Table of Contents

1.0 Demand Indicators
2.0 Economic Snapshot
3.0 Multifamily Housing Market Summary
4.0 Rental Market Summary
5.0 Secondary Rental Market
6.0 Affordability
7.0 Multifamily Family Market Outlook
The multifamily housing market in Ontario has seen significant strength over the last few years and continues to out-perform other forms of residential housing, most prevalent in the Greater Toronto market. Market demand, financing conditions, intensification efforts and favourable taxes made condos more attractive as an investment for developers over purpose-built rental buildings. Although this is largely a consequence of several factors including market preference for ownership in an environment of inexpensive and easily accessible capital, investment in the development of new purpose-built rental buildings has experienced an uptick in recent years. The implementation of rent controls at 1.8% and initiatives in the provincial government’s Fair Housing Plan has deterred some rental construction and the rental market is showing signs of softening in rents on its own as purchases peaked early this year, while regulation still threatens to stifle the supply of new rental housing, further decreasing housing options for households.
Demand Indicators

Population Growth

Population growth has been positive in Greater Toronto over the last 5 years, with several markets higher than the provincial total of 5.4%.

Brampton had the highest compounded 5-year growth of 13.3%, an annual increase of almost 14,000 people, while Hamilton had the lowest growth at 3.3%.

Households & Demographics

Markets with smaller household sizes typically have a higher demand for multifamily units at various price ranges and quality for both, condominium and rental apartments.

According to TREB’s survey results, buyers expressed intention of purchasing a condo in the next year. Lower headship rates in a market, combined with a disinclination for single-family homes, will lead to increased demand for multifamily housing. As a result, we expect that the condominium market will remain strong in the near-term.

Since 2011, the City of Toronto has added roughly 17,000 new households per year compared to 12,500 in 2006 to 2011, driving demand for housing.
ECONOMIC SNAPSHOT

Current conditions in the housing market appear to be softening, however the wealth effect felt by owners has led to robust consumer spending in 2017 and economic growth in the region has been strong. Employment improved YOY in Q3-2017 in most markets, with the exception of Guelph, where the unemployment rate grew to 5.8%. In Q3-2017, growth continued with increases in job growth and wages. The government imposed increase in minimum wages will take effect in January 2018, which will increase wages among service industries and low-income occupations, improving household income among this segment.

Barrie has one of the highest rates of unemployment in the region at 6.1%, although this has improved significantly from 8.5% last year, due to an increase in the number of jobs. YOY job growth in Barrie was the highest at 16.2%, compared to the rest of the GTA which saw jobs increase by only 2.4%.
**Multifamily Housing Market Summary**

**Condo apartment sales have been the strongest performing housing segment over the last two quarters, largely due to an increase in competition through fewer listings and rising demand for condos from buyers.**

The overall housing market has seen signs of softening since its peak in the Spring, with sales and inventory down and price acceleration slowing down. The multifamily new and resale markets have remained strong through Q3-2017, although tighter lending regulations coming into effect over the next couple of months may cause the multifamily condo market to begin to slowdown. New stress-test requirements will make it harder for new entrants and may be felt harder in larger urban centers such as Toronto, where prices are higher and households are smaller.

The condominium apartment market surpassed all other housing segments in Q3:

- Condo apartment sales accounted for over 30% of all residential sales in Greater Toronto in the 3rd quarter and 80% of all multifamily housing transactions.
- Sales activity for condominium units in Greater Toronto was down YOY in Q3 for all price ranges below $450,000. Apartments above this level, saw an increase of 22.9%.
- Given a median sales price of $445,000 in Q3 2017, increased activity in higher-prices condo units is likely reflective of higher overall condo prices. This is supported by the shorter length of days-on-market before a unit is sold; indicating demand is stronger for condo units above the median price.

### Greater Toronto Q3 Market Performance

<table>
<thead>
<tr>
<th>Sales</th>
<th>Q3 2017</th>
<th>Q3 2016</th>
<th>Q3 YOY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Condo Apartment</td>
<td>5,684</td>
<td>8,014</td>
<td>-29.1</td>
</tr>
<tr>
<td>Condo Townhouse</td>
<td>1,412</td>
<td>2,278</td>
<td>-38.0</td>
</tr>
<tr>
<td>Total Residential</td>
<td>18,657</td>
<td>29,708</td>
<td>-37.2</td>
</tr>
<tr>
<td>Total Multifamily</td>
<td>7,096</td>
<td>10,292</td>
<td>-31.1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Median Price</th>
<th>Q3 2017</th>
<th>Q3 2016</th>
<th>Q3 YOY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Condo Apartment</td>
<td>$445,000</td>
<td>$365,000</td>
<td>21.9</td>
</tr>
<tr>
<td>Condo Townhouse</td>
<td>$505,000</td>
<td>$450,000</td>
<td>12.2</td>
</tr>
</tbody>
</table>

Source: TREB MLS
Changing expectations or uncertainty over the direction of future prices will affect the number of condo investors and units available for rent. To provide affordable and permanent rental housing options for residents, additional purpose-built rental units are needed.

The new construction market for condo apartments continues to escalate and remains attractive to investors searching for rental income, capital appreciation or gain through assignment. Speculation has increased and is predominant in the new construction market.

At the end of Q3-2017, there are almost 51,000 apartment units under construction in the GTA. These condo and purpose-built rental units will be completed over the next 18 to 24 months and may provide a flow of inventory to the resale and rental markets over this time. The direction of prices and rents into Q1-2018 and the strength of market activity and expectations will determine how quickly the new supply is absorbed.

There are 13,736 condo apartment starts in the Toronto CMA YTD, which may deflate prices and rents, but will likely be absorbed by continued demand multifamily housing.

Economic performance, strong employment and low inflation are positive indicators for new and resale housing. However, higher interest rates and tighter lending requirements will affect affordability and new entry into ownership, likely increasing demand in the rental market and possibly exacerbating short-term supply constraints.
The median price for 2-bedroom condo apartments across Greater Toronto markets is illustrated on the map. Toronto prices remain highest, although condo prices in the closest periphery markets are approaching these levels. Oakville and Markham have the next highest prices which is partly reflective of different quality and product type among markets. A larger cluster of high-end condos in Oakville is reflected in a higher median price. Condo prices are also a function of general housing prices specific to each location, therefore higher prices in Oakville and Markham can be attributed to higher land values and housing than other markets.

It is expected condo apartment units will push higher going into 2018, based on robust demand for multifamily.
Condo apartment prices peaked in June 2017 at $467,400

Housing prices have increased steadily across all housing types since 2013, making ownership increasingly difficult for first-time and younger buyers. The chart illustrates the recent surge in condo apartment prices over the last 18 months, since the beginning of 2016. While this has exacerbated affordability issues throughout the region, new supply under construction and tighter lending may help to improve the affordability picture going into 2018.

We expect the condo market to remain strong and demand stable, however external factors may provide some relief in the coming year and help create balanced market conditions and suitable, affordable housing options.
Housing prices have increased over the last few years across all housing types, making ownership more difficult and increasing demand for affordable housing and lower priced multifamily options.

The condo apartment market has surpassed all other housing segments in the last 6 months, although the growth in multifamily prices was slower than previous periods.

MLS HPI Benchmark prices reflect townhouses vary across submarkets in Greater Toronto more than condo apartments and single-family homes.

Historically low vacancy rates, new condominium development, rising rents and housing prices have caused growth in the size of the secondary rental market and private investors.

Source: CREA HPI Index
Toronto has the densest population and is one of the largest rental markets in the country. As the largest supply of multifamily rental units, Toronto market conditions dominate the Greater Toronto metrics. Periphery markets still remain as large single-family housing markets and purpose-built supply is almost non-existent.

Rents have been trending upward in all markets in the Greater Toronto Region over the last 10 years, although some markets experienced more volatility in rent levels. Richmond Hill has a very small supply of rentals and has been volatile, whereas larger markets of Toronto and Oshawa have seen stable rent growth over the period.

Toronto has trended inline with the greater regional rents, but has started to move higher than the regional levels in recent years. This is likely a consequence of the growing secondary rental market provided by condo unit rentals by investors, influencing market rents of newer buildings and, to a lesser extent, all buildings.

Pickering has a small supply of purpose-built rentals and has typically had the highest rents, but was surpassed by Oakville in recent years, which saw a spike in rents in 2016.
The highest market rents are in Markham and Oakville, although Markham has a very limited supply of purpose-built rentals. The lowest rents are in Hamilton and Oshawa.

Rents grew by 2.2% in the Greater Toronto Region compared to the 10-yr annualized rate of 2.6%, suggesting a slowdown in the rate of growth of rents, likely a consequence of low vacancies and turnover rates.

Rents in Oakville have been increasing since 2013 and experienced a spike in 2016 at a rate of 10%. In Hamilton, the second largest rental market in the region, rents increased 9.4% in 2016. This market has the lowest rents levels in the region, so absolute rent increases were much lower than Oakville.
Recent new apartment construction within Toronto has largely been in luxury units, as rising land and construction costs, longer development timelines and zoning issues, have made the economic feasibility of lower density multifamily development difficult, thus attracting less investment.

Condominium apartment starts in Toronto began their ascent in 1994, as mortgage rates dropped the cost of borrowing began to decline, while population grew and demographics shifted. After an initial supply effect of a moratorium placed on rent controls, new purpose-built rental buildings were less attractive for investment than condos, limiting development of rentals. Post 2000 saw a small increase in new rental apartment construction, while condo starts accelerated its upward trend, with increased volatility.

This lack of growth in the purpose-built rental supply has led to a significant increase in private investment of condo units for rentals, thus creating a two-tier market. The primary market includes all purpose-built rental units, while the secondary market consists of condominium units for rent.
Secondary Rental Market

The number of multifamily apartments in Toronto has grown by 64% since 2006, with 91% of the new supply as condominium units over purpose-built rentals. As prices of multifamily housing and market conditions change, the need for suitable purpose-built rental housing is rising and supply constraints cause imbalance in the market. New condo development, lack of competitive purpose-built rentals and rising prices have played a role in the large increase in the number of investor-owned condo rental units.

Secondary Condo Rental Market

The number of condo for rent in the secondary market has grown significantly from 2012 to 116,685 units in 2017, an increase of 83%.

Historical Growth in Condo Units

Source: CMHC Condo Market Survey, Statistics Canada
The majority of condo units in the secondary market are newer builds, command higher rents and are more closely comparable to new and luxury purpose-built construction. This means they provide additional rental housing which is needed, but do little to directly benefit affordability. Therefore, the need for additional rental supply requires different types of multifamily supply and present more suitable, affordable options for households.

The secondary market is a useful for additional rental supply, since units can be added or removed from the rental universe much faster than the time required to build new construction. At the same time, it pushes up rents due to individual landlords and creates instability and volatility for landlords, investors and tenants.

In Q3-2017, there were 8,716 condo leases contracted in the GTA, down -4.74% YOY, indicating suggesting a softening in demand over the period. This could be a result of renters moving to ownership, as reflected in overall market performance YOY. The number of condo units listed for lease at any point in Q3-2017 was down -3.9% from Q3-2016 and a weaker lease-to-list ratio suggest that demand for condo rentals could be softening and may continue as higher prices flow through to renters and more purpose-built supply is added.

**Historically low vacancy rates, new condominium development, rising rents and housing prices have caused growth in the size of the secondary rental market and private investors.**
Many rental markets in the Greater Toronto Region are comprised of 2 market tiers: the primary rental market which constitutes all purpose-built units; and the secondary rental market of investor-owned condo units for lease.

The Primary Market has experienced very little growth over the last 10 years, which has been a driving force, among other factors such as favourable lending and increasing housing prices, in the growth of the secondary rental market. In 2016, condo rentals added 116,685 housing units to the Toronto market and almost 35% of condo apartments in 2017 are leased out.

Over the last 10 years, the Secondary Rental Market has grown from less than 14% of the rental supply to over 31%. With vacancies at historic lows and increasing rents, the growth in the Secondary Market indicates a shortage of suitable purpose-built rental apartments and the existence of latent market demand.

Escalating prices and tightening conditions from a decrease in inventory and sales, coupled with new mortgage regulations, may dampen the growth of the secondary rental market into 2018.
Affordability

After peaking earlier this year, the Greater Toronto housing market has been cooling, but the new and resale condominium segments are showing strong resilience. Consumer sentiment is favourable to purchasing more multifamily housing in the next year, suggesting demand and activity will remain strong.

While this will further affect affordability with prices continuing to increase, tighter lending regulations that come into effect by the end of this year, will make it increasingly difficult first-time buyers to enter the market in the near-term. This could result in growing demand for rental units which spills over into the investment market, as condo units are purchased to generate revenue and add to the rental supply. The magnitude and ultimate direction of these factors will only be seen after the new rules take effect. Ultimately, younger households will be priced out of condominiums in Toronto and may choose to remain renters for longer, live with roommates or parents or move to more affordable, periphery markets.

Monthly Mortgage (P&I) Carrying Costs for Toronto Condo Apartments

Source: CORE Research & Analytics, CREA
A 2-bedroom condominium unit purchased in Q3 is reflected in the Monthly P&I (excluding condo fees), compared to the median rent for a 2-bedroom purpose-built rental apartment.

Hamilton has the most affordable housing for rental and purchase, while Toronto is the least affordable of all markets in the region.

Affordability and condo prices in Markham make it an attractive market for renters, although purpose-built supply is minimal.

Affordable shelter costs are based on a guideline of 30% of the median household income in the market area being spent on shelter. The rule of thumb measure indicates households in Oakville can spend the most on monthly shelter costs, while Toronto the lowest at $1,646.

Toronto is the least affordable of all markets within the region, with the median carrying costs of a 2-bedroom condo apartment far exceeding the amount households can likely afford to spend on housing every month, based on median household income.
Population has been positive over the last 5 years; highest in Brampton at 13.3% growth in population. While positive for housing demand, Brampton is a market heavily dominated by single-family homes and larger households. The supply of purpose-built and secondary market rentals remains low and demand for multifamily housing is lower than other Greater Toronto markets.

Rent growth was the highest in Oakville, which has seen the highest growth rates in rents over the last 10 years and surpassed Pickering rents in 2014, which historically had the highest rents in the region. Asking rents in Markham spiked in 2016 and has continued this trend in Q1 2017, suggesting Markham may surpass Oakville by the end of the year.

It is expected the multifamily housing market in Greater Toronto will remain strong in 2018, although demand may soften as a result of tighter lending practices.

Listings for rental apartments and condo sales have declined in 2017, indicating tightening in the rental market and reduced liquidity in the resale market as rapid price increases deter owners from moving, thus limiting housing inventory.

Any effects of rent controls and the Fair Housing Plan introduced by the Ontario Government on the dynamics of the rental market have been unrealized. However, anecdotal evidence suggests many projects planned for purpose-built will be developed as condos.

The annualized rent growth rate for the region was 2.6% over the last 10 years for purpose-built rentals. Rent controls will likely further dampen interest in the development of new rental apartments over condominiums.
To receive future editions of the CORE Multifamily Market Report or to request a customized market analysis or advisory services CONTACT US TODAY | research@coreadvisory.ca