

MARKET REPORT

Multifamily
Calgary Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS
A DIVISION OF
MARCUS & MILLICHAP, BROKERAGE

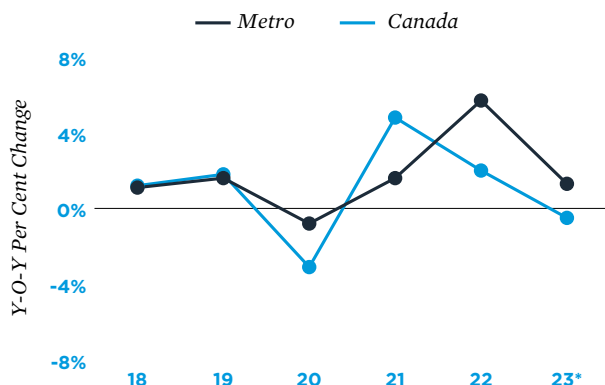
1Q/23

Demographic Tailwinds Lift Rental Needs, Necessitating Higher Levels of Construction

Rising demand counters near-term economic headwinds. Last year was an outstanding period for multifamily performance metrics. The metro's vacancy rate plummeted 240 basis points, while the average rent jumped 9.2 per cent from the prior year. Elevated oil prices led the region's economic recovery, which was exemplified by a 5.7 per cent gain in total employment and a net inflow of over 42,000 residents from both abroad and other regions within Canada. Resurgence in the local economy boosted apartment demand, which far outpaced inventory growth. In 2023, Calgary will not be immune to the ongoing economic headwinds observed nationwide; however, the metro's multifamily sector will likely see another year of positive performance. Fueled by heightened demand from a further increase in the number of new settlers as a result of the federal government's updated immigration plan, a strong appetite for apartments will continue to suppress vacancy to lower levels.

Construction activity continues to ramp up. The pace of development has increased significantly since the onset of the pandemic, due to rising demand for rental properties. Construction starts for apartments rose four-fold from 839 units in 2020 to 3,505 units in 2022, which subsequently translated to a near-60 per cent increase in deliveries last year. In 2023, completions will again remain elevated due to this construction boom, though slightly less than last year, which will be further aided by the units converted from empty office buildings as part of the Downtown Calgary Development Incentive Program. These apartment additions, while not likely to balance out the incremental demand from the metro's continued population growth, may slow the pace of declining vacancy.

Employment Trends



* Forecast

Sources: Altus Data Solutions; CoStar Group, Inc.; CMHC; Statistics Canada

Multifamily 2023 Outlook



**11,000
JOBS**
will be created

EMPLOYMENT:

Calgary's job market will soften but still outperform the national average, recording an employment gain of 1.3 per cent. This strong momentum will be underpinned by an increase in immigration, interprovincial in-migration and a diversifying local economy.



**3,970
UNITS**
will be completed

CONSTRUCTION:

Increased construction starts over the course of the pandemic, and the city's effort to convert underutilized downtown office buildings into living spaces, will translate into an elevated level of completions in 2023, though slightly less than last year.



**30
BASIS POINT**
decrease in vacancy

VACANCY:

Healthy population growth and an expanding local job market will continue to push vacancy down. The rate of decrease, however, will likely decelerate as a result of rising supply and a slowing economy. Availability will end the year at 2.4 per cent.

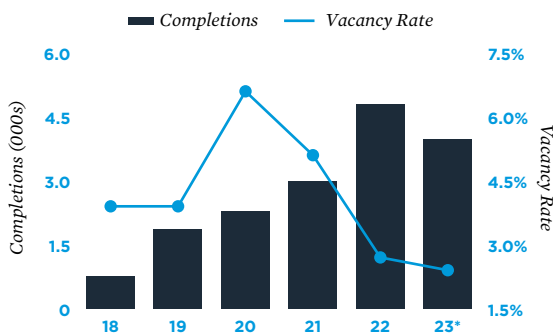


**7.1%
INCREASE**
in effective rent

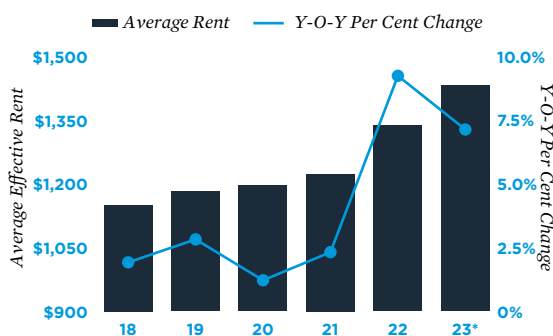
RENT:

The average effective rent will remain on an upward trajectory, powered by robust demand from the metro's expanding population. An influx of new supply and a softening job market, however, will slow the rent increase from the multi-year high seen in 2022.

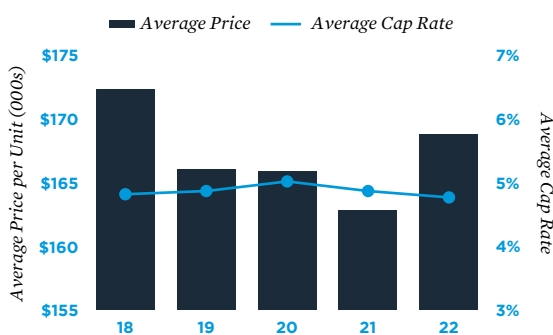
Supply and Demand



Rent Trends



Sales Trends



* Forecast

Sources: Altus Data Solutions; CoStar Group, Inc.; CMHC; Statistics Canada

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Price: \$250

2022 Overview

CONSTRUCTION

4,760 units completed

- Calgary's strong economic growth and population expansion in 2022 helped trigger a big boost in construction activity. Last year's delivery volume eclipsed the 2021 measure by nearly 60 per cent.
- The largest increase in completions was seen in the metro's Beltline and Southeast neighbourhood, where deliveries rose by 175 per cent.

VACANCY

240 basis point decrease in vacancy Y-O-Y

- Vacancy plummeted to an eight-year low. A strong appetite for apartments, due to Calgary's robust job growth and in-migration acceleration, led to quick absorption of available units across the metro.
- Suburban areas saw the largest drop in availability. Vacancy dropped by 720 and 500 basis points in Northeast and North Hill, respectively.

RENT

9.2% increase in the average effective rent Y-O-Y

- Consistent with the national trend, Calgary's average effective rent jumped by \$113 per month and rose well above \$1,300 in 2022. This was the metro's fastest rent growth recorded since 2008.
- Three-bedroom and one-bedroom units saw the fastest annual rent growth of 11.7 and 10.0 per cent, respectively.

Investment Highlights

- The average sale price reversed its declining course and rose at a moderate pace of 4 per cent last year. Despite this increase, Calgary continued to be a low entry cost market for multifamily investors when compared to other major metros. Rising interest rates acted as a counterweight to investor enthusiasm, keeping cap rates steady. The metro's multifamily yields also held as the second highest among major markets in Canada, only trailing Edmonton, ranging from 4.25 to 5.00 per cent at the end of 2022.
- Investment activity remained on an upward trajectory in 2022, despite fast-rising borrowing costs. Most transactions occurred over the second and third quarters of last year, which pushed the annual dollar volume transacted up to \$419 million, equivalent to an 18 per cent increase from the 2021 level. Outside of Calgary proper, the town of Canmore attracted the most investment volume, totaling \$63.5 million.
- Strong population growth, stemming from immigration and interprovincial migration, suggests that apartment demand is likely to remain robust in the near term. Coupled with elevated completions, there will be more investment opportunities in 2023. Investor sentiment should improve this year too, as interest rates are soon to stabilize.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: IPA Research Services; Altus Data Solutions; CoStar Group, Inc.; CMHC; Statistics Canada