTA CR declined from 8.0% to 5.25% today.

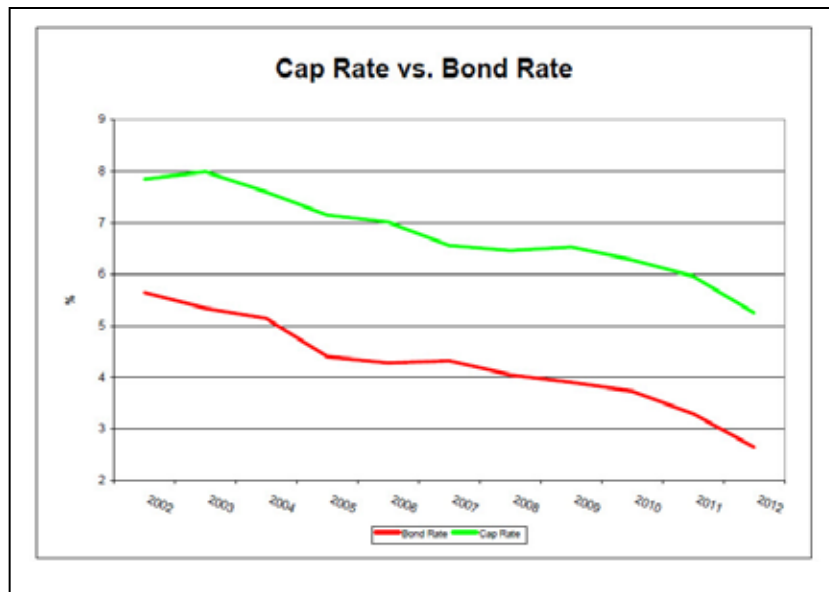
The last three years have seen the more drastic declines in rates. In fact, average LTCB rates in 2011 were 3.3% and

for the first 4 months of 2012 the rates averaged 2.64%. That is a 20% decline.

In the past 6 months we have seen cap rates compress greatly. Properties not saleable a year ago due to price are now seen as a bargain. We have seen cap rates for AAA locations at under 4%.

We are also seeing demand increase especially with entrance into the market from Asian and European buyers. The compressing of cap rates will start to occur in the secondary locations as there is very little supply of the AAA product.

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## Market Watch – GTA Commercial

April 4, 2012 -- Toronto Real Estate Board (TREB) Commercial Division Members leased almost 3.1 million square feet of commercial space through the TorontoMLS system in the first quarter of 2012.

This result represented a ten per cent decline compared to the first quarter of 2011. Industrial leasing generally accounts for the great majority of commercial lease transactions through the TorontoMLS system.

This remained the case in the first quarter with leased industrial square footage accounting for 77 per cent of total leased space. The average lease rate for industrial transactions completed on a per square

foot net basis and for which pricing was disclosed was \$4.90 – up three per cent compared to the first quarter of 2011.

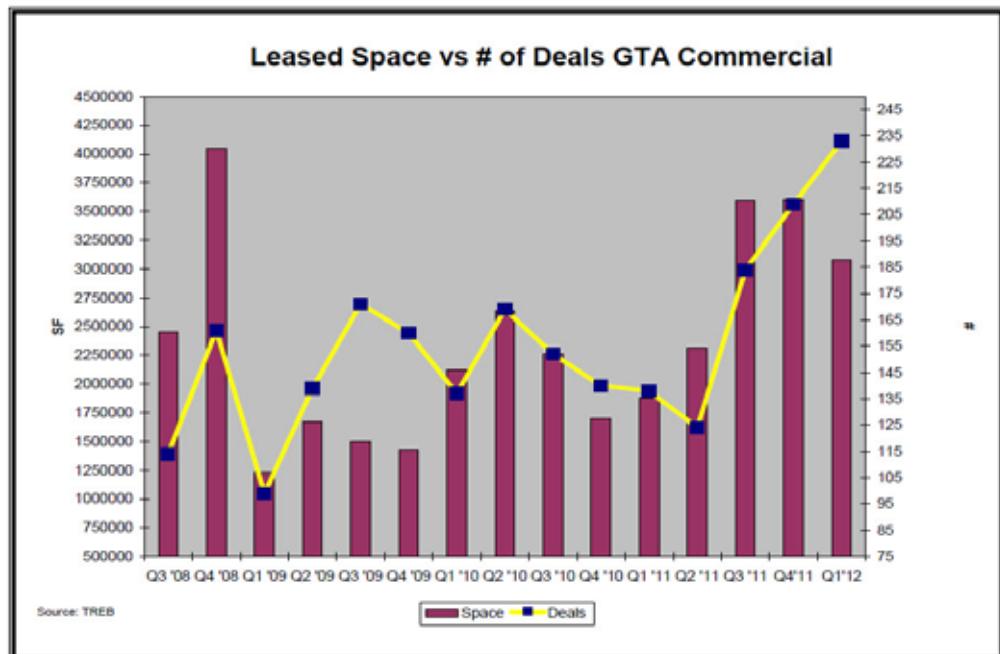
“While the past year has been marked by economic uncertainty, we continued to see growth in the Canadian economy. Over the past few months, we have also heard more good economic news than bad, both in the Canadian context and in relation to major trading partners like the United States. The result has been a respectable level of leasing activity and a moderate gain in the average lease rate on a per square foot net basis,” said Commercial Division Chair Larry Purchase.

There were 233 total commercial sales in the first quarter of this year – down by almost seven per cent compared to the first three months of 2011.

Broken out by type, sales of industrial and other commercial types were down by 4.5 and 9.5 per cent respectively compared to 2011.

Average sale prices per square foot for transactions with pricing disclosed were down for both the industrial and other commercial categories.

Source: TREB



## 2012 Apartment Market – cont'd

### **COMMERCIAL FOCUS REALTY INC., BROKERAGE**

35 The Links Road  
Suite 202  
Toronto, Ontario  
M2P 1T7

Phone:  
(416) 972-9220  
Fax:  
(416) 972-9588

We're on the Web!  
*See us at:*  
[www.cfrealty.ca](http://www.cfrealty.ca)

Interest rates for Apartment Buildings today are around 2.5% for 5 year terms and 3.5% for 10 year terms (CMHC insured). At these rates, even purchasing a AAA building at a 4% cap still produces positive leverage.

We are constantly meeting with new buyers each week who are looking for the

same thing. "Please find us an apartment building in the GTA between 50 and 150 units". Many of these buyers are sitting on large cash reserves and are neophyte buyers. They understand the market.

A number of deals we recently completed were NOT conditional on financing. As interest rates are forecast to stay low at

least for the short term, this situation is forecasted to continue. However, rates will NOT stay this low forever.

As well global economic concerns are still in the background. Finally there has been talk about the Ontario Government "tinkering" with rental increase AGAIN.

*The Apartment Group*

## 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 \$1.5 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.

# COMMERCIAL FOCUS REALTY inc.

Brokerage

**Lorenzo DiGianfelice, AACI**  
Broker of Record & Owner  
Direct – 416-907-8281  
[ldigianfelice@cfrealty.ca](mailto:ldigianfelice@cfrealty.ca)

We have a collection of seasoned Agents that can serve your needs. Whether you are buying or 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.**

**Mitchell Chang**  
Salesperson, President & Owner  
Direct – 416-907-8280  
[mchang@cfrealty.ca](mailto:mchang@cfrealty.ca)