York Region VHT

A REVIEW OF HOUSING MARKET CONDITIONS WITHIN YORK REGION

PREPARED FOR THE REGIONAL MUNICIPALITY OF YORK

AUGUST 24, 2022

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Introduction

In October 2021, the Regional Municipality of York ("York Region" or the "Region") Council directed staff to prepare a report on the feasibility and public benefits of implementing a Vacant Homes Tax (VHT). At the time, the City of Toronto was moving forward with the implementation of a VHT, while Halton Region and Peel Region were studying their own VHTs. In 2017, the Province of Ontario introduced amendments to the Municipal Act. This legislation granted designated municipalities the ability to implement an "Optional Tax on Vacant Residential Units" subject to designation by the Minister of Finance.

Should a municipality decide to pass a by-law, it could "…impose a tax in the municipality on the assessed value, as determined under the Assessment Act, of vacant units that are classified in the residential property class and that are taxable under that Act for municipal purposes."

The two key requirements of the by-law are that it state:

1. the tax rate; and
2. the conditions of vacancy that, if met, make a unit subject to the tax.

In October 2021, York Region Committee of the Whole[1] requested that a report be brought forward to further analyze the feasibility of implementing a VHT in York Region.

In April 2022, to support the ongoing work of the Region, the Region engaged KPMG to perform independent research and provide evidence-based advice on issues related to the Region's consideration and potential implementation of a VHT.

This report provides an overview of the current housing market conditions within York Region based on available market information. This is intended to be a supplemental assessment to provide York Region with additional context and data relating to the current housing market in the Region. Given the growing challenges around housing affordability within York Region, across the GTHA, and throughout the Province, it is important that all reasonable policy avenues that seek to increase housing affordability be explored by all levels of government. One of these options available to municipalities is a VHT, which can serve to increase housing supply while providing a revenue stream to support other housing initiatives. A subsequent report has been developed by KPMG on the feasibility and public benefits of implementing a VHT.

[1] The Committee of the Whole comprises of all members of Regional Council.

Housing Market Conditions

A recent survey commissioned by KPMG Canada found that increasing housing prices and rising personal debt are making it extremely difficult for many people to afford a home. The survey included 2,500 Canadians, including 1,000 millennials between the ages of 23 and 38 who now represent the largest population generation in the country.

Key findings were:

- 72% of millennials say their goal is to own a home, while 46% say home ownership will likely be unattainable;
- 42% of millennial homeowners received a financial boost from their parents in order to purchase a home; and
- 38% of those surveyed believe that their house won't be worth as much in the future as it is today.

In addition to the perceived challenges of home ownership, Canadian household debt has reached record highs over the past 30 years, with an average debt-to-income ratio of 183%, primarily as a result of mortgage debt.[2]

Additionally, although recent increases in interest rates have created a dampening effect on housing prices, they do not address the issue of housing affordability. The increase in associated financing costs of home ownership mean that housing remains unaffordable, while underlying housing supply challenges still remain.

The combination of rising house prices, increasingly high levels of personal debt, and incomes that limit the dream of home ownership for many individuals and families presents a pressing public policy challenge with respect to housing.

The remainder of this report focuses on trends observed in the housing and rental markets in the GTA and York Region.

York Region home ownership market conditions

York Region is home to the second largest tech cluster in all of Canada and the third largest business community in Ontario. Located in the heart of the Greater Toronto Area ("GTA"), York Region is one of the fastest growing communities within Ontario. That success fuels growth. It has led to significant population growth, sustained economic growth and an historic residential development boom. Since 2016, York Region's population has increased by over 63,000 new residents.[3] From 2012 to 2021, over 15,000 new residents arrived each year. York Region anticipates approximately 25,000 new residents annually, with nearly 500,000 new residents by 2041 and over 800,000 new residents by 2051. These new residents need spaces to live.[4]

From 2016 to 2021, over 42,500 residential units were completed in York Region.[5] Approximately 47,000 units are currently reported as draft approved, registered or have received Ministers Zoning Order applications. In addition, over 75,000 potential residential units are currently under review by York Region and its nine local

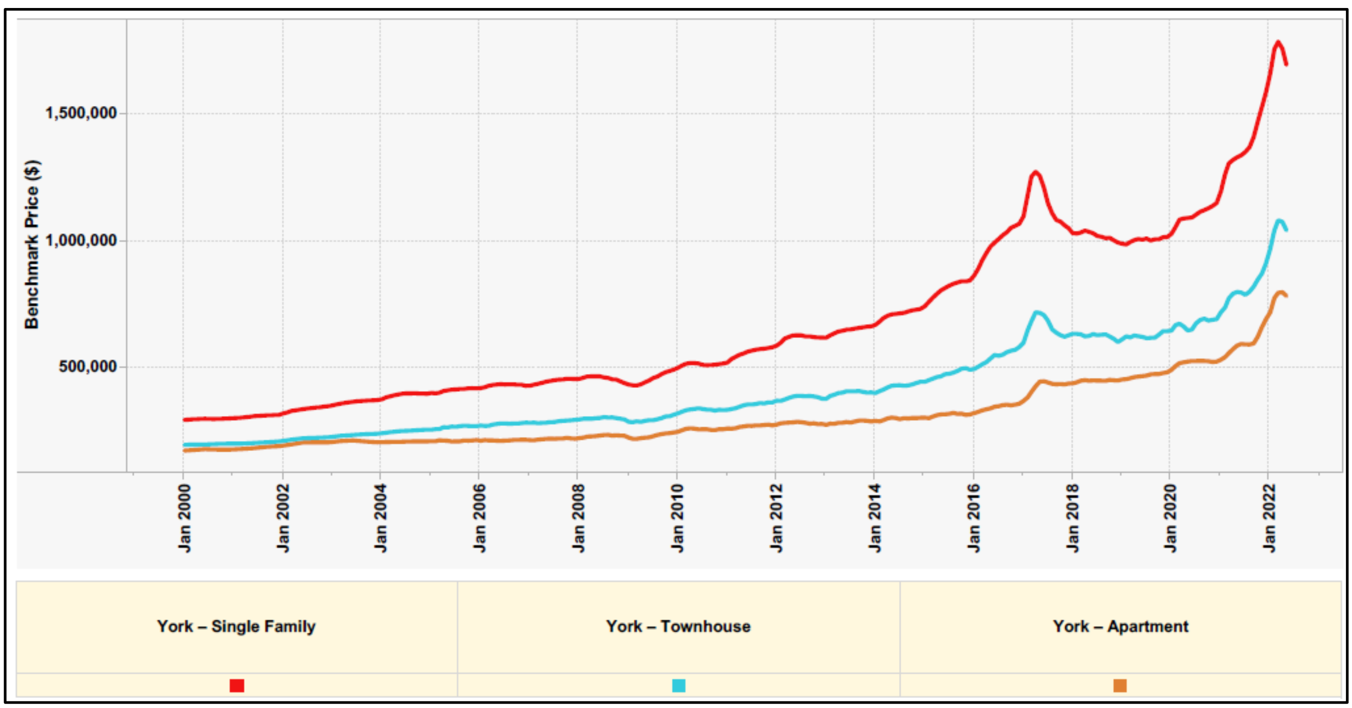
[2] (Statistics Canada, 2022)
[3] (KPMG LLP, 2019)
[4] (Statistics Canada, 2022)
[5] (Statistics Canada, 2021, 2020, 2019, 2018, 2017 & 2016)

municipalities.[6] While this growth in population will have economic benefits to the Region, it also presents significant impacts on housing availability and affordability.

Housing prices in York Region reached record highs in March 2022, with a reported benchmark price of $1,571,900 in York Region based on the MLS Home Price Index (HPI). The benchmark indicates a growth in the average home price by over 160% over the last 10 years.[7] When comparing prices today to those from over 20 years ago, home prices in York Region are more than five times higher.

The MLS HPI is calculated using a sophisticated statistical model that takes into account a home's quantitative (e.g., the number of rooms it has) and qualitative (e.g., whether it has a finished basement) features. The MLS HPI traditionally is less volatile than average and median measures, which can swing dramatically in response to changes in the number of very expensive or inexpensive home sales from one time period to the next. The MLS HPI is based on the value home buyers assign to various housing attributes, which tend to evolve gradually over time. It therefore provides an "apples to apples" comparison of home prices across the entire country.[8] A visual representation of trends in sale prices (based on HPI) in York Region for different categories of homes between the years 2000 and 2022 is shown in Figure 1. As indicated in the graph, there has been a significant increase in benchmark prices for single family homes since 2010 and a marked increase in the benchmark price for townhouses and condominiums/apartments since 2016. Recent declines in prices for all structure types (as shown in 2022) may be as a result of increases in interest rates.

Figure 1: Trends in York Region housing prices[9]



In Ontario the size of new housing is changing. As housing prices increase, homeowners are increasingly buying smaller units. In turn developers are building a larger proportion of one- and two-bedroom units — typically condominiums. Using Toronto as an example, one- and two-bedroom units accounted for 77% of all housing completions in the City of Toronto between 1998 and 2018.[10] While not as significant as what was observed in Toronto, apartments and other unit types (e.g., stacked townhouses, duplexes, triplexes, double

[6] (York Region Housing Affordaiblity Task Force, 2022)
[7] (MLS Home Price Index - Toronto Real Estate Board, 2022)
[8] (Toronto Real Estate Board, 2022)
[9] (Toronto Real Estate Board, 2022)
[10] (Canadian Centre for Economic Analysis and Canadian Urban Institute, 2019)

duplexes and row duplexes) accounted for approximately 40% of completions in York Region from 2016 to 2021.[11]

In York Region, the housing mix is predominantly comprised of single-family dwellings. Figure 2 summarizes the housing mix presented in the 2021 Year in Review from York Region Economic Development, which is based upon data sources from Statistics Canada and Canada Mortgage and Housing Corporation (CMHC):

Figure 2: December 2021 York Region housing mix[12]

	York Region	
Type	**Estimated Households (2021)**	**% of Total**
Single	240,807	61.0%
Semi-Detached	23,053	5.8%
Row/Townhouse	52,481	13.3%
Duplex	15,160	3.8%
Condo/Apartment	62,982	16.0%
Total	**394,483**	**100%**

Although the housing mix is predominantly comprised of single-family dwellings, 2021 housing starts in York Region indicated that 62% of the starts were apartment and other structures, which is higher than the percentage of completions observed from 2016 to 2021 as referenced above.[13] As Figure 2 indicates, condos and apartments were estimated to represent approximately 16% of the total housing stock at the end of 2021.[14] This is expected to increase to 19% by 2031 and 27% by 2051.[15]

While the demand for high-density residential units increases, the size of single-family homes in York Region has actually moved counter to that trend with the average size of homes increasing since 2006. The average new construction single family home was 2,770 square feet in 2006 and has increased to 3,870 square feet in 2021. This is a trend observed in York Region across semi-detached homes and townhouses as well.

With this change in demand and housing type, it will be important for the Region to monitor the housing market over the coming years to ensure that there is an appropriate mix of housing that achieves the demands of residents in the Region.

York Region rental market conditions

In addition to rising housing prices, York Region is experiencing very low levels of rental vacancies which is contributing to substantial increases in rental rates. According to CMHC's 2021 Rental Market Report, the rate of residential rental vacancy in York Region was 1.8%, down slightly from 1.9% in 2020.[16] This is higher than pre-COVID levels. Between 2015 and 2019 rental vacancy rates tended to range between 1.1% and 1.6%.

Vacancy rates for purpose built rental units with a monthly rental rate below $1,250 have also remained quite low. For example, apartments and row homes with a rental rate of between $1,000 and $1,250 demonstrate a weighted average vacancy rate of 1.7%. Homes in this price range are typically considered to be affordable for households with incomes up to $50,000. Approximately 24% of households in York Region make less than $50,000.[17]

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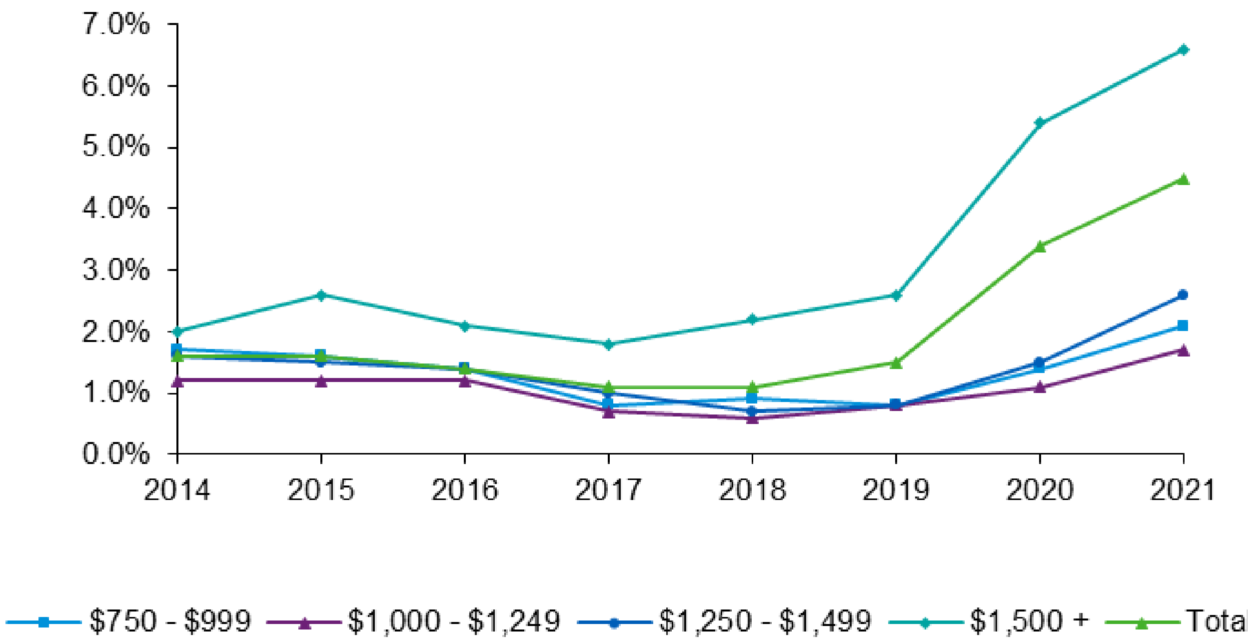
[11] (Canada Mortgage and Housing Corporation, 2021)
[12] (York Region Economic Development, 2021)
[13] (Statistics Canada, 2021)
[14] Condominiums/apartments represented approximately 12% of York Region's housing stock in 2001.
[15] (York Region and Watson's & Associates Economics Ltd., 2021)
[16] (Canada Mortgage and Housing Corporation, 2021)
[17] (York Region, 2016)

Condominium vacancy rates tend to be lower still. Condominiums are typically newer and with a greater range of amenities than purpose-built rental apartments. This drives generally higher rents and lower vacancy rates for condominium rental apartments. According to CMHC data, average condominium apartment rents were approximately 45% higher than purpose-built market rentals in the GTA in 2021, while vacancy rates for condominium rental markets were approximately 1.6% - statistically unchanged from the year prior.[18]

Figure 3 shows the vacancy rate over time by rental value.

Figure 3: York Region residential rental vacancy rate by rent range[19]



Low levels of vacancy typically mean that the real estate market cannot operate efficiently or effectively. Numerous renters are pursuing a limited supply of rental properties which will drive prices upwards. Furthermore, insufficient rental stock on the market fails to provide renters with a variety of housing choices or to facilitate changes in housing type when families' housing needs change. Housing advocates consider a healthy level of vacancy in the rental market to be around 3%.[20]

Average market rents in York Region have also increased steadily over the past few years. Although data specific to York Region is unavailable, data for the overall GTA shows substantial increases in average monthly rents for apartments between 2021 and 2022. Rents for bachelor, one-bed, two-bed, and three-bed apartments have increased by 23.2%, 17.9%, 17.2% and 13.9%, respectively between Q1 2021 and Q1 2022 in the GTA.[21] Since 2014, rents for all apartment sizes within the GTA have grown by approximately 34%. Figure 4 provides an overview of average annual market rents within the GTA.

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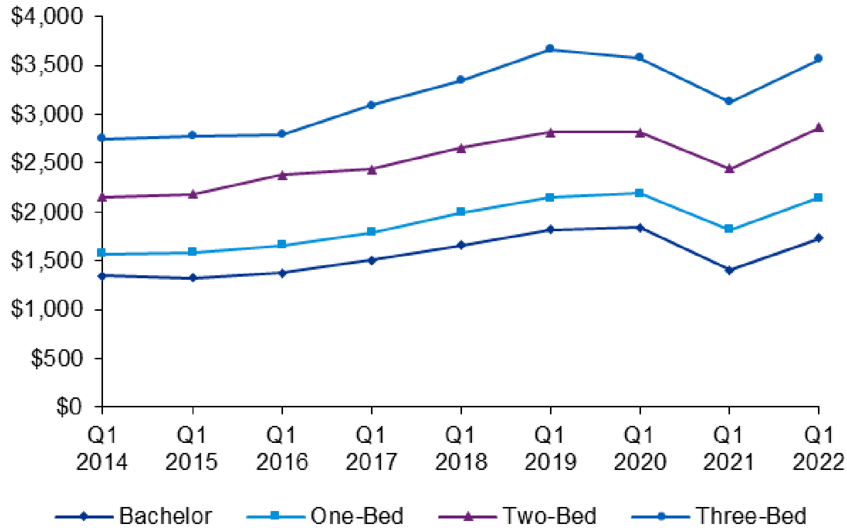
[18] (Canada Mortgage and Housing Corporation, 2022)
[19] (Canada Mortgage and Housing Corporation, 2021)
[20] (Ryerson City Building Institute, 2017)
[21] (Rental Market Report - Toronto Real Estate Board, 2022)

Figure 4: Average Market Rent by Year for GTA Apartments[22]



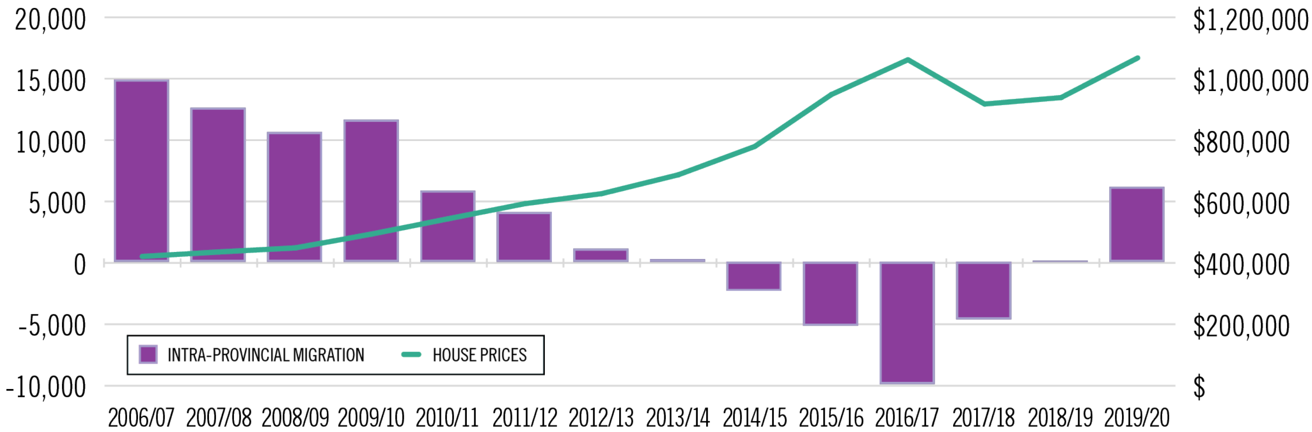
Trends in York Region population and home ownership

Recent population estimates show that York Region's population continues to grow. However, the net intra-provincial population change (that is, population change within the Province of Ontario) for York Region was negative, representing a decrease of upwards of 10,000 people from 2014 to 2019, which is highly correlated to resale house prices in York Region. This means that upwards of 10,000 people left York Region for other locations in Ontario compared to the amount of people that moved from other locations in Ontario to York Region. This corresponds with a significant increase in housing prices within the Region over the same time period. The largest source of population growth for York Region was from net immigration with upwards of 10,000 people, followed by natural increase upwards of 6,000 people between 2014 and 2019. In 2020, there was an increase in net-intra-provincial population growth within York Region, however it is unclear if this was attributable to COVID-19 and the limited movement in general or other factors. As data for other years is made available, it may become clear if 2020 was an anomaly or a new trend.

Figure 5 below shows York Region's net intra-provincial population relative to rising housing costs between 2006 and 2020.[23]

[22] (Rental Market Report - Toronto Real Estate Board, 2022)
[23] (York Region Growth and Development Review, 2019)

Figure 5: York Region net intra-provincial population change and average resale house prices[24]



Source: Statistics Canada and York Region, Corporate Services, Long Range Planning

Affordability gaps present a significant challenge to York Region. According to census data, the median household income grew by only 17% between 2006 and 2016, or approximately 1.7% per year. Meanwhile, the median monthly shelter costs for rented dwellings[25] increased by 146% over the same period, or approximately 14.6% per year.[26] As the cost of housing continues to increase more rapidly than average income, so too does the affordability gap for York Region residents. The Canadian Rental Housing Index, a database that compiles rental housing statistics for cities, regions, and provinces across Canada, indicated about 27% of renters in York Region spend 50% or more of their income on housing costs.[27] This level of spending is significantly higher than the 30% value that has traditionally been viewed as the benchmark for housing affordability and represents a serious affordability issue for York Region and the GTA.

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[24] (York Region Growth and Development Review, 2019)
[25] Statistics Canada defines monthly shelter costs for rented dwellings as the average monthly total of all shelter expenses paid by households that rent their dwelling, including the rent paid and the costs of electricity, heat, water and other municipal services.
[26] (Statistics Canada, 2016)
[27] (BC Non-Profit Housing Association, 2016)

Appendices

Appendix A - References

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