
DATE: February 8, 2006

SUBJECT: **RENTAL MARKET CONDITIONS IN PEEL, 2005**

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OBJECTIVE

The purpose of this report is to provide an analysis of rental market conditions in the Region of Peel and the Toronto Census Metropolitan Area (CMA). This report looks at market trends particularly over the last few years and identifies factors contributing to market trends. Finally, this report looks at the affordability of rental housing in the context of present rental market conditions.

REPORT HIGHLIGHTS

- Average vacancy rates in the Toronto Census Metropolitan Area (CMA) shifted downwards from 4.3 per cent in 2004 to 3.7 per cent in 2005; while in Peel, average vacancy rates moved down from 5.0 per cent in 2004 to 4.1 per cent in 2005.
- Average private apartment rents increased in the Toronto Census Metropolitan Area (CMA) and in the City of Mississauga. Conversely, the City of Brampton experienced varied change in average rents from 2004 to 2005.
- Increasing immigration, the rising costs of home ownership, and changes to the rental housing stock in Peel, contributed to the downward shift in vacancy rates.
- Affordability remains a critical issue for many residents in Peel who are seeking stable and adequate housing.

DISCUSSION

1. Background

Annually, Canada Mortgage and Housing Corporation (CMHC) surveys privately owned apartments with three or more units for information on vacancy and rental rates. This information is available in Canada Mortgage and Housing Corporation's (CMHC) Rental Market Report for the Toronto CMA which includes the Region of Peel. A copy of the report can be obtained through the office of the Commissioner of Housing and Property.

2. Vacancy Rate Shifts Downward in 2005

The vacancy rate is a measure of how many rental units are available for immediate rent. Thus, a vacancy rate of 1.0 per cent indicates that for every 1,000 privately initiated apartment units, 10 units are vacant and available for immediate occupancy. Canada Mortgage and Housing Corporation (CMHC) has typically regarded a vacancy rate of 2.5

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per cent to be a healthy rate that would likely prompt stable inflation-adjusted rents. Over the past four years, the overall vacancy rate for much of the GTA has surpassed this rate.

Up to October 2001, CMHC reported low vacancy rates across the Toronto CMA. As shown in Appendix I, the Toronto CMA experienced a vacancy rate of less than 1.0 per cent in 2001, while the Cities of Brampton and Mississauga both had an average vacancy rate of 1.0 per cent during the same period. From 2002, vacancy rates increased over the 2 per cent mark and continued to climb in 2003 and 2004. In 2005, vacancy rates shifted downwards from 4.3 per cent in 2004 to 3.7 per cent.

In Peel, the average vacancy rate for all units moved down from 5.0 per cent in 2004 to 4.1 per cent in 2005. In Mississauga vacancy rates moved down from 5.2 per cent in 2004 to 4.6 per cent in 2005; while in Brampton, vacancy rates moved down significantly from 4.2 per cent in 2004 to 2.9 per cent in 2005. Vacancy rates for the Town of Caledon are unavailable due to the small number of surveyed rental units. Of the 36,753 apartment units in Peel's rental stock (excluding Caledon), only 1,525 apartment units were available to the rental market in 2005 down from 1,854 in 2004.

Appendix II provides a more detailed look at the vacancy rate trend for selected areas in the Toronto Census Metropolitan Area by bedroom size from 2001 to 2005.

3. Reasons for drop in vacancy rate

The overall decrease in 2005 vacancy rates was not predicted or expected by forecasters in 2004. CMHC however attributes this decrease to rising immigration rates in the Toronto CMA. Peel currently accepts 24 per cent of all new immigrants to the GTA and Hamilton; and it is estimated that 100,000 new immigrants settled in Peel over the last five years. This settlement pattern is important, as a *Longitudinal Study of Immigrants to Canada* by Statistics Canada estimates that 75 per cent of new immigrant households settling in Canada initially choose the rental market to satisfy their housing needs.

Also important to an understanding of decreasing vacancy rates is the fact that ownership demand has now begun to plateau in the Toronto CMA due to rising home prices and increasing carrying costs. CMHC also cites a growing perception of more value in higher end rental units as compared to homeownership. As a result many "would be" buyers are now renting high-end units as opposed to purchasing. This perception has also been strengthened by the presence of numerous move-in incentives in the rental market. Even those tenants who previously occupied smaller units were seen to be moving up to larger units in order to take advantage of move-in incentives.

Finally, stronger job growth has been identified as one of the contributors to net rental demand. According to Real Estate Analyst Will Dunning, "there has been quite a lot of employment creation in the last year in the Toronto area, so that encourages younger people to get out on their own and most of them will move into rentals." This move towards renting as opposed to homeownership is very likely in light of rising interest rates and the higher costs that come with home ownership.

Decreases in Peel's rental inventory and in the completion of new rental apartments have led to a tightening rental market in 2005. According to CMHC data, the City of Mississauga lost just over 500 apartment units from its rental stock. This is due mainly to condo conversions between 2004 and 2005. The number of rental units for the City of Brampton stayed relatively the same between 2004 and 2005. Loss of rental inventory combined with lower vacancy rates could negatively impact the available supply of rental units to the rent

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supplement program in Peel; thus, limiting opportunities for low income households to access affordable rental housing. On a more positive note, it is anticipated that future condo completions over the next few years in Brampton may provide some relief to the rental housing market. Currently there is a debate about the extent to which these condos will be occupied by owners or renters. According to Will Dunning, this does not matter, as most of the occupants (whether owners or tenants) would otherwise be living in conventional rentals. In addition, many individuals purchase condominium units on speculation and often rent them during this period of speculation.

4. Rents Overview

With respect to rent levels for all units, the year to year change has generally been a steady climb. In fact, CMHC data, from as far back as 1978, show that yearly rent increases for the Toronto area including Peel have consistently risen anywhere from 3.7 per cent to 14.8 per cent. In 2005, rents increased slightly in most cities in the Toronto CMA. This is also true for private rental apartment units in the City of Mississauga which experienced increases in average rents from 2004 to 2005. Average rents in the City of Brampton however, remained relatively stable from 2004 to 2005. Appendix III shows the trend in average rents from 2001-2005.

In Peel, changes in monthly rents varied according to unit size and location. In the City of Mississauga for example all private apartment unit rents experienced increases. Average rents increased by \$8 for bachelor and 2-bedroom units, \$13 for 1-bedroom units, and \$10 for 3+ bedroom units. Conversely, the changes in rents for the City of Brampton varied according to unit size. Based on the survey, bachelor unit rents fell by \$6 while 2 bedroom unit rents fell by \$12. Conversely, 1 bedroom unit rents increased by \$6 while 3+ bedroom unit rents stayed the same from 2004 to 2005. Appendix IV shows the changes in rents for all bedroom sizes by selected cities.

Average rents for all unit types in the Toronto CMA stayed at 2004 levels, remaining at \$973 in 2005. In terms of rental rate changes by bedroom size over the last 12 month period, 1 and 3+ bedroom unit rents increased by \$2 and \$8 respectively while the bachelor unit rents decreased by \$3. 2 bedroom unit rents stayed at 2004 levels across the Toronto CMA.

Even as vacancy rates decreased, few if any landlords attempted to pass even the minimum 2.1 per cent rent review guideline amount for rent increases onto existing tenants.

5. Affordability Still an Issue

Although vacancy rates in the Toronto CMA shifted downwards in 2005, they are still at the fourth highest level on record. Despite this easing of the market, many residents faced with rising energy costs and the increasing costs of living, still continue to experience an affordability problem. In Peel, as with many other jurisdictions within the Toronto CMA, there continues to be a backlog of households on waiting lists for social housing. In Peel, the average wait time for social housing is still over eight years.

According to current census data, many residents, particularly recent immigrants, seniors and aboriginal descendents, are finding it difficult to live in major centres like the Greater Toronto Area where the average market rent (\$973 a month) is beyond their means. In fact, it has been reported that some individuals and families who consider themselves as making a decent salary (more than \$40,000 annually) are left with very little after paying for rent, food and other living expenses.

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Here are some important facts to consider:

- According to 2001 census information 42,520 households in Peel were in core housing need (i.e., unable to afford shelter that meets adequacy, suitability, and affordability norms);
- 87 per cent of current applicants on Peel's social housing waitlist have a total annual income of less than \$24,000;
- According to the Toronto Disaster Relief Committee, there are about 70,000 households on the City of Toronto's social housing waiting list. In Peel, there were approximately 15,000 households on the waiting list in 2005;
- For someone making the minimum wage of \$7.75 an hour and working 35 hours a week, the level of rent that is affordable should be no more than \$353 to meet the affordability guideline (no more than 30 per cent of gross income). The current average rent in Peel is almost three times this affordable rent level;
- Between 1989 and 1996, more than 7000 assisted rental housing units were built in Peel. From 1997 to 2005, only 367 assisted rental housing units were built in Peel.
- The total number of vacant units in the conventional, legal apartment stock in Peel (1,525 units as of October 2005) is less than the number of households on the Region's waiting list who live in basement apartments or who are forced to live in shared arrangements; thus, any assistance directed at 'affordability' will still be limited by available supply.

CONCLUSION

Rising immigration rates, increasing homeownership costs, stronger job growth and reductions in Peel's rental stock have all led to a downward shift in vacancy rates for Peel and the Toronto CMA. Even with decreasing vacancy rates, low income renters continue to face issues of affordability, because energy costs and other living expenses continue to increase.

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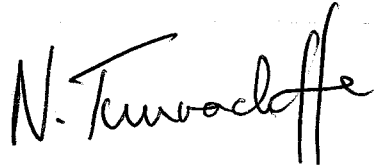
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Lowering vacancy rates combined with the loss of rental housing stock in Peel also negatively affects short term affordability measures such as the rent supplement program by limiting the number of units available to low income families who benefit from the program. Peel Region recognizes that long term measures such as the creation of sustainable and affordable housing are the only ones which will truly ensure that stable housing is available to all families in Peel regardless of income. As a result, the Region of Peel will continue to forge collaborative partnerships with other levels of Government and the private sector in hopes of creating more stable and affordable housing for its residents.



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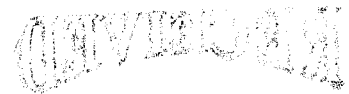
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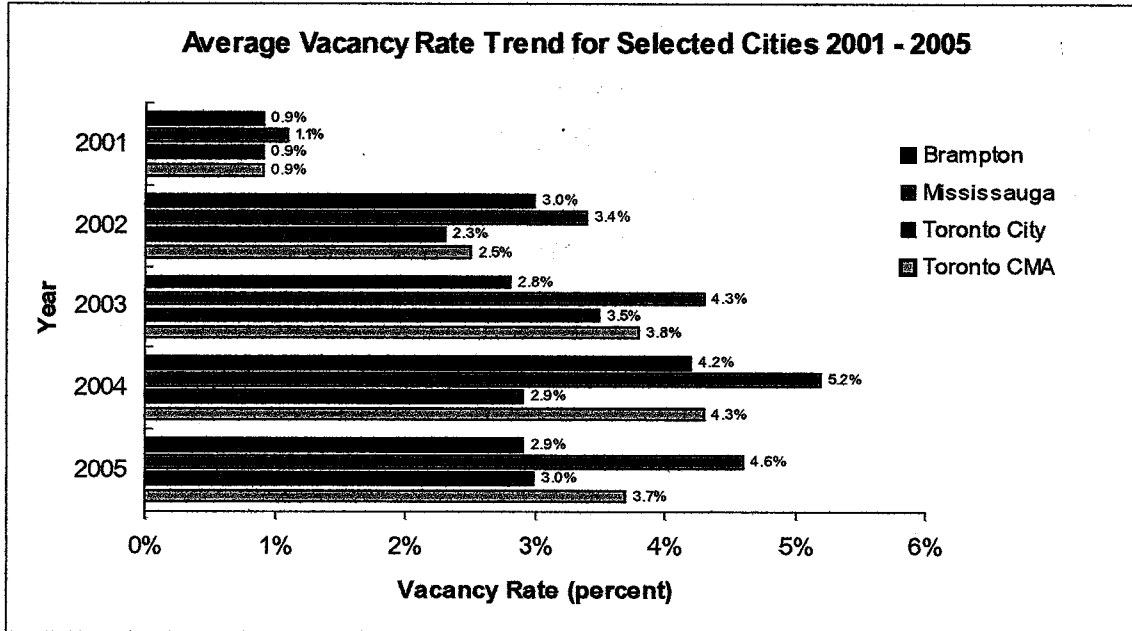
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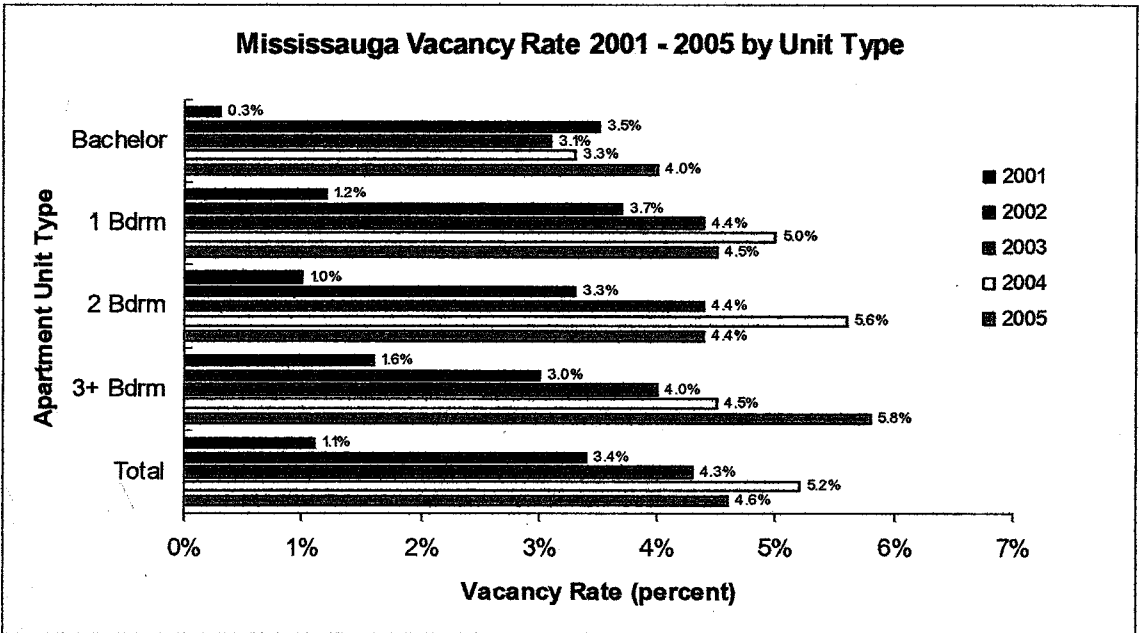
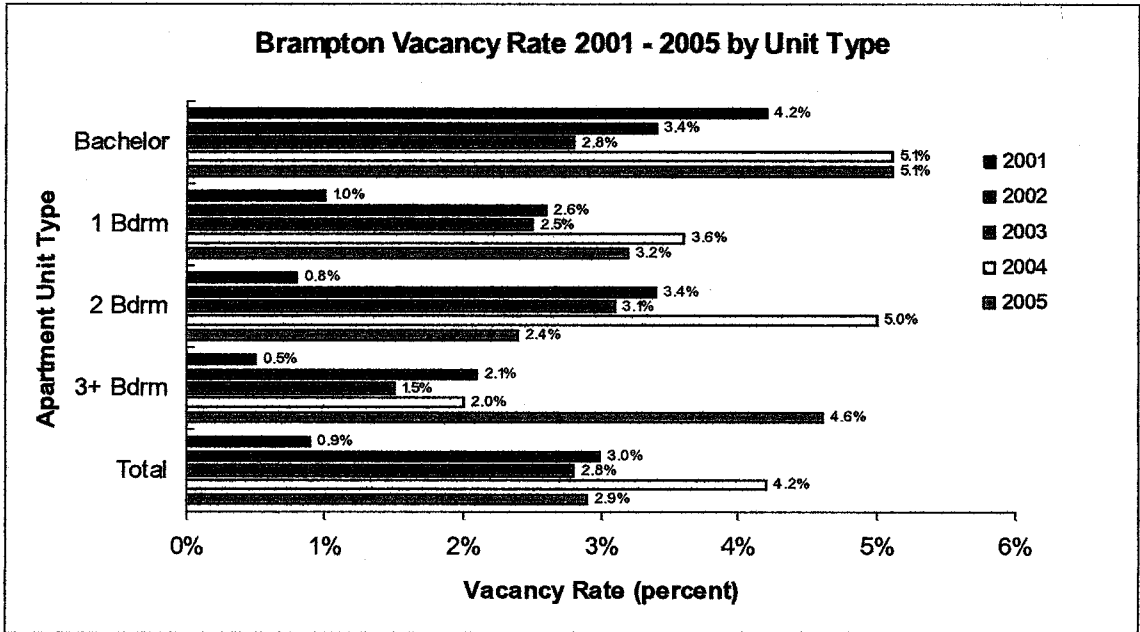


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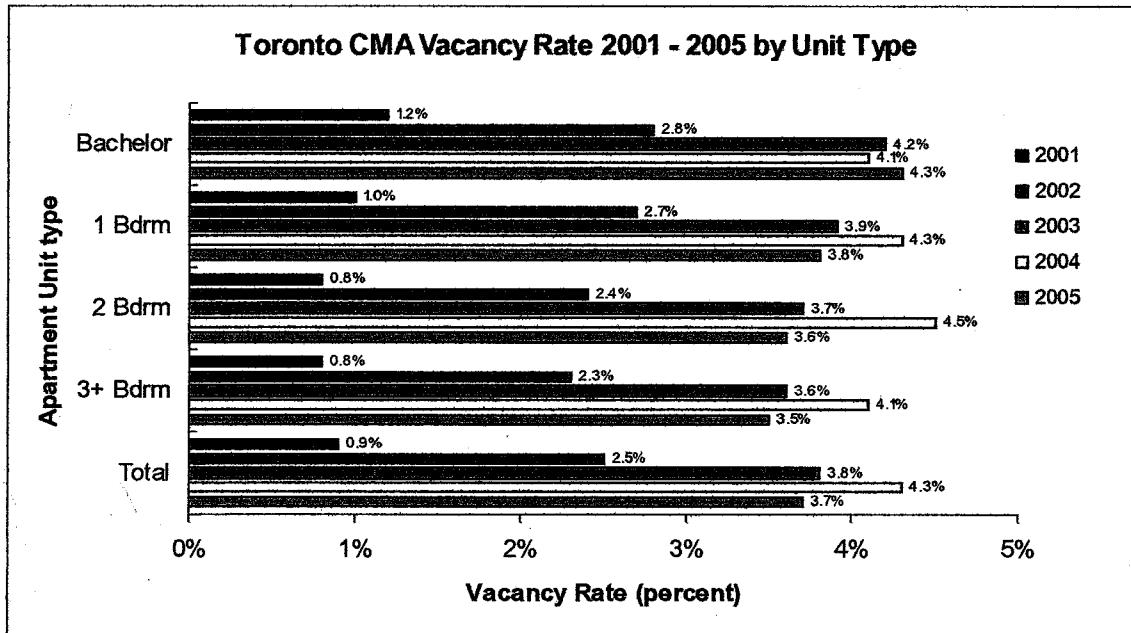
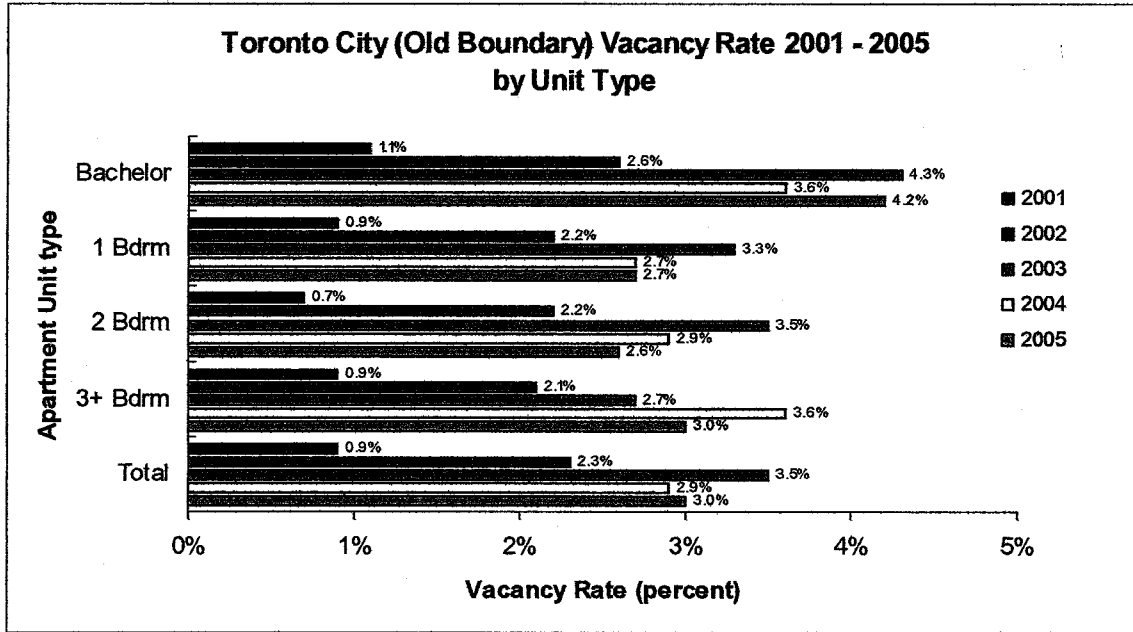
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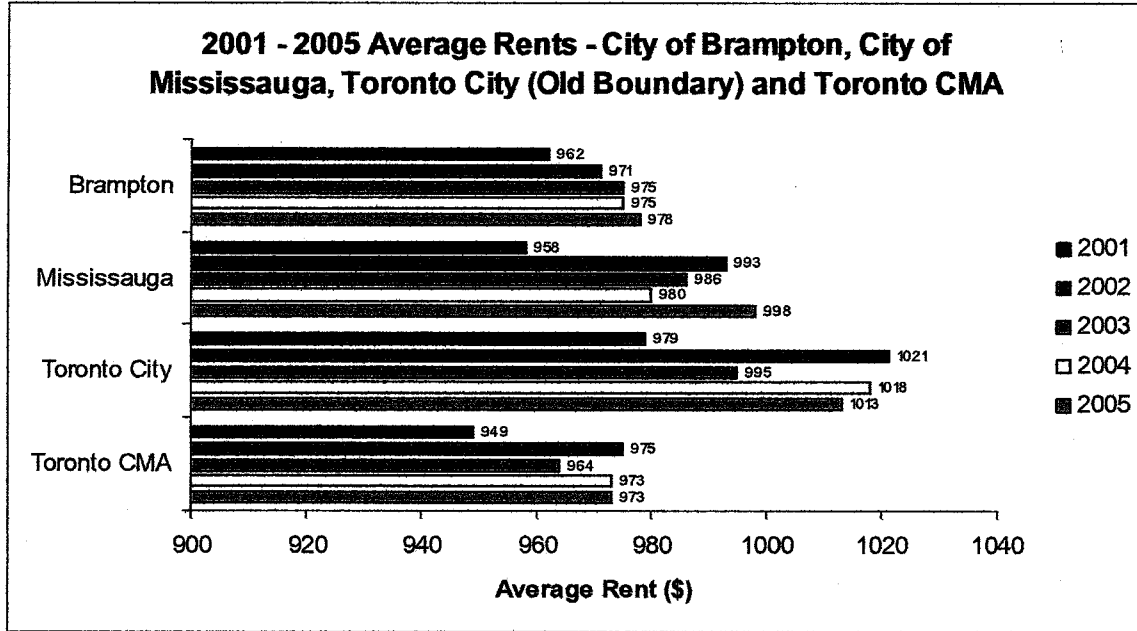
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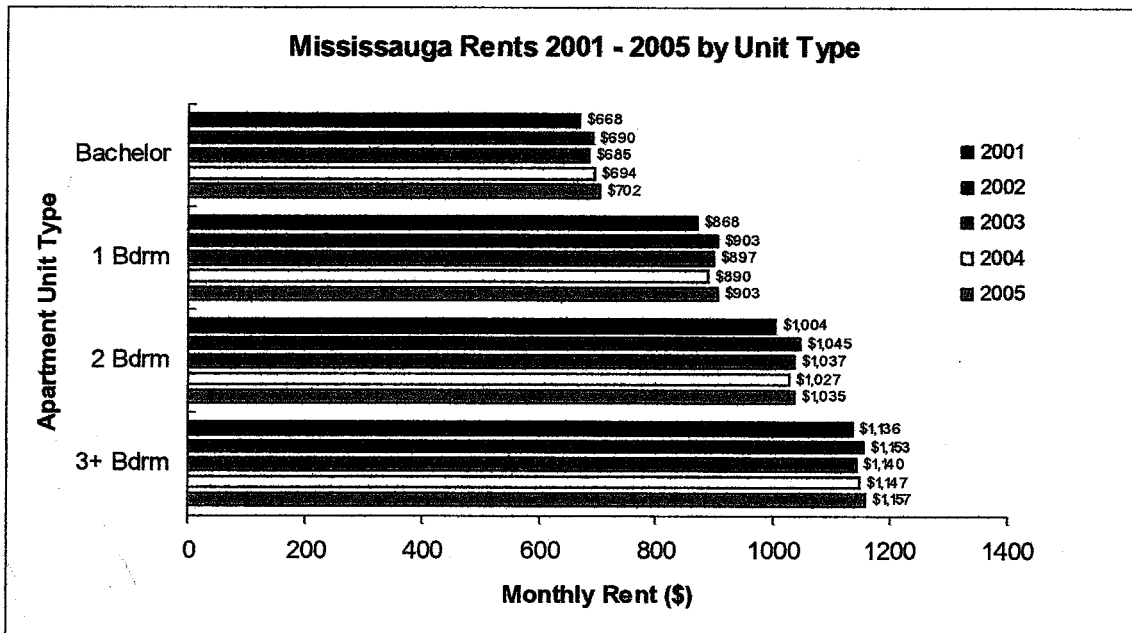
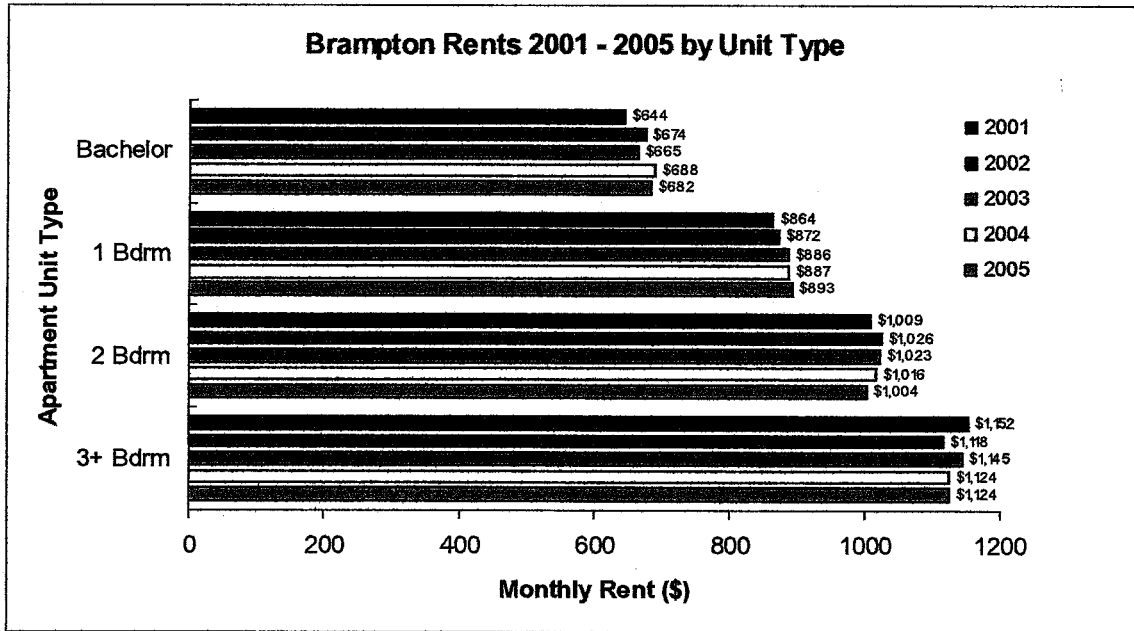
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