

APARTMENT DIGEST

Is The Apartment Market Stabilizing?

Economic Indicators:

Real GDP Growth	
Q1 2013	+2.5%
Toronto Employment Growth	
Jun 2013	+5.1 %
Toronto Unemployment Rate	
Jun 2013	7.8%
Inflation	
Jun 2013	+1.2%
Bank of Canada Overnight Rate	
Jul 2013	1.0%
Prime Rate	
Jul 2013	3.0%
5 Year Mortgage Rate Fixed	
Jul 2013	5.14%

The sales data for the Apartment market for the first half of 2013 has indicated some interesting trends beginning to enter this market. While this market has been on a steady climb in value for the past 15 years, current trends are pointing to quite a different picture emerging. It appears that cap rates and values are stabilizing.

In 2013, sales volumes for the first half of the year were over \$830MM and this is the highest it has been since 2004. However, this number is a bit misleading. In the first half of the year there were three extraordinarily large deals which totalled over \$380MM. The largest deal was for one building located on Queens Quay along the Toronto waterfront for \$148MM. Another was a portfolio court appointed sale of 4 buildings totally \$94MM and finally a sale of three condo titled buildings in Mississauga for \$82.5MM. So if adjusted for these deals, the real normal volume would have been \$450MM. This is less than the \$550MM reported for 2012.

The number of deals completed in 2013 is 55 which are the lowest it has been since 2009 and much lower

than the 74 deals completed in 2012. The decline in the number of deals and lower volumes could be a result of the short supply of buildings for sale, but it could also point to Buyer's becoming less aggressive on pricing and Seller's holding on to their top prices, hence fewer deals being consummated.

From our experience in the market, we understand there is a lack of product for sale but this has always been the case. While demand is still strong, we are now beginning to see Buyer's not be as aggressive on pricing as in the past, especially for buildings where pricing is seen as "astronomical".

The above being said, prices did move up slightly in 2013. Adjusted for the extraordinary deals, in 2013 the average price per suite was around \$125,000 and this is not much higher than the \$121,000 per suite reported in 2012. From our data, it appears that over the past six quarters that the price per suite has ranged between \$120,000 and \$130,000.

Cap rates have appeared to have stabilized. In 2013 the average cap rate was 5.33% and similar to the 5.38% reported in 2012 but still lower than the 6.0% recorded in 2011. In the background here is the

Long Term Canada Bond Yields as these greatly affect cap rates. Comparing the first half of each year the average yield in 2013 was 2.55% and this is similar to the 2.54% in 2012 but much higher than the 2.15% in 2011. While interest rates are at historic lows they have begun to creep up. Since June 2013 rates have consistently been over 2.9%.

Another factor in addition to interest rates is the declining loan to value ratios that banks are lending out on apartments today. This is especially true for low cap rate deals or where CMHC financing is obtained. This is forcing Buyer's to come up with more equity which results in less capital available to deploy into more buildings for acquisitions.

Given the recent statistics we consider the existing market "balanced". The market and asset class continue to be strong and demand is relatively healthy. Tightening lending practices and the potential for higher interest rates suggest that the market will continue to be stable for the short term.

Residential Market Watch – GTA

Greater Toronto Area REALTORS® reported 8,544 residential sales through the TorontoMLS system in July 2013. Total sales were up by 16 per cent compared to July 2012. Over the same period, new listings added to TorontoMLS and active listings at the end of the month were up, but by a substantially smaller rate of increase compared to sales.

“Last month’s sales represented the best July result since 2009 and was the third best July result on record. Despite recent increases in average borrowing costs, home buyers are still finding affordable home ownership options in the GTA,” said Toronto Real Estate Board President Dianne Usher.

“We are a year removed from the onset of stricter mortgage lending guidelines and many households who put their decision to purchase a home on hold have reactivated their search. An increasing number of these households are getting deals done,” continued Ms. Usher. Reflecting tighter market conditions, the average selling price for July sales was up on a year over year basis by eight per cent to \$513,246.

It should be noted, however, that the average condominium apartment price was also up by more than the rate of inflation on an annual basis. The MLS® Home Price Index (HPI) was also up on a year-over-year basis for all major home types.

“We are forecasting continued average price growth for the remainder of 2013 and through 2014 as well. Months of inventory for low-rise homes remains near record lows, suggesting that sellers’ market conditions will remain in place in the second half of 2013.

An increase in listings in 2014 would lead to more balanced market conditions and a slower pace of price growth next year, albeit still above the rate of inflation,” said Jason Mercer, TREB’s Senior Manager of Market Analysis.

Source: TREB

Sales & Average Price By Major Home Type^{1,7} July 2013

	Sales			Average Price		
	416	905	Total	416	905	Total
Detached	986	3,143	4,129	\$793,842	\$597,404	\$644,313
Yr./Yr. % Change	20.7%	19.6%	19.8%	6.5%	8.0%	7.6%
Semi-Detached	340	617	957	\$584,499	\$416,420	\$476,134
Yr./Yr. % Change	28.8%	25.2%	26.4%	11.1%	6.5%	8.7%
Townhouse	351	1,033	1,384	\$452,167	\$379,463	\$397,901
Yr./Yr. % Change	12.5%	7.9%	9.1%	8.8%	6.2%	7.1%
Condo Apartment	1,353	541	1,894	\$361,969	\$281,044	\$338,854
Yr./Yr. % Change	10.6%	10.2%	10.5%	4.1%	1.0%	3.4%

Rental Market Report – GTA

Greater Toronto Area REALTORS® reported 5,853 condominium apartments rented through the TorontoMLS system in the second quarter of 2013. This result was up by approximately 23 per cent in comparison to the second quarter of 2012. The number of condominium apartments listed for rent was up by over 15 per cent to 10,284.

“Condominium apartments rented out by investors have become an increasingly important part of the overall rental stock in the GTA, given that very few rental properties have been completed over the last decade,” said Toronto Real Estate Board President Dianne Usher.

“Strong demand for condo rentals has come from households who want to live in up to-date units but who are not ready to buy. These renter households include would be first-time buyers who are waiting to save a down payment and/or benefit from increased incomes and new comers to Canada who often choose to rent before entering into the home ownership market,” continued Ms. Usher.

Average rents for one-bedroom and two-bedroom condominium apartments increased well-above the rate of inflation on a year-over-year basis in the second quarter, reaching \$1,611 per month and \$2,174 per month respectively.

“The fact that annual growth in rental transactions outstripped growth in the number of units listed for rent suggests that conditions in the GTA tightened over the past year and that the vacancy rate has remained very low.

Strong competition between renters for available units has prompted continued upward pressure in average rents,” said Jason Mercer, TREB’s Senior Manager of Market Analysis.

Source: TREB

Rental Market Summary: Second Quarter 2013

Apartments^{1,2,3}

	All Bedroom Types		Bachelor		One-Bedroom		Two-Bedroom		Three-Bedroom	
	Listed	Leased	Leased	Avg. Rent	Leased	Avg. Rent	Leased	Avg. Rent	Leased	Avg. Rent
Q2 2013	10,284	5,853	178	\$1,335	3,184	\$1,611	2,375	\$2,174	116	\$2,496
Q2 2012	8,893	4,762	143	\$1,285	2,548	\$1,556	1,945	\$2,089	126	\$2,625
Yr./Yr. % Chg.	15.6%	22.9%	24.5%	3.9%	25.0%	3.5%	22.1%	4.1%	-7.9%	-4.9%

Townhouses^{1,2,3}

	All Bedroom Types		Bachelor		One-Bedroom		Two-Bedroom		Three-Bedroom	
	Listed	Leased	Leased	Avg. Rent	Leased	Avg. Rent	Leased	Avg. Rent	Leased	Avg. Rent
Q2 2013	777	409	1	\$925	39	\$1,509	125	\$1,822	244	\$1,921
Q2 2012	804	366	0	-	31	\$1,416	110	\$1,677	225	\$1,911
Yr./Yr. % Chg.	-3.4%	11.7%	-	-	25.8%	6.6%	13.6%	8.6%	8.4%	0.5%

Some Recent Sales – GTA

Address	Units	Price	Price Per Unit	Cap Rate
1317 Queen St. E. (Tor)	18	\$1,800,000	\$100,000	NA
10 Mount Royal Ave. (Tor)	11	\$1,800,000	\$163,635	4.25%
120 Dundas St. E. (Miss)	155	\$27,700,000	\$178,700	NA
100 Lower Ossington (Tor)	179	\$40,000,000	\$223,450	NA
Merkur Portfolio (Tor)	155	\$24,135,000	\$155,700	NA
2200 Sherobee Rd. (Miss)	112	\$20,300,000	\$181,250	NA
136 Springhurst Ave. (Tor)	8	\$2,125,000	\$265,625	4.69%

Source: RealTrack, CFR

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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.

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