Canada National Multifamily Report

Q2 2022

Canada Apartment Insights and Analysis

- Canada's multifamily market performed well in the first quarter, with a generally positive outlook for coming quarters. The apartment vacancy rate is inching down towards pre-pandemic levels due to strong demand, while rent growth is trending higher amid a shortage of housing in many Census Metropolitan Areas (CMAs). Coming off 5.7% GDP growth in 2021, the Canadian economy is strong, with most analysts forecasting growth to fall between 3.5% and 4.0% in 2022. Canada added 209,000 jobs in the first quarter, reducing the unemployment rate to 5.3% in March.

- While the near-term prospects remain sanguine, Canada faces headwinds common to the global economy. Inflation reached a 5.7% annual rate in February amid global supply-chain pressures and rising energy prices, prompting the Canadian Central Bank to raise short-term rates by 50 basis points to 1.0% in mid-April.

Canada's multifamily market is performing well, with a positive outlook. Although near-term growth prospects remain strong, Canada faces headwinds common to the global economy.

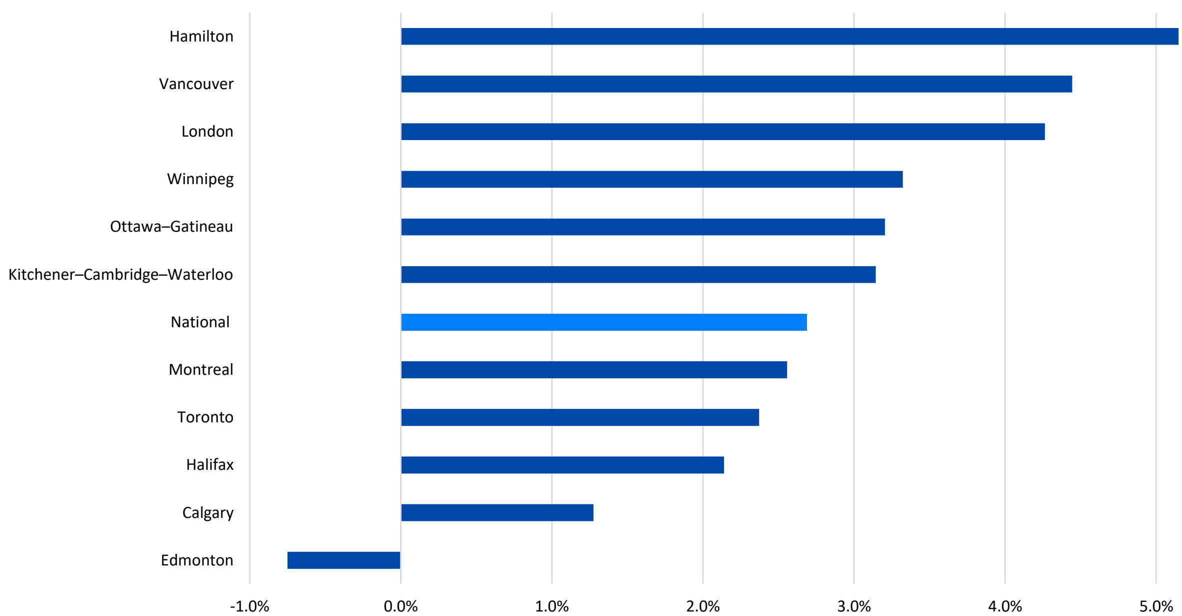
- Downside concerns centre around a scenario in which inflation continues to rise, causing the central bank to raise rates sharply in coming months. The resulting increase in borrowing rates might put a brake on economic growth and the housing market—which accounts for roughly 20% of the economy—in the second half of the year. The likelihood of a severe slowdown remains low, but events such as the war in Ukraine are creating heightened uncertainty.

- Housing—both rental and owner-occupied—continues to be a contentious issue. The average cost of a single-family home in Canada rose more than 20% in 2021 to an all-time high of $816,000, according to the Canadian Real Estate Association. Prime Minister Justin Trudeau's government recently enacted a two-year ban on home purchases by foreign investors in hopes of reducing the increases in housing costs. Mushrooming home prices have kept some households out of the for-sale market, boosting demand for rental housing.

In-Place Rent Growth Picks Up, Amid Strong Demand

- The national average in-place rent was $1,336 as of first quarter 2022, a 2.7% increase from a year ago and up 0.8% from the previous quarter. In-place rents represent an aggregation of all rents in a given CMA, including those for new leases, renewals and existing leases.
- In-place rent growth has gradually picked up over the last two quarters, as demand for housing has remained robust. The rate of increase fell to 1.9% in the second and third quarters of 2021 before improving to 2.2% in the fourth quarter and 2.7% in 1Q22. The growth in lease rates reflects continued robust recovery from the pandemic and ongoing strong demand for apartment housing across Canada. In-place rents nationally are 4.8% higher than they were in first quarter 2020, before the start of the pandemic.
- Hamilton (5.1%), Vancouver (4.4%) and London (4.3%) had the highest growth in 1Q22 compared to a year ago. Hamilton (2.3%), Ottawa-Gatineau (1.7%) and Vancouver (1.0%) saw the biggest increases from the previous quarter.
- Job growth, immigration and the return of foreign students to in-person classes are among the major drivers of demand for apartments. After accepting 405,000 immigrants in 2021, Canada is on track to admit a similar number in 2022. Some of the immigration numbers emanate from foreign workers already in the country, but others are being drawn to Canada by the growth in technology jobs. Toronto and Vancouver in particular have had strong growth in office employment.
- Many owner/operators of older-vintage properties are initiating capital improvement programs to reposition, drive rental rates and add value.

Year-Over-Year In-Place Rent Growth (Q1 2022)



Source: Yardi

Smaller CMAs Reap Highest Increases in Rents

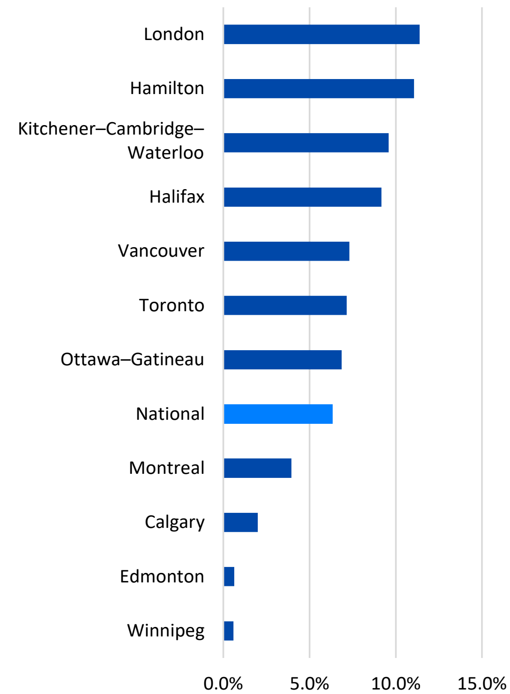
- In-place rent growth was primarily driven by a strong increase in lease-over-lease rents, which rose 6.3% in the first quarter of 2022 compared to 1Q21. As has been the case for the past year, lease-over-lease rate growth was highest in smaller CMAs that saw a substantial uptick in migration. Ontario CMAs London (11.4%) and Hamilton (11.1%) reached double-digit increases for lease-over-lease rents in 1Q22, while Kitchener-Cambridge-Waterloo (9.6%) and Halifax (9.2%) also saw robust gains.

- Elevated demand in the smaller CMAs such as Hamilton and Halifax is driven by households moving from more expensive metros such as Toronto and Montreal, as most office workers in Canada are still working from home. City centres remain less crowded, which impacts the office and retail segments as much as housing. Yet the growth of smaller CMAs is constrained by lack of new housing supply.

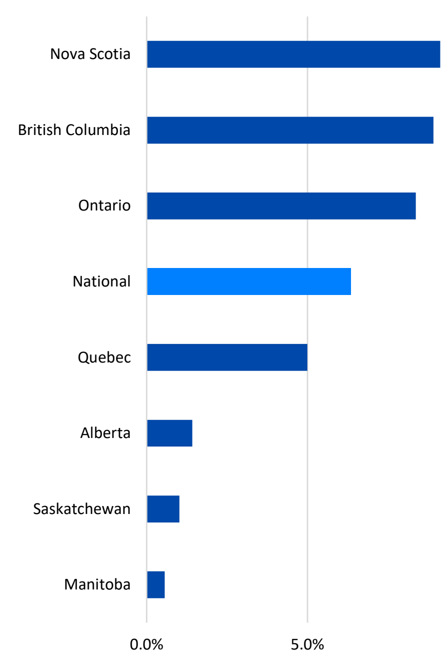
- CMAs with the weakest increases in lease-over-lease rent growth were Edmonton and Winnipeg (both 0.6% compared to 1Q21) and Calgary (2.0%). Edmonton's average in-place rent is -0.5% below its 1Q20 level, the only major CMA in which average rents have not fully recovered from the pandemic. Calgary's in-place rents are only 1.7% higher than 1Q20.

- The large energy-rich CMAs in Alberta are likely to benefit from the rise in global oil prices to more than $100 per barrel. Prices are likely to remain elevated, as countries are preparing to stop buying Russian product. Canada's natural resources minister has said the country can increase production by up to 300,000 barrels a day by the end of the year. That could benefit apartments in Edmonton and Calgary if the result is a boost in employment or wages in the oil-and-gas sector. However, growth in oil production and related employment in Alberta could be short-lived, given concerns about the environment and the impact of increased production on climate change.

CMA Lease-Over-Lease Rent Growth
(New Leases, Q1 2022)



Province Lease-Over-Lease Rent Growth
(New Leases, Q1 2022)



Source: Yardi

Vacancy Rates Dwindle Towards Pre-Pandemic Level

- Nationwide vacancy rates were 3.7% in the first quarter of 2022, down 10 basis points from the prior quarter and 80 basis points year-over-year. Vacancy rates are slowly recovering from the pandemic, dropping for four straight quarters after peaking at 4.5% in 1Q21. However, vacancies remain above the 3.0% pre-pandemic level.

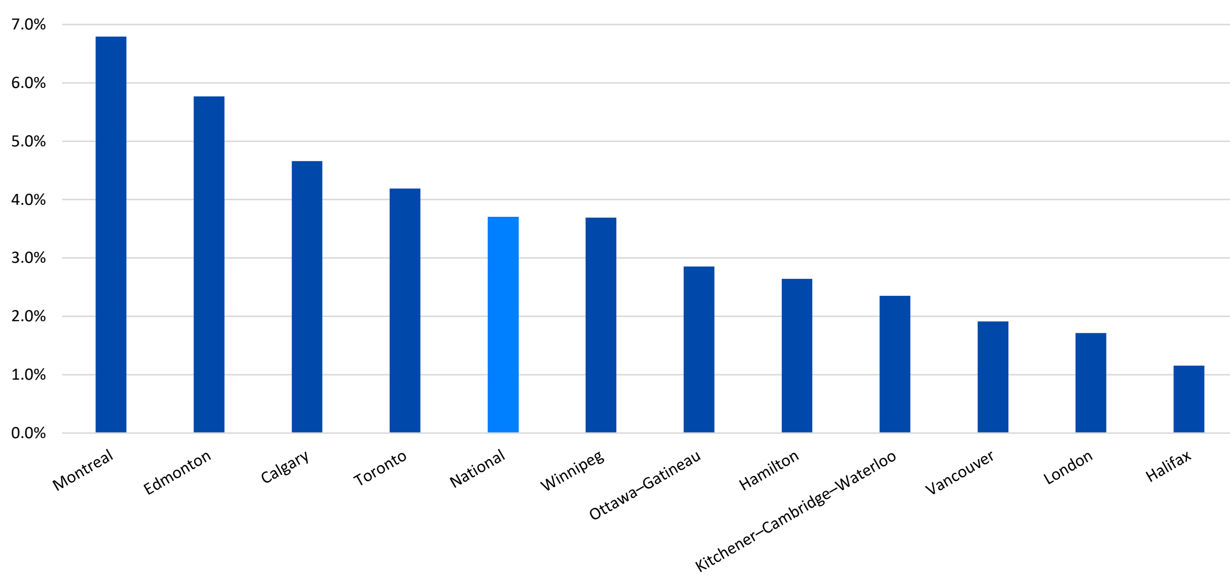
> Vacancy rates are recovering, dropping four straight quarters to 3.7% in 1Q22.

- Despite the consistent downward trend on the national level, among CMAs the performance has been varied. Compared to the first quarter in 2021, the biggest decline in the vacancy rates came in Kitchener–Cambridge–Waterloo (-2.4%), London (-2.2%) and Calgary (-2.1%). Kitchener (2.4% vacancy rate) and London (1.7% vacancy rate) have very tight markets stemming from a pandemic-fueled inflow of residents from larger CMAs combined with a weak supply pipeline. Calgary's 4.7% vacancy rate remains among the highest of major CMAs, and the decrease reflects a decline towards pre-pandemic levels and a recovering economy.

- One major exception to the positive trend is Montreal, where the vacancy rate jumped 60 basis points from the previous quarter to 6.8%. The increase mostly reflects weakness in the city's urban centre, as demand remains healthy in the suburbs.

- In Toronto, vacancy rates have declined 160 basis points since 2Q21 to 4.2%, although the vacancy rate remains more than double the 2.0% rate in 1Q20, before the pandemic started. The downtown is recovering slowly amid stringent pandemic restrictions, prompting some office workers to seek less expensive CMAs. Another reason vacancies remain elevated is the continued and increasing competition from investment condominium/strata units that are coming on the market as rentals.

CMA Vacancy Rates (Q1 2022)



Source: Yardi

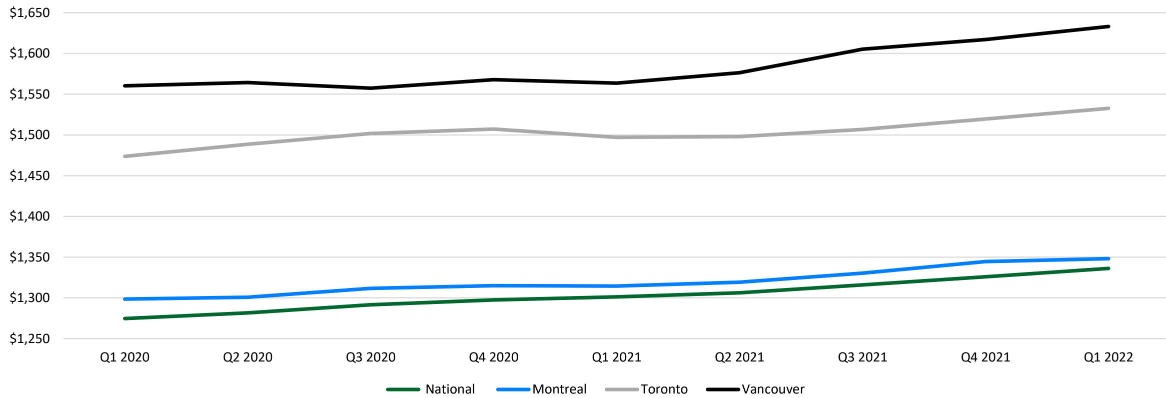
Rent and Vacancy by CMA

CMA	Year-over Year Change in In-Place Rents	Lease-over-Lease Change in New Lease Rents	Vacancy Rate	Expiring Lease Renewal Percentage
Hamilton	5.1%	11.1%	2.6%	95%
Vancouver	4.4%	7.3%	1.9%	82%
London	4.3%	11.4%	1.7%	95%
Winnipeg	3.3%	0.6%	3.7%	77%
Ottawa–Gatineau	3.2%	6.9%	2.9%	94%
Kitchener–Cambridge–Waterloo	3.1%	9.6%	2.4%	96%
National	**2.7%**	**6.3%**	**3.7%**	**83%**
Montreal	2.6%	3.9%	6.8%	73%
Toronto	2.4%	7.2%	4.2%	93%
Halifax	2.1%	9.2%	1.2%	94%
Calgary	1.3%	2.0%	4.7%	75%
Edmonton	-0.7%	0.6%	5.8%	70%

Source: Yardi

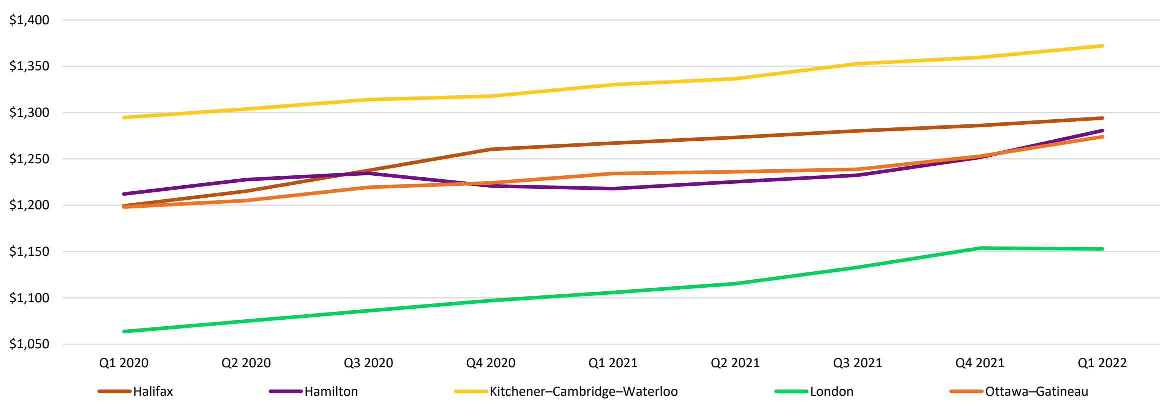
Historical In-Place Rents

National and Major CMA In-Place Rents



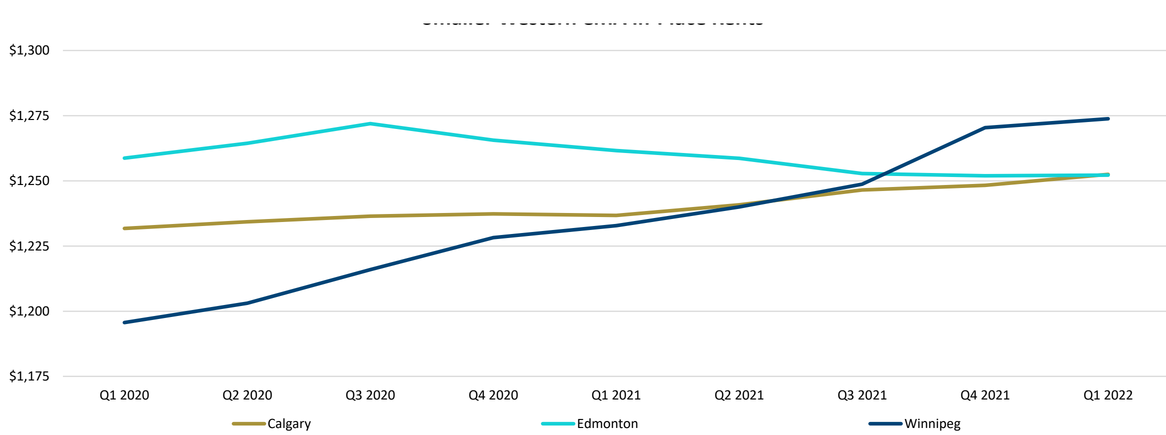
Source: Yardi

Smaller Eastern CMA In-Place Rents



Source: Yardi

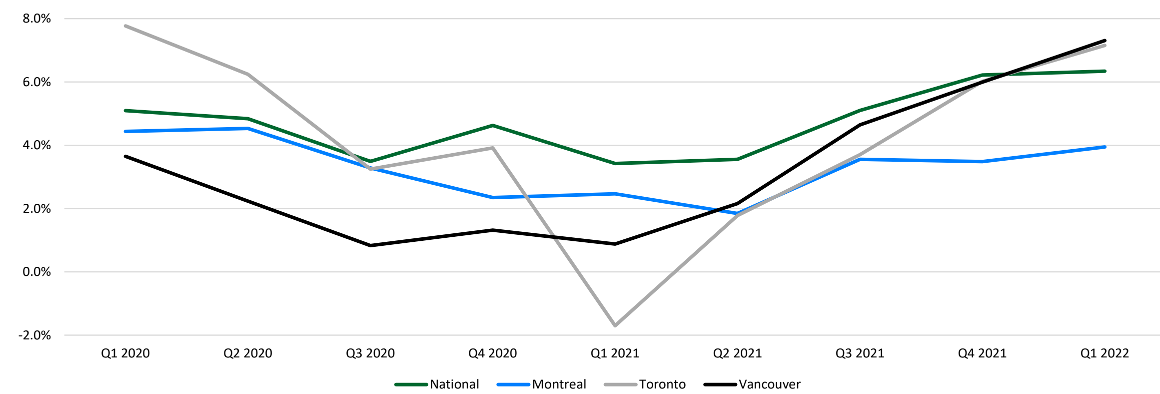
Smaller Western CMA In-Place Rents



Source: Yardi

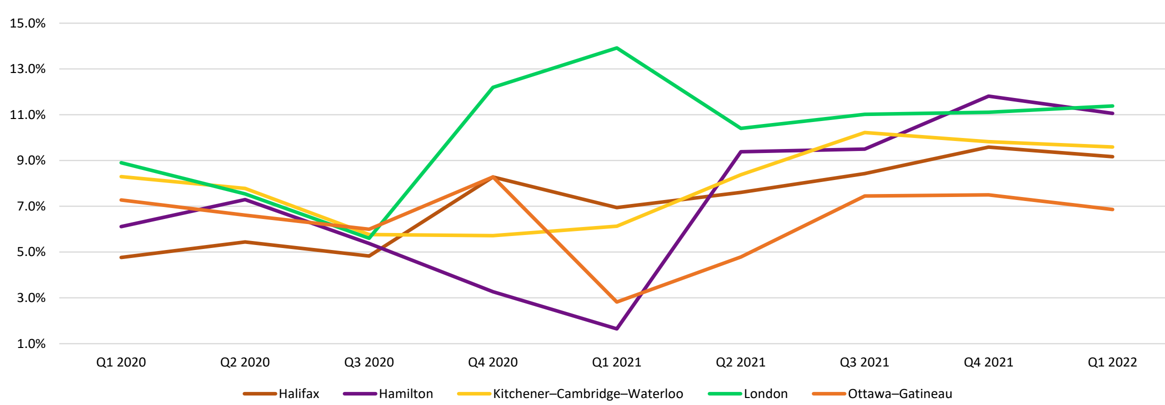
Historical New Lease Rent Growth

National and Major CMA New Lease Rent Growth



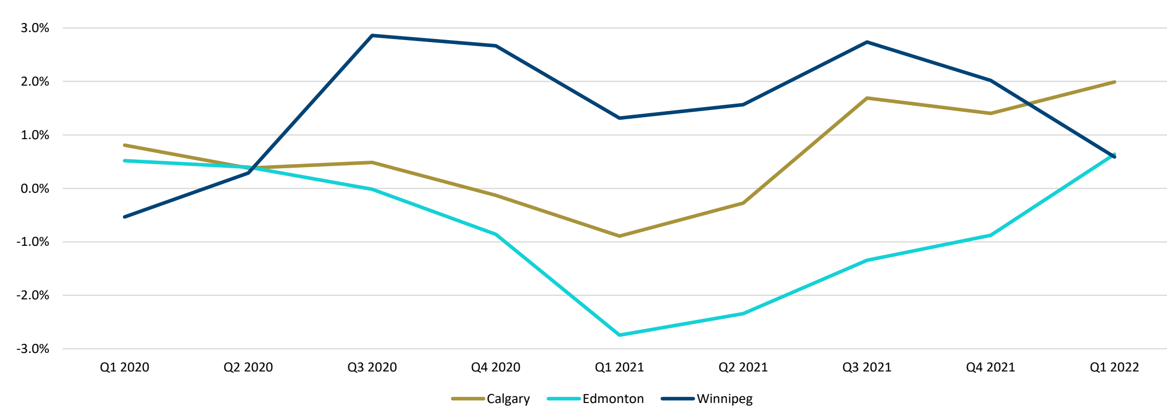
Source: Yardi

Smaller Eastern CMA New Lease Rent Growth



Source: Yardi

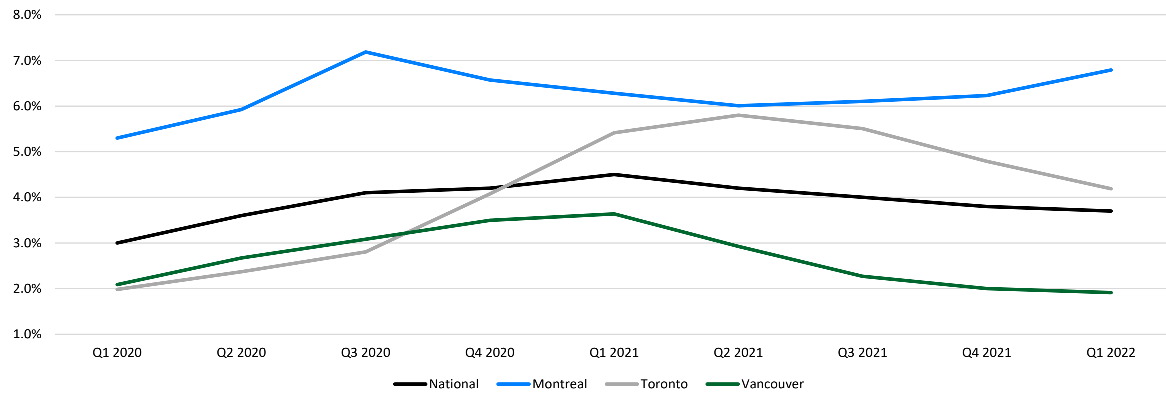
Smaller Western CMA New Lease Rent Growth



Source: Yardi

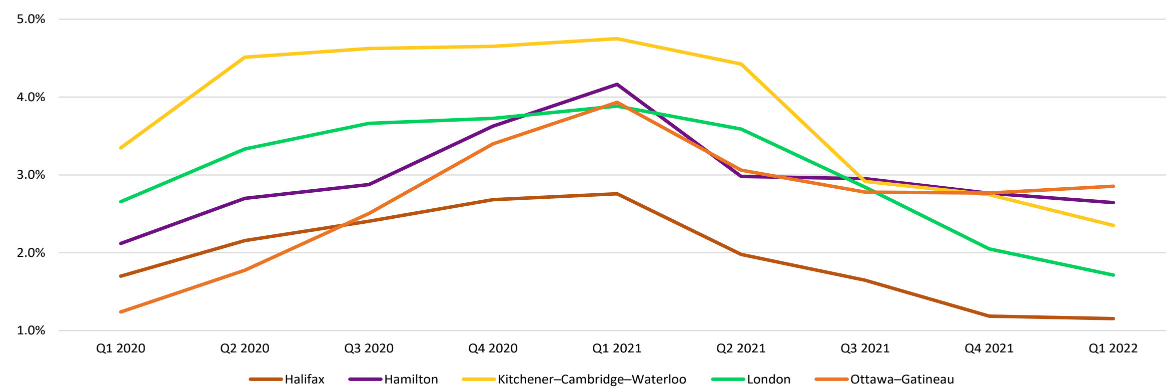
Historical Vacancy Trends

National and Major CMA Vacancy Trends



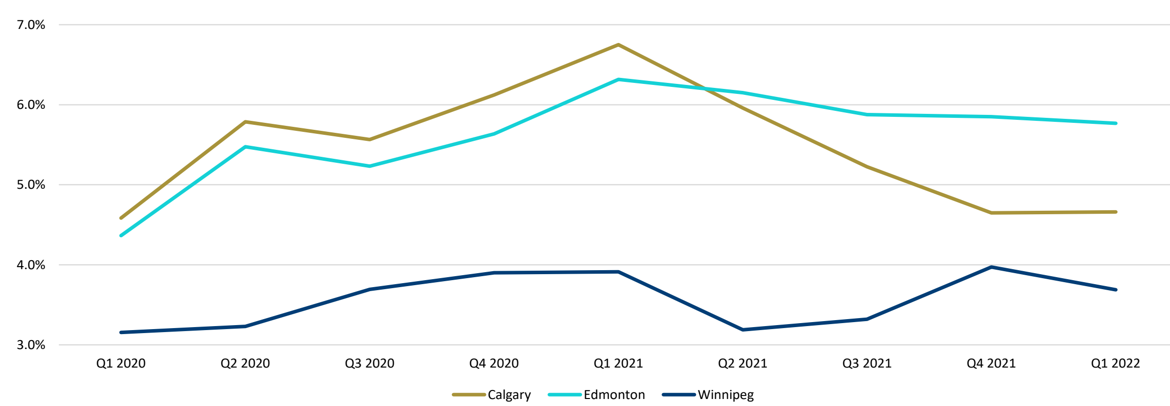
Source: Yardi

Smaller Eastern CMA Vacancy Trends



Source: Yardi

Smaller Western CMA Vacancy Trends



Source: Yardi

Definitions

Lease-Over-Lease Rent Growth (New Leases): Percentage change in monthly rent between a new lease and the previous lease for the same unit

In-Place Rent Per Unit: Monthly rent per unit for all leases, including new lease rents, renewal lease rents and existing leases

Vacancy Percent: Property vacancy percentage based on average number of units vacant in the month

Expiring Lease Renewal Percentage: Percentage of expiring leases for which residents have renewed, excluding early terminated leases

CMA: Census Metropolitan Area

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