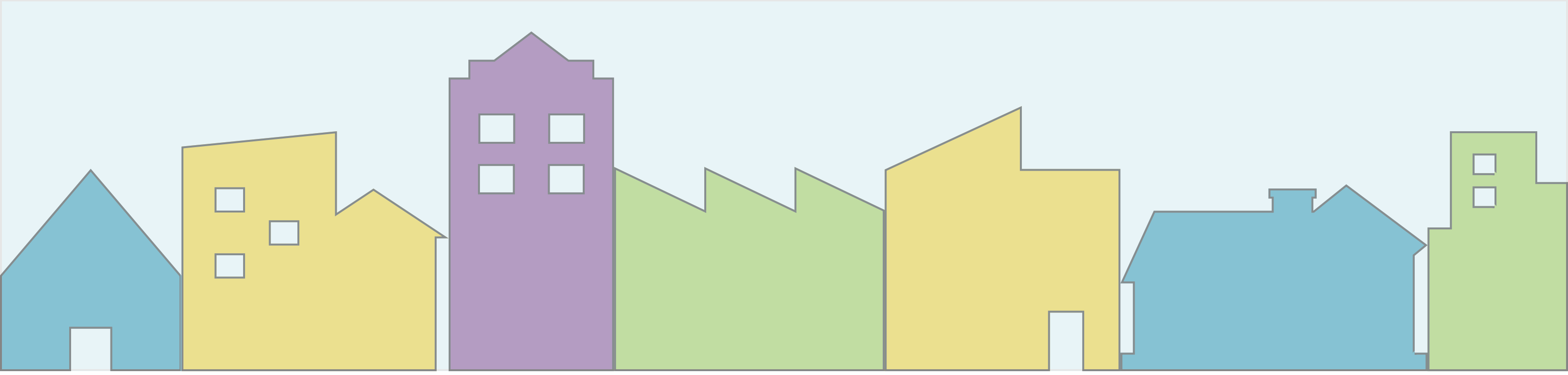

MARCH 2024

Housing Supply Mix Strategy 3: Purpose Built Rental Housing

Canada has neglected to create an adequate supply of purpose-built affordable rental apartment buildings

Toronto Metropolitan University
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SUPPLY MIX RESEARCH
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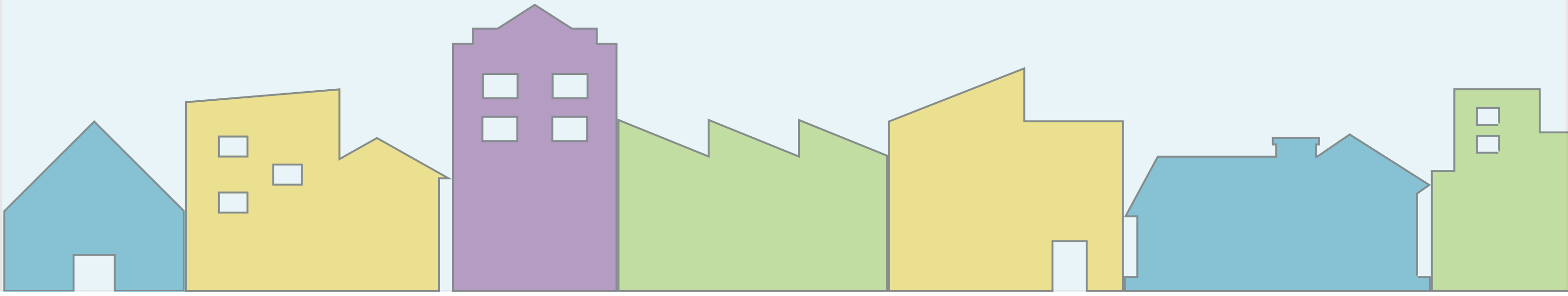
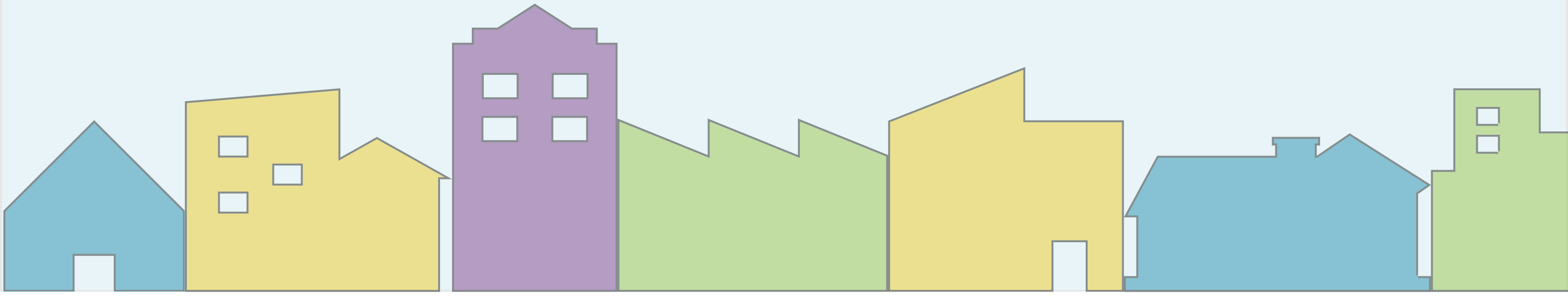


The Issue

The rate of renter households is growing twice as fast as ownership in Canada, and three times as fast in the Toronto region. Yet we face a supply-demand mismatch when it comes to rentals, with certain markets lacking enough affordable and market-rate rental housing that is family-friendly and/or near jobs and amenities. For example, the average current vacancy rate in Canada for rental housing is 1.9%, the lowest since 2001, and CMHC has found a 0% to 1% availability for low-income rental across the country.

Purpose-built rental offers secure, family-sized rental housing

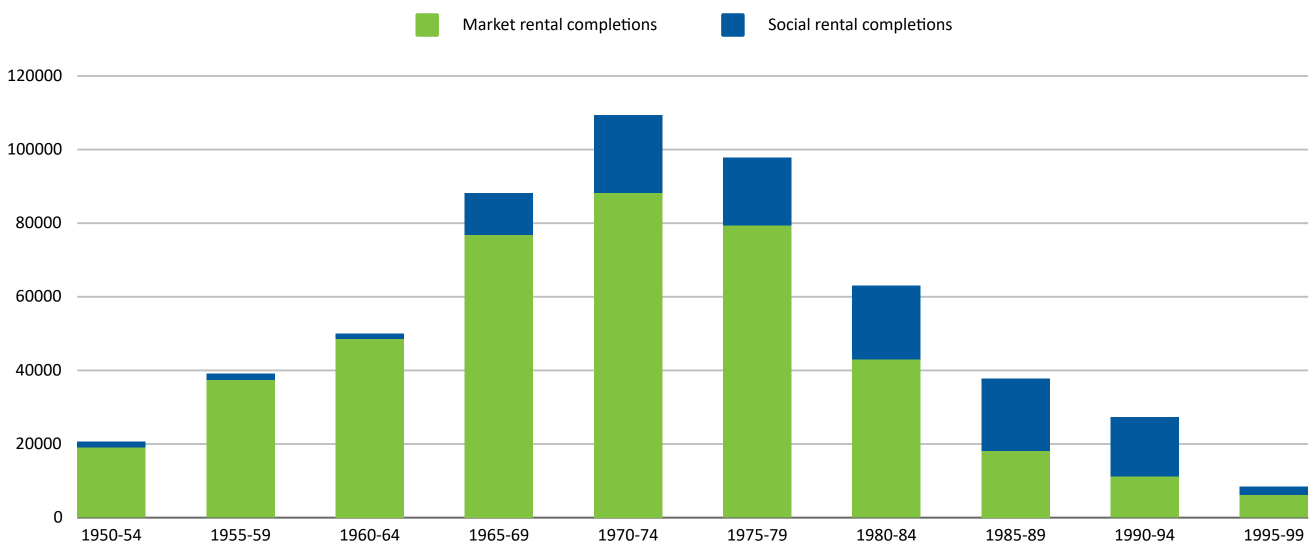
Purpose-built rentals (PBRs), also known as apartment buildings, are developed to provide long-term rental housing that is secure and managed by apartment building landlords. This differs from condo units on the rental market, which are rented out by individual owners, and lack the tenure security of PBRs. Since being built, many older PBRs have generally either remained affordable or become affordable relative to newer market-rate options, including condos. Since the 1970s, catalyst initiatives such as the Multiple Residential Building (MURB) tax shelter and the Assisted Rental Program (ARP), have helped to keep the cost of units about 25% lower than condo rentals.[1] What's more, PBRs are mostly composed of two-bedroom units[2] that are larger than contemporary condo units, making them a suitable option for families.



Over the last four decades, construction of PBRs has been on a steady decline

PBRs built from the 1950s to the 1970s in Canada continue to supply over 50% of the purpose-built rental stock in the country.[3] PBR construction began to fall in the mid 1970s due to changes such as taxation, exclusionary zoning and the growth of condos.[4] However, the shift to condo developments has not played out evenly across Canadian cities. In Toronto, 82% of apartments created within the past five years have been condominiums, compared to just 16% in Edmonton.[5] This suggests that factors other than federal taxation policies may be responsible, such as zoning, inflated land values, investor-driven finance policy and a long-running period of low interest rates that fueled a condo industry with faster return on investment than PBR. Nevertheless, the old stock of PBR in Canada is deteriorating and at risk of financialization and upward filtering as an increasing number of the old buildings are being purchased by investors and converted into market-rate housing.

Figure 1. Average Annual Purpose Built Rentals Completions by 5 Year Period, Canada



The construction of purpose-built rental housing dropped after 1972 when the federal government cut back on taxation incentives. Table provided by Carolyn Whitzman

Research and Findings

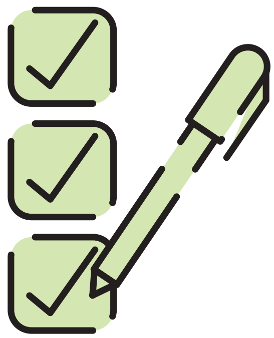
According to housing experts, PBR should compose 35% to 40% of new housing supply

To achieve a balance in rental demand and supply, the National Housing Accord recommends that a minimum of 2.2 million new PBR units be built by 2030 (i.e.,38% of 5.8 million new homes),[6] which would require a rate of PBR construction equivalent to that of 2022, the highest level in a decade. RBC estimates that Canada will need to add 332,000 PBR units to its current stock by 2026 to achieve a balanced market with rent stability.[7] This would require an even higher proportion (20% annually) of the supply mix than recommended by the National Housing Accord report.[8] The Greater Toronto Area needs 300,000 PBR units within the next decade, estimates a 2023 whitepaper by Urbanation.[9] This would compose about one-third of new homes targeted for the GTA, and is in line with the National Housing Accord estimates for Canada.

Incentives for PBR are promising, but results are uncertain

The federal government recently waived the GST associated with PBR construction in the hopes of stimulating a surge of privately built PBR supply. This is expected to positively incentivize developers to construct PBR rather than condo buildings, and over time may take the pressure off the rental market more broadly and relieve competition for lower priced rentals. It’s uncertain if accelerated PBR construction will yield a new wave of affordable apartments, given the high costs of construction and land for developers. Without direct measures in place, this could simply deliver additional market-rate or luxury rentals, especially in Canada’s most expensive cities.

Key Recommendations for PBR by the Task Force for Housing and Climate



Top recommendations in the National Task Force on Housing and Climate’s *Blueprint for More and Better Homes* include:

- Increase the threshold for the GST PBR housing rebate, implementing an accelerated capital cost allowance for PBR construction, and providing a full HST exemption for charitable non-profit organizations. (Federal)
- Eliminate the PST on purpose-built rental construction. (Provincial)
- Align property taxes for purpose-built rental with those of condos and low-rise homes. (Municipal)

Endnotes

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