MARKET REPORT

Multifamily

Vancouver Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

A DIVISION OF MARCUS & MILLICHAP, BROKERAGE

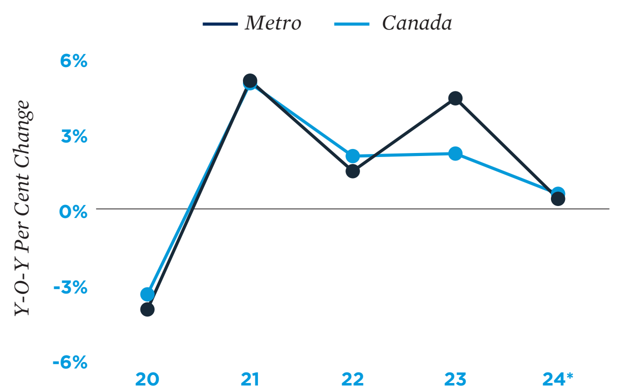
1Q/24

Canada's Tightest Rental Market to Welcome Meaningful Increase in New Supply

Low vacancy and large rent increase ended 2023. Supported by strong demand, Vancouver's apartment vacancy rate in 2023 remained stable at 0.9 per cent, which continued to be the lowest vacancy rate among Canada's major metros. High barriers to homeownership due to elevated interest rates and an increase in immigration were the main drivers for the rental needs within the metro. Despite the unchanged marketwide rate, some areas still experienced fast-falling vacancy. The Westside/Kerrisdale area saw the largest decline of 140 basis points, followed by a 50-basis-point decrease in Richmond as well as a 40-basis-point drop in North Vancouver and the Downtown area. Vancouver's near-full occupancy led to an over 9.0 per cent rise in the average effective rent in 2023. One-bedroom units, which tend to be more affordable, led the way with a nearly 10 per cent increase.

Supply to grow significantly in 2024. Over the past two years, rising construction costs slowed the pace of development, which contributed to tighter vacancy and soaring rents. In 2024, however, Vancouver will likely see a major rebound in completions. Since the second half of 2022, construction starts for apartments have increased significantly, up from roughly 8,000 units in June 2022 to over 12,000 units at the end of 2023 on a 12-month trailing basis. A great number of these construction starts are forecast to come to fruition, adding just over 8,000 new units in 2024. This will provide some relief for potential tenants and lift the metro's average vacancy rate back to the 1.0 per cent range.

Employment Trends



** Forecast*

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

Multifamily 2024 Outlook

EMPLOYMENT:

6,600 JOBS *will be created*

Vancouver will see a deceleration in job creation, largely due to the continued impact of elevated interest rates and a notable slowdown in the intake of temporary residents. Most of the job gains are expected in the second half of 2024, coinciding with an easing of financial conditions.

CONSTRUCTION:

8,500 UNITS *will be completed*

Following two consecutive years of declining completions, rising construction starts will translate to a notable increase in new supply in 2024. Easing construction costs will support this recovery in development activity over the coming years.

VACANCY:

10 BASIS POINT *increase in vacancy*

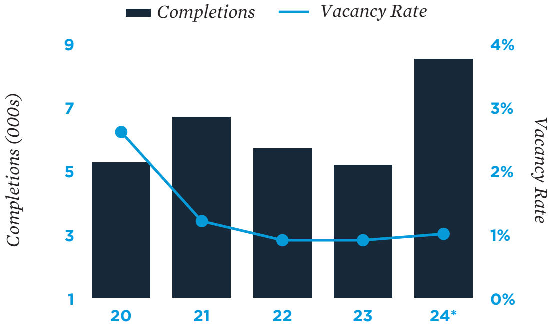
While demand is expected to remain robust, a large increase in completions will help push the vacancy rate back to 1.0 per cent. However, completions will likely need to stay elevated beyond 2024 for Vancouver to achieve a more balanced market.

RENT:

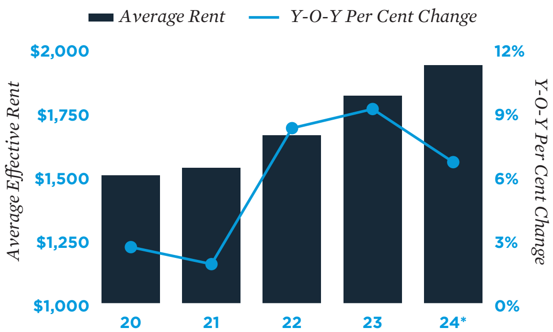
6.7% INCREASE *in effective rent*

Low vacancy rates within the metro will continue to put upward pressure on rents in 2024. However, the rate of increase will likely moderate due to slower economic growth, a slight softening in population growth and a significant increase in new supply.

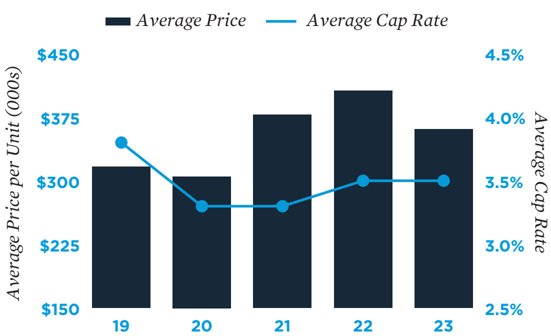
Supply and Demand



Rent Trends



Sales Trends



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

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Price: $250

2023 Overview

CONSTRUCTION

5,200 units completed

- Construction activity moderated with roughly 500 fewer units completed than during the year before. This was largely due to elevated construction costs causing delays and cancellations.
- Surrey saw the largest drop in new supply, while Langley and the University/Lougheed area experienced the biggest increase in completions.

VACANCY

0 basis point change in vacancy Y-O-Y

- Strong demand and a decrease of new supply kept the vacancy rate below 1.0 per cent, which was the lowest vacancy among Canada's major metros.
- The average vacancy rate dropped by 10 basis points for bachelor and three-or-more-bedroom units. This is likely due to cost-of-living challenges redirecting demand to more affordable units for both individuals and families.

RENT

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

- Driven by robust population gains and a slight decrease in new supply, the average effective rent recorded its fastest rate of growth since 1991.
- Ten of the metro's 25 submarkets saw rent increases above 10 per cent, with the greatest jump of 19 per cent recorded in Langley City, followed by a 13 per cent rise in English Bay.

Investment Highlights

- For 2023 as a whole, total transaction dollar volume declined by 60 per cent, largely due to elevated financing costs. Nevertheless, with borrowing costs widely stabilizing, total dollar volume transacted saw a slight quarterly increase in the final three months of the year. Investor sentiment should improve further this year, especially toward the latter half, as the Bank of Canada is expected to lower interest rates in mid-2024.
- The mean cap rate held relatively stable in 2023, while the average sale price softened slightly following an increase in small-sized transactions. Despite the lower sale prices that ended 2023, Vancouver continued to be the most costly market in Canada, with its average cap rate roughly 100 basis points below the national average.
- In late 2023, the provincial government introduced new legislation to allow high-density housing around transit hubs. If the law is passed, municipalities will be required to approve high-rise buildings up to 20 floors near rapid transit stations and bus exchanges. These projects have the potential that investors could capitalize on, as demand will likely be strong given the current tight vacancy rate across the metro.