MARKET REPORT

Multifamily

Vancouver Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

A DIVISION OF MARCUS & MILLICHAP, BROKERAGE

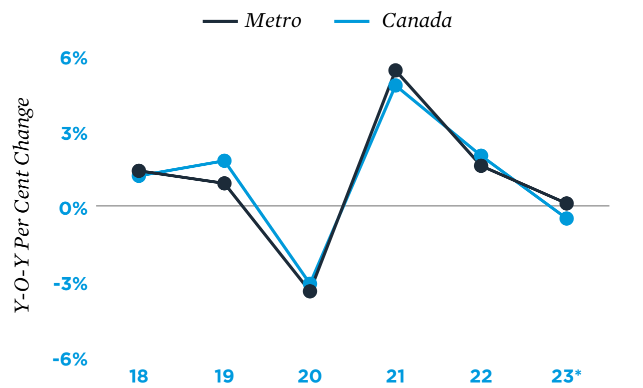
1Q/23

High Demand Maintains Low Vacancy; New Initiative Provides Supply-Side Boost

Record level of immigration underpins rental demand. Availability in Vancouver's multifamily sector tightened to an extremely low level in 2022. The metro's vacancy rate fell to 0.9 per cent, with some neighbourhoods — including University Endowment Lands and Southeast Vancouver — at practically full occupancy. A surge in borrowing costs and resident inflow led to apartment demand outpacing inventory growth, which lifted the metro's average effective rent 8.3 per cent above the 2021 level, the highest rate of increase since 1991. This year, highly-indebted households in Vancouver will likely be the main factor weighing on the metro's economy through subdued consumer spending, which will subsequently reduce apartment demand. Nevertheless, Vancouver is on track to welcome a record number of immigrants this year. This should support the metro's overall rental need, as most of these new settlers tend to start their lives in Canada as renters.

Inventory expansion to temporarily hold vacancy steady. In 2022, roughly 50 per cent more rental units were added to the metro's construction pipeline, which will lead to a meaningful increase in completions in and beyond 2023. Additionally, the city's 3-3-3-1 initiative is designed to reduce development obstacles, which has the potential to shorten construction times and address Vancouver's apartment shortages. This expected increase in deliveries, however, is likely only able to halt the vacancy decrease for this year, as strong apartment demand from rising immigration will result in quick absorption of new openings.

Employment Trends



** Forecast*

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

Multifamily 2023 Outlook

1,500
JOBS
will be created

EMPLOYMENT:

Households' high debt burden as a by-product of elevated interest rates will put pressure on Vancouver's economy, causing the local employment to slow notably from last year's 1.6 per cent gain. An increase in immigration, however, will likely prevent the job market from contracting.

8,300
UNITS
will be completed

CONSTRUCTION:

Due to a large increase in rental apartment construction starts during the past two years, deliveries will remain elevated in 2023. Just over 45 per cent more new openings are projected to be added across the GVA relative to last year's figure.

0
BASIS POINT
change in vacancy

VACANCY:

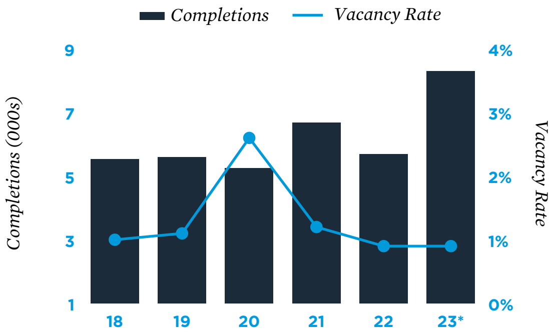
Strong demand from immigration will balance out the notable increase in supply, causing vacancy to stabilize below 1.0 per cent. The city's 3-3-3-1 initiative and the Broadway Plan may provide a relief to the tight rental market over the coming years.

7.2%
INCREASE
in effective rent

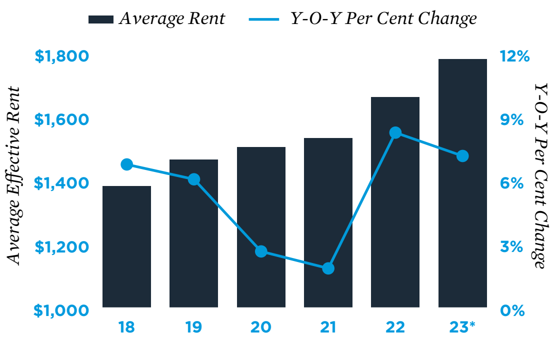
RENT:

Vancouver's ultra-low vacancy rate signifies an extremely competitive apartment market, which will keep rents on an upward trajectory. The average effective rate will reach roughly $1,785 per month, the highest monthly cost in Canada.

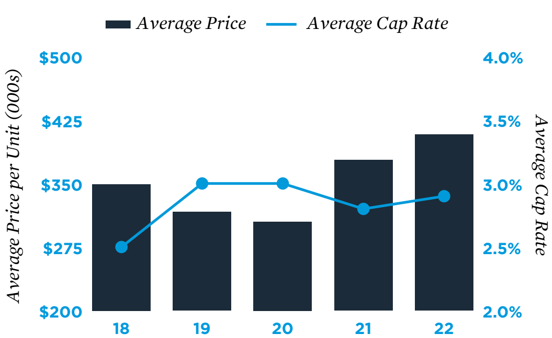
Supply and Demand



Rent Trends



Sales Trends



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2022 Overview

CONSTRUCTION

5,691 units completed

- Vancouver recorded a moderate decrease of approximately 1,000 units in 2022, due to a rise in building and financing costs. The number of completions, however, still remained above pre-pandemic levels.
- Despite the overall decline in new supply, the Marpole, West Vancouver and New Westminster submarkets saw a significant rise in deliveries.

VACANCY

30 basis point decrease in vacancy Y-O-Y

- Strong demand, resulting from an influx of new residents into the metro and a surge in homeownership costs, paved way for a fall in vacancy for the second consecutive year.
- With limited new supply coming to the area, three-bedroom units in North Burnaby recorded the largest decrease in vacancy of 470 basis points.

RENT

8.3% increase in the average effective rent Y-O-Y

- The metro's low availability allowed the average effective rent to grow at the fastest pace since at least 1991. The monthly rate in Vancouver has now risen above that in Toronto.
- Compared to previous years, rent advanced at a quicker pace for units turned over to new tenants, mirroring intensified market competition.

Investment Highlights

- Consistent with the national trend, high financing costs caused a contraction in investment activity across all deal sizes in 2022. Sales in the third quarter registered a large decrease, with total dollar volume falling over 80 per cent year-over-year. Nonetheless, as investors expected interest rates to soon stabilize, sales activity regained steam with total dollar volume bouncing back 6.4 per cent year-over-year in the fourth quarter.
- Vancouver's average sale price rose 8 per cent to $408,000 per unit in 2022, which stood above Toronto — the second-priciest market — by 9.5 per cent. The average cap rate ticked up slightly, as elevated interest rates impacted buyer enthusiasm even amid rapid rent escalation. Nevertheless, Vancouver retained the lowest cap rate among major Canadian markets.
- With the approval of the Broadway Plan, it is anticipated that the Broadway Corridor will experience large-scale development — including public transit and housing projects, as well as office and retail additions. Population growth in the area is expected to outpace that of the entire GVA, given the infrastructure upgrades. This will warrant multifamily development as 30,000 new households are projected to settle in the Broadway Corridor in the years ahead.

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