Top 10 Real INSIGHTS

2019 Québec Apartment Investment Conference

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TOP 10 | REAL INSIGHTS | 2019 Québec Apartment Investment Conference | ISSUE 20

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Startups are helping landlords modernize operations to appeal to potential tenants.

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

1. RENTAL MARKET TIGHTENING DESPITE AN INCREASE IN INVENTORY

Overall Québec rental vacancy lower than the national average of 2.4% - CMHC

In Québec, the vacancy rate fell significantly, from 3.4% in 2017 to 2.3% in 2018. Because of Québec's large rental housing stock compared to other provinces, the decrease there contributed greatly to the decrease in the national rate, CMHC says.

The vacancy rates in Gatineau dropped significantly to 1.2% while in Sherbrooke, vacancy was cut in half to 2.6%.

The average rent in the province grew by 2.2% to $760.

In Montréal

The average price per unit for a one-bedroom apartment in the Montréal CMA was $720 – slightly higher than the provincial average of $686. The average for a one-bedroom condominium in Montréal was $1,028.

While the vacancy rate for apartments dropped one whole percentage point to 1.8%, the condominium vacancy rate stayed steady at 1.9%.

The Downtown–Île-des-Sœurs neighbourhood stood out with one of the lowest vacancy rates, at 1%.

In Québec City

The average rent for a one-bedroom apartment in the Québec CMA was the same as in Montréal - $720. However, the average rent for a condo is about $100 less in the Québec CMA at $938.

The vacancy rate of apartments dropped from 4.5% in Oct 2017 to 3.3% in Oct 2018. The vacancy rate of condominiums dropped from 3.9% to 2.4% in 2018 from the previous year.

2. RENTER DNA

Results from the Canadian Apartment Renter's Survey takes a deep dive into the renter demographic.

One quarter of renters who responded to the Canadian Renter Survey say that the reason that they choose to rent is about the lifestyle – everything is taken care of. 18.2% say that they choose to rent because they prefer to remain mobile.

32.1% of respondents have an average household income between $30 and $80 K. 42.4% live in a two-person household. Just over 58% are employed full time; 13% are retired and 8.3% are full time students.

31.3% moved into their current rental in 2017.

Over 80% found their apartment within two months. 31.3% used an online listing service, 21.5% were referred and 19.1% used the rental company's web site.

One quarter said that their budget would be between $1,200 and $1,500 per month if they were going to find another place to rent.

Results from the 2018 Canadian Renter Survey showed that 30.5% of renters are planning to move within the next 12 months. CMHC estimates that the turnover rate of rental units across the country was 19%, a slight decline from the 20% that was recorded the previous year.

28.7% of renters 60 years old and older say that the main reason they stay in their current rental unit is the location. This percentage drops to 22.6 of those under 30 and under.

The three most important factors when deciding to sign a lease is: price (50.6%) location (18.4%) and building quality (13.8%).

3. WHAT TENANTS WANT AND WHAT THEY ARE WILLING TO PAY FOR

The 2018 Canadian Renter's Survey sheds lights on the amenities that are essential to renters.

Purpose built rental buildings are increasingly adding childcare and gyms to their roster of amenities to attract tenants. Results from the Canadian Renter's Survey suggest that these are not the amenities that top Canadian renter's wish-lists.

More renters considered it essential to have a designated Uber drop off/pick up area than a daycare.

However, 11.2% indicated that it was essential to have fitness facilities within a building.

Renters said they would pay an average of $30 per month more for an upgraded kitchen and an average of $37 per month extra for In-suite laundry facilities.

24.3% said that they would not rent in a building without an en-suite bathroom.

48.5% of renters 30 years old and younger said that they would not rent a unit unless there was high speed internet access.

50.5% of renters 55 years old and older said that it was essential to have a designated parking spot.

When choosing a place to rent, location was a crucial element. 39.1% would not rent in a building unless a grocery store was nearby. 35.9% said that it was essential to live near public transit.

4. MONTRÉAL GDP NUMBERS MAKES IT #1 AMONG CANADIAN CITIES

Growing GDP, employment and population result in strong demand for housing pushing rents higher.

Of the 13 Canadian cities monitored by the Conference Board of Canada, Montréal was the top economic performer in 2018. With real GDP rising by 2.9%, it beat out Toronto by 60 basis points and was the first time Montréal topped the list since it began in 1987.

According to the CBofC, the positive momentum in Montréal is being supported by strong non-residential investment, solid job creation, and healthy population growth.

Cash has been pouring into Montréal from public and private institutions, including more than $300 million over the next five years from the federal and provincial governments to fund big data research at Montréal universities and foster a regional AI “super-cluster”.

Montréal’s port continues to support the regional economy. Container imports increased 7.8% to nearly 4.33 million tons in the first seven months of this year compared with the same period in 2017, with the bulk of that traffic coming from Europe.

A CMHC report says an influx of refugees, foreign students and temporary workers, has contributed to the rise in demand for rentals even though 7,500 new rental units were added in the past year.

Housing starts in 2018 increased in Montréal increased by 6,000 to 26,277 despite lower overall starts across Canada. The Association des professionnels de la construction et de l’habitation du Québec is forecasting a 12% decline in 2019. However, the forecasted 23,229 starts will be higher than 2016 levels.

The Greater Montréal Real Estate Board reported 2,825 residential sales in December, breaking the record for the month of December and making it the 46th month of consecutive sales growth. The median condominium price increased by 5% from a year ago to $272,863, while the median price of a single-family home jumped 7% to $327,450.

According to Sotheby’s, overall residential sales over $1 million (condominiums, and single family homes) increased 20% to 883 units sold in 2018, compared to the city’s previous record of 734 units sold in 2017. Montréal lead the nation in top-tier, high-end real estate performance in 2018.

The QFREB predicted low unemployment rates, rising incomes and high consumer confidence will continue to buoy the housing market this year. The year is predicted to start strong, and gradually slow as mortgage rates rise.

5. PURPOSE BUILT RENTAL DEVELOPMENTS UNDERWAY

New projects concentrated in the Greater Montréal Area will add to the rental stock to a tight market.

In October, Habitations Trigone and its partner Fonds immobilier de solidarité FTQ broke ground on a new rental project, Viva-Cité Saint-Constant. Phase one will consist of 154 apartments and is expected to be done this spring. Construction on Phase 2 which will consist of 174 units will begin in the summer. The apartments are geared to the over 55 age group and will feature many condo like amenities.

Devimco Immobilier, the Fonds immobilier de solidarité FTQ and Fiera Properties have partnered on a $700 million mixed used development on the former site of the Le Spectrum de Montréal. MAESTRIA, the largest mixed-use real estate project in Montréal’s Quartier des spectacles, will consist of two towers of 51 and 53 storeys. One-third of the 1,500 units will be designated rental. Construction is set to begin at the end of 2019.

Edmonton-based Saroukian Group is developing Central Parc Laval, a six-tower transit oriented development that will contain 1,400 high-end residential rental units, a luxury hotel and retail space. The first building, currently under construction, will contain 22 storeys with 198 units and is slated for delivery next July. Construction of the final building is scheduled to wrap up in 2023. Amenities will include an infinity pool, floor-to-ceiling windows, high ceilings, high-end stainless appliances and a concierge service.

Groupe Mach’s redevelopment of the CBC tower and the land located west of the site is a 4.5 million sq. ft. mixed use project that will see the construction of approximately 15 new buildings. The Quartier des Lumières will include more than 3,000 residential units comprised of condos and rental apartments. Construction is expected to begin in 2020.

Groupe Mach’s Faubourg Lacordaire rental project is scheduled for delivery this year. Located in Saint Leonard, this TOD has 12 floors and approximately 200 units.

An increase in condominium construction will also help to expand rental inventory.

A report in December by analysts with Altus Group looking at condo trends in Montréal revealed that the number of new condo units increased by 32% in greater Montréal year over year, while the number of units under construction were up by 37%.

A study by CMHC suggests that 57% of the purchasers in ‘very large high-rise condominium apartment buildings in downtown Montréal are investors. This is considerably higher than in other condos in the sector which is about 30%.

6. BIG PLAYERS LOOKING TO ENTER A FRAGMENTED MARKETPLACE

Prices are being driven up due to lack of supply

In a sector that is dominated by small investors, large public and private companies are entering the market, attracted to bigger yields than in the Vancouver and Toronto markets where prices have peaked.

According to Morguard's Director of Research, Keith Reading, "investor confidence in this market and sector drove investment activity to a record-high level recently. A record $1.7 billion in multi-suite residential rental property was traded during 2017, with a further $1.0 billion during the first half of 2018. Investors were drawn to a market with a solid long-term record of performance and a healthy near-term fundamental outlook.

The Corporation des propriétaire immobiliers du Québec states that the vast majority of rental property owners is composed of small investors. 80% of landlords own only one building while 0.3% own 100 buildings or more.

At the end of 2018, Marlin Spring Investments in partnership with Greybrook Realty Partners acquired 667 apartment units in Montréal and Québec City for $117.5 million. The portfolio consists of 8 buildings in Montréal – 7 of which are in the suburb of Hampstead and two apartment buildings and one townhome complex for a total of 217 rental units in Québec City.

InterRent REIT has been buying in the Montréal market in the past year. In Q3 2018, InterRent REIT acquired two Montréal apartments totaling 215 suites for $44 million and in Q1 they acquired 5775 Sir Walter Scott Avenue – a low rise building with 48 suites. The purchase price $5,250,000, or $109,375 per suite and represented a going-in cap rate of 4.2%.

In December 2018 Ivanhoe Cambridge and Claridge announced the launch of a second $100 million investment vehicle for real estate projects in Québec's urban centres. Investments will include the 857 unit rental development Les Loges Saint-Nicolas by Immostar and Batimo's 1111 Atwater, a 38 storey seniors apartment building with luxury condominiums on the top 8 floors.

7. GOVERNMENT REGULATIONS FRUSTRATE MULTI RES DEVELOPMENT

The CD Howe institute finds that increasing strictness of building regulations decreases housing supply.

On June 20, 2018, the National Assembly introduced new provisions in Bill R-20 to combat undeclared work and to ensure fair competition between employers. From now on, the CCQ can sanction both the employer and the worker who engage in non-compliant activities.

Act R-20 is administered by the Commission de la construction du Québec (CCQ), a government organization funded mainly by the construction industry.

On May 30, 2018, the Québec National Assembly unanimously adopted Bill 162, an Act to amend the Building Act and other legislative provisions mainly to give effect to certain Charbonneau Commission recommendations. The legislative changes in Bill 162 came into force on September 4, 2018.

The legislative changes give the Régie du bâtiment du Québec ("RBQ") – the Québec agency that regulates the construction industry – the latitude to fully participate in the fight to prevent and eliminate fraudulent practices and corruption in the construction industry. One of the biggest changes is the tightening up of issuing and maintaining a contractor's license.

The Canadian Federation of Independent Business states that the construction industry is one of the most tightly regulated sectors in Québec. In a survey to their members they found that:

- 75% say CCQ paperwork and requirements are unreasonable.
- 47% fear they may be treated unfairly by the CCQ during inspections.
- 47% feel that CCQ inspectors aren't always professional.
- 71% believe that the level of fines is unreasonably high.

The CD Howe institute states that the vast majority of studies on housing regulations find that increasing the strictness of building regulations increases housing prices by limiting the growth of housing supply. A study by Mayer and Sommerville shows that increasing the time to approve subdivisions across U.S. cities by one month led to a reduction in building permits by 10%.

8. AGING BOOMERS MEANS THAT DEMAND FOR SENIORS HOUSING WILL NOT ABATE

By 2036, seniors aged 65 and over will account for one quarter of Canada's population, compared with 14% in 2011, according to CMHC.

Demand for seniors housing will remain very strong, says Michel Bouchard, vice-president, real estate at Le Groupe Maurice. He estimates that there is 15 to 20 years worth of development potential to accommodate aging baby boomers.

The oldest baby boomers will turn 75 in 2021. This is the average age that people enter a senior's home if this cohort does not buck the trend set by its predecessors.

Vacancy rates for seniors housing increased in Québec from 6.2% in 2017 to 6.9% in 2018. Seniors housing starts doubled in 2017 which means that another increase in vacancy is likely next year, according to CMHC.

The average rent for standard spaces in Québec was $1,729 compared with $3,618 in Ontario.

Private residences account for two thirds of seniors' housing spaces in Québec. Parallel to this, the government subsidizes a network of long-term care facilities (CHSLDs), either fully public or "private funded." The latter, which number 62 out of 432 CHSLDs in the public system, are privately run.

For several years in Québec, construction of senior's residences has been oriented toward larger sized buildings. According to the 2018 survey, over 75% of spaces are in 445 buildings of 90 units and over.

Past studies have indicated that about 17% of people aged 75 and over in the province live in seniors housing, compared with an average of about 5% across North America.

Construction has begun on a new 80-unit, $18 million, cooperative residential project that will provide affordable housing for semi-independent seniors in Pincourt. The Coopérative de solidarité du Bel Âge de Pincourt will include 60 one-bedroom units and 20 two-bedroom units, and will be constructed at the southwest edge of Pincourt at the border of the town of Île-Perrot. The official opening is expected in the fall of 2019. Through the Investment in Affordable Housing Agreement, CMHC and Société d'habitation du Québec are providing nearly $5 million.

9. TECHNOLOGY PERMEATES EVERY FACET OF MULTI RES

The construction, management and marketing of apartments are evolving with the advancement of technology. The key is to stay agile in a fast changing environment.

The mixed use HUMANITI development in Montréal, which will include 300 rental units is being called the city's 'first smart, vertical community. An app is being developed that will connect the people living in the community to each other and to services. They will be able to monitor their energy use and remotely control and monitor their heating and cooling systems, while sensors will guide smart lighting.

Apartment operators are developing apps to streamline the service request process. These apps enable residents to provide as much detail as possible in the work orders and allow the upload of photos to better prepare service teams before visiting the unit. Residents can track their work order from start to finish, all within the app. Messages and updates can be shared between the service team and the resident, improving the transparency for residents about what's happening in their apartment.

Landlords and property managers such as Magnum Real Estate Group are beginning to accept cryptocurrencies as a form of payment.

Brooklyn-based proptech company ManageGo, provides a platform for renters to make online payments and now gives tenants the option to make payments using Bitcoin via the company's app. When a tenant makes a payment using Bitcoin, ManageGo converts the currency into dollars. This allows tenants to pay the way they want, and landlords to receive payments the way they want.

Augmented reality and 3D tours will redefine how properties are shown and more people may decide to rent without physically visiting a property.

According to Apartments.com, smart appliances are a trend shaping the new standard of apartments. Instant alerts once the task is done or if a problem is detected and the conservation of energy and time being the major benefits of smart appliances.

New startups like StratIS, Dwelo, Vivint and NWP have been created to help property owners to bring smart technologies into their buildings.

LeaseHawk offers a service called ACE (Answer Calls Every time). It is the multifamily industry's first conversational automated assistant. It takes calls, answers questions, and collects guest card information when leasing agents aren't available to answer the phone. It can convert inbound calls to appointments.

City Club Apartments in the U.S. uses ACE at 17 properties. In the first half of 2018, ACE answered 1,427 calls from prospects that would have otherwise been missed. Of those calls, it set 640 appointments, a 44.8% conversion rate.

Alliance Residential is introducing its Alliance SmartHome package to 25,000 luxury units across the U.S. They conducted a 6-month pilot project in 6,000 units and expects the package will increase ROI in the form of rent premiums of up to $75 per unit once implementation is complete.

Alliance also saw indications in the pilot phase of cost savings on utilities, as the automated vacant-unit management feature saves an average of $38 per unit per month, and smart-meter alerts catch water leaks early, saving on costly repairs and wasted water.

“Technology is transforming the way we work, buy things, and spend our free time,” says Brad Cribbins, president of Alliance’s management division. “The challenge will come with anticipating the needs, compatibility, the accelerating advancement of technology, and in figuring out how to offer it to residents in a way that provides a service and doesn’t add more disruption than is productive.”

10. EMBRACING TECHNOLOGY AND NEW TRENDS CRITICAL TO COMPETING WITH NEW BUILDINGS

Startups are helping landlords modernize operations to appeal to potential tenants.

Blackstone has enlisted the help of the start-up Jetty to help attract renters to the 11,250 unit Stuytown (Stuyvesant Town–Peter Cooper Village), which it acquired in 2015 with Ivanhoé Cambridge.

The company, called Jetty, offers a three-in-one product to apartment applicants — Jetty Renters Insurance; Jetty Passport Deposit, which essentially gives renters the option to replace the expensive security deposit with a cheaper, one-time payment to Jetty; and Jetty Passport Lease, in which Jetty will serve as guarantor for applicants who need it.

Jetty CEO Mike Rudoy, said the purpose of the company is to make buildings more attractive by being more accessible to the average renter.

StuyTown’s property management firm, StuyTown Property Services, now uses Jetty’s product as a marketing tool to attract and quickly secure prospective renters.

At Harvard Business Review, Dell and Intel co-sponsored a piece that states “the rapid introduction of new IoT solutions allows building operators to make their properties smarter without having to undergo costly retrofits’.

Wi-Fi is being used to bring intelligent building systems to older apartments. “We are looking more and more into wireless technologies and putting infrastructure into the cloud as much as possible for storage and data management,” said Anil Ahuja, President of CCJM. “Wireless technologies are also the key to making the built environment of ‘dumb buildings’ more smart [because] we don’t have to open up the floors and the walls [to update infrastructure].”

Amazon’s share of the retail shopping sector will continue to grow in 2019 and tenants will need a way of accepting packages. Many apartments are installing smart lockers which will allow them to pick up their parcels whenever they can. Tenants will soon see secure package delivery as a necessity not an optional amenity and will be a way to compete with newer buildings.

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