Top 10 Real

INSIGHTS

2018 Canadian Apartment Investment Conference

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TOP 10 | REAL INSIGHTS | 2018 Canadian Apartment Investment Conference | ISSUE 11

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For further details on these top trends please visit the Real Estate Forums Portal at realestateforums.com

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1. RENTAL RATES INCREASED AS VACANCY RATES FELL

At the end of last year, CMHC reported that average rent for two bedroom apt increased by 2.7% to $989, while the national average vacancy fell 70 bps to 3.0%.

Six Canadian cities have sub 2.0% vacancy rates: London (1.8%), Ottawa (1.7%), Toronto (1.0%), Vancouver (0.9%), Victoria (0.7%) and Kelowna (0.2%).

In the GTA, vacancy rate is sitting at 1.1% - the lowest rate in 16 years.

While the average rental rate for a one bedroom purpose built apartment unit in the GTA was at $1,191, the rents that are charge for condos is much higher at $1,789 according to the CMHC.

As of June 2018, according to Pad Mapper the average price of one bedroom units in the top 5 most expensive cities in Canada were:

- Vancouver $2090 falling 0.5% from May; increasing by 2.5% from June 2017
- Toronto $2079 falling 0.5% from May; increasing by 15.6% from June 2017
- Burnaby $1560 unchanged from May; increasing by 15.6% from June 2017
- Barrie $1330 falling 3.6% from May; increasing 15.75% from June 2017
- Montreal $1250 falling 3.1% from May; increasing 4.2% from June 2017
- Victoria $1250 increasing 0.8% from May; increasing 5.9% from June 2017

Across Canada, the stock of purpose built rental apartments grew by only 1.2% (23,000 units) between 2016 & 2017.

Some relief to the supply side is coming. As of Q4 2017, 27,569 rental units are proposed and 6,305 units are under construction in Toronto.

As of January 2018, there are an estimated 17,229 new rental units in 166 buildings, in the pipeline in Vancouver – an 82% increase from the year before.

2. HOUSING AFFORDABILITY HAS HIT CRISIS LEVEL

The cost of home ownership keeps rising and people are being forced to pay more for rental units.

RBC's latest affordability study released in July shows that housing in Vancouver and Toronto has hit crisis levels. In Vancouver, it would take 88% of an average household's income to buy a house. In Toronto, it would 74% of an average household income would be required to cover the costs of home ownership. The Canadian average is about 48% and in Calgary and Montreal, it is lower than 44%.

The average price for a home in the GVA rose to a record $1,094,000 in May, even as sales fell 35% from a year ago, according to the REBGV.

In March, the average condo price sold in the GVA reached $750,052 representing a 24.2% increase from March 2017.

Royal LePage predicts that low inventory levels will continue to put upward pressure on home prices increasing them by 5.2 % by the end of 2018.

According to Benjamin Tal, states that there is "simply not enough supply, while demand is rising due to demographics." Higher interest rates will stabilize the prices but will not fix the long term supply problem. Unless the government changes policy to allow more supply, "it will be a more severe crisis in the future."

The supply of new inventory in the GTA for both apartment condominium and single-family new homes were substantially down by about 50.0% in the first half of the year compared to last year. The drop in new inventory impacted sales, with both apartment condominium and single-family products seeing lower volumes to start 2018, although apartment sales have since returned to more historic levels. Additionally, while the pace of price growth has slowed, the benchmark price for a new apartment condominium in the GTA increased by 25.0% compared to last May The trend in sales growth outside of the GTA has also continued, with a sizeable spike in sales of new homes in the Waterloo region, where significantly lower average prices are available compared to the GTA.

In Q1 2018, the average rent for one-bedroom condominium apartments in the TREB market area was up 11.4% on an annual basis to $1,995. The average two-bedroom condominium apartment rent was up by 9.1% over the same time period to $2,653.

According to Peter Norman, Altus' Chief Economist, in Toronto and Vancouver, rented condos represent about 80% of all rental homes—and they are often luxury units that don't suit families with young children, the demographic often most hard-pressed to find reasonably priced housing.

Housing advocacy groups have been pushing builders to address the "missing middle"—fourplexes and sixplexes, row houses, and buildings that fall between the apartment tower and the single-family dwelling and that tend to offer more options for renters and young families.

3. GOVERNMENT POLICY INITIATIVES TACKLE AFFORDABILITY

Billions of dollars are being spent at all levels of Government to try to deal with the high cost of housing.

As home ownership becomes out of reach for many people in Canada's largest cities, households are finding it difficult to find affordable rental accommodations. Governments at all three levels are tackling affordability with a bevy of new policies.

The federal government announced a national housing strategy last fall that commits $40 B over 10 years to new units and upgrades of aging properties, including loans to encourage developers to build new housing geared toward modest- to middle-income families.

CMHC's Rental Construction Financing initiative increased lending capacity for rental construction by 50% to $3.75 B over the next three years. This initiative provides low cost loans to developers of purpose built residential rental or mixed use residential developments where residential is the primary use. In order to qualify, projects need to be energy efficient, accessibly and offer affordable rents.

A $66 M plan from BC's provincial government would see 600 new units of temporary modular homes built in Vancouver - 400 of which are already in various stages of development.

A Vancouver pilot project was launched last summer to require 20% of all new rental units to be below-market. Proposal included such incentives as increased allowable density, lower parking requirements and fee waivers

4. TENANT PROTECTION MEASURES ADD CHALLENGES FOR LANDLORDS

In addition to strict new Rent Control guidelines, Government adopting tougher policies to protect tenants.

a) Rental Conversions

Landlords in Vancouver who evict their tenants are required to pay several months rent, assist in relocating them within the city, and pay for moving costs, he said. Developers would also have to give previous tenants the opportunity to move back into the new building at a discounted rate.

Similarly, the Ontario government brought in new rules last September that require landlords to pay a tenant one month of rent in compensation. If the landlord advertises, rents, demolishes or converts the unit within a year — an indication that they aren't using it themselves — they could also face a fine of up to $25,000.

b) Replacement Policies

In Vancouver, a proposed update to the Rental Housing Stock Official Development Plan would see a one-to-one replacement of rental units for developments of three units or more. Currently the plan requires replacement of units in developments of six or more units – the same threshold set out in the Toronto Official Plan.

c) Rent Control

According to the Federation of Renal-Housing Providers of Ontario (FRPO) the expansion of Rental Control in April 2017 have jeopardized at least 20,000 proposed rental units and will lead to rental developments being converted into condos.

The new rental rules as outlines in the Rental Fairness Act include:

- Expanding rent control to all units, including those built after 1991.
- Annual rent increases for existing tenants can be no higher than the rate of inflation.
- Rent increases will be capped at 2.5%, even if the rate of inflation is higher.
- Change becomes effective as of April 20, regardless of when legislation is passed.
- Tenants will be adequately compensated if asked to vacate for "landlord use."

In Vancouver, the clauses allowing landlords to raise rents higher than 4.0% to match neighboring prices was eliminated in October 2017. Changes to the Residential Tenancy Act were introduced by the BC Government eliminating vacate clauses and restrict rent increases between fixed-term tenancy agreements.

5. MILLENNIAL COHORT ADDING STRAIN TO HOUSING SUPPLY

In 2014, for the first time, there were more millennials in North America than baby boomers, buoyed in part by immigration.

At the end of 2017, Stats Can released data on the 2016 Census. This census data provided new insight into the rental housing market in Toronto.

In the Toronto Area there were 146,000 households added. 58% of the newly formed households were renting their homes. With this growth, the number of household who rent increased from 32% to 35%.

In the previous census period the rental sector grew by just 60,000 households while the homeowner sector grew by 140,000.

29,000 of the new households who rent are in the millennial cohort.

45,000 of the new households who rent are renting condos.

The largest increase in renters has been among households above-average. Between 2011 and 2016, the Toronto area added 17,000 more renter households with upper-middle incomes ($80,000-$100,000), and 34,000 more with incomes over $100,000.

A report by Diana Petramala and Frank Clayton, published by Ryerson said that in the next 10 years, approximately 700,000 millennials will be looking to buy a home while the baby boomers are not expected to downsize 'in a meaningful way' until mid 2040.

6. MULTIFAMILY INVESTMENT ACTIVITY STRONG

Altus Data Solutions reports $1.3 B in national apartment transactions in Q1 2018.

Suburban multi-unit residential cap rates have fallen across all markets, except for Calgary and Quebec City, where it shows an incremental lift in residential cap rates from Q1. Moreover, RealNet Investment Transactions results indicate a decline in national portfolio sales volume and total deal count for multi-unit residential products and residential lands (YoY in Q1 2018).

According to Peter Whatmore, CBRE SVP, interest in multifamily assets across south western Ontario has surged of late. Bid depth has been very strong for this property type and cap rates remain low. The Canadian multifamily sector had a solid start to 2018 with no markets reporting movement in cap rates. Liquidity for multifamily assets remains strong and this looks set to persist, reports CBRE.

At the end of Q2, Blackstone and Starlight announced that they were partnering to acquire six multifamily buildings in Toronto and Montreal. The portfolio contains 746 units and marks Blackstone's entry into this asset class in Canada. According to Raj Mehta, Starlight's global head of private capital and partnerships, restricted supply makes it difficult for new companies to enter this market. He estimates that the Canadian multifamily market consists of about 2M units of which approximately 90% are owned by small or family investors many of whom are hesitant to sell their assets.

Toronto-based Tricon Capital Group Inc. has announced a major American joint venture through which it plans to purchase up to 12,000 more single-family rental homes for its Tricon American Homes division. The joint venture, involving an unnamed "sovereign wealth fund" and a U.S.-based state pension plan, will be capitalized with a total of US$750 M in equity, with each of the three partners committing $250 M. The total value of the acquisitions is estimated to be about $2 B

Northview Apartment REIT announced in June that it has closed the acquisition of a 623 unit portfolio of six apartment properties in Ontario and Nova Scotia from Starlight. The aggregate purchase price was $151.8 M, representing a weighted average capitalization rate of 4.5%. The portfolio had an average occupancy rate of 97.3%

Two multi-res properties on 13 Avenue, S.W., in Calgary, and 38 Lawton Ave. in Toronto, have been sold to Vancouver's Hollyburn Properties, which Industrial Alliance had recently put on the market. The Toronto property sold for $19.1 M while the Calgary building sold for $11.9 M.

7. HI TECH = HI PRICES

US examples show that when the Hi Tech firms come to town, so do higher housing prices.

Toronto is the fastest growing technology hub in North America according to an annual survey of global tech industry leaders. In KPMG International's latest Global Technology Innovation report, Toronto will be leading the global innovation hubs over the next four years.

Last fall, Google's parent company Alphabet announced plans to build a smart, connected neighborhood along Toronto's east waterfront and Thomson Reuters Corp. said it plans to put down $100 M on a tech hub in the city, adding 400 new high-tech jobs.

Currently, Toronto is home to more than 4,000 active start-ups and over 22,500 new tech jobs located in Toronto from 2015 to 2016.

As with other North American tech hubs – Seattle, San Francisco and the Silicon Valley, an influx of new, highly paid tech workers puts a strain on housing supply.

While the tech industry has been fueling regional economies, California and the Bay Area's communities (excepting San Jose) have failed to build enough housing to accommodate the employment wave.

It is estimated that California needs construction of roughly 210,000 to 250,000 residential units a year but is building more like 110,000 annually.

In Q1 of this year, San Francisco's average housing price hit $1.6 M US, the highest in the country. Seattle remains among the most expensive places in the country to rent. The average rent across all unit types is $2,330 in downtown Seattle.

In Palo Alto—home to Facebook, Tesla and Hewlett-Packard—the median price soared 15.7% in 2017 to $2.95 M. In neighboring Mountain View, home to Google, the median price increased 14.8% to $1.98 M. And in Apple's home of Cupertino, the median price hit $2.1 M, an annual bump of 11.8%, according to the Sotheby's report.

The Kitchener-Waterloo region's Idea Quarter has also witnessed moderate economic growth predominantly driven by tech and startup companies. Companies like Shopify Plus are planning to neighbor with more recent tenants like Stantec, OpenText, Auvik, Magnet Forensics, all residing alongside the Waterloo Tech Campus. Increased activity in the region follows the move of other major tech giants like Google that expanded their presence in the region's innovation hub, leasing 185,000 square feet of office space at the Breithaupt Block.

8. MIXED USE RENTAL PROJECTS ON THE RISE

Demand to be Located Close to existing amenities to has given rise to more mixed use rental developments across the country.

Developers are integrating new uses in creative ways.

TAS Design Build in partnership with Bentall Kennedy, is developing a 14-storey apartment building with 325 units ranging from bachelors to three-bedroom apartments in the Junction Triangle. It is TAS' first purpose-built residential rental. 299 Campbell will incorporate a new branch of the Toronto Public Library. The Perth Dupont branch will take up 10,000 SF or half of the building's ground floor. The current branch, located in an aging commercial building, is just over 3,600 SF.

With the creation of RioCan Living, RioCan Real Estate Investment Trust says it will turn some of the retail shopping centres in its portfolio into mixed-use communities that have the potential for more than 20,000 residences in six major Canadian markets.

Construction is set to commence on 2,800 units including 2,100 rental units. Six of the eight initial projects are in Toronto, while one is in Ottawa and another is in Calgary.

Cogir and the Fonds immobilier de solidarité FTQ are teaming up to develop a more than $200 M mixed-use project in downtown Montreal. The new development called Humaniti, will combine a hotel, office space, commercial space, rental apartments and condominiums.

"To the best of our knowledge, it's the first mixed-use project in Canada with five usages within the same building with all five components communicating with each other," says Mathieu Duguay, president and CEO of property management firm Cogir Immobilier.

Crombie has entered into two JVs with an affiliate of Place Dorée and Groupe Canvar ("PrinceDev").

One partnership results in Crombie becoming a 50% partner in the new Le Duke mixed use development at 297 Rue Duke in Montreal adjacent to the new Bonaventure Greenway in Old Montreal, comprising an estimated $127 M investment, 25 storey mixed use tower with 390 residential rental units above a 25,000 SF. IGA branded Sobeys grocery store, 1,000 SF of retail space with frontage on William Street and 300 underground parking stalls. The new building will retain the existing heritage building currently on site. Development of Le Duke commenced in late 2017 with completion estimated in 2020.

The second partnership results in PrinceDev becoming a 50% partner in Crombie's estimated $275 M Oakville, Bronte Village mixed use development which is being developed as a residential rental development, replacing the existing Bronte Village Mall with 480 units of refined rental living. Bronte Village will feature two residential rental towers (14 and 10 storeys), 800 underground parking spaces and 17,500 SF of new complimentary retail space. Bronte Village is expected to commence construction in 2018 with completion estimated in 2020.

Located in the True North Square area of Winnipeg, 225 Carlton is a 25 storey mixed use building with two levels of retail space, four levels of office space and 19 levels of residential rental space. The residential component will contain 194 junior one-bedroom, one-bedroom, two-bedroom, and two-bedroom-plus-den units. It will be ready for tenants in Spring 2019.

One of the largest developments under construction is Le Phare. It will consist of four towers (17, 32, 56 and 68 storeys). It has a floor space of over 2 M SF with 1,100 residential and leased units, 200 condos, commercial and office space, a 150-room hotel and a multimedia 700-seat concert hall.

Situated directly adjacent to both the Marine Drive Canada Line station and the South Vancouver Bus Loop, the Marine Gateway project combines 820,000 SF of residential condominiums, rental housing, an office building, retail and public space, creating a new neighborhood centre that provides convenient and walkable retail, services and amenities to the local community and transit users.

Toronto's The Well is a vibrant mixed-use development community positioned on the site of the old Globe and Mail building along Front and Spadina street. Its optimal location makes it highly desirable, centered within close proximity of mass transit and downtown's entertainment, financial, and waterfront districts. The development will consist of seven buildings uniformly comprised of residential and employment uses. The development The Well is a co-partnership development among prominent developers DiamondCorp, RioCan and Allied Properties.

9. THE NEED TO GO GREEN

Much of the new government money that is available to developers of purpose built rental is tied to developing energy efficient buildings

In order to qualify for CMHC's Rental Construction financing which is part of the overall National Housing Strategy, developments must decrease energy use and greenhouse gas emissions. Both must be 15% below the 2015 National Energy Code for Buildings or the 2015 National Building Code at minimum.

According to the David Suzuki Foundation, nearly 60% of energy consumption in Canadian households is directly related to heat.

A study by the Massachusetts Institute of Technology issued a report in late 2010 that said buildings made from insulated concrete forms saved 20% over the energy consumed by wood-frame buildings in cold climates.

Smart thermostats adjust temperature based on the lifestyle and schedule of the user. The estimated reduction in a US energy bill is up to 30%.

Low-E Windows feature a clear coating of metallic oxide, these windows keep the heat inside during the winter and outside during the summer. They can reduce heat flow through the glass by half, and will help reduce heating costs by 10 to 20 %.

Tenants in the newest buildings in Green District in Boston's Allston neighbourhood were made to sign "green lease". By signing that lease, tenants agree to follow sustainable lifestyle routines, such as recycling, composting, and using nearby public transportation.

The building meters each apartment's water intake. The developer claims that this has helped reduce water consumption by 40%. Each unit also has its own HVAC system, which gives tenants more control over their energy use.

They're also among the most energy-efficient apartment complexes in the area. Two of the new wood-framed buildings are certified LEED for Homes Platinum, one Gold. The Edge, one of the LEED Platinum's, is a four-story building with 79 loft-style apartments. It has a white-painted, highly reflective roof with solar panels, floor-to-ceiling windows, electric-car charging stations, on-premise Zipcars, and bike storage. Its envelope was designed with a thermal barrier, high-performance glazing, soy-based insulation, and an energy-efficient mechanical system with high-performance monitoring and controls.

Spire Landing in South Vancouver is set to become the largest multi-family building constructed to Passive House energy efficient standards to date. The six storey, 95 unit building will be completed this fall. Others are under construction or at rezoning phase, including a two tower development at 1400 Alberni street. The developers have submitted an application for a 43 and 48 storey complex.

Passive Houses are buildings that are so energy efficient that neither furnaces nor air conditioners are needed to control climate. This technology had primarily been used in single family homes. It is only recently that it has been adopted in multi-family buildings.

10. IT'S ABOUT AMENITIES

Landlords have to compete for tenants with new rental stock and new condos.

While vacancy rates were down, the national turnover rate stood at 20%, largely unchanged from October 2016.

According to Jason Turcotte, vice-president of development at Cressey, there are two demographics largely pushing today's renewed interest in purpose-built rentals "First there are the Millennials who have high expectations of everything and aren't willing to wait or compromise. On the flip side is the older demographic who have realized huge gains from selling their family home but don't want to reinvest all of it into a condo. They'd rather travel, relax and keep their options open."

Some of the year's most popular amenities as compiled by Canadian Apartment, are:

- Party Rooms featuring audiovisual systems, food and beverage prep stations and en-suite washrooms.
- Roof Top Terraces with green spaces and communal areas and places for outdoor cooking
- Fitness Centres that go beyond the basis options
- Concierge Services both human and digital
- Theatre Rooms
- Energy Efficient Appliances
- Co-working Spaces

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