



Legislation and the Multi-Family Market

By Aik Aliferis, Primecorp Commercial Realty Inc.

Over the last 25 years, we have seen many cycles in the multi-family industry in Ontario. Recently, there has been a significant rise in the demand for multi-family assets. In fact, the desire to acquire properties has been steadily increasing over the past 10 years. This increased demand has made it difficult for investors to acquire new properties. This competitive market has prompted landlords to improve their internal efficiencies, reinvest in their assets and improve levels of service, all while offering the product to tenants at competitive prices. This situation can be attributed to many factors: strong economic growth in Canada; a sustained lower interest rate period, only enhanced by a CMHC insurance program allowing for stronger yields through leveraged investment and refinancing; a strong rental market with generally increasing rents; and, Government policies supporting free market-based pricing.

On the legislative front, current legislation has given landlords the opportunity to improve and upgrade their properties and for developers to be able to build new rental properties with the ability to charge rents that the market can bear. This allows landlords/developers to make economic sense of the entire process. This formula which provided for better living standards at a reasonable rate has resulted in immense growth in the sector altogether.

With these incentives, Institutional, National and International investors flocked to the multi-family sector offering service quality and professionalism in a healthy market. At the September 2004 Apartment Conference in Toronto, Mr. Mitchell Abrahams – former VP of GWL Realty Advisors, in charge of acquisitions of multi-family properties addressed the landlords in the room (about 500 strong). “You should all be commended on what you have done over the past 5 years. You have improved your properties, reinvested in your assets, and, offered a better product and service to tenants, you should all congratulate yourselves”.

The above clearly demonstrates how the multi-family industry has achieved a new level of professionalism. All investor categories have been actively pursuing and investing in multi-family properties. Pension funds, insurance companies, REITs, public entities and large private investors (domestic and International) are all part of the fold and current attractive market attributes must be maintained in order to keep investment of such groups in this sector. Otherwise, investment managers will look to other investment types for their desired returns.

Perceived changes, however, may put this all at risk. Mr. Alf Hendry, CEO of Homestead Land Holdings Ltd. one of the countries largest landlords owning close to 20,000 units says, “the perceived changes to the current TPA only adds another level of uncertainty to the construction process when Government changes the rules and regulations that are currently in effect”. Obviously this uncertainty creates risks which must be considered by investors/developers when making their investment

decisions. Mr. Hendry further says, “But I am happy to see that all three levels of government seem to be working together to create a better situation. The Liberal Government’s intention to inject more funds towards affordable housing projects is very positive”.

“Growth has been strong over the past 5 years especially, but I doubt it will continue” says Mr. Luigi Caparelli, President of the Eastern Ontario Landlord’s Association and currently President of Gold Key Management. “Proposed changes are going to make it difficult for landlords to earn the profits they require. The prices that you need to pay to buy new properties is still rising while your operating costs are all going up, I just do not see the growth continuing”.

Most recently, Ontario landlords have seen revenue levels starting to decline without any government intervention. Mr. Paul Fish of the Altus Group research shows that markets across Canada are experiencing increased vacancy rates. In Ontario, we have seen the availability of rental units increased to approximately 5.96% in Toronto and 8.76% in Ottawa, according to the latest Altus Group and CMHC reports on vacancy and availability.

But what does all this mean?

Shrinking revenue levels, more competition in the market, construction of new condominiums and new homes are being marketed to renters and the fear of pending legislation changes has all made investors more cautious. Mr. Jonathan Krehm a principal of O’Shanter Development Co. Ltd., which owns and manages over 1200 units in the GTA says, “Investors have to be very careful buying properties”.

These sentiments are echoed throughout the multi-family investment community by most investors but



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not by all. International groups such as El-Ad, Fishman Holdings, Lencore Estates and other International investors as well as some domestic investors continue to be very bullish on the Canadian apartment market and continue to acquire assets believing that there are still opportunities in the multi-family sector. They are focused on finding assets which still have strong upside potential and can achieve their desired yields.

Whatever their investment philosophy is about the future, most landlords will agree that legislative changes, if any, should not focus on creating disincentives to landlords but rather should focus on creating incentive programs for all real estate development sectors. Landlords feel this legislation would be better suited to create directives, which would help to solve the more pressing issue of affordable housing. The creation of a system based on a free market economy with incentives to increase

the amount of available affordable housing stock would seem more productive. This could be provided through rent subsidies directly to tenants as well as subsidizing developers to build more housing across the province as indicated by the Liberals current platform.

Tenant advocates would say we need to do more. We must implement legislation to allow for affordable housing. Mr. Bob Dugan, market analyst, writes that the 2001 Census shows that three quarters of a million renters are in the low income category, earning less than \$20,000 per year per family. The housing stock for these types of renters requires product in the \$500 range and less and it is in short supply across the country. So what is the answer?

Most industry professionals agree that we need affordable housing and most landlords would support that there is a need, but the problem must be addressed in a more proactive way.

Current market activity in the multi-family sector is performing very well in a free-market economy offering good product at fair prices. So why would anyone consider changing an excellent working relationship for both landlord and tenant – if it is not broken why fix it?

Mr. Berend Koopmans, President of Lynwill Real Estate Corp., owner and manager of nearly 2000 units all over Ontario says, “the proposed legislation is a lose-lose situation for all”. He adds, “the only thing it seems to encourage is the professional tenant – those who take advantage of and abuse the system and legislation. It does nothing to address the key issues in the industry: affordability and construction of new accommodations. It will result in loss if jobs, poorer quality properties, and will discourage future investment in buildings”.

Should the suggested legislative points be implemented, the overall consensus is that potential investors should be very careful when investing in the multi-family market. Politicians should concentrate on what is needed in the housing industry; construction programs; incentives for builders and landlords alike to create jobs; continued investment; and, an overall healthy economic environment. Keeping both institutional and International investment in the multi-family sector insures that the professionalism that has been achieved will be encouraged to continue. Trusting that the Politicians will do what’s right for all involved and not only be concerned with what will win them more votes. They should concentrate on legislation that works.

What legislation will ultimately be implemented and how it will affect the multi-family industry has yet to be determined.

But time will tell!

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