

MARKET REPORT

Multifamily

Southwestern Ontario Metro Area

IPA

INSTITUTIONAL
PROPERTY
ADVISORS

A DIVISION OF
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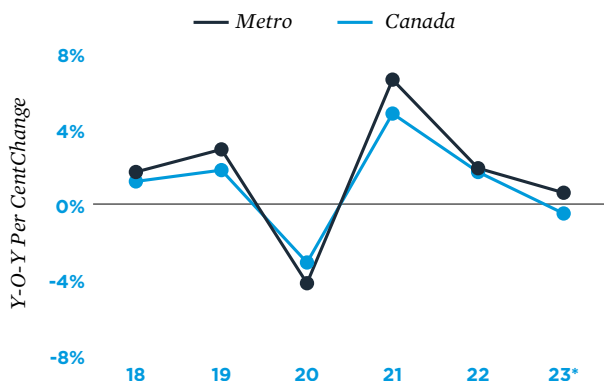
1Q/23

Regional Relocation Slows Down in the New Year; Supply Surge Moderates Availability Decline

Living cost advantage drove hot market. Due to a more suburban nature, Southwestern Ontario has a distinctive demographic landscape. Besides a steadily-growing immigrant population, the metro welcomes a large number of new residents who migrated from other parts of Ontario. Over the course of the pandemic, this trend accelerated, as a lack of housing affordability in the neighbouring GTA and remote-work arrangements intensified intraprovincial migration to the area. In 2022, residents from other Ontario regions contributed to one-third of the metro's population growth, which bolstered demand for purpose-built rental units. These new residents tend to be high-income earners, leading to quick absorption of more costly apartments. This strong momentum elevated rent growth to 7.1 per cent last year, which outstripped the annual increase seen in both Toronto and Ottawa.

Market tightens at a slower pace amid rising completions. In 2023, intraprovincial migration will likely decelerate as in-office work gathers further momentum. This will soften apartment demand, but the need for rentals will be backstopped by new immigrants and non-permanent residents, especially the rising number of students in the Kitchener-Cambridge-Waterloo region. On the supply side, London's inventory will receive a major boost as an increasing number of new projects over the past two years are expected to materialize. Vacancy will register a smaller decrease as a result, with rent growth also cooling from last year's elevated level.

Employment Trends



* Forecast

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

Multifamily 2023 Outlook

EMPLOYMENT:



8,000
JOBS

will be created

Consistent with the province-wide trend, Southwestern Ontario will experience a slowdown in its job creation. However, various government-supported infrastructure projects will help expand the local labour market amid a continued inflow of immigrants and temporary residents.



3,600
UNITS

will be completed

CONSTRUCTION:

It is estimated that 38 per cent more units will be completed in 2023, due to the delayed nature of projects that started construction during the pandemic. London will see the most additions, followed by the Kitchener-Cambridge-Waterloo region.



20

BASIS POINT

decrease in vacancy

VACANCY:

A steady influx of permanent and temporary residents will keep vacancy on a downward trajectory. Nevertheless, softer demand from a cooling economy amid rising supply will slow the vacancy slide.



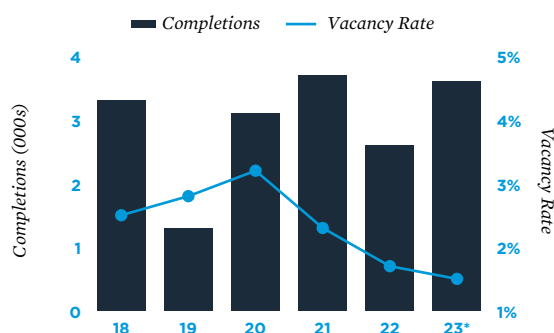
5.9%
INCREASE

in effective rent

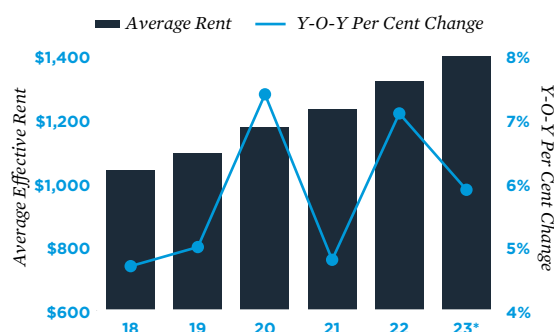
RENT:

Following the 7.1 per cent growth last year, rents will continue to increase, though at a slower pace due to moderating demand. The average monthly rate will reach roughly \$1,400, a near \$200 increase since the beginning of the health crisis.

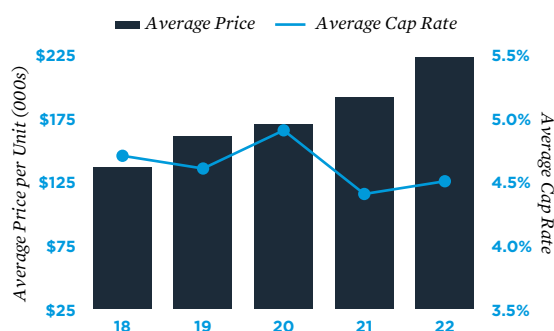
Supply and Demand



Rent Trends



Sales Trends



* Forecast

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

IPA Multifamily John Sebree

Senior Vice President

Tel: (312) 707-5400 | jseebree@ipammi.ca

For information on national multifamily trends, contact:

John Chang

Senior Vice President, Director | Research & Advisory Services

Tel: (602) 707-9700 | jchang@ipammi.ca

Price: \$250

2022 Overview



CONSTRUCTION

2,592 units completed

- Rising building costs and interest rates caused major delays in delivery times. Total completions fell by approximately 30 per cent annually.
- The most significant drop in construction activity was recorded in Guelph, where no rental units were delivered. St. Catharines-Niagara saw a notable boost in new supply, with 325 more units completed compared to 2021.



VACANCY

60 basis point decrease in vacancy Y-O-Y

- A surge in demand, stemming from elevated levels of immigration and domestic in-migration, suppressed vacancy below 2 per cent for the first time since 2013.
- Hamilton and the Kitchener- Cambridge-Waterloo region experienced the largest drops in availability.



RENT

7.1% increase in the average effective rent Y-O-Y

- From 2020 to 2022, strong inflows of migration lifted the metro's annual rent growth to 6.4 per cent on average, which far exceeded the 2019 level.
- In 2022, strong population growth and limited supply caused rent to skyrocket in Stratford. The monthly rate of the city's one-bedroom units jumped by 36 per cent, the largest rent hike in Southwestern Ontario.

Investment Highlights

- After peaking in 2021, investment activity contracted markedly throughout 2022 on a year-over-year basis, as rapid interest rate hikes and high inflation caused investors to re-evaluate their financing strategies. Expectations that the Bank of Canada was nearing the end of its policy rate increases nevertheless allowed sales volume to bottom out, with the total value of transactions registering a quarter-over-quarter increase of 145 per cent within the last three months of 2022.
- Southwestern Ontario saw a double-digit percentage increase in its average sale price to over \$220,000 per unit last year. This strong momentum pushed apartment values above the national average. Due to the rising prices, the average cap rate has declined over the past seven years, falling from 5.7 per cent in 2015 to 4.5 per cent in 2022.
- Multifamily is one of the most sought-after asset types among investors in Southwestern Ontario, due to the region's diversified, and thus more robust, demographic composition relative to other metros. Steady population growth from all three sources — intraprovincial in-migration, immigration and non-permanent residents — strengthens local rental demand, positioning the market to better weather economic downturns.

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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