

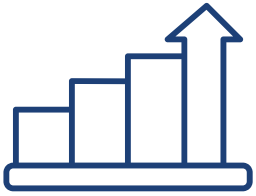
Alberta's Rental Market Dynamics and Policy Landscape Draft Report

May 2024

Prepared for:



Key Messages



High growth rates in the Edmonton and Calgary Rental Universe

The rental universe, consisting of buildings with 3 or more rental units, in Calgary and Edmonton has been growing at significantly higher rates compared to Toronto and Vancouver. This growth trend has been particularly evident over the past decade, with both cities experiencing notable expansions in their rental markets.



Alberta rental rates demonstrate stability and price flexibility

Despite fluctuations in the last decade, Alberta's rental market has exhibited relative stability in rental prices until 2021. In the past ten years, many municipalities in Alberta have witnessed a decrease in average rent, indicating a market capable of adjusting prices in response to economic forces.



Alberta's migration and demographic trends hike rent prices

Alberta's leading role in interprovincial migration, driven by job opportunities and favourable living conditions is resulting in a significant influx of young adults that is expected to impact housing demand and potentially escalate rent prices due to supply constraints.



Increases in costs are affecting landlord viability

Rising mortgage and utility expenses, along with maintenance costs exceeding average rent prices, pose profitability challenges for Alberta residential landlords, with average monthly expenses surpassing average rental income by \$138.92.

Key Messages



Edmonton is a leader in affordability

Edmonton stands out among Canadian metropolitan areas with the lowest unit price difference between turnover and non-turnover units and also has had the lowest percent increase in average rent over the past decade.



Rent control has unintended impacts on achieving affordability

Rent control, though aimed at affordability, can inadvertently lead to decreased housing quality, financial strain on landlords, and market distortions, underscoring the need for alternative policies to achieve balanced affordability objectives in Alberta.



Rent control and alternatives are hotly debated in Alberta

Proposed Bill 205 aims to cap rental increases at 2% in response to Alberta's housing affordability crisis and exacerbated by historical underinvestment in social and affordable housing—a challenge the government seeks to address by enhancing housing supply and extending rental supplements.



Landlords in Alberta have potential to support win-win solutions

By exploring tailored alternatives, like inclusionary zoning and tax incentives, residential landlords in Alberta can advocate for innovative solutions, fostering a more affordable and diverse housing market benefiting both tenants and landlords.

Project Plan and Methodology

Primary Objective: Create data-led communication and advocacy collateral to support voices of landlords in rent control policy discourse, create awareness and facilitate policy mobilization



Internal Document Review and Stakeholder Engagement

Review internal documents/reports and engage with ARLA stakeholders to support formulation of targeted argument



External Data and Media Scan

Identify following data elements:

- 10-year trend of property ownership and management costs, benchmark across Canadian cities
- Current and projected population growth in Edmonton and impact to housing demand
- Impact and unintended consequences of rent control policies on residential landlord sector



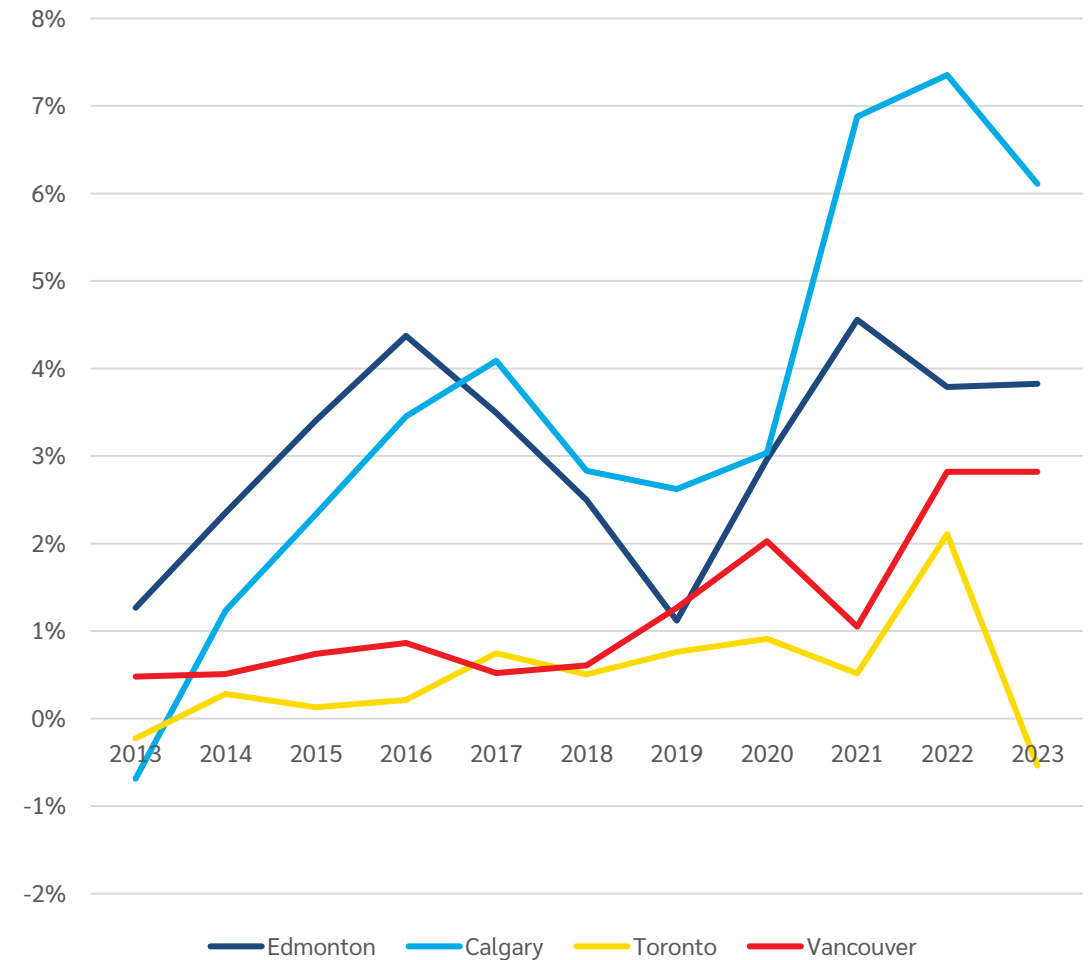
Analysis and Message Development

Identify data-led key messages to deliver presentation summarizing research outcomes and public-facing collateral and infographic

Housing Supply in Major CMAs

- **Growth in Rental Units** - Calgary and Edmonton have shown a significant expansion in their rental markets, particularly in properties with 3 or more units, outperforming other major Canadian cities.
- **2023 Rental Market Performance** - In 2023, rental properties in Edmonton saw a 4% increase, and Calgary experienced a 6% rise, indicating a robust rental market. In contrast, Toronto's rental market shrank by 1%, while Vancouver's rental market grew by 3%.
- **Annual Growth Comparison** - Calgary's rental market witnessed a substantial 7% annual growth over 2021 and 2022, surpassing the growth rates seen in Toronto and Vancouver during the same period.

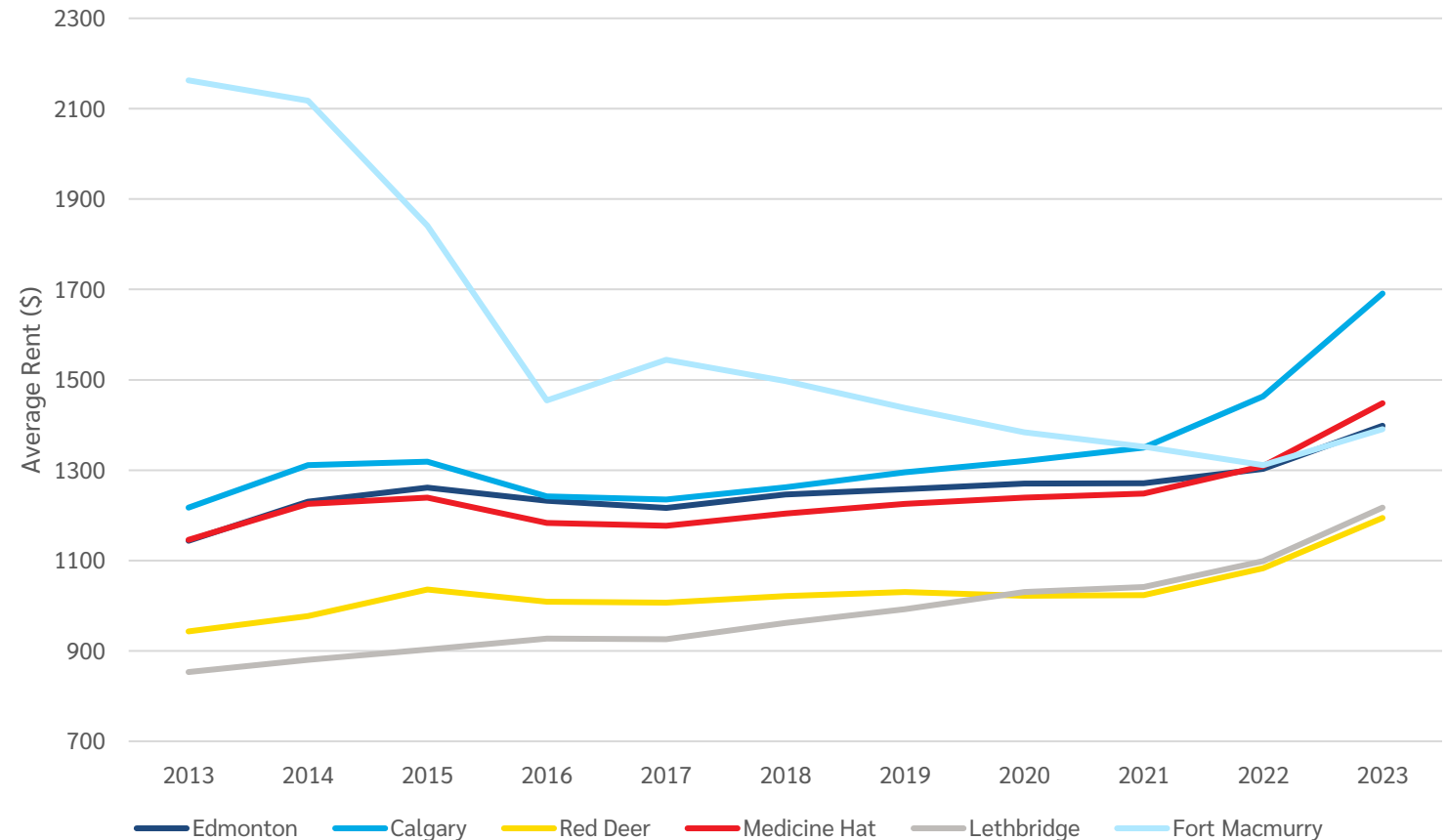
Year-over-year growth in the Rental Universe



Housing Landscape of Alberta

- **Rent Stability** - Between 2016 to 2021, rents in Alberta remained relatively stable with minor fluctuations, particularly noting small decreases between 2015 to 2017.
- **Economic Impact** - The downturn in global oil prices during this period impacted Alberta's economy, leading to reduced housing demand and lowered rental prices.
- **Municipal Variation** - Several Albertan municipalities saw rent decreases at different times over the past decade, indicating a market capable of adjusting prices in response to economic forces.

Average Rent for CMAs and select CAs in Alberta (2013-2023)

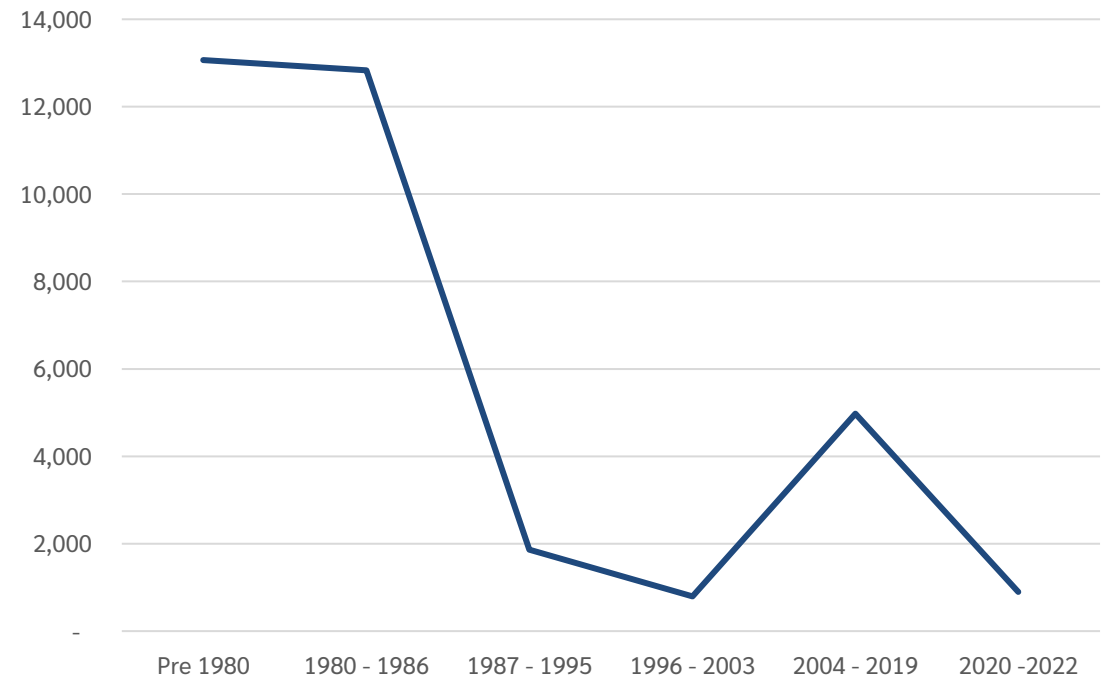


Social Housing Supply

- **Shifts in Social Housing Trends** -- Alberta saw a strong social housing construction with over 12,000 units pre-1980, but a steep decline in the following decades, with intermittent recoveries, especially between 2004-2019.
- **Demand vs. Supply Gap** – Currently, 16% of Edmonton's population faces core housing needs, yet only 10% have access to social and affordable housing, highlighting a disconnect between housing demand and the construction of new social housing, particularly with a significant drop post-2020.
- **Need for Policy Action** – The trend of fluctuating construction rates combined with the stark housing needs signifies an urgent requirement for policy measures that bolster long-term, consistent investment in social housing to align supply with the growing demand.



Number of Social Housing Units by Year of Completion in Alberta

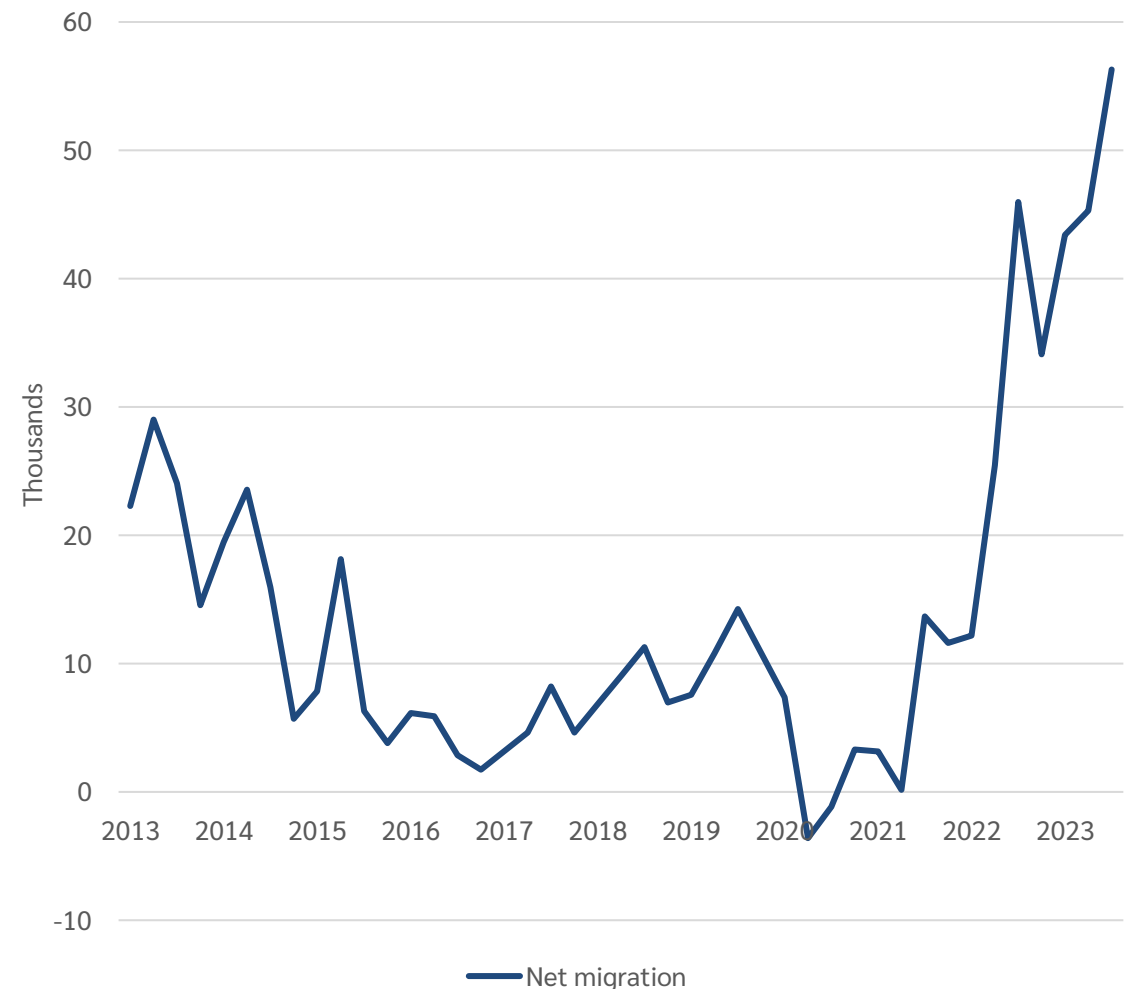


*time-periods displayed as provided by Stats Canada

Population Trends in Alberta

- **Interprovincial Migration Trends** - Alberta has consistently led in net interprovincial migration within Canada, particularly in the post-2013 period. The trend saw a notable dip in 2020, likely due to the impact of the COVID-19 pandemic. In 2023, net migration increased by 117,773 individuals, 28% of which moved from another province.
- **Demographic Dynamics** - A demographic shift shows an influx of young adults attracted by job opportunities and living conditions. This trend is particularly evident from the sharp increase in migration numbers starting from 2022.
- **Population Growth and Housing Supply** - Alberta's population increase, marked by a significant rise in young adults since 2022, is expected to impact housing demand, potentially escalating rent prices amid preexisting supply issues due to regulatory and land-use constraints.

Albertan Net Migration per Quarter



Breaking Down the Costs

- **Monthly Maintenance Costs** - The overall monthly expense estimate for a 2-bedroom rental in Alberta totals \$1,536.92, which covers the mortgage, taxes, insurance, maintenance, utilities, and property management.
- **Rental Income** - The average rent for this unit is \$1,398.00, which falls short of the monthly maintenance costs by \$138.92.
- **Operational Cost Factors** - Increases in mortgage and utility costs significantly contribute to the overall costs associated with renting out a property.
- **Tax Implications** - With rental income (excluding dividends from Real Estate Investment Trusts) being taxed at a high rate of 46.67% in Alberta, residential landlords face a substantial financial burden, emphasizing the impact of mortgage and utility bills on their overall expenses.

Costs associated with a 2-bedroom unit in the primary rental market

Monthly cost estimates based on area averages

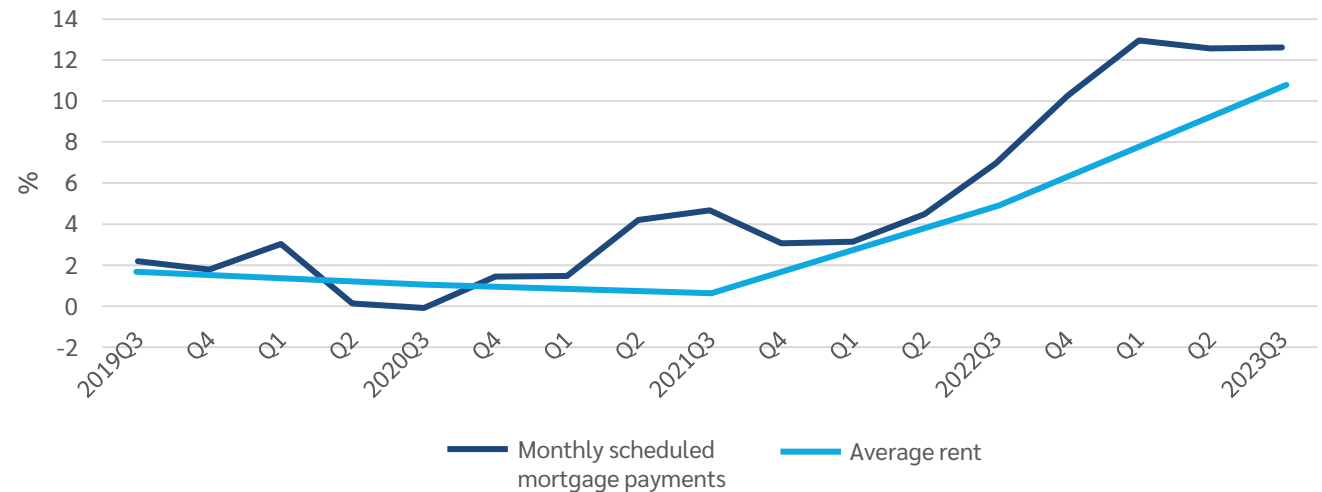
Median Residential Commercial Mortgage	\$767.72
Property Tax	\$144.38
Insurance	\$33.33
Maintenance/Repairs	\$174.75
Utilities	\$276.94
Property Management Fees	\$139.80
Sum	\$1,536.92
Average Rent	\$1,398.00

*Note that these are **estimates** for 2-bedroom unit in secondary rental market with a market value of \$165,000 based on the median price in Edmonton. Many factors impact the cost including tax rates, mortgage lender, size of downpayment, whether a property owner is hired, whether repairs are completed, how utilities are split with tenants and when a property was acquired.

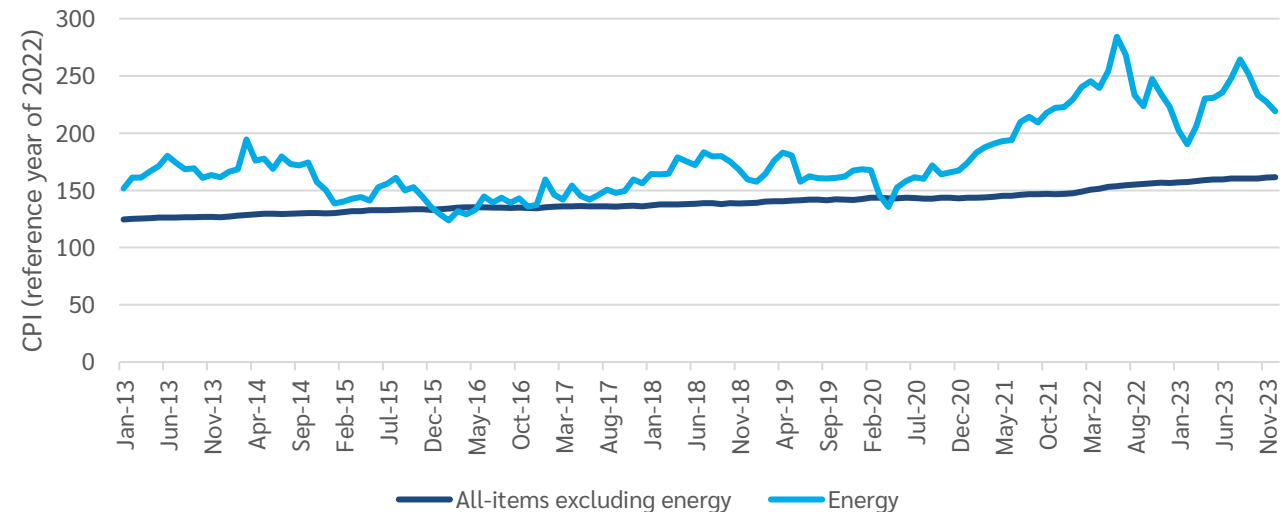
Inflationary Pressures

- **Rising Mortgage Expenses** - Since 2022, average mortgage payments have increased substantially by 13% in 2023 alone. Year-over-year growth rate of rentals tends to be smaller than the year-over-year growth rate of mortgage payments.
- **Energy Inflation** – Costs for electricity, natural gas, and fuel have spiked, surpassing other inflation rates in Alberta.
- **Utility Costs** - As energy costs rise, so do the utility bills for properties, possibly leading landlords to raise rents unless utility costs are separately metered and paid by tenants.
- **Landlord Adjustments** – Given the rising costs of mortgages, energy, and utilities, landlords are likely to adjust rent prices to mitigate their increasing expenses, impacting the overall rental market.

Year-over-year growth in average monthly scheduled mortgage payments (Canada) and average rent (AB)



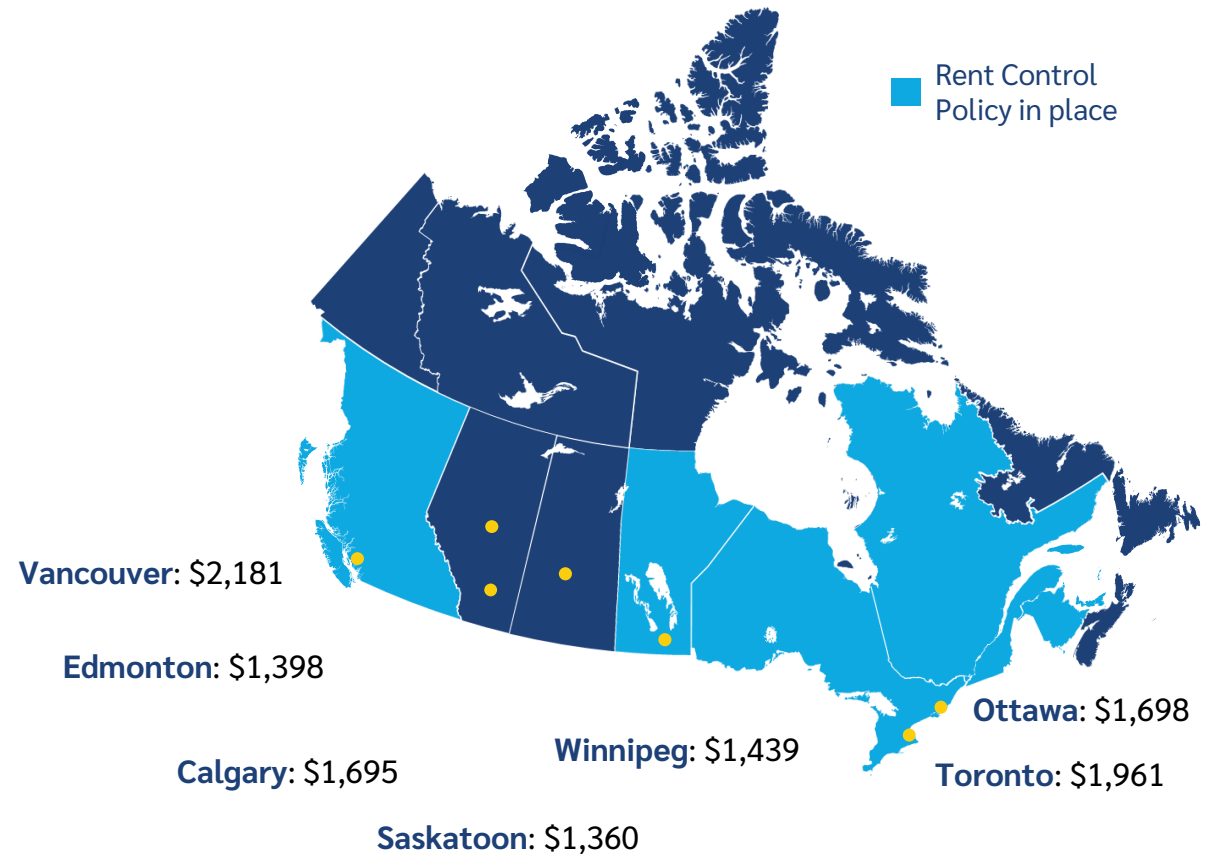
Inflation of Energy and Other Goods and Services



Jurisdictional Benchmarks

- **Regional Rent Comparison** - Edmonton's rental rates are on par with those in Saskatchewan, suggesting comparable affordability in the broader Western Canadian context without rent control measures.
- **Rent Controlled Regions** - Regions with rent control, such as Toronto, Ottawa and Vancouver have comparatively higher rental costs than Edmonton and Saskatchewan.

Average price for a two-bedroom unit



Jurisdictional Benchmarks

- **Unit Price Stability** - Edmonton has the lowest unit price difference between units that have been recently rented (turnovers) and long-term rentals, indicating a stable rental pricing environment.
- **Long-Term Rent Growth** - Edmonton has had the lowest percent increase in rent over the past 10 years among CMAs, reflecting a relatively moderate market for renters and landlords alike.
- **Lowest Income-Rent Ratio** – In 2023, Edmonton had the lowest income-rent ratio of 31.5% compared to the jurisdictions analyzed.

City	Average Rent for a non-turnover tenant	Average rent for a turnover unit	Increase in rent over 10 year	Vacancy Rate	Rent as a Percent of Median Pre-Tax Income	Rent Controlled
Edmonton	\$1,368	\$1,400	22.2%	2.4%	31.5%	No
Calgary	\$1,614	\$1,771	38.9%	1.4%	39.5%	No
Saskatoon	\$1,319	\$1,411	31.3%	2.0%	33.1%	No
Vancouver	\$2,082	\$2,601	69.5%	0.9%	49.4%	Yes
Winnipeg	\$1,397	\$1,439	47.8%	1.4%	35.5%	Yes
Ottawa	\$1,643	\$1,903	49.6%	2.0%	37.7%	Yes
Toronto	\$1,868	\$2,405	61.7%	2.0%	49.3%	Yes

Rent Control Policy in Alberta

- **Rent Control Policy in Alberta** – In December 2023, the Alberta NDP proposed Bill 205, known as the Alberta Housing Protection Act. If passed, the bill would implement a temporary rental cap of 2% for a duration of two years, followed by a cap linked to inflation for the subsequent two years.
- **Government Position and Alternative Approach** - The Alberta government opposes this measure, opting instead to focus on increasing housing supply and providing support to low-income families through rental supplements.
- **Investment in Affordable Housing** - Rent control is being proposed as a solution to affordability challenges that could be preempted by increased investment from the Alberta government in overall availability and access to affordable housing.
- **Comparison with Other Provinces** - Rent control measures, aimed at preventing rapid increases in rent and maintaining affordability for tenants, are currently in effect in other Canadian provinces, such as British Columbia and Ontario.



Unintended Impacts of Rent Control

- **Unintended Consequents of Rent Control Policies** - Rent control policies can have unintended consequences for residential landlords and the housing market, impacting affordability, property values, and neighborhood dynamics.
- **Need for Alternative Policies** - Careful consideration and tailored policies are necessary to mitigate negative effects, while achieving desired affordability goals.



Reduction in Housing Supply and Investment in Rental Housing

- Rent control may decrease rental housing quality and quantity, as landlords may convert buildings to condos instead of maintaining or upgrading properties, exacerbating housing shortages and affordability issues by discouraging new rental projects.



Impact on Property Values

- Rent control policies can reduce property values for both regulated and non-regulated units, leading to decreased property tax revenues for local governments. This reduction in revenue may lead to cuts to services or alternative revenue sources, impacting the wider community.



Effects on Rental Market Dynamics

- Rent control can result in increased rents in the non-controlled market segment as demand shifts from controlled units, further aggravating affordability challenges for tenants not covered by rent control.



Financial Implications For Residential Landlords

- Rent control financially strains landlords, especially those reliant on rental income, by limiting their ability to adjust rents in response to increasing costs. A CMHC study shows that rent control limits rental price flexibility, negatively impacting landlords' financial stability and returns.



Rent Control Limits Price Flexibility

- Rent control can reduce the flexibility of rental prices to adapt to market supply and demand, potentially stifling new rental developments and complicating financial outcomes for landlords in rent-controlled markets compared to those without such regulations.



Mobility and Gentrification Effects

- Rent control policies can reduce mobility, with tenants in controlled units being more likely to stay put due to below-market rents. While this may benefit some tenants in the short term, it can also lead to gentrification and increased income inequality, altering community demographics

Alternatives to Rent Control Policy

- **Exploring Alternatives to Rent Control** - Beyond rent control, options like affordable housing construction, inclusionary zoning, and tax incentives offer sustainable paths to affordability and supply.
- **Adapting Strategies to Alberta's Housing Market** - These measures offer diverse strategies that can be tailored to Alberta's unique housing market to benefit both landlords and tenants.
- **Advocating for Innovation Solutions** - Residential landlords have the opportunity to champion innovative solutions for a balanced and prosperous rental market in Alberta.



Flexible Zoning and Reduced Regulation

- Flexible zoning reduces housing development barriers by permitting diverse housing types and densities, promoting affordable and varied living options. **Calgary's** exploration of zoning changes to increase secondary suites and **Edmonton's** encouragement of a mix of housing types within existing neighbourhoods directly advances more flexible housing policies.



Inclusionary Zoning

- Inclusionary Zoning mandates developers to include affordable housing units in new projects. **Toronto, Hamilton, and Vancouver** have adopted or are exploring inclusionary zoning policies. Toronto requires affordable units in new developments to remain so for at least 99 years.

Alternatives to Rent Control Policy



Tax Incentives for Affordable Housing Development

- Tax Incentives encourage developers to build affordable housing. In **Alberta**, the *Capital Investment Tax Credit* shores up residential construction, while the *Affordable Housing Partnership Program* provide capital for affordable housing development.
- Program challenges that are impacting success of uptake include complex developer qualifications, limited funds affecting project scope, market instability impacting feasibility, procedural delays, and maintaining a balance between stimulus and market stability.



Supporting Low-Income Renters

- **Housing vouchers** assist low-income households in affording market-rate rents. The *Rent Supplement Program* in **Alberta** offers financial assistance to low-income Albertans to help them afford their rent.
- **Renters' tax credits** provide direct financial aid to renters, helping offset housing costs. While the Alberta government does not offer renter's tax credits, the *federal Canada Workers Benefit* includes components that indirectly support low-income workers, including renters, through tax credits and benefits.
- In **Alberta**, social assistance benefits are often misaligned with rental market prices, compounded by slow processing times and complex application procedures, leading to delayed support for individuals and families in need.

Key Considerations

ARLA has the opportunity to constructively participate in policy discussions, fostering a housing market that supports both landlords' and tenants' needs, while countering economic pressures that may otherwise lead to stringent rent control measures.

1

Promote Development Efficiency

Emphasize the need to streamline development processes to accelerate the creation of affordable housing, addressing the significant shortfall post-2020, and respond to the increasing rental market demands, especially in Edmonton and Calgary where rental markets have been expanding rapidly.

2

Economic and Market Adaptability

Advocate for policy measures that preserve the demonstrated past stability and flexibility of Alberta's rental prices as a market advantage that can guide future policy, ensuring that any controls or regulations do not impede the market's ability to adjust prices in response to economic forces.

3

Strategic Reinvestment in Housing

Urge for sustained investment in housing to meet Alberta's social and affordable housing demand, currently at 10% in Edmonton, and anticipate future needs signaled by migration trends. This strategy seeks to address the shortfall created by historical underinvestment and offer a sustainable alternative to rent control measures like Bill 205.

4

Enhanced Support for Landlords

Focus on the viability concerns of landlords due to rising costs and advocate for targeted financial supports or tax reliefs that enables landlords to maintain and expand their rental properties for a healthier rental market.

Key Considerations

5

Innovative Housing Solutions

Continue to pursue and support adoption of innovative solutions, such as flexible zoning, inclusive housing policies, and alternative support systems for low-income renters that can address the gaps in housing availability and affordability.

6

Inform Policy Through Data

Leverage the extensive data on Alberta's rental market dynamics, cost burdens for landlords, and demographic shifts to inform and shape discussions on housing policies, ensuring they are responsive to the actual needs of Alberta's residents.

7

Collaborative Approach

Foster partnerships and urge for a collaborative approach between landlords, government, and stakeholders to craft housing policies that are aligned with the economic realities and growth trends of Alberta's rental market.

8

Utility and Tax Incentives

Advocate for the Alberta government to reconsider and enhance utility and tax incentive programs and reduce red tape to make housing projects more feasible for developers to shore up the housing supply and affordable housing stock effectively.

Sources

- <https://economicdashboard.alberta.ca/dashboard/net-migration/>
- <https://www03.cmhc-schl.gc.ca/hmip-pimh/en/TableMapChart/Table?TableId=2.2.11&GeographyId=48&GeographyTypeId=2&DisplayAs=Table&>
- <https://www.cmhc-schl.gc.ca/professionals/housing-markets-data-and-research/housing-data/data-tables/mortgage-and-debt/mortgage-consumer-credit-trends-cmas>
- <https://www.cmhc-schl.gc.ca/professionals/housing-markets-data-and-research/housing-data/data-tables/mortgage-and-debt/average-monthly-payment-credit-product-canada-cma>
- <https://open.alberta.ca/opendata/alberta-population-projections-2023-2051-alberta-and-census-divisions-data-tables>
- <https://creastats.crea.ca/mls/edmo-median-price>
- <https://www.numbeo.com/cost-of-living/in/Edmonton>
- <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1810000401&pickMembers%5B0%5D=1.23&cubeTimeFrame.startMonth=01&cubeTimeFrame.startYear=2013&cubeTimeFrame.endMonth=01&cubeTimeFrame.endYear=2024&referencePeriods=20130101%2C20240101>
- https://commonsenseinstitute.co.org/wp-content/uploads/2023/03/CSI_Rent-Control_BRIEF_MARCH_2023.pdf
- <https://www.urban.org/urban-wire/will-new-statewide-rent-control-laws-decrease-housing-supply>
- <https://www.rentsync.com/resources/blog/the-potential-implications-of-rent-control-in-canada>
- <https://www.brookings.edu/articles/what-does-economic-evidence-tell-us-about-the-effects-of-rent-control/>
- <https://housingrightscanada.com/resources/rent-control-policies-across-canada/>
- https://www.urban.org/sites/default/files/publication/99646/rent_control_what_does_the_research_tell_us_about_the_effectiveness_of_local_action_1.pdf
- <https://globalnews.ca/news/10150846/alberta-ndp-bill-rent-increase-caps-housing-targets/>
- <https://globalnews.ca/news/9438796/rent-increase-tenant-rights-canada/>
- <https://www.toronto.ca/city-government/planning-development/planning-studies-initiatives/inclusionary-zoning-policy/inclusionary-zoning-overview/>
- <https://www.hamilton.ca/build-invest-grow/planning-development/zoning/inclusionary-zoning>
- <https://www.sorbaralaw.com/resources/knowledge-centre/publication/what-is-inclusionary-zoning-and-how-will-it-affect-your-development>
- <https://www.communityland.ca/canadian-clts/>
- https://www.broadbentinstitute.ca/community_land_trusts
- <https://www.cmhc-schl.gc.ca/blog/2021/results-social-affordable-housing-survey-rental-structures>
- <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=9810005801&pickMembers%5B0%5D=1.2976&pickMembers%5B1%5D=2.2>



Suite 700, 10339 – 124 Street NW
Edmonton, AB T5N 3W1

Contact Information:
E: info@pivotalresearch.ca
P: 877-421-1199

Pivotal Research respectfully acknowledges that our office is headquartered on the traditional and ancestral land of the Nêhiyawak, Anishinaabe, Niitsitapi, Métis, Dene and Iyāhé Nakoda in Treaty 6 Territory and Métis Region 4.