NEW RENTAL PROJECTS STABILIZE RENTS IN THE MARKET

Rental Market
A total of seven new purpose-built rental projects launched in Edmonton in the third quarter of 2019, bringing a total of 782 new rental units to the market. The addition of these new units has resulted in an overall occupancy rate of 93 percent in the city, a one percent decrease compared to last quarter and a four percent decrease compared to the same quarter last year. Rental rates have declined by a meager 0.6 percent ($0.01 rent per square foot) compared to the previous quarter but have increased by the same amount over the same quarter last year. UA anticipates the new product will be steadily absorbed and that rents will resume the upward trend experienced since the beginning of 2018.

Urban Analytics (UA) is currently tracking 83 newer purpose-built rental apartment projects representing 11,799 units across seven Edmonton sub-markets.

TOTAL PROJECTS BY SUB-MARKET

Chart 1

UA analysts are currently monitoring 17 newer concrete and 62 wood frame apartment projects, and four rental townhome projects in Edmonton through routine primary research updates. The information collected on each proposed and actively leasing project is accessible to industry stakeholders through a subscription to UA’s NHSLive database.

Slight Decrease in Occupancy Rates
The overall occupancy rate for newer rental developments in Edmonton was 93 percent at the end of Q3-2019, a one percent decrease compared to the previous quarter. This increase in vacancy is largely attributable to the seven new rental projects launched in the third quarter of the year, comprising a total of 782 units introduced to the market. The overall occupancy rate at the end of Q3-2019 is four percent lower than at the same period in 2018. However, there were only 66 projects in the market at that time that were deemed relevant for monitoring purposes.
Sherwood Park and the Northeast sub-market recorded the highest average occupancy in the third quarter at 98 percent. While occupancy rates in Sherwood Park were the same as last quarter, occupancy rates in the Northeast sub-market were three percent higher than the last quarter. Low vacancy rates in these sub-markets suggest there is demand for additional new purpose-built rental supply. The Downtown sub-market experienced a dramatic 13 percent drop in occupancy in the third quarter compared to Q2-2019, which can be attributed to four new project launches in the area that resulted in a total of 415 new units being introduced to that sub-market; The MacLaren - 128 units, 100 House - 78 units, The Trax - 100 units, and Infiniti on 105 - 109 units.
Reactive Rents

While rents for newer purpose-built rental developments in Edmonton increased steadily throughout 2018, largely in unison with occupancy rates, rental rates have stabilized in 2019. The third quarter of the year historically has shown higher rental rates than the second quarter, though the new supply introduced in Q3-2019 resulted in a modest decline in rental rates. Even though these new buildings are asking market-leading rents, increased competition has influenced some older rental projects to decrease their rents to remain appealing to prospective renters. Chart 3 shows a 0.6 percent ($0.01 per square foot) decrease in rents in the third quarter of the year compared to the second quarter. Meanwhile, rental rates rose by 0.6 percent ($0.01 per square foot) when compared to the same quarter last year.

Chart 4

Overall average rents in the Downtown sub-market were at $2.10 per square foot in Q3-2019. Average list rents in Downtown Edmonton were once again the highest in the market. However, this discrepancy could decrease in the future as new, higher quality rental developments are anticipated to be introduced in the outer sub-markets. The next highest rents are being achieved in Sherwood Park at $1.83 per square foot. Note that there are just five newer rental apartment projects being monitored in the Sherwood Park sub-market. As Chart 5 illustrates, the Southwest is obtaining the highest net rent per square foot of all suburban locations in Edmonton at $1.68.
Current list rents for lease renewals varied slightly across the market with most projects realizing lower rents and some achieving higher or unchanged rents. Chart 6 illustrates the comparison of ask rates for new tenants compared with the original average net rents for those unit types at the initial lease-up stage.

Rental Rate Changes

Rents have decreased for seven of the nine unit types at projects where rents were adjusted upon unit turnovers;

- studio unit rents decreased by 10.9 percent ($116 per month);
- one bedroom unit rents by 1.5 percent ($20 per month);
- one bedroom and den units by 0.4 percent ($6 per month);
- two bed units by 7.2 percent ($107 per month);
- two bedroom and den units by 5.1 percent ($78 per month);
• three bedroom and den townhome units by 2.5 percent ($38 per month); and,
• four bedroom and den townhome units by 0.5 percent ($10 per month).

This decrease in rents in most unit turnovers is the result of the older product competing with brand new buildings that are just beginning their leasing campaigns. Brand new projects are in some cases more appealing for potential renters given these projects are well-located, offer a superior amenity package and the units have not been lived in.

Three bedroom units and three bedroom townhome units that were available in Q3-2019 experienced an increase in rental rates and unchanged rental rates respectively; three bedroom unit rents increased by 0.7 percent ($10 per month) and three bedroom townhome unit rents remain unchanged when compared to their initial lease-up rates.

Five of the seven sub-markets in Edmonton experienced an increase in average net rent per square foot rates compared to the previous quarter. The largest increase occurred in the Southwest sub-market where the average net rents rose by 8.3 percent ($0.14 per square foot). This increase is largely attributed to the launch of Central Tower which is achieving an average blended net rent of $2.97 per square foot. Average net rents in the Downtown and Northeast sub-markets decreased compared to previous quarter; dropping by 6.2 percent ($0.13 per square foot) and 13 percent ($0.19 per square foot) respectively.

Chart 7

Chart 8 illustrates the correlation between the average occupancy rate and the average net rent per square foot in Edmonton’s newer purpose-built rental market. Throughout 2018, newer purpose-built rental project owners were able to increase rents while maintaining high occupancy rates. Overall net rents in 2019 seem to have stabilized as the overall occupancy rate has moved from the 95 to 97 percent
range in 2018 down to the 93 to 94 percent range. As new product is absorbed, UA expects rental rates in Edmonton to resume increasing at a modest pace.

**Chart 8**

**Active vs. Fully Leased Projects**

70 percent of new projects in Edmonton are currently ‘active’, meaning they are less than 85% leased. This figure is the highest UA has recorded since beginning to track the Edmonton market in 2017 and is a direct result of new launches in the market. The highest proportion of actively leasing projects are Downtown. These projects include *Infiniti on 105* that launched in mid-May, *100 House* that launched at the end of June and *The MacLaren* and *The TraX*, which both launched in July.

**Chart 9**

**ACTIVE VS FULLY LEASED PROJECTS**

- **ST ALBERT**: 10% active, 90% fully leased
- **SHERWOOD PARK**: 100% fully leased
- **SOUTHEAST**: 22% active, 78% fully leased
- **SOUTHWEST**: 12% active, 88% fully leased
- **NORTHWEST**: 100% fully leased
- **NORTHEAST**: 100% fully leased
- **DOWNTOWN**: 27% active, 73% fully leased
Availability in Q3-2019

Downtown Edmonton had the highest number of available units for rent in Q3-2019, mostly due to the launch of four new projects in this sub-market. The Southwest also had two new project launches in the quarter; Central Tower added 175 new rental units to the market, and Insignia Tower, which was initially conceived as a condominium project, brought 124 units to the market. Lakeview in Bellevue Village in St. Albert launched and released 68 of 150 units in Q3-2019.

Apache Units per Sub-Market

Chart 10

Incentives

Both actively leasing and fully leased newer purpose-built rental buildings offered a range of incentives in Q3-2019. The following is a list of some of the more notable incentives offered as of August 2019:

- One month free on a 12 month lease
- $500 off the first month rent on 12 month leases
- $700 off yearly rent
- One year free on a two-year Telus contract
- Three months of free parking
- Reduced damage deposit
- Free surface parking
- Discounted underground parking
- 40% off Telus cable and internet
- $200 off monthly rent on a 12 month lease
- $50 off two bed units
- $130 off per month on a 12 month leases
- Six months of free parking
- $1,000 move-in credit
- $100 gift card to Kanu café
- One entry into a corvette lottery
- 60% off Telus
• $250 off the first month rent
• Six months of free parking

Incentive offerings were observed across all sub-markets in Edmonton except for the Northwest sub-market, which did not offer any incentives in August 2019.

Amenities
The newer purpose-built rental buildings UA currently monitors offer a variety of amenity features. Projects featuring a superior amenity package are more likely to achieve full occupancy sooner and have lower turnover than projects with limited or no amenities. The level of amenities offered in newer rental 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 a higher salary on average and is willing to pay more for the added conveniences. A few examples of projects in this area that offer these amenities include: The MacLaren which boasts a dog run, fitness area, roof terrace, yoga area and lounge; and The Mayfair which offers concierge service, garden plots, a lounge and a gymnasium. Rental projects in the outer sub-markets do not offer as many amenities as those in the Downtown core. Typical renters in the outer markets are more price-sensitive and less willing and/or able to pay more for a higher-end amenity package. However, UA is starting to see a few new projects in less urban neighbourhoods that are improving their respective amenity offerings. Central Tower in Bearspaw offers their residents a common kitchen area and outdoor patio with BBQ’s, as well as a spin studio, golf simulator, fitness facility, pool tables, yoga area, parcel delivery system, and a dog wash station. The most common amenity offered throughout Edmonton is underground parking. The following provides a list of common amenities offered to renters in the Edmonton market:

• Roof terrace
• Roof garden
• Music room
• Outdoor patio
• Workshop
• Lounge
• Bike repair area
• Gymnasium
• Guest suite

• Kitchen
• Fitness area
• BBQ area
• Bike storage
• Concierge
• Car share cars
• Garden plots
• Residence manager
• Games room
**Renter Demographic**

There is generally a wide range of renter demographic throughout the various Edmonton sub-markets. The outer sub-markets tend to attract more immigrants, blue-collar workers, young families and retirees. Larger units, and a higher number of bedrooms is generally an attractive feature for rental in the outer sub-markets. The inner markets closer to the Downtown core currently attract more students, young and established professionals, downsizers, and young couples. Amenities, and social gathering spaces to counter the smaller sized units in the inner city are seeming to prove desirable for these renters.

**Looking Ahead**

The following are some of the new rental apartment projects in Edmonton that UA anticipates will launch their respective leasing campaigns during the next two quarters and will be monitoring closely:

- **E11even – Strategic Group**
- **Essential Aurora – Rohit Communities**
- **Keswick Green – Broadstreet Properties**

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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