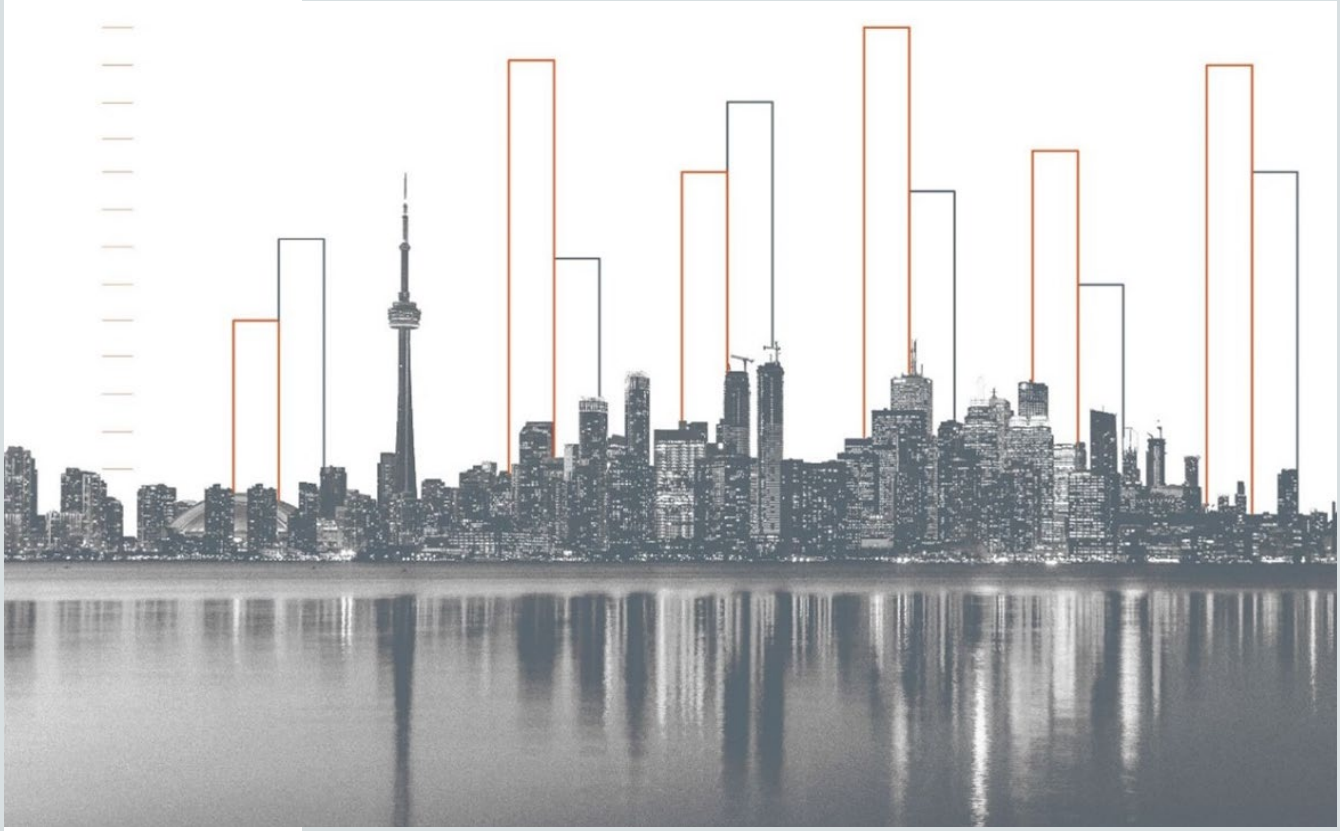
Q1 2021

Q1-2021 Rental Take – Greater Toronto

RENTS BEARING BRUNT OF COVID



UA

URBAN ANALYTICS

Q1-2021 RENTAL TAKE - GTA: RENTS BEARING BRUNT OF COVID IMPACTS

Urban Analytics (UA) began monitoring the Greater Toronto Area (GTA) purpose-built rental apartment market in 2019 and delineates it into the following sub-markets:

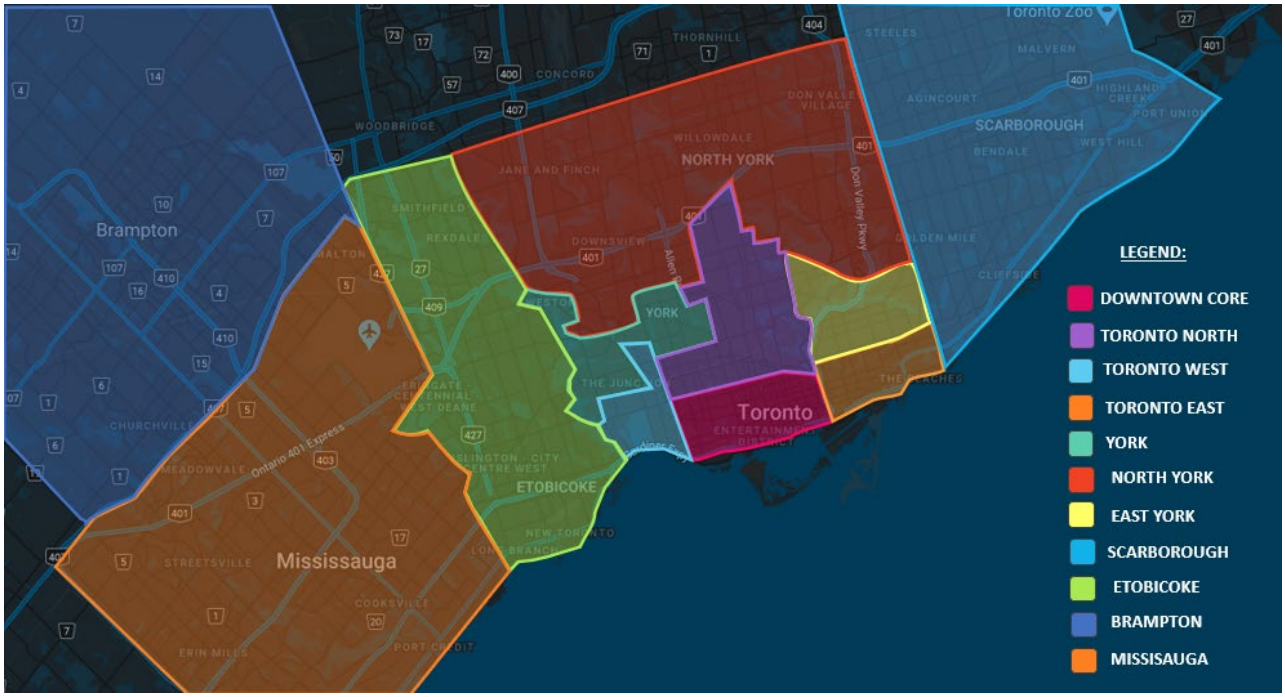


Figure 1

UA analysts collect and update information on newer purpose-built rental buildings in the GTA quarterly using primary research methods. 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 53 concrete purpose-built rental apartment projects and one purpose-built rental townhome project. The overall project breakdown is as follows:

- 17 active projects with a total of 4,683 units conducting their respective initial lease-up campaigns;
- 37 fully-leased projects with 8,755 units; and,
- 208 contemplated projects that will add 75,545 units to the GTA market once approved and built.

The newer purpose-built rental market in the GTA has been slow to recover from the impacts of Covid-19. The slow rollout of vaccines and the ongoing lockdown measures continue to have a negative impact on the purpose-built rental apartment market. Vacancy continues to grow as many people have left the GTA and moved from urban centres seeking larger living spaces as work-from-home remains the norm for many employers for the foreseeable future. Lower immigration numbers are also limiting demand for rental properties.

Three new purpose-built rental projects were launched in the GTA in the first quarter of the year. Fitzrovia launched *The Waverley* in February bringing 166 new units to the downtown core, GWL launched the second *Livmore High Park* building adding 262 new units to Toronto West, and Fitzrovia and CenterCourt Developments launched the second *Brixton* building adding an additional 264 new units to Toronto West. The increased vacancy can be partly attributed to the new project launches. When compared to the fourth quarter of 2020 the overall vacancy of newer purpose-built rental buildings (active and stabilized) increased 1.8 percent to 16 percent. The average rent per square foot decreased three percent from $3.12 to $3.04 per square foot.

Figure 2

INCREASE IN VACANCY RATES

The overall average vacancy for newer rental apartment developments in the GTA was 16 percent at the end of the first quarter of 2021. This represents a 1.8 percent increase from the previous quarter and is 4.5 percent higher than the same quarter last year. The vacancy noted below includes all 54 purpose-built rental projects currently being tracked by UA.

AVERAGE VACANCY PER QUARTER
ALL PROJECTS

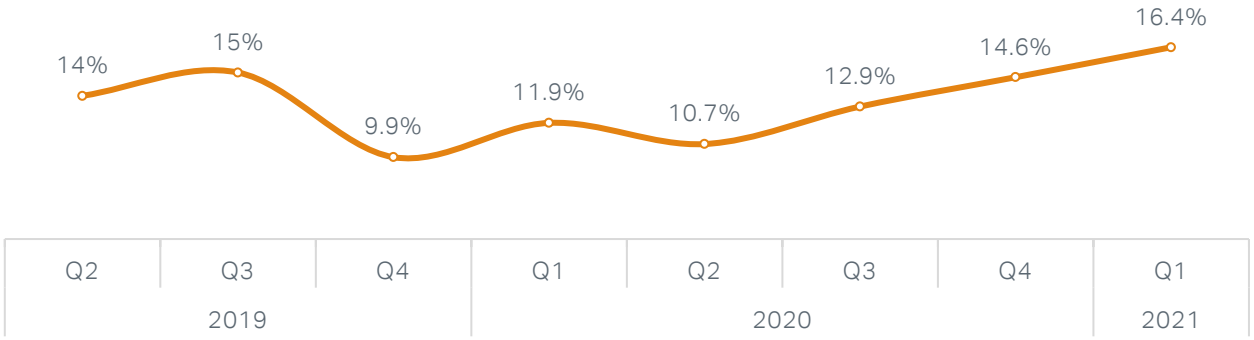


Chart 1

When only the fully-leased or 'stabilized' purpose-built rental projects are analyzed, the average vacancy rate is 5.7 percent at the end of the first quarter of 2021. This illustrates how newer project launches affect the occupancy rates while the established projects are able to maintain occupancy levels.

AVERAGE VACANCY PER QUARTER
STABILIZED PROJECTS

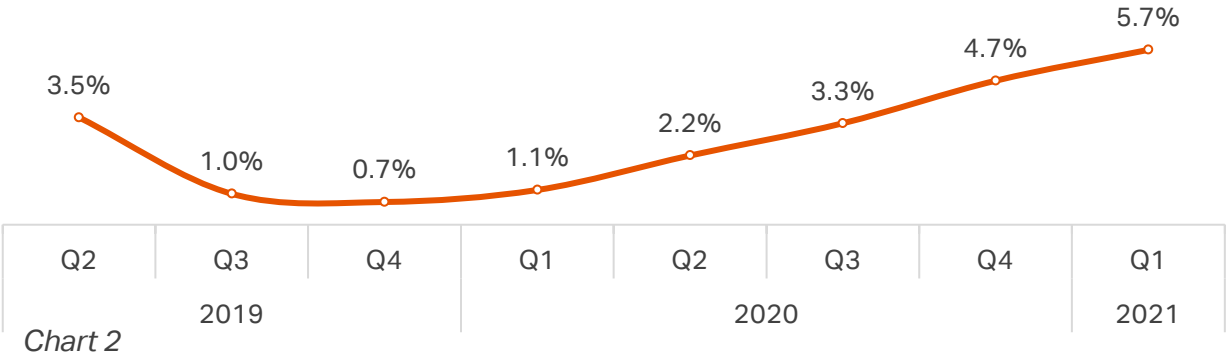


Chart 2

Both 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 still closed, leading many tenants to move to bigger and more affordable rental homes further from the urban centres.

AVERAGE VACANCY BY SUB-MARKET

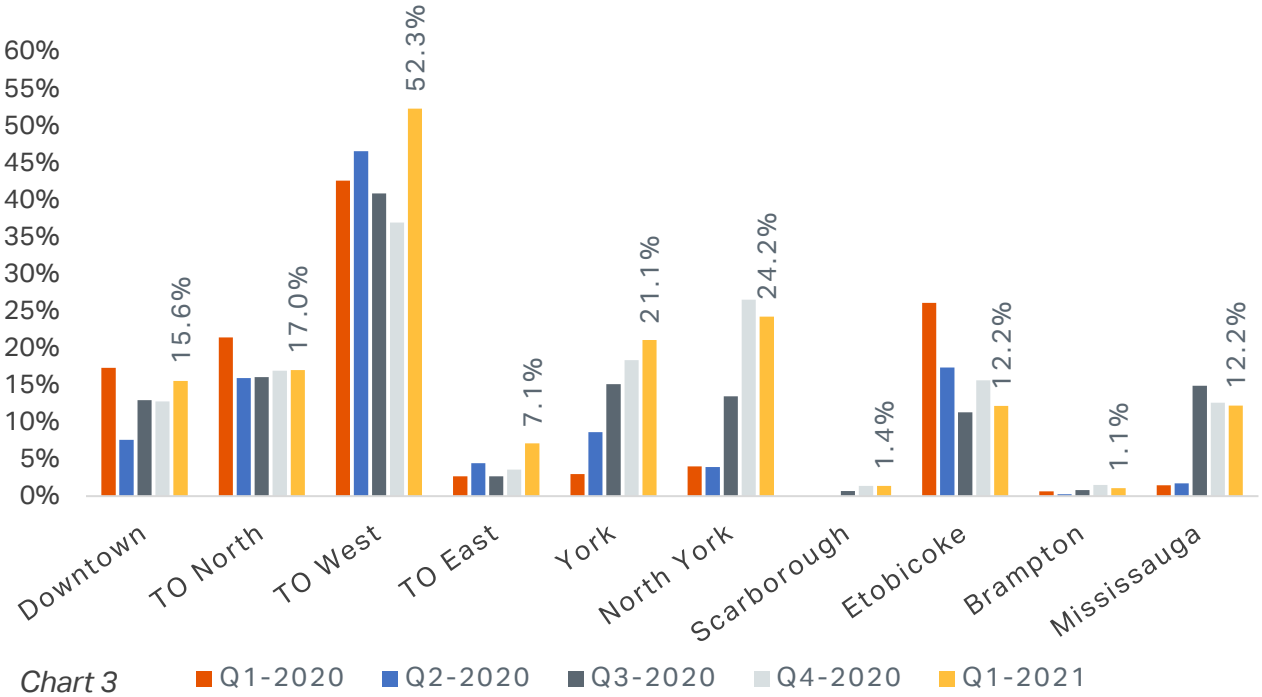


Chart 3

East York has not been included in the above chart due to the absence of any purpose-built rental projects 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. Four of the ten sub-markets experienced lower vacancy rates when compared to the previous quarter. Etobicoke experienced the largest drop in vacancy with a 3.5 percent decrease when compared to the fourth quarter of 2020. North York experienced a 2.3 percent decrease from 27 percent in Q4-2020 to 24.2 percent at the end of Q1-2021. The decrease in vacancy was likely due to the absorption of *Tippet Park* by Shiplake Properties, which launched in Q3-2020 and is 86 percent leased. Brampton and Mississauga both experienced 0.4 percent decreases when compared to the fourth quarter of 2020.

While most projects reported higher vacancy rates, the 17 actively leasing projects experienced a decline in vacancy from 46 percent in the fourth quarter to 45 percent at the end of Q1, which indicates some newer product is still in demand.

The Toronto West sub-market experienced the most significant quarterly increase in vacancy; +15 percent from 37 percent to 52 percent. The increase in vacancy can be attributed to the two new project launches that occurred in the first quarter of the year that added 462 new units to the market. However, the vacancy for stabilized projects in the Toronto West sub-market remained consistent at two percent. The Downtown, Toronto East and York sub-markets all saw modest increases in vacancy, again likely due to the continued lockdowns and conditions caused by COVID-19 uncertainty.

HIGHER RENTS IN Q1-2021

Average monthly per square foot rents for newer purpose-built rental buildings decreased by three percent from the previous quarter and are currently $3.04 per square foot. Monthly per square foot rents are down by 13 percent ($0.46 per square foot) when compared to the same quarter of last year. Net effective rents have continued to decrease as covid measures remain in place and incentives continue to be offered at most projects.

Etobicoke, Toronto West and the Downtown sub-markets continued to record the highest rents at $3.65 per square foot, $3.40 per square foot and $3.39 per square foot, respectively. Rents in Etobicoke remain the same as last quarter. Rents in Toronto West decreased by five percent while the Downtown sub-market saw a slight increase of $0.01 per square foot.

Scarborough, York and Brampton remain the most affordable areas for newer rental apartment product in the GTA with average rents of $1.93, $2.31 and $2.79 per square foot respectively. The distance of these sub-markets from the Downtown core is a contributing factor in the lower rents being sought.

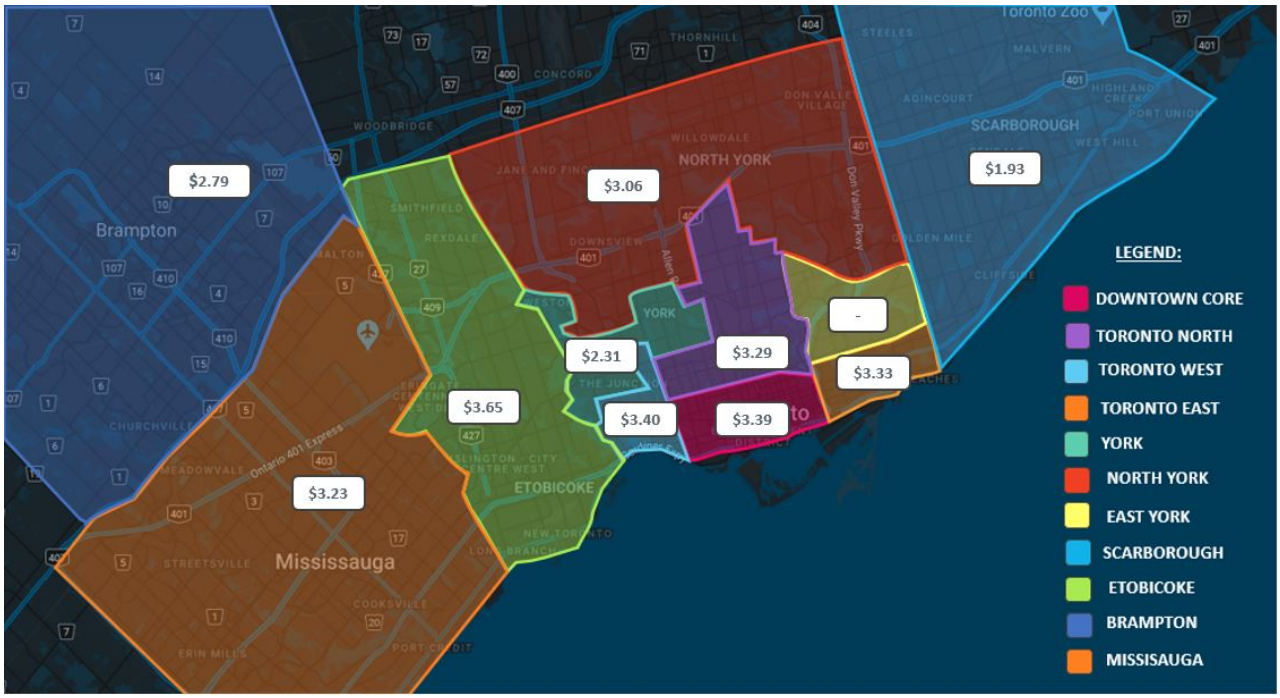


Figure 3

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

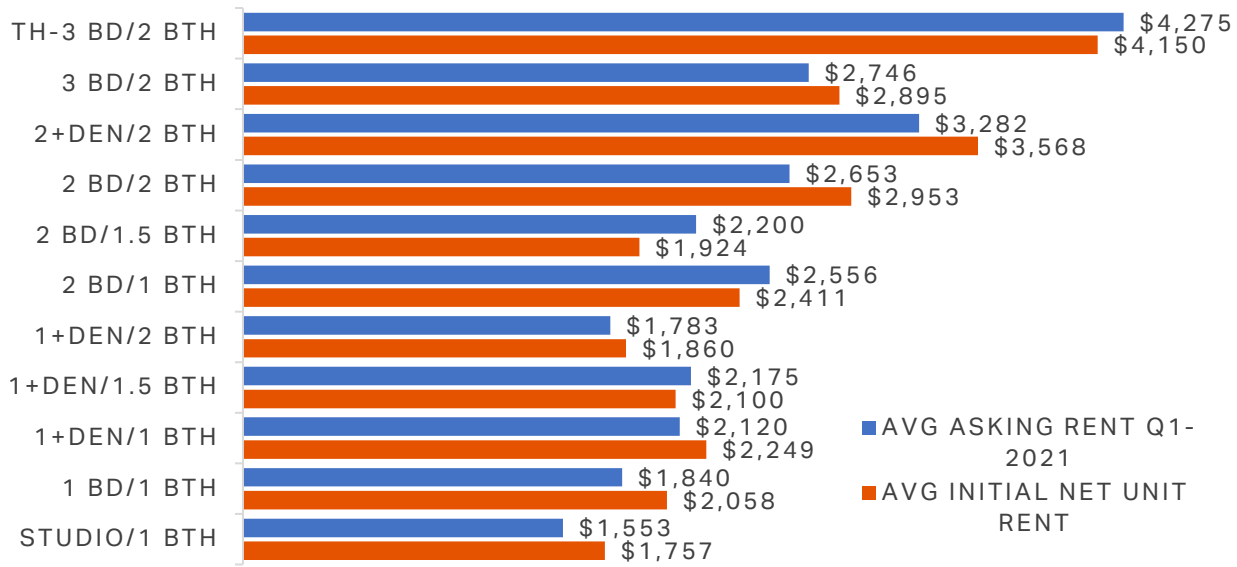


Chart 4

Rents increased for four-unit types upon being turned over in Q1-2021;

- One bedroom plus den, one and a half bath units increased by four percent ($75 per month),
- Two bedroom, one bath units increased by six percent ($145 per month),
- Two bedroom, one and a half bath units increased by 14 percent ($276 per month), and
- Three bedroom, two bath townhome units increased by three percent ($125 per month).

Rents have decreased for seven types upon turnover in Q1-2021;

- Studio, one bath units decreased by 12 percent ($204 per month),
- One bedroom, one bath units decreased by 11 percent ($218 per month),
- One bedroom plus den, one bath units decreased by six percent ($130 per month),
- One bedroom plus den, two bath units decreased by four percent ($78 per month),
- Two bedroom, two bath units decreased by ten percent ($300 per month),
- Two bedroom plus den, two bath units decreased by eight percent ($286 per month), and
- Three bedroom, two bath units decreased by five percent ($149 per month).

The majority of units that turned over in the first quarter of 2021 were one bedroom one bath plans and two bedroom two bath 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 determining 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

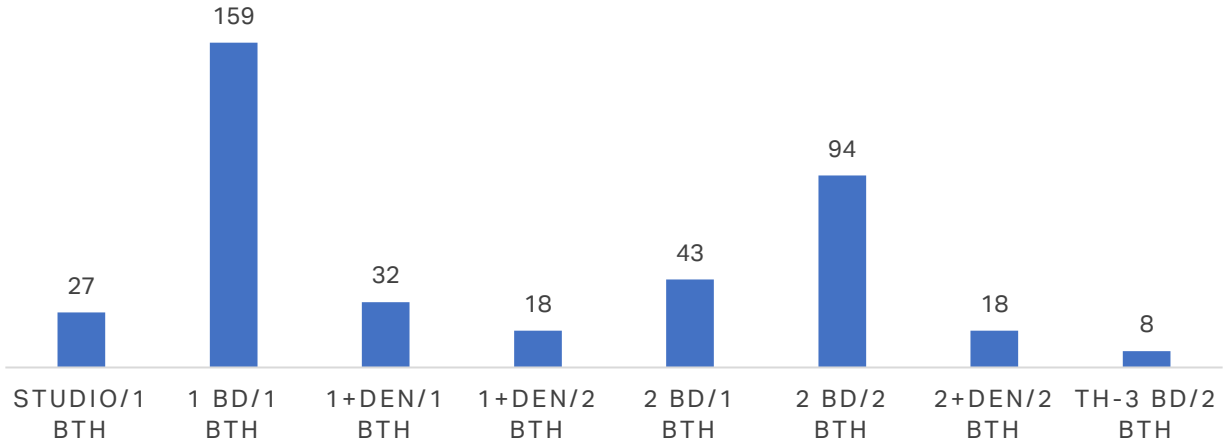


Chart 5

Three of the ten sub-markets in the GTA experienced increases in average net rent per square foot rates when compared to the fourth quarter of 2020. This compares to only two sub-markets that experienced increases from the third quarter to the fourth quarter of 2020. The remaining seven sub-markets all experienced decreases in average rental rates when compared to the previous quarter. Again, UA has not included East York in the chart below due to the absence of any purpose-built rental projects developed in this sub-market.

York experienced the largest decreases in rental rates with a 25 percent decline from $3.10 per square foot to $2.31 per square foot in Q1-2021. The large decrease can be attributed to the fact that UA is only tracking one project in York; *West 22* by Rockport Group, which previously had not offered incentives and is now offering one month free on a 12-month lease resulting in the large decrease in the net rents being sought.

Toronto West, Scarborough, and Mississauga sub-markets experienced two to five percent decreases. Toronto West dropped five percent from $3.58 to $3.40 per square foot in Q1-2021. Average rents in Scarborough were down four percent from $2.01 to $1.93 per square foot at the end of Q1-2021. Mississauga experienced a slight two percent decrease from $3.31 to $3.23 per square foot. Again, the decreases in rents can be attributed to the increase in vacancies and the subsequent implementation of incentive offerings to attract renters.

Etobicoke continues to record the highest rent at $3.65 per square foot, likely due to the small amount of product currently offered in this sub-market.

Brampton, North York and the Downtown sub-markets experienced increases in rental rates in the first quarter of the year. Rents in Brampton experienced the highest increase moving up seven percent from $2.60 to $2.79 per square foot. North York rents increased by three percent from $2.96 to $3.06 per square foot at the end of Q1-2021, and the Downtown experienced a slight increase of $0.01 per square foot.

AVERAGE NET RENT $PSF PER SUB-MARKET

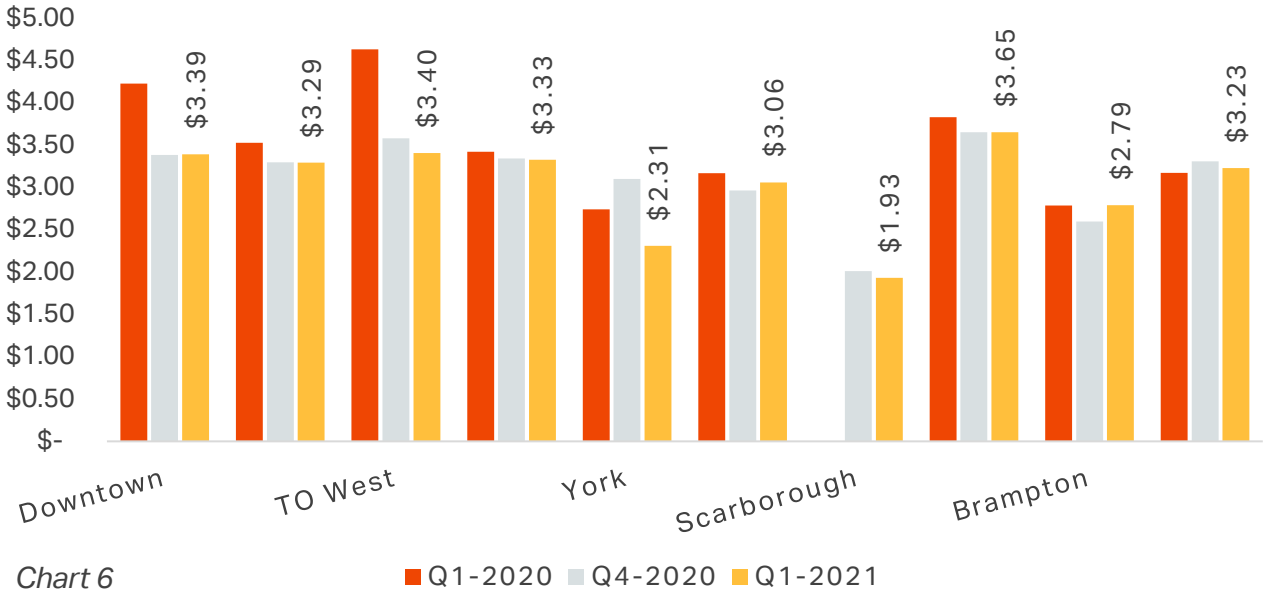


Chart 6

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 apartment projects continued their respective vacancy and rental rate trajectories from the fourth quarter into Q1-2021. Vacancy rates have increased by 1.8 percent and rents have decreased by three percent or by $0.08 per square foot when compared to the previous quarter. Year-over-year vacancy has increased by 4.5 percent while rents have decreased by 13 percent or $0.46 per square foot. UA expects the GTA market to continue with this trend for the first half of the year due to the slow roll out of vaccines and continued uncertainty.

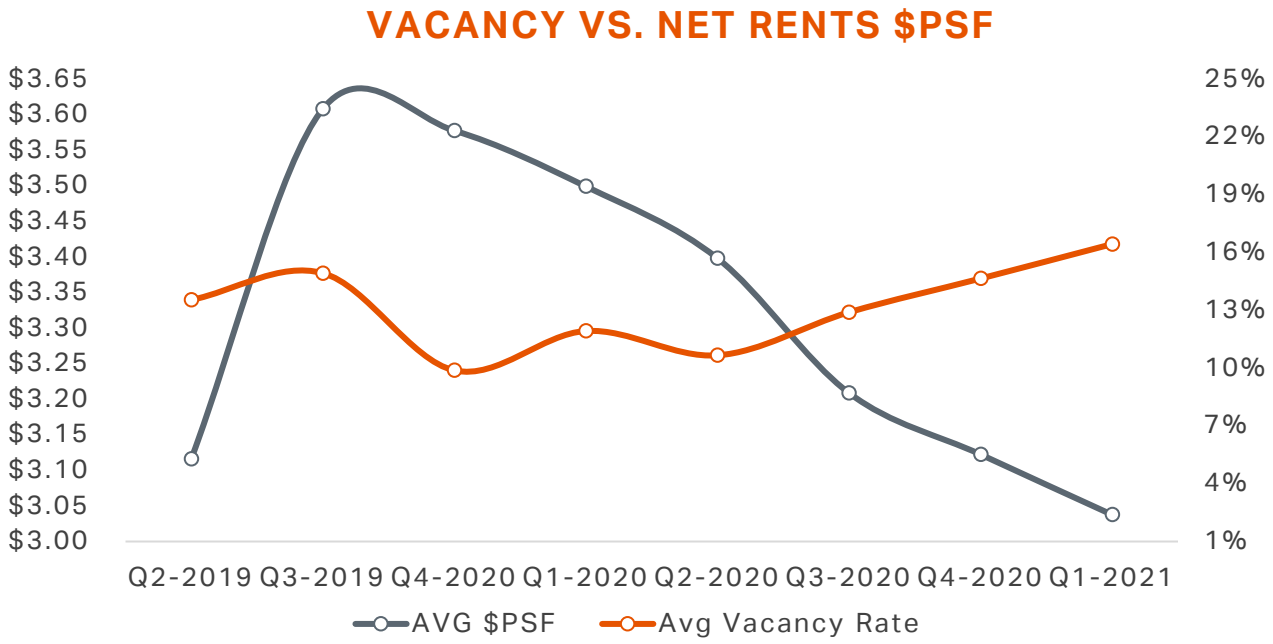


Chart 7

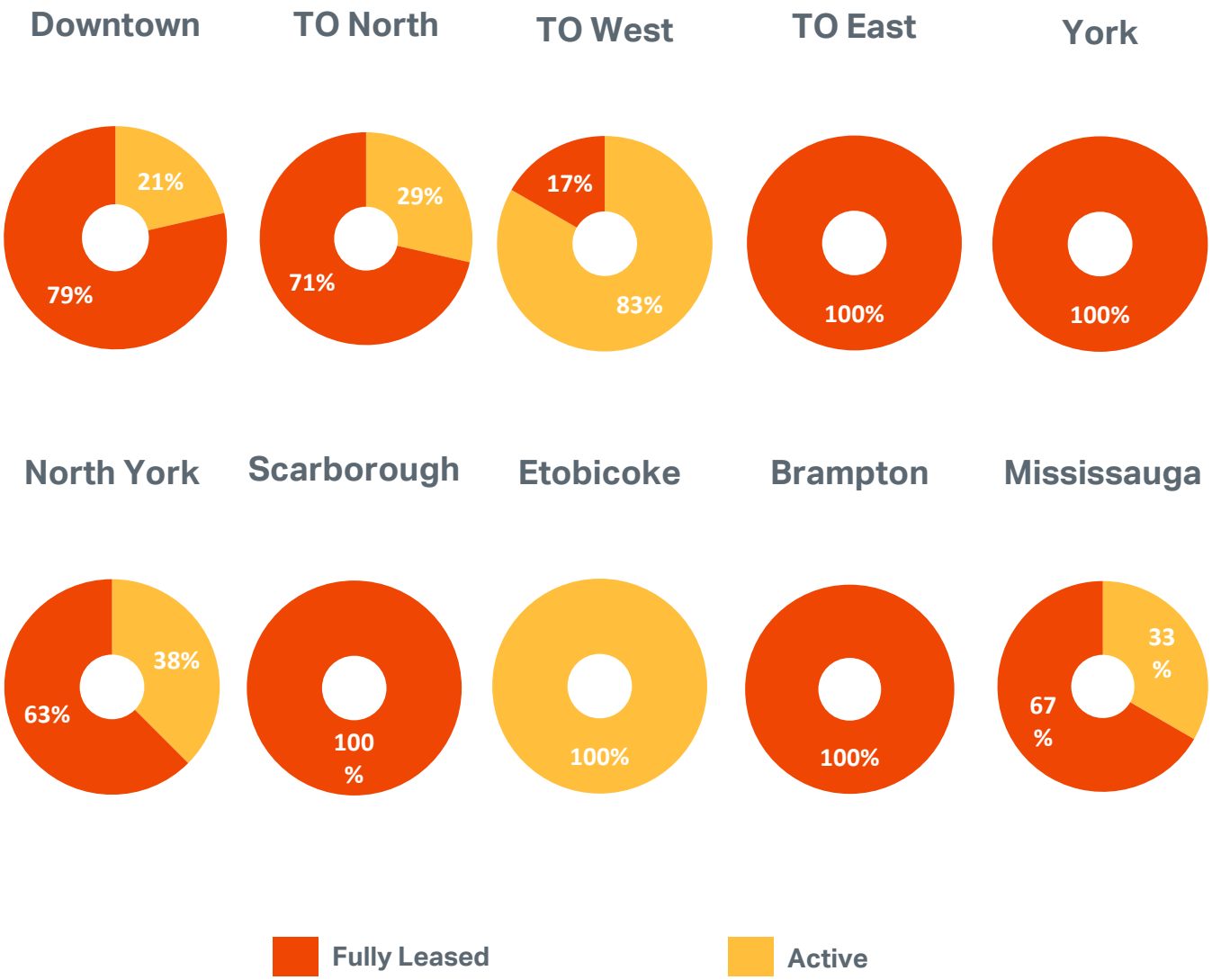
ACTIVE VS. FULLY LEASED PROJECTS

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 after the initial leasing campaign. There were 17 projects considered to be actively leasing in the GTA as of the end of Q1-2021.

A few of these projects include:

- *99 Gerrard West* in the Downtown sub-market (252 units), pre-leasing for three months, leasing for a total of nine months. Currently 34 percent leased.
- *The Livmore High Park Building B* in the Toronto West sub-market (264 units), pre-leasing for four months, leasing for a total of 12 months. Currently 83 percent leased.
- *Tippet Park* in the North York sub-market (177 units), pre-leasing for two months, leasing for a total of eight months. Currently 86 percent leased.
- *Pivot* in the North York sub-market (361 units), pre-leasing for two and a half months, leasing for a total of five and a half months. Currently 10 percent leased .

ACTIVE VS FULLY LEASED PROJECTS BY SUB-MARKET



The figure above shows the percent of fully leased buildings compared to those still in their initial lease-up phase. As seen above Etobicoke and Toronto West have the highest percentage of active buildings. It should be noted that in Etobicoke UA only tracks one project; *Kingsway Village* by Dunpar Homes.

AVAILABILITY IN Q1-2021

The figure below illustrates how the Downtown, Toronto North, Toronto West and North York sub-markets had the highest inventory levels at the end of Q1-2021. The large number of vacant units in these sub-markets can be attributed to the launch of new projects over the last couple of quarters. Toronto West had two projects launch within the quarter adding 462 new units to the market.

Released and Available Units by Sub-Market

Downtown	Toronto North	Toronto West	Toronto East	York	North York	East York	Scarborough	Etobicoke	Brampton	Mississauga
690	566	774	8	78	451	-	2	14	12	59

INCENTIVES

49 of the 54 rental apartment buildings monitored in the GTA offered incentives in the first quarter of the year. This is six more buildings offering incentives than in the fourth quarter of 2020. The majority of incentives offered are in the form of rental rate reductions; one or two months of free rent. Developers are now becoming creative in the incentive offerings as the majority of buildings are now offering some sort of incentive. The following is a sample of incentives offered as of March 2021:

- 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
- Free parking for 3, 6 or 9 months
- $300 off rent for first four months
- Pre-loaded presto card
- Flexible lease terms
- iPhone 12
- Filled wine fridge or $500 gift card to a downtown winery
- $1,000 Structube gift card
- $300 Ritual gift card
- $200 Netflix gift card

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 extensive lifestyle-focused amenities are offered. Recently launched buildings in the GTA 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 offered at 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, achieve higher rents and experience lower turnover than projects with 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.

- Roof terrace
- Dog wash station
- Outdoor patio
- Lounge
- Bike repair area
- Fitness area
- Business center
- BBQ area
- Outdoor kitchen
- Courtyard
- Bike storage
- Media room
- Yoga area
- Concierge
- Library/Study room
- Board room
- Indoor pool
- Golf simulator
- Spa/jacuzzi
- Woodshop
- Community garden
- Residence manager
- Games room
- Rooftop pool

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, recent immigrants and students.

CONTEMPLATED

UA is monitoring 208 proposed purpose-built rental projects representing an aggregate total of 75,545 apartment units proceeding through the planning and construction process in the GTA. Most 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 208 proposed rental projects, 34 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 FORWARD

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

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

UA has the most current and accurate data on the purpose-built rental markets in Calgary, Edmonton, Metro Vancouver, and most recently the GTA. UA's online database NHSLive provides accurate and timely data on the new rental and multi-family sectors of the market. With its user-friendly interface and extensive functionality, it has become an invaluable tool for thousands of industry stakeholder users. Call or email us today to schedule a demonstration of NHSLive.

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We appreciate your feedback. Please contact us with any questions regarding this UA Take or any of our other periodic publications. In addition to maintaining the most current new multi-family home and rental apartment project data on NHSLive.ca, UA provides advisory services that can be tailored to meet your firm's specific needs. Please contact us to discuss how we can assist you in the design or positioning of your new multi-family home or rental apartment community.

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