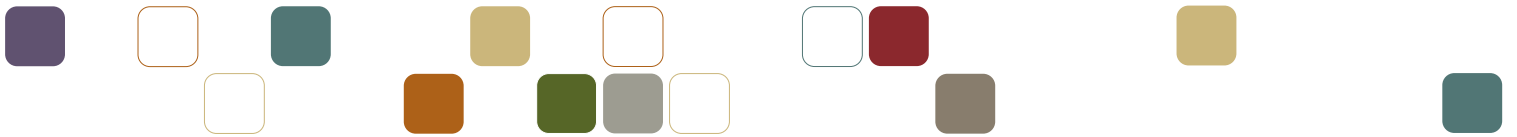




DRIVERS OF APARTMENT LIVING IN CANADA FOR THE TWENTY-FIRST CENTURY

SEPTEMBER 2010



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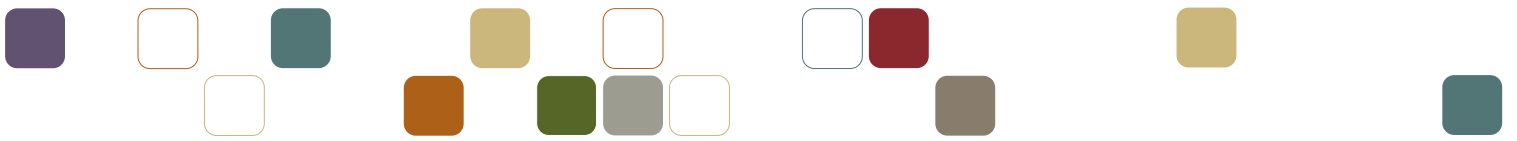
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At a Glance

Economic, demographic and social shifts are increasing the popularity of multi-family living in Canada.

Specifically, the growth of the knowledge economy, which tends to be based in dense urban areas, combined with an increased interest in consuming experiences (rather than focusing on acquiring consumer goods) has contributed to a growth in demand to live in amenity-rich neighbourhoods within a short commute of employment—and in apartment or condo buildings. The following are some of the reasons this shift will continue and even accelerate in the coming decades.

- Apartment and condominium dwelling is now often a desired choice of many urban residents when multi-family living offers a commute and amenity advantage.
- Increased educational attainment of women (who earn almost 60% of all Bachelors' and Masters' degrees in the US and Canada) combined with increased female workforce participation has also contributed to rise of both the knowledge economy and of apartment and condominium living.
- Increasingly, families are choosing multi-residential living. With most families having no more than one or two children, a two bedroom apartment home can work well. Moreover, if both parents work, living in a low-maintenance home with a short commute allows for more family time.
- Buying a home (including a condo) in close proximity to employment and amenities is becoming increasingly expensive in comparison to renting. As a result expect more 25–45 year olds to be renters in the coming decades.

Other characteristics of Canada's rental markets:

- Condominiums are not a threat to purpose-built apartment renting. In fact, they have contributed to making high rise apartment dwelling fashionable. Also, by increasing the density of neighbourhoods, condominiums have contributed to a growth in amenities. Cities where residents have the highest propensities to rent apartments also have the highest percentages of residents owning condominiums.
- Baby boomer and older generation empty nesters are not expected to sell their houses and rent apartments. They believe in ownership having typically owned all their lives. If they wish to downsize and urbanize, they will most frequently buy condos.
- Supply has not kept up with demand for purpose-built apartments in recent decades. Canadian cities with growing, dynamic knowledge- and experience-based economies already have a rental housing shortage. These cities attract newcomers by the tens of thousands annually, who need to rent homes. The high rental rates and low vacancy rates in places like Vancouver and Toronto (and soon Calgary again too) illustrate that demand exceeds supply.

There is a growing dialogue in Canada's cities about housing issues, particularly the need for more purpose-built rental accommodation. This report offers fresh and forward-looking perspectives on apartment living in Canada, designed to inform stakeholders—including building owners, developers, government, and renters—in their decision making.



INTRODUCTION: NEW PERSPECTIVES ON APARTMENT LIVING

Fifty years ago, the typical apartment dweller was a widowed female (often on a fixed income), a family on social assistance, or a younger single person. That has changed. Today, a broad cross-section of society—including individuals and families with higher incomes—are choosing to live in apartments, often in higher density urban areas either as renters or owners.

Indeed, condominium ownership options have helped to reconceptualize apartment living into a desirable urban experience characterized by access to great amenities in the building and surrounding neighbourhood. This has helped to increase the demand for rental options, especially in areas with newer condo buildings.¹

Looking ahead, an increased interest in living in dense urban areas, filled with restaurant and shopping options, will also attract young singles who may need to rent with a friend to afford the higher rental rates in these high demand locations. We also expect to see more couples renting—including those with children—in the larger metro areas. Residents of big cities with strong job growth, migration and expensive housing will often need to work for many more years than their counterparts did in previous eras, or do in other places, to afford to purchase a home.

The swing toward apartment living is one impact of a broader shift in economic drivers and in the demography of Canadian cities. By looking at the underlying fundamentals as well as the actual changes to the characteristics of apartment renters in recent years, we are able to anticipate longer term changes to apartment dwelling in Canada and thereby better plan investment strategy for the coming decades.

Research from this report is also helping us to develop a systematic approach for assessing whether existing assets will meet the future needs of urban renters as well as for evaluating multi-residential acquisition or development opportunities.

Because there has been such limited development of purpose-built apartment buildings in Canada's major cities for decades, there is a tremendous opportunity for investment in new product.

Our Unique Approach: Census, Polls and Context

To complete this report GWLRA first commissioned the Urban Futures Institute to create a custom relational database from the 2006 census that allowed us to cross-tabulate statistics. For example, we could examine the number of households with higher incomes who live in high rise apartments as well as how many have children in the household.

Second, we recognized that correlations in the census data do not imply motivation. (Just because apartment dwellers have shorter commutes does not necessarily mean this is the main motivator behind living in an apartment.) To get underneath the statistics and understand the reasons why people select their apartment units we hired Harris/Decima to poll over 1200 apartment dwellers.

Third, we involved our own property managers, marketing and asset management teams, asking them to provide insight into such questions as why tenants select their buildings, why they stay and why they leave.

The final and most important methodological component was placing the data within the context of economic, demographic and social trends. This allowed us to ask more strategic questions of the data and identify evidence of new or long-term trends. This report starts by detailing these economic and social foundations of Canadian urban life now, and going forward. We then examine in greater detail the implications for apartment demand and investment decisions.

¹ However condominium construction also generates challenges to the purpose-built rental sector. Previously we have discussed this as well as other related issues. See GWL Realty Advisors 2006.



ECONOMIC AND DEMOGRAPHIC DRIVERS OF DEMAND FOR MORE APARTMENT BUILDINGS

The economy is different now. It no longer revolves around simply making and moving things. Instead, it depends on generating and transporting ideas. The places that thrive today are those with the highest velocity of ideas, the highest density of talented and creative people...

*Velocity and density are not words that many people use when describing the suburbs. **The economy is driven by key urban areas.***

Richard Florida, [The Great Reset](#)

Increased attractiveness of apartment living has occurred simultaneous with major economic shifts in Canadian cities and globally. The suburban-based production of manufactured goods or the processing of primary products is no longer the dominant economic driver of most North American metropolitan areas. Although these activities have not disappeared, they are becoming eclipsed by the rise of the knowledge economy and experience economy based in dense urban areas that contain employment, shopping, entertainment and residential uses in close proximity.

Indeed urban economies around the world that performed best during the recent economic downturn have generally had higher rates of condominium and apartment living as well as higher propensities to rent (Florida, 2010a; Florida 2010b).

There is a correlation between economic stability and demand for rental housing. However, this does not mean that high propensities to rent create economic growth. Rather, as evidence gathered for this report suggests, high levels of renting is one interrelated aspect of a dynamic knowledge-based economy.

Cities with high percentages of renters (and especially higher income renters) also have great walkable and transit-oriented urban neighbourhoods. Indeed, the renewed importance of local, urban spaces is a key foundation behind current and future demand for apartment living.

Understanding the economic and related social foundations behind increased urban living and apartment dwelling are important in order to anticipate where people will want to live and what features they will require from their apartment homes.

Section Highlights

Long-term economic shifts driving increased apartment dwelling include

- The growth of Canada's knowledge economy and experience economy
- The rise in women's labour force participation and educational attainment combined with a decreased fertility rate
- The economic requirement that Canada replace aging boomers with several hundred thousand new skilled immigrants annually
- The rising costs of housing in Canada's major cities, especially in close proximity to employment areas



Knowledge economy most efficient in dense urban areas

The knowledge economy is a name given to any economic activity where idea generation and analysis is the central activity. This includes artistic production, financial services provision, computer software programming, film & television production, microprocessor design and legal counseling. These activities tend to be based in office buildings and require inspired, educated employees.

Even in the natural resource sector—essential to Canada’s GDP and wealth—there has been a shift toward more creative, technical work. Extracting, transporting, selling and exporting oil, natural gas, minerals and forest products today requires more engineers, accountants, and creative thinking than in the past. Forecasting demand and hedging global prices are now crucial associated activities along with research and development to extract natural gas more efficiently and in new ways, such as from shale layers of the earth. Fifty years ago, thousands of these resource-associated knowledge jobs would not have existed. Today they are a cornerstone of the economy in cities such as Calgary.

The knowledge economy is dependent upon and has evolved alongside the technology to store and access massive amounts of data and communicate with others instantaneously whether around the world or at the next desk.

Density can inspire innovation

Theoretically, with today’s technology, knowledge work could be done from anywhere. But, this is not what is happening. The greater productivity, innovation and satisfaction from personal collaboration along with broader industry clustering has meant that the knowledge economy has increasingly become concentrated in dense urban areas, often in nodes with high concentrations of amenities and housing as well as office space. Workers value the ability to discuss ideas over coffee at a hip café or lunch at a sushi bar. Evidence increasingly shows that fresh, ground-breaking ideas tend to emerge from spending time outside of an office in a multi-faceted urban milieu. Suburban isolation does not fit many knowledge economy sectors’ location needs nor those of the talent they wish to attract.

“One reason new technologies make face-to-face contact and proximity more valuable is that technological change [including the knowledge economy] increases the returns to being smart, and human beings get smart by hanging around other smart people.”

Source: Harvard Economics Professor, Edward Glaeser, 2010

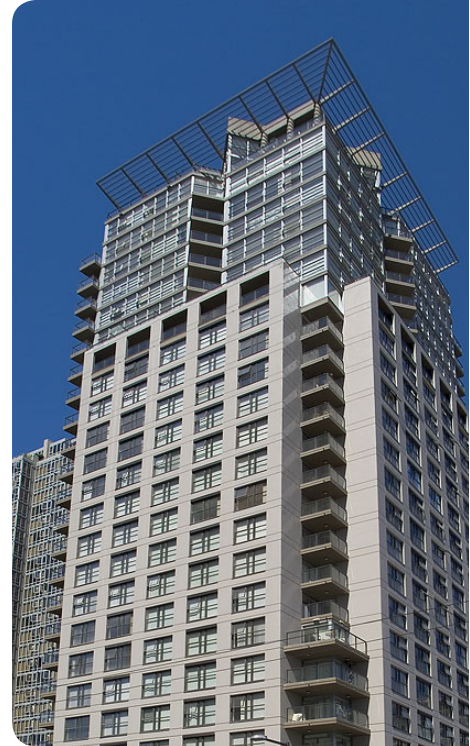
Although some individuals and firms will still prefer lower density and auto-focused suburban environments, the trends today indicate a notable shift in the balance toward higher density living in part because of the growth of certain types of jobs (and lower growth or shrinkage in many other positions).

Apartment demand highest where creative workers wish to hang out

Because knowledge workers want inspiration—and to build their intelligence—after hours as well as during official work periods, apartment buildings in or near concentrations of knowledge-economy jobs are typically in the highest demand, fetching top rental rates for the region (or top prices for condominiums).

For example, Vancouver’s Yaletown—which first emerged as the “Silicon Alley” of the 1998–2000 dot com boom—today is a densely populated urban playground with among the city’s hippest restaurants, bars, hotels, entertainment spots as well as home to large and small employers including SAP/Business Objects, a variety of video game production firms, graphic design and internet companies, as well as architects, lawyers and engineers. Yaletown also boasts numerous high-end condos as well as a few luxury rental apartments (including GWLRA-managed 939 Beatty Street, owned by bclMC).

Elsewhere in Canada similar districts have become the high rent nodes. In Calgary, the Beltline offers proximity to downtown as well as 17th Avenue Southwest. In Toronto, the King-West neighbourhood offers similar restaurant and entertainment amenities, as well as a variety of housing options from new condo towers to older converted buildings. The newer Toronto Waterfront development also has proximity to the downtown core, condo offerings that attract families as well as the childless, and parks and recreation space.



939 Beatty Street in Yaletown, Vancouver

Is the rented-condo market a threat to purpose-built multi-family rental apartments?

It can be, particularly on a building-by-building basis. But the condominium boom in many cities also broadens the market for purpose-built rental accommodation in the area.

First, rented condo units provide more options to renters in a given area, which in turn supports more amenities, which then increases the demand to live in the area.

Second, high-end condominiums help make apartment-living trendy and upscale, which also broadens the interest in apartment living in the area.

Third, condominiums provide some competition for the rental industry, which can improve service levels and in turn make apartment living more attractive.

Apartment dwelling suits the experience economy

Drawing office and residential tenants alike, places like Yaletown and King-West offer a rich array of restaurant, retail and personal services amenities that fit the ever-expanding experience based economy. **Unlike in a consumer-goods fueled economy, in the growing “experience economy” people spend their time and money on experiences.** Twenty years ago only the wealthy had regular spa treatments, manicures, and enjoyed frequent fine-dining. Today, individuals of much more modest incomes frequent such places. Other experiences in demand from nearly all income groups range from recreation—such as cycling, skiing, hiking—to travel to simply the daily indulgence of a Starbucks coffee.



There is an intense interrelationship between the experience economy and knowledge economy in that experiences help inform innovation or provide inspiration. Additionally, great experiences (arguably more than consumer purchases) can contribute to workers' happiness or confidence, also important for fueling innovation. Finally, new experiences—whether intentionally sought or simply encountered in an urban milieu—often challenge people, which helps make them more innovative as these experiences can provide new ideas or confidence in responding to situations.

Apartment living is closely connected to the experience economy in at least four ways:

- First, whether owned or rented, apartments require minimal maintenance, freeing leisure time to enjoy experiences
- Second, the 2006 census demonstrates that apartment dwellers live closer to work, which also frees time to participate in the experience economy (See Figure 1)
- Third, typically apartments cost less to rent or buy than a single family home, as well as have cheaper utility bills, thereby freeing money to purchase experiences
- Finally, because apartments are typically smaller, there is no room for the vast array of consumer goods often found in larger suburban homes, which also frees income to be spent on experiences

In an April 2009 Harris/Decima survey conducted for GWLRA, 61% of respondents reported that “Saving Time” was the major motivator behind a decision to shop closer to home or work.
Source: (GWL Realty Advisors 2009)

The growth of condominium towers has increased the density of consumers in many areas. They help to provide a base of customers—many with considerable disposable income—to support businesses providing amenities, which in turn attracts apartment renters who want to live that experience but cannot afford the condo (yet) or are not interested in owning for other reasons.

Experience economy workers also need apartments. Retail, restaurant, and other service jobs often pay lower wages than some knowledge economy positions and are often done by younger people. Yet these employees are often drawn to these higher density environments for the experience as well as an opportunity to live close to work.

Figure 1—Commute distances compared

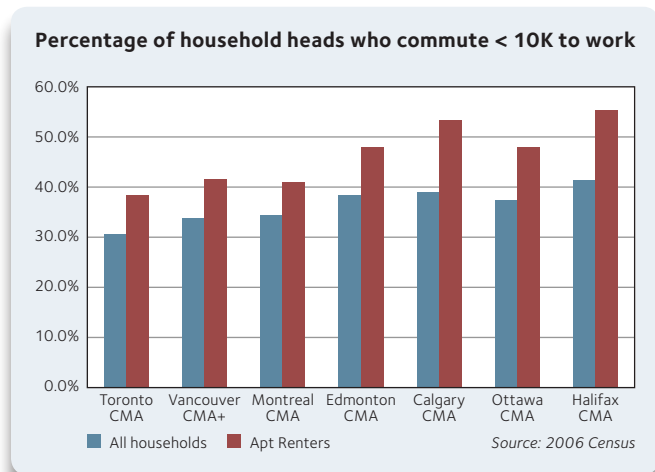
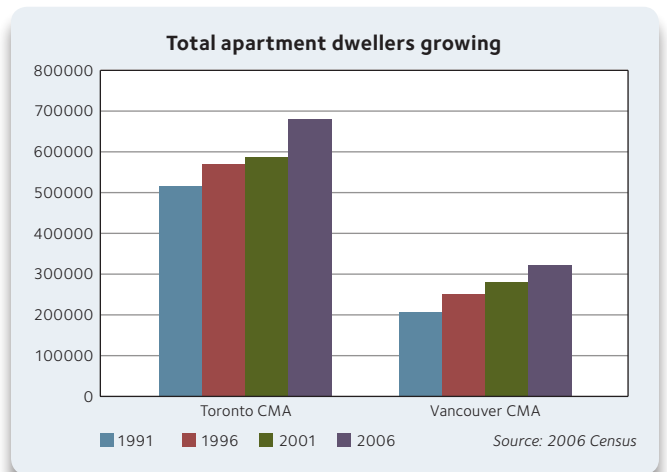


Figure 2—Growth in apartment dwelling (rented and owned)



Note: All cities are the Central Metropolitan Area (CMA). Vancouver (CMA+) includes Abbotsford.



Apartment living suits the relationship between many twenty-first century women and families and the economy

The shift to a knowledge and experience based economy that has been happening over the past few decades is also connected to the growth of women in the workforce and the more gender-neutral nature of today’s jobs. Apartment living is a natural evolution of this shift.

Female employment in the knowledge- and experience-based economies equals or exceeds that of men (unlike in the goods-producing economy where male employment is more common). Whether programming computer software, managing retail stores or auditing corporate books, you will find as many women as men working in many office buildings and the attached retail spaces.

The rise of the knowledge and experience economies has happened concurrent with women now earning a greater percentage of bachelor’s and master’s degrees than men. This has balanced the gender playing field somewhat, especially at the types of jobs typically done by twenty-somethings.

Fertility rates have also dropped substantially over the past fifty years. Today the average Canadian woman only has 1.6 children in her lifetime, meaning that approximately half of all families have only one child. Apartment living with one child works much better than with two or more offspring.

Low fertility and a more gender-balanced workforce are foundations of Canada’s urban-based economy and society, and these factors will continue to support increased apartment living in the 21st century.

Three benefits of apartment living for women & families

1. Apartment living close to work frees up time for a working mother (or father) to spend more time with their child, rather than commuting, doing yard work or home maintenance.
2. Fathers are spending more time raising children than they did thirty years ago and living closer to work supports that trend.
3. Apartment or condo living can be less expensive than many alternatives, thereby freeing money for family experiences.

Urban living in higher-density neighbourhoods suits the two-income earning family, with only 1 or 2 children, that is focused on having great experiences.

How suburban life reinforces traditional gender roles

If home is located far from a region’s main employment centre (like downtown), both parents cannot invest the time to commute if they also wish to see their children. In the 20th century women were typically the parents who gave up commuting, either staying home full time or finding part time work near their homes.

Locating homes far from shopping amenities requires one family member to invest more time acquiring household necessities (like food, clothes, etc.) than they would if such stores were close by. Typically, women have been the ones in charge of shopping.

Children born per woman in her lifetime in Canada:

1959:	3.9	↓
2010:	1.6	

“If we lived in the suburbs, the kids would hardly ever see their [assistant-film-director] dad on days when he is working”

- A Yaletown mother of two and small business owner



Canada's knowledge economy will require immigrants

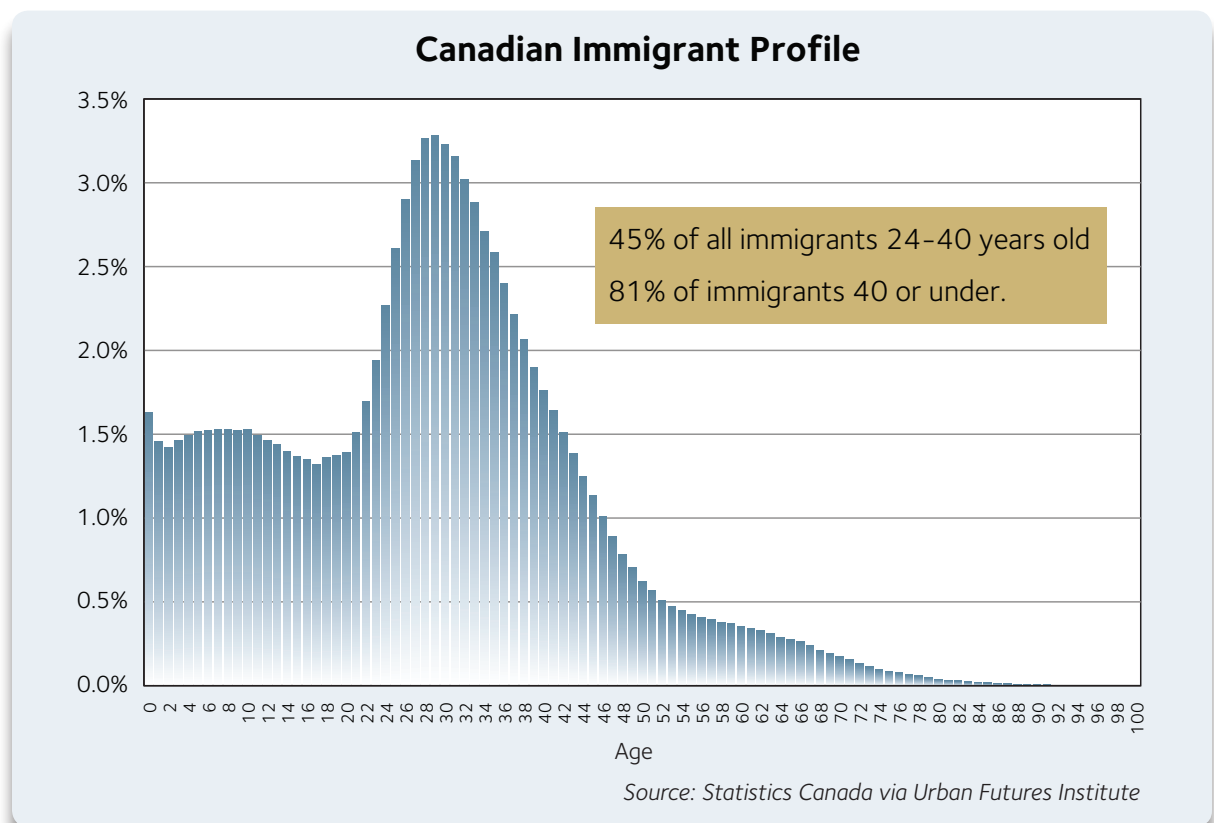
Because Canadian women have been having fewer children for decades, immigration is another cornerstone of the Canadian economy's foundation. Approximately 250,000 to 300,000 individuals arrive per year in Canada, typically selecting Canada's larger cities and renting.

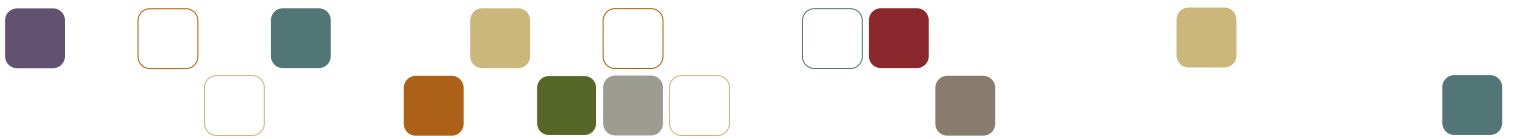
Canada was the #1 destination of choice among well educated prospective immigrants in a worldwide Gallup Poll conducted 2007–2009 (Esipova, et.al., 2010)

As Figure 3 shows, the majority of immigrants are less than 40 years old. They are also typically well educated with 51% of immigrants aged 25–64 having a university education in contrast to 19% of Canadian-born residents in the same age group (Statistics Canada, 2008). They therefore fit the characteristics of urban dwellers in Canada: young, educated, and working in the knowledge or experience economy.

Immigrants today have often grown up in dense, urban environments and are accustomed to—or even expect—a range of amenities at their doorstep. Although some may have a goal of owning a single-family suburban home in Canada, they will not be adverse to renting an apartment home initially. It's also worth noting that immigrants often come in a group of three or four people, such as a young couple with one or two small children. And thus rental housing needs to be suitable for their children as well.

Figure 3—Age profile of immigrants





Other factors support apartment living

There are other factors supporting a shift toward apartment living that should also be noted:

- High gasoline prices encourage Canadians to live closer to work, thereby supporting higher density, apartment living (GWL Realty Advisors, 2009).
- Poll results illustrate that saving time also motivates Canadians to drive less (GWL Realty Advisors, 2009), thereby supporting apartment dwelling close to employment and shopping.
- A growing ecological consciousness further reinforces the economic choice to reduce driving and live a more walkable and transit-oriented lifestyle.

Younger generations' lifestyles do not suit driving

There is also growing research that younger generations do not relate to the automobile as enabling “freedom.” Instead, their electronic and social media devices—whether a smart phone, small lap top computer, music player, etc.—provide an alternate means for self expression and being free to do what they want. In the United States, kilometers driven by 18–34 year olds is declining, and this is likely the case in Canada as well (Neff, 2010). Younger generations seem to have less interest in automotive use, making apartment living in dense, walkable and transit-oriented urban areas a more natural fit for their lifestyles.

Concluding thought on suburban-urban dynamics

It should be noted that not everyone will want to live in dense urban spaces. Even those who work in the knowledge economy may want their own, private and quieter place. And, a notable minority will continue to work in suburban-based jobs, whether in manufacturing, warehouse-logistics or teaching to give a few examples.

When suburbia and freeway-oriented living evolved, this lifestyle suited the broader economy at the time. But a significant minority still preferred urban spaces. And the same will be the case in the coming decades, many people will still prefer suburbia.

The broader economic and social trends, however, will lead more people to apartment living, by choice and necessity. This will happen first in the larger and more congested cities. Indeed the transformation is already underway as the next section illustrates.



A GROWING APARTMENT-DWELLING CULTURE IN CANADA

Apartment renting offers an attractive alternative to single family house living in locations where high-density options offer tangible benefits, including some combination of the following:

- A commute advantage (access to rapid transit, a walking commute, or shorter drive)
- An amenity advantage
- A cost saving advantage

Size matters

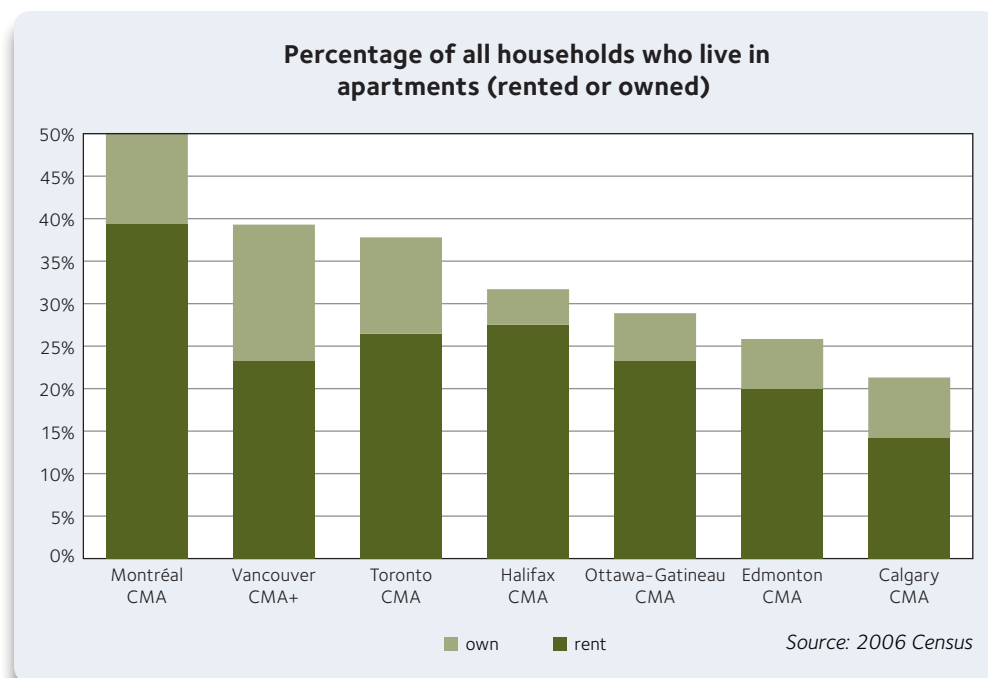
Larger cities are more likely to have nodes that offer these advantages. In smaller cities, and those with less dynamic economies, the choices are different. Detached single-family homes may remain affordable. No home may be more than 20 minutes from any employment node or most amenities. This all contributes to a smaller demand for rental apartments. Moreover, smaller cities may not have any option to live in a well-appointed apartment in a walkable area filled with amenities.

Halifax is the exception. Geographic constraints and an attractive downtown peninsula make this smaller city in many ways resemble Vancouver. As Figure 4 illustrates, Halifax has a propensity to live in apartments larger than Ottawa, Edmonton and Calgary, and a propensity to rent apartments second only to Montreal and greater than Toronto and Vancouver.

Section Highlights

- Size matters—bigger cities tend to have higher propensities to rent
- High income households more likely to rent in large cities than in small ones
- Canadians will rent for longer before buying
- Families and apartment living better suited
- Young & single will need smaller units or rent with friends
- Retirees will prefer to own, although universal design could lure some into rental

Figure 4—Propensity to live in apartments



More high income renters in larger cities

A higher percentage of the population lives in apartment buildings in bigger metro areas than in smaller ones, and this trend will continue. What is also worth noting in Figure 5 is that the larger cities (plus Halifax) also have larger percentages of high income apartment renters than most smaller metropolitan areas, further illustrating how apartment living in these places has evolved into a choice (whereas in many smaller cities it may still be seen more as a necessity for the young and the low income).

Apartment and condominium living is self-reinforcing

Apartment and condominium dwelling appears to be self-reinforcing. As the big metros are demonstrating, the more people of all backgrounds who live in apartments, the more likely others are to choose that lifestyle. Moreover, greater amounts of disposable income in an area support more amenity-businesses, which in turn attract more people to the area.

Finally and intriguingly, cities with higher percentages of condominium ownership also have higher propensities to rent, as Figure 4 illustrates.

Car-free commute options part of apartment-dwelling culture

Short commutes and proximity to transit are major factors attracting apartment dwellers to certain properties. When polled by GWLRA and Harris/Decima, 36% of apartment dwellers (owners and renters) selected their building for its short commute and 48% for transit proximity. Those numbers rise when only the responses of higher income households and those with children are examined. Non-automotive commuting is part of apartment-dwelling culture.

Figure 5—High income propensity to rent

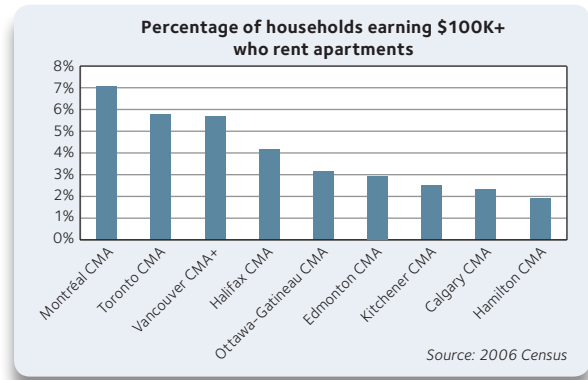


Figure 6—Apartment dwellers' commutes

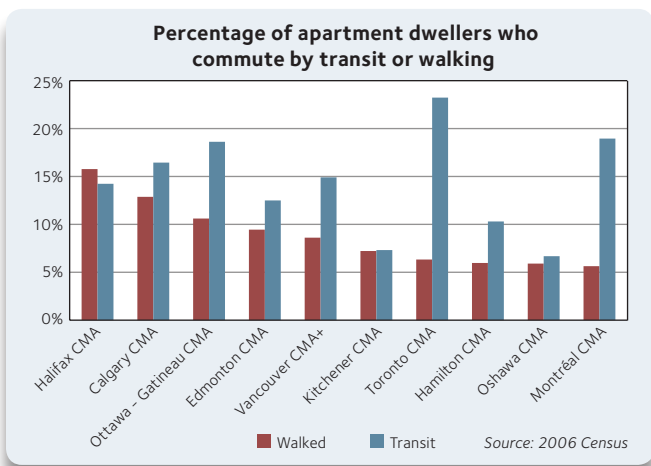
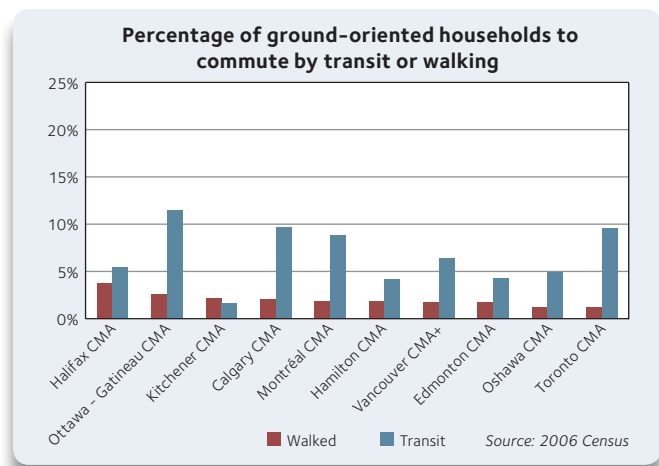


Figure 7—Ground oriented household commutes





Canadians will rent for a longer period of time before buying

In the larger cities the economics of single-family home ownership have changed, or soon will. These places are largely “built out” with little room for new single-family detached homes close to major employment nodes—yet they have growing populations, drawn in by the expanding knowledge economy. To afford a home close to work, most residents will need to turn to townhouses, condominiums and apartment buildings. The land values alone of single-family homes in walkable areas close to employment nodes will exclude most first-time buyers (and even many move-up buyers).

Furthermore, constrained supply and strong demand continues to force house and condominium prices ever upward, such that many individuals and families will have to save longer or wait until they earn higher incomes in order to buy (assuming mortgage lending rules are not relaxed). This will result in more renters.

It should be noted that between 2001 and 2006 many younger Canadian adults were able to take advantage of the early wave of condominium construction in up-and-coming urban areas. Instead of renting, many jumped into ownership positions. There were small condominiums suitable for one person available with mortgage payments below what it would cost to rent (Warren, 2009). This scenario no longer exists in the amenity-rich urban areas of Vancouver and increasingly those of other major cities as well.

The monthly cost premium for ownership often makes renting the much more affordable option, particularly when renters wish to live in the higher-demand, amenity rich neighbourhoods. To be sure, in some metro areas there will be options to buy condominium units or small townhouses further from the main employment, entertainment and shopping areas at prices that would result in monthly costs comparable to renting in a premium area. Some people will make this choice to buy further out, but not all will find that it sufficiently suits their needs.

The \$1300 ownership premium in 2010

In Vancouver’s Yaletown, a 2 bedroom apartment at the newer purpose-built 939 Beatty Street rents for approximately \$2000 per month.

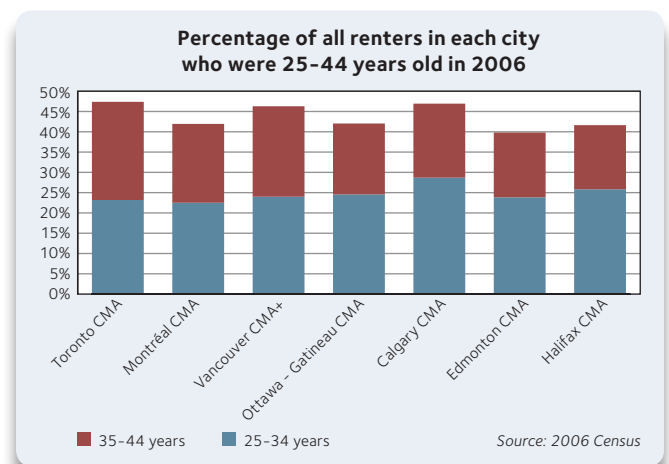
To buy an equivalent condominium across the street at 928 Beatty would cost \$500,000. Assuming a 5% down payment and a mortgage rate of 5% amortized over 25 years, the monthly payment would be \$2841 plus \$309 in condo strata fees and a further \$157 in property taxes for a total monthly **cost of \$3307**.

More 30–45 year-olds renting in larger cities

Whether immigrants or native born, the face of apartment renters in Canada could be dominated by individuals between ages 30 and 45 (along with any children they may have). Already, Canada’s larger cities have higher percentages of 35–45 year olds renting than in smaller cities. There are at least four reasons for this.

1. Ownership costs in cities with dynamic, growing economies tend to be higher than in other places, unless one is tolerant of a long commute. This forces or encourages more people to rent.
2. 25 to 45 year olds are traditionally more mobile as an age group, and with a transitioning global and Canadian economy, more such people may be on the move in the coming decades than has been typical in the recent past. This is also the typical age of immigrants.

Figure 8—Renters aged 25–44





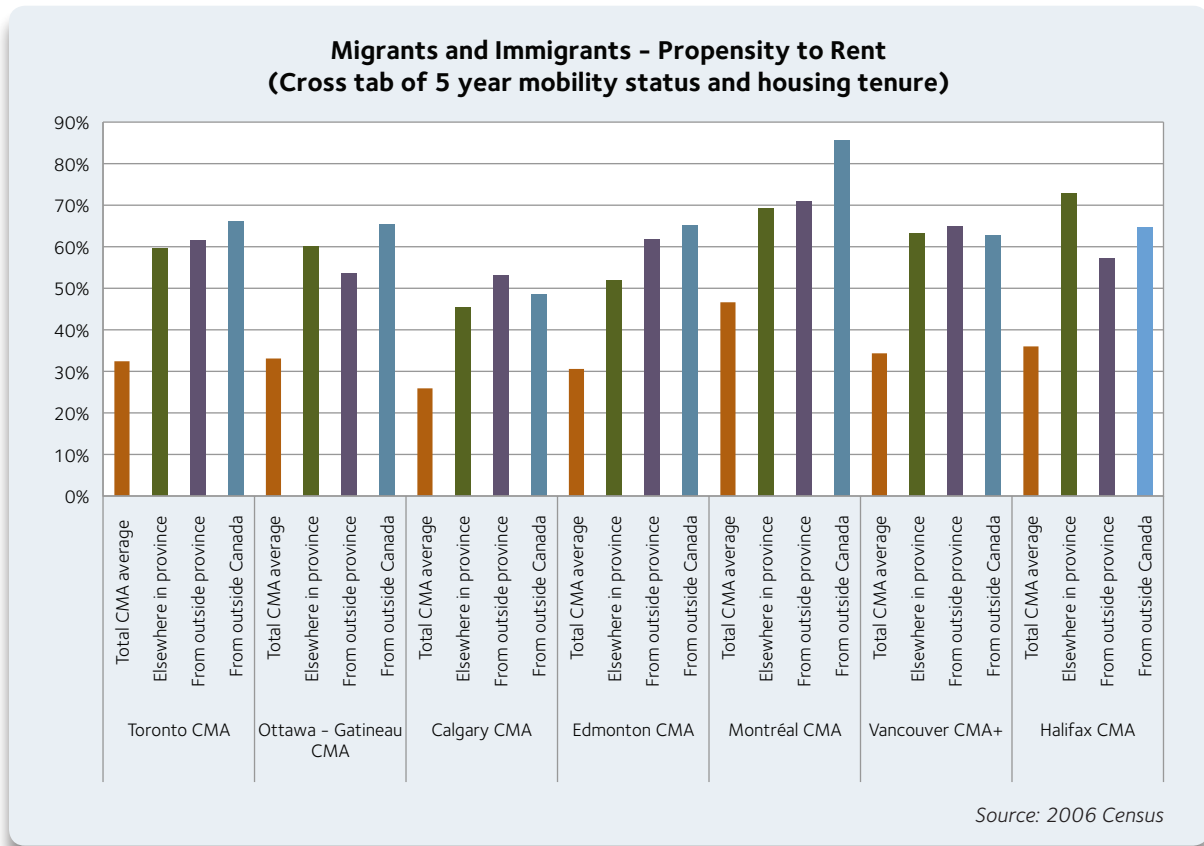
- 3. Younger generations may be proving to be less of an “ownership” culture than the baby boomer and older generations. For decades of boomers’ lives, renting had an associated stigma that is disappearing or does not exist for younger generations because renting has become a more upscale and trendy activity.
- 4. Larger urban cities also have a variety of rental options in close proximity to employment nodes and near great urban amenities, so there are options to rent quality, centrally located places.

In growing, economically dynamic cities domestic migrants may rent longer than international immigrants

Intriguingly, according to the 2006 Census and visible in Figure 9, in Calgary and Vancouver domestic migrants were slightly more likely to be renting than international migrants who had moved to Canada in the previous five years.

This could be an even more pronounced trend looking forward. People already living in Canada, especially with strong family ties to one region, may move to where jobs that interest them are, especially when they are young. But, they will likely plan on returning “home” within a few years—at least initially. Meanwhile, international immigrants are less likely to be planning on returning to their birth countries, so buying a home might be of greater interest as soon as they can afford to do so.

Figure 9—Migrants, immigrants and propensity to rent

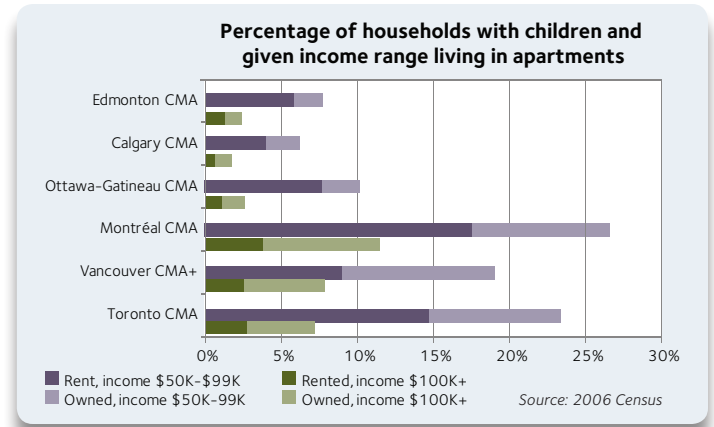




Families – apartment living increasingly suitable and desired

Ten years ago, many urban watchers and developers were skeptical that higher income families, who could afford a larger home elsewhere, would choose to live in new apartment neighbourhoods such as Yaletown in Vancouver. But time has proven that enough families are indeed choosing this lifestyle. As highlighted in section one, downtown apartment living suits the couple with one child who enjoy urban amenities and want to live close to work. And as Figure 10 shows, one in four families with children in Vancouver and Toronto, with incomes over \$50,000 live in apartments, whether rented or owned. Families are an important and growing rental market.

Figure 10—Households with children in apartments



To be sure, apartment living is not going to be the choice of every family, and it likely will not work in places without parks and greenspace nearby as well as where there are no schools or daycares. But in larger cities, the benefits of apartment living are attracting families.

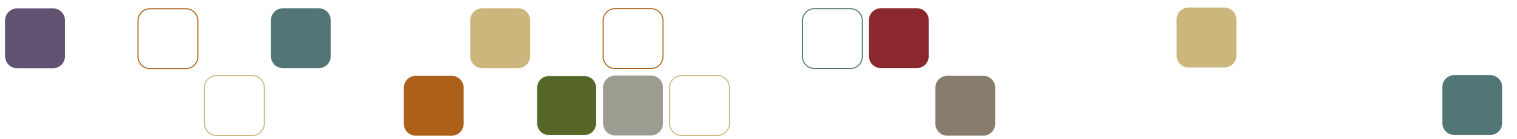


939 Beatty Street Yaletown, showing attached townhomes

In these places, commuting to the suburbs (where housing is cheaper) wastes time and can be expensive. Similarly, the costs of owning a single family home close to the major employment nodes is or will be beyond the means of many young families. Renting close to work can be the better option. The knowledge and experience economies are key drivers of the urban economies of Toronto, Vancouver and Montreal, which draws people into the downtown area for jobs and to enjoy the multi-cultural and varied amenities and experiences. It is consistent that people want to live close to all of this, even after they have a child.

As more middle and upper income families with children live in higher density areas, amenities for them emerge. Private businesses offering children’s programming such as music, gymnastics, swimming and yoga thrive and expand. Meanwhile the city will often add or upgrade playgrounds and schools if demographics warrant. And city-managed places like libraries and recreation centres will also expand their programming to suit the needs of the growing number of children and families in the local community. The end result in Yaletown (Vancouver), for example, is a very high density of small children and places designed for them that draws in families from other neighbourhoods.

One limiting factor could be schools. As more families move into higher density neighbourhoods, sometimes the local school board cannot keep up. For example, in Yaletown, Elsie Roy Elementary is full, with 350 students. A further 350 are waitlisted. The nearest alternative options with space require travelling a considerable distance (not walkable for the typical six-year-old) and crossing major arterial roads and/or bridges. Although another school is planned nearby, construction has not yet begun.



Another factor limiting the number of families raising children in apartments could be a lack of suitable units. While a couple with one child will fit well into many two bedroom apartments or condominiums, a family with two children will likely need a large two bedroom unit, at minimum. And, the second bedroom will need to be sufficiently large to accommodate two single beds, two desks, two dressers, etc.

Very few three bedroom rental apartment units exist in downtown, urban areas. Three-bedroom condominiums in downtown Vancouver, for example, tend to be high-end, penthouse suites that sell for in excess of one million dollars and would also rent for a premium beyond the reach of the average downtown-dwelling family. What is not clear at this juncture (because of the lack of supply) is whether more families with two or more children would choose downtown living if they could find and afford a three bedroom apartment in the area. For developers and investors seeking a certain rent per square foot in order to make the project viable, three bedroom units typically rent for less (on a per square foot basis) than smaller units. This suggests either that there is not high demand for the option or that families who could afford to pay \$2.50 per square foot for a 1200 square foot three bedroom apartment (and want to rent) might prefer to use their \$3000 a month to rent a slightly larger ground-oriented house or townhouse in a different neighbourhood.

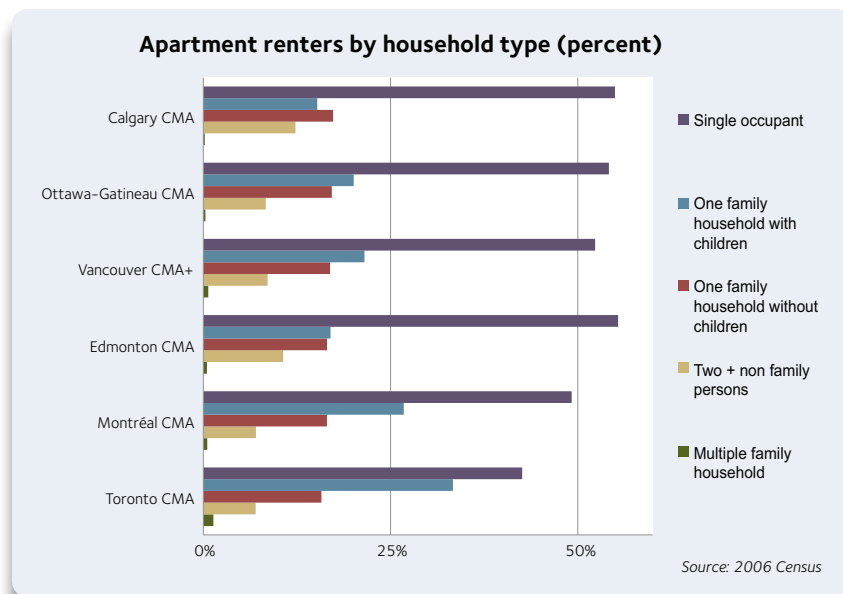
When asked why they selected their particular apartment building:

- 43% of all families with children at home cited the shorter commute (versus 36% of overall respondents)
- 67% of families earning > \$75K annually cited a shorter commute
- households with children were less likely than households without children to say that a balcony was essential.

Single occupants – uncertain future in larger cities

The percentage of single-occupant households has changed over time, and will likely be changing again soon. Sixty years ago, only 9.5% of all households were single occupants. In 2006, 27% of households (whether renting or owning) comprised only a single occupant—the dominant renter type as illustrated in Figure 11. However, in the larger and denser urban areas, we expect that there could be fewer in the future.

Figure 11—Apartment renters by household type





Vivere in Toronto

First, as mentioned earlier, those born during or after World-War Two, including the boomers, will tend to live out their retirement years in couples. The older, single widowed female is the renter of the past, not the future.

Second, because of demand exceeding supply, the rents for decent places in desired urban districts will likely be high. Therefore, young recent-graduates and/or city newcomers (who arrive on their own) will likely rent with a friend to help reduce the costs. Many “renter types” who today are single occupants, will not be renting solo unless they have a high income, are willing to commute further, or the supply of product available changes (which may mean higher density or much smaller units in certain areas).

With lone occupants potentially being less prominent as renters, two bedroom units will be in high demand. Perhaps foreshadowing this, in the leasing of the new Vivere apartment building in Toronto’s upscale “Yonge and Eglinton” neighbourhood, the two-bedroom units rented particularly quickly.

Micro apartments?

Because of the nature of urban economies today, it is possible that city governments will in the future allow for market rental, micro-sized rental apartments as they have in Los Angeles (see adjacent box). Having a dynamic urban economy will increasingly require having rental options for newcomers at prices they can afford and where they want to live (there may be cheap rentals in an isolated suburb, but many people won’t want to commute an hour each way to their job on irregular bus networks). For these reasons, we will be watching for city governments to relax rules that restrict unit size. Instead of one 550 square foot one-bedroom apartment, a developer could create two 275 square foot micro-suites, which would allow for a lower rental rate threshold.

The “math” of micro apartments

At a rental rate of \$2.25 per square foot, a 550 sq. ft. apartment would rent for \$1238. By contrast a 275 sq. ft. unit would cost \$618 – much more affordable for a newcomer.

If renters would pay \$750 for that same suite, that’s \$2.73 per square foot—a more attractive rate for an apartment developer-investor that could make some sites or projects financially viable that otherwise would not be.

New York-style mini-apartments are catching on among renters who couldn’t otherwise afford to live in choice neighborhoods.

May 29, 2010 - By Roger Vincent, Los Angeles Times

“Tim Freeman’s Santa Monica apartment has 17-foot ceilings, granite countertops and collector guitars hanging on the wall. He’s got a built-in microwave, dishwasher and central air conditioning.

All in 350 square feet.

Freeman’s coffee table is also his dining table. His desk is three steps from his sitting room. And three paces from his stove.

...

Southern California, meet the Manhattan-sized mini-apartment. In a region known for its sprawl, diminutive dwellings are finding a toehold among renters who couldn’t otherwise afford to live in choice neighborhoods.

Freeman’s apartment may be smaller than many suburban master bedrooms, but rents in his Olympic Studios complex are comparatively small too — \$1,110 a month at the low end — and the beach is just a mile away...

Some retirees may need urban apartments

Because of the sheer size of the boomer generation, they will also be notable as renters in Canada's larger cities. However, their propensity to rent is expected to be lower than for other, younger cohort groups. Some will choose to downsize from larger homes into condominiums, but will continue to live as owners rather than renters—that is if they downsize right away.

Because life expectancies today for men and women are much more aligned, and no major wars have removed a large portion of the male population at a young age, most retirees will live out most of their years in couples rather than as singles (even if they divorce, they'll re-marry, or if they become widowed the odds are they'll find a new partner). For rental housing demand, this will likely result in more demand for larger units of two bedrooms or more.

However, if the apartment experience is not attractive to a specific couple, they will likely be able to postpone the move to an apartment longer; working as a team, many aging couples can manage a detached home on their own for much longer than a single individual can do. And, as figure 12 illustrates, propensity to move declines with age.

Figure 12—Age and propensity to move

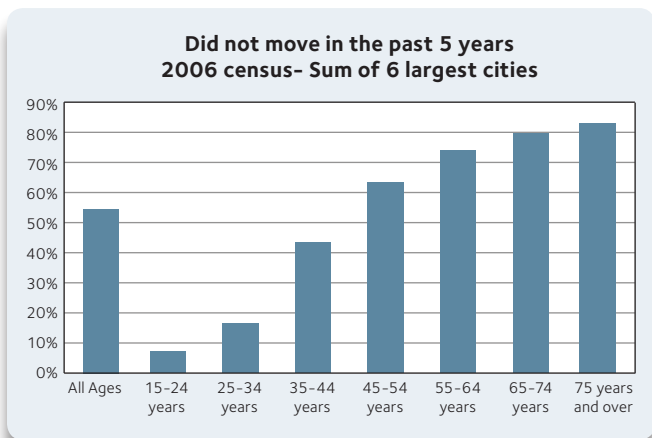
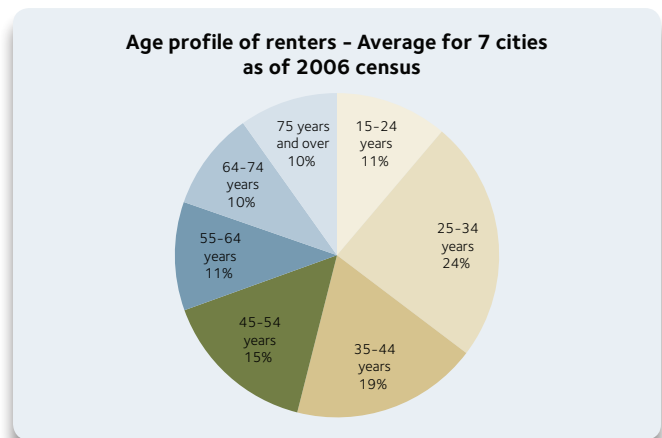


Figure 13—Age profile of renters



Nevertheless, the growth in fascination with consuming experiences, from travel to fine dining, has not bypassed the aging baby boomers. As this demographic cohort ages, some will shift from their single family homes into multi-family buildings, in order to save time and money to afford more experiences.

Because boomers and war-time generations have been more accustomed to owning, we expect that the majority who switch from single-family home living to apartment dwelling will buy a condo—if they can find a suitable place for their changing needs.

Accessibility features and services in newer apartments may convince some to rent rather than own. Much of the condo stock may not be right for retirees hoping to age in place and avoid moving again once they cannot be 100% mobile and independent. Few new condos offer much in the way of accessible—or universal design—features.



Newer, rental apartments with universal design features—such as the backings to install grab bars in showers easily, wider doorways to accommodate wheelchairs and walkers—are already in demand. **In a GWLRA-commissioned Harris/Decima poll, 27% of people over the age of 55 stated that accessible features would be essential in their next apartment.**

Because many retirees will stay longer in their single-family home, when ready to move, they will be very cognizant of their evolving limitations and will be looking for many barrier-free or universal design features so that they do not need to move again.

What the 55+ cohort said they would require for their next apartment:

- Patios - 70% (vs 65% of all respondents)
- 1 Parking Stall per unit - 52% (vs 46% of all respondents)
- En Suite Bathroom - 38% (vs 32% of all respondents)
- Big second bedroom - 41% (vs 38% of all respondents)
- Accessibility features - 27% (vs 16% of all respondents)

Source: Harris/Decima Poll for GWLRA November 2009

Suburban and low-density living does not usually suit the non-driver

Apartment living options close to amenities may be in demand in smaller cities as well as the larger, in part to suit the needs of an aging population.

As many retirees see their driving ability decline (or have the motor vehicle licensing office decide this for them) they may seek a condo or apartment in close proximity to medical amenities as well as shopping, cafes and transit that they can walk to.

A focus on two bedroom units?

Indicators suggest that investors and developers may want to focus on providing apartments suitable for two people (or a couple plus a child). As Figure 14 shows, two person households tend to have higher incomes and can therefore afford higher rents.

Indeed, looking ahead, two bedroom apartments will be in demand because they suit

- retired couples
- two friends sharing
- young couples
- a family with 1-2 children

Therefore, it's worth understanding what renters in two person, higher income households want from apartments. From the GWLRA Harris/Decima Survey:

Figure 14—Income and household types

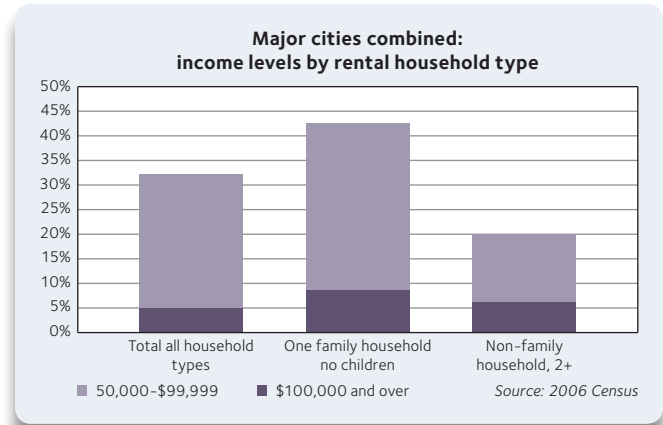


Table 1—Reasons for selecting current apartment

Table 2—Essential features of their next apartment

Reasons for selecting their current building or essential features when selecting their current apartment *

Feature	All Renters	2 person rental households > \$75K Income
Nearby Amenities	51%	61%
Short Commute	34%	47%
Transit Proximity	46%	53%
Balcony / Patio	46%	48%

When asked what would be essential for their next apartment:

Feature	All Renters	2 person rental households > \$75K Income
Balcony / Patio	63%	63%
In Suite Laundry	56%	65%
Big Second Bedroom	35%	56%
External Storage	35%	46%

*See Appendix for wording of survey questions



OPPORTUNITIES AHEAD

The suburban style of metropolitan development that dominated the 20th century suited the industrial-style economy. Not only was there a division of labour in the factory, but there were also distinct male and female roles. Similarly, residential areas were separate from business and industrial zones as well as shopping nodes.

Dense, urban living is becoming more popular today precisely because it suits an economy and society that is more intertwined. Home, work, family and personal life are more of an interconnected experience.

Although the economy and demography supports greater apartment living, including rental, the supply of purpose-built apartments has not grown significantly in several decades for a variety of reasons. These include the costs of construction and having to compete for land with condominium development projects that tend to be less risky and more profitable. Moreover, even if unintentional, some federal, provincial and local policies implemented over the past 40 years may have made building and operating a rental apartment a more challenging and less-cost effective business than it could otherwise be.

Demand to rent apartments has therefore outpaced supply. This has resulted in escalating market rental rates in many cities, today reaching a level that many residents with typical incomes cannot afford. There is pent-up demand for quality rental options in existing and emerging amenity-rich locations as evidenced by high rental rates and strong demand to rent condominium units (as well as purchase them). Providing new, luxury rental options to those who can afford it would also result in more options in existing buildings for those of more modest incomes.

Developers, investors and governments are becoming creative, which could result in new, appropriate supply to meet the 21st century economic and social needs of the residents of Canada's cities.

From this report, here are some lessons or ideas that could be important for new construction as well as apartment development strategy.

1. Tenants will more frequently come in twos, especially in the amenity-rich, high-demand neighbourhoods close to knowledge economy employment. Two people could embody

- two friends sharing a place to save money and/or afford to live where they want
- a young couple, saving money to buy a condo or a townhouse
- a retired, empty nest couple
- single parent and a child





2. Families with children will more frequently live in apartments, whether owned or rented, than in the past. Before children need to attend school, many emerging Canadian urban neighbourhoods can accommodate them. It will be interesting whether strapped civic governments will be able to provide adequate school spaces in some emerging high density areas, especially downtown Vancouver or Toronto’s waterfront area. For apartment developers or investors, a neighbourhood with a good school option (or one under construction), as well as parks and condos could be a good investment locale.



3. Universal design features may become much more coveted by tenants, and could provide a distinguishing feature between a newer purpose-built apartment and existing stock built when few considered these needs. Features—such as wider doorways and flat entryways—that suit the elderly and those with mobility challenges are also great for parents with babies in strollers.

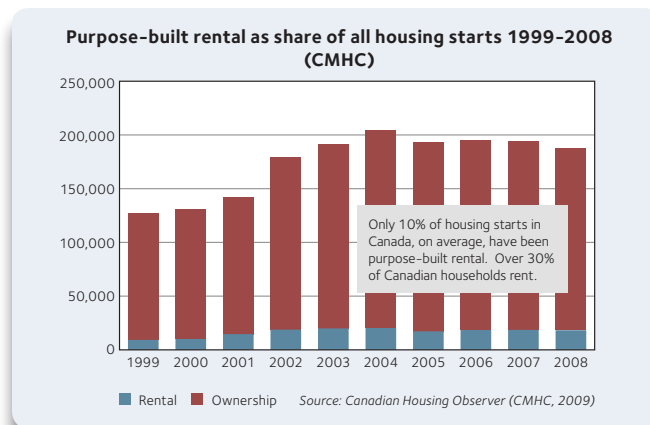


4. A lack of reasonably priced rental housing will be a challenge for city economies. To have a dynamic knowledge and experience based economy, a city must be able to embrace newcomers, whether recent university graduates, national migrants or international immigrants. A low supply of rental options makes it hard for newcomers to find a home and leads to rental rates that newcomers as well as long time residents struggle to afford. Such a situation can also contribute to labour shortages if people do not choose the city. We anticipate more local, provincial



and national government policy tweaks to encourage more rental housing as well as greater creativity from private sector developers and investors.

Figure 15—Purpose-built rental as a share of home construction



5. Micro-sized apartments (275–325 square feet) could be a solution. Providing these would allow for developers or owners to achieve a similar (or even higher) price per square foot as for a two bedroom apartment, but would give tenants the option of living alone—if they so prefer—in a vibrant, popular urban neighbourhood, and for roughly the same cost as if they rented a two bedroom with a roommate. Although perhaps higher maintenance for property managers because of turnover rates, such an apartment would be ideal for young people just finishing school, for newcomers to the area who don’t have much stuff, or for professionals with a temporary appointment in a city (and maybe a larger home elsewhere in the world). Even empty nesters moving toward retirement at a cottage might maintain a small rental in the city if they still work 1–2 days per week.



In Canada’s cities discussion about expanding rental housing is building among planners, politicians, renters’ rights groups, developers and apartment owners among others. Most recognize that Canada’s cities need a variety of housing options, at all price points and rental as well as ownership options.

A goal of this report has been to provide information and perspective to all stakeholders as they look to expand apartment living in Canada.



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APPENDIX A – HARRIS/DECIMA POLL METHODOLOGY AND SELECTED QUESTIONS

Harris/Decima completed a total of 1,100 online surveys among a random sample of Harris/Decima panel members. The study was conducted between September 18th to September 23rd, 2009 and October 15 to November 5, 2009.

This was a standard panel survey among a targeted sample of Harris/Decima panel members who own or rent an apartment or condominium. When contacted to solicit participation, participants had no prior knowledge of the subject matter of the study. Harris/Decima controls access to the study through passwords to ensure that respondents can participate only one time.

Tenure distribution

In trying to further understand the effect of the economic downturn on evolving trends, GWL Realty Advisors Research and Analysis Services commissioned Harris/Decima to conduct a follow-up national survey. Data collection for this study was conducted April 2 through April 5, 2009. This survey included 1010 respondents, and the corresponding error interval is +/- 3.1%.

- 790 Renters
- 299 Owners
- 11 recently moved out of an apartment or condominium

Geographic distribution

- Greater Toronto Area – 307
- Vancouver – 85
- Montreal – 80
- Ottawa-Hull – 52
- Remainder in other cities

Age distribution

- Ages 18 – 34 (154)
- Ages 35-54 (515)
- Ages 55+ (431)

Questions regarding motivators were asked giving respondents an option to select “all that apply”. For this report, we focused on the results from three questions, the wording and possible responses are listed below.

Q 11 – For what reasons did you choose to live in your specific building? Randomize list

[Please select all that apply]

- a. short commute to work or school
- b. building amenities (fitness room, pool, games room, party room, etc.)
- c. nearby amenities (restaurants, cafes, groceries, shopping etc.)
- d. nearby parks and recreation places (community centers, aquatic centers, playgrounds)
- e. less expensive than other options



- f. close to schools, daycare or children's activities
- g. the property management, staff and leasing consultants
- h. appropriate size and/or layout of the suite for our needs
- i. quality of the suite, appliances, finishings etc.
- j. lots of storage space
- k. incentives when initially rented
- l. reputation or prior experience with the property management company
- m. recommended to me by friends/family
- n. other (please specify)_____

Q 12. Thinking back to when you were hunting for your current apartment / condo, what features were essential must haves (meaning you would have been unlikely to move there without them)? Randomize list

- a. In-suite laundry
- b. Storage space external to suite
- c. Visitor parking
- d. At least 1 resident parking space per unit
- e. At least 2 resident parking spaces per unit
- f. Proximity of transit
- g. Proximity to major highways/roadways
- h. Balcony / patio
- i. En suite master bathroom
- j. Big second bedroom
- k. Open concept kitchen/living space
- l. Accessibility features (wider doors, grab bars in bathroom)
- m. Good, efficient elevator
- n. Energy efficient/energy star appliances
- o. LEED certified or other environmental certification
- p. Fitness area
- q. Walk in closet
- r. Pool
- s. Air conditioning
- t. Newer windows
- u. Wood floors (instead of carpet)
- v. Other (please specify)_____

Q 13. And, if you were looking for a new apartment or condo today, what features would be most essential for you?

(Same list as above)



RAISONS POUR LESQUELLES LES CANADIENS VIVENT EN APPARTEMENT AU 21E SIÈCLE

Aperçu

En raison de changements économiques, démographiques et sociaux, le logement multifamilial prend de plus en plus d'ampleur au Canada.

Plus précisément, l'essor de l'économie du savoir, qui est généralement concentrée dans des centres urbains densément peuplés, combiné à l'intérêt accru pour les expériences de consommation (plutôt que l'acquisition de biens) ont contribué à la hausse de la demande d'appartements, en copropriété ou autres, situés près de nombreux services et du lieu de travail. Voici quelques-unes des raisons pour lesquelles cette transformation des mentalités se poursuivra, et qui plus est s'accélélera au cours des prochaines décennies.

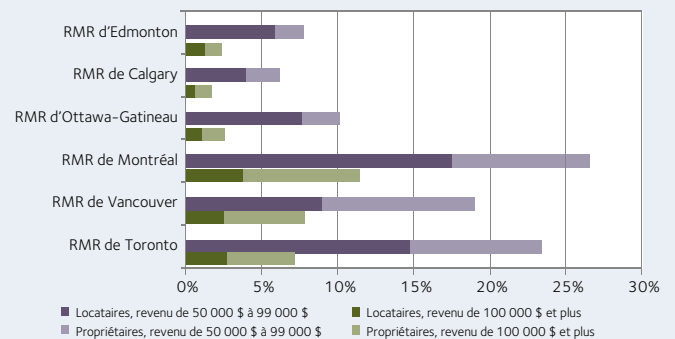
- Bon nombre de personnes vivant en milieu urbain choisissent d'habiter un appartement, loué ou en copropriété, parce qu'une résidence multifamiliale leur offre des avantages sur le plan des services et des déplacements.
- Le fait que les femmes sont de plus en plus éduquées (elles obtiennent près de 60 % des baccalauréats et des maîtrises aux États-Unis et au Canada) et qu'elles représentent un pourcentage accru de la main-d'œuvre a également contribué à l'essor de l'économie du savoir et du nombre de personnes vivant en appartement.
- Un nombre croissant de ménages choisissent de vivre dans des résidences multifamiliales. La plupart des couples n'ayant qu'un ou deux enfants, un logement à deux chambres peut très bien convenir. De plus, si les deux parents travaillent, un domicile exigeant peu d'entretien et situé à proximité du travail permet de consacrer davantage de temps à la vie de famille.
- L'achat d'un domicile (y compris un appartement en copropriété) proche du lieu de travail et des services devient plus coûteux que la location. Par conséquent, au cours des prochaines décennies, le pourcentage de locataires sera probablement en hausse chez les 25 à 45 ans.

Raisons ayant motivé les résidents à choisir leur immeuble actuel ou caractéristiques essentielles de leur appartement actuel*

Caractéristique	Tous les locataires	Ménages de deux locataires gagnant + de 75 000 \$
Services à proximité	51%	61%
Proximité du travail	34%	47%
Proximité des transports en commun	46%	53%
Balcon / terrasse	46%	48%

* (voir le rapport complet en annexe pour des précisions.)

Pourcentage des ménages avec enfants, pour une tranche de revenu donnée, qui vivent en appartement



Source: Recensement de 2006

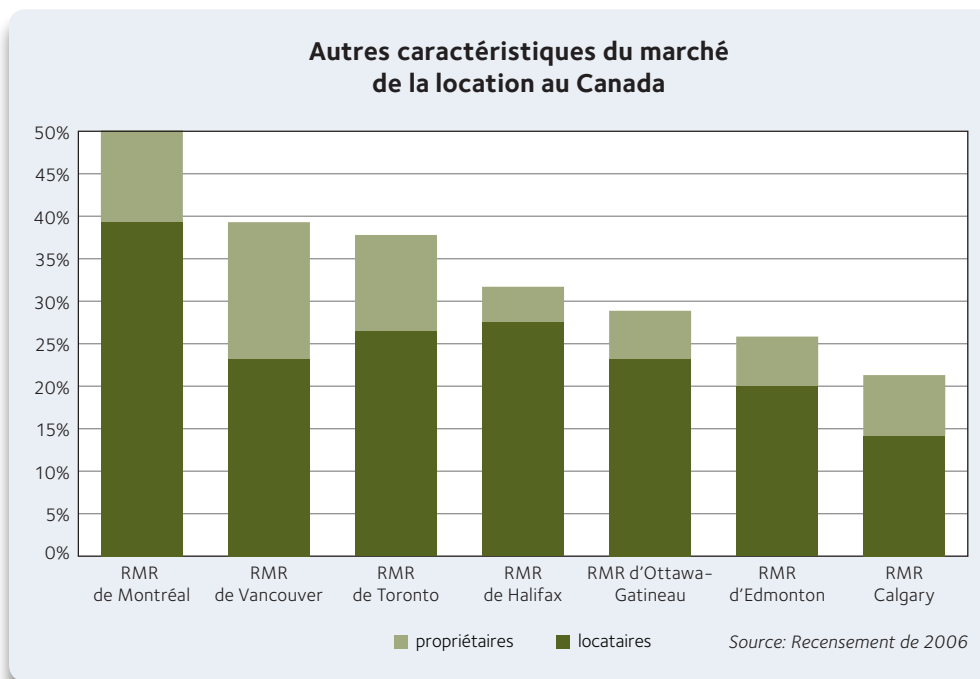
Autres caractéristiques du marché de la location au Canada

Les appartements en copropriété ne représentent pas une menace pour les immeubles locatifs. En fait, ils ont contribué à rendre les tours d'habitation en vogue. En outre, en augmentant la densité de population des quartiers, les propriétaires d'appartement y ont attiré des commerces et des services. Les villes où les résidents ont le plus tendance à louer des logements comptent aussi les pourcentages les plus élevés de propriétaires d'appartements.

Les bébé-boumeurs et les personnes des générations précédentes dont les enfants ont quitté le nid familial ne vendront probablement pas leur maison pour louer un appartement. La majorité d'entre eux croient en l'importance d'être propriétaire, l'ayant été toute leur vie. S'ils souhaitent réduire la taille de leur habitation et s'installer en milieu urbain, la plupart achèteront un appartement en copropriété.

L'offre n'a pas suffi à la demande d'appartements locatifs au cours des dernières décennies. Les villes canadiennes dont la croissance est fondée sur une économie du savoir et de l'expérience subissent déjà une pénurie de logements locatifs. Ces agglomérations attirent des dizaines de milliers de nouveaux venus de tout le pays et du monde entier chaque année, et ces personnes ont généralement besoin de louer une demeure à leur arrivée. Les taux de location élevés et les faibles taux d'inoccupation enregistrés à Vancouver et à Toronto (et bientôt à Calgary) montrent bien que la demande dépasse l'offre.

Dans les villes canadiennes, on discute de plus en plus des questions liées au logement, en particulier du manque de logements locatifs. Le présent rapport offre une perspective nouvelle et tournée vers l'avenir relativement à la vie en appartement au Canada. Il a été conçu pour aider les divers intervenants – notamment les propriétaires d'immeubles, les promoteurs, le gouvernement et les locataires – à prendre des décisions éclairées.





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