



NEW SUPPLY, INCREASED COMPETITION SLOWS RENT GROWTH

**Q2-2020 UA RENTAL TAKE
METRO VANCOUVER**

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Overall Rental Market

Despite the on-going effects and restrictions caused by the COVID-19 pandemic, the Metro Vancouver purpose-built rental market experienced another strong quarter. As many developers have been forced to adjust to the new (and presumably temporary) normal, it has spurred creativity and more competition in the market. This creativity is most evident in how new projects launching initial leasing campaigns are being marketed, and in the form of incentive offerings to make the product more attractive to prospective renters. Another emerging trend is for newer purpose-built rental projects to charge separately for features that may be deemed optional or that can be metered and charged directly to tenants. The leasing of rental apartments has become much more labour-intensive during the past two quarters as leasing agents are being careful to ensure cleaning and disinfecting protocols are being followed and units are being shown under strict physical distancing guidelines. A number of projects that postponed leasing campaign launches during the first quarter as unforeseen delays occurred in the construction and occupancy process have since been launched along with several projects that had already been scheduled to launch in the second quarter. The launch of these multiple project leasing campaigns has resulted in a more competitive environment, which has forced some developers to offer incentives that would not otherwise have been necessary under less-competitive circumstances.

Six new rental projects commenced leasing campaigns in the second quarter of 2020; three of which were in North Vancouver. Urban Analytics anticipates that overall rental unit availability and net rents will remain stable over the next three to six months due to the additional new product coming to market. While lower immigration levels that are expected to persist for the next several months as international travel remains limited will impact demand for rental properties among international students in particular, demand from these groups should begin to increase in the second half of 2021, which will cause these availability rates to decline unless sufficient new supply continues to be added to the market.

TOTAL PROJECTS BY SUB-MARKET

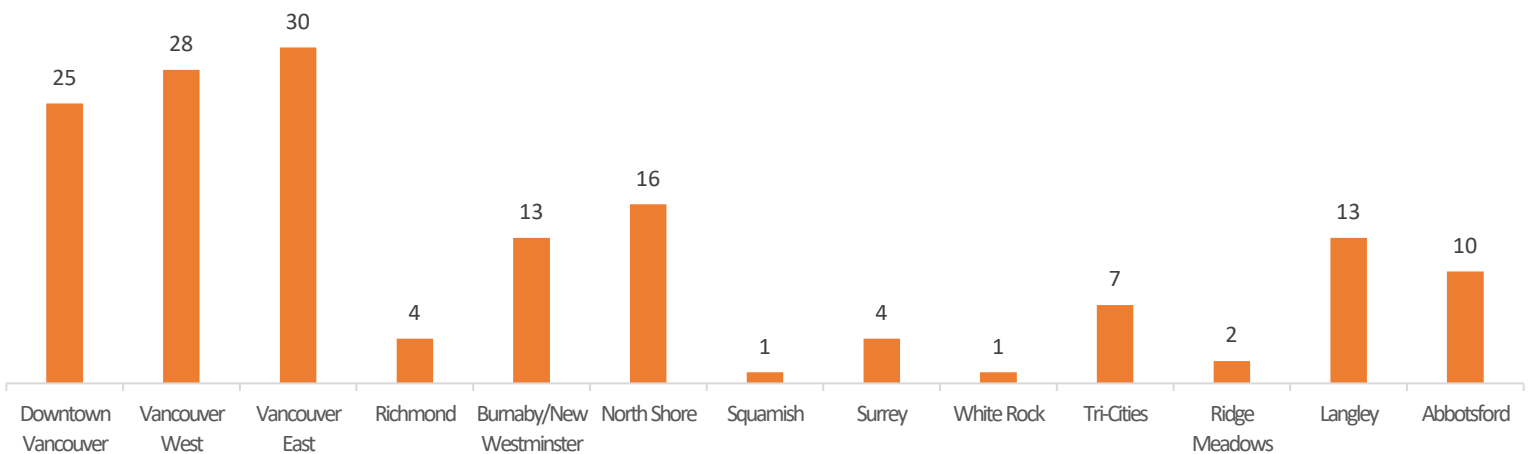


Chart 1

COVID-19 Rental Policy Update

At the end of the second quarter, the B.C. government announced that the eviction ban previously implemented in March will be lifted on September 1. The tenants who have been late or behind on their payments due to the impact of COVID-19 will have until July 2021 to pay any outstanding rent. Rent will need to be paid in full starting September 1st, 2020 when the rental supplement program is set to end. The landlords will put together a monthly plan for the tenants to follow. The ban on rent increases implemented by the Provincial government in March will remain in place until the end of 2020.

Urban Analytics is currently monitoring 154 newer purpose-built rental apartment projects comprising 15,018 units across 13 major Metro-Vancouver sub-markets. There are currently no newer purpose-built rental developments being monitored in the Delta sub-market. The data used for this analysis comprises 54 newer concrete rental apartment buildings, 99 newer wood frame rental apartment buildings and one rental townhome project. The data is gathered on an ongoing basis through primary research methods. The information is then consolidated and entered in UA's proprietary *NHSLive* data platform, which is available to industry stakeholders on a subscription basis.

Active vs. Fully Leased Projects

UA considers a rental apartment project in its initial lease-up campaign as '*actively leasing*'. Once a project completes its initial leasing campaign and has rented all units, the project is considered '*fully leased*' and its subsequent turnover is monitored monthly. 14 new purpose-built rental projects launched their respective leasing campaigns in the first half of 2020. There were three new projects launched in North Vancouver during the second quarter, two of which are concrete towers. These projects released a total of 306 new units into the market. Notable project launches during the second quarter of 2020 included Hollyburn Properties' *The Lonsdale* (144 units) and Chard Developments' *The Royals (Building 1)* (87 units) in North Vancouver, and Cressey Developments' *Conrad* (113 units) in East Vancouver. Cressey reports 95 percent of the units at were leased during the second quarter. There are currently 28 actively leasing purpose-built rental apartment projects in Metro Vancouver.

ACTIVE VS FULLY LEASED PROJECTS

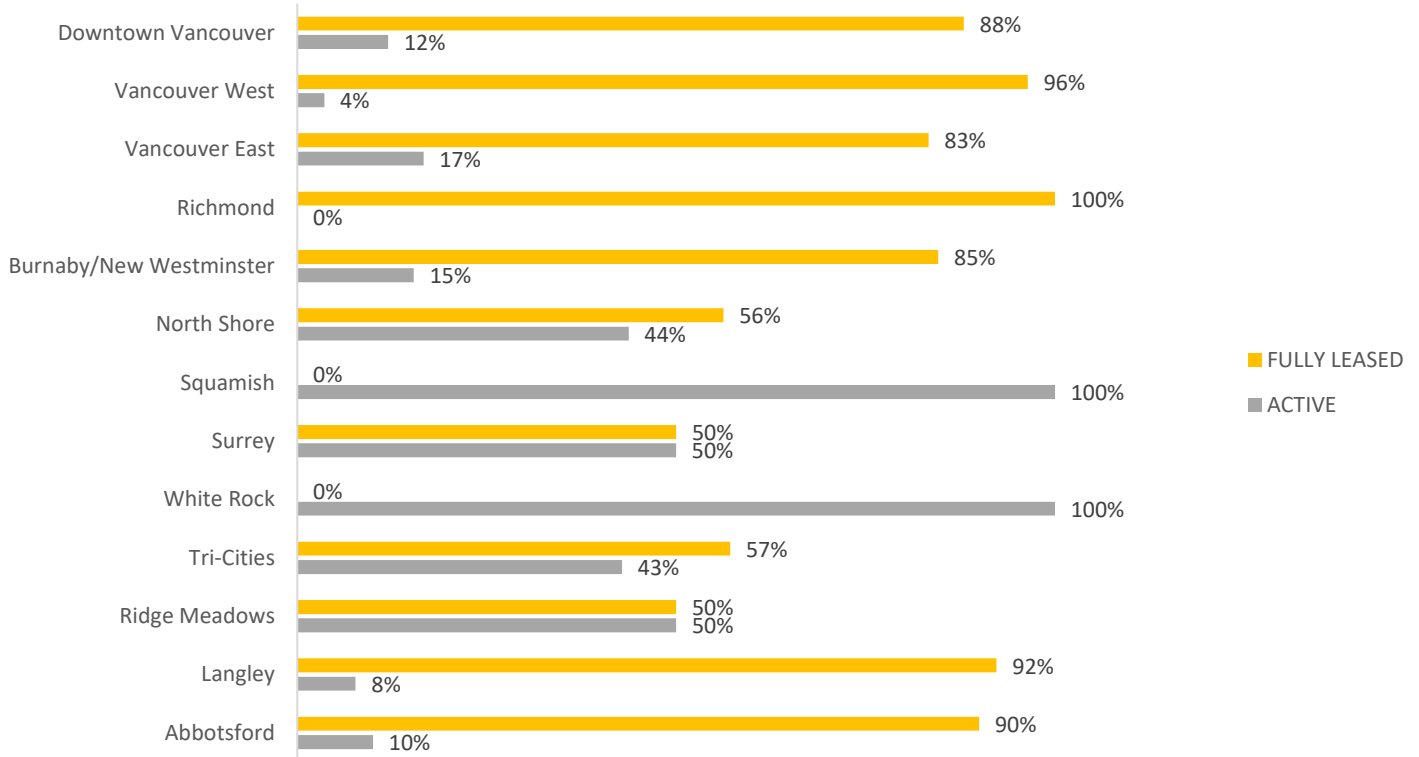
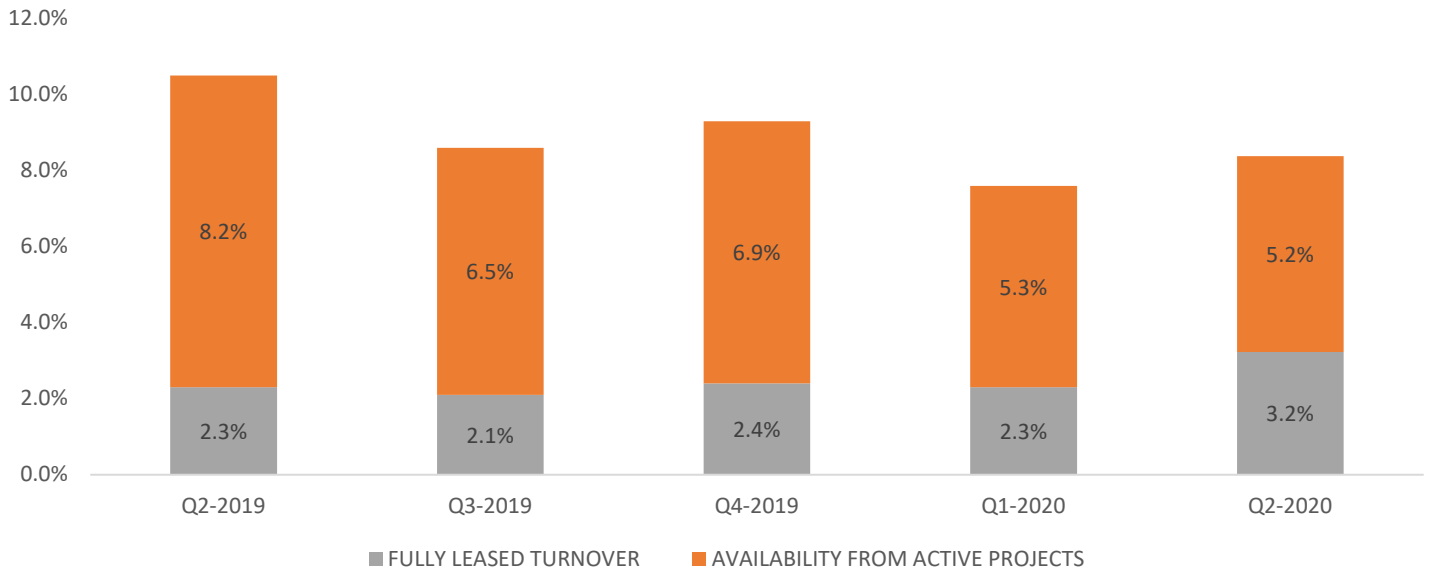


Chart 2

Increased Availability

Six new purpose-built rental apartment buildings launched leasing campaigns across Metro Vancouver during the second quarter of 2020. These buildings added 565 new rental apartment units to the market which is similar to the quarterly average of new units released in four of the past five quarters; just 276 units were released during the first quarter of this year. As illustrated in Chart 3, the overall availability of units increased slightly from the first quarter. Availability includes both *actively leasing* and units turned over in *fully leased* projects. While in prior quarters, the percentage of units available in fully leased buildings never exceeded 2.4 percent, that number rose to 3.2 percent in the second quarter. Approximately half of the increased availability was due to the new units added to the market during the quarter, the balance of the increase can be attributed to the COVID-19 restrictions that came into effect in mid-March. Leasing agents reported it took longer to lease units since COVID protocols were implemented, particularly in fully leased buildings in which they could not show occupied units and had to wait for them to be vacant.

AVAILABILITY PER QUARTER



Unit availability increased in five of the 11 Metro Vancouver sub-markets in the second quarter of 2020. New project launches occurred in the North Shore, and Vancouver East, which contributed to the increase in available rental inventory across the whole market, but particularly in those sub-markets. Six of the 11 Metro Vancouver sub-markets had availability rates of five percent or lower at the end of the second quarter. Sub-markets generally experience an immediate increase in rental inventory following a new project launch, followed by a decline in available inventory the following quarter as the new product is absorbed. As such, available rental inventory in Vancouver East and the North Shore should decrease next quarter as recently released product is absorbed. While more inventory is slated to be released in the third quarter, demand levels in these markets should be sufficient to absorb new and existing product and reduce availability by the end of Q3.

AVERAGE AVAILABILITY BY SUB-MARKET

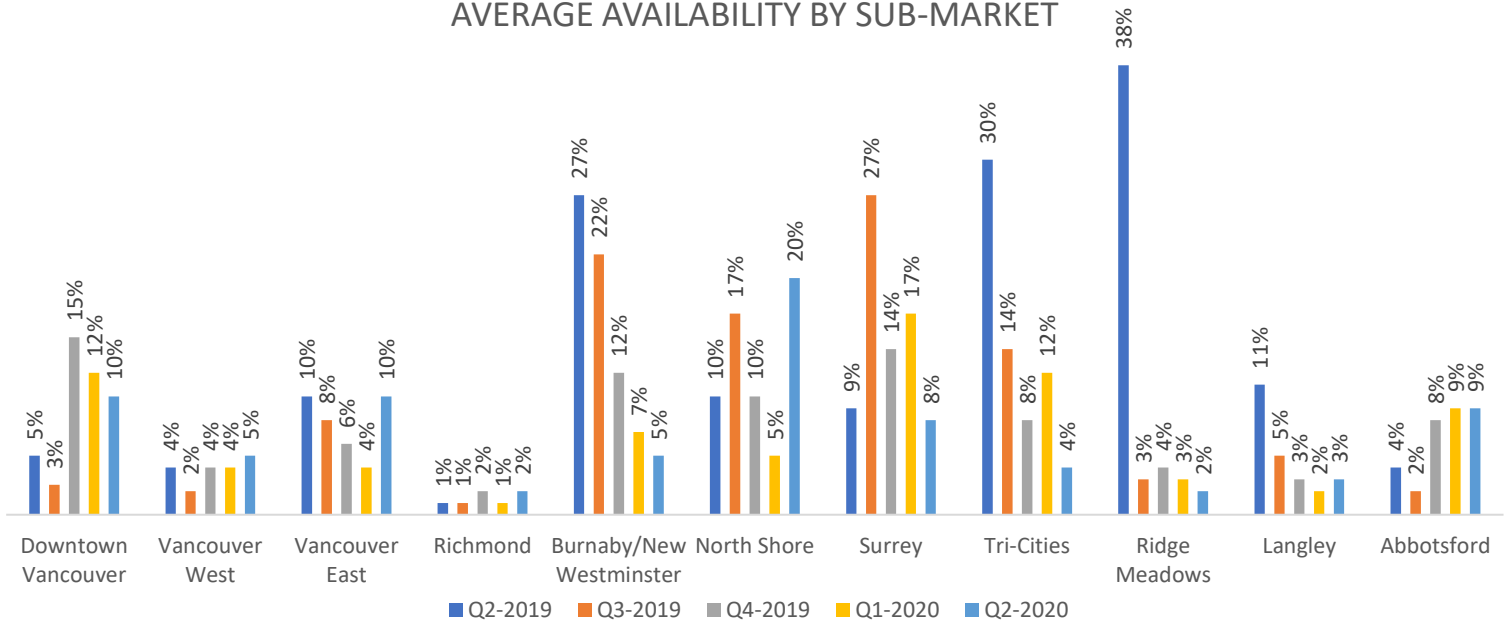


Chart 4 (Note: White Rock and Squamish has been omitted due to a lack of historical data)

Prior to the second quarter of 2020, Downtown Vancouver was the only sub-market in Metro Vancouver with average rents above \$4.00 per square foot. However, with many projects offering rent incentives, the average net rent in Downtown has dropped below that mark for the first time in a year. With two new concrete tower project launches during the quarter, the North Shore has passed the Vancouver West sub-market in terms of overall average rent per square foot being sought for newer purpose-built rental product for the first time in the past year. With limited new rental product launching in the Fraser Valley during the past two quarters, rents in these South of Fraser River sub-markets has been very stable relative to the more recently active urban sub-markets. Transit oriented urban locations with easier access to the Downtown Vancouver continue to seek the highest rents on a per square foot basis in the region.

AVG NET RENT \$PSF PER SUB-MARKET

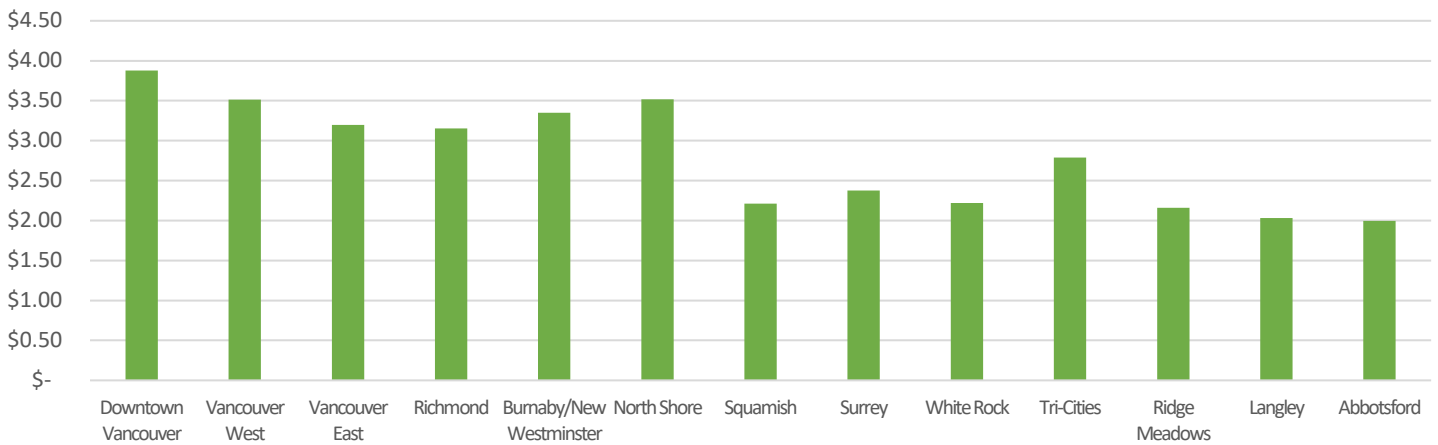


Chart 5

Stabilization of Rents

Chart 6 below illustrates how the overall per square foot rents continued to rise slightly in the second quarter of 2020, at a similar rate to the previous quarter. The slight increase in average rents is primarily due to the new product launches in East Vancouver and the North Shore. The lower net rents noted earlier in Downtown Vancouver also played a strong role in stabilizing overall average rates across the region. Increased availability in existing buildings has led to more projects offering incentives as an alternative to offering lower basic rents. The result is while contract rents remain high, net rents in some neighbourhoods have dropped. Increased competition is resulting in leasing agents having to work harder to secure a tenant in their building. With much of the new product scheduled to enter the market in the next couple of quarters located in high-demand sub-markets such as Vancouver West, Vancouver East and North Vancouver, with many new units also anticipated to be added in Abbotsford, rents are expected to remain stable at approximately \$3.15 per square foot level in the third quarter.

QUARTERLY AVERAGE \$PSF RENTS

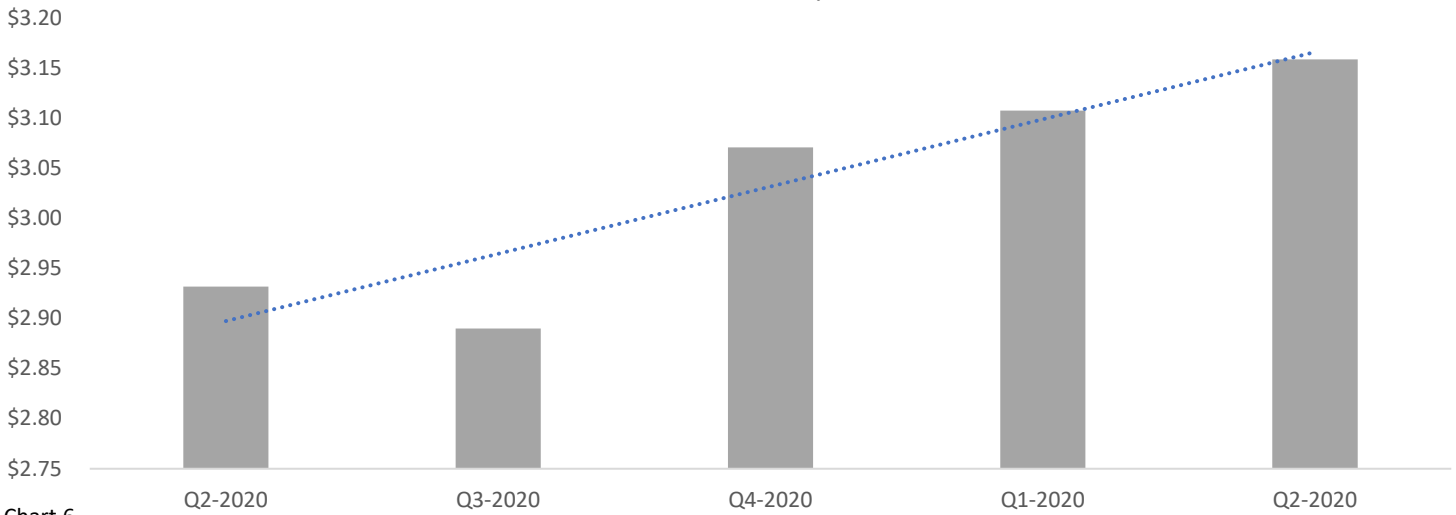


Chart 6

Chart 7 shows the asking rent per square foot for recently turned over units (by unit type) for newer purpose-built rental projects in the region and compares them to their respective initial lease-up rates. Asking rents for turned over apartment units have increased for all unit types.

RENTAL RATE CHANGES \$PSF

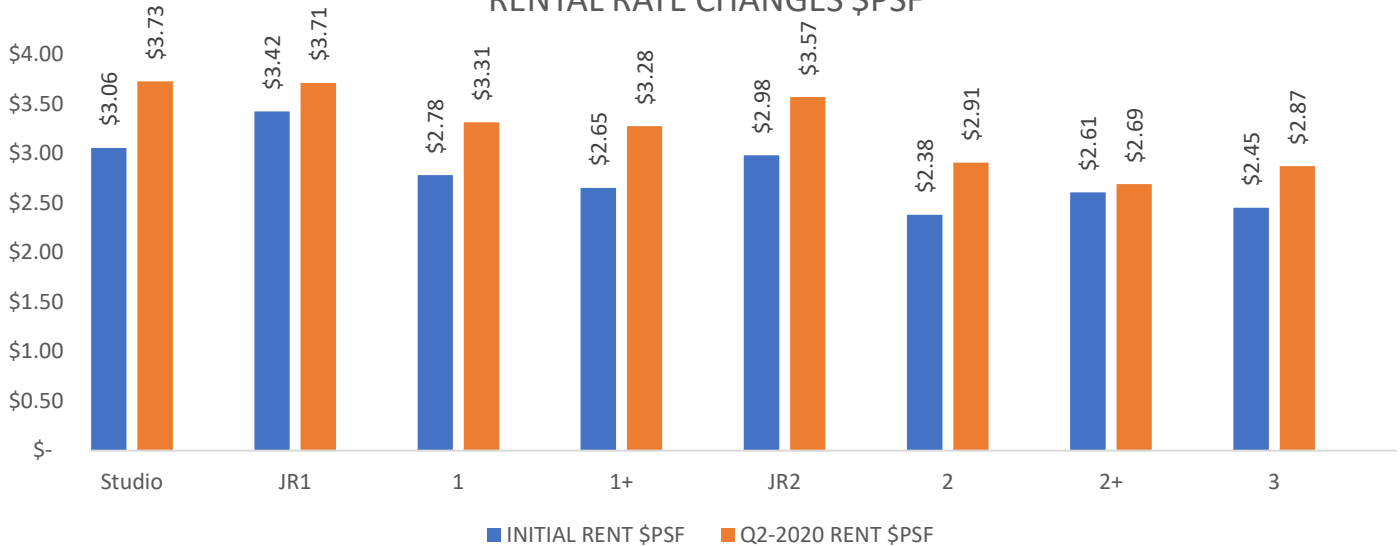


Chart 7

The following summarizes the increased rental rates (on a per square foot basis) in recently turned-over units relative to initial lease-up rates (by unit type):

- Studio units: 22.0 percent higher
- Junior one bedroom units: 8.4 percent higher
- One bedroom units: 19.2 percent higher
- One bedroom plus den/flex units: 23.5 percent higher
- Junior two bedroom units: 19.7 percent higher
- Two bedroom units: 22.2 percent higher
- Two bedrooms plus den/flex units: 3.2 percent higher

- Three bedroom units: 17.1 percent higher

A portion of the rent increases can be attributed to buildings in the City of Vancouver that were initially leased at reduced rates as required by the Rental 100 program they were approved under.

The average net rent in Downtown Vancouver and Vancouver West has decreased in each of the past two quarters. This is due to the increased competition and incentives being offered on available units. Despite the lower net rents in these two sub-markets, the overall rent across the region is increasing as the total number and types of units available in the market have a bigger impact on the overall average rent. For instance, in previous quarters, there were more two bedroom units available in Richmond, which kept the overall rents sought for available units lower than the second quarter of 2020 when there were primarily smaller and higher per square foot yielding one bedroom units available.

AVERAGE NET RENT \$PSF PER SUB-MARKET

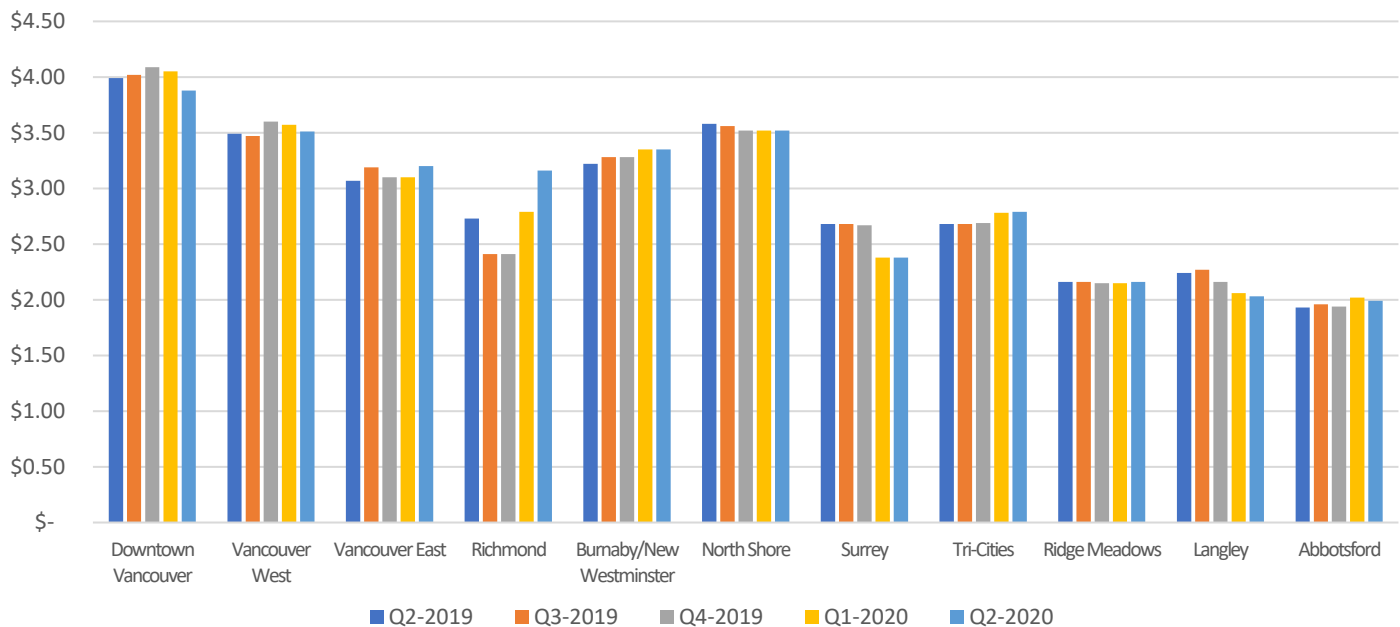


Chart 4 (Note: White Rock and Squamish has been omitted due to a lack of historical data)

Chart 9 compares the proportion of available units to average per square foot lease rates for newer purpose-built rental projects in Metro Vancouver. The overall average net rent has increased by 1.6 percent (or \$0.05 per square foot) and the overall unit availability has increased by 0.8 percent when compared to the last quarter. The modest increase in unit availability occurred with an additional 565 units being released to the market during the past quarter. Given the circumstances regarding COVID-19 and the resulting challenges with renting occupied units, the demand for purpose built rental product in the region remains strong. A stabilization in both availability rate and the average price per square foot can be expected the second half of 2020.

AVAILABILITY VS NET RENT \$PSF

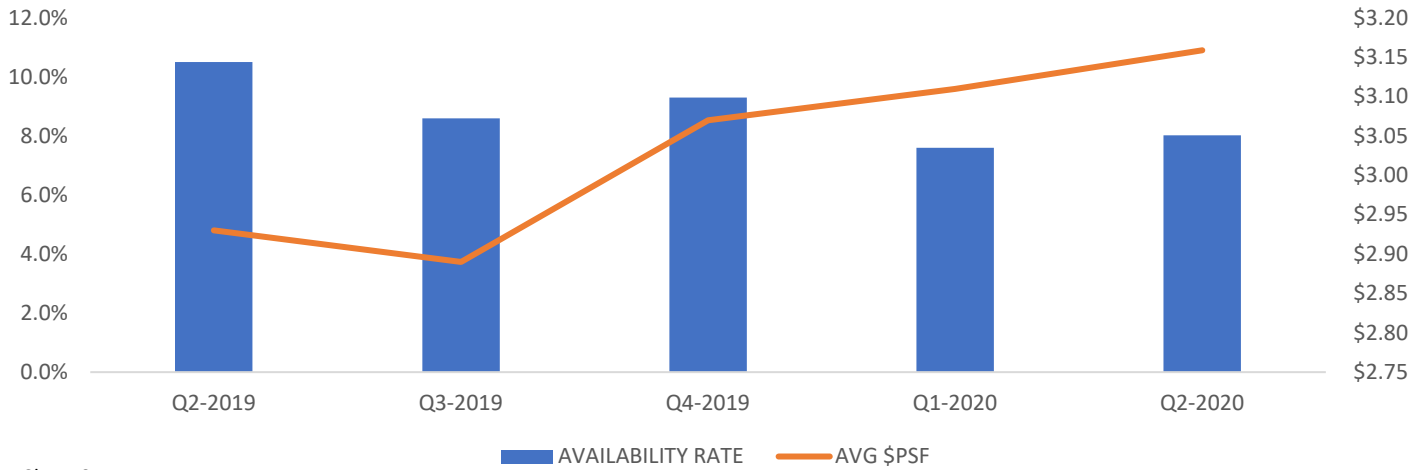


Chart 9

Availability in Q2-2020

Downtown Vancouver offers the most available units for a third consecutive quarter. While some may suggest this trend indicates a move out of the urban core by renters to suburban markets, UA maintains the most likely cause of the higher recent availability Downtown and in Vancouver West is the combination of increased competition and higher rents, and the launch of new rental projects at lower rents in other Metro Vancouver sub-markets such as Vancouver East, Burnaby, North Vancouver. After two new projects were launched in Coquitlam during the first quarter, the Tri-Cities actually experienced a decrease of 38 available units as this new product was absorbed. While the lone development in Squamish released another building to the market during the second quarter, it is expected that availability in this sub-market will remain close to zero as high rental demand is sustained. Vancouver West once again experienced the highest number of rental unit turnovers at the end of Q2-2020 with 117 previously leased units turning over this quarter. Vancouver West led the region in this stat in the first quarter, but with just 49 units. The increase in available units in this sub-market could be attributable to student renters deciding not to renew leases as they decide the expense of renting near their school is not worth undertaking if classes in fall 2020 are going to be online. There are currently no units available in actively leasing projects in Langley. The number of available new rental units in Abbotsford and the North Shore will likely increase during the second half of the year as new projects commence leasing campaigns in the coming months.

AVAILABLE UNITS PER SUB-MARKET

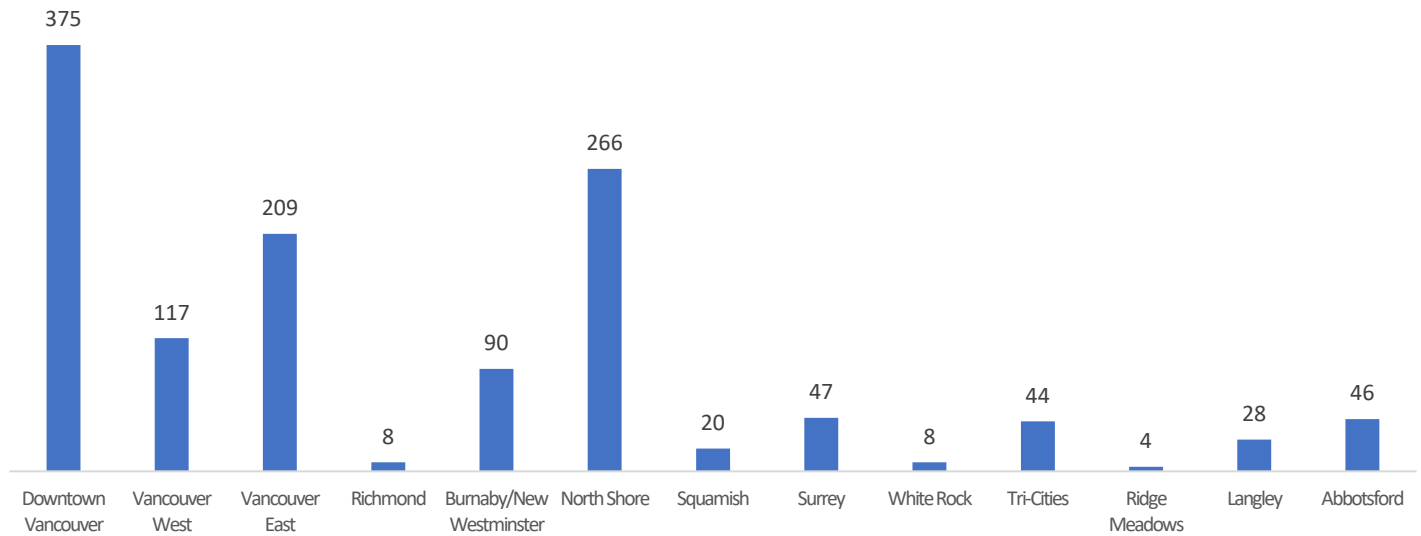


Chart 10

Incentives & Rental Trends

As stated in the Q1 UA Rental Take, it is becoming more common for rental property owners to offer incentives such as one to two months of free, non-amortized rent or monthly discounts on rent for a set number of months as opposed to reducing the contract rent for units. As the province continues to deal with the effects of COVID-19, this rental tactic is being offered by over 25 percent of actively leasing developments as well as in projects that have been fully leased and are experiencing tenant turnover. The more competitive the sub-market (e.g. Downtown Vancouver), the more lucrative the incentives being offered. Many incentive strategies reduce the net rent per square foot of the initial lease-up rate but locks the tenant in at a higher contract rent. This will increase the absolute monthly rental increase once the state of emergency has ended. Another strategy implemented by developers is to charge for various functions/features deemed optional or that can be metered and charged directly to the tenant such as heat/hot water, or electricity. While there were creative incentives offered in previous quarters to attract potential renters, the vast majority of incentives were the more simplified form of free rent for a set period of months.

Some examples of incentives offered in the marketplace include:

- Half-off rent for the first four months of tenancy
- No security deposit
- 1 year free internet, phone, and cable
- Free early move-in
- \$400 each month for the first four months of tenancy
- 1 to 2 months free, non-amortized rent
- Free parking and storage for 6 to 12 months
- Moving expenses covered by the developer

Amenities

Amenity offerings have become a large part of what differentiates purpose-built rental developments from one another. Many projects have successfully identified and executed amenities that appeal to different demographic groups in the buildings and the communities they live in. Amenity offerings in newer purpose-built rental projects are being designed to provide as much convenience as possible for the lifestyle of the primary target tenant. The following is a sample of amenities offered by projects that launched during the second quarter of 2020:

- Kitchen area
- Dog run
- Dog wash station
- Patio/courtyard
- Bike storage/repair area
- Car share parking/cars
- Fitness area
- Parcel delivery system
- Kid's play area
- Lounge/games room
- Daycare centre
- Board room
- Garden plots

Contemplated

UA is currently monitoring 279 development applications for purpose-built rental projects across Metro Vancouver that represent an approved total of 13,717 rental units. Based on the current construction status of approved rental developments, Urban Analytics predicts 16 purpose-built rental projects with 2,523 units could be completed and have leasing campaigns launched during the second half of 2020.

Looking Ahead

The following are some examples of new projects anticipated to complete in the second half of 2020 that UA will be monitoring closely:

- *Metro* – Weststone Group (514 units)
- *Victoria* – Strand Developments (152 units)
- *Georgia Point* – Wesbrook Properties (159 units)
- *Viridian* – Bentall GreenOak (116 Units)

Given the ever-shifting conditions in the various sectors of the new home markets in Metro Vancouver, having access to the most current and accurate data at your fingertips is more vital than ever. NHSLive provides timely data on the new Rental Apartment, Multi-Family Home, and Land sectors of the market in Metro Vancouver. With its superior user-friendly interface and extensive functionality, it has become an invaluable tool for thousands of industry stakeholder users. Call or email us today to schedule a demonstration of NHSLive.

With the increasing competition in Metro Vancouver's new purpose-built rental apartment market and the uncertainty in the new condominium and townhome sector of the market, it is crucial to ensure your project is appropriately designed and positioned prior to launching. Urban Analytics provides comprehensive advisory services that meet your firm's specific needs in all markets we service. Call or email today to ask how we can help.

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