

MARKET REPORT

Multifamily
Edmonton Metro Area

IPA

INSTITUTIONAL
PROPERTY
ADVISORS

A DIVISION OF
MARCUS & MILLICAP, BROKERAGE

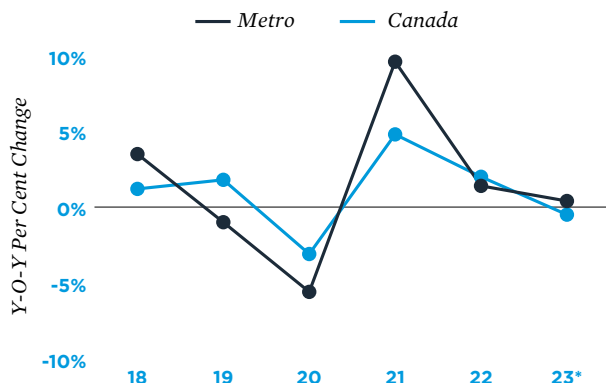
1Q/23

Substantial Vacancy Drop Driven by Surging Demand; In-Migration Ensures Healthy Performance

Robust economy and population gains boosted rental demand. Powered by an improving job market and a rebound in population growth, Edmonton's multifamily sector had a strong year in 2022. The oil price rally during the first half boosted employment, while high borrowing costs eroded home affordability and directed residents to the rental market. Additionally, the metro saw a significant inflow of residents from within Alberta, other provinces and abroad, which further drove demand for apartments. With annual completions flattening to roughly 3,800 units over the past two years, the increase in demand resulted in a 300-basis-point drop in vacancy, the highest rate of decline among major metros in Canada. Rent growth also climbed to a seven-year high, with the monthly average nearing \$1,200.

Outlook remains positive as demographic tailwinds persist. In 2023, uncertainty over international oil prices — due to ongoing economic headwinds — will directly impact Alberta's energy industry, which could greatly weigh on Edmonton's economy. This may subsequently slow demand for apartment rentals across the metro. Nevertheless, elevated in-migration should continue in the near term as Edmonton boasts a low cost-of-living compared to other major urban clusters in Canada. Coupled with the provincial government's presence, which ensures relatively stable employment in the public sector, rental demand will likely be well supported as a result. On the supply side, as a large number of projects delayed during the pandemic are expected for completion over the next couple years, this inventory expansion will likely slow down the pace of declining vacancy.

Employment Trends



* Forecast

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

Multifamily 2023 Outlook



3,500
JOBS

will be created

EMPLOYMENT:

Edmonton's employment will soften, as a result of ongoing economic headwinds. Yet, the metro should avoid a contraction, due to a heavy public sector presence and an increase in new resident intake. The unemployment rate may tick up toward 6 per cent.



2,235
UNITS

will be completed

CONSTRUCTION:

After relatively stable growth over the past two years, completions are expected to decrease by roughly 42 per cent in 2023. Elevated interest rates, labour shortages and heightened construction costs are slowing development activity.



40
BASIS POINT

decrease in vacancy

VACANCY:

Elevated demand for apartments from strong population growth will be the dominant force that drives down availability in 2023. New supply over the past years, however, will slow the rate of decrease. The vacancy rate is expected to end 2023 at 3.9 per cent.



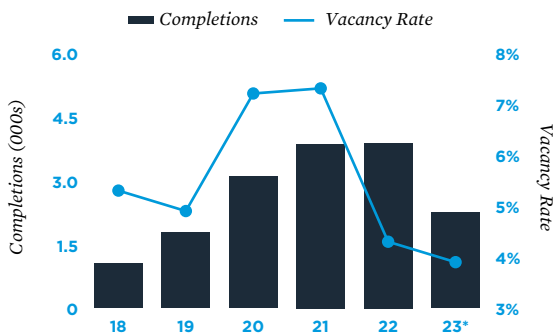
4.5%
INCREASE

in effective rent

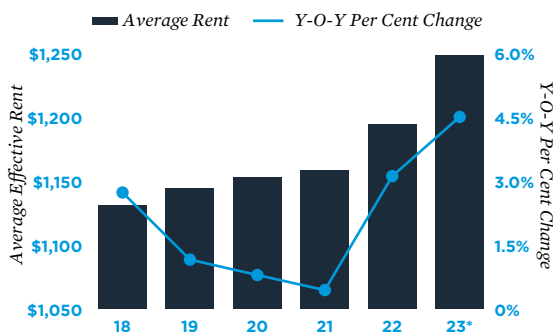
RENT:

Healthy apartment demand will keep the average effective rent on an upward path. With no rent control policy in place — as well as new, high-quality supply — the rate of increase could near 5 per cent. Despite this further rent escalation, Edmonton remains the most affordable market in western Canada.

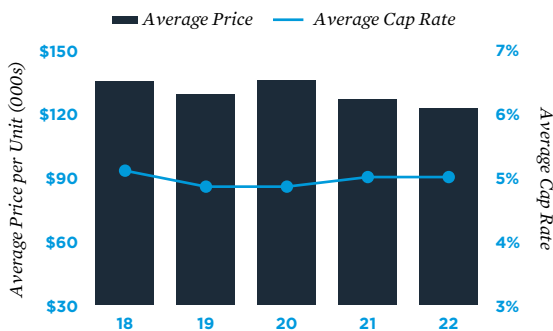
Supply and Demand



Rent Trends



Sales Trends



* Forecast

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

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Price: \$250

2022 Overview



CONSTRUCTION

3,877 units completed

- Construction activity remained steady in 2022, with just 18 more units completed compared to the prior year.
- The South West submarket recorded a large increase in deliveries, with 460 more units completed relative to 2021. Downtown Edmonton, however, saw new openings drop by more than half.



VACANCY

300 basis point decrease in vacancy Y-O-Y

- Edmonton saw the greatest drop in vacancy recorded since at least 2007. Strong rental demand suppressed availability below the 2019 level.
- Return to office picked up pace as health restrictions were eased. This led to more demand for apartments closer to the city centre, which caused vacancy to fall by 440 basis points in the downtown area.



RENT

3.1% increase in the average effective rent Y-O-Y

- The limited level of new completions intensified tenant competition, pushing up the average effective rent to almost \$1,200 per month.
- Outlying areas, including Leduc, Spruce Grove, Sherwood Park and St. Albert, saw some of the largest rent increases. These submarkets provide low-rise and garden-style apartments, which saw huge upside rent potential.

Investment Highlights

- Sale activity was extremely disrupted over the second half of 2022 as rapidly-rising interest rates caused financing to be much less achievable. Total dollar volume for the entire year, however, rose at a robust pace, due to exceptionally strong investment activity recorded during the first half. The recovery in Edmonton's total population growth and a further diversification of the metro's economy will benefit multifamily fundamentals, helping form positive investor sentiment over the long term.
- Contrary to the national trend, the average sale price in Edmonton registered an over 3 per cent decline in 2022, resulting in the highest cap rate among Canada's major metros. The elevated supply dating back to pre-pandemic times and increased debt servicing costs contributed to this price stagnation. However, with Canada's updated immigration target projected to welcome 1.5 million immigrants over the next three years, population growth in Edmonton is likely to ramp up further. This should help bring down vacancy and restore upward pressure on apartment prices.
- With the absence of rent control in Alberta, rent income is better aligned with market conditions. This bodes well for apartment investors in Edmonton, as future domestic and international in-migration paves the way for unconstrained upside potential for rent growth.

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

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