Renting vs. Owning a Home in Canada 2005 – 2024

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Table of Content

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How to pay for housing – the housing tenure decision – is one of the most consequential decisions that most households will make in their lifetimes as shelter is one of the largest costs faced by Canadians, making up more than 28% of the Consumer Price Index basket of goods and services.

There is a common perception that renting a home is "throwing money away" while owning is a universally good decision, but this perception mischaracterizes the total costs of owning a home. Properly considered, renting and owning are both reasonable approaches to paying for housing. The present study aims to articulate this point analytically for housing in twelve Canadian cities over the period January 2005 through December 2024.

Economics of Renting vs. Owning a Home

Housing costs are ubiquitous for households – everyone needs a place to live. Homeowners purchase a housing asset with ongoing ownership costs and an implicit dividend approximately equal to the cost of rent, while renters do not own a housing asset and pay their housing costs explicitly. Both homeowners and renters incur costs, but, unlike rent, the costs of living in an owned home are often difficult to observe.

Owners bear the costs of property taxes, maintenance and depreciation, and the opportunity cost of having capital invested in a single home rather than invested elsewhere. Renting has the advantage of separating housing costs from investment, allowing for more liquid and diversified investments with higher expected returns.

The two primary variables that will determine realized outcomes for renters and owners are the relative costs of renting and owning, and the relative investment returns for renters and owners. Housing costs and investment returns, on their own, are not sufficient to determine whether renters or owners come out ahead.

When rent is relatively inexpensive compared to the costs of owning, renters have a financial advantage. The investment return for owners is the price return on their owned home while for renters it is the total return on some other asset, like stocks. A period of high real estate price returns relative to stock returns is favorable to owners, while high stock returns relative to real estate price returns is favourable to renters.

Equilibrium Housing Costs

In a perfectly efficient market, an equilibrium should exist where the total costs of owning and renting are equivalent. Himmelberg, Mayer, and Sinai (2005) describe how to compare the total costs of owning – the user cost of housing – to the cost of renting.

The authors define the user cost as the opportunity cost of capital invested in the home, property taxes, maintenance costs, and a risk premium to compensate homeowners for the higher risk of owning versus renting. They also include the expected capital return on the real estate asset as a negative cost and subtract the tax deductibility of mortgage interest and property taxes (which are not applicable in Canada).

In equilibrium, there should be no persistent arbitrage opportunities between the total costs of owning and renting; if annual ownership costs rise without a commensurate increase in rents, house prices must fall to convince potential homebuyers to buy instead of renting. The converse happens if annual ownership costs fall.[1]

In a paper analytically comparing renting and owning wealth outcomes in U.S. historical data, Beracha and Johnson (2012) argue that the emotional reasons to own a home, including pursuing the American Dream, and the perception that renting is "throwing money away" may cause home prices to rise above their fundamental values, shifting the equilibrium in favour of renting.

Risks of Renting vs. Owning

Renting and owning each have unique risks. Renting is risky because rents can increase rapidly over some periods, jeopardizing the ability to stay in a specific home, or even a general geographic area. Owning a home offers a hedge against rising rents but introduces asset price risk due to the requirement to invest in a single risky asset.

Sinai and Souleles (2005) show that the risk of owning declines with a household's expected time horizon in the house and with the correlation of housing costs between the current and future locations, while rent is increasingly risky at longer horizons. If someone wants to stay in a specific home or area for a long time, owning is likely a lower risk approach than renting. Conversely, if a near-term move would take them to an area with uncorrelated housing costs, ownership may carry greater risk than renting.

Barras and Betermier (2020) describe homes as perpetual bonds indexed to that specific home, offering a hedge against changes in future housing costs. This attribute creates a risk-free hedging asset for the cost of living in a specific home. While hedging is useful for homeowners who are determined to stay in one place for many years, the demand for housing as a hedge asset may drive down its expected returns.

Aside from the ability to hedge the costs of living in a specific home, individual homes are risky assets when viewed in isolation. Real estate indexes typically appear less volatile than stock market indexes, but individual homes tend to be at least as volatile as stocks. However, Beracha, Skiba, and Johnson (2020) show that when housing is part of a broader portfolio of risky assets, an owned home may improve risk-adjusted returns.

This makes owning a home more attractive for someone who has other investments like stocks and bonds than for someone whose only asset is their owned home.

Psychological motivations like a negative perception of renting and demand for an asset that hedges future housing costs may drive up the equilibrium costs of owning relative to renting. However, in a period of rising housing costs, the hedging property could become extremely valuable. On the other hand, declining housing costs could see home prices fall.

The inherently conflicting characteristics of owned housing as a hedge for long-term owners, a highly volatile asset for short-term owners, and a diversifying asset in a broader investment portfolio make it difficult to predict its performance for a given homeowner.

[1] This "no arbitrage" condition is described in Himmelberg, Mayer, and Sinai (2005).

Psychology of Renting vs. Owning

One of the most common criticisms of renting as a housing choice is that life as a renter is psychologically inferior to life as a homeowner. Evidence from Canada and other countries around the world does not support this view.

Latif (2021) uses panel data from the Canadian National Population Health Survey to examine the impact of homeownership on individual happiness. The study controls individual effects that influence happiness, like personality traits, and finds that owning a home generally has no significant impact on happiness, but in the lowest income category, owning a home negatively impacts happiness.

2024 data from Statistics Canada suggest that for comparable individuals living in comparable dwellings and neighborhoods, renters and owners report similar levels of satisfaction. However, when these other variables are not controlled for, owners are more satisfied than renters. This is an important consideration as some neighborhoods or dwelling types may be less available to renters than owners.

Hofmann and Umbricht (2019) use data from the Swiss Household Panel to find that there is no or even negative evidence for homeownership making people happy in Switzerland. They find that other factors such as the financial status of the household, health, age, and partnership have a much stronger impact on happiness.

Odermatt and Stutzer (2022) find for over 800 future homeowners in Germany that while home ownership does elevate life satisfaction, it does so much less than people anticipated that it would. This finding aligns with other research on hedonic adaptation.

The other reality for homeowners is that, in most cases, they will need a mortgage to finance their purchase. Will and Renz (2024) use German panel data to find a positive relationship between housing satisfaction and homeownership, but no significant positive effects on life satisfaction in the long-term.

The authors also show that mortgage debt negatively impacts life satisfaction, and increasingly so with larger mortgages relative to incomes. They conclude that the mortgage burden of owning a home can offset any positive psychological effects of homeownership.

For anyone making the rent vs. own decision for housing, the notion that it will improve life satisfaction should be approached with caution. The evidence is, at best, mixed.

Empirical Wealth Outcomes

Another common refrain in the housing debate is that homeowners are far wealthier than renters, making owning the obviously better choice. In Canada, it is true that homeowner wealth far exceeds renter wealth,[2] but these data do not demonstrate causation. Renter and owner households tend to have different characteristics – renters often have lower incomes and can save less than owners due to spending a larger proportion of their income on housing costs. Living in an owned home would not resolve this problem.

[2] Statistics Canada data from the 2023 cycle of the Survey of Financial Security (SFS) show that the median net worth of younger families who owned their principal residence was $457,100 in 2023, while it was $44,000 for renters.

Owned homes do force savings through mortgage payments, and homes are less likely than stocks to be sold in a panic. These behavioural features are likely beneficial to many households. Empirically, Turner and Luea (2009) do find an independent wealth accumulation advantage for owners even when controlling for other variables like age and income.

While homeownership as general advice may be wise for these behavioral reasons, Beracha, Skiba, and Johnson (2017) find that the difference in wealth outcomes between renting and owning are most affected by choices within the scope of the individual rather than through the impact of exogenous market variables. Households that fail to reinvest the cash flow differential between renting and owning accumulate less wealth, and, contrary to commonly held beliefs, property appreciation plays only a minor role in the results.

Analytical Wealth Outcomes

The question addressed in the present study is whether – holding discipline and financial capability constant – it was feasible for a hypothetical renter to match or exceed the wealth of an owner in Canada from January 2005 through December 2024. To eliminate the frictions and interactions with other variables that may give homeownership an empirical advantage, we approach the question analytically with a "horserace" comparison between renting and owning.

This is the approach taken by Beracha and Johnson (2012) who simulate the rent vs. buy decision at different times and locations in U.S. historical data. They look at eight year holding periods (the average holding period for homes in the U.S.) and find that renting beats owning in the United States as a whole, its four regions, and across 23 major metropolitan areas over most of their study period 1978 to 2009.

In a similar setup, again using U.S. data, Cox and Followill (2018) find over multiple holding periods that homeownership has often been economically unattractive compared to renting in 6 U.S. metropolitan areas for the period 1984 to 2013.

In Canadian data Somerville et. al (2007) find across nine metropolitan areas from 1979 to 2006 that renters could have matched owner wealth in seven of the nine areas. The authors note that this outcome would require extreme discipline, low investment fees, and high expected investment returns, concluding that the relative simplicity of building wealth through home ownership may be its greatest benefit.

Our analysis picks up approximately where the Somerville et. al (2007) sample ends. In recent history, the Canadian real estate market has been a global spectacle for its incredible price increases and rapidly rising housing costs. It may seem obvious to readers that owning a home has offered greater wealth creation opportunities over this period for Canadian residents.

To test this prior, we have constructed a model of a hypothetical renter and owner making the housing tenure decision in January 2005 and compared their wealth outcomes through December 2024.

A Rent vs. Own Model

The following sections describe our assumptions and data sources. Our sample is limited to apartments due to data quality and availability for both rents and home prices.

Rents

We use primary and, when available, secondary market average rent data from the CMHC Rental Market Survey. We use composite rents which represent the weighted average of all unit types covered by the survey. The data are updated as of October each year. We match the October survey data to each respective year in the model.

Survey rents represent rents in new and existing structures, and the weighted average of all units, both vacant and occupied. Vacant units will tend to track the cost of renting a new unit today – or the market price of rent – while occupied units may lag current market rents.

Residential leases typically span one year during which the rent is fixed, and many areas have caps on annual rent increases thereafter. This causes the actual rents paid by renters to trail market rent over time.

Primary market rental data cover purpose-built rentals with three or more units. Secondary market data cover units excluded from the primary rental market, including rented condominiums. Secondary rental market data for apartments are generally available from 2007 through October 2024.

Primary rental market rents are typically lower than secondary market rents. We use a unit-weighted average of primary and secondary market rents to come up with the rental cost in each market.

The rent data are retrieved from the Housing Market Information Portal.

Tenant's Insurance

Our tenants' insurance figure starts with a current estimate of tenant's insurance obtained from ratehub.ca which is then deflated back through time using the Tenant's insurance premiums item in the Consumer Price Index.

The inflation data are retrieved from Statistics Canada Table 18-10-0004-01.

Renter's Portfolio

The renter in our model saves (spends) the difference between their housing costs and the owner's costs into (out of) an investment portfolio. The gross of fees return on our renter's portfolio over the full sample period is 8.62%.

The portfolio in our model is not taxed, representative of our renter using FHSA, RRSP and TFSA accounts. The RRSP was available through our full sample. The TFSA account became available in 2009, and the FHSA in 2023.

Based on the amounts being saved in our cases, it would generally be feasible for the renter to use their registered accounts for the full simulation. The highest downpayment in our sample is in Vancouver at $43,220. Based on the median income level at the time, this is roughly four years of accumulated RRSP room.

Introducing taxes on investments will make owning a home increasingly attractive at increasing personal income tax rates. This implies that where registered accounts have been maximized, owning a home is relatively attractive, and increasingly so for high income earners.

Our renter invests in a portfolio allocated 30% to the MSCI Canada IMI Index (gross div.) and 70% to the MSCI All Country World IMI Index (net div.) net of 0.25% in fund fees in the base case. The portfolio is rebalanced to its target allocations monthly. This asset allocation was not available for this fee in 2005, while later in our sample a similar ETF portfolio is available for a lower cost. For analytical simplicity, we believe that 0.25% for the full sample is a reasonable assumption.

We note that XIC, the iShares Core S&P/TSX Capped Composite ETF, was available early in our sample, and foreign ownership limits in the RRSP account were only eliminated in 2005. Together we believe this makes extreme home country bias around that time even more likely than it is today.[3]

By 2013, a full suite of low-cost ETFs was available to build out our target asset allocation. We can imagine a scenario where our renter invested in XIC until 2013 and then added more diversification to U.S. and international stocks. With Canadian equities outperforming our asset allocation until June 2015, the renter's investment performance in the extreme home bias case would be better than what we present in our model.

Home Prices

Our home price data come from the MLS ® Home Price Indexes (HPI) Apartment Benchmark. The HPI is based on a hybrid model that merges repeat-sales and hedonic price approaches to creating a home price index. The model captures the contributions that various housing features make toward the price of homes.

The repeat sales approach is a statistical technique used to track property price changes over time. It focuses only on properties that have been sold multiple times, which helps isolate price trends by removing the effect of differences in property characteristics.

The hedonic price approach measures the contribution toward a home's price from each attribute or feature specified in a model, like square footage, number of rooms, location, and age. In other words, homes can be viewed as bundles of attributes and characteristics. This helps to isolate the price changes attributable to the market while holding constant the quality and features of the homes.

The model is used to calculate prices for typical homes traded in each area being measured. Typical is defined as the median value for quantitative property attributes, like square footage, and the modal value for qualitative property attributes, like whether the basement is finished.

Real estate indexes underrepresent the volatility of individual homes, not unlike how a stock index is not representative of the volatility of individual stocks. While most investors can easily diversify their stock portfolios, it would be highly impractical to own a diversified portfolio of primary residences. The idiosyncratic

[3] Vanguard reports that Canadians hold about 50% of their investments in Canadian stocks, while our model uses a more modest home country bias at a 30% allocation.

volatility for individual homes is roughly 10% greater than index volatility, making individual home prices highly volatile.[4]

The HPI does not account for the effects of idiosyncratic volatility on individual owner outcomes, and we do not address it in our model

The HPI data are downloaded from crea.ca.

Transaction Costs

In the first year of the model we include closing costs estimated at 2% of the home price in the owner's expenses following Verbrugge (2008). In the year the home is sold – the final year in the model – the sale proceeds to the owner are reduced by 6% in closing costs following Beracha and Johnson (2012). We model a single buy and a single sell transaction at the beginning and end of our sample period respectively. Multiple real estate transactions throughout our sample would make owning increasingly unattractive.

While renters do not have the same kind of transaction costs, an important consideration not captured in our model is the effect of moving on rent levels. We are using survey rents which reflect the actual rents being paid in each market and are typically below the cost of renting a new unit, or the market rent, at any point in time. A long-term renter in a rent-controlled area may be paying rents significantly below market, while moving would bump them up to market.

Depreciation, Maintenance, and Renovation Costs

The HPI does not explicitly account for the effect of depreciation on the value of buildings, routine home maintenance costs incurred over time, or renovation spending that contributes to rising home prices.

Depreciation is the estimated value of the wearing out, using up, or obsolescence of fixed assets over time. For example, roofs deteriorate over 20–30 years, furnaces or appliances age and lose efficiency, flooring wears out, and new materials and construction methods make old ones less desirable. Some of this effect may be captured in the HPI as an older building will sell for less than a newer one, but this effect may be offset in the data by maintenance spending and renovations.

Maintenance spending is routine or necessary work to keep a home or property in working condition. It does not typically increase the value of the property. This is upkeep, or work that restores but doesn't improve the home – it is directly combatting depreciation. These are typically smaller scale and recurring costs like fixing a leaky faucet, repainting a room, or repairing a leaky roof. Maintenance likely offsets only a portion of depreciation.

Renovations are upgrades or improvements made to a property. Renovations are usually more substantial and can increase the value of the home or improve its functionality. Rather than just fighting against depreciation, renovations are making the home more valuable. In a housing index, renovation spending will be a significant upward force on home prices over time and should be accounted for.

[4] Peng and Thibodeau (2016) use about 26 million home sales for 7,580 U.S. zip codes during three periods and find idiosyncratic volatilities of 9.4%, 7.9%, and 11.5%. Zhou and Haurin (2020) use two panels of the American Housing Survey covering 1974 to 2003 and find idiosyncratic volatility of 13.7%. Giacoletti (2021) finds idiosyncratic volatility for homes in Los Angeles, San Diego, and San Francisco between roughly 10% and 18% for the period 2002 to 2012.

To understand the net capital returns accruing to homeowners, we need to adjust the gross market appreciation of the HPI for depreciation, maintenance, and renovation costs. This is important in a rent vs. own comparison because rents are set to cover similar costs incurred by landlords. The costs need to be directly accounted for on the owner's side.

Quantifying these items is challenging but crucial. Mayer, in a response to Smith and Smith (2006), suggests a range of 2–3% for maintenance and capital expenditure, while Harding, Rosenthal, and Sirmans (2007) find that U.S. housing depreciates at roughly 2.5% per year gross of maintenance spending, and 2% per year net. Himmelberg, Mayer, and Sinai (2005) similarly estimate the cost of living in a home using 2.5% of the home value as an estimated cost of depreciation and maintenance.

Looking at commercial and multifamily investment properties in the United States, Bokhari and Geltner (2016) find an overall average net of maintenance depreciation rate of 1.5% per year ranging from 1.82% for properties with new buildings to 1.12% for properties with 50-year-old buildings. These figures are net of maintenance, meaning that the depreciation rates have been reduced by maintenance spending. The authors note that NCREIF records suggest that nearly 20% of apartment property net operating income is typically reinvested in routine maintenance and upgrades.

For calculating the Consumer Price Index, Statistics Canada uses 1.5% of the building value for homeowners' replacement cost (depreciation).[5] Homeowners' replacement cost comprises 24.85% of the owned accommodation item in the CPI, while homeowners' maintenance and repairs comprise 9.97%, or 0.60% of the building value. Together, this suggests depreciation and maintenance costs of 2.1% of the building value, exclusive of the land value. This distinction is important due to the increasing importance of land value relative to building value in urban areas.

In National Accounts data, Statistics Canada reports average maintenance and repair costs over our sample period of 0.82% as a proportion of net residential housing stock, and renovation spending of 2.48%.[6] This implies that there is a 3.30% average annual contribution to home values that can be attributed to costs incurred by homeowners. We account for this in our model.

We treat maintenance and depreciation as separate items. Maintenance is a cash flow cost, while depreciation reduces the growth in property value relative to the index. We use 1% of the property value for depreciation. Since depreciation in index values would likely be at least offset by renovation spending, it implies that our homeowner fell behind on renovation spending relative to their neighbours (who make up the index) by 1% of their home value per year on average. Following Jordà et al. (2019), who find that the costs of maintaining a home are best expressed as a fraction of gross rents, we use one-third of gross rent to estimate maintenance spending.

We cross check this maintenance figure by sampling twelve condominium listings in each city with an average list price close to the HPI benchmark price at the end of our sample. While there are deviations, one-third of gross rent in December 2024 produces a value similar to average condominium/strata fees in most cities.

With this approach, our simple average maintenance, depreciation, and renovation expense is 2.66% across the different cities, with variation around this number in each individual city. This figure is in line with the previously cited research and data.

[5] These figures come from a Statistics Canada paper, Shelter in the Canadian CPI: An overview, 2023 update.

[6] These figures come from Statistics Canada Table: 36-10-0677-01 and Table: 34-10-0095-01.

Mortgage Financing

The owned home is purchased with a 20% downpayment on a 5-year fixed rate mortgage and renewed every 5 years thereafter at the market rate for new mortgages. We obtain mortgage interest rate data from the Bank of Canada and Statistics Canada.

The Bank of Canada produces a data series for posted mortgage rates and advanced mortgage rates. Posted rates are the headline rates advertised by banks, and advanced rates are the average rates on actual mortgages advanced over the period.

The advanced rate is always lower than the posted rate in our sample, but data for the advanced rate do not extend to the beginning of our sample. We use the posted rate less 1.95% until the advanced rate becomes available.

Advanced mortgage rates are obtained from Statistics Canada Table: 10-10-0006-01. Posted rates are obtained from the Bank of Canada.

Home Insurance

Our home insurance figure starts with a rough estimate of home insurance obtained from ratehub.ca and is then deflated back through time using the Homeowners' home and mortgage insurance item in the Consumer Price Index.

The historical inflation data are retrieved from Statistics Canada Table 18-10-0004-01.

Property Tax

We obtained historical residential property tax rates, including education taxes, from each respective municipality. In cases where the historical data were not publicly available, we contacted the municipalities directly and obtained the data.

For Toronto, we used the average of the multi-residential and the new multi-residential rates.

For Montreal, we used the "Buildings with 6 or more dwellings" rates, plus special water tax and special road service tax. As the municipality did not have data prior to 2008, we estimated the property tax rates from 2004-2007 using the rate of change published by the Town of Mount Royal.

For Vancouver, we used the total of the residential category.

For Calgary, we used the total residential rate. For Edmonton, we used the average of the residential and other residential rates.

For Ottawa, for the years 2006-2023, we used the average of the multi-residential and new multi-residential categories assuming a full-service transit zone, full-service fire services, and curb pick-up solid waste service. We estimated the property tax rates for 2004 and 2005 using the rate of change for Toronto, for which we had the data.

For Winnipeg, the combined residential multi-family rates were used for the Winnipeg School Division.

For Quebec City, there were many sections – with residential related sections being split into a general rate and a special rate for all years except 2004-2007, and 2011. Where there were many similar rates across each section, the mode of the data was used. Where the rates were not similar, an average was used.

For Hamilton, from 2011-2023, the category "Hamilton-Urban" was used. From 2004-2010, the sum of the total general rate, the education rate and the Hamilton Area specific rates were used.

For Kitchener-Waterloo, only Waterloo was used due to the difficulty of obtaining Kitchener data.

For Waterloo, we used the average of the multi-residential taxable and new multi-residential taxable categories.

For Victoria, we used the total rate for the residential category.

For Halifax, we used the average total tax rate for the three categories: urban, suburban, and rural.

Full Period Results and Sensitivity

Our main results are in Table 1.

Table 1 - Main Results of Renting vs. Owning in Canada 2005-2024

	Annualized Apartment Price Return (2005-2024)	Avg. Rent / Owner Cash Needs	Annualized Rent Growth (2005-2024)	Renter / Owner Net Worth Ratio
Toronto	5.74%	84.31%	6.29%	1.05
Montreal	4.91%	71.11%	5.03%	1.48
Vancouver	6.45%	91.43%	8.18%	0.71
Calgary	4.86%	110.14%	7.07%	0.37
Edmonton	3.08%	112.16%	5.56%	0.39
Ottawa	3.47%	75.03%	5.45%	1.97
Winnipeg	3.83%	71.18%	6.38%	2.93
Quebec City	4.55%	88.67%	4.46%	1.14
Hamilton	6.19%	74.99%	6.29%	1.12
Kitchener-Waterloo	6.99%	87.65%	5.83%	0.71
Victoria	6.01%	87.47%	7.60%	0.85
Halifax	5.20%	77.84%	6.70%	1.26
Average*	**5.11%**	**86.00%**	**6.24%**	**0.99**

*Renter / Owner Net Worth Ratio is a geometric average
Source: Benjamin Felix and Hamza Bin Arif; Data sources: CMHC, CREA HPI, Dimensional Returns Web, authors' calculations

We measure outcomes as the ending ratio of renter wealth to owner wealth. A value greater than one indicates that renter wealth exceeded owner wealth. We find mixed results with renting at least matching the ending wealth of owning in seven of the twelve metropolitan areas examined with our baseline assumptions. The geometric average ending wealth ratio for all metropolitan areas is 0.99. This finding is notable as real estate price appreciation was abnormally high over this period relative to longer-term history in Canada.

In some cases, like Kitchener-Waterloo, a combination of high rents and high realized real estate returns put renting at a financial disadvantage to owning. In other cases, like Montreal, relatively low rents and relatively low realized real estate returns put owners at a significant disadvantage relative to renters. Interestingly, either high rents or high price returns can sway the outcome – both are not required.

In Edmonton, real estate price returns over our sample were only 3.08% annualized – the lowest of our twelve areas by a wide margin – but rents were high enough relative to the cost of owning that the owners came out ahead. The area with the biggest advantage for owners was Vancouver which had high price growth and high rents relative to the cost of owning. The biggest advantage for renters was in Winnipeg which had lower price growth and reasonably low rents relative to the cost of owning.

Rents grew at a high rate throughout the full sample. One of the advantages of owned housing is that it can be protective of the cost of rising rents. We see this in our sample with owning generally beating renting in cities with the highest rent growth.

Investment Fees

Our baseline assumption of a 0.25% investment fee is important, especially considering that many Canadians continue to invest in much higher fee products. At higher fee levels renting quickly becomes unattractive. At a fee of 0.87% – the average fee on actively managed mutual funds and ETFs in Canada[7] – the geometric average ending net worth ratio is 0.87, and renting comes out ahead of owning in six areas, rather than seven in the base case.

Renter's Asset Allocation

Our baseline renter's portfolio consists of a 100% equity portfolio with a Canadian home country bias, representative of a common asset allocation for Canadian investors. Removing the Canadian home country bias over our sample period by allocating the full renter's portfolio to the MSCI All Country World IMI Index (net div.) leaves the headline result intact with seven of twelve areas favouring renting, and a geometric average ending renter-to-owner net worth ratio of 1.03.

A more conservative renter, unwilling or unable to bear the risk of a 100% equity portfolio, would have had a harder time keeping up with an owner. At a 60% equity (with home country bias) and 40% fixed income asset allocation, where fixed income consists of the Bloomberg Canadian Aggregate Bond Index (CAD), the renter's wealth trails the owner's wealth in nine of twelve areas. The geometric average ending renter-to-owner net worth ratio is 0.68 under this specification.

[7] This figure comes from PWL Capital's 2024 The Passive vs. Active Fund Monitor.

Savings Efficiency

We assume that renters are saving 100% of the cost difference between renting and owning (a savings efficiency of 100%), but this is unlikely to reflect reality. At 90% savings efficiency six out of twelve areas continue favour owning, and the ending net worth ratio is 0.89, favouring owners. At 80% savings efficiency owners come out ahead in eight of twelve cities and the geometric average ending net worth ratio is 0.79.

This highlights the importance of discipline for renters who want to stay on equal financial footing with owners. Few people would willingly skip a mortgage payment to go on a vacation, but many people would pause their savings. This could be viewed as a positive – making current consumption more flexible – but could also be viewed as a negative due to the potential long-term impacts of failing to save. Renters may be wise to take steps to automate their savings at a level that will meet their long-term goals.

Depreciation and Maintenance

Our results are sensitive to our baseline assumption of 1% for depreciation. At 0.25%, eight of twelve areas favour owning with a geometric average ending net worth ratio of 0.84, and at 1.75% only 4 areas favour owning with a geometric average ending net worth ratio of 1.18. The results are even more sensitive to maintenance spending. Our baseline assumption is one-third of gross rent. At 27% of gross rent, seven of twelve cities favour owning, and the geometric average ending net worth ratio is 0.68, while at 39% only five of twelve cities favour owning and the geometric average ending net worth ratio is 1.18.

Mortgage Amortization and Downpayment

One of the largest cash flow costs for most homeowners is their mortgage payment. A longer amortization results in a lower payment, while a shorter amortization results in higher payments. 25 years is the typical amortization used by Canadians and is our baseline assumption.

At a 15-year amortization, owning a home only beats renting in four of our twelve metropolitan areas, and the geometric average ending net worth ratio is 1.29, favouring renters. At a 30-year amortization, owning beats renting in seven areas, and the geometric average ending net worth ratio is 0.84, favouring owners. Leverage can be a powerful tool.

Our baseline downpayment assumption is 20%. A higher downpayment creates a larger initial opportunity cost and lower mortgage payments, while a lower downpayment reduces opportunity cost, increases payments, and results in a CMHC mortgage insurance premium.

Holding amortization constant at 25 years, a 50% downpayment puts renters ahead in eight of our twelve metropolitan areas, and the geometric average ending net worth ratio is 1.20, while at a 100% downpayment renters come out ahead in eleven of twelve cities, and the geometric average ending net worth ratio is 1.48.

At a 5% downpayment, the baseline result generally holds with renters coming out ahead in seven areas, and the geometric average ending net worth ratio is 0.97 – only slightly more advantageous for owners than the base case result. This figure includes the cost of CMHC insurance.

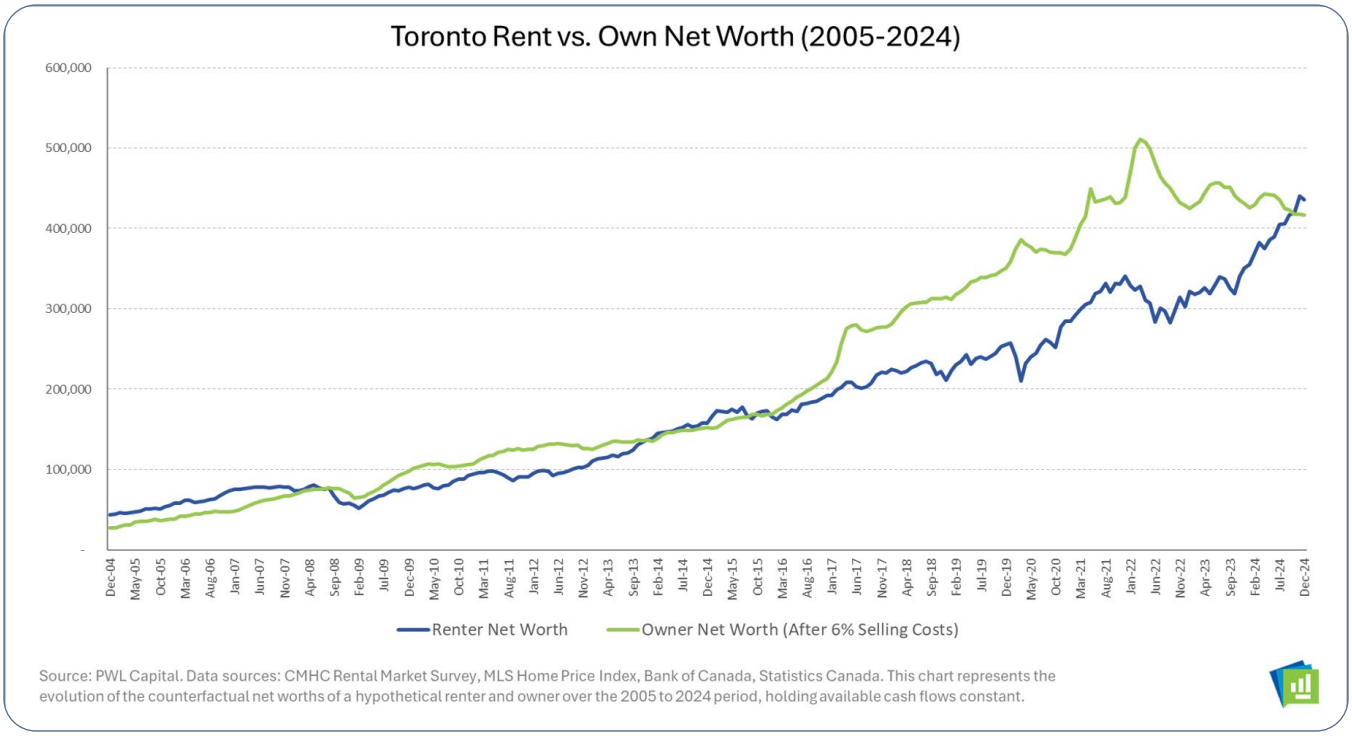
These results show that while mortgage financing is beneficial for owners in our sample, and increasingly so with smaller downpayments and longer amortizations, it is not sufficient to make owning objectively superior to renting.

Individual Metropolitan Area Results

In this section we document the results for the twelve individual areas examined in our model. The time series results demonstrate how renter and owner net worth evolve over time. Owner net worth always starts out slightly behind renter net worth due to the closing costs incurred by our home buyer in the first year of our model. Also unique to our owner are the selling costs of the home in the final year of our model.

Toronto

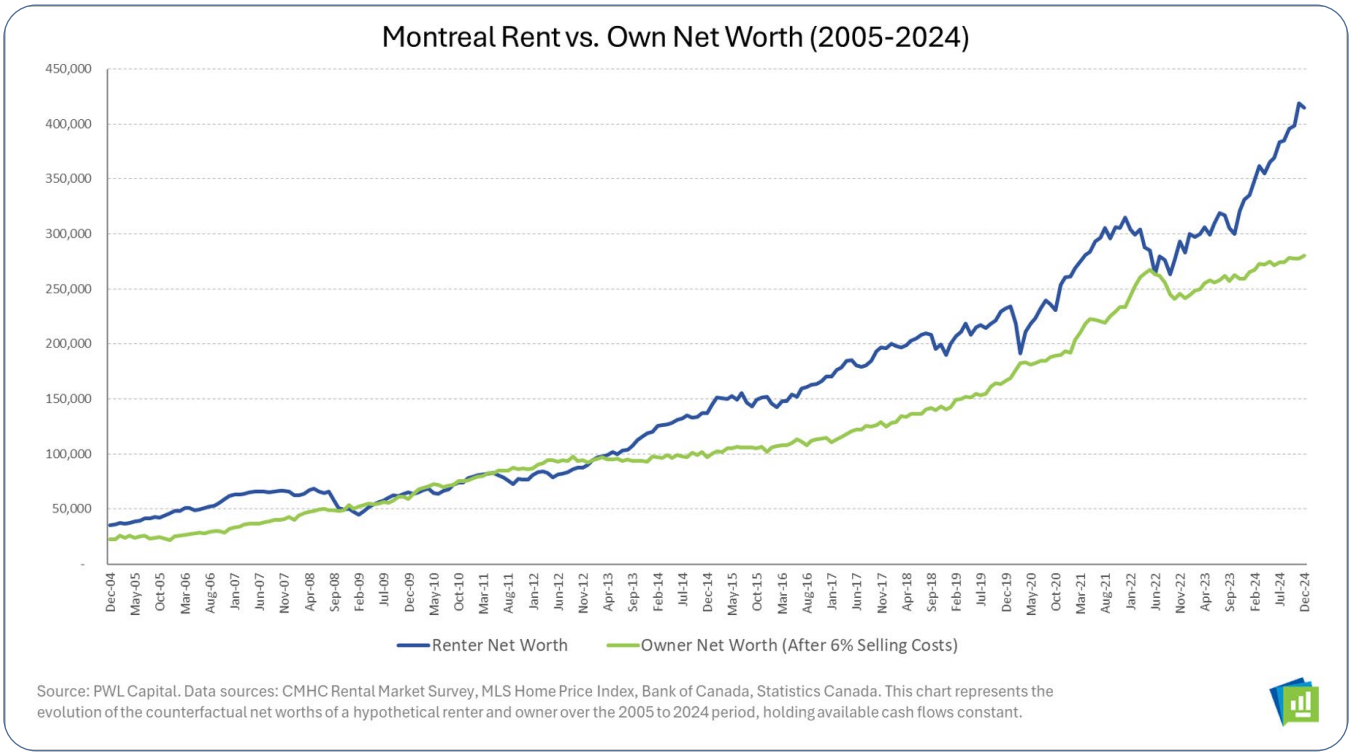
Toronto apartments experienced high price and rent growth throughout our sample. Prices grew at an annualized 5.74% over the full period (gross of any ownership costs) while rents increased at an annualized 6.29%. The cash flow costs of renting were generally well-below those of owning, allowing renters to build up an investment portfolio over time. Renters came out ahead by a narrow margin for the full period with an ending renter-to-owner wealth ratio of 1.05. This close result is largely explained by the post-2022 decline in real estate prices alongside rising stock returns.



Source: PWL Capital. Data sources: CMHC Rental Market Survey, MLS Home Price Index, Bank of Canada, Statistics Canada. This chart represents the evolution of the counterfactual net worths of a hypothetical renter and owner over the 2005 to 2024 period, holding available cash flows constant.

Montreal

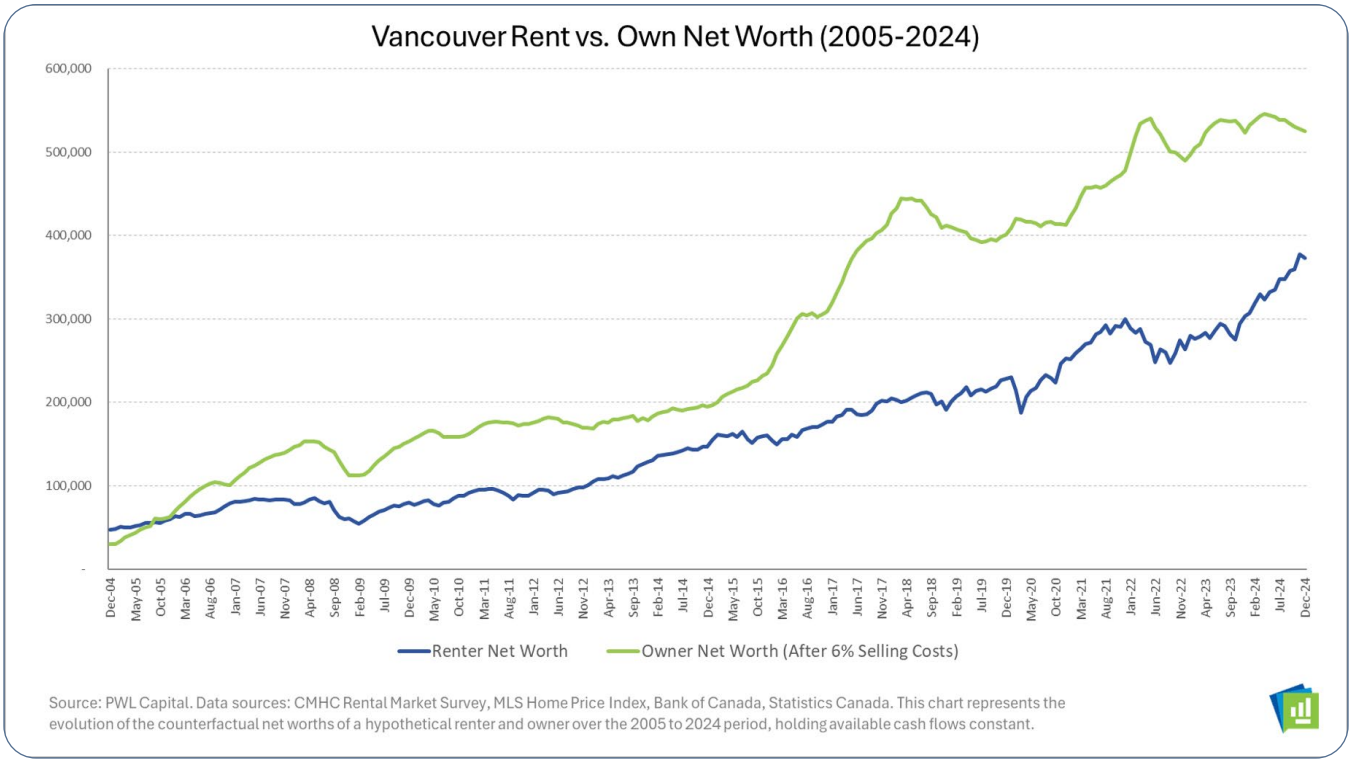
Montreal apartments appreciated at a relatively modest 4.91% while rents grew at 5.03%. Renters had much lower cash flow costs than owners, allowing for meaningful contributions to their investments over time. Renters came out ahead by a wide margin, with an ending renter-to-owner wealth ratio of 1.48. Montreal real estate did not see the same steady post-2022 decline as Toronto, but the relatively modest price growth was overshadowed by high stock returns for the renter.



Source: PWL Capital. Data sources: CMHC Rental Market Survey, MLS Home Price Index, Bank of Canada, Statistics Canada. This chart represents the evolution of the counterfactual net worths of a hypothetical renter and owner over the 2005 to 2024 period, holding available cash flows constant.

Vancouver

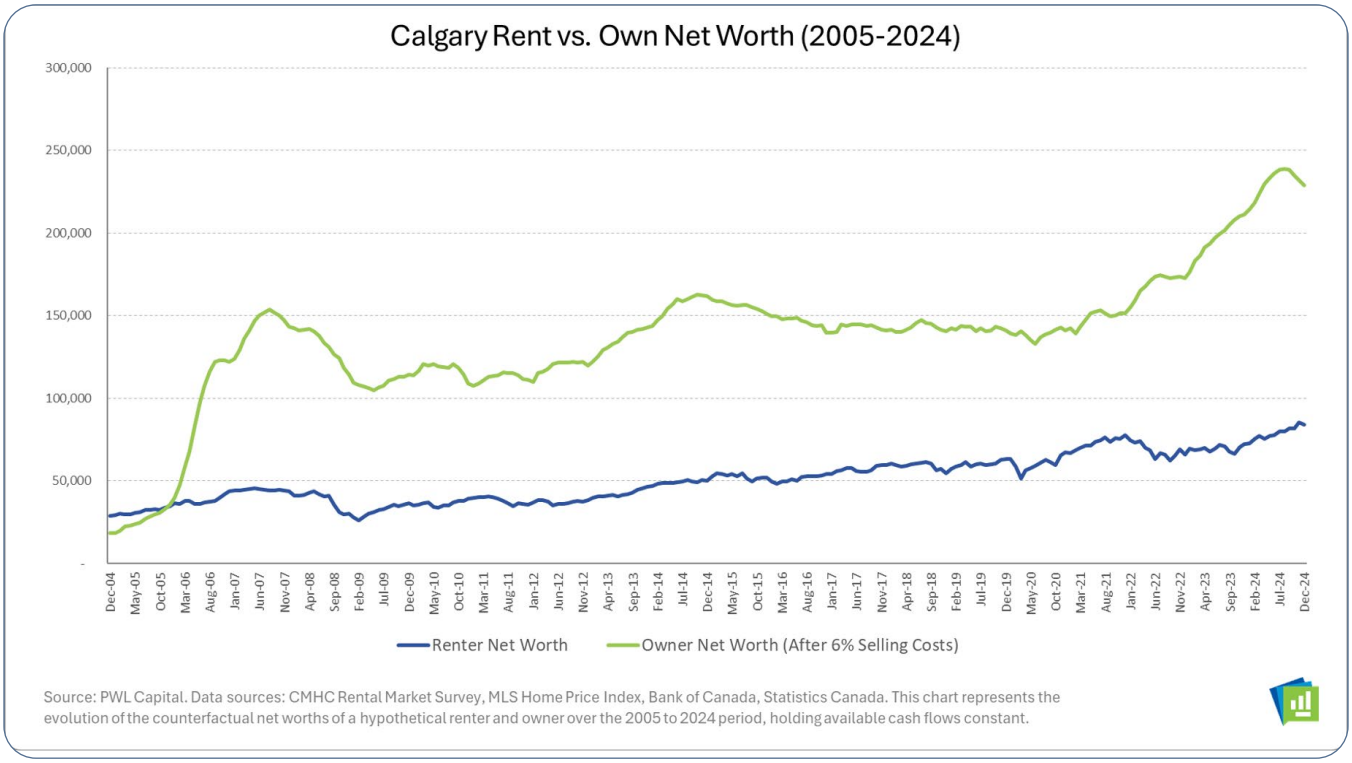
Vancouver apartment price growth was among the highest in the sample (trailing only Kitchener-Waterloo) at an annualized 6.45% while rent growth was, by far, the highest in the sample at 8.18% annualized. The cash flow costs of renting were also high relative to owning, with a ratio above 91%, squeezing the ability of renters to add funds to their investments. This combination of high price growth, high rent growth, and high relative cash flow costs for renters made it difficult for renters in Vancouver to keep up over the full sample period. The ending renter-to-owner wealth ratio is 0.71.



Source: PWL Capital. Data sources: CMHC Rental Market Survey, MLS Home Price Index, Bank of Canada, Statistics Canada. This chart represents the evolution of the counterfactual net worths of a hypothetical renter and owner over the 2005 to 2024 period, holding available cash flows constant.

Calgary

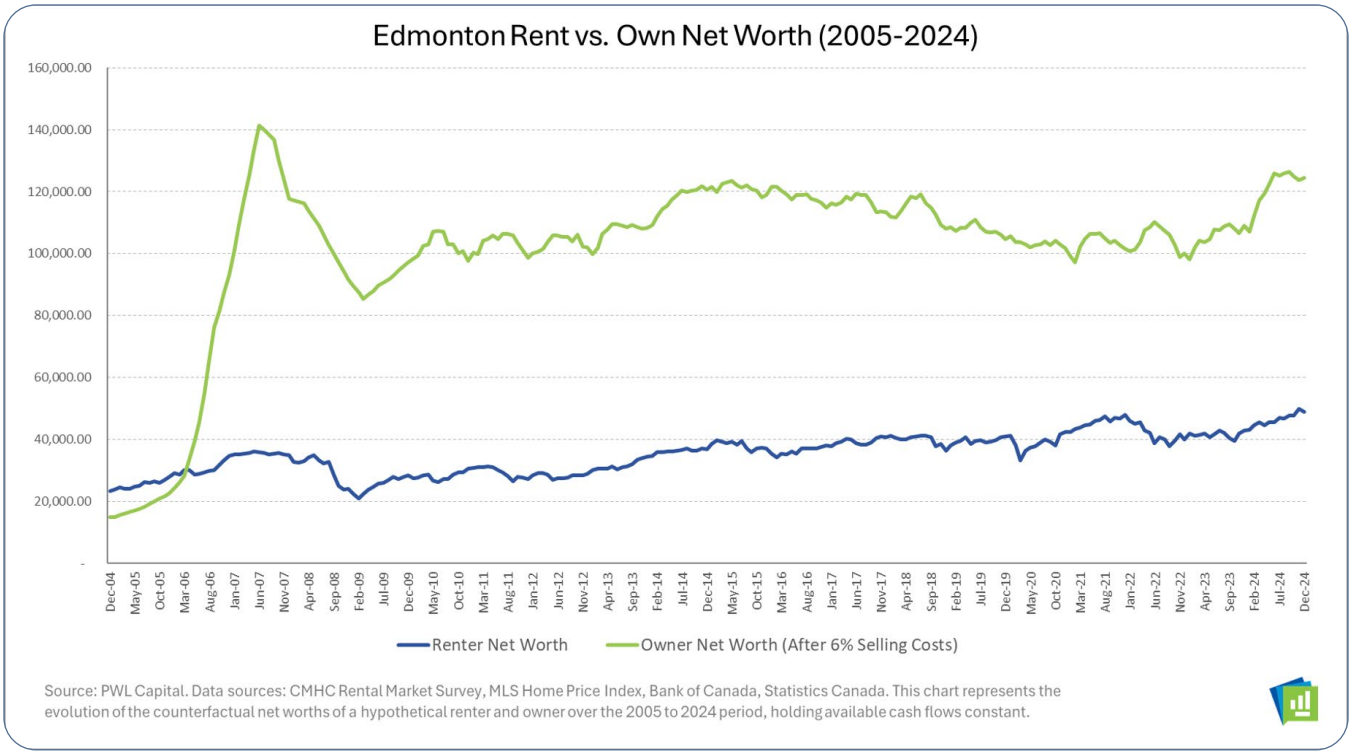
Calgary's positive result for owners is almost entirely driven by high apartment price returns early in the sample. The full period annualized price return is 4.86% while rent grew at 7.07%. Starting the comparison after 2007 would heavily favour renting as price returns were modest for the remainder of the period, including a 5-year negative annualized return in the 2015 through 2019 sub-period. Due to the low starting prices and large jump thereafter, owners in Calgary locked in low cash flow costs relative to renters, minimizing the ability of the renter to save in the model. The ending renter-to-owner wealth ratio is 0.37, making Calgary the most favourable area in our sample to have owned for the full period.



Source: PWL Capital. Data sources: CMHC Rental Market Survey, MLS Home Price Index, Bank of Canada, Statistics Canada. This chart represents the evolution of the counterfactual net worths of a hypothetical renter and owner over the 2005 to 2024 period, holding available cash flows constant.

Edmonton

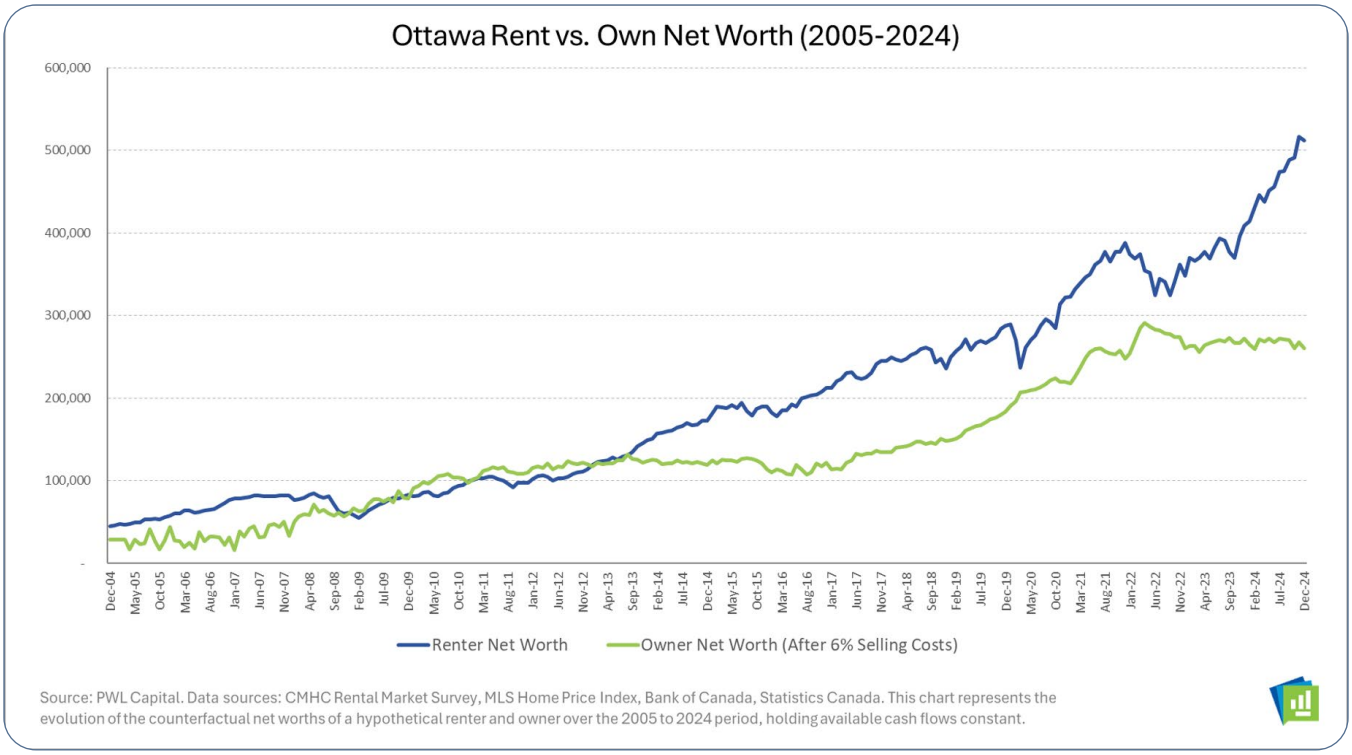
Edmonton follows a similar trajectory to Calgary, with high price returns early in the sample driving a positive result for owners, however price growth in Edmonton was lower. Edmonton apartment prices returned an annualized 3.08% while rents grew at 5.56%. The cash flow costs for owners were similarly low for owners in Edmonton. The ending renter-to-owner wealth ratio is 0.39, only slightly better for renters than Calgary.



Source: PWL Capital. Data sources: CMHC Rental Market Survey, MLS Home Price Index, Bank of Canada, Statistics Canada. This chart represents the evolution of the counterfactual net worths of a hypothetical renter and owner over the 2005 to 2024 period, holding available cash flows constant.

Ottawa

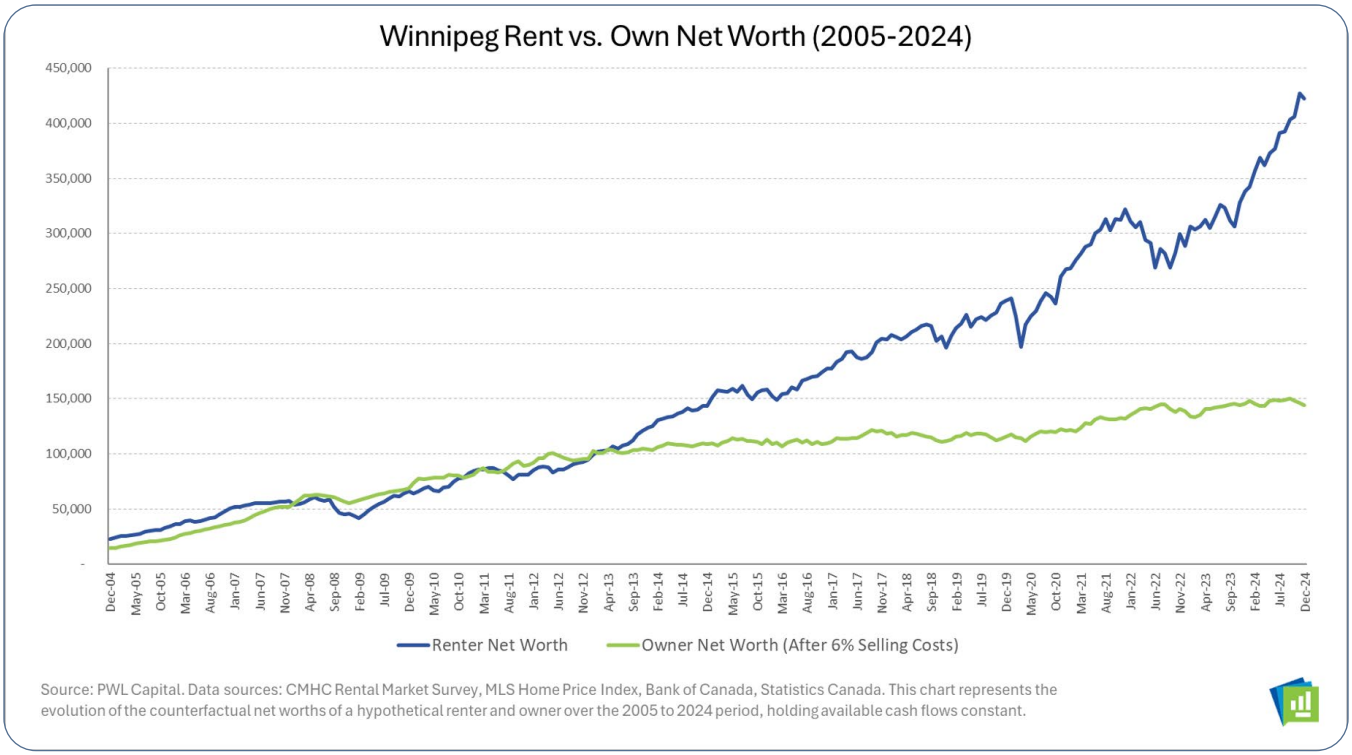
Ottawa was favourable to renters over our sample period due to modest apartment price growth of 3.47% annualized while rents increased at 5.45%. The cash flow costs of renting were low relative to owning, allowing for significant savings into the renter's portfolio. The ending renter-to-owner wealth ratio is 1.97, making Ottawa one of the best places to have been a renter over the full sample period.



Source: PWL Capital. Data sources: CMHC Rental Market Survey, MLS Home Price Index, Bank of Canada, Statistics Canada. This chart represents the evolution of the counterfactual net worths of a hypothetical renter and owner over the 2005 to 2024 period, holding available cash flows constant.

Winnipeg

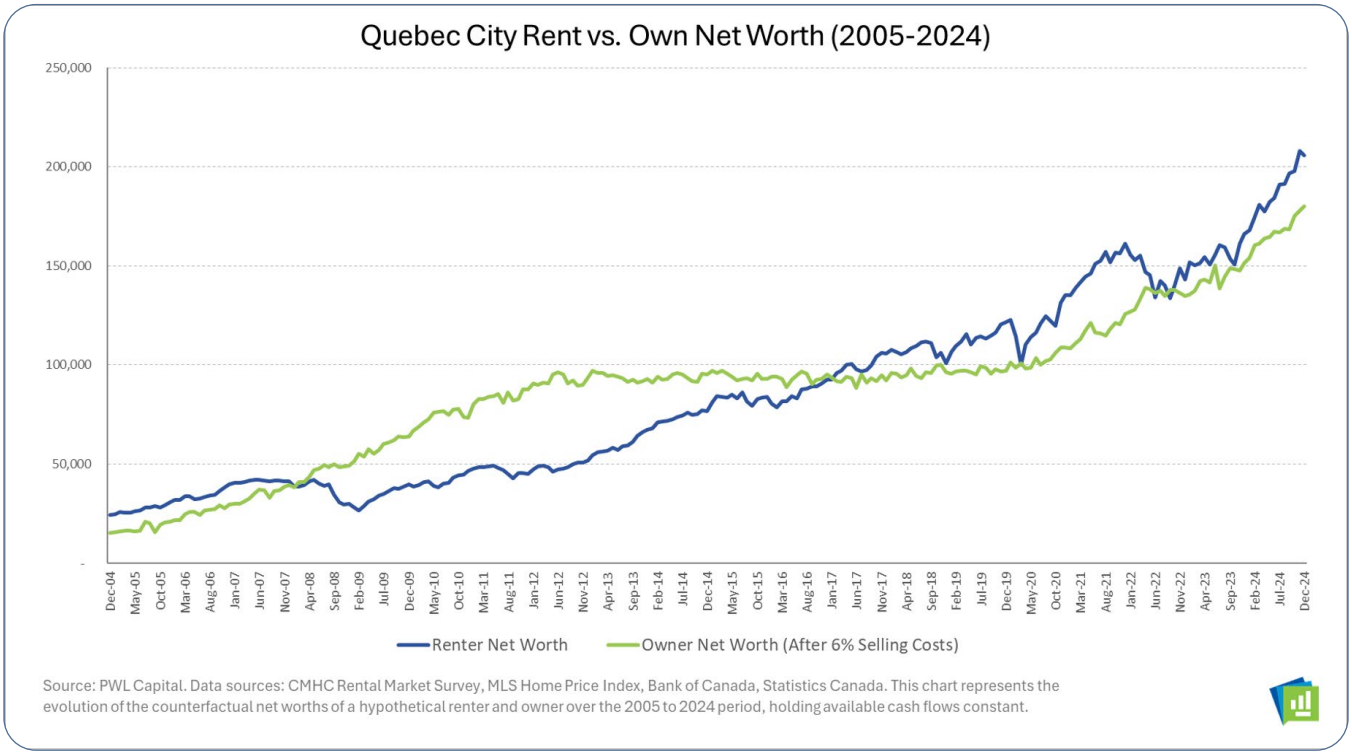
Winnipeg saw a combination of low apartment price growth at 3.83% annualized, modest rent growth at 6.38% annualized, and the lowest cash flow costs for renters relative to owners in the sample. This propelled the hypothetical renter in Winnipeg to come out far ahead of the owner over the full sample period with an ending renter-to-owner net worth ratio of 2.93.



Source: PWL Capital. Data sources: CMHC Rental Market Survey, MLS Home Price Index, Bank of Canada, Statistics Canada. This chart represents the evolution of the counterfactual net worths of a hypothetical renter and owner over the 2005 to 2024 period, holding available cash flows constant.

Quebec City

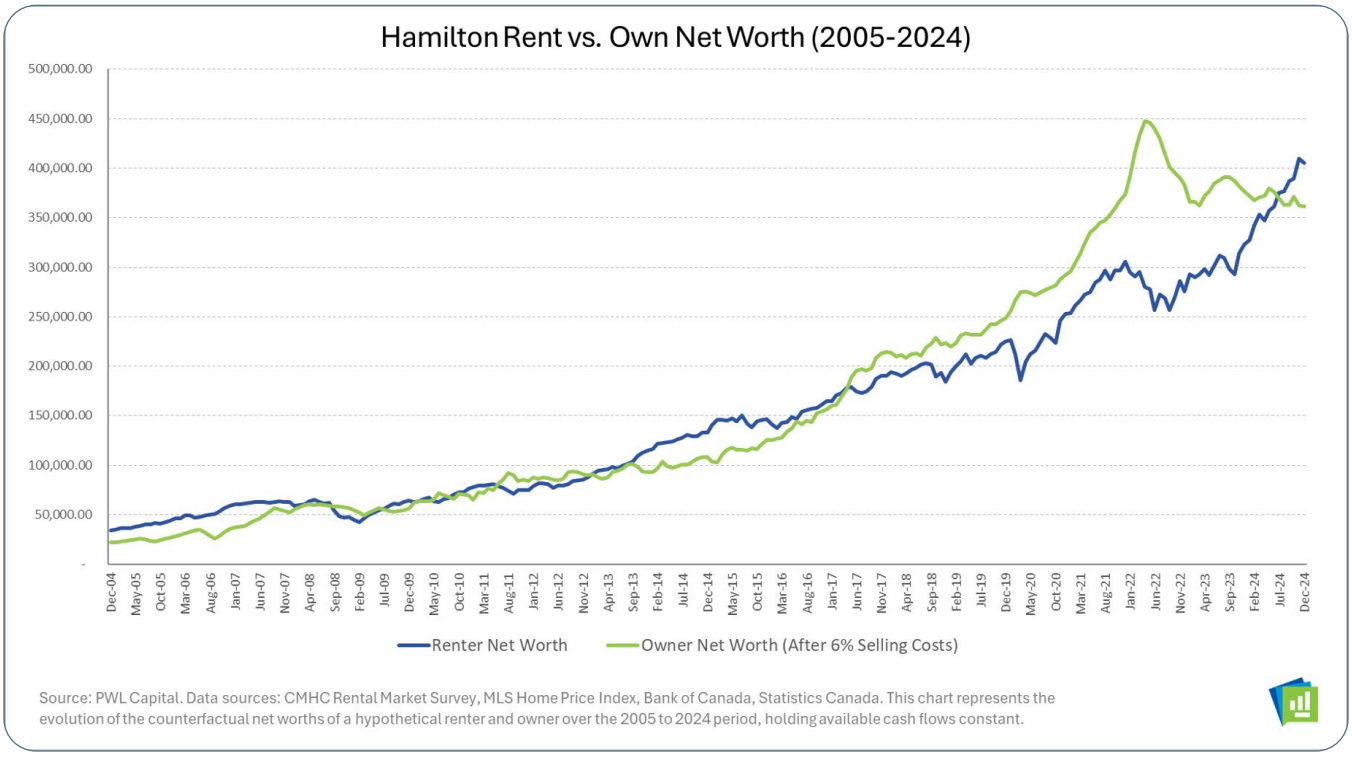
Quebec City's modest apartment price growth of 4.55% annualized, modest rent growth of 4.46% annualized, and a renter-to-owner cash flow ratio only slightly higher than the sample average combined to put renters slightly ahead of owners over the full sample. The ending renter-to-owner net worth ratio is 1.14.



Source: PWL Capital. Data sources: CMHC Rental Market Survey, MLS Home Price Index, Bank of Canada, Statistics Canada. This chart represents the evolution of the counterfactual net worths of a hypothetical renter and owner over the 2005 to 2024 period, holding available cash flows constant.

Hamilton

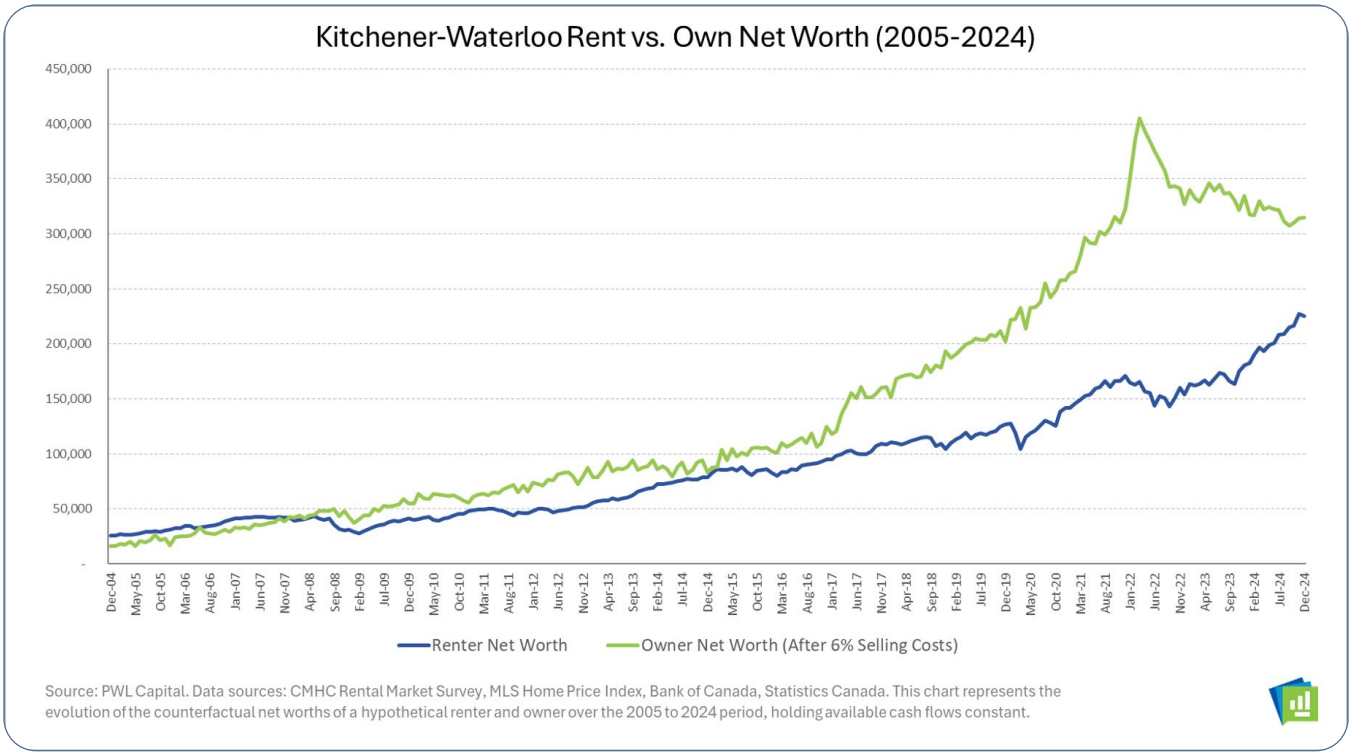
Hamilton's result is interesting as despite high price appreciation at an annualized 6.19% for the full period, and rent growth at an annualized 6.29%, renters ended slightly ahead with an ending renter-to-owner net worth ratio of 1.12. One reason for the renter advantage is relatively low cash flow costs, with a renter-to-owner cash flow cost ratio of 74.99%. Like Toronto, Hamilton owners saw a substantial price decline later in the sample.



Source: PWL Capital. Data sources: CMHC Rental Market Survey, MLS Home Price Index, Bank of Canada, Statistics Canada. This chart represents the evolution of the counterfactual net worths of a hypothetical renter and owner over the 2005 to 2024 period, holding available cash flows constant.

Kitchener-Waterloo

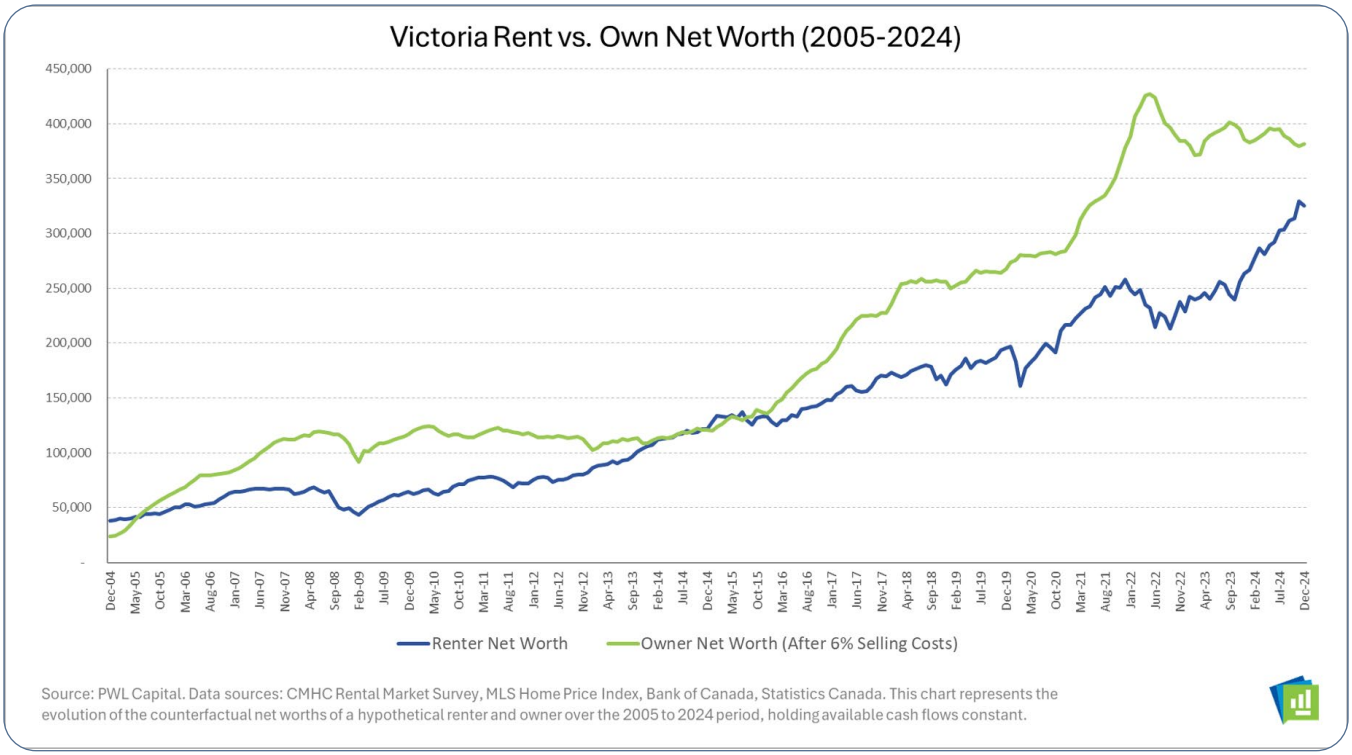
Kitchener-Waterloo had the highest apartment price growth in our sample at an annualized 6.99%, relatively high cash flow costs for renters relative to owners, and rent growth of 5.83%. This combination led to a positive outcome for owners with an ending renter-to-owner net worth ratio of 0.71.



Source: PWL Capital. Data sources: CMHC Rental Market Survey, MLS Home Price Index, Bank of Canada, Statistics Canada. This chart represents the evolution of the counterfactual net worths of a hypothetical renter and owner over the 2005 to 2024 period, holding available cash flows constant.

Victoria

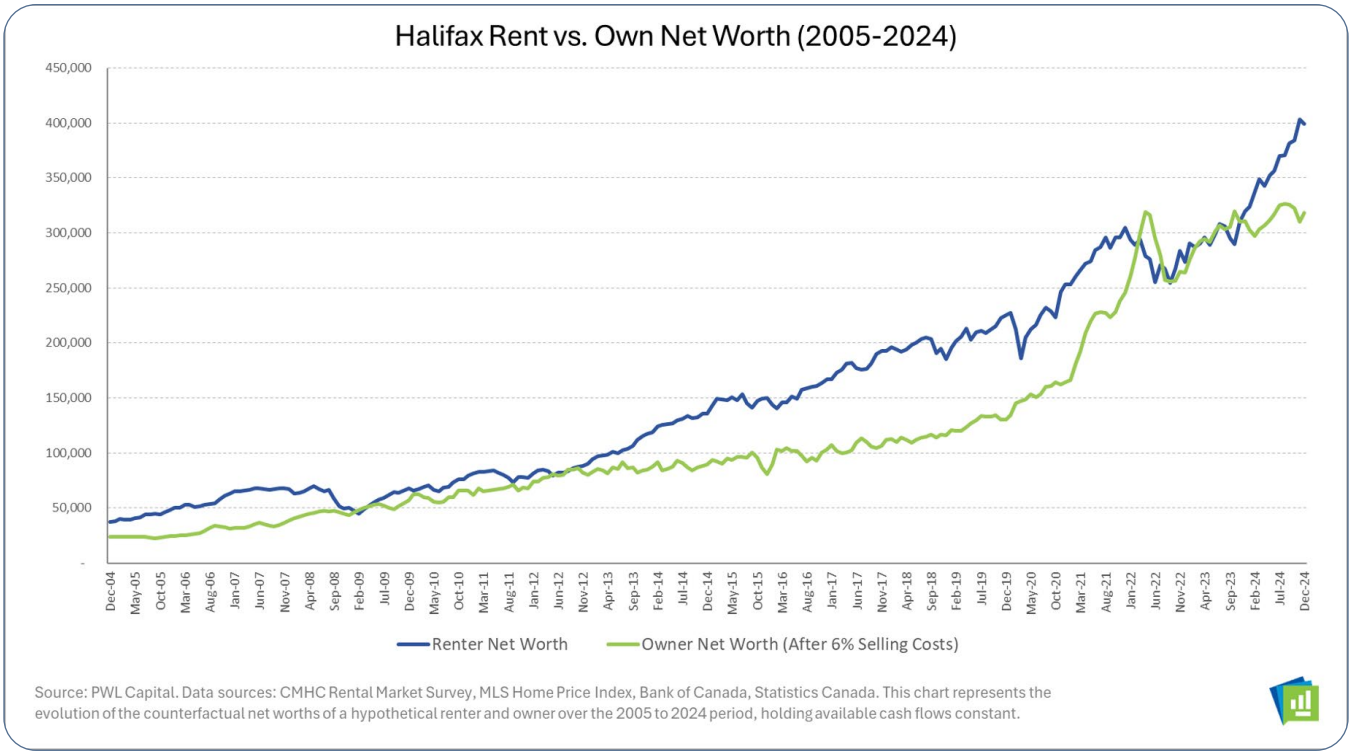
Victoria mirrors Vancouver with slightly more favourable numbers for renters across the board. The apartment price growth rate was an annualized 6.01%, rents grew at 7.60%, and cash flow costs for renters were 87.47% of those for owners. The ending renter-to-owner net worth ratio for Victoria is 0.85.



Source: PWL Capital. Data sources: CMHC Rental Market Survey, MLS Home Price Index, Bank of Canada, Statistics Canada. This chart represents the evolution of the counterfactual net worths of a hypothetical renter and owner over the 2005 to 2024 period, holding available cash flows constant.

Halifax

Halifax had modest price growth over the full sample of 5.20% annualized, though price growth in the later part of the sample increased significantly. Rents grew at 6.70% annualized, which is higher than average, but the cash flow costs of renters were low relative to owners throughout the sample. The ending renter-to-owner net worth ratio is 1.26.



Source: PWL Capital. Data sources: CMHC Rental Market Survey, MLS Home Price Index, Bank of Canada, Statistics Canada. This chart represents the evolution of the counterfactual net worths of a hypothetical renter and owner over the 2005 to 2024 period, holding available cash flows constant.

Conclusion

We find that renting and owning are both reasonable approaches to paying for housing using an analytical model calibrated to Canadian data. For non-taxable investors, there is no clear dominant approach over our sample period despite the unusually high price appreciation and rent inflation. We do find that owned housing is a good hedge against rapidly rising housing costs, with owning generally coming out ahead of renting in the highest rent growth cities. We also document significant dispersion in outcomes geographically.

While our results support renting as a reasonable option, they also highlight the importance of discipline and low investment fees for renters. To have a chance at matching the wealth of owners in our model, renters need to save 100% of the cost difference between renting and owning, invest in low-cost investment products, and capture market returns. These simple actions are at odds with the behaviours of many investors, suggesting that home ownership may offer a more straightforward and accessible path to wealth accumulation.

We do not account for the effect of taxes on investment returns. This is a reasonable assumption for the many Canadians who have not yet, or will not, maximize their available registered account contributions. Between the RRSP, TFSA, and FHSA, the maximum available room has become substantial.

The tax benefits of owned homes in Canada make them a compelling asset for high income households who have maximized the contributions to their registered accounts. We will explore the analytical implications for taxable investors in future research.

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