URBAN DEVELOPMENT INSTITUTE

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The Honourable Christine Boyle
Minister of Housing and Municipal Affairs
PO Box 9074 Stn Prov Govt
Victoria, BC V8W 9E9

Re: 2027 Annual Allowable Rent Increase and Additional Rent Increase Process

Dear Minister Boyle,

Annual Allowable Rent Increase

As the Province considers the 2027 Annual Allowable Rent Increase (AARI), we recognize the importance of balancing renter affordability with the long-term sustainability of British Columbia's rental housing sector. UDI members have responded to British Columbia's housing challenges and delivered rental housing at record levels in recent years, which has contributed greatly to the affordability gains being seen today.

It is important to be clear about what is at stake with the AARI. This is not a question of returns for building operators. It is a question of whether owners retain the capacity to maintain and reinvest in the rental housing they already operate, let alone invest in new rental housing projects.

As noted in your recent statement on the July 2026 rental report, *"B.C. leads the country in rent decreases".* However, construction and maintenance costs remain elevated – making the delivery of new housing supply incredibly challenging. The decline in rents and increasing vacancy rates are largely the result of purpose-built rental (PBR) housing projects that were approved and financed in a very different market environment.

Existing rental housing providers continue to face rising operating costs, including property taxes, insurance premiums, maintenance expenses, utility charges, labour costs, and regulatory compliance requirements. In most cases, these costs are increasing at a rate that far exceeds allowable rent increases, placing increasing pressure on the financial sustainability of rental housing operations.

The scale of this gap is measurable. Property taxes are among the largest fixed costs in a rental building, and in many municipalities, they have risen at more than double the rate of allowable rent increases.

Table 1: Approved Municipal Property Tax Increases, Selected B.C. Municipalities

Municipality	2023	2024	2025	2026	4-Year Cumulative (Compounded)
Victoria	6.15%	7.93%	6.99%	7.28%	31.5%
Coquitlam	5.48%	8.92%	6.83%	3.37%	26.9%
Richmond	5.89%	5.62%	5.86%	3.04%	22.0%
Kelowna	3.78%	4.72%	4.34%	4.40%	18.4%
Annual Allowable Rent Increase	**2.00%**	**3.50%**	**3.00%**	**2.30%**	**11.2%**

Across the four municipalities noted in Table 1, property taxes rose by an average of **24.7% over four years**, against a cumulative allowable rent increase of **11.2%**. In Victoria the increase was 31.5%, nearly three times the allowable rent increase over the same period. Property taxes are a non-discretionary cost. They cannot be deferred, renegotiated, or absorbed through efficiency.

Extending the comparison makes the gap starker. Because increases were cancelled entirely in 2020 and 2021 and held to 1.5% in 2022, the cumulative allowable rent increase over the **seven years from 2020 to 2026 was 12.9% on a compounded basis**, barely more than the four-year figure above. Operating costs did not pause for those two years. Rental housing providers absorbed them in full, and the shortfall compounds in every year that follows.

In Metro Vancouver, for example, utility levies have risen even faster than property taxes because of cost overruns in the delivery of regional infrastructure such as the North Shore Wastewater Treatment Plant, which has ballooned from an original budget of $700 million to $3.86 billion. Coquitlam increased its sewer and drainage rates by 16% in 2025 alone. Vancouver raised utility fees by 18.2% in 2025 and a further 4.2% in 2026. Again, these are recurring, compounding charges that flow directly into the operating budget of every rental building, and they are outside the control of the housing provider.

When operating revenue consistently lags operating costs, reinvestment is the first thing deferred. This includes improvements to roofs, building envelopes, mechanical systems, and energy efficiency as well as seismic upgrades. Buildings deteriorate, and tenants bear the consequences through declining housing quality. Over time, there is even the potential permanent loss of units from the rental stock. A rent framework that keeps pace with real costs protects tenants as much as it protects providers. It also helps future tenants because investment in new rental housing will be encouraged rather than undermined.

UDI has raised concerns since 2019 when the CPI +2% formula was lowered because of the gap between the rent increases and operating costs. Since then, the Province over several years did not even follow its own policy of tying the AARI to CPI. As noted in the table below, there were years in which no increase was allowed and others when it was capped – compounding the problem.

Table 2: Historical Annual Allowable Rent Increase Rates

Year	Date Announced	Formula Rate	Actual Rate	Notes
2026	Aug 26th, 2025	2.30%	2.30%	Rent increase at CPI
2025	Aug 26th, 2024	3.00%	3.00%	Rent increase at CPI
2024	Sept 11th, 2023	5.60%	3.50%	Rent increase capped at 3.5%
2023	Sept 7th, 2022	5.40%	2.00%	Rent increase capped at 2%
2022	Sept 8th, 2021	1.50%	1.50%	Rent increase at CPI
2021	Sept 3rd, 2020	1.40%	0.00%	Rent increase cancelled
2020	Sept 4th, 2019	2.60%	0.00%	Rent increase cancelled
2019	Sept 7th, 2018	4.50%	2.50%	+ 2% addition to formula rate removed, CPI only
2018	Aug 21st, 2017	4.00%	4.00%	Rent increase at CPI (2%), + 2%
2017	Aug 22nd, 2016	3.70%	3.70%	Rent increase at CPI (1.7%), + 2%

The original formula served a function beyond cost recovery. It gave lenders and investors a clear, rules-based signal that could be underwritten over a long horizon. Since 2019, the annual increase has increasingly been treated as a discretionary policy decision rather than the application of a formula. Each year the number has become an open question and subject to political considerations. That uncertainty is now priced into decisions about whether to invest in rental housing in British Columbia. Capital is mobile, and it moves toward jurisdictions where there is more certainty.

The strength of a formulaic approach that is implemented automatically is certainty for every party. Tenants would know in advance how the maximum increases are determined and could plan household budgets accordingly. Providers could budget operations and schedule capital work with confidence. Government would no longer face an annual debate over where the number should land, nor the pressure that accompanies it. Predictability is a policy objective in its own right, and it is among the least costly tools available to the Province.

UDI continues to believe that the AARI should reflect both inflationary pressures and the real costs associated with providing and maintaining rental housing. ***Therefore, we recommend returning to basing the AARI on CPI plus 2%,*** which is a more balanced framework that supports affordability while recognizing the financial realities facing rental housing providers.

It is important to note that the AARI is a ceiling on rental increases. In a soft market, as is the case now, providers frequently cannot apply the full allowable increase, and many do not. However, having a fair and consistent AARI formula is still critical to investors of new PBR projects. They need to be confident that there will stable and more predictable rent growth over long periods of time that will cover future operating and maintenance costs.

This confidence is especially needed now. Federal immigration policy has temporarily (and sharply) reduced population growth, with permanent resident targets lowered and the non-permanent resident population falling significantly. British Columbia has historically absorbed a large share of these arrivals, who are disproportionately renters. As a result of the reductions in immigration, vacancy rates have risen and rents have declined in several communities. These conditions are welcome for tenants, and they demonstrate that supply works. However, it also means new purpose-built rental supply is now completing into a softer market that still has increasing operating costs.

At the same time, critical Federal programs that have supported the substantial growth in PBR construction are being scaled back. Investment in PBR over the past few years has been driven primarily by CMHC programs such as MLI Select and the Apartment Loan Construction Program. In fact, CMHC estimates that by 2024, 88% of new purpose-built rental apartment starts in Canada were supported by its construction financing programs, up from just 5% in 2017. As the size of the incentive programs decline, so will investment in PBR projects – unless other incentives are provided. Otherwise, governments risk undoing the progress that has been made.

We urge the Province to adopt an AARI framework for 2027 that allows rental providers to address ongoing operating cost pressures. Such an approach will help preserve existing rental housing, support continued investment in new supply, and contribute to a healthier and more sustainable rental housing market for British Columbians. All of which are essential to achieve the Province's long-term housing objectives.

Additional Rent Increase Process

Beyond the AARI formula, the Additional Rent Increase (ARI) process also requires reform. This process is intended to let rental housing providers recover the cost of major repairs and capital improvements through rent. In its current form, it discourages the very investment it is meant to enable.

The process is administratively complex, and providers must work through multiple application streams, several phases, and a series of separate forms and calculations. It also requires that capital work be completed before an application can be made. Providers must commit significant capital with no assurance that the associated rent increase will be approved. This uncertainty is most acute for aging rental stock, where the need for major upgrades is greatest and the case for reinvestment is strongest.

We recommend three changes:

1. *Simplify and consolidate the process* - A single online application with clear eligibility criteria would reduce the administrative burden on providers, tenants, and the Residential Tenancy Branch;
2. *Introduce pre-approval mechanism* - Providers should be able to confirm eligibility and the associated rent increase before committing capital, as certainty at the outset would encourage timely investment in repairs and upgrades rather than deferring them.
3. *Tie cost recovery to the useful life of the improvement* - The current formula amortizes eligible expenditures over a fixed 10-year period, subject to a 3% cap in each phase and rolled over across as many as three phases. We recommend a formula that amortizes each eligible expenditure over its actual useful life, with the associated rent increase set to recover the cost over that period. This would align cost recovery with the lifespan of the asset and give both providers and tenants a predictable and transparent basis for increases.

Well-maintained rental housing serves tenants and providers alike. A simpler and more certain ARI process would support the ongoing renewal of British Columbia's existing rental stock.

Changing Market Conditions

The recommendations set out above address the immediate pressures facing rental housing today. Returning the AARI to a CPI plus 2% basis, and reforming the Additional Rent Increase process, are in our view the minimum required to begin to stabilize the sector.

Separately, and over a longer horizon, we encourage the Province to examine whether the current framework remains suited to the market it now regulates.

CMHC's 2025 Rental Market Report, based on its October 2025 survey, found vacancy in Greater Vancouver rose from 1.6% to 3.7%, the highest level in more than thirty years. Greater Victoria reached 3.3%, the highest since 1999. In the Central Okanagan, vacancy rose from 3.8% to 6.4% over the same period, the highest of any major metropolitan area in Canada. Across B.C. municipalities with populations of 10,000 or more, vacancy rose on average from 1.9% to 3.5%. As you noted in your statement on the July 2026 rental report, vacancy rates are the highest they have been in decades and asking rents have declined 8.5% over two years.

We share that assessment. It demonstrates what UDI has consistently argued, which is that sustained new supply moderates rents more durably than regulation alone. A vacancy rate of 3% is generally regarded as the point at which a rental market is balanced, and urban markets have now moved past it.

The softening market has impacted new PBR disproportionally. CMHC reports that vacant units are taking longer to lease, particularly newer purpose-built rental buildings, where operators are competing against a well-supplied secondary market and responding with incentives.

The current framework was not designed for these types of conditions. We believe there is value in the Province examining mechanisms better matched to them, including how current rent regulations should apply to new PBR buildings. Other jurisdictions have taken different approaches, with measurable effects on rental housing supply. We are reviewing that evidence and expect to bring forward a more detailed position later this year.

UDI and its members remain committed to partnering with the Province to address housing affordability and supply challenges. We welcome continued dialogue with the Government regarding policies that support both renters and the long-term viability of rental housing across British Columbia – including our recommendations regarding the Allowable Annual Rent Increase and the Additional Rent Increase Process.

Yours Sincerely,

Michael Drummond, Chief Executive Officer
Urban Development Institute