MARKET REPORT

Multifamily

Ottawa Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

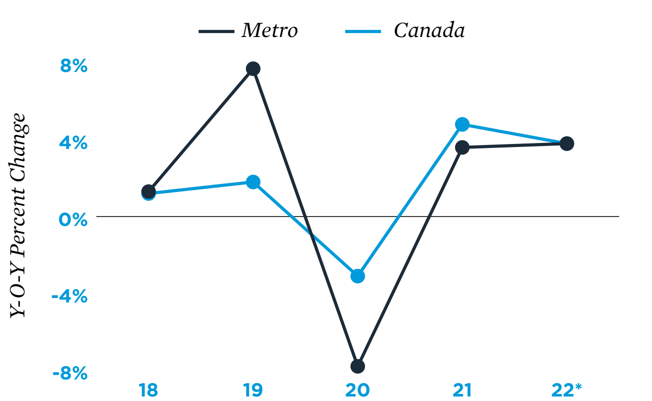
3Q/22

Strong Population Growth, Resilient Industries and Housing Affordability Bolster Rental Market

Affordability creates a strong labour force in Ottawa. With prices being lower relative to other Ontario markets, such as Toronto, Ottawa's affordability attracts young talent. The average apartment rent is at least 10 per cent lower in Ottawa compared to Toronto, and the median price of a single-family home is a staggering 88 per cent less in Ottawa. These aspects encourage in-migration from young Canadians who tend to favour apartment rentals, further constricting the amount of available inventory in a market already facing supply shortages. Not only does this metro have a strong labour force, but it also has a resilient economy, which keeps multifamily fundamentals strong even in times of economic uncertainty. Ottawa's economy is largely composed of two industries — government and technology — both of which fared well during the health crisis. Most notable is Ottawa's tech base, which was ranked a top 10 market for concentration of talent in North America and second in Canada. Companies like Ford, BlackBerry and Shopify all have innovation centers in Ottawa, attracting young talent who value rental lifestyles for the flexibility and proximity to urban cores, increasing demand for high-tier rental apartments in centralized locations.

Prospective homebuyers being directed to rental market. Even though Ottawa has a relatively affordable single-family housing market, prices have still increased by roughly 10 per cent year-over-year, and rising interest rates are making debt servicing less attainable for first-time homebuyers. This causes young families to consider the rental market over ownership, and continues to enhance the investment outlook for the Ottawa multifamily market.

Employment Trends



* Forecast

Sources: Statistics Canada; Canada Mortgage and Housing Corporation

Multifamily 2022 Outlook

29,000 JOBS
will be created

EMPLOYMENT:

Ottawa's diverse labour pool continues to bode well for investors as higher-paying tech jobs are fueling demand for downtown core, Class A buildings. At the same time, mid-paying government jobs support demand for lower-tier Class B and C assets.

1,600 UNITS
will be completed

CONSTRUCTION:

Construction is projected to be 28 per cent lower than last year, keeping investment fundamentals strong as inventory in the market is already facing a shortage. This lack of new supply will keep vacancy low and rents rising.

30 BASIS POINT
decrease in vacancy

VACANCY:

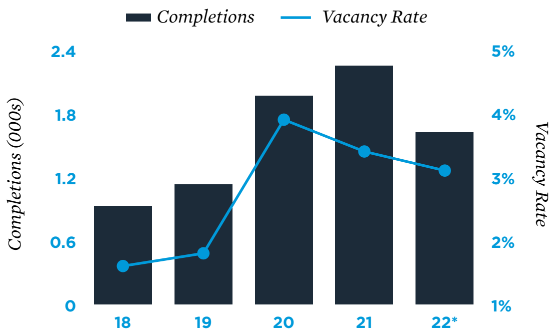
Vacancy is expected to decrease but remain above its pre-pandemic level, sitting at 3.1 per cent. This is down 80 basis points from the high seen in 2020, and is expected to continue to contract with a lack of new inventory and sustained employment growth.

5.1% INCREASE
in effective rent

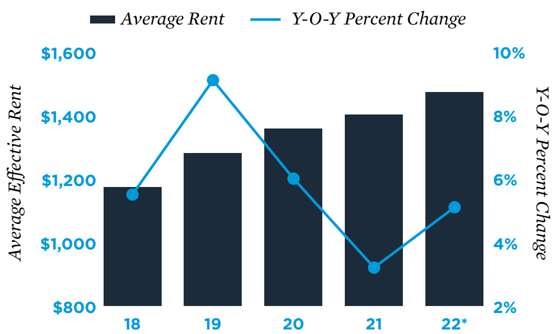
RENT:

With technology companies continuing to grow, the average monthly rent is expected to increase to $1,473, as higher-paying jobs will attract new talent and bolster demand for larger and higher-tier rental units. Wage growth and rising interest rates will continue to drive up average rents.

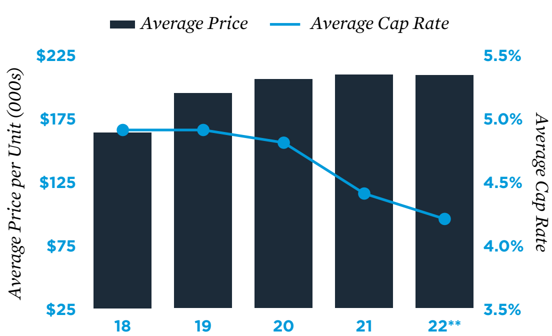
Supply and Demand



Rent Trends



Sales Trends



* Forecast **Through 1Q

Sources: Statistics Canada; Canada Mortgage and Housing Corporation

IPA Multifamily

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Price: $250

2021 Overview

CONSTRUCTION

2,249 units completed

- Ottawa added a historic number of new rental units in 2021, supplying roughly 300 more rentals than in 2020 and nearly 70 per cent more than the metro's trailing three-year average.
- New supply was quickly absorbed, pushing vacancy lower, even though it was a historic year in terms of new deliveries.

VACANCY

50 basis point decrease in vacancy Y-O-Y

- Vacancy decreased by the largest margin the market has seen since 2017. However, availability in Ottawa still sits well above the pre-pandemic rate of 1.8 per cent.
- Like many markets, 1-bedroom and studio apartments saw the largest increase in vacancy as people looked for more space during work from home.

RENT

3.2% increase in the average effective rent Y-O-Y

- The average rent increased by slightly more than 3.0 per cent, the slowest pace since 2016, and was roughly half the growth pace seen in 2020.
- Slower rent growth has allowed Ottawa to be much more affordable relative to Ontario's other major market, Toronto, where the average rental rate is about $170 more per month.

Investment Highlights

- Investors took notice of Ottawa's strong rent gains and high yields, stimulating capital inflow as the average cap rate sat at 4.2 per cent during the yearlong period ending in March, the second highest of the major metros. Strong price growth of just under 10 per cent since the onset of the health crisis has pushed cap rates down 70 basis points since 2019.
- Ottawa proper saw the largest investment volume over the trailing 12-month period ending in July, valued at $625 million, then Gatineau with $385 million and Kanata with close to $40 million. The majority of these transactions fell within the $1 to $10 million range, and 55 per cent were by Canadian private investors.
- Kanata, once considered the next tech hub of Canada before the dot-com bubble, has seen rapid growth in recent years. With tech returning, companies are moving back to the suburban hub, making it attractive to investors as high-wage potentials exist. The market offers a mix of outdoor space and entertainment as it is home to the Ottawa Senators NHL team, making it appealing to live as it provides access to sporting events and concerts. The recent completion of the LRT system is a step in the right direction to address the lack of public transit, but the market still lags behind other major metros, making commutes from suburban areas more challenging.