January 25, 2019

Ms. Rachel Simeon
Director, Market Housing Branch
Ministry of Municipal Affairs and Housing
14th Floor, 777 Bay Street
Toronto, Ontario
M5G 2E5

Dear Ms. Simeon:

Re: Development Charges and Housing Affordability

At the outset, we would like to thank the Ministry for the invitation to participate in the "Development Charges and Housing Affordability Technical Consultations" undertaken as part of the Province's Housing Supply Action Plan. The undersigned participated in both the Municipal Consultation held on January 9, 2019 and the Municipal/Developer Technical Consultation Wrap-up held on January 21, 2019. We would, by way of this letter, summarize our perspectives advanced during those discussions.

Watson & Associates Economists Ltd.

Watson & Associates Economists Ltd. is a firm of municipal economists, planners and accountants which has been in operation since 1982. With a municipal client base of more than 250 Ontario municipalities and utility commissions, the firm is recognized as a leader in the municipal finance/local government field. The firm's Directors have participated extensively as expert witnesses on development charge (D.C.) and municipal finance matters at the LPAT/O.M.B. for over 37 years.

Our background in D.C.s is unprecedented including:

- Having undertaken over one-half of the consulting work completed in Ontario in the D.C. field during the past decade; and
- Provided submissions and undertook discussions with the Province when the *Development Charges Act* (D.C.A.) was first introduced in 1989 and with each of the amendments undertaken in 1997 and 2015.

Development Charges and Land Supply

Within the provincial consultation document "Increasing Housing Supply in Ontario," the Province has identified five broad-themed barriers to new housing supply. The third

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barrier, "Costs: Development Costs are Too High Because of High Land Prices and Government Imposed Fees and Charges," presents that:

- New housing development requires access to serviced land;
- Land prices are driven up by lack of serviced land available for development; and
- Government-imposed fees and D.C.s make it expensive to develop new housing.

The following provides our comments and perspectives on these matters.

D.C. Rates in Ontario

As a starting point, we would provide a summary of the municipal and education D.C.s across Ontario as of late 2018 (Appendix A). Based on this data, the following summary is provided:

Table 1 - Development Charges in Ontario

Development Charge for Single Detached House[1]			
Area of Ontario	High	Median	Low
GTA	$113,600	$68,200	$42,700
Central	$66,800	$25,700	$11,200
Western	$36,300	$12,000	$300
Eastern	$37,200	$7,200	$1,000

[1] Rounded

Table 2 - Development Charges - Number of Municipalities in Each Range

Development Charge for Single Detached House						
Area of Ontario	100,000 +	80,000 - 100,000	60,000 - 80,000	40,000 - 60,000	20,000 - 40,000	0 - 20,000
GTA	1	9	4	11	-	-
Central	-	-	2	2	24	16
Western	-	-	-	-	19	42
Eastern	-	-	-	-	4	46

From the above data, the G.T.A. has the highest rates with the combined charges ranging from $42,700 to $113,600 and a median charge of $68,200. All other areas in the Province have charges under $40,000 with the exception of Central Ontario which has four municipalities in the $40,000 to $80,000 range.

Development Charges as a Source of Revenue

Appendix B provides the total municipal D.C. collections by service years (2013 to 2017). The following summarizes the total collections by category along with an averaged annual collection amount.

Table 3 - Development Charge Collections - 2013 to 2017

Service Category	Total Collections 2013 - 2017	Annual Average Collections	Percentage of Total
Water, Wastewater & Stormwater	3,890,337,560	778,067,512	38.8%
Roads & Transit	3,870,082,284	774,016,457	38.6%
Fire, Police & EMS	239,969,124	47,993,825	2.4%
Parks, Recreation & Library	1,305,415,069	261,083,014	13.0%
Provincial - Go Transit	47,415,065	9,483,013	0.5%
All Other	683,259,230	136,651,846	6.8%
Total	**10,036,478,333**	**2,007,295,667**	**100.0%**

As presented:

- Water, wastewater and stormwater services account for 39% of the D.C. funds collected. These services are essential to the creation of serviced land for housing and employment;
- Roads and Transit account for another 39% of the D.C. collections. These services are essential to goods movement and for employment; and
- The remaining collections go towards protection, health and well-being. Note that the Province receives 0.5% of the total municipal collections for GO Transit service.

Development Charges as a Percentage of House Prices

Over the past five years, infrastructure costs have risen. Factors that have influenced these increases include:

- Increases in tender prices to construct infrastructure;
- Increased regulatory requirements (e.g. increased quality treatment for water/wastewater, enhanced technology requirements);
- Increased land prices; and
- Enhanced approval process (environmental assessments, public engagement, etc.).

While the D.C. rates have increased, housing prices have increased as well. The following information was presented by BILD in their 2013 and 2018 documents "Government Charges and Fees on New Homes in the Greater Toronto Area."

Table 4 - Summary of Development Charges for Selected G.G.H. Municipalities - 2013

Item	Town of Oakville	City of Brampton	City of Markham	Town of Bradford West Gwillimbury	Town of Ajax	City of Toronto
Average New Home Price 36' lot	$590,000	$490,000	$600,000	$410,000	$460,000	$540,000
Lower-Tier/Single-Tier D.C.s	$18,957	$25,351	$19,950	$29,024	$12,020	$19,412
Upper-Tier D.C.s	$35,275	$35,532	$40,107	$6,172	$20,940	
Education D.C.s	$3,665	$2,146	$2,020	$1,088	$1,964	$544
Total Municipal D.C.s	$54,232	$60,883	$60,057	$35,196	$32,960	$19,412
Total D.C.s	$57,897	$63,029	$62,077	$36,284	$34,924	$19,956
D.C.s as a % of Housing Price	**9.8%**	**12.9%**	**10.3%**	**8.8%**	**7.6%**	**3.7%**

Source: Government Charges and Fees on New Homes in the Greater Toronto Area, Revised Final Report, July 23, 2013. Altus Group.

Table 5 - Summary of Development Charges for Selected G.G.H. Municipalities - 2018

Item	Town of Oakville	City of Brampton	City of Markham	Town of Bradford West Gwillimbury	Town of Ajax	City of Toronto
Average New Home Price 36' lot	$1,200,000	$655,000	$1,200,000	$570,000	$600,000	$930,000
Lower-Tier/Single-Tier D.C.s	$33,688	$29,417	$33,687	$25,106	$16,087	$60,739
Upper-Tier D.C.s	$40,277	$52,407	$48,330	$8,983	$28,360	n/a
Education D.C.s	$6,633	$4,567	$6,407	$1,759	$2,735	$1,493
Total Municipal D.C.s	$73,965	$81,824	$82,017	$34,089	$44,447	$60,739
Total D.C.s	$80,598	$86,391	$88,424	$35,848	$47,182	$62,232
D.C.s as a % of Housing Price	**6.7%**	**13.2%**	**7.4%**	**6.3%**	**7.9%**	**6.7%**

Source: Government Charges and Fees on New Homes in the Greater Toronto Area. May 2, 2018. Altus Group.

As presented, over the past five years D.C.s as a % of average new house prices have decreased in Oakville, Markham and Bradford West Gwillimbury, increased marginally (.3%) in Brampton and Ajax and significantly (3%) in Toronto.

Tables 6 and 7 present the increases in housing prices and D.C.s over the five-year period.

Table 6 - Summary of Housing Price Increase for New Homes for Selected G.G.H. Municipalities

	Town of Oakville	City of Brampton	City of Markham	Town of Bradford West Gwillimbury	Town of Ajax	City of Toronto
Average New Home Price 36' lot (Percentage Increase)	**103%**	**34%**	**100%**	**39%**	**30%**	**72%**

Source: Government Charges and Fees on New Homes in the Greater Toronto Area. Altus Group - 2013 vs. 2018

Table 7 - Summary of Municipal and Education Development Charge Increase for New Homes for Selected G.G.H. Municipalities

Item	Town of Oakville	City of Brampton	City of Markham	Town of Bradford West Gwillimbury	Town of Ajax	City of Toronto
Municipal D.C.s	36%	34%	37%	-3%	35%	213%
Education D.C.s	81%	113%	217%	62%	39%	174%
Total D.C.s	**39%**	**37%**	**42%**	**-1%**	**35%**	**212%**

Source: Government Charges and Fees on New Homes in the Greater Toronto Area. Altus Group - 2013 vs. 2018

In other jurisdictions, D.C.s as a percentage of new home prices are lower than the G.T.A.:

Table 8 - Development Charges as a Percentage of New Home Prices for Selected Municipalities - 2018

Item	City of Barrie	City of Hamilton	City of Kitchener	City of Windsor	City of Kingston	City of Ottawa
Average New Home Price	$778,715	$770,212	$714,253	$550,110	$454,755	$562,898
Total Municipal D.C.s	$49,184	$36,769	$33,041	$22,358	$18,468	$35,047
Education D.C.s	$1,759	$1,924	$1,691	$305	$124	$2,157
Total D.C.s	$50,943	$38,693	$34,732	$22,663	$18,592	$37,204
D.C.s as a % of Housing Price	**6.5%**	**5.0%**	**4.9%**	**4.1%**	**4.1%**	**6.6%**

Source: House Prices - CMHC Market Absorption Survey

Impacts of Loss of Development Charges on the Tax and Rate Payers

The revenue sources available to municipalities to fund capital infrastructure are limited.

- **External sources** – Includes D.C. contributions, grants, *Planning Act* contributions (parkland dedications, section 37 contributions) and donations.
- **Financing** – Debt and P3 (public/private partnerships) are financing tools and assist in spreading the burden over periods of time; however, the payments are ultimately made by the tax/rate payer.
- **Internal** – Property taxes, water/wastewater/stormwater rates, user fees, reserves (note that these funds are accumulated from past taxes and rates).

As noted in Table 3, removal of D.C. revenues would have a direct and immediate impact on property taxes and user rates to fund the $2 billion annual loss. Water and wastewater alone accounts for 39% of the collections and is crucial to the creation of serviced land to supply housing and employment. A recent report released by the CD Howe Institute (dated August 14, 2018) recommended the removal of the water and wastewater D.C.s. This loss of over $780 million per year in external funding would have a major impact on water and wastewater customers. Ottawa, Peel and York Region considered the impacts of this recommendation and identified the following immediate impacts on their water/wastewater customers:

Table 9 - Impact on Water/Wastewater Bills Due to Loss of Development Charges

Municipality	Average Household Bill			User Rate Percentage Increase
	Bill Before Change	Bill After Loss of D.C. Revenue	Increase to Bill	
City of Ottawa	$826	$1,693	$837	106%
Region of Peel	$691	$1,206	$515	72%
Region of York[1]	$888	$1,417	$529	85%

[1] Includes the impact on the Region's bill only - does not include lower tier's component

The above impact on rates must be considered in conjunction with potential added capital expenditures arising from the mandatory asset management requirements of the *Infrastructure for Jobs and Prosperity Act*. Under this legislation, municipalities have four years to comply in implementing long-term capital plans for rehabbing or replacing existing assets. Given that most Ontario municipalities have existing water/wastewater capital investments per customer of $25,000-$35,000, the ability to absorb the added costs for new infrastructure without D.C. revenue would be financially unaffordable for most municipalities.

The Cost of Growth

The impact of development on a municipality is not often understood clearly. Appendix C provides a schematic overview of the different components of the municipal finance regime and how development impacts property taxes (and rates). On average, residential development creates more expenditures than it does revenue, placing upward pressure on taxes. As noted in the schematic, the purple boxes denote the need for infrastructure and the (partial) recovery from D.C.s leaving a net financial impact on the municipality. Should D.C.s be further reduced, there is a further and direct impact on taxes and rates.

Fiscal Impact Case Studies – Milton and Barrie

Our firm has undertaken numerous fiscal impact assessments to evaluate the overall impact of growth on municipalities. Most often, these are undertaken as part of an Official Plan Review in order to provide direction on the timing and phasing of development (from an affordability perspective) along with financial policies to manage the financing of the infrastructure. Two examples of the impacts of growth are provided below:

Town of Milton – Located in the G.T.A. West, it is identified as a key growth area. In 2000, it had a population of 31,500 and was "planned" to grow to approximately 175,000. The early building projections were to grow at about 1,000 units per year which has increased significantly, reaching well over 2,000 units per year for a number of years. At present, the Town's population is approximately 130,000. Planning for this municipality to grow almost six times its size required significant investment in both infrastructure and operating costs. From the fiscal impacts undertaken for each secondary plan, growth was deemed unaffordable. Observations arising from the studies included:

- D.C.s only contributed to about 75% of the growth-related costs (due to mandatory exemptions, reductions, deductions and averaging of historical service standards;
- Debt capacity would exceed 50% placing it well above the provincial limit of 25%; and
- Tax rate increases averaging approximately 10% per year were anticipated over the planning period.

Based upon the above challenges facing the Town, the growth would have to be slowed to approximately 30% of the growth targets in order to maintain financial affordability. The municipality, however, was able to negotiate with the development community to assist in mitigating the impacts. By agreement, capital contributions (in addition to the D.C. payments) were made to reduce the debt borrowing requirements (thus reducing the debt to below the capacity limits) along with the direct impact on property taxes.

City of Barrie – Located north of the G.T.A., Barrie also achieved rapid growth in the 1990s and subsequently sustained moderate growth thereafter. In 2010, the City had annexed 5,700 acres of land from Innisfil which was targeted primarily for residential development. Within the City's existing built boundary, there was significant residential lands along with employment lands to be developed. The landowners within the annexed area wished to proceed with the Secondary Plan process and potentially proceed to advance the development of the area. In addition to the financial costs of providing infrastructure to the existing built boundary area, the City was facing significant financial challenges to address replacement of aging water, wastewater, roads and other infrastructure. In attempting to address the financial infrastructure requirements within the existing built boundary along with layering the growth within the annexation lands, the City would have to consider the following impacts:

- D.C.s only contributed to about 75% of the growth-related costs (due to mandatory exemptions, reductions, deductions and averaging of historical service standards;
- Debt capacity would exceed 46% placing it well above the provincial limit of 25%; and
- Tax rate increases averaging 6% per year.

Similar to Milton, the City negotiated capital contributions to assist with reducing the debt capacity below the mandatory limit and the direct impact on property taxes (4% per year).

Note that the capital contributions mentioned for Milton and Barrie were to directly fund growth-related capital costs which were not D.C. recoverable as a result of the reductions, deductions and limitations set out in the D.C.A. Without these contributions, housing supply would have been reduced and staged to maintain affordability and sustainability. Note that with the changes imposed through the *Smart Growth for Our Communities Act, 2015* (Bill 73), the Province has sought to provide limitations in this area.

Housing Affordability in Ontario and the G.T.H.A.

Housing costs are typically the most significant household expenditure and the costs associated with housing relative to household income can have a significant impact on household well-being. Measuring affordability typically involves comparing housing costs to household income.

"Affordability," as defined in this context, is continually changing and is based on a number of parameters, including the dynamics of the housing market (supply and demand), mortgage costs (determined by interest rates), operating costs, characteristics of households (household income, position in life cycle, lifestyle choices) and government policy. Affordable housing includes both low-cost market housing for homeowners and renters, as well as non-market housing available at subsidized rates.

An analysis is provided in Appendix D. The analysis presented therein suggests that over the 2006 to 2016 period, erosion in housing affordability has been largely in the rental market, and not in the owner-occupied segment.

While new home prices have risen over the period, there are a number of factors that help explain why housing affordability in the ownership market has remained relatively steady over the period:

- The decline in interest rates over the period, which has reduced borrowing costs for mortgages and helped manage carrying costs;
- A significant shift in new housing mix to more affordable housing products – increasing absorption of townhouse and condo units as a share of total; and
- An increase in multi-generational living and other non-traditional living arrangements (largely occurring in the G.T.H.A.).

Meeting the needs of rental and affordable housing requires a significant emphasis to be placed on expanding the purpose-built rental inventory to meet growing market demand. While the secondary market and non-profit housing continue to be important suppliers of rental housing in the market, it is recognized that to significantly increase the supply of rental housing will likely require greater participation by the private-sector development community to construct purpose-built rental housing.

Conclusions/Observations

From the discussion session undertaken with members of the development/building community, and the review provided herein, it is acknowledged that there are challenges for the development/building community to address the housing needs for certain sectors of the housing market. Rental housing is one example of an area where the low profit margins and high risks may limit participation by developer/builders; however, there clearly does not appear to be a Province-wide concern with D.C. rates which would warrant a wholesale reduction/elimination of D.C.s for any particular service.

As identified by Ottawa, Peel and York, the elimination of water/and wastewater D.C.s could have a very significant impact on annual customer billings impacting existing low-income households and affecting their ability to continue to afford their present homes. It would be short-sighted to eliminate D.C.s in order to stimulate a marginal increase in housing for potential new residents while possibly causing many marginal income homeowners to lose their homes due to the increased tax/rate charges. As well, the loss of this external funding source would reduce the creation of serviced lands for housing and employment.

To best address the Province's objectives, select segments of the housing market should be considered for assistance. Aid to the developer/builder should be performance-based in order to ensure that the desired actions for that housing market segment are carried out. Assistance could come in the form of grants funded by provincial/municipal funding sources. Other forms of assistance could be considered as well (low/no interest loans, delayed payments for municipal and senior level government fees and charges).

Yours very truly,

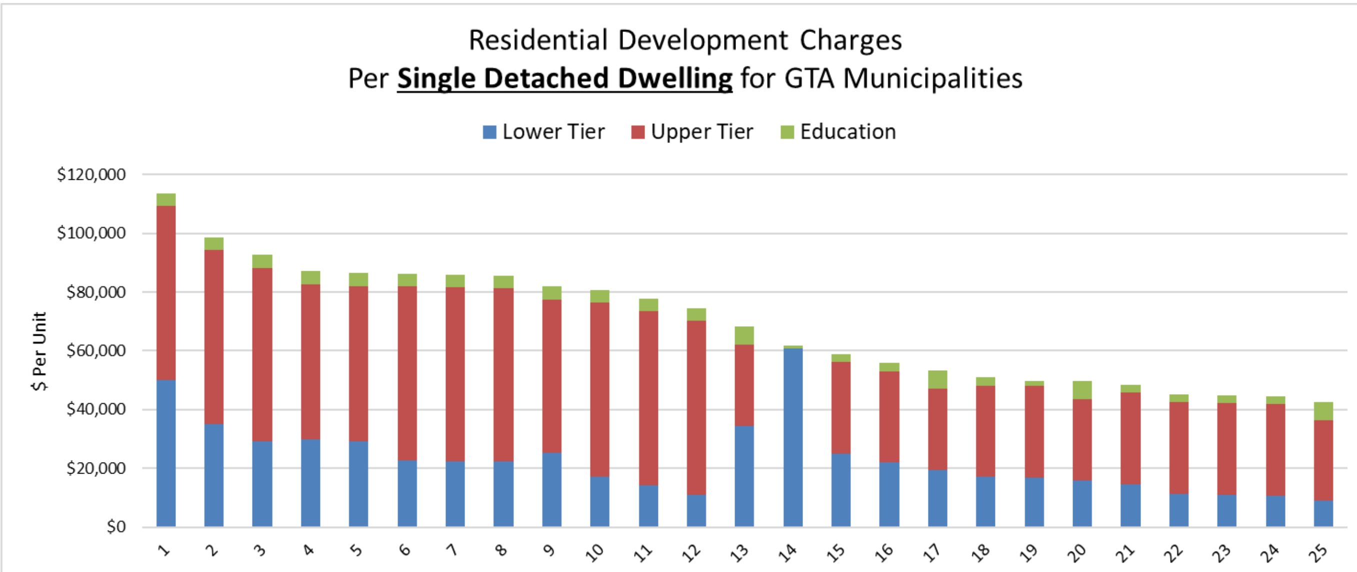
WATSON & ASSOCIATES ECONOMISTS LTD.

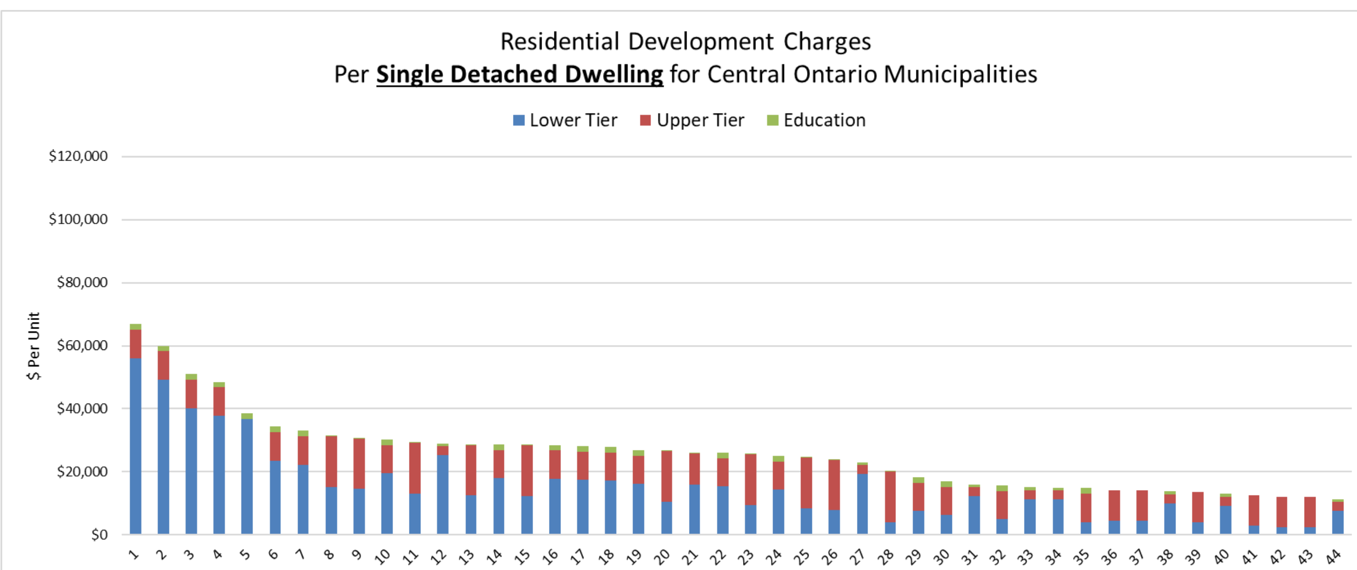
Gary D. Scandlan, B.A., PLE
Director

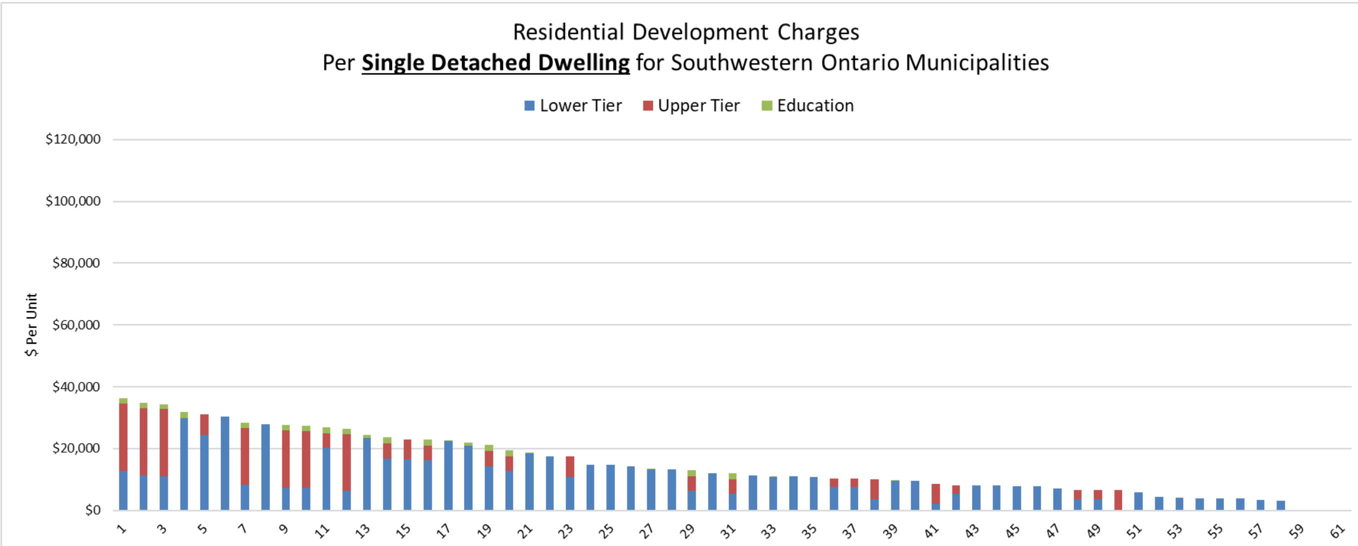
Appendices

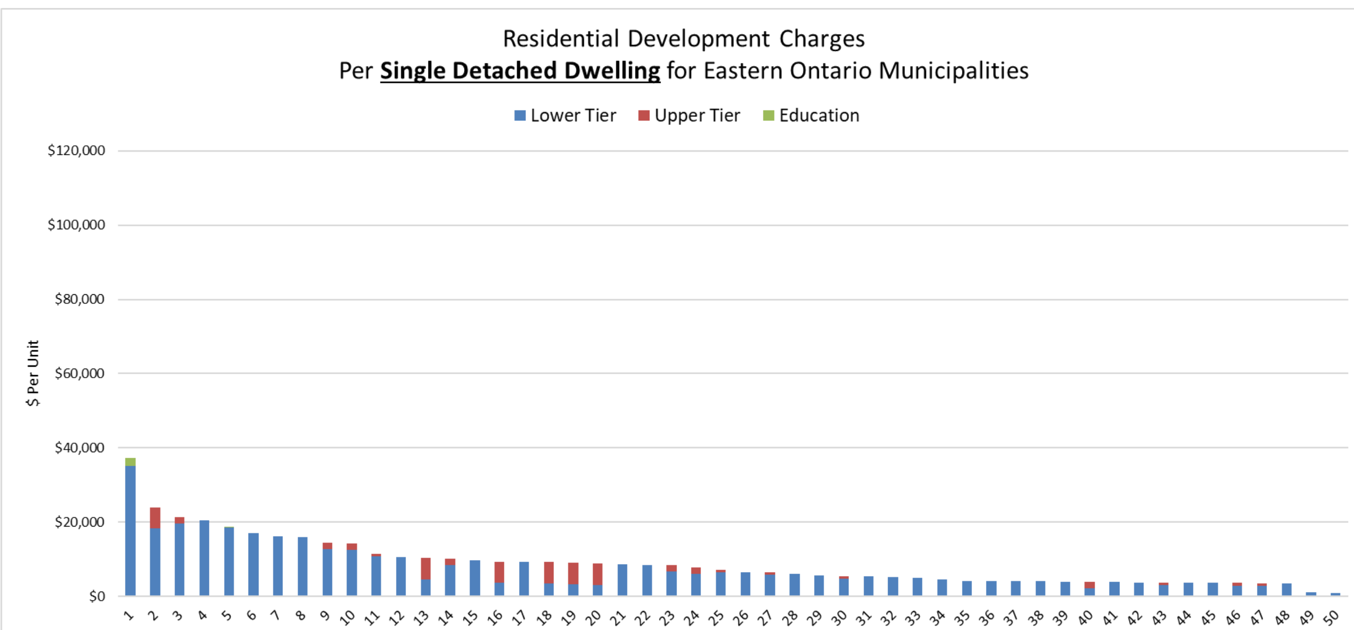
Appendix A
Development Charges in Ontario

Appendix A: Development Charges in Ontario






Residential Development Charges
Per Single Detached Dwelling for Southwestern Ontario Municipalities
Lower Tier
Upper Tier
Education
$ Per Unit
$120,000
$100,000
$80,000
$60,000
$40,000
$20,000
$0


Residential Development Charges
Per Single Detached Dwelling for Eastern Ontario Municipalities
Lower Tier
Upper Tier
Education
$ Per Unit
$120,000
$100,000
$80,000
$60,000
$40,000
$20,000
$0

Appendix B

Development Charge Collections 2013 to 2017

Appendix B: Development Charge Collections 2013 to 2017

Development Charge Collections - 2013 to 2017

Service	2013	2014	2015	2016	2017	Total	Average Annual
General Government	12,050,045	12,270,754	12,829,713	21,443,520	8,654,142	67,248,174	13,449,635
Fire Protection	19,100,753	23,624,512	24,765,253	27,313,942	26,978,473	121,782,933	24,356,587
Police Protection	16,473,155	18,511,592	20,652,998	18,378,613	20,548,089	94,564,447	18,912,889
Roads and Structures	459,358,776	612,034,803	690,333,195	779,050,973	719,779,061	3,260,556,808	652,111,362
Transit	76,809,022	132,348,600	130,908,057	132,489,696	136,970,102	609,525,477	121,905,095
Wastewater	226,276,592	326,853,930	366,627,394	442,003,774	377,008,100	1,738,769,790	347,753,958
Stormwater	35,407,598	37,192,646	36,127,040	52,679,456	53,577,620	214,984,360	42,996,872
Water	249,052,732	324,843,966	373,922,202	474,822,033	513,942,477	1,936,583,410	387,316,682
Emergency Medical Services	3,112,736	4,765,936	5,128,696	4,840,840	5,773,536	23,621,744	4,724,349
Homes for the Aged	3,073,247	2,939,550	3,743,039	3,595,331	4,297,427	17,648,594	3,529,719
Daycare	2,499,810	3,301,019	3,088,376	1,760,689	2,473,840	13,123,734	2,624,747
Housing	17,947,287	18,658,790	19,786,738	16,116,747	21,684,247	94,193,809	18,838,762
Parkland Development	64,269,835	88,966,081	84,900,635	73,762,908	87,751,688	399,651,147	79,930,229
GO Transit	7,594,651	9,005,572	10,515,931	9,837,550	10,461,361	47,415,065	9,483,013
Library	28,579,595	33,673,639	32,963,569	33,161,869	34,690,844	163,069,516	32,613,903
Recreation	113,885,296	139,822,233	162,878,471	165,794,581	160,313,825	742,694,406	148,538,881
Development Studies	6,785,229	7,539,525	9,634,244	9,536,538	11,607,836	45,103,372	9,020,674
Parking	1,906,154	3,594,036	4,821,705	3,986,887	3,947,438	18,256,220	3,651,244
Animal Control	18,224	16,511	44,952	23,839	15,205	118,731	23,746
Municipal Cemeteries	38,942	69,614	55,007	170,736	108,145	442,444	88,489
Other	100,284,812	88,219,453	84,354,637	82,829,254	71,435,996	427,124,152	85,424,830
Total	**1,444,524,491**	**1,888,252,762**	**2,078,081,852**	**2,353,599,776**	**2,272,019,452**	**10,036,478,333**	**2,007,295,667**

Source: Financial Information Returns - 2013 - 2017

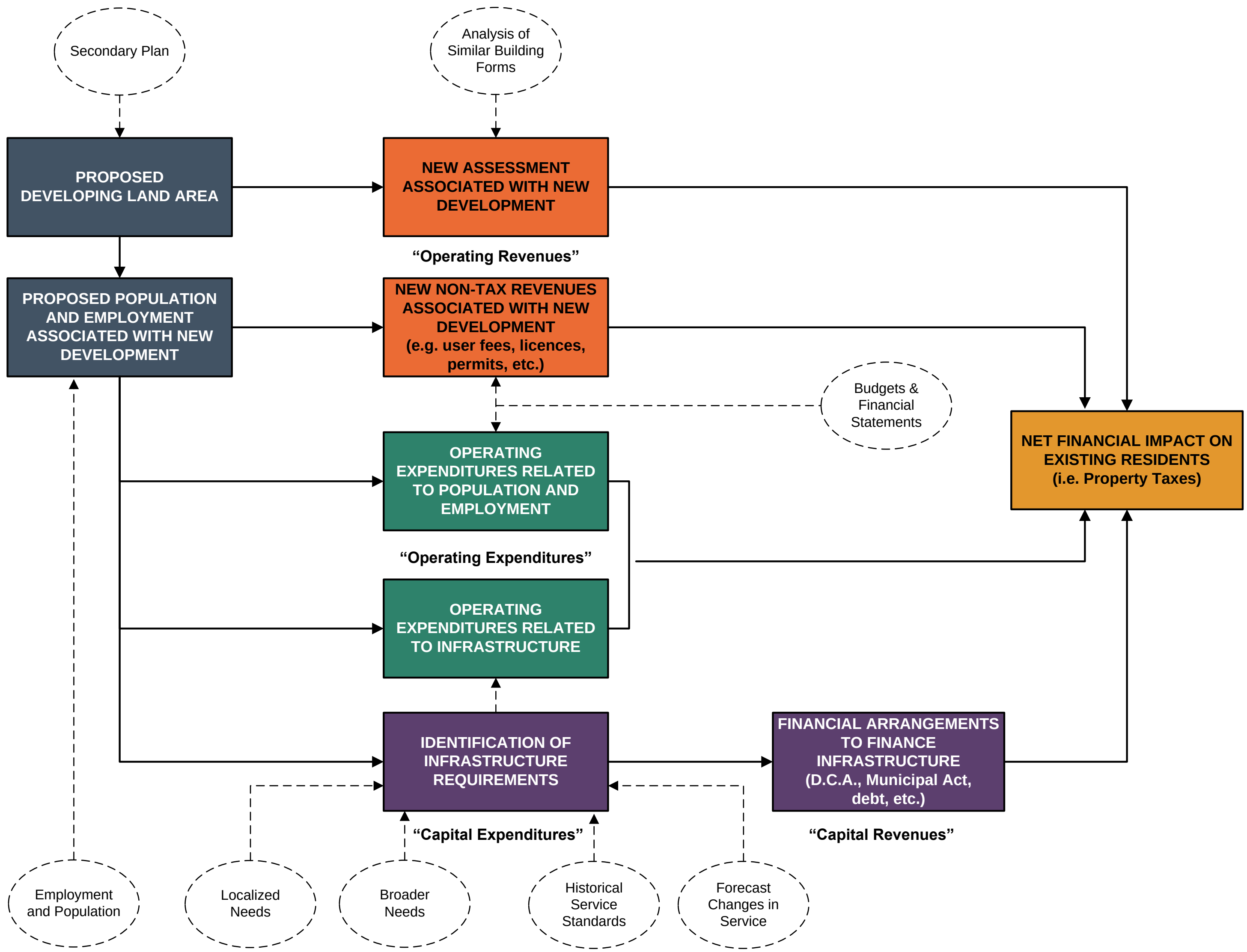
Appendix C
The Cost of Growth

Appendix C: The Cost of Growth

Figure C-1 provides a schematic overview of the impact of growth on capital and operating expenditures and revenues, which is described as follows:

- Pink Boxes – denote the anticipated development within a municipality to their Official Plan buildout.
- Fuchsia Boxes – denote the capital infrastructure needs to service the anticipated development. The capital requirements to support the servicing needs (water, wastewater, roads, fire, parks and recreation, etc.) will often be identified through growth-related studies and service master plans. Financing methods for funding the infrastructure are then considered in light of external financing recoveries (including D.C.s) and internal recoveries (reserves, transfers from operating). Any shortfalls in annual funding of the capital infrastructure is often cash flowed by the use of debt financing (the debt financing will then be included in annual operating budgets to service the principal and interest payments).
- Orange Boxes – denote the additional operating expenditures anticipated over time. These costs have been assessed on two different bases: operating costs related to infrastructure; and operating costs related to population/employment. The former identifies the specific operating costs anticipated to be incurred as additional infrastructure (i.e. treatment plants, roads, facilities, etc.) is constructed. The latter identifies program expenditures that are linked to population and employment growth.
- Blue Boxes – denote anticipated operating revenues commensurate with growth. The upper box identifies the additional assessment anticipated as residential, commercial and industrial building activity occurs over the forecast period. This new assessment gives rise to additional property tax revenue. The lower box identifies non-tax revenues such as user fees, permits, licences, etc., which are anticipated to grow in concert with population and employment growth.
- Yellow Box – denotes the overall financial impact on property taxes and rates over the forecast period. It is this impact that Council will have to consider in the future as secondary plans are approved and development approvals come forward.

Figure C-1
Overview of the Financial Impact of Growth



Appendix D
Development Charges and Affordable Housing

Appendix D: Development Charges and Affordable Housing

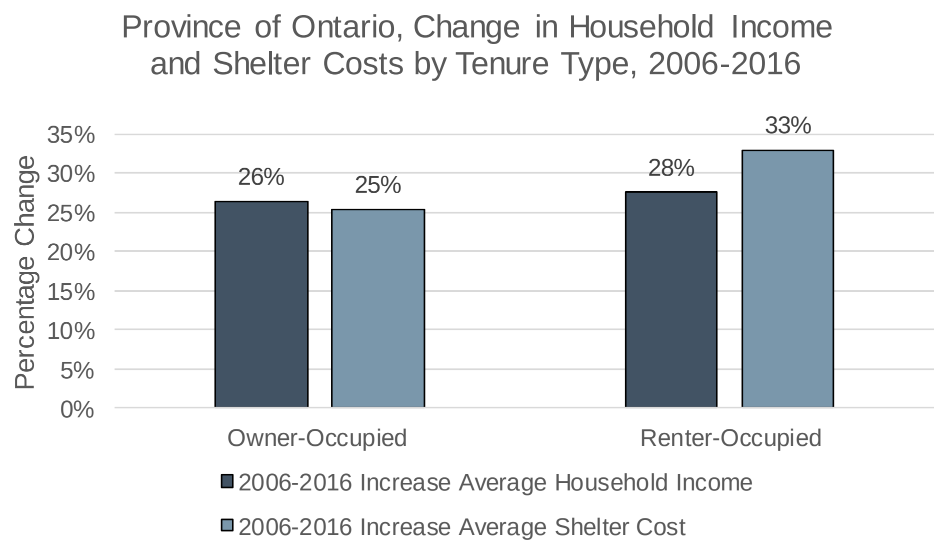
Housing costs are typically the most significant household expenditure and the costs associated with housing relative to household income can have a significant impact on household well-being. Measuring affordability typically involves comparing housing costs to household income.

"Affordability," as defined in this context, is continually changing and is based on a number of parameters, including the dynamics of the housing market (supply and demand), mortgage costs (determined by interest rates), operating costs, characteristics of households (household income, position in life cycle, lifestyle choices) and government policy. Affordable housing includes both low-cost market housing for homeowners and renters, as well as non-market housing available at subsidized rates.

<u>Change in Household Income vs. Shelter Costs, 2006 to 2016</u>

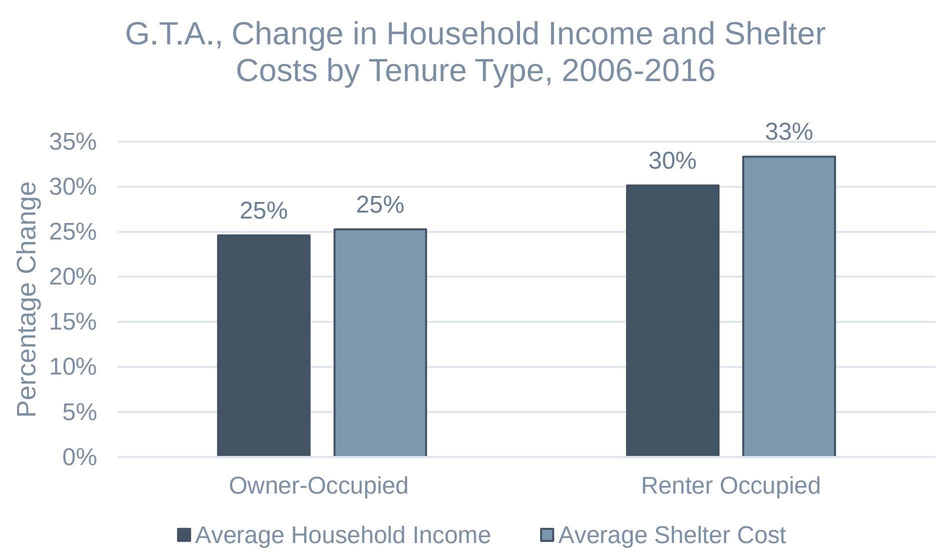
- Figures 1 and 2 summarize the percentage change in average household income and average shelter costs for owner-occupied and renter-occupied households in Ontario and the G.T.A. over the 2006 through 2016 periods, based on Census data. Key observations:
  - Owner-occupied household income has generally kept pace with increases in shelter costs over the period in the Province of Ontario and in the G.T.A.; and
  - Renter-occupied shelter costs have increased more over the past decade than household income, suggesting that there has been erosion in rental housing affordability over the period.

Figure 1



Source: Derived from Statistics Canada Census, 2006 & 2016, by Watson & Associates Economists Ltd., 2019.

Figure 2



Source: Derived from Statistics Canada Census, 2006 & 2016, by Watson & Associates Economists Ltd., 2019.

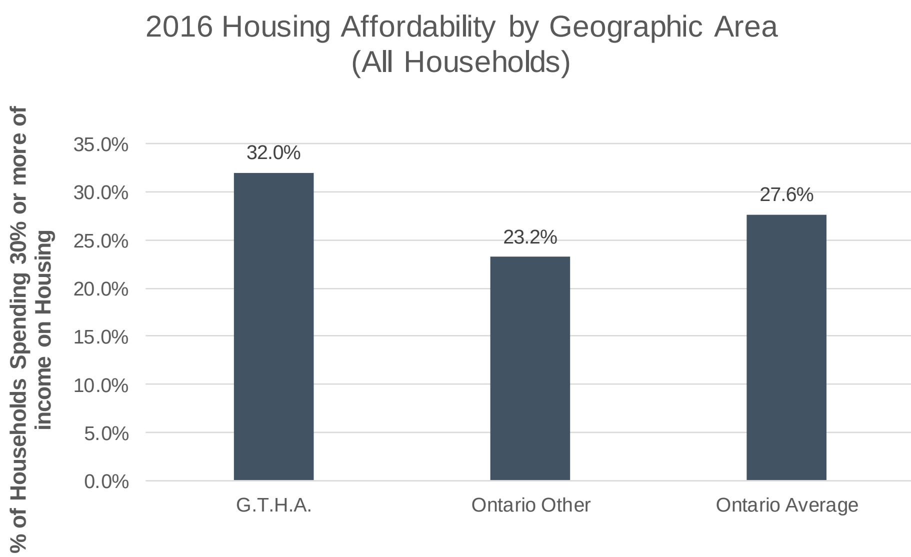
Share of Households Spending 30% or more on Shelter Costs

In Canada, housing affordability is often measured through the shelter cost-to-income ratio. A ratio of 30% is commonly accepted as the upper limit for affordable housing. Households spending more than 30% on housing are generally considered in need of more affordable housing alternatives. This measure is applicable to both owner-occupied and rental dwellings.

Figures 3 through 6 illustrate the share of households in Ontario spending 30% or more of household income on shelter costs. This data provides insight into the relative affordability challenges by geographic location, housing tenure and how affordability has changed over the past decade (2006 to 2016). Key observations:

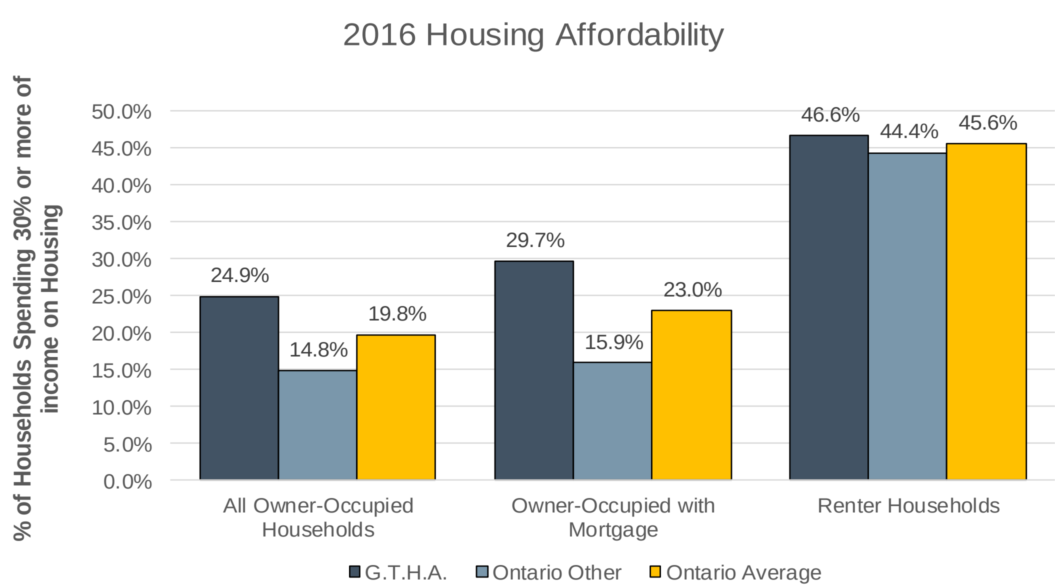
- In 2016, 27.6% of Ontario households spent more than 30% of their household income on shelter costs. The share of households spending more than 30% of household income on shelter costs was higher in the G.T.H.A. than elsewhere in the Province (32.0% vs. 23.2%);
- 45% of renter-occupied households in Ontario are spending 30% or more of household income on shelter costs – a significantly higher share than owner-occupied households. There is minimal variation between the G.T.H.A. and the rest of Ontario with respect to this metric;
- 20% of owner-occupied households in Ontario are spending 30% or more of household income on shelter costs. The share is notably higher in the G.T.H.A. vs. elsewhere in the Province (25% vs. 15%). The share of households is higher when considering only owner-occupied households with mortgages. In the G.T.H.A., 30% of owner-occupied households with mortgages are spending 30% or more of household income on shelter costs. This is compared to 16% in the rest of the Province;
- The share of owner-occupied households with mortgages spending more than 30% of household income on shelter costs has declined marginally between 2006 and 2016. This trend has been observed in both the G.T.H.A. and in the rest of the Province; and
- With respect to renter households, the share of households spending more than 30% of household income on shelter costs has increased marginally between 2006 and 2016; this increase has been observed both provincially and in the G.T.H.A.

Figure 3
Share of Households Spending 30% or More of Household Income on Shelter Costs, 2016



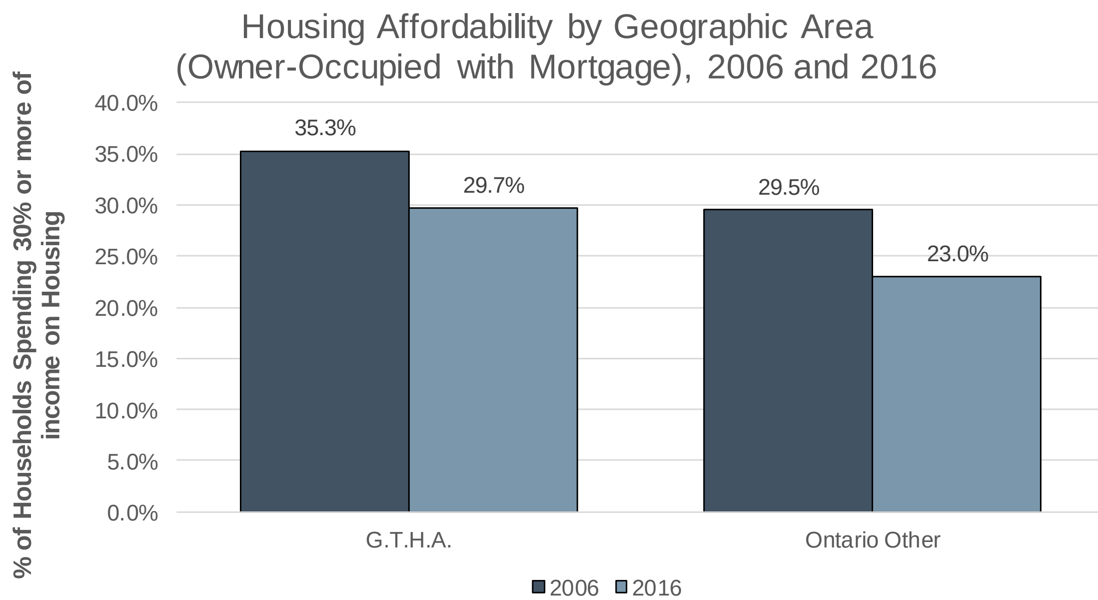
Source: Data from Statistics Canada, 2016 Census of Population, Catalogue no. 98-400-X2016228 by Watson & Associates Economists Ltd., 2018.

Figure 4
Share of Households Spending 30% or More of Household Income on Shelter Costs, 2016



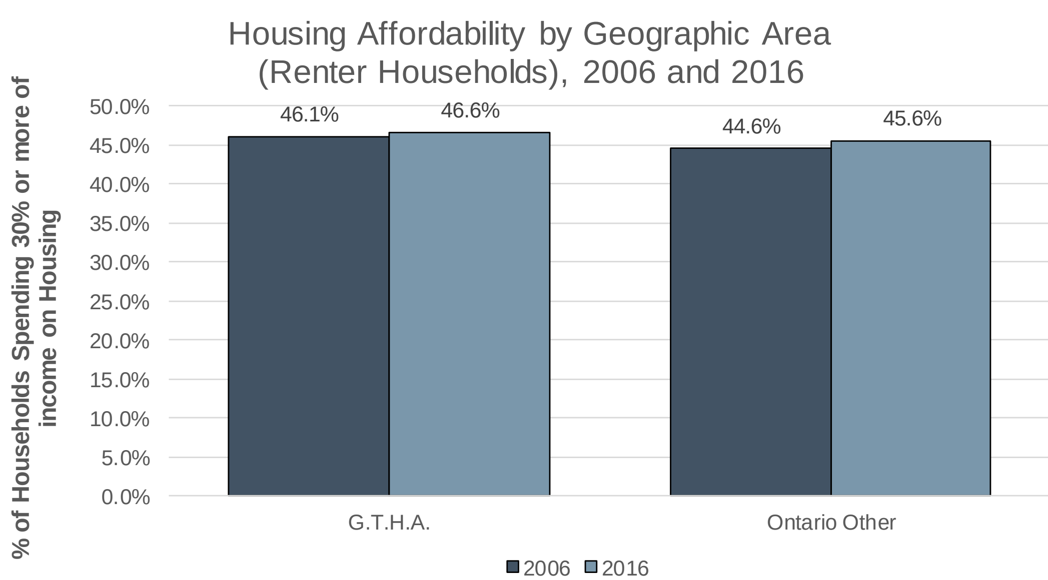
Source: Data from Statistics Canada, 2016 Census of Population, Catalogue no. 98-400-X2016228 by Watson & Associates Economists Ltd., 2018.

Figure 5



Source: Data from Statistics Canada, 2006 and 2016 Census of Population, Catalogue no. 97-554-XCB2006038 and 98-400-X2016228 by Watson & Associates Economists Ltd., 2018.

Figure 6



Source: Data from Statistics Canada, 2006 and 2016 Census of Population, Catalogue no. 97-554-XCB2006038 and 98-400-X2016228 by Watson & Associates Economists Ltd., 2018.

Observations

The analysis presented herein suggests that over the 2006 to 2016 period, erosion in housing affordability has been largely in the rental market, and not in the owner-occupied segment.

While new home prices have risen over the period, there are a number of factors that help explain why housing affordability in the ownership market has remained relatively steady over the period:

- The decline in interest rates over the period, which has reduced borrowing costs for mortgages and helped manage carrying costs;
- A significant shift in new housing mix to more affordable housing products – increasing absorption of townhouse and condo units as a share of total; and
- An increase in multi-generational living and other non-traditional living arrangements (largely occurring the G.T.H.A.).

Need for Affordable 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 and affordable housing.

Market demand for rental housing has been increasing due to a number of factors, including a growing population, the erosion in housing ownership affordability, and changing demographics (e.g. aging population). Despite this, there has been a limited supply of new purpose-built rental housing developed in the past 15 years. Instead, the majority of new rental units has come through the secondary market – condominium units rented by owners and second suites – as well as non-profit housing development.

Meeting the needs of rental and affordable housing requires a significant emphasis to be placed on expanding the purpose-built rental inventory to meet growing market demand. While the secondary market and non-profit housing continue to be important suppliers of rental housing in the market, it is recognized that to significantly increase the supply of rental housing will likely require greater participation by the private-sector development community to construct purpose-built rental housing.

The limited supply of new purpose-built rental housing in the G.T.H.A., combined with increasing demand, has driven the vacancy rate to record lows. Currently, the average vacancy rate for purpose-built rental units in the G.T.H.A. is 1.3%. This is compared to a 3% vacancy rate typically observed in a balanced rental market, suggesting that the G.T.H.A. is constrained with respect to supply.

The preference for condominium developments (as opposed to purpose-built rentals) by developers has been largely driven by financial considerations. Unlike condominium projects, which usually require large down payments from unit buyers in advance (pre-sale of units), rental apartments require the developer to cover most of the initial construction costs. The risk can often dissuade builders from investing in these projects. Further, the developer must often rely on a rental revenue stream over a longer time period to recoup initial investment, compared to selling units immediately after project completion in a condominium development. There is also more uncertainty in rental revenue streams due to government rent controls and potential vacancies which can negatively impact future cash flow.