

Future Apartment Building Values UP OR DOWN?

No one has a Crystal Ball to accurately estimate the future value of apartment buildings. Few would have predicted the 45% increase in values in the GTA from 1996 to 1999 and the subsequent increase to higher values in 2001. Rents have risen substantially, as demand has exceeded supply in this very tight rental market. Those landlords who have been fortunate enough to have tenants move, have been able to benefit with the ability to increase rents to a market rent. There are some landlords who have had little turn over as their rents are very low – in the \$500 range! These rent increases have been a very large component of increasing building values. The significant drop in interest rates has enabled buyers to pay higher prices as they now can service more debt! Decreasing interest rates from double digits to 6% have played a very big part in increasing value.

However there are new factors that are going to affect landlords in a very big way in the very near future – some are already being factored into new purchases. Gas increases have been substantial over the last two years as can be seen in the table below.

Enbridge Gas – Cents per M ³			
Jan 1999	Jan 2000	Jan 2001	Mar 2001
10.47	12.19	24.44	32.18

GAS HAS TRIPLED!!!

Increases in gas prices have been somewhat offset by the large rent increases that a few owners have achieved. Those owners who have not increased rents more than the guideline are starting to suffer Big Time! As well as a Hydro increase of approximately 8% has been announced effective June 1, 2001. Most landlords have not made an application to The Ontario Housing Tribunal for an increase based on the pass through of cost increases and as a result their net rental income has been decreasing. This of course results in lower property values!

There is an averaging of utility costs and tax increases over a three year period that The Ministry of Housing uses to determine the annual increase guide line. This translates into an increase in utilities and taxes in any one year taking three years to filter into the annual increase guideline. Landlords are faced with a scenario where the future values of apartment building could be negatively affected in a substantial manner!

It is highly recommended that you do make such an application as soon as possible. There will be a

substantial number of applications and as a result a delay in obtaining a hearing decision. Tenants are not obliged to pay more than the guideline increase until the hearing results are published, which may see some tenants never paying the increased rent! Large increases awarded to landlords may be difficult to collect if rents are at or near market or if a landlord has some vacancy.

Landlords who do not take the time, make the effort and incur the expense of making an application(s) will suffer a reduction in the value of their apartment buildings! Need Help—Call Me!

Interest rates are at an all time low. Apartment buildings can now carry bigger mortgages than in the past and this has resulted in the large increase in value. This however will change. Interest rates will be going up in the near future – inflation will return! Utility costs are a big factor in manufacturing costs and have already started to hit manufacturers as indicated in the latest statistics from the US. These costs have to be passed on to the consumer in higher prices. Every business is a consumer of utilities, especially in commercial rents. Many consumers who own their own homes are now finding these increases affecting their lifestyle. These cost increases in every sector of the economy will produce inflation, which will in turn drive up interest rates! When those rates go up building values will drop Quickly!!

Interest rate increases cannot be passed through to tenants! Any significant increase will affect building values substantially!

Apartment building values are probably at their peak! Unless a landlord has very low rents and high turnover the value is not likely to increase!

Many companies are laying off staff. Substantial numbers of people are losing their jobs. They can't pay the same rent. They will move!

As we enter a recession there is the very good possibility that this could result in lower rents as occurred in 1990-91. This would again reduce property values.

If you have even remotely considered selling your holding(s), now is the time to seriously consider doing so, as apartment building values are, in most instances, at there peak!

THE CURRENT MARKET

Over the last three months there has been a slight increase in demand for apartment buildings in the market place. Currently, the market is experiencing a shortage of properties "For Sale", which makes this an ideal time to place your property on the market.

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13 & 1 Comm	Newmarket	26% ROI
32 Suites	Toronto	\$1,900,000
37 Suites	Toronto	\$2,530,000
46 Suites	Guelph	17% ROI
47 Suites	Whitby	21% ROI
48 Suites	Toronto	Top Location

SOME RECENT SALES

106 Guildwood	4 Suites	\$428,000
110 Euclid	17 Suites	\$1,075,000

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Request for Return

Important News for Apartment Building Owners!

Apartment Building Values – Up or Down?, Shortage of Apartment Buildings For Sale

