

## DEMAND DRIVES RISING RENTS

### Rental Market

The first quarter of 2019 was eventful in Calgary’s newer purpose-built rental market. With numerous project launches adding more new rental apartment units to the market, occupancy rates dropped by a modest one percent compared to the fourth quarter of 2018. These new buildings offered creative amenities, high quality finishing specifications and slightly more aggressive rents relative to other existing rental projects, which helped increase the overall average rents across the market by one percent. The mortgage stress test rules that were implemented a year ago continue to impact first-time home buyers’ ability to obtain a mortgage, which has many would-be home buyers in the rental market, thereby keeping vacancies low and maintaining pressure on rents. Developers have continued to respond to this shift in demand for rental apartments by converting projects originally slated as condominiums to purpose-built rental apartments. UA expects the mortgage stress test will continue to make it challenging for younger, price-conscious buyers from entering the home ownership market, thereby keeping pressure on demand for rental apartments.

UA is currently monitoring 44 newer purpose-built rental apartment projects representing 6,329 units across four major Calgary sub-markets on a quarterly basis.

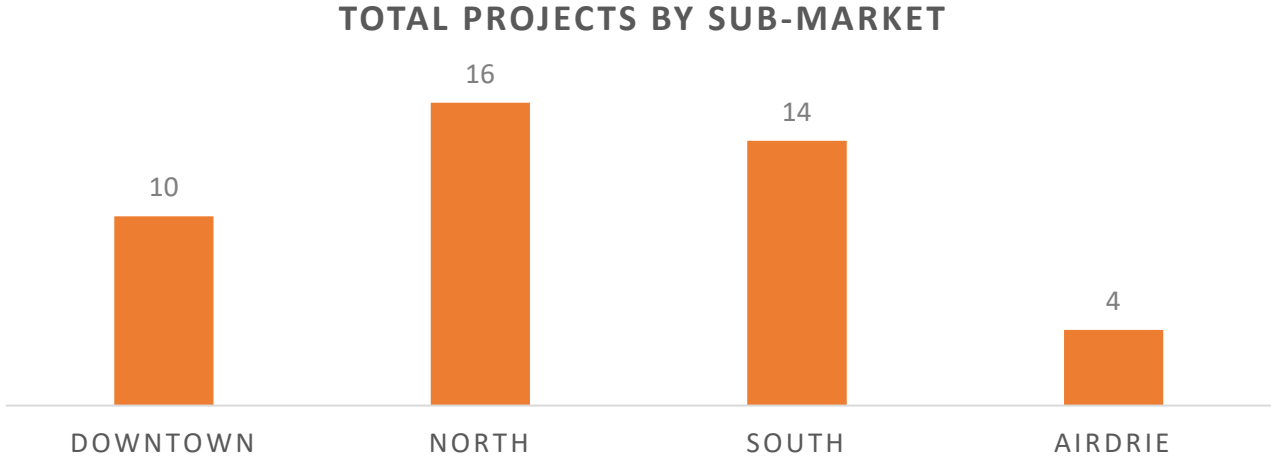


Chart 1

The data used for this analysis comprises 15 newer concrete apartment buildings, 28 newer wood frame 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 then accessed by industry stakeholders on a subscription basis.

### Occupancy Rates Trend Slightly Lower

The overall occupancy rate for newer rental apartment buildings in Calgary was 93 percent at the end of Q1-2019, which is just one percent lower than the overall occupancy at the end of Q4-2018. Calgary's newer rental market has continued to benefit from the B20 mortgage rules after their implementation in January of 2018. Prospective buyers who have been unable to qualify for a mortgage to purchase a home continue to rent, thereby sustaining demand in the rental market. Considering the significant number of units added to the rental market with the launch of a number of new rental apartment projects during the first quarter of the year, the modest rise in occupancy rates are considered an encouraging reflection of the strong rental demand in Calgary. In fact, there was a one percent increase in the rental occupancy rate in Q1-2019 compared to the same quarter last year.

## OVERALL OCCUPANCY PER QUARTER

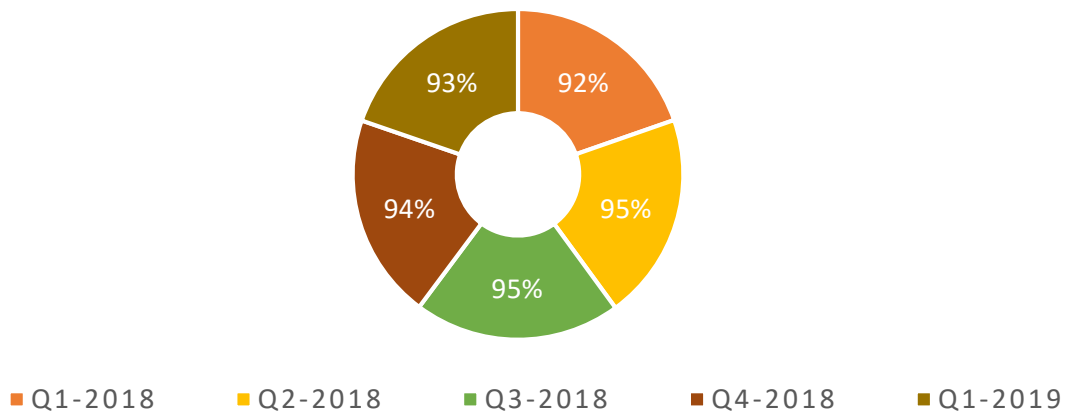
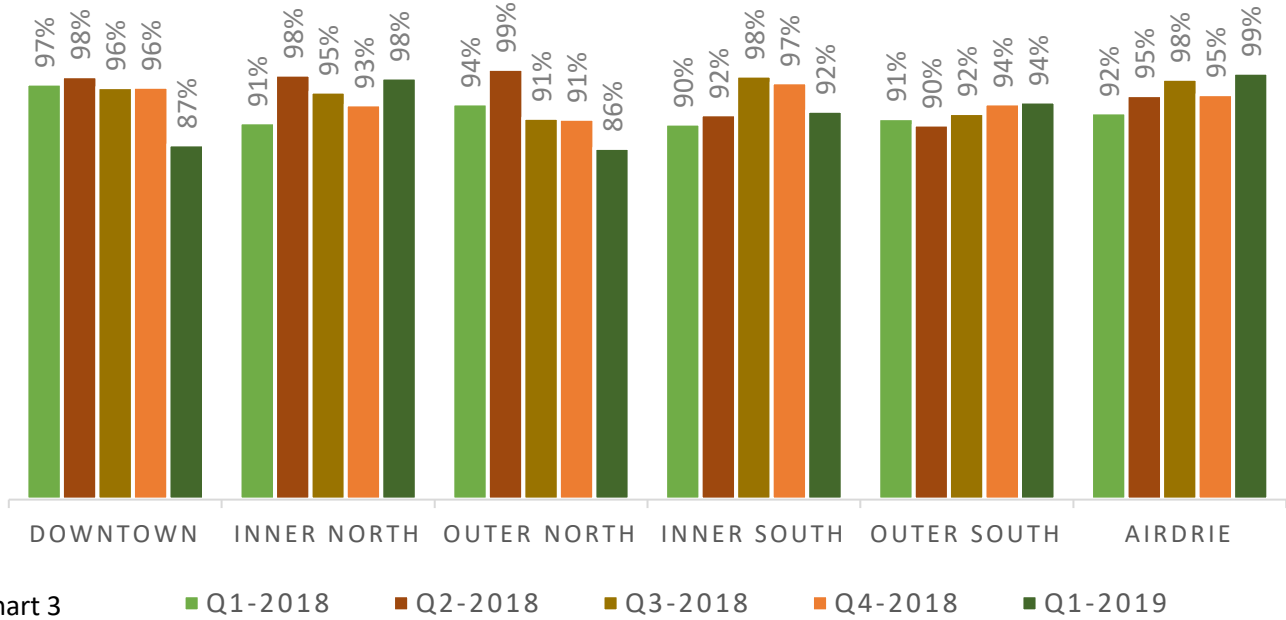


Chart 2

Airdrie and the Inner North sub-markets of Calgary recorded the highest average occupancy in the first quarter at 99 and 98 percent respectively. The Outer North sub-market experienced the lowest average occupancy for the third quarter in a row at 86 percent, this is largely due to the launch of *Skyward Living* which added 220 new units to the market. The building is currently 42% leased. Downtown also experienced a significant decrease in occupancy compared to Q4-2018 due to the *SODO* project launching in February, which added 305 new units to the sub-market. Absorptions are strong at *SODO* with 33% of the units being reported as leased despite market-leading average rents.

## AVG OCCUPANCY BY SUB-MARKET



### *Increase in Rental Rates in Q1-2019*

Rental rates throughout Calgary’s newer purpose-built rental market increased by one percent in the first quarter of the year compared to the fourth quarter of 2018. While the new recently launched rental apartment projects reduced the overall occupancy rate, the higher rents being sought have pushed the overall average rental rates higher. Many projects have also eliminated rental rate incentives that were being offered as more units are leased. Year-over-year average rents per square foot increased by 4.6 percent (\$0.09 rent per square foot); another indication of the strong demand for purpose-built rental product in Calgary.

## QUARTERLY AVG \$PSF RENTS

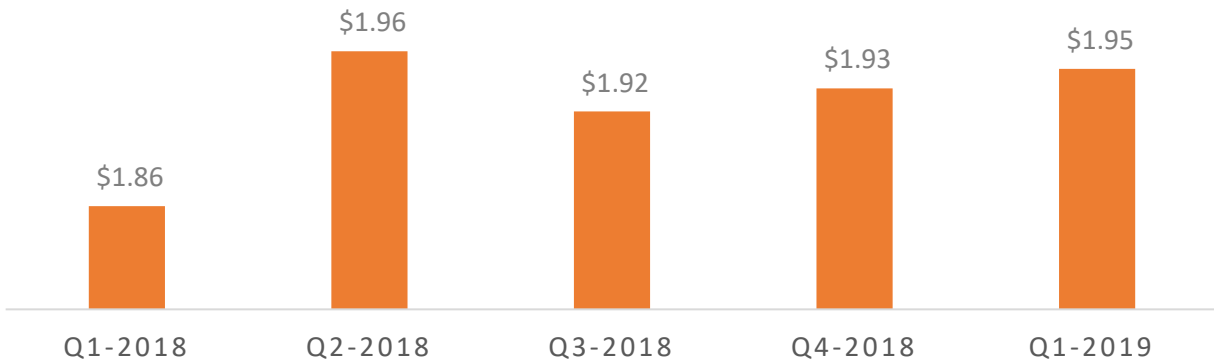


Chart 4

The Downtown sub-market achieved the highest average net rent per square foot in Q1-2019 at \$2.51 per square foot, which represents a 12.4 percent (\$0.31 rent per square foot) increase compared to the previous quarter. The increase in rents in this sub-market during the first quarter is largely attributed to the launch of the *SODO* project, which is seeking market leading rents. The rare availability of a penthouse unit at The George on 17<sup>th</sup> project also contributed to the higher rent.

### AVERAGE NET RENT \$PSF BY SUB-MARKET Q1-2019



Chart 5

Rental rates for lease renewals have varied across the market with some projects achieving higher rents and others realizing lower rents. Chart 6 illustrates the comparison of ask rates for tenants renewing their leases versus the original average net unit rent for those unit types at the initial lease-up stage. Most projects in Calgary charge the same rental rates for new tenants and current tenants.

### LEASE RENEWAL RENTAL RATE CHANGES

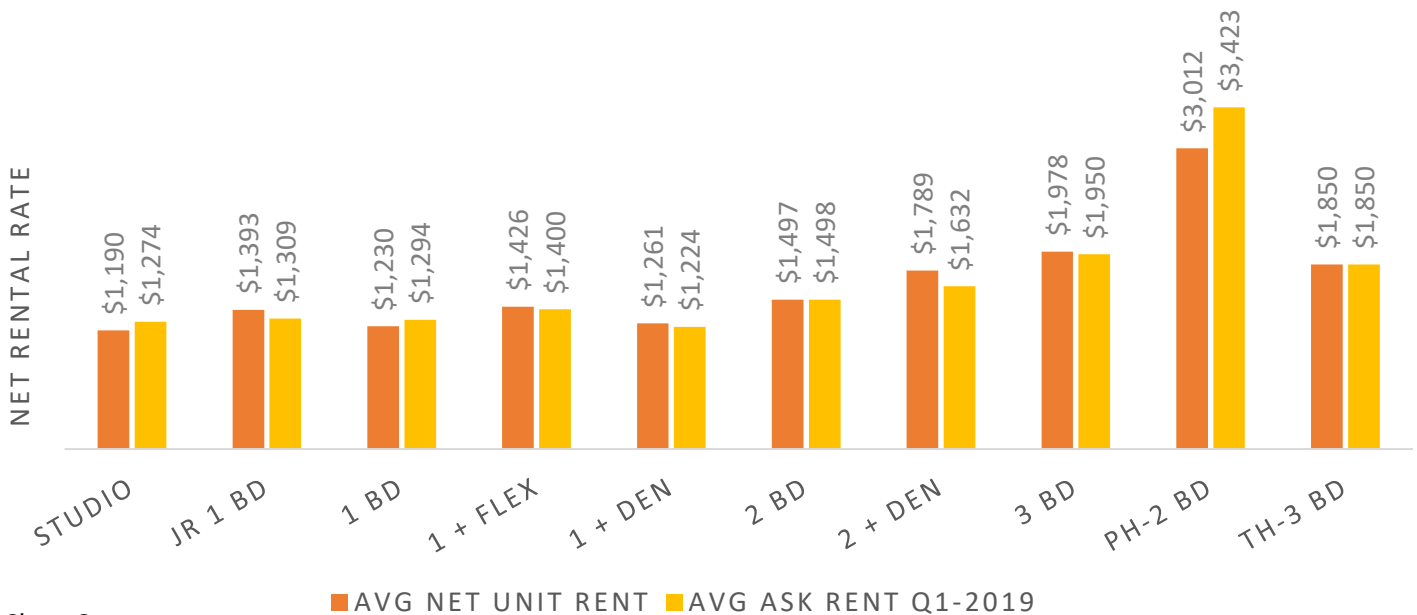


Chart 6

Rents have increased for four unit types at projects where rents were adjusted upon unit rollovers; studio unit rents rose by 6.6 percent (\$84 per month), one bed units by 4.9 percent (\$64 per month), two bed units by 0.07 percent (\$1 per month), and two bed penthouse units by 12 percent (\$410 per month). The remaining six unit types that were available in Q1-2019 experienced lower rents; junior one bed unit rents dropped by 6.4 percent (\$84 per month), one plus flex units by 1.8 percent (\$26 per month), one plus den units by three percent (\$37 per month), two plus den units by 9.6 percent (\$157 per month), and three bed units by 1.4 percent (\$28 per month). Three bed townhome unit rents were unchanged.

Three of the six sub-markets in Calgary experienced lower average net rent per square foot values compared to the previous quarter. The most significant drop in average monthly rents occurred in the Outer South sub-market, which recorded a 14.8 percent decrease (\$0.27 rent per square foot). This is a result of *SoHo* launching at the beginning of the quarter at lower average rents than competing projects in the area. This has offset the impact *Lyric* had previously made in this sub-market with their higher end rental project. All other sub-markets in Calgary experienced an increase in average net rents per square foot. The Downtown sub-market had the most significant increase; 12.4 percent (\$0.31 rent per square foot).

**AVG NET RENT \$PSF BY SUB-MARKET**

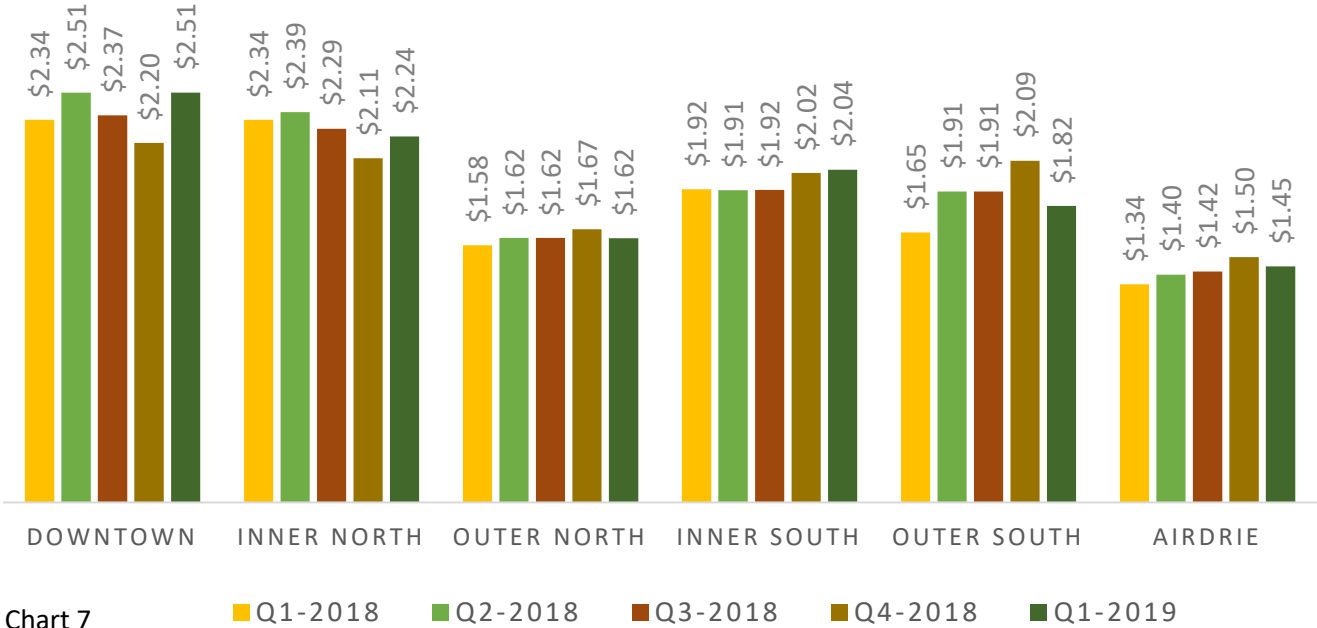


Chart 8 displays the correlation between the average occupancy rate and the average net rent per square foot in Calgary’s newer purpose-built rental apartment sector. Throughout Calgary, newer purpose-built rental projects have managed to increase unit rents despite lower occupancy rates. That is, even with the one percent drop in occupancy rates across the Calgary market in Q1-2019, net rents increased by a similar one percent (\$0.02 per square foot). On a year-over-year basis, occupancy rates rose by one percent while rents also increased, but by a more significant 4.6 percent (\$0.09 per square foot).

### OCCUPANCY VS. NET RENTS \$PSF

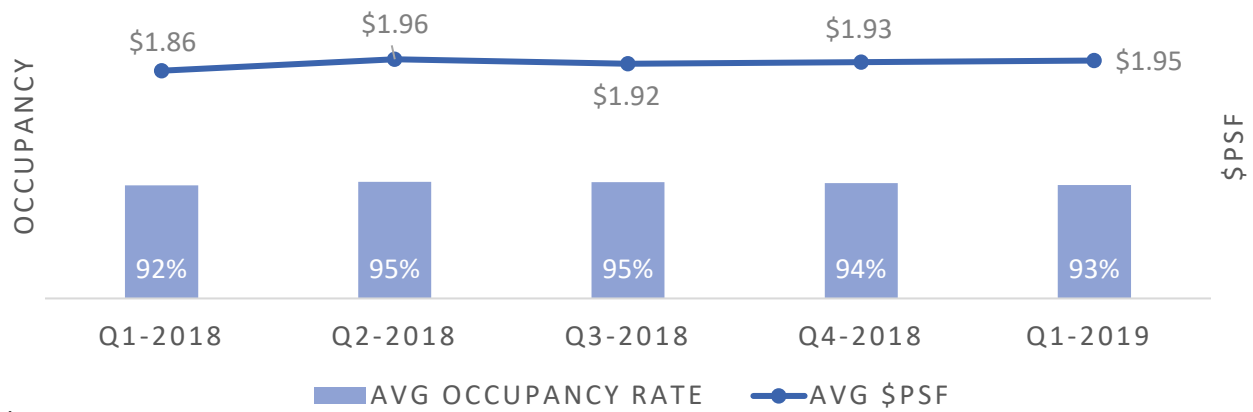


Chart 8

#### Active vs. Fully Leased Projects

UA considers projects that have less than 85 percent occupancy to be actively leasing, and those with more than 85 percent occupancy to be fully leased, as this is typically when we begin to see units rolling over for the first time. Calgary saw four new purpose-built rental projects launch in the first quarter of 2019: *SODO* by GWL Realty Advisors (305 units) in the Beltline, *Lyfe* by Providence Group (135 units) in the Inner Southwest sub-market, *Skyward Living* by Anderson Builders Group (220 units) in the Outer North sub-market, and *SoHo* by Hestia Group (86 units) in the Outer South sub-market. Five projects in Calgary are considered active; the four new project launches plus *Lyrice* in the Outer South (100 units) that has been leasing for ten months and is now 83 percent leased. The low number of actively leasing projects in the city made for an increasingly competitive market for renters.

### ACTIVE VS FULLY LEASED PROJECTS IN Q1-2019

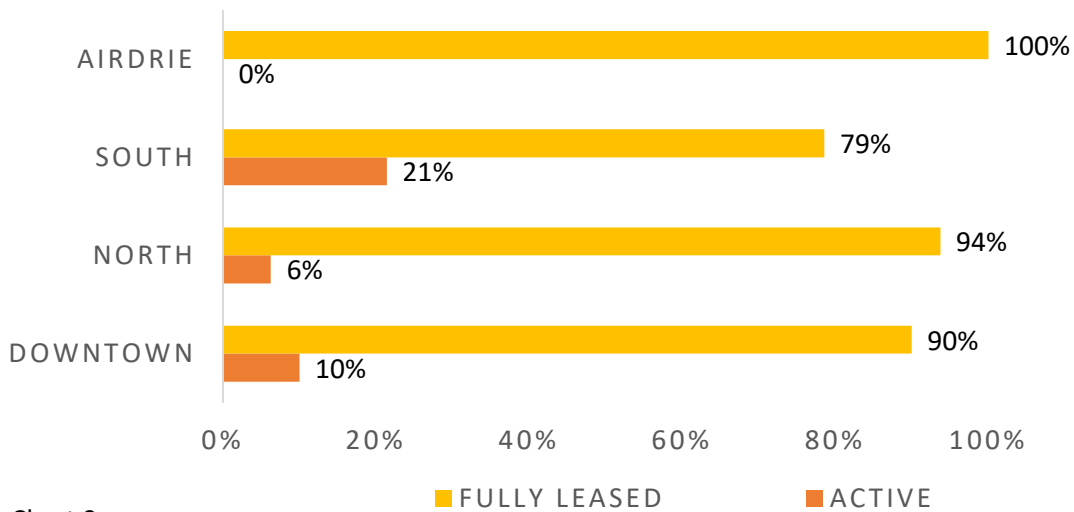


Chart 9

### Availability in Q1-2019

Chart 10 illustrates how the Downtown sub-market has the highest inventory of rental units in Q1-2019 compared to the other sub-markets in Calgary. This is the result of the launch of the 305 units at *SODO* in mid-February.

### AVAILABLE UNITS BY SUB-MARKET

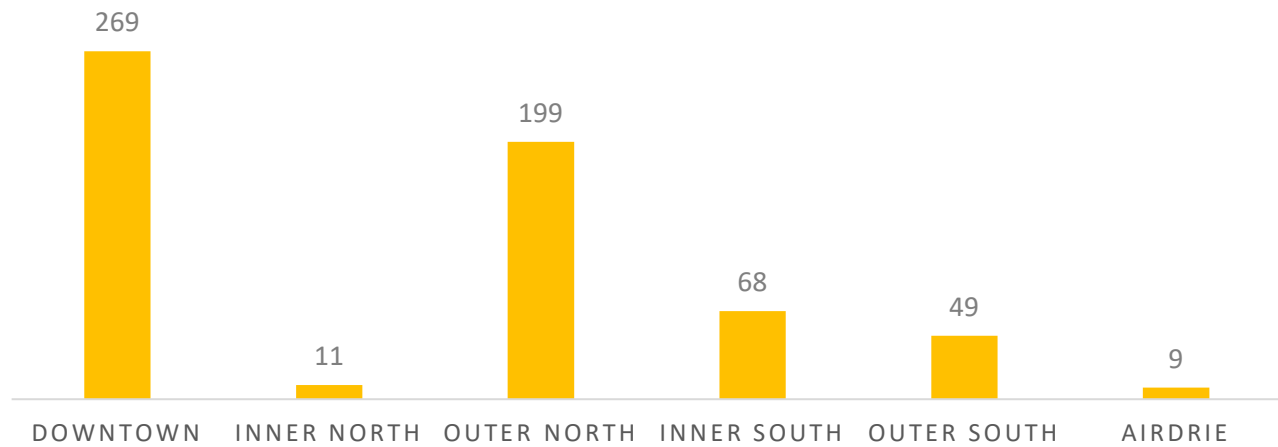


Chart 10

### Incentives

24 of the 44 rental apartment buildings monitored in the Calgary market offered incentives during the first quarter, with the majority being in the form of rental rate incentives. The following is a sample of the incentives offered as of March 2019:

- Six months free parking on 12 month lease: *Aura*
- One year of free parking: *Skyward Living, Trailside*
- One month free on a 12 month lease: *Fifteen15, SODO, The Metropolitan, Portfolio, Infinity, Emerald Sky Legacy Place, Centro YYC, Trailside, SoHo*
- Two months free on a 24 month lease: *SODO, Lyric*
- \$250 off per month on a 12 month lease: *Auburn Landing*
- \$100 to \$150 off per month on a 12 month lease: *Northview Vista*
- Half of first month's rent on a 12 month lease: *Skyview Ranch Building 1000 & 4000*
- \$1,000 off the second month's rent on select units: *Fifteen15*
- Free one year Telus package: *The Metropolitan, Portfolio, Lyfe, Beacon Heights*
- \$40 Telus package: *Auburn Landing*
- First parking stall free: *The Metropolitan*
- Free early move-in: *1215*
- Reduced security deposit: *The Gala, Elata, SoHo*
- \$150 credit for utilities for six months: *Terra*

Incentive offerings were reported in six sub-markets across Calgary; Downtown, Inner Northwest, Inner Southwest, Outer North, Outer South, and Airdrie. All eight rental projects in the Outer North sub-market and all five projects in the Outer South sub-market offered some form of incentive.

### **Amenities**

The newer purpose-built rental buildings UA currently monitors offer a variety of amenity features. Projects featuring superior amenity packages are more likely to achieve full occupancy sooner and experience lower turnover than projects with more limited or no amenities. The level of amenities offered in newer rental apartment developments generally depend on the sub-market. Projects in the Downtown sub-market feature a higher level of amenities as the typical downtown renter earns more on average and is willing to pay more for the added conveniences. Amenity offerings are less comprehensive at rental projects in the outer sub-markets, where renters are more price-sensitive. The most common amenity offered throughout Calgary is an underground parking stall. The following is a sample of amenities offered at various rental apartment projects in the Calgary market:

- Roof terrace
- Dog wash station
- Outdoor patio
- Lounge
- Bike repair area
- Fitness area
- Business center
- BBQ area
- Outdoor kitchen
- Courtyard
- Bike storage
- Media room
- Yoga area
- Concierge
- Library/Study room
- Board room
- Indoor pool
- Golf simulator
- Spa/Jacuzzi
- Woodshop
- Community garden
- Residence manager
- Games room



### **Renter Demographic**

The profile of renters in the Calgary market varies widely across the City. The outer sub-markets tend to attract a greater proportion of newer immigrants, blue-collar workers, young families and retirees. The inner areas closer to the Downtown core attract more students, young and established professionals, downsizers, and young couples.

### **Contemplated**

There are approximately 45 new purpose-built rental projects with an aggregate total of 14,959 apartment units proceeding through the planning process at the City of Calgary.

### **Looking Ahead**

The following are the new rental projects that have either recently launched or will be launching a leasing campaign during the next two quarters, which UA will be monitoring closely:

- *Underwood Tower – Western Securities*
- *Marda – Strategic Group*
- *The Cube – Strategic Group*
- *Hat @ East Village – Cidex*
- *Telus Sky – West Bank*
- *Casadona Place – Casadona Group*

**Urban Analytics offers subscription access to newer purpose-built rental data in Calgary, Edmonton and Metro Vancouver on NHSLive. Please call or email for a demonstration and to inquire about our advisory services to help you appropriately design and position your next project.**

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