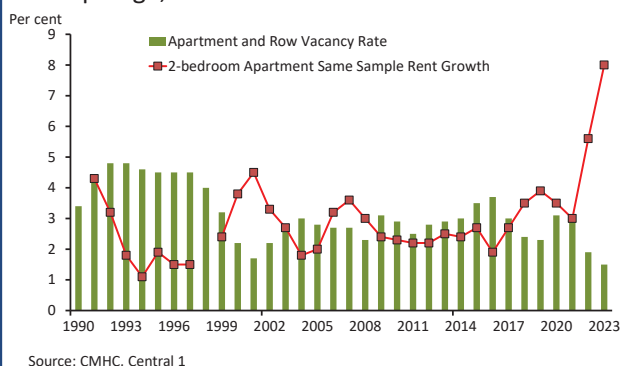




Canada's Rental Market Crisis: Pain deepens in 2023, but is relief in sight?

A rental market already in crisis plunged to a new depth in 2023 with the rental vacancy rate down to the lowest level since at least 1990 while rents soared. This should not come as a surprise given the housing headlines over the past year as the perfect storm of high home prices and mortgage rate increases restricted buyers from access to homeownership, while the record deluge of newcomers to the country overwhelmed housing availability.

Rental market crisis deepened in 2023 as vacancy rates plunge, rents soar



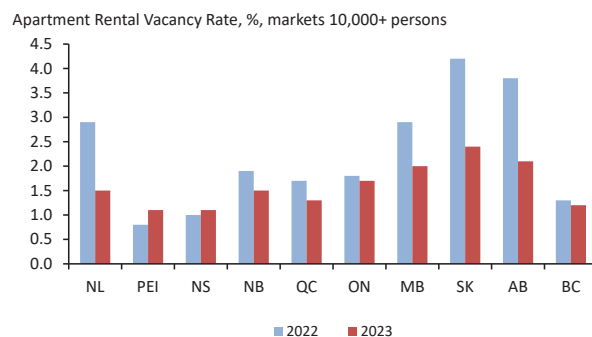
No vacancy

Canada Mortgage and Housing Corporation's (CMHC) annual Rental Market Survey (RMS) results for 2023 painted a bleak portrait of the challenges facing renters in the country. The vacancy rate for purpose-built rental housing fell to a record low 1.5 per cent across urban centres, which was the lowest on record. There is effectively no available supply. In 2001 the rate had fallen to 1.7 per cent. Record low rates were observed across all bedroom types, with bachelor's suites only touch higher than other segments.

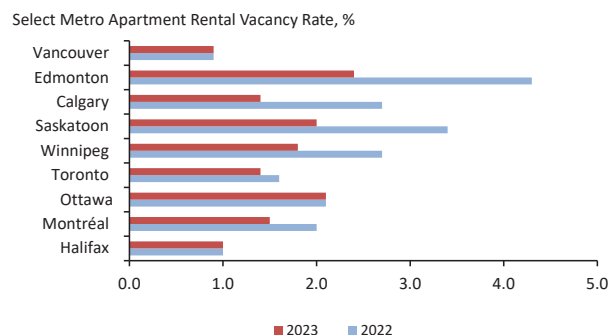
Declining and low vacancy rates were observed across the country with the tightest conditions in Prince Edward Island and Nova Scotia, which partly owes to elevated levels of internal migration during the pandemic. This was followed by B.C. at 1.2 per cent. The Prairie provinces reported the highest vacancy rates, but even here at about two per cent, this is still considered lower than a normally balanced market. Metro Vancouver had the unenviable honour of having the lowest vacancy

rate amongst all metro areas at a microscopic 0.9 per cent. There is a reason that housing constantly makes headlines in the region, and this is it. But the region is also not special with severe pressures in other markets with Calgary and Toronto at a 1.4 per cent rate, and Montreal at 1.5 per cent.

Tightening rental vacancy rates across the country

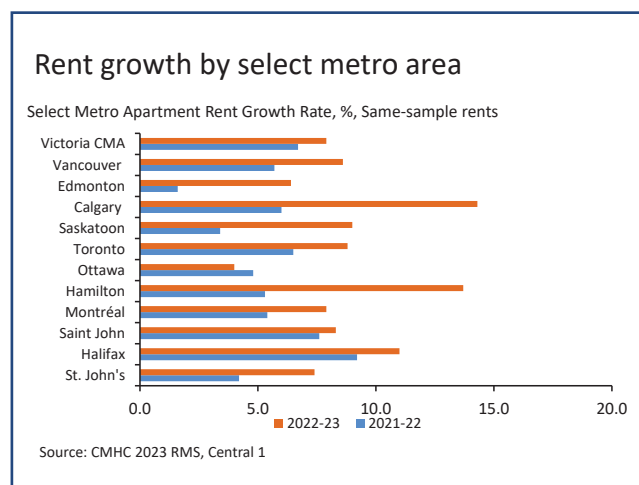


Coastal metros see lowest rates



Affordability for who and where?

Households are unsurprisingly facing massive pressures to find and maintain rental homes, which has led to substantial rent increases. According to the RMS, the average 2-bedroom apartment rent rose from \$1,298 in 2022 to \$1,402 in 2023. This includes existing and newly built units. Looking only at same-sample rents, rents jumped 8.0 per cent, which was by far a record high, underscoring affordability challenges across the country and consistent with the rent growth estimated within the Consumer Price Index.



Stunning increases were seen across the country, with many regions seeing gains of around nine per cent and into the double-digits. Some notable increases were in Calgary (14.3 per cent), Hamilton (13.7 per cent), and Kelowna (10.8 per cent). Both Metro Vancouver and Toronto were closer to nine per cent. The highest average rent was by far Vancouver (\$2,181), followed by Toronto (\$1,961).

Condominium apartment rentals are a substitute for purpose-built rental units and make up about 20 per cent of the total apartment rental stock. However, conditions in this market are even tighter at a 0.9 per cent vacancy rate, with an average rent (based on markets surveyed) of \$2,049 which is well above that of purpose-built product.

Stuck in place

Record rent growth is only part of the story and understates affordability pressures as allowable increases are heavily restricted in many parts of the country by governments. Affordability (and political) pressures have kept these maximum hikes below inflation, incentivizing renters to stay in existing units even if they would prefer to move. For example, Ontario's allowable increase was 2.5 per cent in 2023, but applies only to older buildings (pre-2018), and in B.C. it was 2.0 per cent. Inflation in Canada was 6.8 per cent at the end of 2022 when limits were set.

As a result, tenants are staying put. Unit turnover plunged one per cent from 2022 to 12.4 per cent. The lowest rates have been observed in Ontario and B.C. Those changing units or entering the rental markets found much higher rents and hikes than the current average.

How much are rent increases for units turned over? The average based according to CMHC was a 24 per cent change. Data is a bit sporadic at this level, but these numbers show about a 33 per cent increase in

Metro Vancouver, and a premium to the non-turned over unit average rent of 27 per cent to \$2,601 for a two-bedroom unit. Victoria was not far behind. Toronto had a 40 per cent turnover increase, and a \$2,401 average turnover rent which was 31 per cent higher than units not-turned over. The gap between turned over and non-turned over units was 13 per cent in Canada as a whole and observed across Metro markets.

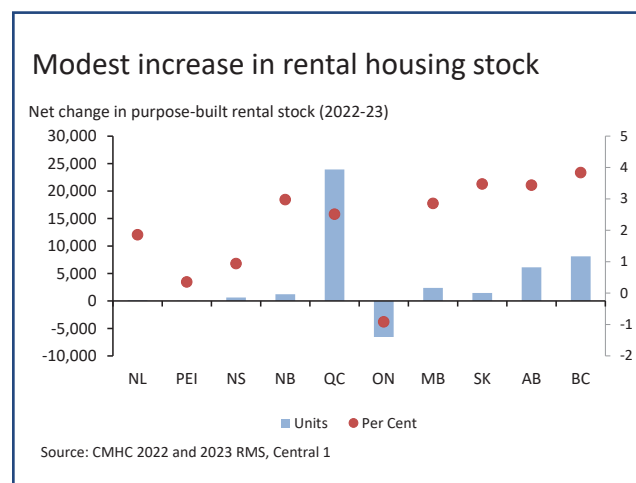
Supply calls heard, but waiting for results

Governments at all levels are scrambling to address the lack of sufficient housing but efforts have been futile for now.

Plunging rental market vacancies are both a demand and supply story. Immigration policy, or lack thereof, contributed to the overwhelmed market. This happens when net population inflows jump from the norm of about half a million to 1.3 million, or 3 per cent of the base. Canada added as many people as the U.S. with a fraction of the population base.

However, market housing supply has not kept up. It is not only not that rental supply growth has not kept up but growth in the purpose-built rental housing stock fell in 2023 with only a net addition of 37,640 units, down from 54,225 units, and the lowest since 2019. Despite the chorus of public calls to build more and higher rents, it has not yet translated into supply hitting the market due in part to high financing costs and lengthy build out times. There are signs this rental supply impasse will improve.

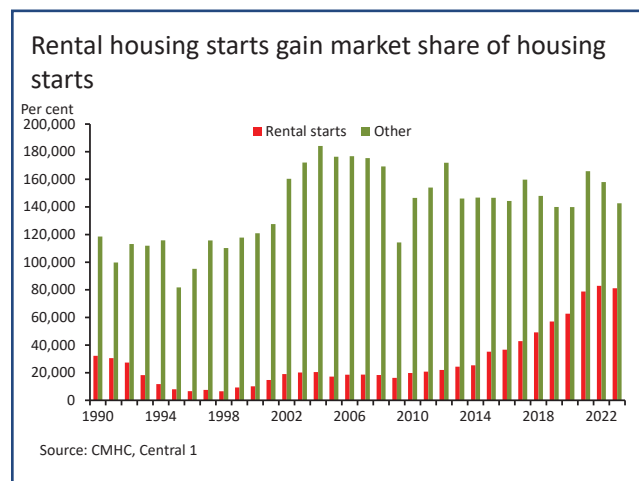
There are some kudos for select provinces. Net growth in the rental stock grew 3.8 per cent in B.C. (8,128 units), with both Alberta (6,114 units) and Saskatchewan (1,452 units) seeing the stock increase of about 3.5 per cent. On a unit basis, Quebec contributed about two thirds of the net gain. Ontario was woeful and saw a net decline (!) in the stock of one per cent or 6,548 units.



Will conditions improve for renters?

Renters across the country have felt the pinch over the past couple of years but there are signs that some relief could be on its way, although a return to affordable rents may not. On the demand side of the equation, the federal government has taken heed of market conditions and public sentiment, announcing a cap on the flow of international student visas. This will curb some of the inflows of Canada's massive population growth, although it should be recognized that most temporary residents are work permits. Population growth will remain elevated even as the pace slows. Declining interest rates in 2024 should also attract more households to homeownership.

There is also more supply on the way that could alleviate some supply pressure. Rental market housing starts rose significantly over the past two years and at the end of 2023, there were more than 135,200 rental units under construction, which was up 16 per cent from the prior year and 35 per cent more than end of 2021. We do not know what portion represents basement and secondary suites, but high rents and public measures have boosted construction. That said, even as units complete, they will be absorbed quickly by the broadly undersupplied housing market which saw starts fall in 2023, and vacancy rates are likely to remain low through 2024 and 2025. This suggests only mild relief for existing and prospective renters as rents outpace inflation.



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