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APARTMENT DIGEST

Apartment Sales Volume Down in the GTA

The first half of 2016 is behind us and what does the data tell us about apartment building sales in the GTA. The answers is LOTS.

Buyers are complaining about the lack of product on the market and those Selling are demanding top dollar in what is rightly been called a "Seller's Market". While this has been the case for the last decade, Seller's Markets do not last forever. As Economics 101 will teach you there is a price point between supply and demand which determines market price. When supply and demand area in "harmony" market price is created. When there is an imbalance in supply or demand price will become something other than market.

When there is more supply than demand then price drops to an under market situation. When demand exceeds supply you get an above market situation occurring as we have had in the last decade. The saving grace for buyers has been declining interest rates and rising rents pushing values to historical highs. However, as economists call it "the elasticity of demand" becomes more rigid as supply dwindles in the face of strong demand. That means there comes a point when Buyers will begin to become more conservative when they perceive prices being "out of whack". Of course we are speaking in the generality.

In the first half of 2016 34 transactions in the GTA which is DOWN 30% from 2015 and down the same amount from 2014. The average building size in 2016 was 75 units up from 54 in 2015 and 51 in 2014.

Sales dollar volume in 2016 was around $431MM which is down over 15% from 2015 which was at $520MM. The average price per suite in the first half of 2016 was about $168,000 down 16% for $200,000 posted in 2014 but up from the 2014 figure of $146,000. These figures are bit misleading once you look at the actual data. In the first half of 2015 there were some large high profile and high calibre buildings that were sold skewing upward volumes and price per suite. By the same token in the first half of 2016 over 40% of the sales were located in lesser demand areas skewing the numbers downwards. This being said there was a softening in pricing between 2015 and 2016 for sure relating the supply and demand in-elasticities.

Cap rates compressed between the first quarter of 2015 4.75% to 4.25%. However, the 4.25% is the same as the cap rate for the entire year 2015. So there is a flatting there.

As mentioned, over 40% of the sales occurred in Scarborough in the first half of 2016. The two largest deals overall occurred in Scarborough being: 25 Trudelle Street - $32MM; and 80 Mornell Court - $38MM. These were considered to be "C" locations.

There was no clear "major purchaser" in the first half of 2016. Some of the buyers out there inlcuded: Q Residential; Starlight; Medallion Corp.; Centurion Property Associates; along with a few private individuals.

Please the above discussion is based on 6 months of data. We shall see what the rest of the year will bring in terms of deals and trends. I can tell you from our perspective the market is still strong and still a Seller's market, however, Buyers are becoming more and more conservative and deals are now much more difficult to hold together as Sellers keep pushing the bar higher Buyers are finding they can't jump that high.

Source: CFR The Apartment Group

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%

4 Keys to Diversification in Real Estate

Diversification into a different property type is a great way to limit your exposures, but there are three key things you should consider before taking the leap.

Diversify. Diversify. Diversify. You probably hear it all the time. Diversification is potentially one of the most hyped real estate topics out there. It's most certainly a strategy with value, but has to be approached thoughtfully and strategically to maximize the advantages.

Put simply, diversification entails adding a different asset class to your portfolio. For most investors, diversification is a way to more evenly distribute exposures to different asset classes in the event that economic unrest affects a specific asset class.

For example, many office investors in Calgary right now are dealing with a saturated marketplace heightened by the falling price of oil. Tenants are hard to find and supply is plentiful. Diversification can help to balance those factors. Industrial warehousing in Windsor is another area where diversification can play a strategic role. When the dollar falls to lows like we are seeing now, exports go up and manufacturing in the area scales. However, if the dollar rises again (which it is likely to), growth becomes more limited.

Apartments are the most popular asset class, and are usually the starting point for most investors. Revenue is consistent as a fact that people are always going to need a place to live. Demand is high, and tenants are relatively easy to replace. If you have 100 units and you have one vacant, you're only losing a small proportion of revenue per month.

However, because you are dealing with people's homes and livelihoods, apartments are more management intensive. Units and their tenants require constant and ongoing management. As a result, superintendents or property managers must be constantly involved in the heartbeat of the building.

Retail/office/industrial assets classes differ in functionality and use from apartments, but the premise is the same. Instead of leasing to individuals as tenants, owners lease to businesses, leveraging regulated and standardized processes.

Those leases tend to be quite complicated, and often require specialized expertise for negotiations. Dissimilar to apartments where owners pay hydro, utility and tax expenses, tenants are responsible for paying those costs. Those parameters must be embedded and clearly articulated in the leases.

With tenants paying the expenses, these asset classes tend to be less management intensive. However, the revenue risk is much higher.

An apartment building with 50 units and a retail asset with four units are roughly in the same price range. When considering one or the other, there is certainly a more negligible revenue loss with apartments. If you have a four-unit retail asset and you lose one tenant, 25 per cent of your space is vacant, and you are responsible for covering those expenses. The time cycles to replace tenants are longer as well.

Stay inside your comfort zone:
In most cases, taking risks in real estate is a path to prosperity. However, with diversification, caution is the order of the day.

If you own apartments in Toronto, it's not the greatest idea to buy office in Waterloo. Stick with what you know in terms of jurisdiction, location and market.

Do your research:
Learn everything you can about the asset you're considering, so you know what makes it successful. Location considerations are critical.

Apartments should be close to transportation hubs, retail should be located on busy, main roads and office should be in proximity to major highways. It's also important to know the demographics of a jurisdiction. For example, if you are planning to secure a tenant specializing in goods and services for babies, it may not do well in a city or area with a more elderly population.

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Cont'd Page 2 – Diversification

Know the management challenges:
If you are planning to transition from one asset to another, be aware of the management challenges that may arise. Each asset class has its own behaviours and issues. Be open to finding a partner or experts with specialized skills to teach you the ins and outs of the asset and management requirements.

Think, plan and be strategic:
Diversification can be a healthy growth strategy and proves to be one for many investors. However, being successful requires investing time and thought. Research. Research. Research. And then research some more. The more time you spend doing your homework, the more confident you will feel that you're making the right decision.

Partnering is also paramount. Find someone with a lot of experience with the asset class and soak up his or her knowledge and insight. Many investors tackle diversification as a joint venture. In addition, choose the right team of experts – financing, lawyers, leasing agencies, investment pros, realtors. They bring a focused expertise to bare, and together, can help steer you in the right direction.

And remember, diversification is not a short-term strategy. It requires a slow, steady approach that includes thought, planning and strategic thinking.

Source: First National Financial

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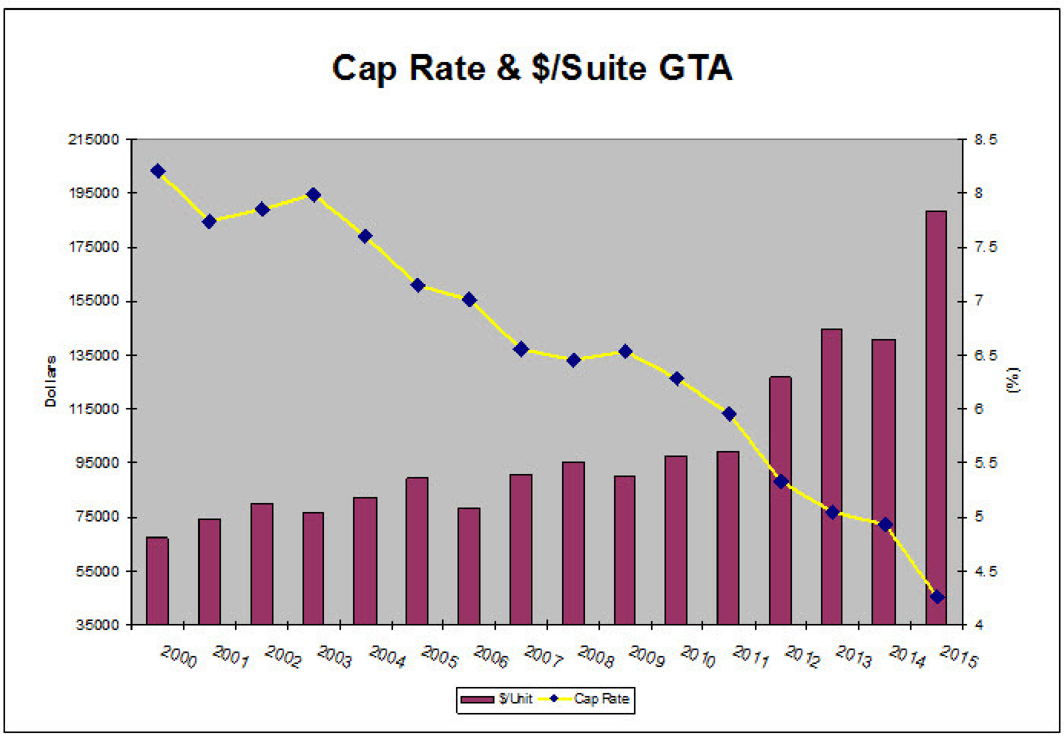

RECENT SALES – Out of the GTA

Address/City	Suites	Price MM	Price Per Suite	Cap Rate
185 Windale Crescent Kitchener	36	$5.350	$148,611	5.8%
45 North Street St. Catharines	38	$2.926	$77,000	6.5%
1600 Pelham Street Pelham	70	$5.4	$77,145	5.6%
555 Park Road North Brantford NEW BLDG	153	$29.9	$195,925	NA
285 Loretta Avenue South Ottawa	146	$23.0	$160,840	NA

Source: Realtrack, CFAS

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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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