Economic Commentary

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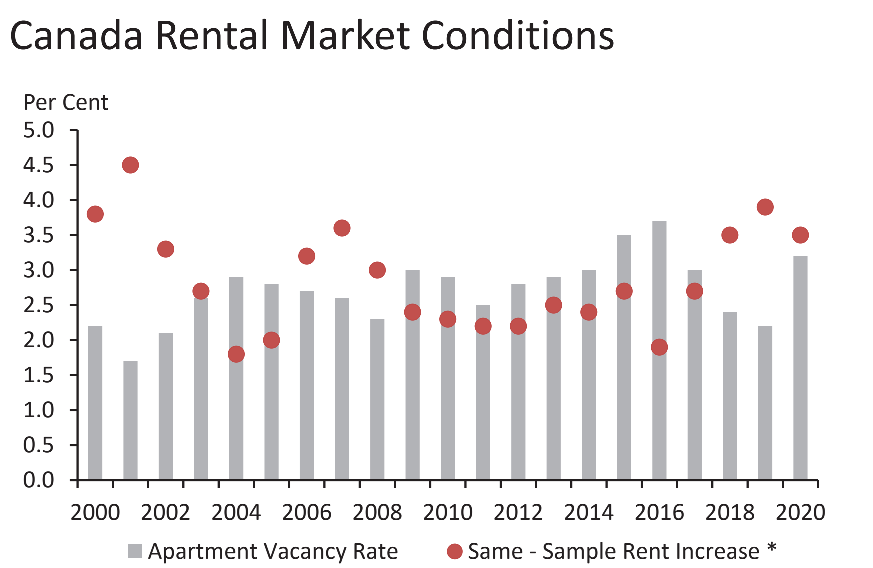
central 1 Economics

Large metro area rental markets soften amidst pandemic

Last year's rental vacancy rates in Canada's urban areas were at their highest in four years as a result of the COVID-19 pandemic, according to the Canada Mortgage and Housing Corporations' (CMHC) Rental Market Survey for 2020.

In contrast to surging demand and robust market conditions in the home ownership market during the pandemic, rental market conditions in Canada have softened, particularly in the largest urban markets. According to the CMHC survey, purpose-built apartment vacancy rates rose significantly in most metro areas while rent growth decelerated. Nationally, the apartment vacancy rate rose one per cent from 2.2 per cent in 2019 to 3.2 per cent in 2020. This was the highest rate of vacancy since 2016.

The steepest vacancy rate increase was recorded in Alberta which posted a 1.9 per cent increase (from 5.3 to 7.2 per cent). Ontario's vacancy rate also rose by one per cent (from 2.2. per cent to 3.2 per cent). B.C.'s vacancy rate increased by 0.9 per cent (from 1.5 per cent to 2.4 per cent) but remained among the lowest rates in the country. Saskatchewan was the only province to record a decline, with vacancy rates down 1.3 per cent (from 8.4 per cent to 7.1 per cent).



Source: CMHC, Central 1 : Purpose- built apartment rentals, urban areas 10,000+ population
* 2-bedroom units

This is not a surprise as key drivers of rental market demand weakened. Pandemic job losses were heavily skewed to sectors with frontline (and typically younger) workers, particularly those in hospitality, recreation, and private services. These individuals have a higher likelihood of renting, and job loss may have driven individuals to return to family homes, despite government income measures providing support to minimize hardships. Meanwhile, population growth has slowed considerably due to fewer immigrants entering Canada during the pandemic and a temporary decline in the number of non-permanent residents entering amidst border entry restrictions; increased remote learning at post-secondary institutions; and fewer temporary workers. Some renter households with stable work and incomes moved into homeownership in the suburbs and smaller urban centres, enticed by sharply lower mortgage rates.

Among metro areas patterns were mixed, but the largest urban areas generally experienced steeper increases in vacancy rates. The Toronto metro area saw vacancy rates increase 1.9 percentage points to 3.4 per cent, Vancouver saw a 1.5 percentage points rise to 2.6 per cent, while Montreal rose 1.2 points to 2.7 per cent. This reflects to some extent the reliance and importance of immigrant inflows to drive population growth in these markets. Calgary and Edmonton, both saw vacancy rates rise more than two percentage points to 6.6 and 7.2 per cent, which also reflected regional economic weakness due to the energy downturn. Vacancies were less effected, and even declined in some smaller regions particularly those communities surrounding Toronto, reflecting the outflow of households to the suburbs.

While there has been much media discussion about the glut of condominium apartment vacancies in the secondary market in large areas, the CMHC secondary rental market survey showed a modest increase in its condominium apartment vacancy rate estimates. Among the large metro markets surveyed, the condominium apartment vacancy rate rose only 0.5 percentage points to 1.5 per cent which is well below the purpose-built rental market although data quality in condo markets is lower than the purpose built survey and caution is warranted. Toronto's rate sat at 1.7 per cent, while Vancouver's was still a miniscule 0.6 per cent, suggesting the issues may be overblown or weakness is concentrated in a segment of the market such as newly finished condo apartment projects in urban cores.

Canada-wide, the average apartment rent reached a monthly rate of $1,077 compared to $1,125 in 2019. However, this reflects all buildings, including new builds with higher rents, and those removed from the stock for substantial renovations the previous year. CMHC's fixed sample estimate for two – bedroom apartment rent rose 3.5 per cent, compared to 3.9 per cent in 2019. Interestingly, Toronto rent growth remained robust at 4.5 per cent, compared to 6.1 per cent in 2019, while Vancouver growth slowed from 4.9 per cent to 1.5 per cent. Like vacancy rate trends, mid-sized urban market rents generally outperformed, particularly those surrounding Toronto, for example, in London and St. Catharines-Niagara in Ontario monthly rents jumped more than five per cent, and Kelowna, B.C. (3.1 per cent). Condominium apartment rents were mixed, with the Canada average rising 5.4 per cent to $1,663. However, this number is influenced by age of build and the fact that units are concentrated in the larger higher priced metro areas. The average rent fell in Toronto by 1.5 per cent, while holding flat in Vancouver with a 0.6 per cent gain. However, there was no clear pattern across metro markets, likely reflecting composition of units.

Key takeaway

Rental demand softened as expected due to the pandemic. Job losses, closed borders, shifting household living and working preferences, and low mortgage rates contributed to weakness in the larger urban markets but the impact was not so clear cut in smaller urban areas which held steady, gaining telecommuting households looking for more space and greater affordability.

At the same time, as with the pandemic, these patterns are temporary. Vaccine deployment and greater inoculation of the population both domestically and abroad will support rental market demand in the latter half of 2021. As workplaces re-open and return to normal operations, many employers will expect their workforces to spend time at the office. While a hybrid model of work from home is likely, this will still keep many workers in closer proximity to their workplaces. Re-opening of borders and in-class post- secondary instruction will bring students back to the largest urban centres and college-towns, while immigration inflows will also stoke demand. While there will be ongoing weakness in the economy from the pandemic in various sectors, we expect vacancy rates to return to pre-pandemic levels by 2023 and rents to re-accelerate.

Purpose Built Rental Market Conditions

	Vacancy Rate %		Rent Growth %		Vacancy Rate %		Rent Growth %
	2019	**2020**	**2020**		**2019**	**2020**	**2020**
St. John's	6.9	7.5	1.6	London	1.8	3.4	6.8
Charlottetown	1.2	2.7	2.7	St. Catharines-Niagara	2.3	2.7	6.1
Halifax	1.0	1.9	4.2	Oshawa	2.4	2.3	4.6
Moncton	2.2	2.8	4.7	Ottawa-Gatineau CMA (Ont	1.8	3.9	5.2
Saint John	3.3	3.1	3.3	Peterborough	2.1	2.6	5.3
Saguenay	3.7	2.8	1.9	Thunder Bay	3.6	4.1	2.0
Montréal	1.5	2.7	3.6	Toronto	1.5	3.4	4.5
Ottawa-Gatineau CMA (Qué	1.5	1.6	2.2	Windsor	2.9	3.6	8.7
Québec	2.4	2.7	2.7	Winnipeg	3.1	3.8	3.0
Sherbrooke	2.3	1.3	3.1	Regina	7.8	7.5	0.8
Trois-Rivières	2.3	1.3	2.0	Saskatoon	5.7	5.9	2.0
Barrie	3.2	2.1	8.0	Calgary	3.9	6.6	++
Belleville	3.3	3.0	6.3	Edmonton	4.9	7.2	++
Brantford	2.3	2.2	5.3	Lethbridge	4.7	5.6	2.6
Guelph	2.0	2.2	4.8	Abbotsford-Mission	1.1	0.6	1.8
Hamilton	3.9	3.5	5.0	Kelowna	2.7	2.1	3.1
Kingston	1.9	3.2	2.5	Vancouver	1.1	2.6	1.5
Kitchener-Cambridge-Waterloo	2.1	2.1	4.0	Victoria	1.0	2.2	3.3

Source: CMHC, Central 1 note: vacancy rates are purpose-built apartment units, rents reflect 2- bedroom units

++ not significantly different than zero

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