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APARTMENT DIGEST

VACANCY Increases in Canada – 2012

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%

The average rental apartment vacancy rate in Canada's 35 major centres1 increased to 2.6 per cent in October 2012, from 2.2 per cent in October 2011, according to the fall Rental Market Survey2 released today by Canada Mortgage and Housing Corporation (CMHC).

"Lower levels of household formation among young adults reduced rental housing demand," said Mathieu Laberge, Deputy Chief Economist at CMHC's Market Analysis Centre. "This, combined with an increase in the supply of newly constructed, purpose-built rental apartments, pushed Canada's vacancy rate upward.

Meanwhile, demand for rental condominium apartments remained strong, with the vacancy rate holding steady in most of Canada's largest urban centres, including Toronto, Montreal and Vancouver."

The results of CMHC's fall survey reveal that, in October 2012, the major centres with the lowest vacancy rates in the primary apartment rental market were in Regina (1.0 per cent), Thunder Bay (1.1 per cent) and Calgary (1.3 per cent). The centres with the highest vacancy rates were in Saint John (9.7 per cent), Windsor (7.3 per cent) and Moncton (6.7 per cent).

Overall, the average rent for two-bedroom apartments in existing structures across Canada's 35 major centres increased 2.2 per cent between October 2011 and October 2012, the same pace of rent increase that was recorded between October 2010 and October 2011.

The average rent for a two-bedroom apartment in new and existing structures was $901 in October 20123. The highest average monthly rents for two-bedroom apartments in new and existing structures in Canada's major centres were in Vancouver ($1,261), Toronto ($1,183) and Calgary ($1,150).The lowest average monthly rents for two-bedroom apartments in new and existing structures were in Saguenay ($549), Trois-Rivières ($550) and Sherbrooke ($578).

CMHC's October 2012 Rental Market Survey also covers condominium apartments offered for rent in 11 large urban centres, including Vancouver, Toronto and Montreal.

Rental condominium vacancy rates ranged from a high of 3.2 per cent in Ottawa to a low of 0.9 per cent in Saskatoon, holding steady in most centres from October 2011. Average monthly rents for two-bedroom condominium apartments were highest in Vancouver ($1,662) and lowest in Québec ($1,022).

As Canada's national housing agency, CMHC draws on more than 65 years of experience to help Canadians access a variety of high quality, environmentally sustainable and affordable housing solutions. CMHC also provides reliable, impartial and up-to-date housing market reports, analysis and knowledge to support and assist consumers and the housing industry in making informed decisions.

Source: CMHC

GTA Rental Market Trends

Average vacancy rates for purpose built private apartments in the Greater Toronto Area (GTA) edged slightly higher to 1.7% in 2012 from 1.4% in 2011, the lowest level over the past 10 years.

The availability rate moved up by a lesser amount to 3.1%.. The average increase in rents was 2.8%, close to the provincial guideline increase amount for 2012.

Demand continued to receive support from improving employment conditions for most renters, favourable demographic trends, and less activity from first-time buyers.

However, continued weakness in employment for young adults, slower net migration, and supply competition for units in the upper end of the market caused the number of occupied rental units to decline slightly.

Rental market conditions were tightest within the Former City of Toronto. Everywhere else in the region, vacancy rates saw a modest increase.

Average vacancy rates in the Former City of Toronto nudged lower in 2012, with rates in the core moving below 1%. Competition for rental space in the city increased despite the growing number of condo apartment rentals.

Even though market conditions pushed average rents for purpose built units in the Former City up by 4% in 2012, they remained approximately 40% lower than condo rents in the area.

Just outside of the Former City, demand wasn't able to keep pace with the growth in rental supply — vacancy rates in Etobicoke moved up to the highest level in the GTA.

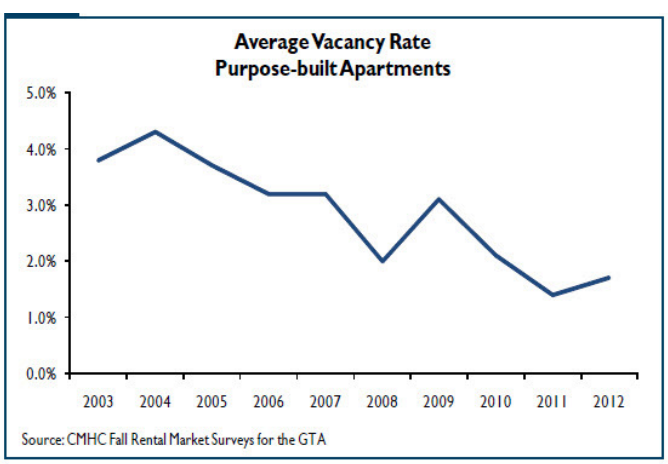
Rental market conditions in the GTA will remain stable in 2013, with the average vacancy rate edging down to 1.5%. While a higher number of rental completions are expected next year, supply growth will remain minimal.

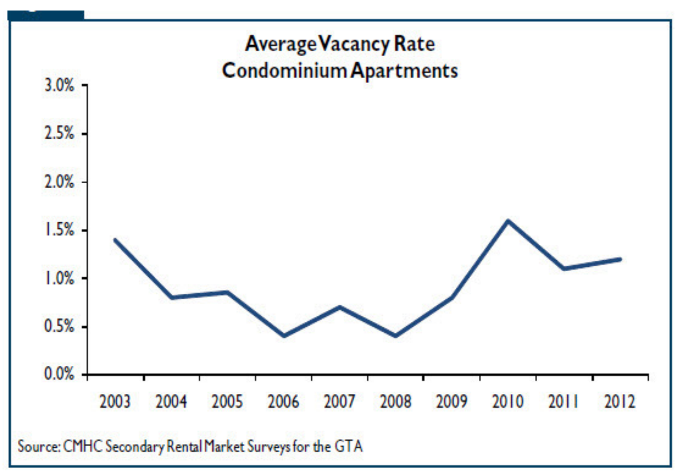
Rental demand will strengthen as employment opportunities and migration levels improve while activity from first-time buyers stays muted for most of the year.

Higher-priced units will face relatively stronger supply competition as condo completions move higher and a large share of units continue to flow into the rental market.

Rent growth should remain in line with the provincial guideline amount of 2.5%for 2013. Average two-bedroom rents in the GTA are expected to increase to $1,200.

Source: CMHC





Cap Rate Predictions – 2013

As 2012 draws to a close, industry experts are formulating predictions for the property market in 2013. So what will happen to cap rates?

The simple and resounding answer seems to be, not too much.

While analysing rates on a national basis is difficult, the general feeling among investors and analysts is that rates will remain relatively low across Canada.

A report presented by the Urban Land Institute and PwC, Emerging Trends in Real Estate 2013, reveals that the lowest cap rates can be found in commercial and multi-residential sectors.

"Survey respondents expect little further downward movement in 'low-as-you-can-go' cap rates, especially for apartments, regional malls and downtown office space. The exceptions will be for prime development sites in and around downtowns, especially for stores," the report said.

But are low cap rates necessarily a good thing? The capitalization rate is determined when the net operating income (NOI) is divided by the purchase price, or current value, of the asset.

For investors concerned with monthly rental income, a higher cap rate – signaling lower operating costs and thus higher cash flow – is desirable. But low cap rates signal the value of the acquisition has risen, allowing money to be made when selling the asset.

Given the current, most investors are focused on maximizing the cash flow today and not necessarily on upping property values when buyers are fewer and farther in between.

"With prices stabilizing and buyers having a more difficult time buying properties that puts more demand on rentals, which increases rental rates in key neighbourhoods and key markets," says investor Paul Hecht. "I would say Toronto is neighbourhood driven; we have over four million people here, it's like putting Calgary, Edmonton, Victoria and Ottawa all in one city. There will be pockets which won't do anything, and there will be pockets that perform very well."

Still, many investors feel that lower cap rates will yield the biggest returns. An investor favorite in recent months, Hamilton is predicted to provide excellent rates of return.

"I think the Hamilton market is going to continue to see a lot of investors, and I think the cap rates are going to remain quite low," says Shawn Maher, investor and developer. "We're finding every building that we put up in Hamilton right now we're getting multiple offers on, and they're going for a cap rate that is a lot lower that what it would normally go for. I would really predict that Hamilton, even though they're predicting a 20% drop in real estate over all, the prices are so low that I think it is going to be a very low environment for cap rates.

Source: Canadian Real Estate Magazine.

Some Recent Sales – Hamilton

Address		Units	Price	Price Per Unit
123 Bold Street		110	$4,600,000	$41,800
255 Bold Street		82	$7,050,000	$85,900
155 Market Street		113	$6,500,000	$57,000
192 Hughson Street North		192	$12,479,000	$65,000
181 John Street North		191	$12,190,000	$63,800
508 Mohawk Road East		46	$6,399,000	$139,100
Source: Realtrack and CFR				

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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?

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