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Apartment Digest

New Rental – Construction Financing

New rental construction is a hot topic these days with the media hyping apartment builds as the "big thing" in Canada. While there are some people realizing great returns from new rental construction, the headlines don't necessarily tell the whole story.

Construction financing is complicated, with a lot of intricacies involved. And, it's only a small percentage of deals that are truly viable. For any new rental construction, there are three key financing considerations that govern all successful outcomes:

1. Quality of the site

Site quality comes down to where the property is located and what's around it. Quality increases with proximity to transit, good schools and major highways, and if the neighbourhood is known for its attractions, amenities, walkability, retailers and restaurants.

In one example of a recent deal, the proposed property met all the quality criteria listed above. It was located in an established rental node, right on the subway line in an upper-end rental market perfectly suited for a new development. For that deal, we provided $100,000,000 in construction financing.

In another example, the building was going to be the fourth in a cluster of rental buildings First National had previously financed. The property was located across the street from a mall, on the subway line and two minutes away from two major highways. Site quality was indisputable.

2. Quality of the borrower

The quality of the borrower comes down to several factors.

These include:

An existing apartment portfolio, indicating experience with the asset class.

Strong net worth, showing a solid financial foundation.

Liquidity, showing that the borrower is able to infuse cash quickly to cover unforeseen costs that come with construction.

Developing experience; however if lacking, the borrower can mitigate lack of experience by partnering with a more sophisticated high rise developer/builder.

Sub-market smarts, showing the borrower is knowledgeable and experienced about markets as a result of other apartment buildings owned.

3. Market feasibility

When contemplating any build, it is critical to determine if proposed rents are suitable for the target market. Understanding the market provides insight into rent values, but also helps to inform the breakdown of units and ensures that building design suits the target.

4. Meeting considerations

If you're looking to secure CMHC financing, it's critical to be prepared to meet the three financing considerations to the letter. When reviewing deals, CMHC executes on those considerations strictly and conservatively. You have to meet all three – site quality, borrower quality and market feasibility – with no exceptions.

Conventional financing offers a bit more flexibility for slight variables. And I mean slight. The considerations do apply, but there is a bit of room for interpretation.

Source: Andrew Drexler
First National Financial LP

Economic Indicators:

Real GDP Growth	Q1 2015	-0.6%
Toronto Employment Growth	Apr 2015	-0.3%
Toronto Unemployment Rate	Apr 2015	7.3%
Inflation	Apr 2015	0.8%
Bank of Canada Overnight Rate	May 2015	0.8%
Prime Rate	May 2015	2.9%
5 Year Mortgage Rate Fixed	May 2015	4.6%

Calgary Rental Market Crash?

The pool of prospective tenants are drying up in Calgary as a tough job market is forcing some to reduce rents in response – and the situation could worsen as tenants leave the market for good.

“People are having to break leases, which is making it tough for landlords," said Bill Blake, a landlord and member of the Alberta Landlord Association.

"There are always ebbs and flow, and landlords need to be prepared, but it’s a tougher time these days because the job prospects aren’t as readily available. Things are not terrible, but there’s been a definite change.

“More and more landlords are preparing for the reality that their units could be vacant for a month or two before finding someone qualified.”

The comments reflect a difficult situation taking place in Alberta with the effects of low oil prices, which has created a tough situation not just for homeowners, but people’s job prospects as well with many energy companies forced to layoff employees.

The once-hot housing market has cooled down considerably, especially in the last couple of months, with huge layoffs announced from large energy conglomerates such as ConocoPhillips, Nexen Energy and Talisman Energy Inc.

Just last year, Blake said, some were raising renst by 20 to 30 per cent year-over-year.

Now with many tenants breaking their leases and moving out of the province altogether, it’s created a troublesome and uncertain picture for landlords.

Last year, the vacancy rate was 1.4 per cent when the CMHC tabled a rental report in October 2014, while the average monthly rent for a two-bedroom apartment was $1,322 during the same period.

The housing corporation predicted a 1.6 per cent vacancy rate in 2015, but that figure could climb to more than two per cent as rental market trends point to a change.

“There are good and bad times, and this is one of those moments," said Blake. "As a landlord, you have to be prepared and plan for this during the good days so that you can outweigh the bad.”

Source: Canadian Real Estate Wealth

Largest Rental Market in Canada is NOT Toronto

As Canada’s increasingly hot real estate market pushes many homeowners back to the rental market, a new infographic demonstrates just how many apartment units there are across the country.

The infographic, by Rentseeker.ca, features the amount of rental units in Canada’s largest cities, including Toronto, Montreal, Vancouver and Ottawa.

It may – or may not – surprise you to learn that Montreal actually has more rental units than Toronto, at 534,005 compared to 308,212. Meanwhile, Canada’s hottest real estate market, Vancouver, has just 106,111 rental units available.

Ottawa and Edmonton have a comparable amount of rental units on the market, at 60,086 and 60,032, respectively. Saskatoon (13,017) and Regina (11,647) are neck and neck, while Charlottetown (4,784) and St. John’s (3,538) have the least rental units among all the cities studied.

Source: Canadian Real Estate Wealth

Apt. Cap Rates Still Falling as GTA Market Tightens

The first half of the 2015 investment year is almost upon us. As of June 15th, 2015 there have been 33 apartment transactions in the GTA over 6 suite and in total comprising 1,900 suites.

So far in 2015, over $367MM worth of deals transacted in the GTA with an average price per suite of $193,425 and an average cap rate of 4.25%. The sales volume is much lower than the $890MM posted in all of 2014. However, the values are higher than the $140,800 per suite and 4.95% cap rate posted in 2014.

So far in 2015 Cap Rates range from 3.0% to 5.7%. There have been a number of deals under the 3.5% Cap Rate level. These are located in AAA locations with huge upside - some even with development potential.

Cap Rates continue to compress but a much slower rate than in the past. The high price per suite in 2015 has been slightly skewed upwards as a result of a few large high quality asset sales.

What is pushing Cap Rates still lower? Cap Rates are influenced by interest rates. At the start of 2015 (Jan) bond rates were at 0.6% and since then they have moved up 80% to 1.08%. As such mortgage rates have moved up with little effect on Cap Rates.

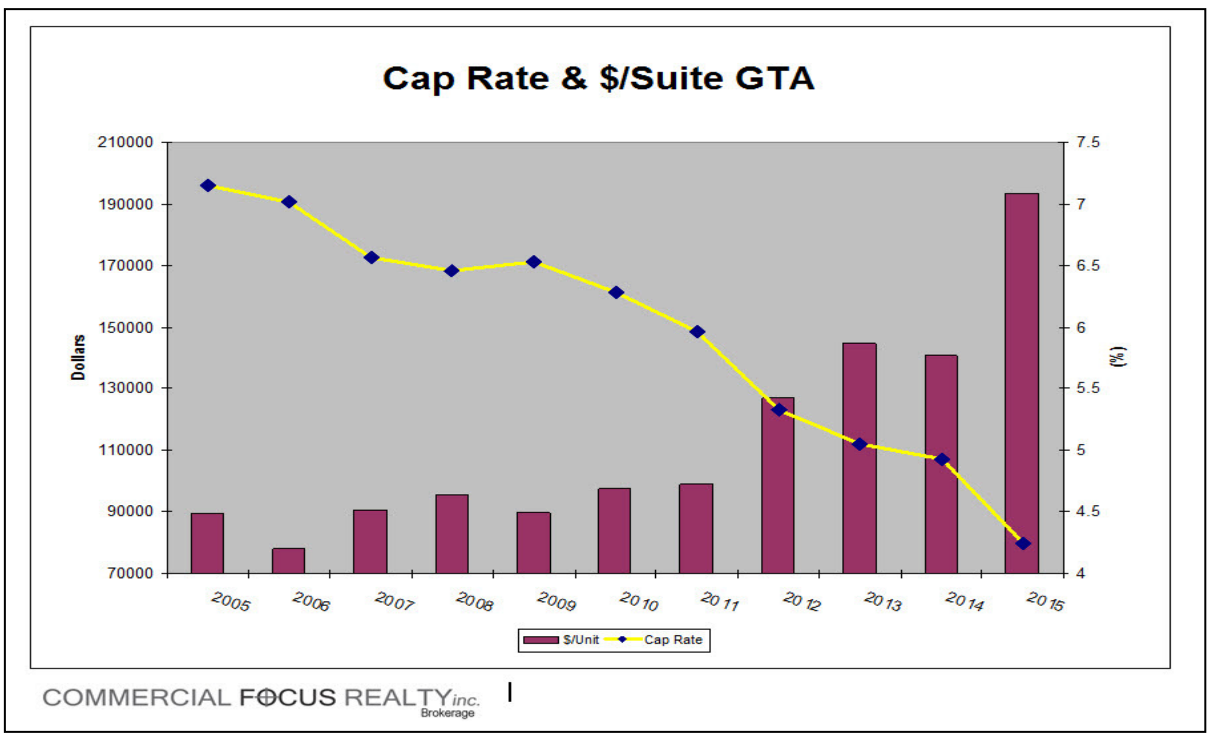
There has always been an imbalance of supply (Sellers) and demand (buyers) in the apartment market. There are generally more buyers than sellers. This imbalance is much more pronounced in 2015 than 2014.

The pace of deals in 2015 is far off that of 2014. In all of 2014 there were 92 deals completed which will be about 50% more than estimated year end 2015. As well, in 2014 over 6,300 suites changed hands far less than what is anticipated for 2015.

Right now there are many more buyers chasing fewer and fewer buildings. This is the major factor for Cap Rate compression given the recent rise in interest rates.

This trend will not last as buyers will in the short term begin to readjust their buying criteria in light of higher borrowing costs, higher taxes and energy costs.

Source: The Apartment Group



Recent Sales – Toronto GTA

Address	Suites	Price MM	Price Per Suite	Buyer
91 Neptune Dr. North York	12	$1.8MM	$150,000	Private
80 South Forest Park Oakville	31	$5.55MM	$179,000	Private
380 Gibb Street Oshawa	132	$18.95MM	$143,500	Timbercreek
70 Wilson Park Toronto	25	$2.525MM	$101,000	Private
540 Birchmount Road Scarborough	27	$3.2MM	$118,519	Private
25 Fisherville Avenue North York	214	$42.7MM	$199,883	Starlight

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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