

Pre-Budget Submission to the Ontario Government

February 2013



Federation of Rental Housing Providers of Ontario

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Table of Contents

Executive Summary.....	2
Six Facts about Rental Housing in Ontario Today	4
Housing Affordability and Poverty Reduction: An Ontario Housing Benefit	7
Fixing Ontario’s Broken Rent Dispute Process	10
Energy Policy for Rental Housing.....	11
The Risks of Rent Regulation.....	12
Promote Fair Local Property Tax Policy.....	13

Executive Summary

Ontario is now seeing fundamental changes in factors affecting housing preferences and supply. Demand for rental housing is increasing, with vacancy rates trending down across the province. Construction of new apartment buildings by the private sector is at its highest level since 1993, but more will be needed to sustain Ontario's ageing rental stock. Households are getting smaller, with 42 percent of all tenants consisting of one-person households. The cost of owning a home compared to renting is at its highest since 1949, resulting in more tenants delaying home purchases and renting for longer durations.

The result of these dramatic changes points to private sector landlords playing a key role in supplying housing to meet today's economic realities and demographic shifts. Rental housing provided by private sector landlords is ideally suited to meet Ontario's housing needs of tomorrow.

Public policy, however, is still based on out-dated concepts of how to meet the housing needs of Ontarians:

- Many low income households have housing affordability problems, yet Ontario still has *no* housing-related income program to help the working poor.
- Ontario's broken rent dispute process is plagued by 3 to 4 month delays, financially devastating small landlords and leaving some tenants with massive debt problems. This is a major impediment to rental housing supply.
- Instead of encouraging apartment owners to invest in improved rental housing quality, Ontario still uses 1970's-era rent controls that are an impediment to capital investment needed for repairs and maintenance, and to job creation.
- Ontario is one of the few (and perhaps only) places in the world that still sees most tenants subsidize their neighbours' hydro use.
- Ontario stands alone among Canadian provinces in allowing municipalities to regressively impose unfair, higher property tax rates on lower income tenants.

Rental housing for many households is their first choice for where to live. To help the apartment industry live up to that choice, FRPO is recommending the following policies:

Housing Affordability:

1. **Implement a new monthly Housing Benefit** to help Ontario achieve its poverty reduction and housing affordability objectives by extending housing assistance to those with high shelter burdens, reduce the risk of homelessness, and minimize dependence on Ontario Works.

Eliminate Abuses of the Justice System:

2. **Make the residential rent dispute system fairer and improve justice** by adopting all of the recommendations in FRPO's "Justice Denied" report (<http://www.frpo.org/Submissions>), including the measures to reducing statutory notice delays from 14-days to 5-days, provide the Landlord Tenant Board with financial resources needed to reduce hearing wait times from one month to one week, require tenants to file applications, eliminate the 11-day wait for ordering enforcement by the Sheriff, and allow private bailiffs to enforce orders.

Energy Conservation:

3. **Enhance energy conservation in rental housing** by removing regulatory barriers to suite metering, specifically: 1) Allowing rental housing providers to transition all housing units to suite metering (not just those where the sitting tenant grants consent); and, 2) Allowing suite metering in all electrically heated rental housing buildings.

Relief from Rising Hydro Prices

4. **Recommended Policy:** FRPO recommends that the Ontario government ensure the 10% Ontario Clean Energy Benefit treats all residential properties fairly to help protect tenants against future hydro price increases. For any energy-related credits or benefits, consideration should be given to energy consumption in rental apartment common areas that are an extension of the living space of tenants.

Property Tax Fairness for Tenants

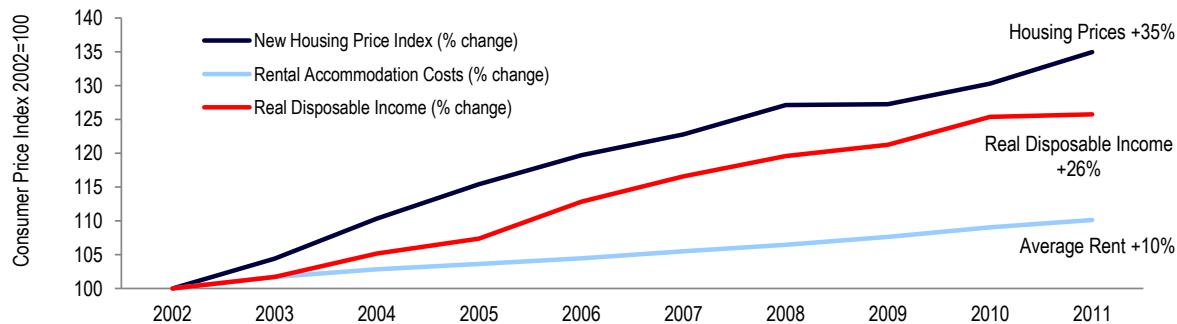
5. **Combine the multi-residential property class with the residential class** so that the municipal tax rate on multi-residential properties is reduced to the residential rate. In making this recommendation, it is noted that property tax savings would have to be passed along to tenants under the provisions of the Residential Tenancies Act.

Six Facts about Rental Housing in Ontario Today

Fact 1: Incomes and housing prices have outpaced rents for the past ten years

Compared to the increasingly expensive costs of homeownership, rental housing provides an ever more affordable housing option for Ontarians. Almost one-third of Ontario households rent their home. Demographic trends and escalating housing prices signal a possible boost in future rental housing demand. The good news for renters is that average rents increased only 10% between 2002 and 2011, while incomes and house prices went up 26% and 35% respectively (see Chart 1).

Chart 1: Ownership vs. Renting Price Gap Continues to Widen



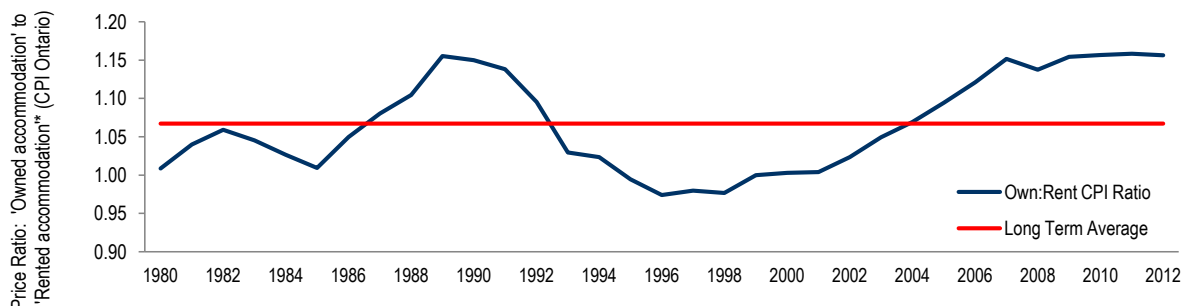
Source: CMHC 2011 Housing Observer, Ontario Economic Accounts 2012

Fact 2: The relative costs of owning a home compared to renting are at 60-year highs

Rental housing provides more than just shelter for millions of Ontarians. It provides a financially responsible housing option for households and better job mobility for households who are adapting to today's economic realities. According to CMHC, many new Canadian take advantage of this flexibility, with 75% of new immigrants living in rental housing during their first two years in Canada.

Due to the costly price of homeownership in Ontario (the ratio of home ownership costs to renting costs is close to its highest level since 1949 according to the Bank of Canada), more households have a financial reason to choose renting. Increasing house prices will be factor in boosting rental demand and reducing vacancy rates going forward.

Chart 2: The ratio between the all-in monthly costs of owning a home and renting a home, as measured in the CPI, is close to its highest level since records were first kept in 1949

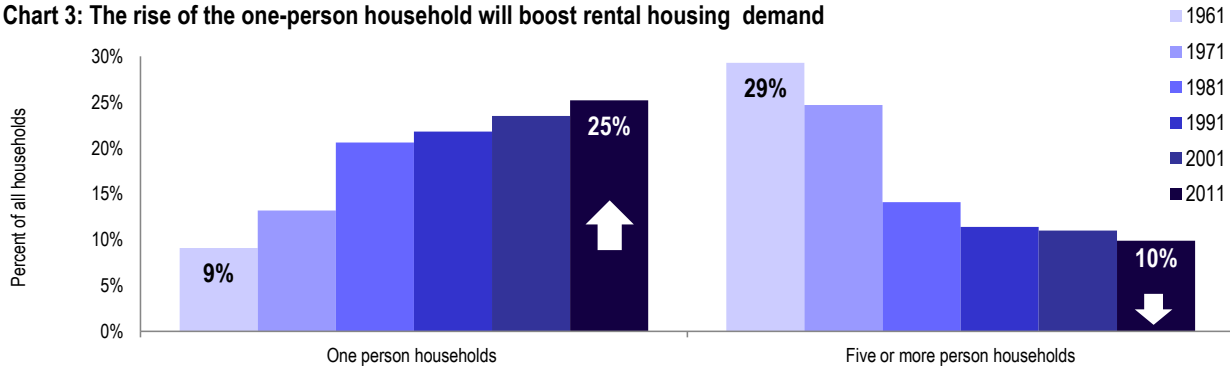


Statistics Canada CANSIM Table 326-0020 * Owned accommodation = mortgage interest, replacement cost (NHPI), property taxes, homeowners' and mortgage insurance, & maintenance, repairs. Rented accommodation = rent, tenants' insurance, maintenance, repairs

Fact 3: Over 42% of all Renter Households are One-Person Households

Other important trends will also impact the demand for multi-family rental housing. For example, there is a long term trend towards smaller household sizes. Fewer families are having children, and fewer Ontarians are creating traditional household families. Over 42% of all renters in Ontario are now one-person households, and 25% of all households consist of just one-person. Even if the total population size remains stable, a shrinking household size means the demand for housing expands, particularly for multi-unit housing. Strong levels of immigration, a larger population of seniors and full-time post-secondary students will also boost demand for rental housing - and potentially make apartments harder to find if supply does not increase accordingly. If this trend continues, household growth will outpace population growth, placing large demands on available housing.

Chart 3: The rise of the one-person household will boost rental housing demand



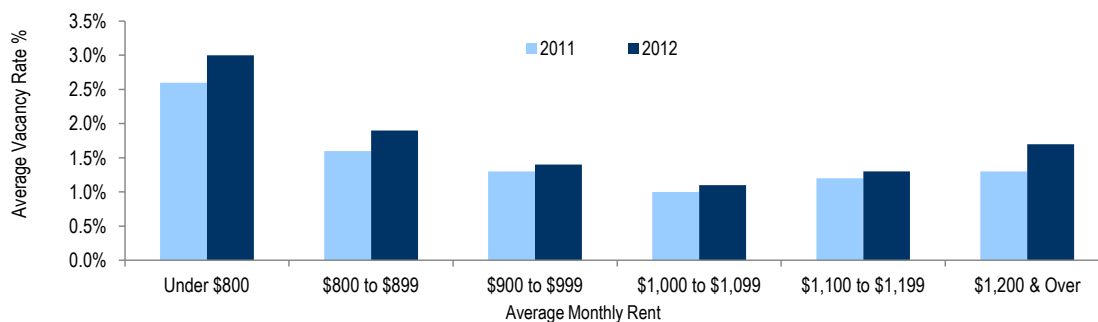
Source: Statistics Canada. 2012. Focus on Geography Series, 2011 Census.

Fact 4: Tenants demand higher quality, leaving the most affordable rental homes empty

There is a common misconception that there is a shortage of affordable rental units, with the false assumption that tenants are drawn to the lowest rent apartments. In most Ontario cities, the opposite is true. The highest vacancy rates and best rental housing availability are often found in apartments with the lowest rent. Many renters choose to pay more for higher quality or newer homes, creating more supply in the most affordable rent ranges.

In Toronto, for example, the vacancy rate for private sector apartments \$799/month or less is almost three times higher than for apartments renting for \$1000/month or more. According to CMHC’s Fall 2012 rental market report, modest job growth in Ontario pushed apartment vacancy rates up, to a provincial average of 2.5% in 2012, up from 2.2% a year ago. It should be noted that apartment vacancy rates vary widely from this average based on location, building type and price structure.

Chart 4: The highest vacancy rates are found in apartment buildings with the most affordable monthly rents

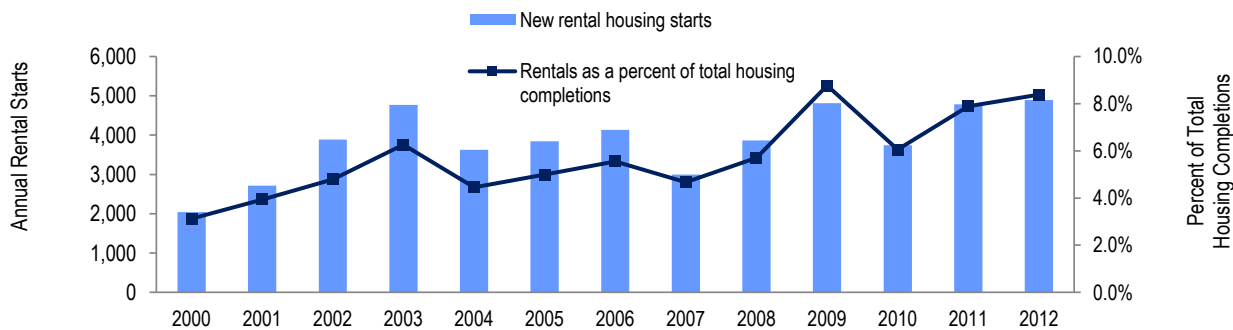


Source: CMHC Rental Market Surveys for the Greater Toronto Area (Dec 2012)

Fact 5: Construction of private sector rental housing is at its highest level since 1993

Additional rental apartment completions last year, combined with weaker rental demand from the under 25 age group, pushed the purpose-built rental apartment vacancy rate upward last year. There were over 4,900 purpose-built rental starts in 2012 in Ontario, a three percent increase over 2011. While modest compared to overall additions to the housing stock, there remains a stable supply of new purpose-built rental housing, with 2012 on track to see the highest level of rental starts since 1993. While this moderate increase in new rental supply is encouraging, it may be insufficient to meet increased demand for rental housing going forward.

Chart 5: Rental housing construction in Ontario at its highest level since 1993



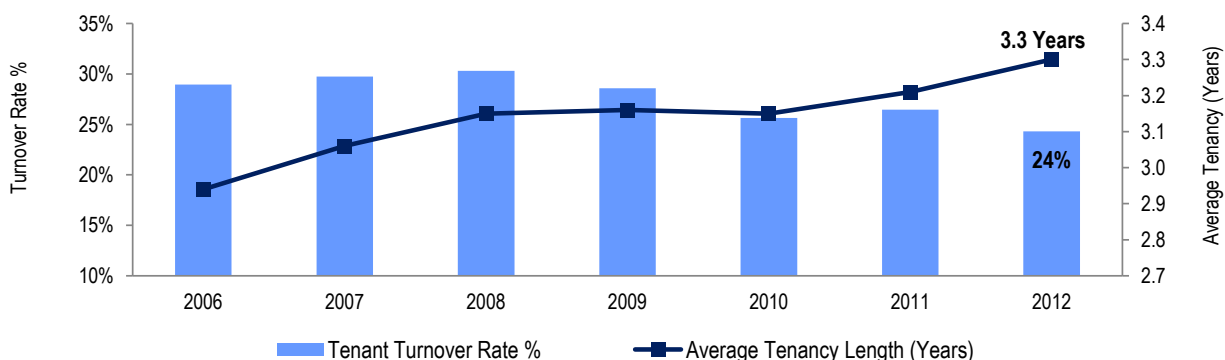
Source: CMHC Housing Now, Ontario Region 2012; CMHC Housing Observer 2012

Fact 6: Tenants are remaining in their rental units for longer periods of time

Recent trends indicate that tenants are extending their occupancies, with the average tenancy length increasing from under 2.9 years in 2006 to 3.3 years in 2012. The average turnover rate (percent of units that see tenants move out) has dropped from 30% in 2007 to 24% in 2012. This is partly due to tenants delaying home purchases as housing prices rise, and efforts by landlords to enhance housing quality and improve tenant satisfaction rates.

Many other trends are creating more potential renters. In 2011, 43% of young Canadian adults aged 20-29 still lived with their parents, further delaying renting or purchasing their own home. This is up dramatically from 27% in 1981. This swell in “boomerang kids” (young adults living with their parents) is setting a strong basis for future household growth, as adults in this situation will eventually move out to either purchase or rent their own home. Post-secondary school enrolment is increasing, boosting the demand for student rentals. Growth in the population of seniors is creating demand for convenient multi-unit housing as elderly couples move-out of single family, detached houses.

Chart 6: Tenant Turnover Drops as Tenancy Duration Increases

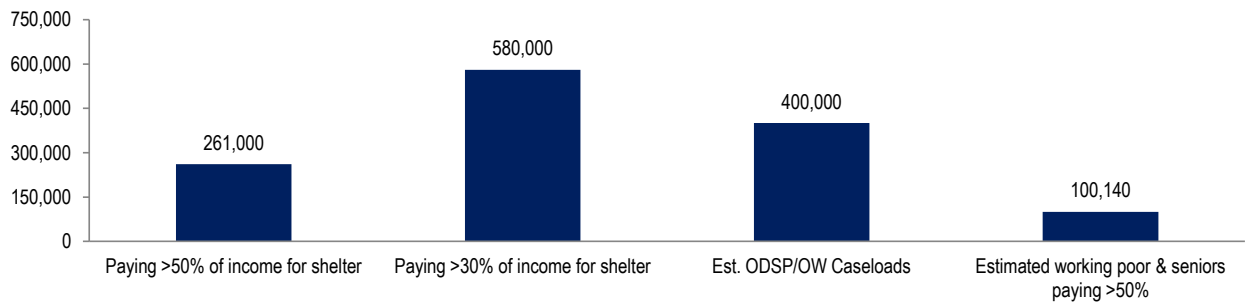


Source: CMHC Housing Observer 2011; Boardwalk REIT 2012 (Average Tenancy Length for 35,277 units)

Housing Affordability and Poverty Reduction: An Ontario Housing Benefit

There are over 100,000 low income households and seniors in Ontario paying over 50% of their incomes for shelter costs and receiving no social assistance. FRPO, along with a coalition of industry and community organizations, continues to support the Ontario government’s decision to explore an Ontario Housing Benefit as a way to help low income Ontarians pay for rental housing costs. This was first announced in the Ontario Government’s Long Term Affordable Housing Strategy in November 2010 and re-affirmed in the 2012 Ontario Budget.

Chart 7: The need for a Housing Benefit: Estimate of renter households with high shelter cost burden relative to income (Ontario)

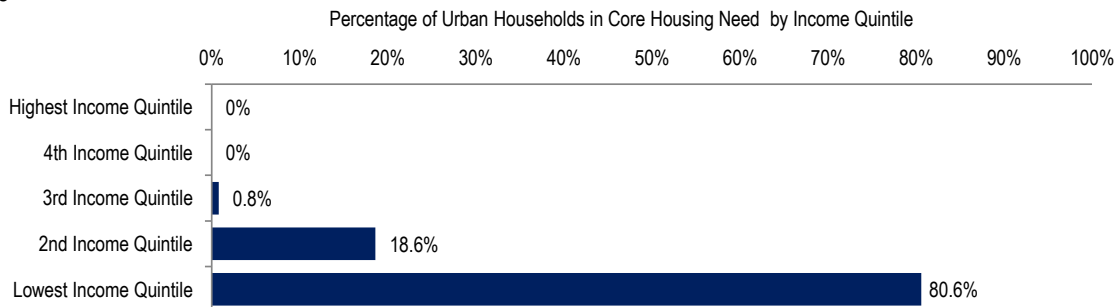


Source: Statistics Canada 2006 Census

An Ontario Housing Benefit can provide assistance to low-income tenants to help them meet their rent payment. Similar to the Ontario Child Benefit, an Ontario Housing Benefit can reduce financial barriers that exist for people when they try to move from social assistance to employment. The benefit can vary according to city size, family size, a tenant’s income and rent paid. Housing benefits have been shown to be effective anti-poverty tools in other jurisdictions, including Quebec, Manitoba and British Columbia. It’s time for Ontario to catch up.

One of the best features of an Ontario Housing Benefit is that it addresses the root cause of housing affordability problems, which is low household income relative to shelter costs. Evidence demonstrates that virtually every household in core housing need¹ falls into the two lowest income quintiles, with over 80 percent of households in core housing need in the lowest income quintile (see Chart 8).

Chart 8: Over 80% of urban households in core housing need are in the lowest income quintile



Source: CMHC 2010 Housing Observer (SLID-based housing indicators and data)

¹ According to CMHC, a household is in core housing need if housing does not meet one or more of adequacy, suitability or affordability standards and would have to spend 30% or more of its before-tax income to pay the median rent

Housing Benefit solves problems with current social assistance programs

The Housing Benefit would be a new form of monthly income assistance, outside of the welfare payment system. It would remain in place once a welfare recipient leaves social assistance for work, but phase out as income rises and self-reliance to afford housing grows. Unlike other provinces, the only permanent housing benefit provided in Ontario is paid exclusively to social assistance recipients. There is currently *no* housing-related income program to help the working poor in Ontario. This acts as a barrier to employment, making the transition from social assistance to the labour market very difficult.

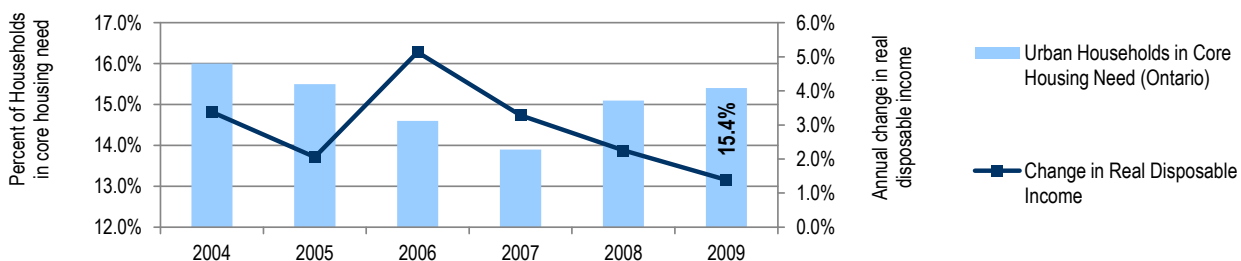
Key features of a new Ontario Housing Benefit

FRPO supports a new housing benefit that helps not just OW/ODSP recipients, but also the working poor, residents of social housing who are paying market rents, and those at risk of homelessness. Their key features of a new Housing Benefit include:

- Eligibility based on high shelter cost burdens of renters with incomes below an income threshold. Benefit levels vary based on the different median rents found in individual communities across Ontario
- Costs to be controlled through establishing maximum rents for the purpose of calculating benefits and a maximum amount of benefit payable.
- Establishing a minimum rent or **contribution** from the tenant to ensure that the recipient pays part of the rent without subsidy.
- The housing benefit is paid to the tenant, preferably by direct deposit, not to the landlord, reducing the risk of the rent being inflated to capture the benefit.
- Introduces incentives for low-income tenants to shop for housing that is suitable for them, for instance, to seek out affordable housing that is closer to where they work.
- Designed to sustain assistance to individuals and families leaving OW and encourages the transition to employment. With each person successful in leaving and remaining off of OW, the full, basic costs of welfare, plus shelter components, are no longer expended.
- More cost-effective: It is possible to fund five to eight new housing benefit recipients for each person moving off OW.

Social housing (rent geared-to-income housing) is a very limited resource in Ontario. It represents only 5% of the total housing stock and 18% of the rental units. The waiting lists are long. Ontario Works and ODSP payments are not formally indexed to inflation, and the shelter components provide a maximum benefit that has no regard for the wide range in average rents found across Ontario's different municipalities, resulting in inadequate assistance provided to poor households in communities with higher housing costs such as Toronto and Ottawa.

Chart 9: As income growth slows, Ontario has the 2nd highest incidence of core housing need in Canada



Source: CMHC Canadian Housing Observer, 2012, based on Statistics Canada Survey of Labour and Income Dynamics (SLID). A household is in core housing need if housing does not meet one or more of adequacy, suitability or affordability standards and would have to spend 30% or more of its before-tax income to pay the median rent

Recommended Policy: FRPO recommends that the Ontario government implement a new monthly Housing Benefit to help Ontario achieve its poverty reduction and housing affordability objectives by extending housing assistance to the working poor to reduce high shelter burdens, decrease the risk of homelessness, and minimize dependence on Ontario Works.

“A Housing Benefit for all low-income Ontarians could also assist in improving incomes and ease the challenge of ensuring fairness as between people on social assistance and low-income earners. Since it would also help people who are struggling with housing costs but not receiving social assistance, it could help reduce the number of people who need to seek social assistance.”

Frances Lankin and Munir A. Sheikh, Commission for the Review of Social Assistance in Ontario, 2012

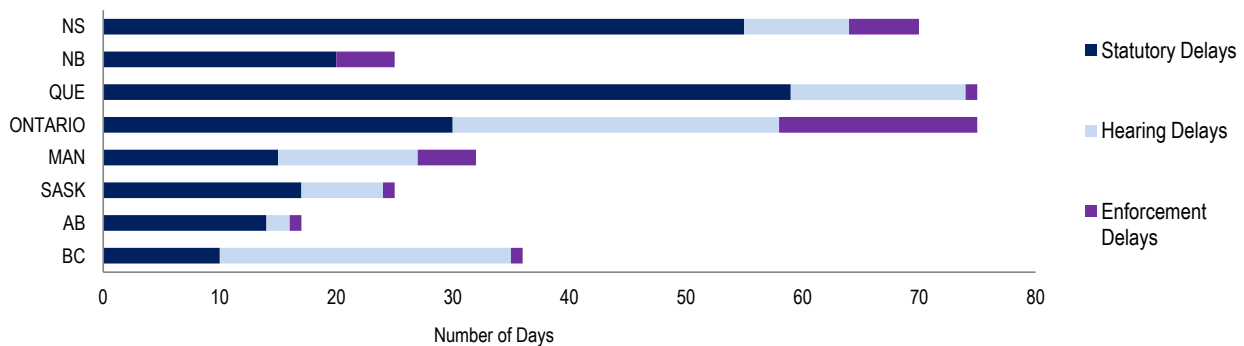
A detailed proposal for a program has been submitted to the Ontario government, titled **“A Housing Benefit for Ontario: One Housing Solution for a Poverty Reduction Strategy”**. This proposal was developed and supported by a broad coalition including: the Federation of Rental Housing Providers of Ontario (FRPO); the Ontario Non-Profit Housing Association; the Greater Toronto Apartments Association; the Daily Bread Food Bank; Metcalf Charitable Foundation and the Atkinson Charitable Foundation.

Fixing Ontario's Broken Rent Dispute Process

Ontario's eviction process is broken. The typical process is 90 days in Ontario, costs landlords about \$4,400, not including administrative costs, lost time and productivity. If the landlord encounters a professional fraudulent tenant, internal Board reviews and appeals through the Superior Court add much longer delays: these tenants easily use Ontario's system to bilk landlords of up to one year's rent; suffer no consequences; and cause severe financial and emotional distress for landlords. Tenants who are involved also become worse-off, accumulating massive amounts of debt during the prolonged process.

Every tenant should have a fair opportunity to have their say or make a dispute. However, Ontario's imbalanced system has long since moved beyond fair. We now have a system in Ontario that actually caters to those who wish to unfairly abuse the system at a considerable cost to landlords and the other tenants.

Chart 10: Rent Dispute Process Delays by Province



Source: FRPO Survey of landlords and rental housing associations, 2006

Altogether, the evidence suggests that Ontario's eviction process is broken and unfair. Delaying the process of justice has not proven to be beneficial, and may in fact be harmful to tenants. It is most certainly harmful and unjust to landlords. Other provinces exhibit shorter delays, showing that reform is possible (see Chart 10).

Recommended Policy: FRPO recommends that the Ontario government make the residential rent dispute system fairer and improve justice by adopting all of the recommendations in FRPO's "Justice Denied" report (<http://www.frpo.org/Submissions>), including the following:

Reduce Statutory Delays:

- Amend Section 59. (1) (b) of the Residential Tenancies Act (RTA) to allow a landlord to give the tenant a notice of termination (i.e. issue an L1) effective on the 5th day after termination, rather than the 14th day.

Reduce Hearing Delays:

- Provide the Landlord Tenant Board with the one-time financial resources necessary to reduce the average hearing wait time from one month to one week, and that the necessary accountability and performance structure be put in place to ensure the project is successful. Amend the *Resident Tenancies Act* to return to the previous practice of requiring tenants to file applications.

Reduce Enforcement Delays:

- Immediately stop the practice of preventing landlords from filing with the sheriff for 11 days after an order is issued and amend provincial laws (the *Courts of Justice Act* and the *Residential Tenancies Act*) to explicitly allow private bailiffs to enforce Landlord Tenant Board orders and to require orders that had been previously stayed to be placed in priority sequence.

Energy Policy for Rental Housing

The 10% Ontario Clean Energy Benefit – Fair Relief for Tenants

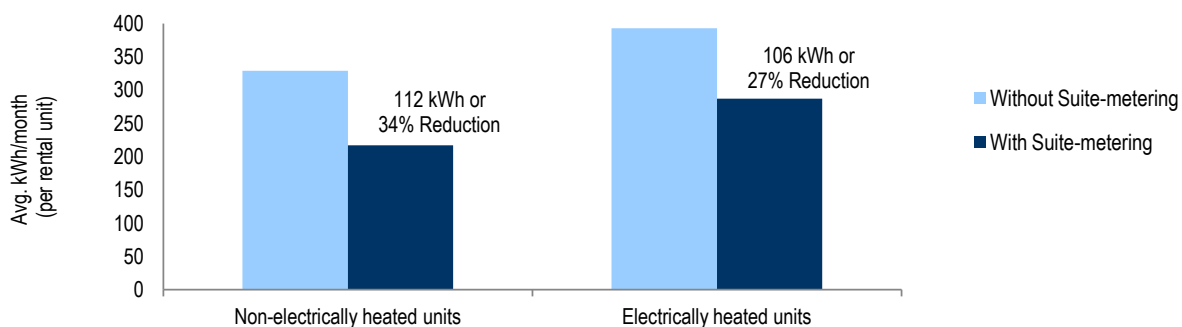
Residential electricity prices in Ontario are expected to increase by almost 30% between 2012 and 2015. In rental housing, all of these costs are ultimately borne by tenants through rent increases. The 10% Ontario Clean Energy Benefit, introduced in 2011 for a five-year period, is vital to helping landlords provide relief from big cost increases to tenants. The rental housing industry continues to be supportive of regulatory provisions that enable multi-residential rental properties to have the 3,000 kWh cap applied on a per-housing unit basis. For many multi-unit apartment complexes, hydro consumption in residual common areas (lobbies, hallways, elevators, stairwells, laundry rooms) may exceed the 3,000 kWh cap, even though these areas represent an extension of tenants’ living spaces. For 2013 to 2015, expanding or eliminating the cap for rental housing common areas would help further protect tenants against the future hydro cost increases.

Recommended Policy: FRPO recommends that the Ontario government ensure the 10% Ontario Clean Energy Benefit treats all residential properties fairly to help protect tenants against future hydro price increases. For any energy-related credits or benefits, consideration should be given to energy consumption in rental apartment common areas that are an extension of the living space of tenants.

Removing Regulatory Barriers to Energy Conservation (Suite Metering)

Conservation is a key strategy to reducing energy consumption, promoting energy efficiency and curbing greenhouse gas emissions. It is very clear that for households to conserve electricity, they need to know their usage. About 85 percent of Ontario’s high-rise rental housing stock is still not individually metered for electricity – most tenants are not suite metered and have hydro hidden in their rent. Current complex and onerous rules are an obstacle to suite metering and aggravate overall efforts to improve energy conservation. To help achieve improved energy conservation, many of the regulatory barriers should be removed. Individual suite metering for tenants is standard practice all around the world, without the excessive and burdensome regulation now in place by the Ontario government.

Chart 11: Energy savings of 34% when tenants pay their own hydro bills



Source: Navigant Consulting, Ltd., 2012. Based on a sample of monthly data for 3,971 apartment units in 22 buildings in Ontario

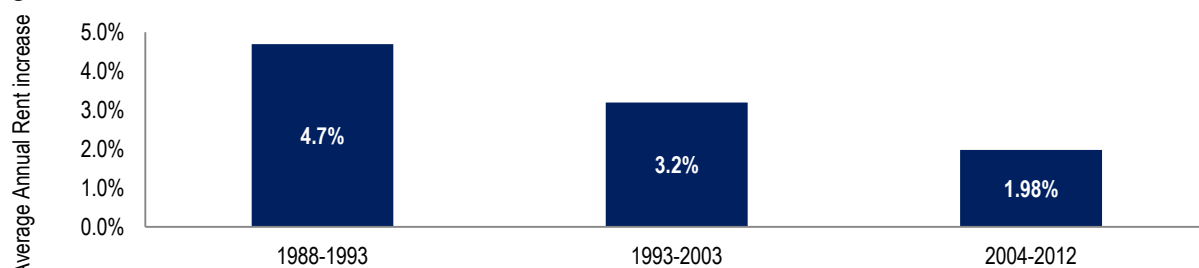
Recommended Policy: FRPO recommends that the Ontario government enhance energy conservation in rental housing by removing regulatory barriers to suite metering, specifically: 1) Allowing rental housing providers to transition all housing units to suite metering (not just those where the sitting tenant grants consent); and, 2) Allowing suite metering in all electrically heated rental housing buildings.

The Risks of Rent Regulation

Many factors may lead to increased rental housing demand in future years. Higher home prices, smaller household sizes, immigration, increased post-secondary enrolment and an ageing population will all contribute to lower vacancy rates, despite modest increases in new rental housing construction. As well, the rental housing stock that exists is getting older, with over half of all rental buildings in Ontario built prior to 1970. Major investments in repairs and maintenance will be needed. The risk of further restrictions on rent increases would be devastating to rental housing providers and tenants.

For landlords, the existing 2.5% rent control cap (or less depending on inflation) simply means that rents will not keep pace with the increased costs of management, utilities, taxes, maintenance and repairs. There is no good policy rationale for preventing owners from being able to recover inflationary costs. In order to keep rental buildings in a good state of repair, housing providers will require inflationary increases plus what is needed for capital investments.

Chart 12: Tenants in Ontario experiencing the lowest rent increases in a generation

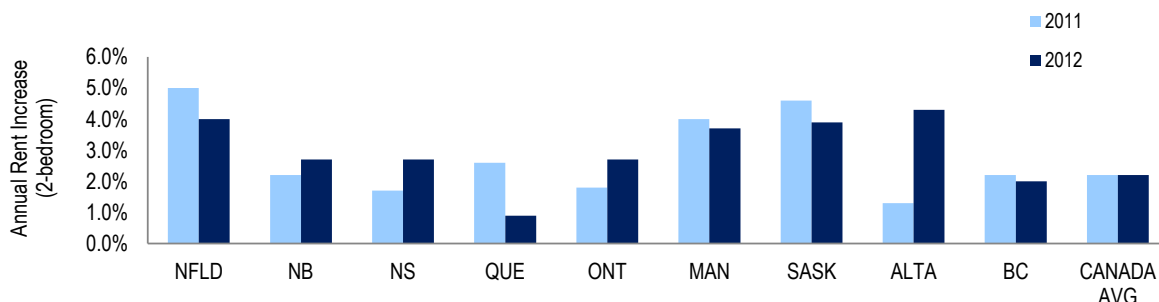


Source: Statistics Canada, CPI Rent Index; Ontario Ministry of Municipal Affairs and Housing June 29, 2011, Press Release, CMHC Rental Market Report, Ontario Fall 2012

Tenants are seeing the lowest rate of rent increases in over a generation

Ontario's rent control policies already cap rent increases at very low levels - for example the record low rent control guideline of 0.7% in 2011. The average annual increase from 2004-2012 was only 1.98%. There is no evidence that Ontario tenants are experiencing unreasonable rent increases. Average rent increases in Ontario are very comparable, and even less, than in most provinces. Over the past decade, rents have fallen in real terms when adjusted for inflation. Using 2002 Constant Dollars, average 2-bedroom rents in Ontario have fallen from \$883 in 2002 to \$840 in 2011. Compared to the prices of other goods and services, rents are not increasing – they are falling. Meanwhile, the costs landlords must pay to manage and maintain rental housing continue to escalate.

Chart 13: Ontario's rent increases 3rd lowest among other provinces



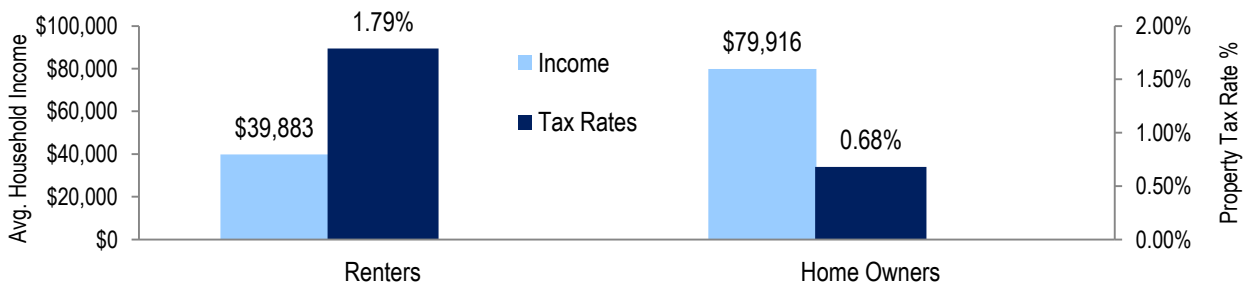
Source: CMHC Rental Market Report, Canada Highlights Fall 2012

Promote Fair Local Property Tax Policy

Eliminate the regressive taxation of tenants

One of the most significant housing affordability measures the provincial government could implement would be a mandatory requirement for municipalities to remove the unfavourable property tax treatment of multi-residential properties. In Ontario, the average tenant faces a property tax rate of 1.78% (of the current value assessment of their home). In contrast, the average homeowner in Ontario pays a property tax rate of 0.68%.

Chart 14: Renters in Ontario pay higher property taxes but have lower incomes

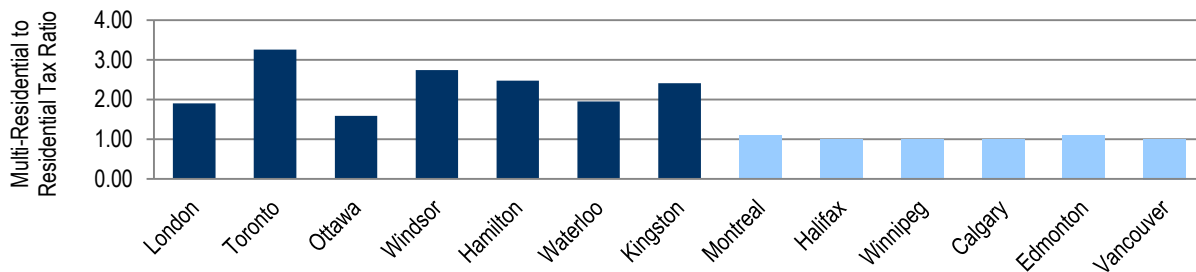


Source: Statistics Canada 2006 Income & FRPO based on Municipal Financial Information Returns

If tenants in Ontario were charged the same property tax rate as homeowners, it would result in a \$77 reduction in the monthly property tax paid by each tenant, or an average savings of \$924 annually. There is no policy justification for the regressive nature of municipal property tax rates on multi-residential properties that unfairly shift a higher tax burden onto renters compared to single-family home residents. Tenants bear the full costs of property taxes through their rent and would directly and quickly benefit from adoption of fair tax rates. Under the *Residential Tenancies Act*, property tax reductions must be passed on to tenants through rent reductions.

Recommended Policy: FRPO recommends that the multi-residential property class be combined with the residential class and that the municipal tax rate on multi-residential properties be reduced to the residential rate. In making this recommendation, it is noted that property tax savings would have to be passed along to tenants under the provisions of the *Residential Tenancies Act*.

Chart 15: Ontario municipalities charge tenants unfair taxes, compared to cities in other Canadian provinces (2012)



Source: FRPO Survey of Municipalities

- Notes -