



# Updating analysis on erosion of lower rent stock from 2021 census

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The loss of affordable housing in Canada is occurring at such a high rate that it will be impossible for current NHS initiatives to maintain, never mind expand, the net stock of low-rent units, research shows.

That is the conclusion of this brief update to previous research using the recent 2021 census release. This document also adds methodological considerations to guide further research seeking to decompose the nature and causes of documented loss of lower rent and more affordable rental stock.

In 2020 I published a brief seeking an additional funding stream for the National Housing Strategy (NHS) to enable non-profit housing organizations to acquire existing moderate rent rental properties. That analysis highlighted the rapid erosion of such lower rent stock, and how this process negates efforts to increase affordable supply under the NHS.

I argued for the need to encourage mechanisms and funding to support non-profit acquisition to address this loss. It would slow the impact of private capital funds buying these existing affordable properties to increase rents and thereby generate strong investment returns.

In that brief I used a threshold rent of \$750/month, a convenient benchmark as Statistics Canada rent ranges use \$250 increments above \$500. This \$750 rent equates to an income of \$30,000 per year, based on the commonly accepted 30% benchmark for affordability. It also roughly approximates annual income at minimum wage.

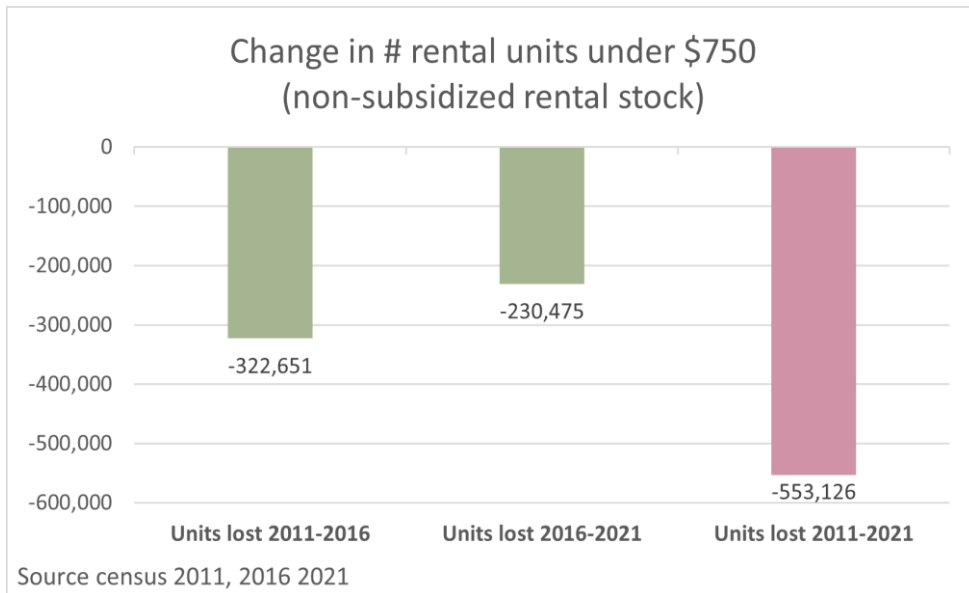
That said, it's a rough rule of thumb, not a definitive measure. And as discussed below, it does not necessarily capture loss in higher cost markets. More refined local analysis will be required alongside parallel research to more fully decompose the nature of this loss (e.g., size of units, whether caused by absolute loss through property demolition or conversion versus simply inflating rents moving above \$750, and whether this inflation is associated with permitted regulated increases, building improvements, vacancy decontrol or practices such as renovations).

In the meantime, the census data does help to provide rough approximations and order of magnitude of the erosion of lower rent stock, which inevitably impacts on access and rent burdens for lower income households.

### **National update from Census 2021**

The release of the shelter cost and income data from the 2021 Census now provides an opportunity to update this earlier 2011-16 assessment. The census breaks out non-subsidized from all rental units, and in this review only the "non-subsidized" numbers are used.

As expected, the trend has continued, albeit at a slightly slower pace, but still substantially outpaces new affordable construction. From 2016-2021, a further 230,000 low-rent units (rents below \$750) were lost (an average of 46,000 per year), on top of the loss in the prior five years (322,000). This represents 6% of total unsubsidized rental housing.



To date since its inception in 2018, the NHS has committed funding to build just over 95,000 new homes with roughly two-thirds of these at some level of affordable (RCFI (Rental Construction Financing Initiative units account for the remaining third, 38,000, and most are well above any reasonable definition of affordable and almost none below the \$750/month used to assess the census data). Very few have yet been completed with most in process or under construction.

***The annual rate of loss (46,000) since 2016 is more than double the number of new units being added annually (under 20,000) under NHS funding***

So, by comparison the annual rate of loss (46,000) since 2016 is more than double the number of new units being added annually (under 20,000) under NHS funding. And this ignores the much larger backlog created from 2011-16 when fewer than 4,000 homes were added each year versus a loss of over 64,000 per year (a loss of 16 existing affordable homes for every new affordable unit created).

Without a response to address this rate of erosion it will be impossible for the substantial funding under the current array of NHS initiatives to have any impact in expanding the net stock of low rent units. In fact, the rate of erosion suggests that renter affordability issues will worsen, despite NHS investments.

**Sub-national provincial assessment**

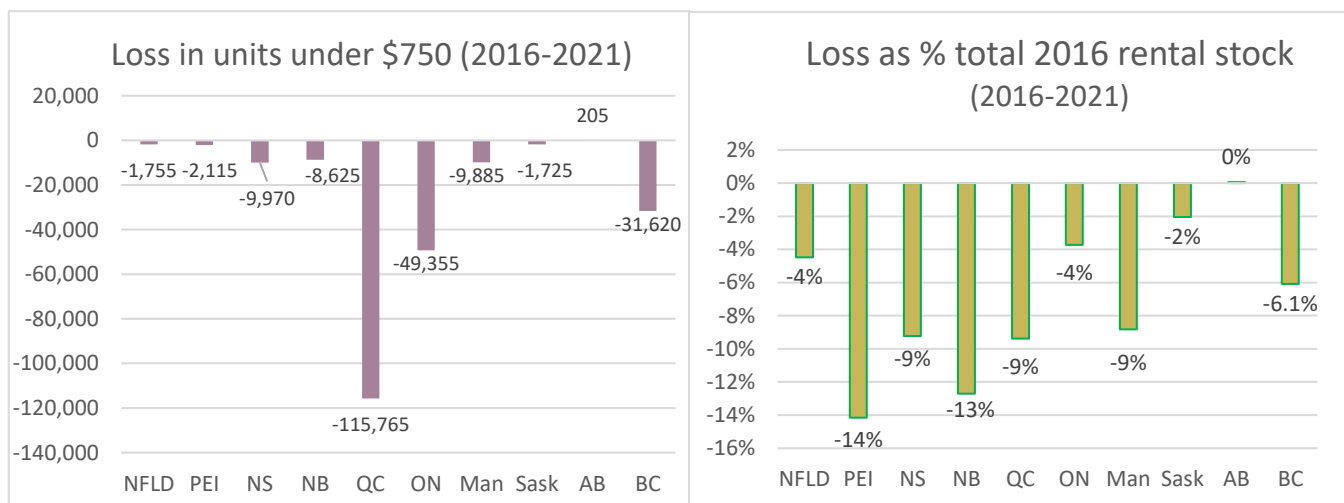
In looking to see if this national trend plays out the same across the country, we can first look at the data through a provincial lens. This shows that in absolute terms the greatest losses were in Quebec, followed by Ontario and BC.



Alberta had no loss under \$750 (in part this is because major cities on Calgary and Edmonton dominate and had few units below \$750). But also, Alberta has experienced a weak regional economy since 2015, with significant outmigration releasing some pressure of the rental market. Despite the weak economy there was continued new construction (much already underway when economy turned) which created high vacancies and removed pressure on rents.

When calculated as a percentage of the total rental stock in 2016, a different picture emerges:

- PEI and NB experienced the greatest relative loss (in smaller stock totals). NS, Quebec, and Manitoba also record higher than the Canada average 6%)
- BC is at the national average with 6%
- Perhaps surprisingly Ontario is below the national average, along with Saskatchewan and Nfld



### Loss is greatest in low-moderate-rent cities

This sub-national analysis is further examined with a selected cross-section of cities. It suggests that the standard \$750 benchmark is an imprecise measure.

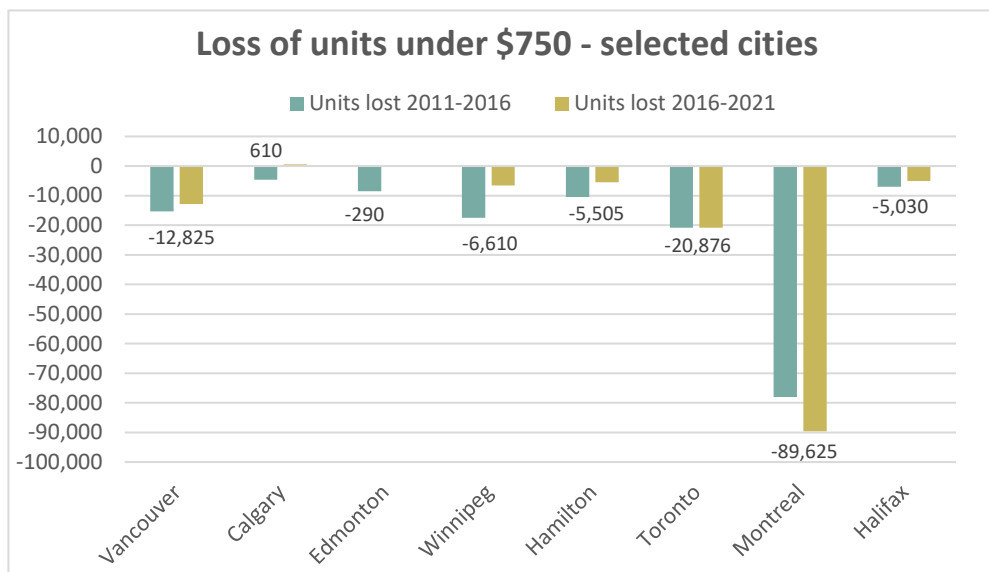
In higher rent cities with relatively few units remaining the “loss of units” under \$750 is quite small (in absolute count as well as percentage of all rental units). But in low-moderate rent cities, the loss below \$750 is much more dramatic.

Montreal alone stands out as a traditionally more affordable city, with a large rental stock and alone accounts for over one-third (39%) of the total aggregate nation contributing 89,000 to the aggregate loss of 230,000 homes.



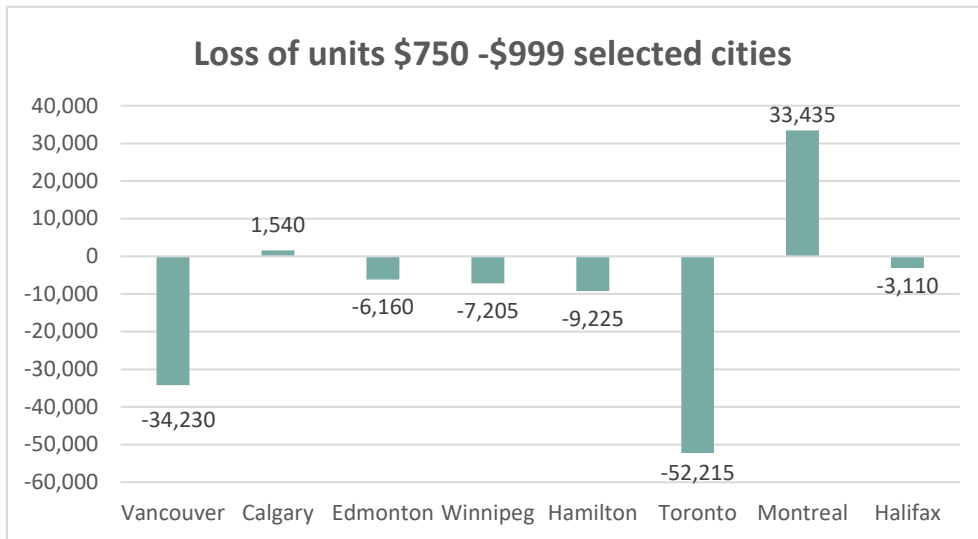
By comparison, we see a much smaller loss in the higher cost centres of Vancouver and Toronto as well as Hamilton. Together these three cities account for a combined 17% of total loss, less than half of the Montreal total.

Clearly the fact that Montreal had such a large relatively affordable rental stock with many units just below the \$750 benchmark made it very vulnerable. As already noted, the other two higher rent cities (Calgary and Edmonton, were hardly impacted during the most rent intercensal period, largely due to a minimal remaining stock below \$750.



In the higher rent cities (here Vancouver, Edmonton Calgary, Toronto, and Hamilton) the loss has shifted up into the next rent band \$750-\$999. So, the same phenomenon prevails, simply at a higher band.

Adding this next rent band (\$750-\$999) into the analysis we clearly see that the erosion is continuing, albeit at higher rents. While Vancouver lost 12,825 below \$750, it lost almost three times this number (34,230) in the next bracket (\$750-\$999); Toronto similarly saw a very large loss of 52,215 in the \$750-\$999, while Hamilton lost just over 9,000. Edmonton and Winnipeg also saw erosion in this higher rent band.



For Vancouver, Hamilton, and Toronto as a percent of the 2016 total unsubsidized rental stock these total losses under \$1,000 represent 16%, 20% and 12% respectively.

Meanwhile, the large losses in Montreal under \$750 are seen now in having in most cases simply shifted up into the next bracket – of the 89,000 “lost” some 33,435 have added to the stock between \$750-\$999.

City specific charts showing both the losses under \$750 and change in the \$750-\$999 are attached as appendix A.

### ***Insights and implications from the Census data***

In undertaking this initial review and analysis several methodological considerations can be identified.

#### **Refining the threshold/benchmark for analysis**

As noted, using the convenient threshold of \$750 overlooks ongoing erosion above that level, especially in higher cost cities. It also overlooks significant variations in the existing rent distribution in low vs high-cost cities.

Accordingly, it may be more appropriate to develop and quantify a standardized benchmark that more closely tracks incomes of renters and acknowledges variations in base rent levels across



different cities. For example, this could use some percentile of local renter incomes (e.g., 30<sup>th</sup> percentile, or 40% of local median household income).<sup>1</sup>

For example, using 40% of the city (coma) specific median household income, would generate the following equivalent standardized benchmarks across the selected cities. The transition of units above these thresholds would then be used to generate more comparable change across different cities (and could then be aggregated to generate a national total change)

	Canada	Halifax	Montreal	Hamilton	Toronto	Winnipeg	Calgary	Edmonton	Vancouver
Median total income all households	83,979	80,794	75,924	90,831	96,923	82,831	99,811	95,857	89,911
40% median	33,592	32,318	30,370	36,332	38,769	33,132	39,924	38,343	35,964
Affordable monthly rent at 30%	840	808	759	908	969	828	998	959	899

Once a standardized metric is determined, a custom data request can be submitted to Statistics Canada to generate data both for the 2016 and 2021 census. The income threshold could potentially be updated between census years using the tax file data or the Canada Housing Survey, both of which are updated annually, albeit with an 18-month lag.

This could go beyond nominal rents to use real rents across the two census periods. Such an assessment could provide a more refined count on losses.

In addition, it might be more useful to breakdown loss by size/type of unit – presumably most lower-rent units are bachelor and one-bedroom, and many may exist as apartments in detached houses, rather than in apartment buildings. Some may also be non-arms-length arrangements (e.g., low-rent for a relative). Distinguishing by dwelling type and unit size will add further insight to track change over time.

### Where did they go – what type of loss?

In terms of the identified change in the number of low rent units discussed above (using the \$750 and \$1,000 thresholds) there are several reasons and explanations for these changes (losses)

- Absolute loss due to demolition (often a factor in intensifying areas where planning policies encourage growing vs out – most older more affordable rentals were built in such areas)
- Absolute loss in smaller properties where occupancy changes – e.g., a detached dwelling with a suite may be converted back to single family (and vice versa to add units)
- Conversion of permanent rental into short-term vacation rental (e.g., Airbnb)

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<sup>1</sup> The US have a much more refined and standardized measure of affordability, that captures both different household size (unit size) as well as local incomes. It uses area median income, by household size. Very low income is defined at under 30% AMI; low income is between 50% to 80% AMI. The 30% affordable rent benchmark is then applied to each AMI level. So, for example if the AMI is \$100,000 low income at 60% AMI would be \$60,000 and the maximum affordable rent would be \$1,500. See <https://www1.nyc.gov/site/hpd/services-and-information/area-median-income.page>



The other and likely more significant form of “loss” is not absolute loss but simply an increase in rent above some specified threshold (here \$750/month). The unit still exists, but at a less affordable rent.

- This includes units that were just below the threshold and due to a guideline rent increase have moved above.
- Units that have formally been approved for an “above guideline” increase, usually associated with a renovation.<sup>2</sup>
- Units where tenants have vacated and under the vacancy decontrol regulatory regime that prevails in most jurisdictions, new rents can be set at the prevailing market level.

This second set of causes may sometimes be associated with investors purchasing the property to improve the yield by increasing rents – either by proposing renovations (potentially requiring existing tenants to vacate; or simply on turnover via vacancy decontrol).

Decomposing the overall and city specific “losses” under any of these causes will require more detailed analysis.

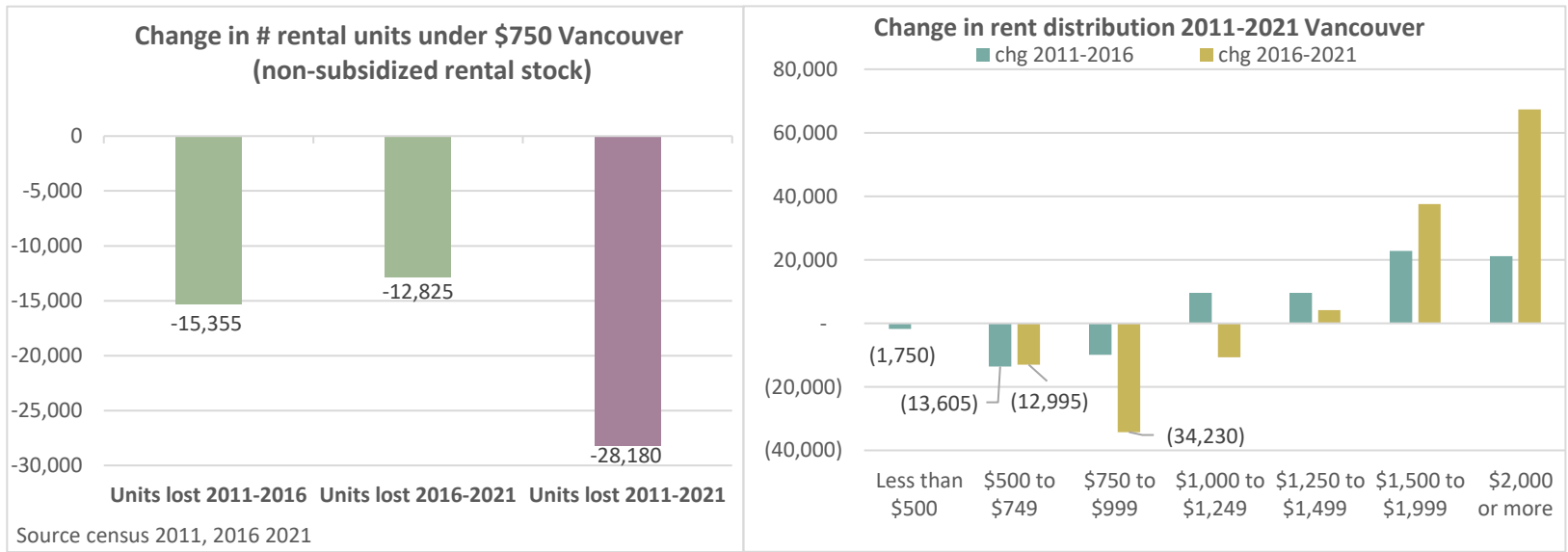
Two research initiatives, both funded under the CMHC Housing Supply Challenge- Data Round, are undertaking this type of more detailed analysis, but results are unlikely to be available until later in 2023.





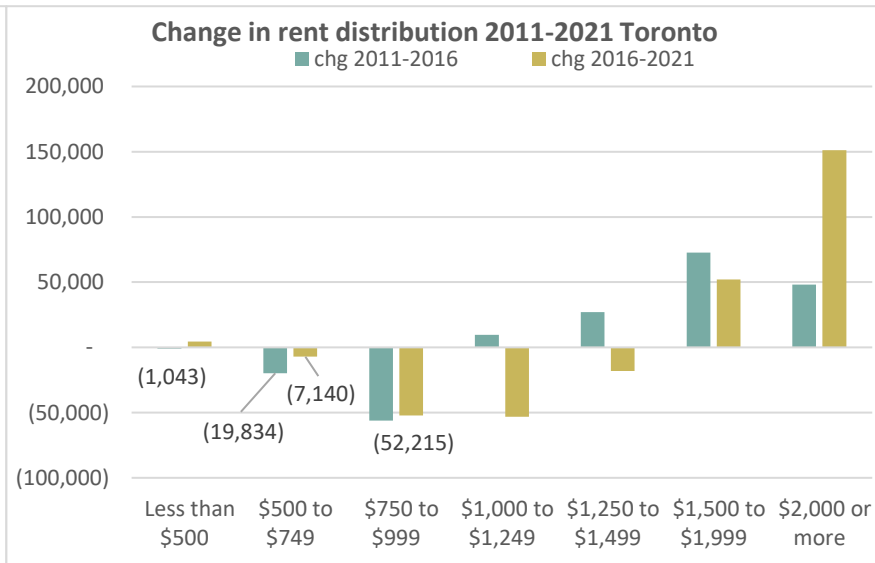
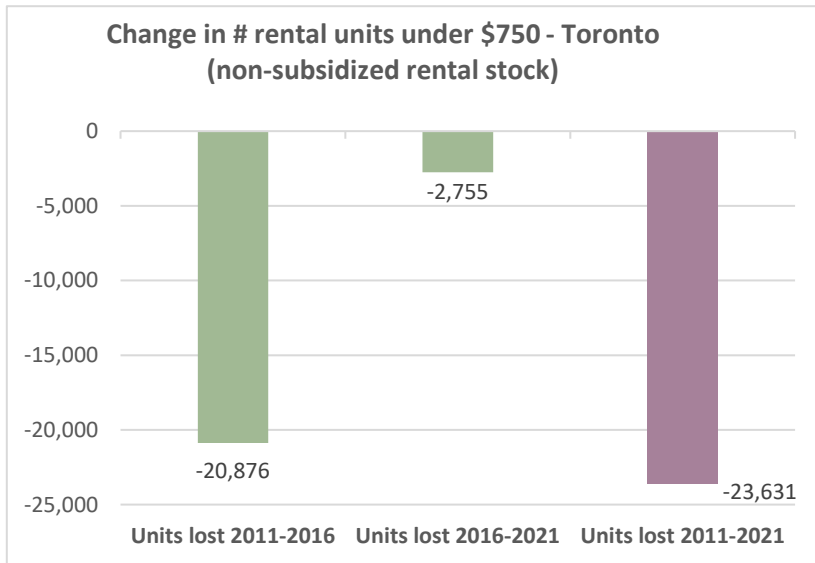
**Appendix A: City specific losses (Note left axis scale varies by city to allow fit)**

Vancouver: Loss 2016-21 under \$1000 = 47,055 (16% total 2016 rental stock)



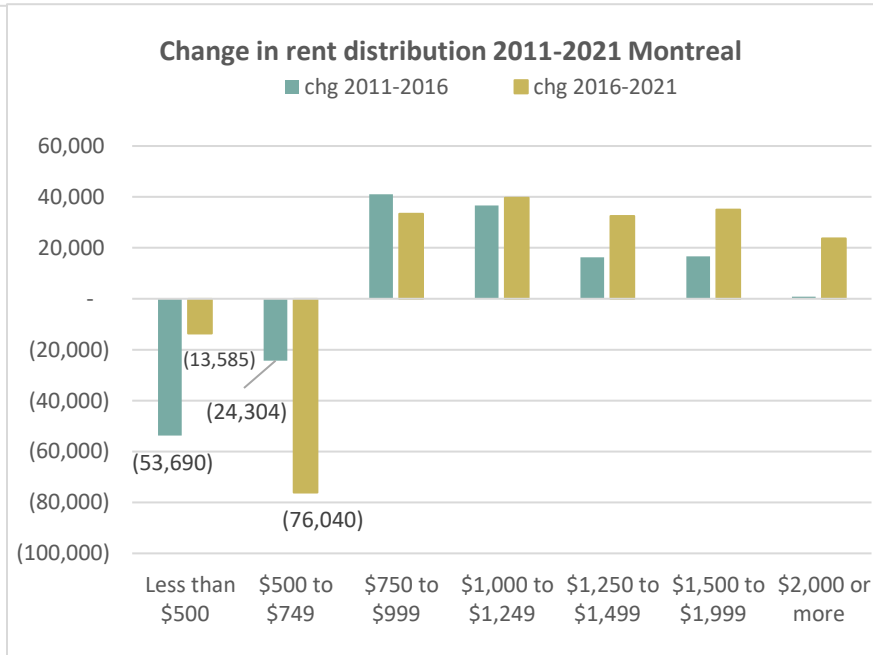
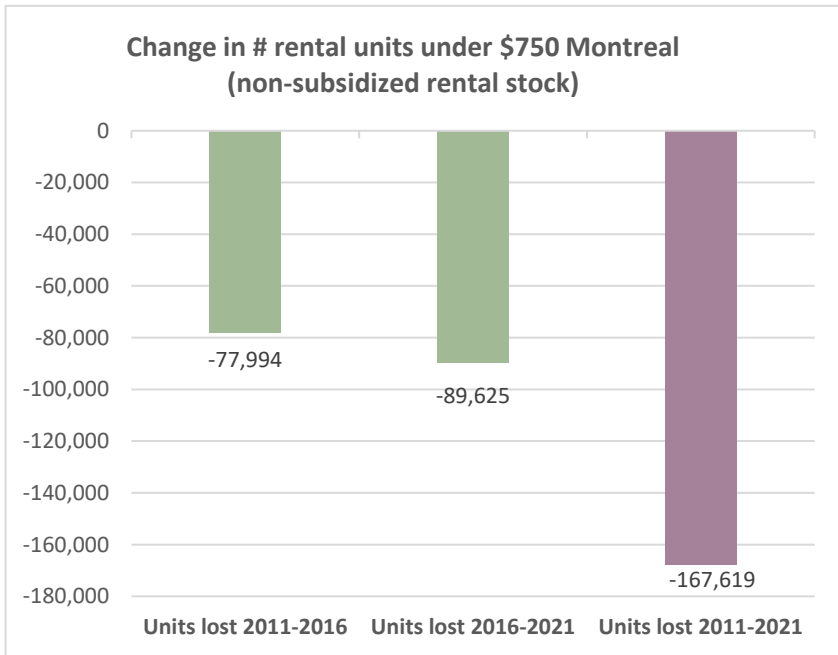


Toronto: Loss 2016-21 under \$1,000 = 73,091 (12% total 2016 rental stock)



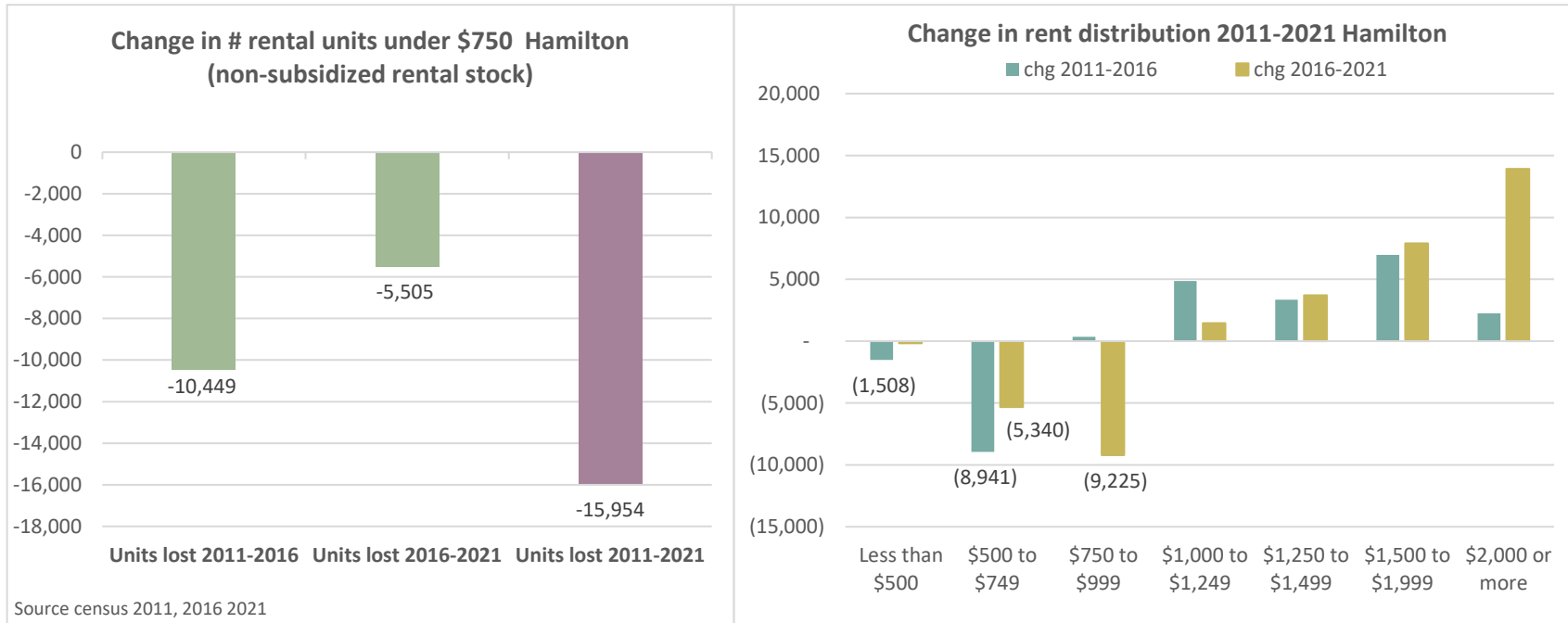


Montreal: Loss 2016-21 under \$750 = 89,625 (39% total 2016 rental stock)



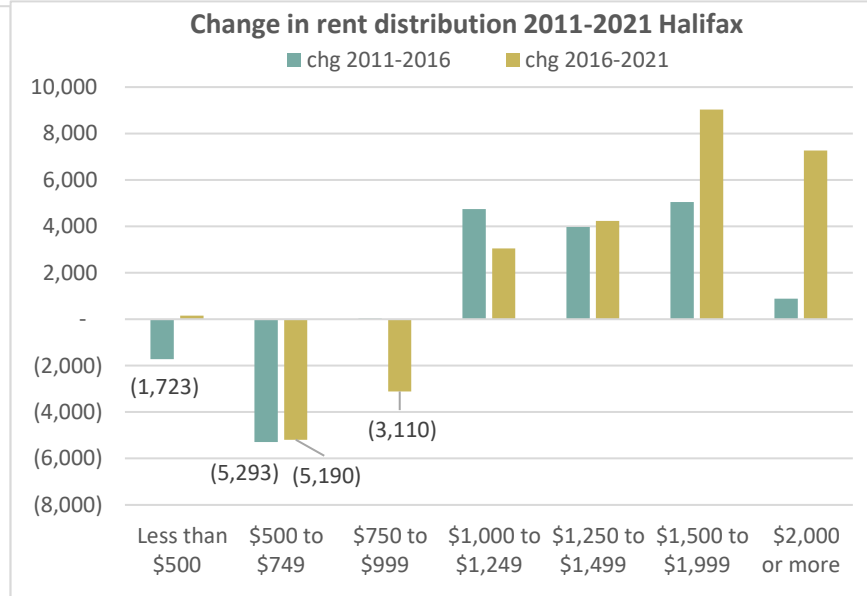
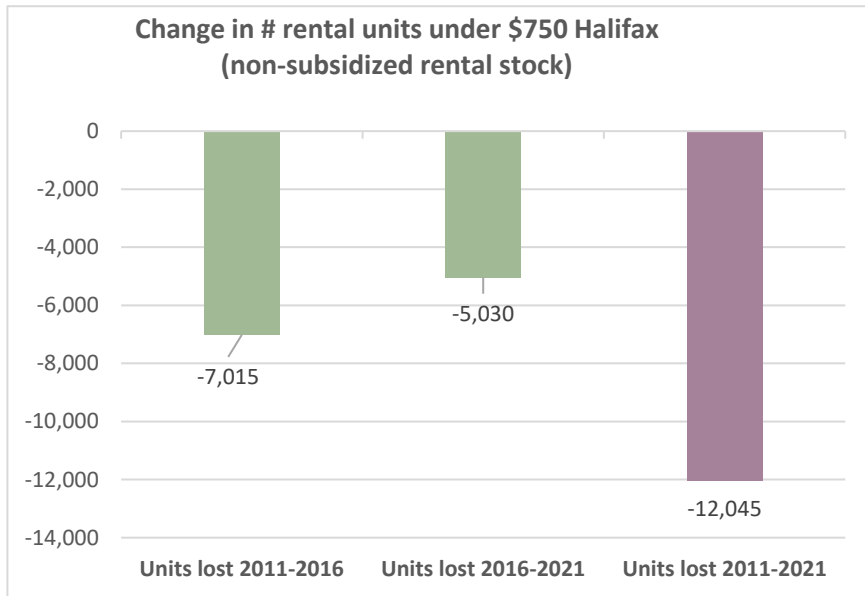


Hamilton: Loss 2016-21 under \$1,000 = 14,730 (20% total 2016 rental stock)



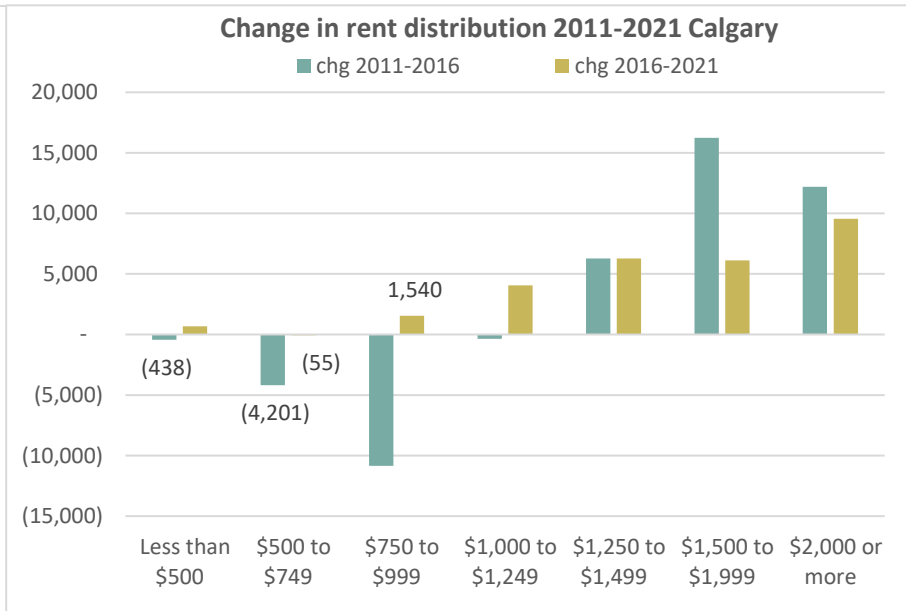
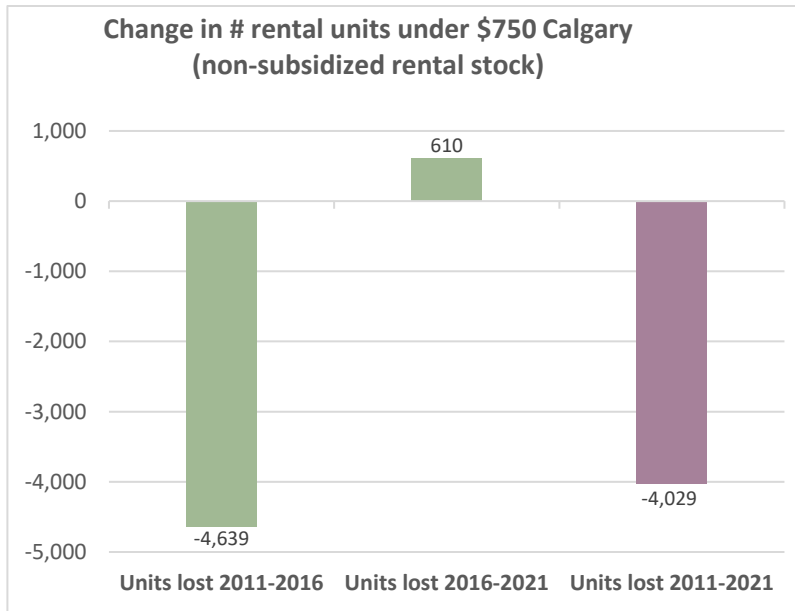


Halifax: Loss 2016-21 under \$1,000 = 8,140 (13% total 2016 rental stock)



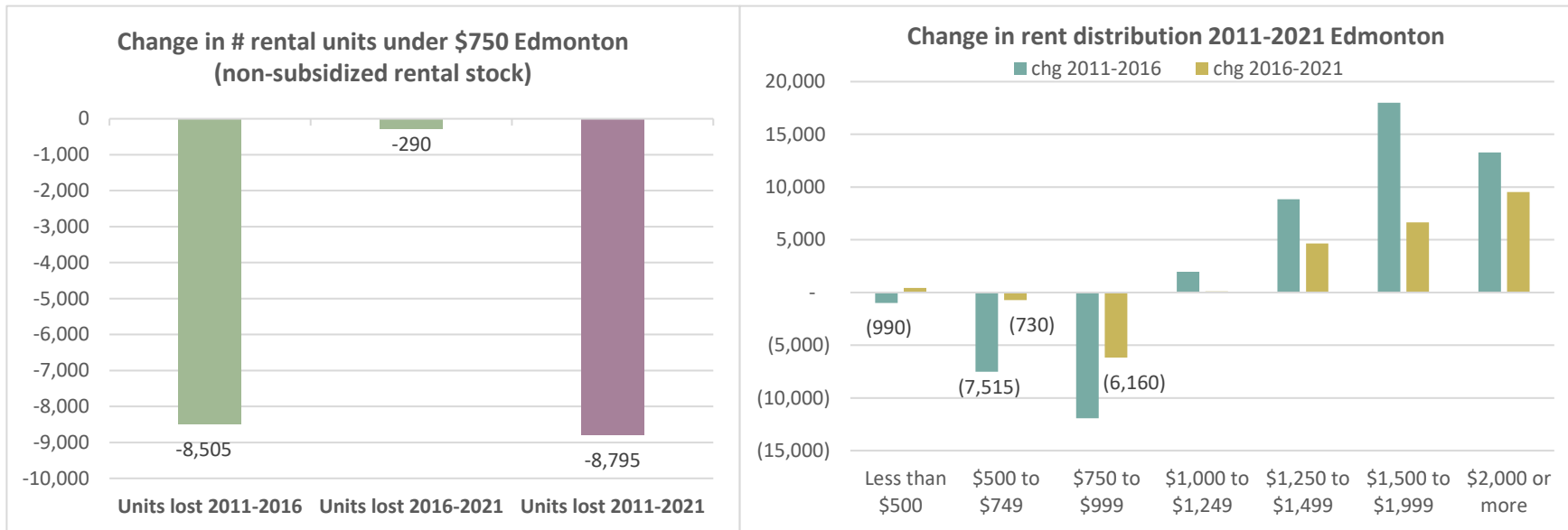


Calgary: Loss 2016-21 under \$1,000 = 2,150 (2% total 2016 rental stock)





Edmonton: Loss 2016-21 under \$1,000 = 6,450 (5% total 2016 rental stock)





Winnipeg: Loss 2016-21 under \$1,000 = 13,815 (17% total 2016 rental s

