



INFORMATION REPORT

TO:	Chair and Members Emergency and Community Services Committee
COMMITTEE DATE:	June 9, 2014
SUBJECT/REPORT NO:	Conversions of Rental Housing Properties to Condominiums (CS11042(a)) (City Wide) (Outstanding Business List Item)
WARD(S) AFFECTED:	City Wide
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SIGNATURE:	

Council Direction:

At its meeting of February 10, 2014, the Emergency and Community Services Committee approved the following: "That staff be directed to review and assess the Condo Conversion Program to determine the following:

- (a) Is the 2% threshold adequate?
- (b) Has there been an impact on rental rates?
- (c) Has it resulted in lower quality rental units?
- (d) What are the tax implications as a result of a conversion?

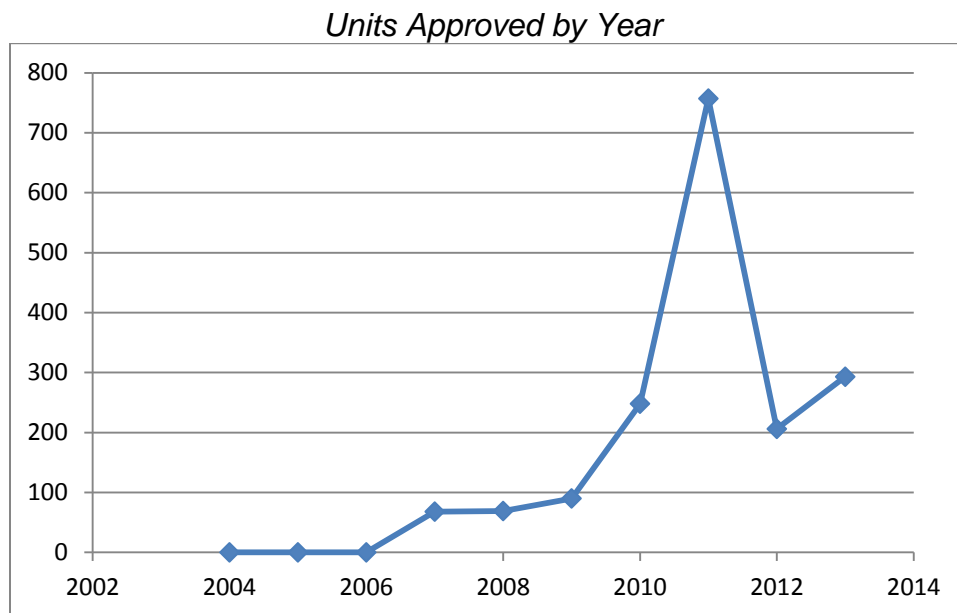
Information:

On April 20, 2011, Report CS11042 pertaining to conversions of rental housing properties to condominiums was presented to the Emergency and Community Services Committee. This report provides a more in depth examination of the impacts of conversions of rental housing to condominium.

Condominium Conversion Activity in Hamilton

Between 2003 and 2013 (the last ten years):

- 20 applications (1,354 units) for conversion of rental housing to condominiums were approved and are registered as condominiums;
- An additional eight applications (572 units) have received draft approval for condominium but have not been registered; and,
- Three condominium applications representing 141 units are being evaluated by staff with recommendations to be brought to the Planning Committee for consideration.



Most of the approvals of condominium conversion applications occurred between 2012-2013. By far, the year with the largest number was in 2011, with 419 units in three buildings converted. Generally, the city is seeing a trend of increasing numbers of units converted each year, which is the reason for continued vigilance about the impacts of condominium conversions on the rental housing stock.

Existing Rental Housing Protection Policies and Legislative Framework

Rental housing protection policies are contained in the Urban Hamilton Official Plan to address condominium conversion applications. These policies are attached as Appendix “A”. These policies are particularly important given the lack of new purpose-built rental housing production in our community and given that Hamilton needs to produce 629 new rental units annually to meet projected growth (377 of those units need to be affordable¹). The City’s 10-year Housing and Homelessness Action Plan sets a target of 300 new affordable units per year. The Urban Hamilton Official Plan policies recognize the importance of the rental housing stock and seek to protect that stock.

Section 3.2.5.1 a) of the Urban Hamilton Official Plan identifies three conditions that must be satisfied prior to approving applications for condominium conversion. The conditions are as follows:

1. The rental vacancy rate by dwelling/structure type for the City and the respective local housing market zone has been at or above 2.0% for the preceding twenty-four months.
2. The proposed conversion will not reduce the rental vacancy rate by dwelling/structure type to below 2.0% for the City and the respective local housing market zone.
3. The existing market rent levels for the units proposed to be converted are not significantly (approximately 10%) below the average market rent levels for the City

¹ *Affordable* is defined in Appendix ‘A’ to this report.

and the respective local housing market zone for rental units of a similar dwelling/structure type and size.

The intent of the policies is to ensure that rental housing is not lost in a “tight” rental market, i.e. when there is a low vacancy rate. Furthermore, the policies protect rental units that are “affordable”, i.e. units with rent levels significantly below the average market rent. Additional policies are included to meet other objectives, such as permissions to convert if 75% of tenants support a conversion, repairs or retrofits to meet health and safety standards are needed immediately, or the building is a protected heritage property. Staff are developing a protocol to ensure that, when the 75% support policy is used, consent is given freely in a transparent way.

The Urban Hamilton Official Plan seeks to maintain a balance between rental and ownership housing stock. While it endeavours to protect rental housing, it recognizes that condominium conversions can, in certain instances, meet other City goals such as affordable homeownership, neighbourhood revitalization, rehabilitation of aging housing stock, and residential intensification.

In the review of condominium conversion applications, both Development Planning and Housing Services staff examine applications closely to ensure the official plan criteria are applied. Over the past several years, applications have been able to meet the vacancy threshold but, several have been denied because they do not meet the affordability criterion.

Tenant Protection

In addition to policies in the Official Plan which protect the rental housing stock, tenants in rental units being converted to condominium have certain protections and rights under the Residential Tenancies Act, 2006 (RTA). They have full security of tenure in a condominium conversion situation, i.e. they have the right to remain in their unit as renters at their current rent levels, subject to provincially permitted annual increases, and would continue to receive full protection under the RTA in perpetuity. Under the RTA, tenants also have the first right of refusal to purchase their units if they are converted to condominium and offered for sale.

Rental Housing Market

Number of Units

According to the 2006 Census, the most recent data available, Hamilton has 61,645 renter households. This represents 31.8% of all households. Hamilton’s proportion of renter households compared to all households is somewhat larger than the provincial proportion of 29%.

The primary or purpose-built rental housing market is defined as multi-residential housing built specifically for rental purposes. The secondary rental housing market includes apartments in houses, duplexes/triplexes, and condominiums and other ownership housing that is rented out.

There are 33,734 purpose-built private market rental units [Canada Mortgage and Housing Corporation (CMHC) 2013], and approximately 14,600 social housing rental

units in Hamilton. If the total number of purpose built rental units is deducted from the number of renter households reported in the 2006 Census, it is estimated that 13,311 or 22% of renter households live in units within the secondary rental housing market.

Secondary market rental housing is not considered permanent rental housing because of the possibility of it being returned to owner occupancy or the building being deconverted to fewer units. Units in the secondary rental housing market are difficult to track because they come on and off the market very quickly and there are no existing mechanisms to track these changes. CMHC does not provide vacancy rate, average rent and construction starts data for the secondary housing market.

Average Rents

According to CMHC data, rents in Hamilton are relatively affordable compared to rent levels in greater Toronto area (GTA) municipalities. The average rent for all unit types in apartment buildings of 6+ units in Hamilton in 2013 was \$793 per month. The 2013 average rent for one-bedroom units in Hamilton was \$724 per month, and the average rent for two-bedroom units was \$867 per month.

Despite little new rental housing construction in recent years, rent levels in Hamilton have stayed fairly flat with the exception of 2012 and 2013. In the last five years, the average rent in Hamilton has increased 13% (or 2.6% annually) from a level of \$702 per month to the current average of \$793 per month. This increase is slightly above the average inflation rate. Rent increases that follow inflation rates are expected and show a healthy rental housing stock. Between 2011 and 2013, there was an increase of 8.8% (or 4.4% annually). Currently, only households earning at least \$31,720 per year can afford the average rent without paying more than 30% of their gross income on rent. Even with the relatively affordable rental housing stock, 45% of renter households pay more than 30% of their income on rent, and 22% pay more than 50% of their income on rent, placing them at serious risk of homelessness (Census, 2006).

Vacancy Rates

A balanced rental housing market is considered as a vacancy rate of between 2% and 3%. Vacancy rates higher than this range reflect a market where there is more choice for renters, while a vacancy rate below this range is considered a “tight” market with much fewer available units from which to choose. According to CMHC data, the vacancy rate for all rental units in Hamilton in 2013 was 3.9%. Central lower Hamilton showed the highest vacancy rate of 6.1%. The East Hamilton and Dundas housing market zones shared the lowest vacancy rate of 2.9%.

Despite little new rental housing construction in recent years, the vacancy rate in Hamilton has been above 3% since 2003. The vacancy rate has remained relatively high primarily due to newly formed households tending to by-pass the rental housing market and opting for homeownership. This trend is due to the affordable nature of ownership housing in Hamilton (compared to GTA municipalities), strong employment numbers (until the recession), sustained low interest rates and the availability of low down payment options and assistance.

Rental Housing Supply

The rental housing stock in Hamilton is aging. Much of it was built during the 1940's to the 1980's. Little privately initiated purpose-built housing was constructed after 1980. This lack of construction is largely due to the removal of government incentives for developers and because without government assistance, new rental housing is not economically viable.

Almost all purpose-built rental housing constructed after 1980 was initiated by the not-for-profit sector through social housing programs. Social housing development funding was terminated in 1995 and little to no purpose-built rental housing was constructed in Hamilton until the early 2000's. Since 2003, 778 rental housing units have been developed under the Canada Ontario Affordable Housing Program (COAHP) and the Investment in Affordable Housing Program (IAH).

When considering the 1,926 units that are draft approved for conversion or registered, the City has experienced a *potential* net loss of 1,148 units, which is 1.8% of the overall (including secondary) rental housing stock.

This potential net loss amount assumes all the units converted to condominium are no longer rented out to tenants, which is not likely the case as condominiums that are rented tend to be a significant source of supply in the secondary rental housing market. There is anecdotal evidence that some converted buildings continue to be rented out.

The City's Urban Hamilton Official Plan sets a target of 629 new rental housing units annually to meet projected growth in rental housing demand, while the City's 10-year Housing and Homelessness Action Plan sets a target of 300 new affordable rental units annually. These targets are based on population and household growth projections to the year 2031. These annual targets are not being achieved, and any loss of rental housing to condominium conversion will further compound this deficit.

A significant portion (22%) of rental housing supply comes from the "secondary" rental housing market. These are units that are not considered "purpose-built" rental housing and include condominiums that are rented out, accessory apartments (apartments in houses) and single family homes and duplexes that are rented out. It is difficult to measure the secondary rental market, however, it is an important source of rental housing.

Is the 2% Vacancy Threshold Adequate?

In the Urban Hamilton Official Plan policy, the vacancy rate threshold for condominium conversions is 2% and has been since the first policies came into effect in the former City of Hamilton in 1998. In the last ten years the vacancy rates have generally remained above 3%. Based on vacancy rates over the last 10 years, a change to 3% for the threshold to allow condominium conversions would have had little impact on the number of conversions. However, prior years' vacancy rates are not necessarily good predictors of what future vacancy rates are likely to be.

A scan of the vacancy thresholds of other Ontario municipalities found that of those seven municipalities that have rental housing protection policies and set a specific

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vacancy threshold, five have set it at 3%. There are several municipalities that do not specify a vacancy rate in their official plans.

Outside of the Greater Toronto and Hamilton Area, Regina has recently changed their vacancy threshold from 2% to 3%. Regina had a large number of conversions at once which reduced the vacancy rate to historically low levels (0.6%). At that point they adopted a 2% threshold. When vacancy rates had recovered to 1.9%, the vacancy threshold was raised to 3%.

Condominium Conversion Vacancy Thresholds

GTA Municipalities	Vacancy Threshold
Region of Durham	3%
City of London	No condo conversion criteria in effect
City of Mississauga	No specific vacancy threshold
City of Oakville	No specific vacancy threshold
City of Ottawa	3%
City of Toronto	3%
City of Vaughan	3%
Region of Waterloo	3% (under appeal with whole plan)
Non-GTA Municipalities	Vacancy Threshold
City of Prince Rupert	3%
City of Regina	3% (previously 2%)
City of Saskatoon	1.5%
Vancouver	4%

Note that Calgary, Edmonton and Winnipeg defer to provincial policy so permit condominium conversions regardless of vacancy rate. Vancouver's 4% vacancy rate effectively prohibits any condominium conversions.

Based on Hamilton vacancy rates over the last 10 years, a change in vacancy threshold in the condominium conversion policies from 2% to 3% would have little impact on the number of conversions. During the extensive consultation on the housing policies in the Urban Hamilton Official Plan, the vacancy threshold was raised as an issue, but there was no feedback that either 2% or 3% was preferred. Nor was there concern with either figure among the general public or the housing stakeholders. It should be noted however, that the majority of municipalities that have a specific vacancy threshold in their condominium conversion policies use 3%.

As indicated, Hamilton's rental housing vacancy rate has been above 3% for a number of years. As such, it is not the vacancy threshold criterion in the Urban Hamilton Official Plan that has proved problematic for proponents of condominium conversions, but rather meeting the requirement that units to be converted not have rents significantly (10%) below the average market rent for the City and the local housing market zone. Where applications for condominium conversion have been denied, it is due to this criterion.

Has There Been an Impact on Rental Rates?

Condominium conversions in Hamilton do not appear to have a significant impact on rent increases. A review of rental rates in Hamilton shows fairly flat rates until 2012. In 2012 and 2013 rent increases jumped by 3.8% and 4.7% respectively. This increase is somewhat higher than inflation, and coincides with a spike in condominium conversion applications and approvals. The rent increases are more a factor of the provincially allowable rent increase guideline that also increased for 2012 and 2013. Whereas the permitted increase was 0.7% in 2011 and 0.8% in 2014, it was 3.1% and 2.5% for 2012 and 2013 respectively. However, if the trend of increasing numbers of condominium conversions continues it has the potential to put pressure on the market by limiting supply.

Evidence does not support a conclusion that condominium conversions are inflating rents; however, it would be prudent to monitor the rental rates to ensure they do not continue to increase at rates similar to 2012 and 2013.

Has There Been an Impact on the Quality of Remaining Rental Units?

The only data available on the quality of rental units is Census data, which is unfortunately only available for 2006. It is therefore not possible to ascertain whether or not condominium conversions have an impact on the quality of rental units. Anecdotal information from discussions with some landlords indicated that it is easier to obtain financing for needed capital repairs to rental buildings if they are converted to condominium. The degree to which this comment is accurate and the degree to which converted buildings remain as rental may indicate that condominium conversions have a positive impact on quality.

What Are the Municipal Tax Implications as a Result of Condominium Conversions?

A sample of approved condominium conversions indicates that there has been an overall reduction in municipal taxes paid. However, that reduction is moderated by increase in the assessed value of the building post conversion. While the tax ratio for converted buildings decreases from 2.74% to 1.0% (multi-residential to residential rate) as a result of the conversion, the assessed value of the buildings increases, in most cases more than doubling. Assessed value is based on the value of each individual unit, rather than the building as a whole.

This assessed value increase means that the overall municipal tax paid for the building tends not to be dramatically lower after a conversion. If the value increase is less than 2.74 times, there is a decrease in the municipal tax paid, but if it is more than 2.74 times, the municipal tax paid increases. The table below outlines the amount of tax change as well as the percent increase or decrease pre and post conversion for a sample of buildings.

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Municipal Tax Change as a Result of Conversion to Condominium

Building Units	Municipal Tax Increase	Percent Increase	Municipal Tax Decrease	Percent Decrease
46			\$15,475	18%
116			\$14,784	6.8%
27			\$14,263	23%
206			\$66,405	25%
24	\$6,614	16%		
12	\$5,563	55%		

Conclusion

The intent of the Official Plan policies regarding condominium conversion, attached as Appendix 'A', are to balance the protection of rental housing stock with other goals such as affordable homeownership and neighbourhood revitalization. At present, protection and conversion seem to be in balance. Changing the vacancy threshold from 2% to 3% will not result in change in the number of condominium conversions; and conversions result in only a moderate overall decrease in taxes paid to the City.

However, given that the City is not coming close to meeting targets for affordable rental housing, and given that there has been a recent spike in condominium conversion activity, there is a need for vigilance. Should the trend of increasing numbers of converted units continue, there may be a case for amending the rental housing protection policies in the Urban Hamilton Official Plan. It is therefore important to continue to monitor the condominium conversions closely. This should be done within the context of the annual reporting of Hamilton's 10-year Housing and Homelessness Action Plan's housing supply targets.

APPENDICES AND SCHEDULES ATTACHED

Appendix A to Report CS11042(a): Urban Hamilton Official Plan Policies