Top 10 Real

INSIGHTS

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TOP 10 | REAL INSIGHTS

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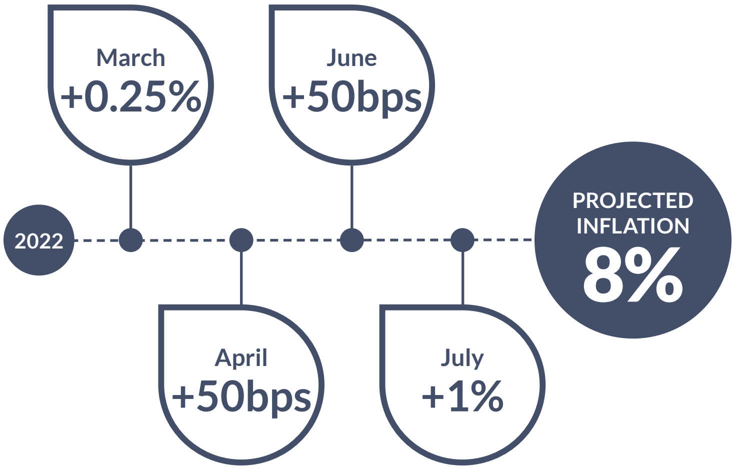
1. WHAT IS THE OUTLOOK FOR CANADA'S ECONOMY:

How Will Higher Inflation And Interest Rates Impact The Multi-Residential Market?

Despite optimism that the Bank of Canada would not begin to increase interest rates until the second half of 2022 (its statement read that it was "committed to holding the policy interest rate at the effective lower bound ... [until] sometime in the middle quarters of 2022"), we have seen the central bank increase rates four times between January and July. **Its March increase of 0.25 percent was followed by April's 50 basis point (bps) increase, a further increase of 50 bps in June, and a larger than anticipated increase of 1 percent in July, bringing its overnight rate to 2.5 percent. Citing a higher and more persistent inflation rate than anticipated in its April Monetary Policy Report, the BoC projected inflation would "likely remain around 8% in the next few months.** While global factors such as the war in Ukraine and ongoing supply disruptions have been the biggest drivers, domestic price pressures from excess demand are becoming more prominent. More than half of the components that make up the CPI are now rising by more than 5%. With this broadening of price pressures, the Bank's core measures of inflation have moved up to between 3.9% and 5.4%. Also, surveys indicate more consumers and businesses are expecting inflation to be higher for longer, raising the risk that elevated inflation becomes entrenched in price- and wage-setting. If that occurs, the economic cost of restoring price stability will be higher."



The BoC projected Canadian economic growth of 3.5 percent in 2022, 1.75 percent in 2023, and 2.5 percent in 2024, with economic activity slowing as more moderate growth and tighter monetary policies worked their way through the economy. Resolving supply disruptions and a decline in energy prices from the peaks of the first two quarters "will bring demand and supply back into balance and alleviate inflationary pressures." The Bank forecasts inflation should decrease to 3 percent by the end of 2023 and to 2 percent by the end of the following year.

After a slight decrease in June 2022, Canada's unemployment rate remained flat in July at its historic low of 4.9%, according to the Conference Board of Canada's Liam Daly. Labour force participation fell slightly to 87.9 percent from March's record high of 88.6 percent (core workers aged 25-54) (Statistics Canada). A decline in public sector employment (down 51,000 jobs) led to declines in other employment sectors, notably wholesale and retail jobs (-27,000) and 12,300 in business, building, and support services. Employment losses were highest in Ontario (-27,000) and Prince Edward Island (-2,300) in July and relatively unchanged throughout the rest of the country. The employment rate rose in the goods economy, however, particularly in the agriculture sector, which reached a 12-month high in July.

Wages (average hourly) rose 5.2 percent year-over-year, although "the rate of wage growth continues to lag inflation, which hit 8.1 percent, year-over-year" in June 2022.

Tech-sector layoffs continue to accumulate, with Wealthsimple decreasing its workforce 13 percent (-159), Unbounce 20 percent, Shopify 10 percent (-1,000). Start-up Clearco laid off 125 employees at the end of July, Article announced it would reduce its workforce by one sixth, and in early August, Vancouver's social media darling Hootsuite laid off 30 percent of its 1000-person workforce. Other tech firms such as Turlioo, Copperleaf Technologies, Vendasta Technologies, Canada Drives and Clutch announced they were scaling back hiring plans for the remainder of the year, according to CBC.

The rise in interest rates and the resulting stress-test pressure on would-be homebuyers is actually good news for the multi-residential market. According to Financial Advisor's Max Sharkansky, multi-family assets are far less vulnerable "to inflation and climbing interest rates than others—with multifamily assets in particular standing apart. Characterized by short-duration leases, or by rents linked to revenues, multifamily assets provide the highest level of inflation protection. Due to their ability to maintain dynamic cash flows, multifamily real estate assets are well-positioned for resilience.... This fundamental allows asset owners to quickly adjust rents to compensate for inflation and capitalize on increased demand," according to Sharkansky.

Forbes Business Council's Adam Kaufman notes that higher wages combined with housing supply shortages "give multifamily owners the ability to raise rental rates and offset higher construction, labor, insurance, taxes, and other costs, potentially allowing multifamily properties to hedge the effects of inflation. Additionally, multifamily properties may have mortgage loans with fixed interest rates, keep debt service payments stable as rents increase."

Written by Ruth Seeley of No Spin PR

2. HOUSING AFFORDABILITY AND RENTAL MARKETS: A CANADA WIDE CHALLENGE

Buyers across the country are feeling the pinch as costs rise in every market.

RBC Economist Robert Hogue's quarterly report, "Canadian home buyers face least affordable market in a generation," notes that by the end of Q1 2022, "RBC's aggregate affordability measure for Canada surged 3.7 percentage to 54.0% in the first quarter of 2022—the worst level of affordability since the early 1990s. Ownership costs rose in every market ... though the degree of pain felt by buyers varies dramatically across the country." RBC sees property values decreasing by an additional 10 percent by June 2023. A one-percentage point interest rate increase means mortgage payments in Vancouver, Toronto, and Victoria will rise on average more than $500 per month, while more modestly priced markets such as Regina and St. John's would see increases of only $125 to $160/month. The average monthly increase throughout the country is $360. "This is bad news for buyers in Vancouver, Toronto and Victoria who face a further affordability squeeze .... Pressure is also set to intensify materially for Montreal, Ottawa and to a lesser extent Halifax house hunters, whose prospects are already the toughest in decades." Supplementary rental income as one of several interest-rate-rise coping mechanisms will "cushion the impact of rising rates on housing demand."

Benjamin Tal, CIBC Capital Markets economist, however, told the *National Post* in late July that house prices would have to fall 25 percent to reach pre-pandemic levels, while noting that even at those levels, neither Vancouver nor Toronto housing was affordable even in 2019. Both the condominium and purpose-built rental markets have seen major cancellations, with 10,000 of 30,000 Greater Toronto Area condo units planned for construction in 2022 have already been cancelled by the year's halfway mark. "We should develop a rental mentality in which you are 35 years old, you are married with two kids, and you are renting – nothing is wrong with you! Simply put, the propensity to rent must rise, and the market should realign to increase the supply of rental units. Purpose built rental could be the difference between an affordable and an unaffordable housing market in Canada. So far it appears that we are marching in the wrong direction."

RE/MAX's 2022 "Housing Affordability in Canada" report indicates 64 percent of Canadians are willing to relocate for the sake of housing affordability, but half were not interested in relocating more than 100 km, while 38 percent would move to a different city, province, or region. Brandon, MB; Regina, SK; Thunder Bay, ON; St. John's, NL; Moncton, NB; and Red Deer, AB, were Canada's most affordable housing markets based on average residential selling price. Out-of-town or "move-over buyers" have caused double-digit year-over-year home price increases in most of BC's larger cities as well as in Winnipeg, with Calgary, Edmonton, Red Deer, Regina, Brandon and Saskatoon seeing much more modest increases. In Ontario, Windsor, Barrie, Sudbury, London, Hamilton, Thunder Bay, Kingston, and Ottawa all saw double digit house price increases, while Kitchener/Waterloo prices increased only 4.29 percent. In Atlantic Canada, Halifax's year-over-year price growth was 23.59 per cent and Charlottetown's 29.30, while increases in St. John's, NL, and Moncton, NB, were far more modest (+6.23 and +2.11 respectively).

Rentals.ca reported that the average rent on a one-bedroom apartment in Canada had increased 13.7 percent in the first half of 2022, while year-over-year, rents in Toronto increased 18.5 percent and 19.2 percent in Vancouver, although the average increase in all Canadian markets was 7 percent year-over-year (Q2 2021 to Q2 20222). "Higher (interest) rates are not destroying demand for housing, it's just shifting the demand from buying to renting," Dan Scorrow, president of Vancouver's Macdonald Realty told the *Globe and Mail* (July 22, 2022). The increase in rental rates has still not regained pre-pandemic levels, however, when Q4 2019's median rent reached $1,825. "Some people have turned to living with a roommate or roommates to alleviate rental costs.... While they still account for only a small share of Canadian households (four per cent), the 663,835 roommate households in 2021 represent a 54 per cent increase from 2001," according to the Rentals.ca report.

3. CREATING RENTAL THROUGH INTENSIFICATION, MIXED USE AND TRANSIT ORIENTED DEVELOPMENT

Canada's largest CMAs are prioritizing the development of properties that will add to supply and meet tenant's needs.

Most Canadian Census Metropolitan Areas (CMAs) have developed intensification plans. In Ontario, the *Places to Grow Act* establishes long-term regional plans for growth, development, and land-use policies across the province. Municipalities are required to develop plans that will accommodate residential growth for a minimum of 15 years, with the city maintaining an adequate land supply. Of course land availability informs intensification targets, since the alternative is urban boundary expansion.

Attitudes to intensification vary greatly. In Ottawa in 2021, response to requests for public feedback far surpassed council and administration's expectations, and community associations asked that approval of the new official plan be delayed until 2023, after the next municipal election in October 2022. While that request was denied, it highlights yet another hurdle (in addition to long waits for permits and zoning amendments) developers face when attempting to create new rental units.

Mississauga adopted land use guiding principles in 2018 designed to "[i]ncentivize intensification by promoting a mix of uses in [Class B and C retail] centres including education, public services, office, residential and commercial," while ensuring local needs are serviced and accessibility is prioritized for all, including seniors.

Edmonton's approach to intensification has been far more gradual, executed over the course of 20 years, beginning with the outlawing of exclusionary zoning. In Barrie, ON, intensification guidelines were established in 2012 to ensure intensification is integrated with the existing built fabric, safely supports all forms of transportation – including walking – and that "results in a thoughtful and attractive design that contributes to the local neighbourhoods and the City as a whole."

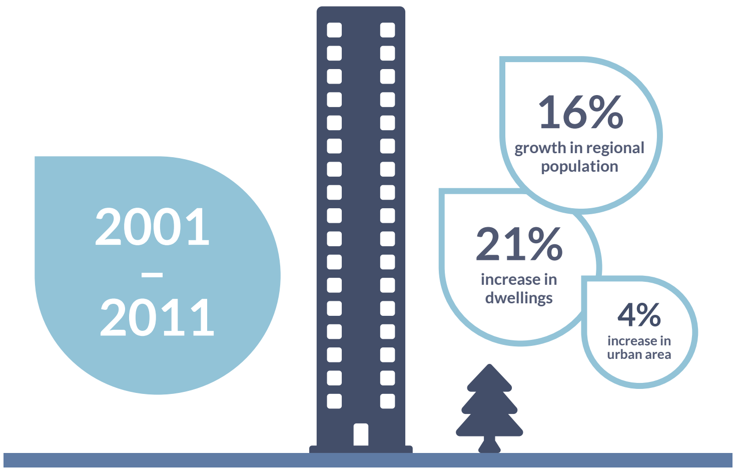
Written by Ruth Seeley of No Spin PR

Montreal, Canada's largest rental CMA, has defined its objectives as promoting "neighbourhoods that are compact and diverse, where services and employment centres are close by, and where the architecture and design of public spaces is of high quality." Planning goals include minimizing travel and prioritizing both public transit and active transportation for residents "at every stage of their life cycle." With Montreal's decision to extend its 67-km rapid transit network Réseau express métropolitain by 71 km (its largest public transit project in 50 years), transit-oriented development includes plan to repurpose strip malls for mixed-used office, retail, and residential.

When completed, the REM extensions will reach from Brossard in the southeast to Deux-Montagnes in the northwest and Anse-à-L'Orme in the west, and in the south from the South Shore to Bonaventure. This segment will be completed in 2022, while the rest of the network will be completed by the end of 2024.

The City of Toronto's intensification strategy includes "expanding the range of low-rise housing within existing residential Neighbourhoods. Commonly referred to as the 'missing middle', these housing forms can include duplexes, laneway suites, garden suites, and low-rise walk-up apartments, among others."

Between 2001 and 2011, the Vancouver CMA managed to accommodate a 16 percent growth in regional population and increase dwellings by 21 percent while only increasing its urban area by 4 percent, accommodating "the majority of the net gain in both population (69%) and dwellings (76%)," according to the Neptis Foundation.



4. LAND, CONSTRUCTION & DEBT FINANCING

Is Borrowing Becoming More Challenging in Today's Market Due to Inflation and Higher Interest Rates Impacting Lenders' Underwriting Decisions?

"Canada's economic outlook continues to experience rapid change. In two years, we've gone from the deepest recession since the Great Depression to an overheating economy with broad-based labour shortages. Now, it seems, we're back to renewed recession worries," Chief Economist Craig Alexander at Deloitte wrote in its "Economic outlook/June 2022."

Globally, federal banks' decisions to rapidly raise interest rates to reduce inflation have led to consumer uncertainty, with "many households worried about their future financial prospects, triggering a negative impact on consumer confidence. Businesses are then reacting to the potential of reduced demand from the household sector with caution around their investment and expansion plans."

However, during the pandemic, Canadians saved more than $300 billion and household wealth surged. This is cushioning inflationary fears (and realities). Furthermore, as the Canadian workforce demographic continues to skew younger with the last of the Baby Boomers retiring, jobs should remain "plentiful for working-age Canadians and support solid wage growth—a key factor for consumer sentiment. ... the tightening of monetary policy will raise debt service costs but will also cool the rate of increase in the cost of living—a good thing for consumers."

Firms that have made digital investments during the pandemic are only beginning to see the results of productivity gains, and government infrastructure investment commitments announced during the pandemic have yet to have an actual impact on Canada's economy. While higher interests rates and high inflation could trigger a recession, Deloitte thinks "a recession scenario only becomes likely if inflation fails to moderate as expected and/or the central banks hike by more than projected."

In its inaugural "Headwinds & Tailwinds" March 2022 report, Avison Young identifies the following as headwinds: supply chain disruptions; inflation and interest rates; and workers and wages, while citing capital access, a stronger mergers and acquisitions market, and consumer spending and savings as tailwinds. "Capital flowing into the North American private capital space remains robust with nearly $500 billion raised in 2021.... Of the funds raised, mandates are focused on buyouts and growth equity (-70%) which will continue to be put to work....", while "Canada's major banks are extremely well capitalized and as a result have been aggressively increasing their commercial loan books lending to Canadian businesses." There will likely be an increase of deal activity "in those sectors less sensitive to inflation pressures which include hard assets, commodities (mining and energy), REITs," while there will likely be an increase in U.S. companies making cross-border acquisitions in Canada.

Written by Ruth Seeley of No Spin PR

Colliers' Spring-Summer 2022 "Greater Montreal Investment Insights Report" cautions that the inflation-correcting measures taken by the Bank of Canada will favour cash buyers but disadvantage "owners with low debt-service coverage and destabilized cash flow." However, "the outlook on the Canadian economy shows a willingness to maintain resiliency through historic lows in unemployment and persistent capital investments." In Montreal, the volume trade in multifamily investments "have not shown signs of slowing down as volume traded climbed by more than 20% YoY." The purchase by Centurion Apartment REIT of the remaining assets of Habitations Trigon's 30-property apartment portfolio at a 4.50 percent cap rate has made it the second largest residential landlord in Quebec, with almost 4,000 more residential units added to its portfolio. "The industrial and multi-family markets continue to be the jewel for investors. Both asset classes have been facing similar supply and demand issues. ... The successive interest rate hikes are retaining future homeowners in the rental market, leaving investors bullish on Montreal's multi-family rental growth prospects. High-Rise multi-family has traded for as low as a 3% cap rate."

In the Greater Toronto Area, "market rents ... have risen significantly with an increase of 5.7% from to May of [2022] alone. Year-over-year market rents have climbed 16.5% as increased barriers of home ownership and immigration flooded an already competitive renter pool," while Ontario has doubled its rent increase guidelines for 2023 to 2.5 percent. "Amidst the nation attempting to curb inflationary pressures, the multifamily asset class remains one of the best hedges against it. ... investors are recognizing attractive risk-adjusted yields in multifamily that may be difficult to achieve elsewhere," according to Colliers Q2 2022 "Great Toronto Area Multifamily Market Report".

Deloitte cautions that "There will be an even larger impact on residential investment than consumer spending on goods and services. Not only is the decline in disposable income a factor, but the run-up in housing prices over the last couple of years has been dramatic, drastically reducing affordability. At the same time, higher prices for several commodities required for new construction, such as lumber and electrical wires, are making new housing expensive to build. The combination of rising costs and reduced incomes will hit housing activity hard. We already saw a pullback in April and May in resale market activity. We expect to see housing starts follow suit in the second half of this year. The Bank of Canada's move to a neutral level of borrowing costs will weigh on the residential market for years. Renovations, resale, and new housing investment will all decline. We expect total real residential investment to fall by 0.4% this year and by an average of 3.4% over 2023-24." (Deloitte Economic outlook/June 2022, "Rising interest rates and inflation to slow growth")

However, by mid-August, with lumber, wheat, and oil prices falling in Q2 2022 (oil down 20 percent since June, copper down 25 percent since March, and lumber prices down 62 percent from their peak of $1,700 per 1,000 board feet in May of 2021), there is reason to be optimistic that we have already passed the peak of the inflation cycle. (CTV News Regina; CBC)

5. MANAGING CONSTRUCTION AND DEVELOPMENT COSTS

Labour Shortages, Construction Costs and Municipal Approval Processes Have Proved Challenging for Development

"Development challenges and delays ... are the result of increasing labour costs, rising material costs, shipping delays, and escalating land costs," according to Colliers "Greater Victoria Purpose-Built Rental Pipeline 2022." In Victoria, council rezoning approval can take anywhere between six and eight months. This is actually fast in the development world, with the Canadian Homebuilders Association citing development approvals averaging 1.5 to two years or more.

Average Western Canadian municipal approval timelines range from nine to 15 months, Ontario's a minimum of seven months and an average to 30 months, and Halifax approvals taking between 18 and 26 months, although Charlottetown and St. John's approval processes were considerably less.

Municipal Approval Timelines

- **Western Canada: 9–15 months**
- **Ontario: min. 7, avg. 30 months**
- **Halifax: 18–26 months**

Some Canadian municipalities, are, however, reviewing their development application processes and are considering creating community planning permits to reduce wait times, delegating approval authority for some applications, simplifying some planning amendments while increasing transparency, improving customer service and communication, and moving to online application submissions. The Canadian Homebuilders' Association's ranking of cities with the greatest number of features likely to encourage and expedite additions to the housing supply were Edmonton, Oakville, London, Brampton, Ottawa, and Toronto. (CHBA, "Municipal Benchmarking")

BuildForce Canada's forecast is that "residential construction demands in most province are projected to recede from the peak levels of activity reached in 2021 and carry over into 2022. Some of the declines related to lower levels of employment in new-home construction will be partially offset by rising employment demands in the renovation and maintenance market segment." Residential construction employment is anticipated to decline 5 percent between 2021 and 2031, with more than 125,000 workers (almost 22 percent of the 2021 workforce) expected to retire. "Meeting near- and long-term demand requirements will require a combination of industry strategies that include increased recruitment and training of youth, looking to traditionally underrepresented groups, such as women, Indigenous Peoples, and newcomers to Canada, or to other industries to augment the available pool of local workers." (BuildForce Canada, "Construction and Maintenance Looking Forward: Residential Summary Highlights 2022-2031)

Written by Ruth Seeley of No Spin PR

While construction materials costs seem to have peaked and are now declining (see Section 4), riskconcern.com's 30-year analysis of land costs indicate that land prices increased 7.25 percent annually in Quebec, 7.12 percent in Alberta, and 6.7 percent in Manitoba. In the Maritime provinces, the percentage annual increases were much lower, with Nova Scotia land increasing only 3.7 percent annually, while PEI's rose 5.07 percent and New Brunswick's 5.28 percent. When measuring risk, Saskatchewan, British Columbia, and Manitoba had the highest variance of returns on land prices, while Nova Scotia, New Brunswick, and Alberta had the lowest return variances. During a recession, land is considered a safe haven asset, however.

6. HOW HAVE LANDLORDS BEEN ATTRACTING AND RETAINING TENANTS?

Strategies differ across market areas, but across the board tenants are looking for safe, walkable and socially responsible places to live.

Rental Housing Business reviewed June 2022 listings on rentals.ca to determine whether – and what sort of – incentives landlords have been offering tenants recently. They found "incentives abound in most major cities except for Vancouver, where rents are comparatively high." Among the most common incentives are one or two months' free rent on lease signing, cash bonuses, gift cards, and/or free cable or Internet services. Incentives are far more commonly offered to potential tenants in older, renovated buildings than in new builds or within the condo rental market.

In Toronto, signing bonuses of $500 to $1000 are not uncommon, while in Montreal more modest bonuses of around $250 for existing tenants who refer are more common. In Calgary and Edmonton, move-in bonuses of $300 and discounts on cable and internet were more common.

Different age groups, of course, have different priorities, and in university markets, proximity to the schools they are attending (and affordability, of course), are the primary considerations for students when choosing an apartment. But both millennials and Gen Xers rank the ability to pay their rent online as extremely important, according to an Appfolio survey. Similarly, these two cohorts valued quick, digital communication with property management (via text message or email) as very important, with millennials "50 percent more likely to move out of a rental because of dissatisfaction with property management. They mention poor communication and poor response to service requests." Both these age groups also use online rental listings almost exclusively, which means landlords need to advertise vacancies widely online, "in every affordable local and national search engine."

Baby boomers, many of whom are now living on fixed incomes in retirement, are more cost conscious than other tenants, with 20 percent indicating they had moved because their apartments were too expensive. Other factors leading to churn within this age group were bad neighbours and undesirable locations. "Baby boomers often choose to live in areas with milder climates or places with recreational opportunities that fit with a retirement lifestyle."

When selecting properties, Boomers, Gen X, and millennials had the same priorities, however. These were: walkability/proximity to workplace and community; building upgrades; pet/child friendly buildings; social responsibility; and the ability to pay rent online.

One of the most valuable tools for tenant retention is regular use of tenant satisfaction surveys, which can identify a variety of problems and help focus management resources while building community among tenants. By consulting tenants, property management makes them feel more valued, and therefore satisfied. "Such tenants often return the favo[u]r with positive word-of-mouth and reviews," including referrals to other tenants. As a low-cost form of data collection, tenant surveys can help property managers identify trends and concerns. "Tenants can have sensible suggestions for improvements that benefit everyone. This helps spark ideas for tenant satisfaction measures." (surveysparrow.com, "Tenant Satisfaction Surveys: 10+ Questions For Happier Tenants")

7. THE GROWING IMPORTANCE OF ESG: HOW LANDLORDS CAN BENEFIT FROM THESE PRACTICES AND CRITERIA?

Women and millennials, who are holding an ever-increasing percentage of the world's wealth, are generally more likely to focus on social impact issues when making investment decisions.

The environmental aspects of ESG have been the first to be widely adopted by those creating purpose-built multifamily dwellings and those repurposing existing structures. The benefits of setting goals for climate change mitigation and ultimately reaching net zero emissions are felt by both owners and tenants, in the form of lower energy bills.

The coronavirus pandemic forced landlords to focus on social factors (human and animal rights, consumer safety and protection both physically and psychologically. Governance factors include management, employee relations, diversity and equity in hiring and compensation practices that apply to both public and private organizations. "Women and millennials, who are holding an ever-increasing percentage of the world's wealth, are generally more likely to focus on social impact issues when making investment decisions, supporting the continued growth in this area," according to Net Impact's blog.

Increased housing density, reclamation of brownfield sites, redevelopment and repurposing of existing structures, use of sustainable materials, and the installation of energy monitoring and energy saving systems in new builds, access to affordable housing and accommodation for seniors and persons with disabilities are all ESG factors that make sense when applied at scale. Other social factors (that overlap with governance concerns) look at the way businesses treat not only their employees, but also their "customers." One way to embed the social goals of ESG into business practice and to create a sense of community is the use of tenant satisfaction surveys.

Written by Ruth Seeley of No Spin PR

According to CBRE's June 2021 report, "The Role of ESG in the Multifamily Property Market," "Demand for sustainable energy efficient buildings has long been evident in the commercial property sector with occupiers and investors alike vying for the most sustainable buildings and in many cases willing to pay a premium for the same. ... there is reason to believe that sustainability will play an increasingly important role in the residential property market over the next decade. As ... the merits of embracing ESG become more evident, we will see more people aspiring to acquire and live in green homes. However, with more people globally opting to rent residential accommodation and institutional multifamily product being developed specifically to cater for this emerging trend, it is timely to consider how ESG will evolve in the multifamily sector of the residential market."

While the report focuses on the Irish multi-family market, which it describes as being in an embryonic stage, incorporating ESG "will ultimately improve the marketability and liquidity of ... assets and generate higher returns in the long-run while also improving operational efficiencies and running costs." There is increasing evidence of "a green premium or brown discount ... from a valuation perspective. ... we are now beginning to see increased focus on ESG in terms of multifamily development."

As single-family housing increasingly becomes unaffordable, Canadians are renting for longer and delaying the purchase of their first homes at precisely the same time as the last of the property-rich Baby Boom generation cashes out or downsizes. "The millennial generation, who generally make up the biggest cohort of renters within multifamily schemes, have grown up with a heightened awareness of climate change and sustainability and understand its importance. We can therefore conclude that renters both want and expect sustainable accommodation options."

With Canada's far more aggressive immigration targets announced for the next three years (431,645 new permanent residents in 2022, 447,055 in 2023 and 451,000 in 2024), the demand for multi-family residential for newcomers will increase sharply. Between January and mid-March 2022, Canada had admitted 9,000 Ukrainian refugees, and Immigration Minister Sean Murphy anticipates there will be tens of thousands of applications under the expedited system developed to cope with the aftermath of the Russian invasion of Ukraine. The refuge period for Ukrainian refugees has been extended from two years to three. (Canadian Press)

Canadian Immigration Targets

431,645 in 2022
447,055 in 2023
451,000 in 2024

8. WHY IS HIGHER QUALITY RENTAL BECOMING A PREFERRED LIFESTYLE? HOW STRONG IS THIS DEMAND?

More and more people are unable to break into the housing market, while still others are downsizing and choosing to rent.

"[B]uild-for-rent demand is being driven by households that are entering a stage of life where single-family housing better suits their needs, but during a time where housing affordability challenges are keeping many would-be homebuyers out of the for-sale market." The migration to the suburbs -- where more space is available for less money – was a pandemic trend that resulted from the series of lockdowns that had many people working from home without enough space to do so comfortably. "The result is increased demand for rental housing that meets the needs of both maturing renter households ready to move up from traditional apartments but not ready or able to buy and already mature households that are seeking the convenience and affordability of renting," according to Steven Iannacone, in Halsatt Real Estate's "Demographic Shifts & Lifestyle Preferences Drive Build-for-Rent Demand."

Easy access to outdoor spaces, luxury amenities (including on-site gyms), and larger floor plans appeal to both retirees and millennials. There is also new category of tenant, lifestyle renters, who choose not to buy. These tend to be households with above-average incomes "that have the capability to buy a home but prefer to live amenity-rich, high-quality apartments."

Lifestyle renters "typically have above-average incomes ... some prefer renting in upscale communities instead of saving for a down payment and deadline with homeownership expenses. ... an increasing number of people, especially those with higher incomes, are choosing to rent instead of buy," according to Rhino, a tenant insurance agency.

Millennials also appreciate the flexibility of renting, to enable them to relocate for careers, family, or so they can work remotely while travelling. Community amenities such as on-site gyms or swimming pools lower the overall cost of living, as does a maintenance-free lifestyle, and increasingly, millennial tenants are willing to pay for these.

Harvard University's 2022 rental housing study indicated there was a significant spike in millennials renting apartments in 2021: 43 percent of all lease applications were from millennials. As this cohort begins to think about starting families, their preferences for technology upgrades, community amenities, and proximity to retail and entertainment hubs include larger living spaces. Empty nesters who are downsizing still need more space than traditional, older apartments provide, and want the same amenities they had in their homes.

Written by Ruth Seeley of No Spin PR

9. LOW-COST STRATEGIES TO ENHANCE THE VALUE OF OLDER ASSETS

Small changes like repurposing a basement for storage lockers or investing in landscaping can make a huge difference.

Spencer Cullor, president of ApartmentVestors, outlines his three-step plan to enhance the value of older assets in an episode of the Standout In Real Estate With Value-Add Properties podcast. His strategy is “improving the property that we’re in, improving the community that we’re in, and then improving [the] bottom line.”

The key to choosing whether to invest value-add features to older asset is choosing buildings with stable occupancy levels. These are typically Class B or C apartments. “They can better compete with similar properties and draw higher rent through aesthetic upgrades, improved amenities, and increased productivity/efficiency of business operations.” Cosmetic improvements matter in a social media world, where “hopeful renters will be considering whether the property is a suitable place to bring their peers, coworkers, and customers” when viewing listings online.

Fresh paint and flooring “can elevate Class B and C properties to win tenants in a competitive market. Determine where the building fits in the tug between luxury and economy, and update accordingly.”

High end appliances are a big draw for tenants, while investing in LED lighting in both common areas and within apartments makes sense on both an environmental and economic level. While adding a swimming pool and/or a fitness centre may not be neither practical nor achievable, if there is space to spare in the basement, the addition of a storage locker for each unit is a low-cost, low-maintenance option. If you can add more than one storage locker for each unit, making additional lockers available to tenants for an additional fee can also generate more revenue.

If on-site parking already exists, introducing a premium system for parking spaces close to doors or elevators, or charging more for indoor parking vs outdoor, can also add value.

If the lobby or laundry room is large enough, installing vending machines that sell not candy or tuna sandwiches, but ones stocked with supplies tenants need on an emergency basis – laundry soap, bleach, toiletries, cleaning supplies, milk – is a win-win for multifamily buildings. By providing the space, owners are entitled to a percentage of the profits, while the cost and maintenance of the machines is borne by the third-party company that supplies them.

Valet trash service is a value-add opt-in service that can be outsourced or provided by regular maintenance staff. Making trash disposal easy is also a good way to avoid pest issues, which cost money to resolve and decrease tenant satisfaction significantly.

Since it is illegal in Canada (unlike in the U.S.) to refuse to allow pets or to charge an additional monthly fee to pet owners, this is not a value-add option. However, if there is sufficient public space in the lobby or elsewhere in the building, offering a monthly mobile pet grooming session to tenants (for which they pay themselves, of course) could mean adding a percentage of the groomer’s fees to revenues.

Other value-add options include offering tech upgrades. These can range from keyless locks to smart thermostats, and from water usage management systems to virtual assistant technologies like Amazon Echo or Google Home. Adding in-unit washers and dryers or even additional units so laundry is available on every floor is another value-add investment owners can make.

Adding or upgrading community amenities, like creating an outdoor patio or BBQ area or an off-leash dog park, can also attract and retain tenants, especially if the apartments don’t have balconies. Simply investing in some landscaping and planting flowers is a low-cost aesthetic improvement that will help create a sense of community and increase the curb appeal of the building to potential tenants.

10. TECHNOLOGY AND INNOVATION TO THE RESCUE

Innovations and technology are being applied to rental housing and providing value to landlords, developers and tenants.

“Tech is now poised to do for rental housing what it has already done for banking, personal transportation, and in-home shopping and deliver: fundamentally remake the leasing experience in a way that benefits both tenants and the landlords who serve their needs,” writes Andrew Collins, CEO of real estate platform Bungalow in *Fast Company*.

Written by Ruth Seeley of No Spin PR

At the outset of the coronavirus pandemic, when everyone was in lockdown, landlords and tenants alike understood the necessity of minimizing physical contact and accelerated their use of technology to minimize the potential for transmission when showing/viewing apartments. That included embracing online listings and expanding the depth of the property technology they were using to include not only static photos on a web site but also more detailed listings, virtual tours, ID scanning, as well as augmented reality tools that can be used to place and view furniture. "Landlords can now use technology to solve a range of problems, from accepting payments and handling repair requests to matching tenants with compatible roommates." (*Fast Company*) Proptech can also be used to select tenants and contract maintenance work.

Zumper's Chief Sales Officer Natalie Cariola says, "Our industry has an enormous opportunity to redefine the apartment rental experience similar to what we've seen in the mobility industry, or even in retail. There is tremendous demand, an endless list of prospects who need places to live. New technology can help move the industry from what amounts to digitized classified ads into something that better aligns with the demands of today's consumers."

Proptech now includes digital tools to help people research and select properties while helping owners market and manage their properties. The technology includes both property management and construction/renovation/maintenance software to create (or transform buildings into) smart buildings that are connected, sustainable, and automated (think smart heating systems).

Residential proptech facilitates the property search for renters, and includes property search platforms, and marketing tools. For owners, proptech provides Internet of Things (IoT) property management tools, including those for predictive maintenance, as well as asset utilization tools for co-living space management. Proptech can also provide owners with insights into how tenants use the space they rent, while providing security and maintenance updates without requiring on-site visits.

It can also facilitate communication with tenants and maintenance teams. Increasingly, tenants want to communicate with landlords via text and email. The ability to request maintenance or report problems online, 24/7, is another aspect of the increasing preference for digital communications tenants want, particularly millennials and Gen Z, who comprise a large portion of the renters. While there is still room for improvement in chatbots, which currently seem to be limited to static answers similar to FAQs posted on web sites, the ability to capture tenant concerns in real time is a huge advantage for property managers who can then follow up with tenants about their maintenance needs or issues using the tenant's preferred form of communication.

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