# Economic Commentary

**August 5 2025**



## Assessing Canada's coming rental supply wave

After incredibly tight conditions in recent years, Canada's rental market is in transition with both rising vacancies and easing rents due to federal measures to cap migration, a tariff driven slowdown in the economy, and rising rental supply from a robust construction cycle for rental structures cooled conditions.

These factors are likely to intensify in the near term, pushing vacancy rates higher and temper or further reduce rents in regions across the country as a swath of new units complete. Specifically, markets like Kelowna, Vancouver, Barrie and parts of the Atlantic will likely see an influx of new units with the impact contingent on recent market tightness.

Renter households will benefit from additional choice and relatively more affordable rental housing in the short term, but we expect adjustments by developers to pull back from rental construction notwithstanding government driven initiatives.

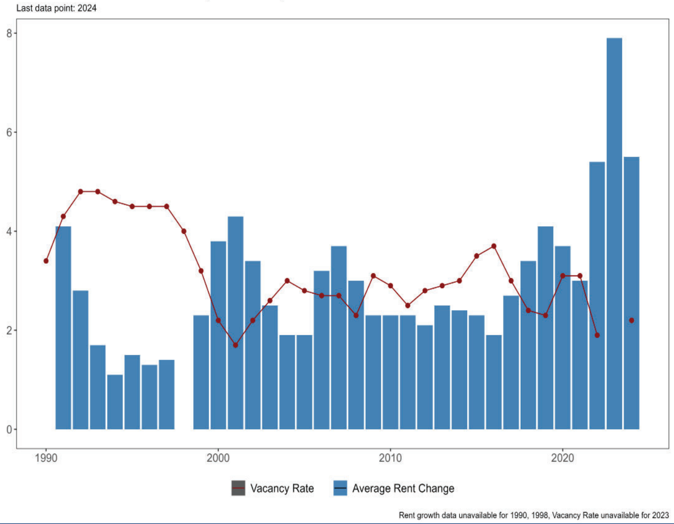
For credit unions, easing rent pressures could also help temper risks of loan and credit card delinquency for at risk members. On the lending front, credit unions will need to be more selective in loan origination for rental properties, including tempering expected rents and leasing expectations.

## Current rental market themes

It may come as a surprise how quickly Canada's rental market has shifted. While the most recent vacancy rate data from CMHC from late 2024 still pointed to a tight market and high rent growth, the Rental Market Survey (RMS) average vacancy had already started to climb last year, nudging up to 2.2 per cent from 1.5 per cent as migration caps hit demand for units. Full-year average rent growth of 5.5 per cent was robust but reflected the repricing of units turning over and tempered in the latter half of the year.

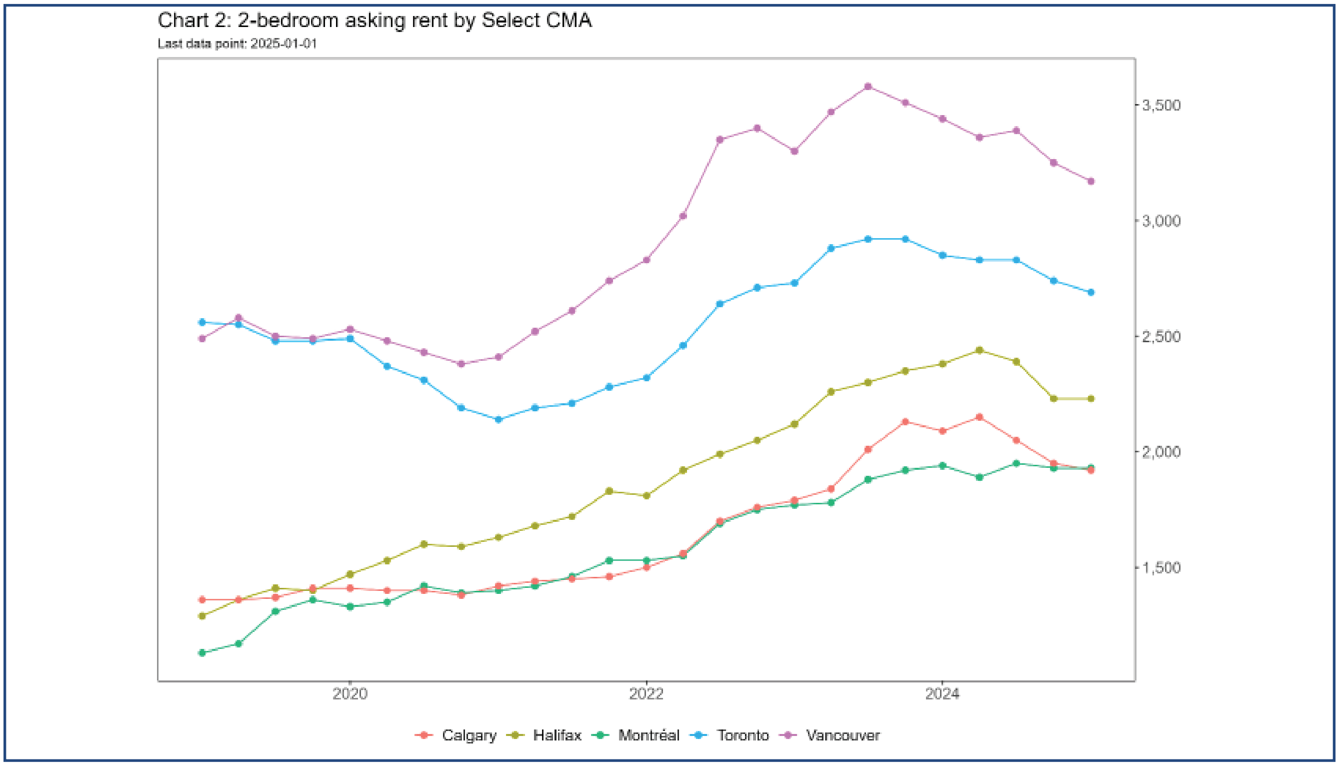
Chart 1: Canada Rental Market, Total Units, %

Last data point: 2024




While published average rent are expected to increase mildly this year as landlords nudge rents higher in line with rent control allowances, turned over units re-rent at higher market rates, and new higher priced units complete, the market has turned. Rent is declining in key markets, and it is a signal that vacancy rates are rising. This is consistent with evidence from media and private sector estimates. In our recent commentary, Let's Talk Rent, we highlighted new Statistics Canada/ CMHC data on asking rents which pointed to a shift in market conditions. Asking rents may not be realized, but trends evolve closely with market conditions. Rents have declined in many of Canada's largest markets over the past year. Declines have been steepest in markets like Kelowna, Calgary, and Vancouver. Small urban markets have fared better, reflecting a shift of Canadians to more affordable regions (See Appendix Chart A1). Moreover, declining asking rents understate the shift in the market as landlords and building owners opt to first push rental incentives (including several months of free rent, amenities, parking, etc.) rather than lower the price which future rent growth compounds on.

Softer market conditions are music to the ears of renters who have endured severe rent increases in recent years amidst robust demand even as supply has increased. The average rent paid in Canada has climbed by 40 per cent from pre-pandemic 2019




through 2024 to reach $1,402 according to CMHC, while CPI rent has increased close to 30 per cent, both of which have outpaced wage growth of about 20 per cent over the period. Growth in asking/market rents have been similar but with smaller urban markets showing stronger growth, a reflection of newcomers from abroad and fanning of Canadian residents from the largest cities to smaller ones during the pandemic.

## Rental market to remain soft for several years

Softer rental market conditions are likely to persist for several years rental supply increases and demand wanes lead to both higher vacancy rates and tempered growth or decline in rents in some markets.

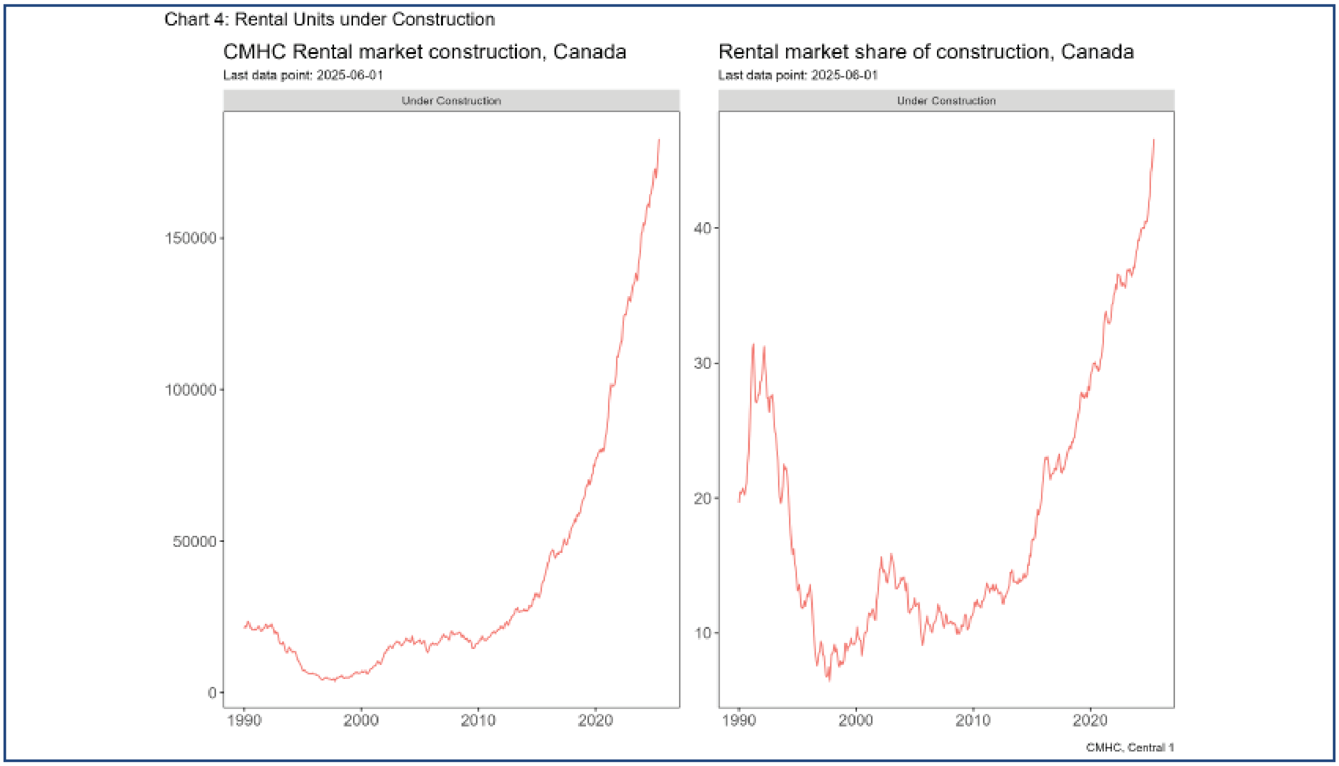
### *Supply incoming*

More rental housing supply is incoming. Canada has been successful in bringing much needed rental housing to market in recent years, even if not meeting the surge in demand (up until recently). The private and non-profit sectors, and mom-and-pop investors have answered the Canadian policy rallying cry.

Rental housing demand has been driven by a combination of factors. High home prices and more recently, elevated interest rates, have put homeownership out of reach for households given rising down payment constraints, while policies such as mortgage stress tests have also limited access to homeownership. Adding to this was acceleration of population growth through increased immigration, which grew exponentially after the pandemic, added fuel to the rental market. Newcomers, and temporary residents typically rent, with permanent residents transitioning to homeownership over time after building credit and down payments. Developers rotated construction towards rental product.

Strong demand incentivized rental construction along with policy measures to boost rental activity. In a market like Vancouver, programs such as the Rental100 program since 2012 have been used as a tool through relaxation of unit size requirements, development cost levy waivers, upzoning, and other measures. In more recent years, the federal government has directly (and through CMHC), incentivized the sector via low-cost loans, GST/HST rebates, and accelerated capital cost allowance.

Rental housing starts and completions have soared over the past decade after at least 15 years of subdued construction. From the 1990s through 2015, metro area starts and completions averaged about 18k per year, which has tripled to an average of 60k annually from 2016 through 2024. Rental starts in 2024 rose to 95,852 units, with completions at 89,327, marking y/y increases of 18 and 30 per cent. Additions

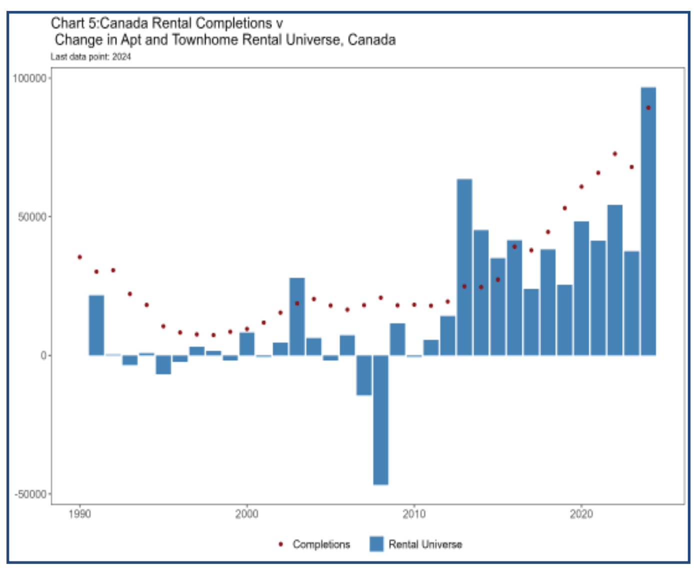



to the number of metro areas over time inflates these numbers but the construction boom is undeniable and has provided an offset to a downward trend in ownership starts. As a share of activity, levels have risen to more than a third of from about 10 per cent (or less). Units under construction climbed to more than 164k units as of mid-2025, or 45 per cent of units currently underway in metro areas.

Elevated levels of construction will lift rental availability. The purpose-built apartment and townhome rental stock notably expanded from 2013 onwards aligning with completion of new builds. Cumulative rental completions from 2013 to 2024 surpassed 600k units, while the purpose-built stock expanded by 490k units.

These figures will not be one-to-one given both data definitions and dynamic adjustment in the rental stock. Definitionally, the rental universe includes smaller urban markets, while completions include only metro areas due to data availability. Importantly, purpose-built rentals are not inclusive of all market rental completions. Completions include secondary suites (1-unit apartments) of homes which have been increasingly common in large urban markets due to affordability challenges that end- up in the private secondary market or transitioned to owner-use.

There is also natural erosion of the housing stock which limits growth in purpose-built rentals relative to completions. An aging stock (about two thirds of the stock was built before 1980), leads to increased demolitions, and reconstruction into new rentals or ownership although this has limited impact. This is evident in the 1990s and 2000s when the purpose-built stock contracted amidst low rental starts and completions, while conversions of rental units to condominiums were also popular in some markets, which further amplified contraction.



Despite some of these factors, record levels of rental units under construction will lead to an overhang of the rental housing stock in coming years, the speed of which contingent on construction bottlenecks and timing of starts. Rental completions align well with changes in rental universe, outside of Metro Vancouver where more units may end up in the secondary market. On a purpose-built basis, another 60-80k units could be added annually to the purpose-built rental stock over the next several years, which we see as contributing to an excess of supply in the rental market that could last into 2028. Adding to the rental availability will be excess condominium market inventory which makes its way into the rental stock.

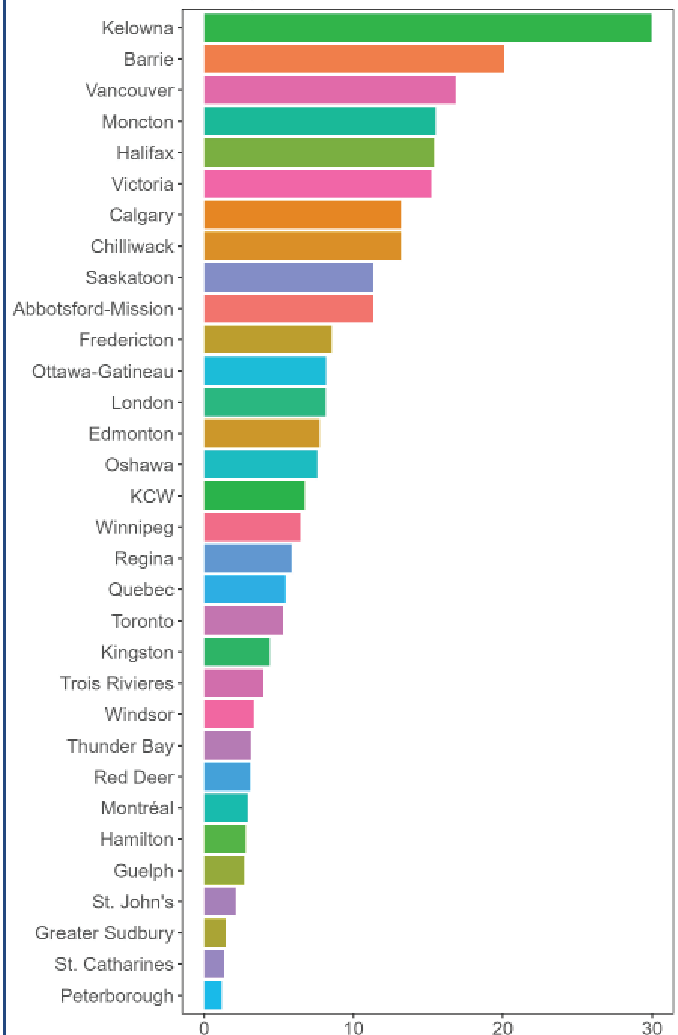
***New renter demand to slide***

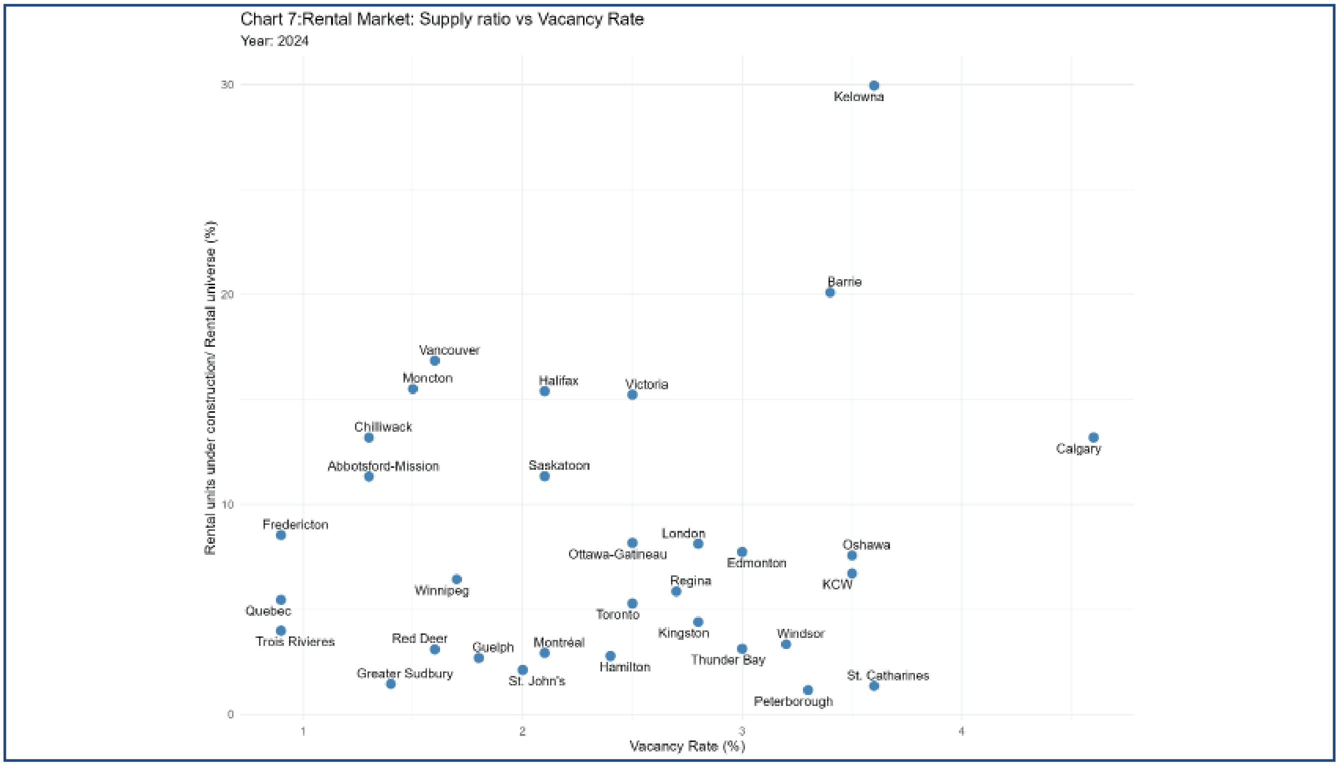
On the demand side, the drivers of slowing demand are well documented. Federal government migration caps will further reduce the number of temporary residents, and slow permanent immigration inflows are biting. During the first quarter, Canada's population was unchanged, representing a historically weak same-quarter performance. We documented this in our recent economic commentary (Population plateaus as government cuts student permits). With the government looking to reduce temporary resident share to 5 per cent of the population, and annual immigration inflows set in a range of 360-400k per year through 2027, headline population growth could fluctuate near zero unless there is a change in policy. Statistics Canada's population projections under medium-growth and low-growth scenarios are consistent with this pattern. This has direct impact on rental demand as newcomers typically rent in the earlier years in Canada.

A slower economy will also play into weaker rental demand. Young people are more likely to rent and current labour information points to elevated levels of unemployment among younger age cohorts. The unemployment rate for those aged 20-24 sits at 11.3 per cent, compared to 6.9 per cent for all ages, and economic weakness and business uncertainty has reduced job opportunities available in the market. Young people will be more likely to double-up with shared accommodations or stay in the family home for a longer period.

Chart 6: Ratio of Units under construction to RMS Rental Universe

Last data point: 2024






## Where are supply shocks greatest?

Rental unit construction is elevated across most major markets (see Appendix Chart A2) but the potential for a supply shock reflects relative additions to the stock. We calculate the ratio of units under construction to the number of units in the purpose-built housing stock at the metro level. Kelowna currently exhibits the highest ratio by far at 30 per cent. This is followed by Barrie, Vancouver, Moncton, and Halifax. Low ratios can be seen in smaller urban areas far from Toronto in Ontario, Hamilton, and Montreal. As we noted previously, not all units under construction end up in the purpose-built rental stock, with some as privately owned fully- enclosed suites in houses. Rental construction cycles drive changes in the universe of purpose-built housing. In periods of weak rental construction, the rental stock at best holds steady but often contracts.

A complementary measure is to compare this ratio to prevailing vacancy rates. High levels of construction are less of a risk in low vacancy rate areas. That said, comparing high ratio and high vacancy rate combinations yield a similar pattern. Kelowna is at substantial risk of oversupply, alongside Barrie, and to a lesser extent Calgary due to a high prevailing vacancy rate. Vancouver, Halifax and Victoria, while experiencing elevated levels of construction are supported by low vacancy rates. Demand side weakness will impact markets more reliant on students, but many continue to exhibit modest construction levels.

## Implications

Subdued rental market conditions will have impacts for households, the housing market, and broader economy.

For rental market participants, developers and rental building owners will adapt to slowing market conditions with increased incentives, including rent reductions, rent-free periods and other sweeteners. This will benefit renter households in the short term, freeing up income for the purpose of other spending or to save for homeownership.

At the same time, vacancy rates will remain manageable, albeit higher, but still relatively low compared to historical levels and elevated rents. Vacancy rates have been historically low in recent years, and new supply in the market and lower prices will generate more renting activity. While held back by a tepid economy, renters looking to move up in quality will shift into new units, opening more affordable units for others, a process known as “filtering” . Some individuals or families currently in co-living arrangements will be able to afford their own units as downside pressure on rents occurs.

We should also expect adjustments on the construction front. Conditions may disincentivize new rental developments and we could also see an increase in conversions of existing units under construction or rental structures already in the market to condominiums in oversupplied markets. This rotation picks up speed given as low pre-sale activity leads to an undersupply of condominium units in coming years and in markets with restrictive rent controls. Government policies to boost housing construction will be an offset to market pressures.

For the broader macro-economy, easing rent pressures will be helpful in curbing still elevated inflation pressures, of which rent is 7 per cent of the consumption basket. Rent inflation is down from a y/y peak of 8.9 per cent observed in the latter half of 2024 to a still excessive 4.7 per cent but will decelerate with market rent softening.

Credit unions should view the evolution of the rental market slowdown through both the lens of household financial resilience and lending conditions. A softening rental market will lighten the financial load on younger and lower income households, which have also experienced increased debt burdens. Easing rent pressures could also help to temper risks of loan and credit card delinquency. On the lending front, credit unions will need to be more selective in loan origination for rental properties, including expected rents and lease up expectations.

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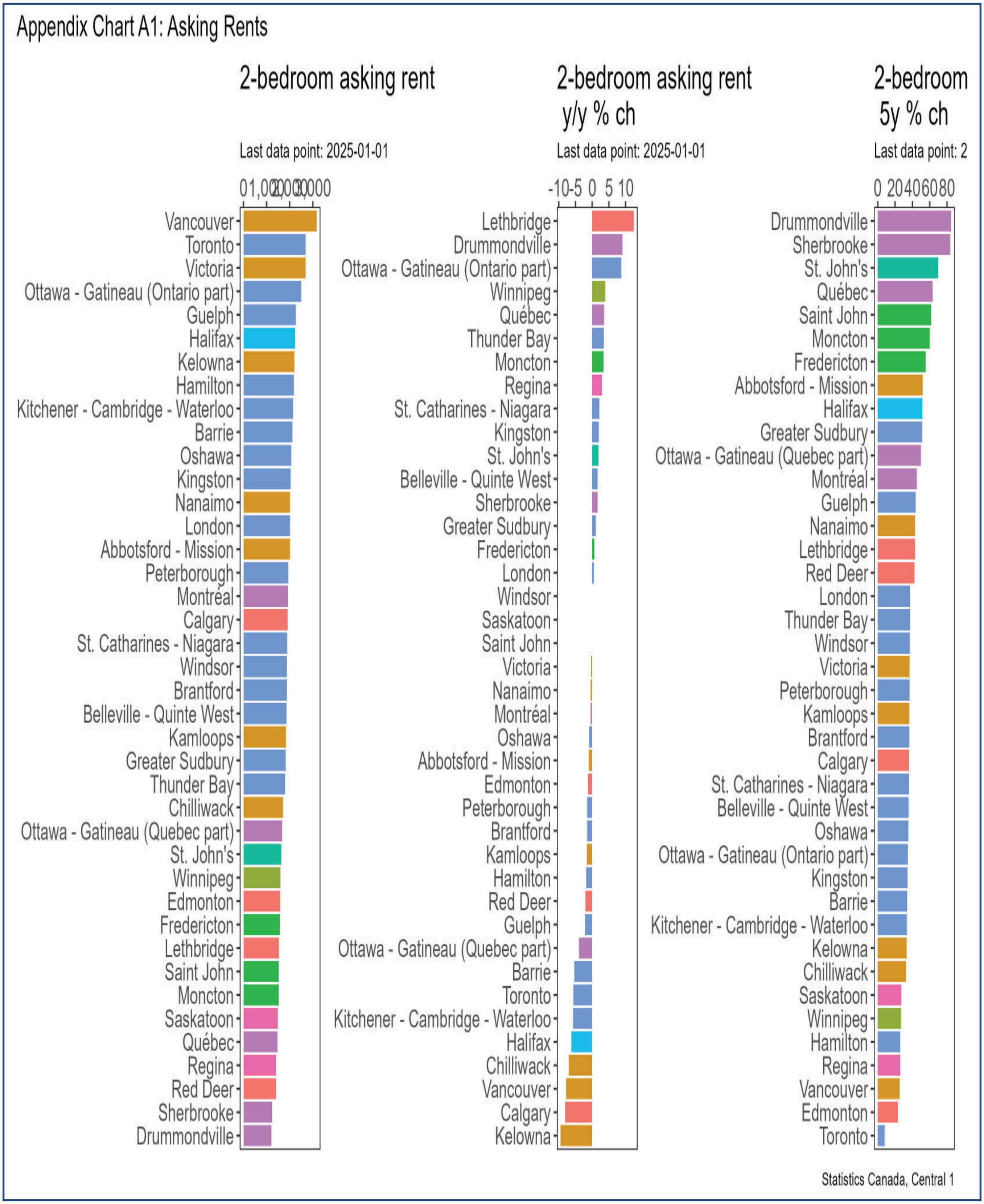
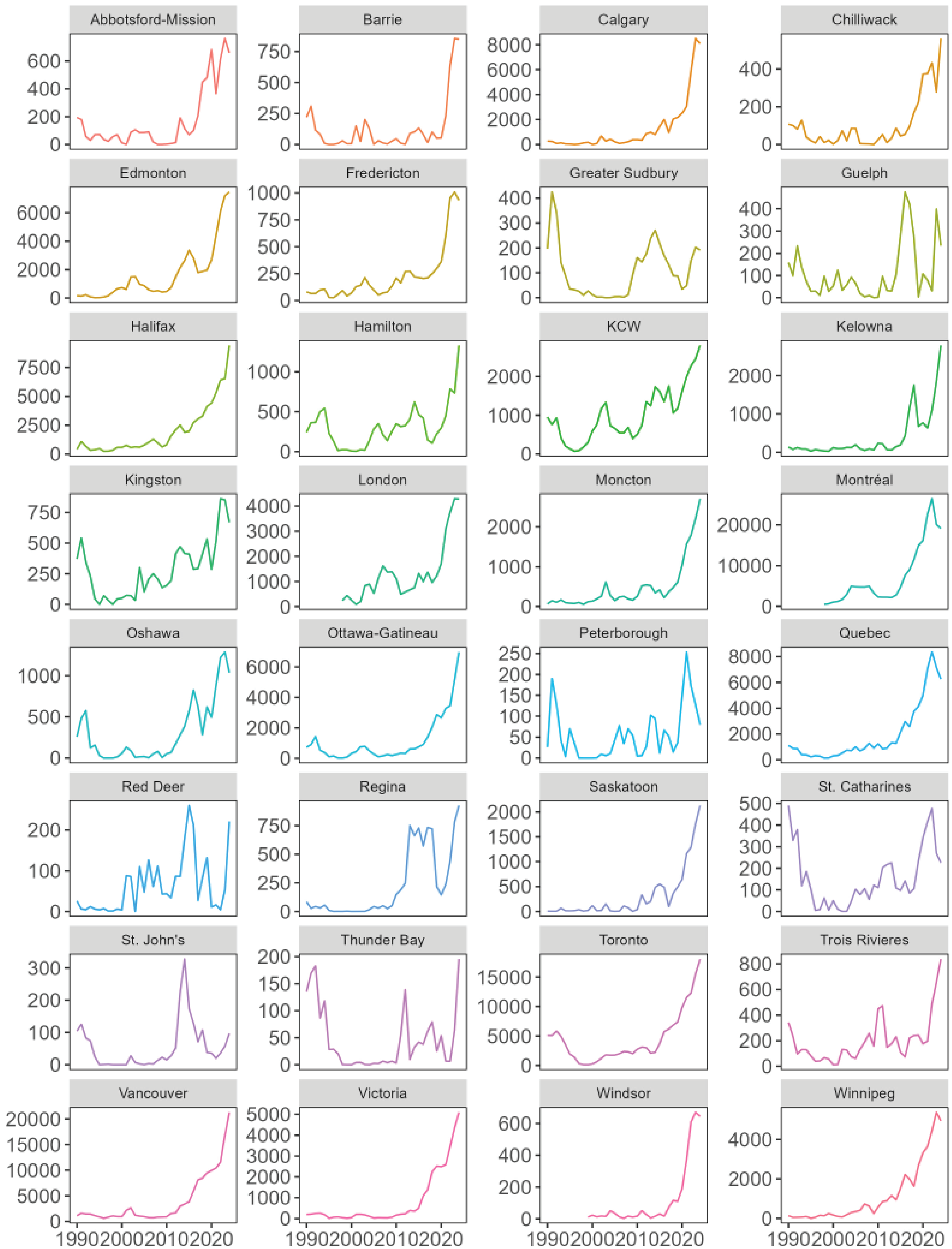
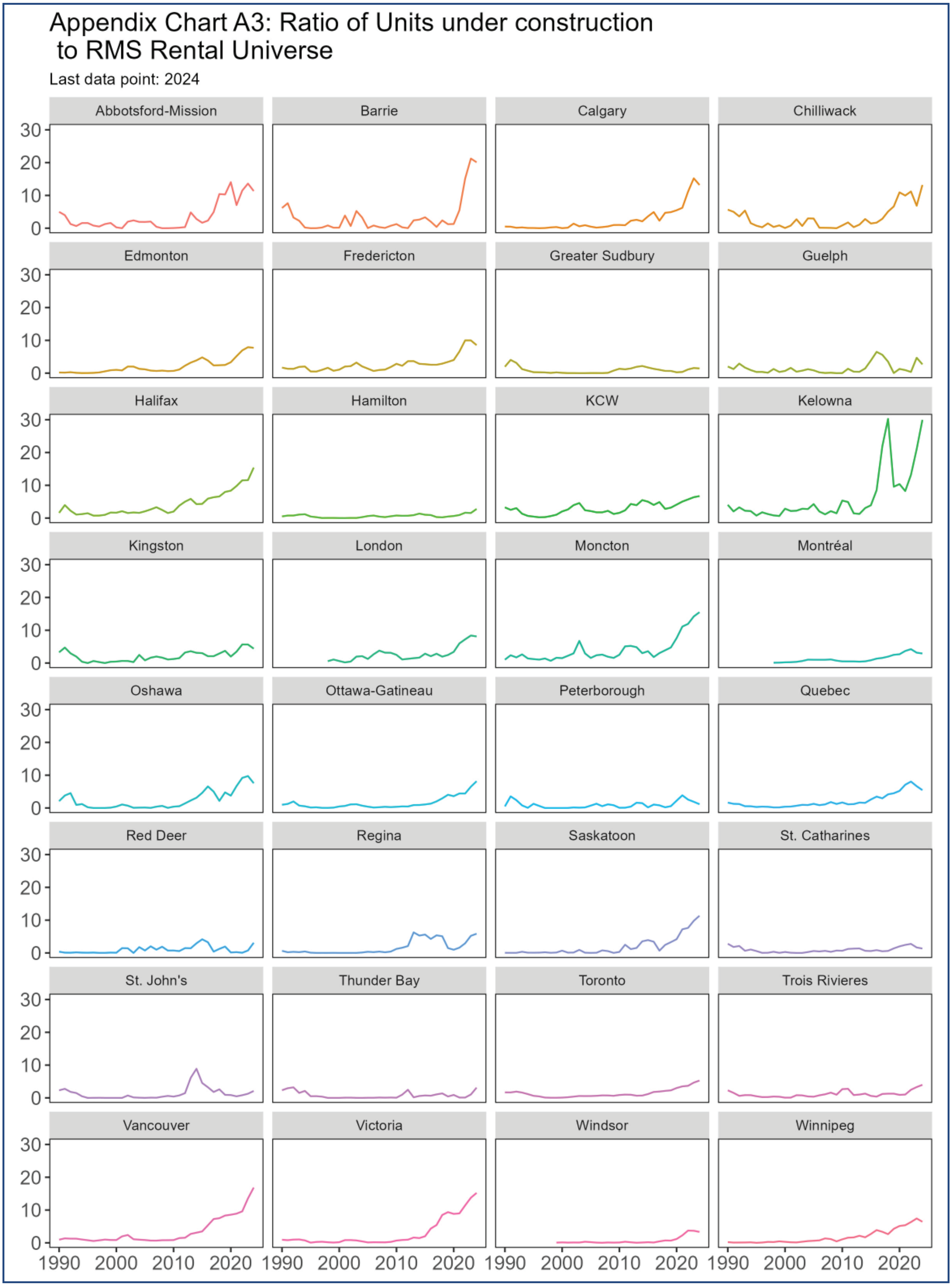
## Appendix Tables



Appendix Chart A2:Rental Units under construction

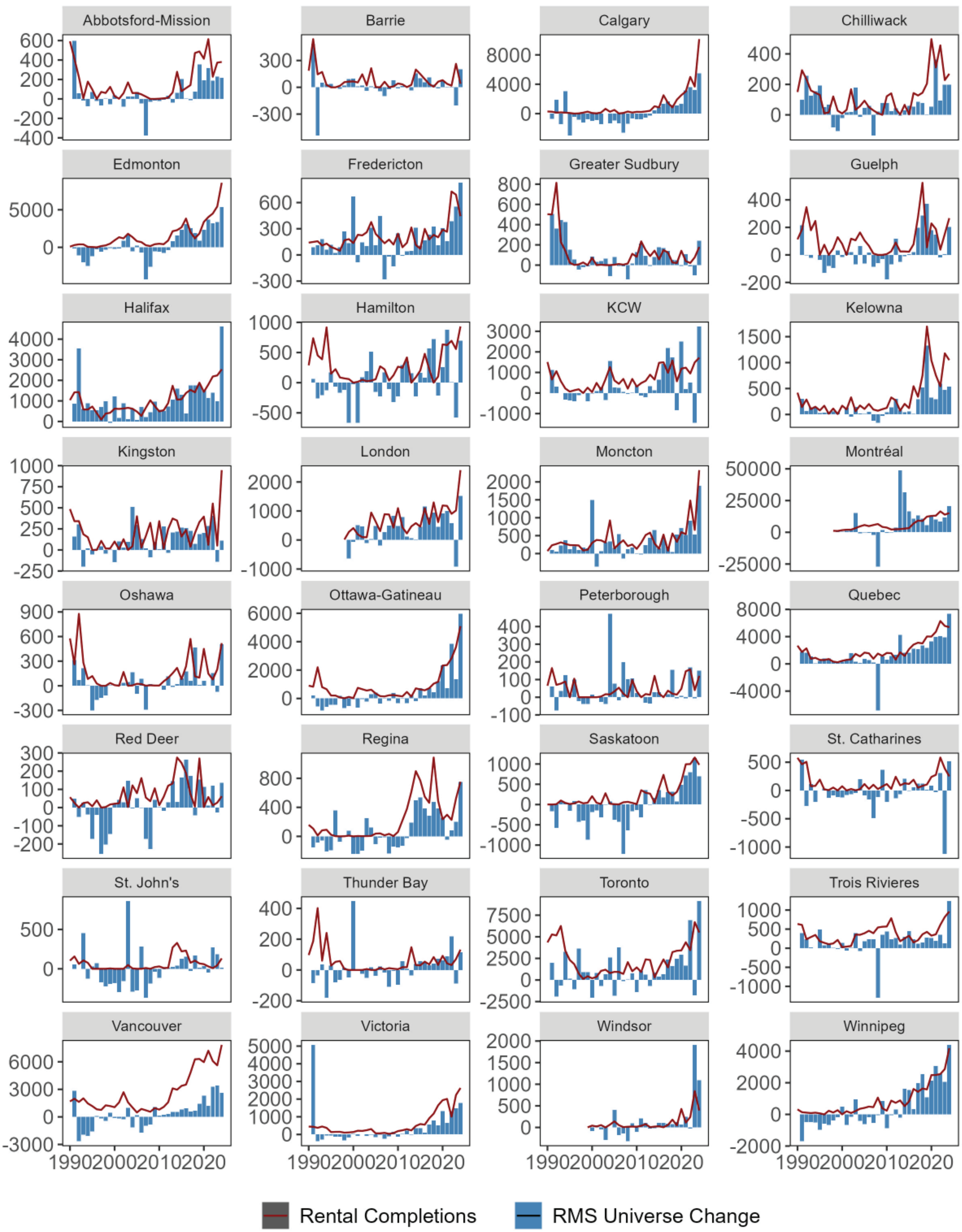
Last data point: 2024




Appendix Chart A3: Ratio of Units under construction
to RMS Rental Universe
Last data point: 2024
Abbotsford-Mission
Barrie
Calgary
Chilliwack
Edmonton
Fredericton
Greater Sudbury
Guelph
Halifax
Hamilton
KCW
Kelowna
Kingston
London
Moncton
Montréal
Oshawa
Ottawa-Gatineau
Peterborough
Quebec
Red Deer
Regina
Saskatoon
St. Catharines
St. John's
Thunder Bay
Toronto
Trois Rivieres
Vancouver
Victoria
Windsor
Winnipeg
0
10
20
30
1990
2000
2010
2020

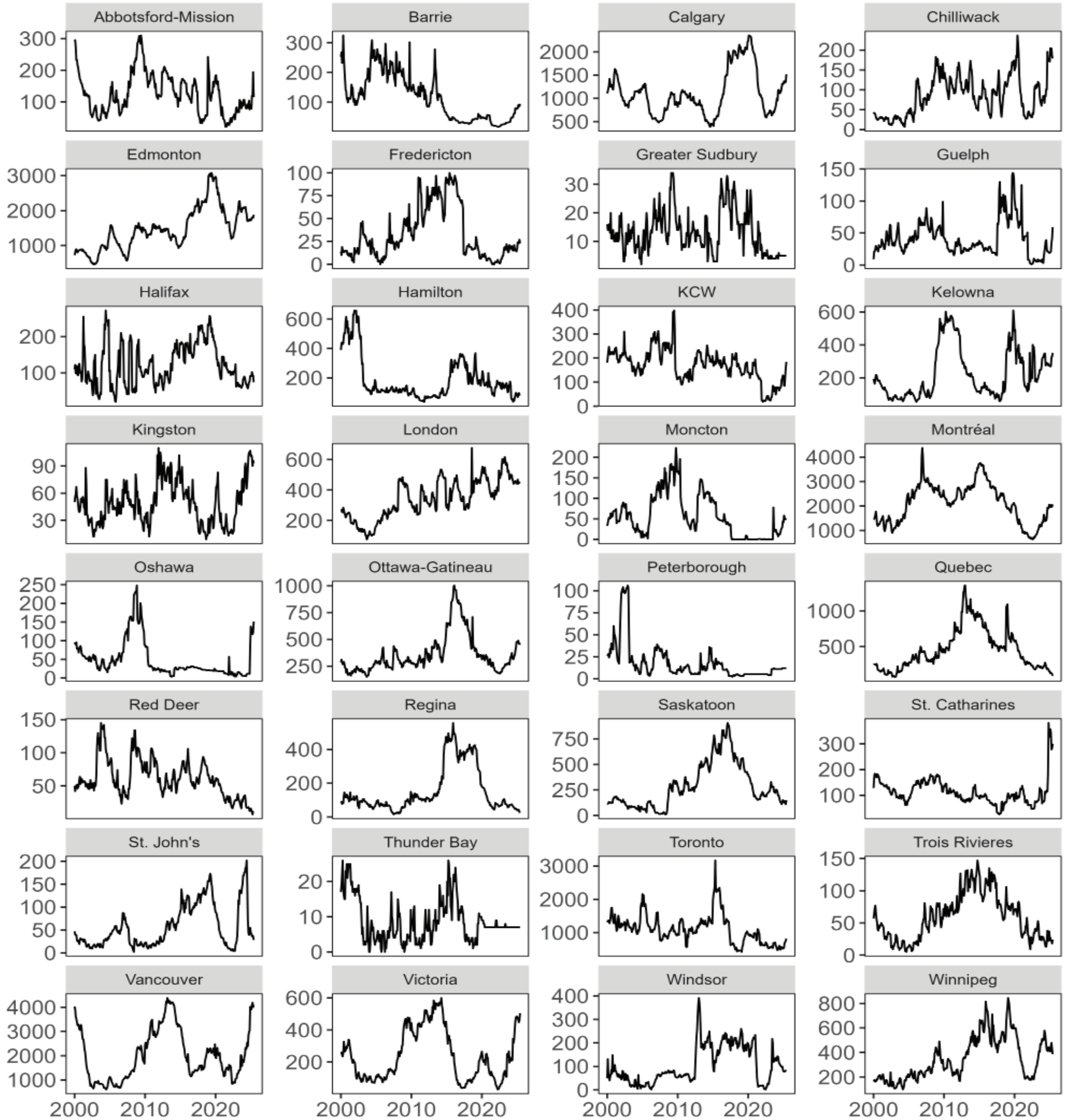
Appendix Chart A4: CMHC Rental Universe Change and Rental completions units by select Metro

Last data point: 2024



## New and unoccupied units by select Metro

Last data point: 2025-06-01




### Terms



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