Canada National Multifamily Report

Second Quarter 2023

Canada Apartment Insights and Analysis

- With robust growth in renter households, homes increasingly unaffordable and a lack of supply, Canada's apartment market remains sizzling hot. The average in-place rent increased by $21 in Q1 2023 to an all-time high of $1,411, according to Yardi. Rents are accelerating at above-trend levels for both new leases and renewals, and tenant move-outs are low, as affordable options are limited in many markets. Given Canada's growth trajectory and the limited amount of new units in the development pipeline, the apartment market is likely to remain tight.

- Canada's economic conditions mostly support the bullish apartment outlook. Jobs are being added at a steady rate, while population growth continues unabated. The economy exceeded expectations by adding nearly 35,000 jobs in March, led by high-wage segments including transportation/warehousing (41,000), building and support services (31,000) and finance, insurance and real estate (19,000). Hourly wages were up 5.4% as of February. The unemployment rate remained near record lows at 5.0%, as more people are coming off the sidelines to look for work.

Robust population and job growth, a growing preference to rent rather than own, and a long-term housing shortage are keeping Canada's apartment market red-hot.

- Inflation fell to 4.3% in March, its lowest level since August 2021. Unlike its U.S. central bank counterpart, the Bank of Canada has decided to hit the pause button with short-term rates at 4.5%. The BOC forecasts inflation to gradually recede to target levels over the next two years, and is betting that costs will decelerate without more action on its part. The central bank's relative dovishness is likely influenced by the recent spate of bank failures in the U.S., in which the rapid pace of interest rate hikes played a role.

- Yardi's Canada National Multifamily report is adding two new statistical metrics this quarter: "digital prospects per 100 units per month" and "digital prospect conversion percentage" (see table on page 6). The data will give readers a measure of how much demand property owners are getting from prospective renters by market and how often prospects turn into new leases.

In-Place Rents Set New Highs—Again

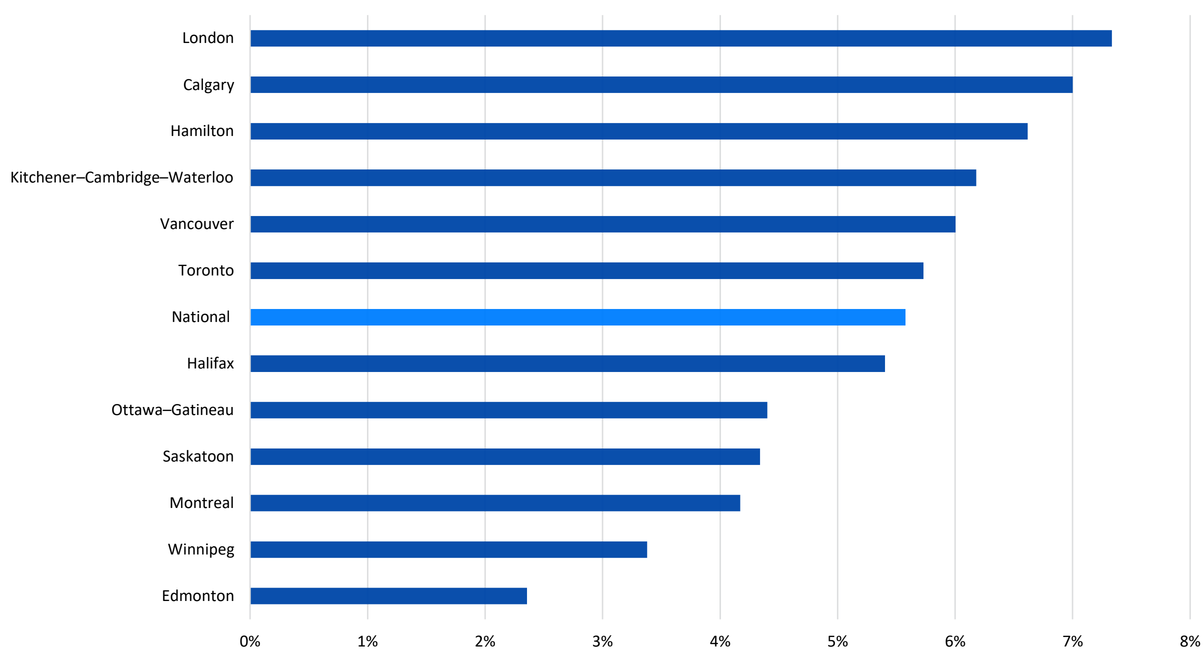
- Average in-place rents climbed again to reach record highs in Q1 2023. The average in-place rent increased $21 in the quarter to $1,411. Year-over-year growth also accelerated, to 5.6%, up 80 basis points from the fourth quarter and more than double the 2.7% growth rate in Q1 2022. In-place rents represent an aggregation of all rents in a given Census Metropolitan Area, including those for new leases, renewals and existing leases.

- Rent growth is fueled by the favourable supply-demand equation for property owners. Canada's population grew by a record 1.1 million in 2022, up 2.7%, the highest since 1957. Growth was concentrated in permanent and temporary foreign residents, which increased by 1 million.

- Single-family home sales increased 2.3% month-over-month in February, but they were down 40% year-over-year, according to the Canadian Real Estate Association. Population growth, higher mortgage rates, the increasing unaffordability of single-family homes and the growing number of renter-by-choice households all contribute to demand for apartments. Yet supply is not keeping pace, as policies such as rent control and strict zoning regulations have put a lid on new supply, which is an increasing problem as demand for purpose-built rentals mushrooms.

- A recent report by the Royal Bank of Canada estimates there is a 25,000- to 30,000-unit deficit in Canada's purpose-built rental stock that is likely to grow to more than 120,000 units over the next four years as demand soars. "Canada will need to add 332,000 units to its current rental stock between now and then to achieve a balanced market with rent stability," the report states. That would represent roughly a 20% increase in the annual pace of construction achieved in 2022, when 70,000 rental units were completed.

Year-Over-Year In-Place Rent Growth (Q1 2023)



Source: Yardi

Demand Fuels High Lease-Over-Lease Growth

- Nationally, lease-over-lease rents—which represent new leases on units that are re-leased after becoming vacant—are rising rapidly. Lease-over-lease rates for Canada overall increased by 11.8% year-over-year in Q1 2023, down 10 basis points from Q4 2022 but well above the 6.3% in Q1 2022. Lease renewals are not subject to rent control in most jurisdictions, so growth in this category is a good measure of supply-demand fundamentals.

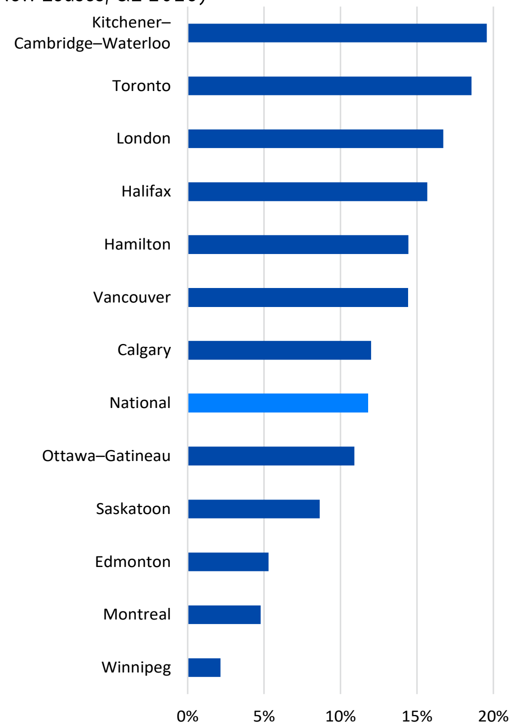
- Supply is simply not keeping up with demand. Between 1996 and 2012, growth in purpose-built rentals in Canada reached as much as 1% of stock only once, and most years during that period it was either negative (as some units become obsolete) or barely positive, according to CMHC Rental Market Data, Statistics Canada and RBC Economics. The annual average growth rate of purpose-built rentals has moved closer to 2% over the last decade, but the long-term deficit will take years of building to fix, especially now that the population is growing more rapidly.

- Eight of the top 12 CMAs tracked by Yardi recorded double-digit gains year-over-year, led by three in Ontario: Kitchener-Cambridge-Waterloo (19.6%), Toronto (18.6%) and London (16.7%). Toronto satellite markets are popular with hybrid workers, those seeking cheaper housing, and students who have come back in force following the pandemic. As the landing spot for roughly 30% of the foreign immigrants who come to Canada, Toronto has more than enough demand to compensate for the outflow.

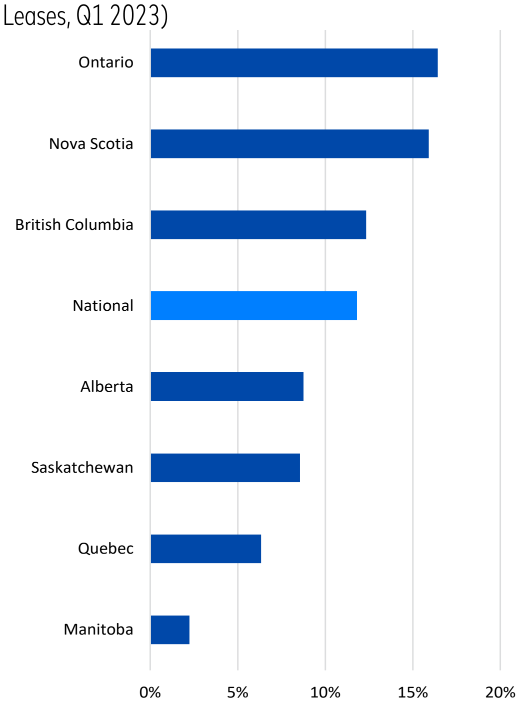
- Saskatoon and the province of Saskatchewan (both 8.6% year-over-year in Q1 2023) are recording significant increases in rents after several years of weak growth. The province benefits from price increases in agriculture, commodities such as oil and uranium, and an expansion of its world-leading fertilizer capacity.

- Rent growth is lowest in the Winnipeg CMA (2.1%) and the province of Manitoba (2.2%).

CMA Lease-Over-Lease Rent Growth
(New Leases, Q1 2023)



Province Lease-Over-Lease Rent Growth
(New Leases, Q1 2023)



Source: Yardi

Lack of Options Keeps Canada Renters in Place

- Breaking a streak of seven straight quarters of declines, the national vacancy rate increased by 10 basis points to 2.8% in Q1 2023, though it is near multi-year lows and down 90 basis points year-over-year.

High rents and tight vacancy rates provide renters with few options to move.

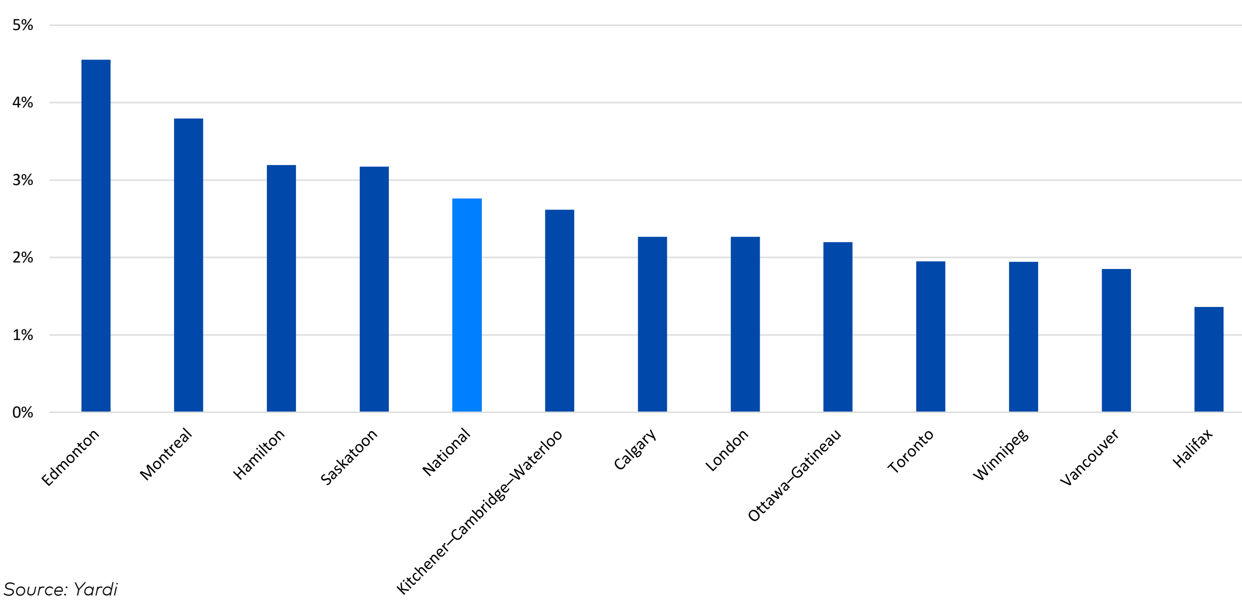
- The turnover percentage, which measures the number of tenants that do not renew leases, also fell, reaching 4.4% in Q1 2023. Turnover is seasonal, as fewer households move during the cold winters. Yet the first quarter is the first time in years the turnover rate fell below 5.0%. With vacancy rates so low, renters have few affordable options in most markets. In markets with rent control, tenants often stay in place because they face significantly higher rents if they move.

- Toronto has the lowest turnover rate in Canada at 2.4% and among the lowest vacancy rates at 2.0%, all driven by years of imbalance between supply and demand. Toronto's prime renter age 20-to-34-year-old population increased by 63,100 in 2022, while only 7,111 new purpose-built rental units came online, according to GWLRA. Vancouver, where housing costs also have spiked, has a similar dynamic, with a slim 1.9% vacancy rate and 4.9% turnover rate in Q1 2023. Vancouver's 20-to-34-year-old population increased by 27,000 in 2022, while only 3,800 new purpose-built rentals came online, per GWLRA.

- Three CMAs have vacancy rates below 2.0%: Halifax (1.4%) and Vancouver and Winnipeg (1.9%). The highest vacancy rates are in Edmonton (4.6%), Montreal (3.8%) and Hamilton (3.2%).

- CMAs with the lowest quarterly turnover rate in Q1 2023 were Toronto (2.4%), Hamilton and London (3.3%) and Kitchener-Cambridge-Waterloo (3.5%). The highest rates were in Saskatoon (8.1%) and Edmonton and Calgary (7.4%), which have more transient energy industry workers.

CMA Vacancy Rates (Q1 2023)



Source: Yardi

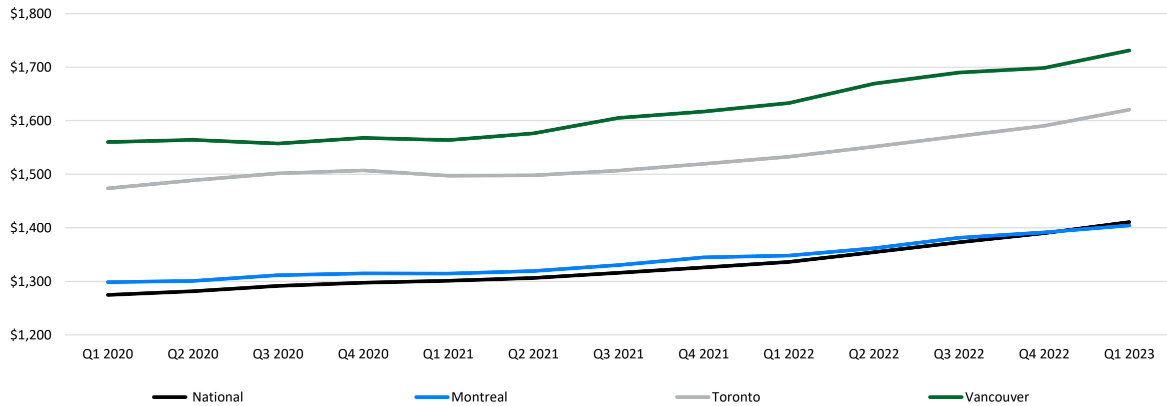
Rent, Vacancy, Turnover and Digital Prospects by CMA

CMA	Year-over Year Change in In-Place Rents	Lease-over-Lease Change in New Lease Rents	Vacancy Rate	Annual Turnover Percent	Digital Prospect Conversion %	Digital Prospects Per 100 Units Per Month
London	7.3%	16.7%	2.3%	20.2%	4.0%	27
Calgary	7.0%	12.0%	2.3%	35.5%	3.7%	42
Hamilton	6.6%	14.4%	3.2%	15.8%	6.4%	12
Kitchener–Cambridge–Waterloo	6.2%	19.6%	2.6%	18.1%	2.6%	23
Vancouver	6.0%	14.4%	1.9%	20.0%	5.0%	24
Toronto	5.7%	18.6%	2.0%	11.7%	3.0%	18
National	5.6%	11.8%	2.8%	24.2%	4.9%	21
Halifax	5.4%	15.7%	1.4%	20.9%	2.6%	44
Ottawa–Gatineau	4.4%	10.9%	2.2%	22.8%	7.7%	14
Saskatoon	4.3%	8.6%	3.2%	44.4%	7.1%	26
Montreal	4.2%	4.8%	3.8%	30.3%	-	-
Winnipeg	3.4%	2.1%	1.9%	32.7%	7.6%	19
Edmonton	2.4%	5.3%	4.6%	37.8%	6.2%	24

Source: Yardi, all data as of Q1 2023

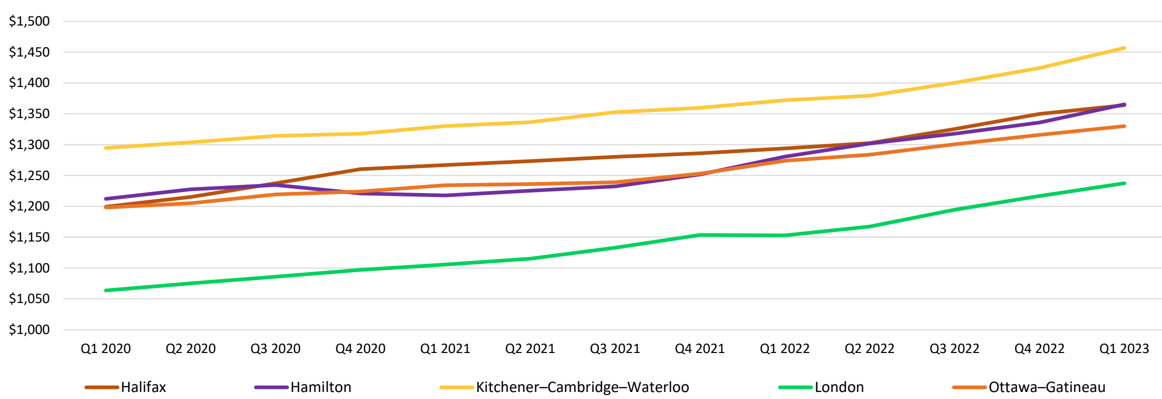
Historical In-Place Rents

National and Major CMA In-Place Rents



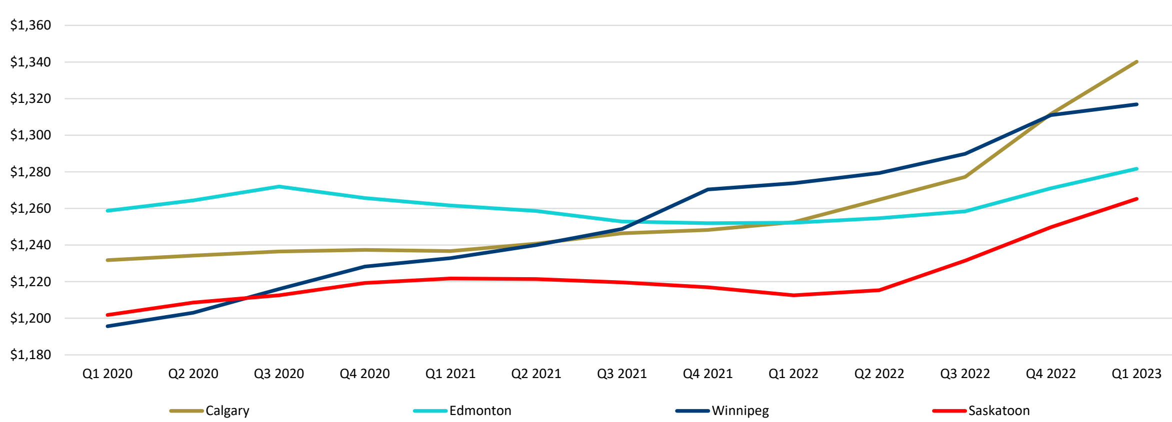
Source: Yardi

Smaller Eastern CMA In-Place Rents



Source: Yardi

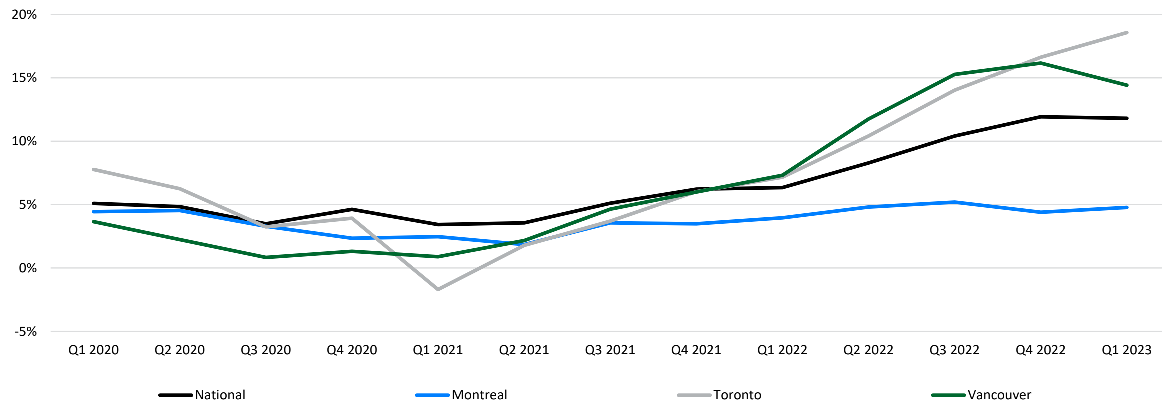
Smaller Western CMA In-Place Rents



Source: Yardi

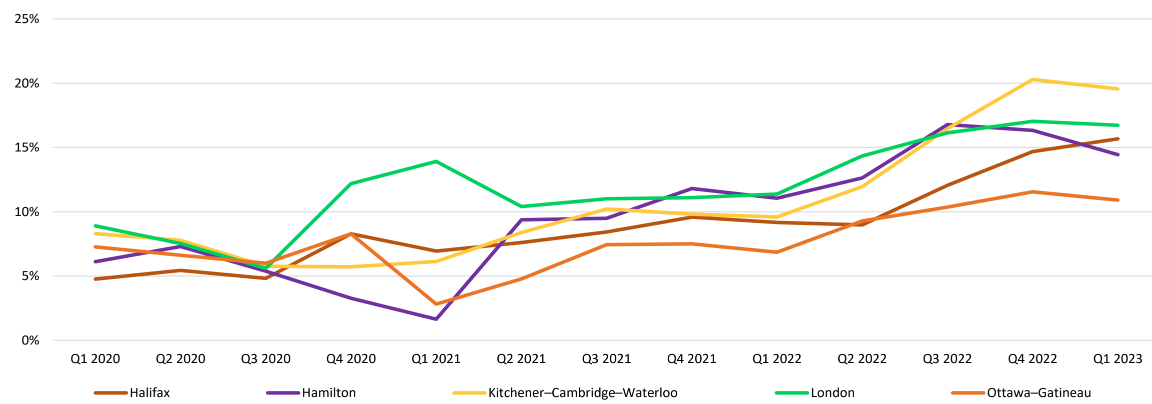
Historical New Lease Rent Growth

National and Major CMA New Lease Rent Growth



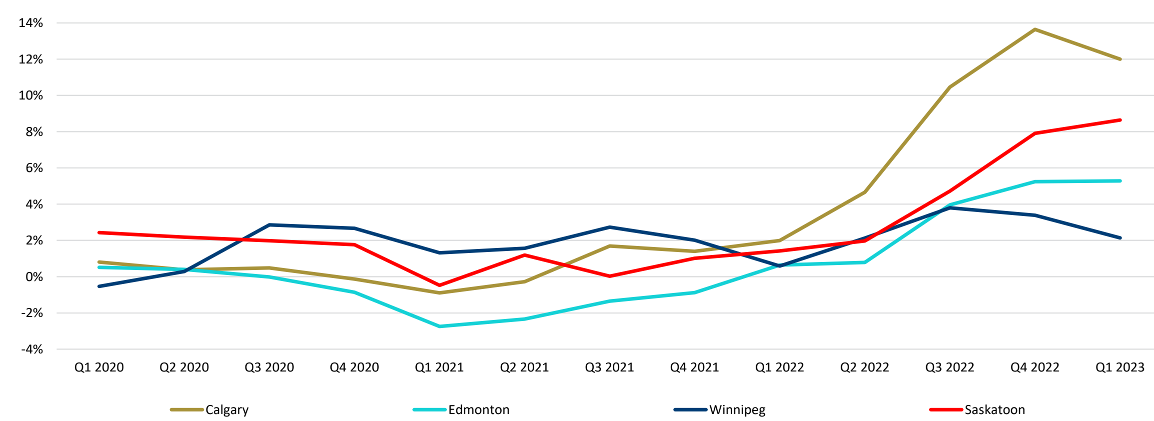
Source: Yardi

Smaller Eastern CMA New Lease Rent Growth



Source: Yardi

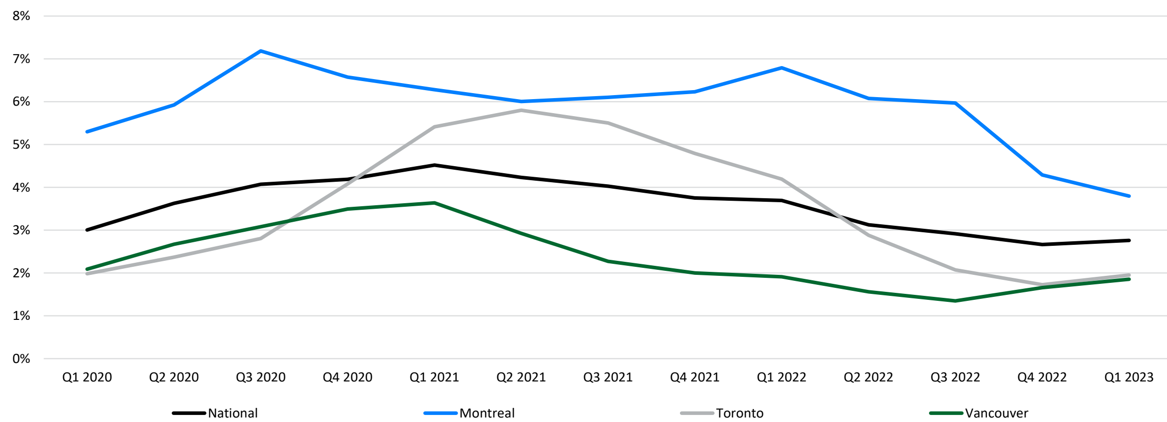
Smaller Western CMA New Lease Rent Growth



Source: Yardi

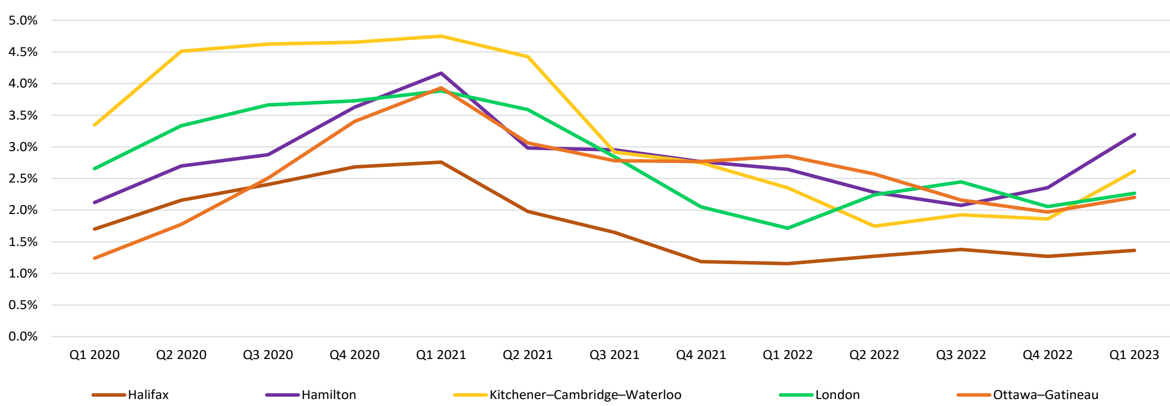
Historical Vacancy Trends

National and Major CMA Vacancy Trends



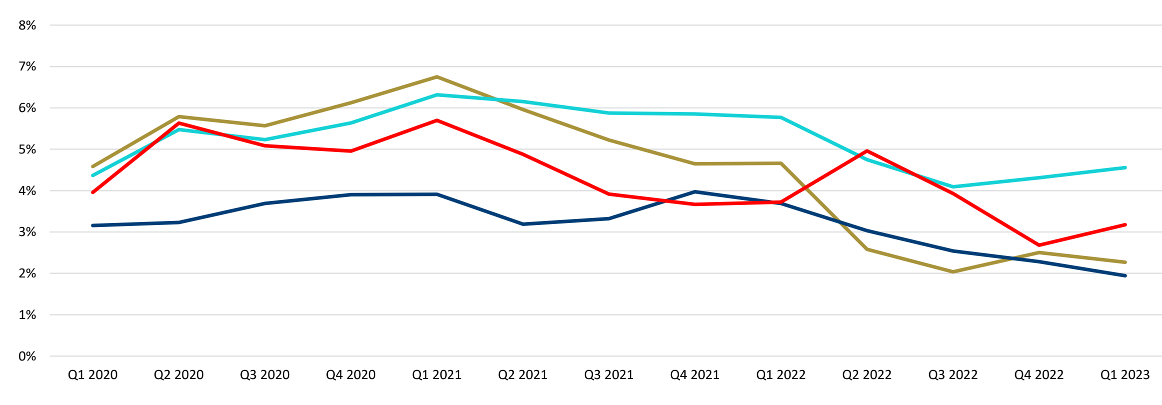
Source: Yardi

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

Turnover %: Tenant move-outs as a percent of total units

CMA: Census Metropolitan Area

Digital Prospect Conversion %: Percentage of prospects who first contacted a property through digital sources, who became residents.

Digital Prospects Per 100 Units Per Month: Count of prospects who first contacted a property through digital sources, normalized for a 100-unit property.

Digital sources include the Property's Website, ILS, Online Search, Classified Sites, Social Media Sites, SEM, and Ratings Sites. Excludes brick and mortar sources, such as referrals and walk-ins.

Contacts

Peter Altobelli
Vice President & General Manager
Peter.Altobelli@Yardi.com
(800) 866-1124 x7211

Wayne Tuck
Senior Director, Residential
Wayne.Tuck@Yardi.Com
(800) 866-1124 x7148

Paul Fiorilla
Director of Research
Paul.Fiorilla@Yardi.com
(800) 866-1124 x5764

Liana Rao
Director
Liana.Rao@Yardi.com
(800) 866-1124x7860

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