MYSAK REALTY

MORTGAGE MARKET UPDATE:

Five Things to be Aware of in 2015

As we enter another year in an interesting investment field – apartment buildings – it is timely to consider the key factors that could impact investors in 2015.

INTEREST RATES: Oh yes, the subject that never goes away is still with us. One year ago, most market observers predicted that rates would increase by about 100 basis points by year end when, in fact, they declined about 100 basis points. The same narrative prevails now: most commentators predict that rates should rise by about 100 basis points by the end of 2015. However, there is a body of dissenting thought that affirms they will remain at current levels and could even decline. In any event, the forecast is for rates to remain low which can only benefit borrowers in the current market. Investors should monitor rates regularly. Contact me at 416 593 2918 or at dru.mcauley@firstnational.ca if you would like to stay current on interest rate activity by receiving a daily market update via email.

HIGHER CMHC PREMIUM BEING CHARGED TO LENDERS:
CMHC recently confirmed the long expected increase in charges to lenders – not borrowers— which will result in a slight increase in rates charged by lenders that securitize CMHC insured mortgage loans. Since lending is a low margin business, there isn't room for lenders to absorb these charges. They will be passed on to borrowers.

WHERE ARE THE DEALS: In the current market, all purchases seem expensive – even the ones of inferior quality. So investors will continue to find deals where there are obvious ways to reduce expenses and increase revenues. Continued focus on operational efficiency will be key for all owners.

ENERGY EFFICIENCY: There is a growing commitment by owners to reduce energy expenses that seems to be "win-win" for all concerned. Less energy is consumed, buildings are upgraded to modern standards and the owner receives an immediate boost to cash flow and value. If you haven't undertaken an energy review, just look at your energy expense of about 5 years ago and compare with today's expense level. The increase is remarkable.

The sooner an owner addresses this, the better for building operations. There are programs in place that can assist owners with this. This trend is only going to gather more steam in the future.

THE MARKET: Valuations are lofty at current levels and low rates certainly play a part here. But don't forget the basic proposition: Is there rental demand? The answer is yes. The GTA and southern Ontario still benefit from net immigration. Most new arrivals are part of the rental pool and new units are not being built in sufficient numbers to meet demand. Existing rental buildings should continue to benefit from an expanding population.

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 or conventional financing in virtually all segments of the real estate market. 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.