BOSLEY REAL ESTATE

Don Mulholland's
Real Estate Newsletter for
The Lower West End of Toronto

Winter 2013

Commercial & Investment Real Estate Report

Cap Rates & Investment Real Estate

One of my tasks when working for a Buyer is to compare a number of properties and to help determine the best investment. The Capitalization Rate, known in the industry as the Cap Rate is the quick and simple method of establishing value. It's used to compare the income investment properties can generate and is expressed as a percentage. It relates the value of an income producing property to its Net Operating Income (NOI). The NOI is derived by calculating the gross income generated by the property minus operating expenses and before debt service (mortgage). The NOI divided by the purchase price is the capitalization rate (i.e. $50,000.00 NOI/ $1,000,000 Purchase Price = 5%. Cap Rate).

Since many things are NOT factored in to the decision process when evaluating properties on Cap Rate alone, it's not a very accurate measure of a properties worth. For instance location and condition of the property, possible escalation of rental income or "upside", and "after tax" and "cash on cash" returns are not taken in to consideration when determining value by Cap Rate.

Varying 'Cash on Cash' returns or 'return on investment' is a great example of how Cap Rates alone can be deceiving when analyzing investment properties because it doesn't take in to account the cost of borrowing. A Residential investment property with 2 units may qualify for an interest rate on a 5 year mortgage as low as 3%. A Commercial storefront with an apartment above will be difficult to finance at an interest rate much less than 5%. Given our previous example of $50,000 NOI on a $1,000,000 Purchase Price, the interest rate differential will result in a 'Cash on Cash' almost double for a Residential property than a Commercial property. A Buyer may therefore be willing to pay a significantly lower market Cap Rate, which translates to a higher price for a Residential investment.

The example at the end of this article demonstrates how a commercial and residential property, both purchased at $1,000,000 and with a 5% cap rate can have significantly different returns on investment. Residential investment properties look better in this scenario but the example below is just illustrating a snap-shot in time and doesn't factor in other influences that come into play over the holding period of an investment.

Other factors can make storefronts just as attractive as long term investments: The increase in rental values for retail, which have been averaging well over 5% a year are not controlled by legislation and have far out-paced the allowable increases for residential apartments which, this year, are limited to 2.5%. In addition, residential tenants generally take more time and money to manage and Tenant's generally turn-over at a higher rate. I also believe that commercial retail will remain a strong and safe investment sector in the Lower West End as residential density increases in the area driven by the extrodinary amount of multi-unit condominiums in the area currently under development which will be occupied within the next couple of years.

	Commercial Investment <u>Property</u> 5% mtge interest	**Residential Investment <u>Property</u>** 3% mtge interest
Purchase Price:	$1,000,000	$1,000,000
1st Mortgage (75%):	$750,000	$750,000
<u>Closing Costs</u>		
downpayment (25%):	$250,000	$250,000
Land transfer Tax:	$26,200	$32,200
Misc. Closing Costs:	<u>$7,000</u>	<u>$7,000</u>
Total Cash on Closing:	$283,200	$289,200
Annual Net Income based on 5% cap rate:	$50,000	$50,000
Annual Debt Service:	<u>$52,344</u>	<u>$42,588</u>
Cash Flow:	-$2,344	$7,412
Average yearly principle recapture:	**<u>$17,238.60</u>**	**<u>$21,788.20</u>**
Average yearly return from cash flow and principle recapture:	**$14,894.60**	**$29,200.20**
Cash on Cash return prior to any capital appreciation:	**5.3%**	**10.1%**

This scenerio is based on a 5 year hold & 25 year amortization period and does not include any projections for increases in property values.

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Don Mulholland's Recent Transactions:

120 Carlton St. #416
Asking Price: $239,000
- 1,062 office condo, 1 car pkg.
- Open Concept w/ kitchenette.
- Cheaper than leasing!!

1528 Queen St. W.
Asking Price: $1,300,000
- N/E Corner at Fuller.
- Approx. 4,000 sf above grade.
- $67,000 Net Income.

294 Danforth Ave.
Sold Price: $970,000
- Sold at a 5.4% Cap Rate.
- National Tenant on Main Floor.
- 1,800 sf above grade, A1 shape.

1006-1008 Bloor St. W.
Sold Price: $2,100,000
- N/W Corner at Westmoreland
- 470 seat theatre & restaurant
- 8,000 sf bldg., 48' x 123' lot.

If you would like to receive immediate notification of my listings and receive future newsletters electronically, please send me your email address.

Thinking of Selling...?

The market couldn't be better! Interest rates are low and demand is high - who know how long it's going to last...!?

Give me a call to arrange a free, no-obligation, evaluation of your property.

Lower West End of Toronto - Market Report

The final sales numbers are in for 2012 and it shows that last year was another busy year. Most major arteries in the area experience double digit annual percentage increases. The information below is just an indication of market activity and does not show other important information used to establish value such as existing and potential income, location and condition of building.

Please contact me for a more in depth analysis of sales in your immediate area.

Street	Year	# of sales	Average Sale Price	Average $ psf (bldg.)
Queen St. W.	2009	7	$2,266,143	$289.21
	2010	9	$1,448,667	$430.44
	2011	17	$1,210,441	$440.86
	2012	9	$1,461,667	$491.33
College St.	2009	7	$1,142,864	$293.08
	2010	7	$1,575,857	$345.14
	2011	10	$2,098,739	$312.67
	2012	4	$1,600,000	$399.53

Street	Year	# of Sales	Average Sale Price	Average $ psf (bldg.)
Dundas St. W.	2009	2	$875,000	$218.77
	2010	11	$888,591	$225.81
	2011	6	$888,796	$282.59
	2012	5	$637,800	$400.36
Bloor St. W.	2009	8	$729,000	$216.56
	2010	8	$935,750	$264.57
	2011	11	$1,260,909	$290.90
	2012	14	$1,051,108	293.79

The chart above represents sales reported on MLS® by the Toronto Real Estate Board between Spadina and Keele. My spring issue will report on Retail Lease Rates. Sales prices vary by block. Many factors effect property values such as location, size, configuration, use, taxes, operating expenses and the condition of the property. Please call me for the latest information relevant to the pricing of your property.