MARKET REPORT

Marcus & Millichap

MULTIFAMILY

Southwestern Ontario Metro Area

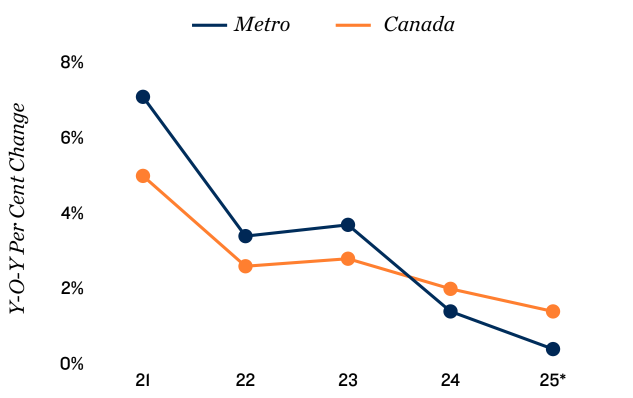
1Q/25

Past and Potential Government Policies Influencing Metro's Multifamily Fundamentals

Tighter immigration to be felt. Southwestern Ontario is home to many major urban areas that offer ample job opportunities across a wide range of industries, while also hosting some of Canada's top universities. Given this diverse economy and vast education network, the metro has experienced a surge in temporary residents, which drove record-high population growth of roughly 4.0 per cent in 2024. Multifamily has shown robust performance as a result. Looking ahead, long-term growth prospects also remain sound. As the metro's economy continues to diversify, while also offering a lower local cost of living, the region's population is forecast to increase by 41 per cent, or 2.63 million people, by 2051. Some headwinds are present, however. Population growth is expected to slow significantly over the short term, as the federal government's tighter immigration policies regarding international students will disproportionately impact Southwestern Ontario. Combined with supply-side pressures, fundamentals will continue to soften in 2025.

Potential U.S. tariffs pose uncertainty for investors. Southwestern Ontario has a large employment base in sectors that are highly dependent on trade with the United States. As a result, protectionist trade policies from the Trump administration have the potential to significantly harm the region's economy. While our base case assumes the two countries avoid an all-out trade war, the current environment generates widespread uncertainty surrounding labour market conditions and multifamily performance. As such, investors have many factors to consider before deploying capital.

Employment Trends



** Forecast*

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

Multifamily 2025 Outlook

5,000 JOBS *will be created*

EMPLOYMENT:

With a large presence in manufacturing, automotive and agriculture, as well as steel and aluminum, uncertainties amid potential U.S. tariffs are likely to put a pause on business investment and hiring. Job growth is likely to be sluggish as a result, with potential losses if tariffs are fully implemented.

4,200 UNITS *will be completed*

CONSTRUCTION:

Deliveries will fall by roughly 1,400 units in 2025 compared with last year. Development is largely around major universities, which is why London and Kitchener-Waterloo hold the largest under-construction pipelines and are expected to lead openings in 2025.

60 BASIS POINT *increase in vacancy*

VACANCY:

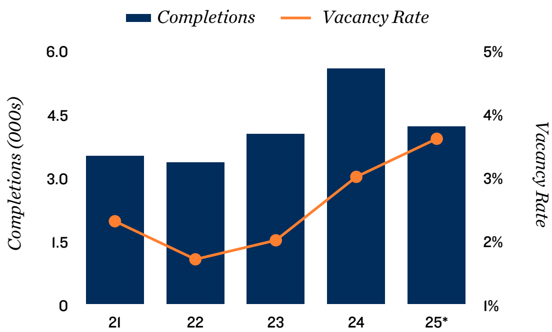
Healthy supply growth has been the main contributor to rising vacancy. Nevertheless, fewer international students and labour market uncertainties will also ease demand-side dynamics, resulting in vacancy rising to just above 3.5 per cent.

3.0% INCREASE *in effective rent*

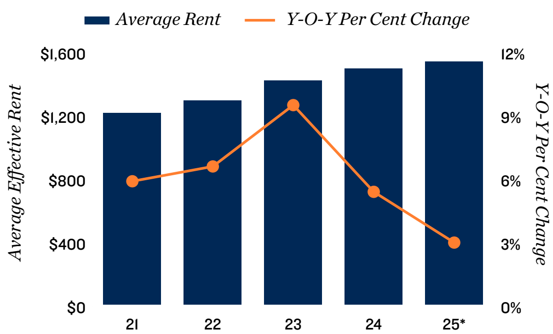
RENT:

As supply and demand dynamics bring some balance back into Southwestern Ontario's multifamily market – especially within university cities – annual rent growth will continue to ease from the record high set in 2023 and slightly outpace inflation.

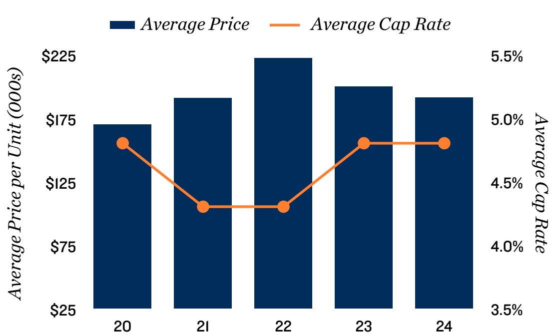
Supply and Demand



Rent Trends



Sales Trends



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2024 Overview

CONSTRUCTION

5,568 units completed

- While only 270 units, Guelph's openings were nonetheless up 80 per cent year over year. London and Kitchener-Waterloo – home to prestigious universities – accounted for over half of all deliveries.
- London and Kitchener-Waterloo had the largest development pipelines ending 2024, with shares of total inventory at 9.3 per cent and 8.2 per cent.

VACANCY

100 basis point increase in vacancy Y-O-Y

- Vacancy rose across all urban areas, pushing the metrowide rate to 3.0 per cent. Given robust supply growth, Kitchener-Waterloo saw the largest jump at 150 basis points and also held the highest vacancy rate of 3.6 per cent.
- While Guelph's vacancy increased by 60 basis points, the submarket maintained the lowest rate at 1.9 per cent due to limited supply-side pressures.

RENT

5.4% increase in the average effective rent Y-O-Y

- With new supply being offered at a premium, Kitchener-Waterloo and London saw some of the highest annual rent growth at just above 6.0 per cent. This only trailed Windsor, which observed rent jump 8.3 per cent.
- Because Guelph held the lowest vacancy rate, it also maintained the highest effective rent, followed by Kitchener-Waterloo and Hamilton.

Investment Highlights

- The total number of transactions was largely unchanged in 2024, indicating some market stabilization. Meanwhile, with interest rates still holding in restrictive territory for most of last year, investors favoured smaller-sized deals where less financing could be used. Total dollar volume was down roughly 30 per cent year over year as a result. Nevertheless, select municipalities such as Hamilton, Guelph and Cambridge saw an uptick in the number of sales, which could partially be attributed to the cities' more affordable property prices, university presences and future growth potential.
- Given a stabilization in sales activity, the average sale price also began to bottom out. While the mean did decrease 4.0 per cent year over year in 2024, this is less than the 10 per cent drop seen in 2023. At the same time, cap rates also held unchanged last year at 4.8 per cent.
- Effective rents in Southwestern Ontario are 20 per cent lower than Toronto, offering greater affordability for renters while still having access to big-city opportunities. With rents well-below Toronto, there is runway for income growth in Southwestern Ontario for investors, which is supported by a positive demographic outlook. As such, the region continues to provide strong growth prospects for investors with a long-term horizon.

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Price: $250