MARKET REPORT

Multifamily

Calgary Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

A DIVISION OF MARCUS & MILLICHAP, BROKERAGE

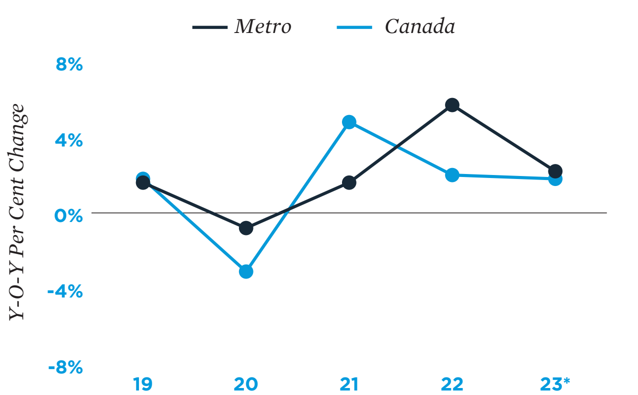
3Q/23

Sizable Rental Needs Persist, Further Solidifying Sector Fundamentals

Demand forces showing no signs of slowing. Calgary saw its apartment vacancy rate tighten at a rapid pace in 2022. This was driven by a sharp increase in population, and housing demand spilled over from the single-family market due to fast-rising homeownership costs. In the first half of 2023, these demand tailwinds continued to persist. Alberta welcomed over 100,000 new residents within this period, resulting in a 4.5 per cent year-over-year increase in the second quarter — the second-highest growth rate in Canada. This was a result of Calgary's more affordable nature, as well as robust employment opportunities. The strong inflow of immigration and domestic in-migration is expected to keep rental needs strong for the remainder of 2023. Additionally, as mortgage rates continue to climb following the Bank of Canada's recent rate hikes, housing demand will likely keep shifting to the multifamily sector.

Rents to increase by double digits. Construction activity has notably improved since 2020. Nearly 5,000 units were delivered last year, the highest level of completions on record. In 2023, new supply will remain elevated but likely moderate compared to the 2022 measure, due to climbing construction and financing costs. Coupled with elevated demand, vacancy will remain on a downward trajectory for the third consecutive year, likely falling below 2.0 per cent by year-end. Further facilitated by the absence of rent control, the annual rent increase may accelerate, rising above 10.0 per cent, with the average monthly effective rent reaching almost $1,500.

Employment Trends



* Forecast

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

Multifamily 2023 Outlook

19,300 JOBS *will be created*

EMPLOYMENT:

Calgary's job market has benefited from population gains and elevated oil prices, with total employment topping 900,000 for the first time in May. The pace of job creation may slow in the second half of 2023, but will likely outperform the national average.

2,700 UNITS *will be completed*

CONSTRUCTION:

Rental starts continue to run above average. The level of completions, however, may decline when compared to last year due to elevated building and borrowing costs. In 2024, an above-average number of deliveries are expected as projects wrap-up.

90 BASIS POINT *decrease in vacancy*

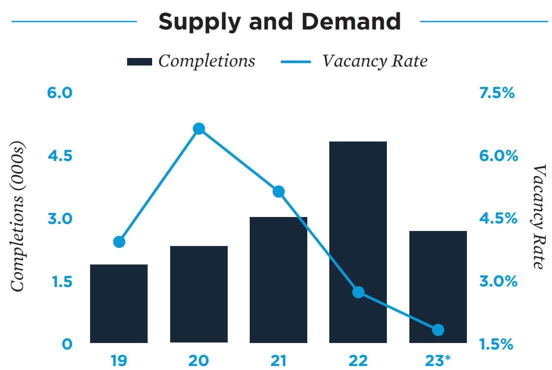
VACANCY:

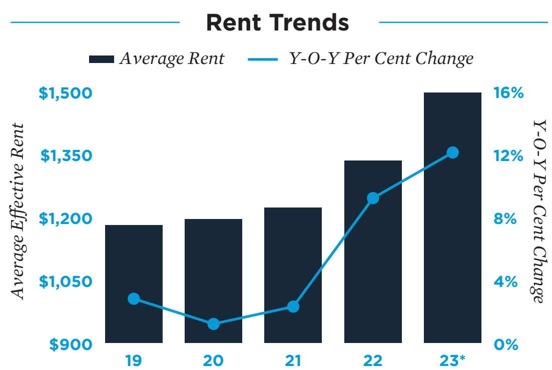
Demand will continue to outpace supply growth, leading to another year of declining vacancy. The metro's vacancy rate will shrink slightly below 2.0 per cent, with some suburban areas seeing near-full occupancy rates.

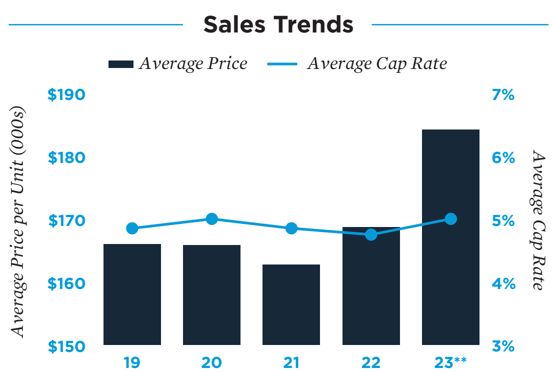
12.1% INCREASE *in effective rent*

RENT:

The average effective rent will reach new heights, along with an acceleration in the rate of increase. Compared to other major Canadian metros, the absence of rent control allows landlords to raise rents to market rates more frequently.







** Forecast; ** Through 2Q*

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

2022 Overview

CONSTRUCTION
4,760 units completed

- Construction activity reached a record high, driven by demand from strong population growth and shifted housing needs from the ownership market.
- The Beltline and Southeast neighbourhoods saw the greatest number of deliveries, followed by the Downtown and Northwest submarkets.

VACANCY
240 basis point decrease in vacancy Y-O-Y

- Demand outpaced supply growth once again, causing vacancy to plummet to an eight-year low. This was also the fastest rate of decrease since 2005.
- Outside the Downtown and Beltline regions, vacancy rates in all other submarkets dropped below 2.0 per cent in 2022.

RENT
9.2% increase in the average effective rent Y-O-Y

- Rapidly shrinking vacancy and no provincial control on rent increase led to the fastest rent growth the metro has seen since 2008.
- Fish Creek experienced the highest annual rent growth of 10.2 per cent, followed by the Northeast and Downtown submarkets, where the average rent increased 9.5 and 8.3 per cent, respectively.

Investment Highlights

- As of the first quarter of 2023, the trailing 12-month total dollar volume transacted contracted slightly by 5.0 per cent year-over-year, which was primarily led by a notable deceleration in investment activity in the final months of 2022. With interest rates stabilizing this spring, total dollar volume appeared to have bottomed out at a fast pace, registering a 220 per cent quarterly increase as of March.
- The average sale price in Calgary has been on an upward trajectory since 2021 and is now approaching $185,000. Strong demand from elevated population growth has led to robust sector performance, pushing sale prices close to the height seen in 2016. Compared to other metros, Calgary has more transactions under the $1 million mark. These properties are primarily five-unit detached houses, with the average unit price being above that of conventional purpose-built apartment buildings.
- Calgary has one of Canada's highest multifamily cap rates, which remained relatively stable around 5.0 per cent over the past two years. This continues to attract investors as the sector's fundamentals are showing no signs of softening in the near term amid elevated population growth, fast-declining vacancy rates and an expected double-digit rent increase in 2023.

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Price: $250