Top 10 Real

INSIGHTS

2019 Western Canada Apartment Investment Conference

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ISSUE 25

TOP 10 | REAL INSIGHTS | 2019 Western Canada Apartment Investment Conference | ISSUE 25

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

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

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1. ECONOMIC FACTORS ARE CAUSING AN INCREASE IN DEMAND FOR RENTAL HOUSING

Rising interest rates, tougher mortgage regulations and economic uncertainty are pushing demand higher for rental housing in many western cities.

Matt Danison, CEO of Rentals.ca, said the new mortgage stress test, higher interest rates and home prices have dramatically increased the number of people looking for rental accommodation this year.

"With near record-high immigration in Canada and record-low unemployment, demand for housing is high, but flat or declining resale house prices due to current and expected future credit tightening has deterred many would-be first-time home buyers from entering the ownership market. That demand overflow is being felt in the rental market, where very few Canadian markets are offsetting demand with new rental supply," added Danison.

Bob Dhillon, CEO of Mainstreet Equity, adds that rising interest rates and the new federal mortgage stress test have made it more difficult for prospective buyers to purchase homes, pushing them into the rental market instead.

In addition, many millennials are choosing to rent over purchasing a home.

"'The millennial generation and international migrants are leading this demand [on rentals]."

- James M. Cuddy, senior analyst for CMHC.

"They like the flexibility to live wherever they want, to be able to move and not worry about selling, especially in Calgary, where you've seen some decline in house prices in the last couple of years," stated Ben Meyers of Bullpen Research & Consulting.

Affordability has eroded across Calgary. "These affordability challenges are putting an increased demand on rentals," says James M. Cuddy, senior analyst for CMHC.

"The millennial generation and international migrants are leading this demand."

Edmonton's multi-suite residential market is showing signs of improvement, CMHC reports. Rental demand has accelerated as a by-product of a strong economic growth trend and the rising rate of family formation within Edmonton's younger working-age cohorts. Increased migration to the region has also contributed to the demand pressure, which was to a large extent offset by the introduction of newly built supply to the market. Rents are expected to continue to gradually stabilize during the late stages of 2018 and into 2019.

In Vancouver, CMHC forecasts that demand for rental housing will remain high in 2019. Positive net migration and the ongoing unaffordability of home ownership despite lower home prices will support strong demand.

The construction of new purpose-built rental stock will be an important step in trying to address housing affordability. Over the past decade, the amount of rental property under construction across Canada has tripled and is now on par with the construction of housing stock built for home ownership. On a percentage basis, the largest increases in purpose-built rental construction in the last decade occurred in Vancouver, followed by Ottawa and Calgary, according to PWC Emerging Trends, 2019.

2. TALE OF THREE MARKETS

There were sharp decreases in vacancy in the Calgary and Edmonton markets from October 2017 to 2018, while vacancy increased very slightly in Vancouver. Rents in each of the markets continue to grow.

Growth in Rents

Average rents for a 2-bedroom unit grew by 3.5% in Canada— higher than the rate of inflation— to an average of $1,025.

- In Vancouver, the average asking rent for a two-bedroom unit in October 2018 was $1,649 compared with $1,552 in 2017.
- In Calgary, the average two-bedroom rent was $1,272 in October 2018 compared to $1,247 in October 2017.
- In Edmonton, the average two-bedroom rent was $1,246 in October 2018 compared to $1,215 in October 2017.

Supply

- Nationally, the supply of rental units grew by 37,000 or 1.9% from the previous year.
- The number of rental apartments increased only by 793 units in 2018 in Vancouver. Over 500 units were lost due to renovations and demolitions.
- Supply in the primary rental market grew by 3.7% in Calgary. Purpose-built rental apartments increased by 1,407 units from 38,160 in October 2017 to 39,567 in October 2018.
- In Edmonton, the number of units grew by 1,638 units or 2.4%, from 67,432 in October 2017 to 69,070 in October 2018.

Demand

The number of occupied apartments across the country rose by 50,000 units in October 2018 for an increase of 2.6% over October 2017.

- Vancouver's vacancy remained tight at 1.0%. This was slightly higher than 0.9% in 2017.
- Calgary's vacancy rate decreased drastically to 3.9% in 2018, down from 6.3% in 2017.
- Edmonton's vacancy rate was 5.3% in 2018, down significantly from 7.0% the year before.

* All figures from CMHC

Average rents for a 2-bedroom

	October 2017	October 2018
Vancouver	$1,552	$1,649
Calgary	$1,247	$1,272
Edmonton	$1,215	$1,246

3. CAPITAL FLOWING INTO THE MULTI-FAMILY SECTOR

REITs active in acquiring properties that were held by private investors.

Vancouver

Close to $3 B worth of purpose-built rental properties changed hands in Greater Vancouver last year, according to the numbers crunched by the Goodman team at HQ Commercial.

The sum represents a 37% increase from last year, even though the number of properties changing hands totalled 155, just five more than in 2017. The average price per suite increased by 23%, to $530,401.

Edgar Development Corp. picked up Woodland Park located at 1030 Cecile Drive in Port Moody for $97.5 M in December, or $487,500 per unit.

Starlight bought Somerset Manor, a 35-unit low rise apartment building at 5600 Dalhousie for $20 M and Colonia House at 5459 University Boulevard for $14.2 M.

Realstar Group acquired Wesley Place on Nelson Street in downtown Vancouver in a share sale transaction for $130 M. The 200-unit building was constructed in 2002.

Edmonton

Investment demand outstripped the supply of GEA multi-unit residential retail properties available for acquisition in 2018. Morguard reports that this imbalance was reflected in the relatively low volume of transactions that was recorded especially in the first half of 2018.

ProCura announced in March that it was putting “The Mayfair on Jasper” on the block. The newly constructed building is 98% occupied, has high-speed Internet, smart key entry, and a parcel pending package management system. The Mayfair is pet-friendly, and its amenities include two rooftop parks, a fitness centre and a concierge service.

An 88-unit low rise apartment in Ermineskin on 104th Street NW sold to a private investor, KAI Asset Management, for just under $23 M. The 4-storey wood frame building was constructed in 2018.

The sale of the Delton Townhome complex in Edmonton closed in January for $43.5 M to Avenue Living, another private investor.

Skyline REIT acquired the Portofino Suites on Ellerslie Road SW for $55.9 M. The 240-suite complex was constructed in 2017 and sold by Abbey Lane Homes.

Edgar Development Corp. sold The Hendrix at 9733 111 St to GWL in November for $96.1 M. The 260 units building was completed in 2017.

The Vibe (10620 116 St.), a 176-unit apartment block built by Carrington in 2017, sold in September for $47 million to Killam Apartment REIT.

The Pinnacle, Panorama, Avalon and Edgehill apartment towers have all recently changed hands, from family-held companies to national real estate investors or their agents.

“Family-owned properties held for assured, long-term income are now being sold,” says Apogee Commercial Realty’s Ari Bernstein. “It’s an opportune time, given the high prices per door and the proper sales terms. Prices are so good (because of institutional interest) that more buildings are coming on the market.”

Calgary

Calgary’s multi-family market saw about $260 M in investment in 2018, comparing favourably over the past few years according to JLL.

Minto REIT acquired The Quarters on Quarry Way SE from Remington Development Corp for $63.75 M at the beginning of the year. The 199-suite complex was constructed in 2015.

Starlight picked up a couple of buildings from Timbercreek for a total of $37 M.

Boardwalk REIT has acquired a 299-unit portfolio in Calgary for $66.5 M. The four-building portfolio includes Dorsett Square, Randal House, Beddington Court and Village Vale.

“Three of the four assets are located in close proximity to existing Boardwalk communities, representing an opportunity to achieve significant operating efficiency,” said Boardwalk in a Q3 press release.

“This acquisition is anticipated to be immediately accretive and create significant net asset value once optimized. This is an example of an opportunistic acquisition within our core market which provides growth and a value-add opportunity in the early stages of a rental market improvement in Alberta,” said Sam Kolias, chairman and chief executive officer of Boardwalk REIT.

In Q4 2018, Mainstreet Equity Corp. spent $35.7 M buying seven apartment buildings, including five in Calgary. The per-door cost of Calgary apartment blocks, all low-level, mid-market properties, ranged from $126,700 to $162,500, the company reports.

Mainstreet owns or manages more than 12,000 rental apartments, 55 per cent of them in Alberta, including 2,182 units in Calgary and 4,284 units in Edmonton.

4. A BEVY OF NEW CONSTRUCTION IS BEING PROPOSED FOR EACH OF THE THREE MARKETS.

Vancouver leads the way with the number of new multi-residential properties that are being proposed.

Edmonton

A 38-meter mixed-use building is proposed for 10344 Jasper Ave, right next to the historic Birks building. It will offer up to four units of retail space on the main floor and basement, with 34 residential units above. The residential units will either be condo or apartment. According to the design firm Holo-Blok, who was brought on by the current property owner Oliver O’Connor, there will be two different layouts, one 600 sq. ft. and a larger 900 sq. ft. unit.

John Day Developments, Pangman Development Corporation, and Maclab Development Group have submitted a proposal to develop the former Edmonton Motors site at 108 Street & Jasper. The development proposes a mix of condo and rental units in two buildings— 45 storeys and 35 storeys with a 12-storey podium between the two high-rises. The buildings will contain a mixture of rental and condo units and retail on the bottom levels.

Calgary

Calgary-based Battistella Developments is building a 19-storey tower in the Beltline. The 177 condos are being marketed to investors. The building “Nude” sold 20 condos in the first month of marketing. It is slated for completion in 2021.

“We are bullish on the Calgary rental market,” Chris Pollen, Battistella’s Director of Sales and Marketing, told Western Investor in November. He explained that the rental vacancy rate in the Beltline is closer to 3% and that recent new concrete rental towers in the zone are fully tenanted. Unlike BC, Alberta has no foreign-buyer tax, no speculation tax and no rent controls.

Vancouver

GWL Realty Advisors has just broken ground on a 21-storey market rental tower at 1500 Robson Street in Vancouver. A third of the building will be made up of 2- and 3-bedroom units suitable for families. High-level indoor and outdoor amenities such as fitness, yoga and lounge rooms, as well as a rooftop patio has been incorporated into the building’s design. The entire penthouse floor of the tower has been set aside as a common area for all tenants. The building will also be pet and cyclist friendly and is expected to be finished in early 2021.

A new proposal has been submitted to redevelop an old Denny's restaurant on the SW corner of West Broadway and Birch Street. The latest proposal, designed by IBI Group, calls for an increase in height from 159 ft with 17 storeys to 274 ft with 28 storeys.

The previous 17-storey proposal had 158 market rental homes, including 63 family-sized homes with two or more bedrooms. The new design with 28 storeys would substantially increase the total number of secured rental homes to 262 units. This includes 209 market rental homes, plus the introduction of an additional 53 homes under the city's Moderate Income Rental Housing Pilot Program (MIRHPP), which sets rents at significantly reduced levels.

Three new non-market rental projects are about to break ground in Coquitlam, with help from provincial funds and money from the city's affordable housing reserve and incentives, such as reduced parking and higher density.

- The Concert Properties will get $10 M in provincial funding for their 551 Emerson Street development. The rental project will see the construction of 100 affordable units in a 200-unit tower, with rents tied to income for seniors, families and people with disabilities. The remaining units will be rented at market rates.
- At 2905 Glen Dr., the Community Land Trust, the real estate arm of the Co-operative Housing Federation of B.C., will receive $13.1 M to build 131 units for families at the site of the Hoy Creek Housing Co-op.
- At 3100 Ozada Ave., the Affordable Housing Societies has received $7 M to build 70 units of affordable housing in an apartment building on side of the site, which has a number of rental townhomes on the property.

Coquitlam has 4,000 purpose-built rental units in the works, approximately a quarter of which are earmarked as non-market rentals.

More than half of the top commercial and multi-family firm expect originations to increase in 2019. When forecasting just their own firm's originations, nearly 38% expect to see an increase of 5% or more in 2019

5. MULTI-RES A PREFERRED ASSET CLASS AMONG LENDERS AT THIS POINT IN THE CYCLE

Lenders finding a shortage of quality product and are left with dry powder.

CBRE Lender's Survey 2018 revealed that unregulated capital will attempt to fill the void left by more selective domestic banks.

Private debt, foreign banks and life insurance companies are expected to offer greater competition in the lending market in 2019.

According to the Mortgage Bankers Association's 2019 Commercial Real Estate Finance Outlook Survey, commercial and multi-family mortgage originators in the US expect 2019 to be another strong year in lending activity.

More than half of the top commercial and multi-family firm expect originations to increase in 2019. When forecasting just their own firm's originations, nearly 38% expect to see an increase of 5% or more in 2019.

CBRE's most recent lender's survey revealed that:

- 53.3% of respondents plan to increase their lending allocations to real estate in 2019.
- 46.7% of lenders are planning to deploy 10% of net new capital to real estate next year.

Institutions remain meaningfully under-invested in real estate, according to Hodes Weill & Associates' and Cornell University's sixth annual Institutional Real Estate Associations Monitor.

At this late stage in the cycle, lenders typically allocate capital toward assets offering revenue growth. As such, the assets in highest demand are industrial, multi-family and seniors housing properties.

46.7% of the lenders that were surveyed intend to increase their budgets for multi-family residential.

Lenders' flight to quality also had a noticeable impact on their ability to meet budget requirements this past year. As more participants pursued a smaller pool of loans backed by quality assets, 20.3% of applicable lenders reported coming in below budget plans in 2018, up from 13.0% of respondents in 2017, CBRE reported.

Furthermore, 83.3% of active apartment lenders met or exceeded their apartment budgets this year, more than any other real estate asset class.

13.3% of those surveyed had a strong appetite to lend in the Calgary and Edmonton markets, while 60% had a strong appetite to lend in the Vancouver market.

16.7% of lenders said that there were planning to increase their 2019 budget in Alberta.

In addition to the varied sources of capital in the marketplace, the CMHC has a total of $3.75 B in available rental construction financing. As part of the National Housing Strategy, these funds are available across the country to encourage the construction of over 14,000 new rental units.

A recipient of these funds is Cressey Development Group. The Feds have contributed $40.2 M to one of their developments in Vancouver's East Side called The Conrad. The rental development that will contain 115 units and over 60% of the units will be rented at rents below 30% of Vancouver's median household income.

Overall, debt capital remains available and lenders continue to be competitive. Less established groups without a track record, however, may experience more difficulty in acquiring credit according to the fourth quarter 2018 REALPAC / FPL Canadian Real Estate Sentiment Survey.

6. LOCATION PARAMOUNT TO RENTERS

As almost 30% of renters do not own a vehicle, the location of their home is of huge importance.

While 49.1% drive to work, 40% either take public transit or walk. Therefore, location is a very important consideration when choosing a home to rent.

In fact, 19.2% of those surveyed indicated that they wanted to live in the same neighbourhood but it was too expensive to buy.

28.7% of renters 60 years old and older say that the main reason they stay in their current rental unit is the location. This percentage drops to 22.6 of those 30 and under.

The three most important factors when deciding to sign a lease are: price (50.6%), location (18.4%) and building quality (13.8%).

Proximity to a grocery store, park/outdoor space and public transit were the top three locational preferences followed closely by living near place of work.

Because such a large percentage of renters do not own a vehicle, access to car sharing and a designated Uber/Lyft drop off area are becoming increasingly important.

In 2017, 17% of respondents indicated that a designated Uber drop off/pick up area was important. In 2018, 29.1% said that it was either important or nice to have.

Car sharing services are also becoming more important with 23.2% saying that it was nice to have, or an essential service offered by their building. What's more, 11.1% said that they would be willing to pay more rent for such a service.

7. EMBRACING TECHNOLOGY AND NEW TRENDS CRITICAL TO COMPETING WITH NEW BUILDINGS.

Start-ups are helping landlords modernize operations to appeal to potential tenants.

RentMoola has launched its next generation pre-authorized debit payments (PAD) solution designed specifically for the property management industry. In partnership with BMO Financial Group (BMO), RM PAD+ digitizes the pre-authorized debit enrolment for monthly rent payments. The paperless solution eliminates the need for forms and void cheques. It works with any Canadian banking partner and allows the tenant to pay with any payment method, from anywhere. This platform is being used by such companies as Bentall Kennedy, Killam Apartment REIT and MetCap Living.

Blackstone has enlisted the help of a start-up company Jetty, to help attract renters to the 11,250-unit Stuy Town, which it acquired in 2015 with Ivanhoé Cambridge.

Jetty offers a three-in-one product to apartment applicants— Jetty Renters Insurance; Jetty Passport Deposit, which essentially gives renters the option to replace the expensive security deposit with a cheaper, one-time payment to Jetty; and Jetty Passport Lease, in which Jetty will serve as guarantor for applicants who need it.

Jetty CEO Mike Rudoy, said the purpose of the company is to make buildings more attractive by being more accessible to the average renter.

Stuy Town's property management firm, StuyTown Property Services, now uses Jetty's product as a marketing tool to attract and quickly secure prospective renters.

In the Harvard Business Review, Dell and Intel co-sponsored a piece that states, "the rapid introduction of new IoT solutions allows building operators to make their properties smarter without having to undergo costly retrofits."

Wi-Fi is being used to bring intelligent building systems to older apartments. "We are looking more and more into wireless technologies and putting infrastructure into the cloud as much as possible for storage and data management," said Anil Ahuja, President of CCJM. "Wireless technologies are also the key to making the built environment of 'dumb buildings' more smart [because] we don't have to open up the floors and the walls [to update infrastructure]."

Amazon's share of the retail shopping sector will continue to grow in 2019 and tenants will need a way of accepting packages. Many apartments are installing smart lockers which will allow them to pick up their parcels whenever they can. Tenants will soon see secure package delivery as a necessity not an optional amenity and will be a way to compete with newer buildings.

Arizona-based CheckpointID is one of the fastest growing start-up companies in the multi-family space. Having received $1.5 M in Series A funding from by RET Ventures, CheckpointID, is an identity verification company that is aiming to put an end to rental fraud. "Three percent of all apartment tours begin with a forged ID, which allows potential renters to hide everything from bad credit to a criminal history," CEO Terry Slattery says. By matching thousands of lines of code against government databases at machine speed, CheckpointID can immediately detect inaccuracies in a potential renter's documentation and alert multi-family operators of the forged credentials.

> "the rapid introduction of new IoT solutions allows building operators to make their properties smarter without having to undergo costly retrofits."

8. RENTAL APARTMENTS BECOMING AN INTEGRAL PART OF MIXED-USE AND TOD DEVELOPMENTS

Responding to demand and government incentive, more mixed-use and transit-oriented developments are incorporating a multi-residential component into the mix.

Calgary

Calgary's East Village is 10 years into a 20-year development plan. Since 2007, Calgary Municipal Lands Corporation has committed $396 M into infrastructure and development programs and has attracted nearly $3 B of planned development so far. East Village includes the New Central Library, the 9th Avenue SE Parkade & Innovation Centre. RioCan Investment Trust and Bosa Development are partnering to develop two new residential towers at 6 Avenue and 3 Street SE, which will be anchored by a full-sized Loblaws City Market, as well as other retail tenants.

The village will also be home to Cidex's Hat @ East Village, a 28-storey mixed-use tower with ground floor daycare, retail and 221 residential units. The $115 M project will be the first residential rental development in the newly revitalized East Village.

Edmonton

Construction is slated for completion in Summer 2020 on Pangman Development's Augustana, a mixed-use development consisting of a 30-storey apartment building, with 240 apartment units for lease ranging from studios to 3-bedrooms. The building, which is nearby the Alberta Legislature, will also incorporate 6,400 sq. ft. of commercial space on the ground floor.

The mixed-use development that is proposed for the former Edmonton Motors site will also contain a rental component within the residential towers that are being planned for the site.

Vancouver

A significant mixed-use redevelopment is coming to the large 5.1-acre property at the southwest corner of No. 3 Road and Alderbridge Way in Richmond– across the street from the Canada Line's Lansdowne Station. The 'Atmosphere' complex will contain seven buildings totalling 932,000 sq. ft., including 650,000 sq. ft. of residential space, with a mix of market, rental, and affordable housing options. Up to 1,800 residences will be built.

As well, the project calls for 65,000 sq. ft. of tech hub space, an 80,000 sq. ft. office building, and 60,000 sq. ft. of ground-floor retail. This will be one of South Street Development Group's largest projects to date.

The Amazing Brentwood is a 28-acre master planned community in Burnaby that is being developed by Shape. Serviced by the Skytrain, it will feature 1.1 M sq. ft. of retail, office, and 11 residential towers containing 6,000 units, including 300 rental homes, which will be available in Tower ONE in early 2019.

The Oakridge Centre is a multi-phased 29-acre redevelopment that includes a renovated Oakridge Centre Shopping mall. It is located by Canada Line's Oakridge - 41st Avenue Station, which is getting major upgrades. Once complete, the centre, which is owned by QuadReal, will contain:

- 1 M sq. ft. of retail space within indoor and outdoor environments, doubling the amount of retail space currently found at the mall. Three anchor tenants are planned.
- 2,600 homes for about 6,000 residents, including 290 units of rental housing and 290 units of social housing.
- 500,000 sq. ft. of tech-oriented office space, creating enough workspace for up to 3,000 people.
- A 100,000 sq. ft. culinary centre, including a 50,000 sq. ft. new-concept food court
- A 100,000 sq. ft. civic centre with a new public library
- 9-acre rooftop public park

The Housing Vancouver strategy (2018-2027) which promotes the development of 72,000 affordable homes, including 24,000 purpose-built rentals, appears to have been contributing to increasing the number of rental units being built in Vancouver.

9. ALBERTA'S CURRENT ECONOMIC FORCES RESULTING IN A HIGHER DEMAND FOR MULTI-RES

The effects of low oil prices have impacted all areas of the provincial economy, including real estate.

Alberta Premier Rachel Notley has announced a temporary 8.7% oil production cut, or decrease of 325,000 barrels a day, starting Jan. 1, 2019. The daily cuts will remain in place until the 35 million barrels of processed oil currently in storage is shipped to market, likely by the Spring.

The government estimates Alberta is losing $80 M a day due to this discount. The measures are expected to narrow the gap by $4 US per barrel and contribute an additional $1.1 B to the Alberta treasury by the fiscal year ending in 2020.

Enbridge announced this month that the completion of its Line 3 expansion, which had been expected to start operations by the end of 2019, has been delayed until 2020 H2.

A lack of pipeline space has been blamed for a glut of Canadian oil, leading to steep price discounts, production curtailments and pro-pipeline protests.

The median home price in Calgary is expected to decrease by 2.3% to an aggregate price of $473,104 at the end of 2019. Persistently weak oil prices have continued to weigh on the real estate market resulting in lower consumer confidence. Reduced affordability from recent interest rate hikes and the 2018 OSFI mortgage regulations are expected to continue to negatively impact price appreciation and sales activity in 2019, according to the Royal LePage Market Survey Forecast.

While the oil sector is the most significant economic factor in the region, there are some positive trends emerging that are supportive of stable home price appreciation. The City of Calgary reported positive in-migration in 2018, which is a reversal from previous years as workers left for employment in other provinces.

The RLP survey reports that the median home price in Edmonton is forecast to decrease by 1.9% to an aggregate price of $378,691 at the end of 2019. "As with Calgary, the effects of low oil prices have impacted all areas of the provincial economy, including real estate. Jobs related to all streams of oil extraction, transportation and distribution are being cut, reducing confidence in the real estate market," the survey states.

Persistently weak oil prices have continued to weigh on the real estate market resulting in lower consumer confidence

Tom Shearer, broker and owner of Royal LePage Noralta Real Estate, said that the new mortgage stress test rules reduced buyers' purchasing power by about $100,000 in Edmonton.

The drag on the home prices, decrease in purchasing power and general economic uncertainty is moving more people into the rental market.

The relatively stronger demand for rentals and declining apartment inventories helped move Edmonton towards more balanced conditions, however rising inventory levels in other segments of the ownership market persist due to a lack of growth in inflation-adjusted personal disposable income, according to CMHC.

Calgary continues to deal with elevated inventory levels because of reduced affordability from the slow economic recovery, CMHC reports. However, the rental market has seen some support as shifting demand towards rentals helped absorb purpose-built and investor-owned rental units.

Caution is also visible in the province's resale housing market, where market conditions have continued to slacken. Housing demand should reach a more solid footing in 2020, though some further downward price pressures are anticipated.

Despite the challenging growth environment, the recent 2019 Capital Repair and Expenditures Survey showed a strong increase in manufacturing investment intentions, led by chemicals manufacturing. The province's Petrochemical Diversification Plan has also resulted in final investment decisions for large capital projects, which should provide a boost to both non-residential construction and manufacturing activity, TD reports in their provincial economic forecast.

10. BC RENT CONTROL – BAD ECONOMICS, GOOD POLITICS?

New rent control measures implemented by the province of BC not likely to solve housing scarcity.

In September the provincial government scrapped the existing rental increase formula from the cost of inflation plus 2% to the cost of inflation only. The 2019 allowable rent increase would have been 4.5% — the biggest allowable increase since 2004.

"That's just not acceptable," said Premier John Horgan. "We're looking at a million and a half renters facing a 4.5% rent increase when their wages haven't increased even close to that."

Landlords can apply for an additional increase on top of the inflation rate, but they need to prove that the allowable increase would not cover maintenance and other costs.

Landlord BC conducted a recent analysis of the costs — including property taxes, insurance, repairs and maintenance — to operate a 1970s-era mid-sized building in Metro Vancouver. It found operating costs increased at the building 7.6% per year between 2009 and 2018.

BC's rental housing task force presented 23 recommendations to the government in December. One of the recommendations was stopping renovictions. They also recommended doing away with rental restrictions and enable all strata owners the ability to rent out their units.

The task force also recommended keeping the current system of tying rent increases to the tenant, rather than to the home. This means landlords would still be permitted to raise their rents above the annual allowable increase when the current tenant moves out.

A recent study out of Stanford University finds that San Francisco rent control resulted in a 15% decline in rental housing supply and an actual 5.1% city-wide rent increase.

Tsur Somerville, an economist with UBC's Sauder School of business, said capping the annual rent increase is good for current renters, but bad in the long run because, he said, it would limit future rental supply. Somerville believes a more efficient policy would be no rent control, combined with government-provided rent subsidies to people with fixed or lower incomes.

Construction of rental housing in the city reached its highest level in 30 years in 2018, with 3,433 units of market and non-market rental housing started. This represented 53% of the regional total of 6,425 starts. Five years ago, that proportion was 38%.

It remains to be seen if an allowable rental increase of 2.5% will affect the development of new purpose-built rentals going forward.

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