# Canada National Multifamily Report

Fourth Quarter 2022

# Canada Apartment Insights and Analysis

- Canada's multifamily fundamentals continue to be solid, as vacancies are at multi-year lows and lease-over-lease rent growth hit double digits in the third quarter. However, the market is bracing for the impact of higher interest rates, especially on the overheated housing market. After raising its policy interest rate by 75 basis points in September, the Bank of Canada (BOC) has set rates at 3.25%. The BOC may be forced to continue increasing rates to keep up with the U.S. Federal Reserve to avoid devaluing the Canadian dollar. Many economists expect the BOC to increase rates to the 4.5% range, which has broad implications for the economy and the housing market.

> Rent growth accelerated in Canada in Q3 2022 as vacancies waned, but a slowing economy and affordability issues loom on the horizon.

- Interest rates have a significant impact on housing, a sector that has an oversize effect on Canada's economy because it encompasses roughly 10% of GDP. Overall inflation in September was at 7% and core inflation was at 5%, so some weakening of demand will be necessary. The question is whether the BOC can navigate a soft landing.

- The combination of higher mortgage rates and the weakening economy means consumers can afford less for their dollar. Consequently, home sales are slowing and prices are softening. The average mortgage rate has increased to nearly 6% from the 3% range in 2021. Low rates and robust demand had prompted the price of the median house sold in Canada to skyrocket to more than $800,000 by March 2022, but the average home sale dropped to $637,000 by September, according to *Canada Housing Market News*.

- Canada's employment market remains healthy, though it has clearly been weakening in recent months. Total employment declined—albeit slightly—for three months through August, and the unemployment rate has climbed to 5.4%, which is still strong coming off a recent record low of 4.9%. The pace of hiring is expected to slow in many industries, such as technology, finance, insurance and construction.

# In-Place Rent Growth Hits Post-Pandemic High

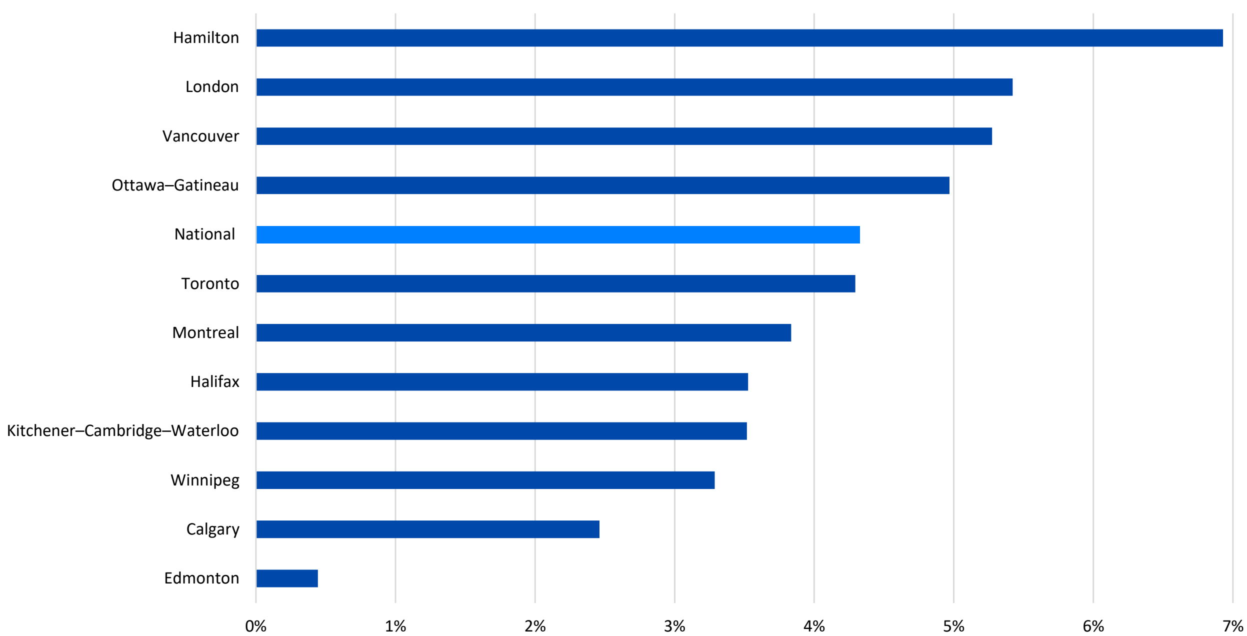
- Canada's average in-place rent continued its steady rise, to $1,373 as of third quarter 2022, up $18 from the second quarter. Average in-place rents increased 1.4% quarter-over-quarter and 4.3% year-over-year. The average in-place rent is now $98—or 7.7%—above pre-pandemic levels. In-place rents represent an aggregation of all rents in a given CMA, including those for new leases, renewals and existing leases.

- Solid rent growth is evidence that demand for apartments remains strong. Apartment supply growth is picking up, but it is still well below what is needed. Canada had just 12,500 rental unit starts in Q2, according to the Canada Mortgage and Housing Corporation. Including single-family, there were a record-high 353,000 homes under construction in the second quarter, per CMHC. However, housing construction is likely to wane as demand for single-family housing slows and developers encounter shortages of labour and materials, as well as rising costs.

- The slowing single-family market presents some good news for apartment demand. Many first-time homebuyers will remain as renters until affordability improves and they see a real opportunity to purchase. Meanwhile, fewer homeowners will sell if they must buy a new home at higher interest rates.

- Year-over-year growth of in-place rents among Census Metropolitan Areas (CMAs) in the third quarter was led by Hamilton (6.9%), London (5.4%) and Vancouver (5.3%), while Edmonton lagged at 0.4%. Growth among the provinces was led by British Columbia (5.3%) and Ontario (5.0%), while Alberta (1.5%) and Saskatchewan (1.9%) saw the lowest growth year-over-year.

## Year-Over-Year In-Place Rent Growth (Q3 2022)




*Source: Yardi*

# Lease-Over-Lease Growth Reaches Double Digits in Q3

- Nationally, lease-over-lease rents—which represent new leases on units that are re-leased after becoming vacant—continued their post-pandemic bounce. Lease-over-lease rates across Canada increased by a remarkable 10.4% year-over-year in the third quarter, compared to 8.3% in the second quarter and more than double the 5.1% in the third quarter a year ago. Because rent control policies limit rent increases on lease renewals in most jurisdictions, the bulk of rent growth comes from new leases.

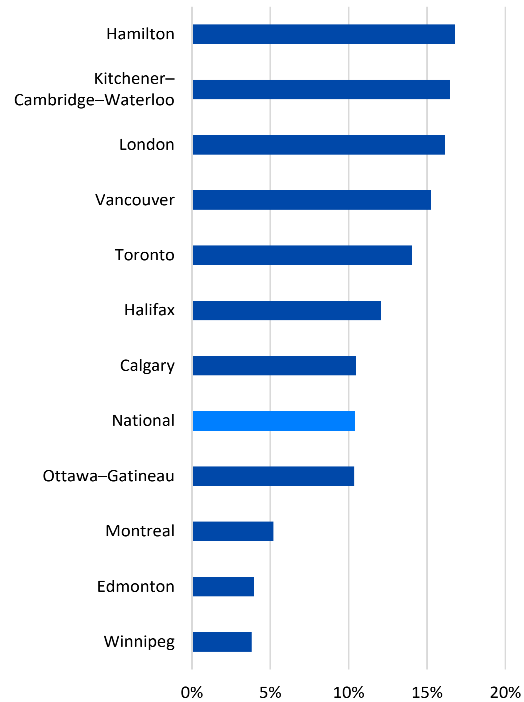
- Rapid rent growth is likely to decelerate in the coming months, in part because of seasonality as winter hits, but also because affordability is being stretched. Although the employment market remains healthy, rents have risen faster than household income over the last two years.

- Of the top 11 CMAs tracked by Yardi, eight recorded gains of 10.4% or more, and five saw year-over-year growth of 14.0% or more. The extraordinary demand stems from a number of factors, including Canada's welcoming immigration policies and robust growth in household formation due to the low unemployment rate and strong consumer balance sheets. That enables individuals to move away from family and roommates and form individual households.

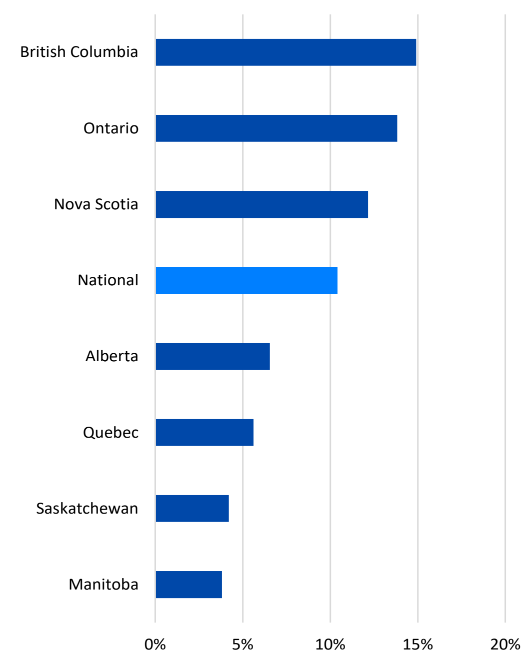
- By CMA, lease-over-lease growth was led by Hamilton (16.8% year-over-year), Kitchener-Cambridge-Waterloo (16.5%), London (16.1%) and Vancouver (15.3%). Three provinces saw double-digit growth: British Columbia (14.9%), Ontario (13.8%) and Nova Scotia (12.2%).

- Winnipeg and Edmonton recorded the lowest increase in lease-over-lease growth. However, both CMAs saw a large jump from the second quarter. Winnipeg's lease-over-lease growth increased 3.8% in the third quarter, up from 2.1% in Q2. Edmonton's lease-over-lease growth rate climbed to 4.0%, up from 0.8% in Q2.

**CMA Lease-Over-Lease Rent Growth**
(New Leases, Q3 2022)




**Province Lease-Over-Lease Rent Growth**
(New Leases, Q3 2022)




*Source: Yardi*

# Vacancy Rates Continue to Tighten in Q3

> Vacancy rates plunged to 2.9% in Canada, as the supply of housing has exceeded demand.

- Nationwide, the vacancy rate fell to 2.9% in Q3 2022, down 20 basis points from the prior quarter and 110 basis points year-over-year. The vacancy rate is 10 basis points below its pre-pandemic level, and has dropped for six straight quarters after peaking at 4.5% in Q1 2021.

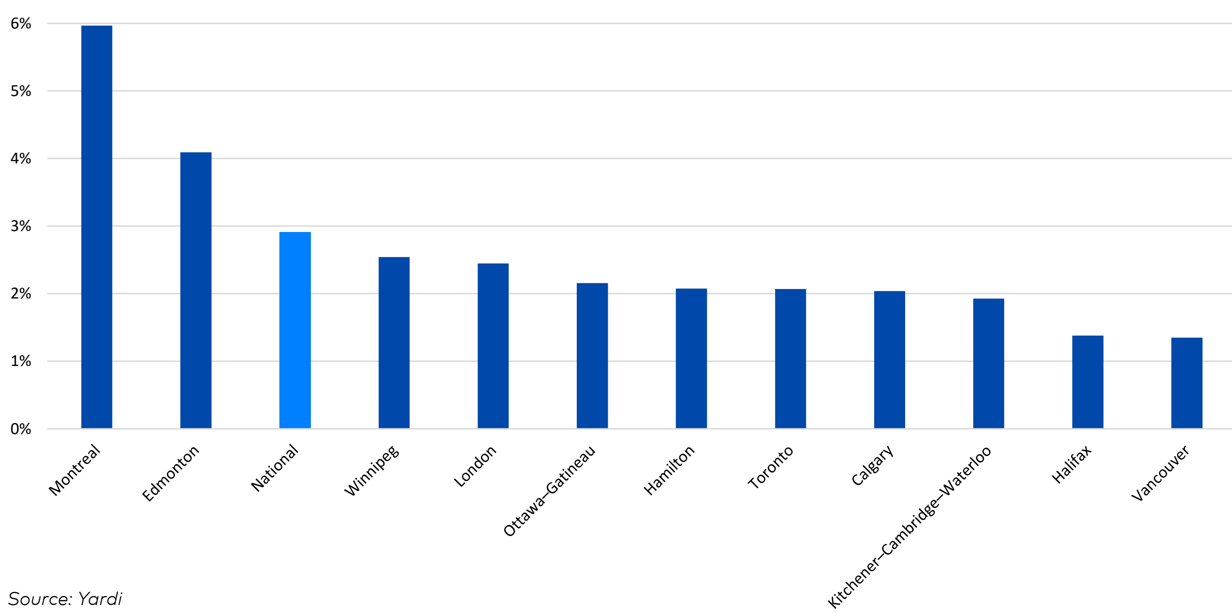
- Canada's robust immigration is one of the main drivers of demand, especially in the larger CMAs. The country is targeting a record high 431,000 permanent foreign immigrants in 2022. Foreign immigration has led provinces such as Ontario and British Columbia to record their largest population growth this century, and other provinces such as Alberta and Quebec to be near multi-year highs, according to Statistics Canada.

- The tightest vacancy rates among CMAs are in Vancouver (1.3% as of Q3), Halifax (1.4%) and Kitchener-Cambridge-Waterloo (1.9%). In Vancouver, single-family housing has become prohibitively expensive. Halifax has benefited from pandemic-related migration from urban centres, which the government of Nova Scotia encourages via advertisements intended to lure residents from other provinces.

- Despite ongoing net out-migration to smaller CMAs, Toronto's vacancy rate dropped 80 bps in Q3, to 2.1%, from 2.9% in Q2. Toronto's population inflow is largely driven by immigration.

- Western Canada CMAs Calgary and Edmonton saw vacancies drop 60 basis points in Q3. Calgary's vacancy rate fell to 2.0% in Q3 from 2.6% in Q2, while Edmonton's vacancy rate dropped to 4.1% in Q3 from 4.7% in Q2. Apartment demand in those CMAs comes from foreign immigration and migration from other provinces as their energy-driven economies diversify.

**CMA Vacancy Rates** (Q3 2022)




*Source: Yardi*

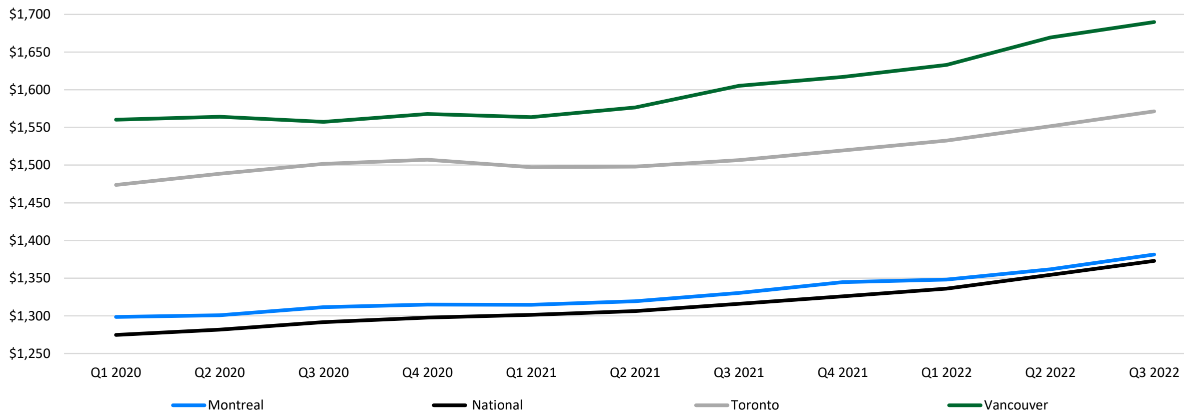
# Rent, Vacancy and Turnover by CMA

| CMA | Year-over Year Change in In-Place Rents | Lease-over-Lease Change in New Lease Rents | Vacancy Rate | Quarterly Turnover Percent |
|---|---|---|---|---|
| Hamilton | 6.9% | 16.8% | 2.1% | 4.6% |
| London | 5.4% | 16.1% | 2.4% | 5.9% |
| Vancouver | 5.3% | 15.3% | 1.3% | 5.3% |
| Ottawa–Gatineau | 5.0% | 10.4% | 2.2% | 6.7% |
| **National** | **4.3%** | **10.4%** | **2.9%** | **7.5%** |
| Toronto | 4.3% | 14.0% | 2.1% | 3.3% |
| Montreal | 3.8% | 5.2% | 6.0% | 10.9% |
| Halifax | 3.5% | 12.1% | 1.4% | 6.2% |
| Kitchener–Cambridge–Waterloo | 3.5% | 16.5% | 1.9% | 5.1% |
| Winnipeg | 3.3% | 3.8% | 2.5% | 11.1% |
| Calgary | 2.5% | 10.5% | 2.0% | 10.3% |
| Edmonton | 0.4% | 4.0% | 4.1% | 11.7% |

*Source: Yardi, all data as of Q3 2022*

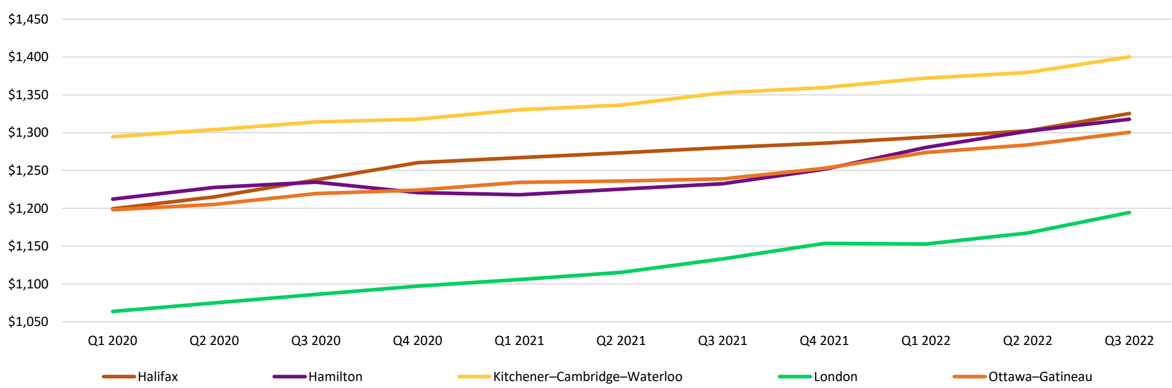
# Historical In-Place Rents

## National and Major CMA In-Place Rents




*Source: Yardi*

## Smaller Eastern CMA In-Place Rents




*Source: Yardi*

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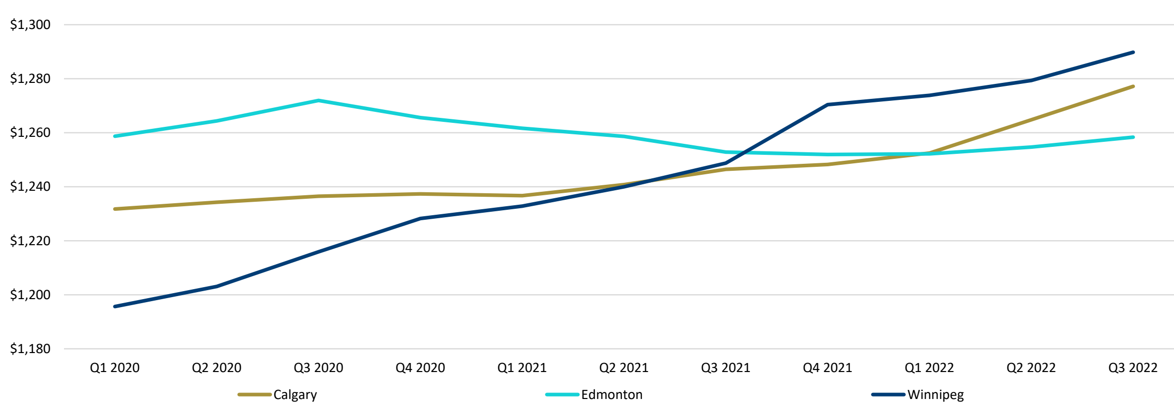
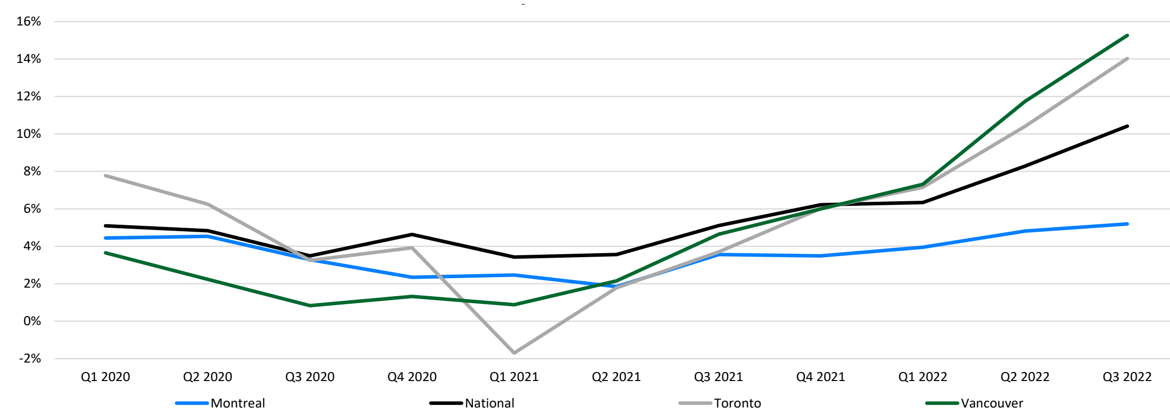



*Source: Yardi*

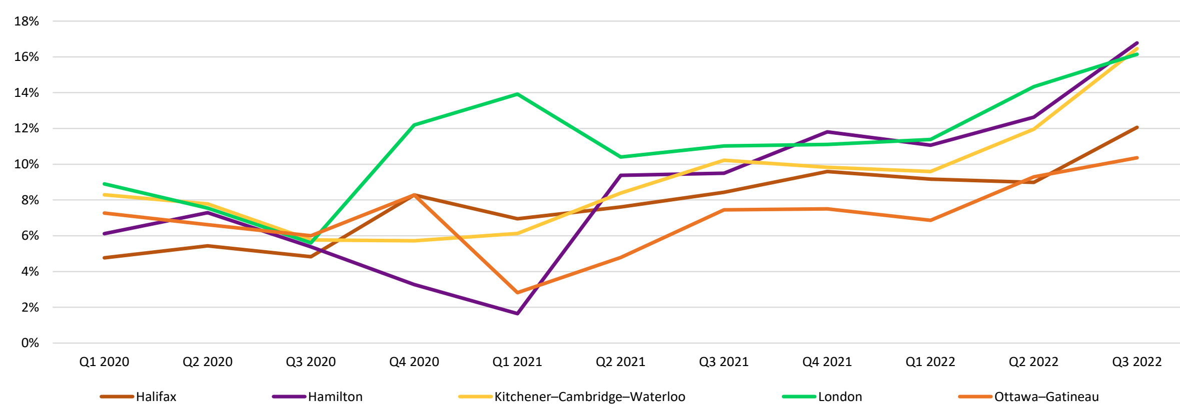
# Historical New Lease Rent Growth

## National and Major CMA New Lease Rent Growth




*Source: Yardi*

## Smaller Eastern CMA New Lease Rent Growth




*Source: Yardi*

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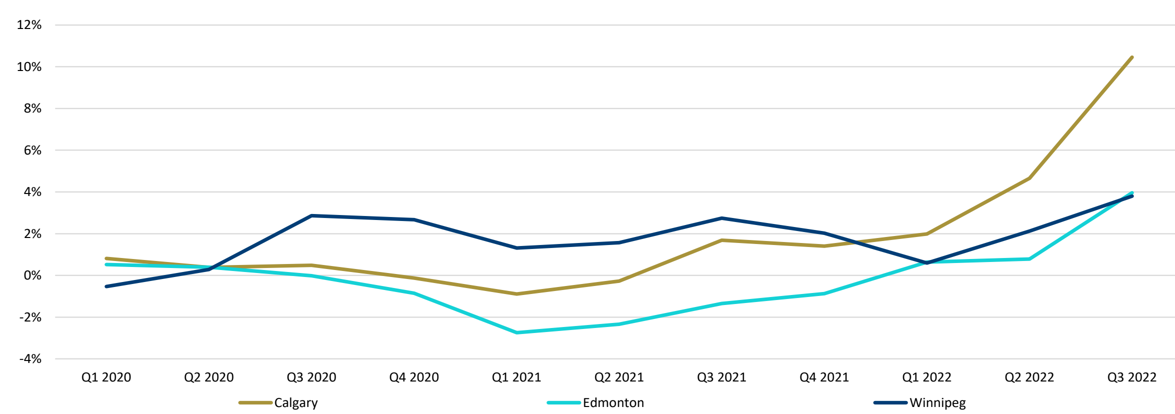
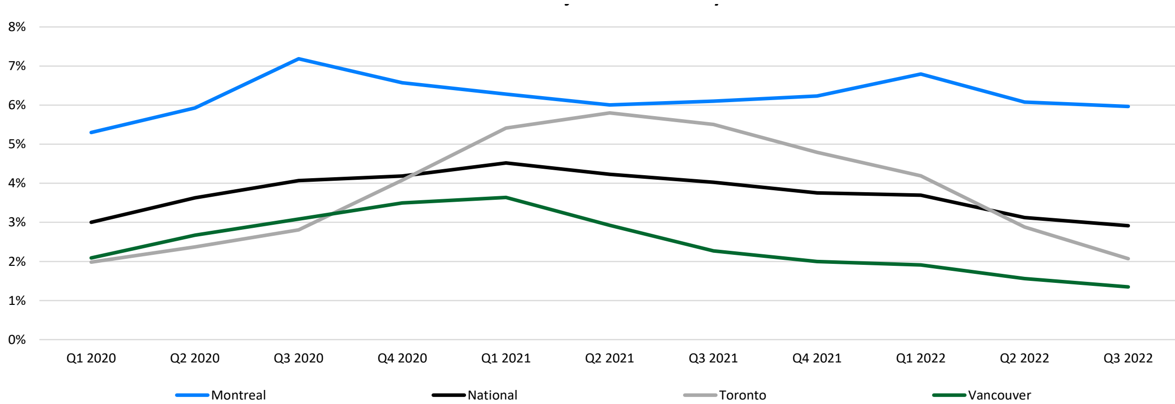



*Source: Yardi*

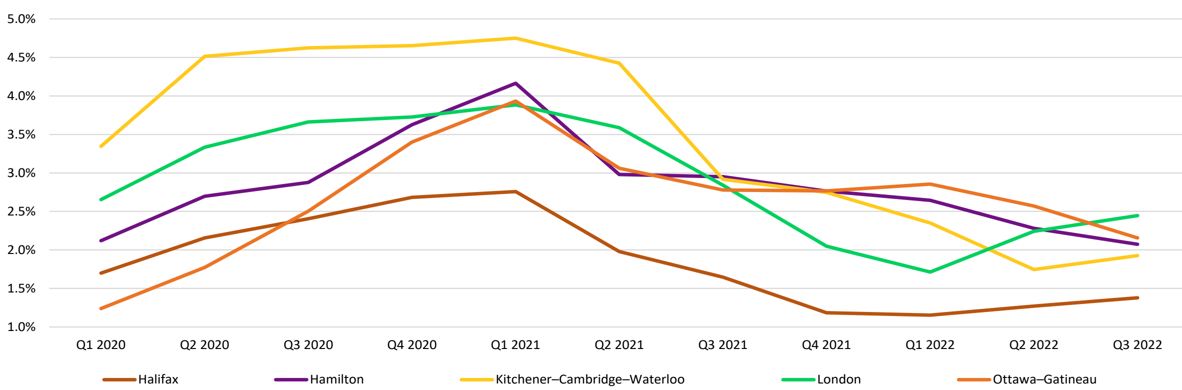
# Historical Vacancy Trends

## National and Major CMA Vacancy Trends




*Source: Yardi*

## Smaller Eastern CMA Vacancy Trends

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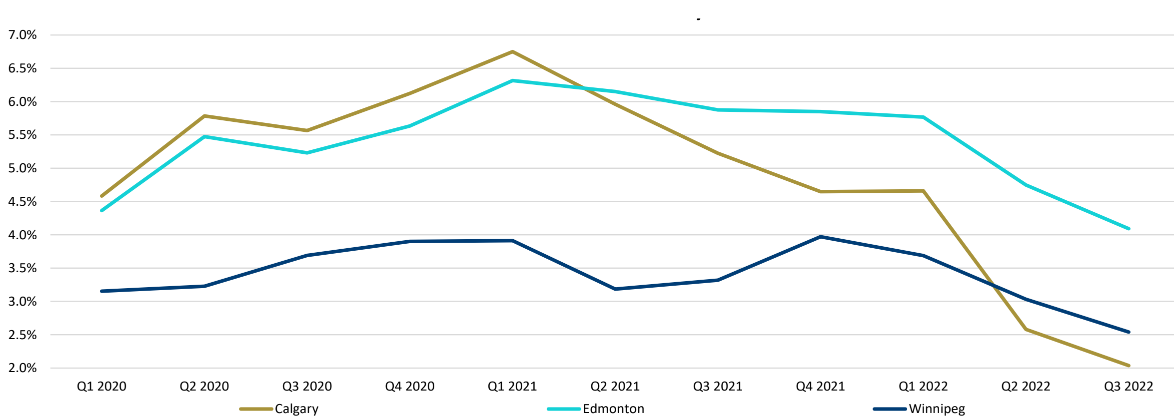


*Source: Yardi*

# 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

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

**CMA:** Census Metropolitan Area

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