

Financial Post - November 11, 2025

Will anyone want to be a landlord in a rent-controlled world?

Those who want investors out of the housing market should be careful what they wish for

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Published Nov 11, 2025



Ontario is one of eight provinces with some form of rent control. Photo by Winnipeg Sun

This isn't a rant against renters, but it's really hard to see the upside of being a landlord in Canada's largest province, where rent control and other rules continue to severely limit profitability.

The latest proposed change in Ontario, one of eight provinces with some form of rent control, would have seen tenants' fixed-term leases renewed instead of the current arrangement going month to month, subject to annual guideline increases for units that existed before 2018.

Ontario had planned "consultations" around that key issue, something landlords wanted for revenue certainty, but Rob Flack, Minister of Municipal Affairs and Housing, killed the idea.

Still on the table are changes that would aim to expedite delays at the Landlord and Tenant Board (LTB), which have led to disputes between tenants and landlords being dragged out for months. Evicting a tenant is obviously a major reason for going to the LTB.

"We've had lots of conversations over the delays," said Tony Irwin, president and chief executive of Federation of Rental-housing Providers of Ontario. "I talk to many landlords, and some have felt like they had no choice but to sell their properties or get out of business because of the lack of certainty around the housing system."

Irwin said the Conservative government in Ontario is still implementing changes to the process that will expedite resolutions to conflicts. It can take six to seven months before a judgment is made, and getting it enforced is on top of that. The wait times have been cut in half over the past year. Tenants see it as speeding up the eviction process.

"Consider landlords are not receiving rent payments during that time," said Irwin. "And there is little prospect they will recover that rent."

You can say 'tough luck' to landlords, but the reality is that this type of climate scares off investors. Anywhere from one-third to 50 per cent of condos in the Greater Toronto Area have been selling to investors, and while it's true they have been in the game as speculators, there is a rental component to owning a condo. Or there should be.

The Building Industry and Land Development Association's latest statistics show 15,875 unsold condominium apartment units in the region, and sales are 90 per cent below the 10-year average.

For the Association of Community Organizations for Reform Now, or ACORN, the issue is straightforward yet understandable. The group sees rents rising, and its supporters are concerned about having nowhere to live. How can you not have sympathy for someone who doesn't have shelter?

“It doesn’t have to be this way. We need stronger rent control, not less. That means rent control on all buildings, including new ones, and on every unit, even after tenants move out. Our current system allows people to be pushed into homelessness, while corporate landlords cash in. Ending rent control would make it worse. It’s time we start putting people before profit,” said Alejandra Ruiz-Vargas, the Canadian president of ACORN, in a statement to Financial Post.

His heart is in the right place, but it doesn’t reflect the reality that the profit motive drives investment in property. That includes owning a real estate investment trust. When you see apartment REITs with four per cent yields, I’m not sure they are monster corporate profit machines.

Real estate has to be competitive, beating cash equivalents, because of the risk, or why invest in an apartment? Unless you are 100 per cent betting on capital appreciation? We’ve been playing that game in the high-rise condominium market for two decades, and with valuations falling, the rental returns don’t come close to justifying the investment.

If anything, the investment thesis is only getting worse with real estate prices dropping and rents also falling. On a national basis, asking rents fell for the 13th straight month and have dropped 2.2 per cent from a year ago to \$2,105, according to Rentals.ca

Tenants will argue that \$25,000 of your income going toward rent for the average apartment in Canada is ridiculously high relative to income, and they might be right. But it doesn’t change the thesis for the investor. That \$25,000 doesn’t include costs. Landlords are getting rich on rent? Not if you consider an alternative place where they could park their money with less risk.

Giacomo Ladas, of rentals.ca, said the story is a little different based on where you are in the country. Alberta rents are up about 20 per cent from three years ago, but British Columbia and Ontario have remained flat over the last two years.

“I think we are going to see more of that,” said Ladas, about the Ontario and B.C. rental rates, which are being affected by a slowdown in immigration. “Demand is down, and it is going to continue for some time.”

Sam Koliass, executive chairman of Boardwalk REIT, Western Canada’s largest apartment trust, said that while rents have risen rapidly in places like Calgary and Edmonton, the absence of rent control in Alberta and Saskatchewan will enable those provinces to respond quickly to market situations.

“The evidence is very clear, the highest rents in Canada (are) where there is rent control, Ontario and British Columbia,” said Koliass. “The more difficult the regulations get, the more difficult investment gets.”

Robert Hogue, assistant chief economist with Royal Bank, said he believes rental regimes are factoring into investor decisions to buy today.

“Look at developers of new condos, they have almost zero sales this year, and this is largely because condo investors are not there, and they are not there because the equation doesn’t work from a capital appreciation or a rent perspective,” said Hogue.

It’s one thing to say rents are too high relative to income across the country, but every piece of legislation and every impediment that makes it more difficult to get a competitive return on your investment, like rent control rules, drives investors out of the market.

Proponents of rent control can argue, “Great, we don’t want investors owning housing.” But where does your supply come from in the future? Be careful what you wish for because you might end up with a worse housing crisis.