



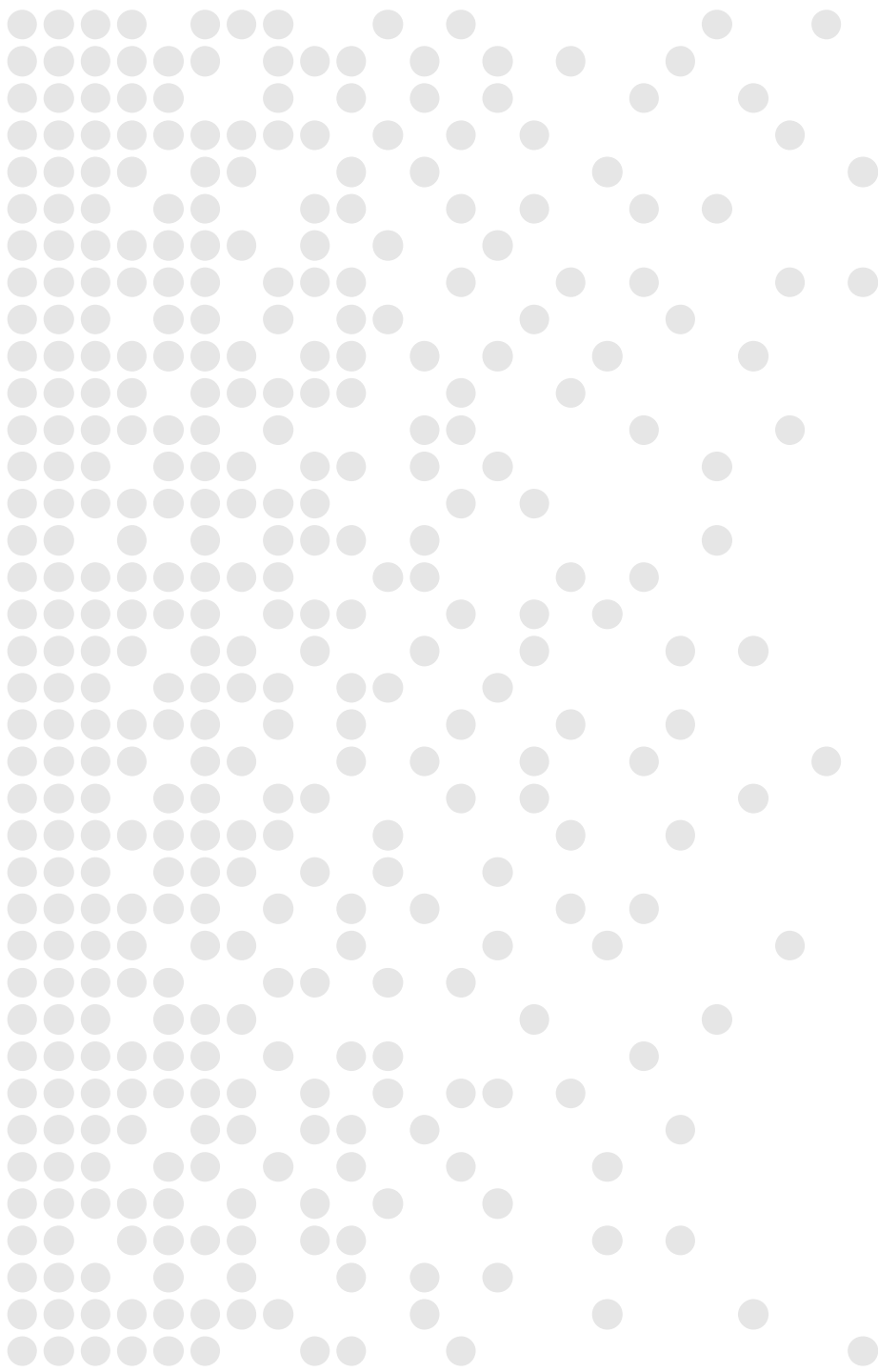
# Planning for Tomorrow's Rental Housing Needs - Are We Listening and Responding to Signals in the Market Today?

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OPPI 2020 Virtual Conference  
Finding a Place in Evolving Communities

SEPTEMBER 30, 2020

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# Introduction

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# Introduction

## Why Should We be Concerned with Rental Housing?

- To maintain a well-balanced, strong community and ensure long-term sustainability, it is vital that municipalities offer a wide range of housing options for a broad range of income groups, including a provision for rental housing.
- The availability of rental housing is a key factor in attracting and retaining people and businesses to a community.
- Market demand for rental housing in Ontario is increasing and it is important for municipalities to address current and future rental housing needs.
- Meeting the short- and longer-term needs of rental housing requires emphasis be placed on expanding the purpose-built rental inventory.



# Rental Housing Market

## Primary and Secondary Market Definitions

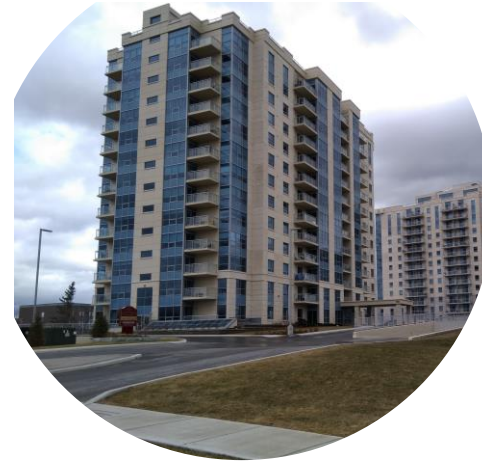


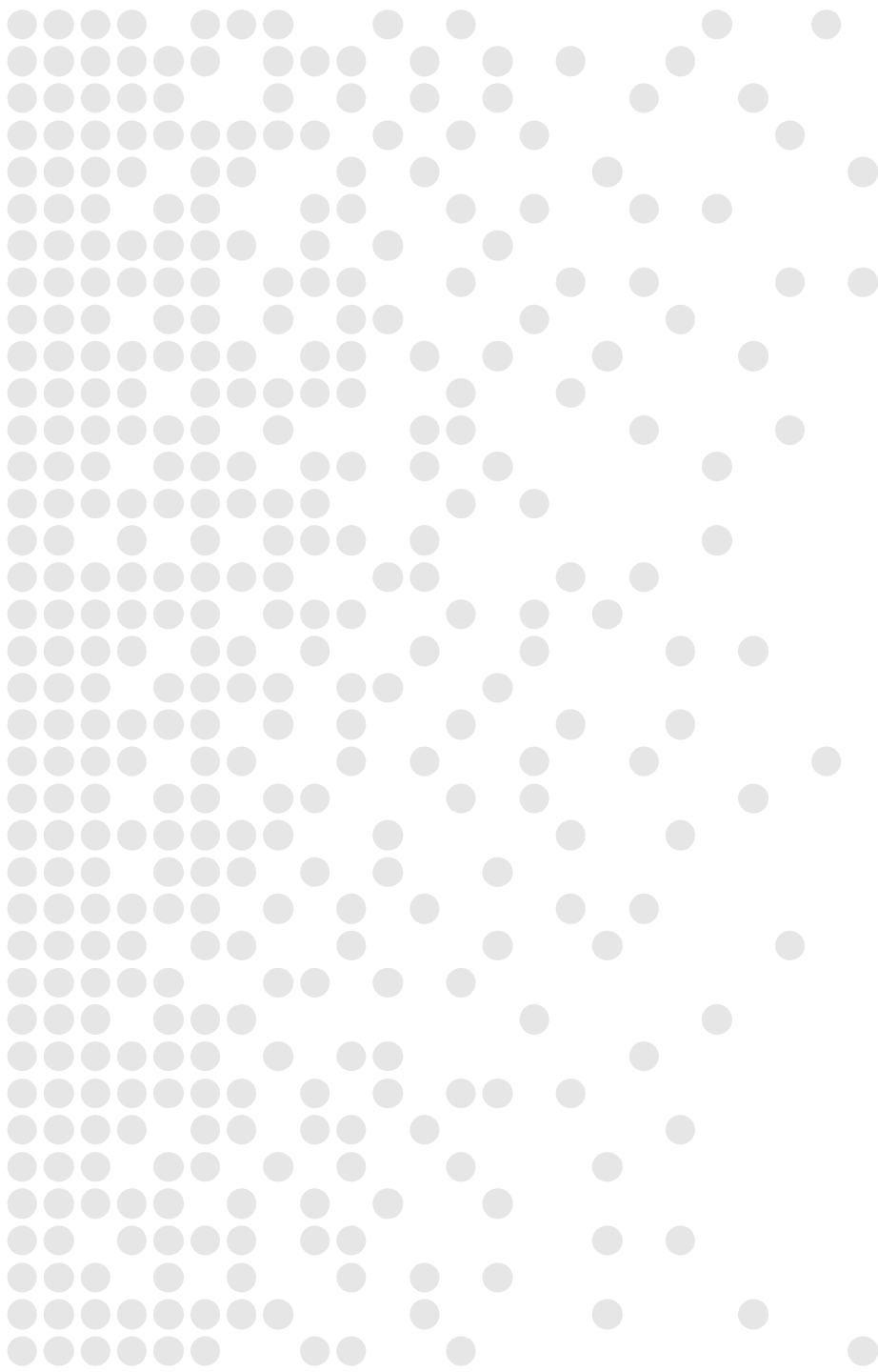
- **Primary rental market** – CMHC identifies the primary rental market as structures that have at least three rental units. These properties are typically operated by an owner, manager, or building superintendent.
  - Also known as purpose-built rental market.
- **Secondary rental market** – CMHC identifies rented condominiums, subsidized rental housing, and rentals in structures of less than three units as part of the secondary rental market.
  - All rentals – except those captured in purpose-built rental market – are included in the secondary rental market.

# Purpose-Built Rental Housing

## Overview

- Purpose-built rental housing includes a range of built forms.
  - Largely in the form of apartment buildings (95% of units) but also includes ground-oriented development, e.g. town/row houses (5%).
- 92% of Ontario's purpose-built housing constructed prior to 2000.
- Limited purpose-built development activity in past two decades.





# What is Driving the Increase in Demand for Rental Housing?

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Demographic and Economic Drivers

# What are the Key Growth Drivers of Rental Demand Housing in Ontario?



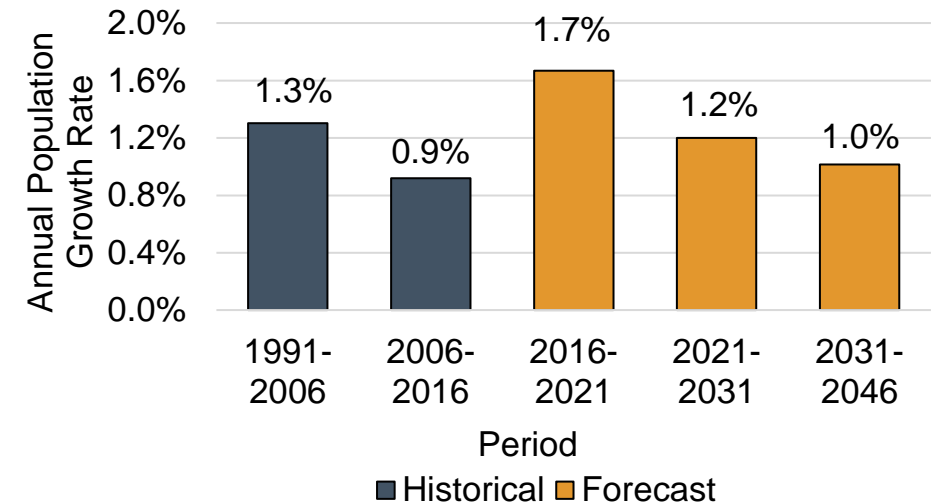
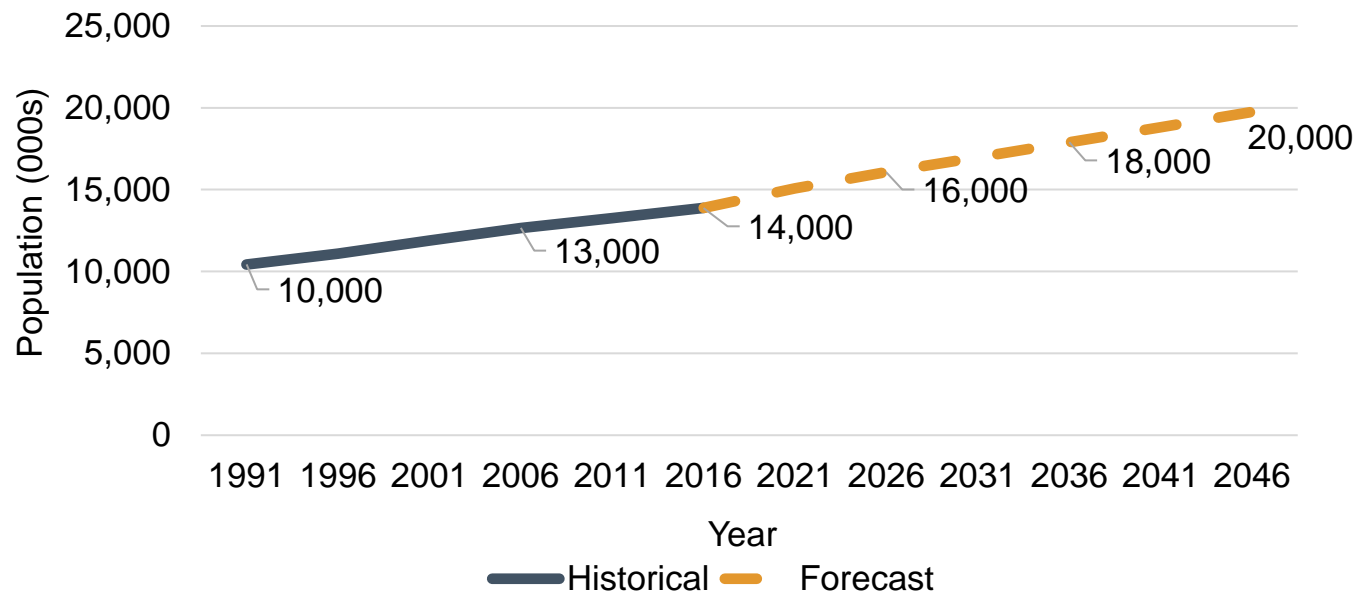
- Steady provincial population growth
- Aging population
- Strong provincial immigration outlook, including non-permanent residents (NPR)
- Eroding housing affordability

# Population Growth Trends – Ontario

## Historical and Forecast Population Growth



- Ontario's population is forecast to grow to 20 million people by the year 2046, an increase of approximately 6 million from the year 2016.



Note: Population includes net Census undercount.

Source: Adapted from Statistics Canada Annual Demographics Estimates, 1991 to 2016, and from Ontario Ministry of Finance Summer 2019 Population Projections, 2021-2046, by Watson & Associates Economists Ltd., 2020

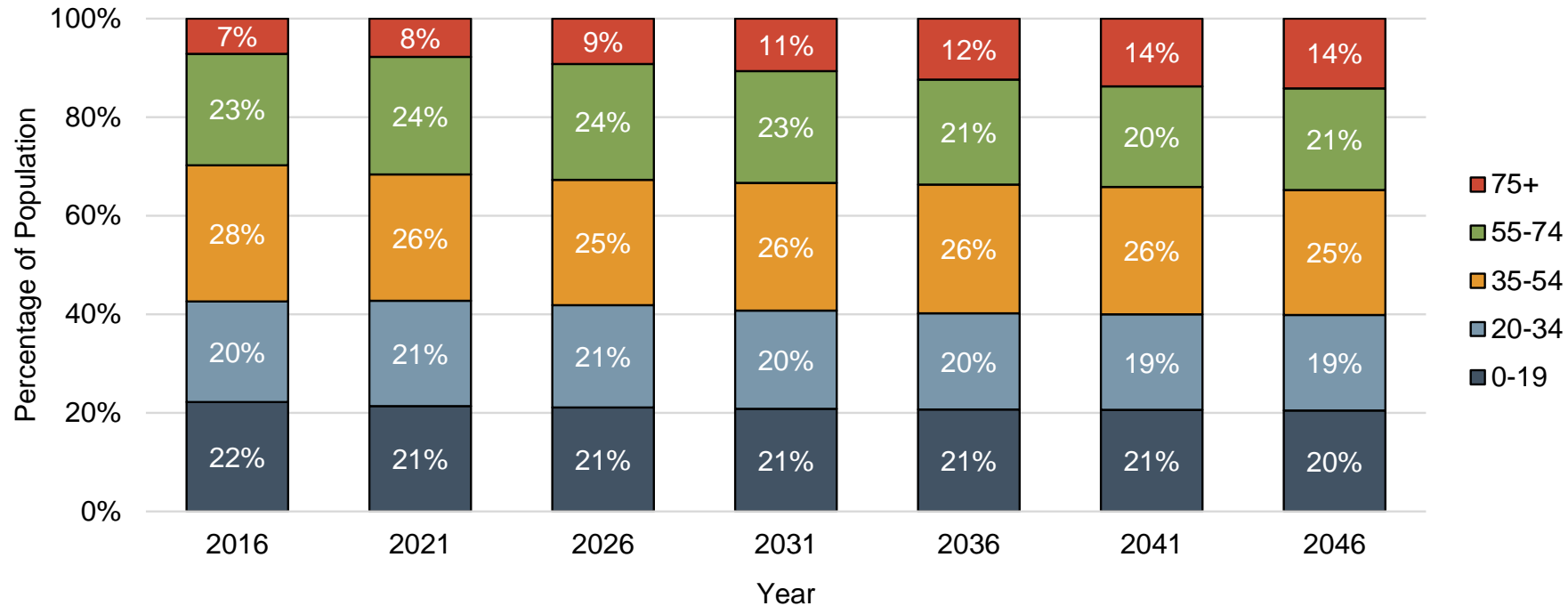


# Population Growth Trends – Ontario

## Historical and Forecast Growth by Major Age Groups



- The Province's population is steadily aging. Over the next 30 years, the share of older seniors (75+) is forecast to double.



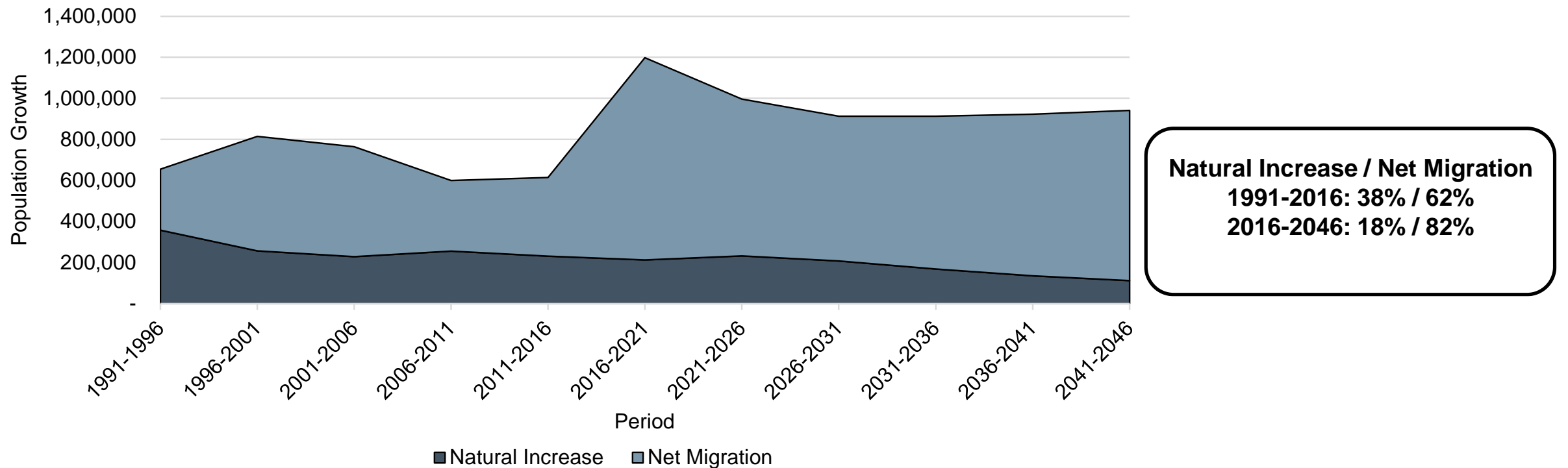
Source: Derived from Statistics Canada Annual Demographics Estimates, 2016, and from Ontario Ministry of Finance Summer 2019 Population Projections, 2012-2046, by Watson & Associates Economists Ltd., 2020

# Population Growth Trends – Ontario



## Historical and Forecast Growth by Net Migration and Natural Increase

- Net migration, particularly international net migration, will continue to represent the driving force behind provincial population growth.



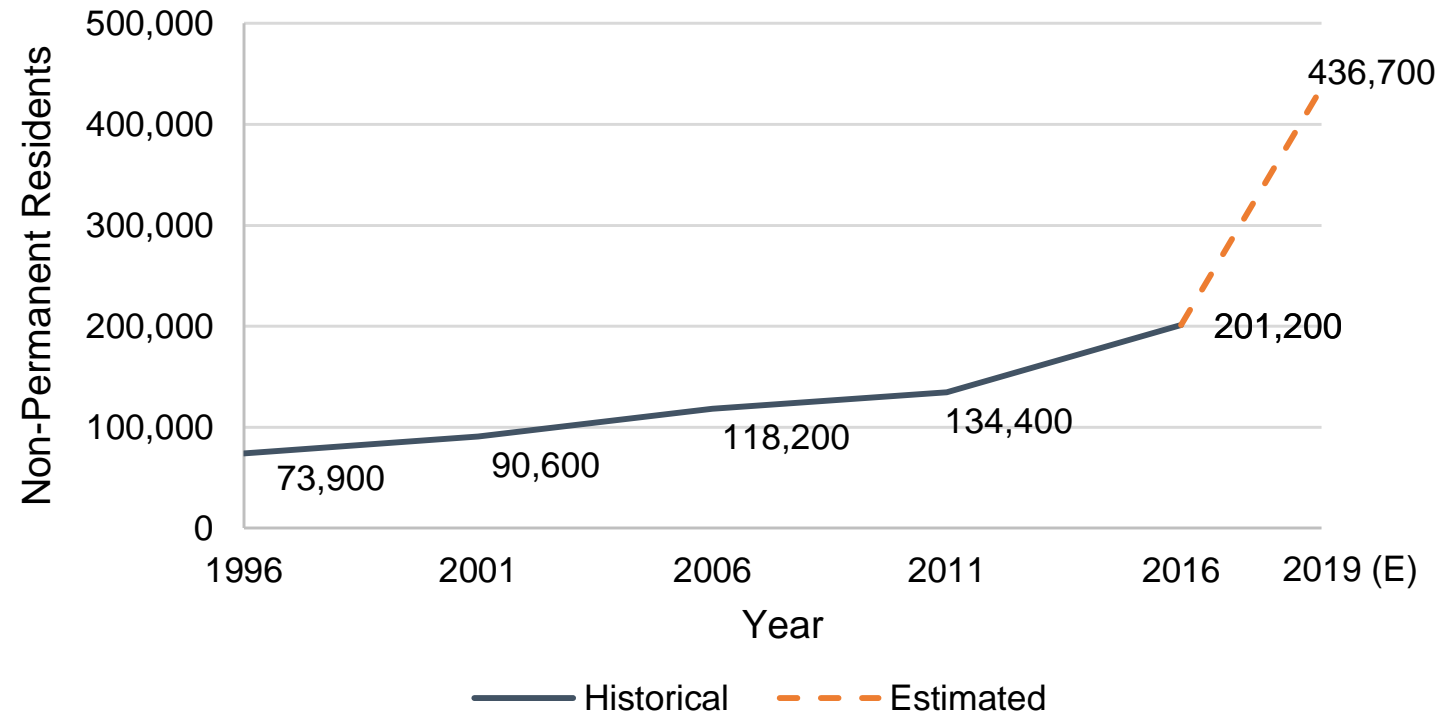
Source: Derived from Statistics Canada Annual Demographics Estimates, 1991 to 2016, and from Ontario Ministry of Finance Summer 2019 Population Projections, 2016-2046, by Watson & Associates Economists Ltd., 2020

# Immigration Driving Demand for Rental Housing

## Non-Permanent Resident Trends



- Population growth related to non-permanent residents (NPR) has surged since 2016.

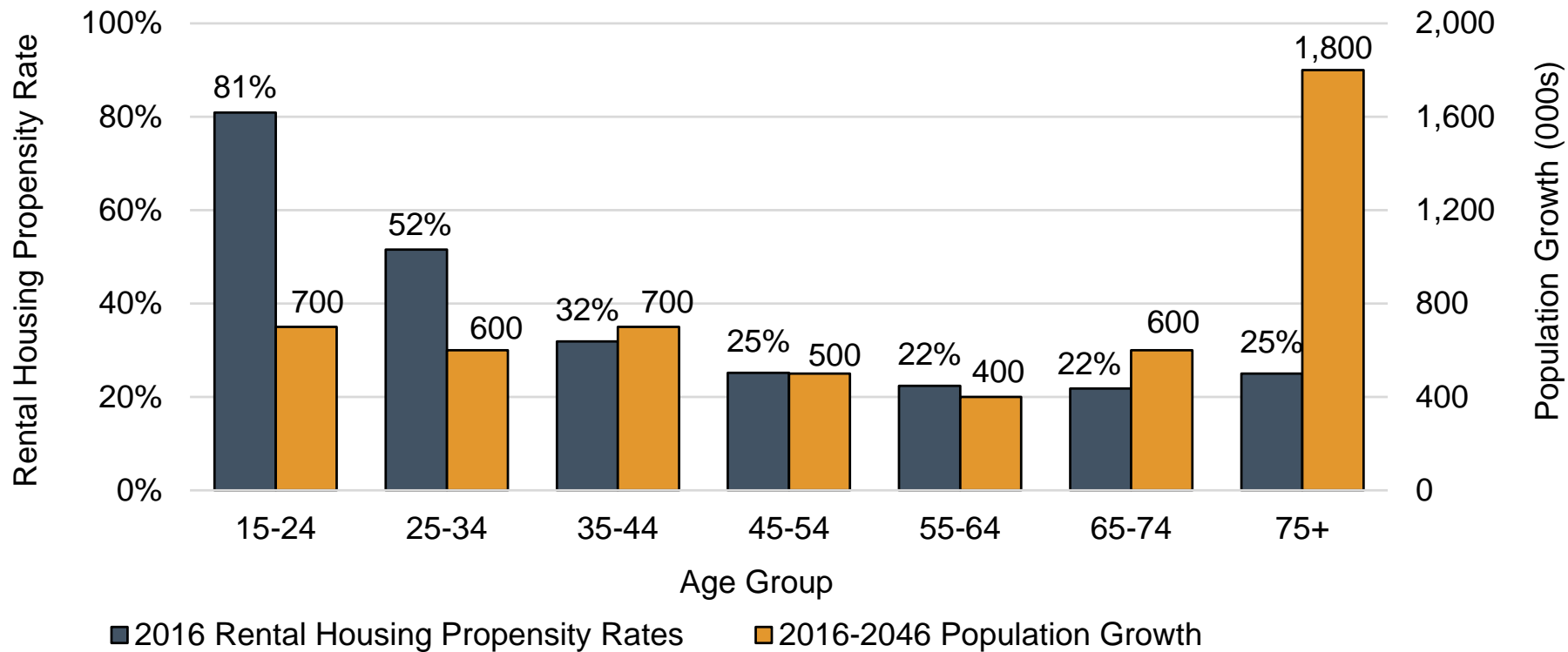


Source: 1996 to 2016 from Statistics Canada Census, and 2019 derived from Annual Demographics Estimates Components of Population Growth data, by Watson & Associates Economists Ltd., 2020.



# Rental Housing Forecast – Ontario

## Rental Housing Propensity Rate (2016) and Population Growth by Age Group (2016 to 2046)

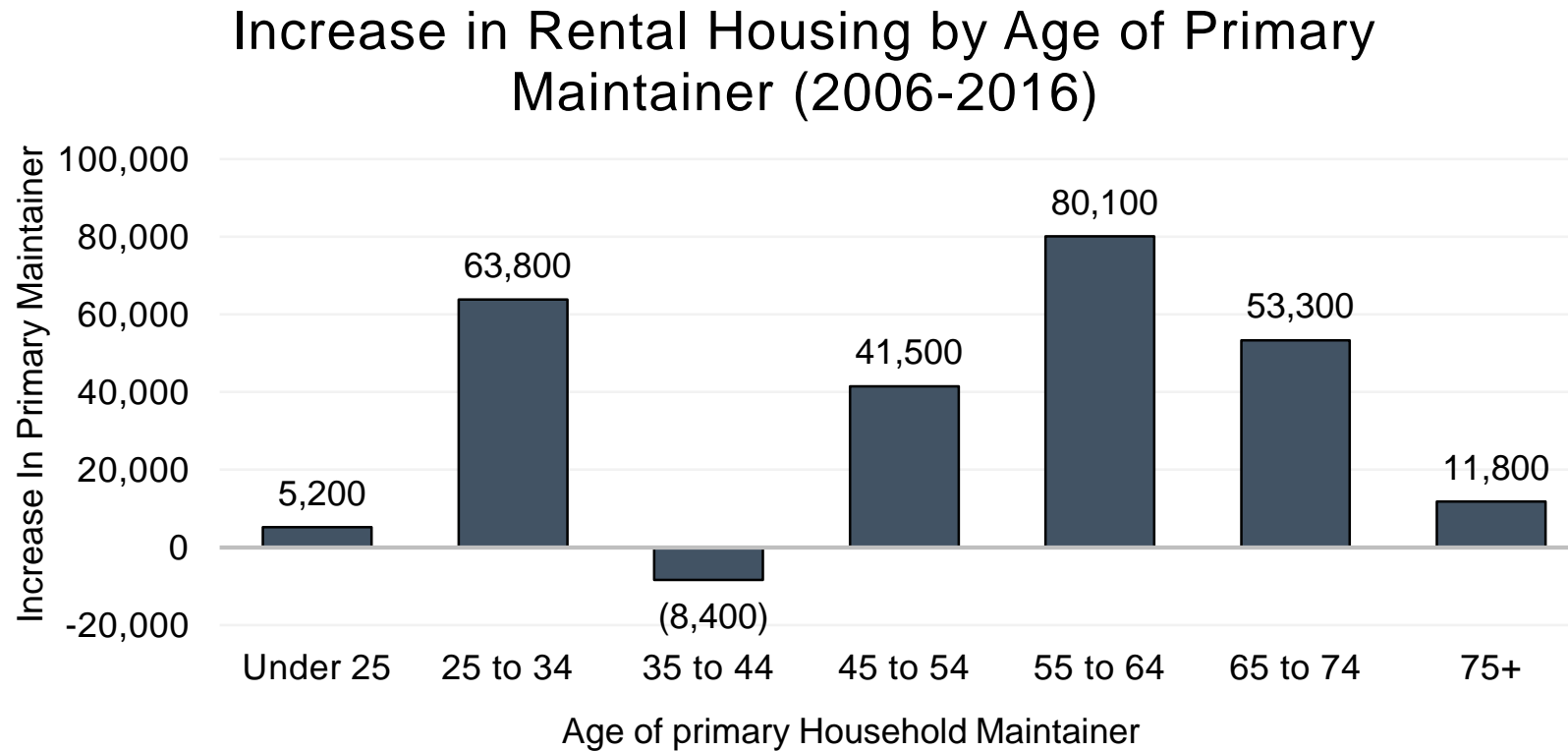


Source: 2016 rental housing propensity rates derived from Statistics Canada Census data, and population growth from Statistics Canada Annual Demographics Estimates for 2016 and Ministry of Finance Summer 2019 Population Projections for 2046, by Watson & Associates Economists Ltd., 2020.

# Rental Housing Profile



Age of Primary Household Maintainer – How has Housing Rental Demand been Historically Growing by Age Group?



Note: Figures have been rounded.

Source: Statistics Census Catalogue #98-400-X2016227 and 97-554-XCB2006034, by Watson & Associates Economists Ltd., 2020.

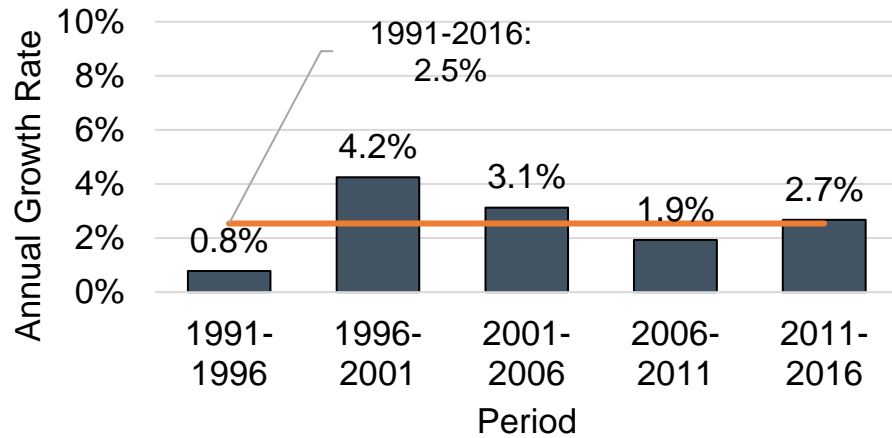
# Housing Affordability

## Affordability Erosion for Owned and Rented Housing Units



### Ontario

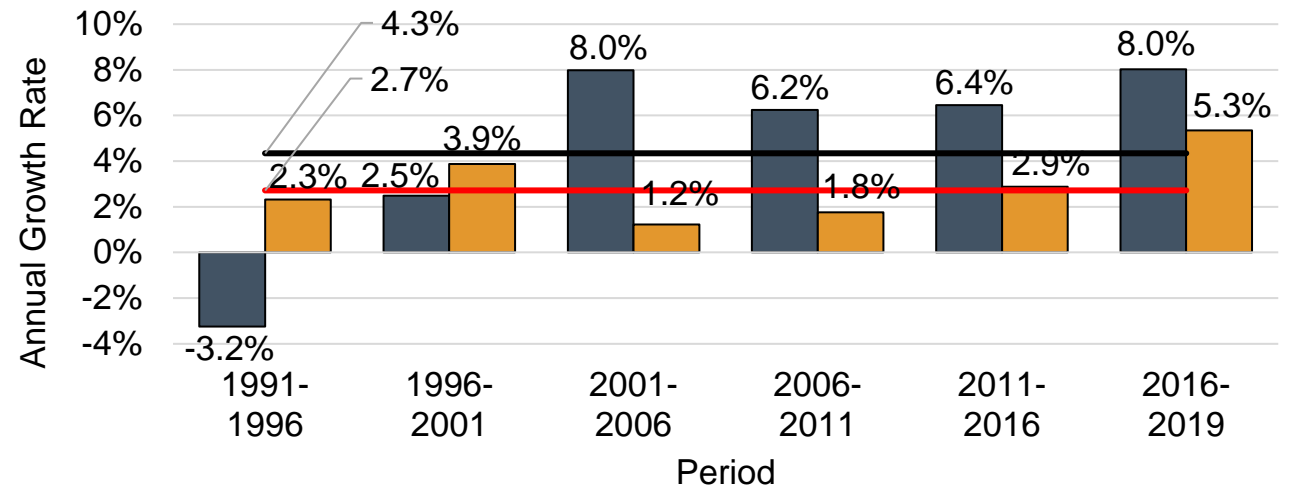
Average Household Income  
Annual Growth Rate, 1991 to 2016



Source: Derived from Statistics Canada Census, 1991 to 2016.

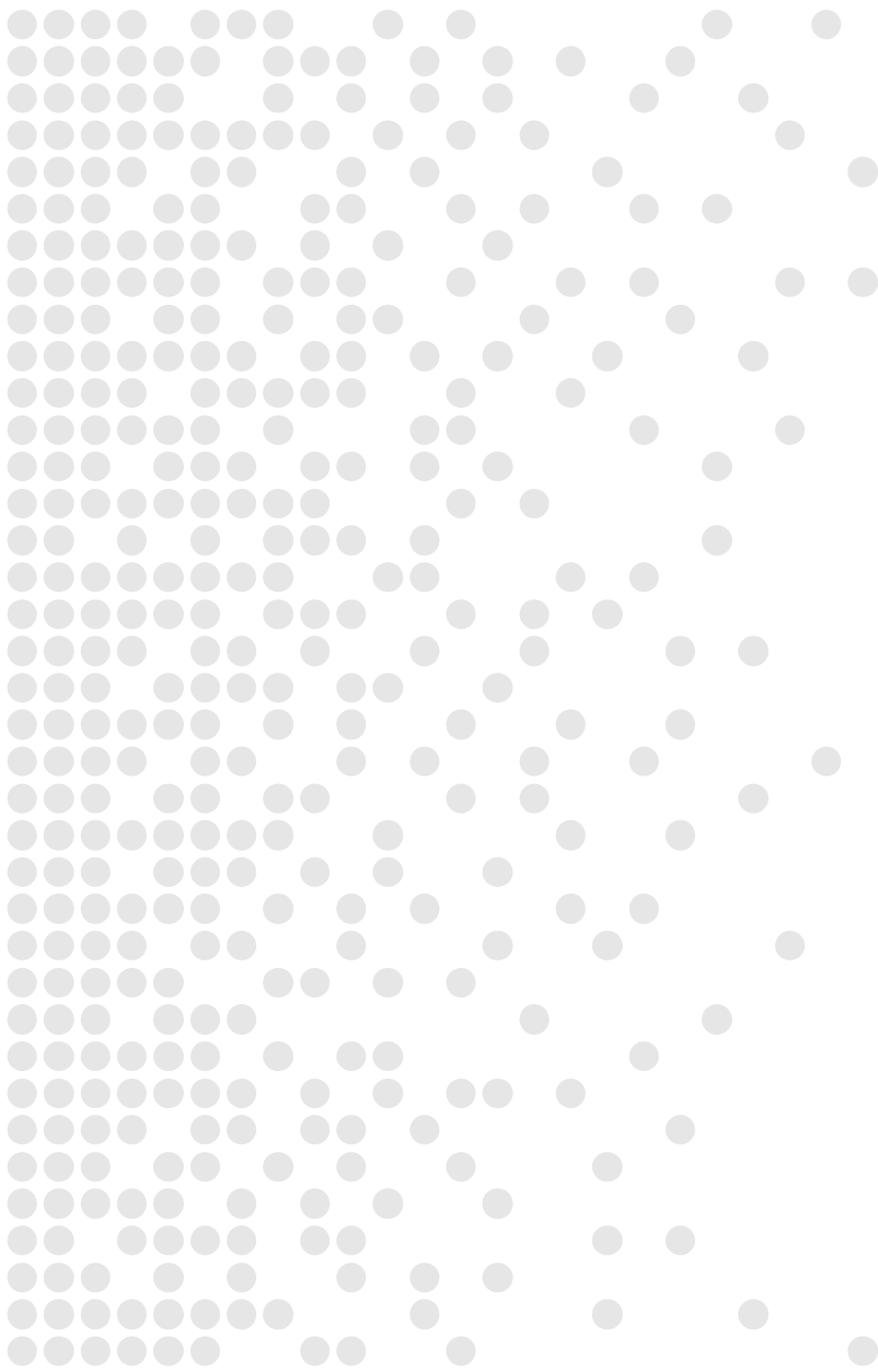
### Ontario

Annual Growth Rate in Single Detached Housing Prices  
and Primary Rental Market Apartment Rent, 1991 to 2016



- Single-Detached Houses
- Primary Market Rental Apartments
- Single-Detached Houses, 1991-2019:
- Primary Market Rental Apartments, 1991-2019:

Source: Derived from CMHC Market Absorption Survey and Rental Market Survey, by Watson & Associates Economists Ltd., 2020



# Rental Housing Demand Growth

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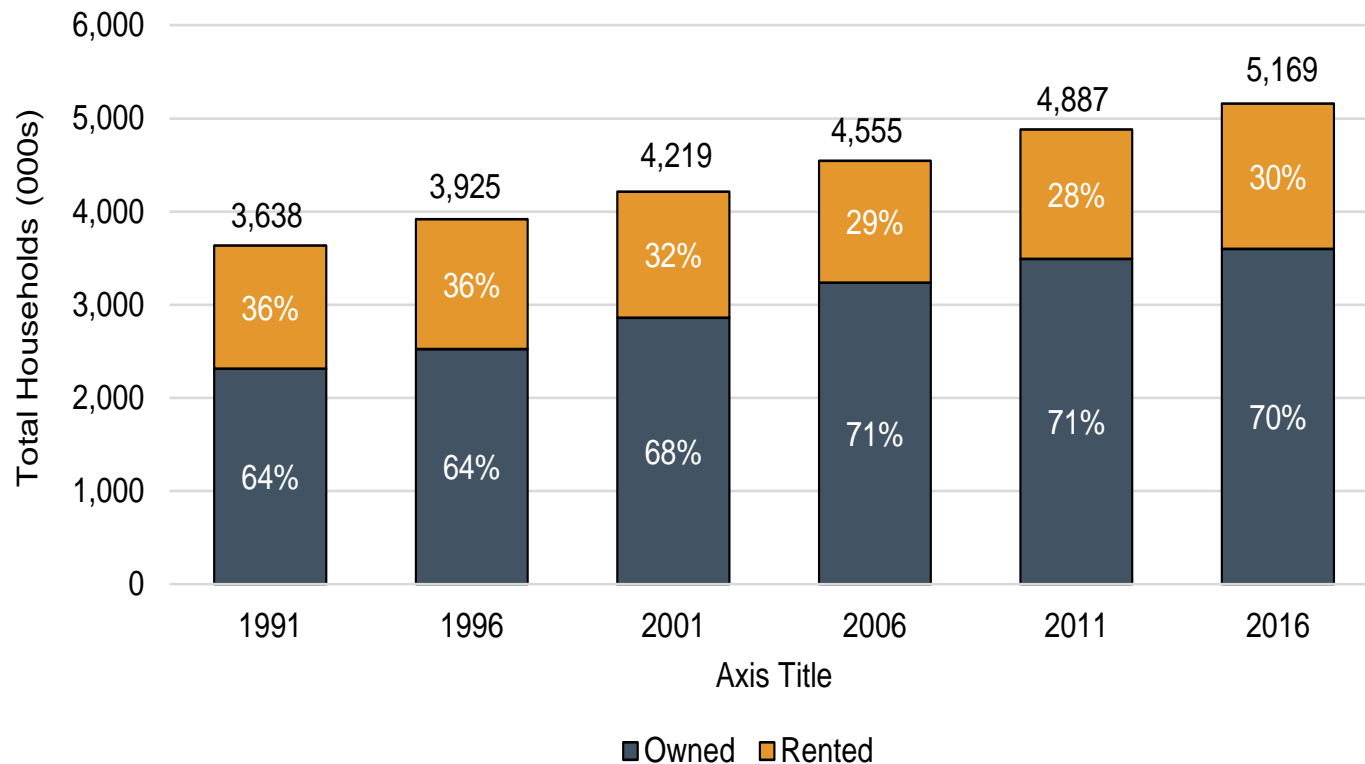
Historical and Forecast

# Housing Growth Trends – Ontario

## Historical Housing Growth



- How has Ontario's housing stock grown over the past 25 years?



Housing Type	Growth, 1991-2016		
	Annual	Share	Annual Growth Rate
Owned	51,000	84%	1.8%
Rented	10,000	16%	0.7%
<b>Total</b>	<b>61,000</b>	<b>100%</b>	<b>1.4%</b>

Source: Derived from Statistics Canada Census Profiles, 1991 to 2016, by Watson & Associates Economists Ltd., 2020.

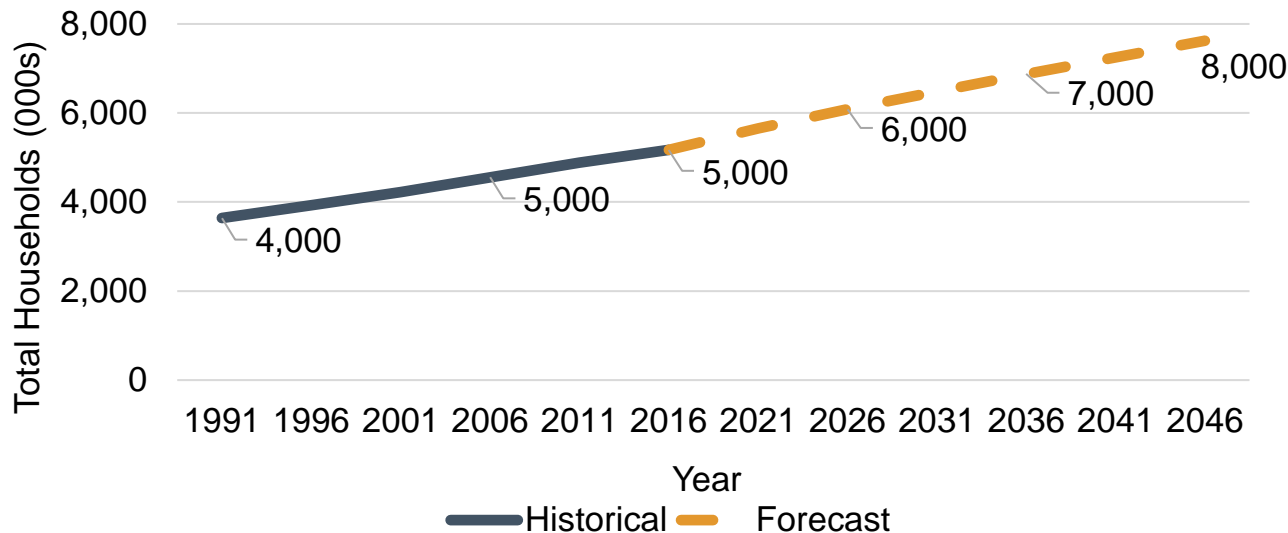




# Housing Growth Trends – Ontario

## Historical and Forecast Housing Growth

- How many households will be needed to accommodate the population forecast to 2046?
- What is the anticipated rental housing need to 2046?

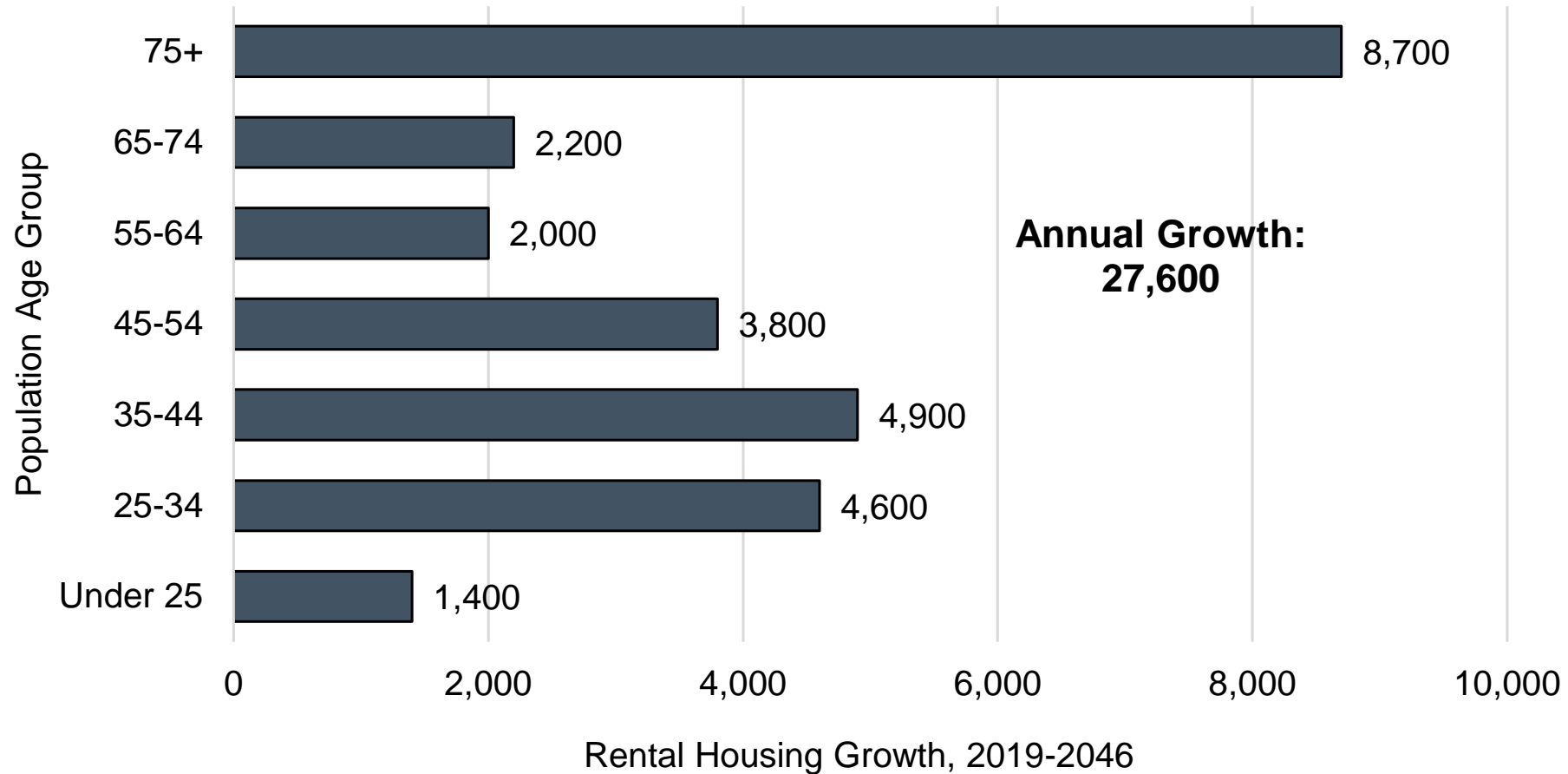


Housing Type	Growth, 2016-2046		
	Annual	Share	Annual Growth Rate
Owned	53,000	65%	1.2%
Rented	29,000	35%	1.5%
<b>Total</b>	<b>82,000</b>	<b>100%</b>	<b>1.3%</b>

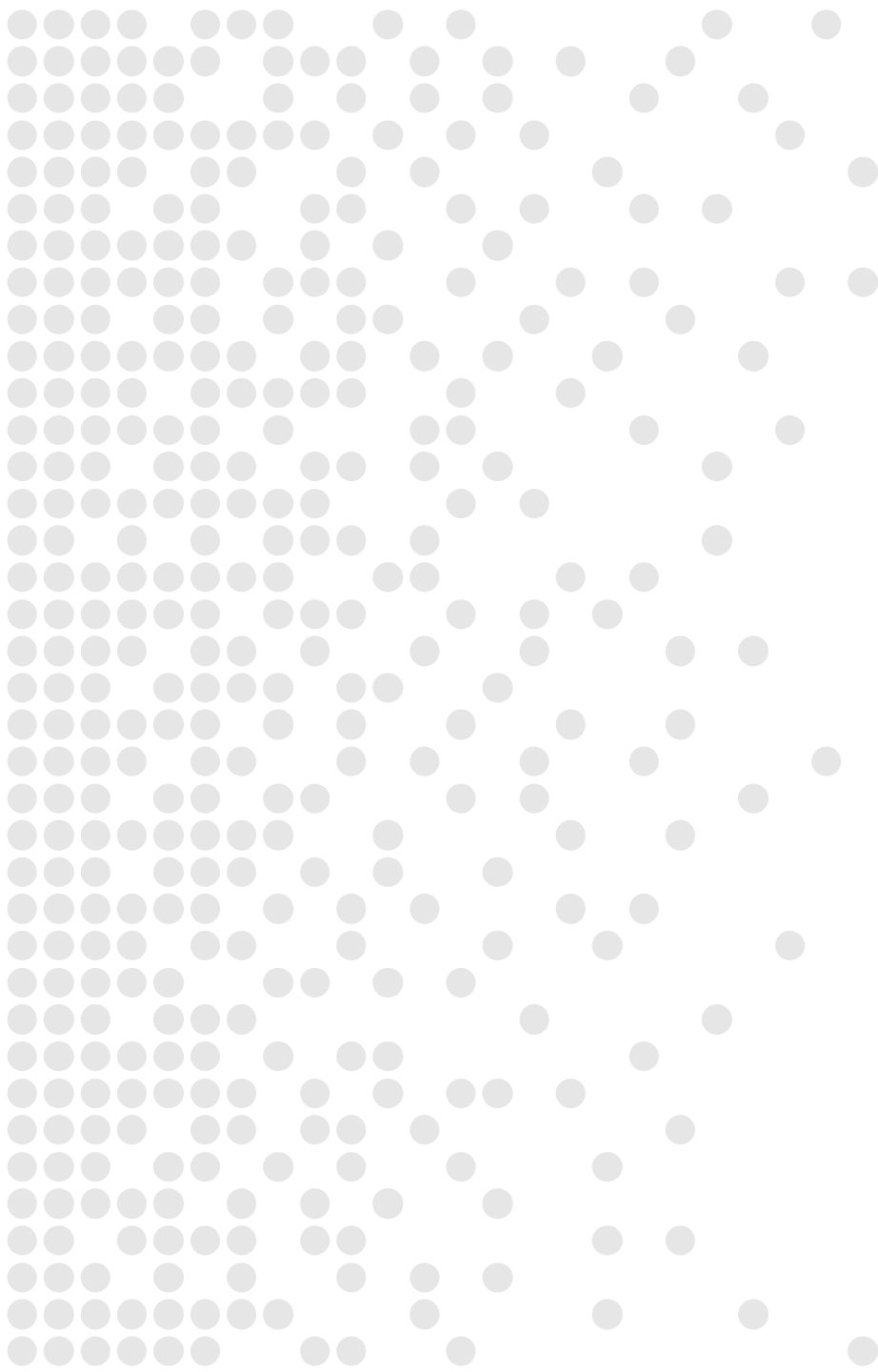
Source: Derived from Statistics Canada Census Profiles, 1991 to 2016, and 2021-2046 by Watson & Associates Economists Ltd., 2020

# Rental Housing Forecast – Ontario

## Rental Housing Forecast by Age Group, 2019 to 2046



Source: Watson & Associates Economists Ltd., 2020.



# Ontario Rental Housing Market

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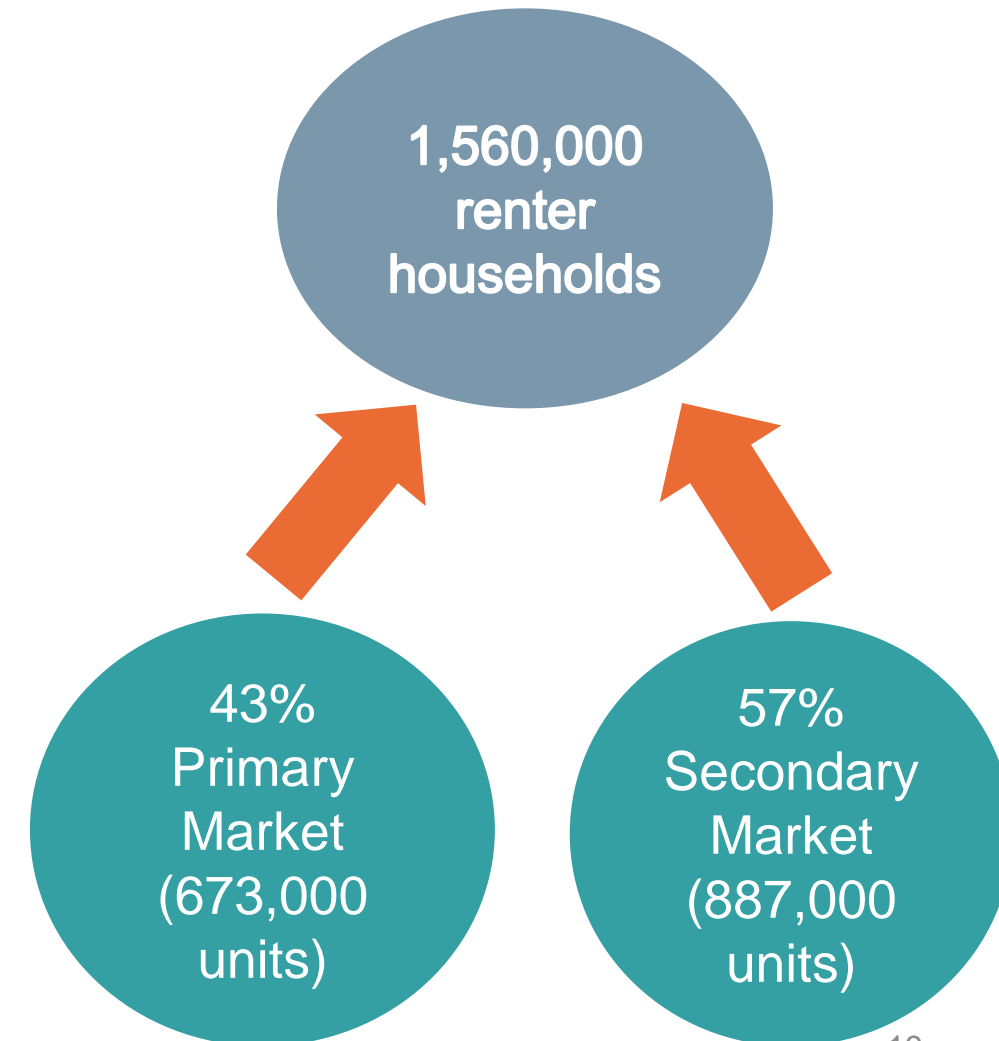
## Demand and Supply Profile and Growth Trends

# Rental Housing Market – Ontario

## Rental Housing Demand and Supply Profile



- Renter households represent 30% of total households in Ontario – higher in larger urban centres (range between 33 and 47%).
- Renter households a growing share of total households across Ontario.
- Rental vacancy rates at relatively low levels – (2% Province-wide and <2% in many larger urban markets).
- Province-wide rental supply comprised of 43% primary market (purpose-built units of 673,000 units) and 57% secondary market units (887,000 units).

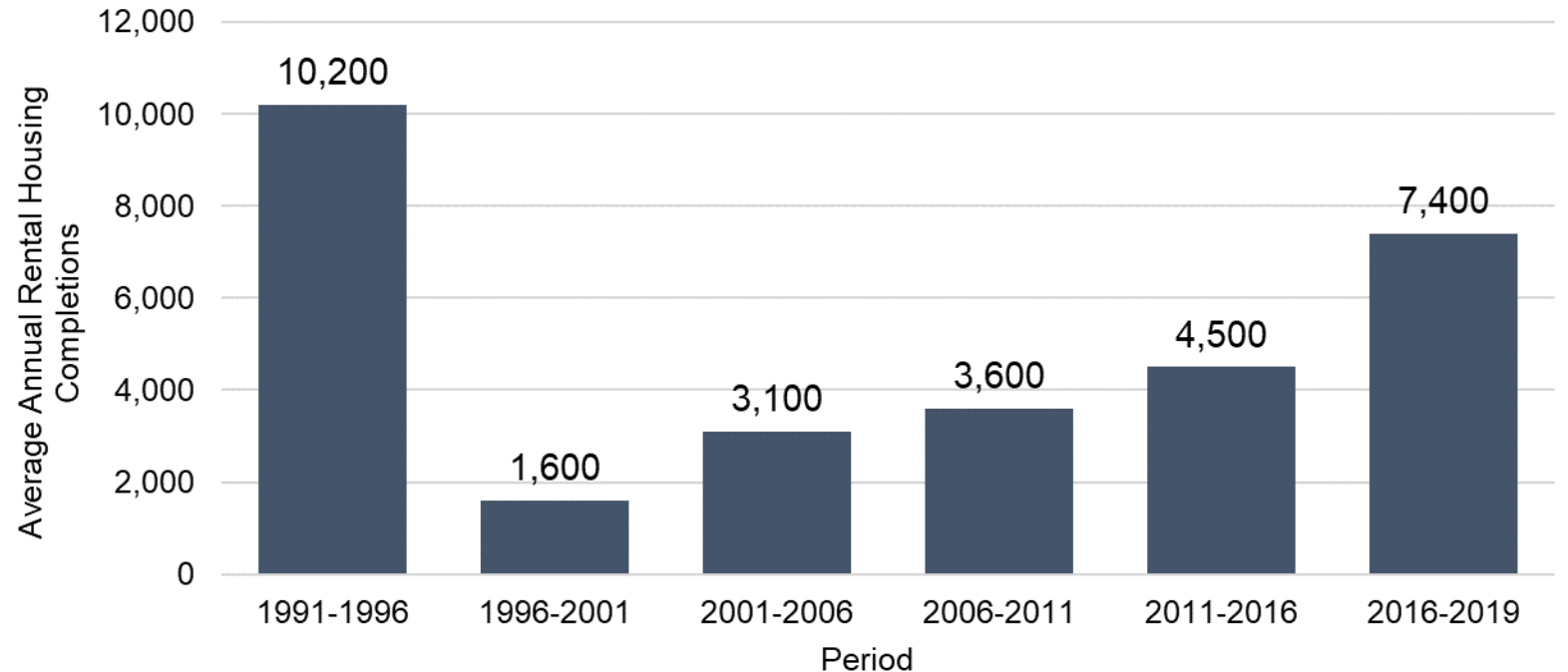


# Rental Housing Growth Trends

## Primary Rental Market – Supply Growth Trends



- The annual construction of purpose-built rental housing has steadily increased in Ontario over the 2001 to 2019 period.
- Development activity remains well below historical levels.



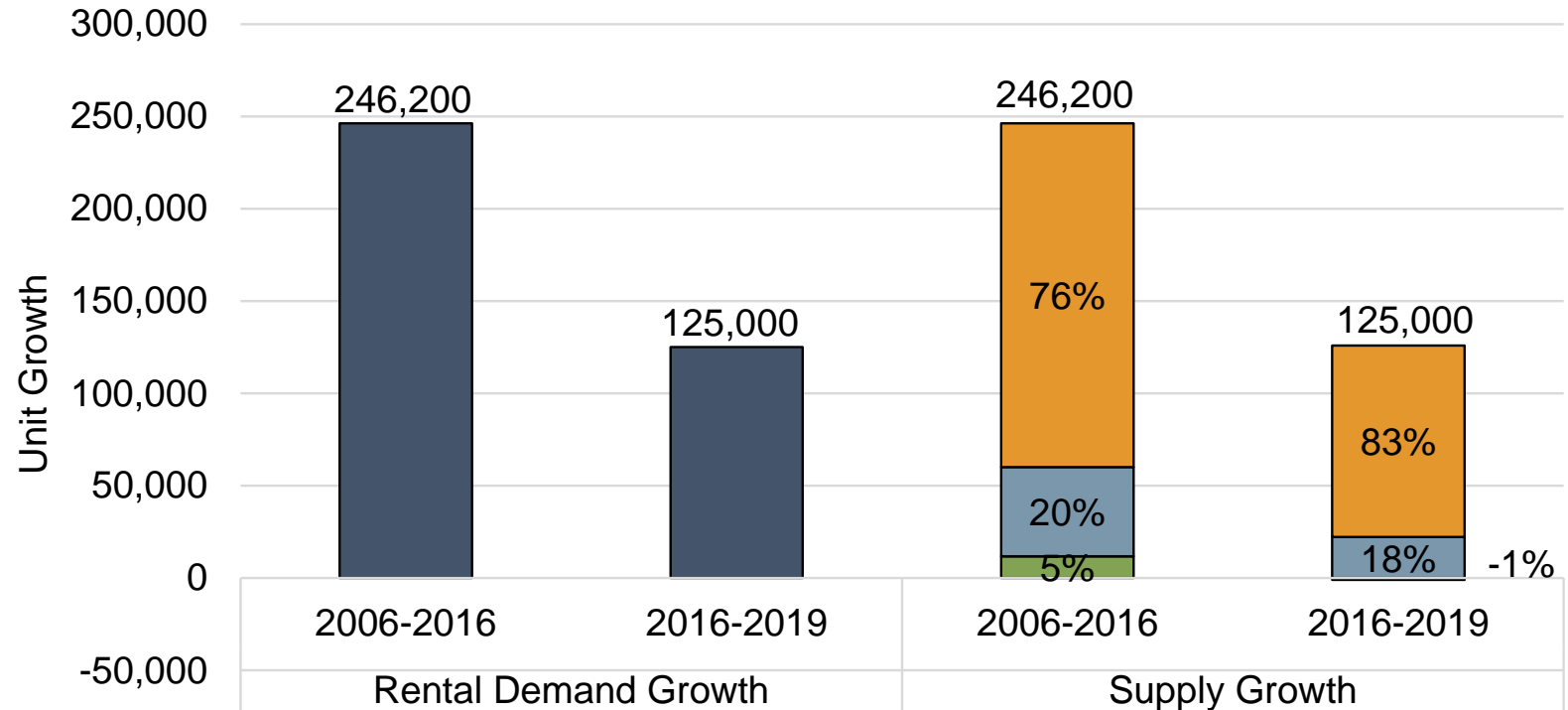
Source: CMHC Primary Rental Market Statistics, by Watson & Associates Economists Ltd., 2020.

# Rental Housing Growth Trends

## Components of Supply and Demand, 2006 to 2019



- Purpose-built rental supply growth not keeping up with demand.
- Rental market has been relying increasingly on secondary market to meet demand growth.
- Since 2006, about four-fifths of demand growth satisfied through secondary market.



■ Absorbed Vacant Units ■ Primary Rental Market Units ■ Secondary Rental Market Units

Source: Derived from Statistics Canada Census (2006 and 2016) and CMHC Annual Housing Completions, by Watson & Associates Economists Ltd., 2020.

# Why is Purpose-Built Rental Housing Important?

## Advantages of Primary Rental Market Compared to Secondary Market



- Primary rental market units not subject to broader market fluctuations and variability in housing tenure.
  - Greater housing security – individual tenants have guarantees on longer term rental accommodation.
  - Greater municipal supply certainty – purpose-built rentals represent long-term rental housing stock.
- Purpose-built units tend to have lower market rents than comparable secondary market units and offer opportunity to incorporate non-market units in housing mix.
- Purpose-built developments are designed with amenities oriented to renter households.



# More Balanced Approach Needed to Meet Long-Term Rental Housing Needs



- Meeting the short- and longer-term needs of rental housing requires emphasis be placed on expanding the purpose-built rental inventory.
- Greater participation by the private-sector development community is needed to construct purpose-built rental housing.
- While the secondary market continues to be an important supplier of rental housing in the market, broader market choice in rental housing is needed.

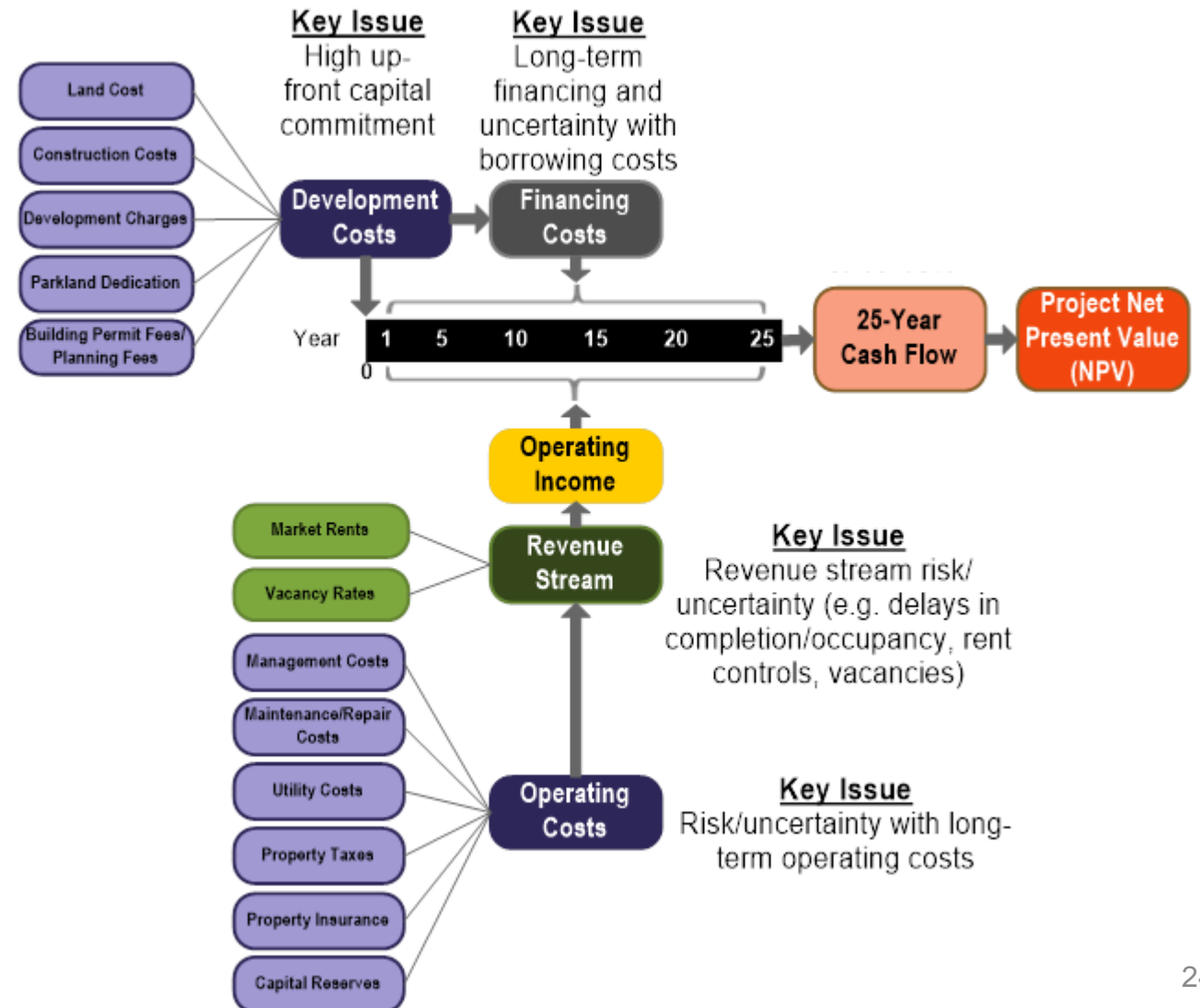


# Feasibility Challenges in Purpose-Built Rental Market

## Developer's Purpose-Built Rental Pro Forma and Key Issues



- Purpose-built rental housing projects typically require higher IRR (internal rate of return) than comparable condominium development to be considered feasible.
- Higher risks related to capital investment, long-term revenue streams and operating costs.
- Target IRR of 10-15%.



What has been your experience with respect to rental housing needs in your community?

Open Discussion

# Discussion on Rental Market

## Experience in Your Community



- Are there any other key market drivers of future rental housing demand that we have not discussed today?
- Have you seen changes in rental housing market demand in your community?
- How has the development market responded to changes in demand?
- Has your municipality seen market-based purpose-built rental apartment development activity?
- How has your municipality been involved to help support/facilitate these projects?

# The Role of the Planner – How Can We Achieve Better Balance Between Demand and Supply in the Rental Housing Market?

# Assessing Current Conditions and Near-Term Need



- Monitor and track key market indicators in the rental market:
  - Market supply inventory – purpose-built and secondary market.
  - Vacancy rates – current and historical trends.
  - Market rents – by unit size and location.
  - Trends in renter household growth by market segment (e.g. age cohort, family structure, income).
  - Recent development activity in purpose-built rentals and supply pipeline.
- Stakeholder consultation – housing providers, residents' associations, major employers, post-secondary institutions.

# Assessing Future Rental Housing Needs



- Based on broader population and housing forecasts, identify rental housing needs.
  - Modelling based on consideration of age structure forecast, household formation, and anticipated renter household propensity rates.
- Identify rental housing needs by housing type, geographic location and market segment.
- Identify share of rental housing needs to be addressed through purpose-built rental market.

# Tools to Support/Facilitate Purpose-Built Rental Housing Development



- Planning Tools

- Consider flexibility in planning permissions – e.g. building height, FSI, and setback requirements.
- Alternative parking standards/requirements.

- Financial Tools

- Potential municipal fee deferrals, waivers and exemptions – e.g. development charges, building/planning fees, parkland dedication.
- Potential application of Tax Increment Equivalent Grants.



# Pro Forma Modelling

## Assessing Feasibility of Purpose-Built Rental Housing Developments

- Municipalities can utilize pro forma models to assess the financial viability of purpose-built rental development.
  - Increasing interest in turn-key model deliverables prepared by consultants.
- Allow for sensitivity testing of residential project return on investment under various development parameters, ranging market conditions and financial scenarios.
- Help identify feasibility opportunities and challenges. If gaps in feasibility exist, what are they?
- Assess need/application of municipal financial/planning tools to address feasibility gaps.



# Pro Forma Feasibility – Prototypical Project

## Development Parameters



- Example of a mid-rise purpose-built rental housing project.
- Subject to private-sector development feasibility lens.

Development Type	Purpose-Built Rental Apartment
Parcel Size (ha)	0.4
Number of Storeys (Floors)	6
Total Building G.F.A. (sq.ft.)	77,000
Residential Leasable G.F.A. (sq.ft.)	66,000
Residential Units	92
1 Bedroom	43%
1 Bedroom + Den	25%
2 Bedrooms	32%
Parking Type	Underground
Parking Ratio (spaces per unit)	1.0
Parking Spaces	92
Buildings F.S.I.	2.0

Source: Watson & Associates Economists Ltd., 2020.

# Pro Forma Feasibility

## Sensitivity Analysis

- Reference scenario suggests a project with a less than favourable feasibility.
- Application of various planning and financial tools can generate a more favourable feasibility outcome.

	Scenario	Internal Rate of Return (%)
	<b>Reference Scenario</b>	<b>8.5%</b>
	<b>Change in Planning Permissions</b>	
A	Increase building height (6 to 12 storeys)	9.9%
B	Reduce parking requirements (1 to 0.5 space per unit)	8.8%
	<b>Financial Incentives</b>	
C	Development Charge Exemption	9.0%
D	Parkland Dedication Exemption	8.6%
E	5-year Tax Incremental Equivalent Grant	8.6%
<b>A-E</b>	<b>Application of all above</b>	<b>11.3%</b>



# Conclusions

## Key Takeaways



- Growing demand for rental housing in Ontario driven by a range of economic and demographic factors.
- More balanced supply growth needed to meet future rental housing demand with greater emphasis on expanding purpose-built inventory.
- Need for planners to better understand local rental housing needs, feasibility challenges of purpose-built apartments, and potential use of planning/financial tools to help facilitate development activity.



Questions?

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