MARKET YEAR IN REVIEW & OUTLOOK REPORT

ENVISIONING HOUSING OPTIONS & SUPPLY FOR LIVEABLE COMMUNITIES

2019

Toronto Real Estate Board

SERVING GREATER TORONTO REALTORS®

"**Thank you** for picking up a copy of TREB's fourth annual *Market Year in Review & Outlook Report*. As you're reading, think about how you can **take action** to help create some of the suggested changes to improve housing affordability, create a better supply of housing, and **develop housing and transit options** that make long-term sense for our communities."

- **John DiMichele**,
  CEO, Toronto Real Estate Board

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A MESSAGE FROM THE PRESIDENT

I am so happy to be a part of this year's report, as I believe the contents provide tremendous value to TREB's membership and, indeed, the broader public.

TREB's sections on the market in 2018 and on what to expect from the market in 2019 are some of the most comprehensive and well thought out I've seen. Coupled with robust and detailed survey data from TREB-commissioned Ipsos surveys of recent and intending home buyers and sellers, this data is invaluable to you as you work to understand the market, and gives you the resources and information you need to share with your clients.

In addition to sections on the Commercial Market and a contribution from Altus on the New Homes and Residential Land Sectors, this year's report also features a brand new section on the Rental Market. The GTA is seeing a growth in rental demand, but supply has not kept up due to market-related and government policy-related factors.

It is important to understand the fundamentals underlying rental market conditions and potential solutions to see a more balanced market moving forward, so including a rental section in this year's *Market Year in Review & Outlook Report* made sense. The section also features a submission by the Greater Toronto Apartment Association, which adds colour to the facts and data presented by TREB by speaking specifically to the purpose-built rental market segment.

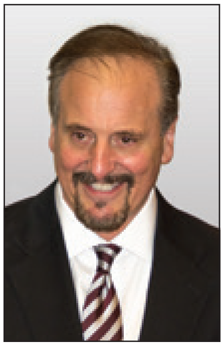
When it comes to government policy and the housing market, we at TREB believe a key initiative will be for the federal government, and specifically the Office of the Superintendent of Financial Institutions, to revisit the imposition of a two percentage point stress test on home buyers. This is even more imperative if interest rates continue to rise. Under this scenario, home buyers could be stress tested at unrealistically high rates, which could further dampen home sales and the resulting positive economic impacts on the economy.

I sincerely hope you enjoy reading this report as much as I did, and I hope you will find in it some useful insight that can help you in your goal of housing people in liveable communities in 2019.

Gurcharan (Garry) Bhaura

2018/2019 President, Toronto Real Estate Board

A MESSAGE FROM THE CEO



Thank you for picking up a copy of TREB's fourth annual *Market Year in Review & Outlook Report*.

I'm proud of TREB's continued commitment to producing and commissioning top-quality and evidence-based research, facts, and data. This year's report features some excellent research from TREB's partners, including a section on increasing the supply of "missing middle" housing (e.g., townhouses, row houses, and duplexes) from Ryerson University's Centre for Urban Research and Land Development, and a section on transit-supportive development from the Pembina Institute.

Both present fresh ideas on how to approach some of the key issues faced by our industry: housing affordability, the lack of housing supply, and connecting communities via better transportation infrastructure. I would encourage you to read both.

Regardless of the section you're reading, I'm happy to report that TREB has made great strides in working with public policymakers and industry stakeholders. The issues and suggested solutions are on their radar, and we're already working to create positive change.

But we can't lose sight of the urgency: change needs to happen now. We have the opportunity to continue to convert these issues into action in order to tackle housing supply and the transportation problems in our region as we move forward. We are confident that this report will shed light on the changes that are required.

So please take a look, and as you're reading, think about how you can take action to help create some of the suggested changes to improve housing affordability, create a better supply of housing, and develop housing and transit options that make long-term sense for our communities.

John DiMichele

CEO, Toronto Real Estate Board

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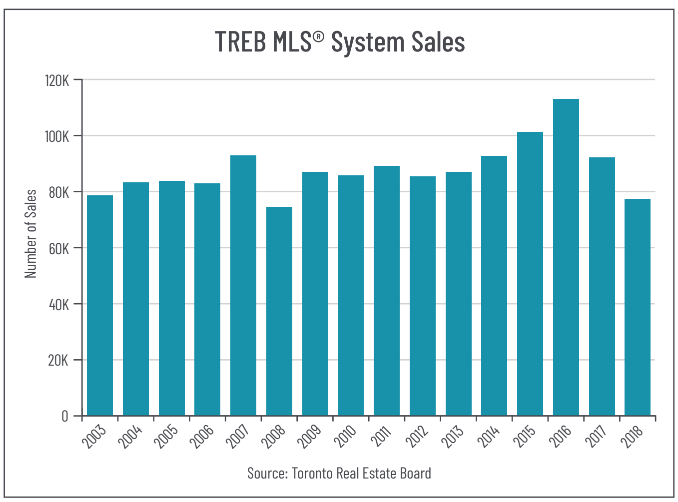
This year's report is all about envisioning housing options and supply for liveable communities. In addition to sharing the latest Greater Toronto Area housing market and commercial real estate data, TREB worked with several of our partners, including Ipsos, Altus Group, the Pembina Institute, and Ryerson University's Centre for Urban Research and Land Development to contribute insightful research on this year's key themes. Below is just a brief snapshot of the contents of this year's report.

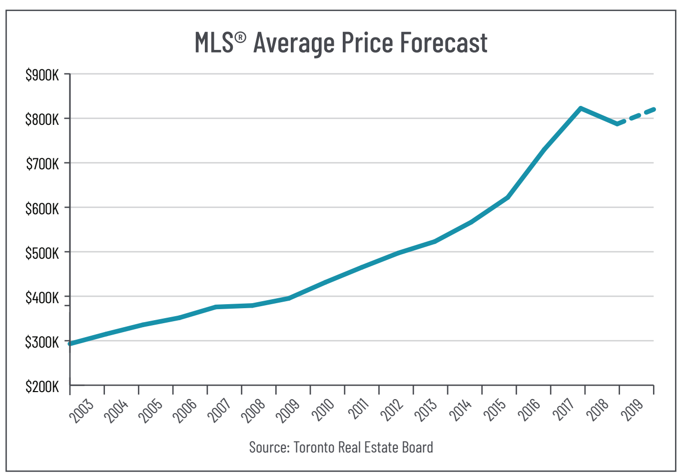
Recapping the Market in 2018

When it comes to the residential resale housing market, 2018 was a year of moderation and volatility in many ways. Sales and new listings were down on a year-over-year basis. Average price was down in the first half of the year, but started to recover in the second half of the year. Read more about the ups and downs of the market in 2018 on page 9. This section also features consumer survey research on recent home buyers from Ipsos.



Looking Ahead to the Market in 2019

Sales reported through TREB's MLS® System in 2019 will amount to 83,000 under the baseline forecast. This outlook assumes that borrowing costs, particularly the five-year fixed mortgage rate, will be lower on average compared to 2018. Over the same period, it is expected that an increasing number of home buyers will move from the sidelines as the effect of the OSFI-mandated stress test will be mitigated by purchasing a different, more affordable type of home potentially in a location different from originally planned. New listings entered into TREB's MLS® System are expected to remain flat, hovering around the 155,000 mark – a level that has become the norm since the recession. The relationship between sales and listings will represent enough competition between buyers for the average home price to rise in the mid-single digits to a baseline of $820,000 – almost reaching the 2017 peak. Price increases will be driven by average condominium apartment price growth in the high single digits. Read more on page 15.

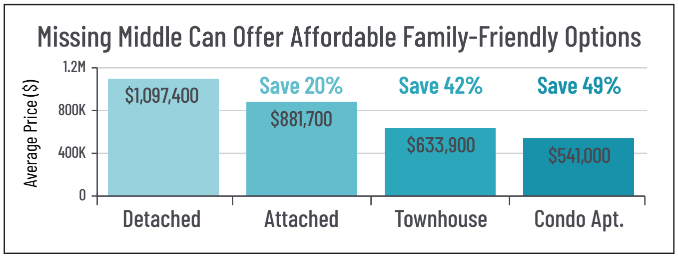


Increasing Housing Supply in the Greater Golden Horseshoe

More housing stock is key to helping solve housing affordability issues across the Region. TREB approached government officials from across the Greater Golden Horseshoe to understand how they plan to address creating more housing supply in their area. Read their responses on page 21.

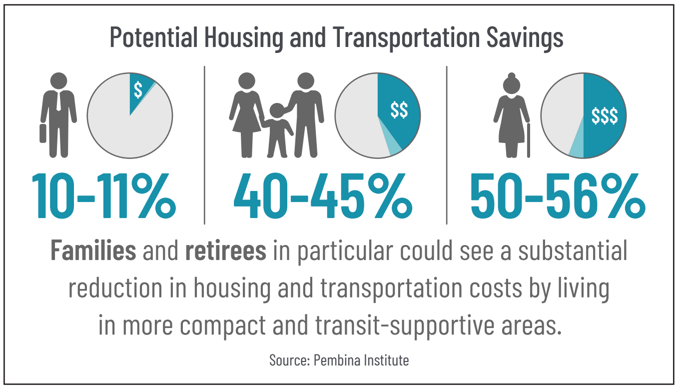
Creating More "Missing Middle" Housing in Toronto

There's no question that building more housing is key to alleviating affordability pressures in Toronto and across the GTA. Starting on page 27, this study from Ryerson University's Centre for Urban Research and Land Development, features a look at how the creation of more "missing middle" housing (e.g., row houses, townhouses, duplexes etc.) can fill gaps in the types of homes needed and positively impact affordability.



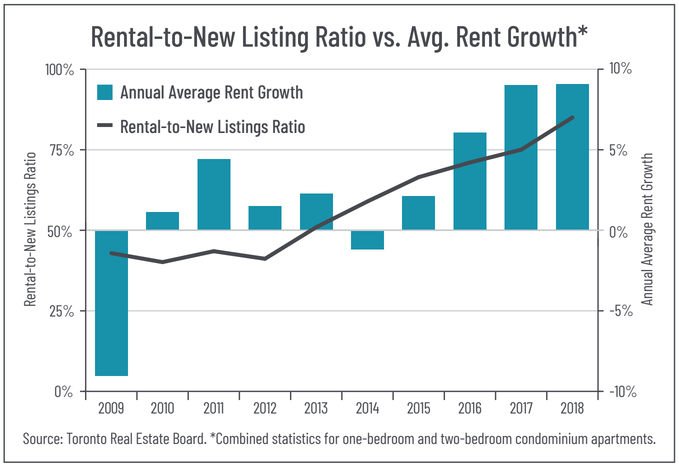
Constructing Transit-Supportive Development in the Region

Research from the Pembina Institute is featured in section five of the report and sheds light on the idea of transit-supportive development. What can housing built within a ten-minute walk of a transit station do to housing affordability? Find out on page 33.



The Rental Market

The rental market in the GTA has experienced low vacancies, strong competition between renters and strong average rent growth over the past few years, most notably in 2017 and 2018. This has largely been the result of a growing mismatch between demand and supply of rental units. This section features a look at investor-held condominium apartment units and their impact on the rental market and includes a supplementary section on purpose-built rental from the Greater Toronto Apartments Association. Read more on page 39.



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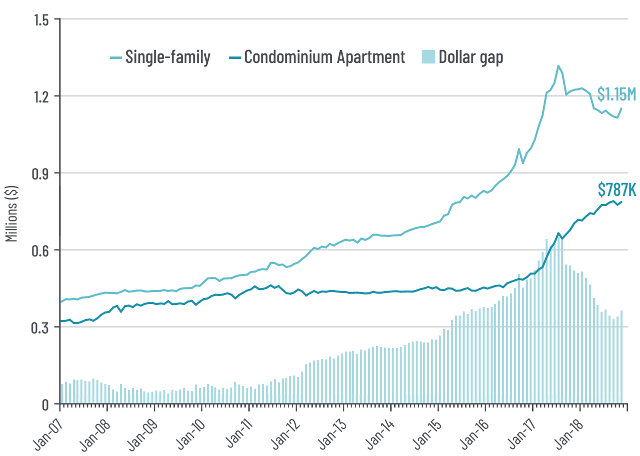
New Homes and Residential Land Data

Beginning on page 45, this section features research and data from Altus Group. When looking at the New Homes market, it's clear that 2018 was a year of adjustment after strong growth in the preceding two years. As with the resale market, a resurgence of buyers and builders returned to the new home market in the latter half of 2018. Residential land sales also cooled slightly in 2018 after a strong couple of years. Looking ahead, both the new homes and residential land sectors are expected to have a slightly stronger 2019.

GTA New Home Benchmark Prices*

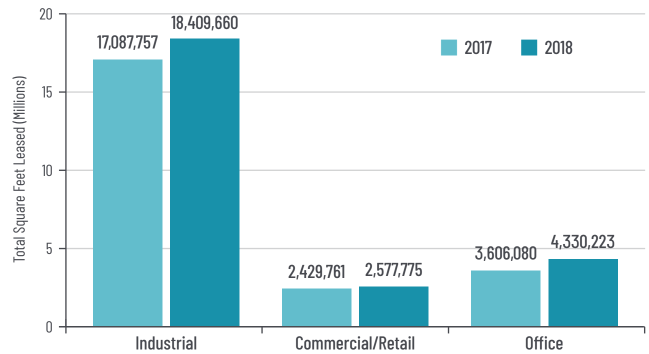


Source: Altus Group | *Average asking price of available new home inventory at end of period with outliers removed

The Commercial Market

In 2018, commercial leases were up, but sales were down. Positive economic conditions led to increases in the amount of square footage leased in the industrial, commercial/retail, and industrial segments. Looking forward, the consensus view is for continued economic expansion and very low unemployment in 2019, providing for the possibility of an uptick in leasing and sales activity as long as businesses continue to expand, positive sentiment toward international trade agreements reigns, and continued high levels of consumer spending are the norm. Read more about how the commercial market fared in 2018 on page 51.

TREB MLS® Leasing Activity



Source: Toronto Real Estate Board. NOTE: This chart summarizes total industrial, commercial/retail, and office square feet sales through TREB's MLS® System regardless of pricing terms.

Tying It All Together

Ultimately, the research presented to you in this year's report highlights the need for policymakers to base their policy decisions on evidence and facts. A measured, guided approach, informed by hard data is the only way to ensure we address the housing and transportation pressures currently faced by our Region. TREB looks forward to continue to work with all levels of government, fellow Boards and Associations and our partners and industry stakeholders to achieve the positive outcomes we're all hoping to create.

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WITH SURVEY RESULTS FROM IPSOS

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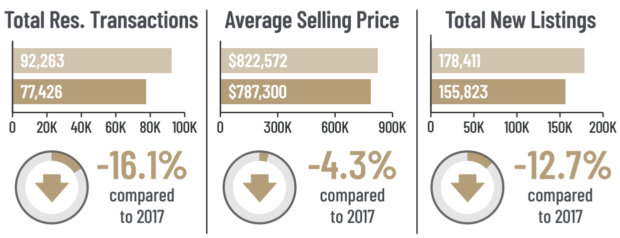
WITH SURVEY RESULTS FROM IPSOS

SECTION BY THE NUMBERS

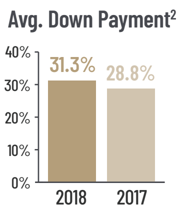
When it comes to the housing market, 2018 was a year of moderation and volatility in many ways.

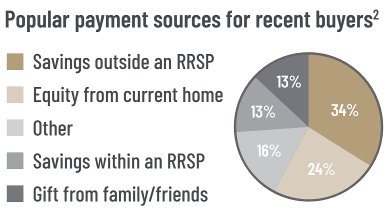


A 2018 Ipsos survey found a majority of recent home buyers purchased a detached home, but that share was lower than in previous years. The dip is likely due to a shift in preference to more affordable home types.

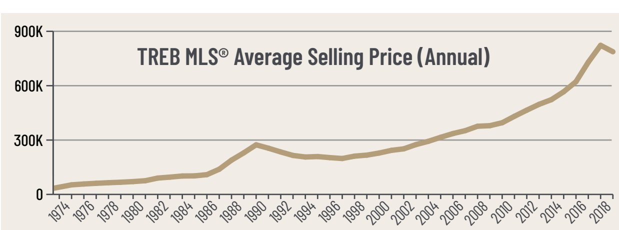
Detached[1]	Semi-Detached[1]	Townhouse[1]	Condo/Apt.[1]
43%	9%	16%	30%
$1,009,535	$780,777	$637,757	$552,423

Those who purchased a home over the past year were likely to have put more money down than last year's cohort.





No matter what, ownership housing has been, and continues to be, a quality long-term investment.[1]



[1]Source: Toronto Real Estate Board (average price & sales share data). [2]Source: Ipsos

Affordability Prompted a Lull in Demand in 2018

TREB is almost 100 years old. Over this time period, as the GTA population and regional economy have continued to grow, we have generally seen a steady uptick in the number of homes sold and a steady increase in the value of those homes. This is why ownership housing continues to be seen as a quality long term investment. With this said, we have also seen short-term volatility along the way, and 2018 was one such example.

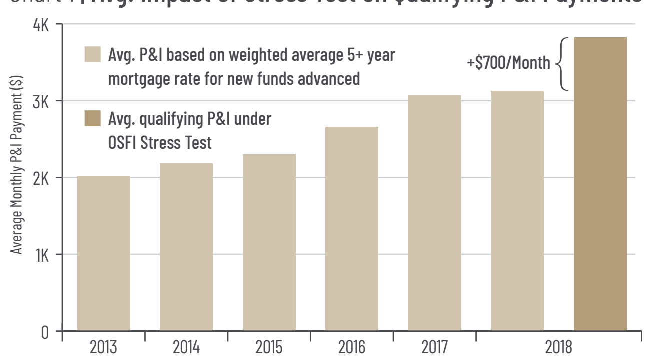
Changes to mortgage lending guidelines and generally increasing mortgage rates put a damper on home sales reported through TREB's MLS® System. There were 77,426 sales reported in 2018 – down by 16.1 per cent compared to 92,263 sales in 2017 and down 32 per cent compared to the record result of 113,040 sales in 2016.

Even though average mortgage rates increased in 2018 compared to 2017, some of this impact on monthly mortgage payments was offset by lower home prices, especially when considering low-rise market segments (detached and semi-detached houses and townhouses). However, the new stress test mandated by the Office of the Superintendent of Financial Institutions (OSFI) required that borrowers be qualified at the higher of their contract mortgage rate plus two percentage points or the five-year posted fixed rate as reported by the Bank of Canada.

On average, the OSFI qualification standard meant would-be home buyers in 2018 had to qualify for a

monthly mortgage payment $700 higher than what they would actually have to pay, or $8,400 per year after taxes – a substantial sum given that Ipsos reported, in its survey of homeowners conducted for TREB, that GTA home buyers in 2018 had an estimated average household income of approximately $102,000. With this in mind, many households simply did not qualify for their original home type and location preferences and therefore put their decision to purchase on hold, at least while they reconsidered their options related to variables like home type, home size, home quality and preferred location.

Chart 1 | **Avg. Impact of Stress Test on Qualifying P&I Payments**



Source: Toronto Real Estate Board. Calculations based on Statistics Canada Table 10-10-0006-01 Funds advanced, outstanding balances, and interest rates. Assumes average TREB MLS® Price and 20 per cent down payment.

It appears that first-time buyers continued to be affected by government policy changes in 2018. According to the Ipsos survey of homeowners, the share of first-time home buyers in 2018 remained below 50 per cent. This is in contrast to a share above 50 per cent in 2016 – a record year for home sales reported through TREB's MLS® System.

Supply of Listings Remained a Problem in 2018

In 2017, the number of new listings entered into TREB's MLS® System spiked to the highest level on record. This trend, however, was short lived. In 2018, the number of new listings was down by 12.1 per cent year over year to 155,823 – reverting back to a level that has been the norm since the recessionary dip in 2009.

Chart 2 | **TREB MLS® New Listings Flat Since the Recession**

Source: Toronto Real Estate Board.

One factor that has underpinned the flatline trend for listings has been the lack of new housing options coming online. Much of the home construction in the GTA over the past decade has been in the condominium apartment segment. The issue with this has been the fact that more than three quarters of recent home buyers, according to Ipsos, have been pointed at the low-rise market segments. Other segments of this report tackle the fact that a greater diversity of medium density housing is required to bridge the gap between condominium apartments and single-detached houses. Given more choice in the marketplace, a greater number of home buyers may feel inclined to list their homes for sale in order to move into a form of housing that better fits their needs.

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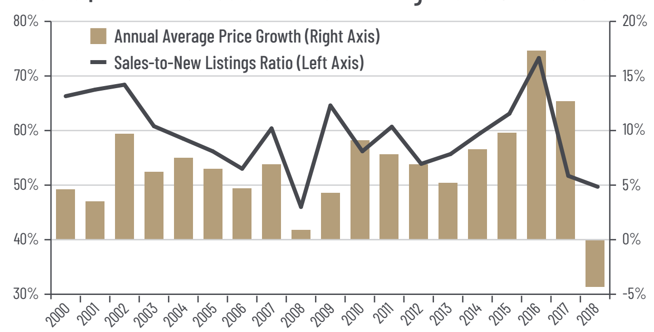
WITH SURVEY RESULTS FROM IPSOS

Over the shorter term, the OSFI-mandated stress test may have also hampered listings, particularly for households looking to sell in order to purchase a more expensive house. Households who felt they may have had issues qualifying under the more stringent standards that came into effect on January 1, 2018, may have opted to stay put until their income and/or available equity increased to the point where qualification was not an issue.

Chart 3 | **TREB MLS® Sales-to-New Listings Ratio & Price Growth**



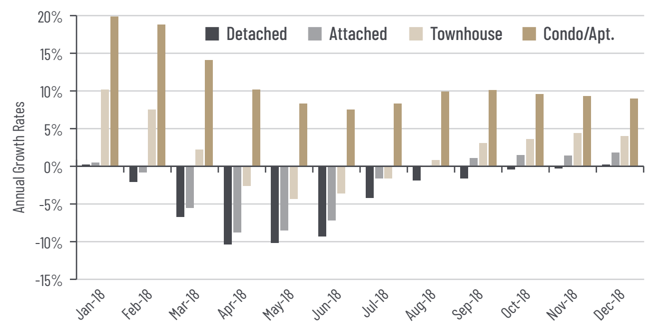
Source: Toronto Real Estate Board.

The decline in new listings was felt across market segments, with annual rates of decrease between 13 and 15 per cent for detached houses, townhouses and condominium apartments. The decline in semi-detached new listings was substantially higher, at 25 per cent. One of the key issues affecting semi-detached listings was likely the fact that, with the new OSFI stress test in place, many semi-detached owners felt they may not qualify for a mortgage on a higher priced detached home. The average price gap between detached and semi-detached homes in TREB's market area as a whole was over $200,000 in 2018. In some areas like Toronto and Halton Region, the average price gap was over $300,000.

Price Growth Varied by Time of Year and Type

Both sales and new listings were down on a year-over-year basis in 2018, but it is important to remember that it is the interplay between the two that dictates price growth over time. For calendar year 2018, the average selling price for all home types combined was down by 4.3 per cent. It is important to note, however, that calendar year average price does not tell the full pricing story for 2018.

Chart 4 | **Annual Growth Rates for MLS® HPI Benchmark Prices**



Source: Toronto Real Estate Board.

When we look at year-over-year growth in the MLS® Home Price Index (HPI), both for the overall Composite Benchmark Price and for individual home types, there was marked improvement in the second half of 2018. The best performing market segment was the condominium apartment segment, which did not register a year-over-year decline during any month of 2018. Higher density low-rise home types – attached houses and townhouses – experienced sustained positive growth in the second half of 2018. By the end of the year, the detached segment was experiencing a very modest annual growth.

The OSFI-mandated stress test did not impact the

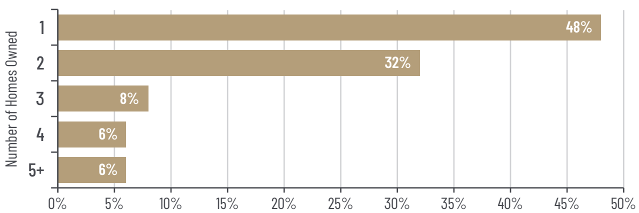
market uniformly from a pricing perspective. More expensive market segments, detached for example, experienced greater and more prolonged year-over-year price declines compared to less expensive market segments, including condominium apartments. Many households that remained committed to a home purchase in 2018 did so at a lower price point within their chosen market segment or moved to a new market segment (i.e. new combination of home type and location) at a lower price point. This is supported by TREB MLS® System statistics and results of the Ipsos Fall 2018 Home Owners Survey that reported a five percentage point drop in detached home purchases in favour of other low-rise home types. The bottom line is that competition between buyers was more intense in the higher density low-rise market segments and the condominium apartment market segment, as evidenced by the relationship between sales and listings.

Profile of Recent Home Buyers

The following points provide a profile of recent home buyers who responded to the Ipsos Home Owners Survey:

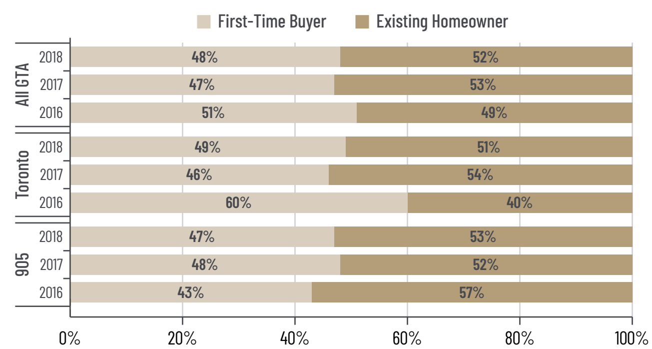
- Recent home buyers indicated that they had owned two homes on average, including their recent purchase over the past 12 months – in line with previous surveys.
- The majority of recent home buyers purchased a resale home, although this has declined over the course of the last three surveys from 70 per cent in the fall of 2016 to 64 per cent in 2018. A key reason for this may be the shift toward higher density home types, most notably condominium apartments. Many recent home buyers may have purchased a condominium apartment directly from a builder.
- Following the previous point, the share of recent home buyers who purchased a detached home dipped in the 2018 survey versus previous years, from 49 per cent in 2016 and 2017 to 44 per cent in 2018. The dip in detached purchases was accounted for in the less-expensive semi-detached and town/row house categories. In line with 2017, 22 per cent of recent home buyers purchased a condominium apartment.

Chart 5 | **Share of Recent Buyers* by Number of Homes Owned**



Source: Ipsos. *Recent Home Buyers are those survey respondants who purchased a home in the 12 months leading up to their survey response date.

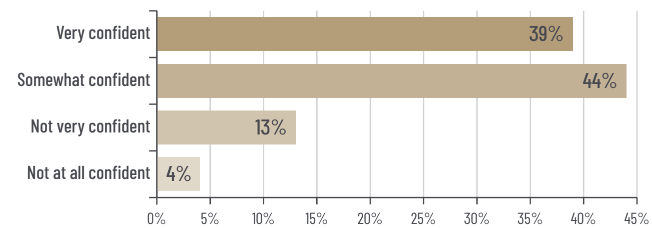
Chart 6 | **GTA First-Time Buyer Share for Recent Home Buyers***



Source: Ipsos. *Recent Home Buyers are those survey respondants who purchased a home in the 12 months leading up to their survey response date.

- As discussed above, the share of first-time buyers who purchased a home in 2018, at 48 per cent, was similar to 2017, but down compared to 2016 when the first-time buyer share was above 50 per cent during a period of record sales. The first-time buyer share was higher in the City of Toronto compared to the surrounding '905' area code regions.
- The average down payment for recent home buyers increased to 31.3 per cent compared to approximately 30 per cent in 2016 and 2017. While similar to previous years, it intuitively makes sense that we saw an increase given the fact that home buyers may have increased their down payments in order to reduce their monthly payments due to higher rates and/or to lower their qualification threshold under OSFI. The average down payment share was higher for higher priced homes, which makes sense given that people purchasing higher priced homes have likely built up equity through previous home purchases.
- By far, the two most common sources of down payment for recent home buyers were savings outside of an RRSP (34 per cent of respondents used this as a source) and equity from an existing home (24 per cent of respondents).
- Taking into account both recent and non-recent home buyers, Ipsos survey results made clear that higher borrowing costs and mortgage qualification standards would affect a sizeable group, albeit a minority, of homeowners. GTA-wide, 17 per cent of homeowners felt that a two percentage point increase in borrowing costs would result in unaffordable mortgage payments. A larger share (23 per cent) felt that new, stricter mortgage lending guidelines dictated by the OSFI would make it difficult to qualify for their mortgage moving forward. This uncertainty will carry forward into the outlook for housing demand discussed later in this report.

Chart 7 | **Confidence in Affording a Mortgage with a Rate Two Percentage Points Higher**



Source: Ipsos.

Housing Market Conditions and the Economy

Previous research conducted by Altus Group on behalf of TREB found that each home sale reported through TREB's MLS® System generates an additional $68,275 in spin-off expenditures. Each year, total transactions reported also are associated with more than 100,000 jobs and billions of dollars in government revenues used to provide public services and infrastructure. This means that government policy and higher borrowing costs have affected economic growth, public spending on programs, and people's ability to earn a living over the past two years, as home sales have fallen off the record high set in 2016. These issues will continue to be front and centre as we look forward through 2019 in the following section.

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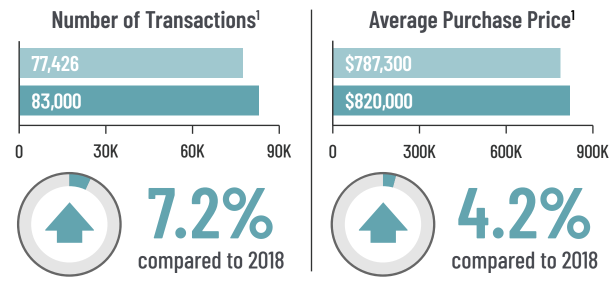
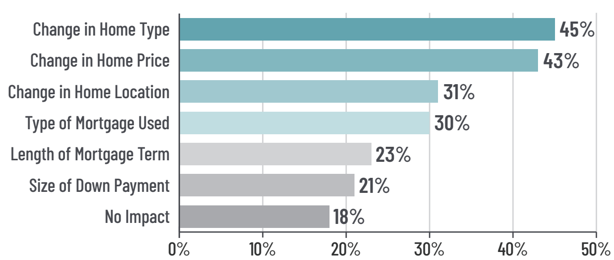
It is expected that both the number of transactions and the average price will be up on a year-over-year basis in 2019.



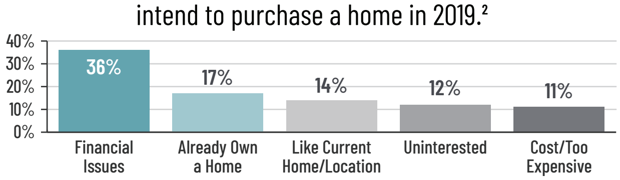
In a recent poll of potential home buyers, it was found that more people are likely to buy a home in 2019 than in 2018.

NOV. 2018*	NOV. 2017*	DEC. 2016*	NOV. 2015*
29% likely to buy	26% likely to buy	28% likely to buy	30% likely to buy

Despite the forecasted moderate increase in sales, there are many who will remain on the sidelines, partially due to the impact of the OSFI-mandated stress test. Those affected said their purchase decision was impacted as follows.[2]



Affordability is the key reason cited by those who don't intend to purchase a home in 2019.[2]

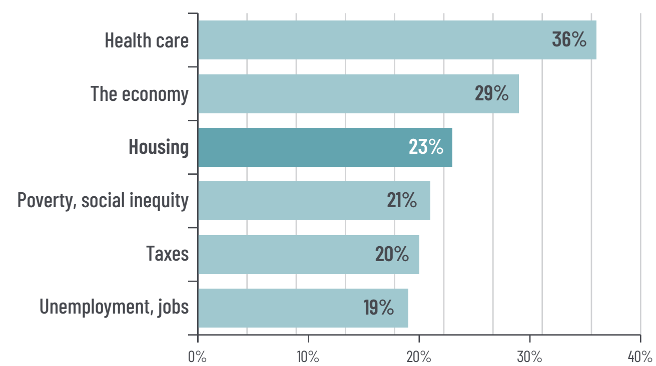


[1]Based on transactions reported on TREB's MLS® System. [2]Source: Ipsos Public Affairs, 2018.
*Refers to date of survey. Percentages are for buying intentions for next year.

Housing remains top-of-mind for households across the country. In a December 2018 cross-country Ipsos survey, Canadians identified housing as the third most important issue facing Canada, behind only the economy and health care. Survey respondents from Ontario ranked housing as the second most important issue.

Obviously, the housing market outlook is important to people. The sections below provide TREB's outlook through the lens of market-based and public policy-related factors.

Chart 1 | **Housing a Top Issue for Canadians**



Source: Ipsos

Buying Intentions

For the fourth straight year, Ipsos, on behalf of TREB, surveyed GTA residents on their home buying intentions for the following year. For 2019, 29 per cent of survey respondents indicated that they were likely to purchase a home in which to live. Breaking this down further, 10 per cent of respondents said they were very likely to purchase a home – the same share reported a year earlier. This suggests that the share of GTA households who have absolutely made up their mind to purchase a home in 2019 has changed little over the past year.

What has changed more noticeably is the number of survey respondents who said they were somewhat likely to purchase a home in 2019. This share came in at 19 per cent – up from 16 per cent last year. This suggests that more people are at least thinking about purchasing a home over the next year, which may mean that some households are adjusting to the headwinds exerted by the OSFI-mandated stress test, generally increasing mortgage rates, and the Ontario Fair Housing Plan.

Whenever major government policy changes pointed at the housing market come into effect, there is generally an initial overreaction resulting in a large, but temporary pull-back in home sales. We certainly did see a large pull-back in 2018, with sales dropping 16 per cent year over year after the OSFI-mandated two per cent stress test came into effect alongside higher borrowing costs. Over the longer term, however, households generally adapt to policy changes by changing their preferences.

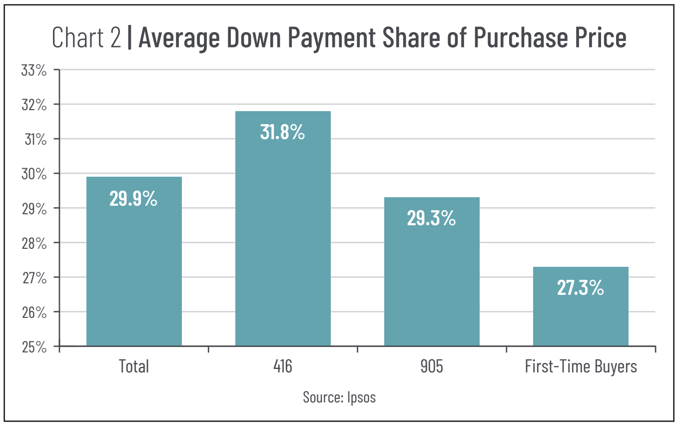
In the latest Ipsos Home Buyers Survey, respondents' top three solutions to mitigate the impact of the OSFI-mandated stress test were to change the type of home they intend to purchase, change the price they are willing to pay, and/or change the location of where they intend to purchase. With this in mind, it is not surprising that the share of survey respondents who plan to purchase a detached home (the most expensive home type, on average) in 2019 was at the lowest point since the annual fall survey commenced in 2015. Conversely, the share of respondents indicating that they intend on purchasing a condominium apartment in 2019 was at the highest point over the fall survey time period.

It is also interesting to look at how the outlook has changed for those who do not intend on purchasing a home over the next year. The most popular responses, by far, pointed to financial/affordability issues, with 36 per cent of respondents providing this type of response. This makes sense given the impact of the OSFI-mandated stress test and higher borrowing costs.

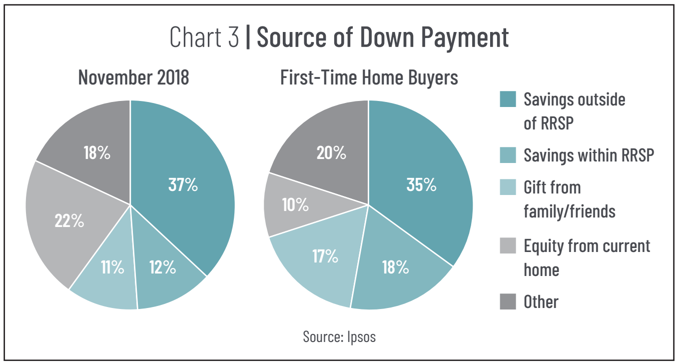
The preceding discussion suggests that there has been little movement in intentions of fully dedicated buyers for 2019. However, there does appear to have been an increase in the number of households who are at least considering a home purchase. When we break down purchase intentions by home type, it certainly appears that buyers may be mitigating affordability issues brought about by higher borrowing costs and the OSFI-mandated stress test by changing the type and quite possibly the location of the home they intend on purchasing.

Borrowing Costs Could Trend Lower in 2019

The cost of borrowing and the mortgage rate used to qualify borrowers is an important driver in the growth or decline in home sales, because most home buyers pay for the majority of their home purchase over the long-term. According to the Ipsos survey



of intending home buyers in 2019, the average down payment will be approximately 30 per cent of the average purchase price for all intending buyers combined. This means that home buyers, on average, will be financing 70 per cent of their home purchase. Clearly, borrowing costs and qualification rates play a large role in the purchasing decision.



The Ipsos survey found that intending buyers favoured fixed rate mortgages with the most popular tenure being five years. The yield on the five-year Government of Canada (GoC) bond tells us what it costs lenders to raise funds to lend out to home buyers in the form of a five-year fixed rate mortgage. In the fourth quarter of 2018, the five year yield on the GoC bond dropped substantially as global economic uncertainty increased, cutting into perceived growth prospects for Canada. While it took some time, advertised and special discounted five-year fixed mortgage rates started to edge lower in January of 2019.

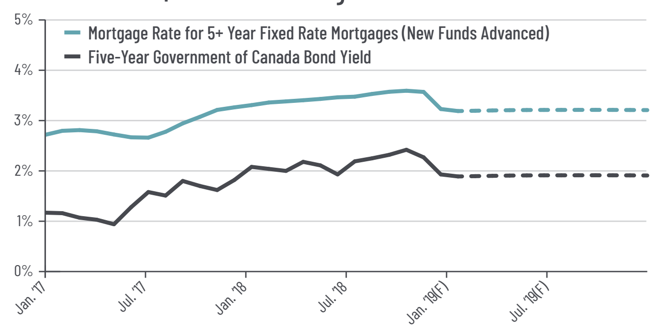
The forward rates for the five-year GoC bond at time of printing suggest that bond market participants expect the yield to remain relatively flat in 2019 and certainly lower than the average yield in 2018. This suggests that we could see further cuts to mortgage rates as we move into the more competitive spring market, which would positively impact the affordability of actual mortgage payments.

It is important to note, however, that a decline in advertised or special rates (i.e., rates discounted off the official posted rate) may not impact the rate that home buyers are qualified at under the OSFI-mandated stress test. This is because if the official posted rate does not decline, it will eventually become the benchmark for the stress test. In other words, home buyers will continue to be qualified at rates much higher than what they will actually pay. This means that while home buyers will benefit from more affordable mortgage payments if rates decline further in 2018, the higher qualification standard could still be a drag on home sales.

Demographic and Labour Force Factors

The population in the GTA will continue to grow at a steady annual pace, between two and 2.5 per cent in 2019. Population growth is obviously key to sustained

Chart 4 | **Lower Borrowing Costs Possible in 2019**



Source: Bank of Canada; Statistics Canada; TREB Forward Rate Calculation

long-term demand for housing. Immigration will continue to be the driver of this growth, as people from around the world choose to settle in the GTA to take advantage of a diversity of quality job opportunities. When people move to the GTA, they require a place to live. As such, it is likely that many of these people will eventually purchase a home.

The GTA labour market remained very tight in 2018, with the unemployment rate hovering around six per cent. Given that the consensus is for continued economic growth through 2019, it stands to reason that the unemployment rate will remain at a similar level over the next year. This is also the industry outlook. The Bank of Canada's Business Outlook Survey for winter 2018[1] suggested that firms' hiring intentions remained strong. However, firms also indicated that labour shortages had become more intense – an indicator of a very tight labour market. A positive employment outlook generally supports consumer confidence, including confidence in making large ticket purchases requiring substantial financing like a house.

While the demographic and labour market outlook is supportive of ownership housing demand, it is important to point out that we are in a period of more uncertainty globally, especially as it relates to trade. Many sectors of the GTA economy are based on the production of goods and services for export, so global trade concerns could act as a drag on consumer confidence if uncertainty persists.

2019 TREB MLS® System Sales Outlook

The market drivers discussed above, namely consumer intentions measured by the Ipsos survey, the outlook for borrowing costs, and underlying labour market conditions and demographics, support a moderate increase in the number of homes sold through TREB's MLS® System in 2019. TREB's baseline forecast for home sales in 2019 is 83,000.

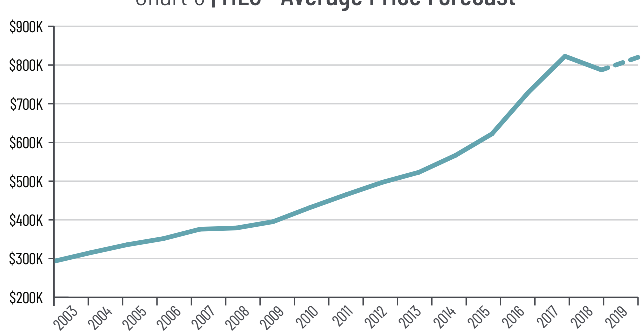
With any forecast, there is a positive and negative margin of error. On the positive side of the ledger, lower borrowing costs could prompt a larger number of people than expected to move from the sidelines and back into the marketplace. This eventuality could push sales into the 85,000 to 90,000 range.

On the negative side of the ledger, we could see home buyers remain more pessimistic, with sales remaining closer to the 2018 level. Instead of changing their home type and/or location preferences in response to the OSFI-mandated stress test, would-be home buyers could simply stay on the sidelines until they can afford the type of home they originally intended to purchase. A key source of this pessimism could come from first-time buyers. The Ipsos Home Buyers survey found that only 38 per cent of likely home buyers in 2019 will be first-time buyers – the lowest share since Ipsos began the survey on behalf of TREB.

2019 TREB MLS® System Price Outlook

Price growth is a function of demand and supply. Demand, as represented by home sales, has been discussed above. There is little to suggest that relief on the supply front will be experienced in 2019. The number of new listings entered into TREB's MLS® System in 2019 will continue to hover around 155,000 – a level in line with the norm since the recession. The fall Ipsos Home Owners survey found that fewer existing homeowners compared to last year's fall survey intend on listing their homes for sale in 2019. And, while we may see a jump in the number of condominium apartment completions, we could very likely see a partially offsetting dip in low-rise completions.

Chart 5 | **MLS® Average Price Forecast**



Source: Toronto Real Estate Board

The baseline forecast for average price growth in 2019 assumes a sales-to-new listings ratio between 53 and 54 per cent. This demand/supply relationship points to price growth in the mid single digits, with the average selling price reaching $820,000, approaching the average price level from 2017. The average selling price could move above the baseline level if we see sales climb to the high-80,000 mark and new listings could remain flat. Conversely, we could see the average price below the baseline forecast under scenarios where would-be home buyers remain pessimistic and sales flatline at 2018 levels and/or condominium apartment completions are stronger than expected and new condo listings serve to moderate the pace of condo apartment price growth.

Under the baseline average price forecast, the condominium apartment segment will continue to be the driver of price growth, with the annual rate of increase in the high single digits. Strong condo apartment price growth will be mitigated by detached home price growth in the very low single digits and quite possibly below the rate of inflation in some GTA regions.

Endnotes

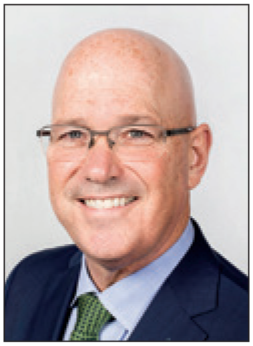
1 *https://www.bankofcanada.ca/2018/12/business-outlook-survey-winter-2018/*

POLICYMAKERS ON HOUSING SUPPLY

SUBMISSIONS FROM PROVINCIAL & MUNICIPAL ELECTED OFFICIALS

POLICYMAKERS ON HOUSING SUPPLY

SUBMISSIONS FROM PROVINCIAL & MUNICIPAL ELECTED OFFICIALS



Our government is taking steps to increase the supply of housing that is affordable. People across the province, and especially in the Greater Toronto Area, can't find a home that meets their needs and their budget.

Whether it's first-time homebuyers trying to get a toehold in the hot condo market, growing families looking for apartments or houses near schools and services, or seniors wanting to downsize in communities they love – there are simply more people looking for a place to live than there are homes.

That's why our government for the people wants to build more housing, more quickly to give people more choices and bring housing costs down.

There are too many barriers to building housing in this province, from too much red tape and too many delays and restrictions on building the supply we need. It can take years of paperwork before a shovel ever breaks ground on a new project.

We are committed to cutting red tape and reducing approval timelines to get housing built faster. That's why we held province wide public consultations and asked people to share their thoughts. We're taking the best ideas to inform our Housing Supply Action Plan, coming later this year.

Building more housing will help supply catch up with demand, and that includes more "missing middle" housing. Building more townhouses, duplexes and mid-rise apartments will give the people of Ontario more types of housing to choose from. It will help bring housing costs down and leave more hard-earned money in people's pockets, right where it belongs.

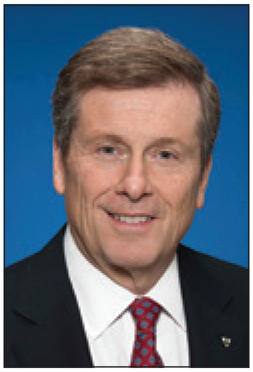
Hon. Steve Clark

Minister of Municipal Affairs & Housing, Province of Ontario

Ontario

POLICYMAKERS ON HOUSING SUPPLY

SUBMISSIONS FROM PROVINCIAL & MUNICIPAL ELECTED OFFICIALS



When I was out campaigning in the recent election, the difficulty people are having finding an affordable place to live in this city came up day after day – living testimony from Toronto residents about a major challenge we knew was in front of us.

The cost of housing is one of the greatest challenges to the success that is Toronto today. That's why I'm determined to do more, and to act quickly, so that people of all income levels and ages can afford to live here.

In 2018, for the second year in a row, the City hit and exceeded its target of approving 1,000 affordable housing units. I have set a goal of approving 40,000 units over the next 12 years to increase the supply of affordable housing in our city. To that end, we are kick-starting development on 11 City-owned sites right away. These sites are almost all close to TTC stations and could host affordable housing within mixed-income, mixed-use and transit-oriented communities. This push for more affordable housing in Toronto will help all residents, including those who need "missing middle" housing.

The City can and will do more to increase the amount of "missing middle" housing available to home buyers in Toronto. But we also have to make sure that these changes are comprehensive and as a result of consultation with the surrounding community. The process with Laneway Housing is a good example of how the City can approve new housing types through consultation and proper process.

The City is working with all relevant stakeholders to address the "missing middle" and I look forward to seeing the outcome of that through the new Housing and Planning Committee. I've also worked hard to bring the provincial and federal governments on board with significant funding dollars for Toronto. The Trudeau government, at my urging, has pledged billions for transit project in Toronto and they're also back in the housing game and will be providing significant funding for affordable housing.

People have made it clear they want to see their governments work together and I think housing is an area where we all can agree and where we can all cooperate to bring on these changes now. We've made real progress but we have a lot more to do. I'm focused on finishing the job for the benefit of all residents.

His Worship John Tory

Mayor, City of Toronto

TORONTO

POLICYMAKERS ON HOUSING SUPPLY

SUBMISSIONS FROM PROVINCIAL & MUNICIPAL ELECTED OFFICIALS

Since becoming Mayor, I've made it a top priority to find innovative solutions to address affordability and housing stock for the missing middle, while preparing our City for future growth.

Mississauga was the first municipality to create a comprehensive strategy to bring more affordable housing stock, including low- to medium-density multi-unit housing, on the market for middle-income residents and their families. The goal of our plan is to make 35% of all new development affordable.

We've already made significant progress on our "Making Room for the Middle" plan since we began implementing it last year. Existing rental housing will be protected from demolition and conversion, and secondary units are now permitted.

I will continue to make progress on our affordable housing strategy, to build more affordable ownership and rental units for the middle-class, including:

- Instituting an inclusionary zoning policy to incentivize the building of new, affordable units of all sizes;
- Advocating to the federal and provincial government for more tools (e.g. tax credits) to encourage the building of affordable, middle-income housing.

There are several low-medium density development projects within close proximity to transit and services that will be underway in Mississauga in the next five years including Lakeview, West Village, Habitat for Humanity Bristow-Law Build Project and realizing the potential of the Ninth Line lands.

I look forward to continuing to work collaboratively with our City's planning department, the community and industry to find innovative housing solutions that are affordable, accommodate growth and most importantly, work for our residents.

Bonnie Crombie

Mayor, City of Mississauga

MISSISSAUGA

POLICYMAKERS ON HOUSING SUPPLY

SUBMISSIONS FROM PROVINCIAL & MUNICIPAL ELECTED OFFICIALS

York Region consists of 9 local municipalities, providing a variety of programs and services to 1.2 million residents, 51,000 businesses and 620,000 employees. By 2041, York Region is forecasted to grow to 1.79 million people and 900,000 jobs.

Housing is a priority for York Regional Council which is planning to build complete communities that include a healthy mix of housing options to meet the needs of residents of all ages, stages and abilities, connecting residents to our economy, transportation systems, health and social services and the environment.

Despite being a very affluent community, York Region faces some unique challenges around housing options and affordability, including low rental supply and vacancy rates and increasing costs of home ownership. Between 2007 and 2017, the average purchase price for a home in York Region increased by 154%.

In 2016, the York Region/Local Municipal Housing Working Group was formed to address mid-range affordable housing needs across the Region. The group was instrumental in gaining a better understanding of local housing markets and the challenges faced by residents with mid-range incomes. In 2018, York Regional Council endorsed the Draft Rental Housing Incentives Guideline and Community Improvement Plan to stimulate high-rise and mid-rise rental development in regional and local centres and corridors by encouraging construction of purpose built rental and increasing the viability of rental projects through 3 regional incentives: 1) 36-month development charge deferral; 2) 48-month application fee deferral and 3) 5-year tax increment equivalent grant.

York Region's Official Plan supports a range and mix of housing options, including second units and affordable housing. As part of our Municipal Comprehensive review, we are consulting with residents and businesses to help shape our plans and projections through 2041.

Housing remains a cornerstone of a strong and vibrant community, and Council is proud to support a diverse mix of housing options, including affordable options, that will contribute to the health and well-being of our communities.

Wayne Emmerson

Chairman and CEO, The Regional Municipality of York

York Region

POLICYMAKERS ON HOUSING SUPPLY

SUBMISSIONS FROM PROVINCIAL & MUNICIPAL ELECTED OFFICIALS

Peel Region's vision is to build a Community for Life: a place where everyone enjoys a sense of belonging and has access to the services and opportunities they need to thrive. Today, Peel includes about 1.4 million people in approximately 430,000 households, and is expected to grow to almost 2 million people by 2041. Nearly 32% of all households in Peel struggle to find affordable housing options, including 31% of middle and 70% of low income households.

To address these challenges, new housing options for low and middle income households are needed, and collaboration between the public, non-profit and private development sectors is crucial.

These strategies are identified in the 2018 Peel Housing and Homelessness Plan which includes a 10-year target of 20,000 new households: 10,000 low income units, and 10,000 middle income units. Four of the strategies relate directly to the development of affordable housing:

- Build more affordable housing
- Optimize existing stock
- Provide incentives to build affordable housing
- Increase supportive housing

These Strategies prioritize the needs of lower, middle income and special needs households, including immediate action to stimulate investment in affordable housing through an incentive-based program. Coordinating land use planning tools will require collaboration with the local municipalities and engagement with developers to ensure the tools are appropriate to Peel.

Peel is also planning for the future with a new integrated approach to growth management. Initiatives in the Peel 2041: Regional Official Plan Review will support an increased supply of medium density, family size units, by proactively planning for public transit stations, aligning infrastructure and financial strategies with land use plans, and exploring policies and tools (e.g. incentives, inclusionary zoning) to boost affordable housing.

By working with all stakeholders, the Region is supporting the development of medium density, family size units for low and middle income households as we work towards our mission of building a healthy, safe and connected "Community for Life" in Peel.

David Szwarc

Chief Administrative Officer, Region of Peel

Region of Peel
working with you

INCREASING THE SUPPLY OF "MISSING MIDDLE" HOUSING

Ryerson University
Centre for Urban Research & Land Development
Faculty of Community Services

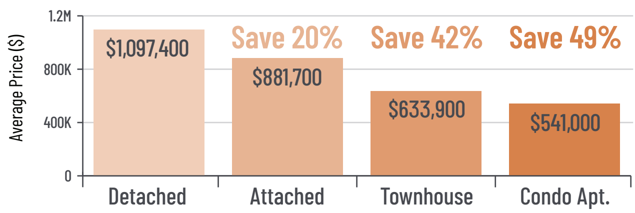
FROM THE CENTRE FOR URBAN RESEARCH AND LAND DEVELOPMENT

"MISSING MIDDLE" HOUSING

FROM THE CENTRE FOR URBAN RESEARCH AND LAND DEVELOPMENT

SECTION BY THE NUMBERS

Missing Middle can offer affordable family-friendly options.



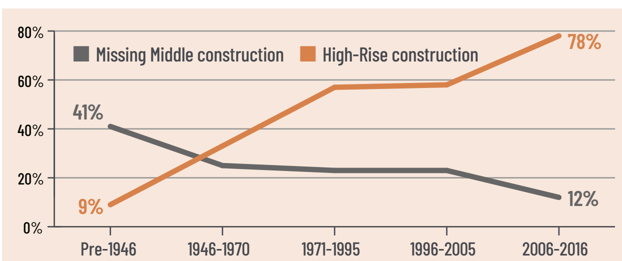
High-Rise Apartments are the predominating housing type in Toronto. Missing Middle comes last.

High-Rise Apartment: 44%

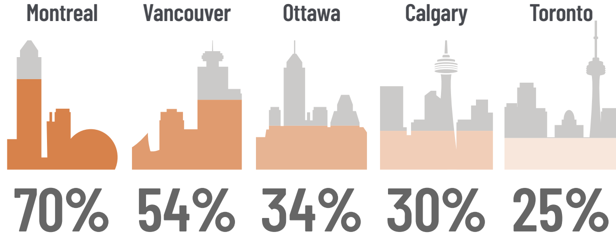
Single-Detached and Semis: 31%

Missing Middle: 25%

Toronto has a history of building missing middle housing, but something has changed since the early 2000s.



Toronto lags other major cities in building missing middle. The share of missing middle for city centres illustrates that.



The Toronto Real Estate Board ("TREB") requested that the Centre for Urban Research and Land Development ("CUR") at Ryerson University study ways for greatly expanding the supply of what is now called "missing middle" housing throughout the City of Toronto ("Toronto"). This report is the result of our research.

The report explores the role of missing middle housing in the Toronto market (both past and present), and the reasons for the limited production of new missing middle housing units relative to demand. Further, it provides recommendations for significantly increasing the supply of these types of housing units in Toronto in the future.

What is Missing Middle Housing and Why Should We Be Constructing a Lot More?

Missing middle housing includes housing unit types that fall between a single-detached or semi-detached house and a high-rise apartment building (defined as five or more storeys). These types include ownership and rental townhouses, duplexes, laneway homes and low-rise apartments (triplexes, quadraplexes, stacked townhouses and garden apartments).

A primary goal of significantly enhancing the supply of missing middle housing in Toronto is to provide more affordable, family-friendly housing given the stratospheric prices of single-detached and semi-detached houses.

"MISSING MIDDLE" HOUSING

FROM THE CENTRE FOR URBAN RESEARCH AND LAND DEVELOPMENT

Toronto's Production of Missing Middle Housing is Low and has Fallen Sharply Since the Mid-2000s

With the deteriorating affordability of single-detached and semi-detached homes in the Toronto region and especially in Toronto itself, builders shifted their offerings to high-rise apartments in the mid-2000s, with reduced construction of townhomes and low-rise apartments - housing types that are typically closer substitutes than high-rise apartments for single- and semi-detached homes.

Just 1,750 missing middle housing units on average were built in the city annually between 2006 and 2016, compared to roughly 2,800 units annually between 1971 and 2005. The peak of missing-middle construction in Toronto occurred between 1946 and 1970, when the city was building 3,875 units per year – more than double the current production.

Clearly something changed as there was a marked shift away from additional missing middle housing being built.

There is Latent Demand for New Missing Middle Housing in Toronto

Underlying demographic demand has been supportive of missing middle housing type construction in Toronto and the Greater Toronto Area (the "GTA") since the mid-2000s.

There is a much greater substitutability between missing middle housing types and single-detached/semi-detached houses than with the high-rise apartments which were built in huge numbers during this period. A survey conducted by Angus Reid for RE/MAX Hallmark Ltd. demonstrated a strong preference by prospective buyers for single-detached houses followed by semi-detached houses and then by freehold and condo townhouses. Apartments were a distant fourth.

A 2017 CUR report documented the sharp drop in the volume of single-detached houses being completed in the GTA since the early 2000s. It noted that with the sharply reduced affordability of single-detached homes, and with the Ontario government's planning interventions that favoured townhouses and other denser forms of housing, the expectation would have been for townhouse starts to have increased, rather than to have declined.

Primary Reasons Why More Mid-Density Housing is Not Being Built in the City of Toronto

The supply of sites available for all types of housing in Toronto, however, is controlled by the municipal government, and not by the open market. Toronto governs land-use policy (what gets built where) through the City of Toronto's *Official Plan* (the "Official Plan"), which outlines policy goals related to housing, infrastructure, transit, economic development and environmental stewardship. The Official Plan provides the basis for planning decisions, zoning bylaw changes and decisions on development applications. Neighbourhood-specific *Secondary Plans* ("Secondary Plans") are meant to conform to the policy objectives of the Official Plan.

"MISSING MIDDLE" HOUSING

FROM THE CENTRE FOR URBAN RESEARCH AND LAND DEVELOPMENT

In the current system, there are conflicting interests among builders, homeowners and politicians. Builders want enhanced density, as they are developing projects in a market marked by high demand and rising land costs. In contrast, homeowners have a vested interest in their neighbourhoods, and they are also concerned about the impact of development on their day-to-day living and on the value of their property. As Toronto has a ward style municipal governance system, politicians are focused on responding to local concerns, rather than responding to what is best for the municipality or the region as a whole.

As we shall see, the Official Plan stringently protects most neighbourhoods across Toronto (the so-called "yellow belt") from densification. The result is inertia on land-use changes which would open up existing lower density neighbourhoods to increased density, even where these changes would be in the public good.

There are a number of implications that arise from the planning regime in Toronto:

- The amount of land open to various types of development is artificially restricted by policy;
- Regulations slow down the process by which supply can respond to demand;
- The development process favours continued growth in high-density pockets of the City;
- Over the 30-year span of the Official Plan, more than 800,000 new people will have to be accommodated in only 25% of the City's geography; and
- The Official Plan, taken strictly, also protects many fairly low-density neighbourhoods located along subway lines in the city.

The fundamental constraint to building more missing middle housing in Toronto is resistance to change by the majority of the current residents of its neighbourhoods and by its ward councillors. To have a real impact on housing affordability and to provide a great deal more family-friendly housing, Toronto must make room for creative ideas on how to use its existing housing stock, much of which is protected under the Official Plan. The case-by-case review of missing middle housing projects and the prohibition of those projects in much of Toronto results in only small amounts of such development occurring at any given time. The most efficient approach would be to loosen restrictions on land that can be developed with missing middle typologies, while still balancing those development requirements with height restrictions and design requirements that do not unnecessarily impede production.

What are the Options for Generating a Lot More Missing Middle Housing in the City of Toronto?

A return to more affordable home price levels in Toronto is unlikely, barring a catastrophic downturn in the housing market. The best solution to the affordability crunch is to open up space for more affordable options, such as missing middle housing,

and to provide an environment where the supply of housing can more easily respond to demand. This will require a fundamental shift in the policies of Toronto’s Official Plan away from the rigid protection of existing residential neighbourhoods (the yellow belt) to the recognition and prioritization of the creation of large numbers of missing middle housing units.

To offer a scale of housing development that would make a difference in the affordability of family-friendly types of housing, densification will have to be allowed to take place in the large parts of Toronto where residential development or redevelopment is now prohibited. This can be done by (a) rezoning to allow more infill and missing middle housing in existing neighborhoods, (b) creating missing middle communities on lower priority employment (industrial) lands, and (c) incentivizing missing middle housing on Avenues with lower property values.

Spreading population growth much more broadly across Toronto could be done with a relatively small increase in overall neighbourhood density. The ten neighbourhoods with the largest share of missing middle housing have an average density of 7,207 people per square kilometre (18,666 per square mile), compared to 3,343 people per square kilometre (8,658 per square mile) in the ten neighbourhoods with the largest share of single-detached homes and to 15,000 people per square kilometre (38,848 per square mile) in neighbourhoods predominately made up of apartments. Therefore, Toronto could accommodate a significant amount of growth over a 30-year period by allowing more missing middle housing in a greater number of neighbourhoods. Toronto could create room for over 200,000 units by opening up predominately single-detached neighbourhoods to missing middle construction.

Many neighborhoods undoubtedly will be resistant to increased population density. It should be noted though, that some neighbourhoods with the highest proportion of missing middle housing (where this housing accounts for more than 50% of the area’s housing stock) are well sought after neighborhoods with high house prices, including Trinity Bellwoods, Roncesvalles, the Beaches, Riverdale (which includes Leslieville) and the Junction. Much of the missing middle housing was built decades ago.

Toronto’s Official Plan protects most of Toronto’s geographic space from development, including low-density residential neighbourhoods in population decline. The same is true for employment districts that are outdated and underutilized.

Policies for the City of Toronto to seriously consider in order to encourage a marked increase in the supply of more affordable missing middle homes for both purchase and rental include:

- **Incentivizing second suites in existing single-detached and semi-detached houses as the quickest and most cost-effective way to create a large increase in the supply of missing middle housing.**

"MISSING MIDDLE" HOUSING

FROM THE CENTRE FOR URBAN RESEARCH AND LAND DEVELOPMENT

Toronto lags behind other large Canadian cities in building second suites. Toronto has the lowest share (14%) of duplexes in relation to the number of single-detached homes in comparison to other large Canadian cities such as Vancouver (55%) and Montreal (46%). Toronto could add 300,000 to 400,000 secondary/additional suites to its current single- and semi-detached house stock to reach Vancouver and Montreal 2016 levels.

- **Ultimately broadening the type of housing permitted in all residential neighbourhoods to include townhouses, stacked townhomes, duplexes, triplexes, fourplexes and other low-rise apartment style homes.**

  This could be implemented in stages as is being done in Minneapolis where the intention is to permit duplexes and triplexes to be built in existing lower density neighbourhoods. The introduction of Density Transition Zones on the edges of neighbourhoods should be considered as well.

- **Examining older, less viable employment areas for lands that are suitable for the creation of missing middle communities and the creation of new communities.**

  With more than 8,000 hectares (20,000 acres) of employment (industrial) areas and an economy increasingly propelled by jobs in office buildings, it is reasonable to expect there are lower priority industrial lands that could be candidates for conversion to accommodate missing middle housing.

  There are precedents for the conversion of older employment (industrial) areas, in whole or in part, to missing middle housing where employment has declined and businesses have relocated to the 905 regions or ceased operations. These include the former stockyards lands at Keele Street and St. Clair Avenue West and what are now known as Warden Woods lands at Warden Avenue and St. Clair Avenue East.

- **Facilitating the production of missing middle housing units by pre-zoning corridors along the portions of the Avenues where (and while) these housing forms are economically feasible.**

  There are ways to strengthen the financial feasibility of the development of sites on Avenues which are some distance away from the Downtown, such as along Kingston Road east of McCowan Road in the former Scarborough, for missing middle housing. A key contribution municipal planners could make in regards to these Avenues pertains to pre-zoning lengthy strips of land on both sides of the road for the development of missing middle housing and to create Density Transition Zones with the adjacent neighbourhoods.

We recommend that Toronto City Council establish and monitor targets for the production of missing middle types of housing in Toronto. These targets will demonstrate that Toronto is truly committed to providing a great deal of more affordable, family-friendly forms of housing as represented by missing middle housing types.

To read the full report from Ryerson University's Centre for Urban Policy and Land Development, click here.

THE WAY TO GO

RESEARCH FROM THE PEMBINA INSTITUTE

THE WAY TO GO

RESEARCH FROM THE PEMBINA INSTITUTE

SECTION BY THE NUMBERS

What is Transit-Supportive Development (TSD)?
The compact urban growth and development of a community that has a balanced mix of housing, jobs, shopping and services within a 10-minute walking distance around transit.

If these groups of GTA residents were to move to a TSD community and make some changes...

Young Professional	Family	Retiree
$75K Income[1]	$120K Income[2]	$25K Income[3]
Reduce 1 car to 0 cars	Reduce 2 cars to 1 car	Reduce 1 car to 0 cars
Reduce 2-bedroom to 1-bedroom condo	Reduce from detached home to 2-bedroom condo	Reduce from detached to 1-bedroom condo

...then they could save:

Young Professional	Family	Retiree
$	$$	$$$
10-11%	40-45%	50-56%

What are some potential TSD communities?
With walkable and accessible rapid transit, community amenities, and mixed use zoning, GO Stations present ideal areas to unlock development for new housing, such as:

Pickering GO Station	Long Branch GO Station
+1,267 New homes[4]	+249 New homes[4]
+3,168 Residents	+623 Residents
43 Minutes to Union	29 Minutes to Union

[1]Assumes pre-tax household annual incomes. [2]This is a two income household. [3]This is a mortgage free household. [4]Potential new residents and homes based on this study, not actual figures.

Building Liveable Cities with Transit-Supportive Development

The population in the GTHA is expected to attract approximately 110,000 new residents every year, and grow to more than 10 million people by 2041.[1] While 20% of this projected population growth is expected to be in the City of Toronto, it is the surrounding regions that will bear most of this growth. Durham Region is expected to have the greatest population growth by 2041 at 79%, followed by Halton Region (77%), York Region (56%), Hamilton (41%) and Peel Region (38%).[2]

This mounting pressure presents economic growth opportunities but also challenges municipalities to keep up with demands to keep people moving across the region and offer affordable housing options.

The cost of housing in the GTHA has risen over the past decade. Metrolinx notes, "As many families and larger households feel priced out of the housing market in core areas, some are choosing to locate further away where housing is more affordable. This poses a growing transportation challenge because lower-density suburban areas typically have poorer access to transit."[3]

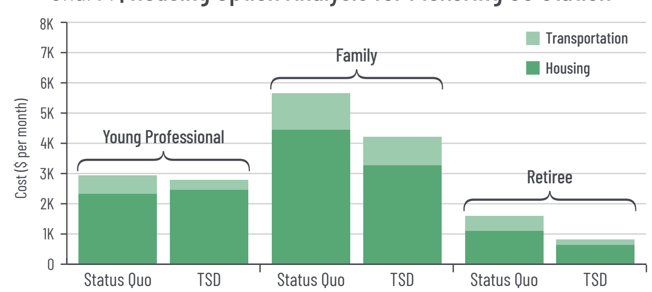
Cities must create compact communities that include appropriate densities and a balanced mix of housing, jobs, shopping and services – all within walking distance to major transit stations such as GO stations. This planning approach is referred to as "transit-supportive development" (TSD).

There is a significant opportunity to leverage the existing and future planned investments in the GO regional transit network to increase housing and employment.

That is why it is important for municipalities to work with Metrolinx and the provincial government to meet the 2017 Growth Plan for the Greater Golden Horseshoe (GGH) policies for minimum density targets of 150 residents and jobs combined per hectare within a 10-minute walk (800 metres) around GO transit stations.

The potential for transit-supportive development is not uniform across the region's GO rail network, and planners and policymakers will need to identify stations with the greatest potential or need for redevelopment.

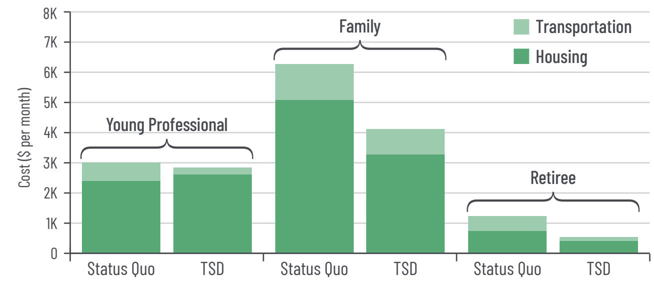
Chart 1 **| Housing Option Analysis for Pickering GO Station**



Source: Pembina Institute

Based on an analysis of market conditions, area conditions, and transit service and functionality in Durham Region and the City of Toronto, two stations that illustrate significant opportunities for greater residential and commercial development in the near term are Pickering GO Station and Long Branch GO Station.

Chart 2 **| Housing Option Analysis for Long Branch GO Station**



Source: Pembina Institute

Communities around the Pickering and Long Branch GO Stations are two candidates for transit-supportive development because they share a mix of stable to strong property values, walkable districts, supporting infrastructure and amenities, and employment districts.

Transit-Supportive Development Can Lower Housing and Transportation Costs

Improvements to GO Regional Express Rail could make housing up to 18% more affordable in some areas of the region, such as Barrie, Guelph, Hamilton and King. Capturing this benefit, however, depends on municipalities being able to incentivize commuters to take the GO Train to/from work, instead of taking a single-occupant car[4].

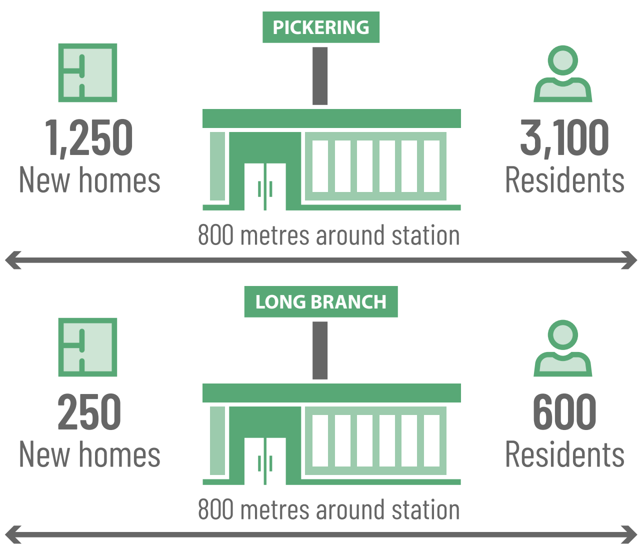
When areas within a 10-minute walk around GO Stations fully realize their development potential – as envisioned in the Growth Plan – Ontarians could shift their modes and potentially lower their overall housing and transportation costs.

To demonstrate the benefits of transit-supportive development to households, we examined the

differences in household housing and transportation costs under various conditions. The cumulative housing and transportation costs consists of costs of housing (e.g., mortgage costs, property taxes, and energy and water costs across home types and municipalities) and transportation (e.g., car ownership costs, transit costs), as a percentage of household pre-tax income.

Household housing and transportation costs were assessed for three different homeowner profiles: young professionals (first-time home buyers), families, and retirees (mortgage-free). The household housing and transportation cost burden for each homeowner was assessed for two housing options: "Status Quo" option representing areas further from GO Stations with limited TSD, and "TSD" option representing walkable, transit-supportive communities around GO Stations.

Figure 1 | **Redeveloping GO Parking Lots for Housing**



Source: Pembina Institute

Figure 2 | **GTA residents value transit-friendly neighbourhoods**

When picking a home, **56%** of GTA residents value a neighbourhood that has access to convenient and frequent rapid transit (e.g., GO Train, LRT, subway).

Source: Ipsos

Analysis results show that there are potential reductions in household housing and transportation costs when individuals/families live within walking distance of transit, and as a result, take transit more often.

Young professionals (first-time home buyers) could potentially lower their housing and transportation cost burden by 10-11% by taking transit and reducing vehicle ownership, despite higher condo apartment ownership cost near transit.

Families (homeowners) could potentially lower their housing and transportation cost burden by 40-45% by reducing vehicle ownership to one car, replacing that car with transit use, and choosing a different housing type (from single-detached dwelling to a two-bedroom condo apartment).

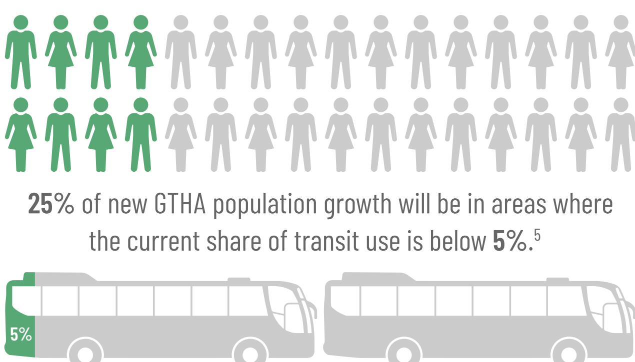
Retirees (mortgage-free) could potentially lower their housing and transportation cost by 50-56% by reducing vehicle ownership and taking transit, and choosing a different housing type (from a single-detached home to a one-bedroom condo apartment). In this analysis, the higher reduction in housing and transportation cost burden compared to other

homeowner profiles can be explained by the lower income of retirees compared to working individuals and families. Thus, a reduction in housing and transportation costs by a few hundred dollars can significantly alter their cumulative cost burden as a percentage of income.

Transit-Supportive Development Can Increase the Housing Supply

If transit-supportive development is done right around existing and future planned GO Stations, these areas can sufficiently accommodate future growth and unlock development potential for new housing. Redevelopment efforts should maximize public benefit by including high requirements for housing that is affordable, public realm improvements and connections to the station by bus, bike and foot.

Figure 3 | **GTHA Population Growth vs. Transit Use**



Source: Metrolinx

Vacant and/or underutilized parcels of land around GO Stations can be brought into productive reuse for redevelopment.

Analyses of intensification potential around GO Stations across the region can reveal the scale of new housing and jobs that could be potentially accommodated. To provide illustrative examples of the redevelopment and infill potential, Pickering and Long Branch GO Stations were examined.

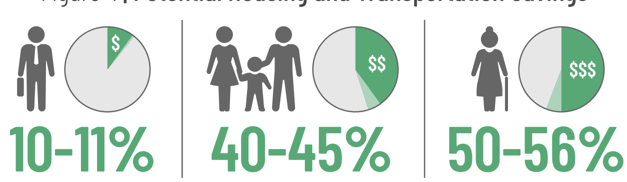
Based on a high-level analysis, redeveloping publicly-owned land (e.g., GO parking facilities) within an 800m radius of Pickering and Long Branch GO Stations would allow such areas to absorb a portion of their projected regional growth and provide new housing that is close to commuter rail service.

Redeveloping other privately-owned lands within 800m around the two GO Stations could offer greater employment as well as additional housing supply and accommodate additional residents in the long term.

Recommendations to Prioritize Transit-Supportive Development

Many GO Stations across the GTHA have investment and redevelopment potential.

Figure 4 | **Potential Housing and Transportation Savings**



Families and **retirees** in particular could see a substantial reduction in housing and transportation costs by living in more compact and transit-supportive areas.

Source: Pembina Institute

A prioritization framework is needed to align transit and real estate investment decisions around GO Stations to advance transit-supportive development

in the near and long term.

Government actors need to plan and partner with stakeholders to promote mixed uses and appropriate densities around GO Stations.

Policy Actions are Needed in Four Strategic Areas to Advance Transit-Supportive Development

1. Land access and acquisition (e.g., recruit interested developers for redevelopment activity, partnerships with private developers to introduce public and institutional anchors to generate economic activity)
2. Policy incentives and regulations (e.g., update municipal zoning by-laws and policies to attract greater real estate development and require inclusion of sufficient affordable housing, public realm improvements and transportation connections)
3. Financial tools and programs (e.g., fund predevelopment/provide dedicated funding to underwrite the most difficult-to-fund phase of development such as land assembly and environmental remediation)
4. Planning and coordination (e.g., streamline development review and approval process)

Public policy interventions are needed to ensure equitable transit-supportive development, which means ensuring there are housing options to meet the needs of low- and moderate-income households. Providing mixed-income housing around GO Stations can give families with low and moderate household incomes an equal opportunity to live near work or commute by transit, thereby saving money on both housing and transportation.

To read the full “Way to GO” report from the Pembina Institute click here.

Endnotes

[1] *Metrolinx, 2041 Regional Transportation Plan for the Greater Toronto and Hamilton Area (2018), 4. http://www.metrolinx.com/en/regionalplanning/rtp/Metrolinx%20-%202041%20Regional%20Transportation%20Plan%20%E2%80%93%20Final.pdf*

[2] *Ibid, 33.*

[3] *Ibid, 36.*

[4] *Toronto Real Estate Board, “Regional Express Rail’s Impact on Housing Affordability in the Greater Golden Horseshoe: Executive Summary 2016,” Market Year in Review & Outlook Report 2017: Connecting to Affordability (2017), 52.*

[5] *Metrolinx, 2041 Regional Transportation Plan for the Greater Toronto and Hamilton Area (2018), 4. http://www.metrolinx.com/en/regionalplanning/rtp/Metrolinx%20-%202041%20Regional%20Transportation%20Plan%20%E2%80%93%20Final.pdf*

RENTAL MARKET REVIEW & OUTLOOK

WITH RESEARCH FROM THE GREATER TORONTO APARTMENT ASSOCIATION

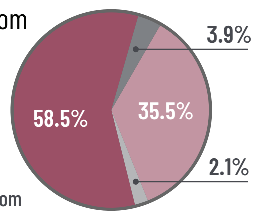
RENTAL MARKET REVIEW & OUTLOOK

WITH RESEARCH FROM THE GREATER TORONTO APARTMENT ASSOCIATION

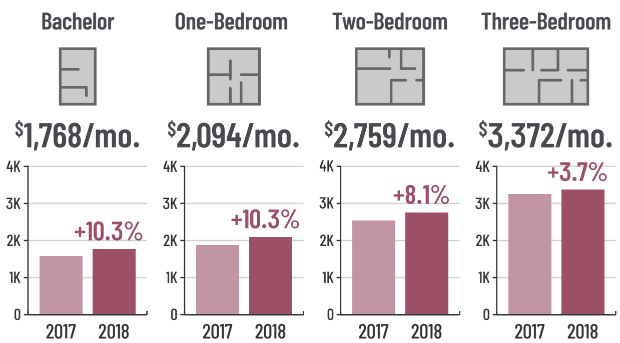
SECTION BY THE NUMBERS

In 2018, average rents were up across all rental unit types.[1]

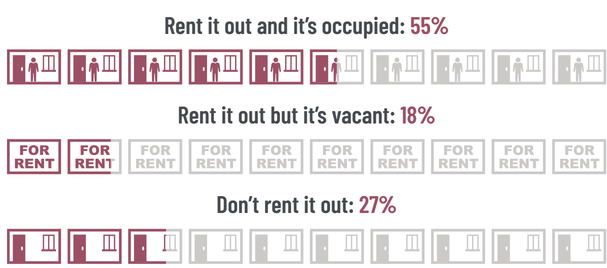
One-bedroom and two-bedroom units represent the large majority of available rental stock in the GTA.



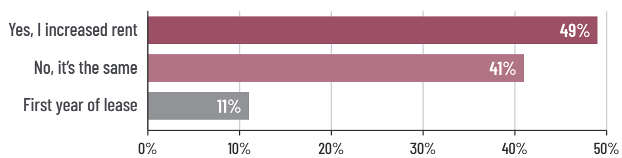
The cost of renting is going up across the GTA. Average rent growth in 2018 was well-above inflation for most unit types.[1]



A recent Ipsos survey asked homeowners if they owned an investment property. Of the 33% that did, these were the uses.[2]



Landlords were split when asked in a recent Ipsos survey whether they increased tenants' rent over the past year.[2]



[1]Source: Toronto Real Estate Board. [2]Source: Ipsos

The condominium apartment rental market in the GTA has experienced extremely low vacancies, extremely strong competition between renters and extremely strong average rent growth over the past few years, most notably 2017 and 2018. This has largely been the result of a growing mismatch between demand and supply of rental units.

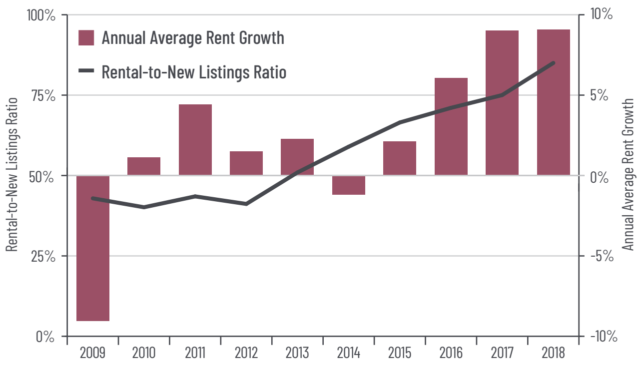
Growing Mismatch Between Demand and Supply

The demand side of the rental market has been easy to understand. The GTA, and the Greater Golden Horseshoe (GGH) more broadly, have benefitted from a strong regional economy over the past decade, with job creation across a diversity of sectors. This has prompted steady population growth driven by immigration. As people have moved to the region and young people with quality jobs have left their parents' homes looking for a place of their own, they have obviously needed a place to live. Many of these people have chosen to rent, arguably more so over the past two years as home ownership affordability has become a growing issue due to government policy changes, growth in borrowing costs and general home price growth.

While the demand for rental housing makes sense, the lack of rental housing supply does not. Taking condominium apartment rentals reported through TREB's MLS® System in 2018 as an example, the average annual rate of rent growth for one-bedroom and two-bedroom condominium apartments was in the double digits or high single digits throughout the year. Average rent growth was similarly strong in

2017 and certainly above the rate of inflation over the past few years. In theory, this level of rent growth should have prompted an increase in the supply of rental units relative to the number of people looking to rent, as investors sought to take advantage of returns associated with strong rent growth. Unfortunately, theory has not played out in practice.

Chart 1 | **Rental-to-New Listing Ratio vs. Avg. Rent Growth***



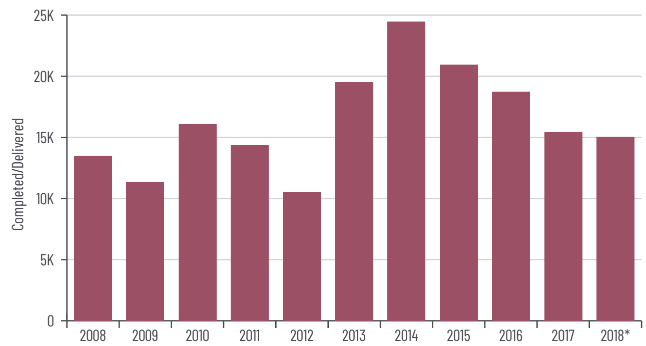
Source: Toronto Real Estate Board. *Combined statistics for one-bedroom and two-bedroom condominium apartments.

The rental-to-new listings ratio (RNLR) for one-bedroom and two-bedroom condominium apartment rentals combined, which provides a simple measure of demand versus supply, has trended steadily upward over the better part of the last decade. Between 2009 and 2012, the RNLR remained in the low 40 per cent range. This meant balanced market conditions coming out of the recession with average rent growth in the low-to-mid single digits. Between 2013 through 2018, the ratio trended steadily upward as annual growth in demand started to outstrip annual growth in supply. The RNLR in 2018 was 85 per cent. As the condo apartment rental market tightened, average annual rates of rent growth increased and competition between renters intensified.

Over the last two years, average combined one-bedroom and two-bedroom condominium apartment rents have risen by four to five times the rate of inflation.

When we consider condominium apartment construction data from Altus Data Solutions along with condominium rental market data provided by the Canada Mortgage and Housing Corporation (CMHC), it is easy to see why condo rental listings have declined.

Chart 2 | **GTA New Condo Apartment Completions/Deliveries**



Source: Altus Group. *January to November

Despite some year-to-year volatility, condominium apartment occupancies have followed somewhat of a flat trend – averaging about 16,500 per year. However, the number of these newly completed units that were owned by investors and were added to the stock of condominium apartment rental units declined notably over the past two years – from an average of 13,000 new condo apartment rentals added each year between 2013 and 2016 to an average of 6,400 units per year in 2017 and 2018. Not surprisingly, it was in 2017 and 2018 when market conditions tightened dramatically and year-over-year growth in

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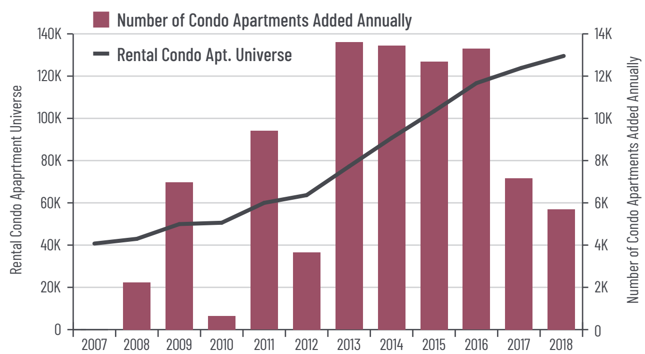
average rents accelerated markedly.

The reasons for condo rental supply not keeping up with demand are likely rooted, at least in part, in return on investment and government policy changes.

Return on Investment

Chart 3 | **Rental Condominium Apartments in Toronto CMA**



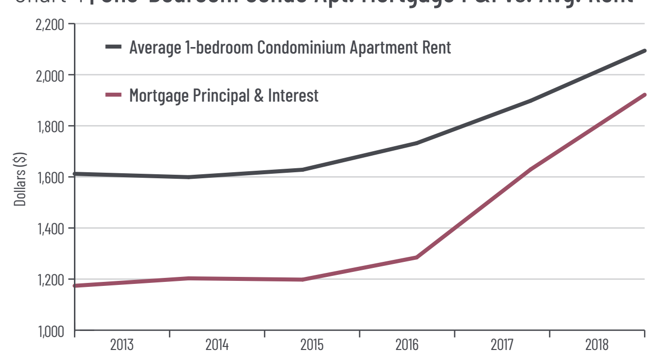
Source: Canada Mortgage and Housing Corporation Secondary Rental Market Survey.

When thinking about return on investment (ROI) purely from a rental income perspective, there are a number of expenses that must be covered before a positive ROI, if any, can be realized. These expenses include mortgage principal and interest (P&I), maintenance fees and property taxes. Even just taking into account mortgage P&I alone, the spread between the average rent for a one-bedroom condominium apartment in the GTA and the associated mortgage P&I has narrowed substantially over the past two years.

Between 2013 and 2016, the spread ranged between approximately $400 and $450 on a monthly basis. In 2018, the spread was only $172 per month, from which maintenance fees and property taxes would have to be paid before realizing a return. The spread between average mortgage P&I and average rent compressed because rent growth, while very strong recently, was actually surpassed by the year-over-year increase in mortgage P&I, as interest rates and purchase prices increased.

While it is certainly true that condominium apartment investors continued to benefit from substantial increases in the market value of their units, covering monthly and annual costs from rent alone has become more difficult in recent years. This may have given existing and potential investors pause when assessing their existing or potential investments, which obviously has implications for rental supply. Ipsos survey results discussed below support this argument.

Chart 4 | **One-Bedroom Condo Apt. Mortgage P&I vs. Avg. Rent***



Source: Toronto Real Estate Board. *Assumes a 20 per cent down payment on the average priced one-bedroom condominium apartment and the average 5+ year mortgage rate for new mortgage funds committed.

Changes in Government Policy

When the Ontario government announced its Fair Housing Plan at the beginning of 2017, it expanded rent control to include all rental units built after 1991. Obviously, these expanded rent controls included the

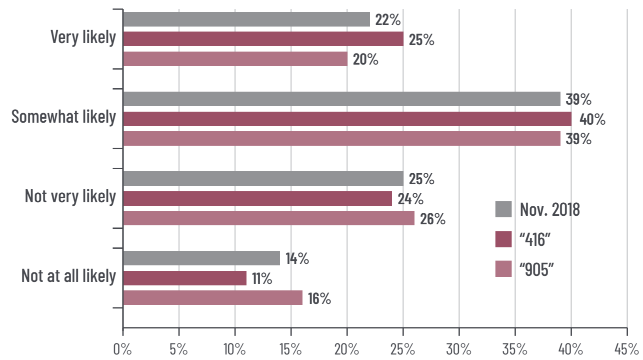
great majority of condominium apartment units currently owned by investors and rented out to tenants in the GTA.

Numerous studies, both old and new, have argued that rent controls will lead to rent increases over the longer term. This argument makes sense vis-à-vis the root cause of strong rent growth in the GTA today: a lack of supply. If current or potential investors are faced with a cap on their ability to raise rents but do not benefit from any cap on expenses, they are less likely to risk capital in the rental market and instead will look to other asset classes from which to make a return.

Existing government policies like rent control and potential government policies like vacancy taxes will not only hamper additional investor interest in the rental market, it could also prompt some existing condominium apartment investors to sell their units, thereby eroding the existing stock.

The results of the November 2018 Ipsos survey of homeowners suggest that many investment property owners are seriously considering whether or not they will continue to hold on to their investment beyond the next year. The majority of investment property owners in the GTA currently have their properties tenanted or their properties are available for rent. In other words, they are actively providing rental stock in an extremely tight GTA rental market. However, the survey results also suggest that almost two-thirds of investment property owners in the region are likely to list their investment property for sale over the next year, including 22 per cent of these investors who are very likely to list their property for sale.

Chart 5 | **Likelihood of Listing Investment Property For Sale**



Source: Ipsos

The evidence presented above suggests that compressed rates of returns coupled with the potentially crippling effect of rent controls and the further potential for additional punitive policy measures pointed at rental property owners (e.g., vacancy taxes) could lead many investment property owners to exit the market place and could also preclude new entrants from taking their place. The end result could be lower vacancy rates, tighter rental market conditions and accelerating rates of rent growth.

While the preceding discussion concentrated on owners of individual investor-held units, like condominium apartments, many of the same factors discussed have also influenced the lack of new purpose-built rental stock from coming online over the past decade. The following piece provided by the Greater Toronto Apartment Association (GTAA) highlights issues facing the purpose-built rental market.

TORONTO RENTAL SUPPLY

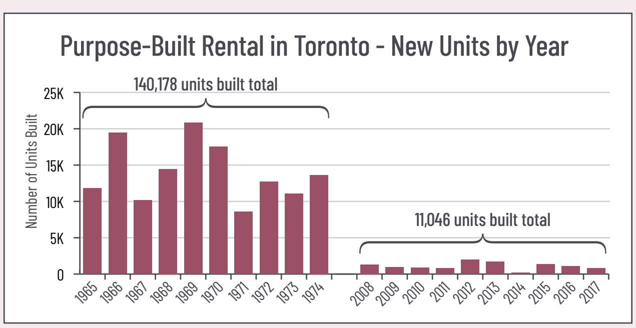
by Daryl Chong, President & CEO, Greater Toronto Apartment Association

Housing is essential for the growth and economic prosperity of a city. High density is required to justify the construction of public transit, highways, commercial nodes, schools and hospitals. Which comes first, the people or the infrastructure?

The ten-year period between 1965 and 1974 saw the opening of more than 140,000 rental apartment units in the City of Toronto. An average of 60 new buildings and 14,000 new units each year, for a decade. At that time in the mid-1960s, Toronto's population was less than 2 million. The rental developers back then were pioneers and created communities often in the middle of nowhere. Growth in those areas was a direct result of the need and opportunity to serve the new residents living in freshly minted apartment buildings and complexes.

Then in 1975, rent control was imposed. That and a few other things caused rental developers to completely retreat. New rental supply ground to a halt.

During the most recent 10-year period, a total of only 11,000 purpose-built rental units were built. That's just slightly more than 1,000 units per year – the equivalent to a single month's production during our boom years. This is insufficient production for a city that is quickly approaching 3 million residents.



Toronto continues to thrive, and the population grows considerably each year. So where is everyone living?

Much of the new housing has been provided by thousands of small investors who have purchased one condominium unit and placed them into the rental marketplace. It is commonly believed that 50% of new condominium units are purchased to be rented. Much credit is owed to these entrepreneurs who are providing homes and allowing our city to grow and prosper.

Interest was increasing among purpose-built rental developers, and new rental apartment projects were being proposed in recent years. Then suddenly in April 2017, the former provincial government expanded rent control to include new rental as well as rented condominium units. This was a negative game-changer, just as momentum was emerging for new rental production. Some projects were quickly cancelled. Which was entirely predictable based on past experience.

All governments, academics and consumers bemoan the lack of new supply. Anything that moves the needle towards creating more should be welcome news.

In November 2018, the new(ish) provincial PC government announced an exemption from rent control for new rental units. A positive game-changer, at a crucial time.

This has renewed interest for large scale purpose-built rental developers, small individual unit investors, and all sizes in-between.

This is welcome news for everyone. For anyone looking for a rental unit, more supply means more choice and more mobility.

Rental apartment development pioneers built this city fifty years ago. For the past twenty years, individual small investors have been keeping Toronto growing. We had a short stall in 2017, but with the recent announcement we look to pick up steam and get many new rental developments up and occupied by the residents of our ever-growing city.

NEW HOME & RESIDENTIAL LAND SECTORS

RESEARCH FROM ALTUS GROUP

NEW HOME SECTOR

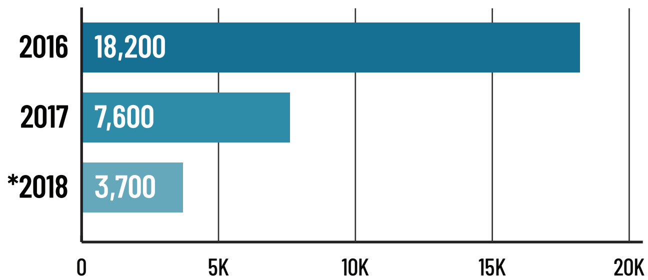
RESEARCH FROM ALTUS GROUP

SECTION BY THE NUMBERS

-42%

Drop in **total new home sales** in the past year.

Source: Altus Group



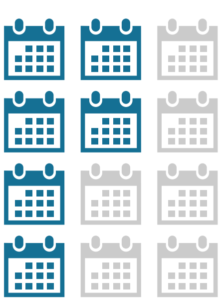
The annual number of new single-family home sales between 2016 and 2018 declined by **~14,000 units**.

*January-November 2018 | Source: Altus Group

~60%

The avg. asking price for a **new condo apartment** is ~60% higher than late 2016.

Source: Altus Group



6 months

Number of months of **available condo apartment inventory** in late 2018, based on the pace of sales in the previous 12 months.

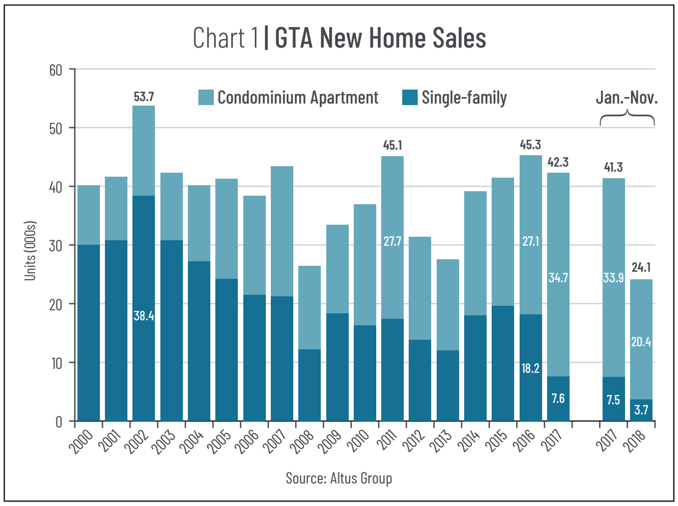
Source: Altus Group

Section Summary

- 2018 was an adjustment year for total new home sales in the GTA, following strong sales in 2016 and 2017.
- After a record year in 2017, new condominium apartment sales settled back in 2018 to levels more in line with 2014 and 2015.
- New condominium apartments lost some of their price advantage during 2018, as asking prices for new condo apartments continued to increase while average asking prices for new single-family prices dipped further.
- Both buyers and builders started to return to the new home market in larger numbers in the latter part of 2018, which sets the stage for some improvement in sales in 2019 – if economic conditions do not deteriorate.

What goes up must come down. After posting another strong year in 2017, the Greater Toronto Area (GTA) saw total new home sales plummet in 2018. More stringent mortgage stress testing, as well as some demand brought forward into 2017, were key factors behind the drop. Total new home sales (single-family and condominium apartment combined) through November were 42% below 2017's pace, with 2018 expected to finish with sales in the 25,000-26,000 unit range – similar to the muted performances recorded in 2008 and 2013.

Single-family New Home Sales Continue Their Disappearing Act

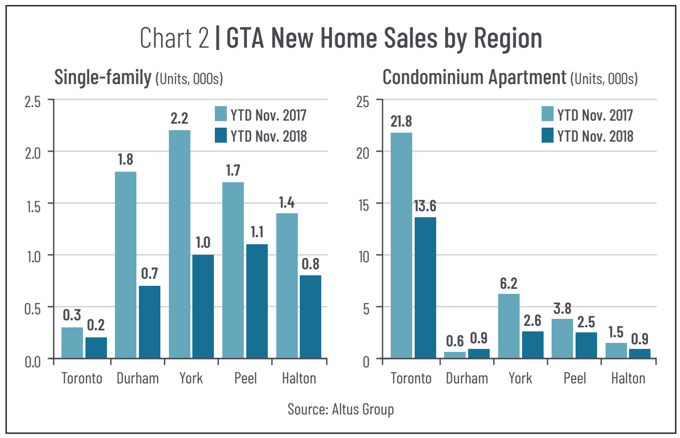


- Sales of newly-built single-family homes (which includes detached, link, semi-detached and traditional townhouse units) plunged again in 2018, by about 50%. 2018 will have the dubious honour of being the lowest year recorded for new single-family sales since comprehensive market tracking began in 1981. The decline in 2018 occurred despite the fact that there were increases in the inventory of product available to purchase, but what was still lacking was homes at price points affordable to a broader range of buyers.

- After elevated sales in 2016 and a record year in 2017, sales of new condominium apartment units (which includes apartments in low-, medium- and high-rise buildings, lofts, and stacked townhouses) in 2018 returned to levels more in line with 2014 and 2015.

New Home Sales Down Throughout the GTA

- The additional falloff in new single-family sales in 2018 was felt throughout the GTA, with each of the five regions posting declines in the range of one-third or more. Peel Region took over top spot from York Region.



- The City of Toronto accounted for about 60% of the drop in new condominium apartment sales in the GTA in 2018, although in percentage terms, the decline was largest in York Region.

Increased Inventory Leads to Slower Price Increases for New Condominium Apartments

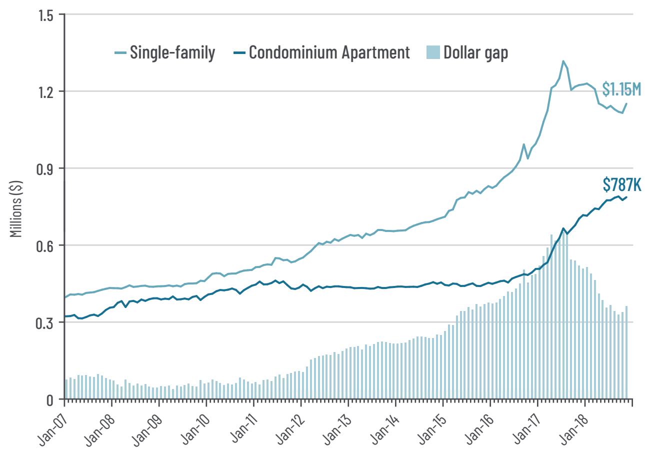
- While prices of new condominium apartments continued to increase during 2018, the gains were more moderate than in 2017, and slowed as the year progressed. The slower price increases can be attributed to increased inventory of available product, although it remained low in historical terms (at just over 6 months in late 2018, compared to the long-term average of about 11-12 months).

NEW HOME SECTOR

RESEARCH FROM ALTUS GROUP

In late 2018, the average asking price of a new condominium apartment was about $787,000, up about 60% from 2 years earlier.

Chart 3 | **GTA New Home Benchmark Prices***



Source: Altus Group | *Average asking price of available new home inventory at end of period with outliers removed*

- 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.
- The inventory of new single-family homes has been on the rise since March 2017; however, product at price points affordable to a broader range of buyers is still relatively scarce. Asking prices for new single-family homes averaged about $1.15 million in late 2018, down about 13% from the peak in July 2017, but still two-thirds higher than just 4 years earlier.

Looking Ahead

- Single-family new home sales are expected to continue to be constrained in 2019 by the amount of product at affordable price points that makes it to the market, although there is potential for some modest improvement. Builders appear confident in the prospects for the new condominium apartment sector, with increased launches in recent months. Investors are expected to continue to play an important role in new condominium apartment sales.
- While the stage is set for some improvement in new home sales in 2019, there is growing uncertainty as to the prospects for the global economy. Should weaker economic conditions play out in the GTA, it could curtail any potential upturn for the new home sector.

RESIDENTIAL LAND SECTOR

RESEARCH FROM ALTUS GROUP

SECTION BY THE NUMBERS

379

Total **number of residential land deals** occurring in the first three quarters of 2018.

Source: Altus Group

$4.4 Billion

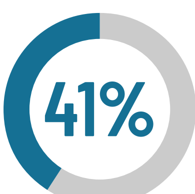
Total **dollar volume of residential land sales** occurring in the first three quarters of 2018.

Source: Altus Group

23% is the decline in dollar volume of **residential land sales** in the GTA in the first three quarters of 2018 compared to a year earlier.

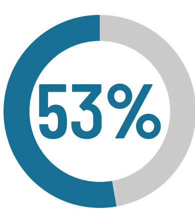
$$$$$$$$$$$$

Source: Altus Group



41% of all residential land deals in the first three quarters of 2018 were smaller deals in the **$1 million to $3 million range**.

Source: Altus Group



53% is the **905 Regions' share** of total GTA residential land sales in the **first three quarters** of 2018.

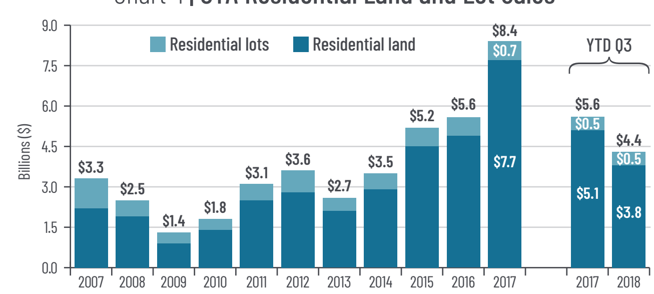
Source: Altus Group

Section Summary

- Residential land sales in the GTA cooled somewhat in 2018, after three record-setting years, but remained impressive.
- The 2018 decrease was driven by low and medium density land sales, as sales of high density residential land kept pace with 2017.
- Total residential land sales volumes increased slightly in the City of Toronto, but not enough to offset declines in the other GTA regions.
- It is expected that investor interest in acquiring residential land will be steady in 2019, but actual deals may be constrained by lack of product to purchase, in particular for low density land.

Residential Land Sales

Chart 4 | **GTA Residential Land and Lot Sales**



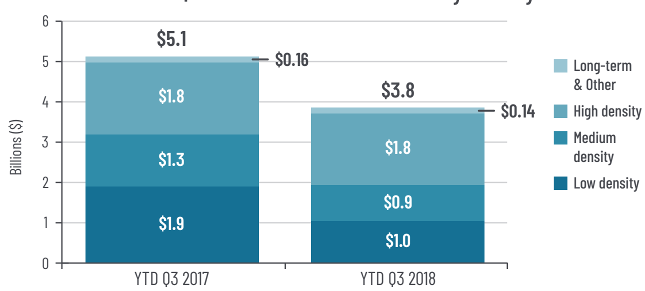
Source: Altus Group

- Residential land sales (including lots) cooled slightly in 2018, after three record-setting years. As of the end of the third quarter 2018, the total volume was $4.4 billion, 23% below the same period in 2017.
- A total of 379 residential land deals (excluding lots) occurred in the first three quarters of the

year. Roughly 4 out of every 10 deals were in the $1 million to $3 million dollar range, accounting for about 7% of overall dollar volumes for residential land sales.

2018 Decrease Primarily Due to Low Density Land Sales

Chart 5 | **GTA Residential Land Sales by Density**

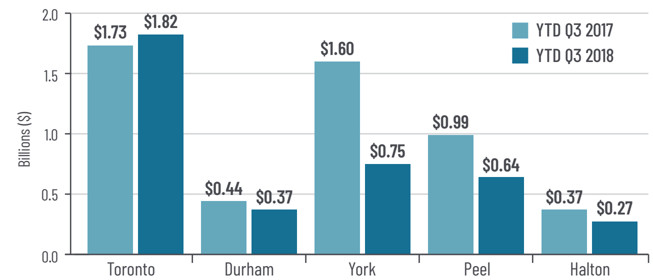


Source: Altus Group

- By the end of the third quarter, the dollar volume of low density residential land sales (primarily for detached and semi-detached homes) was down by almost half from 2017. The decline in sales is believed to be more related to lack of properties available to purchase, rather than waning investor interest.
- Medium density land (primarily for future town-house-oriented developments) was also down, but to a lesser degree, with sales through the third quarter off by about one-third from 2017. This segment will benefit from a growing demand for more affordable ground-oriented housing product.
- Sales of high density residential land (primarily for condominium and purpose-built rental apartment development) kept pace in 2018 with 2017's already strong dollar volumes.

All of 2018's Decline Due to the 905 Regions

Chart 6 | **GTA Residential Land Sales by Region**



Source: Altus Group

- Consistent with the overall decline being the result of weaker low and medium density land sales, the 905 regions were the force behind softer GTA residential land sales volumes in 2018, led by the decline in York Region.
- The City of Toronto accounted for almost half of the GTA's residential land sales volume in the first three quarters of 2018, up from about one-third in the same period in 2017.

Looking Ahead

- With population growth, and therefore the need for new housing, projected to stay relatively buoyant in the GTA over the medium- to longer-term, investors are expected to continue to view residential land favourably. However, lack of available product to purchase, in particular low density land, could constrain the number of deals.

COMMERCIAL MARKET REVIEW & OUTLOOK

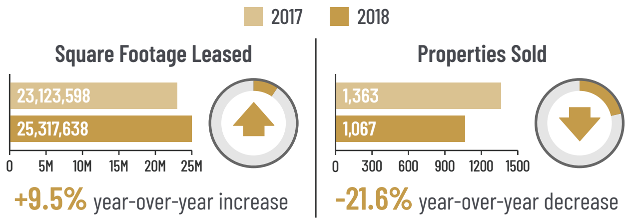
THE MARKET IN 2018 & 2019

COMMERCIAL REVIEW & OUTLOOK

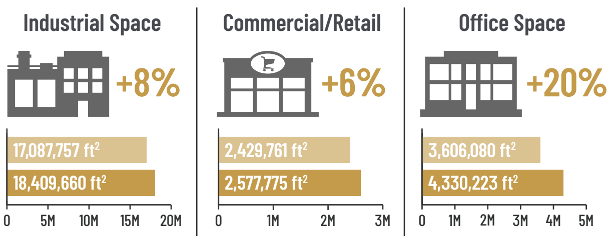
THE MARKET IN 2018 & 2019

SECTION BY THE NUMBERS

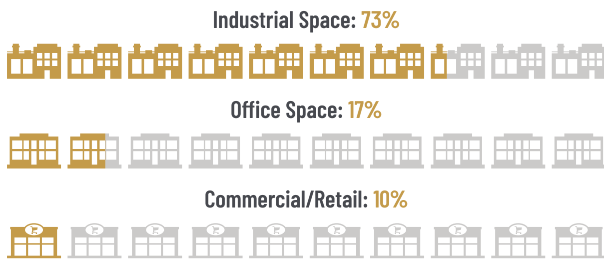
When compared to 2017, the amount of space leased was up, while total commercial sales were down.



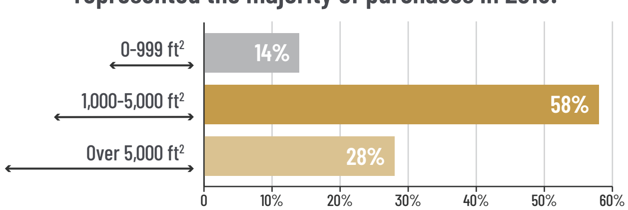
Increases in leased square footage were seen across all market segments.



Historically, a large majority of commercial space leased comes from the industrial market segment. In 2018, the total share of industrial space leased accounted for 73 per cent.



Properties in the 1,000 to 5,000 square foot range represented the majority of purchases in 2018.



Source: Toronto Real Estate Board

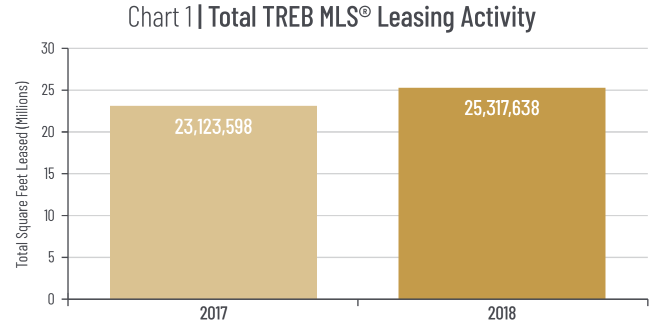
Market in Brief

Economic conditions in 2018 remained conducive to a healthy commercial real estate market. Growth in Canadian Gross Domestic Product was sustained throughout the year, and the Greater Toronto Area (GTA) region certainly benefitted. Job creation was strong across a diversity of sectors, and the resulting unemployment rate remained very low from a historic perspective, hovering around six per cent on a seasonally adjusted basis during the year. The fact that the level of employment continued to increase on a year-over-year basis in 2018 suggests that firms remained confident in their growth prospects and, as we see below, this also seems to have translated into an uptick in the amount of leased space reported through TREB's MLS® System in 2018.

Commercial Leasing

In 2018, the Toronto Real Estate Board's Commercial Network Members reported an increase in commercial square footage leased. Conversely, there was a decrease in commercial property sales compared to 2017. The sections below provide a breakdown of

Chart 1 | **Total TREB MLS® Leasing Activity**

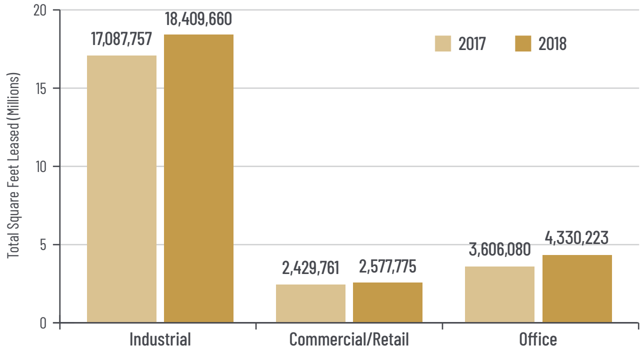


Source: Toronto Real Estate Board. NOTE: This chart summarizes total industrial, commercial/retail and office square feet sales through TREB's MLS® System regardless of pricing terms.

the TREB MLS® System commercial transactions in conjunction with core economic drivers.

In 2018, over 25 million square feet of combined industrial, commercial/retail, and office space was leased through TREB's MLS® System. This represented a 9.5 per cent increase compared to the more than 23 million square feet leased in 2017.

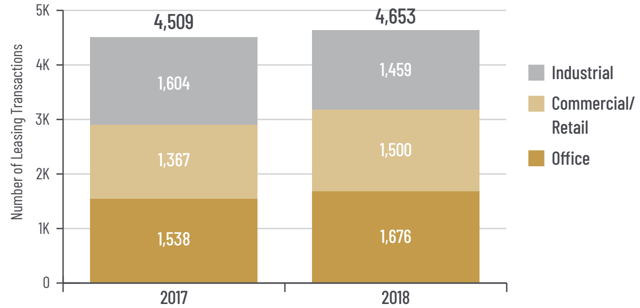
Chart 2 | **TREB MLS® Leasing Activity**



Source: Toronto Real Estate Board. NOTE: This chart summarizes total industrial, commercial/retail, and office square feet sales through TREB's MLS® System regardless of pricing terms.

Historically, a large majority of commercial space leased through TREB's MLS® System comes from the industrial market segment. This was the case in 2018 as the total share of industrial space accounted for 73 per cent of all commercial space leased – essentially the same share observed in 2017. The total amount of industrial space leased rose by 7.7 per cent on a year-over-year basis. This rate of annual growth demonstrates that the industrial market in the GTA continues to be strong and that industries are continuing to choose the region due, in part, to a talented workforce with diverse skill sets. A lower valued Canadian dollar vis-à-vis the US dollar has also been attractive to industrial firms selling goods abroad.

Chart 3 | **Total TREB MLS® Leasing Transactions**



Source: Toronto Real Estate Board. NOTE: This chart summarizes total industrial, commercial/retail, and office square feet sales through TREB's MLS® System regardless of pricing terms.

The commercial/retail sector also experienced an increase in the amount of space leased. In 2018, 2,577,775 square feet of commercial/retail space was leased – up 6.1 per cent on a year-over-year basis compared to 2017. This strong increase of commercial/retail space being leased indicates that retail operations are continuing to see growth within the GTA and that there is a strong belief that the consumer base will continue to expand, despite the potential for headwinds facing consumer spending due to higher borrowing costs and a slightly more pessimistic view towards economic growth.

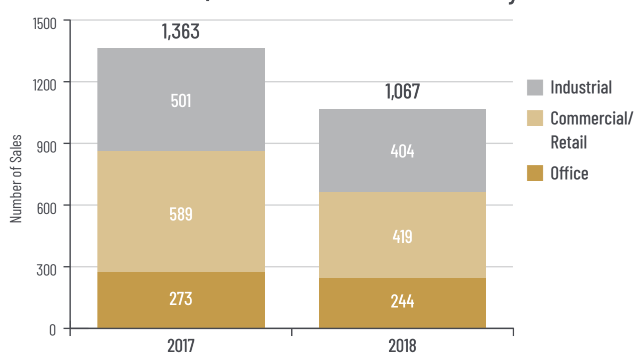
Of the three market major market segments, the office segment experienced the largest increase in space leased. Total leased office space in 2018 jumped 20.1 per cent over 2017 to 4,330,223 square feet. This growth helps to affirm the outlook that the Bank of Canada had for 2018 where sales growth in most regions would lead to an increase in investment for hiring new employees, with an example being big tech companies choosing Toronto over the past year as a destination for operations.

COMMERCIAL REVIEW & OUTLOOK

THE MARKET IN 2018 & 2019

Looking forward, the results from the Bank of Canada's latest Business Outlook Survey[1] points to a positive view for the performance and, by extension, investment activity of Canadian businesses in 2019. Survey results suggested that firms will continue to benefit from sales increases and will continue to bring on new employees over the next year. Sales and hiring increases could be a boon for the commercial real estate sector in 2019, with more demand for commercial space to assist in the production of goods and services, continued innovation, and development of new business lines.

Chart 4 | **Total TREB MLS® Sales Activity**



Source: Toronto Real Estate Board. NOTE: This chart summarizes total industrial, commercial/retail, and office square feet sales through TREB's MLS® System regardless of pricing terms.

Commercial Property Sales

Commercial property sales through TREB's MLS® System in 2018 were down compared to 2017. A combined 1,067 industrial, commercial/retail, and office properties were sold in 2018 – down 21.7 per cent from 1,363 properties sold in 2017. Industrial property transactions fell by 19.4 per cent on a year-over-year basis, with 404 sales. The office segment experienced an annual decrease of 10.6 per cent to 244 properties sold. The commercial/retail segment experienced the largest drop in sales with a 28.9 per cent decrease to 419 transactions.

According to sales data entered into TREB's MLS® System, the most popular size range of units sold amongst the three commercial segments was between 1,000-5,000 square feet, representing 58 per cent of all commercial sales. In this size range, the average size of commercial/retail units sold was 2,213 square feet, the average size of industrial units was 2,276 square feet, and the average size of sold office space in the 1,000-5,000 square foot range was 2,109 square feet.

Although the pace of commercial sales entered into TREB's MLS® System slowed in 2018, the most popular size range of units sold was the exact same as in 2017. These mid-sized units are arguably an attractive option for small- and medium-sized businesses starting and growing organically in the region. For 2019, if businesses continue to expand as suggested by the Bank of Canada's Business Outlook Survey, it is possible that we could see an uptick in sales activity. However, this positive scenario could be mitigated on the downside if the consensus economic outlook becomes more pessimistic due to some combination of global uncertainty affecting trade and stunted consumer spending on the domestic front.

Endnotes

1 *https://www.bankofcanada.ca/2018/12/business-outlook-survey-winter-2018/*

"I sincerely **hope you enjoyed** reading this report as much as I did. I hope you will find in it some useful insight that can help you in your goal of housing people in **liveable communities** in 2019 and beyond."

- **Gurcharan (Garry) Bhaura**,
  2018/2019 President, Toronto Real Estate Board

Toronto Real Estate Board

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