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APARTMENT DIGEST

Condo Rents vs. New Purpose Built Rental

Whether it's the fact that rental demand is at a 25-year high (at least), that condo rents have grown by about 20% over the past five years, that vacancy rates are ultra-low, the availability of low interest loans and tax incentives to build new rentals, or the perhaps the diversification of developers away from condos, attention has shifted sharply to the purpose-built arena.

With condos representing 99% of new rental supply in the GTA, our ability to provide accurate market valuation assessments has benefited tremendously by drawing information from the UrbanRental database — our proprietary database of condo rental market data by project.

In the course of conducting our research we have come across several instances where new purpose-built projects have been achieving higher per sq. ft. rents than comparable condo projects. For this blog post, we decided to zero in on some examples within the City of Toronto.

Five recently completed rental apartments were selected: One32 (2013), Motion (2012), WestQ (2012), Minto Roehampton (2007), and Jazz (2006). Using the UrbanRental database, we identified condo projects that were (i) within a 500 metre radius of the site, (ii) built within the last 10 years, and (iii) were of a comparable scale as the rental buildings selected.

One obvious impediment in making rent comparisons between purpose-built and condo projects was the difference in sample size — condo transactions were plentiful in the year-to-date 2014 while rental information for purpose-builds was relatively scare due to low unit availabilities. The data used to represent rental projects for this study were obtained via their websites or through the property management offices.

Four out of the five purpose-built projects surveyed had higher per sq. ft. rents than their surrounding condo projects. Within the four projects, premiums ranged from 1.4% or $0.04 psf (Jazz) to 7.2% or $0.20 psf (Minto Roehampton). Differences in unit sizes played some part in the purpose-built premium (smaller units tend to generate higher psf rents), with suites at Minto Roehampton roughly 130 sf smaller than leased condos in the area. Slight variations in location, buildings age, suite layouts and finishes, project amenities, and floor heights of the units surveyed may also explain some of the gap. However, across the four projects these differences appear to mostly balance out and the average premium for purpose-built units was 4.4% or $0.12 psf.

When including Motion, which posted lower psf rents than its condo comparables (mostly due to having a larger range of suite sizes), the average premium across the five projects falls to 1.7% or $0.05 psf.

In the end, the results indicate that there does appear to be at least some premium achieved by purpose-built rentals over competing condo supply. All else being equal, renters tend to favour a professionally managed and secure source of housing.

The findings are encouraging for rental operators who will continue to face competition from a high volume of investor-owned condos coming to completion in the next few years. However, beyond 2017, condo supply growth will slow considerably due to fewer project launches over the past two years. This further supports the case for considering purpose-built development today.

Source: Urbanation Fabienne Chan

Economic Indicators:

Real GDP Growth	Q3 2014	+2.8%
Toronto Employment Growth	Nov 2014	-1.0%
Toronto Unemployment Rate	Nov 2014	7.8%
Inflation	Nov 2014	2.0%
Bank of Canada Overnight Rate	Dec 2014	1.0%
Prime Rate	Dec 2014	3.0%
5 Year Mortgage Rate Fixed	Dec 2014	4.79%

Canada's Retail Exodus – A Warning Sign?

Target Canada isn't the only retailer closing its doors in Canada. On Thursday, Sony announced it was shuttering stores in the country. They add their names to a growing list of retailers who have recently closed some stores or are closing altogether in Canada.

Here is a list of recent notable closures:

Target Canada

Target Corp. announced its decision to close all its stores on January 15. Shuttering 133 stores, affecting 17,600 employees

"We were losing money every day," chief executive Brian Cornell said in a corporate blog post. The company had racked up over US$2-billion in losses in its less than two years in Canada

Sony

Sony Corp. announced January 15 it's closing all 14 of its stores in Canada over the next six to eight weeks Closures will result in 90 layoffs.

Currently it has stores in Montreal, Ottawa, Quebec City, Vancouver, Toronto and Alberta. The company is facing US$1.9 billion loss when its fiscal year ends in March.

Mexx Canada

Dutch-based retailer declared bankruptcy in December 2014. It is liquidating 95 stores in Canada.

Smart Set

Parent company is Reitmans announced in November 2014 that it would close 107 Smart Set stores. It will convert 76 locations into other banners. Smart Set banner was created in 1945, with the first location opening in Ontario in 1970.

Jacob

This womens' retailer was founded in 1977 in Montreal and announced in October 2014 it would abandon restructuring efforts and close 92 stores across the country. The company has been under creditor protection since November 2010.

Zellers

In 2011, parent company Hudson's Bay Co. sold its leasing rights for its nearly 200 Zellers locations to U.S. retailer Target for $1.83 billion

Source: Financial Post

Water Rates GOING UP +9%

The City of Toronto's Budget Committee will debate two staff reports that recommend increasing water and solid waste rates in the New Year.

Water rates are set to increase 9% across the board, meaning an average increase of about $87 per household.

Garbage rates are also set to rise according to your bin size. Households with small bins will see an increase of $6.72 and households with the largest bins will see an increase of $12.85.

"One thing we know is that Torontonians want clean, reliable, fresh water. We also know that we have to invest in our infrastructure and Torontonians know that, to fix, we have storm water problems, to fix pipes and also to keep our lakes clean. This is a necessary investment that's required to be made to achieve those objectives. "said chair of the Public Works and Infrastructure Committee Denzil Minnan-Wong in response to the 9% water rate hike.

Minnan-Wong says the July 8th, 2013 storm which dumped more than 120 mm of rain on the city in a two hour span, showed just how much work Toronto's storm water infrastructure needs.

In addition to raising residential and commercial garbage rates, city staff is once again suggesting that new fees be brought in for charities, institutions and religious groups, all of which are currently exempt from solid waste fees after council voted to suspend such fee collection for 2013.

Source: NEWSTalk 1010

Hamilton Boom Town to 2015 & Beyond!

Major Canadian bank economists say Hamilton will continue to be one of the strongest housing markets in the country in 2015. Some predictions are even more striking.

“For 2015-2016, Hamilton is the only city where we actually have home prices growing over the two years,” said TD real estate economist Diana Petramala. The TD analysis looks at the largest 14 cities in Canada.

Over the last few years, Hamilton’s housing market has been hot, often ahead of the pack in how much prices rose or how many homes sold. The market has been a frequent talking point, its strength touted as evidence of the city's vibrancy.

Hamilton, where prices rose six per cent last year, has been experiencing the kind of sales and price activity more typical in Vancouver, Calgary and Toronto. While the rest of the country may wonder about the continued strength of local housing markets, Hamilton appears poised to remain hot in 2015.

BMO Financial Group economists expect national housing prices to “scratch out a small gain” in 2015, said chief economist Doug Porter.

The projected strength comes as builders try to keep up with demand. There are more than a dozen condo and townhome projects comprising hundreds of units in downtown Hamilton alone, under construction or about to start.

Less clear than the cranes in the air: What effect the continued frenzy will have on Hamilton neighbourhoods and whether first-time buyers will find a way in to homeownership.

Rising prices are good news for homeowners, but not usually for those who haven't bought in to the market yet.

"It’s now, I think, pretty much an established fact that Hamilton's beginning to experience gentrification," said Richard Harris, who teaches a fourth-year real estate class at McMaster University. "For such a long time that just seemed like something that had passed Hamilton by."

The gap between the number of people wishing to buy and the number of homes on the market was the smallest in Hamilton among major Canadian cities in 2014. That's due in part to a dearth of homes on the market, and in part to the strength of the demand.

“Hamilton was the tightest market in the country all year,” Porter said.

That could play a part in pushing prices up in 2015.

Economists and real estate agents tie much of Hamilton's recent heat to its relative affordability compared to Toronto, especially the new GO train station nears completion.

"Hamilton is kind of in a unique position in that it’s a relatively affordable housing market when you compare it to the largest urban market that it’s close to," Sandhu said.

That's some of the attraction developers are counting on with their investment in condos.

More than a dozen projects are underway, comprising hundreds of units. Developers are projecting Hamilton residents commuting to Toronto may be more interested in condo living than the upkeep required for a detached house.

Source: CBC News

- City Square Phase 2 — 85 Robinson: 99 units.
- Residences at Acclamation – James Street North: 60 units.
- 150 Main Street West: 142 units.
- Royal Connaught – King St E: 697 units over five phases.
- The Connolly – James St. S: estimated 259 condos, proposed 30 storey.
- Artizen Condos – James St. N: estimated 100 units.
- Spallacci Homes – 101 Locke Street: estimated 104 units.
- 467 Charlton Ave. East: 162 units.
- 220 Cannon Street (Vrancor) – 12 storey, mixed use – estimated 100 units.
- Tivoli Theatre condos – estimated 106 units.

Recent Sales

Address	Suites	Price	Price Per Suite	Cap Rate
1A Birchlea Dr. Etobicoke	22	$1,880,000	$85,455	4.6%
821 Kennedy Rd. Scarborough	59	$9,350,000	$161,640	5.0%
6599 Glen Erin Dr. Mississauga	232	$39,500,000	$170,260	NA
5900 Yonge 3 Goldfinch North York	400	$85,485,000	$213,700	NA
33 Kennedy Rd. S. Brampton	118	$19,000,000	$161,000	NA
22 Tinder Cres. North York	59	$9,340,000	$158,300	5.25%

Source: CFAS, 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.

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