

propra

State of Canadian Residential Property Management

2022 TRENDS REPORT





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Introduction



How should landlords prepare for the future? Depends on what they think is going to happen. Some believe there's a housing bubble, since property values are going up while household debt grows and incomes stagnate, combined with concerns about interest rates rising in the future. Then there's the optimistic bunch. Canada has plans to welcome a record number of immigrants in the coming years, which will presumably maintain demand for homes and in turn, demand for property management services. There is also the matter of persistently low interest rates which have led more people to buy homes. And more homes means more people on the move, more transactions, more investment properties, and more people to manage them.

What is a landlord or property manager to believe?

The smart decision would be to believe in both. Bubbles pop, but they can also keep growing for a long stretch of time. Unexpected events like the COVID-19 pandemic emerge, leading to a dramatic slowdown in immigration, record unemployment, and widespread government welfare programs and subsidies, which all have an impact on the market. While external factors are certainly important for property managers to keep an eye on, the time has come for the industry to look within.

For the past two decades, industries from retail to restaurants to banks have modernized their systems and designed customer-centric experiences. They've developed apps to streamline customer interactions. Interestingly, this customer-centricity has struggled to extend to one of the most important expenses people have – their shelter. This is not because landlords and property managers are out to make residents' lives difficult. It's because managing properties is hard work, and it often isn't very profitable work, making it difficult for property managers to design streamlined experiences, develop slick apps, or deliver exceptional customer service.



This report, [“The State of Canadian Residential Property Management”](#) outlines many of the trends affecting property managers today. This report has two objectives:

1. The first objective is to help landlords, property managers, and asset owners to become aware of the changes impacting their business, so they can prepare.
2. The second objective is to help property managers take a proactive approach to dealing with a dynamic macroeconomic environment, one that is in a state of significant change, by using technology to streamline their internal operations.

Debating the existence of a bubble



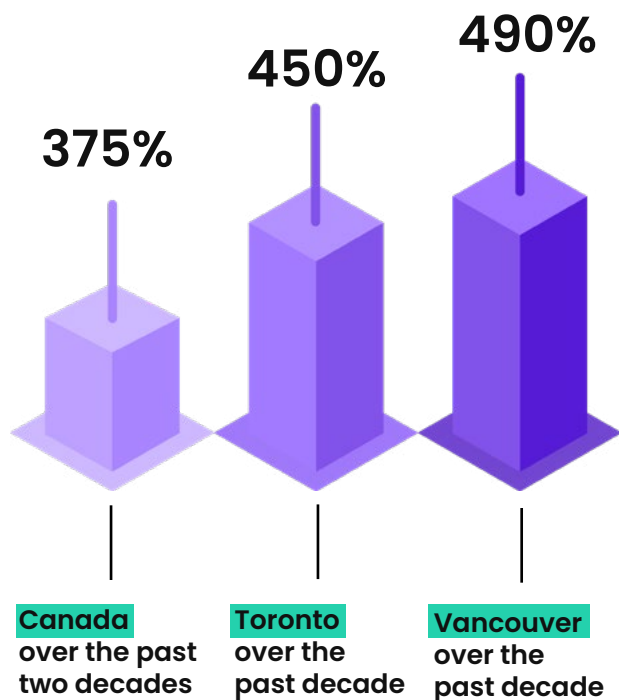
Is there a bubble or not? Your colleague says there is. That financial analyst you regularly read in the paper and really respect says there isn't. Then there's the people who believe there's a bubble, can't believe it hasn't popped yet, and have moved on to finding the right name for it. Mega bubble? Double bubble? According to the analysts, home prices are divorced from the fundamentals. Translation: People are bidding based on their emotions, not math.

14%

How much average house prices rose in 2021¹

¹ With average prices up another 14%, Swiss bank UBS warns of housing bubbles in Canada

How much home prices have risen:



Source: Canada's unhinged housing market, captured in one chart

- The Bank of Canada's Home Price Exuberance Index has recorded moments of intense exuberance (emotional buying) over the past decade and during the COVID-19 pandemic. ²
- Canada's household incomes aren't rising, but household debt is.
- Disposable income usually keeps pace with home prices in Canada and the United States. Over the past decade, it's fallen out of alignment in Canada. ³
- Low interest rates have made it easier for people to secure huge mortgages, even though those mortgages will become more expensive when interest rates go up after mortgage renewals.



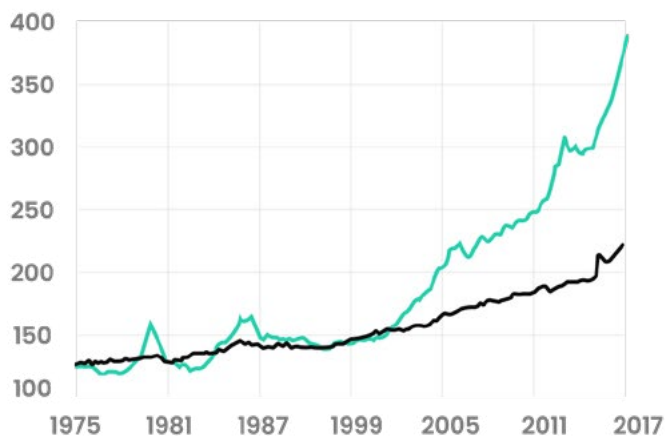
² Detecting exuberance in house prices across Canadian cities
³ Canada's unhinged housing market, captured in one chart



Canada: Real house price vs. real disposable income

— House Prices — Disposable income

Canada's house prices have soared in comparison to disposable income (Q1 '75 = 100)



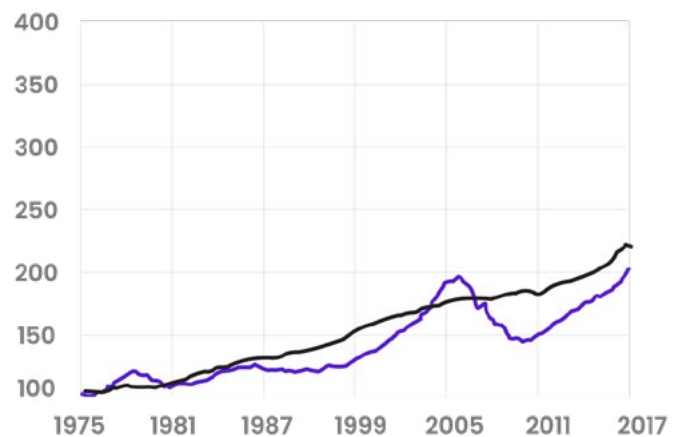
Source: Canada's unhinged housing market, captured in one chart

Real house prices compared to real disposable income in Canada. In the past, these two variables stayed in lockstep, much like in the United States. In recent years, these two variables have remained linked in the US, but have fallen out of step in Canada, with house prices rising at a faster pace.⁴

USA: Real house price vs. real disposable income

— House Prices — Disposable income

U.S. house prices have risen but remain low relative to disposable income (Q1 '75 = 100)



Exuberance in Toronto, Hamilton, and Montreal.

Toronto, Hamilton, and Montreal's housing markets have been identified as "exuberant" by the Bank of Canada's House Price Exuberance Indicator (HPEI) during the pandemic.⁵

Cooling effect in Vancouver. Exuberance was also recorded in Vancouver over the past decade, but policy interventions helped cool the market.⁶

⁴ Canada's unhinged housing market, captured in one chart

⁵ Detecting exuberance in house prices across Canadian cities

⁶ Detecting exuberance in house prices across Canadian cities

Managing property during a pandemic

Landlords supply a vital service: housing. When they aren't paid, their normal course of action is to evict their tenants. This wasn't always possible during the pandemic when large portions of the population lost some or all of their income and governments implemented rent freezes and pauses on residential eviction.



“As rent freezes and eviction bans lift, there are still delays in landlord and tenant board hearings, making it difficult to evict tenants who aren't paying”

Tens of thousands

The amount of money landlords are out as tenants struggle to pay their rent

Source: Landlords wait on tens of thousands in unpaid rent due to 'exhausting' Ontario board delays

1. When the pandemic hit, 3 million people lost their jobs while 2.5 million more had their hours slashed.⁷
2. Before the pandemic, over half of Canadians said they were living paycheque to paycheque and over a quarter said they didn't have enough to meet their daily needs.⁸ Several governments, such as the Ontario government, issued temporary pauses on residential evictions as well as rent freezes during the pandemic.⁹
3. As the pandemic drags into its third year, many landlords and property managers are out tens of thousands of dollars, if not more.¹⁰

1.2%

**Increase in the
vacancy rate
in Canada**

13.7%

**Record high
unemployment
number in Canada
in May 2020**



3 Million
**People have lost
their jobs**

⁷ Canada's unemployment rate reaches record 13.7%
⁸ Majority of Canadians living paycheque to paycheque: survey
⁹ Ontario Temporarily Pauses Residential Evictions
¹⁰ Landlords wait on tens of thousands in unpaid rent due to 'exhausting' Ontario board delays

Sources:
Canada's unemployment rate reaches record 13.7%
2020 Rental Market Report
Landlords wait on tens of thousands in unpaid rent due to 'exhausting' Ontario board delays

Inflation & supply chain woes

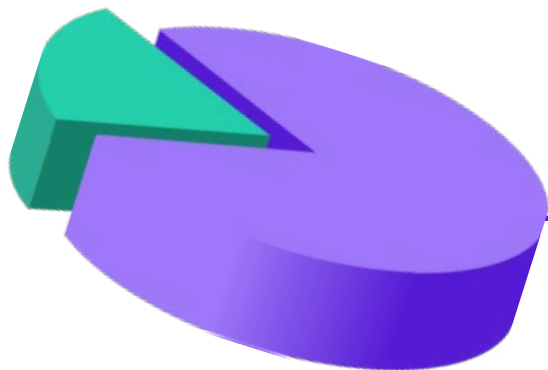
One of the outcomes of Covid-19 that many countries are facing is high inflation - and Canada is no exception. The annual inflation rate hit 4.7 percent in October 2021, the highest it has been since 2003.¹¹ Causes for this include supply chain issues, increased consumer demand, and product shortages.¹² Raising interest rates will help to control inflation, but many factors will influence when the Bank of Canada raises it. In particular, one big factor is what the United States does as Canada does not like to get too out of alignment with its neighbour south of the border to limit the risk on its exports business.¹³ While politicians rarely speak about the interest rate and leave that to central banks, the powers-that-be will consider the impact of interest rates on the housing market and household income; which impacts every Canadian.



22.5%

How much total residential construction has surged over the past year

Source: David Rosenberg: Housing is keeping Canada's economy going and that's bad news when the bubble pops



9.3%

The share of GDP that comes from housing, which is double the historical norm

Source: David Rosenberg: Housing is keeping Canada's economy going and that's bad news when the bubble pops

¹¹ Trading economics Canada inflation rate

¹² Canada's inflation rate hits a fresh 18-year high

¹³ Latest threats of rising interest rates and high inflation may shift real estate outlook

It's not just a matter of money. The COVID-19 pandemic has snarled global supply chains making it difficult for builders to get the materials they need to complete pre-construction homes on schedule.

They're also facing a labour shortage as skilled labourers retire and others avoid the trades.¹⁴ Meanwhile, the pandemic has increased demand for products and services that already had labour shortages – think manufacturing, construction, and renovation.¹⁵ Moreover, many workers are hesitant to return to work due to fear of contracting the virus. This might lead to wage hikes that lead to further inflation which might make it harder for builders to source materials.



Source: No simple answer to solve the massive skilled labour shortage: CanaData panel



¹⁴ Canadian homebuyers facing weeks of move-in delays tied to supply chain snags
¹⁵ 'It's not going to change': The long and short of Canada's job vacancy problem

Impact of population dynamics on the property market



The pandemic has changed where people want to live and how many people are moving into specific areas. As companies adopted remote work policies, people migrated from big cities to suburbs and rural areas in search of more space. This made prices in areas outside cities

like Toronto and Vancouver skyrocket. Moreover, dense markets such as downtown condo markets are now full of supply. Finally, the movement of post-secondary schooling from in-class to online learning has reduced demand for housing in “university towns.”



People moved out of cities during the pandemic, with Toronto experiencing record-breaking population loss.¹⁶



Lack of internal migration (students leaving their hometowns to go away to school) also had an impact on local rental markets that relied on an influx of students.



Increase in remote work has made it unnecessary for professionals to live in large population centres.



During the pandemic, the number of study permits issued in Canada fell by 70 percent.¹⁷



While analysts have differing opinions on whether an increase in immigration could lead to higher home prices, they do believe it can serve as a buffer in the case of a housing market crash.¹⁸

421,000

Number of **permanent residents** the Canadian government plans to welcome by the end of 2023

87,444

The number of people who've left **Toronto, Montreal, and Vancouver** in the past couple of years to settle down in suburbs, small towns, and rural areas

¹⁶ Toronto experiences record population loss as more move away from city amid COVID-19 pandemic

¹⁷ Immigrant flows fell sharply in 2020 due to COVID-19, says latest OECD report

¹⁸ How Will Immigration Help Local Canadian Real Estate Markets?

Looking within: Becoming a resilient property manager through technology

So what does this mean for property managers and landlords? At times, the data conflicts. Sure, the property market keeps going up, but assuming it's just going to continue doing that is falling victim to the hot hand fallacy. On the other hand, there's no point pulling out of the game entirely if the sky isn't falling. Instead, the smart approach is to develop resilience by using technology to streamline operations.

When you can't change what's happening without, the next best option is looking within. And what's happening within is that property managers are struggling to keep up with their residents' needs and turn a profit. In addition, the tendency to take on more business at low prices in an effort to be competitive means that expansions often equal a death knell for property managers who don't have the money or resources to service that new demand.



The cut that property managers earn off the rental income they collect

The best option is for property managers to streamline their internal operations and deliver outstanding tenant experiences using technology. But while you're developing your strategy for enhanced technology, consider taking the following actions in 2022:

- Review your financing agreements, understand the terms, and look for opportunities to secure better terms on your mortgages.
- Engage with your residents so you can understand their needs better.
- Talk to your team and understand what's important to them or where their sources of stress are, so you can improve employee morale and staff retention.
- Anticipate capital expenditures, develop plans around them, and build in extra buffer in case of any delays or disasters in the global supply chain.
- Proactively engage your vendors in pricing discussions, so you can consolidate your spend across different aspects of your portfolio. Supply chain shortages are causing prices to fluctuate, so improving relationships with your suppliers is a smart strategy to consider.



36%

The number of property management employees who leave their roles each year

25%

The amount of time property managers spend communicating about, scheduling, and organizing maintenance work

Tackling uncertainty with optimism, curiosity, and courage

With so many balls in the air, where should landlords keep their eyes? On inflation worries? Supply chain stress? Labour shortages? Population changes and migration patterns?

In truth, the only thing landlords and property managers can do is welcome the uncertainty with optimism, curiosity, and sentiment.

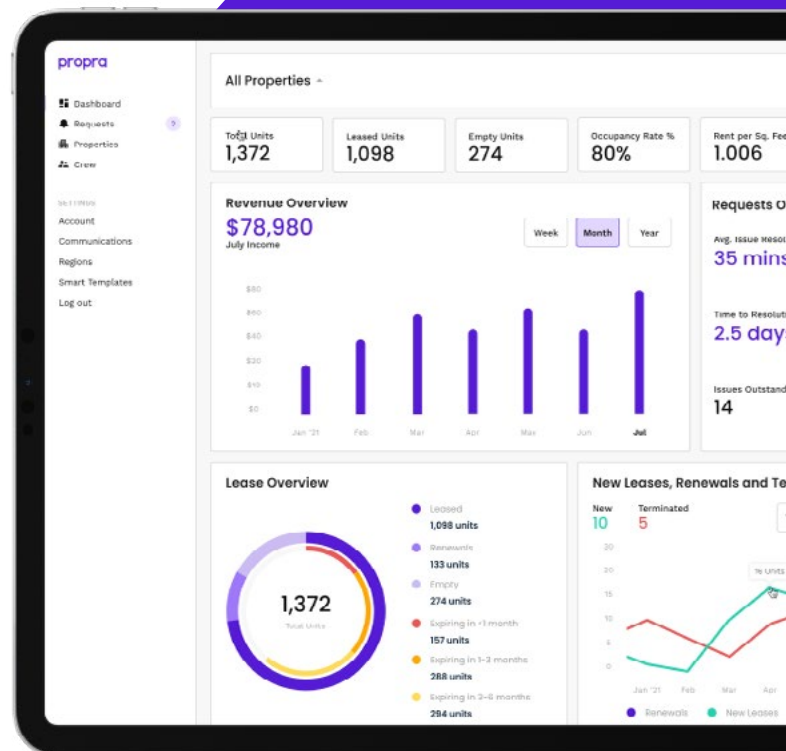
This is more than just a feel-good sentiment. Research shows that optimists are better at solving problems, because they focus on the factors that are within their control. As a property manager or landlord, your control over global supply chains and macroeconomic conditions is minimal. On the other hand, your team's morale levels, your residents' satisfaction, and your internal operations are all factors that are within your control.



Which brings us to the next way to tackle uncertainty: curiosity. It's time for landlords and property managers to apply an inquisitive lens to their business and find new ways to tackle old problems.

Finally, a heavy dose of courage is required. Change is necessary, but it isn't always easy, especially when it requires asking people to change how they've worked for years or upending processes that keep your business running. That said, these three characteristics offer the pillars for a business that can adapt and ride the waves of a rocky present on the way to the dry land of a stable future.

Learn more about how Propra can help your property management company boost profitability, streamline operations, and perfect the tenant experience.





The future of property management is here.

Propra is modernizing the technology that manages residential real estate by leveraging automation in property management.

As a contemporary solution focused on addressing the inefficiencies within the industry, we are moving even faster to fill those gaps.

We're constantly unlocking new features as we work towards offering a fully-comprehensive solution – bringing together communications, management and efficiencies to residents and landlords, full circle.

[Book a Demo](#)

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