



NEW DOWNTOWN SUPPLY MOVES RENTS HIGHER

Q4-2019 UA METRO VANCOUVER RENTAL TAKE

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Overall Rental Market

Metro Vancouver’s new purpose-built rental market achieved a new record high in average list rents as several higher priced projects were brought to market in the fourth quarter. Seven projects started their respective leasing campaigns in the fourth quarter of 2019 and four of these projects were in the City of Vancouver. Provincial rental increase restrictions have resulted in many rental developers opting to forgo faster absorption rates and listing their new projects at higher average list rents. Rental developers in all regions of Metro Vancouver are also beginning to implement more incentive offerings to attract renters to their respective projects. This can be attributed to both growing competition in select sub-markets and the desire to maximize list rents. Demand for rental units in Metro Vancouver is anticipated to be very strong in 2020 due to continued positive net migration and economic activity in the region coupled with the lack of affordable purchasing opportunities in urban locations. Urban Analytics anticipates that developers of new rental projects will continue to increase list rents in 2020.

Urban Analytics is currently monitoring 144 newer purpose-built rental apartment projects comprising 14,150 units across 12 major Metro-Vancouver sub-markets. There are currently no newer purpose-built rental developments that are actively leasing in the South Surrey/White Rock and Delta sub-markets.

TOTAL PROJECTS BY SUB-MARKET

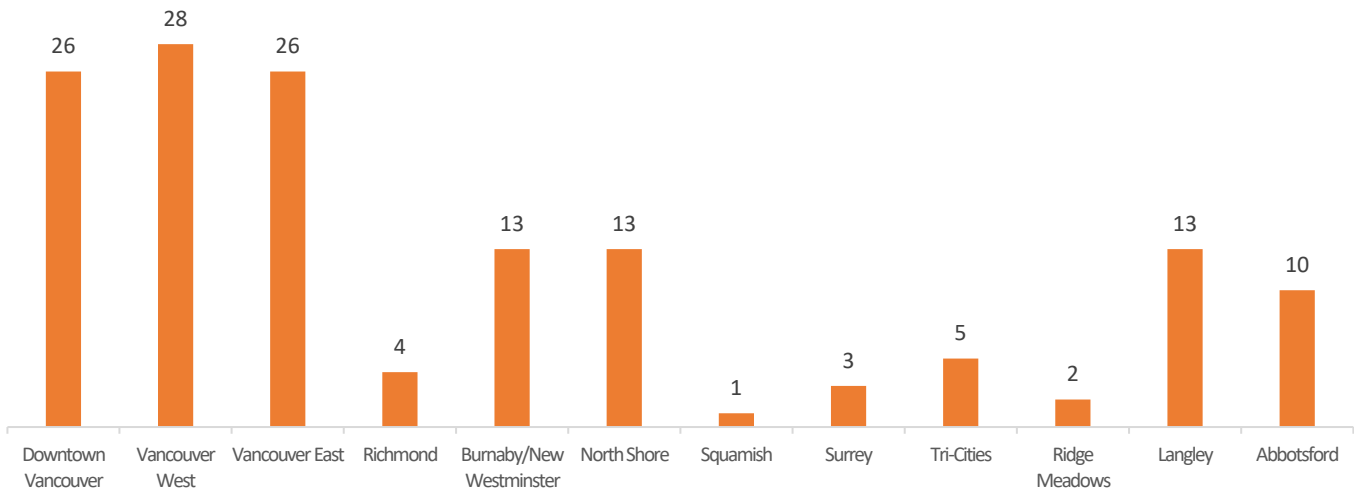


Chart 1

The data used for this analysis comprises of 52 newer concrete apartment buildings, 91 newer wood frame apartment buildings and one rental townhome project. The data is gathered on an ongoing basis through primary research methods and is entered into UA’s proprietary *NHSLive* data platform, which is available to industry stakeholders on a subscription basis.

Active vs. Fully Leased Projects

UA considers projects undergoing their respective initial lease-up campaigns to be ‘actively leasing’. Once a project completes its initial leasing campaign and has rented all units, the project is considered ‘fully leased’ and subsequent turnover is monitored on a monthly basis. Seven new purpose-built rental projects launched their respective leasing campaigns in the fourth quarter of 2019. Notable project launches that occurred in the fourth quarter of the year include Reliance Properties’ *1188 Bidwell* in Downtown Vancouver (108 Units) and Mireau Development’s *Sirocco* in Squamish (44 Units). *Sirocco* is the first newer purpose-built rental development being tracked by UA in Squamish. There are currently 27 actively leasing purpose-built rental apartment projects in Metro Vancouver. A total of 19 ‘actively leasing’ projects being monitored in Metro Vancouver were converted to ‘fully leased’ in 2019 and of these 13 of them became fully leased in less than 10 months.

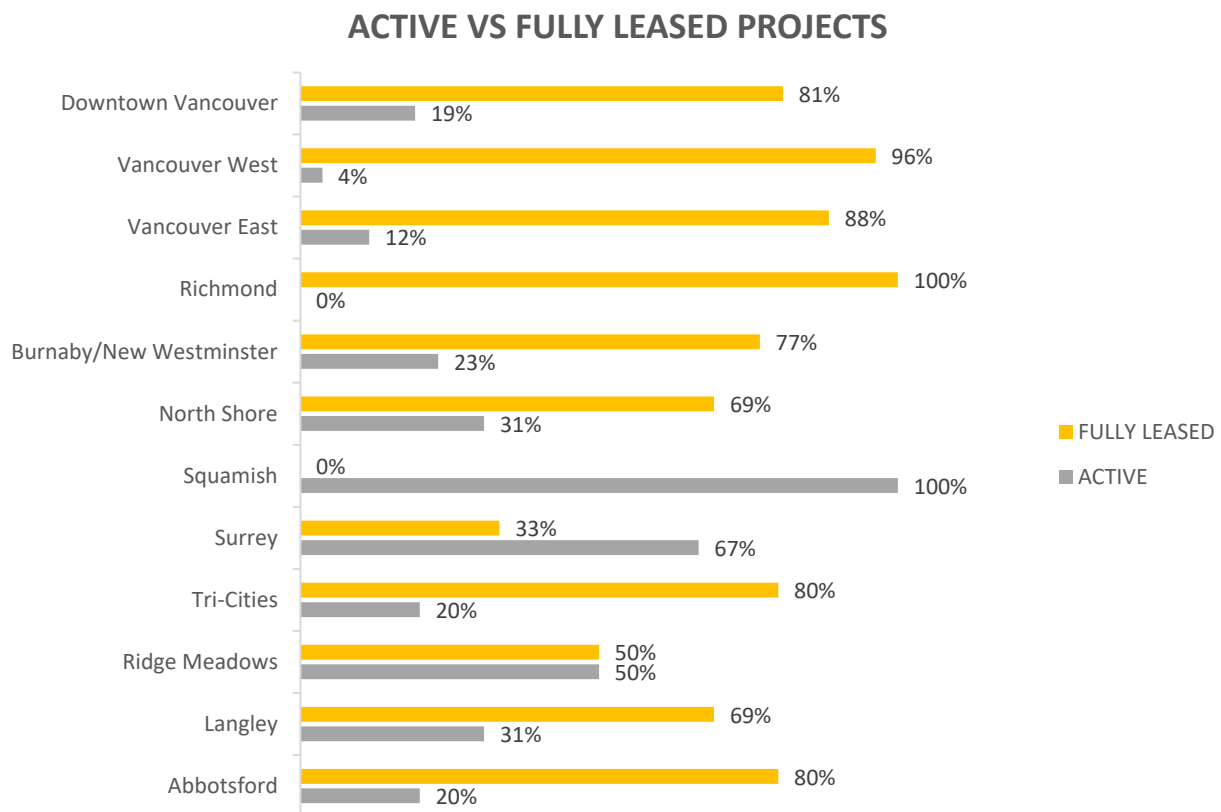


Chart 2

Increasing Availability

Chart 3 indicates the availability of units has been trending slightly higher since late 2018 as recent launches of multiple concrete purpose-built rental towers occurred since then. Availability is split between units in both ‘actively leasing’ and turned over units in ‘fully leased’ projects. The turnover rate for newer ‘fully leased’ purpose-built rental projects has remained relatively constant over the past year, ranging from a low of 2.1 percent to a high of 2.5 percent. Many ‘available’ units in fully leased projects never actually become vacant as they often are rented during the 30-day notice period that tenants provide to owners. Despite 1,466 new rental units being released over the past two quarters, demand has been strong enough to absorb the majority of this and the overall availability rate has only increased by 0.7 percent. Overall availability is expected to decrease in as fewer purpose-built rental projects are anticipated to launch in Q1-2020.

AVAILABILITY PER QUARTER

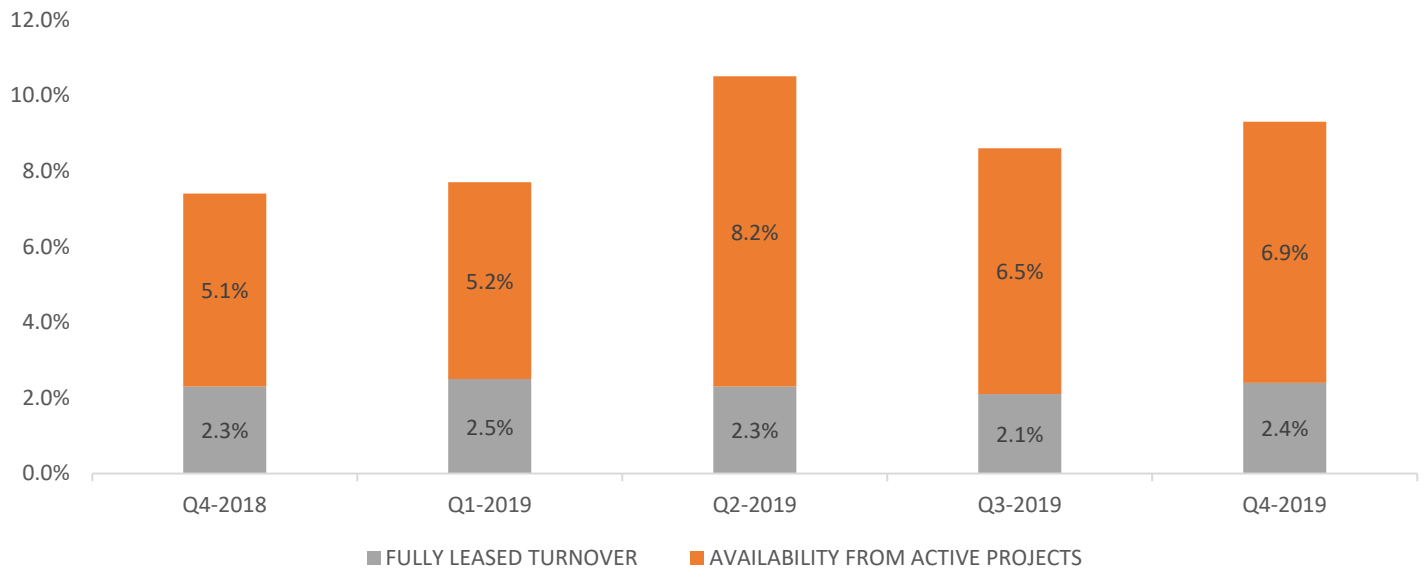


Chart 3

As seen below in chart 4, the average availability rates date to the fourth quarter of 2018. Downtown Vancouver experienced the largest increase in availability due to the three new concrete project launches occurring in this location. It is anticipated that the availability rate in Downtown Vancouver will be significantly lower in the upcoming quarters as these recently launched projects become leased up. Richmond remains the only sub-market that does not currently have an actively leasing project, which can explain the low vacancy in this location since late 2018.

AVERAGE AVAILABILITY BY SUB-MARKET

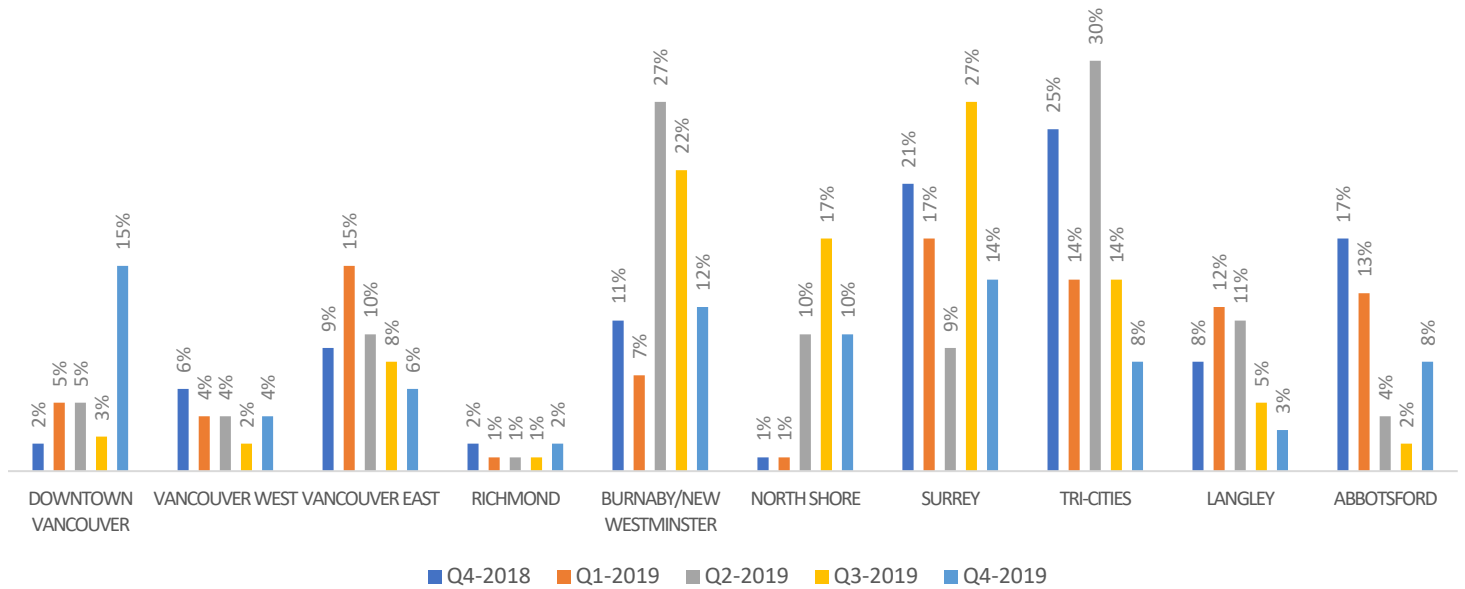


Chart 4 (Note: Ridge Meadows and Squamish has been omitted due to a lack of historical data)

Not surprising, Downtown Vancouver’s average net rent of \$4.09 per square foot for newer purpose-built rental product was the highest in Metro Vancouver. Sub-markets closer to the core such as Vancouver West and the North Shore have newer purpose-built rental developments that are achieving higher average lease rates at \$3.60 and \$3.52 per square foot respectively. Abbotsford is currently achieving the lowest average monthly rent at \$1.94 per square foot.

AVG NET RENT \$PSF PER SUB-MARKET

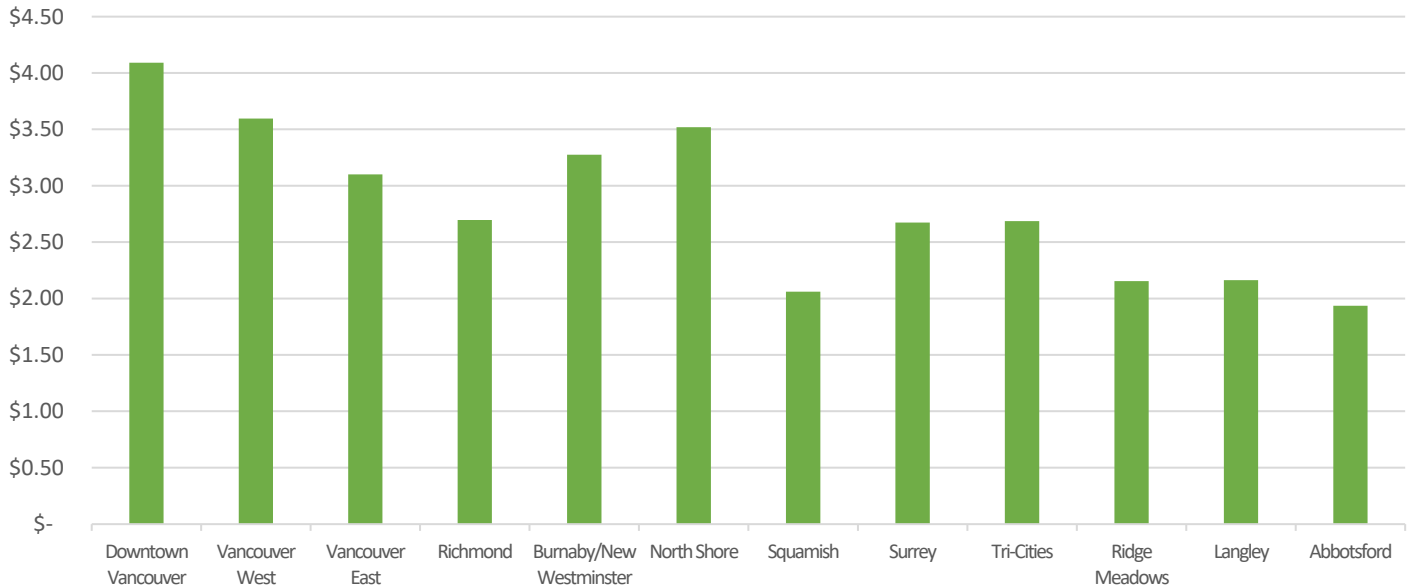


Chart 5

Rental Rates Spike at Years End

Chart 6 below shows overall average rents on a per square foot basis at the end of each quarter since Q4-2018. Fourth quarter rents were up six percent compared to last quarter, which represents that largest quarterly increase since late 2018. The increase is primarily due to five new project launches occurring in the three most expensive sub-markets (Downtown Vancouver, Vancouver West, and North Shore) that released a total of new 649 units in these locations. 563 of these released units were in three Downtown Vancouver developments and two of these towers are currently attempting to achieve over \$4.50 per square foot per month in rent. The average rental rates are likely to stabilize into 2020 as a number of new project launches across a broader variety of sub-markets are anticipated in the first two quarters of the year.

QUARTERLY AVERAGE \$PSF RENTS

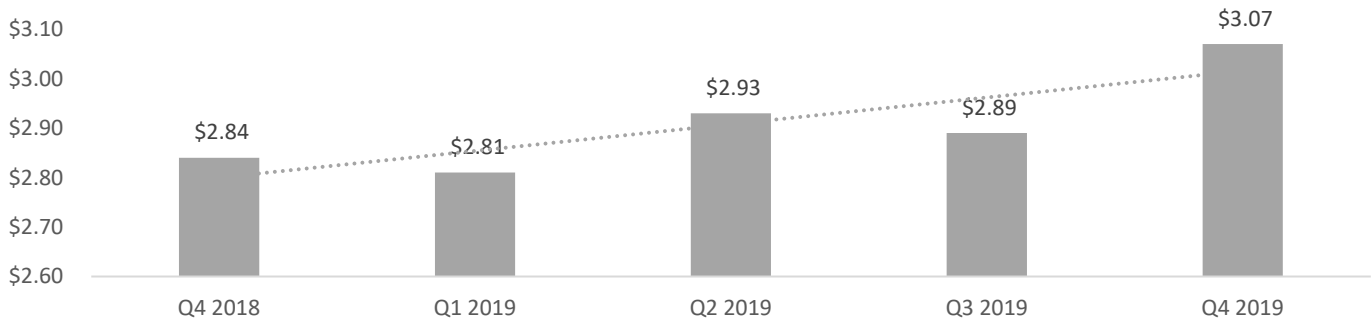


Chart 6

Chart 7 illustrates 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, with some unit types realizing a higher increase in rates compared to other unit types.

RENTAL RATE CHANGES \$PSF

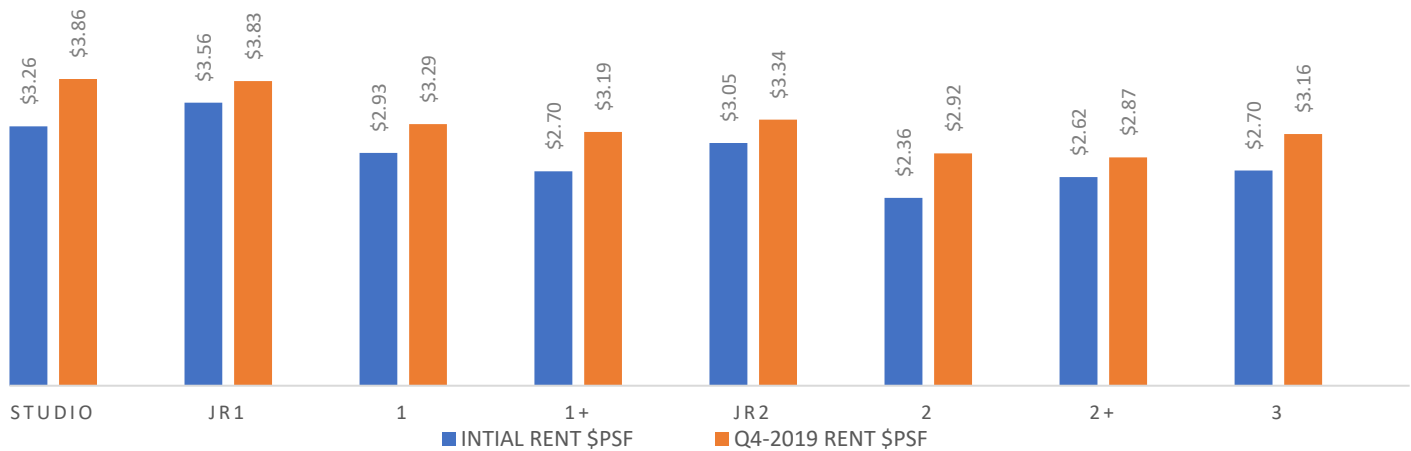


Chart 7

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: 18.3 percent higher
- Junior one bedroom units: 7.6 percent higher
- One bedroom units: 12.4 percent higher
- One bedroom plus den/flex units: 18.4 percent higher
- Junior two bedroom units: 9.6 percent higher
- Two bedroom units: 23.6 percent higher
- Two bedrooms plus den/flex units: 9.4 percent higher
- Three bedroom units: 17.0 percent higher

A portion of the rental rate increases can be attributed to buildings in the City of Vancouver that were initially leased at slightly reduced rates as they were operating under the Rental 100 program. These numbers are also subject to the sub-markets where units have become available.

Select Sub-Market Markets Experiencing Rental Rate Growth

With increasing competition in the Langley sub-market, leasing agents have begun offering incentives on the remaining units in some developments. This has resulted in a slightly lower average rent per foot average in this sub-market after four consecutive quarters of slight increases. Despite the overall market experiencing an increase in average per square foot rents, there were as a slight decline in average per square foot rents in five Metro Vancouver sub-markets when compared to last quarter.

AVERAGE NET RENT \$PSF PER SUB-MARKET

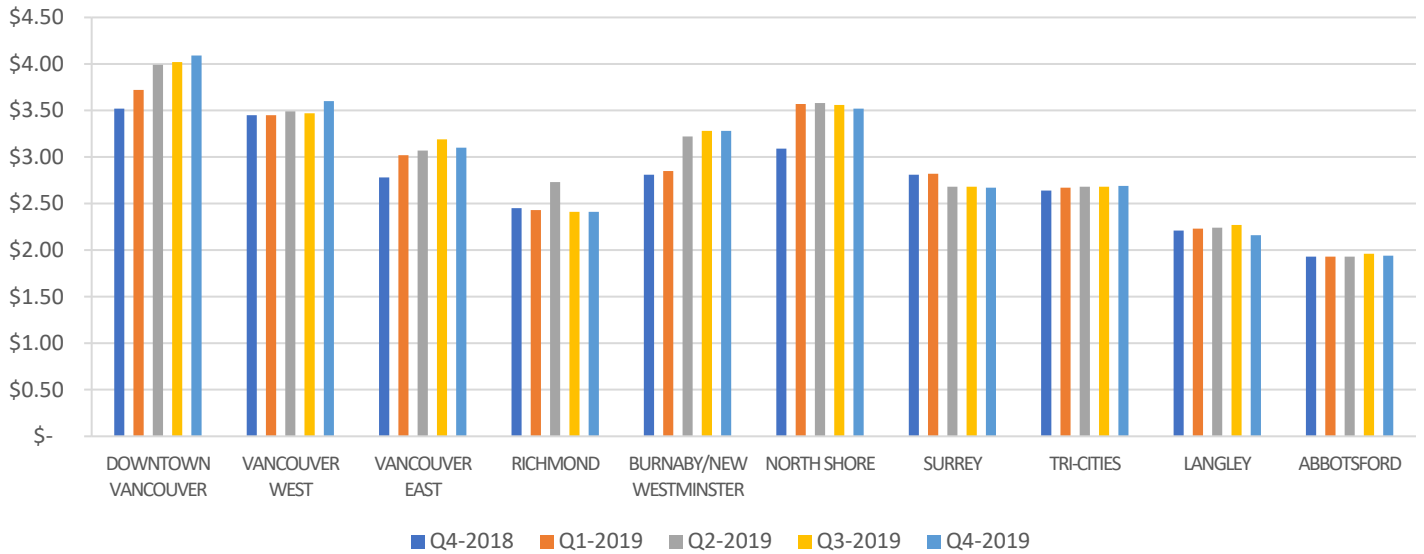


Chart 8 (Note: Ridge Meadows and Squamish have been omitted due to a lack of historical data)

Chart 9 compares the percentage of available units to average per square foot lease rates for newer purpose-built rental developments in Metro Vancouver. The availability rate of newer purpose-built rental product in Metro Vancouver has increased by a modest 1.9 percent when compared to the same quarter last year. Overall rent per square foot averages have increased by eight percent when compared to the same quarter last year.

AVAILABILITY VS. RENT \$PSF

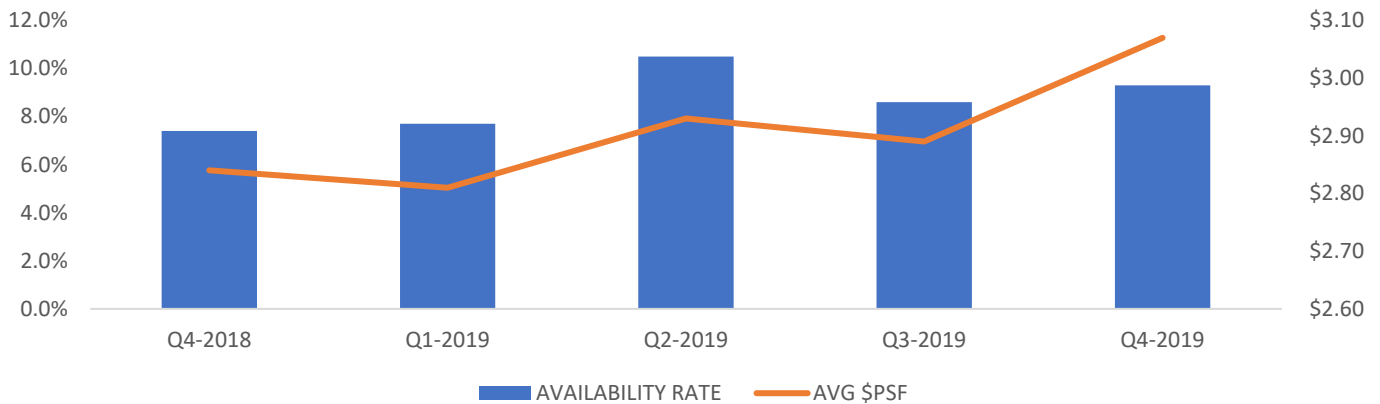


Chart 9

Availability in Q4-2019

New project launches in Downtown Vancouver led to this sub-market having the highest number of available units the end of the fourth quarter. The Burnaby/New Westminster sub-market had the second highest number of available units at 230 units. Langley’s availability decreased from 133 units at the end of the third quarter, down to 37 units at the end of the fourth quarter. It is assumed that based on demand that there will be few if any available units in Squamish after the first quarter of 2020.

AVAILABLE UNITS PER SUB-MARKET

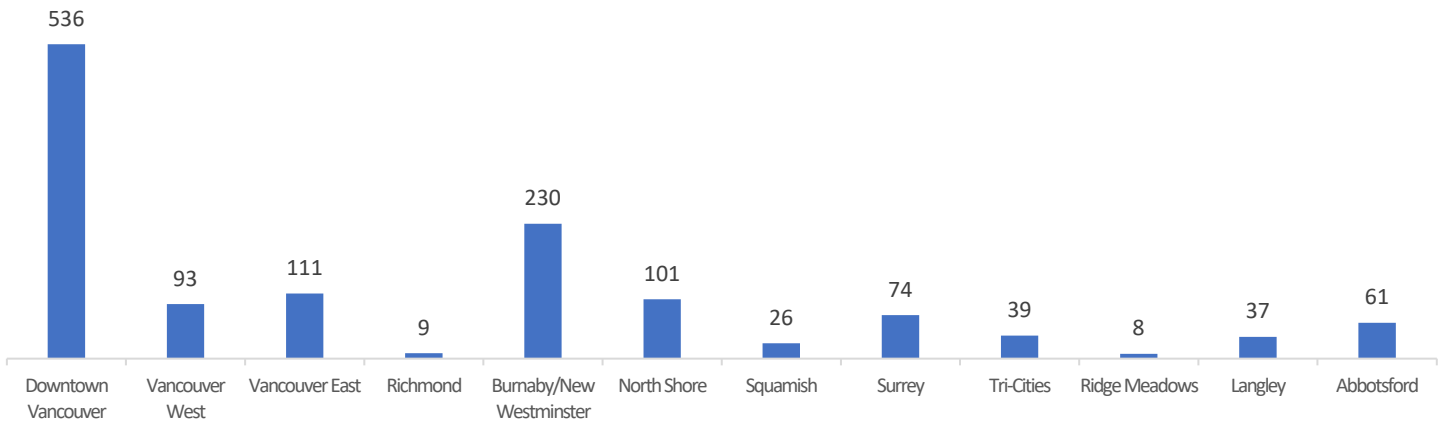


Chart 10

Incentives & Rental Trends

Of the projects that launched leasing campaigns in the fourth quarter of 2019, 29 percent of them initially offered incentives. These projects were both in Downtown Vancouver and are attempting to achieve record rents for the Metro Vancouver region. As such, absorptions for these two projects are somewhat slower than what is typical for this location. Other project launches observed in the fourth quarter are priced in line with current competition, do not offer incentives and are have strong absorption rates.

Some examples of incentives in the marketplace include the following:

- 1 to 2 months free, non-amortized rent
- No security deposit
- 1 year free internet, phone, and cable
- Free early move-in
- \$500 Visa gift card
- \$500 off rent for 6 months
- Free parking and storage for 6 months
- Free gym/community center membership

Due to rent control policies imposed by the Provincial government that limit rental rate increases to the rate of inflation, more projects have opted to seek higher rents during the initial leasing campaign than the prevailing rents in the area. The value of incentives being offered is generally less than difference in the new higher rents being sought and the prevailing rents. This allows the developer to implement a higher absolute increase in annual rent (if desired). The downside of this strategy is a somewhat longer lease-up timeframe. This strategy seems to be being employed more in concrete developments where the number of units is higher than that of a typical wood frame development.

Amenities

The 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 the targeted demographic of renters in the building 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 tenant. Examples of amenity offerings in purpose-built rental developments across Metro Vancouver include:

- 24-hour concierge
- Dog run
- Dog wash station
- Patio/courtyard/kitchen
- Bike storage/repair area
- Shared bike fleet
- Yoga area
- Car share parking/cars
- Spa/jacuzzi
- Parcel delivery system
- Kid's play area
- Building events
- Fitness area
- Lounge/games room
- Movie theatre
- Board room
- Garden plots
- Guest suite
- Fire pit

Rental Policy Update

The City of Burnaby recently adopted a revised tenant relocation policy that could impact the feasibility of purpose-built rental development in the City. With this new policy, developers evicting tenants will be required to pay tenant relocation costs up to \$1,400 (moving away and back). These tenants will then have a first right of refusal to move back into the newly completed building at the same rent being paid before (aside from provincially regulated annual rental increases). This new policy is also extended to tenants who were bought out of their apartment within 24 months of a rezoning application.

Contemplated

UA is currently monitoring 251 development applications for purpose-built rental projects across Metro Vancouver that represent an approved total of 13,524 rental units. Of these projects and based on the current construction status of approved rental developments, Urban Analytics predicts 15 purpose-built rental projects with 1,761 units could be completed over the first half of 2020.

Looking Ahead

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

- *The Victoria* – Bhandal Homes Ltd. (46 units)
- *537 Foster Avenue* – Bluesky Properties (61 units)
- *The Link* – Hungerford Properties (117 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 over 1,200 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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