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APARTMENT REPORT WINTER 2004

DANNY'S CORNER



Danny Iannuzziello
Broker

Welcome to 2004 where the climate in the apartment building marketplace is changing and the change is not to the benefit of apartment building owners.

Although there is still a tremendous amount of money in the marketplace

waiting for the right investment opportunity and the low interest rates are still fueling the fire we are noticing that the attitude amongst investors is to be somewhat more cautious.

CMHC recently released their 2003 vacancy rates, where increase in vacancies is seen in virtually every area of the golden horseshoe. Based on our experience some building vacancies in Metro Toronto may in fact be higher than that reported by CMHC. Although the cap rates have not changed, the higher vacancy rates are measuring a decline in values especially in Metro Toronto and Mississauga. We are not experiencing the same decline in other outlining areas.

Another change that will have impact is the new Liberal government that may be on the brink of amending the Tenant Protection Act especially as we reported in earlier newsletters with Vacancy de-control. The most significant impact of this change is where rents will be controlled after landlords have had to reduce their rents in order to obtain new tenants. Other proposed changes to the TPA may also have a negative and financial impact on landlords.

Other events changing the marketplace include: hydro planning on lifting the cap on hydro rates means significant increases in hydro costs. The Privacy Act is also changing effective January 1, 2004 that gives greater protection to the tenants personal information gathered on rental applications.

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SUPERINTENDENT FRAUD: IS IT HAPPENING TO YOU?

By STEVE MUXLOW
Aviva Insurance Company of Canada

This is perhaps an unfair question to ask given that this type of crime is committed without your knowledge. However, there may be some of you reading this article that have already been stung by superintendent fraud and have vowed to never let it happen again. For those of you that are now wondering if some of your apartments are being rented without your knowledge and/or you are paying for fictitious expenses, there are steps to reduce the risk and cost of superintendent fraud. However, taking those steps really depends on you.

The first step is to acknowledge that fraud is an intentional crime and does not occur by random chance. Given this, you do have a degree of control in reducing and/or preventing fraud. This control arises only after you have identified the parts of your business that may be susceptible to fraud and then taking action. After all, the successful dishonest superintendents will misuse his/her authority to exploit the weaknesses in your business.

Realizing that prospective superintendents will not include criminal activities on their resumes, it is not easy to be sure that the person you have hired will commit fraud or not. However, at the time you are considering someone to work for you, it may be a valuable investment of your time and money to carefully check the background of the individual. Certainly obtaining reference checks from past employers is a good start but you may also want to consider obtaining criminal and credit reports to get a fuller understanding of the individual's background and potentially save you from the future grief of fraud.

Once you have hired someone as your superintendent, the next step is to recognize some of the common motivations behind employee fraud and how it might be concealed. While there are a variety of reasons why an employee will commit fraud, there are three common ones that may motivate your superintendent: (1) supporting an affluent lifestyle, (2) supporting an addiction (drugs, alcohol, gambling) and (3) relief from significant financial debt. Behind each of these reasons, it may not be very hard to identify some of the visible behaviours that a superintendent may

exhibit, such as driving expensive cars, constantly talking about his/her high stakes betting, and receiving calls from angry creditors at work.

Should you become aware of similar situations, you might ask yourself two questions: Is the superintendent able to afford the lifestyle, addiction or debt given his/her salary or wages? Does the superintendent have access/control to the employer's assets? If the answers are 'yes' to both questions, you may want to consider reviewing the superintendent's work activities to identify any questionable discrepancies.

Concealing fraud from you usually requires a certain degree of effort on the part of the superintendent. To ensure that others do not discover the theft a dishonest superintendent may not take his/her annual vacation, may routinely 'misplace' important paperwork, or responsibility that is further backed up with false promises to improve.

Property owners should exercise a degree of caution by investigating all of the facts first and not leap to any conclusions. Just because your superintendent's actions or behaviour raises a 'red flag' to you does not necessarily mean that fraud was committed. It is possible that the superintendent may be able to afford these activities through alternative and legitimate means, such as family wealth or recent inheritance.

While assessing the individual is important, you should also focus your attention on your business and how it operates. Specifically, you may want to consider identifying the areas of your business that are most vulnerable.

For example, a building owner that operates on a cash basis with little or no record keeping may be more susceptible to superintendent fraud than another building owner having rigorous reporting requirements for cash transactions.

To identify the areas of opportunity, a property owner may find it useful to evaluate its business from the perspective of a potential dishonest superintendent.

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AVAILABLE IN TORONTO 130 Suite Apartment Building

- Asking \$8,900,000
- 69,154/Suite
- 15% Downpayment
- 8.1% CAP on asking
- Building Very Well Maintained
- Built in 1969
- Many Capital Upgrades
- Vendor Motivated to Sell
- 34 x One Bedroom
- 74 x Two Bedrooms
- 22 x Three Bedrooms
- Close to all amenities
- Pleasant resident manager
- Existing 1st Mtg. \$5,000,000 with ability to increase
- CMHC Insured



AVAILABLE IN DUNDAS 24 Unit Apartment Building

- Asking \$1,480,000
- Exceptional Building
- Fully Occupied
- Excellent Tenant Profile
- Predominately Seniors
- Pleasant Resident Manager
- Built in 1965
- 8 x One Bedroom
- 16 x Two Bedrooms
- 15% Downpayment
- 20.3% Return on Investment
- Treat Mortgages as Clear
- VTB Mortgage to Sell



NORTH OF LONDON 36 Unit Apartment Building

- Asking \$1,090,000
- Fully Occupied
- Good Tenant Profile
- Small Community, North of London
- Located in Hensall Ontario
- 1 x Bachelor
- 14 x One Bedroom
- 18 x Two Bedrooms
- 3 x Three Bedrooms
- 15% Downpayment
- 36.5% R.O.I.



AVAILABLE IN BRAMPTON 14 Unit Apartment Building

- Asking \$1,200,000
- Building in Very Good Condition
- Tenants Pay Own Hydro
- Building Fully Occupied
- Adult Building, Excellent Tenant Profile
- VTB Mortgage to Sell
- 1 x Bachelor
- 4 x One Bedroom
- 9 x Two Bedrooms
- Structural/Environmental Reports Available
- 15% Downpayment
- 8.2% CAP Rate, 20.7% R.O.I.
- Many dollars spent upgrading



AVAILABLE IN HAMILTON 9 Unit Apartment Building

- Asking \$460,000
- Locate Upper Mountain
- Some Upgrades since 1989
- Fully Occupied
- Good Tenant Profile
- Tenants Pay Own Hydro
- 1 x Bachelor
- 2 x One Bedroom
- 6 x Two Bedrooms
- 15% Downpayment
- 21.5% Return on Investment
- Some Rents Below Market
- Pleasure to Show



WEST OF BARRIE 30 Townhouses

- Asking \$2,100,000
- Well maintained
- Rents Below Market
- Fully Occupied
- Good Tenant Profile
- Tenants Pay Own Utilities
- VTB Mortgage to sell
- Located in Stayner
- 10 Minutes from Wasaga Beach
- 15 Minutes from Collingwood
- All units 2-bedrooms
- No basements
- 15% Downpayment
- 23.3% R.O.I.

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DANNY IANNUZZIELLO

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AVAILABLE IN BRADFORD *Six Luxury Apartments*

- Asking \$675,000
- Quality Building in Prestigious Area of Bradford
- Pleasure to Show
- Tenants Pay Own Hydro
- Rents significantly Below Market
- Visit www.skyviewrealty.com for additional pictures.
- 1 x One Bedroom
- 5 x Two Bedrooms
- Excellent Tenant Profile
- Fully Occupied
- 7% R.O.I.
- Treat Mortgages as Clear
- Low Mortgage Rates Available



AVAILABLE IN TORONTO *26 Unit Apartment Building*

- Asking \$1,750,000
- Extensive Renovations: i.e. Apt Suites, Weeping Tile, Parking Lot, Lighting, Windows, Boiler, Laundry, Hydro Meters, Intercom etc.
- Some Rents Below Market
- Vendor Motivated to Sell
- 5 x Bachelors
- 12 x One Bedrooms
- 9 x Two Bedrooms
- 15% Downpayment
- 26.2% R.O.I.
- Treat Mortgages as clear
- VTB Mortgage to sell
- Tenants Pay Own Hydro



AVAILABLE IN TORONTO *Legal 9-Plex*

- Asking \$819,000
- Cash Required \$125,000
- Victorian Home Converted to 9-Plex (Historical Building)
- Totally Renovated in 1980's
- Some Rents Below Market
- Fully Occupied
- For additional pictures, visit www.skyviewrealty.com
- 3 x One Bedroom
- 5 x Two Bedrooms
- 1 x Three Bedrooms
- Adult Building, Excellent Tenant Profile
- Some long-term tenants, 6-7 Years
- 8.1% CAP Rate, 21.4% R.O.I.
- Treat Mortgages as Clear



AVAILABLE IN TORONTO *14 Unit Apartment Building*

- Asking \$850,000
- Asking \$60,714/Suite
- Located in Parkdale area of Toronto
- Fully Occupied
- Some Rents Below Market
- 10 Outdoor Parking Spaces
- Fire Retrofit Complete
- 14 Bachelor Apartments
- 15% Downpayment
- 9.2% CAP Rate
- 28.7% R.O.I.
- Upgrade to electrical system
- Treat Mortgages as Clear
- VTB Mortgage to Sell



AVAILABLE IN TORONTO *16 Residential + 3 Commercial*

- Asking \$1,700,000
- Tenants Pay Hydro
- Building is Well Kept
- Some Upgrades Required
- One commercial tenant is Laundry Mat with lease expiring 2011
- One Unit Non-Conforming
- Vendor Motivated
- 7 x Bachelors
- 7 x One Bedroom
- 2 x Two Bedrooms
- 3 x Stores
- 15% Downpayment
- 24.5% Return, 8.6% CAP Rate
- Treat Mortgages as Clear
- VTB to Sell



AVAILABLE IN BRANTFORD *34 Unit Apartment Building*

- Asking \$1,450,000
- 15% Downpayment
- 9.3% CAP Rate
- Existing 1st Mortgage 6.9% to January 2007
- Some Rents Below Market
- Located in the heart of Brantford, Close to Casino
- 2 adjoining buildings
- 10 x One Bedroom
- 24 x Two Bedrooms
- Structural, Environmental Reports Available

DANNY'S CORNER

CONTINUED FROM PAGE 1

A landlord must be ever so careful in what is done with the information collected, to whom it is released and what such recipient does with the information.

One of the experiences that I continuously hear about and I know that some landlords are somewhat reluctant to talk about is the significant increase in Superintendent Fraud.

I'm attempting to create some awareness of this problem and have asked Steve Muxlow of Aviva Insurance Company of Canada to contribute an article to us on this subject.

Closer to home, I would like to officially welcome Robert Finlay who has been part of our sales team since September 2003. Robert, a past Canadian Olympian brings many years of Real Estate experience to the Skyview team. I am also very appreciative to our support team of Emily and Michele for making this past year another successful one. ■

SUPERINTENDENT FRAUD

CONTINUED FROM PAGE 1

Some questions that a dishonest superintendent may or may not consciously ask himself/herself are: If I (the superintendent) am responsible and in control for managing a building, what money or assets can be taken? How, when and where can the money or assets be taken? How can the theft be concealed?

Once you have identified the vulnerable aspects of your business, you can then take steps to reduce or eliminate the opportunity to commit fraud. For example, you may randomly, yet regularly, visit your buildings to confirm that vacant apartments are in fact vacant and have not been secretly rented out by the superintendent. Another example is that you could require that all of your business cheques must be signed by two people instead of one, thus a single person is not

in sole control of making payments.

The risk of superintendent fraud can certainly be reduced, however it is difficult to eliminate. Whether it is a single large theft or small numerous thefts over time, a strongly motivated superintendent may try to exploit what little opportunity is available. To offset these potential losses, property owners can purchase insurance, called employee dishonesty coverage, which is available from many Canadian insurance companies. In 2002 and 2001, insured organizations received approximately \$44 million and \$47 million respectively under their employee dishonesty coverage.

To inquire or obtain employee dishonesty coverage and risk management strategies, I recommend that you contact your insurance broker for more information and assistance. ■

Steve Muxlow,
Aviva Insurance Company of Canada
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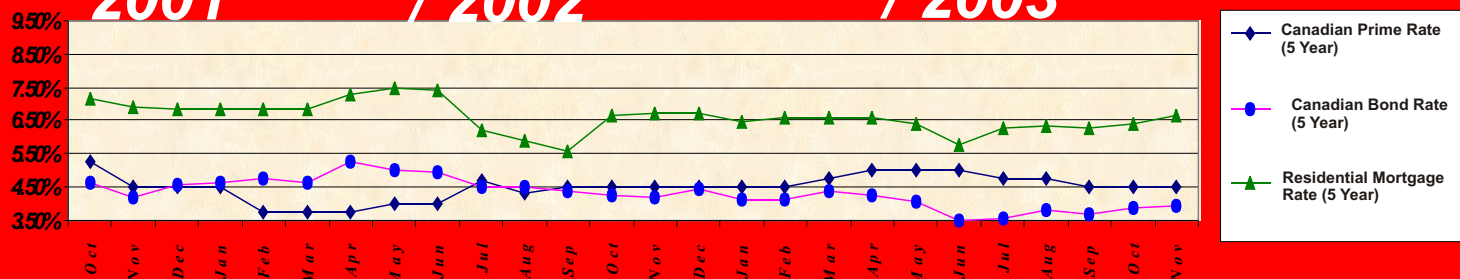
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Watch on Interest Rates...

2001 / 2002 / 2003



VACANCY RATES 2000-2003

FOR APARTMENT BUILDINGS, 6 UNITS AND ABOVE

AREA	VACANCY RATE (%)				AREA	VACANCY RATE (%)				AREA	VACANCY RATE (%)			
	2000	2001	2002	2003		2000	2001	2002	2003		2000	2001	2002	2003
Toronto Central	0.5	0.7	2.1	3.3	Brampton East	0.7	1.1	2.3	**	Hamilton Central	4.5	4.1	2.0	6.8
Toronto East	0.6	0.7	1.8	3.7	Brampton City	0.7	0.9	3.0	2.8	Hamilton West End	0.9	0.6	0.7	2.0
Toronto North	0.4	0.8	2.6	3.6	Oakville	0.4	1.6	2.3	2.5	Hamilton Mountain	1.2	0.7	1.2	1.8
Toronto West	0.9	1.4	2.2	3.7	Richmond Hill, Vaughan, King	0.6	1.0	1.1	0.9	Hamilton City	2.1	1.6	1.9	3.7
Toronto City	0.6	0.9	2.3	3.5	Aurora, Newmarket, Whit-Stouffville	1.3	0.9	1.8	2.0	Stoney Creek City	0.8	1.1	0.6	**
Etobicoke South	0.7	1.4	2.7	3.4	Markham	0.7	0.2	0.9	1.2	Burlington City	0.4	0.3	0.6	0.6
Etobicoke Central	0.9	1.0	2.8	3.6	York Region	1.3	0.7	1.3	1.4	Dundas Town	0.4	0.4	0.8	1.8
Etobicoke North	0.6	0.6	1.8	3.2	Pickering, Ajax, Uxbridge	0.9	0.9	1.5	2.3	Hamilton Other Areas	1.9	0.7	0.9	2.3
Etobicoke City	0.8	1.1	2.6	3.5	Milton, Halton Hills	0.4	0.1	1.5	1.4	Hamilton CMA	1.7	1.3	1.6	3.0
York City	1.0	0.8	2.2	3.6	Orangeville	0.1	1.8	1.6	2.4	Oshawa North	1.6	0.7	1.2	1.8
East York Borough	0.1	1.0	3.4	5.3	Bradford, West Gwillimbury	0.7	1.5	4.0	3.7	Oshawa South/Central	2.1	2.3	3.6	3.1
Scarborough Central	0.3	0.7	2.0	3.8	Remaining CMA	0.5	1.0	2.9	3.4	Oshawa City	1.9	1.7	2.7	2.6
Scarborough North	0.2	0.6	1.8	4.7	Toronto CMA	0.6	0.9	2.5	3.8	Whitby	1.2	0.1	1.3	4.1
Scarborough East	0.4	1.1	2.8	3.9	Barrie	0.5	0.9	1.4	3.3	Clarington	0.8	1.6	1.7	1.7
Scarborough City	0.3	0.8	2.2	4.0	Collingwood	1.3	1.8	2.0	**	Oshawa CMA	1.7	1.3	2.3	2.9
North York Southeast	0.8	0.8	3.7	6.1	Midland	3.9	2.2	3.1	**	St. Catharines Core	2.4	2.4	2.5	3.4
North York Northeast	0.4	0.4	2.0	2.4	Orillia	1.1	2.2	1.5	1.1	St. Catharines Remainder	1.4	0.7	1.9	1.2
North York Southwest	1.2	0.9	1.6	3.7	Brantford City	2.9	1.7	2.1	**	St. Catharines City	1.8	1.4	2.1	2.1
North York Central	0.7	0.5	1.8	2.8	Brantford Twp & Paris	3.1	3.1	**	**	Niagara Falls Core	2.7	2.8	2.8	6.2
North York Northwest	0.9	0.7	2.7	4.3	Brantford CA	2.9	1.8	2.1	3.2	Niagara Falls Remainder	2.0	1.7	2.4	2.2
North York City	0.8	0.7	2.5	4.1	Norfolk	**	3.2	3.1	1.6	Niagara Falls City	2.5	2.4	2.6	4.6
Metropolitan Toronto	0.6	0.9	2.4	3.9	Haldimand	**	1.9	2.0	1.6	Welland	4.2	1.6	2.0	1.8
Mississauga South	0.4	0.8	3.7	5.7	Nanticoke	6.3	**	**	**	Other Areas	3.0	4.2	3.3	2.5
Mississauga North West	0.5	0.9	2.3	2.9	Simcoe	2.4	**	**	**	Fort Erie	5.6	4.2	5.5	5.5
Mississauga North East	0.5	1.4	3.3	3.2	Hamilton Downtown Core	2.4	1.9	1.4	3.7	St Catharines-Niagara CMA	2.6	1.9	2.4	2.7
Mississauga City	0.5	1.1	3.4	4.3	Hamilton Central East	3.4	0.8	3.8	6.6					
Brampton West	0.7	0.8	3.6	4.5	Hamilton East End	0.8	2.0	3.2	3.6					

Source: CMHC

** Data Not Available