

RESEARCH INSIGHT

Are REITs Behind Higher Rent Prices?

A look at Montréal, Toronto, and Vancouver



Insight Summary

Concerns in Canada about the cost of rent have been growing. While many factors contribute to rising rents, a commonly referenced source is private investment in real estate. But how well do we really understand the effects of such investment on rents?

This is exactly the question asked in two studies recently done by CMHC. The first explores the effects of real estate investment trusts (REITs) on rents in Toronto and Vancouver, and the second focuses on Montréal's rental market. We made the following findings:

- Over the last 20 years, REITs have had a growing presence in Canadian housing markets. In Montréal, our data shows that REITs owned at least 6% of purpose built rental units from 2015 to 2019. Research suggests this percentage might be higher now, around 10% to 11%. In Toronto and Vancouver, about 10% of purpose built rental units are owned by REITs in 2022.
- In Montréal, REIT-owned properties have an average rent that is 25% higher than that of non-REIT properties, while in Toronto and Vancouver, the difference is more modest, ranging from 1.8% to 5%.
- At first, these numbers seem concerning. Digging deeper, we find that REITs tend to purchase in clusters in very specific neighbourhoods. Their properties tend to be located in more expensive areas and in neighbourhoods that have better access to amenities than the average neighbourhood in these cities.

Key Findings

1

Much of the price difference between REIT and non-REIT properties can be explained by location, utility costs and strategies employed by REITs:

REIT-owned properties in all three cities were found to be geographically clustered and tended to be in more expensive neighbourhoods.

2

We found that REITs employ very different purchasing strategies than non-REITs, and that these strategies appear to be playing a role in rent growth. In Montréal, we find that REITs are significantly more likely to purchase properties in census tracts showing early signs of gentrification (Figure 1). In Toronto and Vancouver, we find that REITs prioritize neighbourhoods with greater access to amenities.

3

REIT properties are eight times more likely to have major renovations. These upgrades were not found to substantially raise rent prices, but they may help REITs lower operating costs in the long run.

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- Once adjustments are made for the location and timing of purchases by REITs, as well as operational differences between REIT and non-REIT owners, the differences in rents largely disappear. By comparing rents in REIT properties with those of other properties in their local vicinity, we show that REITs do not seem to set rents beyond what similar landlords are charging in those same areas.

What is a REIT?

A REIT is a company that owns, operates, or finances income-producing real estate. They allow investors to buy shares in residential properties without having to buy the properties themselves. Essentially, this is a way for people to invest passively in real estate and earn dividends from the profits generated by the properties.

Brief Analysis

REITs ownership in three CMAs

Over the last 20 years, REITs have had a growing presence in Canadian housing markets. In Montréal, our data shows that REITs owned at least 6% of purpose built rental units from 2015 to 2019. Research suggests this percentage might be higher now, around 10% to 11%. In Toronto and Vancouver, about 10% of purpose built rental units are owned by REITs in 2022. While REITs are currently a small part of the rental market, their growth makes it important to understand their overall impact.

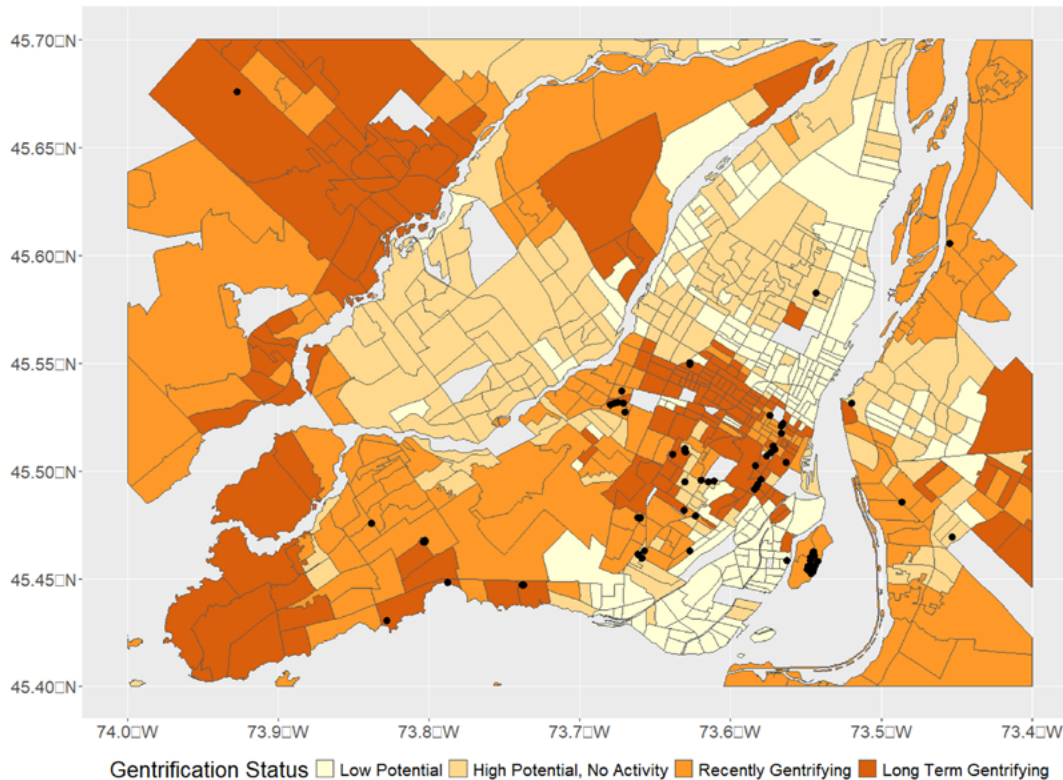
In Montréal, our data shows that approximately 91% of the difference in rent price between REIT and non-REIT owners can be explained by geography and differences in operational characteristics and investment strategy.



What's different about where REITs purchase?

We find that REITs tend to purchase in clusters, focusing on specific neighbourhoods. In Toronto and Vancouver, we find that REITs tend to acquire properties closer to various amenities, including workplaces, childcare, healthcare, schools, parks, and transit. When controlling for this by focusing only on those neighbourhoods where REITs operate, we found that differences in rent prices disappeared. Similarly, in Montréal, we controlled for these effects by comparing only units in the same neighbourhood, which reduced the difference in rent prices between REIT and non-REIT units by 51%.

Figure 1: Map showing gentrification potential and activity of census tracts in Montréal.



Black dots are REIT properties. Note that REIT properties are strongly clustered in and around census tracts showing signs of gentrification (dark areas), and are largely absent from areas with no signs of active gentrification (lighter areas).

What's different about REITs' investment strategy?

In Montréal, REITs often buy properties in neighbourhoods showing signs of increasing rent prices linked to early gentrification (Figure 1). We find that properties in Montréal that REITs have owned for more than five years (long-term holdings) are more likely to be in areas that have been gentrifying for longer periods of time. This hints at a strategy in which REITs attempt to purchase properties at the early signs of gentrification and to hold them through the process. A natural side effect of gentrification is increased growth in land value and rent price, which would benefit an early investor in a gentrifying neighbourhood and would result in higher rents in such units over time. When controlling for this strategy in Montréal, the difference in rent price between REIT and non-REIT units drops a further 25%. We also show that the properties of non-REIT owners in areas undergoing similar trends of gentrification will see the same growth in rent as REIT-owned properties.

REITs run their properties in distinct ways

A significant difference in operational policies was observed between REIT and non-REIT units in Montréal. We found that 82% of REIT-owned units include utilities in the rent, compared to only 20% of non-REIT units. Including utilities in the rent will result in a higher rent, and REITs' higher likelihood of doing this will skew REIT rent prices higher. When adjusting for these costs, an additional 13.8% of the price difference between REIT and non-REIT units is eliminated.

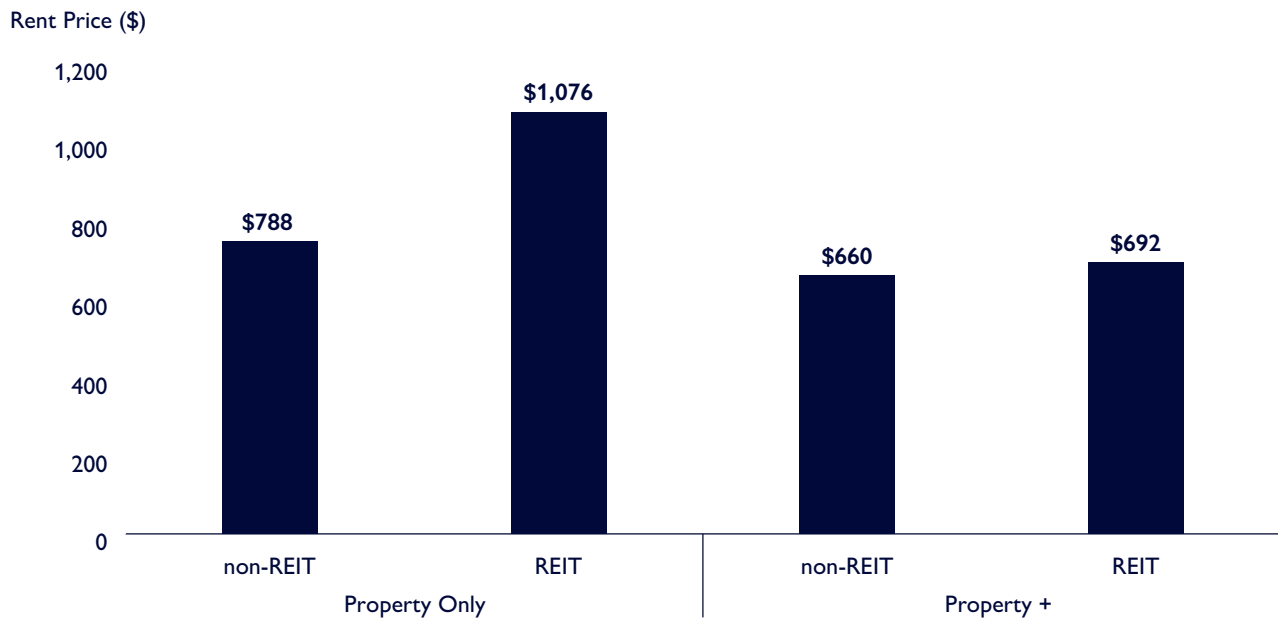
REIT properties in Montréal were also found to be eight times more likely to have undergone major renovations requiring a building permit, suggesting significantly higher capital investment levels. We found that these major renovations had minimal impacts on rent, which suggests that they are likely efficiency-related costs that would be recovered over time through reduced operational expenses.

Do REITs impact rent prices?

REITs initially appear to have significantly higher average rents in Montréal. However, once we control for geography, operational decisions and investment strategies in our analysis, we see that nearly 90% of this difference in average rent price disappears and, statistically, the difference between REIT and non-REIT rents is no longer significant.

Similarly, in Toronto and Vancouver, the significance of price differences persists until we account for the effects of characteristics of the local neighbourhood. By comparing REIT properties with those of non-REIT peers that buy in the same neighbourhoods and adopt the same strategies, we show that owner type has no significant impact on rent price.

Figure 2: Estimated Average Rent in Montréal by Owner Type.



The property-only estimation (left) accounts only for property-level characteristics such as property age, size and tenant turnover. The property + (right) adds neighbourhood-specific comparisons and operational differences

How did we come to these findings?

The findings of this research are supported by two separate reports, one focused on Montréal, and the other, on Toronto and Vancouver. Researchers examined data from CMHC's Rental Market Survey, land registries and property transactions from 2015 to 2019. For Montréal, mixed-effect models were used to directly compare REIT vs. non-REIT rent prices, considering property variables such as age, size, location, recent renovations, and how utilities are paid. To evaluate the effect of varying investment strategies, we also created an index to track signs of gentrification in Montréal neighbourhoods and then compared that with where and when REITs purchase their properties (Figure 2).

For Toronto and Vancouver, a difference-in-difference approach was used. This approach involved tracking changes in rent prices before and after a building was bought by a REIT. The change in rent was then compared to changes in rents in similar, non-traded buildings during the same period. These comparable buildings were chosen in two separate analyses to tease out neighbourhood effects.

One set included all the buildings in the dataset, while the other set consisted of buildings from the neighbourhoods where REITs purchased their properties. The differences in the statistical analyses of these two comparisons help us to understand the effect of neighbourhood amenities on rent.

Limitations of the studies

Data limitations:

Our analyses depend heavily on transaction data. For this reason, properties that have not been sold in a long time may not be visible to us. Further, determining the owner of a property is a difficult task in many cases, meaning that our datasets are likely not complete. Unit-level details that may affect rent prices are also not available in some cases. For example, we hoped to explore whether REITs' property investments also led to increased renovations within units, as we believe this form of renovation is more likely to result in rent increases, given the visibility of these renovations to tenants. However, our data is insufficient to explore this.

Local market power:

If REITs were to own a large share of buildings in specific neighbourhoods – a trend we observe in all three cities – then REITs might have the potential to force rent price increases. This is due to the way rent prices are determined, in part, by comparing units to other similar local units. Owning a high proportion of those local units would mean REITs would be effectively competing with themselves, which could lead to rent price increases. This effect would be “invisible,” given the way we have done our analyses, as it would equally benefit non-REIT owners.

Other investor types:

Since REITs are publicly traded on the stock market, they are required to produce publicly available reports on the structure of their businesses and properties they own. This reporting makes it easier to study the behavior and potential impacts of REITs on the rental market. However, private firms and smaller investors – which own a much larger overall share of the market – have no such reporting requirements, making them far more difficult to study. Given their relative market share is larger, it is important that we develop a better understanding of their effect on the rental market and any strategies they may employ as well.

Implications for the housing sector

Both public and private entities have essential roles to play in growing housing supply. REITs represent a significant source of private capital. While there has been public debate about the effects that private investment in housing can have, we find that these impacts are not as clear-cut as they may at first seem to be. As we have shown, REITs can play an important role in maintaining an aging housing stock and appear to do so without charging significantly higher rents than other investors. However, developing a better understanding of the potential impacts of large-scale private investment is essential. Tracking these factors would allow policymakers and the public to weigh the benefits of REIT activity and ensure everyone can find a home that they can afford.

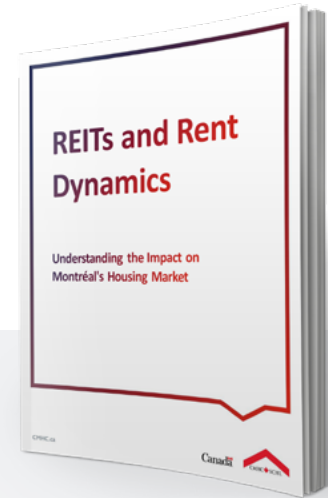
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- provide an overview of the research project undertaken to address it
- present major findings of the research

The research presented in this series explore the areas of Housing Need, Housing Finance, Housing Supply and Outcomes of the National Housing Strategy.



For Further Reading

REITs and rent dynamics: Understanding the impact on Montréal's housing market.

https://assets.cmhc-schl.gc.ca/sf/project/archive/research_6/reitsandrentdynamicsfinalmay-23-2025.pdf

Do REITs charge higher rents in the purpose-built rental market?: Evidence from the Greater Toronto and Metro Vancouver Areas

https://assets.cmhc-schl.gc.ca/sf/project/archive/research_6/251365reit-gta-gva-2024-v302enrevfinaljune-11-2025.pdf

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