

Greater Toronto Area



Quick Stats

\$699 million

Total GTA multi-residential transaction volume in the third quarter

96,510

Condominium units under construction across the GTA – a record high

\$2,721

Average monthly rental rate for GTA purpose-built rental apartments in the third quarter

3.5%

Average capitalization rate across all GTA multi-residential property types

36

Number of investment sales transactions during the third quarter, down from 60 in the previous quarter

The Greater Toronto Area (GTA) multi-residential investment market has slowed over the course of 2022. Escalating interest rates began to impact the market after mid-year, creating a disconnect between buyers and sellers. There is a good supply of available assets on the market, but the cost and availability of debt and expected returns on equity are impeding many buyers' ability to rise to sellers' pricing expectations. This trend is expected to continue through the fourth quarter as the market waits to see where interest rates normalize. If the geopolitical and economic situation stabilizes as expected in the first half of 2023, the market could start to return to normal levels of activity as stakeholders adjust and find a new balance.

Investment trends

The average price per unit for assets of at least 20 units that traded in the third quarter was \$349,340, higher than the average of \$273,386 one

quarter earlier and the average of \$317,480 in the third quarter of 2021. It is important to note that the sample size of transactions on a quarterly basis is relatively small, and the average price can be highly influenced by the location, size, and quality of properties transacting. Despite low transaction volume and a slight increase in cap rates, rent growth has helped to maintain valuations.

Across the GTA, a total of 1,800 units traded during the third quarter, down from 3,792 one quarter earlier and 4,061 in the third quarter of 2021. Year-to-date in 2022, a total of 9,163 units have traded, compared with 9,332 in the first three quarters of 2021.

Sales volume totaled \$699 million during the third quarter of 2022 (16% of GTA total) – a decrease of 30% quarter-over-quarter and 48% year-over-year. However, the sector's investment total of \$2.6 billion over the first three quarters is in line with

last year's total of \$2.8 billion. Rising interest rates have made it more difficult for investors to achieve the amount of leverage they have become

\$95

Average price pbsf for high-rise land in the City of Toronto

accustomed to on deals, especially since there has not yet been an equal increase in cap rates. As a result, structured deals will be the most useful tools for vendors to achieve their desired pricing in the near term. Assumable debt and vendor takeback mortgages are attractive alternatives to help investors underwrite transactions.

Cap rates have been slower to respond to rising interest rates. Multi-residential cap rates averaged 3.5% during the third quarter – an increase from the second-quarter average of 3.4% and third-quarter 2021 average of 3.3%.

Leasing activity

According to Urbanation, vacancy in purpose-built rental buildings since 2005 across the GTA declined from 1.4% in the second quarter to 1.2% at the end of the third quarter. Low vacancy and the rise in the cost of ownership over the past year pushed rents up to an average of \$2,721 (\$3.65 psf) – a

rise of 16.6% during the past year. The combination of students returning to the city and interest rates suppressing the ownership market created a perfect storm for rent growth. With less than one month of supply available on the market, rents are expected to continue to rise over the near term.

Development activity

The GTA condo market told a different story in the third quarter. According to Urbanation, new condo apartment sales in the GTA totaled 1,748 units – a decline of 79% year-over-year. The market continues to struggle as interest rates push would-be homeowners to rent and eliminate the attractiveness of pre-construction condos for investors. Developers are pressing pause on launches as well, due to the rapid change in financial conditions. Only 2,857 units launched for presale during the third quarter – down 67% year-over-year. This trend is expected to continue going forward, as construction costs are likely to remain high and the Bank of Canada continues to raise interest rates. With costs at all-time highs, there is very little room for

16.6%

YOY rise in average City of Toronto purpose-built rental rates

developers to lower prices on their projects, meaning launches will be delayed. In total, Urbanation expects approximately 10,000 units to remain delayed this year.

According to Bullpen Research & Consulting and Batory Management's most recent report, high-density land in the GTA sold at

34 bps

Cap rate / 10-year bond yield spread

an average price-per-buildable square foot (pbsf) of \$95 in the third quarter of 2022. Prices held flat quarter-over-quarter but declined from \$120 pbsf in the third quarter of 2021 and \$112 pbsf in the first quarter of 2022.

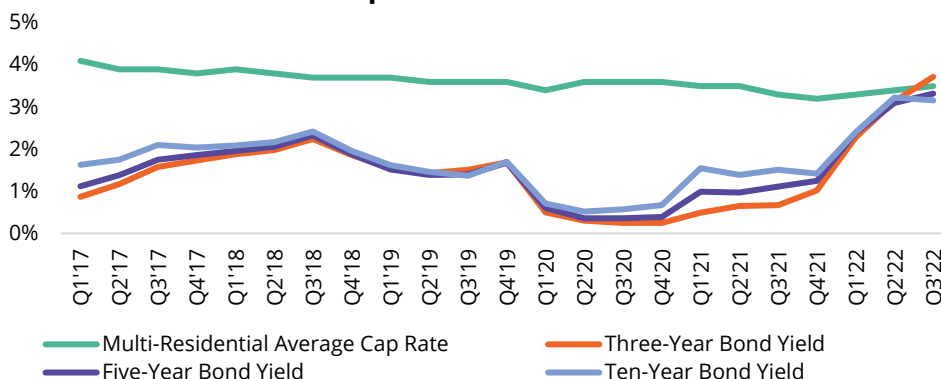
More Homes Built Faster Act

In October 2022, the provincial government proposed legislation meant to increase the supply of housing in the province and lessen the effect of the housing crisis. The legislation builds on recommendations made by the Housing Affordability Task force in February 2022. In total, the act proposes 50 actions, aimed at reducing government fees and streamlining development timelines. The key points that affect the development industry are highlighted below.

Reducing Development Costs

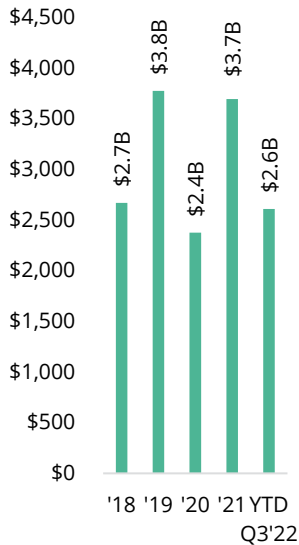
- Exempt affordable housing, non-profit housing, and inclusionary zoning units from development charges, parkland dedication fees and community benefit charges
- Cut parkland requirements for high-density residential development by 50% and cap the fee at 15% of land value
- Discount development charges for rental

GTA Multi-Residential Cap Rates and Bond Yields

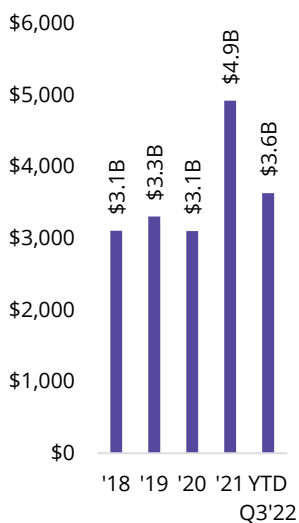


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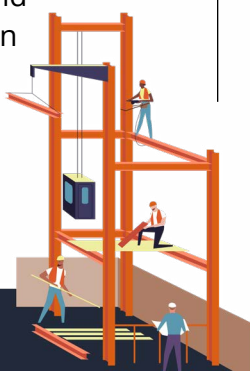
GTA Multi-Residential Investment Volume



GTA High-Density Residential Land Investment Volume



59
High-density residential land transactions in third-quarter 2022



- construction with larger discounts for family-sized units
- Expediting the zoning process – standardizing conservation and increasing the threshold for heritage designation

Increased Density Near Transit

- Update development policies for Major Transit Station Areas to move towards as-of-right zoning that meets planned density targets
- Require municipalities to update their zoning by-laws within one year to meet density targets

Inclusionary Zoning (IZ)

- Maximum 25-year affordability period
- 5% cap on the number of IZ units

Rental Replacement

- Open the process to override rental replacement if new development significantly increases density

Streamlining Ontario Land Tribunal (OLT) Appeals

- Prioritize cases that meet certain criteria (e.g. create the most housing)
- Clarify the OLT's ability to dismiss appeals due to unreasonable delay

Reduce Property Taxes on Apartments

- Consult with municipalities on approaches to reduce the current property tax burden on multi-residential buildings

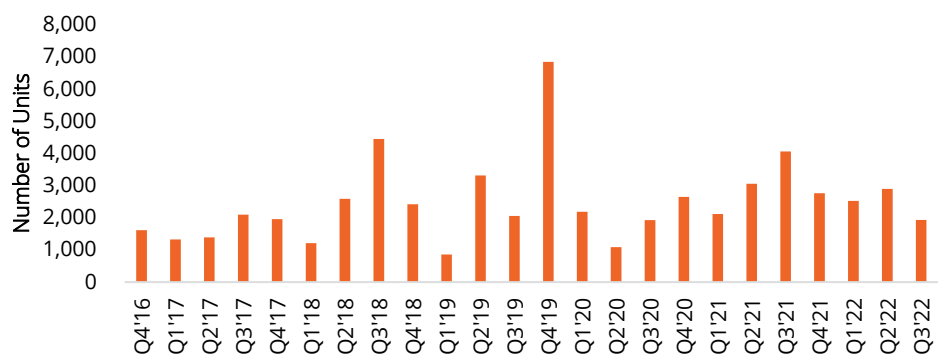
- Explore refinements to the assessment process to decrease the tax burden on affordable rental housing

The proposed legislation takes positive steps towards increasing supply, particularly by reducing the cost to construct and by streamlining the OLT process. However, the development industry faces greater constraints, including a skilled labour shortage and material cost inflation. Other policies should help to rebalance the portion of new rental units, a critical need that has been overlooked during the city's construction boom.

Conclusion

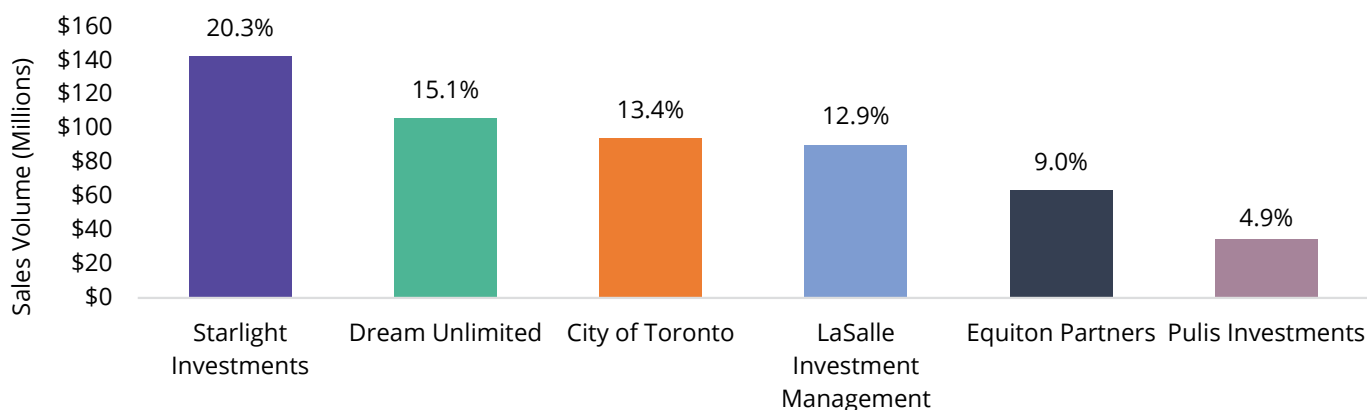
Investment volume has declined throughout the course of 2022, due to uncertainty caused by rising interest rates. Volume is expected to remain low through the first half of 2023 and return to normal once stakeholders find confidence in the new interest-rate environment. Overall, the long-term outlook for the multi-residential asset class remains positive as asset fundamentals strengthened during the third quarter. The low supply of rental housing in the GTA should support fundamentals for the foreseeable future, even as the province tries to incentivize greater development of rental units.

GTA Multi-Residential Unit Sales by Quarter



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Top GTA Multi-Residential Purchasers by Market Share – Third Quarter 2022



Significant GTA Transactions by Sale Price

Sector				
Multi-Residential	Total Price	Price per unit	Purchaser	Vendor
2233 & 2235 Hurontario St.	\$131,955,000	\$339,216	Starlight Investments	Karl Fay Investments Ltd. / Unifay Investments Ltd. / Fedar Investments Ltd.
70 Park St. E.	\$105,545,000	\$490,907	Dream Unlimited	1001935 Ontario Ltd.
65 Dundas St. E.	\$94,000,000	\$335,714	City of Toronto	Silver Hotel Group
61-69, 75 Eastdale Ave. & 2-12, 16-24 Goodwood Park Cres.	\$90,100,000	\$361,847	LaSalle Investment Management	CAPREIT
78 Braemar Dr.	\$63,250,000	\$413,398	Equiton Partners	Lidor Holdings Ltd.
High-Density Residential Land	Total Price	Price psf buildable	Purchaser	Vendor
56-60 Fieldway Rd.	\$117,277,500	\$119	EllisDon / Windsor Capital	The Humberview Group
47 Huntley St.	\$114,030,062	\$137	Broccolini	Private individual(s)
46 Charlotte St. & 355 Adelaide St. W.	\$90,000,000	\$274	Fengate	Ontario Superior Court of Justice
110 Eglinton Ave. E.	\$41,000,000	N/A	Madison Group	Adgar Investments & Development
952 King St. W.	\$36,180,000	\$233	Greenwin	Mac's Convenience Stores Inc.

Get more market information

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