Calgary and Edmonton have lowest rental vacancy rates in Canada

But Boardwalk CEO says tight market easing due to new construction

BY MARIO TONEGUZZI, CALGARY HERALD FEBRUARY 13, 2014

Sam Kolias, chairman and chief executive of Boardwalk REIT, says the tight rental market in the city is easing due to new construction of rental units and condominiums.

Photograph by: Handout

CALGARY - Despite the lowest residential vacancy rate in the country, the chairman and chief executive of Calgary-based Boardwalk Real Estate Investment Trust says there is an easing in the tightness of the market due to new construction of rental units and condominiums.

Sam Kolias said the easing has helped balance the market as it has shifted in favour of the tenant rather than the landlord.

“We are seeing an easing of the vacancy rate as it’s moving higher . . . There’s more supply and more competition and choice that has entered the market and will continue to enter the market,” said Kolias, adding the REIT has increased incentives such as free rent to counter the additional choices that tenants are enjoying today.

“We’re trying to keep our occupancy high by lowering our prices and essentially by giving away free rent and incentives.”

Those incentives, for new leases or renewal of leases, range from $25 to $275 a month off depending on the apartment and where it is located. Kolias said supply in the market is increasing due to the new construction as well as new condos which are turning into rentals or being purchased by renters.

On Thursday as Boardwalk announced its fiscal results for the fourth quarter of 2013, a report released by CIBC World Markets Inc. said Calgary and Edmonton have the lowest residential rental vacancy rates in the country.

Benjamin Tal, the CIBC’s deputy chief economist, said in his report that the “tight” portion of the rental market in Canada is in Alberta - accounting for about 10 per cent of the overall Canadian market.

Calgary’s vacancy rate is 1.0 per cent while Edmonton’s is 1.4 per cent.

The report said 18 of the country’s 26 largest census metropolitan areas are in “soft” rental market territory with vacancy rates larger than 2.5 per cent.

“The negative relationship between vacancy rates and rent inflation is unmistakable, with rent rising by an average year-over-year rate of close to six per cent in tight markets - three times faster than seen in soft markets,” said Tal.

Don Campbell, senior analyst with the Real Estate Investment Network, said the combination of the dramatic influx of people to the Calgary region “combined with the elimination of many grandfathered secondary suites in the flood zones and lack of purpose-built rentals has driven our vacancy rate to the lowest in the country, with no end in sight.”

“Without the addition of affordable housing that secondary suites can provide quickly, even if purpose-built apartments are announced, we will see renters suffer with large rental increases across the city. Which, without proper housing, will slow our economic growth as job seekers and job creators move to other more affordable regions,” he said.

According to Canada Mortgage and Housing Corp., the Calgary CMA rental vacancy rate is forecast to rise to 1.2 per cent this year. The CMHC said the average rent for a two-bedroom place in the Calgary region was $1,224 in 2013 and that is forecast to rise to $1,280 this year.

Richard Cho, senior market analyst in Calgary for the CMHC, said there were 437 purpose-built rental units under construction in December in the Calgary CMA. All of them are apartment units.

“Rental demand in Calgary has been strong, fuelled by heightened levels of net migration,” said Cho. “Although the vacancy rate in 2014 is expected to move up slightly, it will still remain relatively low. The purpose-built rental market universe has declined over the last number of years. While interest for rental accommodations have been elevated, there has not been any large net additions to supply on the purpose-built side.

“As such, this has contributed to the vacancy rates that we have seen in the purpose-built rental market. However, the secondary rental market in Calgary has grown over the years, supplying prospective renters with additional options.”

Boardwalk reported Thursday that funds from operations in the fourth quarter were $41.4 million or 79 cents per trust unit on a diluted basis, which was up 8.2 per cent. Over 12 months, FFO was $150.3 million or $2.87 per trust unit, increases of 11.9 per cent and 11.8 per cent respectively.

Rental revenue of $117.6 million in the fourth quarter and $462.0 million for the year were both up 5.0 per cent. Average rents for Boardwalk rose from $1,065 in December 2012 to $1,104 in December 2013. Overall occupancy dropped to 98.42 per cent from 98.45 per cent a year ago.

Boardwalk has a total of 35,277 rental units of which 5,310 are in Calgary.

Meanwhile, on Wednesday Calgary-based Mainstreet Equity Corporation reported its 13th consecutive quarter of double-digit year-over-year increases in funds from operations and net operating income. It owns and operates 8,323 residential rental units, including apartments and townhouses, in the British Columbia Lower Mainland, Calgary, Edmonton, Saskatoon and the Greater Toronto Area.

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