



---

# INCENTIVES DRIVING THE MARKET

---

**Q3-2020 UA RENTAL TAKE  
METRO VANCOUVER**

## INCENTIVES DRIVING THE MARKET

### Overall Rental Market

The Metro-Vancouver new purpose-built rental market continues to experience strong demand levels despite the region attracting lower levels of immigration and international students in 2020. Availability numbers have decreased from the previous quarter and are currently at the second lowest rate recorded over the past five quarters. The typical demographic of renters in new purpose-built rental developments are young to middle age professional couples and singles who were less impacted financially by Covid-19 and have been able to save more money in 2020, which in turn has allowed them to afford new rental product being offered in the region. Much like a presale condominium, many developers are currently launching a leasing campaign with an early renter incentive to secure as many lease contracts as possible upon occupancy. Leasing teams are working harder than ever to lease available units while at the same time ensuring the care and diligence for disinfecting and social distancing protocols. Recent government intervention on the freezing of rent increases has made it more vital than ever for developers to secure tenancy contracts at the highest face rate as possible.

Urban Analytics anticipates that overall rental unit availability and net rents will remain stable but could potentially increase toward the end of the year as new luxury concrete product in Downtown Vancouver and Vancouver West is scheduled to come to market in the fourth quarter. Rental demand levels are projected to be lower than optimal in the coming months as international travel and immigration is still anticipated to be low until next year. However, rental demand should improve in the latter half of 2021 as schools are projecting to have in-person classes and the likelihood of a vaccine being distributed is higher for that timeframe.

### TOTAL PROJECTS BY SUB-MARKET

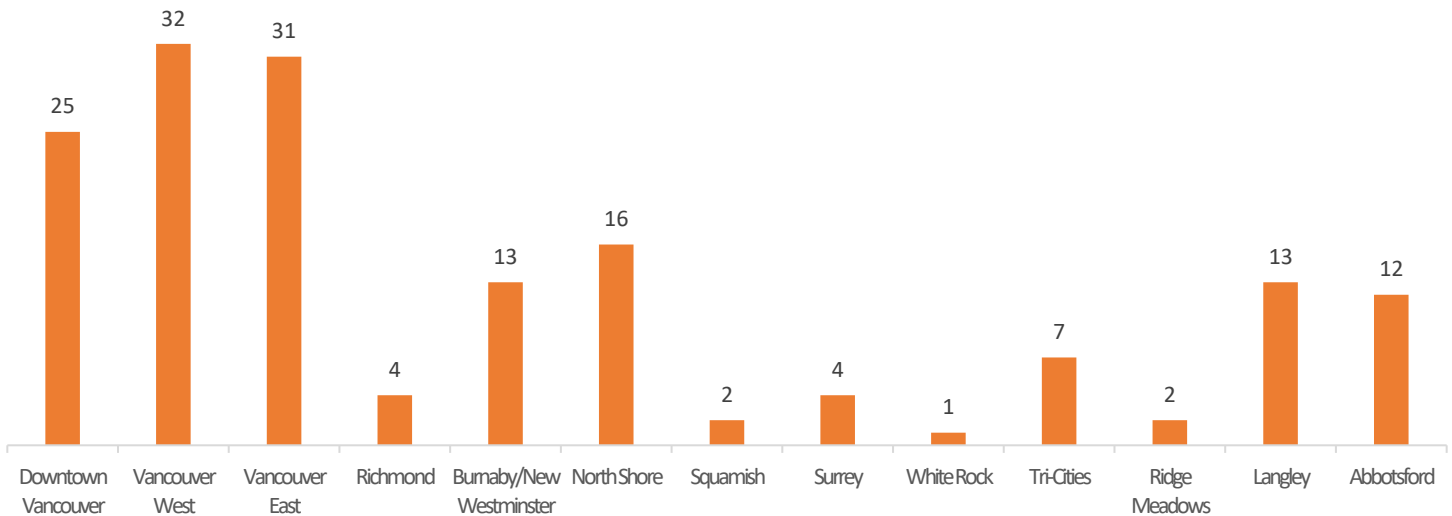


Chart 1

**Rental Policy Update**

After the snap Provincial election that occurred on October 24, 2020, the new majority NDP government is set to introduce legislation that will put a rent freeze on all residential rentals until the end of 2021. Once the COVID-19 pandemic emerged BC in March, the BC government promptly put in an eviction ban as well as rent freezes. These freezes were initially put in place until December 2021. The BC government has also promised an additional renter rebate of \$400 per year for households earning an income of up to \$80,000 per year.

The City of Vancouver has also approved a motion to end “no pet” policies in rental contracts within the city.

Urban Analytics is currently monitoring 154 newer purpose-built rental apartment projects comprising of 15,905 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 56 newer concrete rental apartment buildings, 105 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. 18 new purpose-built rental projects have launched their respective leasing campaigns in 2020 so far. There were five total projects launched in the third quarter in four sub-markets. Notable project launches during the third quarter of 2020 included UBC Properties Trust *Georgia Point* (159 units) and Strand Developments’ *Kits Walk* (48 units) in Vancouver West, and District Properties Group’s *The Rex* (108 units released of 204 total units) in Abbotsford. Property managers report that 50 percent of the units at *Kits Walk* were leased during the third quarter. There are currently 29 actively leasing purpose-built rental apartment projects in Metro Vancouver.

**ACTIVE VS FULLY LEASED PROJECTS**

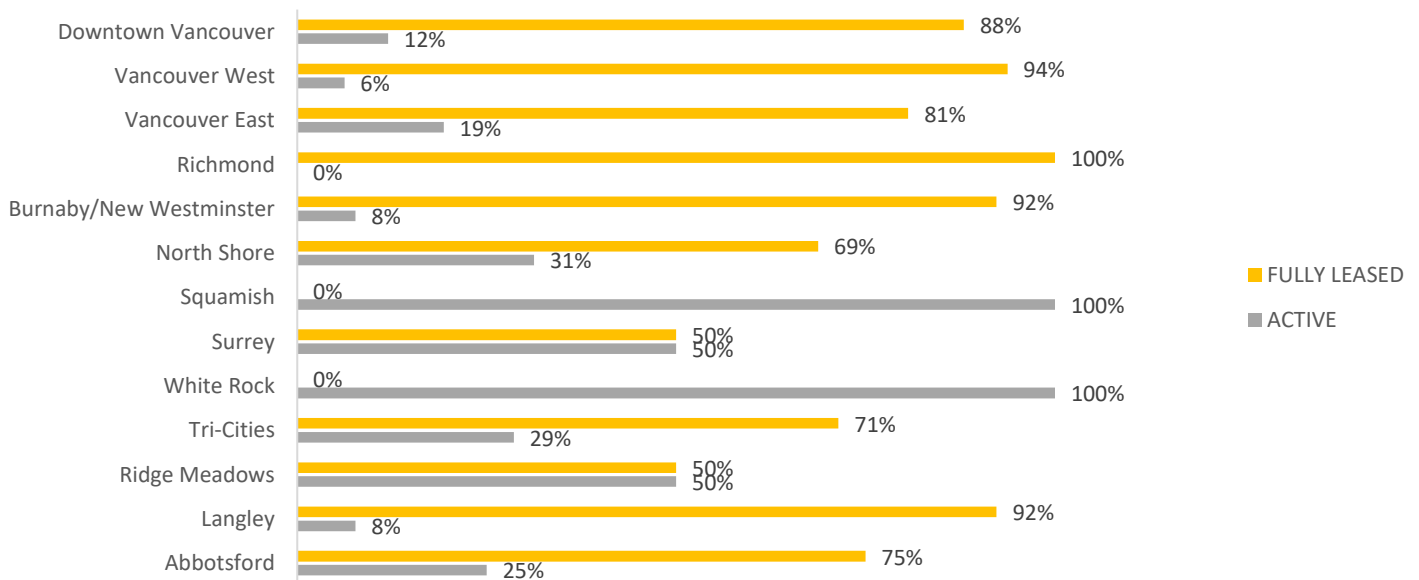


Chart 2

*Decreased Overall Availability*

Five new purpose-built rental apartment buildings launched leasing campaigns across Metro Vancouver during the third quarter of 2020. These developments added 507 new rental apartment units to the market which is lower than the quarterly average of 625 units released per quarter over the past year. As illustrated in Chart 3, the overall availability of units decreased slightly from the second quarter. This can in part be contributed to the lower than typical number of units released which allowed for existing inventory to become more easily absorbed. Availability includes both units in *actively leasing* projects 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 and further rose in the third quarter to 3.7 percent. UBC has experienced by far the most significant increases in availability due to the cancellation of in-person classes and on-campus activities for 2020 and early 2021. 136 of the 480 available *fully leased* units (or 28 percent) in Metro Vancouver are located in UBC as the primary demographic of renters in this area is students, which do not currently need to be on campus. The *fully leased* availability percentage for Metro Vancouver would be only 2.7 percent if UBC were omitted from the overall calculations.

AVAILABILITY PER QUARTER

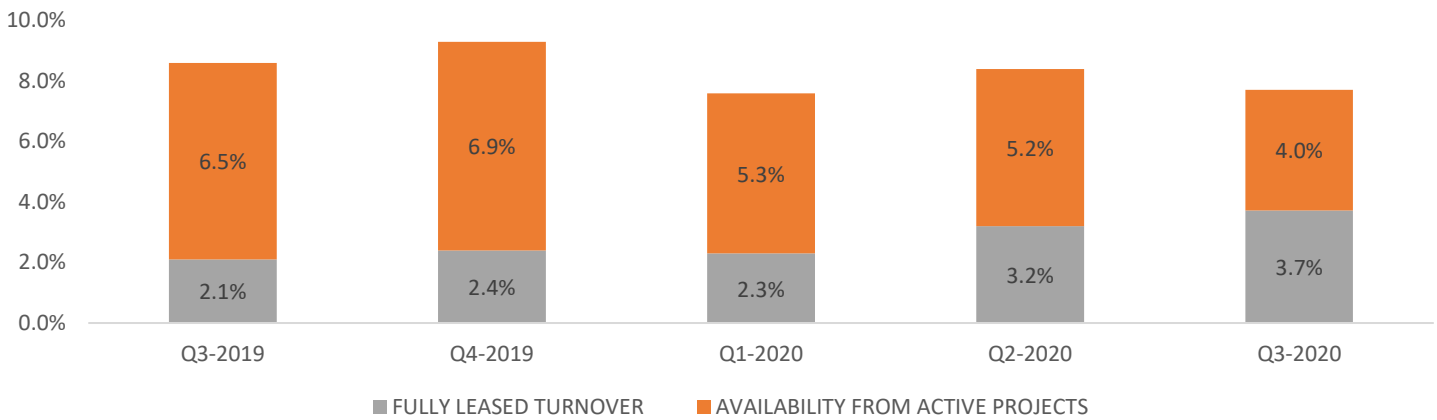


Chart 3

Unit availability has decreased in seven of the 11 Metro Vancouver sub-markets in the third quarter of 2020. New project launches in Vancouver West and Vancouver East have contributed to the increases in those sub-markets. Availability rates in Abbotsford were down despite 108 new units being released to that sub-market in the third quarter. Unit availability declined in both Surrey and Downtown Vancouver as current inventory was absorbed and no new projects launched in in these locations. Both sub-markets should experience an increase towards the end of the year as new launches are anticipated to begin in the fourth quarter. The availability rate in Vancouver West is anticipated to remain in the 10 to 15 percent range for the next two quarters as UBC has committed to not hosting in-person classes until the end of Spring 2021.

### AVERAGE AVAILABILITY BY SUB-MARKET

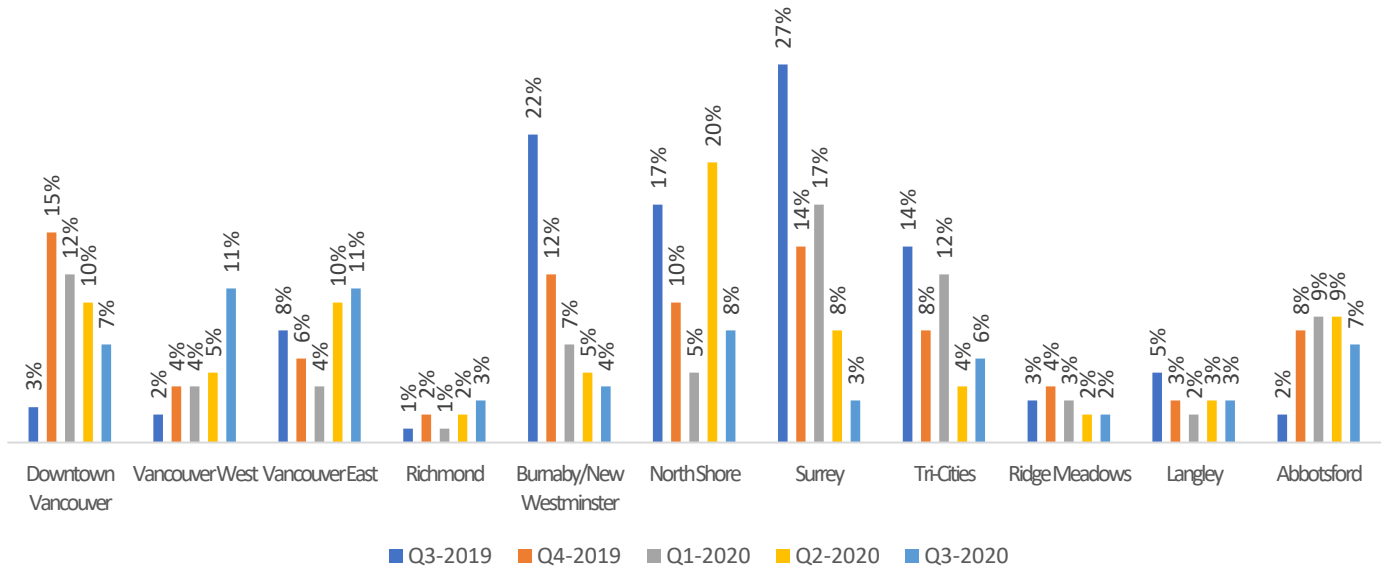


Chart 4 (Note: Squamish and White Rock have been omitted due to a lack of historical data)

Four of the five most expensive sub-markets in Metro Vancouver experienced average net rent decreases over the quarter as continued and additional incentives in urban sub-markets were offered. The gap between the most and least expensive sub-markets (Downtown Vancouver and Abbotsford) is currently at \$1.63 per square foot, which is the lowest amount since the inception of this report. The price differentiation over the previous five quarters has typically ranged between \$1.89 and \$2.00 per square foot. Per square foot rents in Squamish increased significantly compared to last quarter as a new project launched there that is currently achieving record high rents for the sub-market. Average net per square foot rents also increased in Abbotsford, as a new multi-phased development in this location initiated a leasing campaign in the quarter. Abbotsford is currently achieving similar per square foot rents to what is being achieved in Langley and Ridge Meadows.

### AVG NET RENT \$PSF PER SUB-MARKET

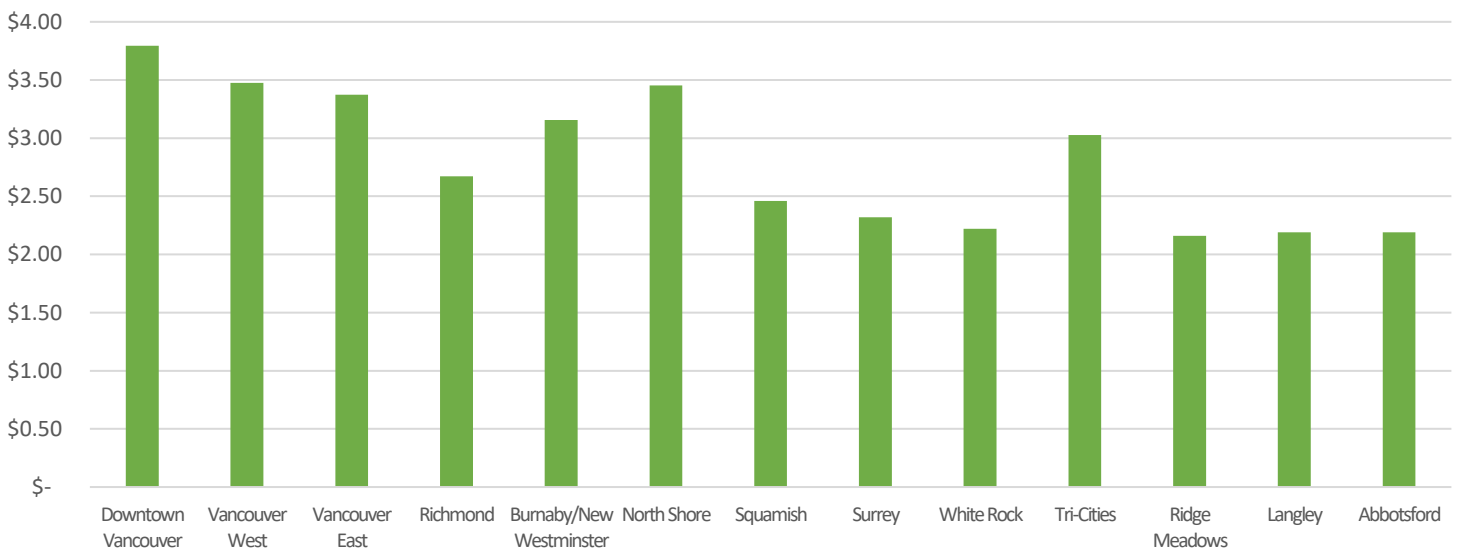


Chart 5

Stabilization of Rents

As predicted in our previous UA Rental Take update, quarterly rents across the region remained stable and only decreased by \$0.02 per square foot to \$3.14 in Q3-2020. A modest decline in rents is partly due to the increased number of units now being tracked in the Abbotsford sub-market. Although Abbotsford rents increased from the previous quarter, they are still lower than the overall average rate of the region and influence overall totals. Chart 6 below illustrates clearly how the past four quarters have remained relatively constant with marginal increases or decreases on a quarter over quarter basis. When comparing to the previous quarter, the *fully leased* inventory has been renting at almost an identical rate - \$3.11 per square foot at the end of Q2-2020 to \$3.10 per square foot at the end of Q3-2020. With no immediate change looming to Metro Vancouver’s economic climate and the now majority NDP Provincial Government being elected, rental rates can be expected to remain stable as new product gets released into the market in late 2020 and early 2021.

QUARTERLY AVERAGE \$PSF RENTS

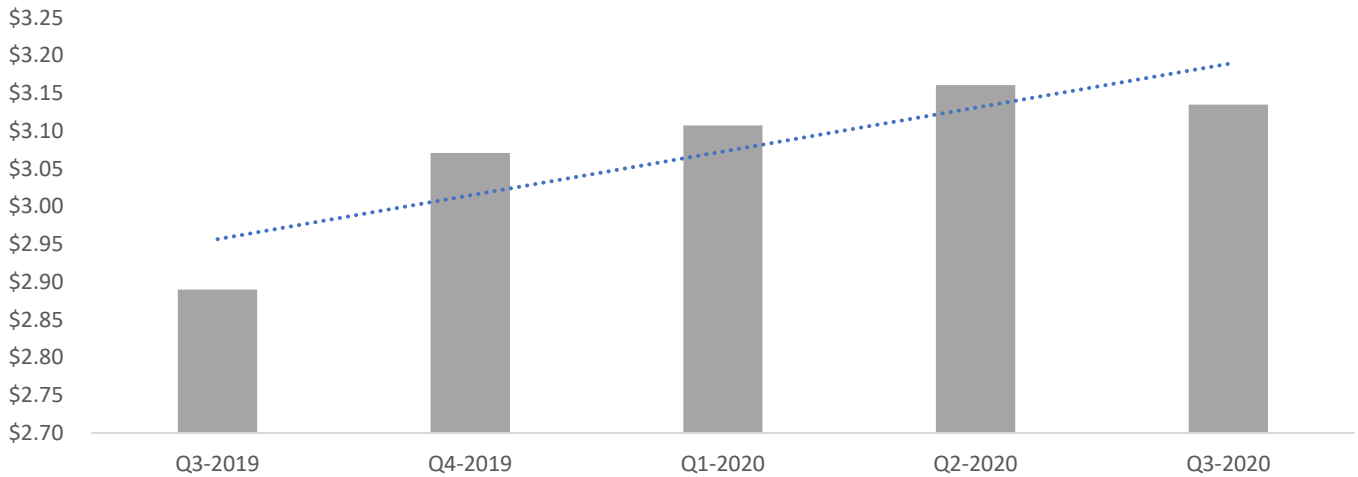


Chart 6

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 except Jr two bedroom units.

RENTAL RATE CHANGES \$PSF

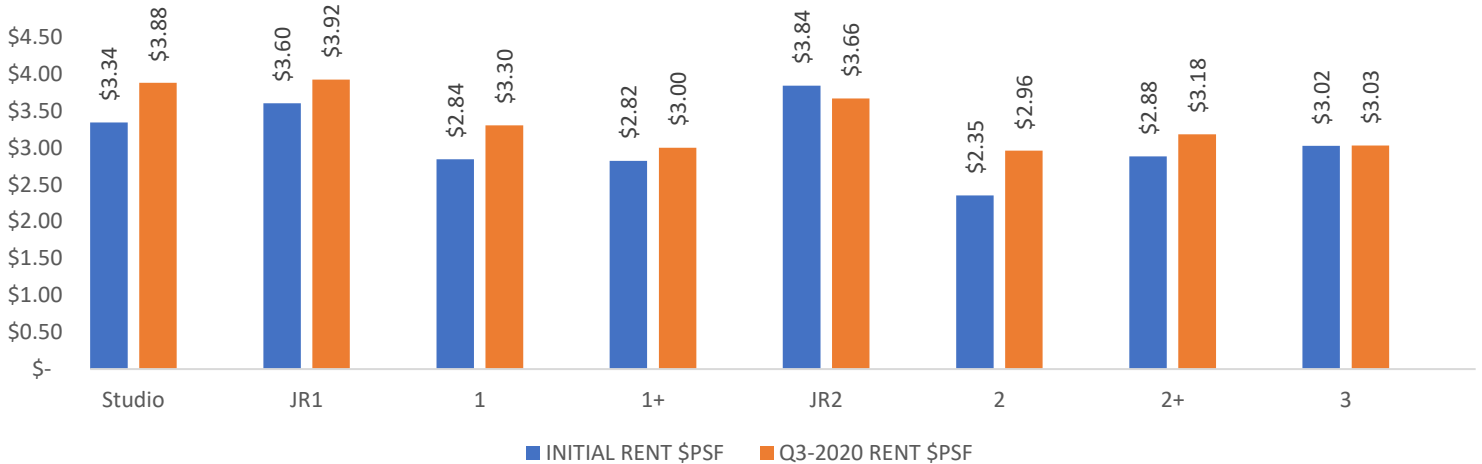


Chart 7

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: 16.1 percent higher
- Junior one bedroom units: 8.9 percent higher
- One bedroom units: 16.2 percent higher
- One bedroom plus den/flex units: 6.3 percent higher
- Junior two bedroom units: 4.6 percent lower
- Two bedroom units: 25.6 percent higher
- Two bedrooms plus den/flex units: 10.5 percent higher
- Three bedroom units: 0.1 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 three quarters. This is due to the increased competition and incentives being offered on available units. An increasing number of actively leasing projects have started offering incentives and a few projects over the past two quarters began their respective leasing campaigns with free rental incentives which has been the primary reason for the overall decline in net rents. Vancouver East is the only sub-market to experience rental growth for two consecutive quarters. This increase can be attributed in part to new projects continuously launching in the sub-market which is improving the overall pool of quality new rental product to choose from. The decrease in Richmond is strictly due to the low number of available units which renders the overall per square foot rental rates volatile and depending on what type of units are available.

AVERAGE NET RENT \$PSF PER SUB-MARKET

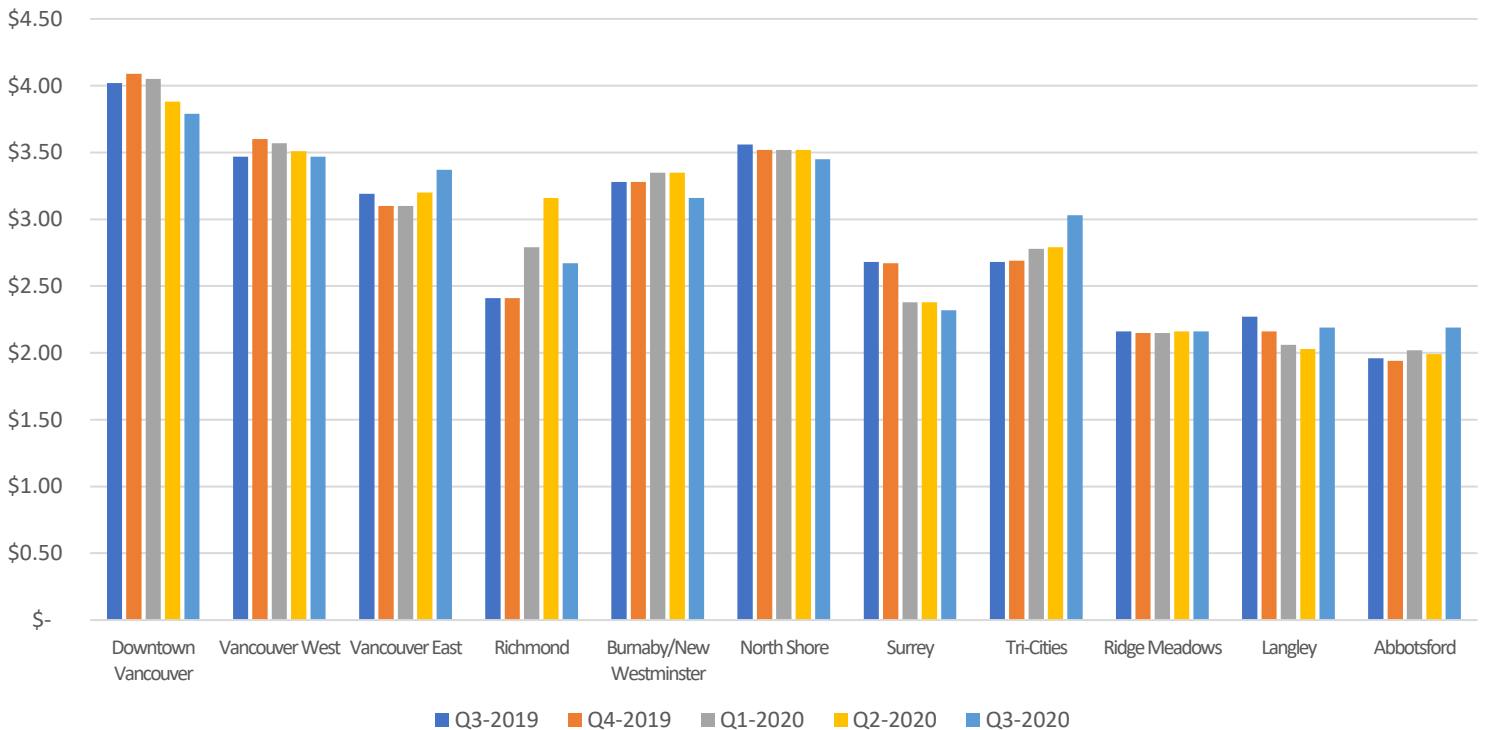


Chart 8

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 decreased by 0.6 percent (or \$0.02 per square foot) and the overall unit availability has decreased by 0.7 percent when compared to the last quarter. The modest decrease in unit availability occurred with only 507 units being released to the market during the past quarter. This last quarter appears to show a positive correlation between a decline in net per square foot rents and a decrease in availability. A continued stabilization in both availability rate and the average price per square foot can be expected in the final quarter of 2020.

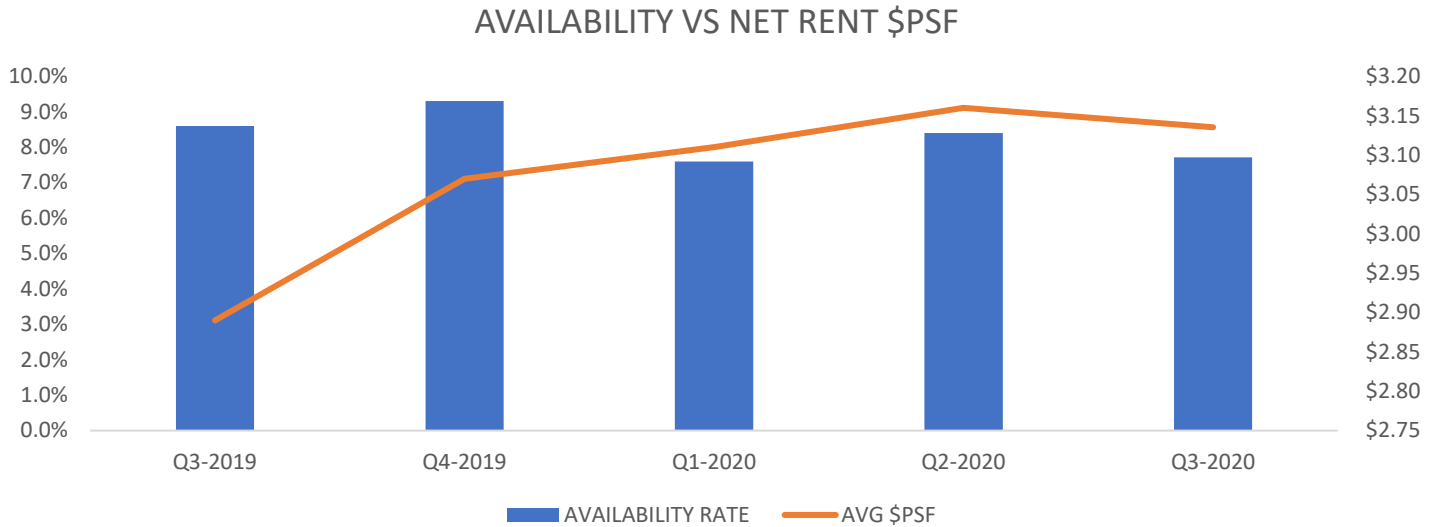


Chart 9

**Availability in Q3-2020**

Vancouver West and Vancouver East currently boast the highest number of available units in Metro Vancouver as new project launches in these sub-markets occurred in the third quarter of 2020. Prior to that, the Downtown Vancouver sub-market had the highest amount of available inventory for the past year. It is expected that Downtown Vancouver will return to having the highest number of units available in the fourth quarter after a two-tower development is released. 100 newer purpose-built rental units were available in Burnaby/New Westminster at the end of the third quarter. This figure is somewhat high considering that there is only one actively leasing development in this sub-market. Several developments in New Westminster currently have 10 or more units of turned over inventory. Available inventory in the Tri-Cities should continue to decrease as no projects are anticipated to launch in this sub-market in the fourth quarter.

Turned over inventory for newer rental apartments in Vancouver West was at 182 units at the end of the third quarter, which is more than double that of Downtown Vancouver. Increasing turnover in newer purpose-built rental projects in Vancouver West can be primarily attributed to the increasing vacancies at UBC.



## AVAILABLE UNITS PER SUB-MARKET

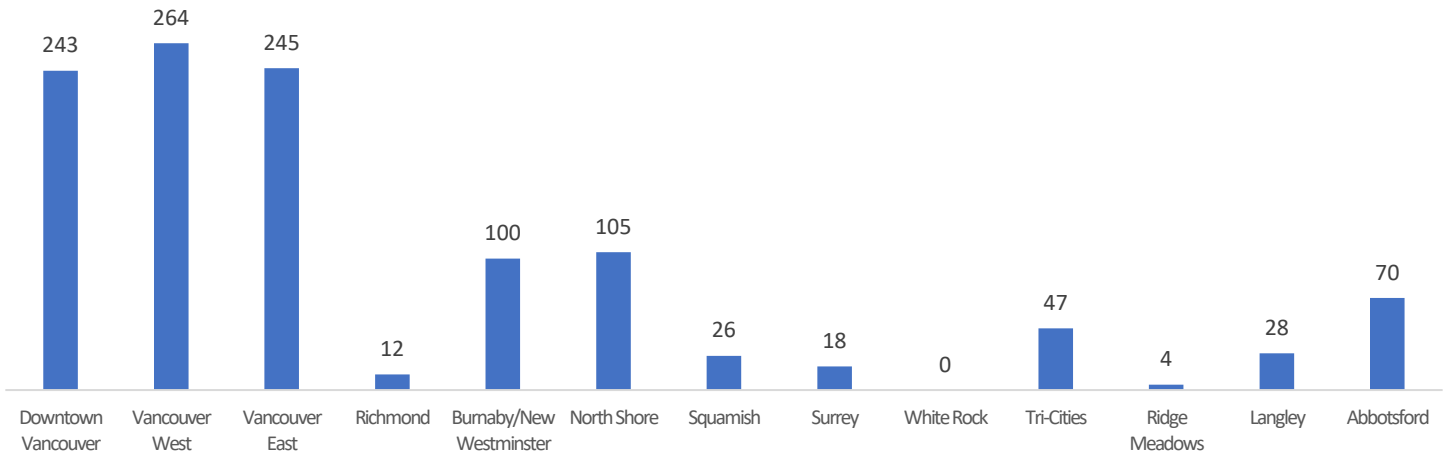


Chart 10

### Incentives & Rental Trends

An increasingly popular trend in the Metro Vancouver purpose-built rental market has been the use of incentives to draw prospective renters to their buildings. This has now become a norm in the concrete sector with all seven actively leasing concrete developments offering incentives. These incentives range from offering free parking and storage, to one or two months of free rent. This is a popular tactic due to the rising level of competition within the market, but also due to the government restrictions regarding maximum allowable rental increases and further the rent freezes now put in place. Developers and property owners are needing to keep contract rents as high as possible to capitalize on a larger allowable rent growth which was slated for a mere 1.4 percent. Something adding to this increasing competition is that investors who own and rent out condo units are now starting to implement the incentive strategy as they also are needing to quickly rent their units and secure tenants. One downside with the increased use of incentives is that existing renters who are locked into an existing contract could see a new incentive offered or a sharp reduction in list rents and become unhappy as they are paying a higher net rental rate. Another increasing trend in the newer purpose-built rental market is the landlord charging extra for various functions/features deemed optional or that can be metered and charged directly to the tenant such as heat/hot water and/or electricity.

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
- Class pack discounts and complimentary classes at the in-building gym
- \$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
- 6 months grocery credit

### Amenities

Amenity offerings are 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. Two developments that will launch in the fourth quarter have extensive amenity packages with over 10 amenities in each development. The following is a sample of amenities offered by projects that launched during the third quarter of 2020 and the projects that will launch in the fourth quarter:

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

### Contemplated

UA is currently monitoring 288 development applications for purpose-built rental projects across Metro Vancouver that represent an approved total of 14,490 rental units. According to Urban Analytics' contemplated tracking, there are currently 24 developments with 2,590 units that are in the interior finishing stage of construction and are likely to complete within the next six to nine months.

### Looking Ahead

The following are some examples of new projects anticipated to complete in the next two quarters that UA will be monitoring closely:

- *Metro* – Weststone Group (514 units)
- *Zephyr* – Westbank (330 units)
- *Solaro* – Century Group (98 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.**

**URBAN ANALYTICS INC.**

**(604) 569-3535**

**info@urbananalytics.ca**