

Rental Market Sees Second Year of Adjustment Amid Population Slowdown

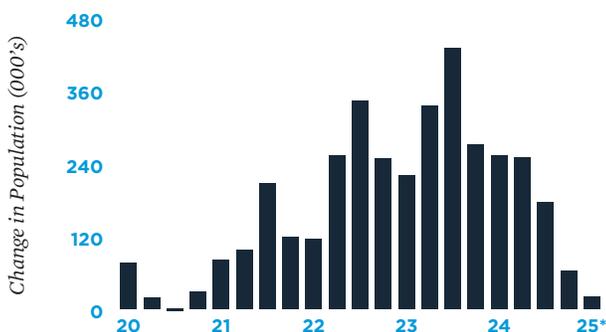
Demographic tailwinds fading for the multifamily sector. In line with expectations, Canada's immigration reform has significantly slowed population growth. Between October 2024 and March 2025, the temporary resident population declined by 89,000 – a stark contrast to an increase of 340,000 during the same six-month period the year before. This reversal brought annual population growth down to 1.2 per cent in the first quarter of 2025 – a sharp slowdown from 3.2 per cent a year earlier. If the federal government follows through on its plan to reduce the non-permanent resident population to 5.0 per cent of Canada's total, overall population is projected to decline by 0.2 to 0.3 per cent annually in 2025 and 2026. As the majority of non-permanent residents are renters, their departure will continue to ease demand pressures in the apartment rental market. The impact will be especially pronounced in some larger metropolitan areas, where post-pandemic population growth had relied heavily on inflows of international students and temporary foreign workers.

Rental stock rising across all market segments. Alongside demographic shifts, multifamily investors are also facing mounting supply-side risks. Purpose-built rental starts hit a record high of nearly 90,000 units in the 12 months ended June, indicating elevated completions in the next few years. In the secondary market, total condo rental units in major metros rose 7.9 per cent last year – well exceeding population growth. This well-supplied condo market tends to act as a secondary source for rentals, further expanding Canada's effective apartment stock.

Vacancy rate to continue rising. As demand softened amid a surge in supply, multifamily vacancy rates rose across Canada last year. This trend is expected to accelerate in 2025 as household formation slows further while completions remain elevated. Following a 70-basis-point increase in 2024, the national vacancy rate is forecast to climb another 130 basis points, surpassing pre-pandemic levels. The rise is likely to be more pronounced in larger metros experiencing significant outflows of non-permanent residents as well as affordability challenges – such as Toronto, Vancouver and Montreal. Ottawa and Edmonton, where domestic in-migration has bolstered population growth, are expected to see a more moderate increase.

Higher vacancy rates put downwards pressure on rent growth. Amid lower population inflows, supply-side risks and strained renters' budgets, rent growth is softening across Canada. Property owners are increasingly offering incentives such as free-rent periods and other move-in perks, which are helping to ease effective rent increases. Monthly data shows that this moderation so far in 2025 has been concentrated largely in one- and two-bedroom units – the preferred choice among new immigrants and temporary residents. As a result, the average effective rent is forecast to increase by just 1.0 per cent in 2025 – a sharp deceleration from last year's 6.7 per cent gain. In Toronto, Vancouver and Southwestern Ontario – where recent immigration policy changes are expected to have the greatest impact on population growth – rent increases are projected to fall below 1.0 per cent, reaching multi-year lows.

Population Growth Grinds to a Halt



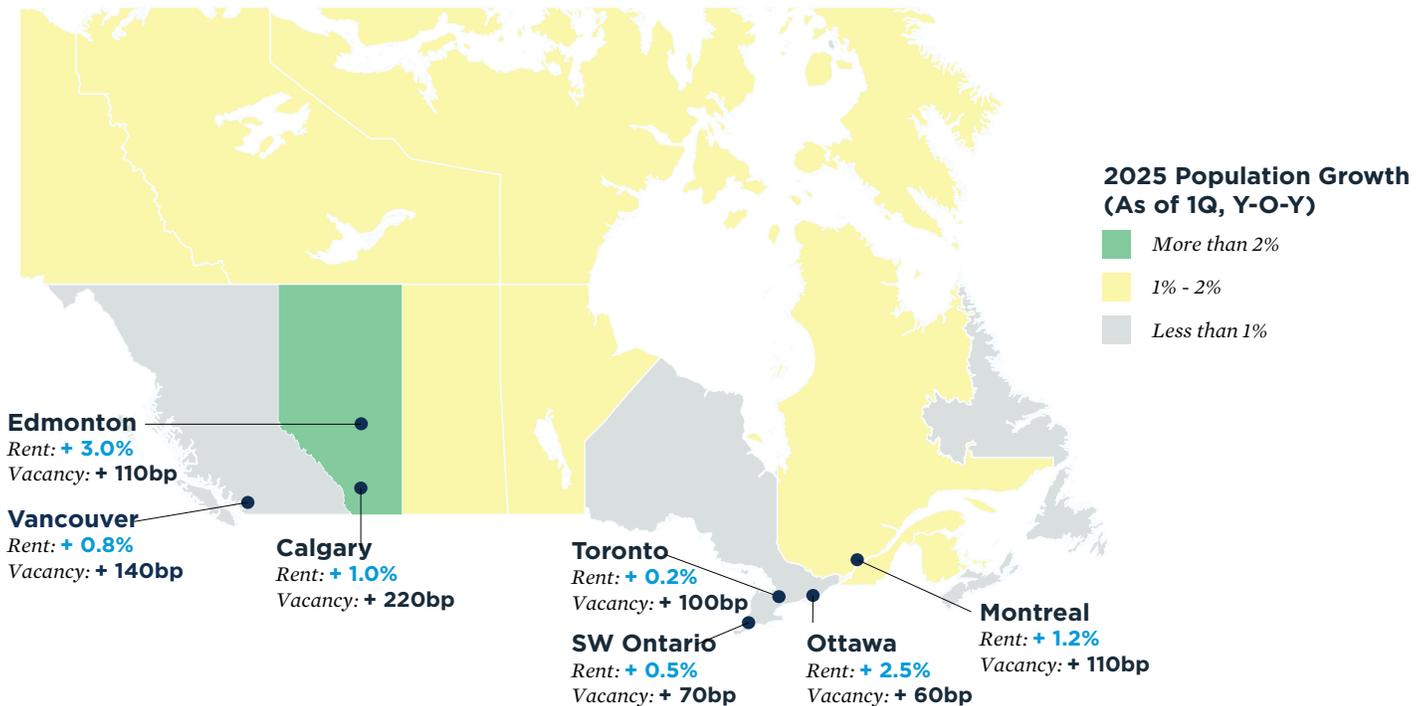
Multifamily Supply and Demand



* Through 1Q; ** Forecast

Sources: Canada Mortgage and Housing Corporation; Statistics Canada

2025 Rent Growth and Vacancy Change Forecasts



Sources: Canada Mortgage and Housing Corporation, Statistics Canada

WESTERN CANADA

- Calgary, Alberta:** Calgary’s apartment market is entering a transition phase as record completions follow years of rapid rent growth fueled by strong population gains. While the influx of new supply is expected to moderate performance in the near term, the city’s lower cost of living, continued in-migration, and major energy, clean-tech and infrastructure projects are poised to support rental demand and sustain long-term market strength.
- Edmonton, Alberta:** Edmonton stands to benefit from the One Canadian Economy Act, which could boost jobs and population growth in the city and its transit-linked suburbs. Rapid enrollment growth at the University of Alberta is also driving rental demand. While new supply and slower population gains may lift vacancy in the short term, these factors are expected to support long-term growth and attract a younger, highly educated workforce.
- Vancouver, British Columbia:** Vancouver’s apartment construction starts are down nearly 20 per cent year over year as high costs, softer rents and slow approvals curb development. Slower supply growth may help contain vacancy, but it could also hinder long-term affordability goals. Demand remains strong in submarkets like Surrey and the Tri-Cities, where population growth, rental-first policies and transit-oriented projects are driving investor interest.

EASTERN CANADA

- Montreal, Québec:** Montreal’s rental market is softening as Québec’s tighter immigration policies slow population growth. Weaker demand, coupled with a robust construction pipeline, is pushing vacancy higher and easing rent pressures, improving affordability but weighing on near-term market performance.
- Ottawa, Ontario:** Ottawa’s multifamily development is focused on transit-oriented and emerging nodes, while short-term supply pressures soften fundamentals. Strong public sector employment, a growing tech sector and a large university presence support a positive long-term rental market outlook.
- Southwestern Ontario:** Transit projects in Southwestern Ontario are improving connectivity and supporting long-term apartment demand. Although tariffs and manufacturing job losses pose near-term risks, overall employment remains resilient, leaving the region well positioned for future growth.
- Toronto, Ontario:** Toronto’s multifamily market is recalibrating as elevated rental inflation and lagging wage growth strain renters’ budgets. While short-term challenges persist, the city’s status as Canada’s economic hub support long-term demand, keeping the multifamily outlook healthy.

2025 Forecast

EMPLOYMENT

0.7% increase Y-O-Y

- While trade tensions are weighing on employment growth this year, a supportive policy environment should provide a cushion. Slowing population growth may also help stabilize the unemployment rate.

CONSTRUCTION

65,000 units completed

- Construction activity is expected to slow after last year's record level of completions; however, construction starts continue to rise, indicating elevated openings in the coming years.

VACANCY

130 basis point increase Y-O-Y

- Softening rental demand, due to slower population growth and economic challenges, is expected to push vacancy up to 3.5 per cent. Fewer completions should nevertheless help moderate this increase.

ASKING RENT

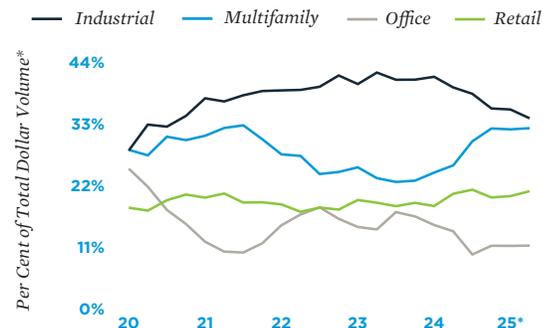
1.0% increase Y-O-Y

- An increasing number of landlords are offering move-in incentives this year, which is set to slow growth in average effective rents to just 1.0 per cent – well below that of previous years.

2025 INVESTMENT OUTLOOK

- **Apartment sales holding up.** Following last year's capital gains tax changes – which significantly boosted investment activity in the second quarter of 2024 – both the number of transactions and total dollar volume saw a large year-over-year decline between April and June 2025. Even so, with roughly 360 apartment properties changing hands, second-quarter investment activity this year proved resilient, particularly given the overall cautious market sentiment stemming from ongoing trade tensions and broader economic uncertainty.
- **Momentum in apartment investment continues to build.** Transaction activity for multifamily assets was also resilient in the second quarter compared with other property types. Over that span, apartments accounted for nearly one-third of total dollar volume across all commercial real estate sectors, approaching the highest level last seen in 2021. As government initiatives increasingly target purpose-built rentals to ease Canada's housing shortage, the sector is poised to remain a key magnet for capital.
- **Rising sale prices reflect investor confidence.** The trailing 12-month average sale price of an apartment unit surpassed \$200,000 in the second quarter, reflecting stabilizing values after two years of decline. This stands in sharp contrast to the weakness in the condo market, where sluggish sales and swelling listings have prompted notable price reductions. Steady income streams and the sector's defensive nature are attracting capital even as other property types face pricing pressure, further reinforcing upwards momentum on values.

Apartment Investment Gaining Momentum



Multifamily Price and Cap Rate Trends



* Trailing 12-month total

Sources: Altus Data Solutions; CMHC; Statistics Canada

Apartment Properties Remain a Resilient Investment as Trade Uncertainty Lingers

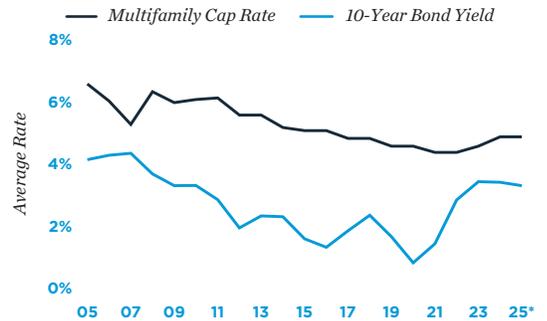
Bank of Canada to maintain dovish stance amid persistent uncertainty.

Canada's economy ended the first half of the year on a soft note. With June all-industry output estimated to have risen merely 0.1 per cent, GDP growth weakened to 0.1 per cent on a three-month-over-three-month annualized basis – a sharp deceleration from 1.6 per cent in March. Despite a rebound in June, employment contracted in July, missing expectations for a continued recovery. Inflation has been on a gradual upwards trend but has stayed broadly within the BoC's target range. Both short- and long-term inflation expectations remain anchored, suggesting limited upwards price pressures moving forwards. On the trade front, negotiations with the U.S. appear to have stalled. Additionally, in early August, the U.S. raised tariffs to 35 per cent on non-USMCA-compliant imports from Canada. This will keep uncertainty elevated for longer than expected, weighing on business and consumer confidence and dampening investment and consumption. As a result, the BoC is poised to stay supportive through the end of 2025. Most major banks have penciled in one to two additional cuts in the second half of the year, with the terminal rate ranging from 2.25 per cent to 2.50 per cent.

Multifamily a more defensive investment option in today's environment. A prolonged period of heightened trade risks could push unemployment higher and erode household incomes, placing downwards pressure on rental demand. Slower population growth will also weigh on fundamentals in the near term. Even so, multifamily properties are likely to remain more resilient than most other asset classes in the current environment. Rental demand continues to be underpinned by Canada's structural housing shortage, while the sector's diverse tenant base and stable income streams provide additional support. Over the long term, population growth is expected to recover to more sustainable levels, which still bodes well for basic housing needs. Although current uncertainty may sideline some buyers and suppress investment volumes, lower financing costs could help sustain transaction activity and support long-term investment returns.

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Multifamily Cap Rate vs Long-Term Bond Yield



Market Expects Further Rate Cuts



* Cap rate through 2Q, 10-year yield through August 13; ** Market expectations calculated as the average of the latest forecasts from TD, RBC, BMO, Scotiabank, CIBC and National Bank

Sources: IPA Research Services; Altus Data Solutions; Bank of Canada; BMO, CIBC, National Bank, RBC, Scotiabank, TD Bank

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