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The Land Digest

Rental Demand Spurs Growth

According to a new report from Urbanation, the number of condo apartments rented through the MLS system during 2015 in the Greater Toronto Area soared by 19 per cent to reach 27,166 units. Q4 saw a particular surge of rental activity, with a 26 per cent year-over-year increase to 5,628 units.

Also on the rise in 2015 was purpose-built rental construction starts, doubling the annual average since 1990 with 3,476 units.

Given all the new and competing stock that's now available to prospective tenants, concerns might arise about long-term market sustainability and whether supply will outpace demand. But, as recent data supports, sector growth is expected to remain solid into the foreseeable future with both condo investors and apartment developers happily reaping the rewards.

"Rental market demand has continued to receive a boost from strong immigration and population growth within the prime age cohort between 20 and 34 years," says Shaun Hildebrand, Urbanation's Senior Vice President. "Increased migration towards high density areas of the GTA, steady employment growth (89,000 jobs were added in 2015) and reduced ownership affordability due to rising housing prices and stricter mortgage qualification criteria have all played a part. We've also seen higher in-migration recently from other provinces as people search for opportunities outside of Alberta."

Hildebrand points out that the exceptional growth in the young adult population—a demographic known for its higher propensity to rent than own—is at the heart of the rental boom. Reputed for having specific notions about where they want to live and amenities they want to access, this influx of single, young tenants is willing to pay extra for quality accommodations in central, high density locations.

"It's been decades since purpose-built rental construction has been meaningful in the GTA, and now we're seeing how much pent up demand exists," Hildebrand says. "Condo completions have risen to record highs and investors have increasingly held onto their units for rental purposes. This has essentially created a new form of housing for Toronto by the way of brand new rental stock located mainly in the core of the city. Also, most of the new condo rentals are small, which allows rent levels to be lower than the cost of owning a unit."

Keith Reading, Director, Research at Morguard echoes Hildebrand's sentiments, adding that despite the growing number of condo rentals, he doesn't predict there will be much competition for the tenant pool—at least not yet. "Rental condos are popular with people looking to move up from older, vintage purpose-built properties typically built in the 60s and 70s," he says. "The rents are higher in condos vs. apartments, but the units are newer and generally offer easier access to amenities, like fitness centres, stores and services. In many condos there are retail stores on the ground level, which is still unusual for purpose-built rentals."

According to 2015 data, condo rental activity grew disproportionately faster than the condo stock itself, which increased by a record-breaking eight per cent, or approximately 21,500 units. This was the result of a 34 per cent rental turnover rate (via MLS) for newly completed units that registered last year — a share that jumped from 24 per cent in 2014. Also telling is the average time these listings remained on the market, edging lower from 22 to just 20 days.

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Economic Indicators:

Real GDP Growth	
Q3 2015	2.3%
Toronto Employment Growth	
Nov 2015	4.1%
Toronto Unemployment Rate	
Nov 2015	7.0%
Inflation	
Nov 2015	1.4%
Bank of Canada Overnight Rate	
Dec 2015	0.5%
Prime Rate	
Dec 2015	2.7%
5 Year Mortgage Rate Fixed	
Dec 2015	4.6%

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"I think purpose-built rental development will continue to grow, but modestly," predicts Hildebrand. "The high cost of land and development in Toronto makes the economics of building rental difficult for most developers. While rents have grown to a level that has helped support the case, I don't think there will be much upside for inflation in the next few years given the incoming supply from the condo market."

Urbanation's recent survey of purpose-built rental buildings revealed that an average vacancy rate of 1.1 per cent, and an average availability rate of 2.3 per cent, existed in the GTA in Q4-2015. Proposed rental projects confirmed but yet to begin construction have risen to 53 buildings, totaling 10,513 units.

"Where the opportunities for rental lie ahead are in product that conforms to the changing demographics and needs of the population," says Hildebrand. "I believe homeownership rates have peaked for the time being, and the rental market will continue to see more long-term renters than before. Population growth will begin to shift quickly to within the 35 to 44 age group, whom are likely to require larger spaces than younger renters. There is also a growing trend among downsizers to rent instead of own, freeing up real estate wealth to help fund retirement. All of this suggests that new rental development should be designed in a way to avoid competing with condos and to serve the next phase of growth for rental demand."

Whatever the purpose-built future holds, Reading is optimistic—noting that Morguard has consistently achieved stable and healthy returns from its portfolio with the additional advantage that apartments perform well and maintain their value in periods of economic weakness. "The challenge," he notes, "is to try to boost rents, which are often provincially controlled, as expenses continue to rise."

Canada's tenant pool, however, is posing little in the way of challenges. "The competition for renters just isn't that significant," Reading concludes. "Only at the highest level do condos and purpose-built rental apartments compete."

Source: Canadian Apartment
Erin Ruddy

Altus Group 2015 Real Estate Review Land GTA

Residential land transactions in the GTA grew by 49% in 2015, reaching a record $4.2 billion, including $1.7 billion apiece for low and high density residential oriented investments. According to Altus Group's VP and Chief Economist, Peter Norman, this sizeable increase was evidence of a "strong industry confidence in the prospects of residential development." Despite the Canadian economy facing "economic headwinds," as according to Norman, "the GTA economy is picking up steam [as reflected] by the 2015 data on residential land sales, low and high rise new home sales, and of course, in the level of resulting construction."

Low rise new home sales continue to rise, up 8% over last year, with 19,637 low rise sales recorded for 2015, approximately 15% higher that the 10 year average, while the annual sales totals were the third highest over the last decade.

At the end of 2015, the average low rise sale fetched $829,766 up 18% from the same period in 2014, while the average price of a high rise home in the GTA was $453,083, remaining essentially unchanged. To this trend, Norman suggests that this is "not surprising, given the continued degree of pent-up demand for low rise homes in the GTA."

The positive sales results for both low and high rise homes has encouraged ground related land prices to remain level with previous years. In the GTA, low density oriented sites averaged $812,345 per acre in 2015, while medium density or townhouse oriented development sites were down slightly from the record levels attained in 2014, with a price per acre averaging $1,834,818.

Source: Altus Group

RECENT SALES – GTA

Address/City	Acres	Price	Notes
2444 Yonge Street Toronto	0.25	$14.5	Assembly with 2440 Yonge – future high rise condo
492-498 Eglinton E. Toronto	0.40	$6.6MM	Midtown site future mid rise condo site
411 Church Street Toronto	0.53	$27MM	Future high rise condo development +45 stories
57 Brock Avenue Toronto	0.82	$4.65MM	Sale lease back Beer Store – future development site
1718 Wilson Avenue North York	1.29	$4.15MM	Sale lease back Beer Store – future development site

Source: CFAS and RealTrack

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The key members of the Land Development Group are well tied into the development community.

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