Commercial Focus Realty Inc., Brokerage

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# APARTMENT DIGEST

## Ontario Rental Market Study

Rental demand in Ontario has reached multi-decade highs, driven primarily by robust economic and population growth, job creation for prime renter cohorts, and a decline in homeownership affordability. At the same time, supply growth for rentals has been almost entirely comprised of secondary units offered by investors in the condominium market.

Purpose-built vacancy rates have fallen to a 15-year low of 2.1% across the province and 1.3% in Toronto as of 2016, with condo vacancy rates in Toronto dropping to a seven year low of 1.0%.

The recent increase in purpose-built rental construction combined with elevated levels of condominium development are expected to lead to above-average growth in rental supply in the next few years. However, the extension of rent controls to new buildings will eventually cause supply growth to stall, as fewer projects ultimately decide to proceed as rental and condo investors opt to hold their units in the rental market for shorter periods of time than in the past.

Demand for renting purpose-built and condominium apartments in Ontario is projected to average 34,000 units annually in the coming decade, leaving a supply shortfall of over 6,000 units per year under the baseline development outlook.

Without an immediate doubling of rental construction from current levels, further declines in vacancy and intense competition for available units is expected. The delayed increase in required rental development to offset demand could result in an annual supply gap reaching over 10,000 units within 10 years. Without any changes in the supply outlook, a cumulative deficit of 62,500 rental units is expected to be amassed in the coming decade.

The expected market outcome will lead to increased pressure on the existing stock of purpose-built rentals in Ontario, 85% of which are more than 35 years old. This will require increased levels of investment upgrades to ensure suitable accommodations will be available for a quickly growing population of renters in Ontario.

Forthcoming research to be released by FRPO and Urbanation reveals that rental owners spent over $5 billion in significant renovations over the past five years, representing a meaningful component of Ontario's overall housing industry and making a measurable impact on the province's economic growth.

Market trends point clearly towards the need for policy that promotes new rental development and facilitates continued investment in the existing stock of both purpose-built and condominiums. This was evident before the new rental regulation was introduced in April, and is even more apparent now in light of the change.

The encouragement of rental operators to improve the quality of rentals in Ontario and remain invested in the market by allowing untenanted units to offset above-inflation costs through unregulated rents is expected to increase in importance in the coming years, as a substantial supply shortfall of new development occurs.

**Source: Urbanation FRPO**

### Economic Indicators:

| | | |
|---|---|---|
| ***Real GDP Growth*** | Q2 2017 | 4.5% |
| ***Toronto Employment Growth*** | Jul 2017 | 1.3% |
| ***Toronto Unemployment Rate*** | Jul 2017 | 6.9% |
| ***Inflation*** | Jul 2017 | 1.2% |
| ***Bank of Canada Overnight Rate*** | Aug 2017 | 0.75% |
| ***Prime Rate*** | Aug 2017 | 2.95% |
| ***5 Year Mortgage Rate Fixed*** | Aug 2017 | 4.8% |

# GTA Housing Market Stats

TORONTO, ONTARIO, September 6, 2017 – Toronto Real Estate Board President Tim Syrianos announced that Greater Toronto Area REALTORS® reported 6,357 home sales through TREB's MLS® System in August 2017. This result was down by 34.8 per cent compared to August 2016.

The number of new listings entered into TREB's MLS® System, at 11,523, was down by 6.7 per cent year-over-year and was at the lowest level for August since 2010. "Recent reports suggest that economic conditions remain strong in the GTA. Positive economic news coupled with the slower pace of price growth we are now experiencing could prompt an improvement in the demand for ownership housing, over and above the regular seasonal bump, as we move through the fall," continued Mr. Syrianos.

The average selling price for all home types combined was $732,292 – up by three per cent compared to August 2016. This growth was driven by the semi-detached, townhouse and condominium apartment market segments that continued to experience high single-digit or double digit year-over-year average price increases.

The MLS® Home Price Index composite benchmark, which accounts for typical home types throughout TREB's market area, was up by 14.3 per cent year-over-year in August. The fact that MLS® HPI growth outstripped average price growth, points to fewer high-end home sales this year compared to last year.

"The relationship between sales and listings in the marketplace today suggests a balanced market. If current conditions are sustained over the coming months, we would expect to see year-over-year price growth normalize slightly above the rate of inflation. However, if some buyers move from the sidelines back into the marketplace, as TREB consumer research suggests may happen, an acceleration in price growth could result if listings remain at current levels," said Jason Mercer, TREB's Director of Market Analysis.

**Source: TREB**

## Sales & Average Price By Major Home Type[1,7]

## August 2017

| | Sales | | | Average Price | | |
|---|---|---|---|---|---|---|
| | 416 | 905 | Total | 416 | 905 | Total |
| 2017 | | | | | | |
| Detached | 561 | 2,017 | 2,578 | $1,191,052 | $906,592 | $968,494 |
| Semi - Detached | 180 | 408 | 588 | $895,361 | $635,669 | $715,167 |
| Townhouse | 238 | 852 | 1,090 | $682,177 | $582,953 | $604,618 |
| Condo Apartment | 1,476 | 520 | 1,996 | $540,169 | $416,081 | $507,841 |

**Year-Over-Year Per Cent Change**

| | | | | | | |
|---|---|---|---|---|---|---|
| Detached | -34.8% | -43.2% | -41.6% | -1.2% | -0.1% | 0.3% |
| Semi - Detached | -13.0% | -37.1% | -31.3% | 15.4% | 7.0% | 12.1% |
| Townhouse | -33.1% | -25.7% | -27.5% | 11.0% | 8.7% | 8.9% |
| Condo Apartment | -24.5% | -36.4% | -28.0% | 20.9% | 18.9% | 21.4% |

# Q2 - GTA Rental Market Report

ORONTO, ONTARIO, July 24, 2017 – Toronto Real Estate Board President Tim Syrianos announced the continuation of very tight conditions in the condominium apartment rental market in the second quarter of 2017. The number of rental transactions reported through TREB's MLS® System remained in line with Q2 2016 levels, while the number of units listed at some point during the quarter declined year-over-year.

Average annual rates of rent growth for one- and two-bedroom condominium apartments were over eight per cent.

"The Greater Toronto Area continues to be a very attractive place to live for many people, some of whom choose to rent. While rental demand remained very strong from a historic perspective in the second quarter, the supply of available rental units remained constrained, and average rents continued to grow well-above current and expected future rates of inflation," said Mr. Syrianos.

"It is clear that we continue to suffer from a lack of available rental units. The Fair Housing Plan announced by the Government of Ontario committed to measures designed to increase housing supply. Conversely, the Fair Housing Plan also expanded rent controls, which could preclude investment in rental properties, thereby further constricting supply. With different policy components potentially at odds, it will be interesting to see the eventual impact of the Fair Housing Plan on the rental market in the GTA," continued Mr. Syrianos.

The average one-bedroom condominium apartment rent was up by 8.8 per cent year-over-year in the second quarter to $1,861 per month. The average two-bedroom rent was up by 8.7 per cent to $2,533.

"Competition between would-be renters increased in the second quarter of this year relative to the same time period in 2016. This meant that average rents increased by much more than the rate of inflation. In addition, the annual pace of rent growth also increased compared to Q2 2016, reflecting the fact that, generally speaking, it has become harder to find a place to rent this year compared to last," said Jason Mercer, TREB's Director of Market Analysis.

**Source: TREB**

## Rental Market Summary: Second Quarter 2017

### 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 2017 | 11,890 | 8,553 | 273 | $1,551 | 5,027 | $1,861 | 3,071 | $2,533 | 182 | $3,148 |
| Q2 2016 | 12,276 | 8,560 | 277 | $1,425 | 4,953 | $1,710 | 3,138 | $2,331 | 192 | $3,046 |
| Yr./Yr. % Chg. | -3.1% | -0.1% | -1.4% | 8.8% | 1.5% | 8.8% | -2.1% | 8.7% | -5.2% | 3.4% |

### 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 2017 | 956 | 613 | 4 | $1,169 | 52 | $1,767 | 239 | $2,092 | 318 | $2,415 |
| Q2 2016 | 939 | 570 | 2 | $1,350 | 54 | $1,558 | 226 | $1,903 | 288 | $2,194 |
| Yr./Yr. % Chg. | 1.8% | 7.5% | 100.0% | -13.4% | -3.7% | 13.4% | 5.8% | 10.0% | 10.4% | 10.1% |

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# RECENT & CURRENT DEALS FOR CFR

| Address/City | Suites | Price MM | Cap Rate | Notes |
|---|---|---|---|---|
| 2198 Queen E. – Toronto | 21 | $5.10 | 3.5% | 19 apts and 2 stores |
| 1609 Queen E. – Toronto | Mix | $2.55 | 4.0% | 5 apts. and 2 stores |
| 21 Imperial Ave. – Toronto | Off | $10.8 | 3.25% | Office building future dev. |
| London (Firm) | 36 | $10.35 | 4.25% | New rental apt. bldg.. |
| Kitchener (Conditional) | 51 | $10.0 | 4.0% | Townhouse & development |
| Victoria Park – East York (Conditional) | NA | $22.0 | 4.5% | 4 acre retail investment |

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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 **$4.0 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.

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