

APARTMENT DIGEST

Is Your Building Exempt from Capped Rent Increases?

Landlords Ask: How Much Can I Raise the Rent for New Condos, Townhouses, Houses and Buildings in 2014?

Lots of Ontario landlords were unhappy when they read the report and learned the Ontario government set the 2014 Rent Increase Guideline at only 0.8%.

The news led to even more frustration and even anger when an Ontario Landlords Association (OLA) member was interviewed about the meager increase in the Toronto Sun newspaper.

The OLA member explained how the increase hurt small landlords and our ability to provide well maintained rental properties for our tenants.

Landlords can only raise the rent by 0.8% for current tenants in Ontario and many landlords feel it's simply too low and doesn't take into account the real rising expenses residential landlords face.

After all Alberta landlords don't have any rent increase guideline. And British Columbia landlords area allowed to raise the rent by the rate of inflation PLUS 2 % to account for the special

costs landlords knows we face.

The ridiculously low guideline has led some Ottawa landlords to want to leave the residential rental industry completely and move to commercial rental properties where there is more freedom to run run your rental business like a real business.

You May Be Exempt From the Ontario Rent Increase Guideline. The annual guideline applies to most rental properties in Ontario. However, it you need to know it doesn't cover all of them.

The Residential Tenancies Act has Section 6 (2) which lists where a landlord can raise the rent above the rent increase guideline. It's important you look at this carefully.

The Residential Tenancy Act and the rent increase guideline doesn't apply to landlords if you meet the following criteria:

The provisions of the RTA that deal with the maximum amount by which rents can be increased do not apply with respect to a rental unit if:

1. It was not occupied for any purpose before June 17, 1998

This means it is either in a new building (often a condominium building) built since 1998, or an older building with a new unit or never occupied, residentially or otherwise, before June 17, 1998;

2. It is a rental unit no part of which has been previously rented since July 29, 1975

This means only the owner has used or occupied the unit since 1975; or

3. No part of the building, mobile home park or land lease community was occupied for residential purposes before November 1, 1991

This means the building was probably commercially used before 1991 and then was converted to residential use.

If any of the the above situations describe your situation, an N2 rent increase form can be given when increasing the rent by any amount.

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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%

Leased Space UP in Q1 2014 – GTA

April 3, 2014 -- Toronto Real Estate Board Commercial Network Members reported a year-over-year increase in the total amount of combined industrial, commercial/retail and office space leased through the TorontoMLS system in the first quarter of 2014. In Q1 2014, total space leased amounted to 4,517,411 square feet – up by 3.6 per cent in comparison to 4,363,905 square feet leased during the first three months of 2013. The largest annual rate of growth was reported for the office market segment (+29 per cent), followed by the commercial/retail segment (+6.9 per cent). The total amount of industrial space leased was down by less than one per cent year-over-year.

Annual change in average lease rates was mixed. The average commercial lease rate, for properties leased on a per square foot net basis for which pricing was disclosed, was up by almost 23 per cent. Some of this change was due to a

different mix of properties leasing this year compared to last. The average industrial lease rate was down only slightly compared to last year and the average office lease rate was down by approximately six per cent.

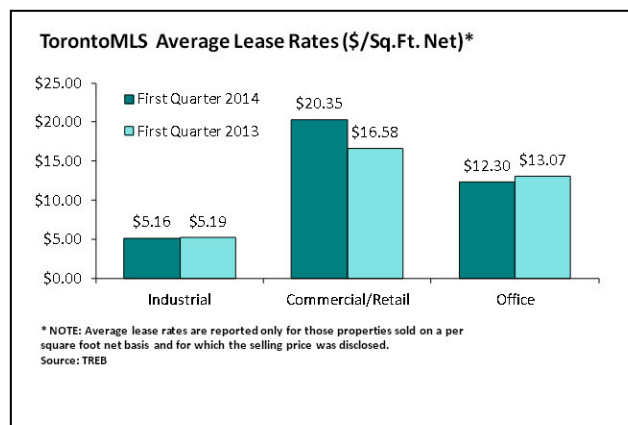
“Since coming out of the recession, we have certainly seen a few false starts as it relates to economic growth, particularly where business investment and exports are concerned.

However, the first GDP data point for 2014 was very encouraging. Hopefully, the positive result for first quarter leasing activity in the GTA points to continued economic growth, as businesses take on more space in response to anticipated growth in demand for goods and services produced in southwestern Ontario,” said Commercial Committee Chair Cynthia Lai.

There were 197 combined industrial, commercial/retail and office property sales through the TorontoMLS system in the first quarter of 2014. Average selling prices on a per square foot basis for transactions where pricing was disclosed were up for industrial and commercial/retail properties and down for office properties. In addition to market forces, annual price changes also resulted from changes in the mix of properties sold, in terms of both size and geography.

“Conditions are in place to support an increase in commercial real estate investment in the GTA. The expectation is that the US economy will continue to pick up steam, which should help facilitate the long-awaited recovery in the Canadian export sector. All of this, coupled with the continuation of accommodative borrowing costs, could prompt an increase in sales activity moving forward,” continued Ms. Lai.

Source: TREB



Q1 Apartment Results – Steady as She Goes....

Q1 apartment sales have been compiled for the GTA and the average cap rate stands at 5.1% which is only marginally higher than Q1 '13 which was 4.9%. Over the past five quarters the cap rate has remained around the 5% level.

While 2013 was a record breaking year in terms of volume, Q1 '14 had a total of 23 transactions as compared to a year ago at 39 deals. More importantly in Q1 '13 there was over \$544MM in deals closed. In Q1 '14 only \$135MM deals closed. While Q1 '13 was an anomaly, Q1 '14 dollar volumes are the second lowest in the past three years. This points to the declining supply of deals on the market.

The biggest buyer in Q1 was O'Shanter Developments who purchased two buildings totaling 98 suites for about \$25MM. This is over \$255,000 per suite. The cap rate was just under 4%.

220 Woolner sold for \$21.85MM to a private investor. It consists of two apartment buildings containing 260 units.

A new Alberta purchaser (Ontari Holdings) entered the market purchasing two apartment buildings in Parkdale. The buildings totaled 136 suites and the purchase price was \$17.625MM or about \$130,000 per unit.

Parkdale is seen as an improving area and many our clients are looking at this

area at this time.

We completed two deals that closed in Q1. The first was **222 Nonquon Road** in Oshawa. This 139 suite building was purchased for \$70,800 per suite and a 8.2% cap rate. The asset had environmental issues and underground garage delamination issues. However the cost to cure these items would be less than \$20,000 per suite and once complete the building is easily worth \$125,000 per suite.

The second deal was **31 Roehampton Avenue** which sold for \$8.5MM or a 3.25% cap rate to the adjoining owner/developer.

Source: The Apartment Group

Cont'd Raising Rents New Buildings

In most other situations (unless the rent increase is by agreement of both parties) an N1 form should be given to increase rent only by the guideline.

Landlords are required to provide 90 days written notice when increasing the rent using either the N1 or N2 form.

Some Groups Want To End This Important Rule for New Landlords

The NDP and Some Left Wing Toronto Councillors aren't happy with rent increase exemptions, calling it a 'loophole.'

Some claim it's unfair and leads to some tenants being "hammered" by huge rent increases.

Others claim it leaves some renters vulnerable to large rent increases.

The rent increase guideline exemption is designed to encourage investment in new rental properties and it exists for you to use it.

Ontario Landlords, make sure you are aware of the rules and do proper tenant screening to find great tenants, cover your costs, make profits and have a successful rental business.

Landlords are required to provide 90 days written notice when increasing the rent using either the N1 or N2 form.

Source: Ontario Landlords Association

Recent Sales – FOCUS Hamilton

Address	Units	Price	Price Per Unit	Cap Rate
221 Melvin Ave.	199	\$9,400,000	\$47,240	6.0%
79 Duke St.	21	\$1,340,000	\$63,800	5.7%
170 Charlton Ave. E.	14	\$765,000	\$54,650	NA
44 Victoria Ave. S.	20	\$1,570,000	\$78,500	5.5%
479 Aberdeen Ave.	18	\$1,700,000	\$94,400	5.7%
150 Market St.	278	\$19,600,000	\$69,640	NA

Source: CFAS and RealTrack

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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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