INFORMATION REPORT

TO:	Chair and Members Emergency & Community Services Committee
COMMITTEE DATE:	April 13, 2015
SUBJECT/REPORT NO:	2014 Changes to the Rental Housing Market (CES15018) (City Wide)
WARD(S) AFFECTED:	City Wide
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Council Direction:

Not applicable.

Information:

Housing Services Division staff annually track the health of the rental market in Hamilton. The Division receives an annual special and proprietary data run on the primary rental housing market from the Canadian Mortgage and Housing Corporation (CMHC). The most recent 2014 data shows significant changes to the rental housing market in Hamilton. The following report analyses the health of the rental market of purpose-built rental buildings of six or more units within the urban areas of the city. It does not present data on the secondary rental market.

Definitions and Data

'Primary market' and 'purpose-built' refer to rental units that were developed for the purpose of being rented, i.e. multi-unit rental apartment buildings. In contrast, the secondary rental market includes other types of rental units such as second dwellings or accessory apartments, duplexes, converted single detached homes or commercial buildings, and rented condominium units. As these units can be easily converted back to ownership tenure, they are difficult to track.

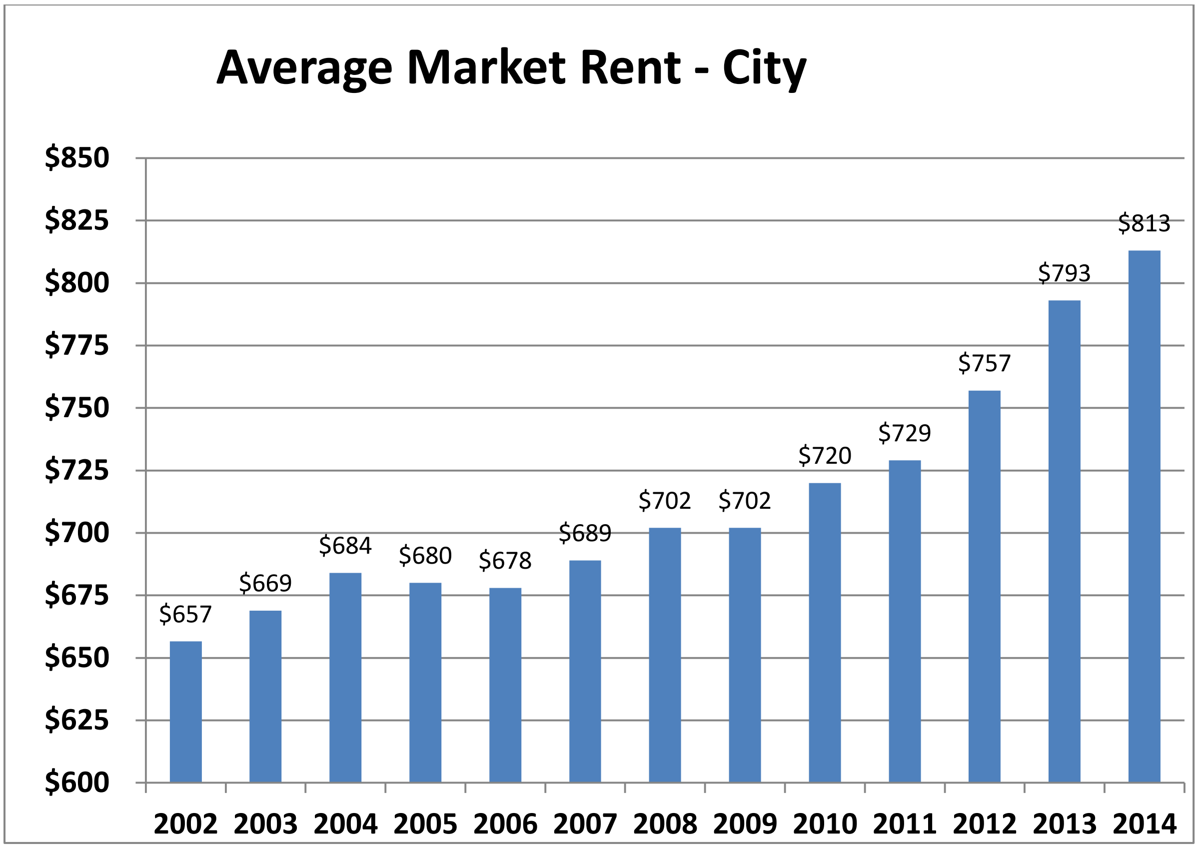
CMHC data typically covers only purpose-built units, meaning that the City has little information on Hamilton's secondary rental market. However, staff were recently informed by CMHC that a study of Hamilton's secondary rental market will soon be completed.

While Census data includes Burlington and Grimsby, this special CMHC data run isolates the City of Hamilton and further divides the city geographically into local housing market zones. The housing market zones were determined by CMHC and incorporated into the former City of Hamilton Official Plan as well as the Urban Hamilton Official Plan. These housing market zones enable a detailed analysis of the rental market in Hamilton and smaller areas for general knowledge as well as the analysis of condominium conversion applications. The housing market zones, and consequently the CMHC data, do not follow ward boundaries.

Average Market Rent

Figure 1 shows the overall average market rent for all unit types in the City from 2002 to 2014.

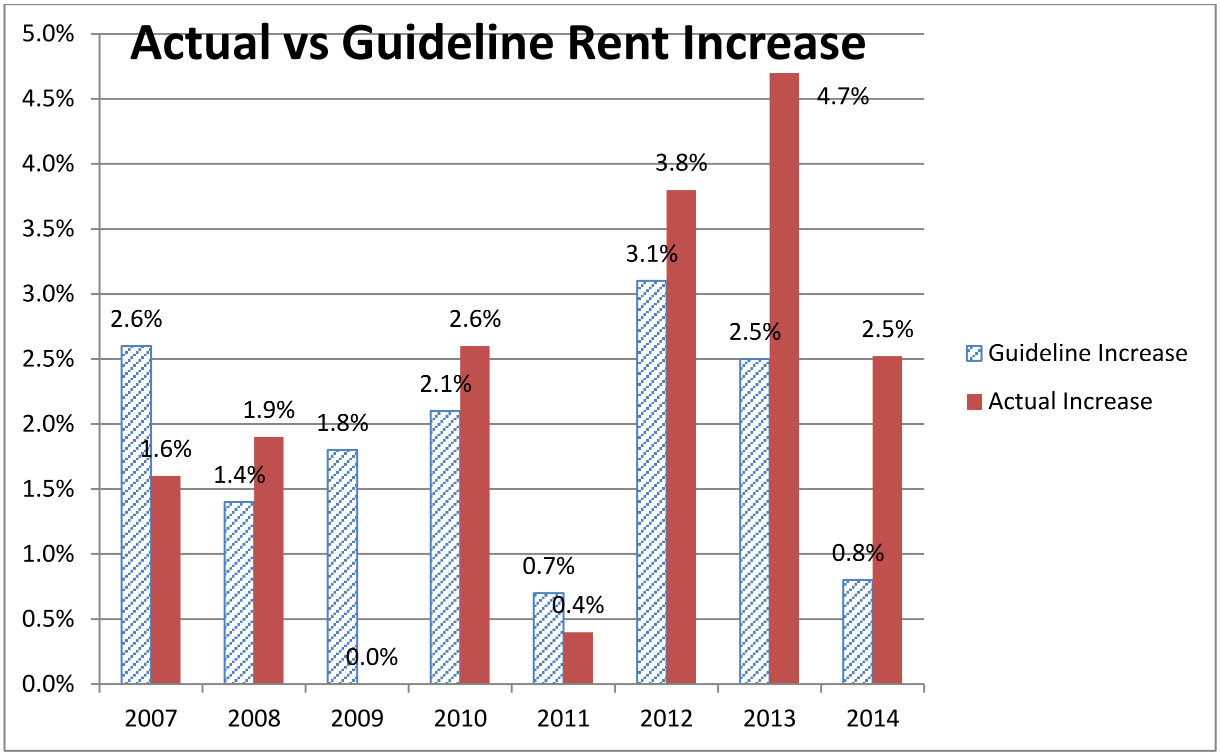
Figure 1: Average Market Rent – City



Since 2006, there have been annual increases in city-wide average market rent, with a steep increase since 2009. This trend is similar for all unit types including bachelor, one-bedroom, two-bedroom and three-bedroom apartments. Residential rent increases are subject to provincial rent control guidelines whereby landlords may only increase the rent in occupied units by an amount set by the Province annually. Rents may be increased by any amount when units turnover.

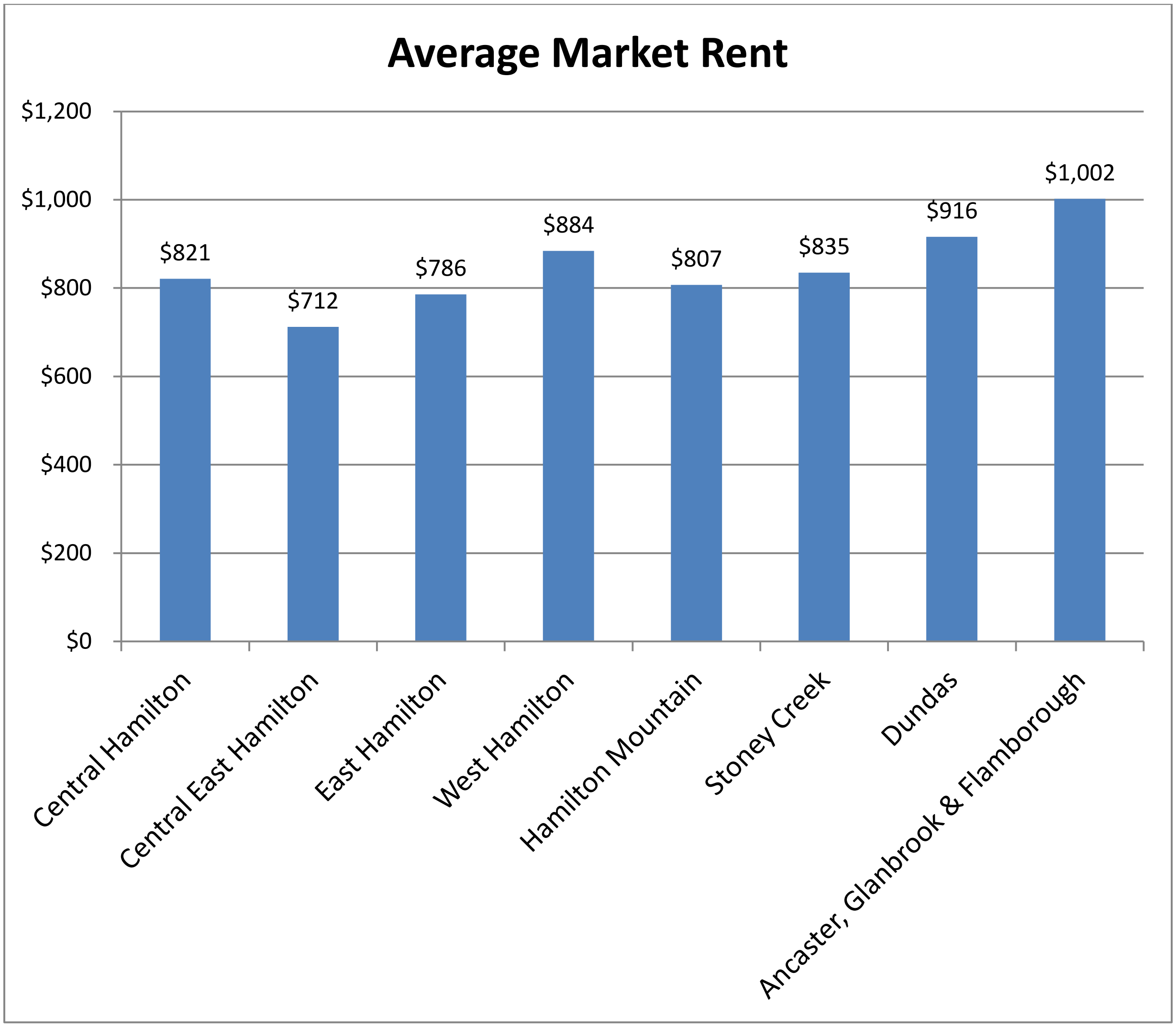
Figure 2 compares the actual average market rent increase to the provincial guideline increase from 2007 to 2014. In the last three years, the actual increase has been significantly above the rent increase guideline.

Figure 2: Actual Versus Guideline Rent Increase



Schedule G of the Urban Hamilton Official Plan, Local Housing Market Zones, is attached as Appendix A to Report CES15018. It shows the housing market zones used for analysis of rental market data and the review of condominium conversion applications. The 2014 average market rent and vacancy rate has been overlaid on each zone. As also shown in Figure 3 below, the lowest rents are in the east part of the lower city not including Stoney Creek. The Mountain Zone is next, closely followed by Central Hamilton, Stoney Creek, and West Hamilton in that order. Dundas and Ancaster/Glanbrook/Flamborough are the most expensive areas.

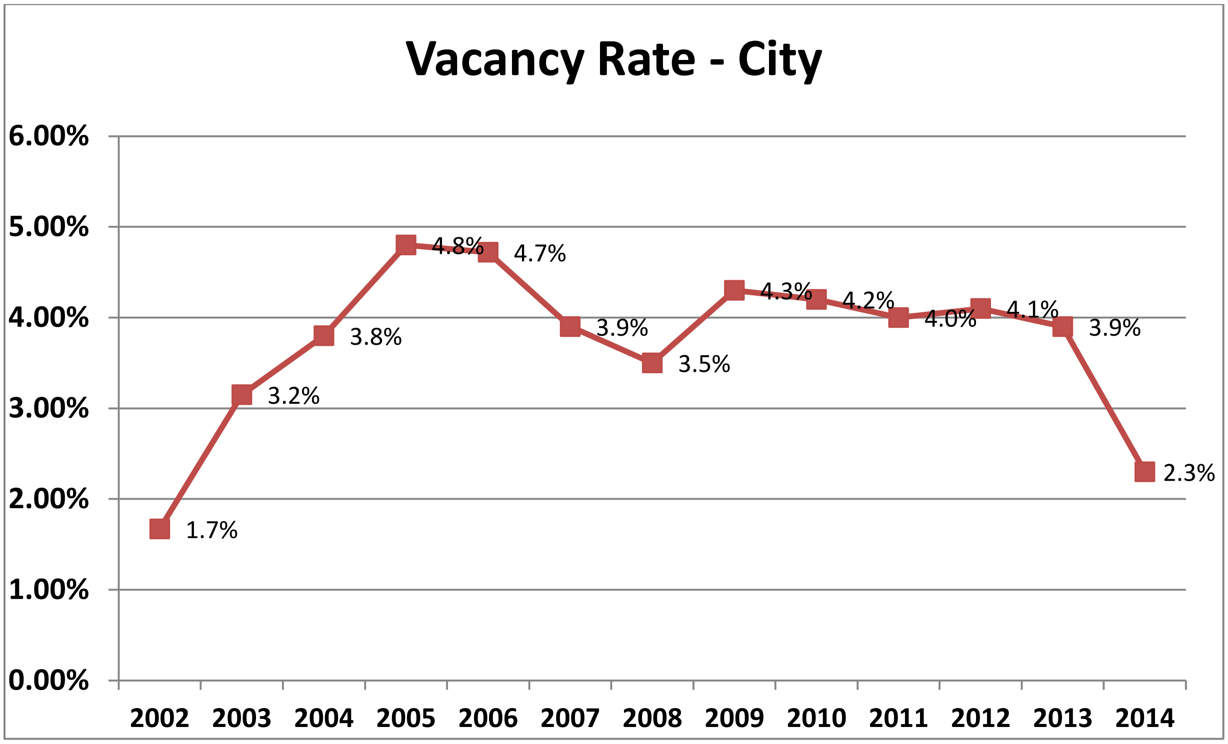
Figure 3: Average Market Rent by Housing Market Zone



Vacancy Rates

A 2% to 3% vacancy rate indicates a healthy rental market. The increase in average market rent coincides with and is influenced by the decrease in vacancy rates. As shown in Figure 4 below, for all unit types in the city, between 2013 and 2014 there was a sharp decrease in vacancy rate from 3.9% to 2.3%. This decrease is a new trend. From 2009 to 2013 vacancy rates were fairly consistent, hovering around 4%. This decrease is of concern in that it signifies a shift towards a tighter rental market, offering less choice to renters and potentially putting inflationary pressure on rents.

Figure 4: Vacancy Rate City

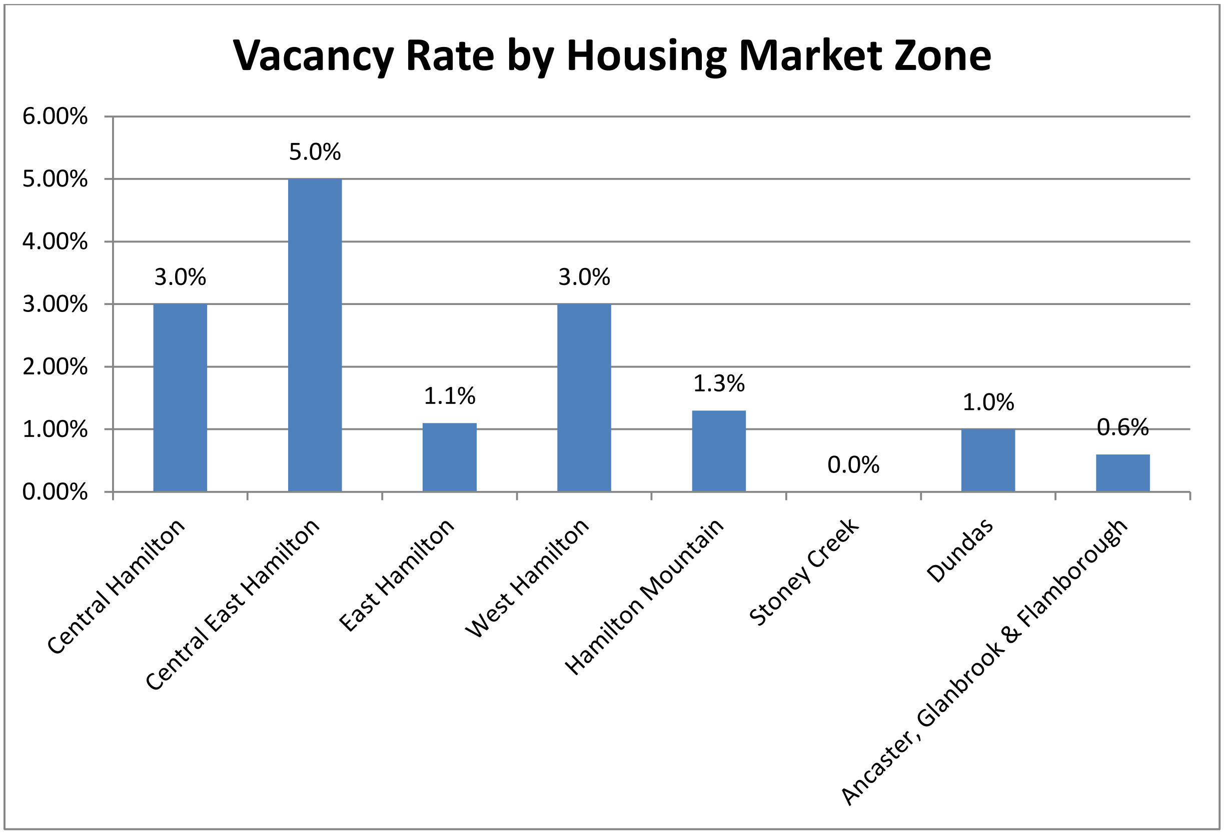


As can be seen in Appendix A to Report CES15018 and Figure 5 below, only three of the eight housing market zones have vacancy rates at 2% or greater. These three comprise the lower city:

- Central Hamilton;
- Central East Hamilton; and,
- West Hamilton.

In the areas outside of the lower city (west of the Red Hill and south of the escarpment, including Dundas) the rental market has shifted to a less healthy and tighter “sellers” market.

Figure 5: Vacancy Rate by Housing Market Zone



Analysis

By all indications the Hamilton rental housing market is getting tighter. The data shows a sharp decrease in vacancies and an increase in rents, but these findings are also supported anecdotally by the opinions of real estate experts and landlords, and the experiences of front line housing workers:

- It is getting harder for housing workers to find affordable rental housing for clients, particularly for clients of rent subsidy programs or who are considered hard to house. Landlords who have willingly participated in the City's rent supplement and housing allowance programs in the past, no longer want to refill subsidized units and it is difficult to attract new landlords to the programs;

- As units are vacated they are often being renovated and rented for significantly higher rates; and,

- Some landlords are offering incentives for low income tenants to vacate their units so the units can be renovated and rented at a higher rate.

There are a number of factors working in concert to create the increases in average market rent and decreases in vacancy rates:

- For decades there has been little new supply of purpose-built rental units in Hamilton. Over the last 10 years, with the help of Federal, Provincial and municipal programs, 731 units of affordable rental housing have been produced in Hamilton while an additional 82 units are under construction or in development. However, based on housing demand projections as part of the Urban Hamilton Official Plan, Hamilton needs 629 new rental units annually, of which 377 should be affordable to low and moderate income tenants. Adding to the supply issue is that 1,926 rental units have been lost, at least from the primary rental market[1], through conversion to condominium tenure;

- Tighter mortgage rules including higher down payment requirements and shorter amortization, along with increasing house prices, make it more challenging for first time home buyers to purchase a home;

- Renting is becoming more of a choice, especially for young people and older adults, placing more demand on the existing rental stock; and,

- Hamilton's population is increasing, putting ever growing pressure on an essentially limited resource.

Implications of Increased Rents and Decreased Vacancy Rates

There is one positive implication of higher rents and lower vacancy rates. Most of the purpose-built buildings in Hamilton are older and their building systems are reaching the end of their life cycles. They need substantial investment in major building systems such as elevators, parking garages, roofs, etc. Higher rents provide landlords with more resources to pay for these major renovations and maintain the City's valuable rental housing stock.

However, the negative implications of increased rents and reduced vacancy rates are that more people are at greater risk of homelessness and of general hardship.

- If the trend continues, the number of households on the social housing wait list will increase, making the Housing and Homelessness Action Plan target to reduce the wait list by 50% by 2023 more difficult to achieve. The need for emergency shelters will also increase, potentially exceeding the capacity of the shelter system;

- It is more difficult for people to find adequate affordable rental housing, particularly those with low working incomes or those on social assistance;

[1] Converted units often continue to be rented, but once they are converted they are no longer captured in CMHC's rental data. Rented condominium units move from the primary to the secondary market.

- There are more people paying a high proportion of their incomes in rent, resulting in greater financial strain, and ultimately a much higher risk of homelessness. In 2011, 20% of renters in Hamilton were paying more than 50% of their incomes in rent. The Housing and Homelessness Action Plan has set a target to reduce the number of people paying more than 50% of their incomes in rent by 15%, which will be more difficult to achieve with higher rents and lower vacancy rates;

- There is more pressure on the secondary market which includes units that may not meet zoning, building code, fire code, and property standards;

- Housing allowances are becoming less effective. Housing allowances are a set amount of subsidy paid towards rent. The amount has generally been $200 per month which, due to Hamilton's historically low rents, has been sufficient to enable many people to remain housed. Housing allowances have been the City's most cost-efficient housing program, but as rents increase it is becoming necessary to raise the subsidy amount. As vacancy rates decrease, sourcing units to participate in the program becomes more challenging;

- As rental amounts increase, rent supplements, which are rent-geared-to-income rent subsidies, become more expensive. This could have a levy impact as some rent supplement programs are City funded;

- There will be challenges for the Housing First Program of the Homelessness Partnering Strategy. Housing First is an approach to homelessness that houses the most chronic and frequently homeless people, and provides the wrap around supports they need to remain successfully housed. Since the Housing Services Division is already finding that landlords are less willing to house subsidized clients, it is expected that finding housing for Housing First clients will become even more challenging; and,

- As outlined in the Housing and Homelessness Action Plan and Report CS11017(b), housing provides broad economic and health benefits and an increase in housing insecurity can have negative economic impacts. Examples include: deteriorating health, worse educational outcomes, higher public costs associated with more institutional care, and barriers to economic development in general when companies make locational decisions which include access to affordable housing for their employees.

Impacts on Condominium Conversions

The Urban Hamilton Official Plan contains policies regulating conversion of rental housing to condominium tenure. These policies include criteria of a vacancy rate threshold. Vacancy rates must be at 2% or higher, and remain at 2% or higher after the conversion. From 2003 to 2014 the vacancy rate was consistently above 2% and thus did not impact condominium conversions. In fact, the vacancy rate was generally above 3% for that period of time.

In 2014, the vacancy rate for two-bedroom apartments across the city as a whole was 1.6%, which is lower than the 2% condominium conversion vacancy rate threshold. Thus, condominium conversions of buildings with many two-bedroom units will not meet the Official Plan policies and thus, not be permitted for 2015 and the next 24 months, with one potential exception. If 75% of the tenants support a conversion it may still go forward regardless of the vacancy rates.

Previous Council reports on condominium conversions (Report CS11042(a)) have discussed the potential of changing the vacancy threshold from 2% to 3%. Since vacancy rates were consistently above 3% until now, such a change would not have made a difference. However, with the overall vacancy rates for one-bedroom units now at 2.8% and three bedroom units at 2.7%, a change in the vacancy rate threshold to 3% would make it more difficult to convert rental units to condominium.[2]

A joint Planning and Economic Development and the Housing Services report on condominium conversions is forthcoming to Planning Committee. This report will address condominium conversion issues, and guidelines that detail a process for implementation of the “75% tenant support policy”.

Future Rental Housing Supply

There are positive and negative aspects to the future supply of rental housing in Hamilton. On the positive side:

- There are a number of condominium projects currently underway in or near to the downtown, producing new dwelling units. It is expected that a number of these units will be rented adding to the secondary rental market. However, these units will likely meet the demand at the higher end of the market. The units may also be withdrawn from the rental market at any time;

- A limited amount of new purpose-built rental units is being built in Hamilton and some landlords indicate that building and managing rental housing is close to being profitable in certain parts of Hamilton. Unfortunately, most of these units will likely be at the higher end of the market;

- The Federal and Provincial governments have extended the Investment in Affordable Housing (IAH) program to March 31, 2020. Hamilton has received a $30 million allocation under that extension, of which $13.5 million is allocated to affordable new rental housing construction, totalling approximately 100 new units.

[2] Note that the “75% policy” can be used to support a conversion if 75% or more of the tenants support the conversion. A report on a protocol for implementation of this policy is forthcoming to Planning Committee.

This new supply is still significantly less than the targets as established in the Urban Hamilton Official Plan and the Housing and Homelessness Action Plan; and,

- The City's new residential zoning is expected to make it easier to build accessory apartments in houses.

There are potential threats to the secondary rental housing stock on the horizon. Units are expected to be lost due to:

- Potential deconversion of homes from multi-unit back to single detached, which is a trend that seems to be growing; and,

- Enforcement of property standards and the zoning by-law on units[3] that do not meet standards. It may not be financially worthwhile for landlords to bring some non-complying units up to standard or into compliance with the zoning by-law, and units may cease to be rented.

Hamilton's 10-Year Housing and Homelessness Action Plan - Moving Forward

The emerging issue of higher rental costs and decreasing vacancy rates in the City heightens the urgency in implementing the strategies outlined in the City's 10-year Housing and Homelessness Action Plan. The first outcome area of the Housing and Homelessness Action Plan is to increase the supply of affordable housing including rental housing. This outcome area has a total of 12 strategies, several of which the Housing Services Division and the Planning and Economic Development Department staff are working on together. A detailed annual report on the progress of the Action Plan will be provided to Emergency and Community Services Committee in June 2015.

Housing Services Division staff are working with Planning and Economic Development staff and community partners to investigate and implement a range of other incentives to increase the supply of affordable housing. These incentives include waiving, reducing or deferring development charges, fast-tracking affordable housing development applications, investigating the potential of density bonusing and inclusionary zoning.

There has been a limited production of new purpose-built affordable rental units since the 1980's. It has not been profitable for private investors to build new purpose-built rental units. Almost all of the new rental units that have been built in Hamilton since that time (813 affordable units) have been supported by government programs. The positive impact of the current market trend is that building new rental housing has become a more attractive prospect to investors. Industry experts indicate that market conditions are close to making new rental housing a profitable venture. Even though newly built

[3] While it is recognized that enforcement against illegal units is necessary, it will inevitably lead to a loss of affordable rental units.

units will primarily serve the high end of the rental market, they will contribute to the overall supply and potentially release some of the pressure on the more affordable segment of the market.

The development of 82 new affordable rental units is currently underway, one project being completed by Indwell and the other by Good Shepherd Centres. Both projects are funded in part by Hamilton's allocation of federal and provincial Investment in Affordable Housing Program funds. While 82 new units is a success, the target in the Housing and Homelessness Action Plan is for 300 new affordable rental units a year.

Another action that can increase the supply of affordable rental housing is promoting second dwelling units or accessory apartments. The Urban Hamilton Official Plan permits second dwelling units in single and semi-detached dwellings in all Institutional, Neighbourhoods, Commercial and Mixed Use Designations across the city. The forthcoming new commercial/mixed use and residential zoning will support implementation of this policy. Second dwelling units have been permitted in the former City of Hamilton Zoning By-law since its inception, and to a limited extent in Dundas and Stoney Creek, but the new zoning will permit them across the city, subject to certain requirements. The degree to which the forthcoming zoning standards (e.g. parking, lot coverage, etc.) are permissive, will determine the success of accessory apartments contributing significantly to the supply of affordable rental housing.

Report CES14059(a) outlined Hamilton's allocation of federal and provincial funding of $30,457,500 to March 31, 2020 under the Investment in Affordable Housing Program extension. The City's Program Delivery & Fiscal Plan allocates that funding to the following program streams:

- $13.5 million in capital funding for the creation of affordable rental housing with rents at 80% or below the average market rent for the City for a minimum 20 year period. Approximately 100 units will be developed;

- $7.8 million to address affordability of existing rental units through housing allowances, which provide a flat rate rental subsidy ($250/month) to low income households on the Social Housing waitlist. Approximately 500 households will receive assistance;

- $7.6 million to renovate existing housing/and or undertake modifications for persons with disabilities through Ontario Renovates at up to $25,000 per unit. This funding will rehabilitate approximately 300 rental and homeownership units.

Another strategy within the Housing and Homelessness Action Plan strategy is to **"**Increase homeownership opportunities for renters, including social housing tenants (e.g., down payment assistance programs, rent-to own initiatives, and education on purchase process, etc.)." Programs such as Hamilton's Homeownership Program provides down payment assistance in the form of forgivable loans support the move from rental to home ownership thereby reducing the demand on the rental housing stock. This program is currently underway with funds from the City's Down Payment Assistance revolving loan fund. Over the years of the program, recipients have sold their homes and repaid their loans plus a percentage of capital appreciation to the revolving loan fund. There is approximately $550,000 in the revolving loan fund, which will help approximately 27 families purchase a home, freeing up 27 rental units.

The above initiatives are insufficient to fully remedy the tightening of Hamilton's rental market, but they are a solid start in the right direction and are among a number of initiatives supported by the 10-Year Housing and Homelessness Action Plan. Long term commitment to the Housing and Homelessness Action Plan is necessary to ensure the City does not continue to fall behind in meeting the targets outlined in the Action Plan and our residents' housing needs.