

Q3-2021

The Rental Take: Edmonton Incentives Take Back Seat



Incentives Take Back Seat

Leasing activity increased in the third quarter of the year as prospective tenants returned to the market. Five projects were launched during the quarter adding 911 new units to the market. Despite the five new project launches the market was able to absorb much of the new and existing rental product. Overall vacancy decreased by 1.3 percent compared to the second quarter of 2021 to an overall vacancy average of 9.5 percent. The average rent per square foot increased by 2.5 percent (\$0.04) from \$1.66 per square foot at the end of the second quarter to \$1.70 per square foot 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 130 newer purpose-built rental apartment projects comprising 17,383 units across seven sub-markets, including St. Albert and Sherwood Park. 22 of these projects are actively leasing (under 85 percent leased and within the first years of launching a leasing campaign), with the remaining 108 buildings having been substantially absorbed and experiencing typical levels of unit turnover.

Zonda Urban is currently monitoring 31 newer concrete rental apartment projects (4,574 units), 91 wood frame rental apartment projects (12,181 units) and eight rental townhome projects (628 units) in Edmonton 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.

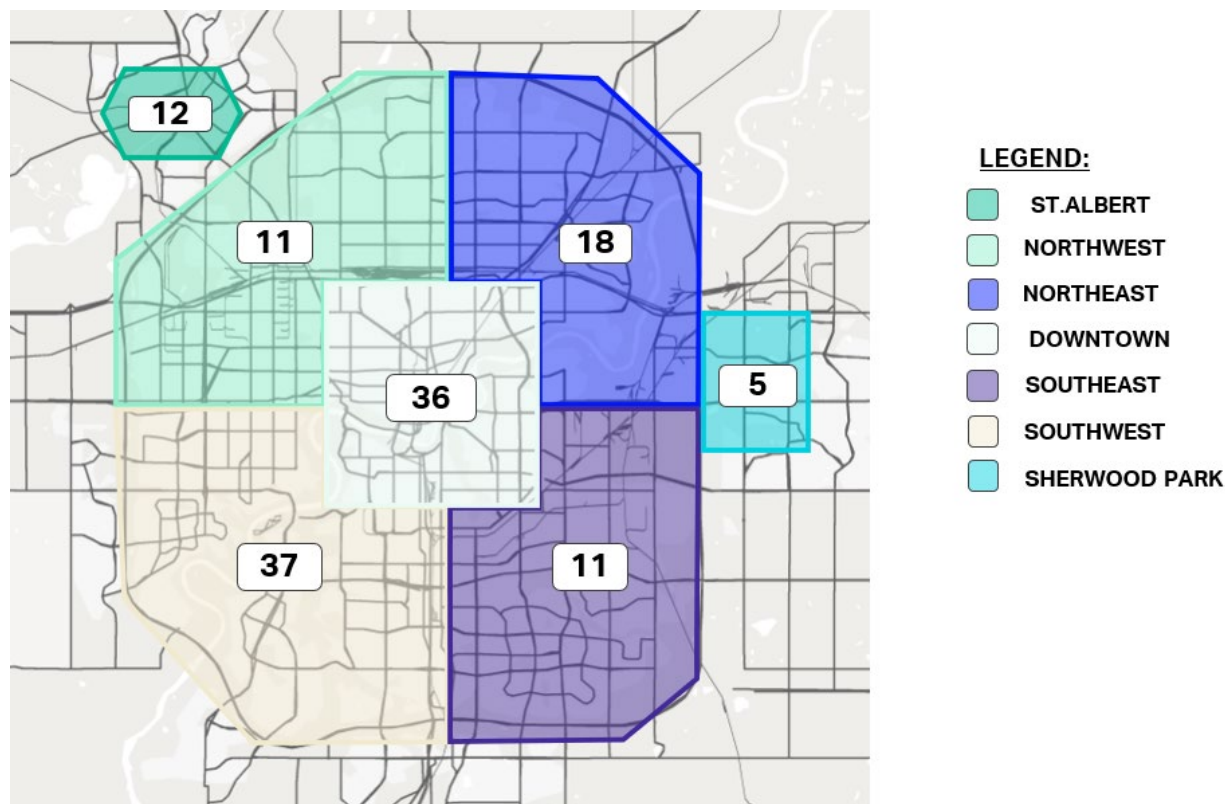


Figure 1

DECREASE IN VACANCY RATES

The overall vacancy rate for newer rental projects in Edmonton was 9.5 percent at the end of the third quarter of the year. Vacancy decreased by 1.3 percent when compared to the second quarter of the year. Vacancy increased by 0.4 percent over the same quarter last year. The lower quarterly vacancy can be attributed to the stabilization of eight projects during the third quarter of the year. The market is steadily absorbing much of the new product launched during the first half of the year.

AVERAGE VACANCY PER QUARTER STABILIZED VS ALL PROJECTS

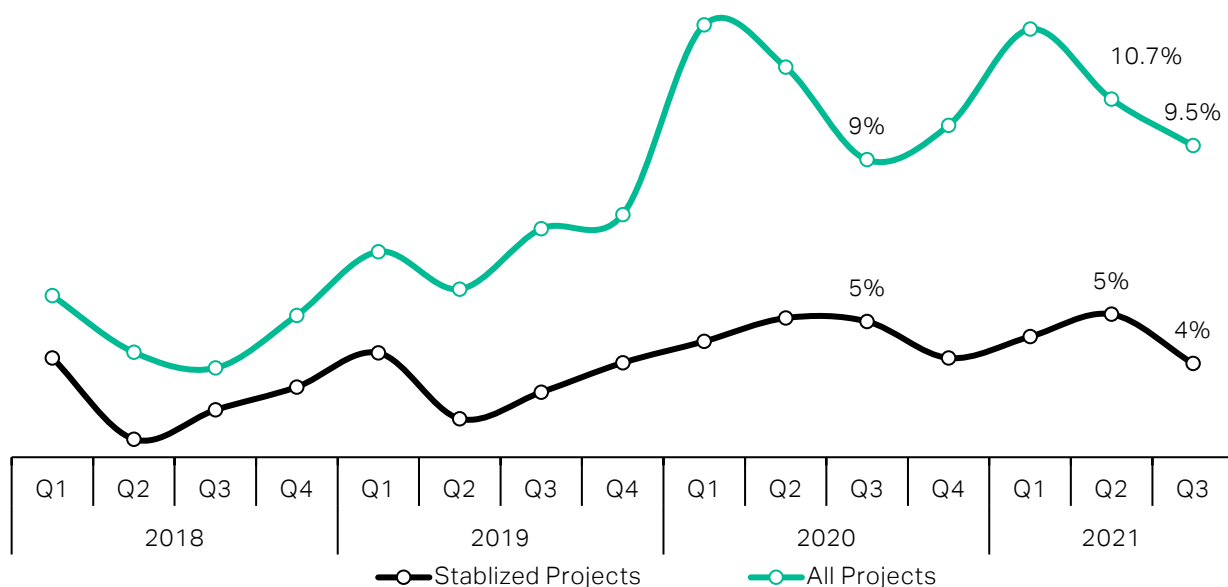


Chart 1

Chart 1 illustrates the average vacancy rate for stabilized newer purpose-built rental projects versus the average vacancy for all the projects across Edmonton. 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 9.5 percent, showing the impact of the new project launches in the first half of the year on overall vacancy rates. The 22 active projects had an average vacancy rate of 44 percent at the end of the third quarter, which raised the average vacancy for all projects. The lower vacancy for stabilized projects demonstrates the increased demand for existing rental product in the market.

AVERAGE VACANCY BY SUBMARKET

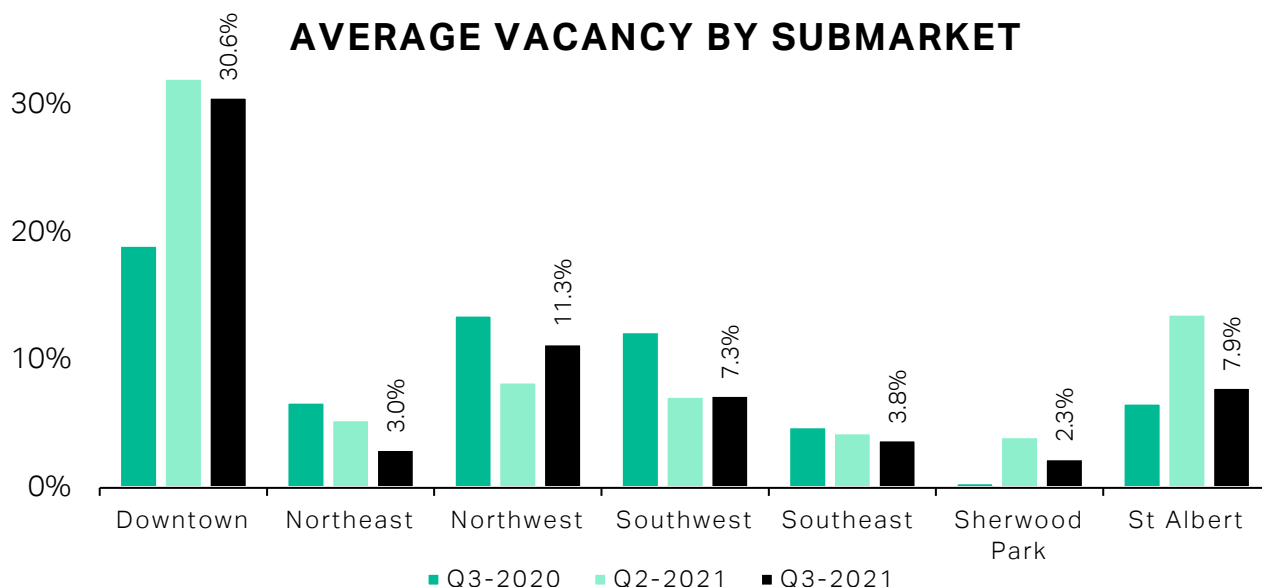


Chart 2

Five of the seven sub-markets in Edmonton 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.

Vacancy in the Downtown sub-market decreased by 1.5 percent relative to the previous quarter despite three new projects launching during the quarter; from 32 percent to 30.6 percent at the end of the third quarter. *CX Grandin*, *121 West* and *Brickyard off 4th* were all launched during third quarter of the year adding 645 new units to the submarket. The high vacancy is due to the number of buildings that are still in the initial lease-up phase. Downtown has 13 of the 22 active projects currently in the market. These 13 active projects are reporting an average vacancy rate of 54.3 percent, which increases the overall average across this sub-market.

Sherwood Park and the Northeast sub-markets had the lowest vacancy in the third quarter. The low vacancy can be attributed to the amount of older supply in the two sub-markets. Vacancy in Sherwood park decreased by 1.7 percent, from 4.1 percent in Q2-2021 to 2.23 percent at the end of Q3-2021. The Northeast experienced a 2.3 percent decrease when compared to the second quarter; 5.4 percent to three percent at the end of the third quarter.

Vacancy increased in both the Northwest and Southwest sub-markets during the third quarter of the year. Vacancy in the Northwest increased by three percent to 11.3 percent at the end of Q3-2021 while vacancy in the Southwest increased by 0.1 percent to 7.3 percent at the end of the third quarter. Both increases can be attributed to new project launches during the quarter.

HIGHER RENTS IN Q3-2021

Rents continue to climb as we reach the second half of the year. Rents increased two and a half percent when compared to the previous quarter. This represents a \$0.04 increase from \$1.66 per square foot in Q2-2021 to \$1.70 per square. Year-over-year, rents have increased by four percent or \$0.06 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: **\$1.67**
Q3-2020: **\$1.64**
Q3-2021: **\$1.70**

Figure 2 illustrates the average per square foot rental rates being sought for newer rental apartment buildings in Edmonton by sub-market. Average list rents in Downtown Edmonton continue to be the highest in the market at \$2.12 per square foot.

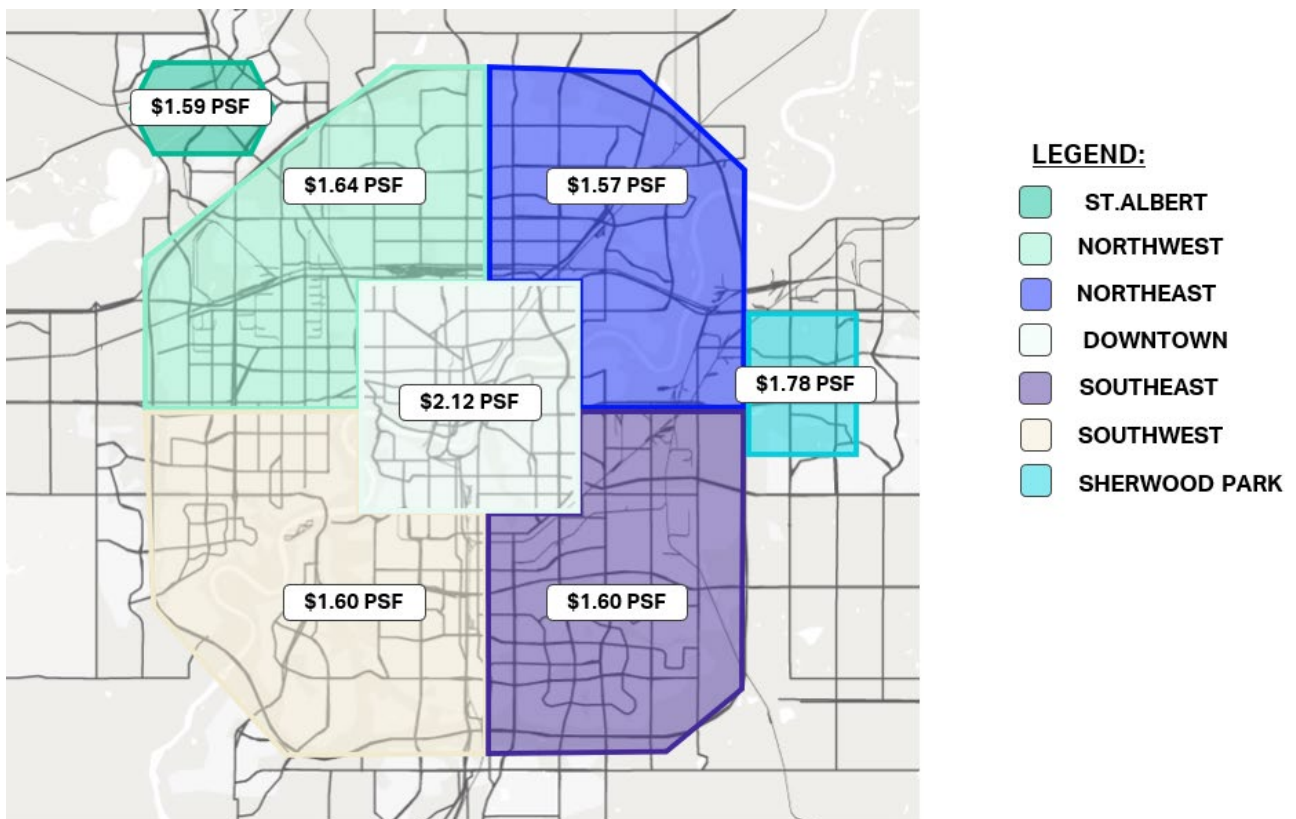
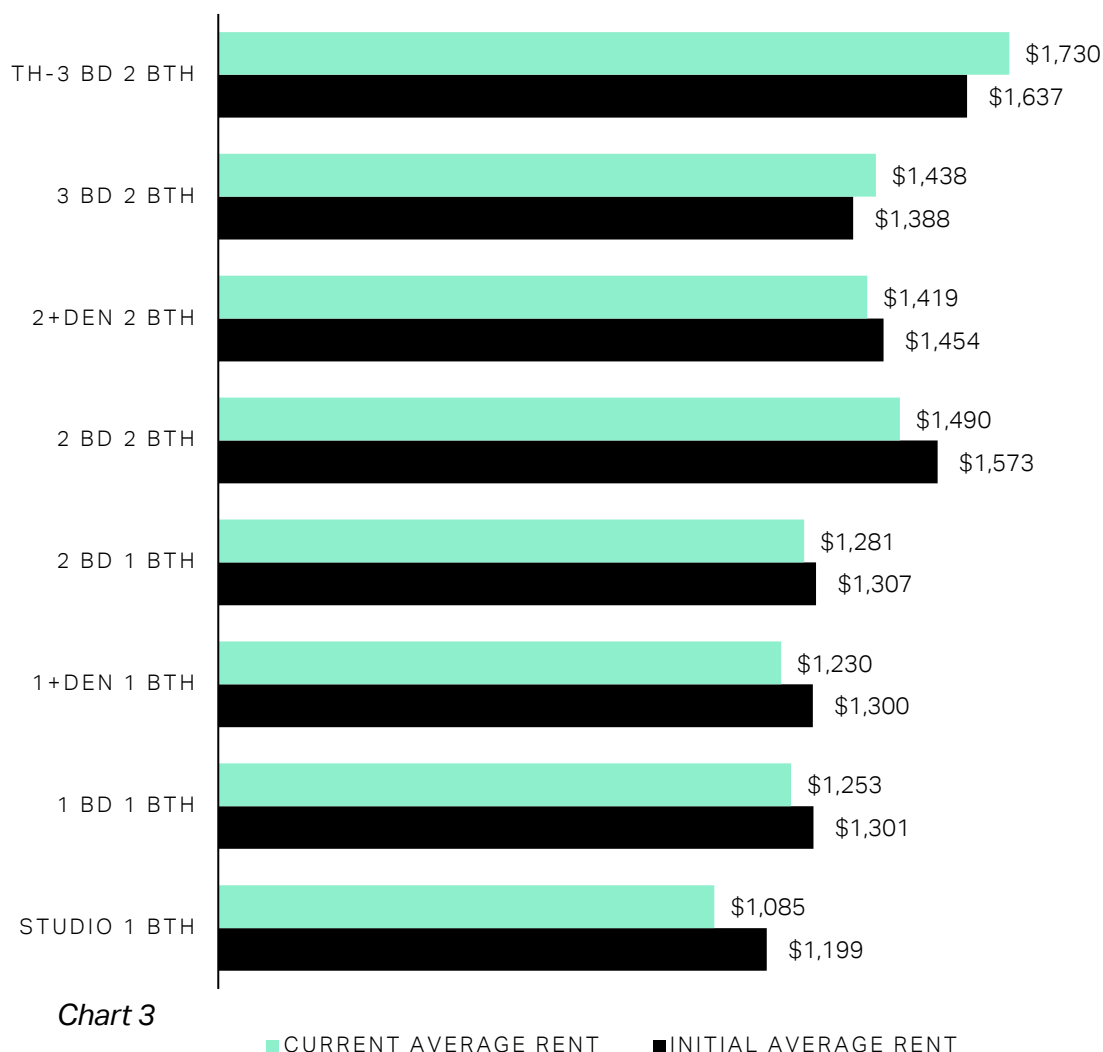


Figure 2

Current list rents for lease renewals in the third quarter of the year varied slightly across the market. The majority of turned over units were re-listed at rents lower than what was originally achieved during the initial lease-up campaign. Zonda Urban expects this trend to change by the second quarter of 2022 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



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

- Studio units decreased by 10 percent (\$115 per month);
- One bed, one bath units decreased by four percent (\$49 per month);
- One bed plus den, one bath units decreased by five percent (\$69 per month);
- Two bed, one bath units decreased by two percent (\$26 per month);
- Two bed, two bath units decreased by five percent (\$82 per month), and
- Two bed plus den, two bath units decreased by two percent (\$35 per month).

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

- Three bed, two bath units increased by four percent (\$50 per month), and
- Three bed, two bath townhome units increased by six percent (\$93 per month).

The gap between the current average rents versus the initial average rents has narrowed. The average difference in the rents for the third quarter was \$62 or four percent, this compares to the \$106 or seven percent difference in rents at the end of Q2-2021.

AVAILABLE TURNED OVER UNIT TYPES

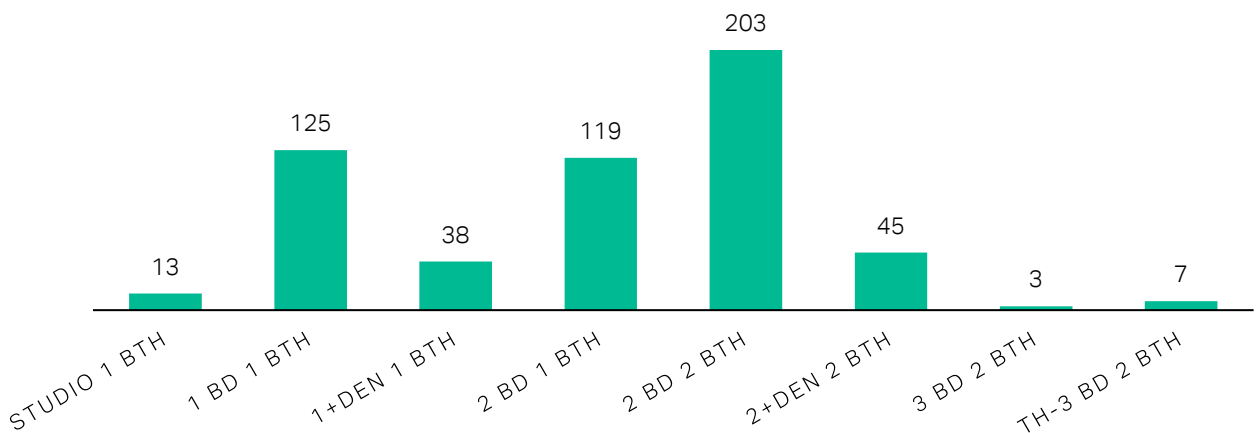


Chart 4

The majority of units turned over during the third quarter of 2021 were one and two bed plans. Two bed units located in inner city neighbourhoods are often rented by roommates, which often leads to a higher turnover rate. Smaller one bed units also have a higher turnover rate than other unit types as renters of these unit types eventually leave in search of more living space as their housing needs mature. In other cases, the unit is vacated by a couple who have been saving for a down payment on a home and are able to purchase.

AVERAGE NET RENT \$PSF PER SUBMARKET

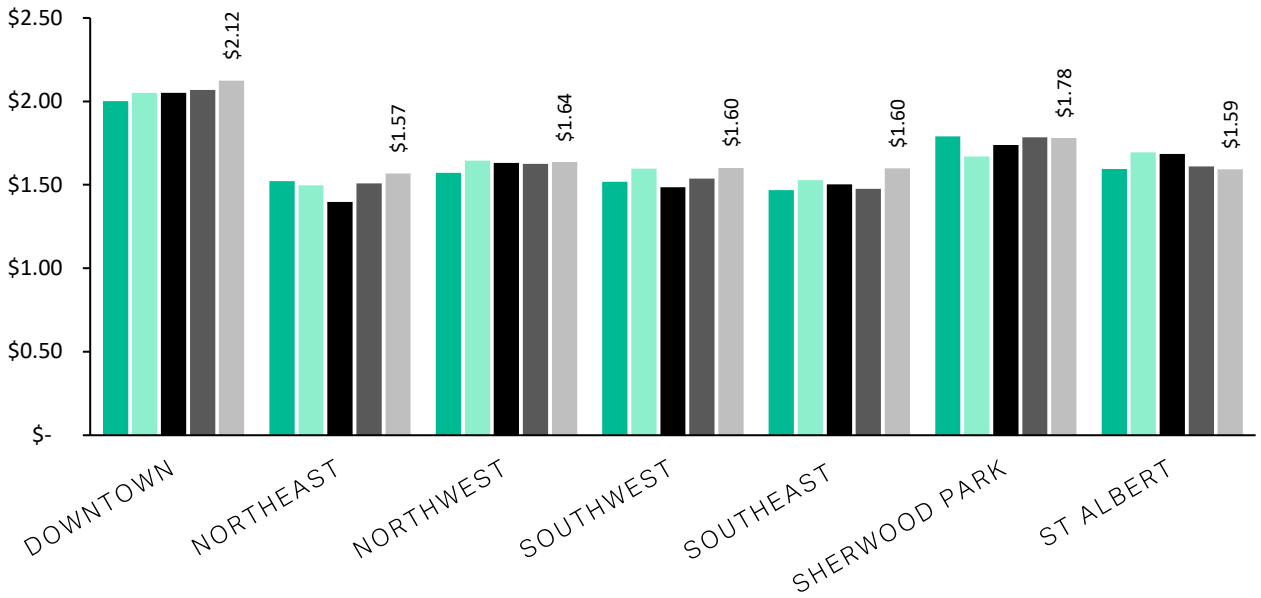


Chart 5

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

Five of the seven sub-markets in Edmonton reported higher average net rent per square foot rates when compared to the previous quarter. The largest increase occurred in the Southeast submarket, where rents rose by 8.6 percent from \$1.47 to \$1.60 per square foot. The increase in rents can be attributed to developers pulling back on incentive offerings. One month free on a 12-month lease incentives have now been changed to \$500 off first month, one month free on a 13-month lease, or free Telus services.

Rents in the downtown submarket increased by 2.7 percent over the previous quarter; from \$2.07 to \$2.12 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 a working from the office.

Projects in St. Albert and Sherwood Park sub-markets reported lower average net rents when compared to the previous quarter. St. Albert experienced a one percent drop in the average rent per square foot; from \$1.61 to \$1.59 per square foot. The average net rent per square foot in Sherwood Park dropped by 0.3 percent (\$0.01) to \$1.78 per square foot.

The Southwest and Northeast sub-markets both experienced a four percent increase in net rent per square foot values compared to Q2-2021. The average in the Southwest increased by \$0.06 to \$1.60 per square foot, while the average net rent per square foot in the Northeast also increased by \$0.06 to \$1.57 per square foot.

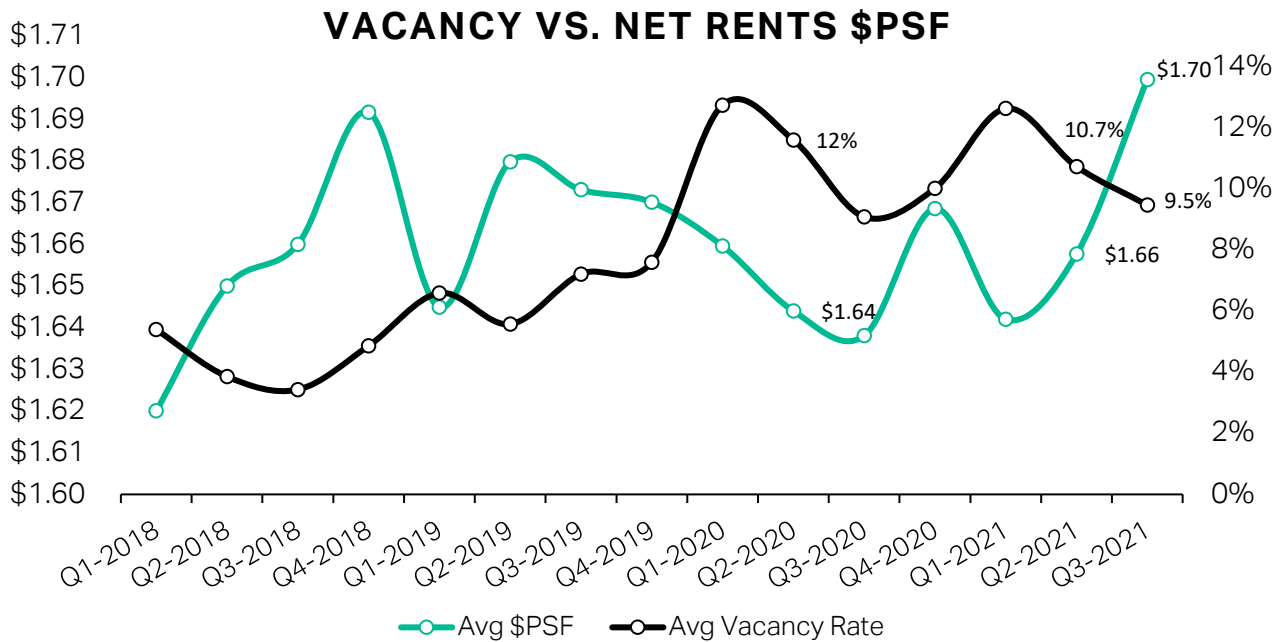


Chart 6

Chart 6 illustrates the correlation between the average vacancy rate and the average net rent per square foot in Edmonton's newer purpose-built rental apartment market. Newer purpose-built rental projects throughout Edmonton experienced higher rents and lower vacancy rates in the third quarter of the year. Vacancy rates decreased by 1.3 percent while rents increased by 2.5 percent (\$0.04 per square foot) relative to the second quarter of 2021. Vacancy rates increased by 0.4 percent and rents by four percent (\$0.06 per square foot) year-over-year. Zonda Urban expects this trend to continue as COVID-19 restrictions are lifted and more renters return to the market.

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 22 projects considered to be actively leasing in Edmonton at the end of Q3-2021. Eight projects achieved fully leased status during the third quarter of the year;

- *Arcadia building 2* by Carlisle, a 77-unit wood frame building in the Northeast leased up in six months;
- *La Vie* by Platinum Investments, a 190-unit wood frame building located in the Southwest that leased up in 15 months;
- *Heritage Valley Central* by Traine Construction, a 123-unit wood frame building located in the Southwest was fully leased in 11 months;

- *Encore Rentals* by Westrich Pacific, a 60-unit condo conversion project located Downtown that leased up in 11 months;
- *Capital building 2* by Strategic Group, a 60-unit concrete building in the Downtown that leased up in seven months;
- *Artika* by Cove Properties, a 41-unit wood frame building located Downtown that was leased in 10 months;
- *@81* by Beljan Development, a 36-unit concrete building Downtown that leased up in 11 months; and,
- *Sora (Building B)* by Carrington Communities, a 70-unit wood frame building that was fully leased up in 11 months.

A few active projects include;

- *The Village at 105* (130 units), leasing for six months and currently 62 percent leased.
- *Capital Building 1* (154 units), leasing for 15 months and currently 80 percent leased.
- The George (50 units), leasing for 13 months and currently 84 percent leased.
- Augustana (240 units), leasing for 13 months and currently 27 percent leased.
- Solis Giroux (208 units), leasing for nine months and currently 75 percent leased.

ACTIVE VS FULLY LEASED PROJECTS BY SUB-MARKET

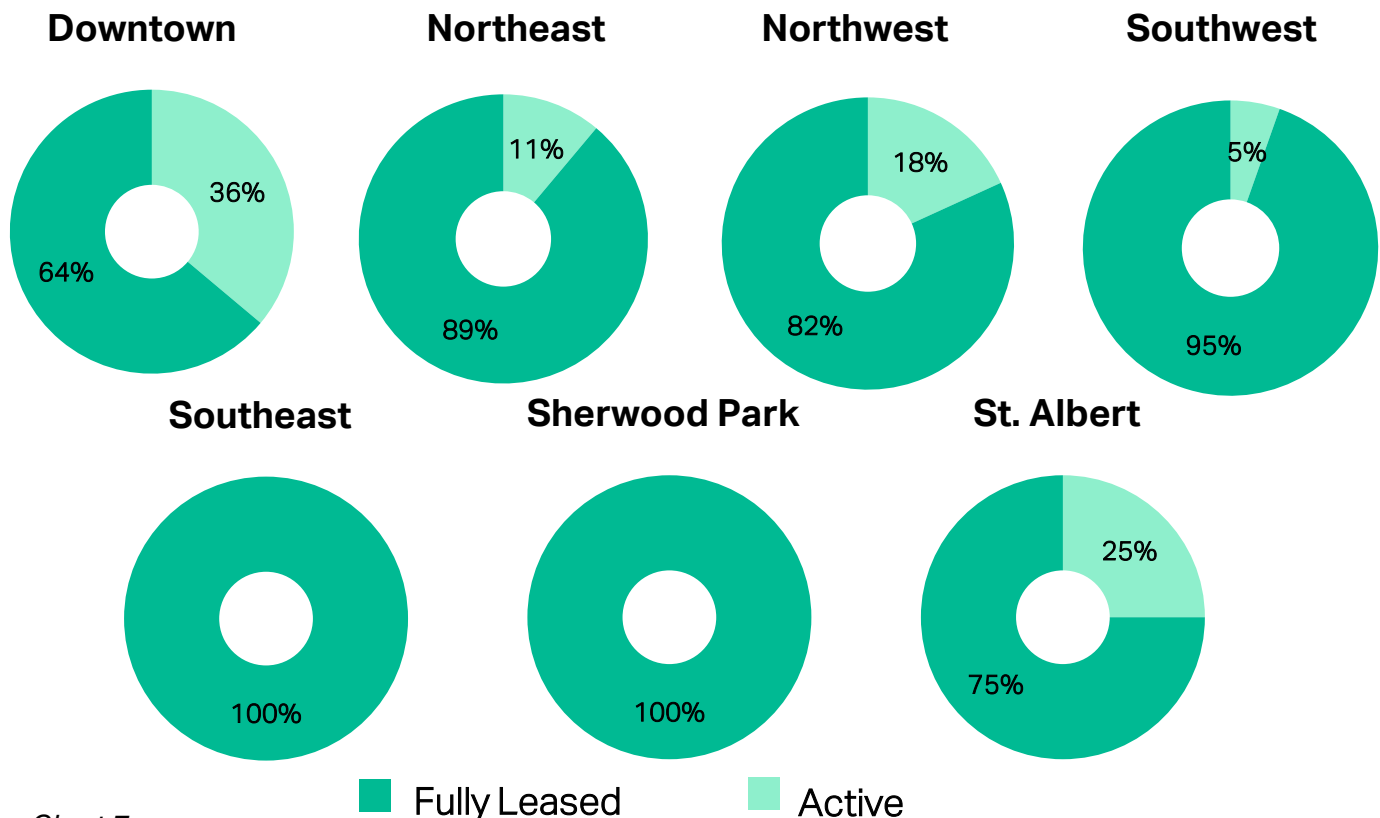


Chart 7

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 increased in the Downtown, Northwest and Southwest due to the new projects that were launched during the third quarter. Across the Edmonton market, total released and available inventory in Edmonton increased by 56 units to 2,264 units.

Released and Available Units by Sub-Market						
Downtown	Northeast	Northwest	Southwest	Southeast	Sherwood Park	St. Albert
1469	61	139	402	60	16	117

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. 83 buildings in Edmonton offered some form of rental rate incentive during the third quarter of the year. This compares to 94 buildings that offered incentives during the second quarter of the year. 21 of the 47 buildings not offering incentives achieved fully leased status this quarter. The following is a list of some incentives offered as of August 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 Edmonton.

AMENITIES

The newer purpose-built rental buildings Zonda Urban currently monitors offer a range of amenities. Projects in the urban sub-markets that feature a comprehensive amenity package are more likely to achieve full occupancy sooner and have lower turnover than those projects with limited or no amenities.

The level of amenities offered in newer rental developments generally depends on the sub-market. Projects in the Downtown sub-market feature a higher level of amenities as the typical Downtown renter earns a higher annual salary and is able and more willing to pay more for the added conveniences. A few examples of projects that offer these amenities include: *The MacLaren*, which boasts a dog run, fitness area, roof terrace, yoga area and lounge, and *The Mayfair*, which offers concierge service, garden plots, a lounge and a gymnasium.

By comparison, rental projects in the outer sub-markets do not offer as many amenities, nor are those amenities as costly to operate. Typical renters in the outer sub-markets are more price-sensitive and less willing and/or able to pay more for a higher-end amenity package. However, Zonda Urban analysts have noted a few new projects in suburban neighbourhoods that are increasing the level of amenity offerings. *Central Tower* in Bearspaw offers residents a common kitchen area and outdoor patio with BBQ's, along with a spin studio, golf simulator, fitness facility, pool tables, yoga area, parcel delivery system, and a dog wash station. The following are some of the typical common amenities offered to renters across the Edmonton market:

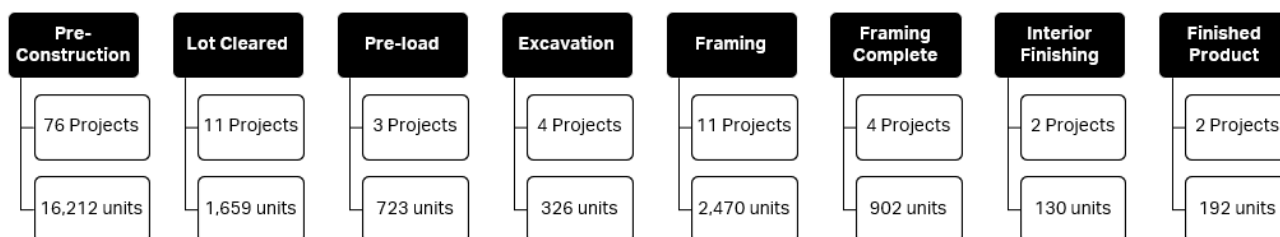
- Roof Terrace
- Roof Garden
- Music Room
- Outdoor Patio
- Workshop
- Lounge
- Bike Repair area
- Gymnasium
- Guest suite
- Kitchen
- Fitness area
- BBQ area
- Bike storage
- Concierge
- Car Share
- Garden plots
- Residence manager
- Games Room

RENTER DEMOGRAPHIC

There is generally a wide range of renter profiles active throughout the various Edmonton sub-markets. The outer sub-markets tend to attract more immigrants, blue-collar workers, young families and retirees. Larger units with more bedrooms is generally an attractive feature for renters in the outer sub-markets. The more urban sub-markets currently attract more students, young and established professionals, downsizers, and young couples. Amenities, and social gathering spaces to counter the smaller units in the inner city rental product offered are reportedly appealing to these renter groups.

CONTEMPLATED

Zonda Urban is currently monitoring 113 development permit applications (22,614 units) that have been submitted to the City of Edmonton. Of those, 35 permits (6,749 units) are currently on hold. 34 projects comprising 6,284 units have been approved by the City and are expected commence leasing in the next two to three years. Zonda Urban anticipates 23 of these buildings will be ready to commence leasing in the next two years, which will add over 3,694 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:

- *Stadium Yards Building 2* – Rohit
- *Slate* – Kooner Construction
- *Gill Village* – Gill Built Homes

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 Edmonton'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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