ECONOMIC VIEWPOINT

Desjardins Rental Market Outlook

Rent Inflation Is Slowing Thanks to Easing Demand and Rising Supply

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HIGHLIGHTS

- Rental housing supply has surged in Canada, with purpose-built rental construction accelerating after decades of limited growth. The national rental stock under construction expanded by more than 25% in the first half of 2025, led by Quebec.
- Purpose-built rentals form only part of the rental supply. Condominium apartments—especially in Toronto and Vancouver—have increasingly filled the gap between demand and supply, although activity in this segment has taken a turn for the worse. In contrast, Montreal continues to rely more heavily on its large stock of traditional rental units.
- Rental demand is expected to soften as population growth slows following federal measures to reduce immigration levels, though the impact will vary across provinces.
- Rent inflation is expected to moderate in the short term, as easing population growth and improved housing supply reduce upward pressure—though regional disparities and structural constraints may influence how this trend unfolds.

Much has changed in Canada's housing landscape since our last report on rent inflation. The ongoing trade war weighed heavily on potential buyers over the past year, and home sales failed to reaccelerate even as interest rates fell. Despite declining prices in key markets and lower mortgage rates, affordability remains elusive. Homebuilding, which got off to a slow start this year, picked up in the spring and summer—driven mainly by purpose-built rental construction rather than homes intended for ownership. A growing number of completed and unabsorbed condo units further added to the rental supply. However, as we previously mentioned, these national averages hide very different provincial trends. Meanwhile, demand-side pressures are also easing, with the federal government's measures to admit fewer newcomers to Canada taking hold. Together, this has led to a more balanced housing market in many urban centres, and rental vacancy rates are rising. Asking rent growth has eased and, in many cases, tenants are finding better deals than they could a year ago. Rented accommodation inflation (a component of the consumer price index or CPI) has slowed in Canada's largest cities—just as we forecast a year ago.

Against this backdrop, we're extending our rent inflation outlook through 2027. Our forecast reflects recent changes in housing supply, population growth and macroeconomic conditions, with a particular focus on how these factors are playing out across Canada's largest cities. The goal: to provide a clearer picture of where rents are headed next—and what that means for affordability, policy and the broader housing market.

Recent Developments Have Impacted Rental Supply, Demand and Prices

The Supply of New Rental Units Has Exploded

After decades of limited purpose-built rental development, recent years have seen a notable uptick in new construction (graph 1 on page 2). In 2024, the total supply of purpose-built rental apartments grew by 4.1% nationally—the fastest pace in over 30 years—driven by rising investor interest and government incentives aimed at boosting rental housing. Given the even faster pace of new construction,

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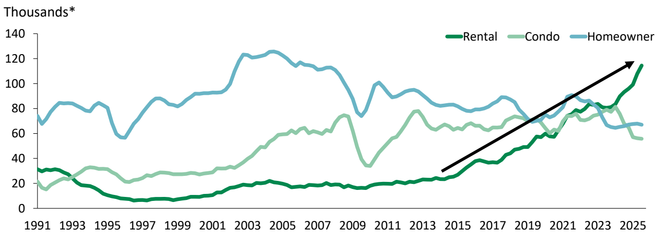
Graph 1
Rental Construction Has Outpaced Condo Construction Two to One

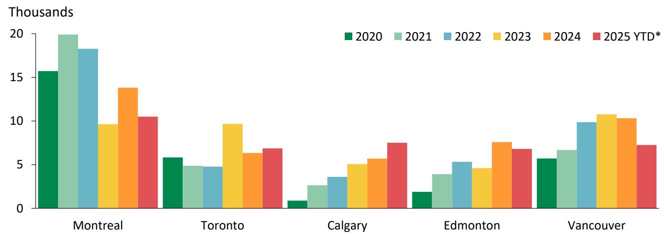
Canada – Housing starts



* Four-quarter moving sum.
Canada Mortgage and Housing Corporation and Desjardins Economic Studies

Graph 2
Montreal Dominates Canada's Rental Construction Sector

Purpose-built rental housing starts



* 2025 YTD housing starts are for Q1–Q3, not seasonally adjusted.
Canada Mortgage and Housing Corporation and Desjardins Economic Studies

around 26% higher in the first nine months of 2025 relative to the same period a year ago, this year's growth in the stock of rental units could be even higher.

Government incentives encompass a range of measures designed to offset the impact of high construction costs on developers. Various levels of government—including municipalities (particularly in Quebec), provincial governments and the federal government—as well as the Canada Mortgage and Housing Corporation (CMHC) have introduced initiatives aimed at boosting rental housing supply (table 1). Municipal incentives such as tax credits or lower development fees may also affect builders' eagerness to launch new projects in one city over another. These measures, at the centre of many municipal housing strategies and a pillar of Build Canada Homes at the federal level, are expected to remain in place, boosting residential construction wherever they're implemented.

Table 1
Federal and Provincial Policy Changes Impacting the Rental Market

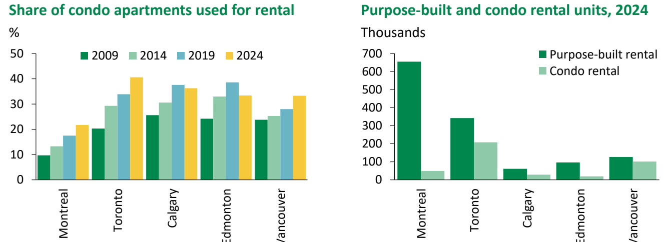
Policy	Details	Potential Impacts
GST/HST rebate for purpose-built rentals	➢ 100% rebate on the GST (and federal portion of HST) on new PBR. ➢ Applies to projects started after September 13, 2023, completed before 2036. ➢ Ontario, Nova Scotia, Prince Edward Island and Newfoundland and Labrador also rebate the provincial HST portion.	✓ Improves project viability by reducing upfront costs.
Accelerated capital cost allowance (CCA)	➢ Budget 2024 raised the CCA rate for eligible new PBR from 4% to 10%. ➢ Applies to projects started after April 15, 2024, and completed before 2036.	✓ Improves early cash flow. ✓ Boosts appeal for REITs and institutional investors.
Apartment construction loan program	➢ Low-cost long-term financing for PBR projects. ➢ Total program funding is $55B. ➢ Loans may come with affordability or energy efficiency commitments.	✓ Addresses financing barriers.
Housing accelerator fund	➢ Funds tied to zoning reforms, faster approvals and density targets.	✓ Accelerates multi-unit and infill projects.
Canada housing infrastructure fund	➢ $6B for water/waste infrastructure. ➢ Must meet homebuilding supply, densification or affordability conditions.	✓ Funds water/waste infrastructure to enable faster homebuilding.

PBR: Purpose-built rental; REIT: Real estate investment trust
Federal and provincial government websites and Desjardins Economic Studies

Regionally, Montreal continues to lead the pack in purpose-built rental construction, consistently outpacing other major cities (graph 2). Together, Canada's five largest cities account for nearly half of the national total. With one quarter still to go in 2025, both Toronto and Calgary have already surpassed their 2024 rental starts, while Edmonton is close behind.

Purpose-built rental units represent only part of the overall rental supply. In recent years, the condominium apartment sector has increasingly filled the gap between rental demand and purpose-built supply (graph 3, left). As of 2024, more than 200k condos in Toronto and over 100k in Vancouver were being rented, accounting for a significant share of each city's rental stock. Montreal, by contrast, has a long-standing rentership culture, with a total number of purpose-built rental units exceeding those in both Toronto and Vancouver combined despite its smaller population (graph 3, right). While an increasing share of condos is being used as rental housing in Montreal, this segment remains small compared to the stock of purpose-built rentals.

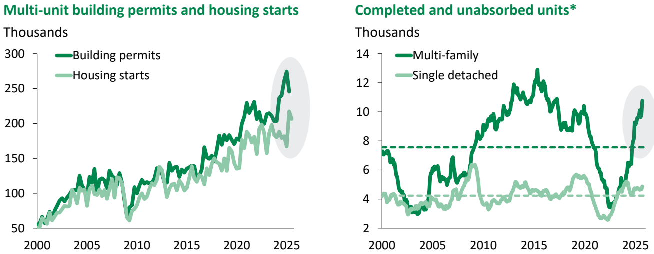
Graph 3
Condos Have Increasingly Been Used to Meet Rental Demand



Canada Mortgage and Housing Corporation and Desjardins Economic Studies

Recent data show a notable uptick in multi-unit residential building permits, typically a reliable signal of rising starts. Multi-residential housing starts have begun to follow permits upward, albeit with a lag (graph 4, left, on page 3). Roughly 80% of Canada homebuilding is concentrated in the multi-unit segment—a mix of condos and purpose-built rentals. But here's the catch: Builders are already sitting on a substantial number of completed condo units that haven't yet been absorbed by

Graph 4
Building Permits Uptick Hints at Future Growth in Multi-Unit Housing Starts … but Can Canada Absorb Them?



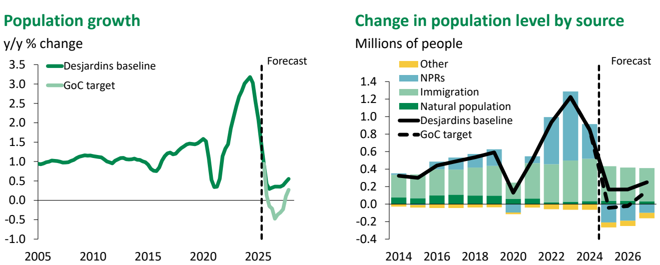
* Dashed lines represent long-run averages for completed and unabsorbed units.
Statistics Canada, Canada Mortgage and Housing Corporation and Desjardins Economic Studies

buyers, particularly in Toronto and Vancouver (graph 4, right). To generate cash flow, developers may choose to convert some of these units to rentals or sell them to institutional landlords who will operate them as rental properties.

Demand for Rental Units Is Likely to Soften

Rapid post-pandemic population growth, driven by immigration and non-permanent residents (NPRs), outpaced rental construction, keeping vacancy rates low and rents high. After surging in 2022–2023, population growth has slowed markedly, reflecting federal measures announced in 2024 and updated in November 2025 to reduce to reduce NPRs from 7.6% to 5.0% of the population and scale back other immigration streams (graph 5). Newcomers to Canada are a group highly likely to rent, making shifts in immigration policy especially relevant to rental demand. Provinces like British Columbia and Ontario—where NPR concentrations are highest—are most exposed to the shift in policy. Ongoing adjustments to the federal immigration policy could influence future developments and introduce additional uncertainty for builders.

Graph 5
Population Growth Is Slowing, Even If Less Than the GoC Would Like



NPRs: Non-permanent residents; GoC: Government of Canada
NOTE: Annual population is presented on a calendar-year basis.
GoC, Statistics Canada, Bank of Canada and Desjardins Economic Studies

Rent Control Guidelines Vary Widely Across Provinces

Provincial rent control policies continue to shape regional rental dynamics. In Quebec, the Tribunal administratif du logement (TAL) recommended a 5.9% rent increase for 2025—marking the steepest adjustment in three decades for buildings over five years old (table 2). While the TAL's 2026 guidelines are still pending, the changing formula should lower future increases. Quebec has long stood out from the other provinces with its complex rent-setting method based on actual costs and lagged inflation components related to housing. In recent years, this has led to higher increases than in provinces with tighter guidelines, like Ontario. The 2026 reform should make the process more straightforward and predictable by relying on fewer indicators. Nevertheless, rent increases are likely to remain higher than in other provinces, as the formula will still use a moving average of CPI and does not include a legal ceiling. In contrast, Ontario has implemented a rent control cap of 2.5% this year and 2.1% in 2026 for units built before 2019. These divergent policies are expected to contribute to differing rental cost pressures across provinces.

Table 2
Rent Control Policies in Canada

Province	Rent control				
	2023	2024	2025	2026	Notes
Newfoundland and Labrador	No rent control				This may change under the new government.
Prince Edward Island	0.0%	3.0%	2.3%	2.0%	Rent cannot be automatically increased between tenants.
Nova Scotia	2.0%	5.0%	5.0%	5.0%	
New Brunswick	No rent control		3.0%	3.0%	
Quebec	1.8%	4.0%	5.9%	n/a	New formula coming for 2026.
Ontario	2.5%	2.5%	2.5%	2.1%	Rent control only applies to units built before 2019.
Manitoba	0.0%	3.0%	1.7%	1.8%	
Saskatchewan	No rent control				
Alberta	No rent control				
British Columbia	2.0%	3.5%	3.0%	2.3%	

n/a: 2025 rent increase guidelines in Quebec are for April 2, 2025, to April 1, 2026; the 2026 rent control rate is not available as of publication.
Provincial websites and Desjardins Economic Studies

Long-term tenants often pay below-market rents due to years of controlled increases. This can lead to situations where renters remain in units that no longer meet their needs, simply because moving would result in significantly higher housing costs. Even when asking rents decline, rent-controlled units may still be priced below market levels, contributing to a disconnect between average rent inflation and changes in advertised rents. (See Box on page 4 for detailed descriptions of rented accommodation CPI and asking rent.)

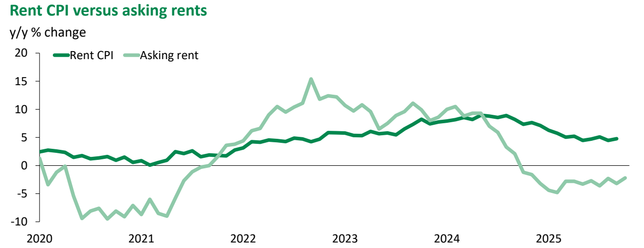
BOX

Rented Accommodation CPI Versus Average Asking Rent

Rented accommodation CPI measures changes in what Canadians pay for rent, including tenants who are mid-lease, as well as those with new leases or renewals. New leases are generally set at market rates, whereas renewals may be rent controlled. Mid-lease tenants typically aren't subject to changes in rent from the prior month, but may be over the prior year. Rent makes up most of the index, with about 5% coming from tenants' insurance premiums, maintenance, repairs and other costs. Moreover, rented accommodation CPI also adjusts for factors like included fixtures and services, building age, number of bedrooms, type of building and location.

Average asking rent, reported by Rentals.ca, is based on monthly advertised listings and reflects only new leases. It can be influenced by quality changes in advertised units, such as renovations, or newly built apartments entering the market. Asking rent may be more sensitive to fluctuations in supply and demand, making it far more volatile than rented accommodation CPI (graph A).

Graph A
Asking Rent Growth Is More Volatile than Average Rent Inflation



CPI: Consumer price index
Statistics Canada, Rentals.ca, Urbanation and Desjardins Economic Studies

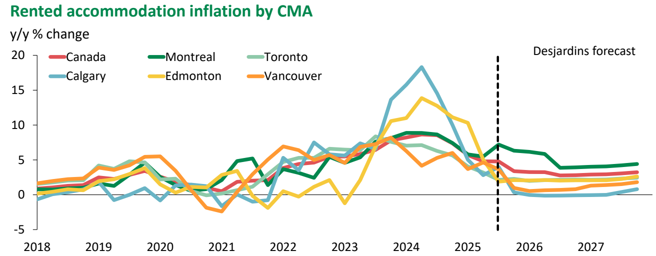
Highly cyclical rent dynamics reflect the absence of formal rent control. Without provincial guidelines limiting rent increases, Alberta's rental prices tend to follow broader market cycles more closely. When demand outpaces supply, landlords can raise rents to match market rates. Conversely, when market conditions soften, tenants may have more negotiating power—either to seek rent reductions or to relocate to more affordable units. Saskatchewan also does not have rent control. Newfoundland and Labrador currently lacks formal rent control guidelines, though the issue gained political attention ahead of the recent provincial election.

Rent Inflation Is Expected to Ease Further in the Near Term

Rent inflation is expected to moderate further over the next several quarters. After peaking in 2024, average rent growth has begun to ease across all major markets, reflecting a combination of slower population growth and increased rental supply. Nationally, rent inflation is projected to continue slowing through mid-2026, before gradually reaccelerating as demand begins to pick up again and new supply is curtailed in the face of cost and regulatory headwinds (graph 6).

While national rent CPI inflation should slow, regional trends will vary. Calgary may see outright declines in average rents, driven by recent supply additions and shifting demand dynamics. And given the absence of rent control guidelines, some of that pullback may reflect outsized rent inflation in recent years. In contrast, rent inflation is expected to remain low but positive in Toronto, Edmonton, Vancouver and for Canada as a whole. These markets continue to face tight vacancy rates, but slower population growth, paired with newly built units coming online, is likely to temper rent increases in the near term.

Graph 6
Rent Inflation Is Expected to Continue to Recede



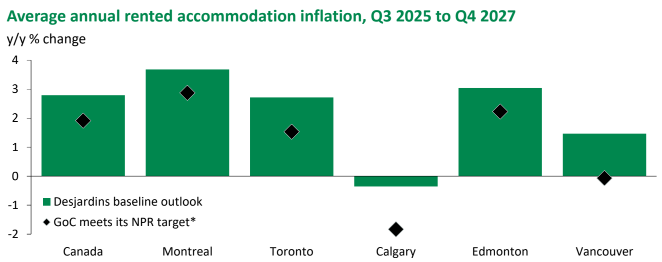
CMA: Census metropolitan area
Statistics Canada and Desjardins Economic Studies

Quebec's higher rent control guidelines paired with a smaller impact from reduced immigration could mean that Montreal's rent inflation will be higher than in other major centres. Indeed, this was already evident in the third quarter of 2025 when [Montreal's rent inflation reaccelerated](#) while the national figure held steady. Nationally, rent growth may broadly resume in the medium term as demand stabilizes, but should remain well below post-pandemic highs.

[What If Federal NPR Targets Are Met?](#)

Our outlook for rent inflation assumes a moderately slower pace of population growth. But what if Canada has a more significant population growth deceleration, consistent with the federal government's target? A sharper-than-expected decline in net NPR inflows would likely ease rental demand more quickly and could result in slower rent inflation. However, the impact would not be uniform. Rental vacancy rates could rise in major metropolitan areas, affecting both the purpose-built rental sector and the rented condo segment. Softer demand could give way to slower rent inflation—or in Calgary's case, rent deflation (graph 7). Further reductions in net NPRs would likely have a sizable impact on rent inflation in Toronto and Vancouver. This would be particularly likely if that reduction was paired with greater supply, as recent increases in rental housing starts are likely to translate into more units available for rent. That said, investors continue to rely on rental income to cover carrying costs. Over the medium term, a sustained reduction in NPRs could also influence developers' investment decisions, potentially slowing the pipeline of new rental projects and condo buildings.

Graph 7
The Rent Inflation Outlook Varies by Population Growth

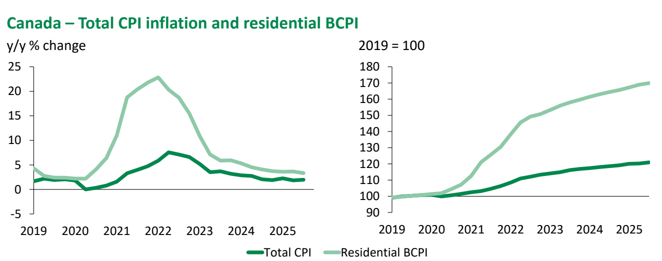


NPRs: Non-permanent residents; GoC: Government of Canada
* The GoC has updated its target to reduce the proportion of NPRs to under 5% of the total population by the end of 2027.
Statistics Canada and Desjardins Economic Studies

Additional Risks to Our Outlook

Purpose-built rentals still represent a relatively small share of Canada's housing stock, keeping vacancy rates low or balanced in many urban centres despite rising construction activity. Recent policy changes—like the removal of GST/HST on new rental projects—have improved feasibility, but high construction costs continue to pose challenges as post-pandemic-era construction cost increases have outpaced overall inflation by a wide margin (graph 8). Inflation in building materials, elevated land prices, labour supply constraints and lingering effects from trade tensions with the United States are all adding pressure. Although borrowing rates have eased, they remain above pre-pandemic levels. Government fees and regulatory hurdles further weigh on project economics, making it more difficult for developers to scale up rental supply. Build Canada Homes is intended to expand off-market housing in response to the risk that adverse economic conditions could slow market-driven supply, though details on the initiative remain sparse.

Graph 8
Residential Construction Costs Have Skyrocketed



CPI: Consumer price index; BCPI: Building construction price index
Statistics Canada and Desjardins Economic Studies

Conclusion

Given the anticipated increase in supply and the expected slowdown in demand from weaker population growth, rent prices are projected to rise at a more moderate pace in the coming months. This will be welcome news to many renters who have been grappling with rapid cost-of-living increases over the last few years.

However, the current economic uncertainty introduces several risks that could alter this outlook. The way federal and provincial governments implement immigration policies will play a key role in shaping rental demand. On the supply side, elevated construction costs and ongoing trade tensions with the United States could dampen builders' willingness to invest in rental housing, despite the incentives available to support such developments.

Overall, we expect rent inflation to ease across all major Canadian cities over the next year, with more significant declines in Calgary and Vancouver.