

THE LAND DIGEST

Building Rental – Trend or Anomaly

To own or not to own? That is the question every young adult ponders at some point in life — even before home ownership is a fiscally-sound option.

Patrick Bet-David is financial advisor formerly with Morgan Stanley and Aegon, and is now president and CEO of PHP, a company specializing in financial services and life insurance. He says that people should not rush into buying. Instead, they should think about apartment rentals until they have saved at least 12 months of mortgage payments.

“The real estate industry has done a great job persuading the public that the American dream starts with homeownership,” Bet-David says. “Hundreds of thousands of families are going through the pain and struggle of trying to not miss their next mortgage payment simply because they purchased a home prematurely.”

For many U.S. citizens, the dream of homeownership was shattered during the crash of the housing market in 2007. Soft lending standards and the over use of adjustable rate mortgages were putting debt obligations back into owners’ hands — hands that were incapable of paying for it.

“We have become a nation of finance everything,” Bet-David says. “We finance our education, cars, weddings, homes. That mindset has gotten many Americans into a ton of trouble. Instead, we need to spend more time focusing on increasing the amount of savings we have rather than adding to our total debt.”

With U.S. homeownership rates hitting a 19-year low, the reality is that many residents are renting out of necessity — not out of choice. Harder to come by financing and higher home prices have ruled out ownership south of the border and made renting the only viable option.

Since the fall of 2013, home sales and new construction in the U.S. have been on the decline. A brutal winter, tighter lending, limited supply of inventory, and higher prices compared to this time last year, have all played a role in the slowing of the U.S. market, giving the rental sector a dramatic boost.

Here in Canada, similar challenges have presented themselves, but not nearly on the same scale. Developers in Toronto continue to favour condominiums over purpose-built rental buildings, with a few notable exceptions.

The Heathview is the new, state-of-the-art apartment complex built by the Morguard Corporation in Forest Hill, Toronto. Featuring two 30-storey towers of luxury units, the swanky new residence targets empty nesters and young professionals who aren’t quite ready to purchase their first homes.

According to Brian Athey, vice-president of residential (Canada) at Morguard, the demand has been strong, with a considerable number of units already leased, well in advance of the development’s planned opening later this summer. “We expected strong demand for purpose-built rental product in this market,” Athey says. “The Heathview is the first new development in mid-town Toronto to provide an alternative to condos in a prime location with historically low vacancy rates.”

But Peter Zimmerman, senior vice-president of planning and development at Freed Developments in Toronto, says that The Heathview (and the handful of other purpose-built apartments) is not indicative of a true rental resurgence.

Economic Indicators:

Real GDP Growth	
Q4 2013	+2.9%
Toronto Employment Growth	
Mar 2014	+2.1%
Toronto Unemployment Rate	
Mar 2014	8.0%
Inflation	
Mar 2014	+1.5%
Bank of Canada Overnight Rate	
Apr 2014	1.0%
Prime Rate	
Apr 2014	3.0%
5 Year Mortgage Rate Fixed	
Apr 2014	4.99%

Cont'd Building Rental – Toronto

Just look at the volume of condominiums that continue to be built across the city and you'll see where the market lies," Zimmerman says. "A significant portion of rental stock in Toronto still comes from condominium. On some level, the economics of purpose-built rental may be catching up to condo development. But most developers looking at opportunities are largely coming back to the same conclusion — that condos still make the best return on investment and they offer more flexible inventory."

Zimmerman says that there are a few factors that

differentiate the Canadian market from the U.S. "We haven't had the same soul-searching around lending. We haven't had the army of potential residents who have been burned by the collapse of ownership, who are having difficulty getting mortgages. For Canadians, ownership hasn't been tarnished like it has been in the U.S. and it is still an attractive option for many households."

If a rental resurgence were to happen on the same scale here, Zimmerman says that it wouldn't be driven by the collapse of the housing market, rather than a shift in the economics.

"The high cost of doing business, including the increased marketing costs associated with condominiums would likely drive the resurgence," he says.

Source: Canadian Apartment Magazine

CONDO Market Trends – GTA

Toronto Real Estate Board President Dianne Usher announced that "home buyers remained confident in purchasing condominium apartments during the first three months of 2014. This included first-time buyers and seasoned home owners looking to change their housing situation. Despite the condo market segment being well-supplied, strong sales growth translated into a robust increase in the average selling price."

Greater Toronto Area REALTORS® reported 4,454 condominium apartments sold through the TorontoMLS system in Q1 2014—up 9% compared to 4,085 sales reported in Q1 2013.

The average selling price for Q1 2014 transactions was up by 5.6% year-over-year to \$351,213.

The City of Toronto accounted for 70% of all condo apartment transactions, with 3,121 sales reported. The average selling price in the City was \$376,226.

The supply of condo apartments listed for sale also edged up in the first three months of 2014. New listings reported during the quarter were up by 3.1% year-over-year.

Active listings at the end of the quarter were up by 1.8%

"The number of new condominium apartment completions was up substantially in 2014. Because of this, we could see stronger growth in listings in the second half of 2014 as some investors choose to list their units for sale. If this occurs, buyers would benefit from more choice in the marketplace and thus could have more negotiating power with regard to price," said Jason Mercer, TREB's Senior Manager of Market Analysis.

Source: TREB

Recent Sales – Toronto

Address/Type	Area (Ac)	GFA (sf)	Price	Price/GFA	Coverage
796 Broadview Ave Mid Rise	0.27	39,225	\$2.8MM	\$71	3.3 x
3600 Lake Shore W Mid to High Rise	11.98	579,973	\$21.4MM	\$36	1.1 x
50 Charles St E High Rise	0.73	557,475	\$32.7MM	\$59	12.3 x
2851 Yonge St Mid Rise	0.23	44,100	\$3.95MM	\$90	4.4 x
1780 Avenue Rd Mid Rise	0.27	64,680	\$5.8MM	\$90	5.5 x
5220 Yonge St High Rise	1.21	280,000	\$20MM	\$71	5.0 x

Source: CFAS and RealTrack

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!

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www.cfrealty.ca

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The key members of the Land Development Group are well tied into the development community.

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The Land Development Group started in 2012 and to date has sold over \$80 million worth product.

With an in house planner and accredited appraiser as part of the team, the Group can offer to its clients services like no other Brokerage. These professionals are quick to assess the potential development of property and its hidden values.

Lorenzo DiGianfelice, AACI

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

Jordan Black

Salesperson



Mitchell Chang

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

Robert Levinson

Salesperson & Owner
Direct – 416-907-8275
lev@sympatico.ca