ATTACHMENT #3

CONSIDERATIONS FOR RENT INCREASES ON MARKET RENTAL UNITS

The table below outlines three options reviewed by staff as it relates to implementing rent control on Housing Now Initiative sites.

Table 1: Considerations for Market Rental Units on Housing Now sites

Option Considered	Potential Implications for Proponents	Potential Implications for the City	Potential Implications for Renters
OPTION #1 **Existing Context/Rent de-control (i.e. no limit on annual rent increases in new market rental units)**	May garner greatest level of interest to build new rental housing from both traditional and non-traditional rental developers due to highest potential return on investment. Provides maximum ability for landlords to manage capital repairs and operating expenses.	May provide greatest potential for City to attract third-party capital towards scaling up the supply of purpose-built rental housing. No administrative oversight required by the City - rent increase issues directly dealt with by Province in accordance with Residential Tenancies Act, 2006.	Assuming an average rent of $2,665/month for a two-bedroom unit, and an annual increase in line with the 2019 average rent rise in Toronto (7.04%), this would result in the rent increasing by approx. $188/month to $2,853/month in 2020 and approx. $201/month to $3,054/month in 2021. No limit on annual rent increases provides very limited housing security for renters as rents continue to rise faster than incomes. Greatest potential for unaffordable/unreasonable rent increases and economic evictions. Highest potential for good quality, well-maintained buildings.

Option Considered	Potential Implications for Proponents	Potential Implications for the City	Potential Implications for Renters
OPTION #2 **City restricts increases to Provincial Guideline + 2% (this would 4.2% in 2020) as maximum limit** **City negotiates restrictions on annual rent increases with proponents based on site-specific project economics (target of provincial Guideline only – and not to exceed Provincial Guideline + 2%)**	Maintains interest in building new rental housing from both traditional and non-traditional rental developers. Provides flexibility for landlords to manage capital costs and maintain buildings in good condition.	Reasonable potential for City to attract third-party capital towards scaling up the supply of purpose-built rental housing. Provides staff with flexibility to adjust program based on site-specific conditions (e.g. cost to develop, local market conditions, etc.). Limited negative impact expected on the affordable rental housing delivery (i.e. length, depth and quantum) and no anticipated requirement for additional financial incentives from the City. Administrative oversight of annual rental increases required by the City.	Assuming an average rent of $2,665/month for a two-bedroom unit, and the Provincial Guidelines stays at 2.2% then this would result in the rent increasing by approx. $112/month in to $2,777/month in 2020 and $117/month to $2,894/month in 2021. Predictable and more reasonable annual increases for renters thereby improving housing outcomes. Good quality housing for renters as landlord able to keep up with capital repairs and ongoing maintenance.

Option Considered	Potential Implications for Proponents	Potential Implications for the City	Potential Implications for Renters
OPTION #3 **City restricts to Provincial Guideline limit only (currently 2.2%)**	May limit interest in building new rental housing from both traditional and non-traditional rental developers at some Housing Now sites. Reduces flexibility for landlords to manage unexpected capital and operating expenses at Housing Now sites that have low returns.	Potential to reduce interest in development of City land at some sites (based on market response through the first two Housing Now Initiative site offerings) Potential need at some sites to: i) reduce affordability targets (i.e. number of units and affordability) to make some sites viable; or ii) City may need to provide additional financial incentives/assurances to proponents to make projects financially viable Administrative oversight of annual rental increases required by the City.	Assuming an average rent of $2,665/month for a two-bedroom unit, and Guidelines stays at 2.2%, then this would result in the rent increasing by approx. $59/month to $2,724/month in 2020 and $60/month to $2,784/month in 2021. Greatest level of protection and economic certainty for renters. Potential long-term maintenance issues if rents are inadequate to cover future capital repairs and ongoing maintenance costs.

Note: The rent increase guideline is based on the Ontario Consumer Price Index (CPI), which is calculated monthly by Statistics Canada. By law, the rent increase guideline cannot be more than 2.5 per cent, even if the CPI increase is higher.

The above has been informed through the market offering process for the first two Housing Now sites and reflects feedback from the non-profit and private sector developers and intended future operators.

The overall sentiment from proponents is that the Housing Now Initiative provides a unique opportunity to increase the supply of affordable and market housing across the city, by leveraging the value of City-owned land and Open Door incentives. However, at some sites, the proportion of affordable rental homes (and level of affordability) plus City-identified requirements could present a challenging financial situation to both develop and operate buildings under the existing program model. Flexibility to assess and consider each site on an individual basis was recommended.