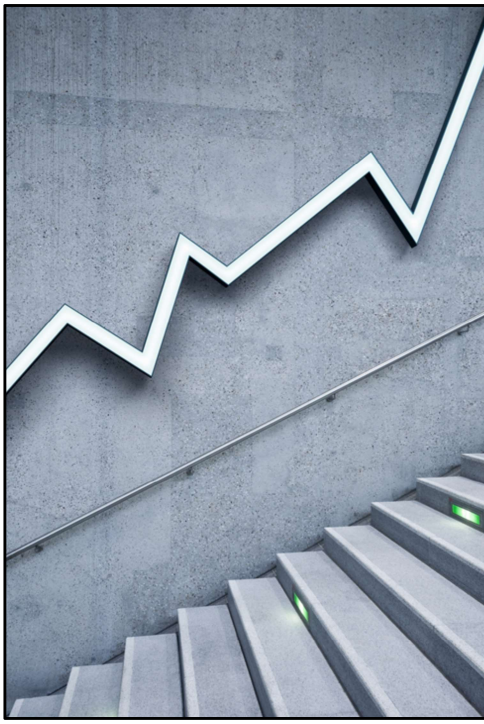
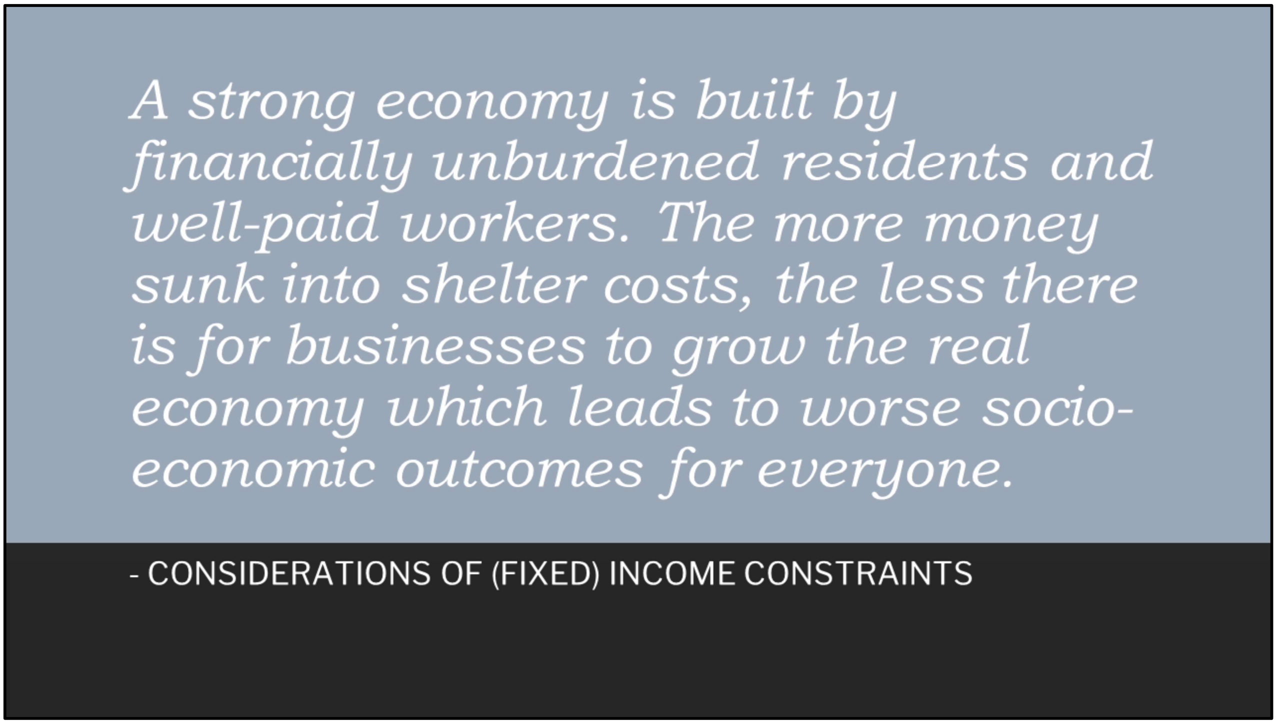


The Housing Crisis in Hunt Club

THE LACK OF AFFORDABLE MARKET RATE HOUSING IS HARMING OUR COMMUNITY

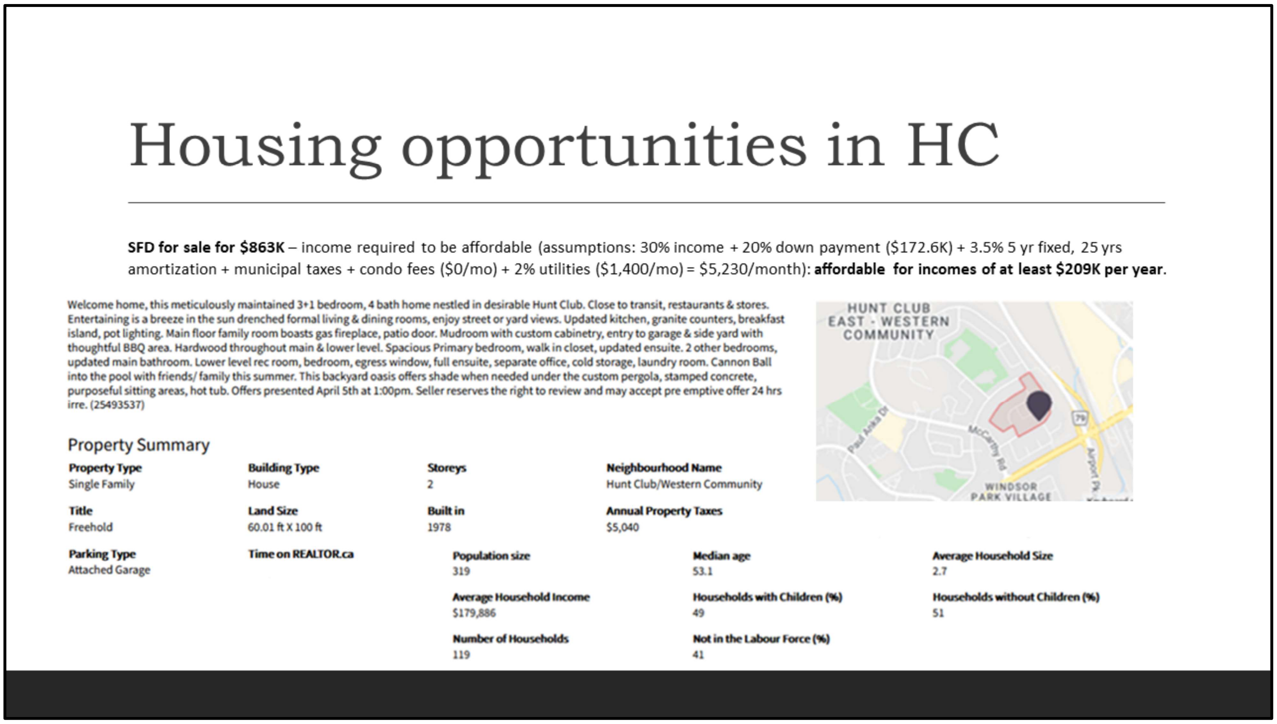
The purpose of this presentation is to bring to everyone’s attention the consequences of the lack of affordable and market rate housing in our community.



Quote by Audrey (economist) based in economic theory. In plain language, if we want a strong economy in our community, we need to have residents that are not financially burdened, and we need to have well-paid workers. The more money that is sunk into shelter costs –and these have been rising very rapidly- the less there is for businesses and the economy to grow, and this leads to worse socio-economic outcomes for everyone.

Hunt Club Community

- Hunt Club, when first developed, was built to be a dynamic and mix-income neighbourhood.
- Unfortunately, the majority of residents in our neighbourhood would not be able to afford to live here if they had to start over. New residents to our neighbourhood by default, must be part of the top quintile earners of their income segment to afford any home in the neighbourhood.
- We are at risk of losing part of the diversity that makes Hunt Club a great place to live.
- Over the past months, I personally had to share the painful news with two mothers of 3 children each that there is no affordable housing in our neighbourhood (even thought we have five co-ops). They cannot live here despite the fact that we have two elementary schools.
- Out large, over the past weeks, there has now been two articles are individuals (as young as 31 y.o.) who are forced to apply to Medical Assistance in Dying (MAiD) because they cannot access affordable housing.



This is a first example of homes up for sale in our neighbourhood. It was advertised at $863K and would require an income of $209K to be purchased affordably (no more than 30% of gross income attributed to housing costs – estimated $5,230/month) and the ability to have already saved a down payment of $172K. If the prospective buyer does not have a 20% down payment, then the monthly shelter costs increase.

To be able to afford the average home in that part of our neighbourhood, the prospective buyer would need to make more than the average income of its neighbours (45% of current residents in that area have an income below $100K, 30% of households in that area have an income under $80K). In this area, 25% of children living at home are 25 years old or older. A large proportion of adult children living at home with their parents is often an indicator of housing and rental unaffordability.

Housing opportunities in HC

Semi-detached for sale for $578K --- income required to be affordable (assumptions: 30% income + 20% down payment ($115.6K) + 3.5% 5 yr fixed, 25 yrs amortization + municipal taxes + condo fees ($0/mo) + 2% utilities ($950/mo) = $3,550/month): **affordable for incomes of at least $142K per year**.

Description

Welcome to , whether you're a young family looking for your first home, or an investor looking for a great income option, this property offers great potentials. Situated on a large corner lot the house is freshly painted throughout & in move in ready condition. The Living room with granite faced fireplace and patio door leading to the large rear & side yard. Kitchen has an ample eating area, granite countertop & plenty of cabinet space. Large bay window in bright dining room. 2nd level has a large master bedroom with 4pc ensuite bathroom, and two additional good-sized bedrooms & a full bath. Bonus mortgage helper/in-law suite: fully finished basement has the 4th room, kitchen and full bathroom with a separate side entrance for total privacy. Furnace 2012, A/C 2017, Roof 2010. Offers to be presented March 28th @ 6pm, 24 hour irrevocable, however Seller reserves the right to review and may accept pre-emptive offers. Open house March 27 @ 2 - 4pm (25445331)

Property Summary

Property Type	Building Type	Storeys	Neighbourhood Name
Single Family	House	2	Hunt Club

Title	Land Size	Built in	Annual Property Taxes
Freehold	34.45 ft X 94 ft	1979	$3,834

Parking Type	Time on REALTOR.ca
Attached Garage	

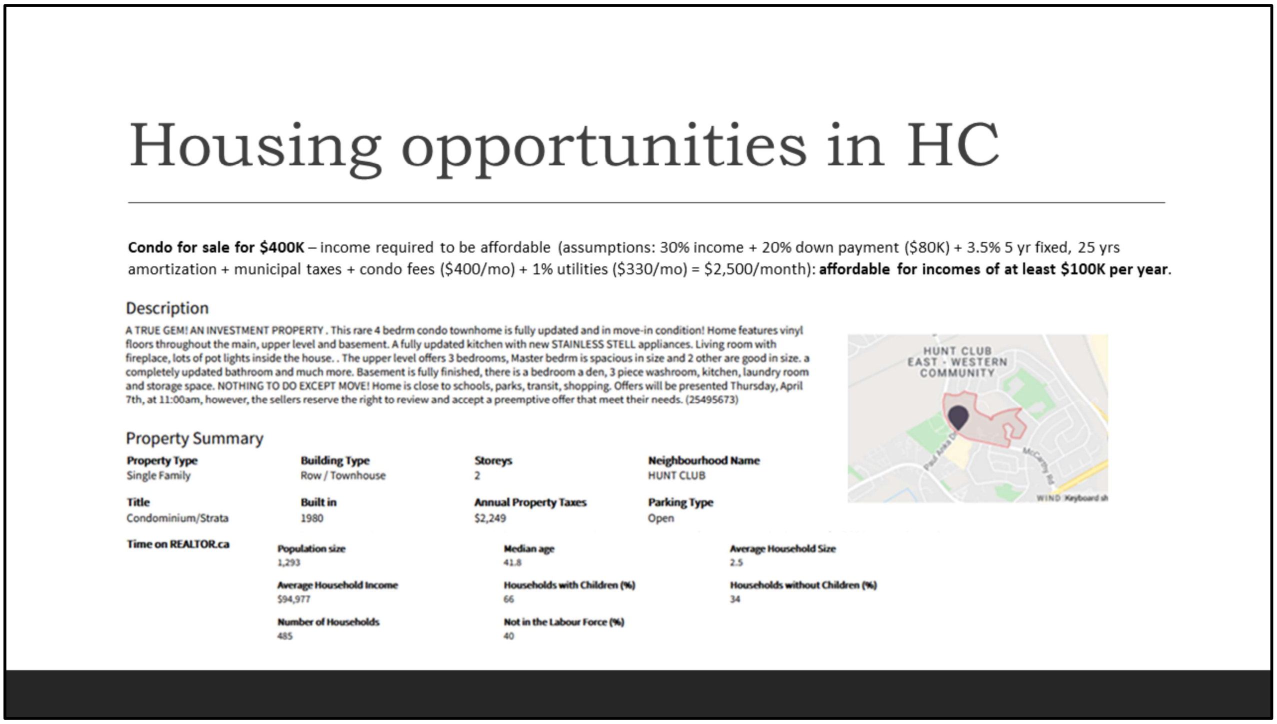
Population size	Median age	Average Household Size
523	41.4	2.6

Average Household Income	Households with Children (%)	Households without Children (%)
$116,407	68	32

Number of Households	Not in the Labour Force (%)
203	31

For a single-detached home in our neighbourhood, the asking price $578K, which means that prospective buyers would need to make at least $142K to affordably purchase this home with a down payment of $116K (note that the home was later re-advertised for nearly $670K and eventually sold). This home like most homes in our neighbourhood (except for the most expensive single detached homes) is heavily advertised to investors.

In this area of our neighbourhood, 40% of households have an income under $100K and nearly 20% of children living at home are 25 years old or older; 33% of children at home are 20 years old or older.



This one is a condo for sale in our neighbourhood. It is one of the most affordable options and even for this home, a prospective buyer would need an income of at least $100K to comfortably (affordably) own this home, and this is in comparison to 70% of dwellers in this area having an income below $100K per year (60% of households have an income under $80K per year). Nearly 20% of children living at home are at least 25 years old, and 32% of children living at home in this area are 20 years old or older.

Apples to Oranges: Housing Prices Today vs. 1981

In Ottawa in 1981, the average home cost **$65 000**
BUT Interest Rates were high, **18.2%** on average in 1981 (though it went up to 21% at its peak).
AND You had to save **20%** down

In Ottawa in 2021, the average home cost **$682 000**
Now Interest Rates are low **(3.3%)**
And down payments can be **5-10%***

Prices increased in Ottawa
in 1983 by **21%**
in 1984 by **18%**
(highest in last 40 years until 2020)

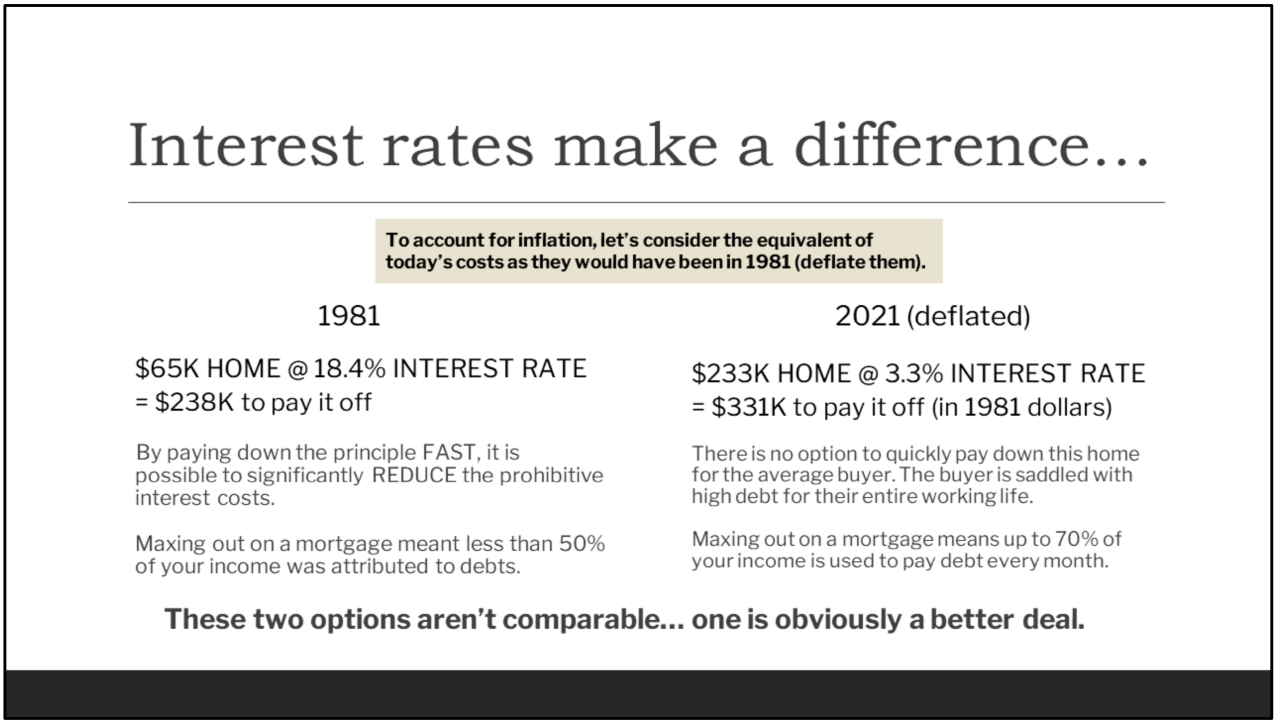
in 2020 by **20%**
in 2021 by **29%**
…and they're still increasing

*Minimum down payments are 5% on the first $500k,10% from $500k to $1M, and 20% for anything over $1M

Patrick put together some comparisons of the housing crisis now versus previous crises or spikes in pricing (unaffordability).

This is data of the average house price in Ottawa adjusted for inflation (OREB).

Selected the year 1981 for comparison when the interest rate for new mortgages was highest.



To facilitate comparison between 1981 and 2021 prices, 2021 prices are deflation (accounting for inflation) to 1981 levels: adjusting-down, what would today's prices have meant in 1981? The overall price in 1981 of today's total cost for an average home would be $331K (including a 3.3% interest rate) compared to the $238K total price of a home purchased in 1981 including the 18.4% interest rate.

Costs to Homeowners: 1981 vs. 2021

To account for inflation, let's consider the equivalent of today's costs in 1981.

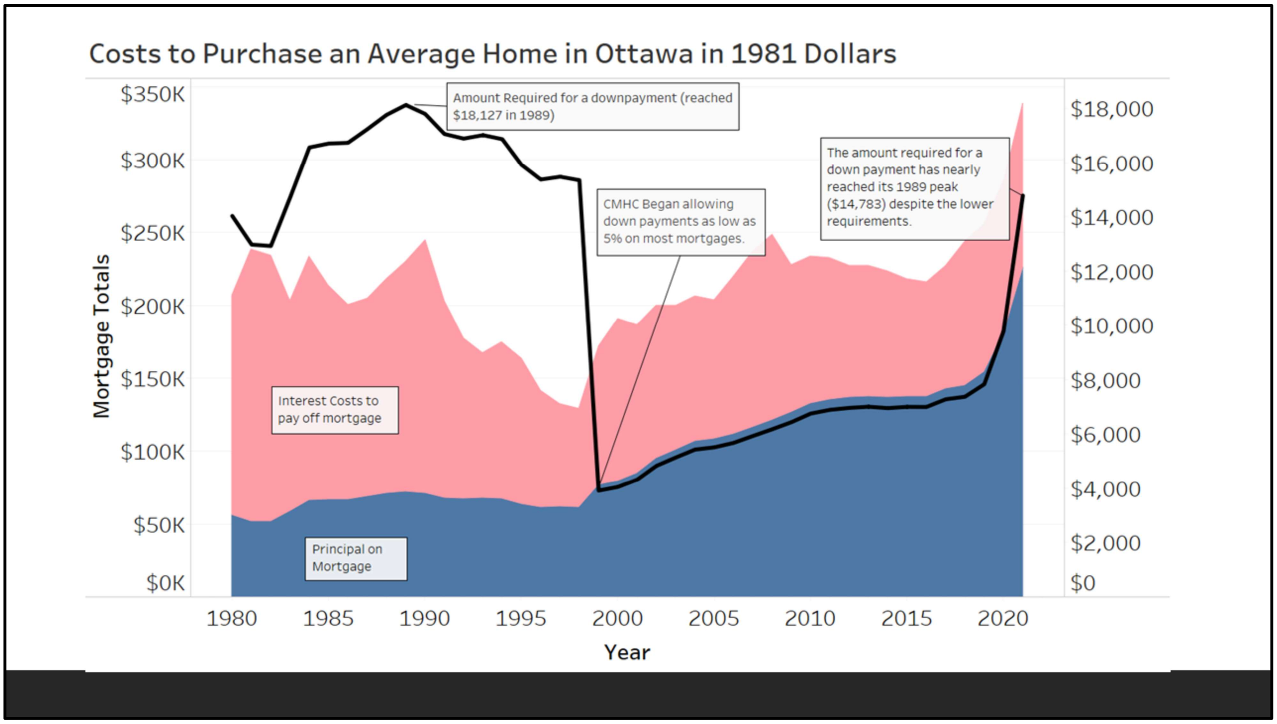
in 1981, the average home in Ottawa cost
$65 000
In 1981, an average down payment was
$13 000
The amount to pay off that home was
$238 000
Total Interest for a 25-year mortgage was
$186 000 (more than the house!!)
Monthly Payments on that mortgage were
$800

In 1981, homes today would have cost
$233 000
The down payment would be
$15 000
To pay off that home would be
$331 000*
Total Interest would be
$113 000
Monthly Payments would be
$1100

*Insurance premiums required for a lower down payment increase the total loan amount

The numbers are broken down a little bit over time. Today's down payment has been brought down to as low as 5% which is why the down payment cost is comparable (in 1981, the down payment cost had to be at a minimum 20% of the purchase price).

The 2021 home price, adjusted down to 1981 levels, leads to a higher monthly payment despite the lower interest rate because the price of a similar home is so much higher.



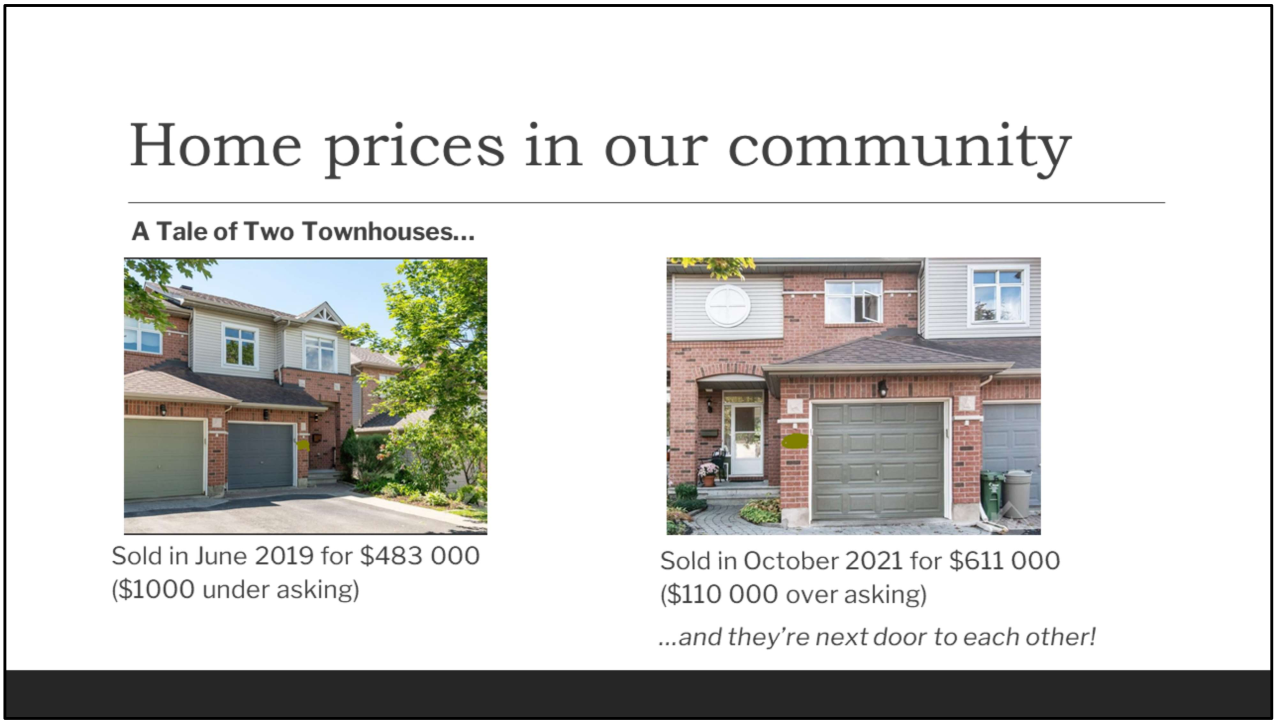
This figure illustrates visually the dynamic in carrying (monthly) costs of shelter with the principal of a mortgage in blue and the interest in red. The black line illustrates the minimum down payment required (right scale). For a few years in the late 2000s, it was also possible to purchase with 0% down. This policy was implemented by the federal government at the time to prevent a downturn of the Canadian housing market (like the American one) and encourage the ''wealth effect'' where individuals feel rich from the growth in equity in their home and borrow against it stimulating the economy. The theory is that this demand boost would create growth sufficient to pay down the debt in the future. Unfortunately, that is not, in my (Audrey's) opinion, what has happened. Unproductive debt (debt that does not lead to growth but is used to purchase at an elevated price a same asset - house) since the Great Financial Crisis and during the COVID pandemic has led to some growth in the short term, but it will have been at the expense of future economic growth when most salaries and fixed incomes will have to be used to pay down that debt making it ultimately a drag on our future economic opportunities and that of our children.

Through this chart, we can see that it has always been difficult to purchase a home. It also shows what maxing out in the 1980s and maxing out on a home today differ. In the 1980s, housing costs were very high because of the interest rate leading to a composition of 1/3 principal of the house against 2/3 interest costs. As such, families who chose to would be able to reduce their obligations by paying down their mortgage faster and avoiding part of the exorbitant interest costs. Even if families did not or could not pay their mortgage at a faster rate, purchasing at sky high interest rates also meant that refinancing would most likely be done at a lower rate leading to lower payments and increased disposable income (and ability to improve living standards) over the course of that their life. Conversely, when interest rates are at rock bottom, when the effective lower bound on easing has been reached so rates can only stagnate or go up, the risk that housing costs will increase over the lifetime of a family locking in on a home today is quite significant and is likely to impede their standard of living prospects.

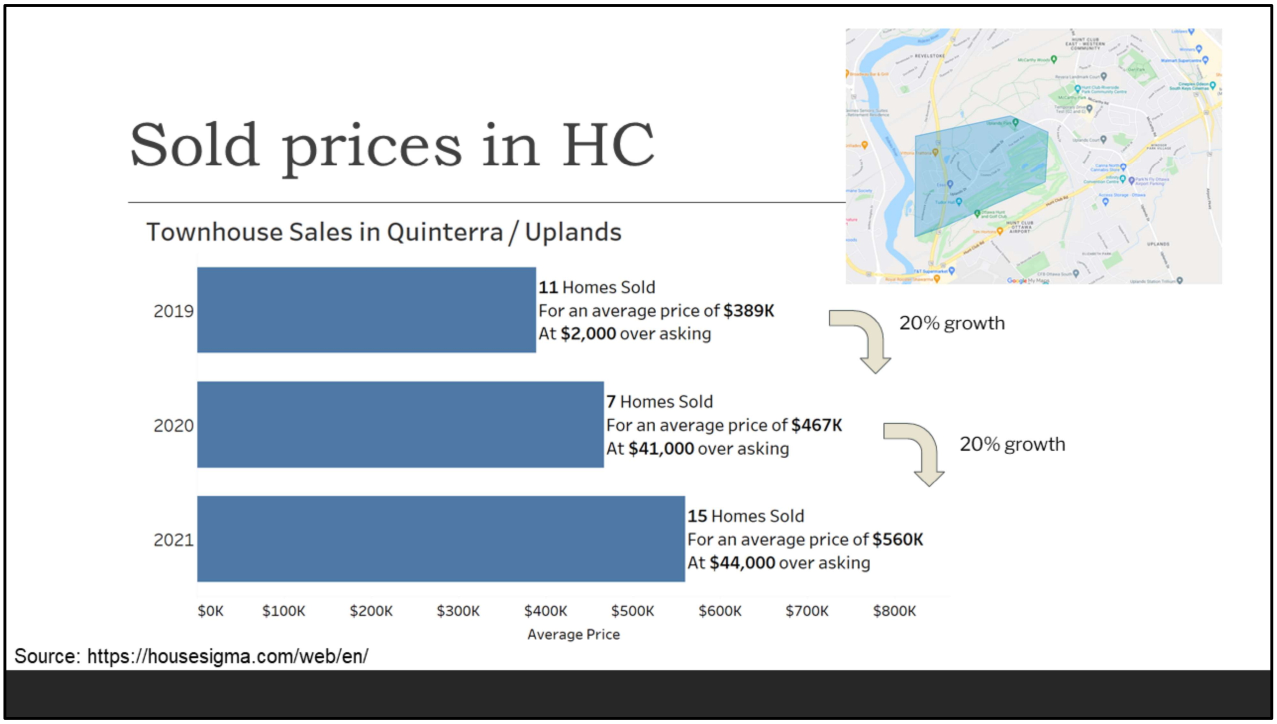
Notice that the principal on mortgage in 2021 (last blue observation) is equivalent to the full housing cost (mortgage and principal) of 2015. The principal on the mortgage cannot be reduced (like the interest costs) by paying down the mortgage faster, it is a full cost that must be paid no matter what. It has always been difficult to buy a house, but this graph shows that today it is a herculean task for anyone wanting to live in our neighbourhood or even for us wanting to move.

The growth in prices has been completely unsustainable over the past 5-7 years. The homeownership aspirations of young adults only 5 years apart in age is drastically different, entire generations are being left behind, and it affects our community.

In Hunt Club, about 20-35% of children in each part of the neighbourhood are children are aged 20-25+ years old. The adult children in our community are not able to move out. There are no affordable housing options to purchase for young adults in our community and rents are predatorily high –around $1,500 to $2,000 for a one bedroom- which prevents renters from being to save if they want to buy. Given these facts, it is not a surprise that a growing percentage of adult children in our neighbourhood must continue to live at home with their parents.



This is a quick comparison of townhomes in our community. One sold in 2019 for $483K and the other two years later sold for $611K, which is an exceptional escalation in price that unfortunately makes all the difference for a young adult who is on the search for their home where they will grow their family. It simply seems to many as an impossible task.



Using open data of townhomes sold in our community (the search was limited to townhomes similar in size and appearance to the ones presented on the last slide) over the past few years (thank you Patrick), we can see townhomes in our community selling for $319K in 2019, jumped to $467K in 2020, a 20% increase, and then to $560K in 2021, which is an additional 20% increase in price year-over-year. This is an unsustainable price escalation.

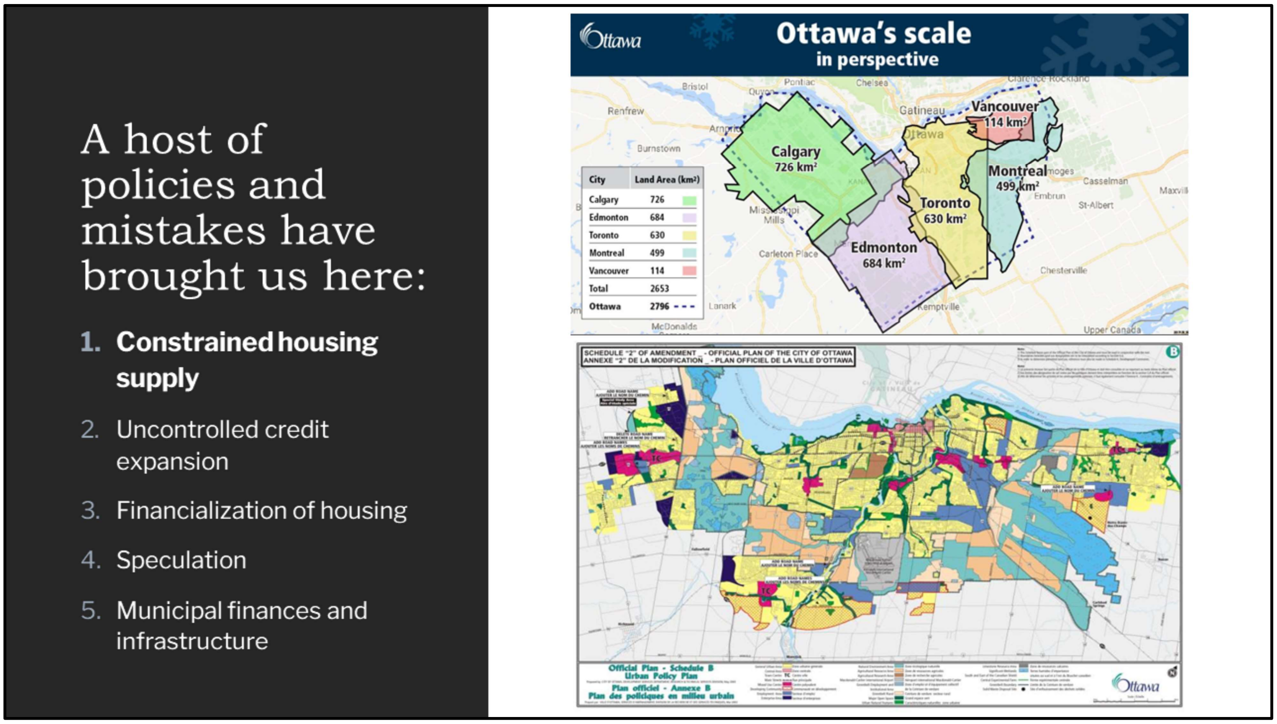
In the next portion of the presentation, we will explore various reasons that have led us to this see and as these apply not only to Toronto or Ottawa out large, but also our own neighbourhood as we've been able to see.

Caveats and Sources for Comparing 1981 and 2021 prices

The analysis on these slides does not account for several factors, though we suspect in most cases these factors make the current crisis more acute than how we've presented it..

- First, most glaringly, it focuses on overall averages, which does not account for a wide degree of variability among housing prices, income, etc, especially among neighbourhoods.
- Rent prices have a large impact on the feasibility of saving for a downpayment. Though the CPI data is used to compare 1981 prices directly to 2021, if relative rent prices are higher in one of those years then it would understate the real cost of saving for a downpayment.
- The analysis uses all dwelling types. The distribution of available choices (e.g. more Single Detached homes in 1981 and more condos in 2021) means that prices / sq ft may be significantly different than prices per home .
- Volatility in interest rates was a serious problem in 1981 that's smoothed over by an average here, making it very difficult for buyers to make an informed decision.
- Conversely, using the most common 5-year fixed mortgage meant that buyers in 1981 were able to enjoy a lower interest rate later on, lowering the final amount they had to pay. Interest rates are unlikely to significantly decrease in the future. Though of course, as noted above, buyers could not have benefited from this hindsight in 1981.

Sources:
Home prices: The Ontario Real Estate Board. Full historical data is not readily available but is republished by other companies, though they transform the data further. We used two separate companies whose data largely matched, except for 2021, which we then averaged and correlated with the 2021 data available from the OREB.
https://homesinottawa.com/be-informed/market-reports/
https://www.agentinottawa.com/stats/
CPI: Statistics Canada. https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=1110019101
Historical Mortage Rates: Statistics Canada. https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=1810000501



There is a host of policies and, I (Audrey) would say, mistakes that have brought us here.

The first one that we will briefly discuss is constrained housing supply. You can notice from the top image on this slide Ottawa which is the most urban sprawled city in all of Canada. Five cities fit in the urban boundary of the City of Ottawa.

- Edmonton: 1.1M population (1,320 inhabitants per sq. km)
- Calgary: 1.4M population (1,239 inhabitants per sq. km)
- Vancouver: 0.6M population (5,492 inhabitants per sq. km)
- Montréal: 1.8M population (2,205 inhabitants per sq. km)
- Toronto: 2.7M population (4,457 inhabitants per sq. km)

Compared to Ottawa (about 1M population) with a population density of 335 inhabitants per sq. km. Ottawa has an incredibly low density compared to other Canadian urban centers.

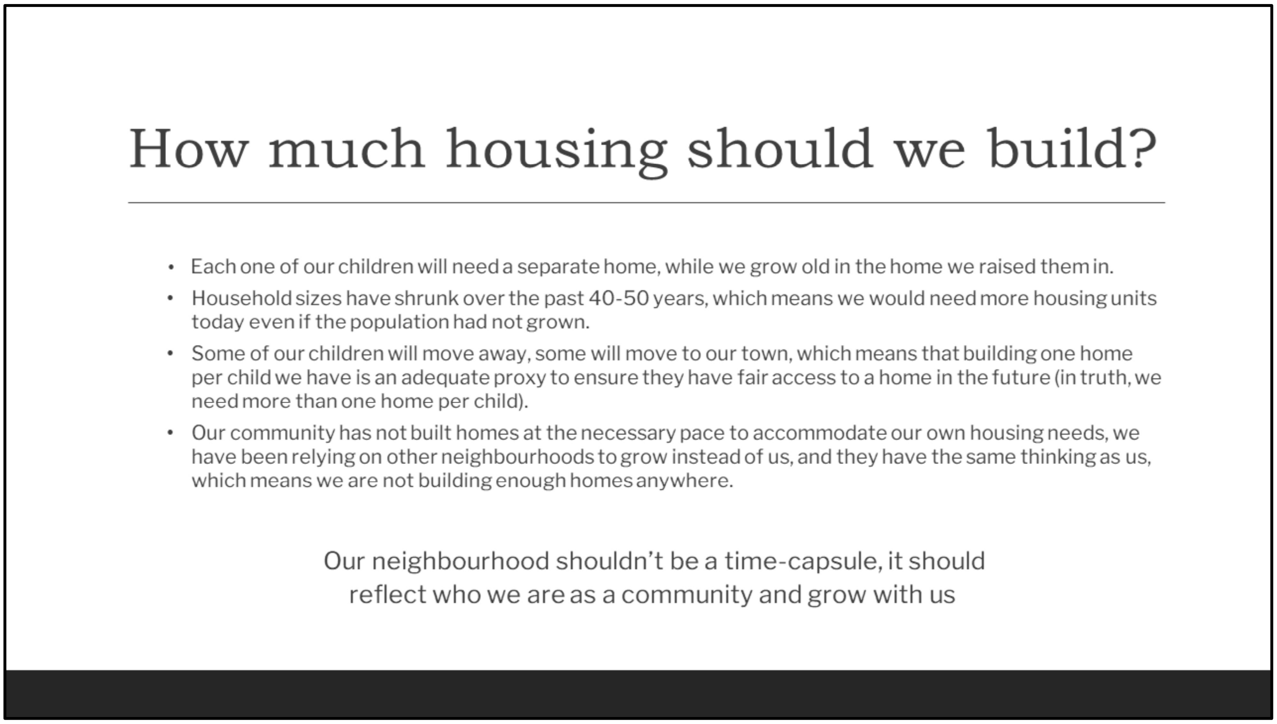
The bottom image shows the zoning types across the City of Ottawa with the light yellow indicating exclusionary zoning, which means only single detached homes can be built as of right across most of the city. Even in or around Hunt Club, building townhomes or semi-detached homes requires going to Council to request variances (to the zoning code) to be approved on a case-by-case basis, and they cannot be built otherwise. An example of this was shared with us at last month's monthly meeting.

Many elements contribute to constrained housing supply, including zoning (notably low density - exclusionary zoning), building permit processes, and local control which does not account for the future needs of the community. All of these have been shown to contribute to the minimal housing supply growth relative to the needs of current and future residents. This is a key area where we, as an association, can have some influence and make bold recommendations considering the housing crisis. There are many courses of action that the association can consider in this area.

We should also appreciate and recognize that while many of us love our single detached family house, it is not necessarily the dwelling type that best meets everybody's needs, and thus allowing for various housing types in our community is one way to ensure that we all have access to housing that fits our individual housing needs which also change throughout our lives as we age, our families grow, and then become smaller again. This is one key area that is available to us to implement some change and build a more inclusive community.

When it comes to extended consultations, ''Canada ranks 33rd out of 34 OECD countries in the time it takes to obtain a building permit''. According to the World Bank Doing Business data, to obtain a permit (municipal approval), takes 180 days in Canada, whereas in the United States it is 21 days, in Australia it is 49 days, in New Zealand it is 30 days, in Germany it is 25 days, in the UK it is 56 days, in Spain it is 45 days, and in Switzerland it is 120 days. Most countries are able to approve projects in a much smaller time frame than Canada without compromising on health and safety due diligence, but even those for which 90 days or more is given to the municipal approval process (e.g. Switzerland), the total length of time spent dealing with construction permits is significantly lower than in Canada (249 days in Canada compared to 156 days in Switzerland).

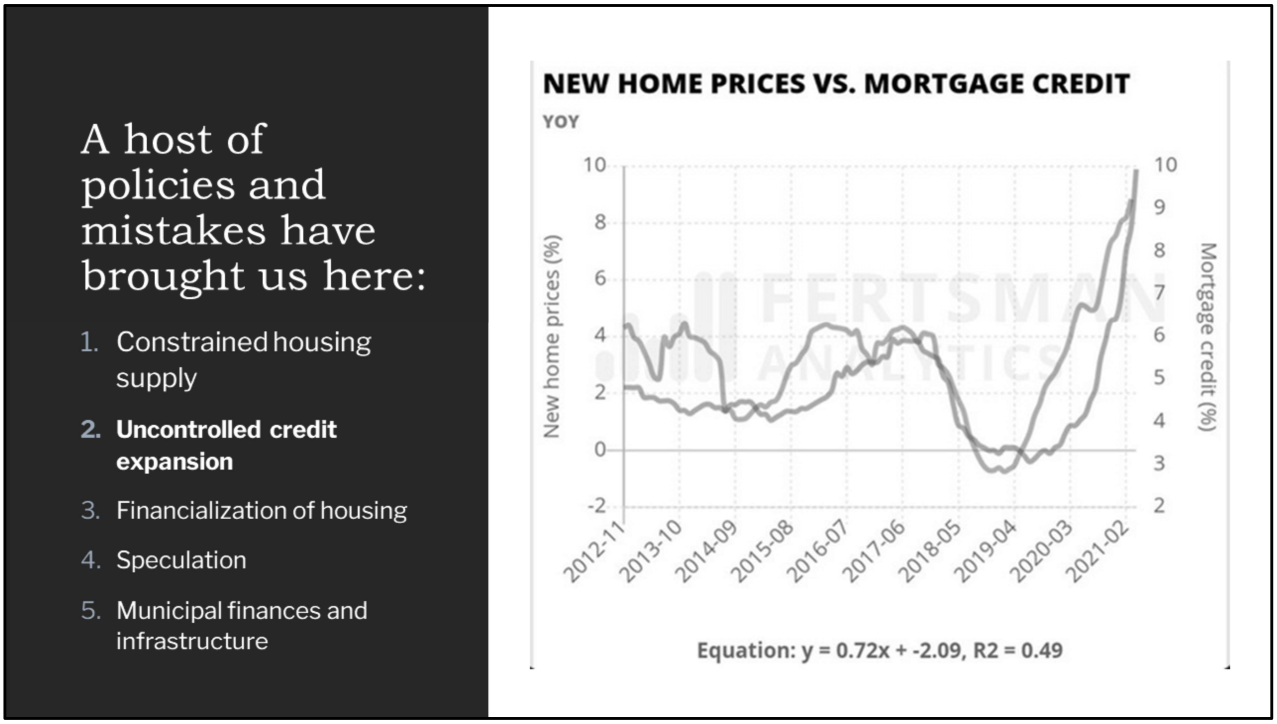
Zoning is an incredibly important feature that allows to separate different types of land-use that are not compatible for health and safety reasons to ensure that homes are not built next to a chemical plant or factory or vice versa. However, stringent zoning that aims to micromanage and dictate exactly the type of housing in which residents are allowed to live does not serve any health and safety consideration… We may consider this too stringent and an obstacle to our objective of having widespread access to affordable housing that meets our different and changing needs within our community.



This slide provides a simple framework to use to think through the question of how much housing we should be building to maintain affordability and a healthy community. It is not a scientific method nor planning rule of thumb.

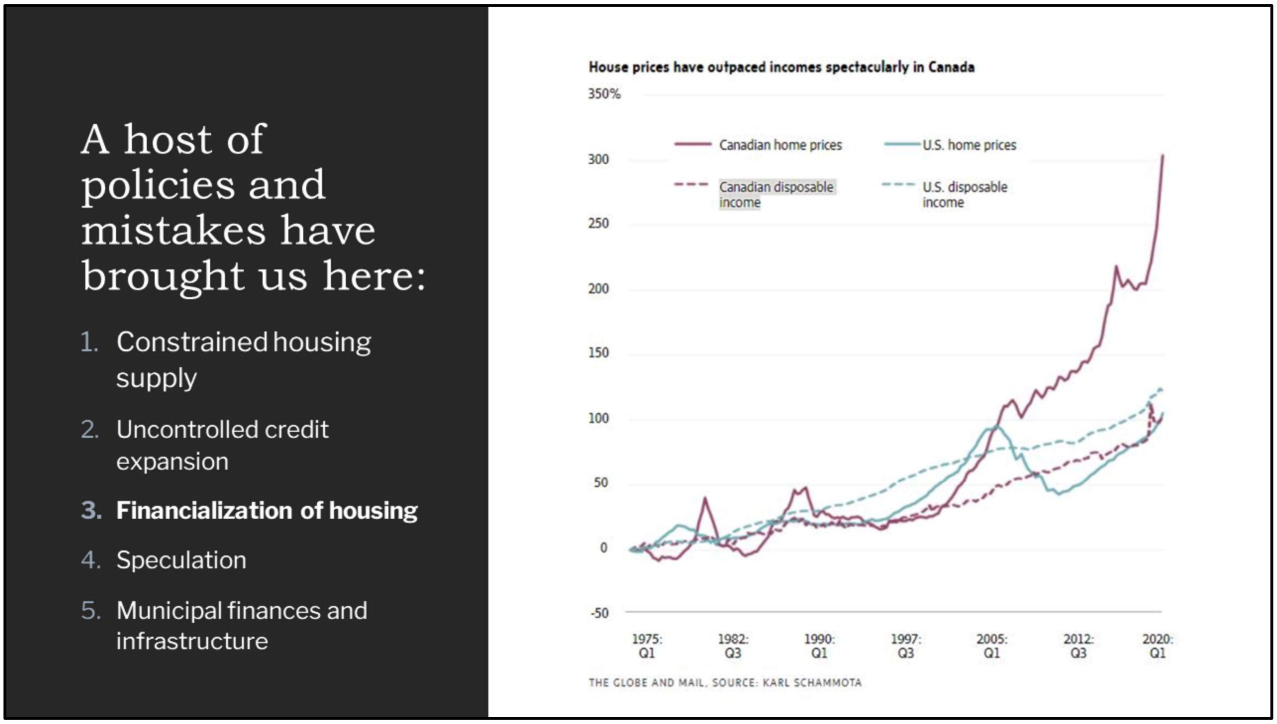
Fundamentally, each one of our children will need a separate home while we ourselves grow older in the home we raised them in. This implies adding to the housing simply continuously based on our own natality rate. Some of our children will move away, people have moved out of our neighbourhood, and others will move here, like myself, I was born in Montreal. This makes the one home per child framework a good proxy to consider. That said, over the past 40 years, household size has shrunk, which means that for the same population we have in the 1970s, we would need more housing units today for the same number of people simply because fewer of us live together. This is in addition to needed additional housing units for our children and a growing population. These effects compound.

Our community has not been building homes at the rate needed to meet our own housing needs, which means we have been relying on other neighbourhoods to grow instead us. Other neighbourhoods have had the exact same thinking and have been doing the exact same… leading to an under-supply of homes anywhere across Ottawa to maintain affordability and meet our own needs.



The second factor that I address here is uncontrolled credit growth. What is important for us to notice here is that home prices have grown with the availability of credit and at a close rate to individual's opportunity to take on additional debt, rather than following the intrinsic rational real value of a home or the trend of incomes. Home prices have grown with increased access to credit. Home prices are unhinged from incomes but aligned with credit expansion.

This is a policy choice even though it is not healthy for the growth and sustainability of our economy in the long run.

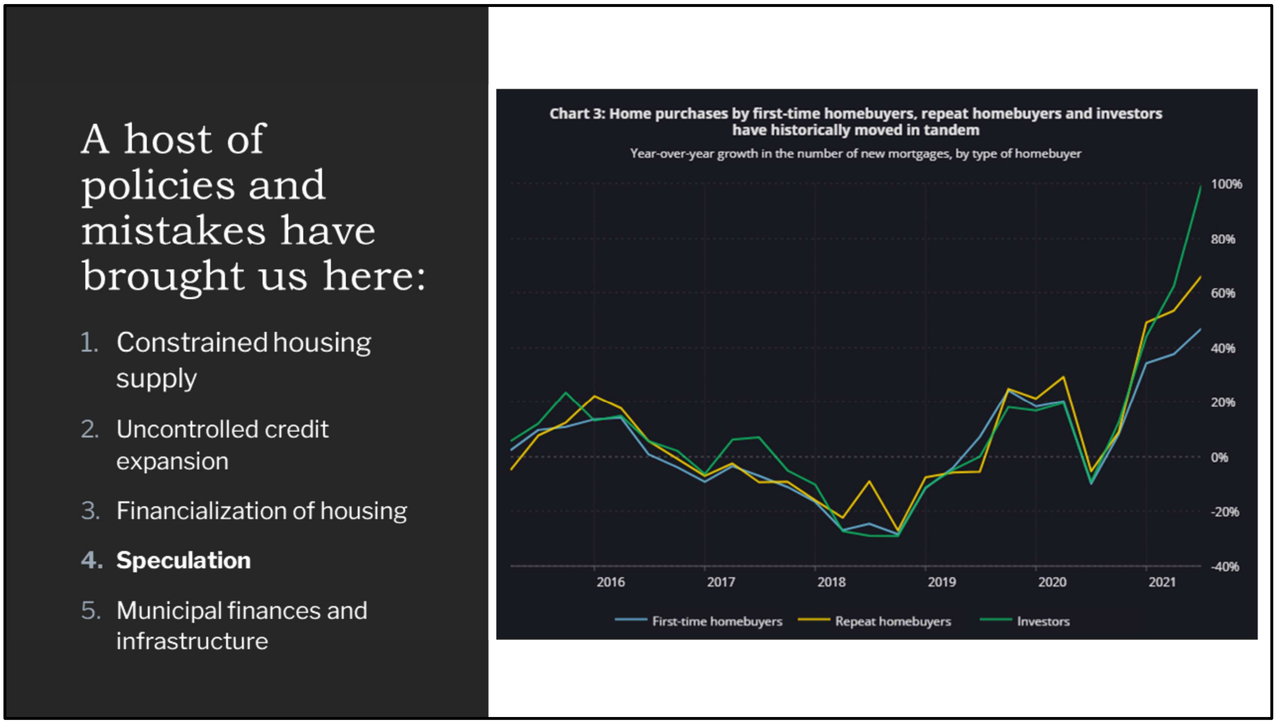


The previous slide presented how home prices have increased with the availability of credit, notably mortgage credit. This fact in addition to policies that have prevented any meaningful correction in the housing market since the early 2000s has led to the financialization of housing. We can see on this chart the dark bold purple line represents Canadian home price growth and the dotted purple line is Canadian income growth. The blue lines are the same for the U.S. market.

Canadian home prices are completely unhinged from incomes. Canadian home prices are not supported by Canadian production and wages, but rather follows credit availability.

Fundamentally, home prices (equity) are paper wealth that can only be borrowed against but doesn't create value. We can only extract value from other productive sectors of the economy through these high home prices. This is why, as an economist, I (Audrey) am concerned about the damage that causes (and the future ramifications of it) to our economy in the long run.

Financialization takes many forms: 1) Homes are used to live in or as a passive income stream to borrow at the cheapest rate available on the market through securitized loans, 2) to park money and safeguard against inflation, 3) to subsidize various expenses through refinancing, etc. Owning a home in our economy is like having a Costco membership for financial services (not available to tenants), but rather than costing $60-120 per year, it costs 20% of the price of a home, a prohibitive amount for young people and quite the debt to take on. This reality entrenches inequalities in our society and in our community. Even for homeowners who experienced incredible growth in their home equity, we will not be able to keep that (it is not a net gain) because we will always need a home to live in and will spend it when purchasing our next home, or to pad expenses (because our wages and pensions aren't keeping up), or we will have to use the equity to help our own children with their down payment (because it is virtually impossible to save $80-200K) so they have a chance at financial stability too.



This kind of market where home prices are artificially kept elevated and pushed higher leads to speculation and a growing activity from investors and repeat homebuyers. This is not something we can fault anyone for participating in because it is a rational decision based on the conditions of the market. However, these rational actions contribute excess demand pressure in the market which leads to even higher prices and thus eroding affordability even more. Identifying these behaviours is a signal that our housing market is dysfunctional because the short-term incentives on which market participants act are not aligned with our long-term objectives (healthy economy and affordable homes to all income levels).

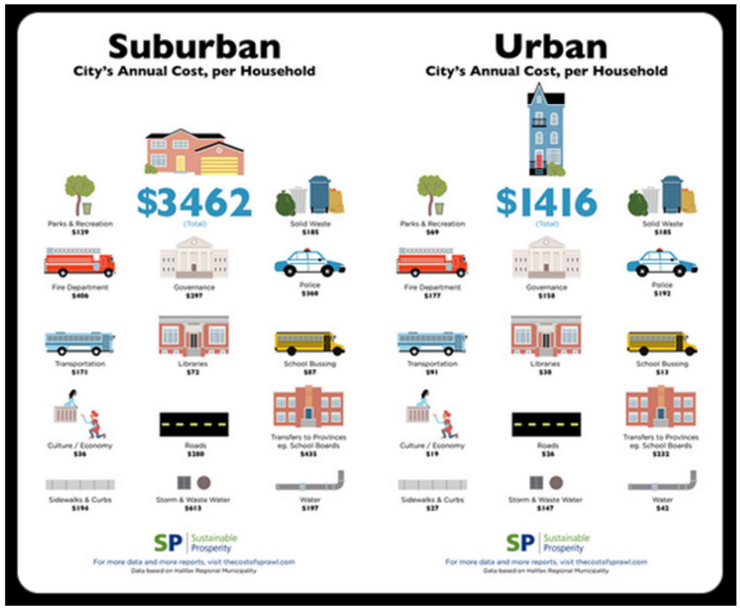
Speculation is both a foreign and domestic phenomenon. Speculation, unlike investing, is based in the expectation of a price increase without the provision of additional value to society. Speculators create abnormal price increases because of the expectation of a return and the likelihood that the home won’t be utilized (therefore, may be more likely to make an unconditional offer).

Widespread speculation harms the real economy and economic prosperity of our children as a greater share of incomes is placed on the need to shelter oneself and is not reinvested in the economy.

Chart from the Bank of Canada.

A host of policies and mistakes have brought us here:

1. Constrained housing supply
2. Uncontrolled credit expansion
3. Financialization of housing
4. Speculation
5. **Municipal finances and infrastructure**



When it comes to municipal finances and infrastructure, the important aspect to consider is that our municipal finances are set up in a way that the largest property owners are effectively subsidized by lower income households and smaller properties purely based on the cost to the City to service different kinds of properties. Larger properties that are further apart will require more road pavement, additional water pipelines and sewage infrastructure, etc. It will also make public services more costly to deliver (public transit, library services, etc.) because a larger area, with fewer taxpayers, must be covered.

The figure on this slide is based on Halifax data and shows how a suburban home costs more than twice as much to service ($3,462) than more efficient urban home ($1,416) that benefit from economies of scale, but our municipal tax system will charge a higher municipal tax to the urban home and a lower one to the suburban one. In many cases, the costs of services in suburban areas are so high that the suburban household may not pay to the city the total of its own costs leading to an effective subsidy, especially when there is a lot of urban sprawl like in Ottawa.

While subsidies across neighbourhoods happens, the revenues are still not sufficient for urban sprawled cities to meet their maintenance and service obligations and that brings us to development charges. Because our municipal taxes are unable to sustain the necessary infrastructure that we use, high development charges are imposed on new developments placing the burden of paying for current maintenance of all our infrastructure on newcomers and younger residents. These developments charges contribute to the unaffordable cost of housing, and this is a result of financially unsustainable urban development (car-centric sprawl). Development charges are used to artificially maintain municipal taxes low. Development charges, especially for infill developments, do not pay only for growth, they are a subsidy to existing residents/homeowners. It would be similar to having to buy a water fountain for a school for your child to be allowed to attend.

If we choose to live by the environmental values of the HCCA, this is something that we should be thinking about and confront to see what are our options as an inner (urban) suburban neighbourhood for our neighbourhood to not be a drag or net negative on the City's finances, while also taking back the freedom to access different housing types that would serve the residents of our neighbourhood well.

Municipal tax rates: https://ottawa.ca/en/city-hall/budget-finance-and-corporate-planning/tax-policy

- Residential: 1%
- Multi-residential: 1.39% (applies to apartment buildings in our neighbourhood + additional Purpose-Built Rental tax)
- New Multi-Residential: 1%

Development charges: https://ottawa.ca/en/planning-development-and-construction/developing-property/development-application-review-process/development-application-submission/fees-and-funding-programs/development-charges/fee-schedule-effective-october-1-2021

- In Ottawa, development charges range between $10K (dwelling rooms) to $40K for a single detached or semi-detached home. A two-bedroom apartment will incur a development charge of nearly $19K.

The needs of Hunt Club residents

The limited housing type allowed in our neighbourhood does not allow for the flexibility needed to serve well Hunt Club residents throughout the entirety of our lives.

- Elderly residents in SFD homes will be forced to move out of the community they've lived in for 15-40 years because we do not have homes adapted to their needs;

- A greater proportion of children above the age of 25 live with the parents because there are no viable options for them either;

- Our community is gentrifying without new developments and has become a location of choice for investors – *the status quo is not preserving our neighbourhood, it is commodifying it*: affordability is eroding for our friends, new neighbours, and children.

- Family situations change, and our residents should be able to adjust their home according to their needs:

  - Separation/divorce: semi-detached homes, duplexes, townhomes may be a better option for some families;
  - Sickness/Illness: some families may need to downsize because of an accident or illness where a large apartment/condo with balconies may fit their needs better;
  - Multigenerational arrangements: some families may choose to live 3-4 generations in one home, but it is currently illegal for them to adapt their home to their needs
  - Death/single parent: affordable options, even if the living space is smaller than 1,000 sq ft would be a great option for families having gone through a trauma as they can keep their social network by staying in our neighbourhood even if they can no longer afford a SDH.

Legalizing housing types that serve residents all throughout our entire lives is a feature of livable and affordable communities.

SFD = single family detached

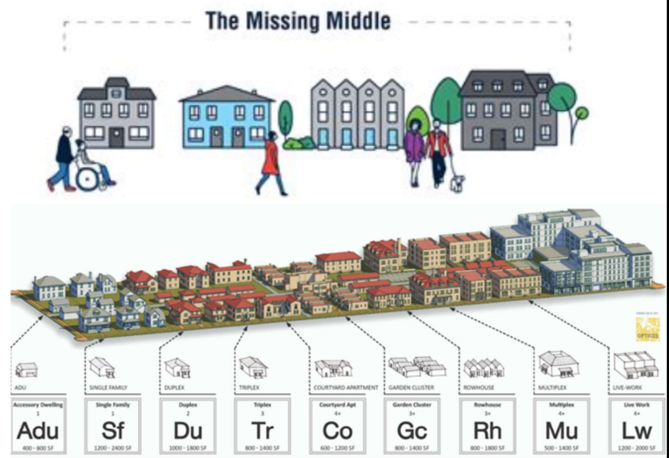
Missing Middle Gentle Density

- An **anti-displacement strategy** to house our children and friends, and keep our elder neighbours adequately housed

- A **housing choice strategy** that does not impose on families only one type of housing but allows people to choose what suits them best based on their needs

- A **family and community-oriented strategy** that makes our streets safer for children and encourages inclusivity and diversity

- An **environmentally sustainable strategy** that protects our cherished green spaces and reduces home and transportation GHG emissions



This is one strategy that the association may choose to favour and implement for the benefits described, and it will help in conjunctions with other policies and solutions, to restore housing affordability in our neighbourhood.

Summary – Constrained Housing Supply

- Zoning plays an important health and safety role.
- Stringent zoning that micromanages our personal property rights fosters a less inclusive community.
- Neighbourhood character is an important feature of what we love about our neighbourhood, but we all have different tastes and like different visual aspects, it is the mix of these characters that give our neighbourhood capital-C Character.
- Neighbourhood character is not a monochromatic housing type forced on all residents regardless of their needs, but rather the harmonious junction of various shapes and colours representing our differences and collectiveness.
- Legalizing and recognizing our differences prevents the displacements of our neighbours, allows for personal choice, strengthens our community bonds, and saves our beloved green spaces.
- Market rate housing supply reduces pressure on lower income housing supply and makes sure residents in our purpose-built rentals are not evicted due to large rent increases.

We are a local community association

As a community association, we can write to our provincial MPP and federal MP to voice our discontent with their policies that continue to worsen the housing crisis (speculation, financialization, uncontrolled credit expansion).

As a community association, we have a local voice to end urban sprawl by encouraging infill developments in our community and across all of Ottawa. Legalizing various housing options to ensure that current and future residents and businesses are well served is one important part of breaking the housing crisis cycle and promoting an environmentally sustainable community.

As a community association that is quite centrally located, we can advocate for fiscally responsible municipal spending, and the collection of charges and taxes that discourage continued urban sprawl and make infill developments more affordable.

Thank you. A follow-up presentation focusing on solutions will take place in a few weeks.