# Canada National Multifamily Update

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# What's inside?


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# Introduction

Canada's multifamily market has long been defined by tight vacancy rates. The rental pool consists of young professionals starting their careers, new immigrants and students, both domestic and international, as well as those that are unable to purchase due to booming housing prices. The coronavirus pandemic has changed everything.

For the most part, many of the economic and demographic trends that have occurred as a result of the pandemic are having an outsized impact on the multifamily rental market. At the start of the pandemic, approximately 3 million Canadians lost their jobs. Predominantly impacting younger and lower income Canadians, these job losses have resulted in those affected being unable to afford to buy homes. Household formation has slowed and even decreased in some regions, as Canadians delay weddings and having children, as well as moving back in with their parents or "doubling up" with roommates to either save money or make ends meet due to job losses and underemployment. The all-important immigration flow has essentially dried up, as fewer people were able or willing to move to Canada during the pandemic.

This has also impacted foreign students who are staying at home despite studying online at Canadian universities, and university students in general who decided not to rent during the 2020/2021 school year given their classes were mostly online.

## At a glance

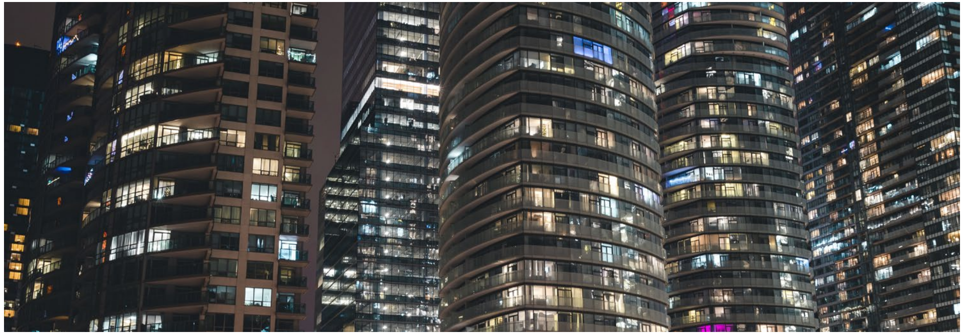
Demand slowed in 2020 due to limited immigration, virtual students, young professionals moving back home and or buying homes, and downtown entertainment-oriented tenants losing jobs.

Turnover is down as mobility decreased during the pandemic, limiting uplift on rents. Expect turnover to increase later this year and next.

Some landlords being squeezed by deferred capital expenditures combined with rent control and rent control-like freezes during the pandemic.

Outlook is positive with demand improving due to immigration, students and downtown entertainment-oriented tenants returning.

# Introduction



Many of the changes seen in 2020 are temporary. Immigration flow, university students, and workers in the entertainment and restaurant and bar sectors will come back as early as the second half of 2021, however, young professionals are a different story. Young professionals who have flocked to downtowns across the country over the years to be closer to the office and the downtown amenities started moving further out and even back home with their parents to get more space or save money. The allure of paying high rent for limited space downtown to be closer to an office they were not going to and closed amenities did not seem to make sense during the pandemic. Although many young professionals will undoubtedly return to downtowns, many have also taken the money they were able to save up to buy downtown condos. Furthermore, the ones who were looking for more space may have found it when they purchased homes in the suburbs. Ultimately, a larger than normal portion of the young professional renter pool transitioned to ownership in the last year, leaving a dent in multifamily rental demand.

These trends have negatively impacted rental demand for multifamily real estate, driving up vacancy rates across the country, but specifically in downtown markets. The good news is that for most purpose-built multifamily assets in more markets across the country we could not have entered a downturn in better shape. So what does all this mean for the multifamily markets across Canada, and what
is the outlook for this sector?

# Multifamily Metrics

Despite the negative impacts on the rental demand side for the multifamily sector and the fact that vacancy rates across the country have increased, rental rates continued to increase as well. In fact, the national average vacancy rate increased from 2.3% in October 2019 to 3.1% in October 2020, and over the same period the average rent increased by $48 year-over-year, or 4.6%, to $1,097 per unit in October 2020.

Despite this seemingly mild impact on the multifamily market, some markets experienced a much more dramatic increase in vacancy, with Calgary and Edmonton up 260 bps year-over-year to 6.6% and 230 bps to 7.2%, respectively, while at the same time experiencing rent growth, albeit the slowest amongst major markets. Of the markets tracked, only Hamilton, Ontario and Regina experienced falling vacancy rates, down 30 basis points (bps) year-over-year to 3.5% and 10 bps to 7.5%, respectively. Furthermore, despite rent growth continuing, many landlords, specifically for new builds, were offering significant incentives to new tenants, from free rent periods to electronics. As rental demand resumes, these incentives are coming off the table.

## Canada

| Rents | | | | | |
|---|---|---|---|---|---|
| | Studio | 1-Bdrm | 2-Bdrm | 3-Bdrm | Avg. |
| Oct. 2020 | **$865** | **$1,046** | **$1,128** | **$1,255** | **$1,097** |
| YoY Change | **5.5%** | **4.6%** | **4.4%** | **4.7%** | **4.6%** |

| Vacancy | | | | | |
|---|---|---|---|---|---|
| | Studio | 1-Bdrm | 2-Bdrm | 3-Bdrm | Avg. |
| Oct. 2020 | **4.6%** | **3.5%** | **2.8%** | **2.6%** | **3.1%** |
| YoY Change | **160 bps** | **120 bps** | **60 bps** | **80 bps** | **80 bps** |

# Multifamily Metrics

| Market | | Rents | | | | | Vacancy | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Studio | 1-Bdrm | 2-Bdrm | 3-Bdrm | Avg. | Studio | 1-Bdrm | 2-Bdrm | 3-Bdrm | Avg. |
| **Victoria** | Oct. 2020 | $1,015 | $1,185 | $1,507 | $1,758 | $1,275 | 2.1% | 2.1% | 2.4% | 0.9% | 2.2% |
| | YoY Change | 5.4% | 5.2% | 4.1% | 1.3% | 4.6% | 100 bps | 120 bps | 130 bps | 20 bps | 120 bps |
| **Vancouver** | Oct. 2020 | $1,258 | $1,415 | $1,792 | $2,206 | $1,508 | 2.9% | 2.5% | 2.7% | 3.6% | 2.6% |
| | YoY Change | 2.6% | 2.5% | 4.8% | 7.3% | 2.9% | 220 bps | 150 bps | 120 bps | 230 bps | 150 bps |
| **Edmonton** | Oct. 2020 | $881 | $1,031 | $1,272 | $1,385 | $1,153 | 8.2% | 6.9% | 7.4% | 5.8% | 7.2% |
| | YoY Change | 0.1% | 0.2% | 1.2% | -0.7% | 0.8% | 320 bps | 200 bps | 240 bps | 110 bps | 230 bps |
| **Calgary** | Oct. 2020 | $883 | $1,087 | $1,323 | $1,296 | $1,195 | 5.9% | 6.8% | 6.3% | 7.3% | 6.6% |
| | YoY Change | -1.7% | 0.7% | 1.4% | 2.7% | 1.3% | 340 bps | 330 bps | 190 bps | 280 bps | 260 bps |
| **Saskatoon** | Oct. 2020 | $729 | $957 | $1,166 | $1,287 | $1,078 | 5.0% | 5.3% | 6.5% | 3.9% | 5.9% |
| | YoY Change | 0.7% | 2.7% | 3.3% | 0.3% | 2.9% | -100 bps | 0 bps | 60 bps | -70 bps | 30 bps |
| **Regina** | Oct. 2020 | $757 | $949 | $1,152 | $1,332 | $1,061 | 9.8% | 8.3% | 7.0% | 4.7% | 7.5% |
| | YoY Change | 7.2% | 1.5% | 2.1% | 5.9% | 1.8% | -200 bps | -140 bps | 80 bps | -30 bps | -10 bps |
| **Winnipeg** | Oct. 2020 | $757 | $991 | $1,262 | $1,577 | $1,107 | 3.9% | 4.3% | 3.4% | 2.5% | 3.8% |
| | YoY Change | 3.3% | 3.7% | 3.2% | 3.7% | 3.6% | 70 bps | 90 bp | 80 bps | -110 bps | 80 bps |
| **Hamilton** | Oct. 2020 | $898 | $1,096 | $1,291 | $1,511 | $1,207 | 5.3% | 3.4% | 3.2% | 5.7% | 3.5% |
| | YoY Change | 10.0% | 7.7% | 5.9% | 4.3% | 6.7% | -260 bps | -70 bps | -30 bps | 260 bps | -30 bps |
| **London, ON** | Oct. 2020 | $774 | $1,001 | $1,207 | $1,380 | $1,119 | 4.7% | 3.5% | 3.1% | 4.9% | 3.4% |
| | YoY Change | 12.2% | 9.5% | 9.0% | 4.7% | 9.4% | 110 bps | 160 bps | 150 bps | 370 bps | 160 bps |
| **KWC** | Oct. 2020 | $863 | $1,076 | $1,295 | $1,435 | $1,211 | 3.1% | 1.9% | 2.1% | 3.0% | 2.1% |
| | YoY Change | 6.8% | 3.3% | 5.2% | 10.6% | 5.3% | 110 bps | 160 bps | 150 bps | 370 bps | 160 bps |
| **GTA** | Oct. 2020 | $1,202 | $1,417 | $1,622 | $1,837 | $1,523 | 5.5% | 4.0% | 2.6% | 2.2% | 3.4% |
| | YoY Change | 5.7% | 4.7% | 3.8% | 6.5% | 4.8% | 340 bps | 240 bps | 120 bps | 120 bps | 190 bps |
| **Ottawa** | Oct. 2020 | $1,000 | $1,244 | $1,517 | $1,850 | $1,358 | 3.1% | 3.9% | 3.7% | 0.0% | 3.9% |
| | YoY Change | 7.3% | 5.8% | 7.6% | 1.9% | 6.3% | 90 bps | 220 bps | 180 bps | -160 bps | 210 bps |
| **Montreal** | Oct. 2020 | $702 | $810 | $903 | $1,112 | $891 | 4.8% | 3.1% | 2.1% | 2.6% | 2.7% |
| | YoY Change | 6.8% | 7.7% | 5.6% | 4.1% | 6.1% | 160 bps | 150 bps | 70 bps | 190 bps | 120 bps |
| **Halifax** | Oct. 2020 | $865 | $1,016 | $1,255 | $1,455 | $1,170 | 1.8% | 1.9% | 1.9% | 1.8% | 1.9% |
| | YoY Change | 6.3% | 18.0% | 4.4% | 4.5% | 5.0% | 50 bps | 90 bps | 100 bps | 70 bps | 90 bps |

# Tenant Preferences

Early in the pandemic, it became clear that tenant preferences were changing. The allure of paying high rent for limited space downtown to be close to an office they were not going to and closed amenities did not seem to make sense during the pandemic.

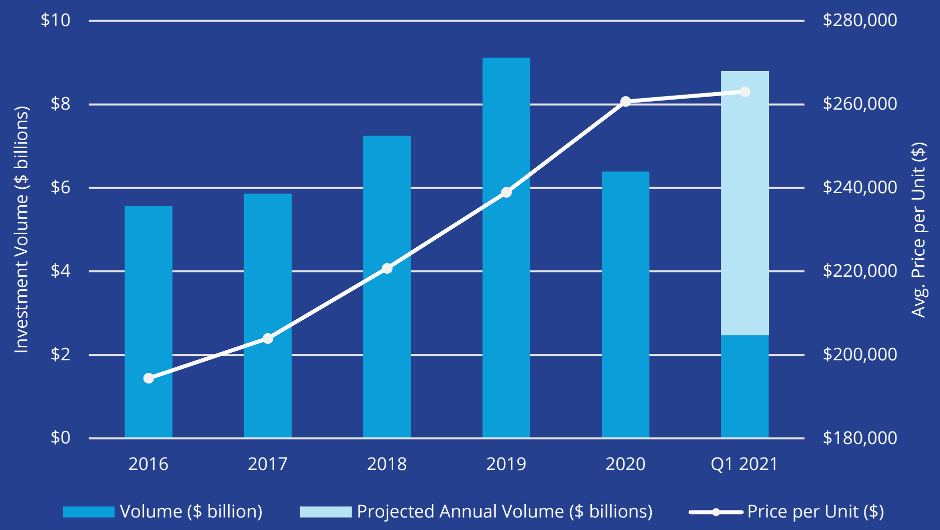
Furthermore, with many renters isolated in their apartments and transitioning to working from home, the need for outdoor space, and more space in general became paramount. Renters were looking for balconies, dens, second bedrooms to have more space for themselves or even take on a roommate and double up to save on rent. This also meant that immediate transit access and downtown addresses became less important.

As a result of changing preferences, we saw vacancy rates move up faster for studio and 1-bedroom apartments, whereas 2 and 3-bedroom apartments experienced the lowest increase in vacancy. Perhaps counterintuitive was the change in average rents, which increased the most in studio and 1-bedroom apartments, however, these increases are likely more attributable to the higher turnover in these units.

# Multifamily **Investment**

Despite rising vacancy rates, interest in multifamily assets remains strong, with many investors citing the familiar mantra of "beds, sheds and redevs" for their outlook to place capital. Despite these intentions, the national multifamily investment volume in 2020 came in at $6.4 billion, down 30% year-over-year from 2019. So far in 2021, Q1 investment volume came in at almost $2.5 billion. Based on previous years' Q1 vs annual volumes, if activity continues at these levels throughout 2021, national multifamily investment volumes should rival the previous high of $9.1 billion in 2019. Although interest in this sector is strong, the only thing holding back investment volume is available assets for sale.

**National Multifamily Investment Activity**

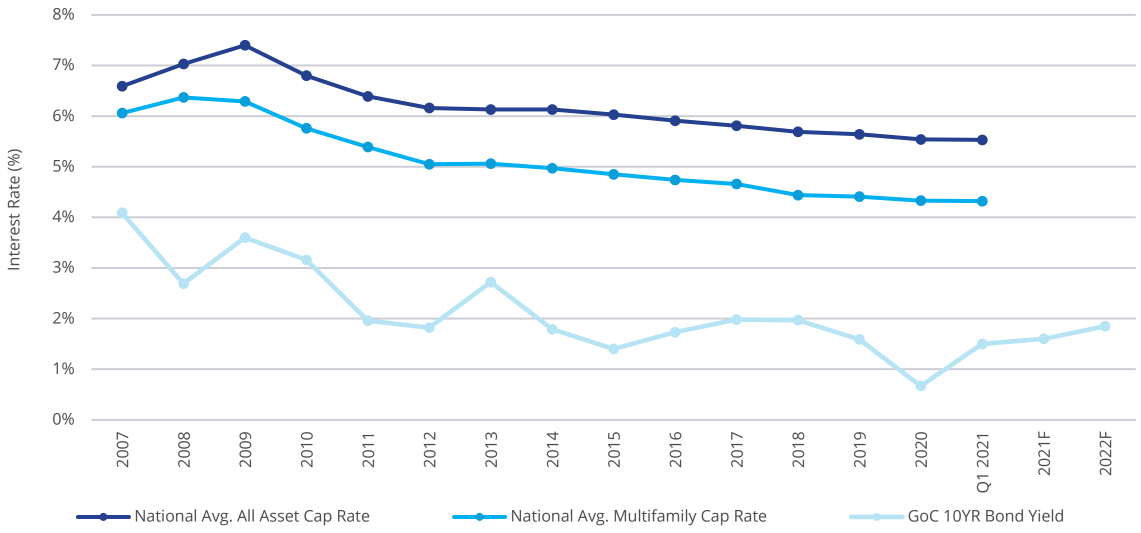



Source: RealNet, Altus Data Solutions, Colliers, Q1 2021.

# Multifamily **Investment**

Partially as a result of the interest in multifamily assets, but also due to lower available financing rates through CMHC when compared to traditional mortgage rates, multifamily cap rates come in well below the overall all asset average cap rate. The national average cap rate decreased from 4.41% at year-end 2019 to 4.33% at year-end 2020 and compressed even further to 4.32% in Q1 2021. Despite this compression, expect much lower cap rates in markets like Vancouver, where cap rates have increased from 3.19% at year-end 2019 to 3.31% in Q1 2021, and the GTA, where average cap rates continue to decline from 3.75% at year-end 2019 to 3.44% in Q1 2021.

## National Cap Rates vs Bond Yields

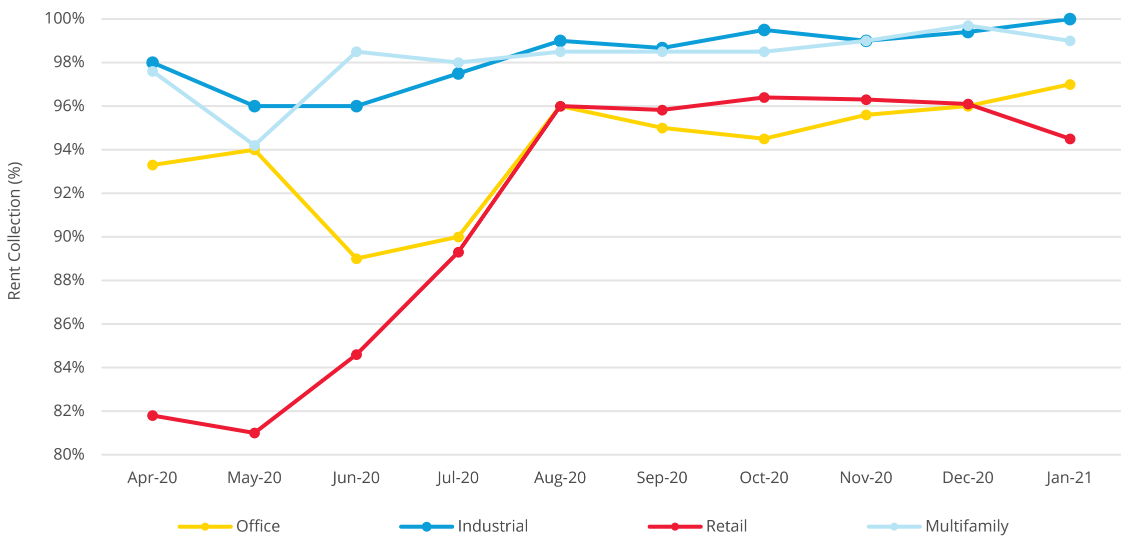



Source: Colliers Cap Rate Report, Q1 2021, Bank of Canada and Big 6 Banks, April 23, 2021.

# Multifamily
# **Investment**

Complementing the interest from investors is the many families who have owned multifamily assets for generations and are now looking cash-in as a result of formidable capital expenditure needs to upgrade these assets. This is being further compounded by rent control measures that are keeping rental income growth stagnant, as well as rent freezes and eviction bans in many provinces as a result of public health emergencies. Even though eviction bans are in place, rent collection remained strong for multifamily assets across the country, at approximately 99% in early Q1 2021.

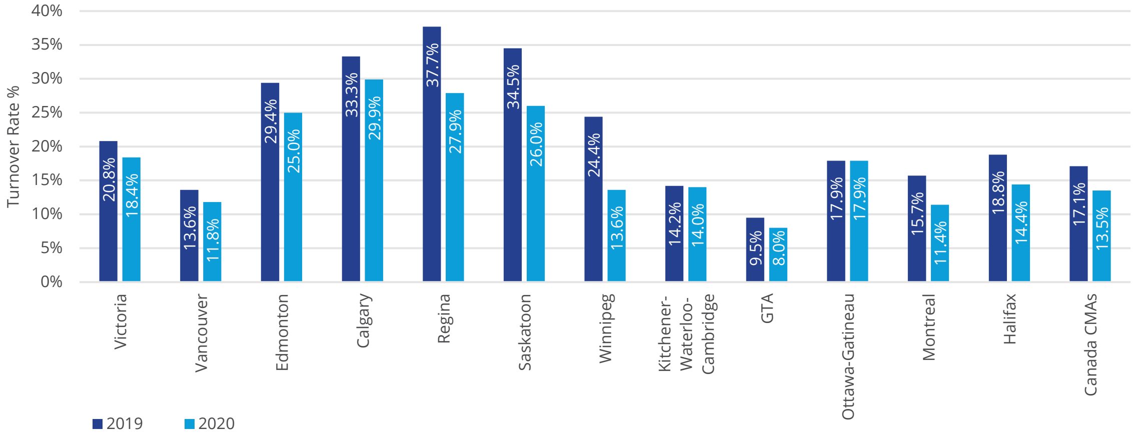
**Rent collection**




Source: Bloomberg, BMO, Colliers, Mar. 2021

# Tenant Turnover
# **& Rent Control**

Many multifamily landlords pride themselves on quality of product, amenities, and great customer service. However, due to rent control in many provinces, a key metric for investors is the turnover rate, because upon turnover the landlord can reset the rent to market rates. In general, the larger the market and the more unaffordable housing is, the lower the turnover rate. As such, many secondary markets offer a unique opportunity for investors to more quickly turnover tenancies and reset rents to market within their portfolio.




The pandemic resulted in a triple threat to investors. Many provinces initiated rent freezes during the health emergency in 2020 and early 2021, which was compounded by both higher vacancy rates and lower turnover rates across the board. Only Ottawa-Gatineau and the Kitchener-Waterloo-Cambridge regions saw turnover rates hold up to 2019 levels.

# Tenant Turnover
# **& Rent Control**

Rent control is still an issue for owners in most markets across the country, and this issue became even more prevalent during the pandemic as many provinces that did not have rent control before the pandemic, implemented rent freezes and eviction bans during lockdowns.

| | BC | AB | SK | MB | ON | QC | NS |
|---|---|---|---|---|---|---|---|
| 2015 | 2.5% | | | 2.4% | 1.6% | 2.2% | |
| 2016 | 2.9% | | | 1.1% | 2.0% | 1.5% | |
| 2017 | 3.7% | | | 1.5% | 1.5% | 1.2% | |
| 2018 | 4.0% | | | 1.3% | 1.8% | 1.4% | |
| 2019 | 2.5% | | | 2.2% | 1.8% | 1.3% | |
| 2020 | 2.4% | | | 2.4% | 2.2% | 3.0% | |
| 2021 | 1.4% | | | 1.6% | 0.0% | 2.3% | 2.0% |
| No Evictions* | Y | Y | Y | Y | Y | Y | Y |

Rents frozen during public emergencies

* No evictions during public health emergencies
Source: select provincial governments

# Multifamily Rental **Demand & Outlook**

When determining rental demand for multifamily rental housing, the key variables to look at are immigration levels, university students in general and foreign students particularly. Also important is to determine what is preventing households from transitioning from rental housing to homeownership.

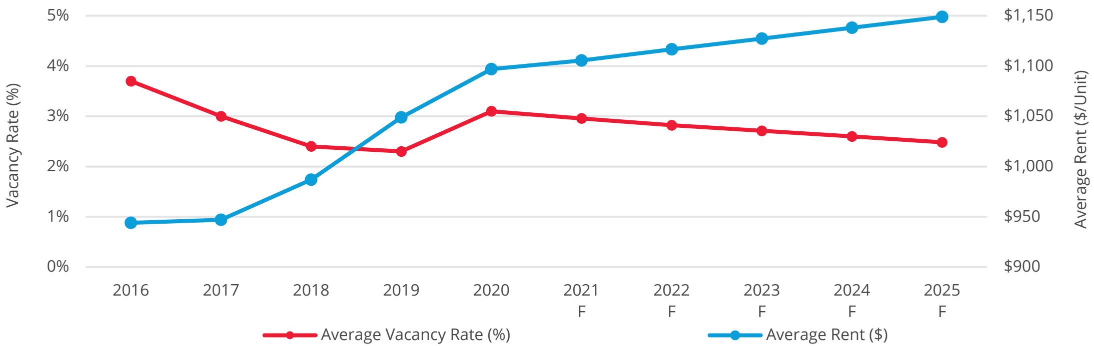
Despite the dramatic increase in unemployment throughout the pandemic, housing sales and average prices have increased dramatically as a result of strong middle- and upper-class employment gains, combined with historically low interest rates. In fact, between March 2020 and March 2021 the average home price in Canada increased by 12.8% across the country, with markets like Hamilton up 17.7%, Ottawa 16.8%, Montreal 14.2%, Vancouver 13.4%, and the GTA 12.0%, over the same period.

As discussed earlier, rental demand fell off dramatically during the pandemic due to job losses in the entertainment and food and beverage industries, young professionals moving back home with parents or doubling up, with some transitioning to ownership as of late, as well as a drop off in immigration and university students. For the most part, as the economy reopens later this year, there is an anticipation for entertainment and food and beverage jobs to rebound, and these folks will transition back into the rental market. Furthermore, many young professionals are now starting to look at rental options for when they return to the office, even if just part- time at 3 days per week.

# Multifamily Rental
# **Demand & Outlook**

The future is also bright for university students returning to on-campus learning, with many universities across the country already announcing that in-person learning will be back in the fall of 2021 as a result of the vaccine rollout. These announcements are also attracting foreign students back to Canada. All of this will positively impact demand for rental housing. Last but not least is the expected return of immigration, which fell off dramatically during the pandemic. To compensate for the slowdown in immigration in 2020 and the first half of 2021, the Federal government has increased immigration numbers to 401,000 for 2021, 411,000 for 2022 and 421,000 for 2023.return.

**National Multifamily Outlook**




All of this bodes well for the outlook for purpose built-multifamily demand going forward. As such, vacancy rates are expected to resume their downward trend in the second half of 2021. Furthermore, despite rent freezes in many provinces during the pandemic, rents upon turnover will continue to increase, however, the rate of growth will slow.

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