



Federation of Rental-housing
Providers of Ontario

URBANATION

Ontario Rental Market Study: The Changing Demographic Profile of Renters

September 2018

Prepared for the Federation of Rental-housing Providers of Ontario by
URBANATION Inc.



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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 gathering through relationships built within the industry over the past 30 years. Urbanation's reports monitor the new construction, resale condominium, rental apartment and proposed development markets in the Greater Toronto Area. 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 real estate developers as well as smaller-scale organizations, institutional investors, major lenders, government agencies, and a variety of service providers.

Data Limitations and Note to Readers

The analysis and results contained herein have been prepared on the information and assumptions set forth in this report. However, this report relies on information from secondary sources and Urbanation and FRPO cannot guarantee the accuracy of this data.

1.0 EXECUTIVE SUMMARY

- Urbanation was retained by FRPO to prepare a research report examining the changing demographics of renters in Ontario through a survey of members and an analysis of data reported by Statistics Canada and Canada Mortgage and Housing Corporation. The intention of the study was to shed light on recent shifts in the composition of rental demand in the province and the resulting market implications.
- The highest share of growth in renter households between 2011 and 2016 occurred through the condominium market (32%), while purpose-built rentals represented only 20% of the growth in renter households during the five-year period — substantially less than their overall share of the rental stock at 57%.
- The strongest source of recent renter household growth was derived from young adults aged 25 to 34 and empty-nesters aged 55-plus. Driven to new supply, a particularly high concentration of condominium renters were under the age of 35. With more downsizing occurring and tight market conditions leading to significantly higher rents upon unit turnover and within the new stock, there was a relatively high share of renter household growth represented by two-person households comprised of couples without children and roommates. Furthermore, almost all of the growth in renter households between 2011 and 2016 was concentrated among higher-income households earning \$60K or more.
- The overall share of one-person households remained significantly higher than the share of one bedroom and bachelor rental units, indicating that many larger two- and three-bedroom units were occupied by one person. Furthermore, it was found that more than half of renters were spending less than 30% of their income on shelter. These outcomes may be connected to a disincentive for renters to move under rent control as well as a lack of suitable new supply.
- The relatively less affordable Toronto market had a relatively low share of renters represented by households under the age of 35. Conversely, the relatively more affordable Ottawa market had the highest share of renters under 35. Toronto had an above average share of couples with children renters, and also the highest average incomes of over \$60,000. Renters in Kitchener-Waterloo spent the lowest percentage of income on rent, while also having the largest share of single-person households living in two- and three-bedroom rentals
- Urbanation's survey of FRPO members revealed that young working adults under the age of 35 were the fastest growing tenant type, followed by downsizers aged 55-plus. Couples without children also ranked highest for growth, with most respondents indicating that children under 15 occupied between 10% and 25% of their units. The strongest growing renter income group was between \$60K and \$80K, and most new tenants migrating from within the same city. Respondents generally wouldn't make changes to the mix of units in their portfolios, although some would increase the share of two bedroom units. For respondents with properties across a number different areas in Ontario, it was reported that larger markets have seen a greater increase in higher-income downsizers and renters under 35 compared to smaller markets.

2.0 INTRODUCTION AND METHODOLOGY

Introduction

FRPO retained Urbanation to undertake a research study that measures the changing demographic profile of renters in Ontario. Over the last several years, the rental market in Ontario has experienced its fastest growth in demand in decades. At the same time, however, supply growth has remained relatively stagnant. As a result, shifts in the profile of demand have mostly occurred within the existing older stock of rentals or new supply mostly represented by condominiums. Examining the changes in renter household dynamics and their impacts on the market can provide valuable information with respect to obtaining better knowledge of the current and incoming tenant base, possible market distortions caused by a lack of new supply and rent control regulations, and strategies for planning for future investment initiatives to capitalize on market opportunities. It may also be useful in helping to inform public policy with respect to promoting growth for Ontario's rental industry.

Report and Survey Methodology

During the spring of 2018, Urbanation, with FRPO's input, designed a 10 part questionnaire that was administered to FRPO members that own and/or manage rental apartments. FRPO members of this category are largely represented by institutional organizations with substantial purpose-built rental holdings, although also inclusive of smaller operators. The survey first asked each respondent questions relating to the location and total size of their rental portfolio, followed by a series of questions relating to their experience with respect to changes in the demographic profile of tenants in their buildings. The responses were tabulated and weighted according to the size of each respondent's total portfolio in Ontario.

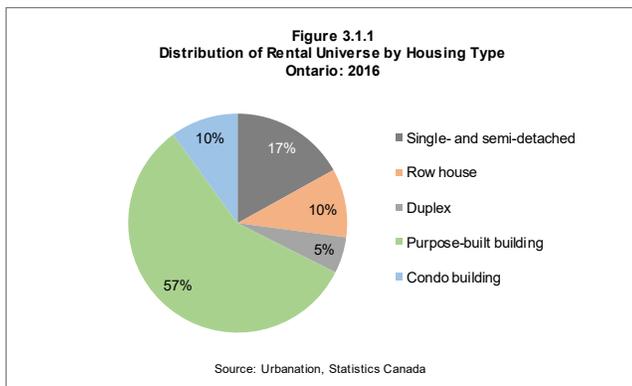
The respondents to the survey represented a total of 75,060 units, equal to approximately 12% of the total Ontario purpose-built rental apartment universe of 646,320 units as measured by CMHC as of 2017.

The survey results were reported in conjunction with the results of statistical research undertaken on the changing demographic profile of renters in Ontario during the latest five year period, using data released from the 2016 Census and 2011 National Household Survey. The impact on rental market conditions in Ontario was examined through data surveyed annually by Canada Mortgage and Housing Corporation (CMHC).

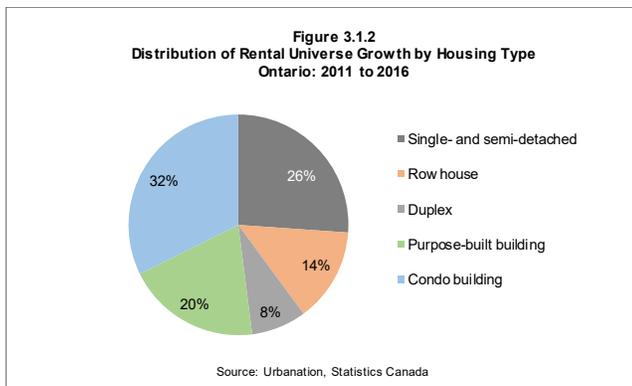
3.0 CENSUS DATA FOR ONTARIO RENTERS

3.1 What Type of Housing do Renters Occupy?

According to the latest 2016 Census, **over half (57%) of renter households in Ontario lived in a purpose-built rental apartment.** The second highest share of rental housing was represented by single- and semi-detached homes at 17%, followed by row homes and condominium units at 10% each. The remaining 5% of renter households occupied a duplex.



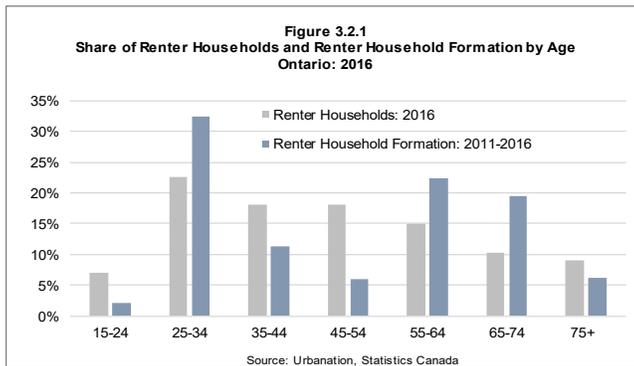
During the five year period between 2011 and 2016, **condominium units represented the largest share of growth in the overall rental stock in Ontario at 32%.** Singles and semis comprised 26% of the five-year growth, while purpose-built rental buildings were underrepresented with only a 20% share of the increase in rental households.



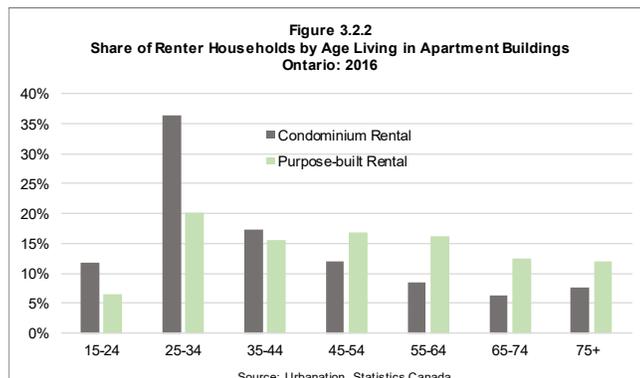
3.2 Age Profile of Renters

The 25 to 34 age group represented the largest percentage of renters in Ontario as of 2016 at 23%. An additional 7% of renter households were under the age of 25, resulting in a combined 30% share of renters under the age of 35. The 35-44 and 45-54 age groups each comprised an 18% share, while the 55-plus segment represented 34% of renter households, including a 19% share for households aged 65-and-over.

The 25 to 34 age group represented an even larger share of the total growth of renter households in Ontario between 2011 and 2016 at 32%. The 55-64 and 65-74 age groups were the only other two segments to comprise higher percentages of renter household growth during the latest five year period than their share of total renter households in 2016.

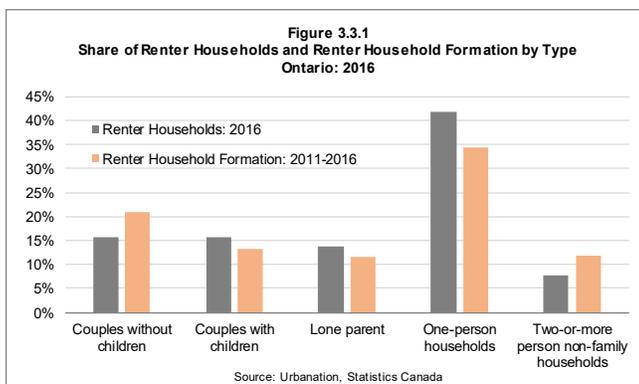


While renters living in purpose-built apartments were fairly evenly distributed by age range, **households occupying condominium rentals, which have represented the largest form of new rental housing in Ontario, were highly concentrated within the 25 to 34 age segment with a 36% share.** The 15 to 24 age group, largely comprised of post-secondary students and recent graduates, also had a higher concentration living in condo rentals than purpose-built rentals, with the former generally located centrally close to post-secondary institutions.



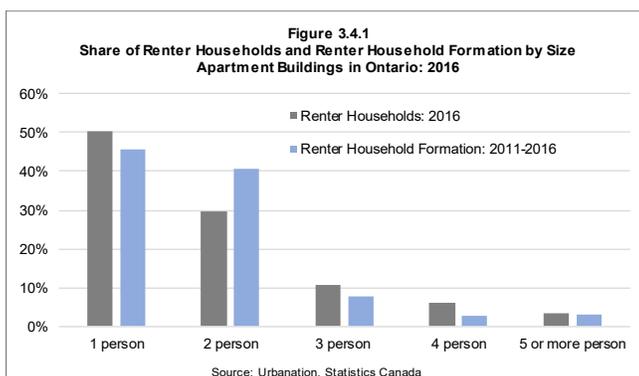
3.3 Renters by Household Type

The growth in renter households between 2011 and 2016 by family type resembled a similar distribution as the overall renter household profile. Single-person households represented the largest percentage of renters in Ontario at a 42% share in 2016, although their share of renter household growth during the previous five-year period was lower at 34%. Instead, **growth in renter households shifted to households represented by roommates (non-family households) and couples without children, together comprising one-third of the five-year increase.** Relative to their share of overall renter households in 2016, couples with children and lone-parent families saw lower shares of renter household growth.



3.4 Renter Household Sizes in Apartment Buildings

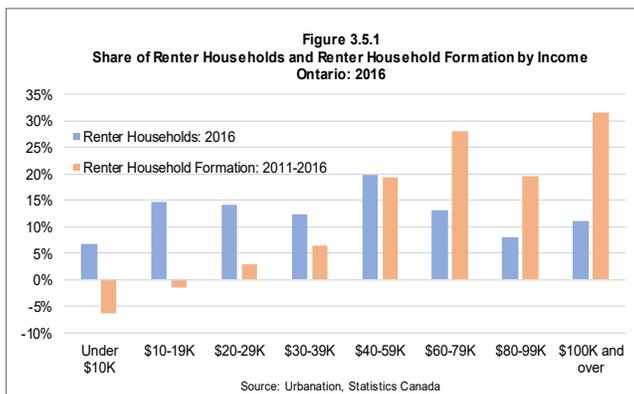
Two-person households represented 41% of the growth in renter households living in apartment buildings between 2011 and 2016 — significantly higher than their overall share of apartment renters in 2016 at 30%. Single-persons living alone dominated apartment building renters with a 50% share in 2016, although representing a lower share of the growth between 2011 and 2016 at 46%. Apartment building households containing three or more persons held a 20% share, with a reduced share of growth at 13%.



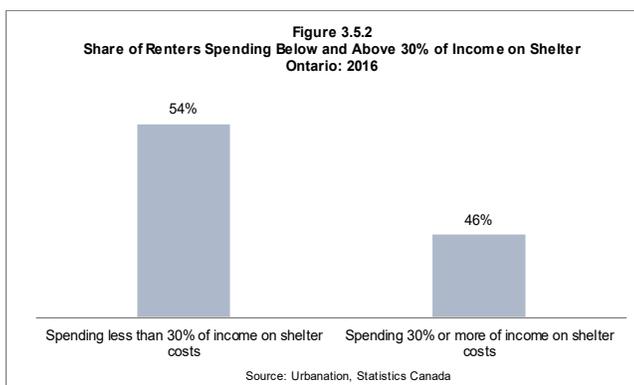
3.5 Renter Incomes

By \$20K income band, **the highest concentration of renter households in Ontario earned between \$20K and \$39K with a 27% share**, compared to a 20% share for renters earning \$40-\$59K and 13% share earning \$60-\$79K. Households earning \$80K or more represented 19% of renters, including 11% with incomes of \$100K or more, while at the lowest end, households with incomes under \$20K held a 21% share.

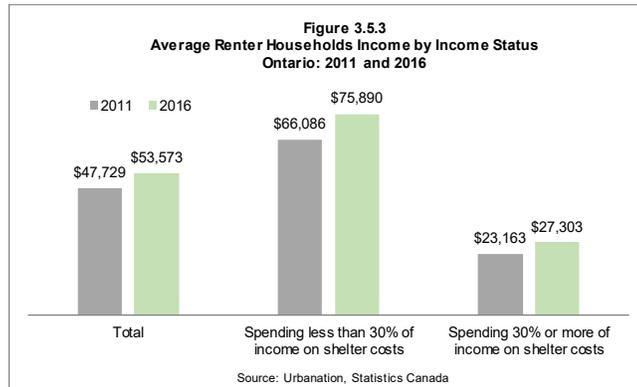
Almost all of the growth in renter households between 2011 and 2016 was concentrated among higher-income households earning \$60K or more with a 79% share. In fact, the largest share of growth in renter households was for those earning \$100K or more at 32%.



The strong growth in higher-income renters led to **more than half (54%) of households spending less than 30% of their income on shelter costs in 2016**. This compared to a 46% share of renters spending 30% or more of income on shelter.

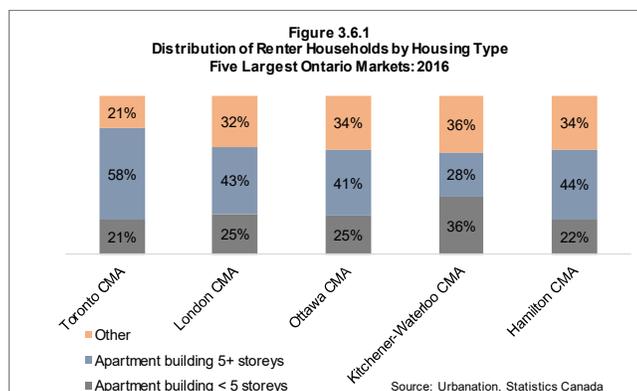


In total, **average household income for renters in Ontario increased by 12% between 2011 and 2016, from \$47,729 to \$53,573**. Among households spending less than 30% on shelter, average incomes grew by 15% to \$75,890, while average incomes for renters spending more than 30% on shelter increased by 18% to \$27,303.

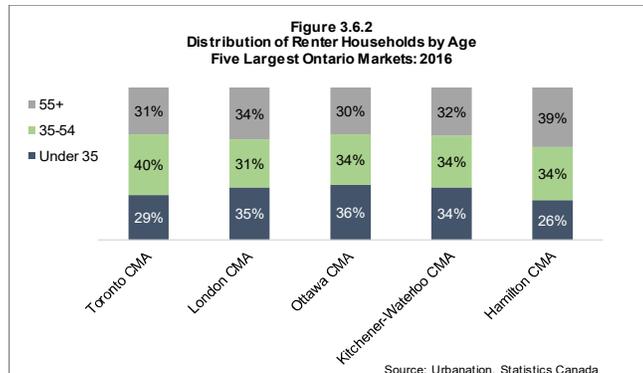


3.6 Demographic Differences by CMA

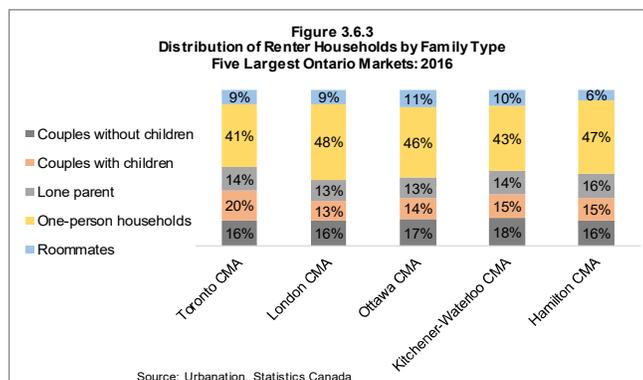
In examining the distribution of renter households by housing type across the five largest rental markets in Ontario, the share occupying apartments in buildings of five or more storeys was unsurprisingly highest in Toronto at 58%, which compared to shares ranging between 41% and 44% in Ottawa, London, and Hamilton. **Kitchener-Waterloo had a noticeably low share of renters in high-rise apartment buildings at only 28%**, with an equal share living in low-rise apartment buildings and other forms of rentals, mainly single-detached houses.



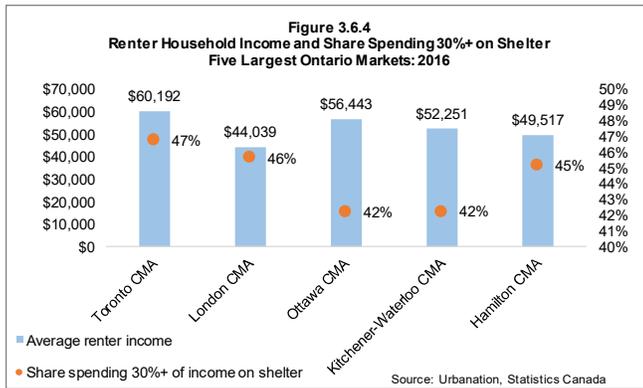
In terms of age distribution, the Toronto and Hamilton markets had relatively low shares of renter households represented by those under the age of 35 at 29% and 26%, respectively. **The Ottawa market had the highest share of renters under 35 at 36%**, as well as the lowest share of renters aged 55+ at 30%. The Toronto market had a noticeably higher share of renters aged 35 to 54 at 40%.



The share of single-person renters was relatively low in Toronto at 41%, as well as in Kitchener-Waterloo at 43%. **In Toronto, there was a noticeably higher share of renters represented by couples with children at 20%**. Couples without children renters were most common in Kitchener-Waterloo with an 18% share, while lone-parent renters had the highest share in Hamilton (16%) and roommates had the highest share in Ottawa (11%).



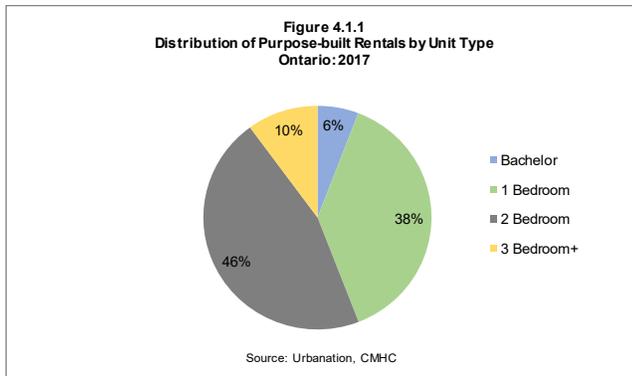
Average renter incomes were highest in Toronto and Ottawa at \$60,192 and \$56,443, respectively. However, Toronto also had the highest percentage of renters spending more than 30% of income on shelter at 47%, while Ottawa had the lowest at 42%. Kitchener-Waterloo also had a 42% share spending 30% or more on shelter, with a relatively high average renter household income of \$52,251.



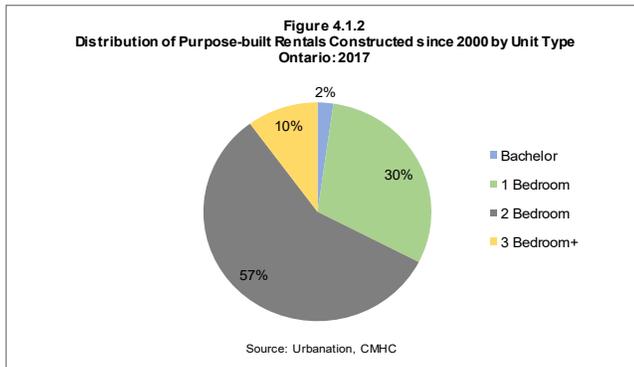
4.0 RENTAL MARKET CONDITIONS BY UNIT TYPE

4.1 Ontario Market by Unit Type

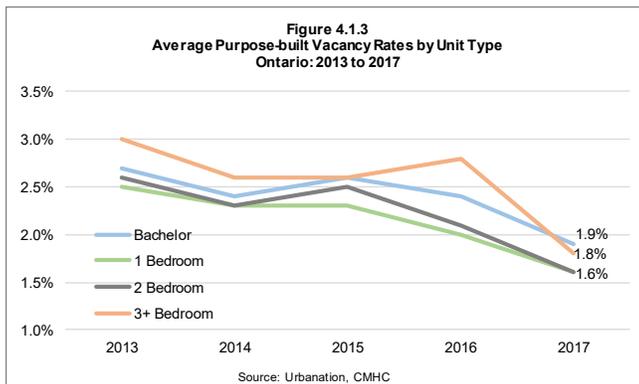
The Ontario purpose-built universe had its highest share of rentals represented by two bedrooms units at 46%, compared to a 38% share for one bedroom units, 6% share for bachelors, and a 10% share for three bedroom units.



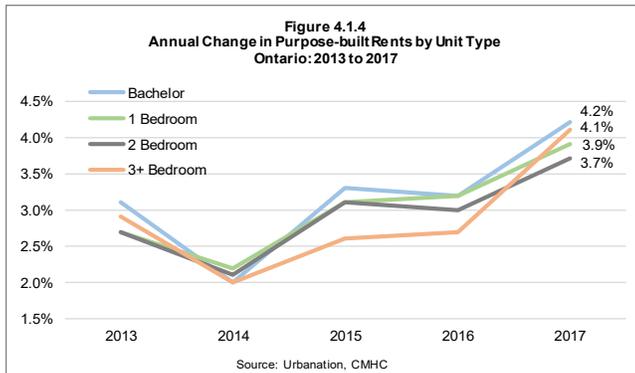
Within the new stock of purpose-built rentals in Ontario constructed since 2000, there was an even higher share of two bedroom units at 57%, and a reduced share of one bedroom units at 30%. The share of three bedrooms within the newer stock was constant at 10%, while the share of bachelors was lowered to only 2%.



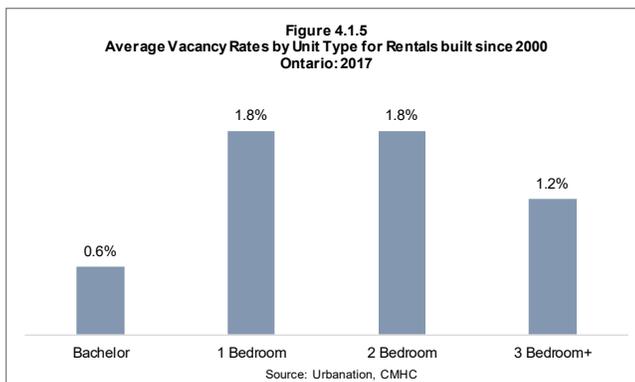
Vacancy rates have generally been trending down across all unit types over the past five years, with consistent declines reported over the last two years, apart from an increase for three bedroom units in 2016. However, three bedroom units recorded the steepest drop in 2017, falling to 1.8% from 2.8% in 2016. **Vacancy rates were lowest in 2017 for both one- and two-bedroom units at 1.6%, reporting very similar levels of vacancy over the last five years.** Bachelors recorded the highest vacancy of 1.9%.



In terms of rent growth, however, **the fastest rate of appreciation was found among bachelor units, which increased by 4.2% in 2017.** A very similar growth rate was recorded for three bedroom units at 4.1%, while one- and two-bedroom units increased by 3.9% and 3.7%, respectively. Over the past five years, purpose-built rent growth in Ontario averaged 3% per year, which was consistent across unit types.

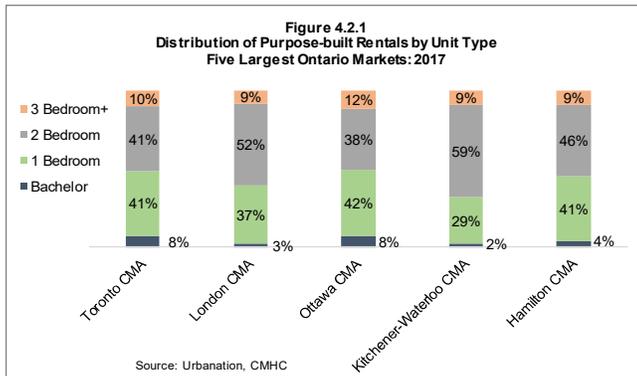


Within the new stock of purpose-built rentals constructed in Ontario since 2000, vacancy rates were again equal for one- and two-bedroom units, but at a slightly higher level of 1.8%. Three bedroom vacancy rates were relatively lower at 1.2%, while **vacancy rates for bachelor units were lowest in the new stock at only 0.6%**.

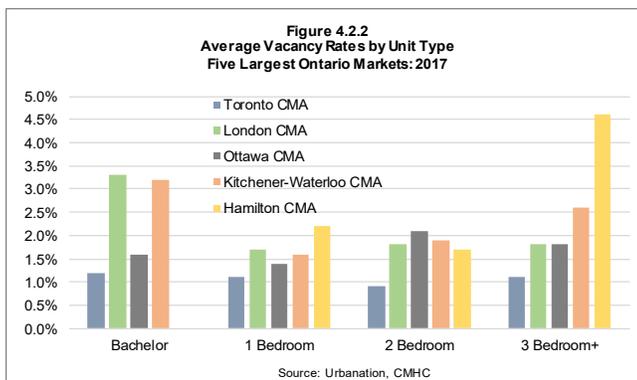


4.2 CMA Markets by Unit Type

The Kitchener-Waterloo market had a notably low share of purpose-built rentals represented by one bedroom units at 29%, with a relatively high share of two bedroom units (59%). The Ottawa market had the highest share of bachelors (8%), one bedroom units (42%) and three bedroom rentals (12%), leaving its share of two bedroom units lowest at 38%. The Toronto market had the most balanced mix of purpose-built rentals by unit type.



Across all unit types in the largest markets, purpose-built vacancy rates were lowest in Toronto in 2017, ranging between 0.9% (two bedrooms) and 1.2% (bachelors). Relatively high vacancy rates for bachelors were reported in London (3.3%) and Kitchener (3.2%). The highest vacancy rates for one bedroom units were found in Hamilton at 2.2%, falling below 2% in the other large markets. Ottawa had the highest two bedroom vacancy rates (2.1%), while a notably high three-bedroom vacancy rate of 4.6% was reported for Hamilton.

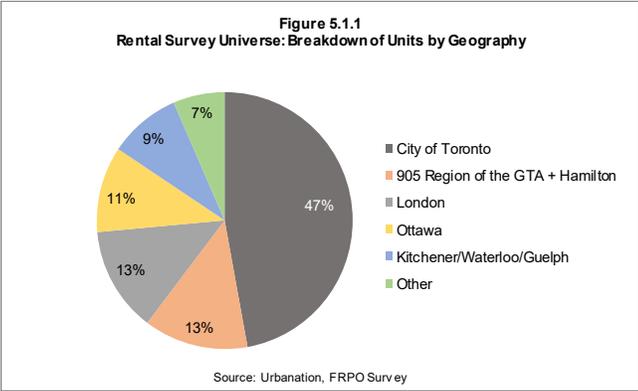


5.0 RENTER DEMOGRAPHICS SURVEY RESULTS

Geographic Distribution

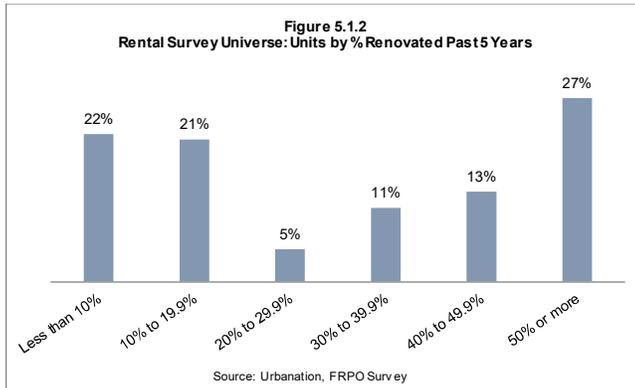
Urbanation’s survey of FRPO members on their experience relating to demographic trends within their rental portfolios generated responses that represented 75,060 units, equal to a 12% share of the entire purpose-built rental apartment universe in Ontario (646,030 units).

The geographic distribution of the rental portfolios owned and or managed by the **survey participants had a 60% share of units located in the Greater Toronto Area**, including 47% in the City of Toronto and 13% in the surrounding 905 markets including Hamilton. London represented the next largest share at 13%, followed by Ottawa (11%), and Kitchener-Waterloo (9%). These markets together represented 93% of survey responses, which was higher than their share of total purpose-built rental universe in Ontario at 77%.



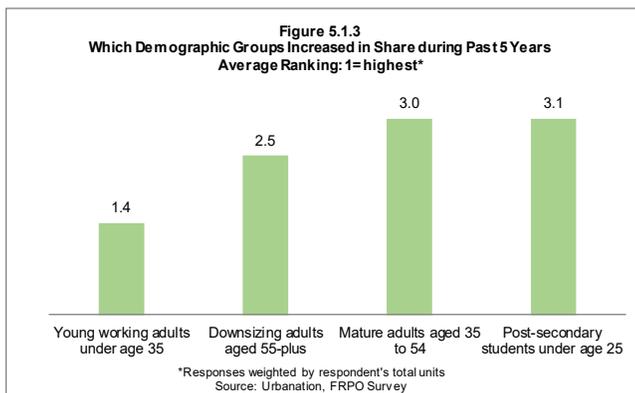
Renovation Activity

To get a sense of the quality of the stock represented by the survey respondents, it was reported that **more than half of units surveyed undertook renovation expenditures during the last five years to at least 20% of their portfolio**. The highest share of units represented by respondents (27%) indicated that at least half of their portfolio had received upgrades.



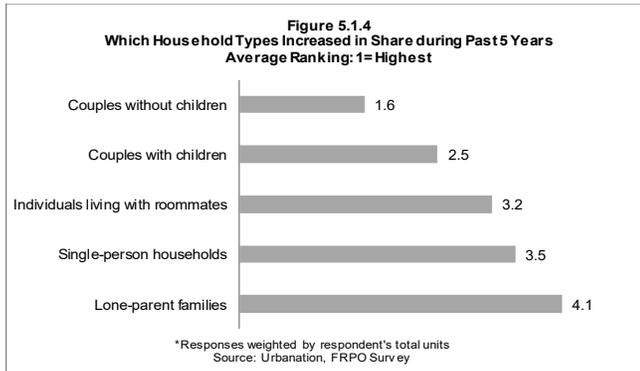
Age Groups

In ranking the fastest growing demographic segments of renters in their portfolio over the past five years, **the highest share of respondents (by total units) indicated that young working adults under 35 increased in share the most**, receiving an average score of 1.4 on a scale of 1 to 5 (1 representing the highest ranking). The next highest ranking segment was downsizing adults aged 55-plus with an average score of 2.5, followed by mature adults aged 35 to 54 and post-secondary students under 25 with similar scores of 3.0 and 3.1, respectively.



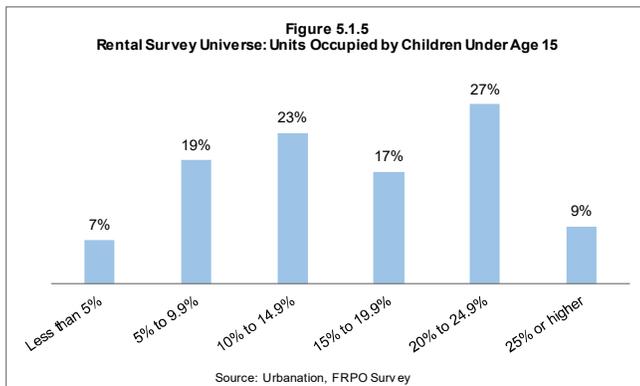
Household Types

For the fastest growing household types, the highest ranking was couples without children at an average score of 1.6. Couples with children followed with a score of 2.5, with the third fastest growing household type represented by roommates, averaging a score of 3.2. Single-person households and lone-parent families ranked lowest, with scores averaging 3.5 and 4.1, respectively.



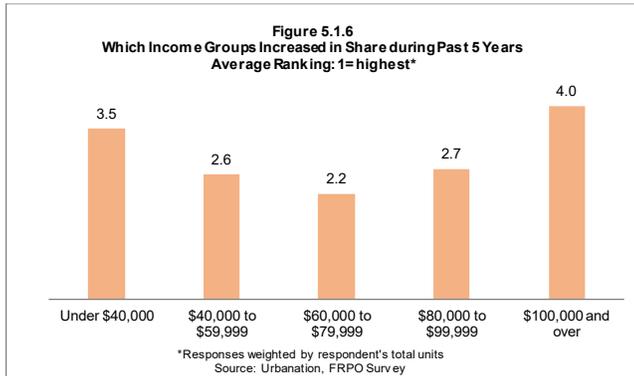
Children

Respondents representing three quarters of rentals surveyed indicated that units occupied by children under 15 represented shares of 10% or higher. The highest percentage of units (27%) reported shares between 20% and 25% for children under 15, with the bulk of respondents (two-thirds of units surveyed) indicating that children occupied between 10% and 25% of rentals.



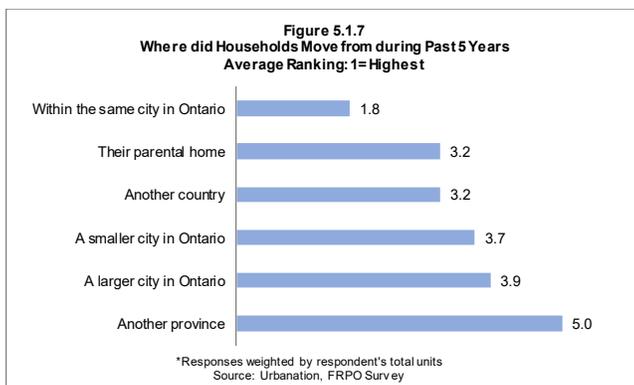
Income Groups

The strongest growing income group during the past five years was reported by respondents to be between \$60K and \$79K, averaging a score of 2.2. Closely following was the \$40K to \$59K and \$80K to \$99K income bands with average scores of 2.6 and 2.7, respectively. The lowest ranking income groups for growth over the last five years were at the extreme ends of the income scale, with those earning under \$40K averaging 3.5 and renters earning \$100K or more having an average score of 4.0.



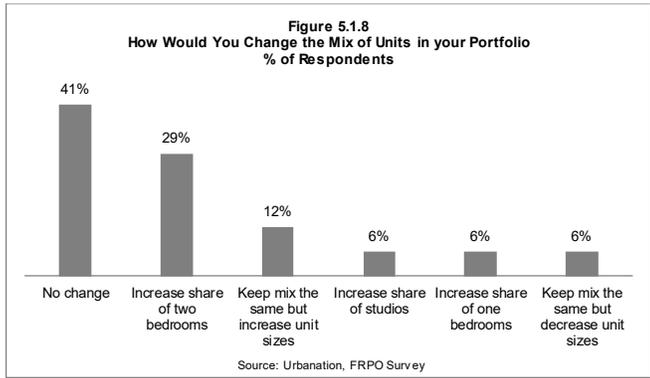
Migration

When asked where new tenants arrived from during the past five years, the highest ranking response was 'from within the same city in Ontario', with an average score 1.8. Scores for all other options were notably higher, averaging 3.2 for the next highest ranking responses of 'from their parental home' and 'from another country'. At the bottom end of the list of responses were 'from a smaller city in Ontario (3.7)', 'a larger city in Ontario (3.9)', and, lastly, 'from another province (5.0)'.



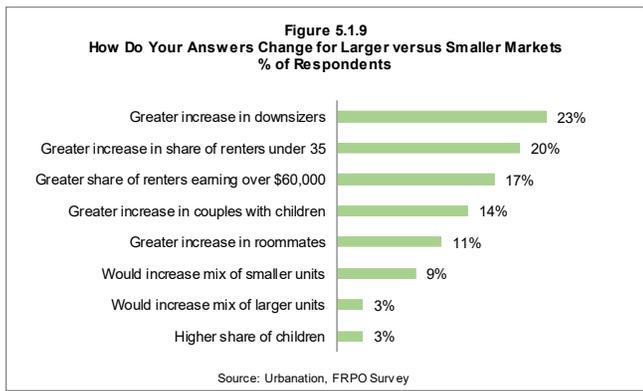
Unit Mix Changes

The highest percentage (41%) of respondents indicated that if they could hypothetically change the unit mix in their portfolio, they would make no changes at all. The second highest share (29%) would increase their mix of two bedroom units, while 12% would keep their unit mix the same but increase the size of their units. Other options selected included increasing the share of studios, increasing the share of one bedrooms, and keeping the mix the same but decreasing unit sizes — each with a 6% share of responses.



Larger vs. Smaller Markets

Lastly, it was revealed that **when comparing larger versus smaller markets, the highest share (23%) of respondents indicated that they have witnessed a greater increase in downsizers in larger markets**, followed by 20% reporting a greater increase in renters under age 35. Other more common observations on larger versus smaller markets included a greater increase in renters earning over \$60K, a greater increase in couples with children, and a greater increase in roommates.



6.0 CONCLUDING COMMENTS

Driven by population trends, economic conditions, industry regulations, and changing perceptions towards renting, the demographic shifts outlined in this report shed important light on current rental market dynamics in Ontario.

Contrary to popular belief, the growth in young adult condominium renters did not translate into an increased share of single-person rental households. Rather, the household categories that grew in share were couples without children and two-person non-family households (i.e. roommates) — reflecting an increase in downsizers opting to rent, young couples unable to break into the ownership market or increasingly choosing the rental lifestyle, and single persons joining together to save on rental costs. The outsized growth in two-person households has also contributed to more concentrated demand among higher-earning renters. Indeed, it was found that more than half of renters were spending less than 30% of their income on shelter costs, with these households earning \$76,000 a year on average. Rent control regulations and the limited amount of new purpose-built rental supply being built in Ontario may be contributing to this market distortion.

As well, it was determined that the share of single-persons living alone in apartment buildings was notably higher than the share of one bedroom and bachelor purpose-built rentals, suggesting that a sizeable number of bedrooms within the existing stock were unoccupied. In addition to being disincentivized to move when their unit is rent controlled, tenants have been presented with a scarce quantity of new rentals to encourage upward mobility, which together creates a supply trap for the market and has been a key factor behind vacancy rates in Ontario falling to a 15-year low. Within the stock of newer purpose-built rentals constructed since 2000, there was a reduced share of one bedroom units. While the increased share of two bedroom units has been beneficial to certain key groups such as downsizers (several new projects in Toronto have effectively targeted this group), it has become clear that more supply of all types is needed. After all, vacancy rates were reported equally as low for one bedroom units and two bedroom units.

The fact that the survey results of FRPO members echoed the official statistics provided further evidence that the noted demographic shifts were firmly entrenched in the marketplace. These findings should help the industry better understand the makeup of their tenants and provide guidance for those looking to add or make modifications to their portfolios in the future, but also inform public policy when considering changes to rental regulations.