Minutes - Executive Policy Committee – June 15, 2011

Minute No. 336
Report - Standing Policy Committee on Property and Development – June 7, 2011

Item No. 1 Apartment to Condominium Conversions

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

The Executive Policy Committee concurred in the recommendation of the Standing Policy Committee on Property and Development and submits the following to Council:

1. That the Winnipeg Public Service be directed to review the City's existing secondary suite zoning regulations and recommend changes to encourage their development and report back to Council in six months.

2. That the Winnipeg Public Service include affordable housing as a key component to the Complete Communities Checklist that is being proposed in OurWinnipeg as part of the future development approval process.

3. That the City endorse recommendations by the Federation of Canadian Municipalities to the Federal Government for stimulating new rental construction by:

    A. Examining and revising current federal tax policies to remove disincentives to rental developers and replace with incentives; and

    B. Revising current federal tax legislation to permit deferral of capital gains and CCA recapture if existing property owners reinvest proceeds.

4. That the Provincial Government be requested to make changes to The Condominium Act which would require a maintenance reserve fund study be completed for each condominium conversion project, and that:

    A. A summary of this study, including the recommended balance for the reserve fund, be made available to prospective buyers as required disclosure, and,

    B. In the case of condominium conversions, a requirement be established for the proponent of the conversion project to fund (seed) the maintenance reserve of the condominium corporation with this recommended amount in advance of condominium units being sold.

5. That Appendix A be received as information.

6. That the Proper Officers of the City be authorized to do all things necessary to implement the intent of the foregoing.

Minutes - Executive Policy Committee – June 15, 2011

Report - Standing Policy Committee on Property and Development – June 7, 2011

DECISION MAKING HISTORY:

Moved by Councillor Browaty,

That the recommendation of the Standing Policy Committee on Property and Development be concurred in and forwarded to Council.

Carried

STANDING COMMITTEE RECOMMENDATION:

On June 7, 2011, the Standing Policy Committee on Property and Development concurred in the recommendation of the Winnipeg Public Service, as amended, namely:

- Delete Recommendation 5. in its entirety and renumber the remaining recommendation accordingly,

and forwarded to the Executive Policy Committee and Council.

COUNCIL DECISION:

On May 25, 2011, Council granted an additional extension of time of 30 days to enable the Winnipeg Public Service to report back on the issue of apartment to Condominium Conversions, including a range of strategies to address the shortage of affordable rental accommodations in the City and consultation with stakeholders including the Province of Manitoba.

On March 23, 2011, Council granted an additional extension of time of 60 days to enable the Winnipeg Public Service to report back on the issue of apartment to Condominium Conversions, including a range of strategies to address the shortage of affordable rental accommodations in the City and consultation with stakeholders including the Province of Manitoba.

On December 15, 2010, Council granted an extension of time of 90 days to enable the Winnipeg Public Service to report back on the issue of apartment to Condominium Conversions, including a range of strategies to address the shortage of affordable rental accommodations in the City and consultation with stakeholders including the Province of Manitoba.

Minutes - Executive Policy Committee – June 15, 2011

Report - Standing Policy Committee on Property and Development – June 7, 2011

DECISION MAKING HISTORY (continued):

COUNCIL DECISION (continued):

On May 19, 2010, Council passed the following resolution:

WHEREAS the City of Winnipeg is committed to affordable housing;

AND WHEREAS the City of Winnipeg has an extremely low vacancy rate that makes it difficult for many Winnipeggers to find affordable housing;

AND WHEREAS the City of Winnipeg currently does not address apartment to condominium conversions and its impact on vacancy rates;

AND WHEREAS the cities of Edmonton, Regina and Saskatoon have condominium conversion policies which regulate the creation of condominium properties;

AND WHEREAS the cities of Regina and Saskatoon have condominium conversion policies which protect minimum vacancy rates;
AND WHEREAS the City of Toronto gives opportunity for tenants to address the conversion of their buildings to condominiums through the Ontario Municipal Board and Tenant Support Grants Program;

THEREFORE BE IT RESOLVED THAT the City of Winnipeg Public Service be requested to report back to Council in 120 days with a report on the issue including:

(i) consideration of a range of strategies to address the shortage of affordable rental accommodations in the City and consultation with stakeholders including the Province of Manitoba.

ADMINISTRATIVE REPORT

Title: **Municipal Strategies to Promote Affordable Rental Housing Availability**

Critical Path: **Standing Policy Committee on Property and Development, Executive Policy Committee, Council**

AUTHORIZATION

Author	Department Head	CFO	CAO
S. Dueck	D. Joshi	N/A	P Sheegl A/CAO

RECOMMENDATIONS

1. That the Public Service reviews the City's existing secondary suite zoning regulations and recommend changes to encourage their development and report back to Council in 6 months.
2. That the Public Service include affordable housing as a key component to the *Complete Communities Checklist* that is being proposed in OurWinnipeg as part of the future development approval process.
3. That the City endorse recommendations by the Federation of Canadian Municipalities (FCM) to the Federal Government[1] for stimulating new rental construction by:
   a) Examining and revising current federal tax policies to remove disincentives to rental developers and replace with incentives; and
   b) Revising current federal tax legislation to permit deferral of capital gains and CCA recapture if existing property owners reinvest proceeds.
4. That Council recommend to the Provincial Government to make changes to the Condominium Act which would require a maintenance reserve fund study be completed for each condominium conversion project, and that:
   a) a summary of this study, including the recommended balance for the reserve fund, be made available to prospective buyers as required disclosure, and,
   b) in the case of condominium conversions, a requirement be established for the proponent of the conversion project to fund (seed) the maintenance reserve of the condominium corporation with this recommended amount in advance of condominium units being sold.
5. That the Public Service investigates the possibility of developing a down-payment assistance program for first-time home buyers to help create availability of existing rental units.
6. That the attached report (Appendix A) be received as information.

[1] See FCM's National Action Plan on Housing and Homelessness, 5th priority. Summarized in Appendix B.

REASON FOR THE REPORT

On May 19, 2010, Council passed the following motion:

THEREFORE BE IT RESOLVED THAT the City of Winnipeg Public Service be requested to report back to Council in 120 days with a report on the issue including:

(i) consideration of a range of strategies to address the shortage of affordable rental accommodations in the City and consultation with stakeholders including the Province of Manitoba

IMPLICATIONS OF THE RECOMMENDATIONS

Background

Affordable rental housing is only one segment of housing represented by a continuum of housing choices. Availability of choice at all levels on the continuum is critical to a healthy housing market, and blockage at any point along this continuum affects housing demand at all other points.

Although the erosion of residential rental housing stock is a national issue, this issue is particularly significant in Winnipeg, where the apartment vacancy rate is among the lowest of major markets in Canada. Winnipeg's vacancy rate is currently hovering at approximately 0.8%, and it has been at or below 2% since 2000. Moreover, Winnipeg's apartment vacancy rate has been less than 1.5% in all but three years over the last decade.

While new construction does help to add to the supply of rental housing overall, losses to supply are occurring in the low-to-modest rent ranges as older buildings (of poorest quality and lowest rent) are lost to obsolescence (building vacancy), conversion to non-residential use, demolition and changes to tenure (conversion of rental apartments to condominium). In general, these losses contribute not only to vacancy pressures in the rental market, but add particular pressure to rising average rents as existing buildings, with units renting at levels below those of new construction, are being dropped from the market.

Winnipeg's current housing environment

Appendix C contains the article: "Must halt the current rental crisis" taken from the Winnipeg Real Estate News, August 20, 2010 which summarizes the affordable rental situation in Manitoba.

Increasing population has been a factor in keeping vacancy rates low in Winnipeg. Another factor is the contraction of Winnipeg's inventory of rental units. In 1991 there were 57,881 rental units in Winnipeg, but by 2008 that number shrank to 52,339, a decline of almost 10%. Much of this decline occurred during the 1990's when condo conversions were averaging 500 units per year and there was very little new construction. The trend towards the conversion of units to condominium tenure has slowed in recent years, but even a modest amount of conversions can still have an impact on the market. New construction and the return of renovated units has

increased the amount of additions to the rental universe in the last few years to the point where 2009 saw a net increase of over 750 units, bringing the rental market back up to 53,154 units.

Renters, however, experience a higher incidence of core housing need with 23.9% of all renter households in the Winnipeg CMA being in this category, virtually unchanged since 2001.

The Provincial Government has consistently funded new affordable housing units each year, primarily through not-for-profit housing providers. These are units that meet the standard of 'median market rent[2]' (MMR). A number of these units are additionally identified as 'rent geared to income' (RGI) with additional funding allocated to lower rents as required by the tenants' incomes.

In 2009, the Province committed to the creation of 1,500 new affordable housing units over a five-year period. Additionally, in 2010, the Province announced $1.4 M of funding for a program that grants up to 50% of the costs for the development of secondary suites in existing homes. However, even with the addition of these units, the supply of available affordable units continues to lose ground to the demand in an alarming fashion.

Removing impediments to new rental construction: Changing federal tax treatment and endorsing FCM recommendations

Construction of rental market units has not returned to levels of the 1970's and 1980's. This is a phenomenon that is not unique to Winnipeg as rental construction has slowed across the country since this period.

One important factor in the decline of rental housing starts is the changing tax treatment of rental housing investment under the federal tax regime. A Table in section 3.1 of Appendix A summarizes some of the changes and their effects. The Federation of Canadian Municipalities has identified in its National Action Plan on Housing and Homelessness a number of strategies to address the issue of increasing the number of rental units, including lobbying the Federal Government for changes to its tax policies, and these should be supported by the City. (The complete "Priority 5" indicated in the FCM report is contained in Appendix B.)

Protecting and rebuilding residential rental stock: Recommending changes to provincial legislation to require a maintenance reserve fund to be funded prior to permitting a condominium conversion

Due to recent consistently low vacancy rates, affordable housing advocates have been calling for the regulation of condominium conversion to slow the erosion of the low to mid-range rental housing stock. Specifically, there have been calls to enact controls that some jurisdictions have in force which place a moratorium on the conversion of existing rental units to condominiums during periods when vacancy rates are low.

Converting existing rental units to condominium units does contribute to the erosion of the affordable rental housing supply, but they also contribute to the supply of affordable ownership housing as these units are generally moderately priced. Conversions can also lead to a

[2] The CMHC currently identifies median market rents for Winnipeg to be $625/month for 1 bedroom and $863/month for 2 bedroom units.

situation of “buyer beware” where a landlord facing a substantial amount of deferred maintenance may opt to sell off units as condominiums rather than enter into a significant rehabilitation scheme and apply for increased, ‘above guideline’ increases in rents as regulated by the Residential Tenancies Act. If maintenance issues are not dealt with prior to sale, and if a proper maintenance reserve is not established through the conversion process, new owners may later be faced with large financial liabilities relating to not only their own unit but for the common elements as well.

Consumer protection measures such as inspection reports, estimates and requirements for minimum reserves could help to ensure that conversion projects are fiscally responsible. The Provincial Government has responsibility and jurisdiction for consumer protection.

Policy Consideration 1. Converting existing rental units to condominium units does contribute to the erosion of the affordable rental housing supply, but they also contribute to the supply of affordable ownership housing as these units are generally moderately priced.

Policy Consideration 2. **I**t is likely that even if condominium conversions were restricted, the loss of low to mid-range rental stock would still occur in many cases due to these rent increases arising from reinvestment in lower-rent units. That is, tenant displacement, or the loss of a low-rent apartment by a tenant, is often due to the reinvestment in building up-grades (which usually occurs prior to a condominium conversion) and the resulting economic displacement arising from permissible rent increases associated with those capital upgrades, and not specifically due to the subsequent conversion to condominium.

Policy Consideration 3. The current legislation concerning the conversion of an apartment to condominium allows for this conversion to occur without an independent reserve fund study to establish the balance that a condominium corporation maintenance reserve fund should have to reflect the physical depreciation and cost of repair of the building.

The Provincial Government, in their recently published Discussion Paper on the Proposed New Condominium Act[3] presents the concept of a requirement for a periodic independent study of the adequacy of each condominium corporation’s maintenance reserve as well as its disclosure to future potential buyers of each condominium. However, the discussion paper does not go so far as to propose that, at least in the case of condominium conversions, this reserve fund be seeded to reflect the maintenance liabilities that this study may establish.

It can be assumed that if provincial regulations guiding both the condominium conversion process and consumer protection issues arising from this process were tightened, as they have been in a number of other jurisdictions, the financial incentive for a number of conversion projects would be considerably reduced and would result in fewer rental units being removed from the market.

Policy Consideration 4. In the short-term such legislation would likely curtail some low-rent units being lost to the rental market. However, such legislation would likely result in some rental complexes facing the end of their life-span not receiving necessary reinvestment and being left to deteriorate until safety and property standards necessitate that the buildings be vacated. Also, this may result in creating an additional disincentive for the construction of new rental units.

[3] http://www.gov.mb.ca/fs/condo-act/condominium_act_consultation.pdf

Condominium Conversion Policies in Other Jurisdictions

Each province and its municipalities reflect differences in approach and jurisdictional authority on the issue of condominium conversions. Some municipalities such as Vancouver, Victoria, Saskatoon, Regina, Ottawa, and Toronto have jurisdiction regarding the control of condominium conversions and regulate them to varying degrees.

In other jurisdictions such as the Province of Alberta, the Province assumes the authority and regulatory administration of condominium conversions.

Jurisdiction and Authority for Condominium Conversions in Winnipeg

Much like in Alberta, in Manitoba the legislative jurisdiction for the regulation of condominium conversions lies within the jurisdiction of the Province of Manitoba and not the City of Winnipeg. There would be no mechanism available to the City of Winnipeg, under its authority within the City of Winnipeg Charter Act, to regulate or curtail condominium conversions.

Likewise, issues related to consumer protection connected to condominium conversions as reviewed above are under the jurisdictional authority of the Province.

The Province, of course, could initiate changes to the Winnipeg Charter to allow for the City to regulate condominium conversions. However, this would appear to represent unnecessary 'red tape' and bureaucracy, forcing property owners to undergo two steps in this process. Additionally, during extended periods of high rental vacancy rates, developers would be forced to incur fees and an application process only to receive a 'rubber stamp' approval to proceed.

Administratively, the Province has suggested that the municipality may represent an appropriate level to manage this regulatory control, as it better reflects community concerns. However, this representation could also be managed by simply ensuring that the Province takes municipal direction regarding when to allow or prohibit condominium conversions. In sum, it would appear unnecessary to request changes to the Winnipeg Charter if controls can effectively be managed through the existing Provincial process.

Promoting and incenting affordable rental housing

Secondary Suites

Secondary suites are seen in many jurisdictions as a means to providing affordable rental housing within existing single-family neighbourhoods. A revision of current zoning regulations could streamline their approval. The Province of Manitoba has recently announced a Secondary Suite program that would offer a monetary incentive to participating home-owners.

OurWinnipeg and the Complete Communities Checklist

Through a year-long consultation process that resulted in a new plan to guide Winnipeg's development over the next 25 years, residents have expressed a desire for higher-density mixed-use development in centres and corridors. Additionally, residents identified a desire for development of affordable housing throughout the city.

These desires became apparent in many discussions, and are reflected in the resulting OurWinnipeg and Complete Communities documents. As part of the implementation of the Complete Communities Direction Strategy, a checklist will be developed as a non-regulatory evaluation tool as a guide to Complete Communities objectives. As part of the application review process, this checklist will assist in assessing the extent to which a proposed development aligns with policy objectives. Affordable rental housing could be included as a key consideration in this checklist where significant policy alignment may enable a development proposal to move directly into a more streamlined approval process and provide a basis for the alignment of other incentives.

Encouraging home ownership

Some municipalities such as Saskatoon have developed down-payment assistance programs for first-time home buyers as a key component a larger strategy to address availability of affordable rental units. Foundational to the concept is the logic that a first-time home buyer that migrates from a rental unit creates a vacancy to the rental stock. Also, it is likely less expensive to create this down-payment incentive than to subsidize the capital construction of new rental units. The Public Service should be directed to investigate the opportunity to develop such a program and possible sources of funding.

Direct incentives to develop new units through incremental tax financed grants

The Public Service is currently in negotiation with the Province regarding a continuation of the expired Neighbourhood Multiple Family / Mixed-Use Building Grant Program, but with the inclusion of the provincial education property taxes. The expired program conditionally approved funding for about 800 new rental units outside the Downtown during a 3-year period.

HISTORY

Partnership with Province on Tax-related Financial Incentives regarding Multiple Family Housing

The City has employed a number of generations of tax-related financial incentive programs to encourage multiple family housing and increased residential development. The 'second generation' of programs included the Neighbourhood Multiple Family / Mixed-Use Building Grant Program (NMFMUBGP) which offered up to 10 years of incremental municipal taxes for eligible projects in eligible areas outside the Downtown. Approximately $16.7M in funding has been conditionally approved for these projects.

The City and Province are currently cooperating in a new, third generation program within the Downtown called the Downtown Residential Development Grant Program (DTRDGP). Each government has committed $10M of funding to this program.

Since the expiration of the NMFMUBGP in May, 2010, the Public Service has been given the authority to pursue negotiations with the Province for the development of a joint program external to the Downtown. These negotiations are on-going. Assuming that a joint program is negotiated similar in concept to the framework established in the DTRDGP, these incentives would contribute to the development of additional rental units in Winnipeg.

Call to Action

On January 27, 2010 Council endorsed the 'Call to Action' of OurWinnipeg. One of the action items was to 'explore affordable housing actions with the Province of Manitoba'. Specifically the mandate was to work in partnership with the Province of Manitoba to investigate a citywide pilot grant program that would support the creation of affordable housing units as part of larger developments by providing a property tax incentive to developers.

FINANCIAL IMPACT

COMMENTS:

The recommendations contained in this report inlcude that 1) the Public Service review the City's existing secondary suite zoning regulations and recommend changes to encourage their development and report back to Council in 6 months, 2) the Public Service include affordable housing as a key component to the Complete Communities Checklist that is being proposed in OurWinnipeg as part of the future development approval process, 3) the City endorse recommendations by the Federation of Canadian Municipalities (FCM) to the Federal Government for stimulating new rental construction by a) Examining and revising current federal tax policies to remove disincentives to rental developers and replace with incentives; and b) Revising current federal tax legislation to permit deferral of capital gains and CCA recapture if existing property owners reinvest proceeds, 4) Council recommend to the Provincial Government to make changes to the Condominium Act which would require a maintenance reserve fund study be completed for each condominium conversion project, and that a) a summary of this study, including the recommended

balance for the reserve fund, be made available to prospective buyers as required disclosure, and b) in the case of condominium conversions, a requirement be established for the proponent of the conversion project to fund (seed) the maintenance reserve of the condominium corporation with this recommended amount in advance of condominium units being sold, 5) the Public Service investigates the possibility of developing a down-payment assistance program for first-time home buyers to help create availability of existing rental units and that the attached report (Appendix A) be received as information. There are no financial implications associated with these recommendations.

"Original Signed By"
Mike McGinn, CA

CONSULTATION

In preparing this report there was consultation with:

Winnipeg Real Estate Board
Province of Manitoba – Housing and Community Development

SUBMITTED BY

Department: Planning, Property and Development
Division: Housing Development
Prepared by: Stan Dueck
Date: April 6, 2011
File No.

o:\reports directive\housing development\ris affordable rental.doc

APPENDIX A

Consideration of a range of strategies to address the shortage of affordable rental accommodation within the city of Winnipeg

1.0 Background

Choice of housing should be viewed as a continuum, ranging from absolute homelessness on one end to high-end owner-occupied single family dwellings at the other end. Households move along this continuum throughout their lives, often starting with affordable or low-income rental housing as they enter the market, and moving along the continuum as family structure and economic factors change. For example, an individual may start in a lower-cost apartment when they enter the market, move to a larger apartment as income and family grows, and eventually purchase a house or condominium according to their needs. They might then move to a larger housing unit as their family grows, and at some point they might downsize as the family matures and children move away.

Availability of choice at all levels on the continuum is critical to a healthy housing market. If blockage occurs at any point, housing demand is affected at all other points along that continuum. In other words, if mid-range market housing is not available, households will not move from lower-cost (affordable) housing into that market, and those affordable housing units will not then become available to households in need of affordable housing. Households occupying low-income housing units that wish to move into affordable but higher-cost housing will not have that choice, resulting is a shortage of housing at the lower end of the continuum. It is important to understand that the entire housing market must function freely if households are to occupy housing that is most appropriate to their needs. Availability of affordable housing is affected by the availability of housing at other levels along the continuum.

On the housing continuum there are two distinctions, the private market and the public/non-profit sector. While the public/non-profit sector has as its primary responsibility the provision of affordable housing, the bulk of housing in Canada is provided through the private market. Therefore, privately built rental housing plays a key role in the provision of affordable housing, this report will focus on the encouragement of new and the retention of private market supply of rental housing.

The erosion of residential rental housing stock is a national issue. As reported by the Federation of Canadian Municipalities, the number of occupied rental dwellings in Canada did not increase between the 2001 and 2006 Census counts, despite the construction of an estimated 90,000 new rental dwellings.

This issue is particularly significant in Winnipeg, where the apartment vacancy rate is among the lowest of major markets in Canada. Winnipeg's vacancy rate is currently hovering at approximately 0.8%, and it has been at or below 2% since 2000. Moreover, Winnipeg's apartment vacancy rate has been less than 1.5% in all but three years over the last decade.

While new construction does help to add to the supply of rental housing overall, losses to supply are occurring in the low-to-modest rent ranges as older buildings (of poorest quality and lowest rent) are lost to obsolescence (building vacancy), conversion to non-residential use, demolition

and changes to tenure (conversion of rental apartments to condominium). In general, these losses contribute not only to vacancy pressures in the rental market, but add particular pressure to rising average rents as existing buildings, renting at levels less than new construction, are being dropped from the market.

Identifying solutions to Winnipeg's chronic shortage of affordable rental housing requires a better understanding of why sufficient development is not occurring in this high-demand market. In short, any market seeking to attract investors must demonstrate conditions for favourable returns on investment. If those conditions are eroded, investors will simply look for other markets (housing or otherwise) that provide lower risk and higher returns. Market attractiveness must be restored if permanent solutions to Winnipeg's housing shortages are to be found.

Several factors have contributed to the erosion of Winnipeg's rental market in general, and to the erosion of affordable rental housing in particular. These factors include changes to the federal tax structure, rising construction costs, and provincial rent controls that impact market expectations. Impacts of these factors are exacerbated by a tight overall housing market due in part to limited land supply for new residential development. As a result, investors are seeking alternatives to continued operation of below-market rental units by accessing government funding for repairs or by converting those units to other forms of housing (e.g. condominium) in order to meet the current high market demand for homeownership opportunities.

2.0 Winnipeg's Current Housing Environment

Within the rental market, Winnipeg's vacancy rate currently rests at 0.8 percent and has been hovering in this range since 2001. Increasing population has been a factor in keeping vacancy rates low. Another factor is the contraction of Winnipeg's rental market universe. In 1991 there were 57,881 rental units in Winnipeg, but by 2008 that number shrank to 52,339, a decline of almost 10%. Much of this decline occurred during the 1990's when condo conversions were averaging 500 units per year and there was very little new construction. The trend towards the conversions of units to condominium tenure has slowed in recent years (the last 5 years have averaged 235 units / year), but even a modest amount of conversions can still have an impact on the market. New construction and the return of renovated units has increased the amount of additions to the rental universe in the last few years to the point where 2009 saw a net increase of over 750 units, bringing the rental market back up to 53,154 units. (2010 saw this number decline again back to 52,319 units, but the majority of removals were temporary due to renovation.)

An assessment of Winnipeg's housing market goes beyond simple availability. One must also consider whether available housing is appropriate, and one measure is an evaluation of households in core housing need. Canada Mortgage and Housing Corporation (CMHC) defines a household as being in core housing need if their current housing situation does not meet one or more standards of acceptability that being:

- Adequacy: does not require major repairs
- Suitability: has enough bedrooms for the size and make-up of the resident household
- Affordability: housing costs less than 30% of before tax household income.

According to the 2006 census 10.4% of all households in the Winnipeg CMA were considered to be in core housing need, this was a slight decrease from 10.8% in 2001. Renters, however,

experience a higher incidence of core housing need with 23.9% of all renter households in the Winnipeg CMA being in this category, virtually unchanged since 2001. Statistics on households in core housing need do not report on how many of these are currently living in market vs. non-market housing, however, one can assume that of the 20,900 renter households in core housing need, there is a proportion living in private rental accommodations.

3.0 Impediments to new rental construction

Construction of rental market units has not returned to levels of the 1970's and 1980's. This is a phenomenon that is not unique to Winnipeg as rental construction has slowed across the country since this period.

3.1 Federal

One important factor in the decline of rental housing starts is the changing tax treatment of rental housing investment under the Federal tax regime. The table below summarizes some of the changes and their effects:

Capital Cost Allowance	Capital Cost Allowance deductions allow the treatment of depreciation on a building as an expense for income tax purposes - and in most cases at a rate in excess of actual depreciation. The CCA claimed on the building is subject to recapture as income when the building is sold, if the sale price exceeds the depreciated value of the building. The use of CCA is attractive in that it can be viewed as an interest free loan until it is recaptured upon the sale of a building. Since 1981, only companies in the business of real estate can deduct CCA losses against other income; CCA losses can not be used by individuals and non real estate companies. Prior to tax reform in 1972, however, all investors in rental housing could deduct CCA from income from other sources. Now individuals investing in rental properties are limited to using CCA to offset income from the property itself - not other sources. Tax reform in 1972 also eliminated the ability to pool rental properties to avoid recapture of CCA at the sale of a building. This applied to both companies in the business of real estate as well as other investors in rental housing. In late 1974, the tax deductibility of CCA on new rental residential buildings from other sources of income was introduced on a temporary basis for individuals and companies not in the business of real estate. This was the Multiple Unit Residential Building (MURB) provision of the Income Tax Act. This resulted in a large number of syndications of new rental projects to investors wishing to take advantage of the MURB tax shelter.
Deductibility of Soft Costs	Soft costs are expenditures incurred by the owner of new rental property which are not related to the actual acquisition of the fixed assets (i.e. land, building and equipment). Allowable soft costs can be deducted from income from the project in calculating tax. At present, the allowable costs for all owners are landscaping, some site investigation costs and financing fees. For companies in the business of real estate, allowable costs also include promotion expenses, legal and accounting fees, mortgage fees, interest fees during construction and property taxes. Generally, other costs are required to be capitalized into the value of the building and depreciated over time. Currently, allowable costs can only be deducted in the period they relate to, not all upfront in the first year. Prior to 1979, soft costs could be deducted upfront in the first year, regardless of the period they related to. In 1981, the types of soft costs allowed were restricted for those not in the business of real estate. Previously, interest and property taxes during construction, architects' fees and building permits were allowed; now these must be capitalized into the value of the building and depreciated over time.
Treatment of Rental Losses	As a general rule, the losses on any rental property can be deducted from income from other sources in order to calculate income for tax purposes. Such losses could result from a situation where rental revenues are insufficient to cover the out-of-pocket

	expenses associated with the project (that is, the operating costs and mortgage payments) but not depreciation on the building (as discussed above in the CCA section). This has been an on-going disincentive that was put in place to discourage the "flipping" of real estate that occurred in the late 1970's and early 1980's. While the speculative element in the market has disappeared in today's low inflation environment, these provisions remain in place. In past years, this feature was of particular importance for new rental buildings, which often experienced negative cash flow in the early years of a project.
Treatment of Capital Gains	In calculating income for tax purposes, 50% of any capital gains from the sale of rental properties are included. Prior to tax reform in 1972, capital gains on rental properties were not taxable; following 1972, 50% of capital gains were included in income for tax purposes; this was increased to 66.67% in 1988 and to 75% in 1990, with the 2000 federal budget rolling back the percentage to 66.67% and the October 2000 mini budget rolling it back even farther to 50%. In 1985 a lifetime capital gains exemption for individuals was introduced. At the time, the intent was to gradually raise the limits from an initial $20,000 to $500,000 by 1990. The level, however, was capped at $100,000 in 1987 and ultimately removed in 1994. While in effect, this exemption encouraged small investors and increased the supply of non-purpose built rental housing (such as condominium apartments being rented out by their owner).
Designation of Rental Housing as a "Passive" Investment	A longstanding disincentive to investing in rental development is its designation as a "passive" investment in the *Income Tax Act*. While a hotel, motel or farm is considered an "active" small business corporation, rental housing is considered passive, the same as ownership of a stock or bond. As a result, rental properties are ineligible for the tax advantages enjoyed by active small businesses, such as a special low rate of tax provided by way of an annual tax credit, referred to as the small business deduction, generally available on active business income to a maximum of $200,000. Active small business corporations are also eligible for a total lifetime capital gains deduction of $500,000 and can defer payment on a capital gain if they buy another property for the same or similar business.

Source: Affordable Rental Housing Supply: The Dynamics of the Market and Recommendation for Encouraging New Supply, Housing Supply Working Group Interim Report, Ontario Ministry of Municipal Affairs and Housing, May 2001

At a national level several groups, including the Federation of Canadian Municipalities are recommending changes to the Federal tax regime where it pertains to its treatment of rental housing investment. In their recommendations for a National Action Plan on Housing and Homelessness, FCM proposes as its 5th Priority: Stimulating new rental construction and among its recommendations it includes the following:

- Examining and revising current federal tax policies to remove disincentives to rental developers and replace with incentives; and
- Revising current federal tax legislation to permit deferral of capital gains and CCA recapture if existing property owners reinvest proceeds.

3.2 Provincial

In addition to above barriers, rental housing developers cite rent controls as an additional disincentive to development in provinces where they are in place. Manitoba's rent control regulations exempt new construction for a period of 20 years and exemptions to the guideline can be applied for and are granted for capital reinvestments and upgrades to existing rental units. However, the existence of rent control in the province does provide the private sector with an additional negative factor (real or perceived) in their decision as to whether or not to invest in new rental housing construction. In particular, rental property developers are concerned that even if their higher-than-average rent units will be leased in periods of low vacancy, they will be

the first to be vacated in periods of high vacancy as the renters move to vacancies in rent–controlled units.

The FCM as part of its strategy to stimulate rental construction also calls for ensuring predictability, fairness and stability in rent regulation.

3.3 Municipal

There are few direct municipal barriers to the construction of rental housing in particular; however multiple-family development in general can face barriers such as finding and assembling appropriate land parcels. Where parcels are not already zoned for multiple-family development, the public hearing process can be lengthy and difficult to navigate, particularly if there is neighbourhood opposition.

Into the future, the new OurWinnipeg and its companion Complete Communities Direction Paper provide a policy framework to encourage densification and multiple-family development of all tenures and types.

4.0 Protecting and Rebuilding Residential Rental Stock

4.1 Condominium Conversions

Due to recent consistently low vacancy rates, affordable housing advocates have been calling for the regulation of condominium conversion to slow the erosion of the low to mid-range rental housing stock. Specifically, there have been calls to enact controls that some jurisdictions have in force which place a moratorium on the conversion of existing rental units to condominiums during periods when vacancy rates are low.

4.1.1 Policy Consideration 1.

Policy considerations regarding limiting condominium conversions are varied. First, conversions of existing rental units to condominium do contribute to the erosion of the affordable rental housing supply, but they also contribute to the supply of affordable ownership housing as these units are generally moderately priced. Closing down this source of new ownership units may help address one issue only to cause another.

4.1.2 Policy Consideration 2.

Converting rental units to condominium units is often associated with initial upgrades and investment to older buildings, particularly in neighbourhoods where market value based on demand for rental units has exceeded existing rent levels for the unit. In contrast for example, in distressed neighbourhoods, older rental stock is often not receiving the private investment necessary for basic up-grades, despite landlords' legal ability to pass on the cost of these up-grades to tenants by applying for above guideline increases to rent. That is, the market's lack of capacity to absorb higher than inflationary rate increases in some neighbourhoods results in a lack of basic re-investment in existing rental stock. However, in neighbourhoods characterized by stronger real estate demand, this re-investment is occurring and resulting in both above guideline increases in rent as well as conversions to condominiums.

In fact, what is often not understood or forgotten is that under Manitoba's current Condominium Act, in buildings being converted to condominiums, a tenant may continue to rent his/her apartment for a period equal to the length of time the tenant has been in continuous occupancy of any rental unit in the property (and/or a minimum of 2 years). In simple cases, therefore, tenants are given potentially many years of continued rental opportunity prior to their eviction as

a result of a condominium conversion. In some cases, however, the landlord will engage in building up-grades that are part of the conversion plan. Rents are often increased after the upgrades. Tenants are now granted the option to continue as renters in their units for the period equivalent to their previous occupancy, but at the higher rental rate. Where this new rent is now unaffordable, tenants are declining, thus freeing the unit to be sold as a condominium.

Therefore, the loss of a low-rent apartment to a tenant is often due specifically to the reinvestment in building up-grades and the resulting above guideline increase to rent, and not specifically the subsequent conversion to condominium. That is, many of these upgrades and the resulting economic displacement of tenants would occur even if condominium conversions were restricted.

4.1.3 Policy Consideration 3.

A third policy issue in the discussion of condominium conversions concerns the potential lack of adequate maintenance reserves by the condominium corporation in cases of conversions. Take, for example, a 20 year-old condominium corporation for a complex that was built as condominiums. In theory one would expect that either adequate maintenance would have been done on the common elements such as the building envelope, foundation, or heating and cooling systems to keep the property in good repair, or that the corporation's reserve funds would be adequate to reflect the depreciation and/or deferred maintenance of those components.

In the case of a condominium conversion however, despite certain upgrades that a developer may make prior to putting the units up for sale, it is likely that a similarly aged complex will not reflect an 'as new' state for each of these building elements. However, with no legal requirement to do so, it is equally unlikely that the condominium corporation will be established with a seeded capital reserve adequate to reflect the true depreciation or deferred maintenance of the building. Thus, while a buyer of a used condominium (or aged apartment newly converted to condominium) may establish a 'market price' based on the appearance, feature, location and quality of a physical condo unit, it is unlikely that this price reflects the results of a full analysis of the adequacy of the condo corporation's maintenance reserve. This can and has resulted in condominium owners (initial or subsequent) of condominium conversion units facing an unexpected requirement to contribute thousands of dollars in extraordinary contributions to the condo corporation to address these deficits. Those unable or unwilling to finance the extra contribution may end up selling their units at a loss reflecting this financial liability.

Manitoba's current condominium conversion regulations do not require an independent, certified building assessment, or contain a requirement to establish an adequate maintenance reserve equivalent to the liability established by this assessment. As such, in this legal environment, it can become extremely lucrative for a landlord facing a substantial amount of deferred maintenance to opt to sell off units as condominiums rather than enter into a rehabilitation scheme under the Residential Tenancies Act and then claim `buyer beware' when the reserve funds prove to be inadequate.

The Provincial Government, in their recently published Discussion Paper on the Proposed New Condominium Act[4] presents the concept of a requirement for a periodic independent study of the adequacy of each condominium corporation's maintenance reserve as well as its disclosure to future potential buyers of each condominium. However, the discussion paper does not go so

[4] http://www.gov.mb.ca/fs/condo-act/condominium_act_consultation.pdf

far as to propose that, at least in the case of condominium conversions, this reserve fund be seeded to reflect the maintenance liabilities that this study may establish.

It can be assumed that if provincial regulations guiding both the condominium conversion process and consumer protection issues arising from this process were tightened, as they have been in a number of other jurisdictions, the financial incentive for a number of conversion projects would be considerably reduced and would result in fewer rental units being removed from the market.

4.1.4 Policy Consideration 4.

A fourth policy issue regarding the suggestion to curtail condominium conversions during periods of low vacancy rates is one of short-term verses long-term gain. In the short-term such legislation would likely curtail some low-rent units being lost to the rental market. However, such legislation would likely result in two other consequences. First, there will be some rental complexes facing the end of their life-span in the absence of significant reinvestment. If the rental market forces and rent controls are not adequate to incent a landlord to engage in this reinvestment, the units may be left to deteriorate until safety and property standards necessitate that the buildings be vacated and thus also lost to the city's rental inventory. Secondly, such restrictions would effectively close one financial avenue currently available to owners of multiple family rental units, and would effectively devalue these assets. As such, the financial equation facing any potential developer of new rental units would also be affected, creating even less of an incentive to construct new rental units – something already identified as critical to addressing the low vacancy issue.

It should be noted that in response to concerns regarding tenants' ability to find alternate accommodation when any rehabilitation scheme (including those associated with condo conversions) is contemplated for their units, the Province has recently established additional measures to protect tenants in periods of low vacancy. If the vacancy rate is less than two percent, five months notice is now required instead of the current three months notice, and where the vacancy rate is between two and three percent, four months notice is required.

4.1.5 Condominium Conversion Policies in Other Jurisdictions

Each province and its municipalities reflect differences in approach and jurisdictional authority on the issue of condominium conversions.

<u>Vancouver BC</u>
The City of Vancouver is the approving authority for condominium conversion and will give favourable consideration where at least two-thirds of the households in the building have given their written consent and all tenants have been adequately respected in the conversion process. Where there is a zero percent vacancy rate an application may be denied unless the applicant provides for the replacement of the units taken off the market.

<u>Victoria BC</u>
Conversions of rental units to condominium are prohibited if the vacancy rate is less than four percent.

<u>Alberta</u>
Condominium conversions are administered by the Province, and tenants must be given one year's notice prior to conversion.

Saskatoon, Saskatchewan
When the vacancy rate is between 1.5% and 3.0% and the site contains more than 100 units, conversion is subject to Council review. Where the vacancy rate is below 1.5% no application shall be considered for approval unless the building has been vacant for 12 months or the owner obtains the consent of 75% of tenants.

Regina, Saskatchewan
Condominium conversion approval is subject to the vacancy rate for the area being higher than 3% or 75% of tenants do not object. These policies are currently under review.

Ottawa, Ontario
Conversions are not to be considered when the vacancy rate is less than three percent. Conversion of buildings containing five or more units is discouraged unless the vacancy rate of the structure has been above three percent for two years and the rental rate of units considered for conversion are higher than the average rent for the area.

Toronto, Ontario
Conversions are not approved unless units have rents that exceed the mid range or, in Council's opinion, the supply and availability of rental housing in the City has returned to a healthy state and is able to meet the housing requirements of current and future residents.

4.1.6 Jurisdiction and Authority for Condominium Conversions in Winnipeg

Much like in Alberta, the legislation that regulates condominium conversion lies within the jurisdiction of the Province of Manitoba and not the City of Winnipeg. There would be no mechanism available to the City of Winnipeg, under its authority within the City of Winnipeg Charter Act, to regulate or curtail condominium conversions. Zoning authority is ultimately a land-use issue and therefore tenure (ownership verses rental) is not, typically, relevant to that question.

Likewise, issues related to consumer protection connected to condominium conversions as reviewed above are under the jurisdictional authority of the Province.

4.2 Other Measures for Consideration

4.2.1 Secondary Suites

Secondary suites are seen in many jurisdictions as a means to providing affordable rental housing within existing neighbourhoods. A revision of current zoning regulations could streamline their approval and there are several reasons to support this change:

- OurWinnipeg, the City's *draft* new development plan, emphasizes infill development, maximizing existing infrastructure, compact urban form, multi-modal transportation and increased residential densities with safe, affordable housing.
    - The concept of allowing a wider range of secondary suites within our low-density residential housing stock acknowledges and responds to this objective.

- Neighbourhood Acceptance - The City of Winnipeg has allowed Secondary Suites to establish by way of Conditional Use since early 2008 when the new Zoning By-Law was adopted. The twelve applications processed for secondary suites in the past two years have not been met with any significant neighbourhood resistance.

- The Province of Manitoba has recently announced a Secondary Suite program that would offer a monetary incentive to participating home-owners:
    - The program expects most of the uptake will occur in Winnipeg. Some effort should be taken to align City of Winnipeg secondary suite regulations and the provincial program, where possible.

Currently, secondary suites are subject to development approval fees and a public hearing. In Winnipeg, secondary suites must also be located within a residential structure whereas the provincial incentive program is extended to detached secondary suites as well.

4.2.2 Encouraging home ownership

Some municipalities such as Saskatoon have developed down-payment assistance programs for first-time home buyers as a key component a larger strategy to address availability of affordable rental units. Foundational to the concept is the logic that a first-time home buyer that migrates from a rental unit creates a vacancy to the rental stock. Also, it is likely less expensive to create this down-payment incentive than to subsidize the capital construction of new rental units. The Public Service should be directed to investigate the opportunity to develop such a program and possible sources of funding.

4.2.3 Development in Centres and Corridors

Through a year-long consultation process that resulted in a new plan to guide Winnipeg's development over the next 25 years, residents have expressed a desire for higher-density mixed-use development in centres and corridors. Additionally, residents identified a desire for development of affordable housing throughout the city.

These desires became apparent in many discussions, and are reflected in the resulting OurWinnipeg and Complete Communities documents. Complete Communities Section 03–2c Regional Mixed Use Centres, Direction 2 states, "Address the need for new Regional Mixed Use Centres by supporting the development of mixed use, higher density residential, transit-supportive regional destinations." (Complete Communities, page 46). OurWinnipeg Section 01-4 Housing, Direction 3 states, "Establish partnerships with the private, not-for-profit and government sectors to provide affordable housing throughout the city, with a particular focus on locations near a variety of transportation options." (OurWinnipeg, page 56). With these statements in mind, the City has an opportunity through zoning and other means to encourage mixed-use development including affordable housing units in targeted centres and corridors.

4.2.4 Partnership with Province on Tax-related Financial Incentives regarding Multiple Family Housing

The City has employed a number of generations of tax-related financial incentive programs to encourage multiple family housing and increased residential development. The 'second generation' of programs included the Neighbourhood Multiple Family / Mixed-Use Building Grant Program (NMFMUBGP) which offered up to 10 years of incremental municipal taxes for eligible projects in eligible areas outside the Downtown. Approximately $16.7M in funding has been conditionally approved for these projects.

The City and Province are currently cooperating in a new, third generation program within the Downtown called the Downtown Residential Development Grant Program (DTRDGP). Each government has committed $10M of funding to this program.

Since the expiration of the NNFMUBGP in May, 2010, the Public Service has been given the authority to pursue negotiations with the Province for the development of a joint program external to the Downtown. These negotiations are on-going. Assuming that a joint program is negotiated similar in concept to the framework established in the DTRDGP, these incentives would contribute to the development of additional rental units in Winnipeg.

4.2.5 Complete Community Checklist

As part of the implementation of the Complete Communities Direction Strategy, a checklist will be developed as a non-regulatory evaluation tool as a guide to Complete Communities objectives. As part of the application review process, this checklist will assist in assessing the extent to which a proposed development aligns with policy objectives. Affordable rental housing could be included as a key consideration in this checklist where significant policy alignment may enable a development proposal to move directly into a more streamlined approval process and provide a basis for the alignment of other incentives.

4.2.6 Housing Reserve Fund

The City currently has a Housing Rehabilitation Investment Reserve which is used to fund housing-related projects and programs in five Housing Improvement Zones (HIZ) and the Major Improvement Areas, as well as Aboriginal Housing throughout the City. Over the past number of years, $1M per year has been allocated for the City's operating budget towards this reserve.

The current focus of the housing initiatives in the HIZ neighbourhoods is on neighbourhood revitalization and improvements to housing quality, and not specifically for affordable housing. Assuming that the City wished to support investment in developing affordable housing throughout the city, a specific program would have to be developed and a source of funding identified.

REFERENCES

Hulchanski, J. David, Housing Policy for Tomorrow's Cities, Canadian Policy Research Networks, 2002

Mulligan, Susan, An Examination of Rental and Social Housing in Winnipeg, Manitoba, The Public Interest Law Centre, Legal Aid Manitoba, 2008

Reinvestment in Real Property, Canadian Real Estate Association, 2008

Creating a Positive Climate for Rental Housing Development Through Tax and Mortgage Insurance Reforms, Housing Supply Working Group, Ontario Ministry of Municipal Affairs and Housing, 2002

Building from the Ground Up; Enhancing Affordable Housing in Canada, Conference Board of Canada, 2010

City of Toronto Official Plan Housing Policies Approved by the OMB on April 3, 2007

Hulchanski, J. David, Witness Statement and Report relating to the Ontario Municipal Board Hearing in matter of the appeal 17, 19, 21, 23 and 25 Lascelles Boulevard, Toronto, 2006

Pomeroy, Steve, Toward a Comprehensive Affordable Housing Strategy for Canada, 2001

Unlocking the Opportunity for New Rental Housing: A Call to Action, Urban Development Roundtable – Rental Working Group, City of Toronto, 2001

Lampert, Greg and Pomeroy, Steve, Options for Changes in Federal Taxes to Encourage New Rental Construction, Housing Supply Working Group, Ontario Ministry of Municipal Affairs and Housing, 2002

Maclennan, Duncan, Supporting Housing Investment, Market Housing Branch, Ontario Ministry of Municipal Affairs and Housing, 2005

Creating Rental Housing – A Role for the City of Winnipeg, Right to Housing Coalition, 2010

Affordable Rental housing Supply: The Dynamics of the Market and Recommendation for Encouraging New Supply, Housing Supply Working Group, Ontario Ministry of Municipal Affairs and Housing 2001

Why Isn't Rental Housing Being Built? What Needs to Change?, Greater Victoria Real Estate & Construction Organizations, 2006

Sustaining the Momentum: Recommendations for a National Action Plan on housing and Homelessness, Federation of Canadian Municipalities, 2008

Hulchanski, J. David, What Factors Shape Canadian Housing Policy? The Intergovernmental Role in Canada's Housing System,

CMHC, Affordability and Core Housing Need, Canadian Housing Observer, 2009

CMHC, Rental Market Report Winnipeg CMA, 2009

Carter, Tom, Housing For Manitobans: A Long Term Plan, 2009

Province of Manitoba, HOMEWorks! Manitoba Housing Long Term Housing Strategy and Policy Framework,

APPENDIX B

Extracted from the Federation of Canadian Municipalities paper:

Sustaining the Momentum:

Recommendations for a National Action Plan on Housing and Homelessness[5]

January, 2008

Priority #5 – Stimulate new rental construction by:
• utilizing affordable housing grant funding to enable new non-profit/co-op construction (especially when linked to targeted neighbourhood redevelopment or special purpose/supportive housing)
• ensuring predictability, fairness and stability in rent regulation;
• examining and revising current federal tax policies to remove disincentives to rental developers and replace with incentives; and
• revising current federal tax legislation to permit deferral of capital gains and CCA recapture if existing property owners reinvest proceeds.

[5] http://www.fcm.ca/CMFiles/hstrat1SSA-2242008-4643.pdf

APPENDIX C:

Must halt the current rental crisis

(Winnipeg Real Estate News, August 20, 2010)

Year-in and year-out, Winnipeg consistently has one of the lowest apartment vacancy rates in the country, hovering around one per cent over the last few years. To no one's surprise, Winnipeg recorded a one-per-cent vacancy rate in Canada Mortgage and Housing Corporation's 2010 spring rental market survey which tracks Canada's 35 major centres.

Astoundingly, Brandon, Manitoba's second largest urban centre, recorded a 0.2-per-cent vacancy rate in this same rental survey. Compare this to cities such as Calgary where the vacancy rate went up from 4.3 per cent in April 2009 to 5.3 per cent in 2010. It also saw a decrease in its average rent from $1,006 to $970.

Alberta's provincial vacancy rate sits at six per cent, while Manitoba and Newfoundland and Labrador posted the lowest rate at one per cent.

Despite Regina having one of the lowest vacancy rates in the country at 0.8 per cent, due to a huge influx of new renters based on international immigration and in-migration from Alberta, Saskatchewan's average vacancy rate went up from 1.7 per cent in April 2009 to 2.4 per cent in 2010.

Saskatoon's vacancy rate was 2.1 per cent. The increase was due in part to an increase in purpose-built rental units and growing competition from investor-owned condominiums.

CMHC's Saskatchewan market analyst Michael Fabiyi predicts Regina's vacancy rate will climb back up from 1.5 to two per cent by year end and thus fall more in line with Saskatoon's higher vacancy rate. This will occur because of the expectation that new purpose-built rental units will come on stream since market rents are climbing to help offset the higher cost of new construction.

For some time now, part of Winnipeg's rental shortage dilemma has been the refusal to increase units despite the large influx of new immigrants and lower out-migration flow. As reported in the a Winnipeg Free Press article by Murray McNeill on June 16, 2010, CMHC regional economist Lai Sing Louie said Winnipeg's " vacancy rates remain stubbornly low because Winnipeg continues to lose more rental units than it gains."

Between April 2009 and April 2010, the rental universe declined by 673 units to 53,233. These figures help to explain the increasing frustration of individuals and newly-arrived immigrants who cannot secure rental housing.

In CMHC's June 8, 2010, Winnipeg market release, local CMHC senior market analyst Jeff Powell reported there were no apartment unit starts in May and only eight units started in the past three months.

Even as CMHC reported 644 multi-family housing starts in July 2010 (the majority of which are concentrated in one area), the number of purpose-built rental units is significantly lower at 320 units, representing a very modest addition to a distressed rental market. Other apartment units have been lost to demolition as older stock has not been maintained or refurbished. As well, there have been some apartments converted to condominiums, which has occurred over many years as owners seek to regain their investment in older apartment blocks by offering affordable condominium apartment units. Often misunderstood as the “bad guy” in the struggle to improve rental market conditions, condominiums offer affordable homeownership opportunities while opening up rental units that have been vacated by first-time buyers, making them available to others.

The reality is that over decades, Manitoba’s rent controls have artificially suppressed market rents, so apartment owners do not have the incentive to reinvest in their suites, therefore, and so seek other opportunities to maximize the return on their investment.

Even with a 20-year exemption from rent controls on new construction, the majority of rental units in Winnipeg fall under rent control regulation. This serves to widen the gap between the higher cost per unit of new apartment construction compared to rent- controlled apartment units, and acts as a disincentive and deterrent to developers bringing new units onto the market. It is harder to justify charging a higher rent for a new unit when existing units are going for considerably less. Consequently, Winnipeg and Brandon’s vacancy rates are always among the lowest in the country.

Another side effect of acute rental shortages in Winnipeg, brought on by rent controls and the large influx of new immigrants due to a successful provincial nominee program, is heightened and sustained pressure on the existing resale market. This is especially evident in the lower price ranges in which most buyers can afford a home. Houses selling in Winnipeg in the $150,000 to $250,000 range frequently attract multiple offers and turn over quickly. If there was more balance — meaning a better supply of attractive and well-maintained rental units throughout the city — a number of people bidding on homes may instead opt to rent. So by default, the resale market is seeing higher price increases than normally expected based on the total lack of a good rental supply.

If Manitoba wants to retain skilled young workers and families, they need housing options to help them start out. Restoring balance in the resale market is of paramount importance to the future of this province.

While home sellers benefit from a sellers’ market, many of them have no choice but to join in bidding wars when they go to buy their next home, so a balanced market is better for all concerned. And, a balanced market in the broader sense of a housing market is one where you have a good supply of resale, new and rental units — resulting in buyers and renters having a good selection of homes and rental units to choose from. Unfortunately, this does not exist in Winnipeg and has not for some time.

WinnipegREALTORS® has taken up many of these issues and is researching and exploring solutions for Winnipeg’s extremely tight rental market. Conversations have begun with people who have direct experience in all segments of the real estate market, including rental property owners in addition to housing experts such as Dr. Tom Carter of the University of Winnipeg, who has conducted extensive studies of housing issues in Manitoba. The goal of these talks is

to gain a well-rounded understanding of how the rental market came to be in its present situation, and, more importantly, what we can do about it.

If there was one thing WinnipegREALTORS® is keenly interested in, it is finding a path forward so we can address these problems before they become more deeply ingrained and harder to fix. Looking at the possibilities of softer rent controls (such as the vacancy decontrol implemented in Ontario), that work for tenants and property owners alike, might be a good place to start. Exploring the potential of portable housing allowances that help low-income tenants to afford market rents and increase investor confidence is another interesting idea that might help to turn our rental crisis around.

Another big part of this picture would be to find ways to stimulate and create more rental housing through measures geared to attract greater investment in existing and new purpose-built rental units.

All of these issues are just the start of a conversation overdue in this province. As Manitobans, we need to come together to face our rental housing problems head-on. If we can demonstrate the will to co-operate with each other and be pro-active, we would be well on our way to addressing the current rental crisis.