MARKET REPORT

Multifamily

Vancouver Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

A DIVISION OF MARCUS & MILLICHAP, BROKERAGE

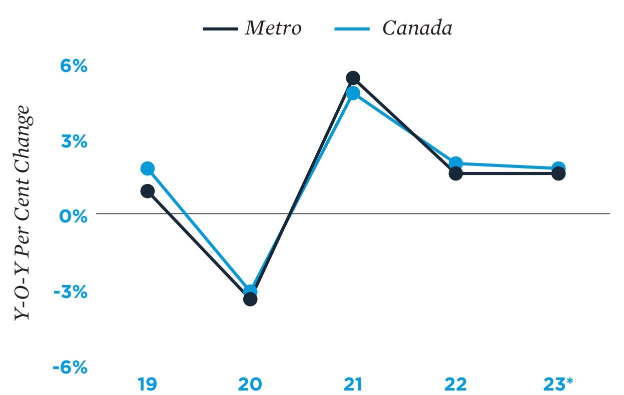
3Q/23

Elevated Rental Needs and Longer Construction Times Maintain Ultra-Low Vacancy

Strong demand remains unmitigated. In the first half of 2023, Vancouver's multifamily vacancy rate remained stable below 1.0 per cent. Healthy population growth from immigration within this period was the main driver for the metro's apartment demand. Furthermore, the Bank of Canada paused interest rate hikes between February and May, resulting in a sharp increase in home prices as many buyers returned from the sidelines as uncertainty showed signs of abating. This further reduced home affordability and led to more housing demand spilling over to the multifamily sector. For the remainder of 2023, a continued inflow of new residents and elevated mortgage rates will likely keep apartment demand heightened. Rents, as a result, will increase to a post-pandemic high, likely approaching $1,800 a month.

Delays in delivery maintain low vacancy. Vancouver is currently experiencing a rise in construction activity. The trailing 12-month construction starts for rental properties rose at a steady pace from roughly 7,000 to 12,000 units between June 2022 and May 2023. However, these new units are taking longer to be completed as high interest rates, elevated construction costs and labour shortages are slowing the pace of building. The average length of construction is now approximately 18 months, compared to 14 months seen before the pandemic. This will likely result in a lower-than-expected number of deliveries in 2023. With demand remaining strong, any new units will be quickly absorbed. Ultra-low vacancy will likely persist for the foreseeable future.

Employment Trends



** Forecast*

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

Multifamily 2023 Outlook

25,200 JOBS *will be created*

EMPLOYMENT:

With 18,800 jobs added, Vancouver's labour market remained resilient against elevated interest rates in the first half of 2023. Strong immigration is expanding the metro's labour force and will continue to help fill job vacancies in the latter part of the year.

7,300 UNITS *will be completed*

CONSTRUCTION:

The metro will see an increase in completions due to an acceleration in construction starts. However, many projects are taking longer to be delivered, causing total completions to be lower than previously expected.

10 BASIS POINT *decrease in vacancy*

VACANCY:

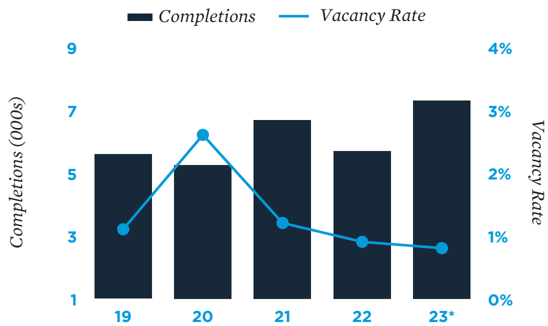
While greater supply growth is expected, new units are likely to be absorbed rapidly as rental needs remain robust. Vacancy will remain low, ending the year at 0.8 per cent, unless the pace of delivery improves at a faster rate.

7.2% INCREASE *in effective rent*

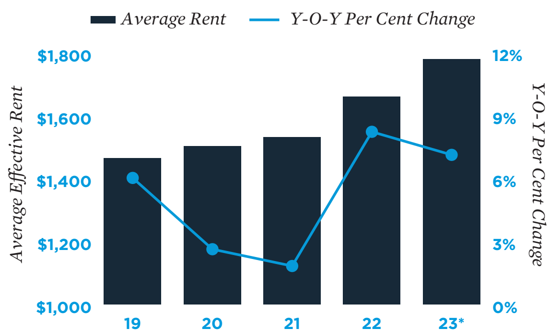
RENT:

As vacancy remains at a low level, rents will continue on an upward trajectory. Compared to 2022, the rate of increase will likely soften as low availability slows turnover. This prevents many landlords from raising rents to match market rates due to rent control policy.

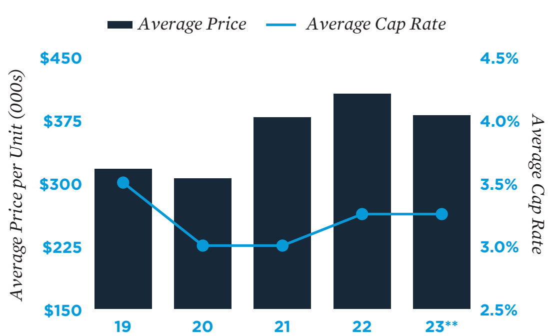
Supply and Demand



Rent Trends



Sales Trends



* Forecast; ** Through 2Q

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

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Price: $250

2022 Overview

CONSTRUCTION

5,691 units completed

- Construction activity moderated with 1,000 fewer units completed in 2022, which was caused by a steep rise in interest rates and construction costs.
- A lack of usable land prompted more projects outside the downtown area. Marpole and West Vancouver, for instance, saw a large increase in deliveries.

VACANCY

30 basis point decrease in vacancy Y-O-Y

- A surge in homeownership costs and elevated population growth resulted in strong demand throughout 2022, pushing vacancy below 1.0 per cent.
- Tri-Cities saw the largest decrease in vacancy, driven by a 240-basis-point drop in its one-bedroom availability. This was followed by North Burnaby, which experienced a 150-basis-point decline in vacancy.

RENT

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

- The average effective rent recorded its fastest rate of increase since 1991, driven by strong rental demand and a limited amount of new supply
- Nine of the metro's 26 submarkets saw above-10.0 per cent rent growth, with the greatest increase of 19.0 per cent recorded in Westside/Kerrisdale, followed by a 14.0 per cent increase in North Burnaby.

Investment Highlights

- At the end of the second quarter, total dollar volume transacted was down roughly 75.0 per cent when compared to the same time period last year. Total dollar volume traded dropped to a multi-year low in the third quarter of 2022, recording only $67 million. Rapidly climbing interest rates were the main reason for this slowdown in transaction activity.
- As mortgage rates began to stabilize following February's interest rate pause, investment volume began to recover. This momentum continued well into the second quarter of 2023 as total dollar volume transacted reached $113 million between April and June, more than doubling that of the first quarter. Nevertheless, investor sentiment could cool again in the second half of the year as the BoC resumed its interest rate hiking cycle in June.
- With rising borrowing costs curbing buyer enthusiasm, transaction volumes fell notably over the course of 2022. Consequently, the average sale price has begun to stagnate in the early parts of 2023. This price stabilization, coupled with rapidly rising interest rates and healthy rent growth, has caused cap rates to inch up 25 basis points to 3.3 per cent, which is approaching the level seen in 2019.