

MARKET REPORT

Multifamily
Montreal Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

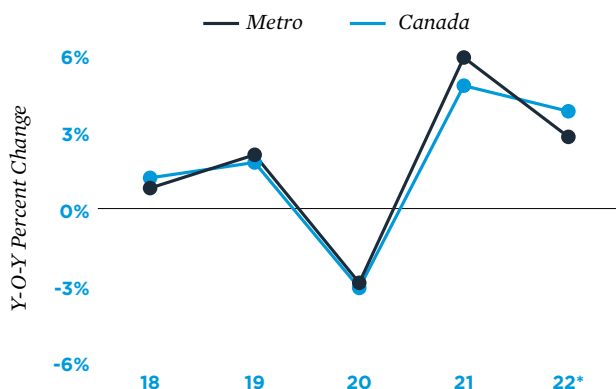
3Q/22

Affordability, Academics and Artificial Intelligence Create Young and Talented Workforce

Universities play a major role in the multifamily market. With the return of in-person learning, the Montreal metro has started its recovery from the health crisis, and is beginning to see vacancy lower and rental rates grow. Not only is the return of students a key driver for apartment performance, the high-quality education institutions in Montreal play an important role in creating a young, talented and growing labour force. Industries like life science and technology lead the way in employment growth for the metro, both of which actually expanded during the health crisis. One key area in the technology sector that is becoming a niche in the city is the artificial intelligence branch. Specifically, AI that focuses on language translation, which suits the market perfectly as Montreal is known for its diversity in languages. The return of students, plus job creation in the high-paying technology sector, is driving down vacancy for both lower-tier and higher-tier rental assets. Declining availability and strengthening demand is putting upward pressure on rental rates.

Migration plays a key role in apartment recovery. Montreal has always been a prime destination for international immigrants, due to its affordability, outstanding universities and strong job prospects, which combine to create a solid base for lower-tier rental demand. However, the metro has begun experiencing positive inter-provincial migration from its neighbour, Ontario, which was not the case during much of the past few decades. This is mostly driven by Montreal's affordability, as prices in Ottawa and Toronto jumped significantly during the health crisis. With this, relocating young families are driving demand for higher-tier rentals.

Employment Trends



* Forecast

Sources: Statistics Canada; Canada Mortgage and Housing Corporation

Multifamily 2022 Outlook



**64,200
JOBS**
will be created

EMPLOYMENT:

Employment growth is not expected to reach the historic level seen in 2021, but robust job growth in Montreal's artificial intelligence sector will keep the unemployment rate below pre-pandemic levels, likely falling into the low-4 per cent range.



**4,100
UNITS**
will be completed

CONSTRUCTION:

Construction is anticipated to slow, with most new builds happening in the suburban areas surrounding the Island. The government has been attempting to incentivize more development on the Island, however, more favourable returns for owners are being captured in suburban markets.



**30
BASIS POINT**
decrease in vacancy

VACANCY:

Vacancy will drop to 2.7 per cent this year. This is caused by net absorption outpacing new supply, due to the return of in-person learning and positive inter-province migration from Ontario, which is a relatively new trend in the metro.

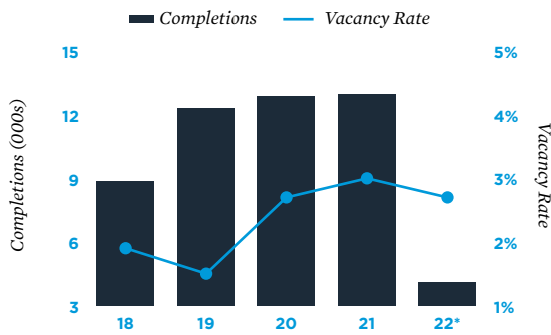


**4.4%
INCREASE**
in effective rent

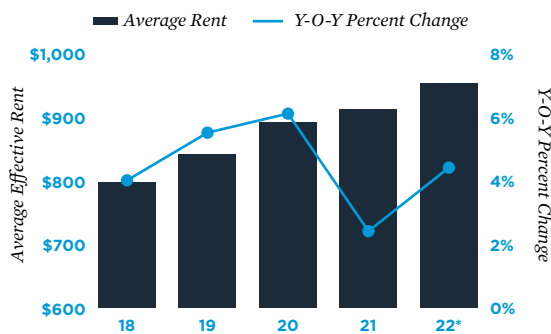
RENT:

Limited new inventory and rising interest rates are directing households to a tightening rental market. Average rent growth will likely return to 2019 levels and end the year at \$953 per month. Rent control within the market limits increases for existing tenants.

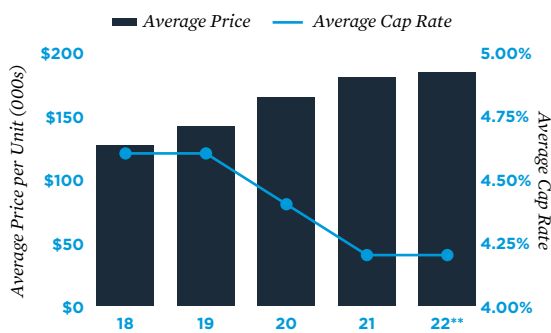
Supply and Demand



Rent Trends



Sales Trends



* Forecast **Through 1Q

Sources: Canada Mortgage and Housing Corporation; Altus Data Solutions

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Price: \$250

2021 Overview

CONSTRUCTION 12,965 units completed

- New supply reached a historic level in 2021, with nearly 3,000 more units completed when compared to the trailing five-year average.
- The majority of new developments were completed in Montreal proper. However, more suburban markets, such as Laval, also experienced new development as people are leaving the Island for larger and greener spaces.

VACANCY 30 basis point increase in vacancy Y-O-Y

- The increase in vacancy can mostly be attributed to the health crisis and the lack of in-person learning, resulting in students not returning to the Montreal area, putting upward pressure on vacancy.
- Rising vacancy can also be credited to the significant influx of new supply over the trailing three-year period, which has yet to be fully absorbed.

RENT 2.4% increase in the average effective rent Y-O-Y

- Rent grew at its slowest pace since 2017, ending the year at \$913 per month. This sluggish rent growth can be associated with higher availability, spurred by the lack of students returning to the metro.
- Although rent growth was below historic standards, Montreal experienced the second-largest growth among major Canadian metros in 2021.

Investment Highlights

- Total transaction volumes increased by 44 per cent during the yearlong period ending in the first quarter, as Montreal offers the second-highest cap rate of all major metros at 4.2 per cent. Private Canadian investors have accounted for just under 50 per cent of all transactions, with public Canadian investors close behind at a 37 per cent share of all sales in 2022. The majority of deals that have happened thus far are within the \$1 million to \$10 million range, suggesting most investors are purchasing older/smaller assets. This is consistent with the market, as the majority of Montreal's inventory is older, historic buildings.
- Le Plateau-Mont-Royal saw the most transactions in the trailing 12-month period ending in March. This municipality is more leisurely and is very student friendly, with ample cafes, bars and restaurants. With the return of in-person learning, investment in this area should remain strong.
- Longueuil and Laval are more suburban areas, located off the Island of Montreal, which has attracted more investment over the trailing 12-month period, due to migration into less dense areas. With this transition to suburban markets, the areas have begun extensive transit projects, which will stimulate more population growth and investment.