INFORMATION REPORT

TO:	Chair & Members Healthy and Safe Communities Committee
COMMITTEE DATE:	April 23, 2018
SUBJECT/REPORT NO:	Defining Affordable Housing and Hamilton's Rental Housing Market (HSC18003) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Greg Witt (905) 546-2424 Ext. 4818 Kirstin Maxwell (905) 546-2424 Ext. 3846
SUBMITTED BY: **SIGNATURE:**	Vicki Woodcox Acting Director, Housing Services Division Healthy and Safe Communities Department

Council Direction:

At the December 7, 2017 Emergency & Community Services Committee, staff were directed to prepare a brief information update on the different models to define rental housing affordability in response to Item 8.1, Incentives for Affordable Rental Housing Development (CES17013).

Information:

This report provides an overview of the definitions of affordable housing and Hamilton's rental housing market, focusing specifically on affordable rental housing. It provides a summary of current rental market trends and conditions.

Defining Housing Affordability

There is no universally accepted definition of housing affordability. Generally, rental housing affordability refers to the capacity of renter households to meet housing costs while maintaining the ability to meet other basic costs of living. The key considerations for affordability are price and income.

Affordability can be viewed as both an absolute and relative concept. In absolute terms, an apartment which rents for $600/month is more affordable than an apartment which rents for $1,000/month. Thinking in relative terms, it isn't that simple. For example, a household earning $25,000 per year and paying 50% of their income on rent is in significantly more need than a household earning $20,000 per year and paying 25% of their income on rent.

Income-Based Measures

Rent-to-Income Ratio, the 'Housing Wage' and the use of income percentiles are income-based measures used to define housing affordability. In the Provincial Policy Statement (PPS), the Province defines housing affordability as households with incomes up to the 60th income percentile for a housing market area, not paying more than 30% of their income on shelter.

In 2017, annual income at the 60th income percentile in Hamilton is $83,100; so, any household with income of $83,100 or less paying 30% or more of its income is in need of affordable housing.

Price-Based Measures

Using a proportion of the Average Market Rent (AMR) is the most common price-based measure used to define housing affordability. The further the rent is below the AMR, the greater depth the affordability.

Affordability for "Moderate" income households is housing rented at levels between the average market rent (AMR) and 20% below average market rent and affordability for "Low" income households is housing rented at below 20% of AMR.

In 2017, the AMR in Hamilton was $943, so any unit renting between market price and $754 is considered affordable for households with "moderate" income and any unit renting below $754 would be considered affordable for "low" income households.

Rental Market Conditions & Trends

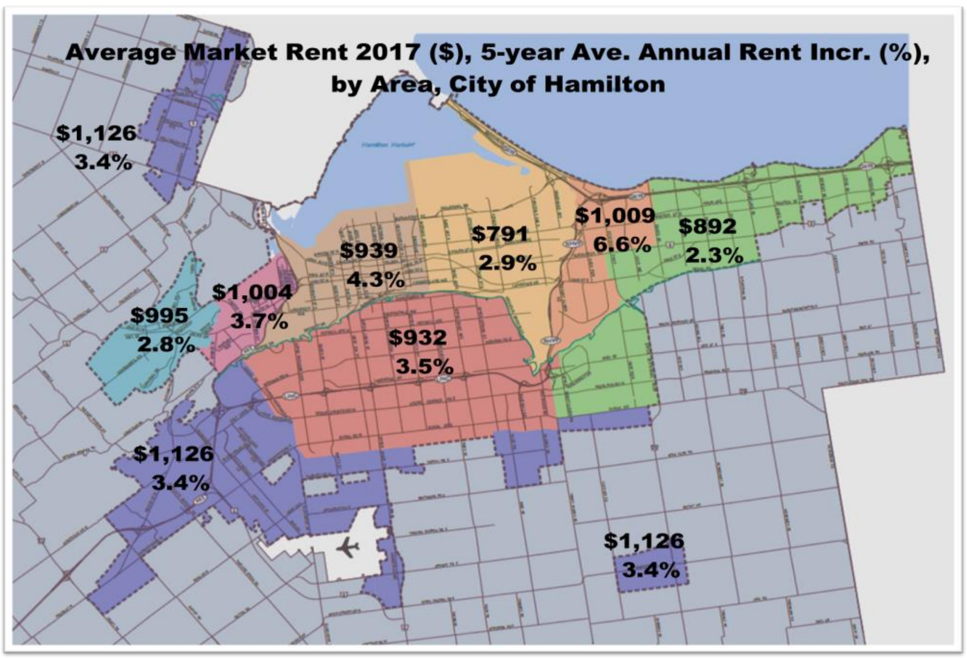
Some may point to Hamilton as possessing a healthy rental housing market as several key indicators show conditions are looking relatively good. The reality is that the situation is much more complex. Hamilton is experiencing two sets of market conditions for two different populations. On one side of the coin, there is a healthy mid to high-end rental market; to meet the needs of higher-earning/stably employed Hamiltonians as well as many households migrating from the GTA seeking more affordable alternatives. These groups have suitable income to keep up with quickly increasing costs of rent. On the other side of the coin, there are challenges in the rental market for affordable housing where a lack of supply has resulted in quickly escalating rents for those who can least afford it. Migration from the GTA is having an impact on the price and availability of the most affordable housing units, squeezing the lower end of the rental housing market.

Given the rental market conditions in Hamilton, a household would have to earn $36,000 per year to afford the average market rent without spending more than 30% of their total gross income on housing. Currently, 26% of households spend more than 30% of their income on shelter costs placing them at risk of housing instability or in the most extreme cases, homelessness.

Rents

In 2017, the average market rent (AMR) for all units in Hamilton was $943 per/month. One bedroom apartments rented for an average of $850/mo., while units with three+ bedrooms had an AMR of $1,159/mo. As illustrated in Figure 1, rents and rent increases vary widely across the city as well. CMHC data shows rents are highest in Ancaster, Flamborough and Glanbrook while the most affordable rental housing is located in Central East Hamilton.

Figure 1



Rent Increases

Rents in Hamilton continue to increase rapidly, particularly in parts of the lower city where they have traditionally been the most affordable. Since 2012, city-wide rents have increased annually by an average of 4.1%, a pace twice the rate of inflation. These rent increases far exceed any increases in household income. Over a ten-year period, median household income in Hamilton has increased from $65,443 in 2005 to $69,024 in 2015 which accounts to a less than 0.5% growth per year.

Some areas of the city have seen rents increase at an even faster rate. For example, in East Hamilton rents have increased by an average of 6.6% per year bringing the AMR up from $724/mo. in 2012 to $1,009/mo. in 2017. East Hamilton has transitioned from being a relatively affordable area to live to one of the most expensive areas in the city. The average East Hamilton renter household is paying $285 per month more on rent than they were 6 years ago.

Compared to neighbouring municipalities, rents in Hamilton remain relatively affordable; however, this affordability gap is closing. Rents in Hamilton are increasing faster than any other major urban centre in southern Ontario. Rents in the GTA remain the highest in the province; however, the places with the most rapidly increasing rents tend to be centres on the periphery of the GTA. Along with Hamilton, rents in Guelph, Kitchener, Waterloo, Burlington and Brantford are rising most quickly.

Vacancy Rates

Balanced housing markets typically show vacancy rates between 2% and 3%. Renters are afforded fewer choices under 'tight' rental markets where the vacancy rates are low and afforded more choices when vacancy rates are high. Hamilton's current vacancy rate is 2.6%. A review of trends in Hamilton's rental market shows changes and differences in the availability of rental units.

- Vacancy rates vary across the city. In the suburban communities of Ancaster, Flamborough, Glanbrook, Dundas and Stoney Creek as well as on the Mountain and in the east and west ends, rates are at or below 2%. These low vacancy rates indicate an overly tight rental market. The downtown core and Central Hamilton have the highest rates.

- Trends show a relationship between price and availability. In 2017, the areas of Hamilton with the highest increases in rent tended to be the areas with the most dramatic decreases in vacancy rates.

- Hamilton's vacancy rates also vary widely based on price. In 2017, Hamilton's vacancy rate for higher priced rentals was more than twice the rate for the most affordable units. Therefore, the rental market for the most affordable units is tighter than the 2.6% City-wide rate would indicate. CMHC data place the City-wide vacancy rate for the most affordable units at 2.1%.

Vacancy rate conditions in Hamilton can be partially explained by consumer choice; renters with both the appropriate income and savings were seeing an opportunity to move into homeownership. Rather than paying rent, households are substituting living in high-end rental housing with owning their own home. At $1,029/mo., the average rent for a two-bedroom unit, was higher than the monthly mortgage carrying cost of $1,002 for an average condominium apartment in Hamilton. With Hamilton's recent increase in condominium development there is now more choice for condominium living.

Conclusion

Hamilton is making progress on the development of affordable rental housing; however, is falling short of meeting its target of 300 new units annually in the 10-year Action Plan.

A quickly changing local rental market has impacted the supply of affordable rental housing available in the city. There are more renters in Hamilton competing for fewer affordable housing units. This has led to rents escalating faster than incomes, impacting overall affordability, especially in certain areas of the city such as East Hamilton.

New affordable housing is needed to meet the pressure of ongoing demand of a growing local population. Expect pressure on Hamilton's housing market to increase as more and more households are priced out of the GTA. New legislation aimed to control prices and tightening of mortgage rules may further impact the rental housing supply.

There is a higher need for new affordable, purpose-built, rental housing in the areas of Hamilton where vacancy rates are the tightest. This includes Ancaster, Flamborough (Waterdown), Glanbrook (Binbrook), Stoney Creek, Dundas, East and West Hamilton and on the Hamilton Mountain where rates are currently 2% or less.