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FINNEGAN | MARSHALL

Purpose-Built Rental Housing in the Greater Toronto Area

February 9, 2023

About Building Industry and Land Development Association (BILD)

With more than 1,300 member companies, BILD is the voice of the home building, land development and professional renovation industry in the Greater Toronto Area. The building and renovation industry provides more than 231,000 jobs in the region and $26.9 billion in investment value. BILD is affiliated with the Ontario and Canadian Home Builders' Associations. BILD celebrated its 100th anniversary in 2021.

More information is available from www.bildgta.ca.

About Federation of Rental-housing Providers of Ontario (FRPO)

Since 1985, the Federation of Rental-housing Providers of Ontario (FRPO) has been the voice of Ontario's rental housing industry and the leading advocate for strong and stable rental housing. FRPO represents more than 2,200 members who own, manage, build and finance, supply and service 350,000 residential rental homes all across Ontario. FRPO advocates for a balanced and healthy rental housing market that promotes a vital rental-housing industry, choice and consumer protection for residents, adequate government assistance for low-income households, and private sector solutions to meet rental-housing needs across Ontario.

More information is available from www.frpo.org.

About Urbanation

Urbanation is a real estate consulting firm that has been providing market data, in-depth market analysis and consulting services to the condominium and rental housing industry since 1981. Urbanation uses a multi-disciplinary approach that combines empirical research techniques with first-hand observations and qualitative information gathered through relationships built within the industry over the past 40 years. Urbanation's subscription-based reports monitor the new condominium and rental markets in the Greater Toronto and Hamilton Area and the Ottawa CMA. Urbanation actively conducts customized research and market feasibility studies across the country for new condominium and purpose-built rental apartment projects. Urbanation's clients include the GTA's largest developers as well as mid- and smaller-tier real estate organizations, institutional investors, major lenders, government agencies, and a variety of service providers.

More information is available from https://www.urbanation.ca.

About Finnegan Marshall

Finnegan Marshall (FM) is a multi-disciplinary cost consulting company founded by Niall Finnegan and Ken Marshall. FM's collective skill sets offer a comprehensive and unique perspective that has proven to reduce risk and maximise value. With extensive industry related experience paired with comprehensive analysis, extensive market knowledge and proven results, our aim is to deliver high quality, professional, consultative intelligence to our clients. What differentiates FM from other cost consultants is our intimate understanding of the high rise multi residential condominium market and overall knowledge of current trade pricing gained through our involvement in ongoing trade negotiations, in-depth market knowledge of land values, revenue, best financing structures and JV best practices on behalf of clients.

More information is available from https://finneganmarshall.com/.

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EXECUTIVE SUMMARY – Purpose-built Rental Compendium Report

In late 2022, the Building Industry and Land Development Association (BILD) and the Federation of Rental-housing Providers of Ontario (FRPO) collaborated with Urbanation and Finnegan Marshall to prepare a report on the current state of the market for purpose-built rental (PBR) developments.

Purpose-built rental can be defined as housing built specifically for long-term rental accommodation. It forms a vital segment of the region's, province's and country's housing stock.

The objective of this report is to examine the current supply of PBR in the GTA, quantify expected future demand for this type of housing, and identify barriers to adding PBR supply. In addition, this report makes several policy recommendations for consideration by various levels of government on how to increase purpose-built rental construction in Ontario.

All three levels of government have identified purpose-built rental as a top priority and included it in key housing strategies and initiatives, specifically:

- The City of Toronto's HousingTO 2020 – 2030 Action Plan;
- The Province of Ontario's More Homes, More Choice Act, 2019, and the Report of the Ontario Housing Affordability Task Force, 2022; and
- The Government of Canada's National Housing Strategy.

This report is a compendium document comprised of three parts:

1. A purpose-built rental whitepaper, prepared by Urbanation (Fall 2022) that quantifies the existing state of and the future need for PBR in Ontario.

2. A feasibility pro forma analysis, prepared by Finnegan Marshall (January 2023), providing two financial modelling scenarios for PBR and condominium developments for the City of Toronto and Mississauga.

3. A series of policy recommendations for consideration by various levels of government on how to facilitate the growth of PBR in the GTA, Ontario and Canada. Industry representatives from BILD and FRPO developed these policy recommendations.

Part 1 of this compendium report is a purpose-built rental whitepaper prepared by Urbanation, a company that provides industry-leading research on the condominium, rental and land development markets (https://www.urbanation.ca). Key findings include:

- The GTA has a surging demand for rentals. According to the latest Census, the number of renter households in the GTA grew more than three times faster than the number of owner households during the last 10 years (26% vs. 8%).

- Purpose-built rentals are the most common form of rental housing in the GTA with a 41% share. However, purpose-built rentals contributed the least amount of new supply over the past 10 years, with a net addition of 14,853 units — a 9% share of the total rental supply increase.

- Most new rental supply comes from condominiums. Condos have comprised 89% of total apartment completions and 54% of total rental supply growth in the GTA during the past 10 years. The number of condominium rentals has grown 130% in the past 10 years, compared to purpose-built rental supply growth of less than 5%.

- Almost 90% of GTA purpose-built rentals were built more than 40 years ago. The 23,590 purpose-built rental apartments built since 2000 compare to 223,954 units built between 1960 and 1979.

- According to the Ontario Ministry of Finance medium-growth scenario, the GTA population is expected to grow by 1.27 million by 2031, an extra 445,920 above growth recorded during the previous 10-year period.

- Record high immigration is occurring as population outflows increase. Permanent resident admissions reached record levels in 2022 (over 160,000), with a targeted increase in international graduates of Canadian post-secondary institutions. This is occurring as net population outflows from the GTA to other parts of Ontario and Canada have more than doubled, presenting an urgent need to raise housing supply that can accommodate the new population (who mainly rent) and existing households.

- Home ownership rates are dropping as affordability falls to the lowest level on record. The surge in housing prices in recent years, combined with quickly rising interest rates, has increased the percentage of household income required to service the average mortgage to a record high. The homeownership rate has fallen from its peak of 69.2% in 2011 to 65.8% in 2021, and is expected to fall further over the next 10 years to levels not seen since the late 1990s.

- More than 300,000 rentals are needed in the next decade. The number of renter households in the GTA is projected to rise by 58% over the next 10 years, adding 312,000 renters.

- The vast majority of rental demand can be absorbed through new purpose-built rentals. Average renter incomes have kept pace with the growth in average rents over the past decade, rising 50%. Although average rents for new purpose-built projects at $2,929 require an average income of approximately $100,000, nearly 90% of the net growth in renter households over the past decade was within the $100,000-plus income bracket. Creating new supply for this cohort, 95% of which spends less than 30% of income on rents, will also help open up existing supply of lower-priced units through the filtering effect.

- A lower share of condos used as rentals is projected going forward. The latest Census showed that 59% of condos completed in the past five years were used as rentals — rising from a 37% share in 2011. This has been facilitated through strong price appreciation, generally low and declining interest rates, and rents that have been able to offset ownership-carrying costs for investors. Looking forward, more challenging investment economics should lead to a reduced share of condo investors who buy-and-hold and a lower level of new condo launches, placing more emphasis on the development of purpose-built rentals.

- Progress on purpose-built rental supply is stalling. As construction costs have increased nearly four times faster than rents over the last three years, purpose-built rental construction starts are beginning to slow after reaching their highest level in nearly 30 years in 2020. This is halting meaningful progress as the inventory of planned purpose-built rentals in the GTA increased by 156% (nearly 70,000 units) since late 2018 when rent controls for new projects were removed.

- Rental project development timelines are taking an average of 100 months. In addition to projects stalling due to high development costs, it was found that new purpose-built rental projects completed in the City of Toronto in recent years took an average of 100 months between initial application and project completion, illustrating the deep challenges the industry faces with approval timelines and labour constraints. Only a one-third share of planned rental projects at the end of 2022 was approved.

- The rental supply deficit in the GTA will double to 177,000 in the next 10 years. Rental supply additions from purpose-built rental and condominium projects are projected to total approximately 135,000 units over the next 10 years under the current development trajectory. This represents an improvement of 24,000 units compared to the past 10 years, but falls well short of rental demand projections of 312,000 units, resulting in a deficit of approximately 177,000 rentals.

- Purpose-built rental construction should target at least 124,000 units in the next 10 years. Under an optimistic assumption that secondary rental supply (other than condos) will continue growing at the same pace as the last 10 years, the rental supply gap will reduce to 77,000 units. This means that purpose-built rental supply growth will need to rise from a projected 47,000 units to 124,000 units in the next 10 years to keep up with demand. This should be considered a minimum and realistic target, effectively meaning that rental construction starts will need to more than double their current pace — immediately. This does not correct for years of underbuilding and accumulating rental supply deficits, which was reflected in the 2022 rental vacancy rate of 1.6%, but rather helps prevent the situation from getting worse.

- Purpose-built rentals are better suited for changing demographics. Purpose-built rentals have a more balanced unit mix than condos, with a greater share of two- and three-bedroom units that can better accommodate a projected shift in the population towards households in their family formation and downsizing years. The 35-44 aged population is expected to see the fastest acceleration in the next 10 years compared to previous decades, with ongoing strength in the 65-plus segment. This should lead to a continuation in trends for rental demand that began over the past 10 years, showing the fastest growing cohorts of renters were aged 65-plus as well as younger households comprised of couples, couples with children and roommates.

Part 2 of this report has been prepared by Finnegan Marshall, a multidisciplinary real estate and development cost consulting company (https://finneganmarshall.com). It is comprised of two pro forma analyses for the City of Toronto and the City of Mississauga, each looking at comparable condominium and purpose-built rental projects.

Their financial modelling found that building purpose-built rental in those geographies is significantly less financially attractive than condominium development due to differences in upfront capital investments and the differences in timeframes required to reach profitability. This is exacerbated by the manner in which purpose-built rental is taxed and when development charges are applied, undermining the financial viability of PBR developments.

Purpose-built rental therefore does not have a regulatory environment that is balanced with condominium development. A policy regime is needed that would provide greater equity.

Part 3 of the report was developed by industry representatives from BILD and FRPO.

It consists of a series of policy recommendations for consideration by various levels of government on how to facilitate the growth of PBR in the GTA, Ontario and Canada. These recommendations are categorized by the relevant level of government, including municipal, provincial and/or federal. These recommendations include adjustments to how PBR is treated from a tax, zoning and approvals perspectives.

As an overarching objective, we suggest that all levels of government need to create an action plan to increase the supply of rental housing and make it easier to build. It would also set the foundation necessary for policy reform at each level of government.

At the municipal level, it is recommended to:

- align property taxes for PBR with condos/low-rise homes (as done in the City of Toronto);
- reduce/waive development charges, parkland dedication requirements and/or planning and building application fees;
- modernize PBR zoning by ensuring that by-laws are up-to-date with increased height and density; and
- accelerate approval timelines for PBR.

At the provincial level, the industry acknowledges that the provincial government has already made some very positive changes to support the creation of PBR with:

- The Report of the Housing Affordability Task Force;
- Bill 109, More Homes for Everyone Act; and
- Bill 23, More Homes Built Faster Act.

Additional policy reforms that could be made include:

- the setting of uniform standards for urban design; and
- legislating delegated authority to staff for PBR projects.

At the provincial and federal levels, the industry recommends that the government consider:

- deferring HST payments for PBR, but keeping the valuation date the same (at first occupancy);
- updating the threshold for the graduated rental rebates to today's market value (i.e. $1.5 million for the average single-family home); and
- introducing an income tax write-off (rent to offset income taxes).

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PART 1

Purpose-built Rental White Paper

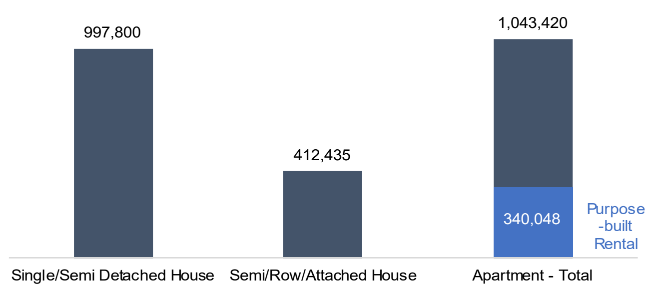
URBANATION

1. What Are Purpose-built Rentals?

Purpose-built rentals (PBRs) can be defined as housing built specifically for long-term rental accommodation. According to a 2017 report by Canada Mortgage and Housing Corporation (CMHC), approximately 90% of purpose-built rental apartment units in Canada are owned by individual investors and private corporations, with the remaining share owned by Real Estate Investment Trusts (REITs), public corporations, pension funds, and Real Estate Investment Funds (REIFs). Purpose-built rentals differ from other forms of rentals offered in the secondary market, such as condominiums, which are not considered permanent forms of rental housing, are generally not professionally managed, and do not provide security of tenure for renters.

According to CMHC data as of October 2021, purpose-built rental apartments totaled 340,048 units in the Greater Toronto Area, representing a 14% share of the total Greater Toronto Area (GTA) housing stock measured through the 2021 Census.

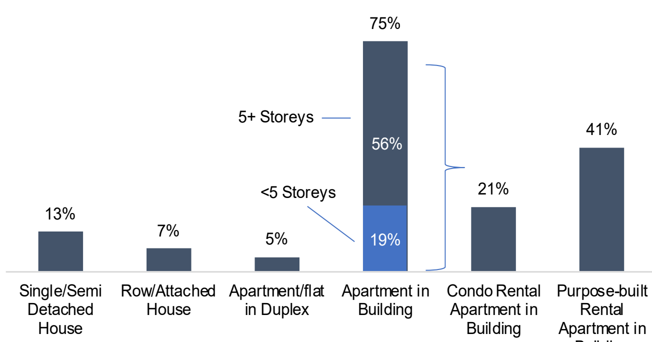
Figure 1.1.1
Total Private Dwellings by Housing Type
Greater Toronto Area: 2021



Source: Statistics Canada, CMHC, Urbanation

Purpose-built rentals in apartment buildings are the most common form of rental housing in the GTA, representing a 41% share of total rented dwellings. By comparison, condominium apartments represent a 21% share of rentals, and rented dwellings in single-detached houses, semi-detached houses, row/attached houses and duplexes account for a combined 25% share of total rentals.

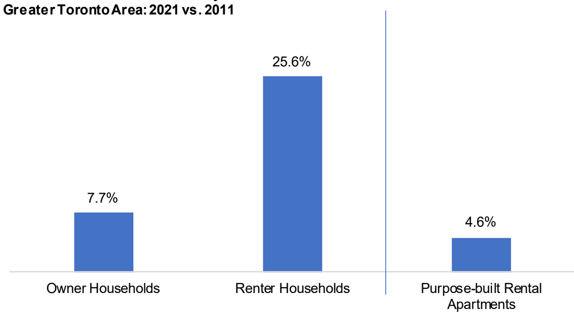
Figure 1.1.2
Distribution of Rental Dwellings by Structure Type
Greater Toronto Area: 2021



Source: Statistics Canada, CMHC, Urbanation

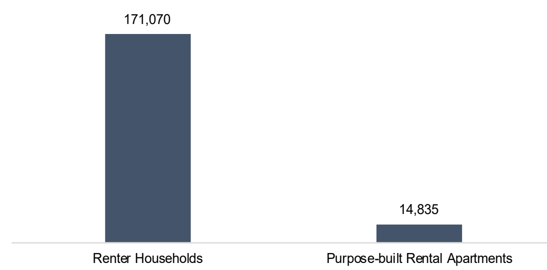
According to the latest 2021 Census, the number of renter households in the GTA grew more than three times faster than the number of owner households during the last 10 years (25.6% vs. 7.7%). However, more than 90% of the increase in rented homes came from within the secondary rental market, as purpose-built rental supply grew by only 4.6%, or 14,835 units, in the past decade.

Figure 1.1.3
10-Year Growth in Households by Tenure
Greater Toronto Area: 2021 vs. 2011



Source: Statistics Canada, CMHC, Urbanation

Figure 1.1.4
10-Year Increase in Renter Households versus Purpose-built Rental Stock
Greater Toronto Area: 2021 vs. 2011

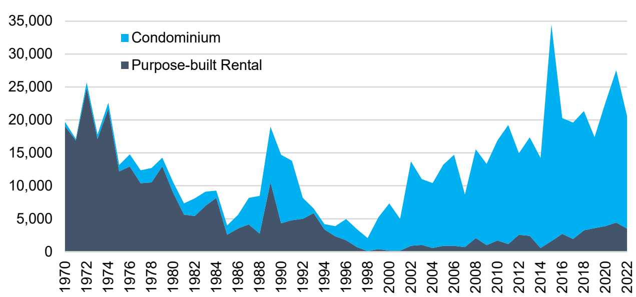


Source: Statistics Canada, CMHC, Urbanation

Condominium apartments have represented the majority of growth (54%) in rental housing in the GTA during the last 10 years. Condominiums, which became legal through the 1967 Condominium Act, were introduced to provide affordable housing amid rising single-family home prices, but did not catch on as a form of new housing until the late 1970s, after the provincial government introduced rent controls in 1975. Following a speculation-fueled housing bubble in the late 1980s, and the removal of rent controls in 1997 for buildings completed after 1991, buyers began turning towards condominiums as longer-term investments. This gained significant traction after the 2005 passing of The Places to Grow Act, which protected land from urban expansion and forced development to grow up instead of out.

Condos have represented 89% of total apartment completions over the last 20 years, outnumbering purpose-built rental deliveries by a ratio of more than 7-to-1. In the last 10 years, purpose-built rentals averaged 2,783 completions per year, compared to average annual renter household formation equal to 17,170 units between 2011 and 2021.

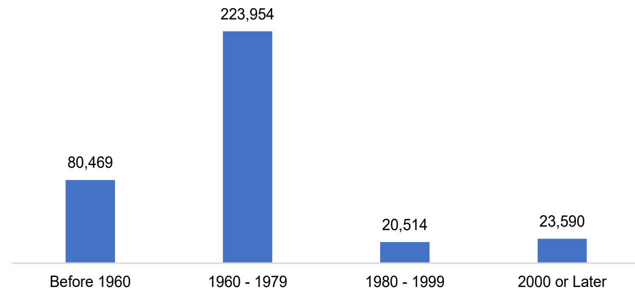
Figure 1.1.5
Total Apartment Completions by Tenure
GTA: 1970 to 2022



Source: CMHC, Urbanation

With relatively more attractive development returns and strong buyer demand for new condominiums, GTA purpose-built rentals became marginalized as a form of new housing, leaving the apartment stock to age significantly. As of 2022, an 87% share of purpose-built rentals were constructed prior to 1980, resulting in a large shortfall of high quality, professionally managed, new rental units in the region.

Figure 1.1.6
Total Private Purpose-built Rental Apt Universe by Period of Construction
GTA: 2022

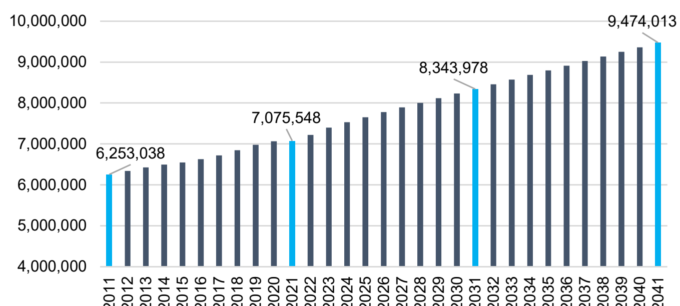


Source: CMHC, Urbanation

1.1 How Many Rentals Does the GTA Need?

The biggest fundamental driver of rental housing demand is population growth. In the 10-year period to 2022, the GTA population increased by 879,717 (+14%) to reach a total of 7.2 million. Population projections made by the Ontario Ministry of Finance under their medium-growth scenario call for GTA population growth to accelerate in the next 10 years, resulting in an increase of 1.3 million (+18%) from 2021 to reach 8.3 million by 2031. Projected population growth is assumed to moderate to an increase of 1.13 million (+13.5%) in the subsequent decade to 2041, raising the total population to 9.47 million and leading to a total increase of 2.37 million in the next 20 years.

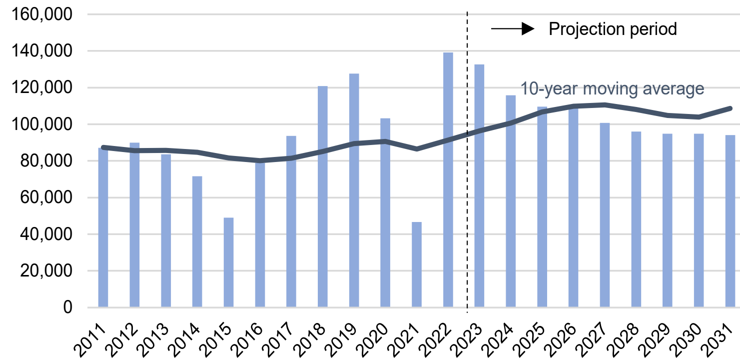
Figure 1.2.1
Total Population Counts and Projections
Greater Toronto Area: 2011 to 2041



Source: Statistics Canada, Ontario Ministry of Finance, Urbanation

Particularly relevant for rental demand is growth in the adult population aged 18-plus, which is projected to increase by an average of nearly 109,000 persons per year in the 10 year period to 2031. Growth in the adult population is expected to be particularly strong in the next five years due to the recovery from COVID-19 and the federal government’s increased immigration targets.

Figure 1.2.2
Population Aged 18+ Annual Increase
Greater Toronto Area: 2011 to 2031

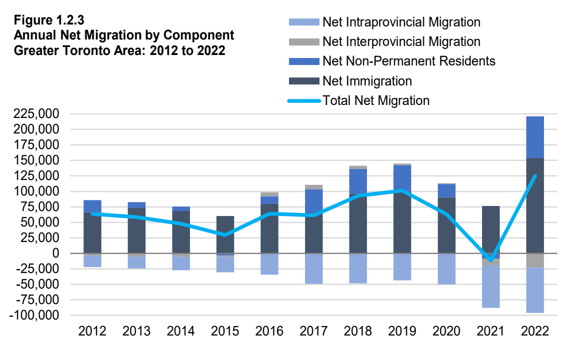


Source: Statistics Canada, Ontario Ministry of Finance, Urbanation

Immigration is, and will continue to be, the main driver of population growth for the GTA. In 2022, annual net immigration of permanent residents to the region reached a record high of 153,945. This was in addition to net non-permanent residents (mainly foreign students and temporary workers), which also increased to a high of 64,412, driving total net migration in the GTA to a record of 125,079.

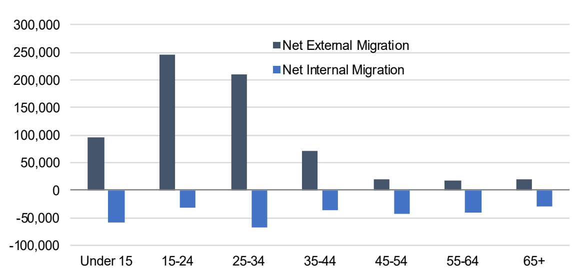
While the temporary loss of non-permanent residents and slowdown in immigration of permanent residents in 2021 due to the pandemic was reversed in 2022, increased net population outflows from the GTA to other parts of the province and country, totaling 96,278 in 2022, were 3.5 times higher than the previous 20-year average. While this can be partly attributed to increased remote work since the start of the pandemic, housing affordability and the failure of housing supply to accommodate growing demand is likely the bigger factor, as higher than normal population outflows have been building for several years. With an 81% share of external in-migration under the age of 35 and a 48% share of internal out-migration over the age of 35, net population flows are skewing younger. This represents a challenge to not only house the younger generation arriving in the region, who mainly rent, but also finding longer-term housing solutions so GTA residents can remain in the region.

Figure 1.2.3
Annual Net Migration by Component
Greater Toronto Area: 2012 to 2022



Source: Statistics Canada, Urbanation

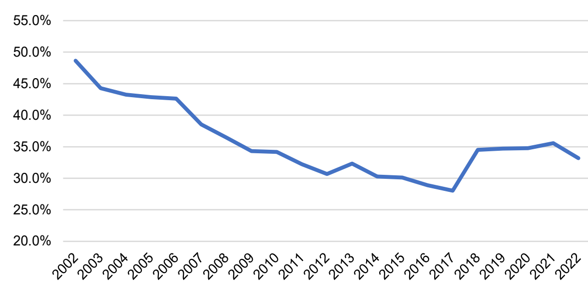
Figure 1.2.4
Five-Year Total Net Migration by Age Group
Greater Toronto Area: 2018-2022



Source: Statistics Canada, Urbanation

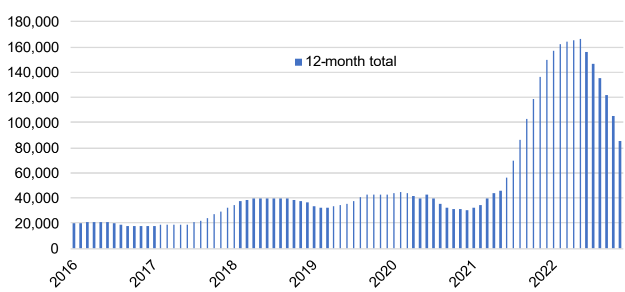
At the national level, Canada has set record-breaking targets for immigration, aiming to welcome 500,000 permanent residents annually by 2025—nearly 100,000 higher than the 2021 target of 405,000. Should the GTA continue receiving its approximate 35% share of Canada's intake, immigration could rise to 175,000 annually within a couple of years, placing strong demand-side pressure on the region's housing supply, particularly rentals. The planned increase in immigration will largely target international graduates of Canadian post-secondary institutions and workers with expertise in sectors with labour market shortages. This will lead to a greater transition of temporary residents to permanent residents, placing more downward pressure on housing supply. Data released at the provincial level has shown that admissions of permanent residents with prior study or work permits have been reaching record highs.

Figure 1.2.5
GTA Share of Annual Canada Immigration
2002 to 2022



Source: Statistics Canada, Urbanation

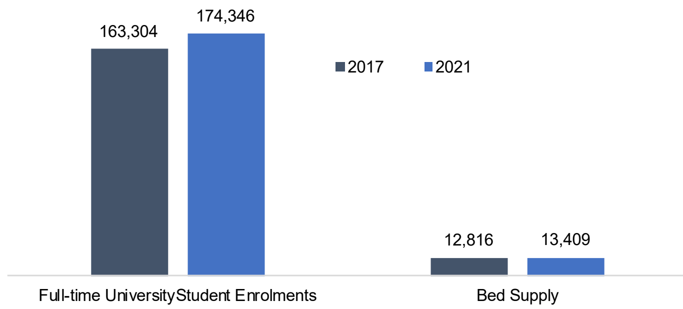
Figure 1.2.6
Admissions of Permanent Residents with Prior Study or Work Permits
Ontario: Jan-2016 to Nov-2022



Source: Immigration, Refugees and Citizenship Canada, Urbanation

The recent boom in foreign students and growth in post-secondary enrollments in the GTA have had a particularly profound effect on the rental market. According to research from Cushman & Wakefield Valuation and Advisory, total full-time university enrolments at the GTA's three major post-secondary institutions (UofT, York and Toronto Metropolitan) totaled over 174,000 as of 2021, increasing by over 11,000 since 2017. This compares to a total supply of on- and off-campus student housing of 13,409 beds, which increased by less than 600 beds during the same time period.

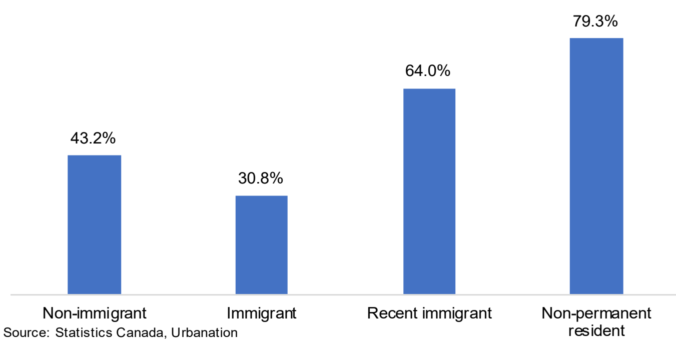
Figure 1.2.7
University Enrolments vs. Total On- and Off-Campus Bed Supply
Greater Toronto Area: 2017-2021



Source: Cushman & Wakefield Valuation & Advisory

Changes to immigration have an immediate impact on rental demand, as new immigrants and non-permanent residents have a much higher than average propensity to rent, at 64% and 79%, respectively. While immigrants tend to have higher homeownership rates than non-immigrants generally, the transition towards homeownership occurs over several years as work experience, savings and credit are established, resulting in lasting impacts on rental demand.

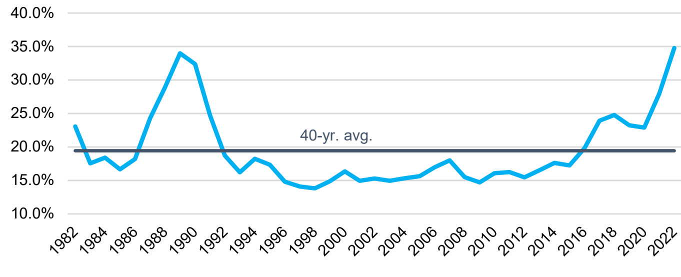
Figure 1.2.8
Household Propensities to Rent by Immigration Status
Toronto CMA: 2016



Source: Statistics Canada, Urbanation

Furthermore, the transition from renting to owning is becoming delayed and possibly ruled out for some as homeownership affordability has eroded significantly. High housing prices and quickly rising interest rates have increased the share of household income required to service mortgage debt beyond previous record highs reached in the late 1980s/early 1990s.

Figure 1.2.9
Mortgage Payment on Average Priced GTA Home as % of Average Family Income*

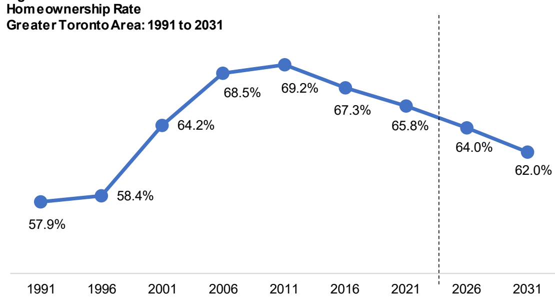


*Assumes 20% down payment, 25-year amortization, discounted 5-year fixed mortgage rates and average incomes for non-elderly families.
Source: Urbanation, Statistiics Canada, TRREB

According to the latest Census, the homeownership rate in the GTA declined from a high of 69.2% in 2011 to 65.8% in 2021 — the lowest level since 2001 (64.2%). This downward trend in homeownership is expected to continue over the next 10 years given the increased financial barriers to access ownership housing and the younger age profile of new immigrants. Current trends indicate that homeownership rates are projected to fall to 62.0% by 2031, falling back to levels not seen since the late 1990s.

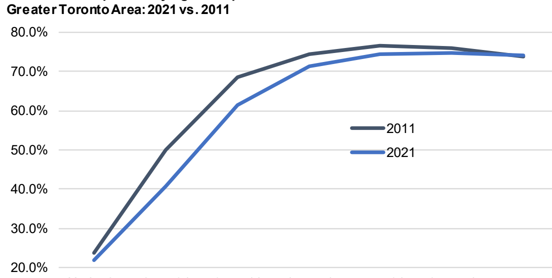
The latest Census data revealed that homeownership rates amongst the prime first-time buyer age cohort of 25 to 34 dropped the most over the last 10 years, falling from 50.0% in 2011 to 40.8% in 2021. However, it was also true that homeownership rates fell across all age segments below 75. In fact, the strongest increase in the number of renter households over the past 10 years was found amongst household maintainers in their empty-nester and downsizing years, increasing 40% for the 55-64 age group and 55% for the 65-74 age group.

Figure 1.2.10
Homeownership Rate
Greater Toronto Area: 1991 to 2031



Source: Statistics Canada, Urbanation projections

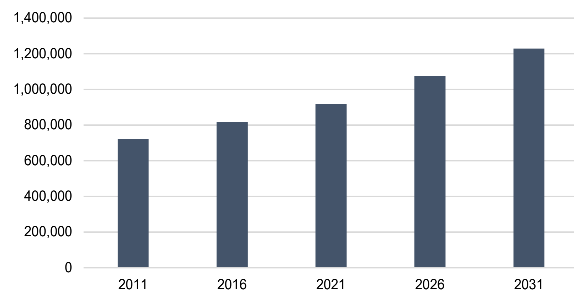
Figure 1.2.11
Homeownership Rates by Age Group
Greater Toronto Area: 2021 vs. 2011



Source: Statistics Canada, CMHC, Urbanation

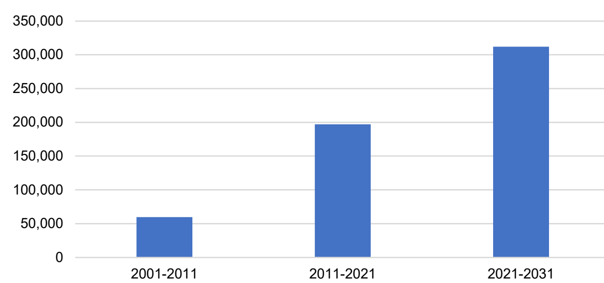
In applying the Ontario Ministry of Finance population projections and the expected continued decline in homeownership rates, while also assuming a continued decline in average household size (which has fallen from 2.85 persons in 2001 to 2.79 in 2011 and 2.73 in 2021), the total number of renter households can be extrapolated into the future using the latest 2021 estimates. For this exercise, renter household figures reported in the Census were "grossed-up" due to undercounting of dwellings occupied and rented by non-usual residents, which commonly includes students. The projections assume that the total number of renters will increase from an estimate of approximately 917,000 households in 2021 to nearly 1.3 million households in 2031. This equates to total renter household formation of roughly 312,000 units over the next 10 years, more than 50% higher than total renter formation of approximately 197,000 households over the past 10 years and over five times larger than the number of renter households formed between 2001 and 2011 (approximately 60,000).

Figure 1.2.12
Total Renter Households
Greater Toronto Area: 2011 to 2031



Source: Statistics Canada, Ontario Ministry of Finance, Urbanation

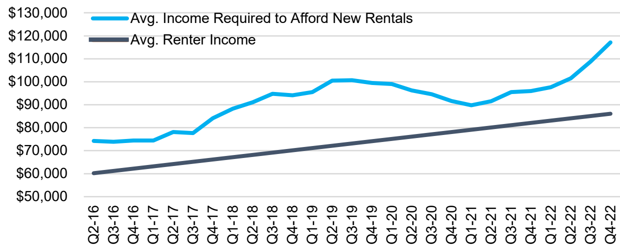
Figure 1.2.13
Net Renter Household Formation
Greater Toronto Area: 2001-2031



Source: Statistics Canada, Ontario Ministry of Finance, Urbanation

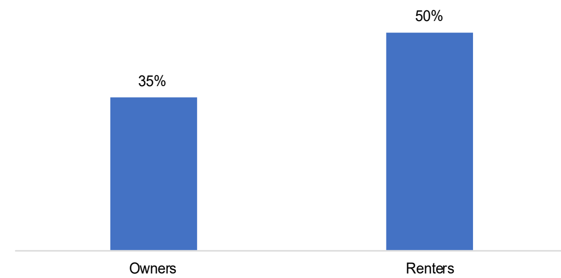
There is an argument that the aggregate growth in rental demand would be lower than projected for newly built rental units, given that rent levels in new buildings are considered unaffordable for the average renter. In other words, the GTA would not necessarily need 312,000 new rental units priced at the market average for new builds during the next decade. Rents in new purpose-built rental buildings had an average rent of $2,929 in Q4-2022, requiring an average income of $117,000 in order for rents to be considered affordable using the 30% of gross income rule. This compares to an average renter household income of $80,000 as of 2021, which has grown by a substantial 50% over the past 10 years — matching the growth in rents over the same period.

Figure 1.2.13
Average Renter Income and Affordable Income Required for New Rentals
Greater Toronto Area: 2016 to 2022



*Average new rent based on condo rental leases and new rental buildings completed since 2005.
Affordable level based on 30% of gross income
Source: Statistics Canada, Urbanation

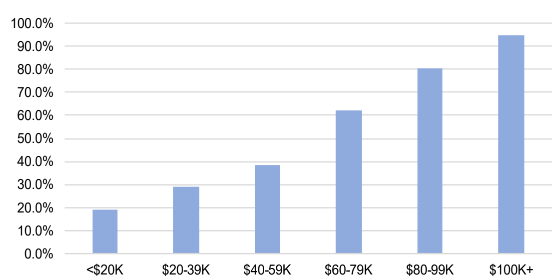
Figure 1.2.14
10-Year Growth in Average Household Income by Tenure
Toronto CMA: 2021 vs. 2011



Source: Statistics Canada, Urbanation

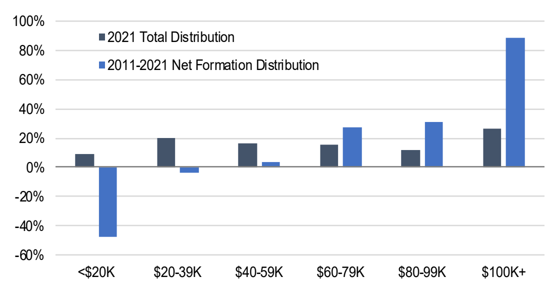
However, the Census also revealed that the fastest-growing segment of renters over the last 10 years was those earning incomes of $100,000-plus, doubling in size between 2011 and 2021 and representing 89% of total net renter household formation. Should this trend continue—which is likely given that higher-income households are increasingly turning towards the rental market as immigration policy targets highly educated and skilled labour, first-time buyers are becoming shut out of the ownership market and an increasing share of downsizers are opting to rent—market-rate rental housing in new projects can satisfy the vast majority of aggregate net new rental demand. Furthermore, as higher-income renters gravitate towards relatively more expensive rentals, they put less pressure on the supply of relatively more affordable rentals that can help satisfy demand for below-average market units through a filtering effect. Numerous academic studies have shown how filtering increases housing affordability. According to the latest Census, more than half of renters earning $60,000 and above were spending less than 30% of income on rent, including a 95% share of renters with incomes of $100,000 or more.

Figure 1.2.16
Share of Renters Spending <30% of Income on Rent by Income Range
Toronto CMA: 2021



Source: Statistics Canada, Urbanation

Figure 1.2.15
Distribution Renters by Household Income
Toronto CMA: 2021



Source: Statistics Canada, Urbanation

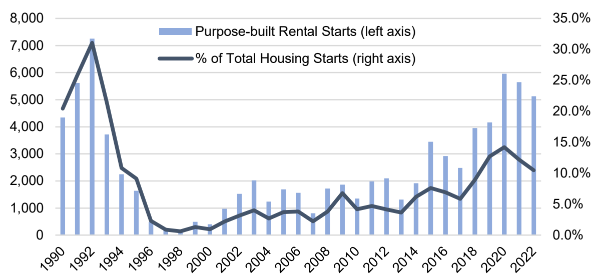
1.2 How Many More Rentals Should the GTA Be Building?

With the understanding that the GTA requires more than 300,000 rental units over the next 10 years, the focus now turns to determining the prospects for the future supply of new rentals. The supply of rentals can be broadly defined as being comprised of purpose-built rentals, condominium rentals, and other secondary rentals including houses, flats, basement apartments and other accessory suites. As already established in

Section 1.1, purpose-built rentals have represented less than 10% of total new rental supply added over the past 10 years.

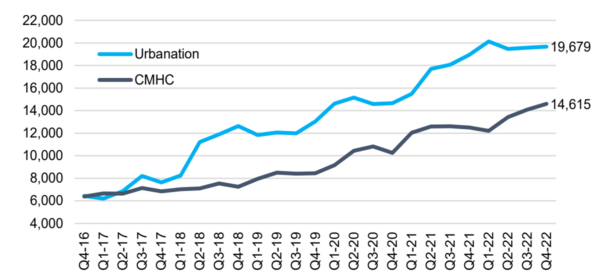
Some promising signs of growth were emerging in recent years as purpose-built rental construction increased. According to data published by CMHC, total GTA rental starts reached a 28-year high in 2020 at 5,958 units, roughly tripling the pace of construction starts averaged during the 20-year period between 2000 and 2019 at just under 2,000 units per year. Furthermore, the share of total housing starts represented by purpose-built rentals reached a 27-year high of 14% in 2020. However, since 2020, rental construction starts have moved lower, totaling 5,647 units in 2021 and 5,130 units in 2022, with the 2022 rental share of total new housing starts falling to 10%. Quickly rising construction costs and interest rates for land and construction financing, in addition to high development fees and taxes, led to more projects becoming economically unfeasible to proceed, stalling the progress on increasing rental starts. CMHC data reported 14,615 purpose-built rental apartments under construction in the GTA at year-end 2022, while Urbanation data (which tracks construction starts earlier in the process than CMHC) reported 19,679 rentals under construction. Measured either way, the current level of rental construction is grossly insufficient to satisfy projected rental demand.

Figure 1.3.1
Purpose-built Rental Apartment Construction Starts
Greater Toronto Area: 1990 to 2022



Source: CMHC, Urbanation

Figure 1.3.2
Purpose-built Rental Apartments Under Construction
Greater Toronto Area: Q4-2016 to Q4-2022

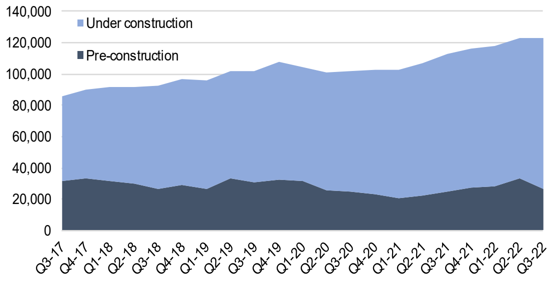


Source: CMHC, Urbanation

Condominiums, the largest contributor to rental supply in the GTA, have undergone a significant expansion in new development that has the potential to add an increased quantity of new rental units to the market in the short term. As of Q3-2022, a record 123,144 new condominiums were in the under-construction and pre-construction marketing stages. However, given the latest trends for new condominium pre-sale launch activity, which declined by 47% annually during the second half of 2022 as investor demand retreated, new condo deliveries are expected to begin declining in a few years, thereby restricting growth in rental supply.

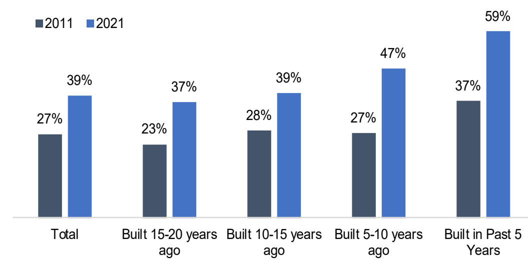
The latest 2021 Census data revealed that 59% of new condominiums built within the previous five-year period were used as rentals, up from a 37% share as of 2011. As buildings age beyond 10 years, the share of condominium units used as rentals declines to between 37% and 39%.

Figure 1.3.3
New Condominium Apartments in Development
Greater Toronto Area: Q3-2017 to Q3-2022



Source: Urbanation

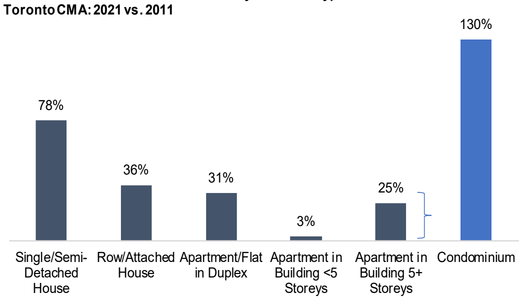
Figure 1.3.4
Share of Condominiums Used as Rentals by Period of Construction
Toronto CMA: 2011-2021



Source: Statistics Canada, Urbanation

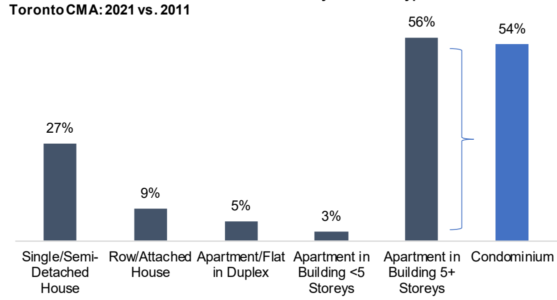
On top of slower completions, the extent to which investors will continue holding their condo units in the rental market going forward comes into question. This is crucial, as condominium rentals have expanded by 130% over the past 10 years, contributing more than half of the total increase in rental supply during the period.

Figure 1.3.5
10-Year Growth in Renter Households by Structure Type
Toronto CMA: 2021 vs. 2011



Source: Statistics Canada, Urbanation

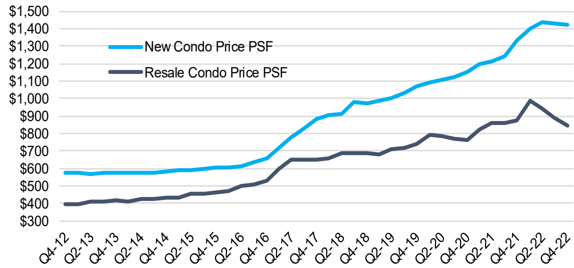
Figure 1.3.6
Contributions to Growth in Renter Households by Structure Type
Toronto CMA: 2021 vs. 2011



Source: Statistics Canada, Urbanation

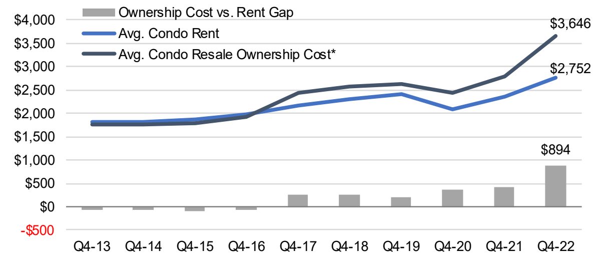
The decision to invest in the condominium market, as well as the duration of the investment, largely depends on the investment outlook for price appreciation and rental cash flow. In both regards, investors may experience less favourable conditions going forward. Price appreciation will likely be restrained by higher interest rates relative to recent standards and the record high price differential between new and resale condominiums will limit the upside for capital returns for investors in new projects. Furthermore, the strong growth in condominium prices in recent years, combined with higher interest rates, has resulted in a record wide difference of nearly $1,000 in average monthly costs between owning a condo (assuming a mortgage with 20% down plus condo fees, property taxes and home insurance) and renting a similar unit, pushing more investors into a negative cash flow situation.

Figure 1.3.7
Average Condominium Price PSF for New & Resale
Greater Toronto Area: 2012 to 2022



Source: Urbanation

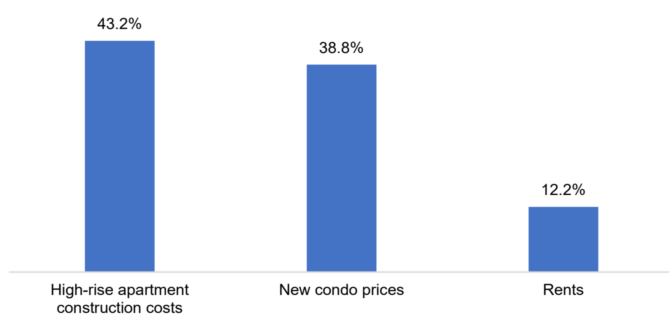
Figure 1.3.8
Average Monthly Condo Ownership Costs vs Rents
Greater Toronto Area: 2013 to 2022



*Ownership costs based on average resale price, 80% LTV mortgage, 30-yr. amortization, interest rate for uninsured mortgages advanced, condo fees and property taxes, for same unit size as rental

As investor demand scales back, there will be a reduced ability for new condominium projects to raise prices and offset high development costs, leading to more project delays or cancellations. In the three-year period to Q3-2022, high-rise apartment construction costs in Toronto increased 43.2%, outpacing the 38.8% growth in new condo prices. Rental construction feasibility has been particularly impacted, as the three-year growth in construction costs was 3.5 times faster than the growth in rents at 12.2%.

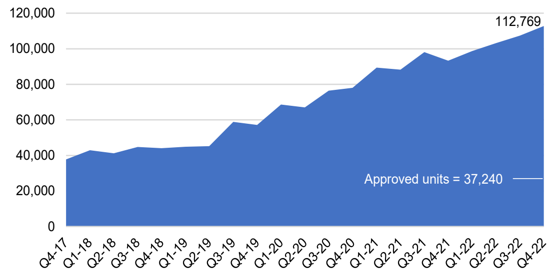
Figure 1.3.9
Three-Year Apartment Construction Cost vs. Market Price Increases
Greater Toronto Area: Q3-2022 vs. Q3-2019



The more challenging economic environment for builders is likely to slow the pipeline of planned rental projects, which halts the meaningful progress that was occurring. Since the provincial government removed rent controls for new units in late 2018, the inventory of planned purpose-built rental apartments in the GTA increased by 156% (+68,683 units) to reach a total of 112,769 units as of Q4-2022.

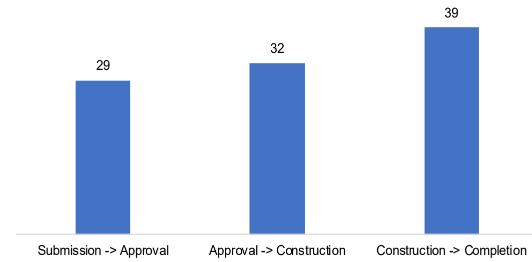
Overall, one-third of planned rental units were approved for development (37,240 units). A review of City of Toronto purpose-built rental projects completed in recent years shows that the average length of time between application submission and project completion was 100 months, with the time to reach approval averaging 29 months, the average time from approval to construction averaging 32 months, and the construction process averaging 39 months.

Figure 1.3.10
Proposed Purpose-built Rental Inventory
Greater Toronto Area: Q4-2017 to Q4-2022



Source: Urbanation

Figure 1.3.11
Average Purpose-Built Rental Development Timeline in Months
City of Toronto, projects completed since 2018



Source: Urbanation

All factors considered, it is projected that supply from purpose-built rental apartments will increase by 47,000 units over the next 10 years under the current trajectory for construction activity and the restraints the development industry is experiencing, which is considered a medium-growth outlook scenario. This considers current trends for rental construction, the number of units under construction, and the fact that a large portion of planned purpose-built rentals is held by institutional investors in long-term, multi-phased development projects. Of note, the projected growth in purpose-built rental supply is almost three times higher than the increase experienced between 2011 and 2021. The supply contribution from condominium rentals is projected to total approximately 88,400 units in the next 10 years, down slightly from the 94,495 condo rentals added between 2011 and 2021. This reflects continued expansion in the total condominium stock as well as the reduced ratio of condos used as rentals.

Overall, the net supply increase from purpose-built rentals and condominium rentals is projected to total approximately 135,400 units over the next 10 years, which represents a 21% increase over the roughly 111,500 units added between 2011 and 2021. When compared to projected rental demand totaling 312,000 units, the resulting supply gap more than doubles from 86,000 units between 2011 and 2021 to 177,000 units between 2021 and 2031.

Figure 1.3.12
Rental Supply and Demand Projections
Greater Toronto Area: 2011 to 2031

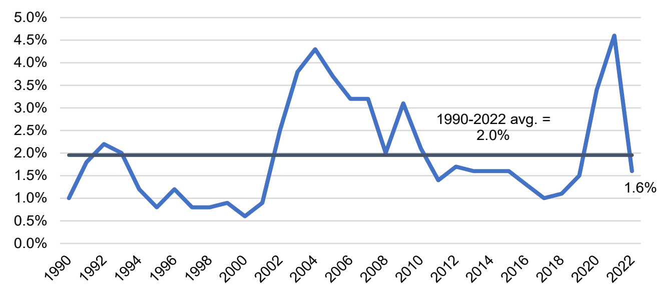
Period	Net Increase in Total Condo Stock	Net Increase in Total Condo Rental Stock (A)	Ratio Condo Rental/Total Condo Stock Increase	Purpose-built Rental Completions (B)	Total Net New Rental Stock (A+B)	Rental Demand (C)	**Excess Rental Demand [C-(A+B)]**
2011-2016	89,572	58,820	66%	4,985	63,805	96,163	**32,358**
2016-2021	75,689	35,675	47%	12,016	47,691	101,004	**53,313**
2021-2026	115,000	49,450	43%	21,000	70,450	158,579	**88,129**
2026-2031	95,000	38,950	41%	26,000	64,950	153,383	**88,433**
2011-2021	165,261	94,495	57%	17,001	111,496	197,167	**85,671**
2021-2031	210,000	88,400	42%	47,000	135,400	311,962	**176,562**

Source: Statistics Canada, Ontario Ministry of Finance, CMHC, Urbanation

Note that this gap does not include supply from other secondary sources. Under an aggressive assumption that secondary rental housing other than condominiums experiences the same percentage growth in supply as the last 10 years (+54%), adding an extra 100,000 units, then the rental supply gap will reduce to roughly 77,000 units. This can be considered an optimistic scenario for secondary supply given that investors are likely to become more risk averse when purchasing investment properties following the recent market adjustment. This effectively means that rental housing construction starts need to be approximately 8,000 units per year higher than their recent pace of approximately 5,000 units per year in order for supply to eventually keep up with demand.

The additional 77,000 rentals needed beyond what the market is on track to supply is only a starting point and a realistic target towards achieving market balance and improving housing affordability in the GTA in the next decade. It should be considered an absolute minimum given the uncertain and non-permanent nature of secondary rental supply, the expansive changes to immigration policy, and likely undercounting of the actual size of the population. This projection also does not correct for decades of underbuilding and pent-up demand for rental housing in the GTA that has resulted in under-housed living conditions, delayed household formation, and out-migration, the magnitude of which would create a rental supply deficit too unmanageable to tackle inside of 10 years. According to the latest data released by CMHC, the rental vacancy rate in Toronto fell to 1.6% in 2022, averaging only 2.0% since 1990 and illustrating a structural supply deficit of rental housing.

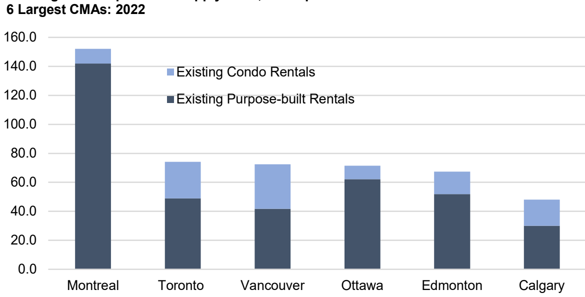
Figure 1.3.13
Purpose-built Rental Apartmnet Vacancy Rate
Toronto CMA: 1990 to 2022



Source: CMHC, Urbanation

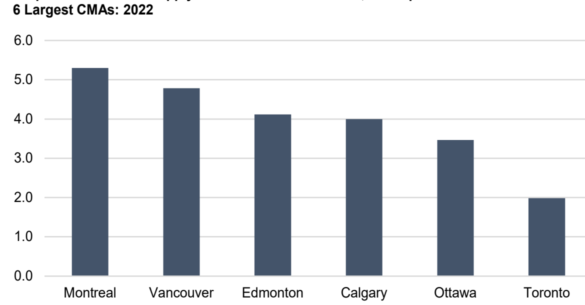
With Canada's largest population, the highest share of immigration, and the most unaffordable housing market alongside Vancouver, Toronto should be the leader in rental supply. Instead, Toronto falls well short of Montreal in terms of existing per capita purpose-built and condominium rental supply by a 51% margin and is virtually on par with much smaller markets such as Ottawa and Edmonton. The situation for local rental supply looks worse when examining new development, with Toronto ranking lowest in terms of per capita purpose-built rentals under construction among the six largest CMAs in Canada.

Figure 1.3.14
Existing Rental Apartment Supply Per 1,000 Population
6 Largest CMAs: 2022



Source: CMHC, Urbanation

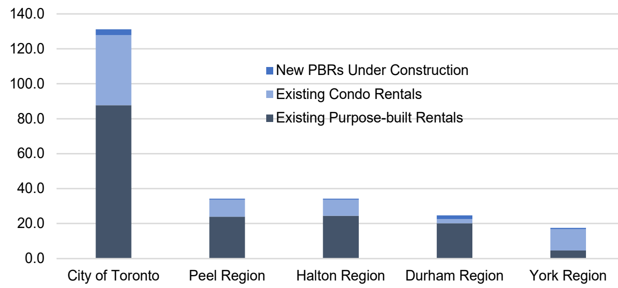
Figure 1.3.15
Purpose-built Rental Supply Under Construction Per 1,000 Population
6 Largest CMAs: 2022



*Estimated based on share of condos used as rentals
Source: CMHC, Urbanation

Within the GTA, the regional municipalities outside of the City of Toronto lag even further behind in terms of existing and incoming per capita rental supply — particularly York Region, which has the lowest number of existing and under-construction purpose-built rentals per capita, relying almost entirely on condominium rentals.

Figure 1.3.16
Existing and Under Construction Rental Supply by Region
Greater Toronto Area: Q4-2022



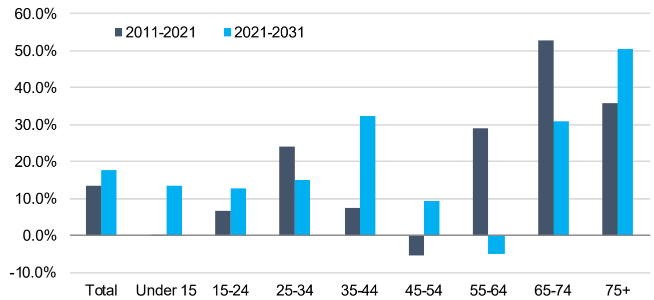
*Estimated based on share of condos used as rentals
Source: CMHC, Urbanation

1.3 What Type of Rentals Should the GTA Build?

The Ontario Ministry of Finance's population projections call for accelerated rates of population growth across most age cohorts over the next 10 years. Most notably, population growth within the 35-44 age group will rise from a 7.5% increase recorded over the past 10 years to a 32.5% increase projected over the next 10 years, translating into an extra 328,000 people in this age bracket in the coming decade — largely the result of aging millennials into their family formation years. Coinciding with this growth is an expansion in the number of children under the age of 15, going from virtually no growth recorded between 2011 and 2021 to 13% growth in the 10-year period to 2031. The 25-34 age cohort will remain an important driver of population growth in the next 10 years, with a 15% expansion, although representing decelerating growth compared to the past 10 years (24%) under the medium-growth scenario for immigration. The other age groups expected to see a rise in population growth in the next 10 years include the young adult population of students and new graduates aged 15-34, mature adults aged 45-54, and the 75-plus age cohort of baby boomer retirees.

These demographic shifts suggest a continued need for smaller, relatively more affordable rental units that can accommodate young adults under the age of 35, as well as an increasing need for larger units that can accommodate families and downsizers. Purpose-built rental supply may be better equipped to handle demographic changes by having a relatively more balanced mix of unit types and sizes.

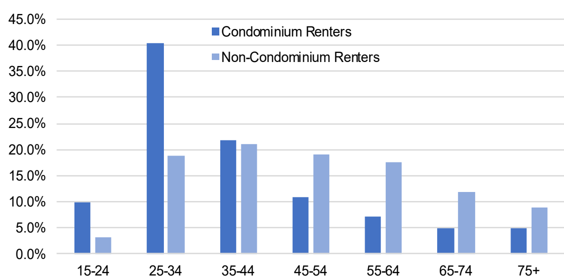
Figure 1.4.1
Population by Age Range
Greater Toronto Area: 2001 to 2031



Source: Statistics Canada, Ontario Ministry of Finance, Urbanation

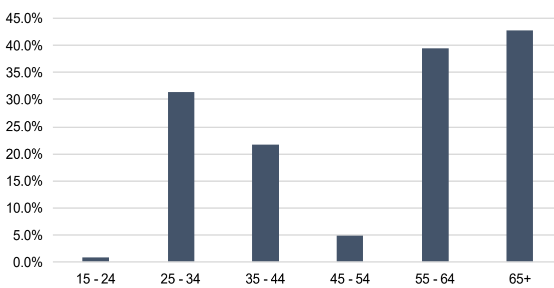
The latest Census reported that renters living in condominiums were skewed heavily towards younger households under the age of 35, representing a 50% share. Conversely, non-condominium renters had a more balanced age profile, with relatively higher shares of household maintainers over the age of 45. The latest Census also revealed that rental demand grew the most within the 55-64 and 65-plus age cohorts over the last 10 years.

Figure 1.4.2
Distribution of Renter Households by Age Range
Toronto CMA: 2021



Source: Statistics Canada, Urbanation

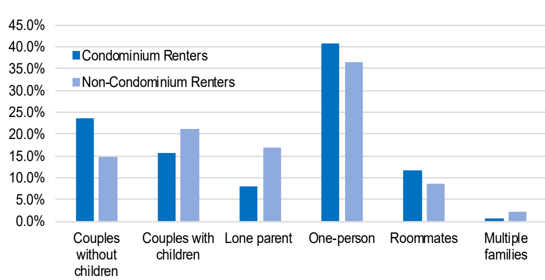
Figure 1.4.3
10-Year Growth in Renter Households by Age Range
Toronto CMA: 2021 vs. 2011



Source: Statistics Canada, Urbanation

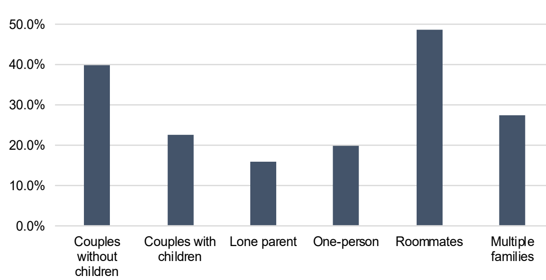
Condominium renters tended to have a higher concentration of one-person households, roommates, and couples without children, whereas renters living in units other than condominiums were comprised of higher shares of couples with children and lone-parent households. The fastest growing household types for renters over the last decade were roommates and couples without children.

Figure 1.4.4
Distribution of Renter Households by Age Range
Toronto CMA: 2021



Source: Statistics Canada, Urbanation

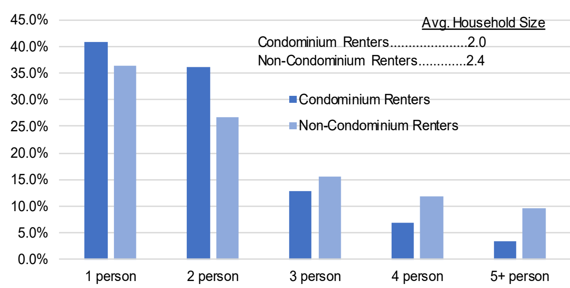
Figure 1.4.5
10-Year Growth in Renter Households by Household Type
Toronto CMA: 2021 vs. 2011



Source: Statistics Canada, Urbanation

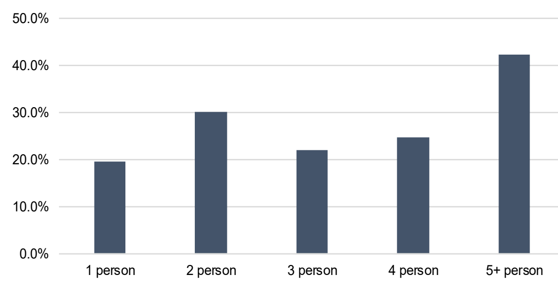
In terms of household size, condominium renters tended to be smaller, averaging 2.0 persons compared to an average of 2.4 persons for non-condominium renters. Notably, condominium renters had a much higher share of two-person households than non-condominium renters (36% versus 27%), while shares of one-person households were more closely aligned at 41% (condo) and 36% (non-condo). Households comprised of three-plus persons had higher representation within non-condominium rentals, with a particularly big difference for the largest households of five-plus-persons having a 10% share for non-condos and a 3% share for condos. Renter households comprised of five-plus-persons were the fastest growing segment of renters by size over the last 10 years, with growth of 42%.

Figure 1.4.6
Distribution of Renter Households by Age Range
Toronto CMA: 2021



Source: Statistics Canada, Urbanation

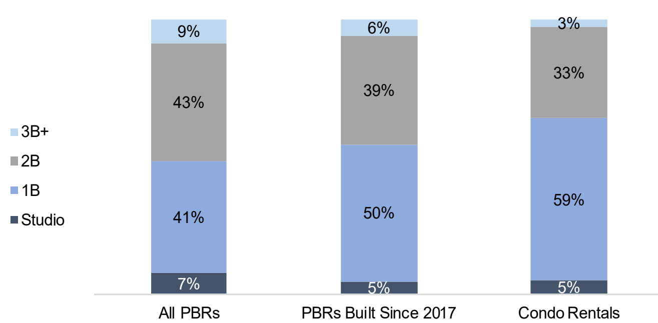
Figure 1.4.7
10-Year Growth in Renter Households by Household Size
Toronto CMA: 2021 vs. 2011



Source: Statistics Canada, Urbanation

The breakdown of the existing mix of purpose-built rentals shows a much more balanced mix of units by bedroom type than condominium rentals. Across the entire purpose-built rental stock, two-bedroom units had the highest share at 43%, followed by a 41% share of one-bedrooms, 9% share of studios and 7% share of three-plus bedrooms. Unit mixes have become more compact within the newer stock of purpose-built rentals completed since 2017, which is heavily concentrated in downtown Toronto, as one-bedrooms have taken over as the dominant bedroom type with a 50% share, while two-bedrooms and three-plus bedrooms have both declined in share to 39% and 6%, respectively. However, the unit mix within newer purpose-built rentals has remained more diversified than condo rentals, which had 59% share in one-bedrooms and only 33% share of two-bedrooms and 3% share of three-bedroom and larger units.

Figure 1.4.8
Unit Mix for Purpose-built and Condominium Rentals
Greater Toronto Area



Source: Urbanation, CMHC

Although the unit mix of purpose-built rentals suggests this form of rental housing is better suited to accommodate current and expected growth in renter households in the GTA, it is clear that more diversity is needed within the newer stock to promote greater housing options for a wide variety of the population that is increasingly choosing to rent. This can be achieved through the increased development of new rental housing in areas outside of Toronto’s dense urban core, as well as “missing middle” rental housing, which can be integrated within established areas and is attractive to a balanced mix of demand.

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PART 2

Scenario-Based Financial Analysis

FINNEGAN | MARSHALL

2. Financial Pro Forma Analysis Condo vs. Purpose-Built Rental GTA

In order to explain some of the challenges that are leading to the lack of purpose-built rental development in the region and consequently the lower rates of PBR as a percentage of the housing stock, BILD and FRPO retained Finnegan Marshall to prepare a pro forma analysis. Finnegan Marshall is a multidisciplinary real estate and development cost consulting company.

In January 2023, they prepared two pro forma financial analyses looking at a hypothetical 400-unit residential development as a condominium and then as a purpose-built rental to assess the relative financial viability. The analysis then compares the two to determine the variance.

This work was done for two geographic locations – downtown Toronto and downtown Mississauga. Assumptions are listed in each detailed analysis.

2.1 High-Level Results for Toronto

The Toronto pro forma provides a budget estimate for the completion of a 400-unit condominium development in downtown Toronto and for a 400-unit purpose-built rental development, including its operation for year 1. It then compares the two.

The one-year operating period used for the rental pro forma is to allow, as much as possible, a like-to-like comparison with the condominium project.

Both contain all associated project costs from land acquisition, through planning, fees, taxes and charges through construction. The purpose-built rental scenario includes operating costs and rental revenues for a one-year period to allow for the typical initial phase 1 year occupancy period.

For the condominium project, the cost to develop, build, market and sell, including all associated legal and professional fees is $318,135,000. With a projected revenue of $357,907,225 from the sale of the 400 units at $1,500 p/sq. ft. less cost, the project yields a profit of $39,772,225 or 12.50% of project costs.

For the purpose-built rental project, the cost to develop, build, rent, including all associated legal and professional fees, operating costs and maintenance for year 1 operations is $314,715,000. Annual revenue is projected at $14,650,136 based on an average monthly rent per unit of $2,869 plus associated locker and parking stall rentals. With this annual revenue, less annual operating costs of $4,688,043, this project yields a net operating income of $9,962,092. **After the first year of operation, the project will be in a deficit of $65,662,694 vs. budget to build and operate, with a 7-year plus timeframe following the first year of operation required to reach breakeven.**

SAMPLE SITE
TORONTO, ON
400 UNIT RESIDENTIAL

	A	B-A	B
EXECUTIVE SUMMARY	**CONDO BUDGET**	**VARIANCE**	**RENTAL BUDGET**
PROJECTED REVENUE	357,907,225	(108,854,919)	249,052,306
PROJECT BUDGET	318,135,000	(3,420,000)	314,715,000
PROJECTED PROFIT	**39,772,225**	**(105,434,919)**	**(65,662,694)**
PROFIT % BUDGET	**12.50%**	**-33.37%**	**-20.86%**
TRENDED NOI			**$9,962,092**
TRENDED YIELD			**3.17%**

2.2 Detailed Pro Forma Toronto

SAMPLE SITE
TORONTO, ON
400 UNIT RESIDENTIAL

	A	B-A	B	
PROJECT BUDGET SUMMARY	**CONDO BUDGET**	**VARIANCE**	**RENTAL BUDGET**	**ASSUMPTIONS**
LAND				
1 Land Cost	51,900,000	0	51,900,000	Based on land value of ±$173 psf GFA
2 Land Transfer Tax	2,068,950	0	2,068,950	LTT
3 Land Closing Costs	50,000	0	50,000	Allowance per Industry standards
4 Net Operating Income Pre-Construction	0	0	0	
LAND SUBTOTAL	54,018,950	0	54,018,950	
MUNICIPAL FEES				
5 Parkland Dedication	5,200,000	0	5,200,000	Based on 10% of land value + City appraisal fee
6 City Development Charges - (Incl. By-Law Increase + Indexing to May 1/24)	26,189,412	(6,594,965)	19,594,447	Per By-law rates effective May 1, 2024 with Indexing
7 City Development Charges - Bill 23 Credits	(3,928,412)	(2,090,168)	(6,018,580)	Allowance for 15% reduction & PBR suite reductions (25% 3 bed/20% 2 bed/15% 1 bed)
8 Separate Education Charges	1,437,200	0	1,437,200	Allowance for Dec 2, 2023 rates with future increases $300 per suite per annum
9 Realty Taxes During Construction	1,489,599	0	1,489,599	Based on prevailing mill rates
10 Community Benefits Charge	2,076,000	0	2,076,000	4% of Land Value per By-Law
11 Neighbour Encroachments/Settlements	300,000	0	300,000	Allowance per Industry standards
12 Planning & Zoning Legal/Planning/Design etc.	500,000	0	500,000	Allowance per Industry standards
13 City of Toronto Zoning By-Law Fee	302,816	0	302,816	Based on prescribed City Rates
14 City of Toronto Site Plan Control Fee	154,961	0	154,961	Based on prescribed City Rates
MUNICIPAL FEES SUBTOTAL	33,721,576	(8,685,133)	25,036,443	
CONSTRUCTION				
15 Construction Below Grade	15,180,000	0	15,180,000	Allowance per Industry standards ($220 psf Below Grade)
16 Construction Above Grade	117,000,000	0	117,000,000	Allowance per Industry standards ($360 psf Below Grade)
17 Raft Slab, Dewatering and Bathtub	2,415,000	0	2,415,000	Allowance per Industry standards ($35 psf Below Grade)
18 Construction Management	4,239,743	0	4,239,743	Allowance per Industry standards (3%)
19 Common Area Furniture & Amenity Equipment	800,000	0	800,000	Allowance per Industry standards
20 Building Permit	680,000	0	680,000	Based on prescribed City Rates
21 Miscellaneous Municipal Fees	200,000	0	200,000	Allowance per Industry standards
22 Lane & Road Occupancy	375,000	0	375,000	Based on prescribed City Rates
23 Service Connections (hydro/sanitary/water/storm)	600,000	0	600,000	Allowance per Industry standards
24 Hydro Line Protection	150,000	0	150,000	Allowance per Industry standards
25 Construction Insurance	1,202,656	0	1,202,656	Allowance per Industry standards
26 Bonding	0	0	0	
27 TARION Enrolment	636,100	(636,100)	0	Based on Tarion (HCRA) rates effective Feb 1, 2022
CONSTRUCTION SUBTOTAL	143,478,499	(636,100)	142,842,399	
DESIGN				
28 Architect	1,630,000	0	1,630,000	Allowance per Industry standards
29 Structural Engineer	440,000	0	440,000	Allowance per Industry standards
30 Mechanical & Electrical Engineer	440,000	0	440,000	Allowance per Industry standards
31 Landscape Architect	70,000	0	70,000	Allowance per Industry standards
32 Interior Designer	300,000	0	300,000	Allowance per Industry standards
33 Soils, HydroG & Environmental Consultant	150,000	0	150,000	Allowance per Industry standards
34 Shoring Consultant & Monitoring Consultant	150,000	0	150,000	Allowance per Industry standards
35 Cost Consultant	80,000	0	80,000	Allowance per Industry standards
36 Inspection & Testing & Bulletin 19	300,000	(100,000)	200,000	Allowance per Industry standards
37 Code Consultant	30,000	0	30,000	Allowance per Industry standards
38 Civil Engineer	60,000	0	60,000	Allowance per Industry standards
39 Insurance Consultant	10,000	0	10,000	Allowance per Industry standards
40 Acoustic Engineer	40,000	0	40,000	Allowance per Industry standards
41 Traffic Consultant	75,000	0	75,000	Allowance per Industry standards
42 Elevator Consultant	15,000	0	15,000	Allowance per Industry standards
43 Municipal Expeditor	75,000	0	75,000	Allowance per Industry standards
44 Exterior Cladding Consultant	75,000	0	75,000	Allowance per Industry standards
45 Sustainability Consultant/Energy Model	40,000	0	40,000	Allowance per Industry standards
46 Wind Study/Microclimate Consultant	70,000	0	70,000	Allowance per Industry standards
47 Printing & Disbursements	124,000	0	124,000	Allowance per Industry standards
48 Miscellaneous Consultants	208,000	0	208,000	Allowance per Industry standards
DESIGN SUBTOTAL	4,382,000	(100,000)	4,282,000	

SAMPLE SITE
TORONTO, ON
400 UNIT RESIDENTIAL

	A	B-A	B	
PROJECT BUDGET SUMMARY	**CONDO BUDGET**	**VARIANCE**	**RENTAL BUDGET**	**ASSUMPTIONS**
LEGAL & ADMINISTRATION				
49 Legal Fees	950,000	(650,000)	300,000	Allowance per Industry standards
50 Land Surveyor	150,000	(60,000)	90,000	Allowance per Industry standards
51 Accountant	40,000	0	40,000	Allowance per Industry standards
52 Development Management	10,615,000	(2,805,000)	7,810,000	Condo: Based on 3% of Net Revenue. Rental: Based on 4% of Budget less Land, Financing & HST
LEGAL & ADMINISTRATION SUBTOTAL	11,755,000	(3,515,000)	8,240,000	
MARKETING & SALES				
53 Sales Office Construction & Furniture	600,000	(600,000)	0	Allowance per Industry standards
54 Sales Centre Operations	468,000	(468,000)	0	Allowance per Industry standards
55 Marketing & Advertising	1,600,000	(800,000)	800,000	Allowance per Industry standards
56 Sales Commissions - Lead Brokers	4,246,885	(4,246,885)	0	Calculated on 1.2% of Net Revenue
57 Sales Commissions - Outside Brokers	14,156,283	(14,156,283)	0	Calculated on 4% of Net Revenue on 100% of Units
58 Leasing Commissions	0	573,750	573,750	Allowance per Industry standards
MARKETING & SALES SUBTOTAL	21,071,168	(19,697,418)	1,373,750	
FINANCE				
58 Bank Loan Arrangement Fee	1,361,787	70,166	1,431,953	65 bps
59 Bank Loan Stand By Fee	960,235	49,476	1,009,711	25 bps
60 Bank Loan Agency Fee	90,000	0	90,000	Allowance per Industry standards
61 Service Charges & Misc. Finance Fees	20,000	0	20,000	Allowance per Industry standards
62 Appraisal	12,000	13,000	25,000	Allowance per Industry standards
63 Project Monitor	205,000	0	205,000	Allowance per Industry standards
64 Letter of Credit Fees	30,000	0	30,000	Allowance per Industry standards
65 Deposit Insurance Fees	1,469,000	(1,469,000)	0	Allowance per Industry standards
66 Land Loan Finance Fee	467,100	0	467,100	Allowance per Industry standards
67 Land Loan Interest	6,959,790	(2,319,930)	4,639,860	Prime 6.70% + 0.75% spread
68 Construction Loan Interest	28,612,756	(1,312,175)	27,300,581	Prime 6.70% + 0.75% spread
FINANCE SUBTOTAL	40,187,668	(4,968,463)	35,219,205	
OPERATING COSTS & INCOME				
69 Operating Costs Residential Interim Occupancy	408,000	(408,000)	0	Allowance per Industry standards
70 Occupancy Income Residential Units	(3,229,041)	3,229,041	0	1 year fixed mortgage rate 6.34%
71 Interest Earned on Deposits	(812,831)	812,831	0	Based on Prime - 2%
72 Interest Payable on Deposits	0	0	0	Included in Revenue
73 Warranty Reserve & Customer Service	1,200,000	(800,000)	400,000	Allowance per Industry standards
74 Operating Cost to Breakeven	0	8,950,000	8,950,000	Allowance for 12 month lease up period
OPERATING COSTS & INCOME SUBTOTAL	(2,433,872)	11,783,872	9,350,000	
CONTINGENCY				
75 Post Contract Construction Contingency	6,941,737	0	6,941,737	5% of Construction costs (Items 15-18)
76 Soft Cost Contingency	5,012,273	(1,757)	5,010,516	Allowance per Industry standards
77 Construction Escalation (Post January 2023)	Excluded	0	Excluded	Excluded as start date unknown. Revenue escalation excluded
CONTINGENCY SUBTOTAL	11,954,011	(1,757)	11,952,253	
HARMONIZED SALES TAX				
78 H.S.T. on Monthly Payables	Recovered 79	0	Recovered 79	Recovered 79
79 H.S.T. Monthly Input Tax Credit	Recovered 78	0	Recovered 78	Recovered 78
80 H.S.T. on Self Assessment	0	22,400,000	22,400,000	Calculated on Valuation method used by CRA
HARMONIZED SALES TAX SUBTOTAL	0	22,400,000	22,400,000	
TOTAL PROJECT BUDGET	**318,135,000**	**(3,420,000)**	**314,715,000**	
	318,135,000	(3,420,000)	314,715,000	

SAMPLE SITE
TORONTO, ON
400 UNIT RESIDENTIAL

			A	B-A	B	
	PROJECTED TOTAL REVENUE		CONDO BUDGET	VARIANCE	RENTAL BUDGET	
	MARKET CONDO					
1	Residential Condos					
	- Net Sellable Area (NSA)		255,000 sf	-255,000 sf	sf	
	- Total Units		400 units	-400 units	units	
	- Average Price per Unit		*$956,250*	($956,250)	*$0*	
	Residential Sale Price - per Sf NSA		$1,500	($1,500)	$0	
	Residential Condo Revenue		**$382,500,000**	**($382,500,000)**	**$0**	
2	Residential Parking Stalls					
	Total Stalls		120 stalls	-120 stalls	stalls	
	Less Visitor		-24 stalls	24 stalls	stalls	
	Stalls For Sale		96 stalls	-96 stalls	stalls	
	Parking Stalls Sale Price - per Stall		$77,500	($77,500)	$0	
	Parking Revenue from Condo		**$7,440,000**	**($7,440,000)**	**$0**	
3	Storage Lockers		50 lockers	-50 lockers	lockers	
	Storage Lockers Sale Price - per Locker		$7,500	($7,500)	$0	
	Locker Revenue from Condo		**$375,000**	**($375,000)**	**$0**	
4	H.S.T. on Sales	-9.33%	($36,407,920)	$36,407,920	$0	0.00%
			$353,907,080	($353,907,080)	$0	
5	CLOSING ADJUSTMENTS					
	- DC Cap (1br $15,000/2+3br $18,000)		$6,567,000	($6,567,000)	$0	
	- TARION Enrolment Fee		$630,000	($630,000)	$0	
	- Law Society		To Lawyer	$0	$0	
	- Purchasers Cheques		To Lawyer	$0	$0	
	- Meter Connections		$480,000	($480,000)	$0	
	- Closing Credits		$0	$0	$0	
	- Interest Payable on Deposits		($4,156,855)	$4,156,855	$0	
6	Smart Metering		$400,000	($400,000)	$0	
7	Telecommunications		$80,000	($80,000)	$0	
	MARKET CONDO SUBTOTAL		**$357,907,225**	**($357,907,225)**	**$0**	
	MARKET RENTAL					
8	Residential Rental					
	- Net Rentable Area (NRA)		sf	255,000 sf	255,000 sf	
	- Total Units		units	400 units	400 units	
	- Average Price per Unit		*$0*	$34,425	*$34,425*	
	Residential Rental Rate - per sf NRA		$0.00	$4.50	$4.50	
	Residential Rental Revenue		**$0**	**$13,770,000**	**$13,770,000**	
9	Rent Escalation - 3 yrs @ 2% pa compound to project completion		**$0**	**$842,834**	**$842,834**	
10	Residential Parking Stalls					
	Total Stalls		stalls	120 stalls	120 stalls	
	Less Visitor		stalls	-24 stalls	-24 stalls	
	Stalls For Rent		stalls	96 stalls	96 stalls	
	Parking Stalls Rental Rate - per Stall		$200	$0	$200	
	Parking Revenue from Rental		**$0**	**$230,400**	**$230,400**	
11	Storage Lockers		lockers	50 lockers	50 lockers	
	Storage Lockers Rental Rate - per Locker		$50	$0	$50	
	Locker Revenue from Rental		**$0**	**$30,000**	**$30,000**	
12	Less Vacancies	1.50% per annum	$0	($223,099)	($223,099)	
		GROSS ANNUAL INCOME	$0	$14,650,136	$14,650,136	
13	Less Operating Costs & Realty Taxes	32%	$0	($4,688,043)	($4,688,043)	
		NET OPERATING INCOME	$0	$9,962,092	$9,962,092	
14	Capitalized Value	4.00% cap rate	$0	$249,052,306	$249,052,306	
	MARKET RENTAL SUBTOTAL		**$0**	**$249,052,306**	**$249,052,306**	
		PROJECTED TOTAL REVENUE	**$357,907,225**	**($108,854,919)**	**$249,052,306**	
			$357,907,225	($108,854,919)	$249,052,306	
		$ PSF/NSA TOTAL	**$1,404**	**($427)**	**$977**	

SAMPLE SITE
TORONTO, ON
400 UNIT RESIDENTIAL

		A	B-A	B	
SOURCE OF FUNDING		**CONDO BUDGET**	**VARIANCE**	**RENTAL BUDGET**	
EQUITY	15.00%	47,720,250	46,694,250	94,414,500	30.00%
INSURED DEPOSITS	15.70%	49,960,000	(49,960,000)	0	0.00%
DEFERRED COSTS	3.44%	10,949,000	(10,949,000)	0	0.00%
CONSTRUCTION LOAN	65.85%	209,505,750	10,794,750	220,300,500	70.00%
		318,135,000	**(3,420,000)**	**314,715,000**	
	Loan %	**65.85%**		**70.00%**	
Deferred Costs :					
Legal Fees		420,000	(420,000)	0	
Market Sales Commissions - Lead Brokers (50%)		2,123,442	(2,123,442)	0	
Market Sales Commissions - Outside Brokers (50%)		7,078,142	(7,078,142)	0	
Deposit Insurance Fees		128,000	(128,000)	0	
Warranty Reserve		1,200,000	(1,200,000)	0	
		10,949,584	(10,949,584)	0	
	Round to	10,949,000	(10,949,000)	0	
Insured Deposits:					
100% Residential Sales		390,315,000	(390,315,000)	0	
Assume Pre-Sales Market	64.0%	249,801,600	(249,801,600)	0	0.0%
20% Pre-Occupancy Deposits Market Units		49,960,320	(49,960,320)	0	
	Round to	49,960,000	(49,960,000)	0	

SAMPLE SITE
TORONTO, ON
400 UNIT RESIDENTIAL

				A	B-A	B	
	PROJECT STATISTICS SUMMARY			**CONDO BUDGET**	**VARIANCE**	**RENTAL BUDGET**	
1	FSI			12+		12+	
2	Site Area			<1 ha		<1 ha	
3	Gross Zoning Area (GZA)	- Total		300,000	0	300,000	sf
		- Residential		300,000	0	300,000	
4	Above Grade Gross Construction Area (GCA)			325,000	0	325,000	sf
5	Saleable Area (NSA)	- Residential Market		255,000	0	255,000	sf
		- Total Residential		255,000	0	255,000	sf
		- Efficiency (GCA/NSA)		78.46%	0.00%	78.46%	
		- Efficiency (GZA/NSA)		85.00%	0.00%	85.00%	
6	Suites	- Total - Average SF Area (NSA)		638	0	638	sf
		- Total Suites		400	0	400	nr.
7	Market Suite Mix	- Studio	7%	26	0	26	nr.
		- 1 Bedroom	46%	185	0	185	nr.
		- 2 Bedroom	38%	150	0	150	nr.
		- 3 Bedroom	10%	39	0	39	nr.
9	Parking Stalls	- Total (0.30)		120	0	120	nr.
		- Residential (0.24)		96	0	96	nr.
		- Visitor (0.06)		24	0	24	nr.
10	Parking/UG Area	- Total Area (sf)		69,000	0	69,000	sf
		- Average Area per Stall		575	0	575	sf
		- Stall to Suite Ratio		0.30	0.00	0.30	
11	Construction GCA	- Above Grade (sf)		325,000	0	325,000	sf
		- Underground/Parking (sf)		69,000	0	69,000	sf
		- Total Above & Below Grade(sf)		394,000	0	394,000	sf

2.3 High-Level Results Mississauga

The Mississauga pro forma provides a budget estimate for the completion of a 400-unit condominium development and for a 400-unit purpose-built rental development, including its operation for year 1. It then compares the two.

The one-year operating period used for the rental pro forma is to allow, as much as possible, a like-to-like comparison with the condominium project.

Both contain all associated project costs from land acquisition, through planning, fees, taxes and charges through construction. The purpose-built rental scenario includes operating costs and rental revenues for a one-year period to allow for the typical initial phase 1 year occupancy period.

For the condominium project, the cost to develop, build, market and sell, including all associated legal and professional fees is $275,150,000. With projected revenue of $309,545,002 from the sale of the 400 units at $1,250 p/sq. ft. less costs, the project yields a profit of $34,395,002 or 12.50% of project costs.

For the purpose-built rental project, the cost to develop, build, rent, including all associated legal and professional fees, operating costs and maintenance over year 1 of operation is $271,225,000. Annual revenue is projected at $11,783,100 based on an average monthly rent per unit of $2,231 plus associated locker and parking stall rentals. With this annual revenue, less annual operating costs of $4,124,085, the project yields a net operating income of $7,659,015. **After the first year of operation, the project will be in a deficit of $79,749,631 vs. budget to build and operate, with an 11-year plus timeframe following the first year of operation required to reach breakeven.**

SAMPLE SITE
MISSISSAUGA, ON
400 UNIT RESIDENTIAL

	A	B-A	B
EXECUTIVE SUMMARY	**CONDO BUDGET**	**VARIANCE**	**RENTAL BUDGET**
PROJECTED REVENUE	309,545,002	(118,069,633)	191,475,369
PROJECT BUDGET	275,150,000	(3,925,000)	271,225,000
PROJECTED PROFIT	**34,395,002**	**(114,144,633)**	**(79,749,631)**
PROFIT % BUDGET	**12.50%**	**-41.90%**	**-29.40%**
TRENDED NOI			**$7,659,015**
TRENDED YIELD			**2.82%**

2.4 Detailed Pro Forma Mississauga

SAMPLE SITE
MISSISSAUGA, ON
400 UNIT RESIDENTIAL

	A	B-A	B	
PROJECT BUDGET SUMMARY	**CONDO BUDGET**	**VARIANCE**	**RENTAL BUDGET**	**ASSUMPTIONS**
LAND				
1 Land Cost	16,000,000	0	16,000,000	Based on land value of ±$53 psf GFA
2 Land Transfer Tax	316,475	0	316,475	LTT
3 Land Closing Costs	50,000	0	50,000	Allowance per Industry standards
4 Net Operating Income Pre-Construction	0	0	0	
LAND SUBTOTAL	16,366,475	0	16,366,475	
MUNICIPAL FEES				
5 Parkland Dedication (Incl. By-Law Increase)	10,446,400	0	10,446,400	Per Feb 1, 2024 Rates
6 City, Region & Go Transit Development Charges	24,498,740	0	24,498,740	Per By-law rates effective Nov 29, 2022 Rates with Indexing
7 Development Charges - Bill 23 Credits	(3,674,811)	(3,441,592)	(7,116,403)	Allowance for 15% reduction & PBR suite reductions (25% 3 bed/20% 2 bed/15% 1 bed)
8 Education Charges	1,828,800	0	1,828,800	Per By-law rates effective Nov 29, 2022 Rates
9 Realty Taxes During Construction	545,121	0	545,121	Based on prevailing mill rates
10 Community Benefits Charge	640,000	0	640,000	4% of Land Value per By-Law
11 Neighbour Encroachments/Settlements	300,000	0	300,000	Allowance per Industry standards
12 Planning & Zoning Legal/Planning/Design etc.	500,000	0	500,000	Allowance per Industry standards
13 Zoning By-Law Fee	215,431	0	215,431	Based on prescribed City Rates
14 Site Plan Control Fee	68,257	0	68,257	Based on prescribed City Rates
MUNICIPAL FEES SUBTOTAL	35,367,938	(3,441,592)	31,926,345	
CONSTRUCTION				
15 Construction Below Grade	27,360,000	0	27,360,000	Allowance per Industry standards ($160 psf Below Grade)
16 Construction Above Grade	112,125,000	0	112,125,000	Allowance per Industry standards ($345 psf Below Grade)
17 Raft Slab, Dewatering and Bathtub	0	0	0	
18 Construction Management	4,393,778	0	4,393,778	Allowance per Industry standards (3%)
19 Common Area Furniture & Amenity Equipment	800,000	0	800,000	Allowance per Industry standards
20 Building Permit	680,000	0	680,000	Based on prescribed City Rates
21 Miscellaneous Municipal Fees	200,000	0	200,000	Allowance per Industry standards
22 Lane & Road Occupancy	0	0	0	Allowance per Industry standards
23 Service Connections (hydro/sanitary/water/storm)	600,000	0	600,000	Allowance per Industry standards
24 Hydro Line Protection	0	0	0	Allowance per Industry standards
25 Construction Insurance	1,246,350	0	1,246,350	Allowance per Industry standards
26 Bonding	0	0	0	
27 TARION Enrolment	636,100	(636,100)	0	Based on Tarion (HCRA) rates effective Feb 1, 2022
CONSTRUCTION SUBTOTAL	148,041,227	(636,100)	147,405,127	
DESIGN				
28 Architect	1,630,000	0	1,630,000	Allowance per Industry standards
29 Structural Engineer	550,000	0	550,000	Allowance per Industry standards
30 Mechanical & Electrical Engineer	440,000	0	440,000	Allowance per Industry standards
31 Landscape Architect	70,000	0	70,000	Allowance per Industry standards
32 Interior Designer	300,000	0	300,000	Allowance per Industry standards
33 Soils, HydroG & Environmental Consultant	150,000	0	150,000	Allowance per Industry standards
34 Shoring Consultant & Monitoring Consultant	65,000	0	65,000	Allowance per Industry standards
35 Cost Consultant	80,000	0	80,000	Allowance per Industry standards
36 Inspection & Testing & Bulletin 19	300,000	(100,000)	200,000	Allowance per Industry standards
37 Code Consultant	30,000	0	30,000	Allowance per Industry standards
38 Civil Engineer	60,000	0	60,000	Allowance per Industry standards
39 Insurance Consultant	10,000	0	10,000	Allowance per Industry standards
40 Acoustic Engineer	40,000	0	40,000	Allowance per Industry standards
41 Traffic Consultant	75,000	0	75,000	Allowance per Industry standards
42 Elevator Consultant	15,000	0	15,000	Allowance per Industry standards
43 Municipal Expeditor	75,000	0	75,000	Allowance per Industry standards
44 Exterior Cladding Consultant	75,000	0	75,000	Allowance per Industry standards
45 Sustainability Consultant/Energy Model	40,000	0	40,000	Allowance per Industry standards
46 Wind Study/Microclimate Consultant	70,000	0	70,000	Allowance per Industry standards
47 Printing & Disbursements	124,000	0	124,000	Allowance per Industry standards
48 Miscellaneous Consultants	209,000	0	209,000	Allowance per Industry standards
DESIGN SUBTOTAL	4,408,000	(100,000)	4,308,000	

SAMPLE SITE
MISSISSAUGA, ON
400 UNIT RESIDENTIAL

	A	B-A	B	
PROJECT BUDGET SUMMARY	**CONDO BUDGET**	**VARIANCE**	**RENTAL BUDGET**	**ASSUMPTIONS**
LEGAL & ADMINISTRATION				
49 Legal Fees	950,000	(650,000)	300,000	Allowance per Industry standards
50 Land Surveyor	150,000	(60,000)	90,000	Allowance per Industry standards
51 Accountant	40,000	0	40,000	Allowance per Industry standards
52 Development Management	9,150,000	(1,375,000)	7,775,000	Condo: Based on 3% of Net Revenue. Rental: Based on 4% of Budget less Land, Financing & HST
LEGAL & ADMINISTRATION SUBTOTAL	10,290,000	(2,085,000)	8,205,000	
MARKETING & SALES				
53 Sales Office Construction & Furniture	600,000	(600,000)	0	Allowance per Industry standards
54 Sales Centre Operations	468,000	(468,000)	0	Allowance per Industry standards
55 Marketing & Advertising	1,600,000	(800,000)	800,000	Allowance per Industry standards
56 Sales Commissions - Lead Brokers	3,659,469	(3,659,469)	0	Calculated on 1.2% of Net Revenue
57 Sales Commissions - Outside Brokers	12,198,230	(12,198,230)	0	Calculated on 4% of Net Revenue on 100% of Units
58 Leasing Commissions	0	446,250	446,250	Allowance per Industry standards
MARKETING & SALES SUBTOTAL	18,525,699	(17,279,449)	1,246,250	
FINANCE				
58 Bank Loan Arrangement Fee	1,174,235	59,839	1,234,074	65 bps
59 Bank Loan Stand By Fee	1,034,983	(77,784)	957,198	25 bps
60 Bank Loan Agency Fee	90,000	0	90,000	Allowance per Industry standards
61 Service Charges & Misc. Finance Fees	20,000	0	20,000	Allowance per Industry standards
62 Appraisal	12,000	13,000	25,000	Allowance per Industry standards
63 Project Monitor	205,000	0	205,000	Allowance per Industry standards
64 Letter of Credit Fees	30,000	0	30,000	Allowance per Industry standards
65 Deposit Insurance Fees	1,353,750	(1,353,750)	0	Allowance per Industry standards
66 Land Loan Finance Fee	144,000	0	144,000	Allowance per Industry standards
67 Land Loan Interest	2,145,600	(715,200)	1,430,400	Prime 6.70% + 0.75% spread
68 Construction Loan Interest	26,321,215	(2,982,982)	23,338,233	Prime 6.70% + 0.75% spread
FINANCE SUBTOTAL	32,530,782	(5,056,877)	27,473,905	
OPERATING COSTS & INCOME				
69 Operating Costs Residential Interim Occupancy	408,000	(408,000)	0	Allowance per Industry standards
70 Occupancy Income Residential Units	(2,829,246)	2,829,246	0	1 year fixed mortgage rate 6.34%
71 Interest Earned on Deposits	(697,638)	697,638	0	Based on Prime - 2%
72 Interest Payable on Deposits	0	0	0	Included in Revenue
73 Warranty Reserve & Customer Service	1,200,000	(800,000)	400,000	Allowance per Industry standards
74 Operating Cost to Breakeven	0	7,440,000	7,440,000	Allowance for 12 month lease up period
OPERATING COSTS & INCOME SUBTOTAL	(1,918,884)	9,758,884	7,840,000	
CONTINGENCY				
75 Post Contract Construction Contingency	7,193,939	0	7,193,939	5% of Construction costs (Items 15-18)
76 Soft Cost Contingency	4,344,823	5,135	4,349,958	Allowance per Industry standards
77 Construction Escalation (Post January 2023)	Excluded	0	Excluded	Excluded as start date unknown. Revenue escalation excluded
CONTINGENCY SUBTOTAL	11,538,762	5,135	11,543,897	
HARMONIZED SALES TAX				
78 H.S.T. on Monthly Payables	Recovered 79	0	Recovered 79	Recovered 79
79 H.S.T. Monthly Input Tax Credit	Recovered 78	0	Recovered 78	Recovered 78
80 H.S.T. on Self Assessment	0	14,910,000	14,910,000	Calculated on Valuation method used by CRA
HARMONIZED SALES TAX SUBTOTAL	0	14,910,000	14,910,000	
TOTAL PROJECT BUDGET	**275,150,000**	**(3,925,000)**	**271,225,000**	
	275,150,000	(3,925,000)	271,225,000	

SAMPLE SITE
MISSISSAUGA, ON
400 UNIT RESIDENTIAL

			A	B-A	B	
PROJECTED TOTAL REVENUE			CONDO BUDGET	VARIANCE	RENTAL BUDGET	
MARKET CONDO						
1 Residential Condos						
- Net Sellable Area (NSA)			255,000 sf	-255,000 sf	sf	
- Total Units			400 units	-400 units	units	
- Average Price per Unit			*$796,875*	($796,875)	*$0*	
Residential Sale Price - per Sf NSA			$1,250	($1,250)	$0	
Residential Condo Revenue			**$318,750,000**	**($318,750,000)**	**$0**	
2 Residential Parking Stalls						
Total Stalls			380 stalls	-380 stalls	stalls	
Less Visitor			-60 stalls	60 stalls	stalls	
Stalls For Sale			320 stalls	-320 stalls	stalls	
Parking Stalls Sale Price - per Stall			$50,000	($50,000)	$0	
Parking Revenue from Condo			**$16,000,000**	**($16,000,000)**	**$0**	
3 Storage Lockers			50 lockers	-50 lockers	lockers	
Storage Lockers Sale Price - per Locker			$5,000	($5,000)	$0	
Locker Revenue from Condo			**$250,000**	**($250,000)**	**$0**	
4 H.S.T. on Sales		-8.97%	($30,044,248)	$30,044,248	$0	0.00%
			$304,955,752	($304,955,752)	$0	
5 CLOSING ADJUSTMENTS						
- DC Cap (1br $15,000/2+3br $18,000)			$6,567,000	($6,567,000)	$0	
- TARION Enrolment Fee			$630,000	($630,000)	$0	
- Law Society			To Lawyer	$0	$0	
- Purchasers Cheques			To Lawyer	$0	$0	
- Meter Connections			$480,000	($480,000)	$0	
- Closing Credits			$0	$0	$0	
- Interest Payable on Deposits			($3,567,750)	$3,567,750	$0	
6 Smart Metering			$400,000	($400,000)	$0	
7 Telecommunications			$80,000	($80,000)	$0	
MARKET CONDO SUBTOTAL			**$309,545,002**	**($309,545,002)**	**$0**	
MARKET RENTAL						
8 Residential Rental						
- Net Rentable Area (NRA)			sf	255,000 sf	255,000 sf	
- Total Units			units	400 units	400 units	
- Average Price per Unit			*$0*	$26,775	*$26,775*	
Residential Rental Rate - per sf NRA			$0.00	$3.50	$3.50	
Residential Rental Revenue			**$0**	**$10,710,000**	**$10,710,000**	
9 Rent Escalation - 3 yrs @ 2% pa compound to project completion			**$0**	**$655,538**	**$655,538**	
10 Residential Parking Stalls						
Total Stalls			stalls	380 stalls	380 stalls	
Less Visitor			stalls	-60 stalls	-60 stalls	
Stalls For Rent			stalls	320 stalls	320 stalls	
Parking Stalls Rental Rate - per Stall			$0	$150	$150	
Parking Revenue from Rental			**$0**	**$576,000**	**$576,000**	
11 Storage Lockers			lockers	50 lockers	50 lockers	
Storage Lockers Rental Rate - per Locker			$0	$35	$35	
Locker Revenue from Rental			**$0**	**$21,000**	**$21,000**	
12 Less Vacancies	1.50% per annum		$0	($179,438)	($179,438)	
		GROSS ANNUAL INCOME	$0	$11,783,100	$11,783,100	
13 Less Operating Costs & Realty Taxes	35%		$0	($4,124,085)	($4,124,085)	
		NET OPERATING INCOME	$0	$7,659,015	$7,659,015	
14 Capitalized Value	4.00% cap rate		$0	$191,475,369	$191,475,369	
MARKET RENTAL SUBTOTAL			**$0**	**$191,475,369**	**$191,475,369**	
		PROJECTED TOTAL REVENUE	**$309,545,002**	**($118,069,633)**	**$191,475,369**	
			$309,545,002	($118,069,633)	$191,475,369	
		$ PSF/NSA TOTAL	**$1,214**	**($463)**	**$751**	

SAMPLE SITE
MISSISSAUGA, ON
400 UNIT RESIDENTIAL

		A	B-A	B	
SOURCE OF FUNDING		**CONDO BUDGET**	**VARIANCE**	**RENTAL BUDGET**	
EQUITY	15.00%	41,272,500	40,095,000	81,367,500	30.00%
INSURED DEPOSITS	15.83%	43,550,000	(43,550,000)	0	0.00%
DEFERRED COSTS	3.52%	9,676,000	(9,676,000)	0	0.00%
CONSTRUCTION LOAN	65.66%	180,651,500	9,206,000	189,857,500	70.00%
		275,150,000	**(3,925,000)**	**271,225,000**	
	Loan %	**65.66%**		**70.00%**	
Deferred Costs :					
Legal Fees		420,000	(420,000)	0	
Market Sales Commissions - Lead Brokers (50%)		1,829,735	(1,829,735)	0	
Market Sales Commissions - Outside Brokers (50%)		6,099,115	(6,099,115)	0	
Deposit Insurance Fees		128,000	(128,000)	0	
Warranty Reserve		1,200,000	(1,200,000)	0	
		9,676,850	(9,676,850)	0	
	Round to	9,676,000	(9,676,000)	0	
Insured Deposits:					
100% Residential Sales		335,000,000	(335,000,000)	0	
Assume Pre-Sales Market	65.0%	217,750,000	(217,750,000)	0	0.0%
20% Pre-Occupancy Deposits Market Units		43,550,000	(43,550,000)	0	
	Round to	43,550,000	(43,550,000)	0	

SAMPLE SITE
MISSISSAUGA, ON
400 UNIT RESIDENTIAL

				A	B-A	B	
PROJECT STATISTICS SUMMARY				**CONDO BUDGET**	**VARIANCE**	**RENTAL BUDGET**	
1	FSI			12+		12+	
2	Site Area			<1 ha		<1 ha	
3	Gross Zoning Area (GZA)	- Total		300,000	0	300,000	sf
		- Residential		300,000	0	300,000	
4	Above Grade Gross Construction Area (GCA)			325,000	0	325,000	sf
5	Saleable Area (NSA)	- Residential Market		255,000	0	255,000	sf
		- Total Residential		255,000	0	255,000	sf
		- Efficiency (GCA/NSA)		78.46%	0.00%	78.46%	
		- Efficiency (GZA/NSA)		85.00%	0.00%	85.00%	
6	Suites	- Total - Average SF Area (NSA)		638	0	638	sf
		- Total Suites		400	0	400	nr.
7	Market Suite Mix	- Studio	7%	26	0	26	nr.
		- 1 Bedroom	46%	185	0	185	nr.
		- 2 Bedroom	38%	150	0	150	nr.
		- 3 Bedroom	10%	39	0	39	nr.
9	Parking Stalls	- Total (0.95)		380	0	380	nr.
		- Residential (0.80)		320	0	320	nr.
		- Visitor (0.15)		60	0	60	nr.
10	Parking/UG Area	- Total Area (sf)		171,000	0	171,000	sf
		- Average Area per Stall		450	0	450	sf
		- Stall to Suite Ratio		0.95	0.00	0.95	
11	Construction GCA	- Above Grade (sf)		325,000	0	325,000	sf
		- Underground/Parking (sf)		171,000	0	171,000	sf
		- Total Above & Below Grade(sf)		496,000	0	496,000	sf

PART 3

Conclusions & Policy Recommendations

PART 3 – Conclusions and Policy Recommendations

Purpose-built rental is a vital component of the GTA housing mix. It provides for long-term rental accommodation, professionally managed, with a wide range of unit types and sizes that remains part of the housing pool.

Urbanation's white paper analysis has quantified that purpose-built rental is under-represented as a housing type in the GTA market and that there is strong present demand for this type of housing. Most new rental supply in the GTA comes in the form of condominiums that are rented out by their owners, with PBR contributing less than 10% of total rental supply in the last 10 years. With the population growing rapidly and housing (for purchase) affordability remaining a significant barrier in the GTA, demand for purpose-built rental is expected to greatly outstrip supply. Long approval timelines and the economic realities facing PBR development are stalling progress in adding the supply of this type of housing. This means we can expect to reach a rental supply deficit of 177,000 units in the next 10 years.

The Finnegan Marshall pro forma analysis illustrates the magnitude of the challenges of adding PBR from a financial perspective. It illustrates through sample projects in Toronto and Mississauga that building purpose-built rental in those geographies is significantly less financially attractive than condominium development due to differences in upfront capital investments and the differences in timeframes required to reach profitability. This is exacerbated by the manner in which purpose-built rental is taxed and when development charges are applied. Together, these factors undermine the financial viability of PBR developments.

While this modelling is limited to Toronto and Mississauga, the results are equally applicable to most GTA municipalities.

3.1 Purpose-Built Rental Policy Recommendations

In the interest of good planning, a purpose-built rental (PBR) action plan is needed by all levels of government to increase the supply of rental housing and make it easier to build. This plan should include an intergovernmental strategy.

A PBR action plan should address the current major challenge for the development of PBR, which is that each level of government needs to acknowledge and differentiate between for-sale condominiums and PBR in their respective policies or legislation.

PBR projects generate a much "thinner" economic profile relative to for-sale condominiums and require significantly more upfront equity to fund projects. Acknowledging this difference will enable governments to make better policy plans for different types of development, especially those in most need. It would also set the foundation for much-needed policy reform at each level of government.

Each level of government should strive to create a supportive fiscal regime for PBR. Such a regime would view PBR as a distinctive, needed development type and would ensure taxes, fees and charges do not prevent PBR building from occurring.

3.1.1 Municipal Recommendations

At the municipal level, the development industry recommends the alignment of property taxes for PBR with condos/low-rise homes, as done in the City of Toronto. Municipal property taxes on purpose-built rental can be as much as 2.5 times greater than property taxes for condominium or other ownership housing (Report of the Ontario Affordability Task Force, Item 37).

Development charges, parkland dedication requirements and/or planning and building application fees should be reduced or waived to create a supportive fiscal regime.

Municipalities should also create a supportive regulatory framework for purpose-built rental (PBR), including policies and processes that simplify or streamline the planning process (e.g. Vancouver's Development Permit System).

It is recommended that municipalities modernize PBR zoning by ensuring that by-laws are up-to-date, with increased height and density to reflect population growth and community needs. Additional density should also be permitted as of right in Major Transit Station Areas *(Report of the Ontario Affordability Task Force, page 10).*

Currently, application-processing timelines are at an all-time high, with the duration of time extending well beyond the legislative timeframes. These extended timeframes have led the provincial government to implement Bill 109, More Homes for Everyone Act, 2022 ("Bill 109"). This Bill was introduced with the stated intent of accelerating development application review timelines and streamlining the approvals process to allow new housing to be constructed faster. While parts of Bill 109 came into force at the time of Royal Assent on April 14, 2022, significant portions will not come into effect until July 1, 2023, including the key legislative change that would require municipalities to refund zoning by-law amendment and site plan application fees if a decision is not issued within legislated timelines. While the bill seeks to improve the application approval timelines for all types of applications, it would be beneficial to accelerate approval timelines for PBR as a development type that is most in need in our province.

3.1.2 Provincial Recommendations

The provincial government has already made some very positive changes to support the creation of PBR. The Report of the Housing Affordability Task Force made a number of recommendations that are cited in this section of the report, as well as the Bill 109 implementation noted in the previous section.

In keeping with the objectives of the Ontario Housing Supply Action Plan and the recommendations of the Housing Affordability Task Force, in November 2022, the provincial government announced (related to a multi-Ministerial Housing Supply Action Plan 3.0) Bill 23, More Homes Built Faster Act. The Act notably reduced some of the challenges associated with inclusionary zoning, put better parameters around parkland dedication (CIL) and set out a reduction of development charges with a discount for purpose-built rental units, with a higher discount for larger units, on top of the existing DC freeze and deferral of payments over five years.

While significant steps have been made, the provincial government could continue to create a supportive development approval regime, by setting uniform standards for urban design (as it relates to building shadows and setbacks) and legislate delegated authority to staff for PBR projects to reduce municipal council interference and prevent appeals from third parties. This would take the politics out of planning, avoid NIMBYism and speed up the approval process.

3.1.3 Provincial-Federal Recommendations

The provincial and federal governments should update the HST rebate. *“Update the Provincial HST rebate to reflect current home prices and begin indexing the thresholds to housing prices, and that the federal government match the provincial 75% rebate and remove any claw-back*” (Report of the Ontario Affordability Task Force, Item 36).

Governments could also defer the HST payments for PBR, but keep the valuation date the same (at first occupancy). This would support financial flexibility for companies that are trying to deliver PBR units.