MARKET REPORT

Multifamily

Toronto Metro Area

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

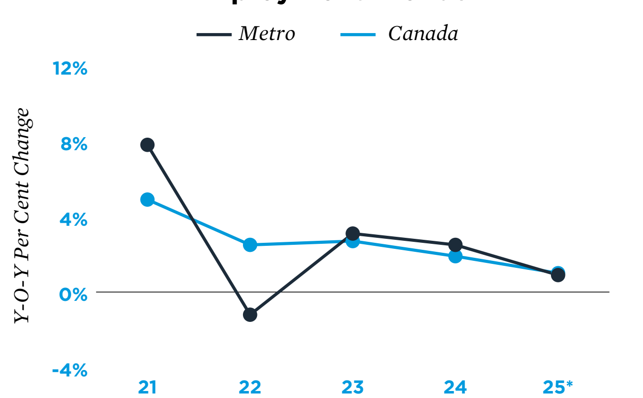
2Q/25

Select Segments Could Show Bifurcation in Performance Amid Uncertainties

Investors to watch urban versus suburban trends. Since 2021, suburban submarkets within the Greater Toronto Area have benefitted from hybrid work, a lower cost of living and historic immigration. During this time, retail spending grew, and space demand for neighbourhood and strip centres increased. In contrast, less foot traffic downtown caused the submarket's vacancy rate to sit above the metrowide rate despite improving over 2024. Looking ahead, limited property supply and recent population gains will likely sustain an optimistic long-term outlook across most regions and formats. A larger manufacturing presence in suburban cities like Oshawa, Brampton and Mississauga could, however, impact retail performance amid looming tariff threats. That said, diversification and more service-related employment downtown that is less export-dependent may mitigate some trade risks, supporting a more stable retail performance.

CRE offers stability in times of market volatility. Toronto has a global reputation, and as Canada's largest and most diversified economy – helped by limited supply-side pressures – the metro offers investors some stability in the face of uncertainties. This is especially true for select retail formats like mixed-use developments and anchored retail. Not only do people need housing and want quick access to shopping, but essential-based property types also continue to capture spending in times of economic headwinds. The retail format is set to hold as a preferred investment option as a result.

Employment Trends



** Forecast*

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

Retail 2025 Outlook

35,000 JOBS *will be created*

EMPLOYMENT:

A diversified economy with a presence in financial and legal services, technology, media, and life sciences could support job gains amid lower interest rates. Exposure to manufacturing poses a material downside risk, however, given the evolving trade landscape.

1.1 MILLION SQ. FT. *will be completed*

CONSTRUCTION:

Deliveries will inch lower in 2025, as rent levels and elevated construction costs hinder project feasibility. Combined with a growing e-commerce network and pandemic disruptions, this will continue the ongoing trend of limited retail property supply growth.

50 BASIS POINT *increase in vacancy*

VACANCY:

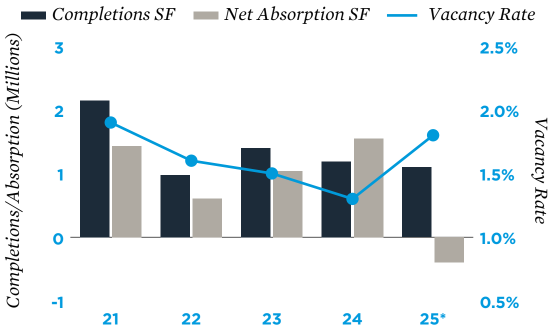
Vacancy is forecast to rise, but hold below 2.0 per cent. Economic uncertainties amid tariff threats, along with tighter immigration curbing population growth, could lead to negative net absorption.

1.0% INCREASE *in asking rent*

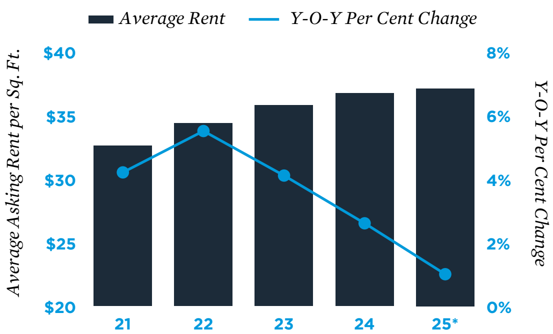
RENT:

Annual rent growth will keep moderating in 2025, as demand dynamics face some uncertainties. Nevertheless, a sub-2.0 per cent vacancy rate and a lack of high-quality space will continue to put upwards pressure on rents, albeit at a slower pace compared with last year.

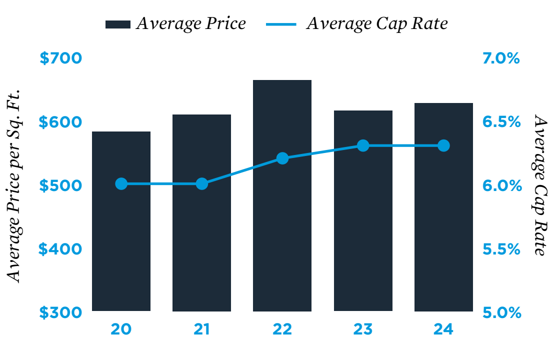
Supply and Demand



Rent Trends



Sales Trends



** Forecast*

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4Q 2024: Trailing 12-Month Period

CONSTRUCTION

1,186,000 sq. ft. completed

- Annual openings have hovered around 1 million square feet for the past three years, nearly 60 per cent below the metro's long-term average.
- Total space under construction was 0.9 per cent of total inventory in 2024, largely aligned with the national average. Suburban areas with lower costs, like Brampton, GTA North and Outlying York, held the largest pipelines.

VACANCY

20 basis point decrease in vacancy Y-O-Y

- Suburban markets in the GTA reported lower vacancy rates than the metro aggregate of 1.3 per cent, benefitting from hybrid work and record immigration. In contrast, the downtown held the highest rate at 2.8 per cent.
- With suburban markets seeing more demand, especially in essential-based retail, neighborhood and strip centres held a sub-1.0 per cent vacancy rate.

RENT

2.6% increase in the average asking rent Y-O-Y

- Annual rent growth outpaced inflation, yet softened for the second consecutive year. Given Yorkdale mall in Toronto North and Yorkville in Midtown, higher-end shopping nodes command the highest rents.
- After peaking in 2022, rent growth eased across all retail formats. In 2024, malls, as well as power and neighbourhood centres, saw the largest gains.

Investment Highlights

- Retail saw the second-largest share of total sales among major commercial property types in 2024 at nearly 40 per cent, highlighting the assets' attractiveness to investors. Meanwhile, the GTA's growing population and diversified economy has maintained Toronto as a preferred market, with the metro holding a 35 per cent share of total sales nationwide. While the retail market remains liquid, acquisitions are hard to find, as healthy fundamentals and future growth prospects have motivated a hold position for many investors.
- On an annual basis, total sales increased 10 per cent year over year, which was completely led by a jump in $1 million to $10 million transactions. With market activity picking up slightly last year, the average sale price experienced some slight upwards pressure. Nevertheless, strong income growth maintained a flat cap rate at around 6.3 per cent.
- Positive investor sentiment is likely to continue, encouraged by limited supply growth, a diversified economy, past population gains, future redevelopment and/or intensification potential, and optimistic growth prospects. Amid trade risks, this is especially true for essential-based, anchored retail, as this format captures a greater share of demand in times of uncertainty.

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