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Apartment Digest

Condo Rents Softening in the GTA

Urbanation Inc., which researches Toronto's condo market, released its latest rental findings last week. The number of condos rented over the Multiple Listing Service in the Toronto area hit an all-time high of 6,708 during the second quarter, up 26 per cent from a year earlier. But the number of new listings rose by an even greater degree, and so – when measured per square foot - annual rents ticked up by just 0.7 per cent from a year earlier, to an average of $2.37 per square foot.

It marked the second quarter in a row that rents grew by less than 1 per cent on a year-over-year basis, after an average growth rate of 4 per cent during 2013. And the average monthly rent, which can be impacted by the size of condos that renters are moving into, actually fell by 3.2 per cent from a year earlier, to $1,787, as the average size of units being rented shrunk again, by 3.8 per cent, to 755 square feet.

I asked Urbanation senior vice-president Shaun Hildebrand for more details about what he thinks is taking place in the condo rental market in Canada's most populous city. It's a pocket of the country's real estate market that economists are watching closely as they try to determine whether too many condos are being built. Mr. Hildebrand, who used to be a senior market analyst at Canada Mortgage and Housing Corp., talks here about deficiencies in the data, and why he doesn't think condo rents in Toronto will drop materially.

Q. Both rentals and rental listings are up by more than 25 per cent from a year ago. Do you think that's in line with demographics, or are we seeing a bit of a shift away from ownership toward renting? Where is the rental demand coming from?

A. Growth rates for condo rentals and listings are far stronger than overall growth in condos and population growth. But it's important to recognize that we can only monitor condo rentals through what occurs on the MLS system, and this is a mechanism that has grown itself in popularity in recent years. So some of the growth being reported is due to a better capture of the data.

But still, the upward trend in rental demand is clearly visible, otherwise all the newly completed units listed for rent wouldn't be absorbed. To some extent it reflects a shift away from owning, as resale volumes have remained below previous highs following the latest round of mortgage tightening in mid-2012.

I think a lot of the demand is demographic driven as a wave of baby boomer children are finishing school and moving out on their own. This has been helped by improving job opportunities, which were scarce for younger adults for several years following the recession. The census data also reveals a general movement of people towards higher density locations, which could reflect a lot of factors, including commuting times and costs. We also can't forget the lack of purpose-built rental construction (apartments) driving renters to the condo market.

Q. Rents have grown by less than 1 per cent for two quarters in a row. Do you think this is the start of a trend?

A. I do. Even though demand is strong, it isn't quite able to keep up with supply growth. With completions expected to remain high through to 2016, I would say supply continues to have more upside than demand. That said, I don't think we'll see conditions so unbalanced that rents noticeably fall. Some of the units in the

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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%

Condo Rents – Cont'd

current stock will be sold to first-time buyers – not all investors have long-term intentions. A new building typically has a much higher share of units used as rental at occupancy than it does a few years down the road.

. If rental growth continues to be lower than it has been historically, would you expect to see some investor-owners sell their condos?

A. I think we'll begin to see more investors sell than in recent years, but still not a lot. For units that came to completion so far in 2014, there was no cash flow based on a 25 per cent down payment [that's on average: some have a few hundred dollars each month, others are negative] – but cash flow has been thin for some time now. I can't imagine a huge shift in investor behaviour so long as interest rates remain low. With prices growing slowly for some time, I don't think investors have distorted expectations. The resale market is now in a better position to absorb more listings than it has been over the past few years, so any repercussions for price would be limited. The problem with trying to predict how many will sell versus hold is that we don't have any information on investors that purchased units currently under construction. CMHC recently released a survey of investors that showed that almost two-thirds have down payments of more than 20 per cent and almost 60 per cent planned to hold for more than five years – but the sample largely missed those that bought pre-construction units in recent years that have yet to complete.

Q. We hear a lot about the Toronto condo market these days. In your opinion, are there any mistaken impressions or myths you think need to be corrected?

A. A lot of talk surrounds the foreign component. However, I do not have anything other than informal survey results to add to the discussion. We polled the [condo] industry late last year and asked what percentage of new condo buyers they believe are foreign (results were anonymous), and the highest number of votes was for between 5 per cent and 9 per cent, a close second was between 10 per cent and 19 per cent. Few believed it was 20 per cent or more.

I also think there is a fear that all of the units currently under construction will be finished at once, flooding the market. We monitor construction starts, construction progress and completion timelines very closely. Completions can be expected to average about 20,000 a year over the next three years, which are record levels but aren't high enough to alone create an over-supply of units. We've completed over 19,000 over the past 12 months, and other than slower rent growth, the market has been unaffected so far.

Source: Globe and Mail
Tara Perkins

GTA Apartment Sales – WHERE ARE THEY?????

Where have all the Apartment Sellers gone to? That is the question more and more buyers are asking. While the apartment market in the GTA and in Southern Ontario has been tight many are now calling it anorexic.

The Apartment Group has been selling apartments for over 20 years and have been keeping statistics on this market that long as well. We have never seen this constriction in the market place, ever! We collect transaction from various sources. In the third quarter of 2016 (Q3) there were only 9 deals completed in the GTA over 20 suites. In fact the group is even smaller as 3 deals were actual a portfolio so technically that was 1 deal so in realty there were only 7 deals completed. This is down 50% from the previous quarter and down 40% from the same period last year.

Year to date figures tell a similar story. In 2016 for the first three quarters of the year there have been 43 sales. This compares to 61 deals in 2015 and 72 deals in 2014. This means we are on track to see something like 60 deals completed this year. This is down from last year and down from 122 deals completed in 2013.

Historically Q3 of any year tends to be the slowest. This period occurs in the summer months when many investors and Sellers are on vacation and not in full real estate mode. However, this has been the lowest on record and follows on a continuing trend of evaporating product on the supply side which further skews the imbalance between supply and demand.

In Q3 2016 there were a total of 563 suites sold and 9 deals for an average of 63 suites per sale. Again this is down 60% from last quarter and down 50% from one year ago. This same trend follows through on the dollar volume of sales completed. In Q3 2016 $95MM of deals were completed comparted to $235MM in Q2 and $229MM a year ago.

The interesting thing about Q3 2016 is that on buyer represented over 80% of the market by sales volume. Starlight Investments Limited purchased almost $80MM worth of apartment buildings in Q3 2016. One was a portfolio of buildings totally 179 suites and $47MM purchased from Berkley Developments Inc. Another deal was for 27 suites and finally another project in North York being 144 suites for $27.5MM. The other deals were completed by a series of private investors.

Cap Rates year to date are averaging around 4.00% which is down slightly from the average of 4.25% for all of 2015. Statistically no significant change despite the lack of product and deals. Price per Suite is around $170,000 year to date 2016 which is down from $190,000 a suite a year ago. This could relate to the quality of product trading in 2016 as compared to 2015.

The amount of deals currently on the market has shrunk as well. Investors looking on line at mls.ca or icx.ca will find that there virtually is nothing on the market over 20 suites in any major market out there. On the Toronto MLS system where there would be at any given time over 50 properties on the market there now are around 25 to 30.

While the above points to a strong Seller's market, things which are not priced properly or are not marketed correctly still tend to sit there. We are finding in the market right now that Buyers demand is still strong but many are not reaching for the bar as much as they used to.

From our personal perspective being active in the market we can say that activity is way down from last year. It is also getting more and more difficult to hold deals together. Financing levels keep shrinking mean Buyers have to put more down which makes them sharpen their pencils that much more. It also really affects the smaller end of the market and first time buyers. So those deals less than 40 suites need to be highly structured to work for the Buyer and the Seller.

We anticipate more of the same moving forward. Especially if interest rates stay as low as they are.

Source: CFR
The Apartment Group

RECENT SALES – 416 Toronto

Address/City	Suites	Price MM	Price Per Suite	Cap Rate
2-4 Greentree Crt.	115	$14.07	$122,400	NA
60 Wasdale Cres.	11	$1.66	$150,900	3.80%
67 & 70 Parkwoods Village	144	$27.50	$190,970	4.11%
1450 Sheppard Ave. W.	181	$27.7	$153,425	NA
245 Howland Ave.	49	$12.16	$248,160	NA
210 Wychwood Ave.	40	$7.14	$178,685	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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