Top 10 Real INSIGHTS

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INSIGHTS FROM INDUSTRY LEADERS DURING THE CONTENT FORMATION OF THE 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. HOW ARE PROVINCIAL POLICIES AFFECTING THE MULTI-RESIDENTIAL MARKET IN ALBERTA AND BC?

A focus on redevelopment, density and legislative reform characterizes the fight against the housing crisis.

A recently released C.D. Howe study claims "Vancouver's housing regulation costs are by far the largest in Canada, resulting in an extra cost of $644,000 for the average new house," while homebuyers in other areas of the country pay an average of $230,000 due to limited supply. A Union of British Columbia Municipalities (UBCM) report "Building BC: Housing Completions & Population Growth 2016-2021" (March 23, 2022), however, claims housing supply has, in fact, kept pace with population growth in BC over the last five years.

There is no doubt housing affordability is a huge issue in Vancouver specifically and throughout British Columbia generally. But "the cost of getting approval, getting the zoning changes, getting the permit and paying all the fees directly to the city and all the gatekeepers" is not the only thing driving up prices. The UBCM report states more housing has been built in BC over the past three years than in any three-year period in the last 20. Among the issues it identifies that decrease affordability, UBCM cites

- trade and supply chain shortages that hamper the development sector
- shortages of qualified professionals, developers, and capacity constraints, especially in rural and northern BC
- provincial approval processes that contribute to housing delays, and
- a lag in federal government policy legislation that would support housing attainability, including monetary and tax policies and investments in housing supply.

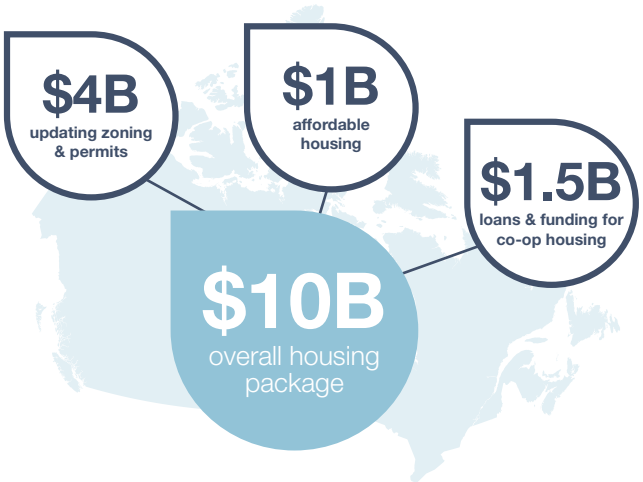
"Effectively tackling affordability requires more than a singular focus on supply. It also requires incentivizing the right supply such as affordable rental housing and co-ops and addressing the still-significant influence of speculative demand." According to Altus Group's Peter Norman and Raymond Wong, factors such as construction costs, interest rates, lingering effects of Covid-19, a labour shortage amongst others also contribute to heightened volatility.

Still, the C.D. Howe Institute report has a point: redevelopment that increases urban density marginally rather than hugely (redeveloping a double lot in Vancouver that measures 66 feet by 140 feet into a six-unit multiplex to provide housing for six families rather than just one or two) is the way Edmonton has been tackling its housing supply and affordability issues for years. As Benjamin Dachis notes in his April 1, 2022, paper, "Supply Constraints Drive Housing Prices Spikes," "Housing gets built when it's profitable to do so. Greedy developers aren't the core of the problem. If profits for building housing rise as demand goes up, more and more developers enter. A core lesson of economics is that the profitability of the building sector will come down if there are no barriers to entry and fierce competition. .... In Edmonton, prices are the same as they were in 2015. The final purchase price of housing in Edmonton is in line with the cost of building."

Federal, provincial, and municipal politicians are all weighing in on the housing crisis, and in March 2023, BC Housing Minister David Eby told CBC News that BC is under a great deal of pressure to create more housing, with migration from other provinces at a 30-year high and vacancy rates at all-time lows. "A lack of housing availability and affordability has the province looking into how it can intervene when municipalities refuse to build more homes." Eby said the provincial government "is looking at legislation that would allow the province to override municipalities' decisions not to approve affordable housing projects," and that BC is looking at legislation similar to that enacted in New Zealand, which bans single-family home zoning in its larger cities.

UBCM president Laurey Anne Roodenburg identified shortages of skilled workers and provincial government red tape as limiting factors in addition to municipal approval constraints. **The April 7, 2022, federal budget has allocated $4 billion to help municipalities update their zoning and permit systems to allow for speedier construction of residential properties, along with $1 billion for the construction of affordable housing units, and $1.5 billion in loans and funding for co-op housing. It is part of an estimated $10 billion overall housing package meant to increase inventory by 2027** and make home ownership easier for those being outbid on home purchases, as well as creating a new "Tax-Free First Home Savings Account" that would let Canadians under 40 save up to $40,000 towards their first home. The federal budget also builds on provincial and municipal foreign buyer tax legislation by prevent foreign buyers from purchasing condos, apartments, and single residential units, although permanent residents, foreign workers, students, and non-Canadians will still be able to purchase primary residences.

2022 Federal Budget Allocation



Written by Ruth Seeley of No Spin PR

Among the recommendations from the C.D. Howe Institute report is the reform of density bonuses. "For years, the ... Community Amenity Contributions in British Columbia have caused developers major problems because of the uncertainty surrounding their costs. Typically, these transactions involve a municipality giving a developer bonus density beyond that permitted by zoning laws in exchange for money or community amenities. All provinces should amend legislation that governs these kinds of payments, making them more predictable and reducing their disincentive for growth." The report also calls for the elimination or reduction of land transfer taxes.

2. BEYOND CALGARY, EDMONTON, AND VANCOUVER — SECONDARY MARKETS BECOMING HOT SPOTS FOR INVESTMENT

As buyers are priced out of larger markets, secondary cities become greater opportunities for investors.

Secondary markets throughout Alberta and BC have seen major rent increases. Victoria reported a 22% annual increase, with two bedrooms renting for an average of $2,106 per month. According to Zumper.ca, the average rent for a two-bedroom apartment in Kelowna, BC, increased 11% to $2,500 between March and April 2022 and rose 42% overall between April 2021 and April 2022. Kamloops saw a 12% increase compared to the previous year, with average two-bedroom rents of $1,764 in March 2022.

In Alberta, Lethbridge rents increased 7.04% to an average $1,155 year-over-year, and Red Deer's increased 5.53% to $1,050 year-over year. (Rentals.ca).

In St. Albert, Alberta, Boudreau Communities expects to complete a 360-unit mixed-used condo development, Riverbank Landing, on the former Hole's Greenhouse site within the next five years, after receiving approval from St. Albert's city council for its revised proposal in June 2021. Boudreau had been planning a series of 100-metre, 26-storey towers since 2019, but the proposal was rejected by council in 2020. The new plan is five buildings, including 14-storey towers reaching a maximum height of 50 metres. Designed as a walkable community, it will include 67,700 square feet of commercial space for restaurants, boutiques, wellness and professional services, a village square, and internal trails leading to the Red Willow trail system as well as housing ranging from brownstone townhomes with yards, a three-storey seniors' building, condo units, to 450-square-foot micro lofts. The development is on the same parcel of land as Boudreau's four-acre Botanica, which was at 90% occupancy by April 2021, and the nearby Chrisen Realty Corp.-owned Shops of Boudreau retail complex, which covers six acres.

Boudreau had invested $400 million in the project by June 2021 and incorporated a great deal of community feedback in the redesign of its proposal. "Council voted unanimously to re-designate the land from direct control to direct-control mixed-use, which mean[s] the developer wouldn't have to come to city council at multiple stages in the project, but rather would approve the design currently before council," according to St. Albert Today. Two councillors spoke of the need to create higher density housing to avoid repeated property tax increases. Councillor Ray Watkins said "[T]he development aligns with the city's Municipal Development Plan and the densification goals set out by the Edmonton Metropolitan Region Board. 'The future of land-use planning is infill, densification, and redevelopment of existing property.'"

According to Rod McKay of Vancouver real estate firm William Wright Commercial, during an episode of the Vancouver Real Estate Podcast, Kamloops, Victoria, and Kelowna are three of the top five commercial real estate markets in BC in 2022.

McKay says that Kamloops has yet to experience a real estate boom, "[b]ut over the next decade, cap rates will compress and more people will be moving into Kamloops as they get priced out of Kelowna. With commercial real estate, population growth must happen first and then commercial follows." The Trans Mountain pipeline construction in the Kamloops area has been completed, and McKay sees healthcare, development, construction, and education sectors all growing in this secondary BC market. Cap rates in November 2021 were down to 5%, but McKay points out that as cap rates decline, lease prices will increase, and the Kamloops downtown is experiencing revitalization.

Kelowna represents an opportunity for investors, with "a lot of people moving their primary residence into secondary markets, like Kelowna. It used to be only a city for residential homes and Alberta oil money," said McKay, but with a new hospital, an expanded UBCO campus, tourism rebounding and "the best climate to grow marijuana in Canada," multi-family cap rates at just under 4% are accompanied by increasing downtown lease rates and higher industrial sales prices, as "more companies look at Kelowna as their second market." Industrial real estate rates in Kelowna are almost as high as Vancouver's.

"Victoria is still the best marketplace for investment affordability, vacancy, absorption and cap rates," says McKay, "You can't go wrong investing in any asset class in Victoria. In multi-family, you were seeing 5 caps just a few years ago and now we're seeing cap rates in the 3 range. People are graduating from UVic but they're not leaving Victoria. The companies and infrastructure are in Victoria now so people aren't having to leave to find jobs. This will put more pressure on commercial real estate, whether that be retail, industrial, or office space."

And as Victoria's housing crunch continues, more people will be looking to move up-island to Nanaimo, where the multi-family cap rate has declined from 5% to below 4%.

Written by Ruth Seeley of No Spin PR

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3. HOW HAS WESTERN CANADA'S ECONOMY CONTINUED TO PERFORM THROUGH THE PANDEMIC?

Alberta, Saskatchewan, and BC should be exiting a period of uncertainty due to COVID-19 as they lead provinces in growth.

The pandemic's effect was felt unevenly throughout the country, as StatCan's Carter McCormack pointed out in his mid-year 2021 report, "Differences in the economic impacts of COVID-19 across the provinces and territories."

Lower energy demand and prices plunged Alberta into the bust portion of the boom/bust cycle, with both petroleum and coal manufacturing sales falling almost two thirds in early 2020 and remaining 14% below pre-COVID levels in March 2021. There were also "[s]ubstantial reductions in engineering construction related to resource projects weighted on activity .... The economic impact of the pandemic in Alberta was more severe than in other provinces. As of February 2021, the number of active businesses operating in the province remained just over 2% below pre-COVID levels, the largest gap in Western Canada. Following the first and second waves of restrictions, the employment recovery among youth and in accommodation and food services has been the slowest of the western provinces, as the third-wave of restrictions took effect in April [2021]." (StatCan)

In BC, its far stronger housing market activity made up for the pandemic declines experienced in its tourism and high-contact sectors. By April 2021, house prices had risen more than 12%, which posed issues even before inflation began to increase sharply, compounding the province's affordability issue. But "[i]ncreases in engineering construction linked to major resource projects helped offset lowered manufacturing output, as the province's economy contracted by 3.8% in 2020, a substantially smaller decline than that experienced in other western provinces. Employment in professional, scientific and technical services surged in British Columbia, supporting the strongest employment recovery in Canada, despite the circuit breaker restrictions imposed at the end of March [2021]." (StatCan)

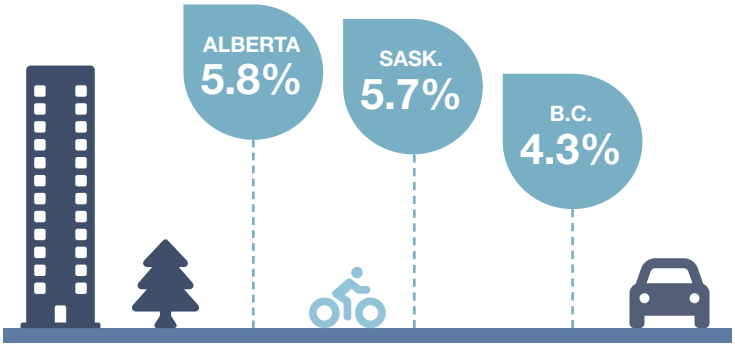
BC's severe flooding negatively impacted its recovery and growth in 2021, with wholesalers, manufacturers, retailers, and agriculture all taking hits and Trans Mountain Pipeline construction halted as a result of infrastructure damage. But TD Bank's March Economic Forecast, "Varying Regional Impacts From Russia/Ukraine Conflict," noted "BC's economy was able to weather the Omicron wave better than several other parts of the country. Employment inched higher in January (compared to a decline in the rest of Canada), as the retail sector largely avoided tighter restrictions. And this was followed up by a stronger gain in February as health measures were rolled back."

Higher energy prices should weigh on household discretionary incomes. The government will be providing some offsetting support through suspension of the gas tax, which will have the impact of lowering prices at the pump, at an estimated full-year fiscal cost of $1.3 billion. They are also delivering $280 million in electricity rebates to households and small businesses. These measures will eat into the modest FY 2022/23 surplus projected by the government in its February budget.

TD cautions that Alberta's oil boom won't be as dramatic as those of the past, due to "reduced investment in the industry in recent years amid the green energy transition, ongoing pipeline constraints and other operational challenges" that will limit reachable production levels. Still, "[a]ctivity in Alberta's housing market continues at a heated clip. Even after home sales advanced 50% on an annual average basis (over twice the increase as Canada overall) last year, they're up an additional 25% over the first two months of 2022. This robust demand backdrop (supported by good affordability conditions) should fuel an outperformance in home prices, particularly in the second half of the year."

RBC's Senior Economist Robert Hogue sees 2022 as the year provincial economies will "exit a period of highly abnormal conditions... [b]arring any new threatening coronavirus variants. **This is nowhere more true than in Western Canada, with Alberta (5.8%) and Saskatchewan (5.7%) leading the way in growth, and British Columbia a close third (4.3%)."**

Western Canada Economic Growth



With crude oil prices rising rapidly as a result of Russian's invasion of Ukraine, RBC expects crude to increase 39% to US$103/barrel, with Alberta benefiting greatly from higher energy prices. Real GDP growth is forecast at 5.8% in 2022 and 3.8% in 2023, while BC should see a 4.3% increase this year and 2.6% the following year. Rising commodity prices will drive inflation higher than the Bank of Canada's 2% target, however, and for the remainder of 2022 inflation will probably be more than 4% in both BC and Alberta, with the rate finally starting to decrease in 2023 as the Bank gradually raises the overnight exchange rate.

Written by Ruth Seeley of No Spin PR

Alberta in particular will benefit from higher commodity prices, and RBC forecasts growth in that province will reach as high as 11%, a rate of expansion not seen in more than a decade. BC is currently leading the country's employment and consumer spending growth, and planned capital investment 7% higher than 2021 levels will also help the province's economic recovery. Alberta should see employment grow 3.5%, while BC's increase will be a modest 2.5%. Alberta and BC will also see personal disposable income per capita increase more than anywhere else in Canada, to $39,448 (AB) and $36,789 in BC.

4. LENDERS STILL LIKE MULTI-RESIDENTIAL BUT WILL RISING INFLATION AND HIGHER INTEREST RATES IMPACT THEIR UNDERWRITING?

Edmonton and Calgary saw a flurry of activity in 2021, supported by low rents and stability compared to other markets.

Cushman & Wakefield's "Q4 2021 Cap Rates and 2021 Perspective" is bullish on multi-family investments, since "... a wide range of investors continue to look for opportunities to increase their holdings due to the long-term stability of the asset class, record low rates and the Federal Government's plan to continue welcoming immigrants at a rate of about 1% of the population of Canada post-COVID-19." Average cap rates for the suburban multi-unit residential asset class in Edmonton was 4.6 in Q1 2022 and has been trending downwards since Q4 2020. This rate for Calgary was 4.4 for the same time period and Calgary has been seeing a similar downward trend since Q2 2021.

Their figures show Edmonton multi-residential cap rates ranging from 5%-6% for low rise buildings and 3.75%-4.75% for high rises. Calgary cap rates ranged from 4.75%-5.50% (low rises) and 4.25%-5% (high rises). In Vancouver, the figures were 2.75%-3.50% and 2.50%-3%.

These figures were published before the Bank of Canada began to raise interest rates, and the two rate hikes already announced have been higher than anticipated, increasing the overnight benchmark rate rapidly from 0.25% to 1% after an initial .25% increase in March. "As a result, the Bank Rate rises to 1.25% from 0.75% and borrowing costs for Canadians will rise again," according to First Financial ("Bank of Canada increases its benchmark interest rate (again), issues New Monetary Policy Report"). While the report notes the Bank of Canada indicated growth seems to have been stronger than anticipated in Q1 2022 and should increase in Q2, so was consumer price index inflation which hit 5.7% "driven by rising energy and food prices and supply disruptions, in combination with strong global and domestic demand" and will probably average 6% for the first half of the year. By 2023, however, the Bank anticipates inflation will decrease to 2.5% and reach the 2% target level in 2024.

Despite rising interest rates, however, Western Investor's Frank O'Brien claims both tenants and landlords "can still find shelter in big-city Alberta." Calgary and Edmonton ranked 27 and 31 on Bullpen Research & Consulting's "National Rent Report" index, released in November 2021. Brampton, ON real estate investor Paul Gill told the paper low rents lead to low turnover, affordable prices, and stability, and this was why his investor group purchased a 38-unit rental building in northwest Edmonton in 2021, paying $85,128 per door for the building. He said, "Pricing is crazy high in most of Ontario. You are looking at $300,000 or more per door with negative cash flow. ... We believe Alberta is the best market to invest in for multi-family. Alberta offers the highest income per family, highest net migration and lower real estate prices."

In the first half of 2021, CBRE reported $350 million in Edmonton multi-family investments, an increase of 190% over the same period in 2020. Avenue Living bought three rental portfolios (1500+ units) in July 2020 for $275 million. "The first half of 2021 also saw a strong rebound in the multi-family development land market with the number of sales surpassing total sales in all of 2020." Edmonton's suburban and multi-unit residential asset class had a momentum rate of 12 in Q1 2022 and nearly cracked the top 15 preferred products among investors in Canada.

Calgary saw 11 multi-family transactions worth $89 million completed in Q2 2021, which was a 350% increase over the same quarter in 2020.

JLL Canada's Senior Vice-President Samuel Dean recommended "investors get into big-city Alberta apartment rentals this year before prices increase in 2022" and suggested pooling capital with other investors to purchase smaller multi-family blocks in either Edmonton's Oliver community or Calgary's "cool, uptrending" Beltline neighbourhood (Western Investor). Long-term buyers are set to retire in both these neighbourhoods, and Dean predicted there will be a number of 20-unit-or-less properties coming onto the market. He pegged the per-door price for both Calgary and Edmonton multi-family at $120,000 to $130,000 per door.

5. RENTAL VACANCY RATES IN CALGARY, EDMONTON AND VANCOUVER — HOW HAVE THEY MOVED THROUGHOUT THE PANDEMIC?

Vancouver's prices remain high while Calgary's rise slightly and Edmonton declines.

Vancouver remains the most expensive rental market in the country, with an average two-bedroom rental rate of $3050, a 17.62% jump year-over-year (March 2021 to March 2022) according to Rentals.ca's March 2022 Rent Report. Calgary's rent increase year over year was only 0.60%, and average Edmonton two-bedroom rents actually declined -1.26% in the same period. BC Housing Minister David Eby told CBC News 2021 represented "a 30-year high in migration from other provinces and other countries at the same time as we had a 30-year low in the number of listings for real estate."

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Calgary

Over the course of 2021, Calgary's average two-bedroom apartment rents remained flat at $1,355, while the purpose-built apartment vacancy rate dropped to 5.1%. Condominium apartments saw the vacancy rate drop to 4.2%, renting on average for $1,524 (two bedrooms). New units were priced 30%-60% higher than existing supply. Additions to supply of purpose-built rentals were most significant in the Beltline and Northwest zones of the city, according to CMHC's February 18, 2022, Rental Market Report.

Edmonton

CMHC reported Edmonton's vacancy rate was unchanged at 7.3% in October 2021, with supply meeting demand between October 2020 and 2021. Labour market conditions improved over the second year of the pandemic, with students returning to the city and international immigration increasing as restrictions were lifted. During the fourth quarter of 2021 alone, Alberta's population grew by 12,940, "well above the number of people who came during the previous fourth quarter, when pandemic restrictions were still weighing on travel throughout the country," according to the Realtors Association of Edmonton (RAE). "International immigration added 9,489 people to Alberta's population in the fourth quarter of 2021. This was an increase of 68.5% from the same period in 2020." (RAE) Apartment turnover increased in the Edmonton Census Metropolitan Area (CMA), however, according to CMHC, as a result of higher vacancies, lower rents, and overall affordability for first-time homebuyers which was greater in Edmonton than in many other parts of the country. Although CMHC notes that, "An adequate supply of affordable purpose-built rental options continues to be a challenge for lower-income households. This is less so than other largest CMAs in Canada."

Vancouver

Students returning to Vancouver and a dramatic influx of newcomers to the city meant **Vancouver's purpose-built apartment vacancy rate dropped 1.4% between 2020 and 2021, from 2.6% to 1.2%**. Although existing tenants' rents were frozen during the pandemic, turnover units rented to new tenants increased 2.1%, and CMHC states "The tightening conditions intensified existing imbalances in the Vancouver rental market. Our data shows that lower-income households face significant challenges finding units that they can afford." Long-term rentals of condominium apartments increased 3.3% in 2021, and these units "continue to be an essential source of new rental supply for the region." (CMHC)

According to Jackson Cornelius, director of advisory services in Alberta for Zonda Urban (formerly Urban Analytics), Calgary's new multi-family transaction volume was 935 sales in Q3 2021, down slightly from 998 in Q2, while the city had 43% fewer multi-family sales in Q3 2021, down from 450 in Q2. "Calgary has seen more consistent activity, as well as more consistent project launches in both wood-frame condominium and townhome projects," Cornelius told Livabl_ in December 2021. "Demand in Calgary has tended to outpace the supply of new projects."

6. HOW ARE INNOVATIONS IN TECHNOLOGY BEING APPLIED TO RENTAL HOUSING? CAN THEY IMPACT THE BOTTOM LINE OF AN ASSET?

PropTech investments have increased exponentially in the past few years, according to McMillan LLP.

Innovative technology designed specifically for the real estate marketplace, or PropTech, is one aspect of the digitalization of many industries. PropTech "considers both the technological and mentality change of the real estate industry, and its consumers to our attitudes, movements and transactions involving both buildings and cities," according to Vincent Lecamus. It can improve both real estate functions and the real estate experience at both transactional and service/support levels.

PropTech can affect purchasing, leasing, management, evaluation, financing, and construction real estate functions. Viewing and booking tools, virtual or augmented reality, data visualization, or mobility technology apps are aspects of PropTech that can be used in rental property management, real estate sales, and development.

One example is software developed by start-up Poppy, which provides virus-monitoring services to building management. Another is Fundever, a digital platform that connects commercial lenders and mortgage brokers. Locomobi provides software that integrates parking, tolling, transit, and storage smart technologies for developments to increase both security and ease of use. Smart home technologies licensed using the SaaS model let condo corporations and commercial landlords control building functionality, from temperature control to leak detection and security access. They can also help in the property management functions of both commercial and residential properties by automating and digitizing invoicing, assessments, and common area bookings, while automatically generating reports.

Digitalization also makes data collection and analysis an automated process and can help both residential and commercial tenants save money through smart thermostats to improve energy efficiency, monitor construction fleets through driver, fleet, and subcontractor dispatch software, and enable ESG initiatives through smart lighting. It can also provide data required to help commercial owners achieve and maintain WELL and LEED certifications.

Written by Ruth Seeley of No Spin PR

Four key trends for real estate companies, according to PropTech Collective's "PropTech in Canada 2021 Report" include the ability to capture location data and easily provide internal analytics that can lead to innovation; software platforms that permit monitoring security, leasing, and energy efficiency functions (as opposed to three different software solutions); increasing revenues and lease rates by providing a service to tenants who want to meet their security and energy efficiency goals; and measuring and enabling ESG so owners and tenants can track ESG milestones.

First appearing around 2016, according to business law firm McMillan, PropTech investments "have increased exponentially in the past few years. … PropTech startups in Canada, such as Sonder and ecobee have raised $698M and $203M, respectively, from various funding sources."

Whether PropTech is used to reduce costs for property managers and building owners or positioned as a premium service available to tenants that increases revenues, John Duda, president of real estate management services at Colliers Canada told the PropTech Collective, "Many aspects of commercial real estate are being digitized now and that transition is accelerating. In lockstep, there is also a rapidly growing focus on cybersecurity as more critical information is accessible online and assets can be influenced remotely."

According to Forbes Business Council member Demetri Tehemlis, "Multifamily has become something of a 'hidden in plain sight' industry, isolated from other areas of business and lacking the horizontal flow of skills and technical knowledge that employees would otherwise bring from other industries." The co-founder of CRM and performance management platform Knock, designed for multifamily property management companies and owners, said "there is a disconnect among corporate owners, leasing agents and property and community managers when it comes to priorities and property performance." A recent Knock survey indicated property management companies overwhelmingly (85%) "believe they would be able to improve profits and growth with better insights into how the property is performing. … With the advent of PropTech, growing renter expectations and a shortage of talent entering the field, properties are looking to automate more tasks, which could allow them to extend their horizons in order to meet growing demand. In some ways, the pandemic has accelerated these changes, as renters have needed a way to tour properties virtually or in a no-to low-contact setting, and the need for digital communications has increased." ("The Impact Of PropTech And Digital Transformation In Multifamily Real Estate," Forbes Small Business)

7. HOW HAVE LANDLORDS BEEN ATTRACTING AND RETAINING TENANTS THROUGHOUT THE PANDEMIC?

Landlords used creative incentives like months of free rent, free or subsidized utilities, and more to attract tenants, but these measures have less value when rental demand increases.

Alberta and British Columbia experienced very different pandemics. One major difference, of course, resulted from the huge contrast in leadership styles of their respective premiers and chief medical officers of health. Economically, despite the tremendous infrastructure damage in BC as a result of the November 2021 atmospheric rivers that led to the closures of sections of most major BC highways and effectively isolated the Port of Vancouver from the rest of the province, BC CMA rental and vacancy rates suffered much less than those of Alberta.

The combined effects of lower energy prices and pandemic lockdowns led to a prolonged "bust" phase of Alberta's boom and bust cycle, however, and both major Alberta CMAs suffered from high vacancy rates and either minimal or static rent increases.

Edmonton experienced "sustained high vacancies and lower rents," according to CMHC's February 2022 "Rental Market Report," and owners and property managers used a variety of cash and other incentives to attract tenants. These incentives included one to two months free rent, retail gift cards on lease signing, free or subsidized utilities, and move-in bonuses.

In Calgary, CMHC reports that "purpose-built rental market building managers continue to use non-price incentives to drive rental demand." Free or discounted utilities, access to local amenities (fitness centres, concierge services) and lower deposit fees were among the common incentives offered in 2021. However, CMHC concludes, "Despite their continued use, local evidence suggests these measures offer less value as rental demand increases." Calgary in particular, with its heavy concentration of oil and gas industry employees, is once again transitioning from bust to boom, with vacancy rates beginning to decline and prices for rental units creeping up.

Written by Ruth Seeley of No Spin PR

8. HAS ESG, IMPACT INVESTING AND SUSTAINABLE FINANCE EMERGED IN THE MULTI-RESIDENTIAL MARKET?

Whether supply will meet demand is unknown, but it's a safe bet demand for sustainably financed, ESG housing will increase as the climate crisis worsens.

Sustainable finance – investment decisions that evaluate projects or actions in terms of environmental, social, and governance (ESG) factors – include setting goals and thresholds for climate change mitigation. Social factors include both human and animal rights, including consumer safety and protection both physically and psychologically (social and affordable housing), while governance factors include management, employee relations, diversity and equity in hiring and compensation practices that apply to both public and private organizations. Impact investing, which focuses on affordable housing, healthcare, education, renewable energy, and sustainable farming practices, has considerable overlap with sustainable finance, and "Women and millennials, who are holding an ever-increasing percentage of the world's wealth, are generally more likely to focus on social impact issues when making investment decisions, supporting the continued growth in this area," according to Net Impact's blog.

Since there has been an increase in housing density, applying certain ESG factors make sense when applied at scale. For example, consider reclamation of brownfield sites, redevelopment and repurposing of existing structures, use of sustainable materials, and the installation of energy monitoring and energy saving systems in new builds, access to affordable housing and accommodation for seniors and persons with disabilities. Sustainable finance and multi-residential should go hand in hand.

According to CBRE's June 2021 report, "The Role of ESG in the Multifamily Property Market," "Demand for sustainable energy efficient buildings has long been evident in the commercial property sector with occupiers and investors alike vying for the most sustainable buildings and in many cases willing to pay a premium for same. ... there is reason to believe that sustainability will play an increasingly important role in the residential property market over the next decade. As ... the merits of embracing ESG become more evident, we will see more people aspiring to acquire and live in green homes. However, with more people globally opting to rent residential accommodation and institutional multifamily product being developed specifically to cater for this emerging trend, it is timely to consider how ESG will evolve in the multifamily sector of the residential market."

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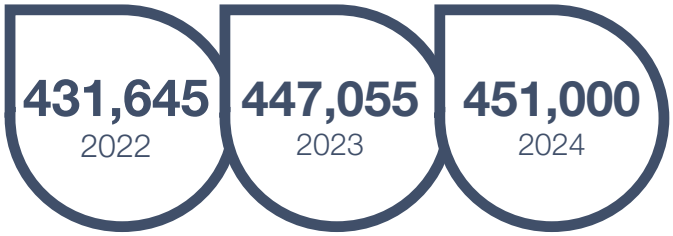
While the report focuses on the Irish multi-family market, which it describes as being in an embryonic stage, incorporating ESG "will ultimately improve the marketability and liquidity of ... assets and generate higher returns in the long-run while also improving operational efficiencies and running costs." There is increasing evidence of "a green premium or brown discount ... from a valuation perspective. ... we are now beginning to see increased focus on ESG in terms of multifamily development." (CBRE)

As single-family housing increasingly becomes unaffordable, Canadians are renting for longer and delaying the purchase of their first homes at precisely the same time as the last of the property-rich Baby Boom generation cashes out or downsizes. "The millennial generation, who generally make up the biggest cohort of renters within multifamily schemes, have grown up with a heightened awareness of climate change and sustainability and understand its importance. We can therefore conclude that renters both want and expect sustainable accommodation options." (CBRE)

With Canada's far more aggressive immigration targets announced for the next three years **(431,645 new permanent residents in 2022, 447,055 in 2023 and 451,000 in 2024)**, the demand for multi-family residential for newcomers will increase sharply. Between January and mid-March 2022, Canada had admitted 9,000 Ukrainian refugees, and Immigration Minister Sean Murphy anticipates there will be tens of thousands of applications under the expedited system developed to cope with the aftermath of the Russian invasion of Ukraine. The refuge period for Ukrainian refugees has been extended from two years to three. (Canadian Press)

Canada's Immigration Targets

(new permanent residents per year)



According to Statista.com, by 2018 there were 4.96 million multi-family homes in Canada. By 2023 that number will increase to 5.39 million. Whether supply will meet demand is unknown, but it's a safe bet demand for sustainably financed, ESG housing will increase as the climate crisis worsens.

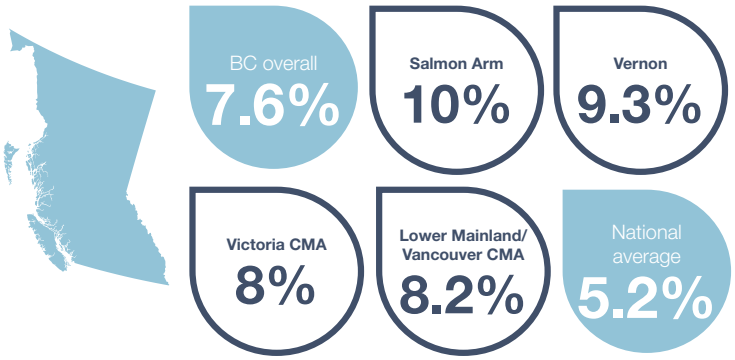
9. HOUSING AFFORDABILITY CONTINUES TO BE A MAJOR ISSUE — HOW HAS THIS BEEN ADDRESSED IN WESTERN CANADIAN MARKETS?

The BOC interest rate hike, upcoming municipal policy actions, the federal Housing Accelerator fund and the Rapid Housing Initiative are all measures to combat the crisis.

In his analysis of the federal government's April 7, 2022, budget ("Budget 2022 is big on housing, but won't immediately relieve affordability crisis"), RBC's Hogue noted that "Housing affordability has deteriorated to the point that it's now harder to become a homeowner in Canada than at any point since 1990." This was confirmed by the release of Statistic Canada's census data in early February 2022.

Four of the country's five fastest growing metropolitan areas were in BC: Kelowna, Nanaimo, Kamloops, and Chilliwack, with smaller municipalities like Salmon Arm and Vernon also growing 10% and 9.3%. The Victoria CMA grew 8% and the Lower Mainland/Vancouver CMA (including the Sunshine Coast) grew 8.2% since 2016, well in excess of the national average for the period, which was 5.2%. Overall population growth for BC was 7.6%.

BC Population Growth



Alberta was ranked sixth, with an increase of only 4.8%. High unemployment and lower oil prices resulted in high levels of out-migration, and for the first time in a quarter of a century, Calgary was not among the top-five fastest growing CMAs in Canada. Edmonton took Calgary's place as the fifth-fastest growing large metropolitan area in the country, with 8.3% growth between 2016 and 2021 and a population that now exceeds 1 million.

In October 2021, JLL issued its "Growth Opportunities in Living" report. It identified both supply-demand imbalances and housing affordability challenges in many markets, while also noting demographic shifts including delayed marriage and childbirth as "prolonging the tenancies in rental accommodations of renters by necessity as well as those by choice." Lack of affordable housing for purchase increases for-rent housing demand, and with median home prices "more than 12 times the median household income," in 24 markets analyzed, including Canada, we continue to experience a housing crisis.

In the Vancouver CMA, the Real Estate Board of Greater Vancouver reported detached homes increased an average of 25% in 2021, while in the Fraser Valley sale prices rose 52%. In Victoria, the average price of single family homes rose 22.7% in 2021 to an all-time high of just over $1 million, according to the Victoria Real Estate Board, which represented a year-over-year increase of 18%.

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According to Royal LePage, Edmonton house prices increased in 11.6% in 2021, with a median price of a single-family home reaching $469,900. In Calgary, CBRE figures indicate the benchmark price for homes rose 8% in 2021 to $451,567.

While British Columbia introduced a series of measures in 2016 to make housing more affordable, hugely increased demand and short supply have led to a crisis in affordable housing. Edmonton, which for nearly two decades has been slowly increasing density in areas formerly zoned single-family dwellings, is one of the few CMAs in Canada where supply and demand are equally matched, and affordability is not a pressing issue.

RBC's Hogue concluded that a Bank of Canada 50 basis point interest rate hike would be "a significant shift in a factor that's been a strong tailwind for housing demand. Add upcoming municipal policy action into the mix ... and the landscape is looking less favourable for the market. We believe this will cool the high temperature of the market down by several degrees."

Meanwhile, the federal Housing Accelerator fund ($4 billion over five years) is designed to reduce municipal construction approval times, update zoning and permit issue systems and increase densification, with a goal of creating 100,000 more units by 2024-2025. The Rapid Housing Initiative received an additional $1.5 billion in federal funding and was extended by two years to 2023-2024, which should lead to the construction of 6,000 new affordable housing units. Co-op housing projects, which have dwindled since their heyday in the 1970s, also received $1.5 billion in funding and this should lead to 6,000 more housing units. The National Housing Co-investment Fund wants to see an additional 4,300 social housing/vulnerable Canadian units built and 17,800 repaired and has set aside $2.9 for this initiative, while the 15% Multigenerational Home Renovation Tax Credit will provide up to $7,500 in support for homeowners to build secondary suites for seniors or Canadians with disabilities. The Affordable Housing Innovation Fund was increased by $200 million, with $100 million allocated to develop and scale up rent-to-own projects.

10. LABOUR SHORTAGES, CONSTRUCTION COSTS AND MUNICIPAL APPROVAL PROCESS HAVE PROVED CHALLENGING FOR DEVELOPMENT

A talent shortage due to an aging workforce, insufficient replacement workers, and technological change, a tripling of the cost of construction materials and slow municipal processes continue to hinder or delay new projects.

By 2017, Deloitte's "Labour Market Information Research Study" commissioned by the Building Owners & Managers Association of BC (BOMA BC) noted that more than half the real estate workforce was over the age of 45. "This threatens to significantly limit future workforce growth and talent supply if the sector fails to attract younger talent. Additionally, critical industry knowledge and skills could be lost if knowledge transfer between an aging workforce and incoming workforce does not keep up with the pace of retirement." At the time, only 4% of the BC real estate workforce was between 15-24.

In Alberta, the construction industry comprised 10% of provincial total employment in 2020 and was projected to account for 9.9%, then decrease 0.8% annually from 2020 to 2023. In 2020, 8% of the construction industry workforce was between 15-24 and only 19.0% were 55 or older.

Still, a talent shortage is widely anticipated in both provinces due to an aging workforce, insufficient replacement workers, and technological change. BOMA BC noted there is "a widening gap in skills related to building systems and controls, compounded by a lower-than-average number of younger employees taking up employment in the sector. There is intense competition from other industries for tech-savvy employees who are customer service oriented and strong on interpersonal skills."

Between 2020 and 2021, materials costs for construction tripled, according to JLL's "Q4-2021 Canadian Construction Outlook." This included shipping costs that quadrupled during the pandemic due to port closures and delays in offloading, while the price of steel tripled and copper increased 40%. Lumber prices, which spiked in the early days of the pandemic, peaked in mid-2021 and have been declining since September, but are still higher than pre-pandemic levels.

In the Vancouver CMA, many barriers to increasing the housing supply and making housing more affordable were identified, and a June 2021 report from the Canada-British Columbia Expert Panel on the Future of Housing Supply and Affordability ('Opening doors: unlocking housing supply for affordability") recommended that British Columbia enact statutory time limits for all types of developments and all stages of the property development process. This is something Alberta has already done.

Other recommendations included developing a digital permitting system, reform of housing development fees while phasing out "negotiated and unpredictable" community amenity contributions, creating a planning framework to speed up rezoning and development approvals, and relying on citywide official plans to guide community growth rather than continue with individual community consultations that allow NIMBY-ism to flourish and "amplify the voices of groups opposing new housing at the expense of citywide objectives and affordability."

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CANADIAN MULTI-RES TENANT RENTAL SURVEY

Interested in purchasing the 2022 data or getting involved with 2023?

Contact Aman Chowdhary by email at aman.chowdhary@informa.com

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