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Rise in interest rates leave Calgary landlords struggling to pay mortgages and cover costs

The interest rate has risen 10 times since March 2022, increasing costs for landlords and forcing some to sell their properties to stave off unaffordability

Devika Desai || Calgary Herald – September 11, 2023

Some landlords are putting their properties on sale due to rising costs and interest rates PHOTO BY POSTMEDIA

Landlords in Calgary are feeling the pinch as federal interest rates rise, with many forced to increase rents on their tenants to mitigate operational costs and mortgage payments, while others sell their rental properties to stave off financial losses.

The Bank of Canada halted a hike in the interest rate on Sept. 6, a decision that finance minister Chrystia Freeland called a “welcome relief” for Canadians struggling with higher costs of living.

Since March 2022, the interest rate has risen 10 times, according to Jerry Baxter, executive director of Calgary Residential Rental Association. “That’s huge. We’ve never seen that before.

“They’ve had an impact on pretty much everybody,” he said, “but it’s going to have a greater impact, I think.”

Newer landlords, Baxter said, are already affected after having to face higher mortgages on newly bought properties, a cost that is passed on to tenants through higher rents. “Rents might have been fairly moderate, but when a landlord buys a new building, his costs are going to escalate because of the increase in interest rates. And we’ve seen in some cases, landlords, in order to make ends meet, have increased the rents.”

Nathan Luu, who rents out two fourplexes and a basement suite, said he has to increase the rent for one of his fourplexes to $1,900 from $1,500 just to break even, after his own mortgage payments on the property almost doubled.

“We had to renew at a variable rate . . . so our current mortgage payment went from $2,900 to $4,300. It was pretty significant,” he said. “We went from cash flow-positive investment to cash flow-negative investment.”

He was able to secure a fixed rate for his second fourplex, but said the rate is higher than the variable rate.

Some of his tenants complained, he said, but signed once they compared the rent with other offers available on the market. “It’s still considered low compared to the overall market,” he said. “And we want to try to keep good tenants and keep things affordable.”

In recent years, Calgary has been touted as one of the most affordable places to live in Canada; however a report by Rentals.ca found that rental prices increased by 17 per cent year-over-year — the highest increase in the country.

In August, it cost an average of $1,718 for a one-bedroom apartment and $2,121 for a two-bedroom apartment in the city.

Shamon Qureshi, who owns Hope Street Property Management, a Calgary-based property management company, says he has seen mortgage payments increase upwards of 30 per cent. “I think that would be (a) conservative (estimate),” he said, adding that a majority of landlords affected would be the mom-and-pop landlords who chose to invest in a property. “They’re very exposed to these rate fluctuations.”

When mortgage and borrowing costs increase significantly, so will rents, Baxter said. That covers the costs and offers landlords some contingency revenue in case of emergencies — fixing tenant damage, for example, or replacing the roof or windows.

"Most people in the business do not make huge profits off the tenants; rather, a lot of that money is plowed back into the buildings," he said. "You still have to make a profit."

For some landlords who can't keep up, it might even mean selling their properties.

Jason Young is considering doing so with one of his properties. The Toronto native moved to Calgary with his family for a more affordable lifestyle and bought three properties, one of which he lives in with his family while the others are rented out to tenants. One property, he said, was bought during the winter when rates were "crazy" low, with a variable mortgage rate.

"The bank stretched the amortization out for a crazy number of years, just to keep my payments the same," he said. "Then they contacted me again (this summer) saying I have money owing on that property now because the rates are so much higher."

With last winter's rates, Young's monthly payment on the property was $900. Now, he says, the amount has increased by almost 50 per cent to $1,400. "But I haven't paid it. So I have money owing to the bank on that house," he said.

If the situation continues, Young's plan is to let the debt add on and, once the five-year mortgage term expires, sell the house and pay off what he owes. "I would prefer to keep it," he said. His primary residence was also bought on a variable mortgage and also currently has debt accumulating on it.

To break even on the cost of his rented properties, Young says he'll have to increase the rents by about $200 or more. "I don't feel good about doing it," he said. "But we do need to at least break even."

Luu isn't looking at selling his properties anytime soon, but knows several other property owners who are. "I have a lot of friends who have properties and a lot of them are thinking about selling," he said, especially those with apartment condo units, because of rising interest rates, property taxes and other costs.

Luu also works as an assistant broker with Hope Street, a Calgary-based property management team that assists homeowners with managing their properties. "We have a significant pool of non-resident owners," he said, many of whom are deciding to sell their properties. "Usually we would have two or three non-resident sales a year. Now we're looking at 20 or 30."

Rental properties for sale are quickly snapped up by buyers looking to live in them, decreasing the number of homes available for rent and narrowing the housing market bottleneck. "That's creating even further tightness because now there are (fewer) properties," Qureshi said. "And since the interest rates have gone up, there are more renters and it's just creating a perfect storm."

To an extent, this could be attributed to the general ebb and flow of market functions, Qureshi said. In 2017, for example, the situation was completely different, with properties sitting on the market for months without a sale and landlords dropping prices to find suitable renters and buyers. “It’s a complete contrast and it’s sort of the market at work in Alberta,” he said.

Alberta, he says, still remains one of the most affordable places to live in North America, but the problem lies in the lack of available housing, especially affordable ones. “In a best-case scenario, you can’t build a giant apartment building in one night,” he said. “Even if we pull out all the stops to try to fix the rental prices that we’re seeing, that wouldn’t happen overnight.”