

TERRA FIRMA

ISSUE 05

The Tenant Machine

*Building a Rental Operation That
Cash-Flows and Complies*

A Publication for the Informed Investor

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CONTENTS

01 The RTA Landscape

What the Residential Tenancies Act actually requires of you

02 The Standard Lease

Ontario's mandatory form and the clauses that matter

03 The N-Notice System

Every notice form an Ontario landlord needs to know

04 Rent Increases and AGIs

The 2.1% guideline, the post-2018 exemption, and above-guideline increases

05 The LTB: Process and Strategy

How hearings work, what to expect, and how Bill 60 changes the game

06 Building the Legal Suite

OBC requirements, permits, and the economics of secondary suites

07 The Operations Playbook

Screening, maintenance, property management, and scaling

The RTA Landscape

Ontario's Residential Tenancies Act (RTA) governs the relationship between every landlord and tenant in the province. It is 246 sections of law that dictates what you can charge, when you can enter, how you can evict, and what you must maintain. Ignorance of the RTA is the single most expensive mistake an Ontario landlord can make.

The RTA applies to most private residential rentals: apartments, houses, condos, rooms, basement suites, mobile homes, and care homes. It does not apply where the tenant shares a kitchen or bathroom with the landlord (that is a roommate arrangement, outside the RTA's scope), to university or college residences, or to commercial properties.

WHAT LANDLORDS CANNOT DO

Collect damage deposits. Illegal in Ontario. The only deposit permitted is last month's rent, applied to the final month of tenancy, plus a refundable key deposit equal to the actual replacement cost. Any other deposit – “security deposit,” “cleaning fee,” “pet deposit” – is unlawful. Tenants can recover illegal deposits through a T1 application at the LTB.

Include unenforceable clauses. No-pet clauses are void under the RTA. Clauses restricting guests, requiring professional carpet cleaning on move-out, or prohibiting the use of certain appliances are unenforceable. The standard lease overrides any contradictory terms.

Evict without an LTB order. Changing locks, shutting off utilities, removing belongings, or intimidating a tenant into leaving are all offences under the RTA. Only the Sheriff's Office can enforce an eviction, and only after the LTB has issued an order.

Enter without notice. 24 hours' written notice is required before entry, between 8 a.m. and 8 p.m., except in genuine emergencies. The notice must state the reason and time of entry.

The RTA is not hostile to landlords. But it is unforgiving to landlords who do not follow its procedures precisely.

The Standard Lease

Since April 2018, most new tenancies in Ontario must use the province's Standard Form of Lease. This is not optional. If you don't provide it, the tenant can request it in writing, and you have 21 days to comply. Failure to provide the standard lease entitles the tenant to withhold one month's rent.

The standard lease includes fixed sections covering rent amount, payment terms, deposit rules, services and utilities, tenant and landlord responsibilities, and the conditions for ending the tenancy. Landlords can add additional terms, but these cannot contradict the RTA or the mandatory sections of the lease.

CLAUSES THAT PROTECT YOUR INVESTMENT

Utilities allocation. Clearly specify which utilities the tenant pays and which are included. For separately metered units, this is straightforward. For shared utilities (common in older homes with secondary suites), establish a fair allocation method in writing.

Maintenance responsibilities. The RTA requires landlords to maintain the property in a "good state of repair." But tenants are responsible for ordinary cleanliness and for not damaging the unit. Document the condition at move-in with a detailed checklist and photos – this is your best defence against damage claims.

Smoking and cannabis. While no-pet clauses are void, no-smoking clauses (including cannabis) are enforceable if included in the lease. This is one of the few restrictions landlords can meaningfully impose.

Insurance. You can require tenants to carry tenant's insurance (also called renter's insurance). This protects the tenant's belongings and provides liability coverage, reducing your exposure as landlord.

The N-Notice System

Ontario’s eviction and notice system operates through a series of prescribed forms. Using the wrong form, providing insufficient notice, or failing to follow the correct procedure will result in the LTB dismissing your application – regardless of the merit of your case. The forms are available on the Tribunals Ontario website.

Form	Purpose	Notice Period	Key Notes
N4	Non-payment of rent	14 days	Tenant can void by paying in full within 14 days
N5	Interference / damage	20 days (1st)	1st notice: tenant has 7 days to correct. 2nd N5 within 6 months: no correction period
N7	Serious impairment of safety	10 days	For severe damage, illegal activity, or threats
N12	Personal use by landlord	60 days	Landlord must pay 1 month’s rent compensation or offer comparable unit
N13	Demolition / major reno	120 days	Tenant has right of first refusal to return; compensation required
N1	Rent increase	90 days	Max 2.1% (2026) for controlled units; any amount for post-Nov 2018 units

Note: Bill 60 (Fighting Delays, Building Faster Act, 2025) amends several notice periods and procedures. The amendments were passed November 24, 2025 but are not yet in force as of early 2026. The LTB is preparing updated forms and procedures. Monitor tribunalsontario.ca for implementation dates.

N12 IN PRACTICE: THE PERSONAL USE EVICTION

The N12 is the most commonly used — and most commonly abused — landlord notice in Ontario. It allows eviction when the landlord, a family member, or a purchaser intends to move into the unit. The landlord must compensate the tenant with one month's rent or offer a comparable unit.

Critical requirements: The person named must genuinely intend to occupy the unit for at least 12 months. Filing a bad-faith N12 (e.g., to re-rent at a higher price) is an offence under the RTA, with potential fines of up to \$50,000 for an individual.

Bill 60 change (pending): Under the proposed amendments, landlords who provide 120 days' notice for personal-use evictions would no longer be required to compensate the tenant. This is a significant change that, when in force, will alter the N12 calculus. Monitor implementation carefully.

Rent Increases and AGIs

2.1%

2026 Rent Increase Guideline

1.4M

Households Covered

90 days

Required Notice Period

The 2026 rent increase guideline is 2.1% — the lowest in four years. Landlords must serve Form N1 at least 90 days before the effective date, and rent can only increase once every 12 months. This applies to approximately 1.4 million rental households covered by the RTA.

The post-November 2018 exemption. As covered in Issue 04, units first occupied after November 15, 2018 are exempt from the guideline. Landlords can increase rent by any amount with 90 days' written notice. This makes new-build rentals and post-2018 secondary suites significantly more valuable to investors — full pricing power with no cap.

ABOVE GUIDELINE INCREASES (AGIs)

For rent-controlled units, landlords can apply to the LTB for an above-guideline increase in three specific circumstances:

1. Capital expenditures. Significant renovations, repairs, or replacements to the building (new roof, windows, elevator, plumbing). The expenditure must be extraordinary — routine maintenance does not qualify.
2. Extraordinary municipal tax increases. If property taxes or charges have increased by an extraordinary amount compared to the guideline.
3. Security services. New security services or increased costs for existing services.

AGIs are capped at an additional 3% per year above the guideline (so a maximum total increase of 5.1% in 2026). They can be applied over up to three years. The LTB hearing process for AGIs can take 6-12 months — factor this delay into your financial projections.

Vacancy decontrol: When a rent-controlled tenant vacates, the landlord can set any rent for the incoming tenant. This is the single most important mechanism for increasing revenue on controlled buildings. Strategic building management that maintains quality and retains good tenants — while capturing market rent on turnover — is the core competency of successful Ontario landlords.

The LTB: Process and Strategy

The Landlord and Tenant Board (LTB) is the quasi-judicial tribunal that resolves disputes under the RTA. It is the only body that can issue eviction orders. Understanding its process is not optional for Ontario landlords – it is operational infrastructure.

Filing. Applications are filed through the Tribunals Ontario Portal. Fees range from approximately \$53 (tenant applications) to \$201 (landlord L1/L2 applications). The landlord must serve the application and notice of hearing on the tenant.

Hearing timelines. The LTB has faced significant backlogs. Wait times for hearings have ranged from 4-8 months in recent years. Bill 60 (Fighting Delays, Building Faster Act, 2025) was explicitly designed to address these delays through streamlined procedures, tighter deadlines, and expanded use of mediation. The amendments are not yet in force but are expected to reduce timelines when implemented.

Mediation. The LTB offers mediation as an alternative to formal hearings. Mediation is faster, less adversarial, and often produces better outcomes for both parties. Experienced landlords use mediation strategically – particularly for rent arrears cases where a negotiated payment plan serves both parties better than a contested hearing.

BILL 60: WHAT CHANGES (WHEN IN FORCE)

Faster non-payment evictions. The notice period for non-payment of rent (Form N4) is reduced from 14 days to 7 days.

Extended personal-use notice. N12 notice period extended to 120 days. Compensation requirement removed for landlords providing full 120-day notice.

Streamlined procedures. The LTB is empowered to use expedited processes for straightforward cases, including non-payment where the tenant does not dispute the arrears.

Enhanced penalties. Increased fines for bad-faith evictions and unlawful rent increases.

Status: Passed November 24, 2025. Not yet in force as of early 2026. Tribunals Ontario is preparing implementation. Monitor for updates before relying on any Bill 60 provisions in your operations.

Building the Legal Suite

Adding a legal secondary suite is the highest-ROI value-add strategy available to Ontario real estate investors. A legal basement apartment generating \$1,500-\$2,500/month transforms the economics of a property – shifting it from negative to positive cash flow, increasing ARV, and creating a post-November 2018 rental unit exempt from rent control.

\$90-140

Cost Per Sq Ft (GTA)

1.95m

Min. Ceiling Height (OBC)

3-5 yr

Typical Payback Period

ONTARIO BUILDING CODE REQUIREMENTS (2024 OBC)

Ceiling height: Minimum 1.95 metres (6'5") throughout habitable rooms. Under beams and ducts: 1.85m (6'1"). Measure before you plan – if you're under, underpinning (\$40K-\$80K+) or abandoning the project are your only options.

Egress: Every bedroom requires an egress window large enough for emergency escape. Separate entrance required – cannot pass through the main dwelling.

Fire separation: Fire-rated ceiling and walls between units (minimum 45-minute rating). Hard-wired, interconnected smoke alarms and CO detectors in both units. Fire-rated doors (solid core, 45-minute rating).

Self-contained: Must include its own kitchen, bathroom, sleeping area, and living space.

Ventilation and insulation: Full-height insulation on basement walls. Kitchen and bathroom exhaust vented to outdoors. Independent temperature control for the suite.

Permits: Building permit mandatory. ESA (Electrical Safety Authority) inspection. Final occupancy inspection. Operating without a permit voids your insurance and exposes you to municipal fines.

The economics. A 700-square-foot legal suite in the GTA costs \$63,000-\$98,000 to build (more with underpinning). At \$2,200/month rent, annual income is \$26,400. Payback period: 2.5-3.7 years – before accounting for the increase in property value, which can add \$75,000-\$125,000 to ARV. This is why the secondary suite is the cornerstone of Ontario's BRRRR strategy.

Key insight: The new suite is exempt from rent control even if the main unit is controlled (assuming the suite was first occupied after November 15, 2018). You retain full pricing power on the new unit indefinitely.

The Operations Playbook

The spreadsheet says the deal works. The lease is signed. Now you need to operate. This is where most investor-landlords fail – not because the math was wrong, but because the operations were neglected.

Tenant screening. Ontario’s lack of a damage deposit makes screening your most important risk-management tool. Credit checks, employment verification, landlord references, and income verification (a common threshold is gross monthly income at least 3x monthly rent) are all permissible under the RTA. What you cannot request: social insurance numbers for screening purposes, or post-dated cheques as a condition of tenancy.

THE SCREENING CHECKLIST

1. Application form. Use the Ontario Standard Rental Application (Form 410). It covers employment, income, rental history, and references.
2. Credit check. Obtain written consent from the applicant. Look for patterns, not just the score – collections, late payments, and judgments are more informative than the number itself.
3. Employment/income verification. Request a recent pay stub or letter of employment. For self-employed tenants, request a Notice of Assessment or bank statements.
4. Landlord references. Call the previous landlord (not just the current one, who may have an incentive to give a positive reference to move a problem tenant).
5. Meet the tenant. A face-to-face meeting at the property is invaluable. Observe how they treat the space, whether they ask thoughtful questions, and whether they seem like someone who will maintain the unit.

Maintenance systems. Under the RTA, you must maintain the property in a “good state of repair” and comply with all health, safety, housing, and maintenance standards. Heat must be maintained at minimum 20°C from September 1 to June 15 (21°C in Toronto from October 1 to May 15). Respond to maintenance requests promptly and in writing. Keep a log of all requests, actions taken, and costs. This documentation is your best protection at the LTB if a tenant files a T6 (maintenance) application.

Property management. At 1-4 units, most Ontario investors self-manage. Beyond 5 units, or if you are investing remotely, a property manager becomes essential. Ontario property management fees typically run 5-10% of gross rent for residential properties. Ensure your manager understands the RTA – their actions are your liability.

The best tenants stay where they are treated well. The most profitable landlords are the ones whose tenants never want to leave.

NEXT ISSUE

Issue 06: The Due Diligence Playbook

How to underwrite a deal before you buy. Inspections, title searches, zoning verification, environmental assessments, insurance, and the 10 numbers every investor must calculate before making an offer.

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