Altus Group

HOUSING REPORT

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COVID-19 Drives Up Rental Vacancy Rates

What a difference a year makes. Our rental issue in 2020 was published after COVID-19 came on the radar, but before the pandemic was declared. While we foresaw a few bumps ahead, the ensuing weak job market, decimated immigration levels, fewer international students and strong homebuying activity all combined to take a larger than expected toll on rental demand. At the same time, more apartment supply came to the market, through new completions, as well as some shifts from short-term rentals in some markets.

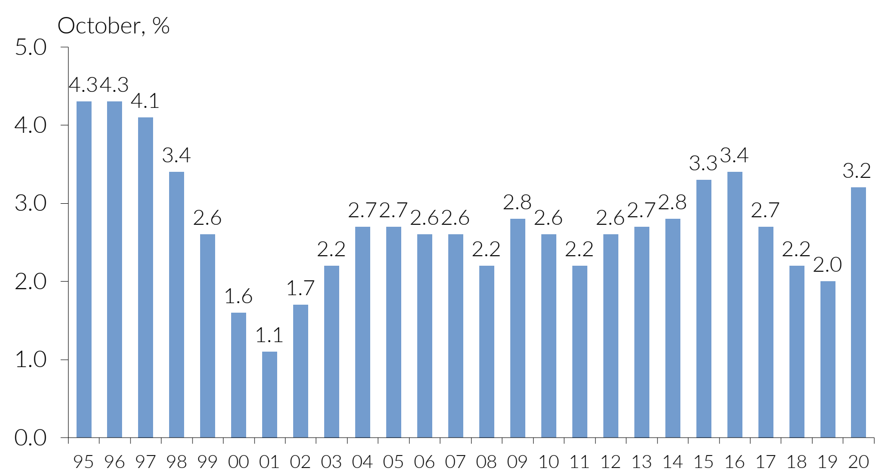
In late 2020, the vacancy rate for private, purpose-built rental apartments in Canada's major markets shot up to 3.2%, from 2.0% in late 2019 (Chart 1).

The shift to higher vacancy rates prevailed across most of the markets as over half (21 of 36) recorded higher vacancy rates, 10 posted a decline and 5 were relatively stable (within +/- 0.1 percentage point change). Calgary and Edmonton had the largest increases in vacancy rates (Chart 2, next page).

The easing vacancy rate across many of the major markets meant that on average, landlords were able to obtain lower rent increases in 2020 – at about 3.6% for the 12 months ending October 2020 (based on average rents for 2 bedroom units in buildings common to the survey in both years), compared to 4.1% a year earlier.

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

Highlights

- The purpose-built rental apartment vacancy rate for the combined major markets shot up to 3.2% in late 2020, prompting lower rent increases
- All six of the largest markets - Vancouver, Edmonton, Calgary, Toronto, Ottawa and Montreal - are "soft"
- Completed new purpose-built rental supply increased for the third straight year
- Vacancy rates also up for rented condos in Vancouver, Calgary and Toronto, although rates are well below those for purpose-built rental
- Stronger economic and population growth once the pandemic loosens its grip suggests that oversupply in the rental sector will gradually be whittled down, although the pace of the declines in vacancy rates will be tempered in some markets by higher levels of completed new supply

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Chart 2

Selected Purpose-Built Rental Apartment Indicators, Major Markets

Metropolitan Area	Vacancy Rate* 2019	2020	Starts 2019	2020	Completions 2019	2020	Average Rents** 2019	2020
	%		Units				Year/Year % Change	
'Tight' in 2020 (vacancy rate <1.5%)								
Abbotsford	1.1	0.6	476	289	461	391	5.1	1.8
Sherbrooke	2.3	1.3	1,088	1,552	550	1,243	2.1	3.1
Trois-Rivieres	2.3	1.3	317	317	412	318	4.1	2.0
'Balanced' in 2020 (vacancy rate 1.5-2.5%)								
Gatineau	1.5	1.6	2,470	2,035	2,033	1,579	4.2	2.2
Halifax	1.0	1.9	2,058	1,938	1,674	1,297	3.7	4.2
Kingston	1.9	1.9	191	341	331	387	7.4	2.5
Kitchener	2.1	2.1	1,154	603	560	1,159	5.0	4.0
Kelowna	2.7	2.1	480	609	1,611	942	2.1	3.1
Barrie	3.2	2.1	23	119	60	80	4.0	8.0
Victoria	1.0	2.2	1,481	1,618	1,605	1,894	2.3	3.3
Guelph	2.0	2.2	0	219	52	229	5.5	4.8
Brantford	2.3	2.2	0	100	0	0	4.7	5.3
Oshawa	2.4	2.3	74	129	98	450	5.0	4.6
'Soft' in 2020 (vacancy rate >2.5%)								
Sudbury	2.1	2.5	14	12	4	107	8.1	**
Vancouver	1.1	2.6	6,060	5,234	5,590	5,438	4.9	1.5
Peterborough	2.1	2.6	48	174	15	48	3.2	5.3
Montreal	1.5	2.7	13,224	15,947	12,465	13,113	3.4	3.6
St. Catharines	2.3	2.7	189	174	104	233	3.9	6.1
Québec	2.4	2.7	4,411	4,997	4,039	3,983	1.9	2.7
Moncton	2.2	2.8	780	1,121	307	536	2.6	4.7
Saguenay	3.7	2.8	79	169	59	133	2.7	1.9
Belleville	3.3	3.0	8	133	130	46	5.7	6.3
Saint John	3.3	3.1	219	295	67	264	4.4	3.3
Toronto	1.5	3.4	3,986	5,819	3,372	3,390	6.1	4.5
London	1.8	3.4	1,178	1,445	483	1,038	4.9	6.8
Hamilton	3.9	3.5	247	48	101	617	4.4	5.0
Windsor	2.9	3.6	202	91	44	234	7.7	8.7
Winnipeg	3.1	3.8	2,151	2,380	1,384	2,248	3.1	3.0
Ottawa	1.8	3.9	1,222	1,125	1,133	1,966	8.0	5.2
Thunder Bay	3.6	4.1	70	26	18	73	3.6	2.0
Lethbridge	4.7	5.6	139	157	57	132	3.1	2.6
Saskatoon	5.7	5.9	292	716	312	545	2.0	2.0
Calgary	3.9	6.6	953	839	1,863	2,309	2.2	++
Edmonton	4.9	7.2	1,574	1,864	1,777	3,090	0.9	++
St. John's	6.9	7.5	68	14	38	53	-0.8	1.6
Regina	7.8	7.5	118	199	431	226	-0.2	0.8
All Met Areas	**2.0**	**3.2**	**47,044**	**52,848**	**43,240**	**49,791**	**4.1**	**3.6**

* 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 March Higher

Purpose-built rental apartment completions in Canada's major markets posted another strong increase in 2020, reaching almost 50,000 units (Chart 3). This higher new supply was coming to the market at the same time that demand softened due to the impacts of the pandemic, resulting in a jump in the overall rental vacancy rate.

Starts of purpose-built rental apartment units also continued their climb for the fourth year in a row. Starts in 2020 reached nearly 53,000 units, the highest level since CMHC began tracking tenure in the late 1980s. Ultimately these higher starts levels will translate into stronger completions.

Purpose-Built Rental Accounted for Over Half of Apartment Completions

Similar to purpose-built rental construction, condominium apartment completions have increased in the major markets as a whole in 2020 (Chart 4). Despite this increase, purpose-built rental apartments have been able to maintain their share of total apartment completions at last year's elevated level, twice the share of just five years earlier.

Higher levels of starts of condominium apartment units on average in recent years should translate into more condominium apartment completions in the coming years, thus adding to the supply of rented condominium apartment units.

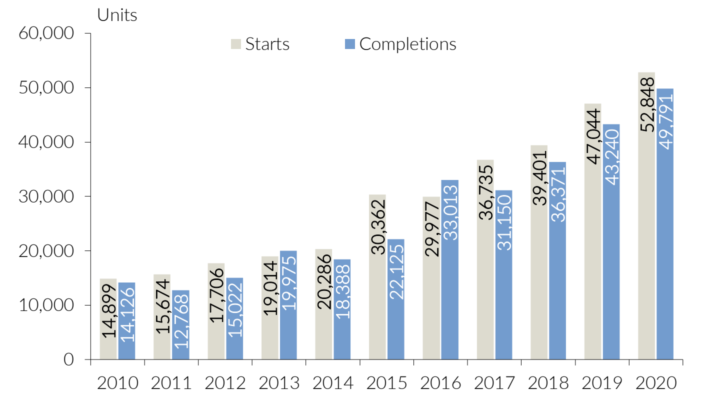
Vacancy Rates for Newer Stock Jump in 2020

The vacancy rates for the "newer" purpose-built rental stock (built 2005 or later, no additional breakdown for more recent years is released) has risen sharply this past year across all six of the largest Canadian markets (Chart 5).

The elevated supply of newly completed units, averaging over 43,000 units annually over the 2018-2020 period, has boosted the pool of rental units. These "newer" units also typically have higher rents than the older stock and often take longer to fully rent out, a situation likely exacerbated by the pandemic.

Chart 3

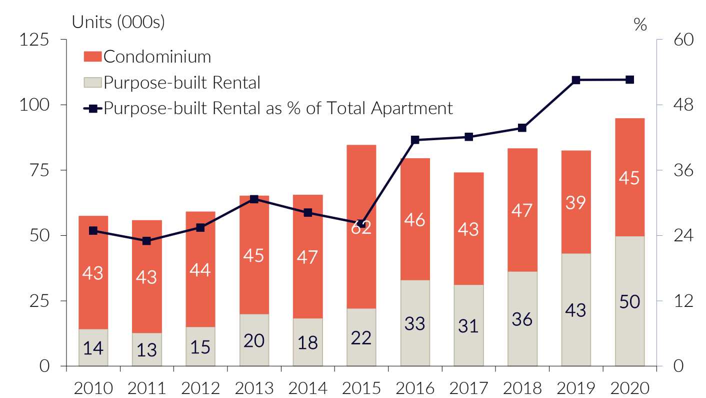
Private Purpose-Built Rental Apartment Starts and Completions, Major Markets, Canada



Source: Altus Group based on CMHC data

Chart 4

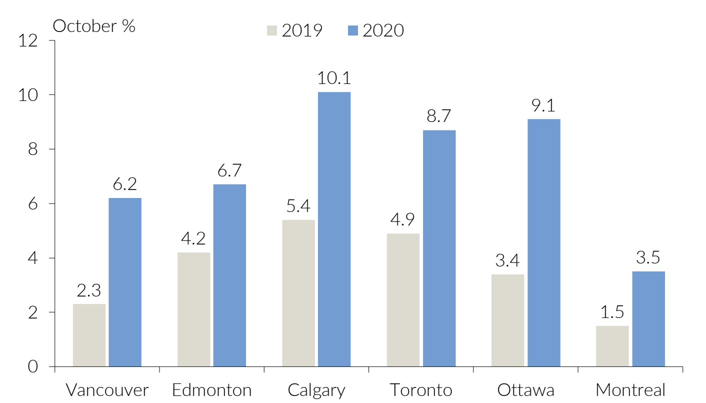
Apartment Completions by Intended Market Segment Major Markets, Canada



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 Below Those for the Purpose-Built Rental Stock

Vacancy rates for rented condo apartments were generally higher year-over-year in 2020 in the largest markets (Chart 6) with the exception of Edmonton and Ottawa.

However, across all markets, the vacancy rates for rented condo apartments are currently below those for the purpose-built stock.

Increases in Condo Rents in 2020 Lag 2019

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

Average condominium apartment rents were up in 2020 in most markets, the exceptions being Toronto and Edmonton. Similar to the purpose-built rental sector, rent increases in 2020 lagged those recorded in 2019.

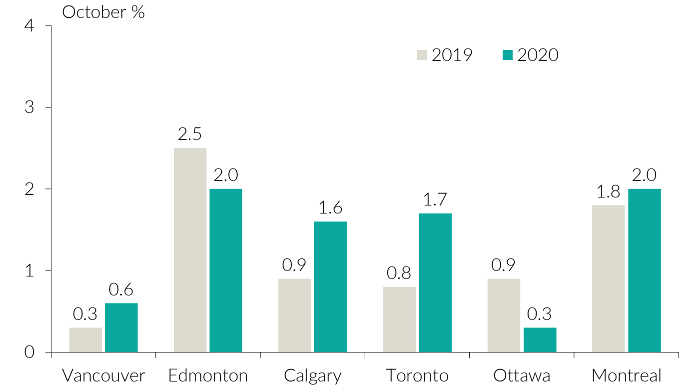
Condo Apartment Rents in the GTA Show Signs of Stabilizing

Rents for leased condominium apartments in the Greater Toronto Area (GTA) were already starting to trend down before COVID-19 hit (Chart 8). But the pandemic sped up the decline, with average lease rates for 1 and 2 bedroom units dropping 16% and 13%, respectively between Q1 2020 and Q4 2020. Tenants were given more bargaining power due to the explosion in new listings for rental condos in the second half of 2020 – a combination of shifts from restricted short-term rentals, additional new supply, and increased rollovers as existing tenants shopped around for better deals or exited the rental market entirely (some to the ownership market).

The worst however may now be over. The ratio of new leases vs. new listings in Q1 2021 was more in line with historical norms and average rents dipped only slightly. However, in absolute terms, the number of excess new listings over new leases was still very large, suggesting that it will likely be some time before rents recover to pre-pandemic levels.

Chart 6

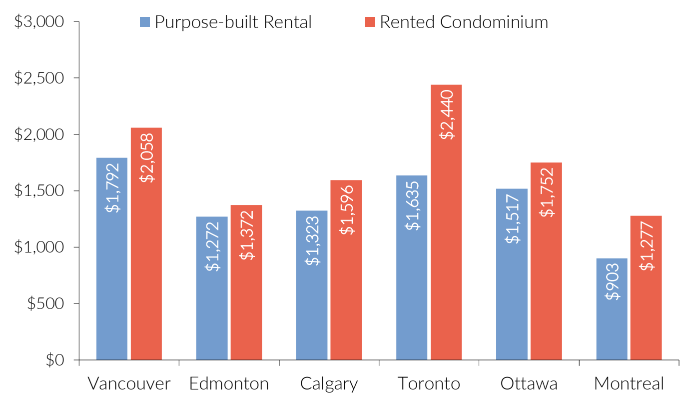
Rental Condominium Apartment Vacancy Rates, Selected Major Markets



Source: Altus Group based on CMHC data

Chart 7

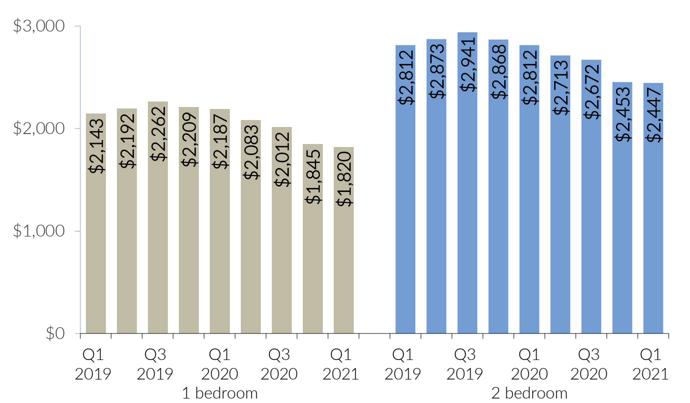
Average Monthly Rent for 2 Bedroom Apartment, October 2020, Selected Major Markets



Source: Altus Group based on CMHC data

Chart 8

GTA Condominium Apartment Lease Transactions Average Monthly Rents



Source: Altus Group based on Toronto Regional Real Estate Board data

Rental Apartment Building Sales Down in Most Markets

With the market facing COVID-19 uncertanties for the past year, investors generally remained cautious on adding rental properties to their portfolios in 2020.

The dollar volume of sales transactions of existing rental buildings in the markets tracked by Altus Group reached $8.2 billion in 2020, down about 17% from 2019.

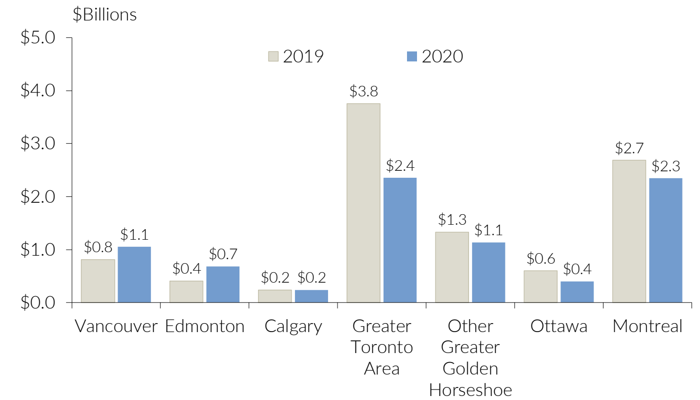
The majority of the decline in transaction volumes was due to weaker sales in the Greater Toronto Area (GTA) where sales volumes were down 37% from the record high in 2019 (Chart 9). The areas of the Greater Golden Horseshoe outside the GTA, as well as Ottawa and Montreal, also contributed to the overall decline. But Vancouver and Edmonton were able to buck the downward trend and post higher sales volumes in 2020.

However, interest among larger investors in buying rental buildings in the major markets is up overall from last year, according to Altus Group's latest Investment Trends Survey (Chart 10), which confirms the longer-term attractiveness of this sector. For most markets tracked, interest in purchasing apartment buildings was higher than, or similar to, a year ago, the key exception being Ottawa.

Survey respondents asked about their top motivations for rental investment responded with the stability of value compared to other asset classes, the stability of income and relative debt costs.

Chart 9

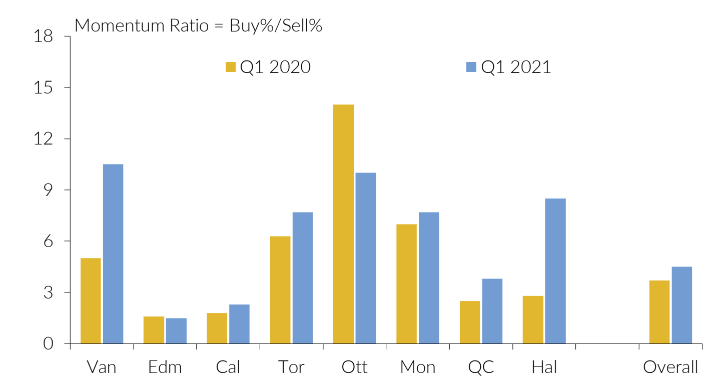
Rental Apartment Sales Transactions



Source: Altus Group, Commercial Transactions Database

Chart 10

Larger Rental Investor Barometer



Source: Altus Group, Investment Trends Survey

Looking Ahead

Canadian rental markets in 2020 and 2021 have been severely impacted by the pandemic. But accelerating vaccination efforts point to a light at the end of the tunnel (provided additional new, vaccine resistant, variants do not emerge).

Stronger economic and population growth once the pandemic loosens its grip suggests oversupply in the rental sector will be gradually whittled down, although the pace of the declines in vacancy rates and potential for rent increases will be tempered in some markets by higher levels of completed new supply.

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