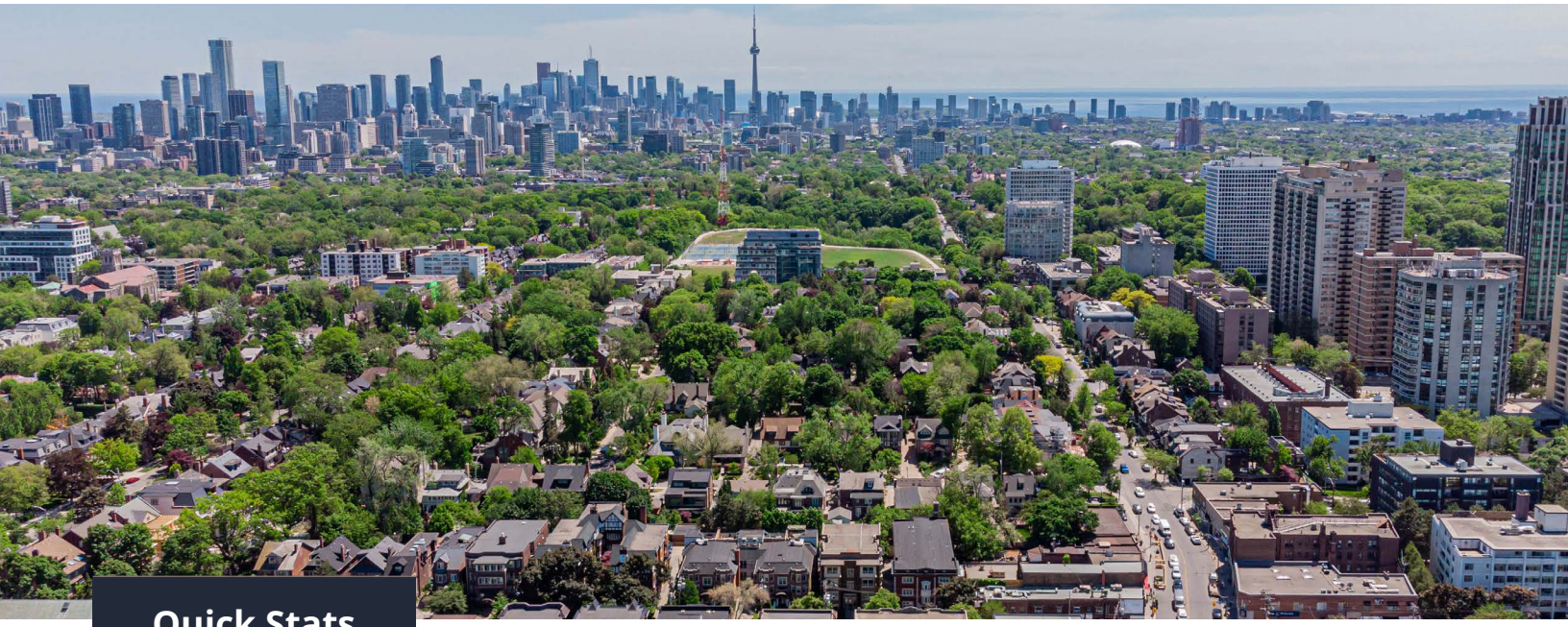
AVISON YOUNG

Multi-Residential Investment Review / First Quarter 2021

Greater Toronto Area



Quick Stats

$642 million
Total GTA multi-residential transaction volume in the first quarter

$382,021
Average price per unit for buildings of 20 units or more

$2,278
Average monthly rental rate for condominium apartments in the GTA in the first quarter

3.5%
Average capitalization rate across all GTA multi-residential property types

51
Number of investment sales transactions during the fourth quarter, down slightly from 54 in the previous quarter

The Greater Toronto Area (GTA) multi-residential market began 2021 on a solid footing following a return to pre-COVID-19 levels of activity in the third and fourth quarters of 2020. The sector has remained resilient despite continued lockdown measures, restrictions on immigration, and challenges across the broader economy. Across the GTA, a total of 2,114 units traded during the first quarter of 2021, down from 2,648 a quarter prior and 2,185 during the first quarter of 2020.

Investment trends

Investor appetite for multi-residential assets remains strong, as cap rates remained flat across the sector, compared with a 54-basis-point (bps) increase in the average benchmark five-year bond yield quarter-over-quarter. The spread between GTA multi-residential cap rates and the five-year benchmark bond yield continues to compress and is now 251 bps, leading to price appreciation.

In first-quarter 2021, investment did not keep pace with strong fourth-quarter 2020 results, as dollar volume dipped 27% to $642 million (16% share) – but was 4% higher than one year ago. However, it should be noted that multi-residential transaction volume is often uneven on a quarterly basis (see chart on page 3), as portfolio sales remain a driver of volume for this asset class. This quarter's biggest single-asset trade by dollar value in the GTA was Woodbourne Capital's purchase of a 50% interest in eCentral – a 36-storey high-rise rental building in Toronto's midtown from RioCan REIT – for almost $151 million. RioCan had purchased the same interest in 2019 for $114 million – indicating the value appreciation in the sector.

The price per unit for buildings with more than 20 units increased in the first quarter of 2021, as assets traded at a rate of $382,021 per unit – a 3.3% increase compared with the fourth quarter of 2020. Quarter-over-

quarter price per unit increases are expected due to year-over-year rental increases; however, the pandemic has resulted in a rent-freeze environment that continued through the first quarter. That per-unit prices increased despite any meaningful rent appreciation demonstrates the strength of the multi-residential market and its attractiveness to investors.

6.6%
GTA rental market vacancy rate

With an expensive housing market and the eventual return to higher immigration levels post-pandemic, investors are drawn to the stable but structurally supply-constrained multi-residential sector. From 2016 to 2020, the GTA averaged approximately 34,000 housing completions (including 19,000 apartment units – mostly condominiums) annually, according to data published by CMHC. From 2016 to 2018, net migration into the GTA averaged approximately 118,000 people per year. Given that it generally takes multiple years to bring new supply to market, the structurally under-supplied market, and near-unlimited demand for income-generating multi-residential assets, demand for multi-residential assets is expected to continue to outpace supply and investors are likely to continue to be well-rewarded.

Leasing activity

The multi-residential leasing market continued to feel the impact of COVID-19 during the first quarter of 2021. According to Urbanation, vacancy in purpose-built rentals GTA-wide increased to 6.6% in first-quarter 2021 – up significantly from 1.1% in the first quarter of 2020. Elevated unemployment, a reduction in the student population, restrictions on immigration, and net population outflows continue to support an over-supply of rental units in the City of Toronto. However, the story in the suburban regions of the GTA is different as vacancy remains low at 1.5%. A limited amount of rental stock and increased population outflows from the City of Toronto have kept vacancy comparatively low in the suburbs.

0%
Rent increase limit in 2021

Growing vacancy continued to suppress condo rents, as the average for available units in the GTA declined 8.2% year-over-year to $2,278 per month. While the market is still feeling the effects of the pandemic, first-quarter data gave some indication that conditions are beginning to stabilize. Quarter-over-quarter, condo rents decreased 1.4% on a per-square-foot basis, compared to a decline of 7.5% in the fourth quarter of 2020. In addition, average monthly rents increased in both February and March, suggesting that the bottom of the market was reached early in the first quarter.

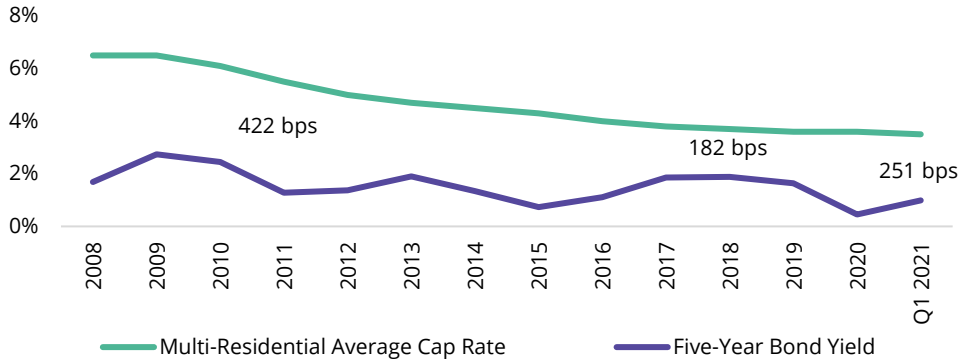
251 bps
Cap rate / bond yield spread

Development activity

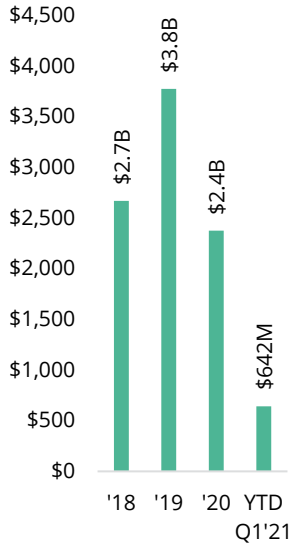
New condo sales across the GTA continued to climb back to pre-pandemic levels and posted robust absorption in the first quarter of 2021. According to Urbanation, new condo sales were down 4% year-over-year but 76% of launches were absorbed – the best first-quarter result since 2017 – at a record average price of $1,261 psf. In the resale market, soaring suburban home prices pushed buyers to focus on urban properties, leading to a 104% year-over-year increase in former City of Toronto condo resales.

Urbanation also reports that new condo construction underway in the GTA reached a record 83,497 units in the first quarter of 2021. However, just 44% of that new inventory will be in the former City of Toronto, while a record 32% of units underway are in the 905 area. The regional distribution of construction is the most balanced on record, which should support growth in condo prices and rents as people return to urban centres. It is worth noting that the development cycle takes years, and that this distribution represents a trend that predated the pandemic.

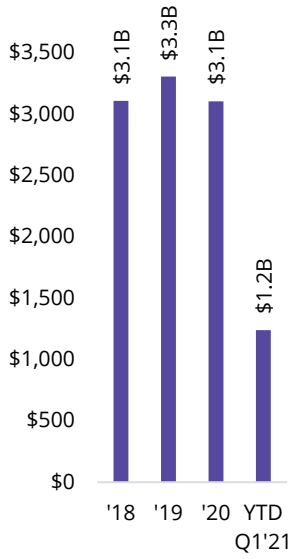
GTA Multi-Residential Cap Rates and Bond Yields



GTA Multi-Residential Investment Volume

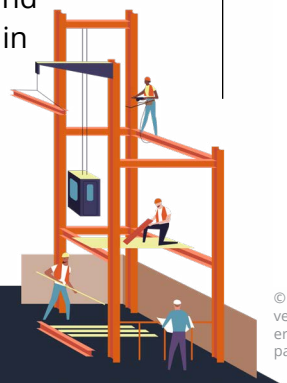


GTA High-Density Residential Land Investment Volume



63

High-density residential land transactions in first-quarter 2021



Rising construction costs

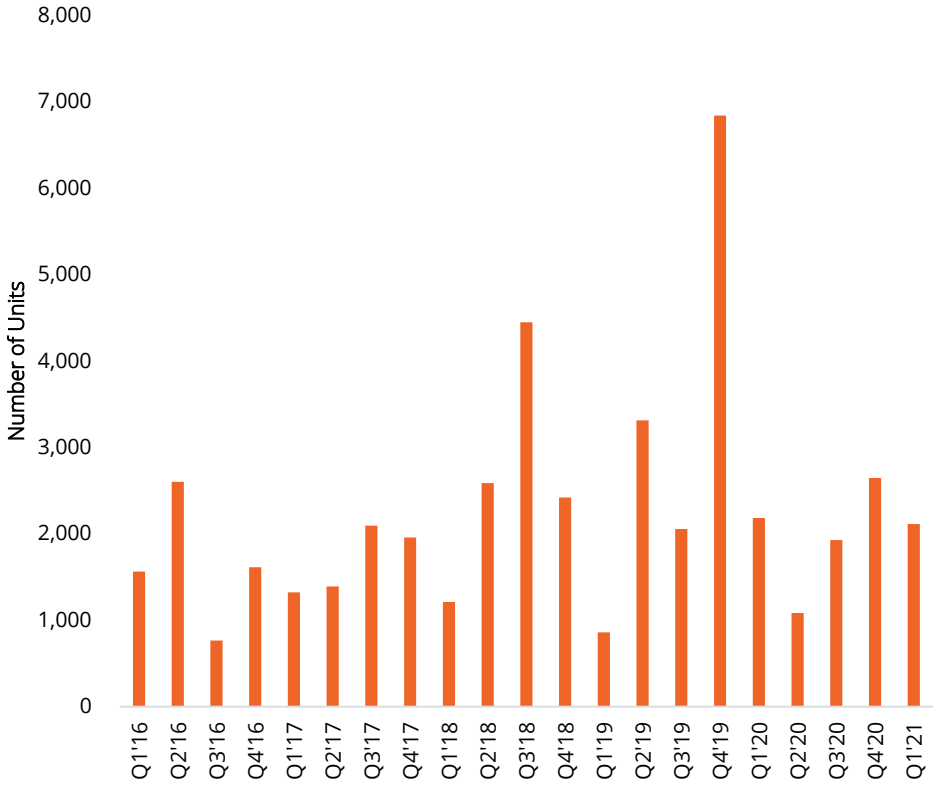
Despite significant price appreciation in the condo market, land values remained relatively flat quarter-over-quarter. According to Bullpen Research & Consulting and Batory Management, the average price per buildable square foot in the GTA was $116 in the first quarter of 2021, compared to $112 in the previous quarter. The moderate increase was supported by two high-priced transactions in Yorkville.

Underlying the disconnect between surging condo prices and flat land prices are the rise in construction costs and pandemic-related inflation. According to Altus Group, developers in the GTA are projected to experience an increase in construction costs of 5% by year-end 2021. The pandemic has led to a surge in the cost of raw materials, particularly lumber, as demand has far outpaced the capabilities of restricted supply chains. There is debate over whether inflation seen across the industry (and the broader economy) will be long-term or pass as the pandemic's impact on supply chains fades.

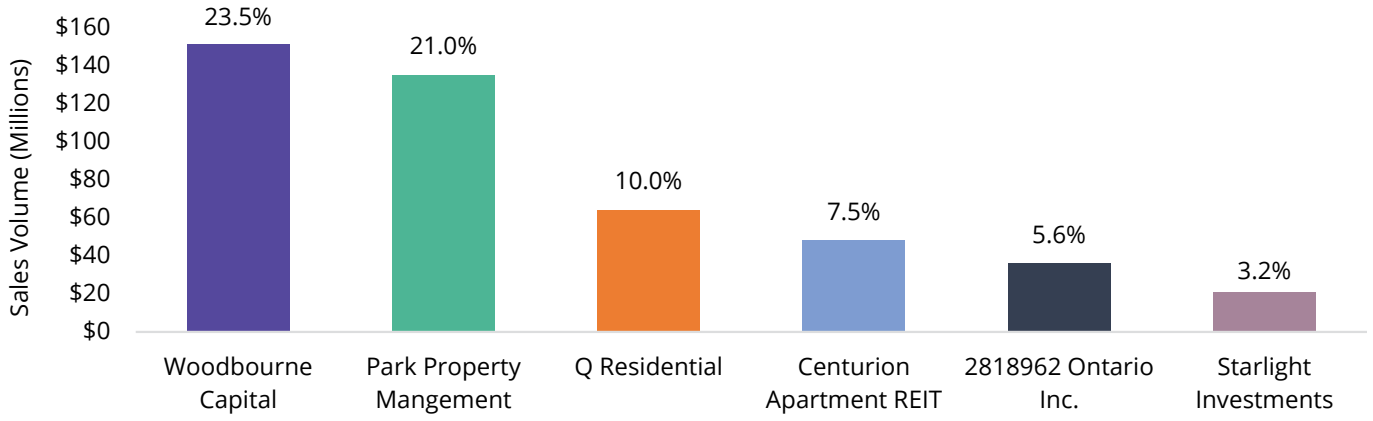
A generational shift

The GTA multi-residential market remains undersupplied in terms of tenant demand for housing, while the structural challenges that restrict the pace of new supply help protect the value of existing assets, which are in high demand among investors. A considerable portion of the GTA's multi-residential stock continues to be held by private owners, representing family interests. A generational turnover of assets continues in the market, offering new investors the chance to take advantage of the rewards offered by the sector: solid fundamentals, long-term capital appreciation and building generational wealth.

GTA Multi-Residential Unit Sales by Quarter



Top GTA Multi-Residential Purchasers by Market Share – First Quarter 2021



Significant GTA Transactions by Sale Price

Sector				
Multi-Residential	Total Price	Price per unit	Purchaser	Vendor
eCentral (50% interest)	$150,813,133	$647,267	Woodbourne Capital	RioCan REIT
DMS – Park Portfolio	$135,000,000	$342,640	Park Property Management	DMS Property Management
20 Tuxedo Ct.	$64,025,200	$304,882	Q Residential	Reserve Properties
Starlight – Centurion Portfolio	$48,000,000	$303,797	Centurion Apartment REIT	Starlight Investments
1, 2, 3, 4, 6, 8, 9, 10 & 11 Wingreen Ct.	$35,950,000	$363,131	2818962 Ontario Inc.	Greenrock Property Management / Mylar Investments
High-Density Residential Land	Total Price	Price psf buildable	Purchaser	Vendor
27-37 Yorkville Ave. & Cumberland St.	$300,000,000	$312	Pemberton Group	Ontario Superior Court of Justice
357 & 359 Richmond St. W. & 120-128 Peter St.	$72,071,311	$292	China Aoyuan Group	Carlyle Communities
99 Blue Jays Way	$69,641,000	$194	CentreCourt	Forty-One Peter Street Inc.
1257 & 1303 Yonge St.	$57,000,000	-	Aspen Ridge Homes	Cineplex Inc.
409 Front St. E.	$23,980,701	$153	Dream Unlimited	Anishnawbe Health Toronto

Get more market information

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