



2019: YEAR OF THE RENTAL BOOM

Q4-2019 UA CALGARY RENTAL TAKE

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Rental Market

There were 19 new purpose-built rental apartment projects that launched in Calgary in 2019, which brought 2,602 new units to the market; a little over a third of the total units UA is currently tracking. This is the highest number of new purpose-built rental apartments the city has seen in one year since UA began monitoring the market in 2017. For reference, there were just six projects with 543 new units launched throughout 2018. This increased supply resulted in the city experiencing greater variance in occupancy rates in each quarter of the past year. Despite the additional new supply, occupancy rates remained quite high over the first three quarters of the year. However, the release of seven new purpose-built rental buildings with an aggregate total of 799 additional units being added to the market during the last quarter of 2019 caused a spike in vacancy rates and a corresponding drop in the occupancy rate to 85 percent. Despite the increase in vacancy, the average rental rates remained stable compared to the previous quarter at \$1.97 per square foot. UA anticipates prevailing demand for quality new rental product will steadily absorb much of this new supply during the initial quarters of 2020.

The B20 mortgage stress test rules continue to make it challenging for would-be first-time home buyers to qualify for a mortgage, leading potential buyers to remain in the rental market. In addition to the challenges brought on by the B20 mortgage stress test, many Calgarians are choosing to rent as opposed to buying due to the more desirable product many of these new purpose-built rental projects are offering. The ability to have flexibility with signing onto a one-year lease as opposed to a 25-year mortgage has also appealed to local renters given the uncertainty caused by prevailing economic challenges and headlines of decreasing home prices. As a result, UA continues to see developers converting initially proposed market condominium projects to rental apartment developments in response to these market conditions. UA anticipates modest increases in achievable rents and lower vacancy rates during the next few quarters as new supply (existing and nearing completion) is steadily absorbed.

UA is monitoring 61 newer purpose-built rental apartment projects comprising 8,282 units across four major Calgary sub-markets on a quarterly basis.

TOTAL PROJECTS PER SUB-MARKET

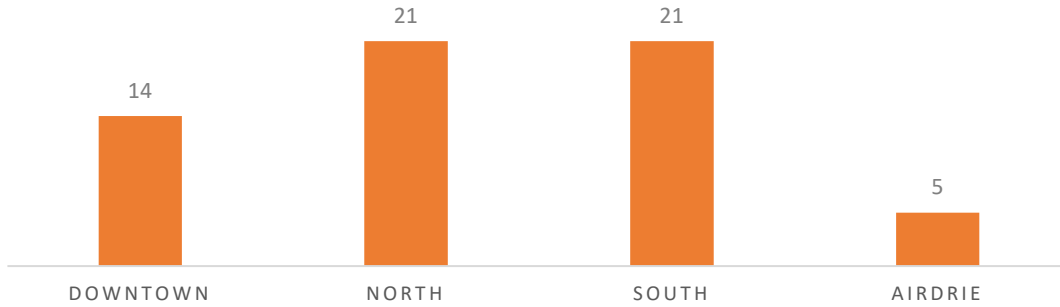


Chart 1

The data used for this analysis comprises 20 newer concrete apartment buildings, 39 newer wood frame apartment buildings and two rental townhome projects. The data is gathered on an ongoing basis through primary research methods. The information is then consolidated and entered into UA’s proprietary NHSLive data platform, which is available to industry stakeholders on a subscription basis.

Decrease in Occupancy Rates

The overall occupancy rate for newer rental apartment buildings in Calgary was 85 percent at the end of Q4-2019, which represents a seven percent decrease compared to the previous quarter. The occupancy rate across Calgary’s newer purpose-built rental apartment market has dropped by nine percent during the past year; the lowest occupancy rate since UA began tracking the purpose-built rental market in the third quarter of 2017. While this may seem concerning for developers who have rental projects in the planning stages or under construction, the increased vacancies can be largely attributed to the release of seven new purpose-built rental projects during the fourth quarter of 2019. These seven buildings added 799 new units to the market, which had already experienced 12 project launches comprising a total of 1,803 units throughout 2019. The new product was also released during what is historically a challenging quarter for significant absorptions. Adding to the challenge is the fact only seven of the 12 buildings launched during the first three quarters of last year have been fully absorbed. Given the cumulative total of 19 purpose-built rental buildings and 2,602 new units launched in Calgary in 2019, the higher vacancy rate is not surprising. The 19 rental projects launched in 2019 represents nearly half of the total number of projects UA was tracking at the end of 2018. UA anticipates this new product will be steadily absorbed during the first several quarters of 2020 that are historically more conducive to leasing.

OVERALL OCCUPANCY PER QUARTER

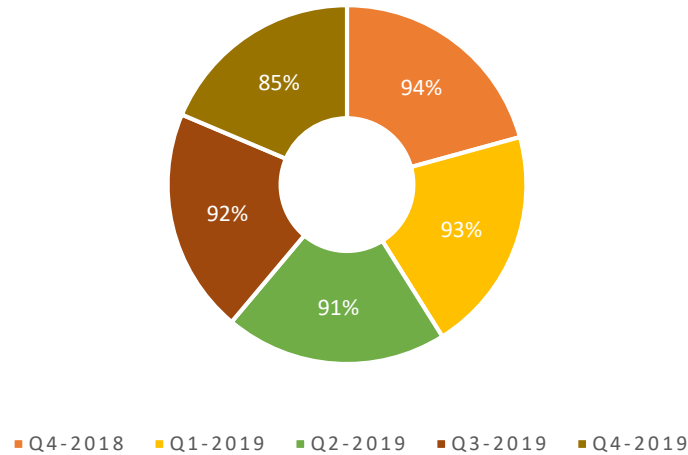


Chart 2

Airdrie and the Outer North sub-markets recorded the highest average occupancy in the fourth quarter at 96 and 90 percent respectively. These were the only two sub-markets in the city that did not experience any new project launches during the fourth quarter of the year. The Outer South sub-market experienced the lowest average occupancy at 75 percent. This is largely due to two new rental apartment project launches in the area. *Casadona Place* launched in October and added 254 new units to the area. As of December 2019, 14 units had been leased. *The Level at Seton* launched at the end of August, adding 79 units to the market. 67 percent of the units in the building are reported as being leased. The occupancy rate in the Downtown sub-market dropped to 85 percent, due to the launch of *The Hat in East Village* (219 new units). Project representatives of *The Hat* report 30 of these units have been leased. 31 new units were released at *The International*, adding to the supply and vacancy in the Downtown area. Despite the increased supply, Downtown continued to experience strong absorptions in the fourth quarter as evidenced by *The Cube* becoming 100 percent leased and *The Underwood* representatives reporting 69 percent of its units leased.

AVG OCCUPANCY BY SUB-MARKET

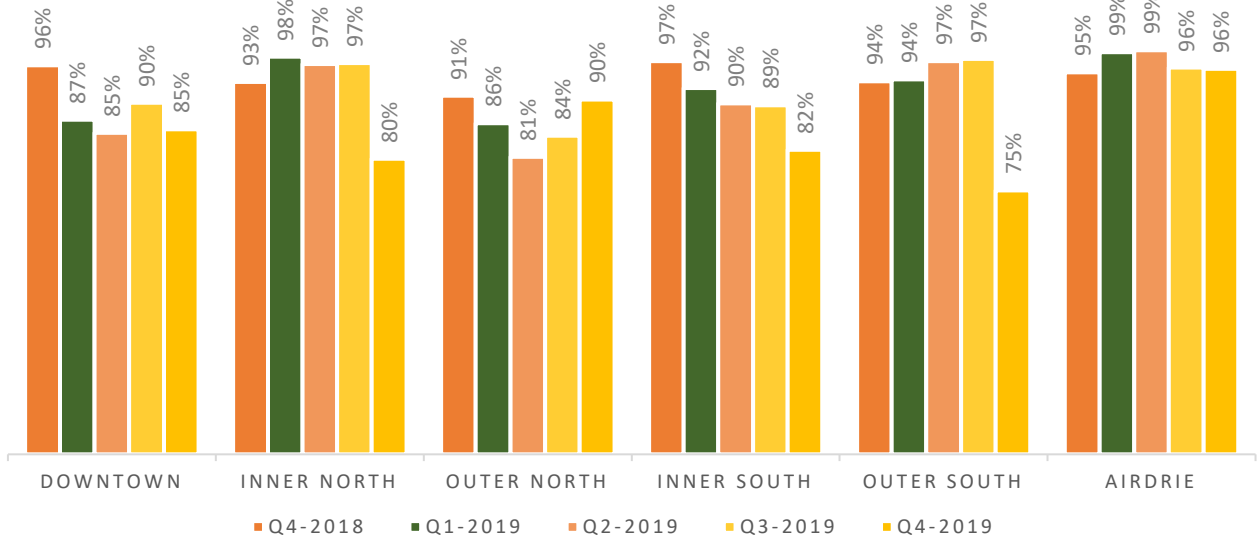


Chart 3

Stable Rents in Q4-2019

Average monthly rents throughout Calgary’s newer purpose-built rental market remained stable in the fourth quarter of the year at \$1.97 per square foot. Excluding the Airdrie sub-market, average rental rates in Calgary were \$2.06 per square foot, just \$0.02 lower than the previous quarter. Given the more dramatic increase in vacancy rate, the steady rents across the city are encouraging and an indication that renters appear willing and able to continue paying competitive rents to live in newer purpose-built rental developments. Year-over-year average rental rates across all sub-markets have increased by two percent, \$0.03 per square foot.

QUARTERLY AVG RENTS \$PSF

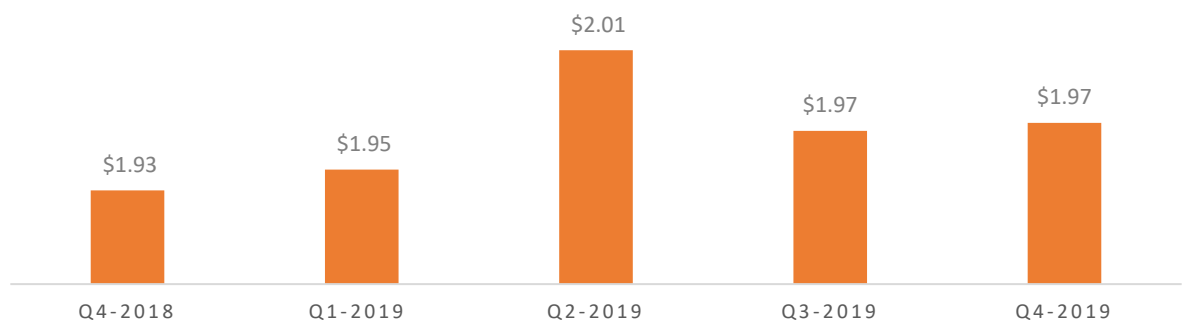


Chart 3

The Downtown sub-market achieved the highest average net rent in Q4-2019 at \$2.43 per square foot, which is just \$0.01 per square foot lower than the previous quarter. The Inner North and Inner South sub-market remain competitive with Downtown projects, achieving \$2.29 and \$2.09 per square foot respectively. Airdrie continues to offer renters the lowest average net rent at \$1.51 per square foot.

AVERAGE NET RENT \$PSF PER SUB-MARKET

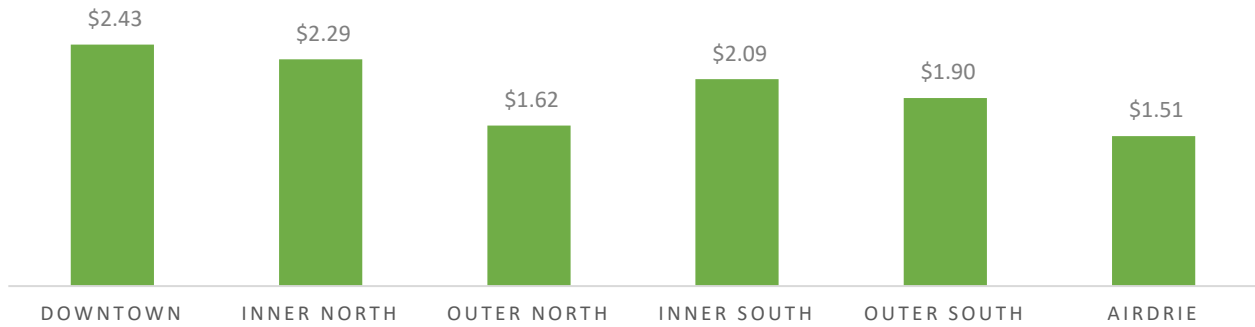


Chart 4

Rental rates for turned over apartment units have varied across the market with some projects achieving higher rents upon unit turnovers than others. Chart 6 illustrates the comparison of asking rates for new tenants versus the original average net rent sought for those unit types during the initial lease-up stage. While there is generally little variance between the current rents being sought for recently turned over units and the rents sought at the initial lease-up stage, some unit types are seeking rents in the range of approximately two to five percent higher than the initial rents sought.

LEASE RENEWAL RENTAL RATE CHANGES

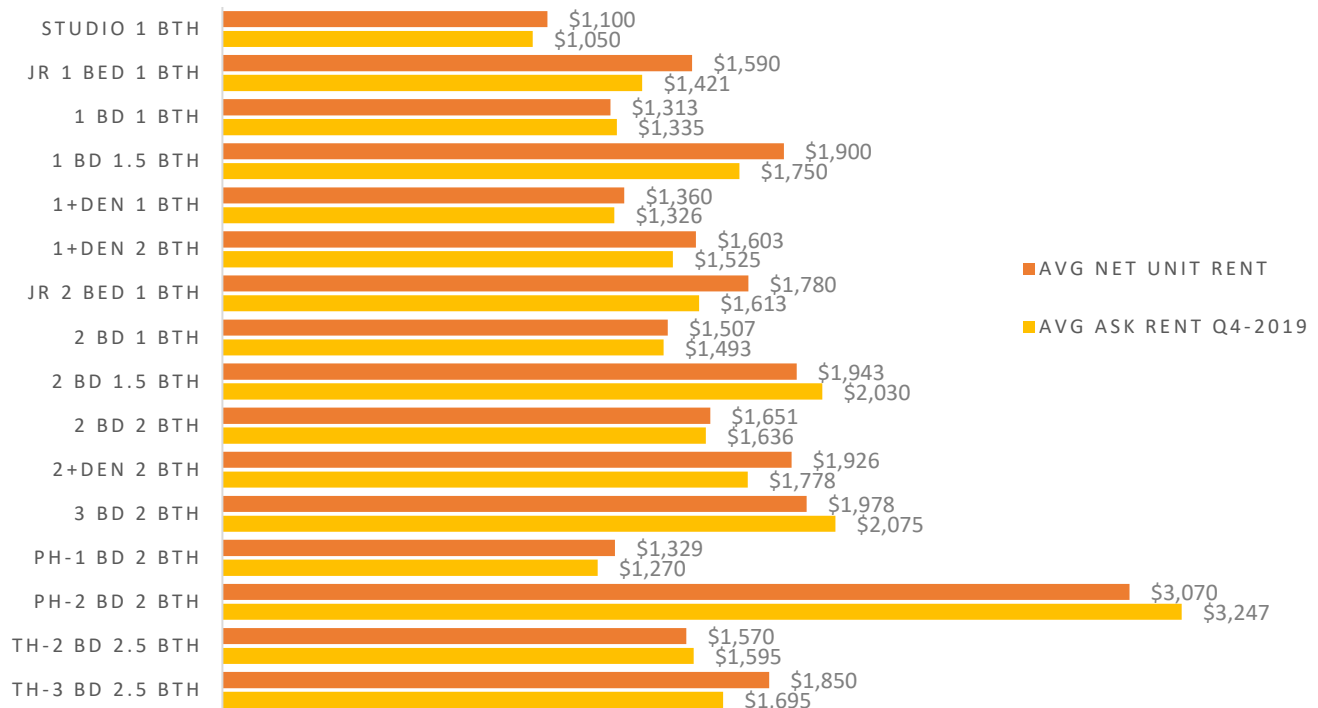


Chart 5

Rents have increased for five of the 16 unit types that rolled over in Q4-2019;

- one bedroom unit rents rose by two percent (\$22 per month);
- two bedroom, one and a half bath unit rents by four percent (\$87 per month);
- three bedroom, two bath unit rents increased by five percent (\$98 per month);
- two bedroom, two bath penthouse unit rents by five percent (\$177 per month); and,
- two bedroom, two and a half bath townhome units rose by two percent (\$25 per month)

Rents have decreased for the other 11 unit types that rolled over in Q4-2019;

- studio and one bath units decreased by five percent (\$50 per month);
- junior one bedroom, one bath units by 12 percent (\$169 per month);
- one bedroom, one and a half bath units by nine percent (\$150 per month);
- one bedroom plus den, one bath units by three percent (\$34 per month);
- one bedroom plus den, two bath units by five percent (\$78 per month);
- junior two bedroom, one bath units decreased by ten percent (\$167 per month);
- two bedroom, one bath units by one percent (\$14 per month);
- two bedroom, two bath units by one percent (\$15 per month);
- two bedroom, plus den two bath units by eight percent (\$148 per month);
- one bedroom, two bath penthouse units by five percent (\$59 per month); and,
- three bedroom, two and a half bath townhome units decreased by nine percent (\$155 per month).

This decrease in rents in most unit turnover is the result of the older product competing with newer buildings that are still in the process of leasing up. New projects are in some cases more appealing for potential renters due to several factors, including a more appealing location, a superior amenity package, an attractive incentive package offered by the developer, and the fact the units have not been lived in.

Four of the six sub-markets in Calgary experienced lower average net rent per square foot values compared to the previous quarter. The Outer North, Inner South, and the Outer South all recorded a decrease of \$0.02 rent per square foot, with the remaining Downtown sub-market only experiencing a \$0.01 rent per square foot decrease. This is attributed to an increase in vacancy at some projects in the sub-market, and to older product competing with the new project launches in the area. This results in the leasing staff settling for lower rents to fill the vacant units. Airdrie and the Inner North reported higher average net rents per square foot in Q4-2019 compared to the third quarter of the year. Airdrie experienced the most significant increase in rents; six percent or \$0.09 per square foot. This is largely due to the low vacancy rate in this sub-market and the limited amount of new supply released here in recent quarters.

AVG NET RENT \$PSF PER SUB-MARKET

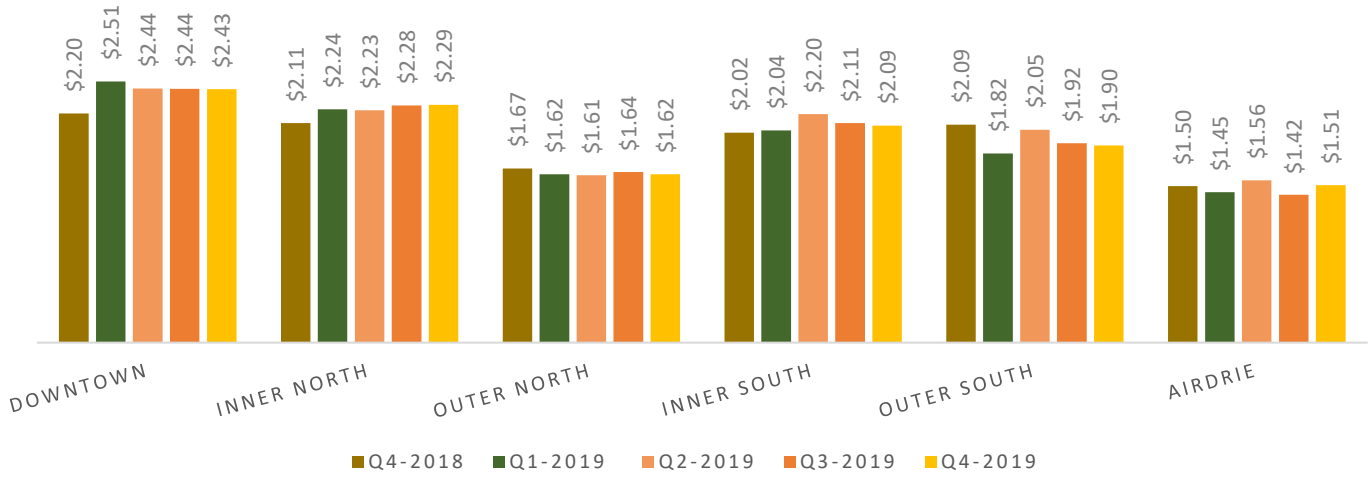


Chart 6

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 are achieving stable rents despite lower occupancy rates on a quarter-over-quarter basis, which indicates renters are willing to pay higher rental rates despite the increased options now available. On a year-over-year basis, occupancy rates have decreased by nine percent while rents have risen by two percent, \$0.04 per square foot.

OCCUPANCY VS. NET RENTS \$PSF

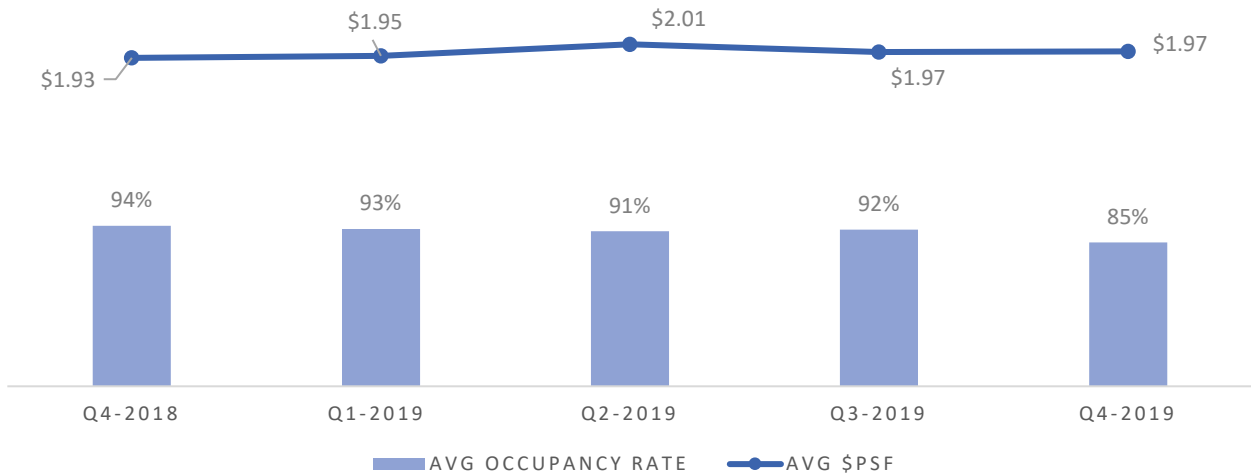


Chart 7

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 or stabilized, as this is typically when units begin to turn over for the first time. Seven new purpose-built rental projects launched in Calgary in the fourth quarter of 2019 as follows:

- Inner South
 - *The Winston* by Brava Developments (19 units)
 - *The Windsor* by Arlington Group (105 units)
 - *Vibe14* by Passion Homes (30 units).
- Outer South
 - *Casadona Place* by Casadona Group (254 units)
 - *The Level at Seton* by Rohit Commercial (79 units)
- Inner North
 - *Aspen & Bow* by Anthem Properties (93 units)
- Downtown
 - *The Hat at East Village* by Cidex Group (219 units).

There were 12 projects considered to be actively leasing in Calgary as of the end of Q4-2019.

- *The Underwood* in the Downtown sub-market (225 units), leasing for nine months and 69 percent leased
- *Northview Vista Phase 2* in the Outer North sub-market (158 units), leasing for nine months and currently 70 percent leased
- *Skyview Place Building 1000* in the Outer North sub-market (136 units), leasing for five months and currently 62 percent leased
- *Marda* in the Inner South sub-market (65 units), leasing for eight months and currently 25 percent leased.

ACTIVE VS FULLY LEASED PROJECTS

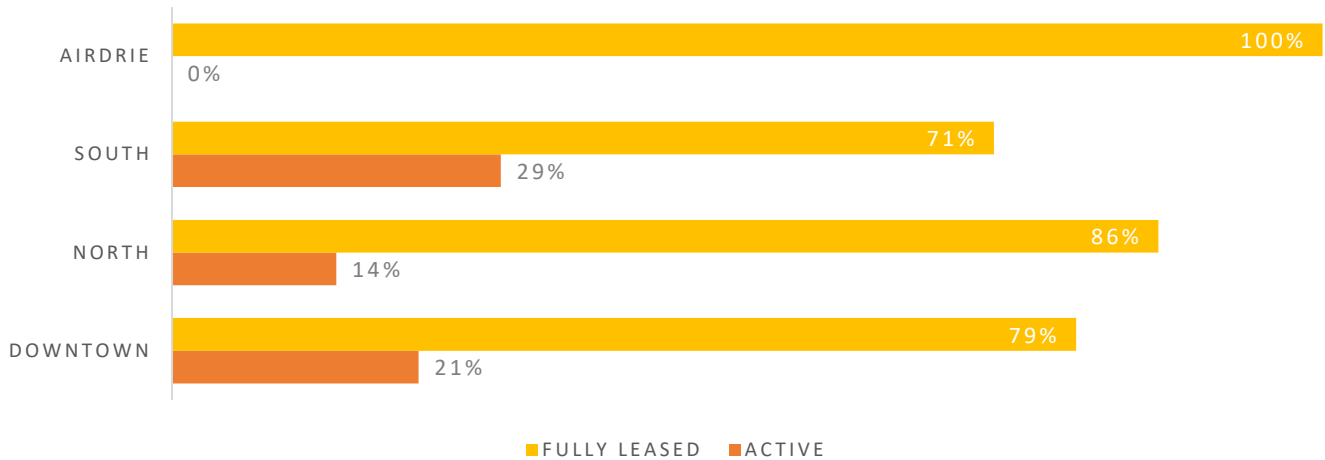


Chart 8

Availability in Q4-2019

Chart 10 illustrates how the Downtown sub-market has the highest inventory of rental units at the end of Q4-2019 compared to the other sub-markets in Calgary. This is partly due to the launch of the 219 units at *The Hat at East Village*. The Outer South was another notable sub-market in the fourth quarter, experiencing an increase of 333 new units in the area due to the launch of *Casadona Place* and *The Level at Seton*.

AVAILABLE UNITS PER SUB-MARKET

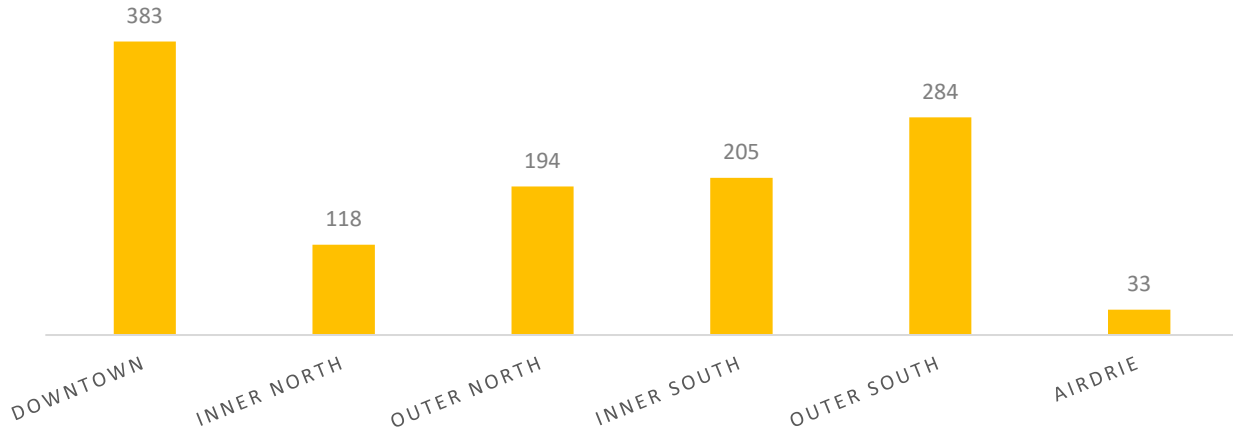


Chart 9

Incentives

37 of the 61 rental apartment buildings monitored in the Calgary market offered incentives during the fourth quarter, with the majority being in the form of rental rate incentives. The following is a sample of the incentives offered as of December 2019:

- \$500 IKEA gift card
- 1.5 months free on a 12 month lease
- Free early move-in
- Two months free on a 12 month lease
- One month free on a 12 month lease
- Reduced underground parking
- One year free Telus
- \$20 off per month on select two bedroom units
- Free storage locker for one year
- \$50 bonus
- Waved pet fee
- Free parking
- \$190 off per month on a 12 month lease
- \$100 off per month on a 12 month lease
- 40% off Telus
- 50% off first months rent
- Shaw packages
- \$500 Superstore gift card

Incentive offerings were reported in projects across all sub-markets in Calgary.

Rental Trends

New purpose-built rental product offerings in Calgary have incorporated many features offered in rental projects in major US cities, where lifestyle-focused amenities are extensively offered in purpose-built rental buildings. The lifestyle aspect is designed to encourage community-building and provide convenience. Some of the new rental buildings recently launched in the Calgary market offer discounts at nearby retailers, free fitness classes to tenants, dog-walking services, dry cleaning pick-up, and more. These lifestyle-oriented offerings help distinguish a purpose-built rental product from investor-owned rental units by creating an ease of living that ultimately helps retain tenants. While many rental buildings across Calgary are offering these different services (i.e. *Lyric*, *SODO*, *Underwood*, *Versus* and others), some of the contemplated projects in the pipeline are planning to take this service package to the next level. One contemplated rental project is planning to offer grocery and food delivery services through the incorporation of a grocery delivery app that will allow for a grocery order to be delivered directly to a tenant’s fridge while they are at work during the day. UA is excited to monitor what other unique trends developers will continue to introduce as more new projects are released to the market.

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. A few examples of projects in this area that offer these amenities include: *SODO*, which offers a full fitness facility, games room, outdoor patio with a dog run, and a smart package facility, *The Underwood*, which boasts a yoga studio, full fitness facility, and a food market on the ground floor coming soon. Amenity offerings are less comprehensive at rental projects in the outer sub-markets where renters are more price sensitive. Fitness facilities are still found in some of these outer sub-market projects. The most common amenity offered throughout Calgary is secured underground parking. 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 65 new purpose-built rental projects with an aggregate total of 19,225 apartment units proceeding through the planning and construction process in Calgary. Of these projects, there are approximately 16 concrete and nine wood frame purpose-built rental projects currently under construction, which comprise 6,049 units and 826 units respectively.

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 and that UA will be monitoring closely:

- *Telus Sky* – West Bank
- *Lyric Building 2* – Jayman Homes
- *Park Central* – Hines
- *Mantra* – Groupe Denux

Given the ever-shifting conditions in the various sectors of the new home markets in Calgary and Edmonton, 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 and Multi-Family Home sectors of the market in Calgary, Edmonton and Metro Vancouver. With its 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 anticipated increased competition in Calgary's new purpose-built rental apartment market and the ongoing 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. UA 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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