SPECIAL REPORT
CANADA PURPOSE-BUILT RENTALS

IPA INSTITUTIONAL PROPERTY ADVISORS
A DIVISION OF MARCUS & MILLICHAP, BROKERAGE

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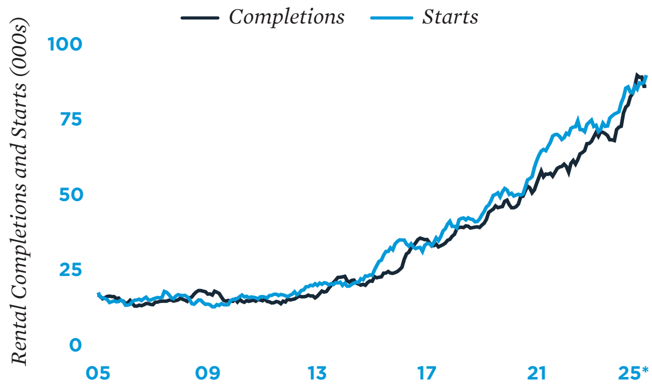
Cost, Comfort and Returns Drive Demand for Lower-Height Rentals

Builders and government favouring rental construction. Record population growth following the pandemic, waning demand for condominiums and concerted efforts from all levels of government have fuelled the development of rental properties across Canada. Beginning in 2023, the downturn in the condo market — driven primarily by mounting barriers to homeownership, shifting household preferences and economic uncertainty — has prompted developers to meet surging population growth through the rental segment of the housing market. Government support has also aided development activity, coming in the form of federal financing and tax incentives, in addition to municipal-level zoning reforms and deregulation. As a result, on a trailing 12-month basis, completions of purpose-built rentals rose from 45,000 units in 2019 to 85,000 units as of April 2025. Construction starts have followed a similar trajectory, suggesting that new deliveries are likely to remain elevated over the coming years.

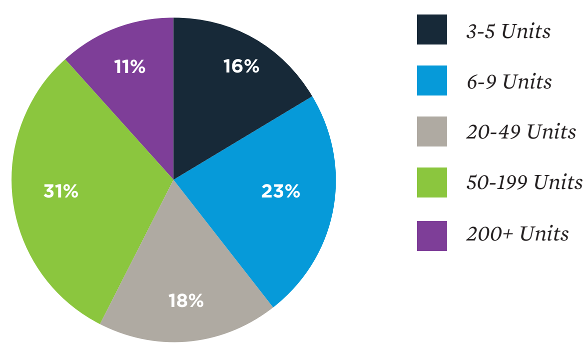
Moderate-density projects gain traction among select investors. With construction costs rising and vacancy rates climbing over the past year, some residential builders are shifting focus towards low- and mid-rise rental projects. These buildings, typically between 1 and 12 storeys, often provide a transit-supportive form of development that delivers moderate density without the scale and complexity of high-rise developments. Compared with high-rises, low- and mid-rise apartment buildings are appealing to renters, generally more cost-effective to build and usually yield higher-income returns for owners.

Fewer storeys mean lower costs. In Canada, the current average hard construction cost per square foot for private condominiums and apartments ranges from $325 for buildings under 12 storeys to $425 for those over 60 storeys. The lower cost of shorter buildings is driven by several key factors. Low- and mid-rise structures typically rely on wood frame or concrete block construction, which is less costly than the reinforced concrete and steel required for high-rises. These buildings also involve simpler – and therefore less expensive – structural and mechanical systems. Labour is generally more standardized and less specialized for low- and mid-rise projects as well, further reducing expenses. Additionally, approval processes and building code requirements tend to be more favourable for low- and mid-rise buildings – especially in jurisdictions with pre-zoned “missing middle” policies, which streamline development for this scale of housing.

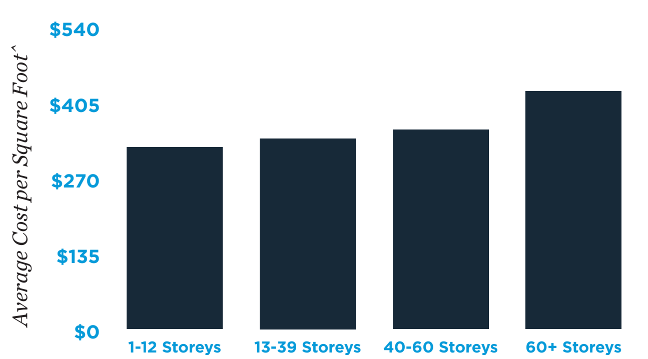
Rental Supply Rising Steadily



2024 Rental Universe by Structure Size

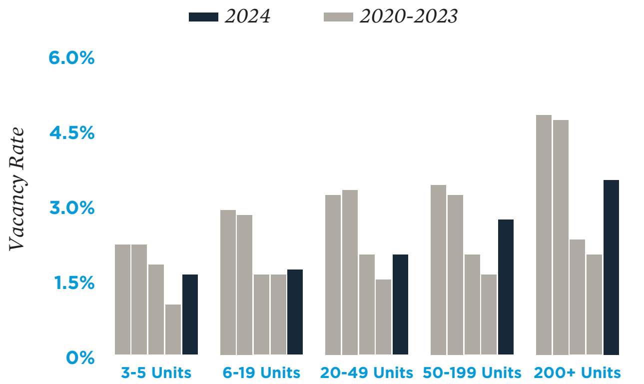


Cost Advantages for Low-Rise Buidlings

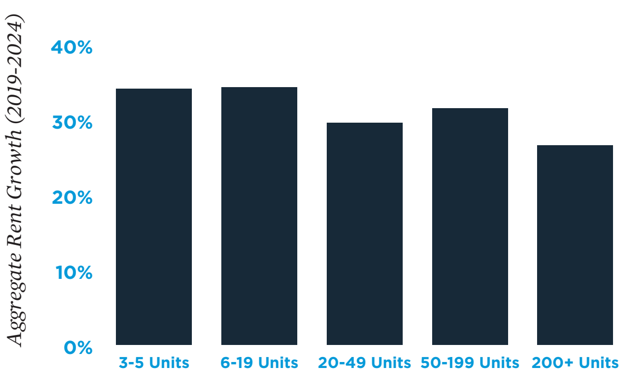


** Trailing 12-month total through April; ^ Average cost of condominiums and apartments includes only hard construction costs in Vancouver, Calgary, Edmonton, Winnipeg, GTA, Ottawa, Montreal, Halifax and St. John’s.*
Sources: Altus Cost Guide; CMHC

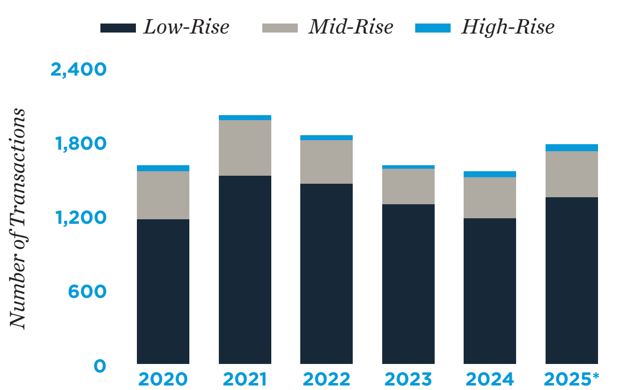
Lower Vacancy in Lower-Rise Buildings



Faster Rent Growth in Lower-Rise Buildings



Low- and Mid-Rises Dominate Sales



* Trailing 12-month total through May

Low- and mid-rises offer appealing features. A shift towards hybrid work has placed greater emphasis on work-life balance in the post-pandemic years. There has been an increase in demand for larger living areas, access to green spaces and convenient commute options. As a result, low-rise plex-style rentals and mid-rise apartment buildings – often located along transit corridors and in walkable, less urban neighbourhoods – have grown in appeal among renters. Compared with high-rises, these shorter structures tend to offer greater privacy, quieter and larger living spaces, better outdoor access, and a stronger sense of community. Many new low- and mid-rise developments also feature modern layouts, energy-efficient appliances and high-quality finishes. On top of that, shorter to no elevator wait times, lower noise levels and less restrictive security protocols make mid-rise properties especially attractive to families and long-term tenants.

Lower-rise buildings showing strong fundamentals. Demand for low- and mid-rise apartments has been strong, as indicated by their lower vacancy rates and faster rent growth. From 2019 to 2024, smaller rental buildings consistently had lower vacancy than larger ones. Even as vacancy rose last year, low- and mid-rise properties noted a milder increase than high-rises. These vacancy trends are also mirrored in rental rates. Over the past five years, average rents in buildings with 3 to 19 units rose by 34 per cent, compared with a 27 per cent increase in buildings with over 200 units. The lifestyle appeal of smaller buildings makes renters more willing to pay premium rents, especially when supply is limited. Additionally, while high-rises often attract younger or more transient tenants, lower-rise buildings tend to have lower turnover rates, particularly in desirable suburban areas. This provides greater income stability and reduced downward rent pressure for owners during market slowdowns.

Smaller buildings are appealing. Historically, low- and mid-rise assets have captured a larger share of the transaction market, accounting for approximately 97 per cent of all sales over the past five years. Amid evolving market conditions – driven by recently slower population growth, a steady increase in apartment supply and near-term uncertainty – some investors may continue targeting assets that are more cost-efficient but also offer a balance of modern features, sustainability and steady long-term returns. All of which are attributes commonly found in low- and mid-rise developments.

Sources: IPA Research Services; Altus Data Solutions; Costar Group Inc; CMHC

Price: $1,500

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