

## **CHMC Annual Rental Market Report: Key Analysis Findings**

- Demand for rental outstrips the increase in supply resulting in lower Ontario vacancy rates
- Toronto, London and Ottawa contribute most to the decline in the provincial vacancy rate
- Turnover highest among CMAs with younger populations, lowest among more expensive markets
- Factors exerting downward pressure on vacancy rates include: an improving economy, rising cost gap between owning and renting and rising international migration
- Factors exerting upward pressure on vacancy rates include: weaker job market prospects for youth which tempered renter household formation

### **Vacancy Rates Edge Lower as Demand Outstrips Supply**

According to Canada Mortgage and Housing Corporation's (CMHC) Fall Rental Market Survey, Ontario vacancy rates<sup>2</sup> moved lower to 2.1 per cent in the fall of 2016, from 2.4 per cent in the fall of 2015. New units added to the rental apartment universe fell short of increases in rental demand - resulting in lower apartment vacancy rates. Ontario vacancy rates registered their lowest levels since October of 2001.

With the exception of Barrie, Sudbury and Hamilton, all other Ontario CMAs registered stable to lower vacancy rates. Toronto, London and Ottawa jointly contributed most (83 per cent) to the drop in Ontario vacancy rates. Vacancy rates in northern and selected eastern Ontario centres remained above the provincial average and contributed less to the decline in provincial vacancy rates.

### **Demand and Supply Factors Impacting Vacancy Rates**

Several factors added to rental demand and exerted downward pressure on vacancy rates. An improving Ontario economy not only supported ownership but also rental demand in 2016. The Ontario economy this year is set to grow at its fastest pace since 2010, triggering stronger job growth. Local economies in southern Ontario have benefitted most from positive spinoffs from low interest rates, a low Canadian dollar and stronger housing markets. With the exception of construction related employment, service sector related jobs have posted stronger growth versus goods producing sectors this year according to recent Statistics Canada LFS survey results. Given that service sector jobs pay below average earnings, those employed in these sectors have a higher propensity to rent.

A second factor supporting rental demand, was the rising cost gap between ownership and rental accommodation. Ontario home prices, are up 12 per cent from the same period one year ago. This rate of increase is well above the increase in apartment rents and incomes. Despite improving job prospects for Ontarians aged 25 to 44, a typical first time buyer age segment, escalating home prices due to record breaking sales and fewer listings made ownership even more prohibitive for the average first time buyer. Indeed, CMHC Ontario mortgage approval data among first time prospective buyers shows a decline from the same period one year ago. This resulted in fewer renter households vacating their rental units. Similarly, some younger households between the ages of 25 to 29 who may have been living in the parental home because of economic considerations, were likely encouraged to decouple, form their own household and move into rental accommodation given improving job prospects.

A third factor exerting downward pressure on vacancy rates was improving population growth. Roughly three quarters of growth in Ontario's population is driven by migration. International migration reached levels in 2016 not recorded since 2001 thanks in large part to an influx of refugee migrants. Immigrants lack the savings, job and credit history required for mortgage financing. As such, about two thirds move into rental accommodation immediately upon arrival in Canada according to recent census data. Besides permanent immigrants, Ontario also registered strong growth in non-permanent residents which includes temporary workers on work visas and international students. Both groups, due to the temporary nature of their status, typically live in rental accommodation. In fact, new immigrants usually gravitate to more affordable rental accommodation upon arriving in Canada and not surprisingly the occupied stock across the province grew strongly in the fall of 2016 for units charging the least expensive rents in the primary market. Fewer supply pressures exerted less upward pressure on vacancy rates in 2016. Primary and secondary apartment completions were down by over a third from this time last year. More specifically, with the exception of Brantford, Kitchener and London, most other CMAs registered modest increases in the primary rental apartment universe. In addition, condominium apartment completions, some of which are owned by investors, were down significantly from this time last year. Historically, both new primary and secondary rental units added to the rental stock compete with newer existing units in the primary market that charge comparable average rents.

While the provincial economy improved, job creation was not broad based across all age categories. Younger adults aged 15 to 24 experienced a contraction in employment opportunities from the same period one year ago. Based on the census, young adults have stayed home longer in recent years not only due to educational but also economic considerations. Fewer jobs provide less incentive to decouple from the family home and form a new renter household resulting in less demand for rental accommodation.

### **Turnover Rate Varies by Ontario Urban Centre**

The Ontario turnover rate stood at 18.6 per cent in the fall of 2016. The turnover rate measures the share of units changing occupancy in the past 12 months. The turnover rate varied by Ontario CMA. The highest turnover rates were registered in London, Kingston, Ottawa and Thunder Bay while the lowest were in Hamilton, Toronto and St. Catharines-Niagara. Generally, urban centres that have a younger population and cater to a University market would register a higher rate of mobility and a more frequent change in occupancies. Meanwhile, rental markets with low and downward trending vacancies such as the GTA experience lower turnover given less choice in the marketplace and a higher potential to face above guideline rent increases upon vacating an existing rental unit.

### **Ontario Fixed Sample Rents Grew by 3.0 Per Cent in 2016**

Apartment rents for two bedroom structures that were common to both 2015 and 2016 fall surveys<sup>3</sup> rose by three per cent and in line with the 3.1 per cent increase this time last year. Fixed sample 2-bedroom apartment rents grew the fastest in selected southern Ontario centres. This included Guelph and Oshawa – centres which posted below provincial vacancy rates thanks to relatively stronger local economies. Meanwhile, urban centres in Northern and Eastern Ontario such as Sudbury, Peterborough and Ottawa registered more modest increases in rents owing to more modest growth in these local economies in recent years. Generally, strong job growth particularly in southern Ontario, tighter rental markets and sharp increases in ownership prices supported fixed sample rent increases above the rate of inflation and above provincial guideline amounts.