TOP 10 | REAL INSIGHTS | 2018 Western Canada Apartment Conference Issue 6 | ISSUE 6.0

INSIGHTS FROM INDUSTRY LEADERS DURING THE CONTENT FORMATION OF THE WESTERN CANADA APARTMENT CONFERENCE

1 TALES OF THREE MARKETS

The multi-residential markets of Vancouver, Calgary & Edmonton differ vastly from each other with respect to key market fundamentals.

2 MORE PEOPLE HAVE TO RENT IN VANCOUVER

Worsening affordability mean that more people are excluded from home ownership and are renting - pushing vacancy rates even lower.

3 EDMONTON APARTMENT VACANCY RATE STABILIZED

After three consecutive years of increasing vacancy, it was slightly down at the end of 2017.

4 NEW RENTAL STOCK ADDED IN CALGARY

Despite the addition of 5,200 new rental units in 2017, vacancy dropped significantly.

5 TECHNOLOGY A TRANSFORMATIONAL FORCE

Technology is changing the way apartments are being marketed, constructed and operated.

6 FEDS OFFER DEBT CAPITAL

$3.75B available in low cost construction loans for multi-family development.

7 CHALLENGES TO STAYING LEASED UP

Landlords have to compete for tenants with new rental stock and new condos.

8 INVESTMENT ACTIVITY UP & DOWN

Capital flows into Apartment sector strong in Vancouver and rebounding in Edmonton & Calgary.

9 MAJOR MARKETS HAVE ADOPTED INTENSIFICATION

Policies encourage mixed use development along transit lines.

10 COST SAVINGS INITIATIVES ABOUND

Necessary to adopt cost saving initiatives in a softer market.

For further details on these top trends please visit the Real Estate Forums Portal at realestateforums.com

informa exhibitions

CANADIAN REAL ESTATE FORUMS

Powered by

Altus Group

To access the Real Estate Forum portal, please visit: www.realestateforums.com

We welcome feedback. Please email: sarah.segal@informa.com

1. TALES OF THREE MARKETS

The multi-residential markets of Vancouver, Calgary & Edmonton differ vastly from each other with respect to key market fundamentals.

Growth in rents

Average rents for a 2-bedroom unit in a purpose built rental in 2017:

- $1552 in Vancouver (up 6.2% from previous year)
- $1247 in Calgary (down 1.0% from previous year)
- $1215 in Edmonton (down 1.3% from previous year)

Supply

Across Canada, the stock of purpose built rental apartments grew by only 1.2% (23,000 units) between 2016 and 2017.

- Vancouver – 630 additional units – lost approx 450 units due to renovations and demolitions.
- Edmonton – 2,500 additional units; an increase of 3.7% from 2016.
- Calgary – 1,700 additional units were added in 2017.

Demand

- Vancouver's vacancy rate was 0.9% in 2017. The third straight year vacancy was below 1.0%.
- Edmonton's vacancy rate was 7.0% in 2017. Down slightly from 7.1%.
- Calgary's vacancy rate was 6.3% in 2017. Down from 7.0% in 2016.

**All figures from CMHC*

2. MORE PEOPLE HAVE TO RENT IN VANCOUVER

Worsening affordability mean that more people are excluded from home ownership and are renting - pushing vacancy rates even lower.

According to an April 2018 RBC study, the cost of owning a home in today's market would represent 85.2% of an average household's income in Q4 2017. (Compared with 42.1% in Calgary and 27.7% in Edmonton).

Rising rents as well as municipal and provincial incentive initiatives are increasing the feasibility of purpose built rental development for example, the City of Vancouver's Rental 100 program.

The Goodman Report calculates that a total of 17,229 rental units are in various stages of development in Metro Vancouver.

- Cressey has received city approval for 477 units of rental and social housing near Olympic Village.
- Petterson Group & Concert Properties are redeveloping Langara Gardens creating an additional 2,100 rental units.
- Redbrick Properties just started construction on the first new rental building in Port Coquitlam.
- Wesgroup's 270 unit rental project in the River District will be occupied in 2018.
- Bosa Properties' 22 storey, 168 unit apartment at 1155 Thurlow Street is expected to be complete this year.

3. EDMONTON APARTMENT VACANCY RATE STABILIZED

After three consecutive years of increasing vacancy, it was slightly down at the end of 2017.

Increased demand coming immigration from outside Canada and job growth. Edmonton is a larger service market, has more institutions – school and government and so has a broader base for rental according to George Schluessel of ProCura.

Developers now poised to consider purpose built rental:

- ProCura is building its Century Park complex located on Edmonton's LRT. Its Central Tower is expected to be finished in June 2019 and at 17 stories, will have 175 units and 233 parking stalls. ProCura has a number of other rental buildings in development phase in Century Park.
- Strategic Group converting an office building into a rental apartment building with 177 one and two bedroom units.
- A portion of the Wesgroup development in the Brewery Districted will be rental residential.

4. NEW RENTAL STOCK ADDED IN CALGARY

Despite the addition of 5,200 new rental units in 2017, vacancy dropped significantly.

Vacancy rate peaked in 2016 at 7.0%, and then dropped to 6.3% by the end of 2017.

5,200 units were added to supply in 2017 of which 3,500 were investor owned. According to CREB, Calgary has approximately 18,000 condominium units out of a total of 55,000 that are rental units.

Glut of rental units has resulted in incentives and lowered rents offered by landlords.

However, with the GDP forecasted to increase by 2.2% in 2018 – growing for the first time in three years – and with a vacancy forecast for 2018 of 6.0%, some developers are becoming bullish on the Calgary Rental market.

- Strategic Group has started development on Marda in Marda Loop – a 6 floor 66 unit mixed use development
- Construction has started on The Hat @ East Village – a 28 storey, 221 unit development by Cidex & CMLC

5. TECHNOLOGY A TRANSFORMATIONAL FORCE

Technology is changing the way apartments are being marketed, constructed and operated.

Spire Landing in South Vancouver is set to become the largest multi-family building constructed to Passive House energy efficient standards to date. The six storey, 95 unit building will be completed this fall. Others are under construction or at rezoning phase, including a two-tower development at 1400 Alberni street. The developers have submitted an application for a 43 and 48 storey complex.

Passive Houses are buildings that are so energy efficient that neither furnaces nor air conditioners are needed to control climate. This technology had primarily been used in single family homes. It is only recently that it has been adopted in multi-family buildings.

New developments are implementing Cogeneration systems, which changes wasted heat energy into electricity.

Connected homes and smart IoT (Internet of Things) devices can reduce operating costs, increase security, and mitigate liability. Smart devices can sense water or fire and send alerts to mitigate damage.

Innovations such as Parcel Pending will install delivery lockers and comes with a mobile app that will notify residents of delivery.

New startups like StratIS, Dwelo, Vivint and NWP have been created to help property owners bring smart technologies into their buildings.

Landlords are using social media, especially Instagram because it is visual, to promote vacant units.

6. FEDS OFFER DEBT CAPITAL

$3.75B available in low cost construction loans for multi-family development.

CMHC's Rental Construction Financing initiative increased lending capacity for rental construction by 50.0% to $3.75B over the next three years. This initiative provides low cost loans to developers of purpose built residential rental or mixed use residential developments where residential is the primary use. In order to qualify, projects need to be energy efficient,accessible and offer affordable rents.

According to CBRE's 2017 Lender's report, "there has been a significant shift in sentiment in favour of product in Calgary and Edmonton with approximately half of lenders now showing either a strong or moderate appetite for these markets, up from a third of the responses last year."

- 33.0% of lenders exceeded their 2017 budget for lending in the apartment sector.
- 53.0% of those surveyed hope to increase their budget for lending in the apartment asset class in 2018.

7. CHALLENGES TO STAYING LEASED UP

Landlords have to compete for tenants with new rental stock and new condos.

While vacancy rates were down, the national turnover rate stood at 20 per cent, largely unchanged from October 2016.

In the soft rental environment, "incentives are working in Calgary's rental apartment market," Cynthia Jagger of HQ Commercial says. "Projects are attracting new tenants by offering up to two months free rent, free parking for a year, having pet-friendly policies and providing lifestyle amenities like bike storage and repair areas, fitness areas, media rooms, barbecue areas and even dog wash stations."

Social Media outlets such as Twitter, Instagram and Facebook allow landlords to engage with new and existing tenants, share updates and advertise vacant units.

New rental developments are being equipped with resort styled amenities including concierge services and upgraded common areas.

Approximately 68.0% of renters are millennials, a demographic that tends to be early adopters of new technology and in a 2016 survey, 86.0% say that they're willing to pay more for a smart apartment.

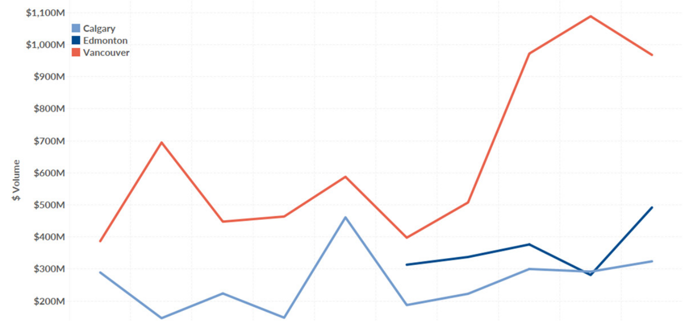
Investing in smart thermostats and lighting can increase values and are attractive to renters.

Millennials are also concerned about sustainability. Landlords that are greening their operations are attracting this renter demographic.

8. INVESTMENT ACTIVITY UP & DOWN

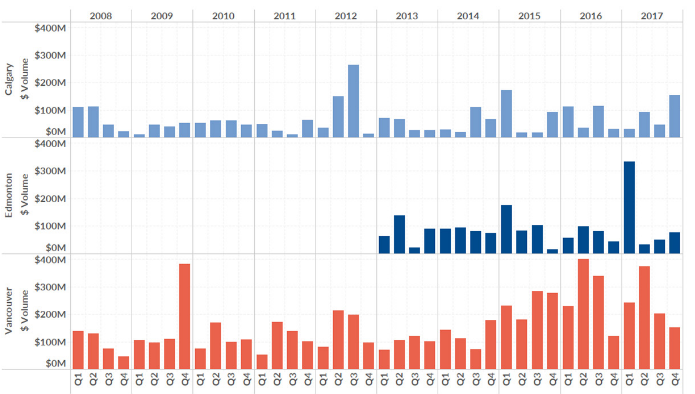
Western Canada Apartment $ Volume

Altus Group



Western Canada Apartment $ Volume

Altus Group

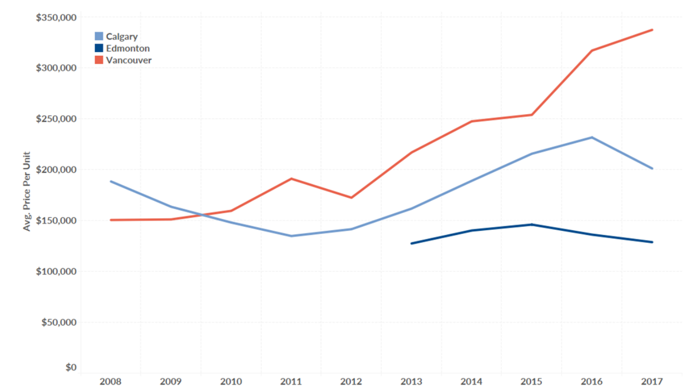


Source: Altus Group

Includes all market transactions $1M and greater in the Calgary Market Area, Edmonton Market Area & Vancouver Market Area

Western Canada Apartment Pricing

Altus Group

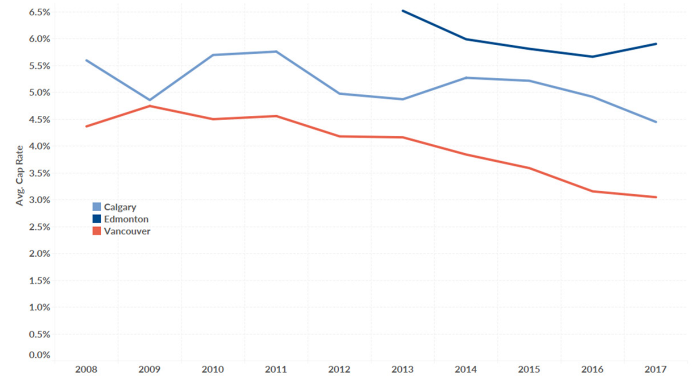


Source: Altus Group

Includes all market transactions $1M and greater in the Calgary Market Area, Edmonton Market Area & Vancouver Market Area

Western Canada Apartment Cap Rates

Altus Group



Source: Altus Group

Includes all market transactions $1M and greater in the Calgary Market Area, Edmonton Market Area & Vancouver Market Area

Capital flows into Apartment sector strong in Vancouver and rebounding in Edmonton and Calgary.

In Greater Vancouver, the total dollar volume of multi-family investment decreased by 11.0% to $968M in 2017, per the Altus Group. Fewer transactions were reported as well. The average price per suite increased to $337,029 in Greater Vancouver, up 6.0% from 2016.

- Starlight has just acquired four Vancouver apartment buildings with a total number of 456 units: 1005 Jervis Street, 1501 Haro Street, 1755 Haro Street and 150 East Keith Road.
- The total investment dollar volume of transactions was up in 2017 in Calgary. A high proportion of investment came from groups that do not have existing exposure to the local market. An increasing number of transactions in 2018 are expected to drive investment dollar volume to its highest level in three years.
- Toronto-based Timbercreek Asset Management has bought a six building, 685 unit apartment portfolio in Calgary from Har-Par Investments for $142.5M.

In Edmonton, multi-family property sales rose by 75.0% to $492M in 2017. The average price per suite declined by 5.4% to $128,615, Altus Group reports.

- Garneau Manor, a 52 unit, 9 storey apartment just sold for $11M.
- The Madison Apartment, a 202 unit apartment, sold in SE Edmonton in Q4 2017 for $38M.

9. VANCOUVER, EDMONTON AND CALGARY HAVE ALL ADOPTED INTENSIFICATION POLICIES.

Policies encourage mixed use development along transit lines.

In Vancouver, the third phase of Cambie Corridor densification plan underway. This phase of the plan projects an additional 11,500 new homes in the area and will be close to the Canada Line.

The six storey Cambie Street Rental Project by South Street Development is currently in preconstruction.

Intensification is the key point of the Housing Vancouver Strategy, which was adopted in November. It seeks the "transformation of low-density neighborhoods by increasing rental, social and ground-oriented housing across the city and increasing housing near future transit hubs and arterials, beginning with the Broadway Corridor, Nanaimo Station, 29th Station and Olympic Village Station." Infill housing will be encouraged with Laneway housing and zoning changes that will allow for multiple housing on one lot. 2/3 of the projected 72,000 new homes that will be created out of this policy will be rental.

Edmonton has adopted an Urban Land Intensification Strategy. Phase one concluded with Edmonton's Intensification Audit. In Phase two a vision will be developed to identify growth opportunity area, determine acceptable forms of growth and refine community processes to accommodate growth.

Edmonton's Evolving Infill project will support Edmonton's goal, which was set in 2010, to ensure that 25.0% of new housing should be located within mature areas and transit centres.

To date, Strategic has built four infill apartment buildings, all in established, inner-city neighborhoods, all between 50 and 100 units. They will also be looking to repurpose some of their office assets into apartments.

Areas like the Ice & Brewery districts are intensifying downtown Edmonton and are serviced by transit.

The Province of Alberta has mandated Growth Management Boards for the regions of Calgary and Edmonton in the revised Municipal Government Act. A couple of the key mandates of the board are to promote the long-term sustainability of the region and to ensure environmentally responsible land-use planning, growth management and efficient use of land. In Calgary, this is the first provincially mandated board for managing sustainable growth. It came into force on January 1, 2018.

The University District, Northland Village, North Hill shopping mall and the Stadium Shopping centres are all areas slated for redevelopment and intensification, incorporating mixed use elements and higher density housing to the projects.

10. COST SAVINGS INITIATIVES ABOUND

Necessary to adopt cost saving initiatives in a softer market

Energy savings are significant when adding smart thermostats. Tests on the Nest Learning Thermostat show an average of 12.0% savings in electricity for heating.

Likewise smart lighting and sub metering have the potential for huge cost savings.

Energy-efficiency incentives are offered by governments and utilities: Fortis BC, BC Hydro and Energy Efficient Alberta.

Leveraging big data in property management can lead to cost savings opportunities by uncovering patterns and trends from everything to energy consumption to advertising sources.