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Rent prices soared in 2023 as Canada saw lowest vacancy rate on record

Economist says Canada has a 'chronic lack' of housing supply

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Apartment buildings at Lawrence Avenue West in Toronto during an October rental strike aimed at pushing back against above-guideline rent increases and soaring rents in the city. The Canada Mortgage and Housing Corp. recorded Canada's lowest vacancy rate on record in 2023. (Patrick Morrell/CBC)

Rent prices in Canada soared last year as supply struggled to keep up with demand, leading to the lowest national vacancy rate on record since the Canada Mortgage and Housing Corp. began tracking that data in 1988.

The federal housing agency said in a report Wednesday the vacancy rate for purpose-built rental apartments sat at 1.5 per cent during the first two weeks of October 2023, when it conducted its annual survey.

That was down from 1.9 per cent a year earlier, which at the time had been the lowest national vacancy rate in over two decades.

The average rent for a two-bedroom purpose-built apartment, which the CMHC uses as its representative sample, grew eight per cent to \$1,359 in 2023. That growth figure was up from the 5.6 per cent average rent increase recorded in 2022 and above the 1990-2022 average of 2.8 per cent.

The data "did not surprise us at all," said CMHC deputy chief economist Kevin Hughes. Although rental supply rose in most Canadian cities last year, it was not enough to keep pace with increased demand pressures caused by population and employment growth.

"Demand from the demographic changes is definitely substantial," said Hughes.

"You have newly arrived immigrants, obviously, but you have also young Canadians that are seeking their first home and you also have older households who are needing to downsize."

Supply-demand imbalance 'likely to persist'

He said with affordability challenges plaguing the home ownership market, especially amid last year's high inflation and interest rate environment, more Canadians are looking to rental options.

The agency reported the average rent for a two-bedroom rental condo was \$2,049, up from \$1,929 in 2022 as the secondary rental market also tightened, with the vacancy rate for such units falling from 1.6 per cent to 0.9 per cent annually.

"We have a chronic lack of supply in Canada and the statistics really are not, let's say, encouraging in terms of new additional supply or substantially increased supply," said Hughes.

"As we go through this current year, we would probably expect that there will be delays in some projects because of financing. There's also, in many markets, labour shortages for construction."

The report "confirms the extreme imbalance between supply and demand for homes that characterizes Canada's housing sector," said a note by National Bank of Canada economists Stefane Marion and Daren King.

The pair predicted that imbalance is "likely to persist for the foreseeable future" as the Bank of Canada forecasts population growth of about 800,000 in both 2024 and 2025, "with only a limited increase in housing starts."

Calgary, Edmonton see accelerated demand

Hughes said Alberta's two largest cities stood out most from the CMHC's annual survey. Calgary and Edmonton both saw their lowest vacancy rates in a decade, at 1.4 per cent and 2.4 per cent, respectively, along with the sharpest rise in rents among major cities in 2023.

Calgary's vacancy rate was down from 2.7 per cent in 2022 while Edmonton saw a drop from 4.3 per cent. Hughes said population increases over the past year accelerated demand for rentals in those regions while supply did not increase substantially.

"Those were markets that were, let's say, more balanced last year," he said.

"The population (increase) stemmed from the international source with immigrants, but also domestically as well — so people moving into Alberta from other provinces or even to Calgary and Edmonton from within Alberta."

Canada's largest city, Toronto, recorded a 1.4 per cent vacancy rate, down from 1.6 per cent in 2022, while Montreal was at 1.5 per cent, down from two per cent.

Vancouver, at 0.9 per cent, had the lowest vacancy rate among major Canadian markets, but was on par with 2022 levels. Ottawa was also flat at 2.1 per cent.

"Very tight markets usually entail heavier increases in rent, which we've seen," Hughes said.

"Yes, the rental market is more affordable than the ownership market, for sure, but even that market is becoming quite daunting for many."