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APARTMENT DIGEST

Were Apartment Sellers in 2013 Right?

Following a breakthrough year in 2013 for the apartment market in the GTA, 2014 returned back to its normal imbalance supply and demand self. In 2013 over $1.4BB in sales were completed which was 57% more than the $900MM registered in 2014.

This decline in activity is found amongst all measuring indexes. The number of deals or volume completed in 2014 was 92 as compared to 137 in 2013. As well, the number of units trading hands dropped to 6,314 in 2014 from 9,700 in 2013. Average building size sold stayed steady at around 70 units.

From a volume perspective 2014 numbers are generally in line with those between 2007 and 2012. This just points out the huge year 2013 was in hindsight.

What could have really been happening in 2013? Was it a fluke or an aberration? Our study of the numbers leads us to believe that in 2013 most investors looked back and saw the UPRECEDENTED 20 year rise in apartment values. Many anticipated a correction in the market or were doing estate planning and considered that now was the correct time to sell. Interest rates were at an all-time low and demand at an all-time high. What a perfect storm. The question is, were they right? Given we are only a year out, only time will tell. The statistics tell the storey though.

In the last 4 years, vacancy in the GTA had begun to move up albeit slightly from 1.4% in 2011 to 1.65% in 2013 and in 2014 they have dipped back a bit to 1.55%. However the rising trend was there and the fear of thousands and thousands of more condo's coming on stream had an effect on the market psychologically. Downtown Toronto saw vacancy go from 1.2% in 2011 to 1.5% in 2014.

While vacancy seemed to edge up, and more condo's came on stream many thought there would be a down ward pressure on rents. The statistical answer is NO. Between 2011 and 2014 all areas in the GTA experience healthy rental increases on average. In fact, the Statutory Guideline Increase (SGI) was 0.8% for 2014. All areas in the GTA surpassed this. East York was the lowest at 1% increase and Brampton was the highest at 4.1% with Toronto a close 2nd at 4%.

The speed of growth was also interesting. In all the GTA since 2011 rents grew at an average rate of 2.4% per year. In Toronto this number was 4.3%.

This fast increase in rents and vacancy moving up could have caused investors to question the sustainability of the trend.

Interest rates also played a part. In 2012 5 year Canada Bonds ranged from 0.88% to 1.42% and averaged 1.12%. In 2013 this grew to a range of 1.19% to 1.9% and an average of 1.62%. Perhaps many though low interest rate days were over. Bond rates were between 1.55% and 1.75% in 2014 but since November they have nose-dived to under 0.7%.

Back to the statistics for 2014. Price per Suite traded between $90-100k from 2007-2011. They jumped to $126k in 2012 and then $144k in 2013. For 2014 they have dropped to $140k.

Similarly, Cap Rate traded between 6.25-6.55% 2007-2011. Between 2002 and 2014 Cap Rates have held stable around 5%.

So the initial data shows values stabilizing. More data will be needed to see if the Sellers in 2013 were on the ball.

Source: The Apartment Group, CFAS, RealTack, RealNet, CMHC, Bank of Canada

Economic Indicators:

Real GDP Growth	
Q4 2014	+2.4%
Toronto Employment Growth	
Jan 2015	-1.0%
Toronto Unemployment Rate	
Jan 2015	7.8%
Inflation	
Jan 2015	1.0%
Bank of Canada Overnight Rate	
Feb 2015	0.8%
Prime Rate	
Feb 2015	2.9%
5 Year Mortgage Rate Fixed	
Feb 2015	4.74%

Who's Buying – Who's Selling Apartments?

We looked at all apartment sales in Metro Toronto over $3MM to see if there were any trends on the seller and buyer sides. Our analysis is based on number of deals done and not number suites or dollar volume.

From the Buying perspective it appears that about 46% of the deals were completed by private individuals. This is expected as there are more of them in the marketplace. There was no discernable trend amongst this group. They ranged from smaller first time buyers to larger buyers with multiple buildings. One trend noted from us was that many buyers were not know to us meaning many were entering the market for the first time.

Corporations made up about 34% of the market and the institutional players had the balance or 20% of the market. By far the most active Buyer was Akelius who purchased 6 buildings in 2014 or 17% of the market. We sold them a building in 2014 at 2400 Bathurst Street. This was a mostly vacant 31 suite building which they intend to renovate to the highest quality and rent out.

Other active Buyers were Starlight and Oshanter with 2 deals each. Q Residential, Centruian and KingSett each completed one apartment purchase in 2014. We sold Kingsett a mixed use building at Dufferin and Eglinton which has long term redevelopment potential.

On the Selling side 78% of the deals were sold by private individuals which again is expected. There was on 3 deal sale which occurred on an Estate basis. From our analysis of the Seller's it appears that many were long term holders of the real estate.

Corporations made up about 11% of the market and the institutional players had the balance or 11% of the market. Starlight sold 4 buildings in 2014 or about 10% of the market. O'Shanter, Tridel and Mainstreet each sold one building in 2014.

Source: RealTrack
The Apartment Group

Toronto Rental Condo Market Report

Toronto Real Estate Board President Paul Etherington announced that fourth quarter 2014 condominium apartment rental transactions though the TorontoMLS system were up by 17 per cent to 5,036 compared to the fourth quarter of 2013. Over the same period, the number of condominium apartments listed on TorontoMLS was also up, but by a lesser annual rate.

"We have seen record condominium apartment completions over the last two years. Many of these new apartments are owned by investors who have chosen to rent them out. The increased supply of rental condos has been met by increased demand for these units, as renter households turn to the condominium apartment segment to find modern units in popular neighbourhoods," said Mr. Etherington.

"Increased rental demand has resulted from steady population growth in the Greater Toronto Area, as newcomers have been attracted to the region by its economic and ethno - cultural diversity," continued Etherington.

Average rents for popular one bedroom and two bedroom apartments were basically flat in the fourth quarter when compared to the same period in 2013.

The average one bedroom rent was up by $10 year over year to $1609. Over the same period, the average two bedroom rent remained the same.

"Average rents can be influenced by both changes in market conditions and changes in the type and geography of apartments rented from one period to the next. Over the next few months, if we continue to see the growth in rental transactions outstrip the growth in units listed for rent, we will likely see a new upward trend in average rents," said Jason Mercer, TREB's Director of Market Analysis

Source: TREB

The RISE of LUXURY Rental

More residents are seeking condo-quality accommodations without the hassle of ownership Kingsclub condominium complex, a 639-suite development on King St. West in Toronto, was a busy construction zone until mid-January when all activity quietly ceased. The developer, Urbancorp, was soon to reveal to unit owners that the project, originally slated for May 2015 occupancy, had been abandoned. New plans are now underway to convert the three towers into luxury rental apartments.

This is the second downtown condo project in a matter of weeks to make the switch from condo to rental. The first was a development called the Selby, a 49-storey, 441-unit downtown condo and townhouse complex. In the Selby's case, no sales had been finalized, while Urbancorp had already secured deposits from 181 purchasers some three years earlier.

The Toronto Star speculates that these two back-to-back conversions may be a sign that condo interest is waning in Toronto. Given some similar conversions elsewhere in Canada in recent months, could this be the sign of a rental resurgence? Is condo development on the decline while rental demand is on the rise?

"Not exactly," says Peter Cook, assistant vice president commercial lending at First National Financial. "The condo market is still very strong and will likely remain robust for years to come. Financing isn't typically an issue for properties in quality locations and for qualified developers. It's hard to speculate what caused this change of heart; perhaps a better opportunity presented itself. But there is definitely money available for development in the GTA in the case of both condo construction and new purpose-built rental."

Nevertheless, interest in purpose-built apartments seems to be flourishing. "There has been a lot of interest in purpose-built apartments lately. Not just in Toronto, but in mid-sized centres as well," Cook observes. "Burlington, London, and Kitchener Waterloo are all hot spots for new construction of multi-family apartments. People want brand new, high-end accommodations without the hassle of ownership. Luxury rental is definitely in."

A perfect example of just such a property is 'Watercrest' in Barrie, Ontario—a 167-suite waterfront development overlooking Kempenfelt Bay. Completed in 2014, the building features brand new "condo-quality" rental apartments, impeccable amenities, including a state-of-the-art fitness centre and an outdoor pool, and a convenient downtown location.

"Millenials today are a big component of why this surge is happening," explains Cook. "They want something nice. They don't want to live in old 1950s apartments. They want new, modern appliances and fixtures. They want a higher quality building in a great location and they are prepared to pay extra for it."

Empty nesters are another major factor in that demand. "Once the kids move out, people are selling their homes and moving into smaller accommodations. Renting provides flexibility while owning a condominium doesn't," Cook says. "New, high-end properties in central locations are sought after by this demographic who wants a property manager to look after their needs, and high-end condo-quality services. They don't want the responsibility of ownership, rather the convenience of renting. This is the future of the rental industry in Canada."

The contentious topic of renting versus owning has been an ongoing debate for decades, but some argue the two aren't in direct competition. In fact, Greg Romundt, CEO of Centurion REIT believes it's not the tenants the sectors are competing for, but the sites to build the properties.

"Purpose-built rental has an extremely difficult time competing on the basis of price to buy up desirable sites, because the highest yield in construction is going to condo," he says. "So the competition isn't about rental vs. ownership. It's about buying sites to build buildings. We are just not able to compete against the condo guys."

Erin Ruddy is the editor of Canadian Apartment Magazine.

Top Ontario Sales 2014

Address	Suites	Price	Price Per Suite	Buyer
Yonge & Clark Markham	584	$106MM	$181,500	Starlight
5900 Yonge/3 Goldfinch North York	400	$85.5MM	$213,700	Q Residential
1971 St Laurent Blvd Ottawa	500	$64.9MM	$129,900	Homestead
15 Maple Ave Barrie	169	$56.9MM	$336,900	Private
1025 Canadian Shield Kanata	152	$47.6MM	$313,350	Killam Properties
1505 Ottawa St N Kitchener	148	$40MM	$270,270	Starlight

Source: CFAS. RealTrack

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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.

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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