York Region

Community and Health Services
Office of the Commissioner

MEMORANDUM

TO: Community and Health Services Committee Members

FROM: Adelina Urbanski, Commissioner of Community and Health Services

DATE: June 20, 2012

RE: **Federation of Canadian Municipalities**
The State of Canada's Cities and Communities 2012

This memorandum provides Committee with an update on the recent release of the Federation of Canadian Municipalities (FCM) report entitled, *The State of Canada's Cities and Communities 2012*. The report states that Canadian cities and communities are in a state of decline and highlights the federal government's recent investments in housing, infrastructure and transportation networks as well as partnerships with local governments, as critical in moving forward to support families, businesses and long-term economic growth.

Background:

FCM leads the Quality of Life Reporting System (QOLRS) initiative which measures, monitors and reports on changes in social, economic and environmental factors to assess the quality of life in Canada's largest cities and communities. Twenty seven Canadian municipalities, including York Region, participate in the QOLRS. On behalf of York Region, Community and Health Services Department staff participates on FCM's Quality of Life technical team. As part of this role, staff reviews and provides feedback on QOLRS initiatives, and coordinates service data from Regional departments, area municipalities, school boards and other community organizations in York Region for inclusion in the QOLRS reports. Regional Councillor Brenda Hogg sits on the FCM Board of Directors, the Standing Committee on Environmental Issues and Sustainable Development, and the Standing Committee on International Relations.

The State of Canada's Cities and Communities 2012 report was officially launched at the June 2012 FCM Annual Conference and Trade Show. Chapter 5 in this report is on the State of Affordable Housing prepared under the Quality of Life Reporting System. FCM intends to release Chapter 5 as a stand alone entitled, *In Brief: Canada's Rental Housing Sector*.

Highlights from *the State of Canada's Cities and Communities 2012*:
(See *Attachment 1* – Introduction for reference)

- To support a growing economy, municipalities need secure revenues that keep pace with their growing responsibilities. But according to the report:
    - Federal and provincial treasuries have used up 95 cents of every new tax dollar paid in Canada during the past 50 years
    - The three budget items that have increased fastest for municipalities since 1988 were affordable housing, health, and social services, all areas where other governments have offloaded major new costs onto the municipal property tax-base
    - More than one-third of core federal-municipal infrastructure investments will expire within the next two years
    - Unless it's indexed like other federal transfers, the federal Gas Tax Fund will lose 50 percent of its purchasing power over the next two decades
    - Municipalities now pay the salaries of two out of three Canadian police officers, and 60 percent of all increases in policing costs nationally, reflecting an overstretched and underfunded RCMP

Highlights from *In Brief: Canada's Rental Housing Sector*:
(See *Attachment 1* - Chapter 5 for reference)

- Canadians and their governments can no longer rely on homeownership alone to meet housing needs. The fundamentals that supported growth in homeownership such as declining mortgage rates, extended mortgage terms, low down-payments, and a strong economic outlook have ended.
- The indicators reviewed in this report suggest there is a need to:
    - increase and preserve purpose-built rental housing
    - balance rental vacancy rates
    - ease the pressure on Canada's homeownership market
- Beyond the immediate economic benefits of increased rental construction and related employment spin-offs, a healthy rental market will support a more mobile workforce and give young families, new immigrants, and senior's higher-quality, lower cost rental options.

The findings in *The State of Canada's Cities and Communities 2012* echo York Region's experiences. The Region has taken steps to address these issues through actions in guiding documents such as the Corporate Strategic Plan, Community and Health Services Multi-Year Plan, Making Ends Meet and York Region's Immigration Settlement Strategy, all of which speak to supporting healthy communities through a broad range of housing choices and supports to meet the diverse needs of residents.

Similar experiences to this report are drawn in the recently released *Housing Matters: A Review of the Housing Market in York Region (2012)*, some examples include:

- On average, York Region vacancy rates are less than 3 percent. Low vacancy rates are often contributing factors to rising rents
- Approximately 50 percent of all York Region renters cannot afford the average one bedroom rent
- Investments in infrastructure, such as affordable housing and transit, and public/private partnerships are key to meeting social, economic and environmental challenges

Next Steps:
Community and Health Services staff will continue to work with FCM and other member communities to share data, support advocacy efforts and analyze the 2011 Census data as it is released. The next In Brief report is expected in the Fall and will provide an analysis on the Aging Population in Canada.

A copy of *The State of Canada's Cities and Communities 2012* can be accessed using the link below.
http://www.fcm.ca/Documents/reports/The_State_of_Canadas_Cities_and_Communities_2012_EN.pdf

Adelina Urbanski
Commissioner of Community and Health Services

Attachment Introduction - *The State of Canada's Cities and Communities 2012* and
Chapter 5 – State of Affordable Housing (By the Quality of Life Reporting System)

LG/ml

ATTACHMENT 1

FEDERATION OF CANADIAN MUNICIPALITIES
FÉDÉRATION CANADIENNE DES MUNICIPALITÉS

The State of Canada's Cities and Communities 2012

www.fcm.ca

For more information

Please contact Michael Buda, FCM Director of Policy & Research, at mbuda@fcm.ca or 613-907-6271.

Acknowledgements

This first-ever report on the State of Canada's Cities and Communities benefits from the work of countless FCM and municipal staff, and public policy experts from across Canada.

In particular, we would like to thank Dr. Enid Slack of the University of Toronto's Institute on Municipal Finance and Governance at the Munk Centre for International Studies for her continued leadership on helping municipalities understand key trends in public finance. Her contributions to Chapter 1 were invaluable, and were augmented and expanded by Casey Vander Ploeg of the Canada West Foundation – a leader in the field of local government innovation.

Chapter 5 on the State of Affordable Housing is based completely on the leadership and hard work of the FCM Quality of Life Reporting System (QOLRS). QOLRS is a program of FCM and 23 member communities, highlighting quality of life trends in 27 municipalities and urban regions in Canada. See www.fcm.ca/qolrs for more information on this unique program.

FCM FEDERATION OF CANADIAN MUNICIPALITIES FÉDÉRATION CANADIENNE DES MUNICIPALITÉS

The State of Canada's Cities and Communities 2012

Federation of Canadian Municipalities
24 Clarence Street
Ottawa, Ontario K1N 5P3
www.fcm.ca

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Message from the President

Canada's cities have come a long way from a $125-million federal investment in 2003, to the $4.75 billion of 2010. The economic importance of cities and communities is clearly being recognized.

Recent events suggest that the tide has turned in favour of municipalities. During the recent economic crisis, the federal government called upon municipalities to implement its stimulus plan. Together, federal and municipal governments began repairing and rebuilding Canada's aging infrastructure, creating tens of thousands of jobs in the process.

Saying we've come a long way implies that we had a long way to come—and we did. We had to overcome a decade of neglect and underfunding that had undermined Canada's competitiveness and quality of life.

Unfortunately, much of the way forward is uphill. Canada's tax system takes too much from our communities, and puts too little back. Without access to revenues that grow with the economy, and without long-term investment from other levels of government, municipalities continue to face a gap between their responsibilities and their ability to pay.

Our current system, in which municipalities collect just eight cents of every tax dollar, is not sustainable. Nor is it realistic in a world where cities function as economic engines and centres of innovation. This fiscal imbalance erodes Canada's competitiveness, while placing a growing burden on property taxpayers, straining local services, and forcing municipalities to delay essential infrastructure projects.

We are on the right track, however. Joint infrastructure investments during the recent recession opened the door to new intergovernmental cooperation. By committing to a new long-term infrastructure plan before current funding ends in 2014, the federal government has promised Canadians that their communities can rely on stable federal funding for roads and bridges, drinking water, and public transit.

It's only the beginning, but this co-operative approach can support partnerships in meeting other national challenges, including support for affordable rental housing and front-line policing, investments in public transit, and help for rural communities.

During the past few years, federal and municipal governments have co-operated more closely than at any time since the Great Depression. Together, we fought the recent recession and began rebuilding Canada's streets, bridges, and water systems. In this new era of partnership, we can overcome the barriers that have prevented us from serving taxpayers efficiently. Together, we can build a stronger, safer, more competitive Canada.

Introduction

Communities matter.

FROM OUR LARGEST CITIES TO OUR MOST REMOTE VILLAGES, COMMUNITIES MATTER:

TO OUR ECONOMY, TO OUR FAMILIES, TO OUR FUTURE.

Like never before, Canada needs strong cities and communities to compete in the global race for jobs, talent, and investment.

Our small businesses need quality roads and bridges to deliver goods and services. Our workers need fast, efficient public transit to connect them to new jobs. And our companies need access to affordable housing and high-quality community services, from libraries to hockey rinks, to recruit skilled workers.

But despite their importance, Canada's cities and communities have spent most of the past 25 years in a state of decline.

The symptoms are all around us: traffic gridlock, crumbling roads and bridges; rising policing costs, and a high-priced housing market that pushes families deeper into debt and too often into the street.

There is hope, however. In the last few years, the Government of Canada has recognized that many of the growing problems in our cities and communities are national in scope. The government has recognized that inadequate housing, infrastructure, and transportation networks are problems that span all regions of the country. It can see that these problems are not just making day-to-day life harder for local residents; they are undermining the foundations that Canada and its economy are built on.

Recent federal investments have helped municipalities put police on the streets, repair social housing, and rebuild the roads, bridges, water systems and public transit Canada needs to support families, businesses and long-term economic growth.

The federal government has also seen what valuable partners local governments can be in meeting national objectives. When the global economic crisis hit, the federal government called on municipalities to turn its stimulus plan into action. Together with provinces and territories, we created hundreds of thousands of jobs and made Canada a world leader in fighting the economic downturn.

More recently, and most importantly, the federal government has formally acknowledged that it has a permanent role to play in Canada's cities and communities. The federal government's new Long-Term Infrastructure Plan promises to renew federal investments in municipal infrastructure before they expire in 2014, and put them on a stable, sustainable track for many years to come. The federal government is working closely with FCM, provinces and territories, and the private sector to develop the plan.

A lot has happened during the last few years. As we make plans to protect and build on the gains we've made, we need to look closely at what we have achieved and what we still have to do.

The investments of the last few years have clearly benefited our communities and our country. In addition to fighting the recession, they have made it possible for local governments to make some of their most urgent, but previously unfunded, infrastructure investments.

What is less clear, however, is how much we have done to fix the underlying causes that led to years of decline in our cities and communities. If we want recent progress to be more than a temporary pause in a downward spiral – if we want it to be the start of a lasting turnaround in our cities and communities – then we need to make sure we are doing more than treating the symptoms of a deeper sickness.

That is the purpose of this report: to help us understand the underlying health of Canada's cities and communities in 2012. Given the scope and complexity of the question, this report does not pretend to be comprehensive or to give the last word on the issue. It is just one contribution to an important and pressing conversation.

The report is structured in two parts. Part One reviews the underlying causes of the growing challenges that have played out in Canada's cities and communities during the past two-and-a-half decades. It looks at the progress Canada has made in addressing these issues in recent years, and examines current trends to see where our cities and communities are headed and what new challenges they will face. Part Two looks at the state of intergovernmental cooperation in Canada, and reviews the progress Canada has made on that front over the years.

If we hope to build on recent gains, we need to measure and report on our progress, so that political leaders in Ottawa, in provincial and territorial capitals, and in council chambers across the country can see the effects of their decisions, and be accountable to Canadians. We hope that the *State of Canada's Cities and Communities 2012* will take us a step closer to that goal.

THE MUNICIPAL FISCAL IMBALANCE

In 2006, FCM published a report that looked at a range of growing national challenges surfacing in cities and communities across the country, in areas such as infrastructure, transportation, housing, and policing and public safety. Its title was *Building Prosperity from the Ground Up: Restoring Municipal Fiscal Balance*. http://www.fcm.ca/Documents/reports/Building_Prosperity_from_the_Ground_Up_Restoring_Muncipal_Fiscal_Balance_EN.pdf

***Building Prosperity* traced the roots of these growing problems to a tax system that took too much out of communities and put too little back in. The result was a structural imbal ance between local governments' growing responsibilities, and the inadequate financial resources they received from an out-of-date funding system.**

Municipalities were collecting just eight cents of every tax dollar paid in Canada. Mean while they were building more than one-half of the country's core infrastructure; paying the salaries of two out of every three police officers; and funding responsibilities offloaded by other governments for affordable housing, immigrant settlement and public safety.

At the same time, federal and provincial governments were consuming more than 90% of the taxes paid by Canadians, and, through their sales, income, and corporate taxes, virtually all revenues generated by new economic growth. What they reinvested in municipal infrastructure was typically delivered through short-term, ad-hoc programs that made it difficult for municipalities to budget effectively.

Unlike many of their international counterparts, local governments in Canada were left to rely on the slow-growing municipal property tax, a regressive funding tool that hits middle-and low-income people hardest, including working families, senior citizens, and small-business owners.

Building Prosperity painted a picture of local governments caught in a system that failed to reinvest a sustainable share of the revenues generated by economic growth in the core services and infrastructure that made that growth possible in the first place. Other orders of government were compounding the problem by pushing costly responsibilities off their budget books and onto the backs of local governments.

The result was a chronic municipal funding crunch. Local governments, prohibited by law from running budget deficits, were forced to raise property taxes, cut core services, and, most often, put off building and repairing core infrastructure such as roads and bridges, public transit, and drinking water systems.

The consequences? A $123-billion municipal infrastructure deficit, crowded transportation systems and growing traffic gridlock, and cities and communities without the resources to live up to their full potential as partners in building Canada.

As *Building Prosperity* made clear, to solve these problems Canada would have to reform municipalities' funding tools and tear down barriers to practical cooperation between "higher" and "lower" levels of government. As long as our cities and communities were boxed in by a 19th century mindset, Canada could not hope to meet 21st century challenges.

Chapter 5: State of Affordable Housing (By the Quality of Life Reporting System)

QUALITY OF LIFE IN ANY GIVEN MUNICIPALITY IS INFLUENCED BY A NUMBER OF INTERRELATED ISSUES. AS CANADIANS, WE VALUE VIBRANT, INCLUSIVE COMMUNITIES WHERE APPROPRIATE HOUSING, EDUCATION AND EMPLOYMENT ARE ACCESSIBLE TO ALL.

Fostering communities that preserve the natural environment, protect personal and community health and safety, and enable the social, economic and cultural aspirations of citizens are the central focus of local governments.

The Quality of Life Reporting System (QOLRS) is a program of the Federation of Canadian Municipalities (FCM) and 23 member communities[1] highlighting trends in 27 municipalities and urban regions in Canada. Relying on data from a variety of sources, the QOLRS contains hundreds of variables that measure changes in 10 domains covering social, economic and environmental factors. Taken together, these trends form issues of national importance.

The QOLRS *In Brief* reporting series analyses trends within a specific cluster of domains, providing a snapshot of information about one thematic area. This report focuses on accessibility of and need for purpose-built rental housing in QOLRS communities.

By providing evidence of important trends taking place across the municipal sector, the QOLRS helps to ensure that municipal government is a strong partner in formulating public policy in Canada.

The In Brief reporting series links to FCM's recently launched online data collection and reporting tool: Municipaldata.ca. This tool provides an interactive component to view all QOLRS data and to better share information about actions being taken by Canadian municipalities. Visit http://www.municipaldata-donnees municipales.ca/ to learn more.

[1] QOLRS communities account for over 50% of Canada's population and comprise some of Canada's largest urban centres and many of the suburban municipalities surrounding them, as well as small and medium-sized municipalities in seven provinces.

QOLRS IN BRIEF: RENTAL HOUSING

A healthy housing sector that is able to meet a broad range of needs is a vital part of the economic and social wellbeing of a community.

Canadians are currently facing rising costs of homeownership, historically high levels of household debt, with residential mortgages making up 68% of that debt,[2] and record high rental rates.

Data collected across 27 communities through FCM's Quality of Life Reporting System reveal that since 2005 homeownership costs have risen at a rate nearly three times greater than income levels.[3] In the past decade, construction of purpose built rental housing has flat-lined at 10% of all new housing starts, while existing rental stock is diminishing through erosion and conversion to condominium housing.[4] The average cost of renting in QOLRS communities has increased by more than 20% since 2000.[5]

Rental housing is an often overlooked yet important component of Canada's housing system. One-third of Canadians are renters. This includes young Canadians, creating new renter households when they leave the family home; older Canadians, seeking apartment living when they no longer need or want to maintain larger family homes; and new Canadians, a critical component of our future labour force, many of whom initially rent before they transition to home ownership.

The FCM's recent report, *The Housing Market and Canada's Economic Recovery*, points to changing global economic conditions that reflect changing housing needs in Canada.[6] These conditions have created a gap in the construction and housing sectors that can most readily be filled by purpose-built rental housing. The report proposes an array of tax incentives to stimulate the construction of new rental units and preserve existing rental stock.

With the cost of home ownership out of reach for an increasing number of moderate and low-income earners, and thousands more on growing affordable housing wait lists, rental housing is a vital component of a healthy housing sector that can no longer be ignored.

This QOLRS *In Brief* report looks at current trends in rental housing and homeownership in municipalities across Canada. It provides snapshots of initiatives introduced by QOLRS member cities and regions designed to increase investment in purpose-built rental and affordable housing that meets a broad range of housing needs and encourage a healthy housing sector. While economic and demographic circumstances vary regionally, together we share the goal of making safe, affordable housing accessible to all residents.

[2] Canada Mortgage and Housing Corporation (CMHC), '*Household Indebtedness*,' Canadian Housing Observer 2011. Pg. 1. Available online at http://www.cmhc.ca/en/corp/about/cahoob/upload/Chapter_3_EN_dec16_w1 .pdf.

[3] The mean price of a new home in the QOLRS was $406,760 in 2006 and $526,523 in 2010, an increase of 29.5%. Average income in the QOLRS rose from $64,790 in 2005 to $72,059 in 2009, an increase of 11.2%. All figures are in nominal dollars (not adjusted for inflation).

[4] CMHC measurements of new purpose-built rental starts include privately-initiated rental apartment structures of three or more units and exclude the secondary rental market, including public housing, row housing rental units, rented rooms in houses, units in buildings with 2 units or less and rented condominiums. While difficult to measure, changes in the secondary rental market may not address the type of housing need created by a decline in new rental housing starts.

[5] Mean rent in the QOLRS for a 2 bedroom increased from $715 in 2001 to $891 in 2010 and from $670 in 2001 to $827 in 2010 in all of Canada. Source: Canada Mortgage and Housing Corporation, Rental Housing Survey, 2001-2010. All figures in non-adjusted dollars.

[6] Federation of Canadian Municipalities, '*The Housing Market and Canada's Economic Recovery*' January 2012.

GLOSSARY OF TERMS:

Affordable Rental Housing: CMHC defines affordable rental housing as costing less than 30% of before-tax household income, including rent and any payments for electricity, fuel, water and other municipal services.

Primary Rental Housing Market: In its Rental Market Survey CMHC defines the Primary Rental Housing Market as including private rental housing in buildings with 3 or more units (typically purpose-built for rent) and assisted housing units subsidized by the government.

Purpose-built rental housing: residential construction developed for the rental housing market, including, but not limited, to multi-unit rental apartment buildings.

Rental Housing Starts: The proportion of total housing starts that are intended for the rental market. A “start” for the purposes of the Starts and Completions Survey, is defined as the beginning of construction work on a building, usually when the concrete has been poured for the whole of the footing around the structure, or an equivalent stage where a basement will not be part of the structure. Total housing starts include single, semi, row and apartment houses.

Secondary Rental Market: CMHC identifies the following dwelling types as comprising the Secondary Rental Market: Rented single-detached houses; rented double (semi-detached) houses; rented freehold row/town homes; rented duplex apartments (i.e. one-above-other); rented accessory apartments (separate dwelling units that are located within the structure of another dwelling type); rented condominiums; and one or two apartments which are part of a commercial or other type of structure.

Vacancy Rates: A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental. The source for QOLRS data on vacancy rates comes from CMHC’s Rental Market Survey. The Rental Market Survey only includes units in privately initiated rental buildings with three or more units. The QOLRS Vacancy Rates by Rental Quartiles are based on a sub-sample of records that provided both the number of vacant units as well as the rents. The QOLRS Total Vacancy Rate is calculated using the rental quartiles and may not match those provided in the CMHC Annual Report.

SOURCES:

CANADA MORTGAGE AND HOUSING CORPORATION, RENTAL MARKET HIGHLIGHTS FALL 2011. AVAILABLE AT HTTP://WWW.CMHC-SCHL.GC.CA/ODPUB/ESUB/64491/64491_2011_B02.PDF?FR=1323883728079

CANADA MORTGAGE AND HOUSING CORPORATION, STARTS AND COMPLETIONS SURVEY, 1991 TO 2010

CANADA MORTGAGE AND HOUSING CORPORATION. HOUSING IN CANADA ONLINE DEFINITIONS. AVAILABLE AT HTTP://CMHC.BEYOND2020.COM/HICODEFINITIONS_EN.HTML

CITY OF TORONTO, ‘*RENTAL HOUSING SUPPLY AND DEMAND INDICATORS*,’ SEPTEMBER 2006. AVAILABLE AT HTTP://WWW.TORONTO.CA/PLANNING/PDF/HOUSING_RENTAL.PDF

STATISTICS CANADA STANDARD STATISTICAL UNITS. AVAILABLE AT HTTP://WWW.STATCAN.GC.CA/CONCEPTS/DEFINITIONS/PRIVDWEL-LOGPRIV-ENG.HTM

THE SQUEEZE ON HOMEOWNERSHIP

The communities that make up the Quality of Life Reporting System (QOLRS) represent over 50% of Canada's population. Following a decade of relatively modest growth in housing costs in the 1990s, the average price of buying a new home in Canada nearly doubled from $234,387 to $454,154 between 2001 and 2010. This rise was reflected in QOLRS communities, where new home prices reached an average cost of $505,044 in 2010. The average cost of a new home in Vancouver increased by over $900,000 between 2001 and 2010. This was closely followed by a $700,000 increase in Toronto, $295,794 in Calgary and $275,044 in Regina.

FIGURE 1. AVERAGE NEW HOUSING PRICES IN CANADA AND QOLRS COMMUNITIES, 2010

SOURCE: CANADA MORTGAGE AND HOUSING CORPORATION, MARKET ABSORPTION SURVEY, 2010, SPECIAL ORDER FOR THE QOLRS

Some QOLRS communities, however, experienced below-average increases; Kingston's new home price grew by $107,086 over ten years and Gatineau's new home prices rose by $117,072.

Average incomes have not kept pace with continually rising housing costs. Between 2006 and 2009, average income for the combination of couple-families, lone-parent families, and single persons in QOLRS cities increased by 5.5%, while the average cost of homeownership rose by 22%.[7] A healthy housing price-to-income ratio is generally considered to be four to one; the most recent figures available for the QOLRS show this ratio as greater than seven to one by 2010, an increase from four years earlier when the ratio was slightly greater than 6 to 1.[8]

Further, average incomes for 2009 were lower than in 2008 in both QOLRS communities and the rest of Canada, reflecting the impact of the global economic recession.[9] Statistics Canada reports the largest gap between income and home ownership affordability is experienced by single persons and lone parent families.

Rising housing costs are also cited as a major contributing factor responsible for Canadians' growing household debt. The Bank of Canada and the International Monetary Fund warn that Canadians' 158% level of household debt is too high, with mortgages making up 68% of that debt.[10] The Government of Canada recently made regulatory changes to reduce mortgage amortization periods and protect households from further debt.

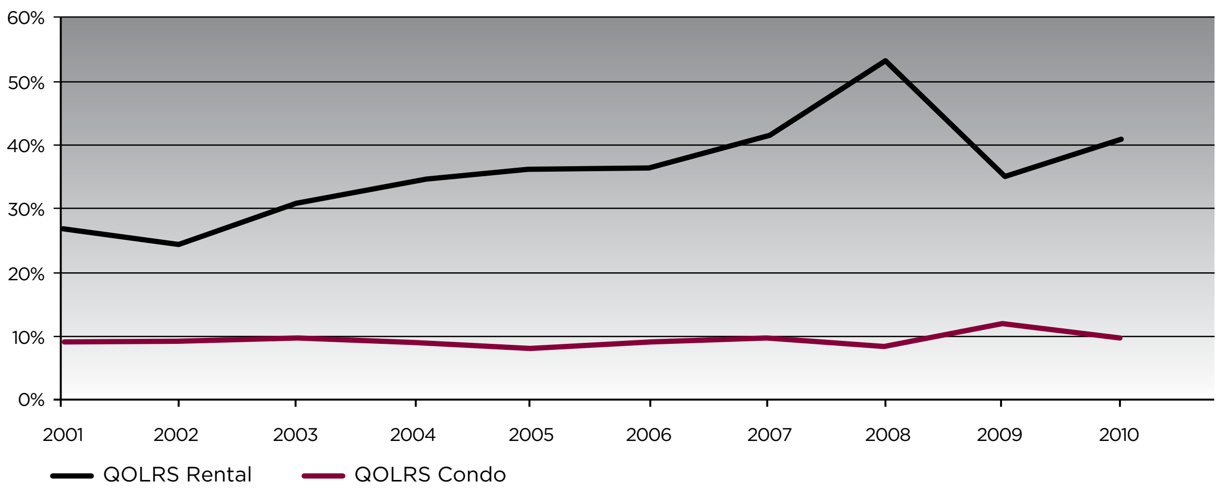
[7] Average income in the QOLRS rose from $68,332 in 2006 to $72,059 in 2009. Average new home cost in the QOLRS rose from $389,981 in 2006 to $502,865 in 2009. All income figures and housing costs are not adjusted for inflation.

[8] Average income in the QOLRS was $64,790 in 2005 and $72,059 in 2009, while the average cost of a new home was $389,981 in 2006 and $505,044 in 2010. Housing to income to ratios rely on income reported from the previous year as an indicator of affordability.

[9] Source: Statistics Canada, Small Area and Administrative Data Division, 2008-2009. For more on the impact of the global recession on low-income Canadians see 'Bearing the Brunt: How the 2008-2009 Recession Created Poverty for Canadian Families' by the Chandra Pasma, May 2010. Citizens for Public Justice. Available at: http://www.cpj.ca/files/docs/Bearing_the_Brunt.pdf.

[10] Canada Mortgage and Housing Corporation (CMHC), 'Household Indebtedness,' Canadian Housing Observer 2011. Pg. 1. Available online at http://www.cmhc.ca/en/corp/about/cahoob/upload/Chapter_3_EN_dec16_w1 .pdf.

FIGURE 2. RENTAL AND CONDO HOUSING STARTS AS A PROPORTION OF ALL HOUSING STARTS, 2001-2010



SOURCE: CANADA MORTGAGE AND HOUSING CORPORATION, STARTS AND COMPLETIONS SURVEY, 2001-2010

There are a range of views about whether or not Canadian house prices are over-inflated and the possible impact if and when the market adjusts. CMHC predicts that "the rise in housing prices combined with limited supply in the resale market, persistently low rental vacancies and rising rents will result in an increase in demand for modestly priced apartments and row condominiums." Growth rates in QOLRS communities saw an annual population growth of at least 1.2% - twice the rate of the rest of Canada[11] between 2001 and 2010. During the same period, York Region grew by an average of 3.7% per year, the City of Calgary by 2.6% and Peel Region by 3.0%.

Housing costs remain higher in QOLRS Communities than in the rest of Canada. In 2010 the average new home price in QOLRS communities was $505,044, compared to $454,154 in all of Canada. This trend held at the lower end of the housing market; 2010 house prices in QOLRS were $325,000 in the lowest quartile (representing the more affordable homeownership market), nearly 8% higher than the Canadian average.

STAGNANT RENTAL HOUSING STARTS

While one-third of Canadian households are renters, strong economic conditions in the late-1990s resulted in a surge in homeownership, reducing the pressure on the demand for rental accommodation. As a result, the relative proportion of rented-to-owned dwellings has been in decline across the country for 20 years. Despite a modest increase in rental starts between 2007 and 2010, less than 10% of housing starts in QOLRS communities since 2001 were intended for the rental market.

To put these figures in perspective, between 2001 and 2010 condominium housing starts in the QOLRS accounted for 36% of all new housing starts; only one rental unit was constructed for every four condominiums built in the QOLRS communities during this 10-year period. The reluctance to invest in rental housing is in large part attributable to the impact of condominium development, which sets the price for multi-residential land and has driven the rate of return for investors down significantly for new rental builds.

Now, as employment and other economic conditions shift, and moderate and low-income households find it increasingly difficult to afford a home, an effective route to increase housing affordability is through purpose-built rental housing. This is of concern to Canada's most populated cities as residents of QOLRS communities are more likely than elsewhere in Canada to be renters.

[11] Source: Statistics Canada, Demographic Division, 2001-2010.

CONDOMINIUMS AS CONTRIBUTING TO THE RENTAL MARKET

Condominiums represented 29% of all new housing starts in Canada in 2010 and 36% in QOLRS communities. While the primary purpose of condominium construction is for homeownership, there is an upward trend in buyers investing in one or more condomini ums and then renting them out, resulting in a supply of rental units. CMHC's October 2011 Rental Market Survey of 11 city centres showed an overall increase in condominium rentals with an average vacancy rate of 2%, well below the balanced vacancy rate of 3%.

In some markets, condominiums play a significant role in rental housing. A 2008 CMHC survey of the Vancouver rental market showed that 27% of Vancouver's condominium stock, and 8% of Ottawa's, was rented. In 2005 condominium rentals in Toronto repre sented 20% of the total rental supply.[12] Despite this pocket of rental condominium housing, vacancy rates remain low in these cities.

Condominium development also contributes to the erosion of affordable rental. Cities are seeing an overall decline in rental units where the trend is to convert apartment buildings to condominiums, instead of building new condominiums. Condominium rental prices are consistently higher than apartment rents in cities in CMHC rental market survey including Toronto, Ottawa, Calgary and Vancouver.

Regina's recent condo boom has not come at the expense of its rental housing stock, thanks to the innovative and progressive municipal incentives for new rental housing. In 2009, the City adopted a new housing policy aimed at encouraging the construction of new housing in inner-city areas and stimulating new rental housing development city wide.

Investment in new rental housing is typically lower in QOLRS communities than the rest of Canada, with relatively fewer starts intended for the rental market. Two notable exceptions were the rental markets of Saskatoon and Regina. Both communities experienced dramatic increases in rental starts in 2010 as a result of local government initiatives for new rental housing incentives. From 2007 to 2009, 2.7% of new units built in Saskatoon and 5.5% in Regina were intended for the rental market. In 2010 this increased to 12.2% and 19.1% respectively.

With its booming economy, Saskatoon's vacancy rate hit critically low levels of less than 1% by 2007. Market forces were not responding adequately: in 2009, less than one in 500 new housing starts was purpose-built rental. In 2010, the City of Saskatoon stepped in with two municipal initiatives. A $5,000 per unit incentive grant and a five-year incremental tax rebate for purpose-built rental housing saw new rental housing starts rise to 12.2%. Under the fund, new units must remain rentals for 15 years and conversions are not permitted.

Stagnant Rental Market Investment

Rents across Canada continue to increase annually with monthly rents consistently higher in the QOLRS communities than the rest of Canada. By 2010, the median monthly rent for a two-bedroom apartment in QOLRS communities rose to $850 from $661 in 2001, compared to the Canadian average rent of $775, which rose by $169 over the same period.[13]

In 2010, median rent in Vancouver was significantly higher than other communities; the $1,400 price for a two bedroom was $325 higher than in Halton Region, the community with the second highest rents nationally. These are followed closely by Peel at $1,060 and Toronto,

[11] City of Toronto, 'Rental Housing Supply and Demand Indicators,' September 2006, p. 7. Available at http://www.toronto.ca/planning/pdf/housing_rental.pdf.

[12] Figures presented are in non-adjusted dollars.

York and Calgary at $1,050. Even the least expensive apartments cost more in the QOLRS communities as compared to the rest of Canada. Monthly rent for the lowest quartile apartments in QOLRS communities was an average of $35 higher than the rest of Canada (see Figure 3). By 2010, the rent for a 2 bedroom in the lowest quartile was $625 for Canada and $675 in QOLRS communities.

COMMUNITY SNAPSHOT: KINGSTON, ONTARIO

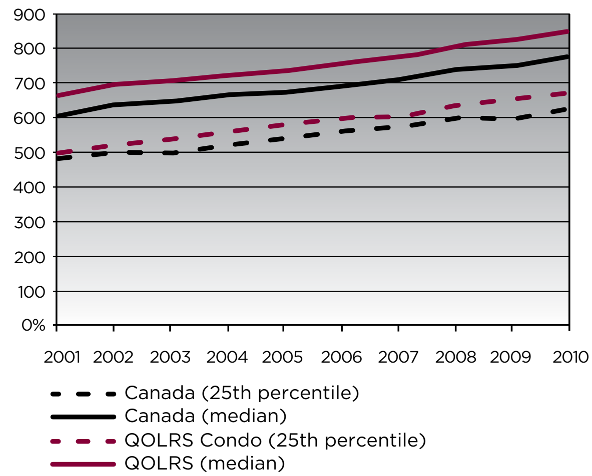
The Challenge: Low-Income Renters
In 2006, 48.4% of renter households spent 30% or more of their household income on housing and 12.0% of renter households spent 70.0% or more of their income on housing costs.

Actions Taken: In 2011 the City created the Housing Strategy Implementa tion Plan. The Plan outlines five action areas, including recommended targets for increases to the rental housing stock over the next ten years. The City is also considering recommendations for a more flexible regulatory environ ment for land use planning and devel opment approvals.

SOURCE: CITY OF KINGSTON. 'A PLACE FIRST': A COMMUNITY PLAN ON HOUSING AND HOMELESSNESS IN KINGSTON

In the Region of Durham, Ontario, the 2010 vacancy rate for private apartments just met the balanced rate of 3%. The City attributes the relative availability of rental units to low mortgage rates making home ownership more affordable to some sectors of the population. However, renters in Durham earn on average less than half as much as homeowners and their incomes have not increased at the same pace. Moreover, a 2011 study by the Region found the majority of one person renter households cannot afford to rent any unit type, regardless of size.

FIGURE 3. CHANGE IN RENTS, MEDIAN AND LOWEST QUARTILE, FOR 2 BEDROOM APARTMENT, 2001-2010 HOUSING STARTS, 2001-2010



SOURCE: CANADA MORTGAGE AND HOUSING, MARKET ANALYSIS CENTRE, RENTAL MARKET SURVEYS, 2010, SPECIAL ORDER FOR THE QOLRS

FIGURE 4. MEDIAN RENT IN CANADA AND QOLRS COMMUNITIES FOR 2 BEDROOM APARTMENT, 2010

SOURCE: CANADA MORTGAGE AND HOUSING, MARKET ANALYSIS CENTRE, RENTAL MARKET SURVEYS, 2010, SPECIAL ORDER FOR THE QOLRS

RENTAL DEMAND PUSHING UP PRICES

QOLRS communities continue to experience pressure on the local rental market with relatively lower vacancies than the rest of Canada.

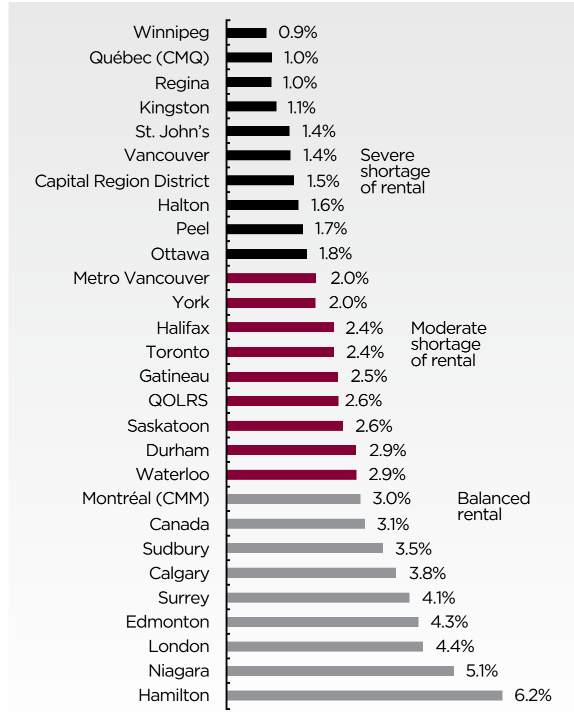
A balanced rental vacancy rate is widely accepted as 3%, meaning that of every 100 rental units, three are physically unoccupied and available for immediate rental. Vacancy rates falling consistently below the 3% equilibrium rate generally correlate with upward pressure on rents. (see Figure 5). In 2010, nearly half of QOLRS cities reported critically low vacancy rates of less than 2%, including Ottawa at 1.8%, Vancouver and St. John's at 1.4%, Regina at 1% and Winnipeg, with the tightest vacancy rate, at 0.9%. The 2010 average for all QOLRS communities was 2.6% compared to Canada's 3.1%.

COMMUNITY SNAPSHOT: VANCOUVER, BRITISH COLUMBIA

The Challenge: Supporting Private Sector Rental Development
The City of Vancouver has one of the tightest rental markets in the country and the highest average rents in the QOLRS. Vancouver estimates the region needs 1070 new rental units per year to adequately address housing demand, yet only 385 new rental units were built in each of the last five years.

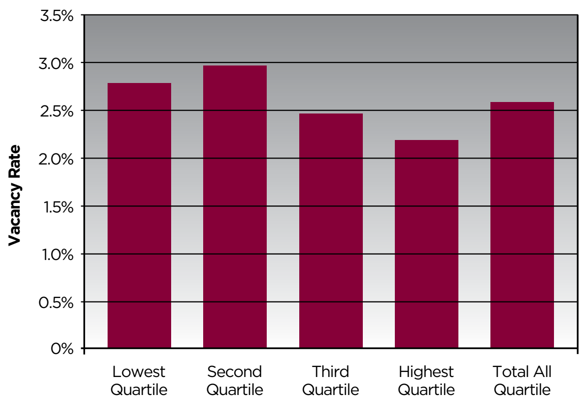
Actions Taken: In 2009 the City of Vancouver introduced the Short Term Incentives for Rental Housing (STIR) program, a 30-month initiative aimed at supporting the construction industry by encouraging the development of new market rental housing. The incentive package includes a reduced number of required parking spaces, increased density, expedited permit processing and, in the case of for-profit affordable housing, a waiver of the Development Cost Levy.

FIGURE 5. VACANCY RATE FOR CANADA AND QOLRS COMMUNITIES, 2010.



SOURCE: CANADA MORTGAGE AND HOUSING, RENTAL MARKET SURVEY, 2001-2010, SPECIAL ORDER FOR THE QOLRS
NOTE ON DATA: QOLRS TOTAL VACANCY RATES ARE CALCULATED USING QOLRS RENTAL QUARTILES AND MAY NOT BE EQUAL TO THAT PUBLISHED IN THE CMHC ANNUAL REPORT.

FIGURE 6. VACANCY RATES IN QOLRS COMMUNITIES, FOR ALL QUARTILES, 2010



SOURCE: CANADA MORTGAGE AND HOUSING, RENTAL MARKET SURVEY, 2001-2010, SPECIAL ORDER FOR THE QOLRS
NOTE ON DATA: QOLRS VACANCY RATES BY RENTAL QUARTILES ARE BASED ON A SUB-SAMPLE OF RECORDS THAT PROVIDED BOTH THE NUMBER OF VACANT UNITS AS WELL AS THE RENTS.

The vacancy rate for the lowest quartile of rental units in the QOLRS communities was significantly higher than the vacancy rates for more expensive rental units. This may suggest that the relatively poor quality of the cheapest rental housing stock is driving some households to rent more expensive units. This factor also suggests the reality that even the most affordable apartments are out of the price range of many of the lowest-income households (see Figure 6).

The Canadian Rental Housing Supply Coalition argues that an increase in the overall rental supply will ease the overall demand for housing and increase the supply of affordable rental housing. FCM has also reported on the economic benefits of new rental construction and retrofits of the existing stock. Investment in new rental construction and repairs of poorer-quality housing stock will create jobs in residential construction as stimulus funding ends.

COMMUNITY SNAPSHOT: HAMILTON, ONTARIO

The Challenge: Stimulating Affordable Housing Development in a Balanced Rental Market
In spite of population growth, the low er cost of home ownership in Hamilton has allowed the rental vacancy rate to remain above 3%. However, since the mid-1990s there has been very little production in Hamilton's purpose-built housing sector and the City experi enced a net loss of 789 rental units over the past ten years as a result of condominium conversion and demoli tion.

Actions Taken: The City supports new affordable housing projects by waiv ing of development charges and cash in lieu of parkland dedication fees for projects built under Federal, Provincial and/or City of Hamilton or City Hous ing Hamilton programs. The City also offers a reduced multi-residential tax rate for new rental buildings. To date, 731 new rental units have been built under the Federal/Provincial Afford able Housing Program.

SOURCES: EXAMINING THE HOUSING AND HOMELESS NESS ENVIRONMENT IN HAMILTON, OCTOBER 2011; CITY OF HAMILTON STAFF

CONCLUSION: MEETING CANADA'S HOUSING NEEDS

Canadians and their governments can no longer rely on homeownership alone to meet housing needs. The fundamentals that supported growth in home ownership—declining mortgage rates, extended mortgage terms, low down payments, and a strong economic outlook—have ended.

Taken together, the indicators reviewed here suggest the need to increase and preserve purpose built rental housing to bring rental vacancy rates into balance and ease the pressure on Canada`s homeownership market.

Beyond the immediate economic benefits of increased rental construction and related employment spin-offs, a healthy rental market will support a more mobile workforce and give young families, new immigrants, and seniors higher-quality, lower-cost rental options.

FCM`s report on *The Housing Market and Canada`s Economic Recovery* calls on all orders of government to work with the housing sector to remove barriers to investment in rental housing to provide a balanced mix of housing options able to meet the long-term financial realities of a changing population.

FCM has proposed three options the federal government can adopt to make it easier to invest in and expand our rental housing market:

1. The Building Canada Rental Development Direct Lending Program to stimulate investment in new market-priced rental units
2. The Rental Housing Protection Tax Credit to preserve and stop the serious erosion—through demolition and conversion to condominiums—of existing lower-rent properties
3. The Eco-energy Rental Housing Tax Credit to improve the quality of the rental stock; reduce high utility costs for tenants; reduce emissions and environmental impact; and increase resale and future rental value to landlords

Local governments have taken steps within their jurisdiction to increase and preserve the supply of rental and affordable housing: providing tax exemptions, encouraging intensification and redevelopment, and streamlining approvals. As shown throughout this report and in the community snapshots, municipal governments across the country are taking a leadership role by orking with partners in the public and private sectors to create policies that will help to create rental housing that meet the needs of their particular community.

Municipal governments know that a healthy housing sector benefits every sector of society, stimulating the construction industry and producing an array of positive outcomes for tenants, landlords, governments and the environment.