Canada National Multifamily Report

First Quarter 2023

Canada Apartment Insights and Analysis

- Canada's multifamily market rode optimal conditions led by strong demand to a stellar fourth quarter. The question for 2023 is whether performance will stand up to the expected deceleration in economic growth. Fundamental measures of apartment performance including rent growth, vacancy rates and lease turnover all steadily improved in Q4 2022 to multi-year highs. Rent growth on new leases across Canada averaged 11.9% in the quarter. The strong gains were the product of record-high population growth, employment gains topping 400,000, the faltering single-family home sales market and a long-term shortage of housing.

- Many of these factors that created favourable multifamily conditions post-pandemic—including population gains, home purchasing being out of reach for first-time homebuyers and the shortage of stock—should continue into 2023. The economy, however, is a wildcard. The consensus forecast is that growth will slow, with the possibility of a shallow recession in the first half of the year. The Bank of Canada has raised interest rates to 4.25% to break the back of stubbornly high inflation, which was at 6.8% year-over-year in December.

- Higher rates and inflation are putting the squeeze on Canadian households. Purchasing power for consumer goods has been diminished, which is expected to take a toll on retail sales, and business investment is starting to sag. The biggest impact, however, has been on housing as higher rates—the composite five-year mortgage rate is 5.9%, up from 3.3% a year ago—put a crimp on single-family home purchases. A lack of available inventory prompted the government to implement a two-year ban on foreigners purchasing residential homes.

- In December 2022, the average price of single-family homes sold dropped to $632,000, down 12% year-over-year, while the number of sales was 39% less than the same month a year earlier, according to *Canadian Housing Market News*. The instability in the for-sale market serves to keep would-be homebuyers in rentals.

Record population increases and weak housing sales are boosting multifamily demand in Canada. This year should bring more of the same, though the economy may soften.

In-Place Rent Growth Continues to Climb

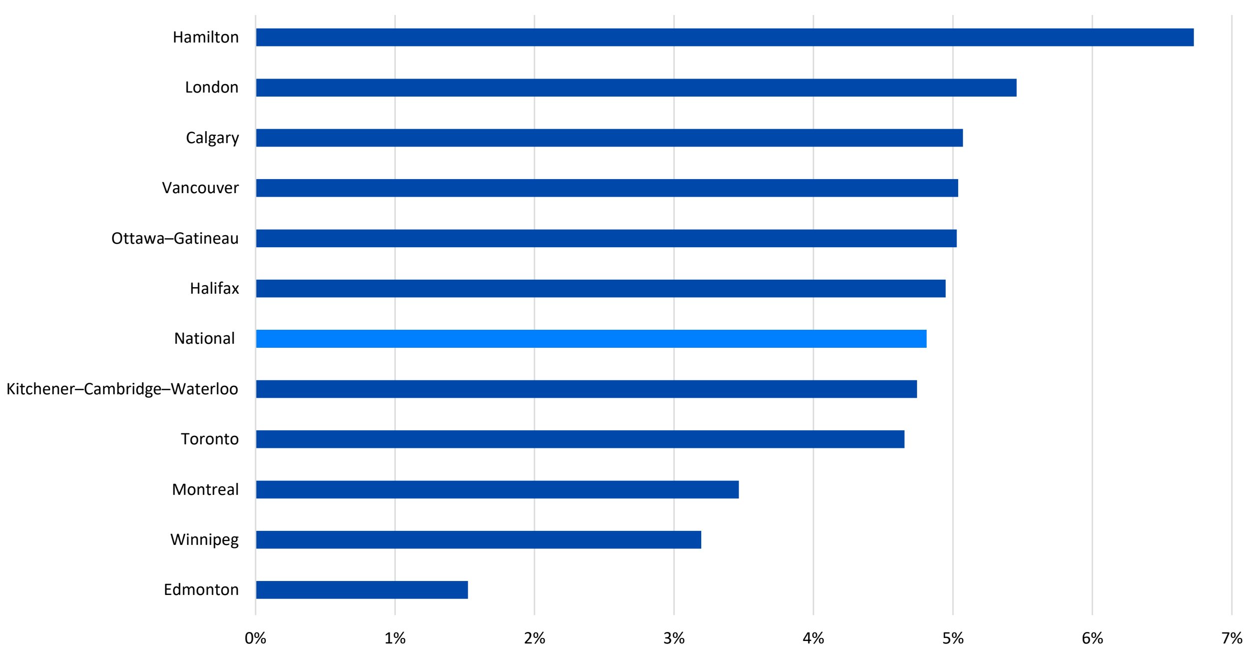
- Average in-place rent growth continued to gain steam in the fourth quarter of 2022, increasing to $1,390, up $17 from the third quarter. Average in-place rents increased 1.2% quarter-over-quarter and 4.8% year-over-year. The average in-place rent is now $115—or 9.0%—above pre-pandemic levels. In-place rents represent an aggregation of all rents in a given Census Metropolitan Area (CMA), including those for new leases, renewals and existing leases.

- Demand is driven by a host of factors, with population growth chief among them. Canada's population in the year ending in June 2022 increased by 703,000, the largest-ever one-year jump. Foreign immigrants comprised nearly 500,000 of the new residents. Robust growth is likely to continue, as Canada has set aggressive targets for immigration in coming years.

- Although there is debate about the overall economic impact of rapid population growth, the increasing number of households contributes to multifamily demand. A recent report by the Royal Bank of Canada found that during the decade ending in 2021 the number of renters increased by 876,000, up 22%, a growth rate three times faster than that of homeowner households. The report notes that the shift in renters is widespread, though concentrated among younger people and in urban areas.

- Year-over-year growth of in-place rents among CMAs in the fourth quarter was led by Hamilton (6.7%), London (5.5%) and Calgary (5.1%), while Vancouver and Ottawa-Gatineau topped 5.0%. Edmonton was the lowest at 1.5%, the only CMA below 3.2%, but the growth rate in the CMA improved by more than 100 basis points from Q3 2022. Among the provinces, in-place rent growth was very consistent, with increases ranging between Manitoba's 3.1% low mark and the 5.3% high achieved by British Columbia and Ontario.

Year-Over-Year In-Place Rent Growth (Q4 2022)



Source: Yardi

Q4 Lease-Over-Lease Growth Rates Soar

- Nationally, lease-over-lease rents—which represent new leases on units that are re-leased after becoming vacant—accelerated in the fourth quarter, as demand remains red-hot. Lease-over-lease rates for Canada overall increased by 11.9% year-over-year in the fourth quarter, compared to 10.4% in the previous quarter and nearly double the 6.2% in Q4 2021. Lease renewals are not subject to rent control in most jurisdictions, so growth in this category is a good measure of supply-demand fundamentals.

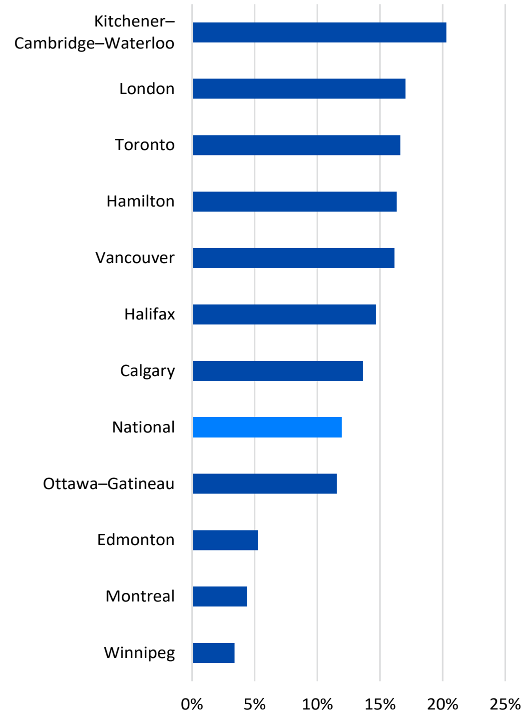
- That rent growth is defying seasonal patterns is a sign that household formation and demand for rentals are far above the amount of new supply being created. Even if the economy cools as expected, as long as population growth continues at its projected level and affordability slows home sales, multifamily demand will remain high.

- Population continues to migrate from urban centres to suburban/rural locales. Outmigration in the year ending in June 2022 was led by Ontario (-47,212), Manitoba (-10,203) and Saskatchewan (-7,829), per Statistics Canada. That trend, exacerbated during the pandemic by work-from-home, is fueling demand in smaller CMAs, while demand in large CMAs is being driven by immigrants and students.

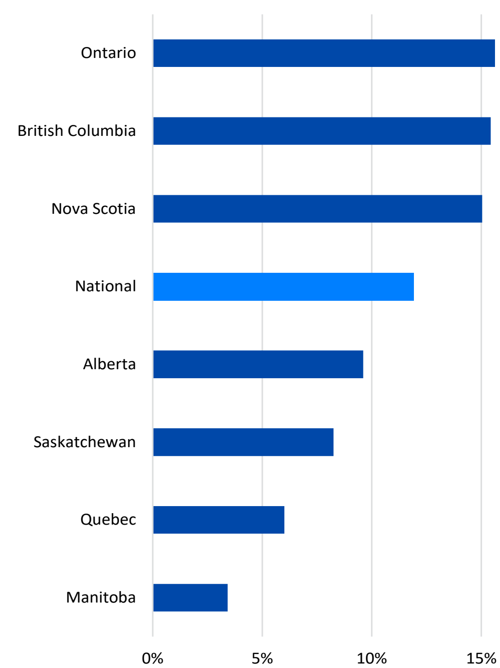
- Of the top 11 CMAs tracked by Yardi, eight recorded gains of 11.6% or more and five had year-over-year growth of at least 16.2%. By CMA, lease-over-lease growth was led by Kitchener-Cambridge-Waterloo (20.3% year-over-year), London (17.0%) and Toronto (16.6%). Calgary staged an impressive turnaround, with rents increasing 13.6% in Q4 2022, up from only 1.4% in the same quarter in 2021. Three provinces saw increases of 15%: Ontario (15.6%), British Columbia (15.4%) and Nova Scotia (15.0%).

- Winnipeg (3.4%), Montreal (4.4%) and Edmonton (5.2%) recorded the lowest lease-over-lease growth in Q4 2022.

CMA Lease-Over-Lease Rent Growth
(New Leases, Q4 2022)



Province Lease-Over-Lease Rent Growth
(New Leases, Q4 2022)



Source: Yardi

Low Turnover Boosts Vacancy Rates

Low turnover and high vacancy rates demonstrate keen apartment demand.

- Nationwide, the vacancy rate fell to 2.7% in Q4 2022, down 20 basis points from the prior quarter and 110 basis points year-over-year. The vacancy rate has dropped for seven straight quarters after peaking at 4.5% in Q1 2021.

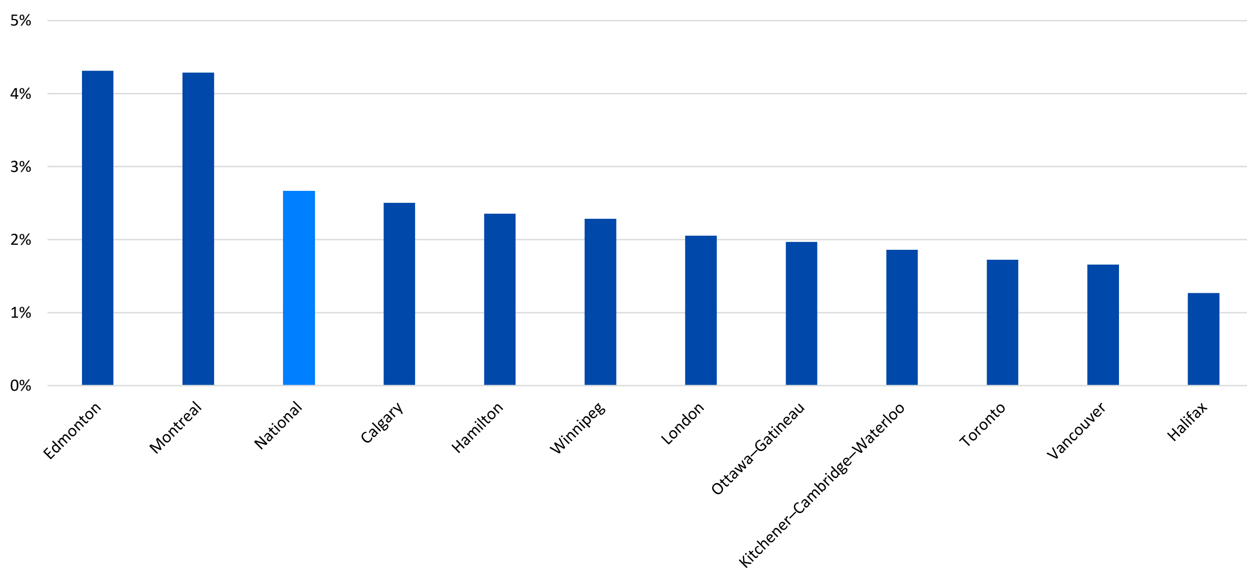
- Demand continues to outstrip supply, as affordability is strained from increasing rents. The lack of options for households is illustrated by the declining turnover rate. Only 4.9% of leases turned over in Q4 2022, compared to 5.7% in Q4 2021 and 6.6% in Q4 2020. On an annual basis, only 24.8% of leases were not renewed in 2022, compared to 27.3% in 2021 and 28.0% in 2020.

- The shortage of housing persists despite relatively robust development of purpose-built apartments. Through November 2022, 99,400 apartment units were completed and 107,400 were started, down slightly from a year earlier, according to the Canada Mortgage and Housing Corporation. However, the last two years represent the highest housing production numbers in several decades.

- The tightest vacancy rates among CMAs are in Halifax (1.3% as of Q4) and Vancouver and Toronto (both 1.7%). Toronto's average vacancy rate dropped 40 basis points from the previous quarter, while Vancouver's rose by 40 basis points. Montreal and Edmonton have the highest vacancy rates (both 4.3%). However, Montreal's vacancy rate dropped by 170 basis points from Q3 and is 290 basis points below its Q3 2020 peak of 7.2%. Calgary's vacancy rate of 2.5% in Q4 was up 50 basis points from the third quarter yet far below its 6.8% peak in Q1 2021.

- Nova Scotia (1.3% in Q4) and Ontario (1.9%) had the lowest provincial vacancy rates. Saskatchewan's vacancy rate fell 120 basis points to 3.3% from the previous quarter.

CMA Vacancy Rates (Q4 2022)



Source: Yardi

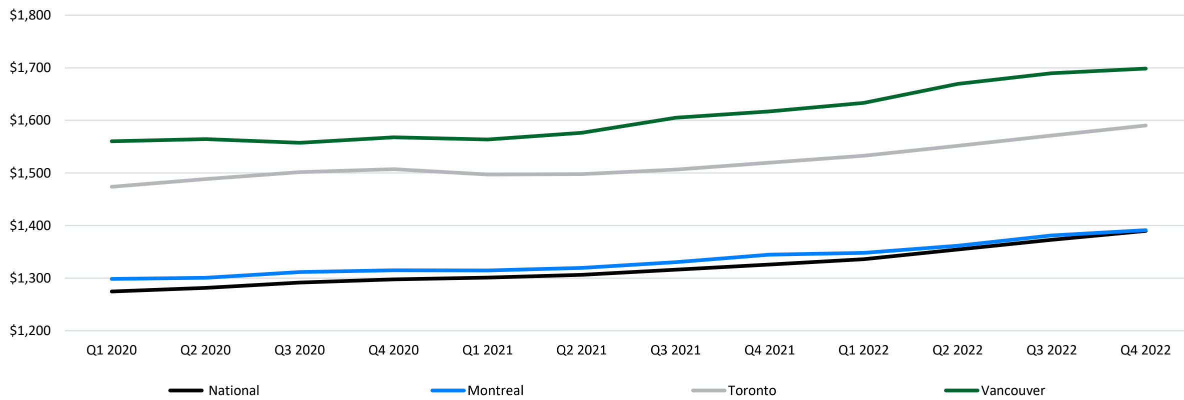
Rent, Vacancy and Turnover by CMA

CMA	Year-over Year Change in In-Place Rents	Lease-over-Lease Change in New Lease Rents	Vacancy Rate	Annual Turnover Percent
Hamilton	6.7%	16.3%	2.4%	16.1%
London	5.5%	17.0%	2.1%	20.7%
Calgary	5.1%	13.6%	2.5%	35.9%
Vancouver	5.0%	16.2%	1.7%	20.3%
Ottawa–Gatineau	5.0%	11.6%	2.0%	23.3%
Halifax	4.9%	14.7%	1.3%	21.7%
National	**4.8%**	**11.9%**	**2.7%**	**24.8%**
Kitchener–Cambridge–Waterloo	4.7%	20.3%	1.9%	18.2%
Toronto	4.7%	16.6%	1.7%	12.3%
Montreal	3.5%	4.4%	4.3%	31.2%
Winnipeg	3.2%	3.4%	2.3%	32.7%
Edmonton	1.5%	5.2%	4.3%	38.1%

Source: Yardi, all data as of Q4 2022

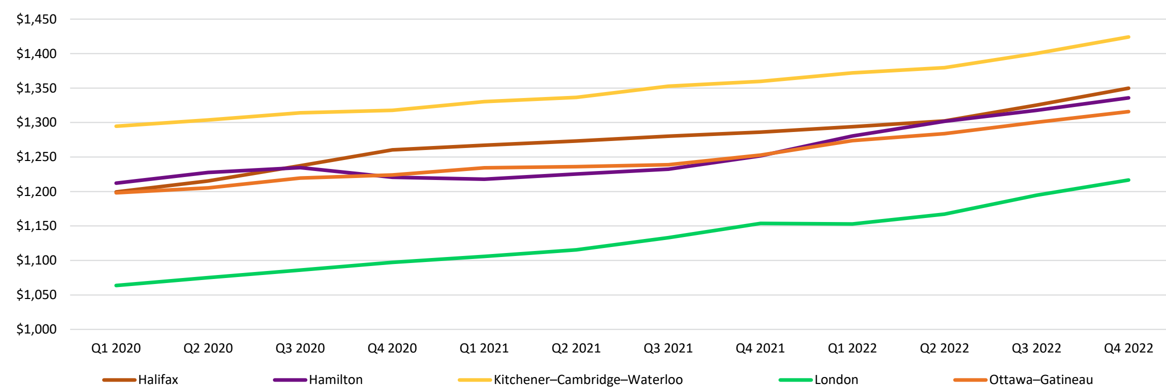
Historical In-Place Rents

National and Major CMA In-Place Rents



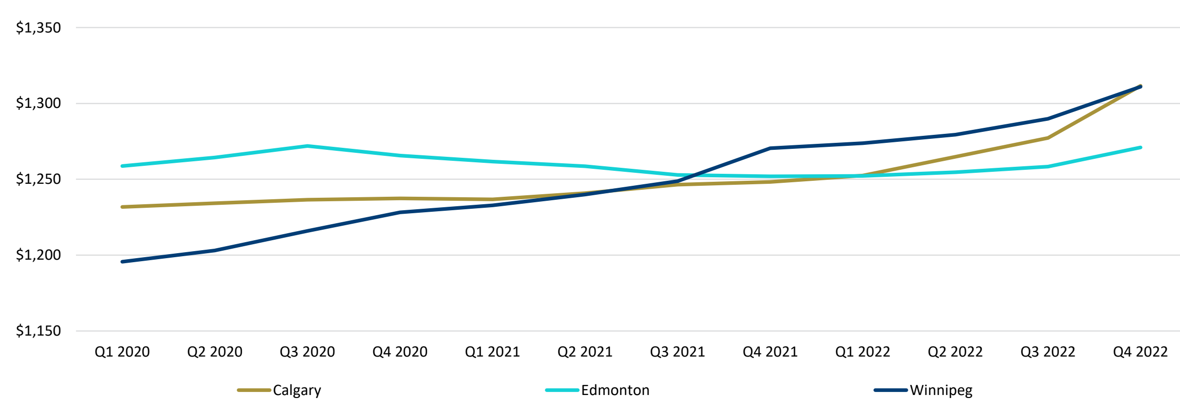
Source: Yardi

Smaller Eastern CMA In-Place Rents



Source: Yardi

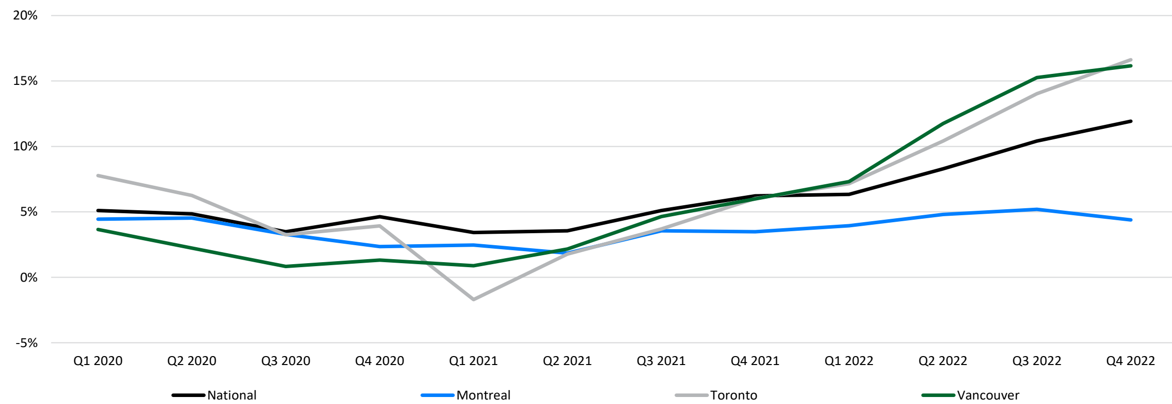
Western CMA In-Place Rents



Source: Yardi

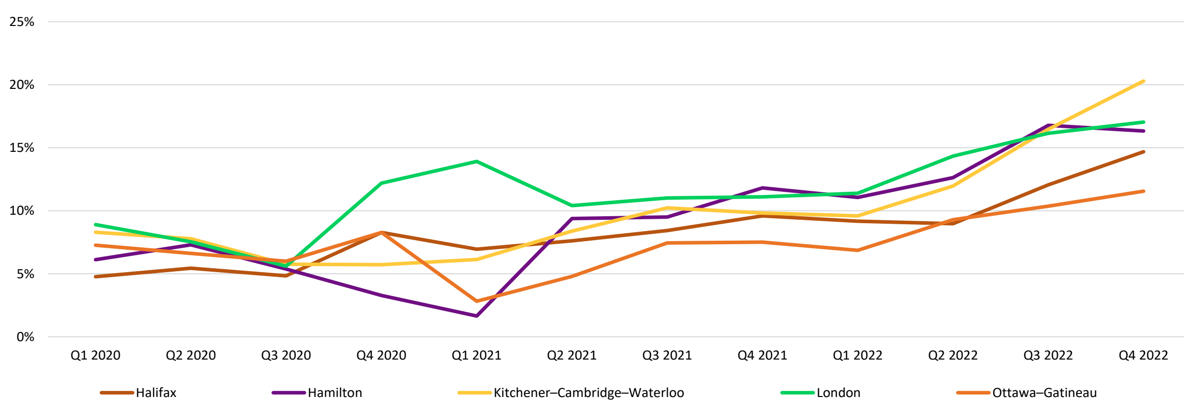
Historical New Lease Rent Growth

National and Major CMA New Lease Rent Growth



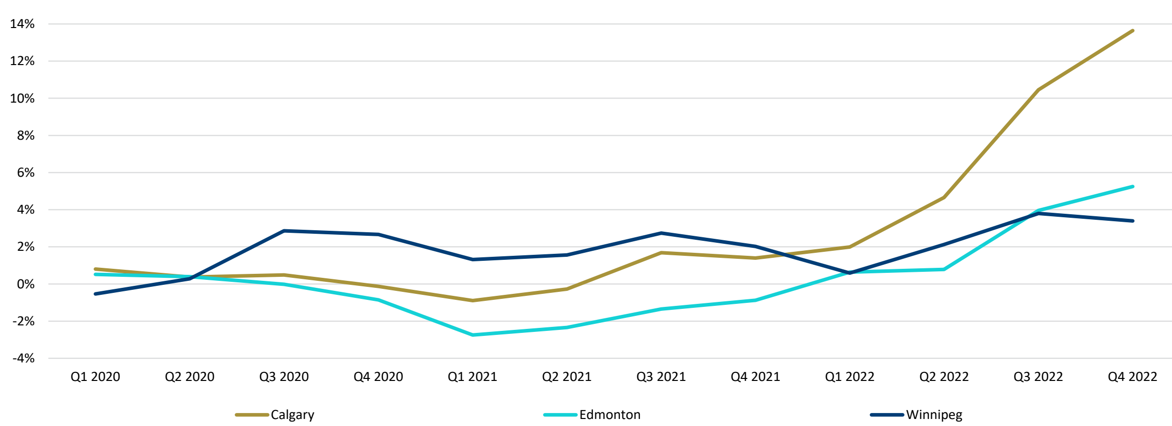
Source: Yardi

Smaller Eastern CMA New Lease Rent Growth



Source: Yardi

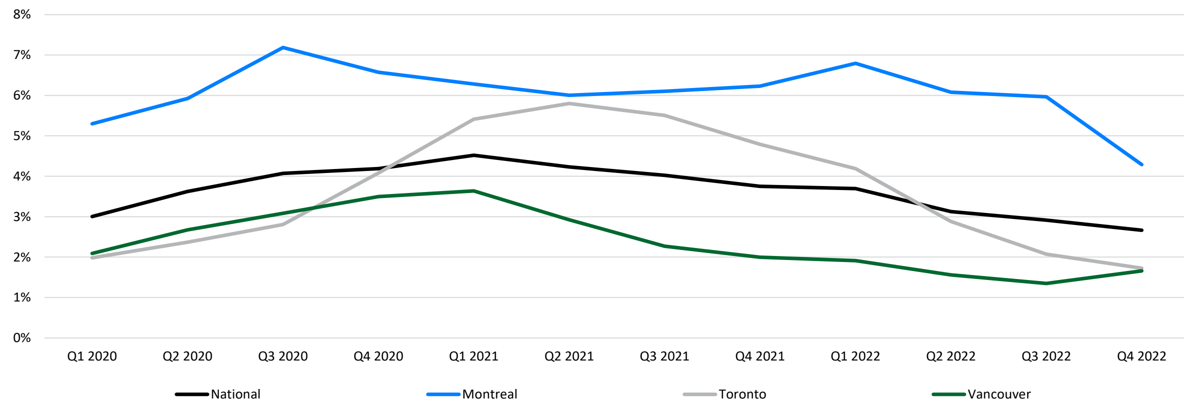
Western CMA New Lease Rent Growth



Source: Yardi

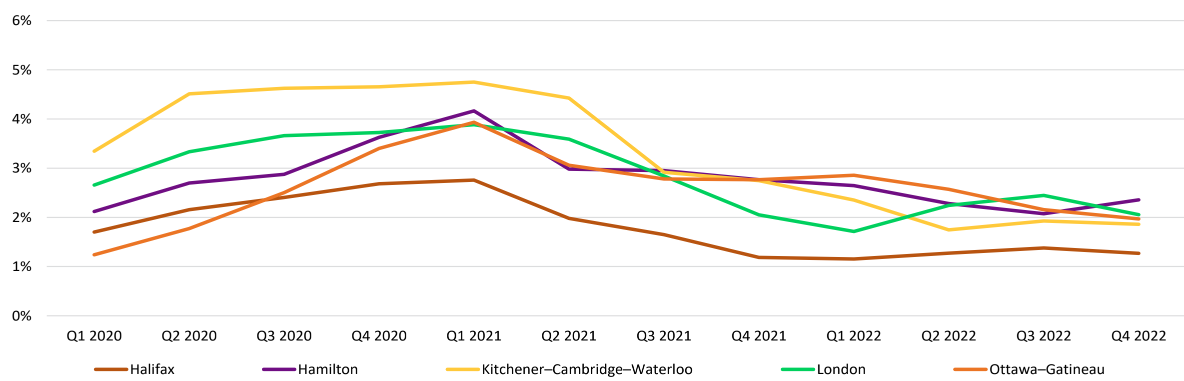
Historical Vacancy Trends

National and Major CMA Vacancy Trends



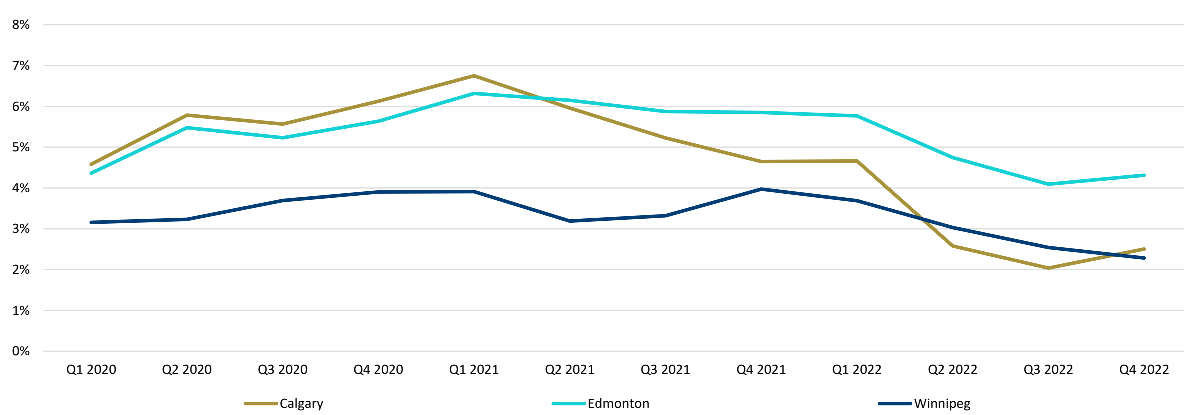
Source: Yardi

Smaller Eastern CMA Vacancy Trends



Source: Yardi

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

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

CMA: Census Metropolitan Area

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