

FEATURE Demand for rental apartments skyrockets, rents are rising as high housing prices freeze out buyers

Oh, to be the landlord

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When **Jon and Janet Fromager** arrived in Vancouver last month, they were shocked at the cost of rental housing compared to their native Montreal. “We were paying \$700 for a nice two bedroom apartment downtown,” Jon said. “We would be lucky to find anything near that in Vancouver.”

Indeed. According to the annual rental market survey from **Canada Mortgage and Housing Corporation**, the average rent for a Vancouver two-bedroom apartment is \$1,283, and rents are even higher in the downtown area, where privately owned condominiums constitute a large share of the rental market. The typical downtown condo sells for \$480,000.

Even worse for the thousands of people, like the Fromagers, who are now moving into Metro Vancouver every year is the lack of apartments or condominiums for rent.

The official apartment vacancy rate in the region is now 0.7 per cent, unchanged from 2006, but still among the tightest in Canada. The vacancy rate for rental condos is estimated at 0.1 per cent in the core. An October 2007 survey by CMHC found only 168 vacant rental condos in the entire downtown area.

“There are several factors driving demand for rental accommodation in Vancouver,” said **Robyn Adamache**, senior market analyst with CMHC.

“The main cause is our strong economy which is creating jobs and drawing people to the region. Also, the rising cost of home ownership is causing some people to stay in rental housing rather than buy. Finally, longer completion times on condo projects are keeping first-time home buyers who bought apartments through presales in rental accommodation.”

Vacancy rates are higher for larger units than for smaller ones in most centres, but not by much.

The average vacancy rate for bachelor and one-bedroom suites was 0.5 per cent and 0.7 per cent, respectively. Larger two and three plus bedroom units had vacancy rates of one per cent and 1.2 per cent, respectively. Higher rents and limited demand for larger units are the main reasons for higher vacancies in larger apartments, according to Adamache.

Higher rents

Robust demand and low vacancy rates has allowed many landlords to demand higher

rents, with an average 4.6 per cent increase in the past year. Increases would likely be even higher if not for B.C. rent controls, which limit increases to around four per cent. Rents can be increased to market levels when a tenant vacates, however.

Meanwhile, the supply of rental housing in Metro Vancouver has been declining for several years.

Preservation of apartment rental buildings by municipalities has helped soften the decline of the rental stock to 637 suites, a fraction of the 1,713 suite loss recorded in last year’s survey, CMHC notes. However, the secondary rental sector houses more than half of all renters.

Most new rental supply in the Vancouver CMA is coming from suites in private homes and apartment condominiums. And the latter is where a lot of new landlords are being introduced to the market.

According to CMHC, the vacancy rate for downtown condominiums that are being rented out is 0.1 per cent, and it is mere 0.3 per cent in suburban markets.

In fact, of more than 3,000 Vancouver condo rentals surveyed in October of last year, only 168 were available for rent.

Rental condos post an average rent of \$1,829 for two-bedroom units downtown, about \$300 higher than the average apartment rent of the same size.

However, at an average price of nearly \$500,000, it is difficult for recent condo buyers to rent a unit for enough to cover mortgage and strata payments, noted apartment building specialist **David Goodman** of **McDonald Commercial**.

In the Abbotsford area, the average vacancy rate is nearly unchanged, moving from 2.0 per cent in 2006 to 2.1 per cent as of the end of 2007. While rental demand remained strong, the total supply of apartment rentals declined by 300 suites over the past year, resulting in the low vacancy rate. Renovation and conversion of rentals to condominiums are the main reason for the drop in supply. The condo rental vacancy rate in the Fraser Valley is 0.7 per cent, according to CMHC.



Photo: Canada Mortgage and Housing Corporation



Photo: iStockphoto.com

The apartment rental vacancy rate in Vancouver is now 0.7 per cent, and rents are increasing at twice the rate of inflation. Inset: Robyn Adamache, senior market analyst with CMHC: Rental demand will outstrip supply.

Across all of B.C., landlords are seeing the same scenario.

The CMHC survey found that 12 of B.C.’s 27 urban centres now have a rental vacancy rate of less than one per cent, and the overall vacancy rate has now declined for four straight years. In two areas – Kelowna and Salmon Arm – the vacancy rate is rated as “zero” by CMHC.

The average rent for a two-bedroom apartment across B.C. increased 5.5 per cent in the past year, to \$922.

Victoria

Victoria has an apartment vacancy rate of 0.5 per cent, the fourth year that the rate has been at this rate or lower. Meanwhile, average rents in the capital region have increased five per cent in the past year, and have spiked as much as eight per cent in some prime markets, such as Oak Bay.

It is not only the city itself but the entire Victoria region that is experiencing a shortage of rental property. Sidney, Saanich and Oak Bay are all at or below the city’s vacancy rate and the Western Communities and Esquimalt – traditional enclaves of plentiful rentals – are in the 0.6 per cent vacancy range, also among the tightest in the province.

CMHC sees little change in the Victoria rental market this year. “The strong ongoing

Rental vacancy rates, BC

Market	October 2006	October 2007
Metro Vancouver	0.7%	0.7%
Victoria CMA	0.5%	0.5%
Abbotsford	2.0%	2.1%
Kelowna	0.6%	0.0%
Nanaimo	1.9%	1.0%
Prince George	2.6%	1.9%
Cranbrook	1.2%	0.1%
British Columbia	1.2%	1.0%

Source: Canada Mortgage and Housing Corporation

demand for rental housing will continue to push average rents higher. Expect the average rent for a one-bedroom unit to increase to \$745, while the average rent for a two-bedroom unit is expected to increase to \$935, “CMHC concluded. However, the rental vacancy rate is expected to ease slightly to around 0.7 per cent this year, as owners moved into their newly completed condominiums.

The market is also challenging for those who want to become Victoria landlords. Most city apartment buildings are at least 30 years old, and prices have doubled in the past two years to an average of around \$110,000 per suite. Last year, 26 apartment buildings sold in Victoria, twice the five-year annual average.

Most listings are snapped up quickly, according to **Al Kemp**, head of the Victoria-based **Rental Owners and Managers’ Association**, who is confident the market will remain strong.

“There is absolutely no downside to investing in Victoria rental property for the next 10 years,” he said. ♦