

Multi-residential condominiums in Toronto

Investment size – CAD \$100m

Unlevered Return – 13.14%, Levered Return – 24.47%

August 2024

Executive Summary

- **Toronto is the** capital city of the Canadian province of Ontario. With a population of 2.8m or 7.6% of Canada's total population of 37.0m, it is the country's most populous city and the fourth-most populous city in North America. Toronto is an international centre of business, finance, arts, sports, and culture and is one of the most multicultural and cosmopolitan cities in the world.
- **Strong Housing Demand** – Canada, owing to its ageing population, is relying on strong immigration policies to attract young working professionals. Roughly 1 million immigrants moved between years 2021 and 2023, and the government expects 1.5 million new immigrants between years 2024 and 2026. ~40% of the new immigrant land in Toronto, creating a strong demand for housing each year.
- **Decline in housing prices due to oversupply in short-term** – Average prices of real estate apartments surged from \$593k in FY 2018 to \$783k in FY 2022 (CAGR – 7.16%), and inflation rose from 2.0% in Dec 2018 to 6.3% in Dec 2022 (highest at 8.1% in Jun 2022). Increase in financing costs have led investors and homeowners to book profits. whereas new homebuyers are refraining from purchasing houses due to a high disparity between income and price. This has led to an oversupply in the market (Slide 5). **Rental markets remain strong.**
- **Shrinking new supply** - Developers face twin issues with ongoing and new projects – i) reduced investor participation due to higher financing cost and better returns in resale market, and ii) higher costs of developing and financing. YTD June 2024 has experienced the lowest sales for new condos since 1997 (Slide 6). Developers have either halted or abandoned construction of new projects.
- **Investment opportunity in multi-residential condominiums** – With the government meeting its long-term targets of immigration, easing inflation, and limited new supply, there is an opportunity to purchase quality assets at attractive prices in the resale market today. At an average condominium price of \$739k, a \$100m portfolio of 135 – 150 condominiums can be built and operated over a five years horizon. The manager of the fund will proactively manage the acquisitions, operations, and dispositions (Slide 7).
- **Investment rationale** – includes **i) Strong fundamentals** – Quality assets at discounted prices, **ii) Institutionalized operations** – Organized operations to maximize efficiency and returns, **iii) Robust Macros** – Growth in population, easing inflation, limited new supply, and **iv) Limited competition** from institutional and retail investors.
- **Expected returns on investment** – Assuming an investment horizon of five years, underwriting calculates unleveraged returns at 13.14% and levered returns at 24.47% (Slide 10).

Toronto in a glance

- **Toronto** is the capital city of the Canadian province of Ontario. With a population of 2.8m or 7.6% of Canada's total population of 37.0m, it is the country's most populous city and the fourth-most populous city in North America. It is an amalgamation of four districts – Toronto & East York, North York, Etobicoke, and Scarborough (See Chart I).
- **Transportation** - Toronto is a central transportation hub for road, rail, and air networks in Southern Ontario. It is home to the century-old Union station, Canada's busiest transportation facility and the second-busiest railway station in North America (behind New York Penn Station), serving over 72 million passengers each year. Canada's busiest airport, Toronto Pearson International Airport straddles the city's western boundary with the suburban city of Mississauga.
- **Finance & Economy** - The city is home to the Toronto Stock Exchange, the headquarters of Canada's five largest banks, and many large Canadian and multinational corporations. Its economy is highly diversified with strengths in technology, design, financial services, life sciences, education, arts, fashion, aerospace, environmental innovation, food services, and tourism. It is the third-largest tech hub in North America after Silicon Valley and New York City, and the fastest growing hub.
- **Media and entertainment** - Toronto is a prominent centre for music, theatre, motion picture production, and television production, and is home to the headquarters of Canada's major national broadcast networks and media outlets.
- **Culture & Tourism** - Its varied cultural institutions, which include numerous museums and galleries, festivals and public events, entertainment districts, national historic sites, and sports activities, attract over 43 million tourists each year.
- **Education** - Toronto is home to Canada's five big universities including University of Toronto and York University, and four public colleges including George Brown & Seneca. Several other public universities in Ontario operate satellite campuses in Toronto.
- **Public Health** - Toronto is home to twenty public hospitals, including the Hospital for Sick Children, a major pediatric teaching hospital ranked as amongst the best in the world.

Chart I – Map of City of Toronto

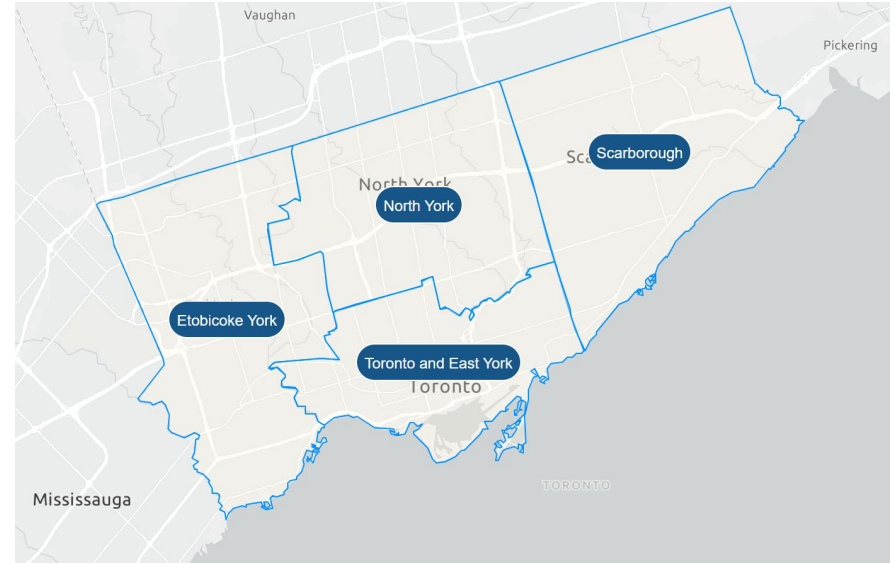


Table I – Statistics of Toronto's boroughs

Borough	Avg. Condo Price (July 2024)	Population (2021)	Median Annual Household Income (2021)	Number of Dwellings (2021)
Toronto and East York	\$677,000	891,320	\$83,000	448,360
Etobicoke	\$599,000	599,110	\$83,000	231,780
North York	\$630,000	647,245	\$86,000	261,835
Scarborough	\$548,000	623,610	\$83,000	218,920
Unaccounted	-	33,071	-	-
Total	\$626,500	2,794,356	\$83,703	1,160,895

Housing Demand

Growth in immigration –

- 1) According to Statistics Canada, Canada's birth rate fell to a record low of 1.4 children per woman in 2020, well below the 2.1 rate necessary to maintain its population without immigration.
- 2) Canada's population now has a larger share of people aged 55 to 64 than those aged 15 to 24, indicating the urgency of addressing the skills shortage. The population share aged 15-24 vs 55-64 has dropped from 2:1 in 1966 to 0.8:1 in 2021 (Chart I).
- 3) To support its aging population and help fill labor shortages, Canada has increased its efforts towards immigration. New immigrants were invited in record numbers between 2022 and 2023 and the government is set to welcome 1.5m immigrants between 2024-2026 (Refer Table I) and 0.5m a year each year thereafter.
- 4) The economic class of immigrants, usually between age groups 25 and 40, is the most critical component for meeting Canada's economic objectives. They form more than 50% of all admissions.
- 5) Toronto attracts the highest number of immigrants due to employment opportunities, existing social networks, infrastructure (transportation, access to housing, and education), and general appeal of the area.

Future housing demand trends

Short-term trend –

- 1) Increase of sales listings by existing homebuyers due to increase in interest rates and profit booking (Slide 5).
- 2) Compression in rental markets from recent immigrants and homeowners converting into tenants (Slide 5).
- 3) It is also notable that the rental listings have increased in the recent past. This is attributed mainly to influx in condo supply in downtown as well as renters leaving the city for more affordable cities such as Calgary.

Long-term trend – Continued push in rentals markets and easing inflation will attract investors seeking stable returns. Once home financing become more affordable, first-time homebuyers will look to buy their first homes. Limited new supply (Slide 6) will create robust demand for resale units.

Chart I – Population and % Age Groups over years

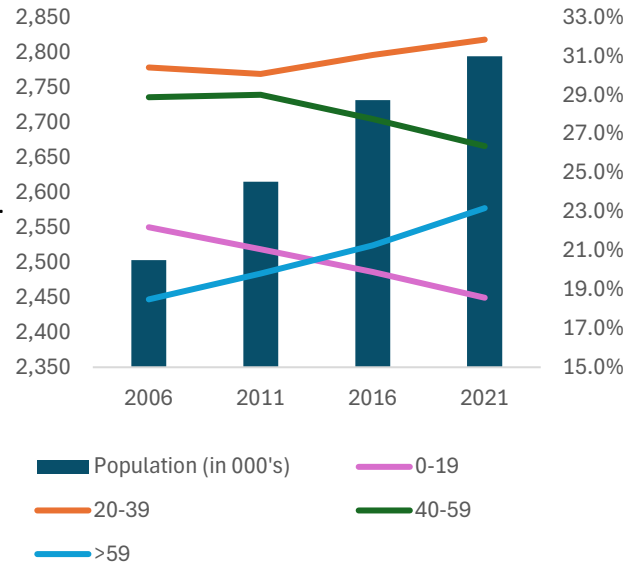


Table I – Immigration Trends

	New Immigrants	Economic Immigration	%	New Immigrants in Toronto	%
2021	184,606	106,422	57.6%	78,849	42.7%
2022	405,999	252,971	62.3%	159,679	39.3%
2023	437,539	255,660	58.4%	172,084	39.3%
2024	485,000	281,135	58.0%	190,750	39.3%
2025	500,000	301,250	60.3%	196,649	39.3%
2026	500,000	301,250	60.3%	196,649	39.3%

Note: Cells highlighted in blue are forecasted numbers

Source: [Government of Canada](#)

Recent News:

[Canada is set to welcome nearly 1.5 million new permanent residents over 2024 – 2026](#)

Source: Global News

[City of Toronto takes top spot as fastest growing city in Canada and U.S](#)

Source: City of Toronto's website

[Immigrants would continue to be concentrated in Toronto, Montréal and Vancouver](#)

Source: Statistics Canada

Trend in resale and leasing market

Chart I – Recent sales trend in apartments

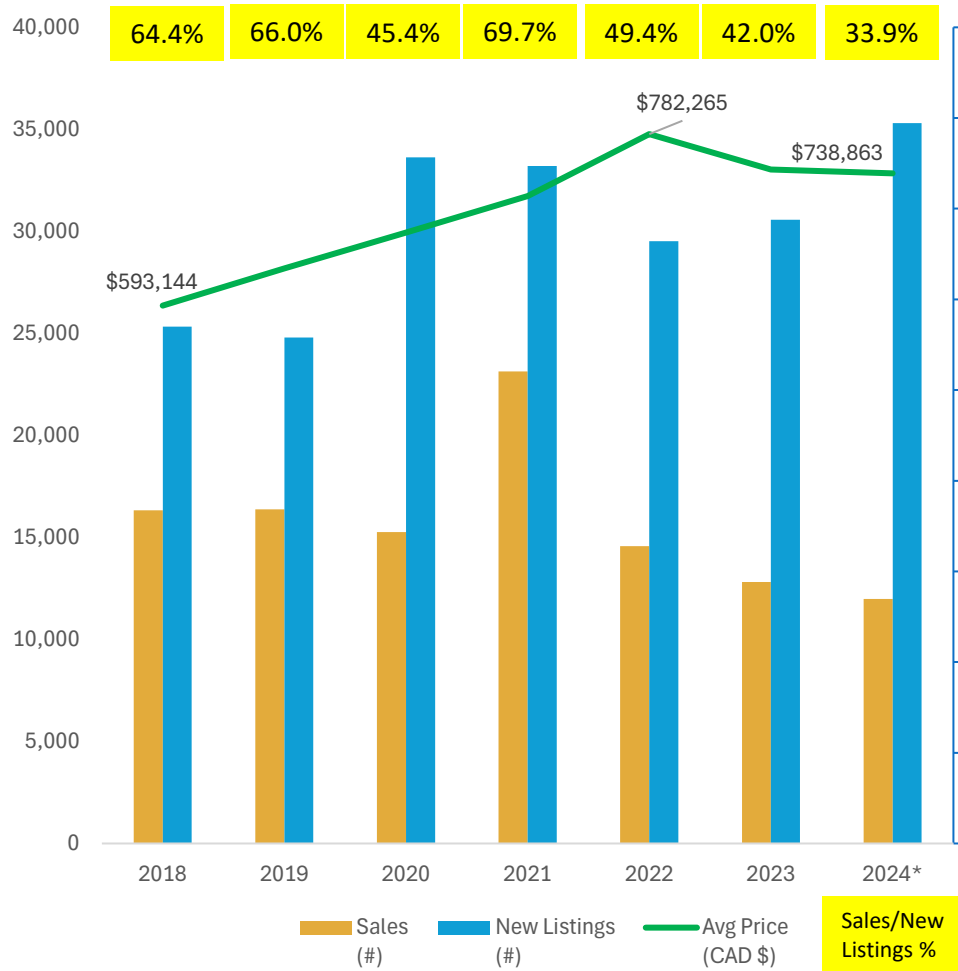
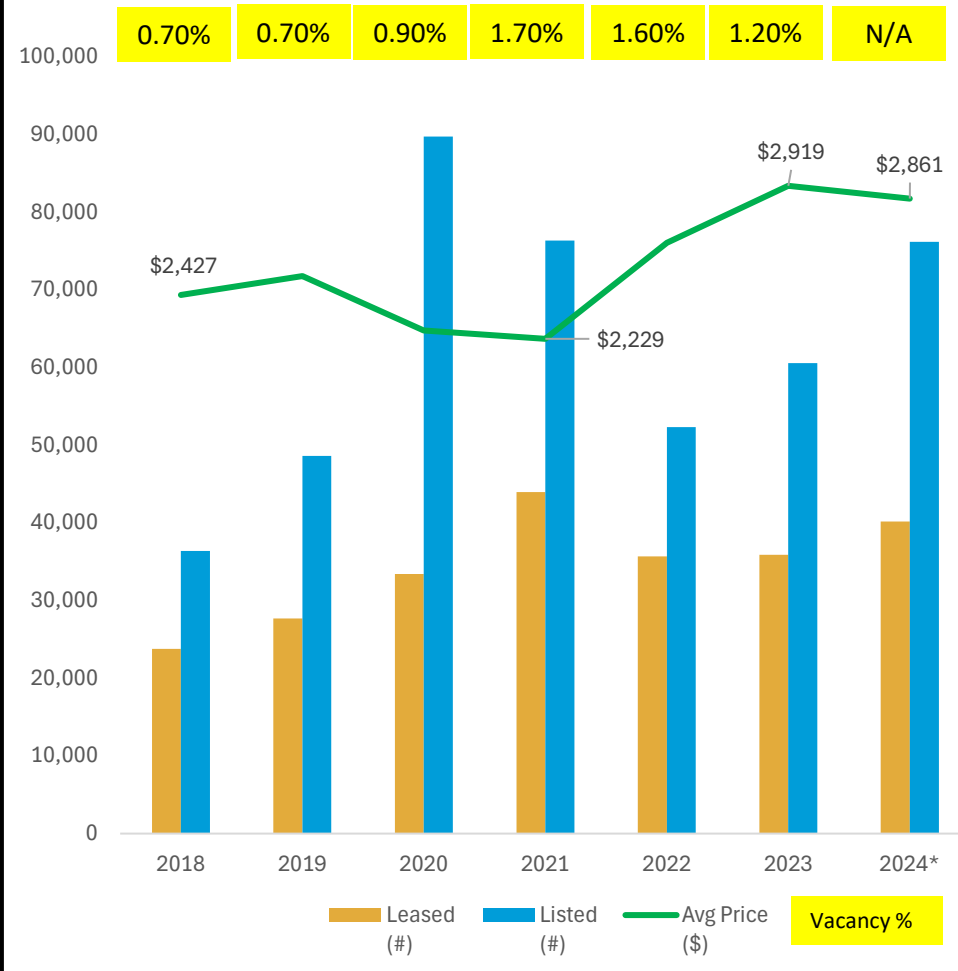


Chart II – Recent trend in rental market for apartments



Note: 2024* represents trailing twelve month's performance from July 2023 – June 2024

Source: [Toronto Regional Real Estate Board](https://www.torontorealestateboard.com/)

Shrinking new supply

Investment in new condos, once a highly lucrative asset class for investors in Toronto, is now facing dual challenges amongst developers – i) reduced investor participation, and ii) higher cost towards development and financing.

i) Reduced investors participation - In the past five years, new condo prices have increased 58% — nearly double the growth in condo resale prices and rents. Availability of houses at lower prices in the resale market makes investing in new condos little economic sense for investors.

Moreover, the recently completed or to be completed higher priced new condo units enter the market in a higher interest rate environment, requiring larger financial obligations. About 77% of investors with mortgages on newly built Toronto condos had negative monthly cash flow last year, up from 52% in 2022. This has been detrimental to their confidence in investing in new condos.

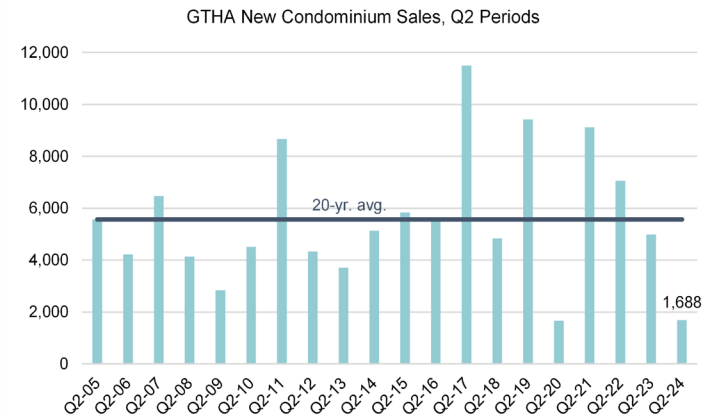
ii) Higher costs for developers – Elevated interest rates and an increase in the costs of materials and labor in recent years means developers need to keep real estate prices high to turn a profit. Lack of interest from investors and homebuyers to pay that price gives developers little incentive to develop new projects.

Future new supply trends:

Short-Term trend –As per Urbanation, an independent research firm, the unsold inventory has hit a record high with almost 25,893 unsold units by June 2024. Only 1,688 units changed hands in Q2 2024 (see Chart I) and 3,159 new condo units till YTD June 2024, marking it the slowest first half for new condo sales since 1997 and down by 57% from last year, and below 72% below the 10-year average. This has resulted in developers halting or completely abandoning plans to launch new projects.

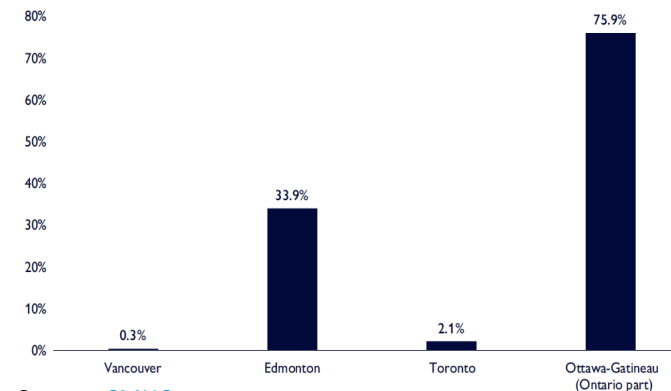
Long-Term trend – Land in attractive locations such as downtown Toronto and near good transport remains sparse (see Chart II). Growing demand for rental units and with easing inflation, the resale market will catch up with the price of new condos. This will boost the confidence of investors, and thus the developers, in new condos.

Chart I – New condominium sales in GTA in Q2 over years



Source: [Urbanation](#)

Chart II - Percentage of vacant residential area located in the core city for largest metropolitan areas in 2021



Source: [CMHC](#)

Recent News:

[Toronto Condo Investors Hit by Market at 'Recessionary' Level](#)
Bloomberg

[60 new projects totalling more than 21,000 units in the Greater Toronto and Hamilton Area have been put on hold indefinitely.](#)

CBC

[Ontario's road to 1.5M new homes by 2031 needs the annual pace of construction to nearly double to 150,000 by 2025 to have any hope of hitting it](#)

CBC

Investment Opportunity

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Investment Rationale

I. Strong Fundamentals

- i) Quality Assets
- ii) Price margin safety

II. Institutionalized Operations

- i) Process driven approach to manage operations.
- ii) Strategic tie-ups for dispositions
- iii) Competitive terms for financing, insurance etc

III. Robust Macros

- i) Growth in immigration
- ii) Easing inflation
- iii) Government's measures to curtail work from home
- iv) Limited new supply

IV. Limited Competition

- i) No institutional buyers
- ii) Limited activity from retail investors

Recent Listings

Type 1 – 1-bed, 1-bath in Downtown Toronto



Ask Price – \$499,900 or ~\$775 psft
Unit configuration – 1-bed, 1-bath
Size – 600 – 699ft
Building Age – 0-5 years
Location – Downtown Toronto (220 George St)
Last Transaction Price – N/A
Current Market Rent – \$2,300/ month
Maintenance Costs – \$537/ month
Tax - \$2,686 per annum for FY 2023
Yield = 3.69%

Listing 2 – 1-bed, 1-bath in Scarborough



Ask Price – \$524,000 or ~\$961 psft
Unit configuration – 1-bed, 1-bath
Size – 500 – 599ft
Building Age – 0-5 years
Location – Scarborough (2799 Kingston Road)
Distance from CBD – 16.1kms
Last Transaction Price – N/A
Current Market Rent – \$2,300/ month
Maintenance Costs – \$497/ month
Tax - \$1,974 per annum for FY 2024
Yield = 3.75%

Proforma with key assumptions

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