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APARTMENT DIGEST

Rental Demand Spurs Growth in the GTA

According to a new report from Urbanation, the number of condo apartments rented through the MLS system during 2015 in the Greater Toronto Area soared by 19 per cent to reach 27,166 units. Q4 saw a particular surge of rental activity, with a 26 per cent year-over-year increase to 5,628 units.

Also on the rise in 2015 was purpose-built rental construction starts, doubling the annual average since 1990 with 3,476 units.

Given all the new and competing stock that's now available to prospective tenants, concerns might arise about long-term market sustainability and whether supply will outpace demand. But, as recent data supports, sector growth is expected to remain solid into the foreseeable future with both condo investors and apartment developers happily reaping the rewards.

"Rental market demand has continued to receive a boost from strong immigration and population growth within the prime age cohort between 20 and 34 years," says Shaun Hildebrand, Urbanation's Senior Vice President. "Increased migration towards high density areas of the GTA, steady employment growth (89,000 jobs were added in 2015) and reduced ownership affordability due to rising housing prices and stricter mortgage qualification criteria have all played a part. We've also seen higher in-migration recently from other provinces as people search for opportunities outside of Alberta."

Hildebrand points out that the exceptional growth in the young adult population—a demographic known for its higher propensity to rent than own—is at the heart of the rental boom. Reputed for having specific notions about where they want to live and amenities they want to access, this influx of single, young tenants is willing to pay extra for quality accommodations in central, high density locations.

"It's been decades since purpose-built rental construction has been meaningful in the GTA, and now we're seeing how much pent up demand exists," Hildebrand says. "Condo completions have risen to record highs and investors have increasingly held onto their units for rental purposes. This has essentially created a new form of housing for Toronto by the way of brand new rental stock located mainly in the core of the city. Also, most of the new condo rentals are small, which allows rent levels to be lower than the cost of owning a unit."

Keith Reading, Director, Research at Morguard echoes Hildebrand's sentiments, adding that despite the growing number of condo rentals, he doesn't predict there will be much competition for the tenant pool—at least not yet. "Rental condos are popular with people looking to move up from older, vintage purpose-built properties typically built in the 60s and 70s," he says. "The rents are higher in condos vs. apartments, but the units are newer and generally offer easier access to amenities, like fitness centres, stores and services. In many condos there are retail stores on the ground level, which is still unusual for purpose-built rentals."

According to 2015 data, condo rental activity grew disproportionately faster than the condo stock itself, which increased by a record-breaking eight per cent, or approximately 21,500 units. This was the result of a 34 per cent rental turnover rate (via MLS) for newly completed units that registered last year — a share that jumped from 24 per cent in 2014. Also telling is the average time these listings remained on the market, edging lower from 22 to just 20 days.

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Economic Indicators:

Real GDP Growth	Q3 2015	2.3%
Toronto Employment Growth	Nov 2015	4.1%
Toronto Unemployment Rate	Nov 2015	7.0%
Inflation	Nov 2015	1.4%
Bank of Canada Overnight Rate	Dec 2015	0.5%
Prime Rate	Dec 2015	2.7%
5 Year Mortgage Rate Fixed	Dec 2015	4.6%

Rental Demand – cont'd

"I think purpose-built rental development will continue to grow, but modestly," predicts Hildebrand. "The high cost of land and development in Toronto makes the economics of building rental difficult for most developers. While rents have grown to a level that has helped support the case, I don't think there will be much upside for inflation in the next few years given the incoming supply from the condo market."

Urbanation's recent survey of purpose-built rental buildings revealed that an average vacancy rate of 1.1 per cent, and an average availability rate of 2.3 per cent, existed in the GTA in Q4-2015. Proposed rental projects confirmed but yet to begin construction have risen to 53 buildings, totaling 10,513 units.

"Where the opportunities for rental lie ahead are in product that conforms to the changing demographics and needs of the population," says Hildebrand. "I believe homeownership rates have peaked for the time being, and the rental market will continue to see more long-term renters than before. Population growth will begin to shift quickly to within the 35 to 44 age group, whom are likely to require larger spaces than younger renters. There is also a growing trend among downsizers to rent instead of own, freeing up real estate wealth to help fund retirement. All of this suggests that new rental development should be designed in a way to avoid competing with condos and to serve the next phase of growth for rental demand."

Whatever the purpose-built future holds, Reading is optimistic—noting that Morguard has consistently achieved stable and healthy returns from its portfolio with the additional advantage that apartments perform well and maintain their value in periods of economic weakness. "The challenge," he notes, "is to try to boost rents, which are often provincially controlled, as expenses continue to rise."

Canada's tenant pool, however, is posing little in the way of challenges. "The competition for renters just isn't that significant," Reading concludes. "Only at the highest level do condos and purpose-built rental apartments compete."

Source: Canadian Apartment
Erin Ruddy

Toronto Rental Market GTA – Still Growing Strong

TORONTO, January 27, 2016 – Toronto Real Estate Board President Mark McLean announced that Greater Toronto Area REALTORS® reported 6,073 condominium apartment rentals through TREB's MLS® System in the fourth quarter of 2015. This result represented a substantial 20.7 per cent increase compared to 5,032 rentals reported in Q4 2014.

"While the ownership market is often top-of-mind when we think about condominium apartments in the GTA, it is important to remember that investor-held condos have become an increasingly important source of rental supply. Renters looking for mid- to high-end units have tended to be pointed at condo rentals. Strong demand resulted in tighter market conditions in Q4," said Mr. McLean.

Year-over-year growth in rental transactions outstripped growth in the number of units listed during the quarter. This suggests that competition between renters increased, which explains above - inflation rent increases for one- and two-bedroom condo apartments.

"Tighter rental market conditions resulted in strong increases in average rents compared to last year. Looking forward into 2016, expect rent growth to remain strong if we continue to see growth in the number of transactions outpace growth in the number of units listed for rent," said Jason Mercer, TREB's Director of Market Analysis.

Source: TREB

Institutions Eyeing Apartment Investments

Purpose-built rental housing gained noticeable favour with Canada's institutional investors last year. Recently released 2015 results of the REALpac/IPD Canada Property Index reveal a 67 per cent increase in net investment in the sector compared to 2014, and an even more significant 234 per cent jump in expenditure on new development.

Residential properties account for about 13 per cent of the index — which comprises 42 portfolios with 2,440 individual assets cumulatively valued at nearly CAD $136 billion — but they made a disproportionate contribution to the total return of 8 per cent, while office and industrial markets slipped in some parts of the country. Nationwide, residential properties recorded 3.4 per cent capital growth versus 1.8 per cent for office and no gains for industrial.

"Apartment values have continued to rise, given stellar demand from a range of investors and ongoing increases in rents in most markets, excluding Alberta," says Keith Reading, director of research with Morguard. "The rise in investment activity is not surprising. If there were more investment opportunities in Canada, then the 2015 figure would have been even higher."

"More and more investors are looking to develop rental apartments, given their inability to source assets to buy," Reading notes.

Net investment in the apartment sector surpassed the $707 million that institutional investors allocated to industrial properties last year, but trailed $1.013 billion in office investment. However, the gap was considerably narrower than in 2014, when net investment in office properties topped $1.8 billion. (Retail properties drew the largest share of investment in 2015, equating to more than $2.08 billion.)

The repercussions of prolonged low oil and gas prices underlie sharp dips in the capital value of Calgary and Edmonton's office and industrial properties, yet, even there, apartments gain some traction. "In a down economic cycle, a portion of renters stay put instead of deciding to purchase a home, due to their concerns related to job security," Reading says.

"The sector provides stable and attractive performance, and has long been in high demand with both private and public investment groups," he adds.

Looking back to better times, past annual index results also show evidence of standout performance — such as 2012, when residential properties delivered a total return of 16.2 per cent and capital growth in excess of 10 per cent.

Source: Canadian Apartment Magazine

RECENT SALES Ontario

Address/City	Suites	Price MM	Price Per Suite	Cap Rate
57 Union Street East – KW	97	$14.6	$150,515	NA
160 Chapel St. – Ottawa	374	$67MM	$179,144	4.0%
18 Bradmond Dr. – St. Cath. *	71	$7.8MM	$109,860	5.25%
101 Phillips Rd. – Port Hope	86	$8.6MM	$100,000	NA
22 Glen Park – Wellend	51	$3.5MM	$68,627	NA
300 Regina North – KW	412	$84MM	$203,883	NA

Source: Realtrack, CFAS **** Sold by the Apartment Group***

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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.

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