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Observations on the Greater Vancouver Commercial Real Estate Investment Market by Sam Emam

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Prospects for Multifamily are Bright — for Those in the Know

The return of cooler weather brings multifamily into the spotlight, as students return to school and units close to universities lease up. It's the peak of the market for landlords, but constraints on apartment inventories also keep the asset class in focus.

This was one of the themes at this year's Canadian Apartment Investment Conference in Toronto on September 13. The day kicked off with Benjamin Tal, managing director and deputy chief economist with CIBC Capital Markets Inc. delivering an economic update that set the stage for discussions that repeatedly returned to the failure of rental supply to keep up with demand.

While a growing number of multifamily rental projects are moving through the development pipeline, ambitious immigration targets and the growing obsolescence of existing units are conspiring to limit the supply of rentable units. This in turn is keeping rents high, even though increases are set to moderate as inflationary pressures abate. (B.C. is an outlier in this regard. The province recently announced an allowable rental rate increase of 3.5% for 2024 that's nearly double the current year's rate of 2%, which aimed to shelter tenants from inflation.)

Demand for rental units is also strong because the inflationary pressures and high financing costs that have made new rental units more expensive to build have also made it more difficult for people to make the leap from renting to home ownership. Strong demand is good for landlords and, together with the normalization in rental rate increases, promises to stabilize cash flows.

Nevertheless, investors continue to be skittish. The Bank of Canada's brief pause in rate hikes saw some sophisticated players return early in the year, but transactions have generally lagged those seen in previous years. "Vancouver reported $263 million in apartment sales, a 59% decrease year-over-year," Altus Group reported earlier this month in its review of second-quarter activity. "However, the apartment sector remained an investor favourite as a growing population, increased homeownership costs, and constrained supply supported asset fundamentals."

This means the future of rental properties is bright, and demand for new assets is high even if it takes longer to bring deals to completion while factors align. The federal government's recent promise to waive the GST on new rental construction will bring new buildings to market and create opportunities for investors to acquire assets.

This is good news for all segments of the market, from developers to owners to tenants, even if rental rates are unlikely to fall as landlords' operating costs remain high. But cash flow has never been the central opportunity in B.C., where rent controls focus landlord attention on long-term capital appreciation.

This is where a knowledgeable partner is important when it comes to acquiring or disposing of assets. Knowing where to look for long-term gain when buying a property and avoiding the short-term pain that comes from weak positioning in the current market is important. With close to 20 years' experience, the team at Block to Block Commercial can help you navigate today's challenges to secure future success. To discover what the opportunities in today's multifamily market, call us today.

Block to Block Commercial is here for you to answer any questions you have regarding the current state of the market and the opportunities for your property.

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