

APARTMENT DIGEST

GTA Cap Rates SO LOW – Is it TIME to BUILD?

Economic Indicators:

Real GDP Growth	
Q4 2014	+2.4%
Toronto Employment Growth	
Feb 2015	-1.0%
Toronto Unemployment Rate	
Feb 2015	7.6%
Inflation	
Feb 2015	1.0%
Bank of Canada Overnight Rate	
Mar 2015	0.8%
Prime Rate	
Mar 2015	2.9%
5 Year Mortgage Rate Fixed	
Mar 2015	4.74%

There has been much discussion in the recent past whether it makes economic sense to build apartments in the GTA. There has been some rental being built but most is frame and outside the GTA or on lands already surplus to an existing building (basically free land). However, the concept of buying land or demolishing existing units to build more was unheard of, especially in the 416 area code - until NOW.

With cap rates in AAA locations heading south of 3.5%, prices psf for rental are starting to rival their for purchase condo counterparts. A new build for example in Mid Town Toronto could fetch rents in the \$3 psf range. At a 50% expense ratio and a 3.5% cap rate this translates into \$520 psf. This is what condo's are trading for in the same areas for sale.

We will now look at some examples in the 416 as to what is really going on. Private developers have 12 tower projects specifically designed for rental underway most of which are clustered along the city's wealthy north south axis.

GREENWIN

Greenwin has applied to construct 2 residential apartment buildings at 87-107

Davisville Avenue and 108-128 Balliol Street. The buildings include a 14-storey apartment building containing 180 residential units fronting onto the south side of Davisville Avenue (the north building) to be secured as rental housing and a 30-storey apartment building containing 342 residential units fronting onto the north side of Balliol Street (the south building).

The proposed development contains a combined total of 522 units. The proposal involves the demolition of 21 residential rental townhouse units with no required replacement rental housing given that all 21 exceed the mid-range rent levels.

MORGUARD

The Heathview is located at 320 Tweedsmuir Avenue at Spadina and St. Clair, in one of Toronto's most esteemed neighbourhoods.

The Heathview offers easy access to the St. Clair West subway and TTC. There are two 30-storey towers providing spectacular views from contemporary suites that rival downtown condominiums.

There are over 250 units in the project plus high calibre amenities. Rents are ranging from \$2.75 to \$3.25 psf.

HONEST ED'S

The retail site has recently been sold and will be developed with 1,000 units of rental housing plus retail and restaurants spread throughout 55 buildings that range in height from 2.5 storeys to a 29-storey "micro-tower" — a term used by architect Gregory Henriquez because of the building's small footprint — on the northeast corner of the site.

More than 50 per cent of the apartments will be two-bedroom or larger and the development includes 57 live-work spaces and 35 artist studios. Fourteen of the heritage buildings on Markham St. will be preserved.

This development is still in the early stages.

MONTGOMERY SQUARE

Montgomery Square is a new mixed-use condominium development with a proposed 26 storeys with 234 residential units with commercial/retail space located just north of Eglinton Avenue in Toronto.

There will be approximately 145 1-bedroom units and 89 2-bedroom units.

Building Rental in the 416 – Cont'd

There will be 5 levels of underground parking with 172 parking spaces of which 142 would be for residents. Bicycle parking are proposed on the ground floor and on the second floor in the underground parking garage. Amenity space is proposed in 2 rooms on the 6th and 9th floors with an outdoor terrace on the 9th level as well. Most residential units will have balconies and terraces varying in sizes.

The new development is proposed on the west side of the 2 storey building and consists of a 4 storey base which will include 2 storey townhouses along Montgomery Avenue with a 22 storey tower above. Outdoor retail spaces are proposed along Helendale Avenue and Montgomery Avenue and on the roof of Station K.

The project is being marketed as 100% rental.

MEDALLION – CASA

Medallion Corporation is pleased to announce Casa — an exciting new master-planned, mixed-use development in the heart of Emery Village. Located on the southeast corner of Finch Avenue West and Weston Road, Casa is poised to become the driving force behind the rebirth and revitalization of this ideally located neighbourhood.

Upon completion, this stunning nine building development will forever change the face of the

surrounding community by creating 1,400 residential units and over 48,000 square feet of prime retail space.

Phase I of Casa will be comprised of two 10-storey residential buildings featuring retail at grade along Weston Road. The development will also include a landscaped piazza in the centre of the mixed-use retail and residential buildings, creating a modern take on the old-world concept of a village square.

OPUS 84

Located at 1991 Victoria Park Avenue, this townhouse project has been a long time in the making. In 2012, the owners got approval to build 575 condo units on the site improved with 84 townhouse units. Due to market conditions the owners are now opting to just renovate the townhouses and offer them for rent.

AKELIUS

We sold 2400 Bathurst Street to Akelius in 2014. This 31 suite apartment building in Forest Hill was a registered co-ownership and has been mostly vacant for 10 years. The previous owners went to the OMB and got approval to construct a mid rise condo building including rental replacement.

The development community did not embrace this concept at this location and in the end Akelius is renovating the units to the highest luxury standard and will run the project as a pure rental investment.

Source: The Apartment Group



Rising House Prices Trickling Down to Apt. Rents

Earlier this week BILD president and CEO Bryan Tuckey had the opportunity to sit down with industry experts to participate in a roundtable discussion hosted by the Canada Mortgage and Housing Corporation.

The conversation centred around the recent resurgence in the construction of purpose-built rental properties. It turns out that there is significant overlap when it comes to industry issues for both housing types.

With the GTA growing by up to 100,000 people each year – a statistic recent reinforced in a report published by the Centre for Urban Research and Land Development – it is imperative that our industry builds 35,000 new homes annually to accommodate new household formation.

Last year the construction of purpose-built rental properties represented just 5 per cent of that total. Now renters rely more and more

on new condominium owners to rent out their units as the vacancy rate sits at only 1.6 per cent.

What's important to understand is that the rental market is a transitional one, with many residents choosing to rent until they can save up for a down payment and purchase a home. This is becoming increasingly difficult as the price of new homes (and subsequently existing homes) has doubled in the last decade.

Those most affected are first-time buyers like millennials and new Canadians who are now entering the market at a later stage as a result.

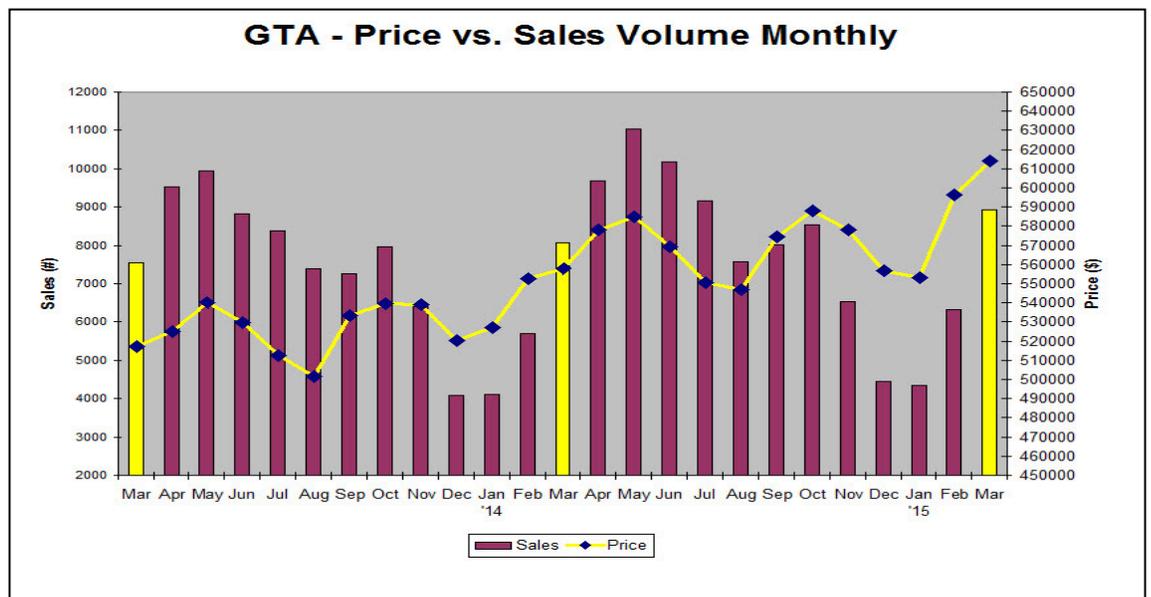
Apart from higher down payments, renters are also faced with higher rates which further delays their ability to buy a home. Much like new-home buyers, renters want to live in the same neighbourhoods – ones with the same amenities, conveniences and accessibility to transit – and the cost of building in these neighbourhoods is on the rise.

A large component of these price increases are a combination of the rising cost of land, delays due to an outdated planning approvals process, and a variety of government fees and charges paid by tenants as part of their rent.

It is important that both the rental and new homes market co-exist in the GTA. We are in the business of building quality, complete communities and purpose-built rentals are just another housing type for GTA residents.

Building homes is building homes, and we will continue to work together with our government partners to ensure that our industry can build homes that people can afford to buy and live in across the GTA.

Source: Build Blogs



Recent Sales – Toronto GTA

Address	Suites	Price MM	Price Per Suite	Buyer
12 Bater Avenue	50	\$8.55	\$171,000	Akelius
50 Gloucester Street	35	\$5.45	\$155,715	Akelius
1440 Tyandaga Park	175	\$30.74	\$175,635	CAPREIT
3055 Glencrest Road	110	\$23.0	\$209,100	CAPREIT
2175 Avenue Road	250	\$47.0MM	\$188,000	Starlight
3008 Queen Street East	32	\$6.0	\$187,500	Akelius
2170 Lakeshore Road	46	\$8.05	\$175,000	Private

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.

COMMERCIAL FOCUS REALTY inc.

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