

ECONOMIC UPDATE STATE OF THE REAL ESTATE MARKET

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**ONTARIO
EXPROPRIATION
ASSOCIATION**

October 18, 2024

PRESENTATION OUTLINE

- Introduction
- Economic Indicators
- Real Estate Market Sectors
 - Retail
 - Industrial
 - Office
 - Residential



Retail



Industrial



Office



Residential

INTRODUCTION

www.tateresearch.com



Tate Research

Founded in 2003

Based in Downtown Toronto

Professional Land Economists and Market Analysts

Analysis of All Commercial Sectors

Projects across Canada, focus on Ontario and GTA

Current Clients include large public and private companies such as Remington Group, Cadillac Fairview, Dream, North American Development Group, McDonalds, Slate, First Capital

Current Municipalities – Toronto, Owen Sound, Guelph, Ottawa, Kitchener

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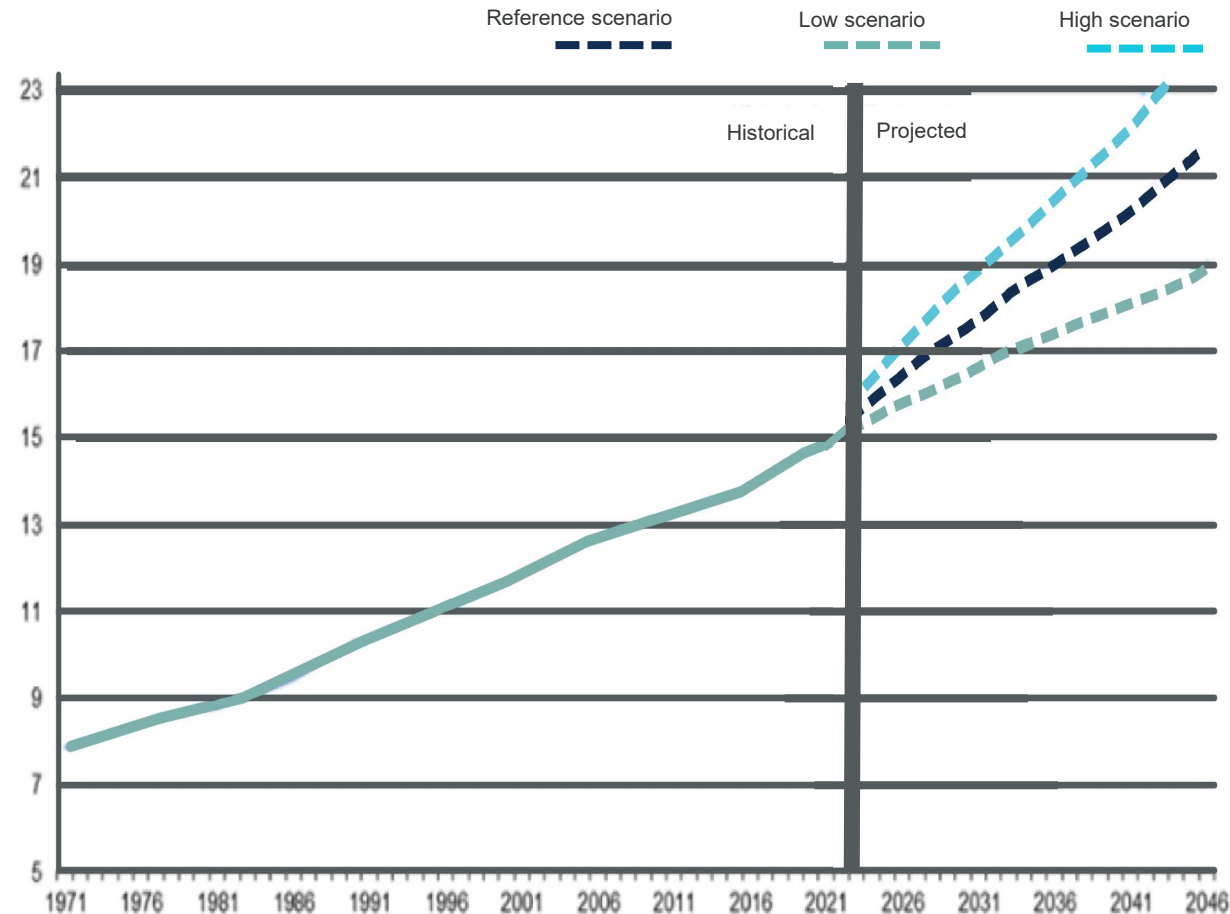
ECONOMIC AND DEMOGRAPHIC ANALYSIS

ECONOMIC AND DEMOGRAPHIC ANALYSIS

POPULATION GROWTH AND FORECAST - ONTARIO

Ontario Population, 1971 to 2046

Number of people (in millions)



- Canada now at 41.3 million. Up from 38.4 million in 2021.
- Like adding a new City of Ottawa each year.

- Real estate demand driven by population increase
- Growth rate forecast to increase
- 2046 will be double 1996 population

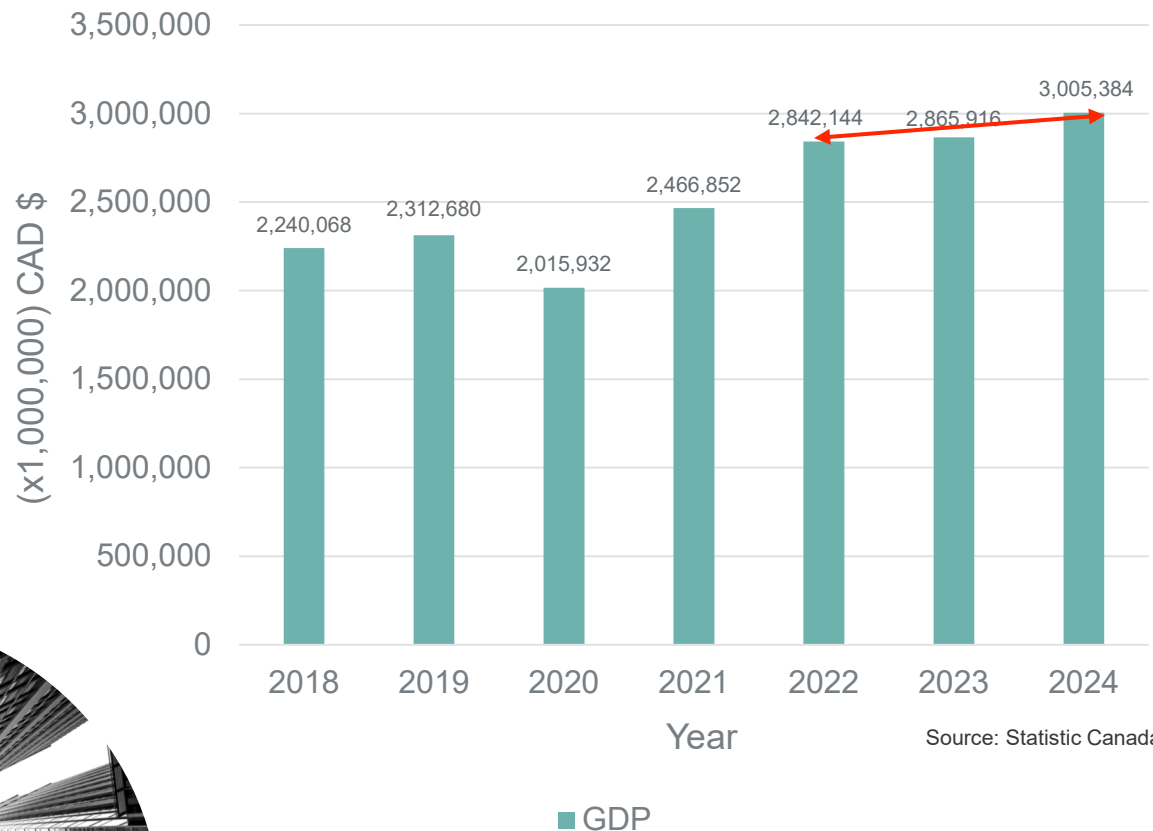


Source: Statistics Canada for 1971-2022, and Ontario Ministry of Finance Projections ; Diagram duplicated by Tate Research

ECONOMIC AND DEMOGRAPHIC ANALYSIS

CANADIAN GROSS DOMESTIC PRODUCT (GDP)

Gross Domestic Product (CAD)

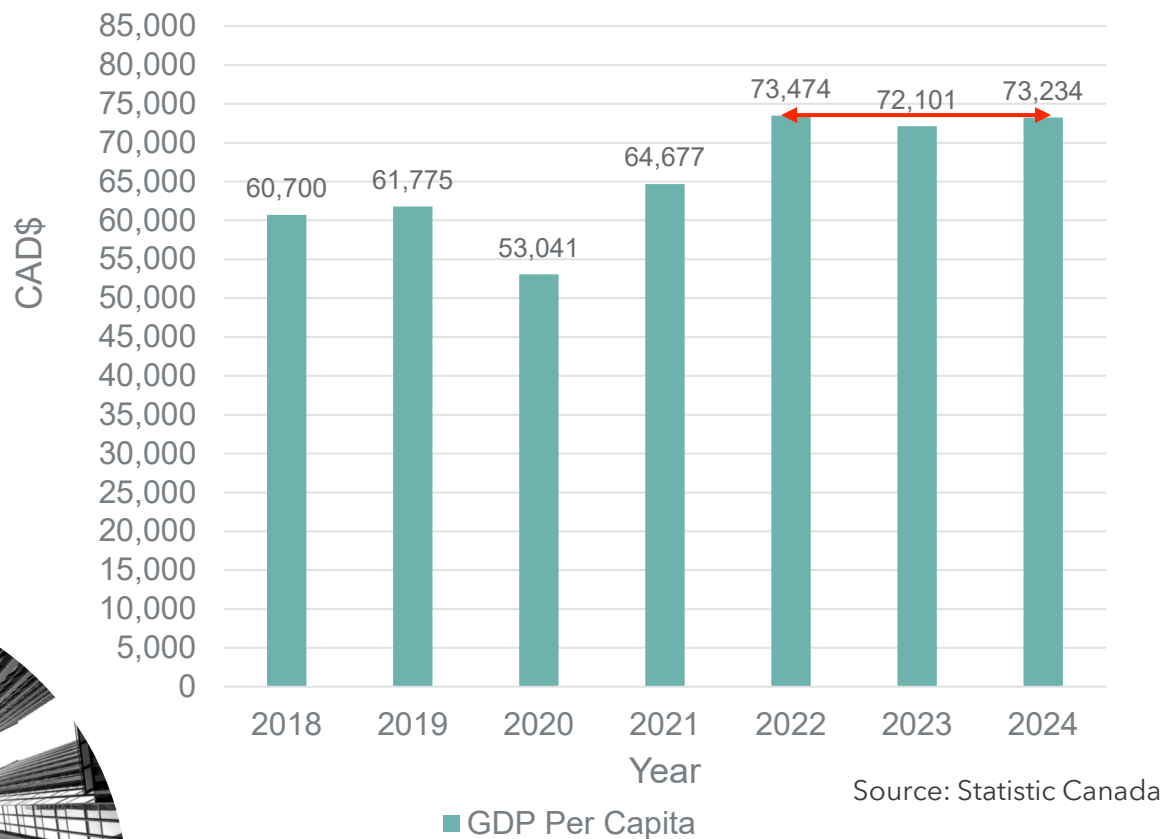


- GDP is a measure of all goods and services a country produces
- Increased since 2016 until Covid in 2020
- Returned to increases in 2021 and 2022, slight increase in 2023, and increase in 2024

ECONOMIC AND DEMOGRAPHIC ANALYSIS

CANADIAN GROSS DOMESTIC PRODUCT PER CAPITA

Gross Domestic Product Per Capita



- Per capita tells a different story
- 2024 partial year data indicates limited increases
- Likely will end up below 2022

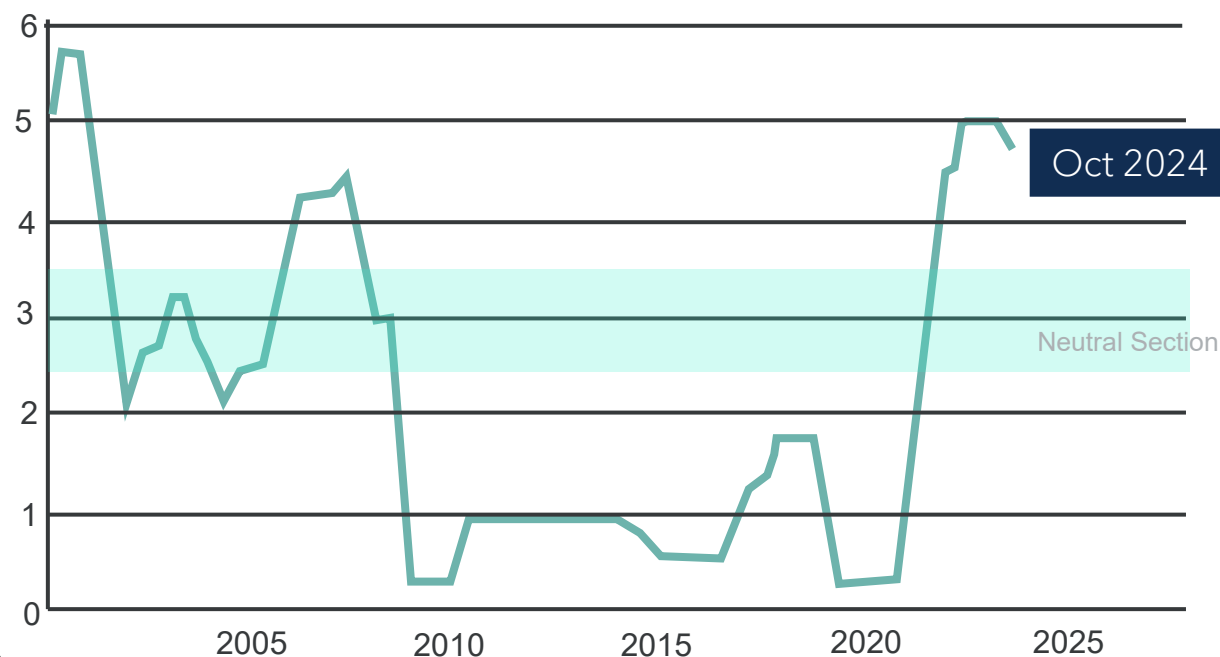
ECONOMIC AND DEMOGRAPHIC ANALYSIS

INTEREST RATES

Bank of Canada

Overnight Lending Rate, %

2000



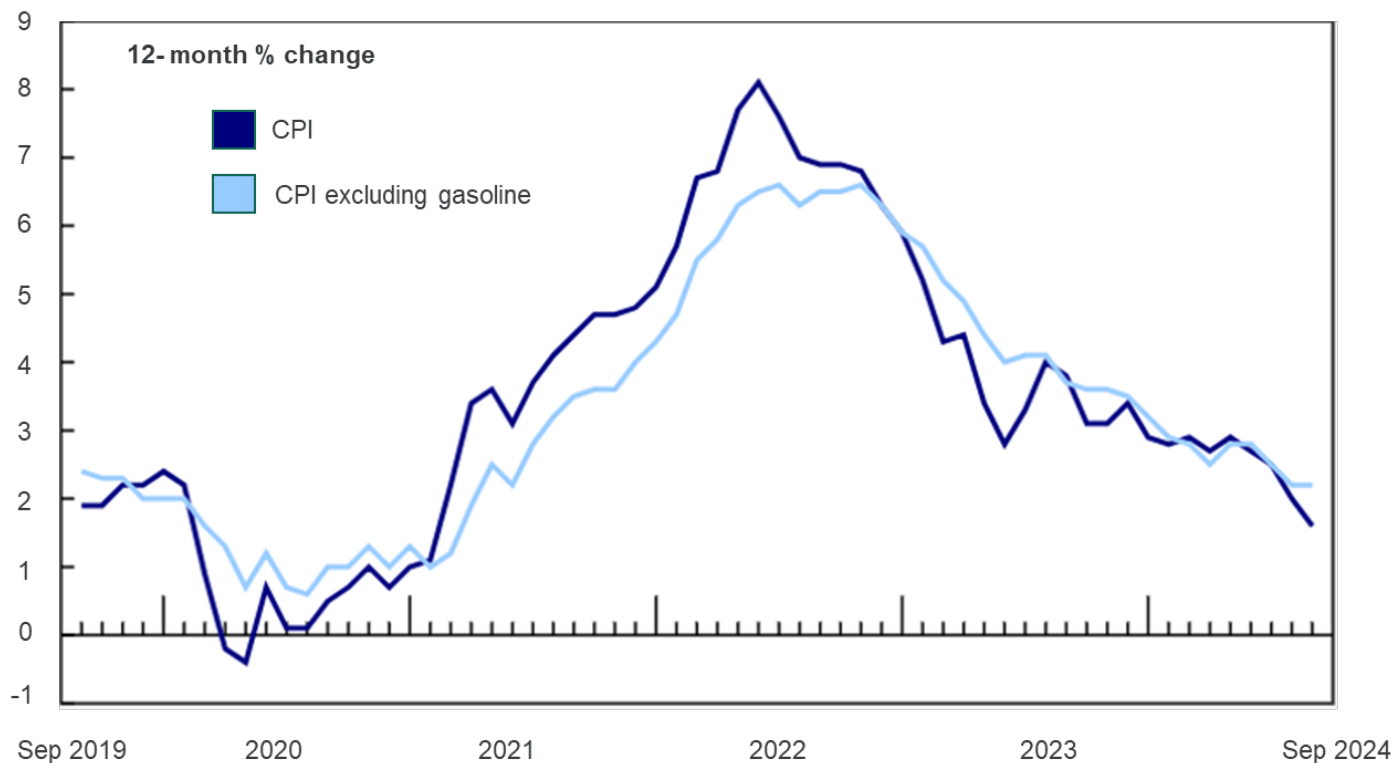
Source: Y Charts

- 10 consecutive increases / holds from 2020 - 2023
- For context – rate was 21% in 1981, 13% in 1990
- Rates held constant since summer 2023
- As of June 12, 2024, the Overnight Lending Rate drops to 4.75%, and continues to drop to 4.25% in October 2024
- IMPACT – 34,000 Canadians missed a mortgage payment in Q1 2024 – up 23% from 2023

ECONOMIC AND DEMOGRAPHIC ANALYSIS

RECENT NEWS AND FORECAST

12 Month Change in CPI & CPI Excluding Gasoline



Source: Statistic Canada: Table 1810000401

- September 2024 inflation 1.6% - lowest since February 2021 (3 years).
- August was 2.0% and was also the lowest level since February 2021. July was 2.5%.
- Food up 2.4%, Shelter up 5.0%, but gasoline down 10.7%
- Will lead to rate cuts
- 5 of 6 banks are forecasting 50 basis points (0.5%) cut on October 23, 2024
- Forecast continuing to decline into 2025.
- Into "Neutral Territory by mid to late 2025."

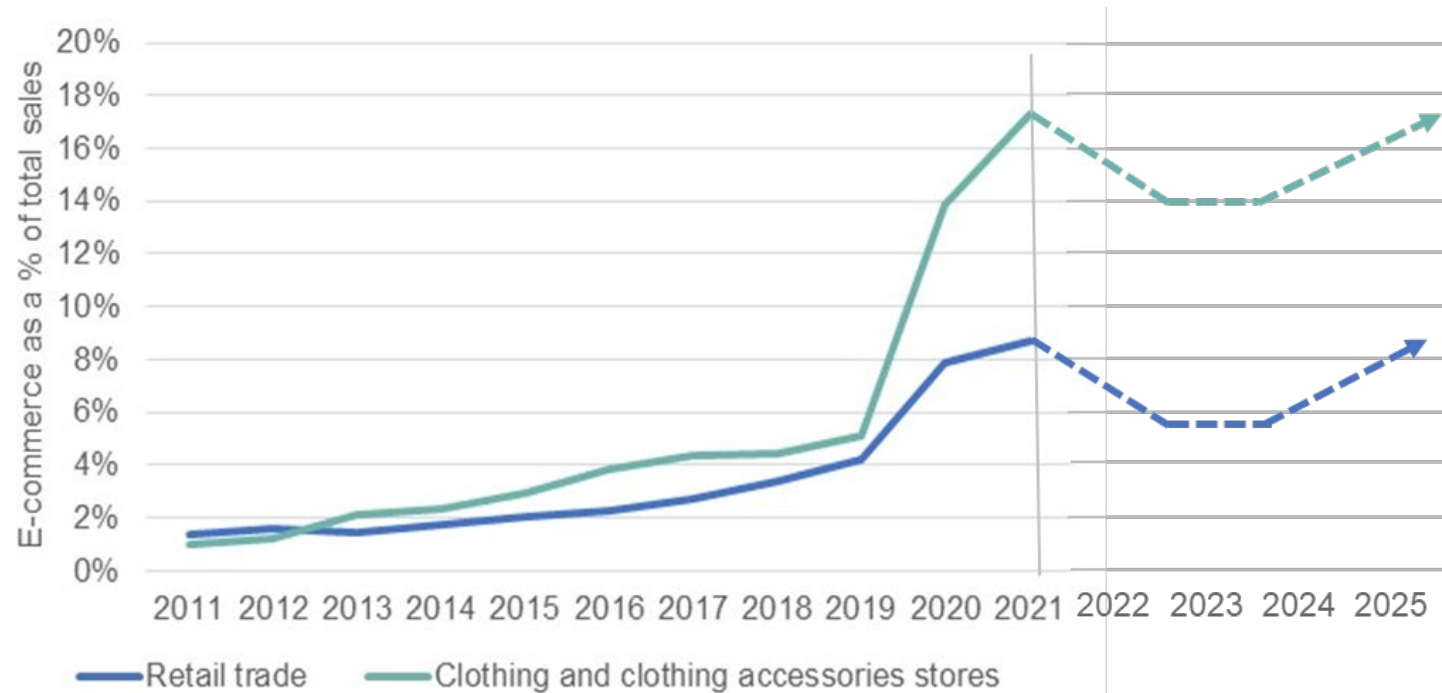


RETAIL REAL ESTATE TRENDS

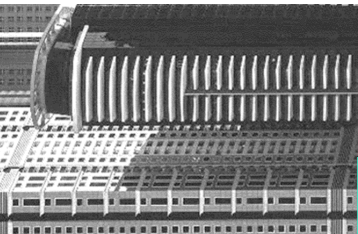
RETAIL REAL ESTATE TRENDS

E-COMMERCE

- StatsCan data indicates Covid bump
- Decline in e-commerce as stores re-open



Amazon 2nd largest retailer in the world, behind Walmart

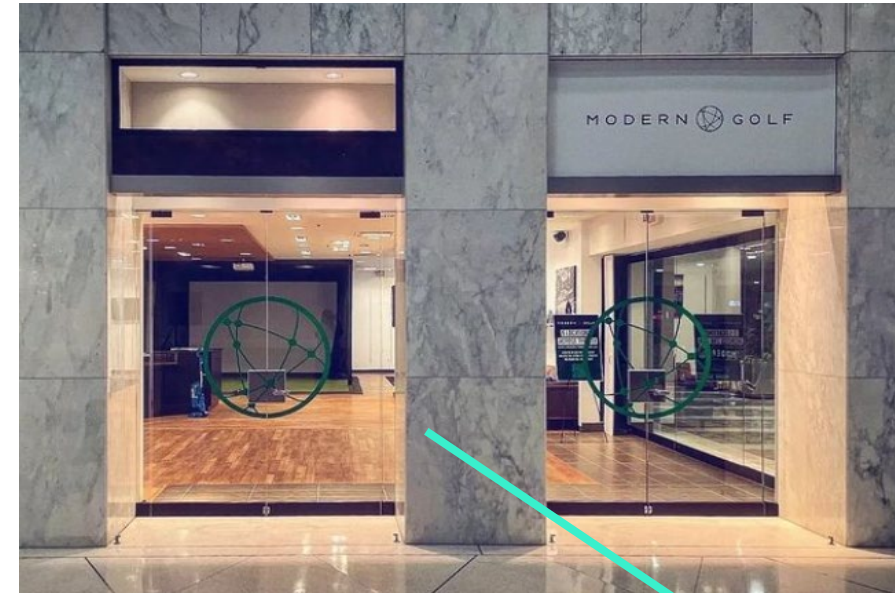


RETAIL REAL ESTATE TRENDS CONVERSIONS TO SERVICE USES

Location: 1 Bloor Street East, Toronto



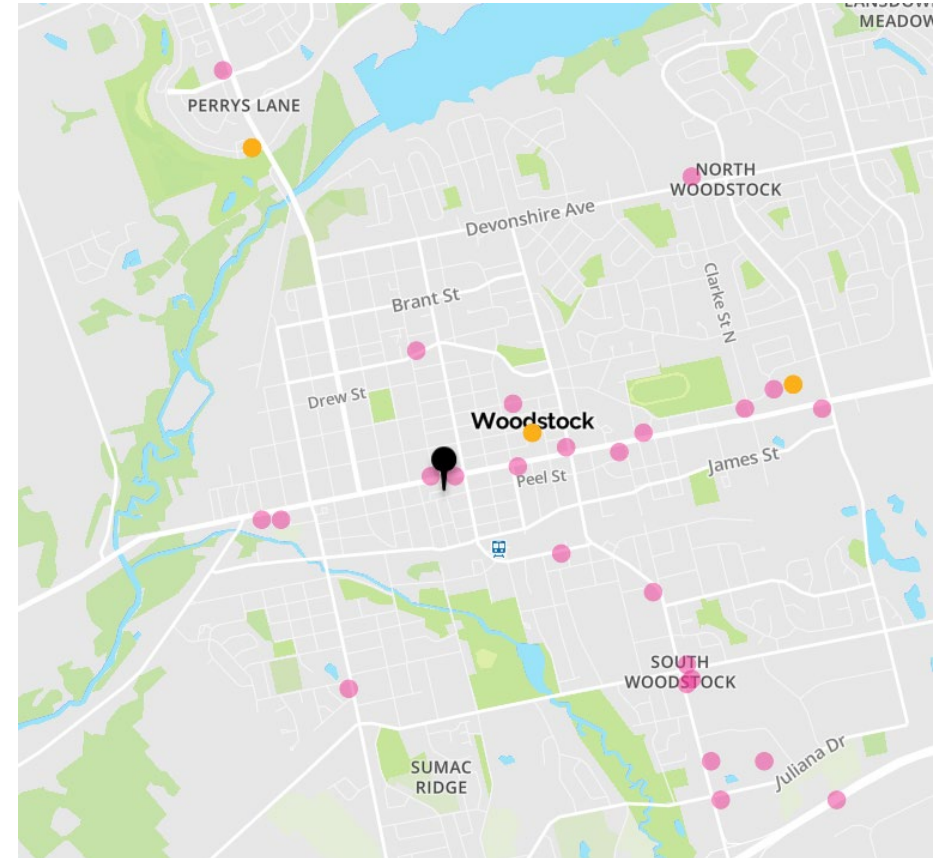
Location: First Canadian Place, Toronto



RETAIL REAL ESTATE TRENDS

CANNABIS DECLINE AND ALCOHOL EVERYWHERE

- First time cannabis sales declined, sales down 3.9% YOY and 1.0% YTD.
- Consolidation starting - Tokyo Smoke closing 29 stores and filing for creditor protection – oversaturation.
- Alcohol in convenience stores, 7am to 11pm, gas stations, larger packages, and pricing competitive.
- Diminished value of LCBO / Beer Store anchors



Source: <https://www.ontario.ca/page/where-buy-alcoholic-beverages>

RETAIL REAL ESTATE TRENDS

SMALLER UNITS & PRICE STILL MATTERS!



VS



~~PUSATERI'S~~
FINE FOODS

~~NORDSTROM~~

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RETAIL REAL ESTATE TRENDS PUSH TOWARDS MIXED USE

Mixed-use Development Concept



Source: dailyhive.com

History of Mixed-use

- Was the norm prior to modern zoning / land use practices.
- Changed with the mass acceptance of the automobile in the 1950s and 1960s.
- Land uses were assigned according to function – retail, work, living, school were segregated.
- Inner city redevelopment re-introduced mixed-use in the 1980s, 1990s.
- “Smart Growth” brought about walkable communities and residential emerged as a primary use.
- Benefits include less auto dependent, less sprawl, supports transit, “live/work/play”.
- Plans often force mixed-use, particularly retail and office, into new development.
- **Mixed-use doesn’t always work.**

RETAIL REAL ESTATE TRENDS

REDEVELOPMENT AND INTENSIFICATION

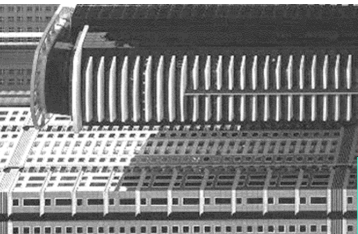
4180 Kingston Rd, Scarborough



Source: Google Maps Streetview



Source: Urban Toronto



RETAIL REAL ESTATE TRENDS

SHOPPING CENTRE REDEVELOPMENT

Before



After



Source: dailyhive.com

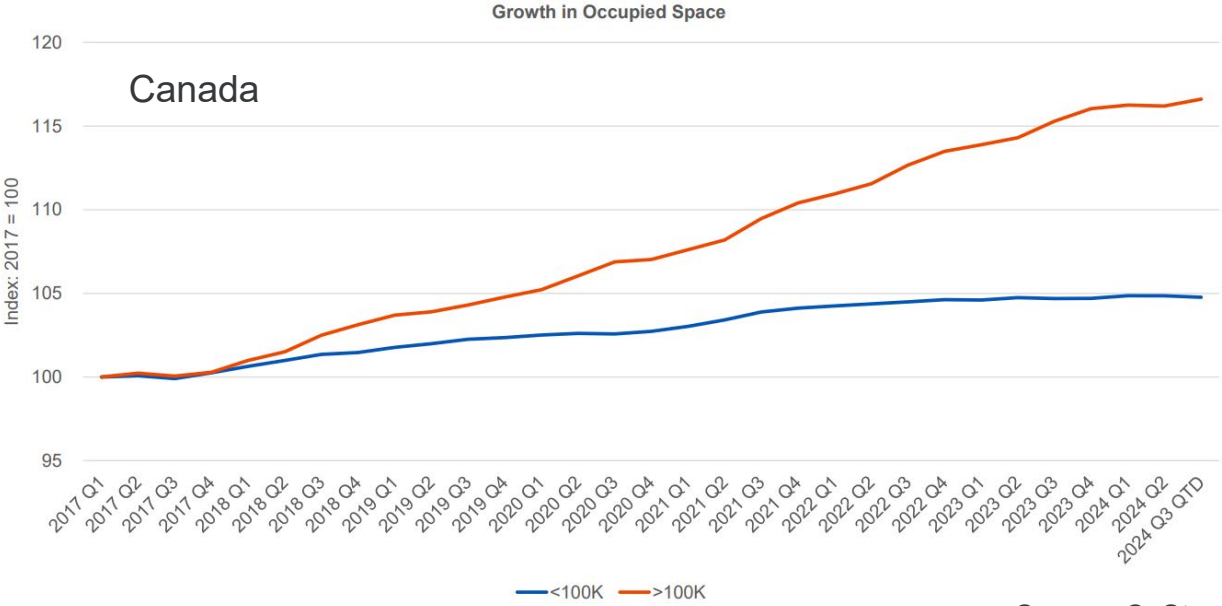
Oakridge Centre in Vancouver

- Regional mall anchored by Hudson's Bay
- Redeveloped with condo towers
- Paid HBC \$151.5 million and HBC will get another \$21 million to outfit its store when redeveloped. From HBC Press release October 2018

INDUSTRIAL REAL ESTATE TRENDS

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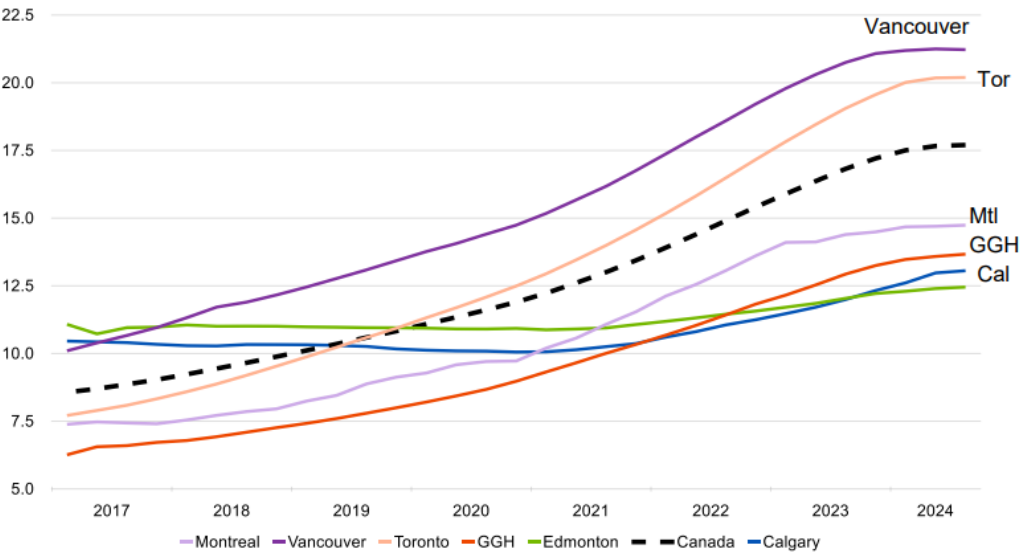
GROWTH AND RENT



Source: CoStar

Demand continues to grow at a faster rate for larger boxes.

Rent/SF by CoStar Market



Source: CoStar, 2027 Q2

Source: CoStar

INDUSTRIAL REAL ESTATE TRENDS

MARKET FACTORS

Amazon's new 1MM sf, near Cambridge



- In 2025 vacancy rates are expected to peak and then decline.
- Rent growth has slowed, but Canada's supply constraints should support above-inflation rent increases
- Investors still favor industrial properties

INDUSTRIAL REAL ESTATE TRENDS

INTENSIFICATION



1 Steelcase Road West
DVP and Steeles, Markham

Intensification supports higher land values

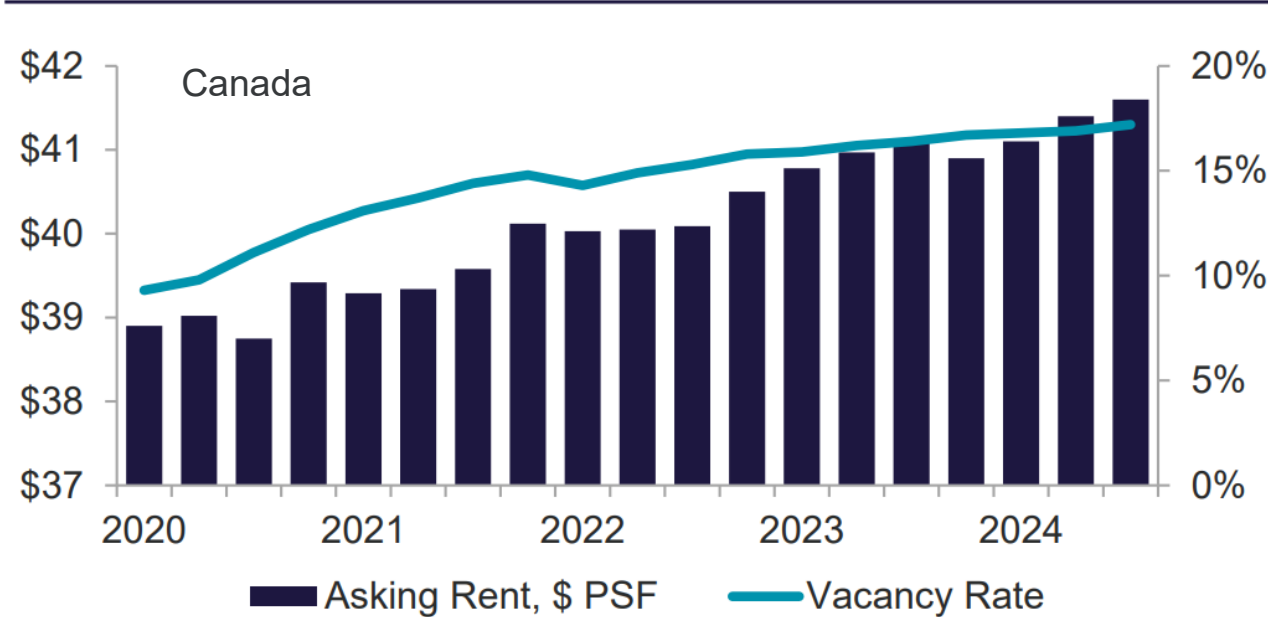


OFFICE REAL ESTATE TRENDS

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OFFICE INVENTORY AND VACANCY

OVERALL VACANCY & GROSS ASKING RENT



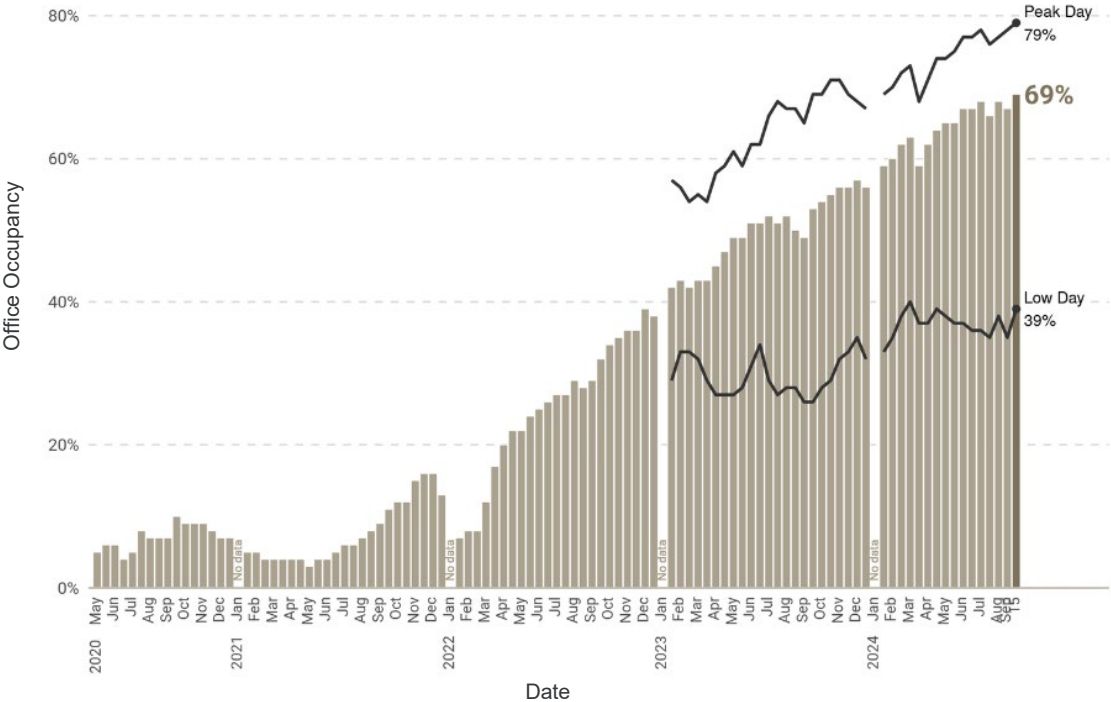
Source: Cushman & Wakefield

- Initial Covid Impact
- Increasing since 2020
- Longer term leases expiring over time
- Leases renewed – less space
- Toronto has 17.2% vacancy, rents higher
- Ottawa is lower at 12.5%
- Kitchener and London are in the 20s

OFFICE REAL ESTATE TRENDS

OCCUPANCY AND WORK FROM HOME

Toronto Office Occupancy Index



Source: <https://srrresearch.org/covid/category/Occupancy+Index>

“...better set up to invent, collaborate and be connected to each other and our culture and the business to deliver the absolute best for customers and the business, we’ve decided we are going to return...”

It’s easier for our teammates to learn, model, practice and strengthen our culture...teaching and learning are more seamless...”

Source: Amazon Sept 16, 2024, letter from CEO Andy Jassy to staff.

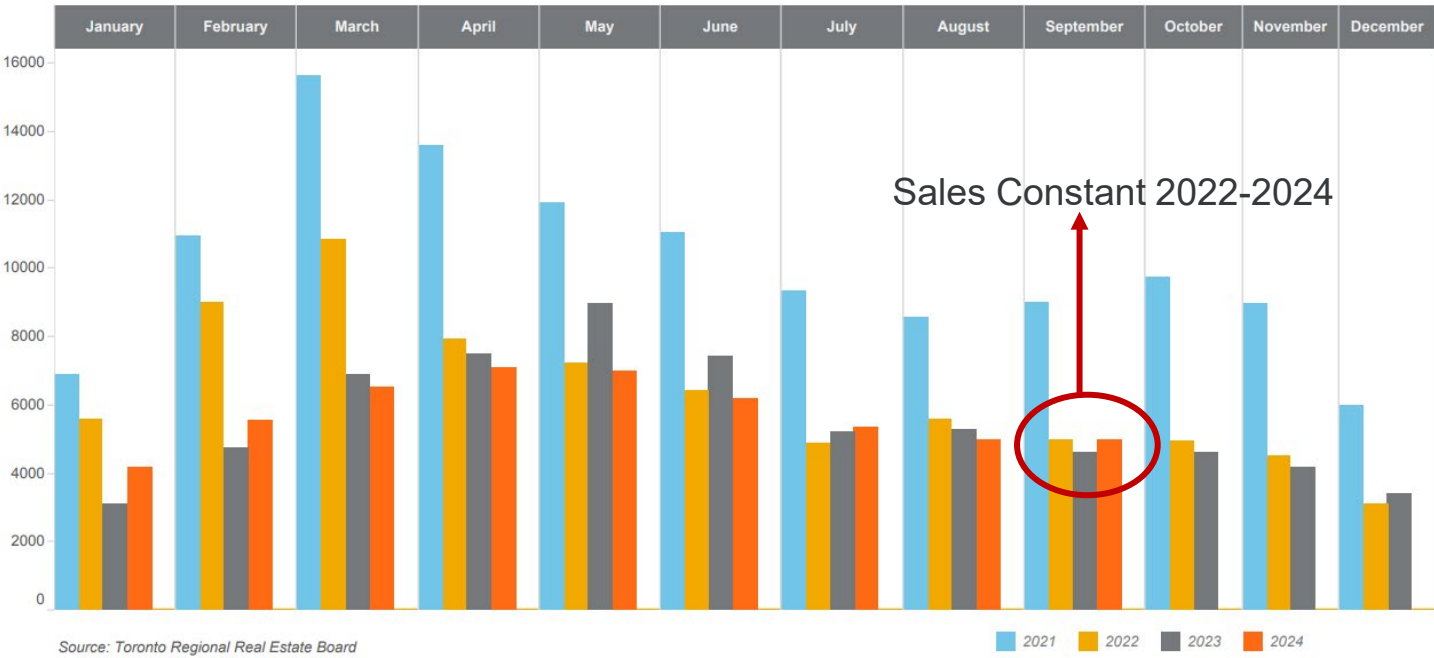
- Occupancy leveling off below 70%
- Wednesday is highest day, Monday’s and Friday’s lowest

RESIDENTIAL REAL ESTATE TRENDS



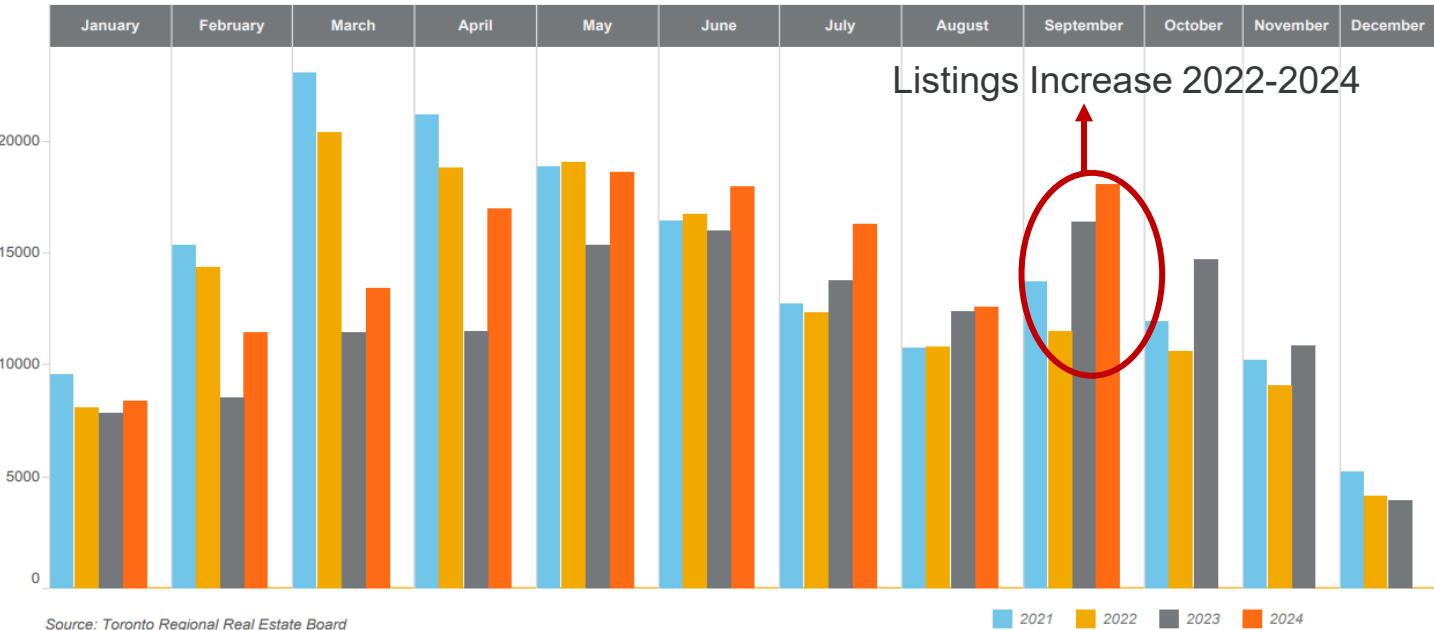
TRREB MLS SALES

MONTHLY WITH THREE PREVIOUS YEARS FOR COMPARISON



TRREB MLS NEW LISTINGS

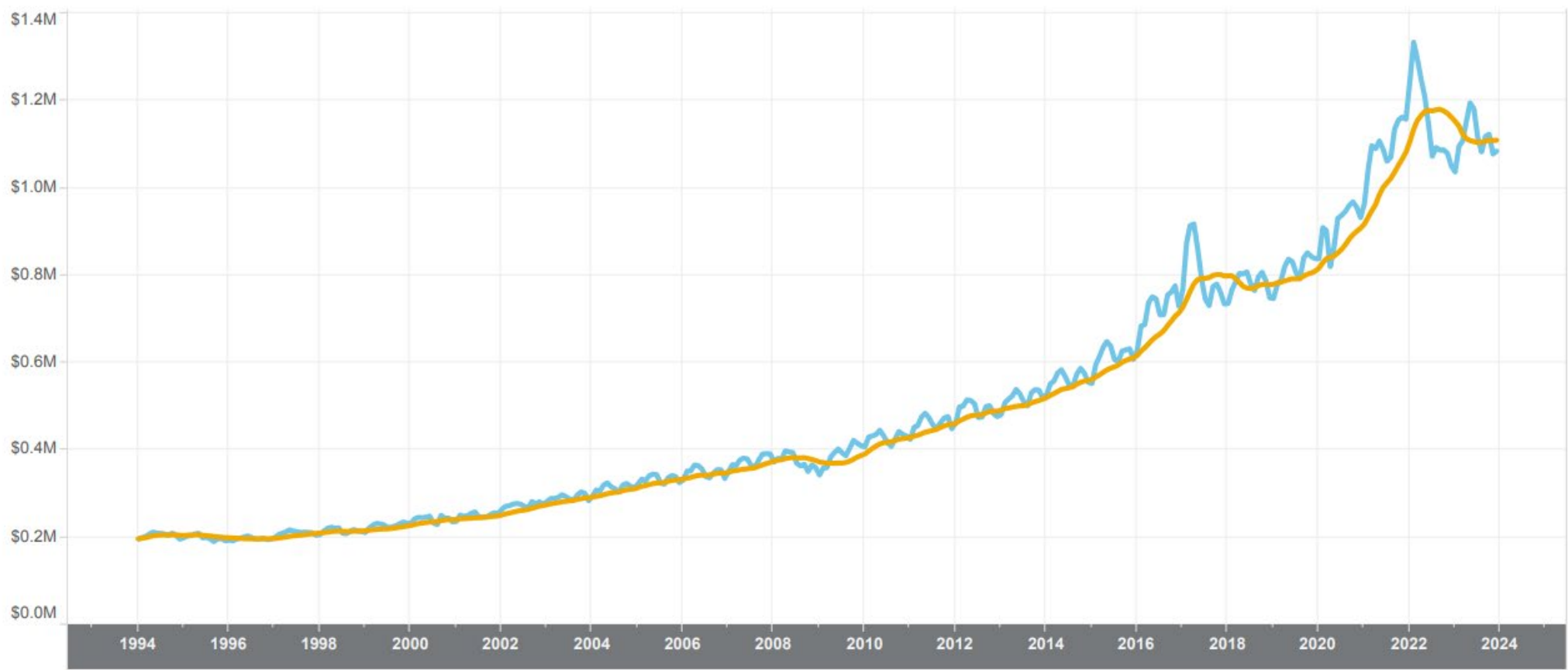
MONTHLY WITH THREE PREVIOUS YEARS FOR COMPARISON





TRREB MLS AVERAGE PRICE

MONTHLY TIME SERIES WITH TREND LINE



Source: Toronto Regional Real Estate Board

■ MLS Average Price
■ Average Price Trend (12-Month moving average)

RESIDENTIAL REAL ESTATE TRENDS

AN EXAMPLE OF PRICING CHANGES

43 Ravine Ridge Way – City of London, ON

Date	Price	Change from Peak	Percentage Change
April 1 2023	\$1,699,000		
July 1 2023	\$1,649,000	-\$50,000	-3%
Feburary 5 2024	\$1,550,000	-\$149,000	-10%
May 17 2024	\$1,399,900	-\$299,100	-18%
June 6 2024	\$1,290,990	-\$408,010	-24%
July 15 2024	\$1,050,000	-\$649,000	-38%

Purchased in April 2023 for \$1.70 million
Sold in July 2024 for \$1.05 million



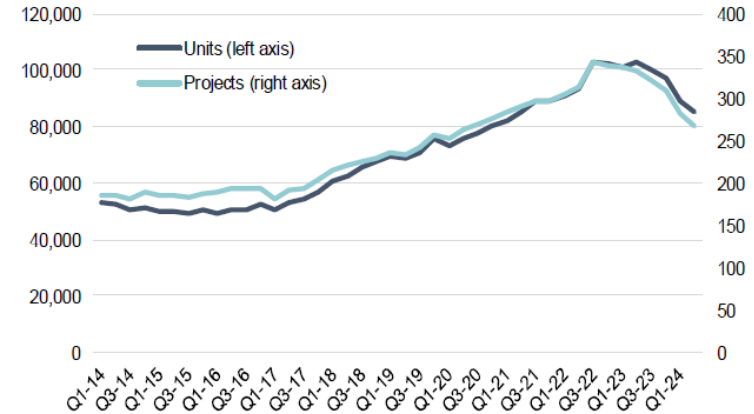
RESIDENTIAL REAL ESTATE TRENDS

CONDO MARKET SUMMARY

- Low rise industry – stable
- Condo market – recessionary
- Math no longer works – Investors represent 70% of presale condos. New condos are priced too high for investors. But developers can't lower costs because land is bought, and construction costs remain high.
- Resale condo prices down 12%, new condos down by 5%.
- Condos won't get built until prices come back up. But there is no demand (yet) to drive prices.

Chart 3: Condo Construction is Dropping Fast

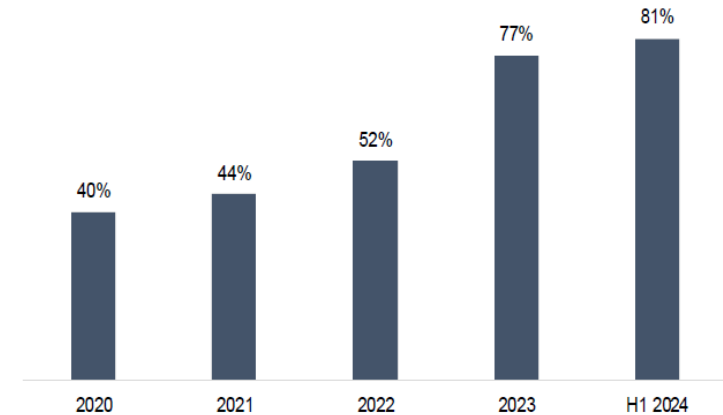
GTA Condos Under Construction
Q1-2014 to Q2-2024



Source: urbanation.ca

Chart 8: Large Increase in Cash Flow Negative Condos

Share of Newly Completed GTA Condos with a Mortgage that are
Cash Flow Negative



Source: urbanation.ca

RESIDENTIAL REAL ESTATE TRENDS

RECENT GOVERNMENT CHANGES

- Home Buyers Plan – increase RRSP withdrawal limit from \$35K to \$60K
- Extension of First Time Home Buyers Amortization to 30 yrs
- Interest and finance changes for purpose built rental buildings
- GST exemption on student housing
- Capital gains inclusion rate increased on June 24 to 2/3 over \$250K – impact on investment property and cottages. Cottage market is down
- Some factors lead to increased demand, whereas capital gains tax could reduce demand
- Gentle Density – multiplexes, laneway housing and garden suites permitted as-of-right



GENTLE DENSITY?

217 Woburn Avenue, City of Toronto, ON



Before



After



2021

Site



2024

Site



Source: Tate Research, Google Maps

RESIDENTIAL REAL ESTATE TRENDS

BILD GTA APPROACH

BILD Press Release Headings:

- **May** new home sales: Record-breaking lows and what this could mean for the GTA's future housing supply
- **June** new home sales in the GTA remained low – new projects facing structural barriers; high costs to build
- GTA new home sales in **July** at an all-time low – urgent government action needed
- **August 2024** new home sales in the GTA hit historic lows – down 46% from August 2023

Source: www.bildgta.ca

BILD Approach:

- Radio advertising, media blitz
- Governments must do something to lower housing costs and make the dream of homeownership possible
- Government fees and taxes comprise 25% of the cost of an average home in the GTA
- Municipal Approvals - Based on average approval timeframes, this adds between \$43,000 and \$90,000 to the cost of a new home

How are people affording housing?

- Bank of Mom and Dad
- 31% get family help - Average amount is \$115K



RESIDENTIAL REAL ESTATE TRENDS

CMHC FORECAST

- Decline in housing starts will persist – particularly condos / apartments
- Increase in listings has occurred
- Mortgage rates declining slightly, declines in latter part of year and beyond. Still above rates from last decade
- Housing prices stable in 2024 – lack of buyers and sellers
- MLS sales lowest since 2000
- Housing prices increase in future (driven by ground related housing)

“We anticipate a decline in total housing starts for 2024 and 2025. In 2024, we project an increase in the average MLS price due to lower mortgage rates, strong population growth, and expected economic improvements continuing in 2025 and 2026.

– CMHC Housing Market Outlook, Spring, 2024



ECONOMIC SUMMARY

RECAP AND EXPROPRIATION IMPLICATIONS

- **Retail** – ecommerce and redevelopment.
Implication - less demand for retail space, not highest and best use
- **Industrial** – continued growth at slower pace.
Implication - recent growth not forecast in future
- **Office** – too much office space, occupancy is leveling out.
Implication - office oversupply
- **Residential** – increased lending rates have slowed sales (new and resales). Lower mortgage rates coming in late 2024, legislative increases in demand – offset by new listings. Low rise in good condition – condo market in recession. Overall prices stable in 2024, increasing in future.
Implication – buy now, sell later



Thank you

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