

Prairie multi-family recovery proves a slow process

Calgary is on a fragile mend, Winnipeg stays stable but Saskatoon sees per-door apartment building prices slip as vacancies hit double digits and rental rates tumble

WI Staff Western Investor | August 28, 2018

Edmonton condominium developers are switching projects to rental apartments as housing sales slip. Calgary is seeing the first substantial drop in rental vacancy rates in years, despite sluggish job growth and weak net migration to the city. Saskatoon's rental vacancy rate remains in the double digits and prices for rental apartment buildings are falling.



This 20-unit rental apartment building on 81 Avenue, Edmonton, sold recently for \$2.96 million, or the equivalent of \$146,000 per suite. | JLL Canada

Winnipeg, meanwhile, continues to reign as the most stable multi-family market on the Prairies.

Winnipeg

Winnipeg's multi-family apartment market is benefiting from a growing population, including immigration, which has boosted the city's population to nearly 750,000, according to the Conference Board of Canada.

The result can be seen in the rental sector, as experts outlined at this year's Real Estate Forum in Winnipeg. The city has a rental universe of 57,407 units and it is increasing: last year 1,258 purpose-built rental units were started.

Despite this relatively high number of rental apartments, the overall vacancy rate has remained in the 2.8 per cent range for the past three years while rental rates have steadily increased. Average rents in the city are \$970, according to Canada Mortgage and Housing Corp. (CMHC), up 4 per cent from a year ago.

The forum was told that sales of apartment buildings are increasing, as are average prices. The average price per door for existing buildings is in the \$115,000 range, up 10 per cent from 2017, but prices vary widely: new concrete product can easily touch \$250,000 per suite, agents say.

Saskatoon

Saskatoon is posting a rental vacancy rate of close to 14 per cent this year, among the highest on the Prairies, and – if a bankrupt apartment portfolio is removed from the calculations – the average price of multi-family buildings has dropped nearly 10 per cent from a year ago to \$100,000 per suite, according to Colliers International.

Average rents in Saskatchewan's biggest city have fallen 14 per cent, or more than \$150 for a two-bedroom unit, with most of the cuts coming in older rental stock. The typical rent for a two-bedroom apartment is now around \$1,075 per month.

A building blitz of new rental properties has added nearly 1,500 new units in the past eight years, with another 172 rental apartments completing this year.

Colliers does not see a quick recovery in rental income for older properties, noting that "market conditions remain historically weak." But, the agency is quick to add, "this phenomenon is unique to Saskatoon and is not occurring on the same scale throughout major markets in Western Canada."

Some landlords may disagree.

Calgary

After four brutal years that saw vacancy rates increase, Calgary's multi-family sector is on the mend.

"However," cautions Avison Young in a first-quarter market report, "it is not anticipated that it will be a rapid recovery."

Dragging on the rental market performance is the profusion of new condominiums now being rented. A CMHC survey estimates that 34 per cent of Calgary's condos are rented, up from 31 per cent a year ago. Adding to the inventory are new purpose-built rental buildings, which are seeing the highest annual increase in 25 years. In 2017, for instance, 1,637 new rental units hit the market.

But the pace of construction has slowed and the vacancy rate has started to come down. CMHC, which counts only private rental buildings with at least three units, says the vacancy rate is now in the 6.3 per cent range, down from 7 per cent a year ago. Modest as it is, it is also the first decrease in Calgary vacancy rates in five years.

In a mid-year investment report, Barclay Street Real Estate noted that the average price per door of the 16 apartment buildings sold in Calgary this year was \$243,943, up from \$192,120 at the same last year. Yet the total dollar volume fell 59 per cent to \$49 million, as most of the action was in buildings priced at \$3 million or less.

Edmonton

A number of Edmonton condo projects are being converted to rental buildings.

Bradley Gingerich, a senior vice-president at CBRE, has helped in the sale of 11 projects that were originally slated to be condos but are now rentals. A recent example is a 260-unit condo tower proposed for a site overlooking the Saskatchewan River. CBRE brokered the site in June for \$9 million to a developer, Revera, for a 290-unit rental project.

Still, the inventory of new and unsold condos continues to increase, reports Altus Group, which estimates there were 1,600 unsold units available at the end of the first quarter. Meanwhile, sales of rental apartment buildings in the first quarter plunged 74 per cent from the same time last year.