Observations and suggestions for the proposed Housing Accelerator Fund

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Introduction

CMHC has issued a call for submissions on the proposed Housing Accelerator Fund. This brief examines the assertion underlying the Accelerator Fund, that the affordability crisis is caused by a lack of housing supply. And that the corollary, accelerated and increased supply will therefore solve the affordability issue.

This brief suggests a different narrative of why people cannot afford decent housing in Canada. Analysing data on population growth, starts and price trends (Appendix A) it shows that unconditional new supply is unlikely to improve affordability. Through gentrification, intensification and new construction, the housing system adds almost exclusively to the above median rent and price part of the system. At the same time, and increasingly under the phenomenon of financialization, it concurrently erodes the little remaining more affordable stock. It is therefore recommended that the proposed Accelerator Fund must establish more specific targeting and conditionality, and be linked to significant revisions to the programming in the National Housing Strategy.

This analysis looks at the evidence and shows that while supply has increased (with record starts in 2021) this has not translated into any slowing in prices nor rents. It then sets out the case for more prescriptive forms of new supply, seeking to address market failure, rather than simply relying on the market to fix this issue via more construction.

CMHC frames the consultation saying:

\textit{Everyone in Canada deserves to have a safe and affordable place to call home. We need to remove barriers to housing supply and want to offer options for renters to become homeowners.}

It then states the intent of the proposed Housing Accelerator Fund:

\textit{would aim to remove barriers and help municipalities build housing more quickly in an ambitious and innovative manner.}

Implicit in the idea of this Fund is the issue that housing costs - both rents and prices -- have risen to the level that increasing number of households experience affordability issues. People must spend disproportionately too much of their income to house their families. Last week (Jan 19, 2022), Premier Ford said in opening an Ontario housing summit that “Ontario has a housing crisis”, a sentiment echoed by many and often raised during the Federal election campaign when housing issues took on a prominent headline. And with the problem being affordability, the solution being recommended is to expand and accelerate new home construction. An increase in supply is expected to result in a slowing or cessation in the trajectory of prices and rents.
The Accelerator Fund appears to buy in to this rhetoric and as cited above more narrowly focuses on only on part of the supply system - the municipal approval process.  

The fundamental question is how, and indeed whether, expanding and accelerating approvals of new building permits will in fact address the core issue of affordability. And if affordability is the primary concern, as most agree it is, what type of new supply will best address this issue?

**What does the data tell us?**

Appendix A presents a detailed analysis examining data on population growth (demand), housing supply and relationship with price and rent increase. The key conclusion from that analysis is that while there have been some years, especially the last 4, of undersupply, the longer-term trend does not confirm that insufficient new construction is the primary cause of excessive price increases. Over the last 20 years the average level of housing construction produced 0.54 homes for every additional person (effectively a household size of 1.85 persons per dwelling, well below the Canadian average household size of 2.5).

At the national level, the very recent increase in population has become a very significant factor, increasing housing demand, while construction activity, inherently slow to respond has been unable to adjust to this rapid change. As this corresponds to the post 2019 surge in home prices, it is natural to point to low supply as the cause of the price rise.

That said, if supply is the key driver, there should have been a flattening in the price trajectory during the periods of over-supply in the earlier part of the millennium and in 2014-16, but there was not (Appendix A Exhibit 1, 2 and 3).

And equally important, examining the trends at a sub-national level, there is no consistency between different cities regarding the level of population growth, new construction and price impact. Looking at a cross-section of metropolitan areas, the pattern of population growth varies substantially, both over time and between different cities/regions. Large year-to-year variations in population growth have large impacts on housing markets as supply simply cannot react and respond at the same rate. While Vancouver and Toronto are frequently highlighted for their high and increasing prices - the supply response in each is markedly different. Since 2015, Vancouver has added 672 homes for every 1000 new persons; in Toronto it is only 365 per 1000.

A statistical analysis comparing the price change first to the level of supply (annual starts as a percentage of all dwellings) and then against population change (annual rate of population growth) yields weak correlations. The Pearson correlation coefficients were -0.0554 (price: pop change) and -0.0596 (price: supply change) indicating almost no correlation between price and levels of supply, or levels of demand.

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1 In framing the Fund, CMHC officials may want to dig through the corporate library for details and lessons from the 1975 Federal Housing Action Plan (FHAP), a much earlier version of an accelerator fund, which more succinctly set out the principle objective: to stimulate the residential construction industry to ensure an adequate supply of housing to meet the needs of middle and lower income families.
In short, levels of supply, and more particularly in markets where there is weak supply response relative to population growth (an indicator of demand) does not explain the recent level of price change across these cities. Clearly there are other factors influencing the trajectory of prices and rents.

This range of factors are laid out in a recent book authored by leading UK (and international) housing economists Geoffrey Meen and Christine Whitehead (2020), who observe that there is a pre-occupation with concerns about, and ways to improve, supply, but much less attention to the demand side of the market.

These authors further report that based on UK data, housing demand appears to be highly sensitive to changes in income (and additionally to equity accumulation), but is relatively unresponsive to changes in home prices (i.e. a low price-elasticity of supply). These are precisely the conditions that prevailed through the Covid period. More detailed analysis may reveal that the causes of excessive price increase lie more on the demand side (increased incomes and lower mortgage rates), and accordingly simply accelerating supply, may be an insufficient response.

Mean and Whitehead (2020) add that concentrating on just the supply side of the market hampers improvements in affordability. To address this requires a more encompassing and balanced approach.

**Will increased supply help to moderate prices and rents?**

Using Ottawa as an example, recent trends in supply and price were explored (also detailed in Appendix A). Ottawa has substantially increased its approvals and starts activity. The average for 2020-21 is just over 10,000 new homes started, a 72% increase over the average for the five years 2011-2016 (5,850/yr). This includes increases across all forms and tenure including tripling rental construction compared to the pre 2011 period.

There is, however, no corresponding impact on the price trajectory. In 2021 (average for year), both the median price and the 1st quintile were up 28% from two years earlier (2019). Despite starting two years earlier, when the anticipated sales price was much lower, rational developers/builders are cashing in on the recent price gains - they have no incentive to sell at their earlier expected price.

The other critical outcome is that due to the increased potential sales prices, a developer/builder seeking a lot to build will now anticipate a high future price and accordingly bid up what he is willing to pay for the land. The increased pricing in existing sales is capitalized into land values and sustains this upward spiral. Only if aggregate demand weakens, and existing prices stall, will land prices also stall.

In the rental market, where starts are also substantially higher, the average rent by year of completion for Ottawa reveals that new rentals are commanding high rents, well above the average rent level. Across all unit sizes (weighted average), rents in properties completed after 2015 are 74% higher than pre 2016 stock. It is noted that Ottawa has one of the highest pre/post 2015 rent differentials in the country, but across all CMAs the average difference is 43%.
So clearly newer privately developed rentals, and especially those stimulated by the Rental Construction Financing Initiative (RCFI) program are not contributing to affordable new supply, except in some instances where the proponent is a not-for-profit and is intentionally seeking to lower rents to below market affordable levels. Non-profits account for only around 7% of RCFI national approvals.

In addition to the very minimal volume of new affordable housing being created under NHS and provincial programs, a large quantity of existing unsubsidized affordable private rental units are disappearing. An analysis of census data between 2011-2016 revealed that low rent units, those below $750 per month and thus affordable to incomes below $30,000 per year, have been rapidly disappearing, with the number renting below $750 declining by 322,000. It is anticipated that once 2021 census data are released this number will be larger, and exceed the average of 60,000 per year of the earlier intercensal period.

Given the dramatic loss of low-rent units caused by a combined processes of gentrification and financialization, a desirable policy approach would be to facilitate preserving aging units so these remain relatively affordable and are passed down to lower income groups.

**Reconceptualizing the affordable housing problem**

The prevailing dynamics of most Canadian housing markets is one that neither builds new affordable homes (except a small number under subsidy programs) nor passes on (a filtering process) older rental homes in order to increase or preserve affordable housing opportunities. Through gentrification, intensification and new construction, the housing system adds almost exclusively to the above median rent and price part of the system. At the same time, and increasingly under the phenomenon of financialization, it concurrently erodes the little remaining more affordable stock.

**How should the proposed Accelerator Fund be designed - or refocused**

The foregoing analysis confirms that simply increasing the quantity of market supply will not necessarily result in any improvements in affordability.

Indeed using the Ottawa case study, it reveals that high levels of new supply (up 72% over five years ago) is actually contributing both to a continued upward trajectory in new home prices (up 28% in last two years), due to the pricing of those new homes, and in new rents that are substantially above (74% higher) the average market, more affordable, level.

The addition (new supply) of new homes at full market rent or full market price has had no impact in improving housing affordability.

What is required is highly targeted, carefully designed more surgical responses. And while $4 billion is a lot of funding, it is substantially less than that required to raise to quantum in the NHS to meet its own aspirational targets (end chronic homelessness and reduce renter need by half). These goals require much more - at minimum it requires additional investment of $4 billion per year!
So it's not effective to direct that $4 billion to deep need - that requires fundamental reform and enhanced funding of the NHS. Instead, it should seek to incent and encourage moderate rent and price options. This includes encouraging and facilitating gentle density, including conditionally up-zoning single-family areas, adding suites within existing homes and creating attractive options for small aging households to move and make the larger homes available to larger families.

But, as argued in this brief, it is critical to impose some size/price conditions so that any related new supply does not simply perpetuate the current issue of high price and high rent production. This could modernize an initiative used for precisely this reason in the 1975 Municipal Incentive Grant (MIG). At that time this provided grants of $1,000 per unit paid to municipalities that met criteria of density and unit size, and could potentially add locally appropriate price criteria.  

**Suggested options for the Accelerator Fund**

The objectives of the Fund should be clarified to emphasize the objective to stimulate the expansion of housing supply and to ensure an adequate supply of housing to meet the needs of middle- and lower-income families.

The following approaches would then support such an objective:

1. Increase density with some conditionality. Link more flexible low-moderate density to locally developed density/price/rent targets. Arguments to revise exclusive zoning to allow small infill “missing middle” developments are being actively promoted. But increased density to permit 2 or 3 units in high value areas will simply create 2 or 3 high value homes and not address need among moderate income households. If the objective is to address affordability, such regulations need to include restrictions on price and or size so that the resulting units are moderately affordable. A Municipal Incentive Grant (MIG) could be paid to municipalities based on the number of new units added below some moderate price or rent target. This can be certified using the price/rent data already collected in the CMHC starts and completions enumeration. Municipalities impose development charges as well as various permit and development fees – these amounts could be the basis for the MIG – set at a level that enables the municipality to waive those fees for qualifying new units; alternatively a flat rate (as in 1975 could be used – e.g. $10,000 per added qualifying unit);

2. Optimize use of existing dwellings to incent and/or fund conversions to add suites in existing homes. It may be possible to complete such addition/conversion at much lower cost than new build - typically older homes are simply demolished and replaced - even if replaced with two or three units these new units will command current market values. In Ottawa, existing modest $600,000 homes are being demolished to create two, semi-detached, homes at $1.4 million each. This is an example where new supply does not

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2 MIG was one element of the Federal Housing Action Program (FHAP) - itself a very similar endeavour to the currently proposed Accelerator Fund) which expanded supply by half a million homes between 1975-79
help affordability. Can conversion/additions create better affordability outcomes and create options to downsize in same neighbourhood?

3. Implement policies to capture the land value uplift created by public decisions (IZ-linked to infrastructure funding). The Accelerator Fund has been identified as a way to incent change in municipal policies that enable and facilitate affordable development. Together federal-provincial infrastructure grants in combination with local rezoning processes act to increase density (e.g. near transit) and thus increase potential profit. This acts to raise land value (a windfall gain to the property owner). The increased value (profit) should be recaptured via explicit requirements to enact inclusionary zoning with prescribed requirements on the level and duration of affordability. The cost (i.e. forgone sales revenue) will be capitalized back into reduced land cost - such that the value uplift covers the cost to add the affordable units, with no tax on the developer. The MIG concept can potentially be applied here - rewarding municipalities for each TOD affordable unit created. And adoption of IZ regulations can be added as a condition of federal infrastructure funding.

Ancillary options

While it is argued here that general supply will not help, there is a case for indirect supply alongside prescriptive policies that encourage and support certain forms of new targeted affordable supply. The following initiatives can all help to concurrently address the housing supply and affordability crisis, although most do not fit under the rubric of an Accelerator Fund - they relate more to reframing and refocusing the NHS. But some may be candidates for funding incentives drawing on this $4 billion fund.

4. Indirectly help existing affordable rental via new student housing - International students are a large component of new international migration driving housing demand (and has increased as universities expand international recruiting to augment government-constrained post-secondary funding). For example, Queen’s University increased recruitment by 2,000 per year and drove Kingston's rental vacancy rates down from 2.8% to 0.6%. Provide incentives or low-rate financing to universities and municipalities with high student populations to build new student housing - which is a viable form of development and requires no subsidy (potentially a good way to redirect RCFI). This can prevent displacement of non-student low-income tenants from the lower rent stock, where they compete with students.

5. Facilitate recycling the large supply of existing under-occupied (mainly) detached homes from older single/couples to families - by incenting downsizing - creating attractive downsizing options in their existing community/neighbourhoods. In Canada there are 4 million homes with three or more bedrooms occupied by one (1.2 million) and two-person (2.8 million) households. We may have too few homes the way that they are configured and occupied, but by creating options and encouraging downsizing we could make much better use of the existing stock and reduce demand for new supply. What type of incentives and new products are needed to stimulate this type of reallocation?
6. Reintroduce a form of Rental RRAP to stall gentrification and financialization and help preserve existing affordable housing. Capital funds and financialized landlords are purchasing existing affordable stock with intent to raise rents and yield. They maintain that they are helping to improve the aging stock - and they are. But the collateral damage is current and future low-income tenants that can no longer afford the increased rent. The former RRAP program funded these improvements but imposed project specific rent control in exchange for the funding. Reinstating this program can help address the erosion issue and could draw on a combination of low-cost finance and forgivable loans.

7. Encourage provinces and territories to reform rent regulation to remove vacancy decontrol - this would reduce the pace of rent increases (largely driven by decontrol vs. in situ guideline increases) to help renter affordability; and concurrently help to redress financialization. Constraining rent uplift helps to de-commodify rental housing as an attractive asset class and thereby discourages financialized asset purchases and stalls financialization. Done in combination with reinstituted rental RRAP, (6 above), ensures financial capacity to improve building quality, and avoids collaterally impacting tenants.

8. While adding moderate and affordable homes is necessary it is critical to stop the bleeding- and slow or stall erosion by financialization. One option here, already being discussed, is to enable and facilitate NP acquisition of existing private rentals with moderate rents to preserve this intrinsically affordable housing for those with lower income desperately seeking lower rent accommodations. This will require low-cost financing as well as modest equity or grant contributions.

9. Manage community opposition to density and affordable housing via planning reforms that advance and strengthen the public consultation process (and support the larger public interests over local self-interests). This requires reform to provincial planning and enabling legislation, so cannot be enacted quickly - but can help to address the NIMBY issue. As long as public consultation is deferred to the site approval phase it will impede the speed of approvals. Advancing public consultation and consent to earlier in the process (in most jurisdictions the secondary plan phase) can change the nature of consultation and NIMBY - effectively pre-zoning sites such that as of right zoning no longer requires additional site-specific consultation.

10. Facilitate access to ownership for First-Time Buyers (FTB). With rising home prices, combined with more restrictive lending policies (macro-prudential regulation) many potential FTBs cannot buy. A significant consequence is that they remain renters - and add pressure to an already pressured rental market - where most lower income people live. Enabling purchase can both help these young families build an asset, and free up rentals to take some pressure of the rental market. Any assistance must, however, be carefully designed so as not to fuel more demand side pressure on prices. Rent-to-Buy should be further explored with this in mind.

11. As noted, a single investment of $4 billion is insufficient to fully fund the NHS goals so separately, enhanced funding is needed in the NHS. The most vulnerable are those without housing, seeking to exit the emergency shelter system. Increased investment is
critical to expand and accelerate the construction of permanent supportive housing. This should include expanding and extending the Rapid Housing Initiative (RHI). Ending homelessness should be the highest priority in the NHS. As overall increased supply targets are set, these should include incremental additions of at least 5,000 new permanent supportive housing annually.

As noted, these last suggestions (4-11) align more with a revision and broadening of the NHS than with a narrowly focused Accelerator Fund. However, if this fund is to focus on accelerating and expanding supply it should ensure that substantial growth in the new supply does in fact create homes that are modest in price and rent and not just increase any supply, with the unrealistic expectation that this will naturally result in improved affordability.

The evidence presented in the brief (and detailed in Appendix A) shows that expanded supply in and of itself will not achieve the objective of reining in excessive rent and price increases nor realigning them with the incomes of low- and middle-income households.

If we wish to address the housing affordability crisis policies need to be refocused either to accelerate and improve the process of filtering (i.e. meet low income need through the existing stock); or to specifically build for and target new supply for lower income households.  

On the surface, the proposed Housing Accelerator Fund does neither - it appears to have simplified the definition of the problem as one associated with insufficient amount of new construction and proposes that by issuing more building permits more quickly we will rebalance the housing system (prices and rents). This does little to address deep affordability need or address the backlog of unmet need and homelessness.

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3 And as cited from Whitehead and Meen (2020), to address excess price issues supply alone is an insufficient response. While outside the scope of this brief, it’s important to explore and implement policies that address demand factors, potentially including tax measures on windfall capital gains on owned homes and monetary policy (mortgage interest rates).
Appendix A: The evidence on the insufficient supply issue

Defining the problem

The issue of price increases, and the increasing divergence between home prices and rents in comparison to incomes is well documented (see for e.g. Generation Squeeze). Across many Canadian cities there has been a steady increase in home prices, as reflected in Exhibit 1, which presents the MLS composite price index for a wide aggregation of cities.

In addition to an ongoing upward trending home price increase there is clearly a significant inflection at the beginning of the Covid pandemic, reflecting low levels of listing and persisting demand, especially for larger detached homes. A trajectory that increased despite a huge drop off in population growth (i.e. quantity of demand).

The case for insufficient supply, as presented for example by Scotia Economics, is premised on the level and recent increase in population relative to levels of new housing construction. While population is different from household growth, it can be a useful starting point in the analysis. How this population sorts itself in to households and thus housing demand will vary, from singles, to children added in existing households, to new families, but this aspect is not explored here.

As shown above in Exhibit 2, with some small ebbs and flows between 2000 and 2017 net national population growth gradually increased from roughly 300,000 to around 370,000 annually. It then dramatically increased peaking in 2020 (data are as of July each year) before the Covid pandemic stalled immigration. Meanwhile, despite population growth, new housing construction, which accelerated from 2000 to 2006, subsequently leveled off at close to

4 Note that the Scotiabank Economics case builds from the assessment that Canada has fewer homes per capita than other G7 countries; this ignores demographics of household composition and the fact that Canada puts more people into each home and has the highest average household size in G7.
200,000 per year and has been slow to respond to the substantial increase in population-based-demand post 2017. Exhibit 3 below compares the ratio of new homes to new population growth and shows that over the last two decades there have been periods of over and under supply. This Exhibit replicates the data used in the ScotiaEconomic brief (but using annual data rather than 3 year moving average) and concurs that the level of supply vs. starts has declined in the last 4 years - but this is a recent trend. Over the full 20 years, the average level of housing construction produced 0.54 homes for every person (effectively a household size of 1.85 persons per dwelling, well below the Canadian average household size of 2.5).

This initially created a surplus of homes, at least until 2009 although the next five years saw lower ratios as population growth increased while construction marginally declined (exhibit 2). And after 2015 the ratio fell off dramatically, mainly due to the very large surge in population, especially via international immigration.

Since 2017, the level of new completions implies an average household size well over the 2.4 persons in 2016 and confirms a shortage in new homes in the more recent years (since 2016). So, at the national level, the very recent increase in population has become a very significant factor, increasing housing demand. Construction activity, inherently slow to respond has been unable to adjust to this rapid change. As this corresponds to the post 2019 surge in home prices, as seen earlier in Exhibit 1, it is natural to point to low supply as the cause of the price rise.

That said if supply is the key driver of price rises, there should have been a flattening in the price trajectory (earlier Ex 1) during the periods of over-supply in the earlier part of the millennium and in 2014-16, but there was not. It is equally important that there is no

5 Ex 2 shows completions - in order to explore entry of new homes into the market and price effects. Housing starts are a better indicator of a market response to demand and have turned upward in 2020-2021.
consistency between different cities regarding the level of population growth, new construction and price impact. These variations are briefly reviewed below.

**Sub-national patterns**

Looking at a cross-section of metropolitan areas, the pattern of population growth varies substantially, both over time and between different cities/regions. Large year-year variations have large impacts on housing markets as supply simply cannot react and respond at the same rate. Toronto, which has the largest absolute count of population increase (Ex 4a) and the greatest jump after 2015 also led the country in the early part of the millennium in annual growth rates (Ex 4b). The growth rate subsequently dropped off, especially after 2010 but rebounded strongly after 2015. All cities, except Québec, similarly exhibit a notable increase in the growth rate after 2015, and all fall off with the Covid effect in 2020.

Following from the national analysis, this cross section of selected cities can be used to examine how supply has responded in each city. Here a smaller subset is presented to avoid excess detail.

Exhibit 5 highlights Toronto and Vancouver as the two large cities that dominate media coverage of home prices but also adds Ottawa and Winnipeg as comparables.
Ottawa and Winnipeg had much higher levels of dwelling construction (completions) early in the millennium, associated with slower population growth, but in both cities the ratio of completions to population growth subsequently dropped off after 2008.

Perhaps surprising, given the level of price increases and associated media attention, Vancouver (CMA) has out-produced most cities both pre and post 2015-16. And, in particular, the ratio of completions to population growth in Vancouver has exceeded that in Toronto in all but one year. This difference is especially significant post 2016, aided by a more consistent, and lower level of population growth.

And looking across the last 20 years, the construction-to-population growth ratio in Vancouver has substantially outpaced Toronto. Since 2015 Vancouver has completed, on average, 575 new dwellings for every 1,000 new residents; meanwhile Toronto has added only 329. This is one of the lowest levels among the profiled cities, but again a reflection of rapid and large recent population gains. The supply response in Toronto has clearly been challenged by the very high number of new residents, especially international, post 2015.

The fact that Toronto performs much worse than most other cities and even its large peer, Vancouver, and the media is centred there and more familiar with issues in the GTA has resulted in a somewhat Toronto centric view of Canada’s diverse housing markets.

And in particular this has reinforced the perspective that insufficient supply is the cause, and by corollary the solution, to excessive price increases. When the analysis is extended across a wider range of cities, it becomes apparent that this singular view and prescription is insufficient.

**How are these supply trends reflected in prices?**

Intuitively, if insufficient supply is a key driver of home price and rent increases, one might expect to see some correlation or association between relative levels of supply response (i.e. ratio of completions to population growth).

Using the MLS composite home price for those cities covered in the MLS Home Price Index, Exhibit 7 compares price change to the ratio of dwellings constructed per 1,000 population growth for 2015-2020 (note: here starts are used rather than completions as used in earlier assessment). The price trend is calculated using the average composite price in the last 6 months of 2015 compared to the average of the first 6 months 2020 (to smooth single month anomalies), and does not capture the later price trend in 2021.

This data reveals that there is an inconsistent relationship across cities. Following the cities profiled earlier, this inconsistency is clear. Ottawa and Winnipeg had somewhat similar levels of construction per 1,000 new population at 337 and 373 dwellings respectively, but Ottawa experienced a price increase of 44% while in Winnipeg prices increased only 9%.

Vancouver, with one of the strongest supply response ratios (672/1,000), more than twice that of Ottawa, experienced a price increase of 40%, quite close to that in Ottawa (44%). And Toronto with a relatively weaker supply response saw a higher price increase of 52%.
It is also notable that cities near to Vancouver and Toronto, likely recipients of intra-provincial migrants cashing out of the larger higher priced cities have among the higher price increases - for example St Catherine’s-Niagara (82%), Kitchener-Cambridge-Waterloo (73%), Abbotsford (66%), Peterborough (66%), and Hamilton (60%). It is notable that most of the lower supply response cities are in Ontario, perhaps suggesting more province specific constraints in the development approval process. This requires further investigation.
A statistical analysis comparing the price change first to the level of supply (annual starts as a percentage of all dwellings) and then against population change (annual rate of pop growth) yields insignificant correlations.

The Pearson correlation coefficients were -0.0554 (price: pop change) and -0.0596 (price: supply change) indicating almost no correlation between price and levels of supply, or levels of demand.

**Will increased supply help to moderate prices and rents?**

Using Ottawa as an example we can explore the recent trends that have involved a substantial increase in the level of new home construction. Ottawa has substantially increased its approvals and starts activity. The average for 2020-21 is just over 10,000 new homes started, a 72% increase over the average for the 5 years 2011-2016 (5,850/yr.).

The new supply includes both an increase in single detached and larger increases in both row and apartment units. The expansion of row units is a promising sign that Ottawa may be adding to the so called “missing middle” median density infill type development.

All dwelling types can be sold for owner occupancy or rental, although some sold as ownership may be purchased by investors and consequently be added to the rental stock (CMHC rental survey has found that 33% of condominiums are investor owned and rented). The growth in "ownership" units is substantial, up from 4,000 to over 6,000, which included freehold row, as distinct from condo which are predominantly apartments. Rental is up compared to extremely low levels from 1995-2015 (under 10% all starts) but remains at only around 20% while one-third of households rent. As suggested, this is augmented by secondary market rentals – homes, suites in homes as well as rented condominiums.

The key question however, is whether this dramatic (72%) increase in total supply is translating into improved affordability? This is examined by looking at ownership prices and rents in newly completed units. There are some data limitations here. The published data from CMHC starts and completions surveys provides prices for absorbed (i.e. sold) units only for single and semi-detached not for condo units. Meanwhile, the published rent data from the annual October

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6 This substantial increase significantly raises Ottawa’s supply response, up to 511 homes for each additional 1,000 people of growth (up from 337/1000 for the 2015-2020 period).
rental survey does not identify recently completed properties, but a custom data request did secure a data set that distinguishes rentals completed since 2016, from earlier rentals. In spite of limited data, significant conclusions can be drawn from what we do have.

**Prices for new homes**

While completed and ready for sale homes obviously lag starts, so the data does not fully reflect the more recent surge in starts, the data reveal a significant jump in newly completed home sales prices (Ex 9).

Using both the median price, as well as the price of the first quintile (lowest 20% of prices) there was a gradual increasing trend since 2013, but this accelerated dramatically after 2019, when starts were already also trending upward. In 2021 (average for year), both the median price and the 1st quintile were up 28% from two years earlier (2019).

It is especially notable that even the entry level home (20% percentile price) was up to the same level as the median two years earlier - and at this increased level will become a constraint to first-time buyers.

It should be noted that newly completed homes are a relatively small part of the market - existing home sales represent three quarters of sales and set the trend.7

A builder starting a median quality home in 2019 may have anticipated selling the completed home at slightly above the then median of $555,000. But as he was building, the market prices increased, and ignoring whether there was any increase in cost of materials, the potential selling price rose from $555,000 to $710,000. This created a windfall gain for the builder or in the case of a pre-contracted custom build, the purchaser. In a competitive market the builder will take advantage of this windfall - he will not hold his price down to the originally anticipated price, unless presold at that price.

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7 In Ottawa completed condo and owner dwellings totalled 5,699 and 6,312 in 2020 and 2021 respectively; meanwhile existing home sales totalled 18,900 and 20,300 in the same two years. So, resales are around 76% of all sales.
The price of new homes went up despite a substantial 72% increase in new supply, mainly because demand pressures (abetted by low mortgage rates) pushed prices higher. If the cause of the price increase is not undersupply, but the nature of demand - willingness and ability to pay more, augmented by accumulated appreciation in current homes - then the solution to stalling the rate of price increase needs to take account of the demand issues, and cannot simply rely on increased demand.

The other critical outcome is that due to the increased potential sales prices, a builder seeking a lot to build will now anticipate a high future price and accordingly bid up what he is willing to pay for the land. The increases pricing in existing sales is capitalized into land values, and sustains this upward spiral. Only if aggregate demand weakens, and existing prices stall will land prices also stall.

**Rent increases**

While the level of new "purpose built" rental construction in Ottawa (12% all starts) has not increased quite as much as it has nationally (32% all starts) it is 200% higher than the 2011-16 period. Ottawa saw peak years of rentals in 2017 and 2018, with most of these units being completed and entering the market in 2020-21.

Custom data on the average rent by year of completion for Ottawa reveals that new rentals are commanding high rents, well above the average rent level. Across all unit sizes (weighted average), rents in properties completed after 2015 are 74% higher than pre 2016 stock.

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<th>Exhibit 10: Average Rent by Structure Age</th>
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<td>Structure Age</td>
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<td>----------------</td>
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<tr>
<td>Prior 2015</td>
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<td>2015+</td>
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<td>All ages</td>
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<table>
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<tr>
<th>Post 2015/pre 2016</th>
<th>Bachelor</th>
<th>1 Bedroom</th>
<th>2 Bedroom</th>
<th>3+ Bedroom</th>
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<td>134%</td>
<td>158%</td>
<td>176%</td>
<td>n/a</td>
<td>174%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Post 2015/AMR CMHC Oct 2020 Rental Market Survey Privately Initiated Rental Apartment Structures of Three Units and Over</th>
<th>Bachelor</th>
<th>1 Bedroom</th>
<th>2 Bedroom</th>
<th>3+ Bedroom</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>133%</td>
<td>153%</td>
<td>163%</td>
<td>n/a</td>
<td>164%</td>
<td></td>
</tr>
</tbody>
</table>

Clearly newer privately developed rentals, and especially those stimulated by the RCFI program are not contributing to affordable new rental supply. The exception is not-for-profit proponents intentionally seeking to lower rents to below market affordable levels. Non-profits account for only around 7% of RCFI national approvals.
It is noted that Ottawa has one of the highest pre/post 2015 rent differentials in the country, but across all CMAs the average difference is 43%. This shows that new rentals are not contributing to the affordability issue, except where sufficient new supply increases vacancy rates to slow the rate of the average rent increase.

![Post 2015 average rents - actual and as % pre 2015](image)

Source: CMHC Rental Market Survey 2020

**Lack of affordable rental supply exacerbated by erosion of existing lower rent stock**

In addition to very minimal volume of new affordable housing, being created under NHS and provincial programs, a large quantity of existing unsubsidized affordable private rental units are disappearing.

Census 2011-16 determined that low rent units, those below $750 per month and thus affordable to incomes below $30,000 per year, have been rapidly disappearing. Between 2011-16 the number renting below $750 declined by 322,000 and it is anticipated that once 2021 census data are released this number will be larger and exceed the average of 60,000 per year of the earlier intercensal period.

Meanwhile the various NHS initiatives together seek to add 160,000 affordable homes over the 10 years of the strategy, through 2028 (an average of 16,000 annually). But to date, few have been completed and occupied.

This means that for every new NHS affordable unit created, four existing older units are being lost – either demolished as intensification results in site redevelopment, or still existing but with rent increases that have pushed the units above this affordable benchmark (rent at $750/$30,000 income).
When lost due to redevelopment pressures, the expanded supply is directly contributing to this loss, and typically is not building new units at anywhere near affordable levels of those that were lost (the exception is in municipalities that have adopted rental replacement bylaws).

This is consistent with research that has refuted the concept of filtering – a process of housing musical chairs that assumes as moderate and higher income households seek and move into newer better quality homes, they leave behind their older, lower quality home. This theoretically creates options at more affordable levels for new occupants – often lower income and immigrant households. Because of the fixity of location, those older tired homes are subject to rehabilitation and gentrification, such that the potential to contribute to lower income housing need is undermined. In a 2006 analysis *Filtering, City Change and the Supply of Low-priced Housing in Canada*, Queen’s University planning professor Andrejs Skaburskis found that the filtering process is too slow to significantly reduce low-income households’ housing burdens.

Given the dramatic loss of low rent units caused by a combined process of gentrification and financialization, a desirable policy approach would be to recreate the filtering process. This would require an intervention to enable and assist non-profit housing organizations to purchase and preserve the existing lower rents – and ensure units remain accessible to lower income households.