ECONOMIC VIEWPOINT

Beyond Homeownership: The Outlook for Rent Inflation in Canada's Largest Cities

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Highlights

- Buying a home has become increasingly out of reach for many Canadians. As would-be first-time homeowners are priced out of the market, more people are reliant on rental housing. As such, rent inflation has become an essential metric for understanding the state of overall shelter affordability.
- Rents have been rising quickly in Canada, with rented accommodation CPI inflation averaging 8.3% in Q3 2024—the fastest pace since the early 1980s. It was also much higher than the pace of owned accommodation price growth, which decelerated to 5.5% in the same quarter as borrowing costs continued to come down.
- Our outlook is for a slowdown in the pace of rent inflation over the next few years, in line with a rising unemployment rate and weaker population growth. Provinces that have welcomed a large number of non-permanent residents (NPRs) over the past two years, such as British Columbia and Ontario, are expected to see their rent inflation rise less rapidly than elsewhere. Alberta and Saskatchewan should see rents slow the fastest given the highly cyclical nature of the economy and rental market in those provinces. In contrast, still-elevated rent inflation is expected in Quebec, as the 2024 rent control guideline is higher there than it is in Ontario.
- Uncertainty regarding the implementation of announced immigration policies is an important consideration in our rent inflation forecast. If the population slows faster than anticipated, demand for rental accommodation will cool and price pressures will ease. Conversely, higher-than-anticipated population growth, more in line with the Bank of Canada's most recent outlook, will put more sustained pressure on rent CPI.

Why Look at Rent CPI?

Rent inflation has emerged as a significant concern for households, policymakers and economists across Canada. With the costs of homeownership increasingly out of reach for many Canadians, the rental market plays a crucial role in providing housing. Rising rental prices are exerting pressure on affordability and contributing to the broader inflationary environment.

Buying a home has become financially challenging for many Canadians in recent years. Homeownership affordability has worsened considerably since the start of the pandemic (graph 1 on page 2). As would-be first-time homeowners are priced out, more people are reliant on rental housing. As such, rent inflation has become an essential metric for understanding the state of overall shelter affordability. Indeed, in 2022 there were 5.3 million renter households in Canada, up 16% from 2018. In

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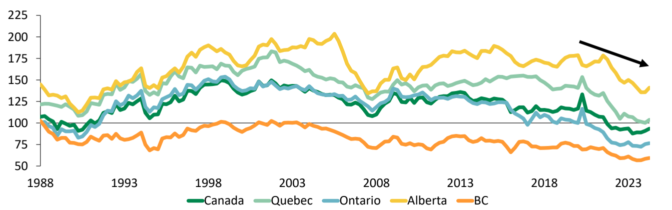
Graph 1
Homeownership Affordability Has Worsened Since the Start of COVID-19

Desjardins Affordability Index*
Index, higher = more affordable



* Assumes a 20% down payment
Canadian Real Estate Association and Desjardins Economic Studies

comparison, there were 10.1 million homeowner households, an increase of less than 1% over the same period.

Rising shelter costs are a driver of overall inflationary pressures and thus influence monetary policy decisions. Despite lower interest rates and the expectation they will fall further, shelter will continue to be the largest contributor to inflation for the foreseeable future (graph 2). Shelter costs comprise a large portion of the Consumer Price Index (CPI), reflecting the significant impact they have on household spending. Indeed, housing costs have grown so much that shelter's share of the CPI has been consistently adjusted upward, particularly recently. For instance, the rented accommodation component of the CPI basket—rent plus tenants' insurance premiums, maintenance, repairs and other expenses—has risen steadily since 2007 (graph 3). Meanwhile, the mortgage interest cost component fell over the decade that preceded the pandemic and has only recently rebounded as mortgage rates increased in 2022 and 2023. In contrast, the CPI basket share of homeowners' replacement costs and other owned accommodation expenses has declined recently after peaking in 2022.

The propensity to rent varies across Canada, from 25% in Newfoundland and Labrador to 40% in Quebec (graph 4 on page 3). Households in major CMAs are more likely to rent than the average household in their province, with rental propensity reaching over 45% in Montreal, 42% in Vancouver and 37% in

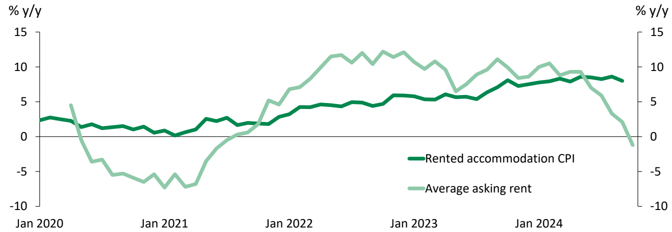
Box A: Rented Accommodation CPI Versus Average Asking Rent

Rented accommodation CPI is designed to measure what Canadians actually report paying to rent shelter. It takes into account tenants with new leases, existing tenants who renew their lease and existing tenants who are in the middle of their lease. New tenants typically pay the current market price, whereas tenants who renew their lease may be living in a rent-controlled unit. Tenants in the middle of their lease typically are not subject to changes in rent from the prior month but may be over the prior year. While rent comprises the vast majority of the rental accommodation CPI, tenants' insurance premiums, maintenance, repairs and other expenses make up an additional small monthly cost (about 5%). Moreover, rental accommodation CPI accounts for changes in fixtures and services included, the age of the building, number of bedrooms, type of building and location.

Average asking rent uses a different methodology than rented accommodation CPI. For instance, Rentals.ca data is based on monthly listings from its network of internet listings services. Average asking rent may also be impacted by quality changes in the stock of rental units, such as by renovations or new units having entered the market. Reflecting only new leases, asking rent may be more sensitive to fluctuations in supply and demand. Indeed, changes in average asking rent tend to be much more volatile than changes in rental accommodation CPI (graph A).

Graph A
Rent Inflation Versus Asking Rent

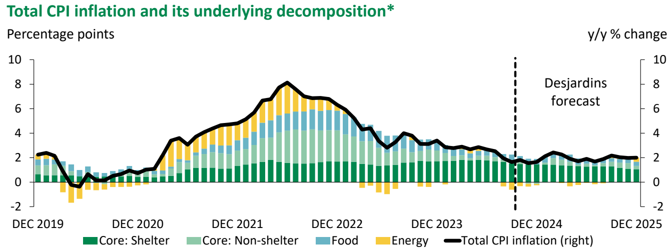
Canada rent growth



Statistics Canada, Urbanation, Rentals.ca and Desjardins Economic Studies

Graph 2
Lower Interest Rates Should Take Pressure off Shelter Inflation

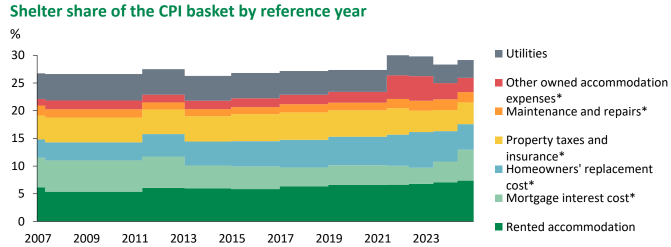
Total CPI inflation and its underlying decomposition*



* Calculated using fixed basket weights
Note: Core inflation refers to total inflation excluding food and energy
Statistics Canada and Desjardins Economic Studies

Graph 3
Rent Comprises a Growing Share of the CPI Basket

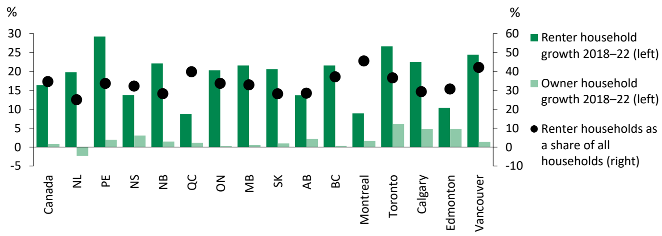
Shelter share of the CPI basket by reference year



CPI: Consumer Price Index; * Components of owned accommodation
Statistics Canada and Desjardins Economic Studies

Graph 4
The Propensity for Households to Rent Has Increased Across Canada

Owner and renter household growth, 2018–22



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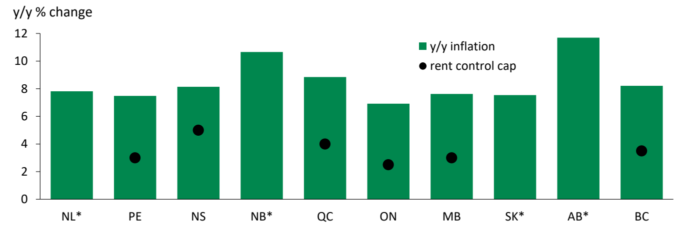
Graph 6
Rent Inflation Has Been Highest in Provinces Without Rent Control

Rented accommodation inflation, Q3 2024



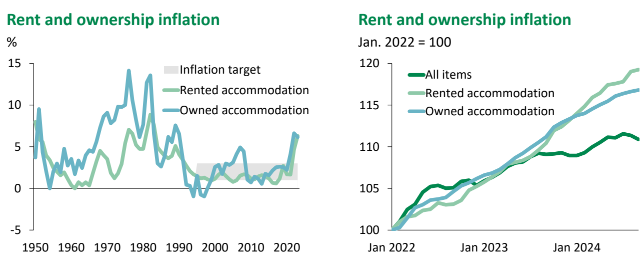
* Provinces without current rent control caps
Statistics Canada and Desjardins Economic Studies

Toronto. And in every province and major CMA, the number of renter households has risen dramatically over the previous four years—in stark contrast to the number of owner households. All this to say, rapidly rising rents impact a large and growing share of households across the country.

What Does Rent Inflation Look Like Across Canada?

Rents have been rising quickly in Canada, with rented accommodation CPI inflation topping 8.3% y/y in Q3 2024—the fastest pace since the early 1980s (graph 5). It was also much higher than the pace of owned accommodation price growth, which decelerated to 5.5% in the same quarter as borrowing costs continued to come down.

Graph 5
Rent Inflation Is No Longer Consistent with the BoC's 2% Target



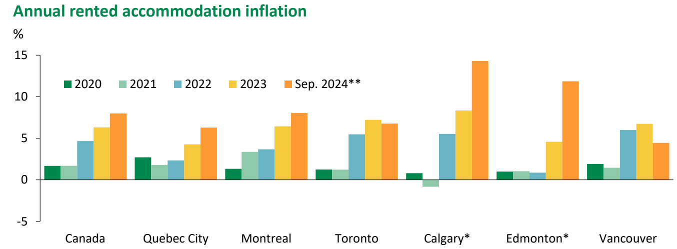
Statistics Canada and Desjardins Economic Studies

But much like real estate more broadly, rent growth differs by location. Looking at recent rent gains across provinces, rented accommodation CPI inflation has been fastest in provinces without rent controls, such as Alberta and New Brunswick (graph 6).[1] However, Alberta has also been playing some catch up after the overbuilding that preceded the oil price drop in 2014–15. In contrast, Ontario and British Columbia—the two most unaffordable housing markets in the country—have seen a slower pace of rent inflation, albeit still the highest in four decades. And then there is Quebec, where rent control measures have helped restrain the pressure coming from an increase in demand. For this reason, rent inflation in Quebec is not as high as it is in Alberta, but it's still higher than in Ontario and British Columbia, where rent control guidelines stand at relatively lower levels.

Drilling down to the local level, the disparity between rent inflation in different municipal markets becomes even more stark (graph 7). Rent inflation has been red hot in 2024 in Calgary and Edmonton, whereas it eased in Toronto and Vancouver. Montreal and Quebec City have also seen rent inflation close to the national average, posting the most modest gain in September since the beginning of the year.

Graph 7
Calgary and Edmonton Have the Highest Rent Inflation in 2024

Annual rented accommodation inflation



* Provinces without ongoing rent control policies
** Sep. 2024 inflation since Sep. 2023
Statistics Canada and Desjardins Economic Studies

What's in Our Framework for Forecasting Rent CPI?

Until recently, Desjardins Economic Studies forecast rent CPI using a top-down approach, driven largely by changes in the working-age population at the national level. However, the affordability crisis has underscored the need for a structured framework to

[1] It should be noted that this report does not argue for or against rent controls, but instead recognizes that they play an important role in explaining the varied pace of rent inflation across Canada. For more information about the role rent control plays in housing affordability, see our past research on the topic.

forecast rent inflation in major cities across the country. This will not only be insightful for tenants and landlords, but can also inform policy decisions at all levels of government in an era where housing affordability and inflation are a top national concern.

To have a better understanding of rent inflation, variables capturing both demand and supply factors have to be considered. Demand for rented accommodations will depend on the economic cycle. Our analysis shows that when unemployment is low, rents tend to rise, as do home prices. Population also influences demand, including its composition. Newcomers are much more likely to rent than people born in Canada, particularly those who are only here temporarily. With more people needing an apartment due to the recent surge in new entrants to Canada, rent has climbed under that additional pressure. Additionally, as ownership affordability has worsened, people have tended to continue renting instead of buying a home, which has kept demand high.

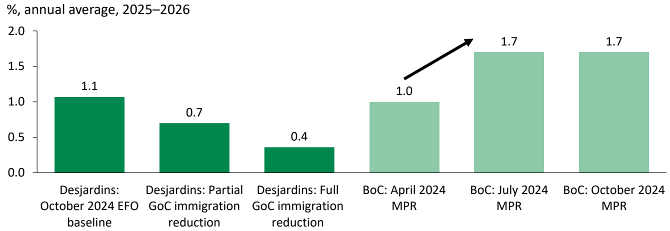
On the supply side, the number of units that are completed but unabsorbed by the market is a good indication of what is available for households. With that and the demand variables capturing most rental market dynamics, market rent can be estimated and forecasted.

Rent Inflation Will Likely Ease Going Forward

Various recently announced government measures seek to rein in the influx of non-permanent residents (NPRs), who are more likely to rent than purchase a home due to the temporary or uncertain nature of their stay in Canada (graph 8). What's more, the federal government has recently scaled back its admission targets for permanent residents, many of whom also rent upon arriving in Canada. Lowering the number of newcomers should halt or possibly even reverse Canada's population growth, slowing demand for rental accommodation.

Graph 8
Forecasts of Future Population Growth Vary Significantly

Growth in population ages 15 years and over
%, annual average, 2025–2026



MPR: Monetary Policy Report; BoC: Bank of Canada; GoC: Government of Canada
Government of Canada, Bank of Canada and Desjardins Economic Studies

Although rent inflation remains high, the recent slowdown in overall price growth, combined with this gradual easing in demand pressures and the upswing in purpose-built rental housing starts, should lead to slower rent growth over the next few years. Indeed, this is our baseline scenario for rent inflation in Canada, which is in line with a rising unemployment rate and weaker population growth across the country.

However, there are some regional disparities. Provinces that have welcomed a large number of NPRs over the past two years, such as British Columbia and Ontario, are expected to see their rent inflation rise more slowly than elsewhere. British Columbia is slightly more sensitive to changes in its population, and our forecast bakes in a less dramatic fall in housing starts than in Ontario, which explains why rent prices should slow more in Vancouver. In Toronto, the rent price slowdown should be less severe despite a softer economic outlook and a sharper drop in population growth, since we assumed a more significant decline in housing starts in the province would tighten supply–demand balances by limiting available housing and maintaining greater pressure on rents.

Another variable that comes into play is the guideline set by the various provincial governments for rent increases by landlords. In Quebec, the Tribunal administratif du logement (TAL), the province's rental board and authority on housing law, recommended a 1.8% rent increase for 2023, then more than doubled that figure to 4.0% in 2024 (table 1). That's the biggest rent increase in 30 years for buildings more than five years old. The TAL's recommendations for 2025 haven't been released yet, but part of the calculation is based on the rent component of the CPI, which in September 2024 was up 9% year over year. A higher rent inflation increase is therefore expected in Quebec than in Ontario, where the government has capped rent increases at 2.5% for apartments built before 2019.

Table 1
Rent Control Policies in Canada

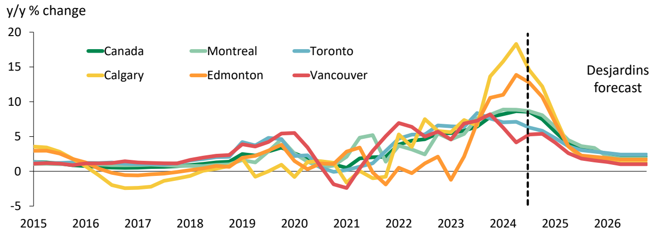
PROVINCE	RENT CONTROL			
	2023	2024	2025	NOTES
Newfoundland and Labrador		No rent control		
Prince Edward Island	0.0%	3.0%	2.3%	Rent cannot be automatically increased between tenants
Nova Scotia	2.0%	5.0%	5.0%	
New Brunswick		No rent control		This may change under new government
Quebec	1.8%	4.0%	N/A	Other rates may be applied based on type of heating
Ontario	2.5%	2.5%	2.5%	No rent control for units first occupied after 2018
Manitoba	0.0%	3.0%	1.7%	
Saskatchewan		No rent control		
Alberta		No rent control		
British Columbia	2.0%	3.5%	3.0%	

N/A: 2024 rent increase guidelines in Quebec are for April 2, 2024, to April 1, 2025; the 2025 rent control rate is not available as of publication.
Provincial websites and Desjardins Economic Studies

In Alberta, the absence of rent control guidelines for landlords and fewer NPRs than elsewhere means rent inflation is more cyclical than in other provinces. Rent inflation rates are therefore expected to ease more in Calgary and Edmonton than in other large Canadian cities (graph 9 on page 5).

Graph 9
Rent Inflation Is Expected to Come Down in All Major CMAs

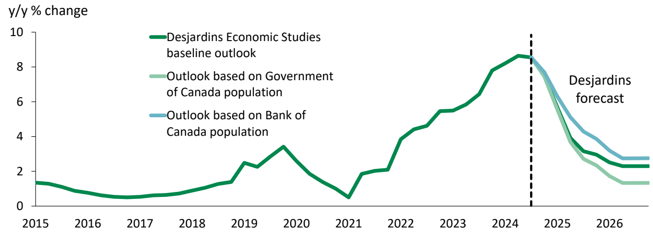
Rented accommodation inflation by CMA



CMA: census metropolitan area
Statistics Canada and Desjardins Economic Studies

Graph 11
The Path of Rent Inflation Is Strongly Influenced by Population Forecasts

Rented accommodation inflation in Canada



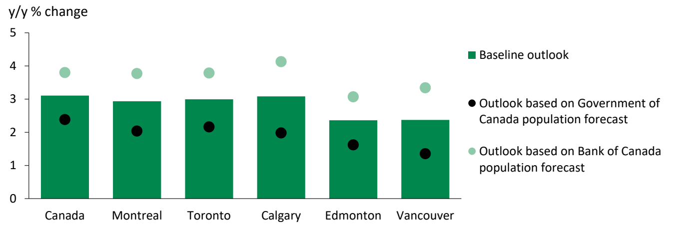
Statistics Canada, Bank of Canada and Desjardins Economic Studies

What If Population Grows Faster or Slower?

Given the uncertainty surrounding the federal government's immigration plans, we decided to look at two alternative scenarios as well. In the first, the population would decline more than in our baseline outlook, in line with the Government of Canada's planned reduction in the pace of newcomer admissions (graph 10). In the second, the number of non-permanent residents doesn't decrease as much, remaining closer to the Bank of Canada's population forecast for the next three years. In this scenario, Canadian population growth would slow more gradually than in our baseline outlook.

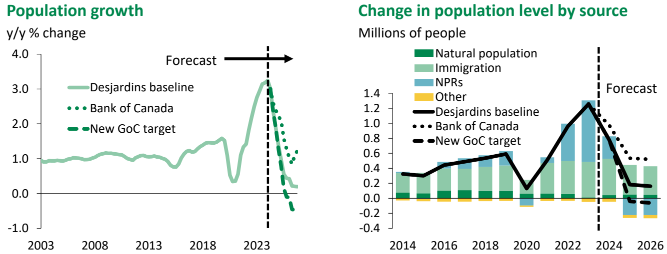
Graph 12
The Rent Inflation Outlook Varies by Population Growth

Average annual rented accommodation inflation, Q3 2024 to Q4 2026



Statistics Canada, Bank of Canada and Desjardins Economic Studies

Graph 10
The Population Boom Has Boosted Demand but May Slow Sharply Ahead



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

Rent inflation forecasts are sensitive to changes in population (graph 11). We estimate that the Government of Canada's lower population growth outlook would result in average annual rent inflation of about 2.4% from Q3 2024 to the end of 2026, slightly less than our baseline outlook of 3.1% (graph 12). On the other hand, the BoC's higher population growth estimate would result in about 3.8% average annual rent inflation over the next two years. To put these numbers into context, a monthly rent of $1,000 would rise to $1,071 by the end of 2026 in our baseline scenario vs. only $1,054 with lower population growth and jump to $1,088 with higher population growth.

Conclusion

While rent inflation may ease as the number of newcomers to Canada declines and the Canadian economy weakens as a result, the housing market continues to have significant structural issues. The ongoing shortage of purpose-built rental housing ensures that even with a slowing economy, rental affordability will likely remain a challenge. Furthermore, despite falling interest rates, there is little indication of a return to affordable homeownership as elevated prices continue to lock many Canadians out of the market. As a result, any temporary relief from easing rent inflation may be short-lived, with longer-term solutions requiring substantial increases in housing supply and policy efforts to address affordability across both the rental and ownership sectors.