Canadian National Multifamily Report

Third Quarter 2023

Canadian Apartment Insights and Analysis

- Rent growth continues to accelerate in Canada's apartment market as the economy outperforms expectations and rapid population growth produces demand that exceeds new supply. The average in-place rent increased by $20 in Q2 2023 to an all-time high of $1,431, while new leases not limited by rent control are increasing even more rapidly, according to Yardi. New apartment supply is expanding, but not enough to meet the needs of the record population growth.

Rent growth in Canada shows no signs of abating, as supply is not keeping up with demand created by the strong economy and population growth.

- Canada's economy is proving resilient. GDP grew by 0.8% in the first quarter and is up 3.1% year-over-year. Growth is driven by consumer spending, on both goods and services, and favourable international trade. However, consumer spending is expected to cool, as household savings compiled during the pandemic are being depleted and inflation erodes purchasing power. Despite hitting a bump in May, the labour market generally remains strong. The economy added 60,000 jobs in June, almost entirely in Ontario (56,000) and Nova Scotia (3,600). Unemployment has moved off historical lows to 5.4%, but total employment is more than 500,000 jobs above pre-pandemic totals, and the average hourly wage was up 4.2% year-over-year in June.

- Canada's population is growing at a robust pace, up more than 1 million (2.7%) in 2022, and the rapid rate will continue. The government's Immigration Levels Plan expects up to 505,000 new permanent residents in 2023, and upwards of another 1 million over the next two years.

- The Bank of Canada is struggling to define its interest rate policy. After pausing for several months, the BOC raised overnight rates up to 5.0% in July as economic metrics such as the housing market, household spending, core inflation and the job market continued to run hotter than expected. Inflation did slow to 3.4% year-over-year in May, the lowest level since June 2021, but much of the decline can be attributed to a drop in energy prices. Core inflation increased 4.0% year-over-year excluding food and energy. It's likely that rates are at or near their eventual peak.

In-Place Rent Growth Continues to Accelerate

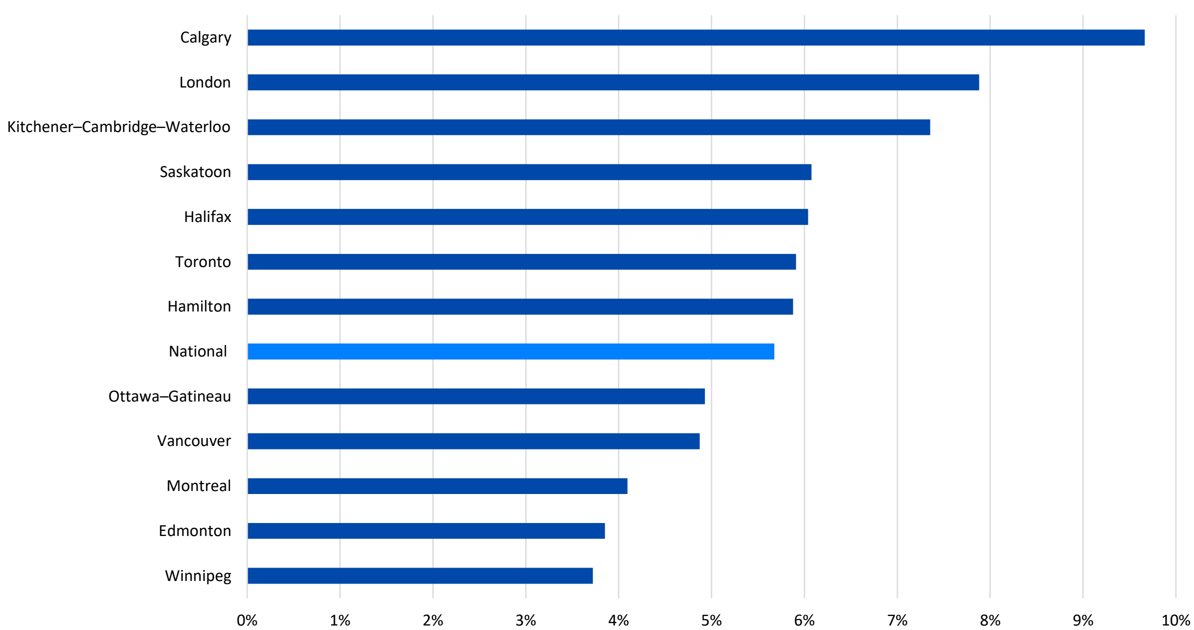
- Rather than slowing as the economic cycle winds down, rent growth is gaining momentum, as the year-over-year rate of growth has increased in seven of the last eight quarters. The average in-place rent rose by $20 in Q2 2023 to $1,431, up 1.5% from the first quarter and 5.7% year-over-year. In-place rents represent an aggregation of all rents in a given Census Metropolitan Area (CMA), including those for new leases, renewals and existing leases.

- In-place rents grew strongly across the board in Q2 2023, with CMAs led by Calgary, where the average rent rose $47 to $1,387, up 3.5% from the first quarter and 9.7% year-over-year. Winnipeg saw the slowest growth, with average rents increasing $10 to $1,327, up 0.8% for the quarter and 3.7% year-over-year. Among provinces, Saskatchewan led gainers, with the average rent increasing $27 in the quarter to $1,215, up 6.8% year-over-year.

- Housing supply isn't keeping up with the rapid population growth. Canada added about 220,000 new housing units in 2022, including 115,000 apartments, according to the Canada Mortgage and Housing Corporation, but that isn't enough to house the additional 1 million new residents.

- According to a recent report on purpose-built rentals (PBR) by Canada's Building Industry and Land Development Association and banking and policy groups, more than 300,000 new renter households will be created in Canada over the next decade. Rentals are better suited than homeownership to the fastest-growing demographic groups in Canada, the report notes. Apartment supply, however, gets built slowly due to construction costs that are rising faster than rents and regulatory overreach. Over the last decade, PBR accounted for 41% of the demand for housing but only 9% of new supply in the greater Toronto area, while 90% of PBR stock is at least 40 years old, per the report.

Year-Over-Year In-Place Rent Growth (Q2 2023)



Source: Yardi

No Stopping Lease-Over-Lease Rate Growth

- National lease-over-lease rents—which represent new leases on units that are re-leased after becoming vacant—increased by 12.2% year-over-year in Q2 2023, up 40 basis points from Q1. New leases are a good measure of supply-demand fundamentals since they are not subject to rent control.

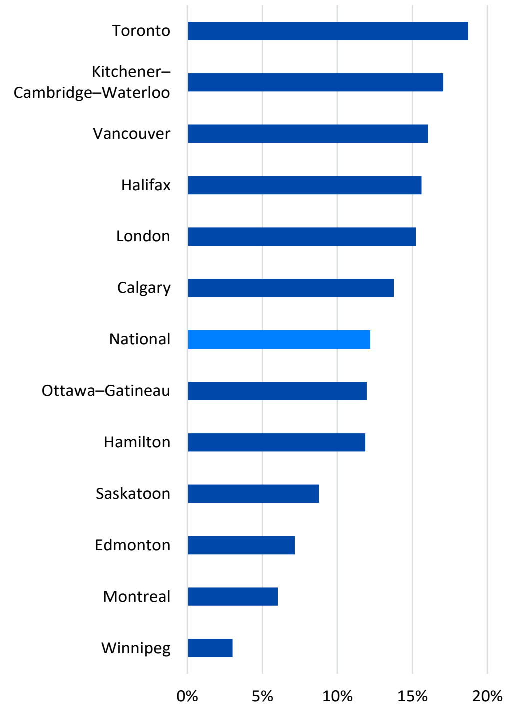
- Lease-over-lease growth rates have increased for nine straight quarters since bottoming at 3.4% in Q1 2021. The acceleration in rent gains reflects the fact that housing supply is not meeting the growth in population and conditions in the single-family market that create difficulties, especially for first-time buyers. The increase in mortgage rates over the last 16 months has made buying houses less affordable.

- Home sales are rebounding as prices come down. In May, the number of home sales nationally increased by 23% month-over-month, while the average price rose 2%, the first increase in more than a year, according to the Canadian Real Estate Association. The average home sale price is down roughly 18% since March 2022, with the declines concentrated in the CMAs where prices increased the most, including Vancouver, Toronto and Hamilton.

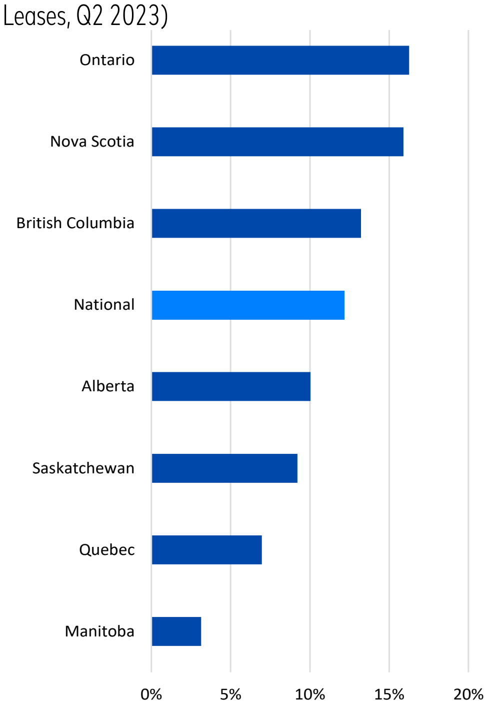
- Eight of the 12 CMAs measured by Yardi recorded lease-over-lease growth of at least 11.9% year-over-year, with the highest growth in Toronto (18.7%), Kitchener–Cambridge–Waterloo (17.1%) and Vancouver (16.0%). Among provinces, Alberta (10.0% in Q2 2023 from 2.4% in Q2 2022), Saskatchewan (9.2% from 2.1%) and Nova Scotia (15.9% from 9.1%) recorded large year-over-year increases.

- Growth was lowest in Winnipeg (3.0%), Montreal (6.0%) and Edmonton (7.2%). Winnipeg's rent growth is weak despite a low 1.6% vacancy rate. Winnipeg's economy is solid, but there is a ceiling on rent growth relative to other CMAs. Its apartment stock is older, and its economy lacks many high-wage industries.

CMA Lease-Over-Lease Rent Growth
(New Leases, Q2 2023)



Province Lease-Over-Lease Rent Growth
(New Leases, Q2 2023)



Source: Yardi

Vacancy Rates Firm at Low Levels

> Vacancy rates and annual turnover rates have stabilized at very low levels.

- With housing in scarce supply, vacancy rates are stabilizing at extremely low levels. The national vacancy rate decreased by 10 basis points to 2.7% in Q2 2023, the fourth straight month below 3.0%.

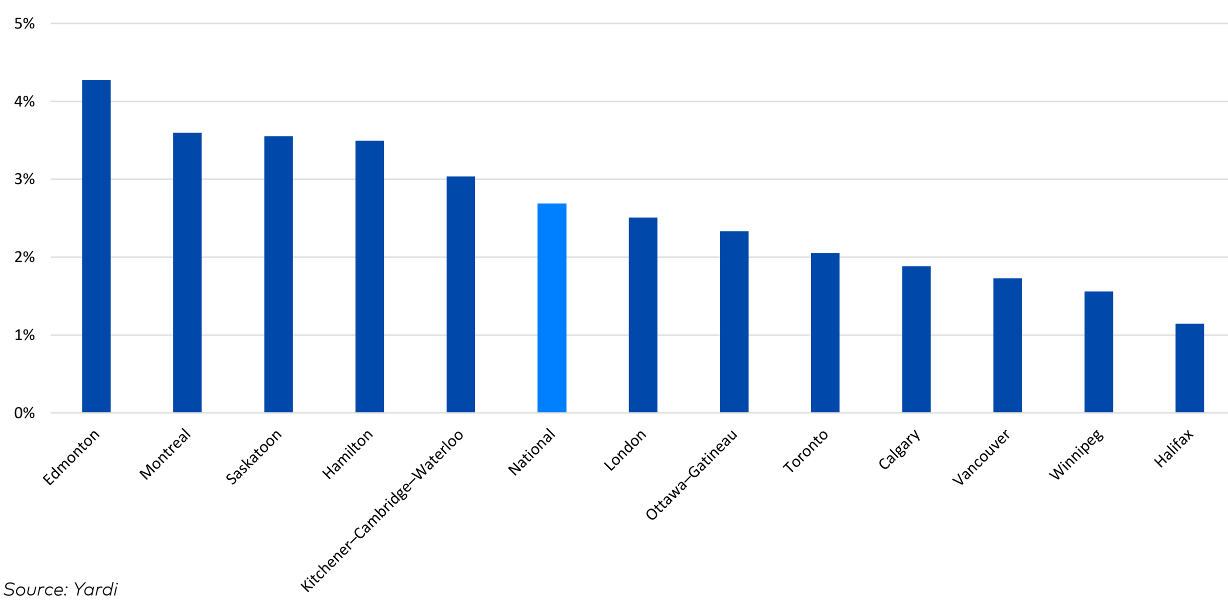
- The national quarterly turnover percentage, which measures the number of residents that do not renew leases, remained low at 6.7% in Q2 2023. Although that is an increase from the first quarter, the Q2 2023 rate is below the average 7.4% turnover rate in the previous three second quarters.

- Many residents simply cannot afford to move. The gap between rates for newly rented apartments and existing rents continues to widen, representing 25% or more in large urban centres including Toronto, Montreal and Vancouver. In Toronto and Vancouver, CMAs with the highest cost of rental housing, the gap is roughly $500 per month, according to the CMHC. The effect is keeping renters in place because moving to a different apartment inevitably produces a large increase in rents. This is reflected in the low rate of quarterly turnover in Ontario (4.2% in Q2 2023), led by Toronto (3.2%), which remains the primary landing spot for many immigrants entering the country.

- Turnover percentage is closer to historical norms in Alberta (10.5% in Q2 2023) and the largest CMAs in the province, Edmonton (10.7%) and Calgary (9.4%). Alberta has no rent control and housing stock is more abundant than in other provinces. Calgary's stock is also boosted somewhat by a program to convert vacant downtown office buildings to apartments.

- Vacancy rates are below 2.0% in four CMAs: Halifax (1.1%), Winnipeg (1.6%), Vancouver (1.7%) and Calgary (1.9%). CMAs in which vacancy rates decreased the most year-over-year include Montreal (3.6% in Q2 2023 from 6.1% in Q2 2022) and Winnipeg (1.6% from 3.0%).

CMA Vacancy Rates (Q2 2023)



Source: Yardi

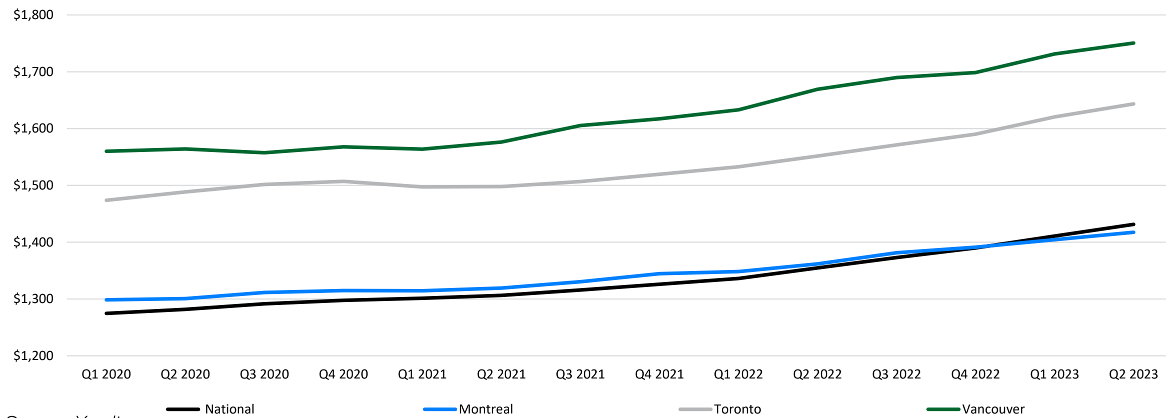
Rent, Vacancy, Turnover and Digital Prospects by CMA

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
Calgary	9.7%	13.8%	1.9%	35.0%	2.8%	56
London	7.9%	15.2%	2.5%	19.5%	6.0%	20
Kitchener–Cambridge–Waterloo	7.4%	17.1%	3.0%	17.9%	4.7%	19
Saskatoon	6.1%	8.8%	3.6%	43.8%	8.5%	27
Halifax	6.0%	15.6%	1.1%	19.0%	2.5%	46
Toronto	5.9%	18.7%	2.1%	11.6%	3.6%	21
Hamilton	5.9%	11.9%	3.5%	16.0%	7.8%	14
National	5.7%	12.2%	2.7%	23.5%	5.1%	25
Ottawa–Gatineau	4.9%	12.0%	2.3%	22.3%	9.0%	15
Vancouver	4.9%	16.0%	1.7%	19.1%	4.7%	27
Montreal	4.1%	6.0%	3.6%	28.7%	–	–
Edmonton	3.9%	7.2%	4.3%	37.8%	5.6%	32
Winnipeg	3.7%	3.0%	1.6%	31.8%	7.8%	19

Source: Yardi, all data as of Q2 2023

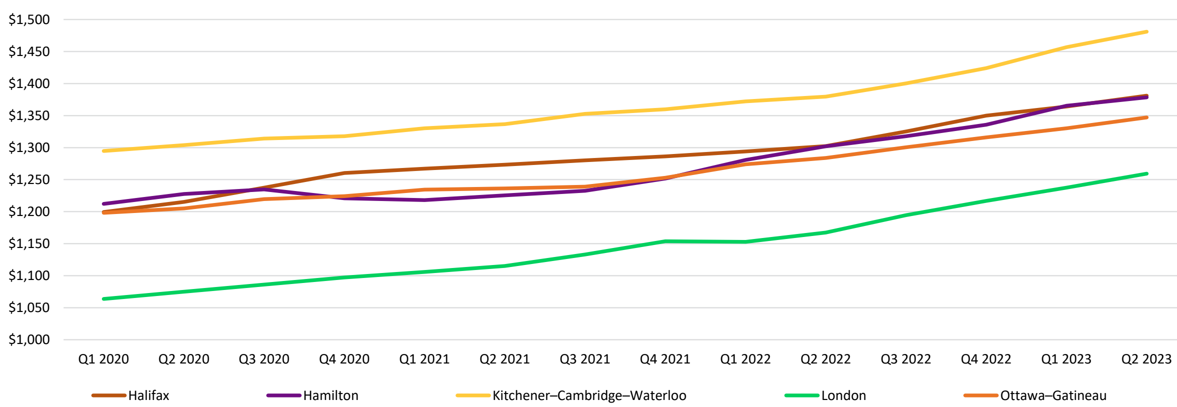
Historical In-Place Rents

National and Major CMA In-Place Rents



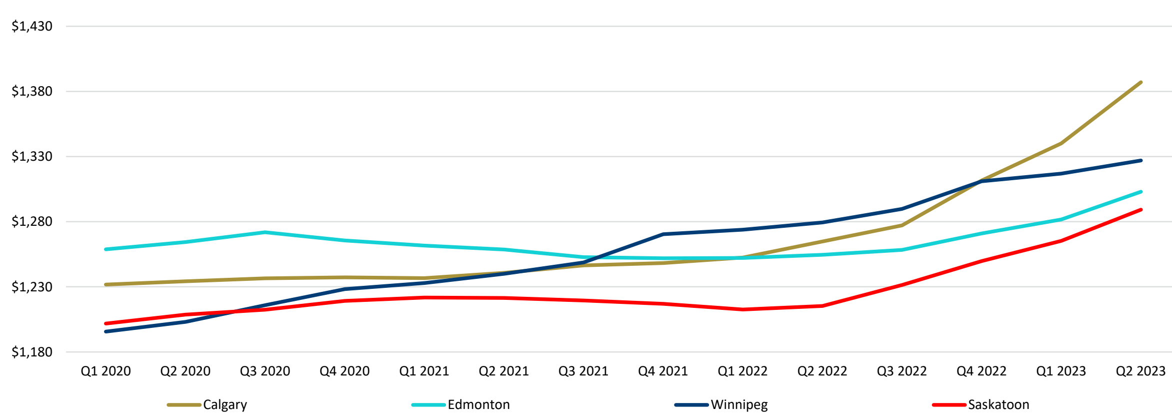
Source: Yardi

Smaller Eastern CMA In-Place Rents



Source: Yardi

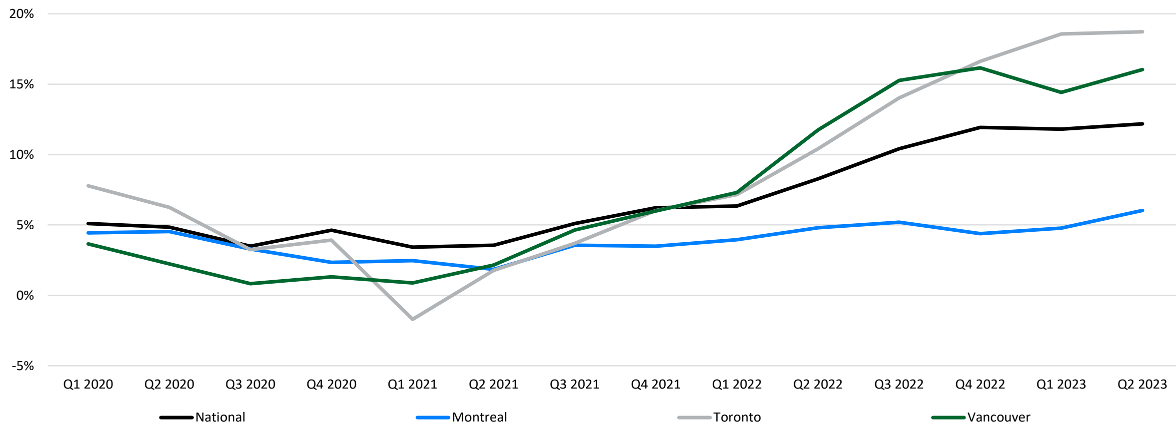
Smaller Western CMA In-Place Rents



Source: Yardi

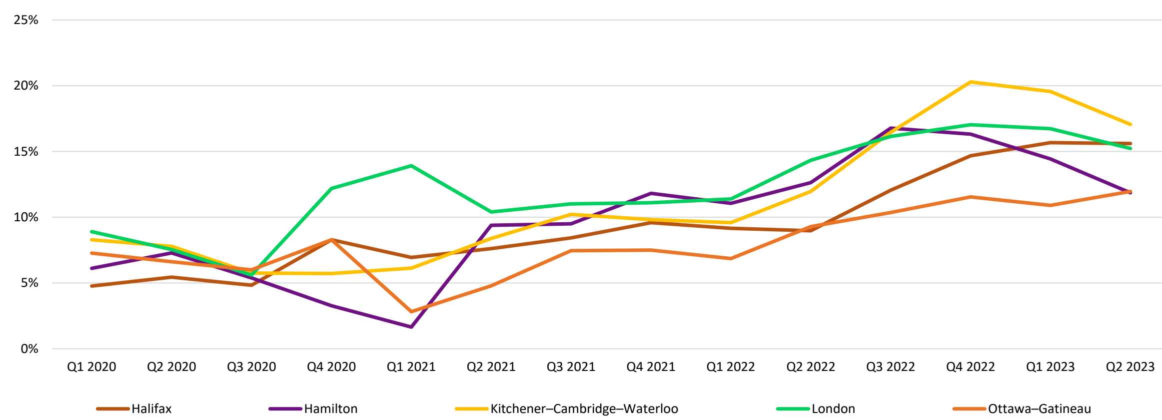
Historical New Lease Rent Growth

National and Major CMA New Lease Rent Growth



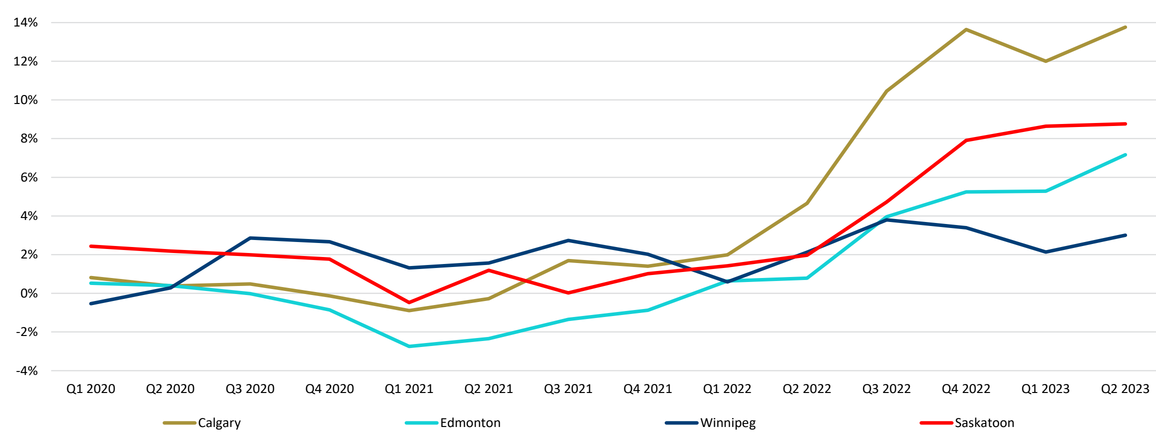
Source: Yardi

Smaller Eastern CMA New Lease Rent Growth



Source: Yardi

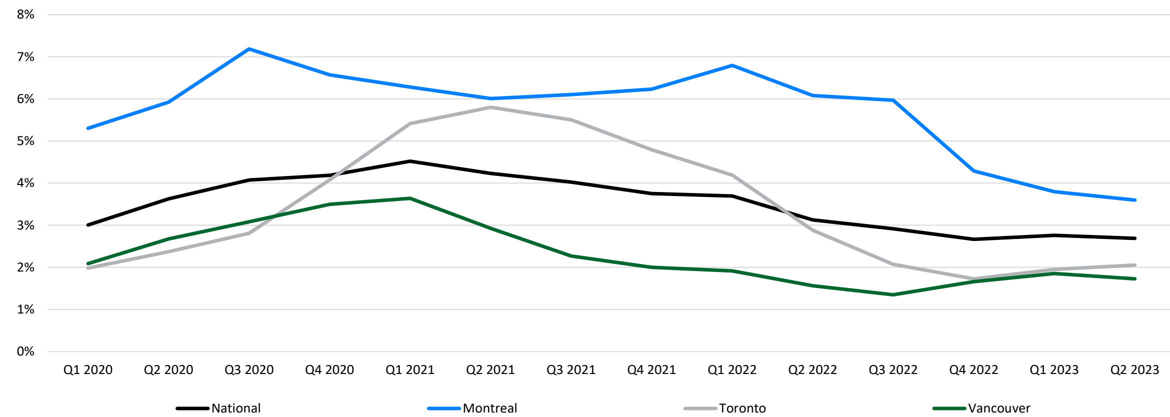
Smaller Western CMA New Lease Rent Growth



Source: Yardi

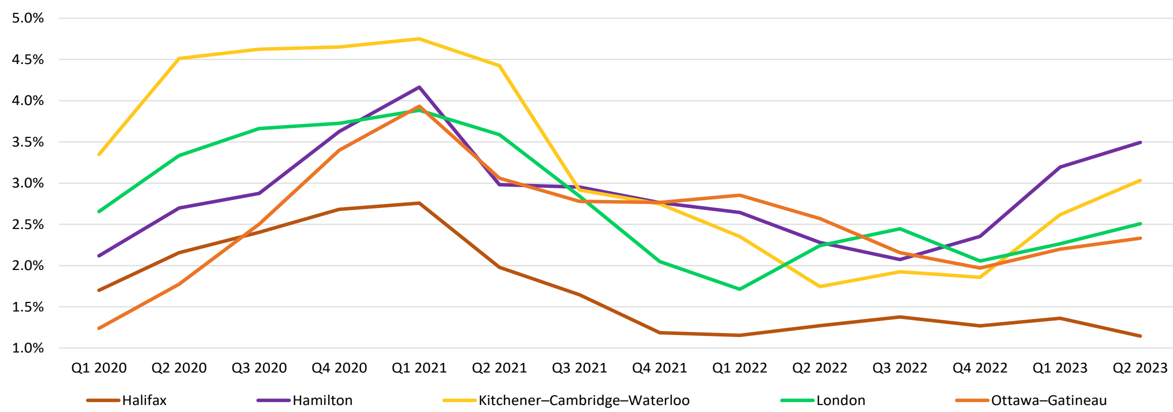
Historical Vacancy Trends

National and Major CMA Vacancy Trends



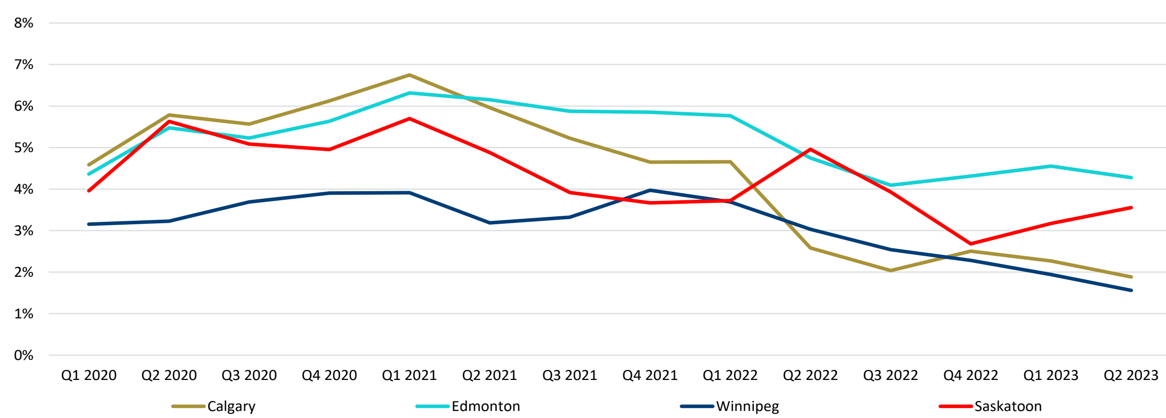
Source: Yardi

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.

The data in the report encompasses 4,200 properties that represent more than 450,000 private rental units across Canada.

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