

Response to Including New Approval Conditions for Rental Demolition Applications – Supplementary Report

Date: April 12, 2024

To: City Council

From: Interim Chief Planner and Executive Director, City Planning

Ward: All

SUMMARY

This Supplementary Report responds to Planning and Housing Committee's direction for City Planning to review the reliability of using Canada Mortgage and Housing Corporation (CMHC) data on average rents for newer (2015+) purpose-built rental units to calculate rent gap assistance, which is secured as part of Rental Housing Demolition applications.

Staff recommend using CMHC data for newer purpose-built rental units to calculate rent gap assistance. This approach is more reflective of current rental market conditions and ensures that tenants have access to a larger number of interim rental units during the displacement period.

Staff will monitor this approach to ensure it continues to appropriately reflect current rental market conditions.

RECOMMENDATIONS

The Interim Chief Planner and Executive Director, City Planning recommends that:

1. City Council direct the Chief Planner and Executive Director, City Planning to use Canada Mortgage and Housing Corporation data on Private Apartment Average Rents, by Year of Construction and Bedroom Type – Toronto census metropolitan area (CMA) for purpose-built rental buildings constructed in 2015+, by available zones, when calculating rent gap assistance for Rental Housing Demolition applications.
2. City Council request the Chief Planner and Executive Director, City Planning to review impacts associated with the use of average market rents for 2015+ rental buildings and report to Planning and Housing Committee in the first quarter of 2025 with an evaluation of this approach.

FINANCIAL IMPACT

The City Planning Division confirms that there are no financial implications resulting from the recommendations included in this report in the current budget year or in future years.

DECISION HISTORY

On April 5, 2024, Planning and Housing Committee adopted PH11.10 - Response to Including New Approval Conditions for Rental Demolition Applications. The item was amended to direct City Planning to review the use of CMHC data on Private Apartment Average Rents, by Year of Construction and Bedroom Type for purpose-built rental buildings constructed in 2015+ to calculate rent gap assistance and report directly to the April 17, 18 and 19 City Council meeting on the reliability of such data and how it can be immediately implemented for all active Rental Housing Demolition applications. <https://secure.toronto.ca/council/agenda-item.do?item=2024.PH11.10>

COMMENTS

Official Plan Tenant Assistance Policy Framework

Official Plan Policy 3.2.1.6.b) requires, among other matters including replacement rental housing, the following be provided when six or more rental units are proposed to be demolished:

- iii. an acceptable tenant relocation and assistance plan addressing the right to return to occupy one of the replacement units at similar rents, the provision of alternative accommodation at similar rents, and other assistance to lessen hardship, or

Standard Tenant Assistance Approaches

Under the City's standard practice, the Official Plan requirement for "the provision of alternative accommodation at similar rents" is met through one of three approaches:

1. Constructing the replacement rental housing before demolishing the existing rental housing to allow tenants to move directly into the replacement housing, with no need for alternative accommodation.
2. The provision of appropriate interim housing, satisfactory to tenants, at rents similar to tenants' current rents. Under this approach, an owner would secure alternative rental units within their existing rental housing portfolio or in partnership with another rental housing provider to allow tenants to continue living in stable rental housing without increased housing costs during the construction period.

3. The provision of financial compensation in the form of rent gap assistance. This approach provides financial support to assist tenants in paying market rents during the displacement period. Under this approach, tenants are also provided with a longer notice period, and access to a leasing agent to help tenants find appropriate alternative accommodation. Tenants are responsible for finding their own alternative accommodation but are given financial supports to assist them in securing appropriate housing.

The majority of owners elect to use the third approach (rent gap assistance) to provide alternative accommodation.

Existing Approach for Calculating Rent Gap Assistance

Rent gap assistance is calculated as the difference between the rent paid by a tenant on the date their tenancy is terminated and 'asking rents' for purpose-built rental units. The City has relied on the most recent average rent for vacant private rental apartments by unit type in CMHC's annual Rental Market Survey as a proxy for determining asking rents. Where available, CMHC zone level data is used so that the rent gap is reflective of local rental market conditions.

The rent gap is provided as a lump sum payment at the time a tenant moves out of their unit and is calculated to cover the entire displacement period and is not tied to a tenant's relocation decision. The CMHC vacant private apartment rents are subsequently indexed by the City to account for changes in market rents between the date the Rental Market Survey was conducted, and the date tenants are required to move out of their rental unit.

Staff originally adopted the use of average rent for vacant units as the CMHC rental market report indicates that the average rent of vacant units *"represents rent levels in both new and existing structures for units which the respondent has identified as vacant. This is also referred to as "asking" rent, that is, the rent the owner or property manager is asking for the unit"*. The use of average rent for vacant units has generally represented a reasonable like-for-like comparison of the rental housing proposed for demolition when determining comparable rents for the purpose of rent gap assistance.

Issues Identified with the Current Rent Gap Approach

In practice, it can be difficult for tenants to find and secure like-for-like rental housing, particularly in the immediate vicinity of their current apartment given the low vacancy rate in the rental market, and the increasing number and scale of rental housing demolition applications. As many tenants work in the area and rely on local services and amenities such as medical professionals, schools and transportation options, staying in the local area is consistently identified as a key priority for tenants.

Beyond the challenge in tenants being able to find and secure like-for-like alternative housing in their existing neighbourhood, the 2023 Rental Market Survey reported vacant private apartment rents that are inconsistent with past rental market surveys and in some cases do not align with broader rental market trends.

For example, in Zone 1 – Toronto (Central), rents for vacant studio apartments are reported at \$1,443, while occupied studio units are \$1,647. At a city-wide level, CMHC reported rents for vacant studio units at \$1,425, again lower than the average rent for an occupied studio unit of \$1,427. Similar inconsistencies were identified in other zones. Generally, given the application of rent-control in Ontario and high demand for rental housing, vacant rents should be higher than occupied rents. Tenants have expressed concern regarding the availability of interim units at the reported rents across all unit types and have indicated the rent gap assistance will not cover their housing costs during the displacement period.

City Planning staff met with CMHC to discuss the inconsistencies and data suppression within the 2023 Rental Market Survey. CMHC noted the sample size of surveyed units has been reduced by approximately 30% since last year's survey but did not believe this reduction would negatively impact data quality. This change may have resulted in variability and suppression of data at more granular scales.

CMHC also confirmed they do not remove outlier data from their dataset, such as older buildings with lower rents that are not comparable to the existing rental housing proposed for demolition or units with very high rents. This can lead to variability of rents based on the specific rents sampled each year.

After meeting with CMHC and conducting further review of the 2023 Rental Market Survey, staff recommend that the use of average rent for vacant private rental apartments by unit type at either the zone level or city-wide level be discontinued to calculate rent gap assistance. This is primarily due to data quality issues leading to concerns that the data is not reflective of local market conditions given the low vacancy rate and resulting low availability of vacant units for CMHC to survey.

Proposed Approach for Calculating Rent Gap Assistance

Staff have reviewed the use of “newer rental unit” apartment data (CMHC data on Private Apartment Average Rents, by Year of Construction and Bedroom Type for purpose-built rental buildings constructed in 2015+) and recommend using this data to calculate rent gap assistance moving forward.

Newer rental unit data is based on the primary rental market and published at three geographic scales: Former City of Toronto (Zones 1-4), Rest of City of Toronto (Zones 5-17), and City of Toronto (Zone 1-17). If this approach is adopted, staff recommend using data for Zones 1-4 or for Zones 5-17, based on the location of the project to ensure that rent gaps are more reflective of local conditions. When calculating rent gap assistance, staff will index the CMHC rents based on historical changes in city-wide average market rents over the past 10 years.

Table 1: CMHC data on Private Apartment Average Rents, by Year of Construction and Bedroom Type for purpose-built rental buildings constructed in 2015+

CMHC Sub-Area	Studio	One-bedroom	Two-bedroom	Three-bedroom
Toronto-Former City (Zones 1-4)	\$2,225	\$2,568	\$3,418	\$4,165
Rest of Toronto (Zones 5-17)	\$2,031	\$2,340	\$2,995	suppressed by CMHC
Toronto (Zones 1-17)	\$2,188	\$2,520	\$3,267	\$3,923

Based on staff’s review of the past five CMHC Rental Market Surveys, there are benefits of using newer rental unit data to calculate rent gap assistance:

- The data is based on consistent data set year-over-year, where the data set for vacant units was variable on an annual basis (i.e., the number and location of vacant units fluctuates month to month and year to year).
- The data is generally reflective of asking rents in the market as it is based on recently constructed units without long term tenants.
- In the 2023 CMHC survey, vacancy rates for newer rental units exceed 3% for all unit types, indicating availability of these units in the current rental market.

Staff also reviewed other municipal approaches to tenant compensation for tenants impacted by rental demolition applications and noted the use of newer rental market data is consistent with how financial compensation is calculated in the Broadway Plan area within the City of Vancouver.

City Planning has heard concerns from the development industry that tenants are unable to move out during the six-month notice period, which can cause delay for development projects. By using newer rental unit data to calculate rent gap assistance, tenants will be able to afford a wider range of housing options during the displacement period. This will make it easier for secure interim housing, and for owners to get vacant possession and advance construction of replacement housing. This will also help lessen the short-term impacts of demolition on demand for low-end-of-market units within a constrained rental market.

Applicants will continue to have the option to secure suitable alternative rental housing for tenants during the displacement period or deliver replacement rental housing in advance of demolition as alternative approaches to lessening tenant hardship.

Next Steps

Staff will continue to consult with all stakeholders, including the development industry and tenant advocates on rental replacement matters and will publish updated

implementation practices in early 2025. Through this work, staff will undertake ongoing review and evaluation of the use of 2015+ data to ensure the approach best responds to local market conditions.

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SIGNATURE

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ATTACHMENT

Attachment 1: CMHC Rental Market Survey Zone Map