HOUSING REPORT

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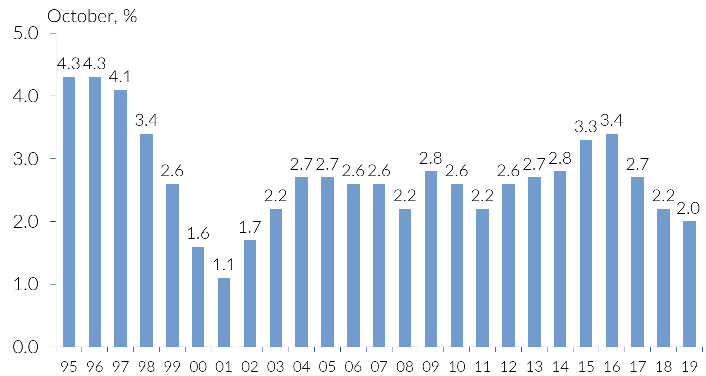
New Rental Supply Growing – But Not Enough to Keep Up with Demand

This issue presents our annual look at Canada's major rental markets based on CMHC's Rental Market Survey data released in January 2020 and proprietary data from Altus Group. In October 2019, the vacancy rate for private, purpose-built rental apartments in Canada's major markets continued to drift down, to 2.0% from 2.2% a year earlier – the lowest level since 2002 (Chart 1).

Despite the overall tightening, trends across the country were mixed. Less than half of the 36 major markets (17) posted a decline in the rental apartment vacancy rate (Chart 2, next page), 13 markets recorded higher vacancy rates and the remaining 6 were relatively stable (within +/- 0.1 percentage point change).

Chart 1

Private Rental Apartment Vacancy Rate*
Major Markets, Canada



* In privately-initiated apartment structures of 3+ units
Source: Altus Group based on CMHC data

Kingston and Belleville had the largest increases in vacancy rates, while Saskatoon and Trois Rivieres posted the largest declines.

The number of "tight" markets (vacancy rate below 1.5%) decreased from 7 to 4, with Toronto, Gatineau, Kingston and Guelph slipping back into "balanced" markets, and Halifax joining Victoria, Abbotsford and Vancouver in the "tight" club.

The tighter vacancy rate for the major markets as a whole meant that on average landlords were able to obtain stronger rent increases in 2019 – at about 4.1% for the 12 months ending October 2019 (based on average rents for 2 bedroom units in buildings common to the survey in both years), compared to 3.6% a year earlier. Regina and St. John's, with the 1st and 2nd highest vacancy rates among the major markets, were the only markets that did not see any increase in rents on average.

Highlights

- The purpose-built rental apartment vacancy rate for the combined major markets was down again in 2019, to the lowest level since 2002, prompting stronger rent increases on average
- Vancouver is still a "tight" market, Toronto joins Montreal and Ottawa in more "balanced" territory, Calgary and Edmonton remain "soft"
- Completed new purpose-built rental supply almost double the level of 4 years ago
- The expected increase in deliveries of new condo apartment units in 2020 in Vancouver and Toronto will provide some needed additional rental supply
- Strong population growth suggests rental housing demand will stay solid over the next few years

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Chart 2

Selected Purpose-Built Rental Apartment Indicators, Major Markets

Metropolitan Area	Vacancy Rate* 2018	Vacancy Rate* 2019	Starts 2018	Starts 2019	Completions 2018	Completions 2019	Average Rents** 2018	Average Rents** 2019
	%		Units				Year/Year % Change	
'Tight' in 2019 (vacancy rate <1.5%)								
Victoria	1.2	1.0	2,053	1,481	1,098	1,605	7.6	2.3
Halifax	1.6	1.0	1,768	2,058	1,246	1,674	1.8	3.7
Abbotsford	1.0	1.1	192	476	436	461	8.2	5.1
Vancouver	1.0	1.1	5,620	6,060	5,630	5,590	5.5	4.9
'Balanced' in 2019 (vacancy rate 1.5-2.5%)								
Toronto	1.1	1.5	3,290	3,986	3,128	3,372	5.2	6.1
Gatineau	1.2	1.5	878	2,470	860	2,033	3.5	4.2
Montreal	1.9	1.5	11,459	13,224	9,130	12,465	2.8	3.4
Ottawa	1.6	1.8	1,558	1,222	928	1,133	5.8	8.0
London	2.1	1.8	372	1,178	1,139	483	4.2	4.9
Kingston	0.6	1.9	377	191	198	331	2.0	7.4
Guelph	1.4	2.0	200	0	516	52	3.9	5.5
Peterborough	1.5	2.1	16	48	18	15	7.6	3.2
Sudbury	2.6	2.1	3	14	9	4	1.2	8.1
Kitchener	2.9	2.1	423	1,154	1,580	560	5.5	5.0
Moncton	2.7	2.2	259	780	494	307	3.0	2.6
Brantford	1.5	2.3	0	0	57	0	5.0	4.7
St. Catharines	2.5	2.3	175	189	79	104	4.7	3.9
Sherbrooke	2.6	2.3	638	1,088	588	550	1.6	2.1
Trois-Rivieres	3.9	2.3	340	317	364	412	++	4.1
Oshawa	2.7	2.4	498	74	115	98	6.1	5.0
Québec	3.3	2.4	3,608	4,411	3,077	4,039	1.2	1.9
'Soft' in 2019 (vacancy rate >2.5%)								
Kelowna	1.9	2.7	667	480	680	1,611	9.4	2.1
Windsor	3.0	2.9	13	202	57	44	4.3	7.7
Winnipeg	2.9	3.1	1,661	2,151	1,410	1,384	4.1	3.1
Barrie	2.9	3.2	191	23	1	60	5.2	4.0
Belleville	2.4	3.3	123	8	32	130	4.6	5.7
Saint John	3.7	3.3	78	219	64	67	3.1	4.4
Thunder Bay	4.9	3.6	8	70	100	18	6.0	3.6
Saguenay	5.0	3.7	83	79	92	59	1.7	2.7
Hamilton	3.1	3.9	148	247	0	101	3.7	4.4
Calgary	3.9	3.9	912	953	777	1,863	1.5	2.2
Lethbridge	4.7	4.7	52	139	129	57	2.7	3.1
Edmonton	5.3	4.9	623	1,574	1,055	1,777	1.3	0.9
Saskatoon	8.3	5.7	494	292	201	312	0.4	2.0
St. John's	6.3	6.9	121	68	75	38	1.5	-0.8
Regina	7.7	7.8	500	118	1,008	431	-0.5	-0.2
All Met Areas	**2.2**	**2.0**	**39,401**	**47,044**	**36,371**	**43,240**	**3.6**	**4.1**

* For privately-initiated apartment structures with 3 units and over
** For 2 bedroom units in structures common to the survey sample for both years
++ Change in rent is not statistically different than zero.
Source: Altus Group based on CMHC data

Purpose-Built Rental Apartment Construction Continues to Impress

Purpose-built rental apartment completions in Canada's major markets posted another strong increase in 2019, to just over 43,200 units (Chart 3).

Starts of purpose-built rental apartment units increased for the 3rd year in a row. Starts in 2019 reached just over 47,000 units, their highest level since CMHC began tracking tenure. These higher starts levels will ultimately translate into stronger completions.

Increased Share of Apartments Accounted for by Purpose-Built Rental

Unlike purpose-built rental, fewer condominium apartment units were completed in the major markets as a whole in 2019 (Chart 4). As a result, purpose-built rental apartments' share of total apartment completions increased to over half, double the share of 4 years earlier.

Higher levels of starts of condominium apartment units on average in recent years should translate into more condo completions in the next year.

More Completions in Calgary Pushing Up Vacancy Rate for Newer Stock

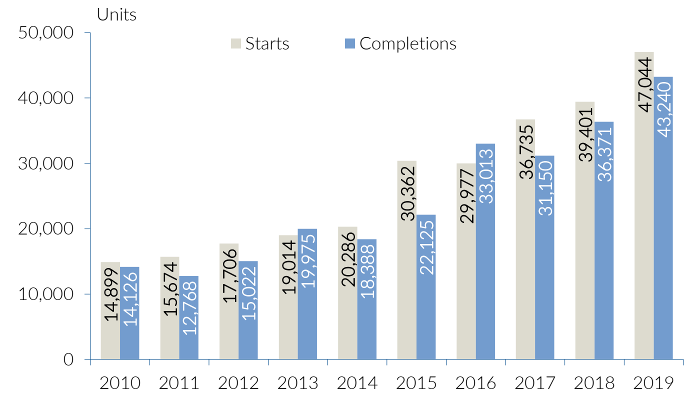
The vacancy rates for the "newer" purpose-built rental stock (built 2005 or later, no additional breakdown for more recent years is released) are above those of the overall universe for most of the 6 largest Canadian markets (Chart 5), the exceptions being Edmonton (where the vacancy rate for newer product is slightly lower) and Vancouver (where it is similar).

The vacancy rate for newer rental buildings in Edmonton, Ottawa and Montreal moved down in 2019, despite continued strong additions to the stock.

Calgary and Toronto both saw a sharp increase in the vacancy rate for newer purpose-built rental units in 2019. In Calgary, the increase in new supply, more than doubling between 2018 and 2019, likely played a role. In Toronto, while completions levels were similar to 2018, the levels are running consistently higher than they were just a few years ago, and along with additional completions of leased condominium units, are taking some time to work their way through the initial rent-up periods.

Chart 3

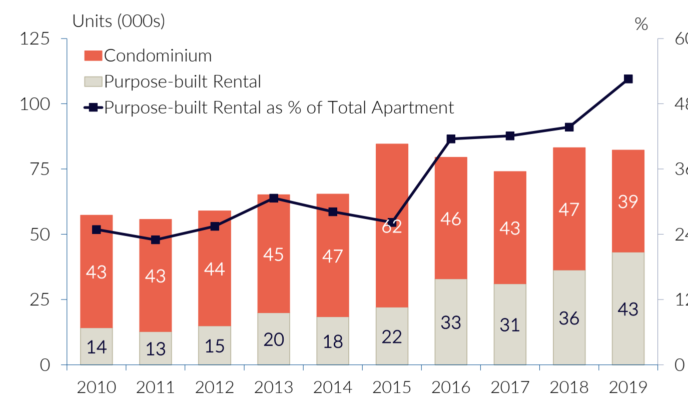
Private Purpose-Built Rental Apartment Starts and Completions, Major Markets, Canada



Source: Altus Group based on CMHC data

Chart 4

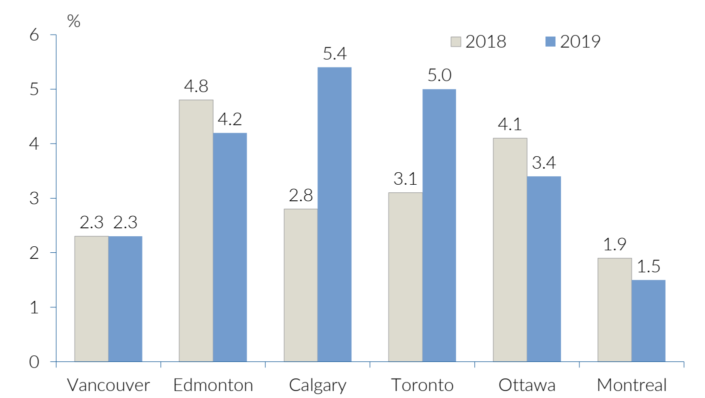
Apartment Completions by Intended Market Segment Major Markets, Canada



Source: Altus Group based on CMHC data

Chart 5

Private Purpose-Built Rental Apartment Vacancy Rates, Newer Construction*, Selected Major Markets



* Built 2005 or later
Source: Altus Group based on CMHC data

Vacancy Rates for Rented Condos Generally Below Those for the Purpose-Built Rental Stock

Vacancy rates for rented condominium apartments were down or relatively flat year-over-year in 2019 in the largest markets (Chart 6).

In 5 of the 6 markets, vacancy rates for rented condo apartments are currently below those for the purpose-built stock. The exception is Montreal, where the purpose-built rental vacancy rate is currently slightly lower than that for condos.

Tight Conditions Spurred Increases in Condo Rents in 2019

Not surprisingly, given their newer construction on average relative to the purpose-built rental stock, average rents for condominium apartments (represented here by 2 bedroom units) are higher than for purpose-built apartments in all of the 6 markets examined here (Chart 7). The gap is largest in Toronto and Montreal, where there is relatively more older purpose-built rental apartment stock with lower rents.

Average condominium apartment rents were up in 2019 in most markets, the exception being Edmonton, where the vacancy rate for rented condos suggests this is not an undersupplied market and therefore not subject to the same rent pressures.

Rental Apartment Building Sales Remain Buoyant Overall

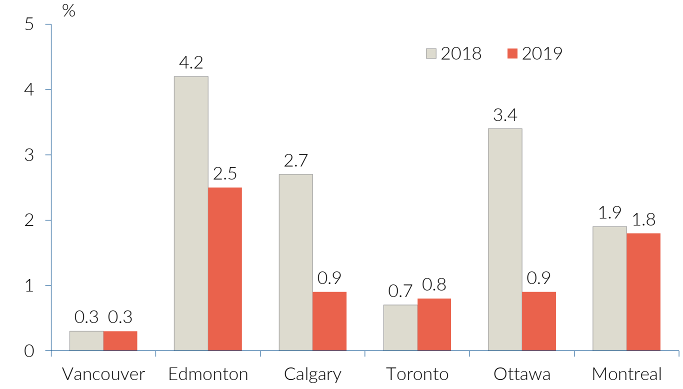
Given the current market dynamics, investors remain keen on adding rental properties to their portfolios.

The dollar volume of sales transactions of existing rental buildings in the markets tracked by Altus Group reached almost $10 billion in 2019, up about 8% from 2018 (Chart 8).

Most of the increase was due to stronger sales in the Greater Toronto Area which were up 40% over 2018, to $3.8 billion – a new record. Other areas of the Greater Golden Horseshoe, as well as Ottawa and Montreal, also contributed to the overall uptick, and helped to offset slower sales in the western markets.

Chart 6

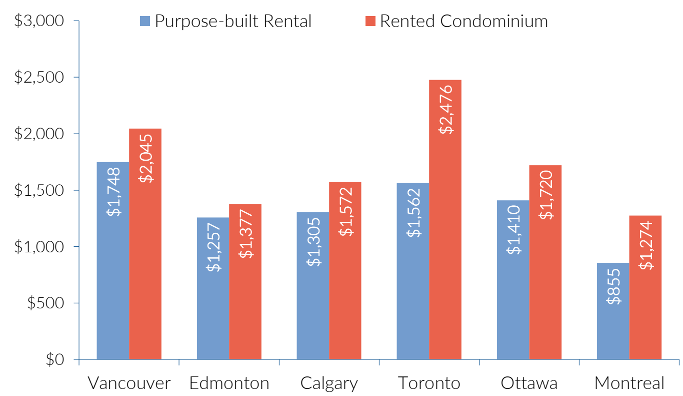
Rental Condominium Apartment Vacancy Rates, Selected Major Markets



Source: Altus Group based on CMHC data

Chart 7

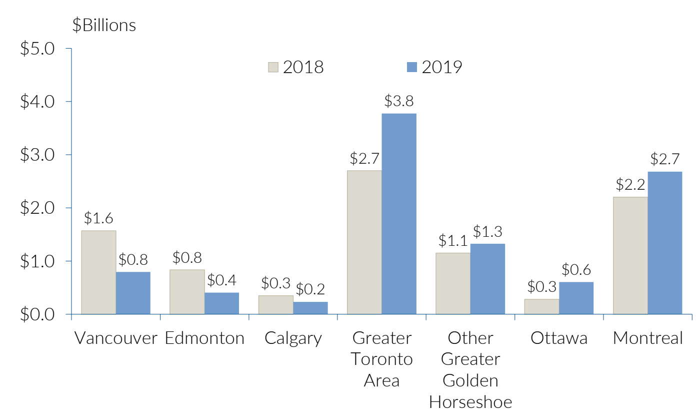
Average Rent for 2 Bedroom Apartment, October 2019, Selected Major Markets



Source: Altus Group based on CMHC data

Chart 8

Rental Apartment Sales Transactions



Source: Altus Group, Commercial Transactions Database

About Half of Growth in Condominium Apartment Universe is Rented Units

Overall, just under 1 in 3 condominium apartment units in the 6 largest markets were being rented out in the Fall of 2019 – this is for all units, regardless of when they were built, with the proportions somewhat lower in Vancouver and Montreal (Chart 9). Rented condos however have played a larger role in the growth in the condominium apartment universe over the past 3 years (for the 6 markets combined, at about half). While the majority of this share of growth reflects newly completed units, some may also be due to tenure changes within the existing stock, e.g. where units previously owner-occupied are now being rented out.

Condos Make Up the Majority of Recent Additions to the Rental Apartment Supply in the Largest Markets

Given the large proportions of condominiums that are being rented out, they are an important contributor to the overall rental apartment stock (i.e. purpose-built and rented condos combined). In Vancouver and Calgary, condos account for about 4 in 10 rented apartment units while in Montreal it is less than 1 in 10. In general, rented condominiums play a slightly more important role in the downtown cores.

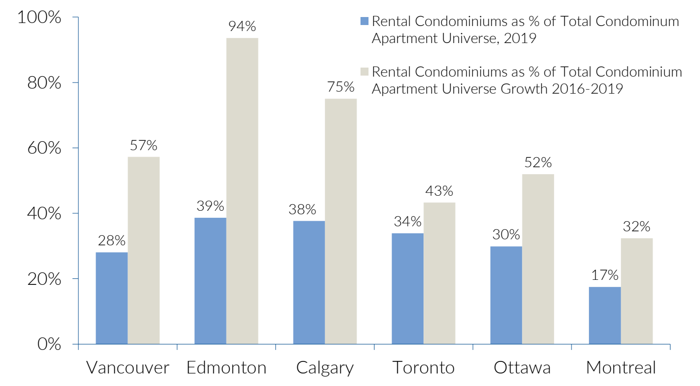
Rented condominiums have contributed more to the growth in the total rental apartment stock in the past 3 years than their current share of the total stock (Chart 10). In the case of Toronto and Vancouver, more than three-quarters of the growth in the stock of rented apartment units has come from condominiums. Again, not all of the change in the rental stock is necessarily newly completed product, as condominium apartments may go back and forth between the owner-occupied and rental stock and tenure conversions between purpose-built rental and purpose-built condominium buildings may occur.

2020 Likely to See a Bump Up in Deliveries of New Condo Units

Based on data from Altus Group's New Homes Database, Canada's three largest markets could see a significant bump up in deliveries of new condominium apartment units this year (Chart 11). Given that a large share of these units are likely to be rented out (refer back to Chart 9), this will boost the amount of new rental supply.

Chart 9

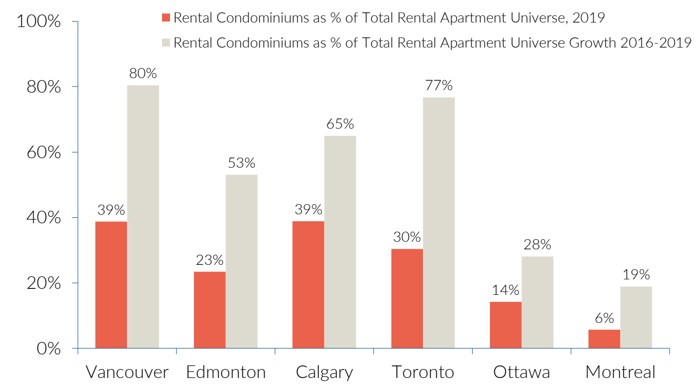
Proportion of Condominium Apartments in the Rental Market, Selected Major Markets



Source: Altus Group based on CMHC data

Chart 10

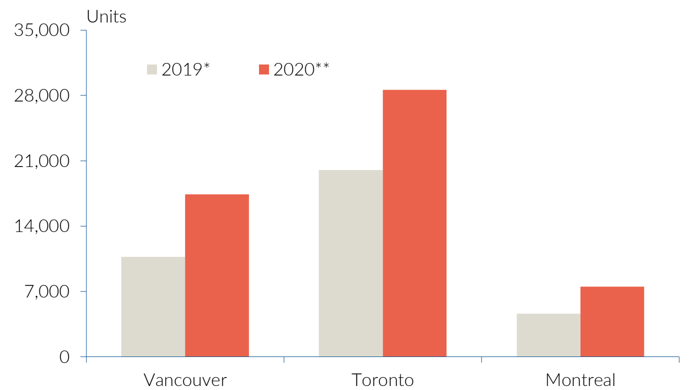
Role of Rental Condominium Apartments in the Broader Rental Apartment Supply, Selected Major Markets



Source: Altus Group based on CMHC data

Chart 11

New Condominium Apartment Units Delivered/ Ready for Occupancy, Selected Major Markets



* Actual ** Potential, based on planned occupancy dates
Source: Altus Group, Data Solutions

Looking Ahead

Record immigration levels and overall strong population growth suggest that there is the need for additional housing units in Canada – both for the rental and owner-occupied components of the market.

We do expect some modest shift in demand back towards the homeownership side. Homebuying intentions have firmed up among renters (the key potential first-time home buyer group), a function of pent-up demand and better mortgage conditions (lower mortgage rates, slightly less stringent stress testing, etc.). While in the short term some potential buyers are likely to be hesitant given uncertainty with respect to the potential impact of factors such as COVID-19 and falling oil prices on the economy (and more specifically their employment prospects), we expect there will be government stimulus measures resulting in stronger actual first-time homebuying as the year progresses.

But this shift towards the homeownership side will not be at the expense of the rental sector – demand for additional rental units is also expected to be solid.

On the supply-side, completions of new rental apartments – both purpose-built and leased condos – are on track to be higher in 2020 than in 2019. Does that mean that an oversupply is emerging? No – the additional supply in general is needed in the context of underlying demand. For investors, this means that here is still upward potential for moderate rent increases on average over the next year.

Altus Group provides a range of products and services for the rental housing investment and development sectors

- Subscription data services:
  - *sales transactions for purpose-built rental properties and high-density residential land*
  - *comprehensive monitoring of new condominium apartment development;*
  - *development applications monitoring*
- Macro market demand and supply analyses
- Project-specific market feasibility, repositioning and government program funding application studies
- Property appraisals
- Cost consulting and monitoring
- Property tax consulting
- Argus Developer software (to model potential financial performance).

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December Starts Slip

Canada-wide housing starts moved lower in the month of December, to 195,900 units seasonally adjusted at annual rate (SAAR), according to CMHC estimates. Starts bumped up in the single-family sector but were offset by fewer apartment starts.

Regional highlights for December include:

- Atlantic Canada starts rose in Nova Scotia and P.E.I. and fell in New Brunswick and Newfoundland;
- Quebec starts slipped due to lower activity in the Montreal CMA as well as elsewhere in the province;
- Ontario starts fell back as a result of a slowdown in both the Toronto CMA and the remainder of the province;
- Starts dipped in Manitoba but rose in Saskatchewan;
- Alberta starts reached their highest level in 4 years; and
- B.C. starts retreated due entirely to fewer starts outside the Vancouver CMA.

Housing Starts by Type and Area

	December 2018	November 2019	December 2019
	Total Starts (000s), SAAR		
Canada, Total	214.8	205.2	195.9
By Type of Unit			
Single-family	98.9	91.7	94.1
Apartment	115.8	113.5	101.8
By Area			
British Columbia	50.7	47.8	42.9
Vancouver CMA	*24.7*	*27.6*	*27.7*
Other Areas	*26.0*	*20.3*	*15.2*
Alberta	19.1	27.0	39.5
Saskatchewan	2.5	2.2	2.8
Manitoba	6.5	6.6	6.0
Ontario	70.6	64.9	57.2
Toronto CMA	*37.2*	*23.8*	*21.1*
Other Areas	*33.4*	*41.1*	*36.1*
Quebec	54.9	45.5	36.0
Montreal CMA	*35.1*	*20.9*	*18.8*
Other Areas	*19.8*	*24.6*	*17.1*
New Brunswick	2.8	4.6	1.8
Nova Scotia	5.2	4.0	6.7
Prince Edward Island	1.5	1.4	1.9
Newfoundland	0.9	1.3	1.2

Source: CMHC and estimates by Altus Group

Labour Force Indicators

	Employment Growth		Unemployment Rate	
	Jan-Dec 18-Jan-Dec 19-	Dec 18-Dec 19	Dec 2018	Dec 2019
	000s		*%*	
St. John's	6	4	7.6	7.0
Halifax	14	3	5.4	6.6
Quebec	5	3	3.7	3.5
Montreal	24	1	5.9	6.0
Ottawa	33	60	5.0	4.2
Toronto/ Oshawa	130	141	6.1	5.7
Kitchener-Waterloo	19	9	5.0	5.2
London	5	9	5.0	5.6
Winnipeg	12	3	5.7	5.3
Regina	1	-0	5.7	6.0
Saskatoon	10	2	5.7	5.7
Calgary	31	23	7.5	7.1
Edmonton	24	-9	6.4	8.1
Vancouver	47	16	4.5	4.8
Victoria	1	6	3.6	3.4

Based on seasonally adjusted 3 month averages
Source: Altus Group based on Statistics Canada data

Resale Housing Market Indicators

	MLS Sales*			Months of Inventory**	
	Dec 2018	Dec 2019	% Change	Dec 2018	Dec 2019
	Units				
St. John's	251	285	14	n.a.	n.a.
Halifax	275	323	17	n.a.	n.a.
Quebec	481	632	31	15.6	11.9
Montreal	2,796	3,533	26	6.8	4.1
Ottawa	673	775	15	n.a.	n.a.
Toronto/ Oshawa	3,746	4,399	17	3.1	1.7
Kitchener-Waterloo	264	244	-8	n.a.	n.a.
London	439	469	7	2.4	2.3
Winnipeg	495	610	23	6.0	4.4
Regina	116	164	41	14.6	9.0
Saskatoon	206	301	46	n.a.	n.a.
Calgary	993	1,111	12	7.5	6.1
Edmonton	769	845	10	8.7	7.1
Vancouver	1,072	2,016	88	9.6	4.3
Victoria	323	367	14	4.4	3.8

* Multiple Listing Service (MLS) is a registered certification mark owned by The Canadian Real Estate Association
** Active listings at month end divided by sales during the month. A 5 months inventory of resale product is considered to be a "normal" market.
Source: Altus Group based on data from The Canadian Real Estate Association and local real estate boards

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