

HOUSING MARKET INSIGHT

Peterborough CMA



CANADA MORTGAGE AND HOUSING CORPORATION

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"Conversions of non-residential structures represent an additional way of creating new rental supply, with wider rent ranges, either below or above market rents. During 2014-2018 period, the share of rental apartments originated through conversions with average rents of at least 10% below market was 44%."



Olga Golozub
Senior Analyst, Economics

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Peterborough Rental Market: Growth through Conversions

- From 2014 to 2018¹ a total of 198 rental apartment units were created through conversion as either privately owned purpose-built units or community housing² units.
- Ninety four percent of all converted units are centrally located and in close proximity to social amenities and urban infrastructure.
- About 44% of units created through conversions over the period of 2014-2018 have rents of at least 10% below market. These are community housing accommodations.
- Privately owned purpose-built units originated through conversion of non-residential structures had on average 9.5% higher rents in October 2018 than newly built rental units³.
- Considering the 30%-of-income affordability criteria, a renter household needed an income of at least \$44,100 before taxes in 2018 to rent a recently converted one-bedroom apartment, while an actual household pre-taxed income estimate⁴ for renter households in Peterborough CMA⁵ was \$42,000 in 2018.
- Approximately one third of renter households in Peterborough CMA would be able to afford⁶ recently converted privately owned purpose-built one- or two-bedroom units based on the income distribution of renter households in Peterborough CMA from the 2016 Census⁷.

Introduction

New housing supply is a required necessity in confronting housing affordability challenges⁸. It can be increased not only through new construction but also through conversion of non-residential, under-utilized buildings. The City of Peterborough is an example of an urban centre where during 2014-2018 period, four non-residential properties were transformed into residential rental buildings and two existing rental structures underwent multi-unit expansions. This report will examine a) whether rental conversions allow the creation of more affordable units than newly built rentals; b) what income levels meet the current affordability criteria⁹ for the recently converted units; and c) what is the percentage of renter households who are able to afford recently converted rental apartments.

The Information on conversions were obtained from the building¹⁰ and occupancy permit¹¹ data, which were provided by the City of Peterborough, the Building Services Division. CMHC data from the annual Rental Market Survey (RMS) was used for rent comparison analysis.

The number of rental units created through conversions exceeded the number of new purpose-built rentals by 8.2% during 2014-2018 period

From 2014 to 2018 a total of 198 rental apartment units were created through conversion. Most of the units (94%) were originated through conversion of non-residential

structures, and only 6% through multi-unit expansions of existing residential structures. All of the units are long-term rental accommodations. About 56% of the units created through conversion were privately owned purpose-built rental apartments, the other 44% were community housing.

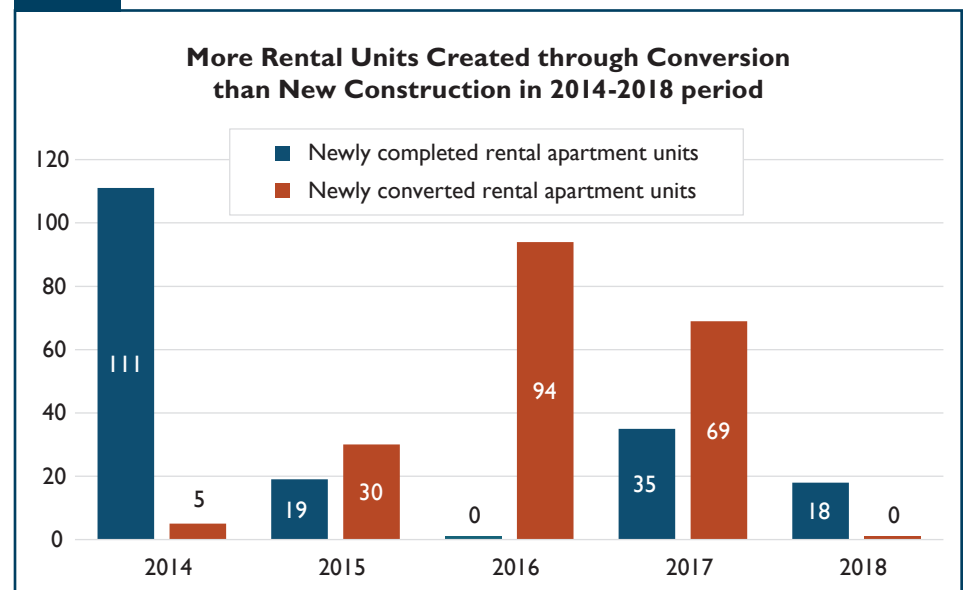
The specific examples of non-residential buildings converted into rental accommodations include:

- A multi-structural project at former St. Joseph's hospital in East part of the City, with two¹² of its buildings transformed into 99 privately owned purpose-built rental apartments.
- Mount St. Joseph convent¹³ and Knox United Church in Peterborough downtown were converted into two affordable rental buildings with a total of 87 rental units.

Also, during the same five-year period, two existing privately owned purpose-built rental apartment buildings on Talwood Drive underwent a major redevelopment project, which included some structural alterations. Twelve new rental units were created in addition to what already was built in the 70's.

On the other end, during 2014-2018 period, the number of purpose-built rental apartment completions in Peterborough CMA was slightly lower, totaling 183 units (Figure 1). That implies that the number of rental units created through conversion exceeded the number of purpose-built rental apartment completions by 8.2% during the five-year period.

Figure 1



Source: CMHC Rental Market Survey, 2014-2018

94% of all conversions occurred in Zone 1 – Downtown

Peterborough Downtown with its rich cultural legacy and community significance somewhat rarely present an opportunity for a new rental development, as land zoned for high density is not often available within downtown area and when available, it is likely to be costly. According to CMHC Starts and Completions Survey, during 2014-2018 period there were 29 newly completed privately owned purpose-built rental apartment units in Zone 1 – Downtown (Peterborough Central and Downtown Core) or less than 16% of the total rental apartment completions at the CMA level. When considering conversions, during the same five-year period, 94% of all converted units (186 units) occurred in Zone 1 – Downtown. It confirms that conversions are usually located within urban areas and not in suburban neighbourhoods, where typically more land is available for development. Often, redevelopment projects like conversions present the only opportunity for the growth of rental supply in a desirable, transit-supportive downtown area.

44% of studied community housing units have average rents of at least 10% below market

About 44% of the total units created through conversion during 2014-2018 relate to community housing. The 44% share consists of the Mount Community Centre located at 1545 Monaghan Road, Peterborough and a former Knox United Church Building at 400 Wolfe St., Peterborough. Both of these developments received government funding through the Investment in Affordable Housing (IAH)¹⁴. Therefore, their rents were designed to be at least 10% below average market rents (AMR), which are provided in Table 1. In fact, the aforementioned developments have a mix of 80% of AMR units funded under IAH and 90% of AMR units that fall under the tax relief established by the Municipal Housing Facilities By-law¹⁵.

All affordable housing units with funding agreements through the City of Peterborough or provincial government must comply with maximum income requirements as established annually by the City of Peterborough. In 2018, the maximum

income thresholds for units at 90% of AMR were \$25,380 for a bachelor apartment, \$30,600 and \$35,568 for one- and two-bedroom apartments respectively; for units at 80% of AMR the 2018 income thresholds were lower - \$22,560 for a bachelor apartment, \$27,200 for a one-bedroom and \$31,616 for a two-bedroom apartment.

56% of the privately owned purpose-built units created through conversions have rents that are 9.5% higher than newly constructed purpose-built rental apartments

About 56% of the units created through conversion and multi-unit expansion during 2014-2018 period were privately owned purpose-built rental apartments, located in four different structures. Their total average rent was \$1,223 in October 2018, which is 9.5% higher than the average rent of the newly built rental apartments¹⁶ (Table 2).

Table 1: Average Rent by Bedroom Type by Zone, Apartment Units, October 2018

	Bachelor	1 Bedroom	2 Bedroom	3 Bedroom +	Total
Zone 1 - Downtown	\$706	\$869	\$1,067	\$1,308	\$976
Zone 2 - Remainder of CMA	\$829	\$979	\$1,085	\$1,326	\$1,073
Peterborough CMA	\$734	\$916	\$1,077	\$1,322	\$1,027

Source: 2018 CMHC Rental Market Survey

Table 2: Average Rent by Bedroom Type for Studied Properties, 2018

	Bachelor	1 Bedroom	2 Bedroom	3+ Bedroom	Overall
Rental apartment units created through conversions over the period of 2014-2018	**	\$1,102	\$1,261	**	\$1,223
Rental apartment units completed in or after 2005	**	\$1,122	\$1,146	**	\$1,117

** Data suppressed to protect confidentiality.

Source: CMHC 2018 Rental Market Survey

Based on the results from the 2018 RMS, the one- and two-bedroom units in the studied properties fall above the 80th percentile of the corresponding Peterborough CMA rents, which represents the most costly segment of the privately owned purpose-built rental apartment stock (Table 3).

What level of income meets the current affordability¹⁷ criteria for the recently converted units?

Generally, rents in newly renovated privately owned structures tend to be higher than in existing buildings. Based on the 2016 Canadian Census, an actual household pre-taxed income estimate for renter households in

Peterborough CMA was \$42,000 in 2018. Considering the 30%-of-income affordability criteria, a renter household needed an income of at least \$44,100 before taxes in 2018 to rent a recently converted one-bedroom apartment and around \$50,400 to rent a two-bedroom apartment (Table 4).

Based on the income distribution of renter households in Peterborough CMA from the 2016 Census, approximately 35% of renter households had an income of \$44,000 or more and 29% had an income of \$50,000 or more (Table 5). Therefore, approximately two thirds of renter households in Peterborough CMA would be considered below the affordability standard if they decide to rent recently converted purpose-built one- or two-bedroom units.

Conclusion

Conversions of non-residential structures represent an additional way of creating new rental supply. In the 2014-2018 period most of the rental conversion projects in the Peterborough CMA occurred in the downtown area. Forty-four percent of units created through conversions during the five-year period addressed affordability concerns with rents of at least 10% below market. These two community housing projects received government funding. The average rent of privately owned purpose-built units that originated through conversion of non-residential structures was approximately 9.5% higher than newly constructed purpose-built rental apartments in October 2018. Based on the 30%-of-income affordability criteria, converted purpose-built units were estimated to be affordable to 29-35% of renter households.

Table 3: Rent Quintiles - Peterborough CMA, 2018

Bedroom Type	20 th Percentile	40 th Percentile	60 th Percentile	80 th Percentile	Avg Rent of Studied Properties
One-Bedroom	\$795	\$888	\$941	\$1,037	\$1,102
Two-Bedroom	\$895	\$1,049	\$1,116	\$1,221	\$1,261

Source: CMHC 2018 Rental Market Survey

Table 4: What Income Meets Current Affordability Criteria for Rent plus Utilities

	Bachelor	1 Bedroom	2 Bedroom	3+ Bedroom	Overall
Rental units created through conversions over the period of 2014-2018	**	\$44,100	\$50,400	**	\$48,900
Rental units completed in or after 2005	**	\$44,900	\$45,800	**	\$44,700

** Data is not available.

Source: CMHC calculations

Table 5: Income Distribution of Renter Households, Peterborough CMA

Income Range	Percentage of Renter Households
less than \$44,000	65%
\$44,000 and above	35%
\$50,000 and above	29%

Source: CMHC calculations based on Statistics Canada 2016 Census Catalogue No. 98-400-X2016225

ENDNOTES

- ¹ The start date of studied conversion projects was limited to the 2013-2017 period, so that the average rent of all studied projects would be known and available by October 2018 or earlier. Only conversions with issued building permits were counted.
- ² Community housing refers to social, not-for-profit, co-op and affordable housing.
- ³ Due to the low number of purpose-built rental apartment completions in the Peterborough CMA, the average rent by year of construction is available from 2005 onwards. Therefore, in this research newly built rental apartment units completed in or after 2005 serve as the closest comparable to the recent conversions.
- ⁴ The 2011/2016 income growth rate was used as a proxy to determine the 2018 average total household income before taxes for renter households. Income for renter households is derived from 2016 Canadian Census. Data is rounded to the nearest \$100.
- ⁵ CMA stands for Census Metropolitan Area. As per 2016 Census, there were 16 CMAs in Ontario and 35 CMAs in Canada.
- ⁶ Housing affordability is assessed based on a threshold of whether the household spends 30% or more of its total before-tax income on shelter costs. For renters, shelter costs include, as applicable, rent and payments for electricity, fuel, water and other municipal services.
- ⁷ Statistics Canada, 2016 Census of Population, Statistics Canada Catalogue no. 98-400-X2016225.
- ⁸ While new housing supply is required, it is not a sufficient condition to increase affordability. Housing is considered affordable if it costs 30% or less of before-tax household income.
- ⁹ Affordability criteria refers to a situation when a household spends 30% or less of its gross income on shelter costs.
- ¹⁰ A building permit provides an address of a building being converted into rental, the number of units to be created and the date when a building permit was issued.
- ¹¹ A building occupancy permit is a final government inspection permitting occupancy. It certifies a building compliance with the building code.
- ¹² The third 33-unit building at 175 Hunter St. E., Peterborough was granted occupancy permit in February 2019. The fourth 27-unit building that faces the Armour Rd. will be completed in the second half of 2020.
- ¹³ <http://www.themountpeterborough.ca/>
- ¹⁴ <https://news.ontario.ca/mma/en/2017/04/celebrating-new-affordable-rental-homes-in-peterborough-and-kawartha-lakes.html>
- ¹⁵ The more detailed rents for the two buildings at 1545 Monaghan Rd. and 400 Wolfe St. were not available.
- ¹⁶ In this research, new rental apartments refer to units completed in or after 2005 and were identified as the closest comparables to the recent conversions due to a low number of purpose-built rental apartment completions in the Peterborough CMA in the last 10 years.
- ¹⁷ Rent, including utilities, makes up no more than 30% of pre-tax income. Due to a small sample size, the assumption was made that average and median rents would be the same.

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