

# HOUSING MARKET INSIGHT

## Vancouver CMA



CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: March 2016

*Tenant turnover is followed closely by residential rental industry professionals for cost management and tenant retention strategies. In the fall of 2015, CMHC conducted a pilot study in the Vancouver CMA to track tenant turnover rates. Continued annual tracking of this data may reveal trends, providing further useful analysis of the rental market.*

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## Tenant Turnover Rate: A New Measure of Rental Market Conditions

*To keep in-line with Canada Mortgage and Housing Corporation's (CMHC's) mandate to improve access to housing data, a pilot project was conducted in the fall of 2015 in the Vancouver Census Metropolitan Area (CMA) to track tenant turnover in purpose-built rental units of apartments and townhomes. Information on tenant turnover, or the turnover rate, can benefit owners of rental properties by providing expectations of costs over the year. For renters, this information can give an idea of the expected number of rental units that will become available for rent. While the relationship between the turnover rate and economic variables is weak at the moment, over time with the collection of more data points, trends may be identified, which would give further insight into the rental market. There are a number of observations unique to tenant turnover in various centres of the Vancouver CMA, based on the initial set of data.*

### A Needed Measure of Rental Market Conditions

As the only comprehensive survey on a national scale, Canada Mortgage and Housing Corporation's (CMHC's) fall rental survey collects vacancy, availability and rent data for purpose-built rental buildings for all major centres with a population over 10,000.

Whether you are an investor, a developer, a landlord, or a renter, the new turnover rate will help you evaluate your options in the housing market.

While the vacancy rate – an industry standard used by both renters and owners as an indicator of rent levels and market conditions – remains a key measure, owners and managers can now add tenant turnover, or the turnover rate, to the information tools available from CMHC to plan and manage operating costs and revenues.

For CMHC's Rental Market Survey, the turnover rate is defined as the number of times a unit is occupied by new residents during the past 12 months (including tenants who move into different units in the same building during this time period). The pilot project survey, conducted in the Vancouver CMA in the fall of 2015, captured one number for each building<sup>1</sup>. It did not capture tenant turnover by bedroom type or by rent range.

Rental demand in the Vancouver CMA was high in 2015, with the overall vacancy rate at just 0.8 per cent. Over the ensuing years, stabilization in the rental market will bring more balanced conditions, which may draw out a stronger relationship between tenant turnover data and the other variables that the rental survey captures. External drivers, such as population and employment growth, may also be used more extensively in future analyses.

For this Housing Market Insight, a cross-sectional analysis of the turnover rate is compared within the centres and zones in the Vancouver CMA.

## Both Owners and Renters Can Use Turnover Rates

The ongoing costs of managing rental properties can be unpredictable over a given year. Budgeting for regular maintenance costs for a rental property can be impacted by a number of factors, such as unforeseen one-off expenses or higher vacancy as tenants relocate to other areas due to weak local economic conditions. Information on the turnover rate can help owners plan for cost management and tenant retention strategies. The cost of tenant turnover varies depending on the quality of the suite that is left by the tenant. Landlord BC estimates expenses of \$1,500 - \$2,000 to refresh a unit once a tenant vacates the suite.<sup>2</sup> However, in British Columbia, tenant turnover does allow landlords to raise rents beyond the maximum allowable increase set by the Residential Tenancy Act.

The turnover rate can be used by renters in the decision process of where to rent and what to expect in their rental accommodations search. Areas that have a low vacancy rate, i.e. relatively few rental units that are vacant and available for immediate move-in, may have a high turnover rate, indicating that there are units that become available. An area of low tenant turnover and a low vacancy rate, especially observed over a number

of consecutive years, may indicate an area of high desirability, making a search for a rental suite more difficult or prolonged.

## Why Does Turnover of Rental Units Occur?

There are a number of reasons why tenant turnover occurs. While some reasons can be tied to the local socio-economic environment, other reasons are personal to the renter. According to the Calgary Residential Rental Association Turnover Survey in 2014,<sup>3</sup> the top three reasons why tenants left their rental accommodation were:

- To purchase a condominium or a house.
- To relocate for a job.
- To move to another rental building.

Other factors that influence tenants to move to another rental building include:

- Unhappy with the management services<sup>4</sup>.
- Rents were too high.
- Not satisfied with the rental unit.

Other personal factors can impact tenant turnover, including:

- Personal relationships, such as marital break-up.
- Relocation that is non-job related, such as retirement.
- Health problems.
- Lifestyle changes.

<sup>1</sup> Respondents provided just one number per building regarding turnover rate, as requesting more detailed information would have been too onerous for respondents.

<sup>2</sup> Suggested cost to refresh a rental suite was given by David Hutniak, CEO of LandlordBC. Depending on the quality of the suite left by the tenant, these costs can be off-set by a clause in the lease agreement of \$250 to \$500 for liquidated damages (compensation for a breach of contract) in addition to the damage deposit left by the tenant.

<sup>3</sup> Calgary Residential Rental Association Turnover Survey 2014.

<sup>4</sup> Stephen Mettling and David Cusic, Principles of Real Estate, 5<sup>th</sup> Edition, (Performance Programs Company, 2015), 366.

According to Landlord BC, the largest landlord professional industry association in British Columbia, similar motivations for tenant turnover apply in Metro Vancouver and the typical turnover rate ranges from 10 to 30 per cent annually.<sup>5</sup>

## The Relation between Turnover Rates and Vacancy Rates

Data from CMHC's 2015 Rental Market Survey shows a weak relationship between the vacancy rate and the turnover rate.<sup>6</sup> The turnover rate across different rental zones in the Vancouver CMA ranged from about 10 per cent to 25 per cent regardless of the rental vacancy rate (Figure 1). In the Vancouver CMA, the rental zone with the lowest vacancy rate recorded the highest turnover rate. This outlier can be explained by the proximity to post-secondary education and a high probability that a majority of renters in this rental zone were students.

## Nearly One-fifth of All Purpose-Built Apartment Units Turned Over in 2015

According to the turnover rate pilot study, the turnover rate in the Vancouver CMA was 19.2 per cent. Close to one-fifth of the purpose-built rental stock in the Vancouver CMA, or an estimated 20,553 suites, changed tenants between October 2014 and October 2015. Rental demand is high in the CMA as evidenced by the 0.8 per cent vacancy rate, suggesting that the turnover time for a majority of these units available

to renters was relatively short. Competition among renters, partly driven by population growth in the region, would not only cause shorter turnaround times for occupancy, but could support a higher asking rent.<sup>7</sup> The 3.9 per cent increase in same-sample rents in 2015, as shown in Table I.1.5 (page 21) of the CMHC 2015 Rental Market Report for the Vancouver and Abbotsford-Mission CMAs, was the highest since 2008.

While tenant turnover ranged from 8.2 per cent to 48.3 per cent, the majority of the rental zones had a turnover rate between 10 and 30 per cent. By rental zone, the highest tenant turnover occurred in the University Endowment Lands (UEL) at 48.3 per cent. The high turnover

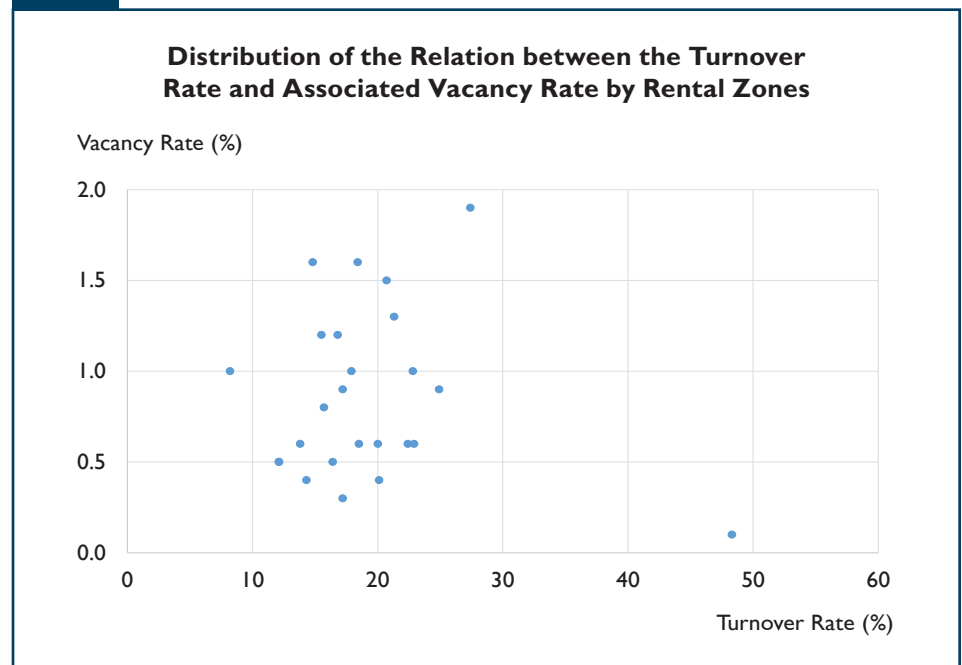
is due to the University of British Columbia being within the UEL boundary and the changeover of students before and after the school year. While not as high as the UEL, areas around a number of learning institutions, such as North Burnaby and Downtown Vancouver recorded a slightly higher turnover rate compared to the CMA average (Figure 2).<sup>8</sup>

**Figure 2. Turnover Rates in Zones near Educational Institutions**

Zone	Turnover Rate (%)
UEL	48.3
Downtown	22.9
North Burnaby	22.8
<b>Vancouver CMA</b>	<b>19.2</b>

Source: CMHC Rental Survey

**Figure 1**



Source: CMHC Rental Survey

<sup>5</sup> Discussion with David Hutniak, CEO of LandlordBC.

<sup>6</sup> The correlation between the turnover rate and vacancy rate by rental zone shows a weak relationship with only 13.9 per cent of one variable influencing the other.

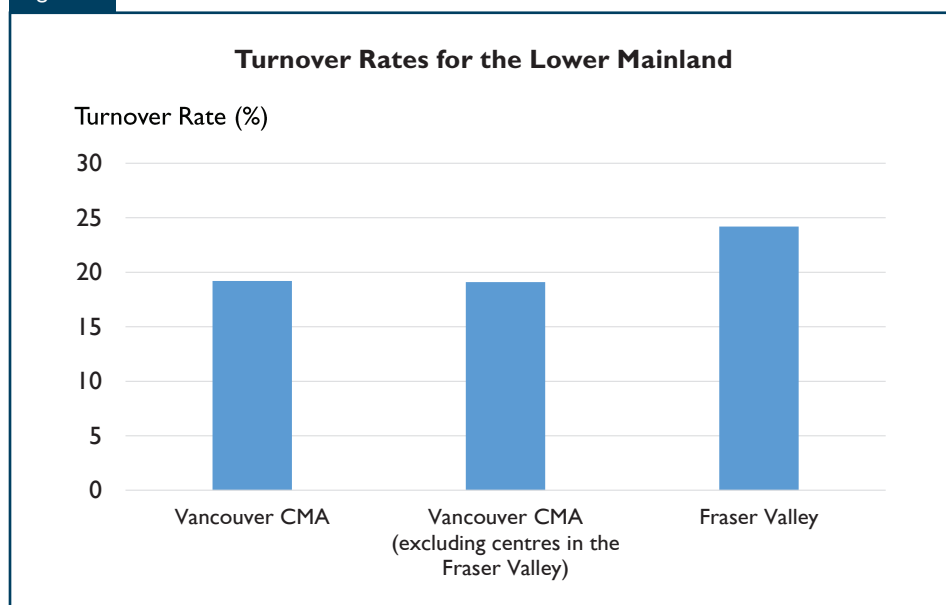
<sup>7</sup> The Residential Tenancy Act limits annual rent increases for occupied units. In 2015, the maximum allowable increase was 2.5 per cent. An exception to these limits is possible when tenant turnover occurs.

<sup>8</sup> The North Burnaby rental zone surrounds the Simon Fraser University Campus. A query of census tracts surrounding the Simon Fraser University Campus in Burnaby resulted in a slightly higher turnover rate of 23.7 per cent. The Downtown rental zone surrounds a number of major learning institutions in the area.

Surrey recorded the second highest turnover rate in the Vancouver CMA at 27.4 per cent. Centres that are part of the Fraser Valley recorded a higher turnover rate, at 24.2 per cent, compared to the remainder of the centres in the Vancouver CMA at 19.2 per cent (Figure 3).<sup>9</sup> Lower rents in neighbourhoods in the Fraser Valley compared to centres closer to Vancouver City has been one of the drivers for people wanting to rent in the Valley. On average, rents in Surrey were \$359 less than the average monthly rent charged in Vancouver City.

Tenant turnover varies with the size of apartment rental buildings in the Vancouver CMA with larger buildings reporting higher turnover (Figure 4). One possible explanation is that larger purpose-built rental apartment structures, with more than 100 units, usually carry higher repair and maintenance cost for owners, which can get passed on to tenants in the form of higher rents. As rents continue to increase year-over-year, some tenants may look for lower rental rates, which are found in smaller buildings throughout the CMA. Alternatively, renters paying higher rents may leave the rental market and move into homeownership, generating turnover in buildings with higher rents.

Figure 3



Source: CMHC Rental Market Survey

Analysis of turnover by age of structure does not yield conclusive results. On the surface, data shows that tenant turnover is higher for new units in the Vancouver CMA (Figure 5). Rental structures built between 1990 and 2004 had a turnover rate of 22.3 per cent. However, removing the UEL from the calculations for the CMA results in a lower turnover rates for these structures, of 20.4 per cent.

Higher turnover rates for new units is not consistent across all rental zones in the Vancouver CMA.<sup>10</sup> One reason for this is that the vacancy rate remains fairly constant for each structure age group, despite rent levels being higher for newer units. Demand for buildings of different ages may be consistent across the CMA, keeping the turnover rate within a small range by age of structure.

Figure 4. Turnover Rates and Rents by Structure Size

Structure Size	Turnover Rate (%)	Rent (\$)
3-19	19.1	1,080
20-99	17.8	1,096
100-199	24.1	1,392
200+	28.9	1,376
<b>Total</b>	<b>19.2</b>	<b>1,144</b>

Source: CMHC Rental Survey

<sup>9</sup> The turnover rate was calculated for the Vancouver CMA minus the centres of Surrey, Langley, White Rock and North Delta.

<sup>10</sup> Turnover rates for Downtown Vancouver are higher in structures built from 1990-2004 (30.7 per cent) while in Mount Pleasant/Renfrew Heights, turnover rates are higher for structures built before 1960 (21.0 per cent).

## Lower Tenant Turnover May Be Associated with Neighbourhoods of High Demand and Lower Rents

Figure 6 shows the ten rental zones with the lowest turnover rates along with the five-year average vacancy rate and average rent in 2015.

There are a number of reasons why the turnover rate would be low in these zones. Areas, like the West End/St Stanley Park and North Vancouver City and DM, are highly desirable areas in the CMA, having a five-year average vacancy rate that is half a percentage lower than the CMA average. Rents lower than the CMA average in areas such as Southeast Vancouver, East Hastings, Southeast Burnaby and White Rock may make these centres favourable for singles, couples and small families.

## Townhouse Renters Remain in Their Units Longer

The turnover rate for purpose-built rental townhouses was lower than that for apartment units, at 11.4 per cent in the Vancouver CMA, compared to 19.2 per cent for apartments. The demand for these larger units would be well suited for those renters, such as young families, wanting more space as well as a ground-oriented component. Occupants of these units may tend to live in their units longer as high land costs, limited land supply and competition with higher density forms of housing have reduced the supply of purpose-built townhouses over the past 20 years.<sup>11</sup>

**Figure 5. Turnover Rates, Vacancies and Rents by Structure Age**

Age of Structure	Turnover Rate (%)	Turnover Rate (excl UEL) (%)	Vacancy Rate (%)	Rent (\$)
<b>Before 1960</b>	19.2	19.1	0.7	1,132
<b>1960-1974</b>	18.1	18.1	0.8	1,112
<b>1975-1989</b>	18.4	18.4	0.9	1,059
<b>1990-2004</b>	22.3	20.4	0.8	1,336
<b>2005+</b>	33.5	**	0.7	1,651
<b>All Structures</b>	19.2	18.8	0.8	1,144

\*\* Data Suppressed

Source: CMHC Rental Survey

**Figure 6. 10 Lowest Turnover Rates by Rental Zone**

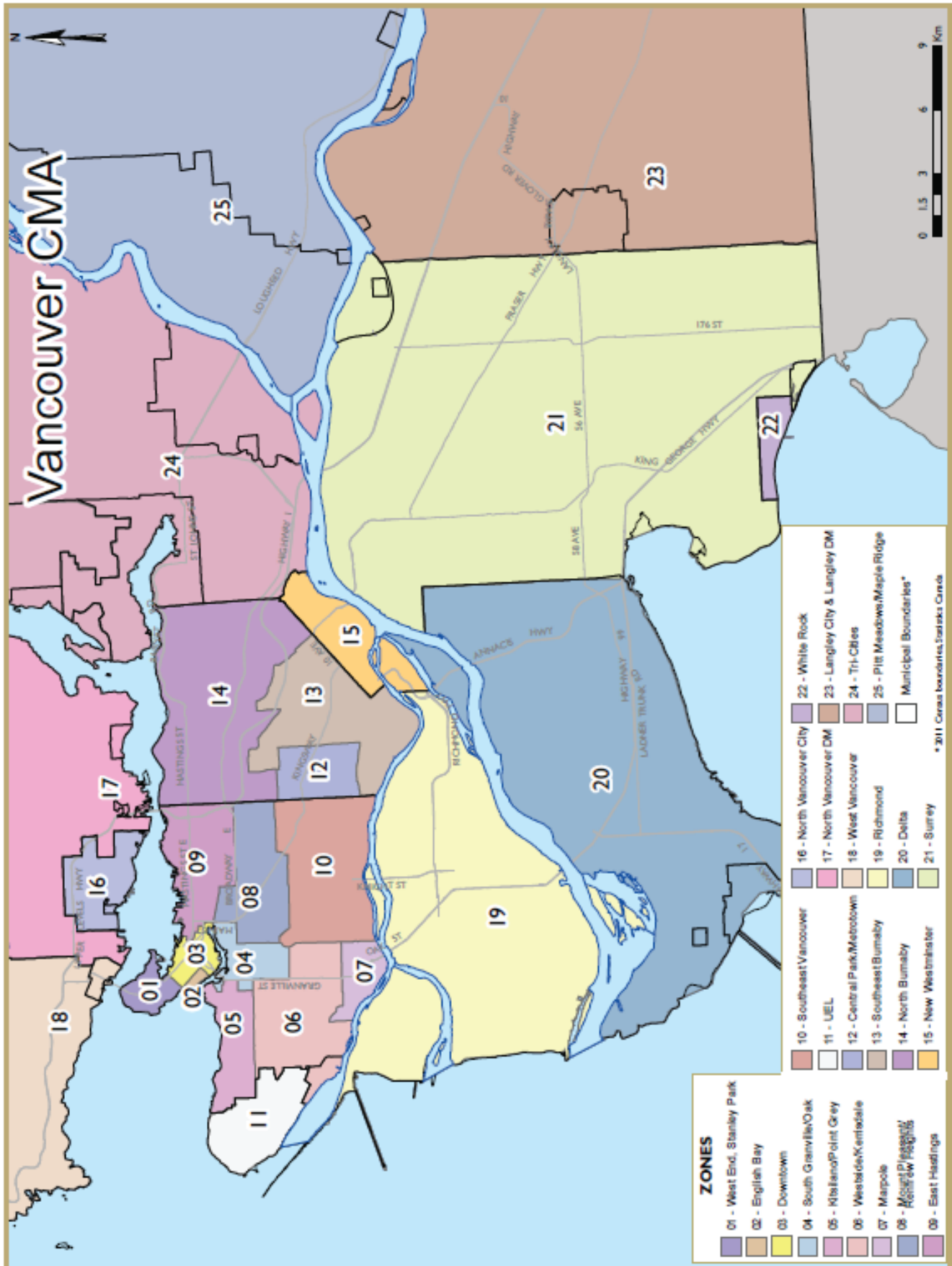
Rental Zones	Turnover Rate (%)	Vacancy Rate (%) (5-Yr. Avg.)	Avg. Rent (\$)
Southeast Vancouver	8.2	1.3	1,118
West Vancouver	12.1	0.6	1,257
North Vancouver DM	12.1	0.7	1,673
East Hastings	13.8	1.0	1,002
North Vancouver City	14.3	0.6	1,158
Westside/Kerrisdale	14.8	1.3	1,390
Southeast Burnaby	15.5	2.2	905
White Rock	15.7	2.0	918
West End/St Stanley Park	16.4	0.6	1,336
Tri-Cities	16.8	2.4	951
Vancouver CMA	19.2	1.3	1,144

Source: CMHC Rental Survey

Tenant turnover was higher for townhouses that were built during and after 2005, at 28.8 per cent, compared to those built from 1960 to 2004, which ranged from 7.0 per cent to 16.4 per cent. The higher level of turnover of newer townhome units can partly be due to higher rents associated with newer townhome rental developments.<sup>12</sup>

<sup>11</sup> The supply of row units has actually decreased to 3,079 in 2015 from 3,479 in 1995.

<sup>12</sup> The time period was extended to the years 2000 to 2015 as data from 2005 to 2015 was statistically unreliable.



**Table 1. Rental Market Summary Table by Rental Zone  
Vancouver CMA**

Zone	Vacancy Rate (%)		Availability Rate (%)		Average Rent (\$)		Median Rent (\$)		Same-Sample Rent% Change		Units	Turnover Rate (%)	
West End/Stanley Park	0.5	a	0.9	a	1,336	a	1,250	a	6.1	a	3,876	16.4	a
English Bay	0.3	a	0.6	a	1,341	a	1,300	a	6.4	b	6,789	17.2	a
Downtown	0.6	a	1.1	a	1,361	a	1,290	a	4.6	a	10,350	22.9	a
South Granville/Oak	0.6	a	0.9	a	1,264	a	1,188	a	5.0	b	7,750	18.5	a
Kitsilano/Point Grey	0.6	a	1.1	a	1,285	a	1,200	a	3.9	c	7,170	20	a
Westside/Kerrisdale	1.6	a	2.1	a	1,390	a	1,280	a	2.5	c	2,940	14.8	a
Marpole	1.0	a	1.4	a	928	a	900	a	3.2	c	4,003	17.9	a
Mount Pleasant/Renfrew Heights	0.4	a	0.7	a	1,076	a	1,000	a	3.3	c	6,296	20.1	d
East Hastings	0.6	a	0.9	a	1,002	a	950	a	2.3	c	4,969	13.8	a
Southeast Vancouver	1.0	a	1.1	a	1,118	a	1,100	a	2.2	a	2,047	8.2	b
University Endowment Lands	0.1	a	0.3	a	1,712	a	1,605	a	4.7	b	1,277	48.3	a
Central Park/Metrotown	1.3	a	1.7	a	1,045	a	934	a	3.4	b	6,155	21.3	a
Southeast Burnaby	1.2	a	1.4	a	905	a	878	a	1.9	b	2,359	15.5	a
North Burnaby	1.0	a	1.6	a	1,082	a	1,025	a	1.7	b	3,870	22.8	a
New Westminster	0.9	a	1.2	a	933	a	875	a	2.5	a	8,018	17.2	a
North Vancouver City	0.4	a	1.0	a	1,158	a	1,100	a	3.9	c	6,014	14.3	a
North Vancouver DM	0.5	a	1.0	a	1,257	a	1,206	a	3.2	a	948	12.1	a
West Vancouver	0.5	a	0.9	a	1,673	a	1,480	a	4.4	d	2,329	12.1	c
Richmond	0.9	a	1.2	a	1,152	a	1,100	a	5.7	b	2,806	24.9	a
Delta	0.6	a	1.0	a	920	a	875	a	0.8	d	1,724	22.4	a
Surrey	1.9	a	2.0	a	874	a	863	a	3.1	c	5,584	27.4	a
White Rock	0.8	a	1.5	a	918	a	860	a	3.5	c	1,378	15.7	a
Langley City and Langley DM	1.5	a	1.7	a	895	a	880	a	4.1	b	2,150	20.7	a
Tri-Cities	1.2	a	1.7	a	951	a	906	a	5.9	c	4,668	16.8	a
Maple Ridge/Pitt Meadows	1.6	a	1.8	a	827	a	800	a	4.5	b	1,475	18.4	a
<b>Vancouver CMA</b>	<b>0.8</b>	<b>a</b>	<b>1.2</b>	<b>a</b>	<b>1,144</b>	<b>a</b>	<b>1,055</b>	<b>a</b>	<b>3.9</b>	<b>a</b>	<b>106,945</b>	<b>19.2</b>	<b>a</b>

The following letter codes are used to indicate the reliability of the estimates:

a - Excellent, b- Very good, c - Good, d - Fair (Use with Caution)

\*\* Data suppressed to protect confidentiality or data not statistically reliable

**Table 2. Private Turnover Rate (%)  
by Year of Construction and Dwelling Type  
Vancouver CMA**

Dwelling Type	Unknown	Pre 1960	1960-1974	1975-1989	1990-2004	2005-2015	Total
Row	**	**	7.0 a	11.6 a	16.4 d	28.8 a	11.4 a
Apartment	**	19.2 a	18.1 a	18.4 a	22.3 a	33.5 a	19.2 a
Row + Apartment	**	19.1 a	17.9 a	17.6 a	22.0 a	33.3 a	19.0 a

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**Table 3. Private Turnover Rate (%)  
by Structure Size and Dwelling Type  
Vancouver CMA**

Dwelling Type	3-19	20-99	100-199	200+	Total
Row	19.0 a	9.6 a	** a	** a	11.4 a
Apartment	19.1 a	17.8 a	24.1 a	28.9 a	19.2 a
Row + Apartment	19.1 a	17.5 a	24.1 a	28.9 a	19.0 a

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