Greater Toronto multi-residential investment review

Mid-year 2023

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Greater Toronto market fundamentals

$909M

total multi-residential investment volume during the first half of 2023
down 52% year-over-year

3.8%

average capitalization rate for multi-residential assets
up 40 bps year-over-year

$2,944

average monthly rental rate for Greater Toronto Area (GTA) purpose-built apartments
in Q2 2023

58

number of investment sales transactions during the first half of 2023
up from 52 in the second half of 2022

102,448

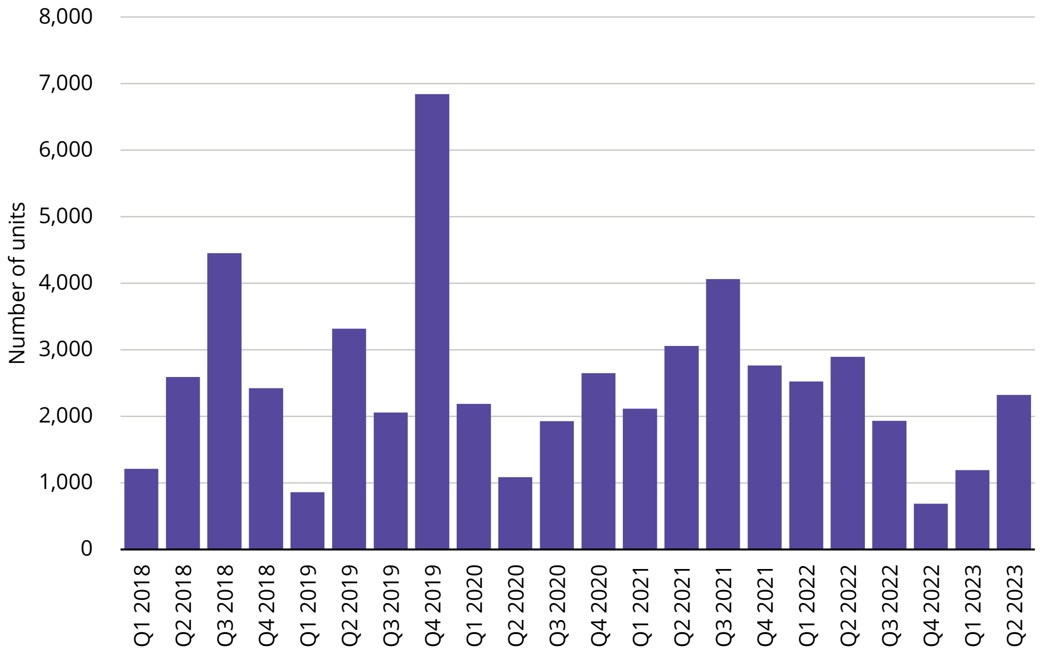
condominium units under construction across the GTA at mid-year 2023
an all-time high

$77

average sale price per buildable square foot (pbsf) for high-density residential land across the GTA in Q2 2023
down 19% year-over-year

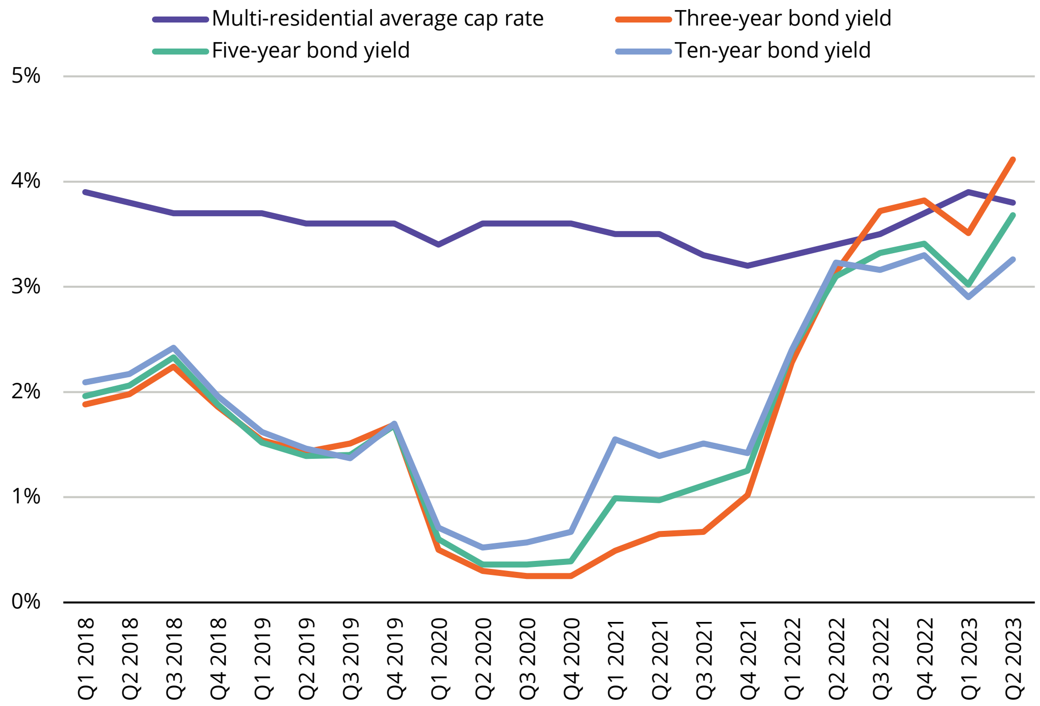
Greater Toronto multi-residential market indicators

GTA multi-residential unit sales by quarter



Source: Altus Data Studio

GTA multi-residential cap rates and bond yields



Source: Altus Investment Trends Survey, Bank of Canada

Greater Toronto multi-residential investment market

Overview

Year-over-year investment activity in the GTA multi-residential market decreased in the first half of 2023, as vendors' price expectations have been slow to respond to rising interest rates. The spread between vendors' expectations and buyers' access to capital remains the primary reason for the decrease in transaction activity. A total of 3,029 units traded in the first half of 2023, down from 7,230 units during the same period in 2022 – representing a 58% decrease in unit volume year-over-year, but a 16% increase compared with the second half of 2022. However, there is still strong demand for well-priced, quality multi-residential assets. If interest rates remain stable, the market has the potential to achieve levels of investment activity closer to historical norms during the second half of the year.

Leasing activity

According to Urbanation, vacancy in purpose-built rental buildings completed since 2005 in the GTA increased to 1.9% in the second quarter of 2023, compared to 1.5% at the same point last year. Newer purpose-built rentals completed in the past year have pushed the average rental rate to $2,944 ($3.91 per square foot) per month, representing a 12.5% annual increase. The stabilization period for new rentals decreased to just 16 months in the second quarter – compared to the pandemic high of 26 months last year. Record levels of immigration and the growing cost of home ownership should continue to support asset fundamentals in the near-term. In addition, high construction costs, labour shortages, and the escalation of interest rates will suppress the delivery of new rental supply.

Market outlook

Investment volume for GTA multi-residential assets was higher in the second quarter of 2023 than in the first; however, this good news was countered by the fluctuating financial market caused by rising interest rates. Market sentiment indicates that there are many investors looking to place capital, demonstrating the potential for activity to increase if interest rate conditions stabilize. Stakeholders and investors have begun navigating the challenging financial market through structured deals. Asset fundamentals continued to improve through the first half of 2023, and the long-term outlook for the multi-residential asset class remains positive.

Multi-residential investment trends

Across the GTA, the average price per unit for assets of at least 20 units that traded in Q2 was $315,612 – lower than the Q1 average of $335,533 – representing a 6% decrease quarter-over-quarter, but a 15% increase compared with Q2 2022. It is important to note that the sample size of transaction volume thus far in 2023 is significantly lower than it was during the same period last year, and that the average price can be influenced greatly by the location, size, and quality of assets transacting. Strong rental rate growth has helped mitigate the combined negative effects of low transaction volume and increased cap rates.

Sales volume during the first half of the year totaled $909 million, a 52% decrease year-over-year. With rising interest rates, investors are finding it challenging to achieve the amount of leverage they had become accustomed to. Vendor take-back mortgages are one of the most useful tools for vendors looking to navigate the current market and achieve their desired price expectations.

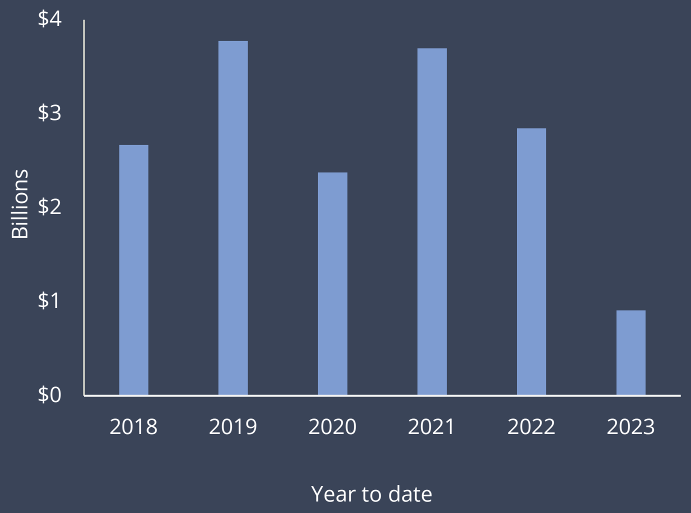
Significant sale transactions – multi-residential

Address	District	Sale price / $ per unit	Buyer	Seller
2 & 4 Hanover Rd., Brampton	West	$185,500,000 / $306,612	Crestpoint Real Estate Investments / Vestcor Inc. / InterRent REIT	IG Wealth Management
Salpam Investments – Starlight Investments Portfolio	Central/West	$170,180,018 / $286,498	Starlight Investments	Salpam Investments
1225 York Mills Rd., Toronto	Central	$84,748,231 / $605,345	Realstar Group	Alit Don Valley Property Inc.
74 Curlew Dr., Toronto	Central	$44,800,000 / $400,000	Hazelview Investments / TD Greystone Asset Management	Starlight Investments
40 Delisle Ave., Toronto	Central	$44,500,000 / $445,000	Homestead Land Holdings	Asar Investments / Hersz Investments / 1069156 Ontario Ltd.

Cap rates

At mid-year 2023, the five-year Government of Canada bond yield rate was 3.68%. The average multi-residential cap rate at mid-year 2023 was 3.8%, an increase from 3.4% and 3.7% at mid-year and year-end 2022, respectively.

Multi-residential investment volume



Source: Altus Data Studio

Development activity

New condo sales in the GTA totaled 6,727 units in the first half of 2023, according to Urbanation – down 59% year-over-year and 42% below the first-half 10-year average. Homeowners and investors remain concerned about the market outlook, with the Bank of Canada increasing interest rates. The demand for new housing supply has never been greater, as the Ontario population grew by a record 400,000 over the past year and growth is expected to increase as the government targets higher levels of immigration. The average completion time for new condo projects completed during the last 12 months was 59 months from first launch to occupancy, up from 58 months one year earlier. Developers are challenged by supply chain disruptions, fluctuating financial conditions pertaining to construction financing and interest rates, and the lack of readily available labour. Despite this, developers are finding creative ways to incentivize buyers and investors, by including cash back on closing, mortgage rate guarantees and free parking or storage upgrades. Urbanation estimates that new condo delays could reach 20,000 units by the end of the year as a result of the impact of rising interest rates.

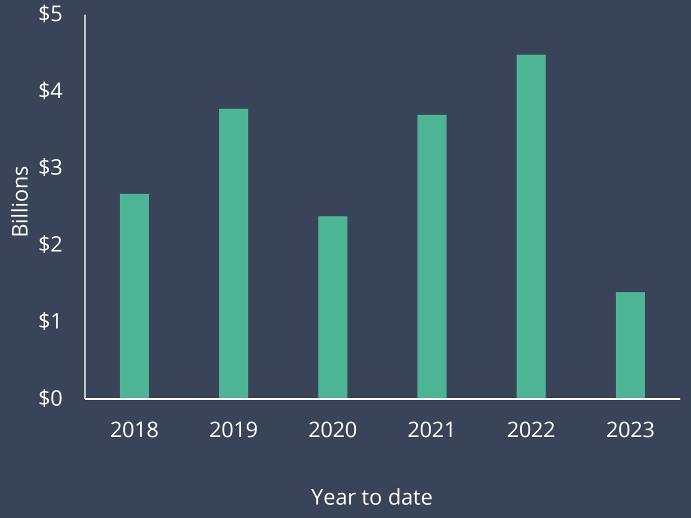
Significant sale transactions – high-density residential land

Address	District	Sale price / $ per acre	Buyer	Seller
259 & 291 Lake Short Blvd. E., 200 Queens Quay E. & 2 Small St., Toronto	Central	$259,042,553 / $59,069,817	Dream Unlimited / Great Gulf	Waterfront Toronto
Bur Oak Ave., Markham	North	$100,000,000 / $6,313,131	Green City Development Group	Mattamy Homes
566-576 Sherbourne St. & 29-37 Linden St., Toronto	Central	$73,900,000 / $144,901,961	Alterra / Platinum Vista	Private individual(s)
141 Roehampton Ave., Toronto	Central	$70,100,000 / $96,027,397	Lifetime Developments	Private individual(s) / condominium corporation
9810 Bathurst St., Vaughan	North	$70,000,000 / $6,255,585	Liberty Development	Humbold Properties

Price per buildable square foot trending downward

According to Bullpen Research & Consulting and Batory Management's most recent report, high-density residential land in the GTA traded at an average price pbsf of $77 in the second quarter of 2023 – down 16% quarter-over-quarter. Year-over-year, prices had decreased 19% from $95 pbsf in the second quarter of 2022.

High-density residential land investment volume



Source: Altus Data Studio

For more market insights
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