HOUSING REPORT

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Rental Market Shows Signs of Improvement

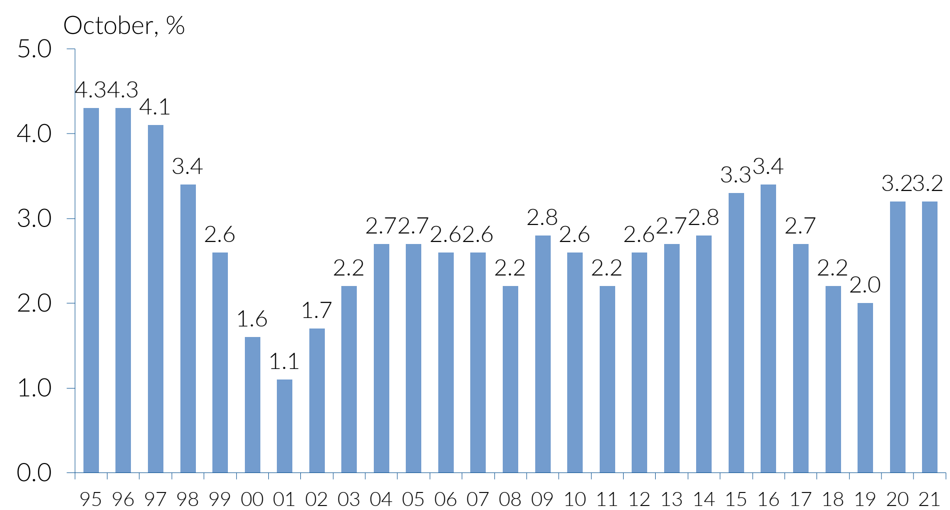
Despite 2021 bringing lots of volatility, the Canadian rental market is finally seeing a light at the end of the tunnel. Immigration levels are rising, international students are returning, the job market is beginning to recover, and rising house prices and interest rates are leading to reduced homeownership affordability - all of which are factors in reviving rental demand. Meanwhile, higher completions of purpose-built rental units are increasing the supply of units coming onto the market. This implies that while demand is rising, supply is also keeping pace. Thus, from 2020 to 2021, the vacancy rate for private, purpose-built rental apartments in Canada's major markets remained steady at 3.2% (Chart 1).

Vacancy rates have dropped across most of the markets, despite remaining steady nationally. This is due to higher vacancy rates in larger markets such as Toronto and Montreal offsetting the declines seen in smaller markets. Of the 36 markets analysed, 27 saw a decrease, while five remained relatively stable (within +/- 0.1 percentage point change) and four markets saw an increase. Among Canada's six largest markets, Vancouver moved from soft to tight in 2021 while Montreal, Ottawa, Toronto Calgary and Edmonton all remained soft (Chart 2, next page).

The average rent increase dipped below 3% in 2021 (based on average rents for 2 bedroom units, Chart 2). While many markets achieved higher increases, softer increases in the 6 largest markets pulled down the average

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 stayed steady at 3.2% in 2021, as increased supply kept pace with improving demand
- Five of the six largest markets - Edmonton, Calgary, Toronto, Ottawa and Montreal - remain "soft"
- Completed new purpose-built rental supply increased for the third straight year
- While vacancy rates were up for purpose-built rental units in Toronto and Montreal, they declined for rented condos

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Chart 2

Selected Purpose-Built Rental Apartment Indicators, Major Markets

Metropolitan Area	Vacancy Rate* 2020	Vacancy Rate* 2021	Starts 2020	Starts 2021	Completions 2020	Completions 2021	Average Rents** 2020	Average Rents** 2021
	%		Units				*Year/Year % Change*	
'Tight' in 2020 (vacancy rate <1.5%)								
Kelowna	2.1	0.6	609	601	942	689	3.1	3.8
Sherbrooke	1.3	0.9	1,552	1,647	1,243	1,384	3.1	4.7
Trois-Rivieres	1.3	0.9	317	455	318	357	2.0	3.9
Halifax	1.9	1.0	1,938	2,568	1,297	1,688	4.2	4.8
Victoria	2.2	1.0	1,618	2,362	1,894	1,904	3.3	3.1
Peterborough	2.6	1.0	174	289	48	147	5.3	**
Gatineau	1.6	1.1	2,035	1,961	1,579	1,731	2.2	6.4
Vancouver	2.6	1.2	5,234	6,269	5,438	6,706	1.5	2.4
'Balanced' in 2020 (vacancy rate 1.5-2.5%)								
Moncton	2.8	1.5	1,121	908	536	465	4.7	3.1
Abbotsford	0.6	1.6	289	332	391	511	1.8	5.5
Barrie	2.1	1.6	119	200	80	32	8.0	2.8
Saguenay	2.8	1.7	169	102	133	179	1.9	7.1
Belleville	3.0	1.7	133	0	46	0	6.3	++
Sudbury	2.5	1.8	12	137	107	12	**	8.4
Kingston	1.9	1.9	341	665	387	60	2.5	2.9
St. Catharines	2.7	1.9	174	201	233	250	6.1	5.7
London	3.4	1.9	1,445	2,151	1,038	979	6.8	2.9
Kitchener	2.1	2.0	603	1,027	1,159	1,224	4.0	3.2
Guelph	2.2	2.0	219	89	229	180	4.8	4.3
Brantford	2.2	2.0	100	108	0	132	5.3	9.5
Saint John	3.1	2.1	295	240	264	62	3.3	6.4
Oshawa	2.3	2.2	129	778	450	148	4.6	**
Québec	2.7	2.5	4,997	7,041	3,983	4,668	2.7	2.0
'Soft' in 2020 (vacancy rate >2.5%)								
Lethbridge	5.6	2.6	157	40	132	157	2.6	0.9
Hamilton	3.5	2.8	48	458	617	624	5.0	3.7
Montreal	2.7	3.0	15,947	20,007	13,113	13,136	3.6	3.9
St. John's	7.5	3.1	14	23	53	26	1.6	2.0
Thunder Bay	4.1	3.3	26	0	73	40	2.0	3.1
Ottawa	3.9	3.4	1,125	1,171	1,966	2,249	5.2	1.3
Windsor	3.6	3.5	91	411	234	106	8.7	5.7
Toronto	3.4	4.6	5,819	4,869	3,390	4,282	4.5	1.3
Saskatoon	5.9	4.8	716	970	545	814	2.0	0.5
Winnipeg	3.8	5.0	2,380	2,673	2,248	2,247	3.0	2.8
Calgary	6.6	5.1	839	2,572	2,309	2,996	++	++
Regina	7.5	7.1	199	373	226	291	0.8	++
Edmonton	7.2	7.3	1,864	3,551	3,090	3,859	++	-0.5
All Met Areas	**3.2**	**3.2**	**52,848**	**67,249**	**49,791**	**54,335**	**3.6**	**2.9**

* 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 a strong increase over 2020 levels, registering over 54,300 units (Chart 3), the highest level recorded since CMHC began tracking tenure in late 1980.

Starts of purpose-built rental apartment units climbed for the 5th year in a row in 2021, reaching a new record of just over 67,000 units. The new supply coming to the market as these starts reach completion, along with currently vacant units, will help to fill emerging higher levels of demand.

Purpose-Built Rental Accounted for Over Half of Apartment Completions

Like purpose-built rental apartments, completions of condominium apartment units also increased in Canada's major markets in 2021 (Chart 4). While condo apartment completions had outpaced purpose-built rental apartment completions for many years, that trend reversed in 2019 and has persisted in the past 2 years.

A portion of the roughly 48,000 condo completions are investor owned units, which made their way to the rental market.

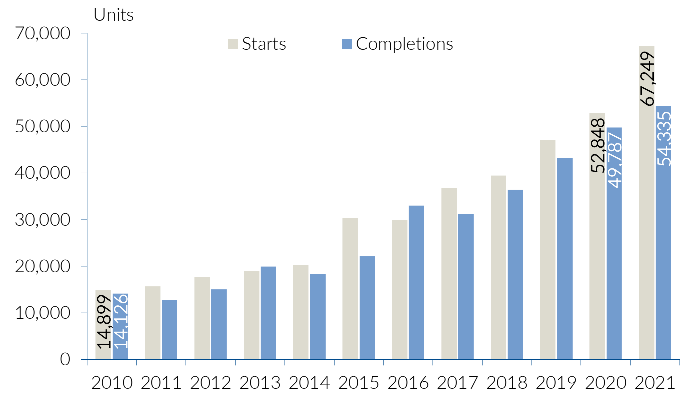
Vacancy Rates for Rented Condos Down in Calgary, Toronto and Montreal

Vacancy rates for rented condo apartments varied across the six largest markets. They were higher in 2021 as compared to 2020 in Edmonton and Ottawa with Calgary, Toronto and Montreal reporting a decline while Vancouver vacancy rates remained steady (Chart 5).

In 2020, the vacancy rates for rented condo apartments were below those for the purpose-built stock across all major markets. This trend has continued throughout 2021.

Chart 3

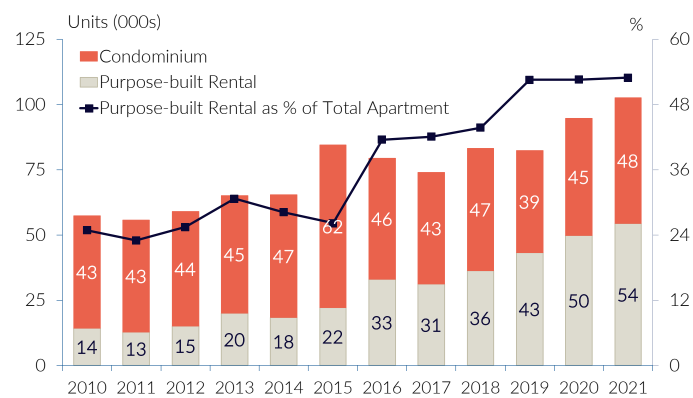
Private Purpose-Built Rental Apartment Starts and Completions, Major Markets, Canada



Source: Altus Group based on CMHC data

Chart 4

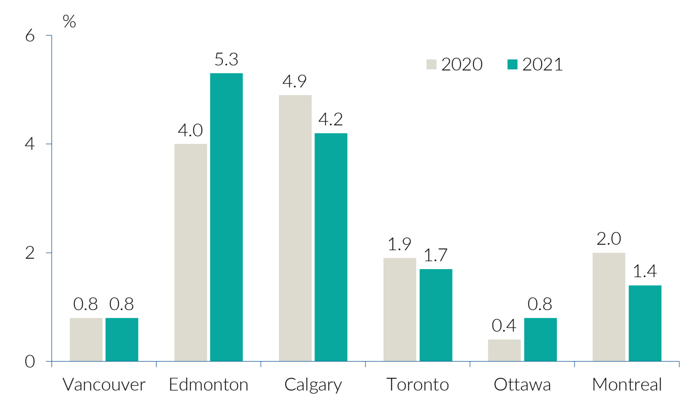
Apartment Completions by Intended Market Segment Major Markets, Canada



Source: Altus Group based on CMHC data

Chart 5

Rental Condominium Apartment Vacancy Rates, Selected Major Markets



Source: Altus Group based on CMHC data

Increases in Condo Rents in 2021 Fall Behind 2020

The average rent for 2-bedroom condominium units is higher than the rent for two-bedroom purpose-built rentals in each of the six largest markets (Chart 6). The largest gap between the two can be seen in Toronto and Montreal, with Edmonton having the smallest difference. The gap is larger in the Montreal and Toronto markets due to the relatively larger share of older purpose-built rental apartment stock, which typically offer lower rents. Condo apartments are also relatively newly constructed as compared to their purpose-built rental counterparts and offer more amenities, contributing to the price premium.

Condo Apartment Rents in the GTA Are Beginning to Rise

Tenants had been provided with better bargaining ability in the 2nd half of 2020. However, the 2nd half of 2021 quickly saw a more balanced dynamic with landlords gaining back some power. Average lease rates for 1 and 2 bedroom units rose by 14% and 12% respectively as compared to 2020 (Chart 7), a marked turnaround from the sharp decline in rents at the end of the previous year.

With recovery in the market, the ratio of new leases vs. new listings in 2021 was more in line with historical norms with average rents beginning to rise. Moreover, in absolute terms, the number of excess new listings over new leases has also begun to level out, falling more closely in line with pre-pandemic levels.

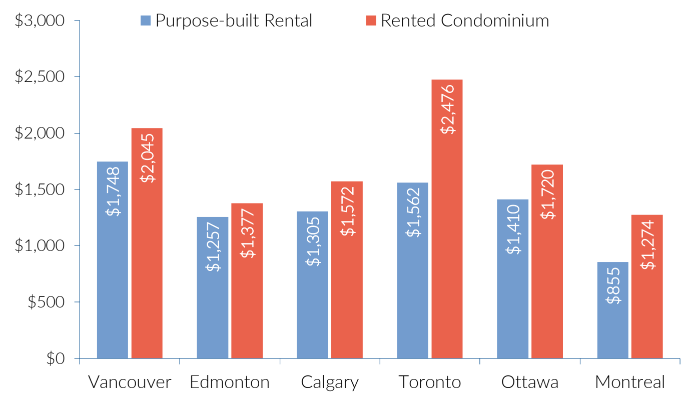
Rental Apartment Building Sales Up in Most Markets . . .

The dollar volume of sales transactions of existing rental buildings in the markets tracked by Altus Group reached $13.9 billion in 2021, up about 66% from 2020.

Montreal, Vancouver and the GTA recorded the largest increases in transaction volume in 2021 with only Edmonton registering a modest decline (Chart 8). This confirms the longer-term attractiveness of this sector, especially with immigration levels going up, and population levels rising.

Chart 6

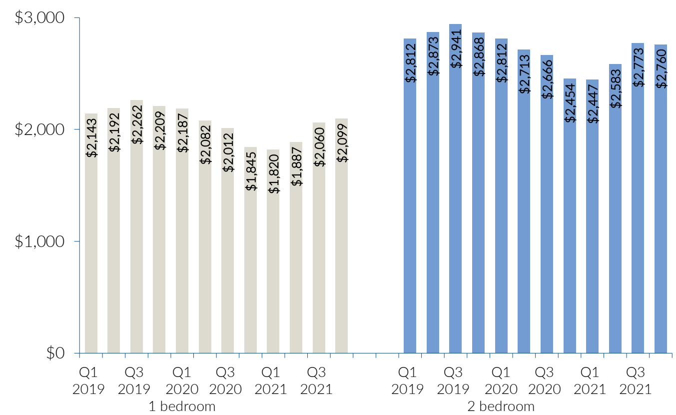
Average Rent for 2 Bedroom Apartment, October 2021, Selected Major Markets



Source: Altus Group based on CMHC data

Chart 7

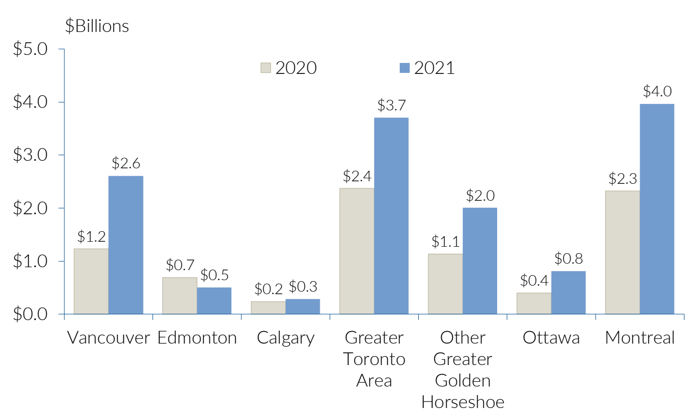
GTA Condominium Apartment Lease Transactions Average Monthly Rents



Source: Altus Group based on CMHC data

Chart 8

Rental Apartment Sales Transactions



Source: Altus Group, Commercial Transactions Database

. . .And Interest in Buying Rental Properties is Growing

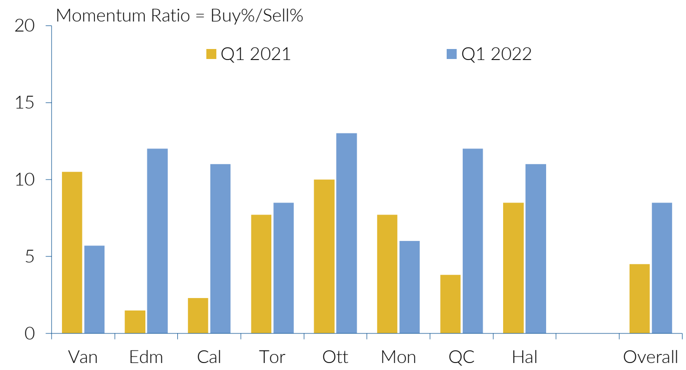
Interest amongst investors in buying rental buildings in the major markets is up overall from last year, according to Altus Group's latest Investment Trends Survey (Chart 9).

For most markets tracked, interest in purchasing apartment buildings was higher than, or similar to, a year ago - the key exceptions being Vancouver and Montreal. Both Calgary and Edmonton reported a very strong recovery in investor interest in purchasing rental buildings

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

Chart 10

Larger Rental Investor Barometer



Source: Altus Group, Investment Trends Survey

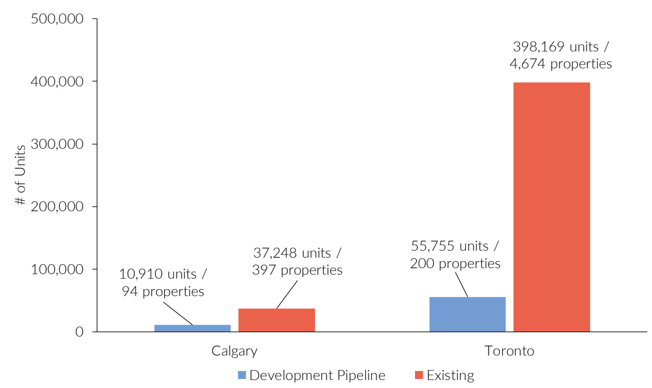
Altus Group Now Collecting Multi-family Rental Data

Altus Group's new multi-family rental data subscritpion service is the only one in Canada that provides consistent standards for benchmarking by building class. From deal-sourcing to portfolio management, it provides the data and benchmarks needed to identify opportunities, enhancing asset performance and move projects or investments forward.

Replacing the need to aggregate data from numerous sources, the rental market data set provides a national picture with key data collected consistently and directly from asset managers and landlords of thousand of buildings, including market inventory, product mix, rental rates, incentives, vacancy, building amenities, operational costs and more. For additional informatin on this exciting new service, contact Lee Li at Lee.Li@altusgroup.com.

Chart 9

Calgary and Toronto Multi-family Building Profile



Source: Altus Group, Data Solutions (Rental Market Database)

Looking Ahead

Canadian rental markets have been severely impacted by the pandemic. However, as COVID-19's influence on the economy wanes, a sense of optimism can be seen returning to the market.

Economic recovery, along with renewed population growth catalyzed by increased immigration levels, suggest better times ahead for landlords. However, higher levels of new rental supply (from both purpose-built rental and investor-owned condominium units) will offset some of the potential upside to rent increases.

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