

MARKET REPORT

Multifamily
Montreal Metro Area

IPA

INSTITUTIONAL
PROPERTY
ADVISORS

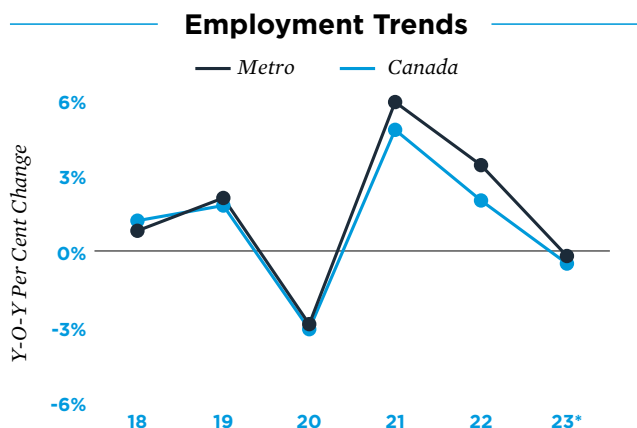
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1Q/23

Migration-Fueled Vacancy Crunch to Reverse Course as New Supply Rises and Economy Slows

Demand soared as resident growth bounced back. Following a sharp decline in the metro's population growth during 2021, which was caused by border restrictions hampering immigration and in-person activities, in-migration into Montreal resumed to normal levels last year. The city welcomed a net inflow of 63,000 permanent and temporary residents in 2022, a nearly 700 per cent increase from the prior year. Additionally, high home prices and elevated borrowing costs triggered a 22 per cent decrease in the metro's residential property sales last year, which redirected housing needs to the multifamily sector. This population tailwind and demand spillover from the single-family market fueled a recovery in leasing activity, which pushed vacancy down by 100 basis points, even as the level of completions reached a historic high in 2022.

Supply surge and demand moderation to lift vacancy back up. Between 2020 and 2022, construction starts for rental apartments increased significantly when compared to the previous three-year period. Completions rose as well, but lagged behind the increase in new groundbreakings. This means that in 2023, a further rise in openings should be expected as a larger number of delayed projects will be completed. Furthermore, the restrictive monetary policy from the Bank of Canada will likely exert continued downward pressure on the economy — potentially causing a contraction in the metro's total employment and ultimately leading to a deceleration in demand for rental apartments. These two factors will work in tandem to put vacancy back on an upward trajectory in 2023.



* Forecast

Sources: Altus Data Solutions; CoStar Group, Inc.; CMHC; Quebec Professional Association of Real Estate Brokers; Statistics Canada

Multifamily 2023 Outlook



**5,000
JOBS**
will be lost

EMPLOYMENT:

Consistent with the national trend, metro employment will record a slight contraction, as a slowing economy is expected to weigh on hiring activity. This will cause a mild rise in Montreal's jobless rate.



**18,000
UNITS**
will be completed

CONSTRUCTION:

Construction activity is anticipated to gain further momentum, as an increased number of projects that started construction during the early part of the pandemic are expected for completion this year.



**20
BASIS POINT**
increase in vacancy

VACANCY:

Demand will likely moderate from last year's high as the local job market records a mild contraction. This softening in demand, coupled with a rising number of completions, will put upward pressure on the vacancy rate.

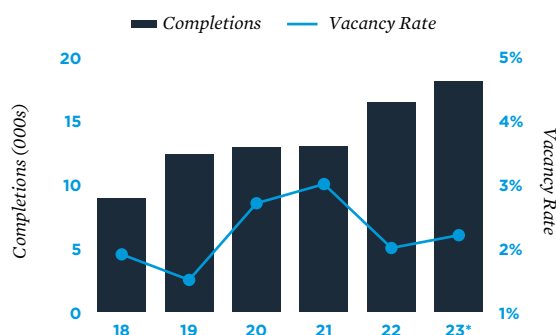


**7.7%
INCREASE**
in effective rent

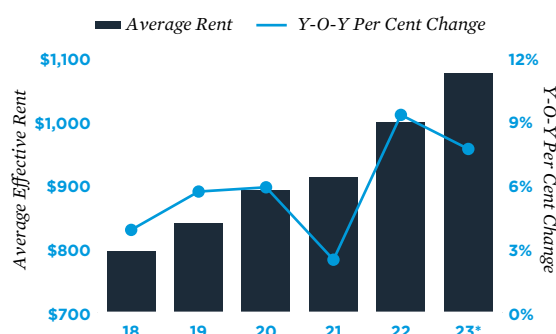
RENT:

Rent growth is expected to slow from the 9.3 per cent increase in 2022. The new, Class A apartment buildings, however, will continue to push up monthly rates. Nonetheless, softening demand and increased availability will likely lead to less tenant competition, causing rents to grow at a slower pace.

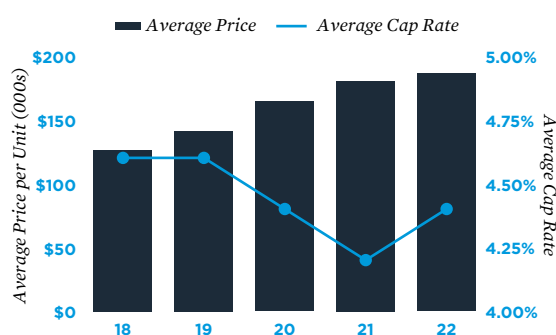
Supply and Demand



Rent Trends



Sales Trends



* Forecast

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

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Price: \$250

2022 Overview



CONSTRUCTION

16,405 units completed

- The pace of completions accelerated in 2022, rising by 27 per cent due to increased construction starts over the course of the pandemic.
- While Mascouche/Terrebonne and Boucherville/Brossard had the highest number of new openings, the Dorval/Lachine/Saint-Pierre market saw the largest year-over-year increase in deliveries.



VACANCY

100 basis point decrease in vacancy Y-O-Y

- The vacancy rate plummeted to 2 per cent, due to a strong demand recovery on the back of a rebound in the metro's population growth.
- As students and immigrants returned, availability dropped notably on the Island of Montreal. The downtown and Dorval/Lachine/Saint-Pierre areas, respectively, saw vacancy fall by 200 and 280 basis points.



RENT

9.3% increase in the average effective rent Y-O-Y

- Rising inflation and increased demand from the strong population growth led to the largest annual rent growth recorded since 1999. The average effective rent rose \$85 per month to almost \$1,000.
- Rent for one-bedroom apartments jumped the most, rising 11.1 per cent. Three-bedroom apartments had the lowest rent growth of 7.5 per cent.

Investment Highlights

- Total dollar volume held up relatively well in 2022, thanks to robust sales activity during the first half of the year before interest rates started to rise rapidly. Transaction volume in dollar terms within the first six months increased by more than 50 per cent year-over-year, before losing steam when elevated borrowing costs started to curtail transaction activity.
- Partly due to ample new supply, Montreal's average apartment sale price increased by just above 3 per cent in 2022 — the slowest growth pace recorded among all major metros in Canada. Montreal also boasts the least-costly market in Eastern Canada, with the average price below that in Toronto, Ottawa and Southwestern Ontario. With rapidly increasing interest rates, the metro's average cap rate ticked up 30 basis points to 4.4 per cent in 2022.
- While domestic private investment in Montreal's multifamily sector remained relatively steady, investment from foreign private buyers plummeted from \$316 million to just \$2.4 million in 2022. Exchange rate fluctuations and rapidly rising interest rates in Canada likely posed challenges for international buyers.

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