Commercial Focus Realty Inc., Brokerage
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APARTMENT DIGEST

Values Up in 2012 for Apartments

The Greater Toronto apartment market continues to be plagued (depending if you are a Seller or Buyer) by the same drivers for the past decade: historically low interest rates; a supply and demand imbalance; no new supply (new competition); demographics; low interest rates; Provincial Legislation; and high historic levels of immigration. This song has been on the radio since 1993. Will things change? That is the $64MM question.

Apartment owners generally are distinct from owners of other asset classes. They tend to be long term holders most of which have built the product they now own. They generally are not speculative and not risk takers. There are over 7,800 apartment buildings in the GTA and only 100 or so trade every year. This is 0.01% of the market!!!

Since 1999 dollar volume of apartment sales has fluxuated but has averaged over $650MM each year in the GTA. In the last 3 years this level has gone to almost $900MM per annum on average. In 2012 the sales volume hit a record $1BB in dollar value. Between 2011 and 2012 in the GTA, the number of suites sold declined by 9% which means that the market is still tightening.

The above contraction in the market caused prices to jump! In 2012, the average price per suite was $126,000. This is up 28% over 2011. In fact, 2012 saw the highest average price per suite since stats on apartments were being collected. For the past 12 years (see chart attached), there has been a huge gain in value. In fact, prices per suite grew at a faster rate than the decline in cap rates.

Over the same period Cap Rates have followed a similar pattern. The average Cap Rate in 2012 was 5.3% which is down from 6.0% in 2011. This 12% compression really is indicative of the imbalance of supply and demand in this market.

To show you how tight the market was we will delve deeper into the 2012 statistics. In 2012, there was a total of 123 properties traded in the GTA for a total of $942MM. Of this amount, $734MM or 78% of the total involved the sale of 43 buildings purchased by 6 companies. They include the following: Homestead Land Holdings $335MM; Akelius Canada $140MM; Timbercreek $90MM; Hollyburn Group $89MM; Centurion Property Associates $41MM; and Starlight $39MM. This leaves $210MM of real estate which generally traded amongst smaller companies and private individuals.

The drivers in the market have not changed in the past decade. There is a relatively low supply of saleable product in the market. By salable produce we mean properties on the market by willing Sellers which are priced reasonably. Demand is still strong for this asset class and now buyers are entering the market from out of Country en mass for security and income growth. They are fleeing areas of negative growth and insecurity.

Interest rates have been at their lowest levels in history. Factoring in inflation, interest rates are basically zero. They are anticipate to stay low for the foreseeable future. Given high construction costs, building NEW high rise concrete rental is out of the question, hence little or no new competition is on the horizon.

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Economic Indicators:

Real GDP Growth	Q4 2012	+0.6%
Toronto Employment Growth	Jan. 2013	+4.6%
Toronto Unemployment Rate	Jan.2013	8.2%
Inflation	Jan.2013	+0.5%
Bank of Canada Overnight Rate	Feb.2013	1.0%
Prime Rate	Feb.2013	3.0%
5 Year Mortgage Rate Fixed	Feb. 2013	5.24%

STOP PAYING FOR AIR IN YOUR WATER!

Water meters have changed little since their earliest use and have a major fault in their design: air in your water lines is read as water by your meter. So for ALL building owners/operators, there is a very **high probability your meter is billing you for higher water consumption than your building is actually using.** Really! The obvious question one would then ask is – How can this be so?

Here is what happens. If you filled up a bucket of water to the one gallon mark, the meter may have shown that you actually used 1.4 gallons of water. If that ratio is reduced to a 80/20 water/air content after the valve is installed, the meter would only be registering 1.1 gallons to fill that same 1 gallon bucket.

This is where the turbulence of the water flowing through the meter is such a variable in the reduction of air passing through the meter. The higher the turbulence, the bigger the air bubbles. By compacting those air bubbles, and turning the flow of water from turbulent to laminar, the meter isn't reading air bubbles, just water.

It is a well documented and researched fact that there exist considerable amounts of air in municipal water pipelines. In fact, the entry, control and release of air from pipelines is a major, though often, hidden problem in pipelines used for water supply, foul water drainage and effluent discharge.

"…fundamental services are provided by municipalities through sewer and water pipes, some over 100 years old. These billions of dollars of buried infrastructure normally serve us so well that they are overlooked, "out of sight, out of mind". They are rarely top tier political issues, and when budgets are tight it is tempting to defer their inspections, maintenance, repair or replacement. The backlog of repairs and replacement has been characterized by Ontario's Ministry of Public Infrastructure Renewal as a 'water infrastructure deficit'. The water infrastructure deficit in Ontario has been estimated by the Province's own Expert Strategy Water Panel as between $30 and $40 billion." Ontario Budget papers, page 123.

The collection of published information and discussions with practitioners has revealed many issues related to this problem, but Encompass' focus is less on remedying the problem on the municipal side of the water meter and more on the building owner/operator side. However, it is still important to understand the underlying reason how the **problem of air in water pipes is created and the impact it ultimately has on the end user.** To date, when water efficiency is discussed, it centers on installing water efficient fixtures, but this does not address the issue of air in water because it provides efficiency use after having passed the meter. **We are concerned with the treatment of water efficiency before it is measured by the end user's meter.**

To that end, we identify and are concerned with the key issue of air in water and the direct impact on building owner/operators.

So, how then will this "water infrastructure deficit" impact your building operations? Firstly, the effects of a poor and crumbling infrastructure will result in higher volumes of air in water pipelines. Given that **water meters are not intelligent enough to differentiate between air and water, as part of the recording process**; it reasons that the higher air volumes will increase water consumption and sewage readings resulting in increased water utility cost.

Secondly, the capital expenditures required for the billions in repairs required will, in all probability, be passed onto building owners/operators through municipal water and sewage consumption services.

We have already seen the significant impact these challenges have had on rates. Since 2005 water and sewage costs have risen by nearly 100%. Given the preceding issues it's clear that rates will continue to increase and therefore have a significant impact on operating cost for building owners/operators. **Those owners/operators who have installed the H2 minus O valve have seen significant savings on their water consumption cost ranging from 10% to 50%.**

Installing the H2 minus O valve will provide a number of key benefits to your buildings/businesses. We have a number of case studies that (we would be more than happy to share) demonstrate the key **benefits of the technology: Lower water bills; Rapid return on investment; Increased net operating income; Increase value of building.**

"I can be very excited about a product that delivers an 18.8% lower water reading. By my rough calculations, that nets into savings of $28,833 annual savings increases the bottom line by that amount, and increases my property's value by $360,000 at an 8% Capitalization Rate. A very good rate of return on the investment of that value." Zane D. - Owner

For further details on how H2 minus O can help reduce your building's water cost, please contact Encompass for your no obligation assessment and business case ROI.

Source: Encompass Group M&V and CDM technology solutions for your business
Nando Presciutti
(416) 451-7838

Values Up ! Cont'd from Page 1

In addition to the above, Canada Mortgage and Housing Corporation (CMHC) indicates that vacancy rates in the GTA have increased to 1.7% in 2012 from 1.4% in 2011. However, this is still a very low level. Given the rise in vacancy rates, GTA apartment rents still rose on average over 2.8% for the same period. This fact alone indicates the tight rental market in the GTA.

In 2013, CMHC indicates that vacancy will decline to 1.3% as the economy improves. This will mean that rents will be pushed up and the rental market will tighten further. As well, gross revenues will move up for most apartment

Demographics also indicate that in the next 20 years the GTA population will increase by between 10% and 20%. The indigenous Ontario population is not replacing itself. Immigration into Canada now stands at over 250,000 persons per annum legally. Of this over 75,000 located in the GTA. They will need rental accommodation. This will continue to spur demand for rental units.

All of the above are the drivers pushing Buyers into this market. This will continue moving forward. However, what are the potential negative factors on the horizon that could affect this market.

Interest rates are at all time lows. This has been one of the driving factors in increasing demand for apartment buildings.

How long will these low rates be around for? No one knows but we all know that once money becomes more expensive it will shrink Buyers offering prices.

Lending criteria has also been changing. Gone are the days of 75% loan to value on purchase price for CMHC insured loans. Debt coverage ratio is now more important and moving to the 85% loan to CMHC value (much lower than the purchase price) is more the norm today which means Buyers have to come up with more equity and pay higher lending fees. If this trend continues then Buyers will have to increase down payment especially for low cap rate deals. This will affect their offering prices in the end.

Increasing expenses at a faster rate than income will result in lower net operating incomes and hence lower property values. Most municipalities in the GTA are under stress financially and they will be surely increasing property taxes not lowering them moving forward. As well, hydro and water rates have been on the double digit rise of late and anticipated to continue on this trend for the forseeable future. In the past compressed cap rates have overcome softening net income but how long can this go on for?

Legislative changes are critical to the value apartment buildings. Nothing seems to be on the horizon from a legislative point of view Provincially but the City of Toronto seems to be on the warpath with respect to inspecting apartment buildings and "uncovering" all sorts of issues of deferred maintenance.

No new high rise apartment buildings are anticipated to be built in the GTA for the short to medium term. The cost to construct are too prohibitive in this current market. If the market were viable it would be high end only and would only compete with the condo market - more on the resale side. There might be some small infill stick built apartments being built but even those in the GTA would not be profitable - best to build market townhouses or condo's and sell take your profit and run.

For 2013 we see much of the same for this market. Demand will continue to be robust and it will still be a Seller's market. However, pricing will be tempered by rising expenses. Also, if more supply comes on stream this will also temper pricing. Finally, tightening and more conservative lending practises if they continue will negatively affect apartment pricing especially for the smaller buildings.

The Apartment Group

Some Recent Sales

Address	City	Units	Price	Price Per Unit
150 Sanford Ave. N.	Hamilton	146	$12.6MM	$86,300
150 Heiman St.	Kitchener	36	$3.2MM	$88,900
155 Hager St.	Welland	76	$5.4MM	$71,000
Mintz Portfolio	GTA	1,157	$207.4MM	$179,255
2460-2500 Keele St.	North York	152	$19.0MM	$125,000
521 Finch Ave. W.	North York	179	$22.5MM	$125,700
Source: Realtrack and CFR				

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 $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.

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