



Primary Market Rental Vacancy Rate

Municipality of Prince Edward County, Ontario

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Abstract

The lack of affordable housing is a growing crisis in municipalities across Canada and has far reaching effects on communities and the economy. In Prince Edward County, access to funding for affordable housing is being limited by what is perceived as inaccurate Rental Market data published by the Canada Mortgage and Housing Corporation (CMHC). Specifically, the 2017 and 2018 reported vacancy rate of 4.8% & 4.9% respectively, suggested the supply of rental housing is much higher than the local experience and anecdotal evidence would indicate.

In order to further understand the current state of rental availability in the Municipality and, Prince Edward County undertook its own study that mirrored CMHC's own Rental Market Survey methodology. In addition to presenting this methodology, this paper outlines survey results and provides a potential explanation for a discrepancy in the results between the surveys conducted by the CMHC and the Municipality's survey.

Introduction

The availability and affordability of housing is a growing concern in Prince Edward County. In recent years, the issue has been called a “crisis” on account of its effect on the local economy, social fabric and implications for long-term community sustainability.

As a growing issue across Canada, in 2018 CMHC launched a 10 year, \$40 Billion National Housing Strategy. “Using a mix of funding, grants and loans, the strategy will create affordable, stable and livable communities”. Funding stream eligibility are often dependent on CMHC’s reported vacancy rate as a means of gauging housing availability and if a community is in need of Affordable Housing development funding.

According to the Canada Mortgage and Housing Company (CMHC), housing is considered to be affordable when a household spends less than 30% of its pre-tax income on adequate shelter. In Prince Edward County, approximately 17.4% of current households are at or above this threshold.

Affordability and availability have become significant challenges for business growth and sustainability of our year-round population with real estate listing inventories near an all-time low and sale prices near an all-time high.

This trend will not likely subside – requiring house prices to drop an unprecedented 35% in order to restore the relation of house prices to income back to 2013 levels. Furthermore, short-term rentals – most of which are converted single family dwellings – present more attractive investment opportunities do long-term rental property development, even in the face of new regulations.

Collectively, these factors would be expected to result in low rental vacancy rates which were not reflected in the CMHC vacancy studies.

Because much government support for affordable housing is tied to vacancy rates, an interdepartmental task team assembled by Prince Edward County staff initiated a vacancy rate in an attempt to either corroborate the results reported by CMHC or to identify anomalies responsible for any differing results.

A secondary objective of the study was to obtain additional data on Prince Edward County’s monthly rental market that could support affordable housing initiatives in the future.

Methodology

To facilitate an in-house Rental Vacancy Survey the County's Affordable Housing Task Team established a subcommittee, soliciting assistance from local residents with expertise in actuarial science, product market research, housing, management science and accounting. The group was supported by staff within the County's Community Development Department.

To ensure that the County's results could be compared to those obtained in CMHC survey, *the committee elected to strictly mirror CMHC's Rental Market Survey methodology for its own Vacancy Survey.*

CMHC Rental Market Survey

CMHC conducts its Rental Market Survey annually in October to estimate relative strengths in the rental market. The survey is conducted on a sample basis in all urban areas with populations of 10,000 or more, and includes only privately initiated structures with at least three (3+) rental units, which have been on the market for at least three months.

The survey collects market rent levels, availability (outside of Quebec), turnover and vacancy unit data for all sampled structures. Data is collected using a combination of telephone interviews and site visits, and information is obtained from the owner, manager, or building superintendent and provides a snapshot of vacancy, availability, turnover rates and average rents in both new and existing structures.

The CMHC rates the reliability of published vacancy results based on statistical measures including the vacancy rate and the consistency of rates across the buildings included in the study. Results with the least variability and highest reliability are classified "A – Excellent" while results with high variability and low reliability are classified "D – Fair (Use with Caution)".

It should be noted that CMHC conducts separate studies on the *secondary rental market* (which covers "rental dwellings that were not originally purpose-built for the rental market, including rental condominiums") and the *Seniors Housing Survey* which covers rentals described at <https://www03.cmhc-schl.gc.ca/hmip-pimh/en/TableMapChart/SeniorsMethodology>.

In keeping with CMHC practice, these two sectors were excluded from the survey conducted by the County Task Team. In addition, the County's Task Team confirmed with CMHC that it does not include units used for short-term accommodation in its counts for property eligibility purposes, and these units were also excluded from the Task Team's survey.

Universe Size

The County established a universe of eligible rental properties by referencing Municipal Property Assessment Corporation (MPAC) property codes pertaining to multi-residential structures with 3+ units as per the CMHC methodology. Figure 1 below includes those codes

that were identified within the County. These were then verified through site visit and internal knowledge of the owners/structures.

Through this method, a total of 103 properties containing 852 individual units were initially identified for the survey.

Property Code	Property Code Description
333	Residential property with three self-contained units
334	Residential property with four self-contained units
335	Residential property with five self-contained units
336	Residential property with six self-contained units
350	Row housing, with three to six units under single ownership
340	Multi-residential, with 7 or more self-contained units (excludes row-housing)
352	Row housing, with seven or more units under single ownership
471	Retail or office with residential unit(s) above or behind - less than 10,000 s.f
472	Retail or office with residential unit(s) above or behind - greater than 10,000

(Fig. 1)

Administration of the Survey

Contact information for each property was obtained through the County’s Water & Wastewater Department and correlated with each property address. At the County’s request, a review of this approach and use of the contact information was conducted by the Office of the Privacy Commissioner of Ontario and was determined to be appropriate.

The committee obtained a copy of the CMHC Rental Market Survey questionnaire and drafted a script for interviewers. Department staff then developed a series of data-tracking spreadsheets and assigned blocks of properties to individual staff to conduct the surveys. Importantly, the committee elected not to inquire about rental *rates* in order to avoid respondents’ reluctance to answer questions about sensitive/confidential information and/or skepticism regarding the stated purpose of the survey.

A communications strategy was developed involving notice of the study through social media, newsletters, websites, radio and local news coverage. Surveys were conducted by telephone and in a few cases by email over a 3-4 week period from mid-June into July of 2018.

All data was entered into the spreadsheets in real-time. Surveyors were able to contact all but 16 of the initial 103 properties identified within the study universe.

Results

Reduced Universe Size

Of the 103 multi-residential properties with 3+ dwelling units initially identified, only 52 properties ultimately satisfied CMHC’s eligibility criteria. These 52 properties represented 738 rentable units which were reported in the study.

The reasons for the disqualification or omission of the balance of properties were varied:

- 15 properties contained owner occupied units, bringing the total number of rental units below three, disqualifying them as per CMHC’s methodology.
- 19 properties were used as short-term rentals or had a mix of monthly and short-term rentals, bringing the total number of rental units below three, disqualifying them as per CMHC’s methodology.
- Wellings of Picton Retirement Community was disqualified because it fell into the Senior’s Housing category (discussed below).

Universe Size Compared to CMHC’s Rental Market Survey

The number of units which comprise the CMHC universe is published on CMHC’s website. The unit counts for the past four years for Prince Edward County are shown in Figure 2.

It is noteworthy that CMHC’s Rental Market Survey considers 353 eligible monthly rental units in 2017 – approximately half as many as does this study (738).

Number of Private Apartment Units				
	Apr-15	Oct-15	Oct-16	Oct-17
Bachelor	14	14	14	16
1 Bedroom	107	106	97	101
2 Bedroom	232	230	228	229
3 Bedroom + 7		4	4	7
Total	360	354	343	353

Fig. 2 Source: CMHC Rental Market Survey – Universe Size

Vacancy Rate

Of the 738 monthly rental units in 52 eligible buildings within the study, only six (6) units were identified by respondents as being vacant (immediately available for rent).

This produced a rental vacancy rate of 0.81% - significantly different from the vacancy rate of 4.8% reported in the CMHC's October 2017 vacancy study, and in-line with anecdotal assessments of the local rental market. Using the CMHC methodology for evaluating reliability, the data reliability for the County's survey was classed "B – Very Good".

Eligible Units	738
Total Vacancies	6
Vacancy Rate	0.81%

Potential Explanation of Discrepancy

The County Task Team attempted to find the methodological basis for the discrepancy between the two surveys. The CMHC does not publicly identify the buildings included in its survey some it is not possible to provide a conclusive answer. However, it appears highly probably that the discrepancy arose because the two studies differed in their treatment of the Wellings of Picton Retirement Community.

The Wellings of Picton is an 88-unit retirement community which meets all the CMHC requirements for classification as Senior's Housing:

- *have at least one unit that is not subsidized;*
- *have been in operation for at least one year (for example, it must have started operation before January 2012 to be included in the 2013 survey);*
- *have at least 10 rental units (in Quebec, Ontario and the Prairies) or 5 rental units (in the Atlantic provinces and B.C.);*
- *offer an on-site meal plan;*
- *not mandate high levels of health care (defined as 1.5 hours or more of care per day) to all of its residents; nursing homes and long-term care homes are examples of residences that were not included in the survey;*
- *offer rental units; life lease units and owner-occupied units are excluded from this survey; and*
- *have at least 50 per cent of its residents who are 65 years of age or older.*

The Wellings of Picton was therefore excluded from the universe for the study conducted by the Task Team.

On the other hand, at the time of the Task Team’s study, the Wellings had 26 of its 88 units available. If these 26 vacancies are added to the 6 vacancies identified in the County’s research, the calculated vacancy rate is very close to the CMHC data of 3.87%. It therefore appears likely that the discrepancy arose because the Wellings of Picton was inadvertently included in the CMHC universe when it should have been excluded.

Conclusions

The results of the Task Team’s survey confirm that the current rental vacancy rate in Prince Edward County is less than 1% in Prince Edward County which is indicative of a significant shortage of long-term rentals in the community.

Supporting data and references available on request.

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