

APARTMENT DIGEST

Rents in GTA Condo Buildings Soar

Economic Indicators:

Real GDP Growth Q3 2017	1.7%
Toronto Employment Growth Nov 2017	3.8%
Toronto Unemployment Rate Nov 2017	5.9%
Inflation Oct 2017	1.4%
Bank of Canada Overnight Rate Nov 2017	1.0%
Prime Rate Nov 2017	3.2%
5 Year Mortgage Rate Fixed Nov 2017	4.9%

The Greater Toronto Area rental market tightened further in the third quarter as demand continued to outpace supply. Against a backdrop of strong economic and population growth, as well as softening homeownership demand in the aftermath of the government's fair housing plan and two consecutive interest rates increases by the Bank of Canada, total condo rental supply was insufficient with listings growing by only 2% year-over-year.

This led to a drop in the average time on market to its lowest level ever at 10 days, and 10% annual growth in average index rents to \$2.98 psf. Rents have risen by 8.4% over the last six months alone. In the period since Urbanation began tracking the condo rental market in Q1-2010, rents have now increased by nearly \$1.00 psf.

The failure of rental supply to experience growth over the past two years has been a key contributor to the current rental market situation. Despite a small recovery this year, condo rental listings have remained 6% below 2015 levels, pushing up the ratio of leases-to-listings in the year-to-date period to its highest on record at 84%. When CMHC releases its

vacancy survey data for October 2017, the rate will assuredly be lower than 1.0% reported for condo apartments a year ago.

Certainly, lower turnover of units is partly to blame, as existing tenants are remaining in their units longer due to quickly escalating rents in the open market, which is now further encouraged through the extension of rent control to units built after 1991. But it's also the case that we quite simply haven't been building enough units. In recent years, rent growth has proven to have a very strong (negative) correlation with condo completions.

As the annual level of registrations exceeded 20,000 units during the 2014 and 2015 period, rents received some reprieve, with average monthly costs actually declining a bit, also a function of declining unit sizes (per sf rent remained flat during the period). With registrations subsequently falling below 18,000 units last year and remaining below 19,000 units in the latest 12 month period, rents have increased by a cumulative two-year total of \$361, rising \$229 in the last 12 months as the increase in demand far outweighed the marginal increase in supply.

As the GTA market heads into the last few months of 2017, the average monthly rent level stood at \$2,216, which is still about \$150 less than all-in carrying costs associated with purchasing the average priced resale unit of an equivalent size with a 20% down payment and including condo fees and taxes. Nonetheless, high rent levels are pushing demand towards smaller units that have lower monthly costs. The problem is that rental availability has declined the most for the smallest units, leading to intense competition among renters for units priced under \$2,000.

Due to fewer listings, lease activity in the third quarter fell 11% for one bedroom units without dens, which are typically in the 500-599 sf range and were rented for \$1,839 in Q3-17 — 12% or nearly \$200 higher than last year. Reports of bidding wars were common for these units, as 42% of rentals were leased for at least \$25 over asking rent in Q3-17, up from a 28% share a year ago.

Source: Urbanation

Purpose Built Rental Rate Trends in the GTA

Average index rents in purpose-built rental projects in the GTA increased 8% year-over-year to \$2.64 psf, based on 52 surveyed projects. Excluding projects that began occupying over the past 12 months, average index rents increased by 7% over the past year to \$2.63 psf. Average index rents in newly completed purpose-built rental buildings (buildings completed within the past 12 months) were \$2.77 psf.

Average index rents for purpose-built projects surveyed in the 416 region (City of Toronto) were up 6% year-over-year to \$2.98 psf in Q3-2017, just below the \$3.00 psf threshold. Same sample rents increased at a slightly faster annual rate of 7% to \$3.03 psf. In the 905 region, average index rents for purpose-built units increased by 14% to \$2.00 psf. Excluding the two projects in the 905 completed over the past 12 months (212 Davis Apartments and 100 Bond East), both of which recorded average index rents over \$2.50 psf, same sample rents in the 905 region increased by 8% year-over-year to \$1.89 psf.

By municipality, average index rents in the former City of Toronto increased to \$3.13 psf, a 6% increase from a year ago (\$2.96 psf). Average index rents ranged on a per project basis from \$2.30 to \$3.79 psf. North York saw index rents rise 10% over the past 12 months to \$2.56 psf, while Etobicoke saw index rents increase by 6% to \$2.50 psf.

Average index rents in North York ranged from \$1.91 to \$3.14 psf, and from \$2.42 to \$2.57 psf in Etobicoke. In the 905 region, Mississauga continued to have the highest average index rents at \$2.41 psf, followed by Durham at \$2.29 psf and Brampton at \$2.01 psf. Average index rents on a per project basis ranged from \$1.40 to \$2.75 psf in the 905. Durham recorded the largest annual increase in average index rents (29%) due to the addition of 100 Bond East, which recorded the highest average index rent (\$2.75 psf) of purpose-built rentals in the 905 region. With the completion of 212 Davis in Newmarket, York Region added its first purpose-built rental building to be tracked through Urbanation's purpose-built rental survey, recording an average index rent of \$2.59 psf.

Supply conditions remained exceptionally tight across newer purpose-built projects in the GTA, with an average vacancy rate of 0.2% in Q3-2017, down from 0.6% in Q3-2016. Excluding projects still in their initial lease-up period, the newer GTA purpose-built rental stock was nearly fully leased with less than 22 units vacant.

There were 19 projects (24 buildings) containing 6,164 units under construction as of Q3-2017, up from 4,998 units within 19 projects (23 buildings) in Q3-2016, and the highest level within the last 12 months.

Source: Urbanation

Purpose-Built Market Overview by Quarter					
Greater Toronto Area					
Quarter	Q3-2016	Q4-2016	Q1-2017	Q2-2017	Q3-2017
Rental Market - Built Since 2005					
Buildings	46	49	51	51	52
Total Units	8,293	8,484	9,059	9,059	9,284
Avg. Size SF	779	778	773	773	773
Avg. Rent PSF	\$2.45	\$2.49	\$2.52	\$2.67	\$2.64
Availability Rate	1.7%	1.6%	1.9%	1.1%	0.9%
Vacancy Rate	0.6%	0.6%	0.5%	0.1%	0.2%
Projects Completed					
Projects Completed	4	3	2	0	1
Total Units Completed	686	191	576	0	225
Projects Under Construction					
Projects U/C	19	16	17	18	19
Total Units Started	0	0	733	564	843
Total Units U/C*	4,998	4,807	4,964	5,528	6,146
Proposed Developments					
Projects Proposed	64	84	92	100	102
New Units Proposed	976	6,888	2,453	1,570	1,875
Total Units Proposed*	20,226	27,812	29,360	30,439	30,980
Source: Urbanation Inc.					
*May not total due to adjustments made to project specifications.					

Proposed New Rental Buildings in the GTA

Map Ref #	Project	Address	Developer	Storeys	Units
1	100 Broadway Ave	100 Broadway Avenue	Cronwell Management Inc.	34	329
2	100 Wellesley Street E	100 Wellesley Street E	CAPREIT	10	128
3	1130 Queen St E	1130 Queen St E	Sedun + Kanerva Architects Ltd.	4	13
4	230 Oak Street	230 Oak Street	Oak Heights Apartments Inc.	32	330
5	265 Balliol St	265 Balliol St	Park Property Management	29	264
6	30 Merton St	30 Merton St	QuadReal	37	315
7	30 Tippett Road	38 Tippett Rd	Collecdev	8	171
8	3000 Dufferin St	3000 Dufferin St	Finedale Properties Ltd.	23 & 16	511
9	390 Dufferin St	390 Dufferin St	Woodbourne Capital Investments	12, 10 & 9	376
10	41 Garfella Dr	41 Garfella Dr	Ibrans Investments Ltd.	11	80
11	4187 Dundas St W	4187 Dundas St W	Dunpar Homes	8	127
12	55 Erskine	55 Erskine	Frastell Associates Ltd.	12	147
13	75 Broadway	75 Broadway	Timbercreek Asset Management Inc.	40	402
14	877 College Street	877 College Street	College Street Property Inc.	8	95
15	908 St Clair Ave W	908 St Clair Ave W	Main & Main Developments	12	151
16	Bayview Village	2901 Bayview Ave	QuadReal	-	250
17	Regent Park - Block 30	River Street and Shuter	Daniels Corp/ Sun Life Financial	28	371
18	Scrivener Court	5 Scrivener Court	Diamondcorp/ Tricon Capital	26 & 8	182
19	The Kip District - Rental	5365 Dundas St W	Concert Properties	20	223
20	The Royale Apartments	368 Eglinton Ave E	The Howard Property Company	11	96

Source: Urbanation Inc.

RECENT SALES IN THE GTA

Address	Suites	Price MM	Cap Rate	Notes
1848 Jane Street	21	\$3.74	4.1%	Private Buyer
161 Wilson Avenue	56	\$14.0	4.0%	Institutional Buyer
2548 Kipling Avenue	153	\$33.0	NA	Private Corporate Buyer
1053 Don Mills Road	252	\$50.0	NA	Purchased by Developer
24 Forest Manor Road	127	\$35.23	3.5%	Private Corporate Buyer
55 Montclair Avenue	52	\$13.5	NA	Foreign Buyer Private

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