MARKET REPORT

Multifamily

Toronto Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

A DIVISION OF MARCUS & MILLICHAP, BROKERAGE

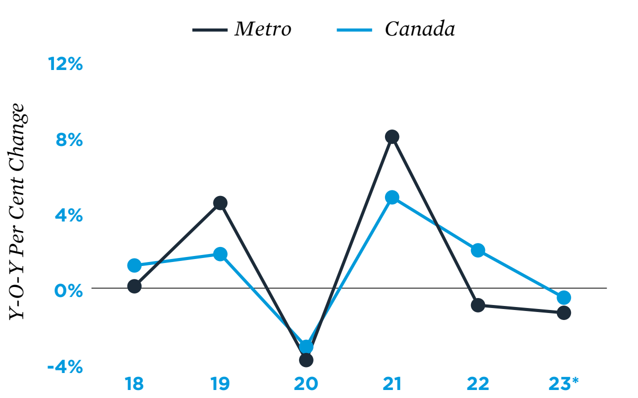
1Q/23

Strong Demand Diminishes Availability; Outlook Unabated by Increase in Construction

Vacancy realigns with pre-pandemic levels. Demand for apartments soared in 2022 due to a rise in immigration, a continued return to office, and redirected housing needs from the single-family market amid high homeownership costs. The GTA's multifamily vacancy rate, as a result, dropped significantly in 2022 to a level more consistent with its pre-pandemic trend. The Pickering and Ajax submarket approached near-full occupancy, with the vacancy rate reaching 0.5 per cent. Parts of Etobicoke and North York also recorded ultra-low availability of 0.9 per cent. Being the top destination for new immigrants entering Canada, the metro will see another surge in new settlers this year as the federal government is on track to admit a record number of permanent residents. Local employment, however, will likely soften due to a slowing economy caused by elevated interest rates — especially toward the latter part of 2023. The rise in immigration will therefore provide the backbone for the metro's apartment demand.

Elevated borrowing costs and short supply to send rents higher. After the Bank of Canada's most recent announcement, it now expects to hold the overnight rate at its current level while assessing the impact of its cumulative hikes. Potential home buyers, as a result, will continue to face elevated debt service costs, which will continue to shift housing demand to the multifamily market. Additionally, despite a notable uptick in apartment deliveries expected in 2023, the pace of development still lags behind the metro's population growth, which is primarily driven by rising immigration. These factors will likely continue to push rents higher amid another year of falling vacancy.

Employment Trends



* Forecast

Sources: Altus Data Solutions; CoStar Group, Inc.; CMHC; Statistics Canada

Multifamily 2023 Outlook

45,000 JOBS *will be lost*

EMPLOYMENT:

Following last year's tech sector layoffs and hiring freezes, the full effect of the BoC's interest rate hikes will likely be felt across additional industries in 2023. Total employment is projected to record a 1.3 per cent drop, causing a slight uptick in the unemployment rate.

6,060 UNITS *will be completed*

CONSTRUCTION:

Of the 13,500 units under construction as of the end of 2022, roughly 45 per cent are expected for delivery in 2023. This represents a 75 per cent increase from 2022, which is fueled by delayed completions of projects that started construction during the pandemic.

40 BASIS POINT *decrease in vacancy*

VACANCY:

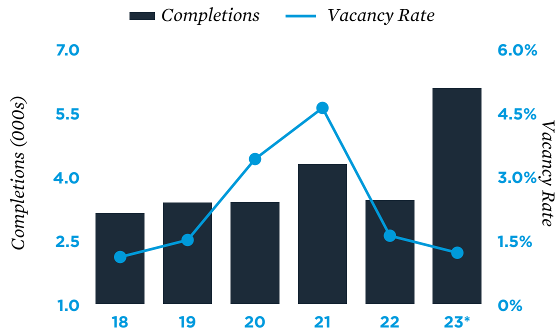
Following a significant drop in 2022, the vacancy rate will continue to trend down but register a smaller decrease. The uptick in supply and softer demand from a slowing economy will cause year-end availability to reach 1.2 per cent.

6.1% INCREASE *in effective rent*

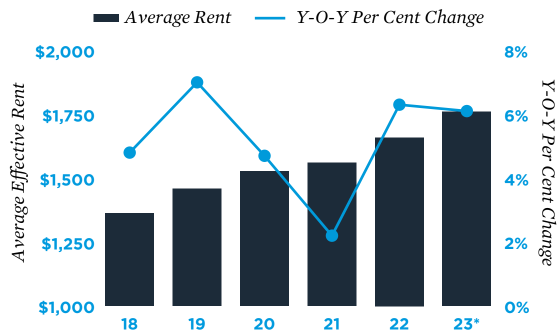
RENT:

Healthy rental demand will continue to put upward pressure on the average effective rent. Several premium projects, including The Well and Mirvish Village, will also aid in rent growth. As a result, the average rent will rise above $1,750 per month, which is a 20 per cent increase when compared to the 2019 level.

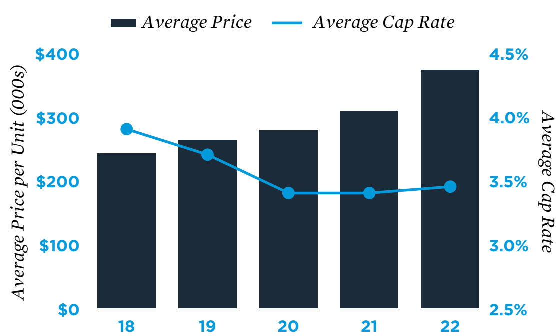
Supply and Demand



Rent Trends



Sales Trends



** Forecast*

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IPA Multifamily

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Price: $250

2022 Overview

CONSTRUCTION

3,450 units completed

- Construction activity fell from its peak seen in 2021 to a level that is consistent with its pre-pandemic trend. Over two-thirds of the new projects were completed in the second half of 2022.
- Approximately 40 per cent of the deliveries, or roughly 1,500 units, were in Central and North Toronto, followed by 640 units in West Brampton.

VACANCY

300 basis point decrease in vacancy Y-O-Y

- An increase in immigration and rapidly-rising home purchasing costs bolstered demand for apartment rentals, and caused the metro's multifamily vacancy rate to plummet below 2 per cent.
- The largest availability declines were seen in West Toronto, York and East York, with vacancy falling 690, 410 and 390 basis points, respectively.

RENT

6.3% increase in the average effective rent Y-O-Y

- In 2022, the average effective rent in the metro recorded its highest pace of growth since the onset of the pandemic, rising by $100 per month. This was the largest increase since 1990.
- North Toronto saw the highest rent growth within the GTA. The average monthly rate for a two-bedroom suite in the region jumped by 9.4 per cent.

Investment Highlights

- Sale volumes contracted in 2022 on the heels of rising borrowing costs. The number of transactions dropped to its lowest level since 2017, and total dollar volume transacted fell 24 per cent. These declines were mostly witnessed in York, Oakville and Old Toronto. The largest decrease was recorded in the $10 million to $20 million category, with total dollar volume traded dipping 38 per cent below the previous year's level.
- The average sale price advanced roughly 15 per cent to almost $360,000 per unit in 2022, which was one of the highest growth rates in Canada. Despite this jump in sale price, the average cap rate remained relatively stable throughout the year, likely due to strong rent growth that boosted operating incomes.
- Toronto's long-awaited Eglinton Crosstown LRT is expected to begin operations as early as this summer. This new transit line will shorten cross-town travel time by roughly 60 per cent, and improve livability in the surrounding area as the 13-year construction finally comes to an end. Multiple purpose-built rental developments have already begun, and future investment is likely to occur. Close to 3,000 units are expected for completion over the upcoming three years.