

APARTMENT DIGEST

Building Rental – Trend or Anomaly

To own or not to own? That is the question every young adult ponders at some point in life — even before home ownership is a fiscally-sound option.

Patrick Bet-David is financial advisor formerly with Morgan Stanley and Aegon, and is now president and CEO of PHP, a company specializing in financial services and life insurance. He says that people should not rush into buying. Instead, they should think about apartment rentals until they have saved at least 12 months of mortgage payments.

“The real estate industry has done a great job persuading the public that the American dream starts with homeownership,” Bet-David says. “Hundreds of thousands of families are going through the pain and struggle of trying to not miss their next mortgage payment simply because they purchased a home prematurely.”

For many U.S. citizens, the dream of homeownership was shattered during the crash of the housing market in 2007. Soft lending standards and the over use of adjustable rate mortgages were putting debt obligations back into owners’ hands — hands that were incapable of paying for it.

“We have become a nation of finance everything,” Bet-David says. “We finance our education, cars, weddings, homes. That mindset has gotten many Americans into a ton of trouble. Instead, we need to spend more time focusing on increasing the amount of savings we have rather than adding to our total debt.”

With U.S. homeownership rates hitting a 19-year low, the reality is that many residents are renting out of necessity — not out of choice. Harder to come by financing and higher home prices have ruled out ownership south of the border and made renting the only viable option.

Since the fall of 2013, home sales and new construction in the U.S. have been on the decline. A brutal winter, tighter lending, limited supply of inventory, and higher prices compared to this time last year, have all played a role in the slowing of the U.S. market, giving the rental sector a dramatic boost.

Here in Canada, similar challenges have presented themselves, but not nearly on the same scale. Developers in Toronto continue to favour condominiums over purpose-built rental buildings, with a few notable exceptions.

The Heathview is the new, state-of-the-art apartment complex built by the Morguard Corporation in Forest Hill, Toronto. Featuring two 30-storey towers of luxury units, the swanky new residence targets empty nesters and young professionals who aren’t quite ready to purchase their first homes.

According to Brian Athey, vice-president of residential (Canada) at Morguard, the demand has been strong, with a considerable number of units already leased, well in advance of the development’s planned opening later this summer. “We expected strong demand for purpose-built rental product in this market,” Athey says. “The Heathview is the first new development in mid-town Toronto to provide an alternative to condos in a prime location with historically low vacancy rates.”

But Peter Zimmerman, senior vice-president of planning and development at Freed Developments in Toronto, says that The Heathview (and the handful of other purpose-built apartments) is not indicative of a true rental resurgence.

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%

Rental Market Report – GTA

Toronto Real Estate Board President Dianne Usher announced that strong growth in rental transactions and rental listings was reported by Greater Toronto REALTORS® during the first quarter of 2014. For condominium apartments in particular, total rental transactions were up by 17.8 per cent compared to the first quarter of 2013. The total number of units listed was up by an even greater 27.7%.

“Renters took advantage of an increased supply of investor - owned units listed for rent in the first quarter.

These units, with modern finishes, choice amenities and locations in popular neighbourhoods attracted a growing number of renter households, including young professionals moving close to work in downtown Toronto and new comers to Canada who initially chose to rent,” said Ms. Usher.

One bedroom units accounted for approximately 60 per cent of total condominium apartment rentals in Q1 2014. The average one bedroom rent was down by 1.6% to \$1,573. Two bedroom condominium apartments accounted for 36% of transactions.

The average two bedroom rent was up by 1.9% to \$2,155.

“The condominium apartment rental market has become better supplied over the past 12 months as a number of new projects reached the completion stage. While rental demand has remained strong, and many investor-owned rental units have been absorbed, the increase in supply has given prospective renters more choice, so the pace of average rent growth has moderated,” said Jason Mercer, TREB’s Senior Manager of Market Analysis.

Source: TREB

Rental Market Summary: First Quarter 2014

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
Q1 2014	11,208	5,033	113	\$1,346	3,002	\$1,573	1,807	\$2,155	111	\$2,746
Q1 2013	8,780	4,273	97	\$1,308	2,379	\$1,597	1,698	\$2,115	99	\$2,748
Yr./Yr. % Chg.	27.7%	17.8%	16.5%	3.0%	26.2%	-1.6%	6.4%	1.9%	12.1%	-0.1%

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
Q1 2014	760	326	2	\$1,150	33	\$1,490	107	\$1,904	184	\$1,949
Q1 2013	694	284	3	\$1,417	26	\$1,509	94	\$1,889	161	\$2,002
Yr./Yr. % Chg.	9.5%	14.8%	-33.3%	-18.8%	26.9%	-1.3%	13.8%	0.8%	14.3%	-2.7%

CONDO Market Trends – GTA

Toronto Real Estate Board President Dianne Usher announced that “home buyers remained confident in purchasing condominium apartments during the first three months of 2014. This included first-time buyers and seasoned home owners looking to change their housing situation. Despite the condo market segment being well-supplied, strong sales growth translated into a robust increase in the average selling price.”

Greater Toronto Area REALTORS® reported 4,454 condominium apartments sold through the TorontoMLS system in Q1 2014—up 9% compared to 4,085 sales reported in Q1 2013.

The average selling price for Q1 2014 transactions was up by 5.6% year-over year to \$351,213.

The City of Toronto accounted for 70% of all condo apartment transactions, with 3,121 sales reported. The average selling price in the City was \$376,226.

The supply of condo apartments listed for sale also edged up in the first three months of 2014. New listings reported during the quarter were up by 3.1% year-over-year.

Active listings at the end of the quarter were up by 1.8%

“The number of new condominium apartment completions was up substantially in 2014. Because of this, we could see stronger growth in listings in the second half of 2014 as some investors choose to list their units for sale. If this occurs, buyers would benefit from more choice in the marketplace and thus could have more negotiating power with regard to price,” said Jason Mercer, TREB’s Senior Manager of Market Analysis.

Source: TREB

Cont’d Building Rental – Toronto

Just look at the volume of condominiums that continue to be built across the city and you’ll see where the market lies,” Zimmerman says. “A significant portion of rental stock in Toronto still comes from condominium. On some level, the economics of purpose-built rental may be catching up to condo development. But most developers looking at opportunities are largely coming back to the same conclusion — that condos still make the best return on investment and they offer more flexible inventory.”

Zimmerman says that there are a few factors that

differentiate the Canadian market from the U.S. “We haven’t had the same soul-searching around lending. We haven’t had the army of potential residents who have been burned by the collapse of ownership, who are having difficulty getting mortgages. For Canadians, ownership hasn’t been tarnished like it has been in the U.S. and it is still an attractive option for many households.”

If a rental resurgence were to happen on the same scale here, Zimmerman says that it wouldn’t be driven by the collapse of the housing market, rather than a shift in the economics.

“The high cost of doing business, including the increased marketing costs associated with condominiums would likely drive the resurgence,” he says.

Source: Canadian Apartment Magazine

Recent Sales – Toronto

Address	Units	Price	Price Per Unit	Cap Rate
210 Vaughan Rd.	25	\$4,160,000	\$166,400	4.3%
31 Roehampton Ave.	35	\$8,500,000	\$242,855	3.3%
501 Mt. Pleasant Rd.	28	\$3,950,000	\$141,070	3.7%
225 Wilson Ave.	20	\$3,430,000	\$171,500	NA
11 Churchill Ave.	15	\$3,750,000	\$250,000	NA
166 Eastbourne Ave.	21	\$4,675,000	\$222,620	NA
4089 Bathurst St.	10	\$1,720,000	\$172,000	NA

Source: CFAS and RealTrack

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