

Apartments perhaps the safest, smartest real estate play

COMMENT | Demographics, urbanization and the reality of housing prices combine to make multi-family rental housing one of the best commercial real estate investments in major cities across Western Canada

In this issue, *Western Investor* dedicates a lot of space to the residential rental market, which we believe has become the dominant domestic real estate play in Canada.

It is becoming increasingly clear that renting is the new reality for a large and increasing number of people. Due to demographics and the converging trend lines of higher housing prices, stagnant income growth and urbanization, renting is now the preferred housing choice for many Canadians of all ages.

Edmonton is a good example of what is happening. Alberta's oil capital has Canada's highest annual incomes, relatively low housing prices and a huge number of rental apartments, at least 63,000 with 8,000 more under construction. And no rent controls. Yet the



rental vacancy rate is a mere 1.2 per cent, a level consistent with most large Canadian cities.

Paul Chaput, a member of the **CBRE National Apartment Group** and a multi-family specialist in Alberta's capital, notes "people in Edmonton aren't forced to rent, they want to rent. It just makes sense."

It makes even more sense in Vancouver, which has Canada's highest housing prices and the second-lowest wages among major western Canadian cities.

The average price of a Vancouver condominium is \$375,000 plus

about \$250 per month in strata fees. A typical detached house sells for \$941,000. But the average rent for a Vancouver apartment is less than \$1,200 per month and legislated rents can increase by only 2.2 per cent a year.

Rental housing not only provides an affordable housing alternative, it also assures income and financial stability for local landlords. Unlike most commercial real estate, multi-family rentals are overwhelmingly owned by locals, often family operations that have assembled a modest portfolio of older, wood-frame apartment buildings. Since most of the rental universe in Vancouver and other cities is composed of small buildings completed decades ago, it largely escapes the scrutiny of large pension funds and other institutional investors.

Capitalization rates on multi-family investments are low by commercial real estate standards, but this is balanced by the security that apartments represent. There has always been a steady demand for residential rentals, and current trends indicate that demand will accelerate.

It is not only young people who are driving the market. Many baby boomers are opting to downsize to rentals in order to reduce debt, widen their housing choices, move to amenity-rich neighbourhoods and free up cash.

As one long-term Vancouver renter told us, "You can buy a house or buy a life. I prefer to buy a life." ■

FRANK O'BRIEN | Editor
fobrien@biv.com