

The State of Rental Housing in Ontario

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Overview

1. The Big Picture: Rental Housing's Economic Impact
2. Housing construction and supply/vacancy
3. Where should you invest? Ontario's Strongest Markets
4. Forget the Baby-Boomers
5. The Future: Low unemployment & low inflation

Overview

6. Hydro and Gas Prices

7. Municipal Act Pitfalls

8. Poverty and Affordability

9. Immigration: The Great Exodus

10 .Renting is the New Normal

Fundamentals

Rental Housing: A Big Industry



Rental Housing by Comparison (GDP 2012)



Manufacturing	\$76.1 billion
Finance and Insurance	\$51.8 billion
Construction (Total)	\$32.8 billion
Food and Beverage Industry	\$26.2 billion
Tourism Industry (Total)	\$19.5 billion
Rental Housing Industry	\$18.3 billion
Defence Industry	\$13.9 billion
Aeropace Industry	\$11.2 billion
Mining and oil and gas	\$6.5 billion
Agriculture, forestry, fishing & hunting	\$4.7 billion
Arts and Culture Industries	\$3.7 billion

Rental Housing by Comparison (Capital Spending)



Home Building & Renovation (Total)	\$42 billion
Utilities & Energy Sector	\$9.1 billion
Manufacturing	\$6.9 billion
Transportation	\$6.4 billion
Rental Housing Industry	\$4.5 billion
Provincial Hospitals Capital Budget	\$2.9 billion
Provincial Highways Capital Budget	\$2.2 billion
Agriculture & Forestry	\$1.2 billion
GO Transit Annual Capital	\$1.96 billion
Arts & Culture Industries	\$0.58 billion
Social Housing Capital Investment	\$0.16 billion

Source: Statistics Canada GDP CANSIM table 379-0030, 2013; KPMG 2013, Economic Impact Assessment Study – Federation of Rental Housing Providers of Ontario.; Ontario Ministry of Tourism, Culture and Sport, 2013; Ontario Arts Council, 2012; Ontario Ministry of Finance 2013.

Rental Housing (Private Sector – Ontario)



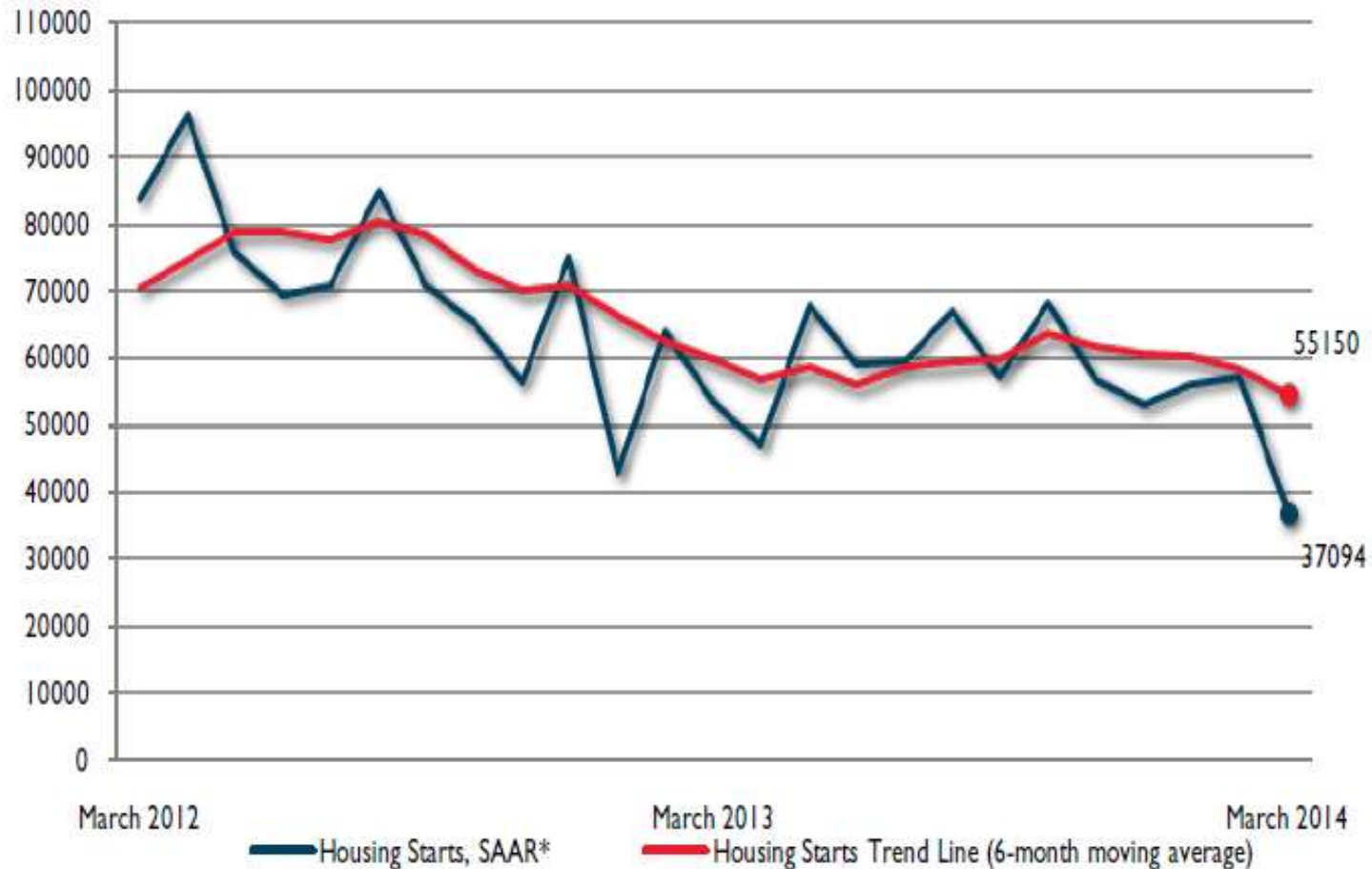
- 146,534 full time jobs in Ontario, average annual salary of \$56,600
- Total labour income of \$8.29 billion in 2012
- 3% of Ontario's GDP, totaling \$18.3 billion
- Over 56,000 new rental housing units constructed between 2006 and 2012, creating over 33,000 full time jobs
- Contributes \$7 billion in tax revenues – more than the agriculture and food, arts and culture, mining, and aerospace industries combined

Housing Construction & Vacancy



Housing Construction Slowing

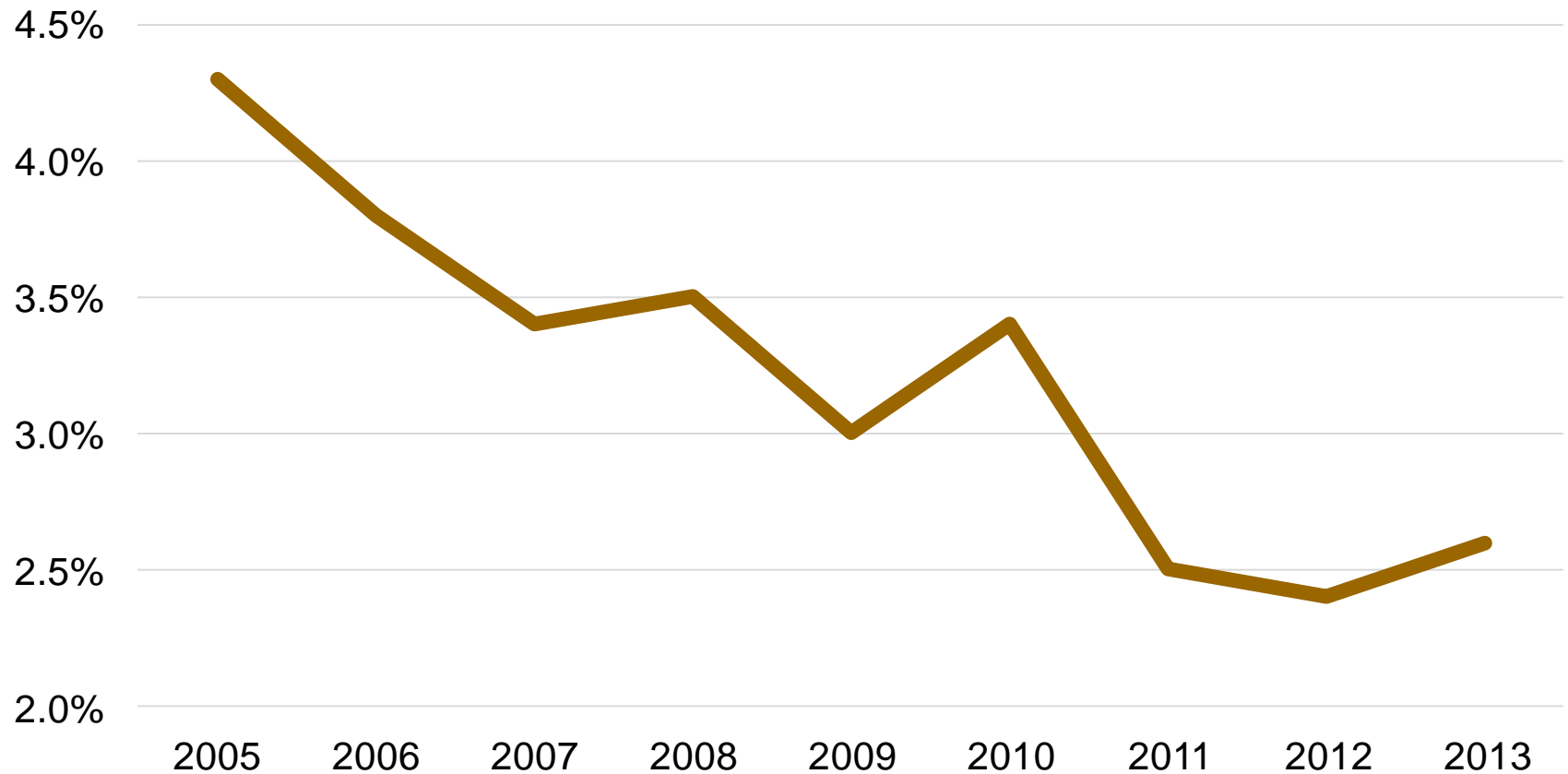
Provincial Housing Starts - Urban Areas



Vacancy Rates in Long-Term Decline



Average Vacancy Rates (Ontario)



Source: CMHC Housing Observer 2013, Housing Market Indicator Data Tables

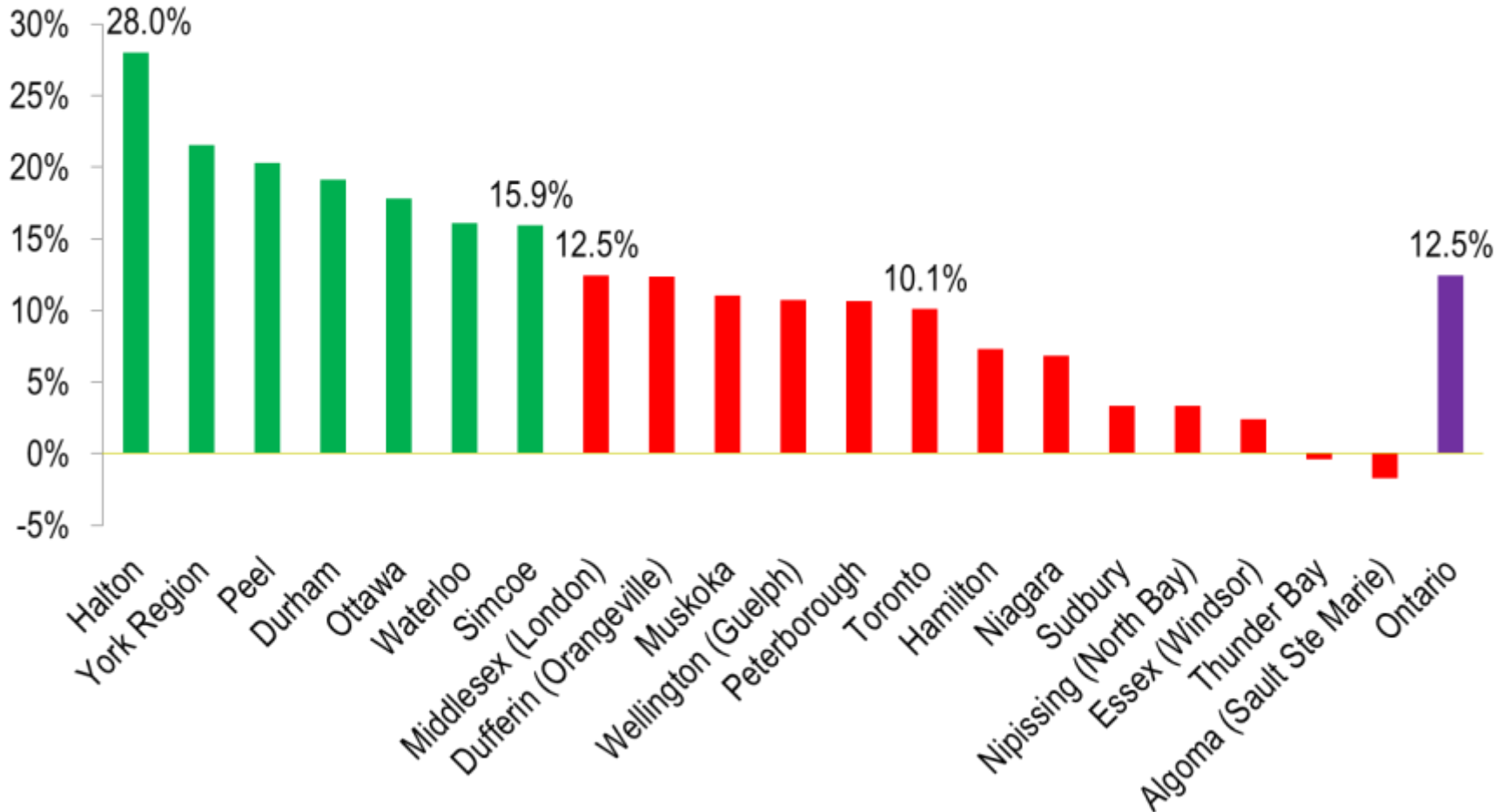
Ontario's strongest markets



Ontario's strongest growth markets



Population Projections 2013-2023 (Percent Change)

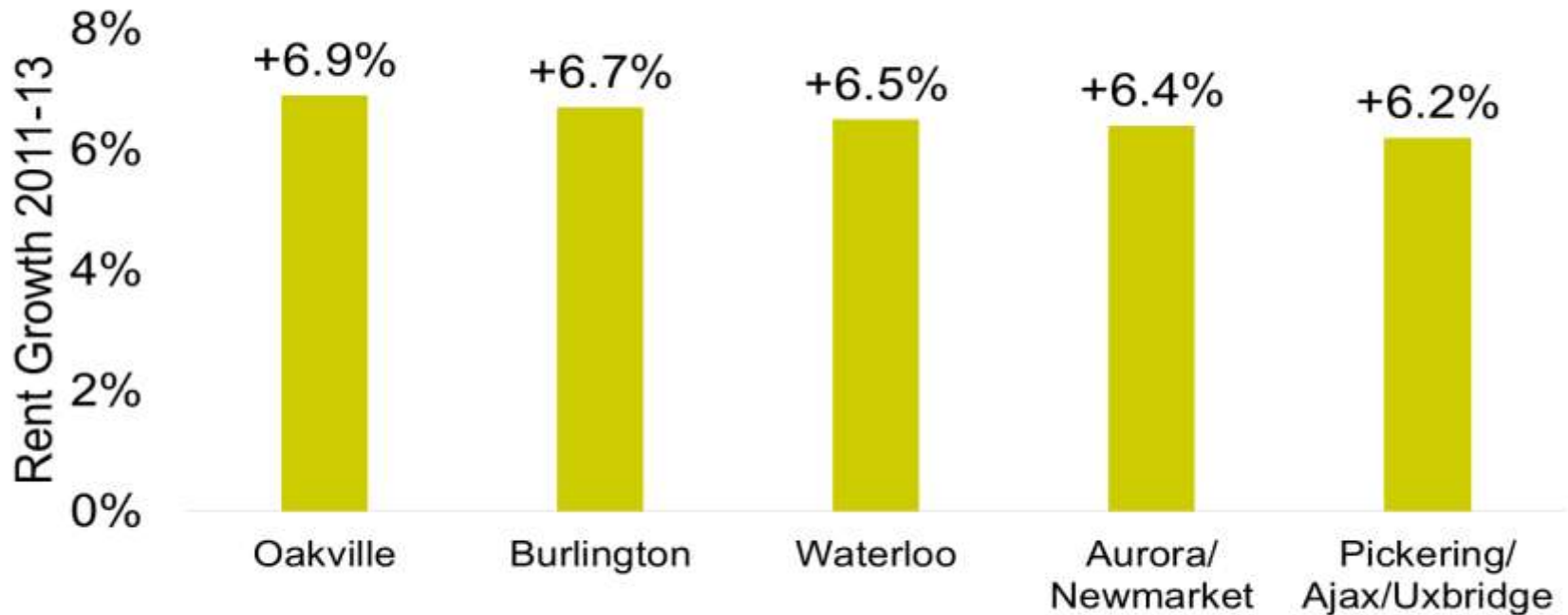


Source: Ontario Ministry of Finance Population Projections, 2013.

Strongest Rental Markets (Primary/Secondary)



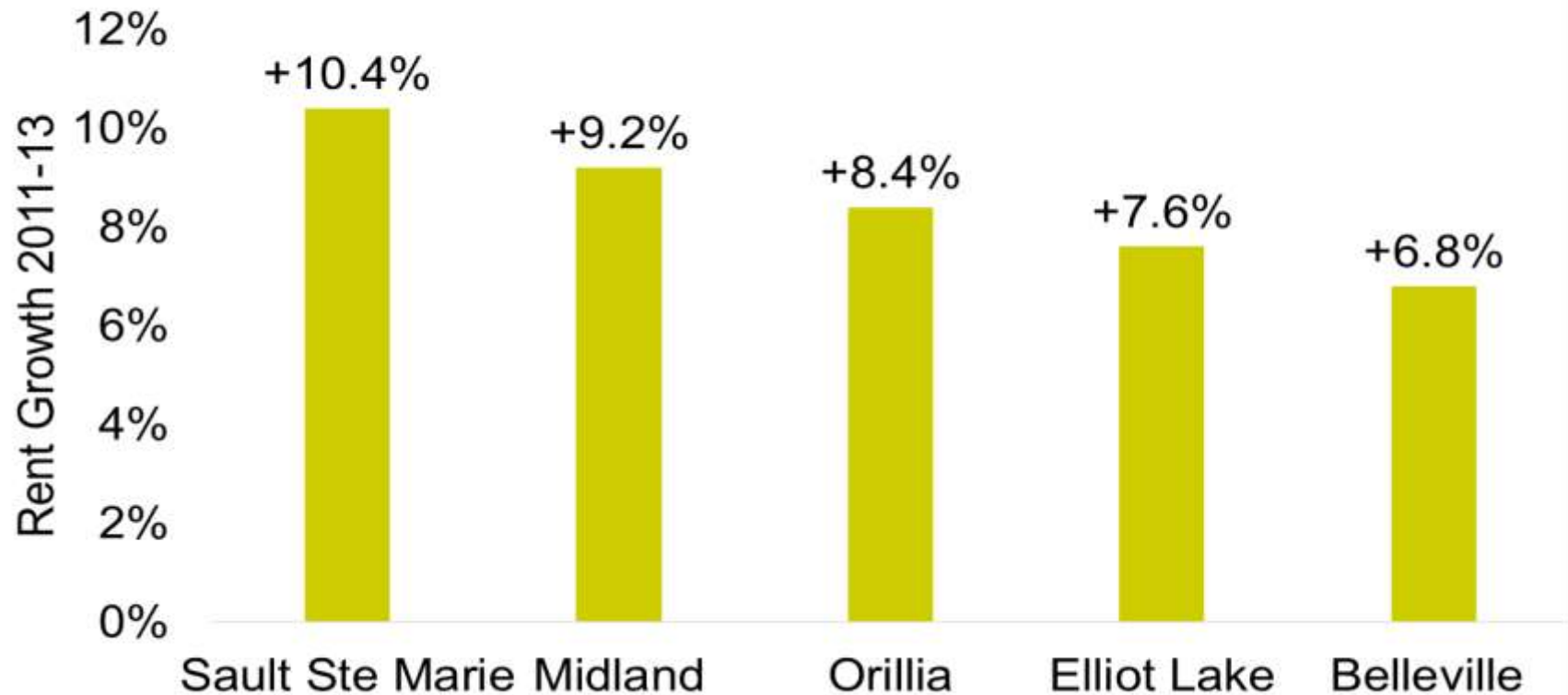
Strongest Markets (Primary)



Strongest Markets (Secondary/Tertiary)



Strongest Markets (Secondary/Tertiary)



Forget the Baby Boomers

Meet the Millennials



Forget Baby-Boomers. Biggest Impact from Millennials

- Born between 1980-2000
- Now in young-adulthood, teens (Ages 15-35)
- 8.9 million in Canada. 4.5 million live with their parents. 700,000 unemployed. \$225 billion in labour income.
- Characteristics: Helicopter Parents, Boomerang Kids, Peter Pan Generation, Trophy Kids, Technologically Dependent, “Underemployed”, Mobile, on-the-move.

Forget Baby-Boomers. Biggest impact from Millennials



- Not interested in buying cars, don't like the car buying experience
- Dislike negotiating
- Challenge to afford car ownership and parking
- Prefer to live in walking/transit distance to work
- Less interest in a suburban lifestyle. Prefer urban infill projects, compact, efficient homes.

Millennials: Housing Preferences



“An energy-sapping, high maintenance money pit in the middle of nowhere.”

Millennials: Housing Preferences

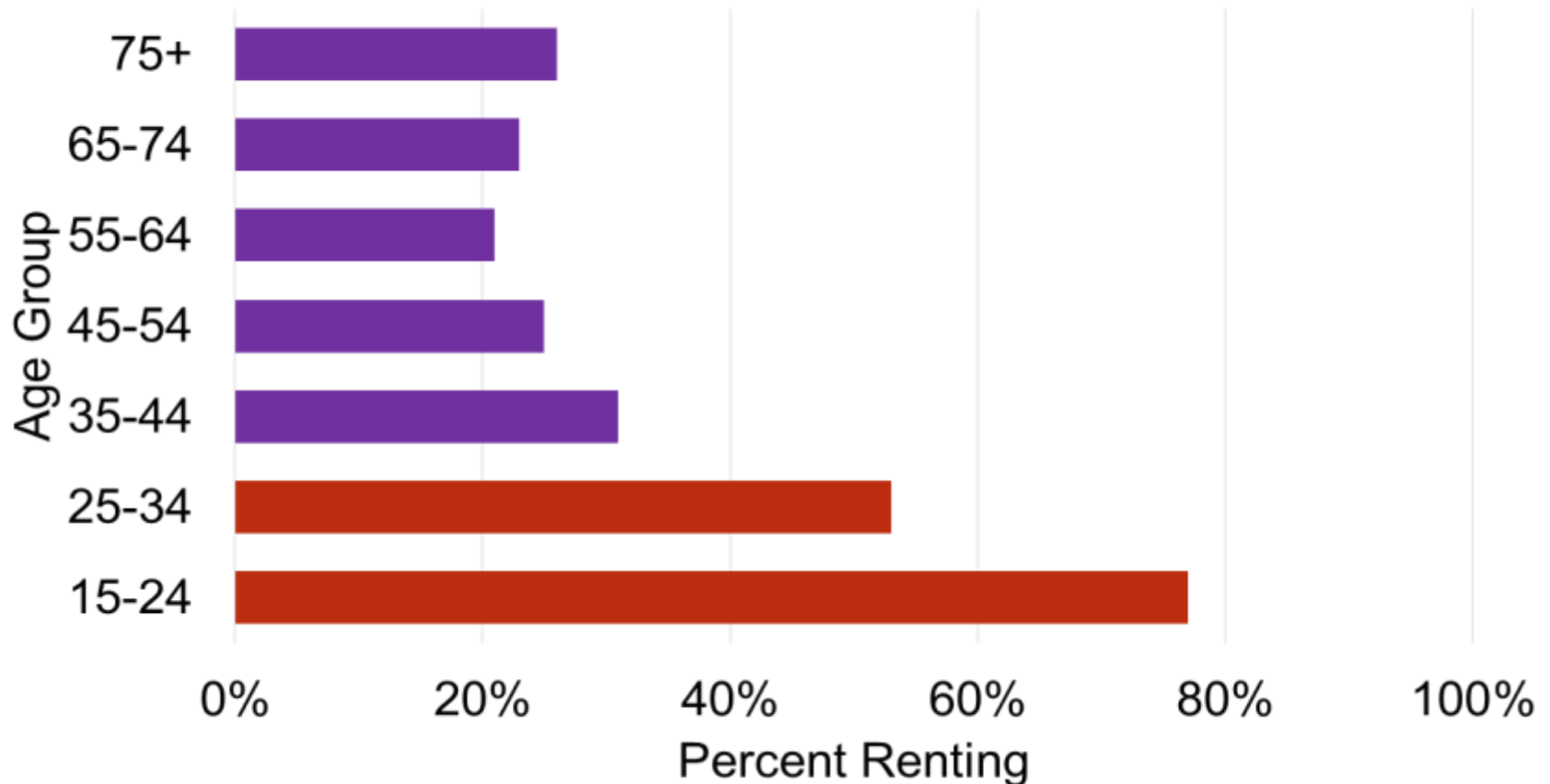


“Affordable, functional, hip, close to work and friends.”

Millennials (Ages 15-35): Key Demographic for Renting



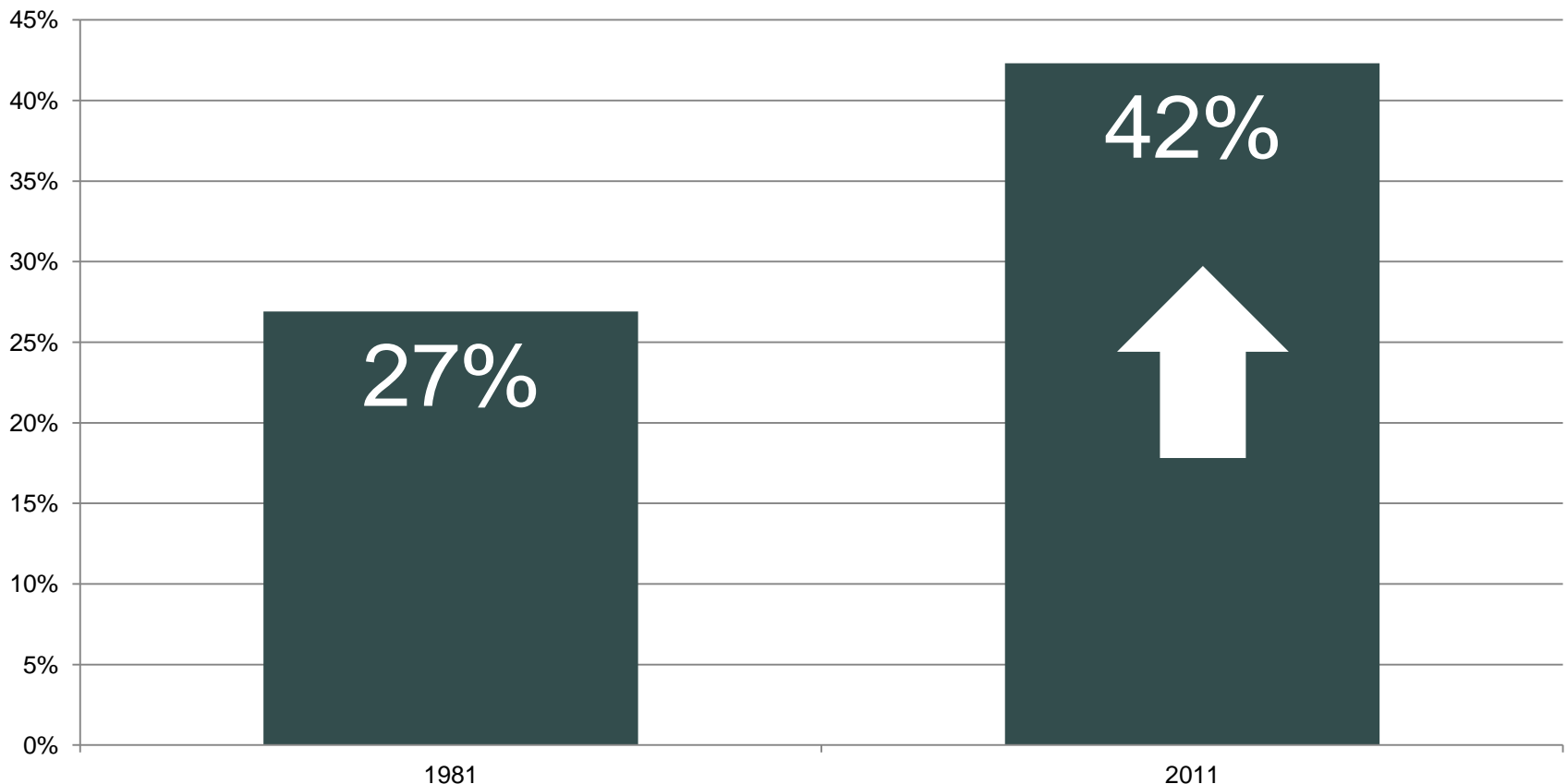
Share of Households Renting



“Boomerang Kids” Delaying Household Formation



Young adults (Age 20 to 29) living with their parents (Canada)



Source: Source: Statistics Canada, 2011 Census. Living arrangements of young adults aged 20 to 29. 2011 Census in Brief. Ottawa: Statistics Canada, 2012 (Cat. No. 98-312-X2011003).

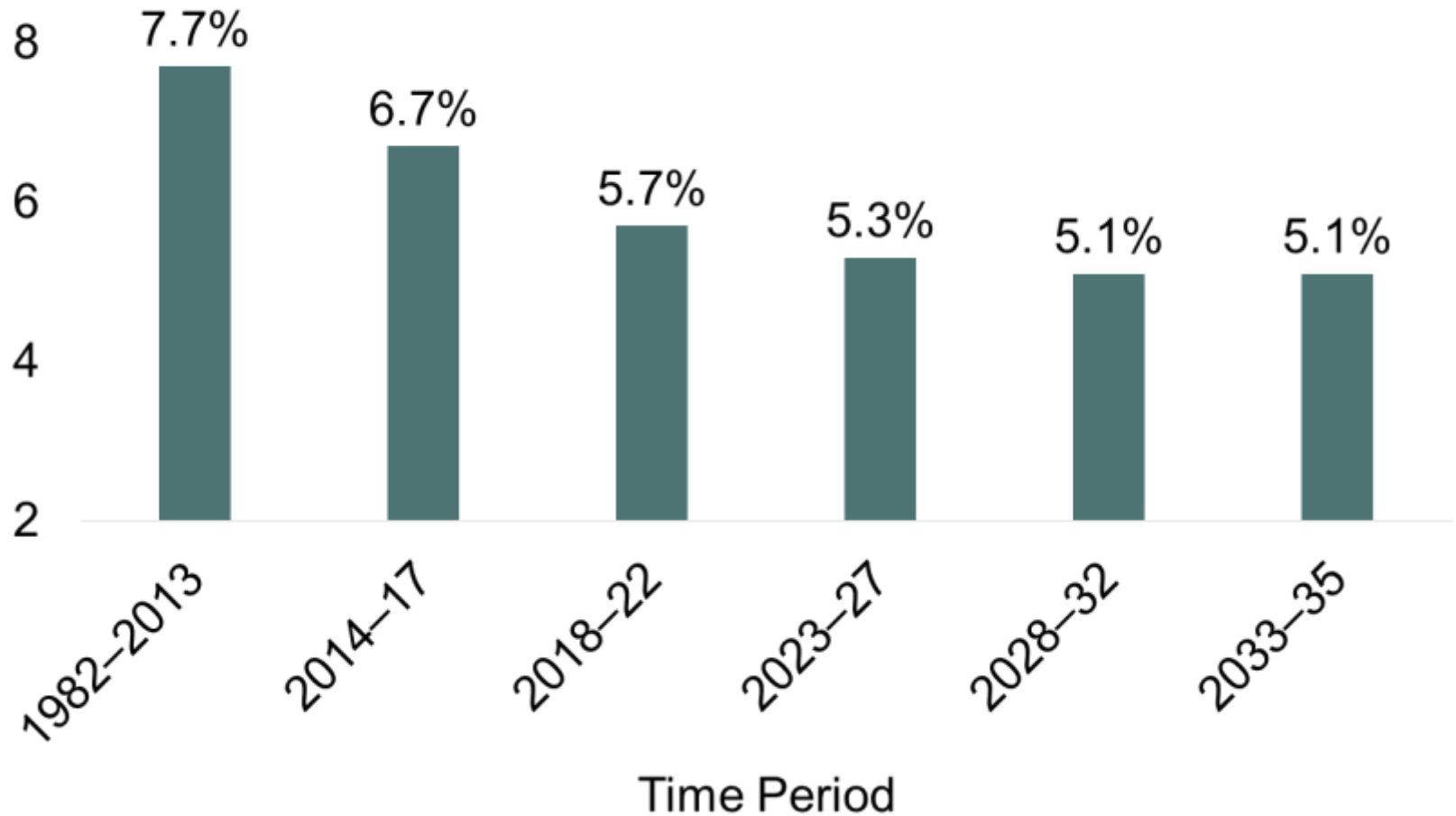
Low inflation & low unemployment



Next 20 years: Low unemployment



Unemployment Rate (Ontario)

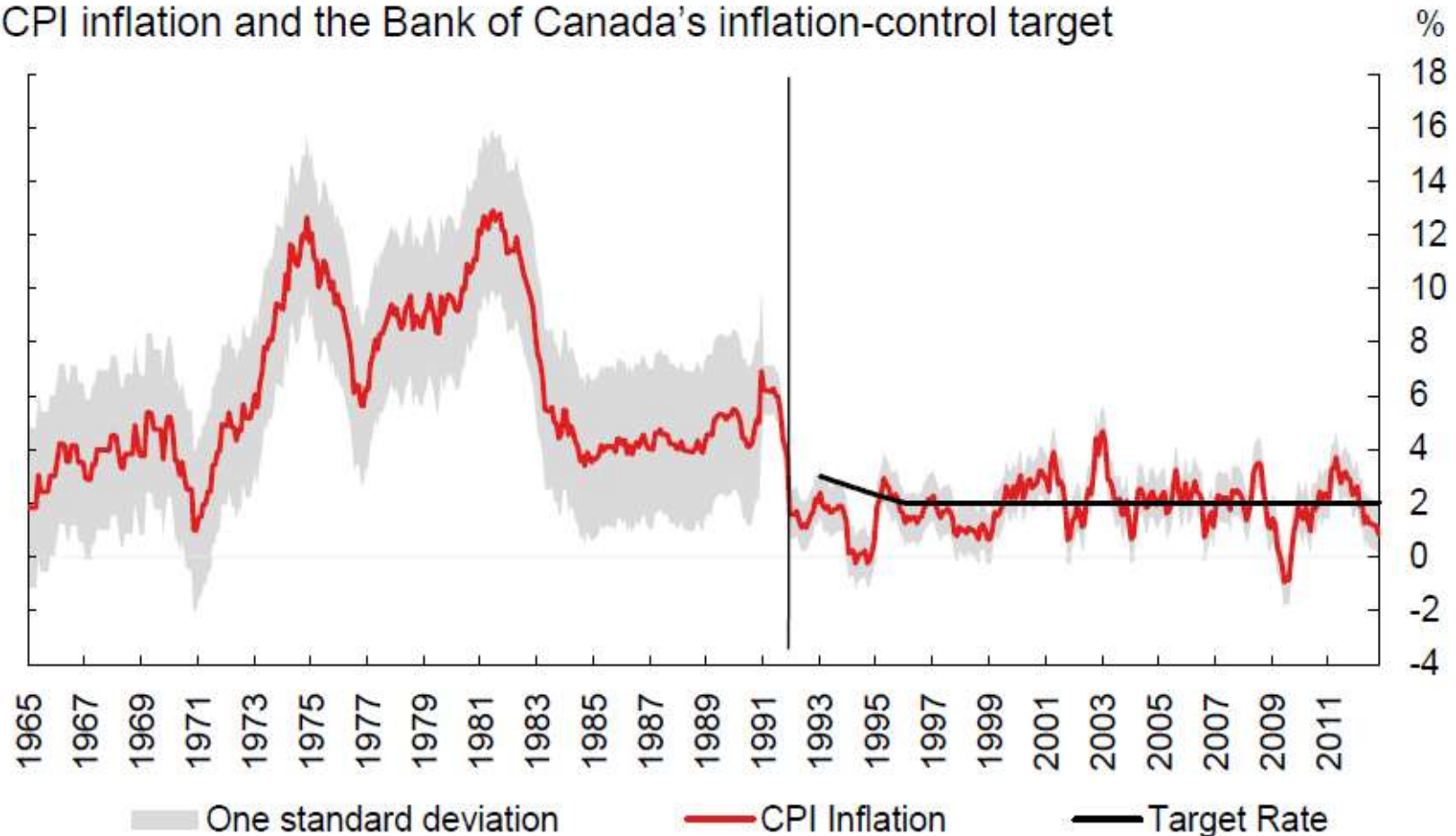


Low unemployment

- High unemployment is closely associated with high levels of homeownership and vice versa
- High homeownership impairs the labour market and mobility
- Causes long commuting times and lowers productivity
- Homeowners oppose new development and business investment in their neighbourhoods

Long-Term Target of 2% Inflation

CPI inflation and the Bank of Canada's inflation-control target



Sources: Statistics Canada and Bank of Canada

Last observation: November 2012

Hydro and Gas Prices

Growing cost pressures



Hydro Prices Up Significantly

- \$1.1 billion costs of cancelling two gas plants in Mississauga and Oakville
- \$10 billion cost of refurbishment of the Darlington Nuclear Power Station.
- Higher planning & consultation costs with First Nations and Metis groups.
- The costs of phasing-in over 10,700 MW of wind, solar and bioenergy projects

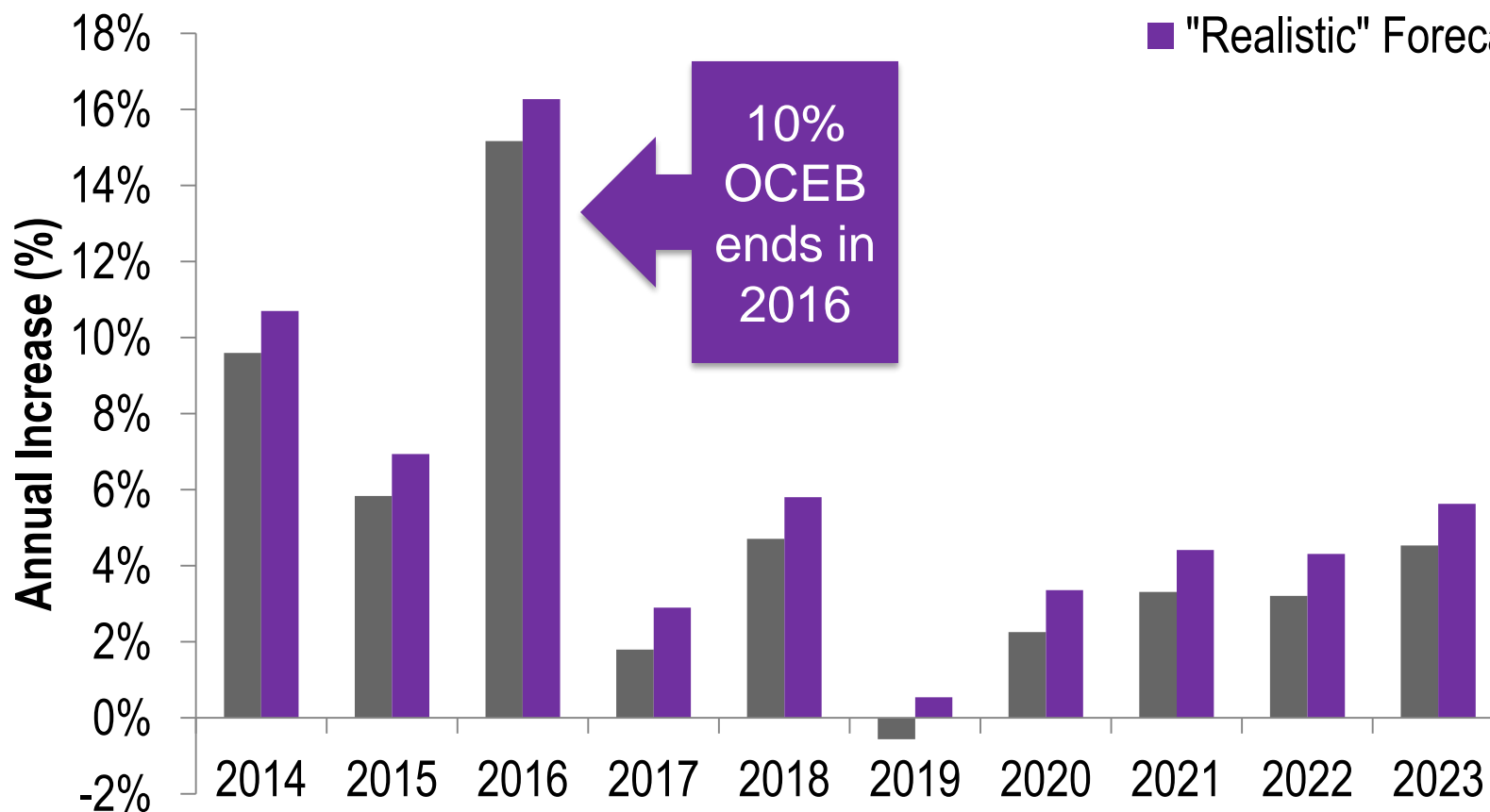
Hydro Prices Up Significantly

- About \$1.5 billion annually in improvements to the transmission system (eg: replacing hydro poles and transformers)
- Increases by local hydro utilities in service and delivery charges
- **The \$1.1 billion, 10% Clean Energy Rebate ends after 2015.**

Future Hydro Price Hikes

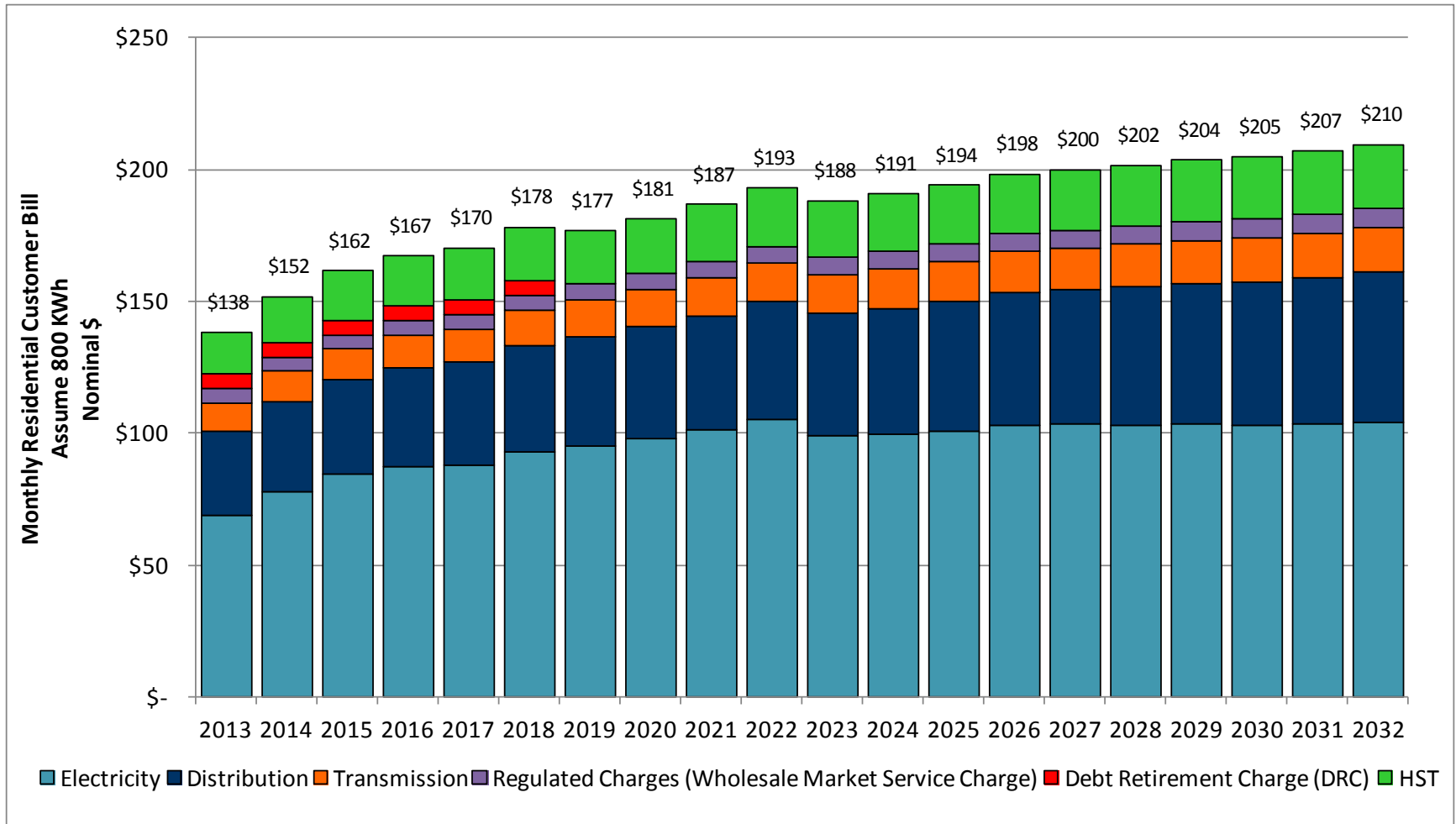
Typical Electricity Bill Forecast (10 Years)

- LTEP Forecast
- "Realistic" Forecast



Source: Ontario Ministry of Energy, 2013, Long Term Energy Plan; FRPO Calculations

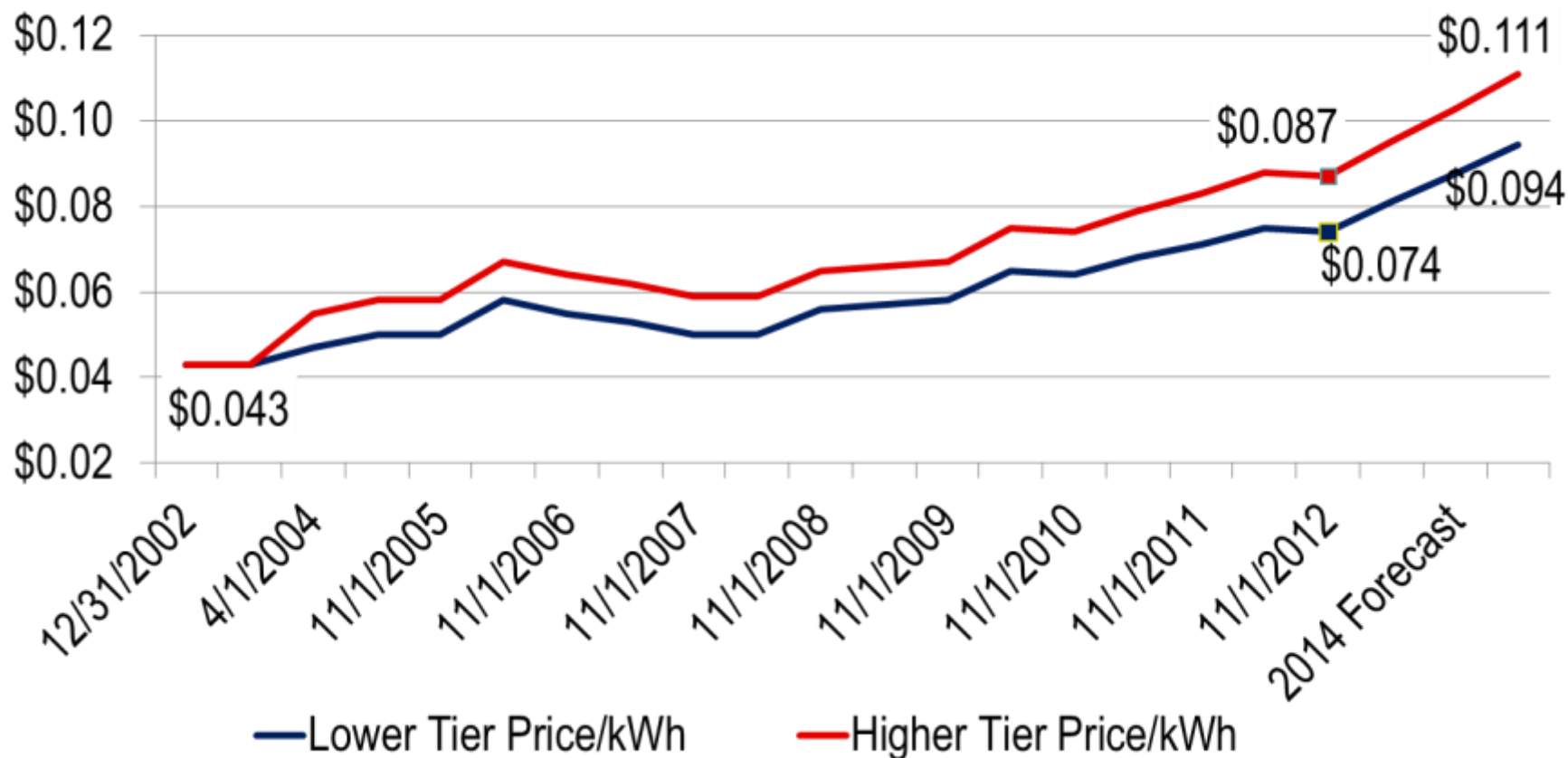
On an average 800kWh/month household



Source: Ontario Ministry of Energy, 2013, Long Term Energy Plan; FRPO Calculations

Hydro Prices Since 2002

Ontario Hydro Prices 2002-2015



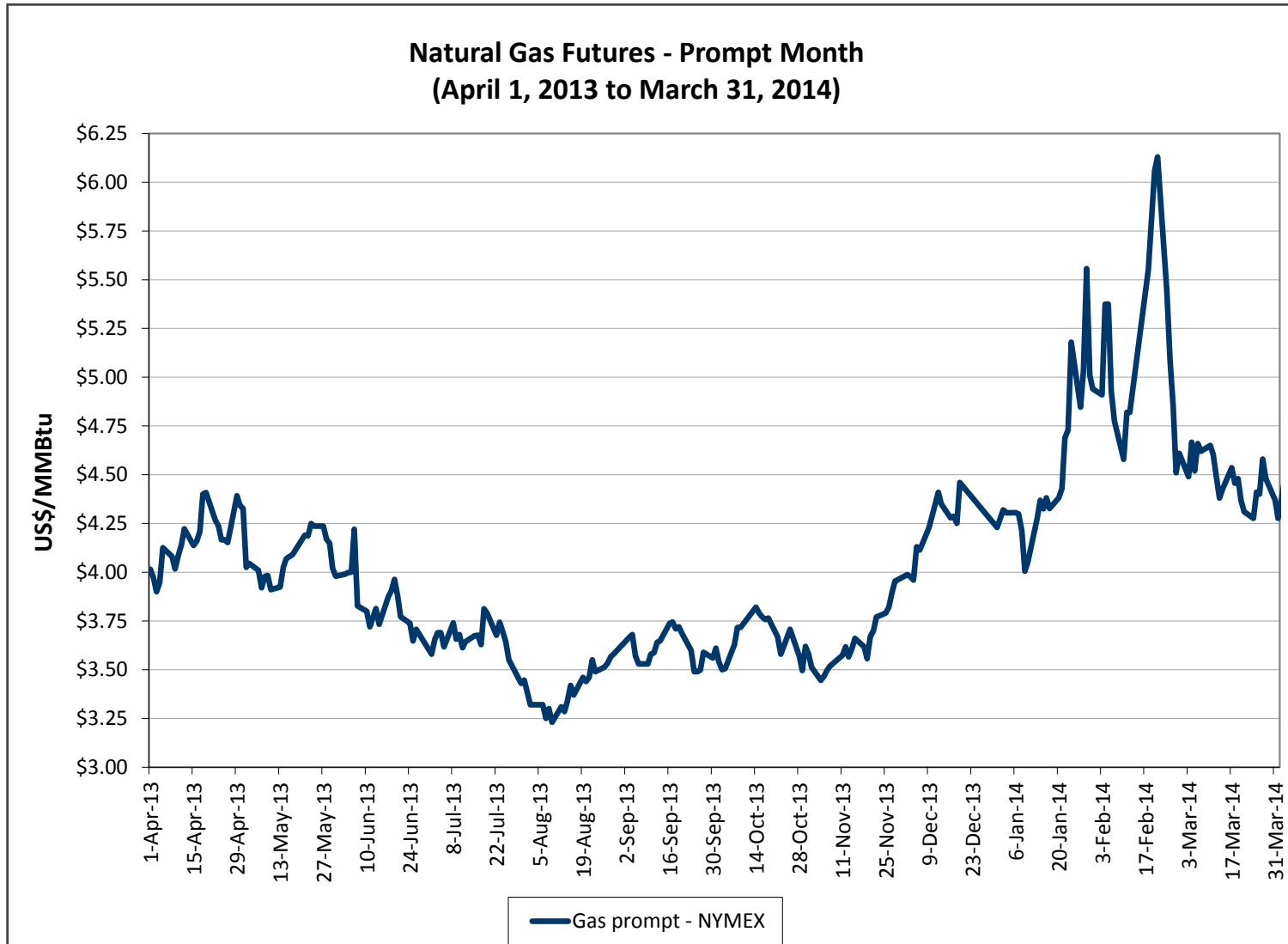
Source: Ontario Energy Board (2012); Ministry of Finance Ontario Economic Outlook (2010)

Natural Gas: The Impact of Cold



- A long cold winter has dramatically impacted natural gas prices
- NYMEX price increased 75% from Nov 2013 to Feb 2014
- Prices impacted by limited storage and pipeline transmission capacity
- Hard to meet demand of long, cold winter
- Low inventory can impact supply for next winter
- Storage levels at 10+ year lows

Natural Gas: The Impact of Cold



Municipal Act Pitfalls

Licensing & Utility Arrears



Municipal Act Pitfalls: Licensing



ONTARIO REGULATION 243/02

2. (1) A municipality does not have the power under the Act to establish a registry for or to license, regulate or govern the rental of a residential unit. O. Reg. 243/02, s. 2 (1)

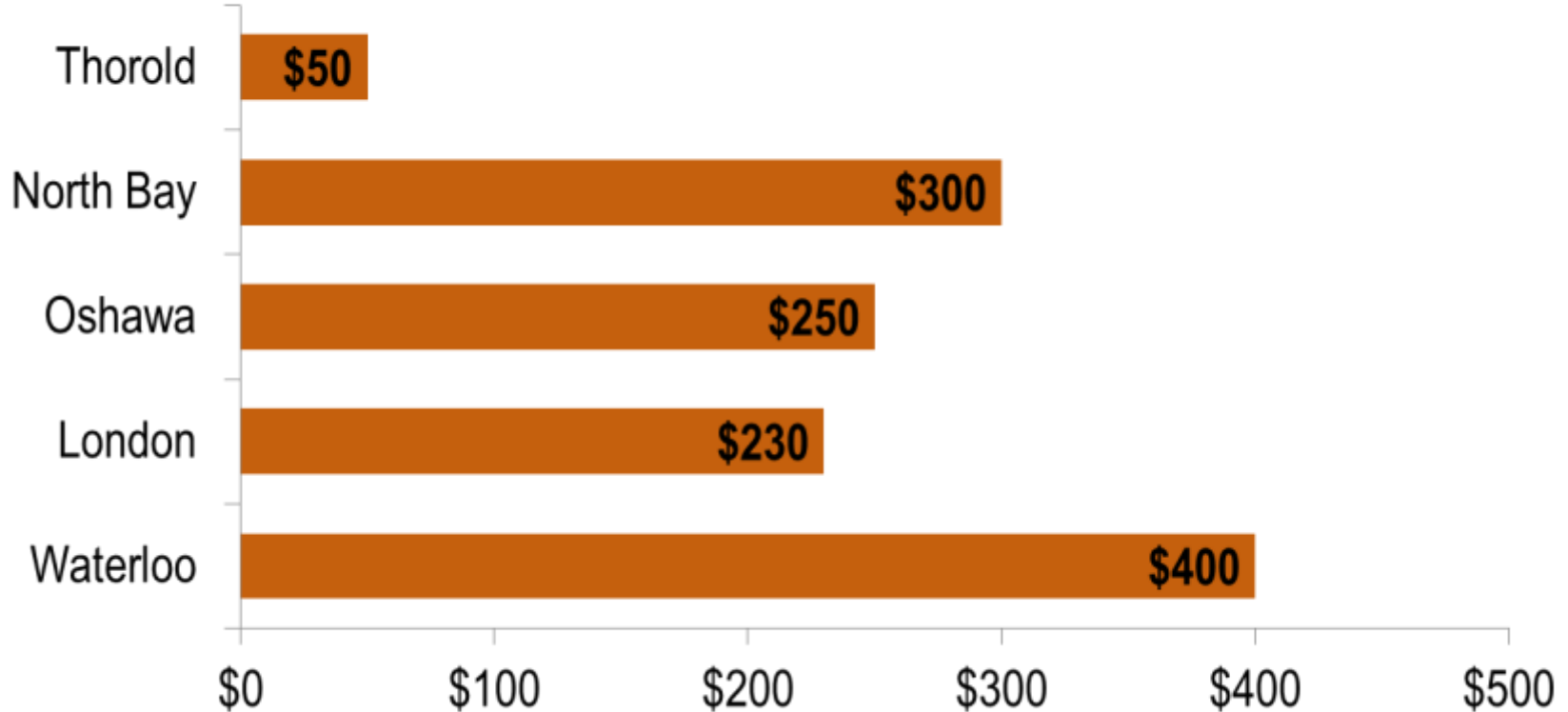
This Regulation was revoked on January 1, 2007, when amendments to the *Municipal Act* took effect.

Best solution: Restore Reg 243/02, rather than oppose licensing in 440 different municipalities

A big, new cost for landlords and tenants – with no benefit



Tenant Licensing Fees (2013)



Tenant Utility Arrears

- Section 398 (2) of *Municipal Act* allows municipalities the option of placing a tenant's outstanding charges for municipal water utilities on the property tax roll of landlords.
- Big Problem: Difficult to resolve unpaid utilities through Landlord Tenant Board, costly to go through small claims court
- Option to consider: include water with monthly rent...landlord pays the water bill directly.

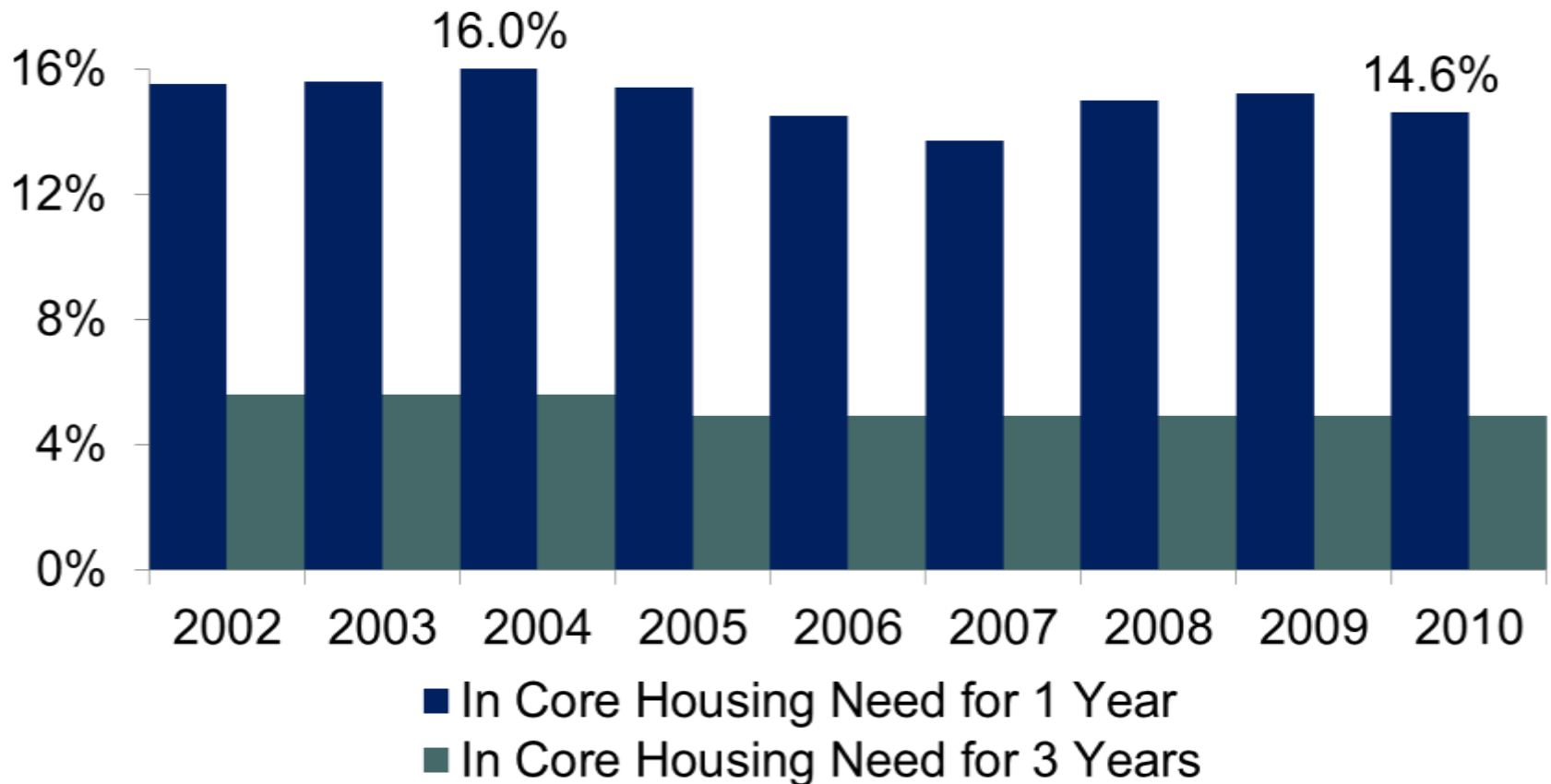
Poverty & Affordability



Poverty & Affordability: Many in need, but not getting worse



Percent of Ontario Households in Core Housing Need

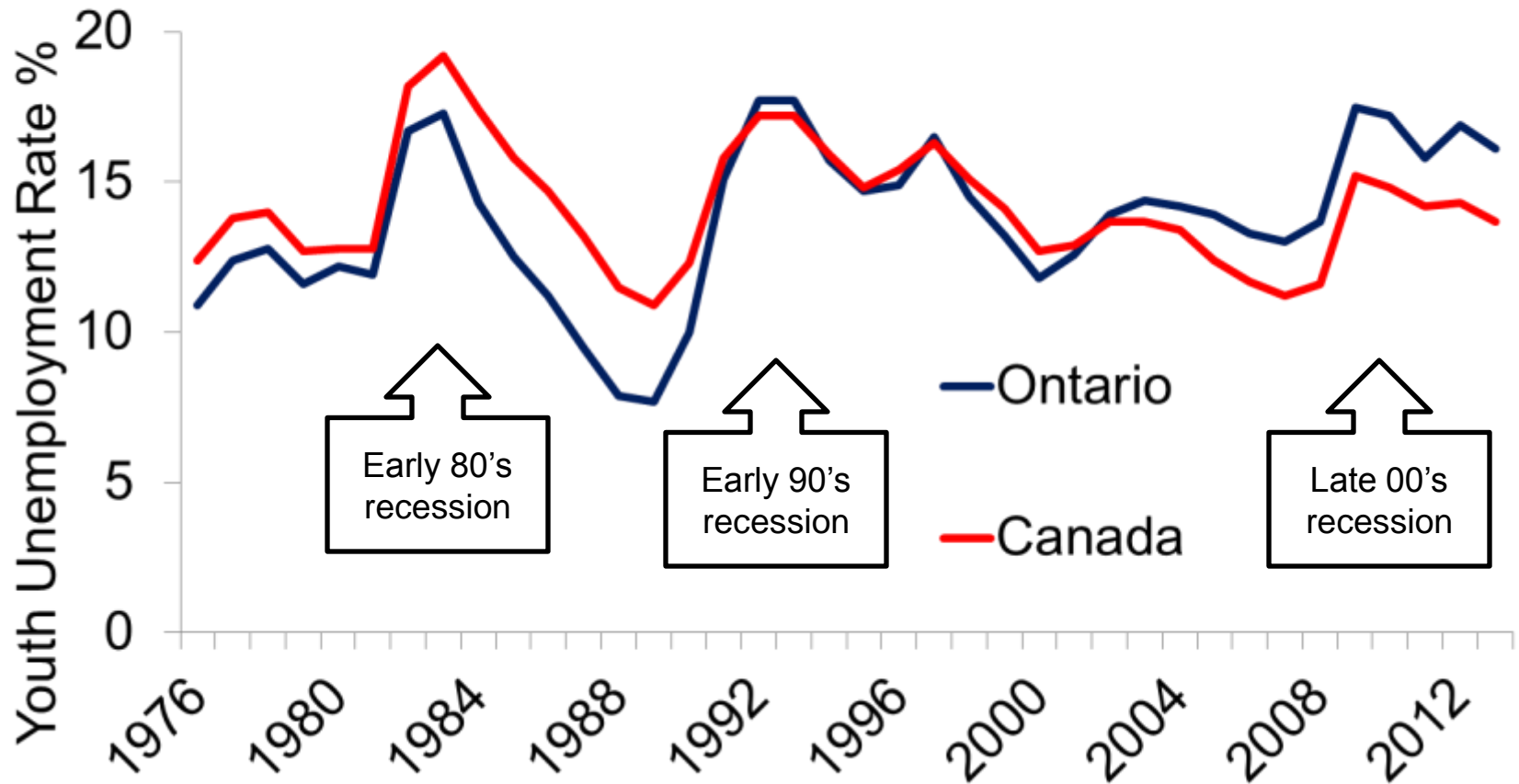


Source: Canadian Housing Observer 2013

Youth Unemployment: Similar to previous recessions



Unemployment Rate %, Age 15-24



Source: Statistics Canada labour force survey estimates, CANSIM Table 282-0002

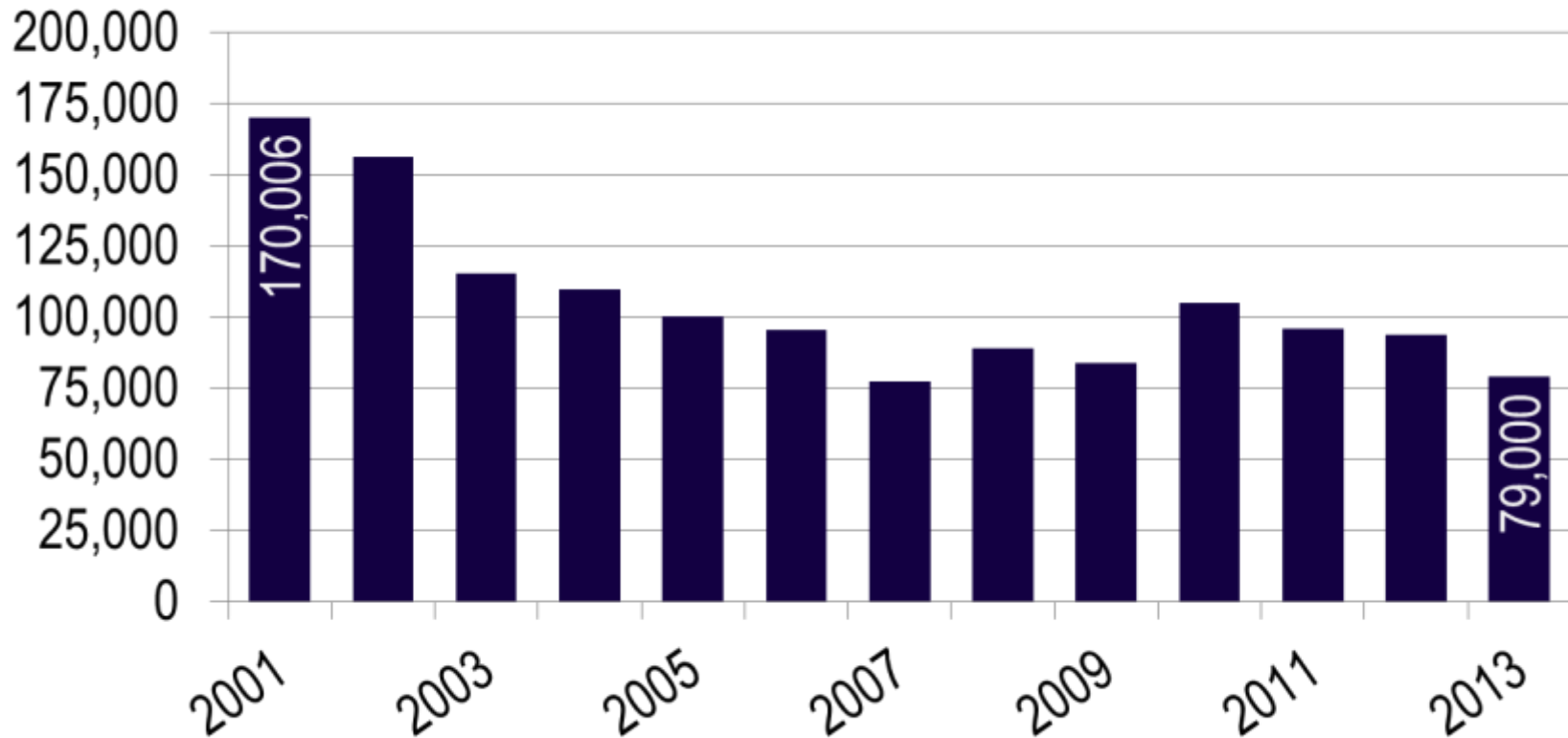
Immigration



Immigration: 75% Rent during First 2-years in Canada



Net Immigration to Ontario

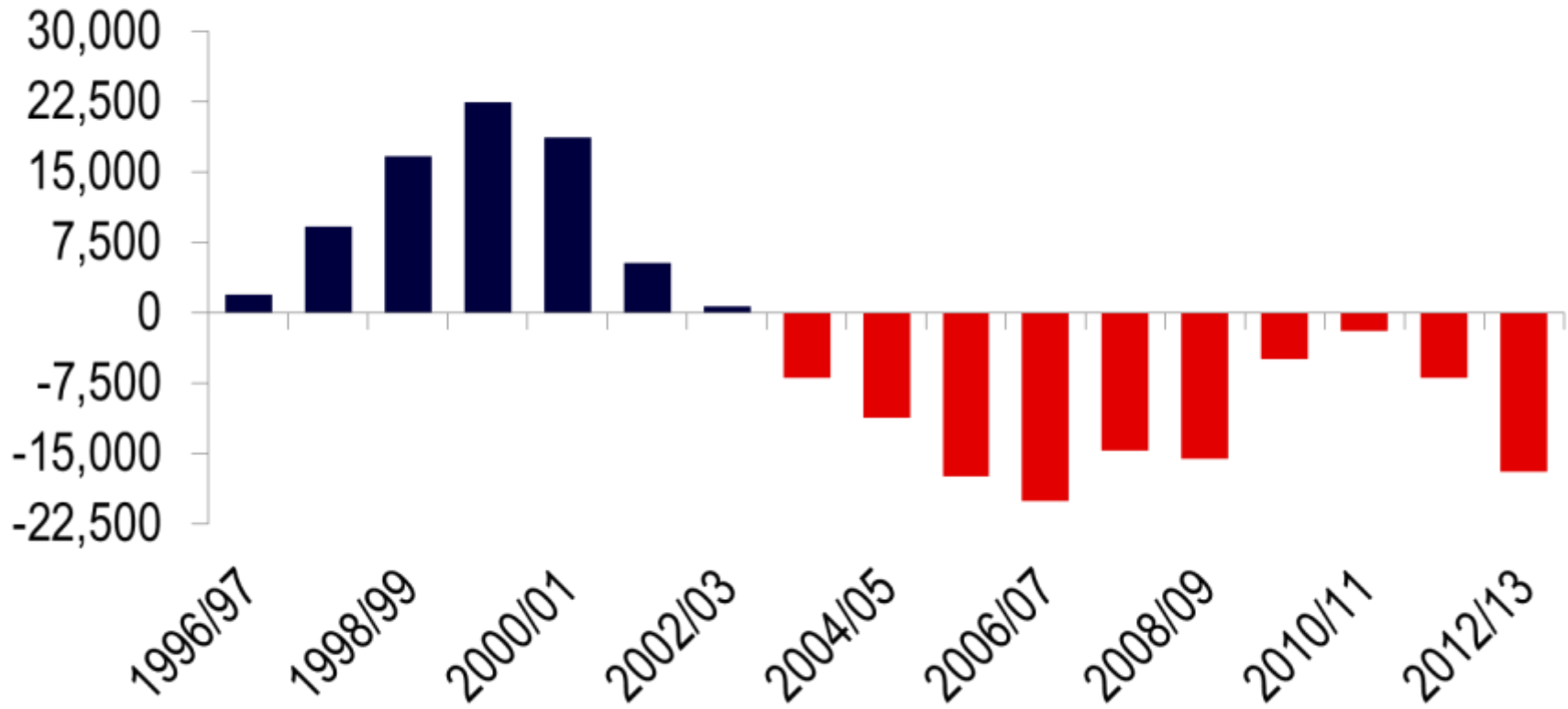


Source: Statistics Canada, Quarterly Demographic Estimates (2013);
Ontario Ministry of Finance Population Projections (2010)

Exodus from Ontario: 115,000 left since 2003



Net Inter-Provincial Migration (Ontario)



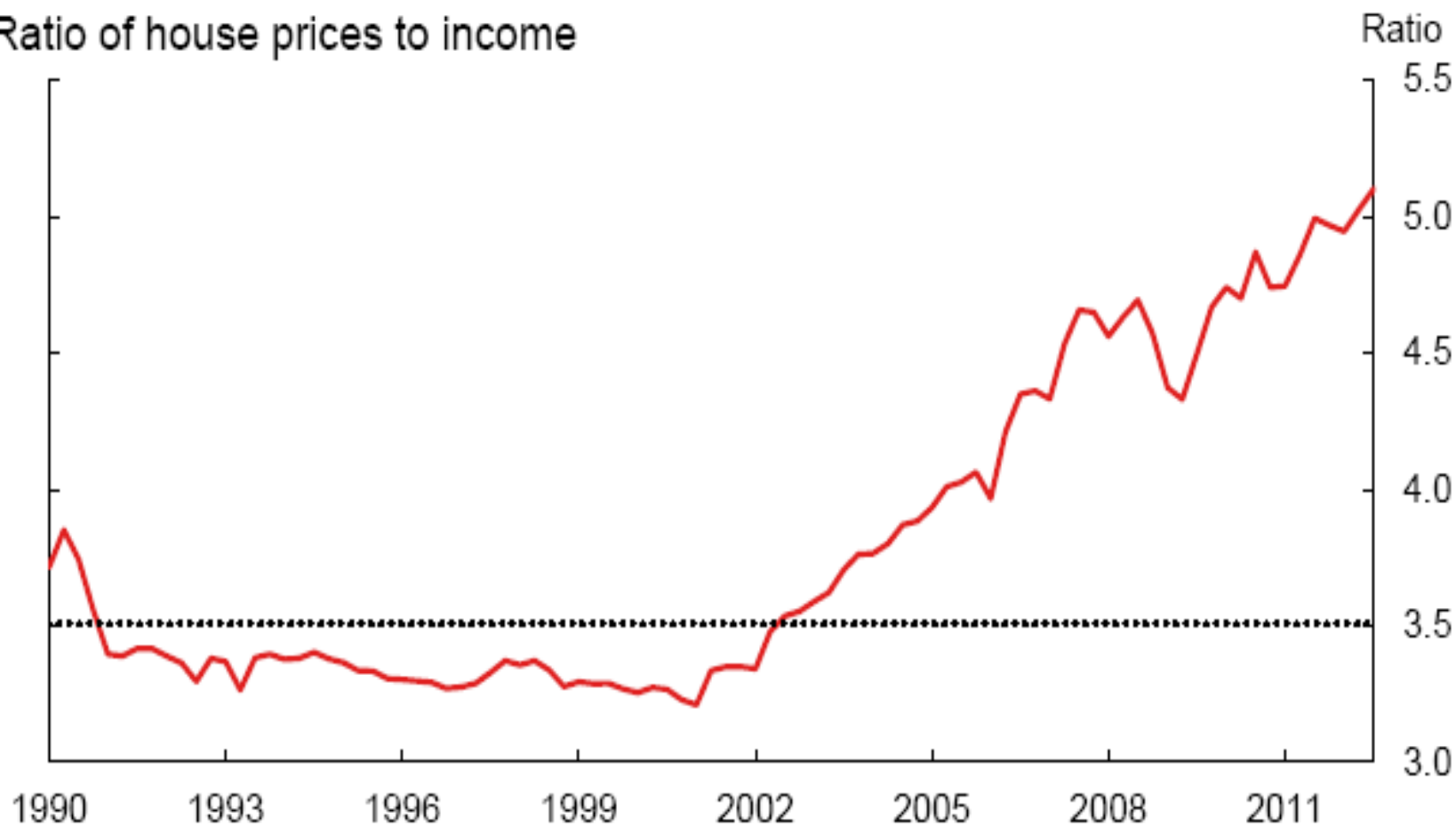
Source: Statistics Canada, Demography Division (2009); Ontario Ministry of Finance Population Projections (2013)

Renting is the New Normal



Renting is the New Normal

Ratio of house prices to income



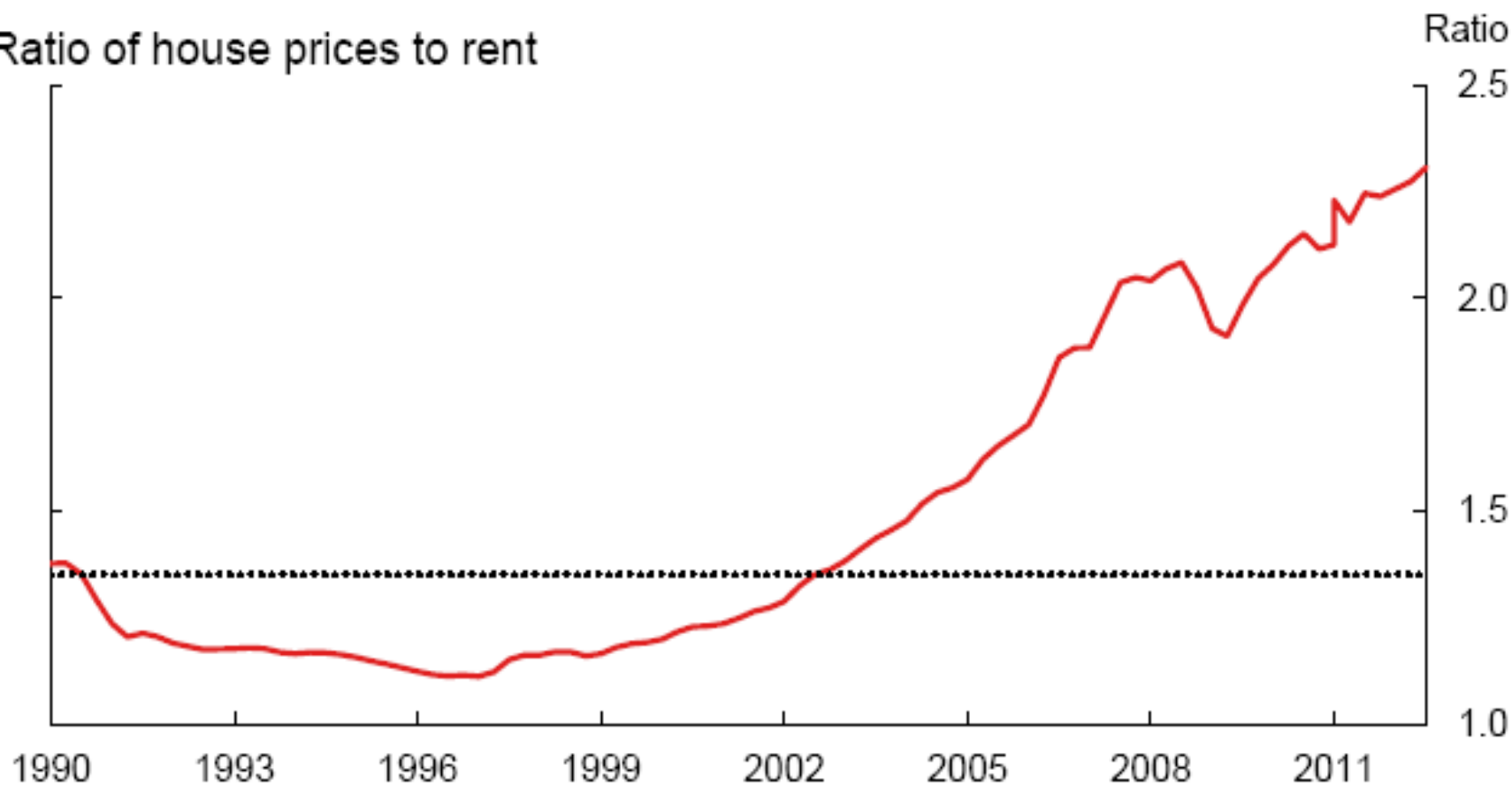
Note: Broken line indicates the historical average from 1975 to the present

Sources: [Teranet-National Bank](#), Statistics Canada, Canadian Real Estate Association and Bank of Canada calculations

Last observation: 2012Q3

Renting is the New Normal

Ratio of house prices to rent



Note: Broken line indicates the historical average from 1975 to the present

Sources: Teranet-National Bank, Statistics Canada, Canadian Real Estate Association and Bank of Canada calculations

Last observation: 2012Q3

End

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