

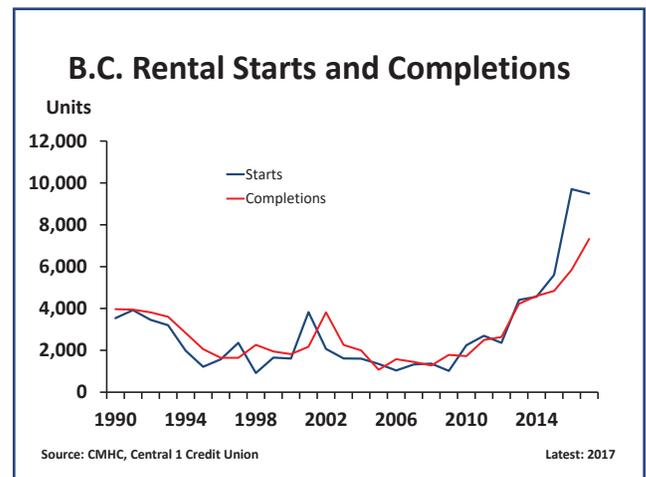
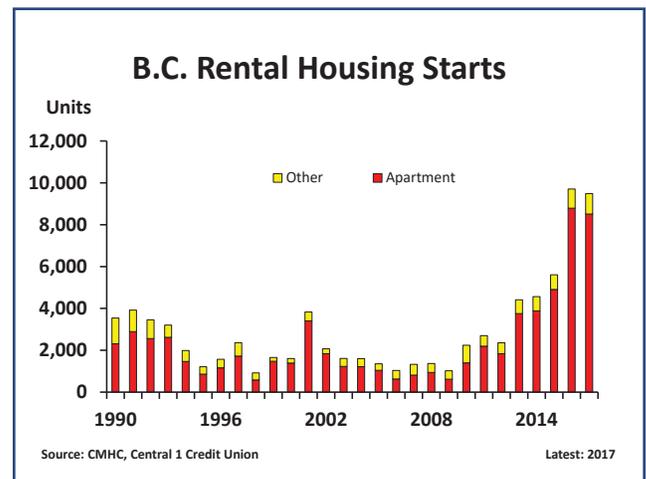
Highlights

- Rental construction elevated trending at an elevated pace in B.C.
- Apartment starts and completions highest back to at least 1990
- Growth in purpose-built rental apartment stock far below rental apartment completions
- Accessory suite classification a substantial driver in recent rental apartment upswing

Booming Rental Construction: Renaissance or Mirage?

B.C. looks to be in the middle of a rental construction renaissance. According to Canada Mortgage and Housing Corporation (CMHC), rental starts in B.C. numbered about 9,700 units in 2016 and nearly 9,500 units in 2017. During the first quarter of 2018, rental starts were 50 per cent more than same-quarter 2017. Recent starts are the highest going back to 1990, with average annual rental construction from 1990-2015 at 2,400 units. Completions have moved in line with starts, although construction delays due to capacity issues has lengthened the lag time. As a share of starts and completions, rentals represented nearly a quarter of start in both 2016 and 2017, with a similar proportion in early 2018.

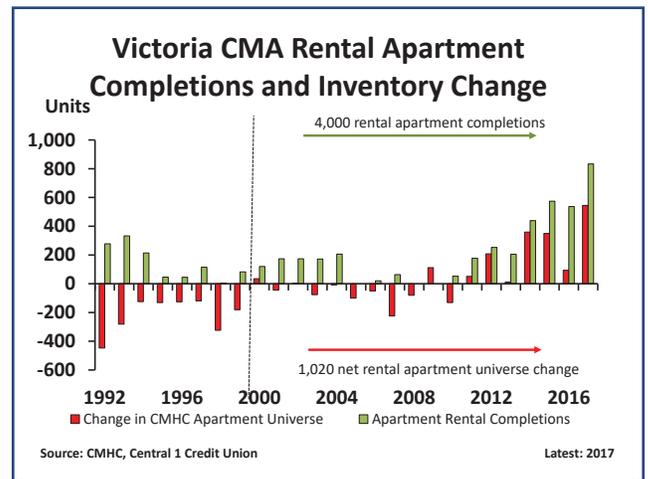
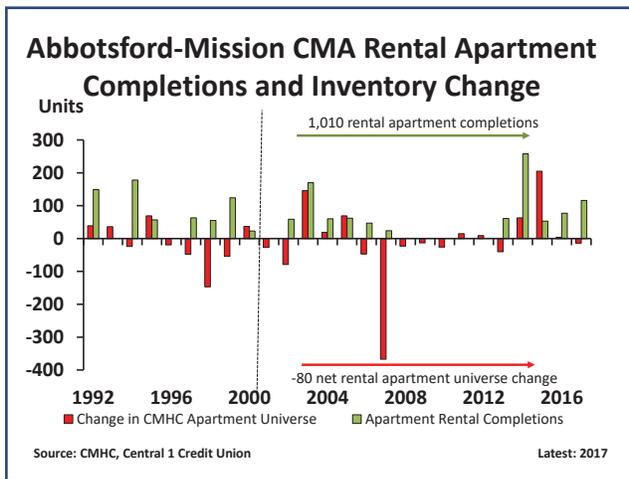
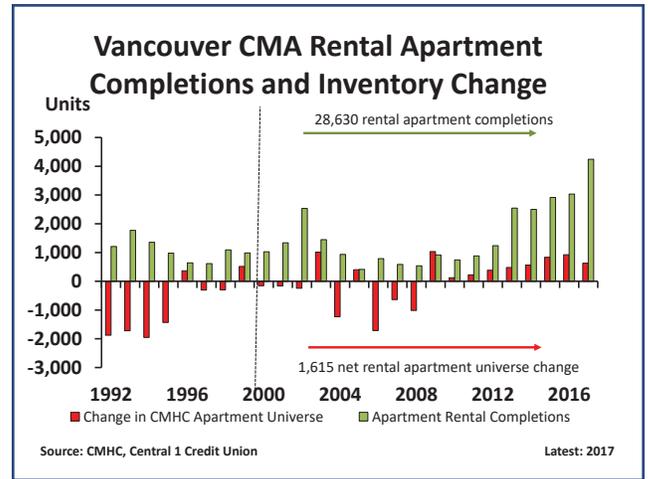
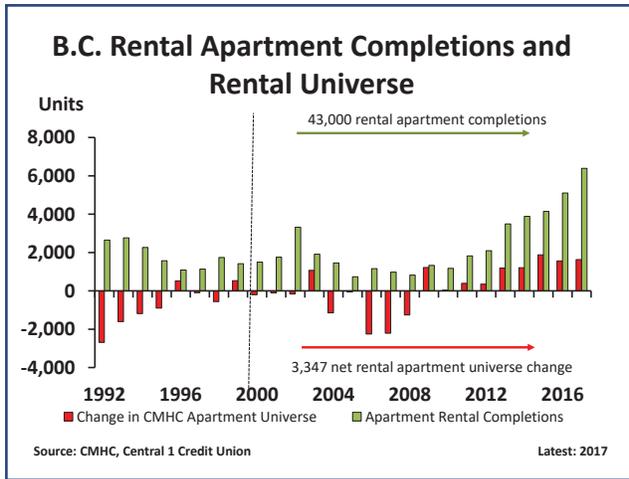
The vast majority of rental construction are apartment units, and at first blush, activity is booming. Indeed, strong labour market conditions, in-migration, erosion in homeownership affordability, and millennials heading out on their own are adding to rental demand. Low interest rates and municipal incentives have also made rental construction more viable. Vacancy rates are tracking less than one per cent across major urban markets, rents are rising at a rapid clip. Rental market builders are experiencing strong demand conditions



for rental development, and that is borne out by the data, at least on the surface.

From 2000 through 2017, there were 43,000 apartment rental completions in B.C., with the flow trending up significantly higher since 2013. However, the size of the rental apartment universe captured in CMHC's annual rental market survey of purpose-built market rentals grew by a scant 3,350 units or about two per cent over the same period. Most of the apartment universe growth has occurred in the last handful of years in line with stronger rental starts and completions. The rental apartment universe contracted during the 2000s before moving higher.

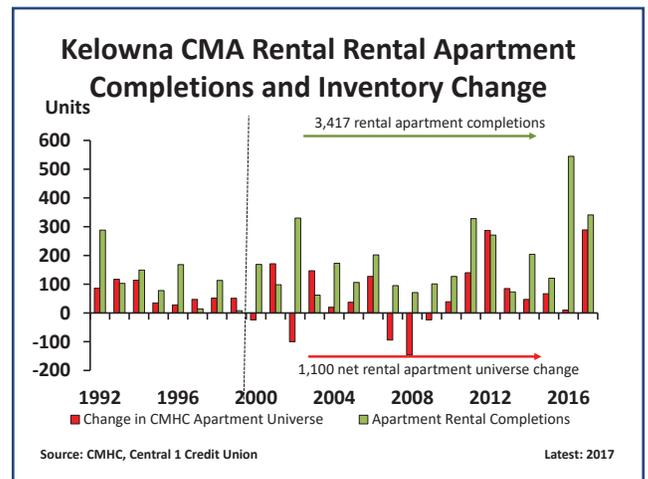
A scan across large urban areas show the most significant gap in the Vancouver CMA area. From 2000 onwards, there was a net gain of 1,615 units in the apartment rental market universe compared to 28,630



rental apartment completions, or a ratio of about six per cent. In comparison, the ratio of net universe or inventory change to completions was about 25 per cent in Victoria and 32 per cent in Kelowna. Growth in the rental universe is more closely aligned with completions outside the Vancouver CMA, although the gap between cumulative apartment completions and purpose-built rental apartment stock remains considerable.

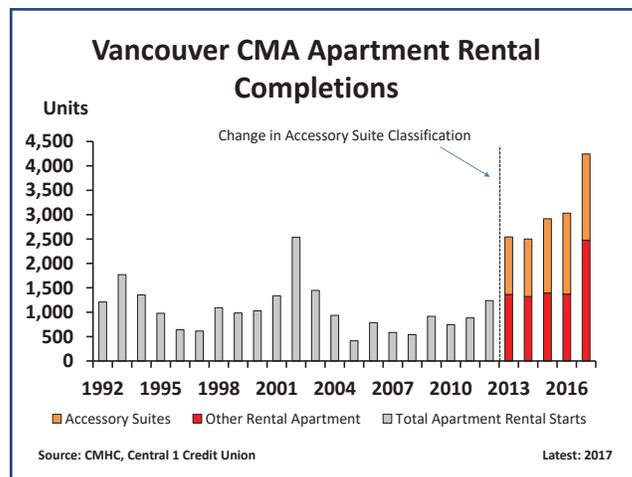
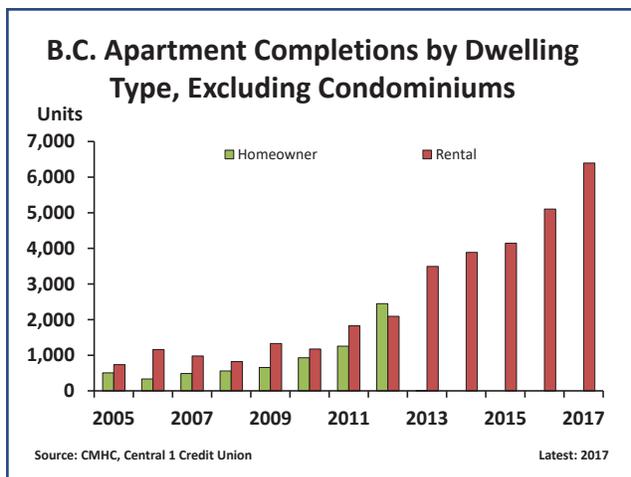
What is driving this disconnect?

There are good reasons for the disconnect between apartment rental universe and apartment rental completions. These include depreciation and demolition of the aging rental stock either for renewal or redevelopment. More than three quarters of the current purpose-built stock was built prior to 1979. Conversion of existing rental buildings to condominium tenure also contributes to losses in the stock. Non-market social housing is also a significant component of rental starts and completions and are not included in the rental market survey. Data quality,



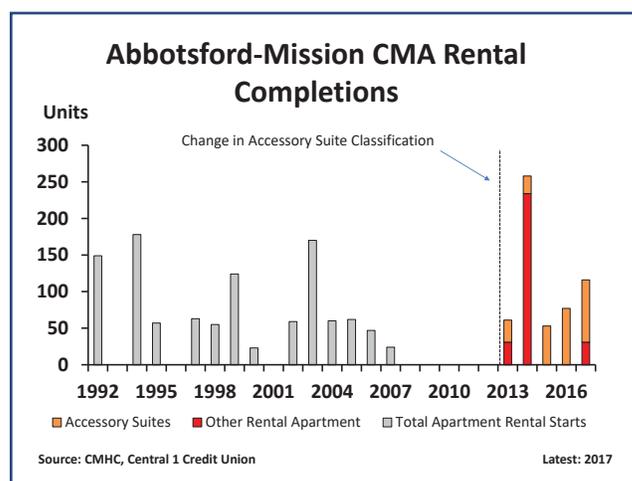
and whether all apartment units are being accounted for is also a potential area of error.

That said, it turns out that a significant part of this rental renaissance in the apartment market is definitional CMHC changed the classification of detached homes with accessory suites in its Starts and Completions survey in 2013 that primarily impacted the Vancouver CMA and Abbotsford CMA markets. Previously,



single-detached homes with an accessory suite (basement suite and nanny suite) were counted as two “ownership, freehold, apt + other” units.¹ Since 2013, this same property was classified as one “single, owned unit” with the accessory suite classified as a “rental apartment + other”. This change significantly boosted the count of rental starts, but by lowered the count of homeownership units. Rising rental starts is partly a mirage.

¹ Canada Mortgage and Housing Corporation. July 2013 Housing Starts press release, Vancouver. August 9, 2013. “Effective January 2013, single-detached houses with an attached accessory suite are recorded as one unit “Ownership, Single” and the accessory suite as one unit “Rental, Apt + Other”. In 2012, and prior years, these structures were recorded as two units, “Ownership, Freehold, Apt + other” in some markets, including the Vancouver CMA and Abbotsford-Mission CMA.”



Just how much of the market does this represent? Quite a bit. In the Vancouver CMA, roughly half of rental apartment starts and completions since the change in definition have been accessory suites. Of the 15,240 completions from 2013 onwards, 7,300 (or 48 per cent) were accessory suites. Similar shares were observed in Abbotsford-Mission. While non-accessory, largely purpose-built market rental units has held firm with a strong bump up in 2017, the perceived apartment rental renaissance looks a lot more pedestrian. Rental suites were part of the housing landscape pre-2013 but included as homeownership starts. That said, construction of accessory suites has likely increased given the price of detached homes and need for mortgage assistance from rental income.

Takeaway

Strong rental market conditions are propelling construction of new rental market buildings in the province. However, renters hoping to find a slew of new purpose-built rental building popping up based

Rental Market Completions - Apartments			
Vancouver CMA			
	Accessory Suites	Purpose-built Market and Social units	Total
2013	1,178	1,366	2,544
2014	1,180	1,321	2,501
2015	1,523	1,394	2,917
2016	1,659	1,373	3,032
2017	1,769	2,476	4,245

Abbotsford-Mission CMA			
	Accessory Suites	Purpose-built Market and Social units	Total
2013	30	31	61
2014	24	234	258
2015	53	0	53
2016	77	0	77
2017	85	31	116

Source: CMHC, Central 1 Credit Union

on a boom in rental starts and completions may be disappointed. CMHC starts and completions data for rental apartments does not align with changes to the stock of units in purpose-built apartments structures.

While factors such as redevelopment of older rental stock is a factor, the disconnect largely reflects a change in classification of accessory suites post-2013 from owned to rental dwelling type which inflated the number of rental apartments relative to previous years. Purpose-built stock of rental units continues to expand at only a modest pace, albeit more strongly in recent years. High demand will continue hold vacancy rates at low levels, with little alleviation from supply.

That said, mortgage helpers are significant component of growth in rental supply, which is providing additional supply for renters as observed in the high number of accessory suites. This does not include condominium rentals. That said, a risk related to mortgage helpers is that supply may not be permanent, and owners may look to convert units back to the main home once units have served their purpose.

While not quite a mirage, the current rental construction boom is in no way a renaissance in traditional rental apartment construction.

Bryan Yu

Deputy Chief Economist

byu@central1.com / P 604.742.5346

Mobile: 604.649.7209