Commercial Focus Realty Inc., Brokerage

Volume 5, Issue 7

July 2012

Apartment Digest

Apartment Trends 1st Half 2012

The apartment market continues to tighten in 2012. Interest rates continue to stay at historically low levels and this has been fuelling demand for apartments.

At the same time, there is a lack of product on the market. More importantly, a lack of quality product. This has had the effect of pushing prices higher and cap rates lower.

The charts below reveal the story. A class case of an imbalance of supply and demand. The charts below reflect data for the first 6 months of each year.

In 2005, we can see that cap rates were just over 7%. With the exception of 2009 there has been a steady decline in cap rates to just over 5% in 2012. At the same time, prices in 2005 were around $85,000 per suite, moving to about $95,000 per suite in 2011 and just over $125,000 per suite in 2012.

The average price per suite in 2012 is skewed as a result of a few high quality buildings being sold in that period. The most notable being the purchase by ***Hollyburn*** of the Torli Portfolio managed by Swiss Canadian Management. This portfolio comprised of a number of mid-rise buildings in key locations. It sold for $60MM for 298 suites or $201,350 per suite. The cap rate was shown at 3.9%

Another group, ***Akelius*** was also active. With equity backing from Europe, this group purchased 7 properties in high grade locations. There was a total of 272 suites with pricing averaging $150,000 per suite. Cap rates ranged from 3.5% to 5.0%.

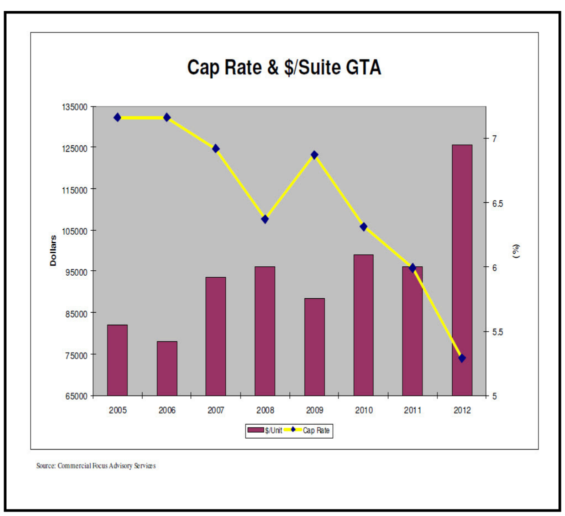
So one can see that of the total volume of deals done in Q1 2012, +/- $350MM just over $100MM was high grade real estate.

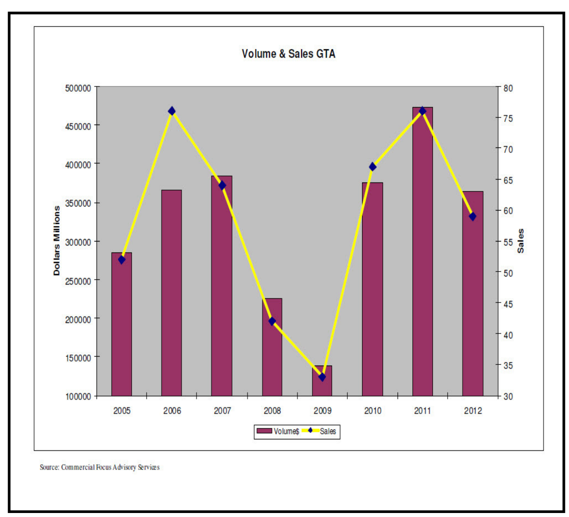
This situation is expected to continue as interest rates are expected to stay low. Lack of supply will continue. ***However, interest rates will not stay low forever.***

The Apartment Group

Economic Indicators:

Real GDP Growth		
	Q1 2012	+1.9%
Toronto Employment Growth		
	May 2012	+1.6%
Toronto Unemployment Rate		
	May 2012	8.6%
Inflation		
	May 2012	+1.2%
Bank of Canada Overnight Rate		
	June 2012	1.0%
Prime Rate		
	June 2012	3.0%
5 Year Mortgage Rate Fixed		
	June 2012	5.25%





US Housing Market – Turning the Corner?

The housing market has turned—at last. The U.S. finally has moved beyond attention-grabbing predictions from housing "experts" that housing is bottoming. The numbers are now convincing.

Nearly seven years after the housing bubble burst, most indexes of house prices are bending up. "We finally saw some rising home prices," S&P's David Blitzer said a few weeks ago as he reported the first monthly increase in the slow-moving S&P/Case-Shiller house-price data after seven months of declines.

Nearly 10% more existing homes were sold in May than in the same month a year earlier, many purchased by investors who plan to rent them for now and sell them later, an important sign of an inflection point. In something of a surprise, the inventory of existing homes for sale has fallen close to the normal level of six months' worth despite all the foreclosed homes that lenders own. The fraction of homes that are vacant is at its lowest level since 2006.
The reduced inventory of unsold homes is key, says Mark Fleming, chief economist at CoreLogic, a housing data-analysis firm.

For the past couple of years, house prices have risen in the spring and then slumped; the declining supply of houses for sale is reason to believe that won't happen again this year, he says.

Builders began work on 26% more single-family homes in May 2012 than the depressed levels of May 2011. The stock of unsold newly built homes is back to 2005 levels. In each of the past four quarters, housing construction has added to economic growth. In the first quarter, it accounted for 0.4 percentage points of the meager 1.9% growth rate.

"Even with the overall economy slowing," Wells Fargo Securities economists said, cautiously, in a note to clients, "the budding recovery in the housing market appears to be gradually gaining momentum."

Economists aren't always right, but on this at least they agree: A new Wall Street Journal survey of forecasters found 44 believe the housing market has reached its bottom; only three don't.

Housing is still far from healthy despite the Federal Reserve's efforts to resuscitate it by helping to push mortgage rates to extraordinary lows: 3.62% for a 30-year loan, according to Freddie Mac's latest survey.

Single-family housing starts, though up, remain 60% below the 2002 pre-bubble pace. Americans' equity in homes is $2 trillion, or 25%, less than it was in 2002 and half what it was at the peak. More than one in every four mortgage borrowers still has a loan bigger than the value of the house, though rising home prices are reducing that fraction slowly.

Still, the upturn in housing is a milestone, a particularly welcome one amid a distressing dearth of jobs. For some time, housing has been one of the biggest causes of economic weakness. It has now—barely—moved to the plus side. "A little tail wind is a lot better than a headwind," says economist Chip Case, the "Case" in Case-Shiller.

Plenty could go wrong. The biggest threat is a large shadow inventory of unsold homes, homes which owners won't put on the market because they are underwater, homes that will be foreclosed eventually and homes owned by lenders. They have been trickling onto the market, slowed in part by government efforts to delay foreclosures; a flood could reverse the recent rise in prices. Or the still-dysfunctional mortgage market could get worse. Or overly zealous regulators or a post-election change in government policy could unsettle mortgage lenders or home buyers.

Source: David Wessel
Wall Street Journal
July 14th, 2012

Low Cap Rate Deals 1st Half 2012 GTA

Address/Type	City	Units	Price	Price/Unit	Cap Rate
Torli Portfolio	Toronto	298	$60MM	$201,342	3.9%
36 Castlefrank Rd.	Toronto	53	$14.6MM	$275,472	3.7%
551 Eglinton E.	Toronto	54	$8.1MM	$150,926	4.5%
1 Runnymede Rd.	Toronto	53	$6.35MM	$119,811	5.3%
10 Willminton Ave.	North York	39	$4.195MM	$107,564	5.2%
1A Vermont Ave.	Toronto	22	$2.21MM	$100,455	5.0%
2701 Eglinton W.	York	49	$4.8MM	$97,959	4.4%

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

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.

COMMERCIAL FOCUS REALTY inc.
Brokerage

Lorenzo DiGianfelice, AACI
Broker of Record & Owner
Direct – 416-907-8281
ldigianfelice@cfrealty.ca

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.**

Mitchell Chang
Salesperson, President & Owner
Direct – 416-907-8280
mchang@cfrealty.ca