



## VARIED PERFORMANCE IN CANADA'S RENTAL MARKETS

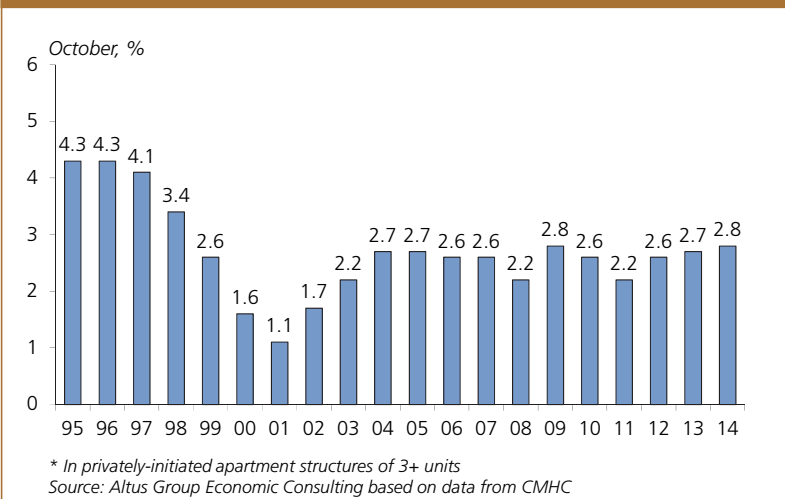
This issue presents our annual look at Canada's major rental markets based on CMHC's **Rental Market Survey**.

In October 2014, the vacancy rate for private rental apartments in Canada's major markets was 2.8%, up just marginally from 2.7% a year earlier, and remaining within the 2.2% to 2.8% band that has persisted since 2003 (Chart 1).

The relative stability at the national level did not play out in most markets, however (Chart 2, next page). Only 4 of the 34 markets were relatively stable (within +/- 0.1 percentage point change), the majority (18) posted lower vacancy rates while 12 had increases. Saint John and Peterborough had the most notable declines in vacancy rates while St. John's, Saguenay and Gatineau posted the largest increases.

Chart 1

### PRIVATE RENTAL APARTMENT VACANCY RATE\*, MAJOR MARKETS, CANADA



Toronto's vacancy rate was stable at 1.6%, despite competition from new supply in the rented condominium sector.

Only 4 markets (up from 2 last year) can currently be characterized as "tight" markets

(vacancy rate below 1.5%), with Kelowna, Vancouver and Guelph joining Calgary in this exclusive club (and Edmonton bidding adieu). The number of "soft" markets (vacancy rate above 2.5%) dropped to 19 from 23 in 2013.

On average, landlords were able to obtain rent increases of about 2.5% in the 12 months ending October 2014 (based on average rents for 2 bedroom units in buildings common to the survey in both years), which only matched the overall rate of consumer inflation.

## Highlights

- Little change in overall purpose-built rental apartment vacancy rate Canada-wide – but mixed performances by market
- Purpose-built rental starts up after years of relative stability – and there is potential for further increases in next 2 years, particularly in the Toronto area
- Newer rental buildings generally achieving more than 15% rent premium over average market rent
- Vacancy rate down again in rented Toronto condominiums, despite significant new supply
- Multi-family real estate sector supports about 140,000 jobs in Canada

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Chart 2

## SELECTED RENTAL APARTMENT MARKET INDICATORS CENSUS METROPOLITAN AREAS

Metropolitan Area	Vacancy Rate*		Starts**		Average Rents***	
	2013	2014	2013	2014	2013	2014
	%		Units		Year/Year % Change	
<b>'Tight' in 2014 (vacancy rate &lt;1.5%)</b>						
Kelowna	1.8	1.0	66	77	1.9	1.6
Vancouver	1.7	1.0	2,340	2,455	2.1	2.5
Guelph	1.9	1.2	24	209	3.3	3.0
Calgary	1.0	1.4	239	655	7.2	5.9
<b>'Balanced' in 2014 (vacancy rate 1.5-2.5%)</b>						
Victoria	2.8	1.5	308	304	0.7	2.6
Barrie	3.0	1.6	30	90	1.4	1.5
Toronto	1.6	1.6	477	1,519	2.9	2.6
Edmonton	1.4	1.7	1,883	1,405	5.6	6.1
Oshawa	2.1	1.8	263	110	4.6	2.8
Kingston	2.3	1.9	284	116	2.8	2.1
Hamilton	3.4	2.2	359	124	3.1	2.8
Kitchener	2.9	2.3	636	1,013	3.2	1.6
Thunder Bay	2.6	2.3	10	48	4.6	3.9
Brantford	2.9	2.4	0	60	0.0	1.8
Winnipeg	2.5	2.5	773	602	4.8	4.2
<b>'Soft' in 2014 (vacancy rate &gt;2.5%)</b>						
Ottawa	2.9	2.6	466	557	2.0	0.0
Peterborough	4.8	2.9	82	0	2.6	1.4
London	3.3	2.9	353	214	1.6	1.0
Regina	1.8	3.0	680	813	3.7	3.0
Québec	2.3	3.1	1,454	1,620	1.0	2.0
Abbotsford	3.2	3.1	263	31	1.5	1.1
Saskatoon	2.7	3.4	225	340	4.0	4.3
Montreal	2.8	3.4	1,970	3,763	2.0	2.2
St. Catharines	4.1	3.6	5	31	2.2	1.6
Halifax	3.2	3.8	1,402	806	1.2	1.8
Sudbury	3.4	4.2	180	23	1.4	1.6
Saguenay	2.8	4.2	288	212	1.9	2.1
Windsor	5.9	4.3	8	9	2.0	1.9
St. John's	3.2	4.6	329	203	5.2	3.2
Trois-Rivieres	5.1	5.3	352	260	1.1	1.8
Sherbrooke	5.3	5.4	351	331	1.1	1.7
Gatineau	5.1	6.5	513	323	-1.6	2.1
Moncton	9.1	8.7	389	324	2.0	1.2
Saint John	11.4	9.0	81	79	0.0	0.7
<b>All Met Areas</b>	<b>2.7</b>	<b>2.8</b>	<b>17,083</b>	<b>18,726</b>	<b>2.5</b>	<b>2.5</b>

\* For privately-initiated apartment structures with 3 units and over

\*\* Purpose-built rental apartment units; data are for January to November in each year.

\*\*\* For 2 bedroom units in structures common to the survey sample for both years

Source: Altus Group Economic Consulting based on data from CMHC

## Positive Signs for New Rental Buildings

For the October 2014 survey, CMHC published data for rental buildings constructed since 2005 for 22 CMAs (see Chart 6, next page). Despite rents being at least 17% higher in newer buildings versus all buildings in the 22 CMAs, the vacancy rate in 2014 was lower for new buildings compared to all buildings in half of the CMAs. The market for new buildings was tight in 6 CMAs.

## Starts of Purpose-Built Rental Units Up

Starts of purpose-built rental apartment units have been increasing in Canada's major markets since 2009 (Chart 3). Given that many projects are large, the pick-up in completions has lagged somewhat, although about 19,000 units per year on average have been added to the stock in Canada's major markets in the past 2 years. Montreal had the largest number of purpose-built rental apartment starts in 2014 (Chart 2), roughly doubling its 2013 performance. Toronto starts were also up substantially in 2014 after a lull in 2013.

## Increased Interest in Rental Investment

Interest among larger investors in buying rental buildings in the major markets has been increasing in the past 2 years, according to Altus InSite's **Investment Trends Survey (ITS)**, in particular in Calgary, Edmonton and Ottawa (Chart 4). ITS respondents indicate that the stability of income afforded by rental investment compared to other asset classes is the most important motivation for rental investment.

Investors in rental buildings play an important role in the Canadian economy. A recent study by Altus Group for REALpac ([Contribution of the Multi-Family Rental Real Estate Sector to the Canadian Economy](#)) estimates that the multi-family real estate sector in Canada contributes about \$24 billion annually to the Canadian economy, and supports about 140,000 jobs.

## Smaller Investors Also Contribute to Rental Supply

Smaller rental investors (households owning one or a few units, or renting out flats or basement apartments) also play an important role in Canada's housing market. According to our FIRM data, about 1 in 20 Canadian households owns at least 1 rental unit (Chart 5). The incidence of owning at least one rental unit is slightly higher in the under 50 age groups (some of these may be basement apartments being rented out to support mortgage payments). Income, however, is a more important factor than age.

Chart 3

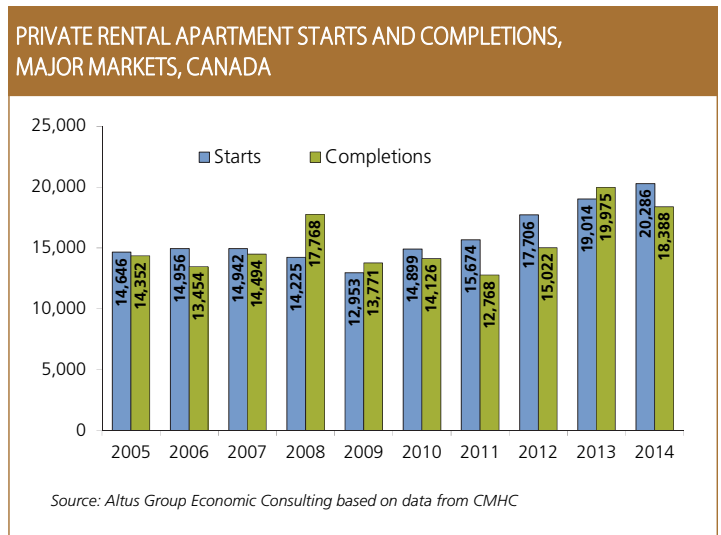


Chart 4

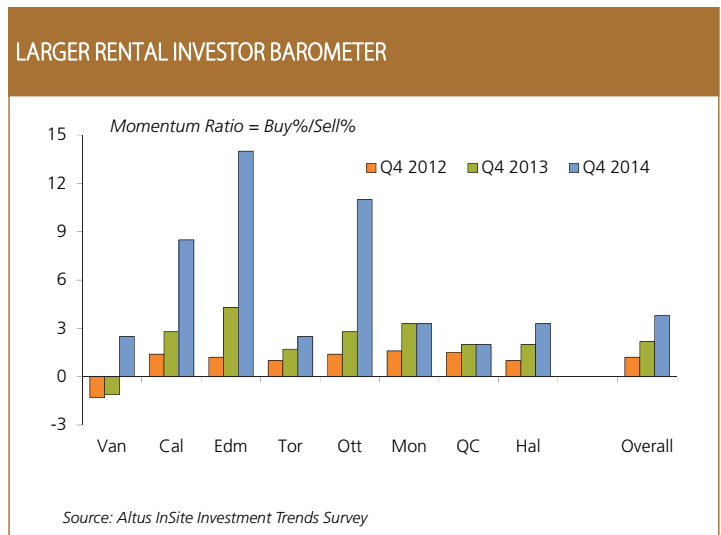


Chart 5

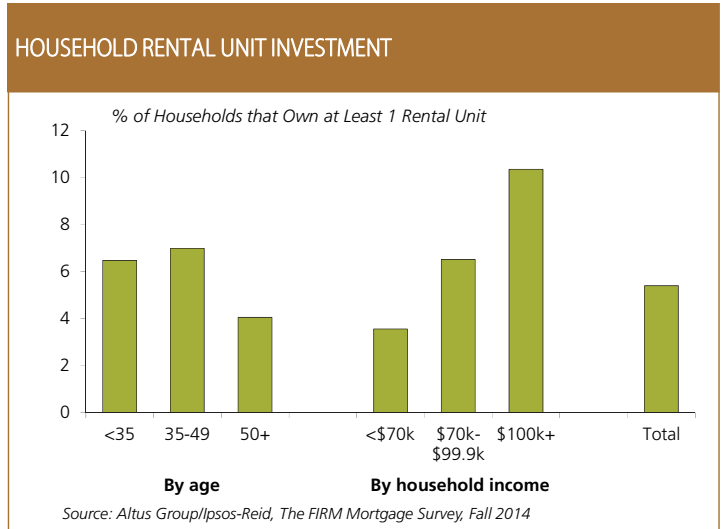


Chart 6

## RENTAL APARTMENT MARKET INDICATORS, NEW CONSTRUCTION\*, CENSUS METROPOLITAN AREAS

Metropolitan Area	Vacancy Rate		Average Rent		Average Rent Growth
	2013	2014	2013	2014	2014
	%		\$		Year/Year % Change
<b>'Tight' in 2014 (vacancy rate &lt;1.5%)</b>					
Saskatoon	0.0	0.2	1,301	1,386	6.5
Trois-Rivieres	n.a.	0.7	718	715	-0.4
Peterborough	6.6	0.8	1,157	1,225	5.9
St. Catharines	n.a.	1.1	n.a.	1,229	n.a.
Kingston	0.9	1.3	1,497	1,528	2.1
Toronto	3.7	1.4	1,649	1,734	5.2
<b>'Balanced' in 2014 (vacancy rate 1.5-2.5%)</b>					
Kelowna	2.0	1.6	1,172	1,190	1.5
Calgary	6.3	1.9	1,760	1,746	-0.8
Edmonton	2.1	1.9	1,332	1,434	7.7
Montreal	2.5	2.0	913	909	-0.4
London	5.3	2.1	1,433	1,486	3.7
Vancouver	4.2	2.5	1,873	1,835	-2.0
<b>'Soft' in 2014 (vacancy rate &gt;2.5%)</b>					
Winnipeg	5.8	3.7	1,288	1,282	-0.5
Victoria	7.1	3.8	1,155	1,310	13.4
Ottawa	2.0	4.0	1,462	1,434	-1.9
Halifax	3.0	4.1	1,366	1,374	0.6
Saguenay	n.a.	4.6	780	810	3.8
Gatineau	n.a.	4.9	929	920	-1.0
Sherbrooke	2.3	5.0	745	785	5.4
Saint John	7.7	7.3	912	1,018	11.6
Regina	0.3	7.7	1,173	1,307	11.4
Moncton	9.5	9.2	859	909	5.8

\* Buildings constructed in 2005 or later; all data are for 2 bedroom units

Source: Altus Group Economic Consulting based on data from CMHC

### Major Rental Condominium Apartment Markets Either Tight or Balanced, Except for Montreal

Despite sizeable increases in supply, the vacancy rate for rental condominium apartments was in tight or balanced territory in 5 of the 6 major markets (CMAs) covered in Chart 7 (next page). The vacancy rate fell in Ottawa, in response to slower growth in the supply of condominium apartment units offered for rent (475 units added in 2014 versus 1,254 in 2013), while Edmonton and Montreal posted increases.

After reaching its highest level in at least 15 years in 2013, the vacancy rate in the Toronto CMA declined to 1.3% despite a second consecutive year where the supply of rental condominium apartments increased by over 13,500 units. Assuming 50% of the over 53,000 condominium apartments under construction in the CMA at the end of November could be rented out, this would add another

26,500+ rental condominium units over the next 2-3 years. This would likely keep rent increases in check, which may pose a challenge for those who invested in units that are now under construction at higher prices than recently completed units.

The Vancouver CMA was the only one of the 6 markets to see a decline in rental units as a percent of all condominium apartment units. Back in 2006, Vancouver had the highest percentage of condominium apartments that were rentals, but since then all of the other 5 markets have seen their percentage rise more than Vancouver. Although the condominium apartment universe in Vancouver increased by 9,226 units in 2014, the number of rental units increased by only 374 units, suggesting a slowing in investor activity.

Chart 7

Metro-politan Areas	Vacancy Rate (%)		Rental Condominium as % of				Average Rents**		
			Total Rental Universe*	Rentals in "Core Area"**	Total Condo Universe	Condos in "Core" Area	\$	Ratio to Purpose-Built Rental	% Change
	2013	2014	2014	2014	2014	2014	2014	2014	2014
Vancouver	1.1	0.7	33	42	25	42	1,668	1.27	5.6
Calgary	1.0	1.1	32	30	31	34	1,511	1.14	7.9
Edmonton	1.1	2.3	20	19	34	38	1,179	0.96	(8.7)
Toronto	1.8	1.3	23	26	29	38	1,818	1.45	3.8
Ottawa	3.6	1.7	11	11	24	29	1,429	1.26	(0.2)
Montreal	2.7	3.4	4	17	13	22	1,144	1.55	2.1

\* Total condo apartment plus privately-initiated apartment structures of 3+ units.  
 \*\* 2 bedroom units  
 Source: Altus Group Economic Consulting based on data from CMHC

In 5 of the 6 markets, the ratio of average rents in condominium apartments versus purpose-built rental apartments was virtually unchanged between 2013 and 2014. Notwithstanding competition from rental condominium apartments, many of which are relatively new, average rents in 2014 for 2-bedroom units in newer purpose-built rental units were higher than or on par with units in rental condominium apartments in 4 of the 6 CMAs, the exceptions being Toronto and Montreal. Differences in rent may in part reflect differences in locations.

It is interesting to note that while some condominium developers are planning/considering the development of new purpose-built rental apartments, in 2014 Tridel, one of the leading condominium developers, sold a portfolio of rental apartment buildings in the GTA, which combined accounted for the largest sale of rental apartment buildings based on sales price in the GTA according data from Altus Group's RealNet division.

## Outlook for Purpose-Built Rental Development

Findings from Altus Group's latest FIRM Survey show that renter household intentions to purchase a home are up Canada-wide, with the increase focused among younger, higher-income renters, a prime target group for higher-end new purpose-built rental, and rented condominium units. Whether this intent translates into actual increased homebuying activity will depend on how the affordability equation plays out over the next year.

Based on projects that Altus Group has worked on or is aware of through its feasibility studies, there is potential for a significant increase in market rental apartment starts in 2015/2016, particularly in the Toronto area. However, the extent of the increase is somewhat unpredictable. While some projects are proceeding, others are still under consideration with no firm commitment or timeline. A key factor will be whether projected rents are sufficient to yield a satisfactory return on investment. Many projects planned or under consideration involve the intensification of property already developed with rental apartments and/or other uses allowing for potential cost savings, especially where underutilized underground parking can be leveraged.

*Altus Group provides a range of services for the rental housing investment and development sector, including market, feasibility and repositioning analyses, appraisals, cost consulting and monitoring and property tax consulting. For more information, please contact [robert.feldgaier@altusgroup.com](mailto:robert.feldgaier@altusgroup.com)*

## NOVEMBER STARTS MOVE HIGHER

Canada-wide housing starts for the month of November were 193,200 units seasonally adjusted at annual rate (SAAR), up from the revised number for October, according to CMHC estimates. The apartment sector recorded a strong increase while starts retreated slightly in the single-family sector.

Regional highlights for November include:

- Atlantic Canada starts were higher in Nova Scotia but were lower in the remaining provinces;
- Starts in Quebec rose as higher levels in the Montreal CMA more than offset a decline elsewhere in the province;
- Ontario starts were stronger as a small fall-off in the Toronto CMA was countered by higher activity the other areas of the province;
- Starts fell in both Manitoba and Saskatchewan;
- Alberta starts retreated slightly; and
- B.C. starts increased with higher levels in both the Vancouver CMA and the remainder of the province.

## HOUSING STARTS BY TYPE AND AREA

	November 2013	October 2014	November 2014
<i>Total Starts (000s), SAAR</i>			
Canada, Total	194.7	182.2	193.2
<b>By Type of Unit</b>			
Single-family	110.7	115.9	113.4
Apartment	84.0	66.3	79.8
<b>By Area</b>			
British Columbia	28.2	23.9	30.2
<i>Vancouver CMA</i>	<i>17.8</i>	<i>14.5</i>	<i>19.5</i>
<i>Other Areas</i>	<i>10.4</i>	<i>9.4</i>	<i>10.7</i>
Alberta	43.8	41.2	39.2
Saskatchewan	6.8	9.2	8.2
Manitoba	8.8	6.8	4.2
Ontario	61.2	54.5	59.4
<i>Toronto CMA</i>	<i>36.9</i>	<i>25.5</i>	<i>24.0</i>
<i>Other Areas</i>	<i>24.3</i>	<i>28.9</i>	<i>35.4</i>
Quebec	37.1	38.6	43.7
<i>Montreal CMA</i>	<i>17.7</i>	<i>19.8</i>	<i>29.4</i>
<i>Other Areas</i>	<i>19.4</i>	<i>18.8</i>	<i>14.3</i>
New Brunswick	2.9	2.5	2.3
Nova Scotia	2.4	2.5	3.6
Prince Edward Island	0.4	0.8	0.5
Newfoundland	3.3	2.2	2.0

Source: CMHC and estimates by Altus Group Economic Consulting

## LABOUR MARKET INDICATORS

	Employment Growth		Unemployment Rate	
	Jan-Nov 13- Jan-Nov 14	Nov 13- Nov 14	Nov 2013	Nov 2014
	000s		%	
St. John's	1	2	5.9	5.8
Halifax	0	2	6.6	6.1
Quebec	9	-1	4.8	5.2
Montreal	-4	-9	7.9	8.3
Ottawa	3	14	5.8	5.9
Toronto/ Oshawa	17	-10	8.2	7.8
Kitchener- Waterloo	5	-2	6.1	6.0
London	-2	4	7.5	7.8
Winnipeg	-1	3	5.9	5.6
Regina	1	3	4.0	3.1
Saskatoon	6	8	4.2	3.6
Calgary	24	17	4.6	4.4
Edmonton	26	18	5.2	5.3
Vancouver	33	56	6.5	6.0
Victoria	-4	-6	4.3	4.9

Based on seasonally adjusted 3 month averages

Source: Altus Group Economic Consulting based on Statistics Canada data

## RESALE HOUSING MARKET INDICATORS

	MLS Sales*			Months of Inventory**	
	Nov 2013	Nov 2014	% Change	Nov 2013	Nov 2014
	Units				
St. John's	390	334	-14	n.a.	n.a.
Halifax	343	320	-7	n.a.	n.a.
Quebec	450	514	14	13.3	13.0
Montreal	2,606	2,590	-1	11.9	13.0
Ottawa	902	905	0	n.a.	n.a.
Toronto/ Oshawa Kitchener- Waterloo	6,354	6,498	2	2.5	2.3
London	471	485	3	n.a.	n.a.
Winnipeg	569	599	5	5.7	5.7
Regina	863	831	-4	4.0	5.0
Saskatoon	257	247	-4	6.1	7.6
Calgary	389	379	-3	n.a.	n.a.
Edmonton	2,041	2,146	5	2.2	2.3
Vancouver	1,118	1,137	2	3.6	3.4
Victoria	2,321	2,516	8	6.0	5.0
	378	432	14	7.9	6.1

\* Multiple Listing Service (MLS) is a registered certification mark owned by The Canadian Real Estate Association.

\*\* Active listings at month end divided by sales during the month. A 5 months inventory of resale product is considered to be a "normal" market.

Source: Altus Group Economic Consulting based on data from The Canadian Real Estate Association and local real estate boards