MARKET REPORT

Retail

Toronto Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS
A DIVISION OF MARCUS & MILLICHAP, BROKERAGE

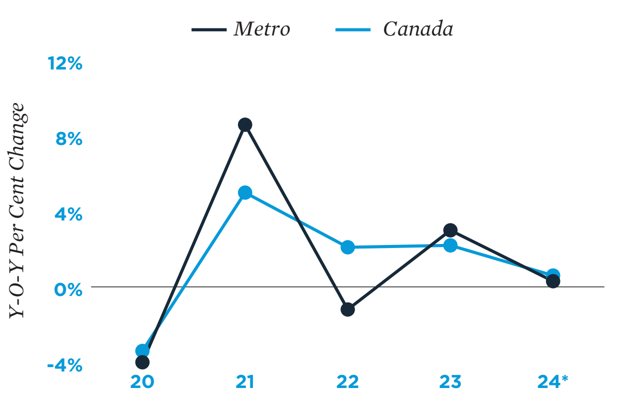
1Q/24

Retail Property Investors Seeking Stability, As Well As Future Redevelopment Potential

Select retail formats outperform. Toronto's population growth continued to hit new highs, expanding 4.1 per cent year-over-year as of January. This increasing consumer base and scant new retail builds caused vacancy rates to largely fall across most retail formats last year. While overall vacancy may inch up slightly amid a slowing economy in 2024, select retail property types are likely to outperform. With rising interest rates eating into household incomes, coupled with Toronto's higher cost of living, consumers are redirecting spending toward necessity-based products. As a result, neighbourhood retail — which tends to house essential tenants like grocery stores — will play an important role in servicing communities seeing strong population growth. New downtown developments like The Well — as well as luxury retail in Yorkville and Yorkdale — are also showing healthy performance. These major retail corridors are more successful in attaining higher rents as they are situated in busy locations and tend to capture a wider range of shoppers.

Malls being targeted for alternative use. Enclosed malls have not seen the post-pandemic recovery like most other retail formats. As of the start of 2024, vacancy rates for enclosed malls in Toronto sat just over 200 basis points higher than the market average, while vacancy prior to the pandemic was lower. With housing affordability becoming a growing concern in the metro amid historic population growth and limited supply, many investors have been targeting these obsolete properties for redevelopment or densification. Most of Toronto's retail development activity is now in the form of mixed-use projects.

Employment Trends



* *Forecast*

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

Retail 2024 Outlook

11,700
JOBS
will be created

EMPLOYMENT:

As Canada's financial centre and a leading technology and innovation hub, Toronto is likely to generate positive job creation over the course of 2024 as borrowing costs are largely set to fall. However, growth is likely to moderate as interest rates will remain in restrictive territory.

1.1 MILLION
SQ. FT.
will be completed

CONSTRUCTION:

Due to rising costs, new supply will fall. Much of the new retail space being delivered is in the form of mixed-use developments and intensification projects amid the need for more housing options, due to growing affordability concerns.

20
BASIS POINT
increase in vacancy

VACANCY:

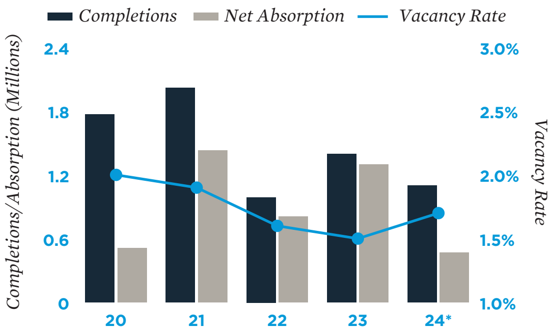
Given limited retail property supply and historic population growth, vacancy will hold near record lows. However, as consumption moderates and the government's pandemic emergency loan program ends in early 2024, vacancy may inch up slightly.

2.1%
INCREASE
in asking rent

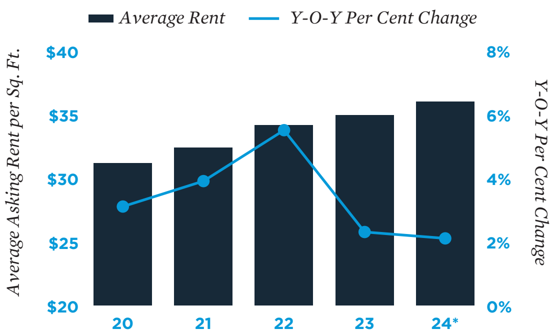
RENT:

The average annual rent growth for all retail formats combined is expected to moderate amid a slowing economy. However, new developments, luxury retail, and essential formats, such as neighbourhood centres, are likely to outperform in 2024.

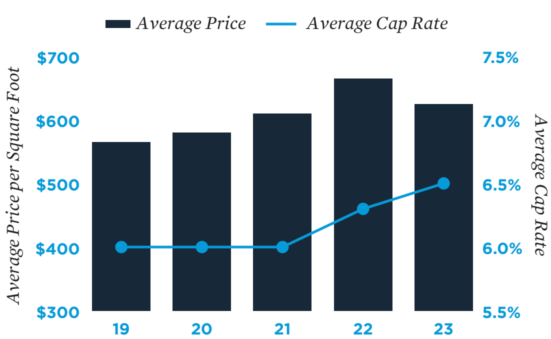
Supply and Demand



Rent Trends



Sales Trends



** Forecast*

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

4Q 2023: Trailing-12-Month Period

CONSTRUCTION

1,400,000 sq. ft. completed

- New supply inched up in 2023 when compared to the prior yearlong period, but remained roughly 40 per cent lower than the metro's 10-year average.
- The increase in new supply last year can largely be attributed to the completion of The Well. Like most new projects, this was a mixed-use development; it was spread across seven office, residential and retail buildings.

VACANCY

10 basis point decrease in vacancy Y-O-Y

- The average vacancy rate inched up slightly over the first half of last year as elevated supply was delivered. However, Toronto's resilient consumer base amid record population growth caused vacancy to fall by year-end.
- Power centres held the lowest vacancy rate to end 2023, while neighbourhood centres saw one of the largest drops of 50 basis points.

RENT

2.3% increase in the average asking rent Y-O-Y

- Annual rent growth slowed when compared to the elevated level seen in 2022, and returned to the metro's long-term average.
- Power and neighbourhood centres saw the strongest year-over-year growth, at 2.4 per cent. These property types tend to house more essential-based retail, which has captured redirected spending amid rising costs.

Investment Highlights

- Total dollar volume sold across all retail formats fell 9.0 per cent annually in 2023. Multi-tenant properties, however, saw dollar volume rise 17 per cent. This increase was mainly driven by a 165 per cent annual increase in the $20 million-plus category. The largest transaction was CentreCourt's purchase of the Pickering Town Centre, with plans to build several residential buildings on the site.
- Many investors continued to seek out neighbourhood and power centres, due to the assets' more stable nature and their ability to be redeveloped or intensified in the future. Some investors are also targeting obsolete malls for repositioning. This includes adding a new luxury wing to attract a broader demographic, adding a more specialized product to create an experiential retail offering, or undergoing a complete redevelopment project in order to add much-needed housing supply to the Toronto market.
- Similar to other property types, the largest purchaser group for retail properties in 2023 was private Canadian investors at a share of roughly 50 per cent. Developers followed at 20 per cent as these market participants are likely looking for redevelopment or densification potential.

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Price: $250