CBC - November 16, 2022

Think house prices are too high? The rental market is even worse — with no relief in sight

Pete Evans , Senior Business Writer

The average rent in October across Canada was $1,976, according to Rentals.ca

The cooldown in the housing market has had a paradoxical effect on rents, sending demand and prices into the stratosphere. (David Horemans/CBC)

While the dramatic impact of higher lending rates on the housing market has been well documented, what's happening in the rental market hasn't gotten nearly as much attention.

As anyone who has signed a lease — or tried to — lately can attest, rent is going up across Canada at an unprecedented pace.

According to data from rental accommodation website Rentals.ca and analysed by data firm Urbanation, the average rent in October across Canada was $1,976, across all types of properties, from bachelor apartments all the way to threebedrooms. That's an increase of 11.9 per cent, well ahead of Canada's inflation rate of 6.9 per cent.

The increases aren't even across the country, either, as Atlantic Canada has seen rents rise at the eye-watering pace of 32.2 per cent in the past year. Ontario, British Columbia and Alberta have seen increases of 17.7 per cent, 15.1 per cent and 13.2 per cent, respectively.

Other regions experienced increases of slightly below the national average, but in just about every market across the country, tenants are facing a huge jump in the cost of keeping a roof over their head.

Calgarian Kellie Knight knows this all too well. She rents a two-bedroom unit in the city for $2,200 a month. That's a jump of about $500 compared with what she paid for a similar unit just before the pandemic. And it's bad enough that her rent now eats up about half her monthly income — far more than financial experts say is advisable.

"I was shocked how much prices had gone up and very quickly had to rearrange my budget to make today's rent work," she told CBC News in an interview. "When you're spending over half of your monthly pay on rent, you're not saving anything for a down payment."

Yet she was happy to sign up for a two-year lease recently to lock in that price, because it gave her a reprieve from the uncertainty she would have faced if she had to move.

"I moved here from Los Angeles, and if you had told me at that time that I would be paying L.A. rent prices in Calgary, I would have thought you were delusional," she said.

Kellie Knight rents a two-bedroom in Calgary for $2,200 a month. She says she has been shocked by how fast rents have increased in the city of late. (Rebecca Kelly/CBC)

Supply and demand imbalance

Normally, a slowing real estate market might be good news for renters, as landlords might be more eager to find good tenants. But that's not happening right now for a reason that Canadians have become very familiar with in the pandemic: supply and demand.

"Interest rates are actually working to elevate rent inflation because many people are not buying, so they are renting more," CIBC economist Benjamin Tal said.

People who would normally love to own are finding themselves priced out of the market by higher lending rates, which is causing them to either enter or stay in the rental market.

"Usually they would leave the rental market [and] be homeowners," Tal said. "But if they will not move out of their apartment, they will occupy the supply that is available ... that's like new demand."

When demand surges, it's often met by a corresponding increase in supply, but that's not happening right now because builders and owners are fearful of the risk.

"Developers are cancelling projects because of the cost of building," Tal said. "Investors, due to higher interest rates, are not investing in real estate anymore."

Tal says prior to the recent real estate slowdown, about half of the new condominium units in Toronto were owned by investors. Most of them were rented out, but the sudden increase in mortgage rates on those units now makes them unprofitable, so those investors are selling them — often to people who are planning to live in them themselves.

"Higher interest rates reduce the incentive to invest in real estate, especially in the condo space," he said. "So if you don't have those units, that's another factor driving up the cost of renting what's left."

Faced with higher mortgage costs and lower prices, investors basically have two options: sell and take the unit off the market, or increase the rent. And neither option is good news for tenants.

Charlene Lewin has listed her Thornhill, Ont., rental property for sale. She wants it sold before she has to renew her mortgage in December and pay a much higher interest rate that she says would leave her with no profit. (CBC)

Landlords not motivated to keep rental stock

Charlene Lewin is one landlord in the exact scenario Tal described.

She owns a condo unit in the suburb of Thornhill, just north of Toronto, which she has been renting out to pay the bills. But her mortgage is set to expire in December and, based on new rates, her payments will likely double — and that doesn't even factor in things like condo fees and other ancillary costs.

"Even if I rented the unit for $3,000 a month, which seems to be the going rate, there's no profit," she told CBC News in an interview.

And even if she managed to break even on paper, Lewin says it's not worth the risk that a tenant would leave her in the lurch and not pay rent for up to a year while she goes through the eviction process.

Lewin had hoped to sell her unit before the new mortgage rate kicks in next month, but so far she's been unable to find a buyer at her asking price.

"When you talk about a situation like mine, where there is not going to be any profit margin at all, then what's the motivation to keep the rental stock in Ontario?"

Impact of rent control

The rapid escalation in rents is happening just about everywhere in the country.

Hannah MacDonald, a student at Dalhousie University in Halifax, shares a home with four other roommates. They currently pay $2,700 a month, but their landlord recently advised them that he plans to raise their rent by 22 per cent, to $3,300, when their lease expires in May.

"We are basically left scrambling right now because it's just not within our budget as full-time students," she told CBC News. She said they have two months to decide whether to hand in their notice and move, but her preliminary inquiries into alternatives suggest there's very little available.

"There's like zero vacancies now, because everything's being snatched up so quickly and people are essentially desperate at this point," she said.

"We are kind of stuck between a rock and a hard place at the moment."

Renter Hannah MacDonald is facing a 22 per cent increase in her rent this year (Hannah MacDonald)

Halifax has a form of rent control in place that caps increases at two per cent per year in most cases, but MacDonald isn't sure if her situation qualifies.

A spokesperson for the provincial government told CBC News that while they are unaware of her specific case, in general, anyone on a fixed-term lease, which McDonald and her roommates are, would be covered by the cap.

"The rent cap applies to tenants who have a residential lease ... and are signing a lease for an additional fixed-term in the same rental unit," the government said.

Tenants often clamour for rent controls, and while it can help on an individual level, Tal said caps on rent actually make the overall rental picture worse because they reduce the incentive to build more units.

Tenant rights advocates argue that rent control is needed more than ever, due to the spectre of high inflation. Even in places where it exists, there are loopholes. In Ontario, for example, the most a landlord is allowed to raise the rent without special permission of the province's Landlord and Tenant Board is 2.5 per cent for 2023.

But that only applies to units that were already occupied, while vacant units can be rented for any amount landlords want to set. "Over the past five years, we have seen apartments in our building double in rent with minimal upgrades," Toronto tenants rights advocate Shelly Dunphy says. "We see apartments sitting empty for months at a time because families simply cannot afford to pay."

Tal said rent-control laws can make some sense on older buildings or with existing tenants, but he argues that a blanket cap on rent increases would make the problem worse. "We need more supply, not less supply — and rent control can achieve the opposite."

By implementing hard caps on rent increases, Tal said, "you protect current tenants at the expense of future tenants."

Given the lead times in building new projects and the red tape involved in breaking ground on them, Tal said he doesn't see the situation resolving itself any time soon.

Change needed in mentality around renting

But beyond the very real logistical problems facing Canada's rental market, the biggest one of all may well be psychological.

"We have to create a situation in which, if you are 35 years old, you are married, you have two kids and you are renting, nothing is wrong with you," Tal said. "That's the mentality that we should develop in this country — the way it is in places like Manhattan, Berlin, London."

The federal government recently announced aggressive new immigration targets that could soon see up to half a million new skilled workers come to Canada every year — a development Tal said could be a boon for Canada's economy.

But unless problems with the housing market are fixed, Tal said it will all be for naught.

"We take for granted the fact that the immigrants will arrive, but if they cannot afford to live in Toronto, Vancouver and many other cities because rent is rising and the price of homes rising, they will not come," he said.

"We are facing an affordability crisis, [and rent] must be part of the solution."