



## Report of the General Manager

### Woodbridge Lane: Setting Market Rents

#### Recommendation

The Board direct staff to set initial rents for non-subsidized units at Woodbridge Lane, City of Vaughan, at levels consistent with comparator market rental units.

#### Summary

This report recommends setting the initial market rents at Woodbridge Lane at true market levels, in contrast to how market rents were set for other new HYI buildings in the past. Since less than half of the units at Woodbridge Lane are subject to federal and provincial program funding rules that limit the amount of rent that can be charged, a more competitive approach is possible. By generating higher market rents from the 30% to 40% of units in this building that will be let at true market rates, Housing York Inc. (HYI) will have more flexibility subsidizing rents for the other 60% to 70% of units.

#### Background

##### **Woodbridge Lane is Housing York Inc.'s newest building, opening in late 2019**

Woodbridge Lane is a new 162 unit affordable housing building that replaces a 32 unit seniors' building and 14 unit family building on Woodbridge Avenue in the City of Vaughan. The six story building will include one, two, three and four bedroom units, including some that are accessible, for seniors, singles, couples and families with a mix of incomes.

The building is expected to be ready for occupancy late 2019. In order to ensure revenue targets can be met, market units will be rented first, followed by subsidized units.

##### **Rents in existing Housing York Inc. buildings were established through a variety of federal and provincial programs.**

HYI's portfolio is made up of buildings developed under three different phases of federal and provincial housing funding programs; each with a different approach to setting rents, as summarized in Table 1.

**Table 1**  
**HYI Portfolio Rent Programs**

| Program           | Total # of units | Rent Program Overview                                                                                                                                                                                                                                                     |
|-------------------|------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Public Housing    | 840              | 100% of the units are offered with a subsidized rent                                                                                                                                                                                                                      |
| Provincial Reform | 1,025            | The province established the mix of subsidized and non-subsidized units for each housing provider, with benchmark rents for the non-subsidized units as part of the <i>Housing Services Act, 2011</i> funding program. Approximately 70% of units receive a rent subsidy. |
| Regional Program  | 735              | The rent charged for units that receive federal and provincial capital funding cannot exceed the Average Market Rent, as determined by the Canada Mortgage and Housing Corporation (CMHC). Approximately 70% of units receive a rent subsidy.                             |

The mix of subsidized and unsubsidized units varies by building within the Provincial Reform and Regional programs. Most seniors' buildings are close to 100% subsidized; family properties are typically 50% to 60% subsidized.

The Region funds the rent subsidies at all HYI buildings other than the Richmond Hill Hub. Construction of the Richmond Hill Hub was fully funded through a combination of federal provincial funding and Regional equity contributions. With no debt service costs, HYI is able to offer subsidized rents without Regional funding.

## Analysis

### **HYI typically sets rents for unsubsidized units in Regional Program buildings at the low end of market**

HYI's newer buildings received federal and provincial capital grants to assist with the cost of construction. Program rules include that HYI is not allowed to charge more than the Average Market Rent, as determined by the Canada Mortgage and Housing Corporation (CMHC) for units that receive grant funding.

CMHC Average Market Rents do not reflect the market as a whole. CMHC rents currently range from about \$1,100 for a one bedroom unit to about \$1,400 for a three bedroom unit. These rents are well below the market because CMHC rents are based on surveys of purpose built, private sector rentals. There are few purpose built rental buildings in York Region (5,480 units; CMHC Rental Market Survey 2018), and the vast majority were constructed before 1990 meaning their rents tend to be lower (for example, a pre-1960 one bedroom unit averaged \$895 per month, and a one bedroom unit in a building constructed between 1975 to 1989 averaged \$1,242 per month). Much of the rental supply in the Region is in newer condominium buildings – more than double the number of purpose-built rental units (11,620 units; CMHC Rental Market Survey 2018). These newer condominium buildings have higher rents (for example, in 2018 one bedroom units averaged \$1,685 per month and two bedroom units averaged \$2,161 per month).

HYI's rents for Regional Program unsubsidized units are set at the low end of the market. Program rules required that applicants selected for these units have incomes below the Region's 50<sup>th</sup> income percentile.

**Woodbridge Lane provides an opportunity to take a market based approach to setting rents because fewer than half of the units are constrained by federal/provincial program rules on rent levels**

Unlike other HYI buildings that have accessed federal and provincial capital grants, fewer than half of the units at Woodbridge Lane are subject to federal and provincial program rules. HYI can decide what rents it wants to charge for the 85 units not subject to those program rules.

Of the 162 units at Woodbridge Lanes, about 60% to 70% (97 to 113) will be subsidized, and about 30% to 40% (49 to 64) will be market rentals. Of the subsidized rental units, a range of subsidies will be provided to ensure units are affordable for households on the Region's subsidized housing waiting list, similar to the rental model used at the Richmond Hill Hub. The number and types of subsidies provided will depend in large part on how much revenue can be generated from the market units.

Woodbridge Lanes will not be receiving operating funding from the Region; rent revenues must cover all costs. The higher the rent that can be generated from the market units, the greater the flexibility HYI will have in providing subsidies to the other units.

**A survey was undertaken to determine market rent potential**

HYI commissioned a rent survey to assess market revenue potential. The survey compared Woodbridge Lane to private sector rental properties in Vaughan and York Region. In addition, given the limited rental market, the survey considered rental properties across the Greater Toronto Area. The study also considered the rentals in condominiums, basement apartments, townhouses and detached homes. Woodbridge Lane has 33 different floor plans, some of which are particularly attractive. The study identified the Woodbridge Lane units with the best revenue potential and recommended market rents for these units.

**The proposed market rents are at the lower end of rents affordable to households with mid-range incomes**

In [June 2019](#), Council received the annual affordable housing measuring and monitoring report, which focuses on mid-range income households. Mid-range income households are those that earn between the fourth and sixth deciles of the income distribution, annually earning between approximately \$80,000 and \$120,000 in 2018. Through this exercise, it was determined that only 11% of new ownership units were affordable to the sixth decile income threshold, 97% of which were one bedroom condominiums. No new ownership units were affordable to the lowest earning 50% of existing households. When ownership housing becomes unaffordable, many households turn to the rental market. Unfortunately, at 14% of total stock, York Region has the lowest rental supply in the Greater Toronto Area.

To support the development of purpose built rental buildings affordable to mid-range income households, staff are recommending Council approve a new longer term development charge deferral (at October Council). Through this exercise, it has been determined that affordable rents cannot exceed 175% of the CMHC Average Market Rent for private purpose-built apartments by bedroom type. Based on the standard that a maximum of 30% of gross income be spent on housing, monthly rents of \$2,000 to \$3,000 are affordable to mid-range income earners. The proposed three bedroom Woodbridge Lane rents are within the affordable range

for mid-range income households. The proposed one and two bedroom units will be affordable for mid-range income households and some households with incomes below mid-range.

### **Housing York Inc. will assess market response to determine whether the proposed market rents need to be adjusted during the rent up process**

The survey was unable to identify any exact comparators. The Woodbridge Lane building is newer than other purpose built private sector buildings, but the units tend to be smaller than older rental buildings. Finishes and amenities are modest in comparison to condominium rentals. The building also reflects more recent parking standards. With 148 resident parking spaces for 162 units, market rent households will be limited to one parking space, potentially a deterrent for family units. The proposed rents set out in Table 2 are a best estimate based on the probable marketability of the units. HYI will assess the market response and adjust rents if needed.

### **Housing York Inc. selects market rent tenants in compliance with the requirements of the Ontario Human Rights Code**

The Ontario Human Rights Code includes regulations landlords must follow when selecting market rent tenants. Most notably, landlords are not permitted to discriminate based on income. The Ontario Human Rights Commission found that the practice of applying a ratio to determine whether a tenant can afford the rent was discriminatory. Landlords are permitted to consider a prospective tenant's credit references and rental history.

Income information may only be requested if landlord also requests the credit and rental history information. In practice this means that if a prospective tenant would have to spend more than 50% of their income to pay the rent, but their credit references and rental history indicate that they are likely to pay the rent, HYI would lease them the unit.

### **Housing York Inc. is leveraging technology to promote market rental opportunities**

This will be HYI's first foray into competitive market rentals. For more than a year, information about the building has been available on the Region's website at [York.ca/275 Woodbridge](http://York.ca/275 Woodbridge). The webpage offers the opportunity to subscribe for email updates about the building and rental opportunities. At the beginning of September, there were 461 subscribers. Telephone conversations with subscribers indicate that some are looking for subsidized or low end market rents, and these subscribers have been referred to Access York to fill out an application.

Rent-up for the market units will begin this fall. In addition to marketing information provided on the Region's webpage, HYI will post signage on the building and advertise as needed. HYI's experience in other well located new buildings suggests that it is unlikely extensive marketing will be required. HYI maintains an office at Mackenzie Green in the City of Richmond Hill. Staff at this location routinely respond to walk-in enquiries from people looking for market rent housing and although there is no office at the Richmond Hill Hub, staff working at the property are frequently approached with market rent enquiries. Given the limited supply of rental housing, HYI anticipates significant interest in the rental opportunities at Woodbridge Lane.

To ensure fairness in the rental process, HYI will post rental information online, including the date and time that offers to lease will be accepted. HYI is preparing for an intensive rent-up period, with open houses and onsite leasing hours. HYI will lease market units on a first come first served basis.

## Financial Considerations

### Market rents have the potential to cover up to 70% of operating costs

Woodbridge Lane requires total rent revenues of \$1.8 million to cover operating costs, including contributions to the capital replacement reserve.

Table 2 outlines the proposed initial market rent and revenue potential for each bedroom and unit size based on having 30% of the units as market (64 units). These 64 units are identified as having the greatest marketability, and could generate annual rent revenues of up to \$1.25 million -- almost 70% of budgeted operating costs, with the remainder covered by rents from the subsidized units.

**Table 2**  
**Market Revenue Potential**

| # Bedrooms   | Size (sq. ft.) | # of units | Proposed Rent | Potential Revenue  |
|--------------|----------------|------------|---------------|--------------------|
| 1 Bedroom    | 539            | 15         | \$1,225       | \$220,500          |
|              | 570            | 5          | \$1,275       | \$76,500           |
|              | 612            | 5          | \$1,325       | \$79,500           |
|              | 618            | 10         | \$1,325       | \$159,000          |
| 2 Bedroom    | 785            | 11         | \$1,800       | \$237,600          |
| 3 Bedroom    | 1,008          | 1          | \$2,150       | \$25,800           |
|              | 1,046          | 15         | \$2,175       | \$391,500          |
|              | 1,156          | 1          | \$2,375       | \$28,500           |
| 4 Bedroom    | 1,418          | 1          | \$2,700       | \$32,400           |
| <b>Total</b> |                | <b>64</b>  |               | <b>\$1,251,300</b> |

To assess market potential, HYI will target three bedroom market rentals first. If it appears that the market is receptive to these rents, HYI will have flexibility to adjust the rental plan to offer some of the units with market potential at subsidized rents, increasing the number of low income households that could be housed from the Region's subsidized housing waiting list.

In the event that market rents cannot be fully achieved, the mix of affordable units will be assessed and adjusted as needed to ensure the building generates enough revenue to cover costs.

## Local Impact

The development of Woodbridge Lane will provide 162 purpose built rental units in the City of Vaughan, of which 60% to 70% will have subsidized rents.

## Conclusion

Woodbridge Lane presents an opportunity to charge higher rent for market units to meet revenue targets, offer subsidized rents to households on the Region's subsidized housing waiting list.

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For more information on this report, please contact Kerry Hobbs, (A) General Manager, Housing Services at 1-877-464-9675 ext. 72071. Accessible formats or communication supports are available upon request.

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