Altus Group

GTA FLASH REPORT **2019**

COMMERCIAL INVESTMENT & LAND MARKET

GREATER TORONTO AREA

Total investment property sales volumes in the Greater Toronto Area totalled $21.1 billion in 2018, down from the record set in 2017, but still the 2nd highest annual volume yet recorded by Altus Group.

Overall Highlights

After setting new records for 7 consecutive years, investment property sales (based on sales valued at $1 million or more) in the Greater Toronto Area (GTA) took a bit of a breather in 2018, dropping 11% below 2017. While average deal size was up, there were fewer transactions occurring.

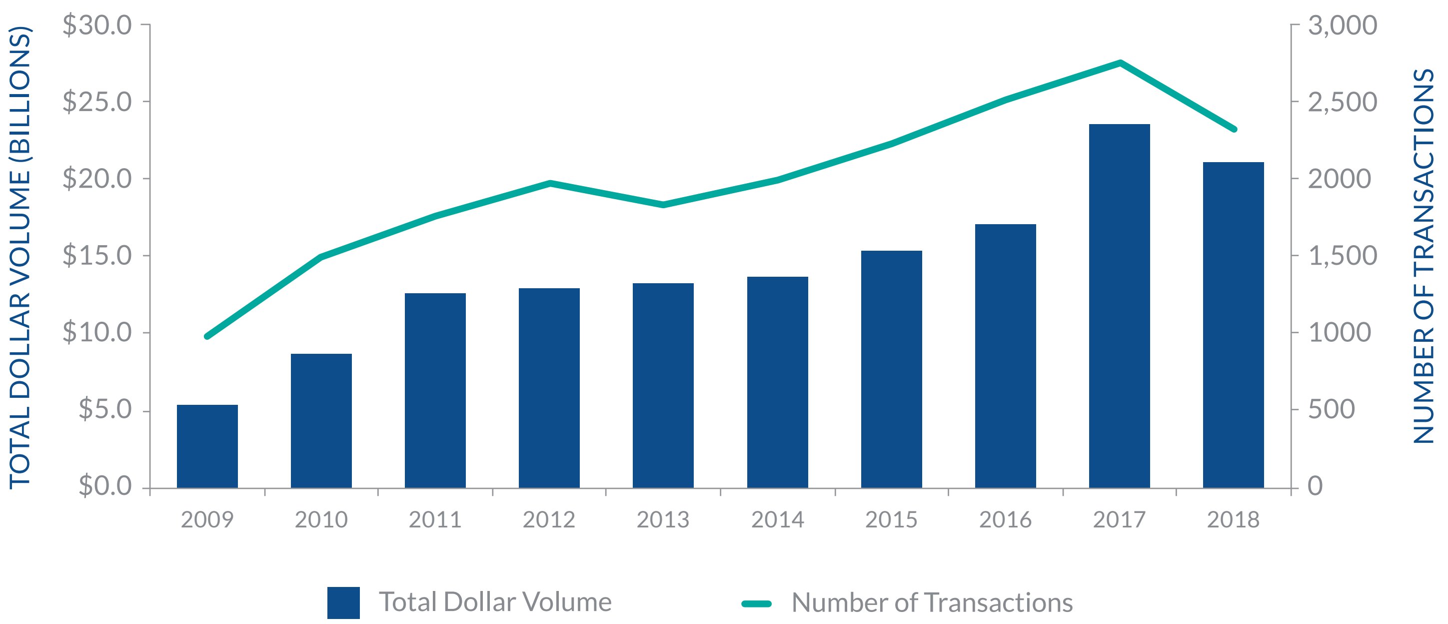
The decline in 2018 was entirely due to less robust sales volumes in the 905 regions, led by York Region where investment property sales dropped 45%. A modest increase in the City of Toronto boosted its share of GTA-wide total property investment to just over half.

With average 10 year bond rates up in 2018, cap rate declines were put on hold, with the exception of industrial properties.

Institutional investors stepped up their activity again in 2018 after 3 years of declines. Foreign buyer investment reached multi-year highs.

Annual Investment Property Sales Transactions

GREATER TORONTO AREA



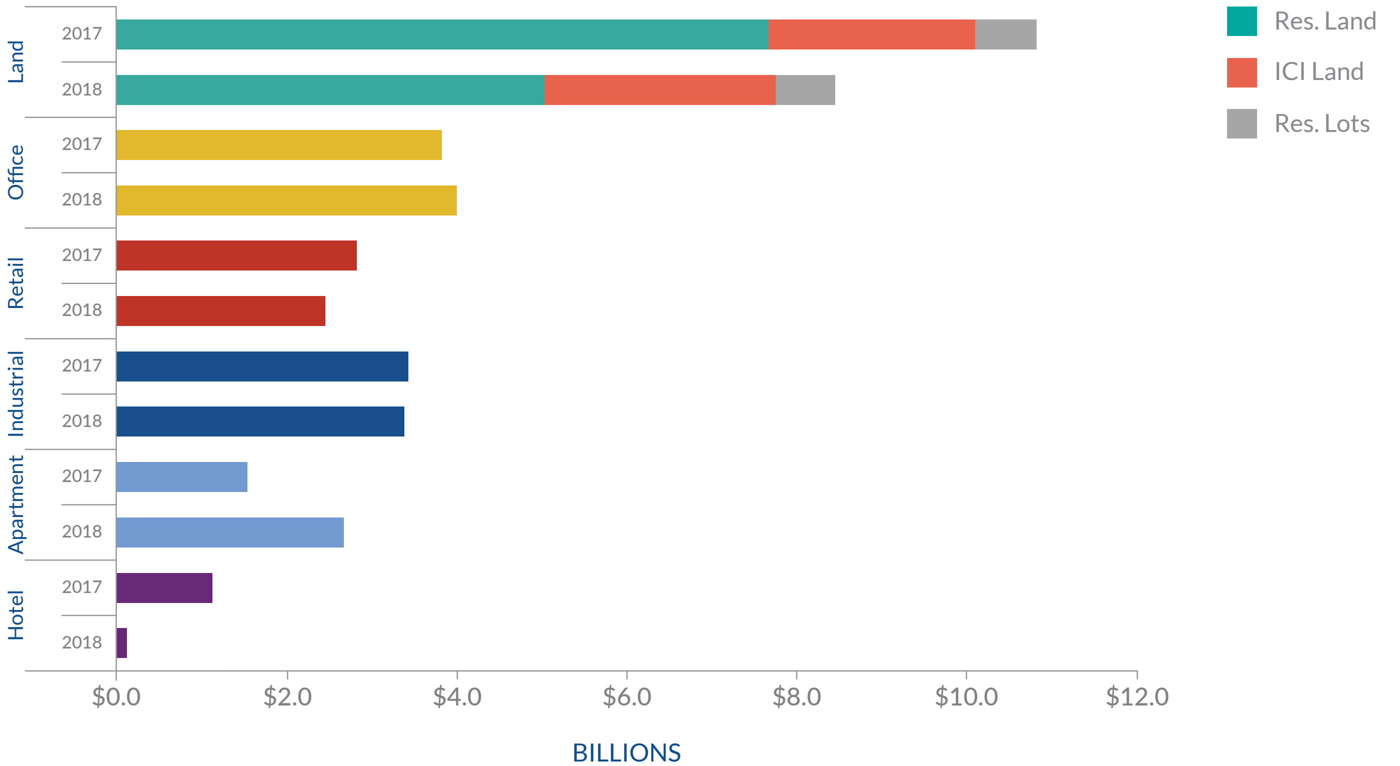
Source: Altus Group

COMMERCIAL INVESTMENT & LAND MARKET CONTINUED

GREATER TORONTO AREA

Investment Property Sales Transactions by Asset Class

GREATER TORONTO AREA, 2017 VS. 2018



Source: Altus Group

The Residential Land market was the biggest factor in reduced investment property sales volumes in the GTA in 2018.

Highlights By Sector

There were mixed performances by sector in 2018, with some sectors continuing to set new records.

The Residential Land market was the main contributor to the decline in total investment sales in 2018, down by $2.6 billion (34%) from the record set in 2017. This reduced the total value of land sales (ICI, Residential & Lots combined) to $8.5 million, despite a new record for ICI Land (which was boosted by the Downsview Airport transaction).

The Hotel sector returned to more typical levels after an unusually strong 2017 that had seen several high profile deals. Retail sector property sales were down 13% to $2.5 billion, however remained higher than in 2016.

The Apartment sector was the star performer in 2018, posting both the largest dollar and largest percent increases, with the $2.7 billion in sales setting a new record.

The Office sector also set another new record high, at just under $4 billion.

The decline in total residential land sales volumes was led by low density land sales.

Residential Land Highlights

Total Residential Land investment, while down substantially from the record set in 2017, still represented the second highest level recorded by Altus Group. Sales were down in 2018 across the various land use segments.

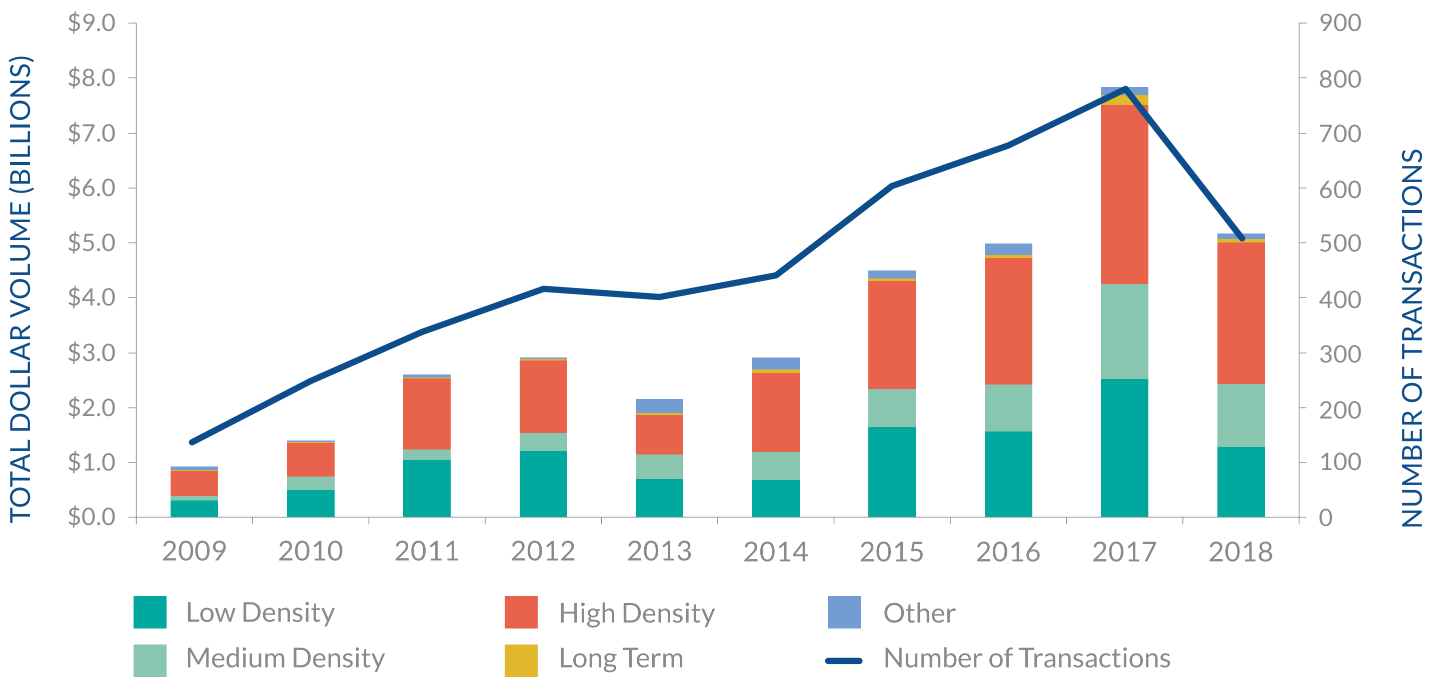
Low Density residential land sales led the decline in overall Residential Land sales, down by almost half in 2018 to $1.25 billion, the lowest level since 2014. The decline was largely driven by reduced sales in York Region.

Medium Density land sales (primarily land for future townhouse development) were down by about one-third in 2018.

High Density residential land sales, down 20% to $2.5 billion, accounted for half of all Residential Land sales volumes in the GTA in 2018.

Residential Land Transactions by Land Use

GREATER TORONTO AREA



Source: Altus Group

The $155 million acquisition by Starlight Investments in Scarborough contributed to a record year for Apartment transactions in the GTA.

Featured Investment Transactions

The record years for Office and ICI Land were aided by the sizeable Bay Adelaide Centre and Downsview Airport transactions, respectively.

Slate Asset Management's purchase of the Dixie Outlet Mall for just under $181 million was the largest retail sector purchase and was part of a larger 4 property office/retail transaction.

The largest Industrial transaction in 2018 was American Business Park & 6325 Northam Drive at $90.6 million.

While Residential Land investment activity was down in 2018, there were four separate transactions each over $100 million that together totalled almost three-quarters of a billion dollars: Seaton Lands (low density), 3575 Elgin Mills Road (low density), Lakeview Lands (medium density) and 5800 Yonge Street (high density).

Date	Sector	Transaction Name	Purchaser(s)	Price
Dec-12-2018	Apartment	1340, 1350, 1360 Danforth Road	Starlight Investments	$155,445,000
Mar-06-2018	Office	Bay Adelaide Centre (50% interest)	Dadco Investments	$850,000,000
Mar-27-2018	Retail	Dixie Outlet Mall	Slate Asset Management	$180,908,000
Mar-27-2018	Industrial	American Business Park & 6325 Northam Drive	KingSett Capital	$90,600,000
Jun-29-2018	Hotel	Delta Toronto East	Sunray Group	$42,000,000
Jun-07-2018	ICI Land	Downsview Airport	Public Sector Pension Investment Board	$825,000,000
Apr-16-2018	Residential Land	5800 Yonge Street	Times Group	$122,200,000

Source: Altus Group

INDUSTRIAL MARKET

GREATER TORONTO AREA

The industrial vacancy rate continued to fall in 2018, despite significant new supply.

Industrial Market Highlights

The industrial market in the GTA remained very tight in 2018.

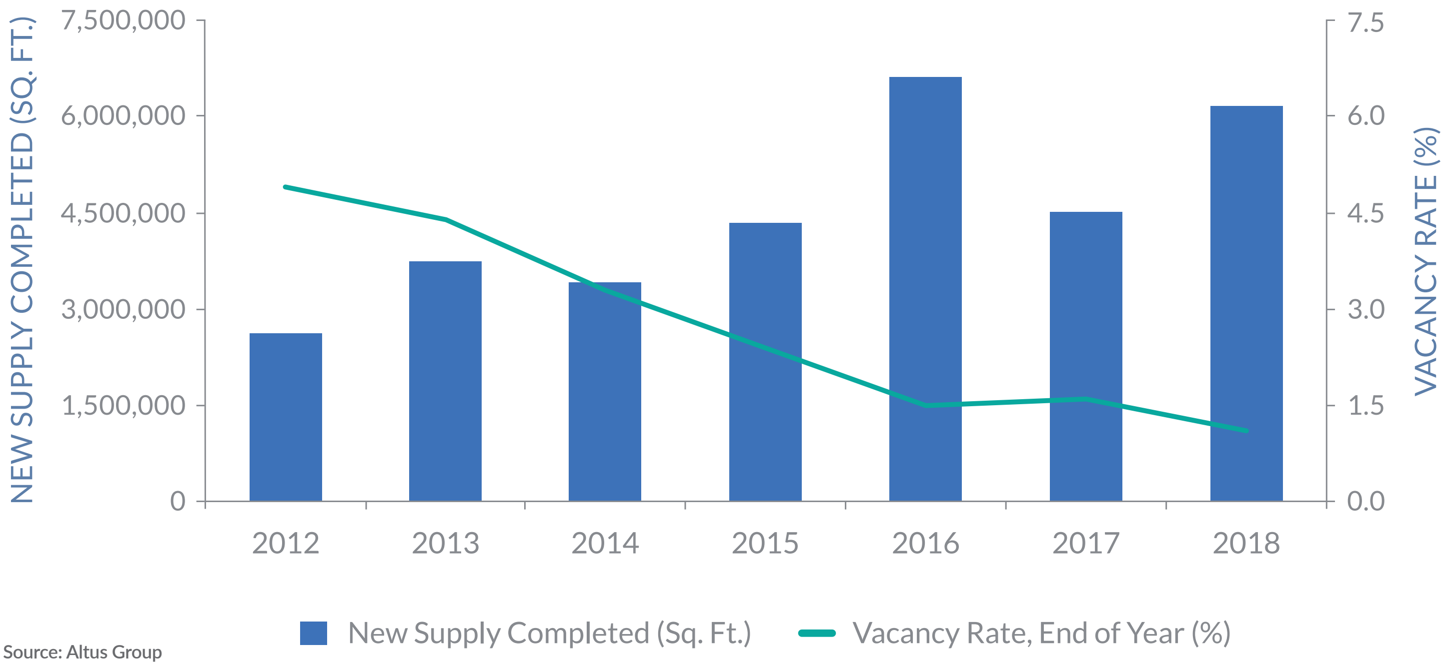
Just over 6 million square feet of new industrial space was added in 2018, up from about 4.5 million square feet in 2017.

Demand for additional industrial space, however, outpaced the amount of new supply, pushing the overall vacancy rate down further, to just above 1% by year end 2018.

Tight market conditions are spurring development of additional space, with a further 8.4 million sq. ft. of industrial space under construction at the end of 2018. At the average annual pace of absorption over the past 5 years, this represents less than 1 year of supply. Just over half of the space under construction is in the Toronto West submarket.

Industrial Space Market

GREATER TORONTO AREA



Source: Altus Group

OFFICE MARKET
GREATER TORONTO AREA

Completions of new office space drop to lowest level in 15 years.

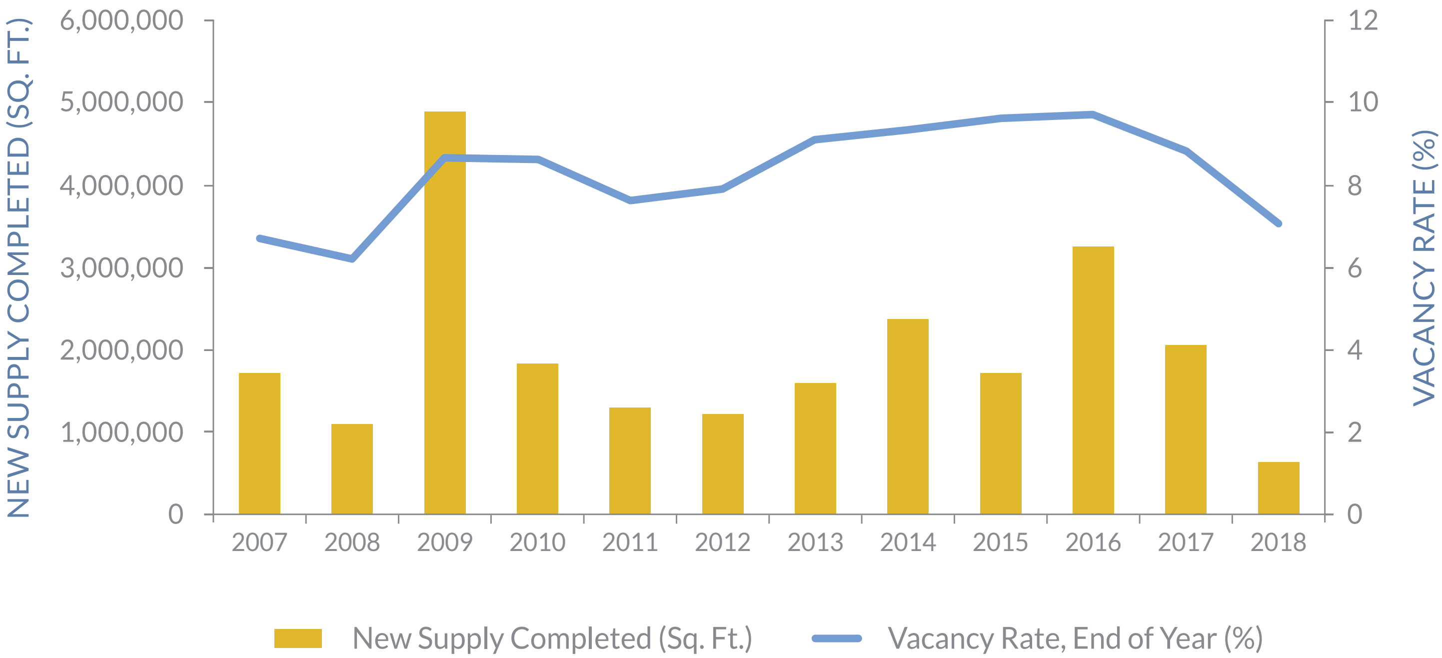
Office Market Highlights

Only about 650,000 sq. ft. of new office space was added to the Greater Toronto Area office leasing market in 2018 – the lowest level since 2003.

At the same time, absorption of office space (based on change in occupied space) increased to 3.9 million sq. ft., its strongest level since 2006. The combination of reduced new supply and stronger absorption drove the overall office vacancy rate down for the 2nd year in a row, to its lowest level in over 10 years.

At the end of 2018 there was over 11 million sq. ft. of office space under construction in the GTA – almost double the level of a year ago. This represents more than 3 years of supply at the average annual rate of absorption in the past 3 years. About half of the under construction space is still available to lease.

Office Space Market
GREATER TORONTO AREA



Source: Altus Group

OFFICE MARKET CONTINUED
GREATER TORONTO AREA

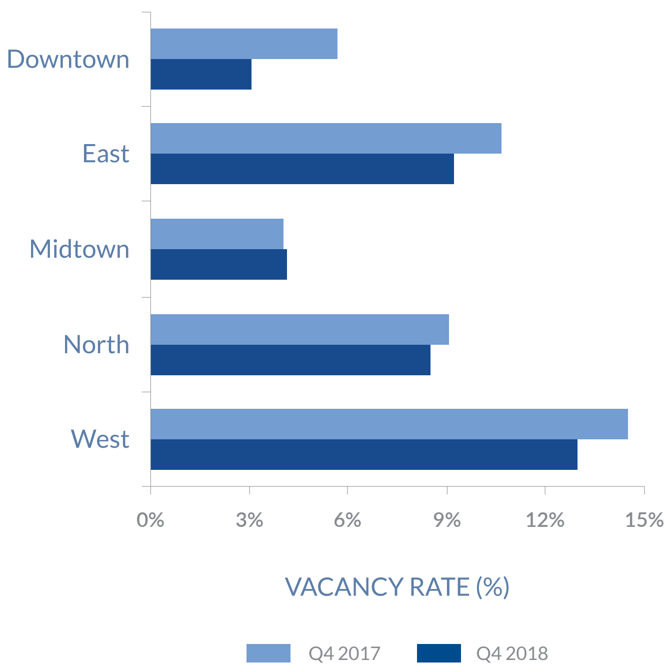
Vast majority of new office supply under construction is in the tighter Downtown submarket.

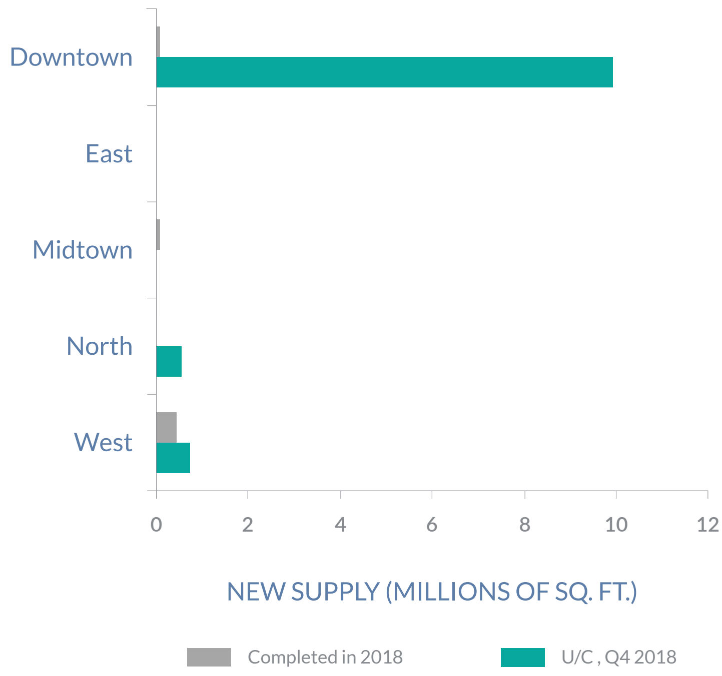
Office Market Highlights *Continued*

Stronger office space absorption in the Downtown submarket, combined with virtually no new supply delivered during 2018, pulled the vacancy rate in the Downtown to the lowest level recorded in Altus Group's tracking history. However, the other submarkets, with the exception of Midtown, also saw their vacancy rate decline in 2018.

Almost 90% of the office space under construction in the GTA is located where it is most needed - in the Downtown submarket.

Office Space Market Highlights by Submarket
GREATER TORONTO AREA





Source: Altus Group

RESIDENTIAL DEVELOPMENT MARKET

GREATER TORONTO AREA

Total new home sales in the GTA drop to their lowest level since 1996.

New Home Sales Highlights

Total new home sales in the GTA dropped 40% in 2018 to just over 25,000 units, their lowest level in over 20 years. More stringent mortgage stress testing delaying purchases, limited availability of single-family product affordable to a broader range of buyers and some condominium apartment demand brought forward into 2017 were key factors behind the decline.

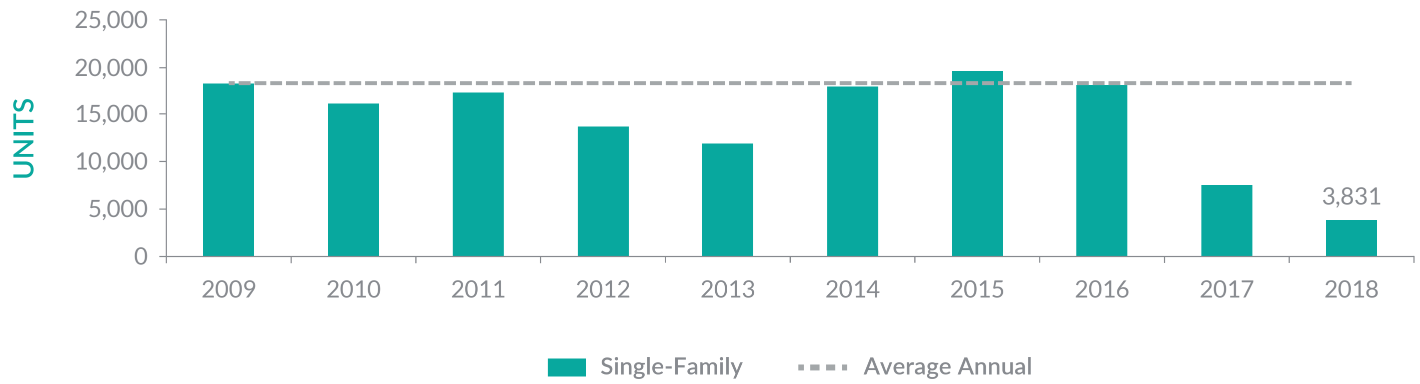
Coming off of elevated levels in 2016 and a record performance in 2017, GTA new condominium apartment sales (which includes units in low, medium and high-rise apartment buildings, lofts and stacked townhouses) fell back to more typical levels in 2018 – similar to sales in 2014 and 2015 and near the 10 year average.

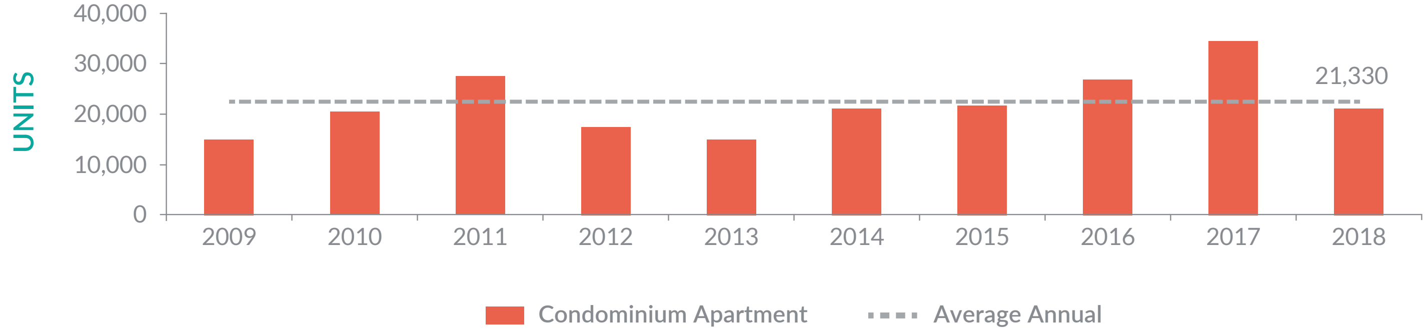
New single-family home sales (which includes detached, link, semi-detached and traditional townhouse units) continued their disappearing act in 2018 and at just over 3,800 units reached the lowest level recorded over Altus Group's tracking history, which began in 2000.

Approximately two-thirds of new condominium apartment sales in 2018 occurred within the City of Toronto.

Annual New Home Sales

GREATER TORONTO AREA





Source: Altus Group

The average asking price for a new condominium apartment in the GTA has increased 57% in the past 2 years.

New Home Pricing Highlights

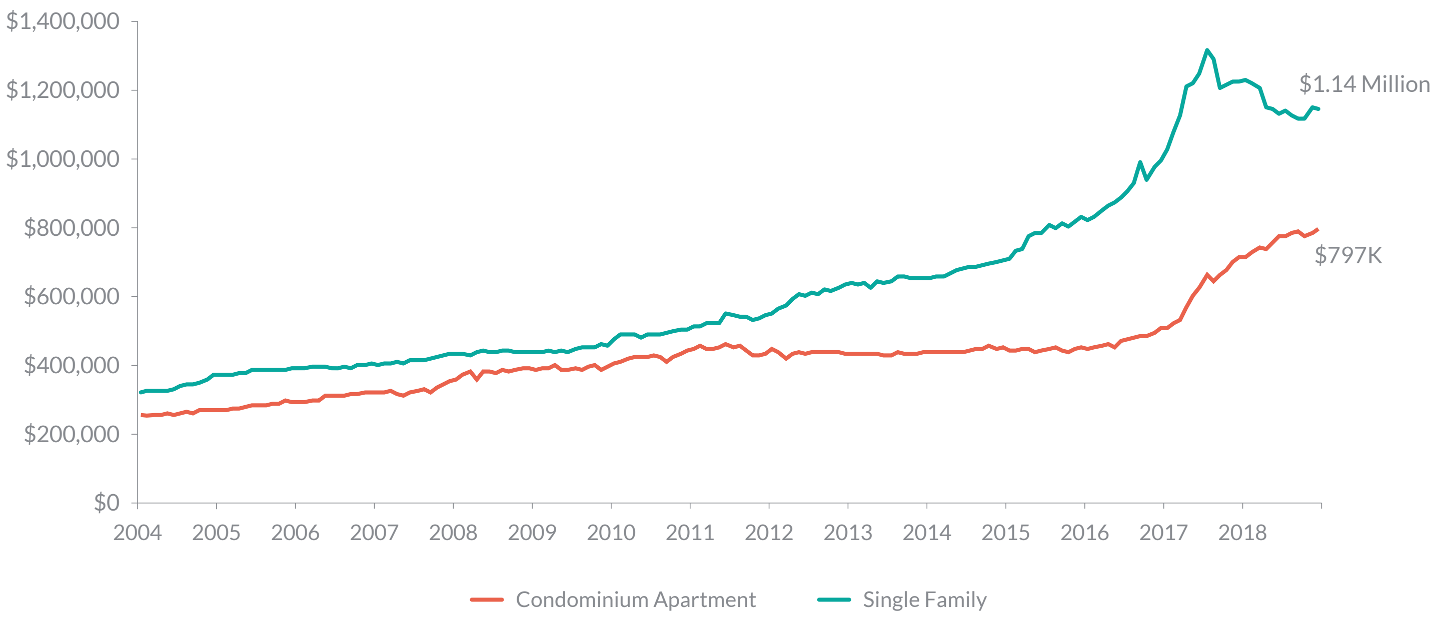
At the end of 2018, the benchmark price of new condominium apartments in the GTA reached an all time high at just under $800,000. While the prices of new condominium apartments continued to increase during 2018 (by 11% on average for the year), the gains were more moderate than in 2017 and slowed as the year progressed.

The benchmark price of a single-family home in the GTA finished 2018 at $1.14 million, about 13% below the peak reached in July 2017.

While new condominium apartments continue to provide a more affordable alternative to new single-family homes, the gap in prices between new single-family homes and new condominium apartments has narrowed significantly since early 2017, removing some of this advantage.

New Home Benchmark Prices*

GREATER TORONTO AREA



*Average asking price for available inventory

Source: Altus Group

RESIDENTIAL DEVELOPMENT MARKET CONTINUED
GREATER TORONTO AREA

New home inventories in the GTA have increased from 2017's lows.

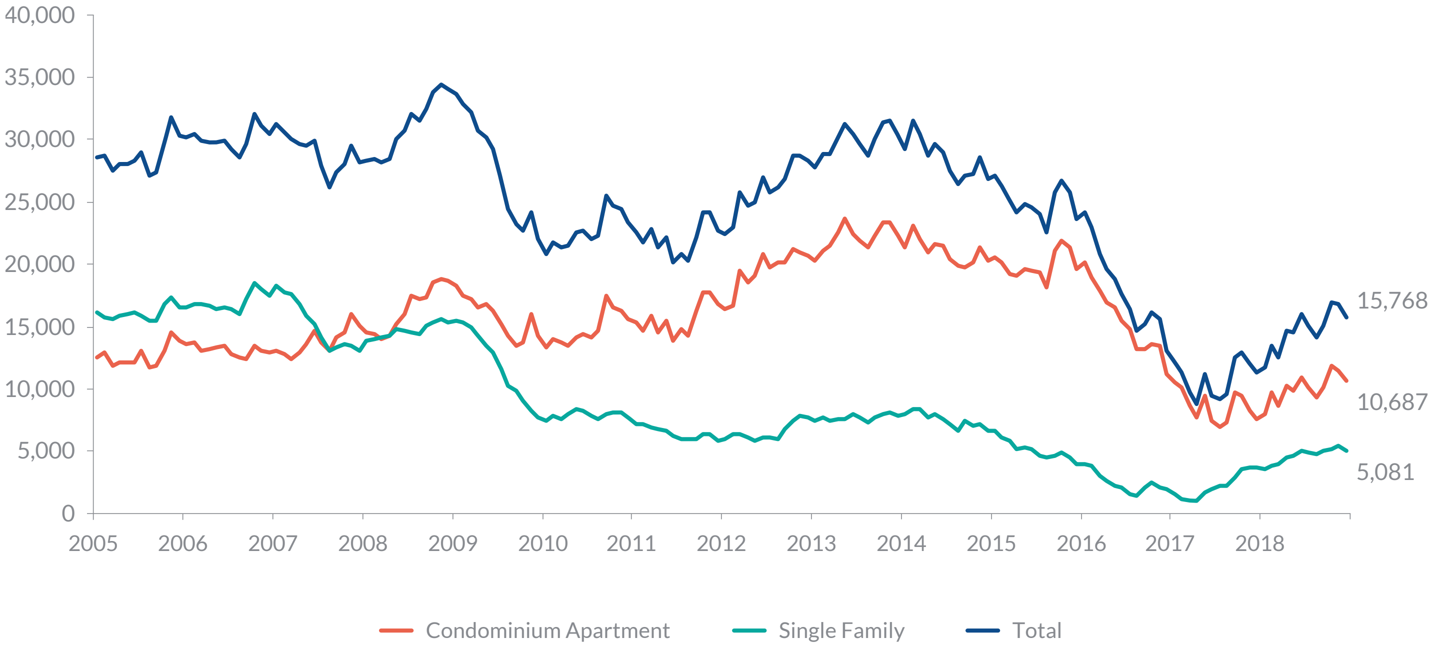
New Home Inventory Highlights

The inventory of new homes available to purchase has been increasing since the lows recorded in 2017, which is a factor in the slower growth in the benchmark price for new condominium apartments and the decline in the benchmark price for new single-family homes.

Based on the monthly pace of sales in 2018, new condominium apartment inventory at the end of 2018 represented 6 months of supply. While up from a year earlier, this is only about half the long-term average of 11-12 months.

Single-family inventory levels rose slowly throughout 2018 and were above the 5,000 unit mark in late 2018 for the first time since June 2015. However, there are still limited options that are affordable to a broader range of buyers – only 1 in 5 new single-family homes available to purchase at the end of 2018 was priced below $750,000.

New Home Remaining Inventory
GREATER TORONTO AREA



Source: Altus Group

HOMEBUYERS
GREATER TORONTO AREA

Homebuying intentions are up from last year.

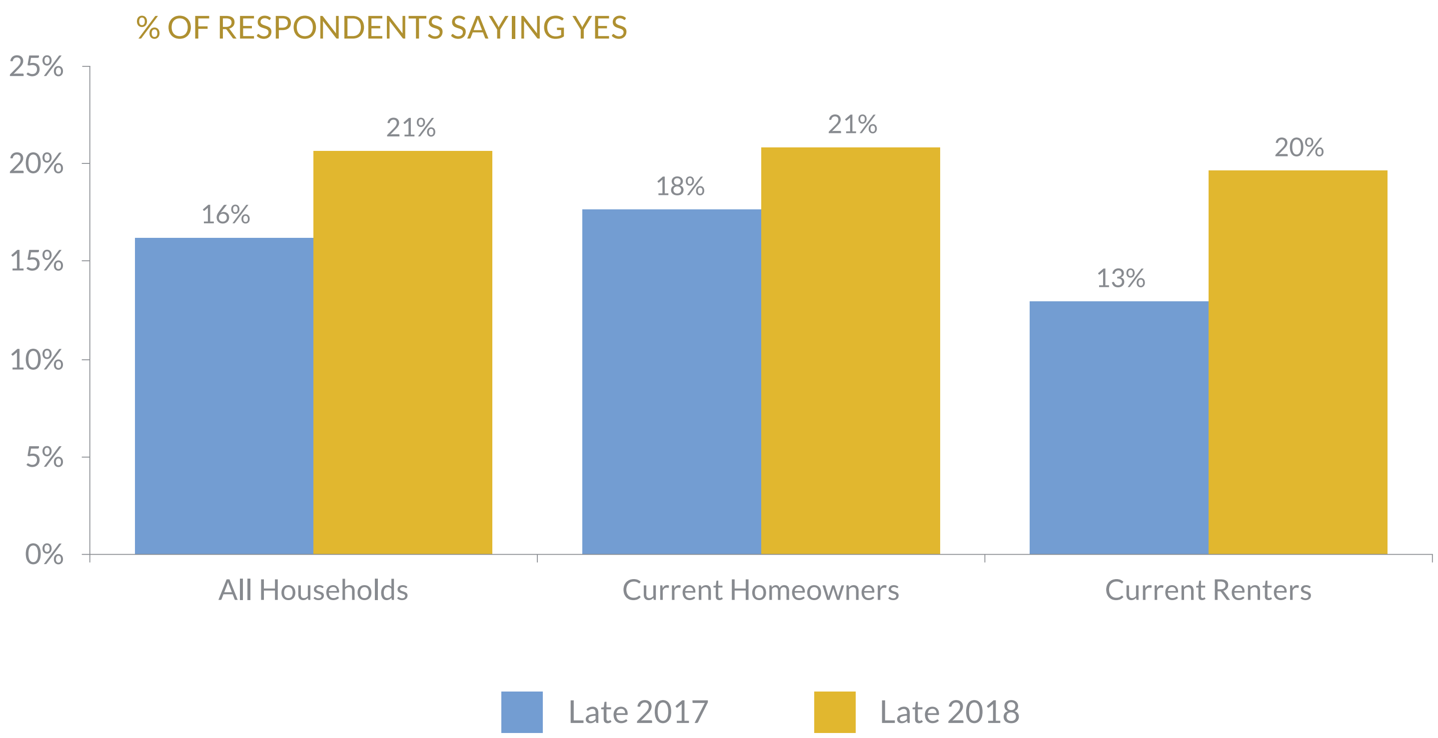
Homebuyer Highlights

More GTA households are planning to buy homes in the upcoming year, according to Altus Group's FIRM Survey.

Homebuying intentions among renters – the primary pool for potential first-time buyers – had plunged in 2017 in response to affordability and mortgage qualification challenges, but rebounded in late 2018.

Current homeowners are also expressing more willingness to buy a home than a year ago.

Planning to Buy a Home in the Next Year
GREATER TORONTO AREA



Source: Altus Group

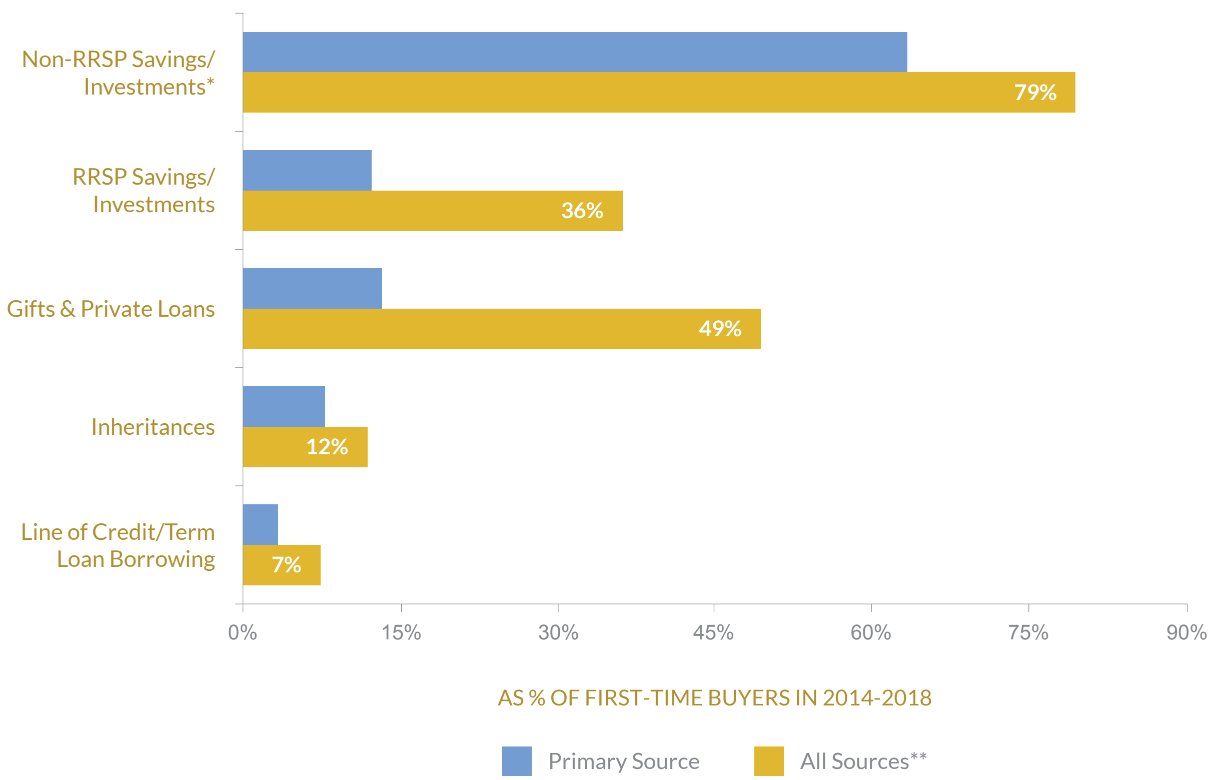
Over half of recent first-time homebuyers in the GTA get some funds from family for their downpayments.

Homebuyer Highlights *Continued*

Most first-time buyers in the GTA use their own savings for the primary source of their downpayment.

But with the affordability challenges due to the house price increases that occurred pre 2017, and more stringent mortgage qualification, many are getting additional help from parents or other family members in order to be able to put down larger downpayments. About half of first-time buyers in recent years received gifts or private loans from their family to use towards their downpayment. Another 1 in 10 first-time buyer was able to benefit from inheritances.

Sources of Downpayments, Recent First-Time Buyers
GREATER TORONTO AREA



*Includes equity from sale of property
** Adds to more than 100% due to use of multiple sources

Source: Altus Group

Half of recent homebuyers in the GTA were first-time buyers.

Homebuyer Highlights *Continued*

About 1 in 2 end-user homebuyers in the GTA in the past 5 years was a first-time buyer, according to Altus Group's FIRM Survey. The vast majority of recent homebuyers (first-time and repeat buyers combined) are under the age of 50.

Important niche markets are recent immigrants to Canada (with those arriving after 2000 accounting for about 1 in 6 end-user home sales) and single-person households (1 in 5 homebuyers).

About 4 in 10 homebuyers in the past 5 years have high ratio mortgages (i.e. had downpayments of less than 20%).

Selected Characteristics of Recent End-User Homebuyers

GREATER TORONTO AREA

Aged <50 Years	4 in 5
First-Time Buyer	1 in 2
Single-Person Household	1 in 5
Immigrated to Canada After 2000	1 in 6
Bought Newly-Built Condominium Unit	1 in 6
Annual Household Income <$100K	6 in 10
Downpayment <20% (High Ratio Mortgage)	4 in 10
Variable Rate Mortgage (of Those with a Mortgage)	1 in 3

Source: Altus Group

SUMMING UP AND LOOKING AHEAD

GREATER TORONTO AREA

The strong absorption of office and industrial space is expected to persist over the next year.

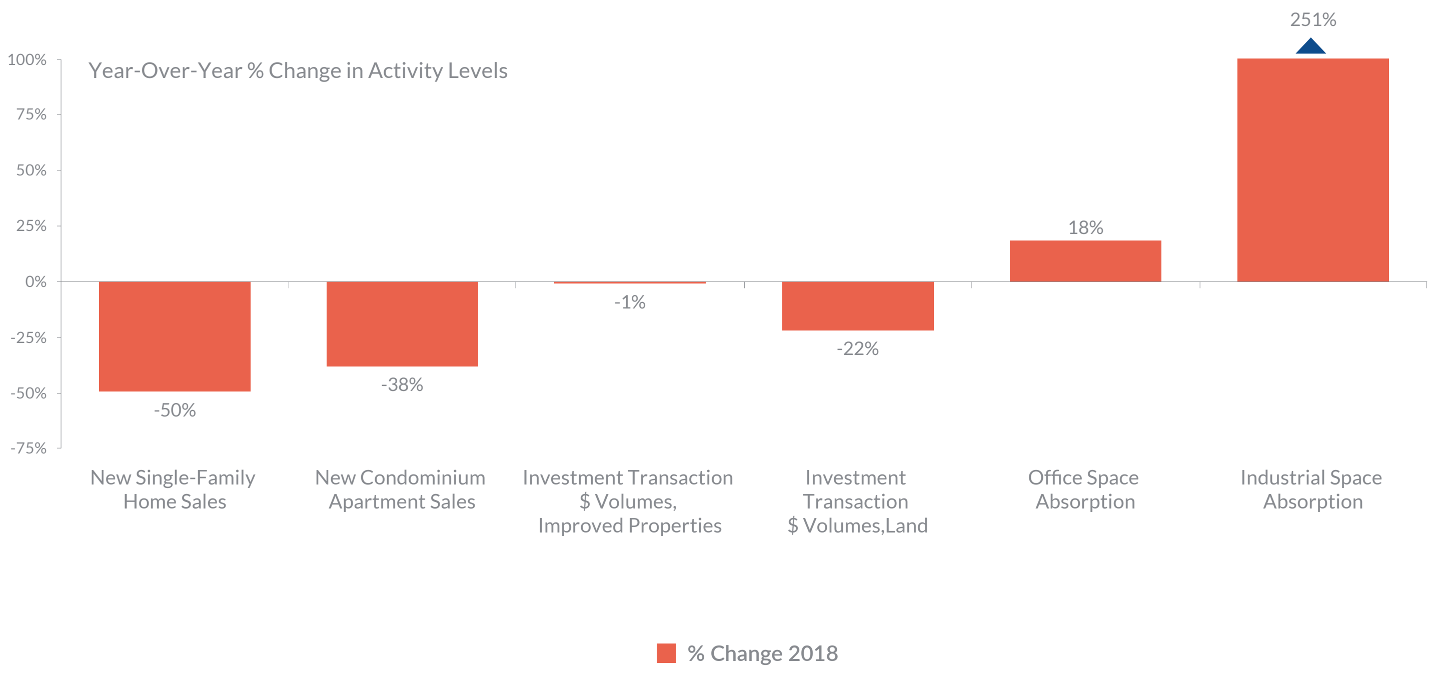
Looking Ahead

Real estate investment in general took a bit of a breather in 2018 after an exceptional 2017. The downturn is expected to be short-lived, however, given the rebound in homebuying intentions, the pause in interest rate increases and the continued appeal of commercial real estate as an investment asset class.

Office and industrial space absorption is expected to stay strong over the next year. While the large amounts of new office space under construction in the downtown area suggest the office vacancy rate is near the bottom, extreme tightness in the industrial leasing market is expected to persist.

Relative Performance by Market Activity

GREATER TORONTO AREA



Source: Altus Group

ABOUT THE FLASH REPORT

Produced by Altus Group, through our Data Solutions team. We have put together the following Flash Report which illustrates the expanded perspective our solutions provide in the Greater Toronto Area.

In this report, insights and perspectives are provided for the following areas:

- Commercial Investment & Land Market
- Commercial Leasing Market
- Residential Development Market
- Homebuyers

Altus Group is your single source for nationally researched real estate market data, backed by local expertise.

We hope you enjoy the report. Please let us know what you think by emailing *datasolutionsinfo@altusgroup.com*

About Altus Group Limited

Altus Group Limited is a leading provider of software, data solutions and independent advisory services to the global commercial real estate industry. Our businesses, Altus Analytics and Altus Expert Services, reflect decades of experience, a range of expertise, and technology-enabled capabilities. Our solutions empower clients to analyze, gain insight and recognize value on their real estate investments. Headquartered in Canada, we have approximately 2,500 employees around the world, with operations in North America, Europe and Asia Pacific. Our clients include some of the world's largest real estate industry participants. Altus Group pays a quarterly dividend of $0.15 per share and our shares are traded on the TSX under the symbol AIF.

For more information, please visit *altusgroup.com/datasolutions*