Altus Group
HOUSING REPORT

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Tighter Rental Market Conditions Not Expected to Persist

It's that time of year again - our annual examination of the results of CMHC's October Rental Market Survey.

After a relatively stable 4 year period, the private rental apartment vacancy rate for Canada's major markets dipped to 2.2% in October 2008 from 2.6% in October 2007 (Chart 1), indicating a "balanced" market overall. On the demand side, the relative affordability of renting versus owning played a role, along with new supply continuing to be limited.

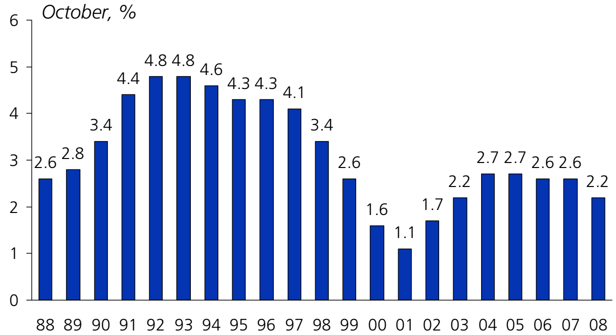
Trends in vacancy rates varied by market (see insert). Of the 34 CMAs, almost half (15) saw vacancy rates rise between 2007 and 2008, while 18 saw declines and 1 remained stable.

The number of "soft" markets (vacancy rate above 2.5%) decreased from 19 to 10 while the number of "tight" markets (below 1.5%) increased from 6 to 10. Moving into the "tight" category in 2008 were Regina, St. John's, Winnipeg, Kingston and Ottawa, while Saskatoon conditions eased enough to move it into "balanced" territory.

Vacancy rates continued to be relatively lower on average in Western Canada, with 5 out of the 9 markets considered "tight" (Kelowna, Victoria, Regina, Vancouver and Winnipeg). While still remaining "balanced", vacancy rates increased in Calgary and Edmonton; vacancy rates were also up in Saskatoon, pushing from "tight" to "balanced". Only 1 Western market, Abbotsford, fell into the "soft" category (just squeaking in).

Chart 1

Private Rental Apartment Vacancy Rate*, Major Markets, Canada



** In privately-initiated apartment structures of 3+ units*
Source: Altus Group Economic Consulting based on data from CMHC

Double Digit Rent Increases Again in Saskatoon

On average, landlords were able to achieve stronger rent increases in 2008 (4.2%) than 2007 (1.9%).

Three CMAs recorded double-digit rent increases in 2008 (2 bedroom units) – Saskatoon, Regina and Kelowna.

Continued on inside page

HIGHLIGHTS

- Overall vacancy rate for Canada's major markets dips, but variation by market
- Fewer "soft" and more "tight" or "balanced" markets
- Double-digit rent increases in Saskatoon
- Vacancy rates rising in rented condominiums in Calgary, Edmonton and Vancouver
- Investor returns, and sentiments, cool
- Economic woes and more investor condominium units coming onto the market suggest vacancy rates heading up

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Altus Group
Economic Consulting
1580 Kingston Road
Toronto Ontario M1N 1S2
Tel: 416-699-5645
Fax: 416-699-2252
housing@altusgroup.com
altusgroup.com

Saskatoon's soaring rents in recent years (a 21% increase on average in 2008, coming on the heels of 14% the previous year) has been a key factor behind vacancy rates being on the rise again.

Calgary continues to have the highest average rents, followed by Vancouver and Toronto; Edmonton average rents for a 2 bedroom unit have also pushed above the $1,000 a month threshold.

While not all landlords were able to achieve average rent increases above inflation, Windsor was the only market to record a decline in rent levels. The poor state of Windsor's economy and its substantial job losses has resulted in persistently high rental vacancy rates.

Vacancy Rates in Rented Condominiums Also Up in Calgary and Edmonton

CMHC also surveys rented condominium apartments in selected markets. Similar to the purpose-built rental stock, vacancy rates for rented condominium apartments were up in Edmonton and Calgary (Chart 2). Despite substantial condominium apartment development in recent years, vacancy rates declined in rented condominiums in Toronto, and also in Montreal.

Rented condominiums are a substantial contributor to the rental stock in most of Canada's major markets, but in particular in Vancouver where 1 in every 4 rental apartment units is a condominium. In the "core" areas of the major markets, from one-fifth to one-third of all condominium apartment unit are being rented out.

Lower Vacancy Rates in Class A Buildings in Toronto

Data from **Altus Group's Toronto Rental Housing Survey** provides some insight into the degree to which building "class" contributes to variation in vacancy rates and rents. Class is determined based on a combination of age and specific building attributes.

In the October 2008 survey, the vacancy rates in Class A buildings in Toronto stood at 1.6%, below the overall rate of 1.9% (Chart 3).

Rents for Class A buildings on average were about one-third higher than Class B and C buildings.

Fewer Renters Thinking About Buying a Home

Working in favour of landlords at the moment is the fact that, according to **Altus Group's FIRM Survey**, homebuying intentions among Canada's renters are below last year, and relatively low in historical terms (Chart 4). First-time homebuying intentions are lower in all broad age groups, and also both among lower and higher income renters. Moreover, there is a sizeable segment of the renter population - about one-third - who do not have any desire to become homeowners (Chart 5).

Returns on Rental Investment - and Investor Sentiment - Starting to Cool

Overall returns on investment properties owned by institutional investors (primarily pension funds)

Chart 2

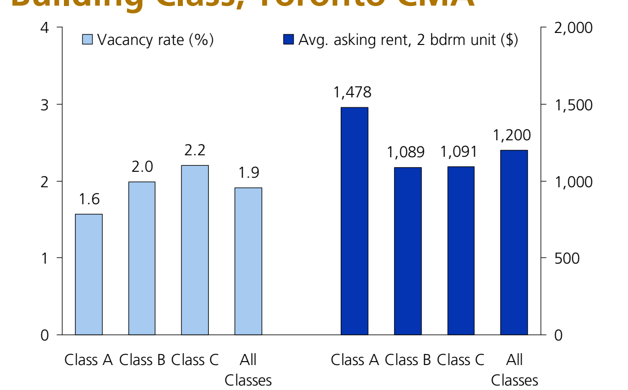
Rental Condominium Apartments, Selected Major Markets, October

Metropolitan Areas	Vacancy Rate (%) 2007	Vacancy Rate (%) 2008	Rental Condominium as % of: Total Rental Universe* 2008	Total Condo Universe 2008	Condos in "Core" Area 2008	Average Rents**: $ 2008	Yr-to-Yr % Change 2008
Vancouver	0.2	0.6	24	22	35	1,507	5.0
Calgary	0.7	3.5	14	18	20	1,293	6.2
Edmonton	1.5	4.3	11	23	25	1,099	4.5
Toronto	0.7	0.4	12	19	23	1,625	5.9
Ottawa	0.5	0.5	6	19	25	1,103	-1.4
Montreal	3.8	3.2	2	9	20	1,037	-4.2

*Total condo apartment plus privately-initiated apartment structures of 3+ units
** 2 bedroom units
Source: Altus Group Economic Consulting based on data from CMHC

Chart 3

Vacancy Rates and Asking Rents by Building Class, Toronto CMA



Source: Altus Group Rental Housing Report, October 2008

Chart 4

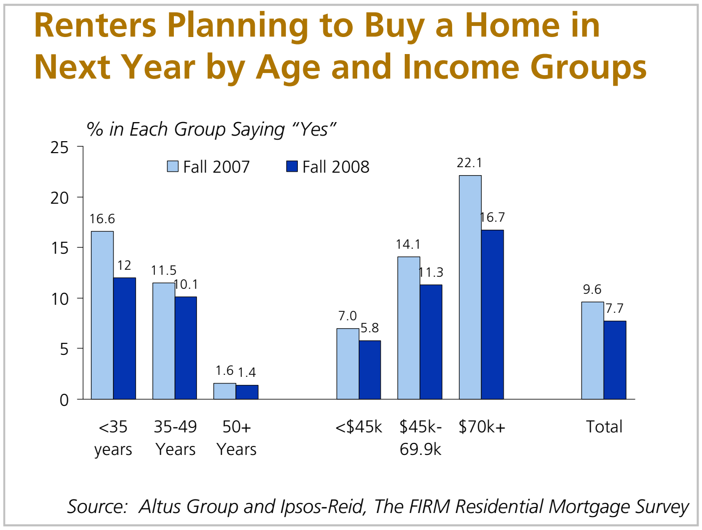
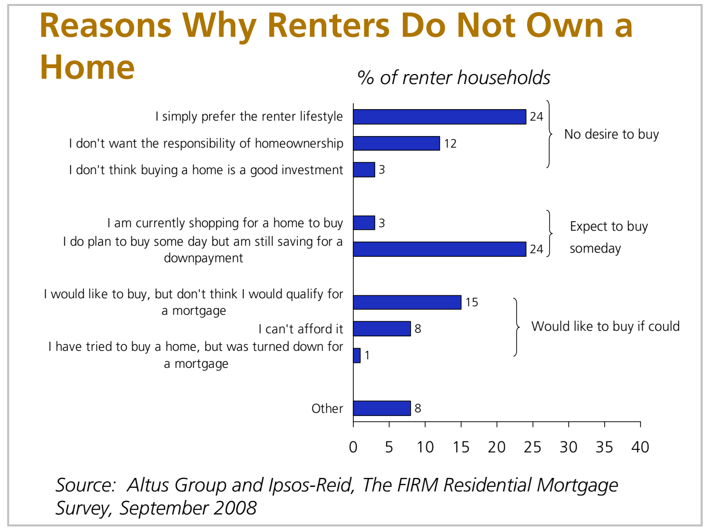


Chart 5



were 11.2% on an unleveraged basis for the 12 months ending September 2008, according to data from the **ICREIM/IPD Canadian Property Index** (Chart 6). This is below last year, as well as below the average return for all property types.

Investors' appetite for rental properties softened in the latest **Altus InSite Investment Trends Survey** (Chart 7). Compared to a year ago, fewer investors reported they were "buyers" vs. "sellers", although sentiments were still tilted towards "buy".

The decline from last year was more pronounced in Ottawa and Montreal. In contrast, investor sentiment for the Vancouver market has moved to "bullish" from "bearish" over the past year.

Outlook

While overall vacancy rates have dipped in the past year, Canada's landlords are unlikely to escape unscathed from the current economic woes. Vacancy rates quickly rose as job losses mounted during the recession of the early 1990s (refer back to Chart 1), and more recently Windsor is a grim reminder of the negative impact that severe job losses can have on rental demand.

We expect vacancy rates will rise in most parts of the country as the result of increased "doubling up" and delays in the younger population leaving home, as many Canadians struggle to make ends meet.

In addition, the substantial number of investor condominium units that will be hitting the market in some major centres over the next year is expected to exacerbate the situation.

Chart 6

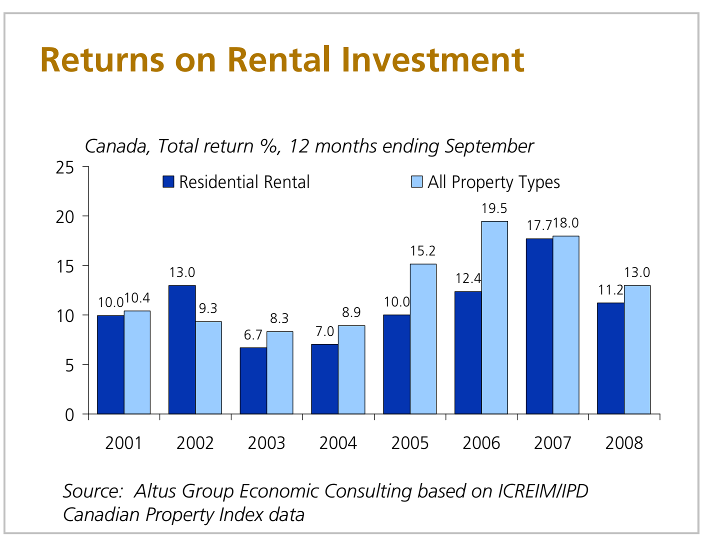
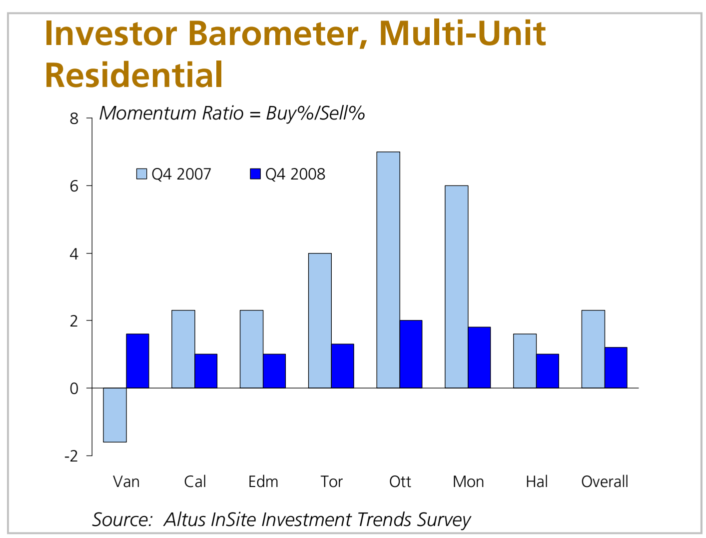


Chart 7



NOVEMBER STARTS PLUNGE

Canada-wide housing starts for the month of November fell to 172,000 units seasonally adjusted at annual rate (SAAR), significantly below the October level, according to CMHC estimates. The drop was in both the single-family and apartment sectors.

Regional highlights for November include:

- Starts were lower throughout the Atlantic Provinces, with the exception of P.E.I.;
- Quebec starts were stable as gains in the Montreal CMA offset lower starts elsewhere;
- Ontario starts dropped in both the Toronto CMA and other parts of the province;
- Starts in Saskatchewan picked up somewhat while activity in Manitoba was steady;
- Alberta starts moved lower, less than half the pace of a year earlier; and
- B.C. starts plunged, due entirely to lower activity in the Vancouver CMA.

Housing Starts by Type and Area

	November 2007	October 2008	November 2008
	Total Starts (000s), SAAR		
Canada, Total	230.3	214.5	178.0
By Type of Unit			
Single-family	163.5	128.4	118.5
Apartment	66.8	86.1	59.5
By Area			
British Columbia	50.5	30.9	22.5
Vancouver CMA	*33.3*	*20.5*	*12.0*
Other Areas	*17.2*	*10.4*	*10.5*
Alberta	43.6	26.3	21.6
Saskatchewan	5.7	5.5	7.5
Manitoba	5.2	6.0	6.3
Ontario	74.9	82.7	59.2
Toronto CMA	*40.1*	*46.4*	*32.8*
Other Areas	*34.8*	*36.3*	*26.4*
Quebec	38.1	49.4	49.1
Montreal CMA	*19.8*	*19.6*	*26.1*
Other Areas	*18.3*	*29.8*	*23.0*
New Brunswick	3.8	5.0	4.0
Nova Scotia	4.1	4.9	4.1
Prince Edward Island	1.1	0.6	0.8
Newfoundland	3.3	3.2	2.9

Source: CMHC and estimates by Altus Group Economic Consulting

How is Your Local Market Faring?

RESALE HOUSING MARKET INDICATORS

	MLS Sales*			Months of Inventory**	
	November 2007	November 2008	% Change	November 2007	November 2008
	Units				
St. John's	497	373	-25	n.a.	n.a.
Halifax	458	269	-41	n.a.	n.a.
Montreal	3,351	2,303	-31	6.8	11.2
Ottawa	903	654	-28	n.a.	n.a.
Toronto/ Oshawa	7,313	3,640	-50	2.5	7.4
Kitchener-Waterloo	526	308	-41	n.a.	n.a.
London	675	400	-41	4.3	9.5
Winnipeg	880	656	-25	2.0	4.5
Regina	282	178	-37	2.1	8.1
Saskatoon	316	181	-43	n.a.	n.a.
Calgary	1,876	1,135	-39	4.9	8.8
Edmonton	1,223	891	-27	7.1	9.0
Vancouver	2,952	874	-70	3.8	n.a.
Victoria	584	254	-57	4.0	14.0

* *Multiple Listing Service (MLS) is a registered certification mark owned by The Canadian Real Estate Association.*

** *Active listings at month end divided by sales during the month. A 5 months inventory of resale product is considered to be a "normal" market.*

Source: Altus Group Economic Consulting based on data from The Canadian Real Estate Association and local real estate boards

LABOUR MARKET INDICATORS

	Employment Growth		Unemployment Rate	
	Jan-Nov 07-Jan-Nov 08	Nov 07-Nov 08	November 2007	November 2008
	000s		%	
St. John's	3	5	6.8	7.6
Halifax	1	2	5.0	5.2
Montreal	4	- 12	6.9	7.5
Ottawa	23	12	4.7	4.7
Toronto/ Oshawa	66	58	6.6	7.0
Kitchener-Waterloo	6	11	5.3	6.5
London	- 4	- 4	6.1	6.9
Winnipeg	7	0	4.6	4.6
Regina	3	8	5.0	3.6
Saskatoon	3	1	3.7	4.1
Calgary	20	34	3.0	3.7
Edmonton	26	23	4.2	3.6
Vancouver	28	14	4.2	4.4
Victoria	9	3	2.8	3.3

Based on seasonally adjusted 3 month averages

Source: Altus Group Economic Consulting based on Statistics Canada data

Altus Group

Editor: Patricia Arsenault Contributors: Frank Clayton, Peter Norman, Robert Feldgaier, Ed Jegg, Xiying Zhang

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Selected Rental Market Indicators
Census Metropolitan Areas

Metropolitan Area	Vacancy Rate* 2007	Vacancy Rate* 2008	Starts** 2007	Starts** 2008	Average Rents*** 2007	Average Rents*** 2008	Average Rents*** 2008
	%		Units		*Year/Year % Change*		*$*
"Tight" in 2008 (vacancy rate <1.5%)							
Kelowna	0.0	0.3	30	59	5.8	14.3	967
Victoria	0.5	0.5	0	0	3.8	6.4	965
Regina	1.7	0.5	47	0	6.8	14.4	756
Vancouver	0.7	0.5	349	544	3.7	3.7	1,124
Québec	1.2	0.6	1,568	1,366	0.6	1.9	653
Sudbury	0.6	0.7	0	8	6.1	6.8	800
St. John's	2.6	0.8	0	22	-3.3	2.6	630
Winnipeg	1.5	1.0	792	253	4.4	3.9	769
Kingston	3.2	1.3	179	24	1.8	2.8	880
Ottawa	2.3	1.4	183	142	2.1	3.5	995
"Balanced" in 2008 (vacancy rate 1.5-2.5%)							
Saguenay	2.8	1.6	219	308	1.0	5.7	518
Trois-Rivieres	1.5	1.7	368	370	-0.2	3.7	505
Kitchener	2.7	1.8	633	438	0.6	1.9	845
Saskatoon	0.6	1.9	112	0	14.0	21.4	841
Gatineau	2.9	1.9	618	690	-0.7	2.3	677
Toronto	3.2	2.0	598	1,152	-0.6	3.2	1,095
Calgary	1.5	2.1	20	124	13.4	5.4	1,148
Thunder Bay	3.8	2.2	0	0	1.9	1.4	719
Guelph	1.9	2.3	0	117	1.1	2.5	869
Edmonton	1.5	2.4	250	65	18.6	7.9	1,034
Peterborough	2.8	2.4	0	46	0.5	3.4	850
Montreal	2.9	2.4	5,409	3,867	1.7	1.9	659
Brantford	2.9	2.4	0	8	5.2	0.4	752
Moncton	4.3	2.4	236	279	1.1	2.0	656
"Soft" in 2008 (vacancy rate >2.5%)							
Abbotsford	2.1	2.6	0	0	4.6	1.7	765
Sherbrooke	2.4	2.8	349	432	2.7	2.6	543
Saint John	5.2	3.1	138	150	2.5	8.4	618
Hamilton	3.5	3.2	139	0	3.5	1.5	836
Halifax	3.1	3.4	647	473	2.0	2.2	833
Barrie	3.2	3.5	0	10	3.1	2.1	954
London	3.6	3.9	793	722	3.3	2.2	834
Oshawa	3.7	4.2	146	27	1.9	1.4	889
St. Catharines	4.0	4.3	4	3	1.7	1.6	777
Windsor	12.8	14.6	8	16	-0.1	-0.1	772
All Met Areas	**2.6**	**2.2**	**13,835**	**11,715**	**1.9**	**4.2**	**828**

* *For privately-initiated apartment structures with 3 units and over*

** *Purpose-built rental apartment units; data are for January to October in each year*

*** *For 2 bedroom units in privately-initiated apartment structures with 3 units and over*

Source: Altus Group Economic Consulting based on data from CMHC