LandLord
REALTY INC., BROKERAGE

TORONTO REAL ESTATE

Insights & Emergent Trends 2023-2024

Issued: December 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. This past year has been one of considerable change, and we expect 2024 to be no different.

Each year we offer our take on the Toronto real estate market, now and in the year ahead. Explore our insights into the current state of the Toronto real estate market and our projections for the year ahead.

YEAR IN REVIEW

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

The last few years have been marked by nearly constant disruption and volatility. Our shared narratives about effective governance, market dynamics and overall stability have come under scrutiny.

Canadians, with our deep attachment to real estate ownership as a foundational component of personal wealth, have historically found comfort in an almost devout belief that a property purchased today must be worth more tomorrow. For decades that has proven true. When paired with perennially low interest rates, one could be encouraged to accumulate incredible amounts of mortgage and other consumer debt. For some younger homeowners, the most recent period of sustained interest rate increases was not only unexpected, but it was also unprecedented. For others, this was a logical and anticipated end to an unsustainable run-up in inflationary pressure and property values.

As we approach year's end, the sales to new listing ratio hovers around 30 per cent – deep in buyers' market territory and a steep fall from 63% just five months ago[1] . The unsold properties from the spring and fall markets are slowly accumulating as the volume of transactions recedes into the winter.

The elevated interest rates and financing costs created a pronounced gap in valuation expectations between buyers and sellers, essentially stalling activity.

We were somewhat concerned that a large cohort of over-leveraged sellers might be forced into the market, collectively flooding it with inventory and further depressing re-sale values.

Fortunately, for sellers, that has not yet materialized – likely thanks to the often-criticized stress tests and the residual tailwinds of COVID-era savings.

The autumn market showed renewed signs of earnest negotiation; fewer listings generated multiple offers, and most sold at or under their asking price (if at all).

The steady but muted flow of inventory into the market and the restrained but persistent demand from buyers underpinned a relatively stable floor for property values.

As of writing, transactions in the city for the year are down 6%, and listings are up 16.5%. Prices, as a result, are flat and have come down by about 2% (still well above pre-pandemic averages).

For those transacting, it is evident that buyers currently have the upper hand. The market overall is much less competitive than it has been in previous years.

The condo segment has been hit particularly hard. Profit margins have eroded over the last few years: if you combine increasing property taxes, condo fees and mortgage interest rates, most investors are in a negative cash-flow situation. As these overleveraged investors attempted to exit the market over the last 12 months, new listings ballooned by 28 per cent. That flood of inventory has presented considerable headwinds to resale values across the city. For those who couldn't cash-out, unsustainably high lease rates and strong demand for rental housing offered a temporary salve.

[1] 40-60 per cent being indicative of a balanced market.

BOC Governor Tiff Macklem has dubbed 2024 "the year of transition". It is our expectation that this transitional period will include the end of ultra-low interest rates and a corresponding mean reversion to pre-COVID year over year value appreciation trends. Hopefully, the cumulative effect of these two changes results in a healthier, more sustainable market environment for the foreseeable future. Of course, that's barring any new socio-economic surprises, the likelihood of which, in recent years, has increased. To best position you to pursue opportunities amidst change, we've summarized our insights and trends for the year ahead.

CREATIVE REPOSITIONING

This period of transition should include reevaluating your investments and positioning underperforming assets for sale if/when favourable. It's important to identify which properties within your portfolio have fulfilled their objective. Whether it was to help you get into the market, or to assist in equity build-up, if an asset has reached its ceiling in terms of growth, it may be prudent to take preliminary steps to effectively sell the unit and leverage the proceeds into something with more potential.

The first half of 2024 will provide a favourable buying environment for agile investors.

With more inventory and fewer buyers actively participating, pricing should remain flat until the BOC signals that rates will begin their descent.

Keep in mind, the "bottom" that most buyers are waiting for exists now, in this liminal period of cautious optimism and muted activity. Once the media suggests (and the market believes) that relief is forthcoming, the recovery will already be underway, and you'll be competing with everyone again.

A BUYING OPPORTUNITY IS A SELLING OPPORTUNITY

We expect buyers to gain confidence toward the second half of 2024, as the path forward on interest rates becomes clearer. Absorption rates should tighten as we move through the summer and, by the fall we expect to see some increased competition and fewer available properties.

There are certain property types, with certain flaws, that will correct harder and faster in times of volatility. We've often counselled clients to strategically purchase properties that are more likely to hold value during corrective periods and, if you've purchased with us, it's likely you'll be able to sell that investment effectively regardless of market dynamics.

Just because inventory levels are high, doesn't necessarily mean that your property will get lost in the pool of available listings. Our marketing strategies will encourage buyers to consider your investment property ahead of all others. From something as common as photos, to something as detailed as financial pro formas and cash-flow statements, we handle it all in-house with incredible attention to detail and strategic positioning.

PROPERTY FOCUS - MULTI-FAMILY HOUSING

Much of the demand for housing over the next 5-10 years will come from immigration and growing international enrollment in postsecondary schools across the GTA. These newcomers are less likely to purchase immediately and instead will rent for a time before settling down.

We have been assisting our clients in the conversion of single-family homes into multi-unit dwellings, effectively increasing their monthly cash-flow and improving the re-sale value of the property.

There is a fundamental and seemingly unresolvable issue with supply in the GTA. By adding density to your portfolio, you are further insulating yourself from market fluctuations and vacancy loss while introducing much needed rental-stock into the market. Based on an assessment of all property types leading into 2024, we have determined that multi-unit housing is the optimal investment vehicle for long-term real estate wealth generation.

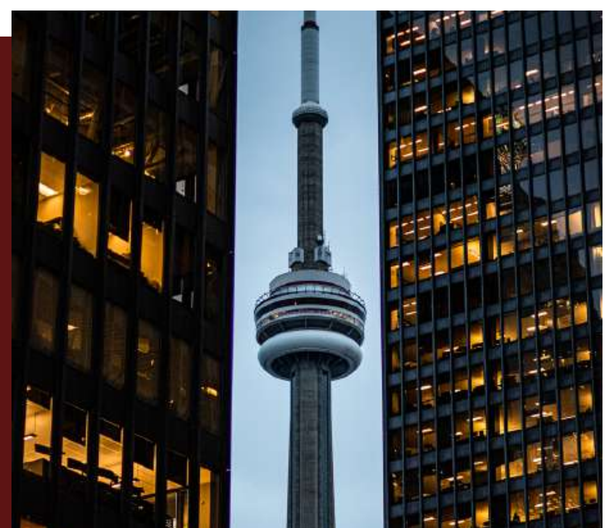
2024 FORECAST

As we adjust more fully to a new era of higher interest rates, things should stabilize. While we don't expect the BOC will need to raise interests rates again, we are hopeful that some moderate rate cuts will be seen in the second half of 2024. Starting with 25 basis points, possibly in July, followed by three additional 25 basis point cuts before settling and holding late in the year. Overall investment and transaction activity is likely to remain soft in the first half of 2024 as both buyers and sellers adjust to the shifting affordability landscape.

We expect inventory to swell in the spring as those who held off can no longer afford to wait. The increased number of listings will result in price sensitivity and a new settling point for less desirable properties, likely 8-10% below the average selling prices we're seeing today.

This would still leave prices around 15% higher than before the pandemic, which aligns nicely with more sustainable, historical year over year average value appreciation.

We'll be watching consumer debt and credit delinquencies, and the ballooning debt-load of Canadians as we move through the first half of the year. Insolvencies have increased by 23% from 2022, however this still lags levels seen prior to the pandemic. If people are pushed, we may see more forced selling which would add to the inventory and further depress values. Overall, consumer debt is on the rise and with Canada's debt service ratio at its highest since 1990, the financial strain could become unmanageable. This instability will continue as more people rely on credit to fill in for the missing funds they are allocating to rent and mortgage interest. We're also going to be watching as more Canadians renew their mortgages.



The days of wild value appreciation are behind us – an anomaly brought on by COVID and a rapidly shifting set of ideals across the market. However, real estate values in the GTA are scaffolded by several sustainable pillars: Canada generally, and the GTA specifically are incredibly desirable and will only become more so in the future given ongoing (and likely increasing) geopolitical, and socio-economic instability. Canada will become a "safe harbour" for both investment and quality of life in the long term. Our economy is comparatively quite stable, all things considered. Immigration and employment are also relatively stable and should improve over the next five years. Also, mortgage defaults are still trending below historical averages.

Uncertainty about valuation will remain a key factor in holding back transactions. The deals that do move forward will require persuasive marketing and active negotiation. As new inventory comes online in the spring, it'll compound the leftover listings that haven't sold, and prices will remain flat. That said, they'll be buoyed by media rhetoric about an inevitable strong recovery. Once that happens, buyers' fear of missing out on a deal will push them back into the market and sellers will be there to greet them.

If you're contemplating an investment or a sale in 2024, we're here to help.

LandLord

REALTY INC., BROKERAGE

www.landlord.net