

2025 Residential Market Update

*IZ policy review for Municipal Partners:
Kitchener, Waterloo & Cambridge*

NBLC

September 2025

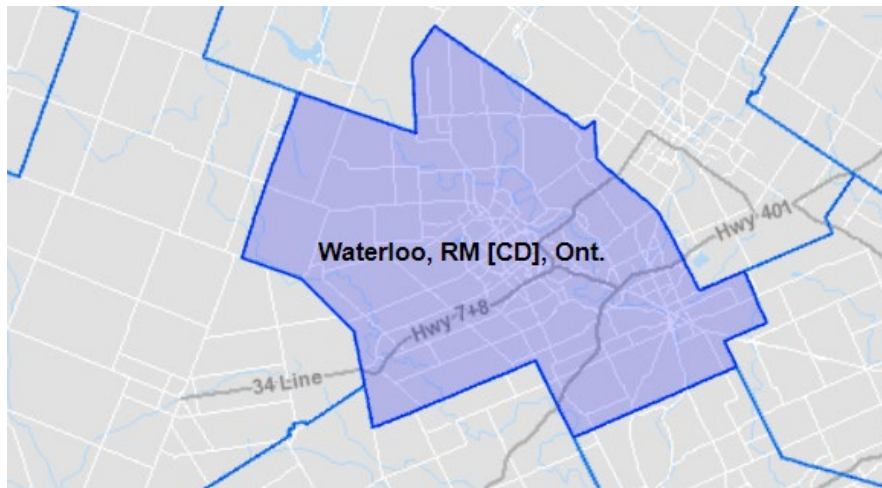
Demographic Overview Kitchener-Waterloo-Cambridge

Demographics: Population Growth

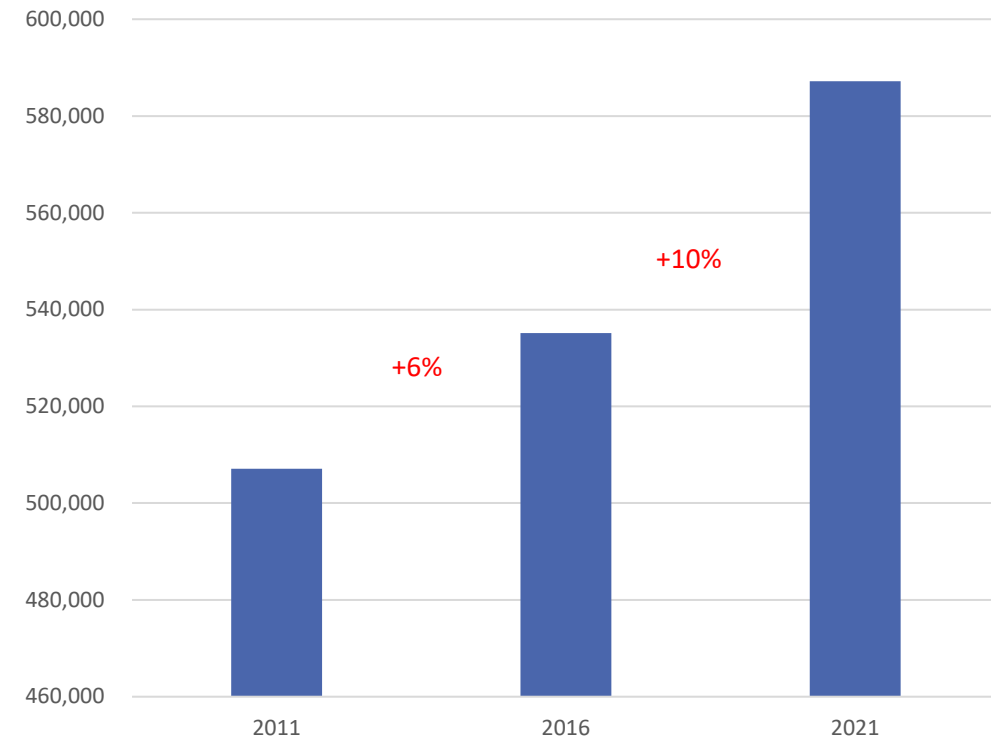
Rapid Population Growth in Recent Years

Strong Population Growth Recorded: Between the 2016 and 2021 Census Period, the population of the Waterloo Census Division (CD) rose 10% (52,000+ persons), well above the 4.6% growth rate in the City of Toronto and 5.8% in Ontario.

Why? Strong tech industry, proximity to Toronto, post-secondary institutions, and immigration fuel Kitchener-Waterloo's population growth.



Population Growth: Waterloo Census Division
2011 - 2021



Data source: Statistics Canada

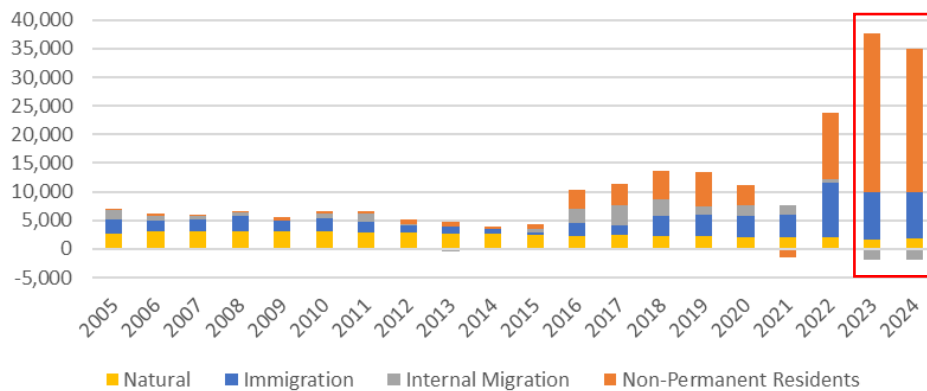
Demographics: Population Growth

Non-Permanent Residents Driving Population Growth

Over the past two years, Waterloo Region added an average of more than 26,000 non-permanent residents annually—over five times the 10-year average of about 4,800. NPRs surged to record highs in 2023 (+27,800) and 2024 (+25,100), far outpacing all other components of growth. This mirrors a broader national trend, with NPRs becoming a major driver of population growth across Canada.

While natural increase, immigration, and internal migration have contributed modestly to growth in recent years, their impact has been overshadowed by the surge in NPRs. For context, immigration added about 8,000 people in 2023 and 2024, while natural increase was below 2,000 annually.

Components of Population Growth
Waterloo Census Division: 2005 to 2024

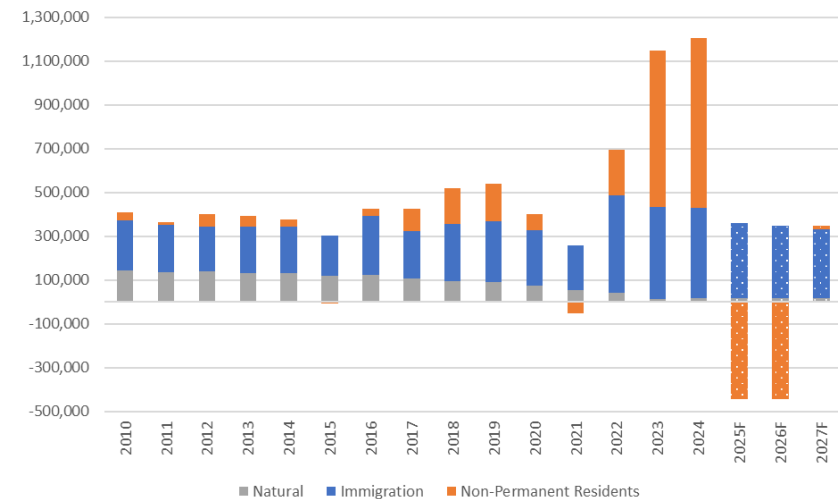


Data source: Statistics Canada

Record-High Growth, Now Cooling: Canada's population expanded by 1.2M people in 2023 (+3.2%), the fastest pace since 1957, almost entirely from international migration. However, the Federal Government has since reduced both permanent and non-permanent resident targets, marking the first time caps have been placed on temporary residents.

Near-Term Moderation Expected: With PR targets cut from 500,000 to 365,000 by 2027 and NPRs declining from 2025 onward, Canada's population growth is projected to slow significantly. This shift is expected to have a cooling effect on the housing market after years of record demand.

Components of Population Growth in Canada
2010 to 2027 (Forecast from 2025)



Residential Market Overview

Kitchener-Waterloo-Cambridge

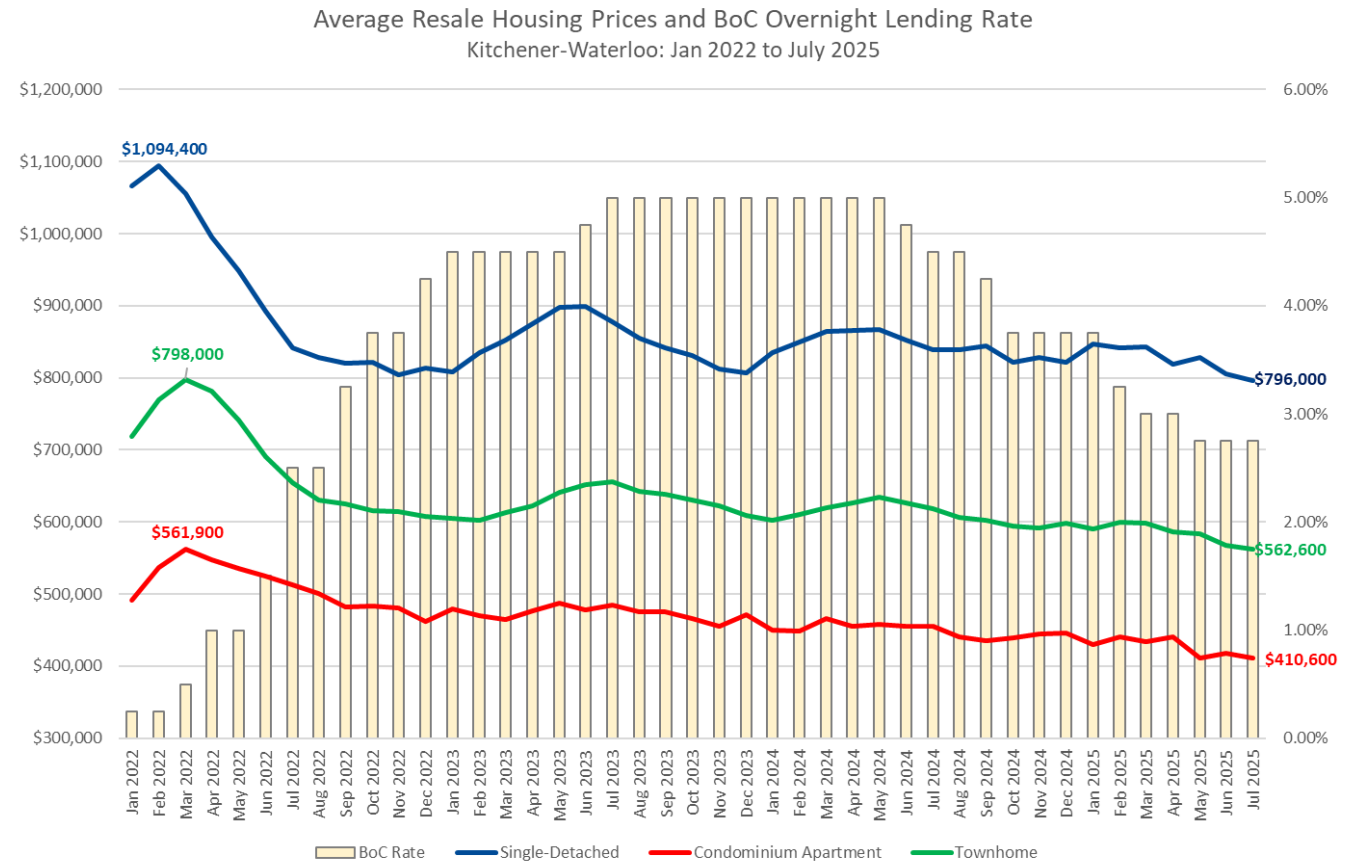
Residential Market Overview

Falling Interest Rates Have Not Had a Material Impact on Pricing

Impact of Interest Rate Hikes: Interest rates began to rise in March 2022, when the Bank of Canada lifted its policy rate from 0.25% to 0.50%. Over the following 16 months, rates climbed sharply to 5.0% by July 2023. This had a direct impact on the housing market, with condominium apartment prices falling from \$561,900 in March 2022 to \$484,800 in July 2023 — a decline of 14%.

Recent Decline in Policy Rate: More recently, the Bank of Canada has reversed course, lowering rates from 5.0% in June 2024 to 2.75% by July 2025, a reduction of 225 basis points. Despite these cuts, condominium apartment values have continued to trend downwards, with prices declining 9% year-over-year as of July 2025.

Effect on New Development: Higher interest rates (borrowing costs) and weaker new sale demand has eroded feasibility of new projects. In addition to direct financing challenges, developers are also facing rising construction costs, tighter lending conditions, and weak absorption rates. This combination has forced many projects to be delayed, scaled back, or cancelled altogether, further constraining the pipeline of future housing supply



Data source: CREA, Bank of Canada

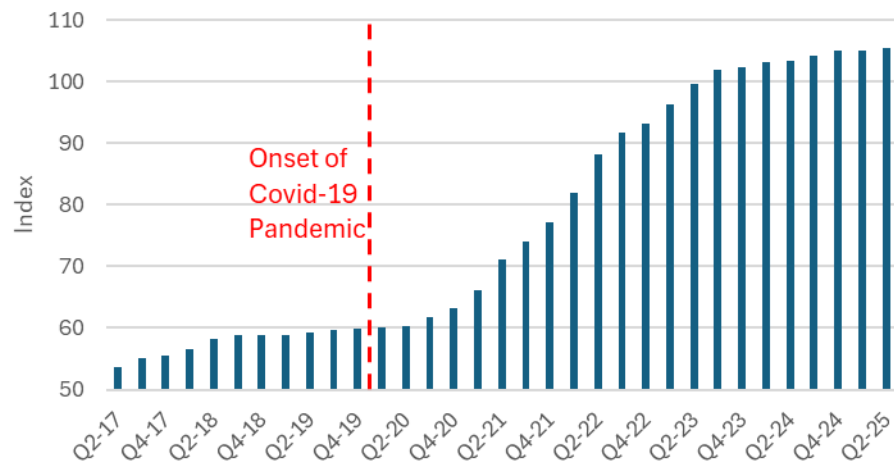
Residential Market Overview

Rising Construction Costs Across Ontario

Post-Pandemic Surge: After a period of relative stability, hard construction costs surged by 18% in 2021, 24% in 2022, and 13% in 2023, driven by supply chain disruptions, material costs, skilled labour shortages, and rising borrowing costs. Growth has since moderated, but costs have continued to edge upward—rising another 3% in 2024 and 0.4% through the first half of 2025.

Broader Impact: Construction costs are now 96% higher than in 2017 and 76% above early-2020 levels. These elevated costs continue to weigh heavily on housing development feasibility across Ontario, including throughout the Kitchener-Waterloo-Cambridge market (KWC), with limited expectations for a return to pre-pandemic costs.

Apartment Building Construction Price Index
Toronto CMA: Q2-2017 to Q2-2025



Data source: Statistics Canada



Apartment Market Context

Impacts of Rising Costs and Falling Demand

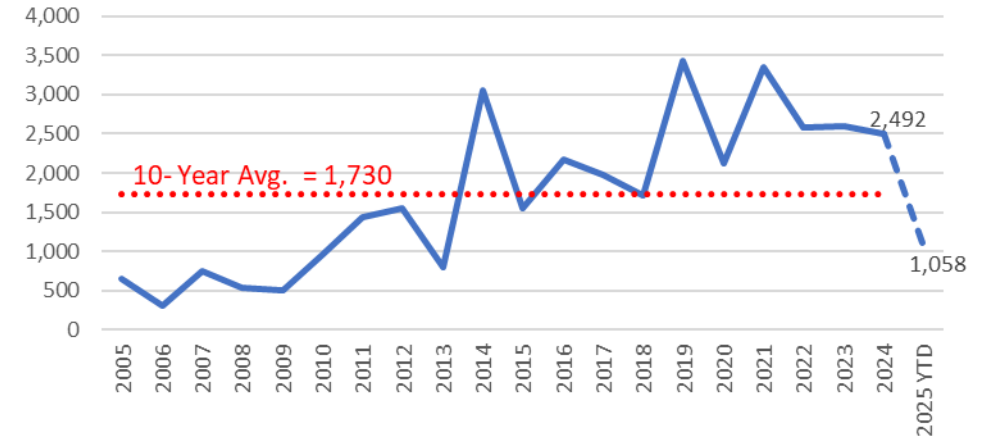
As of 2023, apartment starts began to trend downwards in KWC; largely a function of suppressed demand and broader economic challenges that have eroded development feasibility.

During 2023, there was a record high level of apartment completions for both condominium and rental tenure in KWC, totaling 2,171 condo completions and 1,397 rental completions. These completions have contributed to softness in the market, adding new supply and choice to both the private rental and resale market.

As construction starts decline, completions are expected to taper off in the coming years. Combined with anticipated population growth, this will present challenges for meeting demand in future years.

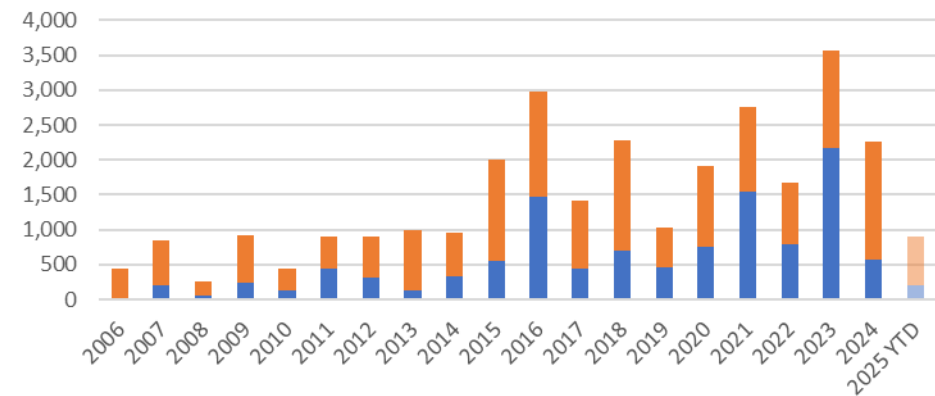
Historical Apartment Starts

KWC: 2005-2025 YTD



Apartment Completions by Tenure

KWC: 2006 to 2025 YTD



Data source: CMHC

■ Condominium ■ Rental

Federal Initiative to Deliver Affordable Housing at Scale

Build Canada Homes Initiative

The Federal Government announced Build Canada Homes in September 2025 as a new agency dedicated to accelerating the delivery of affordable and rental housing. Backed by an initial \$13 billion investment, the program will leverage federal and public lands and expand the use of prefabricated (modular) construction to speed up timelines and reduce costs.

Early actions include six federally owned sites in major cities, targeted to deliver roughly 4,000 modular homes. The initiative also establishes the Canada Rental Protection Fund (\$1.5 billion) to help acquire and preserve at-risk rental housing.

For developers, Build Canada Homes could help reduce land costs, streamline approvals, and open new partnership opportunities. While the first projects are concentrated in large metropolitan areas, the program has potential to extend into mid-sized regions such as KWC if partnerships are pursued.



Apartment Market Overview

Kitchener-Waterloo-Cambridge

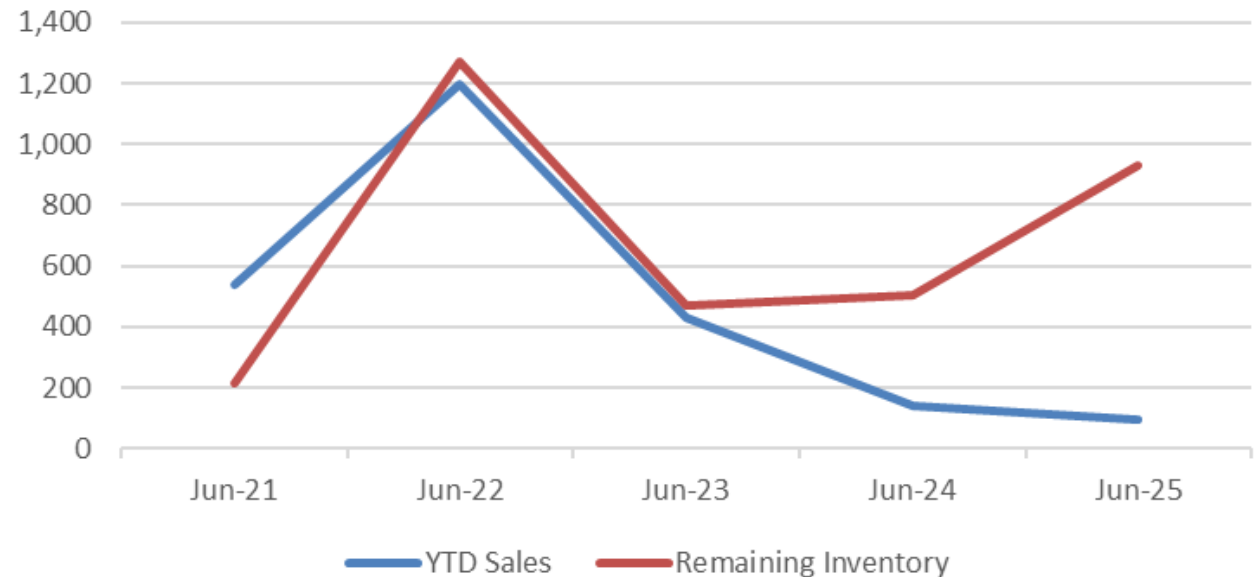
New Condominium Apartment Market

Unsold Inventory Filling the New Condo Market

Since 2023, the gap between sales and unsold inventory in KWC has widened notably. In mid-2023 and 2024, unsold inventory was relatively low, hovering around 470–500 units, aligning more closely with sales activity and suggesting a balanced market. By mid-2025, however, remaining inventory nearly doubled to 933 units as sales slowed, pointing to weaker absorption and a build-up of supply.

This shift marks a break from the tighter conditions seen earlier in the decade, where unsold units were quickly absorbed. The recent increase highlights the growing challenge of aligning new supply with demand in a softer market environment.

Condominium Apartment Sales
KWC: First-Half 2021 to 2025



Data source: Altus Data Studio

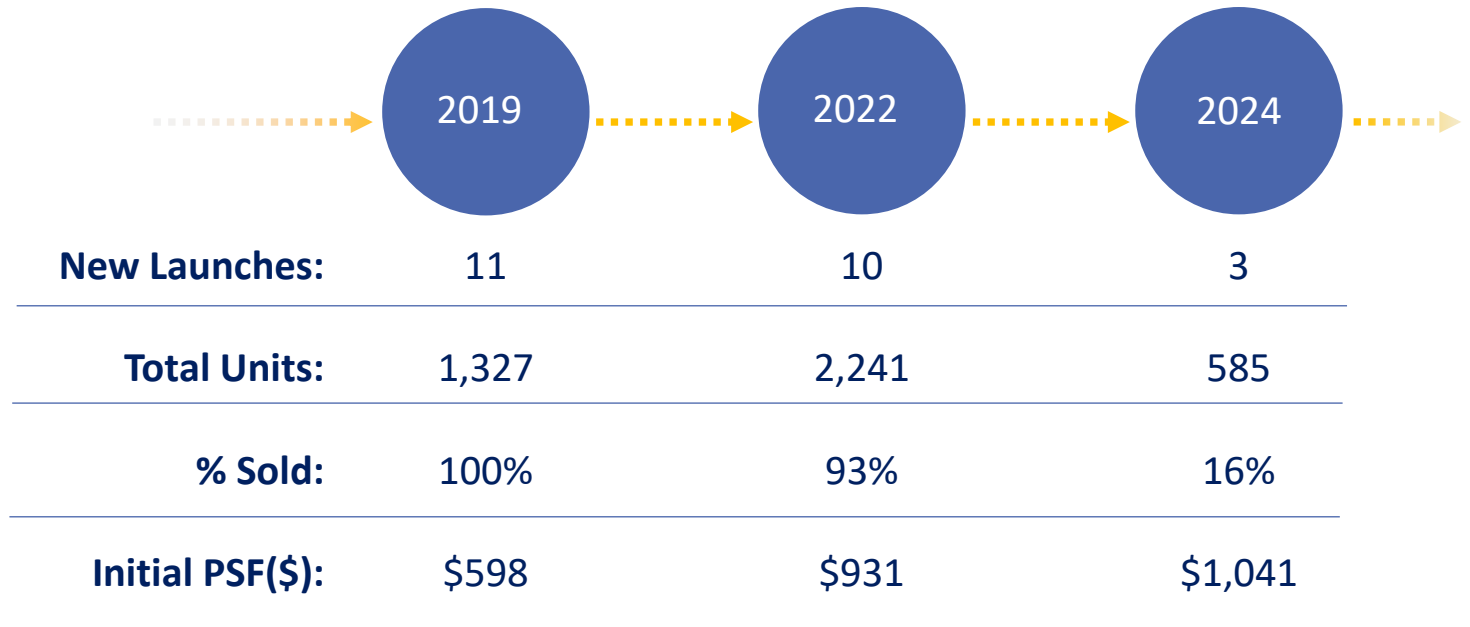
New Condominium Apartment Market

Spotlight on Condo Launch Activity

Despite average pricing trending upwards, there have been few new condominium project launches in 2024 and **no new launches in 2025**.

High initial pricing across 2024 project launches was not indicative of demand, as sales have been very slow. However, developers have been reluctant to adjust pricing for reasons related to financial viability and market confidence.

The prices being sought at recent launches reflect what is required from a pro forma standpoint to support a viable project. However, with 585 new units launched in 2024, only about 16% of these units have sold. This dynamic suggests that market demand is not currently available at pricing approaching \$1,000 per square foot.



Data source: Altus Data Studio

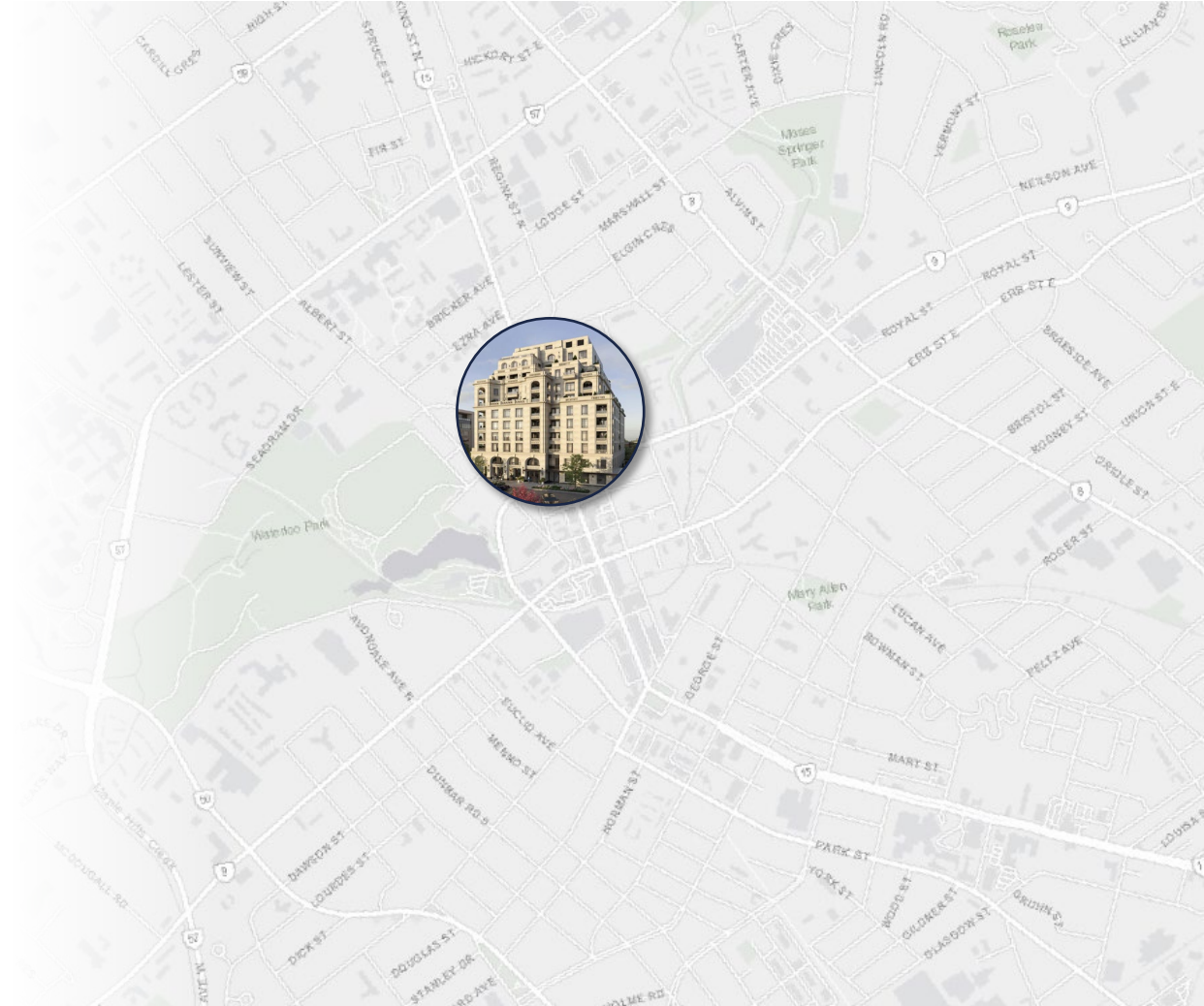
New Condominium Apartment Market

Isabella Residences is the Most Recent Launch

The most recent condominium apartment launch in KWC is Isabella Residences, located at 28 Dorset Street in Waterloo. The 11-storey, 29-unit luxury building launched in December 2024 at an average price of \$2,007 per square foot. As of August 2025, three units have sold (10%).

Given its luxury positioning high pricing, Isabella Residences skews the overall pricing averages for new condominium project launches in KWC throughout 2024.

Limited sales reflect both the elevated price point and the project's focus on end users seeking boutique, luxury product rather than investor demand which has been a key driver of sales volume in recent years.



New Condominium Apartment Market

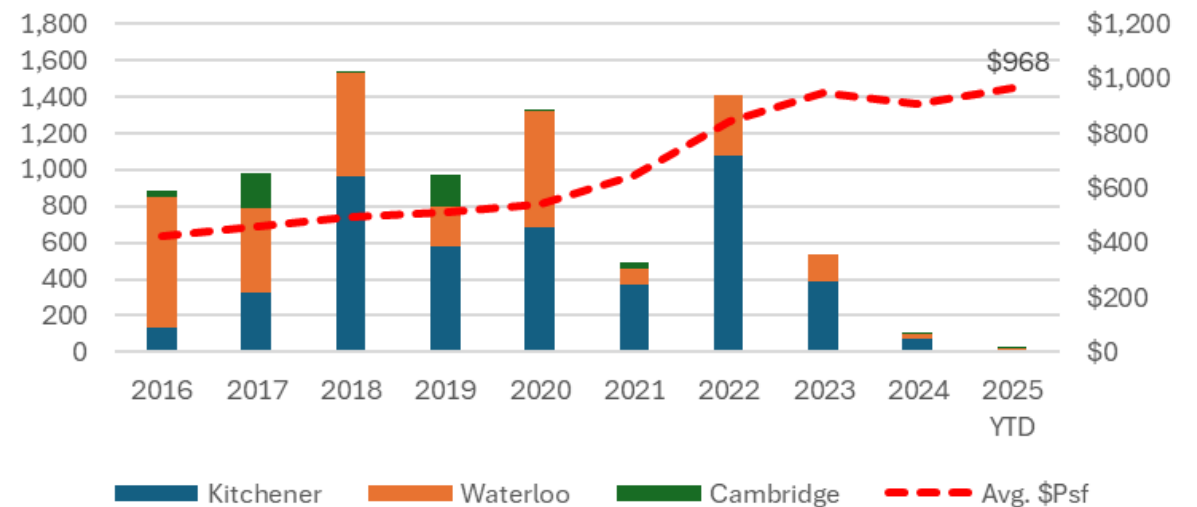
Soft Market Conditions Continue in 2025

New condominium apartment sales volumes in KWC have significantly declined since 2022, reflecting dampened demand and rising construction costs across the region. There were only 22 sales recorded during the first two quarters of 2025, well below the 10-year average of 827 sales annually.

Despite the flattened sales, pricing has still trended upwards, skewed by the most recent launches with pricing well above market expectations.

The pre-construction condominium market in KWC has been heavily reliant on investors, but rising purchase prices and carrying costs have made investment units less profitable. High purchase prices, interest rates and a glut of recent completions have put investors on the sidelines until market conditions improve.

Total Apartment Sales Vs Average PSF (\$)
KWC: 2016 to 2025 YTD



Data source: Altus Data Studio

Resale Condominium Apartment Market

Soft Market Conditions

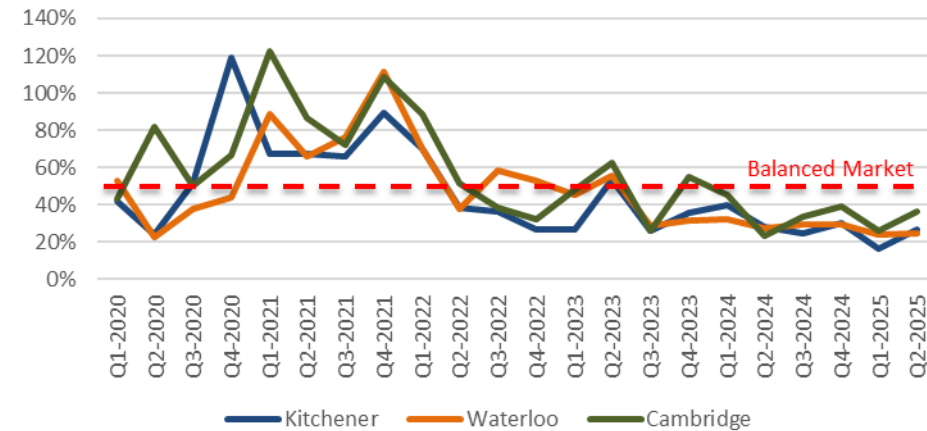
The resale apartment market in KWC peaked in early 2022, prior to monetary policy changes to curb persistent post-pandemic inflation. Following aggressive interest rate hikes, the resale market steadily declined throughout the summer of 2024 and into 2025.

During 2022, the average sales-to-new-listings ratio surged to 70-90%, but by Q3-2024, it had dropped to 30-40%, below a balanced market threshold of 50%.

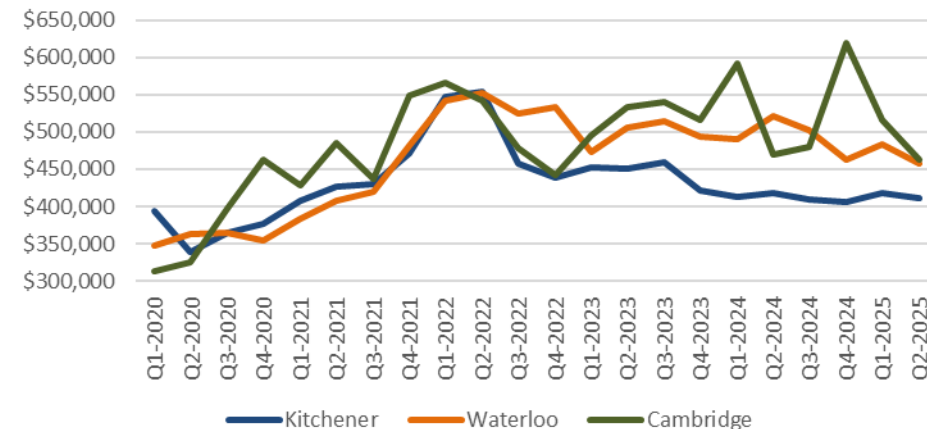
Ever since the peak in Q2-2022, resale prices have generally trended downwards, most notably in Kitchener, where the average price for resale condominium apartments fell 34% between Q2-2022 and Q2-2025.

With a large number of recent new apartment completions and softness in the resale market, there is little incentive for prospective purchasers to consider a new pre-construction unit at pricing well above that of a recently constructed resale unit.

Historical Sales-To-New-Listings
KWC: Q1-2020 to Q2-2025



Avg. Resale Price for Condominium Apartments
KWC: Q1-2020 to Q2-2025



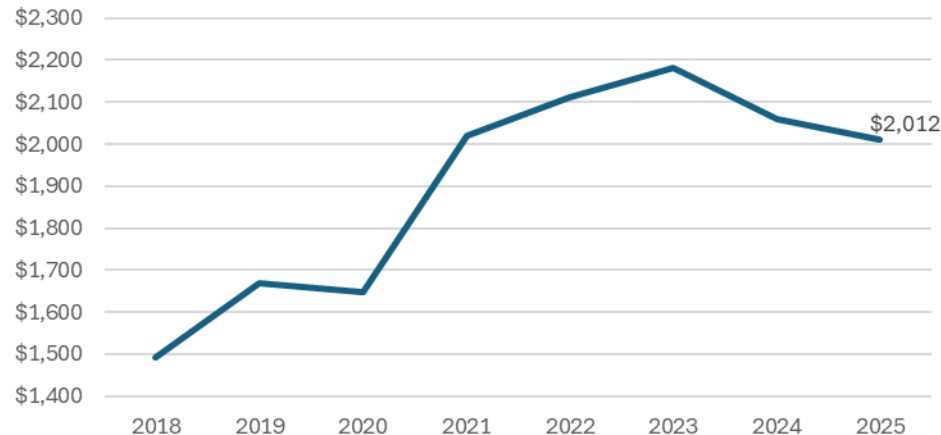
Data source: TRREB

Rental Apartment Market

Average Rents Dampened in 2024

After hitting a peak in 2023, average rents in KWC began to soften leading to Q2-2025. This softening was largely a function of record-high apartment completions during 2023 which increased supply coupled with weakened demand due to a more recent decline in international student permits.

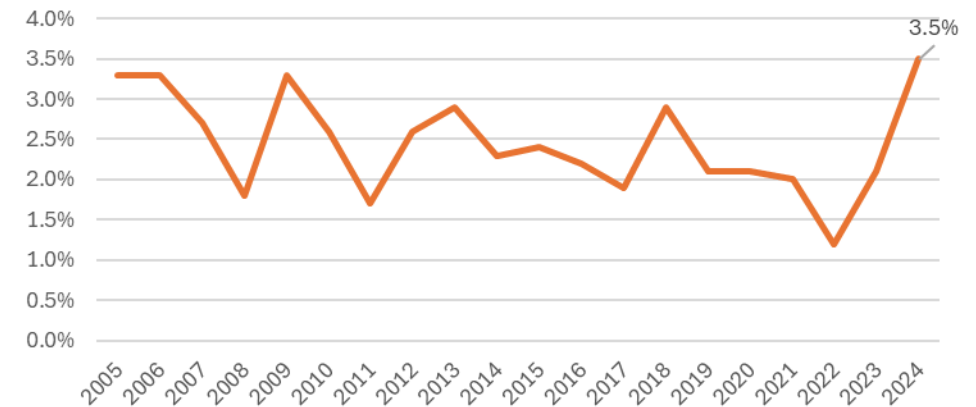
Average Private Condo Monthly Rents
KWC: 2018 to 2025 YTD



Data source: TRREB

The rental market has historically remained tight, with a vacancy rate generally below a balanced level of 3-5% between 2005 and 2024, before hitting a balanced level of 3.5% for the first time in over two decades.

Historical Purpose-Built Vacancy
KWC: 2005 to 2024



Data source: CMHC

Rental Apartment Market

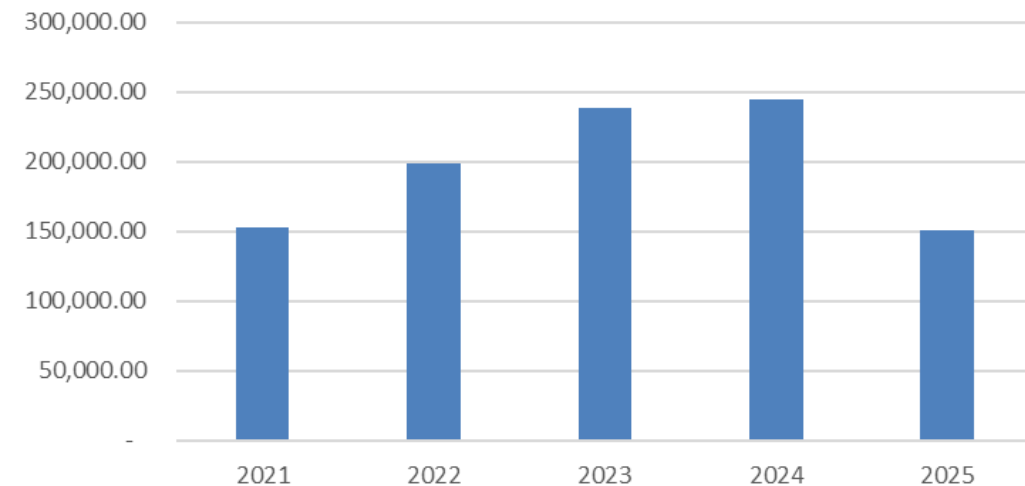
Sharp Decline in International Study Permits

Recent data shows a significant decline in Canadian international study permits. The first two quarters of 2025 totaled just over 150,000 study permit holders in Canada, a 38% decrease from 245,055 in the same period in 2024. This drop correlates with stricter financial requirements and government-imposed institutional capacity limits.

Effective January 1, 2024, study permit applicants were required to demonstrate they had \$20,635 in funds, in addition to covering their first year of tuition and travel costs. This was an increase from the previous threshold of \$10,000, which had remained unchanged since the early 2000s. The update aimed to better reflect the rising cost of living and prevent students from facing financial hardship upon arrival in Canada.

While the decline in international student permits may soften rental demand in the near term, KWC still faces tight rental market conditions. The region continues to experience population growth, relatively low vacancy rates, and sustained demand from other tenant groups, such as young professionals and domestic students.

Total Study Permit Holders
Canada: First Two Quarters, 2021 to 2025



Data source: Statistics Canada

Land Transaction Activity

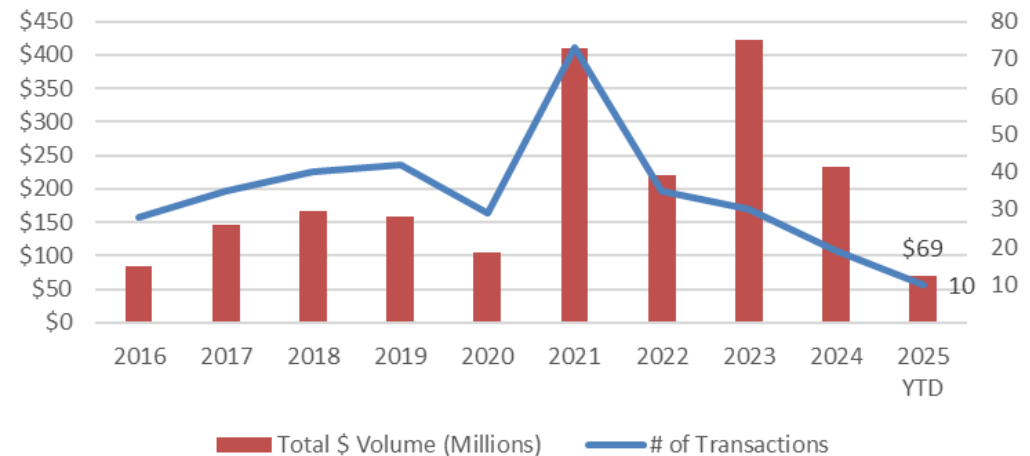
Residential Land Sale Activity Trending Downwards

The frequency of residential land transactions in KWC peaked in 2021, with 73 transactions totaling \$410 million in sales volume. Since then, market softness has led to a reduction in overall investment within the region.

As of Q2-2025, there were 10 land transactions recorded in KWC, totaling just under \$70 million in sales volume.

A general slowing in land acquisition activity reflects overall market confidence and availability of investment capital to place in new apartment developments. The eroding feasibility of most new developments has made it more difficult to acquire land at the prices that vendors would have previously commanded. From a proforma perspective, the confluence of softening demand and rising construction costs has put downward pressure on land value.

Residential Land Transactions by Year
KWC: 2016 to 2025 YTD



Data source: Altus Data Studio

Summary & IZ Implications

Kitchener-Waterloo-Cambridge

Market Summary

Challenges Affecting Today's Apartment Market

Population Growth: Kitchener-Waterloo-Cambridge (KWC) has continued to see strong population growth, largely driven by non-permanent residents. Recent Federal policy announcements related to cuts and caps to permanent and non-permanent resident targets will dampen the pace of population growth in the near term.

Development Feasibility: Rising interest rates and a 96% increase in construction costs since 2017 have significantly reduced the feasibility of new housing projects, leading to limited new launches and building permits in 2025.

Condominium Market Trends: The gap between new sales and unsold inventory continues to widen as demand remains weak. Relative affordability and choice in the resale market has eroded the attractiveness of purchasing in a pre-construction project.

Rental Market Outlook: Vacancy rates have been increasing and have reached balanced market conditions for the first time in over two decades. Rental price growth has been dampened by record-high completions in 2023 and a decrease in international student visas.



Considerations for IZ Implementation

The Economic Context has Shifted

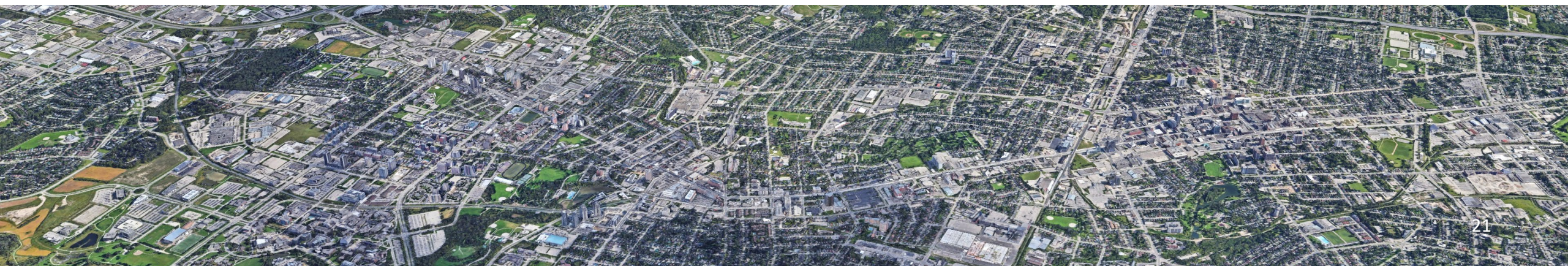
NBLC's initial IZ assessment report was completed in 2019/20, a period in which the high-density market was strengthening on a year-over-year basis and market momentum demonstrated some capacity to absorb inclusionary housing without adversely impacting market rate supply.

This updated market review reinforces that across multiple key indicators, the market and economic context for investing in new high density residential development is markedly more challenging than it was five years prior.

Unless an IZ policy was coupled with offsetting measures, the policy – which at its core substitutes market revenue with a measure of affordability – would likely delay the recovery of transit-oriented sites.

At present, there is no market rationale for reclassifying submarkets along the ION corridor given the overall dearth of actively marketing projects and land transaction activity. While the timing for market recovery is unknown, broader market fundamentals do suggest that there is likely to be a return to strength, over time.

However, we would not suggest that IZ policies be abandoned altogether. It remains critical that market participants price IZ into their investment decisions. IZ, if applied in the near term, would not be the sole reason new development projects within PMTSA areas are not proceeding. The presence of enabling overarching policy is positive in that it is a clear signal to be considered and factored in future investment decisions.



Considerations for IZ Implementation

Reframing a Policy Response

A range of policy choices remain available to reframe IZ policies within the current economic environment. Generally, it is our view that the timeline for IZ's implementation should be extended until favorable market dynamics return to the region, unless offsetting measures are introduced in the near term to allow for improved project performance.

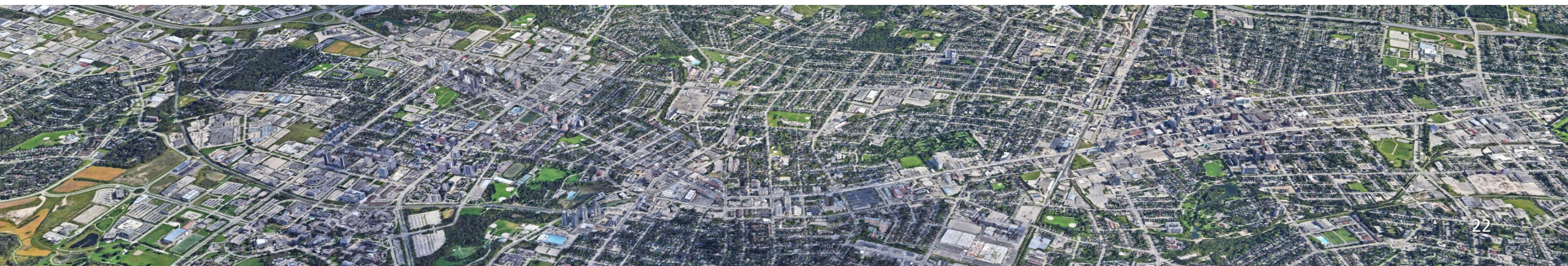
Given current market fundamentals, the granting of additional density will not be a powerful offset in the short term. We also understand the Partners have eliminated parking minimums and taken strong steps to improve development approval timelines. Offsetting measures would therefore require some form of financial incentive to offset the impact of providing affordable housing until market feasibility improves.

As the Partners look to reframe IZ policies and update supporting technical work, key high-density market indicators to monitor as part of policy planning include, among others:

- New pre-sales / pre-leasing activity
- Absorption rates and pricing
- Interest rates
- Construction costs

In monitoring market variables, it is important to note that these dynamics are interrelated. For instance, falling interest rates alone may not trigger a market rebound if hard construction costs remain elevated and population growth stagnates.

In general terms, we would look to see signals of returned market strength and viability throughout new market-rate projects in order to suggest that there might also be capacity to include below-market units. After all, without economically viable market-rate developments, affordable units cannot not be delivered via an IZ policy.



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