



Catalogue no. 63F0002XIE — No. 052

ISSN: 1481-6466

ISBN: 978-0-662-46061-9

## Research Paper

Analytical Paper Series — Service Industries Division

# Changes and Challenges for Residential Real Estate Lessors

by Louis-Philippe Verenka and Don Little

Service Industries Division  
10th Floor, Jean Talon Building, Ottawa, K1A 0T6

Telephone: 613-951-0410



Statistics  
Canada

Statistique  
Canada

Canada

**Analytical Paper Series - Service Industries Division**

**Changes and Challenges for Residential Real Estate Lessors**

by

Louis-Philippe Verenka and Don Little

**63F0002XIE No. 052**  
**ISSN: 1481-6466**  
**ISBN: 978-0-662-46061-9**

**Service Industries Division**  
**10th floor, Jean-Talon Building, Ottawa, K1A 0T6**

**How to obtain more information :**  
Telephone: 613-951-0410  
Fax: 613-951-6696  
E-Mail inquiries: [servicesind@statcan.ca](mailto:servicesind@statcan.ca)

May 2007

Published by authority of the Minister responsible for Statistics Canada

© Minister of Industry, 2007

All rights reserved. The content of this electronic publication may be reproduced, in whole or in part, and by any means, without further permission from Statistics Canada, subject to the following conditions: that it be done solely for the purposes of private study, research, criticism, review or newspaper summary, and/or for non-commercial purposes; and that Statistics Canada be fully acknowledged as follows: Source (or "Adapted from", if appropriate): Statistics Canada, year of publication, name of product, catalogue number, volume and issue numbers, reference period and page(s). Otherwise, no part of this publication may be reproduced, stored in a retrieval system or transmitted in any form, by any means—electronic, mechanical or photocopy—or for any purposes without prior written permission of Licensing Services, Client Services Division, Statistics Canada, Ottawa, Ontario, Canada K1A 0T6.

La version française de cette publication est disponible sur demande (n° 63F0002XIF au catalogue).

# ***Changes and Challenges for Residential Real Estate Lessors***

*By Louis-Philippe Verenka and Don Little, Services Industries Division*

Everyone needs a roof over their head, but whether one owns or rents that roof is another matter. Good economic conditions in recent years, coupled with certain socio-demographic developments, have prompted more households to buy homes. This has affected the residential real estate market and the lessors who supply apartments and other rental units.

Understanding the residential real estate market may help us to better anticipate future events affecting this industry. This paper will try to show how peoples' decisions on whether to own or rent impacted residential landlords and their market. It will also examine how the characteristics of renters have changed since 1986, and offer a brief profile of the residential real estate lessors industry.

## ***Factors influencing whether to buy or to rent***

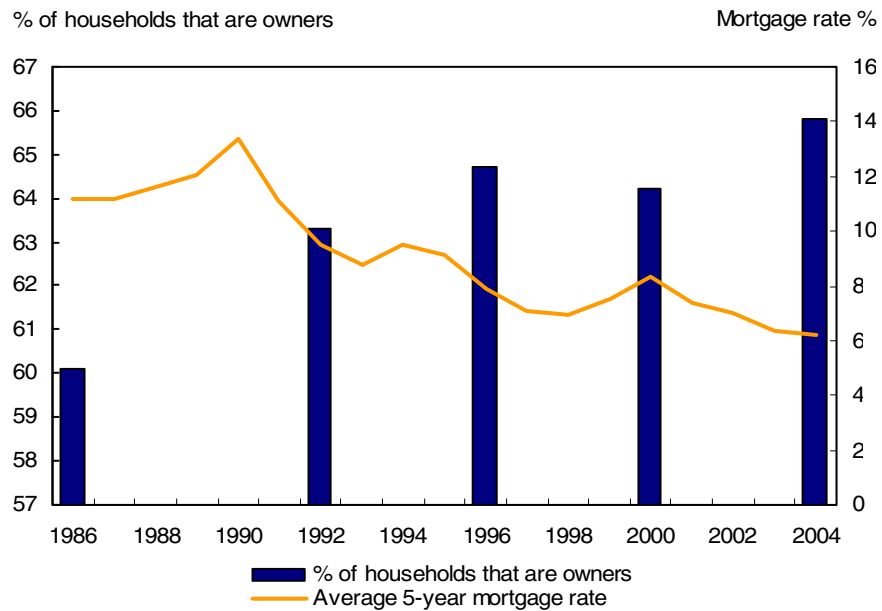
The decision on whether to rent or buy a residence usually depends on a household's own personal circumstances, as well as the relative costs and merits of owning versus renting.

One of the main costs of owning a dwelling<sup>1</sup> is the interest paid on a mortgage. Since 1986, however, mortgage rates have fallen with a downward effect on homeowners' interest payments. These lower interest rates have somewhat offset the effect that rising house prices have had on mortgage payments and have therefore encouraged a higher proportion of households to opt for ownership (Figure 1).

---

1. One can purchase or rent many types of dwellings. However, for simplification, this article will refer to rented dwellings as "rentals" and to owned properties of any kind as "homes".

Figure 1 Mortgage rates and the proportion of households that are home owners



Sources: Bank of Canada (2006); Family Expenditure Survey 1986 to 1996 and Survey on Household Spending 1997 to 2005. Note that because the latter two surveys were only conducted intermittently, data on the “proportion of households that are owners” are only available for selected years.

Other factors besides low interest rates prompted people to buy homes. Despite some economic slowdowns and a recession, the average family income increased by 11.5% in real after-inflation terms from 1986 to 2004, leaving households with extra wealth for home purchases.

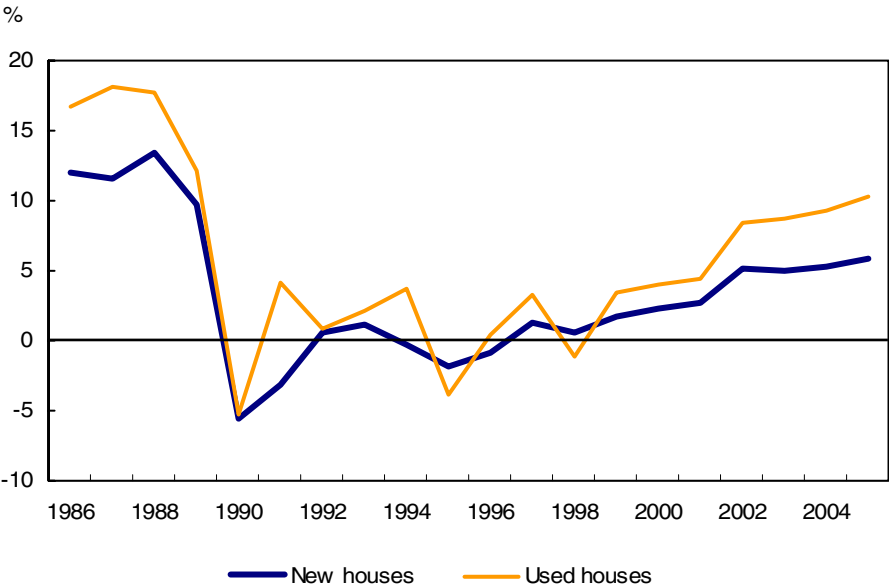
Indeed, wealthier people are much likelier to be homeowners. For example, in 1999, the 64% of Canadian households that owned their homes held 91% of total household net worth, while the remaining 36% of households that rent held only 9%. From another perspective, the median net worth of homeowner households was \$226,000 in 1999, compared to just \$14,000 for renter households.<sup>2</sup>

With rising incomes and wealth, especially following the 1990 to 1992 recession, households grew more confident about long term prospects and home ownership.

2. Source: CMHC (March 2006). These results come from Statistics Canada’s 1999 Survey of Financial Security. Note that the relationship between home ownership and wealth can work both ways in that not only does more wealth make it easier to purchase a home, but home ownership can also help one to become wealthier – especially when house prices are rising.

Moreover, by the mid-1990s, houses were relatively more affordable given that interest rates had declined and that house prices had been dampened by the recession (Figure 2). As more homes were purchased in subsequent years, house prices rose, particularly in the 2000s.

Figure 2 Percentage change in prices of new and used houses



Sources: Canadian Real Estate Association (2006);  
 Canadian Real Estate Association (1998);  
 New Housing Price Index, CANSIM table 327-0005.

Another factor influencing whether one owns or rents is the relative costs of owning compared to renting. However, despite fluctuations in these relative prices in recent years, households have increasingly opted for home ownership. This has been the case even in periods when house prices rose more rapidly than rents. For example, the proportion of households that were homeowners rose from 67.0% in 1998 to 68.8% in 2005, even though home ownership became markedly less affordable during that period<sup>3</sup>.

3. From 1998 to 2005, the CPI for the costs of home ownership rose by 18.4% while that of renting rose by only 9.4%. The composition of the ownership CPI includes all costs associated with owning a home including mortgage payments, replacement costs, property taxes, insurance premiums, maintenance and other fees. The rental CPI covers rent, insurance and repairs.

Socio-demographic and policy developments also played a role in encouraging ownership. Since young households are more likely than others to buy a first home, an increase in the pool of couples in their twenties has contributed to the housing boom.<sup>4</sup>

Many renters of all ages also took advantage of lower interest rates and more attractive financing options to buy homes. For example, in 1992 the Canada Mortgage Housing Corporation introduced a mortgage insurance program to help homebuyers qualify for an insured mortgage loan with as little as 5% down payment. The program's eligibility criteria were subsequently eased – especially for first-time homebuyers – and some households can now qualify for an insured mortgage loan without a down payment. In addition, the RRSP Home Buyer's Plan, administered by the Canada Revenue Agency, was created in 1992 and allows a household to withdraw amounts tax-free from its RRSP to cover the down payment on a home.<sup>5</sup>

Investment potential might have also motivated some households to opt for home ownership since house prices usually increase. Moreover, unlike most other types of investments, there are no capital gains taxes on the sale of a principal residence, and owning a home frees households from rental payments.

Immigration may have also positively affected the rate of home ownership since immigrants, once they are settled in Canada, are slightly more likely to own than Canadian-born residents. Some 67.5% of immigrant households owned their place of residence in 2001 compared to 66.5% of Canadian-born households.<sup>6</sup> This difference, while not appearing especially large, does become all the more important as immigration increases rapidly.<sup>7</sup>

---

4. Thomas (2005).

5. See CMHC (June 2003).

6. Sources: Public Use Microdata Files – Households and Housing for the 1991 and 2001 Census, Statistics Canada.

7. Canada welcomed an average of 128,924 immigrants per year in the 1980s, compared to 220,435 in the 1990s.

## *Costs of renting*

On average, renters spend a higher portion of their incomes to house themselves than do homeowners.<sup>8</sup> In 2004, the average renter household spent over one-quarter of its annual gross income on shelter, compared to less than one-sixth for the average homeowner.<sup>9</sup>

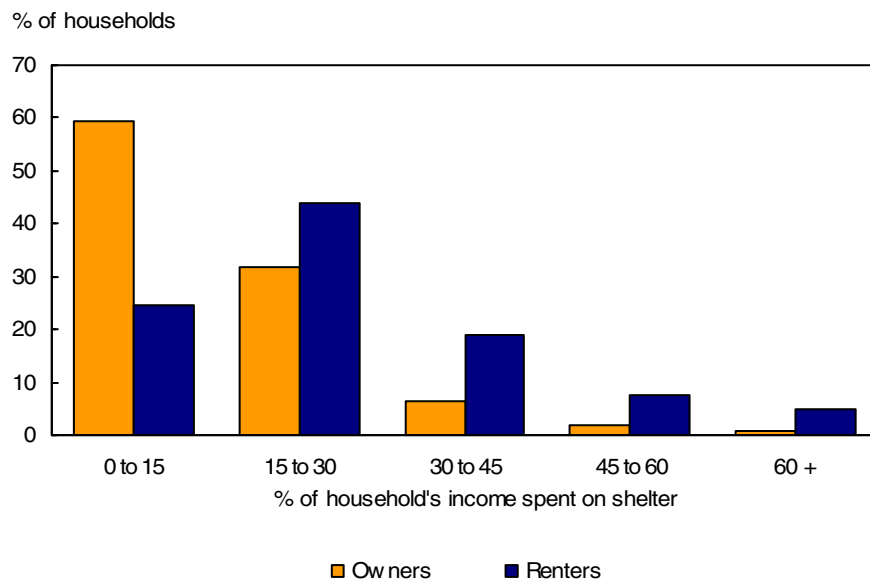
The Canada Mortgage and Housing Corporation uses an affordability threshold for shelter defined as being 30% of gross household income, meaning that households are assumed to have difficulty affording their dwelling if they spend more than 30% of their income on it.<sup>10</sup> In 2004, nearly one-third of renters were above that threshold, compared to less than one-tenth of owners (Figure 3).

More renter households have difficulty affording their dwelling than was the case two decades ago. In 1986, only 21% of renting households spent more than 30% of their income on shelter. This increase occurred even though rents rose no more rapidly than other prices during the period.<sup>11</sup>

One reason why renters are more likely to have affordability problems is that most of the renting households that opted for ownership in recent years had higher incomes than the renter households that did not buy. As a result, renters were more likely in 2004 than they were in 1986 to be from lower income households for which affordability is more problematic.<sup>12</sup>

- 
8. The cost of housing for an owner include mortgage, property fees, maintenance and repairs, condo charges, insurance premiums, legal fees, appraisal, transfer taxes and all other fees incurred by ownership. For tenants, the cost of housing includes rents, repairs and insurance premiums.
  9. Source: Special tabulations from the Public Use Microdata File for the 2004 Survey on Household Spending. Of course, not all homeowners carry a mortgage – some 55% do. Households that do make mortgage payments spend about 20% of their income on shelter.
  10. In the 19th century, the affordability threshold was set at 25% of income, when the norm was to work one week out of four to pay housing. This threshold was later changed to 30%. Source: Luffman, Jacqueline (November 2006)
  11. From 1986 to 2004, the consumer price index for rentals rose by 48.1% while the all-items consumer price index increased by 59.5%.
  12. In 1986, the average bottom quintile renter paid 33.9% of his gross income on rent. In 2004, that figure was 34.9%.

Figure 3 Proportion of households' 2004 gross income spent on housing costs, Canada



Source: Public Use Microdata Files - 2004 Survey of Household Spending.

### *The stock of rental units*

The stock of dwellings, both owned and rented, has shifted to accommodate the increased proportion of households that own and the decreased proportion of households that rent. As a result, from 1986 to 2000 the proportion of total dwellings (occupied or not) that were rental units fell from 38.4% to 37.1%.<sup>13</sup>

In part, this occurred because the construction of rental units was scaled back in recent years, especially since the early 1990s, because the potential returns from rental investment were less attractive. Where 31% of all housing construction was for rental units in the 1980s, this fell to an average of 23% in the 1990s. Most of the increase in the rental stock has been from other sources such as the conversion of non-residential buildings into rental units.<sup>14</sup>

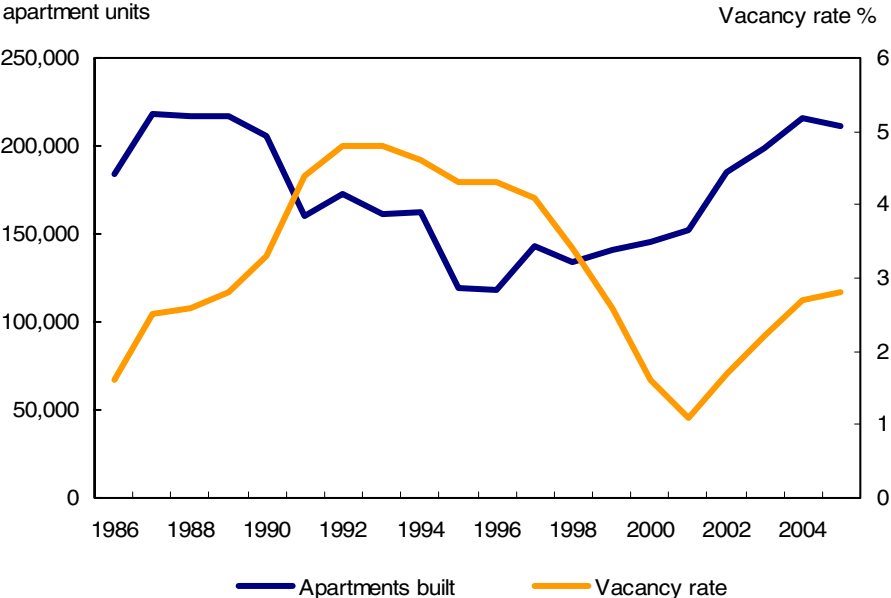
13. Building Permits Survey, Statistics Canada, 1986 to 2000, CANSIM table 030-0001. Note: the data sets were discontinued in 2000 for that series.

14. CMHC (June 2003).



High vacancy rates (Figure 4), along with the 1990 to 1992 recession, discouraged rental unit construction in the 1990s. In some cities such as Montréal, Calgary, Québec City and Winnipeg, vacancy rates exceeded 5% several times in the 1990s. Since empty units mean losses for lessors, these high vacancy rates help to explain why rental unit construction was so low during the 1990s.

Figure 4 Quantity of apartments built and vacancy rates, Canada, 1986 to 2005



Sources: Building Permits Survey, CANSIM table 027-0009; Vacancy rates data are from the CMHC (2006).

Also deterring the construction of new rental housing is the need for capital upgrades, high property taxes and government intervention such as rent controls<sup>15</sup> along with the increasing costs of construction materials and labour, the high variability of vacancy rates and the greater tendency for households to opt for home ownership. As well, other types of investments have grown more popular. For example, stock markets can yield more attractive rates of return without the problems that come with being a lessor.

Sluggish growth in rental unit construction in the 1990s constrained the supply of rental units to the point where vacancy rates in Canada dropped from 4.1% in 1997 to only 1.1%

15. Bruce and al. (2003). The reference cited is : Pomeroy and al, Private Rental Policies and Programs : A Review of the International Experience, CMHC, Ottawa, 1999.

in 2001. This shortage of rental units presented investment opportunities for lessors who proceeded to boost their construction of rental units between 2001 and 2005.<sup>16</sup>

In particular, vacancy rates dropped below 2% in Toronto, Montréal, Vancouver and some other cities at the end of the 1990s, sending signals to lessors that new apartment construction could be an attractive investment option. In addition, the relaxing of interest rates in 2001 contributed to making borrowing for construction cheaper.

To the detriment of residential real estate lessors, spending by Canadian households on rents<sup>17</sup> has not risen particularly rapidly in the last decade. After growing 68.4% from 1986 to 1996, household spending on rents increased by only 16.9% from 1996 to 2005. This was due not only to the absence of high inflation for rents, but also to a lack of growth in the number of renters since 1996<sup>18</sup>, as an increasing proportion of households opted for ownership.

### ***Changing characteristics of renters***

With households more likely to own than they used to be, the proportion of all households that rent fell from 39.9% in 1986 to 31.2% in 2005. The likelihood that an individual household rents its place of residence can be influenced by several household characteristics which will be examined in this section. Some of the contributing factors are households' locations, income levels, and age.

One can estimate, in dollar terms, the size of the rental market by totalling the amounts spent by all households on rent. To determine which types of households have a higher- or lower-than-average demand for rental units, we can look at which households are, respectively, over- and under-represented in the overall residential rental market relative to

---

16. 29,862 rental units were built in 2001 compared to 59,338 units in 2005. Source: Building Permits Survey, 2001 to 2005, CANSIM table 027-0009

17. Note that although the bulk of these amounts represent rents paid, they also include spending by renters on minor repairs.

18. The number of renter households hovered within the 3.6 million to 3.9 million range between 1996 and 2005 even though Canada's population increased 9.1% during the same time period. During the same period the consumer price index for rents rose by 11.5%, well below the 20.2% growth for the all-items CPI.

their population size. Also explored is the question of which market segments have expanded the most and least rapidly in the past two decades. This information can enable lessors and industry observers to better understand the demand side of the market for residential rental units.

*Lessors increasingly rely on low income households*

In general, the lower one's income, the more likely one is to be a renter (Table 1). Households in the bottom income quintile<sup>19</sup> were ten times more likely to rent than households in the top quintile in 2005. By comparison, they were only five times more likely than top quintile households to be renters in 1986, which indicates that Canada's pool of renters is increasingly populated by low income households. Whereas 33% of all renters came from the lowest income quintile in 1986, this rose to 40% in 2005.

Despite these developments, even lowest income households are more likely than they used to be to own rather than rent. Where 66% of these households rented in 1986, only 63% did so in 2005. However, declines in this proportion from 1986 to 2005 were far more dramatic for the other income quintile groups.

**Table 1**  
**Proportion of households that are renters, by income quintile, Canada, 1986 and 2005**

Quintile	1986	2005
	%	
Bottom	65.9	62.9
Second	53.1	41.8
Middle	41.1	29.6
Fourth	26.0	15.3
Top	13.3	6.3
<b>Average</b>	<b>39.9</b>	<b>31.2</b>

Sources: 1986 Family Expenditure Survey; 2005 Survey of Household Spending

Households in the bottom three quintiles are over-represented in the residential rental market in terms of market share. They comprise 60% of Canada's households, yet in 2005 they accounted for 78% of all household spending on residential rents, up from 72% in 1986 (Table 2).

19. To construct quintiles, households are ranked from the lowest to the highest household income, and are split into five equally-sized groups. The bottom quintile therefore comprises the 20% of households with the lowest incomes and the top quintile encompasses the 20% of households with the highest incomes.

**Table 2**  
**Proportion of all rent payments made by each quintile, Canada, 1986 and 2005**

Quintile	1986	2005
	%	
Bottom	23.5	29.6
Second	25.3	25.9
Middle	22.8	22.6
Fourth	16.8	14.8
Top	11.7	7.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

Sources: 1986 Family Expenditure Survey; 2005 Survey of Household Spending

Most notably, the role of lowest income quintile households in the rental market has grown rapidly in the past two decades. In 1986, these households made 24% of all rent payments. This rose to nearly 30% by 2005. Landlords are therefore increasingly relying on lowest income households to rent their units. The primary reason for this is the very rapid shift away from renting, and towards home ownership, for all but the lowest income households.<sup>20</sup>

The bottom income quintile is the fastest-growing segment of the residential rental market. Total spending on rents by lowest income quintile households rose by an annual average of 5.2% from 1986 to 2005, far exceeding the 3.4% average growth recorded for all other households.

Renter households from the lowest income quintile make up the largest rental market segment despite the fact that, on average, they pay lower rents than do other renter households. The average 2005 monthly rent for renter households in the lowest quintile was \$482, far below the average of \$775 paid by households in other income groups. The importance of low income households to the real estate lessors industry is therefore due more to the high number of low income renters than it is due to their rent levels.

20. The proportion of bottom income quintile households renting their place of residence declined only slightly from 66% in 1986 to 63% in 2005. In contrast, the proportion for households in the remaining four quintiles fell far more sharply from 33% to 23%.

### *Differences by region*

City-dwellers are far more likely than other Canadians to rent their place of residence. In 2005, 37% of households living in Canada's 14 largest cities<sup>21</sup> rented their dwellings, compared to only 28% of households elsewhere.

Québec has long been the province where households are likeliest to rent, followed by British Columbia (Table 3). Conversely, households are least likely to rent in Newfoundland and New Brunswick.

Aside from Newfoundland and Prince Edward Island, every province has experienced a decline in the proportion of households living in rentals from 1986 to 2005. In other words, across almost all of the country, households are more likely to be homeowners than they were twenty years ago. The biggest shifts occurred in Alberta, Manitoba and Saskatchewan.

**Table 3**  
**Proportion of households renting their place of residence, by province and Canada - 1986 and 2005**

	1986	2005
	%	
Newfoundland	17.1	19.8
Prince Edward Island	28.5	30.3
Nova Scotia	30.5	26.6
New Brunswick	27.2	21.7
Québec	47.6	39.5
Ontario	39.3	29.2
Manitoba	36.1	24.6
Saskatchewan	33.2	22.6
Alberta	39.0	24.7
British Columbia	37.7	32.9
<b>Canada</b>	<b>39.9</b>	<b>31.2</b>

Sources: 1986 Family Expenditure Survey; 2005 Survey of Household Spending

In dollar terms, Canada's largest residential renter markets continue to be in Ontario and Québec (Table 4). As was the case two decades ago, households in these provinces account for two-thirds of all of Canada's household spending on rents. Not only are these provinces

21. These cities are, in alphabetical order, Calgary, Edmonton, Halifax, Montréal, Ottawa, Québec, Regina, St-John, St-John's, Saskatoon, Toronto, Vancouver, Victoria and Winnipeg

the largest in terms of population, much of their populations reside in cities, and a very high proportion of Quebec households rents rather than owns.

**Table 4**  
**Proportion of households rent payments in Canada made in each province - 1986 and 2005**

	1986	2005
	%	
Newfoundland	0.8	0.7
Prince Edward Island	0.2	0.3
Nova Scotia	2.3	2.1
New Brunswick	1.2	1.3
Québec	27.4	26.9
Ontario	39.9	40.2
Manitoba	3.5	2.2
Saskatchewan	2.6	1.7
Alberta	9.9	8.6
British Columbia	12.1	16.0
<b>Canada</b>	<b>100.0</b>	<b>100.0</b>

Sources: 1986 Family Expenditure Survey; 2005 Survey of Household Spending

The smallest rental markets are in the four Atlantic provinces. Between them, their households generate only 4% of Canada's household spending on residential rents. Given that they contain 7% of Canada's households, the Atlantic provinces are under-represented in Canada's residential rental market. Also under-represented in the market, relative to population size, are the Prairie provinces. In part, this is due to the sizeable shift towards homeownership for households in these provinces.

Over the past twenty years, the residential rental market expanded most rapidly in British Columbia, where households spent \$4.8 billion on rents in 2005, up 167% from 1986 (Table 5). This growth arose not only from relatively sharp rent increases in the province, but also its faster-than-average population growth<sup>22</sup>, and the fact that Vancouver house prices are so high that many renters there cannot afford to buy. As a result, British Columbia's households accounted for 16% of Canada's residential rental market in 2005, up from 12% in 1986.

22. British Columbia's population increased 41.4% from 1986 to 2005, while that for all of Canada grew by 23.5%.

**Table 5**  
**Dollar value of residential rental markets, by province and Canada - 1986 and 2005**

	1986	2005
	\$ millions	
Newfoundland	114	206
Prince Edward Island	37	99
Nova Scotia	353	635
New Brunswick	184	380
Québec	4,174	8,041
Ontario	6,071	11,990
Manitoba	531	667
Saskatchewan	402	496
Alberta	1,511	2,561
British Columbia	1,846	4,771
<b>Canada</b>	<b>15,221</b>	<b>29,963</b>

Sources: 1986 Family Expenditure Survey; 2005 Survey of Household Spending

### **Immigrant households comprising larger proportion of rental market**

Census data for 1991 and 2001 enable us to consider how place of birth affects the likelihood of renting. Immigrants<sup>23</sup> are slightly less likely to rent than Canadian-born households. In 2001, 32.5% of immigrant households rented their dwelling, compared to 33.5% for Canadian-born households.<sup>24</sup> While it is difficult for most newly arrived immigrants to purchase homes immediately after arriving in Canada, most immigrants intend to purchase a home in the years following their arrival.<sup>25</sup>

Even though they are slightly less likely to rent than Canadian-born households, immigrant households account for a growing proportion of renters, because immigration has risen and recently landed immigrants tend initially to rent their dwellings. Census data indicate that immigrant households comprised 21% of renter households in 2001, up from 18% in 1991.

About two-thirds of Canada's population growth comes from immigration.<sup>26</sup> As population aging becomes a greater concern and we rely on immigration to slow it down, immigration levels will probably increase.

23. Immigrant and non-immigrant households are those for which the primary household maintainer is respectively an immigrant or a non-immigrant. The primary household maintainer is defined as the person that pays most of the expenses of the household.

24. Source: Public Use Microdata Files – Households and Housing for the 1991 and 2001 Census. Note that these results include only those households that had annual incomes exceeding their annual housing expenditures.

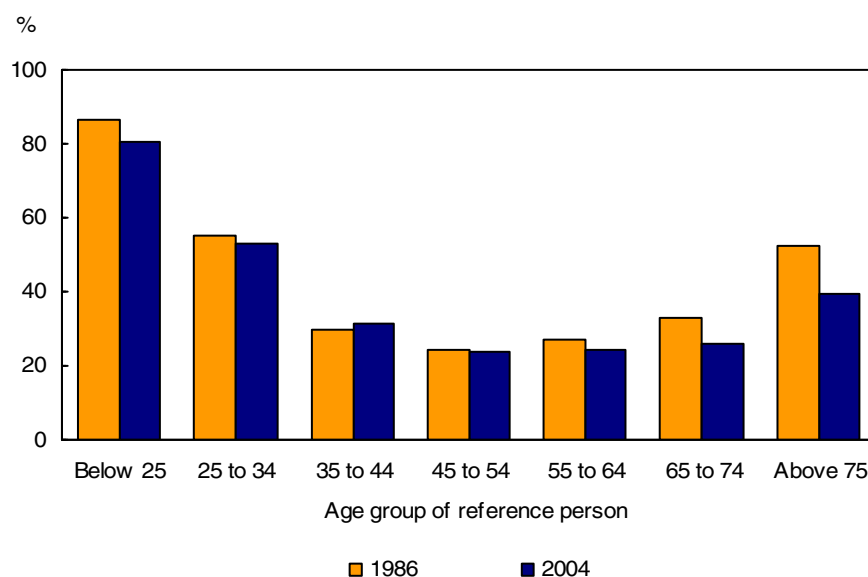
25. Source: Longitudinal Survey of Immigrants to Canada, Statistics Canada, 2003, p. 21, catalogue 89-611-XIF. Results showed that 79% of newly-landed immigrants declared that they intended to purchase a house in the years following the survey.

26. Source: 2006 Census: Portrait of the Canadian Population in 2006

### *Youngest households are likeliest to rent*

Given that young people are generally less likely to have the accumulated savings needed to be homeowners, it is not surprising that they are the likeliest to rent. Indeed, 58% of households whose reference person was 34 years old or younger<sup>27</sup> rented their dwelling in 2004 (Figure 5). In contrast, only 28% of households with a reference person over 34 years old were renting.

Figure 5 Proportion of households that rent their dwelling by age group, Canada – 1986 and 2004



Source: Public Use Microdata Files for the 1986 Family Expenditure Survey and the 2004 Survey on Household Spending

Younger households are therefore over-represented in the rental market relative to their population size. Households headed by someone younger than 35 years old accounted for 34% of all household spending on rents in 2004 despite comprising only 20% of all households (Table 6).

---

27. The reference person is the household member who answers the questions posed in the Survey. Generally this person is responsible for the day-to-day management of the household and pays most of the expenses, or is someone who is aware of the detailed household expenses.



**Table 6**  
**Proportion of Canada's rent payments made by households in various age groups – 1986 and 2004**

Age of reference person	1986	2004
	%	
Below 25	13.1	6.9
25 to 34	33.7	27.1
35 to 44	18.0	21.4
45 to 54	10.6	15.3
55 to 64	9.3	11.1
65 to 74	8.4	7.3
75 and above	7.0	10.8
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

Sources: 1986 Family Expenditure Survey; 2005 Survey of Household Spending

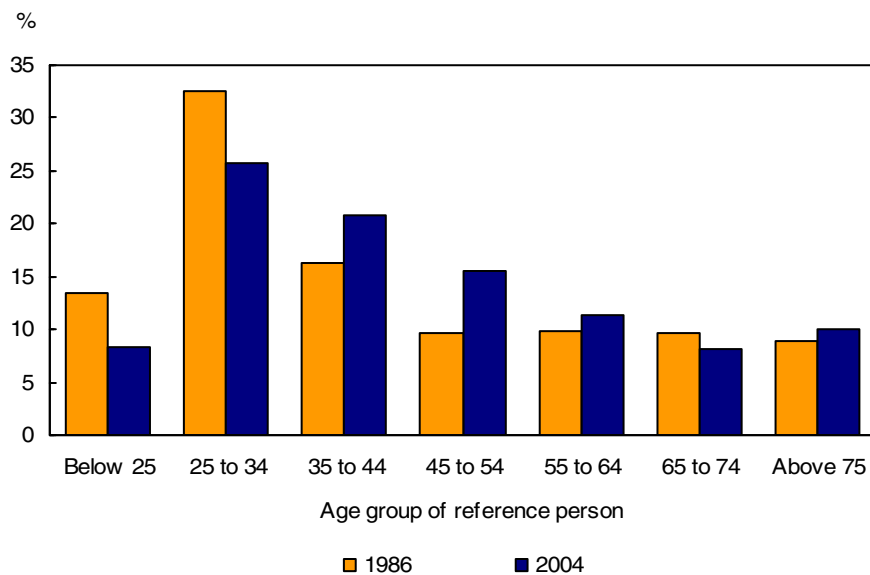
Nevertheless, young households are not as predominant in the rental market as they were in the 1980s. For instance, in 1986 households with a reference person younger than 35 were responsible for nearly half of all household expenditures on rents in Canada. This fell sharply to just over one-third of such expenditures in 2004. In the last two decades, a number of factors reduced the importance of this age group in Canada's residential rental market. First, they comprise a smaller proportion of Canada's population of households than they used to.<sup>28</sup> Second, as demonstrated earlier, households in this age group are likelier than previously to own, rather than rent, their place of residence. And, finally, there has been an increase in the number of young adults returning to live with their parents.<sup>29</sup> If not for this phenomenon, many of these young people would be renters.

Due to the declining role of young households in the rental market, the proportion of all renting households aged 35 years old and older rose from 54% to 66% from 1986 to 2004 (Figure 6).

28. In 1986, households headed by someone aged 15 to 34 comprised 30% of all households in Canada. By 2004, this had declined to 20%.

29. For more details, please see The Daily, Tuesday, October 3, 2006. Study: Returning to the parental home

Figure 6 Proportion of rental units occupied by each age group, Canada – 1986 and 2004



Sources: Public Use Microdata Files for the 1986 Family Expenditure Survey and 2004 Survey of Household Spending

In dollar terms, households with a reference person aged 35 to 64 accounted for 48% of all spending on rents in 2004, up from 38% in 1986. This is mainly because these 35 to 64 year old households comprise a larger proportion of Canada’s households than they did two decades ago. Within this age group, growth was strongest for 45 to 54 year olds - those in the Baby Boomer demographic.

Also playing a larger role in the rental market are households with a reference person aged 75 years or older. These households made 11% of all rent payments in 2004, up from 7% in 1986. This is not surprising given longer life expectancies.<sup>30</sup> The rental costs for some of these households may also cover some extra care and services.

As population aging continues, older households will likely represent an even higher proportion of renters in the coming decades. If so, lessors could face a dearth of younger customers while having to better accommodate aging renters that sometimes require special facilities, equipment and care.

30. Estimates of population, by age group and sex, Canada, provinces and territories 1986 to 2006, CANSIM table 051-0001

### *Singles more likely to rent than couples*

Among household types, unattached individuals who live alone comprise the largest market segment. Almost half of all renting households are headed by unattached individuals even though they comprise only one-quarter of all households (Table 7).

**Table 7**  
**Proportion of households that rent their place of residence, by type of household, Canada – 1986 and 2005**

Type of household	1986	2005
	%	
Unattached individuals	40.8	47.5
Couple households without additional persons	16.4	18.2
Couple households with children	21.4	15.4
Couple households with other persons	2.0	2.9
Lone parent households	10.5	7.1
Other households	8.8	9.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

Sources: 1986 Family Expenditure Survey; 2005 Survey of Household Spending

In terms of total expenditures on rents, nearly 41% of such spending came from unattached individuals in 2005 (Table 8). This was up markedly from 33% two decades ago. There has been a relatively sharp increase not only in the size of Canada's unattached population, but also in the number of these households that rent. From 1986 to 2005, the number of unattached individuals that rent rose 26%. In contrast, there was a 3.7% decline in the number of renters among other household types.

**Table 8**  
**Proportion of rent payments made by each type of household, Canada – 1986 and 2005**

Type of household	1986	2005
	%	
Unattached individuals	33.3	40.6
Couple households without additional persons	18.4	20.3
Couple households with children	24.1	18.8
Couple households with other persons	3.0	3.9
Lone parent households	10.3	6.3
Other households	10.9	10.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

Sources: 1986 Family Expenditure Survey; 2005 Survey of Household Spending

Also over-represented in the residential rental market are lone parent households. However, their 6% contribution to all rental spending in 2005 was down sharply from a 10% share in 1986. This decline occurred even though there are more lone parent families

than there used to be.<sup>31</sup> The primary reason that lone parent households now comprise a lower share of the rental market is that, on average, these households are far less likely to be renting their dwellings than they were twenty years ago. In 2005, 45% of lone-parent households were renters, far below the 64% proportion recorded in 1986.

On the other hand, couples (married and common-law) are under-represented among Canada's renters. Although they comprise 63% of Canada's households, they only accounted for 43% of Canada's rental spending in 2005. This is mainly because fewer than one in every five couple households rent their primary place of residence. Differences in various households' income levels also play a role. Unlike unattached individuals and lone parent households, many couples have more than one income earner, and are therefore better able to afford purchasing a home as opposed to renting their place of residence.

### ***Characteristics of landlords in 2004***

Although growth in the residential rental market slowed considerably in the past decade, the residential real estate lessor industry<sup>32</sup> earned total operating revenues<sup>33</sup> of \$20.8 billion in 2004, and had an operating profit margin of 20.9%.<sup>34</sup> The industry's 2004 operating profit margin was slightly lower than it was in 2003.

Of further interest are details about the sources of lessors' revenues and how their expenses were allocated, along with how these patterns differed between the industry's largest landlords and the remaining firms in the industry. In order to examine these financial items in detail, we explore results for the 382 residential real estate lessors that completed the entire questionnaire and therefore provided the prerequisite information for the 2004

---

31. The number of lone parent families in Canada rose by 57% from 1986 to 2004. Source: Census families, number and average size [<http://www40.statcan.ca/101/cst01/famil40.htm>]

32. This industry encompasses firms classified to NAICS category 53111 which covers "Lessors of Residential Buildings and Dwellings". NAICS 53111 comprises establishments primarily engaged in renting and leasing such things as apartments, single family homes, and semi-detached or row houses. These establishments may lease, administer and maintain their own properties or they may subcontract the operation to a third party.

33. Note that this figure differs from the earlier-cited \$29.9 billion figure for the total household market for rents. This is mainly because the industry survey results do not cover some types of rentals such as those for social housing and students living at university residences. Also excluded from industry revenues are "under-the-table" rent payments that go unreported by recipients.

34. Source: Real estate rental and leasing and property management, by province and territory [<http://www40.statcan.ca/101/cst01/serv04a.htm>]

industry survey.<sup>35</sup> Within this group, one can then compare the 10 largest lessors to the remaining 372 firms in the panel that reported complete information.

Of the 382 lessors, the largest ten firms earned total revenues, on average, that were 12.7 times higher than those averaged by the remaining firms. Nevertheless the sources of revenues for the largest ten players closely resembled those for their smaller counterparts (Table 9). More specifically, for both the largest ten lessors and the remaining firms, about nine of every ten dollars of revenues came from their primary activity of renting and leasing residential dwellings. Both groups also earned an average of only 6% of their revenues from the rental and leasing of commercial real estate such as office buildings, malls and stores.

**Table 9**  
**Sources of revenues and allocation of expenses for the 10 largest lessors compared to the rest of the industry, Canada - 2004**

Revenue category	Largest 10	Rest	Overall
	% sources of total revenues		
Residential leasing	89.0	89.5	89.4
Commercial leasing	5.9	5.9	5.9
Property management	0.1	0.5	0.4
Other goods and services	2.0	0.5	0.9
Interest revenues	2.5	1.8	2.0
Other revenues	0.5	1.7	1.4
<b>Total revenues</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
	% distribution of total expenses		
Expense category			
Total labour costs	7.1	14.0	12.2
Property management fees	2.8	3.4	3.2
Utilities	11.4	14.8	14.0
Repair and maintenance	13.8	14.2	14.1
Insurance	0.7	2.0	1.7
Property taxes	17.8	13.9	14.9
Amortization and depreciation	10.2	8.2	8.7
Mortgage interest expenses	18.2	15.9	16.5
Other expenses	18.0	13.6	14.7
<b>Total expenses</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: 2004 Survey of Service Industries: Real Estate Rental and Leasing and Property Management Industries

Note: Proportions based on results for the 382 residential real estate lessors that fully completed the questionnaire for the 2004 survey

However, large lessors' expense breakdowns differed from those for their smaller counterparts. The largest ten firms, for example, spent a markedly lower proportion of their

35. These 382 firms are the only ones that provided all of the information necessary to analyze breakdowns of revenues and expenses. The Survey being referred to here is the 2004 Survey of Service Industries: Real Estate Rental and Leasing and Property Management Industries.

total expenses on labour costs and on utilities, likely due to the economies of scale that could arise with large multiple-unit operations such as apartment buildings.

On the other hand, the largest ten lessors allocated a higher proportion of their expenses than the rest of the industry to property taxes, amortization and depreciation and to paying mortgage interest. This suggests that their properties could be relatively more valuable than those rented and leased by the remaining firms.

Despite size differences and different expense allocations, the performance of the largest ten lessors, in terms of profit margin, closely resembled that for their smaller counterparts in 2004.

Since the bulk of existing rental units was built before the 1980s<sup>36</sup>, residential lessors own an aging stock of apartments. As a result, 14% of operating expenses were spent on repair and maintenance costs to renovate and maintain their properties.

Landlords wishing to increase rents to offset these or other costs could be constrained by rent controls. Moreover, even in cases where rents can legally be increased, they might have difficulties doing so given that renters are increasingly from lowest income households, and may therefore be less able to afford higher rents.

## ***Conclusions***

Lower interest rates, more attractive financing options and relatively strong economic conditions have encouraged more households to buy homes in recent years, in turn driving up house prices. Even though purchase prices for homes have risen more rapidly than rents, households have continued to consistently opt more and more for home ownership. As a result, only about three in every ten Canadian households rented their place of residence in 2005, down from four in every ten households in 1986.

---

36. For example, from 1955 to 1979 there were an average of 64,336 rental units constructed per year versus 45,888 from 1980 to 2005. Source: Housing starts, under construction and completions, all areas, annual (units), CMHC, 1955 to 2006, CANSIM table 027-0009.

The shift from renting to owning over the past two decades has occurred, at least to some extent, across all income quintiles, most age groups, and in every province except Newfoundland and Prince Edward Island.

Supply has adapted to demand. Over the past two decades, the proportion of all dwellings that were rental units fell because new construction was increasingly for owned rather than rental units. As well, the conversion of non-residential buildings into rental units has become increasingly common.

The households that went from renting to owning in recent years tended to have higher incomes than those that did not. Canada's pool of renters is therefore populated proportionally more by low income households than it used to be. Indeed, the bottom income quintile is the fastest-growing segment of the residential rental market.

As a result, a growing proportion of renter households appear to have difficulties affording their rent even though rents have not risen very rapidly during the period.

To the detriment of residential landlords, low inflation for rents and the shift towards ownership have meant that spending by Canadian households on rents has not risen particularly rapidly in the last decade.

Some types of households are more likely than others to be renters. While low income households are over-represented in Canada's residential rent market, so too are unattached individuals, city-dwellers, Quebecers and British Columbians and young households. Somewhat under-represented are couples, households in the top two income quintiles, households in rural areas, and households in Newfoundland and New Brunswick.

The residential rental market has also shifted compared to two decades ago. Not only are lessors increasingly counting on low income households to rent their units, the dollar value of the rental market has also expanded very rapidly in British Columbia due to sharp rent increases and above-average population growth in that province. As well, households headed by people aged 35 and over comprise a larger chunk of the market than they used to due to population aging.

Less predominant in the rental market than they were twenty years ago are young households, married couples with children and lone parent households. Moreover, households in Alberta, Manitoba and Saskatchewan generate a markedly lower proportion of residential rent expenditures in Canada than they did in 1986.



## ***Bibliography***

Bank of Canada's Department of Monetary and Financial Analysis. "Chartered Bank Administered Interest Rates – Conventional 5-year Mortgage Rates". Ottawa, 2006

[http://www.bankofcanada.ca/pdf/annual\\_page148.pdf](http://www.bankofcanada.ca/pdf/annual_page148.pdf)

(Accessed April 28<sup>th</sup>, 2007)

Canada Mortgage and Housing Corporation. June 2003. *Literature Review of Socio-economic Trends Affecting Consumers and Housing Markets*, Final Report, June 2003. Ottawa.

Canada Mortgage and Housing Corporation. March 2006. "Household Income, Net Worth and Housing Affordability in Canada". *Research Highlights, Socio-economic Series*. Issue 06-003. Ottawa.

Canada Mortgage and Housing Corporation. 2005. *Canadian Housing Observer 2005*. Ottawa.

Canada Mortgage and Housing Corporation. 2006. *Canadian Housing Observer 2006*. Ottawa.

Canadian Real Estate Association. 1998 and 2006. "Multiple Listing Services Annual Statistical Survey". Ottawa.

Luffman, Jacqueline. 2006. "Measuring Housing Affordability". *Perspectives on labour and income*. Vol. 7 no. 11. Statistics Canada Catalogue no. 75-001-XIE.

<http://www.statcan.ca/english/freepub/12-591-XIE/2006001/step2/examples/publication.htm>

(Accessed May 1<sup>st</sup>, 2007)

Thomas, Derrick. 2005. "Socio-Demographic Factors in the Current Housing Market." *Canadian Economic Observer*. Vol. 18 no. 10. Statistics Canada Catalogue no. 11-010-XIB.

<http://www.statcan.ca/english/freepub/11-010-XIB/0100511-010-XIB.pdf>

(Accessed May 1st, 2007)

Statistics Canada. 1987. *Family Expenditure Survey (txt file), 1987 (Public Use Microdata Files)*. One data file accessed on servers, 10,356 records, 12.3 MB uncompressed. Accompanying documentation: user guide (WP6). Income Statistics Division. Ottawa

Statistics Canada, Citizenship and Immigration Canada. 2003. *Longitudinal Survey of Immigrants to Canada: Process, Progress and Prospects*. Statistics Canada Catalogue no. 89-611-XIE. Ottawa.

<http://www.statcan.ca/english/freepub/89-611-XIE/destination.htm>

(Accessed May 1st, 2007).

Statistics Canada. 2005. *Survey of Household Spending (txt file), 2004 (Public Use Microdata Files)*. One data file on servers, 14,154 records, 28.9 MB uncompressed. Accompanying documentation: user guide (pdf), SAS and SPSS command files (txt). Statistics Canada Catalogue no. 62M0004XCB. Ottawa.

Statistics Canada. 2006. *Portrait of the Canadian Population in 2006: National portrait*. Statistics Canada Catalogue no. 97-550-XWE2006001. Ottawa.

<http://www12.statcan.ca/english/census06/analysis/popdwell/NatlPortrait1.cfm>

(Accessed May 1<sup>st</sup>, 2007)

Beaupré, Pascale, Turcotte, Pierre and Milan, Anne. 2006 "Junior comes back home : Trends and predictors of returning to the parental home". *Canadian Social Trends*. Statistics Canada Catalogue no. 11-008-XWE. Ottawa.

<http://dissemination.statcan.ca/english/freepub/11-008-XIE/11-008-XIE2006003.htm>

(Accessed May 1<sup>st</sup>, 2007)

Statistics Canada. 2006. *Households and Housing File (Flat ASCII file), 2001 Census (Public Use Microdata Files)*. One data file on CD-ROM, 312,513 records, 96.4 MB uncrompressed. Accompanying documentation: user guide (pdf), SAS and SPSS command files (txt). Statistics Canada Catalogue no. 95M0020XCB. Ottawa.

<http://www.statcan.ca/bsolc/english/bsolc?catno=95M0020X>

(Accessed May 1<sup>st</sup>, 2007)