Commercial Focus Realty Inc., Brokerage

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APARTMENT DIGEST

FOCUS – New Housing Market GTA

Total housing starts in the GTA are forecast to decline to the mid-30 thousand range in 2013 on weaker pre-construction sales. Condominium apartment starts, which opened this year on a soft note, are expected to gain momentum in the latter part of the year and hold steady in 2014.

Low-density homes (singles, semis, and rows) are projected to pull total housing starts up by four per cent in 2014. Stronger repeat buyer demand, supported by improving growth in the economy and selling opportunities for existing homeowners, will boost sales traffic for new low-rise homes.

While high-rise starts will still account for the bulk of total residential construction, their share will edge lower to 58 and 53 per cent in 2013 and 2014 respectively.

Between 16 and 17 thousand new condominium units are forecast to sell in 2013. Pre-construction condo apartment sales, which have been gathering pace since 2010, experienced a sharp downturn in the middle of 2012. During the early part of 2013 pre-sales dropped to roughly half the level seen at the beginning of 2012 - the lowest level since the past recession and about 20 per cent below the ten year average.

While a strong rebound is not foreseen, condo sales are still expected to bounce back to more reasonable levels.

Developers are projected to continue adapting to the new market reality, by delaying some new project openings and by more carefully choosing launch prices, unit mix, amenities, and locations. Existing sites are also going to benefit from more generous incentive packages.

Over the next months sales are expected to hold steady at the current level, before recording gradual improvements in the second half of the year, which will be followed by further upward adjustments through 2014.

While some recovery is expected, newly launched projects will be challenged this year. According to Urbanation, over the past year demand has slowed more for condo apartments at project launches, compared to existing projects, which tend to attract a higher share of end-buyers. Condo buyers, who purchase units with the intention of renting or reselling them later, are becoming more profit margin constrained and in a deficit position with a minimum 20 per cent down payment required.

Thus, buyers have been adopting a more cautious approach.

Furthermore, a growing possibility of new projects facing delays or cancellations have shifted demand to the ones which have already sold a higher share of their units and projects under construction or nearing this stage. Stronger developers' efforts and improved demand conditions should eventually reduce inventory levels.

Furthermore, tightening in lending conditions may translate into a higher number of projects being cancelled or delayed, thus will also put downward pressure on pre-construction supply.

Following a record set last year, high-rise starts are forecast to drop by 35 per cent to average around 19 thousand units in 2013, which will still be the third highest level ever. Condo starts will decrease on weaker demand for new units and higher volume of projects already under construction. Apartment starts will remain elevated in 2014.

Source: CMHC

Economic Indicators:

Real GDP Growth
Q2 2013 +1.7%

Toronto Employment Growth
Sep 2013 +4.2%

Toronto Unemployment Rate
Sep 2013 7.9%

Inflation
Sep 2013 +1.1%

Bank of Canada Overnight Rate
Oct 2013 1.0%

Prime Rate
OCt 2013 3.0%

5 Year Mortgage Rate Fixed
Oct 2013 5.34%

Commercial Leased Space UP in Q3 2013

October 3, 2013 -- Toronto Real Estate Board Commercial Division Members reported over 5.8 million square feet of leased space in the third quarter of 2013. This result was up by 23 per cent in comparison to approximately 4.7 million square feet leased in the third quarter of 2012.

The increase in leased space was driven by a surge in industrial leasing activity, with the amount of leased industrial space up by 31 per cent on a year-over-year basis to over 4.6 million square feet. Industrial space accounted for 80 per cent of total space leased.

The third quarter 2013 average lease rate for industrial properties transacted on a per square foot net basis, where pricing was disclosed, was unchanged compared to the same period in 2012, at $5.03. The average commercial/retail and office per square foot net lease rates were up by 13.1 per cent and 14.5 per cent to $16.24 and $12.40 respectively on a year-over-year basis.

Average selling prices reported on a per square foot basis, for transactions with pricing disclosed, were up on a year-over-year basis for all major property types.

"The annual growth in the amount of space leased in the third quarter, particularly in the industrial market segment, suggests that businesses in the Greater Toronto Area are expecting stronger growth over the next year. In anticipation of more robust economic activity, many of these businesses have taken on more space in order to account for increased demand for their goods or services moving forward," said TREB Commercial Division Chair Cynthia Lai.

Source: TREB

Strong Residential Sales and Price Growth in Sep.

October 3, 2013 -- Greater Toronto Area REALTORS® reported 7,411 residential sales through the TorontoMLS system in September 2013, representing a 30 per cent increase compared to 5,687 transactions reported in September 2012. Year-to-date, total residential sales reported through TorontoMLS amounted to 68,907 during the first nine months of 2013 – down by one per cent compared to the same period in 2012.

"It's great news that households have found that the costs of home ownership, including mortgage payments, remain affordable.

This is why the third quarter was characterized by renewed growth in home sales in the GTA. We expect to see sales up for the remainder of 2013, as the pent-up demand that resulted from stricter mortgage lending guidelines continues to be satisfied," said Toronto Real Estate Board President Dianne Usher.

The average selling price for September transactions was $533,797 – up by 6.5 per cent year-over-year. Through the first three quarters of 2013, the average selling price was $520,118 – up by over four per cent compared to the first nine months of 2012.

The MLS® Home Price Index composite benchmark for September was up by four per cent year-over-year. The annual rate of growth for the composite benchmark has been accelerating since the spring of 2013.

The price growth story in September continued to be about strong demand for low-rise home types, coupled with a short supply of listings. Even with slower price growth and month-to-month volatility in the condo apartment market, overall annual price growth has been well above the rate of inflation this year. This scenario will continue to play out through the remainder of 2013," said Jason Mercer, TREB's Senior Manager of Market Analysis.

Source: TREB

Local GTA Economy Outlook -2014

Following three quarters of accelerated employment and wage gains in Toronto, there will be steady but tepid improvements in the labour market conditions until early 2014. The pace of hiring is expected to strengthen in 2014 nevertheless it will remain modest compared to historical norms.

The rate of unemployment is projected to gradually slide down to the low eight per cent range. With Toronto labour market lagging other parts of Ontario, the unemployment rate will be around one per cent above the provincial average.

In the second half of 2012, the Toronto labour market recorded strong gains, which appeared to be above the broader economic fundamentals. In the fourth quarter of 2012, the Ontario Gross Domestic Product (GDP) increased modestly at an annual rate of 0.2 per cent, after rising 0.3 per cent in the previous quarter.

Exports were the primary drag, while household consumption expenditure and some gains in business investment were the main supports.

In the beginning of 2013, the level of household credit in Ontario was growing at its slowest pace since the beginning of this millennium. The credit card delinquency and loss rates, as well as consumer bankruptcies fell to pre recession levels.

There is no doubt that these trends should be viewed as positive. Nevertheless, they are indicative that consumers are taking a bit of a breather and therefore are forecast to limit their spending in the short term.

Furthermore, thanks to continuous deficit reduction efforts this year and next, government expenditures are also expected to grow at a moderate pace. The slower spending trends will weigh on hiring in the service industries such as public administration, retail trade, finance, insurance, and professional services.

The Canadian Federation of Independent Business (CFIB), which surveys the level of confidence and performance expectations of small businesses, reported on some decline in business optimism this spring.

The increased uncertainty is expected to temper hiring in the near term, particularly in retail sector given more cautious consumer attitudes. It is anticipated though, that the business and export sectors will drive economic growth in 2014.

After years of cautious approach, private sector investment in non-residential structures, machinery, and equipment is going to see some rebound. Furthermore, with private sector demand in the U.S. expected to accelerate, it should generate stronger support for the auto industry, including local production in the GTA, which will be partly offset by a declining share of North American production. Improved business trends will build a stronger foundation for the employment growth in late 2014-early 2015.

In line with the consensus among private-sector forecasters, increases in the Target Overnight Rate by the Bank of Canada are not anticipated before mid-2014, later than anticipated at the time of the 2013 First Quarter Housing Market Outlook. This reflects the downward revisions in GDP forecasts since the publication of the First Quarter Housing Market Outlook, particularly the expectations of a slower economy in 2013. The expected delay in interest rate increases will continue to be supportive of housing market activity over the forecast horizon.

For 2014, the one-year posted mortgage rate is expected to rise and be in the 3.25 per cent to 3.75 per cent range with an average of 3.42, while the five-year posted mortgage rate is forecast to be within 5.25 per cent to 5.75 per cent with an average of 5.53 per cent, consistent with higher economic growth prospects in 2014.

Source: CMHC

OUR Recent Sales

Address	Units	Price	Price Per Unit	Cap Rate
189 Vaughan Road (Toronto)	16	$2,000,000	$125,000	5.0%
715 Main Street E. (Hamilton)	31	$2,340,000	$75,480	7.2%
479 Aberdeen Street (Hamilton)	18	$1,700,000	$94,445	5.3%
2892 St. Clair E. (Toronto)	34	$3,985,000	$117,200	4.8%
1502 Bayly Street (Pickering)	NA	$7,200,000	NA	6.9%
425 East 42nd Street (Hamilton) COND Sold	36	$5.100,000 Asking Price	$141,650	5.0%

Source: CFAS and RealTrack

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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 $3.0 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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