RESEARCH INSIGHT

Filtering in Canada

The Price is Right?

Insight Summary

Does building new homes actually help make housing more affordable? Some people worry that most new buildings are expensive and don't help those with lower incomes. Whether or not new buildings help depends on a process called "filtering." This is when newer, often more expensive homes free up older, more affordable ones for others to move into. CMHC conducted the following research to help us further understand this process.

What Was Studied?

This study[1] explores two main ways new rental buildings can make older rentals more affordable in Canada:

- **Rent Spillovers:** New buildings can influence the rent of nearby older buildings by changing the balance between available homes and demand.
  - We explored this channel in Calgary and Vancouver. Average rents in Calgary in nearby buildings fell after new construction, but the effect was less strong in Vancouver. One reason could be that the analyses focus on nearby buildings as rental alternatives, not distant ones, while the reduction in rents from supply could be distributed more widely across the metro.
- **Vacancy Chains:** When someone moves into a new, more expensive unit, they leave behind a more affordable one, creating a chain of moves that opens up progressively more affordable homes.
  - We find strong evidence of vacancy chains in Canada, especially in core urban areas.

[1] This study was conducted on behalf of CMHC by Tom Davidoff and Tsur Somerville, both from the University of British Columbia.

Key Findings

1. Following a new build, there is a high chance that vacancies are generated in more affordable areas through the filtering process.
   - Filtering helps affordability the best in places like Winnipeg, Montréal and Québec City, with success rates being lower in more suburban areas like Oshawa, Barrie and Abbotsford-Mission.

2. In some cities, average rents in nearby buildings become lower after new construction. However, these effects are less strong in other cities. For instance, rents become lower by 2-3% in Calgary, while remain about the same in Vancouver.

3. These research results help us better understand how filtering works in Canada. They show that building new homes can help make housing more affordable.

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This study follows previous work from CMHC[2], which explored how building at different costs affects filtering, scanned important international studies, and provided an analysis of rent depreciation across a building's life cycle.

Main Implication

The evidence shows that new construction can benefit lower-income households, sometimes through direct rent reductions, but also by creating ***chains*** of moves that eventually reach more affordable units. These chains are complex and can be broken up by moves into the market. This highlights the importance of supporting new housing supply as one of the strategies to improve affordability across the market.

"When a household moves into newly built home, they leave their previous unit available for another household, which can trigger a series of moves across the housing market. In both Vancouver and Montréal, we find that over 40% of vacancies that begin in new buildings in higher-rent areas reach lower-rent areas by 4 moves."

Brief Analysis

What Did We Find?

Rent Spillovers

We looked at the Calgary and Vancouver markets and assessed whether rents in existing buildings within 150–250 metres of new rental construction fell relative to rents in buildings farther away.[3] We found that during the five years following project completion:

- Average rents in Calgary in nearby buildings were 2–3% lower after new construction compared to units farther away.
- Such ***broader*** effects were not found in Vancouver. However, we do found stronger effects—up to 8% reductions in Vancouver—for nearby buildings with above-median rents, i.e., for units likely to be more directly competing in the same submarket as the new construction.

These mixed results might be less surprising. This is because these analyses assume renters only consider nearby buildings—like those on the same block—as alternatives, rather than further away in a metro. Exploring differences among wider markets remain an avenue for future research work.

Vacancy Chains

The second part of the analysis explores *vacancy chains*. This mechanism recognizes that when a new unit is built, many occupants move from elsewhere in the same metro area. Those movers' former rental units are then occupied by other movers, freeing up additional units along the chain.

The central question is: how likely is it that a unit with more affordable rent is vacated through this process? If movers tend to come from outside the metro area or from a new household forming, the chain may be broken before an affordable unit becomes available.

U.S. and Finnish studies (Mast, 2021; Bratu, Harjunen, and Saarimaa, 2023) have shown that new construction does create vacancies in more affordable areas.[4]

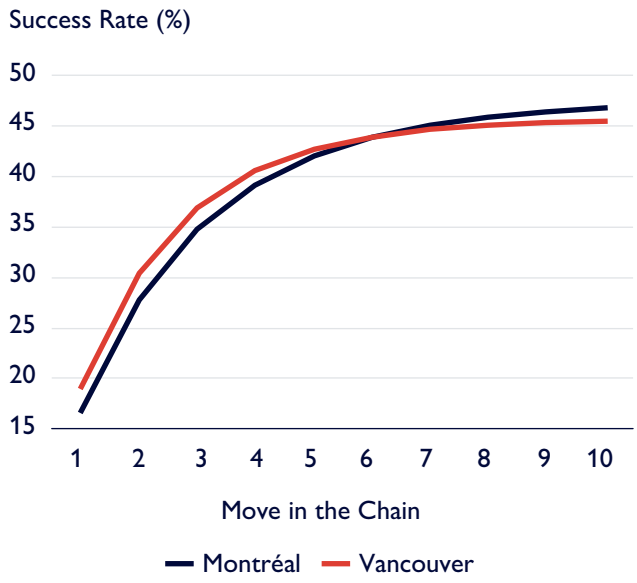
[2] https://www.cmhc-schl.gc.ca/blog/2024/ask-expert-discusses-filtering-housing-affordability-approach

[3] These units would reflect a similar locational choice.

[4] Mast (2021) finds that building 100 new homes in a higher-income area leads to about 40 vacancies in low-income neighbourhoods within 2 to 5 years. Bratu, Harjunen, and Saarimaa (2023) show that there's a 29% chance a new apartment in central Helsinki starts a vacancy chain that ends in a low-income area.

We find that vacancy chains in Canada are similar to those in the U.S. and Finland. In Vancouver, the chance of reaching a lower-cost unit is 40% after five moves. In Montréal, it passes a 40% chance by the fourth move and nears 49% by the ninth. These results are shown in Figure 1.

Figure 1: Likelihood of Vacancy Chain Reaching Rental Units in More Affordable Area



Notes: The Montréal (blue line) and Vancouver (red line) show the probability that a vacancy chain yields a vacancy in a home in a neighbourhood (defined by a census tract) with median rent in the bottom quartile among all CMA's neighbourhoods.

Further analysis in Table 1 shows the likelihood that a vacancy in a higher-rent neighbourhood leads, through a chain of moves within the same CMA, to a vacancy in a neighbourhood with lower rents after several moves in the chain.[5]

Table 1: Probability that a Vacancy in a High-Rent Area Generates a Vacancy in a Low-Rent Area

CMA	Probability
Abbotsford-Mission	18%
Barrie	20%
Belleville	36%
Brantford	31%
Calgary	42%
Edmonton	37%
Greater Sudbury	44%
Guelph	29%
Halifax	33%
Hamilton	26%
Kelowna	24%
Kingston	22%
Kitchener-Cambridge-Waterloo	27%
Lethbridge	34%
London	35%
Moncton	31%
Montréal	49%
Oshawa	21%
Ottawa-Gatineau	29%
Peterborough	28%
Québec City	49%
Regina	41%
Saguenay	41%
Saint John	48%
Saskatoon	41%
Sherbrooke	43%
St. Catharines-Niagara	44%
St. John's	49%
Thunder Bay	43%
Toronto	36%
Trois-Rivières	33%
Vancouver	46%
Victoria	35%
Windsor	49%
Winnipeg	51%

Notes: According to calculations by CMHC.

[5] Note that Figure 1 shows that the likelihood roughly flattens in Montreal and Vancouver around the fifth move.

The findings in Table 1 yield many interesting insights about the success rate of filtering in Canadian CMAs:

- Higher filtering rates are seen in CMAs such as Winnipeg (51%), Montréal (49%) and Québec City (49%).
- Lower filtering rates are seen in CMAs like Abbotsford-Mission (18%), Barrie (20%), and Oshawa (21%).

Vacancy chains can be disrupted if movers from another market come to live in one of the vacant units in the chain. This can explain why CMAs like Oshawa have lower filtering rates, because the chain can be disrupted by movers from nearby major markets, like Toronto.

This study provides first-of-its-kind estimates of the vacancy chain process for Canada.

Implications for the Housing Sector

In light of ongoing debates over whether new housing construction benefits lower-income households, understanding the filtering process is essential to guide housing policy.

These findings support the development of new supply in high-demand areas, as they can indirectly improve affordability across the broader housing market. We find significant filtering effects through building depreciation and vacancy chains, as these promote better affordability through new supply. Elsewhere we see some, but not always universal spillover effects on nearby rents from new apartment buildings. However, this doesn't mean new housing has no effect on existing rents - most of the impact likely happens across a wider area.

Further Reading

https://assets.cmhc-schl.gc.ca/sf/project/archive/research_6/filtering_en.pdf

References

Bratu, Cristina, Oskari Harjunen, and Tuukka Saarimaa (2023). "City-wide effects of new housing supply: Evidence from moving chains". In: Journal of Urban Economics 133. url: https://doi.org/10.1016/j.jue.2022.103528.

Mast, Evan (2021). "The Effect of New Market-Rate Housing Construction on the Low-Income Housing Market". In: Journal of Urban Economics. url: https://doi.org/10.1016/j.jue.2021.103383.

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Alternative text and data for figures

Figure 1: Likelihood of Vacancy Chain Reaching Rental Units in More Affordable Area

Move in the Chain	Montréal (%)	Vancouver (%)
1	16.8958	19.2369
2	27.7657	30.3936
3	34.7227	36.8292
4	39.1565	40.5209
5	42.0504	42.6731
6	43.9211	43.9138
7	45.1167	44.6237
8	45.8861	45.0377
9	46.3867	45.2684
10	46.7048	45.407