



**City of Kingston
Report to Council
Report Number 18-043**

To: Mayor and Members of Council

From: Lanie Hurdle, Commissioner, Community Services

Resource Staff: Paige Agnew, Director, Planning, Building & Licensing Services
Sheldon Laidman, Director, Housing & Social Services
Cheryl Hitchen, Manager, Social Policy & Strategic Community Development

Date of Meeting: January 23, 2018

Subject: 2017 Vacancy Rate Implications and Development Charges Rebate Program

Executive Summary:

In late 2017, Canada Mortgage and Housing Corporation (CMHC) released information on 2017 rental vacancy rates in cities across the country. Vacancy rates in Ontario have declined in a number of metropolitan centres in 2017. The Kingston Census Metropolitan Area (CMA) 2017 vacancy rate is 0.7%, down from 2.6% last year, being the lowest in Ontario and the lowest that it has been since 1989. This change in vacancy rate over a one year period is significant. A healthy vacancy rate is considered to be around 3%. Such a low vacancy rate means that there are fewer units for people to rent and this can have impacts on rental rates. It is important for the City to understand causes and implications in order to possibly identify actions that could help to rectify the situation.

Based on review and analysis of information compiled by staff, there are a number of factors that have had a negative impact on the vacancy rate in 2017 including: positive net migration, employment growth, households downsizing to apartment units, and recent increases in international students attending Kingston's post-secondary institutions. The most significant factor by far is the limited number of new multi-residential units constructed and introduced in the rental market over the past few years. This report provides Council with insight on the vacancy rate, rental housing rates, factors impacting supply and factors impacting demand.

January 23, 2018

Page 2 of 13

In order to address the low vacancy rate, more supply of purpose-built market rental units is required, especially in the Downtown area. Staff recognize that there is a significant number of potential units currently under appeal at the Ontario Municipal Board (OMB) but that there are also currently a large number of approved multi-residential units that could be built but for which developers have not yet come forward to obtain building permits. Staff do not have information to explain why in some cases developers are choosing not to proceed with construction after approvals but will be investigating options to have some of these developments move to construction. It takes approximately two (2) years for residential units to be introduced into the rental market after building permit issuance; therefore, current construction or future construction over the next year will not have an impact on the vacancy rate for a couple of years.

Considering that the rental market seems to have challenges across the province, with such low vacancy rates and increasing rents, the Ontario Ministry of Housing introduced a Development Charges Rebate Program as part of its Fair Housing Plan. This Development Charges Rebate Program was introduced in late 2017 and it aims at providing incentives to increase the supply of housing, specifically purpose-built market rental development. Municipalities, including Kingston, were invited to submit an expression of interest to be considered for this Development Charges Rebate Program by March 2, 2018. Although the program does not require any contribution from municipalities, it is recommended that municipalities should have some incentives as well to support purpose-built market rental developments. The funding for the Development Charges Rebate Program will be allocated over a 4 year period (2018-2021) and does provide for an administration allocation to cover administration costs.

City staff are recommending that the City of Kingston submit an expression of interest to the Development Charges Rebate Program for non-luxury purpose-built market rental developments.

This report provides details on factors contributing to the reduced vacancy rate as well as information and recommendations related to the Development Charges Rebate Program for purpose-built market rental developments.

Recommendation:

That Council direct staff to develop an expression of interest and report back to Council in February with details to be submitted by March 2, 2018 to the Ministry of Housing to access the Development Charges Rebate Program for purpose-built rental market developments; and

That Council direct staff to review options to ensure that developments move to construction following all Planning Act approvals.

January 23, 2018

Page 3 of 13

Authorizing Signatures:

ORIGINAL SIGNED BY COMMISSIONER

Lanie Hurdle, Commissioner, Community Services

ORIGINAL SIGNED BY CHIEF ADMINISTRATIVE OFFICER

Gerard Hunt, Chief Administrative Officer

Consultation with the following Members of the Corporate Management Team:

Desirée Kennedy, Chief Financial Officer & City Treasurer	Not required
Denis Leger, Commissioner, Corporate & Emergency Services	Not required
Mark Van Buren, Acting Commissioner, Transportation & Infrastructure Services	Not required

January 23, 2018

Page 4 of 13

Options/Discussion:

The following section provides information on changes and trends related to vacancy rates and average rental rates in Kingston and other comparator Ontario communities.

Some of the information has been sourced from the CMHC Rental Market Report released in late 2017 which summarizes data collected in the fall. Data presented in the 2017 Rental Market Report refers to the primary rental market, which only includes units in privately-initiated apartment structures containing at least three (3) rental units. The secondary rental market covers rental dwellings that were not originally purpose-built for the rental market, including rental condominiums.

The 2017 Rental Market Report identified a total of 13,776 primary market rental apartment units within the Kingston CMA. This number excludes secondary market rental units which may be available within other forms of housing (i.e. townhomes, semi-detached dwellings, single family detached dwellings, duplexes, secondary suites, etc.).

1. Vacancy Rates

The 2017 CMHC Rental Market Report revealed that the Kingston CMA had the lowest vacancy rate in Ontario with 0.7%. This low vacancy rate is also the lowest that the Kingston CMA has had since 1989. Table 1 below provides Kingston CMA vacancy rates broken down in zones since 2013. It is important to note that the Downtown zone has a vacancy rate lower than the CMA with 0.5%. This is not surprising considering the large number of post-secondary students renting units in the Downtown area.

Table 1 - Kingston CMA by Zone Since 2013

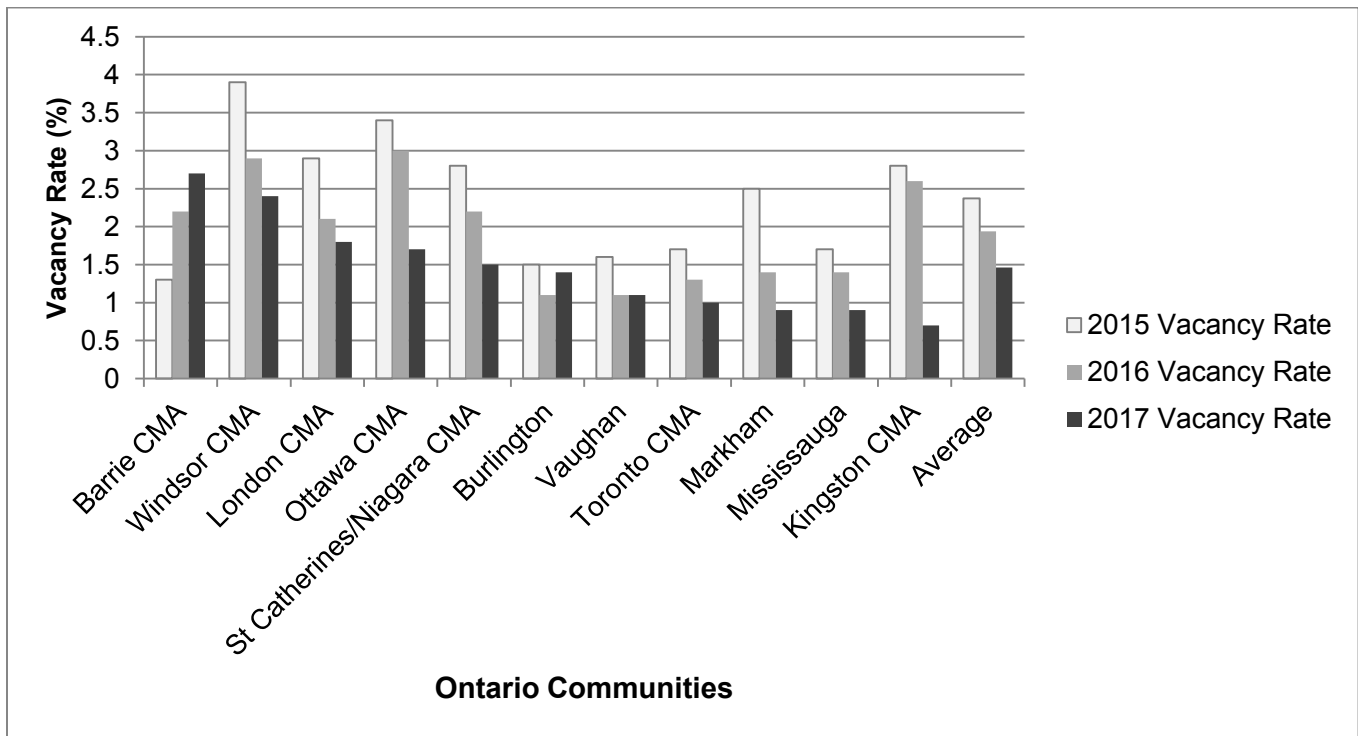
	2013	2014	2015	2016	2017
Zone 1 - Downtown	2.3	1.8	2.7	2.2	0.5
Zone 2 - Calvin/Polson Park and Portsmouth	1.9	1.7	1.4	2.1	0.7
Zone 3 - Markers Acres, Rideau Heights, Strathcona	3.2	2.0	2.9	1.8	1
Zone 4 Remainder of CMA	1.4	2.4	5.1	5.2	1
Kingston CMA	2.3	1.9	2.8	2.6	0.7

City staff reviewed vacancy rates of other Ontario communities for 2015, 2016 and 2017 in order to identify trends and comparables. Table 2 below shows that for the most part, a number of communities in Ontario have experienced a reduction in their vacancy rates over the last years. Although the vacancy rates are not as low as Kingston, the trends are similar.

January 23, 2018

Page 5 of 13

Table 2 – Vacancy Rates in Other Ontario Communities Between 2015-2017



2. Rental Rates

Average rental rates were up to 3.1% to \$1,109 per month in the Kingston CMA in 2017. In 2016, rents were up 2.2% from the 2015 average rental rates. Table 3 below provides a breakdown of the average rents per unit type in the Kingston CMA.

Table 3 – Average Rent per Unit Type

Unit Size	October 2017 Vacancy Rate	Average Rent
Bachelor	1.0%	\$730 (up from \$694 in 2016)
One-Bedroom	0.6%	\$975 (up from \$942 in 2016)
Two-Bedroom	0.9%	\$1,157 (up from \$1,119 in 2016)

City staff also looked at other Ontario communities to better understand if the vacancy rate was having a direct impact on the average rental rates. Table 4 below shows that average rents have gone up for both 1 bedroom and 2 bedroom units in communities in Ontario since 2015. Most of these communities have had a reduction in their vacancy rates which would explain the

January 23, 2018

Page 6 of 13

increase in rents as the market will adjust depending on supply and demand. Significant increase in vacancy rates can slow down the increase or reduce the average rents as was the case in the Barrie CMA between 2015 and 2016. Vacancy rates increased by about 1% and average rents were fairly stable for 1 bedroom units and decreased for 2 bedroom units.

Table 4 – Average Rents and Vacancy Rates in Ontario Communities from 2015 to 2017

	2015			2016			2017		
	1-bed	2-bed	Vac.	1-bed	2-bed	Vac.	1-bed	2-bed	Vac.
Barrie CMA	\$ 1,006	\$ 1,167	1.3	\$ 1,012	\$ 1,150	2.2	\$1,035	\$1,205	2.7
Windsor CMA	\$ 689	\$ 824	3.9	\$ 706	\$ 852	2.9	\$720	\$868	2.4
London CMA	\$ 781	\$ 963	2.9	\$ 802	\$ 1,002	2.1	\$840	\$1,041	1.8
Ottawa CMA	\$ 972	\$ 1,174	3.4	\$ 982	\$ 1,201	3.0	\$1,023	\$1,232	1.7
St. Catharines/ Niagara CMA	\$ 765	\$ 909	2.8	\$ 802	\$ 958	2.2	\$822	\$993	1.5
Burlington	\$ 1,126	\$ 1,267	1.5	\$ 1,162	\$ 1,294	1.1	\$1,244	\$1,366	1.4
Vaughan	\$ 1,148	\$ 1,343	1.6	\$ 1,134	\$ 1,322	1.1	\$1,153	\$1,388	1.1
Toronto CMA	\$ 1,103	\$ 1,288	1.7	\$ 1,132	\$ 1,327	1.3	\$1,194	\$1,404	1.0
Markham	\$ 1,092	\$ 1,257	2.5	\$ 1,149	\$ 1,271	1.4	\$1,234	\$1,394	0.9
Mississauga	\$ 1,066	\$ 1,245	1.7	\$ 1,109	\$ 1,276	1.4	\$1,151	\$1,333	0.9
Kingston CMA	\$ 915	\$ 1,096	2.8	\$ 942	\$ 1,119	2.6	\$975	\$1,157	0.7
Average	\$ 969	\$ 1,139	2.4	\$ 994	\$ 1,161	1.9	\$ 1,036	\$ 1,216	1.5

Factors Impacting the Supply of Multi Residential Units

A. Introduction of Multi Residential Units into the Rental Market

In 2017, building permits were issued in support of 742 new residential units. Multiple family units represented approximately 55% of the total supply (406 units). It is anticipated that these units will be completed and introduced into the market in late 2018 or 2019 and therefore those geared to the rental market will not have an impact on the vacancy rate until 2019 or 2020, respectively.

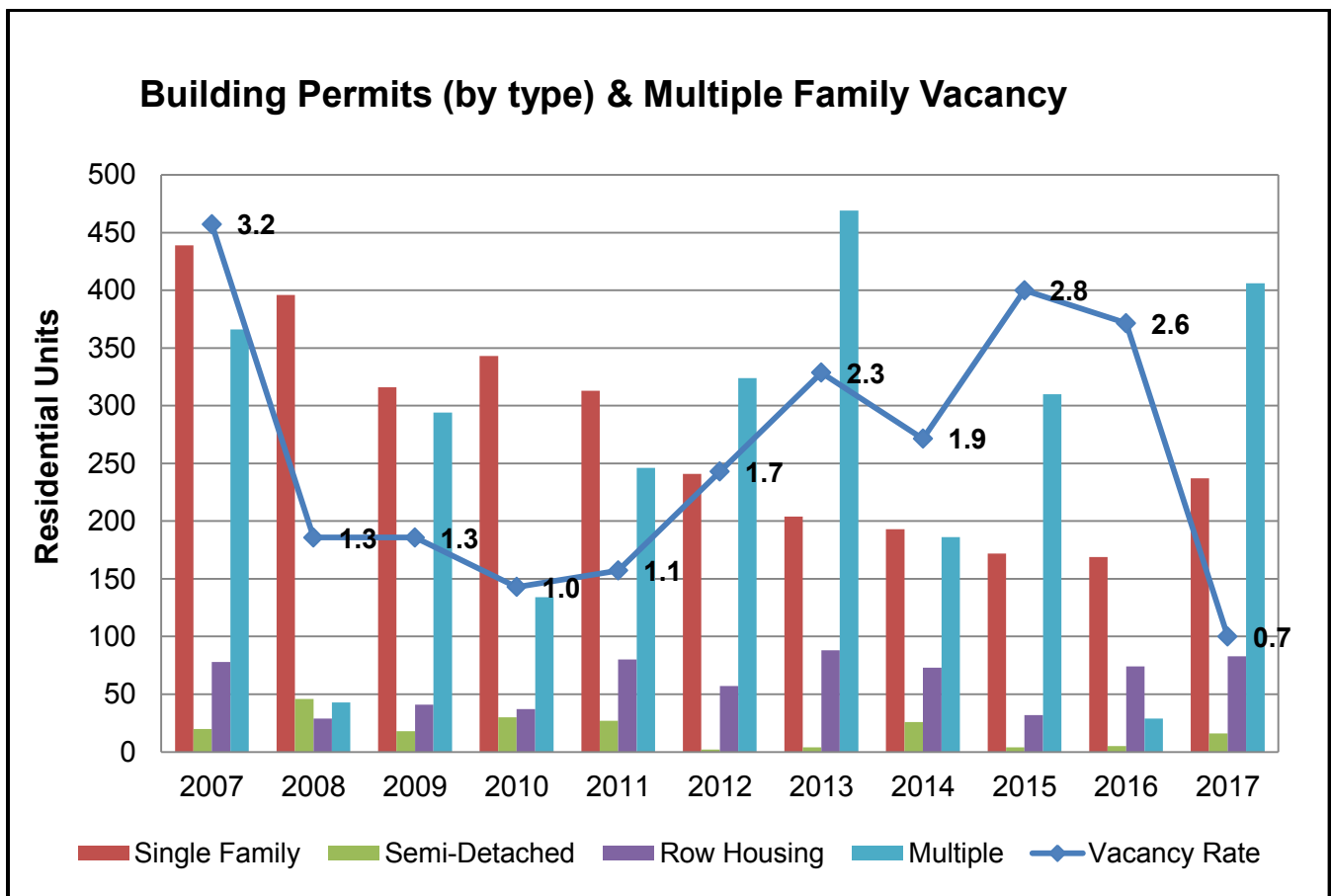
From a review of building permit trends relative to local rental vacancy over the past ten years, it is assumed that the main driver for low vacancy rates in 2017, as reported by the CMHC, was the limited introduction of new multiple family units in the year prior. Table 5 below shows the number of building permits issued for the construction of residential development. The table demonstrates how the introduction of new multiple family units to the market has a corresponding effect on the rate of vacancy (i.e. as more units are added vacancy rates

January 23, 2018

Page 7 of 13

gradually increase). In some instances, it appears as though there is a lag between the year in which a higher-than-average number of building permits are issued for multiple family units and the year in which the impact of those units is seen in the rate of vacancy. For example, in 2013, 469 multiple family units were supported by building permits which may have resulted in an increase in rental vacancy experienced in 2015. This is indicative of the fact that, for larger scaled multiple residential projects, it can take close to two (2) years to bring the undertaking from permit issuance to the building occupancy.

Table 5 – Building Permits by Type and Yearly Vacancy Rates



B. Housing in the Supply Pipeline

Staff undertake a semiannual review of the supply of new housing proposed through the development approvals process. This review, presented by the “Pending and Committed Housing Report”, identifies the amount of housing that may eventually be added to the housing market and considers the status of approvals made under the Planning Act. The most recent iteration of this report was presented to the City’s Planning Committee through Report Number [PC-017-035](#) in May 2017.

January 23, 2018

Page 8 of 13

The May 2017 pending and committed report identifies the status of Planning Act applications received prior to December 31, 2016. The report recognizes a total of 3,247 “committed” units, being those that are tied to a registered plan of subdivision, a draft approved plan of subdivision or an approved site plan application. In addition, the report identifies a total of 5,766 “pending” units, which include those that are tied to a plan of subdivision that has yet to receive draft approval, those tied to a site plan control application or zoning by-law amendment that has also yet to receive approval, or those recognized as part of a secondary plan (i.e. Cataraqui West). When rates of dwelling unit consumption (i.e. demand evidenced through building permit issuance) are considered against new unit supply the City is able to estimate the overall “life span” of new housing, being the length of time it would take for all new housing to be absorbed by the market.

Knowing where a project is in the approvals process provides staff with the ability to estimate when a developer may be in a position to apply for a building permit and ultimately work towards occupancy. The pending and committed review is; however, limited by a couple of factors given greater merit below. Firstly, the review does not formally recognize the impact of an appeal of a project to the OMB. Appeals to the OMB can significantly delay the process of bringing a project to the market. At the time of writing this report approximately 700 units were associated with appeals to the OMB. While one of the projects subject to appeal has been marketed as a freehold condominium (i.e. 223 Princess Street), it is assumed that a number of the units within this building would, if approved, be offered for rent and would accordingly have an impact on the rate of rental vacancy; the other two projects subject to appeal are proposed by Homestead Land Holdings and are proposed rental apartments (see Table 6 below).

Table 6 - Applications at the OMB

Project/Address	Units Proposed	Status
223 Princess Street	216	Pending hearing
48 Point St. Mark Drive	95	Pending hearing
51 Queen Street	400	Pending hearing
Total	711	-

A second factor to consider when considering the expediency with which new housing comes to the market is the willingness and capacity of a developer to commence construction. There are a number of multi residential units within the committed supply of housing for which developers have not sought to obtain building permits. The decision to delay the construction of a multi residential project, sometimes for years, can be problematic as it hinders the City’s ability to forecast impacts to residential vacancy. Not knowing whether vacancy rates can be maintained within a healthy range can have an impact on affordability. Furthermore, when development projects are approved through the planning process there are, in many instances, allocated servicing capacity that may not be available for other projects whose proponents are perhaps more inclined to bring their product to the market. Staff intend to review options and work with

January 23, 2018

Page 9 of 13

the development community to identify ways which could lead to the construction of multi-residential units following Planning Act approvals in a more timely manner, particularly in light of the low reported rate of rental vacancy.

C. Short Term Rental

Short term rentals (STR) can impact housing costs in circumstances where landlords elect to convert rental accommodations from long-term to short-term. Such a situation arises when it becomes possible for a landlord to gain more income from STRs than they can from a consistent 12-month tenant. This impacts the housing stock available and the price of existing housing stock.

Airbnb is by far the largest STR operator in the City of Kingston. Statistics provided to the City by Airbnb show that between May 1, 2016, and May 1, 2017, roughly 17,000 individuals stayed in Airbnbs in the City. These numbers are slightly greater than those from the City of London, a City with double the population of Kingston, although they are not as large as those from places such as Hamilton, Toronto or Ottawa.

There are approximately 450 Airbnb listings, and roughly 300 active hosts currently in Kingston. Of all listings in the City, 76 percent were booked for 90 days of the year or less. Just 6 percent of all listings, or 27 STRs total, were booked for more than 180 nights per year. The majority were rentals of an entire home without the host present within the rental unit.

In the context of Kingston, loss of housing stock could arise in situations where a landlord could make more than market rental rate from operating an Airbnb listing instead.

Where there is concern regarding units being removed from the rental housing stock, in most cases, there is a distinction between STRs that are the host's principal residence, and those that are not. Of the active listings on Airbnb on May 1, 2017, 53% included the entire home whereas 46% included private space within the home; the remaining 1% included the sharing of a room(s) within the home. The renting of whole units and, in particular, whole units that are not the principal residence, form the basis for most use restrictions, as this use no longer includes a residential component. The City of Kingston's zoning by-laws do not currently recognize short term rentals. The City's only ability to regulate is when people are renting individual rooms and this particular use would be considered a rooming/boarding house.

Factors Impacting the Demand for Multi Residential Units

Post-Secondary Students

According to the Immigration, Refugee and Citizenship Canada data, the number of temporary visas for international students for the Kingston CMA has risen dramatically over the past three years. In 2015 the total number issued was 2,160; rising to 4,070 in 2016; and at the end of October 2017, rising to 5,785. Certainly this growing number of temporary residents would be putting pressure on the private rental market. This factor likely puts the greatest pressure on the demand for rental units, specifically in the Downtown zone. In addition to the growth in the number international students, both Queen's and St. Lawrence College are experiencing overall

January 23, 2018

Page 10 of 13

enrollment growth, with Queen's intake increasing 486 students and SLC increasing 444 from 2016 to 2017.

It is important to note that overall student accommodation needs and requirements have had impacts in neighbourhoods such as the conversion of many single family homes into student rental properties. Students housed in single family dwellings may be inclined to rent purpose-built rental units near their post-secondary institutions once those are available. Although this potential migration from single family dwelling to purpose-built market rental units is not captured or accounted for in any data, it is likely that it would have an impact on the vacancy rate, especially in the Downtown zone, even with the introduction of additional rental units.

Home Sales and Price Changes in the Kingston Area

The Kingston and Area Real Estate Association (KAREA) provides information, through the Canadian Real Estate Association (CREA), on residential real estate activity in the Kingston region. As reported by KAREA, the number of home sales in 2017 remained near historic highs with average home prices on the rise. This information is supported by the Royal LePage House Price Survey which reported that the 2017 median aggregate house price increased 7% over the 2016 median price (i.e. from \$315,603 in 2016 to \$337,607 in 2017). With the introduction of tighter mortgage lending rules and the challenges presented by the increased price of housing, would-be home buyers may be forced to remain in the rental market until such time as a down payment can be made on a home purchase. This trend has the potential to affect the rate of rental vacancy.

Migration

The CMHC report indicated that interprovincial migration may also be putting pressure on the rental market. After looking at the CMHC source documents and comparing to the recent Census release on migration, there appears to be some discrepancy in the data. However, it is a challenge to compare as they are from different sources and for different time periods. Census data for the Kingston CMA shows a total in-migration of 7,875 people with an out-migration of 7,555. The difference is only 320 persons and it is unclear without further analysis how many households that includes and what type of accommodation they lived in once they arrived. However, it is not viewed that this number is significant enough to put a great deal of pressure on the rental market or vacancy rate alone.

Refugees

Refugees make up about 60 new households in Kingston since the Syrian movement started. Most are larger families seeking 2 and 3 bedroom accommodations. For smaller families, it has been difficult to find housing that is the correct size and affordable as they are on very tight incomes. Workers have also found that their wish to house multiple children in one bedroom for example does not fit with our Canadian standards of appropriate sized accommodation. Workers have been dealing with property managers one to one to try and secure accommodation for the newcomers.

January 23, 2018

Page 11 of 13

Youth Employment

The CMHC report mentioned that there was employment growth for those 18-24 and this could be impacting the vacancy rate as it is assumed they may be moving into their own apartments. CMHC was using data for the first 3 quarters of 2015 and the rate did rise as it always does over the summer months. Table 10 shows that although youth unemployment has dropped (21.3% in 2011 to 18.3% in 2016); it has not reached the previous lows. In addition, the participation rate has also dropped slightly from 66.6% in 2011 to 65.8% in 2016 which may indicate some youth are no longer seeking employment and have dropped out of the labour force. Employment rates have increased marginally from 52.4% in 2011 to 53.8% in 2016.

Table 7 - Youth Employment Data

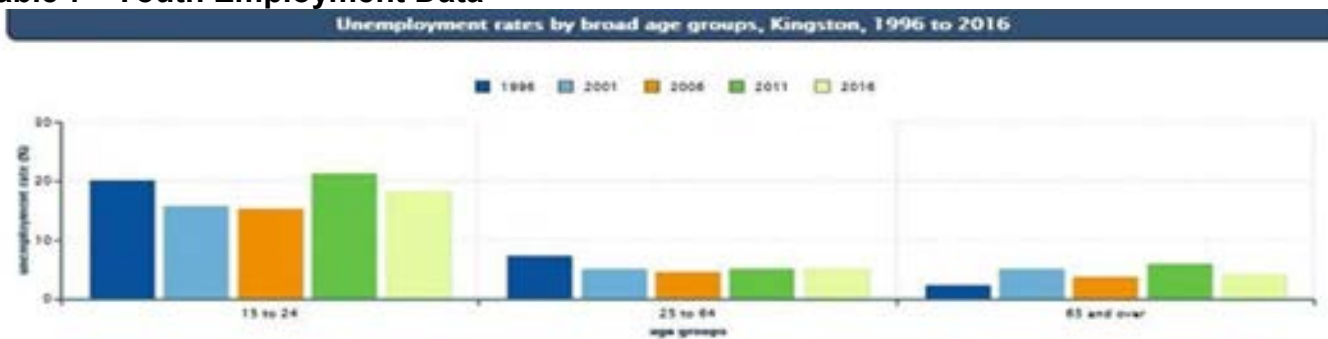


Figure 1.2 description

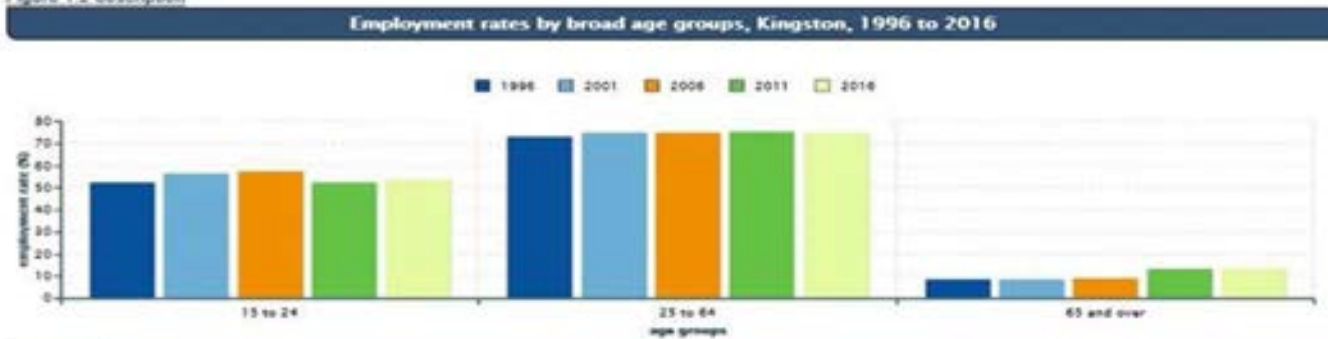
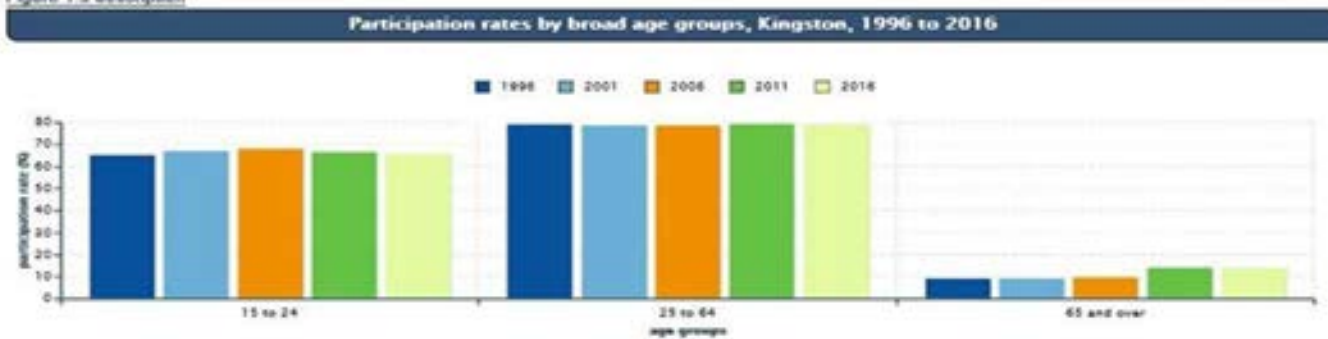


Figure 1.3 description



January 23, 2018

Page 12 of 13

Development Charges Rebate Program

As part of its Fair Housing Plan, in late 2017, the Ministry of Housing invited municipalities to submit an expression of interest to access its new Development Charges Rebate Program. This Program is a measure to increase the supply of housing, specifically purpose-built market rental development. The program will provide up to a total of \$125M between 2018 to 2021 to rebate development charges of purpose-built market rental developments.

Although municipalities do not have to contribute to this program, it is suggested that municipalities should identify incentives to encourage the development of purpose-built market rental developments.

As part of an expression of interest, municipalities must determine the rental housing developments and units that will receive funding through this program based on local needs but within broad provincial program criteria:

- Developments must be consistent with Provincial Policy Statement and conform with the Growth Plan;
- Developments must align with other provincial priorities and lead to net new additional public good (rental housing, senior-friendly, close to transit and transit hubs);
- Developments and units receiving provincial rebates remain rental for a minimum of 20 years;
- Non-luxury rental units, where starting rents do not exceed 175% of Average Market Rent as published by CMHC. Municipalities have the ability to set a lower threshold based on local circumstances and housing policies.

Successful municipalities will be responsible for administering their local program. Municipalities can use 5% to cover administrative costs of the program. City staff are developing an expression of interest which would be presented to Council at the last meeting in February and then be submitted to the Ministry by March 2, 2018.

Existing Policy/By-Law:

Official Plan and Zoning By-Laws

Notice Provisions:

Not applicable

Accessibility Considerations:

Not applicable

Financial Considerations:

Not applicable

January 23, 2018

Page 13 of 13

Contacts:

Lanie Hurdle, Commissioner, Community Services 613-546-4291 extension 1231

Other City of Kingston Staff Consulted:

Greg Newman, Manager, Policy Planning, Planning, Building & Licensing Services

John Henderson, Housing Administrator, Housing & Social Services

Craig Desjardins, Senior Manager, Innovation & Institutional Partnerships

Others External Individuals Consulted:

Not applicable

Exhibits Attached:

Not applicable