LandLord

REALTY INC., BROKERAGE

TORONTO REAL ESTATE

Insights & Emergent Trends 2022-2023

Issued: January 2023

LandLord

About Us – LandLord: Full-Service Property Management, Real Estate Brokerage & In-House Renovations for Investors

LandLord is a full-service property management company, real estate brokerage, and in-house renovation firm specializing in investment-focused real estate. For over 28 years, we've helped property investors in Toronto and the GTA maximize returns, scale portfolios, and optimize asset performance.

Our Expertise:

✓ Investment-Focused Real Estate Brokerage – Buy and sell high-performing rental properties strategically.
✓ Full-Service Property Management – We handle tenant screening, leasing, rent collection, and maintenance so you don't have to.
✓ In-House Renovations – Convert single-family homes into multiplexes, reposition underperforming assets, and renovate for maximum ROI.

📍 2,000+ Rental Units Under Management
📍 $2 Billion+ in Assets Managed for Local & International Investors
📍 End-to-End Support for Real Estate Investors

BBB. ACCREDITED BUSINESS

About This Report

This Market Review provides data-driven insights to help investors adapt to market shifts and seize new opportunities.

Need expert advice on your next investment? Contact us to discuss your strategy.

The Toronto real estate market is constantly evolving, shaped by economic shifts, policy changes, and investor sentiment. Staying ahead of these trends is crucial for making informed investment decisions.

Each year, we provide an in-depth analysis of market conditions, key trends, and future projections, offering investors, landlords, and property owners a data-driven perspective on where the market is headed.

YEAR IN REVIEW & MARKET OUTLOOK

– by Trevor Valade, VP – Real Estate Services & Business Development

From the time of our last update in June, through to the end of the year, the Bank of Canada fulfilled its promise of sustained rate increases. Seven, in total, brought the policy interest rate to 4.25% as of December — the effects of which reverberated almost immediately through the real estate market: muting activity and adjusting the purchasing power down, for those seeking mortgages, by as much as 20%.

Spring sellers nervously tried to cash-out while buyers re-strategized. By the fall, bidding wars, once ubiquitous, became infrequent and those who held on to 2021 pricing expectations were either forced to negotiate or exit the market. The worry, for many, was that the 40% gain in property values from 2019-2022 might evaporate as quickly as it had materialized.

As we enter the new year, transactions are down 49%, but seem to be stabilizing.

New listings also remain low: having declined by 11.6%, with the average sale price down 7.2% — supported by the fact that distressed selling has not permeated the market.

There has also been noteworthy sector specific variation: detached homes (arguably the most over-inflated) have corrected by nearly 23%; semi-detached by 14%; freehold townhouses by 9%; and condo-towns and apartments by 3% and 1%, respectively.

Many sellers have opted to either wait, or they've tenanted: taking advantage of unsustainably high average lease rates.

The sale to new listing ratio, hovering around 50%, now indicates a balanced market.

Whether this is the soft landing the Bank of Canada had hoped for, or the beginning of an economic recessionary period is yet to be seen.

At the beginning of 2023, The BoC policy rate sits at 4.25% with the Canadian prime interest rate at 6.45%.

Based on recent, more dovish remarks from Tiff Macklem, the Governor of the BoC, we are predicting a final increase of .5%, as early as January 25th, 2023.

Depending on inflation data, this could be split into two staggered increases of .25%, or, delivered at once if a more aggressive approach is warranted. It is our expectation that interest rates will remain elevated through 2024 and into 2025. We expect this year to be one of adjustment and recalibration.

The remarkable surge in property values noted in the last few years has receded as more buyers are now simply financially incapable of meeting sellers' expectations. The bulk of the pricing correction has already occurred.

The adjustment period should largely play itself out in the upcoming spring market, as sellers re-position their properties to align with the new affordability landscape.

Property values are expected to stabilize around the pre-pandemic averages seen in 2019/2020. Underlying fundamentals will re-establish themselves and absorption rates should improve through the summer and into the fall.

Through these changes, Toronto remains a desirable city for investors and end-users alike.

We see no direct path out of the supply issues surrounding housing in the GTA and, as immigration and job growth persist, and inventory levels remain low, we anticipate sustained (albeit more moderated) upward pressure on sale prices by the end of the year. Strong demand — and even competition — persists for properties with inherent, recognizable value.

In previous years, we've offered guidance for how to navigate aggressive, competitive markets. This year, we consider trends and strategies to help maintain stability amidst change:

OVER-HEATED RENTAL MARKET

The increased costs associated with home ownership have pushed many would-be buyers into the rental market, driving lease rates up nearly 25% for the year. 1-bedroom units are now averaging $2,478, and 2-bedroom suites have reached an eye-watering $3,310.

Keep in mind: these averages apply to condos in the downtown core, which typically provide modern finishes and hotel-style amenities. These numbers also, compared to activity within our portfolio, seem high.

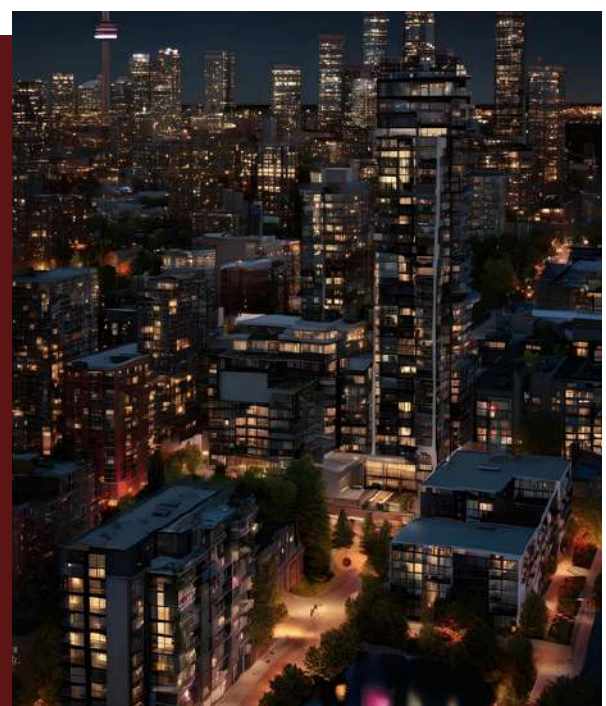
We've noticed averages closer to $2,200 and $3,000 respectively.

Suites positioned above this range have tended to sit on the market longer, with few offers, usually from less viable applicant profiles.

We have also recognized increased vulnerability to tenant default and property damage as tenants respond to the weight of unmanageable debt service ratios.

While cash-flow should remain a key metric, it's also important to consider how the residents maintain the space and whether they feel as though they are receiving value for rent paid. A focus on increased immigration and the high buy-in cost of ownership will continue to fuel demand for rental housing.

Whenever possible, increase density and upgrade spaces to keep pace with risings carrying costs.



DENSIFICATION

In response to housing supply issues, the municipal and provincial governments are attempting to remove some of the cumbersome bylaws and limitations on low-rise density across Toronto.

In 2023 we expect to see continued progress on initiatives aimed specifically at multi-plex development, laneway and garden-suites and rooming-houses.

One of the services we provide to our clients is management and oversight of renovation projects – including multi-plex conversion and laneway house development.

Many of our clients have found success in acquiring single-family spaces and converting them to multi-unit properties.

For existing units, consider converting a large one-bedroom space into two bedrooms or incorporate a den or flex-space.

As average lease rates trend higher, people are partnering up with roommates to share housing costs.

Spaces that can comfortably house more than one occupant tend to have lower vacancy loss and can sustain higher rent. If condos are your preferred investment, whenever possible, avoid studio and 1 bed units. If a den is included, ensure it's able to accommodate a bed (with privacy).

RELATIONSHIP MANAGEMENT

Mediation has always been part of our service-package, but over the past several years it's become a primary focus.

Through the pandemic, the timelines associated with hearing dates at the Landlord & Tenant Board have been severely disrupted.

From the date of filing, to receipt of an order from an adjudicator, we can now expect to wait between 8 to 10 months.

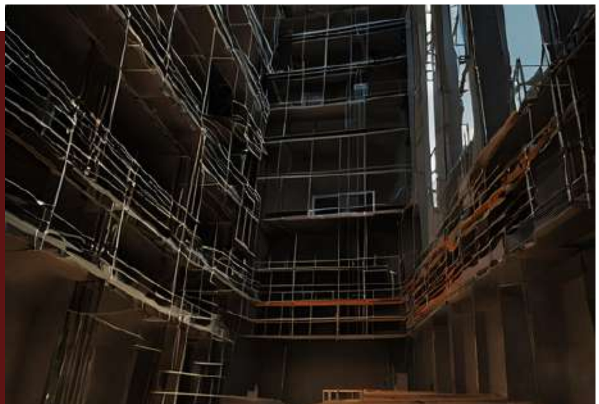
As a result, we have had to work in-house to try and mediate non-payment of rent, tenancy dissolutions, and a host of other issues.

We have found through experience that empathy and clear communication are much more effective than heavy-handed demands and rigidity.

It has been challenging, particularly when it's clear to us that someone is taking advantage of the inefficiencies at the board level.

When necessary, we do still pursue the appropriate governmental avenues. Mitigating loss, as quickly and amicably as possible, is always the objective.

OPPORTUNITY IN ADAPTABILITY



Re-wiring the economy and pivoting toward a more sustainable future will be inherently inflationary; a return to a period of ultra-low interest rates seems unlikely.

Now more than ever, it's necessary to establish and maintain a "reserve fund."

It should be proportionate to the size of your investment portfolio and should take into consideration both routine maintenance and unforeseen costs.

This can help avoid interest payments on lines of credit and minimize carrying costs.

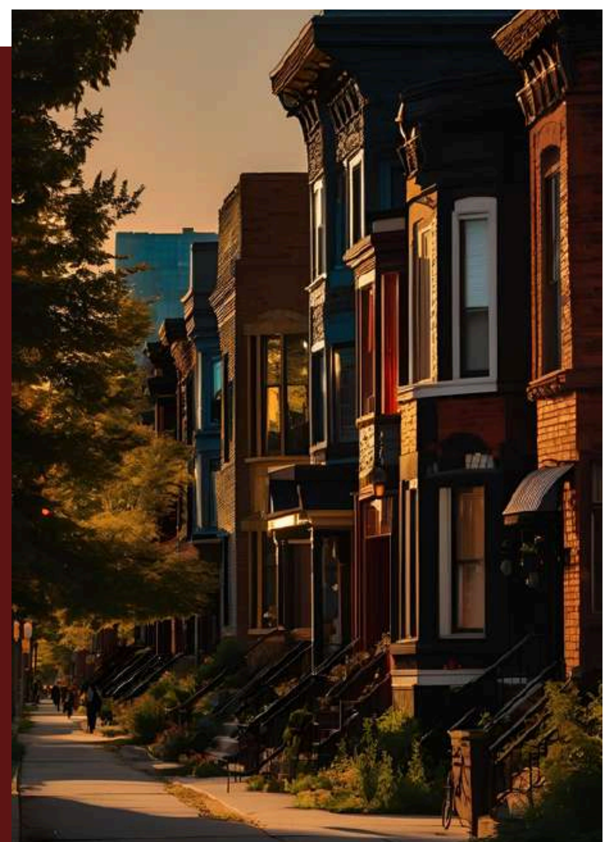
Keep in mind, these changes and increased expenses are also impacting your tenants.

As consumer debt levels rise there is potential for a corresponding increase in rent payment defaults.

Having a buffer will reduce stress and protect your investment over time.

Toronto has a notorious housing supply issue, and demand remains strong for properties of distinction. Our success as a team resides in our unique ability to uncover, highlight, and convey the intrinsic value and growth potential of both the listings we represent and the properties we help our clients to acquire.

e welcome a return to a balanced market. It allows for thoughtful, effective negotiations and tailored marketing. If you're contemplating a sale, or thinking of adding another property to your portfolio, we can certainly help.



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