TOP 10 REAL INSIGHTS

2020 Québec Apartment Investment Conference

Powered by

Altus Group

ISSUE 38

TOP 10 | REAL INSIGHTS | 2020 Québec Apartment Investment Conference | ISSUE 38

INSIGHTS FROM INDUSTRY LEADERS DURING THE CONTENT FORMATION OF QUÉBEC APARTMENT INVESTMENT CONFERENCE

1

A ROBUST QUÉBEC ECONOMY PAVES WAY FOR BACK-TO-BACK BUDGET SURPLUSES.

The November economic update revised the 2018-2019 surplus to $8.3 B and is predicting a surplus of $4 B for 2019-2020.

2

RENTAL VACANCY RATES ARE NEARING A 20-YEAR LOW AND RENT INCREASES ARE OUTPACING INFLATION.

An aging population and higher net migration numbers propel the Montréal housing market.

3

NEW INVENTORY BEING ADDED TO THE RENTAL STOCK AS SUPPLY CANNOT KEEP UP WITH DEMAND.

Developers are intensifying and repurposing land to make room for more rental housing.

4

MULTIFAMILY GARNERS ROBUST INVESTMENT NUMBERS.

Montréal multifamily continues to be a favoured asset class especially among REITs.

5

AIRBNB AND OTHER SHORT-TERM RENTAL COMPANIES HAVE CONTRIBUTED TO THE HOUSING SQUEEZE IN MONTRÉAL.

New Legislation could help to alleviate pressure on the rental market.

6

PLANTE'S 20-20-20 INITIATIVE HAS DEVELOPERS WORRIED.

As housing costs continue to rise, Montréal pursuing strategies to maintain affordability.

7

SIGNIFICANT MIXED-USE DEVELOPMENTS ARE UNDERWAY IN QUÉBEC'S MAJOR CITIES.

Developers continue to embrace the mixed-use development model on larger parcels of land.

8

AMENITY TRENDS ARE SHIFTING ALONG WITH RENTER DEMOGRAPHICS.

Boomer and Millennial cohorts, as drivers of rental demand, have a major impact on amenities trend.

9

LENDER SENTIMENT FAVOURS MULTIFAMILY.

With continued low interest rates, rock-bottom vacancy rates and strong investor interest, the multifamily sector is expected to outperform in 2020.

10

EMBRACING NEW TRENDS AND TECHNOLOGIES IS KEY TO REMAINING COMPETITIVE.

Landlords are repositioning their buildings to stay competitive by adding high demand amenities and by adopting new technologies.

for further details on these top trends please visit the real estate forums portal at realestateforums.com

Brought to you by informa connect

CANADIAN REAL ESTATE FORUMS

Powered by AltusGroup

To access the Real Estate Forum portal, please visit: www.realestateforums.com

We welcome feedback. Please email: sarah.segal@informa.com

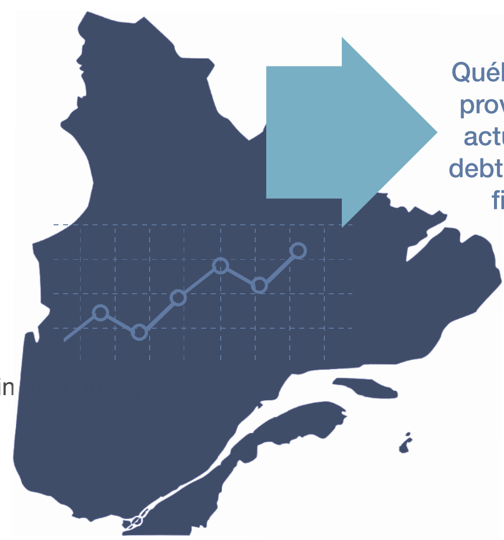
1. A ROBUST QUÉBEC ECONOMY PAVES WAY FOR BACK-TO-BACK BUDGET SURPLUSES.

The November economic update revised the 2018-2019 surplus to $8.3 B and is predicting a surplus of $4 B for 2019-2020.

Québec's economy is expected to grow by 2.4% in 2019, up from the 1.8% projected last spring. It is the third consecutive year of strong economic growth. The national average for projected 2019 economic growth was 1.6%.

The government will use a portion of the surplus to pay down debt and to bolster Québec's public daycare system which will return to a flat fee of $8.25 a day.

In its June 2019 Provincial Outlook, TD stated that, "the province was also ahead of its time in realizing that the upfront costs of a proper subsidized daycare program would be more than covered by stronger economic growth over the longer term. Some 87% of Québec women between the ages of 25 and 54 are in the labour force, compared with 93% of its men, the lowest gap



Québec is the only province that has actually reduced debt in the past six fiscal years.

in

Statistics Canada reported that the unemployment rate for Québec— as of November 2019, at 5.6%—remained below the national rate for the month.

The City of Montréal has continued to experience significant population growth with an increase of 1.6% from 2017 to 2018, outpacing the Québec average of 1.1% and the national average of 1.4%.

According to Ryerson University's Centre for Urban Research and Land Development, Montréal is the sixth-fastest growing metro in North America.

Labour productivity growth has accelerated in the province due in part to a material rise in business capital investment in the past couple of years.

Québec has a diversified economy that is supported by the largest power grid in North America and one of the highest post-secondary enrollment and graduation rates in the OECD countries. Montréal alone produces 50,000 new university graduates every year – the largest number in Canada.

CBRE ranks Montréal among the Top 20 Tech Talent Markets in North America.

Montréal is the 5th largest video-game development hub in the world. More than 140 studios already operate here, employing about 15,000 people, according to data from Montréal International.

In the past few months, US developer and publisher 2K announced that it would open a new development studio in Montréal and will work on the next version of the BioShock franchise. China's NetEase is also setting up shop in the city. Montréal is the video-game publisher's first research and development studio to be located outside of China.

Companies have been drawn to Québec's biggest city by government tax credits, low operating costs — compared with other North American cities — and an abundance of university and industry-focused training programs.

Greater Montréal has again been named the top destination for foreign direct investment (FDI) in fDi Magazine's American Cities of the Future 2019–2020 rankings. The city earned first place in Canada and third place in the Americas behind New York City and Chicago.

The agri-food industry is a major contributor to Québec's economy and has over 2,400 food processing businesses. Québec agri-food exported $8.8 B in 2017, with a 6.4% increase over 2016, the highest growth in Canada. More than 69% of Québec agri-food products are exported to the United States.

France's Bel Group is spending $87 M to build its first Canadian cheese plant in Sorel-Tracy while Labatt Breweries plans to invest $75 M in Québec by 2020 to purchase new equipment and make improvements to its distribution network.

Québec's aerospace industry employs over 40,700 workers. More than 70% of all Canadian aerospace R&D is carried out in the Greater Montréal area, representing an investment of approximately $700 million a year.

4,800 aerospace students graduate each year from Québec's six universities, five technical colleges and the École des métiers de l'aérospatiale de Montréal (ÉMAM).

2. RENTAL VACANCY RATES ARE NEARING A 20-YEAR LOW AND RENT INCREASES ARE OUTPACING INFLATION.

An aging population and higher net migration numbers propel the Montréal housing market.

An early forecast by CMHC has 2020 Montréal apartment vacancy rates as low as 1.3%.

“Unofficial numbers are forecasting a rate below two percent. New housing stock could help stabilize the rental market but there’s also an increase in demand fuelled by net migration to Montréal,” said CMHC spokesperson, Angelina Ritacco.

Montréal’s rental housing demand will likely grow in the coming years, driven by older households.

Contributing to the rental shortage has been a surge in renovictions. These are evictions triggered by landlords who want to renovate and re-shape their units and dramatically increase the price of rent. The number has tripled in the last few years to 151 cases in Montréal, Québec’s rental board reports.

According to CMHC data, 7,500 newly constructed rental units were added to inventory over the past year, a significant increase from previous years. Despite new units added to the market, rents continue to climb.

In November of 2018, the average rental rate was $1,412 for all property types listed on Rentals.ca. That rate increased to $1,618 for November 2019, an increase of 24.4% annually. Rentals.ca and Bullpen expect December 2020 rent to be $1,695 per month, a 5% annual increase— twice the rate of inflation.

“The days of affordable rent and an abundance of rental stock in Montréal, those days are over,” said David Wachsmuth, assistant professor at McGill School of Urban Planning. “We’re seeing the lowest vacancy rates we’ve seen in 20 years. We’re seeing rent prices trending upwards and the balance of power has shifted dramatically in favour of landlords.”

The Association professionnelle des courtiers immobiliers du Québec (APCIQ) reported that 4,084 sales of residential properties took place in November, an increase of 13% over November 2018.

Single-family dwellings were the most popular purchase with 2,115 transactions recorded for November.

Each of the main regions in the Montréal area saw increases in the number of real estate transactions in November:

- Vaudreuil-Soulanges, 48%
- St-Jean-sur-Richelieu, 41%
- Laval, 21%
- South Shore, 16%
- North Shore, 9%
- Island of Montréal, 7%

The median price for single-family homes was $350,000 in the Montréal area, 6% higher than the median price year-over-year.

APCIQ reported that the inventory of residential properties once again contracted in November, the 50th consecutive month it has done so. November saw 16,130 active properties listed on the Centris real estate system, an inventory 22% smaller than the year before.

CMHC senior economist Francis Cortellino said the increase in the number of senior households in Montréal could bring about a rise in the supply of properties for sale and thereby contribute to “tempering market imbalances”.

“Looking at the resale market, population aging will play a part in increasing the number of properties listed for sale in the future. In the short term, however, this number will likely be limited. It could, therefore, take a number of years before the effects are felt more concretely,” he said.

3. NEW INVENTORY BEING ADDED TO THE RENTAL STOCK AS SUPPLY CANNOT KEEP UP WITH DEMAND

Developers are intensifying and repurposing land to make room for more rental housing.

The overall supply of units on the rental market, whatever the type, therefore rose sharply over the last few years in the Montréal CMA. Moreover, data from 2019 seem to indicate that this trend is persisting – CMHC, December 2019.

In 2018, there were 11,000 new apartment starts. However, as vacancy rates continue to tighten it is apparent that demand is not keeping up with supply.

And with rents continuing to rise beyond the rate of inflation, developers are continuing to add to the stock of rental housing in the Greater Montréal Area.

Kevlar is finalizing plans for Noria, a 380-unit rental apartment development on Marcel-Laurin Boulevard and Crevier Street in the Montréal borough of Saint-Laurent. A rental office for Noria is set to open in March.

In Laval, La Récréathèque, a 347-unit apartment project, will replace the defunct Récréathèque, a former indoor amusement park.

The 132,575 sq. ft. site, located at 900 Curé-Labelle Boulevard is slated to house 347 apartments in brick-clad buildings of six, seven and eight storeys. There will also be 532 underground parking spaces and 70 bicycle spaces.

Developed by Vertex Construction, the project will be geared toward families and will house about 1,000 people. About 60% of the units will be two-bedroom apartments, while the remaining 40% will split evenly between one-bedroom and three-bedroom units.

Amenities will include outdoor rooftop outdoor pools, a gym, conference rooms and common room and a green courtyard with private balconies.

GWLRA has commenced the construction of two rental apartment buildings in downtown Montréal. The developer plans to construct a 36 and a 45 storey tower containing 820 units on a vacant lot next to the SNC Lavalin head office. GWLRA acquired the 21-storey SNC Lavalin building and the vacant lot in 2017 for $170 M.

The 36 storey building, will have 390 units with an average size of 650 sq. ft. Units will be primarily studios and one- and two-bedrooms, with a few three-bedrooms. It is scheduled for completion by the summer or fall of 2022. The second tower, with about 430 units, could be completed by 2025.

Cominar REIT plans to add up to 1,800 residential units to its largest property, Central Station in downtown Montréal.

Central Station is just one of 10 Cominar properties in Québec which offers intensification opportunities with a potential of close to 10,000 residential units, the REIT says. With 1.726 M sq. ft. of gross leasable area, it is “one of the best development sites in the country,” according to Cominar.

4. MULTIFAMILY GARNERS ROBUST INVESTMENT NUMBERS

Montréal multifamily continues to be a favoured asset class especially among REITs.

A report from Altus Group indicates that the Montréal apartment sector posted an increase of $388 M (22%) in 2018 and continues to lead the commercial real estate industry as the most attractive investment opportunity for the Greater Montréal Area.

On a national level, investment in the apartment sector accounted for one-third of all investment activity in 2018, bringing in a total of $2.1 B in sales, the apartment sector accounted for one-third of all investment activity in 2018.

And in the first six months of 2019, robust sales volume of $1.5 B was reported, which was well ahead of last year’s pace.

Montréal-based Marc Hetu, CBRE vice-president and co-leader of its national apartment group, said “REITs have been by far the most active” investors in Montréal. Institutional investors have also been active, while private investors have always been responsible for a huge percentage of investment volume for older and smaller stock.

Sanaa Benzakour co-owner and vice-president of PMML, a multifamily real estate and mortgage agency said small to medium-sized buyers are entering the mid-market or continuing to buy in it, and the majority of them are local.

“For buildings under 50 units,

99% of the buyers are Québecers

For 50 units and up,

70% are Québecers,

29% are other Canadians

1% are foreign buyers

A lot of foreign buyers are buying through REITs.”

InterRent REIT was particularly active in the Montréal market over the past year, acquiring Hampstead Towers for $38,360,000. The 26 storey highrise is located at 5465 Queen Mary Road and has 121 units and approximately 31,500 sq. ft. of commercial space.

In the third quarter, InterRent acquired three concrete high-rise apartments in the Hampstead neighbourhood for $154,700,000.

- 235 Sherbrooke Street West, also known as Le Nouveau Colisée, features 293 residential units and approximately 7,000 sq. ft. of retail space.
- 1025 Sherbrooke Street East, also referred to as Tour Lafontaine, contains 251 residential suites and a commercial office that will be converted to additional amenity space.
- 4875 Dufferin Avenue 118 residential suites and approximately 6,300 sq. ft. of commercial space.

With the addition of these properties, InterRent increased its Montréal portfolio to 2,681 suites, or 27% of its total portfolio.

BentallGreenOak has also enlarged its position in Montréal through the acquisition of Appartements-Boutique on behalf of Sun Life Assurance Company of Canada in Q4.

The rental apartment complex at 681-733 William St. includes 243 residential units across two buildings along with 10,714 sq. ft. of ground-level retail and 10,964 sq. ft. of ground- and second-level office space occupied by a mix of local food service and business tenants. The complex's amenities include conference rooms, fitness areas, rooftop patios and pools.

Appartements-Boutique was developed and sold by Le Groupe Prevel for $96,620,000. The first phase was built in 2016 and the second followed last year.

Minto Apartment REIT acquired 528 suites in two buildings in the Westmount and Ville-Marie neighbourhoods. The properties have a combined purchase price of $281.1 M, representing a going-in yield of 3.7%.

The REIT plans to reposition suites at both Le 4300 and Haddon Hall following tenant turnover. Only 76 suites at the two properties have been renovated to date, leaving 452 with potential for repositioning.

Minto Apartment REIT intends to upgrade the common areas at both properties, create additional suites and amenity areas from underutilized space at Le 4300, and upgrade the fitness facility at Haddon Hall.

5. AIRBNB AND OTHER SHORT-TERM RENTAL COMPANIES HAVE CONTRIBUTED TO THE HOUSING SQUEEZE IN MONTRÉAL

New Legislation could help to alleviate pressure on the rental market.

A significant increase in Airbnb listings over the last few years has resulted in a lack of available apartments for residents.

A recent study by McGill University reported that the number of active Canadian listings on Airbnb rose 25% in 2018 from the previous year, to 128,000.

More than 31,000 homes across the country were rented out so frequently on Airbnb in 2018 that they were likely removed from the long-term rental supply, according to the McGill study. Those 31,000 homes are equal to about 1.5% of residences across the country that were built for the rental market.

The Montréal, Toronto and Vancouver areas accounted for close to half of Canada's average daily listings in 2018 and approximately 40% of the roughly 31,000 homes that were frequently rented last year were found in those cities, amounting to more than 12,000 housing units removed from the rental stock.

The McGill authors note that frequently rented homes "are still a small fraction of total housing" but that listings can be highly concentrated in specific areas. In some Montréal neighbourhoods, one in five homes were listed on Airbnb.

"There are people who are being evicted from their apartment buildings to convert those units into Airbnbs," Professor Wachsmuth, one of the authors of the study said. "That's a fact right now."

In Plateau, the number of listings has grown steadily over the past year, and housing advocates said that trend is pushing renters out of the neighbourhood.

According to a study conducted by Comité Logement, there's been a 5% decrease in the number of rentals available, equivalent to up to 2,000 residences. The City estimates that there are 8,000 units in the Plateau and downtown areas being rented out on Airbnb.

A report prepared by the Petite-Patrie housing committee last year estimated that the number of Airbnb listings is approximately 1,300 in the neighbourhood — lowering the overall supply, increasing the demand, and ultimately driving up rent prices.

Many residents hope that the short-term rental legislation will help free up rental units and reduce pressure on the tight vacancy rates.

New provincial regulations, which came into effect in fall 2019, require anyone renting out their "secondary" residence to register with the Corporation de l'industrie touristique du Québec. These properties would then fall under the same regulations and zoning laws as the hotel industry.

As of September, anyone who wants to rent their property for less than 31 consecutive days will have to pay an administrative fee of about $75 and register the unit with Revenu Québec. Anyone posting without a registration number or otherwise failing to comply will be subject to fines of up to $10,000 for an individual and $25,000 for a corporation.

Tenants in duplexes or triplexes will require permission from owners to rent out on short-term rental sites, and condo owners will need permission from their condo association.

The rules also give Revenu Québec the power to investigate and levy fines.

In addition, the government plans to increase the number of inspectors and transfer inspection responsibilities to Revenu Québec to better enforce the regulations.

The purpose of the new rules is for Revenu Québec to ensure that each time someone rents a property on one of these platforms, they will be required to pay a 3.5% accommodation tax but some housing advocates believe that the new regulations won't stop thousands of apartments from being rented out on Airbnb year-round.

6. PLANTE'S 20-20-20 INITIATIVE HAS DEVELOPERS WORRIED

As housing costs continue to rise, Montréal pursuing strategies to maintain affordability.

In October 2018, Montréal city hall announced a plan to create 12,000 social and affordable housing units on the island by 2021. Between now and 2021, the city intends to develop 6,000 community social housing units and 6,000 units in the affordable category.

The city says it will create the homes through a variety of methods, including supporting already existing programs like AccèsLogis Québec/Montréal and the rent supplement program.

They will also use funds to purchase land or support the viability of developing housing projects.

As part of the plan, the city would also pass a bylaw approving a $50 M loan over 10 years to buy buildings or land that comes up for sale in order to develop community and social housing.

At the end of 2018, the city was in the process of acquiring 3,000 housing units and has started building 300 homes.

This past June, Montréal Mayor Valérie Plante introduced a new initiative that would require 20% of units in new housing projects to be social housing, 20% to be affordable housing and 20% set aside for family housing.

If a developer wanted to build a 100-unit building, 20% would need to be considered "social"; subsidized in full or in part by the government. The 20 social units wouldn't need to be within the project itself, but could be built on nearby land ceded to the city, according to Robert Beaudry, city councillor for economic development and housing.

The rules would also require the tower contain 20 units considered "affordable." The city's housing authority would advance prospective buyers most of the down payment, which would be reimbursed when the owner sold. Projects are also required to contain 20% "family" units— condos with three or more bedrooms.

The city promised the new rules will be flexible enough so as not to cause a slow down to the building boom.

André Boisclair, CEO of the Urban Development Institute of Québec, warned that the plan would result in housing cost increases that, according to one study, could be as high as **16%**

Montréal Councillor Craig Sauvé, a member of Plante's political party, Projet Montréal said that they have added criteria that make it cheaper to build units or cede land than making cash payments. The rules will vary from neighbourhood to neighbourhood. Downtown conditions aren't the same as those in suburbia, he pointed out.

Once adopted, it is estimated that the plan will create up to 600 social, affordable, family-sized units per year.

7. SIGNIFICANT MIXED-USE DEVELOPMENTS ARE UNDERWAY IN QUÉBEC'S MAJOR CITIES

Developers continue to embrace the mixed-use development model on larger parcels of land.

Québec City

Kevlar, Constrobourg and Groupe Patrimoine have announced the development of Quartier Mosaïque, a $750 M development on a 900,000 sq. ft. parcel of land in the Lebourgneuf area that was bought from the city.

The project will have 2,200 housing units in 11 towers divided between condos, rental apartments and seniors housing. Towers will range between eight and 14 storeys and contain 555 seniors units, 485 condo units and 1,150 rental apartments. Kevlar will focus on the condo units and Constrobourg will be involved with apartment units.

René Bellerive, president of Kevlar, said Québec City has an aging stock of rental apartments and many people are looking for more modern and smaller apartments.

Average rentals at Quartier Mosaïque will be $1.70 per sq.ft., while condos will sell for $350 per sq. ft., before taxes.

Services at the development will include outdoor heated pools, of which some will be on rooftops. The condos will also have lounges, exercise rooms, billiards and ping pong tables. The developers are looking into providing a shared bicycle rental service to residents.

The development will also have a commercial and a green space component.

Lévis

Groupe Humaco plans to begin construction in spring 2020 on its Cocité Lévis project in Lévis, next to the Pierre Laporte Bridge.

The $315 M mixed-use development will consist of about a dozen buildings, including condos, rental housing, office condos, a hotel and a seniors residence.

Groupe Humanco will commence construction of the first building, a 10-storey, 87-unit condo in spring 2020 for delivery in 2021. Units will sell from about $320,000 to about $800,000.

Cocité Lévis will have more than 1,000 residential units, primarily consisting of rental housing, including a 450-unit seniors residence.

Montréal

Groupe Sélection, Montoni and the Fonds immobilier de solidarité FTQ acquired the site of the former Molson plant on Notre Dame Street and are planning a residential project based on the "live, work and play" theme, that will also incorporate business, commercial and tourist elements.

Prével has launched the first phase of Esplanade Cartier, a 400,000 sq. ft. development just east of the Jacques Cartier Bridge. The project's first phase will be construction of an $85 M, 14-storey condo with 114 units on the northeast portion of the site, at Sainte-Catherine and Parthenais Streets. Units will range from 400 to 1,200 sq. ft. and prices will start at just under $200,000.

Construction should start early this year, with delivery in the fall of 2021. The entire site should be built over a five- to six-year period.

The ground floors of Esplanade Cartier will be primarily commercial with neighbourhood stores, such as food stores, cafés and restaurants. However, once built out, the site will have a significant office space component.

Prével co-president Laurence Vincent expects development plans with a significant office space component, to be finalized by late spring.

The Royalmount mixed-used development in the Town of Mount Royal in Montréal broke ground in June, with an anticipated completion date of August 2022. Royalmount is being positioned as Montréal's new "Midtown".

Royalmount is transforming a former industrial district into a cultural and commercial hub of about 3.6 M sq. ft. of retail, hotel, hospitality and office space. The developers of the project, Carbonleo and L Catterton Real Estate control over 74 acres of land at the. The retail component will consist of about 1.4 M sq. ft. of leasable space in an enclosed mall environment.

Over 100 food and beverage options will be part of the project and between five and seven hotels are planned for the site. Two existing office buildings will be kept on-site with over 240,000 sq. ft. of space. An additional 250,000 sq. ft. of office space is planned, and the development could eventually see as much as 1.5 M sq. ft. of office space, depending on demand.

The developers are also involved in the approval process to add as many as 6,000 residential units to the Royalmount site. Phase One of the project, which currently does not include residential, will go forward without any delay and is otherwise unaffected by the residential rezoning process, according to Carbonleo.

Boisbriand

Last summer, a Québec-based family developer announced plans for a $1.2 B multi-use development in the North Shore community of Boisbriand that will cover 53 hectares at the intersection of Highways 13 and 640.

Le Quartier-Forestia is the latest project of a family business that is co-led by Marie-Andree and Stephan Lessard. The community will feature 5,000 housing units in a natural setting.

The community will feature two main hubs. A civic hub, to the south, will provide an entrance to the development and access to a core of local services such as retail outlets, public markets, parks and mass transit. A second hub, in the centre of the development, will be devoted to sports and leisure as well as to interpretive facilities designed to encourage preservation of natural spaces.

8. AMENITY TRENDS ARE SHIFTING ALONG WITH RENTER DEMOGRAPHIC

Boomer and Millennial cohorts, as drivers of rental demand, have a major impact on amenities trend.

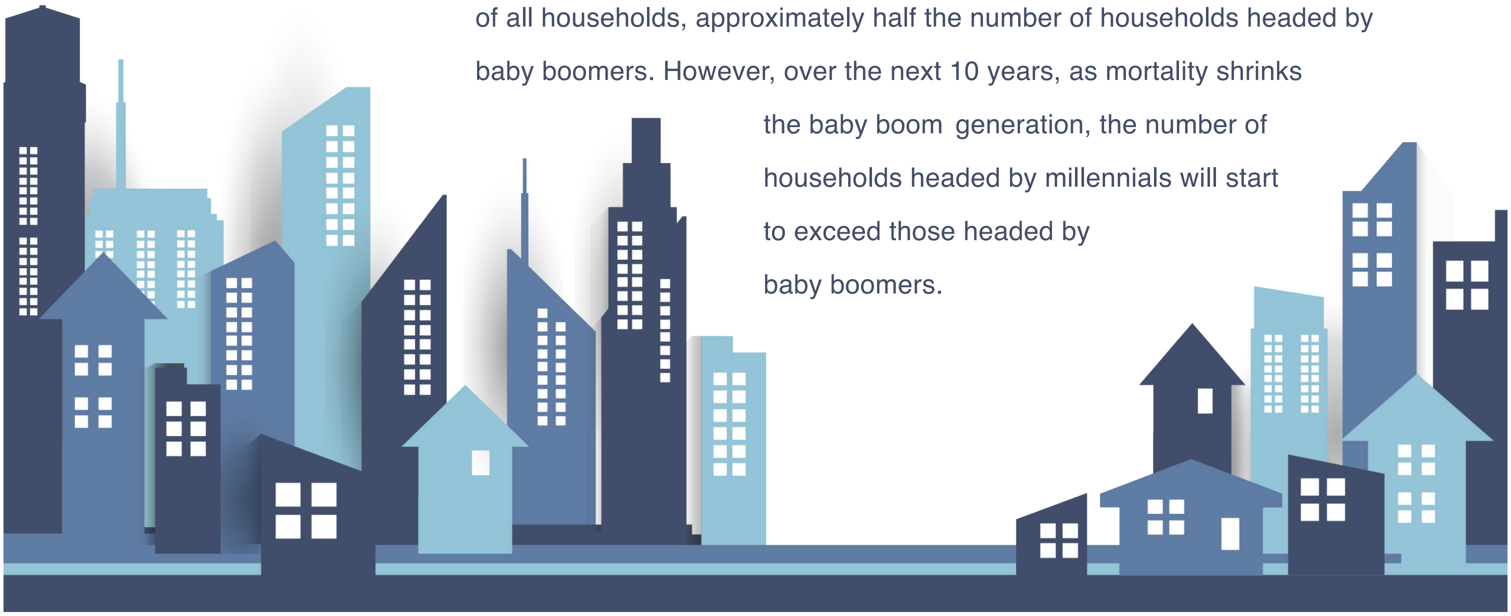
Amenities and services are increasingly important in the rental market. While people may be willing to sacrifice size and homeownership, many want units that meet their lifestyle needs and preferences, such as more community-focused rental housing or co-living developments that offer opportunities for tenants to meet and interact with each other, according to the PWC Emerging Trends 2020 report.

The millennial generation makes up 22% of Canada's population and surpassed 37 million as of July 1, 2018.

The age group that now encompasses the boomer generation makes up 27% of the population, compared with 18% in that age group two decades ago.

These two divergent generations are primary drivers of demand in the apartment market. Millennials prefer the flexibility that renting affords while boomers are downsizing and are choosing the convenience of maintenance-free living.

According to Environics Analytics, millennial households account for 19% of all households, approximately half the number of households headed by baby boomers. However, over the next 10 years, as mortality shrinks the baby boom generation, the number of households headed by millennials will start to exceed those headed by baby boomers.



Community and neighbourhood amenities are the focus of the latest trends. Having a recreational center on site and planned activities to engage in with neighbours are some of the most sought-after amenities for the boomer age group. Living in a neighbourhood that provides easy access to public transportation or walkable communities that have grocery stores, restaurants, and healthcare facilities within walking distance is high on the list of demands.

Investment management company Invesco has found that regardless of the amenity stack, a sense of community is most important to tenants. Co-working spaces, movie nights and general multipurpose areas make residents feel at home. “Community is important, and making sure the spaces you do have in a building are flexible,” Lesley Lisser, senior director of asset management at Invesco said.

Bisnow also reports that “having access to quality common areas and co-working spaces has become paramount for apartments built in the metros millennials are flocking to.”

While smart apartments are resonating with millennials, technology is also appealing to older renters. In a recent US survey, 80% of boomers are interested in new technologies to reduce their home expenses, such as smart thermostats or apps to control appliances. Multifamily Executive reports that 76% are interested in technologies to monitor their health at home, such as sensors, alerts, or medication reminder apps.

Smart apartment technology—especially when it comes to locks, in-building messaging, and energy efficiency—has attracted greater interest from landlords, developers, and tech firms, says Zach Aarons, a co-founder of real estate technology, or proptech, venture capital fund MetaProp.

However, fitness centres remain an important amenity in every complex. Although only 10% of the people will actually use it, “everybody that tours your property is going to want to see that you have a fitness center even though only 10% of the people will actually use it. It is the top of the line as a deal-breaker goes,” says Amy Groff, senior vice president of industry operations at the US National Apartment Association.

Recently, developers and property owners have begun focusing more on providing services for their tenants. Across all demographics, the most in-demand amenities are those that ease the lives of residents through service-based items that provide a sense of convenience, National Real Estate Investor reports.

One such service-based amenity that properties are implementing are trash valet services, such as Trash Butler. Companies like Trash Butler offer door to door pick up of garbage and recycling, saving residents from carrying garbage down flights of stairs and nighttime walks to dumpsters. This service has been voted a top amenity by multifamily residents.

Some landlords are turning to companies like Amenify to assist them with providing amenities to the residents. Amenify is a resident experience platform that provides a turnkey solution for amenity services. It handles all the work for services such as pet care, fitness, cleaning, ride-sharing and concierge support. In March, the company raised US$2.7 M led by RET Ventures.

9. LENDER SENTIMENT FAVOURS MULTIFAMILY

With continued low interest rates, rock-bottom vacancy rates and strong investor interest, the multifamily sector is expected to outperform in 2020.

According to the results of CBRE's annual lender survey, multifamily rental housing garnered the highest level of confidence among all asset classes. Moving into 2020, more than 39% of survey respondents expect to increase their multifamily budget approximately the same commitment to increase allocations for industrial properties.

In addition, apartment properties saw the largest improvement in sentiment this year with nearly no respondents reporting concerns with the asset class compared to 26.7% of lenders last year.

As a whole, lenders are showing lower levels of concern regarding real estate compared to last year. Across all asset classes, 56.5% of surveyed lenders expect to maintain their real estate exposure in 2020, while 41.3% are poised to increase it.

Ranked at numbers four and seven respectively, the Montréal and Québec markets were high on lenders' desire to invest in and 39.1% of the lenders surveyed planned to increase their budget allocation for the province of Québec.

In the US, the National Real Estate Investor is predicting that apartments will continue to perform well through 2020. "The combination of strong fundamentals, low interest rates and intense interest from investors should make for another white-hot year for the multifamily sector".

Apartment investors paid cap rates averaging 5.5% from January through the end of November 2019, according to RCA. Cap rates have fallen to those levels from about 6% over the last four years, since 2015. Over the same time, the total amount of money investors spent to buy apartment properties has continued to rise. "It just goes up and up," says Jim Costello, senior vice president for Real Capital Analytics. "It is a really competitive lending environment. We've been seeing loan-to-value ratios creep up in a number of markets," says Costello.

In the National Multifamily Housing Council's most recent quarterly survey of market conditions, conducted in October, the Debt Financing Index was 75. A reading above 50 indicates that debt finance is more available compared to three months earlier; a reading below 50 indicates that debt finance is less available.

"The sector continues to attract resounding fundraising figures, with more than US $20.0 B in closed-end funds targeting the US multi-housing sector raised in 2019 through mid-December," says Lauro Ferroni, director of research for JLL.

The multifamily debt market in the US is estimated to reach US$390 B in 2020 with lending caps of US$100 B for each of Fannie Mae and Freddie Mac. According to a study conducted by the Mortgage Bankers Association, life insurance companies have the bandwidth to fund an additional US$10 B of business in 2020, compared to 2018 volumes.

10. EMBRACING NEW TRENDS AND TECHNOLOGIES IS KEY TO REMAINING COMPETITIVE

Landlords are repositioning their buildings to stay competitive by adding high demand amenities and by adopting new technologies.

Here are some U.S. examples. For older properties, it could be difficult to compete against brand new assets. The biggest advantage older units have over smaller units is more space and flexibility. Most new assets coming to market have smaller units, says Lesley Lisser, senior director of asset management at Invesco.

Value-add redevelopment activity is bringing improved and new amenities to older communities modernizing their offerings and expanding their appeal, CBRE reports.

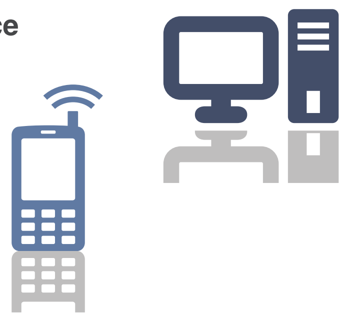
"Multifamily amenity innovation is critical to the success and competitive advantage of apartment properties. It's not enough to offer rooftop grilling areas or dog runs; owners and developers must think carefully about amenities and services that work together to create a cohesive community," says Brian McAuliffe, President, CBRE Capital Markets.

Building owners are upgrading their amenity packages to include smart devices. The next generation of smart devices, such as energy-efficient lighting controls and intelligent thermostats gives tenants the ultimate control over their own environment. These amenities can generate substantial efficiencies in energy use that can help control operating costs while appealing to environmentally conscious and tech-savvy tenants.

Amazon has invested an undisclosed sum into PropTech startup SmartRent, which packages and sells smart home services to multifamily landlords. The investment will allow SmartRent to integrate Amazon products into its platform. The company's most recent fundraising round was a Series B led by Bain Capital Ventures that brought in US $32 M. Real estate companies Starwood Capital Group, UDR and Essex Property Trust have also contributed equity into SmartRent.

SmartRent uses partnerships with companies like Nest thermostats and Yale smart locks to build a platform that landlords can roll out into already-constructed buildings.

It is estimated that over 90% of people searching for their next place to live look online first, and more than 60% browse on their mobile devices.



Digital adoption has become critical for investors and property managers, capitalizing on apps that have made the search process faster and easier.

A growing number of property managers have begun to incorporate WhatsApp and instant messaging across websites and social media. AI-powered chatbots are set to take up 85% of client interactions across all industries by 2020. It has been shown that 90% of companies have resolved complaints in a faster time thanks to the use of chatbots.

An amenity that apartment landlords and property managers are increasingly offering is package delivery management. Secure, self-service 24-hour package access ranked No. 4 in terms of community amenities desired by tenants, with 84% of respondents interested in that offering, according to an “Apartment Resident Preferences Report” done by the National Multifamily Housing Council and Kingsley Associates.

Landlords are responding by installing automated locker systems and even overflow package rooms to handle deliveries at their existing buildings. Companies such as Package Concierge have popped up to facilitate package delivery at multifamily dwellings.

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].”