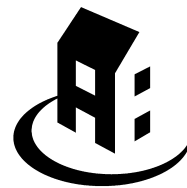


# *WHERE'S HOME? 2006*

A Picture of Housing Needs in Ontario



**ONPHA**  
Ontario  
Non-Profit Housing  
Association



Co-operative Housing Federation of Canada  
Ontario Region

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## INTRODUCTION

The first Where's Home report was published by the Ontario Non-Profit Housing Association (ONPHA) and The Co-operative Housing Federation of Canada (CHF Canada) in 1999. The report, entitled, *Where's Home? A Picture of Housing Needs in Ontario*, examined the state of rental housing in Ontario and relied on statistical and qualitative information on housing production trends, rental housing availability, housing affordability and economic and income trends. Since then, we have published several reports tracking housing conditions of tenants in Ontario and in 22 selected municipalities across Ontario with a particular focus on the availability and affordability of rental housing.<sup>1</sup>

This report will focus on housing availability, housing production and changes in rents using 2005 and historical data. We also comment on the 2006 CMHC vacancy rate data which was released before we completed our 2005 analysis. While this report will cover some aspects of housing affordability, a more in-depth examination of housing affordability in individual markets across Ontario will be undertaken once the 2006 census data comes out.

Although there has been a growing interest in addressing affordable housing needs at the national and provincial levels of government, there is a lack of consistent housing policy and programs at both levels. While there have been pockets of new affordable housing developments in several communities, there continues to be a lack of serious commitment or long-term sustainable approach to addressing affordable housing needs in Ontario.

Nevertheless, this year, the federal and provincial budgets (here in Ontario) were both helpful. In its last budget, the previous Liberal minority government at the federal level made significant commitments to the housing file - most notably \$1.4 billion dollars for affordable housing. Though the budget became law, the government fell and it was unclear whether the new Conservative government would implement the budget accord. However, to their credit, the government elected to keep those commitments and released the \$1.4 billion in housing funds to the provinces. The Ontario share was for \$392 million. The federal government also renewed its funding commitment to combat homelessness through the Homelessness Partnering Strategy and CMHC's renovation (RRAP) programs at the same level as in previous years.

At press time, Ontario Premier Dalton McGuinty was on the record saying he would release the \$392 million received by Ontario and that it be spent as was intended on affordable housing. Details regarding the allocation between programs and Service Managers will likely be provided in conjunction with the release of the provincial budget, scheduled for March 22.

This year Ontario matched the federal \$245 million dollar commitment for the Federal/Provincial Agreement signed in 2005. The Affordable Housing Program

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<sup>1</sup> In 2006, we have added York Region to our list of municipalities and market area.

embedded in the agreement is still far from ideal; but, it is now far more feasible and will produce more affordable housing units than its predecessor. Minister Gerretsen, Ontario's Minister of Municipal Affairs and Housing, has also indicated that he wants to get a higher yield of non profit and co-op housing in the last few years of the program and has funded ONPHA and CHF Canada (Ontario Region) to work with the Ministry to that end.

That said, there is still much for affordable housing advocates to remain concerned about:

- There is no forward looking national housing strategy and apparently little interest in developing one at the national level. The current government views it primarily as a provincial responsibility and housing is not likely to get much priority at the national level in 2007 unless it becomes an election issue.
- The one exception to this may be a commitment to reinvest the federal savings accruing from expiring operating agreements over the next 30 years. There is considerable pressure coming from the provincial governments and housing advocates in this regard.
- In Ontario, the messages continue to confuse. The current provincial government is clearly sympathetic to pro-housing arguments, but, at the same time, is so concentrated on the federal-provincial fiscal imbalance battle, that there is little time or inclination to develop an independent housing strategy. The current Affordable Housing Program is running late and the government, which faces an election next October, may not see any need to make further housing commitments until that funding is exhausted and their previous election promises have been met.

Meanwhile, the pendulum continues to swing back towards a housing shortage in many areas in Ontario and we estimate that there is a need for a rental production of 10,000 to 12,000 purpose-built rental units annually in Ontario – roughly triple what was produced annually from 2000 through 2005.

Though this report focuses mostly on the 2005 data, CMHC published their current vacancy rate numbers in late December 2006 and as we have been predicting for the last few years, for the most part, vacancy rates are dropping. Unfortunately, in the absence of a stable economic environment that encourages the continuous production of affordable rental housing we continue to get caught in the economic swings - which can be sudden – more sudden than the market can respond to. In any event, it is clear that the market forces are not enough to create a stable housing market. Canadian Governments need to recognize that a carefully deployed and predictable government presence in the housing market is a permanent and necessary part of the recipe for success.

Sudbury is a good example, having swung from a vacancy rate of over 11% in 1999 to 1.2% in 2006. If some rental housing had been committed in 2003 and built over the next 2 or 3 years the housing situation would not be nearly as tight in Sudbury; but, our financial system (for either publicly or privately supported housing) is not enthusiastic

about builders who want to start rental housing projects when vacancy rates are in the 5 to 6% range as they were in Sudbury in 2001 and 2002.

In fact, the initial stages of the Affordable Housing Program were consciously targeted at the low vacancy rate areas. This made sense to federal and provincial decision makers, was easy to explain to the media and certainly made sense to existing landlords who looked askance on publicly supported competition when vacancy rates were high. That said, it was, as it turns out, a shortsighted view.

This “catch 22” – you need to think about investing in housing when you least seem to need it – has haunted housing markets for years. Admittedly, Sudbury is a dramatic example because of its resource based boom/bust economy; but, it still illustrates the point.

Kitchener is another less dramatic example - this time of more forward thinking. In this case, CMHC reports that rental demand rose, but that the vacancy rate stayed at a relatively healthy 3.3%. One of the reasons sighted for this success was that a total of 288 new rental apartment units were completed in the first 9 months of this year. The average between 1995 and 1999 was 28 units! Kitchener Waterloo also has been one of the most active, if not the most active of Ontario’s Service Managers, when it comes to aggressive housing planning.

So what is missing? How do we get around the strange nature of housing markets?

Clearly, it is no easy thing to see through all the competing interpretations of what is happening in a given market place. Even so, we think some important aspects of housing markets are obvious and this year’s 2006 rental housing reports are a good reminder.

- There is no one housing market. In Ontario vacancy rates range from 10% in Windsor to 1% in Sudbury. The Ontario average is 3.4% down from 3.8% last year. London a few miles down the road from Windsor has a vacancy rate of 3.6%. Rental rates also range enormously. In Toronto, rates for a two bedroom are close to \$1,100. In Owen Sound they are close to \$700. In Hamilton rents are close to \$800. In smaller centers they are less than \$700.
- It follows that we should clearly not have one shelter allowance rate across all of Ontario for Ontario Works and ODSP recipients.
- Construction costs do not vary nearly so dramatically as rents do from place to place - though they do vary. Even though variations in the cost of land can and do vary, it is still true that in some markets, where rents are not so high, it is much harder to build under the Affordable Housing Program because projects cannot generate enough income to amortize costs that are similar to other areas where the rents are much higher. We conclude that program funding should vary according to local conditions and should be designed to make things work in the local market.
- Local markets swing, as we have pointed out, so presumably you need local plans and local involvement to try and match local developments. The limited



amount of rental production over the last few years has been concentrated in a handful of local areas where there has been active involvement.

Some quick highlights from the recent 2006 data:

- Vacancy rates dropped in most of the major centers – the exceptions were St Catharines, Oshawa, Thunder Bay and Windsor, mostly because of the impact on the sales of tourism services and manufactured goods affected by the high dollar.
- The largest declines were in the higher cost homeownership areas. Toronto's rate is down from 3.7% in 2005 to 3.2%. Ottawa/Gatineau from 3.3% to 2.3%. Rising interest rates and higher house prices are pushing up ownership costs and these higher costs combined with the fact that the market place is running out of tenants with enough savings to make the leap, is pushing up rental demand.
- Rents went up 3% in Ottawa last year but held their own in Toronto, at least for the Toronto CMA.
- In the old City of Toronto there is more pressure on rents; but, the increase of 1.1% was still below the rate of inflation. However, the pressure is building and the gap between owning and renting is growing again. A few years ago there was only a small gap between the monthly cost of renting and owning a two bedroom – hence the rush from rental to ownership.
- Immigration is up and more young people are moving back into rental markets driving up demand. This is partially offset by increased migration from Ontario to the West.
- While Sudbury is booming, Thunder Bay is in an economic turndown and has the fourth highest vacancy rate in the country among centers with populations over 100,000. These differences are primarily driven by the diverging fates of the forestry and mining industry.
- Of comparative interest (but not really relevant here) the vacancy rate in Calgary is half of 1%. Edmonton is 1.2%. Fort McMurray (oil sands) is too low to be measured. Rents went up 13% in Alberta last year and 20% in Calgary.
- Vancouver is in a tight market too – down from 1.4% to .7%. According to CMHC data, of the major cities, Vancouver is the hardest place to find an apartment.

We will also use this issue to focus on some of the important housing policy questions facing Ontario today. We will take a look at some of the lessons that can be learned from recent policy changes in New Zealand, Australia, the UK and the United States to identify directions for a new housing policy for Ontario and Canada. Given the political uncertainties facing our national government, this is an opportune time to ask these questions and engage in a meaningful debate about our long-term housing policy and its relationship to larger societal benefits. In a recent policy paper, Professor Duncan MacLennan, recommends that housing policy should not only address fairness and

equity issues but can also act as “a key integrative system with the capacity to create and support social and economic change for households and societies”.<sup>2</sup>

An appropriate affordable housing policy needs to have a mix of strategies for the construction of new permanently affordable housing, the acquisition and renovation of existing rental housing, and the use of rent supplements to bridge the gap between ongoing rents and what tenants can afford. It also needs to be part of long term, consistent plans that are bottom up and locally driven and supported by the long-term commitments from the senior levels of government.

Once again, the data in this *Where's Home* Study shows that, even with modest rental housing production over the past decade, as a result of conversions and demolitions, there has been a significant loss of private rental stock in Ontario. Over the last decade there has been a net loss of over 13,000 rental units in Ontario! Over the long-term, this loss further limits opportunities for low and moderate income households to find affordable rental housing.

The data used in this report was based on surveys of rental markets by Canada Mortgage and Housing Corporation (CMHC) conducted in October, 2005 as well as on CMHC data on residential completions for the year 2005. In addition, data on wages and changes in inflation were obtained from Statistics Canada. Finally, we have also included some highlights from the December release of the 2006 market reports.

The information contained in this report will be of assistance to non-profit housing providers in assessing needs in their local housing markets and those interested in public policy with respect to housing.

David Peters, Harvey Cooper and Evangeline Hallam all contributed to the preparation of this material. We would also like to thank Linda Lapointe of Lapointe Consulting who supervised the collection and interpretation of the data and wrote much of the report.

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<sup>2</sup> Professor Duncan MacLennan, CBE, FRSE, Housing Policies: New Times, New Foundations, 2005 prepared for the Joseph Rowntree Foundation, page 4

# 1 RENTAL APARTMENT AVAILABILITY

In this section we discuss trends in vacancy rates in 2005 in 22 markets across Ontario.

## 1.1 VACANCY RATES DECLINED IN MANY HOUSING MARKETS IN 2005

An examination of the results of CMHC's *Rental Market Survey* conducted in October 2005, showed that vacancy rates for private apartments declined in 15 or just over two-thirds (68%) of the 22 markets examined. (See Table 1.) This trend occurred despite historically low interest rates in 2005 which made homeownership very attractive. (As noted in the Introduction, vacancy rates continued to decline in 2006). Overall the vacancy rate in Ontario fell from 4.1% in 2004 to 3.8% in 2005. Decreases occurred in all unit types (one-bedroom, two-bedroom and three+ bedroom units) except for bachelor units.

While each housing market is distinct, there are some general trends that can be observed. For example, higher priced ownership markets such as Toronto and Ottawa registered substantial declines in vacancy rates as increasing housing costs in the ownership market resulted in fewer tenants purchasing. In other cases, such as Thunder Bay, Sudbury and North Bay, there was an increased demand for rental housing as more young people were able to find employment due to healthy economic growth based on strong demand for commodities.

The declining vacancy rates indicates that many rental markets are becoming more balanced; indeed in many markets there is now a return to tight rental market conditions. Half of the markets examined were below the 3% threshold which is often used as a benchmark for a healthy rental market. Across Ontario, the tightest rental conditions were found in

markets where strong economic growth resulted in more young people leaving home and moving into an apartment; and/or or in markets where there has been a lack of rental production to meet rental demand. In 2005 the lowest vacancy rates were: Owen Sound (1.2% apartment vacancy rate), Sudbury (1.6%), York Region (1.6%), Barrie (2.1%), Cornwall (2.3%) and Kingston (2.4%).

**Table 1: Vacancy Rates in Private Rental Apartments, Selected Markets Across Ontario, 2001- 2005**

Municipality	2001	2002	2003	2004	2005	
Ontario	1.7	2.7	3.5	4.1	3.8	▼
Barrie CA	0.9	1.4	3.3	3.0	2.1	▼
Cornwall CA	6.0	4.4	3.7	3.4	2.3	▼
Durham Region*	1.3	2.2	2.8	3.5	3.0	▼
Guelph CA	1.0	2.7	3.9	3.3	3.6	▲
Hamilton CMA	1.3	1.6	3.0	3.4	4.3	▲
Kingston CA	1.5	0.9	1.9	2.4	2.4	▶
Kitchener CMA	0.9	2.3	3.2	3.5	3.3	▼
London CMA	1.6	2.0	2.1	3.7	4.2	▲
Muskoka	1.9	3.3	3.1	2.6	2.8	▲
North Bay CA	2.7	3.3	3.3	3.7	2.7	▼
Ottawa CMA	0.8	1.9	2.9	3.9	3.3	▼
Owen Sound CA	1.6	1.5	1.8	1.3	1.2	▼
Peel Region	1.0	3.3	3.9	5.0	4.1	▼
Peterborough CA	3.7	2.6	1.4	1.7	2.8	▲
Sarnia CA	6.3	4.4	6.1	6.1	5.5	▼
St. Catharines CMA	1.9	2.4	2.7	2.6	2.7	▲
Sudbury CMA	5.7	5.1	3.6	2.6	1.6	▼
Thunder Bay CMA	5.8	4.7	3.3	5.0	4.6	▼
Timmins CA	8.1	10.8	9.6	8.8	4.0	▼
Toronto (City)	0.9	2.4	3.9	4.3	3.7	▼
Windsor CMA	2.9	3.9	4.3	8.8	10.3	▲
York Region	0.7	2.8	0.6	1.8	1.6	▼

Source: CMHC Rental Market Surveys, 2001-2005

**Chart 1: Vacancy Rates in Private Rental Apartments Compared to Vacancy Rate Norm of 3%, Ontario and Selected Markets, 2000 and 2005**

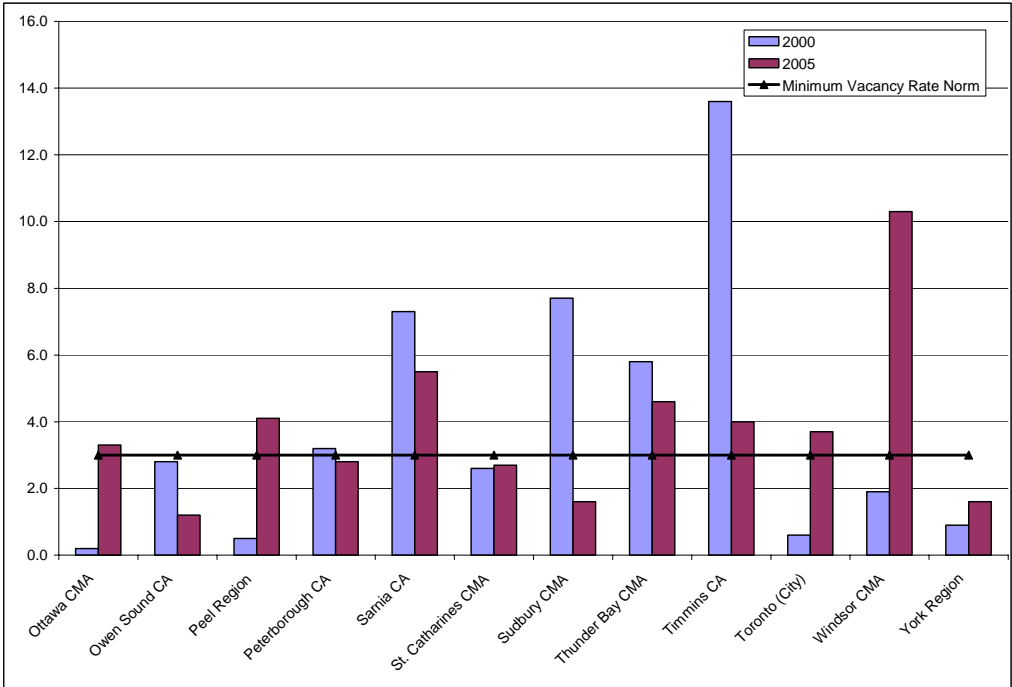
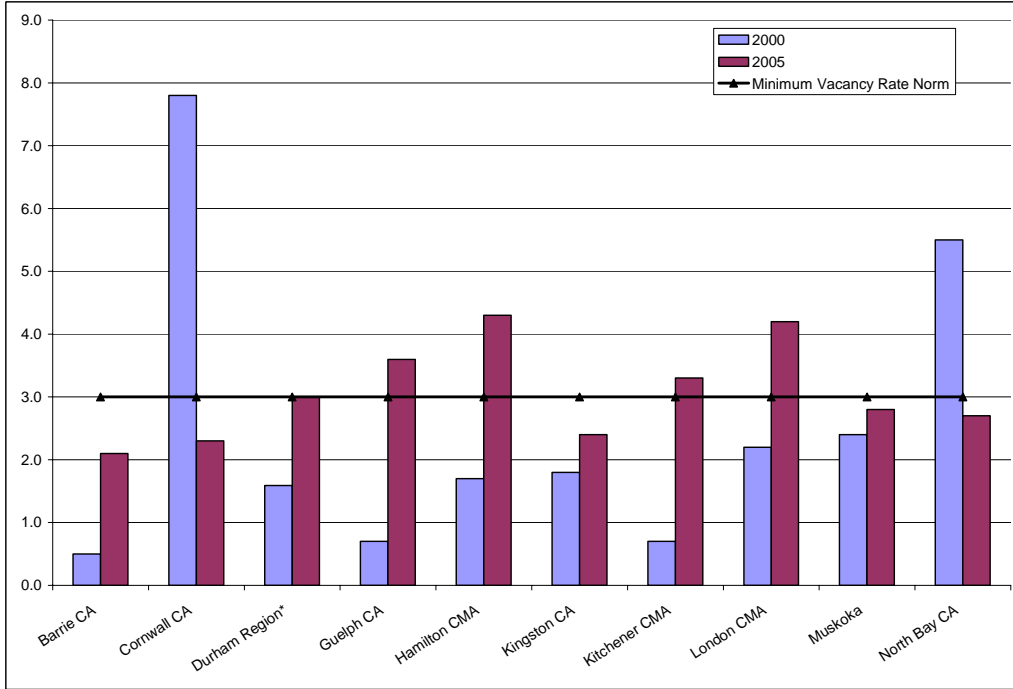


Table 2 below indicates the cyclical nature of vacancy rates with low vacancy rates usually occurring during periods of strong economic growth and higher vacancy rates coinciding with slower economic growth. Temporary periods of high or low vacancy rates also result from other factors. For example, periods of low interest rates (and lower ownership carrying costs) or an unusually high level of rental production can result in high vacancy rates. Low vacancy rates can be the result of a lack of rental development or higher housing costs (due to higher interest rates or higher house prices) combined with decreasing ownership demand.

Governments at all levels need to plan for long-term rental housing demand and be nimble in the process, constantly adjusting plans and programs to fit ever changing conditions

**Table 2: Vacancy Rates in Private Rental Apartments, Ontario and Selected Markets, 1990-2005**

Municipality	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	
Ontario	1.3	2.2	2.6	2.7	2.4	2.3	3.0	2.8	2.6	2.1	1.6	1.7	2.7	3.5	4.1	3.8	▼
Barrie CA	2.1	3.5	1.3	1.6	1.5	1.3	1.9	1.2	1.0	1.0	0.5	0.9	1.4	3.3	3.0	2.1	▼
Cornwall CA	4.0	4.7	5.4	4.3	5.2	9.3	12.1	11.7	9.8	10.9	7.8	6.0	4.4	3.7	3.4	2.3	▼
Durham Region*	1.7	3.4	6.0	4.6	3.4	2.7	3.4	2.2	1.7	1.6	1.6	1.3	2.2	2.8	3.5	3.0	▼
Guelph CA	1.1	0.6	2.5	2.6	1.6	1.3	2.7	1.9	1.6	0.5	0.7	1.0	2.7	3.9	3.3	3.6	▲
Hamilton CMA	1.3	1.6	2.3	2.7	2.4	2.0	2.2	3.1	3.2	1.9	1.7	1.3	1.6	3.0	3.4	4.3	▲
Kingston CA	0.9	1.5	1.9	2.5	2.9	3.2	4.2	5.3	5.4	3.4	1.8	1.5	0.9	1.9	2.4	2.4	▶
Kitchener CMA	1.3	4.3	4.4	4.3	2.8	2.2	1.8	1.9	1.5	1.0	0.7	0.9	2.3	3.2	3.5	3.3	▼
London CMA	2.8	3.9	3.4	3.8	4.1	4.3	6.0	5.1	4.5	3.5	2.2	1.6	2.0	2.1	3.7	4.2	▲
Muskoka	1.4	6.0	7.1	8.4	7.3	9.2	7.1	7.0	4.0	3.1	2.4	1.9	3.3	3.1	2.6	2.8	▲
North Bay CA	1.3	1.6	2.3	2.4	2.0	2.0	2.2	5.1	3.2	5.1	5.5	2.7	3.3	3.3	3.7	2.7	▼
Ottawa CMA	0.5	0.8	1.3	1.8	2.6	3.8	4.9	4.2	2.1	0.7	0.2	0.8	1.9	2.9	3.9	3.3	▼
Owen Sound CA	0.7	2.1	2.9	6.2	5.6	6.8	8.5	8.2	9.1	2.9	2.8	1.6	1.5	1.8	1.3	1.2	▼
Peel Region	1.9	3.1	3.4	2.0	1.3	0.7	1.7	0.9	0.6	0.8	0.5	1.0	3.3	3.9	5.0	4.1	▼
Peterborough CA	2.3	2.7	3.6	4.9	4.6	3.3	5.5	5.8	4.9	4.4	3.2	3.7	2.6	1.4	1.7	2.8	▲
Sarnia CA	2.7	2.3	4.2	6.6	7.7	8.5	9.2	10.2	11.2	8.8	7.3	6.3	4.4	6.1	6.1	5.5	▼
St. Catharines CMA	1.9	2.7	3.4	4.9	5.4	4.8	5.1	4.8	4.5	3.2	2.6	1.9	2.4	2.7	2.6	2.7	▲
Sudbury CMA	0.7	0.7	2.5	3.8	4.3	6.0	6.8	7.2	9.4	11.1	7.7	5.7	5.1	3.6	2.6	1.6	▼
Thunder Bay CMA	1.0	1.0	2.5	2.7	4.1	6.2	5.6	7.7	9.3	7.5	5.8	5.8	4.7	3.3	5.0	4.6	▼
Timmins CA	3.7	4.6	4.4	8.5	6.8	5.1	6.1	6.0	6.1	13.0	13.6	8.1	10.8	9.6	8.8	4.0	▼
Toronto (City)	0.8	1.6	2.0	1.9	1.2	0.8	1.2	0.8	0.8	0.9	0.6	0.9	2.4	3.9	4.3	3.7	▼
Windsor CMA	2.5	3.3	3.3	2.7	1.6	1.8	2.8	4.5	4.3	2.7	1.9	2.9	3.9	4.3	8.8	10.3	▲
York Region	1.0	1.5	1.0	0.9	0.5	1.6	0.6	1.1	0.8	0.7	0.9	0.7	2.8	0.6	1.8	1.6	▼

*Note: Vacancy rates for Durham Region were for the Oshawa CMA in 1990-1995; subsequent figures were for Durham Region.*

*Source: CMHC, October of various years*

## 1.2 HOW VACANCY RATES VARY WITH RENT LEVELS AND YEAR OF CONSTRUCTION

In this section, we examine how vacancy rates vary with apartment rents and the age of buildings. (See Tables 3 and 4 below.) In a number of markets (e.g., the Oshawa CMA) rental vacancy rates are lower at the low end of the rent distribution which is what one would expect because of the strong demand for affordable rents. However, there are also a number of markets in which vacancy rates are higher at the low end of the rent distribution (e.g. Windsor). Higher vacancy rates at the low end of rents in these markets tend to reflect poorer housing conditions that act as a deterrent to tenants. Similarly, in a number of markets the vacancy rate is relatively tight at the high end of the rental market, indicating a strong demand for apartments that are well maintained and have good amenities.

In many rental markets (e.g., Hamilton, Kingston, St. Catharines-Niagara, Oshawa, Sudbury and Thunder Bay) vacancy rates are higher in older buildings and lower in more recently built rental housing which provides support for the notion that higher vacancy rates at the low end of the market reflect poorer housing conditions. On the other hand, in several markets, vacancy rates are higher in more recently developed rental stock (e.g., London, Ottawa, Toronto) probably indicating that at the higher rent levels, ownership options are available at carrying costs that are competitive with rents.

**Table 3: Vacancy Rates in 2005 in Private Rental Apartments by Rent Level**

Rent Range	Hamilton CMA	Kingston CMA	Kitchener CMA	London CMA	St. Catharines-Niagara CMA	Oshawa CMA	Ottawa CMA	Sudbury CMA	Thunder Bay CMA	Toronto CMA	Windsor CMA
< \$700	6.7	2.9	3.1	3.9	3.4	2.1	4.5	2.3	6.3	5.9	14.1
\$700-799	6.0	3.6	3.7	3.5	3.0	2.8	3.0	1.3	2.0	5.5	10.8
\$800-899	2.9	0.9	3.0	3.0	0.8	4.5	2.6	0.7	1.7	3.9	4.5
\$900-999	2.7	1.4	7.5	2.4	1.0	3.6	3.1	0.0	2.4	3.9	3.1
\$1,000-1,099	3.2	3.7	3.7	1.5	0.9	1.6	3.9	0.0	0.0	2.5	5.3
\$1,100-1,199	1.2	0.0	5.7	5.9	0.0	2.3	2.8	0.0	0.0	2.3	4.8
\$1,200+	1.7	4.2	1.1	4.6	1.9	0.9	4.7	0.0	0.0	2.3	4.3
Total	4.3	2.4	3.3	4.2	2.7	3.3	3.3	1.6	4.6	3.7	10.3

Source: CMHC Market Analysis

**Table 4: Vacancy Rates in 2005 in Private Rental Apartments by Year of Construction**

Year of Completion	Hamilton CMA	Kingston CMA	Kitchener CMA	London CMA	St. Catharines-Niagara CMA	Oshawa CMA	Ottawa CMA	Sudbury CMA	Thunder Bay CMA	Toronto CMA	Windsor CMA
After 1995	0.0	0.0	6.6	14.4	1.9	0.0	7.5	0.0	1.8	5.7	7.0
1985-1994	3.1	0.5	3.0	5.9	1.7	3.3	4.0	0.8	2.3	3.7	11.7
1975-1984	4.2	2.7	3.2	2.8	2.2	3.0	3.7	0.8	2.4	2.8	6.0
1960-1974	3.9	2.4	2.7	3.4	2.3	3.1	2.7	1.4	3.5	3.5	8.6
1940-1959	6.0	4.3	5.6	4.1	4.7	4.5	4.0	2.8	9.9	4.6	18.8
Total	4.3	2.4	3.3	4.2	2.7	3.3	3.3	1.6	4.6	3.7	10.3

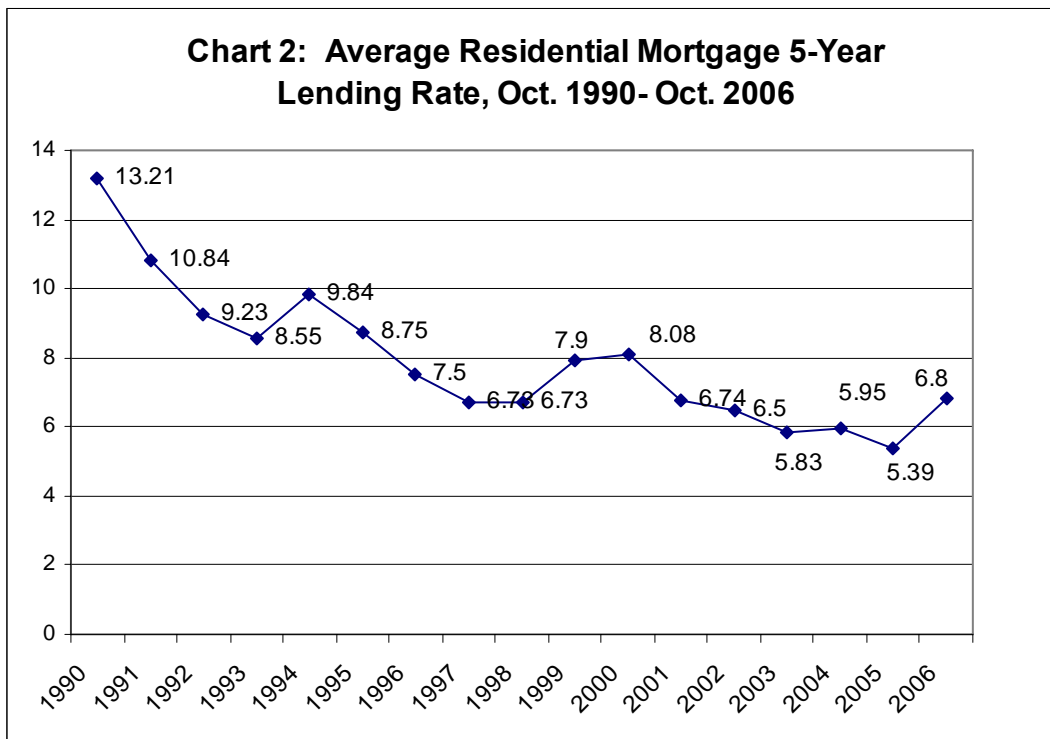
Source: CMHC Market Analysis

## 2 HIGHER INTEREST RATES AND HOUSE PRICES AFFECTING RENTAL DEMAND

### 2.1 IN 2006 HIGHER INTEREST RATES BEGAN TO DAMPEN OWNERSHIP DEMAND

Low interest rates and lower carrying costs for home ownership are often cited as one of the major factors behind higher vacancy rates that have been observed recently in many housing markets across Ontario.

In 2005, the average 5-year residential mortgage rate was 5.4%, a level that was lower than the historically low rate of 5.8% recorded in 1952.<sup>3</sup> Low interest rates in recent years meant that the carrying costs of owning a home became more affordable and enabled many who could only afford a small down payment the ability to enter the homeownership market. As a result, many households left the rental market and bought a house or condominium.



Source: Bank of Canada except 2006 which was derived from posted rates for major financial institutions

<sup>3</sup> From statistics on the Bank of Canada web site, [www.bankofcanada.ca](http://www.bankofcanada.ca)

In 2006 interest rates started to climb again and by October, 2006 most major lending institutions in Canada were using a mortgage rate of 6.8% for a conventional 5-year mortgage. Since that time, mortgage rates have declined and currently (January, 2007) stand at 6.45% for major lending institutions. At this point in time, it does not appear that interest rates will rise again soon as there is concern both in Canada and the U.S, that economic growth will slow.<sup>4</sup> Nevertheless, higher interest rates combined with rising house prices are starting to affect the movement of tenants into the ownership market, especially in higher priced markets such as Toronto and Ottawa.

## **2.2 HIGHER OWNERSHIP HOUSING COSTS ALSO AFFECTING RENTAL MARKET**

High levels of home purchasing in Canada and Ontario have had an impact on house prices. Ontario represents about 40% of the total resale market in Canada. There were 197,000 resales in Ontario in 2005 and CMHC forecasts resales for Ontario at 193,900 in 2006 and 187,000 in 2007.<sup>5</sup> Thus, resales in Ontario are expected to decline approximately 4% between 2006 and 2007.

The strong demand for ownership housing which was encouraged by low interest rates in 2005 and 2006 resulted in higher housing prices. For example the average residential resale price in Ontario according to CREA rose 36% between 2001 and 2005 – from \$193,357 to \$263,042 in 2005. As the demand for resales moderates, price increases should also moderate.

The combination of higher housing prices, higher interest rates and higher utility costs is resulting in a worsening housing affordability index according to RBC Economics Research. For example, in the second quarter of 2006, the average price for a detached bungalow in Ontario had risen to \$280,896 and would require 37.2% of the median household income compared to 34.2% in 2004 (4<sup>th</sup> quarter figures). The average price of two-storey dwellings in Ontario stood at \$323,511 in the second quarter of 2006 and would require 42.9% of the median household income compared to 40.1% in 2004. The most affordable housing was the standard condo whose average sale price in the second quarter of 2006 stood at \$213,966 and would require 28.0% of the median household income compared to 24.9% in 2004. Thus, as mortgage carrying costs of more traditional house forms increase, homebuyers are shifting to more affordable ownership options such as condominiums. At the same time, higher housing costs also increase the demand for rental housing as fewer households enter the ownership market. A review of CMHC's 2006 data confirms this trend.

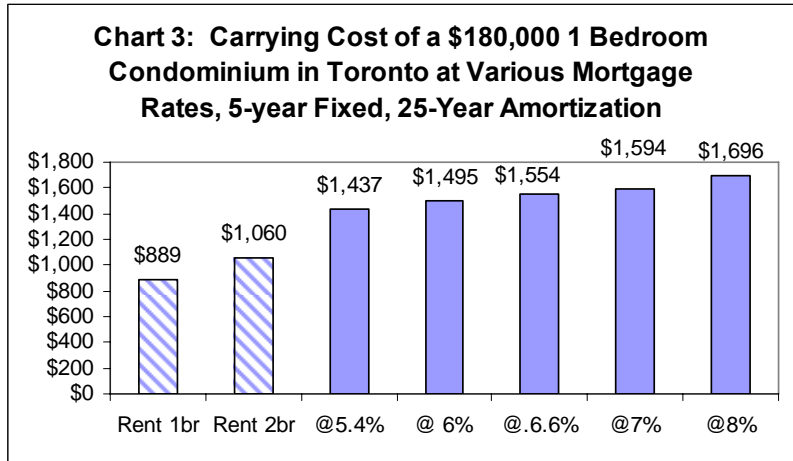
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<sup>4</sup> In October, 2006, the Bank of Canada's prime lending rate was 4.25 per cent - one percent lower than the 5.25% in force by the U.S. Federal Reserve Bank.

<sup>5</sup> Resale data was obtained from Canada Mortgage and Housing Corporation, Housing Market Outlook, Canada Edition, Fourth Quarter, 2006 and 2005 data was obtained from the Canadian Real Estate Association and 2006 and 2007 figures were projected by CMHC.



Mortgage rates for a five-year mortgage at major banks had climbed from the low rate of 5.4% in 2005 to 6.6% in November, 2006. Chart 3 shows carrying costs of a one-bedroom condominium in Toronto at various interest rates. The increase from a mortgage rate of 5.4% to 6.6% adds \$117 to monthly carrying costs. Furthermore, if mortgage rates go up to 7% (a level recorded at various points in 2006), this would represent an increase of \$157 or 11% over the lower cost mortgage at the 5.4% mortgage rate. The same change in interest rates would have a greater impact on a larger mortgage and could well induce some households not to purchase. In conclusion, higher ownership prices combined with higher mortgage rates are expected to result in some cooling off of the ownership market resulting in stronger demand for rental housing.



*Note: Carrying costs include interest, principal, taxes and condo fees; down payment of 10% was used.*

*Source: Lapointe Consulting Inc.*

### 3 RENTAL HOUSING COSTS AND AFFORDABILITY

#### 3.1 CHANGE IN AVERAGE RENTS FOR TWO-BEDROOM APARTMENTS

##### 3.1.1 Rents Stabilizing in Most Markets in 2005

Between 2004 and 2005 the rent for a two-bedroom apartment either stabilized or decreased slightly in a number of high rent market areas – indicating that landlords have lowered their rents to try to keep existing tenants or to attract new tenants. For example, a two-bedroom apartment in Toronto was essentially the same in 2005 as it was in 2004 - \$1,060 (refer to Table 5 below). In York Region, the average rent for a two-bedroom apartment also remained essentially the same at \$994. In the City of Ottawa, the rent for a two-bedroom apartment was \$920 – a decline of 2% over the 2004 rent level. A similar situation occurred in Durham Region where a two-bedroom apartment rented for \$855 – representing a decline of 2.3% over the 2004 rent.

Several of the markets examined experienced rent increases between 1.3% and 2.0% - either slightly below or slightly above the allowable Provincial rent increase allowance of 1.5%. In the rental housing sector this often means profit margins are dropping or maintenance is being deferred. In turn this creates latent pressure for future increases in rent, if demand turns up, as seems to be the trend.

In a few areas rent increases were substantial. For example, in Cornwall the average rent for a two-bedroom apartment increased to \$647 representing a 6.4% increase between 2004 and 2005 while in Timmins the average rent for a two-bedroom apartment rose to \$644 in 2005 representing an 8% increase over 2004. Both Cornwall and Timmins had experienced oversupply conditions in the recent past accompanied by high vacancy rates with either flat or low rent increases. In the Kitchener CMA the rent for a two-bedroom apartment also rose substantially to \$811 in 2005 representing a 6% increase over the previous year. In all three markets higher demand for rental housing was a factor in the high rent increases.

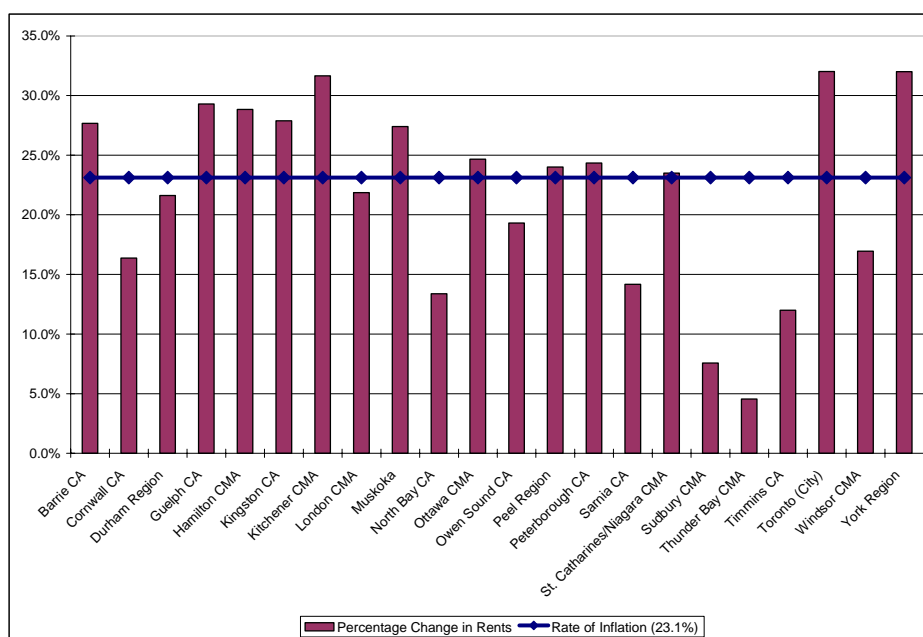
### **3.1.2 Over Past Decade Rent Increases Outpaced Inflation in Half of the Markets**

Year over year differences sometimes obscure longer-term trends. Therefore, we compared rent increases over the past decade (1995-2005) to the change in the level of inflation. In about half of the 22 markets examined but representing approximately 80% of private rental housing units in these markets, rents have been increasing faster than inflation over the past decade. This also means that in approximately 2/3 of all the units surveyed by CMHC (markets with 10,000+ persons), rents have been outpacing inflation.

In several markets, rents increased between 30-40% more than the rate of inflation over the ten-year period from 1995 to 2005. The average rent of a two-bedroom apartment in the City of Toronto, Kitchener-Waterloo and York Region grew 40% higher than the rate of inflation. In Guelph rent for a two-bedroom unit increased at a rate that was 30% higher than the rate of inflation. In several other markets rents outpaced inflation by 20%, e.g., Barrie, Hamilton, Kingston and Muskoka.

In the remaining markets rents over the past decade have increased at or just above or below the rate of inflation – e.g., Durham Region, Peel Region, London CMA and the St. Catharines- Niagara CMA. In other markets where the economy has been slow (or was slow in the recent past) or where there is a temporary oversupply of rental housing, rent increases have been below the rate of inflation over the past decade (e.g. Windsor and Cornwall – where rent increases were 0.7 times the rate of inflation.)

**Chart 4: Percent Change in Rent for a Two-Bedroom Apartment, 1995-2005**



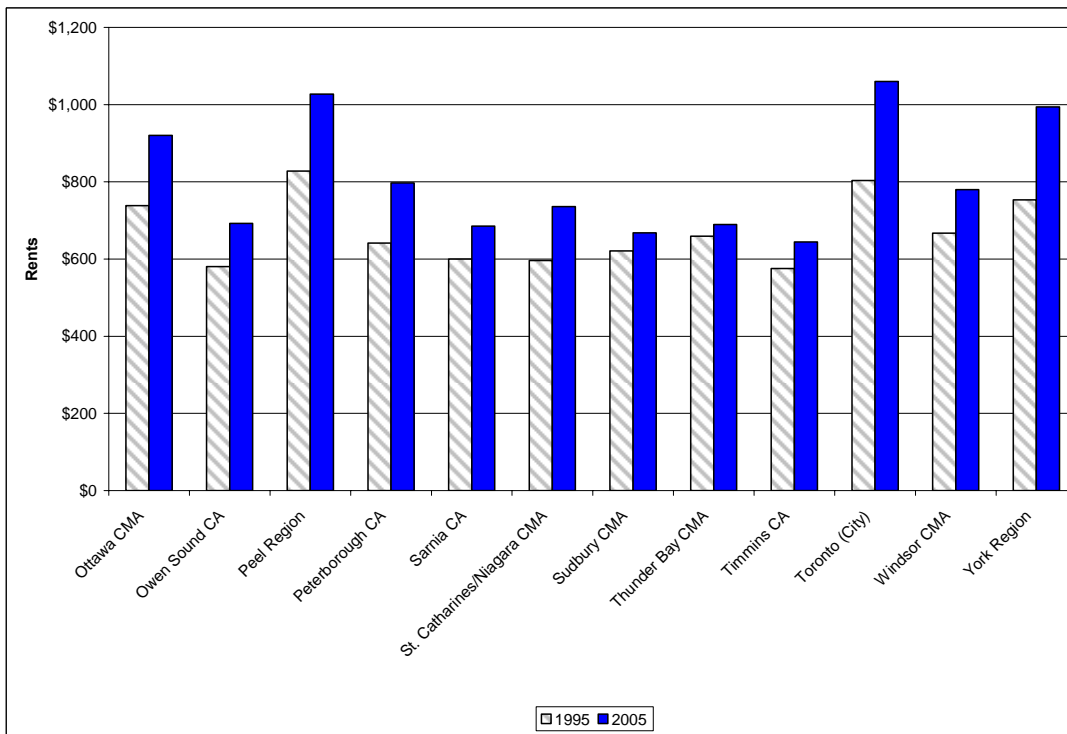
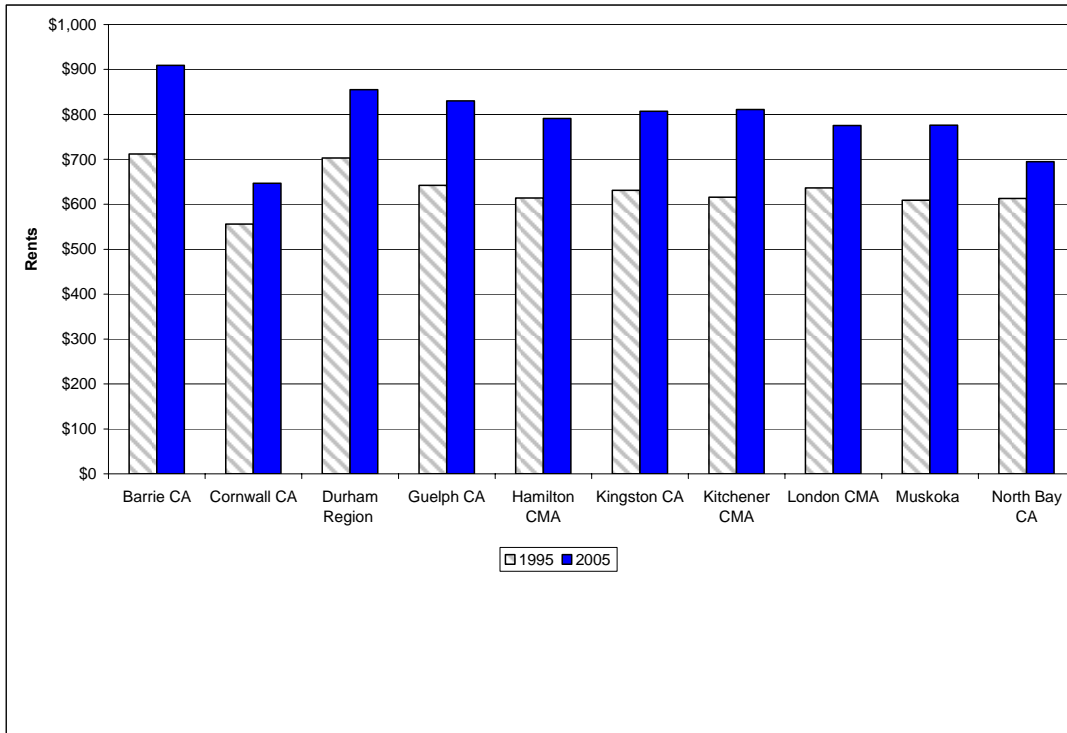
Source: CMHC and Lapointe Consulting Calculations

**Table 5: Rent Increase for a Two-Bedroom Rental Apartment, 1995- 2005**

Municipality	1995	2000	2004	2005	Rent Increase 2004-2005	Rent Increase 1995-2005	Inflation Increase CPI 1995-2005	Ratio of Rent To Inflation Increases 1995-2005
Barrie CA	\$712	\$830	\$920	\$909	-1.2%	27.7%	23.1%	1.2
Cornwall CA	\$556	\$569	\$608	\$647	6.4%	16.4%	23.1%	0.7
Durham Region	\$703	\$793	\$875	\$873	-2.3%	21.6%	23.1%	0.9
Guelph CA	\$642	\$736	\$829	\$830	0.1%	29.3%	23.1%	1.3
Hamilton CMA	\$614	\$719	\$789	\$791	0.3%	28.8%	23.1%	1.2
Kingston CA	\$631	\$680	\$785	\$807	2.8%	27.9%	23.1%	1.2
Kitchener CMA	\$616	\$697	\$765	\$811	6.0%	31.7%	23.1%	1.4
London CMA	\$636	\$657	\$758	\$775	2.2%	21.9%	23.1%	0.9
Muskoka	\$609	\$673	\$766	\$776	1.3%	27.4%	23.1%	1.2
North Bay CA	\$613	\$633	\$686	\$695	1.3%	13.4%	23.1%	0.6
Ottawa CMA	\$738	\$877	\$940	\$920	-2.1%	24.7%	23.1%	1.1
Owen Sound CA	\$580	\$613	\$703	\$692	-1.6%	19.3%	23.1%	0.8
Peel Region	\$828	\$984	\$1,024	\$1,027	0.3%	24.0%	23.1%	1.0
Peterborough CA	\$641	\$683	\$775	\$797	2.8%	24.3%	23.1%	1.1
Sarnia CA	\$600	\$599	\$668	\$685	2.5%	14.2%	23.1%	0.6
St. Catharines/Niagara CMA	\$596	\$653	\$722	\$736	1.9%	23.5%	23.1%	1.0
Sudbury CMA	\$621	\$619	\$655	\$668	2.0%	7.6%	23.1%	0.3
Thunder Bay CMA	\$659	\$654	\$679	\$689	1.5%	4.6%	23.1%	0.2
Timmins CA	\$575	\$598	\$596	\$644	8.1%	12.0%	23.1%	0.5
Toronto (City)	\$803	\$984	\$1,061	\$1,060	-0.1%	32.0%	23.1%	1.4
Windsor CMA	\$667	\$736	\$776	\$780	0.5%	16.9%	23.1%	0.7
York Region	\$753	\$881	\$996	\$994	-0.2%	32%	23.1%	1.4

Source: Canada Mortgage and Housing Corporation, Ontario Market Analysis Centre, Statistics Canada and Lapointe Consulting Inc.

**Chart 5: Rents in Two-Bedroom Apartments in 1995 and 2005, Selected Markets**



Source: CMHC, Ontario Market Analysis Centre

### 3.2 COST OF RENTING IN A SAMPLE OF MARKETS

Table 6 below compares the cost of renting an apartment and the rent that individuals in different occupations could afford in 2005.<sup>6</sup>

Many of those employed in the service industry or in unskilled manufacturing jobs cannot afford the average rent in their community. For example, a retail salesperson living in Ottawa earned approximately \$17,500 in 2005 and could afford a rent of only \$439 per month (compared to an average one-bedroom rent of \$762). Such an individual if living on his or her own, would end up paying 52% of their income to afford the average priced one bedroom apartment in Ottawa.

In Toronto, most of those employed in the occupations listed below could not afford to pay the average rent for a one-bedroom apartment of \$889 without paying more than 30% of their income on rent with the exception of school teachers and carpenters. In Hamilton and Sudbury, lower rents for one-bedroom apartment units mean that housing is affordable to a wider spectrum of occupations.

In Toronto and Ottawa, only school teachers could afford the rent for a two-bedroom apartment. In Hamilton and Sudbury, individual income earners in only four of the nine categories examined could afford the rent for a two-bedroom apartment.

**Table 6: Cost of Renting an Apartment in Toronto, Ottawa, Hamilton and Sudbury Compared to Average Incomes for Selected Jobs, 2005**

Apartment Size and Income Needed	Toronto (City)		Ottawa CMA		Hamilton CMA		Sudbury CMA	
Ave. 1 Bedroom Rent	\$889		\$762		\$646		\$544	
Ave. 2 Bedroom Rent	\$1,060		\$920		\$791		\$668	
Income Needed to Afford 1 Bedroom	\$35,560		\$30,480		\$25,840		\$21,760	
Income Needed to Afford 2 Bedroom	\$42,400		\$36,800		\$31,640		\$26,720	
Ave. Income	Affordable Housing		Affordable Housing		Affordable Housing		Affordable Housing	
	2005 (est.)	2005 (est.)	2005 (est.)	2005 (est.)	2005 (est.)	2005 (est.)	2005 (est.)	2005 (est.)
Elementary school & kindergarten teachers	\$46,573	\$1,164	\$45,665	\$1,142	\$46,646	\$1,166	\$48,824	\$1,221
Carpenter	\$36,389	\$910	\$30,949	\$774	\$35,177	\$879	\$31,206	\$780
Medical Secretary	\$27,944	\$699	\$29,440	\$736	\$27,862	\$697	\$28,524	\$713
Labourers in processing, mfg. and utilities	\$23,148	\$579	\$21,268	\$532	\$32,534	\$813	\$33,870	\$847
Data entry clerks	\$22,980	\$574	\$24,956	\$624	\$24,670	\$617	\$22,525	\$563
Retail salesperson and sales clerk	\$21,578	\$539	\$17,543	\$439	\$19,735	\$493	\$19,451	\$486
Chefs and cooks	\$21,050	\$526	\$17,576	\$439	\$17,044	\$426	\$12,627	\$316
Food and beverage servers	\$14,181	\$355	\$12,899	\$322	\$11,056	\$276	\$8,299	\$207
Cashiers	\$10,698	\$267	\$9,380	\$234	\$10,650	\$266	\$11,655	\$291

Source: Lapointe Consulting using data from Statistics Canada and CMHC

This information underlines the necessity of having two income earners so two-bedroom apartments are affordable. This can pose a problem for a young couple with a small child or children where one of the spouses stays at home. For low-income couples this challenge is exacerbated by the long waiting lists for assisted daycare spaces. The data also indicates that many single persons in lower wage occupations either spend a high proportion of their income on rent or double up in order to afford rents – especially in high rent areas.

<sup>6</sup> Incomes in individual occupations were based on the income figure recorded for 2000 in the 2001 census. The incomes were updated by changes in the average weekly wages from Statistics Canada.

## 4 RENTAL HOUSING NEEDS AND SUPPLY TRENDS

### 4.1 RENTAL HOUSING SUPPLY

#### 4.1.1 Rental Housing Production Still Relatively Insignificant though there is some Improvement

Rental housing production is well below the levels recorded in the early 1990's when there was still a non-profit housing program (refer to Table 7 below). Rental housing starts (including housing co-operatives) accounted for over a quarter (25.5%) of all housing starts in the five-year period 1991-1995. However, with the cancellation of all non-profit housing and little interest by private developers in rental housing production, only 3% of starts in the period 1996 to 2000 were rental housing units. For the most recent five-year period, 2001-2005, approximately 5% of new housing starts were rental housing units compared to 73% freehold ownership and 22% condominium. While this improvement is welcome, a much higher level of rental housing development will be needed to meet future rental housing needs.

**Table 7: Residential Starts in Ontario by Tenure, 1989-2005**

Year	Freehold		Condo		Rental + Co-op				Unknown		Total	
	Starts	% of Starts	Starts	% of Starts	Rental	Co-op	Rental + Co-op	%	Starts	%	Starts	%
1989	47,472	58.6%	20,213	24.9%	11,436	1,170	12,606	15.6%	735	0.9%	81,026	100.0%
1990	28,104	52.7%	11,435	21.4%	12,158	1,212	13,370	25.1%	432	0.8%	53,341	100.0%
1991	24,813	53.8%	4,240	9.2%	14,519	2,531	17,050	37.0%	20	0.0%	46,123	100.0%
1992	27,917	57.3%	2,798	5.7%	13,798	4,151	17,949	36.9%	29	0.1%	48,693	100.0%
1993	26,332	67.8%	3,287	8.5%	7,974	1,253	9,227	23.8%	1	0.0%	38,847	100.0%
1994	32,516	78.2%	3,866	9.3%	4,148	1,026	5,174	12.4%	4	0.0%	41,560	100.0%
1995	22,685	71.1%	5,713	17.9%	2,884	611	3,495	11.0%	0	0.0%	31,893	100.0%
1996	31,634	80.1%	6,145	15.6%	1,289	444	1,733	4.4%	0	0.0%	39,512	100.0%
1997	40,925	81.9%	8,254	16.5%	790	0	790	1.6%	3	0.0%	49,972	100.0%
1998	39,649	79.2%	9,258	18.5%	1,181	0	1,181	2.4%	0	0.0%	50,088	100.0%
1999	48,246	76.7%	13,316	21.2%	1,323	0	1,323	2.1%	40	0.1%	62,925	100.0%
2000	51,966	77.1%	13,308	19.7%	2,045	0	2,045	3.0%	104	0.2%	67,423	100.0%
2001	50,474	71.8%	16,815	23.9%	2,717	0	2,717	3.9%	256	0.4%	70,262	100.0%
2002	62,305	78.3%	13,244	16.6%	3,886	0	3,886	4.9%	180	0.2%	79,615	100.0%
2003	58,938	72.8%	16,837	20.8%	4,770	0	4,770	5.9%	388	0.5%	80,933	100.0%
2004	57,856	72.4%	18,431	23.1%	3,543	0	3,543	4.4%	64	0.1%	79,894	100.0%
2005	49,657	67.9%	19,539	26.7%	3,981	0	3,981	5.4%	0	0.0%	73,177	100.0%
Ave. 1991-1995	26,853	64.8%	3,981	9.6%	8,665	1,914	10,579	25.5%	11	0.0%	41,423	100.0%
Ave. 1996-2000	42,484	78.7%	10,056	18.6%	1,326	89	1,414	2.6%	29	0.1%	53,984	100.0%
Ave. 2001-05	55,846	72.7%	16,973	22.1%	3,779	0	3,779	4.9%	178	0.2%	76,776	100.0%

Source: CMHC, Market Analysis and Lapointe Consulting

### **4.1.2 Housing Completions by Tenure**

Rental housing production has been relatively concentrated in several markets over the past five years often stimulated by local government involvement in affordable rental housing.

The following summarizes the level of production in several municipalities in the period 2001-2005:

- In the Kitchener CMA an annual average of 650 rental units was completed representing 17% of all completions in that market.
- In Ottawa, an annual average of 583 rental units was completed representing 9% of all completions in that market.
- In the City of Toronto, an annual average of 588 rental units was completed representing 6% of all completions in that market.
- In Kingston, an annual average of 113 rental units was completed representing 14% of all completions in that market.
- In Guelph, an annual average of 98 rental units was completed representing 9% of all completions in that market.

In other housing markets only modest or little rental housing was produced between 2001 and 2005.

**Table 8: Annual Housing Completions by Tenure, 1996-2000 and 2001-2005**

Municipality	5-year Period	OWNERSHIP				RENTAL							
		Freehold		Condominium		Private Rental		Assisted Rental		Total Rental		All Tenures	
		Total	%	Total	%	Total	%	Total	%	Total	%	Total	%
Barrie CA	96-00	1,873	96.4%	28	1.5%	41	2.1%	0	0.0%	41	2.1%	1,942	100.0%
	01-05	2,183	93.7%	60	2.6%	n/a	n/a	n/a	n/a	88	3.8%	2,330	100.0%
Cornwall CA	96-00	87	87.2%	5	4.8%	8	8.0%	0	0.0%	8	8.0%	100	100.0%
	01-05	176	96.5%	5	2.8%	n/a	n/a	n/a	n/a	1	0.7%	183	100.0%
Durham Region	96-00	3,117	93.2%	202	6.1%	n/a	n/a	n/a	n/a	24	0.7%	3,343	100.0%
	01-05	4,594	95.2%	168	3.5%	n/a	n/a	n/a	n/a	62	1.3%	4,824	100.0%
Guelph CA	96-00	843	87.2%	58	6.0%	52	5.4%	14	1.4%	66	6.8%	967	100.0%
	01-05	967	87.3%	43	3.9%	n/a	n/a	n/a	n/a	98	8.8%	1,108	100.0%
Hamilton, City	96-00	2,339	70.8%	878	26.6%	28	0.8%	60	1.8%	88	2.7%	3,305	100.0%
	01-05	2,457	75.5%	765	23.5%	n/a	n/a	n/a	n/a	34	1.1%	3,257	100.0%
Kingston CA	96-00	504	91.2%	0	0.0%	48	8.8%	0	0.0%	48	8.8%	552	100.0%
	01-05	709	84.5%	17	2.0%	n/a	n/a	n/a	n/a	113	13.5%	839	100.0%
Kitchener CMA	96-00	2,148	90.8%	94	4.0%	122	5.2%	1	0.1%	123	5.2%	2,366	100.0%
	01-05	3,056	80.5%	89	2.3%	n/a	n/a	n/a	n/a	650	17.1%	3,794	100.0%
London CMA	96-00	850	82.4%	155	15.0%	27	2.6%	0	0.0%	27	2.6%	1,031	100.0%
	01-05	1,356	73.8%	153	8.3%	n/a	n/a	n/a	n/a	329	17.9%	1,839	100.0%
Muskoka	96-00	195	93.6%	7	3.4%	6	3.0%	0	0.0%	6	3.0%	208	100.0%
	01-05	266	92.9%	18	6.4%	n/a	n/a	n/a	n/a	2	0.7%	286	100.0%
North Bay CA	96-00	82	96.5%	2	2.3%	1	1.2%	0	0.0%	1	1.2%	85	100.0%
	01-05	118	96.7%	3	2.5%	n/a	n/a	n/a	n/a	1	0.8%	122	100.0%
Ottawa CMA	96-00	3,446	94.6%	97	2.7%	86	2.4%	12	0.3%	98	2.7%	3,642	100.0%
	01-05	5,168	81.1%	618	9.7%	n/a	n/a	n/a	n/a	583	9.2%	6,369	100.0%
Owen Sound CA	96-00	14	100.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	14	100.0%
	01-05	32	94.1%	0	0.0%	n/a	n/a	n/a	n/a	2	5.9%	34	100.0%
Peel, Region of	96-00	5,802	83.2%	1,061	15.2%	8	0.1%	102	1.5%	109	1.6%	6,972	100.0%
	01-05	9,743	84.9%	1,511	13.2%	n/a	n/a	n/a	n/a	217	1.9%	11,472	100.0%
Peterborough CA	96-00	282	77.9%	59	16.3%	21	5.8%	0	0.0%	21	5.8%	362	100.0%
	01-05	380	92.8%	18	4.5%	n/a	n/a	n/a	n/a	11	2.7%	410	100.0%
St. Catharines-Niagara CMA	96-00	1,095	86.9%	132	10.4%	32	2.5%	2	0.2%	34	2.7%	1,261	100.0%
	01-05	1,259	91.8%	78	5.7%	n/a	n/a	n/a	n/a	35	2.6%	1,373	100.0%
Sarnia CA	96-00	158	98.5%	0	0.0%	2	1.5%	0	0.0%	2	1.5%	160	100.0%
	01-05	189	85.2%	0	0.0%	n/a	n/a	n/a	n/a	33	14.8%	222	100.0%
Sudbury, CMA	96-00	214	91.4%	0	0.0%	20	8.6%	0	0.0%	20	8.6%	234	100.0%
	01-05	295	99.5%	0	0.0%	n/a	n/a	n/a	n/a	2	0.5%	296	100.0%
Thunder Bay CMA	96-00	199	76.5%	43	16.4%	19	7.1%	0	0.0%	19	7.1%	260	100.0%
	01-05	194	92.7%	14	6.7%	n/a	n/a	n/a	n/a	1	0.6%	209	100.0%
Timmins CA	96-00	55	93.9%	0	0.0%	4	6.1%	0	0.0%	4	6.1%	59	100.0%
	01-05	23	100.0%	0	0.0%	n/a	n/a	n/a	n/a	0	0.0%	23	100.0%
Toronto, City	96-00	1,945	29.9%	3,914	60.2%	163	2.5%	481	7.4%	644	9.9%	6,503	100.0%
	01-05	2,349	23.8%	6,919	70.2%	n/a	n/a	n/a	n/a	588	6.0%	9,856	100.0%
Windsor CMA	96-00	1,949	89.3%	165	7.6%	69	3.2%	0	0.0%	69	3.2%	2,183	100.0%
	01-05	1,976	90.7%	148	6.8%	n/a	n/a	n/a	n/a	54	2.5%	2,179	100.0%
York Region	96-00	7,650	90.3%	776	9.2%	n/a	n/a	n/a	n/a	45	0.5%	8,471	100.0%
	01-05	9,646	90.0%	1,069	10.0%	n/a	n/a	n/a	n/a	9	0.1%	10,723	100.0%

Source: CMHC, Market Analysis, and Lapointe Consulting



### 4.1.3 Rental Housing Universe

Canada Mortgage and Housing Corporation conducts annual surveys of the “universe” of private rental apartments in buildings with 3+ units and of private rental row units in centres with 10,000+ persons. The universe may change from year to year as a building may end up being excluded if it is being converted to a condominium. As well, when rental housing is demolished, the universe is reduced. New additions to the purpose-built private rental housing stock are thus offset by any removal of rental housing from the universe that is being surveyed.

The universe of rental housing estimated by CMHC thus provides a good indicator of the size of the purpose-built rental housing, although it excludes rental units in buildings with fewer than 3 rental units and units that are rented out in condominium buildings.<sup>7</sup>

Table 9 below shows the number of units in the private rental universe in structures with 3 or more units, including both row and apartment rentals. Between 2004 and 2005, the private rental apartment universe in the 21 markets reviewed increased from 593,595 row and apartment units to 595,679 representing an increase of 2,084 rental units – an increase of 0.4% in the universe of rental housing.

However, when the 1995 and 2005 rental housing universe are compared, the net data (gains minus losses) shows that there has been a net loss of 13,000 rental housing units in Ontario over the past 10 years. This loss underlines the importance of creating additional purpose-built rental housing at a much faster rate than has been the case in recent years.

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<sup>7</sup> CMHC will be including the secondary rental market in 2007 by adding in such units as apartment condominiums, single detached dwellings, semi-detached dwellings, and duplex units in a number of major centres across Canada.

**Table 9: Estimated Universe of Private Rental Apartments and Row Units, Selected Markets, 1995-2005**

Market	1995	2004	2005	Change 2004-2005	Change 1995-2005	
					#	%
Barrie CA	3,639	3,843	3,815	-28	176	4.8%
Cornwall CA	3,938	3,887	3,818	-69	-120	-3.0%
Guelph CA	7,964	7,707	7,699	-8	-265	-3.3%
Hamilton CMA	47,129	45,507	45,354	-153	-1,775	-3.8%
Kingston CMA	12,136	12,165	12,465	300	329	2.7%
Kitchener CMA	30,446	30,636	30,913	277	467	1.5%
London CMA	43,934	42,366	42,852	486	-1,082	-2.5%
Muskoka	830	901	892	-9	62	7.5%
North Bay CA	4,013	4,021	3,926	-95	-87	-2.2%
Oshawa CMA	12,760	12,449	12,352	-97	-408	-3.2%
Ottawa CMA	71,923	68,141	68,545	404	-3,378	-4.7%
Owen Sound CA	1,909	1,834	1,851	17	-58	-3.0%
Peel Region	42,471	37,320	39,312	1,992	-3,159	-7.4%
Peterborough CA	5,987	5,892	5,967	75	-20	-0.3%
St. Catharines- Niagara CMA	18,029	17,273	17,187	-86	-842	-4.7%
Sarnia CA	6,501	6,389	6,206	-183	-295	-4.5%
Sudbury CMA	11,890	11,982	12,063	81	173	1.5%
Thunder Bay CMA	6,126	5,788	5,751	-37	-375	-6.1%
Timmins CA	1,847	1,892	1,845	-47	-2	-0.1%
Toronto (City)	259,361	258,119	256,980	-1,139	-2,381	-0.9%
Windsor CMA	15,907	15,483	15,886	403	-21	-0.1%
21 municipal areas	608,740	593,595	595,679	2,084	-13,061	-2.1%

*Note: Estimate of Limited Dividend Building moved to private rental universe between 1994 and 2004 provided by CMHC special run. These were added back to the 1995 rental universe so the current universe would be comparable to the 1995 figure. LD buildings used to be treated as social housing.*

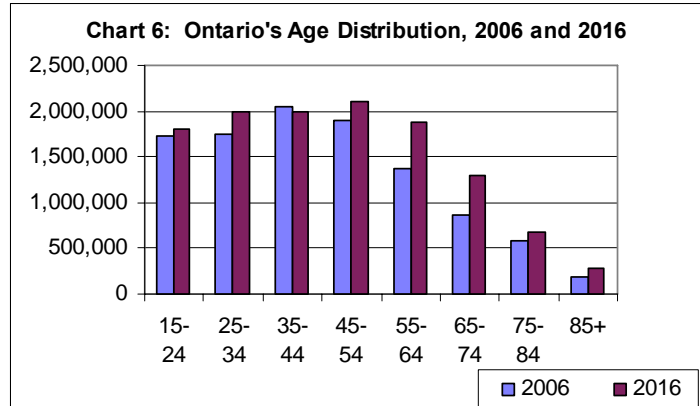
*Source: Data Obtained from CMHC Market Analysis Centre and Rental Market Reports. Calculations of change in rental market "universe" by Lapointe Consulting*

## 4.2 FUTURE RENTAL HOUSING DEMAND

Since 2001 five-year mortgage rates have been in the 6-7% range with mortgage rates at historically low level in 2005. As a result of this low interest rate climate, in many housing markets the carrying costs of ownership housing have been competitive with the upper end of the rental scale and this situation has encouraged many tenants to enter the homeownership market. In addition, condominiums also provide rental housing with slightly lower than 19% of apartment condominiums in the Greater Toronto Area being bought as an investment. This figure is lower than a decade ago (1995) when 30% of apartment condominiums were rented.<sup>8</sup>

While it is difficult to provide precise measures of demand for rental housing, given the recent trends in increasing home ownership rates, it is estimated that over the next ten-year period, 2006-2016 demand for rental housing in Ontario will likely be in the range of 12,000 to 14,000 rental units annually.<sup>9</sup> As some of this demand will be provided through rented single detached, semi or townhouse units as well as rental condominiums and apartments in homes, it is estimated that there is a need to provide an additional 9,000 to 11,000 rental housing units to meet future demand over the next decade. In order to meet this level of demand, rental housing production in Ontario will need to be increased by 2.5 times to almost triple the current level. It should be kept in mind that these figures represent long-term demand and that at some points in time, "realized" demand may be lower due to factors such as low interest rates, slow economic growth or lower levels of internal immigration.

A major determinant of housing demand is the age structure of the population. The aging of Ontario's population is illustrated in Chart 6 which shows the age distribution of Ontario's population in 2006 and 2016. By 2016, the leading edge of the "baby boomers" born in 1946 will be turning 70 while the tail end born in 1966 will be turning 50. This explains the bulge in the 45-54 year olds, the 55-64 year olds and the 65-74 year olds.

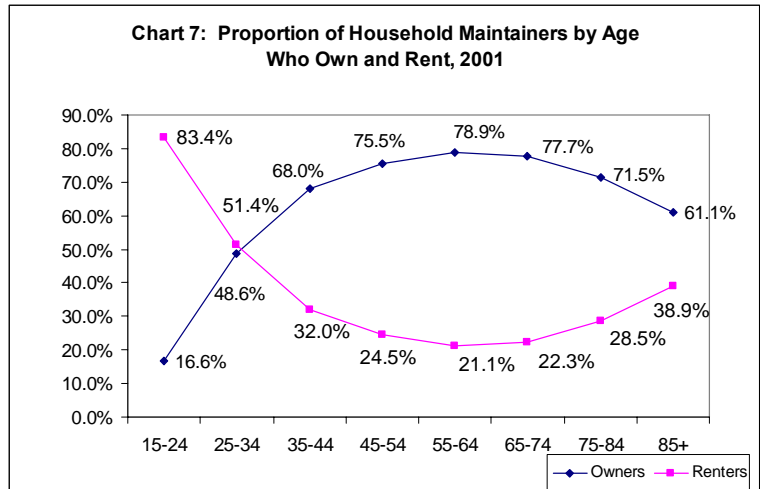


Source: Ontario Ministry of Finance, 2005

<sup>8</sup> CMHC, *Housing Market Outlook: Toronto*, Fall, 2006.

<sup>9</sup> This figure was estimated by Lapointe Consulting using "housing propensities" to project future housing requirements based on the projected age distribution provided by the Ontario Ministry of Finance although total housing requirements from 2006 to 2010 were reduced to be in line with CMHC housing projections as shown in the *Housing Outlook Canada Edition*, 2<sup>nd</sup> Quarter, 2006. While rental housing demand based solely on past housing propensities for row and apartment housing combined would be 22%, based on the increasing likelihood of individuals purchasing their home compared to earlier periods, this figure was reduced to 18% of future housing requirements. As well, it has been assumed that 22% of future new condominiums in Ontario will meet some of this rental demand. The resulting rental demand ranged from 9,200 for the period 2006-2010 to 11,300 for the period 2011-2016.

Ownership levels increase with age and then start to decrease when individuals reach 65 years of age. At the same time the proportion of households that rent is highest among younger households and those 65 and over – although the biggest increase is among households where the head of the household is aged 74 years or more. Thus, while the aging of the baby boom generation will result in increased ownership demand, the increased numbers of older persons will also create demand for rental housing – especially as individuals reach 75 years of age.



Source: Lapointe Consulting using 2001 Census Data

Another major source of rental demand comes from new immigrants who initially rent when they come to Canada although over time, their ownership rates tend to exceed those of Canadian-born. The Ministry of Finance projects that Ontario's population will grow from a 2005 population of 12.6 million to 13.5 million by 2011 and to 14.3 million by 2016. These population projections are based on an assumed level of 125,000 immigrants annually (approximately half of the total number to Canada). Migration, mostly international immigration, is expected to account for 70% of the total population increase in the Ministry of Finance's projection for Ontario for the period 2004-2014.

### 4.3 WAITING LIST FOR SOCIAL HOUSING

A province-wide survey conducted by Tim Welch Consulting for ONPHA in 2006 found that the number of households looking for assisted housing had dropped slightly from last year's survey. In the beginning of 2006, there were 122,426 households on waiting lists across Ontario – down 1.9% from the figure in 2005. The breakdown of the waiting list by household type is: 27,000 seniors, 43,000 singles and 54,000 families.<sup>10</sup> The vast majority (80%) of households who apply for social housing had annual incomes under \$20,000.

Family households account for the largest number of households on the waiting list – 53,759 or 43% of the total. In eight Service Manager areas, families have to wait three or more years for rent-geared-to-income housing – in Ottawa the wait time is an average of 4.5 years, in Toronto 8.5 years and in Peel 7-10 years.

However, single person households experience the longest wait times with single persons in 18 Service Manager areas waiting for 3 years or longer for social housing.

<sup>10</sup> Due to some differences in the way households are categorized, the three categories add up to a slightly higher figure than the total on the waiting list

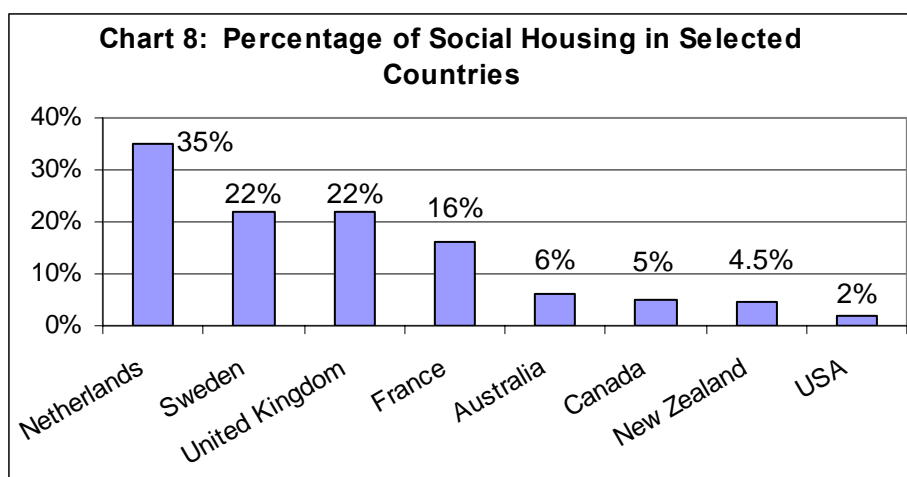
For example, the average wait time for single persons in Parry Sound, Norfolk and Kawartha Lakes is about 5 years, in Toronto 7 years, in York Region 8 years and in Simcoe and Peel, 10 years and up to 15 years in Peterborough.

The persistently high number of households on the waiting lists for rent-geared-to-income housing across Ontario underlines the need to provide more housing affordable especially housing that is affordable to lower income families and individuals. There has been very little change in the overall wait list numbers over the last few years. After years of surveying, we believe that after the “wait” exceeds several years many applicants do not proceed with their registration as their need is more immediate. Therefore, we do not expect this number to rise much even if the underlying demand grows. Nor, do we expect it to shrink unless more affordable housing or more financial support in the form of allowances becomes available.

## 5 LESSONS FROM INTERNATIONAL EXPERIENCES

### 5.1 SIZE OF SOCIAL HOUSING

Despite the growing need for affordable housing, Canada continues to lag other developed nations particularly those in Europe. An estimated 5% of Canada’s housing stock is social housing, that is, non-market rental housing owned and managed by a public, non-profit or co-operative organization. A review of other developed countries shows that except for the United States, Australia and New Zealand, social housing represents a large segment of the overall housing sector ranging from a high of 35% in the Netherlands to a low of 16% in France.<sup>11</sup>



<sup>11</sup> This data was taken from a variety of sources including: Netherlands and France in CECODHAS The European Liaison Committee for Social Housing; Sweden and the UK in Duncan (2001): Changing Social Housing in Great Britain: A Comparative Perspective, in: European Journal of Housing Policy 1 (1), 2001, 105-134; Australia in Ditch, Lewisc, Wilcox (2001): Social Housing, Tenure and Housing Allowance: An International Review, in International Tenant Union, [www.iut.nu](http://www.iut.nu); Canada and the USA in Hulchanski, J. David (2002): Chapter 11: How Did We Get Here? The Evolution of Canada’s “Exclusionary” Housing System and New Zealand in Thorns, David C. (1999): Housing Policy in the 1990’s – New Zealand a Decade of Change, in: Housing Studies, Vol. 15, No. 1, 129-138, 2000.

## **5.2 SOCIAL HOUSING EXPERIENCE IN NEW ZEALAND, UK AND THE US**

The federal government cancelled non-profit housing programs in 1992 and the Ontario government cancelled its non-profit housing programs in 1995. Since then, there has been a policy vacuum in social housing both at a national level and in Ontario. The recent commitment of funding in April 2005 for affordable housing through the Canada-Ontario Affordable Housing Agreement is expected to result in assistance to an estimated 20,000 households over the five-year period from 2003 to 2008 (including housing allowances for 5,000 lower income households). However, there is no long-term commitment to the provision of affordable housing and no long-term policy. The program also provides most of the units at 80% of average market rent with only a very limited number tied to the traditional “rent geared to income” funding formula in which tenants would pay no more than 30% of their income on rent. Given this environment of shifting housing policies and “on again-off again” housing programs, it is useful to examine the experience with affordable housing in other countries to see what lessons can be learned.

## **5.3 NEW ZEALAND’S EXPERIMENT WITH SHELTER ALLOWANCES**

Housing policy experts continually debate the merits of “Supply” vs. “Demand” policies. Generally speaking, interventionist liberal/left governments identify the housing affordability problem as the inability of the private sector to meet the needs of low and moderate income households. Such governments are more likely to have policies which use supply solutions to encourage the building of more affordable housing by public agencies, the non-profit and the private sector. (When the private sector is involved, though, usually the affordability restrictions that accompany the subsidies are time limited, typically from 20 to 40 years.)

Governments with a more conservative, market-oriented philosophy see housing affordability problems as mainly an income problem and will favour demand solutions that provide eligible tenants directly with housing allowances leaving them free to make their own housing arrangements. To the extent that they do encourage supply, their preference is usually to do it with tax incentives for the private sector.

The one exception is supportive housing which all political parties see as being appropriately funded by government and managed, for the most part, by the non-profit or public sectors.

Governments in Canada rarely go with one housing solution, so there is usually a mix of supply and demand programs with governments of different political backgrounds tilting one way or another.

An additional element is tactical. Housing takes a long time to get approved and built. Affordable, government-supported housing even longer. Generally, the private sector can deploy more quickly than the non-profit sector and the demand solutions can show results more quickly than the supply strategies. Therefore, governments regardless of their philosophy may be tempted to overweight demand and private sector strategies

because they can produce quicker results. We say “overweight” because we believe the best buy for taxpayers is permanent affordable housing which is provided by the public, not-for-profit and co-op sectors even though it has a longer delivery time frame.

Against this backdrop, the New Zealand experiment is very instructive.

### *Movement Away from Supply-Side Policies to Demand-Side Policies in the Early 1990's*

When the conservative-minded National Party was elected in 1990 in New Zealand, it enacted a series of radical housing reforms which included:

- the creation of a profit-oriented agency called Housing New Zealand (HNZ) to manage the state housing sector (5% of the country's housing stock) on a “commercial basis” which included raising rents to market levels which the development could expect to obtain;
- the privatization of the state's residential mortgage portfolio;
- the introduction of an Accommodation Supplement program to assist all low-income households with housing costs; and,
- the implementation of a tenant purchase scheme as well as a selling off of properties whose market rents were not affordable to low-income households.<sup>12</sup>

Basically, the government abandoned a long-term commitment to supply-side interventions in favour of income-support and faith in the private market to solve housing problems. Under the Accommodation Supplement, a tenant could receive 65% (later raised to 70%) of the rental costs in excess of 25% of their net income, subject to regionally defined maximum payments. The program was targeted to both low-income tenants and homeowners, although tenants formed the majority (59%) of recipients.

By 1999, after several years of this policy, Housing New Zealand had a reduced stock of 58,866 properties – down from 69,928 rental units in 1992.<sup>13</sup> One of the outcomes of the accommodation supplement was escalating housing costs to the government. The total costs of the program increased from NZ\$352 million in 1993/4 to NZ\$843 million in 1998/9.<sup>14</sup> The Accommodation Supplement was available to a large number of tenants and a smaller number of owners, provided the household met the income threshold and the affordability criteria. The increasing costs of the program were, therefore, in large part due to the increasing number of recipients which rose from 251,505 in 1994 to 317,507 in 1999. However, the increasing costs also reflected rising payments to tenants because of higher rents, both in the HNZ portfolio and, generally, rising rents in the private rental market as well as changes in the co-payment rate. The average weekly payment to tenants had increased by 44% by 1999.<sup>15</sup>

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<sup>12</sup> Murphy, Laurence, To the Market and Back: Housing Policy and State Housing in New Zealand, *GeoJournal* 59, 2003

<sup>13</sup> Murphy, Laurence, Reasserting the Social in Social Rented Housing: Politics, Housing Policy and Housing Reforms in New Zealand, in *International Journal of Urban and Regional Research*, Vol. 27.1, March 2003

<sup>14</sup> Murphy, Laurence, To the Market and Back: Housing Policy and State Housing in New Zealand, op. cit., page 95

<sup>15</sup> Laurence Murphy, Politics, Housing Policy and Housing Reforms in New Zealand, op. cit., page 95.

The resulting rise in demand did not produce a surge in private sector supply as the demand-side economic theory predicts. Rent increases (driven-by the government-created demand as well as strong economic growth) outpaced the overall inflation rate and this placed pressure on the government to increase rent supplements. While the Accommodation Supplement improved the housing situation of a large number of tenants, approximately 10% (over 30,000 households) receiving the Accommodation Supplement still ended up paying more than 50% of their net income on rent.

Tenants in HNZ who used to pay 25% of their income on a much lower rent were generally worse off even though most were in receipt of the accommodation supplement. Between 1992 and 1999, rents in HNZ's units rose by 106% compared to 23% in the private rental sector. The move to charging tenants market rents in the HNZ stock resulted in a higher turnover in HNZ developments as well as more doubling up in response to higher rents. While some tenants may have found more suitable housing elsewhere (i.e., they were over housed before and moved to a smaller unit or could afford a higher rent than they used to pay), the higher turnover rate in HNZ units also meant less economic integration and less social cohesion in HNZ neighbourhoods.

#### *In 1999 the Newly-Elected Labour Government Re-introduced Income-Related Rents in Public Housing Tenants*

When the Labour Party and the Alliance parties formed a minority coalition at the end of 1999, housing reforms were a priority. A new housing act was passed that allowed for the re-introduction of income-related rents and amended the objectives of HNZ to remove any reference to profitability. The principal objective of HNZ was "to meet the Crown's social objectives by providing housing and related services in a business-like manner". State tenants whose incomes were above the income threshold were required to pay additional payments up to the market rent. When the new rents were introduced, the government estimated that 41,000 tenants in HNZ buildings would have their rent reduced to 25% of their income (the 25% ratio was in place before the National Party introduced the Accommodation Supplement) and that these tenants would benefit by an average of NZ\$40/week. At the same time, the government continued providing the Accommodation Supplement to 300,000 recipients outside of HNZ buildings (illustrating the challenge of backing out of misguided policies). The government stopped the sale of HNZ properties; identified a small number of areas of special needs housing for targeted increases; and, allocated funding to upgrade existing housing stock. The government also announced a wider support for home ownership for low-income households, especially Maori households.

#### *Lessons Learned*

The experience with New Zealand's changing housing policies can provide some interesting lessons for Canadians including:

- A sensible housing strategy will not just rely on one sector solutions. There continues to be a need for a social housing sector to fill the gap left by the private market and to provide *permanent* affordable housing. A good housing policy will try and maximize the capacity of both the private and non-profit sectors.



- Ideology is not a good guide to housing policy. In Ontario, for example, the increase in homelessness over the last several years is often traced to the 1995 cancellation of social housing supply programs and the reduction in social assistance housing allowances, both politically driven changes.
- While it is important to look for ways to improve how housing assistance is provided, the New Zealand experience with shelter allowances as the main way of providing housing assistance provides strong evidence of the inadequacy of this one solution approach. In Ontario, the 1992 Conservative government looked at a universal allowance program but rejected it after seeing the cost projections.
- While housing allowances have the advantage of reaching low-income households who live in private rental housing and public housing, they can result in ever-increasing rents and ballooning costs to governments.
- It is important to recognize the need for healthy communities and be wary of policies that can result in high turnover rates. High turnover can destabilize communities. While it is advantageous to have some tenants moving to market housing to free up units in the existing stock of social housing, too much turnover undermines neighbourhood cohesion. Often it is the poorest and those with the least choice who are left behind. Conversely, it is healthy for communities to retain tenants whose economic fortunes are improving<sup>16</sup>. In Ontario, increased scarcity of social housing post-1995 led the government to amend the chronological waiting list in favour of prioritizing those most in need. This, in turn, is changing the mix in most existing housing projects. Many project managers fear they are approaching the “tipping” point where a healthy balanced community slowly becomes unmanageable.
- In urban neighbourhoods facing gentrification, permanent non-profit or public housing helps to maintain a social and economic mix at the neighbourhood scale. The only policies that can ensure neighbourhoods are integrated and stay integrated are those where there is a permanent component of affordable housing that is immune to long-term gentrification or conversion processes.

## **5.4 HOUSING POLICY IN THE UK**

### **5.4.1 Introduction**

In the early 1970's, Canada and particularly Ontario, abandoned what was basically a one solution social housing policy relying on government-developed, 100% deep subsidy housing “projects”. Instead, the government decided to fund smaller community-based housing developments which housed a mix of market and subsidized households. To do this, governments at both the federal and provincial levels offered a steady stream of programs for over 20 years and undertook a long-term capacity building strategy to create a strong non-profit and co-op housing sector to build and manage these new housing units. Government continued to build, but, this time, through municipally owned non-profit housing corporations often operating at arms length. The Ontario Housing Corporation was left intact as a management entity until 2000 when its housing stock was turned over to the municipal sector.

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<sup>16</sup> Laurence Murphy: To the market and back: Housing policy and state housing in New Zealand (2003)

History has proved this 1973 switch in direction to have been a wise one. Other jurisdictions continued to build larger and larger public sector developments housing those in greatest need which, years later, are now mostly dysfunctional. The US, France and the UK are good examples of this trend. As the 2005 rioting in France illustrates, the situation is made worse when this type of housing policy merges with economic and immigration policies and results in geographically, racially and economically segregated communities lacking in employment opportunities and with inadequate social services.

Of interest from the point of view of Ontario in 2006 is both the sense of relief that this direction in Canada was aborted as early as it was and a fear that the lack of new social housing is forcing policy makers to prioritize those most in need to make more “efficient” use of today’s limited stock. That means less economic and social integration. As noted above, there are invisible “tipping points” in social housing projects and such tenant selection procedures may undermine the mix needed for healthy communities.

As you will see from what follows, in Canada we had the right approach to providing affordable rental housing for years and we now seem to be regressing, ironically, at the same time as the US and the UK are making efforts to turn around their earlier problematic approaches.

Another common element of current public policy is to try and encourage nimble business-like behaviour in transfer agencies while at the same time ensuring accountability for the use of public funds. It is a difficult balance, but they seem to be bolder and more successful at this in the UK than we are here in Ontario. Their approach is to emphasize accountability with respect to “outcomes” rather than laboriously prescribed “processes”.

While it is still too early to tell whether they have got it right in the UK, we know that we need to do a lot more work in this area in Ontario.

The UK has experienced considerable political change and differences in ideology that have affected housing policy since the early 1980s. The following is a synopsis of these changes.

#### **5.4.2 The UK experience**

##### *Right to Buy and Large Scale Voluntary Transfers*

The first major changes were introduced by the Conservatives under Thatcher and reflected their support for privatization, demand strategies and deregulating rents in social housing. In the 1980’s, the Conservative government started to sell municipal housing to tenants under the Right to Buy Scheme and to reallocate public budgets from local councils to associations.<sup>17</sup> The government’s goals were to reduce the

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<sup>17</sup> MacLennan and Alison More, “Changing Social Housing in Great Britain: A Comparative Perspective”, in *European Journal of Housing Policy* 1 (1), 2001, 105-134

reliance on government housing and to reduce overall “public” spending which was thought to be crowding out private investment. By 1998, 27% of the 1980 council stock had been sold under the Right-to-Buy scheme.

In 1989, after their third election victory, the Conservatives started to encourage large-scale voluntary transfers (LSVT’s) of council properties to alternative associations while reducing the 100 per cent “public funding” of associations through re-engineering their subsidy. “Housing associations” are regulated and funded by the national government’s Housing Corporation, but are less constrained than if they are directly controlled by local municipal councils. The transfer of municipal housing to LSVT’s was essentially about demunicipalising social housing, by moving its ownership to separate non-profit corporations, and re-mortgaging in order to finance investment in an aging stock.<sup>18</sup> Between 1988 and 2000, eighty-seven English authorities transferred all or part of their housing stock to associations involving 400,000 houses or 10% of the 1988 stock. Between 1990 and 1999 association dwellings in Great Britain doubled and housing associations became the main builders of new homes for rent.<sup>19</sup>

The majority of LSVTs are based on a constituency model, giving equal representation on the board to tenants, councilors and other community representatives.<sup>20</sup>

The municipal housing stock that was transferred was not divested to the private sector for a number of reasons one of which was the desire to preserve long-term affordability. However, these associations were set up as non-profit corporations that were expected to act efficiently and be governed by market forces. Introducing private finance and deregulating rents brought market discipline to bear on social housing. For example, they were expected to seek out commercial debt rating services and be prepared to finance new investment by leveraging their existing assets.

When Labour came into power in 1997, both the market for private investment in social housing and the LSVT route to improving council housing were well established. After a two year interval, the New Labour policy agenda became clearer and has continued to evolve over the past several years. Since 1997 the government has substantially increased funding available to improve the existing social housing stock as well as resuming support for a supply strategy and new building programs.

As a result of the financial restructuring and re-investment from both the public and private sectors many of former council housing communities are being rebuilt and remixed often with an affordable home ownership component as well. Interestingly, the largest public housing community in Ontario, Regent Park in Toronto, is being redesigned and is in the process of being rebuilt and restructured along similar lines.

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<sup>18</sup> Malpass, Peter, Housing Associations and Housing Policy in Britain Since 1989, Housing Studies, Vol. 14, no.6, 1999

<sup>19</sup> op. cit., page 887

<sup>20</sup> op. cit. , page 890

## *Costs of Housing Benefits and Supply Constraints*

Low-income tenants in both social housing and private rental housing also qualify for a “housing benefit” - Britain’s income-related shelter allowance. Almost, three quarters (72%) of association tenants receive a housing benefit to enable them to pay their rent.<sup>21</sup>

The initial focus on a ‘demand’ strategy during the Thatcher years led to some of the same problems New Zealand faced. Again, we see that the reliance on one idea is not a good housing policy. In this case, the ingredients were an ill-thought out supply strategy (relying on a private sector which did not respond), serious inflation in housing prices and a deregulation of rents in social housing that led to many “market capable” households to abandoning public housing communities.<sup>22</sup>

A key legacy of the policies in the 1980’s was the “residualisation” of the social rented sector – meaning that there was a greater concentration of poorest and most disadvantaged households often in housing that was in poorer condition than units that had been sold off either through the Right to Buy or the Voluntary Transfers .

The Housing Corporation is the national Government agency that funds new affordable housing and regulates housing associations in England. The Housing Corporation has three major roles: investing in social housing through national and regional housing strategies; regulating the performance of housing associations; and influencing housing, community and regeneration policy nationally, regionally and locally. The Housing Corporation provides advice and support to housing associations, to help them provide the best and most cost-efficient services, and assesses their performance against agreed standards – essentially they are building an ‘outcome’ based accountability system, rather than an accountability system that depends on government prescribed processes such as we have here in Ontario.

- They also have a comprehensive National Housing policy. In England, the national housing policy provides a comprehensive framework for housing policy at the regional and municipal level. A five-year plan, Sustainable Communities: Homes for All (2005), provides clear policy, program and financial commitments for the future.<sup>23</sup> The plan covers housing in England only; Scotland, Wales and Ireland set their own policy.

Recognizing the need to address the shortage of social housing in many parts of the country, the government is committed to increasing the annual supply of new social homes by 50% and bringing back empty homes into use. The plan is to deliver an extra 10,000 social rented homes each year.

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<sup>21</sup> Maclellan,Duncan and Alston More, op.cit. page 125

<sup>22</sup> Office of the Deputy Minister, Sustainable Communities: Homes for All, Creating Sustainable Communities: Lessons from the past, Challenges for the future of Housing Policy: An Evaluation of Housing Policy 1975-2000, page 21

<sup>23</sup> Office of the Deputy Minister, Sustainable Communities: Homes for All, Creating Sustainable Communities: 2000, Op. Cit, page 7

An important part of the government's strategy is to promote mixed tenure communities. Local planning authorities will be required "to achieve a mix of housing to create sustainable communities through securing a wide range of housing of different types to promote social inclusion and address the needs of households"

### *Lessons Learned*

- An over-reliance on demand-side subsidies in the UK, as in New Zealand, increased costs and did not create the expected increased supply, especially of affordable housing.
- The various policy iterations over the Conservative and Labour years exemplifies the effort to build a consistent national policy which allows for regional variations (Wales and Scotland have their own plans). At the same time, as we saw in New Zealand, it illustrates the unfortunate instability of ideology-based policy in the housing field, where the capacity to implement policy takes a long time to create and needs a stable predictable environment.
- In Canada we also need National and Provincial long term plans with funding commitments designed to support local action focussed on local needs. The federal government should take an active role in providing an overall housing vision that outlines the needs, strategies and programs to address the needs.
- The funder— either the federal or provincial government – should monitor and evaluate the lower levels of government and providers based on plan outcomes rather than intricately prescribed processes.
- In Ontario, the devolution of social housing to municipalities also was an attempt to lighten the burden of red tape that hinders the ability of our non-profit corporations to respond quickly and nimbly to their challenges. However, six years later, it is generally agreed that this effort was badly flawed and in many cases has made non-profit corporations and co-ops even more reliant on government approvals, funding and less able to respond quickly to breaking events.
- The local authorities benefit from the research, expertise and advice from a strong federal housing agency.
- The British experience shows that social housing associations can use their assets to obtain partial funding for social housing projects and renovations, essentially giving them access to equity and more independence. While the government has to provide an important part of the funding, they must ensure that non-profit housing corporations and co-operatives are not wrapped up in excessive approval and reporting requirements.
- It is risky to assume that increasing demand through supplementing incomes (or, for that matter, any one "fix") will get the private sector to start building rental housing. In Ontario, for example in the 1990s, it was falsely assumed that eliminating rent control and providing more owner sympathetic landlord/tenant regulation would lead to more rental housing being built. It did not.
- Demand for social housing is geographically unequal with high demand in areas with strong economic growth.

## 5.5 US: HOPE VI PROGRAM<sup>24</sup>

During the 1990's the US federal government changed its policy on housing low-income households (often mocked as a 'warehousing' strategy). Under the new approach embodied in HOPE VI (Housing Opportunities for People Everywhere), the U.S. Department of Housing and Urban Development intended to move away from concentrations of troubled low-income households in public housing and to promote instead mixed-income housing with a greater reliance on housing subsidies (vouchers) to those in need. The HOPE VI program focused on severely distressed public housing projects across the country, usually high-rise developments, characterized by high crime rates, high unemployment rates, high school drop-outs and teen parenthood.

The high concentration of very low-income, non-working households in public housing developments was seen as a main contributor to the high levels of social problems in distressed public housing. These problems have been attributed to the increasing isolation of the poor in inner-city neighbourhoods with limited employment opportunities, inadequate municipal services, and a lack of middle- and working-class residents to serve as role models and to support local institutions such as schools and stores.

Residents living in public housing developments were predominantly minority women and children and public housing combined both racial and economic segregation.

HOPE VI was implemented on the one hand by the demolition of substandard public housing and the reconstruction of mixed-income developments and, on the other hand, by the introduction of a housing voucher system that was supposed to help former public housing tenants move to higher income neighbourhoods.

### *The Demolition of Substandard Public Housing, Relocation of Tenants and Reconstruction as Mixed-Income Developments*

The most basic goal of the HOPE VI program was to transform physically deteriorated, poorly managed and financial distressed communities into high-quality living environments where families would choose to live. According to a report by the Urban Institute, four types of positive changes occurred: an overall reduction in density; connecting properties to the surrounding area through sidewalks and street grids; physical changes that increased safety and improvements to the exterior of buildings.<sup>25</sup>

Studies of individual HOPE VI sites suggest that many former residents who moved back experienced better housing conditions. However, only about half of the units demolished were replaced by units receiving deep subsidies and the remainder will be either targeted to those on shallower subsidies or no subsidies – market-rate renters or homeowners. Thus, the Urban Institute found that while HOPE VI did produce better-designed and higher-quality developments, the lower density combined with the mixed-

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<sup>24</sup> The following is based on two papers, one prepared by the Urban Institute, A Decade of Hope VI: Research Findings and Policy Challenges, May 2004 and the other, Popkin, Susan J., et al, The Hope VI Program: What About the Residents? in housing Policy Debate, Vol. 15, Issue 2, pp 385 - 414

<sup>25</sup> Urban Institute, A Decade of HopeVI: Research Findings and Policy Challenges, May 2004, page 20

income strategy resulted in a loss of units that are permanently available for the very low-income households.

It is interesting to compare the HOPE VI policy with the Regent Park redevelopment in Toronto, where the commitment was to rebuild all the original social housing as well as add almost an equal amount of private rental and affordable ownership onto a more intensely used site – although some units were relocated to another site.

The demolition of public housing improved neighbourhoods around former public housing and led to wider revitalization. In many cases, crime rates are dramatically lower and the HOPE VI redevelopment has led to or been accompanied by new resources for the surrounding community – such as community centres and schools.

Income mixing was a central thesis of the HOPE VI across the country. There is some evidence that mixed-income developments can be successful in creating safer and better managed housing than the distressed public housing they replaced. Broader improvements such as improved public schools have made the neighbourhoods attractive to higher-income households and improved opportunities for lower income households. Mixed income strategies vary in the mix of incomes they promote – some include all who are public housing eligible while others incorporate market rate rentals and homeownership. However, while a substantial body of research confirms the undesirable consequences of concentrated poverty, it is still not clear how mixed-income communities function and how they benefit low-income residents. While it is not necessarily true that moving very low-income families from high-poverty communities – or attracting more affluent residents to poor neighbourhoods – has much effect on the life chances of low income residents, there is evidence that low-income residents do benefit in terms of safety and housing quality which can have long-term effects on outcomes of families. As well improvements in public services such as schools benefit low-income families and their children.<sup>26</sup>

One of the concerns that has been raised around HOPE VI is that tenants did not always have complete information about their options when they were moved out of the old public housing and many former public housing tenants are no longer eligible for public housing. Relocation put additional stress on tenants who are already experience multiple physical and mental distresses. The frail and elderly especially depend on their original neighbourhood for support.

A positive outcome of HOPE VI is that it contributed to a transformation of public housing management. Traditionally, public housing was highly regulated by the federal government but with the advent of HOPE VI, HUD deregulated public housing and promoted a more entrepreneurial attitude among public housing management.

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<sup>26</sup> Susan J. Popkin, Diane K. Levy et al, Housing Policy Debate, Vol. 15, Fannie Mae, 2004, page 389

## *Housing Subsidies as Vouchers*<sup>27</sup>

Studies of individual HOPE VI sites suggest that many former residents perceived real improvement in their neighbourhood conditions especially in terms of crime. However, the vast majority moved to segregated neighbourhoods but with a personally higher quality of life. While many of the neighbourhoods that former tenants moved to were still poor, these new areas were better than their former communities.

Many former public housing tenants faced several difficulties including the fear of unfamiliar neighbourhoods, loosened social ties and difficulties in forming new social connections. Former public housing tenants also faced discrimination and difficulties in finding new housing with a voucher. In particular tenants with more complex personal and family problems have trouble finding a new home in the private market and were more likely to report being better off in their previous public housing development. Large households or persons with special needs particularly have difficulties finding appropriate housing in the private market.

Housing conditions for voucher clients in private housing are often inferior to those in new public housing and in cities with tight housing markets former voucher recipients are forced to move into other high-poverty neighbourhoods. Households who dropped out of public housing and the voucher system are more likely to double up with other families and move more often than before.

### *Lessons Learned*

1. Continuous funding for regular maintenance of social housing is important to prevent the deterioration of the publicly supported housing stock<sup>28</sup>. In Ontario, ignoring this fundamental principle is currently putting the huge public investment in social housing at long-term risk.
2. Where the housing stock in a neighbourhood has deteriorated to the point where it needs to be replaced and there is a high concentration of social problems, demolition and developing a mixed-income community is one option. However, it is important that the redevelopment be done in an open, consultative way (as it is being done in Regent Park) so that tenants understand the consequences of the changes that are about to take place.
3. Tenants who leave their residence should be given choices in terms of what would be best for them – whether to move to another assisted housing community, to move back to their original community or to obtain assistance to live in the private sector. Relocation planning and services for original residents are elemental for improving everybody's housing situation.
4. Should assistance be given to tenants to relocate in the private sector, some public housing tenants may face landlord discrimination. Housing authorities

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<sup>27</sup> The Hope VI Program: What about the Residents?

<sup>28</sup> A decade of HOPE VI: Research Findings and Policy Challenges. Chapter 8: Implications for Public Housing



should work with landlords to dispel myths about low-income tenants receiving a housing subsidy. In general, policy designers should not rely on demand solutions as a panacea. Given the complexity of housing markets and the apparent risk of policy interventions having unintended consequences, a diversified set of policies is a sounder approach.

5. Vouchers or demand side assistance does not work in cities with tight rental markets. In those situations there continues to be a need for more deeply subsidized social housing units.
6. People with multiple, complex problems may not be able to make the transition to the private market or to new mixed-income housing. There is likely a need for publicly funded transitional or supportive housing for such households.
7. There are significant “neighbourhood effects” to improving distressed communities. The new mixed-income housing was of high quality and fostered innovations in design, management and financing. HOPE VI encouraged further revitalization of neighbourhoods next to public housing and improved those neighbourhoods.
8. The new mixed-income developments have improved the public image of social housing.

## **5.6 A SALUTARY LESSON FROM THE US**

We referred earlier to the ongoing debate between Supply and Demand strategies and the risks entailed by simplistic strategies that rely on one idea or one sector for delivery. In this regard, it is interesting to note the recent experience of New York City.

Stuyvesant Town, located on the East River in Manhattan, includes 110 buildings and over 11,000 affordable apartments. It recently sold for \$5.4 billion dollars which, according to the New York Times (Dec 31, 2006), means the site had been valued based on a much higher cash flow than the buildings currently produce. That, in turn, has upset the City and many key councilors because it means the purchaser is betting on major redevelopment and, one way or another, significantly increased rent.

The site has traditionally served as an affordable oasis for firefighters, civil servants, nurses and other crucial downtown workers with relatively modest incomes (at least by Manhattan standards!) and it appears that this source of affordable housing will now disappear.

More galling to the politicians and the taxpayers is that Stuyvesant Town was built with public subsidies and yet before initiating the sale, the current owners refused to even meet and discuss the concerns of tenants and politicians with local officials.

The lucrative tax breaks and the help in acquiring the land were in return for time limited affordability commitments for below market rents and a “limited dividend” arrangement for 25 years.

The limitations have now all expired and the taxpayers enormous investment has expired with it. It would be interesting to consult the politicians and the senior officials to see how, in hind sight, they might have structured this deal differently. Would they, for example, have looked for permanent affordability either through public ownership of the land or through a more diversified partnership which included non profit and co-op providers?

## **6 SUMMARY AND CONCLUSIONS**

In this report we have reviewed changing conditions in the rental market in Ontario and in 22 separate rental markets as of October, 2005. Vacancy rates declined in just over two-thirds of the markets examined primarily because of: strong economic growth in certain areas which meant that youth employment increased and/or a lack of rental production. In high priced homeownership markets, rising housing prices were starting to affect the ability of tenants to move into the ownership market. The declining vacancy rates indicates that many rental markets are becoming more balanced; with the trend now returning to tight rental market conditions. Half of the markets examined were below the 3% threshold which is often used as a benchmark for a healthy rental market. As noted in the Introduction, vacancy rates continued to decline in 2006 reflecting among other factors higher ownership costs.

In most markets studied the average rent charged for a two-bedroom apartment unit has stabilized or decreased between 2004 and 2005 as landlords adjusted their rents to attract tenants. However, in about half of the 22 markets examined rents have outpaced inflation over the last decade. These are the larger markets representing approximately 80% of private rental housing units in our study area.

A review of average rents compared with wages in selected occupations show that there are many working people who cannot afford to pay the market rent in their community without paying a very high proportion of their income on rent or living in over-crowded or in inadequate housing. For many occupations, two income earners are needed so tenants can afford to pay for a two-bedroom apartment. This can pose a problem for a young couple with a young child or children (where one of the spouses stays at home). The data also indicates that many single persons in lower wage occupations either spend a high proportion of their income on rent or double up in order to afford rents – especially in high rent areas.

Rental housing production is well below the levels recorded in the early 1990's when a non-profit housing program was still in existence in Ontario. For the most recent period, 2001-2005, approximately 5% of new housing starts were rental housing units compared to 25% of housing starts in the 1991-1995 period. There has been an improvement in the production of rental units in selected municipalities where local governments have been actively supporting rental development. And, in few

municipalities, private developers are back building new apartment projects usually aimed at the higher end of the market.

Clearly there is a need for more rental housing production to address the level of rental housing production that is required in Ontario. Demand for rental housing emanates from younger households who leave home and enter the work force, from recent immigrants to Ontario and from older persons who no longer wish to maintain their home and may wish to have their assets in a more liquid state.

A Province-wide survey of housing managers showed that in 2006 there are approximately 122,426 households on waiting lists for assisted (rent-geared-to-income) housing – down only slightly from 2005. The vast majority had incomes of less than \$20,000 annually. There are long wait times for families and single persons so that many household may be discouraged from applying for a rent-geared-to-income unit.

Some lessons can be learned from the review of housing programs and policy in New Zealand, the UK and the US. These are summarized below:

1. There is a need to have a federal housing policy that is long-term, deals with housing in a comprehensive way, commits long-term financing, and sets the stage for housing programs and policies across the country. These policies should be spelled out in a 5-year plan that should be developed with input from provincial and local governments.
2. Ideology is not a good basis for developing housing policy and programs particularly when governments change political stripe on a regular basis. A relatively predictable regulatory and financial environment is necessary for both private and non-profit builders.
3. Local government and or its agencies should be primary program managers and must be given the flexibility of choosing from a range of housing solutions that would fit the needs and market conditions in their area.
4. Housing policy interventions are complex and prone to unintended consequences and, therefore, should be diversified. A housing strategy works best when it has a multiplicity of programs that can be adapted to local conditions. Attention needs to be given to both demand-side assistance to tenants (shelter allowances, grants to purchase homes) and supply-side solutions (building more housing, upgrading housing).
5. The experience in New Zealand and England has shown that an over-reliance on shelter allowances can result in rents rising and prohibitive costs.
6. One way of encouraging more income mixing within public housing in Ontario is to bring in home ownership options or similar options so people do not have to leave their community as they start to earn more money. However, “right to buy” programs should not be used unless replacement rental housing is being produced. (In England and New Zealand the majority of rental housing in the

country was public housing which this policy was intended to redress. This is not the case in Canada.)

7. Where there are particularly distressed public housing developments, these could be redeveloped into mixed income communities with the involvement of tenants and local agencies. Such redevelopment needs to be done very sensitively and tenants need to be engaged in planning for such redevelopment.

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