THE REGIONAL MUNICIPALITY OF YORK

Housing York Inc.
December 8, 2004
Report of the
General Manager

2005 MARKET RENTS

1. RECOMMENDATION

It is recommended that:

1. Housing York Inc. approve the 2005 market rents, effective May 1, 2005, as outlined in *Attachment 1* of this report.

2. PURPOSE

This report seeks Board approval for a schedule of rents to be applied to Housing York Inc. (HYI) units.

3. BACKGROUND

Housing York Inc. owns and manages 1,753 townhouses and apartments within 27 housing communities located in eight area municipalities within York Region. The Regional Municipality of York continues to directly manage the operations of this corporation under the terms of a property services agreement.

Rent charges are evaluated annually to ensure they are in line with current conditions in the local rental housing market.

Properties in the Public Housing portion of the portfolio offer only rent-geared-to-income units. There are however, a small number of tenants whose income may increase over time to a point that enables them to pay the market rent for their unit.

Currently, market rental rates for Public Housing units are greater than those for similar sized units within the Non-Profit Housing portion of the portfolio. Since 2001 we have been setting market rents within the context of an annual market rent review and incrementally moving towards consistent market rates between the two portfolios.

4. ANALYSIS AND OPTIONS

4.1 Market Rent Evaluation Process

The market rent review process involves several steps as outlined below:

- Comparison of proposed market rent levels to the latest published Canada Mortgage and Housing Corporation (CMHC) average rent levels.
- Review of proposed market rent levels to a survey of market rent levels of other market rental projects in the Region.
- Review of rental turnover and vacancy rates within the nine Housing York Inc. properties which have a designated ratio of market rental units.
- Consideration of permitted increases under the *Tenant Protection Act* and Unit Rent Factors (URF) as set by the Ministry of Municipal Affairs and Housing.

4.1.1 Comparison of Proposed Rents to CMHC Average Rents

CMHC determines average rents by zone throughout the Greater Toronto Area (GTA) every year. In York Region there are three zones, Richmond Hill, Vaughan, and King (Zone 25) Aurora, Newmarket, Whitchurch-Stouffville, Georgina, and East Gwillimbury (Zone 26) and Markham (Zone 27). CMHC does not determine rental rates for townhouses in the Region for theses zones. As indicated in *Table 1*, there was a very modest increase in rents in the central part of the Region, and a significant drop in rents in the southern part of the Region (excluding Markham) between 2002 and 2003.

Table 1

CMHC Average Apartment Rents

Municipalities	Average Market Rents - 2002	Average Market Rents- 2003	% Increase (Decrease)
Richmond Hill Vaughan King	$946	$890	(5.9%)
Aurora Newmarket Whitchurch-Stouffville Georgina East Gwillimbury	$830	$842	1.4%

Source: Canada Mortgage and Housing Corporation (CMHC)

This was the first time there had been a decrease in the rents in either of these zones since at least 1999.

In recent discussion with CMHC staff, it was indicated that CMHC will not publish their 2004 average market survey results until the end of 2004. However, based on their preliminary review of their data, it is expected that vacancy rates will increase fairly dramatically for the City of Toronto and that vacancy rates in York Region are likely to rise. It is not expected, in this rental market environment, that we will see significant rent increases.

As shown in *Attachment 2* most of the properties where comparisons can be made have average rent levels in excess of the 2003 CMHC rent levels. Other rents that cannot be compared to CMHC averages are consistent with the more remote locations of these projects.

4.1.2 Comparison to Other Properties

York Region has a relatively small number of private rental apartment units compared to other municipalities in the GTA. As such, sample sizes for comparison purposes are not extensive.

We have however ascertained the rental levels for several properties in the Region as illustrated in *Attachment 3*.

Substantial caution must be used when comparing rents from any one property to another property. The rents illustrated in *Attachment 3* should only be used as a guideline and an indication of range. There are many variables among properties that drive market rent levels including location relative to services and transit, age and condition of each property, amenities or lack thereof, and tenant mix.

Additionally the surveyed properties are marketed to the general population needing rental accommodation, for the most part working families. Our seniors' properties are targeted specifically toward a population that for the most part is not employed, often has fixed incomes, and generally has a lower household income.

It would appear from the surveyed data that market rents for apartments in the southern part of the Region would range around $800-$1000 for a one bedroom unit and about $975-$1100 for a two-bedroom unit. Rents in the central part of the Region would range from about $800-$900 for a one-bedroom apartment and about $950-$1150 for a two bedroom apartment. Of our apartment properties with market units within the south or central parts of the Region (Hadley Grange, Heritage East, and Rosetown), the proposed rents for 2005 are within the surveyed range except two-bedroom units in Rosetown which are slightly below the range. There have only been 2 two-bedroom units vacated to date in 2004 in Rosetown. One of these units was rented to an RGI tenant because a market-rent tenant could not be found. As discussed above, fixed and lower income senior households are often not able to pay market rent and this affects the level of market rent in a seniors' building. Information for townhouses is limited as is information for apartment projects outside urban centres.

4.1.3 Market Unit Turnovers and Vacancy Rates

Although general market rental rates and vacancies are an important barometer of the performance of any particular property, the real measure of whether any building has appropriate market rents is the rental experience of that building.

Tenants vacated 33 market units in the nine non-profit housing projects with market units in the first ten months of 2004. This equates to an annualized turn over rate of 14%.

Housing York Inc. must maintain a legislated balance between its rent-geared-to income units and market units in the Non Profit housing program properties it operates. Housing York Inc. must maintain a target plan of approximately 75% rent-geared-to-income units and 25% market units, as per its operating framework under the *Social Housing Reform Act, 2000*. In 2003, 243 units were at the market rate and this was reduced to 215 market units in 2004 as HYI completed an adjustment to unit targeting in order to return to compliance with its legislated targeting plan. HYI is projecting maintaining approximately 215 market units in 2005.

The practical effect of re-targeting the number of market units downward has been to distort the vacancy rate in 2004. For example if a market unit becomes available in a project where there were too many market units, it will be filled with a rent geared to income client. There have been cases where a market unit has been vacant for some time, and has been filled with a rent-geared to income client in order to generate some level of revenue. Both cases make it impossible to determine a market vacancy rate for measurement purposes. As HYI has reached its legislated target plan, 2005 will provide an opportunity to begin to generate standard measurement of market vacancy rates.

A review of the re-rent activity at our townhouse projects indicates market units are becoming more difficult to rent in our family complexes at current market levels. Conversely, several apartment projects such as Hadley Grange, Oxford Village, and Keswick Gardens have had either relatively little turnover or low vacancy.

In addition to the above properties, Housing York Inc. commenced ownership and management of Armitage Gardens in Newmarket in 2004. There has been little market unit turnover. The property is new, well located, and maintains a high interest in the community for those wanting to reside there.

4.1.4 Provincial Guideline for 2005 under the Tenant Protection Act

The provincial rent increase guideline is 1.5%, effective January 1, 2005. The rent increase guideline establishes the maximum amount that private sector landlords may increase rent for current residential tenants without applying to the Ontario Rental Housing Tribunal. Under the *Tenant Protection Act*, a landlord may increase a current tenant’s rent once a year by an amount not to exceed the guideline. Although this guideline does not apply to Social Housing Providers, it serves as a useful benchmark in determining increases.

4.1.5 Unit Rent Factors

The Unit Rent Factors (URF) is the Provincial assessment of local rents for housing types in an area. The Province expects housing providers to charge a market rent of at least 103% of the URF. In 2004, on average HYI was able to charge 112% of the URF. With the proposed 2005 rents, we would anticipate exceeding the URF by 111% on average.

4.2 Proposal for 2005

For the first time in many years, landlords are experiencing a softer rental housing market because of low interest rates and continued high demand for homeownership and this is having a moderating effect on rental rates. Based on the survey and rental experiences, our current market rents are generally considered competitive for 2005.

It is proposed a 2005 rent increase be applied for four properties. It is recommended that all rents for all units at Armitage Gardens in Newmarket, Hadley Grange in Aurora, and Keswick Gardens in Georgina be increased by 1.5%. Additionally a 1.5% increase is proposed for the one-bedroom units at Oxford Village to realign rental rates as part of the transition from the two corporations to the single entity of Housing York Inc. These rent increases will raise the revenues of Housing York Inc. by approximately $18,900.

The proposed 2005 market rents will allow our market rental units to remain competitive and minimize vacancy loss.

Attachment 1 presents the proposed 2005 market rents by community.

4.3 Next Steps

HYI unit marketing strategy currently includes newspaper advertisements, listing with the Housing Help Centre, and web site enhancements.

Staff are currently re-evaluating marketing strategies. The rental market in general is experiencing challenges in marketing. Staff will be determining practices being employed by other market landlords to determine appropriate marketing channels and messaging in concert with closely monitoring rental trends in the marketplace.

5. FINANCIAL IMPLICATIONS

The proposed schedule of market rent adjustments will raise the revenues of Housing York Inc. by approximately $18,900. Holding the balance of rents at current levels will ensure that a balance is maintained between marketability and rental revenues, ensuring that vacancy loss is minimized.

6. LOCAL MUNICIPAL IMPACT

Local municipalities continue to benefit from affordable housing offered at competitive market rents in their communities.

7. CONCLUSION

The proposed market rent schedule represents a fair and balanced increase in HYI market rents and establishes market rents that are comparable with the local community.

The Senior Management Group has reviewed this report.

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Attachments - 3
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