



Urban

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Q3 2021

RENTAL TAKE: CALGARY

DOWNTOWN DRIVES DEMAND



Downtown Drives Demand

Calgary's new purpose-built rental apartment market continues to show positive momentum as we move into the final quarter of the year. The market is steadily absorbing the new product that has launched during the first half of the year. Vacancy is the lowest it has been since Q4-2019 with an overall average of 8.2 percent. This is a 1.9 percent decrease from the second quarter of 2021 and a 9.6 percent decrease when compared to the same quarter of last year. Demand for the downtown is driving the market in the third quarter with vacancy decreasing to almost half of what it was in Q2-2021. Young professionals and students are making up this demand as they move back into the inner submarkets in anticipation of the re-opening of the city.

The average rent per square foot increased 4.3 percent (\$0.09) from \$2.17 per square foot at the end of the second quarter to \$2.26 per square at the end of Q3-2021. The increase in rents was largely due to the increased demand that led landlords to pull back on incentive packages and rent discounts.

Zonda Urban is currently tracking 100 newer purpose-built rental apartment projects comprising of 12,814 units across seven sub-markets, including Airdrie and Cochrane. 13 of these projects are actively leasing (under 85 percent leased and within the first year of their leasing campaign), with the remaining 85 buildings having been substantially absorbed and experiencing typical levels of unit turnover.

Zonda Urban is currently monitoring 40 newer concrete rental apartment projects (6,792 units), 54 wood frame rental apartment projects (6,151 units) and six rental townhome projects (201 units) in Calgary through on-going primary research. The information collected on each proposed and actively leasing project is accessible to industry stakeholders through Zonda Urban's NHSLive data platform on a subscription basis.

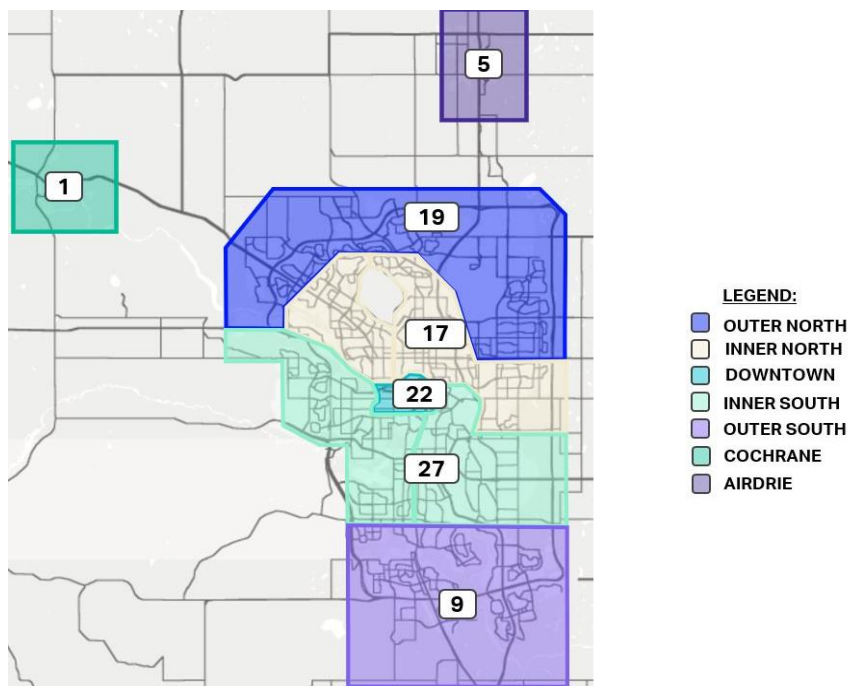


Figure 1

DECREASE IN VACANCY RATES

The overall vacancy rate for newer rental projects in Calgary was 8.2 percent at the end of the third quarter of the year, this is a 1.9 percent decrease from last quarter and a 9.6 percent decrease from the third quarter of 2020. The lower quarterly vacancy can be attributed to the stabilization of nine projects during the third quarter of the year as well as the continued absorption of all the recent project launches. The nine projects launched within the second quarter of the year have an average vacancy of 32 percent showing that market is steadily absorbing new product as tenants return to the market.

AVERAGE VACANCY PER QUARTER STABILIZED VS ALL PROJECTS

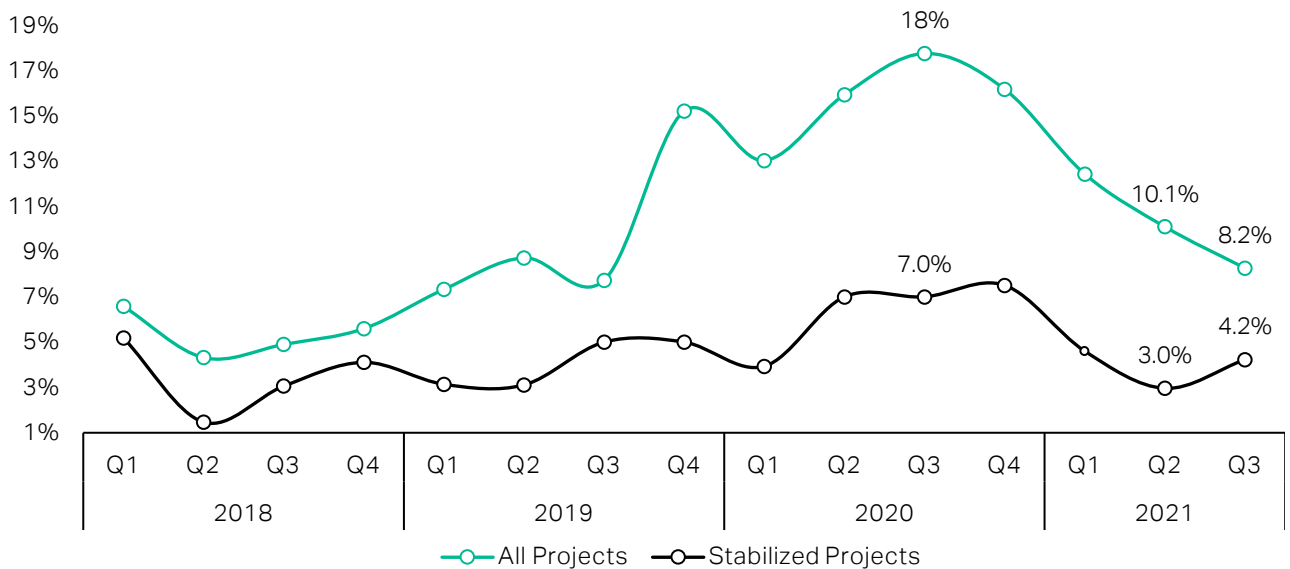


Chart 1

Chart 1 illustrates the average vacancy rate for stabilized newer purpose-built rental projects versus the average vacancy for all the projects across Calgary. Zonda Urban considers new projects that have less than 85 percent occupancy to be actively leasing, and those with more than 85 percent occupancy to be fully leased or stabilized, as this is typically when units begin to turn over for the first time. The vacancy is typically lower in stabilized projects due to those buildings being in the market for a longer period of time. The vacancy for all projects is higher at 8.2 percent, showing the impact of the new project launches in the first half of the year on overall vacancy rates. The 1.9 percent decrease in vacancy for all projects compared to the 1.2 percent increase in just stabilized projects shows the renter preference for newer projects compared to those that have been on the market longer. This demand is likely being driven by the newer launches in the inner and downtown sub-markets which have been leasing up at a fast pace.

AVERAGE VACANCY BY SUB-MARKET

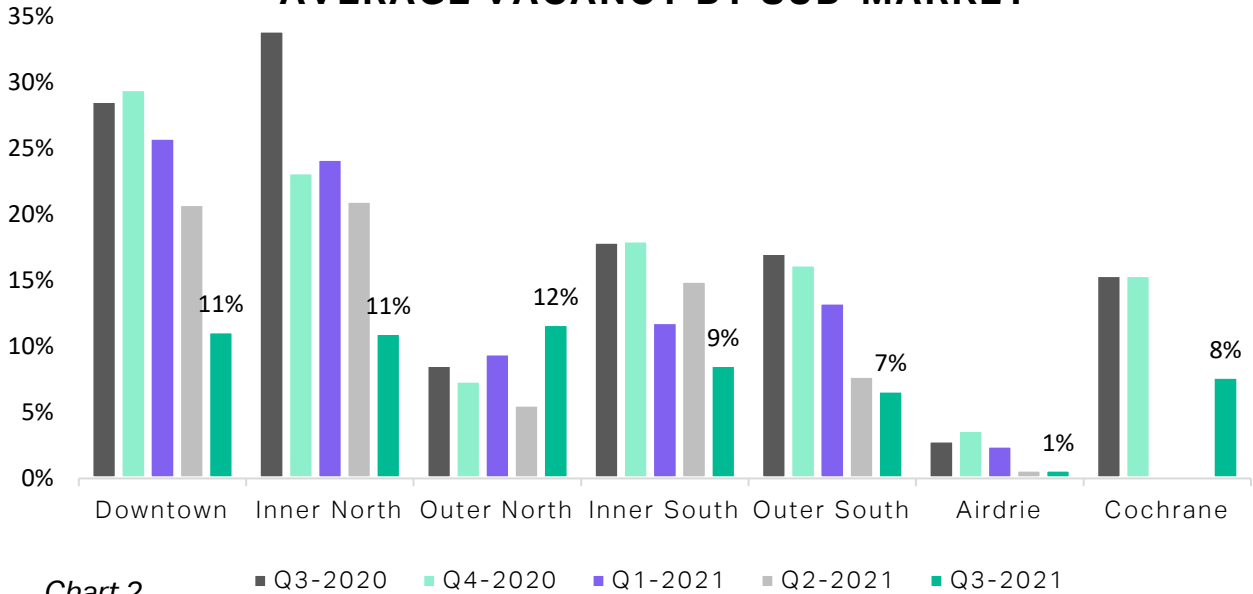


Chart 2

■ Q3-2020 ■ Q4-2020 ■ Q1-2021 ■ Q2-2021 ■ Q3-2021

Four of the seven sub-markets in Calgary experienced lower vacancy relative to the second quarter of the year. Again, this illustrates the increase in demand for rental product during the third quarter of the year.

The Downtown and Inner North sub-markets experienced the largest quarterly decrease with vacancy decreasing by almost half. Both sub-markets had a 10 percent decrease from 21 percent in the second quarter to 11 percent at the end of Q3-2021. Vacancy in the Inner South decreased by six percent, from 15 percent in Q2-2021 to nine percent at the end of Q3-2021.

The decrease in vacancy in all three sub-markets can be attributed to the absorption of the newer projects as demand has increased with young professionals and students returning to the downtown and inner sub-markets in anticipation of back to work measures and re-opening of the city.

Vacancy increased in both the Outer North and Cochrane during the third quarter of the year. Vacancy in the Outer North increased by six percent to 12 percent at the end of Q3-2021 while vacancy in Cochrane increased by eight percent to eight percent at the end of the third quarter. The Outer North had one project launch during the third quarter of the year adding 140 new units to the market and contributing to the increased vacancy. Cochrane has had zero vacancy since the start of the year and now has two available units. It should be noted that Cochrane has very limited rental supply relative to other Calgary sub-markets.

HIGHER RENTS IN Q3-2021

Rents continue to climb as we reach the second half of the year. Rents increased 4.3 percent when compared to the previous quarter. This represents a \$0.09 increase from \$2.17 per square foot in Q2-2021 to \$2.26 per square. Year-over-year, rents have increased by 7.3 percent or \$0.15 per square foot. The increase in rents during the third quarter of the year can be attributed to the increase in demand with Alberta's open for summer policy; students are returning to in-person learning and workplaces are transitioning back to the office bringing people back into the city.



Q3-2019: **\$1.99**
Q3-2020: **\$2.11**
Q3-2021: **\$2.26**

Figure 2 illustrates the average per square foot rental rates being sought for newer rental apartment buildings in Calgary by sub-market. Average list rents in Downtown continue to be the highest in the market at \$2.63 per square foot. Airdrie continues to seek the lowest average net rent per square foot of all sub-markets at \$1.50 per square foot.

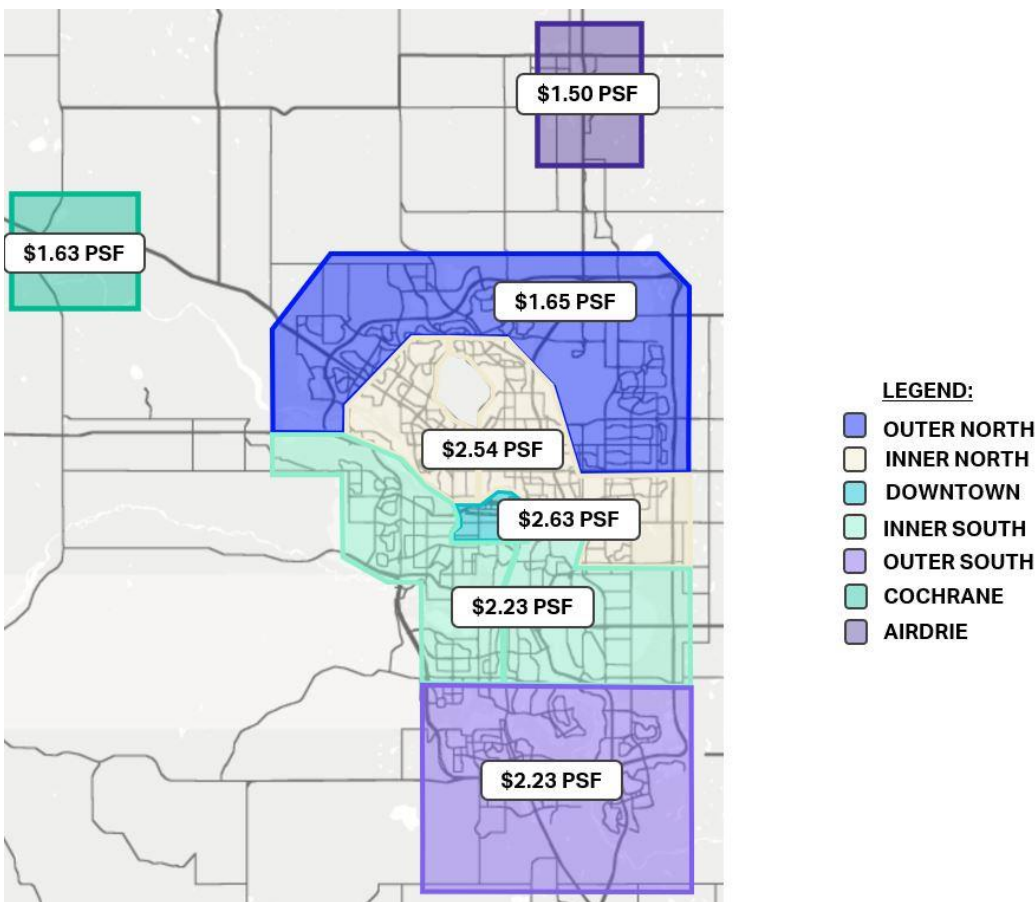


Figure 2

Current list rents for lease renewals in the third quarter of the year varied slightly across the market. For the first quarter since the start of covid-19 the majority of turned over units were re-listed at rents higher than what was originally achieved during the initial lease-up campaign. Zonda Urban expects this trend to continue as demand continues to rise as a result of the anticipated recovery from COVID measures that acted as a drag on demand for much of the past 18 months. Chart 3 illustrates the comparison of asking rates for turned over units in stabilized buildings versus the original average net rents sought for those unit types during the initial lease-up stage.

LEASE RENEWAL RENTAL RATE CHANGES

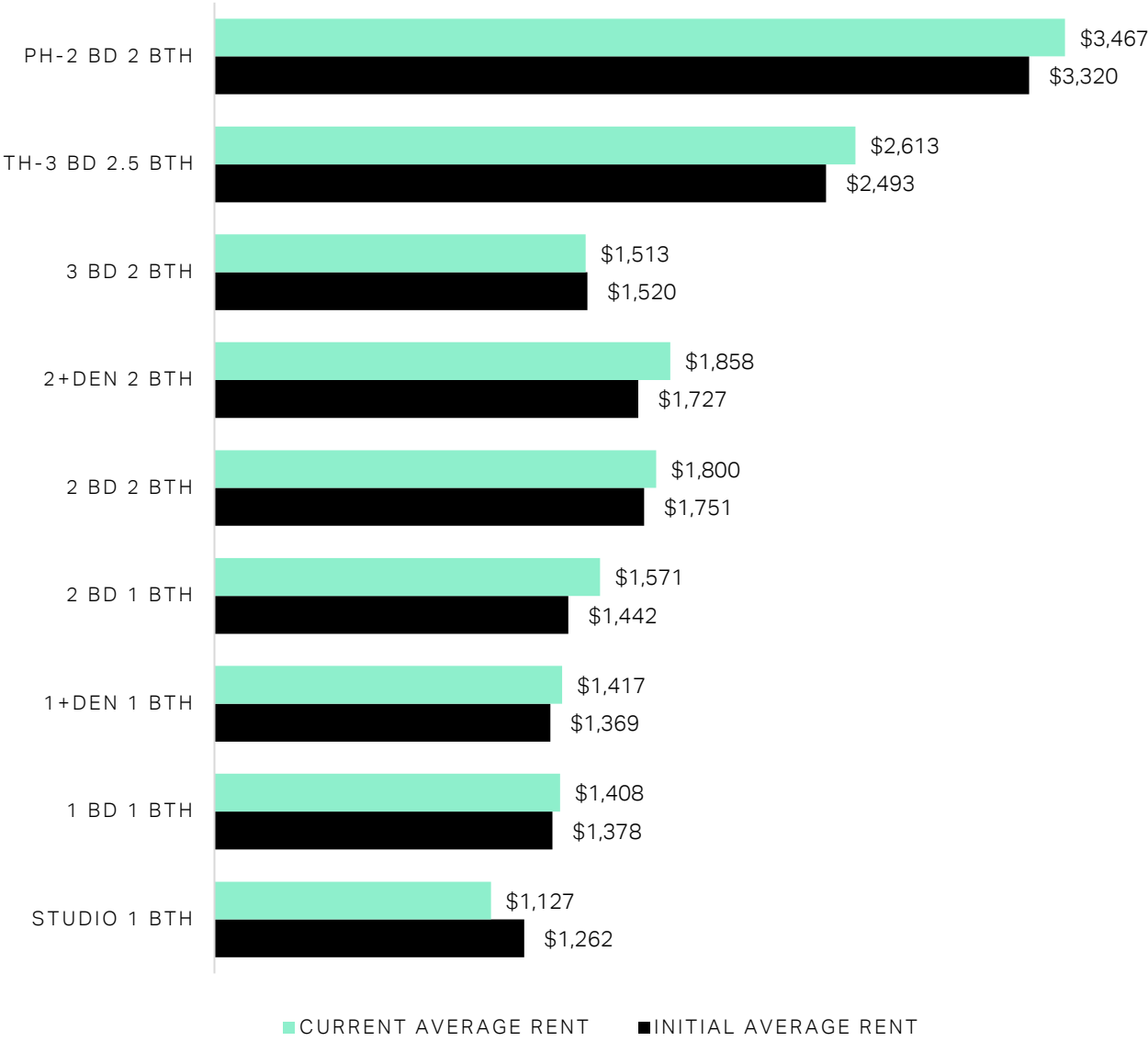


Chart 3

Rents have increased for seven of the nine-unit types that turned over in Q3-2021;

- One bed, one bath units increased by two percent (\$30 per month);
- One plus den, one bath units increased by four percent (\$48 per month);
- Two bed, one bath units increased by nine percent (\$129 per month);
- Two bed, two bath units increased by three percent (\$50 per month);
- Two plus den, two bath units increased by eight percent (\$130 per month);
- Three bed, two and a half bath townhome units increased by five percent (\$120 per month), and
- Two bed, two bath penthouse units increased by four percent (\$146 per month).

Rents have decreased for two of the nine-unit types that turned over in Q3-2021;

- Studio units decreased by 11 percent (\$135 per month), and
- Three bed, two bath units decreased by 0.4 percent (\$7 per month).

This compares to just two-unit types in the second quarter that achieved higher rents for lease renewals than what the unit was originally listed at.

AVAILABLE TURNED OVER UNIT TYPES

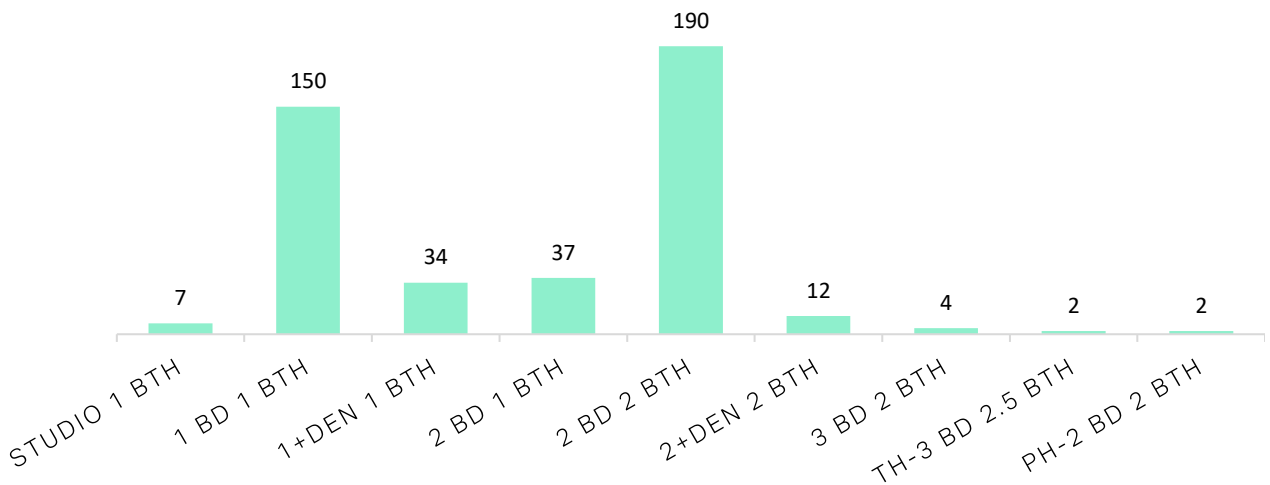


Chart 4

The majority of units turned over during the third quarter of 2021 were one and two bed plans. Renters' preferences have shifted in the third quarter of the year as shown by the large amount of available two-bedroom/two-bathroom units. Renters are no longer wanting the classic roommate situation and are more likely to spend more on an available one bed than live with a roommate. This change is likely caused by the shift to working from home, amount of time spent at home and not wanting to share a space with someone you don't know.

AVERAGE NET RENT \$PSF PER SUB-MARKET

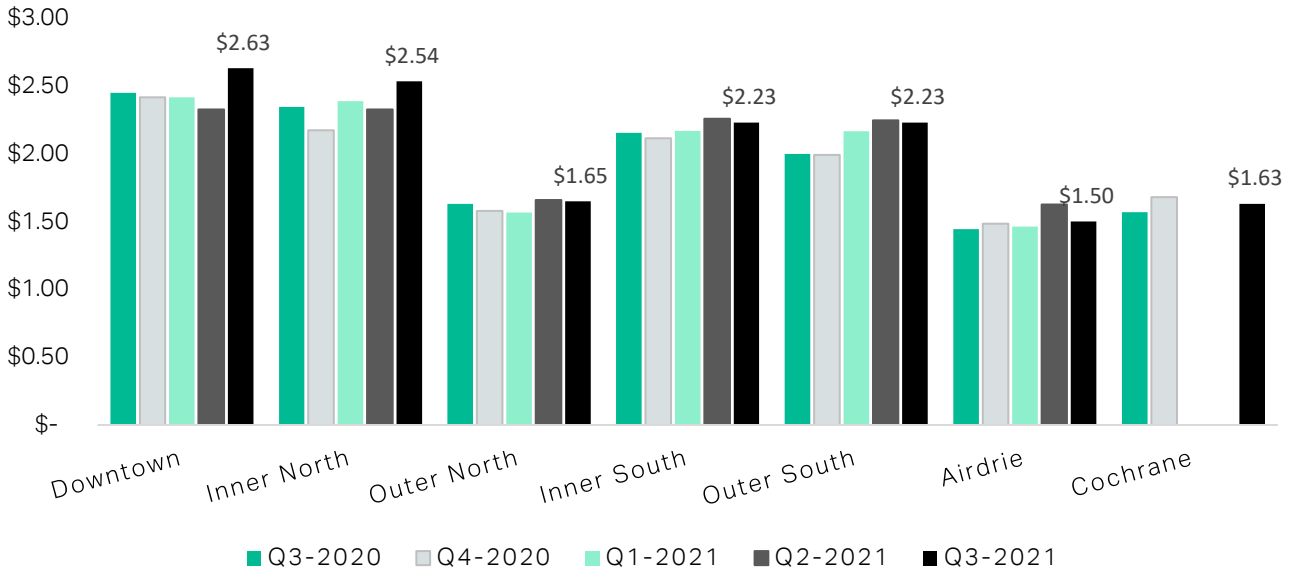


Chart 5

Three of the seven sub-markets in Calgary reported higher average net rent per square foot rates when compared to the previous quarter. The largest increase occurred in the Downtown submarket, where rents rose by 10.5 percent from \$2.38 to \$2.63 per square foot. Rents have increased in general in this area due to greater demand resulting in part from the return to in-person learning and working from the office.

The Outer South experienced the second largest quarterly rental rate increase as rents rose by 8.3 percent from \$2.06 to \$2.23 per square foot. Rents in the Inner North increased by 5.3 percent from \$2.41 in the second quarter to \$2.54 per square foot at the end of the third quarter. The increase in rents in both sub-markets can be attributed to developers pulling back on incentives as demand for the areas increase.

Projects in Airdrie, Inner South and Outer North sub-markets reported lower average net rents when compared to the previous quarter. Airdrie experienced the largest decline with a 7.2 percent decrease; from \$1.62 to \$1.50 per square foot. Per square foot rents in the Inner South decreased by 1.3 percent (\$0.03) to \$2.23 per square foot while rents in the Outer North decreased by 0.09 percent to \$1.65 per square foot. The decrease in all three sub-markets can be attributed to the amount supply in the sub-markets and continued offerings of incentives to entice prospective tenants.

VACANCY VS. NET RENTS \$PSF

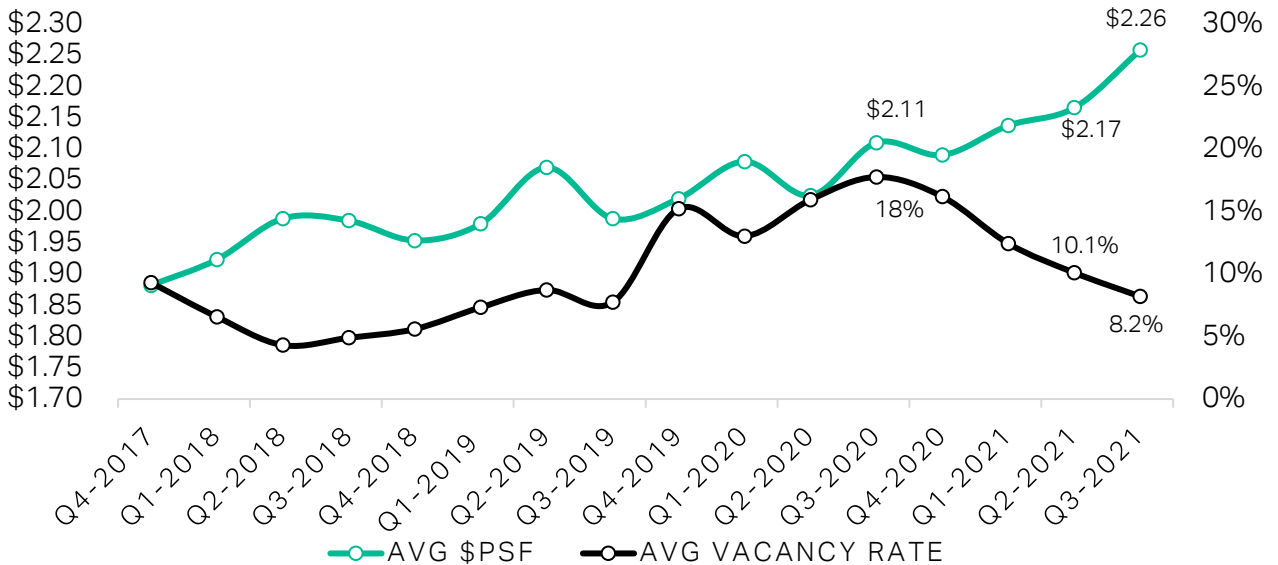


Chart 6

Chart 6 illustrates the correlation between the average vacancy rate and the average net rent per square foot in Calgary's newer purpose-built rental apartment market. Newer purpose-built rental projects throughout Calgary experienced higher rents and lower vacancy rates in the third quarter of the year. Vacancy rates decreased by 1.9 percent while rents increased by 4.3 percent (\$0.09 per square foot) relative to the second quarter of 2021. Vacancy rates decreased by 9.6 percent and rents increased by 7.3 percent (\$0.15 per square foot) year-over-year. Zonda Urban expects rents to continue to increase as we move into the end of the year. Vacancy is expected to increase slightly with BLVD by One Properties and Hat @ West Village by Cidex both launching in the next few months in the Downtown and adding 988 and 554 new units, respectively.

ACTIVE VS. FULLY LEASED PROJECTS

Zonda Urban considers new projects that have less than 85 percent occupancy to be actively leasing, and those with more than 85 percent occupancy to be fully leased or stabilized, as this is typically when units begin to turn over for the first time. There were 13 projects considered to be actively leasing in Calgary at the end of Q3-2021. Nine projects achieved fully leased status during the third quarter of the year;

- *UPTEN* by Strategic Group, a 379-unit concrete building in the Downtown leased up in 15 months;
- *Brio* by Boardwalk, a 162-unit concrete building located in the Inner Northwest that leased up in 17 months;
- *Aria* by Gracorp, a 288-unit concrete building located in the Inner Northwest leased up the first phase in 11 months and the second in five months;

- *City Scape 1000* by Carlisle, a 136-unit wood frame project in the Outer North leased up in three months;
- *City Scape 2000* by Carlisle, a 136-unit wood frame project in the Outer North leased up in six months;
- *The Gray* by Trico Homes, a 122-unit wood frame building in the Inner Southwest that leased up in two months;
- *The Scarlet* by Trico Homes, a 71-unit wood frame building located in the Inner Southwest leased up in 11 months; and,
- *Casadona Place* by Casadona Group, a 254-unit concrete building in the Outer South that leased up in 23 months;

A few active projects include;

- *Arris* in Downtown (190 units), leasing for five months and currently 42 percent leased.
- *Dominion* in the Inner Northeast (161 units), leasing for six months and currently 63 percent leased.
- *The Vic on 5th* in the Inner Northwest (79 units), leasing for seven months and currently 84 percent leased.
- *CY33* in the Inner Southwest (63 units), leasing for two months and currently 25 percent leased.

ACTIVE VS FULLY LEASED PROJECTS BY SUB-MARKET

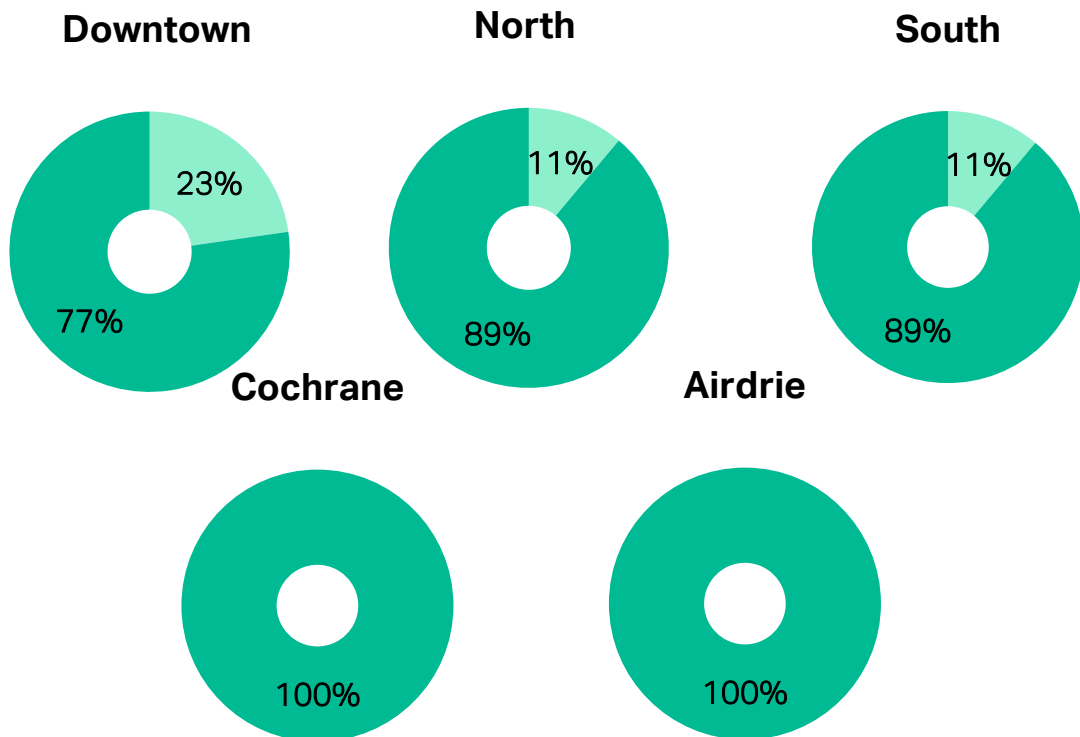


Chart 7

■ Fully Leased ■ Active

AVAILABILITY IN Q3-2021

The Downtown submarket continues to have the highest inventory levels of all sub-markets, primarily due to the new projects launched in the area over the past few quarters that are still being absorbed. Inventory was decreased by almost half during the third quarter as tenants return to the market in anticipation of the city opening back up. Inventory increased in the Outer North due to the Skyward Living Phase 2 by Anderson Builders Group which was launched in the third quarter adding 140 new units to the sub-market.

Released and Available Units by Sub-Market						
Downtown	Inner North	Outer North	Inner South	Outer South	Airdrie	Cochrane
480	159	259	174	90	5	2

INCENTIVES

While the value of incentives being offered at actively leasing and fully leased newer purpose-built rental buildings has dropped, many projects continue to offer a range of incentives. The downtown sub-market continues to offer the highest number of incentives with only three buildings not offering incentives; while the rest of the sub-markets have reduced their offerings to 50% off first month, reduced rents, free parking, free Telus the downtown continues to offer the more aggressive rent discounts with up to two months free offered on a 12-month lease. Just under half of the buildings in Calgary offered some form of rental rate incentive during the third quarter of the year. This compares to 57 buildings that offered incentives during the second quarter of the year. The downtown sub-market 23 of the 51 buildings not offering incentives achieved fully leased status this quarter. The following is a list of some incentives offered as of September 2021;

- Two months free rent on 14-month lease
- Discounted rents
- \$500 off first months rent
- Two weeks free on a 12-month lease
- Six weeks free on a 12-month lease
- One month free rent on a 12-month lease
- One month free rent on a 13-month lease
- No pet fee
- Reduced security deposit
- 50% off for first months rent
- 50% off rent for first three months
- 50% off rent for first four months
- Free Telus for one year
- 25% off Telus packages
- Free early move-in
- \$500 VISA gift card
- Free parking for one year
- 50% off parking
- Six months free parking
- Free storage locker

Incentive offerings were reported in projects across all seven sub-markets in Calgary.

RENTAL TRENDS

Leasing agents were forced to adapt throughout the last two years and began showing suites to prospective renters through online and virtual formats. Leasing agents are now offering the choice of either in-person or virtual showings based on the prospective tenant's comfort level. New purpose-built rental buildings in Calgary are increasingly incorporating lifestyle focused amenities designed for convenience and to encourage community-building. Some of the newly launched rental buildings offer discounts at nearby retailers, free fitness classes, dog-walking services, dry cleaning pick-up, and more. These lifestyle-oriented offerings help distinguish a purpose-built rental product from investor-owned rental units by creating an ease of living that ultimately helps retain tenants. Zonda Urban will continue to monitor what other unique trends developers will introduce as more new projects are released to the market.

AMENITIES

The newer purpose-built rental buildings UA currently monitors offer a variety of amenity features. These projects are more likely to achieve faster absorptions, higher rents and experience lower turnover than projects with more limited or no amenities. The level of amenities offered in newer rental apartment developments generally depends on the sub-market. Projects in the Downtown sub-market feature a higher level of amenities as the typical Downtown renter is willing and able to pay more for the added conveniences. A few examples of projects in this area offering more comprehensive amenities packages include: UPTEN, which offers a full fitness facility, outdoor patio and a sky lounge, The Underwood, which offers a yoga studio, full fitness facility, and a food market on the ground floor (coming soon), Park Central, which offers a rooftop pool, golf simulator, and resident events such as wine tastings. Amenity offerings are less comprehensive at most rental projects in the outer sub-markets where renters are more price sensitive. However, fitness facilities are still found in some suburban projects. The following is a sample of amenities offered at various rental apartment projects in the Calgary market:

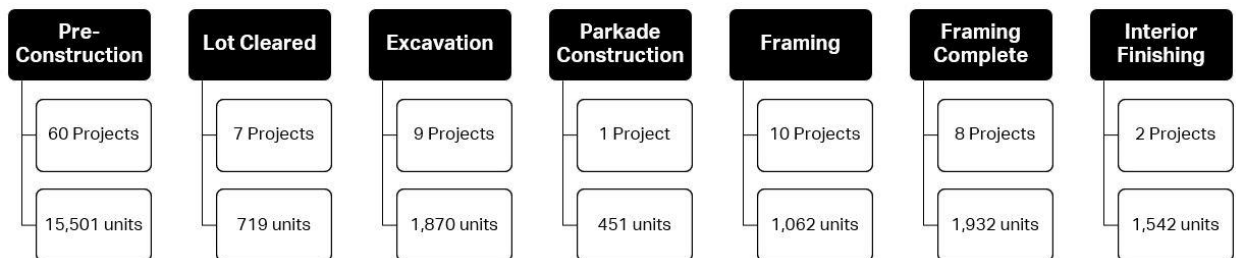
- Roof terrace
- Dog wash station
- Outdoor patio
- Lounge
- Bike repair area
- Fitness area
- Business center
- BBQ area
- Outdoor kitchen
- Courtyard
- Bike storage
- Media room
- Yoga area
- Concierge
- Library/Study room
- Board room
- Indoor pool
- Golf simulator
- Spa/jacuzzi
- Woodshop
- Community garden
- Residence manager
- Games room
- Rooftop

RENTER DEMOGRAPHIC

The profile of renters in the Calgary market varies widely across the City. The outer sub-markets tend to attract a greater proportion of newer immigrants, blue-collar workers, young families, and retirees. As a result, projects in suburban locations feature more bedrooms and larger living areas. The inner neighbourhoods closer to the Downtown core attract more students, young and established professionals, active downsizers, and young couples. The inner sub-market demographics justify a mix of one and two bedrooms targeting young professionals, and in some cases larger units to attract more of the established professionals and re-starts.

CONTEMPLATED

Zonda Urban is currently monitoring 97 development permits (23,077 units) that have been submitted to the City of Calgary. Of those, 43 permits (11,280 units) are currently on hold. 30 projects comprising of 6,857 units have been approved by the City and are expected to come to market over the next two to three years. UA anticipates that 21 of these buildings will be ready to commence leasing in the next one to two years, which will add over 4,987 new rental apartment units to the market.



LOOKING AHEAD

The following are new rental projects that have either recently launched or will be launching a leasing campaign during the next two quarters that Zonda Urban analysts will be monitoring closely:

- *BLVD Beltline* – One Properties
- *The Fifth* – Arlington Street
- *The Heights at Panorama* – Eagle Crest
- *Lakeside at Yorkville* – Carlisle Group
- *Hat @ West Village* – Kooner Construction
- *Montgomery Square* – Eagle Crest
- *The Beverly* – M2SC Realty
- *The Deville* – Remington Development Corp

Zonda Urban has the most current and accurate data on the newer purpose-built rental apartment markets in Edmonton, Calgary, Metro Vancouver, and Greater Toronto. NHSLive, Zonda Urban's online data platform, provides timely data on the new rental and multi-family home sectors of the market. With its user-friendly interface and extensive functionality, it has become an invaluable tool for thousands of industry stakeholders to make better decisions. Call or email sales@urbananalytics.ca today to schedule a demonstration of NHSLive.

With the anticipated increased competition in Calgary's new purpose-built rental apartment sector and the ongoing uncertainty in the new condominium and townhome sectors of the market, it is crucial to ensure your project is appropriately designed and positioned prior to launching. Zonda Urban provides comprehensive advisory services to meet your firm's specific needs in all markets we service. Call or email today to ask how we can help.

We appreciate your feedback. Please contact us with any questions regarding this Zonda Urban Take or any of our other periodic publications.



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