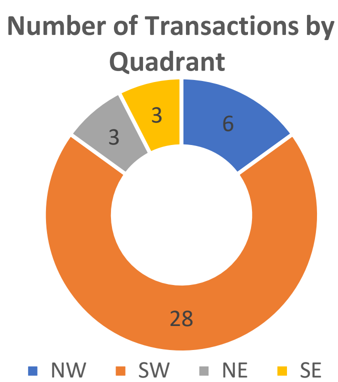
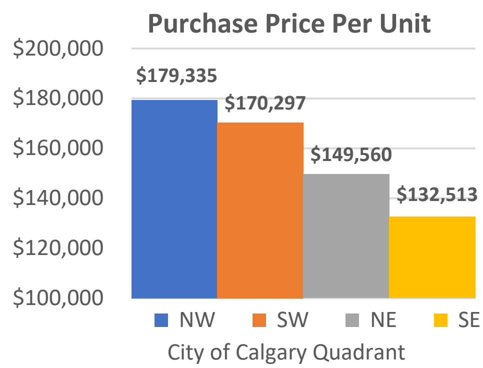
Jan 4, 2021

# 2020 Apartment Transaction Summary & 2021 Outlook

# Calgary, Alberta

Demand for apartment buildings escalate as rental properties have become prized assets for investors. The competition for Canadian rental buildings is the most competitive it's ever been. Last year Calgary's real estate market was already feeling the impact from years of depressed oil and gas markets, along with reduced economic activity as a result of COVID-19 restrictions. While the city's GDP is expected to contract by 5.5 percent in 2020, it is expected to expand by 6.0 percent in 2021 as the pandemic eases and oil prices strengthen. Looking back over the past year, the vast majority of transactions were located in Southwest Calgary, however, Northwest Calgary garnered the highest price paid per unit. This report summarizes the outlook for apartment demand in Calgary and summarizes the apartment building transactions of 2020.




## A. Demand in the Calgary Apartment Market

Older properties have become prized assets, especially those with recent vacancies. Interestingly, 80 percent of Canada's entire supply of apartment buildings was constructed at least 35 years ago. These buildings tend to charge rents below market rates and provide significant upside. Now that vaccines are on the horizon sophisticated money managers are scrambling to buy Canadian rental buildings all over again.

Rent collections in the second half of 2020 remained remarkably stable throughout the pandemic, never falling below 97% at Canada's largest publicly traded multifamily REIT's. Boardwalk is collecting 98% of rent which was increasing since March 2020. Minto and CAP REIT collecting 99% of rent this year.

The recent condominium construction boom was enough to satisfy rental demand, but now demand has overwhelmed supply, especially for more affordable rental units.



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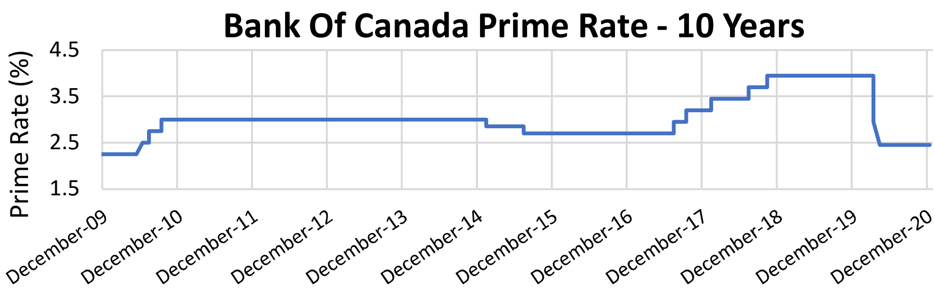
Low interest rates are helping ensure Canadians have access to capital and bolster spending, while investors who are leveraging these investments with debt are taking advantage. It is hypothesized that no further Bank of Canada policy interest rate adjustments are expected in 2021.




## Ties to Industrial

Sectors such as industrial and multifamily that have been less disrupted by the recession may see little impact on asset prices. Moderate-income apartment sector will benefit from strengths in the Calgary's Industrial sector.

Calgary's industrial market has shown signs of resilience and witnessed diversification into warehousing and distribution over the past decade. The city is also seeing an acceleration of a trend to repurposing retail space for warehousing and distribution uses for last-mile delivery. Overall industrial vacancy rose slightly to 6.2 percent in the second quarter of 2020. Distribution locations in Calgary are desirable due to its large coverage area and rates are a third or less of what Vancouver costs for warehouse space. For example, a truck leaving Calgary can reach Vancouver or Winnipeg in about 14 hours.

The workforce attracted to this strengthening sector require somewhere to live and will increase demand for both single family and rental apartments, including affordable housing in Calgary.

## B. Immigration Hiatus

Immigration has always been a formulaic catalyst for economic development and for the real estate industry. Unfortunately, we have seen immigration activity fall during the pandemic. According to RBC Economics, the number of permanent residents admitted to Canada in the second quarter fell by 67 percent compared with the same period last year. While the decline is undoubtedly temporary, expect a return to measured influx of residents by late 2021.

The coming mismatch in rental demand will be exacerbated by Canada's higher immigration targets. The Federal Government states "to ensure Canada has the workers it needs to fill crucial labour market gaps and remain competitive on the world stage, the 2021 to 2023 levels plan aims to continue welcoming immigrants at a rate of about 1% of the population of Canada." The immigration target for the next four years is over 400,000 permanent residents per year.



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C. Opportunities in moderate-income and workforce apartments

Some of the pandemic negative effects include reduced immigration, the desire for more space, and higher unemployment. All contribute to put pressure on demand for very dense housing types. We would like to emphasize that shelter remains essential and note the stability that the multifamily category can offer right now.

We have witnessed a demand shift in recent years, with renters and homebuyers looking to live in townhouses and mid-rise buildings rather than larger towers. The best prospects may be for affordable multifamily housing options, especially in light of uncertainty about jobs and the economy. Calgary's rental vacancy rate hovers just below 5%. Net income growth is likely because multifamily building owners report a 25-30 percent rent increase when a tenant turns over. The combination of low vacancy rates, historically low interest rates and income growth is a very attractive proposition for investors.

Trends in the office market forecast similarities in the rental segment

As companies search for office space during the pandemic that doesn't put their employees' health at risk, demand is likely to change, favoring lower floors and low-rise buildings without elevators. The move would reverse an accepted belief about commercial real estate: that higher floors are always more valuable. But now the suburbs, with smaller crowds and potentially reduced exposure to COVID-19, are looking more attractive.

D. Risk & Exposure

There remains concern that governments will turn to real estate to address their massive deficits. But increasing levies like development charges will only exacerbate the supply gap, worsen affordability, and hold back economic recovery.

Net migration, from all sources, has historically been a catalyst of population growth and rental demand in Calgary. Near-term immigration and interprovincial migration may be negatively impacted by the pandemic. There remains a possibility this will lead to reduced rental demand. At the same time, a large number of new rental units are anticipated to complete and be brought to market over the next few years, while some existing units previously used as short-term rentals may also add to the supply of long-term rental units in 2021. The combined effect of a decline in demand and increase in supply could be a higher vacancy rate in Calgary over the next two years.

E. Summary of 2020 transactions and existing rental rates:

The following is a summary of the most current key metrics in the business of rental ownership, with the hope of understanding what transpired in 2020 and to identify trends heading into 2021. Starting with 2019 CMHC National data, we were expecting to see upward changes occurring in Calgary rental rates as we moved into 2020.



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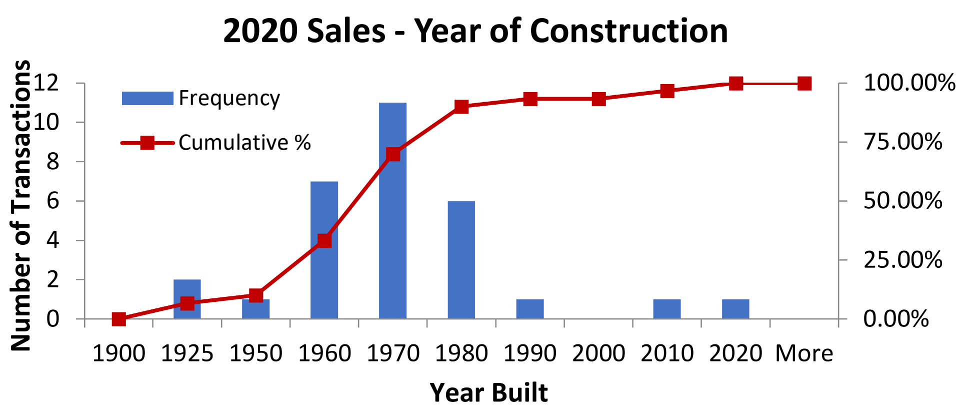
| Calgary 2019 | Bedrooms | Rental Rate | Change YOY (%) |
|---|---|---|---|
| Apartment | Studio | $ 898 | +2.3 |
| Apartment | 1 | $ 1,079 | +2.0 |
| Apartment | 2 | $ 1,295 | +2.2 |
| Apartment | 3+ | $ 1,343 | +1.4 |

Source: CMHC, Calgary, as of Oct. 2019

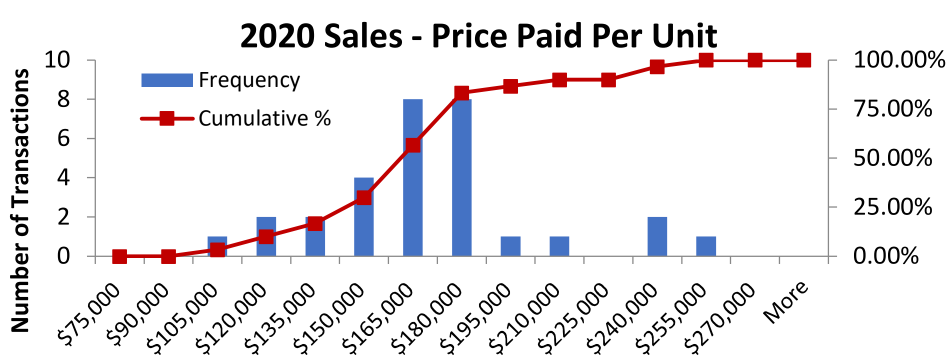
| Calgary 2020 | Bedrooms | Rental Rate |
|---|---|---|
| Apartment | Studio | $ 987 |
| Apartment | 1 | $ 1,146 |
| Apartment | 2 | $ 1,469 |
| Apartment | 3+ | $ 1,715 |

Source: RentFaster.ca, as of Dec 29, 2020

The slight year over year increases in apartment rental rates are evident from data sources with more current information, however flat rates are expected in 2021.




The average year of construction of apartment buildings in Calgary sold this year was 1969. In addition, two renovated buildings constructed in 1910 and 1912 also transferred ownership.




The average price per unit was $167,225, with a large number of transactions falling below this average. This was taken from the transaction purchase price over number of reported units.



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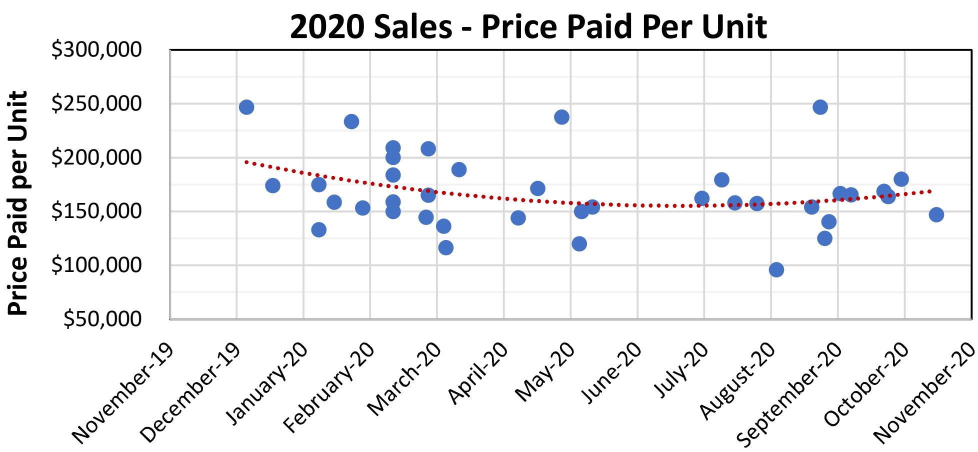
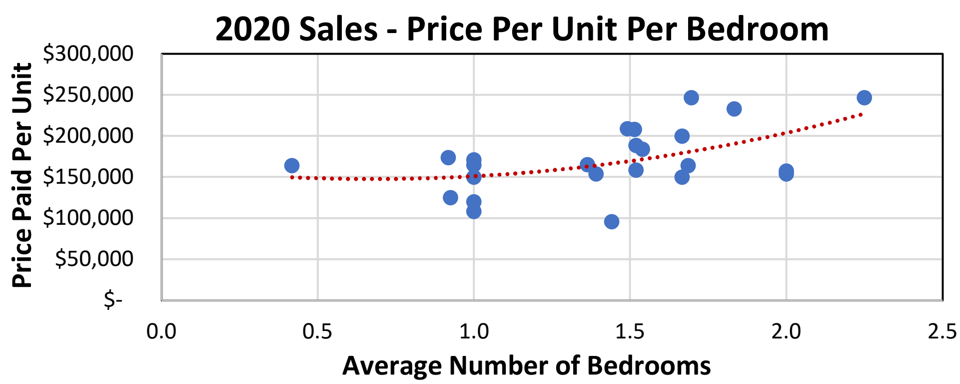
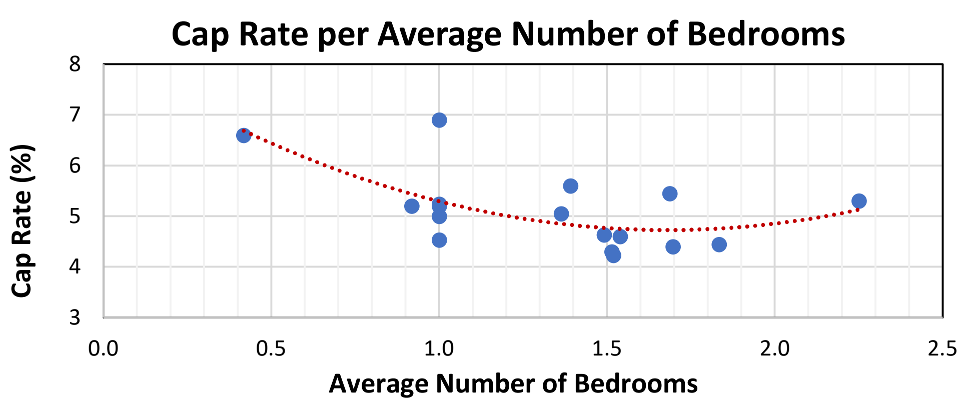



The above graph is a closer look at the price paid per unit throughout the year. It is possible that the end of 2020 is beginning to see an increase in value paid per unit.




The price paid per unit remains stronger with larger units having more bedrooms, where the average number of bedrooms was 1.4 per unit. It is possible there exists a need for more space as trends of working from home begin to permeate renter's decision making for larger units going forward.



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There is a notable spread in capitalization rates paid in 2020 and a definitive trend may not be clear given the large difference in quality, unit size and condition of buildings purchased. However, the average capitalization rate was 5.1% on a net operating income average of $214,220. While the current low interest rate environment will assist in keeping cap rates low from a historical perspective, there is still an attractive spread between the two to fuel larger sales volumes this year.

## Summary

There has been a rollercoaster of perspectives to the multi-family market over the last year. Considering the dust has not completely settled this early in 2021, there remains overwhelming evidence that multi-family and specifically apartment buildings in Calgary have better than average upside and will see increasing demand through 2021. We believe consideration of apartment buildings from investors will offset any need for reduced value expectations from a vendors' perspective.

I would be happy to provide a market evaluation of your apartment building asset reflecting the current market data and to discuss our qualified investor demand for apartment buildings in Calgary and surrounding communities.

Regards,

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This report utilized 40 transactions of Apartment buildings in Calgary during 2020 collected from multiple sources of transaction data and Barclay Street Real Estate Ltd. proprietary information. Transactions included in this analysis are restricted to less than $31,000,000 purchase price and greater than 5 units in size. The data presented is, to the best of our knowledge, correct.



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