MARKET REPORT

Multifamily

Montreal Metro Area

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

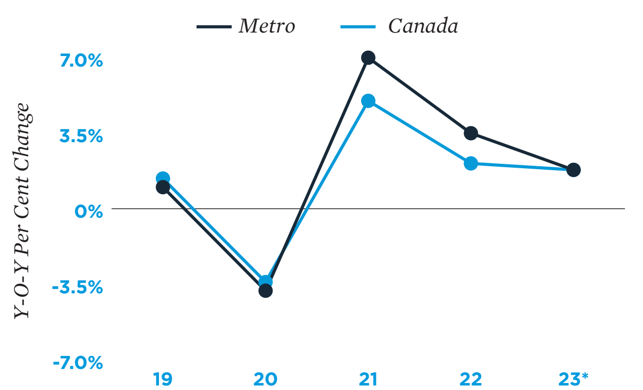
3Q/23

Population Growth and Employment Opportunities Aid Apartment Performance, Despite Supply Surge

Growing population a tailwind for apartment demand. Montreal witnessed a rapid rebound in population growth last year. Immigration increased roughly 700 per cent annually, due to the removal of pandemic-related restrictions, the return of in-person learning and ample employment opportunities. The artificial intelligence, healthcare, aerospace and advanced manufacturing sectors aided this immigration tally. Consequently, apartment vacancy fell 100 basis points to 2.0 per cent, helping annual rent growth reach a record level that surpassed 9.0 per cent. This trend has continued into the first half of 2023, with Québec's population advancing 2.1 per cent annually. As a result, apartment demand is likely to hold, despite a potential economic slowdown. Given a historic amount of new supply entering the market last year, coupled with still-elevated levels expected this year, the metro's vacancy rate is forecast to stabilize at 1.9 per cent, with annual rent growth moderating slightly to 6.7 per cent.

Upper-tier apartment demand well supported. Montreal has recently established a strong presence in the artificial intelligence, healthcare and aerospace sectors, due to its highly-educated population. Given the high-paying job opportunities these industries tend to offer, demand from Class A apartments is well supported. With Québec having access to ample input materials for EV battery manufacturing, it is expected to witness robust employment gains within this sector. This trend is likely to provide further support to apartment rental demand over the coming years.

Employment Trends



* Forecast

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

Multifamily 2023 Outlook

43,300 JOBS *will be created*

EMPLOYMENT:

Employment is likely to remain positive in 2023. The pace of growth, however, may soften compared to last year as elevated interest rates work their way through the economy more broadly over the coming months.

14,200 UNITS *will be completed*

CONSTRUCTION:

Development is expected to contract by just under 15.0 per cent when compared to last year. Yet, new supply is still forecast to remain significantly above the metro's long-term average as builders look to capitalize on robust population growth.

10 BASIS POINT *decrease in vacancy*

VACANCY:

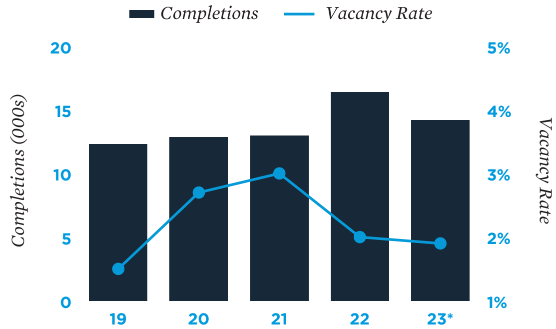
With a historic amount of new supply entering the market last year, coupled with still-elevated construction activity in 2023, the vacancy rate is forecast to remain relatively stable and end the year at 1.9 per cent.

6.7% INCREASE *in effective rent*

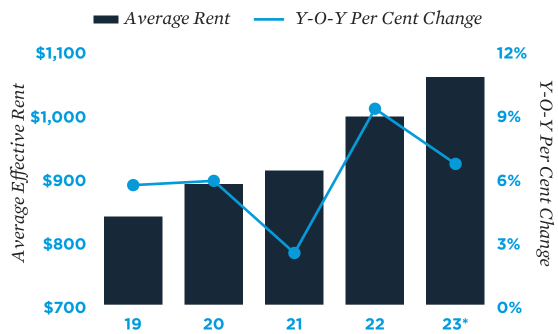
RENT:

Rent growth is expected to moderate compared to the historic level seen last year. However, with high-quality supply entering the market, coupled with robust population gains, growth is anticipated to remain well above the metro's long-term average. By year-end, the average effective rent is forecast to surpass $1,000 per month.

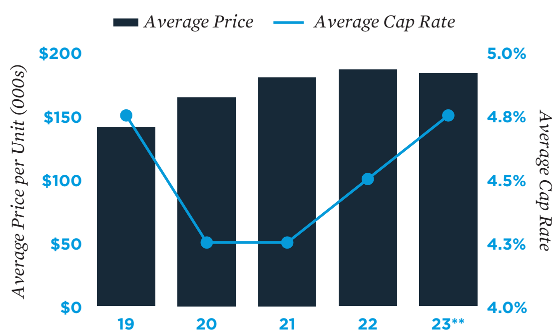
Supply and Demand



Rent Trends



Sales Trends



** Forecast; ** Through 2Q*

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

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2022 Overview

CONSTRUCTION

16,405 units completed

- New supply hit historic levels in 2022, up 27.0 per cent when compared to 2021 as development intentions rose significantly throughout the pandemic.
- Mascouche/Terrebonne and Boucherville/Brossard had the highest number of new openings. Dorval/Lachine/Saint-Pierre, however, saw the largest annual growth, as it is an important center for employment and schooling.

VACANCY

100 basis point decrease in vacancy Y-O-Y

- Amid robust population growth, Montreal's vacancy rate returned to pre-pandemic levels, after two consecutive years of above-average vacancy.
- The return of in-person learning and immigration caused vacancy to drop notably on the Island of Montreal. The downtown and Dorval/Lachine/Saint-Pierre areas saw vacancy fall by 200 and 280 basis points, respectively.

RENT

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

- With healthy population growth, coupled with homeownership challenges redirecting demand toward the apartment rental sector, annual rent growth reached a historic level and approached $1,000 per month.
- Of Montreal's 40 submarkets, nearly half experienced double-digit annual rent growth, with Carignan/Chambly/Saint-Mathias nearing 20.0 per cent.

Investment Highlights

- Total dollar volume transacted held up relatively well in 2022, thanks to robust sales activity during the first half of the year when interest rates were low. On an annual basis, dollar volume only dropped 2.0 per cent. While investment activity fell more sharply in the first quarter of 2023, down roughly 15.0 per cent when compared to the final quarter of last year, sales activity gained momentum in the second quarter. Total dollar volume transacted rose roughly 25.0 per cent quarter-over-quarter as borrowing costs showed early signs of stabilizing.
- With sales activity moderating over the second half of 2022, the average sale price began to witness slight downward pressure in the first half of 2023, dropping roughly 1.5 per cent when compared to last year. This price stagnation, coupled with rising interest rates, caused cap rates to inch up slightly as of the end of the first quarter of 2023, hovering around 4.8 per cent.
- While domestic private investment 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.

Price: $250