

APARTMENT DIGEST

CMHC Market Risk Assessments – Canada

Economic Indicators:

Real GDP Growth Q3 2014	+2.8%
Toronto Employment Growth Oct 2014	-1.2%
Toronto Unemployment Rate Oct 2014	7.9%
Inflation Oct 2014	2.4%
Bank of Canada Overnight Rate Nov 2014	1.0%
Prime Rate Nov 2014	3.0%
5 Year Mortgage Rate Fixed Nov 2014	4.79%

Results from Canada Mortgage and Housing Corporation's (CMHC) House Price Analysis and Assessment (HPAA) framework were released just indicating that overall, housing markets in Canada remain broadly consistent with underlying demographic and economic factors such as employment and interest rates. Nevertheless, a modest amount of overvaluation is observed, meaning that house prices are slightly higher than what the underlying factors would suggest.

"At the national level, other than a modest amount of overvaluation, we do not detect the presence of other risk factors such as overheating, price acceleration, and overbuilding," said Bob Dugan, CMHC's Chief Economist. "Risk of overvaluation is most evident in Montreal and Quebec, but the trend is improving. A modest risk of overvaluation is also present in Toronto, Calgary and Halifax. Across the 8 CMAs examined, there is no overheating or acceleration."

"There is however a cautionary note with respect to overbuilding in Toronto and Montreal. The number of units under construction is elevated

in these centres. This could develop into overbuilding if these units are completed but not sold. To mitigate this risk, builders will need to hit the appropriate balance in channeling new demand between units that are currently under construction but not sold and units that are in the planning stage," noted Mr. Dugan.

In Toronto, the main cause of a moderate risk of overvaluation is that real personal disposable income has not been increasing as fast as growth in house prices in recent years. However, since early 2014, income has increased and population growth in the 25 to 35 year-old cohort (which is an important source of first-time homebuyers) is trending up, which are two developments that are supportive of housing demand. In addition, house price growth in Toronto has been moderating since late 2013. So far in 2014, Improving employment and demographic conditions, combined with moderation in price growth, is reflected in a moderate risk of overvaluation for this CMA.

Toronto, Calgary and Halifax are assessed at a moderate risk of overvaluation because a relatively limited number of fundamental economic, financial and demographic factors in these centres are

at levels below those that we estimate as consistent with observed price growth.

Montréal and Québec are assessed as having a moderate overall risk. This reflects the fact that a relatively large number of economic, financial and demographic factors in these centres are currently at levels below those that we estimate as consistent with observed price growth.

TORONTO Moderate Risk

— Overvaluation in Toronto is due to steady price growth that has not quite been matched by growth in personal disposable income. The level of completed and unabsorbed units and the rental vacancy rate are both below their respective historical averages. However, the level of units under construction relative to population is near historical peaks — inventories need to be managed.

Source: CMHC

NEW RENTAL Becoming Economically Viable

A developer's instincts for untapped demand underpin plans for new purpose-built rental housing in midtown Toronto. The proposed luxury building near the intersection of Yonge Street and Eglinton Avenue will retain elements of the circa-1936 post office building now on the site, and be positioned to capture a market segment that has been renting units in condominium towers.

"Purpose-built rental seems to be coming back," Michael Tucci, director of acquisitions and development with the Rockport Group, told seminar attendees at the recent annual PM Expo in Toronto. "Condo stock is not being managed the same way as a rental building. When it's managed by a professional company, it's a different experience (for tenants) and they are going to pay for it."

From a financing perspective, the two types of residential tenure are markedly different. Condominium projects don't get built until a major share of the units are sold, at which time condo lenders advance the rest of the funds. Purpose-built rental is more speculative and developers can't count on any cash infusion from residents until the project is completed and occupied.

"We'll construct the building, and then we start to lease it," Tucci said. "It takes an incredible amount of equity."

Other factors, particularly related to obtaining

approvals, are similar regardless of tenure.

"Eleven times out of 10, the property needs to be rezoned. That's how often it happens," Tucci quipped.

With rezoning, comes a statutory requirement for public consultation — a reality that both Tucci and Shortall advise it's best to embrace proactively. Local councillors can be allies or adversaries, and communication, or lack thereof, is often key to shaping that relationship.

Local councillors are also the power brokers when it comes to so-called Section 37 benefits — thus named for the section of Ontario's Planning Act that enables local governments to increase the allowable building height and/or density on a site in exchange for the developer's contribution to the nebulously termed "community benefits". This is something of an unknown for developers in their budgeting, as Shortall noted there are no established benchmarks or consistent measures for valuing Section 37 payouts, either within a single municipality or to compare between municipalities.

Known costs are no less onerous. In Toronto, for example, development charges now equate to \$17,293 per two-bedroom (or larger) unit and \$11,903 per one-bedroom or bachelor unit, although developers meeting Tier 2 of the city's Green Standard can qualify for rebates of up to \$1,867 per one-bedroom and bachelor unit or a maximum

of \$2,737 for larger apartment units. Still higher fees outside the city's borders hold little appeal for Tucci.

"We know there is development occurring in the 905, but I don't know how those developers are making money," he said. "The land would have to come down (in price) for that to work, and it's just not there."

Building a purely rental title development should translate into property tax savings. Toronto is one of the Ontario municipalities that has implemented the optional property tax class for newly constructed multi-residential rental and currently taxes qualifying buildings at the same rate as residential properties. (Older rental stock in Toronto continues to be taxed a more than three times the residential rate.) Presuming a lower assessed value for purpose-built rental, there is no economic advantage from a tax perspective in registering the building as a condominium.

"There is a significant tax saving on a purpose-built rental than if I put a condo on it," Tucci said.

Source: Barbara Carss
Canadian Apartment
Magazine, REMI

Market Watch – Sales & Prices Continue to Grow

December 4, 2014 -- Toronto Real Estate Board President Paul Etherington announced that Greater Toronto REALTORS® reported 6,519 residential transactions through the TorontoMLS system in November 2014. This result was up by 2.6 per cent compared to 6,354 sales reported in November 2013. Through the first 11 months of 2014, total sales amounted to 88,462 - up 6.6 per cent compared to the same period in 2013.

While the trend of year-over-year sales growth continued, the supply of listings remained constrained, with

active listings at the end of November down in comparison to last year.

"Even with a constrained supply of homes for sale in many parts of the Greater Toronto Area, buyers continued to get deals done last month. Households remain upbeat about home ownership because monthly mortgage payments remain affordable relative to accepted lending standards. This is coupled with the fact that housing has proven to be a quality long-term investment," stated Mr. Etherington.

The average selling price for November transactions

was up by 7.4 per cent year-over-year to \$577,936. The year-to-date average price was up by 8.4 per cent to \$567,198. The MLS(R) Home Price Index Composite Benchmark price for November was up by 7.7 per cent compared to a year earlier.

Barring a substantial shift in the relationship between sales and listings in the GTA, price growth is expected to continue through 2015," said Jason Mercer, TREB's Director of Market Analysis.

Source: TREB

Sales & Average Price By Major Home Type^{1,7} November 2014

	Sales			Average Price		
	416	905	Total	416	905	Total
Detached	904	2,164	3,068	\$935,122	\$672,825	\$750,112
Yr./Yr. % Change	-0.3%	-0.8%	-0.6%	9.4%	10.6%	10.2%
Semi-Detached	261	389	650	\$667,178	\$449,429	\$536,864
Yr./Yr. % Change	-2.2%	-6.3%	-4.7%	4.2%	7.1%	6.1%
Townhouse	271	740	1,011	\$503,349	\$410,897	\$435,679
Yr./Yr. % Change	9.3%	4.5%	5.8%	6.3%	8.6%	8.1%
Condo Apartment	1,199	468	1,667	\$394,225	\$310,220	\$370,641
Yr./Yr. % Change	11.2%	8.1%	10.3%	2.0%	11.8%	4.3%

Year-Over-Year Summary^{1,7}

	2014	2013	% Chg.
Sales	6,519	6,354	2.6%
New Listings	8,789	9,281	-5.3%
Active Listings	14,717	16,092	-8.5%
Average Price	\$577,936	\$538,347	7.4%
Average DOM	27	29	-6.9%

OUR TOP Sales 2014

Address	Suites	Price	Price Per Suite	Cap Rate
1145 Midland Ave. Scarborough	42	\$7,100,000	\$169,050	6.25%
75 The Esplanade Toronto	Land	\$23,850,000		
1801 Eglinton Ave. W Toronto	47 + Retail	\$14,500,000	\$308,510	4.50%
2400 Bathurst Street Toronto	31	\$8,500,000	\$274,195	NA
222 Nonquon Road Oshawa	139	\$9,850,000	\$70,865	8.00%
31 Roehampton Toronto	36	\$8,500,000	\$236,100	3.25%
Many others.....				

Source: CFR

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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.

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The market today is very tight. Having the right Broker working for you is more important than ever.

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