

The Mysak Report

Dedicated to Apartment Building Sales

Fall 2012

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Ontario Tenants Pushing for Standardized Leases

This fall the Federation of Metro Tenants' Association (FMTA) will roll out its 11-page version of a standardized lease agreement that it wants all landlords in Ontario to use. This standardized lease would lay out the rights and responsibilities of each party as outlined in the Residential Tenancies Act. However, there will be room for negotiating in terms of charges and services provided, such as electricity bills or parking fees.

The FMTA's board is currently working on a promotional campaign for its so called "fair lease", and has begun approaching several MPPs about the concept. The concept of a standardized lease has stemmed from the growing number of phone calls that the FMTA has been receiving on their tenant

hotline. The most commonly reported void clauses in leases are:

- No pets allowed
- Requiring a tenant to pay a damage deposit
- No overnight guests
- Requiring a tenant to get contents insurance
- No subletting

Source: Federation of Metro Tenants' Association

When one of the void clauses appear tenants are told to speak to their landlord or otherwise go directly to the Landlord and Tenant Board to discuss the issue. The Ontario Landlords Association does its best to teach

its members how to properly draft leases. For now this issue is still up for debate as Daryl Chong, president of the Greater Toronto Apartment Association agrees that the Residential Tenancies Act (RTA) already acts as a kind of standardized lease, since landlords must follow it.

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FOR SALE - Hamilton



HAMILTON, 110 Units
Asking \$4,630,000—7.2% Cap Rate

104 Apartments have been renovated in the past 15 years. Great location in a nice neighborhood, walking distance to downtown Hamilton, Hamilton Go station and St. Joseph's Hospital. Bright spacious apartments with hardwood floors throughout. This Gem was built in 1910 and boasts tons of character and charm. Consisting of 32 - Small bachelor units, 22 - Large bachelor units, 24 - Jr. 1 bedroom units. 29 - 1 bedroom units plus 3 Rooms. Phenomenal curb side appeal and very well kept. Large bachelors have a small separate bedroom/Living space and are more like Jr. 1 bedrooms. All tenants, except 1, pay their own hydro. Laundry facilities onsite, Thermal Windows replaced in 1997-1998, 2 new furnaces installed in 2007, Electrical updated in 2004, Roof at 125 Bold St. redone in 2007. Clean Phase 1 Report available on request. Call our office for an Investment Information Sheet and Rent Roll.

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OUR MISSION STATEMENT

We are a powerfully united team dedicated to apartment building sales and passionately committed to helping our clients achieve their real estate goals, by telling them the truth and using our proven non-traditional selling methods.

Do You Need a Financing Strategy?

Most apartment investors automatically select a mortgage option that is based upon the lowest rate available at the time for either a five or ten year term. While this makes intuitive sense, the fact of the matter is that there are frequently other considerations involved in making a prudent decision.

Making the correct decision means identifying the type of apartment property under consideration. There are basically two types of buildings: 1. Buildings that are functioning properly and achieving consistent income. Let's call this type of property a "yield play" because it generates a steady return on investment. 2. Buildings that need upgrades both in terms of physical condition and the rent levels. These properties can be considered turnaround situations or "growth plays". So when is the lowest rate available a wise choice? Fixed rate, long term financing is typically called for when the property is a yield play - operating at a maximum level in terms of revenue, expenses and building condition. This is referred to as "stabilized operations". The majority of apartment acquisitions fall into this category.

However, investors make a common mistake when they choose this option for a property that is not yet stabilized and is, in fact, a growth play. This often occurs in a purchase transaction. On closing, the financing available is determined, in part, by the amount of net income available to service the mortgage loan. In addition to that, funds could be retained by the lender (a "holdback") to address building condition deficiencies. Lenders will not offer aggressive loan amounts for properties that are sub-standard and poorly maintained. Another problem might exist with the level of the rents. Not

all properties are achieving market rents, which can be difficult to achieve if the property is in poor condition.

Many investors seek exactly this sort of opportunity wherein they can acquire a building that needs physical improvements and also offers the prospect of achieving higher rents. Such a property would typically be purchased at a discounted price that reflects these value considerations. Since poor building condition could limit the amount of the loan available, investors dealing with these types of assets might want to consider a strategy that features a two stage financing strategy. This involves obtaining a conventional loan on a short term, floating rate basis that is open for prepayment in full. Such scenarios often feature a second mortgage (i.e. a vendor take-back or private mortgage). The plan here would be to improve the property and rent levels, and then obtain long term, fixed rate financing for a larger amount when the property is stabilized and worth more. A typical timeline for completing this type of project would be 3 to 9 months (the "execution period") on medium sized buildings. This strategy has worked well for investors recently due to continued low interest rates, cap rate compression and upward pressure on rents combined with low vacancy rates.

Another scenario that might call for a two stage strategy might involve adding additional units, converting unused space (i.e. party rooms, utility or storage rooms) to new rental units, achieving income growth via reduced expenses (i.e. reduced utility contracts), new revenue sources (i.e. cellular transmission leases) or the installation of energy efficient equipment. All of these measures add value to a property. Although the overall rates in financing two stage

deals exceed long term rates, the cost is worth it if the result is a larger loan at the end of a comparatively short execution period. Current low interest rates, which are forecast to be available for a while yet, lend support to the strategy. As an example, a client acquired a property about one year ago and applied for a long term, CMHC insured mortgage loan. The loan amount available was much less than anticipated due to building condition and rent levels. The client elected to go with short term financing that is fully open for prepayment without penalty. He proceeded to complete a substantial (and much needed) renovation. The building became more desirable for tenants and rents were increased. The client added value and the loan available now is approximately twice the original amount.

The point here is to demonstrate that financing solutions can be designed to reflect the specific challenges inherent in certain types of properties. The correct option is one determined by building type (yield or growth) and the investor's investment goals.

Dru McAuley is Assistant Vice President, Commercial Lending at First National Financial LP, a leading lender of CMHC insured mortgages on multi-unit properties. First National also provides short term financing on all types of real estate to assist borrowers in executing a two stage financing process as described above. He would be pleased to answer any questions or discuss this article. He can be reached at 416-593-2918 (toll free 1-800-465-0039) or dru.mcauley@firstnational.ca. Contact Dru if you would like to stay current on bond market rates and activity by receiving a brief daily market update via email.

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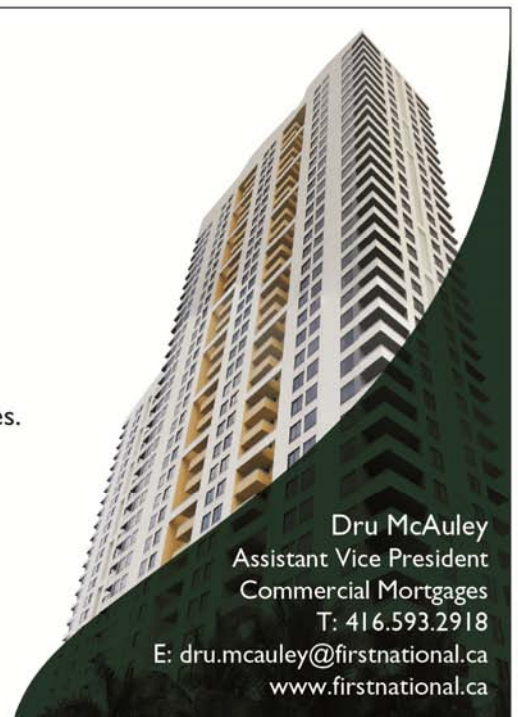
Call Dru at 416.593.2918
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market update via email.

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FOR SALE - Hamilton



HAMILTON, 31 Units
Asking \$2,449,000
 7.3% Cap Rate. 31 unit apartment building In Hamilton Great rental area, Close to Shopping and all amenities. 13 - 1 Bedroom units, and 18 - 2 Bedroom units, this property includes the parking lot behind the building, New Roof In 2006. Tenants pay hydro. Clean Phase 1 Environmental Available. Laundry facilities onsite. Call our office for further information.

FOR SALE - Hamilton



HAMILTON, 12 Units
Asking \$899,000
 7.1% Cap Rate. Well maintained 12 unit apartment building. Located in a good rental area in Hamilton. Close to shopping and all amenities. Consisting of 2 - 1 Bedroom units, 7 - 2 Bedroom units, 3 - 3 Bedroom units. Tenants pay own hydro, water and gas. Majority of plumbing copper and pvc. Laundry facilities onsite. Call our office for an Investment

Information Sheet and Rent Roll or to book an appointment for viewing.

FOR SALE - Kingston



KINGSTON, 11 Units
Asking \$999,900
 Well Kept 11 unit Apartment Building just minutes from Queens University. Consisting of 11- 2 bedroom units. Tenants Pay Hydro, Laundry facilities onsite, fire compliant, parking onsite, 11 storage units in the basement. Large Lot 75' x 166'. Call our office

for an Investment Information Sheet and Rent Roll or to book an appointment for viewing.

FOR SALE - Toronto West



TORONTO, 15 Units
Asking \$1,750,000
 Pride of ownership throughout. Rents are well below market. Consisting of 8 - 1 bedroom units., and 7 - 2 bedroom units. Thousands spent on upgrades including all new mechanicals \$30,000 new roof with a 5 year warranty, new dual furnaces in 2006, \$50,000 spent on restoration of balconies. Call our office for an Investment Information

Sheet and Rent Roll or to book an appointment for viewing.

FOR SALE - Toronto Central



TORONTO, 42 Units
Asking \$4,900,000
 Sold over asking. Pride of ownership through out. Rents are well below market for neighborhood. Excellent location close to street car, shopping and new developments. Consisting of 7 - bachelor units, 23 - 1 bedroom units, and 12 - 2 bedroom units.

Laundry facilities on-site, Thermal Windows, Fire Compliant. Call our office for further information.

FOR SALE - Cobourg



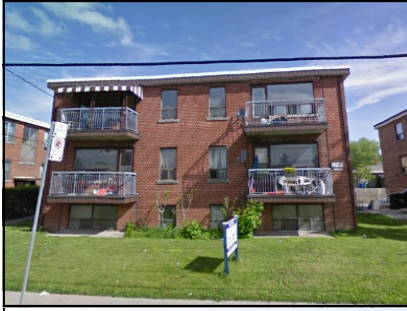
COBOURG, 13 Units
Asking \$1,098,000
 Property known as Hatfield Hall Apartments, one of Cobourg's most historic buildings. Great rental location, close to beach, park and downtown. 4 - 1 bedroom units, and 9 - 2 bedroom units. Excellent tenant profile. Laundry facilities on-site. Fire compliant. Immaculately maintained with many improvements. Call our office for further information.

Call our office for further information.

If we can be of any assistance for your multi-residential needs please do not hesitate to call us!

The 2013 Residential Rent Increase Guideline is 2.5%

FOR SALE - Toronto West



TORONTO, 10 Units
Asking \$1,275,000
 HUGE UPSIDE POTENTIAL, In need of new Management! Great location just minutes from the new Humber River Hospital and close to all amenities with convenient access to TTC bus stops and shopping. 2-1 bedroom units, and 8 - 2 bedroom units. Potential for three extra units. Tenants pay Hydro. Laundry facilities on-site. Ample parking.

FOR SALE - Oshawa



OSHAWA, 18 Units
Asking \$1,599,000
 7.1% Cap. 18 units apartment Building in quiet area of Oshawa. 16 - 2 bedroom units, and 2 - 3 Bedroom units. Parking onsite for 15 cars. Tenants pay Hydro. Upside potential on rents. Laundry Onsite, clean Phase 1 Available.
 Owner willing to hold 2nd Mortgage with minimum 25% down. Call our office for further information.

FOR SALE - Waterloo



WATERLOO, 19 Units
Asking \$869,000
 7% Cap. Rare Opportunity, Legal, Licensed Rooming House with potential to be converted to offices or Sixplex. Excellent downtown location with great exposure to busy intersection and only a 20 Minute bus ride to University of Waterloo. Parking onsite & Fire compliant. Call our office for further information.

FOR SALE - Hamilton



HAMILTON, 16 Units
Asking \$699,000
 6.7% Cap Rate. Well maintained building with great character and charm. Good rental area, great tenant profile. Built in the early 1920's consisting of 3 - bachelor units & 13 - 1 bedroom units. Tenants Pay Hydro, Laundry Facilities onsite, Clean Phase 1 environmental report available. Call our office for further information.

SOLD in Summer 2012

43 Glenhaven St., Toronto	11	11 Units @ \$106,818/unit	\$1,175,000
104 Sherman Ave. S., Hamilton	16	16 Units @ \$43,125/unit	\$690,000
2440 Queen St. E., Toronto	24	24 Units @ \$122,917/unit	\$2,950,000
124 Tyndall Ave., Toronto	28	28 Units @ \$92,500/unit	\$2,590,000
26 Ormond St. N., Thorold	28	28 Units @ \$62,500/unit	\$1,750,000
197 Vaughan Rd., Toronto	42	42 Units @ \$121,428/unit	\$5,100,000
2641 King St. E., Hamilton	67	67 Units @ \$44,030/unit	\$2,950,000
181 John St. N., Hamilton	191	191 Units @ \$63,848/unit	\$12,195,000

ADVERTISING

For advertising rates or to write an article for our newsletter, please contact our office via e-mail, info@mysakrealty.com

PUBLICATION

Our newsletter is published Quarterly and is mailed to over 16,000 Owners, Managers and Potential Purchasers

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