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Please contact **datasolutionsinfo@altusgroup.com** with any questions.

TORONTO
STATE OF THE MARKET

2019

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Agenda

8:00 a.m. Economic Outlook

8:30 a.m. Residential & Commercial Market Briefing

9:30 a.m. Focus Sessions (optional)

10:15 a.m. Event End

Economic Overview

Benjamin Tal, CIBC World Markets

TORONTO STATE OF THE MARKET 2019

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Where In The World Are We ?

Benjamin Tal

February 2019

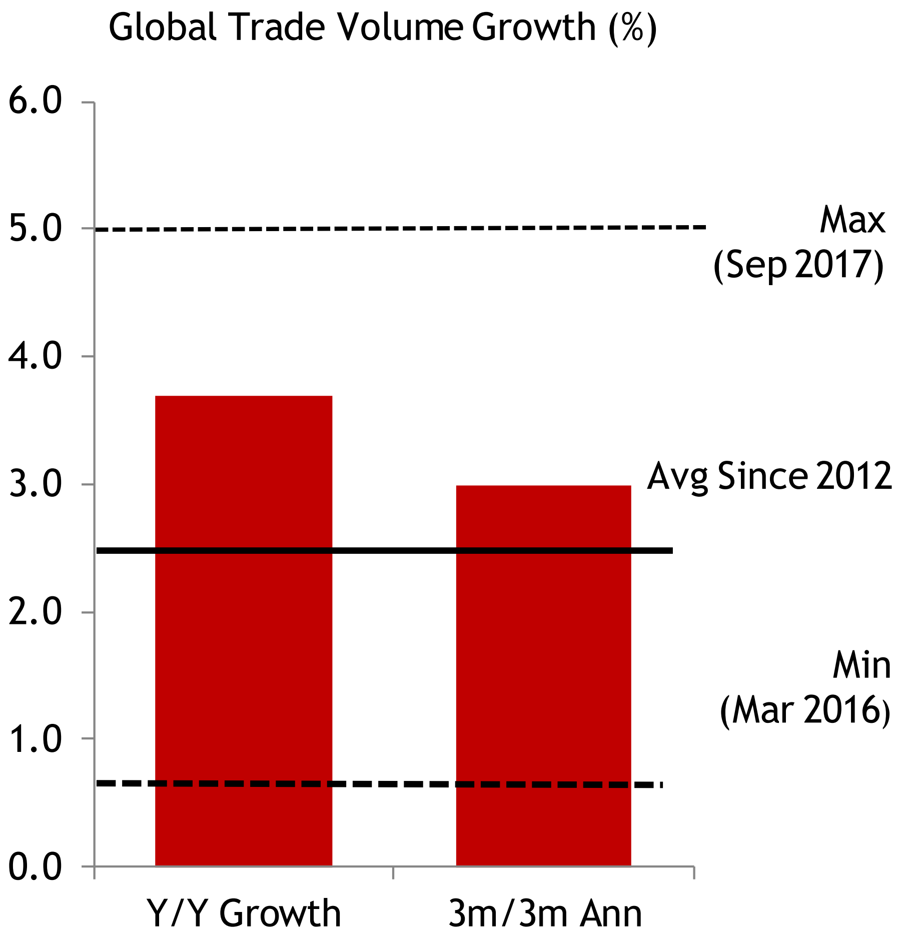
Global Growth: Slowing Ahead

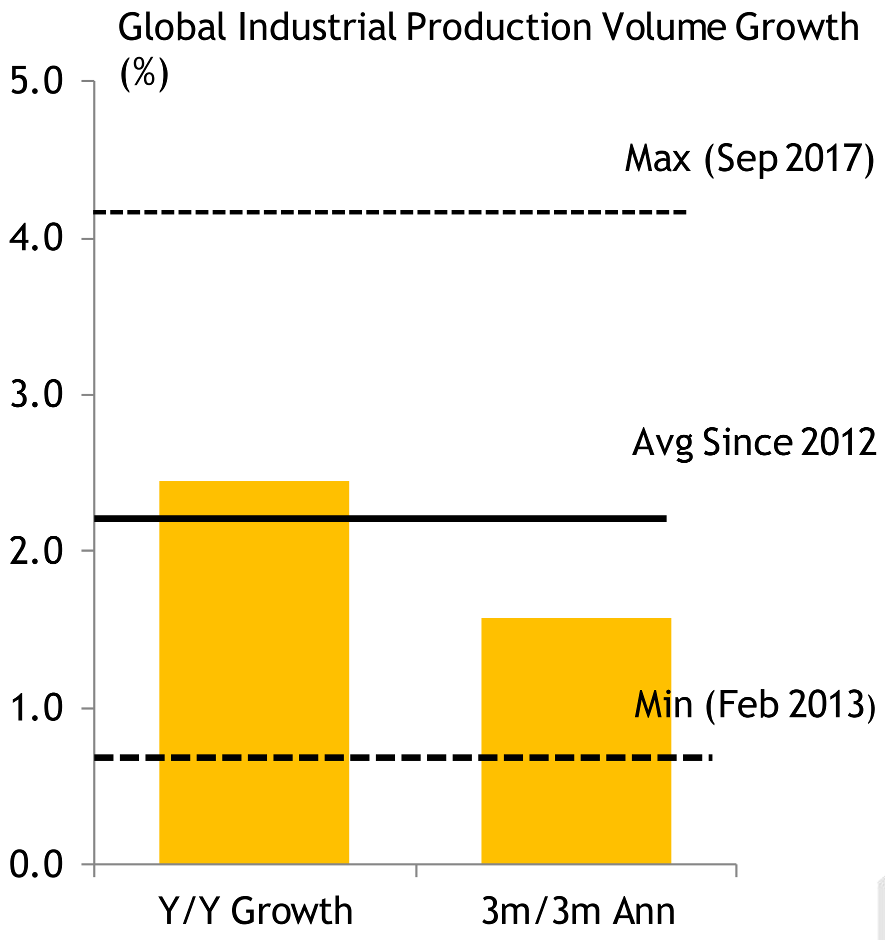
	5 yrs before recession, avg	2015A	2016A	2017A	2018F	2019F	2020F
World*	4.8	3.5	3.2	3.7	3.4	3.2	2.9
US	2.9	2.9	1.6	2.2	2.9	2.2	1.4
Canada	2.6	1.0	1.4	3.0	2.1	1.8	1.3
Euroland	2.2	2.0	1.9	2.5	1.9	1.4	1.2
UK	3.3	2.3	1.8	1.7	1.3	1.1	1.3
Japan	1.8	1.4	1.0	1.7	1.1	0.9	0.9
China	11.6	6.9	6.7	6.9	6.5	6.2	6.0

** at Purchasing Power Parity*

Source: National statistical agencies, IMF, CIBC

Global Indicators: Not THAT Bad…



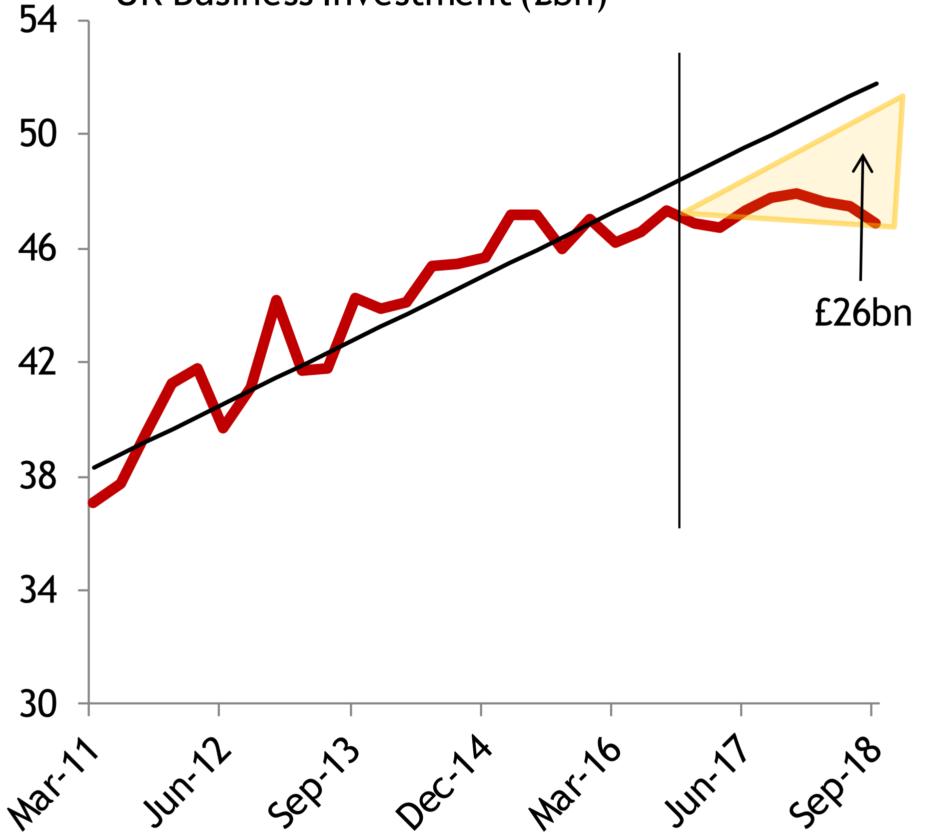


Source: CPB, CIBC

Brexit Uncertainty Held Back UK

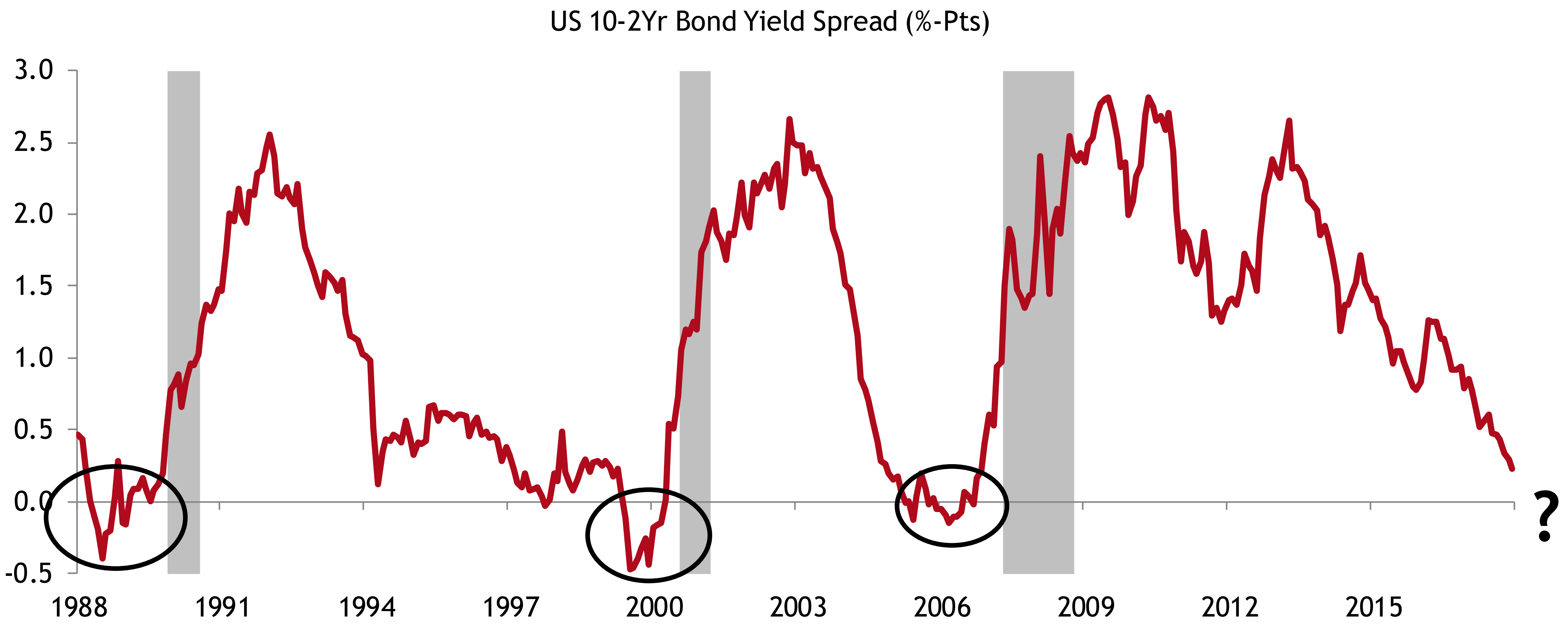
Theresa DisMAY

UK Business Investment (£bn)



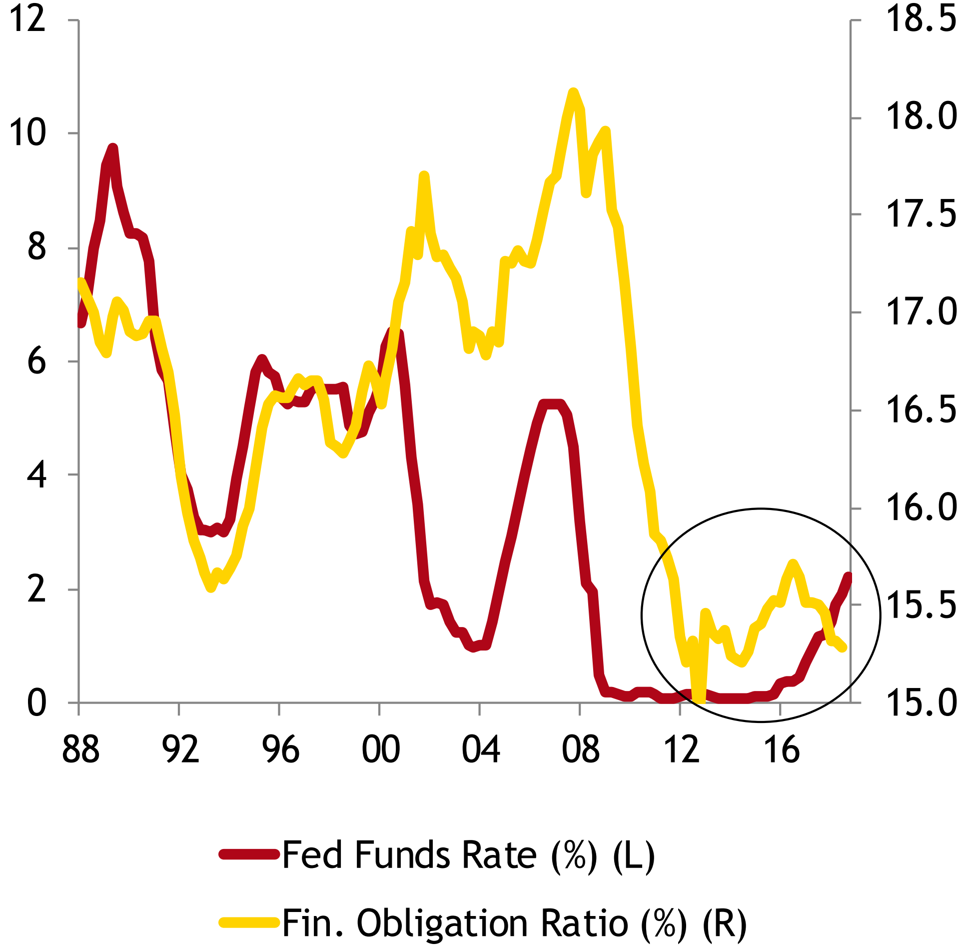
Source: ONS, CIBC

Should We Fear Yield Inversion?

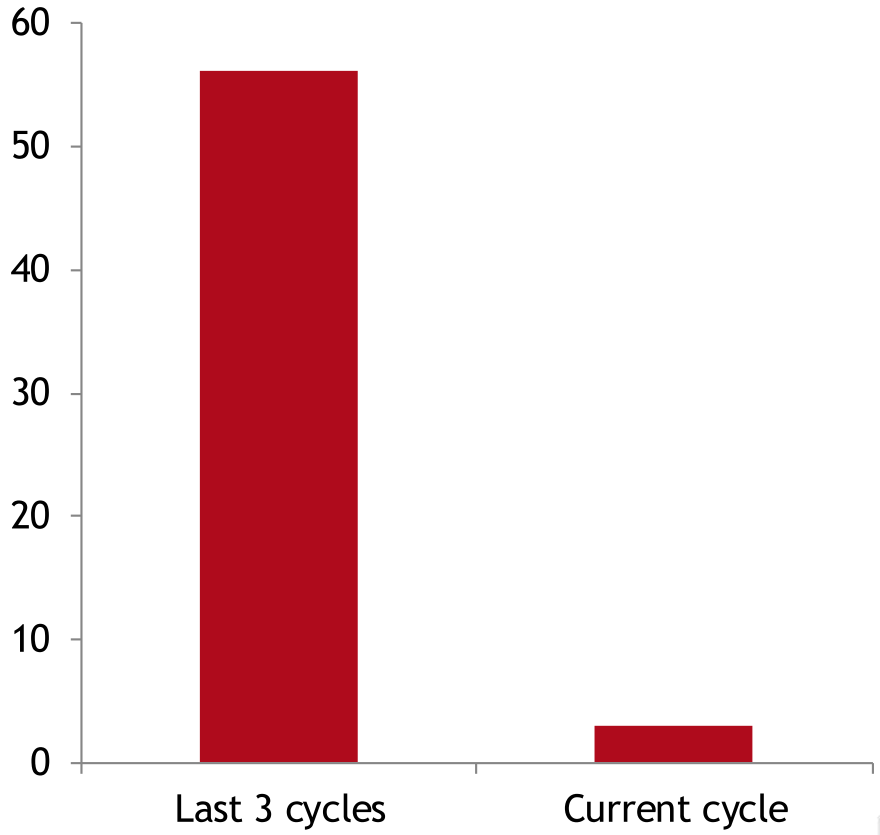


Source: Bloomberg, CIBC

Household's Finance Obligations Still Down Due to Unresponsive Bond Markets

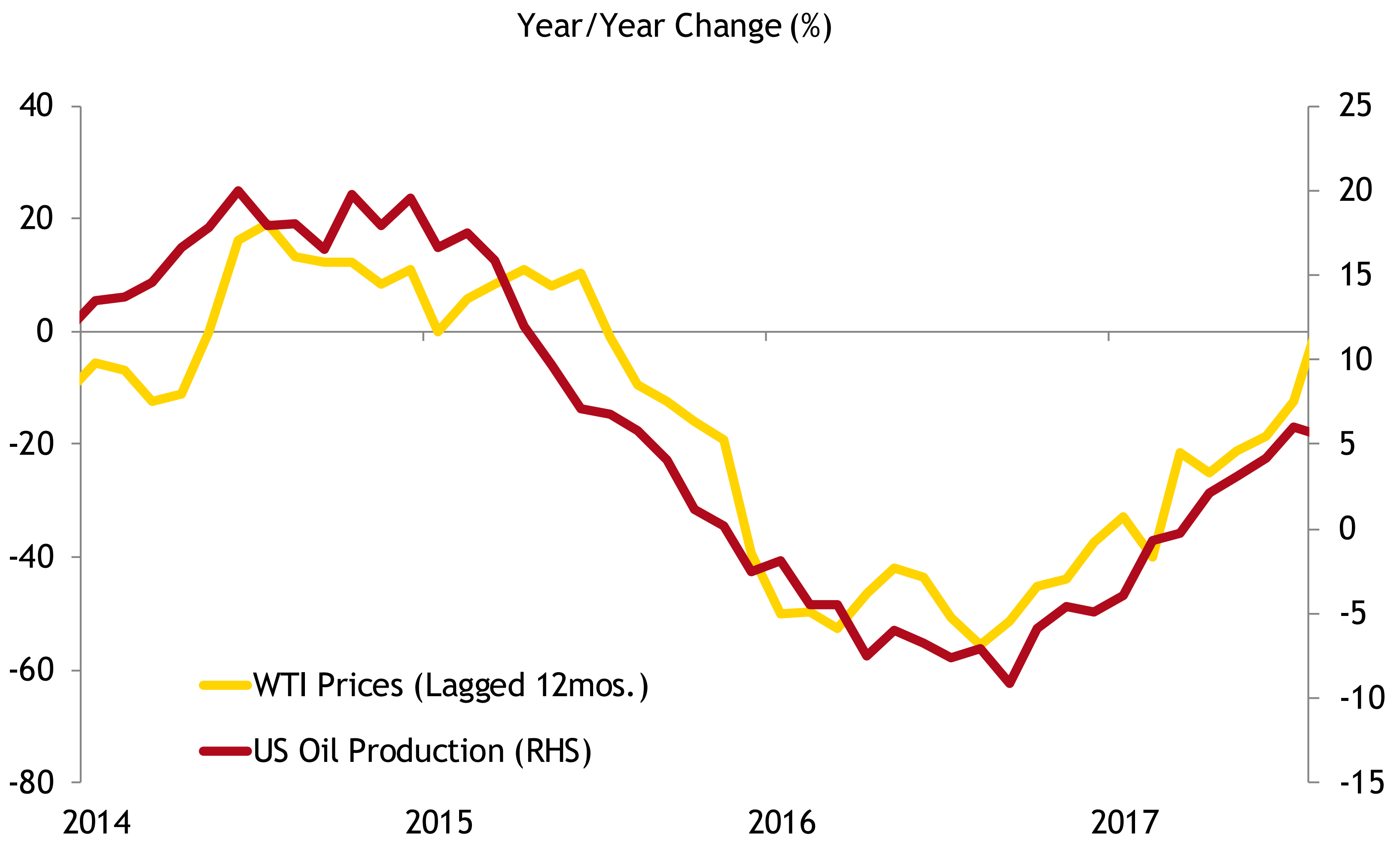


Change in 30-Year Rate for 100 bp change in Fed Funds Rate



Source: FRB, CIBC

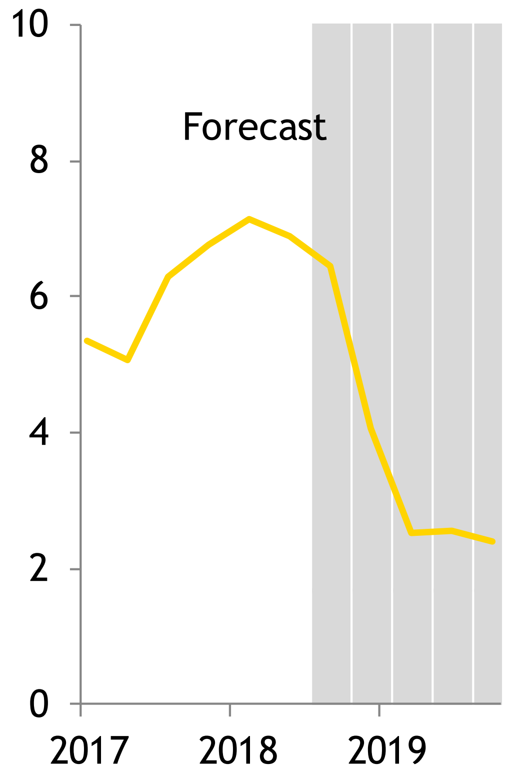
Soft Oil Prices: Not Just a Win for US Growth



Business Investment Intension (L), Signaling a Slowdown is Imminent (R)

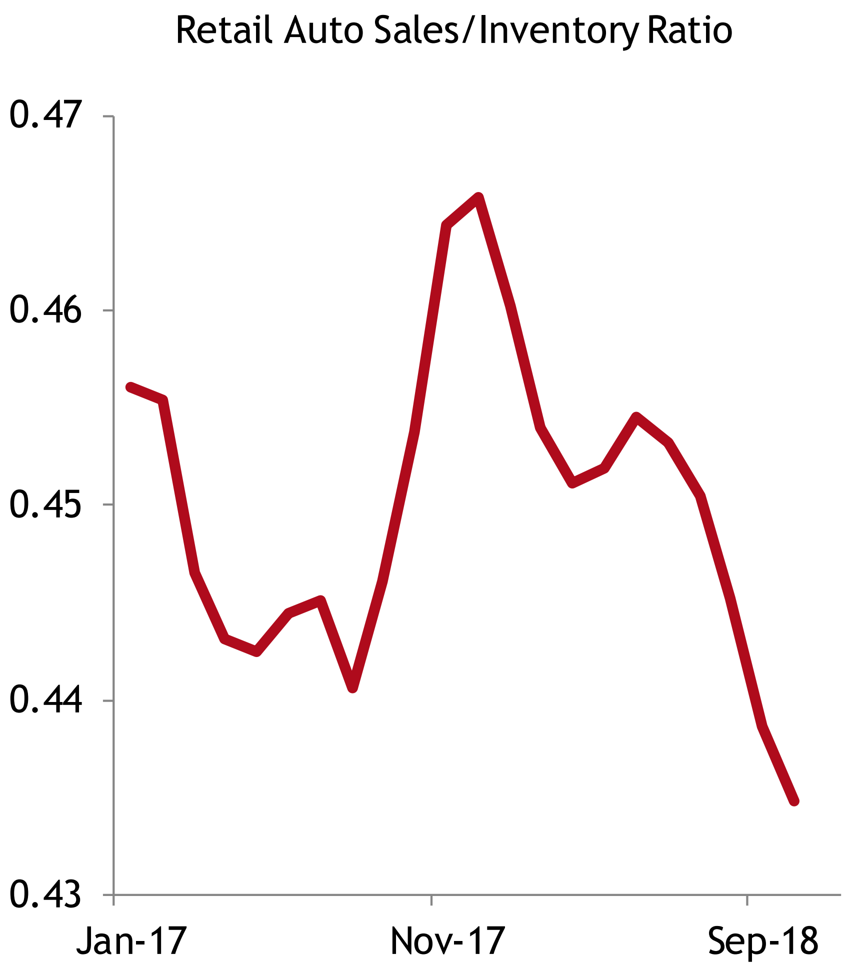
Small Business Capital Expenditure Plans
Index Level

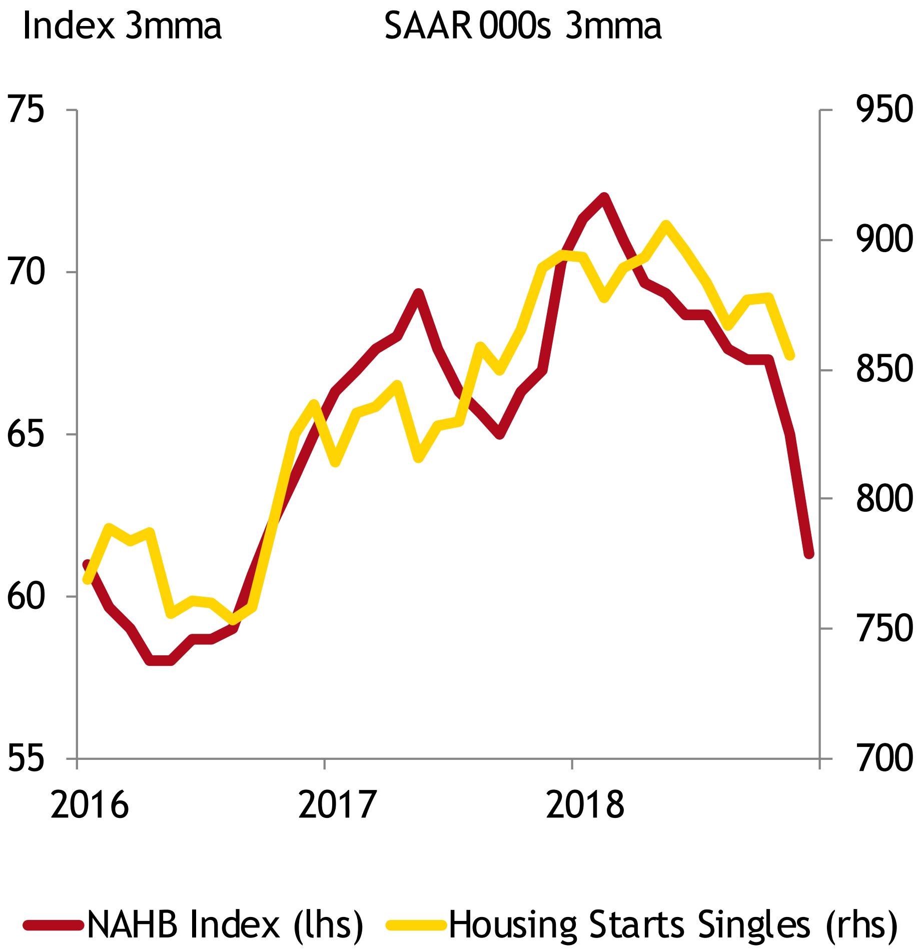
Non-Res. Business Fixed Investment (Q/Q% Ann., 4Qma)



Source: BEA, NFIB, Bloomberg, CIBC

Lagged Rate Hike Impacts: Autos and Housing



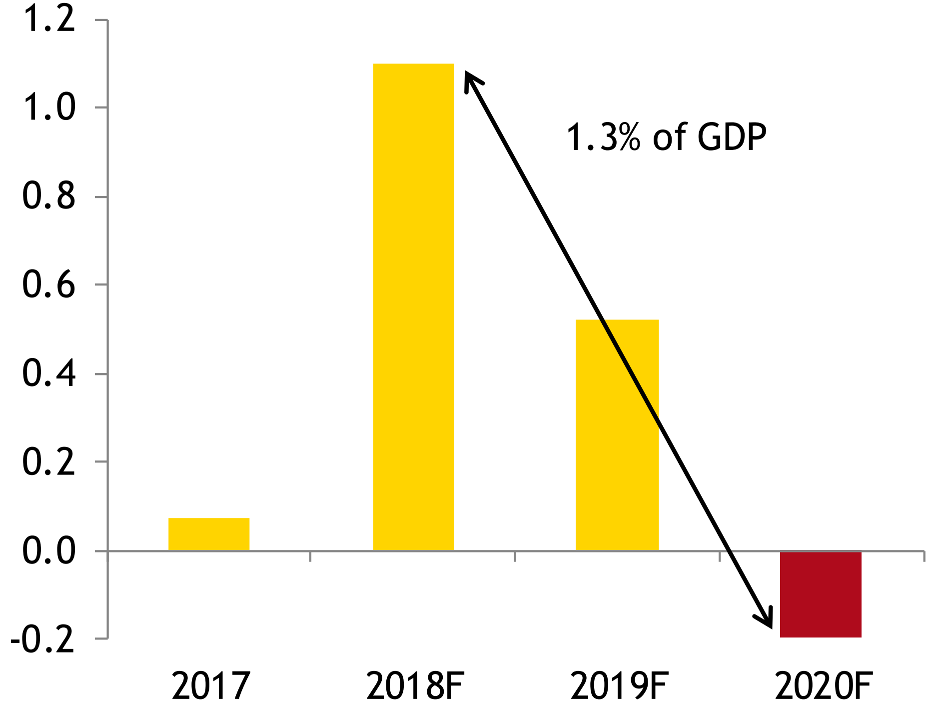


Source: NAHB, Census Bureau, CIBC

A $1.2 Trillion Budget Hole (L), Fiscal Policy to Subtract from Growth by 2020 (R)

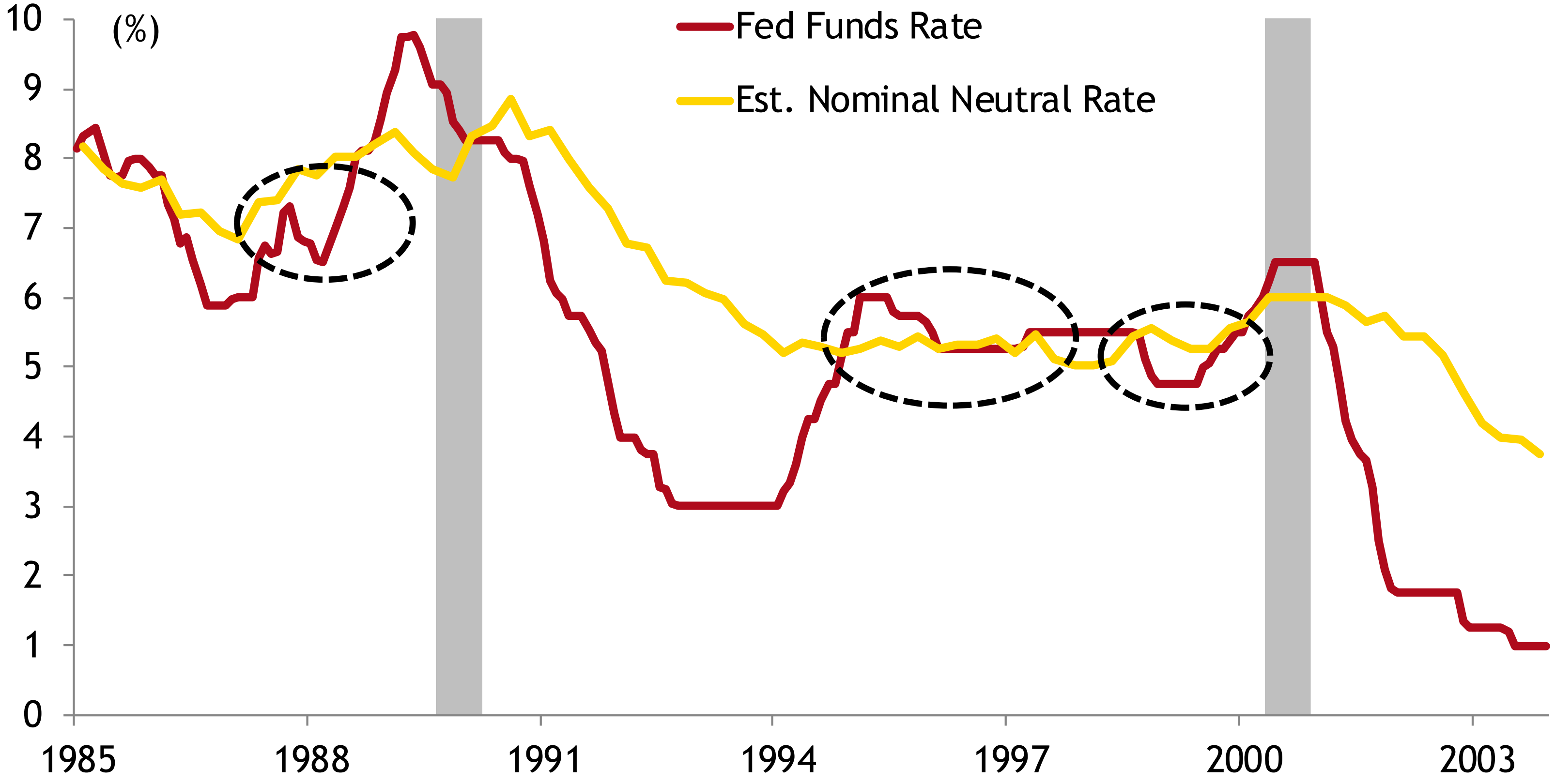
Federal Budget Balance, $Tr.

Fiscal Stimulus/Drag, % of Potential GDP



Source: IMF, CBO, CIBC

The Feds Track Record: 3 for 5

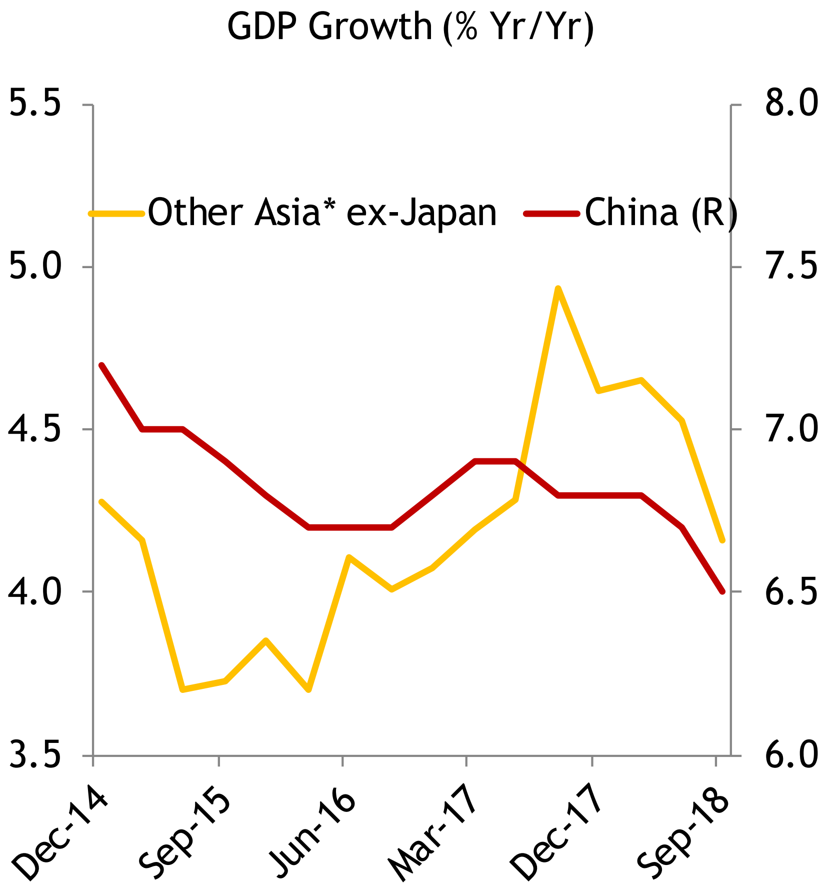


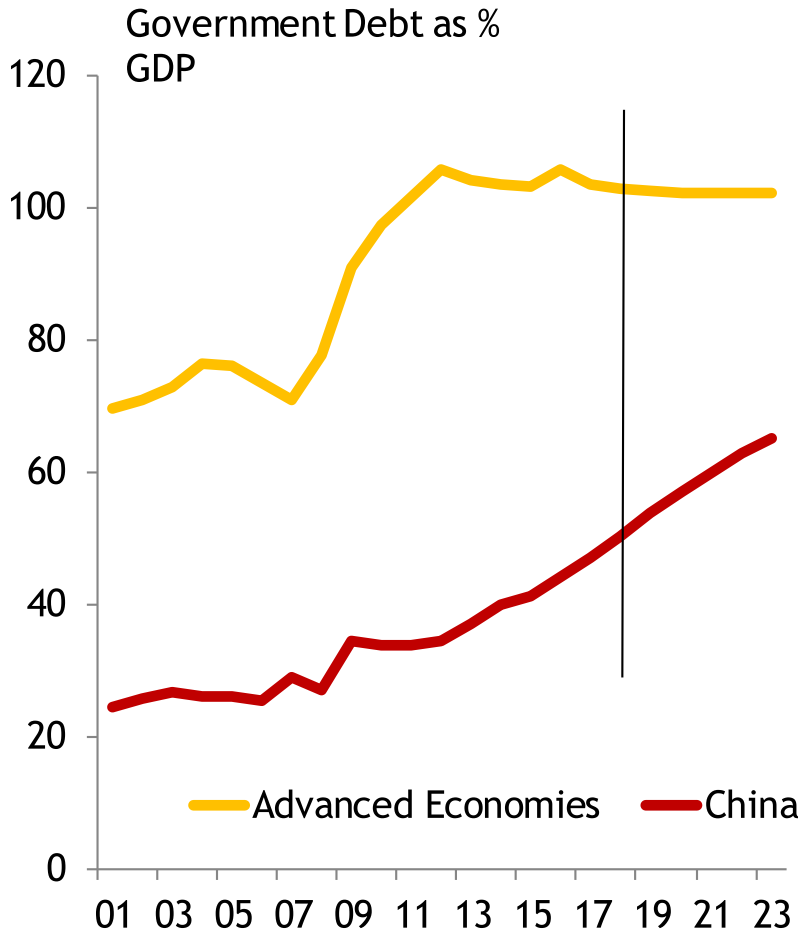
Mid-Cycle Eases are Circled, Recessions Shaded

Source: Bloomberg, CIBC

Friendly Conversation

Rest of Asia Hints at Sharper China Slowdown (L), China Has Room for Fiscal Stimulus as Plan B (R)



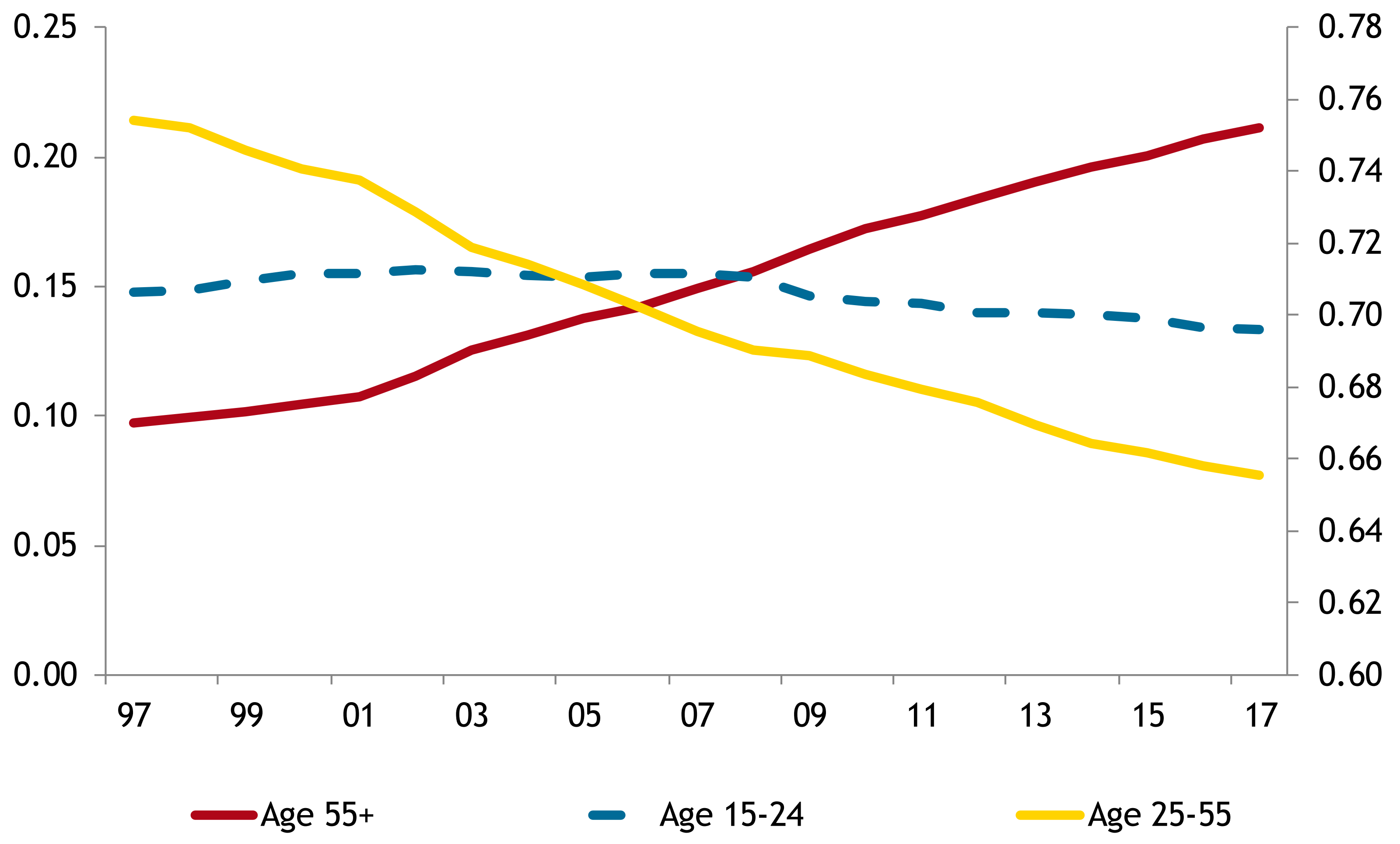


Source: Bloomberg, CIBC

Wages Should Be Accelerating in Theory, But….

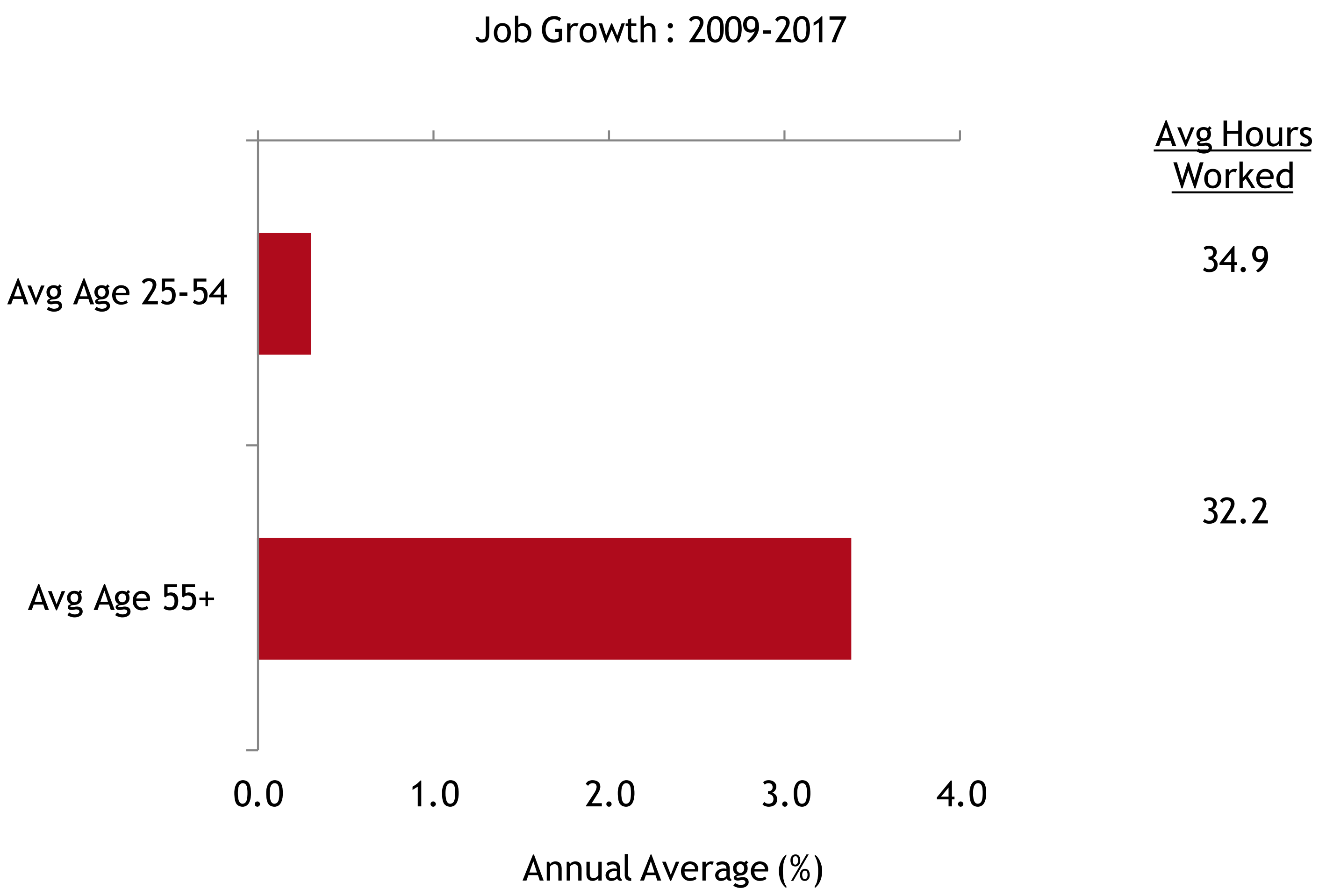
Source: Statistics Canada, CIBC

Share in Employment



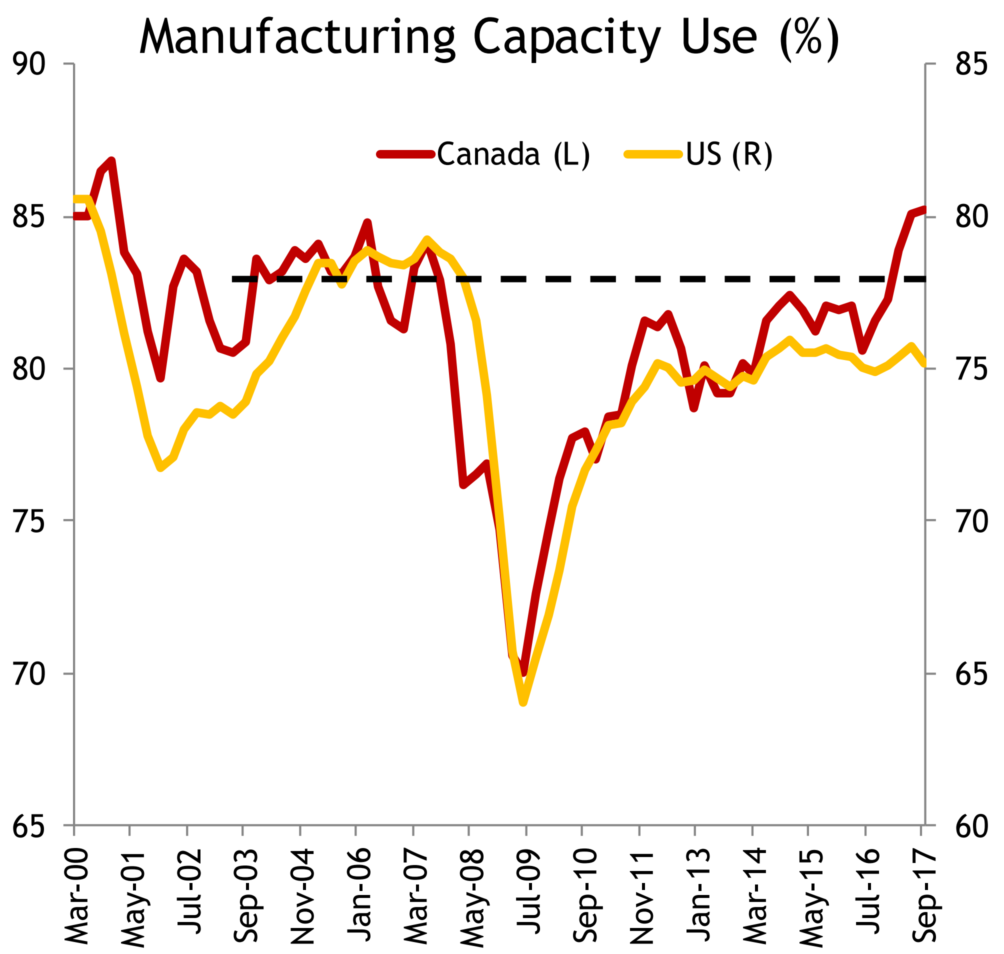
Source: Statistics Canada, CIBC

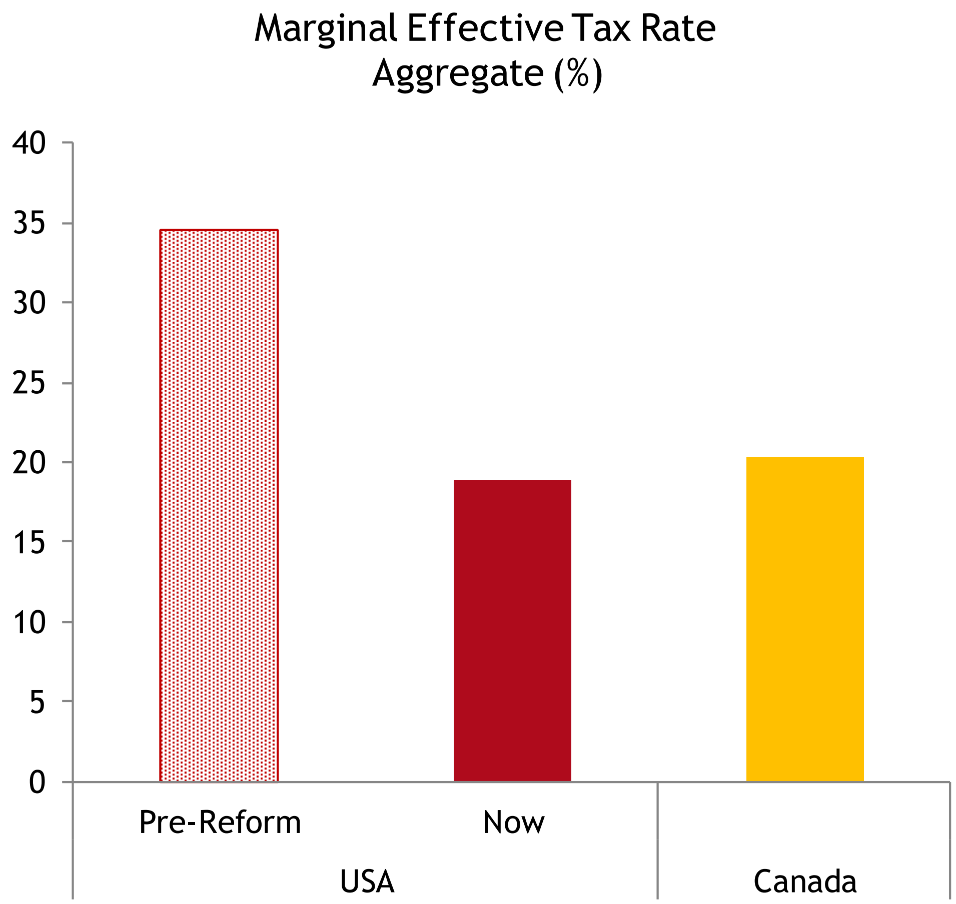
More Working Less



Source: Statistics Canada, CIBC

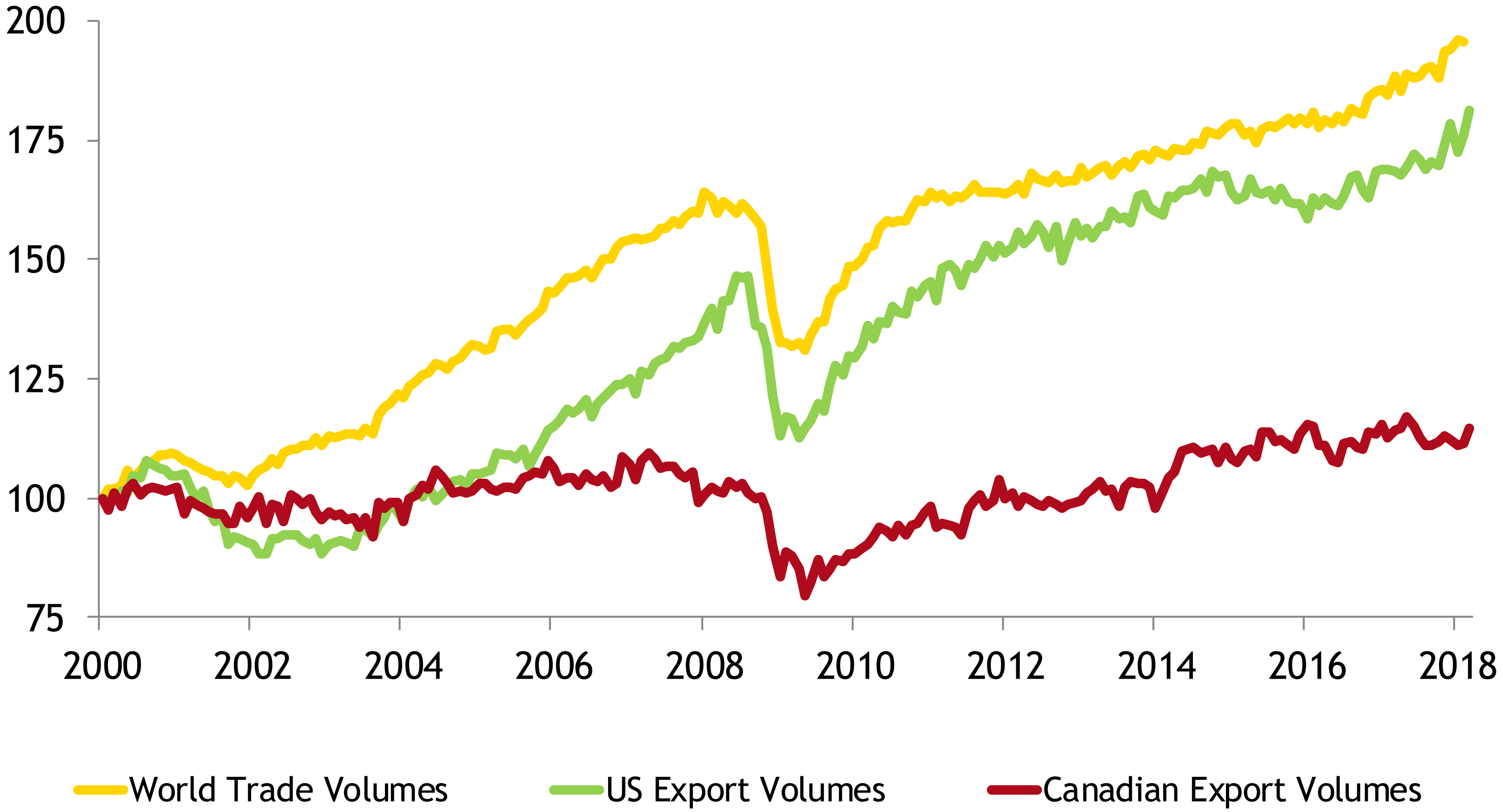
Canada Needs Investment More Than The US (L) But Corporate Tax Advantage Has Vanished (R)





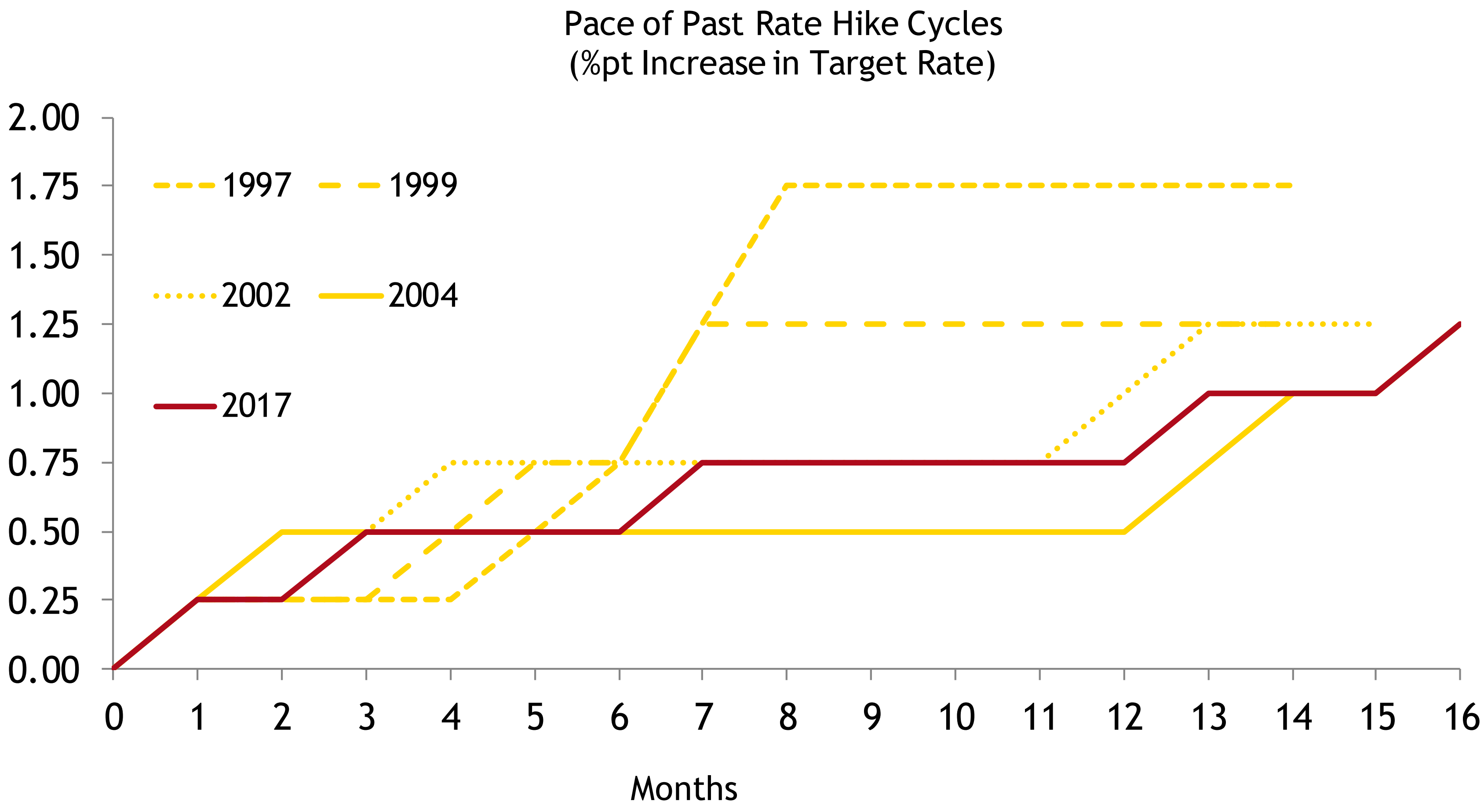
Source: Statistics Canada, BEA, CIBC

New Millennium Has Seen Listless Trend in Canadian Exports



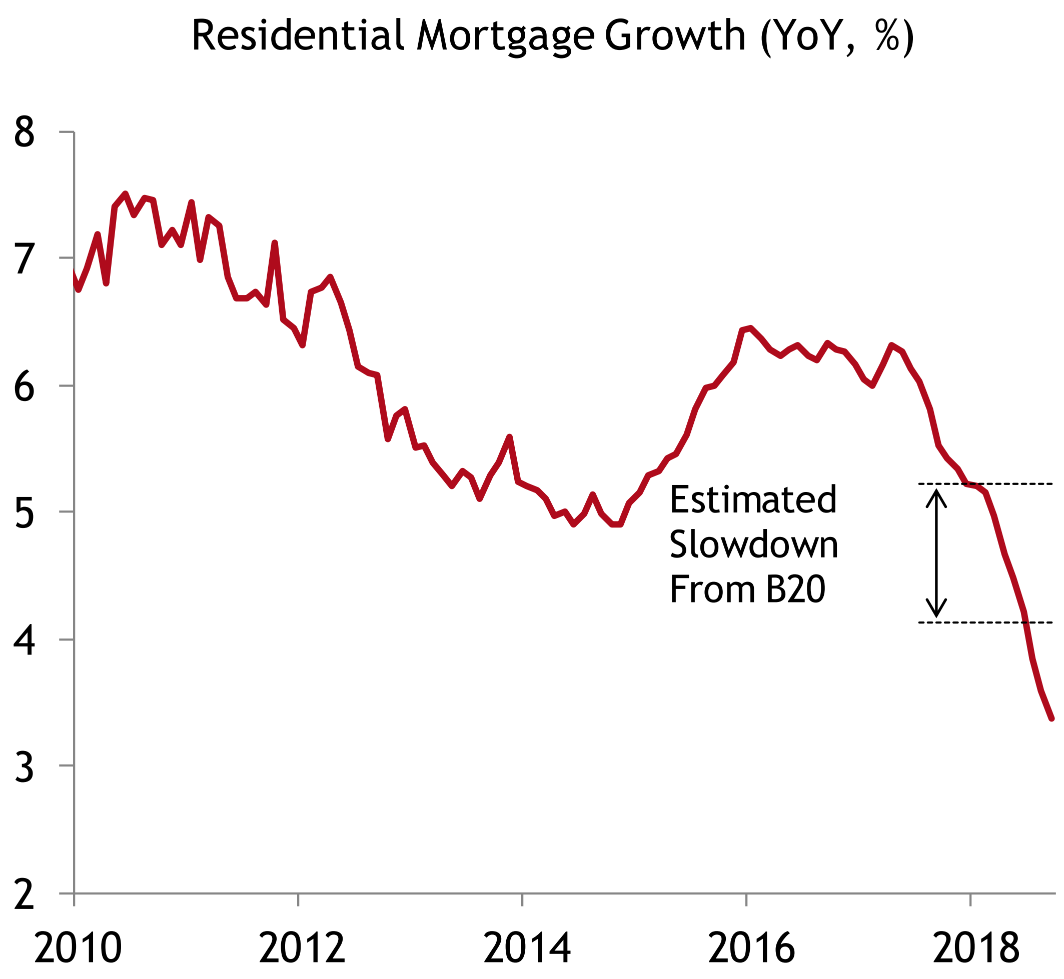
Source: CPB, Haver Analytics, CIBC

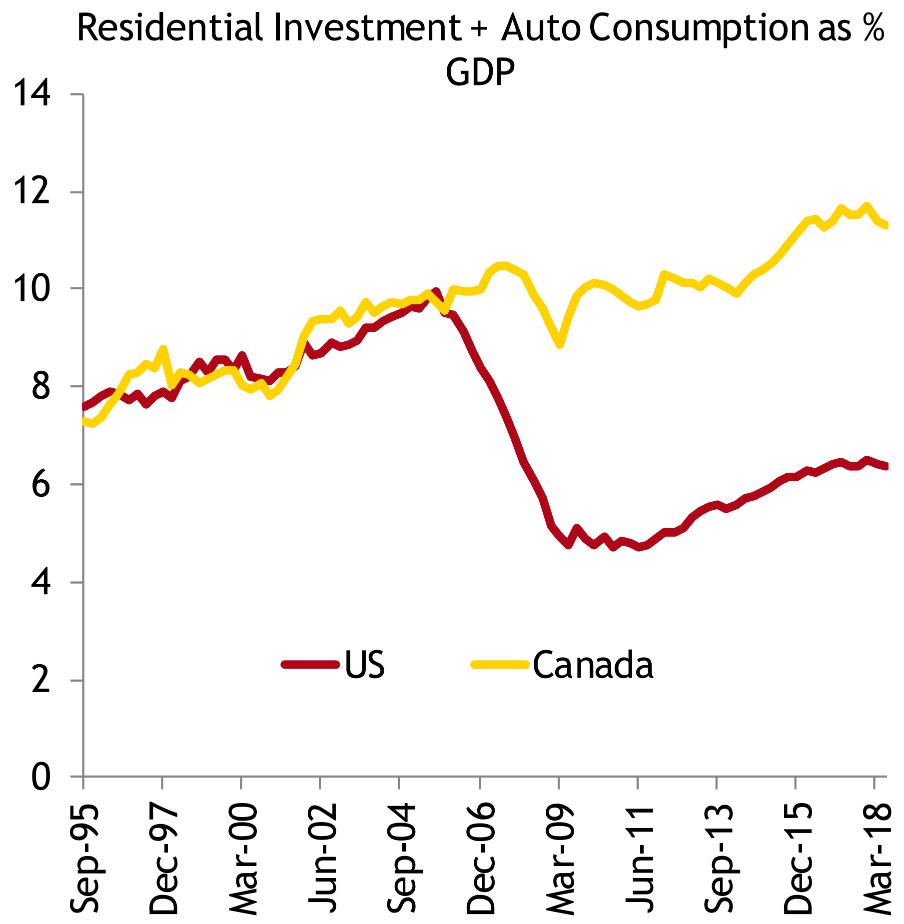
Rate Hike Cycle Not Particularly Gradual Relative to Recent Past



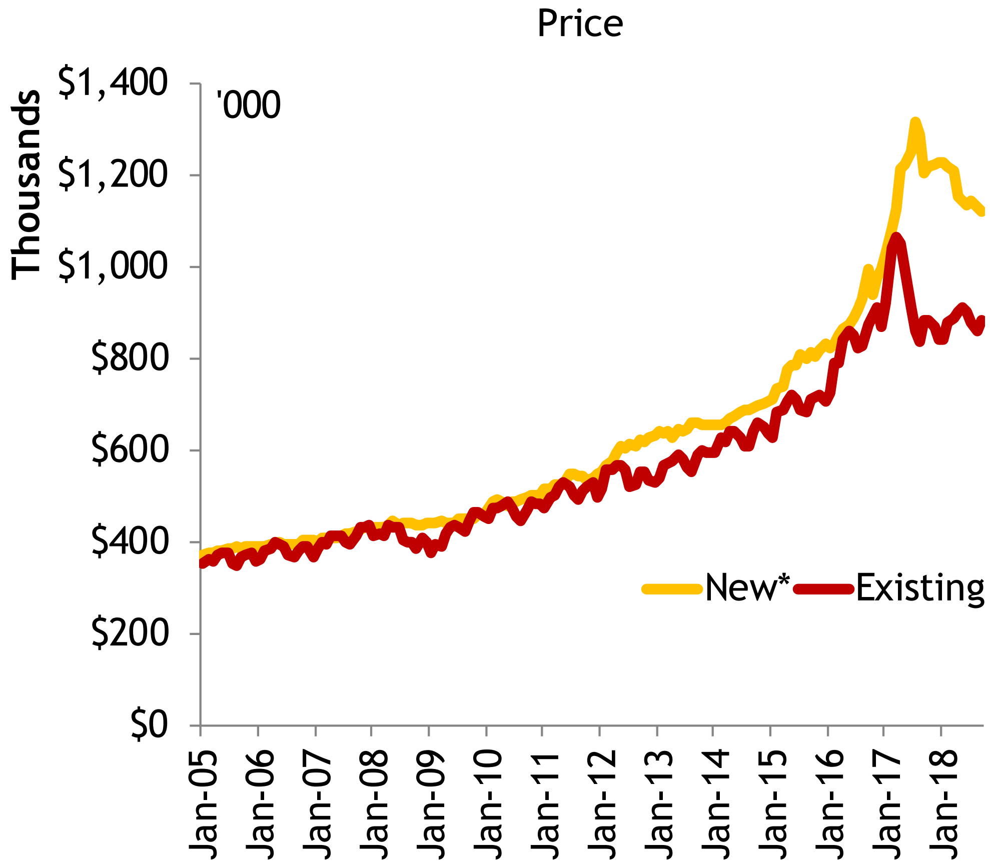
Source: Bank of Canada, CIBC

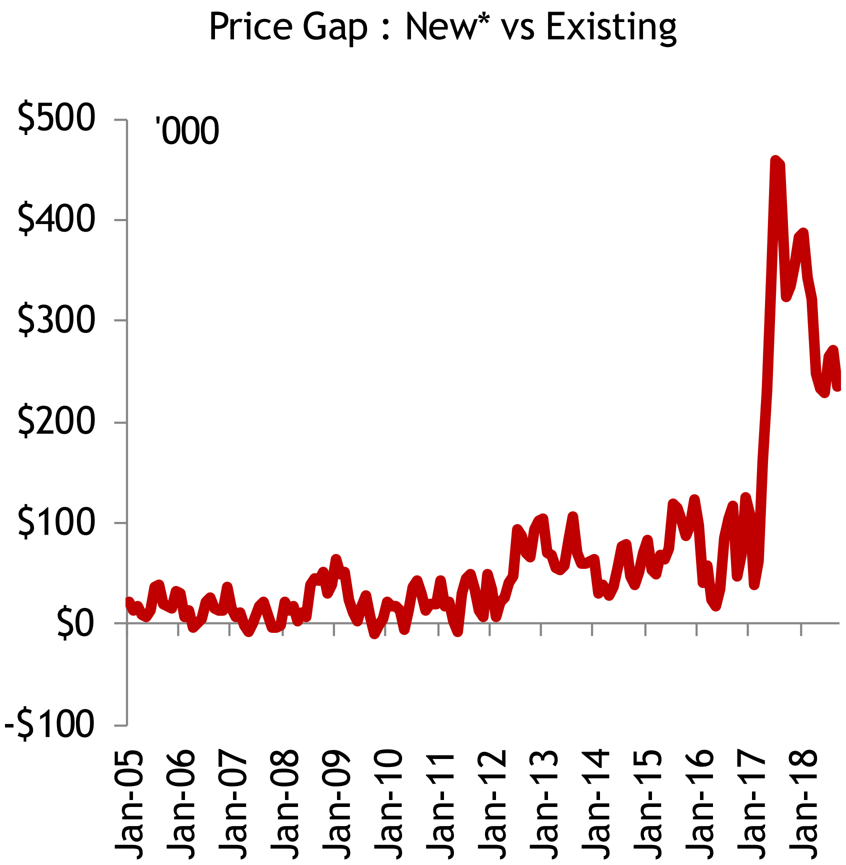
Household Credit Growth Slower Than in Recession (L) Risking a More Heavily Weighted Slice of Canadian GDP (R)





Single-Family Home GTA

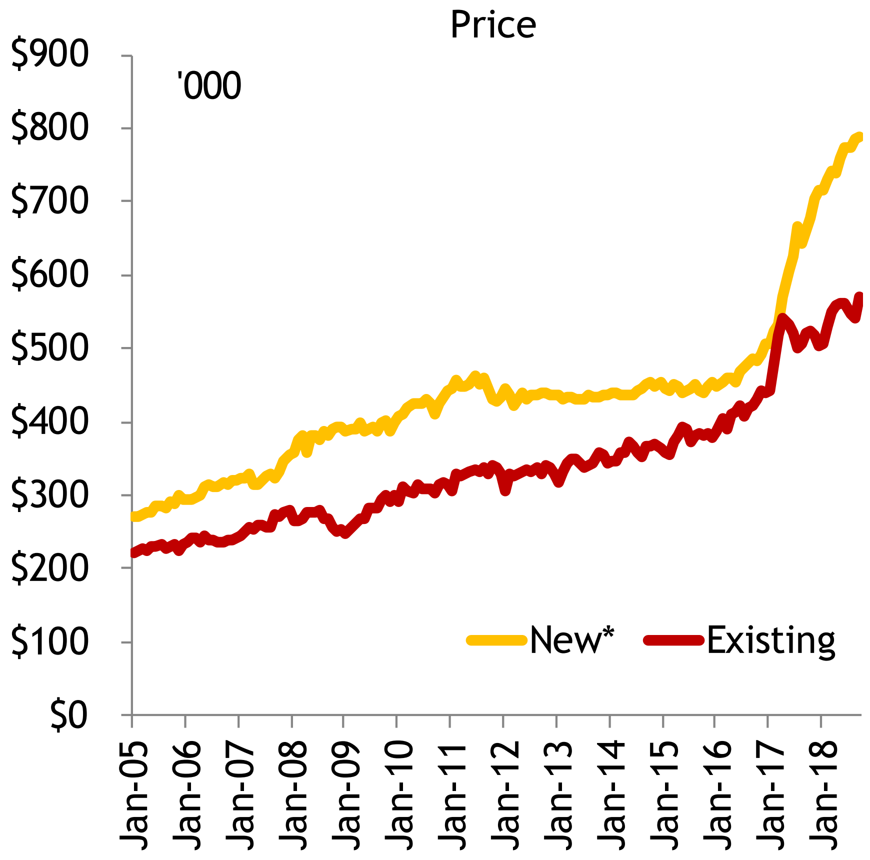


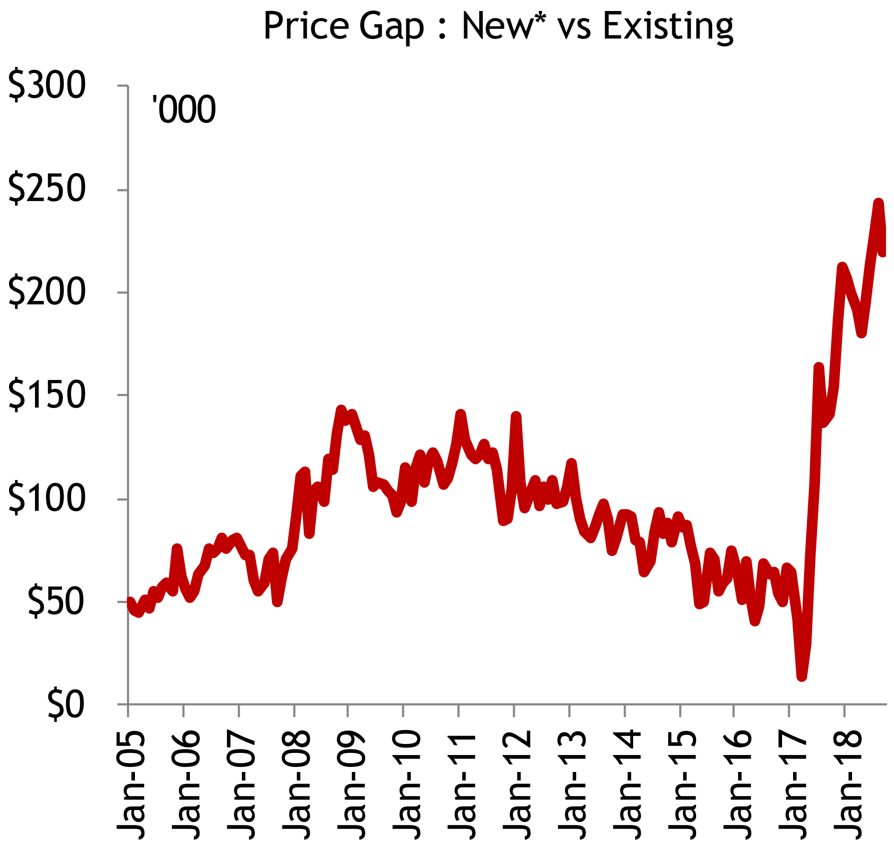


** Average asking price of available new home inventory at end of period with outliers removed*

Source: Altus Group (new homes) and TREB (existing homes) data

Condominiums GTA





** Average asking price of available new home inventory at end of period with outliers removed*

Source: Altus Group (new homes) and TREB (existing homes) data

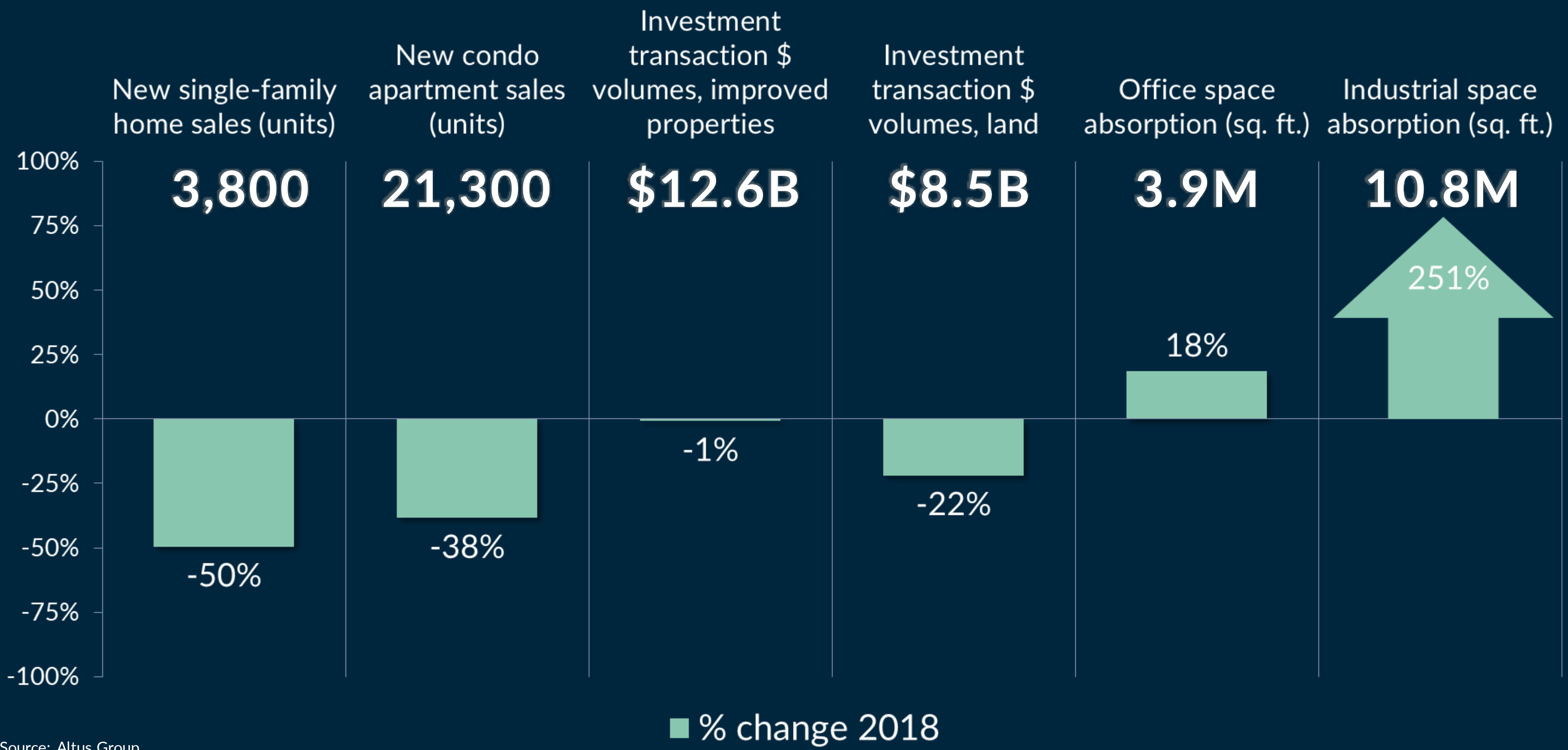
GTA Residential & Commercial Market Overview

TORONTO STATE OF THE MARKET 2019

At a glance: 2018 market trends

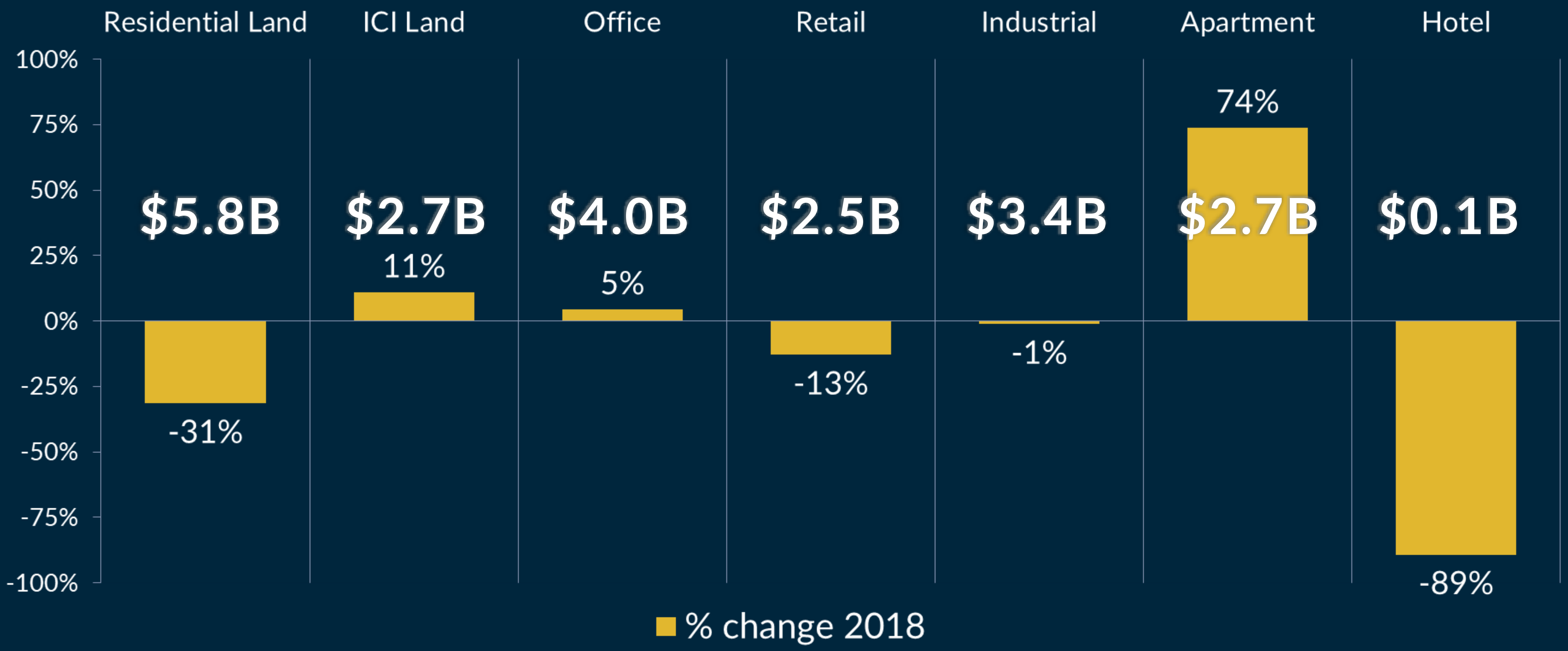
2018 Performance Dashboard

Altus Group



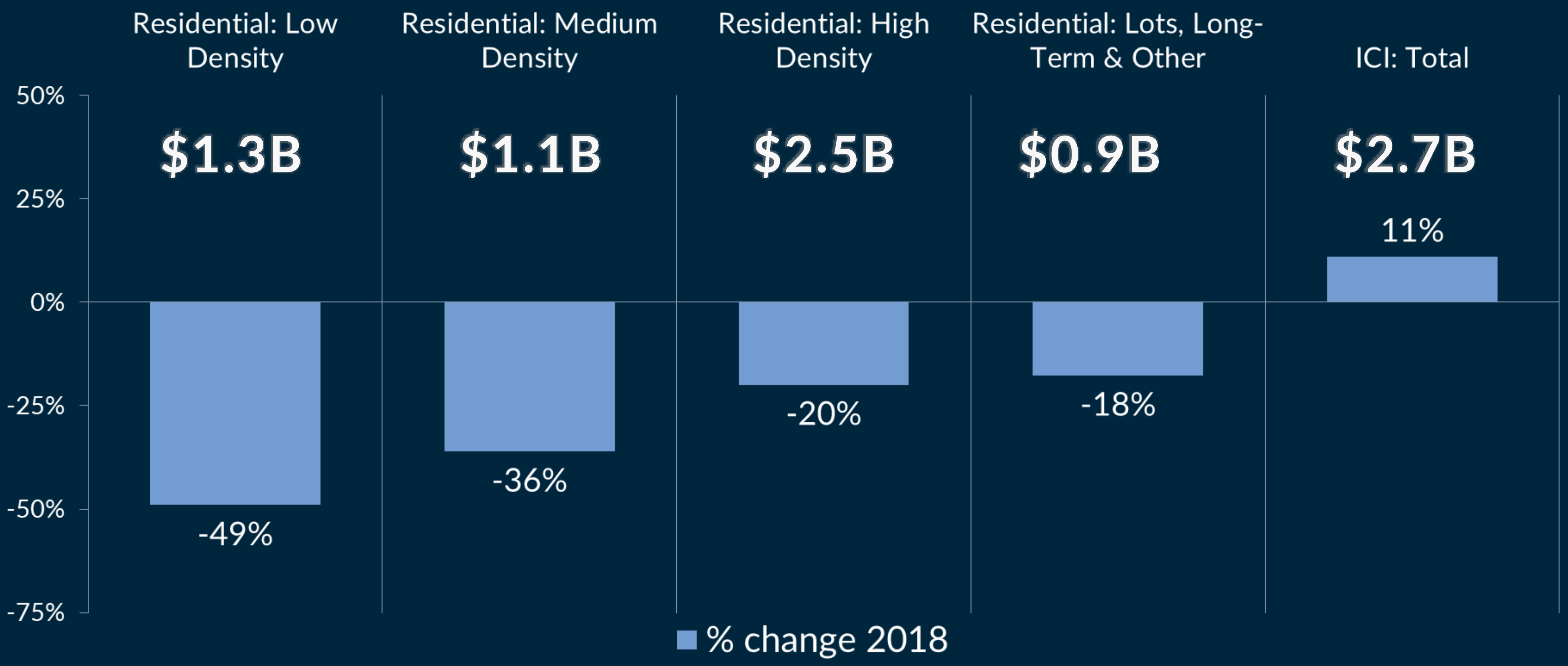
Source: Altus Group

2018 Investment Property Sales Performance by Sector



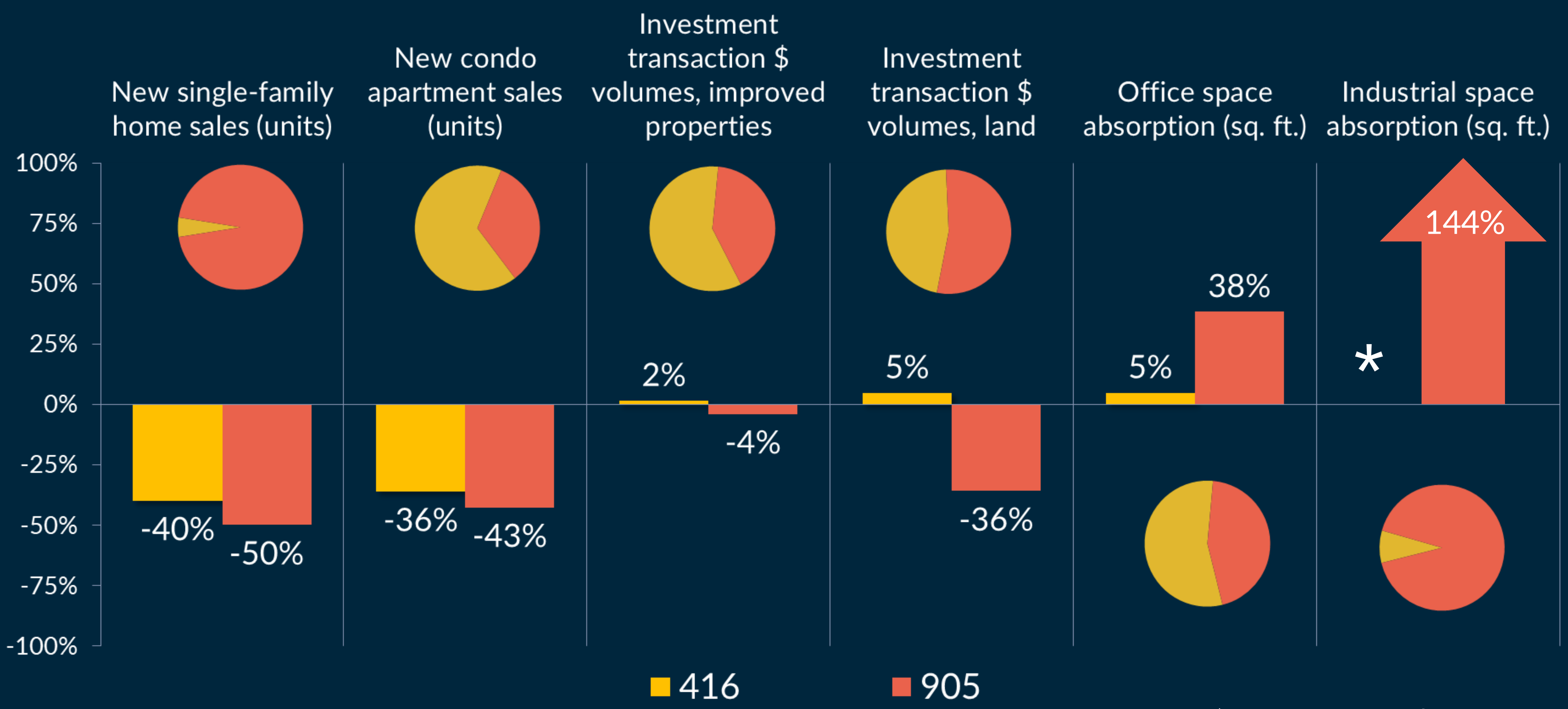
Source: Altus Group

2018 Land Sales Performance by Intended Use



Source: Altus Group

2018 Performance 416 vs. 905



Source: Altus Group

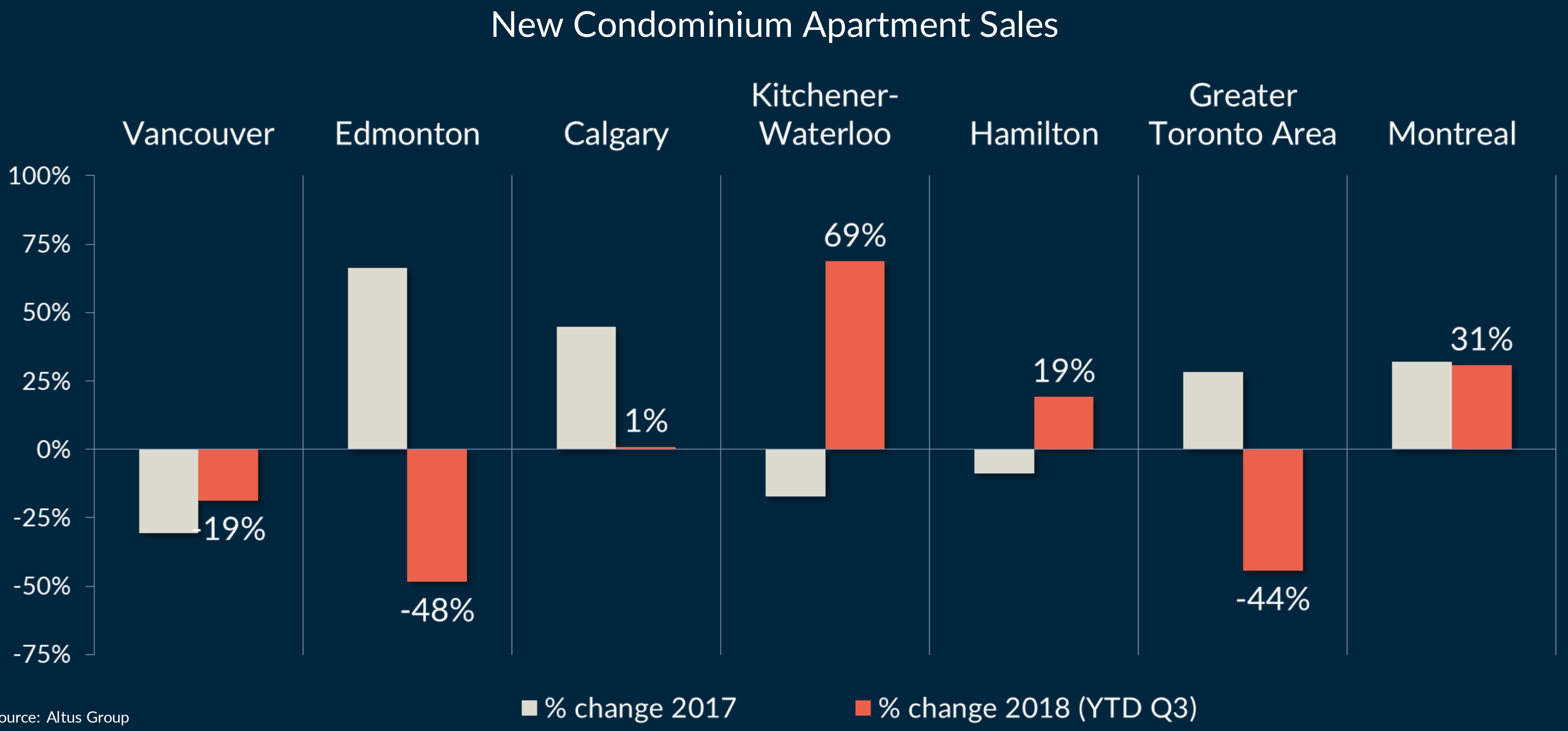
Pie charts = share of 2018 activity level

Bar chart = % change 2018

* Went from a modest negative to a modest positive

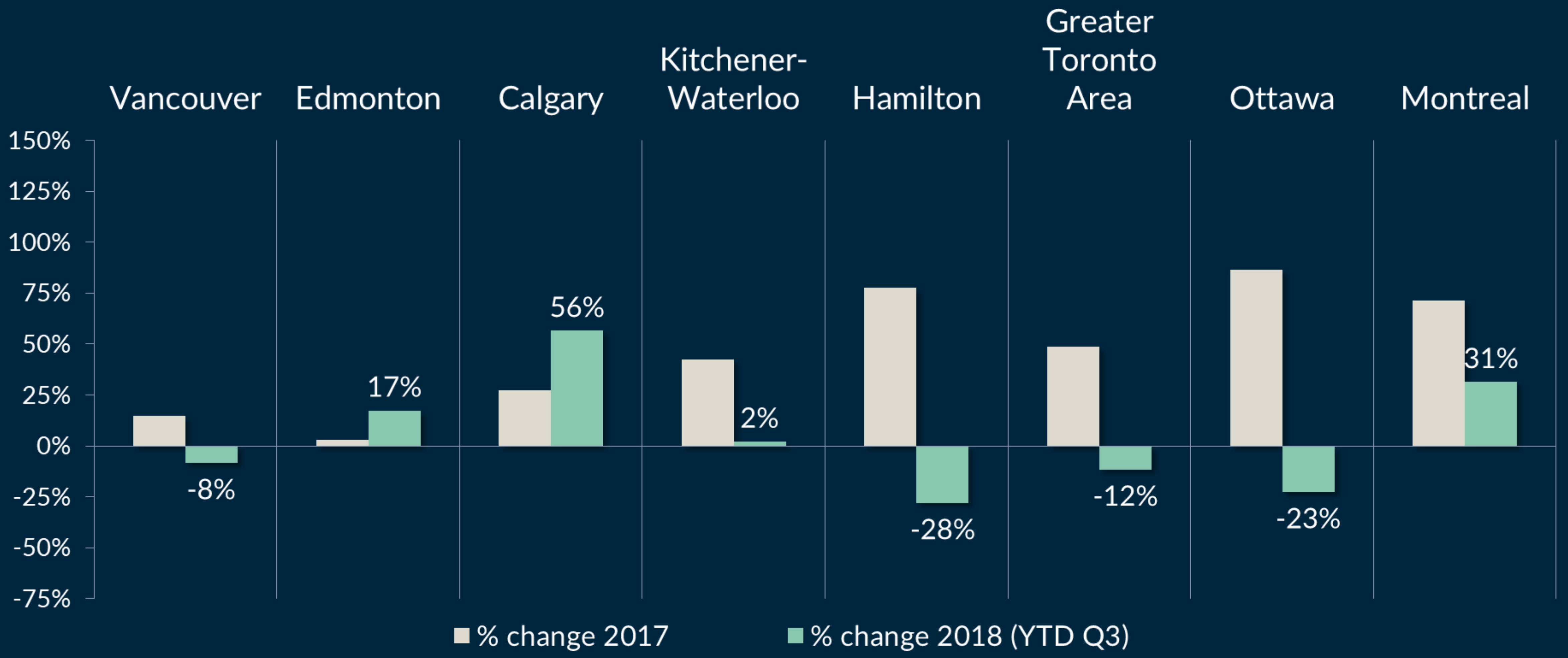
GTA Drop in New Condo Sales Matched Only by Edmonton

Altus Group



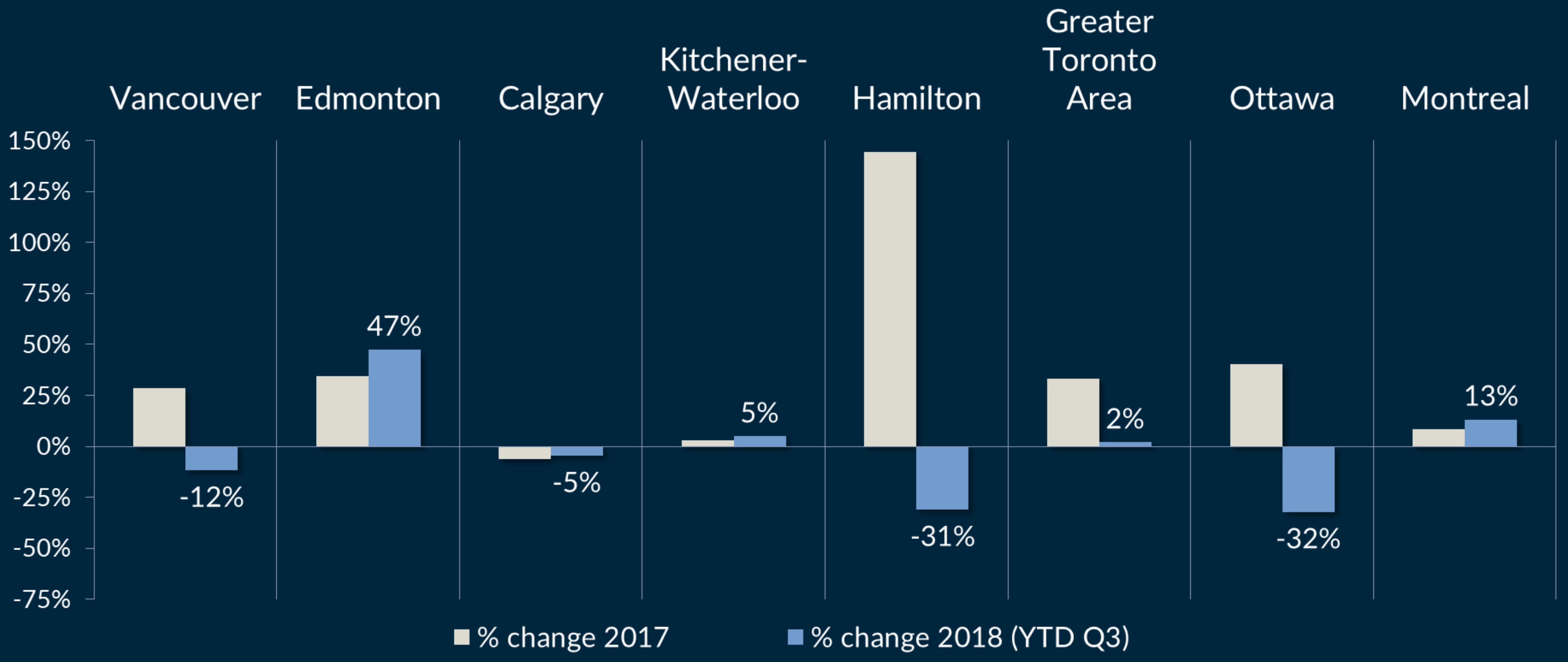
Source: Altus Group

Land Sales Down Across the GGH



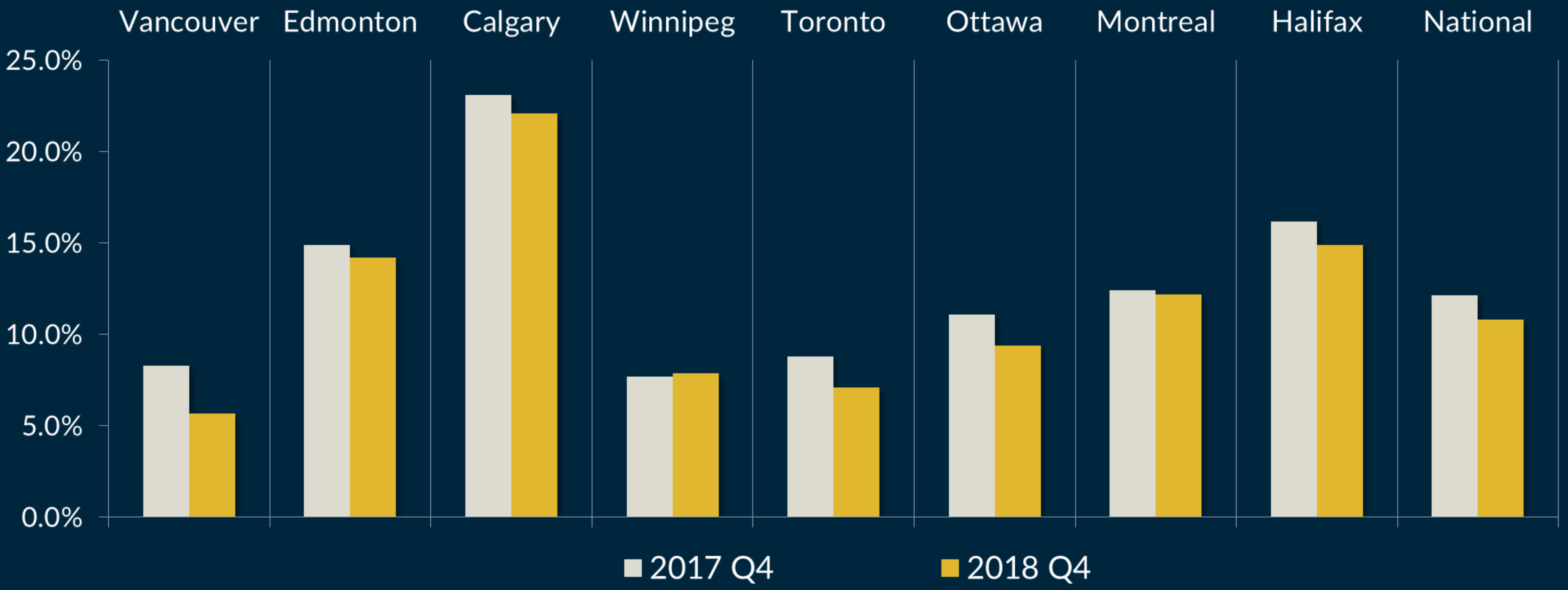
Source: Altus Group

Mixed Performance Across the Country for Non-Land Investments Property Sales



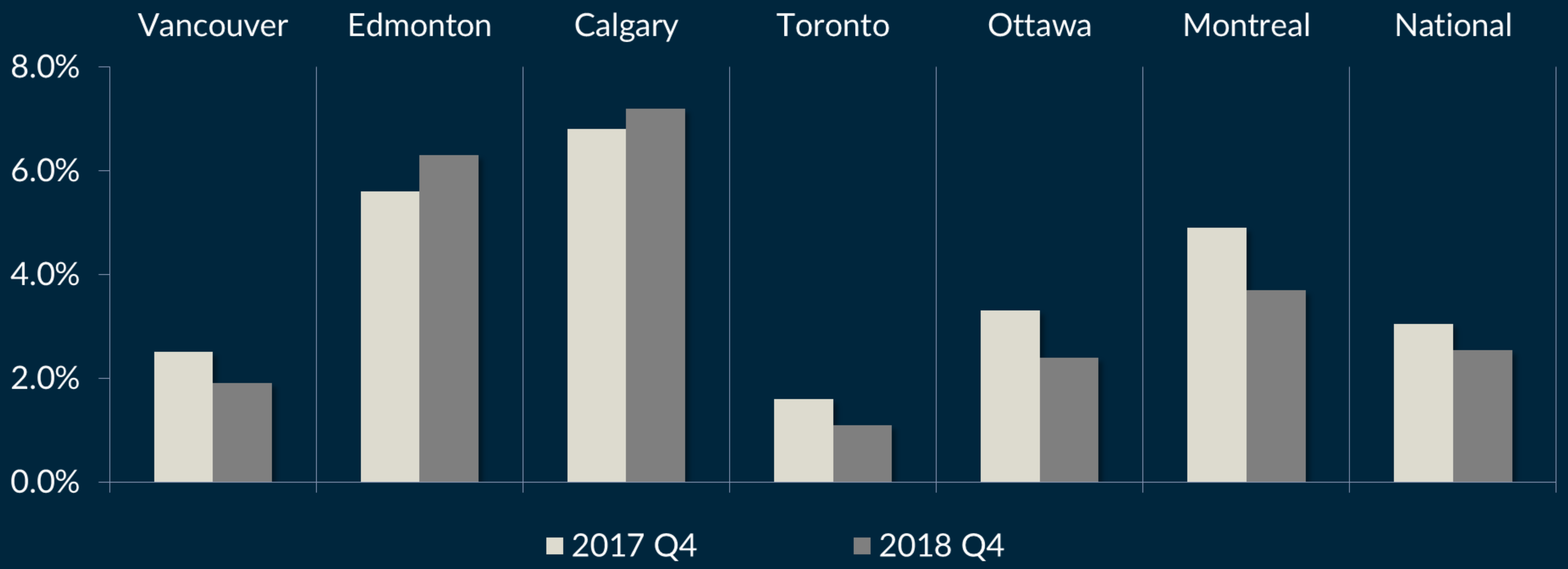
Source: Altus Group

GTA Not the Only Office Market Where Vacancy Rates Are Declining



Source: Altus Group

Industrial Vacancy Rates Tightest in GTA



Source: Altus Group

Lessons learned: Market snapshots

Sector Snapshots: New Homes

AltusGroup

MARKET CHALLENGES

- **Government regulations** and **interest rates** impacted demand
- **Development charges** and rising costs are impacting project viability
- **Housing affordability** make ownership challenging for first time home buyers
- **Long approval timelines** make it challenging to bring new projects to market

MARKET OPPORTUNITIES

- **Removal of rent controls** on new construction may help spur investor demand
- **Slower price growth** may allow consumers to catch up to prices
- Available inventory remains at historic lows
- **Stronger sales** during the back half of 2018 signaled that **market demand remains**

Sales Exceeded Supply in 2017- Declining Inventory Impacted Sales Through 2018

AltusGroup

Source: Altus Group

Market Snapshots: GTA

EMPIRE PHOENIX

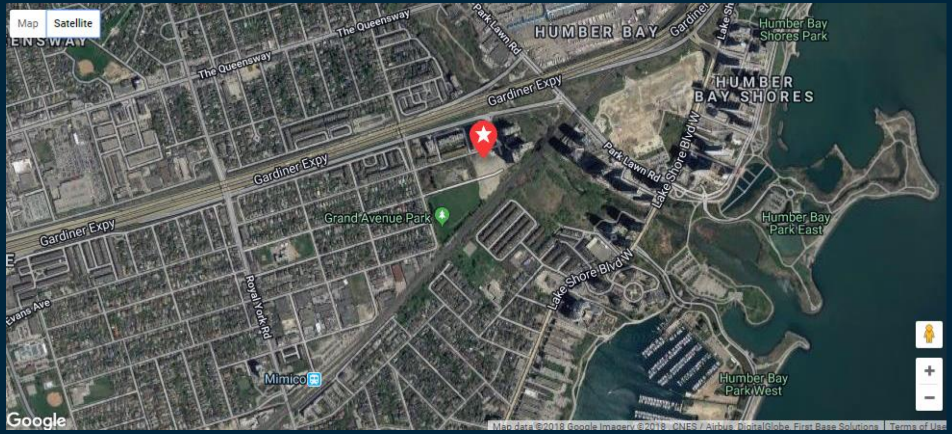
Toronto

High rise condo apartment

Over 70% sold in 4 months

$760 / sq. ft.

Close to GO Train and Lake Shore Blvd.



WAY URBAN TOWNS

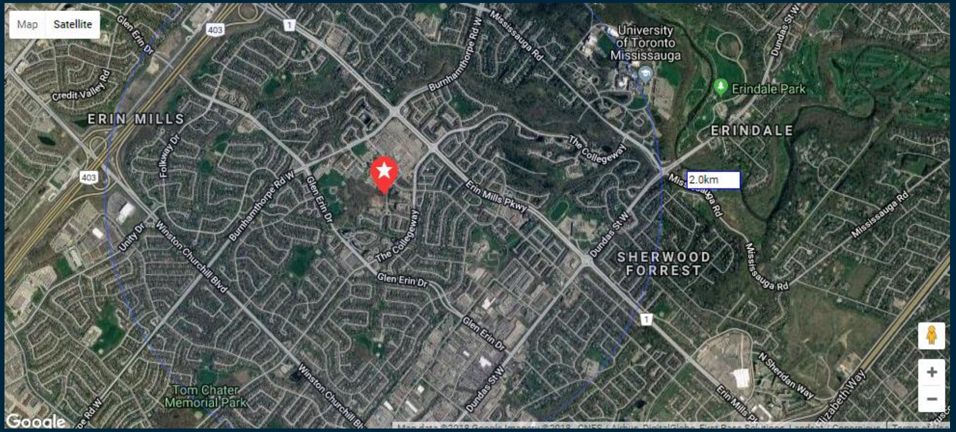
Mississauga

Stacked townhouse

90% sold since Q2

$525 / sq. ft.

Functional plans at an affordable price



Sector Snapshots: Commercial Transactions

AltusGroup

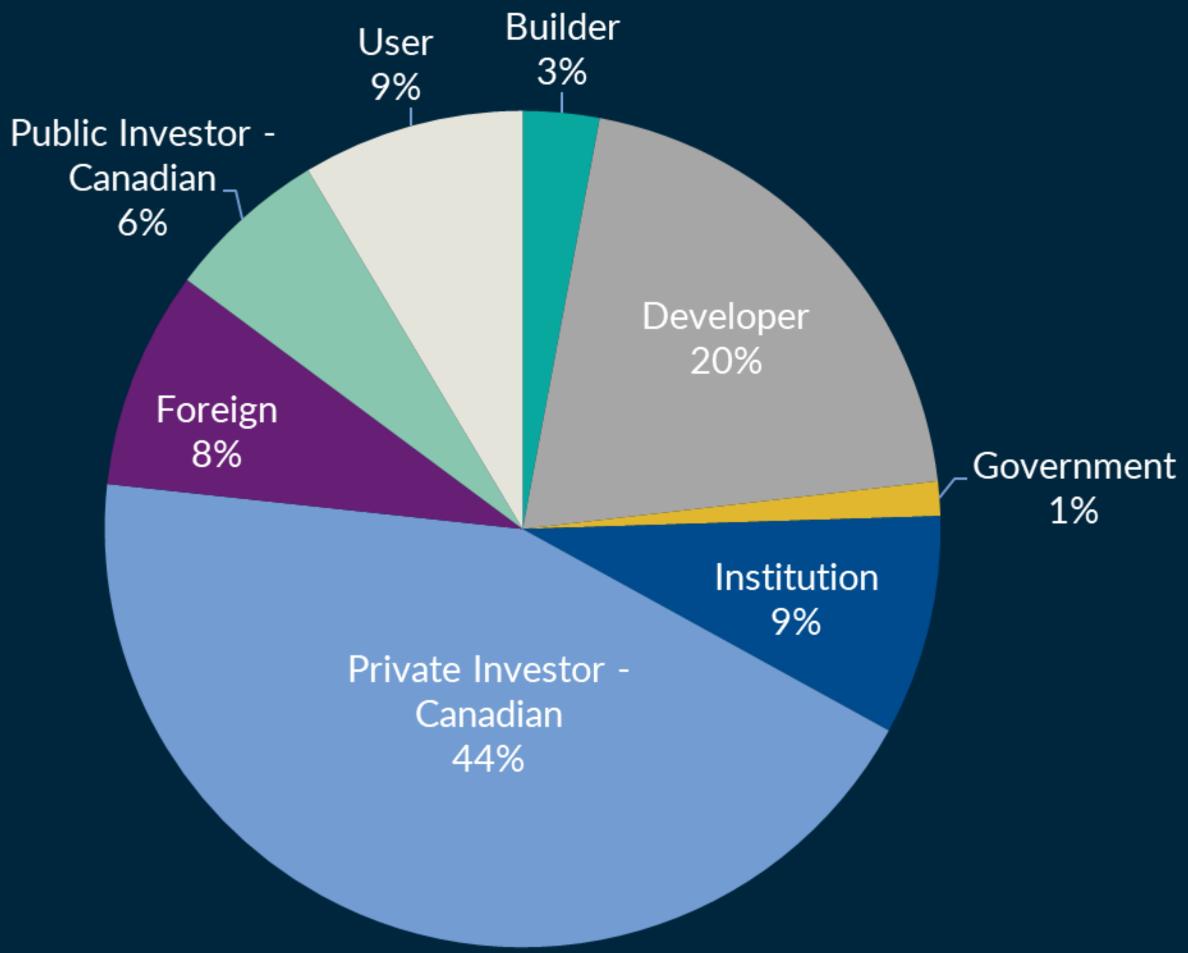
MARKET CHALLENGES

- **High prices and aggressive valuations** have made assets out of investors reach
- **Approvals and policy changes** have made it challenging for redevelopment or intensification strategies
- There is a lot of capital looking for core assets
- The **growth in new office construction will impact office vacancies** in the medium term

MARKET OPPORTUNITIES

- **Strong economic activity continues to drive demand** for retail, office, and industrial properties
- **Apartment buildings** remain a highly desirable asset, supported by rent growth and a tight housing supply
- **Logistics and distribution continues drive demand** for warehouse
- The **GTA remains a stable market** to invest

Improved Asset Sales Were Stable Year over Year, Land Less So



Source: Altus Group

Sector Snapshots: Commercial Transactions

AltusGroup

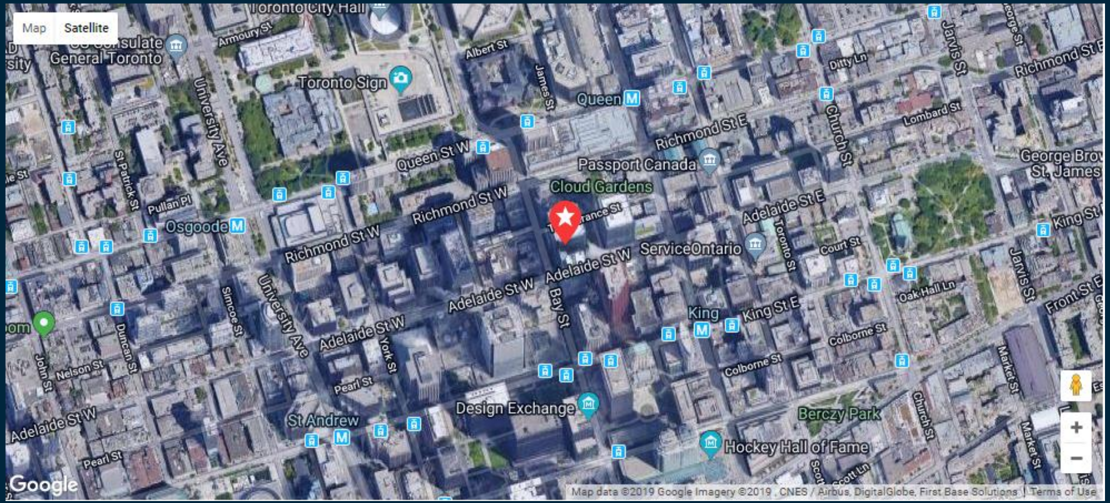
BAY ADELAIDE CENTRE

Toronto

$850M for 50% Interest

Approx. $767/sq.ft. at a 4.5% cap rate

Highest $/sq.ft. recorded for Downtown Office



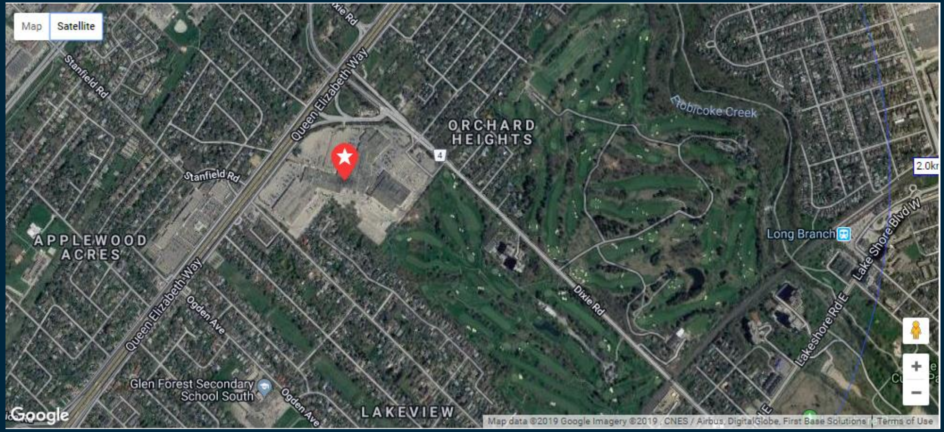
DIXIE OUTLET MALL

Mississauga

$180.9M for 420,000 sq.ft. shopping mall

Approx. $431/sq.ft. at 4.5% cap rate

Part of Cominar – Slate Portfolio



Sector Snapshots: Commercial Transactions

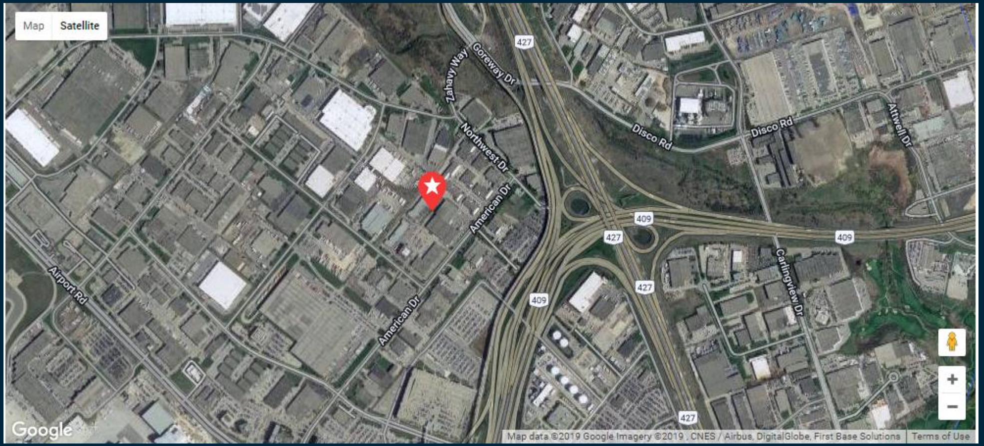
AMERICAN BUSINESS PARK

Mississauga

$90.6M for 552,675 sq.ft. of Flex Ind.

Approx. $164/sq.ft at 4.9% Cap

Close to the 427 and 409 Highways and Pearson Airport



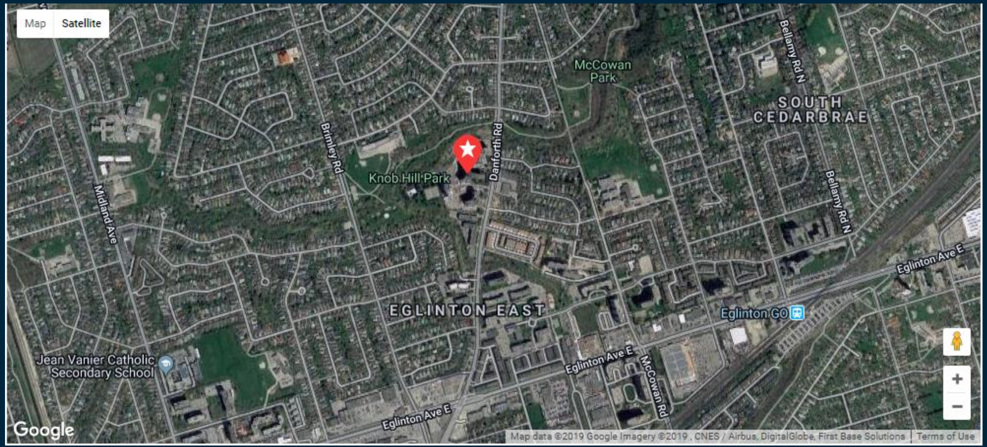
PARKVUE APARTMENTS

Scarborough

$155.4M for 570 Unit Apartment

Acquired with another site in London

Approx. $272K / door



Sector Snapshots: Land Transactions

AltusGroup

MARKET CHALLENGES

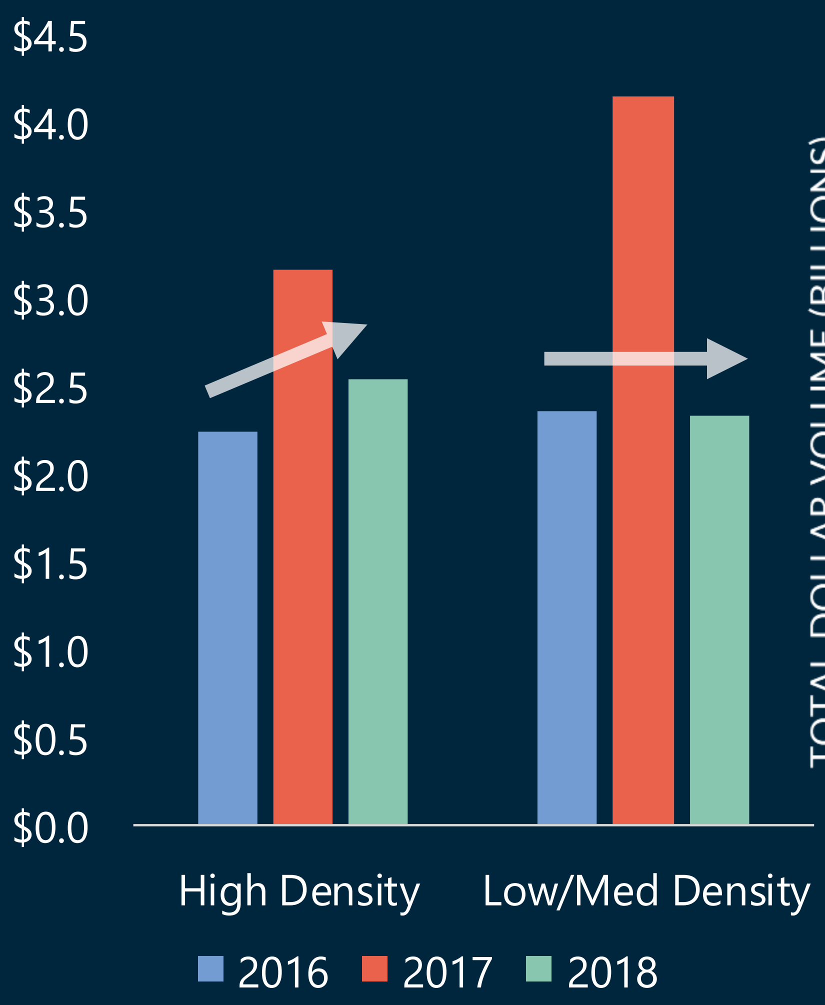
- **Slowing single-family housing demand** impacted demand for low density land
- **Rising construction costs and slower housing price growth** will impact land prices
- **Slow approvals, uncertainty post-OMB, elections and policy changes** all made land investment less certain
- **Uncertainty over market direction** slowed demand to invest new land positions

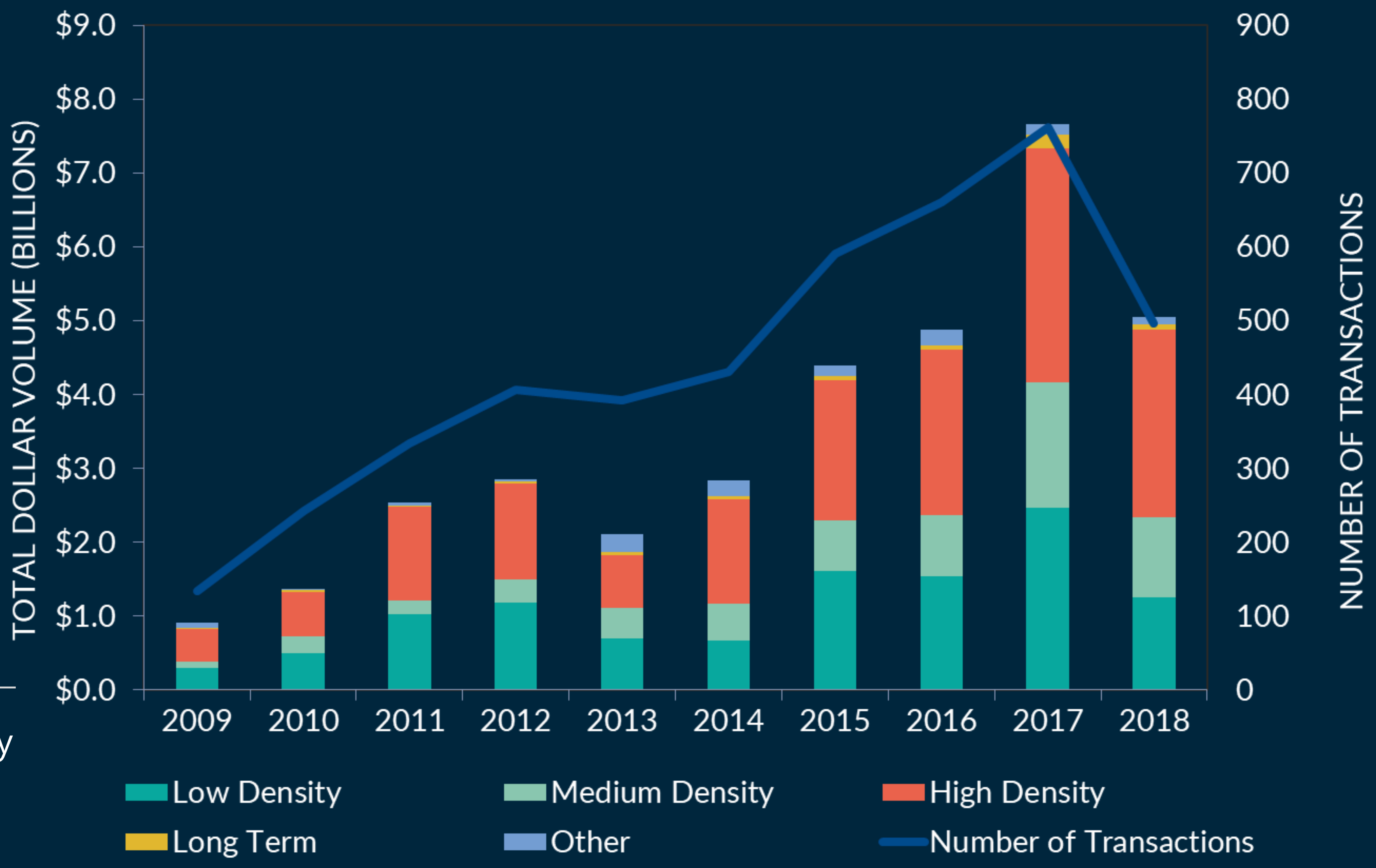
MARKET OPPORTUNITIES

- **Growth in purpose built rental** development will require high density land
- **Stronger housing markets** in late 2018 may signal improving conditions to invest in land in 2019
- **Expanding transit network** could improve access to employment regions and open up more areas for development
- **Housing demand forecast to remain robust** given population growth, despite affordability challenges

Residential Land Transactions Down in 2018, Most Significant Decline Low and Medium Density Land

Altus Group





Source: Altus Group

Sector Snapshots: Land Transactions

Altus Group

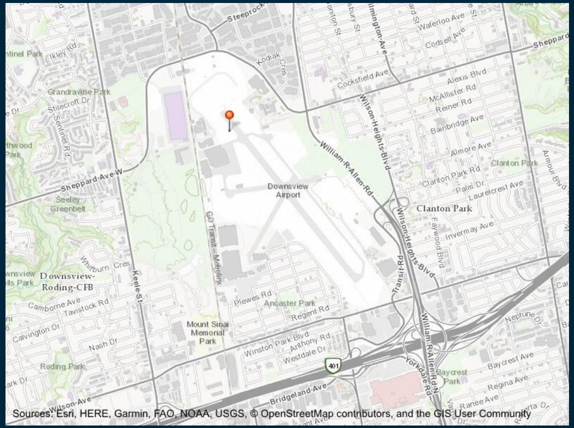
DOWNSVIEW AIRPORT

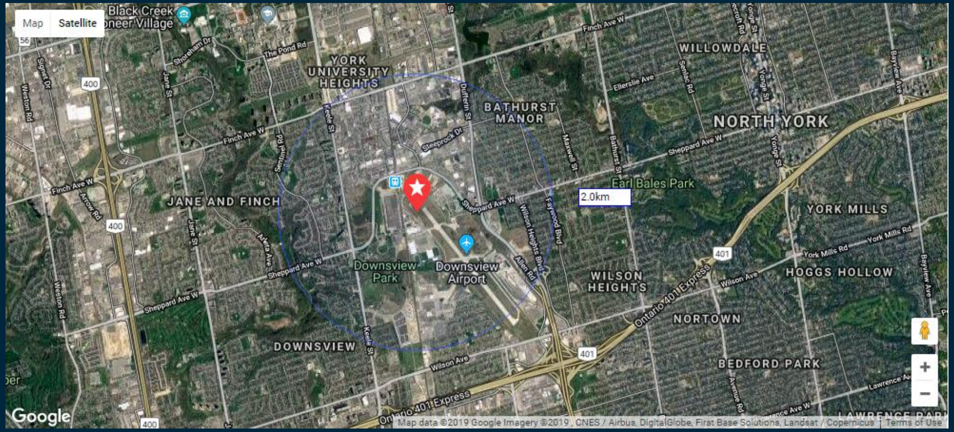
Toronto

365 AC site sold for redevelopment

$825M works out to $2.26M / acre

Bombardier will continue to operate as airport for 5 years; comprehensive mixed-use redevelopment





5800 YONGE STREET

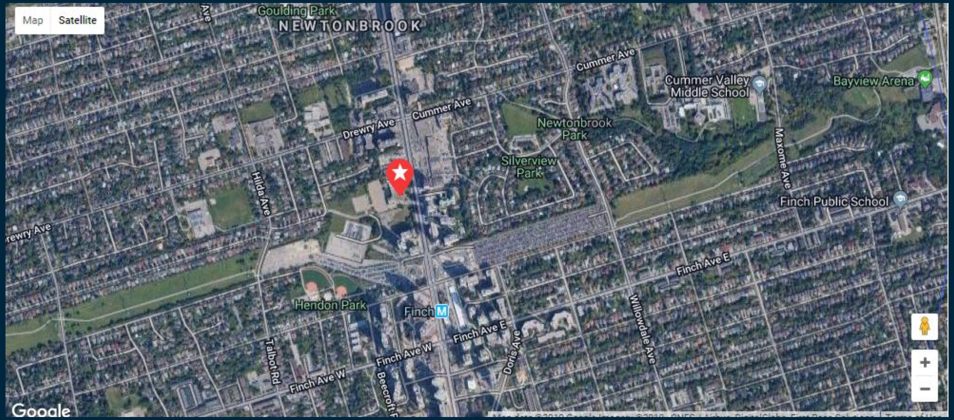
Toronto

$122.2M for 8.1 AC site

Represents largest urban development site in 2018

Approx. $96/sq.ft. buildable

Over 1.2M sq.ft. of new development



Sector Snapshots: Office Leasing

Altus Group

MARKET CHALLENGES

- While **vacancy is at record lows, 10M+ sq.ft. of new supply** is forecast to be delivered in next 5 years
- **Rising rents** are pushing some tenants to look to suburban markets
- The **fight for talent** is creating demand for more building amenities, service – at a cost
- Similar to residential construction, **rising costs** will impact improvements and new development

MARKET OPPORTUNITIES

- **Lack of new supply and strong demand** pushed vacancy to lowest level since 2000 in the Downtown
- **Tight downtown markets** have pushed tenants into suburban markets (except Midtown)
- **Proptech and automation** will help address the labour shortage and fight for talent
- **Continued strength in the GTA economy** anticipated to keep demand strong through 2020

Downtown Demand Spilling into Other Regions of the GTA

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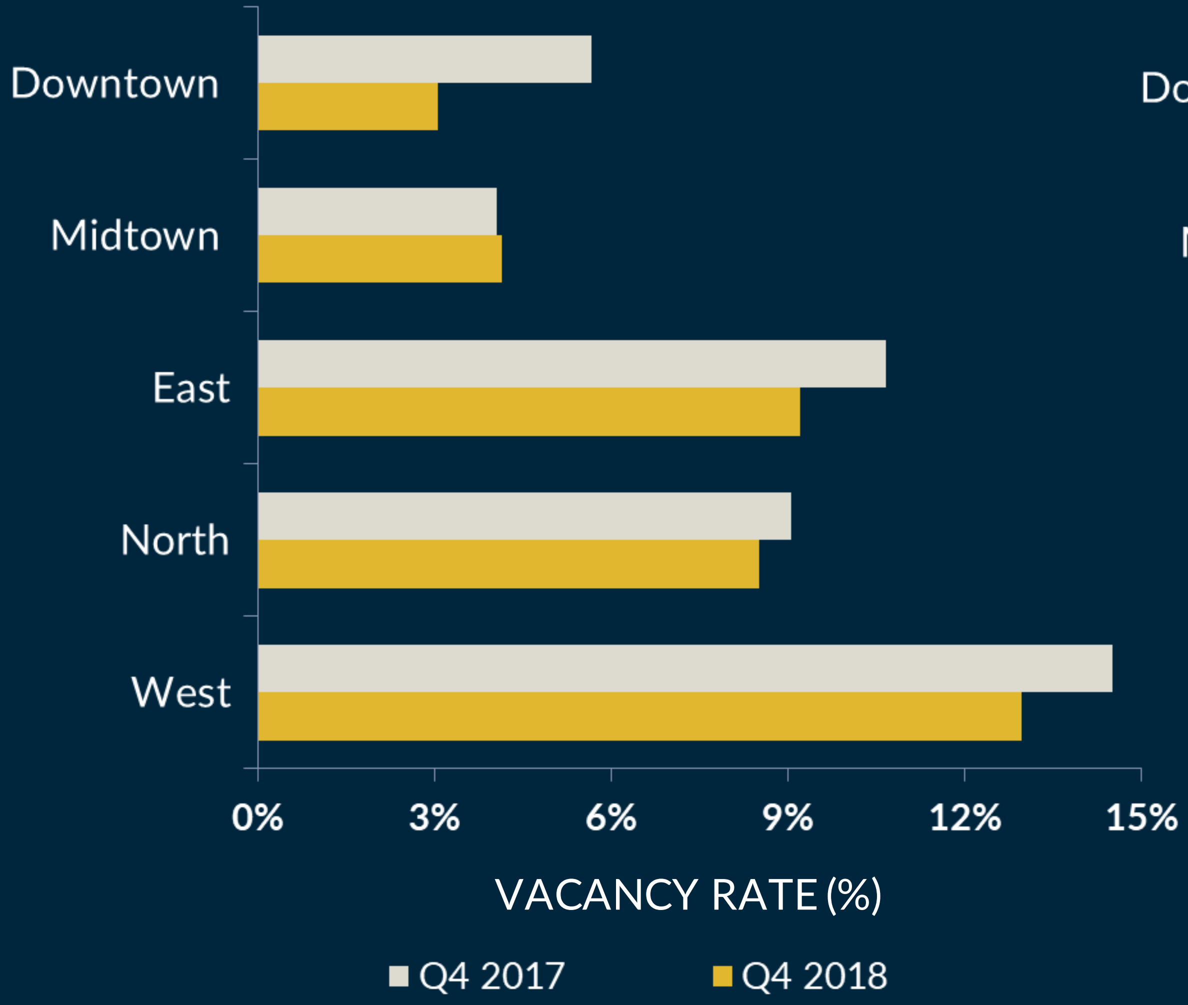
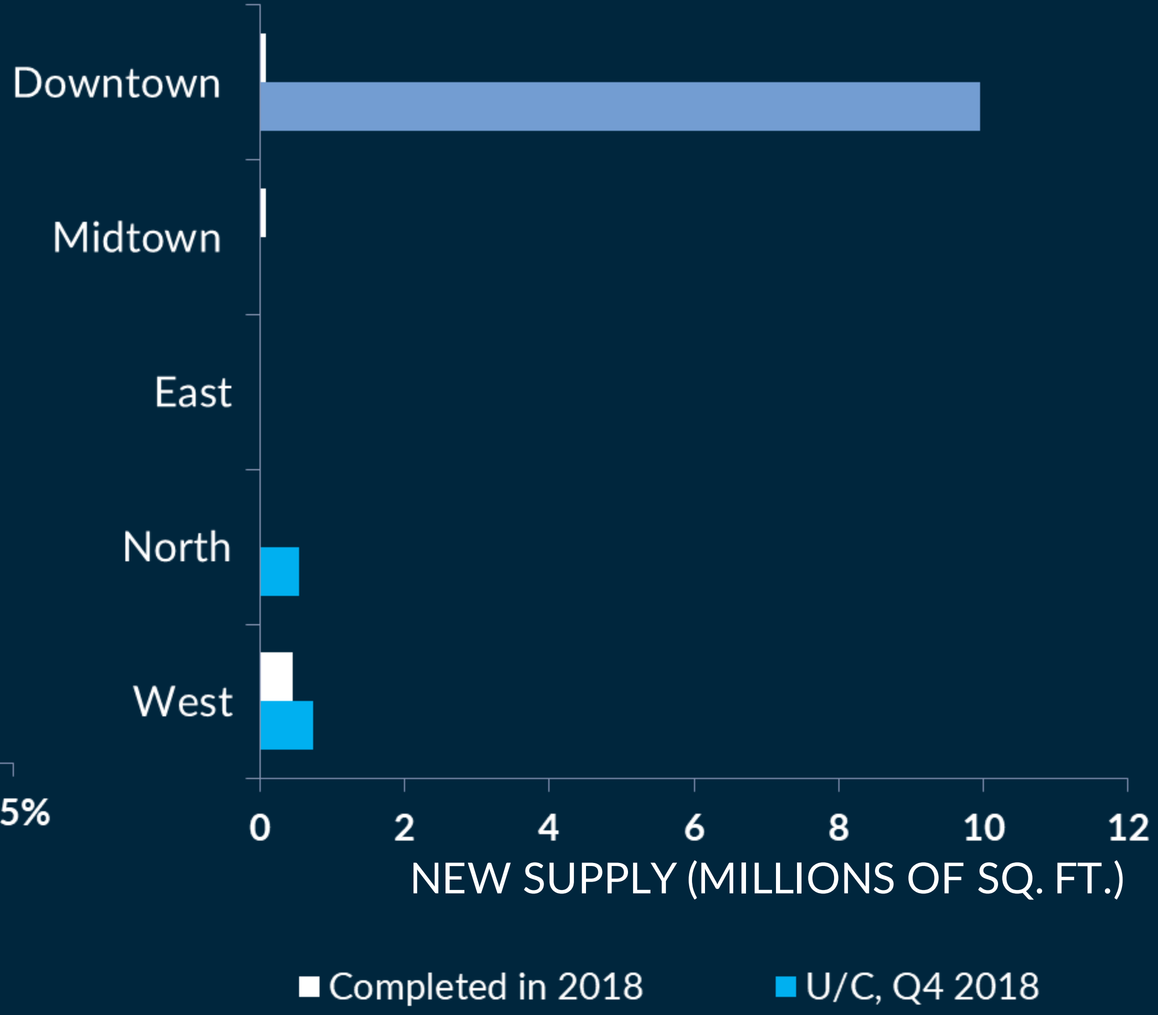




Source: Altus Group

Sector Snapshots: New Office Buildings

AltusGroup

CIBC SQUARE

Toronto

2 buildings with 2.9M sq.ft.

Strong pre-leasing with approx. 80% leased

A unique elevated park will connect towers over rail tracks

THE WELL

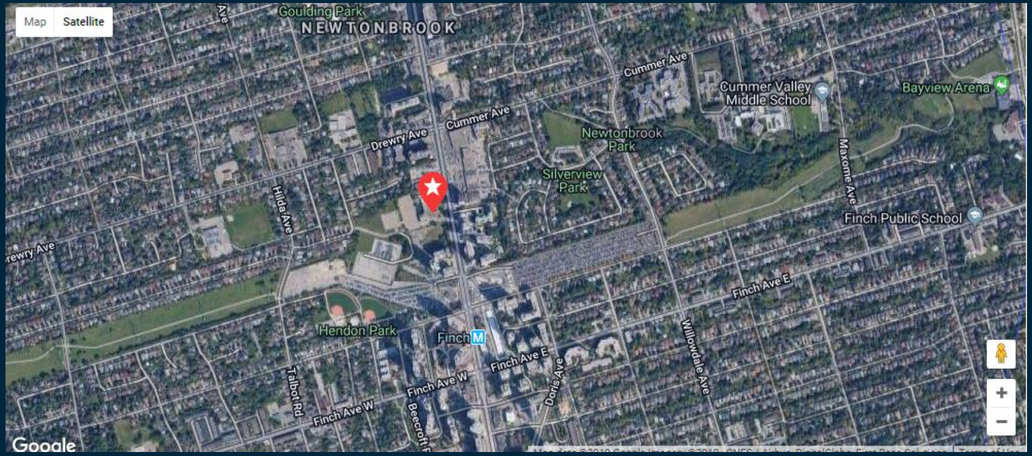
Toronto

One of the largest mixed-use projects in Canada

Represents largest urban development site in 2018

910,00 sq.ft. in the office tower

Over 70% pre-leased



Sector Snapshots: Industrial Leasing

Altus Group

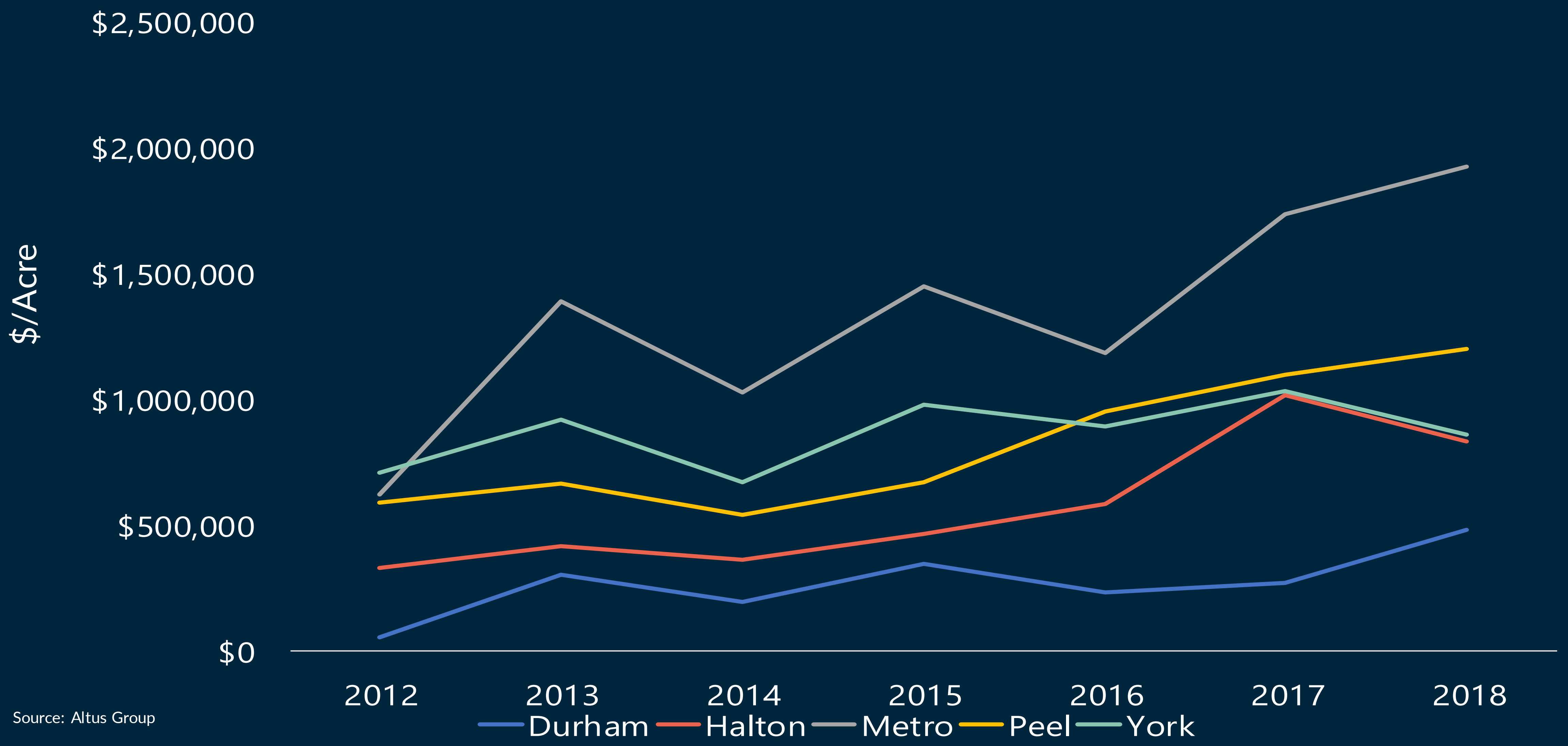
MARKET CHALLENGES

- **Demand from residential developers** for redevelopment lands reducing supply in established areas
- **Tenant demand** for modern industrial space (clear heights, power etc) has reduced availability to almost nothing
- **Lack of industrial spaces** in Toronto are encouraging tenants to look further away
- **Costs to build higher intensity industrial** to offset land price growth are prohibitive, yet…

MARKET OPPORTUNITIES

- **Office market rents and low vacancies** creating demand for flex industrial
- **Logistics/distribution demand** to continue for foreseeable future
- **Low vacancy** rate creating opportunities for more innovative development
- **Racking technology is improving to make existing spaces more efficient**
- **Cannabis production** will continue to create demand for new industrial spaces

Lower Land Prices are Offset by Higher Transportation and Operational Costs

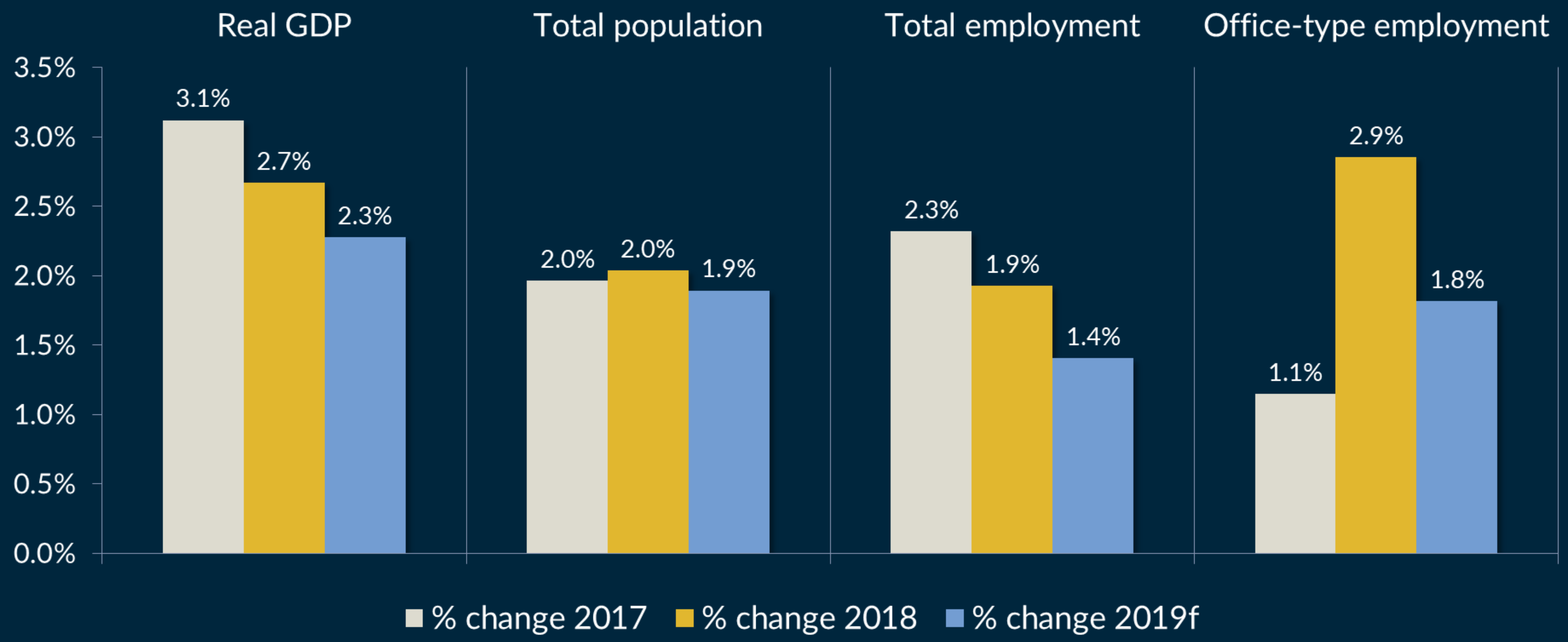


Source: Altus Group

TORONTO STATE OF THE MARKET 2019

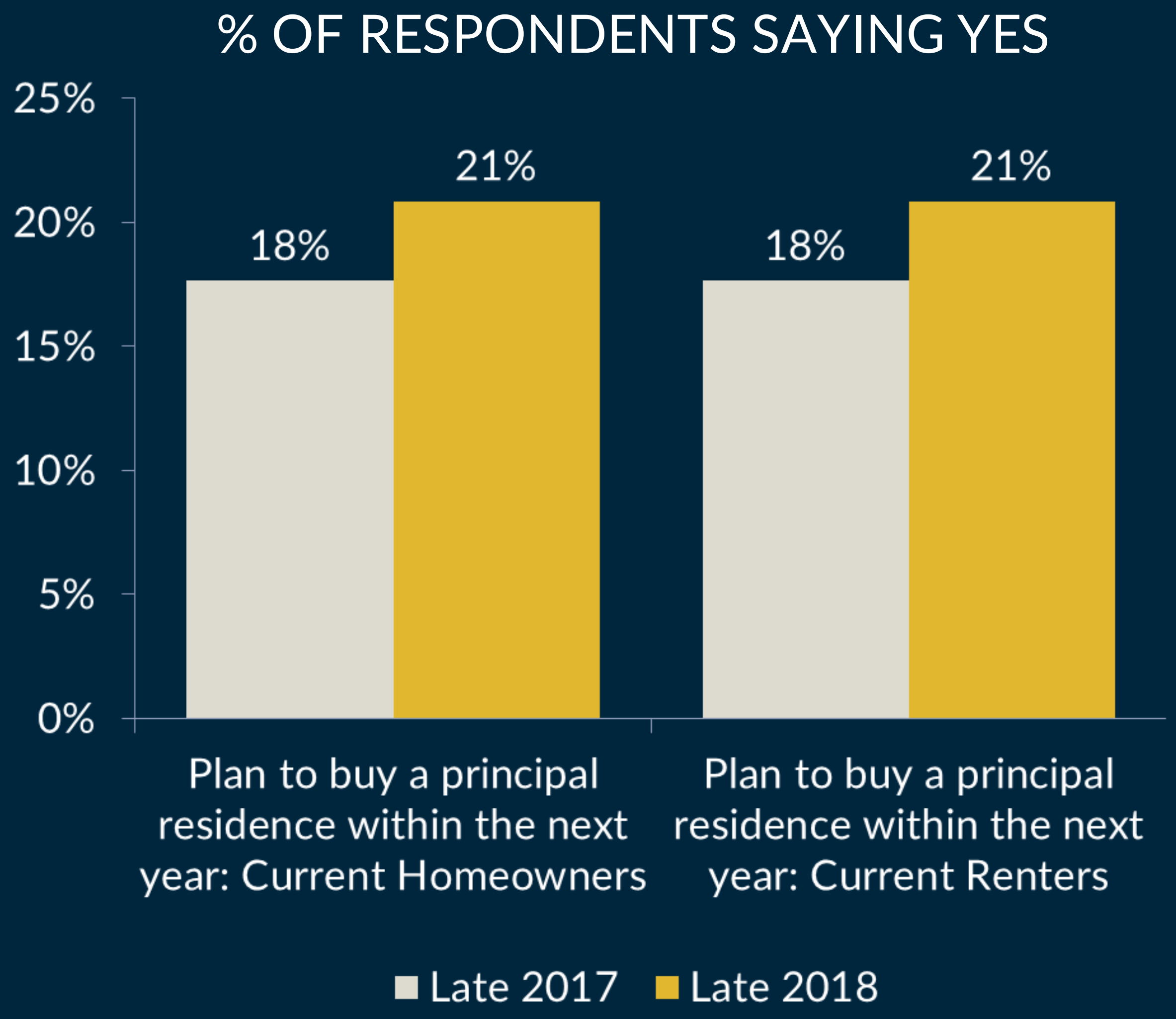
2019 outlook: Overview of key factors

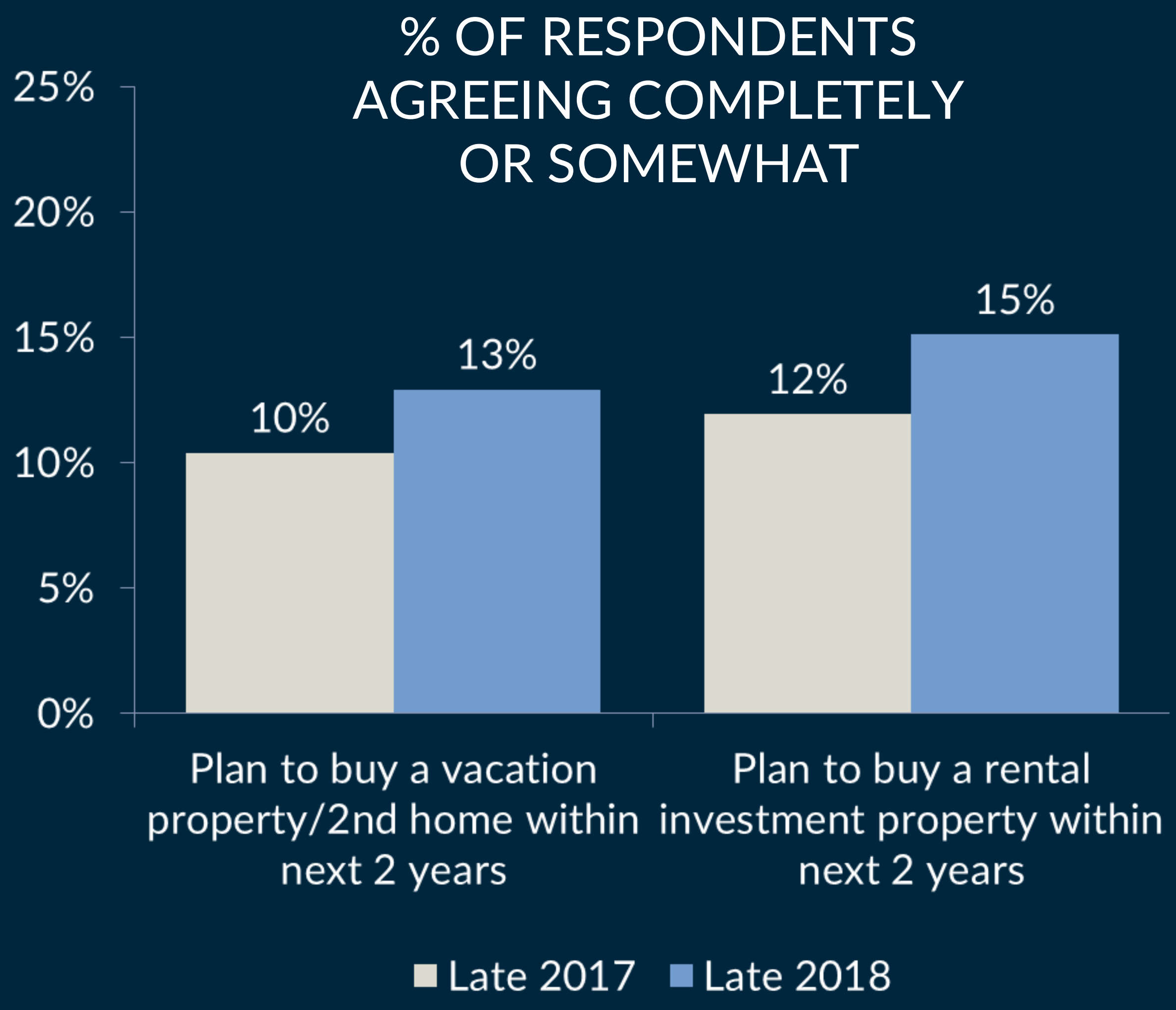
MACROECONOMIC | Slower Growth Ahead But Continued Benefits from Past Job Gains



Source: Altus Group, Economic Consulting based on Conference Board of Canada and StatCan data

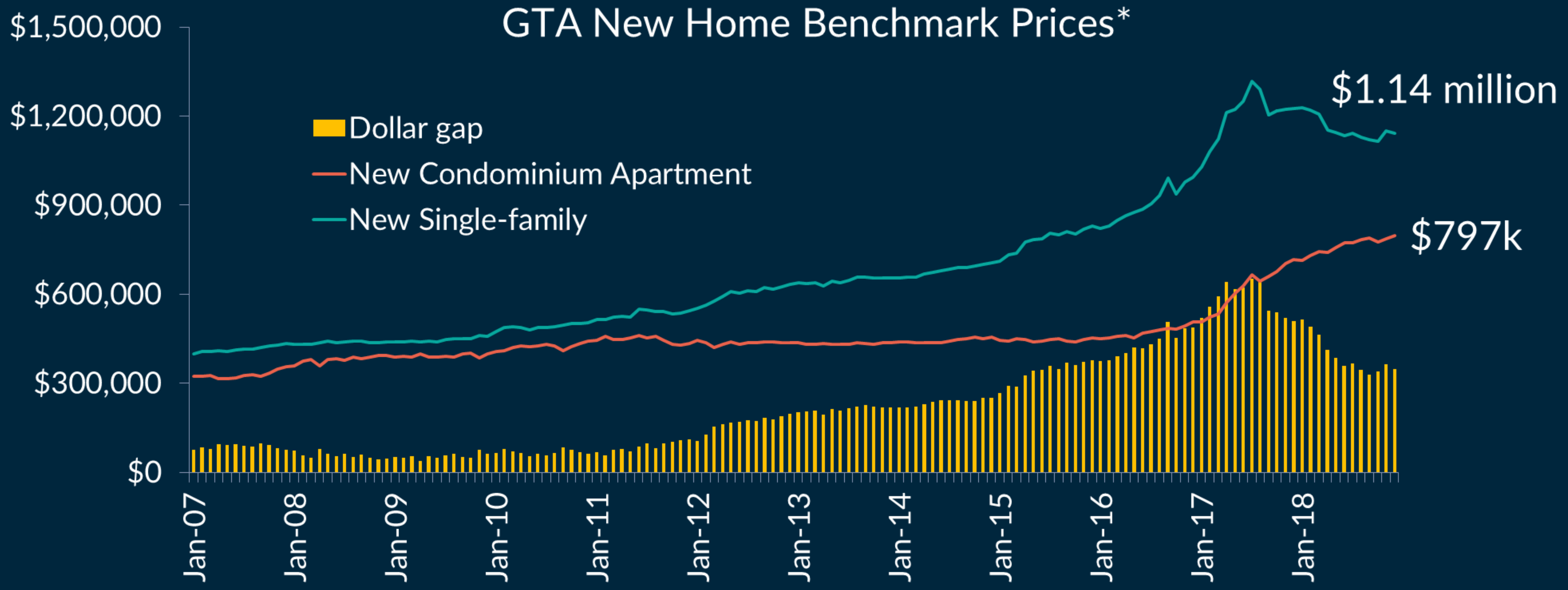
NEW HOMES | Intentions to Buy Properties Are Up





Source: Altus Group, The FIRM Survey

NEW HOMES | Condo Price Advantage Dwindling

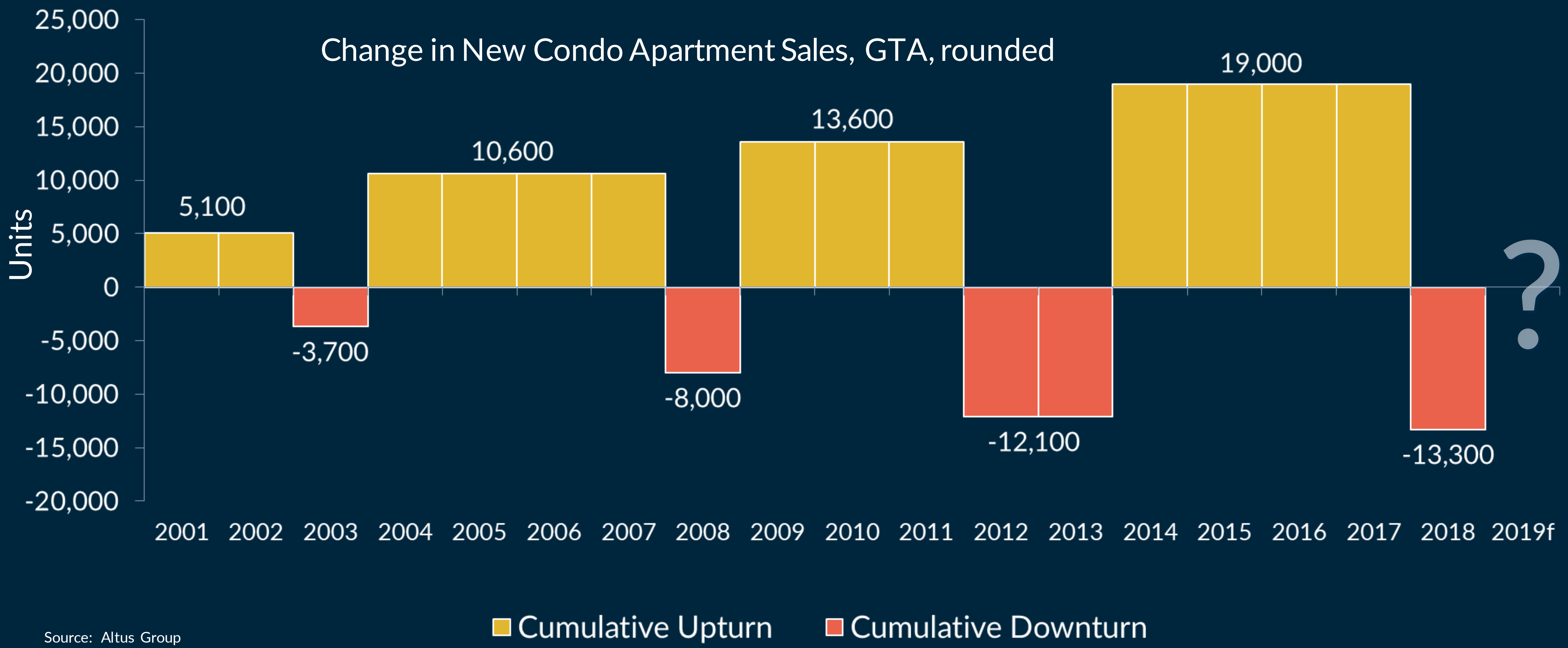


Source: Altus Group, GTA Condominium Apartment Monitor

* Average asking price of available new home inventory at end of period with outliers removed

NEW HOMES | How Long Can We Expect the New Condo Sales Downturn to Last?

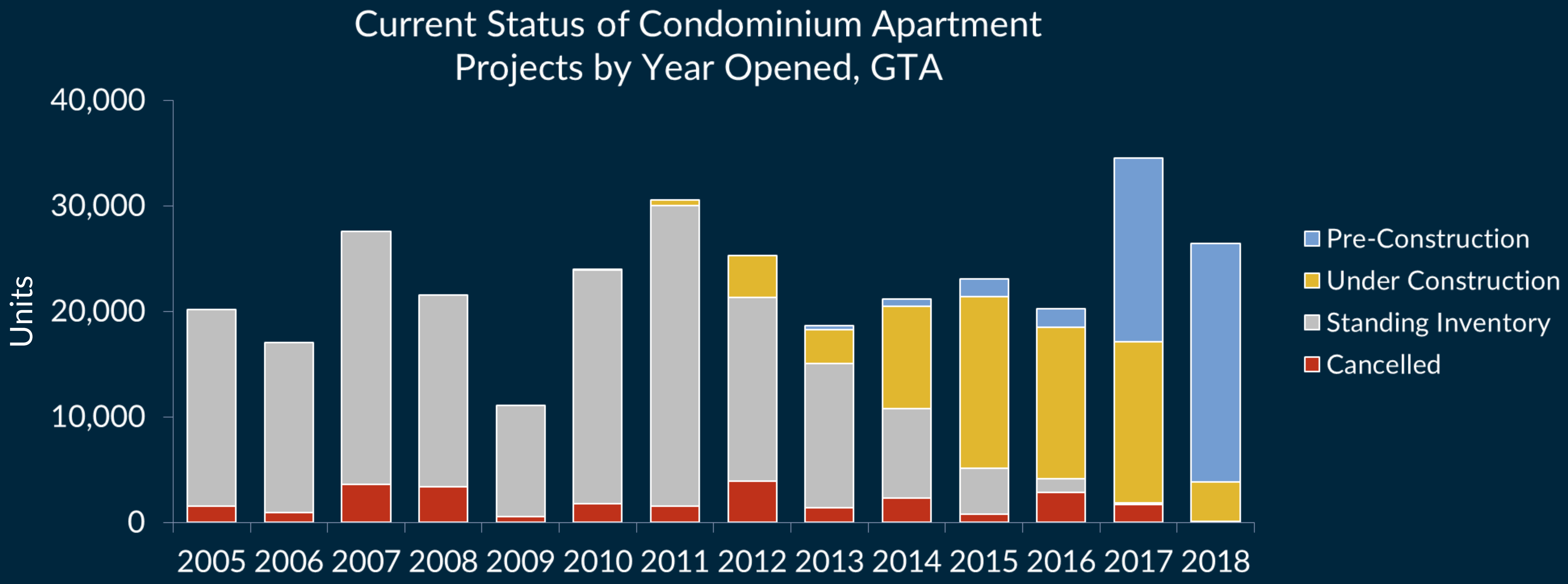
Altus Group



Source: Altus Group

NEW HOMES | The Elephant in the Room

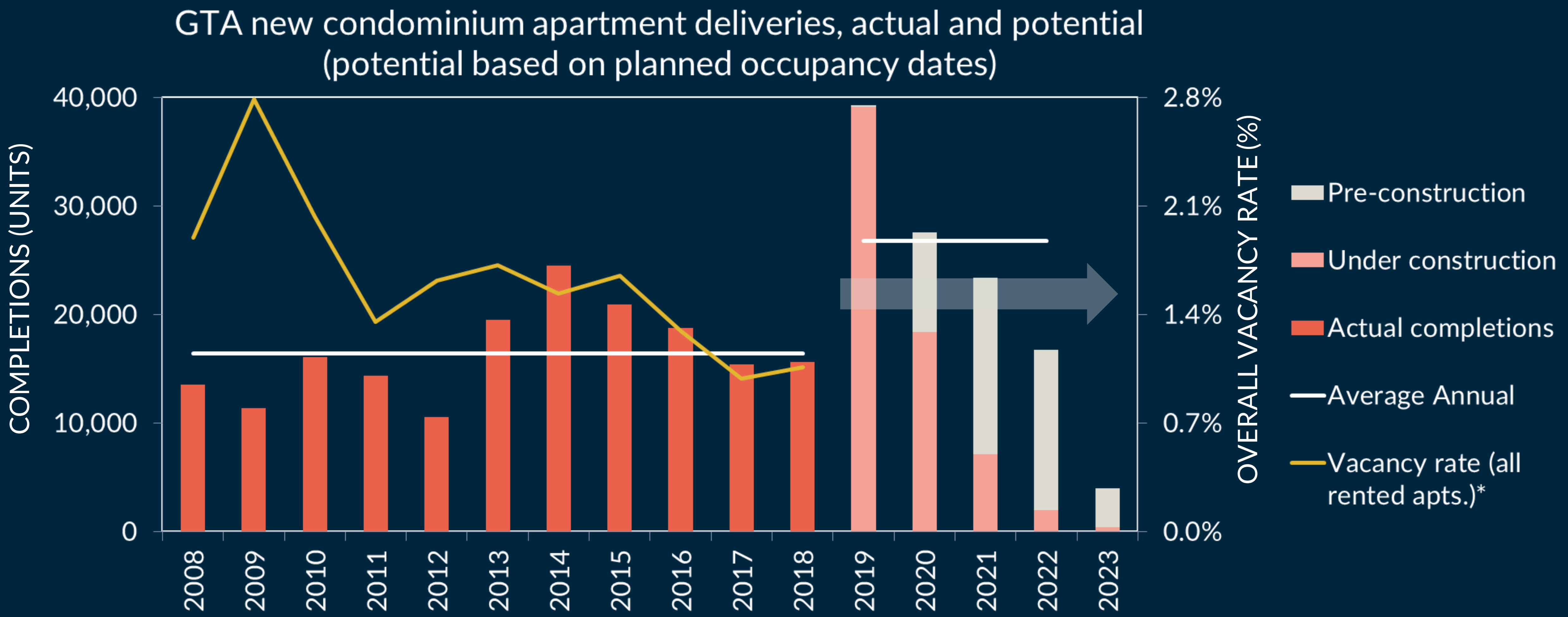
Altus Group



Source: Altus Group

RENTAL APARTMENT | More Competition Coming from Condo Rentals

Altus Group

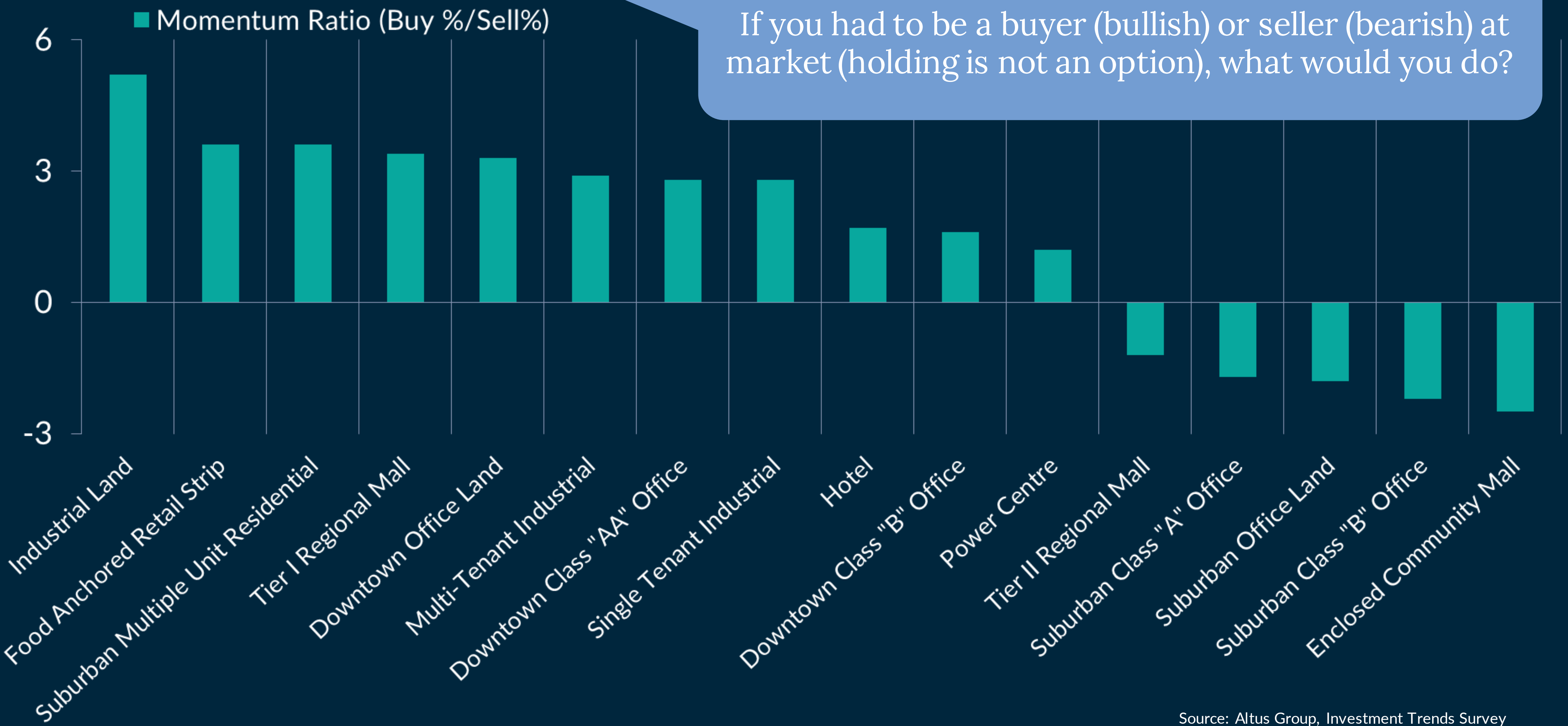


Source: Altus Group and CMHC

* Overall vacancy rate for rented condo and purpose-built apartments

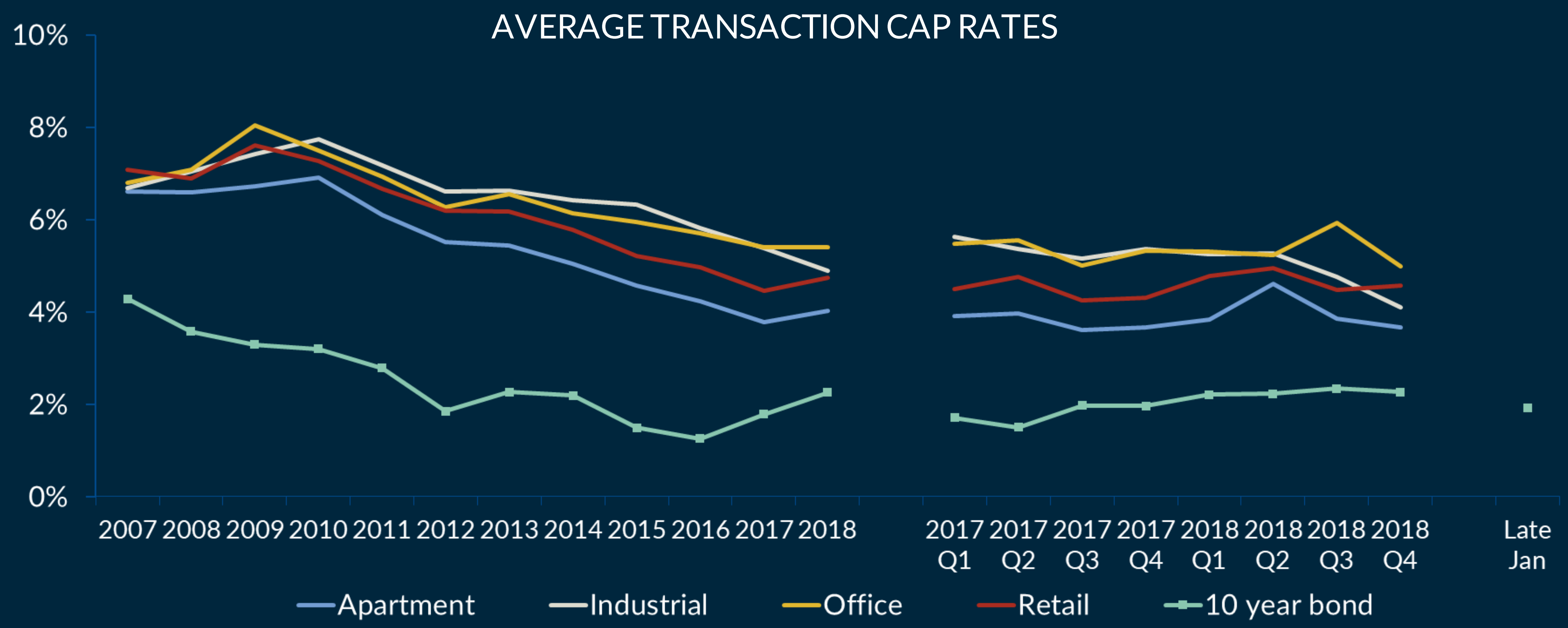
INVESTMENT TRANSACTIONS | Investors Still Bullish on Toronto

If you had to be a buyer (bullish) or seller (bearish) at market (holding is not an option), what would you do?



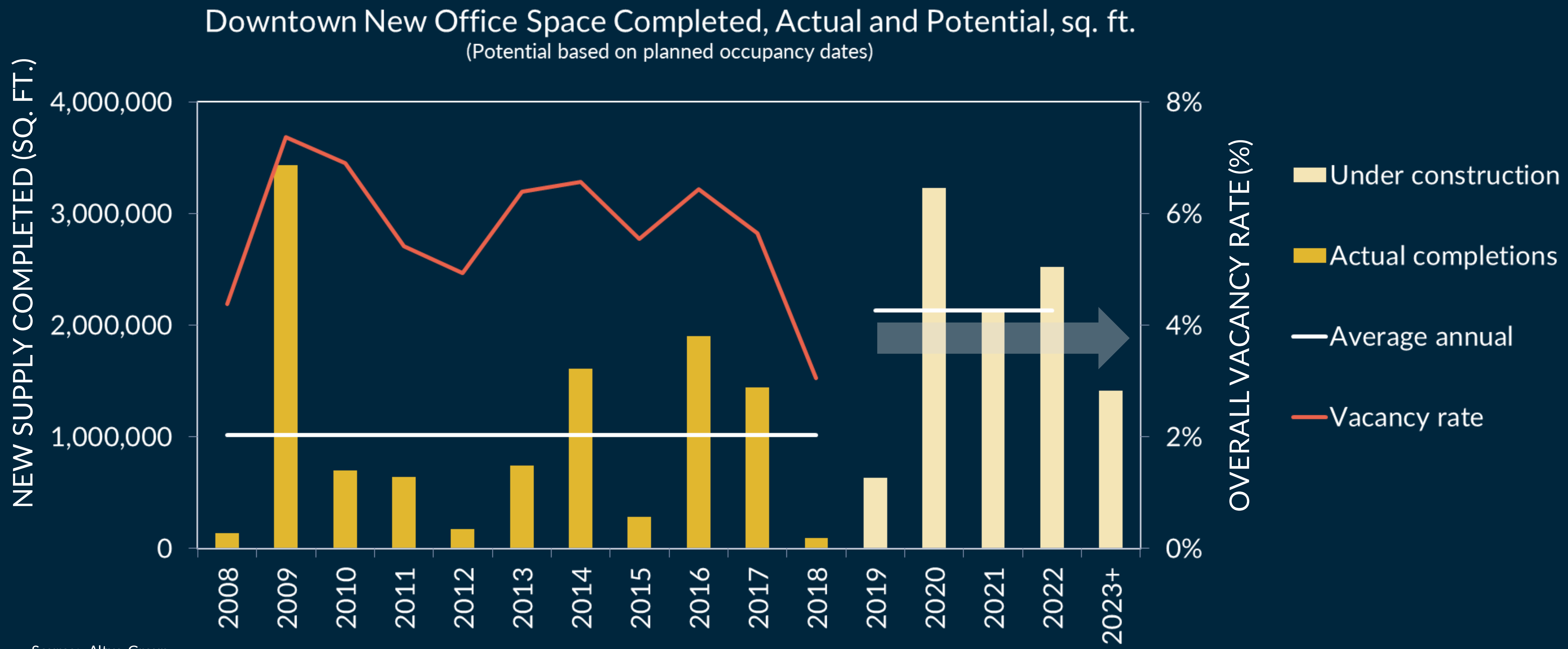
Source: Altus Group, Investment Trends Survey

INVESTMENT TRANSACTIONS | Industrial Cap Rates Buck the Trends



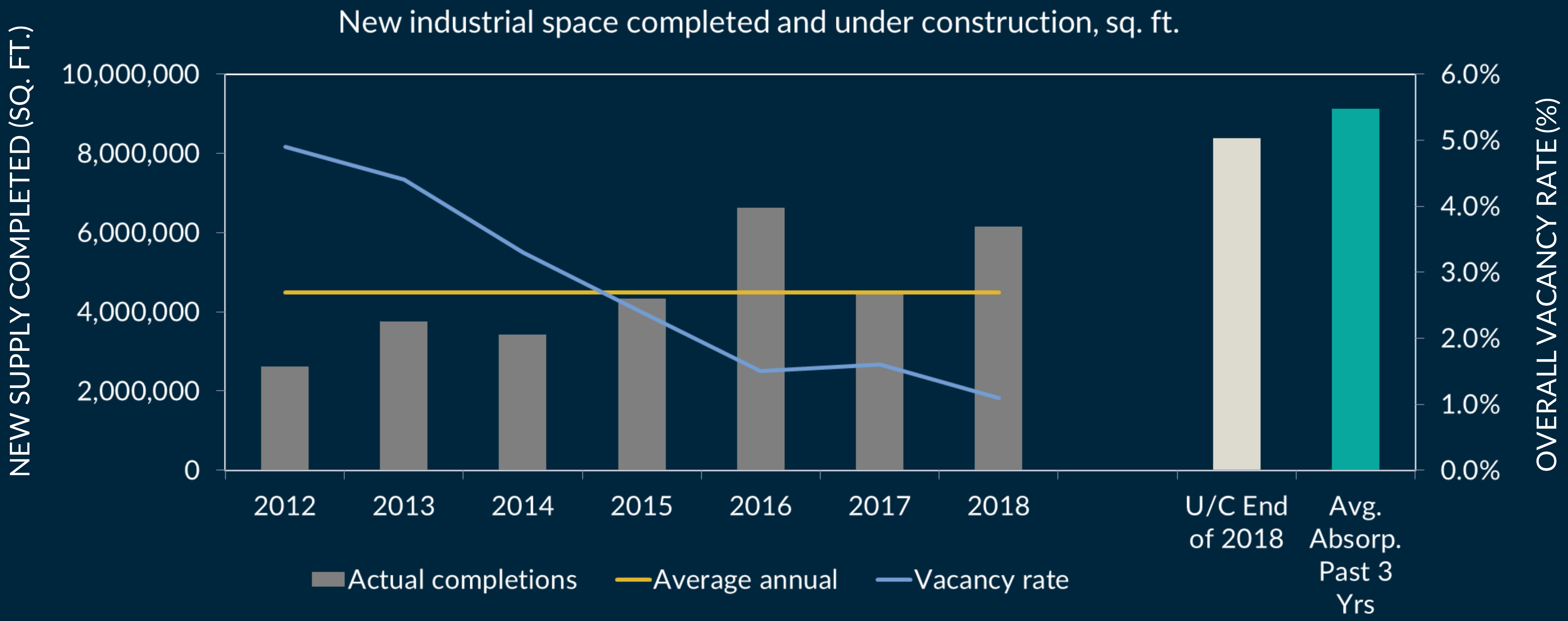
Source: Altus Group

OFFICE MARKET | More Office Supply on the Way to Ease Downtown Market



Source: Altus Group

INDUSTRIAL MARKET | How Low Can the Vacancy Rate Go?



Source: Altus Group

2019 outlook: Trend prediction

2019 Predictions

	NEW SINGLE-FAMILY HOME SALES	NEW CONDO APT SALES	TRANSACTIONS: IMPROVED PROPERTIES	TRANSACTIONS: LAND	OFFICE VACANCY RATE	INDUSTRIAL VACANCY RATE
2018	↓	↓	↔	↓	↓	↓
2019	↑	↑	↑	↑	↔	↔

Source: Altus Group

Wrap-Up

TORONTO STATE OF THE MARKET 2019

Today's Presentation & Flash Report

All attendees will receive an email later today with instructions on how to download today's **presentation slides** and a copy of the **GTA Flash Report 2019**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