

Growing Canada's Rental Market—Part 2

- Rental housing demand is growing in all regions of the country. In addition to affordability considerations, demographic trends—including millennials moving out of their parents' home, downsizing seniors, and increased immigration—are contributing to growing rental demand.
- Private sector developers and investors are responding to the increased demand. For renting to be a viable and affordable option for a greater number of households, however, a further ramping up in the pace of rental construction is needed, particularly purpose-built rentals.

GROWING RENTAL DEMAND

The demand for rental housing has been rising steadily over the past decade. The number of renter households in Canada increased by almost 80,000 annually between 2011 and 2016, double the pace of the prior five-year period and up from virtually no growth over the previous decade (chart 1). For the first time since at least the 1970s, renter household formation is outpacing the number of new homeowners. Rental demand is up across the country, with the largest increase in Ontario, Alberta, and British Columbia.

Demographic trends, including an ageing population, are contributing to growing rental demand. The number of Canadians aged 65 and older is increasing at its fastest rate in almost seven decades. Canada's homeownership rate peaks between the ages of 60 and 64, before gradually declining.

High and rising immigration also is lifting the demand for rental accommodation. Immigration to Canada totaled almost 300,000 last year, up from an average of 260,000 over the prior five-year period and its highest level in almost a century. Ottawa has recently announced an increase in its annual immigration target from 300,000 to 340,000 by 2020.

The majority of new immigrants to Canada initially settle into rental accommodation. Of recent immigrant households in 2011, 62% were renters. Toronto, Vancouver and Montreal together attract more than half of new immigrants to Canada. However, a growing share of immigrants in recent years are settling into other census metropolitan areas, notably in the Prairies.

Housing affordability pressures also appear to be contributing to increased rental demand. For the large cohort of millennials establishing their own households, renting may be the only option if they choose to reside in Canada's highest-cost urban centres. In Toronto, the cost of mortgage debt servicing, property taxes, fees, and heat as a share of median household income to purchase an average-priced condominium is already pressing up against the maximum gross debt servicing ratio qualifying threshold of 39%. In Vancouver, it exceeds this level by about 10 percentage points.

The latest Census data confirm that millennials are at least delaying homeownership. The homeownership rate for Canadians under the age of 35 fell from a record high of 46.9% in 2011 to 43.1% in 2016, though it remains slightly above the long-term average.

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Chart 1

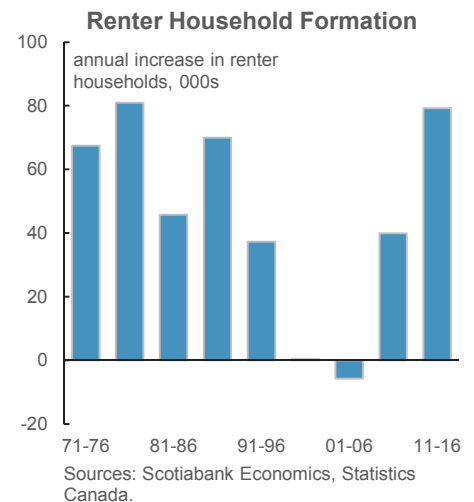
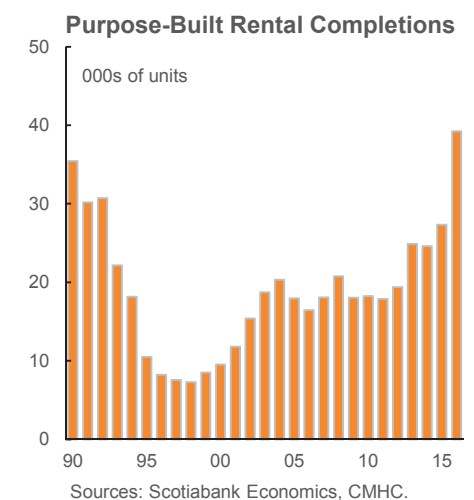


Chart 2



MORE AND VARIED RENTAL SUPPLY NEEDED

Private sector developers are responding to the increased demand. Purpose-built rental completions last year totaled 39,000 units, the highest level since at least 1990 (chart 2). There are 50,000 additional units currently under construction. The average rental vacancy rate across CMAs is fairly stable and in line with its long-term average around 3½%, suggesting at the national level purpose-built rental supply is largely meeting demand (chart 3).

However, regional conditions vary. In many centres in BC and Ontario, where high home prices represent a hurdle to homeownership, historically low vacancy rates imply that the rental market is undersupplied relative to demand. In Toronto, the vacancy rate for purpose-built rentals fell to 1.4% last year, its lowest level in 15 years, while the availability rate in Vancouver dropped to just 0.7%. Outside of BC and parts of Ontario, rental market conditions are generally less constrained.

Purpose-built rental construction in the GTA has picked up since 2014, but has added only marginally to the overall stock of rental units. A total of 2,386 purpose-built rental units were completed last year, or just 3.8 units per 10,000 population (chart 4). Vancouver’s development pipeline has been stronger, with 3,513 completions, or 13.8 units per 10,000 population. Meanwhile, Montreal, which has the largest rental stock in the country, saw 6,951 completions last year, or 17 units per 10,000 population.

The majority of the addition to the rental stock in major urban centres has been in the form of rented condominiums. Condominiums account for roughly 20% of the rental stock in Toronto and Vancouver, and 14% in Calgary (chart 5). Purpose-built units continue to dominate in Montreal, with rented condominiums accounting for just 4%.

Tight rental market conditions are evident here as well, despite record condominium completions in recent years and strong investor purchases. The vacancy rate for rented condominiums across major CMAs was just 1.9% last year. The availability rates in Toronto and Vancouver were 1.0% and 0.3%, respectively.

Condominiums are an important component of the urban rental stock. Condominiums are generally newer and offer better amenities. Yet, they typically garner a hefty premium over other rentals. The average rent on a 2-bedroom condominium in Toronto is 53% higher than for a purpose-built rental apartment. In Vancouver, the condominium rent premium is 25%. The supply of condominium rentals also is vulnerable to shifts in investor sentiment and future rental cash-flow projections, and units can be more easily converted back to owner-occupancy.

For renting to be a viable and affordable option for a greater number of households, a further ramping up in the pace of rental construction is needed, particularly purpose-built rentals. A one percentage point drop in the national homeownership rate would require the addition of about 140,000 new rental units. This comes on top of the almost 50,000 units needed annually to meet underlying household growth. Actual starts would need to be higher to account for demolitions and conversions.

There is also the need for more diversity in the rental stock, including more dwellings suitable for families. This may entail growing the ‘other’ secondary rental market, which includes detached- and semi-detached homes, townhomes, duplexes, laneway houses, and secondary suites. Almost a quarter of rental units in the secondary market have three or more bedrooms, compared with just 11% of purpose-built rentals.

Chart 3

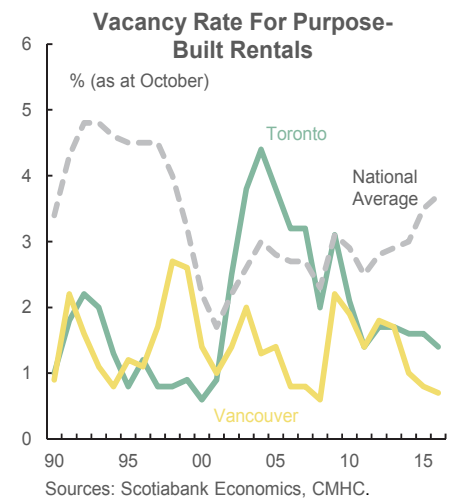


Chart 4

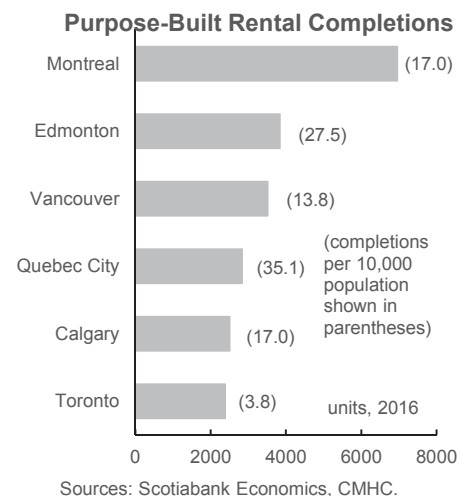
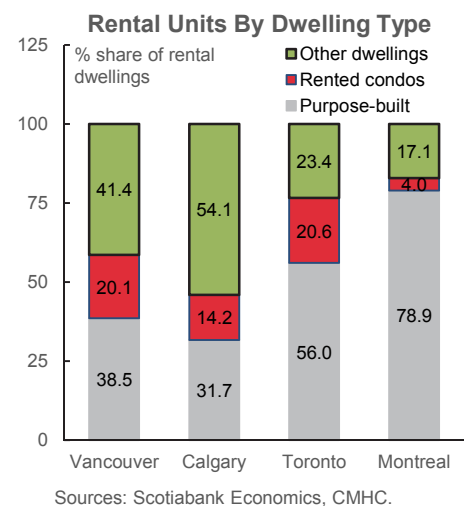
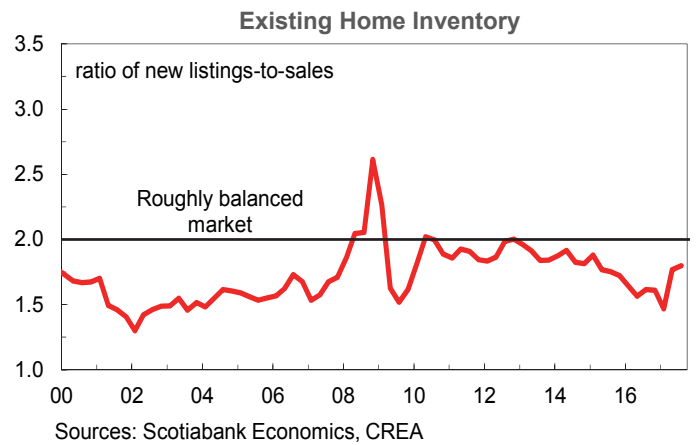
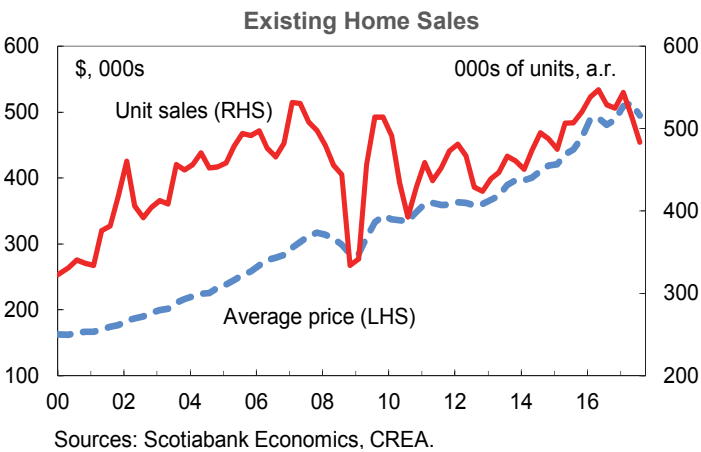
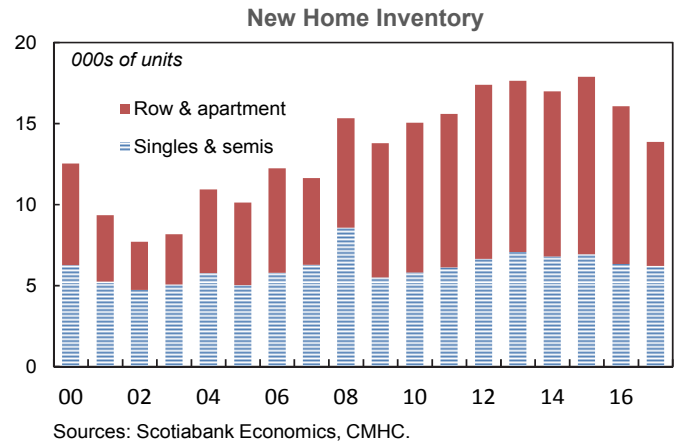
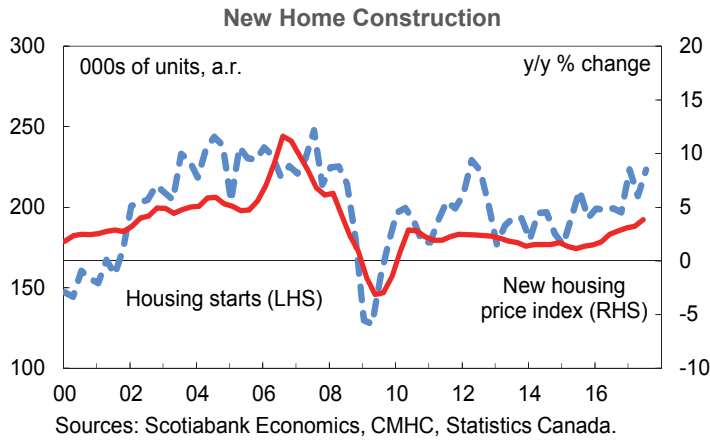


Chart 5



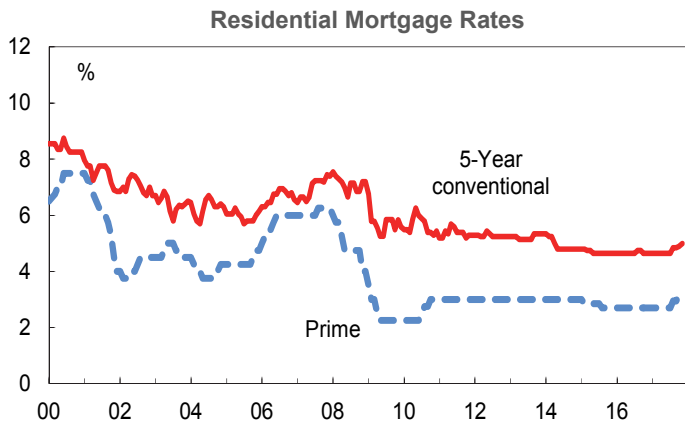
CANADIAN RESIDENTIAL MARKETS



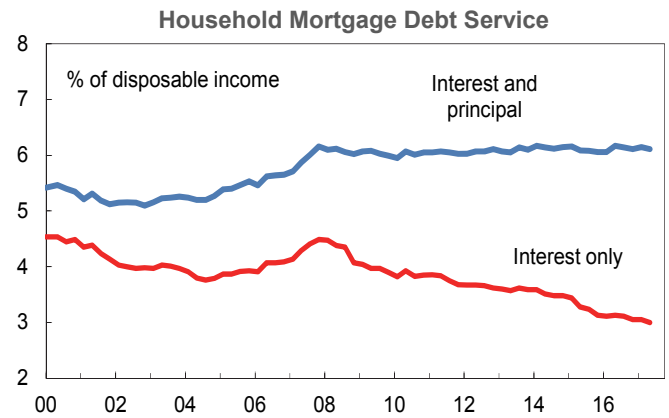
Housing Starts								
	Canada	B.C.	Alberta	Sask.	Manitoba	Ontario	Quebec	Atlantic
<i>(000s units, sa)</i>								
2010	190	26	27	6	6	60	51	13
2011	194	26	26	7	6	68	48	13
2012	215	27	33	10	7	77	47	13
2013	188	27	36	8	7	61	38	10
2014	189	28	41	8	6	59	39	8
2015	196	31	37	5	6	70	38	8
2016	198	42	25	5	5	75	39	8
2017ytd	218	42	29	5	8	80	45	9
2017f	214	40	29	5	8	81	42	8
2018f	198	38	28	5	6	74	39	8
2019f	188	35	28	5	6	70	37	8
<i>(units, nsa)</i>								
	Vancouver	Calgary	Edmonton	Toronto	Ottawa	Montreal	Halifax	St. John's
2010	15,217	9,262	9,959	29,195	6,446	22,001	2,390	1,816
2011	17,867	9,292	9,332	39,745	5,794	22,719	2,954	1,923
2012	19,027	12,841	12,837	48,105	6,026	20,591	2,754	2,153
2013	18,696	12,584	14,689	33,547	6,560	15,632	2,439	1,734
2014	19,212	17,131	13,872	28,929	5,762	18,672	1,757	1,230
2015	20,863	13,033	17,050	42,287	4,972	18,744	2,599	985
2016	27,914	9,245	10,036	39,027	5,298	17,834	2,305	833
2017ytd	24,961	11,206	11,655	39,988	6,945	23,053	6,187	702

Sources: Scotiabank Economics, CMHC. Year-to-date data are expressed at seasonally adjusted annual rates.

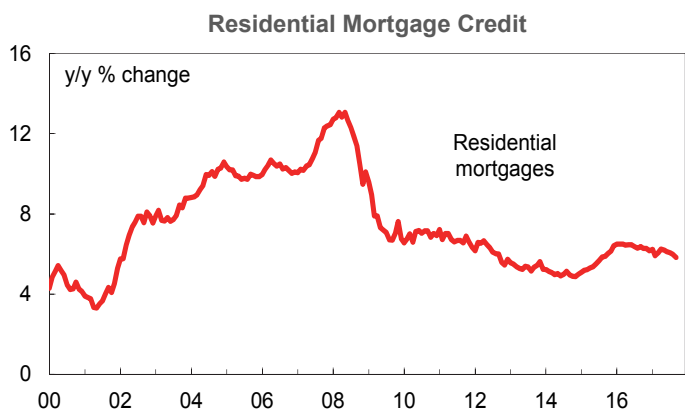
CANADIAN RESIDENTIAL MARKETS



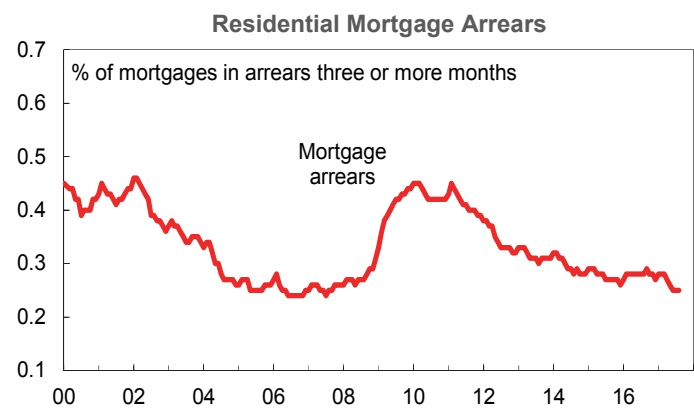
Sources: Scotiabank Economics, Bank of Canada.



Sources: Scotiabank Economics, Statistics Canada.



Sources: Scotiabank Economics, Bank of Canada.



Sources: Scotiabank Economics, CBA.

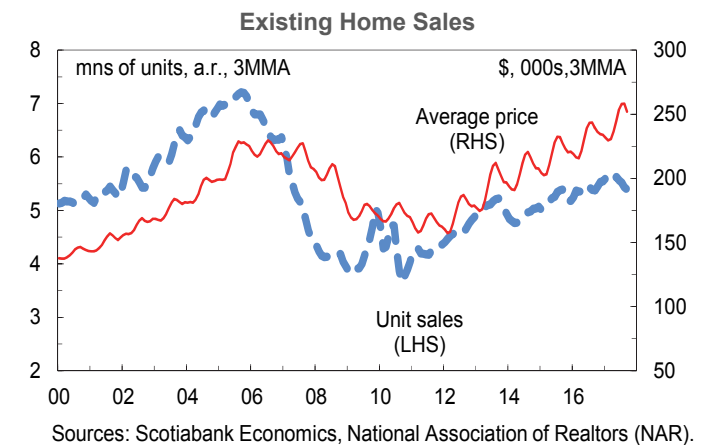
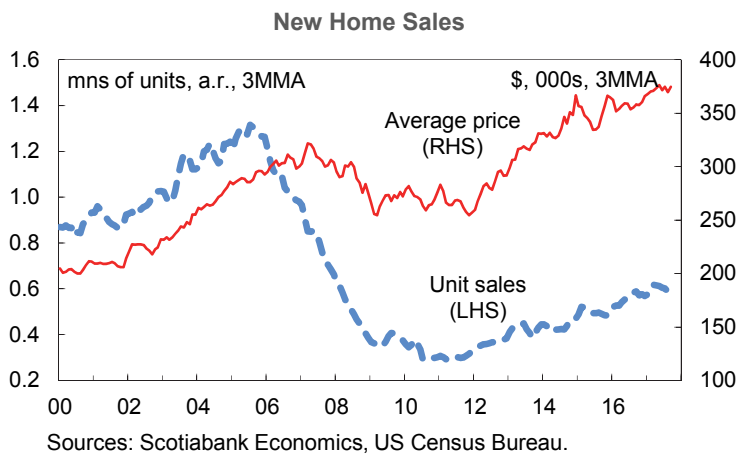
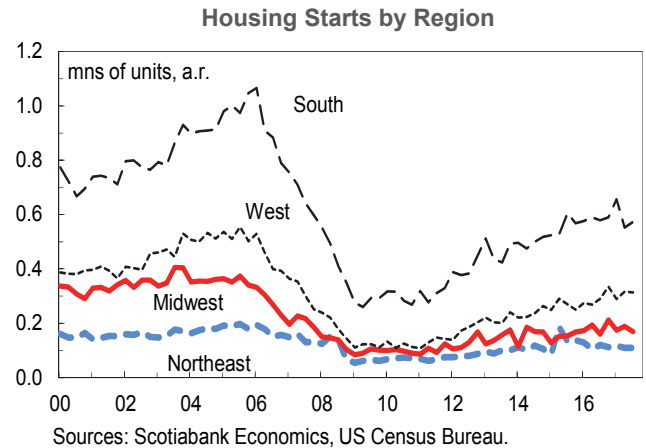
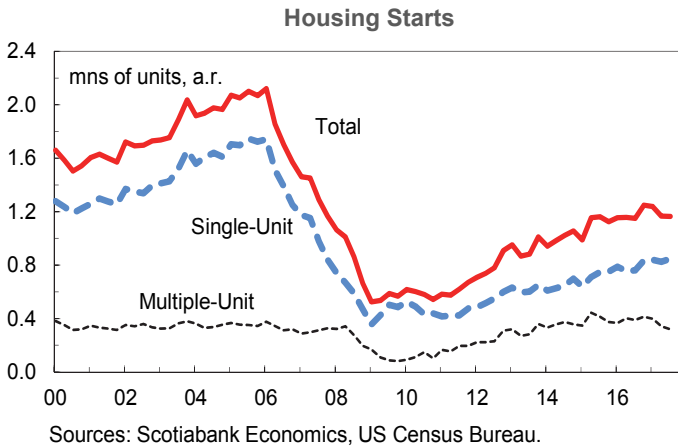
Home Sales

	Canada		British Columbia		Alberta		Man.-Sask.		Ontario		Quebec		Atlantic	
	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units
2010	339,701	437,206	505,511	74,555	352,488	50,030	232,270	23,885	343,679	185,840	242,257	80,024	192,406	22,439
2011	362,158	455,960	561,271	76,727	353,413	54,157	247,809	26,912	364,500	197,664	254,207	77,164	200,914	22,893
2012	363,128	451,050	514,849	67,634	363,340	60,590	262,723	27,602	383,501	194,625	264,096	77,372	208,305	22,769
2013	382,207	454,005	537,428	72,936	380,968	66,092	275,235	27,160	401,979	195,026	267,646	71,194	209,693	21,161
2014	407,392	477,706	568,391	84,054	400,588	71,788	282,973	27,530	429,771	202,478	271,212	70,620	209,280	20,778
2015	442,041	503,428	636,607	102,514	393,134	56,478	283,405	26,301	463,455	221,713	275,207	74,122	207,958	21,799
2016	490,030	535,214	691,111	112,211	394,513	52,167	287,485	25,895	534,848	242,720	283,306	78,146	205,405	23,465
2017ytd	505,313	514,216	691,318	101,496	397,420	56,436	288,120	25,624	580,525	224,301	294,280	81,965	207,765	23,740

	Vancouver		Calgary		Edmonton		Toronto		Ottawa		Montreal		Halifax	
	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units	Avg. Price	Units
2010	675,853	31,144	398,764	20,996	328,803	16,403	432,264	88,214	328,439	14,586	294,602	42,298	250,871	5,782
2011	779,730	32,936	402,851	22,466	325,595	16,963	466,352	91,760	343,995	15,022	309,341	40,354	258,767	5,989
2012	730,063	25,445	412,315	26,634	334,318	17,641	498,973	88,157	352,175	14,695	322,148	40,086	268,692	6,081
2013	767,765	28,985	437,036	29,954	344,977	19,552	524,089	88,946	358,592	14,013	324,141	36,491	273,089	5,044
2014	812,653	33,693	460,584	33,615	362,657	19,857	566,491	93,278	362,525	14,122	331,772	35,753	273,983	4,749
2015	902,801	43,145	453,814	23,994	369,536	18,227	622,046	101,846	368,521	14,849	338,072	37,935	282,536	4,834
2016	1,017,228	40,880	463,047	22,522	369,365	16,990	729,591	113,725	374,586	15,617	349,793	39,926	286,967	5,151
2017ytd	998,760	35,709	467,179	23,997	375,067	18,884	817,369	95,787	390,000	17,232	366,527	42,447	287,764	5,307

Sources: Scotiabank Economics, CREA, QFREB. Year-to-date data are expressed at seasonally adjusted annual rates.

US RESIDENTIAL MARKETS

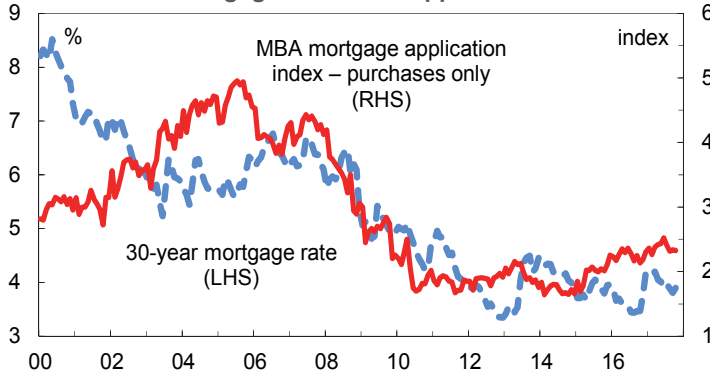


	Housing Starts							Permits		
	Total	Singles	Multis	West	South	Midwest	Northeast	Total	Singles	Multis
	<i>(millions of units)</i>									
2010	0.587	0.471	0.116	0.120	0.298	0.098	0.072	0.605	0.447	0.157
2011	0.609	0.431	0.178	0.133	0.308	0.101	0.068	0.624	0.418	0.206
2012	0.781	0.535	0.245	0.175	0.398	0.128	0.080	0.830	0.519	0.311
2013	0.925	0.618	0.307	0.215	0.464	0.150	0.097	0.991	0.621	0.370
2014	1.003	0.648	0.355	0.235	0.496	0.163	0.110	1.052	0.640	0.412
2015	1.112	0.715	0.397	0.266	0.556	0.153	0.138	1.183	0.696	0.487
2016	1.174	0.782	0.392	0.291	0.585	0.182	0.116	1.207	0.751	0.456
2017ytd	1.190	0.837	0.353	0.307	0.594	0.178	0.112	1.241	0.809	0.432
2017f	1.200									
2018f	1.250									
2019f	1.300									

Sources: Scotiabank Economics, US Census Bureau. Year-to-date data are expressed at seasonally-adjusted annual rates.

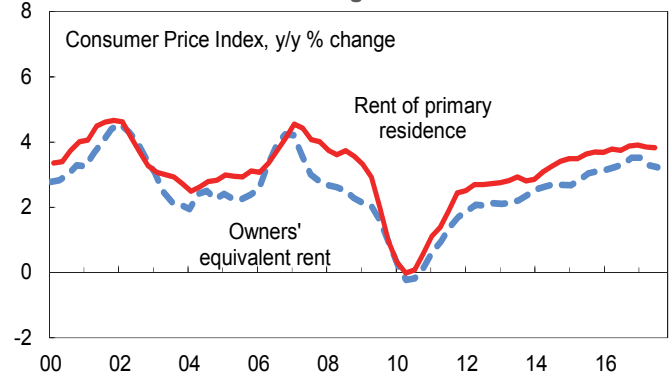
US RESIDENTIAL MARKETS

Mortgage Rates and Applications



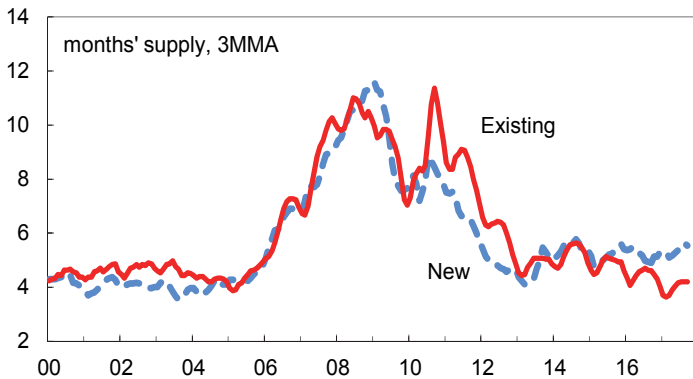
Sources: Scotiabank Economics, Mortgage Bankers Association (MBA), FHLMC.

Housing Costs



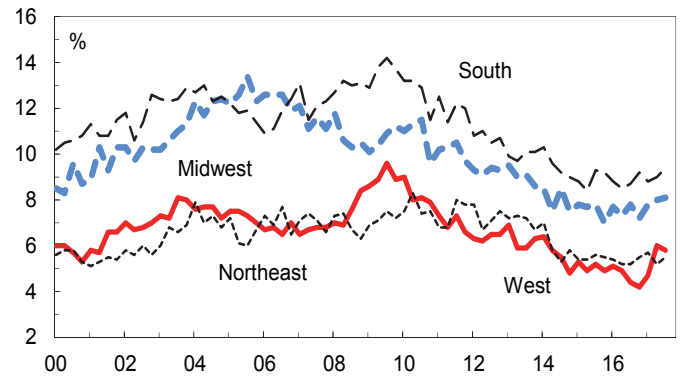
Sources: Scotiabank Economics, US Bureau of Labor Statistics.

New and Existing Home Inventories



Sources: Scotiabank Economics, US Census Bureau, National Association of Realtors (NAR).

Apartment Vacancy Rates



Sources: Scotiabank Economics, US Census Bureau.

Existing Home Sales

New Home Sales

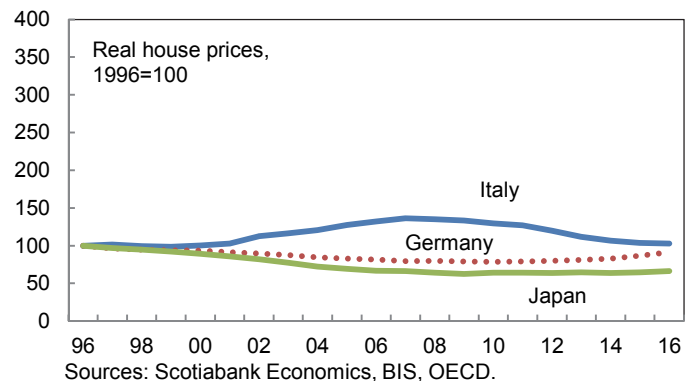
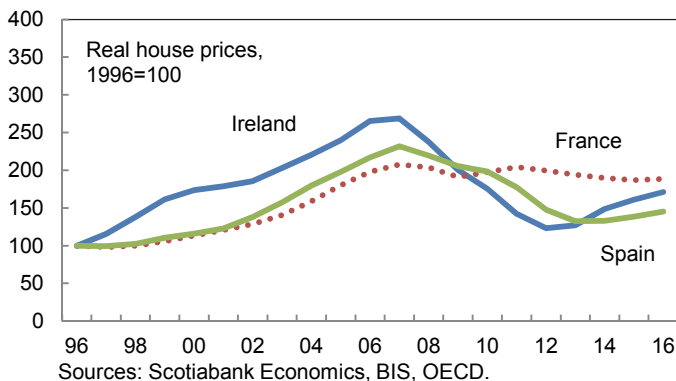
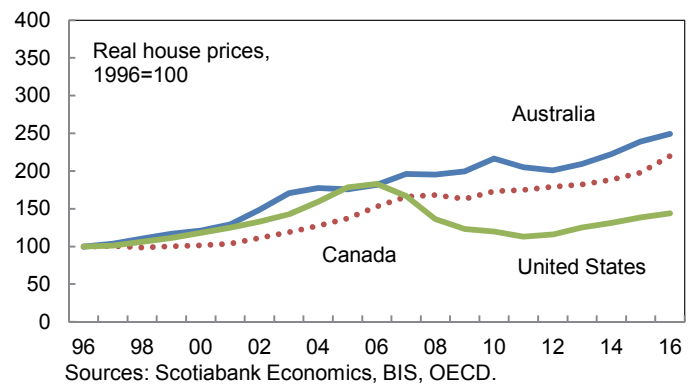
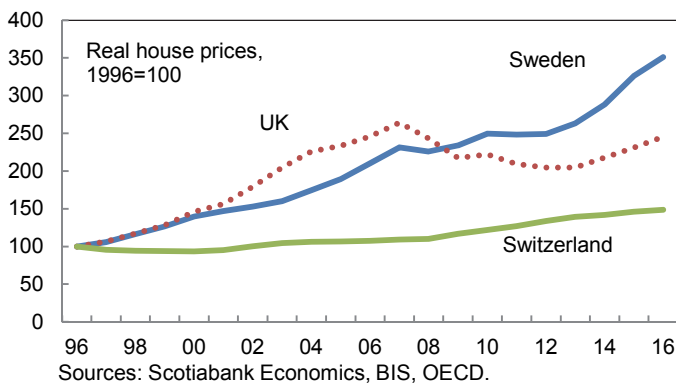
	Existing Home Sales				New Home Sales					
	Total	Avg Price	Months' Supply	West	South	Midwest	North East	Total	Avg Price (\$000s)	Months' Supply
	(sa)	(nsa)	(nsa)	(million units, saar, unless otherwise noted)						
2010	4.190	220.0	9.4	1.080	1.630	0.910	0.570	0.321	271.5	8.0
2011	4.260	214.0	8.3	1.130	1.680	0.910	0.540	0.306	263.4	6.6
2012	4.660	225.4	5.9	1.160	1.840	1.070	0.590	0.368	285.4	4.8
2013	5.090	245.5	4.9	1.190	2.050	1.200	0.660	0.430	319.3	4.7
2014	4.940	255.3	5.2	1.100	2.050	1.140	0.640	0.440	341.8	5.5
2015	5.250	266.4	4.8	1.170	2.160	1.240	0.700	0.503	348.6	5.2
2016	5.450	276.0	4.4	1.190	2.220	1.300	0.740	0.561	359.3	5.2
2017ytd	5.526	287.0	4.0	1.228	2.277	1.288	0.733	0.609	372.4	5.3

Sources: Scotiabank Economics, National Association of Realtors (NAR), US Census Bureau.
Year-to-date data are expressed at seasonally-adjusted annual rates.

INTERNATIONAL RESIDENTIAL MARKETS

International House Prices													
(Inflation-adjusted, y/y % change)													
	2008	2009	2010	2011	2012	2013	2014	2015	2016	16Q3	16Q4	17Q1	17Q2
Australia	-0.3	2.2	8.5	-5.3	-2.1	4.1	6.4	7.4	4.2	2.2	6.1	7.9	---
Canada	1.4	-3.2	6.2	0.9	2.4	1.8	3.4	4.9	11.2	13.4	13.4	15.0	16.2
France	-1.9	-6.3	3.2	3.6	-2.4	-2.7	-2.1	-1.5	0.9	1.1	1.5	2.1	---
Germany	0.4	-0.7	-0.6	0.5	1.0	1.7	2.2	4.3	5.5	5.9	5.4	3.7	3.5
Ireland	-11.6	-15.7	-12.4	-18.9	-13.4	3.0	16.9	8.3	6.5	7.5	7.9	9.1	---
Italy	-0.7	-1.3	-2.9	-2.0	-5.7	-6.9	-4.6	-2.6	-0.7	-1.0	-0.5	-1.4	---
Japan	---	27.2	2.2	0.3	-0.8	1.3	-1.2	1.6	2.3	2.3	2.2	3.7	---
Spain	-5.3	-6.3	-3.5	-10.5	-16.8	-10.4	0.5	4.1	4.8	4.2	3.4	2.5	---
Sweden	-2.3	3.5	6.8	-0.4	0.3	5.5	9.6	13.2	7.6	6.0	5.0	5.1	---
Switzerland	0.9	6.2	4.2	4.2	5.2	4.2	1.8	3.1	1.6	1.5	1.5	1.2	1.5
United Kingdom	-7.8	-10.8	2.3	-5.7	-2.3	0.0	6.5	5.9	6.3	5.9	4.1	2.3	2.2
United States	-18.3	-9.7	-2.8	-5.8	2.6	8.4	4.8	5.4	4.0	4.1	3.5	3.6	---
Russia	9.1	-10.9	1.3	-27.0	9.5	-2.7	-6.0	-12.3	-11.6	-11.3	-9.3	-8.4	-7.6
Brazil	15.8	19.4	19.0	11.6	6.1	2.8	0.2	-8.0	-10.4	-10.4	-9.0	-7.1	-5.9
Chile	-8.9	1.5	6.0	2.0	2.3	6.2	1.8	4.3	-0.7	-3.5	-0.6	---	---
Colombia	9.3	4.9	5.4	4.2	7.2	7.6	4.9	4.5	4.5	3.2	5.2	2.7	---
Mexico	-0.5	0.1	-0.3	0.8	0.7	0.0	0.4	3.8	5.1	5.8	4.0	0.2	---
Peru	20.7	14.0	9.3	13.2	17.5	13.7	9.2	2.6	2.4	1.2	3.1	-7.5	---
China	0.2	1.9	5.4	-1.2	-3.2	3.2	0.6	-5.2	4.5	6.2	8.6	9.2	---
India	---	---	8.5	11.3	15.5	7.8	7.8	8.3	1.6	2.4	4.4	6.7	---
Indonesia	-7.7	-2.7	-2.2	-0.7	0.6	5.3	0.6	-0.8	-0.4	-0.3	-0.9	-1.0	---
South Korea	-0.6	-2.5	-0.5	1.2	0.7	-1.7	0.2	2.6	1.7	1.3	0.0	-0.8	-0.7
Thailand	---	6.1	-0.5	0.5	0.3	5.5	3.8	3.5	1.2	1.1	-1.1	-1.8	-3.2

Sources: Scotiabank Economics, Bank for International Settlements



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