

TERRA FIRMA

ISSUE 04

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# The Location Equation

*Where Ontario's Smartest Investors  
Are Deploying Capital in 2026*

A Publication for the Informed Investor

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## The Framework

"Is Ontario real estate a good investment?" is the wrong question. Ontario is not a single market. It is a collection of micro-markets, each with its own supply-demand dynamics, rental yield profile, economic base, and risk characteristics. The right question is: "Which Ontario market aligns with my investment thesis?"

This issue provides a data-driven framework for answering that question. Every market is evaluated on five dimensions:

### THE FIVE-FACTOR EVALUATION

1. **Rental Yield.** Gross annual rent divided by purchase price. Markets with yields above 5-6% generally cash-flow positive at 80% LTV; below 4%, the thesis must be appreciation-driven.
2. **Vacancy Rate.** CMHC's purpose-built rental vacancy rate. Below 2% indicates a landlord's market. Above 4% signals softening. The direction of the trend matters as much as the absolute number.
3. **Economic Base.** Concentration risk. A market dependent on a single employer or industry carries structural risk that a diversified economy does not.
4. **Supply Pipeline.** Housing starts and units under construction per capita. High pipeline means future competition for tenants; low pipeline means future price pressure upward.
5. **Price-to-Rent Ratio.** Purchase price divided by annual rent. The GTA's ratio exceeds 25x; Northern Ontario markets may be below 12x. This single number often reveals more about a market's investment profile than any headline statistic.

| Market       | Avg. Price | Yield     | Vacancy | Investor Profile    |
|--------------|------------|-----------|---------|---------------------|
| GTA          | \$1.01M    | ~4%       | 3.0%    | Appreciation        |
| Hamilton     | \$812K     | 5-6%      | ~1.4%   | Value-Add / BRRRR   |
| KW-Cambridge | \$715K     | 5-6%      | ~1.5%   | Balanced            |
| Ottawa       | \$665K     | 4.5-5%    | ~2.2%   | Stability / Income  |
| London       | \$575K     | 5.5-6.5 % | ~2.8%   | Cash Flow / Yield   |
| Northern ON  | \$365K     | 6-8%      | <2.8%   | High Yield / Remote |

Sources: CREA, CMHC, regional boards. Figures approximate as of early 2026. Yields are gross estimates based on typical rents for comparable properties.

## Greater Toronto Area

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**~4%**

Gross Rental Yield

**3.0%**

Purpose-Built Vacancy

**\$1.01M**

Avg. Sale Price (Feb 2026)

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The GTA is Canada's largest and most liquid real estate market. It is also, by most conventional metrics, the worst market in Ontario for cash-flow investors. Average sale prices around \$1 million, combined with rents that produce gross yields of approximately 4%, mean that a conventionally financed rental property will almost certainly be cash-flow negative.

The investment thesis for the GTA is not cash flow. It is capital appreciation driven by structural supply constraints, transit infrastructure investment (Ontario Line, Eglinton Crosstown, GO rail expansion), and chronic underbuilding relative to population growth. The GTA condo market remains the weakest segment – with benchmark prices down nearly 8% year over year in early 2026 and elevated supply still being absorbed – but freehold properties in inner suburbs have shown more resilience.

*The GTA investor must accept negative cash flow as the price of admission to the highest-appreciating market in the province.*

Risk factors. Toronto's municipal land transfer tax doubles the entry cost. New graduated MLTT rates for high-value residential properties take effect April 1, 2026. Pre-construction condo sales have hit 30-year lows. Housing starts in Toronto are down 11% on an annual basis. Trade uncertainty and a cooling labour market add macro risk.

Best for: Well-capitalized investors with a 10+ year horizon, prioritizing appreciation over income.

## Hamilton-Burlington

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**5-6%**

Gross Rental Yield

**~1.4%**

Purpose-Built Vacancy

**\$812K**

Avg. Sale Price (Feb 2026)

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Hamilton is Ontario's most compelling BRRRR market. Entry prices 20-25% below the GTA, strong rental demand driven by McMaster University and Hamilton Health Sciences, and ongoing GO Transit expansion that will deliver faster train service to Union Station. The city's zoning reforms – including as-of-right permissions for secondary suites – make it one of the most investor-friendly municipalities for adding legal rental units.

Housing starts fell to near-decade lows in 2024. Vacancy rates are projected to peak in 2026 as record completions are absorbed, then tighten in 2027 as the pipeline thins. This temporary oversupply is the window.

### THE HAMILTON PLAYBOOK

Target: Older single-family homes in the lower city or east mountain with conversion potential – legal basement suites, garden suites, or duplex conversions.

Entry price: \$500K-\$650K for cosmetic to moderate renovation.

Value-add: A legal secondary suite adds \$1,500-\$2,000/month in rental income and can shift a property from negative to positive cash flow while increasing ARV by \$75K-\$125K.

Risk: Property tax rates are among the highest in Ontario – approximately 1.2% of assessed value – which erodes cash flow more than in lower-tax municipalities. Legacy manufacturing exposure persists.

Best for: Active investors executing BRRRR. Strong value-add potential for those willing to renovate and manage.

## Kitchener-Waterloo-Cambridge

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**5-6%**

Gross Rental Yield

**~1.5%**

Purpose-Built Vacancy

**\$715K**

Avg. Sale Price (Feb 2026)

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Of all Ontario's regional markets, Kitchener-Waterloo-Cambridge offers the best balance of cash-flow yield and growth potential. The economic engine is the technology sector – anchored by the University of Waterloo, Communitech, and a growing cluster of AI, fintech, and SaaS companies – which provides diversified, high-income employment supporting premium rents.

The construction pipeline is among the highest in Ontario: 4-7 rental units per 1,000 residents under construction. This will temporarily push vacancy rates higher through 2026, creating acquisition opportunities before the next tightening cycle.

The student housing angle. UWaterloo and Wilfrid Laurier draw approximately 70,000 students combined. However, the federal study permit cap – reducing approvals by 35% from 2023 levels – introduces uncertainty. Stress-test rental assumptions against 10-15% fewer international students.

ION LRT corridor. Properties within 800 metres of ION stations have consistently outperformed the broader market. The Stage 2 extension to Cambridge will expand this corridor and create new investment nodes.

Best for: Investors seeking the intersection of cash flow and growth – the most balanced market in Ontario.

## Ottawa

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**4.5–5%**

Gross Rental Yield

**~2.2%**

Purpose-Built Vacancy

**\$665K**

Avg. Sale Price (Feb 2026)

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Ottawa is the conservative investor's market. The federal government's 130,000+ employees provide recession-resistant rental demand that no other Ontario market can match. University of Ottawa and Carleton add another stable demand layer. The result is lower volatility, more predictable cash flows, and less dramatic price swings.

Prices rose approximately 3% in 2025, and the consensus for 2026 calls for similar modest appreciation with 5% sales growth. Inventory increased 21% through 2025 – a healthy normalization without tipping into oversupply.

*Ottawa rewards patience, not speculation. The returns are smaller.  
But so are the losses.*

### THE OTTAWA OPPORTUNITY: R4 ZONING

Ottawa's R4 zoning reforms enable secondary suites, duplexes, triplexes, and fourplexes across much of the city. This creates a value-add pathway: purchase a single-family home in an R4 zone, convert to multi-unit, and increase both rental income and property value.

Best neighbourhoods: within the Greenbelt, close to Confederation Line LRT stations, and near federal employment corridors (Tunney's Pasture, Lincoln Fields, Hurdman).

Risk: Policy changes affecting federal hiring or remote work mandates could moderate demand.

Best for: Conservative portfolios seeking stable, predictable income with low vacancy.

## London & Southwestern Ontario

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**5.5–6.5%**

Gross Rental Yield

**~2.8%**

Purpose-Built Vacancy

**\$575K**

Avg. Sale Price (Feb 2026)

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London is the yield play. Average prices under \$600,000, combined with rents supported by Western University (35,000+ students) and London Health Sciences Centre, produce gross yields of 5.5-6.5% — among the highest of any Ontario city with a diversified economic base.

Record rental completions in 2024 and elevated vacancy through mid-2026 are creating a strategic acquisition window. Properties are available at prices and cap rates not achievable 18 months ago. The window will close as the pipeline slows and demand reasserts.

Windsor-Essex. Further west, Windsor offers yields of 6-7% but with greater economic concentration risk tied to auto manufacturing and cross-border trade. The NextStar Energy EV battery plant is a potential catalyst, but tariff exposure makes Windsor a higher-risk allocation.

Best for: Cash-flow-focused investors. Best yield in Ontario with meaningful economic diversification. Ideal for BRRRR at lower entry prices.

## Northern Ontario & Secondary Markets

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**6-8%**

Gross Rental Yield

**<3 mo**

Supply (Months)

**\$365K**

Avg. Sale Price (Feb 2026)

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Northern Ontario – Sudbury, Thunder Bay, Sault Ste. Marie, North Bay, Timmins – is where the numbers work most clearly on paper. Entry prices of \$250K-\$400K, tight supply, and rents producing 6-8% gross yields create a cash-flow profile no southern Ontario market can match.

The challenge is operational. Distance makes management harder. Tenant pools are smaller. Economic bases are narrower – mining, forestry, government services. Population trends are flat to negative, limiting appreciation potential.

### SECONDARY MARKET PICKS

Barrie: GO Transit connectivity, growing population, entry ~\$650K. Emerging hybrid market with better yields than GTA plus commuter-rail access to GTA employment.

Kingston: Queen's University and RMC provide stable demand. Entry ~\$500-550K, yields approaching 5%. Tight market with limited new supply. Lower liquidity but consistent income.

Best for: Experienced investors comfortable with remote management and concentrated economic risk. A yield-focused satellite allocation, not a portfolio cornerstone.

## The Rent Control Map

No analysis of Ontario's regional markets is complete without understanding the single most consequential policy distinction for investors: the November 15, 2018 rent control exemption.

Ontario's rent increase guideline for 2026 is 2.1% – the lowest in four years. This cap applies to approximately 1.4 million rental households. But it does not apply to rental units first occupied after November 15, 2018.

*This creates a two-tier market that fundamentally shapes the investment calculus.*

### PRE-2018 UNITS: RENT-CONTROLLED

Rent increases capped at 2.1% per year (2026 guideline). Above-guideline increases (AGIs) available through the LTB for capital expenditures, extraordinary tax increases, or security services – capped at an additional 3% per year above the guideline.

On turnover, landlords can set any rent for a new tenant (vacancy decontrol). The rent control constraint only binds during the current tenancy.

Strategy: Below-market pre-2018 buildings are a long-term reversion play. Each unit turnover increases income to market rates. Patient capital is rewarded.

### POST-2018 UNITS: EXEMPT FROM RENT CONTROL

Landlords can increase rent by any amount with 90 days' written notice. Full pricing power to adjust rents annually to market conditions.

New-build purpose-built rentals, legal secondary suites added after November 2018, and basement apartments first occupied after that date are all exempt.

Key insight for BRRRR investors: A new secondary suite added to a pre-2018 property is itself exempt from rent control – even if the original unit is controlled. This is a decisive advantage for value-add strategies.

| Factor          | Pre-Nov 2018 Units | Post-Nov 2018 Units |
|-----------------|--------------------|---------------------|
| Annual increase | Capped at 2.1%     | No cap              |

| Factor                 | Pre-Nov 2018 Units      | Post-Nov 2018 Units      |
|------------------------|-------------------------|--------------------------|
| Vacancy decontrol      | Yes – reset on turnover | N/A                      |
| Investor pricing power | Limited during tenancy  | Full                     |
| Value-add strategy     | Turnover reversion      | Direct rent optimization |

Understanding which side of the November 2018 line a property sits on is not a detail. It is the first question any Ontario rental investor should ask.

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NEXT ISSUE

*Issue 05: The Tenant Machine*

Ontario's Residential Tenancies Act, the Landlord and Tenant Board, N12 and N13 notices, above-guideline increases, legal secondary suites, and building a rental operation that cash-flows and complies.

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