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TORONTO
State of the Market
2020

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AGENDA

1. Key macroeconomic & demographic drivers
2. Commercial market update
3. Residential market update
4. Closing remarks

Patricia Arsenault

Executive Vice President, Research Consulting
Data Solutions

Raymond Wong

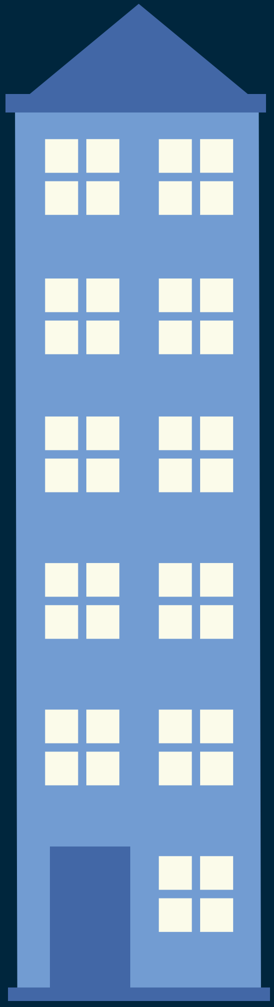
Vice President, Data Operations
Data Solutions

Colin Johnston

President, Research, Valuation & Advisory
Altus Group

2019 AT A GLANCE: MARKET PERFORMANCE

The big picture numbers for the GTA in 2019



36,471

Total new home sales

+47%

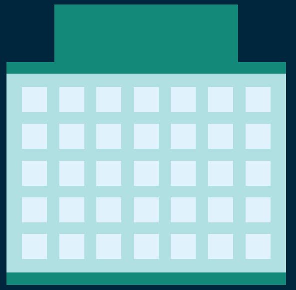
from 2018

$22.6 billion

Total investment property transactions

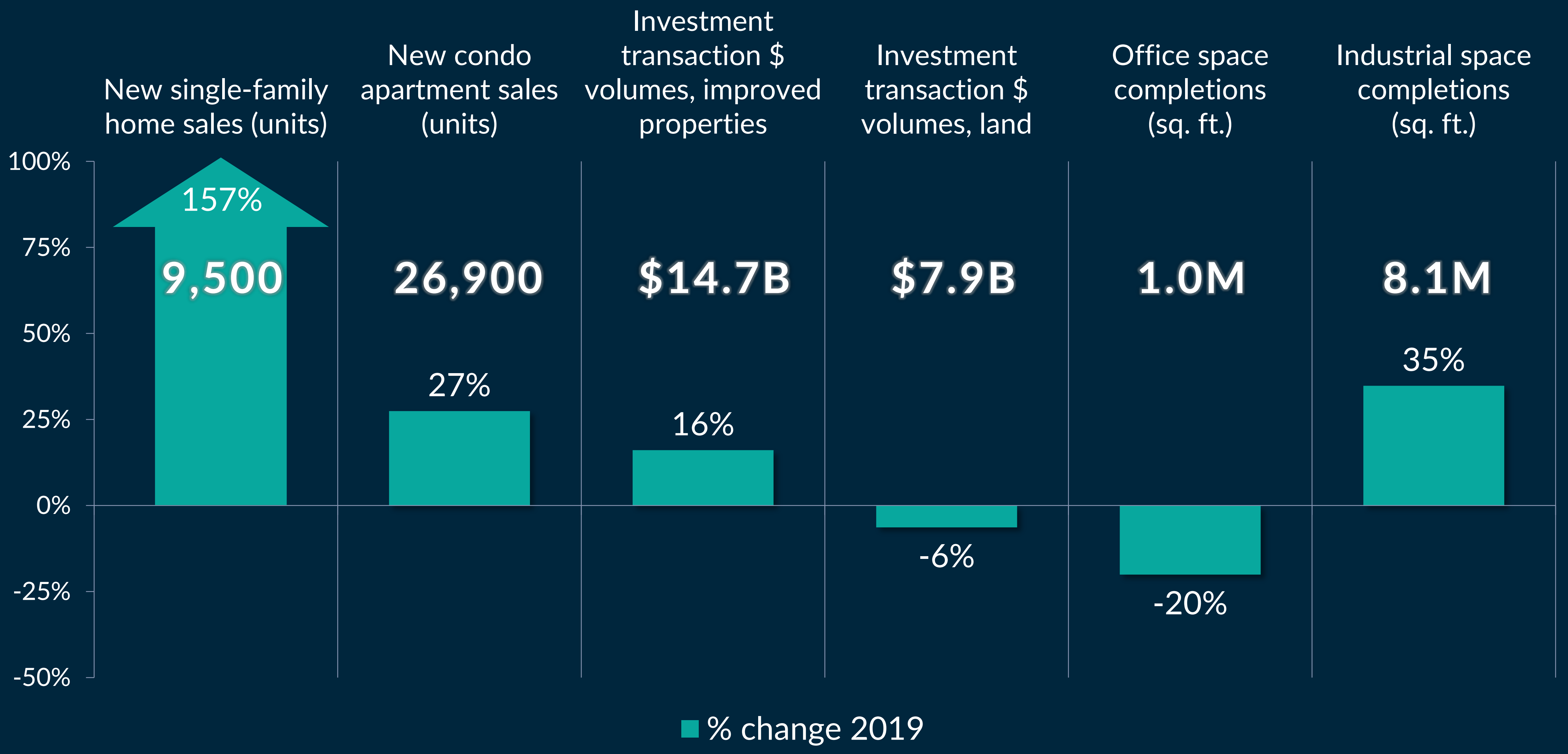
+7%

from 2018



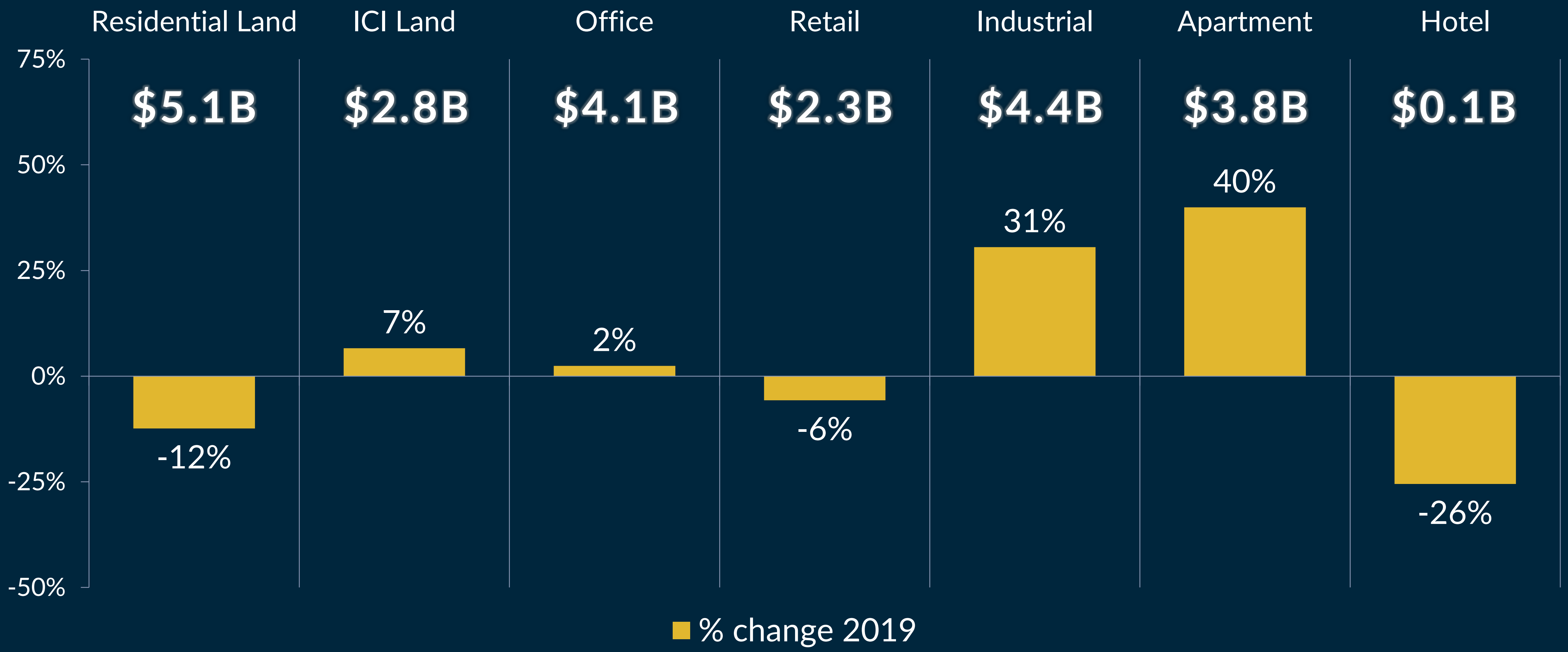
2019 GTA property performance dashboard

Altus Group



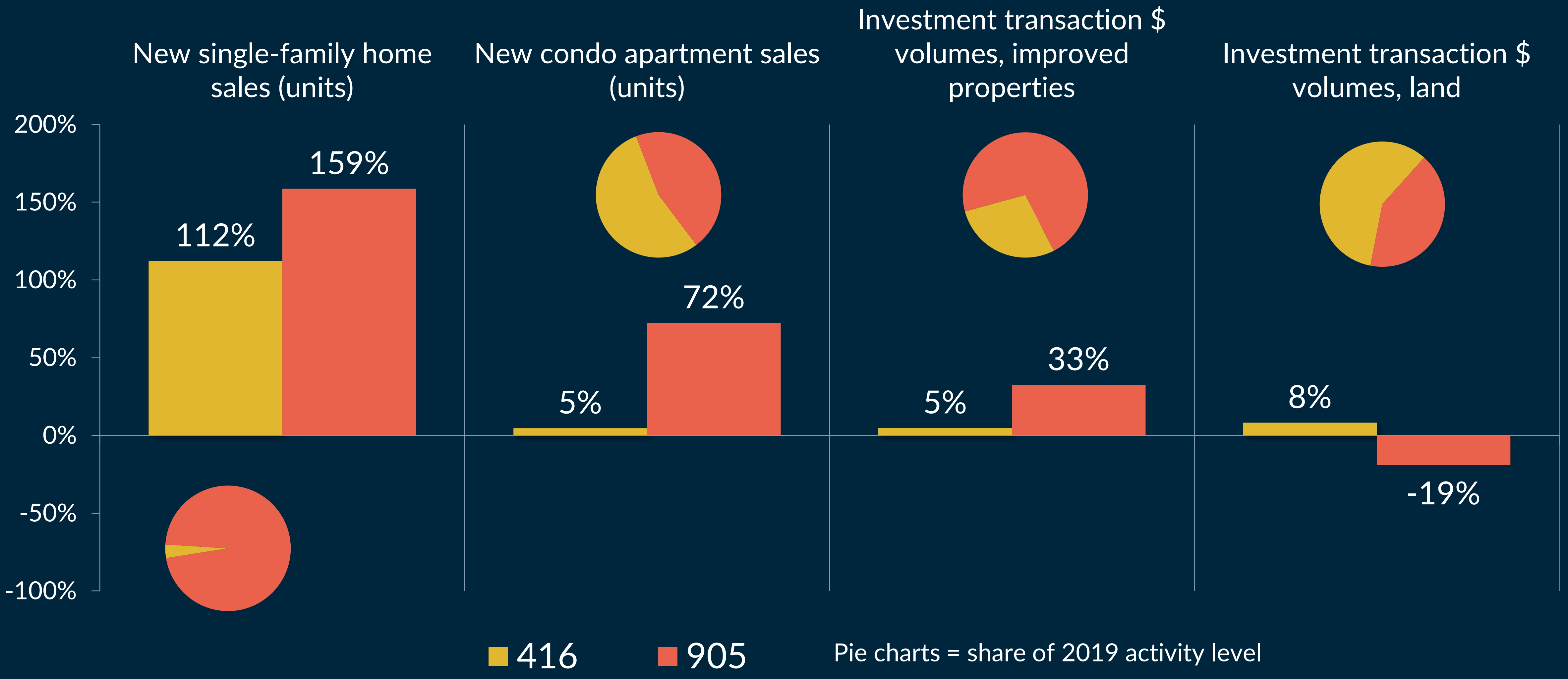
Source: Altus Group

2019 GTA investment property sales performance by sector



Source: Altus Group

2019 performance 416 vs. 905



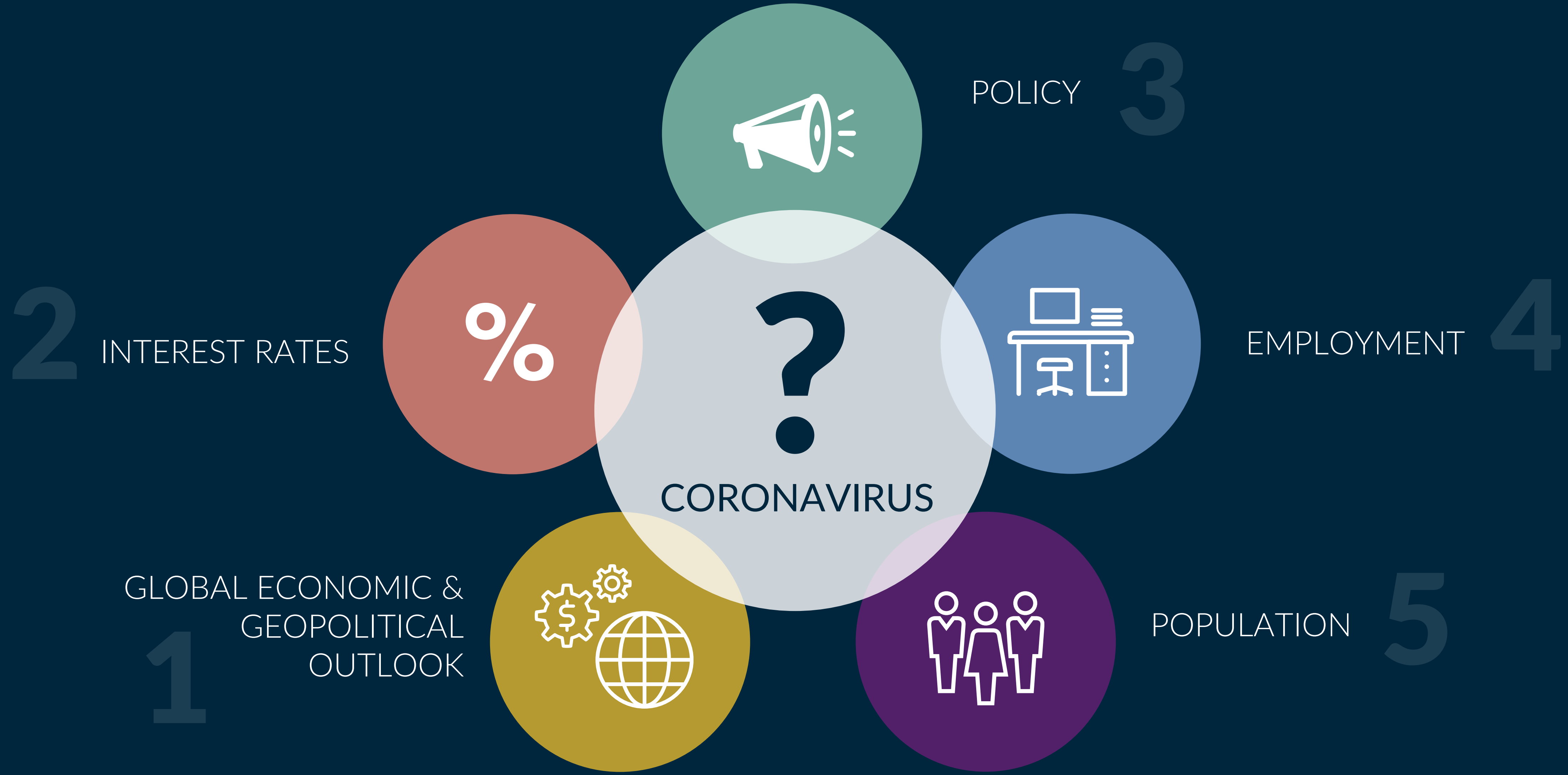
Pie charts = share of 2019 activity level

Bar chart = % change 2019

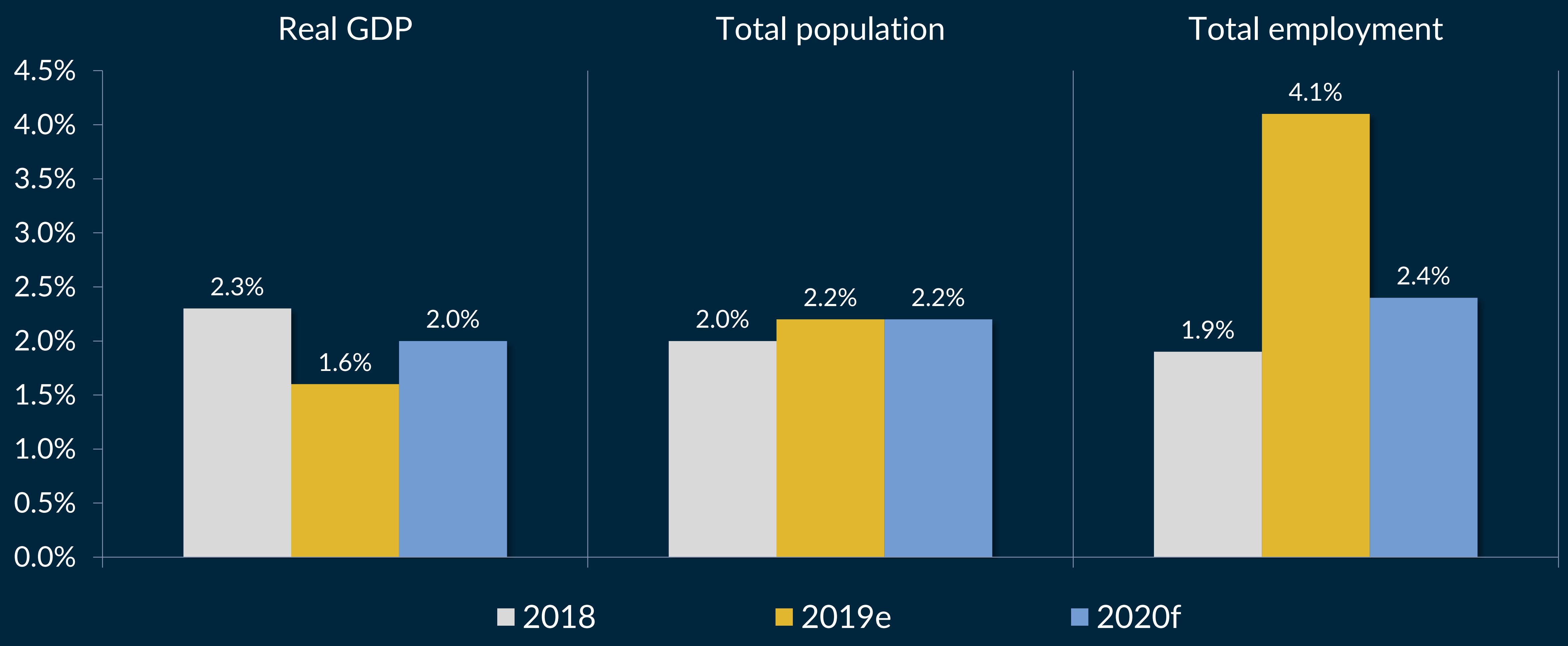
Source: Altus Group

MACROECONOMIC & DEMOGRAPHIC DRIVERS

Key factors shaping the outlook for the next year

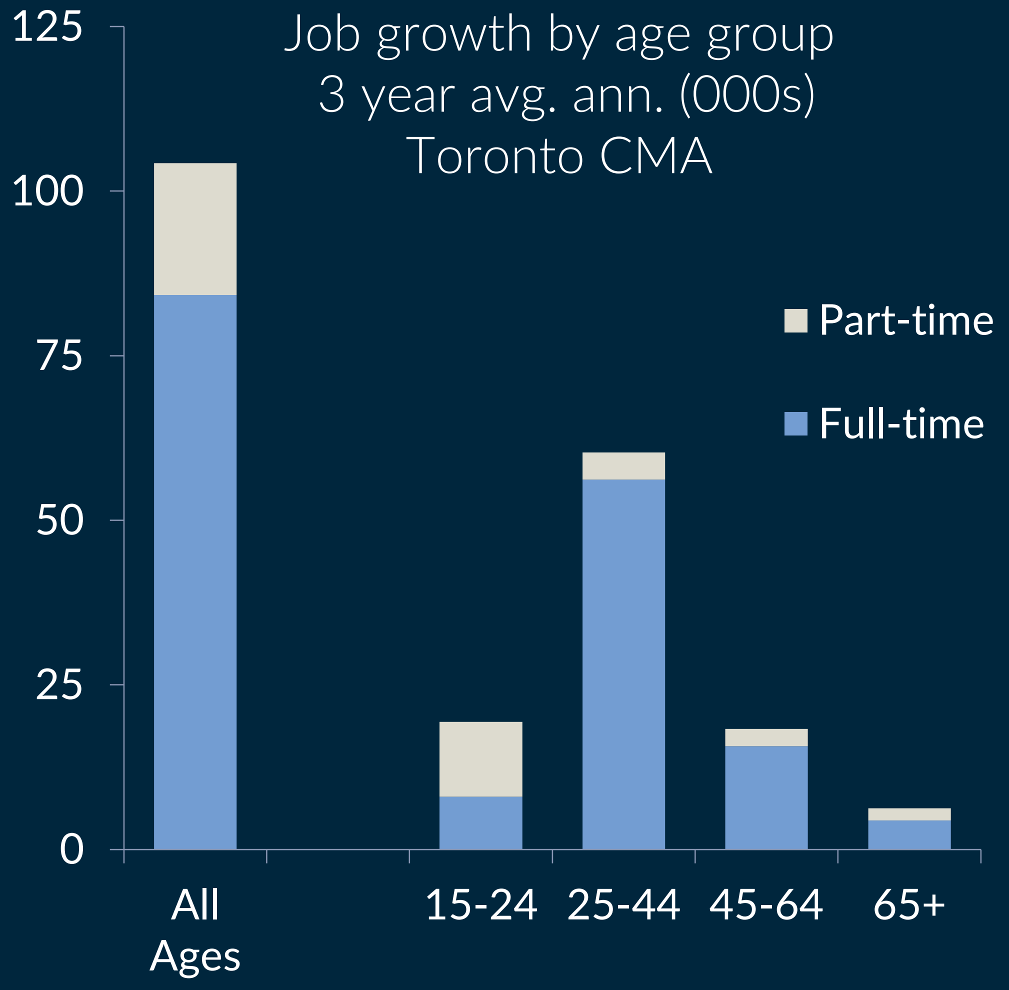


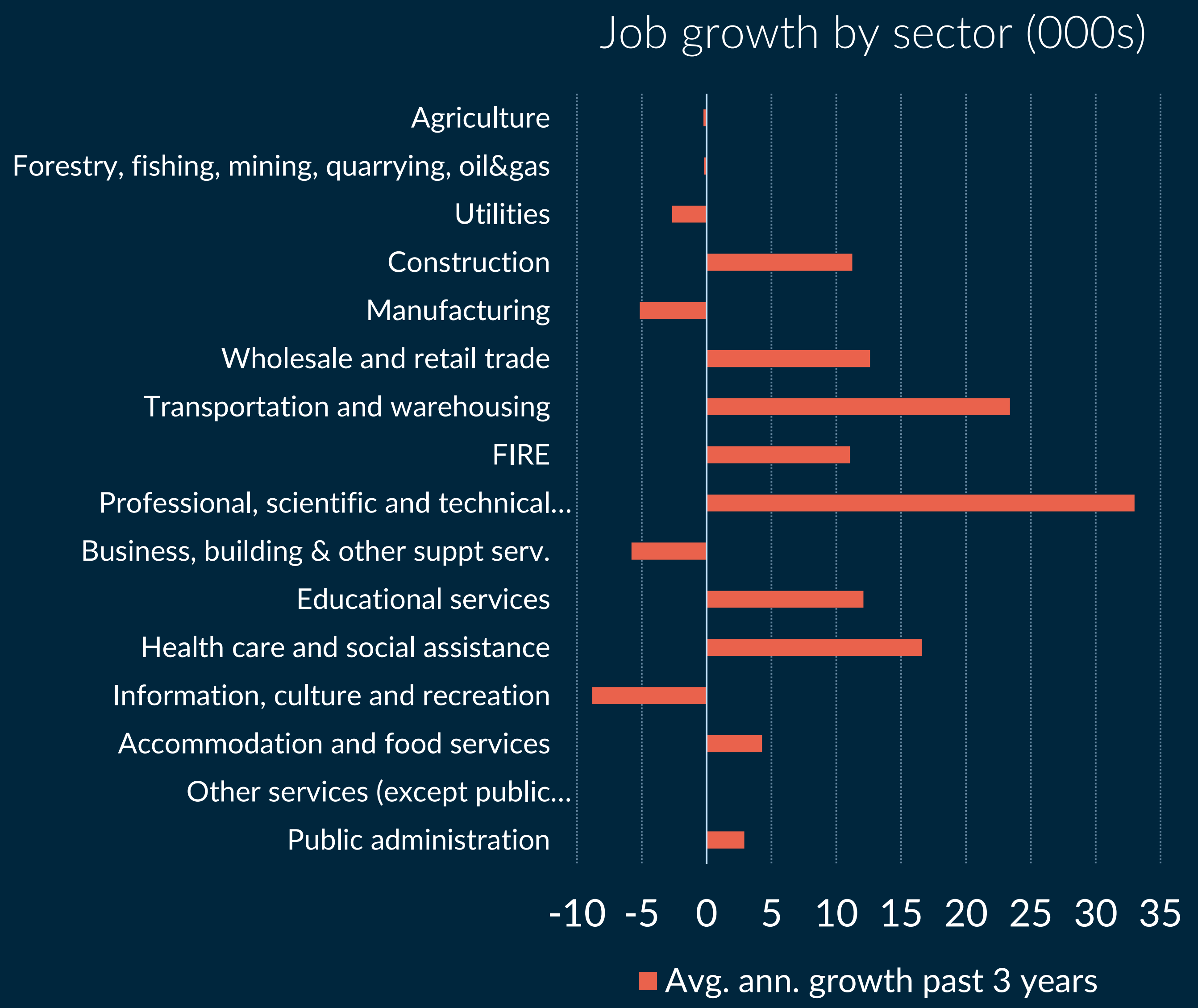
Softer but still substantial job growth ahead for Toronto



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

Toronto job growth has been centered in full-time jobs for younger population



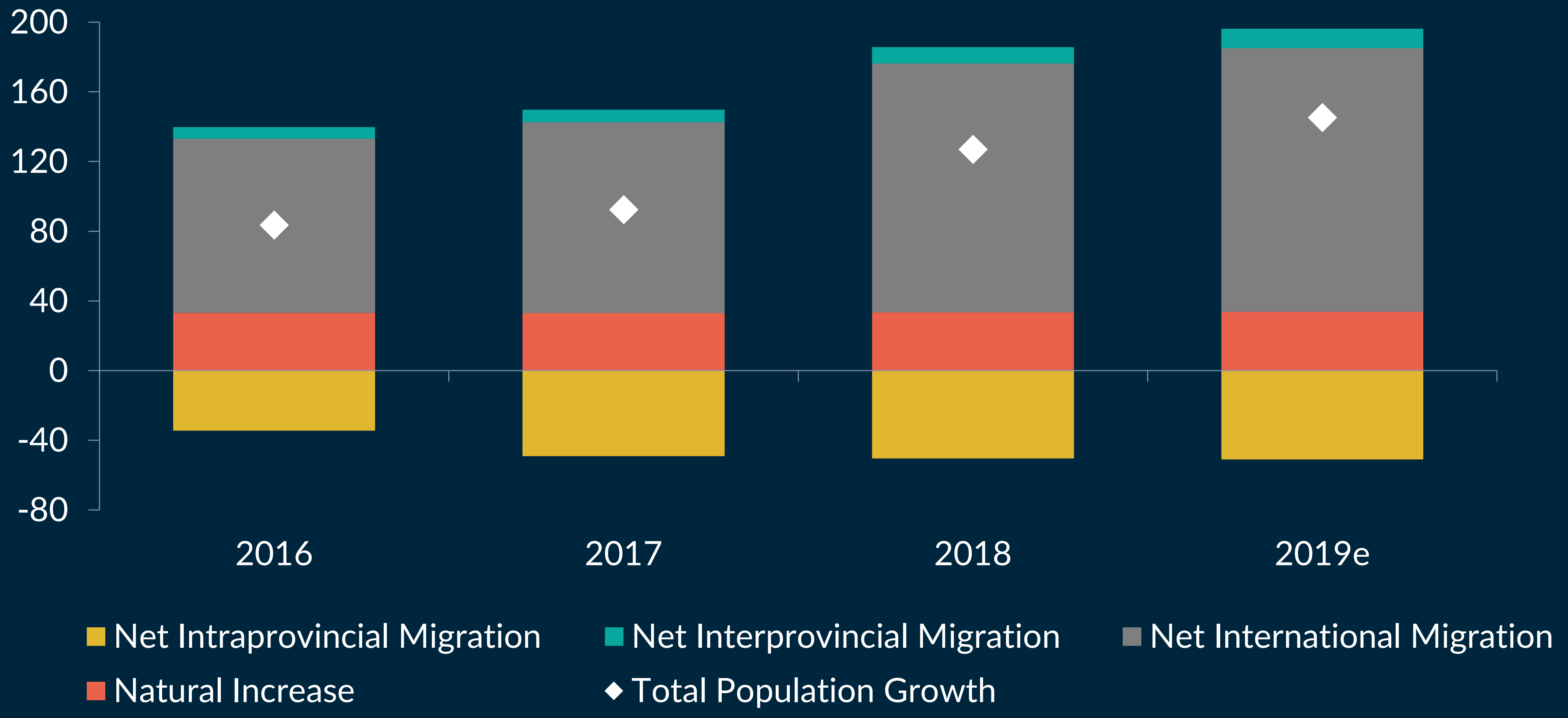


Source: Altus Group based Statistics Canada data

International migration key to Toronto population growth...

Altus Group

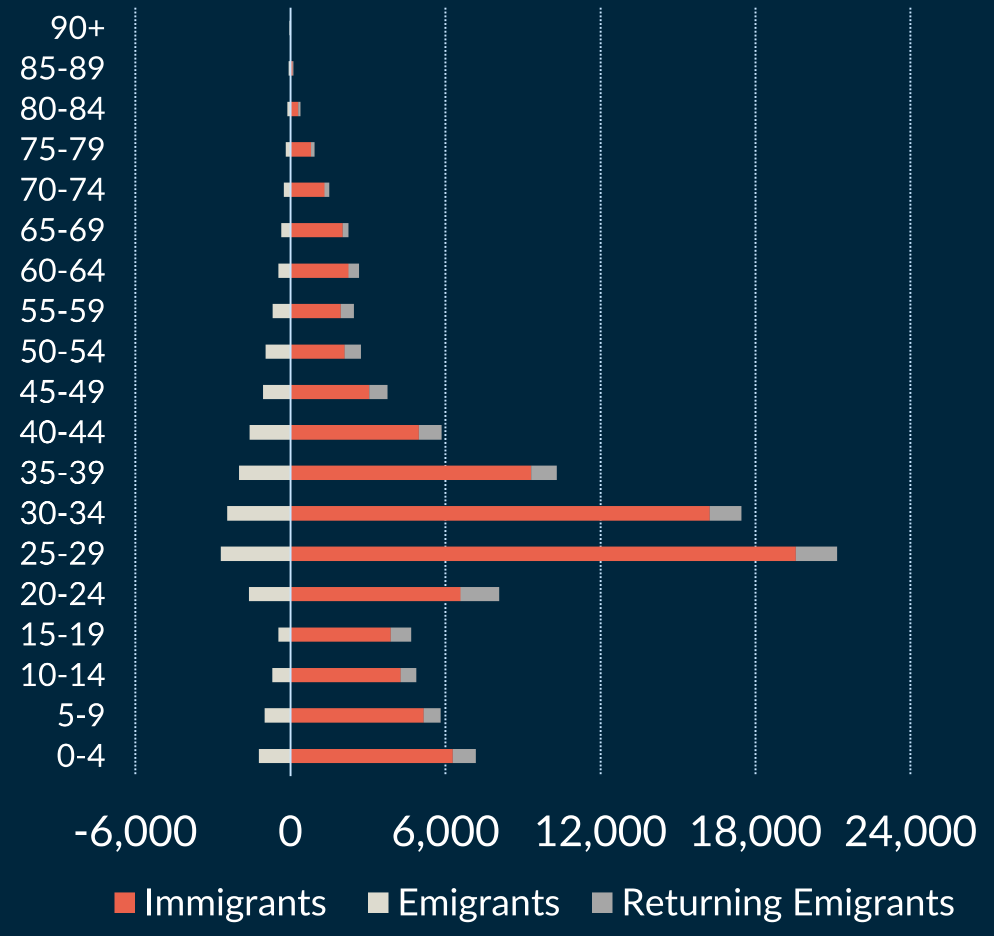
Population growth by component, 000s
Toronto market area



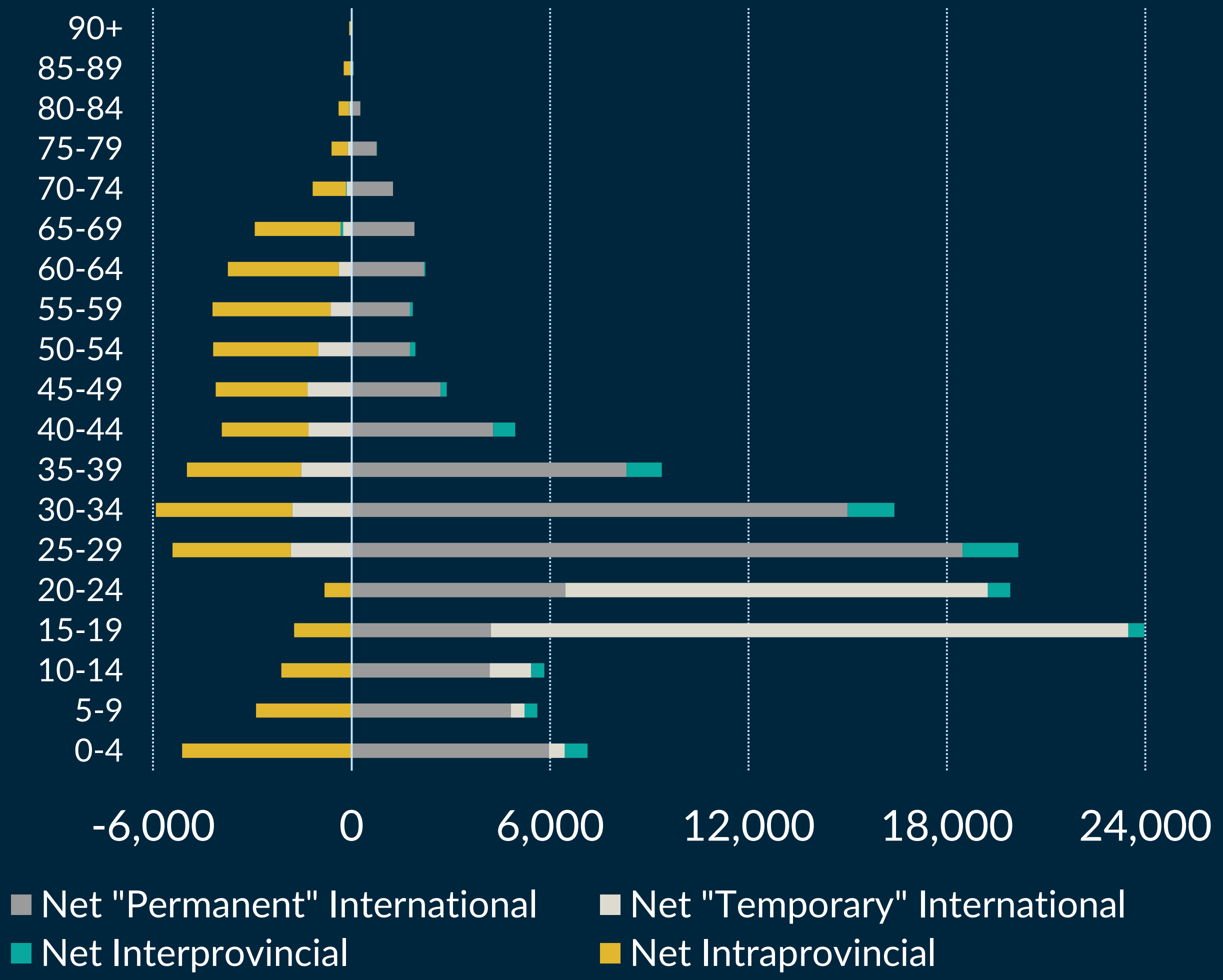
Source: Altus Group based Statistics Canada data

...centered in the 20-39 age groups

Age structure, immigrants/emigrants*
Toronto market area



Age structure of net migrants by type*
Toronto market area



Source: Altus Group, based on StatCan data

*Average 3 years ending 2018

More immigrants imminent?

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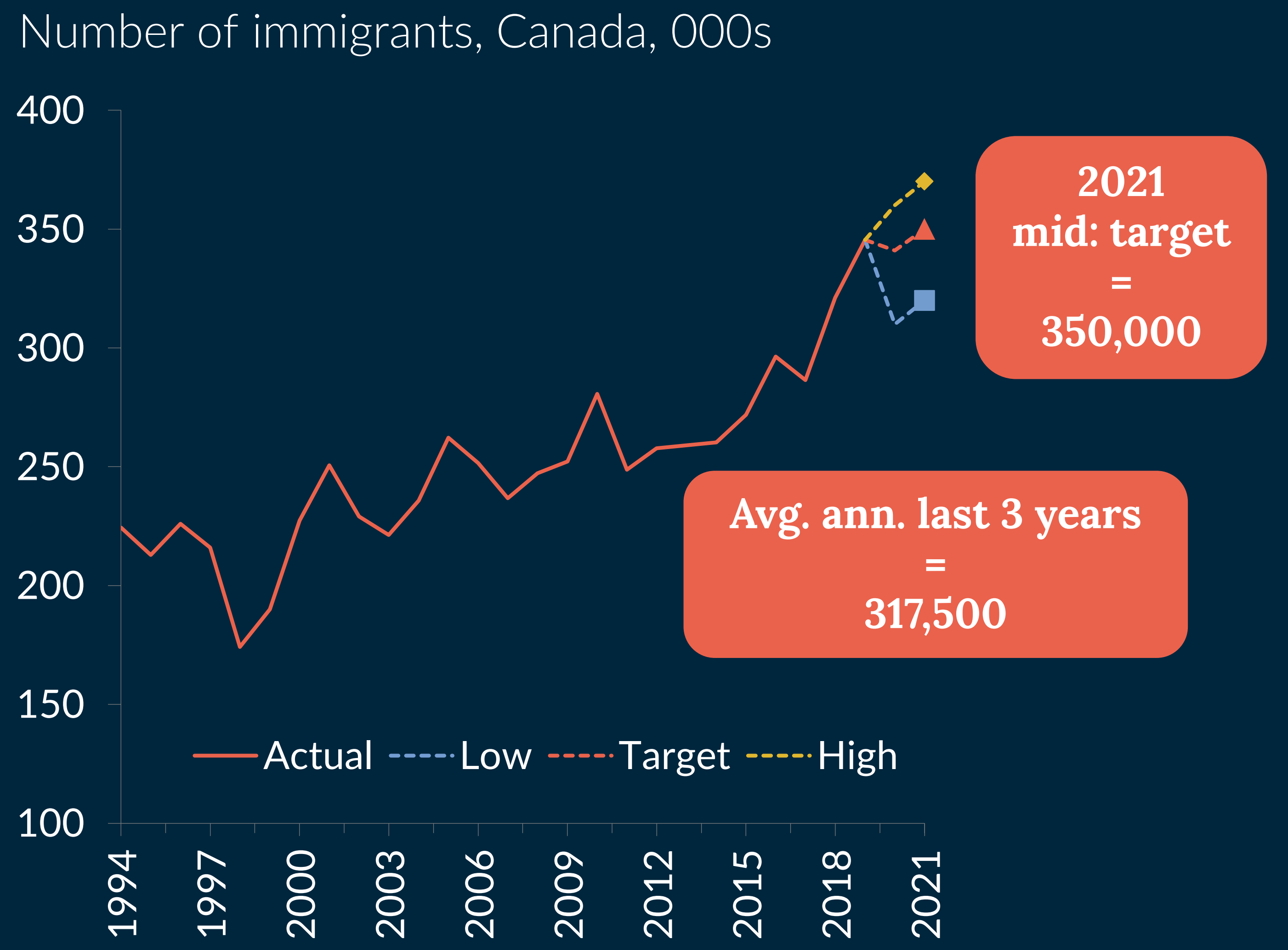
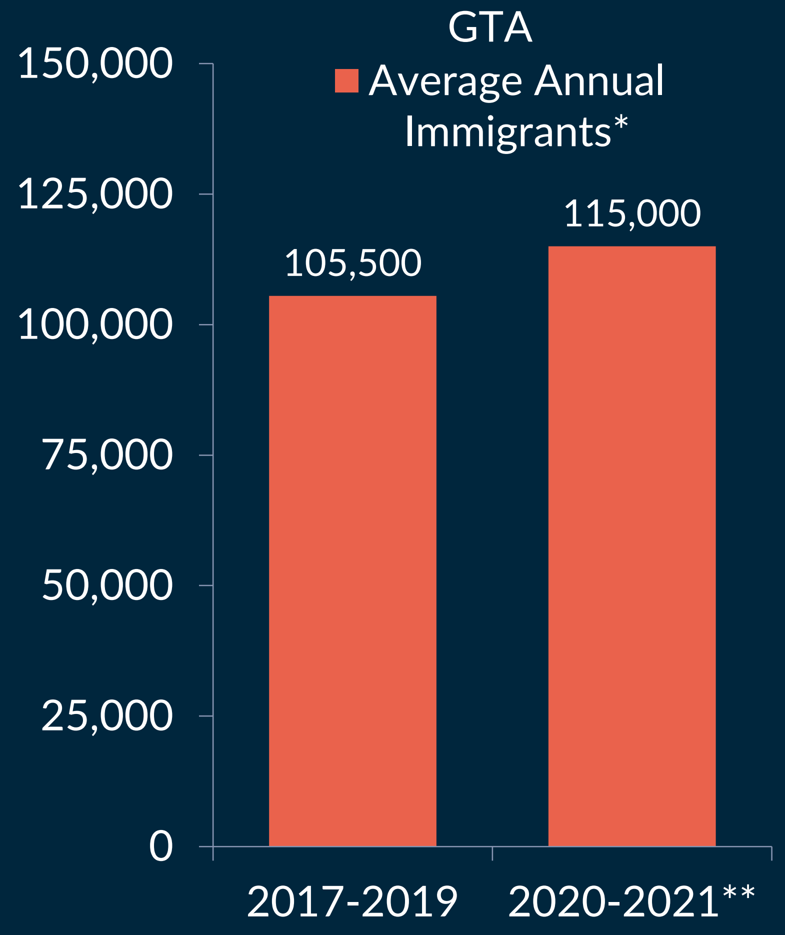


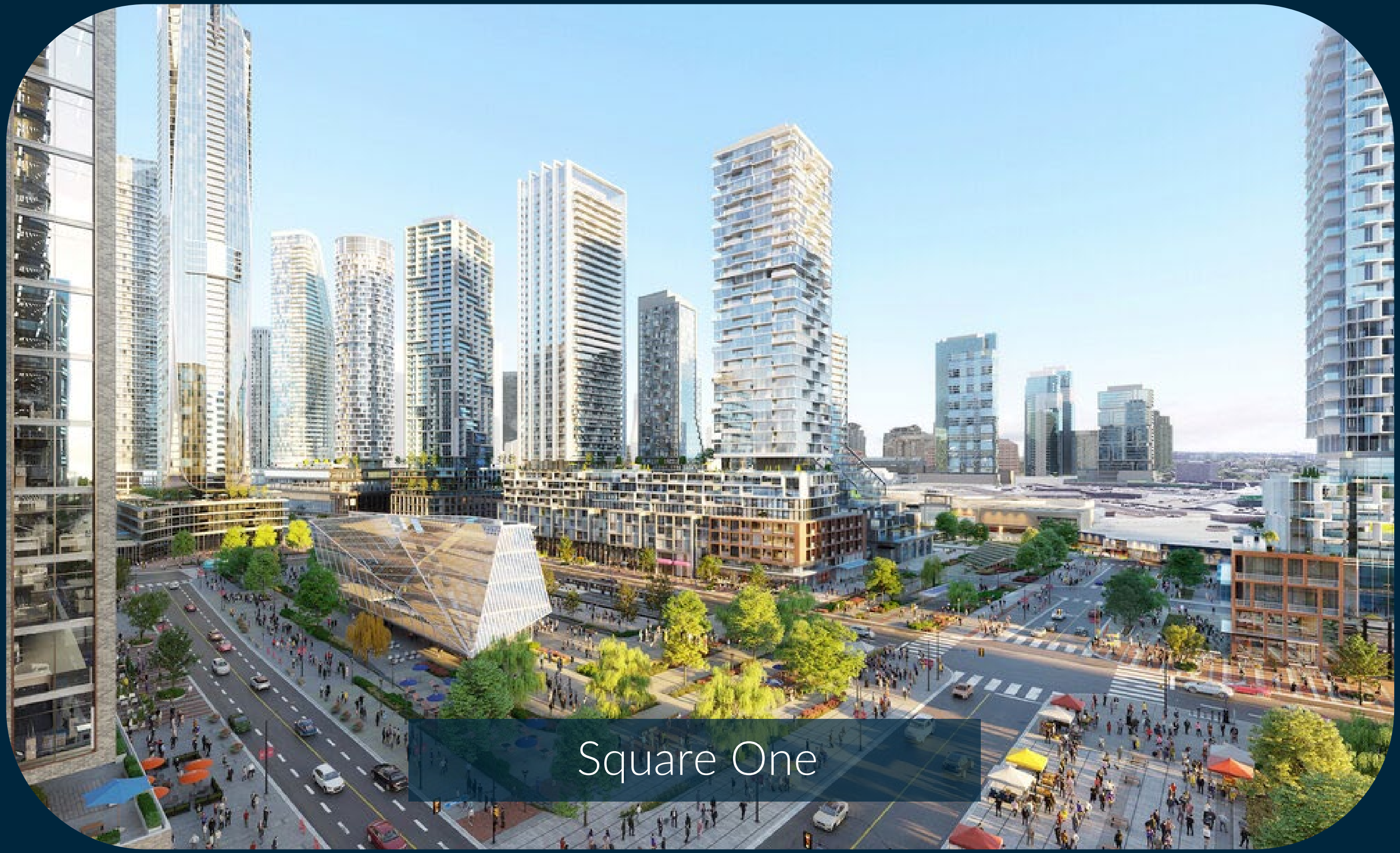


* Does not include non-permanent population
** Assuming same share of Canada as in 2017-2019

Source: Altus Group based on Immigration, Refugees and Citizenship Canada data

A new decade, a new beginning…
…sort of.

Suburban mixed-use redevelopment

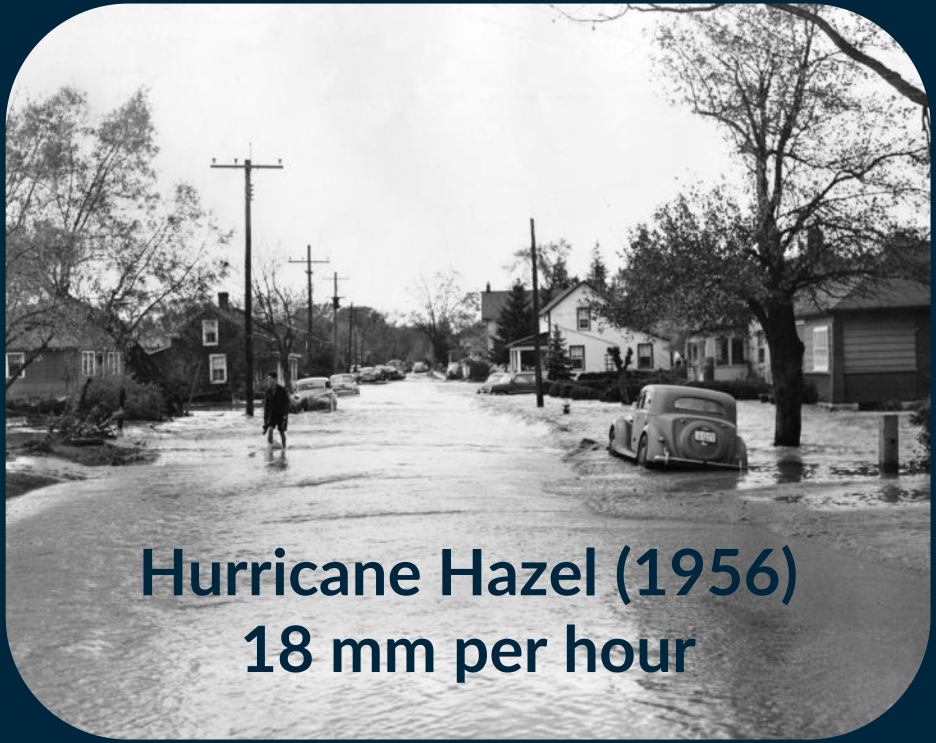


Source: Cadillac Fairvew Corporation, City of Toronto, Oxford Properties, Retail Insider

Climate change – are we ready?

AltusGroup

100-year storm scenario = **99.8 mm** of rain in **10 hours**



Source: Toronto Life, Toronto Star, TVO, Conservation Halton, FloodList

Why does this matter?

166 mm of rain in a single day by **2050**

100-year events are becoming the norm; **more frequent, more severe, less predictable**

Potential impact to real estate values & returns

Higher premiums and insurance payouts

Source: Toronto Life, Toronto Star, TVO, Conservation Halton, FloodList

Institutional investment

CBS NEWS

NEWS ⌄ U.S.-IRAN TENSIONS ⌄ SHOWS ⌄ • LIVE ⌄

BlackRock to sell $500 million in coal investments in climate change push

BY STEPHEN GANDEL

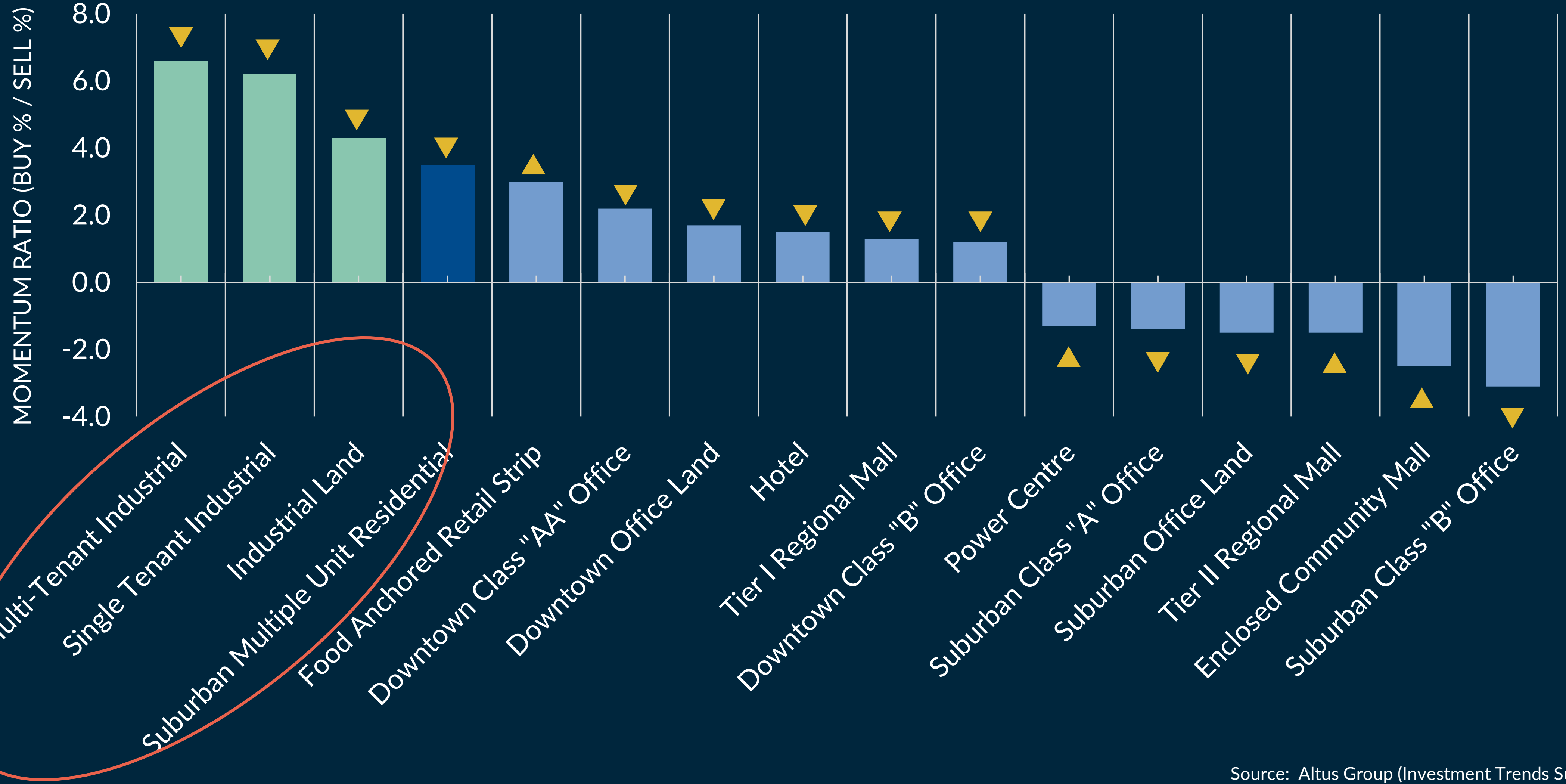
UPDATED ON: JANUARY 14, 2020 / 12:44 PM / MONEYWATCH

Source: CBS News

CAPITAL MARKETS

What investors want…

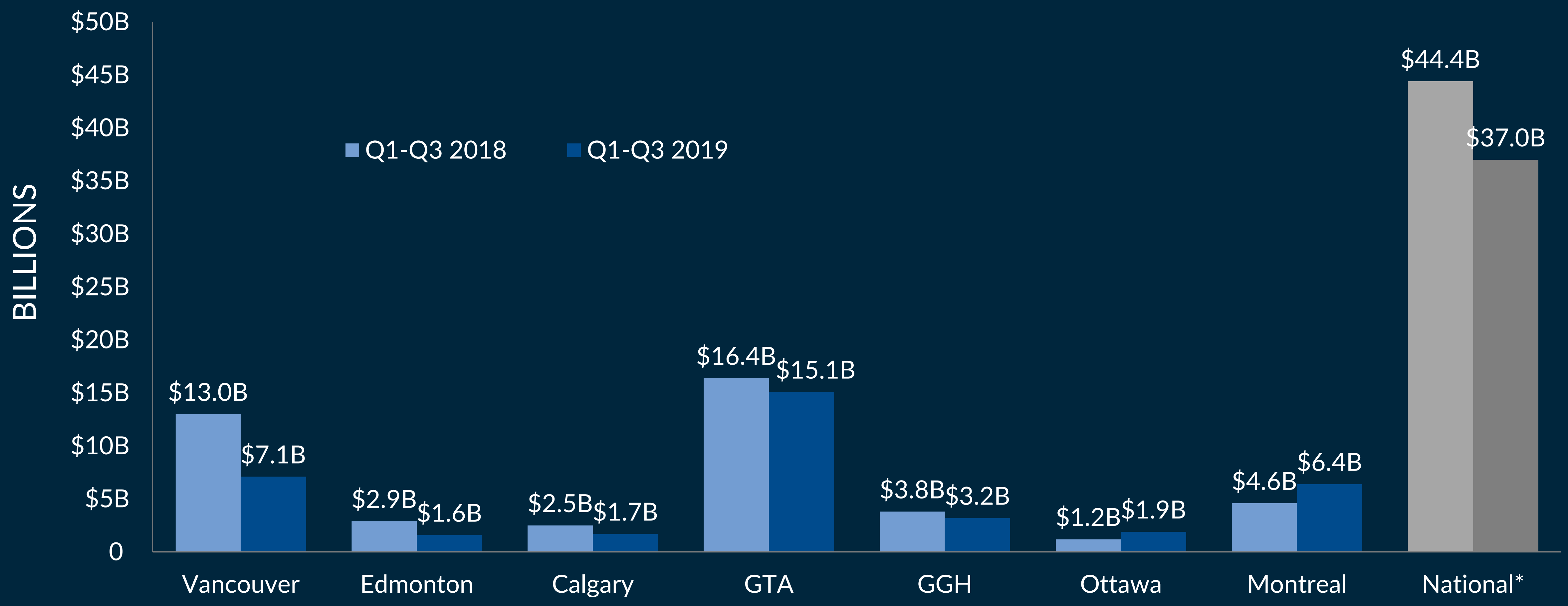
Property type barometer – all available products (Q4 2019)



Source: Altus Group (Investment Trends Survey)

National investment activity down 20% in 2019 (Q1-Q3)

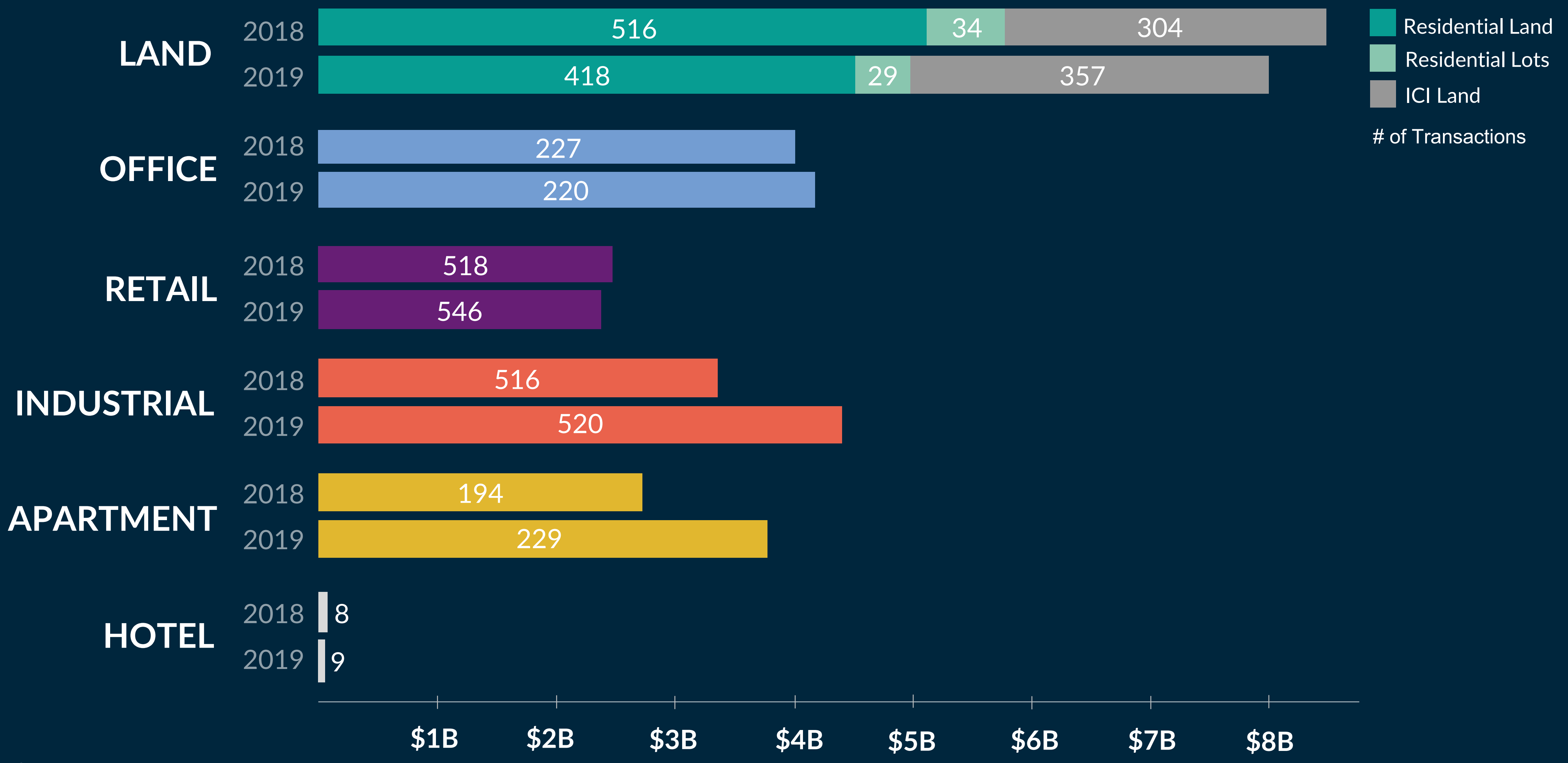
Altus Group



*National summaries include: commercial arm's length market transactions and share sales > $1 million

Source: Altus Group

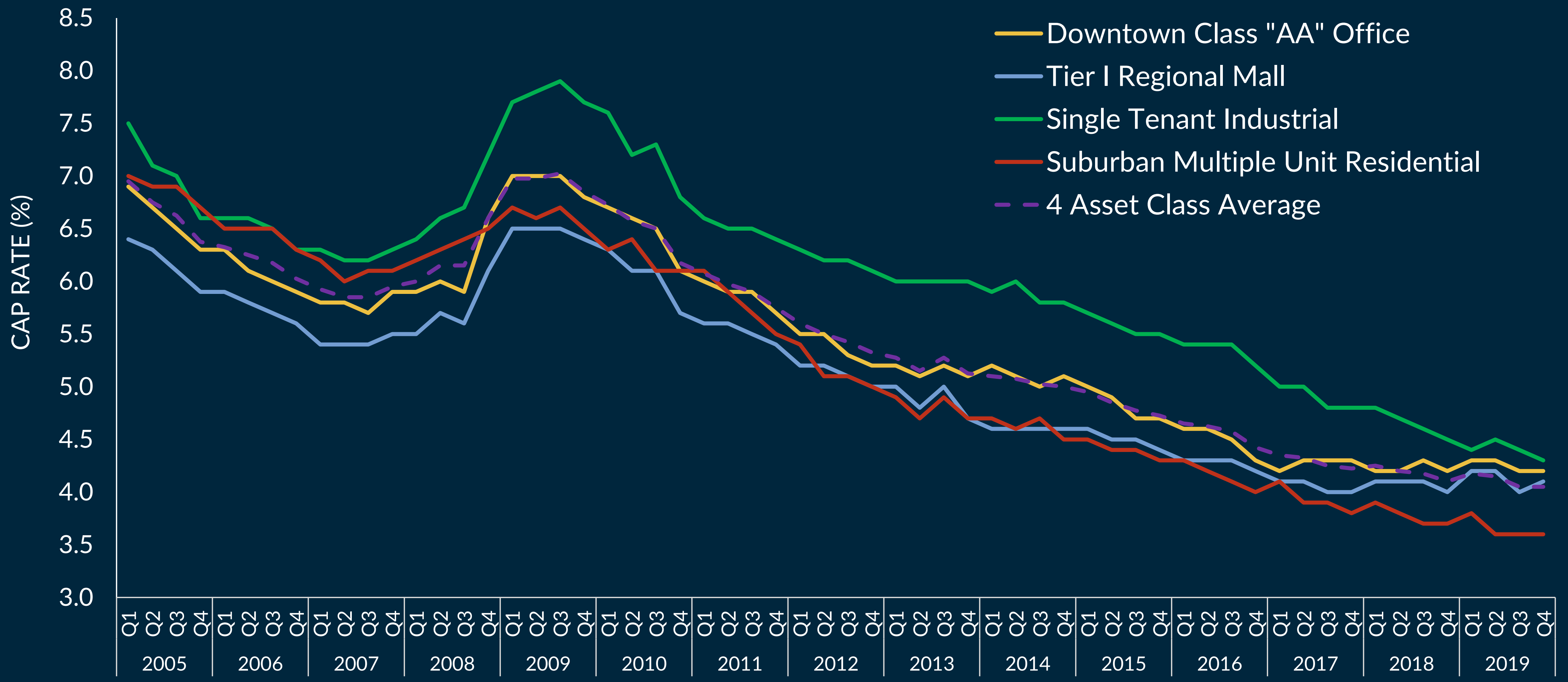
GTA 2019 investment activity, up slightly from 2018.
(Dollar volume and # of transactions)



Source: Altus Group

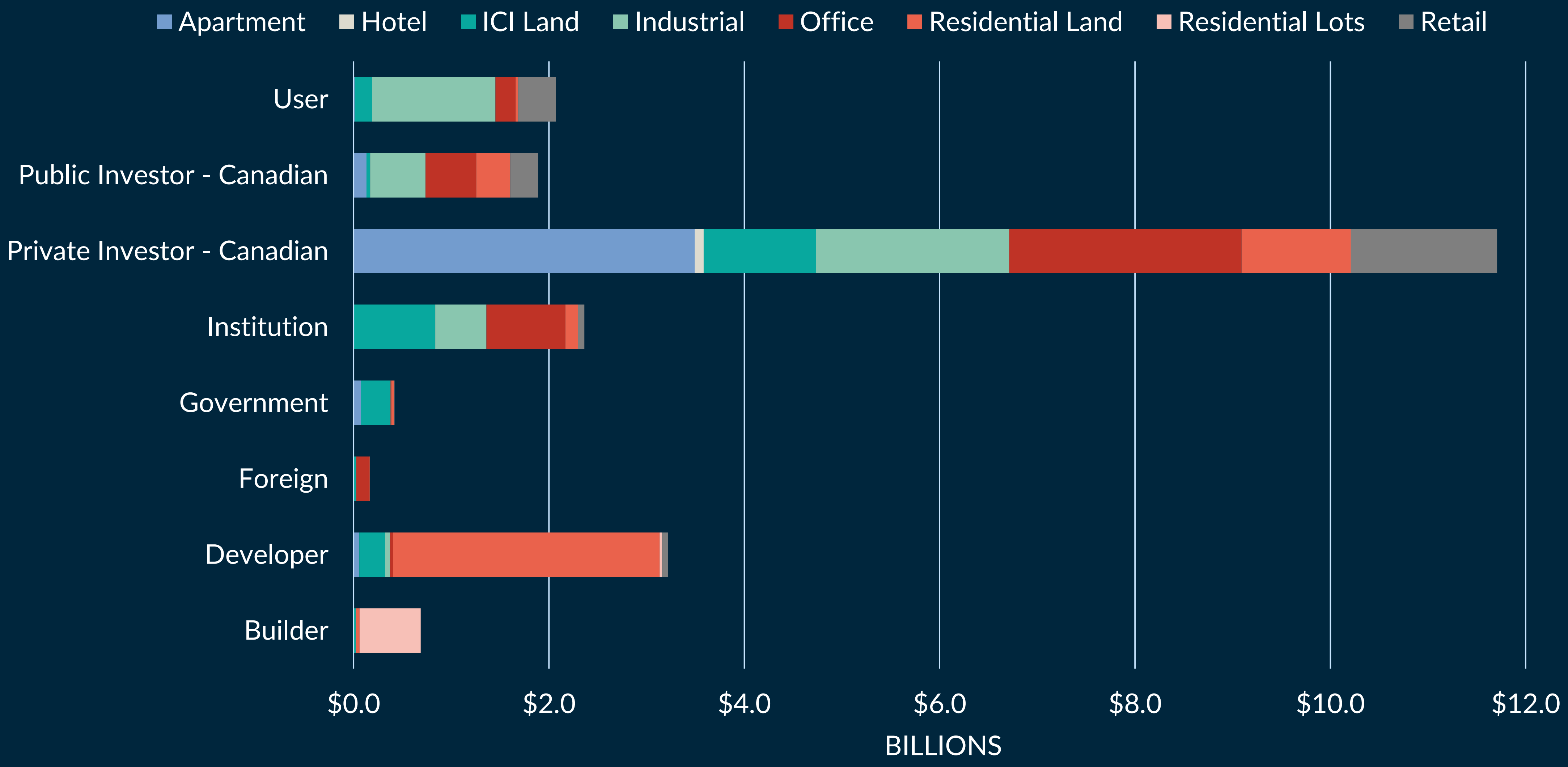
GTA cap rate trends

Altus Group



Source: Altus Group (Investment Trends Survey)

Who's buying what in the GTA?



Source: Altus Group (Q1-Q4 2019)

GTA office transactions

Altus Group

2201 EGLINTON AVENUE E
& 888 BIRCHMOUNT ROAD
Scarborough, ON

Date: July 2019
Price: $105M
Price / sq.ft.: $244

111 PETER STREET
Toronto, ON

Date: December 2019
Price: $185M
Price / sq.ft.: $734

Source: Altus Group

GTA industrial transactions

80 VIA RENZO DRIVE
Richmond Hill, ON

Date: September 2019
Price: $215M
Price / sq.ft.: $1,820

45 PARLIAMENT STREET
Toronto, ON

Date: December 2019
Price: $223M
Price / sq.ft.: $920

2200 YUKON COURT
Milton, ON

Date: December 2019
Price: $180.1M
Price / sq.ft.: $164

Source: Altus Group

GTA retail transactions

Altus Group

STOCKYARDS VILLAGE
Toronto, ON

Date: May 2019
Price: $88.5M
Adjusted price / sq.ft.: $351

HALTON HILLS VILLAGE
Halton Hills, ON

Date: December 2019
Price: $42.2M
Price / sq.ft.: $378

Source: Altus Group

GTA apartment transactions

Altus Group

CONTINUUM REIT – STARLIGHT PORTFOLIO
GTA, OTTAWA, LONDON

Date: December 2019
Price: $1.73B
Price / unit: $276,116

ROSSLAND PARK
OSHAWA, ON

Date: June 2019
Price: $220M
Price / unit: $241,493

Source: Altus Group

GTA land transactions

EAST HARBOUR LANDS
Toronto, ON

Date: September 2019
Price: $690M
Size: 37.9 acres
Intended use: Commercial

140 YORKVILLE AVENUE &
33 AVENUE ROAD
Toronto, ON

Date: July 2019
Price: $170.7M
Size: 0.566 acres
Intended use: Residential

Source: Altus Group

Capital watch

Redevelopment / densification opportunities – continued cap rate pressures

Retail in secondary markets will continue struggle with liquidity

Apartment and industrial will continue to be hot, especially properties with potential upside

Foreign and domestic investor demand will remain strong

OFFICE

Top office tenant preferences

Altus Group

1. Abundant natural light

2. Coffee shops

3. Free WiFi

4. Room sensors - temperature control

5. Efficient elevators

6. Sound proofing

7. Ability to receive packages

Source: Informa, 2019 Office Tenant Preference Survey

Locational preferences

1. Retail / restaurants

2. Public transit

3. Proximity to home

Source: Informa, 2019 Office Tenant Preference Survey

Health, wellness, employee-centric amenities

Altus Group

Lifestyle choices & physical / social environments determine **90%** of health.

- WELL Building Institute

BDO Offices, Toronto

Nap it Up – daytime napping studio for office tower workers at Yonge & Eglinton

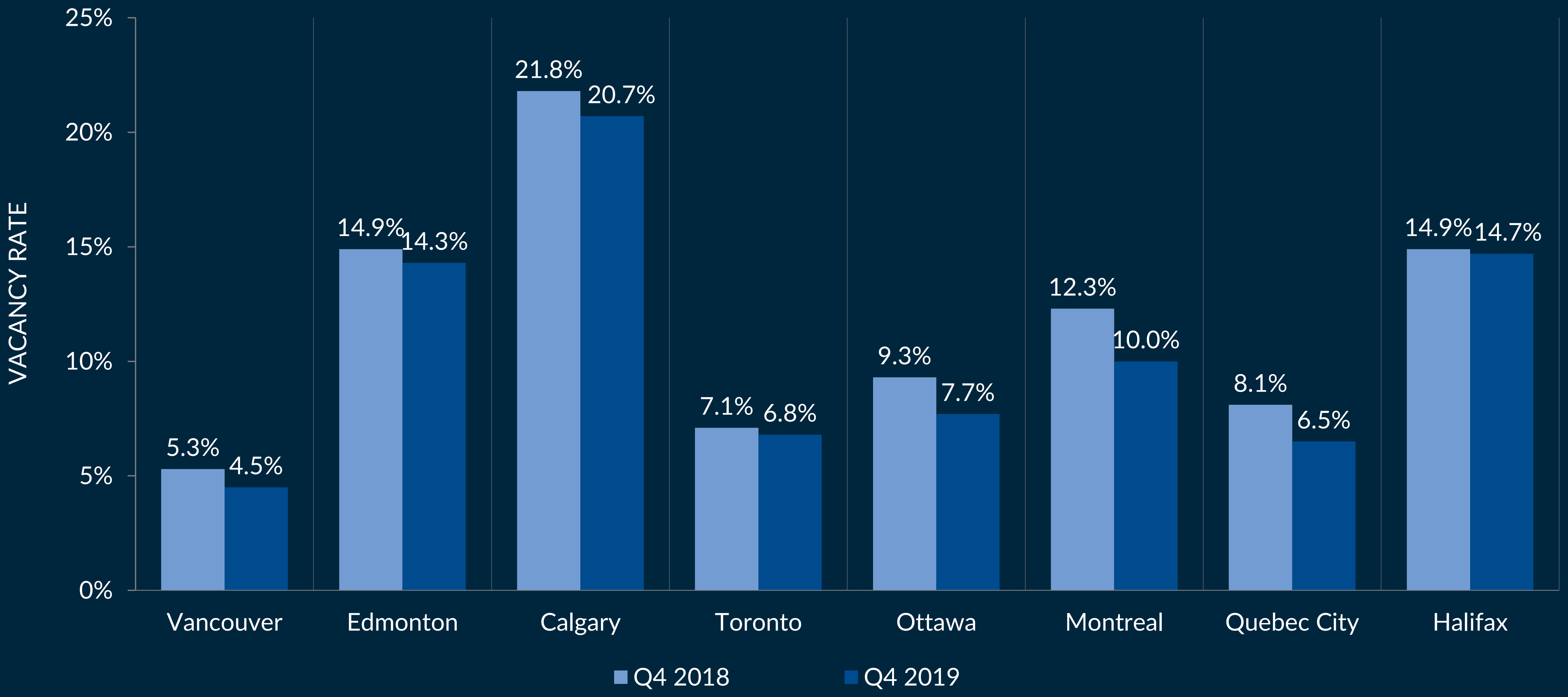
70% of employees say that a workplace that **enhances their health and well-being** would encourage them to **stay at current job or accept a job offer.**

- 2019 Workplace Wellness Study, Future Workplace

Source: WELL Building Institute, Workplace Wellness Study, Forbes, Toronto Life, Office Snapshots / Claude-Simon Langlois

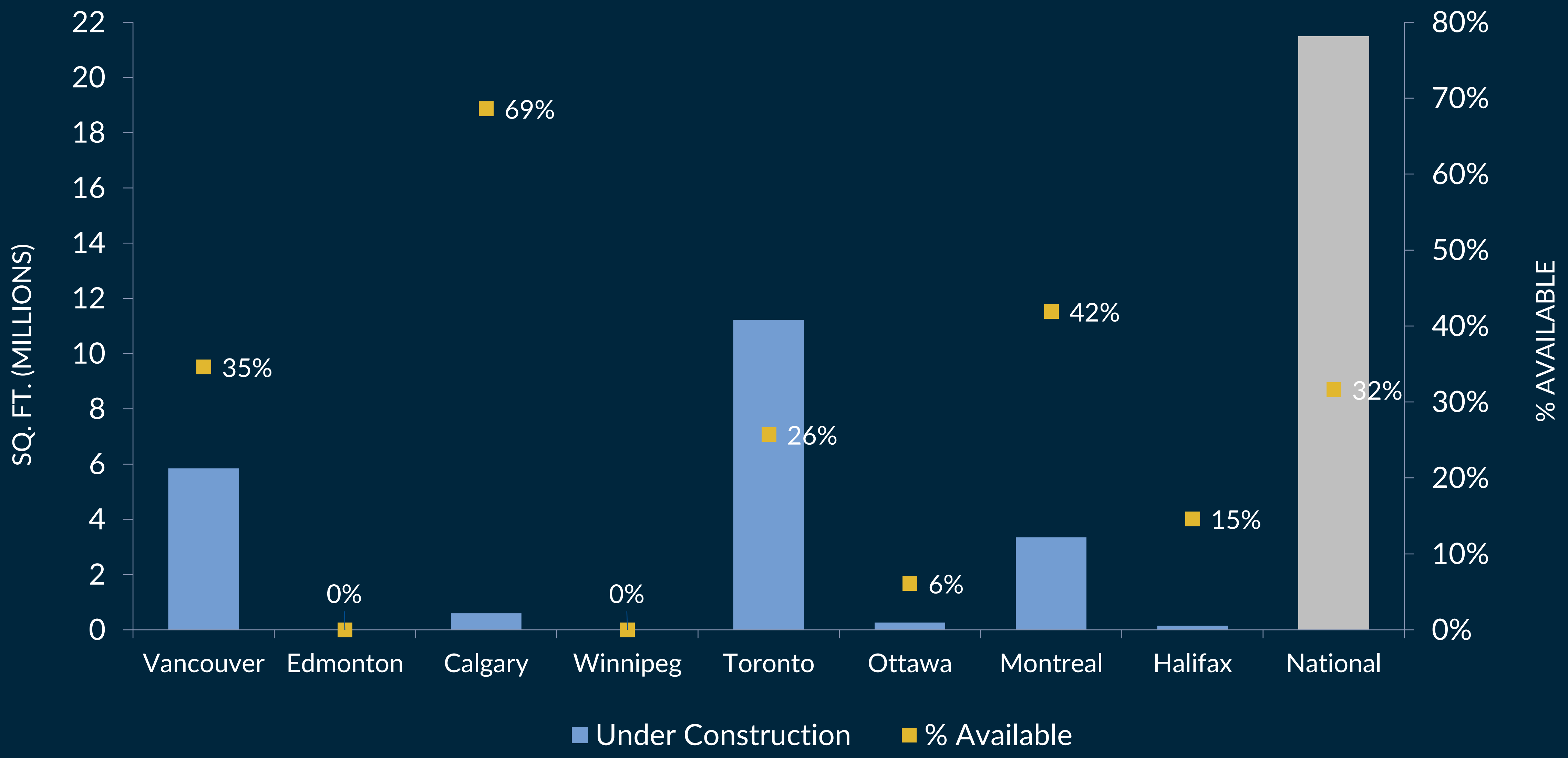
Office vacancy rate in balance – for the most part

Altus Group



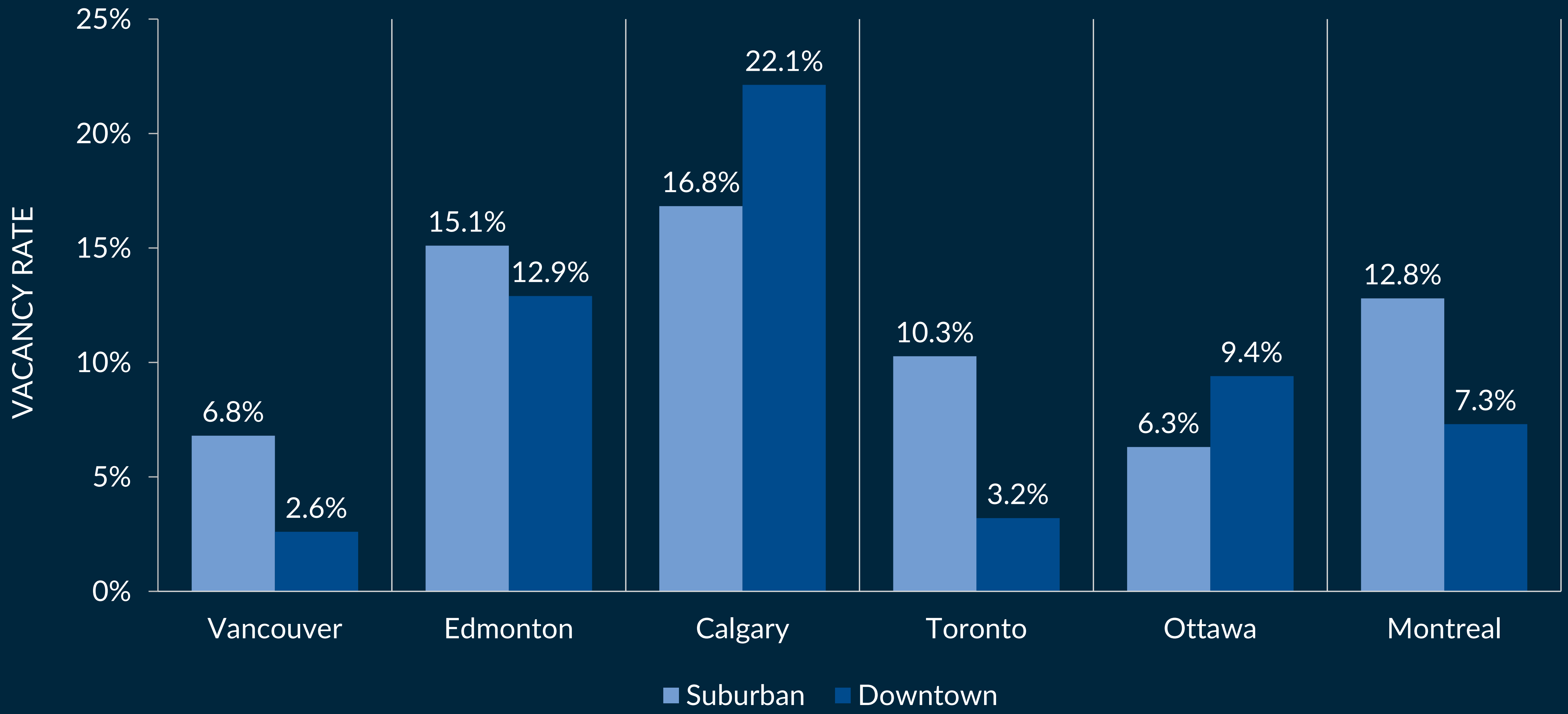
Source: Altus Group

Strong office pre-leasing activity



Source: Altus Group

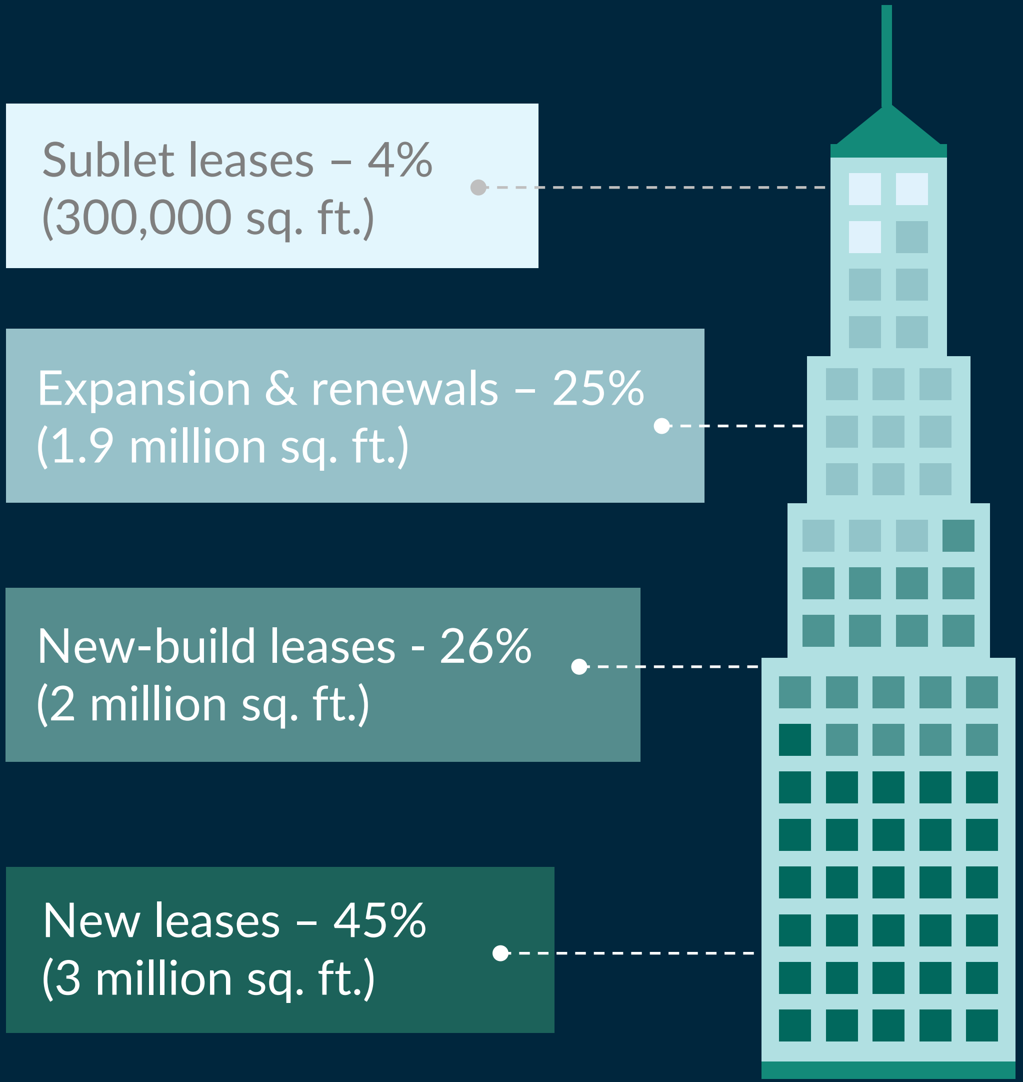
Office vacancy - suburban vs downtown

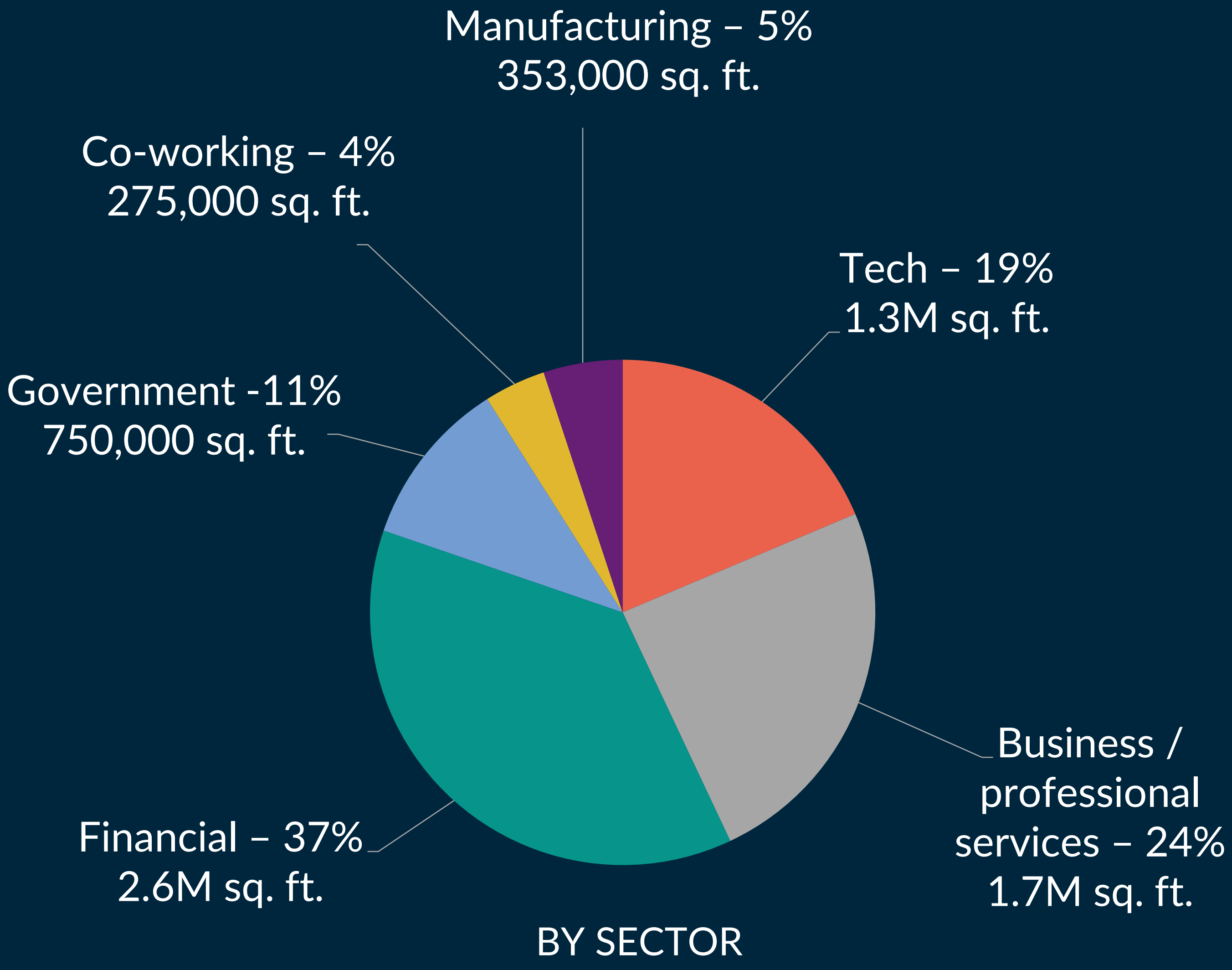


Source: Altus Group

2019 GTA office leasing activity

Altus Group



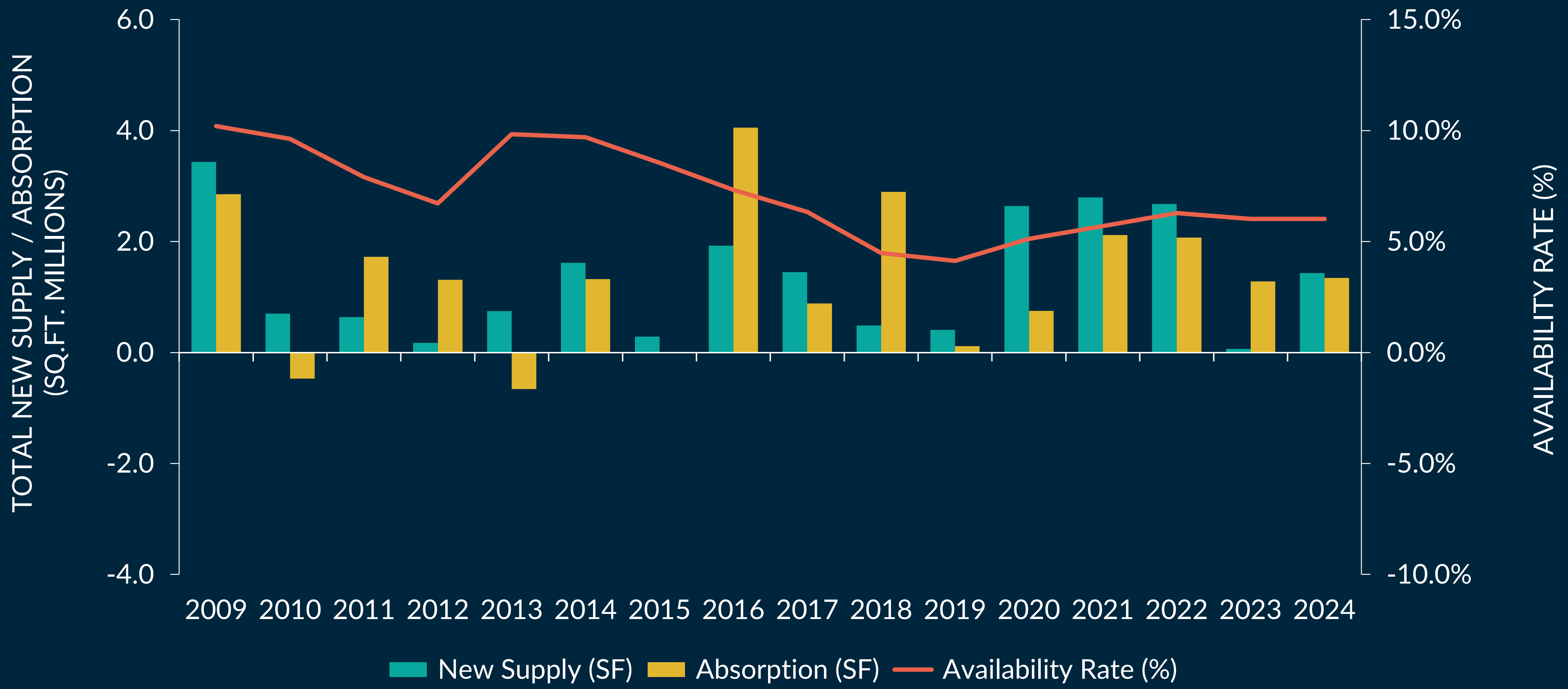


Source: Altus Group

Not enough new supply?

Altus Group

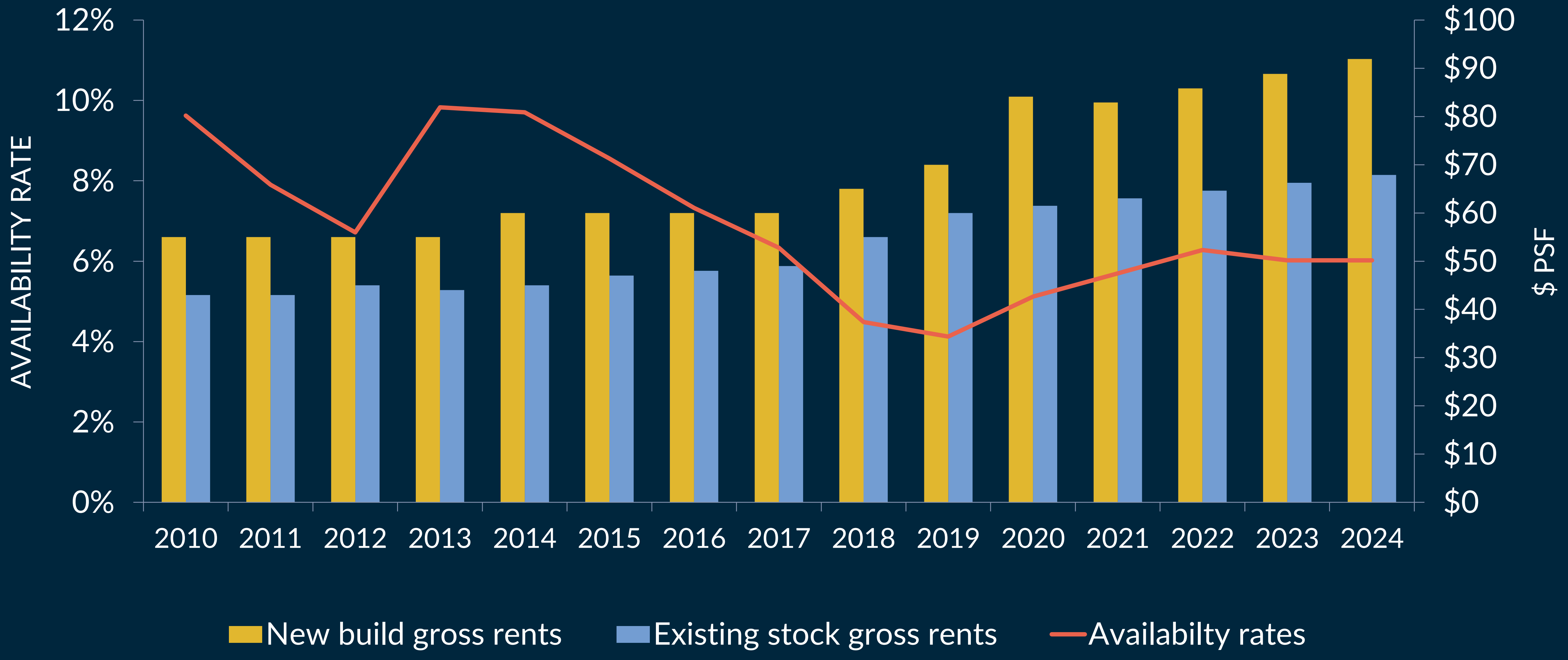
Availability rate vs. Total new supply forecast vs. Absorption
(Downtown Toronto, 2009-2024)



Source: Altus Group

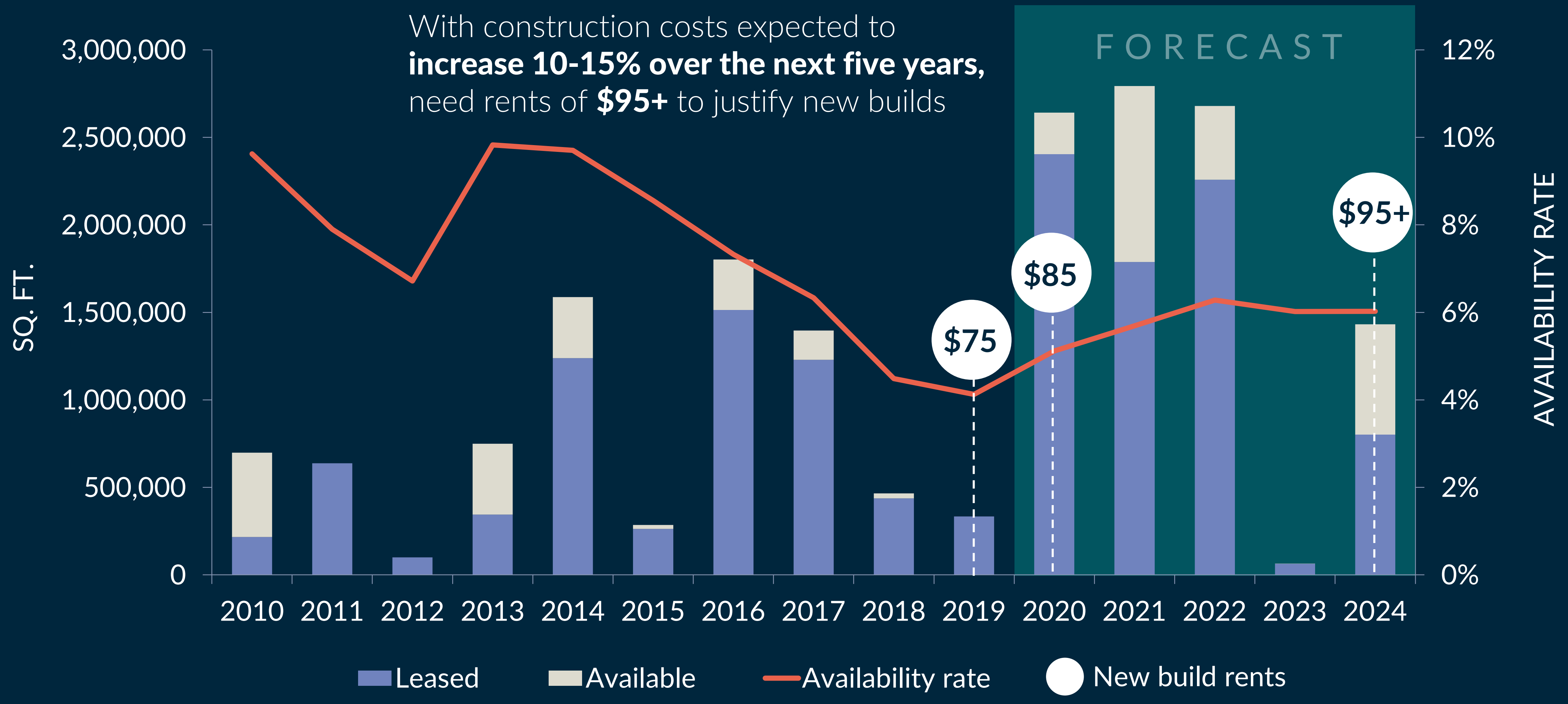
Will rising office rental rates curtail new downtown supply?

AltusGroup



Source: Altus Group

Downtown office under construction - is there an appetite for more?



Source: Altus Group

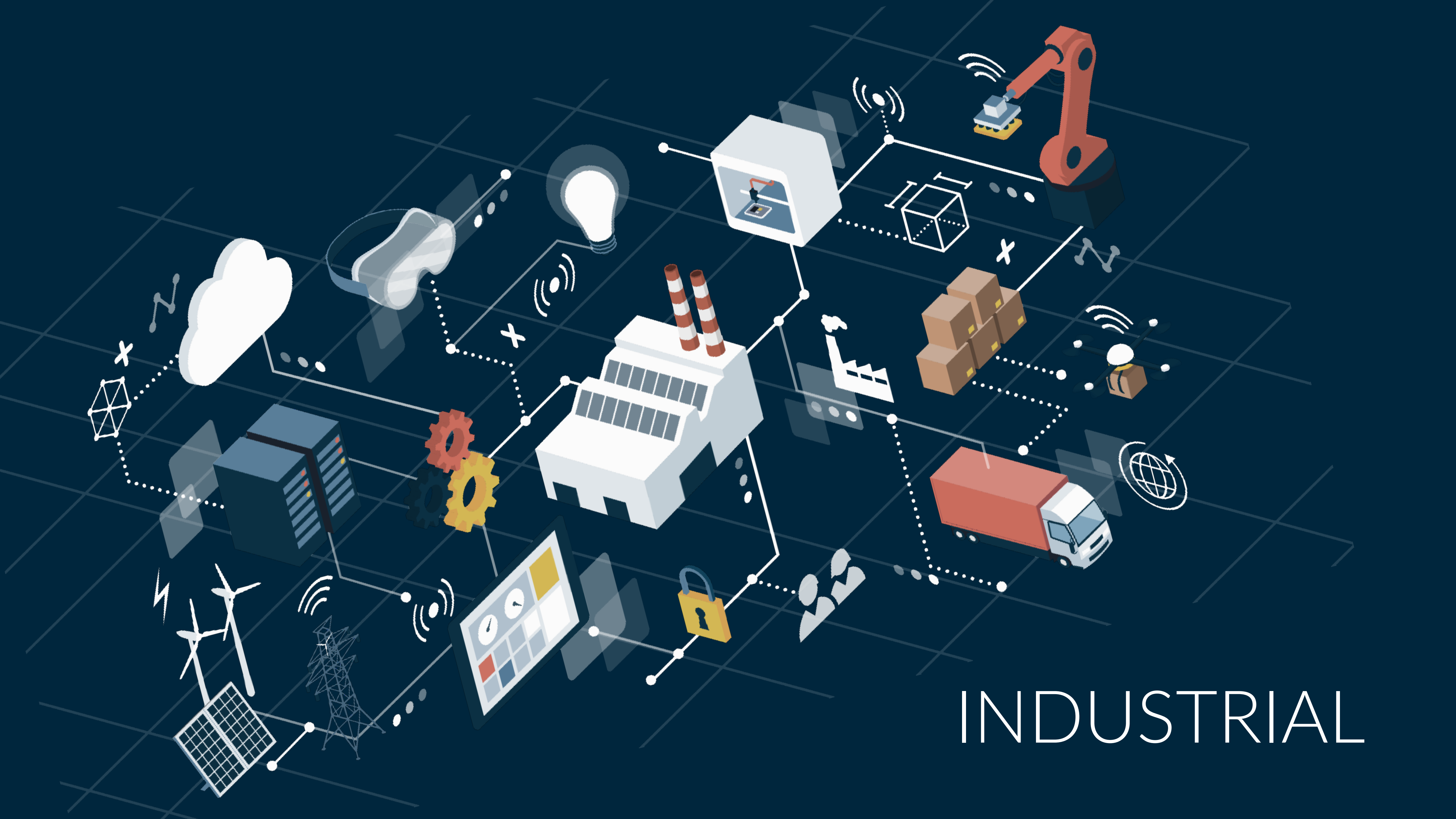
Office watch

Downtown Toronto still has plenty of runway despite new supply

Suburban office will struggle with older supply and public transit accessibility

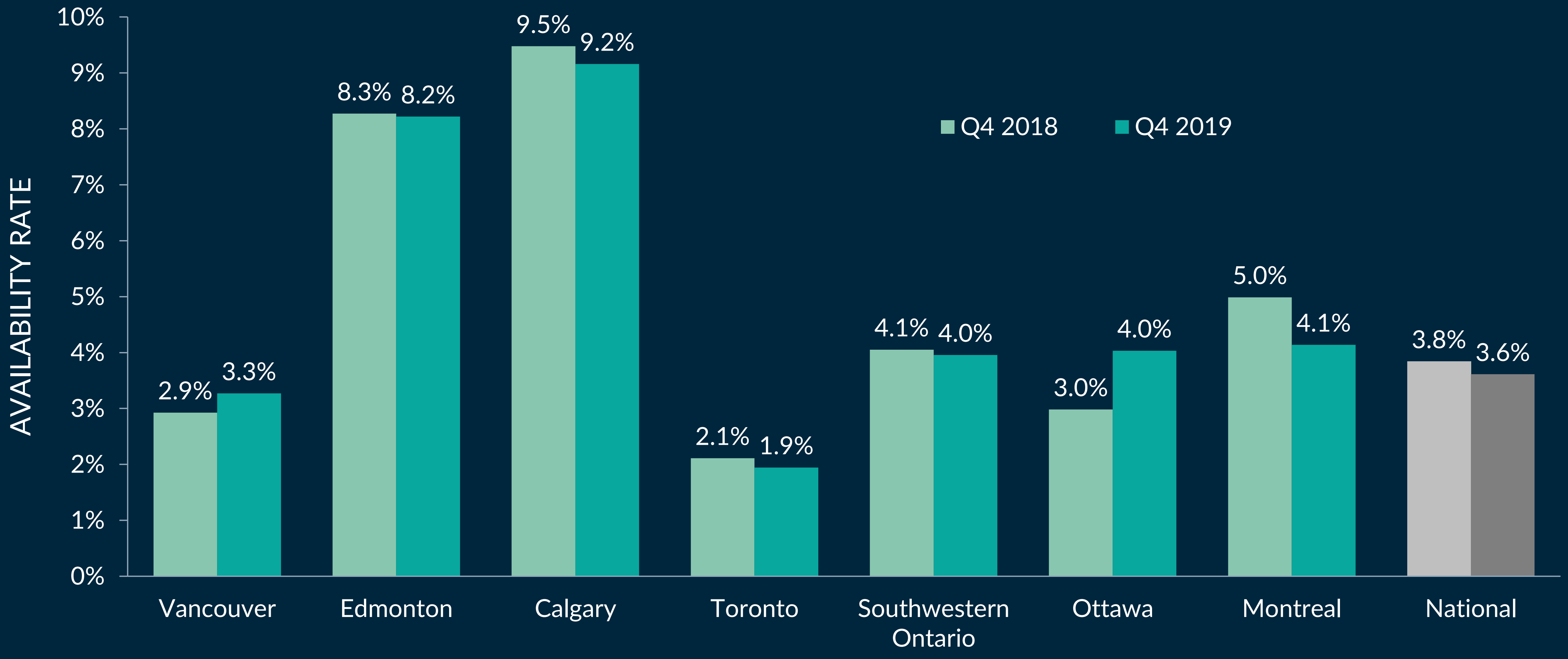
Not much relief for tenants in short to medium term

Flexibility and talent is key; co-working will continue to grow


INDUSTRIAL

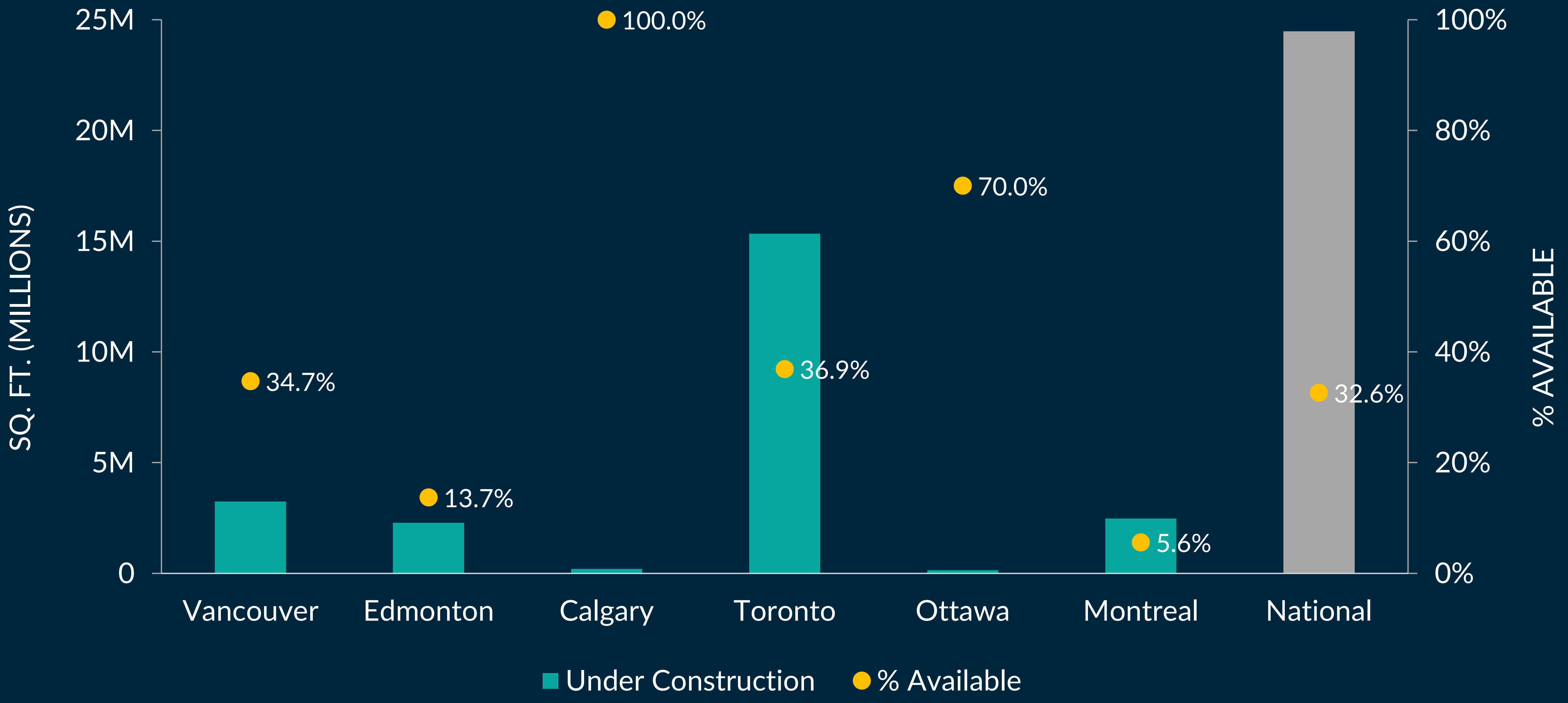
Industrial sector remains undersupplied, while demand strengthens

Altus Group



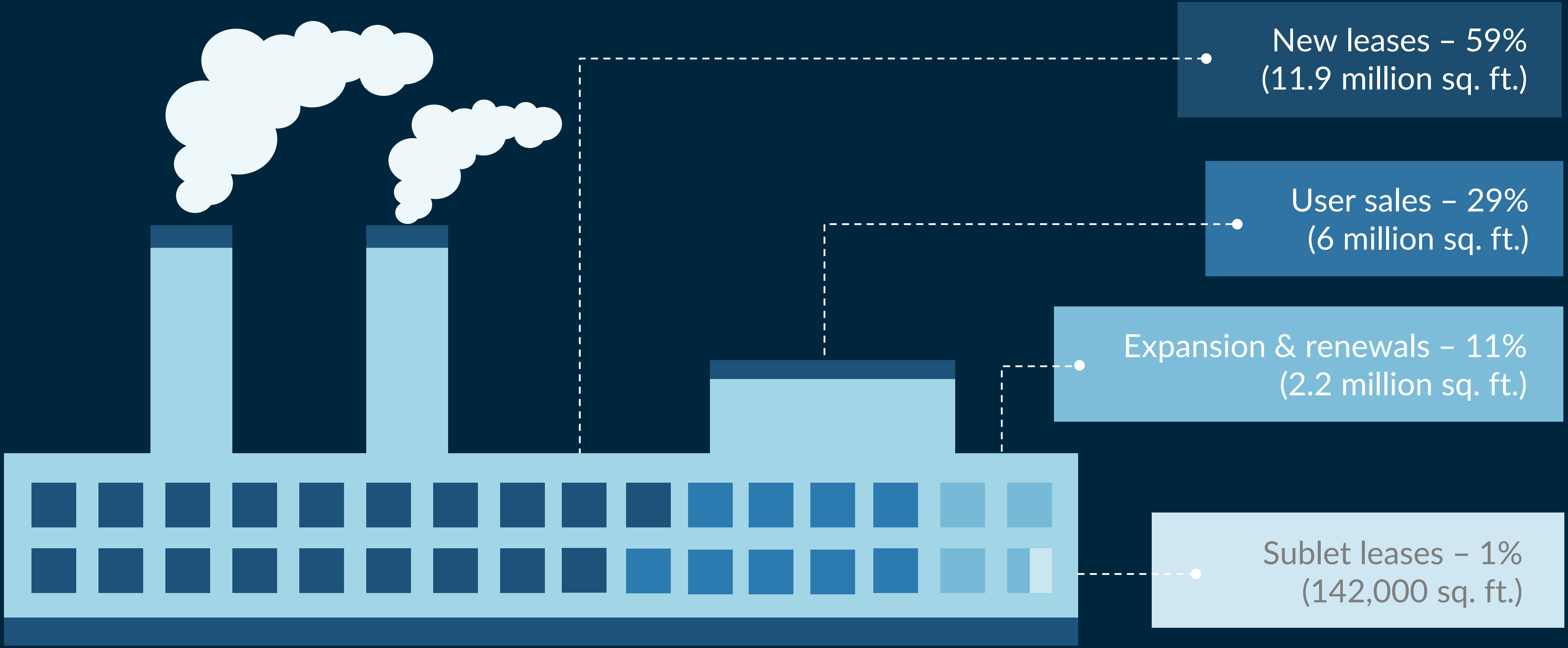
Source: Altus Group

Pre-leasing activity in new buildings under construction has been strong



Source: Altus Group

2019 GTA industrial sales and leasing activity

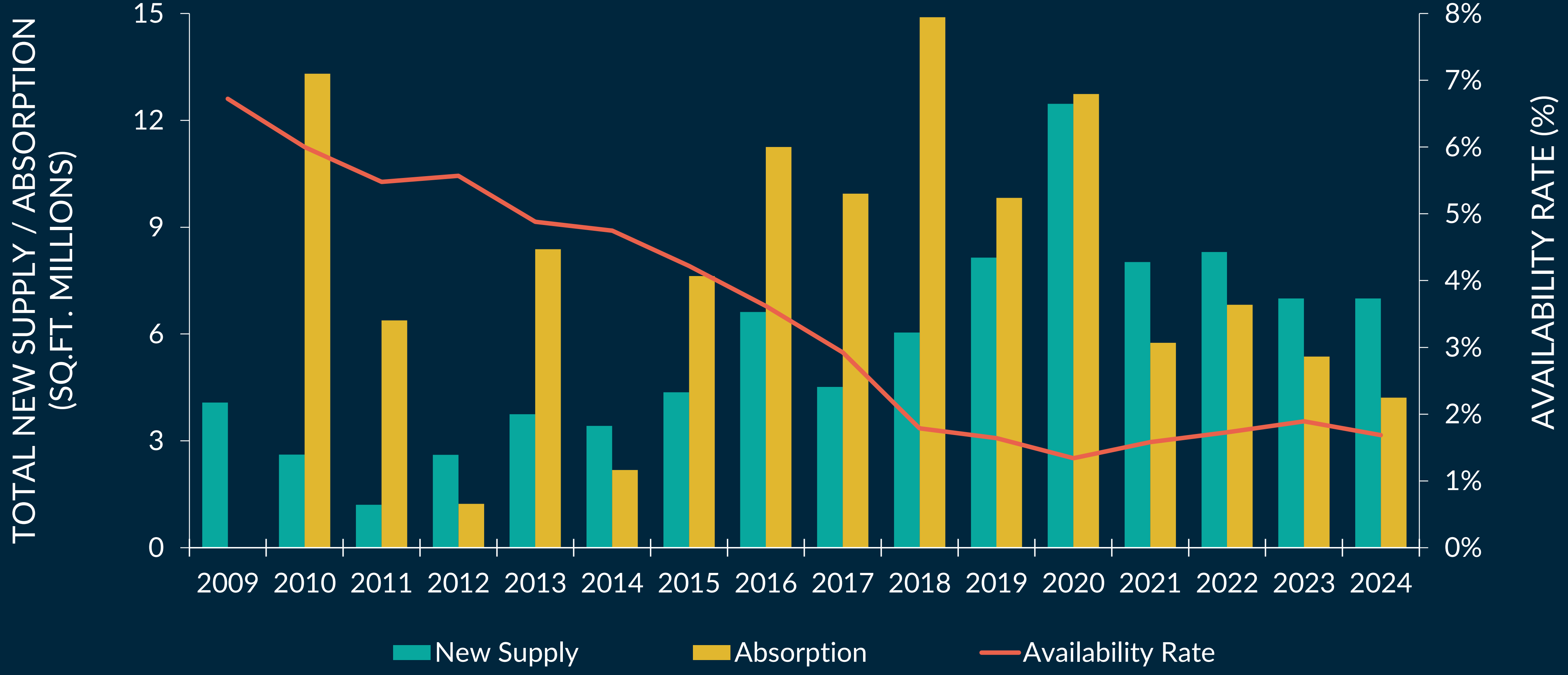


Source: Altus Group

GTA industrial forecast

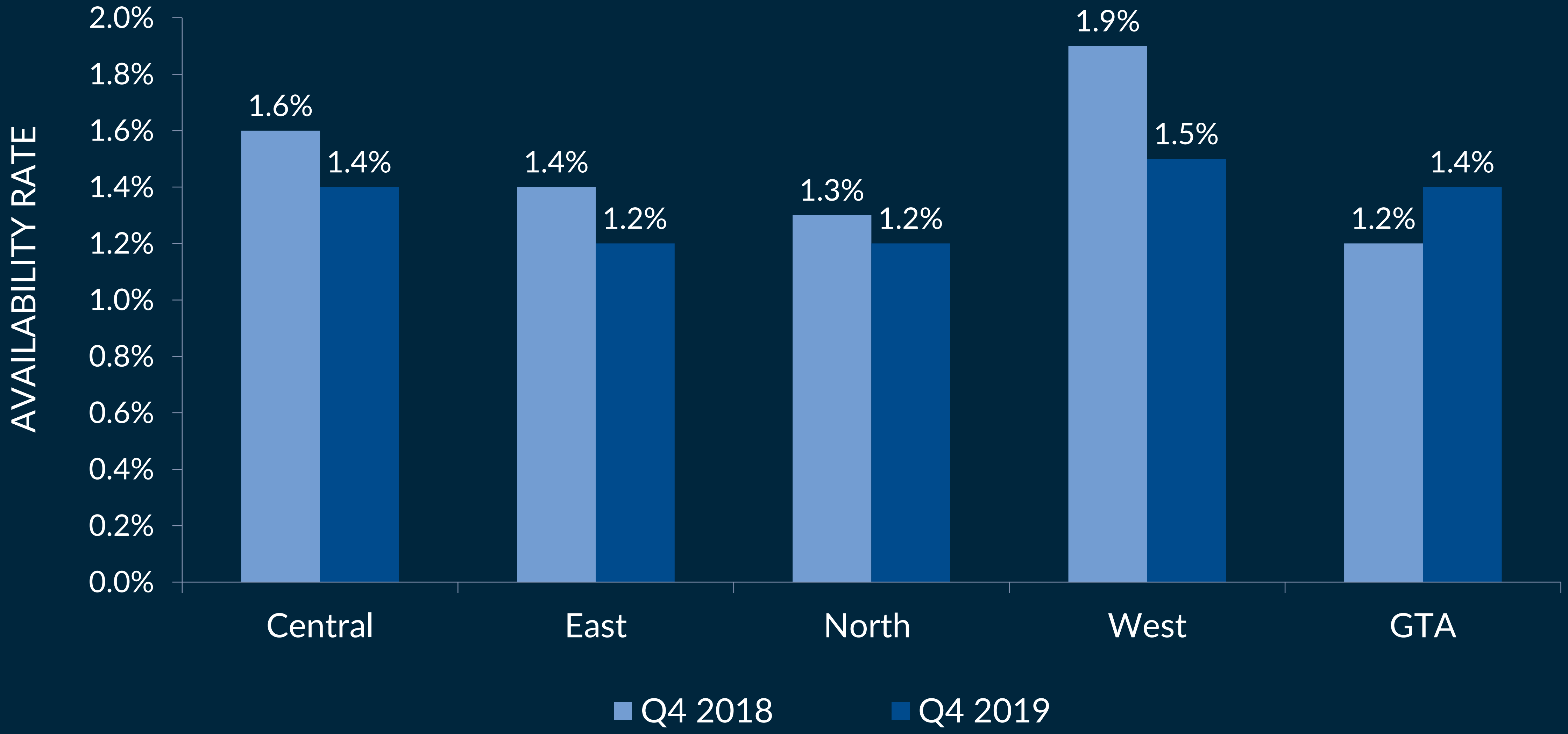
Altus Group

Availability rate vs. Total new supply forecast vs. Absorption
(Greater Toronto Area, 2009-2024)



Source: Altus Group

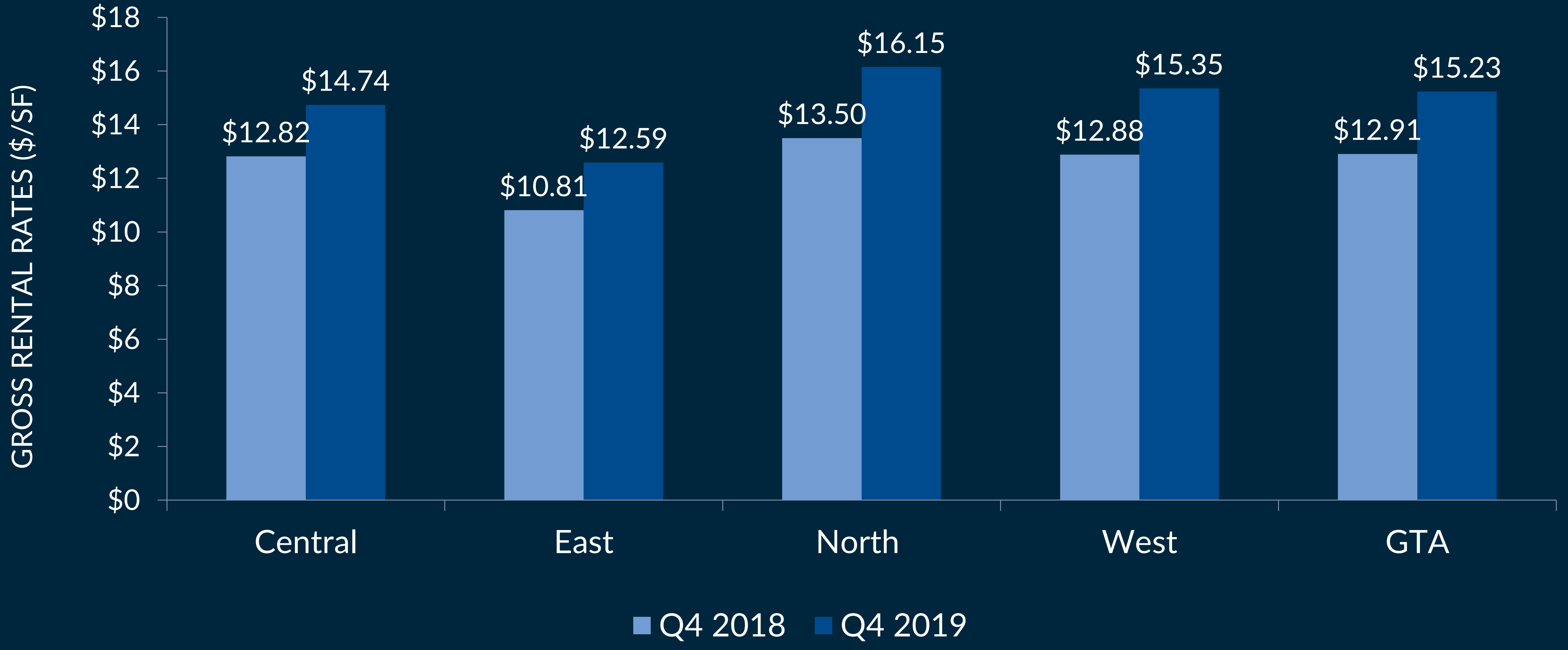
GTA industrial shortage increase in renewal activity



Source: Altus Group

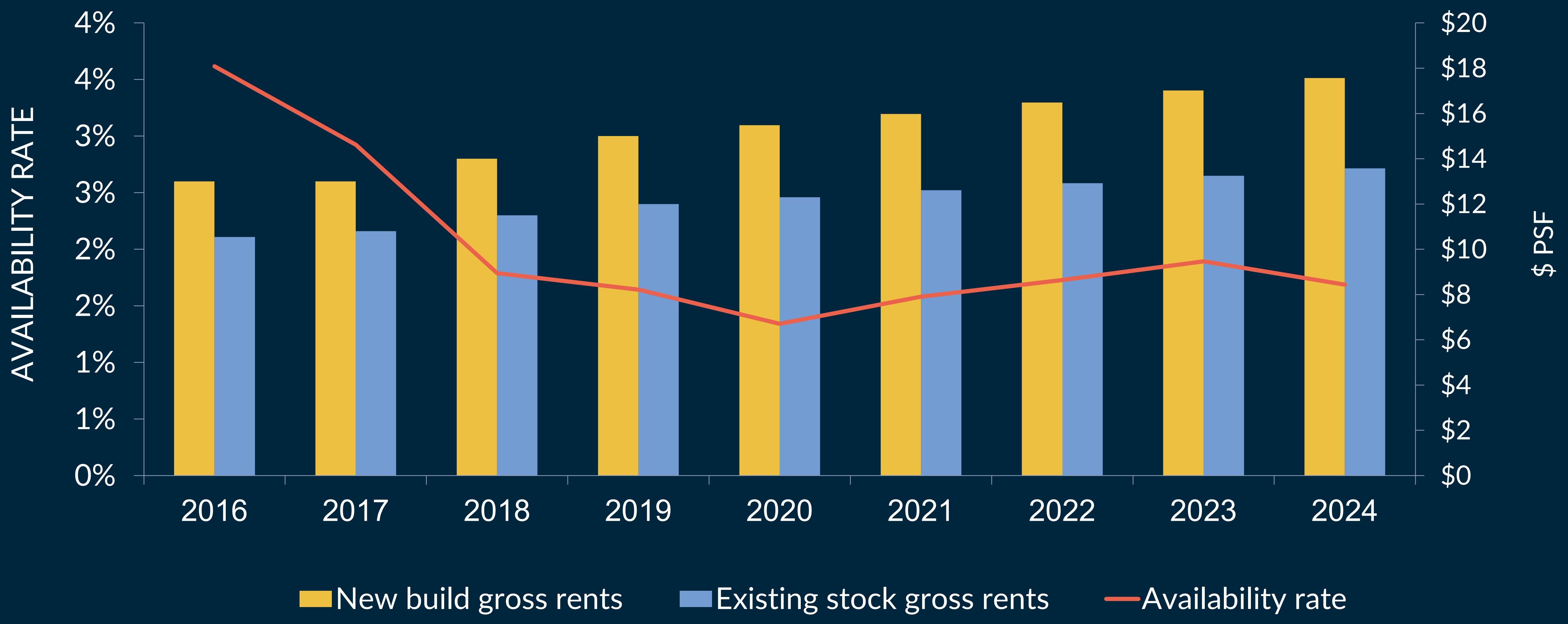
GTA industrial rental rates will continue to climb

Altus Group



Source: Altus Group

Will rising industrial rental rates push new supply further away from the GTA?



Source: Altus Group

Industrial watch

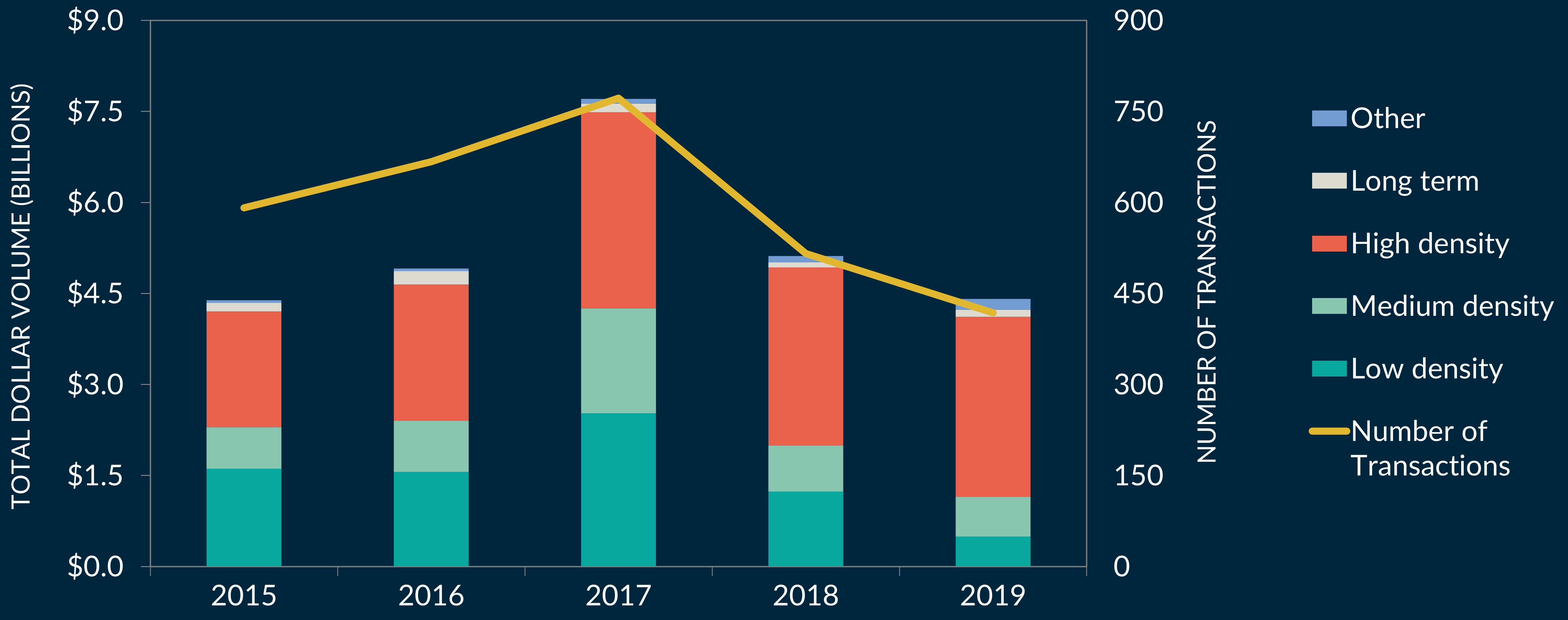
Sale prices will continue to climb, driven by users and investors

Rental rates will generally increase, accelerating new modern facilities

Tenants will focus on automation and efficiencies

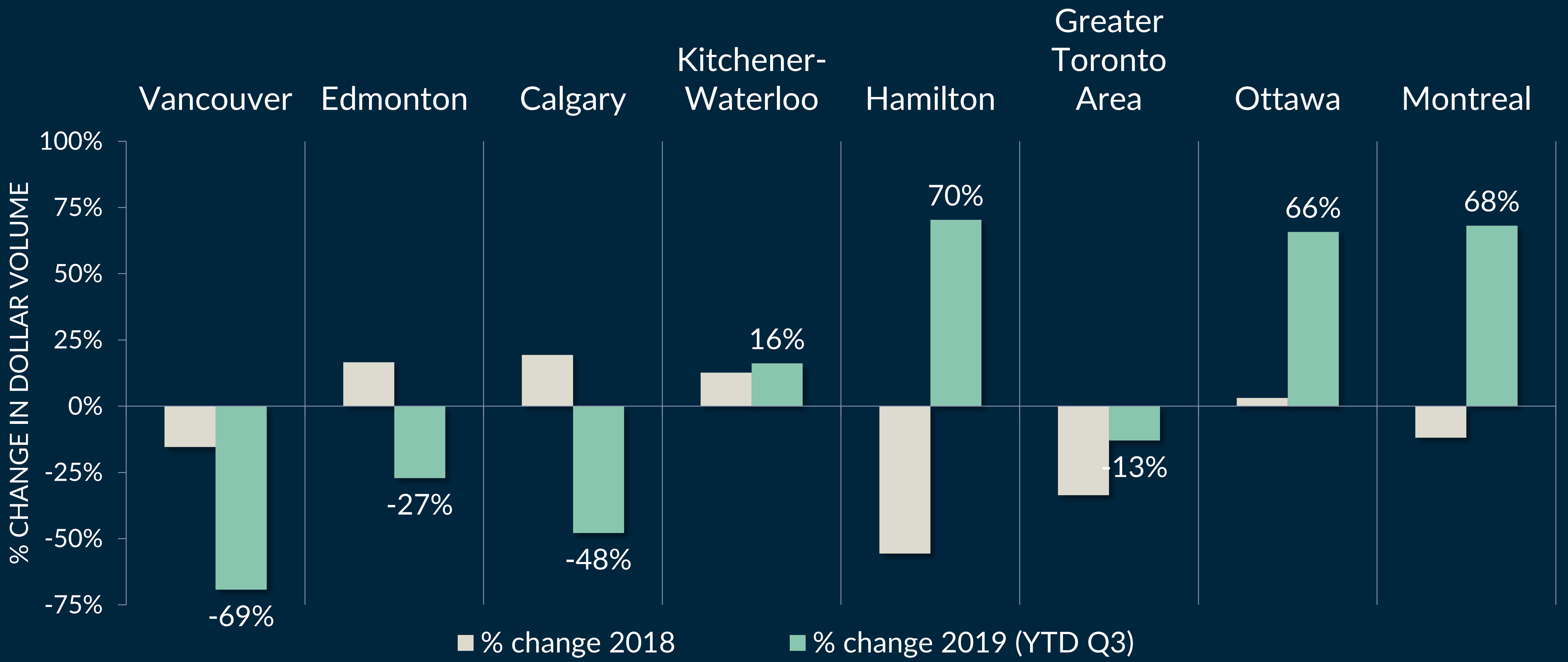
RESIDENTIAL LAND

Low density segment drives total residential land transactions in the GTA down further in 2019



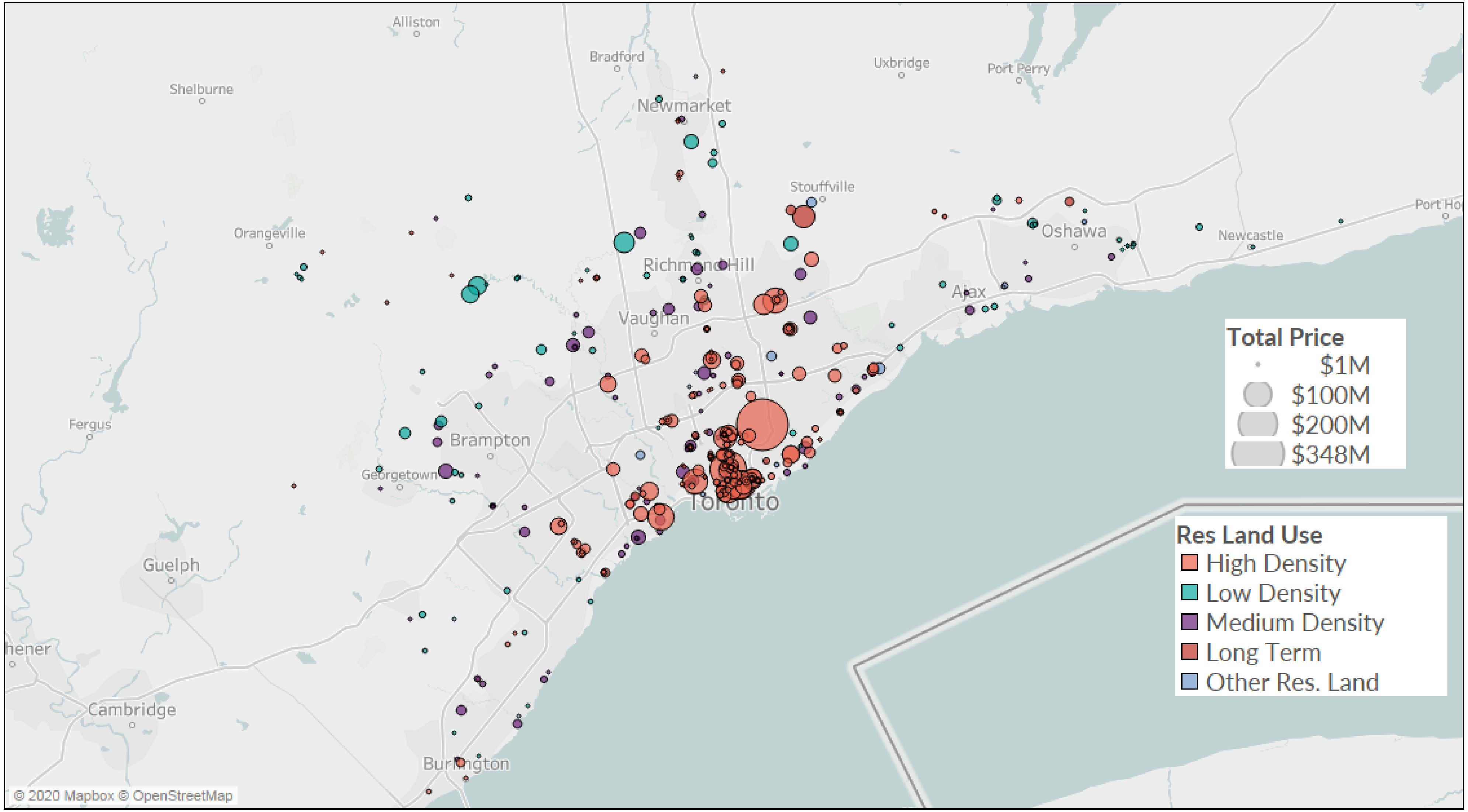
Source: Altus Group

Investors looking in areas surrounding the GTA for residential land opportunities

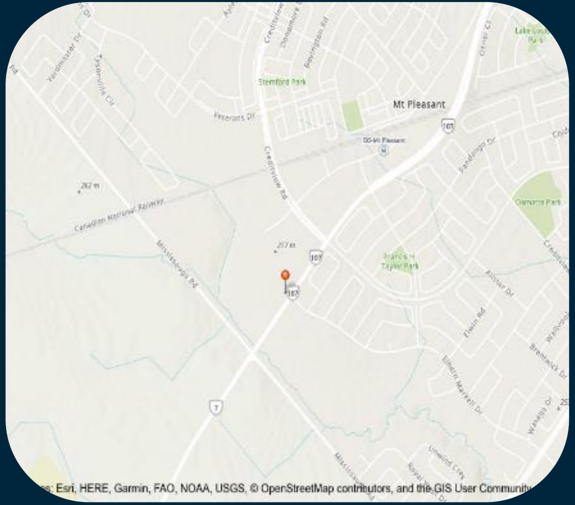


Source: Altus Group

Residential land transactions by land use – GTA 2019



What can $30+ million buy in GTA residential land today?



1115 EGLINTON AVE EAST
Toronto (North York)

$347,801,024.93
60.518 acres
$70,677 / unit
High density

4077 & 4101 HWY 7
Markham

$82,000,000
10.688 acres
$66,938 / unit
High density

BOVAIRD DRIVE WEST
Brampton

$31,000,000
19.294 acres
$1,606,717 / acre
Medium density

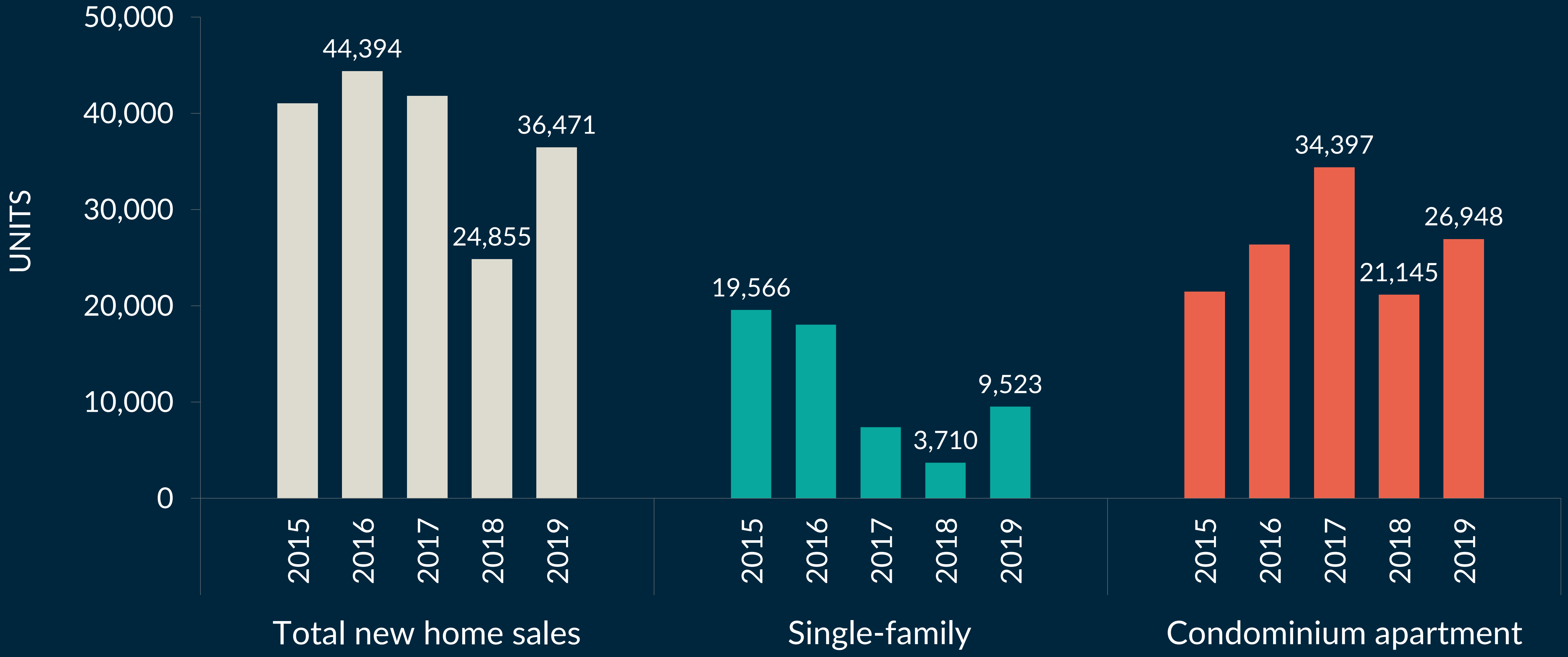
2955 KING ROAD
King City

$55,000,000
103.120 acres
$533,359 / acre
Low density

Source: Altus Group

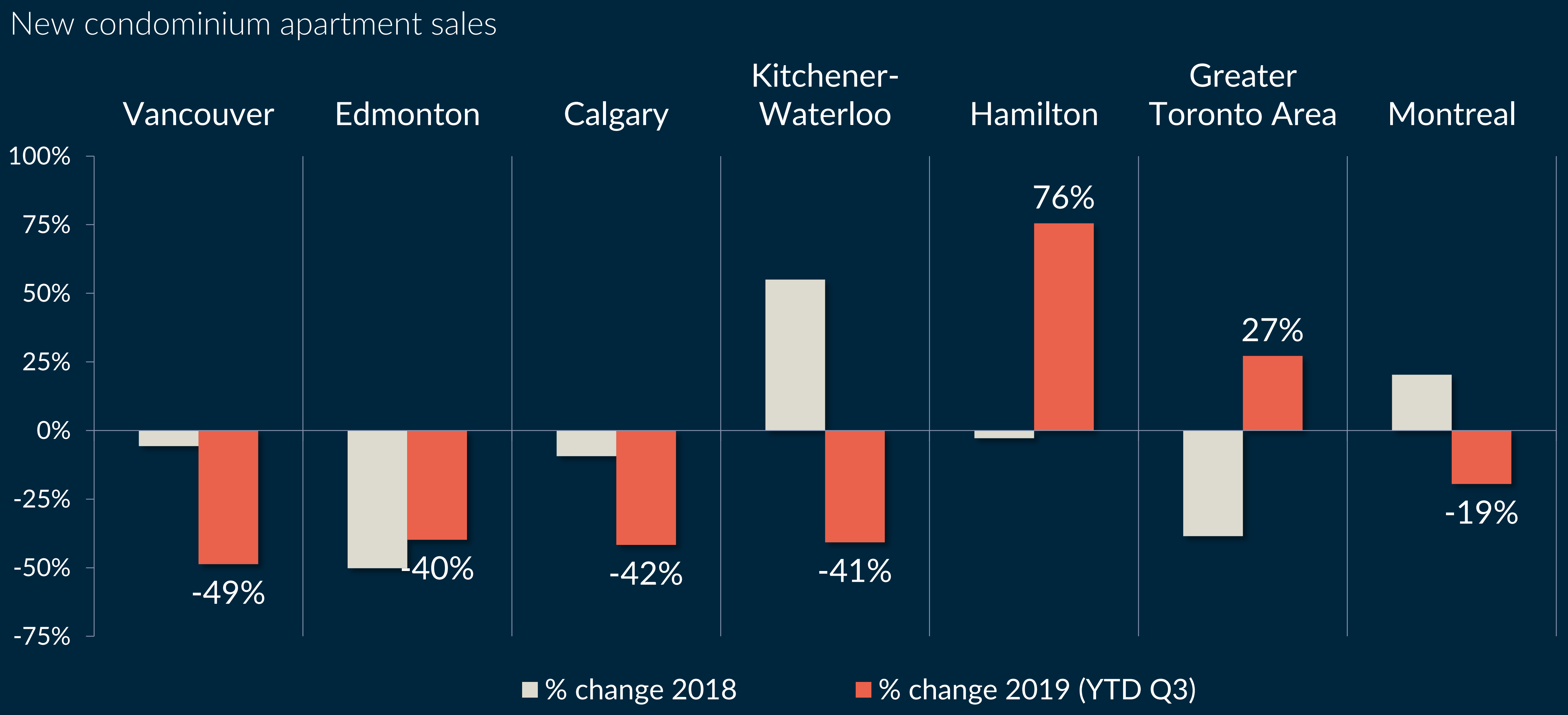
NEW HOMES

The downturn in new home sales in the GTA is officially over



Source: Altus Group

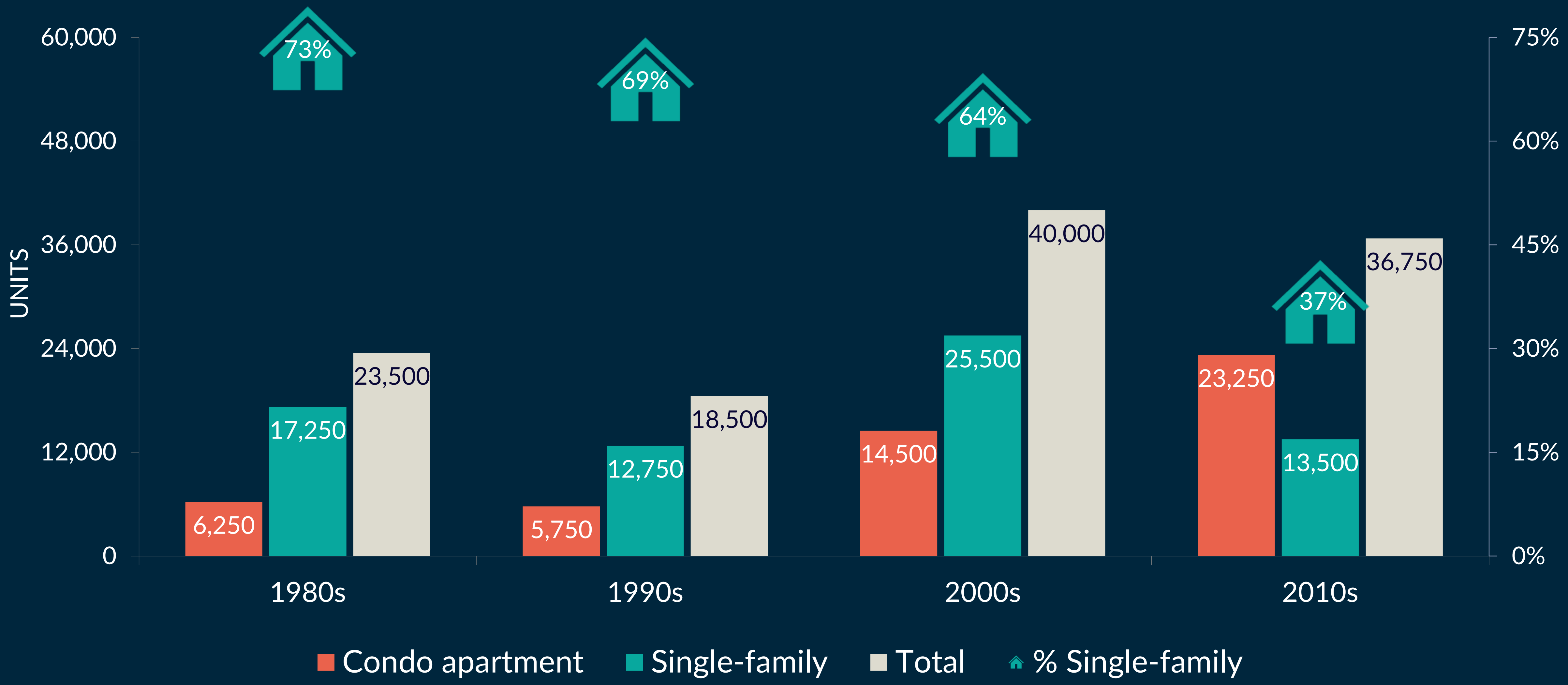
GTA's improvement in new condo sales not the norm in 2019



Source: Altus Group

New home sales in the GTA "flipped" type in the 2010s

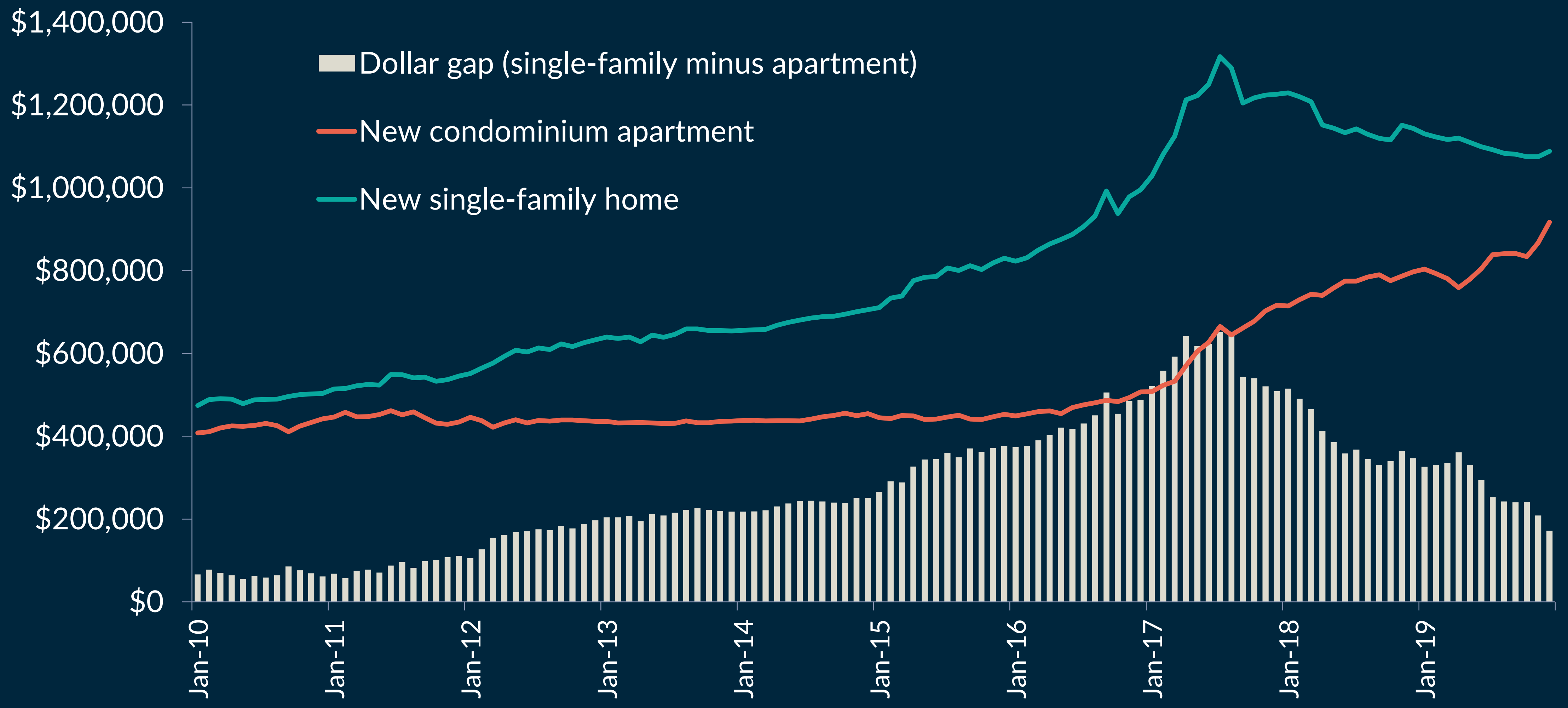
Altus Group



Source: Altus Group and PMA Brethour/BILD (prior to 2000)

Gap in GTA new home prices narrows*

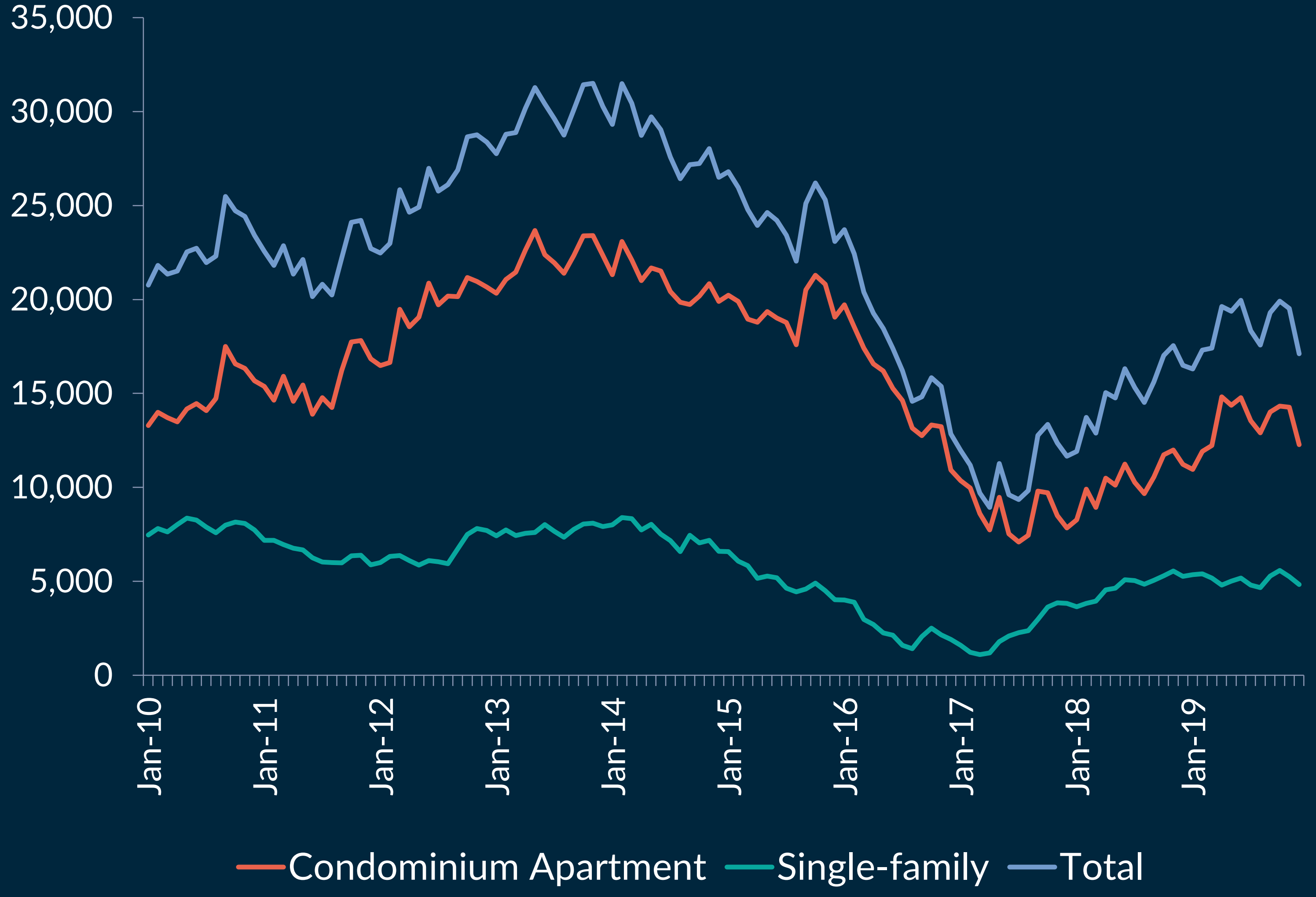
Altus Group



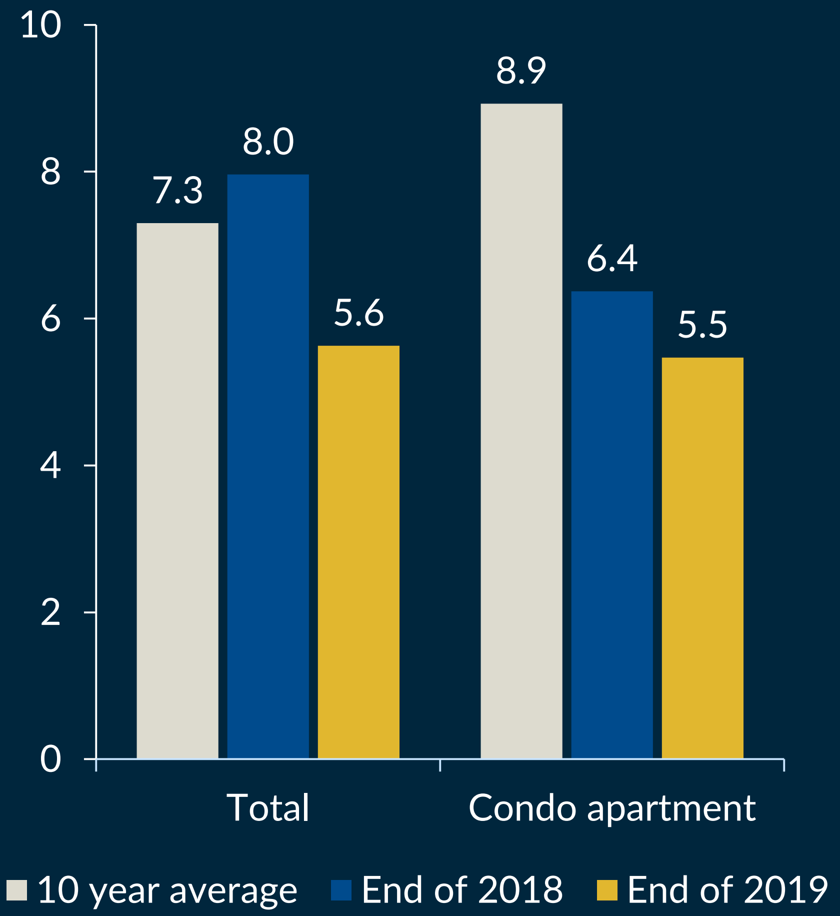
Source: Altus Group

*The benchmark price is the average asking price for available inventory with outliers removed

New home inventory low in historical terms



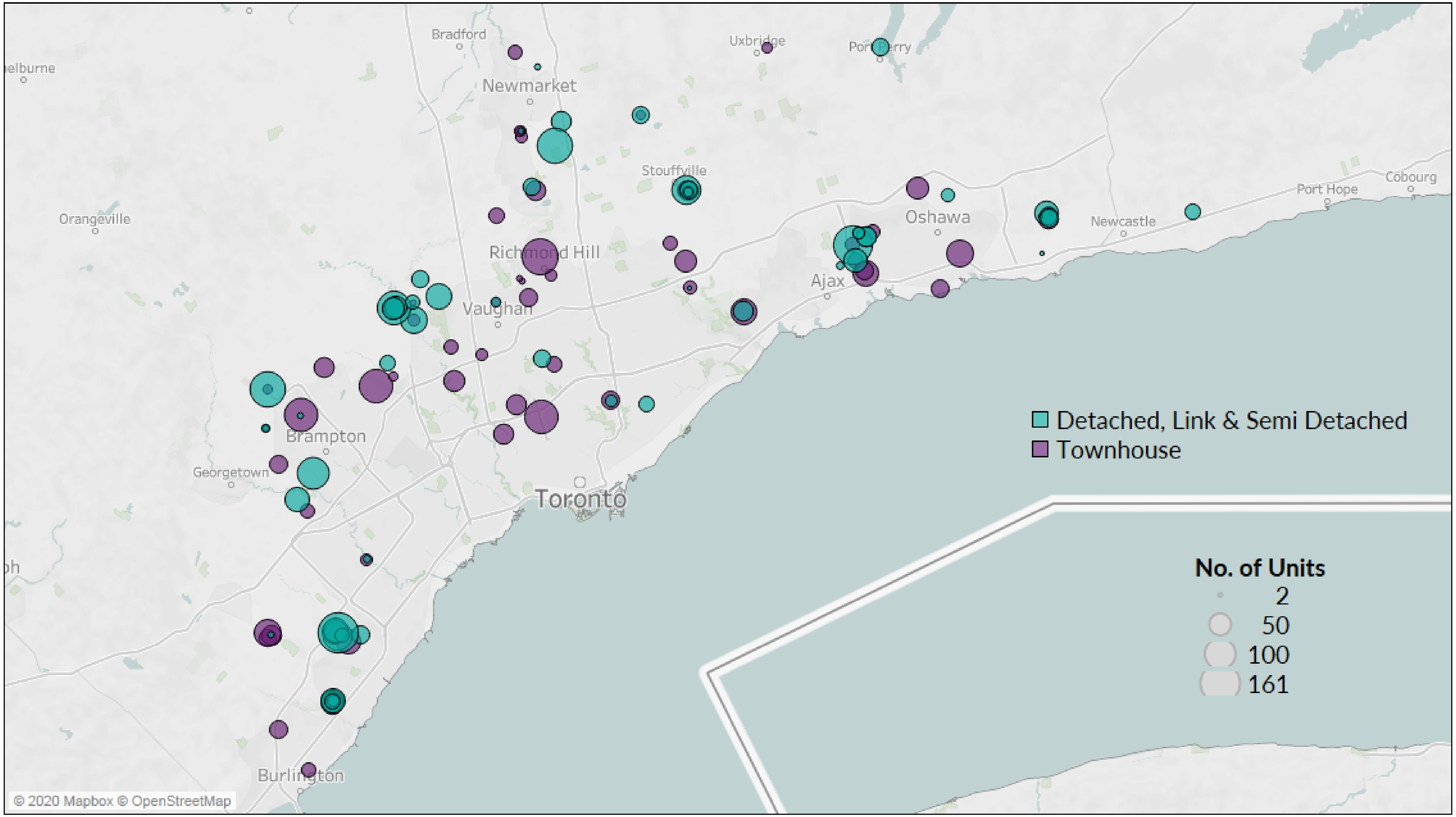
Months of inventory*



*At pace of sales in previous 12 months

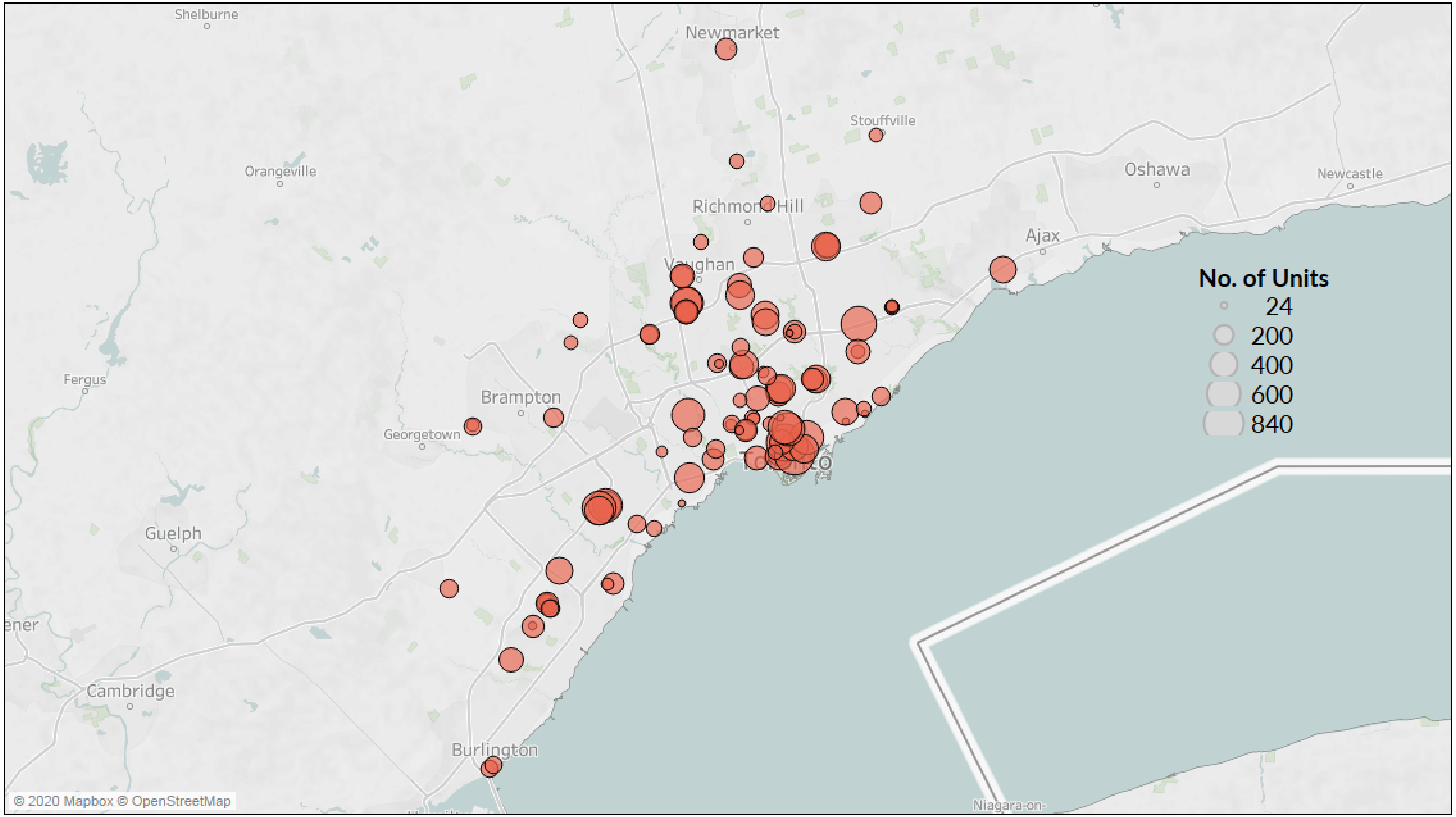
Source: Altus Group

Location of 2019 new single-family projects



Source: Altus Group

Location of 2019 new condo apartment projects



Source: Altus Group

Sample new home projects

Altus Group

TRETTI CONDOS
North York

290 high rise units
$880 / sq. ft.
Opened April 2019
Sold out

AVIA & AVIA 2
Mississauga

1,028 high rise units
$830 / sq. ft.
Opened Spring 2019
86% sold

EAST PRESERVE
Oakville

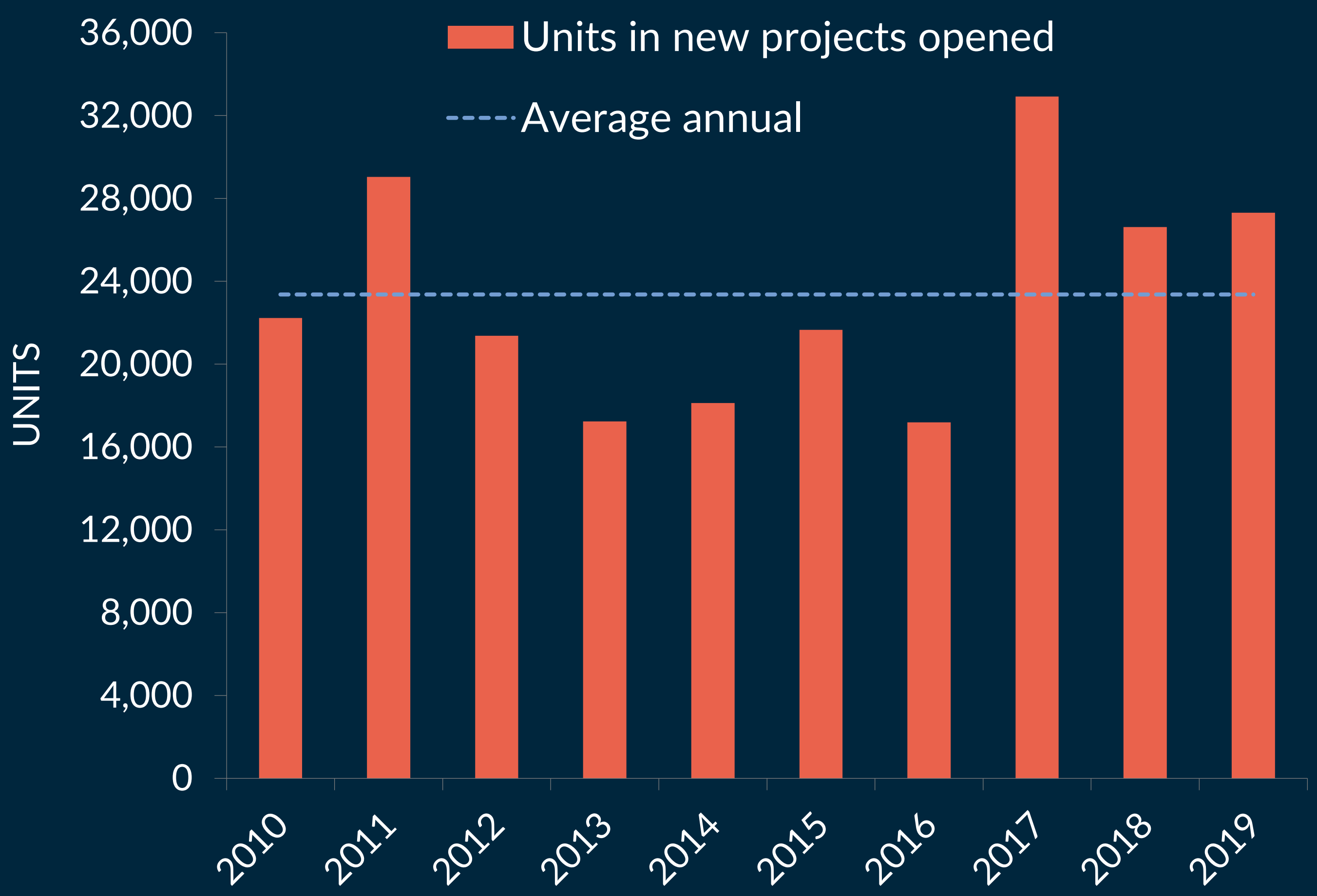
182 lots
$889K-$1.76M avg. price
Lots released during 2019
89% sold

CANYON HILL
Richmond Hill

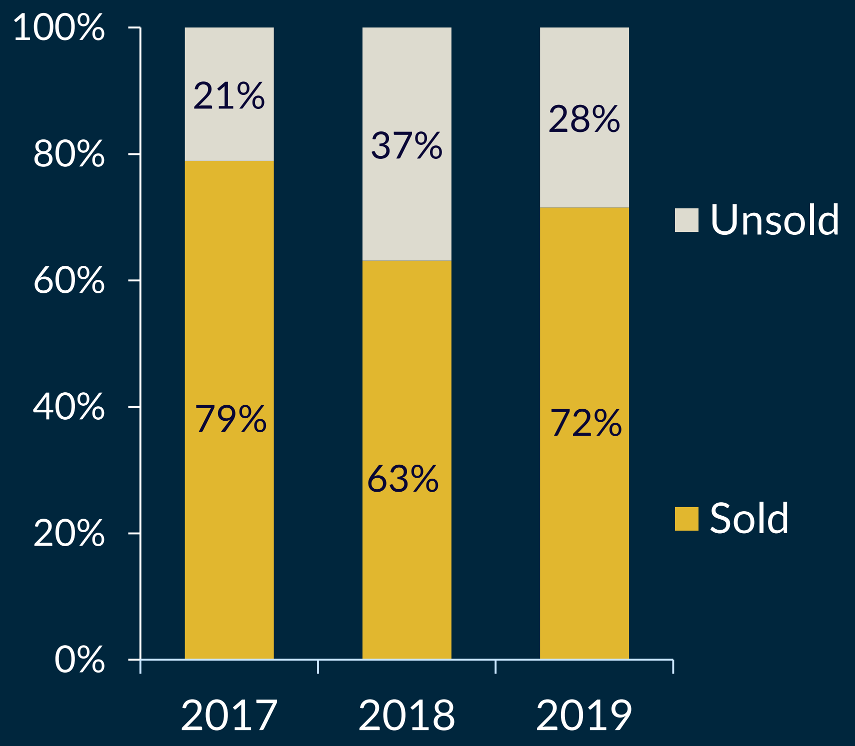
129 townhome units
$830K-$990K avg. price
Opened May 2019
Sold Out

New condo supply being replenished – on heels of improved sales rates

Altus Group



End of year status of units in projects opened during the year

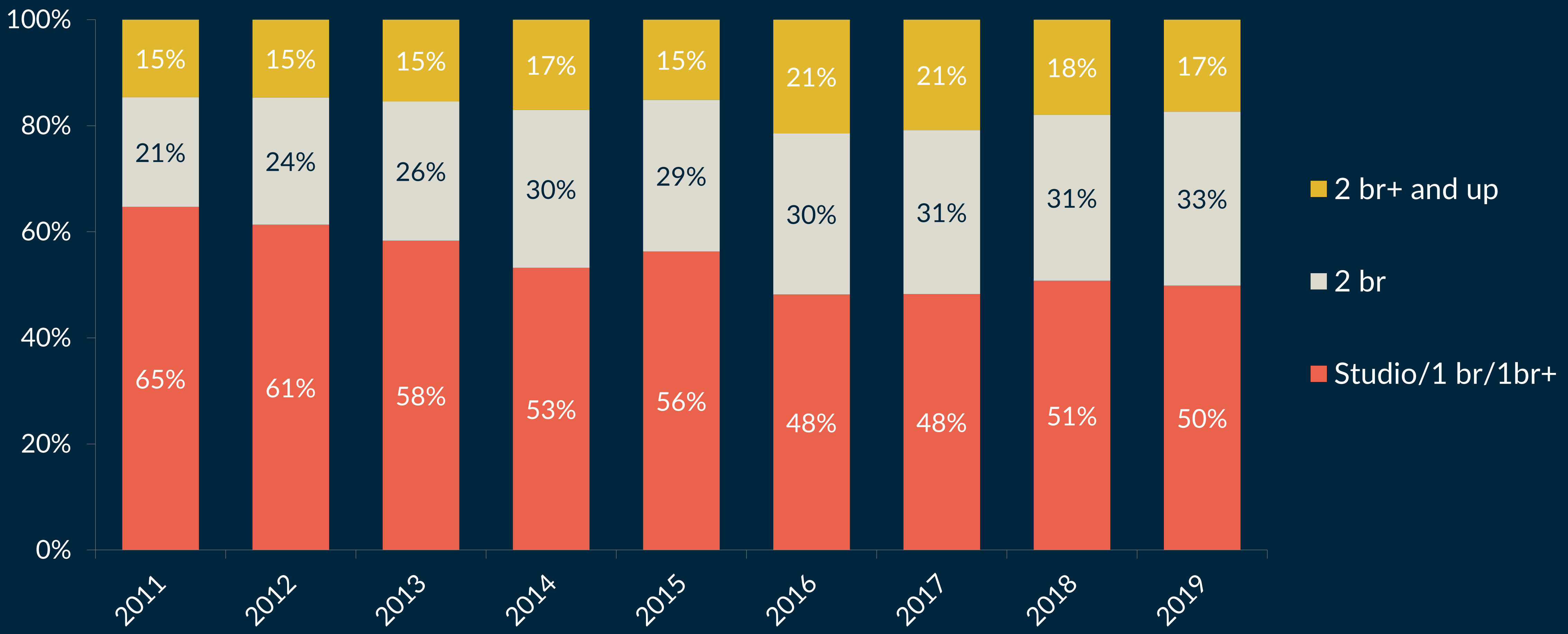


Source: Altus Group

Is the shift to more bedrooms over?

AltusGroup

% of units in GTA new condo apartment projects opened in each year

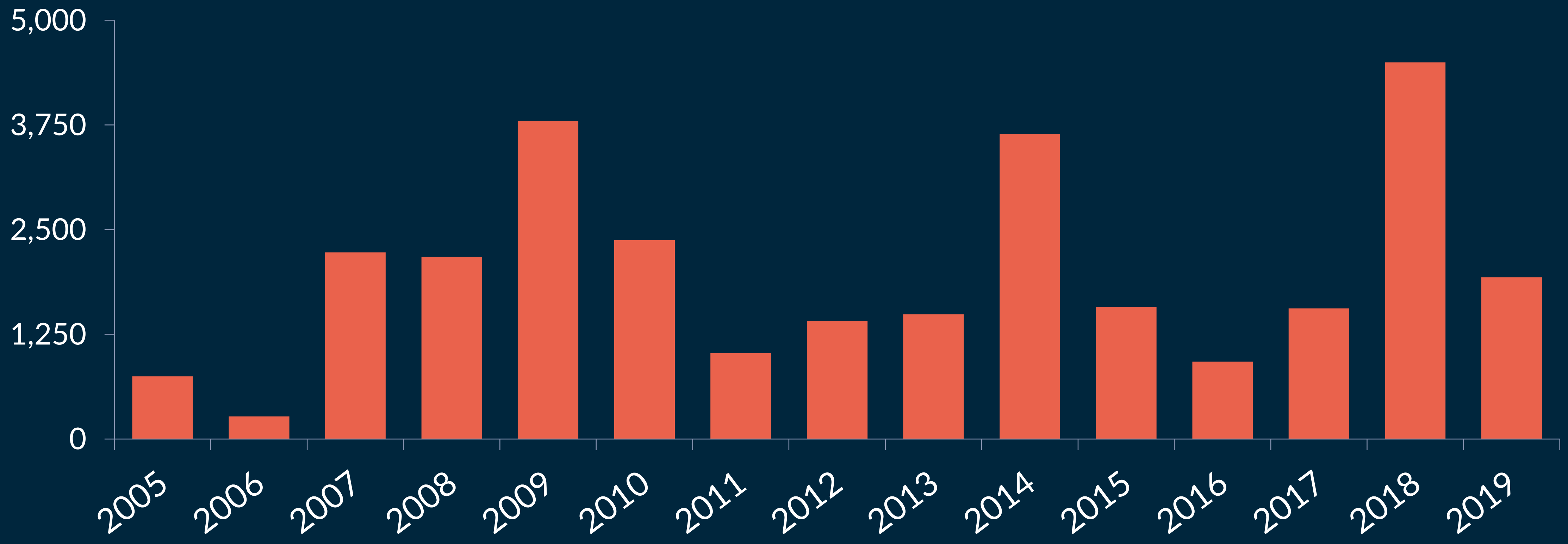


Source: Altus Group

2019 cancelled condo projects back in line

Altus Group

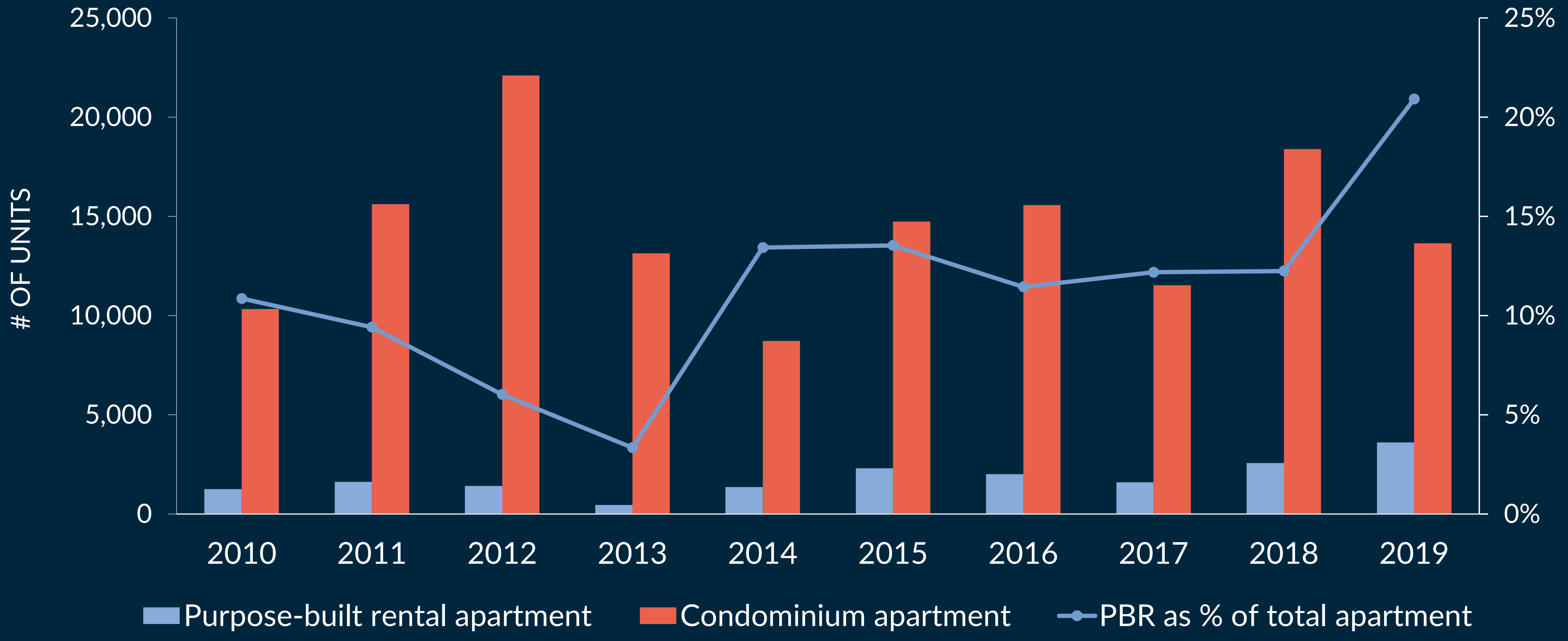
Total units in condominium apartment projects cancelled in each year



Source: Altus Group

Purpose-built rental capturing a larger share of apartments

Apartments starts by intended market segment, City of Toronto

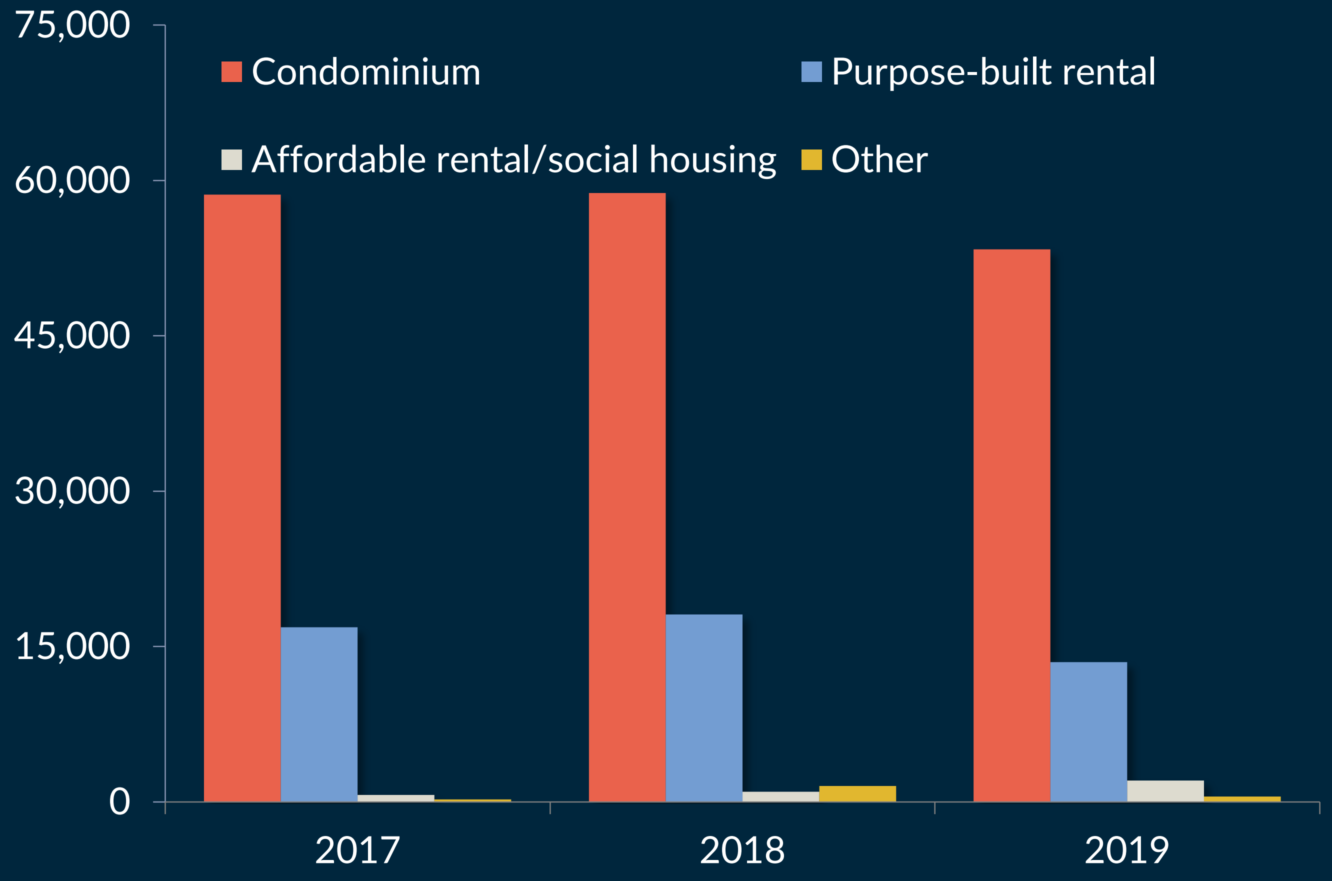


Source: Altus Group based on CMHC data

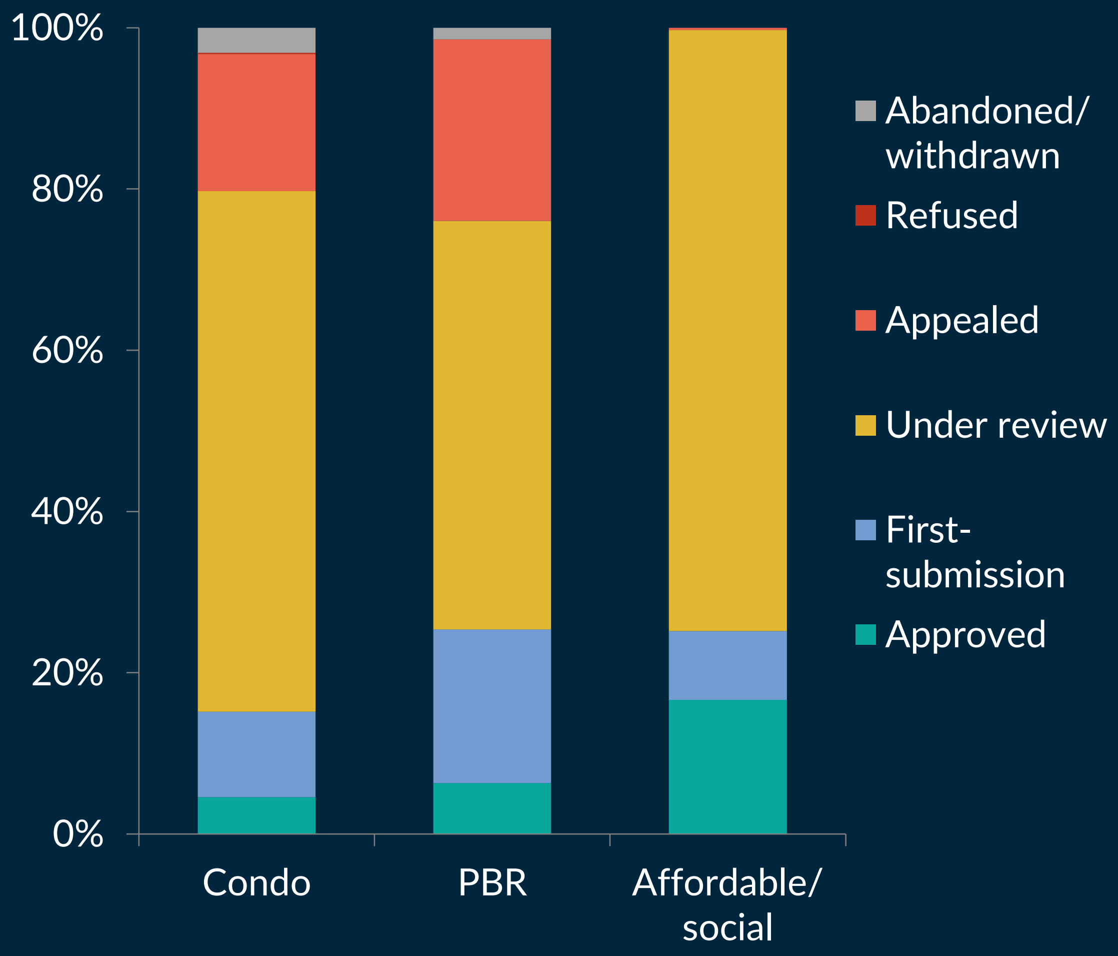
And purpose-built rental likely to stay elevated

Altus Group

Residential units in new development applications in each year by type*



Residential units in development applications Since 2017 by current status of application*



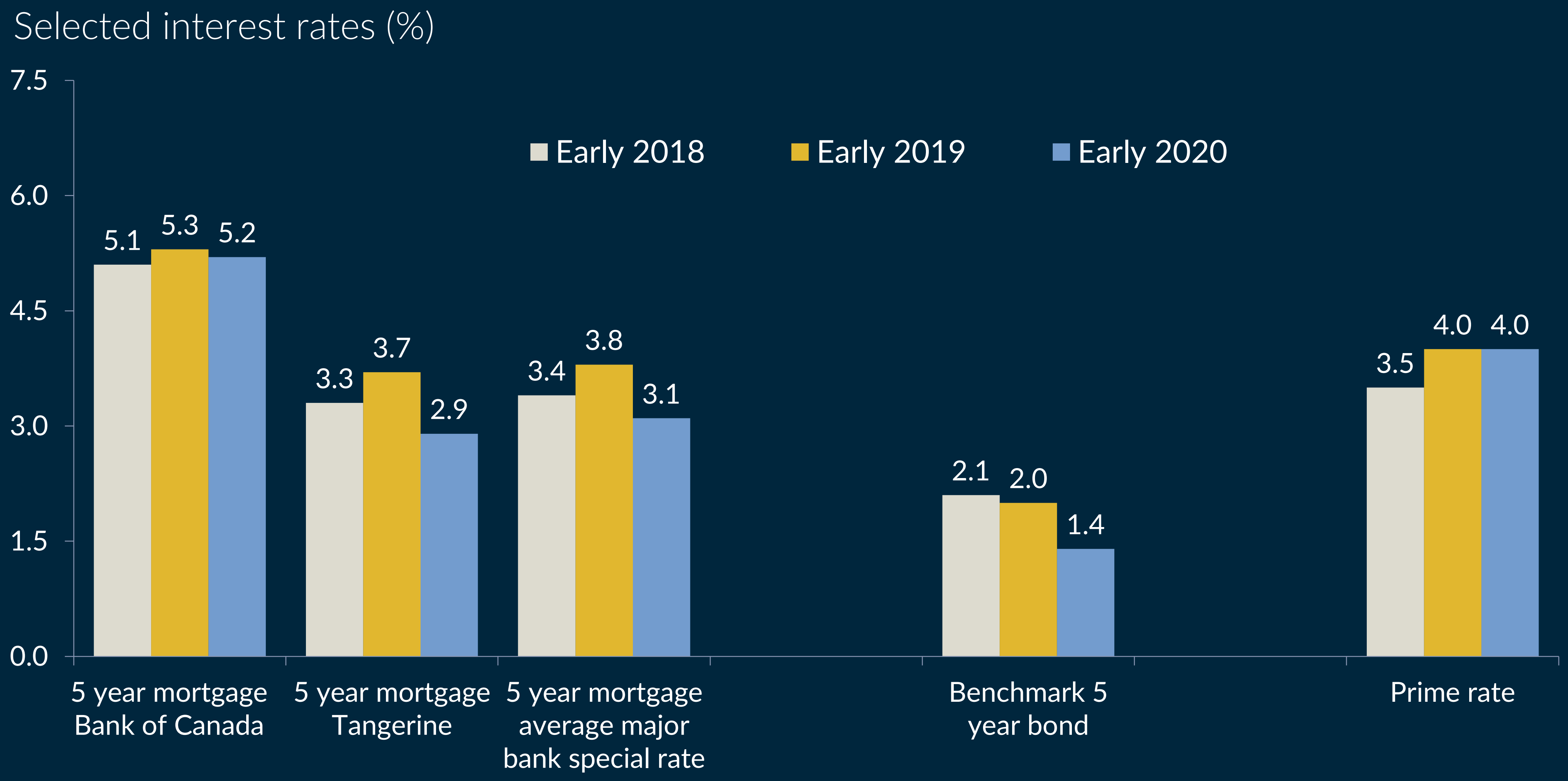
Source: Altus Group based on municipal information

* City of Toronto; new applications since January 2017

RESIDENTIAL OUTLOOK

Actual interest rates more favourable – but not stress test rate

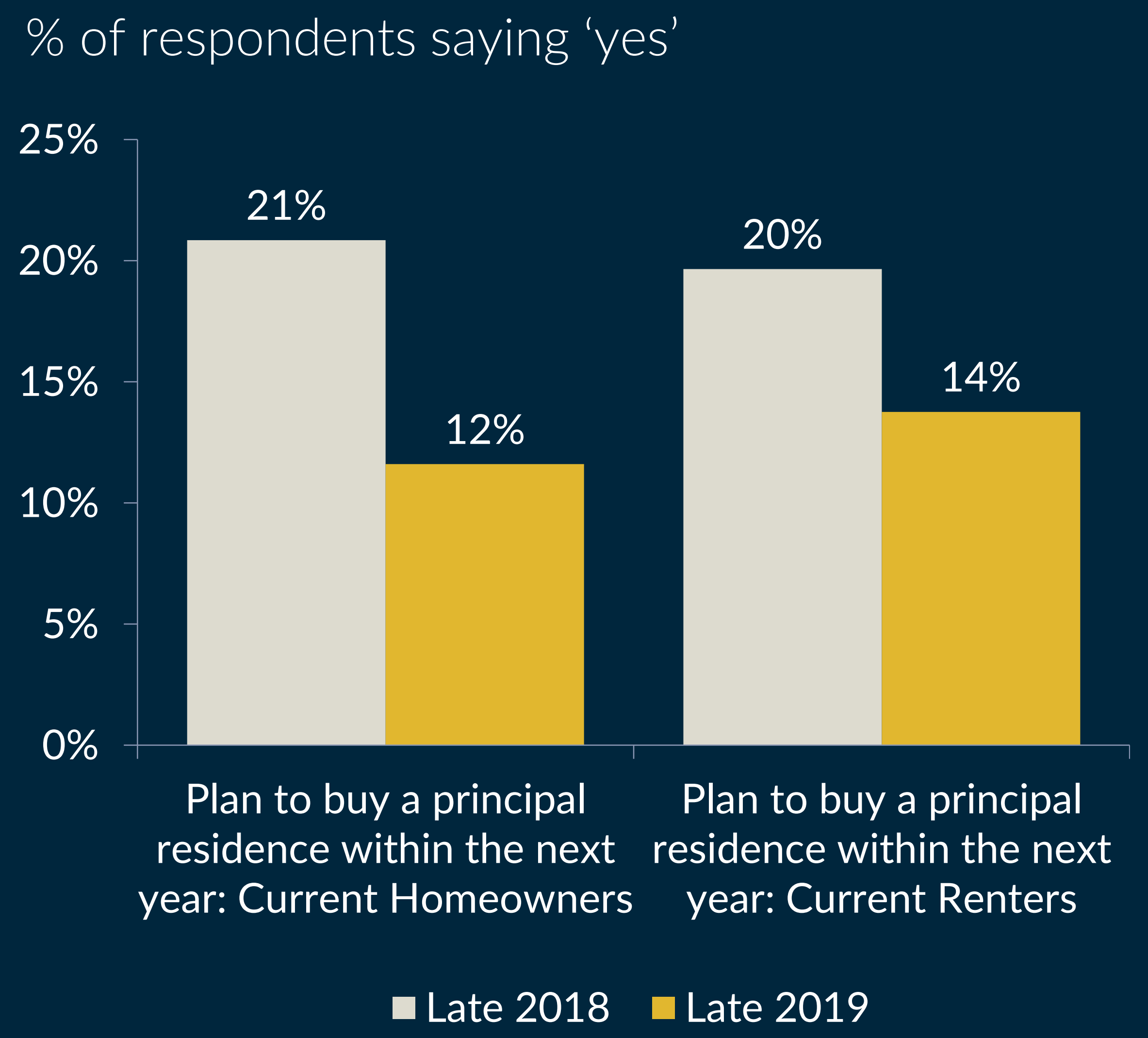
Altus Group

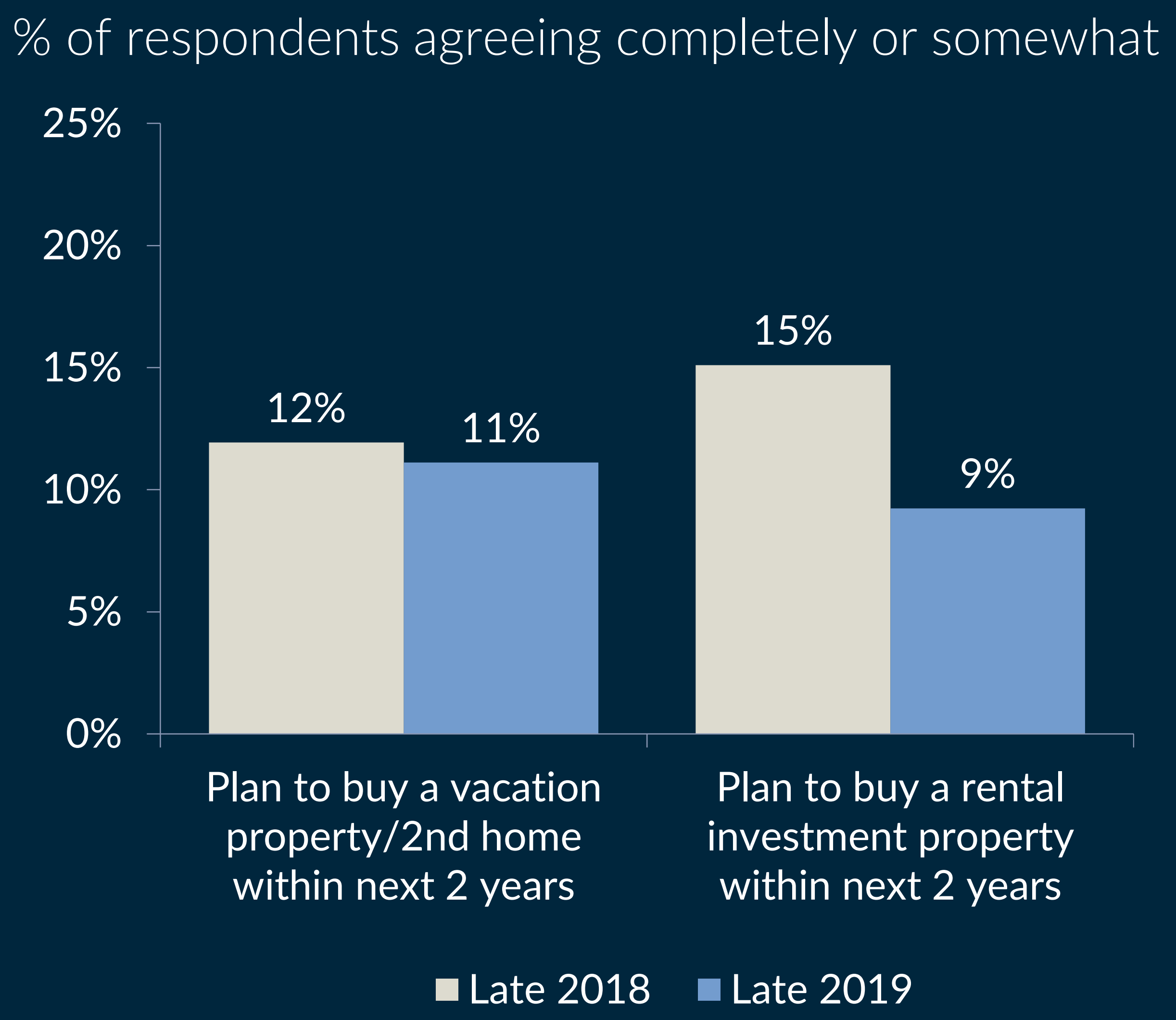


Source: Bank of Canada and bank websites

GTA households more hesitant this year on buying properties

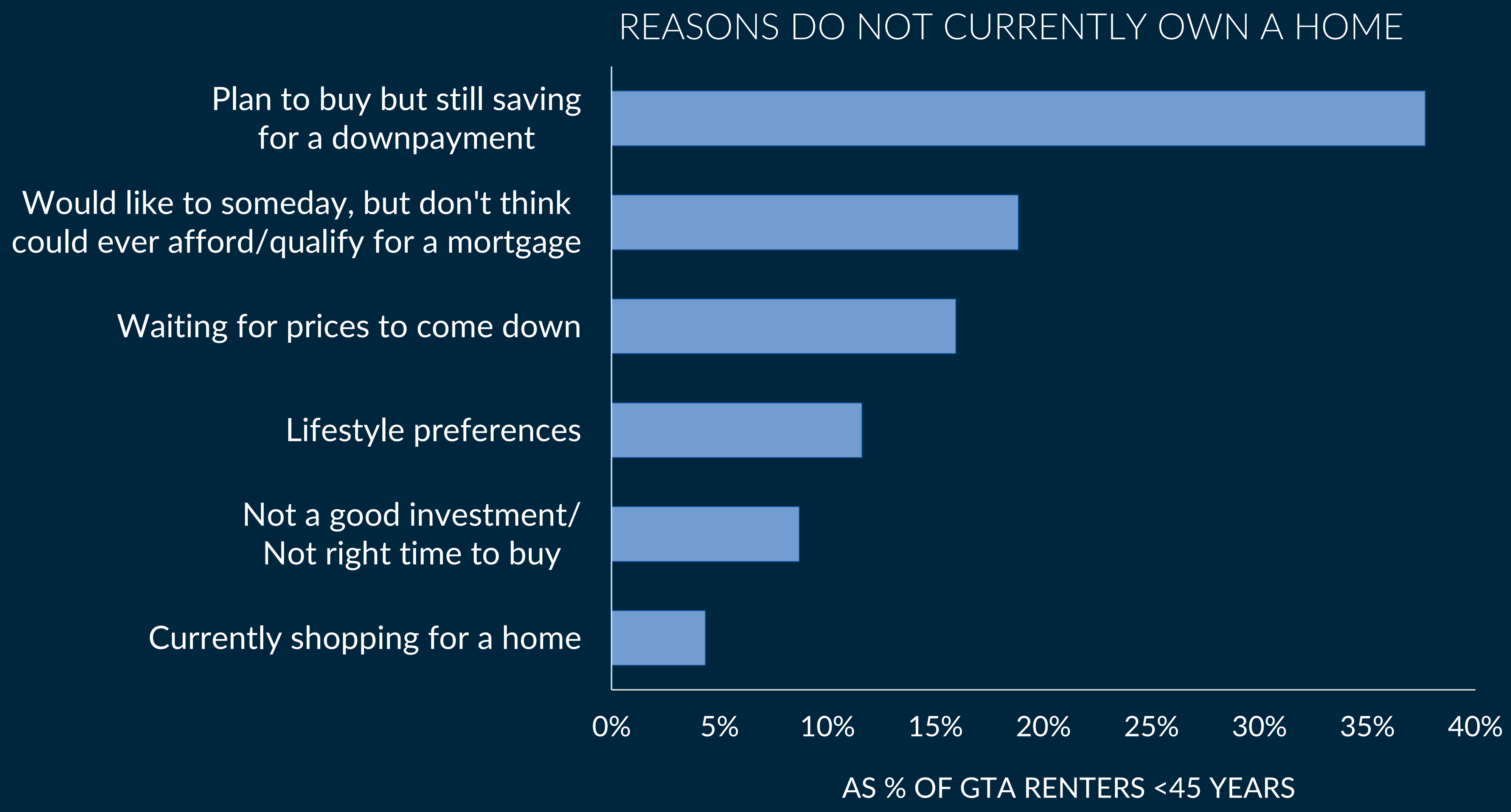
Altus Group





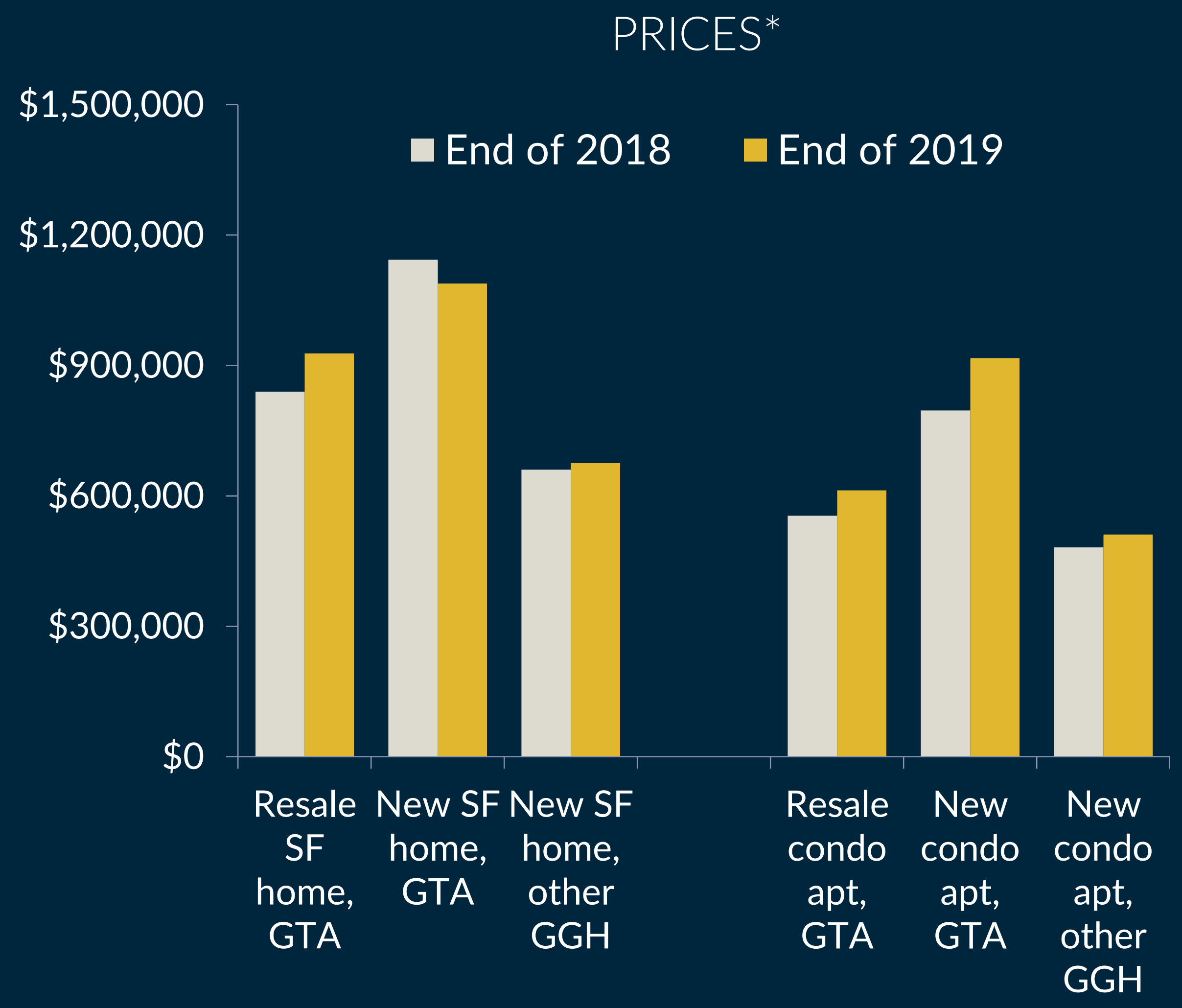
Source: Altus Group, The FIRM Survey

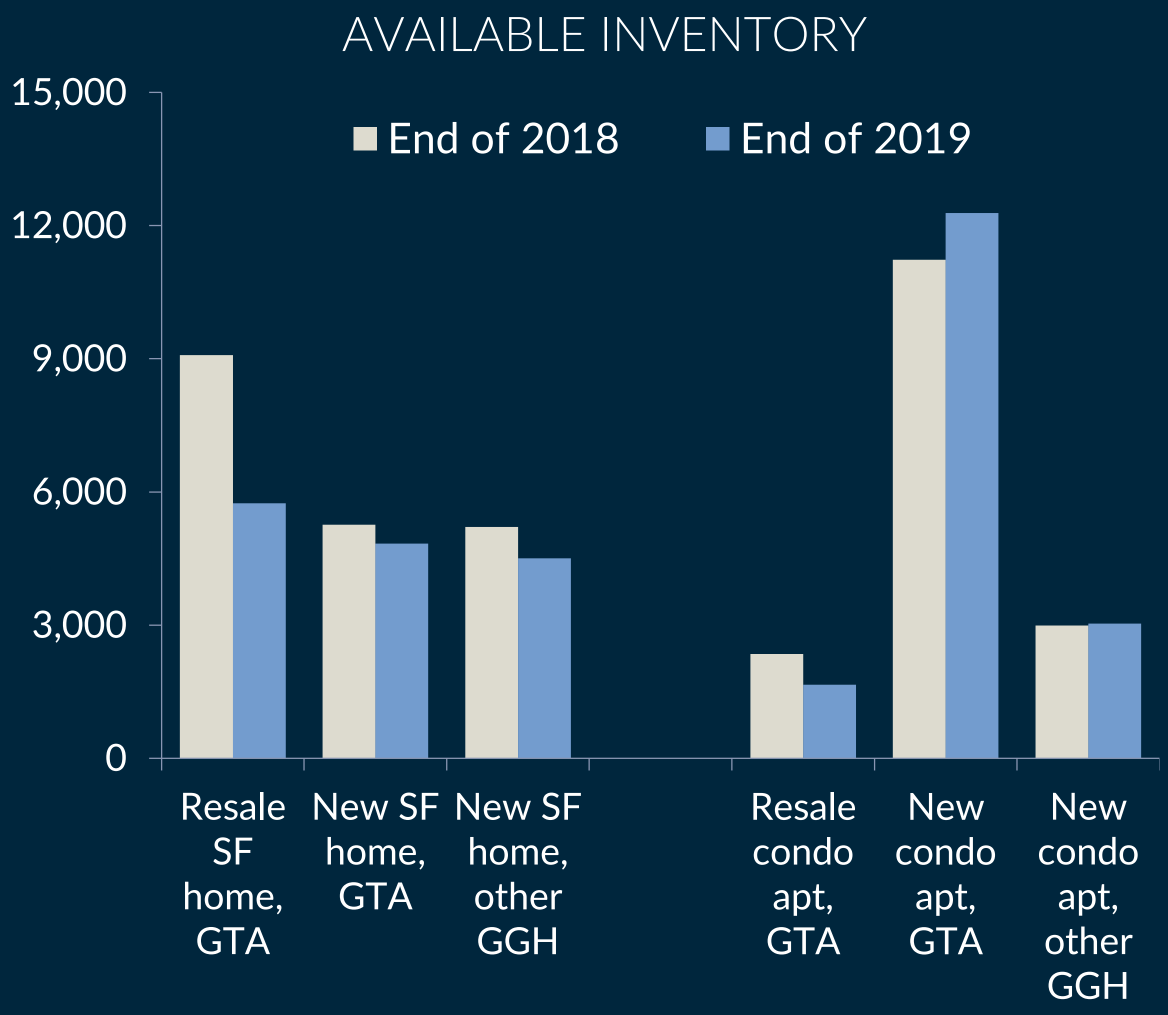
But most younger GTA renters would like to own a home someday– if they can afford one



Source: Altus Group, The FIRM Survey

GTA new home market now positioned better vis-à-vis resale market



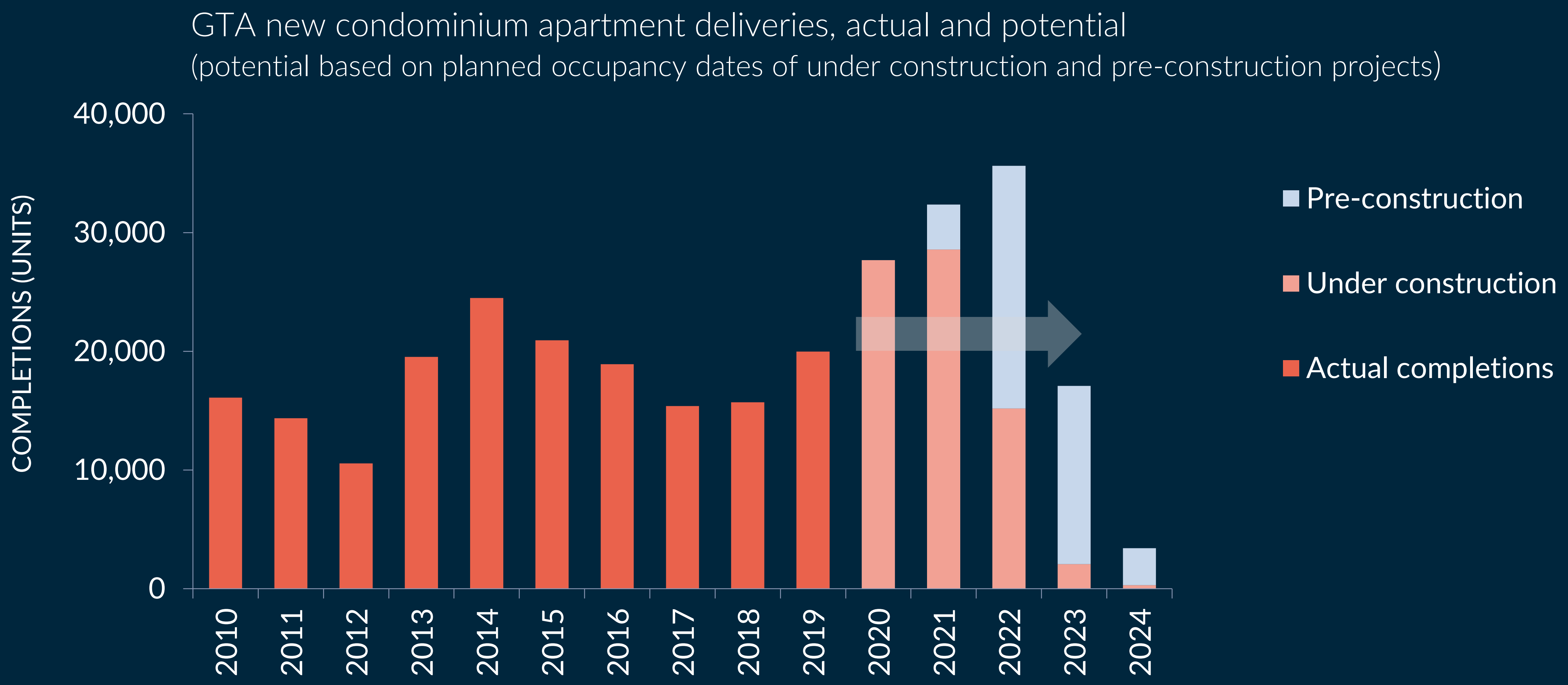


* Average sold price for resale, average asking price for available inventory for new

Source: Altus Group and the Toronto Regional Real Estate Board

Higher levels of condo completions coming (or so we keep saying…) – adding to new rental supply

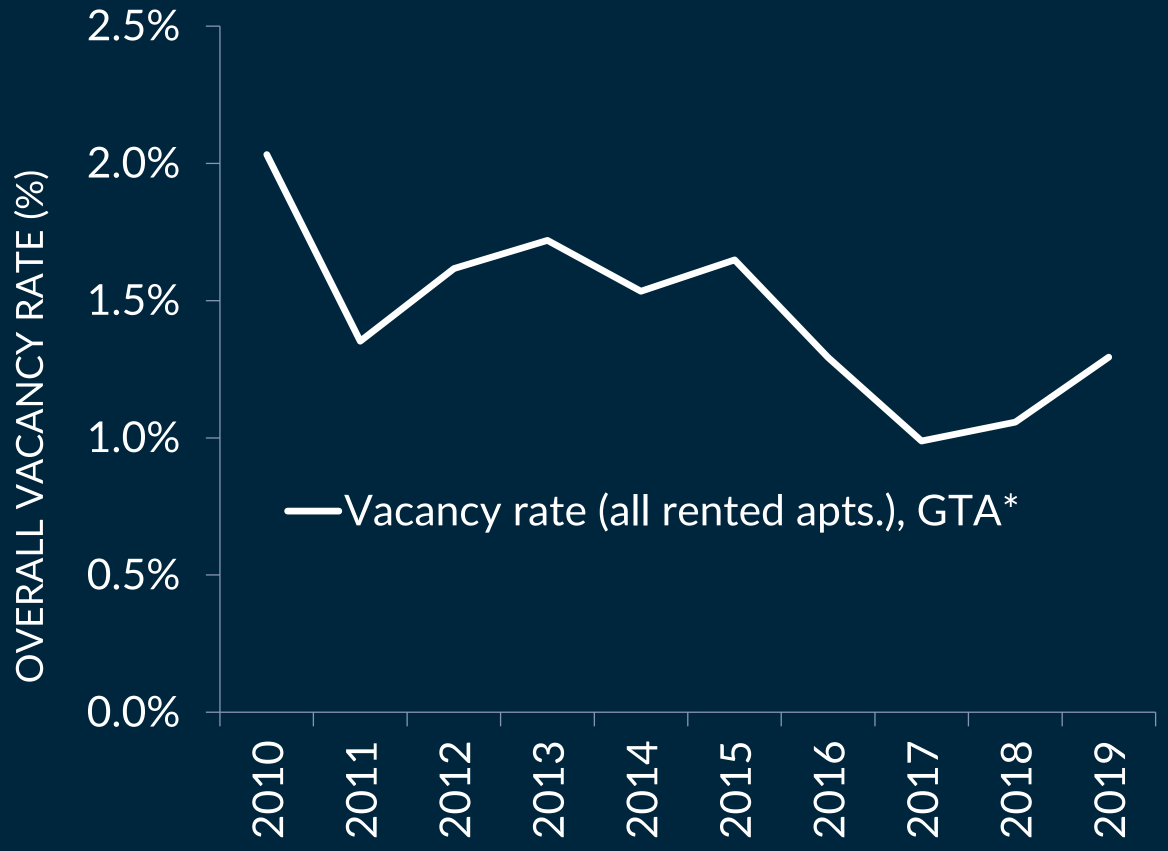
Altus Group



Source: Altus Group and CMHC

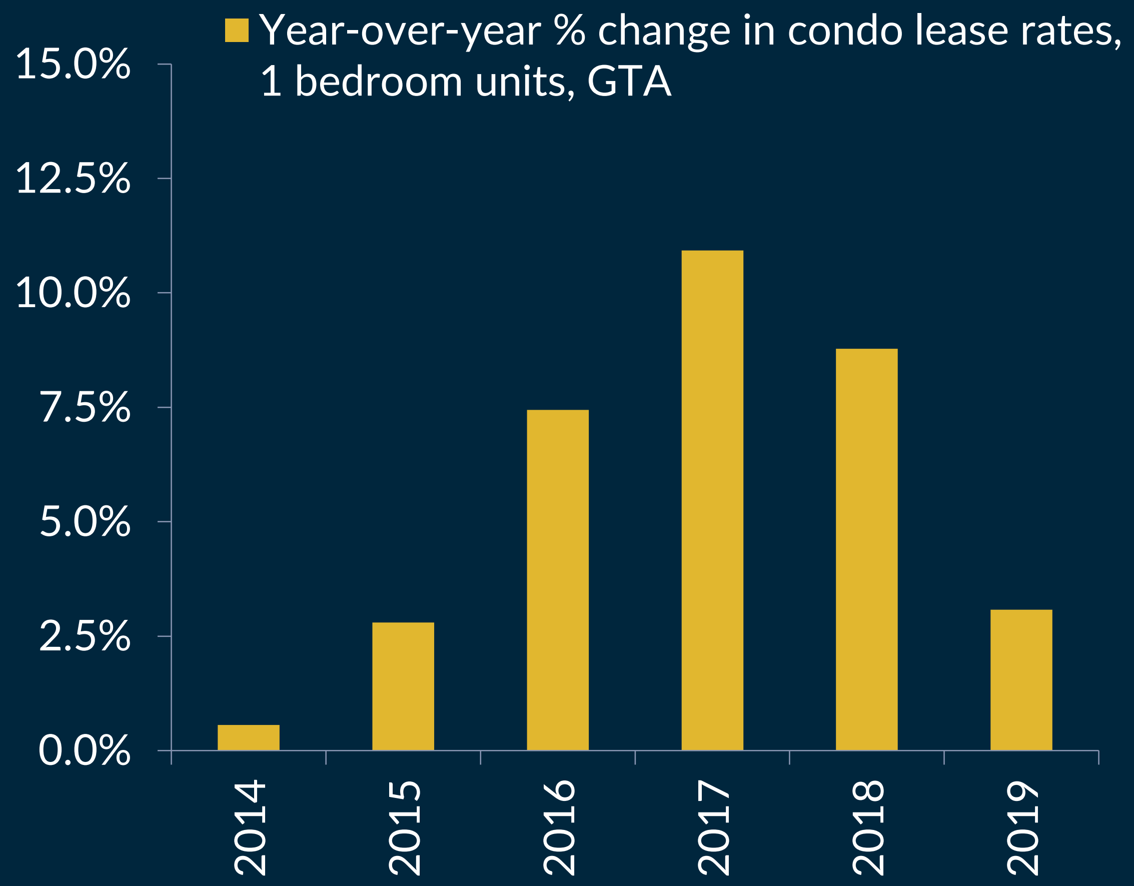
With impact on vacancies and potential rent increases

Altus Group



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

Source: Altus Group and CMHC



Source: Altus Group and Toronto Regional Real Estate Board

GTA new home sector: 2020 challenges

1 Softer homebuying intentions

2 Competition from lower-priced areas surrounding the GTA

3 Benchmark mortgage rates for stress testing still relatively high

4 Vacant home tax?

5 Downside risks to the economy

GTA new home sector: 2020 opportunities

AltusGroup

1 Growing need for additional housing

2 Pent-up demand from delayed homebuying

3 Less competition from the resale market

4 Lower effective mortgage rates than a year ago

5 Mini-boost from federal initiatives

GTA new home sector: 2020 new home sales trends

Single-family

- potential for some additional upside (e.g. go above the 10,000 unit threshold - provided product is available

Condominium apartment

- but will be hard to push above last year, given the strong end to the year and potential downside risks
- but should be another solid year for sales, with new product launches expected to continue to do relatively well, although absorption timeframes may increase somewhat as the year progresses

Key takeaways & closing remarks

TORONTO STATE OF THE MARKET 2020

Commercial market summary and outlook

Office demand remains strong and the new supply is expected to be **readily absorbed** – supported by the economic growth in the GTA

Demand for industrial spaces continues to **exceed supply** - keeping **upward pressure** on lease rates, and vacancies low

The GTA is positioned for **another solid year of real estate investment** – across all major asset classes

Residential market summary and outlook

AltusGroup

Land sales improved for high-density land, but remained sluggish in low-density areas, highlighting the struggle to find affordable single-family land in the GTA

New home sales – particularly single-family – recovered in 2019, as consumers and investors returned to sales centres, bucking the national trend

Strength in single-family sales expected to carry into 2020, while apartment sales will remain at robust levels, comparable to 2019

Considerations in 2020 and beyond

AltusGroup

- PropTech disruption has reached the tipping point and we are seeing wide spread adoption - in both commercial and residential assets
- Given the tight market – in assets and sectors – the GTA is well positioned to benefit from PropTech

- Climate change is on the minds of consumers, investors, and owners
- Expect more attention to building standards, efficiency, reporting, and location in years ahead

- The next decade will bring the rise of Gen Z
- Their impact on residential and retail sectors will be profound, but their desires will impact all sectors of real estate

Thank you for attending!

TORONTO STATE OF THE MARKET 2020

Altus Group

All attendees will receive an email after the event with links to download today's **presentation slides** and a copy of the **GTA Flash Report 2020**

2020 CANADIAN COST GUIDE

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