SKYVIEW
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SkyViews

DISTRIBUTION TO OWNERS OF OVER 11,500 APARTMENT BUILDINGS

APARTMENT REPORT

SUMMER 2004

DANNY'S CORNER

Danny Iannuzziello
Broker

In the Summer 2002 issue of SKYVIEWS, I reported that we were experiencing a flurry of activity for that period. Our group sold a record 15 buildings over a 5-month period. That activity prompted us to profile the buyers and sellers active in that marketplace.

We are currently seeing similar trends, selling 14 buildings between December 2003 and June 2004. Profiling the buyers and sellers active at this time, we found the following in our survey. Sellers: 40% are retiring, 16.6% are downsizing- typically those with a long-range goal of retiring thus divesting some of their more problematic buildings or those that feel they've optimized their building to the best of their ability, 13.3% are people getting out of business altogether, not necessarily retiring but requiring money for other personal matters, 13.3% are fed up with being a landlord and are selling for other investment opportunities, 6.6% are estate sales, 6.6% are selling to upgrade to larger buildings and 3.3% are partnership breakups. Compared to our 2002 survey, 57% of sellers were retiring, 5% downsizing, 23% leaving the business, 10% upgrading, and 5% were partnership breakups.

The profile of buyers: 40% are first time buyers and 60% are current owners buying more properties. Of the 60%: 36.6% are family holding companies, 10% are partnerships, 6.6% are private corporations and 6.6% are public corporations.

Continued on page 4

MEASURING DOWNSIDE

By Sany Mandel.

In a previous edition, Winter 2000 of Skyviews, I outlined a method of 'Measuring Upside'. This analytical method was devised to measure what seemed to be an unrestrained upward rent trajectory. The pendulum has swung the other way and a 'rental-supply-shortage' mind-set that developed over twenty-five years is giving way to the realization that the affordability of home ownership and the continuing delivery of investor-purchased condominium units are imposing a degree of equilibrium on the traditional apartment market. In this new market context, three types of rent structures have emerged:

Firstly, many buildings continue to have long-term tenants whose rents remain suppressed by the lingering effects of the previous rent control system. While the Liberal government's intention to repeal vacancy decontrol seems clear, this structure provides the capacity to absorb guideline rent increases to offset increases in operating costs. Depending on the degree, this rent structure may be able to absorb above-guideline-increases. Of course this structure is the most desirable. A recent sale of a rather average 41-suite building in the 416-suburbs with this type of structure reflected a capitalization rate of only 6.7%. A half point premium may apply to buildings outside the GTA.

In an 'at market' rent structure, rents for incoming tenants roughly match those for the existing tenants. While there is no rental growth, or erosion, a building with a flat rent structure is exposed to net income erosion as operating expenses rise. Expected increases in utilities are of particular concern. Recent sales of buildings in Toronto with this type of rent structure have reflected cap rates in the low to mid-7% range. Once again, a half point premium may apply to buildings outside the GTA.

Many landlords were adept at managing buildings under the soon to be repealed *Tenant Protection Act*. In addition to rent gains achieved under vacancy decontrol, above-guideline-increases were achieved under the operating expense and capital recovery provisions of the Act. While their rent trajectory was impressive through the late 1990s and into 2002, these buildings are now exposed erosion as the rents for incoming tenants fall below rents for existing tenants.

The question is: How do you determine which type of structure a building has? As an appraiser, I have devised the 'Internal Comparison' tool for profiling rent structures. It compares the total monthly rent to rent levels that have been achieved on recent apartment turnovers.

To illustrate this point, take three identical, 1960's walk-up 'brick boxes' that are found in clusters in may established neighbourhoods. Each building has 10 1-bedroom and 10 2-bedroom suites. Buildings A, B and C have total monthly rents of $16,500, $18,000 and $19,000 respectively. In the past six months, several one and 2-bedroom suites have been rented at $850 and $950 respectively. If all tenants turned over at these 'market' rates, the total monthly rent would be $18,000. On this basis, building A has upside of about 9%, building B is 'at market' while the rent structure at building C is exposed to erosion by about 5%.

Continued on page 4

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AVAILABLE IN TORONTO

82 Suite Apartment Building

- Asking $5,690,000
  $69,390/suite
- Building requires repositioning in the market, currently experiencing vacancies
- Fire Retrofit Complete
- www.skyviewrealty.com for additional pictures
- 42 x One bedroom
  34 x Two bedrooms
  6 x Three bedrooms
- 15% Downpayment
- 19.0% R.O.I., 7.0% CAP Rate
- Attractive financing (see agent for details)
- Room to build 1 additional apartment

AVAILABLE IN TORONTO (ETOBICOKE)

52 Suite Apartment Building

- Asking $4,000,000
- Excellent building, excellent location
- Rents below market
- Fully occupied
- Great upside potential
- Visit www.skyviewrealty.com for additional pictures.
- 17 x One bedroom
  22 x Two bedrooms
- 15% Downpayment, 18.3% R.O.I.
- Same owner since 1965
- Owner is retiring, Excellent tenant profile
- Treat mortgages as clear
- Many upgrades in past 5 years

AVAILABLE IN HAMILTON

8 Maisonettes

- Asking $639,000
- Fully occupied
- Easy to maintain
- Fire retrofit complete
- Tenants pay own hydro
- Visit www.skyviewrealty.com for additional pictures
- 4 x Two bedrooms
  4 x Three bedrooms
  All with basements
- 15% Downpayment, 23.6% R.O.I.
- Vendor to consider VTB mortgage to sell
- Can be purchased as part of package with other buildings

AVAILABLE IN TORONTO

12-plex

- Asking $960,000
  $80,000/Suite
- Many capital upgrades
- Fire Retrofit Complete
- Large storage areas in basement
- Additional pictures, visit www.skyviewrealty.com
- 3 x Bachelors
  9 x One bedroom
- Rents below market
- Tenants pay own hydro, fully occupied
- 15% Downpayment, 18.7% R.O.I.
- Treat mortgages as clear
- Vendor take back to sell

AVAILABLE HAMILTON MOUNTAIN

Legal 13- plex

- Asking $855,000
- Fully Occupied, Well kept
- Potential for 1 additional apt.
- New thermo windows
- Tenants pay own hydro
- Visit www.skyviewrealty.com for additional pictures
- 2 x One bedroom
  10 x Two bedrooms
  1 x Three Bedrooms
- 15% Downpayment, 9.0% CAP Rate
- 28.5% Return on Investment
- VTB mortgage to Sell
- Can be purchased as part of package with other buildings

AVAILABLE IN BARRIE

Legal 9-plex

- Asking $550,000
- Fully occupied
- Extremely large lot
- Individual hydro meters (owner pays)
- Fire Retrofit complete
- Visit www.skyviewrealty.com for additional pictures
- 4 x One bedroom
  2 x One bedroom plus den
  3 x Two bedrooms
- 15% Downpayment, 21.2% R.O.I.
- Treat mortgages as clear
- VTB Mortgage to sell

For these and other buildings we have for sale please call (416) 444-6545 • Fax (416) 444-6997

SKYVIEW
REALTY LTD.

REALTOR®

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PROPERTIES FOR SALE INTENDED FOR PRINCIPALS ONLY

Visit us at www.skyviewrealty.com

AVAILABLE IN HAMILTON
34 Suites (Two Buildings)

- Asking $2,275,000
- Located Hamilton mountain
- Well maintained
- Good tenant profile
- Fire Retrofit Complete
- Visit www.skyviewrealty.com for additional pictures
- 34 x Two bedrooms
- 15% Downpayment
- 8% CAP Rate, 22.1% R.O.I.
- Tenants pay own hydro
- VTB mortgage to sell
- Can be purchased as part of package with other buildings

FOR SALE HAMILTON MOUNTAIN
22 Unit Apartment Building

- Asking $1,315,000
- Well maintained, Fully occupied
- All units have gas stoves
- New thermo windows at front of building
- Visit www.skyviewrealty.com for additional pictures
- 21 x Two bedrooms
  1 x Three bedrooms
- 15% Downpayment
- 8.1% CAP Rate, 22.7% R.O.I.
- VTB mortgage to sell
- Can be purchased as part of package with other buidings

15 MINUTES SOUTH OF BARRIE
10-Plex plus 7 Townhomes

- Asking $1,150,000
  $67,647/Suite
- Extremely large lot, potential for 3 homes or additional townhomes
- Townhome tenants pay all utilities
- New furnaces in all townhomes
- View additional pictures at www.skyviewrealty.com
- Located in Cookstown
- 4 x One bedroom
  5 x Two bedrooms
  1 x Three bedrooms
  7 x 2 bedroom townhomes
- 15% Downpayment, 22.2% R.O.I.
- Treat mortgages as clear
- VTB mortgage to sell

AVAILABLE IN TORONTO
16 Residential + 3 Commercial

- Asking $1,700,000
- Tenants pay own hydro
- Building is well kept
- Some upgrades required
- One commercial tenant is laundro-mat with lease expiring 2011
- One unit non-conforming
- 7 x Bachelors
  7 x One bedroom
  2 x Two bedrooms
  3 x Stores
- 15% Downpayment,
- 23.8% R.O.I., 8.1% CAP Rate
- Treat mortgages as clear, VTB to sell

LOCATED IN DOWNTOWN HAMILTON
14 Unit Apartment Building

- Asking $499,000
- Very well kept, fully occupied
- Rents significantly below market
- Owners have not been giving annual rent increases
- Visit www.skyviewrealty.com for additional pictures
- 13 x bachelor
  1 x One Bedroom
- 16.9% R.O.I.
- Fire Retrofit complete
- Treat mortgages as clear
- Seller to consider VTB to sell

AVAILABLE IN WHITBY
25 Suite Apartment Building

- Asking $2,100,000
- Exceptionally maintained
- Outstanding tenant profile
- No vacancies in over 10 years
- Rents below market
- Large lot
- No children/no dogs
- Visit www.skyviewrealty.com for additional pictures
- 1 x Bachelor
  4 x One bedroom
  20 x Two bedroom
- 15% Downpayment, 21.6% R.O.I.
- Same owner 20 years
- 6 x 1200 sq. Ft. Units
- Treat mortgages as clear
- VTB mortgage to sell

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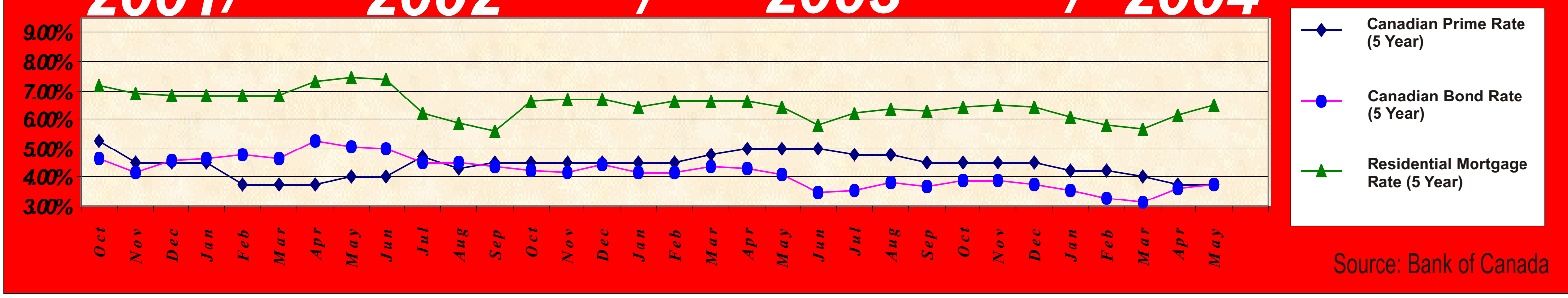

DANNY'S CORNER CONTINUED...

Since 2002 we've seen a slight decline in foreign investors, and a significant increase in people purchasing outside the Greater Toronto Area. In the summer of 2002 we saw 28% of the buyers were caught by early 1990's recession and were reentering the market again. That figure has now dropped to 8.5%. Of the total number people buying buildings today 60% of them have entered the market since the last recession of the early 1990's. Our survey profiles people in the market and not necessarily the number of apartment units that they represent.

We're seeing an increase in overall number of sales, indicating that people are unafraid of current market conditions impacting our industry. People are still buying because of the low interest rates and loss of confidence in the stock market. Other issues impacting the marketplace today - increased vacancy rates, announcement that the annual rent increase guidelines are decreasing, the potential impact to the proposed changes to the tenant protection act, and the decline in values especially in the GTA - are not impacting buyers long-range benefits of investing in multi unit residential properties.

Overall, my long term forecast for multi residential investment properties in the golden horseshoe is one of growth. Look for a decline in condominium units coming on the market, a slight decrease in vacancy rates over the next few years, a slight increase in interest rates, changes to the tenant protection act, and a greater increase in values outside the GTA.

One noticeable change in the past 15-18 months are building evaluations. We no longer cluster buildings in a general area and apply rental rates, vacancy rates etc. Evaluations today are becoming more and more building specific. We look at markets within markets, all rental rates within a building to determine if there is upside or potential erosion given the current market conditions. Buildings today are evaluated on their own specific merits and not necessarily how the neighbouring property performs. Properly evaluating buildings is still our strength, although far more complex.

As a result of the tenant protection Act in 1998 there was a potential upside factor to apartment buildings and at the time I asked my good friend Sandy Mandel who is not only a master at his work, but a well respected individual in appraising multi unit residential properties. At the time we worked on a formula to determine how much people were paying for upside. The market has now shifted in the other direction, and again I call upon Sandy Mandel for his foresight on measuring downside. ■

Measuring Downside Cont'd...

These scenarios are more pronounced in the GTA where rental growth has been sharp in the past several years. The rental growth curve has not been as steep outside the GTA as such; the exposure to erosion is typically less. While these points set out a general valuation context, the parameters of value will be specific to each building.

This 'Internal Comparison' presents the ability to profile a building and determine the degree to which upside, or erosion exposure exists in the rent structure. ■

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