Commercial Focus Realty Inc., Brokerage

Volume 9, Issue 11

**November 2016**

# APARTMENT DIGEST

## Vacancy Tightens & Rents Rise in the GTA 2016

Average rents increased by 3.1% in the GTA to a level or $1,233 per month. At the same time vacancy tightened to 1.3% on average in the GTA.

Purpose built rental completions increased by 35 per cent (1,511 units) over the 12-month period ending June 30, 2016, the cut-off point for the survey. Despite increased completions, the net increase in the rental universe was negligible (only 544 units or 0.2 per cent) as some existing rental units were removed from the universe due to reasons such as demolitions, renovations and conversions to ownership, and were not enough to prevent further tightening in the vacancy rate.

Tightening vacancy rates and a pick-up in rent growth induced more developers to get into the purpose-built rental business. In 2016, the number of rental units under construction averaged 6,000 units, up by more than 40 per cent from a year ago and the highest level since 1992. Demand was stronger for newer rental buildings with modern amenities and upgrades. The majority of the existing primary rental stock was older and in need of repairs.

Structures built after 1990, which typically charged above average rents, had much lower vacancy rates than those built prior to 1990s. Additionally, units that rented in the highest quintile saw their vacancy rate fall to 1.8 per cent in October 2016 from 2.3 per cent a year ago.

The growth in the average price of a multiple-family dwelling (such as a condominium apartment or townhouse) was roughly 9 per cent at the time of the survey, compared to the same time period a year ago, and outpaced the average increase in rent at 3.2 per cent in 2016 for a fixed sample1 of two-bedroom apartments. This increase was above the maximum allowable rent increase of 2 per cent indicated in the provincial rent guideline. As the gap between the cost of renting and owning grew many households consciously decided to continue renting as shown by tightening vacancy rates across all apartment types.

The GTA had a turnover rate of 15.9 per cent, which was among the lowest in Ontario, suggesting that deteriorating affordability in homeownership kept more people in rental. Despite low turnover rates across the GTA the former City of Toronto, where there was a higher concentration of bachelor and one-bedroom apartments, had the highest turnover rate of almost 19 per cent.

Greater choice among smaller rental apartment types and higher mobility among tenants that typically occupy such units were likely reasons for the higher turnover rate.

Economic growth in the GTA picked up, creating more prosperity and thus demand for housing, but rising house prices have kept more people in rental. The number of full-time employed among those aged 25-44 years grew significantly as well over the last couple years, and moved closer to numbers seen before the recession.

The condominium apartment vacancy rate dropped to one per cent in 2016, the lowest rate in seven years. Market conditions tightened despite an expansion in the rental condominium apartment universe by nearly 14 per cent (or 14,500 units).

**Source: CMCH**

### Economic Indicators:

| | |
|---|---|
| ***Real GDP Growth*** Q2 2016 | -1.6% |
| ***Toronto Employment Growth*** Sep 2016 | -0.2% |
| ***Toronto Unemployment Rate*** Sep 2016 | 7.1% |
| ***Inflation*** Sep 2016 | 1.3% |
| ***Bank of Canada Overnight Rate*** Sep 2016 | 0.5% |
| ***Prime Rate*** Sep 2016 | 2.7% |
| ***5 Year Mortgage Rate Fixed*** Sep 2016 | 4.6% |

# TD Raises Interest Rates AGAIN

Toronto-Dominion is raising mortgage rates again -- and this time the lender is going much farther than its recent hikes.

Starting December 1, all fixed rate mortgages that take more than 25 years to pay back will cost borrowers an extra 10 basis points, or 0.1 per cent. TD is also implementing an extra cost for mortgages on rental properties, charging borrowers 25 basis points more.

The changes follow Royal Bank of Canada's precedent-setting decision early in November to hike rates, and to also charge more for lengthy mortgages. The latter move marked the first time such a policy was implemented in Canada.

In response, TD increased its own fixed-mortgage rates a week later, but took a more measured approach. Royal Bank hiked its fixed five-year mortgage rate by 30 basis points, to 2.94 per cent; TD raised its equivalent rate by only 10 basis points to 2.69 per cent.

TD recently raised the same mortgage rate again, to 2.84 per cent, but still opted not to charge more for loans that take longer than 25 years to repay.

With its latest move, TD is following its main rival's lead, and then some. A higher rate for rental properties is something new.

"We regularly review our rates and adjust them based on a number of factors, including the cost that TD pays to fund mortgages, and the competitive landscape," the bank wrote in an e-mailed statement. "Increasing our rates is not a decision we take lightly. We consider the impact on our customers before proceeding with any rate change."

RBC and TD's rate decisions matter because they come from the country's two largest banks, whose mortgage portfolios are worth roughly $400-billion combined. It is common for them to move in lockstep when adjusting mortgage rates, and what they decide often serves as a benchmark for the rest of the market – but not always.

Lately, Canadian banks have had to re-think their mortgage rates because of moves in bond markets as well as policy changes in Ottawa.

Since November 1, the five-year Government of Canada bond has seen its yield jump 30 basis points. Banks earn a spread off of this five-year benchmark rate, and when their borrowing costs rise, they usually pass the increase along to customers.

Ottawa is also trying to crack down on easy lending standards that have been blamed for large increases in home prices in some markets, particularly Vancouver and Toronto. In October, Finance Minister Bill Morneau announced higher qualifying rates for mortgages with down payments of less than 20 per cent, as well as restrictions on the types of mortgages that can be covered by government-backed portfolio insurance.

The latter change is likely to have fostered the new rates for different amortization lengths because mortgages that take more than 25 years to pay back no longer qualify for bulk mortgage insurance. Even if these longer-dated loans aren't very risky, banks like to buy insurance for them because the regulator deems the mortgages risk-free this way.

RBC reported earnings Wednesday, and on a conference call Jennifer Tory, head of personal and commercial banking, said it is getting harder to make money off mortgages. "We've seen continuing pressure on our margins," she explained, adding this is one of the reasons the bank decided to significantly boost the rate on its five-year fixed mortgages.

**Source: The Globe and Mail**
**Tim Kiladze**

# Apartment Investing Financing Tips

An emerging trend in housing, "the rise of permanent renters," has ignited a hot market for apartment buildings.

However, investor demand far exceeds supply and there are several things borrowers need to know in order to qualify for financing and prosper in this complex, competitive real estate sector.

"We are seeing prices going up drastically, multiple bids, the whole bit," says Vancouver-based Russell Syme, an Assistant Vice President, Commercial Financing, at First National Financial LP, Canada's largest non-bank mortgage lender. "Today, we are seeing the rise of permanent renters – a new demographic in many Canadian markets, especially as a growing proportion of the population cannot assemble the down payment for a new home."

"So to qualify for apartment financing, I see three main things being needed: property management experience, equity and liquidity."

If the prospective borrower does not have sufficient experience managing multi-unit income properties, the lender might make it a condition of financing that the borrower hire a property management company, say apartment financing specialists with First National. This can be an unanticipated expense for many first-time investors.

"Over the last 10 or 20 years, people were able to buy rental apartment buildings with relatively little focus on operational efficiency and potentially still do very well financially over time because of the drastic increase in values that we have seen in the marketplace. I don't think that will be the situation going forward," Syme says.

"I don't want to discourage people, but having that experience, or partnering with somebody who does, is a good way to go if you are buying an apartment building. The values are high, so you need to find other ways – through managing the property – to add value. Buy something that is not operating at its best and improve management of it . . . that's how you do well on these kinds of investments."

The lender wants to hear what the borrower intends to do to increase rents over time – if the building is currently generating below-market rents – and what the borrower might do to reduce vacancy rates. "The primary source of repayment for a loan on an apartment building is the cash flow from that apartment building, so that's what we are looking at," Syme says.

For investors with the management savvy and net worth to qualify for financing, "these properties offer investors steady income and stable cash flow. In the current environment, that's an attractive proposition," according to a recent report by PwC and the Urban Land Institute on emerging real estate trends in Canada and the United States. Furthermore, there is growing demand for well-managed and maintained rental units.

Attitudes about accommodation have changed, the report says. "Renting is no longer seen as a temporary step on the road to home ownership, but as an alternative. Today, we are seeing the rise of permanent renters – a new demographic in many Canadian markets, especially as a growing proportion of the population cannot assemble the down payment for a new home."

The research resonates with Syme. He says even those who can afford to buy are choosing to rent, in some cases, because of the flexibility and convenience. In Vancouver, for instance, there are older homeowners opting to cash out and move to higher-end rentals instead of downsizing to a condominium or smaller house.

There is no shortage of investors wanting to take advantage of the shifting demand for rental apartments in multi-unit buildings, but they do not always know how to qualify for a mortgage, First National says in a paper co-authored by apartment financing specialists Peter Cook and Robert Fleet.

The lender will want to see net-worth statements from all beneficial owners, satisfactory credit reports, resumes outlining the borrower's real estate experience and details of additional real estate holdings or assets, including current debt.

Information on the property that's required includes a current rent roll, an account of annual expenses such as insurance, utilities, property taxes and details of recent improvements.

The lender will require a minimum down payment of 15 per cent of the lending value for an insured mortgage, although the amount may vary depending on location, quality and condition of the building and the potential for rent increases. Typically, the down payment would be substantially higher in a small community highly dependent on one or two industries. "In those communities, you see wide swings in vacancy levels. It might be zero vacancy today, but if one of the industries in those communities has a downturn, the vacancy rate in that market might be 25 or 35 per cent and you can't rent out those empty units no matter what you do," Syme says.

In addition to the down payment, the lender may expect the borrower to have a minimum net worth of 25 per cent of the loan amount. Syme also looks at liquidity – i.e., a borrower's access to cash to cover unexpected expenses such as repairs to a roof or replacement of a boiler.

**Source: First National**
**Robert Fleet**
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# RECENT SALES – Outside GTA

| Address/City | Suites | Price MM | Price Per Suite | Cap Rate |
|---|---|---|---|---|
| **30 Campbell Court Stratford** | 99 | $8.9 | $89,900 | 5.75% |
| **185 Windale Crescent Kitchener** | 36 | $5.35 | $148,600 | 5.10% |
| **1 Bernick Street Barrie** | 65 | $10.47 | $161,000 | 5.20% |
| **850 Kyle Court Brockville** | 36 | $2.34 | $65,000 | 5.90% |
| **101 Philips Street Port Hope** | 86 | $8.6 | $100,000 | 5.20% |
| | | | | |

***Source: Realtrack, CFAS*** **** SOLD BY THE APARTMENT GROUP***

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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 **$4.0 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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We have a collection of seasoned Agents that can serve your needs. Whether you are buying of 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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