MARKET REPORT

Multifamily

Ottawa Metro Area

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

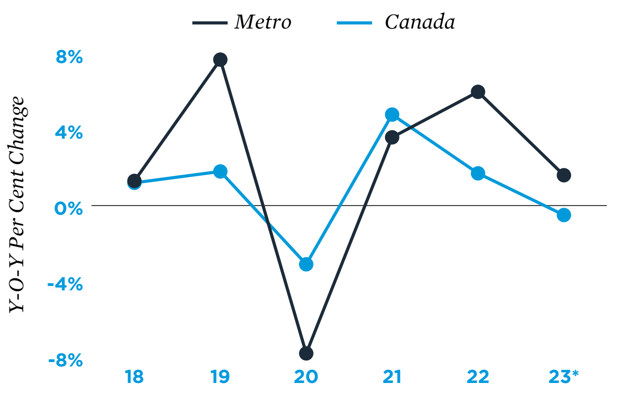
1Q/23

In-Migration Paves Way for Long-Term Optimism; Government Presence Cushions Interim Headwinds

Influx of new residents suppresses availability. Ottawa's multifamily sector experienced a demand recovery in 2022. While new supply rose 15 per cent, vacancy fell by 130 basis points, indicating that demand expanded at a much faster pace. The return of in-person activities aided part of this demand rebound, as the metro saw a net inflow of 4,100 foreign workers and international students. This was in stark contrast to a net outflow of 2,700 non-permanent residents recorded in the prior year. Sandy Hill and Lowertown, where the University of Ottawa is located, recorded the largest drop in its vacancy rate of 320 basis points. The Glebe/Old Ottawa South submarket, which hosts Carleton University, approached near-full occupancy, with vacancy falling to 0.7 per cent. Ottawa also saw a net increase of 16,000 permanent residents, doubling the 2021 level, which boosted apartment demand even further. This strong migration momentum will support a positive long-term outlook for the multifamily sector, which should spur investment activity over the coming years.

Public sector employment helps mitigate job market softening. Contrary to the tech sector's job losses, federal government employment expanded by 6 per cent in 2022. As most of these jobs are based in Ottawa, the metro's labour market was less affected by rising interest rates. Although total employment in Ontario as a whole may stagnate this year, Ottawa should see positive job growth due to this strong government presence. Coupled with the positive migration momentum, demand for apartments will likely remain healthy throughout the year, despite ongoing economic headwinds.

Employment Trends



* Forecast

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

Multifamily 2023 Outlook

13,000 JOBS *will be created*

EMPLOYMENT:

Following a surge in employment last year, Ottawa will see its job market moderate in 2023, which is consistent with the national trend. Nonetheless, the metro will likely still experience an expansion in total employment, due to the strong public sector presence.

2,280 UNITS *will be completed*

CONSTRUCTION:

Construction activity will remain largely stable this year, recording only a slight decrease from the 2022 level. Elevated interest rates and construction costs will continue to pose challenges for developers.

40 BASIS POINT *decrease in vacancy*

VACANCY:

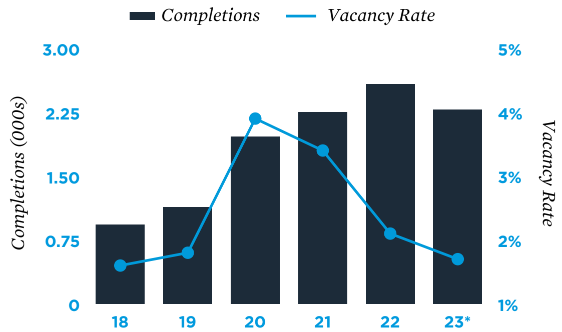
A strong migration dynamic and positive job growth this year will maintain healthy demand for apartments. With less new supply coming to market, the vacancy rate is expected to fall below 2 per cent.

3.9% INCREASE *in effective rent*

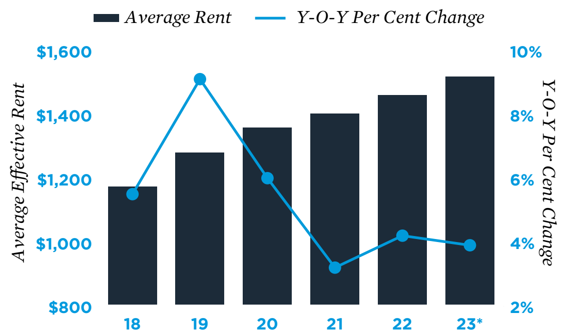
RENT:

The average effective rent will inch higher as demand growth is expected to outpace new supply. Nevertheless, the pace of increase will likely decelerate when compared to last year as a slowing economy may reduce turnover. This will cap rental rate growth, due to rent control policies.

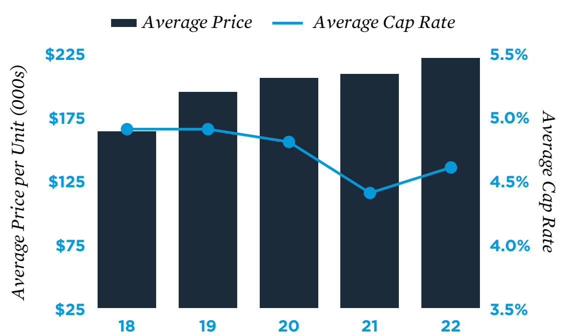
Supply and Demand



Rent Trends



Sales Trends



** Forecast*

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

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Price: $250

2022 Overview

CONSTRUCTION

2,580 units completed

- Apartment completions in Ottawa grew for the sixth straight year, registering a 15 per cent increase in 2022. The Sandy Hill/Lowertown and Gloucester North/Orleans areas saw the largest growth in new deliveries.
- In 2022, the metro recorded the largest completion tally ever recorded. This supply increase, however, was outweighed by a notable demand surge.

VACANCY

130 basis point decrease in vacancy Y-O-Y

- Strong demand, driven by robust population growth, pushed down vacancy to a level that is more consistent with its 2019 trend.
- The lowest vacancy rate was recorded in the Western Ottawa Surrounding Areas at 0.4 per cent. Alta Vista boasted the greatest availability decline of 440 basis points in 2022.

RENT

4.2% increase in the average effective rent Y-O-Y

- The average effective rent rose by roughly $60 per month on the back of strong demand and an increase of new, high-quality supply.
- Despite the solid pace of increase, rent is still rising at a milder pace in Ottawa when compared to Toronto and Southwestern Ontario. This makes the metro a more affordable option for new residents entering Ontario.

Investment Highlights

- Despite rapidly rising interest rates, total dollar volume transacted grew 7 per cent in 2022. Sales activity was most dynamic during the first half of the year, as sellers and buyers finalized transactions when interest rates were still at relatively low levels. Gloucester and Nepean saw the greatest increase in investment activity, with total dollar volume traded jumping by roughly 300 per cent.
- The average sale price in Ottawa rose at the slowest pace in Ontario last year. As a result of higher interest rates, Ottawa's average cap rate also registered a slight uptick. In 2022, the metro boasted the highest cap rate among major metros in Ontario, which was roughly 80 basis points above the level witnessed in Toronto.
- While investment from private buyers dropped from roughly $800 million to $600 million, public investment increased more than three-fold, reaching above $360 million in 2022. As the federal government is expected to divest office spaces in Ottawa, developers are actively looking for opportunities to convert these properties into residential use. This should further trigger interest among a wide range of investors, as the increase in apartment demand will continue to outpace new construction.

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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