RENTS RISE DESPITE NEW SUPPLY

Rental Market

The second quarter of 2019 saw continued momentum in Calgary’s newer purpose-built rental market. Six new purpose-built rental projects launched during the quarter, increasing the number of new rental apartment units across the markets by 668. This increase in inventory dropped occupancy rates by a modest two percent compared to the first quarter of the year. However, the rental market in Calgary has remained active over the last year and a half, largely due to the implementation of the stress test mortgage rules keeping potential purchasers in rental units. Developers have capitalized on this by converting initially proposed market condominium projects to purpose-built rental buildings, or by making the strategic decision to build purpose-built rental from a project’s inception. These rental project builders are developing competitive projects that offer effectively designed apartment units with higher quality finishing specifications, and creative and sought-after amenities to help create a sense of community for residents, thereby helping reduce tenant turnover. These competitive projects have resulted in a moderate but steady increase in rents for newer purpose-built rental apartment projects across Calgary. The second quarter of 2019 saw an average rental rate of $2.01 per square foot; a three percent ($0.06 rent per square foot) increase compared to the first quarter of the year. UA has been tracking the newer purpose-built rental market in Calgary since 2017 and this is the first time average rents have risen above $2 per square foot. This is a promising sign for Calgary’s newer purpose-built rental market and UA believes this trend will continue considering the quality of projects currently under construction and scheduled to commence leasing in the next few quarters.

UA is currently monitoring 50 newer purpose-built rental apartment projects representing 6,997 units across four major Calgary sub-markets on a quarterly basis.

TOTAL PROJECTS BY SUB-MARKET

<table>
<thead>
<tr>
<th>Sub-Market</th>
<th>Project Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Downtown</td>
<td>12</td>
</tr>
<tr>
<td>North</td>
<td>18</td>
</tr>
<tr>
<td>South</td>
<td>16</td>
</tr>
<tr>
<td>Airdrie</td>
<td>4</td>
</tr>
</tbody>
</table>

The data used for this analysis comprises 17 newer concrete apartment buildings, 32 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 Take a Slight Dip*

The overall occupancy rate for newer rental apartment buildings in Calgary was 91 percent at the end of Q2-2019, which is just two percent lower than the overall occupancy at the end of Q1-2019. Calgary’s newer rental market has become increasingly competitive since the implementation of the B20 mortgage rules 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. The launch of several new rental apartment projects during the second quarter of the year increased the number of new rental units in the market, which contributed to the slight drop in occupancy rates. Year-over-year, occupancy rates have decreased by four percent compared to Q2-2018, which can also be attributed to the greater number of units being tracked in the market.

*Chart 2*

Airdrie recorded the highest average occupancy in the second quarter at 99 percent, with the Inner North, and the Outer South sub-markets of Calgary experiencing the second highest at 97 percent. The Outer North sub-market experienced the lowest average occupancy for the fourth quarter in a row at 81 percent. This is largely due to the launch of *Northview Vista Phase 2* and *Emerald Sky Building 4000*, which brought 158 units and 136 units respectively to the market. *Northview Vista Phase 2* is currently 32 percent leased and *Emerald Sky Building 4000* has quickly leased 65 percent of the building. Downtown experienced a slight decrease in occupancy for the second consecutive quarter due to the launch of *The Underwood* in April, which added 225 units to this sub-market, and *The Cube*, which launched in May and added 65 units. *The Underwood* has experienced strong absorptions with 24 percent of the units being reported as leased despite seeking higher average rents than *SODO*,

[OVERALL OCCUPANCY PER QUARTER]
which had previously sought the highest average rents in the Calgary market. Leasing staff at The Cube also report strong interest in this project as evidenced by the fact 48 percent of the units have been leased.

**AYEER OCCUPANCY BY SUB-MARKET**

![Average Occupancy by Sub-Market](chart)

- **Increase in Rental Rates in Q2-2019**

  Average rental rates throughout Calgary’s newer purpose-built rental market increased by three percent ($0.06 rent per square foot) in the second quarter of the year compared to the first quarter, reaching $2.01 per square foot. This is the first time average rental rates across all sub-markets have exceeded $2 per square foot since UA began tracking the newer purpose-built rental market in 2017. Excluding the Airdrie sub-market, the average rental rate in Calgary in the second quarter reached $2.10 per square foot. While the recently launched rental apartment projects reduced the overall occupancy rate, the higher rents being sought by these projects have pushed the overall average rental rates higher. Many projects have also eliminated or reduced incentives that were being offered as more units are leased. Year-over-year average rents per square foot increased by 2.5 percent ($0.05 rent per square foot); another indication of the strong demand for new rental apartment product in Calgary.
The Downtown sub-market achieved the highest average net rent in Q2-2019 at $2.44 per square foot, which represents a 2.9 percent ($0.07 rent per square foot) decrease compared to the previous quarter. Even with the launch of *The Underwood* at market-leading rents, the increasingly competitive nature of the Downtown sub-market is impacting the overall average rent per square foot. The lower average rents being sought by existing fully leased projects is keeping the overall average achievable rents for the Downtown Market below the rents being attained by more recently released rental apartment projects.

Rental rates for turned over apartment units have varied across the market with some projects achieving higher rents and others realizing lower rents. Chart 6 illustrates the comparison of asking rates for new tenants versus the original average net unit rent for those unit types at the initial lease-up stage. There is little variance in the rents sought during the initial leasing campaign and those sought upon unit rollovers.
Of the nine unit types that rolled over in Q2-2019, rents have increased for seven; one bed units rose by 7.3 percent ($105 per month), one plus den units rose by 0.6 percent ($8 per month), one plus flex units rose by 1.7 percent ($24 per month), two bed units by 1.1 percent ($18 per month), three bed units by 4.2 percent ($59 per month), live-work units by 3 percent ($75 per month), and two bed townhome units by 1.6 percent ($25 per month). The remaining two unit types that were available in Q2-2019 experienced lower rents; two plus den unit rents dropped by 3.2 percent ($53 per month), and studio units dropped by 1.1 percent ($13 per month).

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 Downtown sub-market, which recorded a 2.9 percent ($0.07 rent per square foot) decrease. This is attributed to the increasing number of projects in the sub-market, and to the lower overall average rents sought at some fully leased projects compared to the new projects that have launched in the first half of the year. All other sub-markets in Calgary reported higher average net rents per square foot. The most significant increase in net rents occurred in the Outer South sub-market; average net rents rose by 11.2 percent ($0.23 per square foot), which is not typical in this area of the city. Much of the increase in rents in this area can be attributed to the fact SoHo, which has sought the lowest average rents here, is now fully leased and is no longer being factored in the average rents for actively leasing projects.
Chart 8 illustrates 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 two percent drop in occupancy rates across the Calgary market in Q2-2019, net rents increased by three percent ($0.06 per square foot). On a year-over-year basis, occupancy rates decreased by four percent while rents have increased by 2.5 percent ($0.05 per square foot).
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 units begin to turn over for the first time. Six new purpose-built rental projects launched in Calgary in the second quarter of 2019: The Cube by Strategic Group (65 units) in the Beltline, The Underwood by Western Securities (225 units) in the Beltline, Northview Vista Phase 2 by Northview REIT (158 units) in the Outer North sub-market, Emerald Sky Building 4000 by Carlisle Group (136 units) in the Outer North sub-market, Marda by Strategic Group (65 units) in the Inner Southwest sub-market, and Switch Bloc (19 units) in the Inner Southwest sub-market. Eight projects in Calgary are considered active; the six new project launches plus Lyfe in the Inner Southwest sub-market (135 units) that has been leasing for seven months and is now 79 percent leased, Skyward Living in the Outer North sub-market (220 units) that has been leasing for four months and is now 55 percent leased, and SODO in the Beltline (305 units) that has been leasing for four months and is currently 64 percent leased. The fewer number of actively leasing projects in the city made for an increasingly competitive market for renters.

Availability in Q2-2019

Chart 10 illustrates how the Downtown sub-market has the highest inventory of rental units in Q2-2019 compared to the other sub-markets in Calgary. This is the result of the launch of the 225 units at The Underwood in April, and 65 units at The Cube in May. The Outer North sub-market offers a comparable number of available units. This is due to the combined 294 units brought to the market from Northview Vista Phase 2 and Emerald Sky Building 4000, along with the actively leasing Skyward Living project, which comprises 220 total units.
Incentives
18 of the 50 rental apartment buildings monitored in the Calgary market offered incentives during the second quarter, with the majority being in the form of rental rate incentives. Most projects in Calgary have revoked their incentive offerings to new tenants. The following is a sample of the incentives offered as of June 2019:

- One month free on a 12 month lease
- Six months of free parking on a 12 month lease
- Move-in bonus
- One year free on a two year Telus term
- $150 off per month on a 12 month lease
- Parking included
- Reduced security deposit
- Reduced rent on one and two bed units on a 12 month lease
- $40 per month Telus package

Incentive offerings were reported in four sub-markets across Calgary; Downtown, Inner Southwest, the Outer North, and the Outer South.

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, achieve higher rents and experience lower turnover than projects with more limited or no amenities. The level of amenities offered in newer rental apartment developments generally depends 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 a secured 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. As a result, projects in suburban locations feature more bedrooms and larger living areas. The inner neighbourhoods closer to the Downtown core attract more students, young and established professionals, downsizers, and young couples. The inner sub-market demographics justify a mix of one and two bedrooms targeting young professionals, and on occasion larger units to attract more of the established professionals and re-starts.
Contemplated
There are approximately 46 new purpose-built rental projects with an aggregate total of 14,919 apartment units proceeding through the planning process at the City of Calgary.

Looking Ahead
The following are 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:

- *Hat @ East Village* – Cidex
- *Telus Sky* – West Bank
- *Casadona Place* – Casadona Group
- *The Windsor* – Arlington Street Investments
- *Lyric Building 2* – Jayman Homes

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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