NATIONAL REPORT

CANADA MULTIFAMILY

IPA INSTITUTIONAL PROPERTY ADVISORS

A DIVISION OF MARCUS & MILLICHAP, BROKERAGE

1Q/25

Market Tightness to Ease as Escalating Uncertainties Weigh On Rental Demand

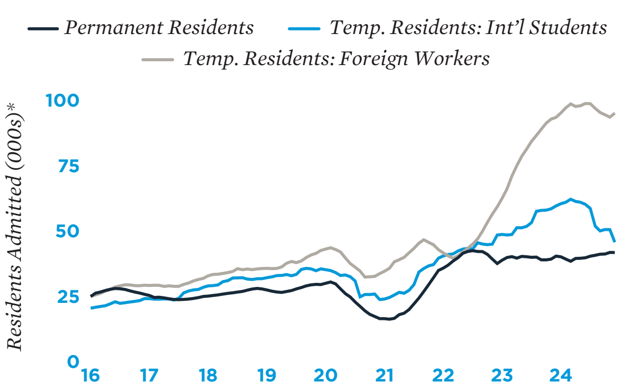
Pressures on population growth could intensify. As Canada's population growth slows amid tighter immigration policies, recent proposals from leading contenders for the country's highest office suggest a further deceleration is likely. Mark Carney, leader of the Liberal Party, has pledged to cap immigration until it returns to sustainable, pre-pandemic trendlines. Pierre Poilievre, leader of the Conservative Party, has proposed reinstating the previous Conservative government's immigration levels – approximately 200,000 to 250,000 new residents per year. Since these proposals all advocate for lower immigration than the already reduced government target, population growth could slow more than previously projected with the government's 2025-2027 Immigration Levels Plan. As a result, overall housing demand could soften further than anticipated in 2025 and beyond, offering some relief to Canada's housing imbalance.

Home sales may take longer to recovery. As interest rates decline and mortgage reforms take effect, home sales were initially projected to rise, driven by pent-up demand that had accumulated over the past two years as a result of elevated borrowing costs. The single-family segment was poised to lead this recovery, while the condo market would have continued to struggle with muted investor activity. Trade tensions, however, have heightened recession concerns, which will inevitably weigh on consumer sentiment and slow the transition to homeownership. Although this will keep many residents in the rental market, rising unemployment and near-term uncertainties are expected to soften overall rental demand this year.

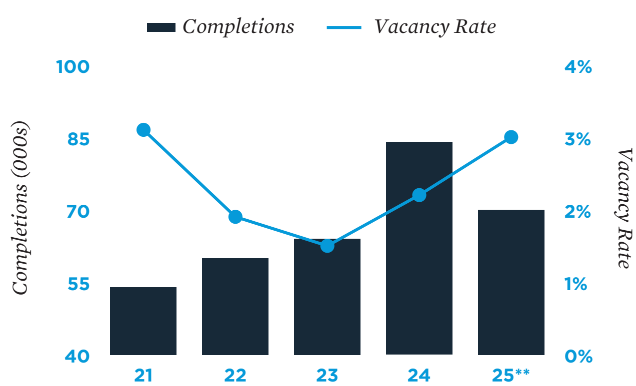
Supply tailwinds to abate. Amid softening demand, supply growth is set to remain elevated this year as projects initiated during periods of strong demand over the past two years reach completion. Complementing this trend in the primary rental market, condo completions hit a post-pandemic high last year. A growing share of units were rented out as owners sought to offset rising carrying costs. With condo rents having plateaued or starting to decline in some markets, this influx of secondary rental supply is absorbing a growing share of total rental needs. These supply-side tailwinds are expected to weaken over 2025, however, as elevated construction costs and near-term uncertainty stemming from trade tensions increasingly discourage development activity. As such, completions – while staying above the historical average – are projected to decline in 2025, helping counterbalance softening demand and putting a lid on the vacancy rate.

Vacancy rate to rise, but remain low. With easing demand and still-elevated supply growth, the national vacancy rate is forecast to climb for the second consecutive year, reaching approximately 3.0 per cent in 2025. Tenants will gain more leverage, particularly in markets like Calgary, Edmonton and Southwestern Ontario, where vacancy rates are expected to rise above 3.0 per cent. Meanwhile, market tightness will persist in Vancouver, Montreal and Ottawa. Given the still-low national vacancy rate, rents should keep rising, albeit at a slower pace, surpassing an average of $1,400 per month this year.

Canada Tightening Temporary Resident Intake



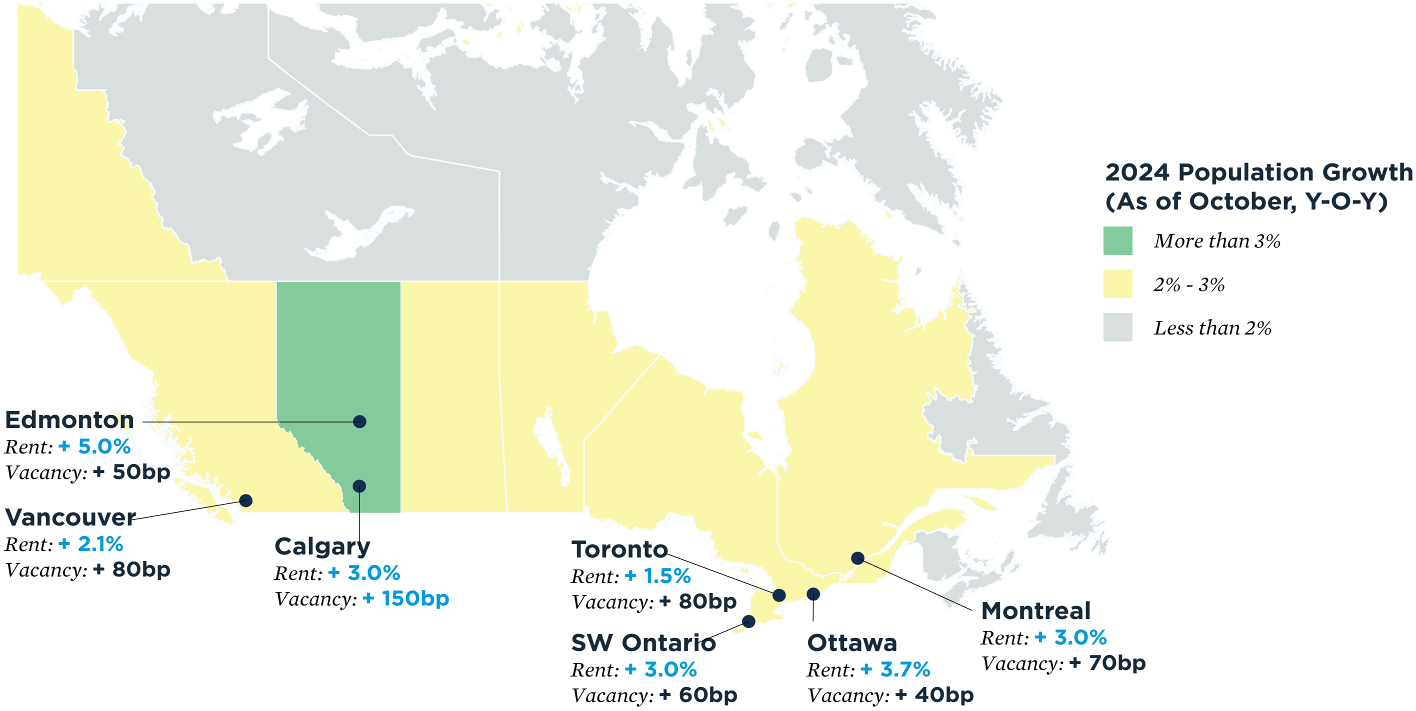
Multifamily Supply and Demand



** 12-month moving average; ** Forecast*

Sources: Canada Mortgage and Housing Corporation; Immigration, Refugees and Citizenship Canada

2025 Rent Growth and Vacancy Change Forecasts



Sources: Canada Mortgage and Housing Corporation, Statistics Canada

WESTERN CANADA

- **Calgary, Alberta:** After last year's record apartment completions, construction activity in 2025 is expected to stay elevated, but gradually decline to approximately 6,000 units. As these new units are absorbed amid slowing population growth, the vacancy rate is projected to rise above 6.0 per cent this year. Yet the long-term outlook remains positive, as the metro's lower cost of living and diversifying economy uphold population growth above the national average.

- **Edmonton, Alberta:** Employment opportunities in the metro have been increasingly supported by the growth of the tech sector in recent years, as the boom in AI has driven higher demand for skilled workers and increased investment in innovation hubs. Combined with a large public sector and a sizable student population, these factors should bode well for the metro's multifamily outlook.

- **Vancouver, British Columbia:** Substantial completions in recent years have provided some relief in the rental market, lifting the vacancy rate above 1.5 per cent last year. This trend is expected to continue into 2025, driving the vacancy rate over 2.0 per cent. Nevertheless, Vancouver will remain the tightest rental market in Canada, allowing further room for rent growth.

EASTERN CANADA

- **Montreal, Québec:** With the average rent growth nearing 10 per cent in each of the past three years, low-rent units have remained in high demand, keeping vacancy rates tight. Coupled with elevated construction costs causing delays, Montreal's vacancy rate is set to stay below 3.0 per cent for another year in 2025.

- **Ottawa, Ontario:** The metro's large public sector presence and high concentration of tech firms position its apartment sector to better withstand the impact of trade tensions. While the vacancy rate is still expected to rise, it will hold below the levels seen in other more trade-dependent regions of Ontario.

- **Southwestern Ontario:** Tighter immigration policies and U.S. tariffs present the main headwinds for the region's economy in 2025. Rental demand is poised to soften in tandem with a pullback in completions. The vacancy rate is projected to rise above 3.5 per cent, reaching the highest level among Ontario metros.

- **Toronto, Ontario:** Toronto's rental market has seen a surge in condo construction in recent years, redirecting some demand from the purpose-built rental sector. Alongside near-term economic headwinds, this increase in secondary rental supply is expected to keep exerting upwards pressure on multifamily vacancy rates.

2025 Forecast

EMPLOYMENT

1.3% increase Y-O-Y

- Improving economic activity, spurred by lower interest rates, is set to lead this job gain; however, downside risks have heightened due to trade tensions. Total employment could contract if a recession takes hold.

CONSTRUCTION

70,000 units completed

- Following last year's record level of completions, construction activity is projected to slow. High development costs and market uncertainties will likely cause delays, leading to a 17 per cent decline in deliveries.

VACANCY

80 basis point increase Y-O-Y

- Softening rental demand, driven by slower population growth and economic headwinds, will stoke the rise in vacancy, reaching 3.0 per cent. Completions are also soft, though, which will help cap this upward pressure.

ASKING RENT

2.7% increase Y-O-Y

- The average asking rent is expected to continue rising as the national vacancy rate remains low. Nevertheless, rent growth will slow as demand cools, reaching its slowest pace since 2016.

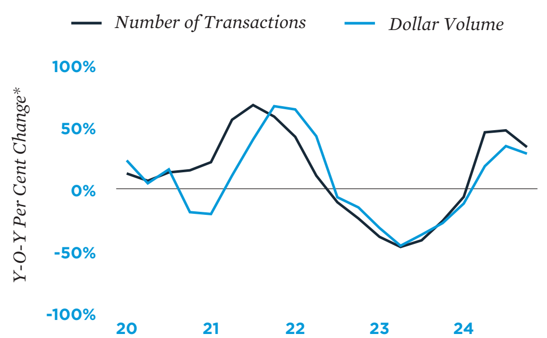
2025 INVESTMENT OUTLOOK

- **Sales volume jumped as financial conditions ease.** Driven by falling borrowing costs, the number of transactions rose by 34 per cent last year, lifting total dollar volume by 28 per cent. The increase in the capital gains inclusion rate also helped, with many transactions front-loaded in the second quarter before the tax code change took effect. Smaller-sized deals valued below $10 million did the heavy lifting. The total number of such transactions recorded a 37 per cent surge, reaching the second-highest level on record.

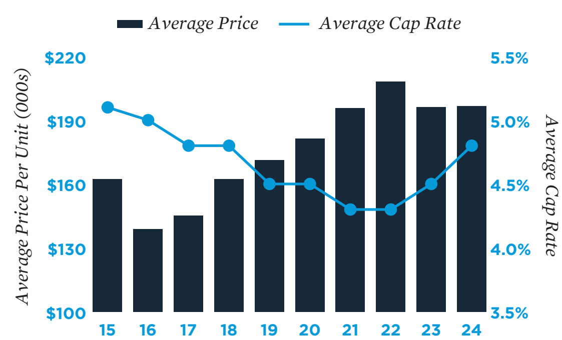
- **Sales price stabilized as buyer sentiment improved.** The rise in investment activity reversed the downwards trend in the average sale price, which edged up slightly last year. Price growth accelerated in Calgary, turned positive in Edmonton and Montreal, and became less negative in other metros. This broad-based recovery in property values was supported by rising investor confidence amid a rebound in economic activity and government policies facilitating multifamily development.

- **Yields rose as cap rates climbed in eastern metros.** As prices continued to drop in eastern metros – albeit at a slower pace compared with the previous year – cap rates here rose 20 to 50 basis points. This increase lifted the national average cap rate by 30 basis points in 2024. Despite the higher cap rate, multifamily assets remained the lowest-yielding property type, reflecting a lower risk profile – a characteristic that may be in greater demand in 2025 as investors navigate uncertainties.

Multifamily Investment Trends



Multifamily Price and Cap Rate Trends



* Trailing 12-month total

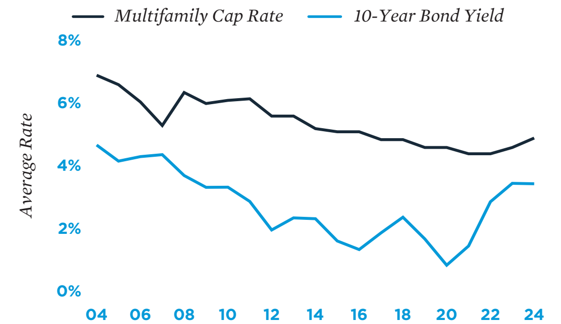
Sources: Altus Data Solutions; CMHC; Statistics Canada

Multifamily Properties Could Gain Appeal as Canada's Economy Navigates Murky Waters

Trade tensions to disrupt recovery. Canada's economy ended last year on a strong note. Like a compressed spring, economic activity rebounded in the final quarter, driven by a robust increase in consumption and business investment amid falling interest rates. However, rising uncertainties stemming from trade tensions have dashed hopes that this recovery will stay on track. Although the U.S. has delayed the full implementation of tariffs, consumer and investor confidence has likely already weakened, which will dent GDP growth in the first quarter of this year. Any further escalation of trade disputes will continue to inflict damage, with the full imposition of tariffs expected to plunge the Canadian economy into a recession. As a result, fiscal and monetary policies are likely to remain supportive throughout 2025. Should tariffs be imposed for an extended period, governments at all levels are expected to provide aggressive support to businesses and households. For the Bank of Canada, the main challenge will be the risk of stagflation. Even so, the central bank should cushion the blow through further easing measures, pressuring interest rates downwards. Mounting uncertainties and a potential recession will also increase demand for lower-risk investments like treasury securities, further suppressing bond yields.

Multifamily a preferred investment option amid economic headwinds. Trade tensions could lead to rising unemployment and income losses, weighing on rental demand. Even so, compared with other asset types, multifamily properties will likely be better positioned to withstand economic downturns. Demand for apartment rentals should stay resilient – not only because of Canada's structural housing shortage, but also because the housing sector is not directly affected by U.S. tariffs. Additionally, as the federal government adjusts immigration levels to a more sustainable pace, the slowdown in population growth is expected to be temporary and should ultimately stabilize over the coming years. Uncertainty will inevitably keep more buyers on the sidelines, dampening investment activity. Yet with lower borrowing costs, any significant correction in property values could create an attractive entry point for investors seeking long-term gains.

Multifamily Cap Rate vs Long-Term Bond Yield



BoC Expected to Continue Policy Easing

** Market expectations calculated as the average of the latest forecasts from TD, RBC, BMO, Scotiabank, CIBC and National Bank*

Sources: IPA Research Services; Altus Data Solutions; Bank of Canada; BMO, CIBC, National Bank, RBC, Scotiabank, TD Bank

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