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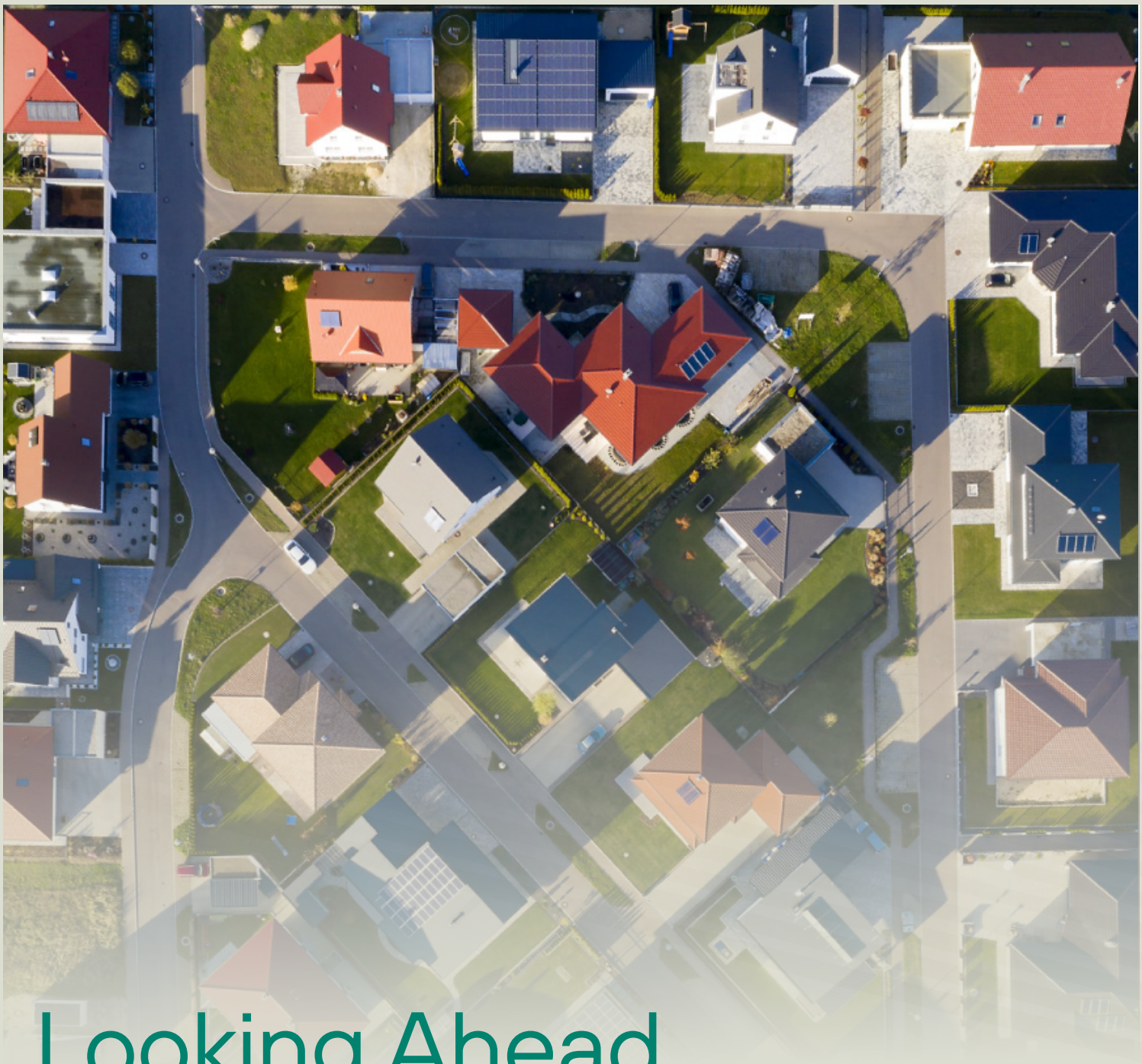


Looking Ahead

Key Predictions for the GTA Real Estate Market

Executive Summary

The Greater Toronto Area ("GTA") real estate market has undergone significant shifts over the past decade. Following a prolonged period of rapid price appreciation, the market has now transitioned through a phase of correction, primarily driven by elevated interest rates. While rates have declined, investor sentiment remains cautious. Institutional, corporate, and retail investors have scaled back their allocations, awaiting clearer signals of stabilization. However, improved inventory levels and buyer negotiation power are beginning to create selective opportunities. As the market begins to emerge, we believe the market is setting the stage for growth, with price stabilization, policy support, and a gradual economic recovery offering a potential window for strategic capital deployment.

In this piece, we will cover the following:

- The current GTA real estate environment
- How the market is navigating ongoing headwinds
- Our predictions for the GTA housing market
- And the benefits of investing in a GTA-Focused Mortgage Investment Corporation, such as RiverRock

Current Environment: A Slow Grind Amid Interest Rate Shifts, Investor Caution, and Macroeconomic Headwinds

The Greater Toronto Area real estate market is currently in a period of transition, shaped by monetary policy changes, economic uncertainty, and shifting investor behavior.

The Bank of Canada's policy rate increases, which peaked at 5.0% in 2024, have exerted significant downward pressure on the housing market. Elevated borrowing costs throughout this period of rising rates impacted affordability and led to refinancing challenges for both homeowners and investors. Although the target rate has since been reduced to 2.75%, helping to slightly reduce homeownership costs, many buyers are still contending with the lingering impact of higher interest rate exposures. Most notably, home prices remain elevated compared to pre-pandemic levels, continuing to challenge housing affordability for potential buyers and those transitioning from renting to ownership.

Beyond interest rates, broader macroeconomic conditions are also weighing on market sentiment. Trade tensions with the U.S., a deceleration in job growth, and persistently weak productivity are contributing to a cautious outlook among consumers and investors. Real GDP totaled -0.1% in May 2025 and unemployment remains elevated at 6.9%. Labour productivity also remains weak, at 0.2%.[1] These factors have led many potential homebuyers, particularly renters planning to enter the ownership market in 2025, to delay their purchases in anticipation of further price corrections or improved economic conditions.

GDP[1]	Unemployment[1]	Labour productivity[1]
-0.1%	6.9%	0.2%

Source: Statistics Canada.

Within the condominium space, the challenges of the current market environment are heightened. Pre-construction buyers are facing increased financing challenges. Lenders have become more conservative, moving away from blanket appraisals based on original purchase prices. As resale values fall, many buyers are struggling to obtain adequate financing or assign their contracts. This has resulted in higher default rates, pushing more units onto the resale market and increasing supply pressure.

[1] Statistics Canada.

For example, overall new listings in the GTA increased 7.7%, with 19,839 in June 2025, compared to 18,413 in June 2024. Overall active listings were up even higher from 24,169 to 31,603, representing an increase of 30.8%. Over the same period, active condominium listings were significantly higher, up 39.3% year over year.[2] This listings growth within the condominium segment combined with expected new condominium completions in 2025 has added to downward price pressure in the condominium market. Combined with softening rental demand, this dynamic is weighing on both market sentiment and pricing stability.

Navigating Headwinds: A Roadmap to Recovery in the GTA Housing Market

As the Greater Toronto Area housing market navigates ongoing headwinds, several structural and cyclical factors will be important to support a gradual recovery.

Declining Interest Rates

The single most influential factor in market recovery is the continued decline in borrowing costs. Lower interest rates directly improve mortgage affordability, enabling more buyers, especially first-time and sidelined purchasers, to re-enter the market. If the Bank of Canada continues its easing cycle, renewed demand may start to absorb excess supply, particularly in more affordable segments.

Population Growth and Immigration

Despite recent federal policy adjustments aimed at moderating short-term population increases, Canada's long-term immigration strategy remains strong and a key driver of housing demand. The GTA will continue to attract a significant share of new immigrants sustaining demand for both ownership and rental housing.

Economic Stabilization and Job Growth

A meaningful recovery in the housing market will depend heavily on broader economic conditions. Improvements in GDP growth, job creation, and labour productivity are essential to restoring consumer confidence and bolstering households' ability to qualify for and sustain mortgages. A healthier employment landscape would also support renter-to-owner transitions.

Pent-Up Buyer Demand

A prolonged period of subdued market activity due to high interest rates has created significant pent-up demand. Many prospective buyers have delayed purchases, waiting for more favorable conditions. As affordability improves and economic uncertainty recedes, this demand could realize positive momentum in both the resale and new construction markets.

Government Initiatives

Policy measures aimed at both supply and demand sides of the market are expected to play a growing role in recovery:

- Supply-side initiatives: Reductions in development charges, faster permitting processes, and funding for infrastructure and housing projects aim to increase long-term housing stock.
- Demand-side programs: Incentives such as the First Home Savings Account (FHSA), removal of GST on new homes over $1 million, and expanded support for first-time buyers enhance affordability and access to ownership.

[2] TRREB Market Watch – June 2025.

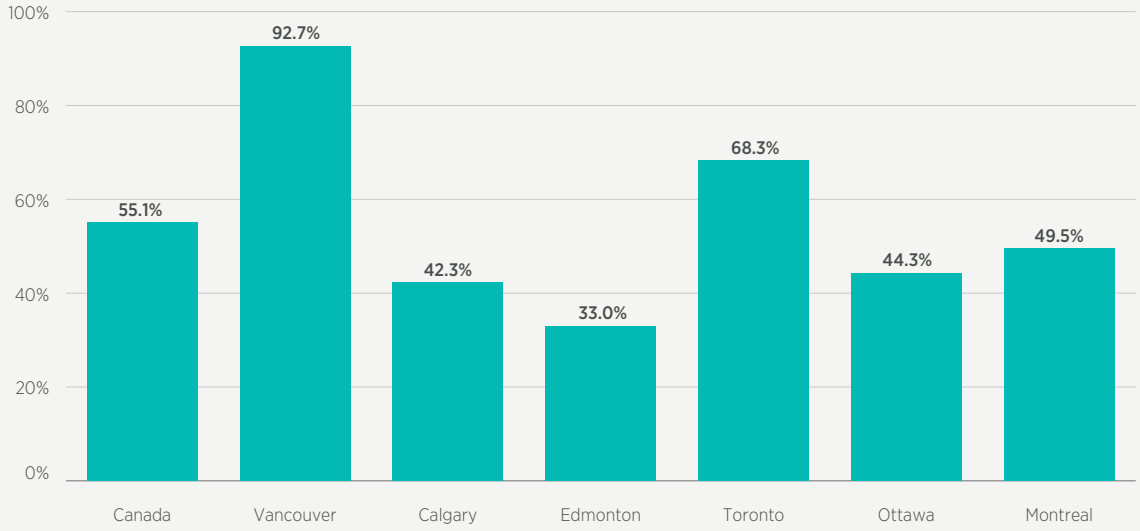
Looking Ahead: How We See This Playing Out

The Greater Toronto Area real estate market is in a reset period as a result of the lagging effects of elevated interest rates, economic uncertainty, and shifting investor dynamics. However, with several positive structural drivers emerging, we anticipate a staged recovery rather than a sharp rebound. Here's how we see the next 12–24 months unfolding:

Prediction 1:
Housing affordability will remain a structural challenge, even with interest rate cuts

- Home ownership remains out of reach for many Canadians. In Toronto, the typical household allocates 68% of income to cover ownership costs, significantly higher than the Canadian average.[3] While steady improvements have been made in recent years, there are various supply and demand factors that will continue to impact affordability.

Share of Household Income to Cover Ownership Costs



Source: RBC Economics.

- We expect further interest rate cuts from the Bank of Canada, which will gradually improve affordability and encourage buyers to re-enter the market. While housing may become more attainable than 2021, a heroic rebound in prices is not widely anticipated due to sustained, albeit slower, population growth and ongoing affordability strains.

Target Policy Interest Rate

Source: Bank of Canada.

- Sustained affordability challenges mean end-user homeownership will remain constrained, especially for the first-time home buyers. This supports ongoing demand for alternative lending solutions as more and more prospective home buyers are unable to get mortgages from the traditional bank channel. Some examples include first time homebuyers using alternative loans as a bridge financing until they build strong income histories, existing homebuyers using them to secure financing when renewal falls under the bank criteria, and pre-construction buyers turning to private lenders when appraisals come in lower than the purchase price at closing.

[3] RBC Economics.

Prediction 2:

Condos will remain under pressure through 2027, with a potential recovery in 2028

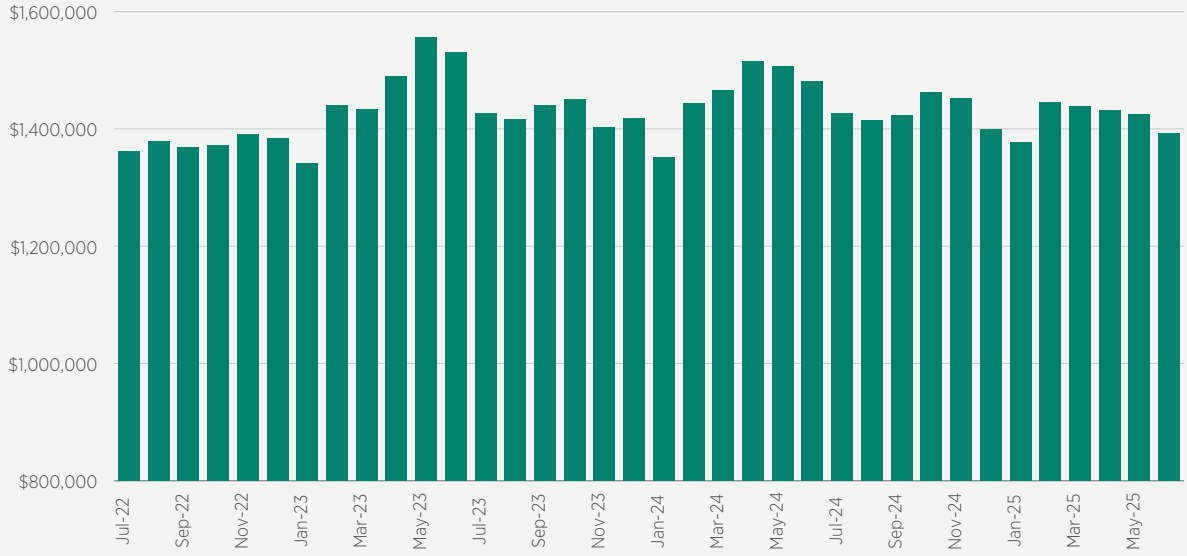
- The condo market will likely continue to face pressure with elevated supply. It presents higher risk for mortgage lenders due to soft rental yields, rising fees, and a high proportion of investor-owned units. Year-over-year, GTA condo sales are down 20.9% while active listings are up 39.3%.[4]
- Approximately 50% of GTA condo units are investor-owned and many of these properties were being maintained at losses. Combine this with the current pipeline of new units and we have a supply glut that will ensure continued softness in this market segment through Q4 2027.
- We foresee the demand catching up in 2028 as many developers have either paused or cancelled work on new projects. From Q1 2024 to Q2 2025, 21 projects representing over 4,000 units in the GTHA (Greater Toronto Hamilton Area) were cancelled. As the market eventually absorbs supply through immigration and investor demand, this could set the stage for a rebound in 2028-29.[5]

Prediction 3:

Prices will stabilize for detached, semi-detached, and townhouse properties as inventory adjusts

- Low-density housing is expected to offer stronger collateral backing due to enduring demand, constrained supply and lower speculative ownership. For Mortgage Investment Corporations (MICs) and private lenders, this segment may offer safer lending opportunities with more predictable recovery values in the event of enforcement.
- The GTA housing market is showing signs of recovery, amidst more listings. While buyers are taking advantage of increased inventory and negotiated discounts, home ownership is becoming more relatively affordable as first-time buyers enter the market.

TRREB Detached Home Price

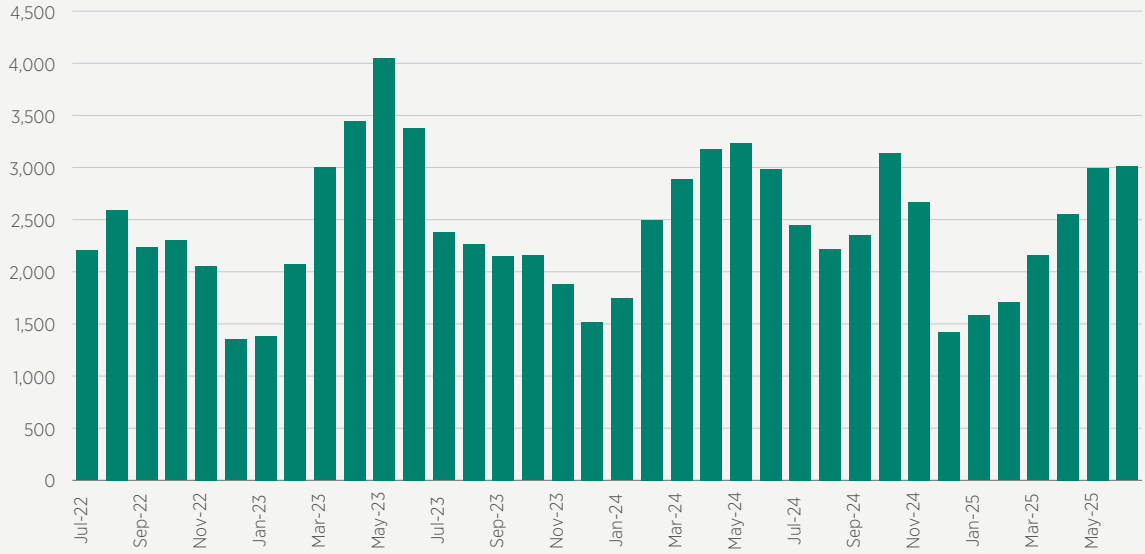


Source: TRREB.

[4] TRREB Market Watch – June 2025.

[5] Urbanation.

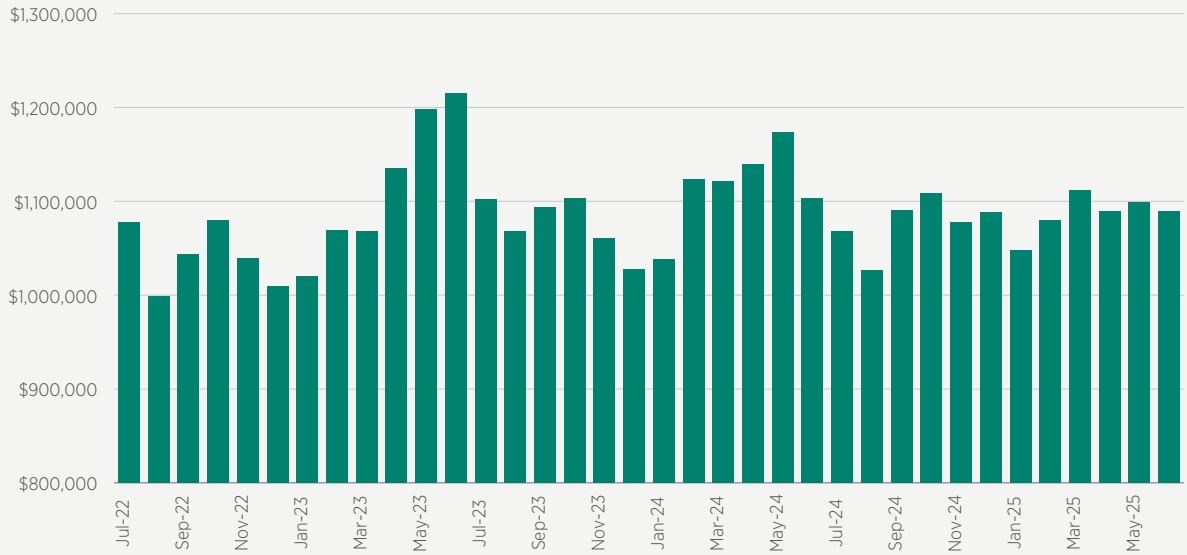
TRREB Detached Home Volume



Source: TRREB.

- Detached home prices have been fairly stable, averaging $1.4 million over the past 3 years. The average detached home was priced at $1.4 million compared to $1.5 million in June 2024.
- Detached sales volume has been nearly identical to the previous year with 3,011 transactions executed in June 2025, compared to 2,988 transactions in June 2024.[6]

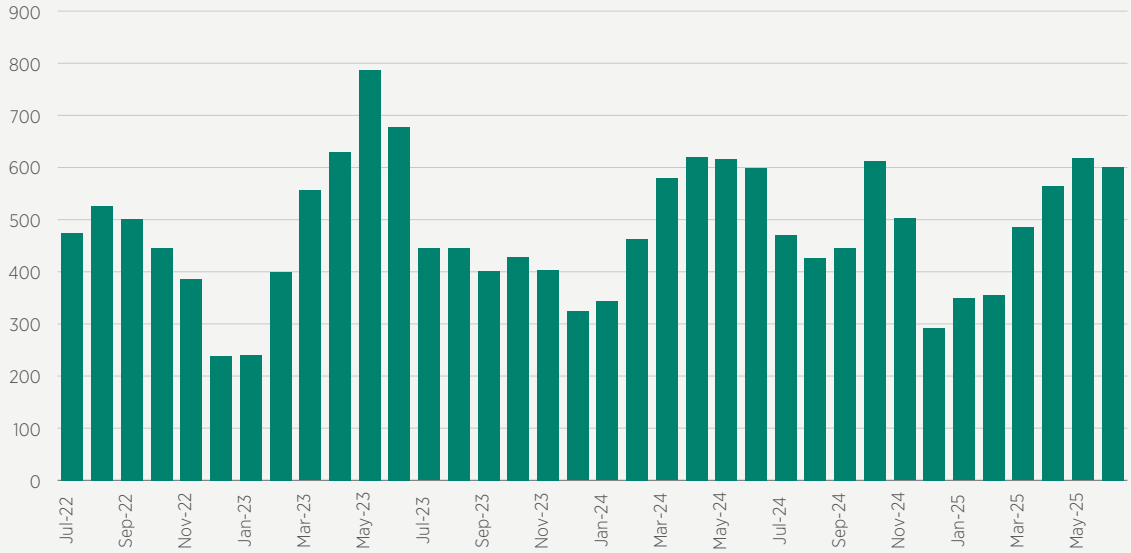
TRREB Semi-Detached Home Price



Source: TRREB.

[6] TRREB Market Watch – June 2025.

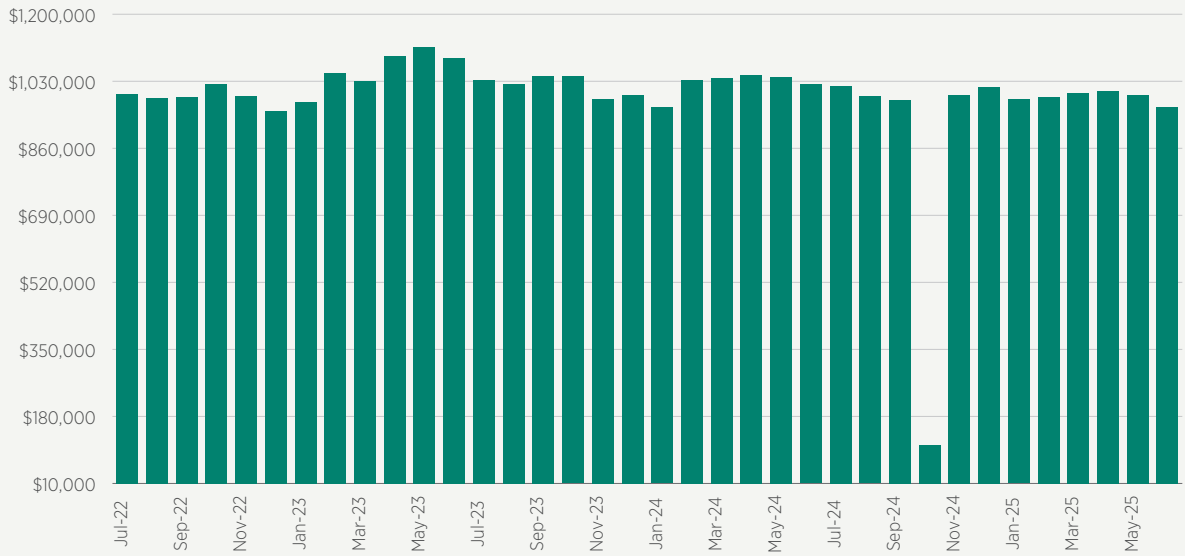
TRREB Semi-Detached Home Volume



Source: TRREB.

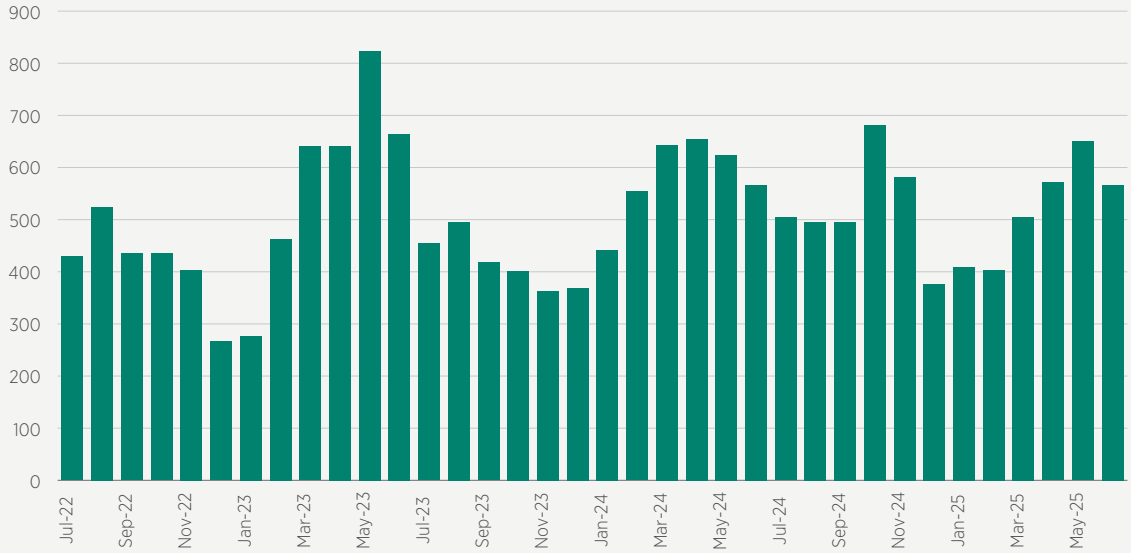
- Semi-detached home prices have been fairly stable, averaging $1.1 million over the past 3 years.
- Semi-detached sales volume has also been nearly identical compared to the previous year, with 601 transactions in June 2025, compared to 599 transactions in June 2024.

TRREB Townhouse Home Price



Source: TRREB.

TRREB Townhouse Home Volume



Source: TRREB.

- Townhouse home prices have been fairly stable, averaging just under $1 million over the past 3 years.
- Similar to other property types, townhouse volumes have been consistent with 566 transactions in June 2025, compared to 567 transactions in June 2024.

Prediction 4:

The Canadian tax structure should continue to support price floors and may prevent a housing crash

- One of the key reasons why we believe housing values will not crash is due to Canadian tax regulations.
- Canada has one of the highest progressive tax systems in the world with few investments that can be sheltered from tax during realization.
- Apart from the Tax-Free Savings Account (TFSA), primary ownership of residential real estate is one of the few tax-efficient investments. Tax efficiency around primary residences supports borrower motivation to preserve equity and service their mortgages.
- This reduces default risk for mortgage lenders and enhances the defensibility of underlying collateral, particularly in suburban markets with high owner-occupancy.
- With the asset class being both a living necessity and an investment, Canadian home ownership is one of the highest in the world at 66.7%.[7]

Prediction 5:

Alternative lending will continue to grow, providing niche opportunities for yield-seeking investors

- In 2022, there were changes to B-20 regulations which required Loan-To-Income (LTI) ratios to be capped at 4.5x. Borrowers were subject to stress tests based on the greater of their mortgage contract rate plus a spread of 200 basis points (bps) or 525 bps.[8] Banks have been hamstrung by stringent lending requirements and this has led to increased market share for alternative lenders such as credit unions and MICs. While non-bank lenders comprise ~8% of the outstanding mortgage market share, they comprise ~19% of the newly originated mortgage market share.[9]

[7] Statistics Canada – Home Ownership.

[8] OSFI – Residential Mortgage Underwriting Practices.

[9] CMHC Residential Mortgage Industry Report – Spring 2025.

- From 2022 to 2024, MICs have seen an increase in their assets under management, from $10.4 billion to $10.9 billion. MICs specialize in lending in the single-family sector as lending rates have increased from 8.3% to 10.3%.[10]
- Regulatory constraints on banks (B-20, LTI caps, stress testing) will continue to push qualified borrowers into the alternative lending space. This structural shift benefits mortgage investors, especially those positioned with agile underwriting teams and access to broker networks. Caution is warranted in underwriting income stability and ensuring proper documentation, but elevated rates and low competition can support yields.

Benefits of Investing in a GTA-Focused Mortgage Investment Corporation Amid Market Transition

Despite ongoing uncertainty in the Greater Toronto Area real estate market, current conditions may present compelling opportunities for investors considering exposure through a MIC. Here are key reasons why now could be an opportune time to invest in a MIC:

Lower Property Valuations Leads to More Conservative Lending

The recent cooling in property prices allows MICs to underwrite loans at more conservative valuations. This results in lower Loan-to-Value (LTV) ratios, improving the overall risk profile of the portfolio. In turn, this can enhance investor protection, as there is a larger equity cushion securing the loans.

Potential for Higher Yields in a Tight Credit Market

With traditional banks tightening credit criteria, MICs are increasingly filling the gap for borrowers who may not meet conventional lending standards but remain creditworthy. This niche positioning allows MICs to command higher interest rates, potentially delivering attractive yields to investors, especially compared to traditional fixed-income options.

Diversification and Passive Income

MICs offer investors exposure to a diversified pool of mortgage loans without the burdens of direct property ownership or active management. Most MICs provide regular income distributions, which can be particularly appealing in today's environment of moderate bond yields and volatile equity markets. For income-focused investors, MICs represent a passive, real estate-backed investment with consistent cash flow.

Strategic Positioning Ahead of Market Recovery

Investing in a MIC now allows investors to position themselves ahead of an anticipated real estate market recovery. As interest rates continue to decline and market confidence improves into 2026 and beyond, the underlying collateral which is the real estate secured by MIC mortgages, may appreciate in value. This could further strengthen the security of the MIC's portfolio and enhance risk-adjusted returns.

[10] CMHC Residential Mortgage Industry Report – Spring 2025.

Strong Legal and Regulatory Framework in Ontario

Ontario remains one of Canada's most lender-friendly provinces, offering advantages that help protect MICs and their investors:

- Efficient foreclosure processes through power of sale mechanisms
- Title insurance requirements that protect lender interests
- Use of the Land Titles system, providing a secure and transparent record of ownership

These can help enhance the recoverability of capital in the event of borrower default, making Ontario-based MICs structurally more secure than in many other jurisdictions.

The GTA real estate market faces several risks right now, mainly due to higher interest rates and affordability challenges. However, growth prospects are strong, and the market could see stabilization and recovery from 2026.

Investing in a MIC focused on the GTA may offer attractive short-term returns while minimizing the risks associated with direct property ownership. In particular, MICs that adopted a proactive strategy in 2022 by recognizing the implications of rising interest rates and acting early to restructure or exit risky positions are well-positioned. MIC managers who are focused on de-risking their portfolios during periods of elevated home prices can benefit investors.

As with any asset class, a selective approach is essential. Choosing a MIC with experienced management, a disciplined investment strategy, and a history of proactive portfolio management can provide both stability and enhanced returns in a shifting real estate environment.

Visit **RiverRockMIC.com** to learn more.

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