Getting to 8,000

Building a healthier rental market for the Toronto Area

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Executive Summary

October 2017

Toronto's unhealthy rental market

The Toronto Area's rental market is under considerable pressure and getting squeezed. The vacancy rate in the Toronto area has consistently been below 3.0% – a minimum level that housing advocates consider healthy, making it difficult for renters to find suitable and affordable housing. Average rent for available units has been rising at more than 3% per year[1] – a rate which outpaces income growth. With low vacancy and above-inflation rent increases, our rental market, much like the home-ownership market, is unhealthy.

Over-reliance on condominium rentals

A key reason for the declining health of our rental market is an over-reliance on private condominiums. Over the past ten years, the Toronto Area rental market has only grown by 2,400 purpose-built rental units while 76,000 private rental condos have joined the market as rentals.

The median before tax income for households who rent is less than half the median income for households who own ($40,995 vs. $88,565).[2]

In other words, over the past decade, growth in the Toronto Area rental market has been entirely reliant on individuals and commercial property managers buying condos and putting them onto the rental market. This reliance comes with unhealthy side effects:

- Tenancy is less stable in condos due to the landlord's own-use provisions.
- The reliance on condos for our rental market has contributed to property speculation that has helped push home-ownership prices upwards.
- New condos are not guaranteed to make their way to the rental market and units can be quickly removed from the rental market making for an increasingly precarious rental supply.

This over-reliance on condos is the direct result of financial factors that lead most developers to favour condominium projects over rental projects in the Toronto Area. These factors include an easier ability to both raise capital and borrow money for condos, as well as HST tax policies that make rental development less attractive.

1 Toronto Real Estate Board (2017). *Rental Market Report.* Available at: http://www.trebhome.com/market_news/rental_reports/ (Accessed September, 2017).

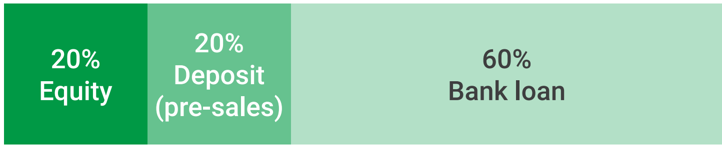
2 CMHC. *Housing Market Information Portal.* Accessed at: https://www03.cmhc-schl.gc.ca/hmiportal/en (August 1, 2017)

3 Ibid.

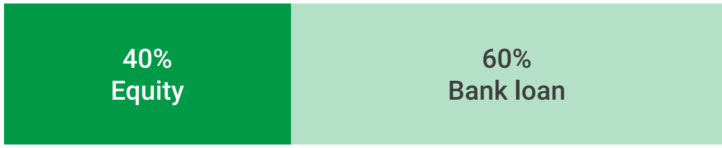
Change in Rental Supply, 2007–2016[3]

	Purpose-Built Rental	Rental Condos	Other Secondary Rentals
Supply 2007	314,519 (64%)	40,735 (8%)	134,578 (27%)
Supply 2016	316,913 (56%)	116,685 (21%)	132,688 (23%)
Change in Supply	2,394	75,950	-1,890

Condo Financing



Rental Financing



Getting to 8,000

Approximately 8,000 new purpose-built rental units need to be added to the market each year to restore health to the Toronto Area's rental market. This will ensure that sufficient new rental units are built for the thousands of new residents that call the Toronto Area home every year through a healthy mix of dedicated rental apartments and condos. While this target should be regularly reviewed, population projections suggest that the Toronto Area will require the addition of 8,000 units every year up to 2041.

Ramping up to 8,000 new units per year cannot happen overnight, but with immediate actions by various levels of government, we can get there within five to ten years.

This report makes seven policy recommendations to be considered by all levels of government to improve the immediate health of our rental market, ensure sustained rental development and make active progress towards the target of 8,000 new units per year. This will ensure that the Toronto Area remains an attractive, affordable and competitive region.

7 public policy recommendations

Making better use of land and existing housing

1. Municipalities introduce vacant unit taxes throughout the Toronto Area
2. Municipalities regulate short-term rentals throughout the Toronto Area
3. Municipalities adopt land-use changes to permit more residential development

Incentivizing new purpose-built market rental units

4. Province of Ontario expands and increases the proposed development charge rebate program
5. Municipalities expand incentives to all rental developments
6. Province of Ontario or the Federal Government develops an agency to provide a "one-window" service to offer development incentives
7. Federal Government makes changes to HST policy including implementing a zero-rating system to claim HST credits and the CRA's exclusive useof the "Lending Value" and "Cost" approaches to determining fair market value when calculating self-supply HST.