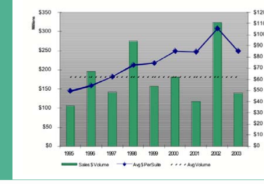
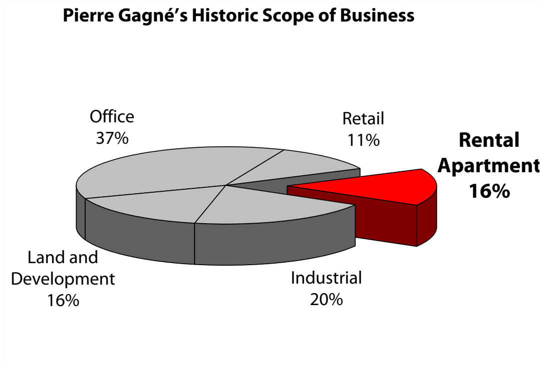
P.G. GAGNÉ
COMMERCIAL REAL ESTATE CORP.

Greater Toronto Real Estate Report

Asset Focus: Apartment

September 20, 2004 Volume #10.10





The corporate branding exercise that we commissioned earlier this year for P.G. Gagné Commercial Real Estate Corp. revealed that different clients have a different understanding of the scope of business covered by the firm. We are clearly identified as GTA experts advising and assisting in the sale of mid-market assets of $5 to $25 million. Many clients however associate our asset class mainly along the lines of their own scope of business. P.G. Gagné Commercial Real Estate Corp. covers all main asset classes.

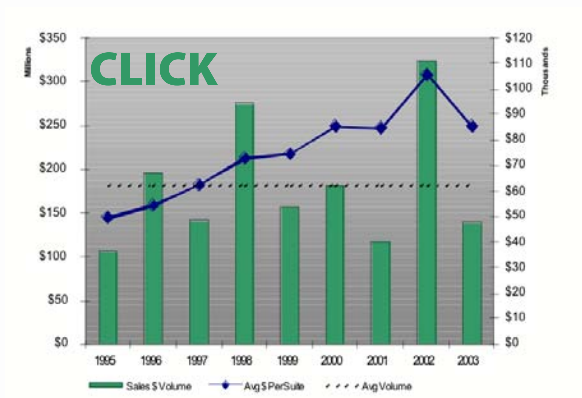
This week's newsletter addresses the apartment sector.

Recent Sales in the GTA

100 Rowena Drive, 3, 7 and 11 Welsford Gardens - a property improved with 30 townhome units and one 11 storey building containing 248 apartment units. Located south of Ellesmere Road, west of Victoria Park Avenue in Toronto. Closed June 1, 2004 at $25,500,000 or $91,727 per unit or 6.9% cap rate.

1855 Jane Street – a property improved with a 17 storey apartment building containing 194 units and a day care centre. Located on the east side of Jane Street, north side of Queen's Drive in Toronto. Closed July 30, 2004 at $13,975,000 or $71,667 per unit.

Figure #1
Multi Unit Residential Greater than 100 Suites
Sales $ Volume vs. Average Price per Suite
905 Area



Rental Apartment Investment Sector – What will year-end 2004 show us?

The rental apartment investment sector has witnessed phenomenal capital appreciation since 1995. The basic fundamental of rising income was compounded by declining cap rates, a testimony to the general appeal of this asset class.

For the full report click on the graph.

Related Links

Fair Rental Policy Organization (FRPO)
FRPO is the only province wide association for apartment owners and managers. www.frpo.org

Rough standing stone,
A stream meandering,
Delight without end
- Muso Sokeki

Life Lessons at P.G. Gagné Commercial Real Estate Corp. – Lesson #8

"Just like the empty space in a Japanese garden, the time in which nothing happens has both a purpose and a meaning."

The space or Ma: There is openness in everything and nothing exists alone. All objects interact with one another in space. In fact, the space of the garden only exists because there is a larger space outside of it. Where is the space in the composition? Why? How does the composition breathe?

Visit http://users.browser.net/markham/Garden.htm for more information on the art of Japanese gardening.

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Figure #2 - Sales $ Volume vs. Average Price per Suite
Multi Unit Residential Greater than 100 Suites
416 Area

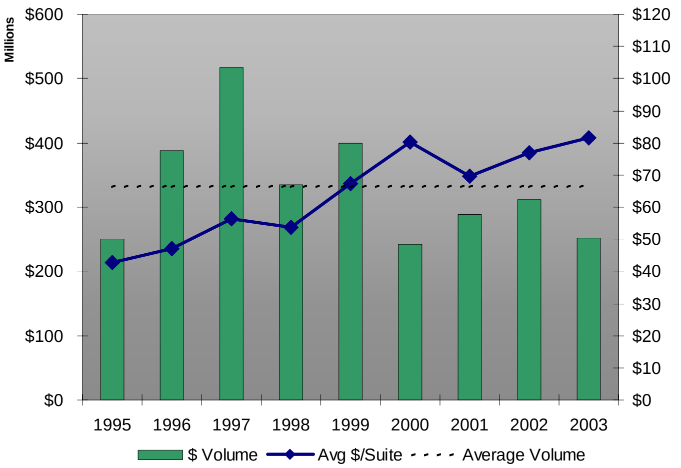


Figure #3 - Average Cap Rate vs. Average Price per Suite
Multi Unit Residential Greater than 100 Suites
905 Area

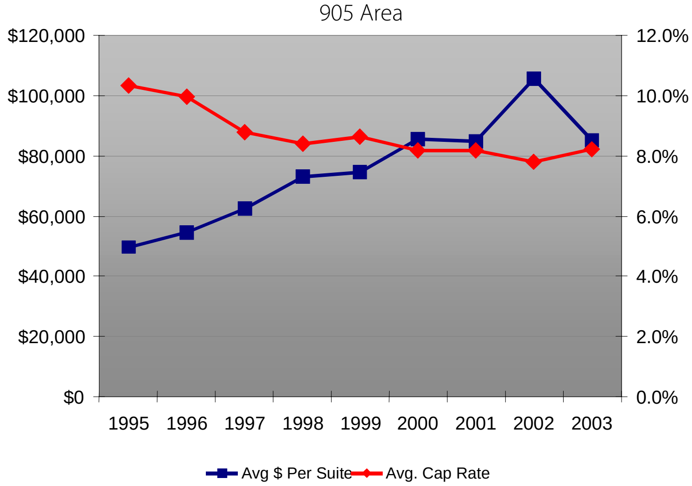
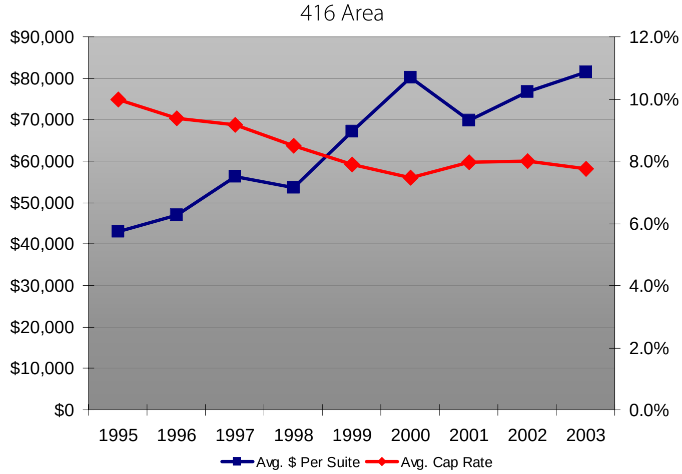


Figure #4 - Average Cap Rate vs. Average Price per Suite
Multi Unit Residential Greater than 100 Suites
416 Area



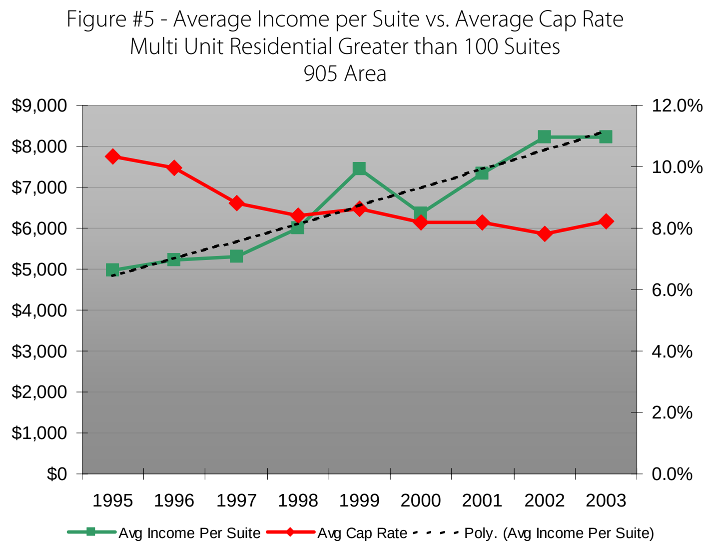
Rental Apartment Investment Sector – What will year end 2004 show us?

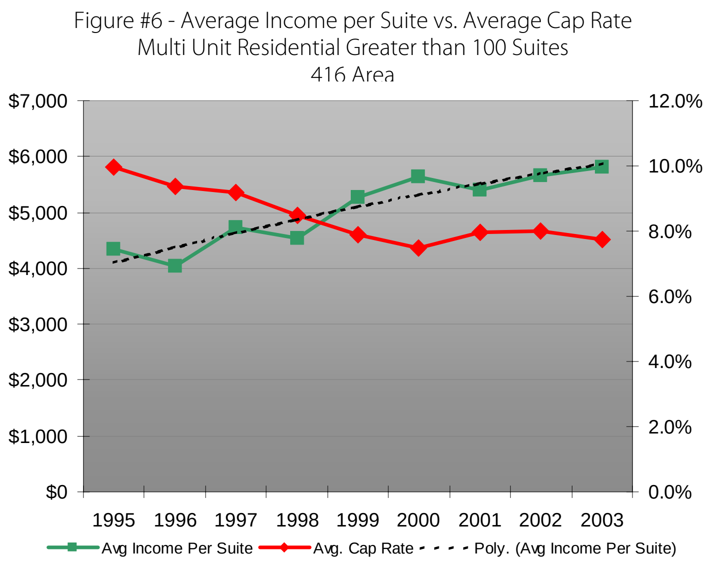
The rental apartment investment sector has witnessed phenomenal capital appreciation since 1995. The basic fundamental of rising income was compounded by declining cap rates, a testimony to the general appeal of this asset class. For example, a total of 1,265 units located at 65-71-75-79 Thorncliffe Park Drive in East York sold for $28,261 per suite in October 1995. A subtotal of 934 units located at 71-75 and 79 Thorncliffe Park Drive sold again in February 2004 for $64,240 per suite. The capital appreciation for the 100 month period excluding cash flow returns and capital expenditure is an average of 15% per year for more than 8 consecutive years (…you do the math for the total IRR leveraged return!).

Values of sales fluctuated year to year with average volumes of $182 million in the 905 area and $331 million in the 416 area (see figures #1 and #2).

Average prices per suite have steadily increased from a low of $49,841 in 1995 in the 905 area and of $42,912 in the 416 area to highs of $105,640 and $81,576 respectively by 2002 in the 905 area and 2003 in the 416 area (see figures #3 and #4).

Declining average cap rates have contributed to the capital appreciation of rental apartment investment sector with 1995 rates at the 10% level steadily declining to 8% (see figures #3 and #4). The universe of sold 100+ suite properties since 1995 segregated along the 905 and 416 areas for tax base differentiation also shows that average income per suite has risen as well from 1995 (see figures #5 and #6). The large year-to-year increase and large year-to-year decrease in some instances are the cumulative effect of the rent control deregulation and lower quality of asset sold respectively. The database of sold properties is not necessarily a reflection of the actual universe of apartment rental holdings. As such, while sold sampling reflects certain trends in the sector, it is also highly selective. For example, figure #6 shows a sharp decline in income per suite in the 905 area in 2000. The sharp decline is a likely a reflection of second tier assets being sold in a strong market as evidenced by the continuing decline trend in cap rates. This is not necessarily a reflection of lower income per suite in the entire sector.





What Lies Ahead?

What lies ahead for the end of 2004 and beyond in the GTA apartment sector will be impacted by the forthcoming rent control revision as promised by the Liberal government. In addition, the offsetting impact of interest rates will continue to make investors wonder about the net result of low interest rates. On one hand, lower interest rates combined with relatively higher rental rates are promoting home ownership and an exodus away from a rental tenure. On the other hand, as per figures #7 and #8 the trend in cap rates is tied in part to the trend in interest rates. As such, lower interest rates affect the income fundamental negatively but promote better leveraged returns and capital appreciation.

The leveraged returns required by investors in the future will be a function of capital growth expectation and demand for the asset class. Figures #7 and #8 show the inter-relationship between NHA mortgage rates, cap rates and cash on cash returns. 2000 was the turning point where higher equity returns began to be demanded in this sector.

Stay Tuned!

P.G. GAGNÉ COMMERCIAL REAL ESTATE CORP. will release the 2004 final figures early in 2005.