MARKET REPORT

Multifamily

Toronto Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

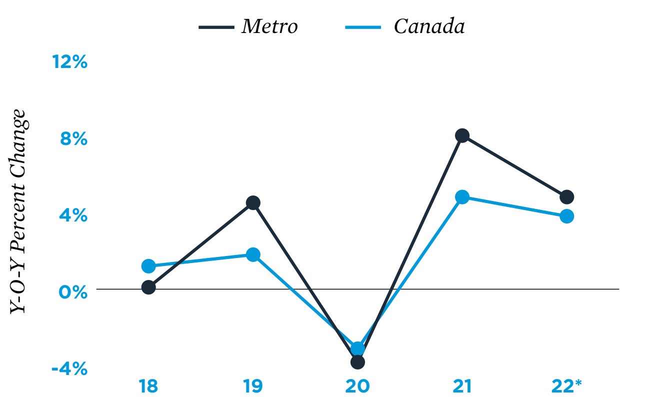
3Q/22

Rising Interest Rates Push Households to Rental Market; Population Growth Favours Apartments

Rent returns to pre-pandemic growth rate. After setbacks from the omicron variant in the first quarter of 2022, restrictions have almost completely been lifted in the GTA. The combination of retail openings and the beginning of return-to-office bodes well for the multifamily market. Additionally, with the Bank of Canada continuing its fight against inflation, the rising interest rate environment has further increased demand for apartment rentals as home affordability is becoming even more challenging, with the average benchmark price eclipsing $1.5 million earlier this year. The long-term forecast for the multifamily market is promising, as fundamentals are strengthening. Vacancy is beginning to decrease, and rent growth is estimated to be 5.5 per cent by year-end, numbers similar to the years leading up to the pandemic. For new builds and properties experiencing high turnover, this pace of growth is tied to rising costs, making multifamily a hedge for inflationary pressures and an attractive investment option.

Sizable pipeline overshadowed by sustained demand. With nearly 10,000 units under construction, Toronto leads the way in terms of development activity relative to other Canadian markets. This increase in rental units is justified by the supply-side shortages Toronto is facing, as well as an increase in immigration and job growth. As the second-largest financial center and the third-largest tech hub in North America, higher wage jobs are being created at a blistering pace. Furthermore, Ontario has seen approximately 55,000 people migrate to the province in the first quarter, with that number expected to elevate in the coming years. Expect fundamentals to remain strong in the future as demand is still anticipated to surpass new supply.

Employment Trends



* Forecast

Sources: Statistics Canada; Canada Mortgage and Housing Corporation

Multifamily 2022 Outlook

171,900 JOBS
will be created

EMPLOYMENT:

National unemployment is sitting at a historic low, but Toronto is still above its 2019 level, at 6 per cent as of June. This is a positive sign for Toronto, indicating more slack in the labour market, allowing job growth to remain robust. Toronto's booming tech sector will lead the way in higher-wage job creation.

1,100 UNITS
will be completed

CONSTRUCTION:

With just over 10,000 units currently under construction, there are just north of 1,000 units expected to be completed in 2022. Rising construction costs, material scarcity due to supply chain disruptions, and labour shortages are delaying development timelines.

240 BASIS POINT
decrease in vacancy

VACANCY:

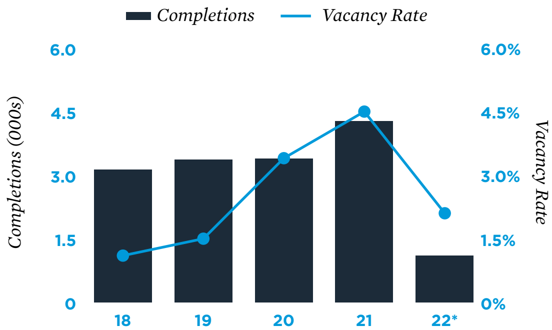
Demand is outpacing supply in Toronto as companies return to the office, retail venues begin to reopen and households face barriers to homeownership. Vacancy is expected to decrease through 2022 to 2.1 per cent.

5.5% INCREASE
in effective rent

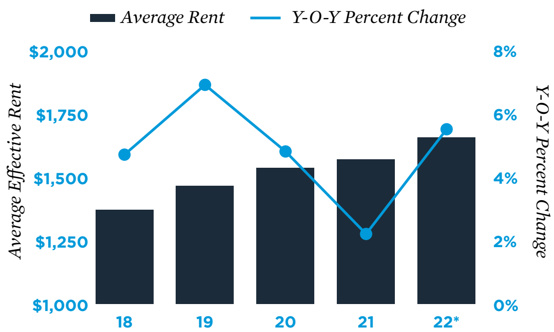
RENT:

Rent growth is expected to return to pre-pandemic levels, reaching approximately $1,656 per month. This is second among Canadian metros and is one of the most expensive markets in North America. A sharp decline in rental availability supports robust rent growth in the near-term future.

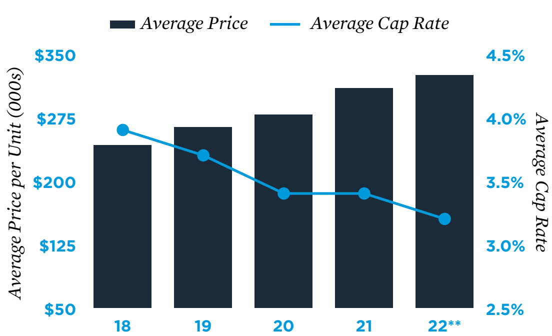
Supply and Demand



Rent Trends



Sales Trends



* Forecast **Through 1Q

Sources: Canada Mortgage and Housing Corporation; Altus Data Solutions

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Price: $250

2021 Overview

CONSTRUCTION

4,282 units completed

- Concerns arose that rising construction costs, material scarcity and labour shortages would slow development, but there were nearly 1,500 more rentals delivered in 2021 than the trailing five-year average.
- The most notable downtown development that started construction in 2021 was Pinnacle Towers, a three-tower waterfront project by Pinnacle.

VACANCY

110 basis point increase in vacancy Y-O-Y

- The health crisis hit the Toronto apartment market harder than most in 2021 as people left downtown cores for larger units and more outdoor space, increasing the metro's vacancy rate to 4.5 per cent.
- The largest vacancy increases were seen in 1-bedroom and studio apartments, as household formation among young adults slowed.

RENT

2.2% increase in the average effective rent Y-O-Y

- Rent growth in the market was the slowest since 2009, with the 2021 year-end average effective rent ticking up slightly to $1,570 per month.
- Even though rates grew at this pace, Toronto still remained the most expensive rental market in Canada, slightly edging out Vancouver.

Investment Highlights

- Sales volumes remained strong in the first half of 2022, with $885 million sold in the first quarter, an increase of 40 per cent year-over-year, and $831 million sold in the second quarter. Over 50 per cent of transactions closed in 2022 have been by local private investors acquiring smaller-sized properties in the $1 million to $10 million range.
- Etobicoke led the way with $330 million transacted in the first quarter, followed by Toronto proper with $290 million, and North York and Brampton both with just under $100 million. Etobicoke, North York and Brampton are attractive areas for investors as people left the downtown core for larger and greener rentals that still offer sufficient public transit options to access urban amenities. These markets also have great highway access, allowing residents to venture out of the immediate area on weekends and enjoy the scenic outdoor areas surrounding the metro.
- With the commencement of the new Ontario subway line running through Toronto's financial district and as far east as the north Scarborough/Toronto border, investment potential is strong in the area. The new line will garner population growth and provide public transit options for more affordable neighborhoods, allowing people greater access to downtown.