

Getting to 8,000

Building a healthier rental market
for the Toronto Area



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Design by Studio Jaywall

Getting to 8,000



Yonge & King (Photo by Freaktography)

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Summary of Key Findings

This report examines the policy actions necessary to improve the state of the rental market for the Toronto Area by adding 8,000 new purpose-built rental units to the market per year.

Toronto's unhealthy rental market

The Toronto Area's rental market is under considerable pressure and getting squeezed. The vacancy rate in the Toronto area has consistently been below 3.0% – a minimum level that housing advocates consider healthy, making it difficult for renters to find suitable and affordable housing. Average rent for available units has been rising at more than 3% per year¹ – a rate which outpaces income growth. With low vacancy and above-inflation rent increases, our rental market, much like the home-ownership market, is unhealthy.

Over-reliance on condominium rentals

A key reason for the declining health of our rental market is an over-reliance on private condominiums. Over the past ten years, the Toronto Area rental market has only grown by 2,400 purpose-built rental units while 76,000 private rental condos have joined the market as rentals.

In other words, over the past decade, growth in the Toronto Area rental market has been entirely reliant on individuals and commercial property managers buying condos and putting them onto the rental market. This reliance comes with unhealthy side effects:

- Tenancy is less stable in condos due to the landlord's own-use provisions.
- The reliance on condos for our rental market has contributed to property speculation that has helped push home-ownership prices upwards.
- New condos are not guaranteed to make their way to the rental market and units can be quickly removed from the rental market making for an increasingly precarious rental supply.

This over-reliance on condos is the direct result of financial factors that lead most developers to favour condominium projects over rental projects in the Toronto Area. These factors include an easier ability to both raise capital and borrow money for condos, as well as HST tax policies that make rental development less attractive.

Getting to 8,000

Approximately 8,000 new purpose-built rental units need to be added to the market each year to restore health to the Toronto Area's rental market. This will ensure that sufficient new rental units are built for the thousands of new residents that call the Toronto Area home every year through a healthy mix of dedicated rental apartments and condos. While this target should be regularly reviewed, population projections suggest that the Toronto Area will require the addition of 8,000 units every year up to 2041.

Ramping up to 8,000 new units per year cannot happen overnight, but with immediate actions by various levels of government, we can get there within five to ten years.

This report makes seven policy recommendations to be considered by all levels of government to improve the immediate health of our rental market, ensure sustained rental development and make active progress towards the target of 8,000 new units per year. This will ensure that the Toronto Area remains an attractive, affordable and competitive region.

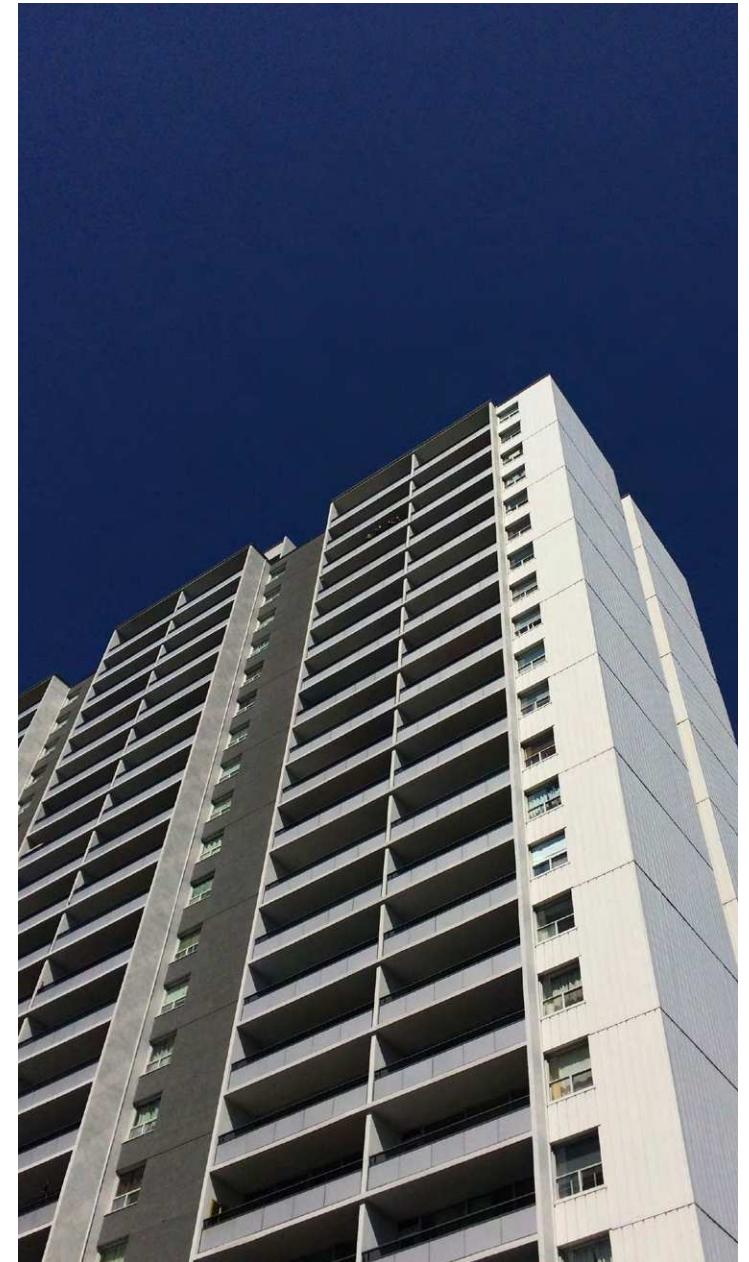
7 public policy recommendations

Making better use of land and existing housing

1. Municipalities introduce vacant unit taxes throughout the Toronto Area
2. Municipalities regulate short-term rentals throughout the Toronto Area
3. Municipalities adopt land-use changes to permit more residential development

Incentivizing new purpose-built market rental units

4. Province of Ontario expands and increases the proposed development charge rebate program
5. Municipalities expand incentives to all rental developments
6. Province of Ontario or the Federal Government develops an agency to provide a “one-window” service to offer development incentives
7. Federal Government makes changes to HST policy including implementing a zero-rating system to claim HST credits and the CRA’s exclusive use of the “Lending Value” and “Cost” approaches to determining fair market value when calculating self-supply HST.



An apartment tower in Downtown Toronto
(Photo by Studio Jaywall)

Introduction

Over the past decade, the health of the Toronto Area's rental market has eroded. This report examines the policy actions necessary to improve the state of the rental market for the Toronto Area by adding 8,000 new purpose-built rental units per year.

Ramping up to 8,000 new units per year cannot happen overnight, but with immediate actions by various levels of government we can get there within five to ten years. Getting to 8,000 units and improving the health of our rental market will help ensure that the Toronto Area remains an attractive, affordable and competitive region. This target should be regularly reviewed as the area grows in order to ensure that sufficient purpose-built rental units are provided.



Construction of more residential towers in midtown Toronto (Photo by Dominic Ali)

Why do we need to get to 8,000?

Housing in the Toronto Area is expensive, whether you rent or own. Between 2001 and 2014 home prices increased by 133%² while household incomes grew by 36%.³ The rapid increase in house prices has left more residents – especially low-and-middle-income individuals and households – priced out of home-ownership and reliant on rental housing.

Meanwhile, the Toronto Area's rental sector is also getting squeezed. Housing advocates consider a vacancy rate below 3.0% to be unhealthy. Over the past decade, Toronto's **vacancy rate** has consistently been below that level, making it difficult for renters to find suitable and affordable housing. The squeeze on our rental market is also affecting rents. Between 2015 and 2016 rents for available 1-bedroom apartments increased by 6.3%⁴ and from 2016 to 2017 the increase was 8.8%.⁵ Comparatively, the consumer price index in Toronto was 2.1% for both years.⁶

Building new purpose-built rental units will help take the pressure off of the rental market, providing more options for those who cannot afford home-ownership to find appropriate and affordable housing.

Rental market construction trends

Over the past ten years, the Toronto Area rental market has only grown by 2,400 **purpose-built** rental units. Meanwhile, 76,000 private rental condos joined the market.⁷ In simpler terms, over the past decade, growth in the Toronto Area rental market has been almost entirely reliant on individuals buying condos and renting them out. This reliance on condominiums comes with unhealthy side effects:

- Tenancy is less stable in condos due to the landlord's own-use provisions that permit easier evictions.
- Reliance on condos for our rental market has contributed to property speculation that has helped push home-ownership prices upwards.
- New condos are not guaranteed to make their way to the rental market and units can be quickly removed from the rental market, meaning the supply of rental units has become more precarious.

This reliance can be traced to a number of financial factors that lead most developers to favour condominium projects over rental projects in the Toronto Area. These factors include an easier ability to raise capital and borrow money for condo projects, as well as tax policies that make rental development less attractive.

Over the past decade growth in the Toronto Area rental market has been entirely reliant on individuals buying condos and renting them out.

Between 2001–2014 home prices increased by 133% while household incomes grew by 36%.

Vacancy rate:

A vacancy rate reflects the rate of unoccupied and available residential units within a market. Vacancy rates can show proportional availability within the primary or secondary rental market or the entire rental stock.

Purpose-built rental / Primary rental:

Purpose-built rental refers to rental housing that was built as rental housing and is usually managed by a property management organization. Purpose-built rental units are considered as the primary rental market.

Why 8,000 units?

The call for 8,000 new purpose-based rental units is calculated based on four factors related to the Toronto Area's growth and demand for rental units:

- Historical and future projected growth rates for the Toronto Area;
- Household sizes for new households according to the census;
 - › At this size approximately 38,000 new residences are needed per year.
- Tenancy rates (i.e. the percentage of households renting vs. owning) according to the census;
 - › At this tenancy rate 12,000 new rental units are needed per year.
- Building purpose-based rental units at a rate equal to their share of the rental market in 2007, before condos became a key component of our rental market;
 - › At this rate approximately 8,000 of the new rental units should be purpose-built.

Based on recent trends this target is achievable, given appropriate policies and incentives. In both 2015 and 2016 the Toronto Area saw shovels in the ground for more than 2,500 rental units in new purpose-based rental buildings.⁸ More

Getting to 8,000

than 25,000 rental units are currently being considered by developers or have already been proposed to municipalities, compared to 10,000 at the start of 2015.⁹ Though this signifies a renewed interest in rental development, it is still not enough. Measures introduced in the Fair Housing Plan, including the extension of rent control, may be putting this trend at risk. Expanded incentives are required to ensure new regulations do not dampen development interest.

About this report

The primary research conducted for this project involved interviews with thirteen stakeholders active in the housing sector, including two government officials. Three interviewees work for research organizations with portfolios that include housing. Eight individuals work for Toronto Area developers, financial institutions or rental provider associations.

Report geography

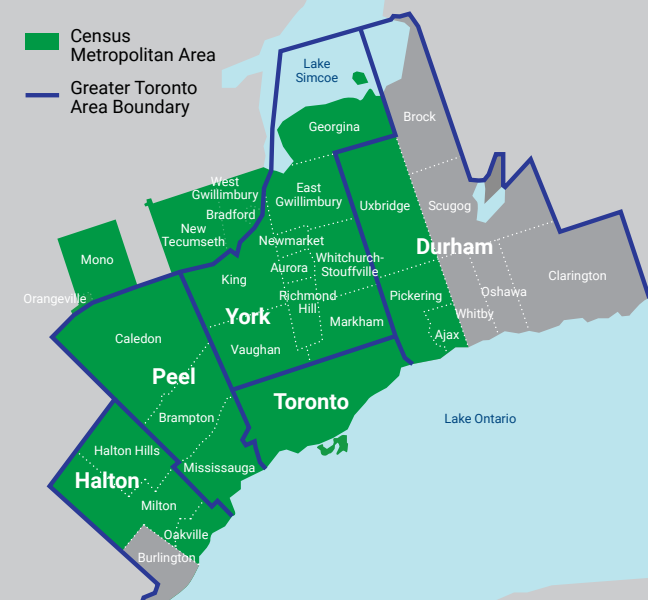
Throughout this report the Toronto Area refers to the **Toronto Census Metropolitan Area (CMA)** as defined by Statistics Canada. The CMA differs from the typical definition of the Greater Toronto Area.

The CMA does not include some major municipalities that are part of Halton or Durham such as Burlington, Whitby, or Oshawa.

Toronto Census Metropolitan Area (CMA):

The Toronto Census Metropolitan Area, or the "Toronto Area" as it is referred to in this report represents 23 area and single-tier municipalities. While similar to the geography of the Greater Toronto Area, the Toronto CMA does not include Burlington, Oshawa, Whitby, Scugog, Brock and Clarington and the CMA includes some smaller municipalities in Dufferin and Simcoe Counties that are not considered to be apart of the GTA, resulting in a difference of about 1/2 million people.

Toronto Census Metropolitan Area Map



What does a Healthy Housing System Look Like?

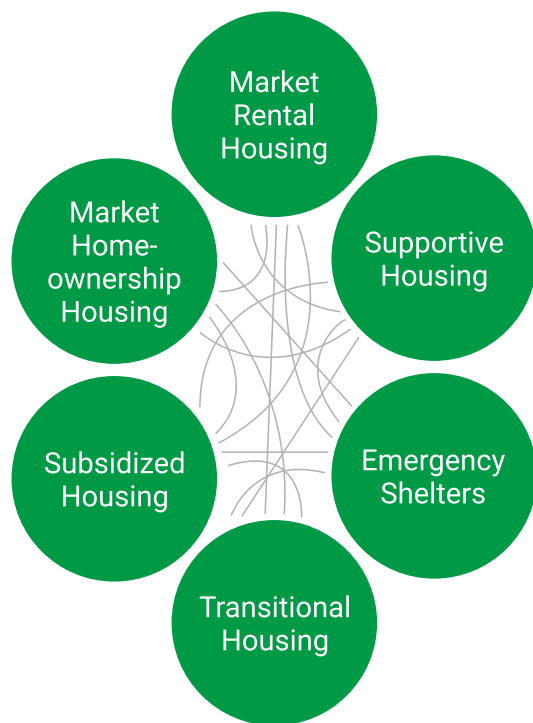
Our housing system does more than provide shelter; it helps drive economic and social well-being. A healthy housing system should address all residents' shelter needs, no matter their income, background, or stage in life.

To do this our housing system must offer safe, stable and secure housing at affordable prices, and in suitable sizes across an array of housing options: everything from emergency shelters to individuals' dream homes. Within all parts of the spectrum, housing must be provided where it is needed, including close to employment, schools and other essential services, and community ties such as friends, family and support networks.



Businesses along Roncesvalles Avenue with housing above (Photo by Dominic Ali)

Figure 1: A Housing Ecosystem



An unhealthy housing system directly results in lower quality of life due to longer commute times, stress and time away from family.¹⁰ This all translates to lower economic activity, economic opportunities and social wellbeing.

The role of rental housing in a healthy housing system

Not providing enough rental housing contributes to negative effects on the social and economic wellbeing of a community. Without sufficient rental supply, businesses may struggle to attract employees while seniors and young adults leave communities in search of housing that meets their needs.

The Federation of Canadian Municipalities notes that rental housing is a key component of a **healthy housing system**, providing housing for individuals across many stages of life.

The rental sector plays a critically important role in Canada's housing system. Reflecting transitions in life, many tenants are young, creating new tenant households when they leave the family home. Others are older, seeking apartment living when they no longer need or want to maintain larger family homes. Similarly, immigrant households, a critical component of labour market supply, initially rent before they transition to ownership.¹¹

—Federation of Canadian Municipalities

Healthy housing system:

A healthy housing system exists when a city or region has the right mix of housing options that are able to address all residents' shelter needs, provide stability to both renters and owners, at prices people can afford and in the size that meets their needs. Much like a healthy ecosystem where all animals and plants have their place, it is helpful to imagine a housing system that provides housing for all kinds of people at every stage of their life. A healthy system provides adequate housing for all incomes, ages and ethnicities in places where corresponding housing is needed (i.e. close to work, services and community ties).



A lack of rental housing may push households into home-ownership that is too expensive for them or choose to rent housing that is more than 30% of their income. This results in less spending elsewhere in the economy, including on essentials like food and heating.¹²

The relationship between rental and ownership is also a factor. Empty nesters, who are over-housed in a hot real estate market, are unable to find suitable down-sizing opportunities in their neighbourhoods, such as rental housing or smaller units. This causes them to continue occupying detached or semi-detached homes that

would otherwise become available if appropriate and affordable downsizing opportunities existed in the area.

More affordable rental options can help households move from more precarious housing situations such as emergency shelters and transitional housing into longer-term options. As the Toronto Mayor's Homelessness Taskforce Report notes: "affordable rental housing is a cornerstone in building stability and quality of life."¹³

Rentership:

Rentership refers to individuals or households who do not own the housing in which they live and instead pay a fee (i.e. rent) to the unit's owner in exchange for the use of the unit.

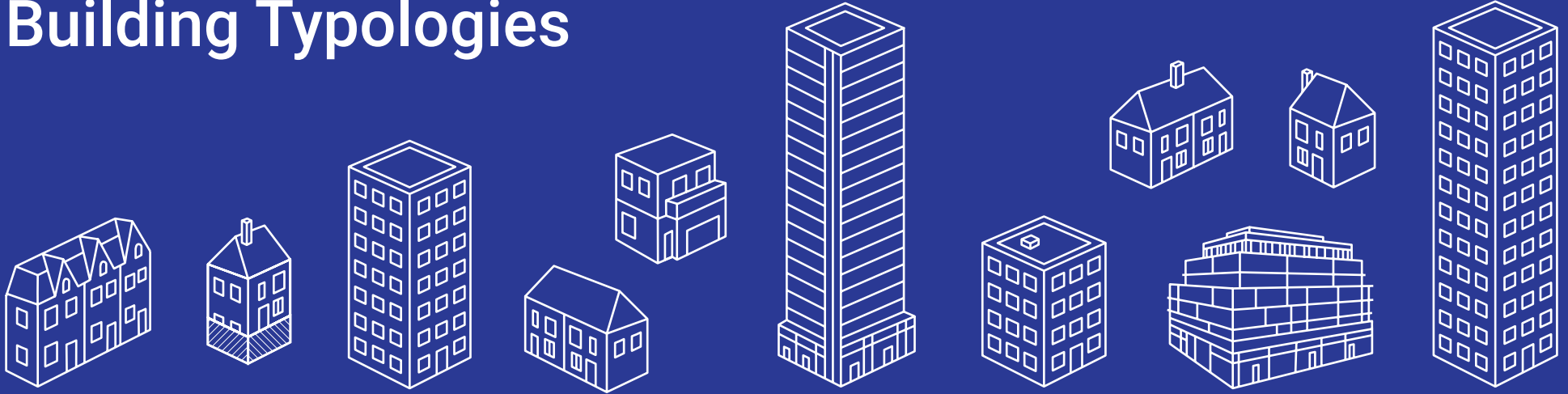
Affordable rental housing is a cornerstone in building stability and quality of life.¹³

—Mayor's Homelessness Taskforce



Midtown Toronto apartment building (Photo by Dominic Ali)

Building Typologies



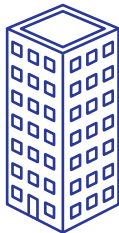
Low-rise:

Up to 4 storeys



Mid-rise:

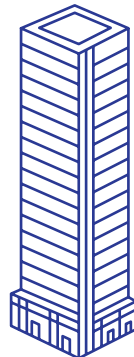
Between 4 and 11 storeys



High-rise:

12 storeys and higher*

* According to the City of Toronto's Mid-Rise Guidelines. Heights may change depending on the municipality.



Townhouse/Rowhouse: A building no more than 4 storeys, containing multiple residential units that share side walls, all with separate and at-grade access. Units typically include private outdoor, at-grade space either in front, rear or both.

Back-to-Back Townhouse: Similar to typical townhouses, but with units also sharing rear walls and with no rear yards. All units have their own entrances at-grade.

Back-to-Back Stacked Townhouse: Similar to back-to-back townhouses but with additional units stacked on top. All units have their own entrances at-grade.

Apartment Building: A building containing multiple units with common interior corridors and entrances. Apartments can be low-, mid- or high-rise buildings.

Semi-Detached/Duplex: A low-rise building containing two residential units with separate and at-grade access, separated by a shared wall.

Detached Dwelling: A low-rise building containing one residential unit.

Secondary Suite: A self-contained, ancillary unit within a low-rise residential dwelling such as a detached, semi-detached or townhouse dwelling.

Laneway Suite: A detached secondary suite, ancillary to a principal low-rise residential building. The suite is located in the rear of the property and fronts onto a residential laneway but shares all services (water, sewer, electricity, garbage removal, mail and emergency services) with the principle dwelling.

Signs of Unhealthiness in Toronto's Housing System

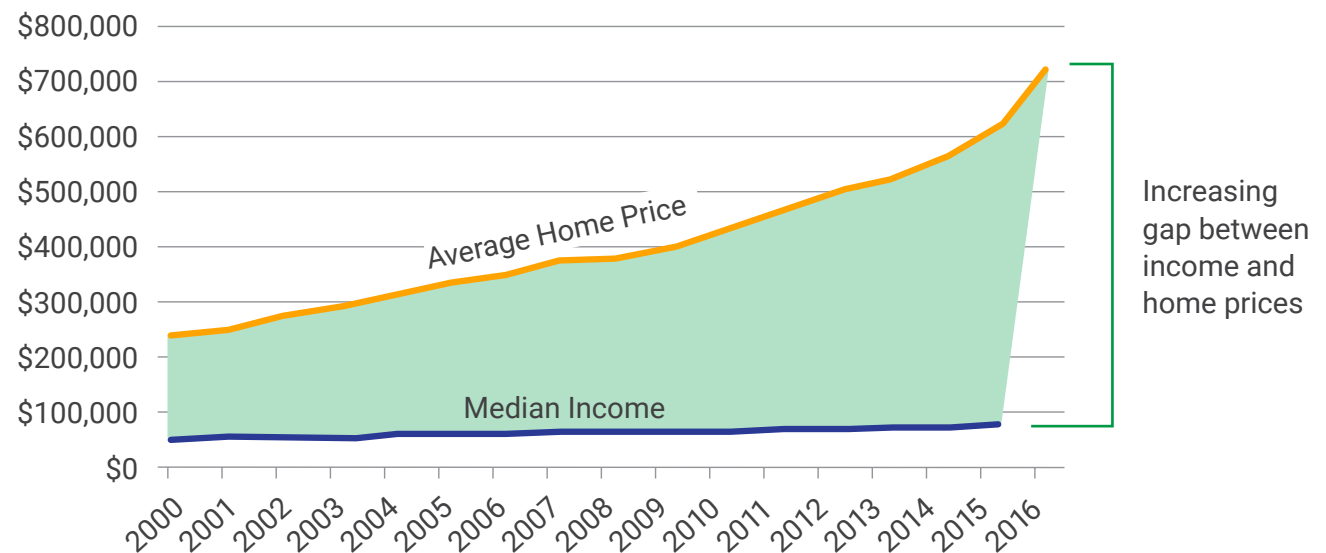
SIGN 1 Rising home prices

Housing price growth has been significantly outpacing income growth in the Toronto Area (Figure 2). This has made affordable home-ownership opportunities harder to find for the average household.¹⁴ With ownership being pushed further out of reach for many, market rental housing is being seen as an alternative for folks who cannot afford to buy a home.¹⁵

Comparing the incomes of households who rent against those who own in the Toronto Area highlights the need for rental housing and the impact of rising prices. The median before tax income for households who rent is less than half the median income for households who own (\$40,995 vs. \$88,565).¹⁸ Many Torontonians are being priced out of ownership and the situation is even more dire for rental households, who have less ability to absorb increasing housing costs.

The median before tax income for households who rent is less than half the median income for households who own (\$40,995 vs. \$88,565).¹⁸

Figure 2: Median Total Income and Average Home Price in Toronto CMA 2000–2016^{16,17}



SIGN 2 Low rental vacancy

A healthy vacancy rate is considered to be 3% or above.¹⁹ Toronto's rental market has consistently had lower vacancy: since 2010, the vacancy rate for purpose-built rental has never been above 2.1%. Over the same period the vacancy rate for condominium rentals has never been above 1.8%. The current overall vacancy rate is 1.4%.²⁰

While not the sole barometer of the rental market's health, the vacancy rate is a measurable indicator that provides a sense of how constrained the market is at a given time.

Housing advocates, including those interviewed for this research, warned that low-vacancy rates mean that landlords can be more selective when choosing tenants. This can result in discrimination based on race, gender, sexual orientation, immigration status, disability and age. Such discrimination disproportionately affects women, racialized and indigenous people, recent immigrants and refugees, people with disabilities, older adults, youth, and queer, trans and two-spirited people.²¹

The impacts of a tight rental market are also borne out through 2011 National Household Survey results. Renters are significantly more at risk of living in unsuitable or unaffordable units, compared to owners: one of every five rental households does

not have enough bedrooms, and 43% of renters have unaffordable housing costs (i.e. they are paying more than 30% of their income towards housing).²² There simply is not enough adequate rental supply to ensure renters can find appropriate and affordable housing.

A healthy vacancy rate is considered to be 3% or above.¹⁹

Since 2010, the vacancy rate for purpose-built rental units has never been above 2.1%. The current overall vacancy rate is 1.4%.

A lack of rental housing results in:

- Lower economic activity, economic opportunities and social wellbeing.
- A higher risk of living in unsuitable (not enough bedrooms or requiring repair) or unaffordable units (paying more than 30% of their income towards housing).
- Pushing households into homeownership that is too expensive for their budgets.
- Reduced market churn and turnover (i.e. Households looking to down-size continuing to occupy detached or semi-detached homes that would otherwise become available.)
- Rental discrimination based on race, gender, sexual orientation, immigration status, disability and age. Such discrimination disproportionately affects women, racialized and indigenous people, recent immigrants and refugees, people with disabilities, older adults, youth, and queer, trans and two-spirited people.
- Businesses struggling to attract and keep employees.
- People living further away from work, resulting in longer commute times, stress, time away from family and increased GHG emissions.
- Seniors and young adults leaving communities in search of housing that meets their needs.

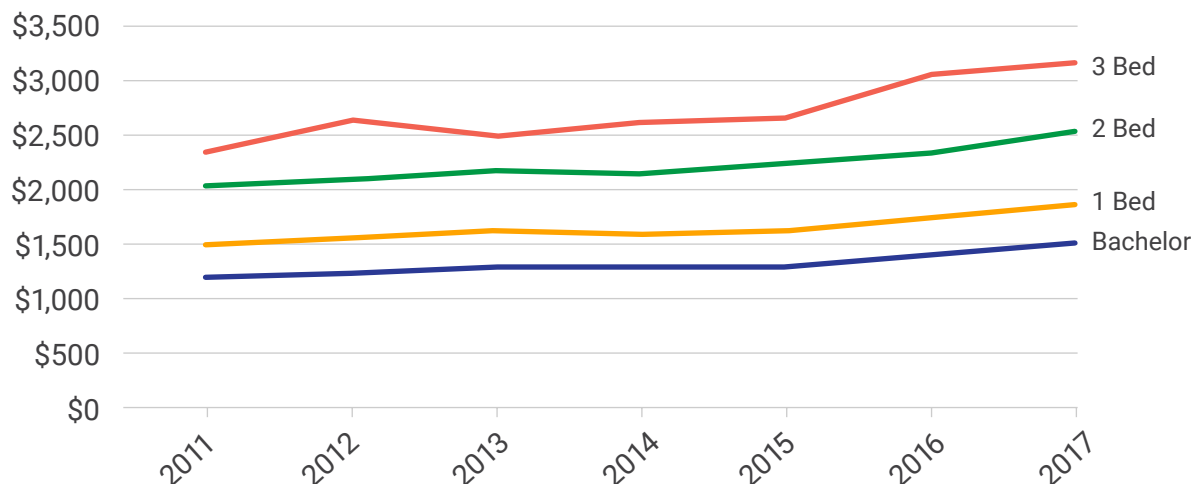
SIGN 3

Rising rents

Alongside rising house prices and low-vacancy rates, rent for available apartments has risen quickly. Since 2011, average rent for available apartments has increased by more than 3.5%.²³ This rate of increase is faster than median income growth and inflation over the same period of time, meaning that rent is becoming more unaffordable. Given that 43% of renters are already paying more than 30% of their income towards housing costs, above-inflation rent increases are concerning.

43% of renters are already paying more than 30% of their income towards housing costs.

Figure 3: Average Monthly Rent for Available Apartments²³



Average annual rent increase since 2011

3 Bedrooms: 5.0%

2 Bedrooms: 3.9%

1 Bedroom: 3.5%

Studio/Bachelor: 3.7%

Average annual inflation from 2011–2017: 1.8%

SIGN 4

Growing reliance on rental condos

Rental supply comes from three main sources – primary rental units (i.e. apartment buildings), condos for rent, and other **secondary rental** units such as houses for rent and secondary suites within houses.

From 2007 through 2016 condos represented the only significant additions to the Toronto Area rental market. Over this period, only 2,400 primary rental units were added

to the market compared to 76,000 rental condos.²⁴ In simpler terms, over the past decade, the Toronto Area rental market has exclusively been reliant on private condos to provide homes for new renters.

From 2007 through 2016 condos represented the only significant additions to the Toronto Area rental market.

Secondary rental:

Secondary rental housing is when a unit was built for ownership, purchased by an individual or a property management organization and then rented out and managed.

Figure 4: Rental Units by Market Toronto CMA, 2006–2016²⁵

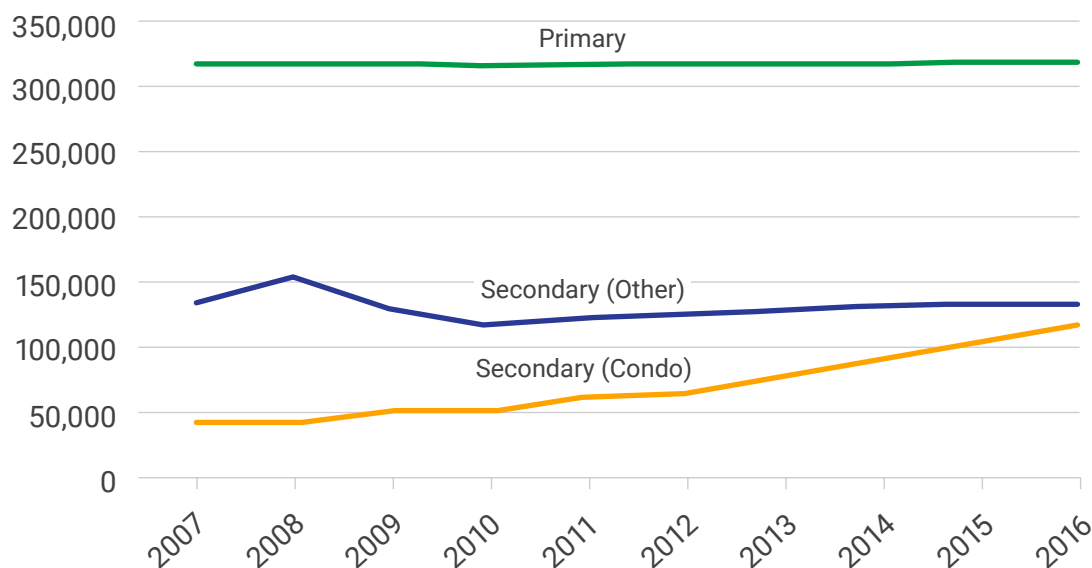


Diagram 1: Change in Rental Supply, 2007–2016²⁶

	Purpose-Built Rental	Rental Condos	Other Secondary Rentals
Supply 2007	314,519 (64%)	40,735 (8%)	134,578 (27%)
Supply 2016	316,913 (56%)	116,685 (21%)	132,688 (23%)
Change in Supply	2,394	75,950	-1,890

This recent shift towards condominium rentals is troublesome. Units in the secondary market, including condos, are more susceptible to evictions based on the “landlord’s own use” provision: tenants in secondary units can be evicted if the owner decides to move into the unit or if the unit is sold to a new owner who plans to occupy the unit. Potential units provided through the secondary market, such as new condos, can also be placed on the **short-term rental** market or may be intentionally left vacant.

Secondary units do have some positives and are an important ingredient in a healthy housing system.²⁷ Specifically, units in the secondary market can change from ownership to rental as market needs change. As well, some types of secondary units, such as secondary suites, can provide extra income, improving the affordability of home-ownership, particularly for new homebuyers.

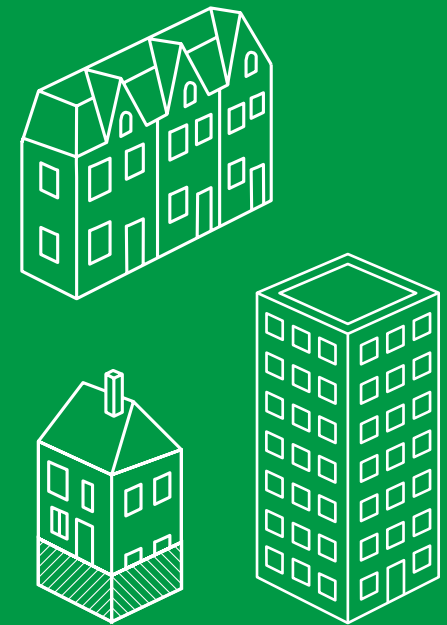
We should expect rental condominiums to continue to play an important role in our housing system. That role however should not be the sole provider of new rental housing options. Instead, the focus should be on providing more new purpose-built rental units to provide for more secure and stable tenancy.



Different housing types accommodate different sizes of households and income ranges. (Photo by Dominic Ali)

Short-term rental housing:

When an owner or renter offers their space up for rent for as little as one day to weeks at a time. This is done mainly through short-term rental organizations like Airbnb or through Craigslist and makes up less than 2% of the total rental market in Toronto.



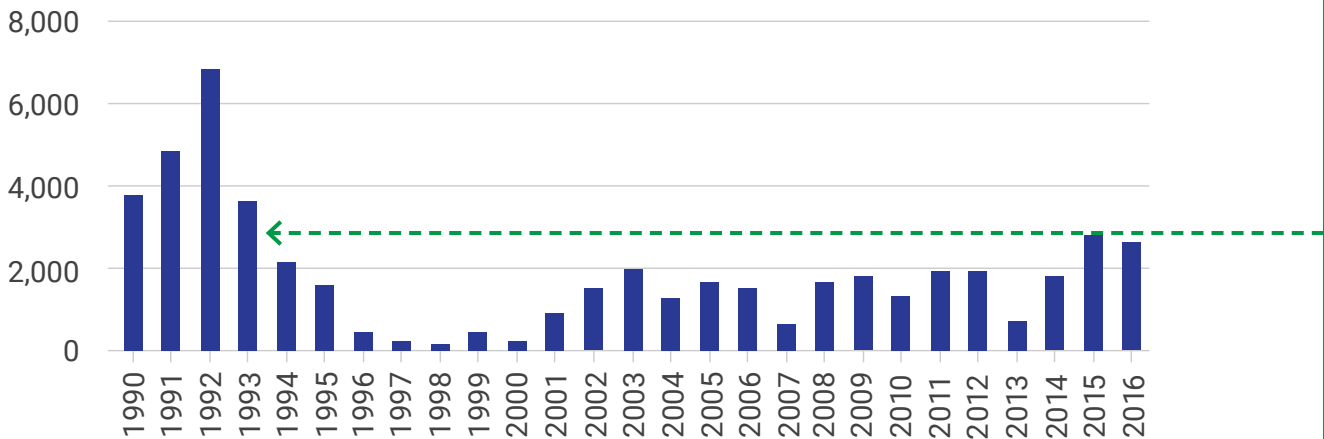
Positive signs on the horizon?

Despite the challenging economics of rental development when compared to condominiums, in the last two years, purpose-built rental **construction starts** in the Toronto Area have risen to levels not seen since 1993.

Furthermore, a number of significant rental projects are in the development pipeline. This includes Westbank’s Mirvish Village project, which on its own will provide 806 units.²⁸ Urbanation, a real-estate analytics

firm in Toronto, estimates that over 25,000 units are in the development pipeline: projects that are either being considered by developers or have already been proposed to municipalities.²⁹

Figure 5: Toronto CMA Purpose-Built Rental Starts, 1990–2016³⁰



Construction starts:*

Construction starts refers to the number of units within a given time period that have begun construction, typically counted once the foundation of the building has been finished.

Construction completions:*

Construction completions refers to the number of units within a given time period that have been finished, typically counted once less than 10% of proposed work remains to be done.

In the last two years, purpose-built rental construction starts in the Toronto Area have risen to levels not seen since 1993.

* As defined by the Canadian Mortgage and Housing Corporation.

However, much of the recent rental development is focused on higher-end and luxury rentals. This is in part a function of development economics and demand. Due to the price of land, and the growing demand for rental units in the Toronto Area, developers typically build units that can achieve above market rents. It can be expected that this trend will continue as more middle-income households are priced out of ownership and turn to the rental market.

Ensuring that the rental market continues to serve lower-income households is important. To a degree this happens naturally

over time. Rental units typically filter down faster than owned units³¹ – this means high-end rental units will gradually become more affordable over time. However there is some evidence that **filtering** occurs more slowly or not at all in markets where there is strong regional housing price inflation³² – such as the Toronto Area. This means the Toronto Area may need to rely on policy to help ensure that new rental developments serve the needs of all rental households.

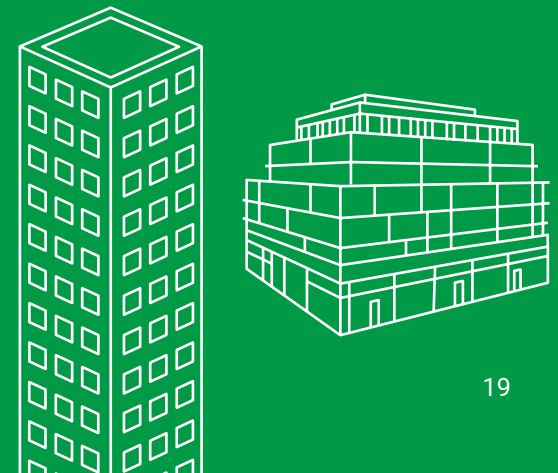


The balconies of the 1 Bloor East condo development (Photo by Dominic Ali)

Filtering:

The filtering rate refers to the speed that residential units decrease in value over time and “filter” down to progressively more affordable tiers.

There is some evidence that filtering occurs more slowly or not at all in markets where there is strong regional housing price inflation³² – such as the Toronto Area.



Infill and intensification

A key cost with any development is the cost of land. In order to minimize the cost of land, many rental developers are adding additional rental buildings on the same site as existing rental buildings. An example of such projects are the proposed Minto and Great West Life developments in High Park or Minto's proposed development at 740 York Mills Road. By removing or reducing the cost of land, projects such as these are more likely to make financial sense.

While the cost of land is a key challenge, some recent rental projects have proceeded on competitive new sites. Examples include the Mirvish Village development and the Alto Rentals where the development would have been competing with condo developers to purchase the sites.



Proposed rental tower infill in High Park
(Source: Great West Life)



Proposed rental tower infill in High Park (Source: Minto)



Aerial view of Mirvish Village development at Bloor Street West and Bathurst Street (Source: Westbank)



Mirvish Village development at Bloor Street West and Bathurst Street (Source: Westbank)

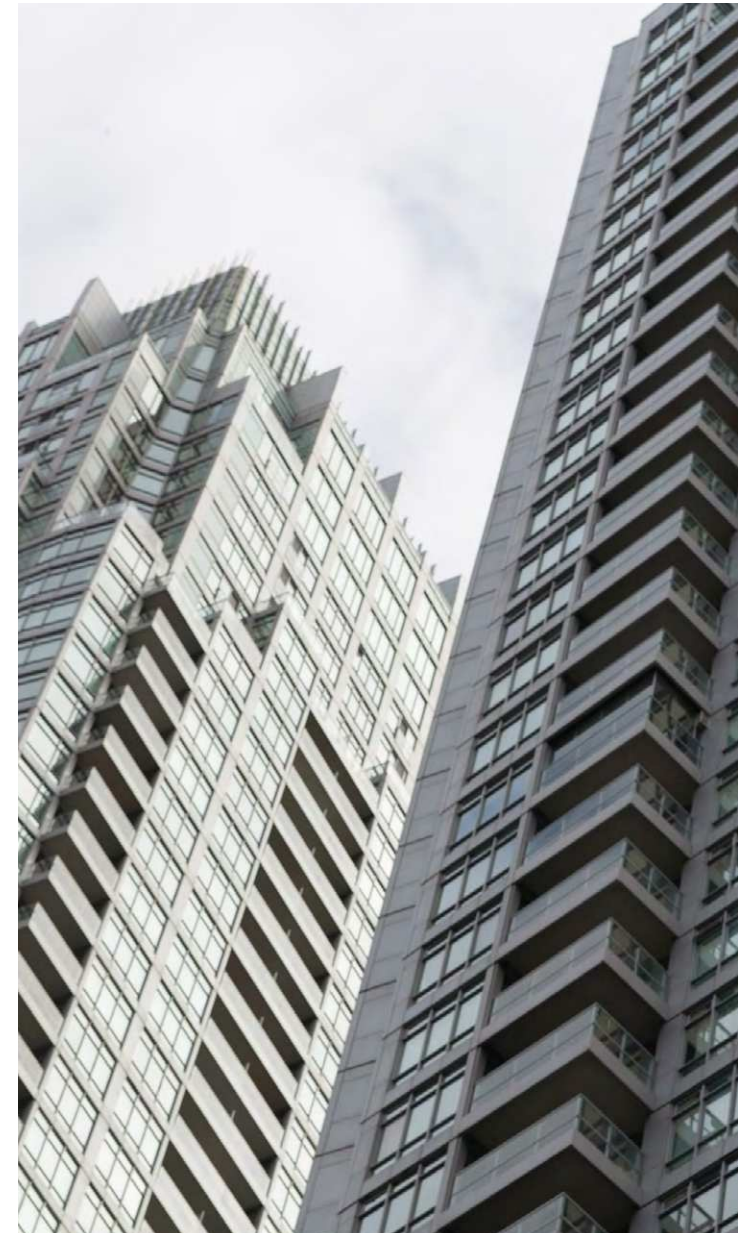
Changing market forces

Experts interviewed for this report, including developers, policy makers and housing advocates generally agreed that the recent increase in purpose-built rental housing was the result of changing market forces. Key changes including a strong demand for rental housing, favourable borrowing rates and the availability of capital from partners looking to make long-term investments in housing, such as individual investors, private corporations, pension funds and REITs.³³ The global climate, including political instability in Europe and United States, was also cited as a potential catalyst for increased investment in the Toronto Area's real-estate market, including the rental market.

Many developers interviewed also described the current market – the growing demand for rental, strong rent prices and low interest rates – as being supportive of constructing new purpose-built rental. Furthermore, some developers noted shifting demographics driving reinvestment in the downtowns as reasons to believe demand for rental housing will continue to be strong.

Long-term predictable revenue

Interviewed developers recently investing in rental buildings express a “belief” in rental housing, both financially and market wise. The business case for purpose-built rental housing – stable and predictable long-term cash flows – is different than that of condos, which is predicated on upfront returns on investment. According to interviewees, rental buildings are instead durable long-term assets that have historically provided consistent returns and provided a safe place to invest money, particularly when immediate high yield returns are not the objective.



Midtown Toronto is becoming known for its high-rise condo towers. (Photo by Dominic Ali)

8,000: A Healthy Rental Housing Goal

A goal to build 8,000 new units per year in the Toronto Area is based on projections for the future demand of rental units according to population growth and household formation trends.

Key factors used to assess the need for 8,000 units per year include:

- Historical and future projected growth rates of approximately 90,000 new residents per year for the Toronto Area.
- Average household size of 2.36 residents per household, as per the size of new census households in the Toronto area.³⁴
- A tenancy rate of 31.7% as per the 2011 National Household Survey.³⁵
- Building purpose-built rental units at a rate equal to their share of the rental market in 2007 (64.2%).



Construction workers at the corner of Yonge Street and Roehampton Avenue (Photo by Dominic Ali)

Adding 8,000 new purpose-built rental units per year on to the market will help ensure that we do not continue to become more reliant on the secondary market – ensuring that approximately 64% of our rental market will be provided via purpose-built rentals. This reduced reliance on secondary rentals will improve housing stability for tenants and vacancy rates through ensuring a strong, stable, and predictable supply of new apartment units.

Finally, a reinvigorated purpose-built rental sector would help refocus the condo market away from speculation/investment and back towards owner-occupied units, and

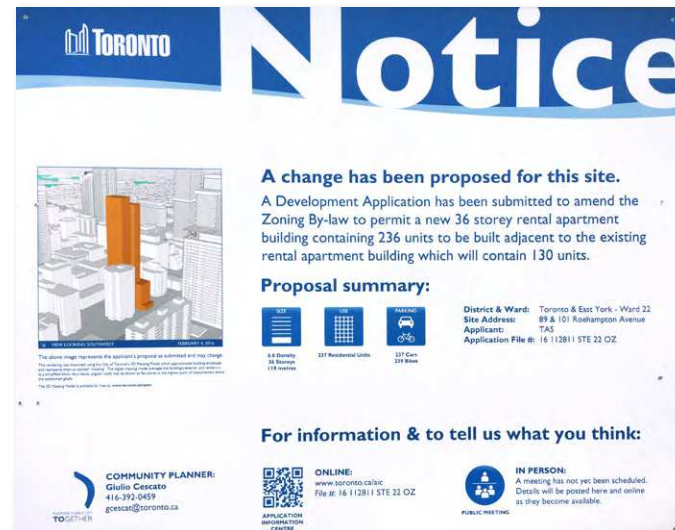
create more opportunities for those looking to move into home-ownership.

Getting to 8,000 cannot happen immediately – it takes a number of years for a new building (rental or condo) to move through the development timeline. As a result, in addition to working towards building 8,000 primary rental units per year, it is important that immediate action is taken to improve the health of the Toronto Area's rental market including addressing the condo rental market. This will require creative solutions to help ensure that our existing housing stock is more effectively used in order to better serve the rental market.

A reinvigorated purpose-built rental sector would help refocus the condo market away from speculation/investment and back towards owner-occupied units.



Construction cranes at the corner of Dundas Street East and Jarvis Street (Photo by Dominic Ali)



A development notice sign (Source: City of Toronto)

Current Public Policy

Recently, all three levels of government have committed to improving affordable housing, and have taken a more active interest in the overall housing market. This attention bodes well for building a healthier rental market in the Toronto Area.

This increased attention is also a positive change from the past two decades where there was limited government investment or leadership on housing issues. During this time the Toronto Area has relied on private housing providers to build new housing.

that made it more challenging to evict tenants; the introduction of rent control; high levels of inflation that increased the cost of land and construction costs.

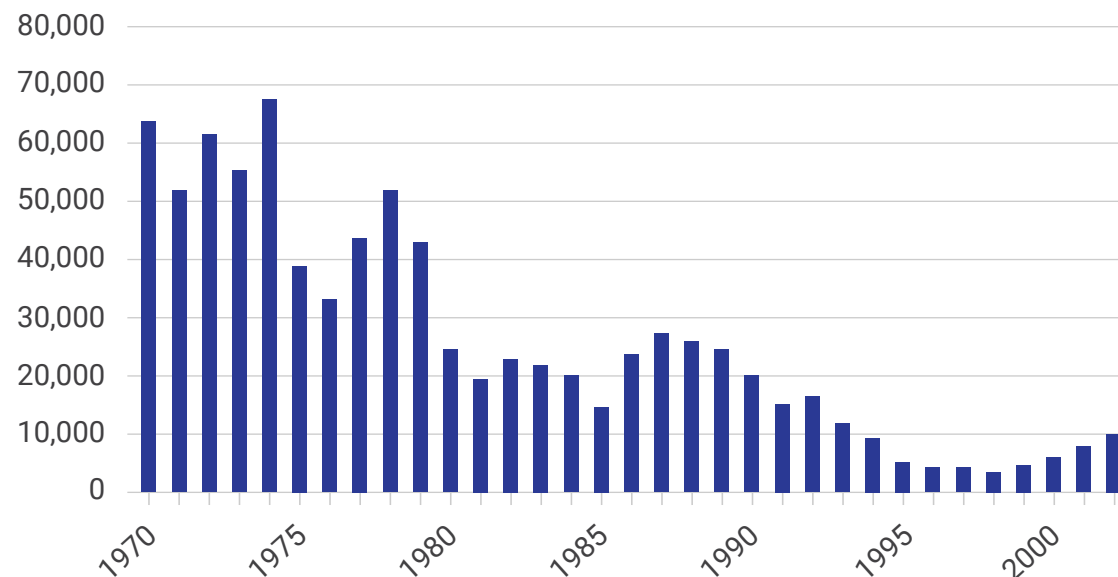
The Toronto Area, as well as the whole country saw a decline in purpose-built rental starting in the 1970s.

Federal involvement in rental housing

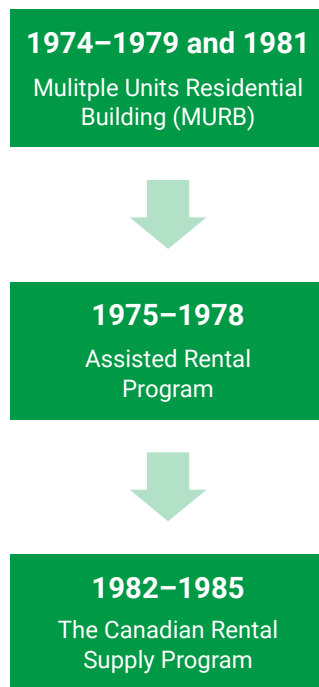
While the past two decades saw limited government involvement in housing issues this was not always the case. During the 1970s and 1980s, the Federal Government played a critical role in supplying new rental housing. The Toronto Area, as well as the whole country, saw a decline in purpose-built rental starting in the 1970s.

This decline has been attributed to a variety of components referred to as a 'perfect storm'³⁷ that included: amendments to general tax legislation in 1971, 1978, 1982 and 1988; the introduction of "condominium" legislation across Canada in the 1960s; changing demographics; rental regulations

Figure 6: Private Rental Completions, Canada, 1970–2002³⁶



The federal government took a variety of measures to counter these factors by implementing new policies and direct subsidies. Most notable are the *Multiple Units Residential Building, Assisted Rental Program and the Canadian Rental Supply Program*. These measures helped ensure that developers could achieve acceptable rates of return when building rental projects.³⁸



The units constructed during the 1970s and 1980s while these programs were in place still serve as the backbone of the Toronto Area's rental supply. While construction declined in the 1980s due to the 'perfect

storm', rental construction was still higher than it was in the 1990s and 2000s, which suggests that appropriate incentives and policies can make a significant difference. The policies that spurred rental development through the 1970s and 1980s can help provide a template for returning to an effective level of government investment and involvement.

Recent commitments from various levels of government include:

The federal government's National Housing Strategy development: This strategy is due to be announced by the end of 2017 and will include investing \$30 billion over the next 11 years.³⁹

Canada Mortgage and Housing Corporation's (CMHC) 's Rental Construction Financing initiative (RCFi):⁴⁰ This initiative provides lower cost loans for rental housing development. The program is offering \$2.5-billion in loans over four years. Up to 100% of the projects cost will be covered through 10-year loans, providing cost predictability during the early stages of development.

To qualify for the loan, the building's total residential rental income must be at least 10% below potential market income. As well, 20% of units must have rents below 30% of the median household income and

10% of provided units must be fully accessible. In addition, the development must also meet certain environmental standards.

Municipalities implementing incentive programs for affordable housing: Municipal governments across Ontario are also designing and implementing a variety of new programs to incentivize new affordable or rental housing. The City of Toronto's *Open Door Affordable Housing Program*⁴¹ waives planning fees and development charges, activates surplus city land and fast tracks applications for affordable housing projects.

York Region's *Make Rental Happen*⁴² and its *Housing Solutions: 10-Year Housing Plan*⁴³ prioritizes the development of private market rental through advocacy and partnerships as well as creating financial incentives.

Mississauga's *Making Room for the Middle Housing Strategy*⁴⁴ sets a goal to ensure that 35% of new builds are market rental or affordable home-ownership. The strategy includes developing an affordable housing reserve fund to provide incentives to affordable and market rental developments.

Ontario's new Fair Housing Plan:⁴⁵ One of the most significant recent government led initiatives is Ontario's Fair Housing Plan. The plan is made up of 16 measures to "help more people find affordable homes, increase supply, protect buyers and renters and bring stability to the real estate market." Some highlights of the plan include:

- **Re-introduction of rent control for all rental units:** Previously, only units constructed before 1991 were rent controlled. The maximum yearly rent increase is based on the Consumer Price Index, and capped at a maximum of 2.5%. **Vacancy decontrol** applies to all units, which means once a unit is vacated, its new rent can be set without limit. This enables new leases to reflect market rates. Above-guideline increases are permitted through an application to the Landlord and Tenant Board on the basis of increased costs such as municipal taxes and capital expenditures.
- **Stronger Residential Tenancies Act:** The *Residential Tenancies Act* was also amended to further protect tenants. The new act requires a standard lease to ensure consistent terms of tenancy. The act has also narrowed the "landlord's own use" provision and requires that landlords provide tenants with the value of one months

rent when using the "landlord's own use" provision.

- **Development charge rebates:** Provide \$125-million over five years to rebate a portion of development charges on the construction of new rental apartment buildings.
- **Property tax harmonization:** In many Ontario municipalities new rental apartments pay higher property taxes than owner-occupied residences (i.e. condos and houses). This has made investment in the rental market less attractive. While some municipalities, including the City of Toronto, had previously harmonized tax rates for new apartments, all Ontario municipalities, including many in the Toronto Area, will be required to do so moving forward.

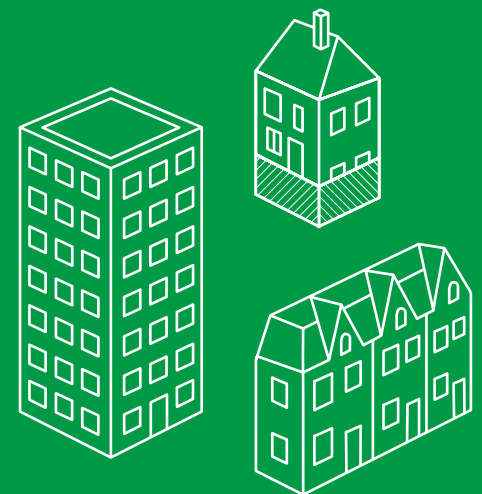
For the first time in a generation all three levels of government seem to be aligned to make new investments and policies in support of housing. These programs should improve the health of the Toronto Area's rental market, however after a generation of neglect, more action is needed to return our rental market to health.

Rent control:

Rent control refers to regulating residential rent by limiting allowable yearly rent increases. Rent control policies can vary widely. Some create hard rent caps that cannot change while others calculate yearly allowable increases. Further regulation can dictate when a unit is free to set its rent beyond allowable limits (i.e. vacancy decontrol)

Vacancy decontrol:

Vacancy decontrol refers to when residential units that are regulated under rent control have the ability to set rents as owners want when a unit is left vacant. This policy permits rental rates to continue to be returned to market rates as units turnover between tenants.



Challenges to Building a Healthier Rental Market



Barrier 1: Condos generate faster returns than rental buildings

Rental projects are more capital intensive for developers and take more time to turn a profit than condos. Condos typically make a profit shortly after construction has been completed and units become occupied. Meanwhile, rental buildings typically take many years of operations before they pay back the initial investment.

Despite these differences, over the past two years demand for rental units and projected rents have risen to a level where some developers see a business case for rental projects. As an example, one 325-unit residential building recently approved by the City of Toronto converted from a condo building to a rental building.⁴⁶

Even if the financial return on rental buildings improves many developers will still prefer to build condos due to their more immediate return on investment.

Improving the financial competitiveness of rental buildings by providing incentives will continue to be an important driver in promoting the construction of new rental units.



357 King West in Toronto which converted from a condo project to a rental project in 2016. (Rendering by Quadrangle Architects)



Barrier 2: Financing is easier to obtain for condo projects than rental projects

Developers interviewed noted that securing construction loans was another key financial challenge associated with building rental buildings. Banks typically require between 35% and 40% of a residential project's cost to be financed before providing a loan for the remainder of the construction cost.

For condos, about half of this down payment can typically be raised through pre-construction sale deposits. For rental build-

ings, developers themselves are on the hook for the full down-payment. As one developer put it, condominium development has "half of the exposure" (financial risk) that rental development has. Programs such as CMHC's Construction Loan Financing initiative should help address this challenge.



64 Bramalea Road, Brampton (Source: Medallion Developments)

Condo Financing

20% Equity	20% Deposit (pre-sales)	60% Bank loan
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Rental Financing

40% Equity	60% Bank loan
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Barrier 3: Cost of land in the Toronto Area

Developers also identified the price of land as a challenge to rental projects. High-density condos and rental buildings require the same zoning and are in direct competition for land.

Developers interviewed noted that condominium projects require less developer equity and generate profits faster, therefore they can often afford to spend more on the up-front cost of land. In some cases, rental developers have been able to compete with condo developers, such as on the Mirvish Village site, but on the whole, condo developers have been able to outspend rental developers. This was clear both in our interviews and by examining development trends in the Toronto Area over the past decade.

In specific locations like the downtown core or other preferred downtown neighbourhoods proximate to transit, developable sites are less plentiful and the cost of land is at a premium. Opportunities

for intensification in preferred locations near transit are often strictly limited as a result of zoning. Though progress is being made on this front, zoning permissions along many main streets continue to be under-zoned, compounding the challenge of securing land that can be financially productive enough to justify the high cost of land.

There is also limited ability to add smaller scale apartments in existing neighbourhoods – in Toronto, for example, the **Yellow Belt** or land reserved for detached and semi-detached housing, makes up over 60% of the available residential land⁴⁷. In these neighbourhoods even new small walk-up apartments are off limits. This limits the opportunities for rental developments of all sizes.

Some rental developers have creatively focused on redeveloping sites they already own, bypassing the need to buy land. By removing or reducing the

cost of land, rental projects are more likely to make financial sense. Examples include filling in green space around old “Tower in the Park” apartment buildings with new townhouses or apartment buildings. These projects often still require re-zoning, and may face significant community opposition⁴⁸.

In the long-term, to scale up rental development it is likely that more affordable development sites will be required across the Toronto Area.

The “Yellow Belt” refers to more than 20,000 hectares of land that is zoned exclusively for detached and semi-detached housing in the City of Toronto.

Yellow Belt:

Named for the colour on the city’s zoning map, the “Yellow Belt” refers to more than 20,000 hectares of land that is zoned exclusively for detached and semi-detached housing in the City of Toronto. It accounts for over 60% of residential land in the city alone, though most surrounding municipalities also have additional land dedicated to semi-detached and detached housing.



Barrier 4: Federal and provincial HST taxes on development

Federal and provincial HST taxation was identified as creating further barriers to rental development. Rental builders pay HST on goods and services purchased to construct and maintain rental buildings but they are unable to charge HST on residential rent.

Additionally, self-supply rules mean that when developers build rental buildings to own

themselves, when completed they have to pay HST on the fair market value of the building. Several methods currently used to calculate fair market value are considered unfair.⁴⁹ Further, condo developers are able to charge HST to the end-user (who themselves get an HST rebate if they occupy the unit), reducing their costs in comparison to rental buildings.



Barrier 5: Lack of effective incentives

Few of the rental developers interviewed reported taking advantage of incentive programs offered by any level of government. Some cited an onerous application process and restrictive conditions attached to these incentives, while others cited lack of awareness of these programs. Overall the incentives in their current form were deemed not sufficiently beneficial.

Some developers interviewed who are currently building rental projects did mention interest in the new *Rental Construction Financing Initiative* program from CMHC. This, along with the success of incentives in the 1970s and 1980s, suggests that a well-designed incentive program can effectively increase rental development.



An older low-rise apartment building in Midtown Toronto
(Photo by Dominic Ali)



Barrier 6: Vacant units

Using a similar methodology as the City of Vancouver, a June 2017 report from City of Toronto staff calculated the number of vacant units (including all housing types) in the City of Toronto at between 15,000 and 28,000 units, based on hydro and water use.⁵⁰ Re-introducing these units to the market, either through rental or ownership, would help reduce the strain on the rental sector. Adding 15,000 units to the rental market would raise the vacancy rate to above 3%, a much healthier level.

Ontario's Fair Housing Plan allows for municipalities to implement a "vacant homes property tax",⁵¹ which the City of Toronto is considering as a means to add units to the rental market.⁵² However, some critics

have warned that the cost of administering such a tax may be higher than the revenue generated from the tax. Consequently, the number of rental units the tax produces would have to be significant in order to achieve a financial benefit – however by increasing the vacancy rate, there would be a social benefit that would help offset the financial cost of the tax. Beginning in 2017, the City of Vancouver has implemented a vacant unit tax.

Adding 15,000 units to the rental market would raise the vacancy rate to above 3%, a much healthier level.



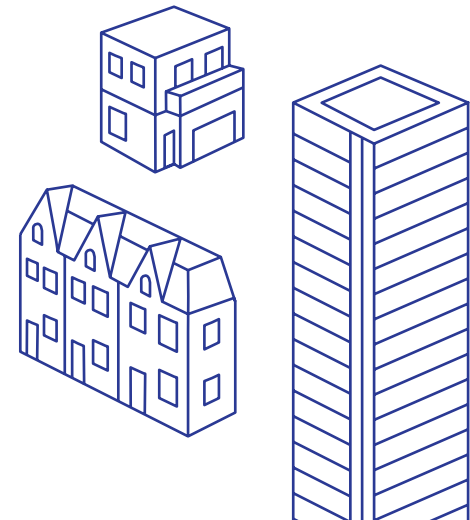
Barrier 7: Short-term rentals

The City of Toronto estimated that throughout 2016, approximately 10,800 units were listed on the short-term market, such as Airbnb. In response to concerns around the impact that these short-term rentals have on rental supply, the City of Toronto released draft recommendations to regulate short-term rental accommodations in June 2017.⁵³

Toronto's proposed regulations would prohibit short-term rentals that are not in an owner's principal residence. Based on the proposed regulations, the City estimates that 3,200 short-term rental properties would not meet the proposed new regulations. While not all of these units would be full rental suites – some might be rooms for rent – putting these units back onto the long-term rental market would help provide some immediate relief to the Toronto Area's low vacancy rate.

Though municipalities such as the City of Mississauga⁵⁴ have studied short-term accommodations, studies have yet to determine exactly how many short-term rentals could re-enter the long-term Toronto Area rental market.

Completely eliminating short-term rentals is likely counter-productive – they can help make the cost of home-ownership more affordable. But ensuring that short-term rentals meet specific criteria as recommended by the City of Toronto will help ensure that the Toronto Area's rental stock is more appropriately and effectively used.





Barrier 8: Rent control

The body of research on rent control is substantial. While many economists believe that rent control is a negative and ineffective policy,^{55,56} other recent research has supported rent control as an effective means to increase housing stability for renters.^{57,58,59,60}

Some developers and industry representatives interviewed cited rent control as a disincentive to building new rental projects because it limits an owner's ability to raise income. These experts pointed to economic analysis that shows rent control reduces the supply of rental units and reduces building maintenance and upkeep.⁶¹

Some industry representatives interviewed stated that the recent expansion of rent control has caused some developers to re-run numbers and re-consider the financial viability of planned rental projects and potentially shift to condo projects. Recent media articles also support the claim that some developers are

changing tracks.^{62,63} However all of the rental developers we interviewed had no plans to change their planned or proposed rental projects.

Housing advocates and policy makers we interviewed argued that rent control is in the public interest and does not impede the viability of rental development. These stakeholders referenced the need to prioritize "housing as a human need" ahead of "housing as an investment". These experts argued that regulating rent was in the public interest and offering other financial incentives to developers could offset any negative effects of rent control.

Experts noted that criticism of rent control is often founded on the analysis of pre-1970s "first generation" rent control systems that did not include vacancy decontrol or the ability to recover above-guideline costs through allowable rent increases.⁶⁴ Therefore much

criticism does not reflect Ontario's current regulations.

Recent research on rent control systems such as Ontario's that do allow vacancy decontrol and rent increase cost allowances show a marginal or imperceptible impact on rental markets.⁶⁵ This research concludes that market demand, borrowing costs and other development feasibility factors have a much larger impact on the rental market than rent control.

Additionally, some experts interviewed noted that the amount of purpose-built rental construction decreased after rent control was removed in the 1990s (see Figures 5 and 6). They argue that this decrease in construction points to other factors playing a stronger role in project viability. Such factors include development economics, and wider economic trends such as demand and borrowing rates.

However, most experts interviewed cautioned that the extension of rent control to include all new units would have a dampening effect on rental development – however mild – as developers and investors perceive it to be limiting future incomes. As such, rent control is considered a barrier to rental development. It is critical to maintain developer interest in rental development.

Housing advocates and policy makers we interviewed argued that rent control is in the public interest and does not impede the viability of rental development. These stakeholders referenced the need to prioritize "housing as a human need" ahead of "housing as an investment".

Recommendations to get to 8,000

Scaling up purpose-built rental construction across the Toronto Area to 8,000 new units per year will require a number of policy interventions at the provincial and municipal levels to **make better use of land and the existing housing stock** and to **incentivize new purpose-built market rental units**.



Mixed-use development at 270 Church Street including academic, administration, retail space and student residence units in the tower
(Photo by Dominic Ali)

Getting to 8,000



Recommendations to:

Make better use of land and existing housing

The Toronto Area's existing housing stock represents a significant opportunity to quickly begin to address rental challenges by boosting the secondary market.

Though increasing the rental stock through the secondary market is not the primary solution, it will work much faster than constructing new units and is needed to provide immediate relief. Conversely, opening up land designated for detached and semi-detached houses is a long-term strategy to create more equitable neighbourhoods, create new units in key areas and encourage intensification.

RECOMMENDATION 1

Municipalities implement vacant home property taxes

The City of Toronto is considering implementing a vacant home property tax and other Toronto Area municipalities should follow suit. The tax will help improve the vacancy rate of the Toronto Area rental market. Further if the tax is able to generate positive revenue, this revenue could be used to provide financial incentives for new

affordable housing projects and market rental housing projects.

A tax on vacant units represents an opportunity to have an immediate impact on available housing in the Toronto Area through the secondary market while also taxing housing wealth and housing speculators. Such a policy would contribute to a more efficient housing system and to more equitable distributions of housing and wealth.

In the City of Toronto alone, the amount of vacant units is equal to between 3% and 5% of the Toronto Area's total rental universe. Implementing a vacant unit tax is a quick-win policy that will help increase vacancy rates and contribute to a healthier housing market.

RECOMMENDATION 2

Municipalities regulate short-term rentals

Regulate short-term rental accommodation throughout the Toronto Area and limit the use of short-term rentals to principle residences of residents similar to proposed regulations in the City of Toronto.

Regulating short-term rental accommodations also represents an opportunity to quickly increase the supply of rental units through the secondary market. In the City of Toronto alone, this represents an opportunity of approximately 3,200 units or just less than 2% of the city's rental stock. Despite the small portion, getting viable short-term rentals back onto the long-term market would have a positive impact on vacancy rates.

Over the long-term, regulating short-term rentals will help ensure that new residential units, such as condos, are more efficiently used to meet the demands of the area's growing population.

RECOMMENDATION 3

Municipalities adopt land-use changes to permit more residential development

Municipalities should adjust their Official Plans and zoning by-laws to allow for more mid-rise and high-rise development as-of-right at key growth nodes, and along transit corridors and avenues. This will help direct the majority of rental development to the areas that can best accommodate higher density development.

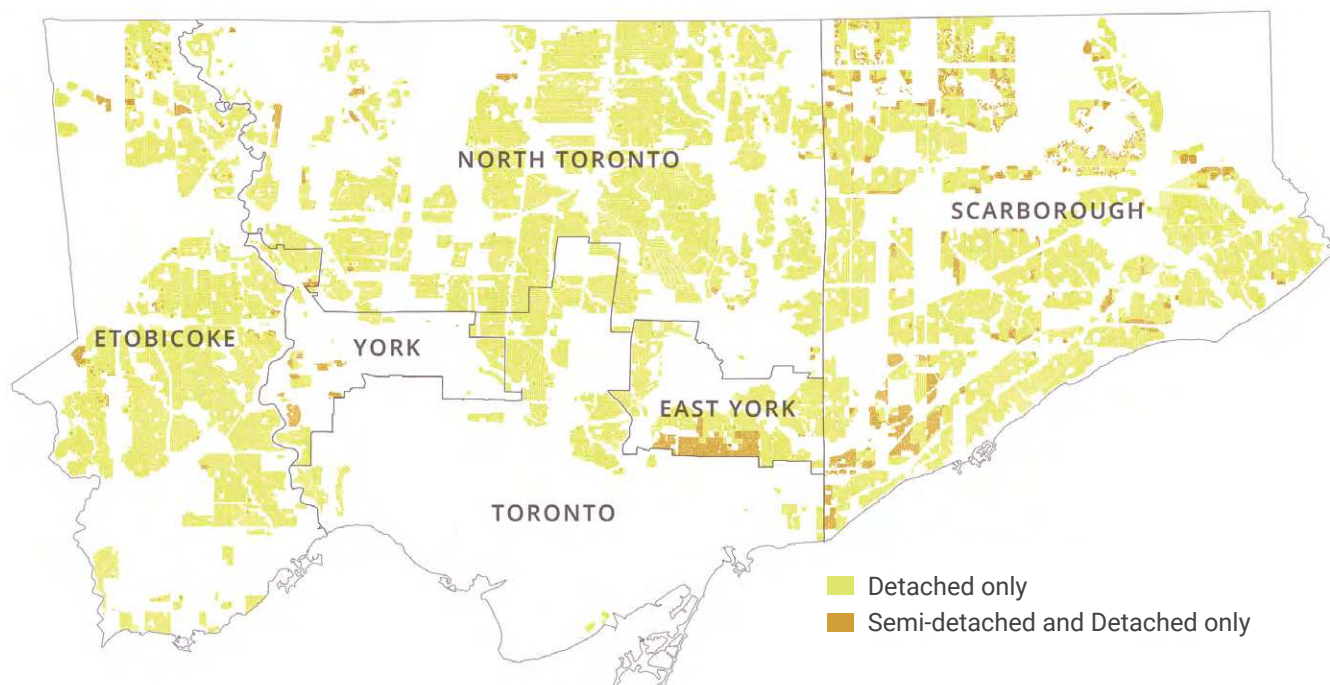
Townhouses, stacked townhouses, back-to-back townhouses and low-rise apartments should be permitted in established detached and semi-detached neighbourhoods, (i.e. throughout the “Yellow Belt”). Many of these low-density areas are losing population as household sizes decrease and become less dense and a more inefficient use of urban space. Enabling “gentle density” throughout existing neighbourhoods will increase the resilience of these neighbourhoods by introducing households with mixed incomes and ages.

Zoning by-laws should also be adjusted to allow for a more comprehensive suite of secondary units throughout all low-rise residential neighbourhoods. Specific-

ally, laneway suites and granny suites should be allowed as-of-right across the Toronto Area.

In order to reserve some land for rental development municipalities may also want to consider zoning some land specific for rental and provide ways to upzone land for projects that provide dedicated rental units.

Figure 7: Land that is designated as Neighbourhoods in the City of Toronto’s Official Plan



Recommendations to:

Incentivize new purpose-built market rental units

While current market trends show a rekindling of interest in rental development, we anticipate that scaling up to 8,000 new units per year will require direct incentives.

With rent control in place, incentives are particularly important to ensure that developers remain financially interested in rental projects. These incentives should be designed to ensure that rental construction is cost competitive with condo projects – different jurisdictions in the Toronto Area will require different incentives in order to achieve this cost competitiveness.⁶⁶

A key challenge with many incentive programs, including Ontario's proposed development charge rebates and CMHC's Rental Construction Financing initiative is that they have funding caps. Developers interviewed noted that open-ended incentives were preferred to programs with funding maximums. That is to say, if a development achieved certain requirements, they should be able to qualify for the particular incentive, and should not be excluded as a result of funding limitations. Removing funding limits does create challenges for the financial administration and budgets of pro-

grams, and as a result we instead recommend that incentive programs are designed and budgeted to fund more applications than might be expected.

RECOMMENDATION 4

Province of Ontario expands and increases the proposed development charge rebate program

The proposed five-year \$125-million development charge has positive elements – developers interviewed noted that reducing or waiving development charges will help make rental projects more viable. However, more details about the program are still needed and, ultimately, the program will need to provide more funding to incentivize sufficient new rental development.

A concern raised by interviewed developers was that spreading the \$125-million investment across Ontario municipalities would

Based on our call for 8,000 units in the Toronto Area alone we recommend that the rebate program should be designed to fund up to 12,000 units across Ontario per year.

mean that the average rebate would be too little to shift the economics of rental development or that rebates would be available to too few projects. Based on our call for 8,000 units in the Toronto Area alone we recommend that the rebate program should be designed to fund up to 12,000 units across Ontario per year.

Developers interviewed did not suggest what level of rebates would help make rental projects viable, and development charges vary across the province. As a result, we recommend that the Provincial Government consult with municipalities and developers to set rebates at appropriate levels. The Province should also offer different levels of rebates to different types of development (i.e. larger rebates for 2-bedroom apartments than 1-bedroom apartments).

RECOMMENDATION 5

Municipalities expand incentives for all rental developments

Similar to incentives provided to affordable housing development, municipalities should expand incentive programs that reduce or waive planning and application fees to all rental developments. This includes reducing application fees, parking requirements, *Section 37* contributions, parkland dedication and development charges.

Rental development applications, including rezoning or official plan amendments should also be fast-tracked and given priority over condominium projects.

Municipalities should maintain the highest incentives for affordable housing while providing modest incentives for all other rental developments. For example, an affordable housing development could have fees waived while a market rental development would be offered a discounted rate.

Developers interviewed noted that reducing fees is a good way to incent rental construction. Many interviewees agreed that lower alternative rates for rental developments would help to balance the challenges rental developers have when competing with condominium developers.

Fast-tracking the approvals process for rental development is another way to prioritize rental construction ahead of condominiums. Doing so will shorten the development timeline for rental projects, which in turn will work towards reducing the cost differential between rental projects and condo projects.

RECOMMENDATION 6

Province of Ontario or the federal government develops an agency to provide a “one-window” service to offer development incentives

The way incentive programs and funding support are currently administered is disjointed and confusing. As it stands now, a lack of coordination between federal, provincial and municipal governments and agencies makes navigating incentives a time-consuming challenge for developers.

Currently, developers need to go to “three windows” to secure incentives or funding support, including CMHC and provincial and municipal governments. Interviewed policy makers and developers agreed that going to one source to access incentives would improve participation and, in turn, further incent development.

The “one-window” agency should be able to administer either a given incentive program or be able to directly connect with the appropriate incentive provider in order to facilitate the delivery of the incentive. This service would be best provided by a provincial agency – the Ministry of Housing, for example. However, they will need to build knowledge and networks with municipalities in order to align with local planning policy and incentives.

Lower alternative rates for rental developments would help to balance the challenges rental developers have when competing with condominium developers.

RECOMMENDATION 7

Federal Government makes changes to HST policy including implementing a zero-rating system to claim HST credits and the CRA's exclusive use of the "Lending Value" and "Cost" approaches to determining fair market value when calculating self-supply HST.

A zero-rating system would allow developers to claim HST credits to offset the HST spent constructing rental buildings. As a 2016 Evergreen research paper⁶⁷ investigating federal tax policy noted, the HST treatment of purpose-built rentals and self-supply rules create significant financial disincentives.

HST is intended to be paid for by consumers, not the business producing goods. Condo developers are able to charge purchasers HST, though it is rebated if the purchaser occupies the unit. Rental builders pay HST on goods and services purchased to construct and maintain rental buildings but they are unable to charge HST on residential rent. This results in higher development and maintenance costs in rental buildings compared to condo buildings.

Introducing a system of "zero-rating", where builders can claim tax credits on the HST paid would be costly to the federal government, but it would "almost certainly

result in more purpose-built rental housing...[and have] the potential to support lower rents."⁶⁸

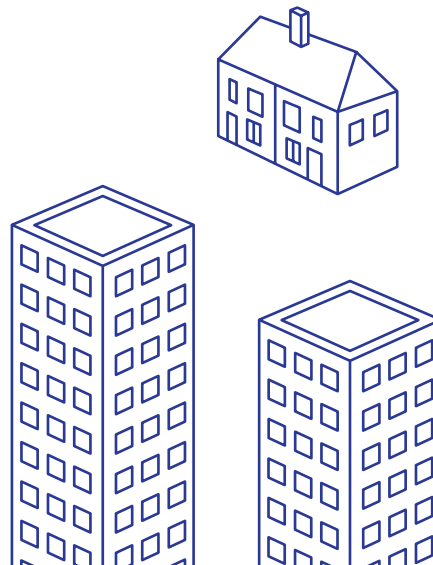
Additionally, self-supply rules mean that when developers build rental buildings to own themselves, when completed they have to pay HST on the fair market value of the building. Several methods are used to calculate fair market value and a few have been called unfair⁶⁹ It has been argued that using two methods would be most practical and fair – the "Lending Value" and "Cost".⁷⁰

Bringing it home

Improving the health of our rental market is becoming more and more critical – with low-vacancy, a growing reliance on the secondary rental market, and the rising cost of both renting and home-ownership there is no time to delay. After years of neglect, strong government support of our housing sector is required to produce a healthy housing system. This means taking immediate and meaningful actions that encourage the development of the forms of housing needed. In this report we call for the need to:

- Make the most of our existing housing stock.
- Provide incentives to rental developers to create new rental supply.

These are important steps towards revitalizing our rental sector. In addition, we need careful monitoring of our housing sector in order to ensure that implemented policies are having the right effects and that we are building a housing sector that serves all residents – no matter where they fall in the housing ecosystem. Getting it right means a more affordable, more attractive, and more competitive region to call home.



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