Commercial Focus Realty Inc., Brokerage

Volume 7, Issue 1

January 2014

Happy NEW Year

APARTMENT DIGEST

Market Value – Apples to Apples

When I started in my real estate career back in 1988 as an appraiser, there were two mantras put into my head - "location – location - location" and "apples to apples". We all know the importance of the first axium. The second one usually is put aside by many Buyers, especially first time or inexperience Buyers.

Many Buyers and Sellers too through around cap rates like they came out of a roulette wheel. And how they apply them is even more adventurous. The cap rate is the net operating income divided by the sale price. It is the rate of return you would earn if you purchased the asset all cash. Most Buyers take the actual audited income and expenses and attach a cap rate to it which generally leads to a very LOW value. Sellers on the other hand gross up income and pear down expenses and apply the same cap rate and over inflate their value. The result is Sellers with unrealistic expectations of value and Buyers seriously under valuing the real estate and potentially missing out on great deals.

The root of the problem is how is a cap rate derived? It is not "pulled out of the air". Appraisers (to which I am), lenders and advisors look to "stabilized" the income and expenses of a building. What does stabilized mean? It means, placing the asset in a normalized situation with proper management and standardized expenses. This is done to all the comparable data that we collect. As such we are comparing apples to apples.

Many take these quoted "stabilized" cap rates and applied it to their definition of net income. Do not get me wrong, from a Buyer's perspective it is very important to look at the actual financial statements. However, we all know that the motive of the Seller is to pay as less tax as possible and these statements will have all sorts of "creative accounting" techniques in there to achieve that goal. On the flip side Seller's take all of that out and more.

Firstly, the income side of the equation. Generally, most take that actual rental income at 100% occupancy for the apartments. If there are vacant or employee units those units are put in at market rent. Parking is taken as is. Laundry is generally looked at industry standard levels unless there is a long term contract and something less than that.

Vacancy and Bad Debt is analyzed by looking at the current and historical operations in the building. We also look at rental levels in the building as compared to the market. We look at CMCH levels in the area and tenant profile.

Secondly, the expense side of the equation. We generally use actual realty taxes, utilities and insurance if the insurance is within industry levels. If there have been claims, slip and falls, we will take this into account.

Applying this to the subject property and the comparable makes an "apples to apples" comparison when it comes to cap rate. Many Buyers argue that if the building is say 50 years old the Repairs allowance should be higher. Many also argue that if there is NO onsite super then wages should be $0. The answer is NO. We take a NORMALIZED approach to the pro forma.

For example, if the building is new Seller's will say the Repairs will be $0 per unit. The Buyer will say that a 50 year old building the Repairs will be $2,000 per unit. Both are correct, but for establishing a cap rate both are wrong.

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Economic Indicators:

Real GDP Growth	
Q3 2013	+2.7%
Toronto Employment Growth	
Oct 2013	+3.5%
Toronto Unemployment Rate	
Oct 2013	8.0%
Inflation	
Oct 2013	+0.7%
Bank of Canada Overnight Rate	
Nov 2013	1.0%
Prime Rate	
Nov 2013	3.0%
5 Year Mortgage Rate Fixed	
Nov 2013	5.34%

GTA Housing Price Up Almost 9% in 2013!!!

January 6, 2014 -- Greater Toronto Area REALTORS® reported 4,078 residential transactions through the TorontoMLS system in December 2013 – up by almost 14 per cent compared to 3,582 sales reported in December 2012. New listings entered into the TorontoMLS system were down by almost four per cent over the same period.

Total sales for calendar year 2013, at 87,111, were up by approximately two per cent compared to 85,496 transactions in calendar year 2012.

"After a slow start to the year, sales growth accelerated to a brisk pace in the second half of 2013. Despite the inclement weather in December, we finished the year with a respectable gain in transactions compared to 2012.

Looking forward, I believe that home ownership in the GTA will remain affordable as borrowing costs stay low. The result could be a further increase in sales in 2014," said Toronto Real Estate Board President Dianne Usher.

"The average selling price will be up again in 2014 and by more than the rate of inflation. The seller's market conditions that drove price growth in the second half of 2013 will remain in place in many parts of the GTA. Some neighbourhoods, specially those characterized by low-rise home types like singles, semis and townhomes, will continue to have less than two months of inventory," said Jason Mercer, TREB's Senior Manager of Market Analysis.

the average selling price for December 2013 sales was $520,398 – up by 8.9 per cent compared to the average of $477,756 in December 2012.

The average selling price for 2013 as a whole was $523,036, which represented an increase of 5.2 per cent compared to the calendar year 2012 average of $497,130.

Source: TREB

Year-Over-Year Summary[1,7]

	2013	2012	% Chg.
Sales	4,078	3,582	13.8%
New Listings	4,102	4,267	-3.9%
Active Listings	11,418	13,241	-13.8%
Average Price	$520,398	$477,756	8.9%
Average DOM	33	35	-5.7%

Sales & Average Price By Major Home Type[1,7]
December 2013

	Sales			Average Price		
	416	905	Total	416	905	Total
Detached	447	1,360	1,807	$864,351	$627,097	$685,787
Yr./Yr. % Change	-6.7%	12.6%	7.1%	18.9%	11.4%	12.5%
Semi-Detached	136	232	368	$644,423	$411,857	$497,805
Yr./Yr. % Change	8.8%	-0.9%	2.5%	15.9%	6.6%	11.8%
Townhouse	172	479	651	$447,188	$384,095	$400,765
Yr./Yr. % Change	13.2%	15.4%	14.8%	13.4%	10.3%	11.2%
Condo Apartment	799	374	1,173	$367,376	$293,883	$343,943
Yr./Yr. % Change	20.7%	46.1%	27.8%	7.6%	4.6%	6.0%

Apples to Apples – Cont'd

The cap rate assumes the building will be owned in perpetuity which means forever. As such the proper Repairs number should be that in the middle of the life cycle of the building say $800 per unit.

On another note, just because on owner spends tons of money on Repairs to keep his building top notch does not mean his real net income is lower and the building is worth less.

By the same token, the owner who actually spends nothing on Repairs will have a higher net income - does that mean his building is worth more? Of course not.

Buyers and Sellers should be cognisant of this and not over value or under offer on properties. It will only result is a huge waste of time.

Source: Apartment Group

Commercial Realty Watch – Q4 2013

January 6, 2014 -- Toronto Real Estate Board Commercial Network Members reported a total of 5,410,687 square feet of leased industrial, commercial/retail and office space in the fourth quarter of 2013. This result was down by 8.4 per cent in comparison to the fourth quarter of 2012. The year-over-year dip in the amount of space leased was concentrated in the industrial market segment. Approximately 77 per cent of the space leased was industrial in nature, with the office and commercial/retail segments accounting for 13 per cent and 10 per cent respectively.

Average lease rates, for properties transacted on a per square foot net basis and for which pricing was disclosed, were up for the industrial, commercial/retail and office property segments.

"The trend for manufacturing output has been somewhat flat over the last year and has not yet surpassed pre-recession levels, which may explain, at least in part, why industrial leasing activity did not experience year-over-year growth in the fourth quarter. In contrast, retail trade has generally been trending upward, which has been a positive for the demand for commercial/retail space. Given that the demand for office space is driven by all sectors of the economy, it makes sense that we saw the amount of leased office space increase," said Commercial Committee Chair Cynthia Lai.

Commercial Network Members also reported a combined 260 industrial, commercial/retail and office property sales in the fourth quarter of 2013. This result represented a slight dip compared to the total of 265 transactions reported during the same period in 2012. Similar to the leasing market, the dip in the number of sales was driven by the industrial market segment.

Average sale prices on a per square foot basis for transactions where pricing was disclosed were up for all three market segments.

"While leasing and sales activity in the fourth quarter was down in comparison to last year, pricing was up for major market segments. This suggests that demand for industrial, commercial/retail and office space has remained strong enough relative to supply to exert upward pressure on pricing," continued Ms. Lai.

Source: TREB

Recent Sales

Address	Units	Price	Price Per Unit	Cap Rate
121 Rusholme Road Toronto	20	$3,950,000	$197,500	5.4%
1371 King Street West Toronto	30	$2,200,000	$73,333	6.0%
24 Dxington Crescent Etobicoke	63	$8,250,000	$130,952	5.3%
321 & 349 Marland Avenue Oshawa	158	$19,750,000	$125,000	5.2%
340 Concession Street Hamilton	35	$2,890,000	$82,560	4.3%
60 Centreville Street Kitchener	29	$3,273,900	$112,893	6.3%
100 Dundas Street East Mississauga	169	$25,750,000	$152,367	NA

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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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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