Introduction

When WinnipegREALTORS® hears that Vancouver, Toronto and Calgary are ranked first, fourth and fifth respectively as the most livable cities in the world, we ask ourselves what do we need to do to make Winnipeg a more livable city so it can garner positive accolades other Canadian cities are getting internationally. One weakness we have clearly identified is the lack of rental accommodation in our city and throughout Manitoba. In fact, our rental universe has been shrinking despite population growth increases and demand for more housing units as a result of smaller household sizes.

What can we do about it? Thanks to the hard work and effort of some experienced REALTORS® who have had real life experience in the workings of our rental housing market and also know first hand the impact of the lowest rental vacancy rate in the country on resale housing, a discussion paper has been produced. It not only identifies problems but attempts to put forward a number of solutions. Far from being the final word on this subject or arriving at definitive answers, this paper should at minimum cause all housing stakeholders to realize we need to address the rental shortage with a greater sense of urgency and action.

Moreover, we should be coming together in a collaborative way to develop solutions that can work for Manitoba. It is about fairness and equity for all participants involved in the provision of housing in an effort to ameliorate a situation that has gone on far too long without any meaningful change or improvement. The end goal has to be a better and healthier functioning housing market that is more responsive and effective at creating more housing supply.

With plans over the next few years for a significant increase in immigration, the question we all have to ask ourselves is where are these new Manitobans going to live?

Thanks in particular go to Mel Boisvert, who headed up the committee responsible for producing this discussion paper. Other committee members include Helmet Baldes, Harry Logan, Claudia Sarbit, Pat Stecy and Rob Hutchison. Credit too goes to local housing researcher Colin Wolfe who was hired over the summer of 2010 to help research this topic. While far from exhaustive given time and resource constraints, effort was made to gain different insights and perspectives outside of the REALTOR® association itself.

Finally, a special thank you to WinnipegREALTORS® staff Peter Squire and Shaila Wise.

Established in 1903, WinnipegREALTORS® is the longest running real estate association in the country with 1600 members. It prides itself in providing its members with the best tools possible to be successful in helping buyers and sellers with the most important transaction in their lifetime. The real estate industry association is also committed to creating a policy environment and economic climate where the City of Winnipeg can prosper and offer a quality of life second to none for its citizens.
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Manitoba's Rental Housing Shortage: A Discussion Paper Highlighting Challenges and Solutions

Note: Underlined words in body text denote a glossary note at the end of the paper

1.0 Overview

The lack of rental housing is a major problem facing modern cities. The scarcity and loss of rental units is compounded in Winnipeg by an aging and deteriorating housing stock, stringent rent regulations and increased immigration.

In this discussion paper, WinnipegREALTORS® will outline the issues and challenges facing the rental market in Winnipeg and Manitoba. The importance of a responsible rental housing policy cannot be overstated as an indicator of the health of our cities and communities. It therefore is incumbent on all housing stakeholders to work together to deal with any current shortcomings in order to provide safe and adequate rental housing. This discussion paper will explore potential solutions of mutual benefit to tenants, landlords/investors and communities.

While rental housing matters extend across all levels of government, this discussion paper focuses primarily on the provincial level and, to a lesser extent, on civic governments, all of which are in a better position to act on the rental housing problems in a timely fashion.

1.1 Main Issues in Rental Housing

Rental housing history is closely connected to social, political, and economic issues. This discussion paper will concentrate on a few main ideas; however, other factors are also important in order to accurately understand what is happening in Manitoba on the rental housing front.

An appendix of main issues is included to provide more background on specific points. While not all mutually inclusive, a breakdown of the issues relative to the three levels of government is employed. A review of this section will help “connect the dots” to the wider issues of how rental housing affects us all.

1.2 Underlying Issue

Winnipeg is in the midst of a gradually deepening rental housing crisis that market and policy conditions have failed to effectively address. Vacancy rates in Winnipeg are currently the lowest among Canada’s 34 largest cities or Census Metropolitan Areas. The Canada Mortgage and Housing Corporation (CMHC) 2010 Fall Rental Market Survey indicated the city’s vacancy rate dropped from one per cent to 0.8 per cent, which is its lowest rate since CMHC began compiling rental statistics in 1990.
During the period from 2001 until the present, Winnipeg has consistently experienced vacancy rates below 2 per cent. In fact, the rate has most often been below 1.5 per cent.¹ This vacancy problem will persist as investments lag behind increased demand. The acute rental shortage is not unique to Winnipeg as Thompson’s rate is a mere 0.3 per cent, Brandon’s 0.5 per cent and Steinbach’s is 0.6 per cent. Winnipeg’s vacancy rate varies across the city with Transcona flashing “no vacancy” and southwest Winnipeg perilously close to nothing for rent.

With the exceptionally low vacancy rates in Manitoba’s major centres, it comes as no surprise that the province’s overall vacancy rate fell from 1.1 per cent to 0.9 per cent, which is the lowest among Canadian provinces.

Immigration is stressing the already scarce rental supply. In 2009, 13,520 new immigrants arrived and the provincial government has pledged to increase the annual number of immigrants to 20,000.² These immigrants require housing, which invariably involves rental accommodations initially if available, and this comes at a time when the total number of rental units or the rental universe is in decline.

Between April 2009 and April 2010, Winnipeg’s rental stock declined by 673 units due to the demolition of dilapidated housing stock, rental building sales and conversion of units into condominiums. In addition, a lack of investment dollars has meant fewer new rental units being built.³ CMHC has indicated that the number of units in the rental universe has dropped for the 15th time in the last 18 years.

Initiatives such as Manitoba Housing’s secondary suites pilot program to encourage construction of secondary suites, as well as non-profits providing affordable home ownership like the Spence Neighbourhood Association (SNA) and the Housing Opportunity Partnership (HOP), serve as positive steps to free up rental housing. However, they are not enough. These initiatives are only scratching the surface and the problem is so endemic that a broad-scale solution is required.

So few rental units are being built that it seems investors are exiting or avoiding the market en masse. At the same time, the number of people seeking rental accommodations is increasing, creating a great imbalance between supply and demand.

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See also:
A side effect of the rental shortage is increased pressure on the resale housing market – people preferring to rent have little choice but to bid on a tight supply of affordable homes for sale on the market. As a consequence, housing prices are driven further upward, which would not be the case if an adequate supply of rental units was available.

A WinnipegREALTORS® MLS® market analysis based on 2009 and 2010 housing sales activity and member responses, shows housing affordability is clearly becoming more of an issue for first-time buyers. MLS® annual sales in 2010 were slightly ahead of 2009 yet residential-detached or single family homes sales were down nearly 2 per cent. More significantly, entry-level homes selling for under $200,000 in comparison to 2009 plummeted 35 per cent.

The 7th Annual Demographia International Housing Affordability Survey released in January 2011 covers 325 markets and shows Winnipeg dropped from ninth place out of 28 Canadian cities last year to 14th of 25 Canadian markets this year. As a result, Winnipeg moves from a rank of affordable to moderately unaffordable. The ranking is based on dividing median house price by gross annual median household income.4

While Winnipeg still remains one of the most affordable housing markets in relation to larger Canadian cities, there is no future guarantee that the MLS® resale market can continue to serve as a safety valve and be the default position for those unable to find rental accommodations. Finding good quality affordable housing in neighbourhoods of choice has become that much more difficult. Recently a renovated older three bedroom 948 square foot bungalow in Windsor Park that was listed on MLS® for $229,000 sold for $275,100. If you go back five years this home would likely been listed for around $130,000 and possibly bid up to $150,000.

The rent regulation debate has no easy solution; however, it is important to recognize that both sides of the debate realize the existing rent control regime in Manitoba is problematic. Building owners and investors argue that rent controls discourage investment in the rental sector, leading to building neglect and lack of new purpose-built rental construction. Meanwhile, low-income earners cannot afford rent hikes resulting from renovation exemptions that push rental rates beyond their reach.5 The challenge is how to move forward. In many cases the pro or anti-rent control debate has been split along the lines of market interests on one side and social advocacy groups on the other. In many ways, both sides’ arguments are correct.

The following summary looks at the main points of the argument and how they might intersect to arrive at a mutually-beneficial result, both for investment opportunities and

4 The Median Multiple is widely used for evaluating urban markets, and has been recommended by the World Bank and the United Nations and is used by the Harvard University Joint Centre on Housing.
5 “In the five years between 2004 and 2008, Manitoba’s rent increase guideline totaled 10 percent while CMHC reported a 17.9 percent total increase in rents charged.”
improving access to affordable rental housing.

2.0 Rent Control Debate

Manitoba is currently the only province in the country with strict rent controls. As vacancy rates hover around 1 per cent, many analysts argue rent control acts as a deterrent to investment, keeping investors from building new or owners from maintaining existing units. The result is a further tightening of the rental supply. In point of fact, an often cited survey of Canadian and American economists showed that 93 per cent of American and 95 per cent of Canadian economists agreed with the statement: “A ceiling on rents reduces the quantity and quality of housing available.”

According to Nobel Laureate economist James Buchanan: “Rent control is one policy that economists universally would oppose. It is a grossly inefficient way of allocating housing space and, of course, it inhibits construction and creates the very thing it is supposed to alleviate [namely housing supply]. It is one of those things where people simply don’t understand simple economics and, therefore, put in for political reasons what will damage the very people that it is designed to help.” Conversations from the Frontier Centre for Public Policy, October 25, 2001.6

In cities under a highly-regimented rent control system similar to Winnipeg’s:

“Rent regulation, while initially justified as an emergency measure during World War II, no longer protects tenants equitably and has significant negative effects in the local housing market. It deters investment in new housing, discourages maintenance of existing housing, lowers the assessed values and tax yields from residential property, and hinders land assembly for development. It also provides a subsidy, from landlords to tenants, which inequitably benefits higher-income households more than low-income households.” 7

“In general, the present housing crisis is not one brought on by tight markets, uncurbed speculation, rapidly spiralling rents and displacement, as was the case in the late sixties. Rather, it is one characterized by disinvestments, deferred maintenance, erosion of the housing stock and tax base; and it is one aggravated by keeping a lid on investor’s revenue while rising operating costs push up cash outlays.” 8

A growing chorus of stakeholders is calling for reform. Some are demanding the elimination of rent controls, while others are calling for an updated 2nd Generation of softer regulations, such as in Ontario, British Columbia and Quebec where rents can be raised independent of controls once a tenant voluntarily vacates a unit. Still others insist that rent controls are necessary to stabilize rental rates for tenants.

The challenge is to open the market to investment while protecting owner’s property rights

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6 Canadian Federation of Apartment Associations, Housing Policy in Areas of Significant Growth: Avoiding Counter-Productive Measures (Ottawa, September, 2006).
8 City of Boston, Report to the Mayor’s Committee on Rent Control (Boston: September 1977).
and tenant rights. Providing better access to affordable housing has to be uppermost in mind.

2.1 Negative Effects of Rent Control

Any market looking to attract investment must feature conditions for favourable returns. In Manitoba, the rent ceiling means that returns on investment paid to landlords are lower than under normal market conditions. Rents are artificially suppressed, discouraging reinvestment in existing rental stock or the building of new rental units. It is causing a number of landlords to pull out of the rental market altogether by either selling their rental buildings outright or converting them to condominiums.

The stigma of rent controls alone can be a real deterrent to attracting investors into Manitoba’s rental market. WinnipegREALTORS® had the opportunity in 2010 to speak to chapters of the Real Estate Investment Network (REIN) in Calgary, Toronto and Coquitlam about Winnipeg’s MLS® and commercial markets. The over 3,000 REIN members own 26,800 plus real estate properties across Canada with a combined value of $3 billion. The REIN members are primarily small-scale investors looking for alternative investments to the stock market for their retirement savings plans.

What became abundantly clear in meeting a number of the REIN members after the presentations was how reluctant they are to consider Winnipeg as an investment opportunity, knowing that their private capital will fall under a rent control regime.

The lack of Winnipeg rental units is reflected in:

- **Very little new construction of rental units**: Middle- and low-income units are not being built as the returns to property owners are not only fixed, they are below market level. From a business standpoint, investing in new rental would seem to be an unwise decision under the rent control regime.

- **Difficulty for low income earners obtaining accommodation**: Social housing groups in Winnipeg and landlords agree that lower income earners are generally denied access to rental units in favour of middle income earners. This is a classic flaw of rent controlled systems. “A major social cost of rent controls is that without a fully operational price mechanism the “wrong” consumers end up using apartments.”

- **Existing stock falls into disrepair**: Owners do not have the income to recoup the costs of maintaining and improving buildings, resulting in scarce and valuable properties being demolished, sold off, or converted to condominiums. CMHC’s 2010 Fall Rental Market Report states, “The Winnipeg rental market universe has experienced a net loss of units in seven out of the last 10 years. While there have been additions to the rental universe through new construction, these additions have not been enough to offset the loss of units due to demolition or conversion.”

 Owners and investors always have other options to deploy their capital. Will they

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invest in a rent-controlled building or a building unfettered by such controls in order to get a better return on their investment?

- **Unit construction costs have risen significantly in recent years**: To cover these increased costs, property owners must charge higher rents, which makes it difficult to build rental properties as the majority of market competition is made up of lower priced rent-controlled units.\(^{10}\)

- **More pressure on home ownership market**: An extremely tight rental market drives more consumers to consider entry-level home ownership. It also prevents empty nester home owners from moving into rental as their options are more limited. Housing prices are driven upward when the housing supply remains low, resulting in an unbalanced market which should be of concern to everyone involved. Speaking of an unbalanced market, the RE/MAX Housing Barometer Report did a longitudinal study on housing resale market conditions across the country from 2000 to 2010. In the eleven year period examined, Winnipeg had the tightest market by far as was only in balanced market conditions 14 per cent of the time.

While these problems are common everywhere rent control is in effect, Manitoba’s situation is aggravated by its older housing stock. The average age of Winnipeg’s housing stock rivals the oldest in the nation,\(^{11}\) meaning local buildings require extensive renovations or they fall into disrepair.

### 2.2 Positive Effects of Rent Control

Supporters of rent regulation argue against many of the above claims, as they attest that the effects of rent controls are oversimplified. A CMHC study concluded that rent controls in various forms across the country had a negligible effect on rent levels, construction of units or vacancy rates.\(^{12}\) We are left with a mixed and often contrary picture of the debate.

Rent control advocates argue:

- **Rent control has a stabilizing effect on tenants**. Rent controls are less about supply of affordable housing, and more about ensuring stable households. Predictable and gradual increases in rent help safeguard renters from market spikes and dips, allowing more time for tenants to adjust (lowering tenant mobility rates).

- **Deregulation will not automatically attract investment**. Removal of rent controls alone does not necessarily mean increased housing supply for lower- and middle-income renters, as seen in the lack of rental investment in many provinces without rent controls.\(^{13}\) Removal of rent controls alone is unlikely to meet both market gaps and social need – a comprehensive plan is needed.

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\(^{10}\) Any newly built rental units are exempt from rent controls for the first 20 years of their existence.


\(^{12}\) Canadian Mortgage and Housing Corporation, “Testing Hypothesis About Rent Control 1993”, [link to summary]: http://www.ontariotenants.ca/research/rentcontrols-th-sum.phtml

In fact, renters who have secured affordable accommodations face the risk of having their units converted to condominiums or sold. It is a situation that can be avoided if property owners have the freedom to increase their revenues in order to operate viable buildings. As such, it can be argued that rent controls do not have a stabilizing effect on rental tenancy.

3.0 Recommendations

Regardless of what side of the debate one supports, Manitobans must face the reality: In many cases, rent legislation in this province is hurting those it is designed to help. On the one hand, rent controls have led to consistently low vacancy rates, while a cumbersome and unbalanced Residential Tenancies Act (RTA) seems to further frustrate landlords and investors. Between strict rent controls and an overly-bureaucratic RTA, we can see two solid reasons why rental units are not being built.

Taking into account the 55,000 Manitobans receiving EIA (Employment and Income Assistance) and the high percentage of low-income persons after tax compared to the national average,14 we see that many Manitobans have difficulty paying rent at any level. One national analysis found the bottom third of income earners pay an average of 48 per cent of income on shelter, the upper two-thirds of income earners pay an average of 20 per cent.15 If we look at this situation in the Manitoba context, we see that rent controls have the effect of benefiting only the upper two-thirds of income earners who are able to pay more. The bottom third of income earners see rents increase steadily through annual allowable increases and renovation exemptions, so generally do not benefit from rent controls.

The current situation ensures that both investors and low-income renters are alienated from the market, a problem that will worsen with time.

The challenge facing rental housing in Manitoba lies in addressing three main issues:

i) Increasing the supply of rental housing by facilitating an attractive investment environment and opportunities for investors.

ii) Improving access to housing for the large proportion of renters in Winnipeg, including persons with low incomes.

iii) A fairer treatment of property owners in Manitoba’s rent legislation, specifically rent controls and the Residential Tenancies Act.

In a way, the present predicament we are in seems to pit market interests against social need. The following set of recommendations questions the above choices and looks at how


these two interests do not necessarily have to be in conflict. Instead, they can be mutually beneficial. Strategies that address both of them in the market have the potential to turn the page on the rental housing stalemate in Manitoba.

### 3.1 Recommendation: Reforms to the Rent Control Regime

In a broader sense, rent controls have serious implications for basic shelter needs as well as the social and economic well-being of our cities. Although rent controls were designed with the good intention of protecting people, they have negatively affected tenants and property owners alike.

In summary, rent controls have the following effects:

- Lead to chronically low vacancy rates.
- Discourage new construction in the rental sector.
- Contribute to the degradation and ultimately the loss of aging rental buildings.
- Allow lower rents for higher-income renters who can afford to pay more.
- Do not allow the market to respond to demographic trends of smaller households
- Do not allow the market to prepare for increasing numbers of immigrants who rely on rental housing.
- Do not benefit low income populations, as is generally perceived, and in the end hurt the very people they are designed to help.

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Rent Controls in MB: A Snapshot

- Rents can be increased once annually by a rate set by the Provincial Government;
- Effective Jan. 1, 2011, the rent increase guideline is **1.5 per cent**;
- Property owners may apply for an exemption from this guideline, as many do in attempt to recoup property improvement costs.

The following rental properties are exempt from the rent increase guideline:

- premises renting for **$1,120.00** or more per month as of Dec. 31, 2010;
- personal care homes;
- approved rehabilitated rental units;
- new buildings less than 15 years old where an occupancy permit was first issued or a unit was first occupied after April 9, 2001;
- new buildings less than 20 years old where an occupancy permit was first issued or a unit was first occupied after March 7, 2005.

Source: Residential Tenancies Branch (Manitoba)

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Softer Rent Controls

Manitoba needs to move away from the current rent control regime if it wants to improve vacancy rates and better prepare for future immigration-driven growth. The first step to doing so is to seriously consider adopting a softer form of rent control known as vacancy decontrol or 2nd Generation Rent Control as seen in the Ontario and British Columbia systems and as Quebec also generally allows. Vacancy decontrol works like this: when a tenant vacates a unit, the property owner and the new tenant (the applicant who wants to fill the vacant unit) collectively agree to a rental rate which is not limited by government. In other words, the tenant and rental property owner bargain and agree on the rent, a figure which is unrestricted by legislation. Once the rent is agreed upon, the rental rate can only be increased once per year and only by a rate
specified by the provincial government.\textsuperscript{16}

This form of rent controls is preferable in that it is a more balanced approach. Under this system, property owners have a say in determining rent as long as it is seen as reasonable by the tenant. This method gives a voice to all involved. Although this system, like any system, is not perfect, it achieves one very important outcome – makes the rental market more attractive to investors who want to build more housing.

The Ontario experience of softening rent controls in 1998 has resulted in steadily growing new rental construction. To quote a study done by Clayton Research in 2004, “Rental starts in the province jumped from 790 units in 1997 to 4,770 units by 2003.” This amounts to a six-fold increase in starts over six years. And while 1998 and 1999 were up 1,181 and 1,323 respectively, development exploded to 2,717 in 2001 and 3,886 in 2002. It was also determined by Clayton Research that if Ontario was to return to pre-1998 rent controls the three levels of government “are estimated to face increased costs and lost revenues that could total $560.6 million annually.”\textsuperscript{17}

In addition, CMHC has reported that Toronto vacancy rates went from .8 per cent under a system of rent controls similar to Manitoba’s in 1997 to 3.8 per cent in 2003. They still remain much higher than Winnipeg’s at 3.1 per cent in 2009 and 2.1 per cent in 2010.

A recent Ontario study found that since 2004 close to 1,500 new units a year (approximately half of all new rental housing), initiated under various levels of government and by non-profits, is considered affordable rental housing. Keeping affordability in mind, it is important to note that a significant amount of construction also occurs at the higher-end, and that rental rate increases in medium-sized cities such as Kingston or Kitchener are often above inflation rates. However, in cities in the greater Toronto area, the addition to the affordable (most assisted-income) housing stock is keeping rents well below inflation rates.\textsuperscript{18}

Although the Ontario example is very complex (higher unemployment, over competition in ownership markets, over supply of condominium units to name a few factors), we can see some encouraging trends. New rental housing is being built, and a significant portion of the condo market is also functioning as rental. As reported in the Altus Group Housing Report January 2011 issue, “nearly 100 (condo apartment) buildings were launched in 2010, with 13,150 sales (these new buildings accounting for about two-thirds of all new condominium sales).” It goes on to say “investors have been a key driver of the strong sales in 2010.”


\textsuperscript{17} Clayton Research Associates Limited Increased Costs Attributable to Returning to a Pre-1998 System of Rent Controls in Ontario July 22, 2004

\textsuperscript{18} Ontario Non-Profit Housing Association, \textit{Where’s Home: A study of affordable rental housing within 22 communities in Ontario}, (May 2009).
In Ontario, it would seem that a softened rent control regime is starting to work. New construction will not happen overnight, but a serious reconsideration of our current rent control regime might lead to the results witnessed in Ontario.

It is also noteworthy to mention that when Ontario brought in full-fledged vacancy decontrol in 1998 it created and spurred on major reinvestment in existing rental units that were in bad need of repair. In a survey of apartment owners in Ontario in September 2001 by the Federation of Rental-housing Providers of Ontario, it shows capital expenditures in existing apartments nearly doubled from $600 in 1997 to close to $1200 in 2000. The point here is in addition to bringing on new rental supply existing units need to be maintained through strategic refurbishment upgrades.

Several important pieces need be in place for this solution to work. There must be safeguards for tenants so they are not being pushed out of their units by opportunistic rental property owners. Again, we can look to the Ontario system, which provides a set of guidelines to protect tenants and promote a balanced arrangement between the owner and tenant. Tenants are still protected and owners have increased say in how much they charge. This improved balance is a big step ahead of Manitoba’s tenant-biased system, and may be an important lesson as we go forward.

While this balance will always have critics from both sides (pro-market interests versus tenant-rights interests), the Ontario approach caters to and listens to both sides, unlike the Manitoba system.

**Reforms to the Residential Tenancies Act**

Part of the rent control regime is the RTA legislation. A good indication of how it is biased toward tenants is the recent provincial announcement offering free of charge Independent Tenant Advisors, working out of the Residential Tenancies Branch. They will help tenants prepare and file for hearings and are available, in some circumstances, to speak or present evidence for tenants. There is no such publicly available resource for landlords of any size.

Another example of bias towards supporting tenants or unfairness to landlords is that if the Residential Tenancies Branch states that it has not received a document or there is a single typographical or calculation error, the landlord can be denied increased rents or can have their rights for terminating tenants dismissed. This presupposes that all landlords have at their disposal legal and financial expertise to deal with day-to-day issues – the Act disallows passing on many of the costs to access such resources.

As discussed earlier, this serves to dissuade investors and discourages rental housing development. A streamlined and more balanced legislation that allows rental property owners more power and reduced wait times in managing incidents and evicting problem tenants (if necessary) would indicate a more level playing field. Faster and more efficient

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ways for landlords to collect unpaid or overdue rent is another basic and fair change that would signal that Manitoba is ready to work with new investors in the rental market.

**Legislation and/or regulations must change to show that government policy is willing to support property owners and investors as well as tenants, and that all interests are fairly represented.** Changing the Residential Tenancies Branch and Commission procedures, minimizing delays, and creating mechanisms to more expeditiously deal with more emergent issues will help ease frustrations among the medium and small rental operators. These delays, to name a few, include hearings and appeals.

Helmut Baldes said: “As a long time operator of affordable rental units in Winnipeg’s inner city, I can say unequivocally that the current system is flawed with inconsistent application of the rules and procedures. Government micro-manages our business like no other. While I have survived and become more adept at dealing with a cumbersome Manitoba rental regime system, I totally understand how small operators will throw their hands up in frustration and sell off their rental properties.”

These small-scale owners and operators are vital in a market such as Winnipeg’s where the total rental universe and supply falls woefully short of what is necessary to meet increased immigration needs. The charts on the opposite page depict Manitoba’s current dilemma. As a result, the secondary supply becomes absolutely critical to help fill in the gap left by a lack of purpose-built rental housing over many years.
In order for any tried and tested ideas to work, they must be connected with a plan that addresses low income tenants and their inability to pay rents. If the comparatively high...
numbers of low-income renters in Manitoba can be ‘plugged in’ to this approach it would increase the chances of success – for investors and for people.

The next recommendation looks at a potential solution.

3.2 Recommendation: Portable Shelter Allowances

Low income will always be a difficult challenge to find a housing solution regardless of how effectively the market may be functioning. The shelter allowance component of EIA has fallen well beyond the cost of living and rising market rents. These EIA shelter allowances must be examined and re-indexed to reflect realistic conditions where possible. In conjunction with fairer shelter allowance rates for the very low income, supportive services (job training, counselling, lifestyle coaching, healing and other tenant focused programs that are often offered on-site in government housing) and opportunities to improve quality of life will help with the transition away from income assistance and towards working.

However challenging the issue of very low income housing may be, solutions are just around the corner for another group with affordability problems – low income working people who are not on EIA. This is where portable shelter allowances come into play. Portable shelter allowances are government subsidies that top up the difference between 30 per cent of a tenant’s income and the rent for a unit in the private market. In some cases, portable allowances will cover a percentage of the gap between what the tenant can afford and the market (i.e. 75 per cent). This allows working low income people to choose better quality places to live, and avoids collecting this group in the same place –the ‘ghetto’ stereotype of public housing.

Portable shelter allowances also act to reward those who participate in the labour market, as people who work will have access to better quality market housing and will have more choice where they want to live. This may even encourage more people on Social Assistance to begin to work, as portable allowances will give them more power over their lives.

We would like to commend the provincial government, which has begun to look at shelter allowances with the Manitoba Shelter Benefit Program\(^\text{20}\) for low-income families, seniors, and persons with disabilities. We believe strongly that portable shelter allowances need to be made available to single persons in order to connect into a broader plan for rental housing.

Portable shelter allowances fit into the bigger picture of vacancy decontrol (discussed in section 3.1) in a very important way. As rent controls are relaxed, the market will become more attractive to investment. Portable shelter allowances will add to this attractiveness because they will help more working people afford rents in the private market. Because

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\(^{20}\) The Manitoba Shelter Benefit (MSB) is government program that is similar to portable shelter allowances, as it works to pay the difference between the ability of the tenant to pay and the market rent, with a limit of $210 per month.
these subsidies are portable (a subsidy for the household, not for a unit as in public housing) investors are more able to build where they choose, and potential tenants are free to use their shelter allowance anywhere.

As seen in Toronto’s Streets to Homes initiative, portable shelter allowances allow for a more stable rental situation, which helps tenants, rental property owners, and, in general, the well-being of communities.

To reiterate, portable shelter allowances are an effective and useful solution to all involved in the housing market. **To be effective on a large enough scale, portable shelter allowances must be extended to working low-income single persons as well as families, seniors and persons with disabilities.**

### 3.3 Recommendations: Increasing Supply of Rental Housing

In an ideal situation, the softening of rent controls via voluntary vacancy decontrols will open up the market enough to encourage investment and new construction of rental housing. The thinking goes that as markets become more attractive to investment, and demand increases and becomes more stable with portable shelter allowances, new units will be built to meet the demand. However, markets are complex and often unpredictable creatures that do not always behave as expected. Knowing that rental markets in the middle- and lower-price ranges offer lower profits for investors (compared to high-end rental, condos or single-detached housing) means that a rebound in rental investment may take time.

The rental crisis is severe enough that we may not have the luxury to wait for the market to catch-up and meet the requisite demand. In order to be pro-active and to encourage additions to the rental stock as quickly as possible, we need to consider incentives that work for investors. **It is important to note that any incentives to the private sector must be user-friendly (i.e. as little bureaucracy as possible) and long-term in order to be widely used and cost-effective.**

Looking south, an American approach has gained the trust of investors. Unlike many of the scattershot approaches to encourage rental construction across Canada, the **Low Income Housing Tax Credit** (part of a national housing plan) has been around for over two decades and is so widely used that it has partially financed over 95 per cent of all multi-family affordable housing in the U.S. since its introduction. The program works to award investors’ reductions in tax liability in exchange for building moderate and low income rental housing with fixed rates on rents.

The advantage is that big investors can buy tax credits that are based on year-to-year operating of rental units, instead of one-time start up costs. This has led to more benefits

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for investors, and longer-term affordable housing for renters. There are challenges to this approach, mainly with issues of federal-provincial jurisdiction, which would require considerable planning. However, given the success of the Low Income Housing Tax Credit in the U.S., this approach deserves to be a part of the discussion.

Although examples from other jurisdictions are very helpful, any incentive program being proposed must make sense for Manitoba and its unique circumstances. A collaborative process that includes all stakeholders in the discussion will determine whether incentive programs will be ignored and limited or widely used and effective.

4.0 Next Steps

The current course of rental housing policy is one that refuses to recognize that there are rougher waters ahead. We must admit that there is a rental housing problem that is set to worsen and there must be the political will to make necessary changes. If we can do that, then the next step is to look critically and honestly at the institutions and legislation that are harming those that it was designed to help. Manitoba is a province whose economy relies on immigration. We must ask ourselves how our economic growth will continue if our rental market cannot meet the basic shelter needs of immigrants.

We need to be pro-active in addressing a broader plan for a more open and effective rental market that works together with a system of portable shelter allowances supporting low income people. Investors need to be a part of this process, just as tenants, advocates and governments do. As a province, we can ill afford to not address a system that does more disservice to our renters with every passing year. All stakeholders need to come to the table to meet the rental crisis head on. Our biases, interests, agendas and politics need to be put aside, and we must instead look to the well-being of our renters, our investors, our immigrants and ultimately ourselves.

In the spirit of collaboration and a more balanced and healthier housing market for all concerned, this discussion paper has put forward rental market challenges and suggested solutions. If there’s a will there should be a way to make the hard decisions that will turn our rental crisis around.

5.0 Summary of Points

This report set out to identify potential solutions to the current rental crisis in Manitoba. Critically low vacancy rates and the lack of new rental construction in Manitoba are a serious threat to the housing security of people, the profitability of investors and the health of our cities generally. We have looked at how institutions like rent control and the Residential Tenancies Act were intended to help tenants, but in fact are disrupting the rental market and harming tenants.

The following recap of the points made in this discussion will help us to focus our thinking:
Problem: Rental Housing Shortage

- Winnipeg has experienced a consistently low rental vacancy rate for many years and this fall saw it dip below one per cent to reach its lowest level on record.
- Family sizes have decreased over the last decade thus requiring additional housing even without immigration.
- Manitoba brought in close to 14,000 immigrants in 2009, a figure which is set to climb to 20,000 in the coming years. This will increase pressure on already desperately scarce units.
- The rental universe is shrinking, due to aging buildings being demolished or sold and extremely low numbers of rental housing starts.

Causes: Rent Controls and Residential Tenancies Act Legislation

- Rent controls act as a disincentive to investment. This is illustrated by extremely low vacancy rates and a shrinking rental universe.
- Small operators in particular have been challenged to keep their rental properties viable. This has led to property owners pulling out of the rental market in a variety of ways.
- The Residential Tenancies Act is too bureaucratic and biased against property owners, especially as it pertains to rent controls. This has the effect of further deterring investors and pushing a number of them out of the critical secondary rental market.

Solutions

- Soften rent controls to a voluntary vacancy decontrol system, giving owners and prospective tenants the opportunity to set rents when a unit becomes available.
- Establish a rent control guideline which is transparent. All other Canadian jurisdictions use a published formula so that landlords can plan for the following year’s increase. Manitoba still sets its guidelines in camera.
- Increase property owner control over their investments by scaling back Residential Tenancies Branch bureaucracy and direct involvement in day-to-day operations. There also needs to be less micro-management and more fairness applied by City of Winnipeg inspectors to rental property owners.
- Create more balanced legislation that allows property owners to more easily collect unpaid rents and deal with safety issues; transfer onus of unpaid municipal water and utility bills to the user, instead of the building owner.
- Improve low income groups’ ability to pay by:
  i) Increasing the shelter component of EIA allowance to reflect realistic housing costs; and
  ii) Introducing broad programming for portable housing allowances for low income working people, including single persons.
- Have measures in place to encourage construction of rental housing, which could mean looking at the successful U.S. Low Income Housing Tax Credit. Any incentive plan must occur with the input and participation of operators themselves.
- Align the highly-acclaimed provincial nominee program to a supportive housing plan and strategy with a bias for action and results. If we are going to meet the
housing and shelter needs of a growing population, the obvious extension of this effort will be to ramp up housing of all types. Increasing supply in a timely manner has to be a top priority.  

- The City of Winnipeg needs to embrace and make the new City Council approved Our Winnipeg Complete Communities Direction Strategy a reality (assuming it receives official provincial approval). It sets out a land use and development plan that will facilitate and encourage significantly more residential housing throughout the entire city, including downtown. While we recognize the City is not in a financial position to be a primary housing provider, it can be fully engaged in a supportive and collaborative role through identifying local housing needs and opportunities and applying tools (e.g. zoning, infill tax credits) it has at its disposal. Other Manitoba municipalities need to be more proactive too in this regard.

Appendices: Main Issues in the Manitoba Rental Market

The following points are of the utmost importance to balancing the rental market in Manitoba. Although some of these issues fall under different jurisdictions, they all directly connect to the overall picture of the struggling rental sector in the province. The issue of rent control is discussed in the main report as it relates, in different ways, to all of the points presented in this section.

The following appendices are divided into the level of government to which the issue pertains most directly. The order in which they are numbered does not imply one issue is more important than another. They are all relevant to creating a more balanced and healthier housing market where more options and mobility are available to renters and owners.

-Municipal-

A.1) Unequal Treatment of Property Owners: Unpaid Bills and Repairs

Tenants and property owners alike are subject to municipal law that outlines who is responsible for unpaid utility bills in rental situations. Unpaid water bills are of particular concern. In Winnipeg, if tenants do not pay their water bills, the cost is transferred to the owner. This raises questions as to why property owners would be held responsible for a municipal service that they derived no use or benefit from. Since the tenant used the utilities, it stands to reason that the onus to pay the bill should be their responsibility. According to a local property owner, these expenses incurred can amount to thousands of dollars annually. They result in non-recoverable losses to owners thus making rental investment less attractive.

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23 Public policy has sought to manage the market rather than enable it. Housing policy should focus more closely on supply. Additional supply of all kinds of housing will lead to moderate prices, better choices and easier availability. Markets can deliver supply, and quality; they do it for other needs as vital as food and clothing, and can do it for housing, if policy permits. Source: Association of Saskatchewan REALTORS®, Strategic Perspectives on Affordable Housing, November 2010: 3-5.
Another smaller concern is that Manitoba Hydro places the onus of gas and electricity bills back on the owner based on a tenant’s verbal notice, with no regard to the contracted end date of tenancy and with no requirement to quickly notify the landlord. Couple this with a landlord’s requirement to refund tenant security deposits shortly after tenants depart and many landlords end up having either to violate their requirement of deposit refund while waiting to see what a utility bill might be or to pay utility bills and attempt to recover funds after a deposit is returned.

This lack of balance between owner and tenant is repeated in various municipal departments. Many incidences of damage that are caused by the tenant, such as removed or missing smoke alarms, broken windows, broken doors, bed bug damage, and garbage in yard or lane falls to the owner alone to clean up, repair or replace. Even when the tenant may be held responsible the Act depreciates the value of such items, often faster than a reasonable home owner would consider their value to depreciate. In addition, it is the position of the Residential Tenancies Branch that a landlord can not place a tenant file for collection with an outside agency without a government order being issued. This is far greater onus than is required on any other business.

While some of the responsibility for the upkeep of the building should fall to owners, it is unfair to expect owners to take on costs for damages that were caused by the tenant. In other words, just because it is easier does not make it right or logical! In order to encourage investment in rental properties, landlords must receive more equal treatment by municipalities.

A.2) Condominium Conversions

As the rental market has become less attractive to investors due to low profit margins, rent controls and unbalanced legislation, we have seen investors make a business decision in response – to pull out of the rental market. Condo conversions have therefore gained in popularity, as they allow property owners to upgrade their investments in order to meet the demand for affordable entry-level ownership housing. Any renovations or improvements to rental market buildings are much harder to justify the cost, as the fixed incomes allowed from rent controls do not provide enough revenue to cover costs from a business perspective. Higher profits offered by condo ownership and reduced need for management and maintenance costs are also a big part of the draw for this trend.

However, it cannot be ignored that condo conversions have the potential to take many high quality units out of the rental market. Considering this, it is important to take the long view and ask the question: Are condo conversions a cause of the rental crunch, or are they a symptom of a dysfunctional rental market? Blaming investors in this situation seems unwise, as any strategy to address rental shortages must appeal to investors who will build badly needed units, and this includes construction of all housing types.

The charge that the condo trend is responsible for rental shortage is somewhat misleading. Given owners’ lack of control over their rental investments, it is not surprising that they
would turn to markets that offer much greater freedom, higher returns and much lower assessed property taxes than the rental market. In this way, condo conversions have been made a scapegoat – the reason rental housing is being lost is due to a much bigger picture and one not simply solved by any knee-jerk reaction not grounded in good fundamentals.

It is unrealistic to expect a tight rental situation can be solved at the expense of home ownership. In many instances they offset each other as someone moving into home ownership frees up a rental unit. Further to this point, in other jurisdictions it is common for individual investors to buy up several condo units and put them on the rental market, which works to mitigate some of the rental stock loss.

The central problem in the rental market has been the long term lack of new rental housing being built. 2010 showed some promise with Broadstreet Properties erecting 313 new rental units in Sage Creek and Crystal Developers adding 130 new units in its first of four apartment buildings along Sterling Lyon Parkway. But the 2010 CMHC fall rental vacancy rate survey indicated Manitoba’s rental shortage has actually worsened with the vacancy rate dipping below one per cent.

Condo conversions are an important part of a functioning rental market as they play a role in improving older buildings as well as offering affordable ownership opportunities. They also offer the smaller investor an opportunity to become a landlord. In a balanced market, new additions to the rental stock will offset the rental units lost to condo conversions. Unfortunately, the rental market in Manitoba is not balanced, meaning that new construction of rental units is so low that it is not keeping up. To blame condo conversions means punishing the suppliers and investors – this doesn’t make sense given the problem lies in a dysfunctional market.

Condo conversions would not be a problem if the market was working as it should, which points to the problems that are scaring investors away, such as rent controls and high construction costs. As Winnipeg’s former city council explored the idea of regulating condo conversions in 2010, it is timely to ask if further restriction of the market would deal appropriately with the problem or deepen it and make it worse.

An important and often misunderstood part of this discussion is the social aspect of how condos affect people. The social side of condo conversions is almost always cast in a negative light. While some of the lower income people are forced to find new housing arrangements as a result of a condo conversion, this change provides affordable home ownership options and refurbished buildings to the neighbourhoods undergoing conversions.

In neighbourhoods with disproportionately high levels of renters (such as Winnipeg’s West Broadway), condo conversions can offer the diversity, stability and investment that are important to neighbourhood health. In many cases, condos help groups that may not have been able to maintain or afford a single-detached house. Single parents, aging populations and newcomers are some examples that stand to benefit from the lower cost and significantly less maintenance (compared to a single- detached house) of condominium
ownership. This side of the story needs to be heard and represented if we are to get a complete picture and understanding of how condos fit into the overall housing market.

Better disclosure may also be required if not in place already. Clause 5 (2) of The Condominium Act clearly states that an existing tenant may continue in occupancy of the rental unit he or she occupies on the date of registration for a period of at least two years after the date of the declaration or, at the option of the tenant, for a period equal to the length of the time that the tenant has been in continuous occupancy of any rental unit in the property. Simply put, if you have been renting a unit in the apartment building for five years, you have the right to stay renting another five years. The rent he or she pays is also protected by the provisions in the Residential Tenancies Act.

A.3) NIMBY

This issue is clearly one that falls under the purview and responsibility of the municipality. The “Not In My Backyard” sentiment was expressed in 2010 with respect to the proposed redevelopment of abandoned industrial lands in Fort Rouge or what has been referred to as the Fort Rouge Yards because of its proximity to the railway tracks. It is a real opportunity to bring in new multi-family residential alongside the newly planned rapid transit corridor that will eventually connect the University of Manitoba with the downtown area. Transit-oriented design or the integration of public transportation with more intensified mixed-use development has really come into its own in other cities and is something now on Winnipeg’s radar screen.

The crux of the matter is you are going to have to convince existing residents in established communities where new development is planned and/or proposed. The evidence shows that in the vast majority of cases, if not all, property values will not be negatively affected. In fact, property values often go up. This has been documented in studies in Canada and the United States with respect to affordable housing proposals and higher-density development. Traffic congestion tends to be overplayed as well and in areas where transit is readily available there is less need for using a car.24

You do have the tendency of existing residents trying or wanting to act as the arbiter of good judgement. They want to have a say in determining who is the most suitable as incoming residents to their area. The truth is legislation and human rights codes prevent “people zoning” and it really is incumbent on municipal staff and politicians to make that clear if public comments fall along these lines. And if some of these concerns revolve around increased crime, a study of 146 supportive housing sites in Denver concluded “there was no statistically significant evidence that supportive housing led to increased rates of reported violent, property, criminal mischief, disorderly conduct or total crimes.”25

As for any new development, it must comply with existing zoning and design guidelines in

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order not to be in conflict with the existing character of a neighbourhood. This is where being proactive in consulting and engaging the community early on in the proposal, as well as showing a sincere and genuine interest in seeking constructive input, can be extremely helpful to working out a satisfactory solution.

Ultimately, Winnipeggers are going to have to accept the fact the city is experiencing some significant growth given the influx of new immigrants. No single area of the city will be able to accommodate the equivalent of the current population of Regina in the next 20 years. As such, there will have to be accommodations for new residential and infill development throughout the four quadrants of the city.

While change can make people uncomfortable and uneasy, the results of new development rarely turn out to be anywhere near the fears expressed and can often be quite benign in impact. In fact, they can end up being positive. The intent of any new development first and foremost should never be to compromise the qualities of what makes a community or neighbourhood desirable.

A.4) Secondary Suites

WinnipegREALTORS® supports the City of Winnipeg and other outlying rural municipalities in allowing secondary suites through their zoning by-laws and more flexible building code regulations without compromising fire and safety standards. One issue that should be clarified is what is required to obtain home insurance coverage for a secondary suite. Moreover, there should be public education pertaining to what is involved in doing a secondary suite with all the necessary permitting and building code requirements.

The Manitoba government should be commended acknowledging the need for more secondary suites for launching a pilot secondary suite program in 2010 to provide forgivable loans up to $35,000 to cover up to 50 per cent of the cost of constructing a self-sufficient secondary suite, as an addition or within a principle residence. As the announcement of this program stated, “Secondary suites can provide a creative and affordable alternative form of housing for the growing number of renters in the province.”

A secondary suite normally has its own separate entrance, a bathroom, kitchen and living area.

There is no question secondary suites if done properly are an effective way of providing more affordable rental housing without changing the face of a neighbourhood. They can offer the owner the opportunity to help an aging parent (e.g. granny suites) or for any owner, including a first-time buyer, the suite provides additional revenue to effectively lower net ownership costs. It could also mean the difference of a retiring person on a limited pension being able to afford to stay in their existing home.

Manitoba is not alone in pursuing secondary suites as an alternative to providing more rental accommodations. Under a new long-term affordable housing strategy approved in late 2010 by the Ontario provincial government, amendments will be made to the Planning
Act to require municipalities to establish policies allowing secondary suites as units in new and existing developments.  

A.5) Infill Residential Tax Credits

To the City of Winnipeg’s credit, they have been offering a residential infill tax credit program to encourage the construction of new owner-occupied infill housing units in Winnipeg’s established neighbourhoods. They include single-family, duplex and triplex residential units. As stated before, any improvement in adding to the city’s housing stock is a plus and programs such as this one need to be sustained and enhanced even more if more funding can be made available.

A.6) Multiple Family/Mixed-Use Building Grant Program

The City of Winnipeg offers two tax-based grants. Developers may be eligible to receive a tax-based grant for creating multiple family residential units in Winnipeg’s downtown and inner city neighbourhoods. Projects can be new construction, additions, conversions, or redevelopment of eligible buildings.

The Province of Manitoba is contributing to the City's Downtown Residential Development Grant Program by the enactment of the Community Revitalization Tax Increment Finance Act and provision of up to $20 million in incentives to developers over the next three years. Under this plan, developers will be provided a grant that is equal to the incremental taxes on improved property for up to 15 years. Developers could be eligible for grants of up to $40,000 for each rental or condominium housing unit built or renovated in Winnipeg’s downtown. While in its infancy, other cities such as Chicago have enjoyed much success in stimulating more private investment in residential development. The experience shows Tax Incremental Financing (TIF) is most effective when it is able to create new investment in an area that would otherwise remain dormant.

A.7) Neighbourhood Renewal and Home Ownership

At the local level, the Housing Opportunity Partnership (HOP) has enjoyed some real success in not only providing home ownership opportunities for renters looking to own their first home but in helping renew the West End. Neighbourhood renewal efforts from the Manitoba Government through Neighbourhoods Alive, non-profit initiatives such as HOP or neighbourhood associations such as the Spence Neighbourhood Association (SNA), are critical to ensuring housing supply, be it rental or ownership, is maintained and improved. This includes the addition of new infill construction which has become the primary focus of these housing providers in the last few years.

With housing being in such high demand throughout the entire city, Winnipeg cannot afford to lose its older housing stock through neglect or indifference. Continued effort and vigilance is required and, thanks to the commitment of the Winnipeg Housing and

26 Ontario Ministry of Municipal Affairs and Housing, *A Long-Term Affordable Housing Strategy for Ontario 2010*
Homelessness Initiative (WHHI), neighbourhoods in the West End, North End, and central Winnipeg are getting government funding to support ownership and rental housing.

Another unique program that is attempting to free up rental accommodations for others to move into is the Manitoba Real Estate Association/Assembly of Manitoba Chiefs’ Tipi Mitawa program. It targets First Nations people to become first-time home buyers by offering them training, down payment assistance and converting rental subsidies into mortgage subsidies. It is especially important in the Manitoba context with so many First Nations people coming off reserves to Winnipeg and struggling to find safe and decent accommodations. Barriers to rental or ownership can be especially difficult for them and this program offers a unique way for them to get a hand up and help set an example for other First Nations people to show home ownership is a viable option.

The Housing Training Initiative (HTI) is another interesting and helpful Winnipeg program where a number of housing agencies are collaborating to provide capacity-building in home ownership and home maintenance for new home owners of older inner-city homes. The target groups include Aboriginals and new immigrants. The Steering Committee includes representation from the administrator, the Winnipeg Housing Rehabilitation Corporation, neighbourhood renewal corporations, Habitat for Humanity and the Manitoba Urban Native Housing Association. It is already proving itself by teaching new home owners what it takes financially and practically to move into home ownership successfully.

Finally, it is worth noting that a recently completed study by Tom Carter, Manish Pandey, and James Townsend on the Manitoba Provincial Nominee Program reveals how strongly held immigrant desires are to move into home ownership. Of those surveyed 76 per cent of the longer term residents own a home which compares favourably with the provincial average of 66 per cent.

What this tells us is a real concerted effort must continue on increasing the supply of single-family dwellings as well as rental. The immigrants coming here will not stay in Manitoba for a long duration if there is no suitable place for them to live. Can you really blame them? There is nothing to replace the pride and value of owning your own home. The success of programs such as Habitat for Humanity or HOP are predicated on the strength of offering a first time buyer the chance to build equity and greater control over their living environment by owning a home.

It comes back to committing to create a larger shelter universe for a growing population base. There is no gain or win in picking one over another; all should be supported as every additional unit helps deal with the housing shortage.

A.8) Vancouver’s Short Term Incentives for Rental Program

WinnipegREALTORS® came across an interesting program that the City of Vancouver started last year to stimulate new rental construction. It is called the Short Term Incentives for Rental Program or STIR. It has created a number of new dedicated rental units but not without some controversy. One of the key stipulations in this program is that in return for
developer incentives to build multi-family rental units, the completed units must remain
rental in perpetuity. Another strict requirement is no existing rental buildings can be torn
down.

The City of Vancouver STIR package includes rental property assessment tax relief, a
development cost levy waiver, parking requirement reductions, discretion on unit size,
increased density and expedited permit processing. The intention is to provide the private
sector with sufficient incentives to increase the city’s rental supply and assist with housing
affordability. It was reported in a Vancouver Sun story last July that over 800 rental units
have been created as a result of this program. This program came about as a result of a
Mayor’s Roundtable in April 2009.

While this program may be no panacea and its success will be determined over time, at
least the idea of having a mayor’s roundtable to address Winnipeg’s rental housing supply
deserves consideration. What is Winnipeg’s rental housing strategy?

Beyond the City of Vancouver, WinnipegREALTORS® was informed that the Greater
Vancouver Real Estate Board has joined a regional coalition led by the Metro Vancouver
Regional District. The coalition is advocating an increased rental supply. Not surprisingly,
it is called the Rental Housing Supply Coalition, and includes apartment owners and
managers, representatives from non-profit rental housing and tenant rights organizations
and stakeholders from the development and real estate industries.

At the end of October 2010, the coalition sent out a news release calling for the Federal
Government to come up with an action plan to help them increase Metro Vancouver’s
rental supply. Their platform includes a request for federal funding and tax policy changes
to provide a better investment climate for rental housing. B.C. Housing Minister Rich
Coleman is on side and is prepared to bring this issue up with provincial housing and
finance ministers and the federal government.

What was said by the Executive Director of B.C.’s Urban Development Institute echoes
similar positions across the country:

“In the sixties and seventies, we saw lots of rental construction because there were
incentives to encourage investment in rental,” said Maureen Enser, Executive Director of
the Urban Development Institute. “The reason we don’t see a lot of rental building going
up today is because without incentives, the economics of rental construction don’t work.
Stimulating rental construction will not only fill a big gap in the local housing supply, it
will also create new jobs and boost the regional economy.”

Renters are starting to speak out and Metro Vancouver Board Chair Lois Jackson said,
“This is about more than numbers; it is about ensuring that people have access to
affordable, safe and suitable housing.”
A.9) Saskatoon’s Equity Building Program

The aim of this recently announced program is to assist moderate income households in moving from rental accommodations to home ownership. It is designed to allow eligible applicants – moderate-income working individuals and families - to access market financing from a private lending institution. The City of Saskatoon is investing $3 million with the Affinity Credit Union. Their statistics show this target group is dedicating 40 per cent of their pre-tax household income towards shelter costs, which is approximately 8 per cent higher than the standard permitted by private lending institutions.

The goal is to support 250 households over a five year period. Eligible households are allowed to purchase a home ranging in value from $220,000 to $280,000 with down payment assistance of approximately $12,000 per unit.

- Provincial -

B.1) Affordability

In Manitoba, persons who cannot afford rent rely on subsidies that provide them shelter. In the case of EIA (Employment and Income Assistance), single individuals without special needs and without children receive a shelter allowance of $285 per month plus an additional $50 from the Manitoba Shelter Benefit. These subsidies can go toward Manitoba Housing units or rental units in the private sector. This amount does not give low income people on EIA sufficient income to rent at market levels. For example, a single parent with one child receiving a maximum of $387 per month, while the average market rent in Manitoba is $592 per month for a one-bedroom and $746 per month for a two-bedroom.27 This illustrates a central problem in the rental market.

If the shelter component of EIA was indexed to be more in line with shelter costs, more people would be in a better position to afford market housing. This would encourage more rental housing to be built (as ability to pay is increased), as well as help many people in need of better quality housing escape often substandard conditions in public housing.

Low income working people who are not on EIA are another group struggling to afford market rents. Given the higher independence of this group (whom do not rely on income assistance) solutions are more readily available and have been producing good results. For a closer look at affordability solutions for low income working people, refer to the Recommendations section.

B.2) Residential Tenancies Act (RTA)

Manitoba is known as having the most stringent provincial government rental legislation, which is called the Residential Tenancies Act. Designed to protect tenants over 30 years

ago in times of recession, the RTA is often criticized for being out of touch with the times. The Act and administration of it is viewed as being unfair by property owners, investors and other stakeholders. Reasons for this stance are largely because of its overly-bureaucratic and cumbersome way of operating.

A story last year in the Winnipeg Free Press clearly illustrates this: A firearm was discharged in one property owner’s building, endangering the safety of all his tenants, including families with children. The eviction hearing was scheduled to happen two weeks from the time of the incident, while the tenant (who had a history of disturbances) was free to carry on as usual until the hearing. Here, as in many stories of long wait times and slow processes, it becomes clear that the issue is more than just unfairness to property owners. It is a matter of public safety and property liability.

Owners do not have the authority to act on an immediate threat to their buildings nor do the people living there. This is only one example of RTA control over most aspects of the rental market. This lack of power to make decisions about how to run buildings is reflected in property owners’ frustration and refusal to invest. According to a local rental property owner on a WinnipegREALTORS® standing committee, one has to look no further than vacancy rates and rental construction figures to find out investors are reluctant to get into an overly-regulated market under the control of the Residential Tenancies Act.

Another important offshoot of the Act is how the RTA bureaucracy affects smaller rental housing operators. Smaller operators, who own and manage their properties themselves, are a significant force in the Winnipeg rental market. Many members of this group of owners feel they do not have the capacity to constantly refer to the complex RTA, as they often must do to operate a building. Larger operators hire property management companies for this reason, whereas smaller operators struggle to keep up with the expectations and processes of the Residential Tenancies Board.

The lack of balance outlined in the RTA has left owners without a voice in the decision-making process, which in turn has caused many to leave the market. Moreover, it has dissuaded others from building and managing rental housing. In this way, the RTA has contributed to lower vacancy rates and deteriorating buildings, a situation which hurts tenants.

B.3) Annual Allowable Rent Increases

Rents are the livelihood of property owners, yet they (and the general public) do not have access to find out how they are set. Annual allowable rent increases are set by the province and are the legal limit that rents may be raised in a given year. Not only are building owners excluded from participating in the process, they have no access to the criteria used by the province. Not even the Residential Tenancies Branch is aware of how these rates are set and agreed upon.29

29 As per an inquiry to the RTB, July 16, 2010.
As a result, many owners feel that the way rent increases are decided lacks transparency. There is no rhyme or reason as to how the annual increase is set. This is not the case in other provinces with true 2\textsuperscript{nd} generation rent control systems; the system is transparent and predictable.

As many important players are not at the decision-making table, we have seen annual increases that are out of step with reality, according to industry stakeholders like the Professional Property Managers Association (PPMA). In a paper Tonya Moreton of PPMA published in 2004, it showed the annual rent guideline increases lagged behind the CPI (Consumer Price Index, a measure of average costs to consumers) by 17.4 points or 27.3 per cent when the dollars are compounded over the 22 years since rent control was reintroduced in Manitoba in 1982.\textsuperscript{30} Avrom Charach of PPMA has compiled these same statistics from 1985 to 2010 and the results show the rental rate increases have fallen behind the rise in the CPI by 33 per cent over that time period.

B.4) Public Housing Portfolio

The Manitoba Housing portfolio remains a great challenge. To illustrate, consider that Lord Selkirk Park, a very low income neighbourhood in Winnipeg’s inner city boasts the highest rental vacancy rate (2.1 per cent) of any census tract in the city.\textsuperscript{31} The need for affordable rental is very high, yet many of the public housing units lay vacant due to substandard living conditions, lack of larger-sized bedroom units and major social problems that are more likely to occur when high levels of poverty are located in the same area (as seen in 1950’s and 1960’s public housing design). The lesson here is that even with desperately high need for housing, some rental units in the public housing stock are unfit to live in.

Public housing plays an important role in filling in the gaps that the free market cannot. This is especially true for high-needs tenants with mental health issues and/or addictions, as private landlords often do not have the resources or training to deal with these groups effectively. In order for public housing to provide humane and liveable places in which to live, earnest investment in renovating and updating the portfolio is required. Physically upgrading and improving structural and safety conditions is an obvious starting point. These units must also have access to supportive services (programs to address needs and build skills among tenants) which increase the chances of success for tenants, who may eventually move to market housing. The same services could also act as a support to landlords in the free market, as they may be more likely to take on higher-need tenants.

\textsuperscript{30} Tonya Moreton, “Rent Control Reform Looked at Across Canada,” PPMA Articles, http://www.ppmamanitoba.com/articles/a0000052.html
To the province and federal government’s credit, they committed in 2010 to injecting $102 million in renovating almost 9,500 public housing units. It also includes funding to build 235 new housing units to provide low-cost rental for families.

As public housing is a piece of the bigger picture of housing markets in Manitoba, it makes sense that all stakeholders be involved. This means input and direction from WinnipegREALTORS®, the Manitoba Real Estate Association, the Manitoba Home Builders’ Association and the Professional Property Managers Association along with Manitoba Housing. An expanded role for tenants’ organizations (including newcomer support groups, aboriginal organizations, and representation for disabled persons) would round out this collaborative effort. If the aforementioned stakeholders could be brought to the table, the resultant public housing strategy would benefit from a broadened perspective and a strengthened sense of ownership from the point of view of all involved.

B.5) Provincial Land Transfer Tax Relief

WinnipegREALTORS® has mounted a campaign (e.g. 2muchltt.com) to seek relief for property buyers on the provincial land transfer tax. It was brought in the late 80s and never indexed to reflect the significant increases in house prices, especially in the first millennium decade where the average house price has more than doubled. While no indexing has happened, one change was made in 2004 to increase the 1.5 per cent tax rate to two per cent. It kicks in at any property value amount over $200,000. As a result, Manitoba not only has the highest land transfer tax rate in the country but it also starts at the lowest price point. Moreover, unlike British Columbia or Ontario, where they too share a high land transfer tax rate, Manitoba does not exempt first-time buyers.

First-time buyers do not have the benefit home sellers have of taking advantage of the equity gained in selling their existing home to help them pay the additional closing cost of a provincial land transfer tax on a newly purchased home. They have no choice but to use after tax dollars to yet pay another tax on attempting to acquire their first home. This is assuming the first-time buyer has enough money saved up in addition to the required down payment to cover additional closing costs such as the land transfer tax.

It is significant in the context of this paper given higher house prices resulting over the last few years from the powerful combination of higher immigration numbers and a dearth of good rental accommodations, the first-time home buyers’ market or entry market has been negatively impacted. MLS® home sales are down noticeably in the lower end of the market and this trend accelerated in 2010 over 2009.

With housing affordability becoming more of an issue despite low mortgage rates, the lack of movement from rental to home ownership means permanent low vacancy rates are locked in without any concerted plans for increasing new purpose-built rental in the city.

Freeing up urgently needed rental accommodations by facilitating and encouraging increased home ownership has to be viewed as one strategy to help alleviate a serious rental shortage. A well publicized program by the Manitoba government to encourage
renters to become first-time home buyers by offering an exemption on the land transfer tax would have made a difference in loosening up the tight rental supply.

As WinnipegREALTORS® stated in 2009, it has been a real missed opportunity on the Manitoba government’s part to not follow the path of Ontario and British Columbia and exempt first-time home buyers. **There is no one quick fix solution but provincial land transfer tax relief has to be among one of the most immediate measures the government can implement.**

It is also worth noting for every house sale in Manitoba there is a $40,000 spin-off in economic impact so there are real benefits coming back to the government in encouraging more first-time buyer market sales activity. And if you use the example of a house sale of $220,000, which generates $2,050 in land transfer tax revenue for the province, the money saved by a first-time home buyer in land transfer taxes will invariably be plugged right back into an existing home for necessary improvements and accessories.

### B.6) Over-Reliance on Education Property Taxes

An education tax finance coalition made up of leading business associations such as the Manitoba Real Estate Association, WinnipegREALTORS®, the Winnipeg Chamber of Commerce and the Manitoba Chambers of Commerce have been calling for the removal of school taxes from the property tax bill. The Professional Property Managers Association has as well. After all, a provincial core public service such as education should be financed largely by general revenues as opposed to relying on someone who happens to make property their choice of how they choose to invest their money? Why are property owners, including investors in rental property, singled out to relieve the province of what should be their primary responsibility?

In Winnipeg, school boards are taking as much or even more from property owners as the city so you can appreciate education taxes are an issue. It certainly adds to the cost of owning or renting a property in a significant way. Owners on fixed incomes are particularly affected as they still wish to remain in their home but are faced with an increased tax burden through higher education taxes. What rental properties in their neighbourhood are available to them? Another impact is renters themselves are faced with the burden of rising rents caused by landlords applying for rent increases due to rising school taxes.

A study done by the Canada West Foundation for leading business industry associations in Saskatchewan on Saskatchewan’s tax environment (includes focus on the mix of taxes residents prefer) was very instructive and germane to Manitoba’s education property tax issue. Both provinces are known nationwide for relying most heavily on education property taxes to pay for delivery of K to 12 education in their respective jurisdictions.

To no one’s surprise, the study recommends more provincial funding of education come from other sources of revenue than from off the backs of property owners. However, what

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is most revealing is the degree of resentment Saskatchewan residents have for education property taxes. On both a personal and business level, the survey results showed education property taxes are the most reviled taxes in the province. Two-thirds of the respondents said the best tax system would be one where there is no education property tax at all.

This Canada West Foundation study, in a comparison of Vancouver, Calgary, Edmonton, Saskatoon, Regina and Winnipeg, showed our city in 2009 had the highest residential education property tax per capita at $407.

In a Manitoba context, when investors in the secondary rental market are faced with some of the highest education taxes on their properties in the country with no relief as other owner-occupied homes get by way of a provincial education tax credit – are you encouraging them to invest their hard earned capital to help house an increasing number of Manitobans in need of rental housing?

B.7) Ontario Housing Supply Working Group

Similar to what Metro Vancouver is doing presently to bring housing stakeholders together to create new rental supply, Ontario brought various working group members together in 2001. Subsequently in a second report, an attempt was made to create a positive climate for rental housing development through tax and mortgage insurance reforms. Without getting into all of the details and discussing the two working group reports’ recommendations, it is instructive in knowing another province has taken this consultative and collaborative approach. It may well be a template for Manitoba to look at with our persistent rental shortage.

The recommendations made then by the housing supply working group in many instances still have relevance today in provinces such as Manitoba. For example, it does a good job of dealing with what it perceives to be unfair tax treatment of rental housing (e.g. provide a full rebate on GST on new rental housing) and there are suggestions around how CMHC can be a very important instrument of change through its financing to help spur on rental construction.

Without presuming Manitoba Housing has not reviewed reports such as ones done by the Ontario Ministry of Municipal Affairs and Housing, there is obvious merit in learning from Ontario’s research and experience so something similar may be put forward here as an approach to dealing effectively with our rental supply issues.

C.1) Federal Home Buyers’ Plan

As many aspects of rental housing are regulated by provincial and municipal bodies, most of this report pertains to them. However, a national approach can be vital to ensure longer-term housing goals can be met, such as working towards stimulating new rental
construction to deal with the growing deficit of rental units. It is estimated that purpose-built rental housing starts across Canada have declined over the last 35 years from an average of 60,000 starts per year to an average of less than 15,000 starts per year, despite population growth.

The Canadian Real Estate Association (CREA) is devoted to addressing these national level issues. One key plank of this 100,000 member strong organization is the promotion of home ownership opportunities. This includes enhancing successful programs such as the Federal Home Buyers’ Plan by recommending that its RRSP withdrawal limit of $25,000 per individual be indexed to cost of living increases so that this resource can continue to hold its buying power and help families move into home ownership. The Home Buyers’ Plan (HBP) has made home ownership a more affordable reality for over two million Canadians since its introduction in 1992. In 2009 alone, more than 46,000 homes were purchased using the Home Buyers’ Plan, and that resulted in over $2.1 billion in spin-off spending and approximately 19,000 jobs.

Promotion of home ownership at a federal level is an important piece of the rental issue since people moving into a home free up their rental unit for another tenant. Any healthy rental market relies on home ownership affordability and availability to keep vacancy rates at an acceptable level.

C.2) Income Tax Act Changes to Support Rental Investment

A direct effort by CREA over the last few years to reinvigorate the rental housing market is to seek fairer tax treatment from the federal government in order to provide an incentive to rehabilitate existing units and build new supply. The national rental housing deficit is significant and needs to be addressed.

CREA’s proposal is all about unlocking property reinvestment by allowing the capital gains tax and the recaptured capital cost allowance to be deferred when an income property is sold and the proceeds are reinvested in another income property within one year.

The proposal seeks to change the Income Tax Act regarding active versus passive investors. Currently, investors employing five or more employees are deemed to be active investors and enjoy tax relief that is not available to those with fewer than five employees, who are deemed to be passive investors. CREA feels that this is an arbitrary and unnecessary punitive measure.

CREA is asking the federal government to recognize the important role of small investors who are the backbone of small business and whose investments offer affordable rental accommodation. Adding the transactions of small investors will not be burdensome or complex for government because the tax system already tracks the transactions of large scale investors who qualify for the tax deferral.

Many average Canadians are reluctant to sell in order to reinvest in another income
property because of the tax consequences. Paying the capital gains tax and recaptured capital cost allowance leaves investors with insufficient equity to acquire a property of similar value.

Removing the disincentive to reinvestment, by allowing tax deferral, would rapidly trigger a chain reaction of benefits for the economy, communities and the environment. Moreover, this would occur without program delivery slowdowns caused by complex implementation issues.

CREA calls it is a Main Street proposal that would help restore fairness to the tax system. Dr. Thomas Wilson of the University of Toronto found those with net incomes of $50,000 or less account for approximately 58 percent of those reporting rental property capital gains.

The combination of tax advantages available to larger investors and the increasingly restrictive tax treatment of real estate investment over the past 25 years have created inequities for small income property owners. Furthermore, tax deferral is allowed under various circumstances, such as when a business relocates and reinvests in a replacement property.

This proposal would help the commercial real estate sector and other industries recover from the recent global economic recession. A healthy commercial real estate market spins-off opportunities for trades people in renovations and redevelopment; fees for professionals; income for industries that mine, harvest and manufacture construction materials; as well as tax revenue for all levels of government.

Altus Group estimates the typical multi-unit residential income property transaction in the Greater Toronto Area, Greater Calgary Area and Greater Vancouver Area generates $287,850 in ancillary spending. The Altus study also found more than one job was created for every two transactions.

By allowing tax deferrals you help create additional housing capacity to meet the demands of rental housing and community development.

This CREA proposal would also assist Canadians saving for retirement, as well as retirees’ dependant on regular income, by making real estate a more viable investment vehicle. It would also enable Canadians to relocate their real estate holdings to correspond with a move, something that is easily done with a stock or bond portfolio.

There is widespread support for this proposal, including The National Trade Contractors Coalition of Canada, the Canadian Construction Association, the Appraisal Institute of Canada, the Canadian Federation of Apartment Associations and REALpac – the Real Property Association of Canada. The Canadian Chamber of Commerce has passed a policy resolution recommending tax deferral on property reinvestment.

On a final note with respect to CREA and its efforts to stimulate much needed new
purpose-built rental units across the country through proposals such as the one noted above, the national association has also made it known that despite all the federal government efforts through programs such as the Affordable Housing Initiative, a comprehensive Federal Housing Strategy is still necessary to ensure there is continued focus and priority on housing issues. They see CMHC playing a pivotal role in this regard.

For example, given how successful the Multi-Unit Residential Buildings (MURB) federal tax credit incentive program was decades ago in stimulating new rental construction throughout the country, despite its pitfalls, there may be at least value in examining its pros and cons and seeing if there would be a way of developing a similar program. If possible, it would be one with the positive stimulus provided by MURBs, but a program without the drawbacks.

**Glossary:**

**2nd Generation Rent Control:** A major strength of this form of rent control is it allows owners to increase rents at their discretion in any apartment unit that becomes vacant; the landlord has total discretion to set the rent to what they expect the market will bear. Once the new rent level is established, it falls back under rent control guidelines for allowable annual rent increases (Also known as **Vacancy Decontrol**). This is not the case in Manitoba where there are stringent controls on vacancy. The vast majority of rents are not allowed to change upon a unit becoming vacant.

**CPI:** Consumer Price Index is a monthly measure of changes in consumer prices in Canada, based on a sample of approximately 300 goods and services. CPI can also be measured in certain subsets, such as a subset for costs of home ownership, or for energy or construction supplies.

**HOP:** Housing Opportunity Partnership is a non-profit dedicated to improving the quality of housing stock and neighbourhoods in Winnipeg’s inner city by facilitating access to home ownership among low to moderate income prospective home buyers.

**Housing Continuum:** The movement of demographics from lower level to higher level rental, to entry level home ownership options, to single-detached home ownership and eventually moving out of single detached homes into seniors housing (life lease, independent living, assisted living etc.). This continuum differs greatly for every individual and is subjective to preferences, age, lifestyle, family status, and income. Availability, affordability and market problems at any stage in the continuum can lead to a breakdown, meaning that movement between housing types is not occurring as normal.

**EIA:** Employment and Income Assistance, a term meant to describe government transfers to individuals. This often means these individuals are on a fixed income that is well below the LICO (Low Income Cut-Off), although for some on Employment Insurance this figure would not be designated low income depending on income before loss of employment.
RTB: Residential Tenancies Branch, a government body enforcing and investigating cases related to the Residential Tenancies Act; establishing guidelines, managing exemption criteria and enforcing allowable annual rate increases as set by government.

Shelter Allowance/Rent Supplement: A tenant subsidy designed to compensate for the gap between the ability to pay (usually 30% of gross income) and the market rent. Rent supplements work in the same way, only with a significant difference in that the subsidies are paid directly to the landlord.

Shelter Poverty: Disproportionate spending on shelter (i.e. 30% net income and up) such that a tenant is no longer able to afford basic necessities.

SNA: Spence Neighbourhood Association is a non-profit based in inner-city Winnipeg. The SNA has an active Housing Committee driven by staff and community members to increase access to several different housing options, as well as purchasing and increasing the stock of affordable housing.

Winnipeg Housing and Homelessness Initiative (WHHI) – a tripartite government initiative which provides one-stop shop access to federal, provincial and City of Winnipeg housing programs. The WHHI plays a very important role in coordinating the delivery of the housing programs within the city.

Tax Incremental Financing (TIF) – This is a provincial tax finance tool which essentially allows any provincial education tax revenues generated incrementally after a property’s assessment has increased due to any improvement to go into a Community Revitalization Fund. To be eligible for this TIF, the subject property or area must be designated for community revitalization. Monies from this Fund can be used as grants for creating or refurbishing residential housing and other revitalization projects.