

Ontario Rental Market Study Update

Revisiting the Rental Demand & Supply Outlook in 2022 and Beyond



URBANATION



Federation of Rental-housing
Providers of Ontario

May 2022

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ABOUT FRPO

Since 1985, the Federation of Rental-housing Providers of Ontario (FRPO) has been the voice of Ontario's rental housing industry and the leading advocate for quality rental housing. The Federation of Rental-housing Providers of Ontario is the largest association representing those who own, manage, build and finance, service and supply residential rental homes in Ontario. We have led the rental housing industry in Ontario for over 30 years, offering public advocacy, representation and promotion, industry research, standards and best practices, education and training along with marquee industry events and awards.

ABOUT URBANATION

Urbanation is a real estate consulting firm that has been providing market research, in-depth market analysis and consulting services to the condominium and rental housing industry since 1981. Urbanation uses a multi-disciplinary approach that combines empirical research techniques with first-hand observations and qualitative information gathered through relationships built within the industry over the past 40 years. Urbanation's subscription-based reports monitor the new condominium and rental markets in the Greater Toronto Hamilton Area and the Ottawa CMA. Urbanation also actively conducts customized research and market feasibility studies across the country for both condominium and purpose-built rental apartment projects. Urbanation's clients include the GTA's largest developers as well as mid- and smaller-scale real estate organizations, institutional investors, major lenders, government agencies, and a variety of service providers.

EXECUTIVE SUMMARY

- In light of changing market dynamics following COVID-19, Urbanation and FRPO undertook a study that presents an updated assessment of current conditions and the outlook for rental demand and supply in Ontario. The updated study concluded that under the current regulatory environment and growth trajectory for rental construction in the province, the projected gap between rental housing demand and new supply delivered from purpose-built units and secondary condo rentals will grow to approximately 236,000 units over the next 10 years.
- Despite purpose-built rental completions having increased by 65% over the past five years to a more than 30-year high in 2021, vacancy rates in Ontario for purpose-built rentals completed within the last 40 years fell back below a neutral level of 3% last year. Meanwhile, condo rentals, which continued to represent the majority of new rental supply, reported a vacancy rate below 2% for the eighth straight year. This occurred as employment expanded to beyond pre-pandemic levels, population growth moved back above its 10-year average, and homeownership affordability eroded significantly following a more than 40% increase in housing prices over the past two years. In particular, rental markets in Ontario that experienced relatively strong population growth during the pandemic were not equipped with enough supply, causing further vacancy rate compression and strong upward pressure on rents.
- Over the last 10 years, it is estimated that Ontario has accumulated a supply deficit totaling over 66,000 purpose-built and condominium rentals.
- While the pace of new rental construction starts in the province has doubled over the past five years to reach over 13,500 units in 2021, purpose-built rentals continue to represent a small share (15%) of total housing starts in the province. Ontario has among the lowest number of per capita purpose-built rental units under construction in the country. Even accounting for its large number of condo rentals, total per capital rental construction in Ontario ranks below BC, Quebec, and Nova Scotia.
- The latest outlook is for rental demand in Ontario to grow by approximately 26% or 478,000 units over the 2021-2031 period. This growth is mainly the result of upwardly revised population growth projections calling for an expansion of well over two million persons in the next decade, combined with declining rates of homeownership.
- The expansion of Ontario's rental supply pipeline has continued to make important progress. At over 25,000 units, the number of purpose-built rentals under construction in Ontario as of year-end 2021 was up 112% compared to five years earlier. In the three-year period since rent control was removed for new units, the inventory of proposed rentals in the GTHA grew by over 56,000 units (122%). But even under a scenario where construction starts double in 10 years, rental apartment supply from purpose-built units and secondary condominiums is projected to fall short of demand by over 200,000 units. Accounting for potential supply contributions from other secondary rental supply sources, an estimated 100,000 additional purpose-built rentals above and beyond what is already in the pipeline will be needed to satisfy demand over the next decade. This is in addition to the 62,000 units currently in deficit.

INTRODUCTION

Background Information

Since 2017, Urbanation has been working with FRPO to prepare studies providing a framework for measuring the demand and supply of rental housing in Ontario, estimating the supply gap in the marketplace for rental units, and determining the current and future requirements for new purpose-built rental development across the province.

The latest study, completed in 2019 and updated in summer 2020, estimated that the demand for rental housing in Ontario grew to an average of 40,000 units annually in the five years prior to the start of the pandemic, which was more than double the amount of supply delivered from purpose-built rentals and secondary condominium rentals. At the same time, rental housing construction starts increased to a multi-decade high and development proposals for new rental projects were expanding quickly. However, even under the improved outlook for rental supply, it was projected that Ontario will be underbuilding rental housing by a magnitude of over 20,000 units per year during the 10-year period to 2031.

While recent government policies to encourage more rental development, such as rent control exemptions for new units, deferrals and installment payments for development charges, unlocking public land for development, and low-cost construction financing, have arguably aided in expanding the rental supply pipeline, it was determined that more incentivization was needed to close the gap with demand. This was particularly true for lower-priced markets, which have deeply lagged in terms of new supply and often face more challenging economic circumstances to develop new rentals. To that end, Urbanation undertook an exercise that identified 950 existing purpose-built rental sites in the GTHA that were highly likely to accommodate infill development without necessarily incurring land acquisition costs, potentially adding more than 150,000 units to the market that could help close the projected supply deficit.

Urbanation was again retained by FRPO to provide a current assessment of rental market conditions approximately two years after the start of COVID-19, with updated demand and supply projections over the next 10 years given recent changes to the outlook. The intention of these studies is to raise awareness of the present and future expected factors impacting Ontario's rental market, and the resulting need to target a greater amount of rental construction to meet the expected level of demand in the marketplace.

Other Housing Studies

As housing in Canada, and particularly Ontario, has become increasingly more expensive and less affordable, a number of studies have been produced that address the demand and supply imbalance in the market.

RBC Economics

Big City Rental Blues: A Look at Canada's Rental Housing Deficit, Sep 2019

- Among major Canadian markets, Toronto had the largest existing rental housing deficit as of year-end 2018 at 9,100 units (actual rental stock minus rental units needed to reach a 3% vacancy rate).
- Strong in-migration and the high cost of owning will lead to a projected average of 22,200 renter households per year in Toronto between 2019 and 2023.
- Rental supply being delivered from newly completed purpose-built and secondary condominiums left total newly built units representing less than half of the rental stock needed to close the supply gap.
- The pace of new rental supply must double in Toronto to meet future demand.

Scotiabank Global Economics

Estimating the Structural Housing Shortage in Canada, May 2021

Which Province Has the Largest Structural Housing Deficit? Jan 2022

Census Confirms Progress on Housing Supply Remain Elusive, Feb 2022

- Canada has the lowest number of housing units per 1,000 residents among G7 countries.
- Per capita housing stock has been declining in Canada since 2016 due to the sharp rise in population growth. To keep the population/housing ratio stable, approximately 100,000 units should have been built between 2016 and 2020.
- To achieve the G7 average level of housing supply to population, an additional 1.8 million homes are needed in Canada.
- Ontario has one of the lowest number of homes per capita relative to other provinces in Canada, requiring over 650,000 homes for its ratio of dwellings to population to equal the national average.
- Despite rising housing starts and numerous efforts across the country to address supply, the size of the housing shortage relative to the population's needs will continue to put upward pressure on prices and rents and reduce affordability.

Smart Prosperity Institute

Baby Needs a New Home, Oct 2021

- An acceleration in population growth from 600,000 in the five years to 2016 to one million in the five years to 2021 in Ontario caused a housing supply deficit of approximately 65,000 units.

- Ontario Ministry of Finance projects that the provincial population will increase by more than two million over the next 10 years to 2031, which will result in demand for over 900,000 homes.
- In order to close the current housing supply deficit and accommodate new housing demand, an additional one million homes need to be built in the next 10 years.
- Over the same period, net new high rise apartment households are projected to total approximately 195,000.

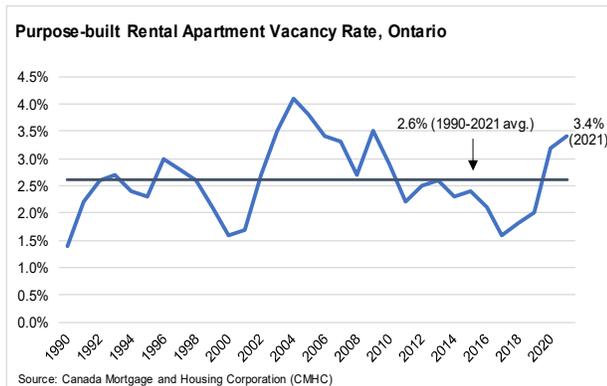
**Ontario Housing Affordability Task Force
Report of the Housing Affordability Task Force, Feb 2022**

- Ontario must build 1.5 million homes over the next 10 years to address the supply shortage, catch up to the rest of Canada and keep up with population growth.
- The goal of 1.5 million homes reflects both the need for new supply and what is possible. Throughout the 1970s, Ontario built more housing units each year than it does today.
- In order to succeed in achieving this goal, a set of 54 recommendations were put forth that include allowing greater density, reducing and streamlining urban design rules, depoliticizing the approvals process, and rewarding municipalities that commit to growing housing supply.
- Recommendations specific to encouraging more purpose-built rental development include indexing the HST rebate, aligning property taxes with those of condos and low-rise homes, and providing provincial and federal loan guarantees for new development.

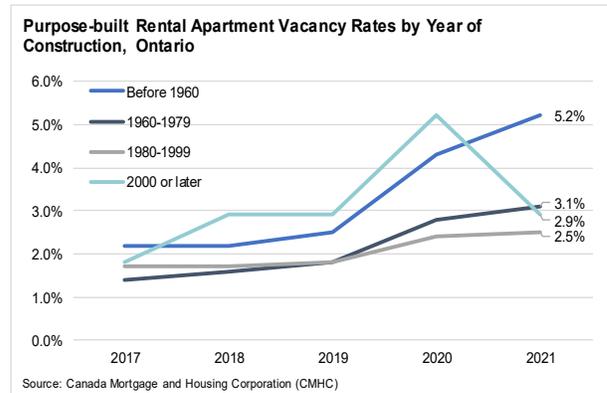
ONTARIO RENTAL MARKET UPDATE

Current Rental Market Conditions

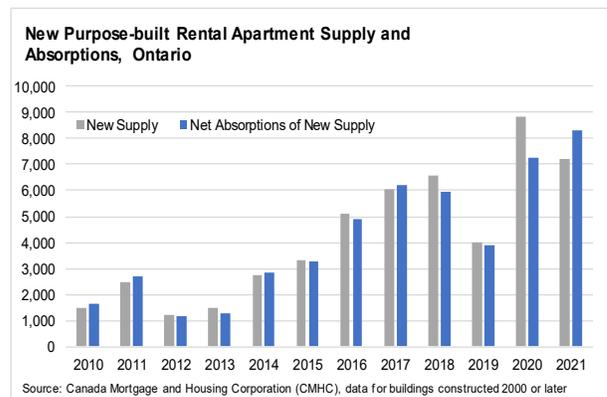
The latest rental market data release from Canada Mortgage and Housing Corporation (CMHC) reported an average vacancy rate of 3.4% as of October 2021 for purpose-built rental apartments in Ontario, edging up from 3.2% in 2020 to reach a 12-year high. While vacancy rates in the 3% range are believed to represent a neutral level, they mark a deviation from vacancy below 2% in the 2017-2019 period leading into the pandemic and the long-term average of 2.6% averaged since 1990.



However, in examining the data by construction period, virtually all of last year's increase in vacancy came from buildings completed more than 40 years ago, with the oldest stock built prior to 1960 seeing vacancy rise to a more than 30-year high of 5.2%. This can be connected to the pandemic, which slowed the inflow of new immigrants and non-permanent residents, many of whom gravitate towards lower-cost housing options, and also caused an unbalanced negative impact on employment for lower-income service sector workers. It may also be the case that rental operators have used the opportunity of higher tenant turnover during the pandemic to invest in unit upgrades.

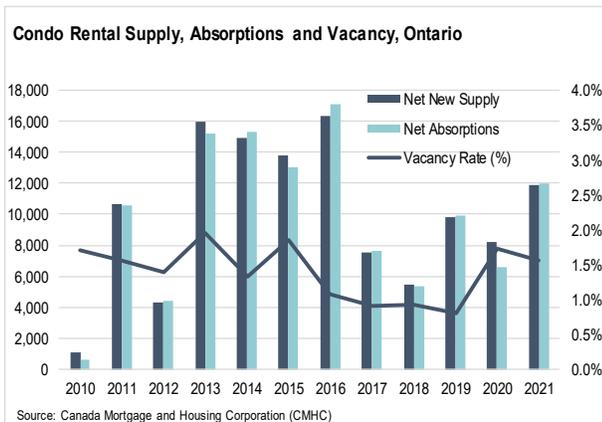


Despite the headline increase in vacancy and notable growth in newly completed purpose-built rentals in recent years, demand for new units outpaced new supply in 2021 as the 8,326 units absorbed exceeded the 7,192 units that entered the market, pushing vacancy rates back down to their pre-pandemic level of 2.9% for buildings completed in 2000 or later. Five-year growth in new purpose-built rental supply to 2021 totaling 32,707 units was met by an almost equivalent amount of demand totaling 31,627 units absorbed on a net annual basis.

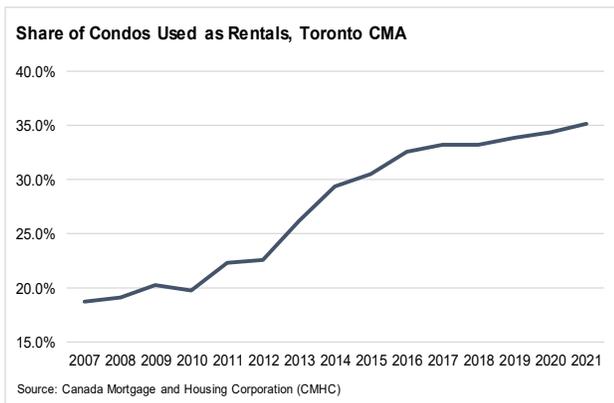


Annual increases to Ontario's purpose-built apartment stock have risen towards the level of rental supply additions from condominiums, which have generally slowed in recent years. In 2021, the stock of condos used as rentals increased by 11,915 units, a five-year high but remaining well

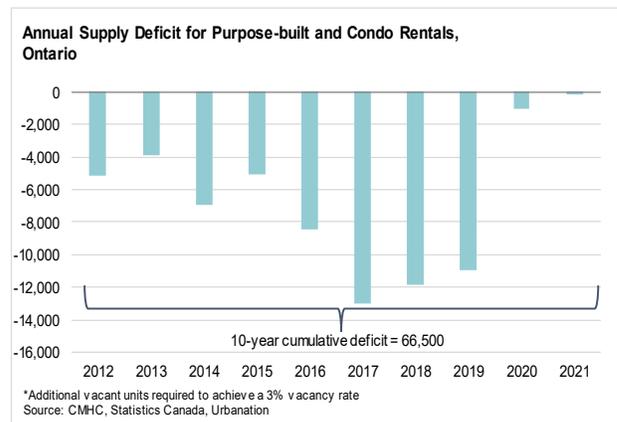
below the average annual increase of 15,231 units between 2013 and 2016. Demand for condo rentals edged out new supply last year with 11,993 net units absorbed, holding vacancy rates below 2% for the eighth straight year. When facilitated through supply, condo rental absorptions have shown the ability to reach over 17,000 units (2016).



In Toronto, where the bulk of condo rentals are concentrated, the share of condos used as rentals has generally plateaued in recent years (reaching 35% in 2021). As Urbanation and CIBC reported, nearly 40% of investors of newly completed condos in 2020 were cash flow negative, a share that is sure to rise given that condominium price growth has been strongly outpacing rent increases, not to mention interest rates that are moving higher. This creates a greater incentive for existing individual investors to sell, and limits the ability for investors of newly completed condos to hold their units as rentals, leading the investor share of condos to continue flattening or potentially decline over time.

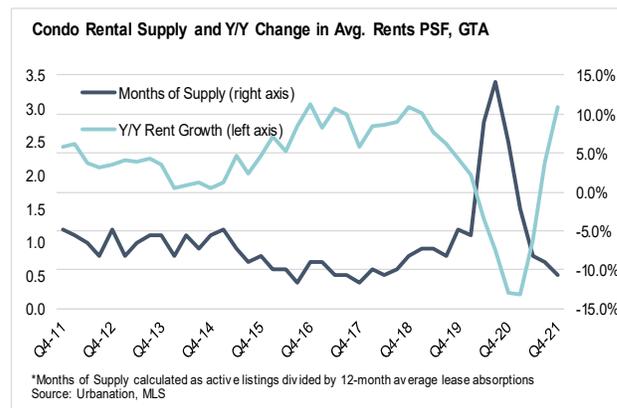


As it stood in 2021, the province amassed a 10-year cumulative rental supply deficit of over 66,000 units, as measured by the number of additional units (purpose-built and condo rental) required to bring the market to a structurally balanced state of 3% vacancy. This can be considered a low estimate, as new supply can satisfy pent-up demand and also induce new demand, requiring many more units to be built.



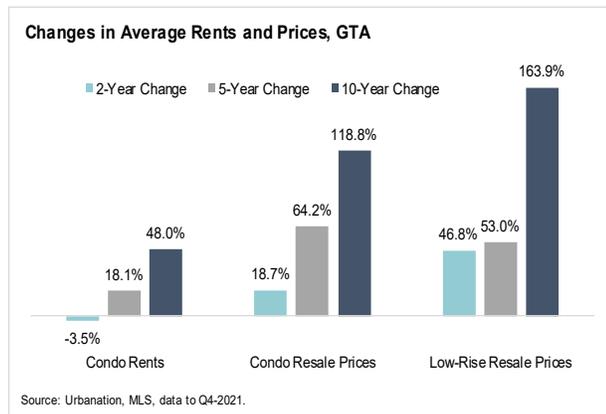
Rent Growth & Affordability

Since the vast majority of purpose-built rentals in the province are subject to rent control (i.e. units built pre Nov 2018), and there is a lack of historical data on rental rate increases for units that experience turnover in the market, the most accurate data for true market rent changes is reflected in Urbanation's tracking of lease transactions for condominium rentals. Here there is a clear inverse relationship between supply conditions and rent inflation. In other words, more supply helps satisfy demand and slow rent increases across the entire market, which should be the primary goal.



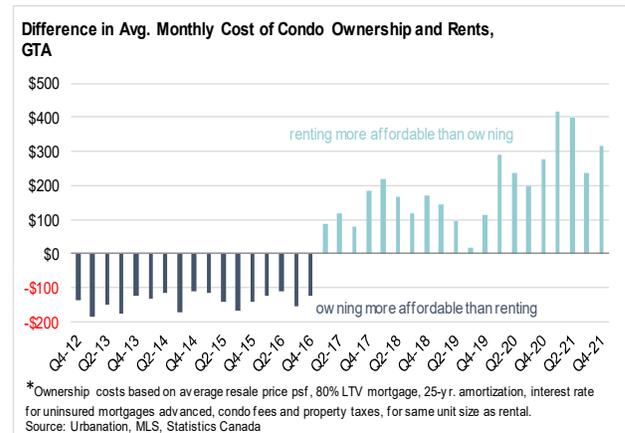
Indeed, the drop in rents experienced during 2020 proved to be focused in central areas of Toronto due to temporarily high turnover and slower demand mainly caused by office and post-secondary school closures. The decline was ultimately a blip as rents nearly fully recovered in 2021 as supply once again tightened. But even with the lack of growth over the past two years, the 10-year average annual rent increase at 4.2% has exceeded income growth over the same period due to the structural supply deficit, worsening rental affordability.

Still, years of relatively stronger housing price growth has created the largest affordability advantage for renting over owning seen in decades. This is expected to shift demand into rental housing with even more force than during the pre-pandemic period, causing further stress on supply and upward pressure on rents.



As an example, condo resales, the most affordable ownership option in the GTA, have increased in price more than twice as fast as rents over the last decade and three times faster over the past five years. When comparing equivalent units sold and leased, condo ownership costs were more than \$300 a month higher than rents – a gap that will quickly enlarge with higher interest rates. By default, renting will continue to be the only option for most younger households. The challenge will be ensuring

there is adequate rental supply so rents can rise in line with incomes.

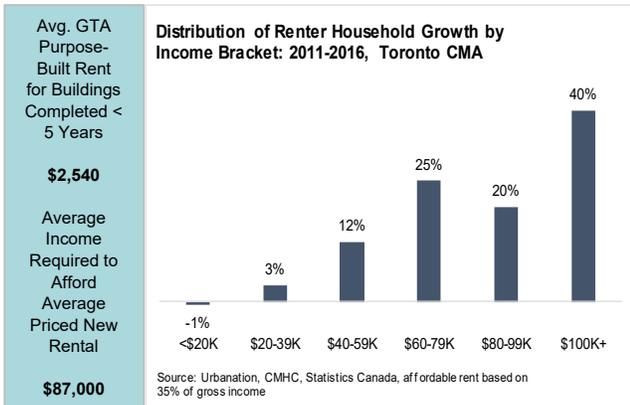


At an average rent level of \$2,540 for buildings completed within the past five years, new purpose-built rentals are the most affordable market-rate housing being built in the GTA, requiring an average income of \$87,000. By comparison, the average resale condo requires a qualifying income level of \$128,000 (\$200,000+ for low-rise homes).¹ While rents for new purpose-built units are considered unaffordable relative to the average renter household income (est. \$67,000)², the reality is net new demand is primarily driven by higher-income renters. The majority (65%) of growth in renter households between 2011 and 2016 was derived from those earning over \$80,000. Demand has likely shifted even further into the higher income range in more recent years due to the creation of higher-paying jobs, rising economic class immigration, and would-be first-time buyers being driven towards renting due to affordability issues.

¹ Affordable rent level based on 35% of gross income. Monthly ownership cost for condos based on Q4-2021 average resale price, 20% down payment, 3% interest rate, 25-year mortgage, and including condo fees and

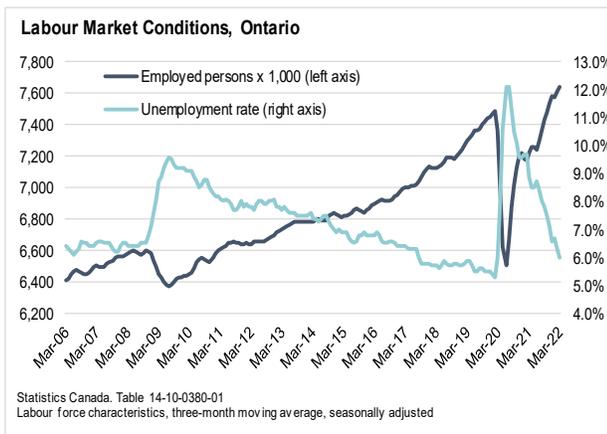
property taxes. Ownership qualifying income based on 39% GDS ratio, and Bank of Canada qualification rate.

² Projected 2021 average renter income based on 2016 Census average of \$60,000 and historical growth rates.



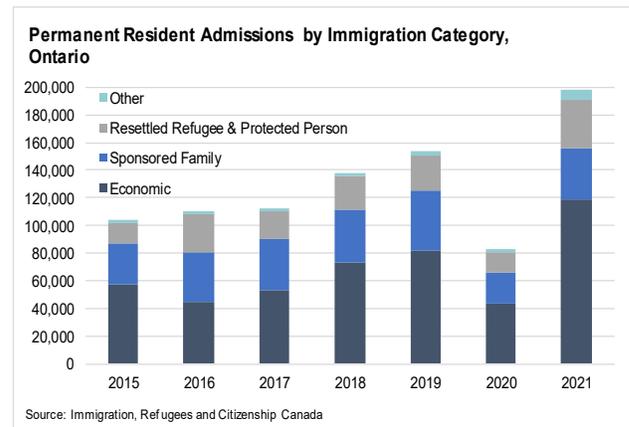
Demand Drivers

The growth in rents and renter incomes has been supported by a strong labour market in Ontario, which experienced a full recovery from COVID-19 during 2021. As of Q1-2022, the level of employment in the province was about 150,000 positions greater than the high reached prior to the start of the pandemic, with an unemployment rate of 6.0% converging towards historic lows. What's more, employment growth has been concentrated in higher-paying sectors such as finance, real estate, professional services, health care, and public administration. Top tech markets in Toronto, Ottawa, and Waterloo rank amongst the most attractive regions in North America for new investment and top-tier talent.

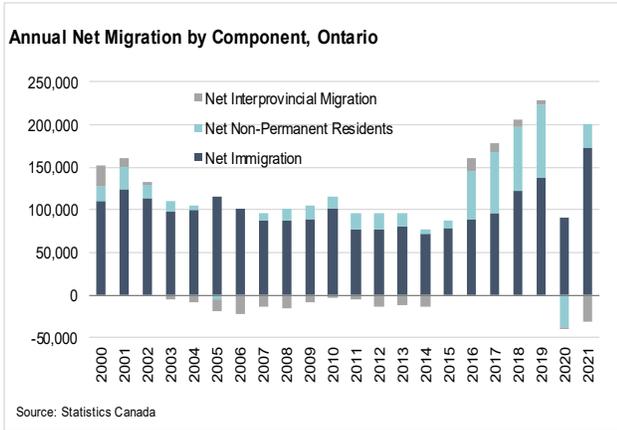


As the government embarks on an expansive immigration policy in the coming years, Ontario will be the primary beneficiary of Canada's increased

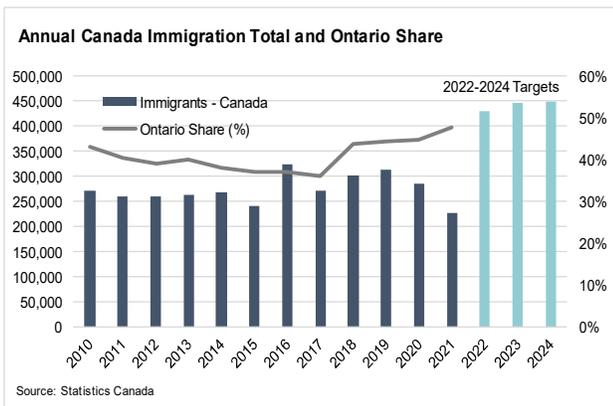
population growth, thanks to its established base of international residents and plentiful economic opportunities. Furthermore, newcomers, the majority of which are renters, will be equipped with greater income-earning potential than in the past. Of the record high 198,330 permanent resident admissions for Ontario in 2021, which surpassed the previous high in 2019 by 29%, a record 60% were classified as economic immigrants and a 44% share were part of the Canadian Experience Worker Program, rising from a 13% share in 2019.



The surge in permanent resident admissions should lead to record population inflows into the province. In fact, the recovery from COVID-19 was already well underway during 2021 as net migration of just under 170,000 last year was more than three times higher than the 2020 low of approximately 50,000 and 48% above the 20-year average (114,000). As international travel continues returning towards pre-pandemic levels, the province looks to fill labour market gaps with international workers, and post-secondary schools fully reengage in-class learning, Ontario can also be expected to experience a recovery in non-permanent resident inflows, which will add to the record high of nearly 300,000 foreign students with valid study permits as of year-end 2021. This should offset any further net population outflows to other provinces, a trend that needs to be addressed partly through better access to rental supply.



The coming population boom has been clearly telegraphed by the federal government, which has put forth national immigration targets of 431,000 to 451,000 between 2022 and 2024, effectively doubling the intake from 2021. With Ontario's share of national immigration rising towards 50%, the next three years could see immigration to the province total roughly 665,000 or more.



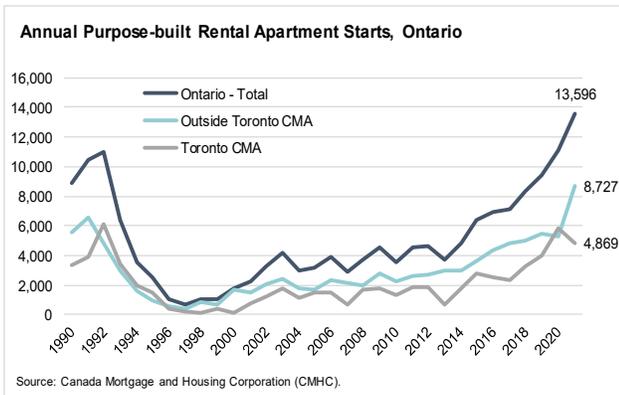
The lesson learned in recent years is that planning ahead for the population's impact on the housing market has never been greater. Both international inflows and net internal migration have become more important and more widespread across the province, due to affordability issues and changes in preferred living environments brought on by the pandemic. Between the last two Census periods in 2016 and 2021, a 65% share of Ontario's population growth occurred outside of the Toronto CMA, up from a 42% share between 2011 and 2016. This came with an explosion in housing prices outside of Toronto. Uncoincidentally, markets in

Ontario with high rates of population growth and limited rental stock tended to have relatively low vacancy rates, placing strong upward pressure on rents in more affordable markets and illustrating the need for new rental housing in both large and small regions across the province.

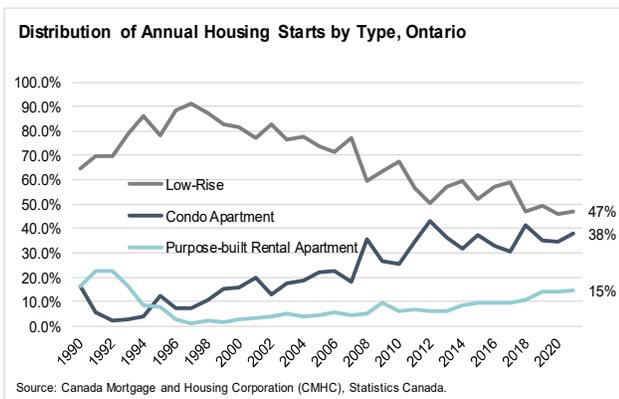


Supply Outlook

The good news is that with rental demand on the rise, supply is also expanding. Purpose-built rental apartment starts in Ontario increased for the eighth straight year in 2021 to 13,596 units – nearly doubling the pace from five years ago to reach a more than 30-year high. Notably, markets located outside of the Toronto CMA in Ontario saw rental starts surge 65% annually last year while rental starts in the Toronto CMA experienced a 16% decline. This growth in rental construction is an important development for smaller markets suffering from low vacancy, but the setback for Toronto leaves Ontario's largest recipient of immigration and least affordable market vulnerable to a further supply crunch.

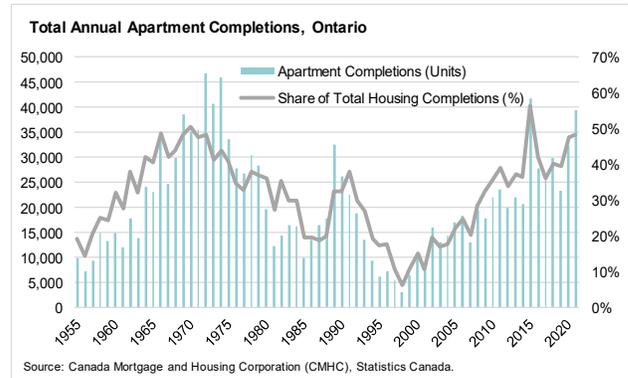


It's also true that purpose-built rental construction continued to represent a relatively small component of overall housing development in Ontario. The province's rental apartment share of total housing starts at 15% in 2021 more than doubled the 7% share from 10 years ago, but remained at less than half the condo apartment share at 38% and below levels seen in the early 1990s. With 50% or less of new condominiums across the province typically entering the rental market, the overall share of housing construction in Ontario represented by rentals is no more than one-third. This is problematic as more than half of housing demand is estimated to come from renters. Furthermore, the share of low-rise construction has trended down to historic lows, which will continue to limit supply and place upward pressure on housing prices, reducing ownership affordability and contributing to increasingly higher shares of housing demand directed to the rental market.



Rising construction for both condos and rentals brought total apartment completions to nearly

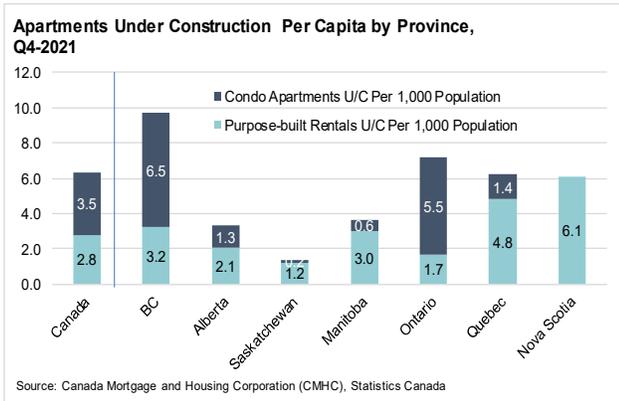
40,000 units in 2021. Although the current level of development is causing resource constraints, there should theoretically be further capacity to grow supply based on long-term historical data. Completions were proven to exceed 40,000 units per year back in the early 1970s, almost all of which were rentals. The ability to respond to supply chain issues and skilled labour shortages will be key for the industry to maintain its current growth trajectory.



Condominiums continue to play an integral role in delivering lower-cost housing, and development intensification of all forms will remain an important component of any supply strategy. However, the insufficient quantity and non-permanent nature of investor-owned condo rentals means that purpose-built apartments need to become the dominant source of new rental supply in the province.

As it stands, Ontario has one of the lowest numbers of purpose-built rental apartments under construction per capita in Canada. In order to achieve the national average of 2.8 rentals under construction per 1,000 population, the number of purpose-built rentals under construction in Ontario would need to rise by 65% from its current level of 25,317 units. Although Ontario has an above average number of per capita condos under construction, only a portion of this supply is intended for the rental market (50% or less), leaving the province's total effective rentals under construction below Quebec, Nova Scotia and BC. In order to reach the total level of condo and rental apartments per capita under construction in BC (9.7 per 1,000),

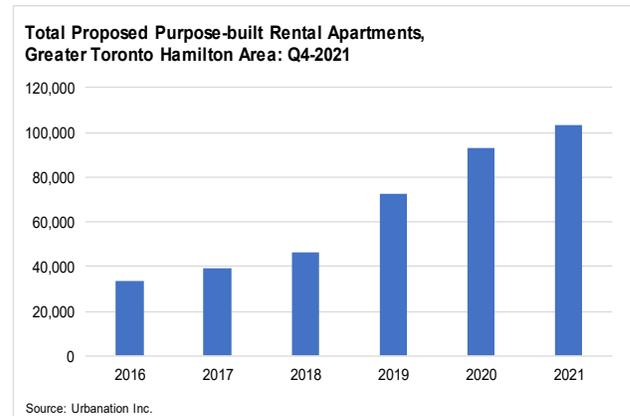
Ontario’s rental development pipeline would need to expand by 150%.



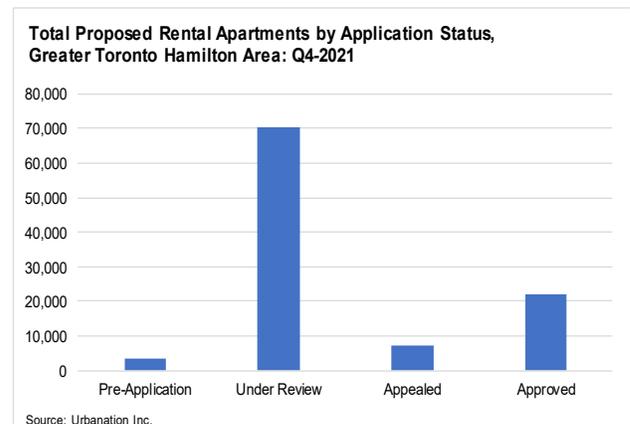
While the province continues to face an uphill battle against quickly growing demand, there are reasons to be optimistic as important progress has been made towards increasing supply. In examining data monitored by Urbanation, the total inventory of proposed rentals in the GTHA that have not yet begun construction has grown threefold over the past five years, reaching a total of over 100,000 units. Proposals for new rental developments leaped by 56% between 2018 and 2019 following the removal of rent control for newly built units, gaining a further 42% over the past two years for a cumulative three-year increase of 56,500 units.

In Urbanation’s previous study for FRPO, a total of approximately 950 existing rental sites were identified in the GTHA that could accommodate infill development with a potential of adding over 175,000 new units. In the two-year period from when the study was completed, the proposed

inventory of infill rental units increased by 39% to reach 20,556 units – marking strong progress but still well below potential.



The challenge ahead lies in continuing to grow supply given economic constraints, ensuring that supply is appropriately distributed across the province, and allowing projects to efficiently move through the approvals process. As of Q4-2021, only 21% of proposed rentals were approved, with nearly 70% in the review process.

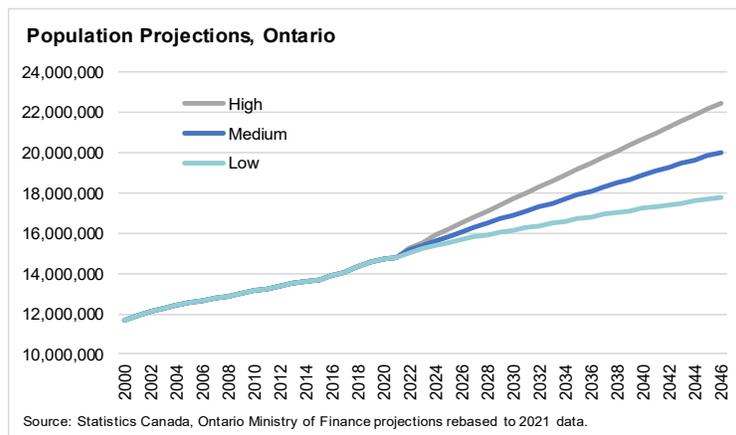


ONTARIO RENTAL SUPPLY GAP PROJECTIONS

Rental Demand Projections

The primary assumptions used for updating the rental demand projections for Ontario were derived from the latest population forecasts published by the Ontario Ministry of Finance. The published forecasts, which were applied to 2020 population data, were rebased by Urbanation to 2021 data subsequently made available. Three population growth scenarios were presented, with the medium-growth (“reference”) scenario considered most likely to occur if recent trends continue, and the high- and low-growth scenarios providing a plausible forecast range.

Under the medium-growth scenario used for this exercise, Ontario’s population is projected to increase by 15.3% (+2.27 million persons) over the next 10 years to 2031, accelerating from the 11.8% (+1.56 million persons) growth registered in the past 10 years to 2021. While not the focus of this study, the 10-year period from 2031 to 2041 is projected to see a population increase of 11.5% (+1.97 million) under the medium growth scenario. Of importance, the medium growth scenario can be considered conservative as the forecast was published prior to the latest increase to Canada’s immigration targets for the next three years and also assumes relatively slow growth in net non-permanent residents compared to data recorded in recent years. Both of these factors would presumably lead to an underestimation for population growth and rental housing demand.



Applying the medium population forecast, rental housing demand projections for Ontario were made using the following key assumptions:

- Total household formation is based on total private dwellings as reported through the Census (net of estimated market-level vacancy), as opposed to lower estimates of private dwellings only occupied by usual residents. The former is better aligned with reporting for annual population estimates while the latter undercounts actual households and housing demand.
- Total projected households are a function of population forecasts and average household size. The latter is assumed to continue its longer-term downward trend to average 2.50 over the projection period, a reasonable assumption given the rising share of new housing represented by apartments and growing share of young adults among new immigrants.

- The homeownership rate is assumed to have edged down from the 2016 estimate of 70% to 69% in 2021, and is projected to continue declining to 66% by 2031 due to demographic shifts, housing development trends, and deteriorating homeownership affordability.

Using this framework, net rental household formation is projected to total approximately 478,000 units over the next 10 years, representing a 26% increase in the total number of renters and a 57% increase over net rental household formation occurring during the 2011-2021 period (325,458).

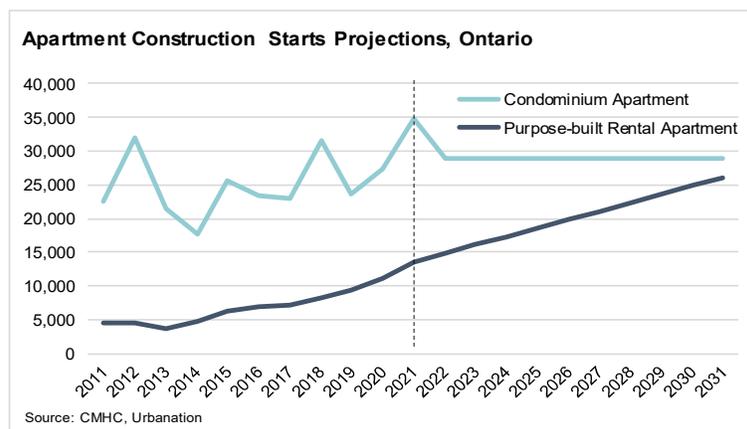
Rental Housing Demand Projections: Ontario

Period	Totals at Period End		
	Population	Households	Renter Households
2016	13,875,394	5,489,222	1,656,289
2021	14,826,276	5,822,524	1,804,982
2026	16,080,432	6,316,394	2,021,246
2031	17,095,535	6,715,126	2,283,143
Period	Total Net Change between Periods		
2011-2016	614,013	286,613	176,766
2016-2021	950,882	333,301	148,693
2021-2026	1,254,156	493,870	216,264
2026-2031	1,015,103	398,732	261,897
2011-2021 Change	1,564,895	619,914	325,458
2021-2031 Change	2,269,259	892,603	478,161

Source: Statistics Canada, Urbanation

Rental Supply Projections

Similar to the population projections, the reference scenario for supply is based on recent trends. It is assumed that purpose-built rental apartment construction starts will continue to steadily rise over the next 10 years to reach approximately 26,000 units in 2031 – effectively double the current pace of construction starts. The 2022-2031 forecast period is projected to average approximately 20,500 purpose-built rental apartment starts per year, reflecting aggressive growth assumptions from the prior decade’s average of less than 8,000 starts. For condominiums, annual starts are projected to average 29,000 units per year, maintaining the latest three- and five-year averages and levelling out as an increasing share of apartment development is directed to rentals.



Applying these forecasts for apartment construction, projections for rental housing supply growth for Ontario were made using the following key assumptions:

- Completions (i.e. new supply deliveries) will lag construction starts by two-to-three years, reflecting the current average length of construction for apartments in Ontario. This will result in approximately 178,500 new purpose-built completions in the next 10 years, 2.6 times greater than the number of units completed between 2012 and 2021.
- The majority of the approximate 100,000 proposed purpose-built rentals in the GTHA will be built in the next decade, representing about half of total new rental completions in the province (slightly below the latest five-year average).
- The net increase in purpose-built rental stock is projected at an 80% rate of completions, which is consistent with recent ratios of completions-to-net stock change and accounts for removals of existing rental stock.
- Condominium rental supply, last reported in the 2016 Census at approximately 157,000 units or 34% of the total condo stock, was estimated at 210,000 units by adding condo completions to 2021 and using an assumed 37% share of the stock used as rentals as of 2021 (consistent with the reported rise in shares at the CMA level by CMHC). Projections in condo rental supply to 2031 are based on forecasted condo construction starts and completions and a percentage of units used as rentals that gradually reduces to 36%. This reduction assumes lower returns on investment for individual investors and increased competition from the purpose-built market.
- Changes in rental supply from other secondary sources (i.e. houses, flats, basement apartments) are not considered due to a lack of available data. Short-term rentals are not included in the calculations.

Using this framework, net new rental supply is projected to total 242,000 units over the next 10 years, comprised of nearly 143,000 net new purpose-built rentals (more than three times the quantity added between 2011 and 2021) and 99,000 net new condominium rentals (slowing from the 108,000 units added between 2011 and 2021).

Rental Apartment Housing Supply Projections: Ontario			
Total Stock at Period End			
Period	Total Rental Apt	Purpose-built	Condo Rental
2016	829,747	672,837	156,910
2021	919,682	709,341	210,341
2026	1,028,723	767,747	260,975
2031	1,161,732	852,131	309,600
Period	Total Net Change between Periods		
2011-2016	65,233	10,403	54,830
2016-2021	89,935	36,504	53,431
2021-2026	109,041	58,406	50,635
2026-2031	133,009	84,384	48,625
2011-2021 Change	155,168	46,907	108,261
2021-2031 Change	242,050	142,790	99,260

Source: Statistics Canada, Urbanation

Supply Gap Projections

Under the medium growth scenario for rental housing demand and a relatively aggressive scenario for new rental supply, demand and supply are projected to grow roughly in line in percentage terms over the next decade. However, in terms of quantity, demand for new rental apartments is projected to outweigh new supply by approximately 236,000 units. This represents a 39% increase in the estimated gap of 170,000 units measured between 2011 and 2021.

New Rental Supply Gap: Ontario

	2011-2021	2021-2031
Total Net New Rental Demand	325,458	478,161
Total Net New Rental Supply	155,168	242,050
Supply Gap	170,291	236,111

Additional 100,000 Rental Units Needed

By definition, the calculated rental supply gap overstates the actual rental supply deficit in the marketplace. This is because demand is measured across the entire population for all forms of rental housing, while new supply is measured exclusively through the channels of purpose-built rentals and condominiums. As last reported in the 2016 Census, purpose-built rentals and condominiums accounted for a 53% share of total rental households in Ontario and a 46% share of the net change in renter households between 2006 and 2016. Therefore, it is reasonable to assume that a large share of the estimated rental supply gap will be satisfied through other secondary market rentals such as houses, flats, basement apartments and other accessory suites.

However, given that rental vacancy rates were well below the 3% neutral rate for most of the past 15 years, it can also be assumed that rental supply from other secondary sources was insufficient to close the gap with demand. It's also important to note that changes in secondary rental market supply are subject to a high degree of uncertainty, are dependant on market conditions, and not considered permanent.

Assuming over the next 10 years that rental supply from other secondary sources increases at the same rate as during the 2006-2016 period (133,000 net units), the supply gap will reduce to approximately 100,000 units over the 2021-2031 period. Otherwise said, an additional 100,000 purpose-built rentals are needed above and beyond what is projected to be delivered under the current trajectory in order to close the supply gap. Effectively, this means that the goal should not be to double the pace of rental construction in 10 years, but rather within the next few years.

CONCLUSION

The province of Ontario has made impressive progress in growing its pipeline of future rental projects in recent years, which can be partly credited to specific policies put in place to encourage more rental development. However, the outlook for rental demand tells us that much more work will need to be done to ensure there is sufficient supply in the market over the next decade and beyond. Given the long lead time from planning to construction to delivery of new units, it's important for this work to begin immediately. Adding a minimum of 100,000 rental units into the pipeline won't be easy, requiring a strategic, coordinated effort from all levels of government. Never before has housing affordability and the need for more housing supply been a bigger issue for the province, and increasing rental construction is one of the most viable ways to address the crisis. While the purpose of this report is not to provide specific policy recommendations, it can be broadly stated that a focus on alleviating the economic and planning-related barriers to building new rentals and ensuring there is a sufficient quantity of labour for the industry to deliver on the projected supply target are needed.

Data Limitations and Note to Readers

The analysis and projections contained herein have been prepared on the information and assumptions set forth in this report. However, components of this report were built on information from secondary sources and Urbanation cannot guarantee the accuracy of this data. Moreover, it is not possible to fully document all factors or account for all changes that may occur in the future.