RENTALS

Sour economy spurs sweet success

Intensification, rent control changes and shortage of stock give rise to new projects

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JENNIFER ROBERTS PHOTO FOR THE TORONTO STAR
Gerd Wengler is property manager of 100 Spadina Rd. and the Annex Terraces (in background) which is currently under construction. Rents at the project will range from $1,100 a month to $2,500.

It's hard to imagine a more challenging time for business and markets than the past half year. With consumers running for cover and the international banking system imploding, what were developers and builders to do?

If you were Brian McCauley, executive vice-president of Vancouver-based Concert Properties, you were negotiating a deal with Diamante Development Corp. worth close to $20 million to acquire a condo site with approvals in place at Bay and Dundas Sts. His company will build the 26-storey, 448-unit project as a high-end rental.

"From a global perspective, Toronto is still a very strong marketplace in spite of the current softening that we've all experienced across Canada," McCauley comments.

It also must be encouraging that Toronto's apartment vacancy rate is at a seven-year low of 2 per cent, according to Canada Mortgage and Housing Corp. data, while vacancy rates for the subcategory of rented condos, representing newer apartment stock with substantially higher rents, is a microscopic 0.4 per cent, with rents almost 50 per cent higher than those in aging rental buildings.

"We have such a strong focus on rentals — because we want to build long-term income," says McCauley, of the Vancouver-based company, which is owned by 19 Canadian pension funds. "That was really the motivation for us buying the site at Dundas and Bay because it's zoned, ready to go and an exceptional location for a new residential project. We're quite prepared to move forward with this on a rental basis."

Although Concert has recently built 1,150 rental units in Toronto, has 1,300 others in the planning stages and 250 condo units approved but not yet under construction, it took a global financial crisis for the company to win the prime Bay St. site.

Diamante co-president Julie Di Lorenzo admitted the property would have been worth 40 per cent more a year earlier, but with new economic realities, she and her international partners, who had owned the site for almost two decades, decided to move on.

"In my mind, because of the product on the market, the (condo) project wouldn't be viable for five years," she said. "It was a pure business play."

Concert isn't alone in stepping up to the plate to build rentals in Toronto now.

For years, new rental projects have been scarce, in part because of fierce competition for land from condo developers, who can afford to pay more and still retain profitability.

But the city's greater receptivity to intensification and infill projects, Ontario's 1997 changes to rent control, allowing landlords to reset rents at market value for new tenancies, and a shortage of new apartments are all factors putting a little sheen back on rental project viability. Some large apartment owners have started exploiting land around their older buildings for development potential.

Take Homestead Land Holdings Ltd., for example. The Kingston-based company, owner and operator of more than 22,000 apartments, is building a 155-suite rental at Mount Pleasant Rd. and Erskine Ave., where it has three older rental towers and acquired a former gas station property to augment the site.

"We couldn't have made the rental building work if we had had to compete with a condo purchaser," says company CEO Alf Hendry, of the property. The project, Homestead's first new construction venture in Toronto, will be positioned as a high-end rental, "the only market you can build to where you can make any economic sense."

Park Property Management president Gerd Wengler, an engineer by trade, is enthusiastic about his company's first new rental construction project in four decades on property surrounding 100 Spadina Rd., a 1960s apartment designed by whimsical architect Uno Prii.

"We felt that there's not much new rental that's come on the market for many, many years because it's prohibitively expensive," says Wengler, whose company owns about 7,800 units and has grown through acquisition. "We had the land for free, that's the only way it works."

He says rents at the project, Annex Terraces, will range from $1,100 a month for a 500-square-foot junior one-bedroom to $2,500 for a 1,200-square-foot penthouse.

"We wanted to position ourselves much better than the existing rental stock in Toronto, but a little below the condominium for rent," says Wengler.

For example, while condo apartments have ensuite washers and dryers, his project will have shared laundry facilities on each floor, not just one in the basement, although penthouses will have their own.

Medallion Corp., another rental owner and developer, was one of the first to start building apartments again. Six years ago, it completed the nine-storey Marquee in the West Queen West triangle, before the neighbourhood became a trendy target for condo development.

"The numbers worked out because we already owned the land," says Rad Vucecevich, director of development and construction for Medallion Developments Inc.

Vucecevich says the Marquee, with rents from just under $1,000 for small one-bedrooms to $1,500 for two-bedrooms, is a success.

The company hopes to start construction this fall on another 297-unit rental building in the same area.

Medallion also plans to revitalize retail space and add a new rental tower to its residential-commercial complex on Sherbourne St. in St. James Town, where new condo development is transforming the neighbourhood.

There's no question that the condo industry has had an impact on these new apartment buildings. The architects tend to be a who's who of condo design: Quadrangle, Core, Page + Steele. And the new rental stock is competing with the thousands of investor-bought condos that are on the rental market.

Mind you, apartment projects have their own parameters. For example, Core Architects is working on a 13- or 14-floor project — Adelaide Residences — on Adelaide St. near Bathurst for Brooklyn-based Boymelgreen Developers. Core, which has already designed seven condos in the area, was hired to make the new project fit in.

"This thing is a rental," says Charles Gane, a principal of the firm. "So you have to pack in a lot more than you would in a condo. We normally, in this size, probably would have only 350 to 400 condo suites, but you might have 600 rental suites to keep them in that sweet spot for marketing." (Gane says the project will be built, rented and then sold to a buyer, such as a pension fund.)

Taking a cue from the neighbourhood, the interiors will be more loft-like than usual for rental projects, with expanses of glass, balconies, concrete ceilings and exposed ductwork — "things condo people are used to." Unlike condos, however, the ceilings will be eight-foot.

The proposed building will have unusual massing, with a dramatic pass-through connecting Adelaide St. W. to a laneway at the back.

"Condominium buildings have raised standards overall," says architect Sol Wassermuhl, Page + Steele's president.

Despite new projects, rental construction in the city is scarce. Last year, for example, CMHC reported 1,400 rental apartment completions in the GTA, barely enough to replace units withdrawn from the market or converted to condos.