



Federation of Rental-housing
Providers of Ontario

URBANATION

2019 Ontario Rental Market Study: Revisiting the Supply Gap & Opportunities for Development

Summer 2020

Prepared for the Federation of Rental-housing Providers of Ontario

by

URBANATION Inc.



INTRODUCTION

Urbanation was retained by FRPO to provide an updated assessment of current rental market conditions and trends in Ontario. This report is a follow-up to studies Urbanation completed for FRPO in September 2017 and January 2019 that provided a framework for measuring the gap in the marketplace between the demand and supply of rental apartments across the province. The intention of these studies is to raise awareness of the present and future expected factors impacting Ontario's rental market, and the need to target a greater amount of rental construction to meet the level of demand for new units. By examining the latest changes in key market drivers and the resulting impacts on rental conditions, this report presents an updated assessment of the Ontario rental market and its estimated supply shortfall, as well as a review of the type of supply being built in the market and potential opportunities to capitalize on infill development as a source to help close the supply gap in the future.

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ABOUT FRPO

Since 1985, the Federation of Rental-housing Providers of Ontario (FRPO) has been the voice of Ontario's rental housing industry and the leading advocate for quality rental housing. The Federation of Rental-housing Providers of Ontario is the largest association representing those who own, manage, build and finance, service and supply residential rental homes in Ontario. We have led the rental housing industry in Ontario for over 30 years, offering public advocacy, representation and promotion, industry research, standards and best practices, education and training along with marquee industry events and awards.

ABOUT URBANATION

Urbanation is a real estate consulting firm that has been providing market research, in-depth market analysis and consulting services to the condominium and rental housing industry since 1981. Urbanation uses a multi-disciplinary approach that combines empirical research techniques with first-hand observations and qualitative information gathered through relationships built within the industry over the past 40 years. Urbanation's reports monitor the new construction, resale condominium, rental apartment and proposed development markets in the Greater Toronto Area. Urbanation also actively conducts customized research and market feasibility studies across the country for both condominium and purpose-built rental apartment projects. Urbanation's clients include the GTA's largest developers as well as mid- and smaller-scale real estate organizations, institutional investors, major lenders, government agencies, and a variety of service providers.



REPORT HIGHLIGHTS

- The rental housing supply gap in Ontario has quickly grown to a level that is twice as high as originally projected a few years ago. Factors such as outsized economic growth in the province, reduced homeownership rates, and much stronger than anticipated increases in the population pushed the demand for rental housing well above 40,000 units per year as the decade came to a close. Net migration to Ontario has been a particularly large contributor to the upward adjustment, having reached over 200,000 persons in each of the past two years – doubling the annual average recorded during the preceding five-year period.
- Important progress has recently been made to improve the pipeline of future rental projects, including a rise in construction starts to their highest level in more than 25 years and a notable increase in development proposals. In the meantime, however, the level of deliveries to the market (from both purpose-built and secondary condo units) has failed to match demand. This has resulted in a substantial annual supply deficit, recognizing the temporary market softening resulting from COVID-19, with large increases in additional supply required to bring vacancy rates to a more balanced state over the longer-term. Ultimately, it has become evident that the current pace of purpose-built rental development and the amount of supply derived from condominium investors is grossly insufficient to bridge the gap and satisfy rental demand over the longer-term in the province.
- Under the updated outlook for rental demand and the improved trajectory for supply, it is estimated that Ontario will be underbuilding new rental housing by a magnitude of over 20,000 units per year during the period to 2031, which will occur even under an optimistic scenario for rental housing construction. Assuming recent policies and housing plans introduced to encourage more development remain in place, annual rental deliveries (purpose-built and condo) could eventually double to 27,500 units and the supply gap could be reduced by one-third later in the decade during the 2027-2031 period. As such, it is critical that further incentivization is introduced to advance the encouraging progress on supply underway but specifically targeting more rental housing attainable for a broad cross-section of the Ontario population, with the goal of eventually raising the supply trajectory to bring the Ontario rental market into a stable state of balance.
- In the near-term, incoming rental supply in Ontario from projects currently under construction will be highly concentrated in the GTHA, most of which will be located in the central areas of Toronto where surveyed monthly rents averaged close to or above \$3,000 and were not affordable for most new renter households. Over the medium term, new purpose-built rental supply based on current development applications will remain mostly centred in the City of Toronto, although projects will be more evenly dispersed across the city. The 905 Region, however, will continue to represent a marginal share of overall rental development based on the current pipeline of planned projects. Furthermore, only 19% of total proposed purpose-built rentals were approved for development.
- As an exercise to source opportunities for future purpose-built rental development that could be facilitated across the GTHA, Urbanation identified 950 existing purpose-built rental sites that were highly likely to accommodate infill development, with the potential of adding approximately 176,074 units. Most identified City of Toronto sites were located outside of the downtown core in more affordable areas, and 35% of total potential infill units in the GTHA were located within 800 metres of a current or future rapid transit station. Urbanation



found that only 8% of potential infill units had a current development application, leaving a substantial inventory of 161,266 units that could be targeted for rental intensification.

- While the results of the infill development potential exercise are encouraging, the economics of intensifying these sites may be too difficult for owners to ultimately move them forward in many cases even with a zero land cost, as achievable rents outside of Central Toronto are often not high enough to offset development and operating costs. However, the sheer size of this identified inventory creates an important source of potential supply that should not be overlooked. Although the assumptions used in identifying candidate sites and development capacity can be considered conservative, even cutting the calculated additional supply by one-third leaves roughly 100,000 potential units to be targeted for rental development, noting that these figures did not account for additional infill sites located outside the GTHA.
- Given the obstacles ahead for the market under the projected supply gap, the introduction of policies that promote and help facilitate the development of intensification projects are imperative to reach the goal of encouraging an additional 100,000 units to be put into the development pipeline over the next 10 years. Such policies will need to be adaptive and flexible, recognizing that each potential development site will have its own set of challenges.

ONTARIO RENTAL MARKET UPDATE & PROJECTIONS

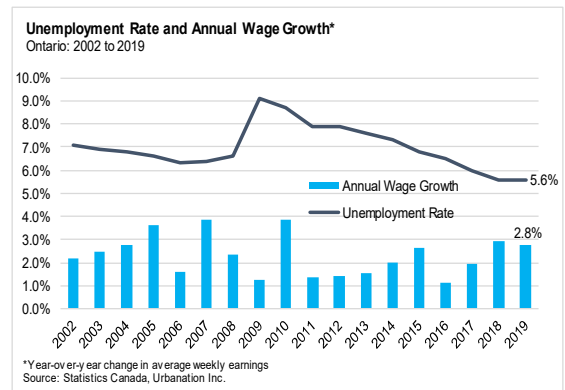
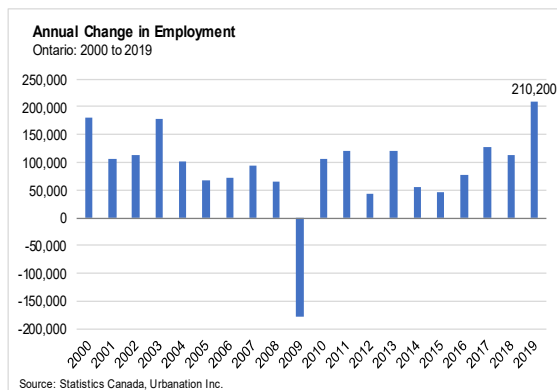
Summary of Findings

The level of rental demand in Ontario as of 2019 had grown substantially higher than originally projected in 2017 due to record population inflows to the province, strong job creation, and further reductions in homeownership affordability. At the same time, however, the delivery of new rental apartments has failed to register meaningful growth, resulting in an enlarged rental housing supply deficit that has led to continued downward pressure on rental vacancies and strong upward pressure on rents. Although the effects of COVID-19 will result in short-term market imbalances, current projections reveal that Ontario is underbuilding by a massive 24,500 units annually during the 2017-2021 period. While in the past, underbuilding could be absorbed to some extent by the existing stock, current low vacancy rates and a stagnating share of investors renting condominiums has left almost no room for current supply to accommodate additional rental demand. However, important progress is being made towards improving supply, with construction starts for purpose-built rentals rising 14% in 2019 to their highest level since 1992 and the inventory of proposed projects growing quickly following the removal of rent control for new units. As a result, the current supply deficit is expected to eventually decline by one-third year during the 2027-2031 period, with some slack being absorbed within other parts of the secondary market. This presents an opportunity to introduce the goal of raising the pace of rental construction in Ontario by an additional 10,000 units per year, thereby encouraging the development of an additional 100,000 units over the next decade, beyond what is already planned, to eventually bring the market towards a state of balance.



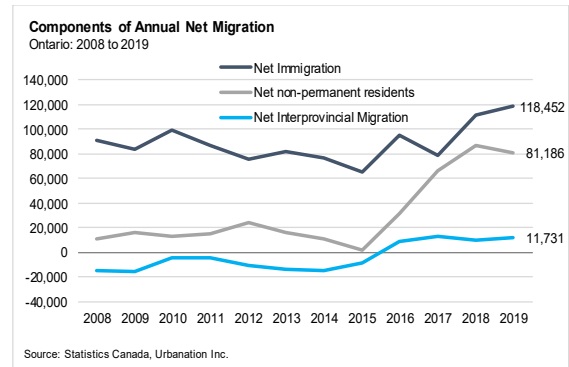
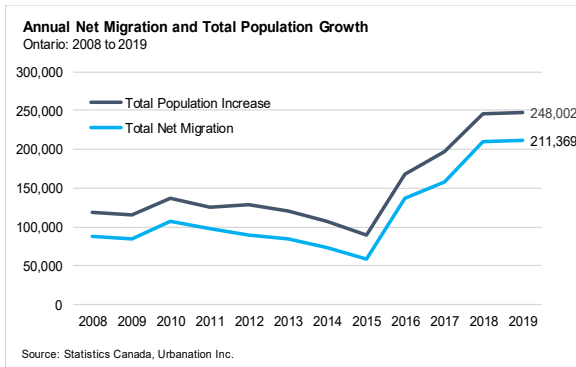
Rental Demand Drivers

- Economic conditions in Ontario were highly supportive of continued growth in rental demand throughout 2019. The increase in employment of over 200,000 positions last year represented a record high for the Ontario labour market, which has produced an average of 115,000 jobs annually over the past five years. This substantial growth in employment contributed to stronger than expected demand for housing in the province, and will have lasting impacts for the formation of new households into the future. Furthermore, with the unemployment rate declining to a 30-year low of 5.6%, income growth in Ontario accelerated to decade-highs over the last two years, averaging close to 3%. At the same time, however, annual housing price inflation in Ontario rose to a level that was more than double the rate of wage growth, resulting in most housing demand created out of the latest economic expansion to occur within the rental market.

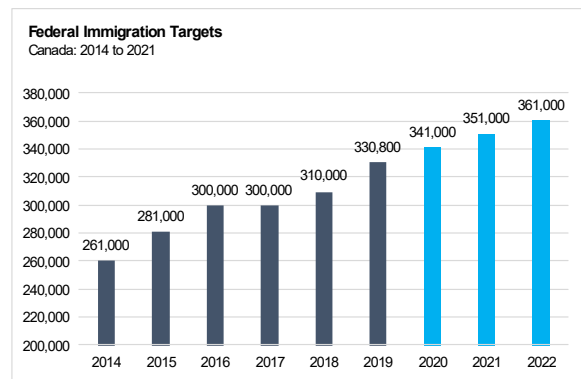
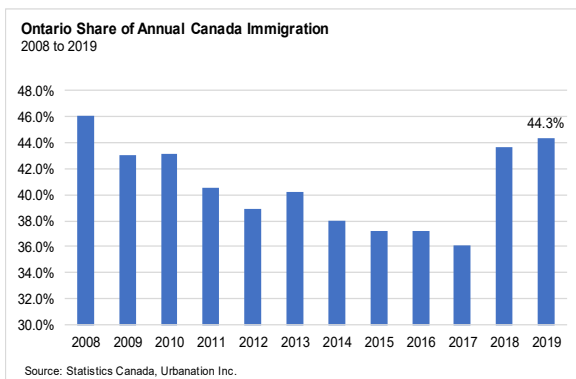


- With higher immigration targets and Ontario comprising an outsized share of employment gains in Canada, the province has attracted record population inflows. Net migration into Ontario has exceeded 200,000 persons annually over the past two years, surpassing the previous highs reached during the late 1980s. In fact, the 211,369 net migrants in 2019 was 100,000 more than the average over the last 15 years. This pushed the total population increase in Ontario to a record of over 248,000, representing 47% of the total Canada-wide population increase – a 15-year high share.
- Rental demand continued to grow on the back of record population inflows that were partly fuelled by a surge in non-permanent residents, many of which are represented by foreign students. Over the last two years roughly 40% of total net migration was comprised of non-permanent residents (totaling over 80,000 a year), which understates official household formation and rental demand estimates as Statistics Canada does not count them as usual residents. Other components of net migration, including permanent immigration and interprovincial migration, also reached one of their highest levels on record in 2019.



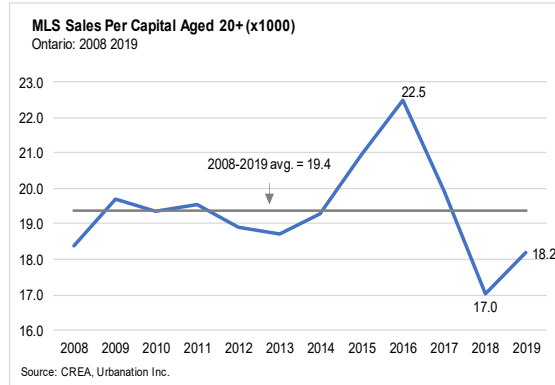
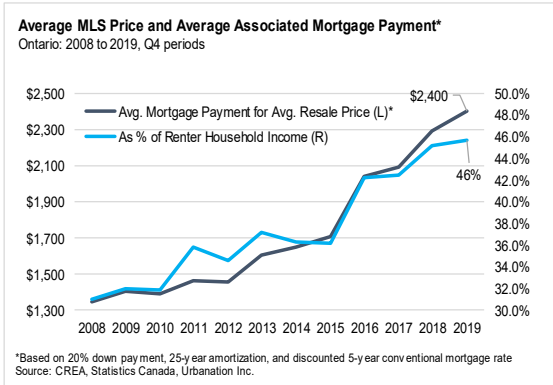


- Immigration (gross of international outflows) to Ontario totaled 139,000 in 2019, its highest level since 2002 and representing a 10-year high share of 44% of total Canadian immigration. Ontario has benefited from elevated national immigration targets, which were raised to 330,800 in 2019, up from 310,000 in 2018 and 261,000 five years earlier in 2014. Looking forward, immigration targets will be raised to 361,000 by 2022, with the share of economic immigrants expected to hold steady at 58% alongside growing numbers of federal skilled workers, which should result in proportionate growth in housing demand.



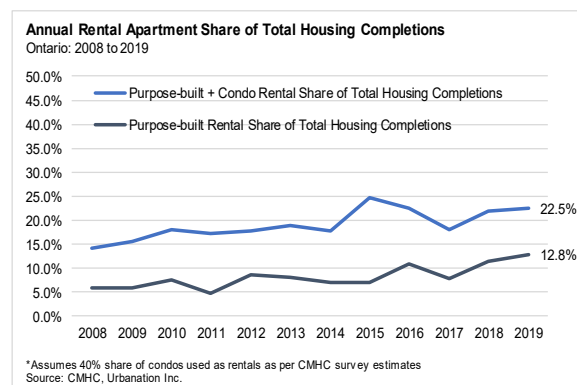
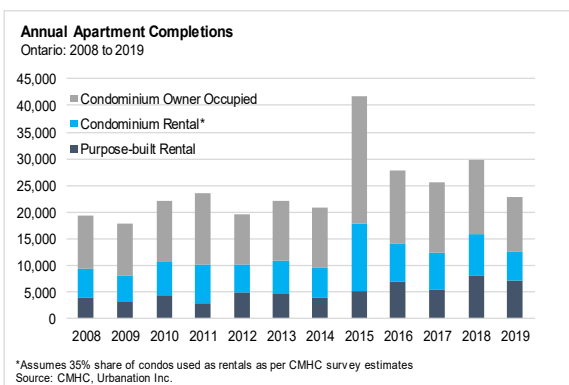
- The growth in housing demand resulting from continued strength in the economy and record population inflows has been centred in the rental market as barriers to homeownership have continued to mount. As discussed in previous reports Urbanation has completed on the topic, homeownership rates in Ontario have been declining from their peak since 2011, with the rate for the prime first-time buyer cohort aged 25-34 falling to its lowest level since 2001. While a flattening in housing prices in 2018 and declines in mortgage rates in 2019 helped to improve affordability for a time, the recent reacceleration in housing prices has combined with tighter mortgage qualification rules to make homeownership less accessible for the younger population in particular.
- Average resale prices in the province reached a record \$629,167 in Q4-2019 as the rate of annual growth accelerated to 8.9%. As a result, the minimum 5% down payment amount on the average priced home rose to \$31,500. Even those fortunate enough to have a 20% down payment (\$125,800) would have a monthly mortgage carrying cost of \$2,400 – equal to approximately 46% of gross renter household incomes. While on its own this ratio is well ahead of standard acceptable lending limits, factoring in the mortgage stress test renders the average renter completely unable to access the ownership market. As a result, per capita housing sales in 2019 remained at one of their lowest levels of the past 20 years.



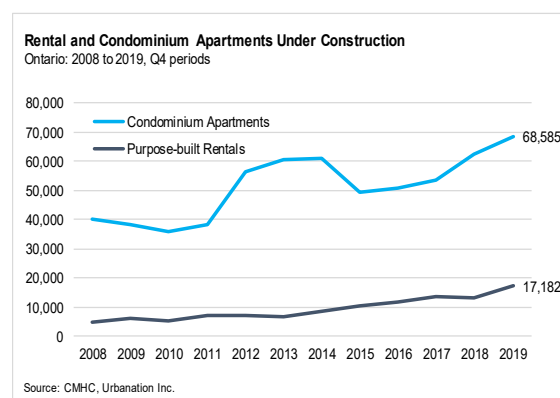
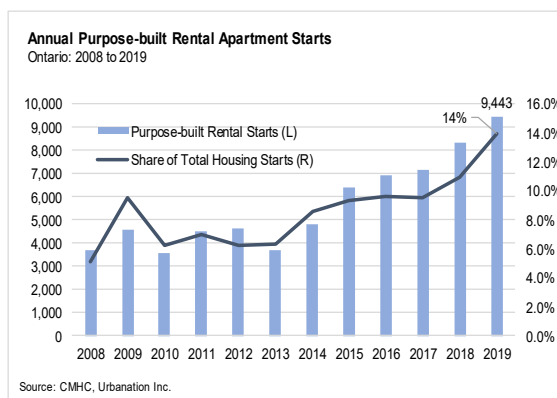


Rental Supply Indicators

- At the same time that the drivers of rental demand strengthened, rental supply increases in Ontario slowed and fell substantially below demand. Canada Mortgage and Housing Corporation reported that completions of rental apartments totaled 7,249 units in 2019, which was high in comparison to levels seen over the past 25 years but represented an 11% decline from the 8,162 units completed in 2018. As well, completions of condo apartments, which represent a critical source of new secondary rental supply, also declined last year to 15,640 units, which was a seven-year low. Assuming a 35% share of condos are used as rentals, as per CMHC survey estimates, the addition of primary and secondary market rental apartments totaled approximately 10,000 units in 2019 – one-third below the five-year average of 15,000 units.
- The fact that less than 13% of housing completions last year were comprised of rental apartments, and less than a quarter when including condos, portrays a critical issue for the market given that more than half of all household formation between 2011 and 2016 occurred within the rental market. Condo apartments, which have represented the primary source of new rental supply in Ontario over the past 15 years, have clearly become an inadequate substitute for purpose-built rentals. With high prices and quickly rising holding costs potentially making condos less attractive as a rental investment, and more investors having turned to the short-term market in recent years as a result, the province cannot rely on secondary units to satisfy rental demand.

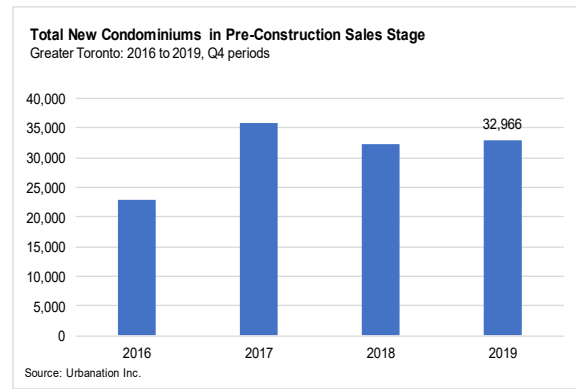
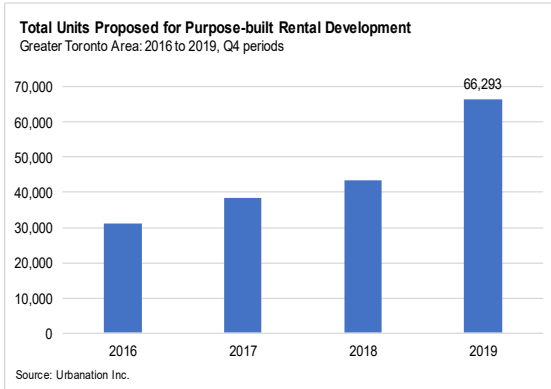


- Looking forward, important progress has been made towards improving supply as construction experienced a notable increase last year. A total of 9,443 purpose-built rental apartments started construction in 2019, which was 14% higher than 2018 and the highest annual total recorded since 1992. When adding in condo apartment starts that are estimated to be used as rentals, total annual primary and secondary rental construction starts averaged approximately 18,500 units over the last two years – a more than 30-year high. However, even with this growth in construction, new rental supply was being constructed at rate that was less than half the level of demand, with purpose-built rental construction still representing a minimal share of total housing starts at 14%.
- Indeed, the vast majority of apartment construction remained concentrated in condominiums, where only a portion will be used as rentals and most for only for a period of time as investor-owned units eventually become owner-occupied (for example, CMHC estimates that roughly 50% of newly completed condos in Toronto are used as rentals compared to a one-third share for the overall stock). For every purpose-built rental under construction in Ontario, there were four condominiums under construction at the end of 2019, providing a clear indication that more purpose-built rental development is needed to bridge the gap in supply.



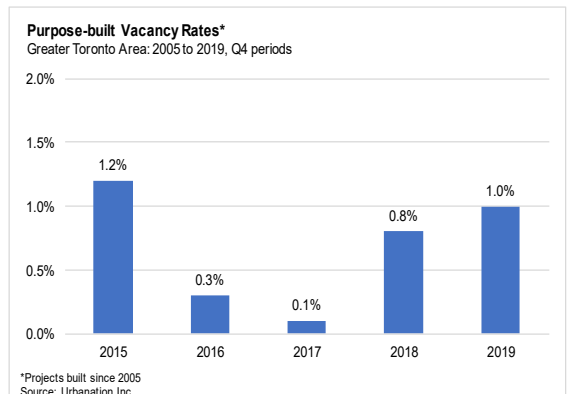
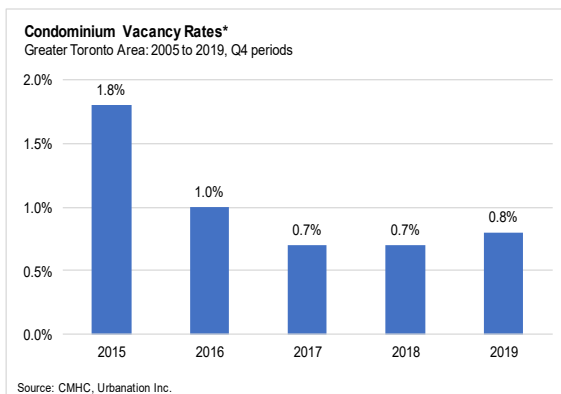
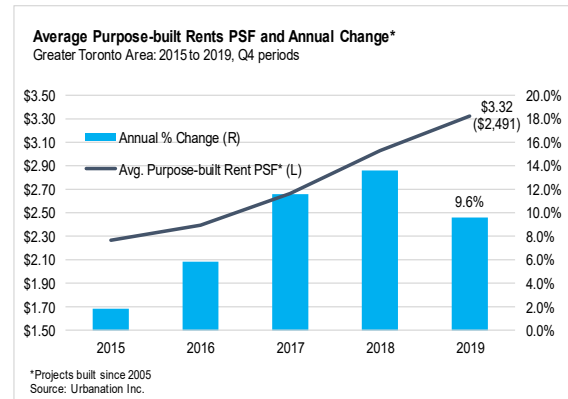
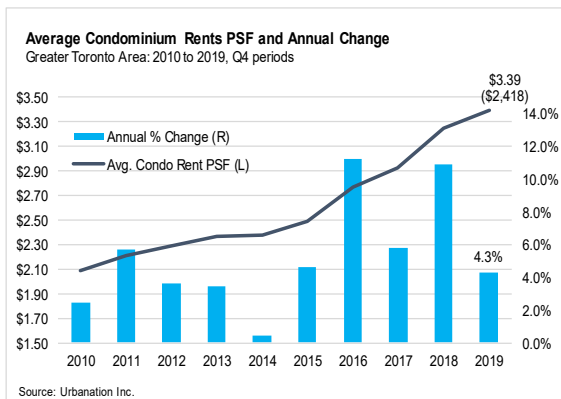
- As current construction levels can only provide a projection for deliveries over the next two to three years, examining the inventory of proposed developments that have not yet started can assist in formulating expectations for supply over a longer period of time. While it is difficult to predict the timing of construction for projects in the proposal stage, Urbanation found that the pipeline of planned rental developments has increased significantly in recent years, suggesting that construction should continue to trend higher. Data tabulated for the Greater Toronto Area show that as of year-end 2019, there were 66,293 purpose-built rental apartment units officially submitted for development in the GTA that had not yet started construction, growing by over 50% compared to a year earlier and more than doubling over the past three years. The removal of rent control for new units in late 2018 is believed to be a key contributor to the latest growth in planned new rental supply.
- The longer-term outlook for rental supply coming from condominiums also appears to be growing, as the inventory of pre-construction units marketing in the GTA remained elevated at 32,982 units at year-end. However, cash flow will become an even bigger issue for condo investors in the coming years, as the surge in new condo prices in recent years will make it increasingly difficult for carrying costs to be covered in the rental market





Rental Growth and Vacancy

- The continued misalignment between rental supply levels and demand in the market resulted in further upward pressure on rents in 2019. According to fall 2019 survey data reported by CMHC, purpose-built vacancy rates in Ontario remained near a 20-year low of 2.0% and rents increased by 6.1% – the fastest pace in 20 years. In the GTA, the average rent for a condo unit transacting in the fourth quarter increased 4.3% year-over-year, a milder increase compared to previous years but also bringing the five-year cumulative increase to 42.4%. Within the new purpose-built rental stock surveyed by Urbanation, rent growth remained strong at a 9.6% annual rate in Q4-2019 and vacancy rates remained low at 1.0%, similar to condos at 0.8%, illustrating the undersupply of new rental product in the region.



COVID-19 and The Rental Market

As of early summer 2020, strict safety measures that were introduced by the government to limit the spread of the COVID-19 coronavirus resulted in severe economic weakness. In Ontario, the level of employment declined by over one million between February and June, with the unemployment rate rising to 12.4% as most restrictions on economic activity remained in place in the province. The full impact of COVID-19 on the rental market was uncertain as conditions were quickly evolving, but undoubtedly negative in the short-term due to the loss of key drivers of demand in employment, immigration and post-secondary students living way from home. At the provincial level, only 16,175 new permanent residents were admitted during Q2-2020, declining 63% from the Q2-2019 intake level. While improvements to the state of employment and immigration are expected to occur in the second half of the year as economic and travel restrictions continue to be lifted, it was highly unlikely that a return to 2019 levels would be achieved this year.

In the meantime, temporary government support measures such as the \$2,000 per month payments for those affected by COVID-19, wage subsidies for employers, and a ban on rental evictions are expected to help provide stability for the market. Ultimately, the current economic downturn was projected by most experts as being sharp but temporary in nature for most sectors as the health crisis is put under control, which should result in relatively limited impacts on rental demand projections over the longer term given the strong fundamentals that were in place prior to COVID-19. Furthermore, supply was also expected to slow as a result of COVID-19 as unit turnover remained low, new residential construction faced delays, and plans for building new projects were put on hold to some extent, which should act as a buffer for a potential rise in vacancy. While the trajectory for rental market growth will realistically moderate as a result of the health crisis, there was insufficient information at the time of writing to project a structural change in market expectations over the next five to ten years.

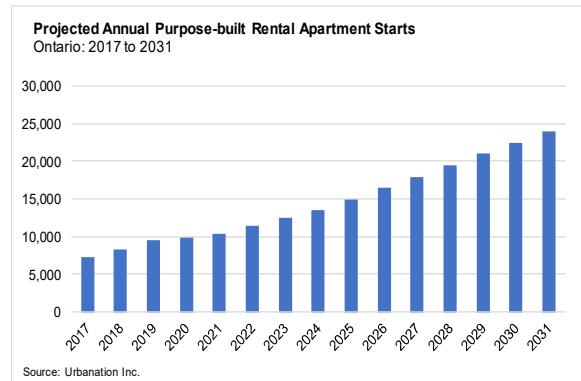
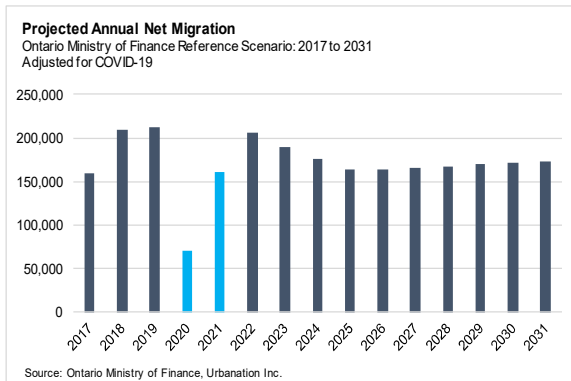
To date, within the existing stock of mainly older purpose-built rentals there was modest changes in vacancy and rents as a result of COVID-19. However, within newer, more expensive buildings, particularly those located downtown and in still in their initial lease-up phase, some reductions in rent and an increase in incentives were visible. In the GTA condominium market, lease transaction volume fell 31% year-over-year during Q2-2020, with average rents down 3.6% from a year earlier. Part of the downward pressure on rents came from growth in supply, as a rising number of new condos were reaching completion and being listed for rent. As well, some conversion of short-term rentals to the long-term market became apparent. Long-term furnished condo rental listings grew 52% year-over-year in the second quarter, representing one-fifth of the growth in condo rental supply on the market.



Demand and Supply Outlook

- The basic framework used for projecting demand and supply for rental apartments in Ontario was consistent with previous studies Urbanation has completed for FRPO, incorporating the latest data points, trends, and outlook to present an updated assessment on the quantity of new units required to bring the market into balance and to estimate the expected deficit under the status quo. The near-term impacts of COVID-19 through the mechanisms discussed in the previous section were also factored into the projections.
- As a starting point for estimating demand, the latest renter household formation rates recorded between Census periods in 2011 and 2016 were used as the basis. In modeling historical renter household formation against key demand variables discussed in this report, projections for rental demand were made by applying forecasts for net migration and demographic trends, employment, and headship and homeownership rates. It was estimated that rental demand averaging 34,000 units per year during the 2011 to 2016 period had risen well above 40,000 units as of 2019 given the latest surge in population, strength in employment, and reductions in housing ownership affordability.
- In forecasting demand, projections for net migration and population growth published by the Ontario Ministry of Finance were used for the 2020-2031 period, which showed continued high inflows over the next few years, reflective of expansionary immigration policy. However, these projections were adjusted substantially lower for 2020 and, to a lesser extent, for 2021 given the expected impact of COVID-19 on population inflows and employment, with a return to base projections expected by 2022. In the later part of the projection period, the forecasts assumed that demand from population growth would continue to be supported by high levels of net migration but also face some headwinds as demographic shifts begin to slow increases for the prime renter cohort aged 25-34. However, moderated homeownership rates are expected to continue to support growth in rental demand as home prices remain elevated and the government remains committed to managing household debt through stricter protocols for mortgage lending policies.
- On the supply side, an optimistic growth projection is assumed, which takes the recent annual increases in the level of purpose-built rental apartment construction starts (which has been expanding by an additional 1,000 units per year) and applies accelerated growth going forward, aside from the immediate term due to the impact of COVID-19. This scenario assumes that purpose-built rentals will represent an increasingly higher share of overall housing development in Ontario to respond to demand, and that the current policies in place to help encourage rental development, including the exemption of rental control for new units, will remain in place. The projected growth in rental housing starts, which would more than double construction volume within 10 years under this scenario, also assumes that the growing pipeline of proposed projects will progress through the planning stages without further delayed timelines.





- Unfortunately, even under the current aggressive trajectory for rental housing construction, a significant supply deficit is projected to persist throughout the next decade as demand continues to strongly outweigh the combined annual delivery of purpose-built rental and condominium rental units. During the current Census period between 2017 and 2021, rental demand is estimated to have grown by approximately 18% from the 2012-2016 period to a record 40,000 units per year, resulting in a shortfall of 24,500 units being built per year, indicating that the market was grossly underprepared for the surge in demand that has been occurring, even with the setback from COVID-19.
- On the surface, the increased deficit grew by approximately 14% from the 2012-2016 period. However, as noted in Urbanation’s earlier studies, most of the excess supply caused by underbuilding during the previous five-year period was absorbed by the existing stock as vacancy rates fell from relatively higher levels and an increasing share of condos were being used as rentals. Going forward, there is limited capacity for the existing stock to absorb growth in demand given current vacancy rates, the flattening share of condos used as rentals, and the declining levels of rental turnover in the market given the current rent control regime in place for the existing stock.
- As rental demand continues to move up in the 2022-2026 projection period and rental deliveries grow, which assumes a steady level of condo apartment construction throughout the projection period and a continued high but steady share of units rented by investors (assumed to be 35%), the annual supply deficit is expected to be reduced slightly to 22,500 units, eventually declining to 16,500 units per year during the 2027-2031 period.
- Ultimately, under this projection for rental demand and supply, the market will require approximately 42,000 units to be built annually during the 15-year period from 2017 to 2031, but will be delivering approximately 21,000 units per year, resulting in a shortfall of over 20,000 units per year. Given the lengthy due diligence and planning time required to take a new development from initiation to completion, the prospect of closing the supply gap in the period to 2026 is highly unlikely, even under a scenario where new rental projects become fast-tracked and growth in other forms of secondary supply (i.e. rental units in houses) occurs. This will likely lead to even more under-housing leading to further downward pressure on vacancy rates, greater formation of multi-family households, delayed household formation, and potentially increasing population outflows in the coming years. However, in recognizing the challenges that lie ahead, there is an opportunity for policy actions to be introduced today that will eventually bring about the supply needed to satisfy demand later into the future.



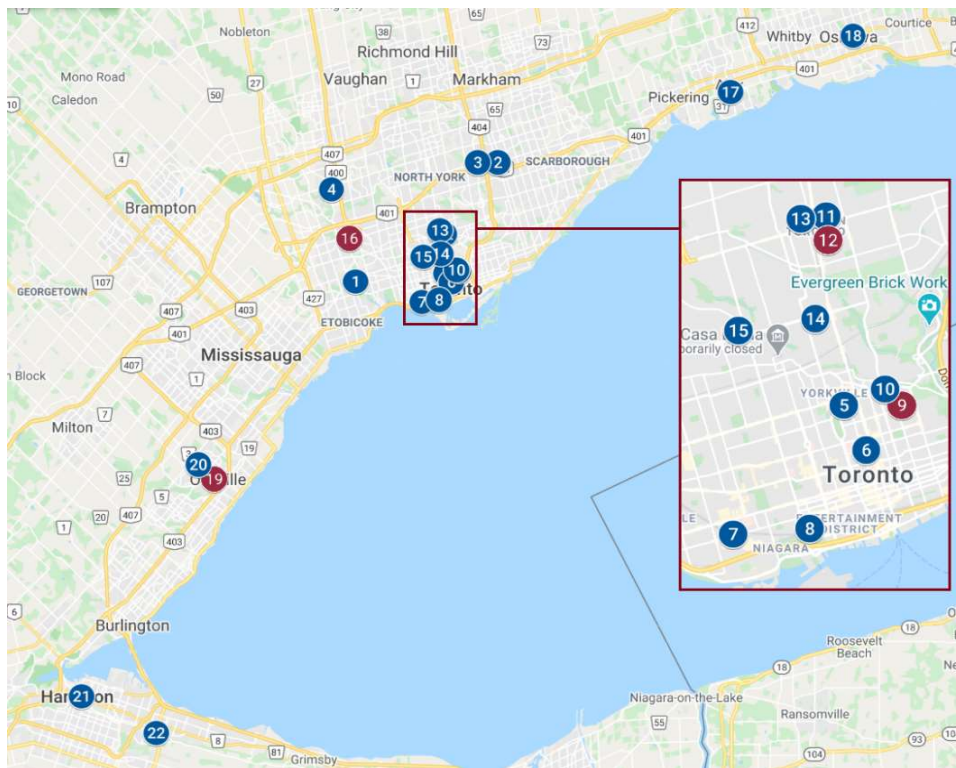
Projected Rental Demand and Supply					
Ontario: 2007 to 2031, annual averages over five-year periods					
	2007-2011	2012-2016	2017-2021	2022-2026	2027-2031
Estimated Annual Rental Demand	15,500	34,000	40,000	43,000	44,000
Estimated Annual Rental Supply Growth (Purpose-built + Condo)	8,900	12,500	15,500	20,500	27,500
Estimated Annual Rental Supply Deficit	6,600	21,500	24,500	22,500	16,500
Rental demand for 2007-2011 & 2012-2016 estimated using Census data. Demand projections for 2017 onwards modelled by Urbanation					
Supply growth based on past and projected levels of completions					
Source: Urbanation Inc., Statistics Canada, CMHC, Ontario Ministry of Finance					

- As a starting point, the goal should be to encourage the construction of purpose-built rentals to grow by an additional 10,000 units per year over the next 10 years, over and above what is already expected to be built from market forces under the projections for supply, to both help make up for the expected shortfall that will materialize in the coming years and raise supply to a level that could potentially meet demand further into the future. This means incentivizing a target level of at least 100,000 units across the province that may not have otherwise been developed. While this may not completely close the supply gap as years of pent-up demand continue to weigh on the market well into the future, it is a realistic goal to help achieve a rental market in Ontario that is more balanced, eventually bringing in enough housing to be able to accommodate future expected demand in the province. It's also important to recognize that not all rental demand will be created equal, meaning a balanced mix of development will be required across the province catering to different locations, household sizes, family types, and income levels.



REVIEW OF NEW GTHA PURPOSE-BUILT RENTAL PROJECTS

- In examining the landscape for new purpose-built rentals, it is first important to gain an understanding of the supply that has been recently constructed. Focusing on the Greater Toronto-Hamilton Area (GTHA), the location of each new purpose-built rental project that has been completed in the period since Q4-2017 is identified in the following map and summarized in the supporting data table, which provides rental market information surveyed by Urbanation during the past year. The four projects marked in red were identified as infill developments of existing rental sites. These infill projects combined for a total of 1,104 units, which represented a 50% increase in supply over the existing rental units onsite. Furthermore, the additional development raised the average FSI (Floor Space Index = total built-up floor area over total land area) from 3.1 to 4.6.
- In total, the 22 new purpose-built rental projects had a combined 5,989 units, with projects ranging from a low of four-storeys and 16 units to 50-storeys and as many as 588 units. The average project size was 272 units, and the average suite size per project was 721 sf. Across the units surveyed for rental information, the average project rent was \$2,635 based on an average surveyed unit size per project of 727 sf, with project rents averaging \$3.63 psf. Parking was additional to rents, averaging \$175 per month, with most projects excluding hydro and water utilities from rent, and some excluding all utilities.
- Rents in new purpose-built rentals were higher than condominiums leased during the last 12 months in the GTA, which averaged \$2,430 based on an average unit size of 718 sf, equal to \$3.38 psf. Furthermore, condos often include parking in their rents (more common outside of Downtown Toronto and for two and three bedroom units), as well as heat and water.



*Red markers denote infill projects



- Average rents in new purpose-built rental projects were skewed up by a high concentration of developments located in Downtown Toronto. The 10 projects in Toronto's downtown submarkets (i.e. the former City of Toronto) comprised 65% of total rental units built over the past two years, with rents per project averaging \$3,130 for 717 sf, or \$4.36 psf. While most of these projects mainly targeted young professionals with average rents below \$3,000, a few projects were able to effectively attract downsizers (including *Two St. Thomas*, *The Montgomery*, and *101 St. Clair*), offering relatively larger unit sizes averaging 881 sf per project with rents averaging above \$4,000 per month. These higher-end projects achieved among the highest per sf rents in the market, reaching an average of over \$5.00 psf during the past year in *Two St. Thomas*, located in the Bloor-Yorkville neighbourhood.
- New purpose-built projects, particularly those in Toronto, were able to leverage their locations to provide substantially better product than the existing stock of rentals and comparable or better quality product than typically offered in the condominium market in most cases. Suites often had well-designed, functional layouts with modern yet durable finishes and higher-end appliances, with careful attention paid to lobby areas, amenity spaces, and resident services. In addition to these features, the professional management and security of tenure in new purpose-built rental projects allowed them to achieve premiums in their respective market areas.
- Outside of the Downtown area in Toronto, rents in new purpose-built projects were comparably more affordable, averaging \$2,435 for 763 sf, or \$3.19 psf, across buildings located in Etobicoke, North York and the former municipality of York, and noting an absence of new supply in other areas of Toronto including Scarborough. In the 905 region, rents in the limited number of new projects completed in areas including Ajax, Oakville, Hamilton and Stoney Creek averaged rents that were approximately \$1,000 less than in Downtown Toronto at \$2,009 for 709 sf, or \$2.83 psf.

New Purpose-built Rental Apartment Projects										Q1-2019 to Q4-2019 Survey			
Greater Toronto-Hamilton Area: Projects Completed Q4-2017 to Q4-2019										Avg. Size (sf)	Avg. Rent	Avg. Rent PSF	Parking
Map Ref#	Project	Municipality/Submarket	Developer	Storeys	Total Units	Avg. Unit Size (sf)	Completion	With 800m of Transit Station					
1	Kingsway Village Square	Etobicoke / Etobicoke Kingsway	Dunpar Homes	8	115	775	Oct 2019	No	786	\$3,061	\$3.89	\$150	
2	Parkside Square	North York / Fairview	Tribute Communities	26	301	680	Sep 2019	No	692	\$2,232	\$3.22	\$190	
3	VIA 123	North York / Fairview	Choice Properties REIT, Woodbourne Capital Management	19	198	873	Jan 2018	Yes	947	\$2,753	\$2.91	\$225	
4	Primo Tower	North York / North York West	Medallion Corporation	28	278	756	Dec 2017	No	714	\$2,021	\$2.83	\$85	
5	Two St. Thomas	Toronto / Bloor-Yorkville	Bentall GreenOak, KingSett Capital	26 & 11	248	825	Feb 2018	Yes	810	\$4,447	\$5.49	\$275	
6	The Livmore	Toronto / Downtown Core	GWL Realty Advisors	43	588	687	Sep 2018	Yes	690	\$2,862	\$4.15	\$225	
7	Kings Club	Toronto / Downtown West	First Capital Asset Management, CAPREIT, Urbancorp Inc.	19 - 13	506	639	Apr 2019	No	639	\$2,698	\$4.22	\$175	
8	Niagara West	Toronto / Downtown West	Minto	19 & 19	501	603	Sep 2019	No	589	\$2,591	\$4.40	\$200	
9	561 Sherbourne*	Toronto / East Bloor-The Village	Medallion Corporation	43	369	633	Dec 2017	Yes	651	\$2,522	\$3.87	\$135	
10	The Selby	Toronto / East Bloor-The Village	Tricon, MOD Developments Inc.	50	502	729	Jan 2019	Yes	688	\$2,876	\$4.18	\$250	
11	eCentral at ePlace	Toronto / North Midtown	RioCan Living	36	466	625	Feb 2019	Yes	666	\$2,660	\$3.99	\$250	
12	Lillian Park - 44 Lillian St*	Toronto / North Midtown	Shiplake Properties Limited	24	272	594	Oct 2019	Yes	606	\$2,433	\$4.02	\$200	
13	The Montgomery	Toronto / North Midtown	Rockport Group, Woodbourne Capital Management	27	228	755	Jan 2019	Yes	788	\$3,207	\$4.07	\$325	
14	101 St Clair Luxury Rental Residences	Toronto / South Midtown	Camross-Felcorp, Desjardins Wealth Management	26	183	922	Jan 2018	Yes	1044	\$4,999	\$4.79	\$250	
15	Oben Flats St Clair West	Toronto / York	Oben Flats	9	51	787	Oct 2018	Yes	716	\$2,583	\$3.61	\$175	
16	West22*	Toronto / York	Rockport Group	30	319	709	Feb 2019	Yes	721	\$1,962	\$2.72	\$115	
17	Vision at Pat Bayly Square - Tower A	Durham / Ajax	Medallion Corporation	25	254	759	Dec 2017	No	839	\$2,180	\$2.60	\$75	
18	70 King Street	Durham / Oshawa	TT7 Inc.	6	86	518	Nov 2019	No	400	\$1,301	\$3.25	\$98	
19	1235 Marlborough*	Halton / Oakville	Minto	14	144	850	Sep 2018	No	783	\$1,932	\$2.47	\$85	
20	The Taunton	Halton / Oakville	Branthaven Homes, Emshih Developments Inc.	12	284	918	Feb 2019	No	970	\$2,788	\$2.87	\$125	
21	Treble Hall	Hamilton / Central	Yoke Group	4	16	501	Oct 2018	Yes	489	\$1,749	\$3.57	-	
22	Village Creek Living	Hamilton / Stoney Creek	1810915 Ontario Ltd.	6	80	730	Jun 2019	No	770	\$2,102	\$2.73	\$70	
Total/Average					5,989	721			727	2,635	\$3.63	\$175	

Source: Urbanation Inc.
* Infill developments



NEW GTHA PURPOSE-BUILT RENTAL PROJECTS IN DEVELOPMENT

Projects Under Construction

- Incoming rental supply over the next three years in Ontario will be highly concentrated in the GTHA, derived from the 42 projects totaling 13,213 units under construction as of the end of Q4-2019, which represented approximately three-quarters of all rentals under construction across the province. More than 60% of all new supply set to enter the market in the GTHA in the near-term will be located in downtown areas of Toronto, with only 14% of units located in other 416 municipalities. The 905 Regions of the GTHA have a combined total of 2,973 rentals under construction, or a 22% share, concentrated within six municipal areas. Almost all of the units under construction across the GTA were located in direct or close proximity of higher-order rapid transit.
- The average project size of new rentals under construction was 315 units, larger than the average size of projects built over the past two years. The average project size under construction in the downtown Toronto area was 336 units, with outer-416 projects in North York, Etobicoke and Est York averaging 307 units and projects in the 905 areas averaging 270 units.
- Five of the purpose-built rental projects under construction were identified as infill developments of existing rental sites – three located in Toronto and two in Mississauga. The infill projects totaled 1,298 units (10% of total rentals under construction), representing an average of 85% of existing onsite units and raising the average FSI at each site from 2.5 to 4.4.



Purpose-built Rental Apartment Projects Under Construction
Greater Toronto-Hamilton Area: as of Q4-2019

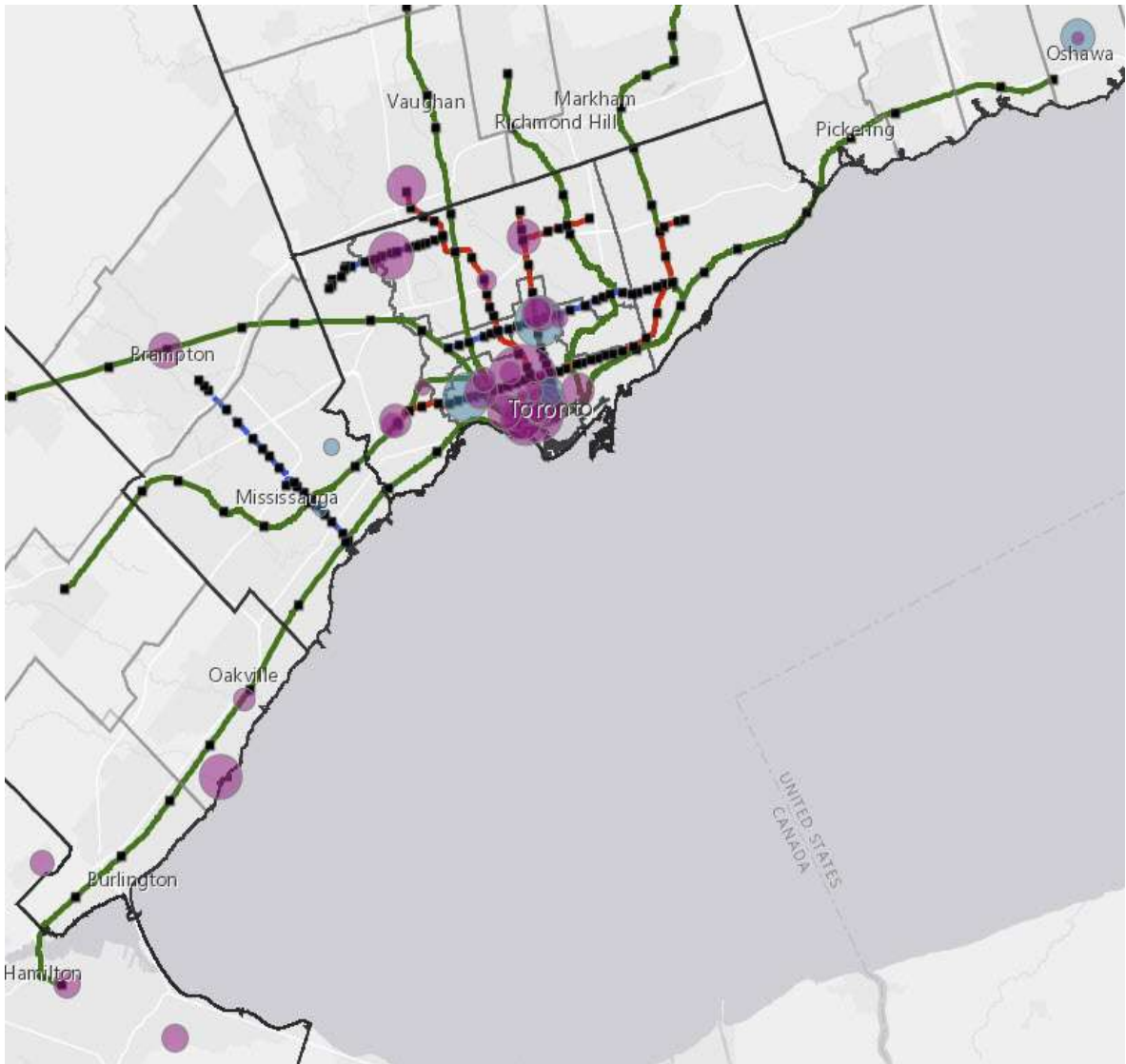
Region	Municipality	Projects Under Construction	Units Under Construction	Share	Avg. Project Size (units)
	Central (former) Toronto	25	8,397	64%	336
	North York	3	1,046	8%	349
	Etobicoke	2	566	4%	283
	East York	1	231	2%	231
City of Toronto	Sub-total:	31	10,240	77%	330
	Oshawa	1	370	3%	370
Durham Region	Sub-total:	1	370	3%	370
	Vaughan	1	429	3%	429
York Region	Sub-total:	1	429	3%	429
	Mississauga	2	208	2%	104
	Brampton	2	637	5%	319
Peel Region	Sub-total:	4	845	6%	211
	Oakville	1	483	4%	483
Halton Region	Sub-total:	1	483	4%	483
	Central Hamilton	3	761	6%	254
	East / Mountain / Suburbs	1	85	1%	85
Hamilton-Grimsby	Sub-total:	4	846	6%	212
GTHA	Total	42	13,213	100%	315

Source: Urbanation Inc.

*Transit-oriented units are those located within 800 metres from a current or future subway, LRT or GO rail station.



Rental Projects Under Construction: Greater Toronto-Hamilton Area



LEGEND

Infill Project

- No
- Yes

Project Size (Units)

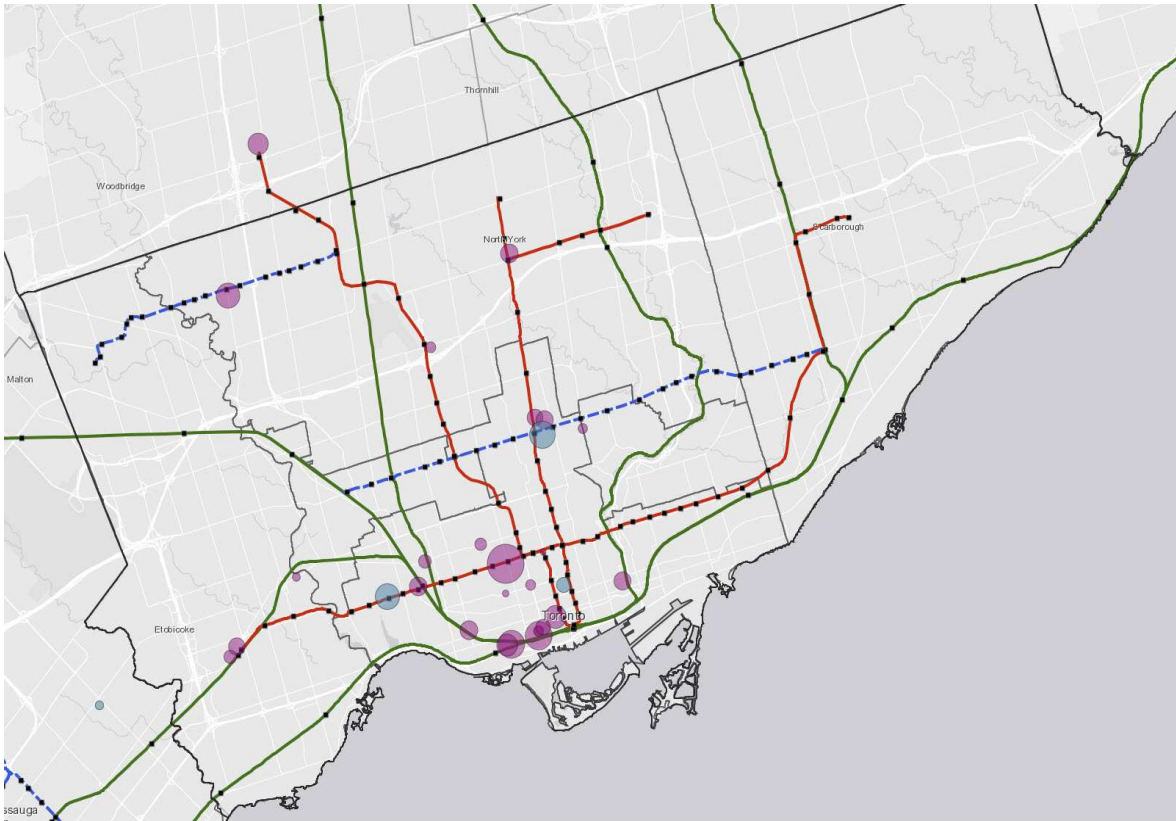
- > 848
- 650
- 450
- 300
- < 65

Transit Lines

- GO Train
- TTC Subway/RT
- Under Construction



Rental Projects Under Construction: City of Toronto



LEGEND

Infill Project

- No
- Yes

Project Size (Units)

- > 848
- 650
- 450
- 300
- < 65

Transit Lines

- GO Train
- TTC Subway/RT
- Under Construction



Current Proposed Projects

- New purpose-built rental supply over the medium-to-longer term in the GTHA will be derived from the 184 projects totaling 59,095 units in the planning stage as of Q4-2019. Across the GTHA, the average project size was larger than both the projects completed over the past two years and those under construction, at 321 units. On average, only 19% of total proposed purpose-built rentals were approved for development as of the end of Q4-2019, totaling 11,102 units – less than the total number of units under construction.
- While a higher share of rental applications were located within the City of Toronto compared to units built over the past two years and units under construction, at 80%, proposed units within Toronto were more evenly dispersed across the city, with 53% of Toronto units (43% of total GTHA units) located in outer 416 municipalities. Scarborough, which had an absence of new units built in the past two years and units under construction, had a total of 9,085 units proposed, largely comprised of the more than 5,000 units planned for the SmartCentres Scarborough redevelopment site.
- The average project size for proposed developments in the City of Toronto was 329 units, which was comparable to the average size of projects under construction. In the 905 areas, the average proposed rental development was 294 units, which was larger than the average size of projects under construction in the suburban regions of the GTHA. While most of the proposed projects were located in close proximity to higher-order transit, many were not, offering a fairly wide dispersion of planned projects across the region.



Proposed Purpose-built Rental Projects
Greater Toronto-Hamilton Area: as of Q4-2019

Region	Municipality	Proposed Projects	Proposed Units	Share	% Units Approved	Avg. project Size (units)
	Central (former) Toronto)	84	25,180	43%	17%	300
	North York	32	8,640	15%	31%	270
	Etobicoke	12	2,070	4%	14%	173
	Scarborough	7	9,085	15%	2%	1,298
	East York	5	1,959	3%	21%	392
	York	4	380	1%	14%	95
City of Toronto	Sub-total:	144	47,314	80%	17%	329
	Ajax	2	1,233	2%	100%	617
	Clarington	1	151	0%	0%	151
	Oshawa	3	672	1%	0%	224
	Pickering	2	719	1%	0%	360
Durham Region	Sub-total:	8	2,775	5%	44%	347
	Aurora	2	187	0%	0%	94
	New market	3	786	1%	67%	262
	Richmond Hill	1	51	0%	0%	51
	Vaughan	1	45	0%	0%	45
York Region	Sub-total:	7	1,069	2%	50%	153
	Brampton	2	513	1%	0%	257
	Mississauga	11	3,238	5%	22%	294
Peel Region	Sub-total:	13	3,751	6%	19%	289
	Burlington	2	1,909	3%	0%	955
	Milton	1	19	0%	0%	19
	Oakville	2	360	1%	56%	180
Halton Region	Sub-total:	5	2,288	4%	9%	458
	Central Hamilton	4	1,370	2%	0%	343
	East / Mountain / Suburbs	2	309	1%	77%	155
	Stoney Creek / Grimsby	1	219	0%	100%	219
Hamilton Region	Sub-total:	7	1,898	3%	24%	271
GTHA Total		184	59,095	100%	19%	321

Source: Urbanation Inc.



Proposed Rental Projects: Greater Toronto-Hamilton Area



LEGEND

Infill
 ● No
 ● Yes

Project Size (Units)

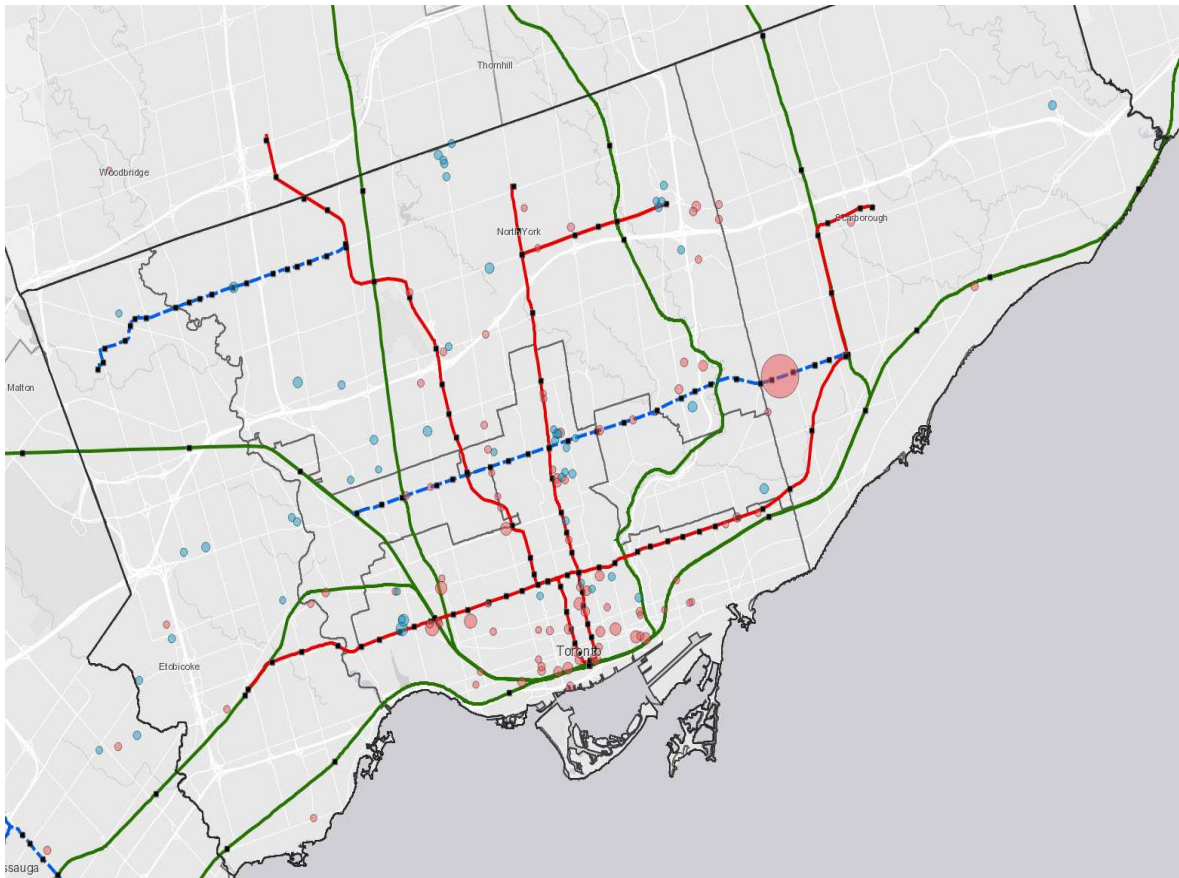
- > 5,529
- 4,000
- 3,000
- 1,500
- < 12

Transit Lines

- GO Train
- TTC Subway/RT
- - Under



Proposed Rental Projects: City of Toronto



LEGEND

Infill

- No
- Yes

Project Size (Units)

- > 5,529
- 4,000
- 3,000
- 1,500
- < 12

Transit Lines

- GO Train
- TTC Subway/RT
- - - Under



POTENTIAL RENTAL INFILL DEVELOPMENT SITES

- In an effort to source opportunities to encourage more purpose-built rental development across the GTHA, Urbanation undertook an exercise to identify existing rental sites that could potentially accommodate infill development. In recognizing the challenging economic proposition of pursuing a new rental development in the GTHA, the assumption was that by not having to incur costs and delays related to land acquisition and site rezoning, and with direct onsite precedence for rental housing demand, development could be facilitated at some existing rental properties with excess density.
- The exercise involved assessing each purpose-built rental property across the region individually to determine whether there was sufficient excess land available for intensification. The approach taken was to first identify every purpose-built rental project containing at least 50 units, then a visual inspection of each site was performed through the use of site plans and satellite imagery. Urbanation was cautious not to be overly aggressive in its assessment of excess density potential, recognizing potential zoning ordinances and physical site limitations. The intensification assessment for each candidate site used a basic assumption on the quantity of new units that could be accommodated by applying a ratio to the site's existing amount of residential density. For instance, if an existing rental property had two buildings containing a total of 200 units onsite and there appeared to be excess land available to double the current footprint of the buildings, then the amount of infill development was estimated at 200 units (i.e. a ratio of 1.0)
- Through this exercise, Urbanation identified 950 purpose-built rental sites that could accommodate infill development across the GTHA, representing close to half of all surveyed properties. It was estimated that approximately 176,074 units could be realistically built on these sites, which could effectively increase the current stock of rentals (in buildings with at least 50 units) by 40%. Within this total, 14,808 units were already proposed for development at infill rental sites, leaving a total of 161,266 new units to be potentially added to the supply pipeline. The site assessments produced an assumed ratio of infill potential to existing units averaging 1.19, which was higher than the actual ratio of proposed infill to existing units within active applications of 0.8. However, it was noted that several sites with current infill applications have the potential for further intensification in the future. Furthermore, the average size of projects assumed for potential infill development was 187 units, which was lower than the actual average size of current proposed infill projects at 224 units.
- While a majority share (78%) of total potential infill rentals were located in the City of Toronto, most (two-thirds of total GTHA) were located outside of the downtown areas in the outer-416 municipalities. Furthermore, Urbanation found that 35% of potential units at infill sites in the GTHA were transit-oriented (located within 800 metres of a current or future rapid transit station). Outside of the City of Toronto, the greatest potential for infill intensification was in Peel Region (mainly Mississauga), with a total of 19,179 potential units. In Peel, more than one-quarter of potential infill units were transit-oriented, while in Hamilton-Grimsby (another major area for infill potential at 9,735 units) the share was 18%.
- The existing proposals on infill sites represented an estimated penetration rate of 8% of total potential infill units. Penetration was highest in Central Toronto at 22%, which compared to an 8% penetration in the outer-416 municipalities. By comparison, the penetration rate of current proposals on total potential infill sites was relatively low in the 905 Region at 6%.



Purpose-built Rental Intensification Potential							
Greater Toronto-Hamilton Area							
Region	Sites	Potential Infill Units	Share	% Transit-Oriented*	Existing Infill Units Proposed	Total Potential Infill Units	Proposed Infill to Existing Units**
Central (former) Toronto	107	22,456	13%	83%	4,829	22%	0.7
North York	266	47,882	27%	32%	4,401	9%	1.0
Scarborough	141	27,917	16%	26%	355	1%	1.3
Etobicoke	124	22,917	13%	25%	1,667	7%	0.8
East York	46	11,459	7%	55%	1,036	9%	1.0
York	31	5,368	3%	26%	155	3%	0.4
City of Toronto	715	137,999	78%	40%	12,443	9%	0.8
Durham Region	34	4,238	2%	16%	0	0%	-
York Region	9	1,225	1%	26%	0	0%	-
Peel Region	107	19,179	11%	26%	1,628	8%	1.0
Halton Region	23	3,698	2%	0%	159	4%	1.6
Hamilton-Grimsby	62	9,735	6%	18%	578	6%	-
GTHA Total	950	176,074	100%	35%	14,808	8%	0.8

Source: Urbanation Inc.

*Located within 800m of current and future rapid transit

**Total proposed infill development units at existing rental properties as a proportion of total existing rentals onsite



Example of an Existing Infill Rental Development Site Proposal



Current aerial view

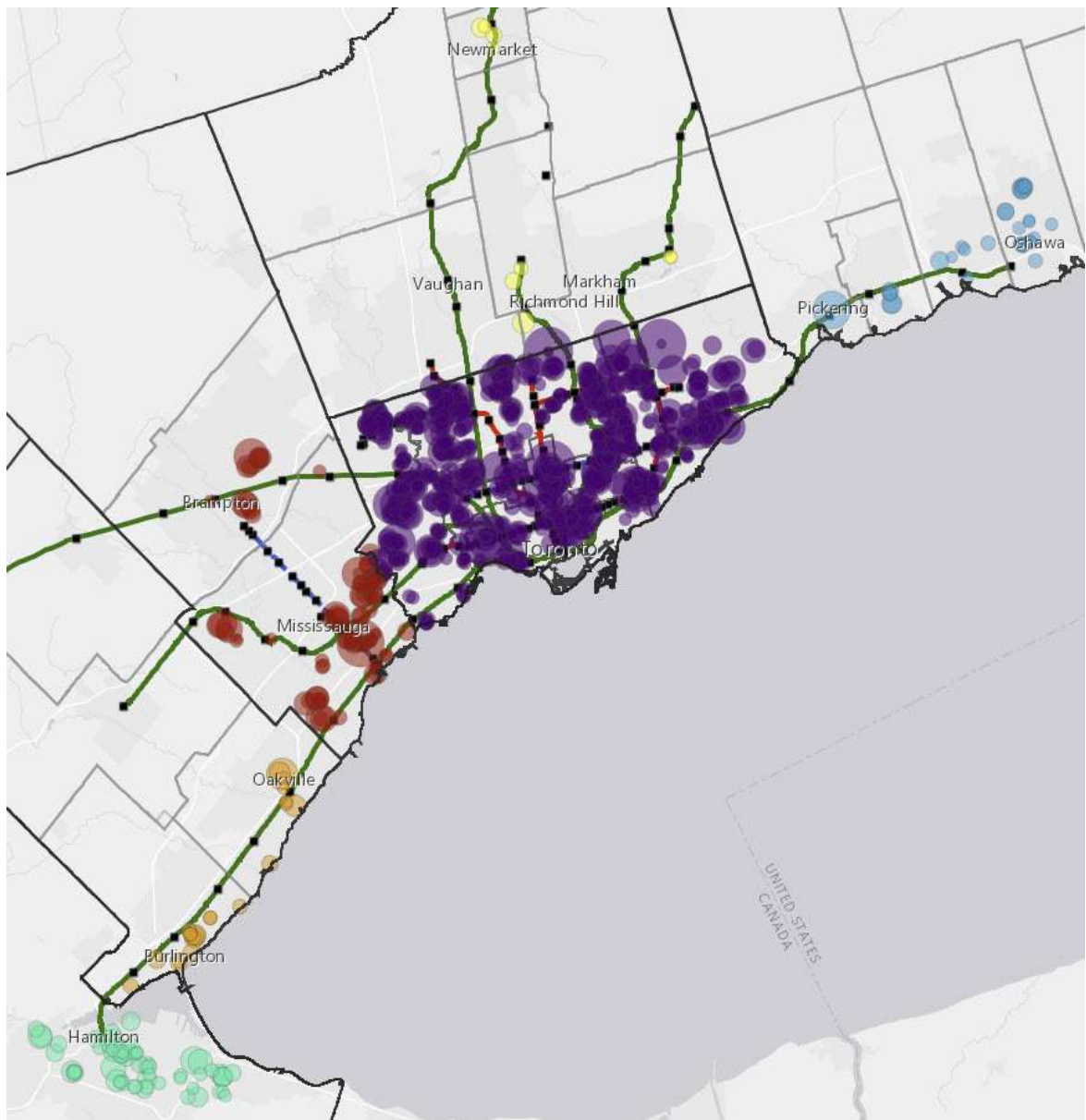


Intensification rendering

Examples of Potential Infill Rental Development Sites



Potential Infill Units at Existing Rental Sites: Greater Toronto-Hamilton Area



LEGEND

Region

- Toronto
- Peel
- Hamilton
- Durham
- Halton
- York

Project Size (Units)

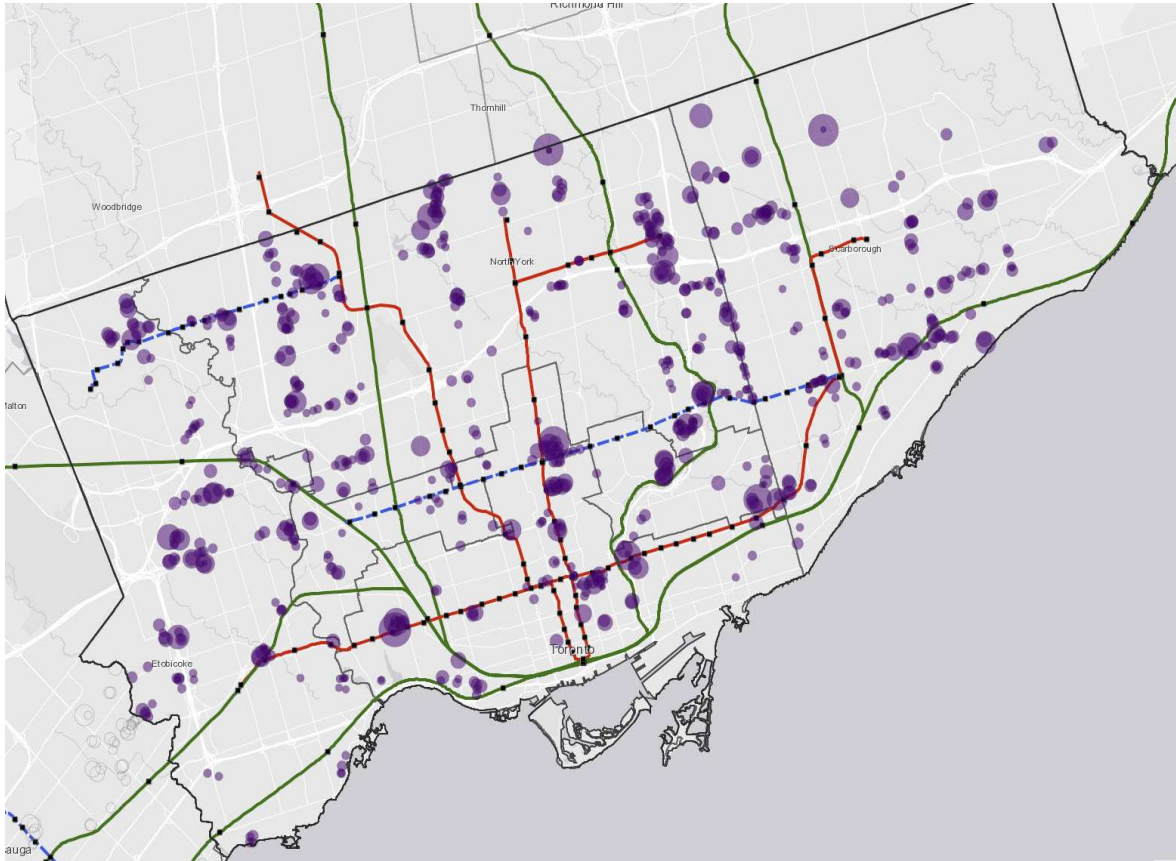
- > 1,250
- 900
- 600
- 300
- < 0

Transit Lines

- GO Train
- TTC Subway/RT
- Under Construction



Potential Infill Units at Existing Rental Sites: City of Toronto



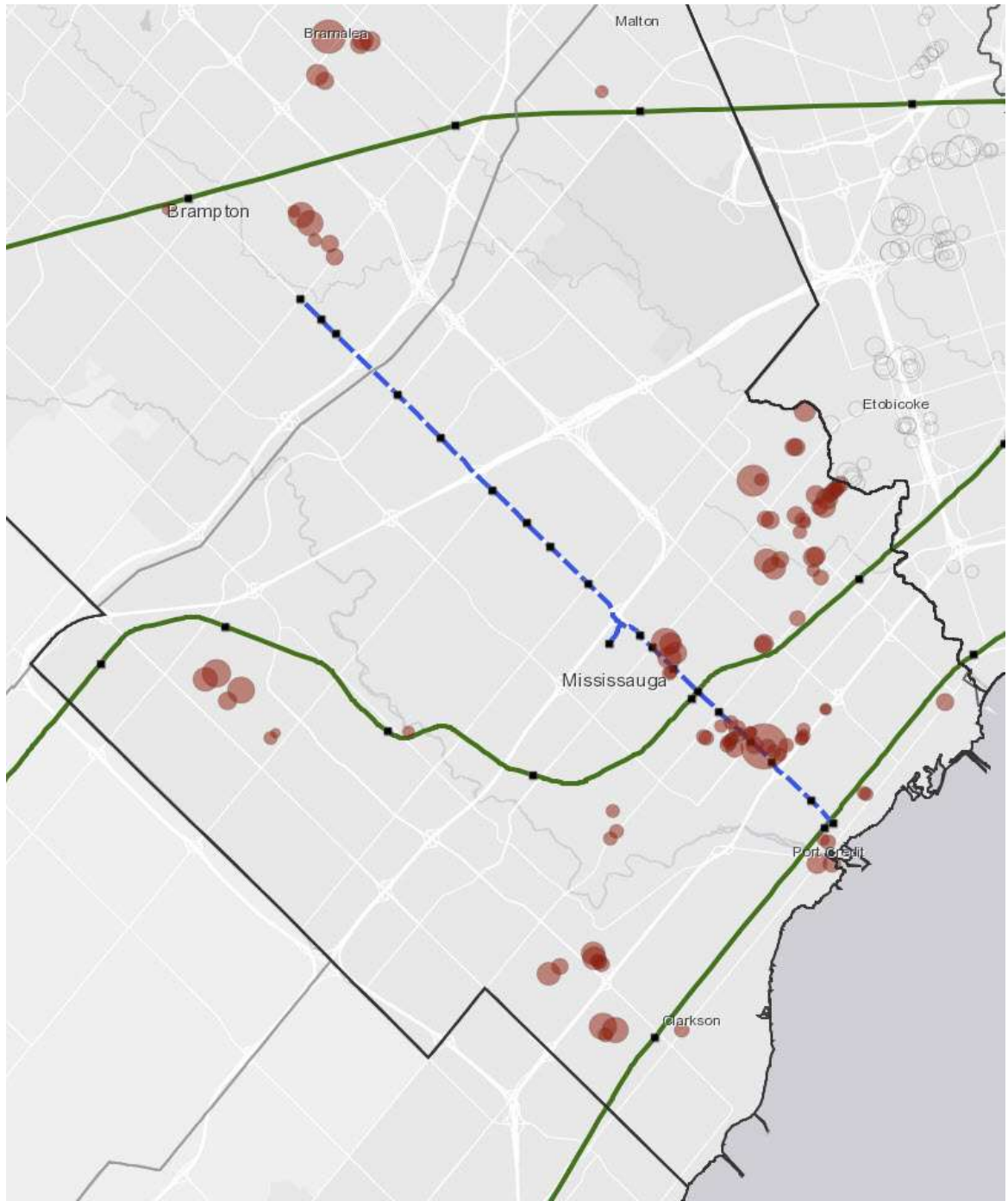
Potential Infill Units at Existing Rental Sites: Durham Region



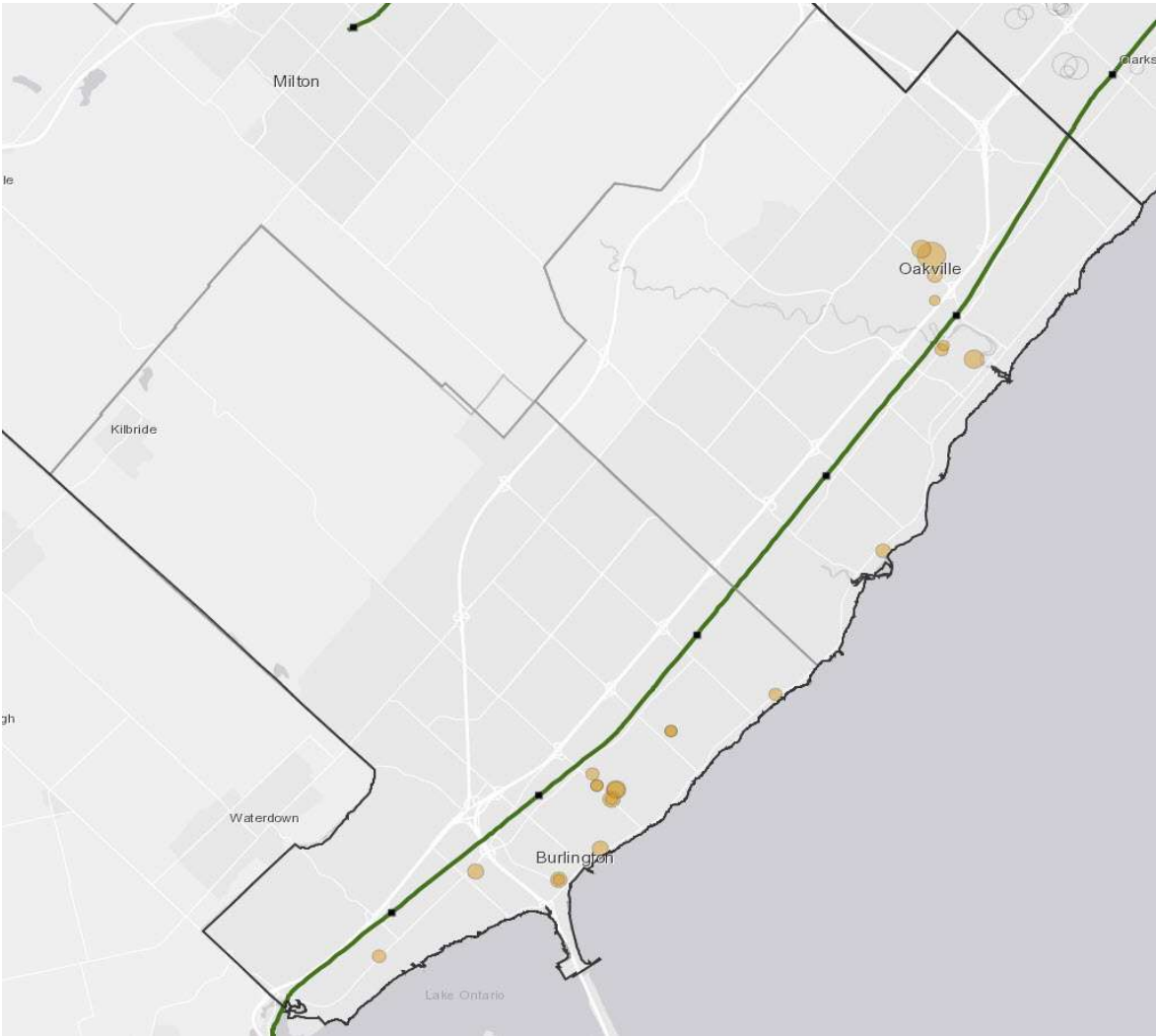
Potential Infill Units at Existing Rental Sites: York Region



Potential Infill Units at Existing Rental Sites: Peel Region



Potential Infill Units at Existing Rental Sites: Halton Region



Potential Infill Units at Existing Rental Sites: Hamilton-Grimsby



Data Limitations and Note to Readers

The analysis and projections contained herein have been prepared on the information and assumptions set forth in this report. However, components of this report were built on information from secondary sources and Urbanation cannot guarantee the accuracy of this data. Moreover, it is not possible to fully document all factors or account for all changes that may occur in the future.

