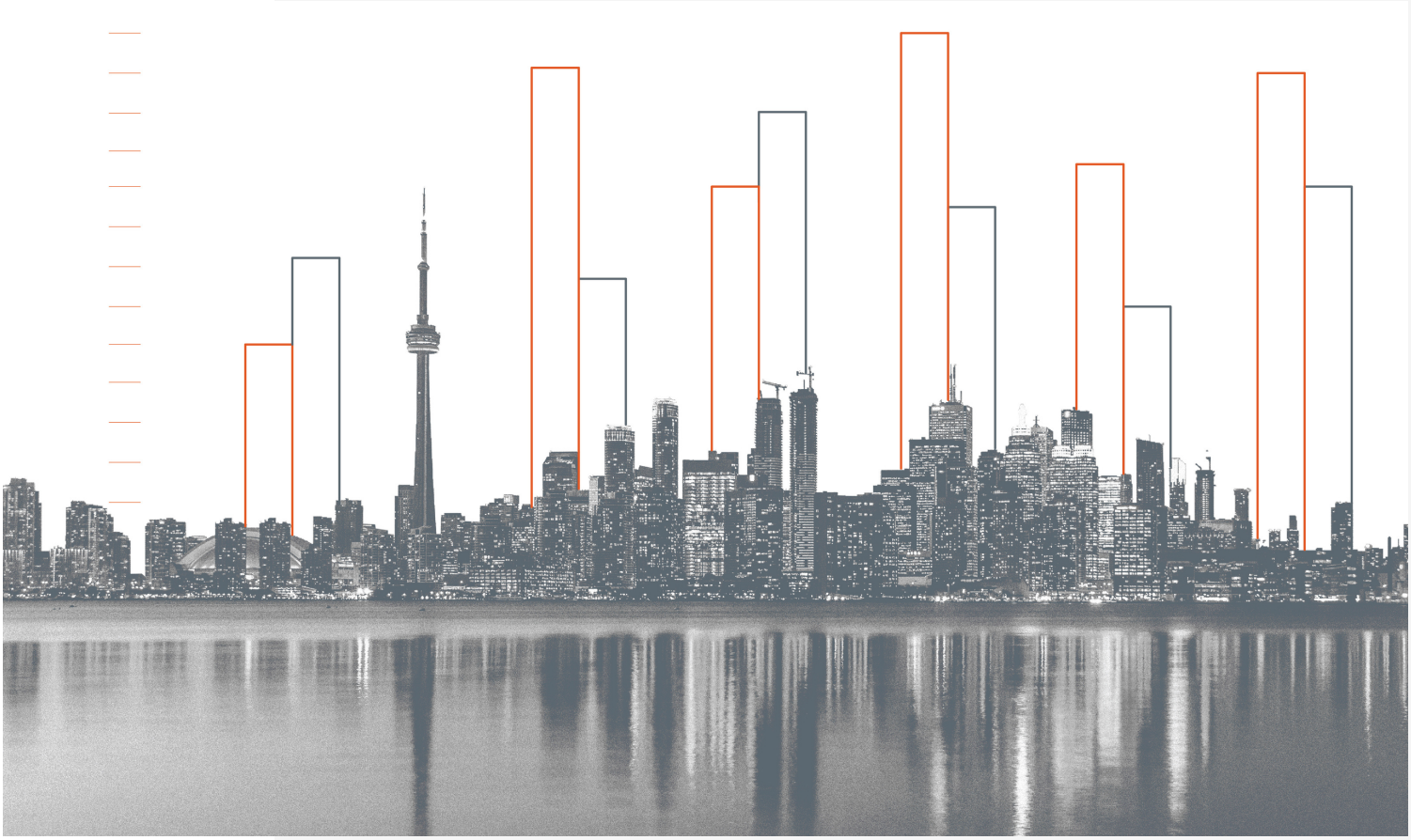
Q4 2020

UA RENTAL TAKE - GREATER TORONTO AREA

COVID SHIFTS DEMAND OUTWARD



UA

URBAN ANALYTICS

Q4-2020 UA RENTAL TAKE - GREATER TORONTO AREA: COVID SHIFTS DEMAND OUTWARD

Over the past seven quarters UA analysts have been collecting and updating information on newer purpose-built rental buildings in the GTA using primary research methods. Toronto and the GTA have been delineated into the following sub-markets.

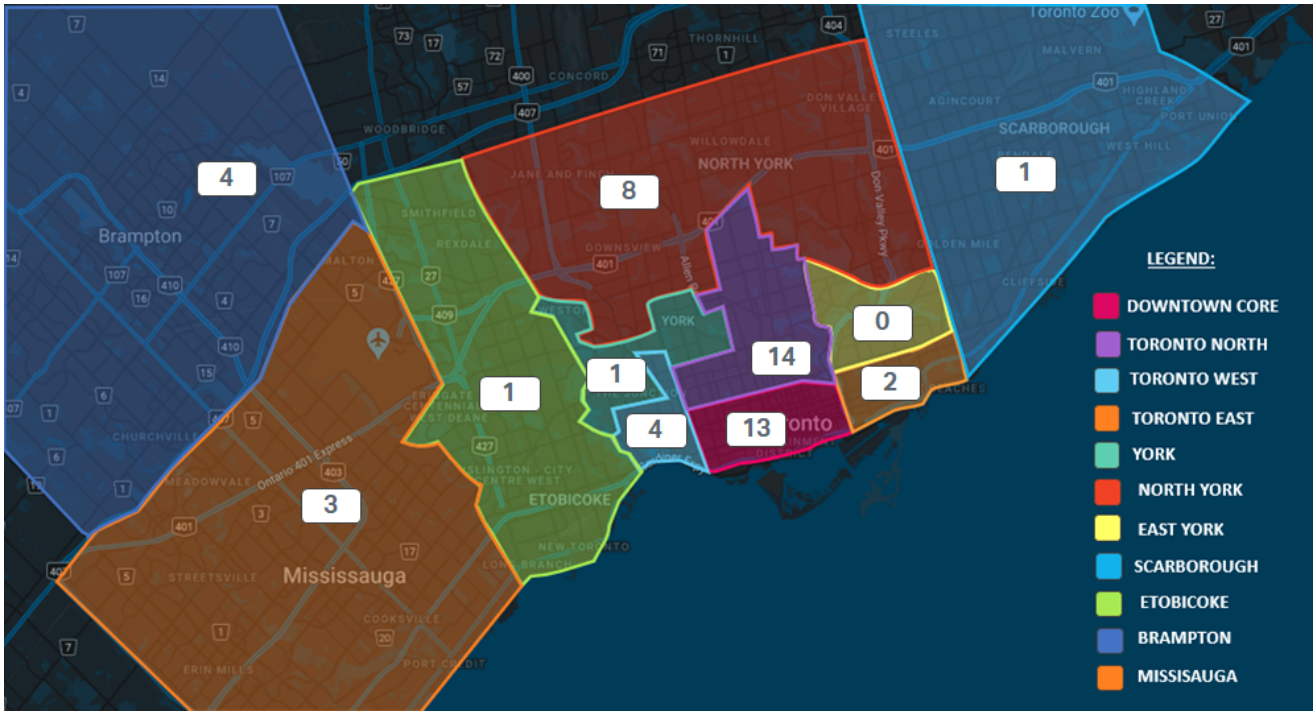


Figure 1

UA conducts this research quarterly to provide an update on the market. More detailed information on each project can be found on our online platform, NHSLive, which is available to industry stakeholders on a subscription basis.

UA is currently monitoring 51 concrete purpose-built rental apartment projects and one purpose-built rental townhome project. The overall project breakdown is as follows:

- 14 active projects with a total of 4,056 units conducting their respective initial lease-up campaigns;
- 37 fully-leased projects with 8,755 units; and,
- 198 contemplated projects that will add 70,857 units to the GTA market once approved and completed construction.

The impacts of Covid-19 on the purpose-built rental market in the GTA began to show in the latter half of 2020. Rental buildings have experienced a growing rate of vacancy in correlation with the lasting tenure of the travel restrictions and provincially imposed lockdowns. According to Statistics Canada, 50,375 people left the GTA and moved further away from the large cities. Meanwhile, the population of Oshawa grew by 2.1 percent[1]. Developers have noticed this trend with many reporting that tenants have moved out of the inner sub-markets and into more affordable spaces in sub-urban locations.

One new purpose-built rental project was launched in the GTA in the fourth quarter of the year, which is lower than the three new product launches that occurred during the same period last year. RioCan launched its PIVOT building in October, bringing 361 new units to North York. The average vacancy across all newer purpose-built rental apartment projects in the GTA was 14.6 percent at the end of the fourth quarter of 2020. This compares to a vacancy rate of 12 percent at the start of 2020 and 13 percent at the end of the previous quarter. The average rent per square foot decreased from $3.21 in Q3-2020 to $3.12 in the fourth quarter of the year and was also down from the $3.58 recorded in the fourth quarter of last year.

UA is currently tracking 51 newer purpose-built rental apartment projects comprising of 12,811 units across seven Toronto sub-markets. 14 of these projects are actively leasing (i.e. are less than 95 percent leased), with the remaining buildings having been fully absorbed and experiencing moderate levels of unit turnover.

[1] Government of Canada, S. C. (2021, January 14). Canada's population estimates: Subprovincial areas, July 1, 2020. Retrieved from https://www150.statcan.gc.ca/n1/daily-quotidien/210114/dq210114a-eng.htm

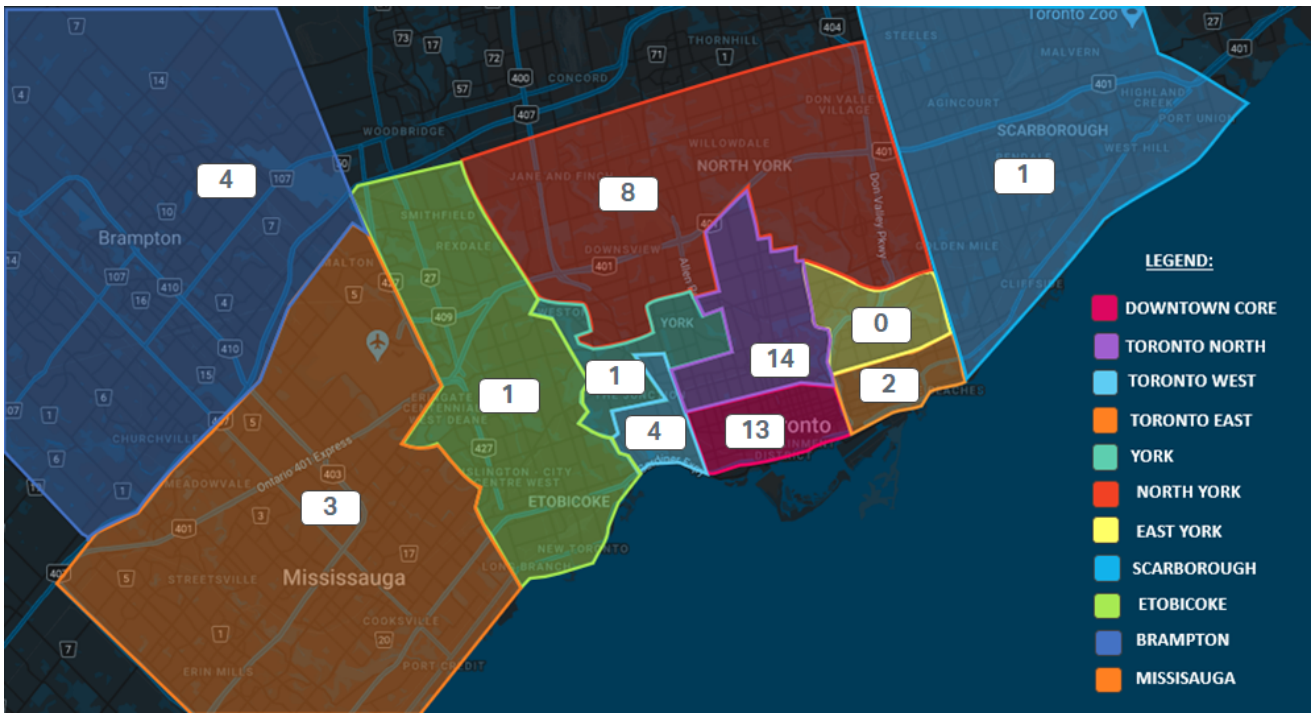


Figure 2

INCREASE IN VACANCY RATES

The overall average vacancy for newer rental developments in the GTA was 14.6 percent at the end of Q4-2020. This represents a 1.7 percent increase from the previous quarter and is a 4.8 percent increase from the same quarter last year. The below vacancy includes all 51 purpose-built rental projects currently being tracked by UA.

AVERAGE VACANCY PER QUARTER

ALL PROJECTS

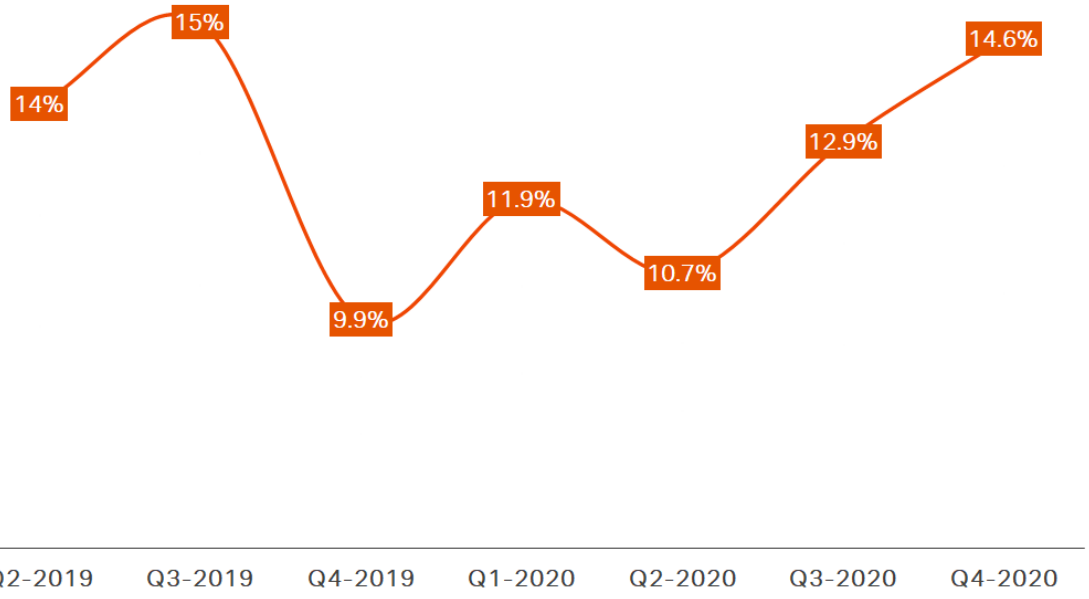


Chart 1

When only fully-leased purpose-built or "stabilized" rental projects are analyzed, the average vacancy rate is 4.6 percent at the end of the fourth quarter of 2020.

AVERAGE VACANCY PER QUARTER

FULLY LEASED PROJECTS

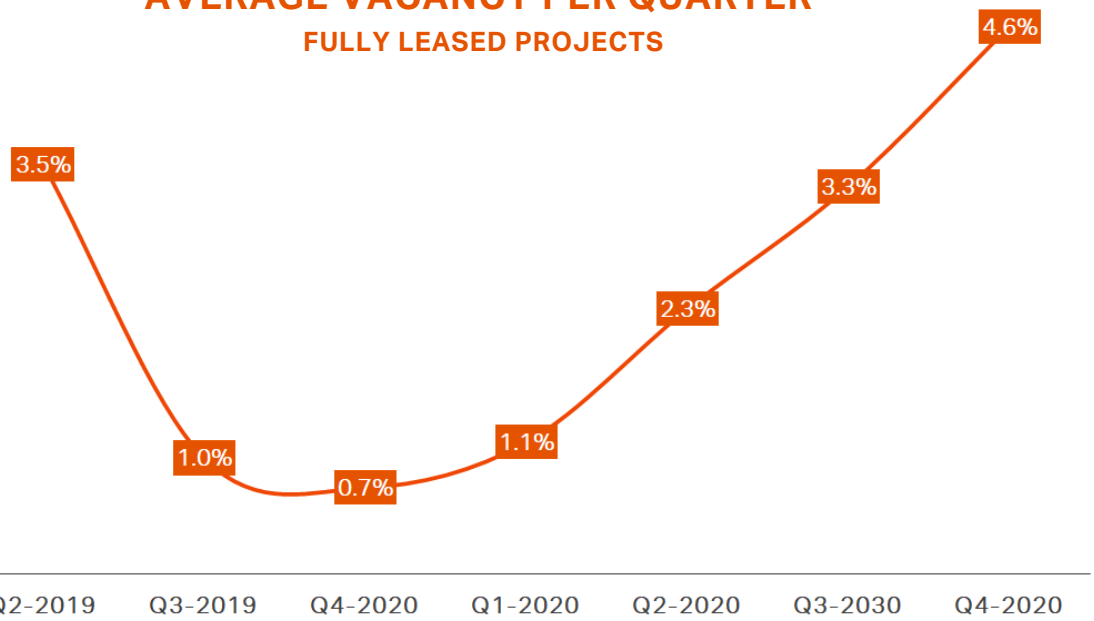


Chart 2

Both of the charts above show an increase in vacancies across the GTA. The increase in vacancy can be attributed to the level of uncertainty around COVID-19 closures, with restaurants, gyms and offices closed in the Downtown core many tenants are moving to bigger and more affordable rental homes further from the city center.

AVERAGE VACANCY BY SUB-MARKET

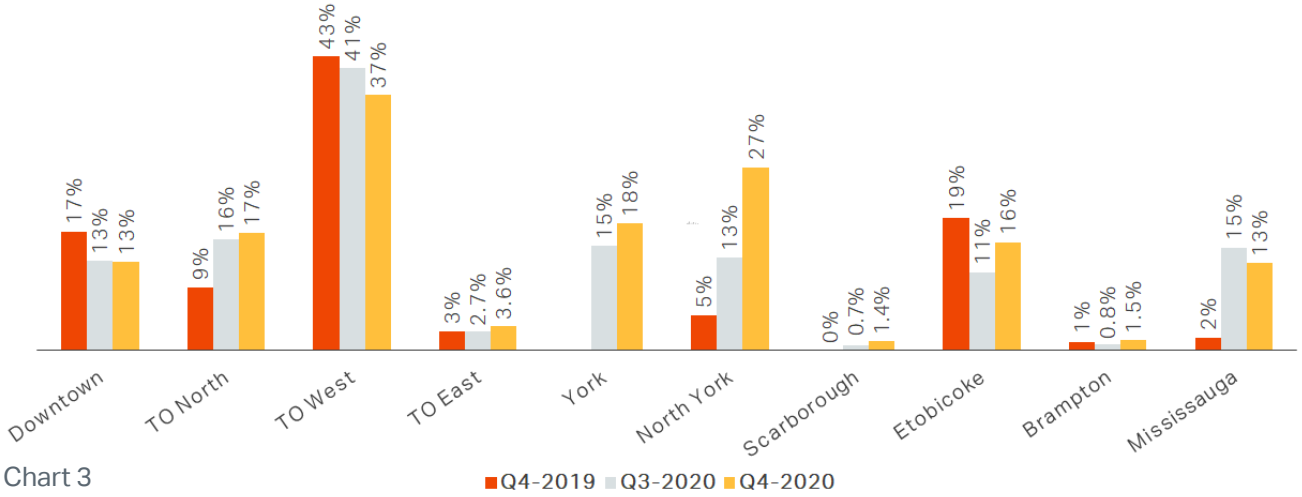


Chart 3

East York has not been included in the above chart due to the absence of any purpose-built rental projects developed in this sub-market. UA is tracking several contemplated projects in this area and will monitor activity once projects complete construction and commence their respective leasing campaigns.

The above vacancy rates include both actively leasing and turned over units in fully leased projects. Toronto West and Mississauga were the only two sub-markets that experienced a decline in vacancy rates from last quarter. Vacancy rates in Toronto West went from 41 percent down to 37 percent while Mississauga went from 15 percent to 13 percent in Q4-2020. The decrease in vacancy was likely due to the leasing of the newer buildings that launched in those sub-markets in the third quarter of the year. While vacancy rates on average have increased, the 14 projects that are considered actively leasing experienced a decline in vacancy from 47 percent in the third quarter to 46 percent in the fourth quarter. This shows that newer product is still in demand.

The Downtown sub-market experienced the most significant quarterly increase in vacancy for actively leasing projects. The average vacancy for actively leasing projects at the end of the fourth quarter was 64 percent compared to 48 percent last quarter. Note however that vacancy for fully leased projects remained consistent at 13 percent. Again, vacancy increases can be contributed to continued lockdowns, the switch to working from home, the growing demand for space and employment uncertainty caused by the pandemic. Another factor affecting the vacancy rates in the downtown core is the substantial drop in international students who would typically drive rental demand. Until these institutions resume in-person classes, vacancies at buildings that service this renter group will continue to experience higher vacancies.

LOWER RENTS IN Q3-2020

Average monthly per square foot rents for newer purpose-built rental buildings decreased by three percent from the previous quarter and are currently $3.12 per square foot per month. Monthly per square foot rents are down by 13 percent when compared to the same quarter last year.

Q3-2019: $3.61

Q3-2020: $3.21

The adoption of rental incentives for newer rental projects in the third quarter were the primary contributors to declining rents in the market. Average rents decreased by six percent from the second to the third quarter of 2020 and experienced a further three percent decrease from the third quarter to the fourth quarter.

Etobicoke, Toronto West and the Downtown sub-markets continued to record the highest rents at $3.65 per square foot, $3.58 per square foot and $3.38 per square foot, respectively. Per square foot rents in the Downtown core were down by seven percent when compared to the previous quarter.

Scarborough, North York and Brampton remain the most affordable areas for newer rental apartment product in the GTA with average rents of $2.01, $2.96 and $2.60 per square foot respectively. The distance from these sub-markets to the Downtown core is a contributing factor in the lower rents being sought.

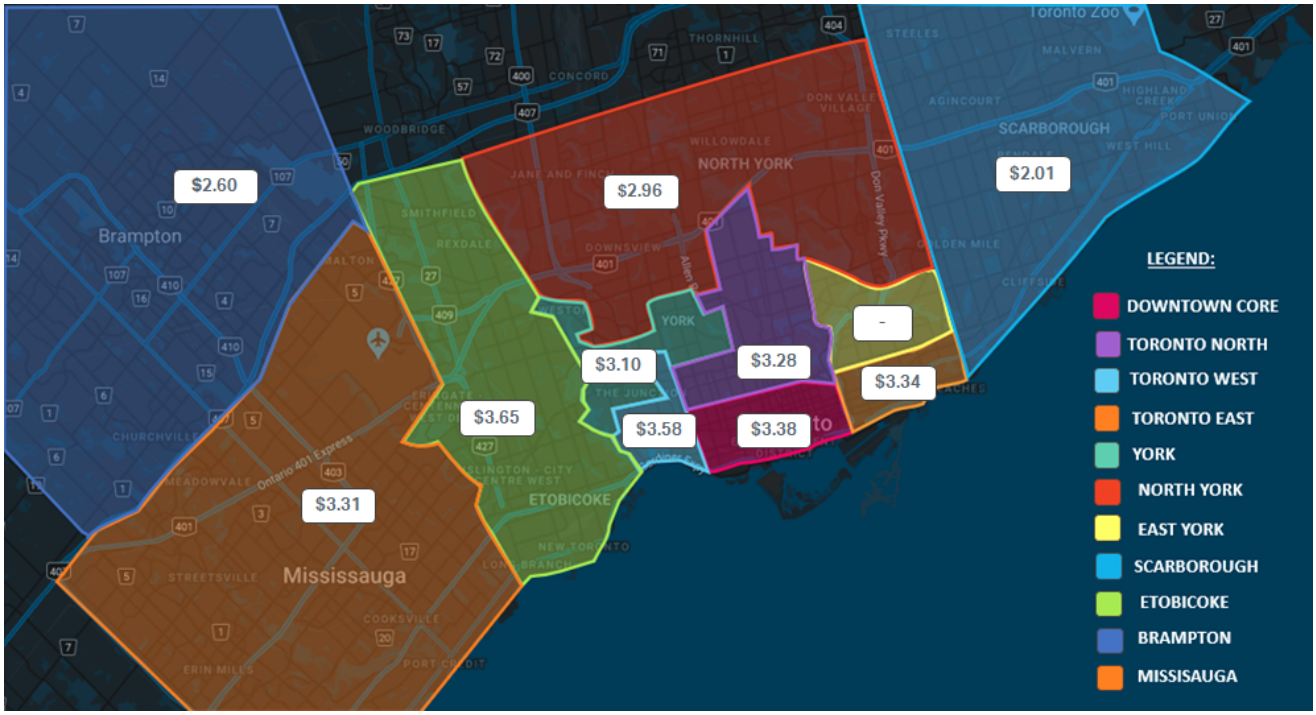


Figure 3

Rental rates for turned over apartment units have varied across the market with some projects achieving higher rents upon unit turnover. Chart 4 illustrates the comparison of asking rates for turned over units versus the original average net rent sought for those unit types during the initial lease-up stage. As noted, many buildings reduced their rents or offered incentives after COVID-19 measures were implemented, which led to most turned over unit types realizing lower rents than when the units were renting as new.

LEASE RENEWAL RENTAL RATE CHANGES

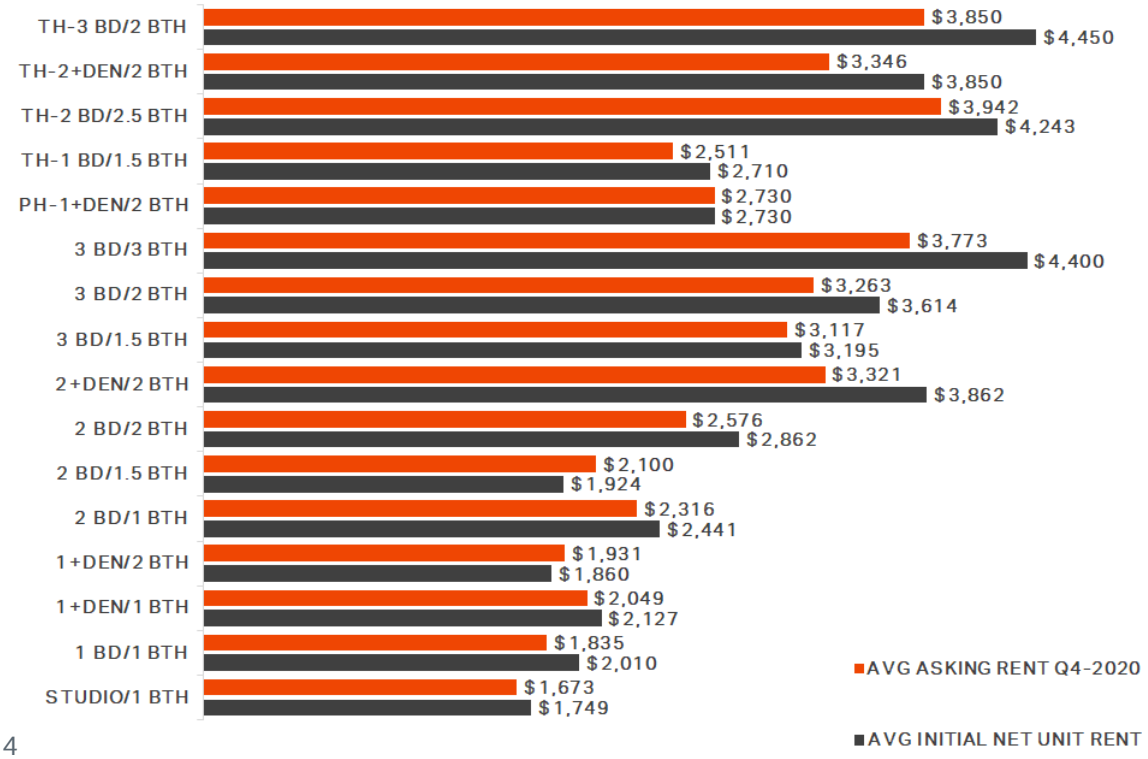


Chart 4

Rents increased for two unit types upon being turned over in Q4-2020;

- One bedroom plus den, two bath units increased by four percent ($71 per month), and
- Two bedroom, one and a half bath units rose by eight percent ($176 per month).

Rents have decreased for 13 unit types upon turn over in Q4-2020;

- Studio, one bath units decreased by five percent ($77 per month),
- One bedroom, one bath units dropped by 10 percent ($175 per month),
- One bedroom plus den, one bath units decreased by four percent ($77 per month),
- Two bedroom, one bath units decreased by five percent ($125 per month),
- Two bedroom, two bath units dropped by 11 percent ($286 per month),
- Two bedroom plus den, two bath units decreased by 16 percent ($541 per month),
- Three bedroom, one and a half bath units decreased by three percent ($78 per month),
- Three bedroom, two bath units dropped by 11 percent ($351 per month),
- Three bedroom, three bath units experienced the largest decrease at 17 percent ($627 per month),
- One bedroom plus den, one and a half bath townhomes units decreased by eight percent ($199 per month),
- Two bedroom, two bath townhome units dropped by eight percent ($301 per month),
- Two bedroom plus den, two bath townhome units decreased by 15 percent ($504 per month), and
- Three bedroom, two bath townhomes units decreased by 16 percent ($600 per month).

One bedroom plus den penthouse units remained the same.

The majority of units that turned over in the fourth quarter of 2020 were one bedroom one bath plans, two bedroom two bath plans, and studio plans. Two bedroom units in inner-city neighborhoods are often rented by roommates, which leads to a higher turnover rate. Smaller one bedroom units also have a higher turnover rate than other unit types due to renters eventually deciding they require more living space. In other cases, the unit is occupied by a couple who decide to purchase a home.

AVAILABLE TURNED OVER UNIT TYPES

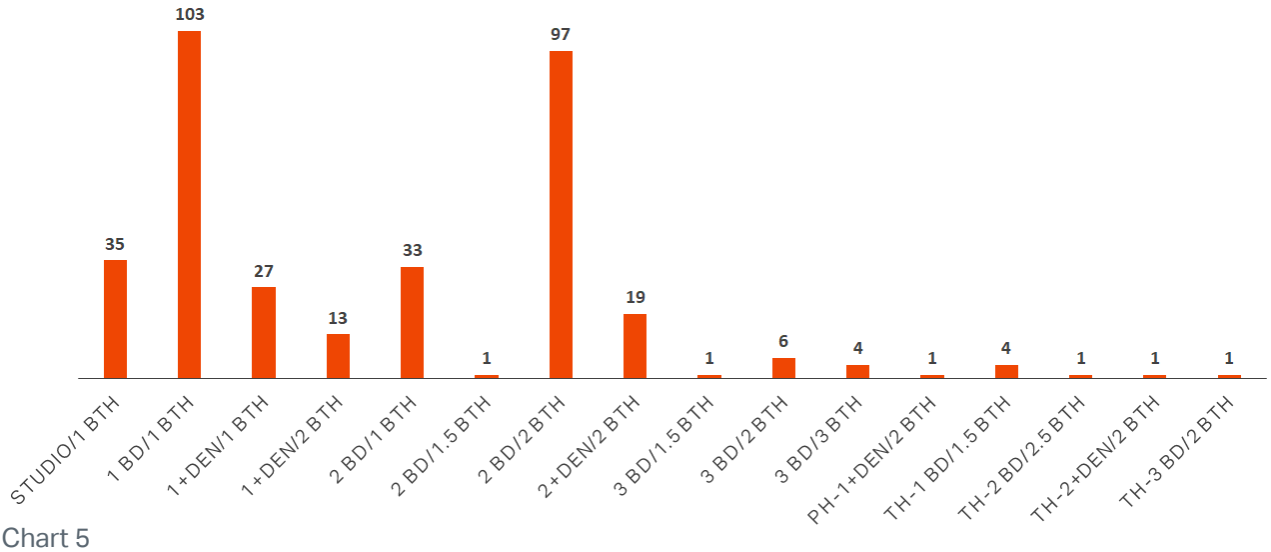


Chart 5

Scarborough and the Downtown sub-markets have had the highest decreases in rental rates with Scarborough recording a 23 percent decline from $2.62 per square foot to $2.01 per square foot in Q4-2020 and the Downtown recording a seven percent decrease from $3.64 per square foot to $3.38 per square foot. Average rents in the Downtown sub-market were down by 18 percent from the $4.14 per square foot average recorded at the end of 2019. The increase in vacancies has resulted in the subsequent reduction of rents and implementation of incentive offerings in order to attract renters.

Toronto West and Etobicoke continue to record the highest rents at $3.58 per square foot and $3.65 per square foot, respectively.

York and Mississauga were the only two sub-markets to experience an increase in rental rates in the fourth quarter of the year. York increased by 14 percent from $2.71 per square foot in Q3-2020 to $3.10 per square foot at the end of Q4-2020. The increase is largely due to the developer removing the incentive of one month free that was offered in the third quarter of the year.

AVERAGE NET RENT $PSF PER SUB-MARKET

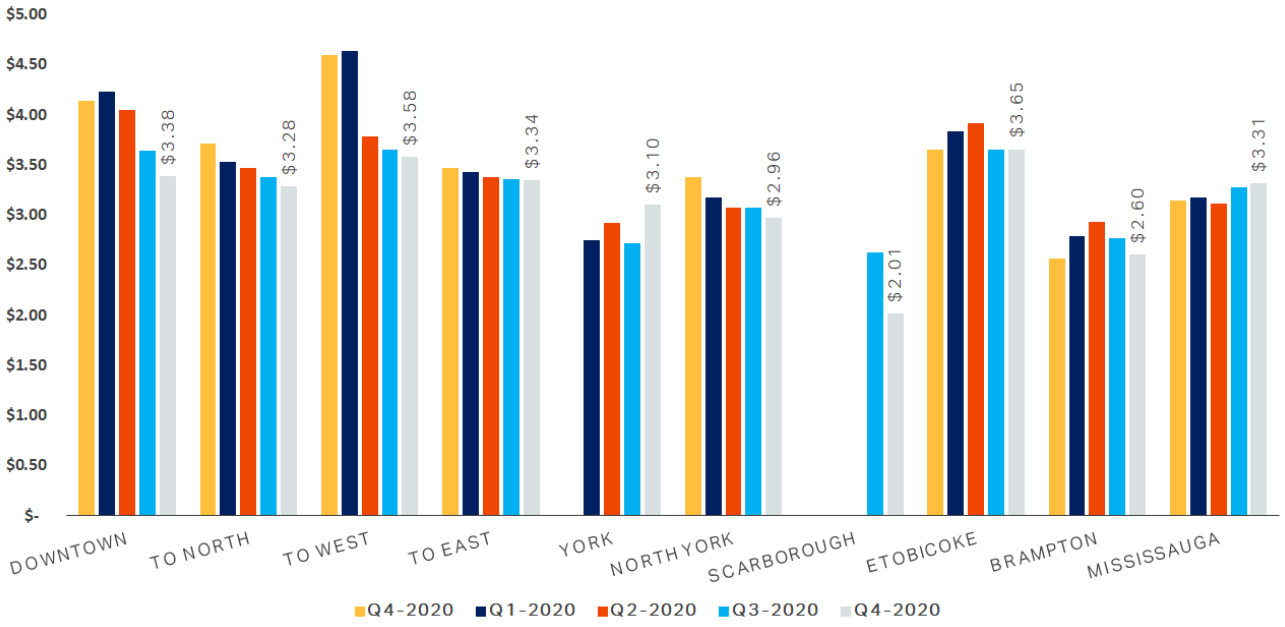


Chart 6

Chart 7 illustrates the correlation between the average vacancy rate and the average net rent per square foot in the GTA's newer purpose-built rental apartment market. Newer purpose-built rental projects continued with their respective vacancy and rental rate trajectories from the third quarter into the fourth quarter. Vacancy rates have increased by 1.7 percent and rents have decreased by three percent or by $0.09 per square foot when compared to the previous quarter. Year-over-year vacancy has increased by 4.8 percent while rents have decreased by 13 percent or $0.46 per square foot.

VACANCY VS NET RENT $PSF

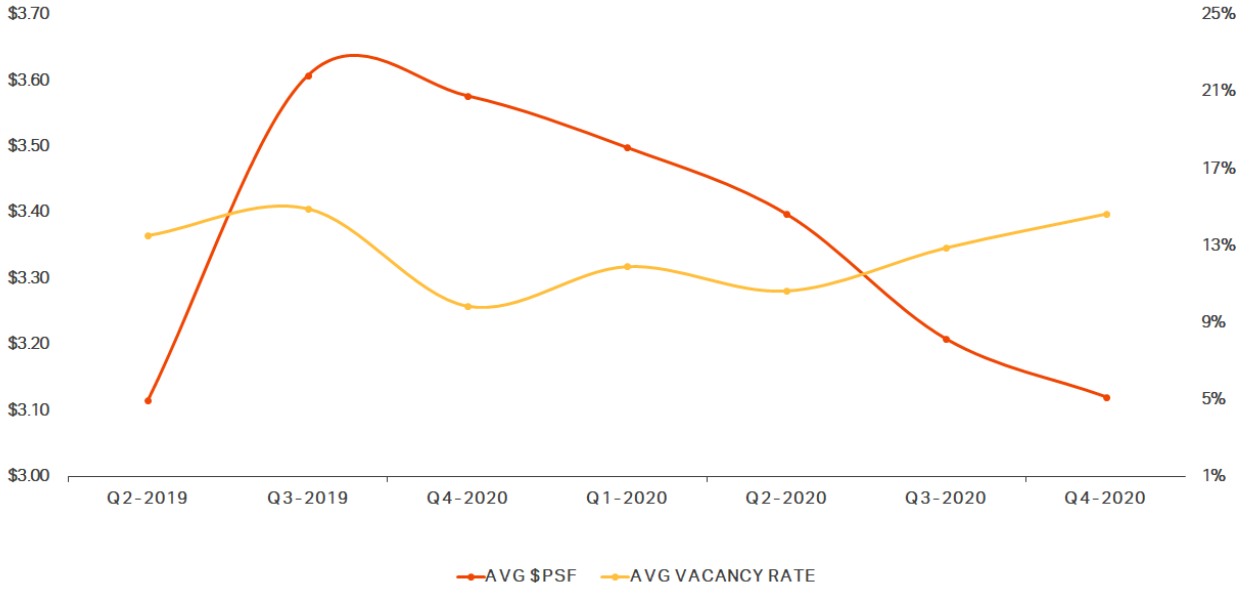


Chart 7

UA considers new projects that have less than 95 percent occupancy to be actively leasing, and those with more than 95 percent occupancy to be fully leased or stabilized, as this is typically when units begin to turn over for the first time. There were 14 projects considered to be actively leasing in the GTA as of the end of Q4-2020.

A few of these projects include:

- The Livmore High Park Building B in the Toronto West sub-market (264 units), pre-leasing for four months and officially leasing for five months. Currently, 70 percent leased.
- Lilian Park Building B in the Toronto North sub-market (267 units), leasing for 14 months and currently 41 percent leased.
- Tippet Park in the North York sub-market (177 units), pre-leasing for two months and officially leasing for three months. Currently, 56 percent leased.
- Parkside Square Tower 1 in the North York sub-market (312 units), leasing for 17 months and currently 86 percent leased.

ACTIVE VS FULLY LEASED PROJECTS BY SUB-MARKET

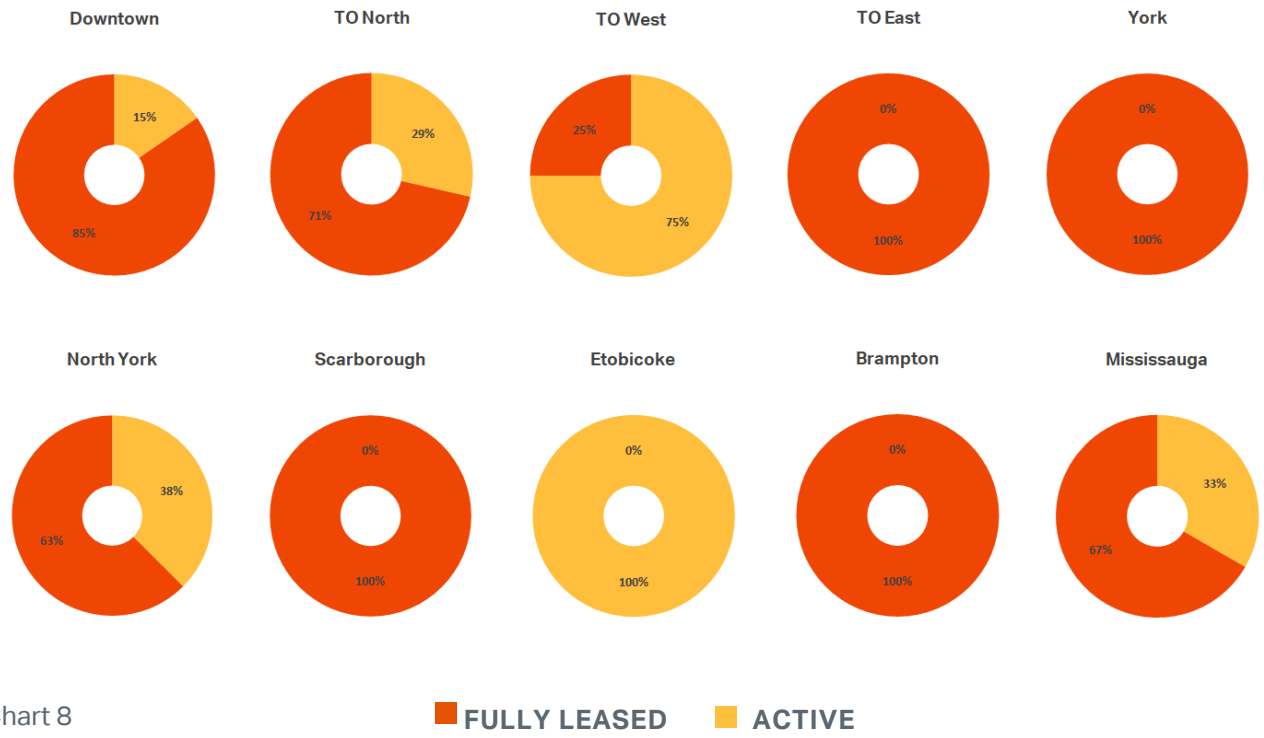


Chart 8

AVAILABILITY IN Q4-2020

The figure below illustrates the Downtown and Toronto North, sub-markets with the highest inventory levels at the end of Q4-2020. The large number of vacant units in these sub-markets can be attributed to the launch of new projects over the last two quarters.

RELEASED AND AVAILABLE UNITS BY SUB-MARKET

Downtown	Toronto North	Toronto West	Toronto East	York	North York	East York	Scarborough	Etobicoke	Brampton	Mississauga
552	535	416	3	56	202	-	1	13	9	72

INCENTIVES

43 of the 51 rental apartment buildings monitored in the GTA purpose-built rental market offered incentives during the fourth quarter. This total is up from the 38 buildings that offered incentives during the third quarter of the year and up further from the 16 that offered incentives in the second quarter. The majority of incentives offered are in the form of rental rate reductions; one or two months of free rent. The following is a sample of incentives offered as of December 2020.

- One month free on a 12-month lease
- Two months free on a 12-month lease
- One month free on a 13-month lease
- One month free on an 18-month lease
- $1,500 cash move-in bonus
- $1,000 cash move-in bonus
- $500 cash move-in bonus
- Free internet for one year
- $300 off rent for first four months
- Pre-loaded presto card
- Flexible lease terms
- iPhone12

Incentive offerings were reported at projects across all sub-markets in the GTA.

RENTAL TRENDS

New purpose-built rental product offerings in the GTA have incorporated many features where lifestyle-focused amenities are extensively offered. Recently launched buildings in

in the GTA market offer 24-hour concierge with services similar to hotels such as dry-cleaning pick-up, restaurant bookings, car service, dog-walking services and more. Lifestyle-oriented offerings help distinguish a purpose-built rental product from investor-owned rental units in condominium buildings. Some of the rental buildings in the GTA offering these services include One O One, The Livmore, Two St. Thomas, The Selby and The Montgomery. UA will continue to monitor and report any notable trends incorporated into new projects that commence leasing in the coming months.

AMENITIES

The newer purpose-built rental buildings UA currently monitors offer a variety of amenity features. Projects offering superior amenity packages are more likely to achieve full occupancy sooner, higher rents and experience lower turnover than projects with more limited or no amenities. The level of amenities offered in newer rental apartment projects generally depends on the sub-market. Projects in the inner sub-markets (i.e. Downtown, TO West, TO East, TO North) feature a more comprehensive amenity package expected by the more discerning renters these projects are targeting. The Selby is an example of a project offering a comprehensive amenity package that features a large outdoor patio with a kitchen, lounge area and pool, private off-leash dog park and spa grooming area, full fitness center with yoga/spin room and wet/dry sauna and meditation area. The project also has a large private theater and indoor kitchen and lounge. One O One in Toronto North features a dog park and pet wash area, business center, private party room with catering kitchen and a well-equipped games room. Tenants get access to the Imperial Club, which features a screening room, sound studio, green room, golf simulator, hot tub and pool, fitness center with spin studio, steam room, and squash courts. The following is a sample of amenities offered at other rental apartment projects throughout the GTA.

- Outdoor kitchen
- Courtyard
- Bike storage
- Media room
- Yoga area
- Spin studio
- Fitness area
- Concierge
- Library/Study room
- Boardroom
- Indoor pool
- Golf simulator
- Dog run
- Spa/Jacuzzi
- Squash courts
- Community garden
- BBQ area
- Games room

RENTER DEMOGRAPHIC

The profile of renters across the GTA varies widely. Toronto's diverse population is reflected in the variety of rental projects and locations. The inner sub-markets attract millennials, younger professionals, mature established professionals, empty nesters and couples without children from their thirties to fifties. Pre-COVID, international students attending the University of Toronto and other post-secondary institutions were more likely to live in the inner sub-markets as well. Rental projects in the outer sub-markets offer lower rents, larger units, and a higher proportion of two and three-bedroom floorplans, which tend to attract families, young renters, downsizers, immigrants and students.

CONTEMPLATED

UA is monitoring 198 proposed purpose-built rental projects representing an aggregate total of 70,857 apartment units proceeding through the planning and construction process in the GTA. The majority of these projects are concrete construction. There are two purpose-built townhome projects with 78 units and five wood frame apartment projects with 320 units. Of the 198 proposed rental projects, 48 are under construction. Chart 9 below provides a breakdown of the construction status of contemplated rental projects with the number of units at each stage also shown.

LOOKING AHEAD

UA will be closely monitoring the following new rental apartment projects that have recently launched or will be launching a leasing campaign during the next two quarters:

- Two Avenue Road – Oxford Properties
- Livmore High Park Building A - GWL
- The Waverly – Fitzrovia/Aimco

- Novus – Bentall Kennedy
- Evolv – Daniels Corporation
- The Taylor – Tricon/Mod Developments
- Litho – RioCan/Woodbourne Capital
- The Westward – Main & Main
- Strada – RioCan/Allied

Given the ever-shifting conditions in the various sectors of the new home markets in the GTA, having access to the most current and accurate data at your fingertips is more vital than ever. With its user-friendly interface and extensive functionality, UA's NHSLive data platform has become an invaluable tool for thousands of industry stakeholders in Vancouver, Calgary, Edmonton and now Toronto. Call or email us today to schedule a demonstration of NHSLive.

URBAN ANALYTICS INC.
(877) 282-2442
info-ontario@urbananalytics.ca