

APARTMENT DIGEST

Rents on The Rise in Toronto

Toronto's rental vacancy rate sank to 1.3 per cent in 2015, and looks like it will remain low this year and into the foreseeable future as well. As demand for rental housing continues to come up against low supply, many developers and investors—small and big—are betting on the rental market as a relatively secure and profitable investment. From late 2014 to late 2015, many more condos have been rented out rather than resold, which is a marked change from 2011, when rentals and resales were almost equal. But how and why is this trend so reliable? And how can potential property investors make the most of it?

"Millennials have much less of an attraction to owning a single-family home and a car. They've got much more of an attraction to a lifestyle and a job," says James McKellar, director of the Real Estate and Infrastructure program at York University's Schulich School of Business. Being able to walk or bike to work and other amenities, living close to mass public transit lines, saving on the costs of owning and maintaining a single-family home (mortgage, taxes, repairs), and being part of a dense and lively urban community are just a few reasons why the younger generation is opting

to rent rather than buy. And with 1.5 million millennials (roughly defined as people aged 15 to 34) in the GTA region alone, their decisions carry great influence over the direction of the real estate market in the city. But perhaps the most reliable indicator that renters are on the rise is the fact that buying a home in Toronto is simply out of reach for most millennials.

A combination of high student debt, low incomes, and a precarious job market means that millennials simply can't afford to buy in Toronto's red-hot market, where the average price for a new detached home is now \$1.05 million. Moreover, incomes have not risen on par with the increase in housing prices, making ownership less and less likely for the younger generation. As mortgage rates remain historically low, it's a good time for would-be investors to think about buying an investment condo and covering ownership costs by renting the unit to tenants. Not only is the younger generation turning more and more to renting over buying, but they're also staying in rental units for longer periods of time, thereby decreasing turnover and eliminating the costs to landlords/owners associated with finding new tenants. Moreover, as rental vacancy rates remain low and demand grows, rental prices are also increasing.

And rents are steadily increasing. According to Urbanation, a data and analysis organization focused on the Toronto condominium and rental apartment markets, the average rental price for a condo in the first three months of 2016 in the Greater Toronto Area was up almost 7 per cent when compared to the same timeframe last year. Landlords and owners are more likely to turn a profit by renting out their units, as opposed to merely breaking even on ownership costs.

According to the Toronto Real Estate Board, the average prices as of December 2015 for rental apartments and condos in the GTA are:

Bachelor apartment: \$1,350 (\$1,387 in central Toronto)

1 bedroom apartment \$1,653 (average \$1,723 in central Toronto)

2 bedroom apartment – \$2,236 (average \$2,466 in central Toronto)

Source: EmpireWire

Economic Indicators:

Real GDP Growth	
Q1 2016	2.4%
Toronto Employment Growth	
May 2016	2.5%
Toronto Unemployment Rate	
May 2016	7.3%
Inflation	
May 2016	1.5%
Bank of Canada Overnight Rate	
Jun 2016	0.5%
Prime Rate	
Jun 2016	2.7%
5 Year Mortgage Rate Fixed	
Jun 2016	4.6%

Toronto to Build More Affordable Housing

Toronto is cutting red tape and offering financial incentives to get developers to build affordable housing.

Toronto will spend more than \$272 million over the next five years to boost construction of affordable housing through fast-tracked building approvals, development fee exemptions and property tax holidays.

"It's a big commitment from the city," said Councillor Ana Bailao, chair of the city's affordable housing committee and the mayor's point person on the new Open Door Program which received final approval by city council this week.

"We know that if we continue to do business as usual, we are not going to reach our targets."

The city has set a 10-year goal to create 10,000 affordable rental and 3,000 affordable ownership homes by 2020. Without the program, Toronto risks missing the target by 6,600 affordable rental and ownership homes, according to city staff.

Ahmed Makholouf, who suffers from multiple health problems and spends about 60 per cent of his income on rent, is a member of one of almost 88,000 households on Toronto's affordable housing wait list.

"While I have been waiting, the city has been doing nothing," said the single father who moved to Toronto

from Montreal in 2007 to be near his ex-wife after he suffered several strokes.

Makholouf, 62, has been waiting for an affordable unit since 2010 and "barely survives" on about \$1,500 in Ontario Disability Support Program benefits, including a special diet and transportation allowance.

For a unit to be deemed "affordable" under the program, monthly rents must be no higher than \$1,110 for a one-bedroom, \$1,301 for a two-bedroom and \$1,531 for a three-bedroom. To receive federal-provincial funding, maximum monthly rents for one- two- and three-bedrooms are \$888, \$1,041 and \$1,225 respectively.

For affordable ownership, the city's Home Ownership Assistance Program can provide \$25,000 in funding per unit to help cover development charges and other fees. Developers must be non-profit groups, such as Habitat for Humanity, or building on public lands.

Eligible purchasers will receive a \$25,000 no-interest, no-payment down-payment assistance loan from the developer that doesn't have to be paid back until the unit is sold. That money helps provide the next loan under the program.

Since time is money, all eligible rental and ownership developments where at least 20 per cent of the homes are affordable will have access to dedicated staff within the city's planning department to fast-track approvals, shortening the wait for typical applications from 18 months to 12, Bailao said.

The program dovetails with the province's recently introduced inclusionary zoning legislation that will give Toronto the power to force developers to build affordable units. New money for affordable housing construction and housing allowances included in Ottawa's 10-year social infrastructure fund will also boost the city's efforts, she added. Toronto will receive just over \$154 million in federal-provincial funding for affordable housing in 2016 and 2017.

"I think we're heading in the right direction," Bailao said. "But we need to continue ramping it up."

Joe Cordiano, president of Dominus Construction Group which won the city's proposal call to develop the Railway Lands site, said the Open Door Program won't make him rich, but will make building affordable housing worthwhile.

"We build a lot of condos. But we saw an opportunity here that I think makes sense," said Cordiano, a former Toronto Liberal MPP who left provincial politics in 2006.

"It's not easy to build affordable housing. But it's crucially important to the economy of the GTA that we try," he said. "The tool box that (the city) has put in place . . . is enough to justify our involvement."

Source: **TorStar News**

Apartment Rental Levels – Sky is the Limit

Further to the first article in this Digest, many are wondering where rental levels are going to go. UP of course. Generally speaking the highest number of renters tend to be those leaving home after school and entering the work force – generally those between 24 and 34. Once they save enough money or get married they start moving into home ownership historically.

Given the rise in house prices in the GTA over the past 2 decades this rental trend has changed. The average price of a detached home in the 416 is now approaching \$1MM. The

Average price of all housing is over \$600,000 in the 416.

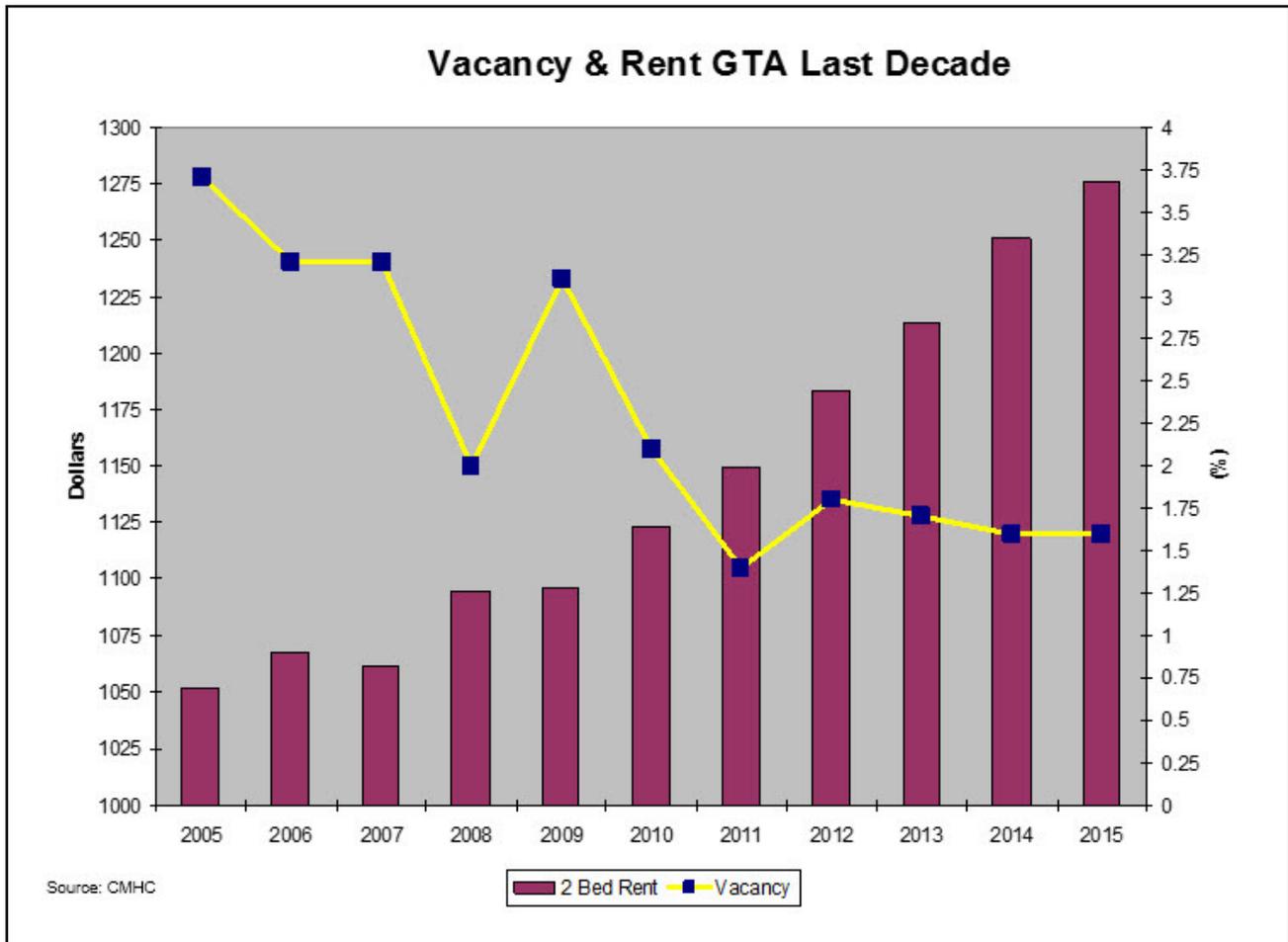
For those seeking to buy a home it is now pushing our the savings period longer and longer. Many have come to realization that they may be renting for a longer period of time than first expected. As these tenants relegate to renting and they stay in longer their incomes will rise and they will tend to move to higher class rental. If they have made the decision to rent for long term they will pay a higher rent for better quality.

At the same time those

leaving home are generally better educated earning better money than in the past and have little outlook to the future. They want quality space today. As such they too will pay more for rental.

New condo rentals are have little effect on the purpose built stock. The chart below shows the climb in rents and decline in vacancy in the last decade. In 2005 there 35,000 rental condos and in 2015 there were 115,000 of them. As you can see this increase had little effect on the purpose built market.

Source: CFR



RECENT SALES – GTA

Address/City	Suites	Price MM	Price Per Suite	Cap Rate
80 Mornell Court	264	\$38.0	\$143,900	NA
34 Dixington Crescent	60	\$9.04	\$150,660	4.00%
414 Willowdale Avenue	65	\$15.0	\$230,760	4.25%
1731 Victoria Park Avenue	129	\$16.77	\$130,000	4.60%
169 St. George Street	52	\$18.0	\$346,150	NA
60 Gloucester Street	78	\$23.0	\$294,870	NA

Source: Realtrack, CFAS

COMMERCIAL FOCUS REALTY INC., BROKERAGE

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

Phone:

(416) 972-9220

Fax:

(416) 972-9588

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Brokerage

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

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