

ECONOMIC UPDATE STATE OF THE REAL ESTATE MARKET

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President

Tate Economic Research Inc.

tate research



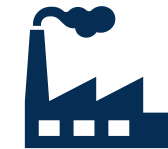
**ONTARIO
EXPROPRIATION
ASSOCIATION**

Presentation Outline

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



Retail



Industrial



Office



Residential

Introduction

- Tate Research
- Founded in 2003
- Based in Downtown Toronto
- Professional Land Economists and Market Analysts
- Analysis of All Commercial Sectors
- Projects across Canada, focused in Ontario and GTA
- Expropriation experience includes hotel, office, warehousing and distribution, gas stations, retail stores, shopping centres – from Windsor to Ottawa
- Expropriation Clients include municipalities, regions, developers, retailers, transit authorities

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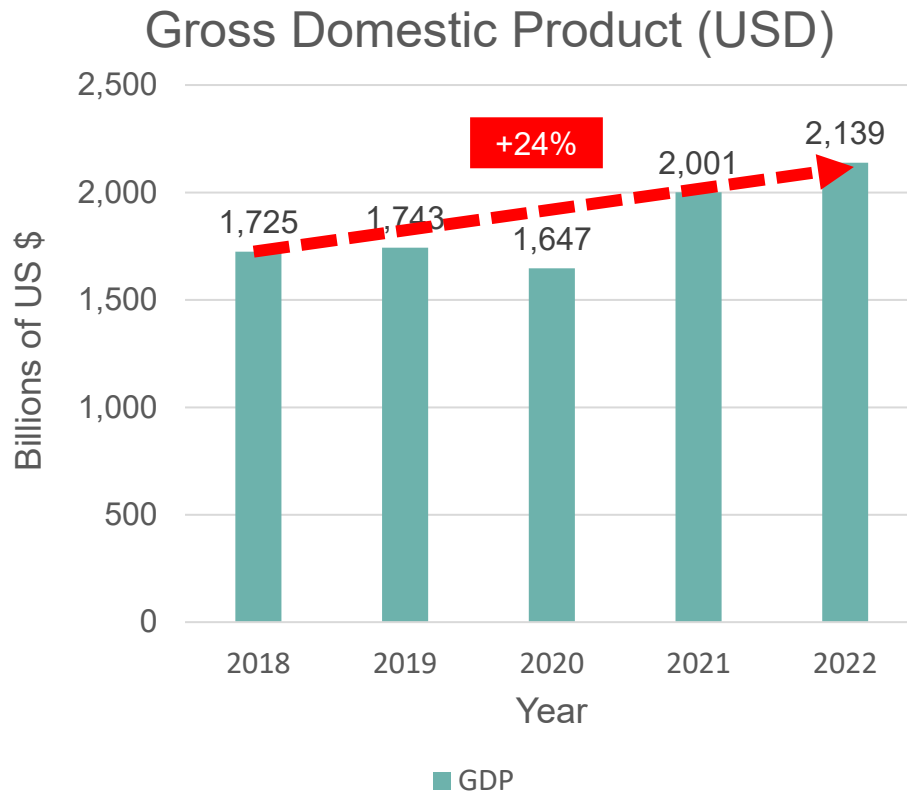
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Economic and Demographic Analysis

Economic and Demographic Analysis

Canadian Gross Domestic Product (GDP)

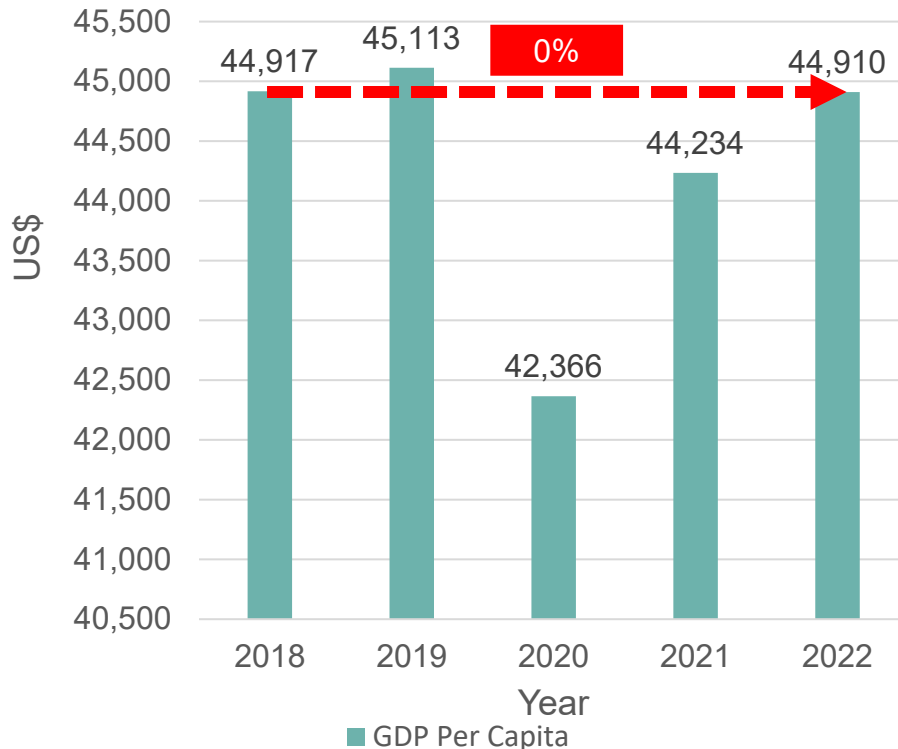


- GDP is a measure of all goods and services a country produces
- Increased since 2016 until Covid in 2020
- Returned to increases in 2021 and 2022
- 2023 is slowing
- 2024 slowdown forecast

Economic and Demographic Analysis

Canadian Gross Domestic Product Per Capita

Canadian Gross Domestic Product Per Capita (USD)



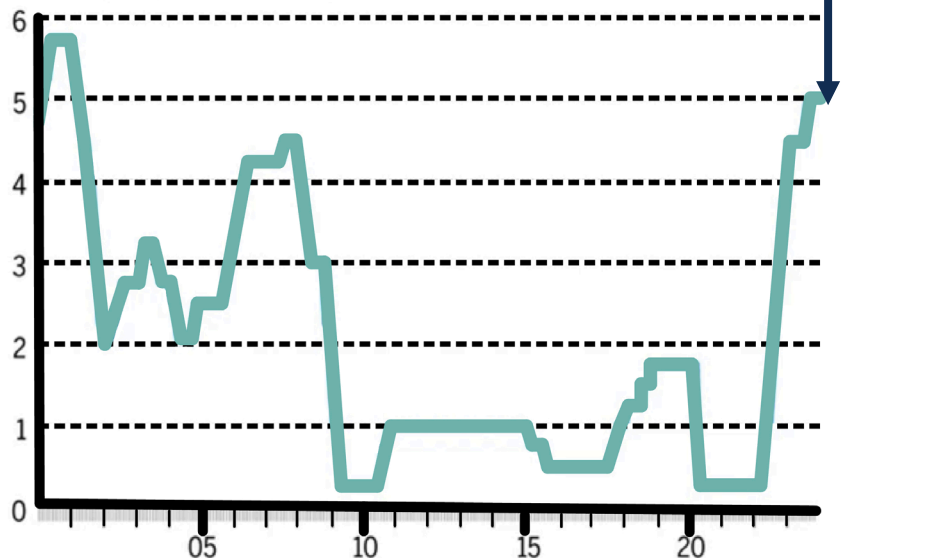
- Per capita tells a different story
- 2023 / 2024 expected to slow

Economic and Demographic Analysis

Interest Rates

Bank of Canada Overnight Lending Rate, %

2020



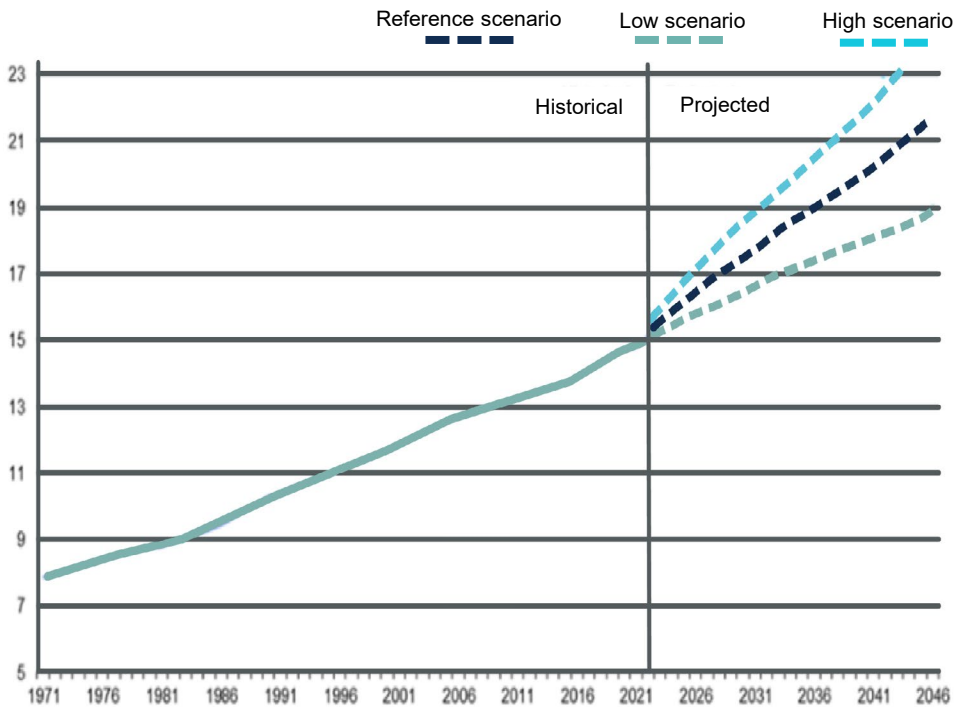
- 10 consecutive increases / holds from 2020
- For context – rate was 21% in 1981, 13% in 1990
- Rates held constant in September 2023
- Next announcement October 25, 2023
- Expected to remain constant

Economic and Demographic Analysis

Population Growth and Forecast - Ontario

Ontario Population, 1971 to 2046

Number of people (in millions)

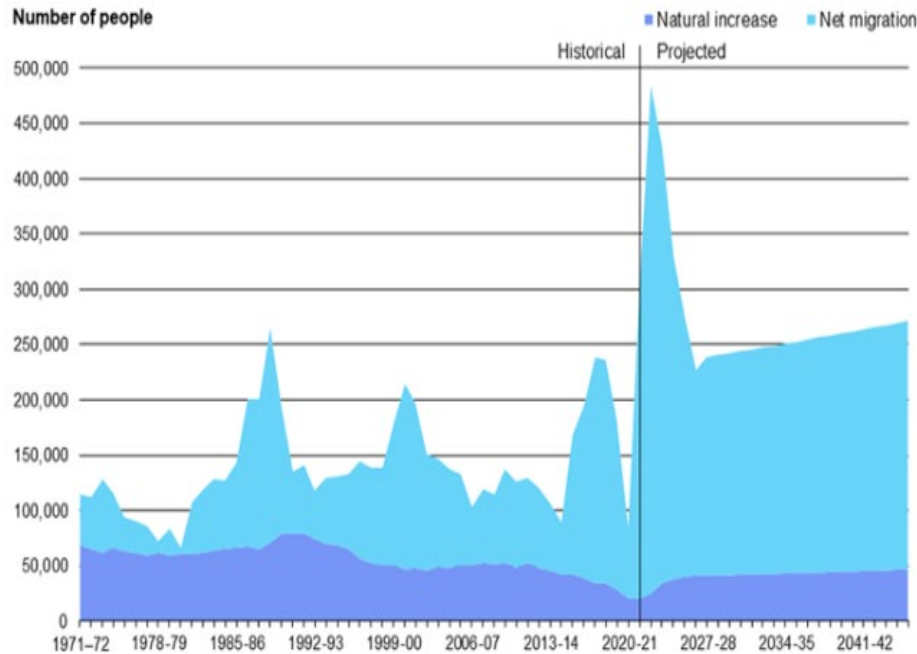


- Real estate demand driven by population increase
- Growth rate forecast to increase
- 2046 will be double 1996 population

Economic and Demographic Analysis

Population Growth and Forecast - Immigration

Contribution of Natural Increase & Net Migration to Ontario's Population Growth, 1971 to 2046

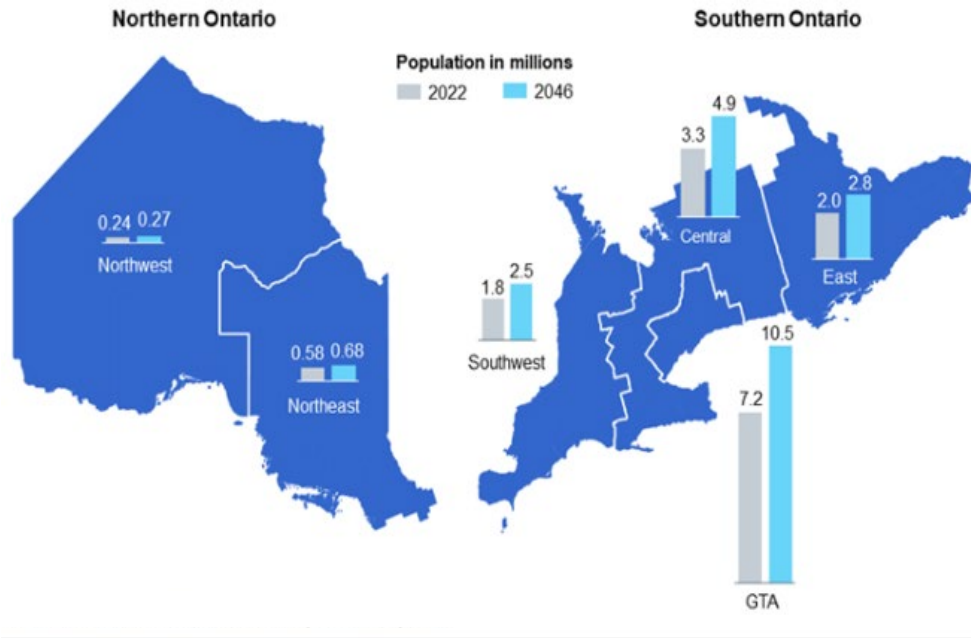


- Immigration is key
- Continuing increases

Economic and Demographic Analysis

Population Growth and Forecast - Distribution

Population of Ontario Regions, 2022 and 2046



- Key growth areas GTA and Central
- Lesser to SW and East
- Limited in Northeast and Northwest

Retail Real Estate Trends

Retail Real Estate Trends Overview



Loss of Nordstroms – International Impact

Grocery anchored; convenience centres remain strong

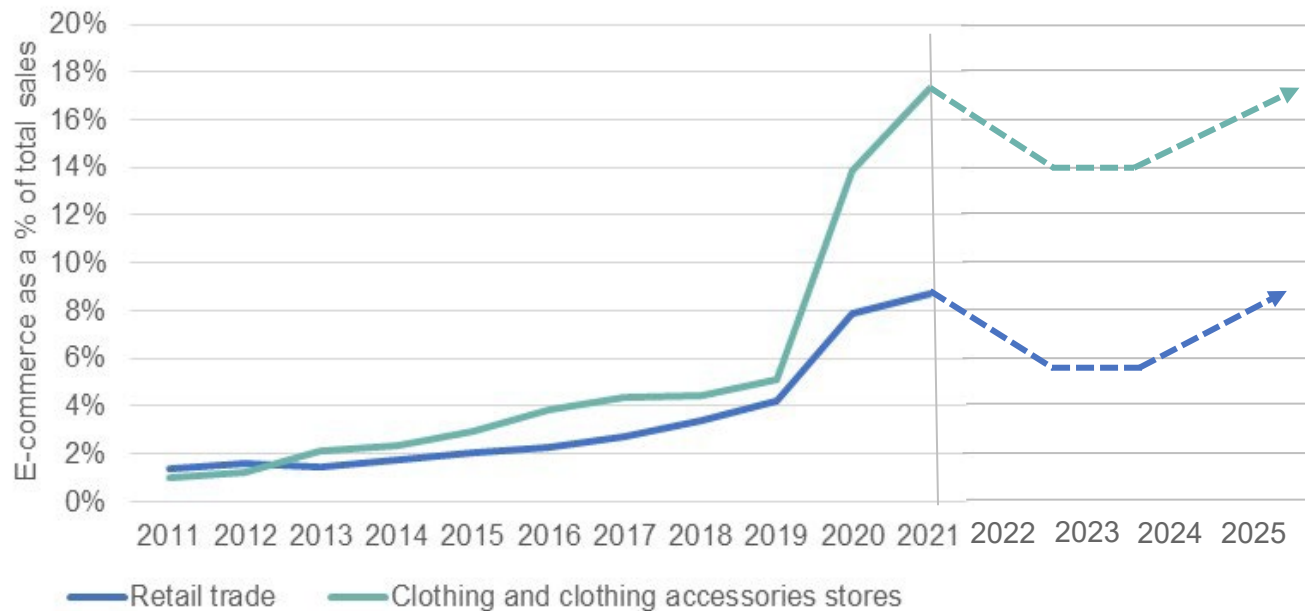
E-commerce impacts and decline in retail spending

Downtowns and Malls hit hard by Covid

Redevelopment of Shopping Centres – Residential development pressures and land values

Retail Real Estate Trends

E-Commerce

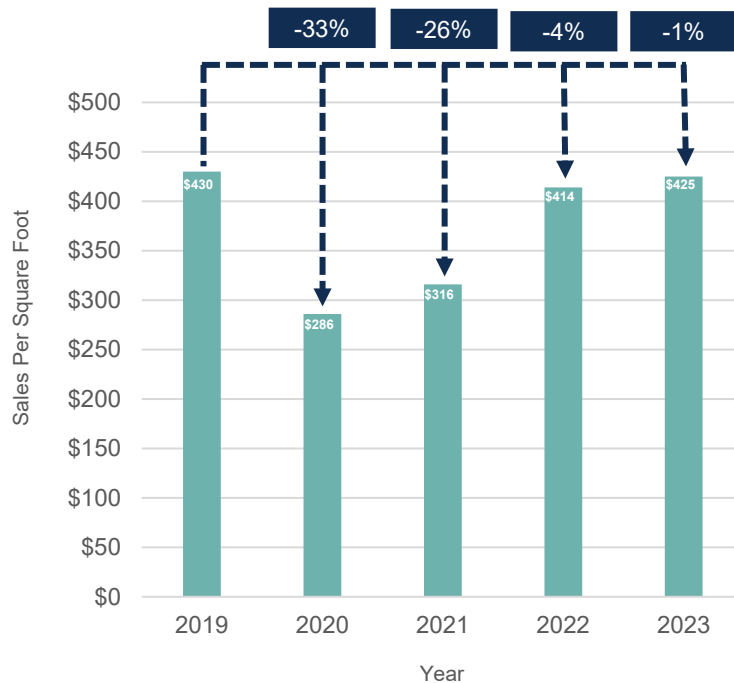


- StatsCan data indicates Covid bump
- Decline in e-commerce as stores re-open

Retail Real Estate Trends

Covid Impacts

Change in Average Same Store Sales at Mall



- Typical pattern for malls
- Major markets / malls recovered quicker
- Rent declines continue
- Investor perceptions changed – malls seen as riskier

Source: Tate Economic Research Inc.
Confidential Mall Sales Report

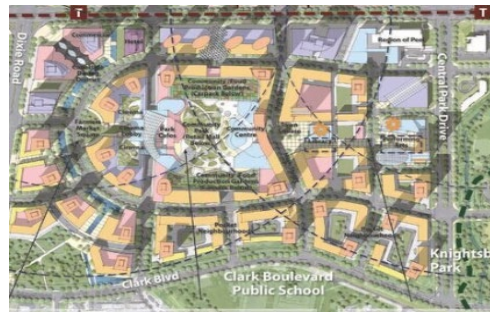
Retail Real Estate Trends

Redevelopment and Intensification

Wellings of Whitby



Bramalea City Centre



Pergola Commons Guelph



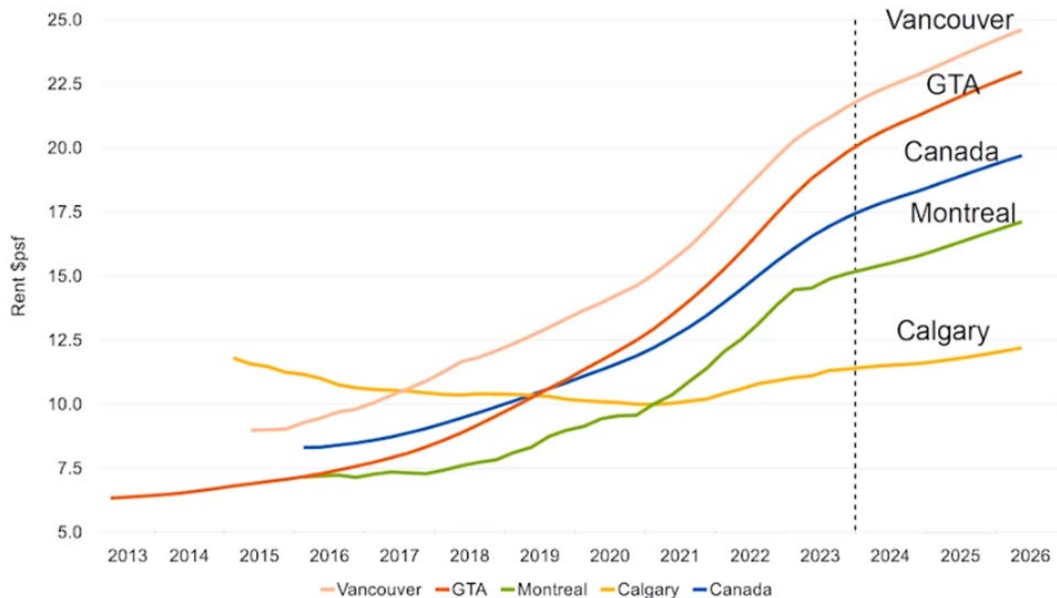
Note: Project is conceptual and has not been submitted

Industrial Real Estate Trends

Industrial Real Estate Trends

National Rental Rates

Industrial Rents By Market

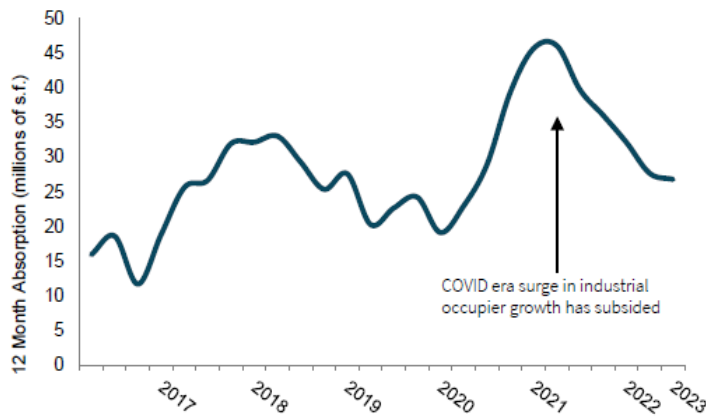


Source: CoStar, 2026 Q2

- Large rent increases past 5 years
- Rent increases levelling off

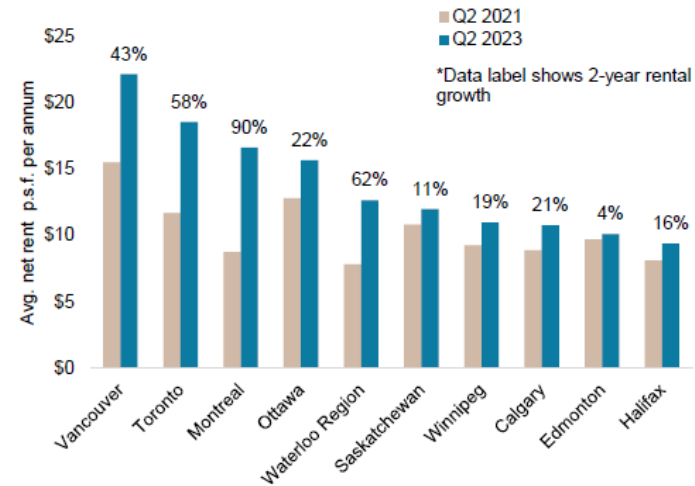
Industrial Real Estate Trends Growth and Rent

Figure 13. Occupier growth has slowed to near pre-pandemic levels



Sources: JLL Research

Figure 14. Average industrial rent by market, Q2 2021 vs. Q2 2023



- Covid bump – distribution centres and warehouses
- Over 50% increase in Toronto and Waterloo rents in 2 years
- Rents levelling off as supply increases

Industrial Real Estate Trends

Intensification



- Vancouver (Burnaby)
- Oxford Development
- Brownfield Redevelopment
- This building is 700,000 sf, on two levels
- Amazon is major tenant

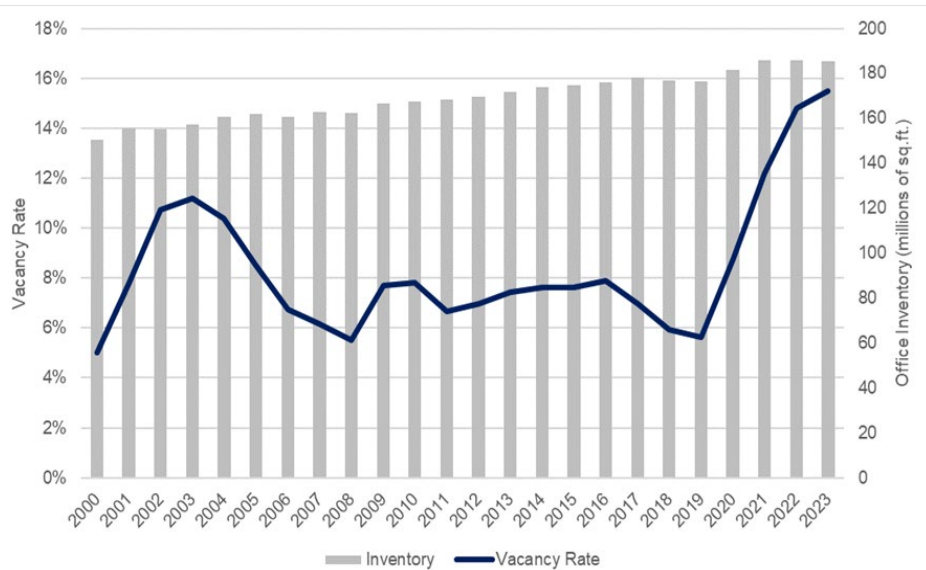
- First major example of two storey industrial in Canada.
- Will become more prevalent
- 16 in the US, 12 more planned

Office Real Estate Trends

Office Real Estate Trends

Office Inventory and Vacancy

GTA Office Inventory and Vacancy



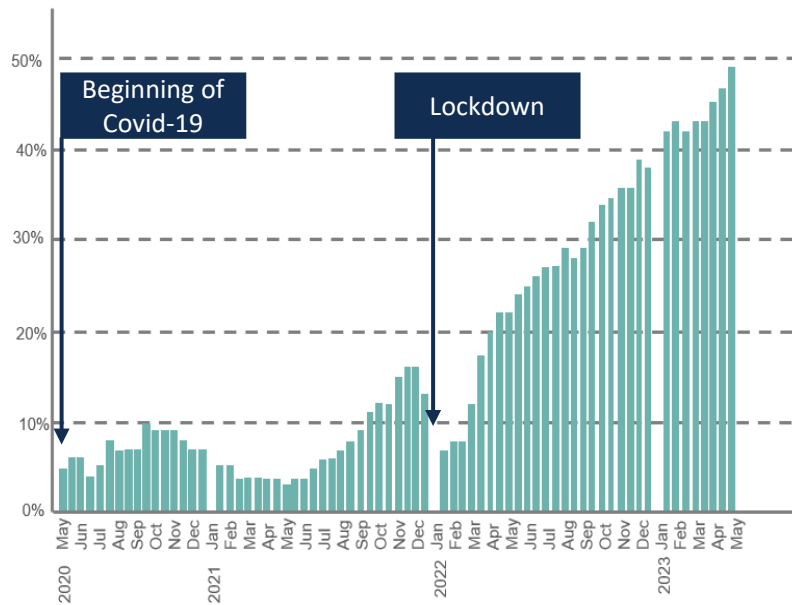
Source: Tate Economic Research Inc. based on data provided by Cushman & Wakefield.

- Initial Covid Impact
- Increasing Since 2019 / 2020
- Shopify in The Well example
- Longer term leases expiring over time
- Leases renewed – less space

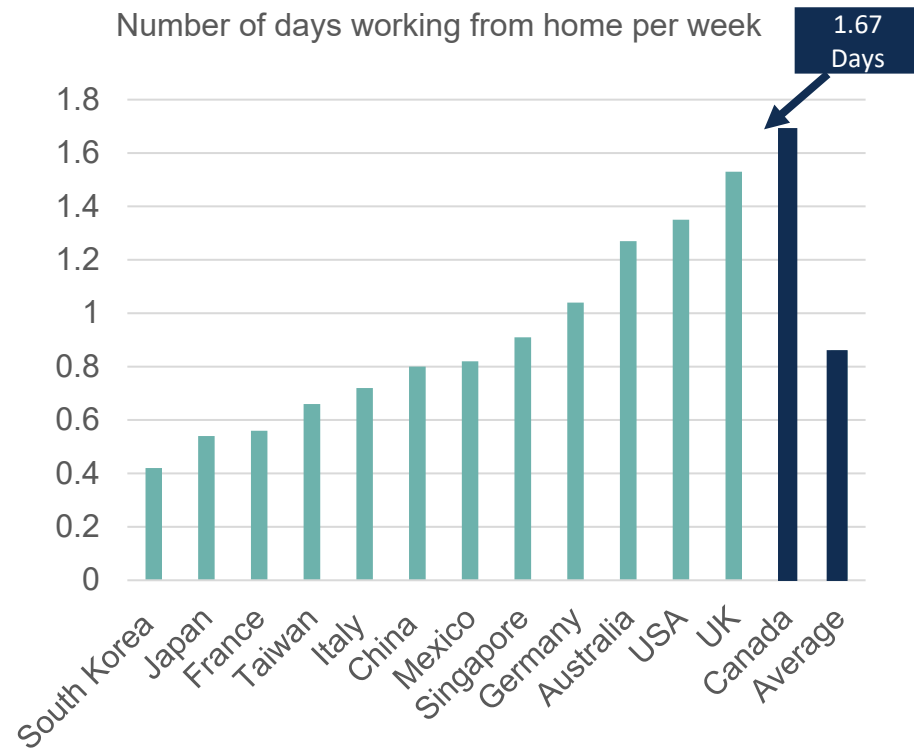
Office Real Estate Trends

Occupancy and Work From Home

Toronto Office Occupancy Index



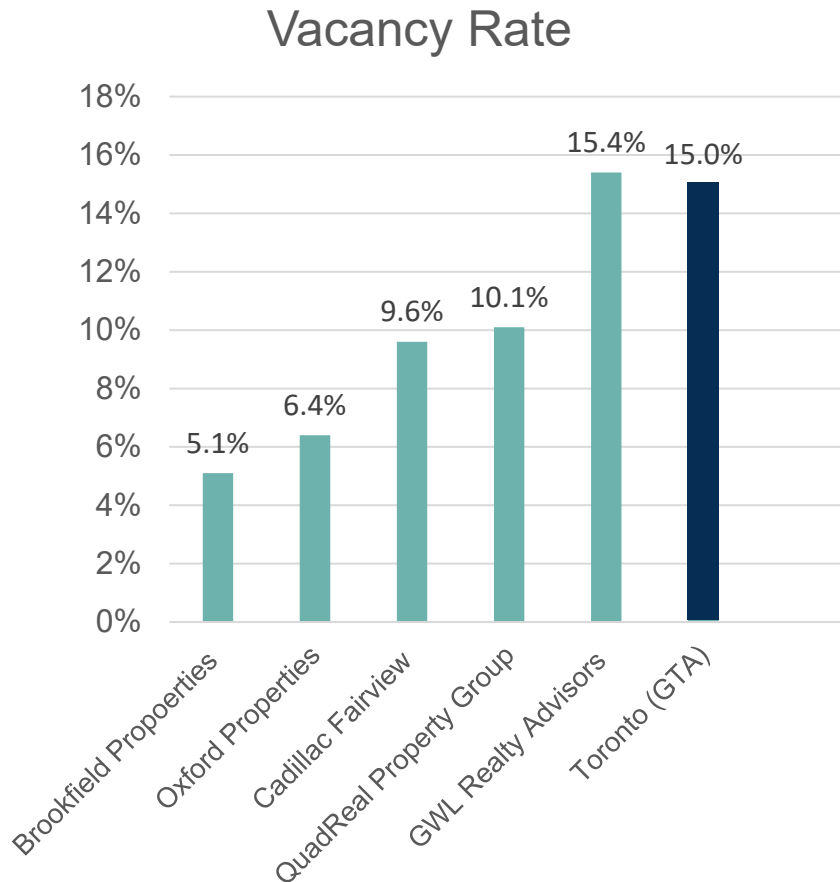
Number of days working from home per week



- How much higher will occupancy go?
- Canada is anomaly in global context

Office Real Estate Trends

Market Segmentation



- Class A space – latest and greatest doing well
- Problem is with the class B and class C buildings. Older, not as well located, lacking technology
- Interest in conversions

Office Real Estate Trends

Conversion – Opportunities and Hype



Calgary leading the way – 10 projects, since 2021. 1.3 million sf of office space, creating over 1,000 units. Paying \$75 psf.

Difficult to do – floorplates, sunlight, cost to renovate, age / condition / location. Estimated 10 - 30% of buildings.

Toronto has 100% replacement policy.

Occurring in NYC and in other US Cities. Locally, Ottawa, Kitchener, Hamilton – other cities are looking at it.

Not going to solve housing crisis.

Office Real Estate Trends

Conversion – Opportunities and Hype



The Cornerstone Downtown Calgary –

10 storey building, 129,000 sf

1st floor retail

2nd floor – Coworking

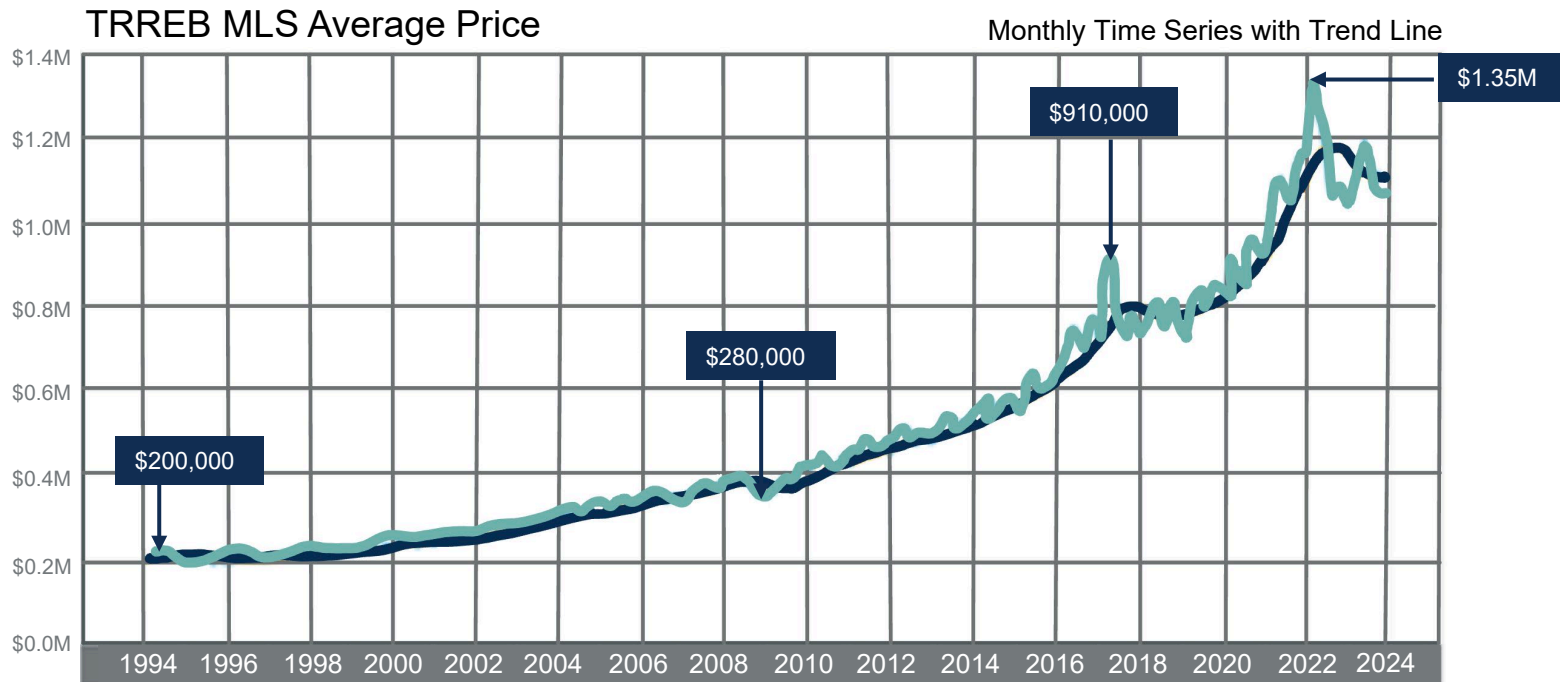
3rd through 10th – 112 units. Two
and three bedroom rental
apartments

*“We’re aiming to address three
problems facing Calgary at once:
a lack of housing Calgarians can
afford, empty office space
downtown, and economic
downturn.”*

Residential Real Estate Trends

Residential Real Estate Trends

Average Selling Price – Toronto Region



Source: Toronto Regional Real Estate Board; Graph Duplicated by Tate Economic Research Inc.

■ MLS Average Price
■ Average Price Trend

Residential Real Estate Trends

Impact of Mortgage Rate Increases

Historical Posted Mortgage Rates



- Impacts on current housing values, sales volume and investments.
- Many condo investor rentals are now “underwater”. Rent increases do not cover mortgage increases. Negative cash flow.
- Presales down, assignments up, rents way up.

Implications of Increased Rates

In 2017, Mortgage rate was 3.5%.
In 2023, Mortgage rate is 6.5%

From 2017 to 2023 - \$500,000 mortgage - payments increased from \$2,500 to \$3,700

In 2017 - \$3,500 a month equalled \$700,000 worth of mortgage.

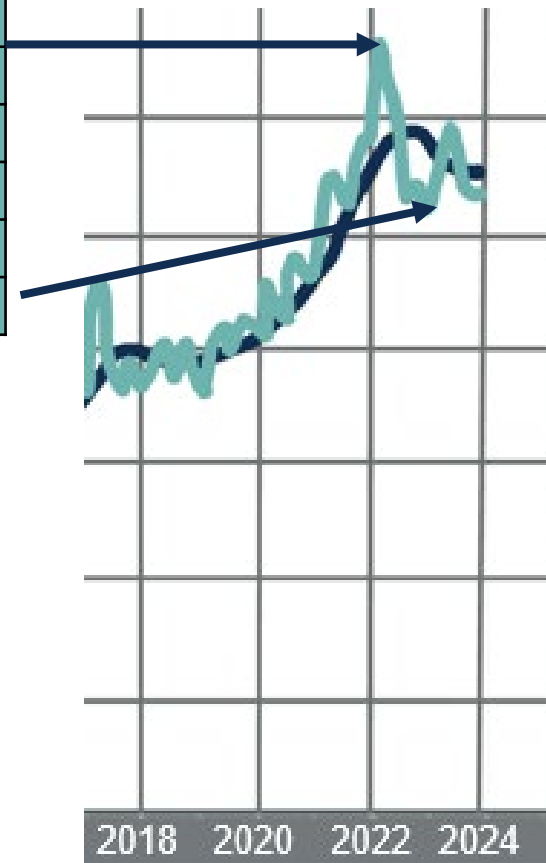
In 2023 - \$3,500 a month equals \$475,000 worth of mortgage.

Residential Real Estate Trends

An Example of Pricing Changes

52 Elm Road, City of Toronto

Date	Price	Change from Peak	Percentage
April 2022	\$2,399,000		
July 2023	\$2,199,000	\$200,000	8.3%
August 2023	\$2,099,000	\$300,000	12.5%
September 2023	\$1,998,000	\$401,000	16.7%
Current	\$1,865,000	\$534,000	22.3%



Residential Real Estate Trends

CMHC Forecast

- Crane Index still highest in Toronto – 240 vs. 8 in NYC. More supply is on its way
- Mortgage Rates to stabilize in 2024, potentially declines in latter part of year
- Housing prices stable in 2024 – lack of buyers and sellers
- Macro economic risk of slowdown / recession

“High interest rates and labour and material costs will curb housing starts in 2023. House prices are also expected to fall due to weakening demand and higher inventories this year. A gradual recovery in starts and prices will begin in 2024 and 2025.”

CMHC Forecast, for Toronto Market, April 2023

Economic Summary

Recap

- Bank of Canada lending rates have slowed economy, but has not resulted in inflation decreasing to the target level of 2%. Slowdown / Recession anticipated.
- Population growth is driving economic growth and immigration is driving population growth.
- Retail – ecommerce and redevelopment.
- Industrial – continued growth at slower pace.
- Office – too much office space, Canada is an international anomaly for WFH, more conversions coming.
- Residential – increased lending rates have slowed sales (new and resales). Prices decline / stable. Lower rates not expected until late 2024.