

City of Mississauga
Corporate Report



<p>Date: 2016/06/07</p> <p>To: Chair and Members of Planning and Development Committee</p>	<p>Originator's files: CD.06.AFF</p>
<p>From: Edward R. Sajecki, Commissioner of Planning and Building</p>	<p>Meeting date: 2016/06/27</p>

Subject

Information Report (All Wards)

Affordable Housing Program: Preservation of Rental Housing

File: CD.06.AFF

Recommendation

1. That the report from the Commissioner of Planning and Building, dated June 7, 2016 titled "Affordable Housing Program: Preservation of Rental Housing", be approved.
2. That staff prepare a rental housing demolition and conversion to condominium ownership control by-law as outlined in the report from the Commissioner of Planning and Building, dated June 7, 2016 titled "Affordable Housing Program: Preservation of Rental Housing".

Report Highlights

- The preservation of purpose-built rental housing has been identified as an important component of the Affordable Housing Program.
- Housing Affordability Advisory Panel members commented that the City should strive to keep the supply of rental housing and that incentives for rental housing, including an equalized tax rate, should be considered.
- A preservation and replacement by-law (often referred to as demolition and conversion control by-law) should be prepared.
- Mississauga Official Plan should be amended to add policies regarding criteria for the demolition or conversion of rental housing.
- A financial analysis and research into the legal and investment considerations affecting rental housing should be undertaken.

Background

On May 11, 2016, Council endorsed a Direction, as part of the *Housing Gap Assessment*, to prepare a report regarding the protection and/or replacement of the City's existing rental stock. Rental housing is an essential part of a sustainable, complete community. It is part of the housing continuum that provides options to meet lifestyle and economic needs and flexible accommodation, as life circumstances change.

The Housing Gap Assessment found that:

- a much larger proportion of renters (42%) are facing an affordability problem compared to owners (27%);
- much of the purpose-built rental stock is affordable to low and moderate income households;
- Mississauga's vacancy rate (apartments and townhouses) was 1.6% in 2015, well below a healthy vacancy rate of 3.0%;
- much of the purpose-built rental stock is located close to arterial roads, has good access to transit and other services (see Figure 1: Map of Rental Buildings/Townhouses by Age in Mississauga);
- an average of 75 rental units per year are being converted to condominiums;
- there have been limited demolitions to-date, however, this may change as property values increase where major infrastructure investments are planned; and,
- there is a need to protect the existing purpose-built rental stock.

The rental market has two components. The first is the primary rental market which includes self-contained units in apartment buildings or townhouse complexes that were built with the expressed intention of being offered as rental units. This is often referred to as purpose-built rental housing. The Rental Market Survey prepared by Canada Mortgage and Housing Corporation (CMHC) monitors and prepares yearly rental market reports that include vacancy rates.

The other component is the secondary rental market which represents self-contained units that were not specially built as rental housing but are currently being rented out. This includes all housing forms (e.g., detached, condominium apartments or townhouses) as well as second units within a dwelling. While important to the supply of rental accommodation, these units do not offer the same security of tenure as purpose-built rental units.

The focus of this report is the primary rental market, that is, purpose-built rental housing.

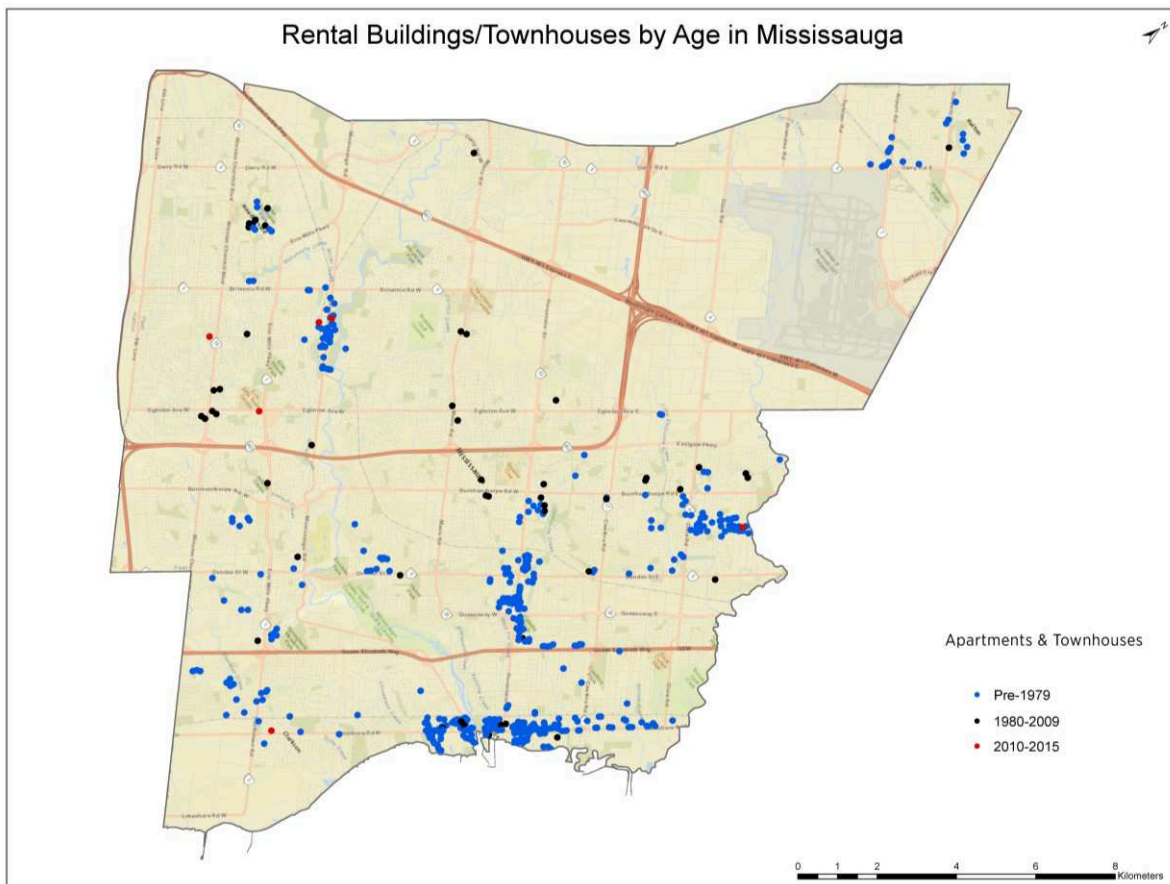


Figure 1: Map of Rental Buildings/Townhouses by Age in Mississauga

Comments

Why has there been limited development of purpose-built rental units?

Most of the existing purpose-built rental stock was built over thirty years ago and very little has been developed in recent years. A number of factors have contributed to this situation including:

- the introduction of condominium tenure in the 1960s;
- tax reforms which removed favourable treatment for rental development;
- the introduction of rent controls in the 1970s;
- high inflation and mortgage rates in the 1980s; and,
- the reduction in private stimulus and social housing investments from senior levels of government.

What is the Province doing to support rental housing?

The direction from the Province for municipalities to provide a full range of housing types and tenures is found in the following policy initiatives:

- *Ontario Long-Term Affordable Housing Strategy* – states there is a clear shortage of rental housing and next steps include consultations with small landlords to make it easier for them to stay in business with potential amendment to the *Residential Tenancies Act*;
- *Ontario Housing Policy Statement* – includes a policy direction for housing and homelessness plans to set out a strategy to generate municipal support for an active and vital private ownership and rental market;
- *Provincial Policy Statement* – To provide for an appropriate range and mix of housing types and densities required to meet projected requirements of current and future residents; and,
- *Growth Plan for the Greater Golden Horseshoe* – municipalities to provide for a range and mix of housing types and densities. Upper and single-tier municipalities will be required to prepare housing strategies that identify policies for official plans that address the needs of all residents, including affordable ownership and rental housing.

What legislative authority does the City have?

Legislative authority to protect rental housing comes from the *Planning Act* and the *Municipal Act* through the control of conversions and demolitions of existing rental housing.¹

In the *Planning Act*, affordable housing is identified as a matter of Provincial interest and municipal official plan policies may protect rental housing. The *Planning Act* (Section 33) also allows municipalities to designate “demolition control areas” to help maintain the existing rental stock. These areas can include both ownership and rental properties as well as properties with less than six units.

The *Municipal Act* (Section 99.1) allows a municipality to prohibit and regulate the demolition and conversion of residential rental properties. Municipalities may:

- prohibit the demolition of residential rental properties without a permit;
- impose conditions as a requirement of obtaining a demolition permit; and
- prohibit the conversion of residential rental properties to a purpose other than residential rental property without a permit.

What does Mississauga Official Plan state respecting rental housing preservation/replacement?

Mississauga Official Plan (MOP) Policy 7.2.12 states:

¹ The *Residential Tenancies Act* protects tenants in conversions by giving them the right to remain after the conversion and the right of first refusal when a unit is up for sale. Tenants can be required to leave when major renovations are underway. It does not deal with conversion or protection of rental housing stock.

Conversion of residential rental properties to a purpose other than the purpose of a residential rental property, or the demolition of residential rental properties exceeding six dwelling units will not be permitted if it adversely affects the supply of affordable rental housing as determined by affordable housing targets and rental vacancy rates.

Mississauga Official Plan is supported by Peel Region Official Plan (ROP) which includes objectives to provide for a mix of housing types and tenures to meet housing needs. Further, the ROP policies encourage the area municipalities to develop official plan policies to regulate rental conversions and prohibit the demolition of rental units without replacement. The *Housing Gap Assessment* spoke to Mississauga's existing low vacancy rate and documented the need for rental housing.

What have other municipalities included in official plans?

A comparative review of Greater Toronto Area and Hamilton (GTAH) municipalities' official plan policies found many protected rental housing by official plan policies that:

- prohibit conversion or demolition of rental units without replacement of rental units;
- tie conversions and demolitions to CMHC vacancy rates (vacancy rates of 3%, which represents a balanced rental market, were the most common requirement and vacancy rates should be maintained for a period of two years);
- replacement units be of similar size and rents;
- prohibit demolitions unless the applicant demonstrates that upgrading the building to meet health and safety standards is not technically or financially feasible;
- requires a tenant relocation plan that considers matters such as location, rent levels and unit size; and,
- conversions or demolitions considered in the context of other municipal policies.

Housing Affordability Advisory Panel

The Housing Affordability Advisory Panel at its meeting on May 31, 2016, provided the following comments regarding the proposal for a rental housing preservation and replacement by-law and criteria to permit conversions:

- the City needs to keep its supply of rental housing;
- rental housing is converted to condominiums because condominium buildings have higher valuations and lower taxes than rental buildings;
- condominium buildings with blocks of rental units under one ownership have been successful in other jurisdictions; and,
- there should be incentives for owners to keep rental buildings, including potentially lower tax rates.

Direction 1: Create a Rental Housing Preservation and Replacement By-law

To preserve the City's existing purpose-built rental housing, a rental housing preservation and replacement by-law should be implemented. The by-law should include the following provisions:

- apply to rental developments of six or more units;
- conversions to condominium ownership should be prohibited unless the CMHC vacancy rate for Mississauga is 3% or higher and has been at this rate for a period of two years;
- conversions to condominium may be permitted if an agreement satisfactory to the City of Mississauga is entered into that ensures the units remain available as rental units;
- demolitions should be prohibited unless the applicant can demonstrate that upgrading the building to meet health and safety standards is not technically or financially feasible or the site is to be redeveloped and will, at minimum, replace existing rental units;
- the replacement of demolished units will be required unless the rental vacancy rate is 3% or higher and has been at this rate for a period of two years; and,
- for both conversion and demolitions, a tenant relocation plan will be required that considers matters such as location, rent levels and unit size.

Direction 2: Expand existing MOP Policies

MOP policies should be expanded to include rental housing preservation and replacement criteria, rental replacement requirements, and the requirement for a tenant relocation program.

Direction 3: Explore incentives and other longer-term interventions to make rental housing more viable

A rental housing preservation and replacement by-law is one element in ensuring rental supply. A long term solution requires that the underlying reasons for limited rental development and the conversion of rental units to condominium ownership are understood and addressed.

Additional research is required to understand the investment dynamics of the rental market. To inform any incentives or regulations that may be developed as part of the Affordable Housing Program, a financial analysis as well as research into the legal and investment considerations at play should be undertaken.

Involvement in the rental housing market is often related to the business objectives of the owner. Non-profit organizations often have social justice rationale for their involvement in rental housing. For-profit businesses may invest in rental as they seek an ongoing income stream.

Even when a for-profit investor intends to retain ownership and offer units for rent, a number of rental buildings have been registered as condominiums. The advantages of the condominium tenure are associated with the business objectives of the owners and are purported to include the following considerations:

- reduction in property taxes (due to both the assessment rate and the municipal tax rate);

- higher property values (reduction in property tax increases, net operating income and market value);
- increased borrowing strength (may result in better interest rates);
- increased competitiveness with condominium properties offered in the secondary rental market;
- increased asset flexibility (units can be rented or sold);
- lack of investment in aging rental stock due to costly upgrades, and
- not subject to conversion control by-law, since registered as condominium.

Strategic Plan

The need to address affordable housing requirements originated from the Strategic Plan *Belong Pillar*. Two strategic goals relate to affordable housing – Ensure Affordability and Accessibility and Support Aging in Place. Three strategic actions link to the work underway for the affordable housing strategy:

- Action 1 – Attract and keep people in Mississauga through an affordable housing strategy
- Action 6 – Expand inclusionary zoning to permit more housing types and social services
- Action 7 – Legalize accessory units.

Financial Impact

Not applicable at this time.

Conclusion

The preservation of purpose-built rental housing has been identified as an important component of the Affordable Housing Program. As such, it is proposed that a rental housing preservation and replacement by-law be prepared and that MOP be amended to add related policies.

To better understand the dynamics of developing new and maintaining existing purpose-built rental housing, a financial analysis is proposed. At the same time, research into the legal and investment considerations affecting rental housing should be investigated.



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