MARKET REPORT

Multifamily

Montreal Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

A DIVISION OF MARCUS & MILLICHAP, BROKERAGE

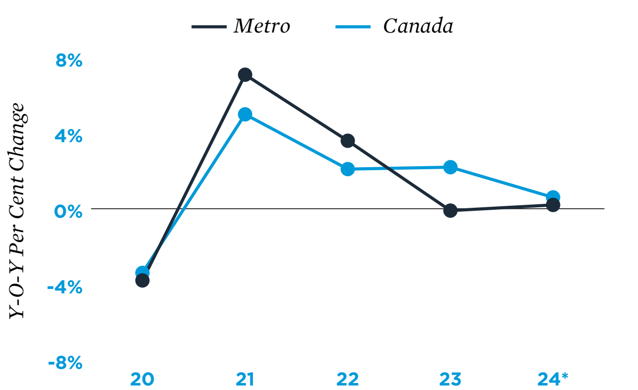
1Q/24

Easing Supply-Side Pressure Keeps Vacancy Tight Amid Milder Demand Growth

Rental needs remain elevated but with less upward momentum. Despite Montreal's job market losing 2,400 jobs in 2023, a record increase in immigration, especially a significant inflow of temporary residents, supported demand in the multifamily sector. Coupled with a mild decline in new supply, the apartment vacancy rate dropped to 1.5 per cent last year. In 2024, the elevated influx of new immigrants is expected to continue, as Quebec plans to accept approximately 60,000 newcomers. Population growth may slow, however, as potential settlers could be discouraged from moving into the region by the province's new French language requirement. In addition, persistently elevated interest rates will likely continue weighing on Montreal's already sluggish job market, at least through the first half of the year. While long-term multifamily performance is expected to remain robust amid limited housing supply, vacancy could stabilization over the short term.

Lower supply growth helps maintain tight availability. Construction activity in Montreal was heavily impacted by higher interest rates over the past two years. Construction starts for apartments peaked in the third quarter of 2022 and have since been on the decline, falling from over 18,000 units in August 2022 to under 10,000 units in January 2024 on a trailing 12-month basis. This led to a 16 per cent drop in completions in 2023 and is forecast to result in another similar decrease this year. While demand is projected to soften, this subdued supply growth will keep the vacancy rate around 1.5 per cent in 2024.

Employment Trends



* Forecast

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

Multifamily 2024 Outlook

EMPLOYMENT:

4,200 JOBS *will be created*

Montreal will continue to see muted job creation in the first half of 2024 due to elevated interest rates. However, lower financing costs in the second half, if materialized, should lead to a job market recovery.

CONSTRUCTION:

13,200 UNITS *will be completed*

Higher interest rates and elevated labour costs have caused a notable decrease in development activity. Following a drop in completions recorded in 2023, Montreal will witness another year of decline in apartment deliveries.

VACANCY:

10 BASIS POINT *increase in vacancy*

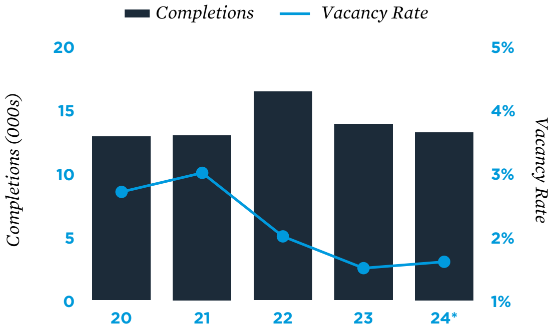
Over the short-term, vacancy is forecast to stabilize just above 1.5 per cent amid milder population growth and a softening labour market. The long-term outlook remains optimistic given the metro's limited housing supply.

RENT:

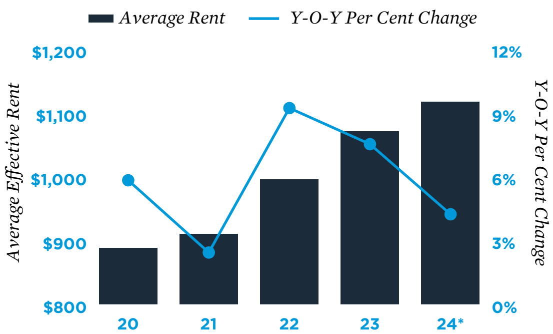
4.3% INCREASE *in effective rent*

A tight vacancy rate will keep rents on an upward trajectory in 2024. The average effective rent is forecast to rise above $1,100 per month. However, the rate of increase will slow as demand growth is anticipated to soften amid more modest population gains.

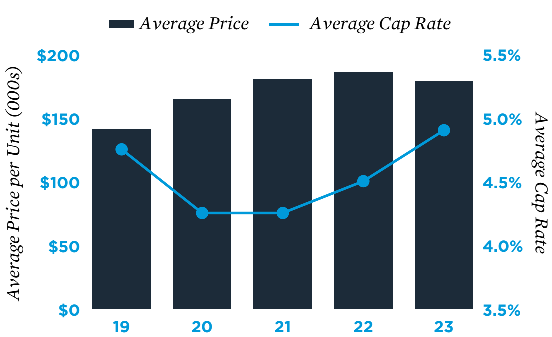
Supply and Demand



Rent Trends



Sales Trends



** Forecast*

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

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2023 Overview

CONSTRUCTION

13,851 units completed

- Completions softened as elevated financing costs weighed on construction activity. However, total deliveries still hovered above the historical average thanks to a record level of construction starts seen over the past few years.
- Despite the decrease, the downtown and Ct-des-Neiges/Mt-Royal/Outremont submarkets experienced a notable increase in new supply.

VACANCY

50 basis point decrease in vacancy Y-O-Y

- The vacancy rate dropped to 1.5 per cent in 2023 due to strong rental demand boosted by elevated population growth.
- Montreal Island and North Shore saw the greatest vacancy drops last year. Vacancy ticked up in Laval, however, due to more availabilities recorded in Chomedey/Sainte-Dorothée and Vimont/Auteuil.

RENT

7.6% increase in the average effective rent Y-O-Y

- Rents remained on an upward trajectory amid tightening vacancy rates across the metro. The average effective rent rose above $1,000 in 2023.
- With vacancy rates below 1.0 per cent, regions north of Laval saw the greatest rent increases. By room type, three-or-more-bedroom units registered the highest rent growth, followed by two-bedroom and one-bedroom units.

Investment Highlights

- Investment activity contracted in 2023, with the full year's total dollar volume registering a 27 per cent decrease. Despite the overall decline, the stabilization of interest rates since August aided a quick recovery in transaction volume over the second half of the year. Total dollar volume rose 21 per cent on an annual basis in the final six months, partially offsetting the decline seen in the first half of 2023.
- Despite the drop in sales volume, multifamily buildings in Montreal were the most invested property type in 2023. Foreign investment in the metro's multifamily sector also increased significantly, up from $2.4 million in 2022 to $33.5 million last year. Strong rent growth amid historic population gains and a weaker loonie likely contributed to this upward momentum.
- The average sale price continued to decline at a mild pace in 2023, a trend that has taken form since the prior year as rising interest rates weighed on transaction activity. This kept the average cap rate on an upward trajectory, which ended the year slightly below 5.0 per cent. Montreal now has one of the highest mean cap rates in eastern Canada, attracting investors looking for better yields with healthy fundamentals.

Price: $250