

APARTMENT DIGEST

Where Have All the Apartment Sellers Gone?

Economic Indicators:

Real GDP Growth Q4 2015	0.8%
Toronto Employment Growth Feb 2016	4.4%
Toronto Unemployment Rate Feb 2016	7.2%
Inflation Feb 2016	1.4%
Bank of Canada Overnight Rate Mar 2016	0.5%
Prime Rate Mar 2016	2.7%
5 Year Mortgage Rate Fixed Mar 2016	4.6%

The first quarter of 2016 (Q1'16) has seen the tightest GTA apartment market since Q1'09 begging the questions "Where have all the Seller's gone?" Not only were sales volumes down but listings were also down appreciably in Q1'16. On the Toronto MLS for example listed apartment buildings are down over 35% from one year ago.

Q1'16 saw a total of 16 deals close as compared to 23 deals in 2015. That is a 30% decline in sales volume. This meant more buyers chasing fewer and fewer deals. In Q1'16 there were 1,196 suites sold as compared with 1,201 a year earlier. This tightening is a continuation of the market as it unfolded in Q4'15. In that quarter there were only 16 sales and 947 suites sold. Over the past 5 years there were about 28 sales on average per quarter. At the same demand is on the rise even with the low cap rates as buyers see the safety in investing in apartments as opposed to other markets which are becoming more and more risky.

Sales volume in Q1'16 was about \$196MM which puts the average deal at around \$12MM. The average size of a sold apartment was 75 suites. In Q1'15 sales volume

was about \$227MM with the average deal size of around \$9.75MM and building size around 52 suites.

In terms of buyer profile for Q1'16 there is no major trend or conclusion. Most of the buyers were private investors with the exception of two purchased by Centurion and Minto. Minto purchased the largest deal of the quarter being a building located at 205-207 Morningside Drive. This property comprises 214 suites and sold for \$27.5MM or \$128,500 per suite. The property was also a very large site with development potential at the rear of the lands. The previous owner purchased the building in 2013 for \$18.2MM.

The second largest deal in the quarter was 625 Roselawn Avenue. This building sold for \$27MM and comprises of 91 suites or \$297,000 per suite. The Seller owned this building for a long time.

This lack of supply combined with low interest rates has pushed up demand for buildings and understandably pricing. While it is difficult to discern meaningful trends from one quarter of date with 16 deals there has been upward pressure on pricing. In Q1'16 the average price per suite rose to \$164,000 from Q4'15 which saw prices at \$146,500 per

suite on average. Cap rates too saw some compression in Q1'16 averaging 4.2% down from 4.4% in Q4'15 and 5.3% in Q1'15.

Cap rates are still compressing but this is more a reflection of the low and declining lending rates. What has been pushing up value in the short term has not been increasing Net Income because most expenses are increasing at a faster rate than which you can increase the rent, but rather falling interest rates. However, how long that will continue is any one's guess but we can all agree that there is a higher chance of rates going up in five years than going further down.

Recent activity in the GTA has shown that owners are asking astronomical prices for their real estate thinking that it will make buyers stretch higher for their prices. This is true in rare cases. What will generally happen is that buyers will start to hold off and or search for properties outside this market which are more reasonably priced. Many of our buyers are now looking at Niagara Region, Hamilton, Peterborough as investment opportunities.

Source: The Apartment Group

Condo Prices Keep Going Up and UP

April 22, 2016 -- Toronto Real Estate Board President Mark McLean announced that Greater Toronto Area REALTORS® reported 5,974 condominium apartment sales through TREB's MLS® System during the first quarter of 2016 – an increase of 21.2 per cent compared to the first quarter of 2015. Approximately 70 per cent (4,131 sales) of first quarter 2016 transactions occurred in the City of Toronto.

The same annual rate of growth was not experienced for new listings. There were 11,112 new condominium apartment listings entered into TREB's MLS® System in the first quarter – down 1.7 per cent compared to the same period in 2015.

"It is clear that the demand for condominium apartments more than kept up with the supply of listings in the first quarter of this year. This housing type is an important entry point into home ownership for a lot of GTA households, particularly in the City of Toronto. Recent polling undertaken for TREB by Ipsos suggested that approximately half of home purchases made in the GTA this year would be accounted for by first-time buyers," said Mr. McLean.

The average condominium apartment selling price was \$393,589 in the first quarter – up 8.1 per cent compared to Q1 2015. Similarly, the MLS® Home Price Index benchmark price for apartments was up by 7.1 per cent on a year-over-year basis at the end of March.

"While the condominium apartment market segment remains the best supplied in the GTA, market conditions have tightened considerably since the first quarter of 2015. Not surprisingly, the pace of year-over-year price growth has accelerated over the same period of time," said Jason Mercer, TREB's Director of Market Analysis.

Source: TREB

Condominium Apartment Market Summary^{1,6} First Quarter 2016

	2016		2015	
	Sales	Average Price	Sales	Average Price
Total TREB	5,974	\$393,589	4,930	\$364,087
Halton Region	177	\$359,147	167	\$340,649
Peel Region	862	\$290,081	681	\$287,314
City of Toronto	4,131	\$423,166	3,448	\$385,617
York Region	673	\$375,840	522	\$356,471
Durham Region	118	\$281,506	103	\$241,083
Other Areas	13	\$263,731	9	\$209,389

Ask The Expert – Legal Matters – Marc Lean

It's a situation that every real estate agent dreads...the sale transaction fails to close or the waiver to conditions is not provided. Then the fingers of blame begin to point:

"Hey, that louse of a purchaser failed to come up with his money, this is all his fault and I want the deposit sent to me now!"

"The vendor did not live up to his promise - he warranted a big income - he did not tell me the whole story - the deal is dead! Anyway, the value of the property has gone up, he can sell it to someone else for more money - he has not suffered any losses - send me back my deposit!"

"The waiver date has passed and I am not satisfied with the property. Give me back my deposit."

"Great, I let the guy in here for due diligence and he almost guts the place, and he did not even waive the conditions. Good thing I can keep the deposit for my repairs."

You have heard both sides to these stories many times and may have argued them yourself - many different versions, but always with the same ending - "give me the deposit". So, how does a real estate agent respond to these demands? What is his or her obligation to the client and what are his or her responsibilities as a professional?

Firstly, let us recognize the position of the realtor. The realtor is bound by the policies of the Real Estate

Counsel of Ontario ("RECO"). While these policies are not laws, in practice they may as well be. If the realtor does not follow the policies of RECO he will have a very difficult time justifying his actions.

RECO states that the proper course of action in the case of a failed agreement is to disburse the trust money in accordance with a release/mutual release or direction(s) signed by the parties to the agreement or on instructions pursuant to a court order.

Without a release and/or direction or a court order, the agent cannot make the decision about which party is entitled to the deposit, no matter how clear the facts might seem to be to one of the parties to the purchase agreement. No client is entitled to put his realtor in the position where he must favour one party over the other. A real estate agent does not have the authority to make a distribution of disputed funds - he is not the adjudicator of a party's position and a distribution in error could spell disaster for the broker.

The policies of RECO are based on the provincial laws governing real estate brokers and centuries of jurisprudence. The Real Estate and Business Brokers Act, 2002, and its regulations speak to the obligations of brokers to place deposits in trust. It is essential that real estate professionals take their role as stakeholders in the transaction seriously and understand that they are bound to protect the consumer and are responsible to the consumer - both buyers

and sellers - regardless of which party has retained them.

The typical transaction starts with a contract for the sale and purchase of property and a deposit, to be held in trust. The deposit serves two purposes - they are:

1. As earnest money to provide a strong incentive for the purchaser to complete his obligations to purchase the property;
2. A reasonable estimate of the vendor's damages, to compensate the vendor for its damages where the purchaser fails to close.

In recent cases here in Ontario and British Columbia, the courts have placed great emphasis on deposits being for the purpose of earnest money. In simple terms, in failed transactions, the courts have said that vendor need not prove that they have suffered damages to seek release of the deposit to them - they merely need to show that the purchaser failed to complete the transaction for no justifiable reason.

More than ever, the courts have found deposits non-refundable, save in exceptional circumstances where a purchaser has been able to prove that the amount of the deposit is unconscionable. This might be found if the amount of the deposit is far beyond the actual loss of the vendor, if the deposit is perceived to be a penalty, or it would be unconscionable for the seller to retain the deposit.

This situation would generally arise where the deposit is in excess of ten percent. As stated above, the estimate must be reasonable even where specific damages need not be proven.

When entering a transaction therefore, the return of the deposit or its release to a Vendor is not automatic and more often than not, there are two sides to the story (often people say there is a third story in there too). Recognize the position of your realtor and broker as a deposit holder. Give some thought to the deposit if the transaction is terminated and what issues may arise upon demanding its return or release. Try to anticipate the issues and structure your purchase agreements to respond to those issues.

Marc Lean is partner with Dickinson Wright LLP and has involved in real estate and contract law for over 20 years. The Apartment Group have completed over 100 deals with Marc. He can be reached at 416-777-4015 or Mlean@dickinson-right.com

RECENT SALES – GTA

Address/City	Suites	Price MM	Price Per Suite	Cap Rate
25 Trudelle St. – Scarborough	216	\$32.4	\$150,000	NA
12 Rusholme Dr. – Toronto	54	\$8.5	\$157,400	NA
560 Birchmount Rd. – Scarborough	137	\$16.6	\$116,800	NA
1 Crown Hill Pl. – Etobicoke	33	\$3.995	\$121,100	NA
18-20 Skipton Ct. – North York	80	\$10.75	\$134,400	NA
<i>Source: Realtrack, CFAS</i>				

COMMERCIAL FOCUS REALTY INC., BROKERAGE

35 The Links Road
Suite 201
Toronto, Ontario
M2P 1T7

Phone:

(416) 972-9220

Fax:

(416) 972-9588

We're on the Web!

See us at:

www.cfrealty.ca

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.

COMMERCIAL FOCUS REALTY inc.

Brokerage

Lorenzo DiGianfelice, AACI
Broker of Record & Owner
Direct – 416-907-8281
ldgianfelice@cfrealty.ca

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

Mitchell Chang
Salesperson, President & Owner
Direct – 416-907-8280
mchang@cfrealty.ca