

APARTMENT DIGEST

Cap Rates Hit BENCHMARK Levels in the GTA

The average cap rate in the GTA for the third quarter of 2015 (Q3'15) hit its lowest level in the last 30 years. The rate in Q3'15 stood at 3.75% down from 4.2% in Q2'15 and down almost 50% from 6.3% posted in Q3'10.

In 2014 about \$900MM worth of apartment deals were completed in the GTA. Looking at year to date figures in 2015 it appears that 2015 will surpass those levels being over the \$1BB level.

go up. If interest go up even by 1% soon cap rates will follow. The issue is that when you have real low cap rates say 4% and they move up by 1% then the building has lost 25% of its value. This could be the reason that some long term holders are selling today.

The average price per suite in 2014 was about \$140,000. So far in 2015 the price per suite has averaged just under \$200,000. This has to do with the rise in prices and the higher calibre of sales which have occurred in 2015. The average price per suite in Q3'15 was \$191,000 per suite down slightly from the previous quarter.

The major reason for the compression in cap rates has been the decreased in lending rates over the past year. In late 2014 the bond yield was around 1.9% and this has fallen to just under 1% in the fall of 2015. This along with the imbalance between supply and demand has pushed cap rates down.

Homestead was the largest purchaser in Q3'15 with the purchase of 2 building totaling \$94MM. Akelius was a close 2nd with \$91MM buying 4 buildings. The next 2 largest buyers were deals completed through us – Times Group purchasing 55 Broadway for \$44.5MM and Cromwell acquiring 117-127 Broadway for \$36.8MM. Both of these deals were purchased for redevelopment.

There were 15 sales in Q3'15 down from 25 in the previous quarter and from 23 sales one year ago. Overall the pace of the number of sales in 2015 is similar to that of 2014.

We have all been hearing the same storey. Low interest rate environment has push cap rates lower. However, we are at point today that one cannot for see negative interest rates. The conclusion is that rates will still low for the short to medium term or that rates will need to

Source: The Apartment Group

Economic Indicators:

Real GDP Growth
Q2 2015 -0.5%

Toronto Employment Growth
Aug 2015 5.1%

Toronto Unemployment Rate
Aug 2015 6.7%

Inflation
Aug 2015 1.3%

Bank of Canada Overnight Rate
Sep 2015 0.5%

Prime Rate
Sep 2015 2.7%

5 Year Mortgage Rate Fixed
Sep 2015 4.6%

Year	No. of Sales	Value of Sales	Average Sale Rate	% Change	Average GRM	% Change	Average Cap Rate	% Change
2014								
Q1	24	\$ 136,295,000	\$ 129,558	-6%	11.48	-2%	5.11%	1%
Q2	25	\$ 232,654,823	\$ 158,484	22%	13.43	17%	4.81%	-6%
Q3	23	\$ 193,545,000	\$ 165,706	5%	12.89	-4%	4.70%	-2%
Q4	20	\$ 326,705,475	\$ 125,271	-24%	11.18	-13%	5.15%	10%
2015								
Q1	16	\$ 212,621,000	\$ 193,468	54%	12.15	9%	4.78%	-7%
Q2	25	\$ 292,121,700	\$ 211,223	9%	14.09	16%	4.20%	-12%
Q3	15	\$ 220,751,000	\$ 190,961	-10%	15.2	8%	3.72%	-11%

Commercial Realty Watch GTA

October 5, 2015 -- Toronto Real Estate Board President Mark McLean announced that TREB Commercial Network Members leased over 4.8 million square feet of combined industrial, commercial/retail and office space in the third quarter of 2015.

This result represented an 18.9 per cent year-over-year decrease compared to the third quarter of 2014. Approximately three-quarters of all leased space was accounted for by the industrial market segment, followed by 13 per cent for the office segment and 12 per cent the commercial/retail segment.

Year-over-year changes in average lease rates, for properties leased on a per square foot net basis with pricing disclosed, was mixed in Q3 2015. The average industrial lease rate was \$5.33 per square foot net – down approximately nine per cent compared to Q3 2014. The average commercial/retail lease rate was down by 2.1 per cent annually to \$18.84 per square foot net. The average office lease rate was up slightly to \$12.29 per square foot net from \$12.24 last year.

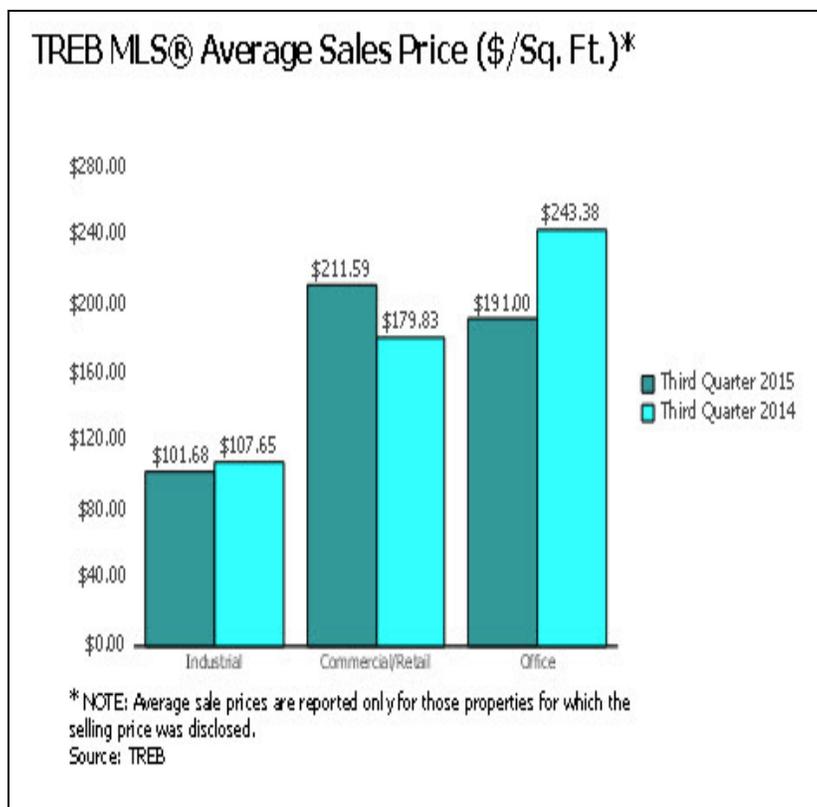
“Economic conditions in the Greater Toronto Area remain relatively strong compared to some other regions across the country. However, it seems safe to assume that the GTA export sector still has room to grow on the back of the lower value of the

Canadian dollar vis-à-vis the US. So, while commercial leasing and sales activity through TREB’s MLS® system in Q3 was slower this year compared to last, the expectation is that we will see a pick-up later this year or into 2016 as firms start to experience an uptick in demand for their goods or services from south of the border,” said Mr. McLean.

Total industrial, commercial/retail and office property sales amounted to 230 in Q3 2015 – down by approximately 32 per cent compared to 336 sales in Q3 2014. The number of sales were down for all three market segments.

Year-over-year changes in average sale prices, on a per square foot basis for transactions with pricing disclosed, were mixed. The average industrial selling price, at \$101.68 per square foot, was down by approximately 5.5 per cent compared to Q3 2014. The average office selling price was also down substantially, but this was largely due to the sale of some larger spaces compared to the same period in 2014. Larger properties tend to sell for less on a per square foot basis. The average commercial/retail price was up year-over-year to \$211.59 compared to \$179.83 in Q3 2014.

Source: TREB



Building Permits DOWN in Canada – recent survey

The total value of building permits decreased 3.7% to \$7.5 billion in August, following increases of 15.5% in June and 0.7% in July (revised data). The decline was attributable to lower construction intentions in most provinces, mainly British Columbia, Alberta, Quebec and Saskatchewan.

In the residential sector, municipalities issued \$4.7 billion worth of building permits, down 5.1% from July. This was the first decline in three months. Decreases were posted in six provinces, with British Columbia posting the largest decline. Ontario registered the largest increase in the value of residential building permits.

Construction intentions for non-residential buildings declined 1.3% to \$2.8 billion in August, a second consecutive monthly decrease. Decreases were recorded in six provinces, led by Alberta, followed by Quebec and Saskatchewan. Ontario registered the largest increase in non-residential construction intentions.

Municipalities issued \$2.3 billion worth of building permits for multi-family dwellings in August, down 8.3% from the previous month. The largest decrease was in British Columbia, where the value of building permits for multiple dwellings had reached a record high in July. Alberta and Nova Scotia were a distant second and third. Ontario posted the

largest increase in construction intentions for multi-family dwellings.

Contractors took out \$2.4 billion worth of building permits for single-family dwellings in August, down 1.9% from July. This was the first decline in three months. The decrease at the national level was attributable to lower construction intentions for single-family dwellings mostly in Ontario and, to a lesser degree, in Alberta. Conversely, Quebec and Saskatchewan saw the largest increases.

The number of new dwellings approved by municipalities declined 4.6% to 18,709 units. The decrease was attributable to multi-family dwellings, which fell 5.6% to 12,675 units, and single-family dwellings, which declined 2.4% to 6,034 units.

In the industrial component, the value of building permits declined for a second straight month, down 7.9% to \$467 million in August. The decline in August was due to lower construction intentions for utilities and transportation buildings. Decreases in four provinces, led by Alberta and Quebec, offset the increases in the other provinces. Saskatchewan and Ontario recorded the largest gains.

The value of building permits for commercial buildings rose 1.8% to \$1.7 billion in August. Higher construction intentions for office buildings and, to a lesser degree, warehouses and laboratories accounted for the growth at the

national level. Increases in three provinces, led by Ontario, offset decreases in the other provinces. The largest declines were registered in Alberta, followed by Saskatchewan and Quebec.

In August, the total value of building permits fell in every province and territory except Ontario, Newfoundland and Labrador and the Northwest Territories. British Columbia, Alberta, Quebec and Saskatchewan saw the largest decreases.

After posting the largest increase the previous month, British Columbia recorded the biggest decrease in August, mostly attributable to lower construction intentions for multi-family dwellings. In Alberta, commercial, industrial and residential buildings were behind the decrease.

The increase in Ontario resulted from higher construction intentions for commercial buildings and multi-family dwellings. The slight increase in Newfoundland and Labrador was attributable to institutional buildings, while commercial buildings accounted for the increase in the Northwest Territories.

Source: StatsCan

OUR LISTINGS

Address/City/Type	Suites	Price MM	Price Per Suite	Cap Rate
358 Reynolds Street – Oakville - Office	NA	\$6.0	NA	4.5%
64 Weber Street West – Kitchener - Apt	28	\$3.85	\$137,500	5.5%
Downtown – London – Apt	160	\$15.0	NA	6.0%
Aberdeen Estates – Hamilton – Apt	18 +1	\$3.2	\$177,700 includes house	4.75%
9251 Yonge Street – Richmond Hill – Office Sold Conditionally	NA	\$16.5	NA	NA

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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.

Brokerage

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We have a collection of seasoned Agents that can serve your needs. Whether you are buying or selling, let us show you how we can help. On staff we have appraisers, accountants, mortgage brokers and planners. **This is a total one stop real estate company that can assist you through the entire process.**

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