Commercial Focus Realty Inc., Brokerage
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The Land Digest

New Rental Construction Financing

New rental construction is a hot topic these days with the media hyping apartment builds as the "big thing" in Canada. While there are some people realizing great returns from new rental construction, the headlines don't necessarily tell the whole story.

Construction financing is complicated, with a lot of intricacies involved. And, it's only a small percentage of deals that are truly viable. For any new rental construction, there are three key financing considerations that govern all successful outcomes:

1. Quality of the site

Site quality comes down to where the property is located and what's around it. Quality increases with proximity to transit, good schools and major highways, and if the neighbourhood is known for its attractions, amenities, walkability, retailers and restaurants.

In one example of a recent deal, the proposed property met all the quality criteria listed above. It was located in an established rental node, right on the subway line in an upper-end rental market perfectly suited for a new development. For that deal, we provided $100,000,000 in construction financing.

In another example, the building was going to be the fourth in a cluster of rental buildings First National had previously financed. The property was located across the street from a mall, on the subway line and two minutes away from two major highways. Site quality was indisputable.

2. Quality of the borrower

The quality of the borrower comes down to several factors. These include: An existing apartment portfolio, indicating experience with the asset class; Strong net worth, showing a solid financial foundation; Liquidity, showing that the borrower is able to infuse cash quickly to cover unforeseen costs that come with construction; Developing experience; however if lacking, the borrower can mitigate lack of experience by partnering with a more sophisticated high rise developer/builder; and Sub-market smarts, showing the borrower is knowledgeable and experienced about markets as a result of other apartment buildings owned.

We once worked on a deal in Western Canada, where the site was decent, but definitely not five star. It was just on the periphery of the ideal location of downtown.

However, in this case, the strength of the deal came from the quality of the borrower — an asset management company backed by institutional investors. That strong financial foundation gave us the confidence of knowing that any cost risk would be mitigated without issue.

3. Market feasibility

When contemplating any build, it is critical to determine if proposed rents are suitable for the target market. Understanding the market provides insight into rent values, but also helps to inform the breakdown of units and ensures that building design suits the target.

We worked on a deal with a high quality borrower. He had a significant apartment portfolio and an existing apartment building on the site already. The site itself was a B+ location. It was suburban, and even though it wasn't downtown suburban, it did have proximity to transit. The existing building on the site had done well historically. However, the borrower was looking for CMHC financing, and CMHC turned it down.

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Economic Indicators:

Real GDP Growth	Q1 2016	2.4%
Toronto Employment Growth	May 2016	2.5%
Toronto Unemployment Rate	May 2016	7.3%
Inflation	May 2016	1.5%
Bank of Canada Overnight Rate	Jun 2016	0.5%
Prime Rate	Jun 2016	2.7%
5 Year Mortgage Rate Fixed	Jun 2016	4.6%

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Meeting the considerations

If you're looking to secure CMHC financing, it's critical to be prepared to meet the three financing considerations to the letter.

When reviewing deals, CMHC executes on those considerations strictly and conservatively. You have to meet all three – site quality, borrower quality and market feasibility – with no exceptions.

Conventional financing offers a bit more flexibility for slight variables. And I mean slight. The considerations do apply, but there is a bit of room for interpretation.

In conclusion, for anyone looking to build a new rental construction, my advice is always the same: be realistic about the opportunity and your capability to build. If your strategy is to build and hold for the long term, then I suggest evaluating your opportunity with the intent of securing CMHC financing, so you can get the interest rate advantage.

The opportunities are out there, and the media is insistent that now is the time to build. In reality, the truly viable opportunities that conform to the critical financing considerations – site quality, borrower quality and market feasibility – are harder to find but infinitely more valuable.

Source: REMI Network
First National Financial

New Rental Yonge & Lawrence

A resurgence of the purpose-built rental market is bringing forward a number of new proposals across Toronto. Although the sought-after Lawrence Park neighbourhood isn't a neighbourhood associated with new fast-paced urban growth—with single-family homes continuing to make up the bulk of local housing—a recently proposed purpose-built rental project aims to open up the area to new residential density.

Tabled for a 918.3 m² site on the east side of Yonge Street, Muir Park Developments' 2851 Yonge Street would rise to a height of eight storeys just north of Glengrove Avenue, replacing a surface parking lot.

Designed by Core Architects, the project is proposed at a height of 26.2 metres. The mid-rise massing mirrors the 27 metre width of Yonge Street, thereby falling in line with the City's Avenues and Mid-Rise Buildings guidelines, which dictate that building heights should not exceed street width.

Introducing a total 49 rental units to the neighbourhood, the suites come in a mix of 4 bachelor, 5 one-bedroom, 9 one-bedroom + den, 19 two-bedroom, 9 two-bedroom + den, and 3 three-bedroom units. Residents would have access to indoor and outdoor amenity spaces of 106.1m² and 76.9m² respectively.

The site would be served by a two-level underground parking garage, containing 30 parking spaces accomodated within 15 double-parking stackers. Meanwhile, a single accessible parking space would be located at the ground level. 41 indoor bicycle parking spaces will also be provided, with 34 reserved for residents and 7 for visitors.

Since the original proposal was tabled in 2015, a modified proposal has be re-submitted. The P1 and P2 levels of the revised submission now include locker space between parking stackers, while the grade of the parking ramp, and the placement of storm and sanitary monitoring wells, have also been modified.

Source: Urbantoronto

RECENT SALES – Metro Toronto

Address	Acres	Price	Notes
Summerhill & Yonge	NA	$42.00MM	Future condo development
40 Widmer Street	0.37	$30.25MM	$105 psf 290,000 sf condo
8 Price Street	NA	$26.00MM	Future condo development
41 Dovercourt Rd.	0.44	$5.7MM	Future development site
360 Dufferin Street	1.0	$15.10MM	Future condo development
183 Avenue Rad	0.29	$15.35MM	Future condo development

Source: CFAS and RealTrack

About The Land Development Group

CFR has quality agents and advisors who have been involved extensively in the purchase and sale of development lands.

Not only can we assist in the purchase and sale function, but CFR has the contacts and expertise to participate the whole development process. We have affiliations with planners, architects and other consultants which can assist our clients.

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

In many cases they have acted on their behalf in consulting situations. This allows the team great access to leading edge information regarding future growth areas, highest and best use, and new paradigms in development densities.

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.

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