MARKET REPORT

Marcus & Millichap

MULTIFAMILY

Toronto Metro Area

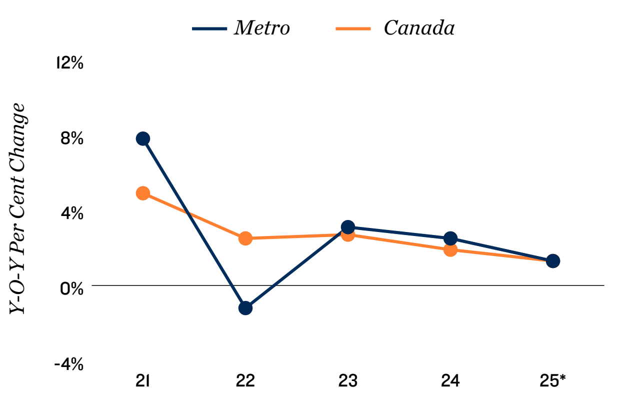
1Q/25

Supply Brings Some Relief for Renters, While Infrastructure Provides Opportunity for Investors

Surging supply bringing some balance back to market. Toronto's purpose-built rental stock expanded by a record 2.8 per cent last year. At the same time, an elevated number of for-owned condominiums also came to market, with 45 per cent of these units being offered for lease. These factors led to a significant influx of rental supply, providing greater choice for renters. As elevated deliveries in both market segments are poised to continue this year, a further softening in performance metrics is expected. Nevertheless, with fundamentals easing and cost pressures mounting, construction starts have begun trending down, likely tempering supply-side risks over the long term.

Infrastructure projects creating opportunities for investors. Five years ago, the provincial government unveiled the Ontario Line, Toronto's newest subway running from Exhibition Place through the downtown core and connecting to the Eglinton Crosstown LRT. As of the end of last year, construction began across all parts of the line, which is a significant milestone in the province's plan to bring nearly 230,000 people within walking distance of fast and convenient public transit. The line is at the center of the government's nearly $70 billion plan to expand public transit and will offer more than 40 connections to other subway, bus, streetcar and regional train services. As for commercial real estate, while not opening until 2031, the subway offers investors greater connectivity and a long-term growth strategy that aligns with Toronto's push for transit-oriented development through friendlier zoning bylaws and financial incentives. As such, surrounding land and multifamily sales could increase in the years ahead.

Employment Trends



** Forecast*

Sources: Altus Data Solutions; CoStar Group, Inc.; CMHC; Statistics Canada

Multifamily 2025 Outlook

50,000 JOBS *will be created*

EMPLOYMENT:

While economic diversification, especially in tech, shields some risk from U.S. tariffs, looming uncertainty and the GTA's exposure to the automotive sector could pose some headwinds. If tariffs do materialize, Toronto's labour market will hold as a key risk to the metro's multifamily outlook.

6,100 UNITS *will be completed*

CONSTRUCTION:

Deliveries could rise by roughly 10 per cent in 2025, as construction starts have increased significantly since 2017 amid robust performance. To begin the year, 72 per cent of the under-construction pipeline was in Toronto proper and Etobicoke.

80 BASIS POINT *increase in vacancy*

VACANCY:

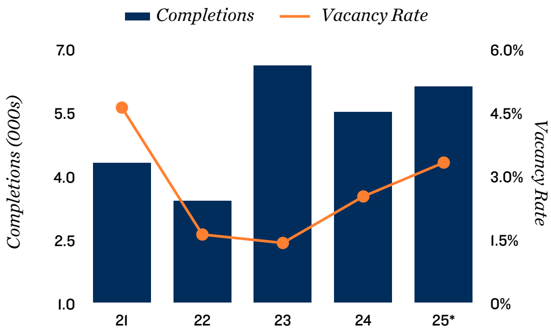
With Toronto continuing to receive elevated deliveries in both the purpose-built rental and for-owned condo sectors, combined with tighter immigration and looming tariff implications, vacancy will inch higher and end the year around 3.5 per cent.

1.5% INCREASE *in effective rent*

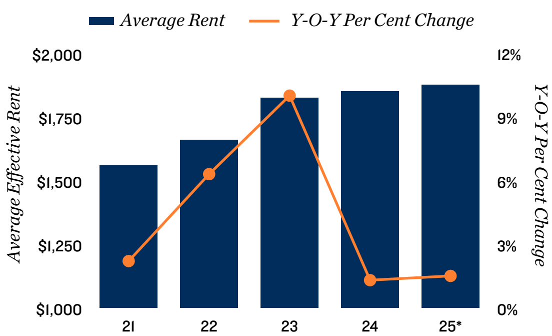
RENT:

Evolving demand risks, as well as elevated completions, will keep pushing vacancy up and providing renters with more options. Amid greater competition, rent increases at both renewal and turnover could ease, leading to an overall lower pace of appreciation this year.

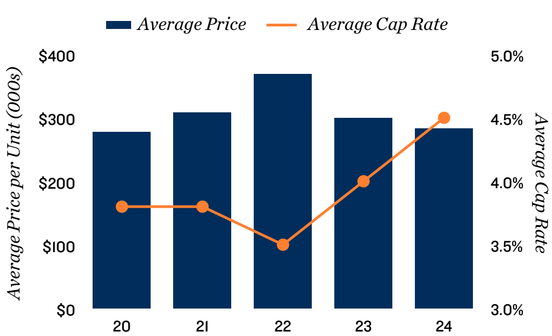
Supply and Demand



Rent Trends



Sales Trends



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Sources: Altus Data Solutions; CoStar Group, Inc.; CMHC; Statistics Canada

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2024 Overview

CONSTRUCTION

5,473 units completed

- While down from 2023, growth in rental stock was diverse last year. The suburban GTA saw a fast pace of increase due to rapid population growth in recent years, along with relatively lower costs helping project viability.
- Rising vacancy, stagnating rents and high build costs are putting pressure on construction activity, as starts fell 35 per cent annually last year.

VACANCY

110 basis point increase in vacancy Y-O-Y

- Buildings constructed after 2005 held the highest vacancy rate, largely because these properties are the ones most directly competing with the influx of new supply seen in recent years.
- Submarkets that have welcomed a surge of rental and for-owned condo supply tended to hold higher vacancy rates, such as Toronto proper.

RENT

1.3% increase in the average effective rent Y-O-Y

- After peaking at 10 per cent in 2023, annual rent growth fell to its lowest level since 2009. Strained renter budgets, reflected in higher vacancy, resulted in a more restrained increase in monthly rental rates.
- Growth slowed the most in Toronto proper, largely because the region offers higher rent levels that are stretching affordability for tenants.

Investment Highlights

- In 2024, multifamily accounted for the second-largest share of total dollar volume transacted among major commercial property types at 20 per cent, while also increasing 80 per cent year over year. As Canada's largest city with a global reputation, in addition to having market fundamentals well-below equilibrium and falling interest rates, there is still healthy investor appetite across the risk spectrum for apartment rentals. Nevertheless, supply and demand pressures pose some manageable risks over the short- to medium-term, and investors should continue to monitor their evolving dynamics.
- Although Old Toronto led overall investment activity, Etobicoke and Mississauga saw the largest year-over-year increase in total sales. These submarkets are more affordable for both renters and investors; they also attract a diverse demographic and have easy transit access to downtown Toronto.
- Toronto's average multifamily cap rate hit 4.5 per cent in 2024, which is the second-lowest among major metros. While still an expensive market, a substantial price premium historically gave room for a larger correction amid elevated interest rates. In 2024, the average sale price in Toronto fell 5.0 per cent year over year – down 23 per cent from the 2022 peak.

Price: $250