Rebuilding Ontario:
A framework for Recovery

ONTARIO REAL ESTATE ASSOCIATION

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A framework for Recovery

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The StrategyCorp Institute of Public Policy and Economy provides thought leadership on important public policy issues facing Canadians and their governments across the country by combining policy expertise with key political insights.

The Ontario Real Estate Association commissioned the StrategyCorp Institute of Public Policy and Economy to produce an independent white paper on the impact of COVID-19 on Ontario's real estate sector. For questions specifically regarding this document, please contact the authors listed above. For other questions on Ontario's real estate sector or regarding, please contact the Ontario Real Estate Association directly

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Published in Toronto, ON | August 2020

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The **Recommendations**

When the COVID-19 pandemic hit Ontario, the real estate market was witnessing ever climbing prices similar to the increases that caused political intervention in 2016. Prices were up more than 12 per cent year-over-year and detached homes in Toronto were selling for an average price of $1.5 million; meanwhile, the same detached house in the 905-area code was averaging a price over $1 million dollars.[1] Continually increasing demand mixed with a chronic shortage of new housing supply caused prices to rise month after month. For many Ontario families, the dream of home ownership was quickly becoming unrealistic once again.

Though the Province had already undertaken several important measures to fix long-term trends in the real estate market through their H*ousing Supply Action Plan*, many of these solutions would take years or decades to implement and impact the market. Then, everything changed when COVID-19 reached Canadian shores. Seemingly overnight, residential sales dropped by more than two-thirds and new listings all but dried up.[2] Suddenly, the provincial concerns about housing switched from historic demand and rising prices to concerns over a lack of transactions and the need for the housing sector to stimulate the economy. Though the situation has drastically changed, the issues of supply shortages and affordability concerns are likely to remain. Additionally, the goal remains similar but becomes ever more important: implementing policies to ensure an affordable housing market that can drive the provincial economy.

Soon, government financial assistance programs and mortgage deferral policies will expire, creating an uncertain future for Ontario's real estate market. If a supply injection of more than 2 per cent of homes occurs, it has the power to trigger a crash similar to the 1990s.[3] However, if home prices continue rising to unaffordable levels, sales will continue to be depressed. The Province would lose out on $60 million in economic activity, a $30.7 million increase in GDP, 390 new jobs, and $20.2 million in wages that accompany every 1,000 home resales[4] – not to mention the

broader economy would lose out on the $73,250 spent on ancillary expenditures like renovations and appliances after every transaction.[5] To deal with the uncertainty in the housing market and ensure affordability and adequate supply, the Ontario government needs to begin preparing policy solutions to these problems now.

In this paper, we provide 15 thorough and creative recommendations to address the potential impacts of COVID-19 on Ontario's real estate market including a continued lack of supply, increased affordability concerns, a potential dip in demand after mortgage deferrals expire, the proliferation of work from home policies, and a permanent endorsement of e-commerce over traditional retail. To reach these conclusions, the paper first dissects the trends existing in Ontario's housing market before the pandemic hit to help diagnose the underlying problems that were causing Ontario's growing affordability concerns.

Next, the paper analyzes the impact of COVID-19 on Ontario's housing market in the immediate term. By comparing these impacts against the larger housing picture, policymakers can better understand the possible outcomes of the pandemic on the real estate market. Lastly, the paper offers a buffet of policy solutions for government to pursue. These policy solutions are separated into three buckets: enabling Ontarians to get back to work, using the housing market to stimulate the economy, and long-term policies aimed at increasing housing supply and fixing affordability issues that plagued the market prior to COVID-19. The government is encouraged to pick and choose the right combination of these 15 ideas to address the exact trends developing in the market over the next few months and years. By choosing the policies that works best for the situation of the day, the Province can also balance its desire to stimulate the economy with its long-term goal of balancing the budget and responsibly managing Ontario's finances. By following a combination of these recommendations, Ontario can ensure that its housing market returns to a position of stability and strength. Doing so will be key to getting Ontario's economy back on track and creating good, long-lasting jobs.

COVID-19 Recovery and Job Creation:

1. CONTINUE TO PUT PUBLIC HEALTH FIRST AND LISTEN TO THE EXPERTS

Recommendation #1: The Ontario government should prioritize public health as it reopens the economy and listen to experts in each sector, including REALTORS®, as it continues to loosen restrictions on the real estate market.

2. BACKSTOP CHILDCARE AND SCHOOL SO PARENTS CAN HEAD BACK TO WORK

Recommendation #2: The Ontario government should safely reopen schools, increase the maximum amount eligible for families under the CARE tax credit on a time-limited basis to reflect the temporarily higher costs of childcare due to COVID-19 social distancing measures, and expand the eligible forms of childcare to include remote childcare activities such as online tutoring.

3. HELPING JOB CREATORS WHEN THEY NEED IT MOST

Recommendation #3: The Ontario government should address the Province's inconsistent Business Education Tax rates, specifically on commercial properties, by phasing-in a lower

ceiling rate which would save businesses money and create a fairer system between non-urban and urban municipalities competing for business investment.

4. CUTTING APPROVAL TIMELINES AND REDUCING MUNICIPAL APPROVAL BACKLOGS

Recommendation #4: The Ontario government should expedite the implementation of Bill 108 building approval timelines by creating a time-limited municipal grant to help municipalities hire more planning and development staff to meet targets and get buildings under construction faster.

5. SUPPORTING LANDLORDS AND TENANTS

Recommendation #5: The Ontario government should set a clear policy for re-opening the Landlord and Tenant Board, including a return of residential evictions for problem tenants and create a temporary assistance programs for small landlords with tenants who cannot afford to pay rent for a prolonged period of time.

Housing: The Engine of Ontario's Economic Recovery

6. CREATING OPPORTUNITY (ZONES) FOR COMMUNITIES

Recommendation #6: The Ontario government should implement Opportunity Zones to stimulate investment in struggling communities including those in rural and Northern Ontario.

7. a. SHORT-TERM TAX HOLIDAY TO BOOST MARKET ACTIVITY7a.

Recommendation #7a: The Ontario government should create a six-month Land Transfer Tax holiday for residential real estate transactions on the first $600,000 of a home purchase, which is roughly the Ontario average home sale price in 2019.

7. b. TAX BREAK FOR FIRST-TIME HOME BUYERS

Recommendation #7b: The Ontario government should permanently increase the existing first-time home buyers Land Transfer Tax rebate from $4,000 to $6,000.

8. a. CREATING CONSTRUCTION JOBS AND CONSUMER SPENDING

Recommendation #8a: The Ontario government should introduce a Home Renovation Tax Credit similar to the one implemented by the federal government in 2009 to kickstart the economy and create jobs.

8. b. HELPING SENIORS STAY IN THEIR HOMES LONGER

Recommendation #8b: If a sector wide Home Renovation Tax Credit is deemed too expensive, the Ontario government should create a Home Renovation Tax Credit targeted at renovations that allow Ontario's seniors to age-in-place. The tax credit should be refundable and only eligible for mobility and/or accessibility renovations for those 65 years of age and over.

9. INCREASING THE PURCHASING POWER OF ONTARIO FAMILIES

Recommendation #9: The Ontario government should increase the property value for each Land Transfer Tax bracket under $2 million in value to reflect the rising nature of home prices in the Province and help families save on LTT costs.

10. INCREASE CLARITY SURROUNDING MUNICIPAL ZONING ORDERS

Recommendation #10: The Ontario government should create a framework for the use of Municipal Zoning Orders that requires a municipality or county to request the order with a public justification of the cost and delay avoided. If the Ontario government wishes to use a Municipal Zoning Order without a municipal or county request, the framework should require the Ontario government to post a cost and delay justification itself.

Long-Term Supply Fixes:

11. STAY COMMITED TO TRANSIT ORIENTED COMMUNITIES

Recommendation #11: The Ontario government should remain steadfast in its commitment to transit-oriented development by expediting development around Major Transit Station Areas and the Highway 413 corridor.

12. BRING CERTAINTY TO THE SHORT-TERM RENTAL MARKET

Recommendation #12: The Ontario government should create a single provincial regulatory framework for home sharing services, like Airbnb, to ensure that the housing market is not susceptible to large swings of increased or decreased housing supply during cool and hot short-term rental markets respectively.

13. REZONING FOR GROWTH IN NON-URBAN AND NORTHERN ONTARIO

Recommendation #13: The Ontario government should publicly signal a desire to use the tools at its disposal such as Municipal Zoning Orders to accelerate the conversion of surplus lands and outdated retail malls and shopping complexes into mixed-use and residential properties.

14. RESPECTING RURAL ONTARIO

Recommendation #14: The Ontario government should remove density targets for its most rural municipalities and counties under the growth plan to encourage the building of detached housing that meets the needs of current and future rural families.

15. REMEDIATING BROWNFIELD SITES

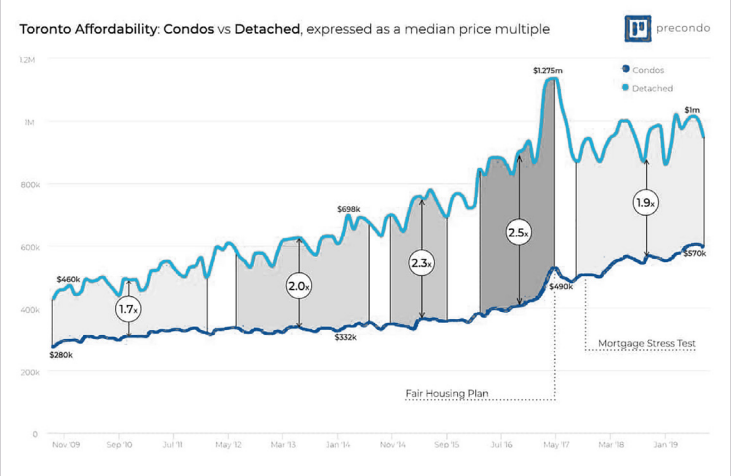
Recommendation #15: The Ontario government should develop a program to remediate and develop brownfield sites including offering financial assistance and streamlining development timelines for these sites.

Introduction

At the turn of the century, the average price of a detached home in Toronto was approximately $270,000.[6] Just 20 years later, before the outbreak of COVID-19, the average price was roughly $1 million.[7] In 2016, Toronto alone saw a record 113,000 home sales in a municipality that only had just over 2.1 million total private dwellings.[8] Prices climbed by more than 12 per cent from the previous year and demand was through the roof.[9] Though most prevalent in the Greater Toronto Area (GTA), the lack of affordability in Ontario's housing market drove would-be first-time home buyers to an oversaturated rental market, under-sized condominium purchases, or out of urban areas altogether.

The hot real estate market meant a politically unpopular reality for Ontario's families: the prospect that homeownership may not be for them. Even worse, the price of housing shaped where people could live and the size of family they could afford to have. The price of housing was intruding into the professional and personal lives of Ontarians. After a temporary dip in prices thanks to new mortgage rules and the 2017 *Fair Housing Plan*, prices began ascending once again due to one primary factor: a lack of housing supply. By March 2020, before COVID-19 hit, detached homes in Toronto were selling for an average price of nearly $1.5 million, while the 905-area code saw detached homes selling for over $1 million.[10] Just as prices looked like they would continue to climb, the Province was hit by the COVID-19 pandemic.

Immediately, sales and listings plummeted. With Ontarians afraid to leave their homes and governments uncertain about the potential spread of a lethal virus, the housing market ground to a halt. Home sales in Toronto dropped by 69 per cent in early April while listings fell by 64 per cent.[11] The Canada Mortgage and Housing Corporation (CMHC) estimated nationwide price drops of 11 to 20 per cent by the end of the second quarter in 2021[12] while TD Bank economists predicted struggles for the rest of 2020 but a sharp recovery in 2021.[13] In the blink of an eye, the future of the real estate market turned from a unstoppable market to a giant question mark.



Federal emergency assistance payments and mortgage deferrals have temporarily delayed the full financial impact of COVID-19 on Ontario families, therefore also offsetting the full impact to the housing market. As a result, of the uncertainty in the market, Ontario policymakers will need to prepare options for many different scenarios. This paper aims to give the Ontario government the tools they need to respond to the changing market in real-time by providing them with 15 short- and long-term policy options for consideration. By employing a combination of these recommendations, the provincial government can ensure that Ontario families can pursue the dream of home ownership, get Ontarians back to work, and create a stable and swift provincial economic recovery from the COVID-19 pandemic.

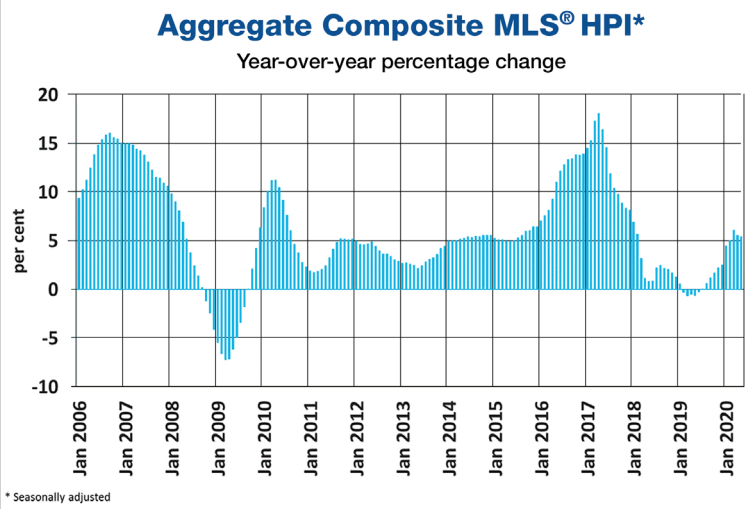
Part 1:
How We Got Here:
The Ontario Real Estate Market Pre-COVID-19

1. The Underlying Causes: Historic Demand and Diminishing Supply:

The housing market in Ontario is influenced by a myriad of factors. Foreign home buyers and immigration drive up demand, while government land use policies can either restrict or free up needed land for new supply, and a struggling economy can hollow out purchasing power among prospective home buyers. To make matters even more complex, these factors can be interrelated, with different combinations causing different outcomes.

As seen in the chart below,[14] the last decade and a half has seen housing prices rise consistently and aggressively. According to the MLS housing price index, Canadian housing prices grew year-over-year with one large exception during the 2008 recession. After the immediate market rebound in late 2009-2010, housing prices grew consistently before sharply increasing in 2016 with some quarters seeing year-over-year price increases of more than 15 per cent. The single best explanation for these continually rising prices may be the suburbanization of Ontario families around major cities, which caused increased demand in small pockets of the Province with a supply inventory that could not keep up.

Between 2006 and 2011, cities grew outwards, with 95 per cent of their growth being in suburbs. In Ontario's largest city, 72 per cent of people live in car-dependent suburbs while only 14 per cent live in suburbs classified as transit dependent.[15] Generally speaking, urban density is more common among transit-connected communities, and non-transit dependent communities are more likely to see more expensive classes of housing such as detached and semi-detached properties. In Ottawa, a city with much less rapid transit, 88 per cent of residents live in the suburbs.[16]



Ontario's housing market may have been able to survive this trend to suburbanize without inflated prices if it was only the existing residents of those cities that started moving outwards. However, Ontario's economic growth after the 2008 recession was starkly urban. Between 2008 and 2019, 87 per cent of all jobs created in the Province were created in either Toronto or Ottawa.[17] Unsurprisingly, Ontarians moved to where the jobs were being created. Rural communities outside of a census metropolitan area lost 76,000 net jobs during the same period.[18]

Between **2005 and 2015**, Toronto grew by more than **830,000** residents.

Between 2005 and 2015, Toronto grew by more than 830,000 residents.[19]

When Toronto surpassed Chicago in 2013 to become North America's fourth largest city, it outgrew Chicago that year by 245 per cent.[20] From 2001 to 2015, more Ontarians moved to Toronto from other municipalities than left the city (a trend that would eventually reverse from 2015 to 2018). The brain-drain from across Ontario to its largest cities was very real, putting pressure on the City's existing housing stock at a pace that new builds could not keep up with.

Adding to the population surge, Toronto became an immigration hub. Though Ontario's total percentage of the country's foreign-born residents remained steady, Toronto saw over 350,000 new immigrants, or just under 30 per cent of all people who immigrated to the country between 2011 and 2016. Ottawa, by comparison, saw 3.4 per cent while Ontario's next three largest draws, Hamilton, Kitchener-Waterloo, and London, all saw less than 1.5 per cent of the country's immigrants become residents.[21]

With demand consistently increasing, prices rose in step. In 2016, prices rose by 12.25 per cent in just one year.[22] Accordingly, potential first-time home buyers were pushed to rental properties, condominium purchases, or even outside of urban areas to cities with further commutes. As a result of the high prices, the rate of Canadian home ownership fell for the first time ever, dropping to 67.8 per cent of Canadians in 2016 from 69 per cent in 2011.[23]

These high prices did not deter sales. In 2016, Toronto's housing sales peaked with a record 113,000 transactions.[24] Despite the sales, most families could not afford a home in the GTA as incomes were not increasing at the same rate as housing. Between 2008 and 2018, the average Canadian home price increased by 56 per cent, but wages only increased by 15 per cent over the same period.[25] Ontario's average after-tax household income only rose by 2 per cent between 2008 and 2017, making a 56 point rise in prices unfathomable for the average family.[26]

To make matters worse, the Canadian dollar lost roughly a quarter of its purchasing power compared to the American dollar, meaning foreign buyers could more easily afford to purchase Canadian housing than Ontario residents. That further drove up prices and competition, which further precluded first-time home buyers and millennials looking to enter the market.

As a result, those who could afford housing were leveraging themselves at a higher rate and taking out larger mortgages as mortgage rates remained at all-time lows. By 2015, the Royal Bank of Canada announced Canadian consumer credit hit a record $1.83 trillion.[27] By 2018, household debt would exceed 100 per cent of the country's Gross Domestic Product.[28] Nationwide, Canadians use just over half of their annual income to cover the cost of housing.[29] In Toronto, that number is 19 points higher than the national average, with families needing 69 per cent of their annual income just to afford their home.[30]

According to Altus Group Ltd., "Nearly **20 per cent** of borrowing [as of 2015] on home equity lines of credit goes towards renovations...**more than the amount** spent financing a new home purchase.

$267 billion of the $1.83 trillion in consumer credit in 2015 was in the form of revolving personal lines of credit.[31] According to Altus Group Ltd., "Nearly 20 per cent of borrowing [as of 2015] on home equity lines of credit goes towards renovations...more than the amount spent financing a new home purchase."[32] In 2014, that spending on renovations was worth $68 billion nationwide compared to $48 billion spent on new home builds that year.[33] Renovations were done to get a better price on the open market or to turn more affordable 'fixer-upper' homes into forever properties.[34] Effectively, renovations became a common alternative to purchasing expensive houses.

This rise in prices could have been quelled by an aggressive increase in available supply, particularly through new housing starts. However, throughout the past decades, the Province has created restrictive land use planning systems that made it more difficult to build new housing supply. Since 2000, the Province has created development bans on the Oak Ridges Moraine, the Niagara Escarpment, and other countryside areas to make up the Greenbelt. In that time, it has also created the Lake Simcoe Protection Plan, released three different Provincial Planning Statements, created Growth Plan requirements that must be followed by municipalities and updated said Growth Plan several times since its inception in 2006.

Though many of these requirements may have valid purposes, such as protecting farmland or ensuring stable growth, the land use planning system has constantly evolved over the past few decades. Each iteration of the land use planning system adds new rules, restricts land for development, and makes building homes take longer and cost more. When the Province needed a mass influx of new housing to meet surging population demands, the land use planning system could not adapt, leaving most municipalities woefully unprepared to handle the spike in demand.

According to a **World Bank report** ranking countries based on the ease of securing a building permit, Canada ranked **a woeful 64th when compared to other OECD nations.**

Even worse, the simple act of getting a permit can cause significant delays. According to a World Bank report ranking countries based on the ease of securing a building permit, Canada ranked a woeful 64th when compared to other OECD nations.[35] Even receiving a permit for a warehouse within an already properly zoned area was estimated to take 249 days compared to an OECD average of 152 days.[36]

The C.D. Howe Institute looked at the cost of the land use planning system and its various regulations like outdated zoning policies, restrictions on land available for development, and development charges. They found that the cumulative total led to $70,000 worth of extra costs per home on builds in the City of Toronto, Peel, and Durham regions. That cost escalated to $90,000 per home in Halton Region, over $100,000 per home in Hamilton, and almost $125,000 per home in York Region.[37] These costs are in addition to the fixed costs of land acquisition and construction.

The overall impact of these factors was a continued increase in demand combined with a chronic lack of supply. That meant prices on homes that were available continued to skyrocket. Following a 12.25 per cent increase in year-over-year prices in 2016, prices rose again the next year by 8.92 per cent.[38] The market had officially become unaffordable for millions of Ontario families, forcing significant adjustments to their home ownership dreams to accommodate higher prices in the market. For many, including some 700,000 millennials who were looking to enter the home market between 2016-2026, higher prices meant renting longer than planned.[39] Others purchased condominiums instead of more traditional housing. Many purchased homes below their target

quality and size and renovated instead.

The inability to find an affordable home meant that for the first time in recent memory, families started leaving Toronto to live in other Ontario cities. From 2015 to 2018, the number of families leaving the City limits increased every year. By 2018, a net 18,000 people left Toronto for elsewhere in the Province – a troubling trend for the country's leading job market.[40] When the price of housing started dictating family life choices like where to live or when you could afford to have an extra bedroom for a child, the political pressure to act reached new heights. Media coverage of housing unaffordability in Ontario increased in frequency and scale of coverage, and families turned to Queen's Park for help.

2. The Impact of the *Fair Housing Plan* and the Mortgage Stress Test:

It is critically important to remember that the increase in home prices was not entirely negative, especially for the Ontario government. Tax revenue from housing transactions, primarily through LTT and HST revenues, increased annually. In 2009-2010, the Ontario government made just over $1 billion from the LTT.[41] By 2017-18, they projected to bring in over $3.1 billion from the LTT, an increase of 209 per cent in less than a decade.[42] At the same time, many positive economic indicators climbed on the strength of the housing market including increased demand for skilled trades, employment increases in spin-off industries, and increased home renovation spending, further stimulating the economy and boosting employment.

Therefore, when the plan was unveiled on April 20, 2017, the goal was a temporary cooling of the market, but not a prolonged stall. The plan sought to instill temporary price stability into the GTA housing market to reach a calm balance between a hot market and the economic benefits that

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come with it, and home ownership affordability for the average family.

The most significant aspect of the *Fair Housing Plan* was the creation of a 15 per cent Non-Resident Speculation Tax (NRST), more commonly known as a foreign-home buyers' tax. Data on the amount of foreign buyer transactions in Ontario's housing market was always unreliable, but this measure did seem to have some impact in easing demand.

The second most significant policy was the extension of rent control to all rental units instead of only those units built before 1991. The high cost of housing had led to increased rental prices as property values grew ever higher. For landlords who owned semi-detached or detached housing units, selling the property would never be more attractive. For those who could not reasonably sell, like owners of apartment buildings, the incredible demand for housing meant that the rental

market would bear higher prices. According to the Ontario government, these high rents mean that 56 per cent of renters cannot afford an average 2-bedroom apartment.[43]

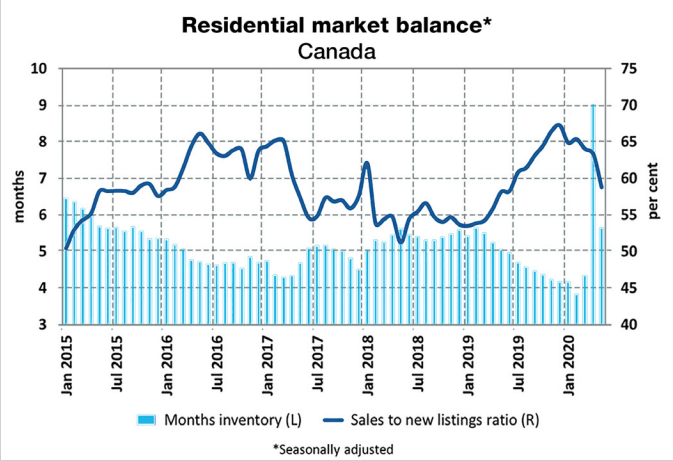
When it came to supply side measures, the *Fair Housing Plan* was weak. Though the plan put forward new ideas to stimulate supply, like giving municipalities the power to tax vacant homes or vacant pieces of property, none of these ideas had short-term implementation timelines nor were they considered market-moving. One of the largest supply-side measures included giving developers $125 million to help cover the cost of development charges. However, the benefit of that fund was negated entirely by the changes to rent control, which would have more significant and negative impacts on a purpose-built rental property's business case than the $125 million could cover.

Shortly after the Province's plan came into effect, the federal government introduced a more aggressive mortgage stress test in 2018 that made it more difficult to borrow money, making a favourable mortgage harder to acquire.[44] The new rules, through a variety of different measures, had the effective impact of lowering a "...borrowers' buying capacity by about 18.5 per cent."[45] The Bank of Canada estimated that, had the new rules been in place sooner, as much as $15 billion in mortgage loans would not have been approved, with $10 billion of that figure in Toronto and Vancouver alone.[46]

As a result of these measures, a temporary cooling of the market occurred. In the Eastern GTA municipalities like Pickering and Oshawa, prices dropped by 12 to 18 per cent over the next two years. In Richmond Hill and Markham, prices dropped by 24 to 27 per cent. Further out, in places like Newmarket and Aurora, home prices dropped by nearly 30 per cent by April 2019.[47]

Municipalities that were further away from Toronto, and therefore had lower home prices to start with, were less impacted. Barrie saw its prices rise by 7 per cent, Kitchener's average price went up 5 per cent, and Guelph saw its rates rise by just 1 per cent over the same period.[48] These municipalities were, generally speaking, not competing for daily commuters in the same way that many inner-GTA municipalities were, leaving them partly insulated from rising Toronto housing prices.

Ultimately, these measures created some temporary price relief, helping those looking to purchase single family homes or more expensive homes and existing renters looking for price certainty.[49] At the same time, these measures made it harder for first-time home buyers to enter the market and



made purpose built rental properties a less attractive investment.[50]

As seen in the figure above, the impact of the *Fair Housing Plan* and the new mortgage stress test culminated to see the ratio of sales to new listings more closely match up with available inventory of supply, indicating a more balanced market.[51] Also perceptible is the sharp divergence in late 2019 and early 2020 between supply and sales to new listings before the pandemic hit Canada. Essentially, the impact of the mortgage stress test and the *Fair Housing Plan*, as well as gradually increasing interest rates, helped cool demand temporarily, but it did nothing to solve the underlying issues with supply shortages that would reemerge in 2019.[52] Ultimately, the Kathleen Wynne led Liberal government was voted out of office in the summer of 2018 in favour of the Progressive Conservatives led by now-Premier Doug Ford.

3. Putting the Home Ownership Dream Out of Reach (Again):

The market slowing in 2018 was noticeable. A Toronto Regional Real Estate Board survey found that more than half of potential home buyers in the GTA were impacted by the new mortgage stress test rules.[53] The year-over-year rise in prices dropped from 12.25 per cent in 2016 to just 2.51 per cent in 2018.[54]

Over the first year of his mandate, Premier Ford would attempt to tackle housing supply issues by ending rent control for all future buildings post-January 1, 2019 and passing Bill 108, The More Homes More Choices Act, 2019. The bill instituted a myriad of changes to the land-use planning system including:

- Returning the power to make de-novo rulings, overruling council decisions if in contravention of provincial policies, to the Local Planning Appeal Tribunal (LPAT). This ability was removed by the Wynne government when the Ontario Municipal Board was reformed into the new LPAT
- Removed community infrastructure projects from the list of eligible projects under development charges and removed section 37 of the *Planning Act*, which was used to negotiate developer fees for local projects or cash reserves. Instead, a new formula-based charge called a Community Benefit Charge was proposed in the bill
- Allow development charge rates to be locked-in at an earlier date while allowing a longer pay-back period for development charges on certain classes of buildings such as industrial, commercial, institutional, rental, and non-profit housing
- Create new rules and timelines for provincial requirements like environmental assessments, Ontario heritage designations, and endangered species compliance
- Force higher density and development around Major Transit Station Areas (MTSAs) which can include inclusionary zoning requirements to create affordable housing units
- Cut timelines for finalizing official plans from 210 days to 120 days, deciding zoning by-laws from 150 days to 90 days, and on subdivision plans from 180 days to 120 days[55]

Although these policies target housing supply directly and may have a demonstrable impact on the Province's housing stock, their impact was not immediate. Their collective impact on the Province was dampened by their implementation process, as municipalities were required to adapt to new regulations and conduct consultations before their benefits could be felt. To this point, the provincial government pushed back the deadline for implementing Community Benefit Charges from January 1, 2021 to an uncertain date in the future one year after regulations are finalized.[56]

While these policies were being considered and debated, families in Ontario were still making decisions about their living arrangements. Many would be home buyers continued to rent, dropping Toronto's vacancy rate to just 1.5 per cent according to the CMHC by 2019.[57] Meanwhile, demand began to increase sharply yet again as prospective buyers who could not enter the market previously had enough time to save up to eclipse the new mortgage rules. Additionally, mortgage rates declined throughout the year and the benchmark interest rate for calculations in the mortgage stress test dropped accordingly.[58]

The increase in demand was matched by yet another chronic shortage of available supply. In 2019, the number of new listings in the GTA decreased by 2.4 per cent from 2018 to 152,739 listings.[59] Financial Post columnist Julia Mastroianni pointed out that when the lack of listings was, "... Coupled with a job creation rate almost double the rate of homes being created annually, increased immigration into the GTA and millennials reaching 'peak home buying' age, [...] the demand for housing has far outpaced the supply, pushing the average housing price up."[60]

In 2019, the CMHC showed that housing starts dropped by 2 per cent, and completions dropped by 6 per cent in 2019.[61] By early 2020, Ontario's available listings had reached a 12-year low.[62] As a result, in 2019, apartment prices rose by 3.35 per cent, one-storey homes were up by 3.32 per cent, two-storey homes were up by 3.03 per cent, and townhomes were up 2.55 per cent.[63]

Ontario appeared to be slowly building up to another housing price surge caused by similar factors as the 2016 climb. The Canadian Real Estate Association predicted the 'story of 2020' would be a lack of housing supply, with millennials eager to purchase as they reach adulthood and baby boomers still too young to downsize at meaningful rates. Families that chose condominiums are

now growing too large for them. Meanwhile, renovations to grow-in-place remained popular, deterring units from being listed for sale.[64] Before the pandemic, Ontario was expected to post the biggest annual rise in house prices of any Province at 6.9 per cent in 2020, bringing the average cost of an Ontario home to $648,100.[65]

Interest rates remained steady throughout most of 2019 and 2020 pre-pandemic, but the cost of mortgages was still quite high. On the whole, pre-pandemic, Canadians owed $1.76 for every dollar of disposable income, with $2.3 trillion tied up in mortgage, credit card, and other forms of consumer debt.[66] That number was "...about equal to the country's GDP, which is an even higher ratio than the U.S. had before its housing bust."[67]

As the above chart shows, ever increasing home prices caused a substantial growth in year-over-year mortgage interest payments in Canada. The sharp growth between 2016 and 2018 comes at a time when interest rates stayed flat for a vast majority of that period. With rising home prices, mortgage interest payments got more expensive and created an unstable foundation for the Ontario housing market to enter 2020. Then, a pandemic hit.

4. The State of Play in the Commercial Market Pre- COVID-19

Despite the amount of attention that was paid to the residential housing market, billions of dollars of economic activity are generated through the designing, planning, and building of commercial real estate. These commercial properties can largely be split into three main categories: office, retail, and industrial.

In Ontario, office space has been at a premium for several years. At the end of 2009, downtown Toronto had an office vacancy rate of 7.1 per cent[68]; by the third quarter of 2019, that vacancy rate fell to 1.4 per cent.[69] Luckily, the GTA as a whole had roughly 12 million square feet of office space under construction in 2020 to alleviate that demand,[70] up from 7 million square feet of office space under construction in 2018.[71]

Looking ahead to 2020, Toronto was projected to have a city-wide office vacancy rate under 3 per cent, which would be one of the lowest vacancy rates in North America.[72] In a PricewaterhouseCoopers survey completed before the pandemic, several real-estate executives warned of the impact of a recession in the near term that could negatively "...align with significant levels of new office space coming on line in some markets – potentially resulting in oversupply and delay in the lease up of any backfill space."[73]

Similarly, industrial properties were in high demand before the pandemic. The recent growth of e-commerce and technology-driven businesses has increased the need for more and larger industrial warehousing.[74] These fulfillment centres drive job creation but require large parcels of land and high levels of transportation connectivity, forcing them to compete with residential growth in many municipalities. In Ottawa, the industrial vacancy rate was 1 per cent and in Toronto that number stood at 0.4 per cent in 2019.[75] By February 2020, the GTA had an industrial vacancy rate of 1.5 per cent but an astounding 14 million square feet under construction to keep up with high demand.[76]

Contrary to the hot market for office space and warehousing facilities, retail properties were struggling before the pandemic. The increase of e-commerce businesses that is driving demand for industrial properties is having the exact opposite effect on retail by pulling sales from in-store options to online sites. For example, Ottawa saw its retail vacancy rate increase year-over-year in 2020[77] while Toronto has under 1.5 million square feet of retail space under construction and only 1 per cent of current inventory in the planning stage, "...with most of these projects being part of mixed use projects or expansions to existing malls."[78]

Be it office space, industrial properties, or retail demands, the unprecedented circumstances of COVID-19 have the potential to impact each of them significantly in both the short- and long-term, leaving policymakers and politicians with a daunting set of choices to consider. To narrow down those policy options to a viable set of short- and long-term options, it is crucial to evaluate the impacts of the pandemic on Ontario's real estate market.

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Part 2:
COVID-19 and the Ontario Real Estate Market

1. The Immediate Impact of the Pandemic on the Residential Market

When the Province declared a state of emergency in mid-March, no one knew what impact COVID-19 would have on the provincial economy or, more importantly, on its citizens. To contain the spread of the virus, self-isolation and quarantines became the norm. For the real estate sector, that meant a shutdown of activity. Brokers and REALTORS® could not go to the office, open houses had to be cancelled, and physical showings of homes were discouraged unless considered imperative.

At the same time, the **country's economy ground to a halt.** March 2020 saw the largest single drop in employment in any month in Canadian history.[79] By the end of April, Canada's unemployment rate hit 13 per cent, but would have been 17.8 per cent as another 1.1 million Canadians were not counted as unemployed since they were not actively looking for work.[80] Another 2.5 million workers were still employed but worked reduced hours in April compared to February 2020, the last month before the pandemic.[81] More than 8 million Canadians would end up applying for CERB, which requires its beneficiaries to demonstrate a significant reduction of their hours or employment loss to qualify.[82]

By the end of March, Ontario was witnessing its lowest number of listings, with a 7-day rolling average showing listings two-thirds lower than the number of listings at the start of 2020.[83] By late April, listings had picked up slightly, but were still more than 40 per cent below the number of listings available at the start of the year.[84] The Toronto Regional Real Estate Board showed that there were only 2,975 residential transactions in the GTA in April compared with 9,005 transactions in April 2019. New listings fell to 6,174 from 17,212 over the same period, a decline of 64 per cent.[85] Transactions dropped across the Province with different regions seeing declines ranging from 64 per cent in Toronto to 30 per cent in Durham region.[86]

Despite these decreases, the average sale price in each region increased year-over-year in 25 of 27 GTA municipalities and in Ottawa.[87] It is unclear if these transactions were primarily sales from pre-pandemic with later closing dates and/or mid-pandemic transactions. Either way, those interested in purchasing higher priced homes were generally less affected by pandemic related layoffs that targeted lesser skilled positions like the 800,000 restaurant workers who lost their jobs by the end of March 2020.[88]

Even though prices did not dramatically change, it was clear governments had to act both to facilitate transactions and to protect homeowners who could no longer afford their carrying costs. The provincial government prohibited residential evictions during the pandemic and stopped evictions hearings at the Landlord and Tenant Board. At the time of publication, they still had not announced an end date to the eviction moratorium.[89]

Even though prices **did not dramatically change**, it was clear governments had to act both to **facilitate transactions** and to **protect homeowners** who could no longer afford their carrying costs.

Meanwhile, the Bank of Canada took

drastic measures to provide confidence and stability to the real estate market by slashing its interest rates on three different occasions, bringing them to a new low of 0.25 per cent.[90] They also worked with Canada's major financial institutions to implement a 6-month mortgage deferral for those financially impacted by the virus that expires at the end of September, 2020. Third, they started a massive bond-buying program to "...ease liquidity strains and provide easy access to short-term credit for companies and households."[91]

The Bank of Canada still projected a worst-case scenario: mortgage arrears quadrupling once deferral options expire a rate double that of the 2008 recession.[92] Without any action, the Bank of Canada estimated that more than one out of every 50 homeowners would be more than three months past due on their mortgage payments.[93] Given that one-fifth of households in Canada do not have enough money to cover two months' worth of expenses, the impact of the mortgage deferral policy cannot be understated.[94]

The **collective nature** of these efforts has **managed to delay the true economic hardships** of the pandemic in absence of a full re-opening. Canada's six largest banks have collectively offered **more than $180 billion worth of deferred mortgages**, which is more than **14 per cent** of all mortgages on their collective balance sheets.

The collective nature of these efforts has managed to delay the true economic hardships of the pandemic in absence of a full re-opening. Canada's six largest banks have collectively offered more than $180 billion worth of deferred mortgages, which is more than 14 per cent of all mortgages on their collective balance sheets.[95] Though the deferral has prevented unplanned sales and foreclosures, the true financial impact on the housing market remains to be seen until the deferrals expire in the fall.

Another immediate impact of the pandemic on the residential real estate market was the freeze in immigration. Pre-pandemic, non-Canadian born individuals were previously purchasing one out of every two new homes in the GTA.[96] In particular, immigrants were purchasing condominium units,[97] but by the middle of May, the median rent for a GTA condominium unit was down 4.3 per cent year-over-year while the number of leases dropped by 40 per cent. Meanwhile, new listings rose as some buildings reached completion and Airbnb units hit the long-term rental market for the first time.[98]

For purpose built rental properties, the impact has been less severe, but still serious. Given vacancy rates in the Province were routinely under 2 per cent before the pandemic, the addition of some 2,400 purpose-built rental units that will be completed this year in the GTA is not expected to ease supply issues.[99] Accordingly, rental prices have not dropped in the GTA by any measurable amount[100] and, with rent control covering all units built before January 1, 2019, rents are relatively immovable regardless of market conditions, making investments in purpose built rental less and less attractive.

In residential construction, the pandemic did pause progress for a brief period. Initially, 2020 was on pace to be a record year for housing completions. However, with the temporary pause caused

In residential construction, the pandemic **did pause progress** for a brief period. Initially, 2020 was on pace to be **a record year** for housing completions. However, with the temporary pause caused by the state of emergency measures, **the number of completions dipped.**

by the state of emergency measures, the number of completions dipped. CIBC estimated that productivity in the sector was down roughly 40 per cent during the pandemic.[101] Surprisingly, however, the Royal Bank of Canada's monthly adjusted tracker of urban housing starts in Ontario gives reason for optimism. In February, before the pandemic, RBC projected 75,000 starts for 2020. That number dropped to 66,000 starts by March when the pandemic hit but, by April, Ontario had more than recovered with a projected 94,000 starts for 2020. That number receded significantly in May to a projected 57,000 starts.[102] The unpredictability of emergency orders combined with supply chain issues, worker illness, demand softening, and permitting delays appears to have caused real unpredictability in housing construction.

Lastly, as part of the immediate response to the pandemic, the CMHC also changed its rules around lending standards effective July 1, 2020. The changes are a series of different measures that include increasing the qualifying credit score for mortgage insurance, limiting debt servicing ratios, and no longer counting non-traditional sources of down payment funding as equity for insurance purposes.[103] The measures were designed to limit first-time home buyers jumping into the housing market due to low interest rates before the market had a chance to stabilize.

2. The Immediate Impact of the Pandemic on the Commercial Market

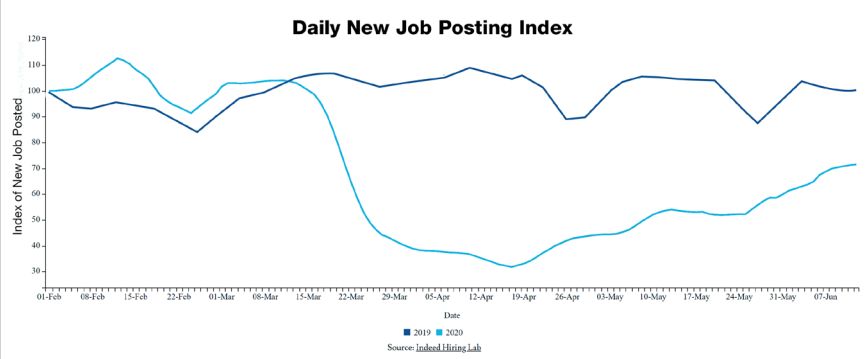
In commercial real estate, the impact of the COVID-19 pandemic fluctuates dramatically depending on the type of commercial real estate and the business occupying the real estate. New builds were immediately delayed by an inability to obtain permits and construction delays during initial stop work emergency orders.[104] Existing landlords have also run into issues with tenants being forced to close, meaning the value of retail properties has dropped dramatically. For many small businesses, especially in the hospitality industry, closing their doors permanently has become a reality.

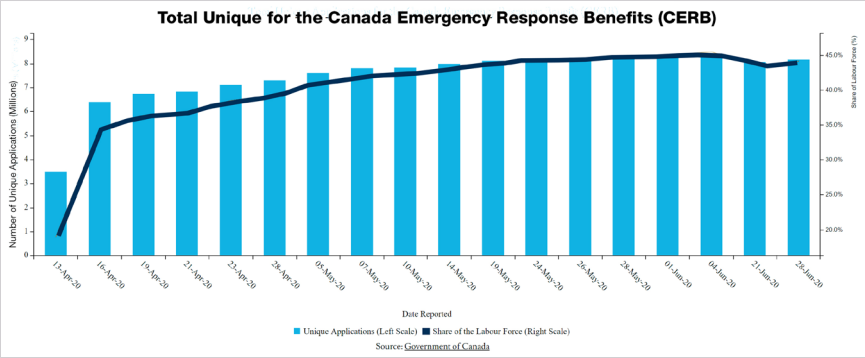
However, like assistance programs on the homeowner side, the Canadian and Ontario governments created business relief programs that included: income tax deferrals, commercial rent assistance, employee wage subsidies, and most recently a ban on commercial tenant evictions. Though these programs have certainly helped many, complications surrounding landlord involvement and partial subsidization have left many commercial tenants with no recourse but to close. Given the instability in the economy, those once highly valued locations are not necessarily in high demand today.

McKinsey has suggested that tenants **with over 10 people will leave shared spaces** for the foreseeable future while users of **larger office spaces will seek to undergo considerable renovations** to their operations and physical layouts to enable proper social distancing.

Office space has undergone a significant transformation with many businesses deemed non-essential, thus shifting to work-from-home and remote operations. Now, many offices are reevaluating their existing footprints as well as the layout of their offices as denser, hoteling arrangements may not be practical in a socially distant society. McKinsey has suggested that tenants with over 10 people will leave shared spaces for the foreseeable future while users of larger office spaces will seek to undergo considerable renovations to their operations and physical layouts to enable proper social distancing.[105]

In the midst of the uncertainty, 85 per cent of downtown Toronto office tenants made their April rent payments.[106] Despite the strong numbers, many landlords suggested they would need strategic plans from tenants for payback if they are to offer rent relief. Additionally, landlords of AAA class office space indicated less worry about their tenants, given they are large institutions in many cases, compared to class B and C landlords.[107] CBRE found in Toronto that downtown office vacancy rose in the second quarter of 2020 with the amount of office space available for sublet in Toronto rising by 86 per cent.[108] Toronto's overall office vacancy rate came in at 6.8 per cent, while Kitchener-Waterloo saw a 6.3 per cent vacancy rate, and London totaled a 15.7 per cent office vacancy rate.[109]





When it comes to industrial space, the pandemic has increased demands for warehousing and shipping space due to the accelerated growth of e-commerce activities. However, for smaller and medium sized industrial companies, cash flow is incredibly important, and the reduction in cash flow caused by the pandemic is causing liquidity issues. Overall industrial space is still in high demand and tenants have remained steady with 85 to 90 per cent able to pay their April rent.[110]

On the other hand, the retail sector has been hit particularly hard, as many retailers were forced to shutter their doors completely. These smaller businesses often have the least amount of financial flexibility and have the highest dependence on continual cash flow. Even worse, the in-person nature of their businesses made them disproportionate targets of emergency closure orders. Colliers Canada found that as of April 2020, tenants whose businesses were forced to shutter were 3.4 times more likely to seek rent assistance than those who were even allowed to remain partially open.[111] Small businesses were 2.7 times more likely to request relief than larger businesses and retail tenants were 2.3 times more likely to request relief than office or industrial tenants.[112] Put simply, if you happened to be all three things (a retail tenant that was also a small business and forced to close) like most restaurants, the pandemic's immediate impact was especially severe.

Looking forward, the most important thing for commercial tenants is a full re-opening of the economy. Daily job postings have been down dramatically since the pandemic began (see figure above) but are slowly increasing to 2019 levels.[113] Similarly, applications for CERB appear to have plateaued at just over 8 million unique applications while the total share of the labour force on government assistance has declined in the third last week of June for the first time since the program was created.[114]

3. Changing Consumer and Market Behaviour

One of the stark realities of the pandemic is that the full economic impact is unpredictable. If the virus surges in waves, the damage will be staggering. However, the same could also be true if people are scared to return to normal activities like congregating in large groups. This complicates any measurement of the pandemic's toll on any segment of the economy, including real estate.

Most economists and Canadians are predicting a modest drop in home prices throughout 2020 brought on by a very poor second quarter:

a. CIBC projects a 5 to 10 per cent drop in 2020 compared with 2019

b. The Royal Bank of Canada projects a decline of 7 per cent from 2019 to 2020

c. BMO expects a drop of 5 per cent in the MLS home price index from 2019 to 2020[115]

d. In a May 2020 Nanos Research survey, 47 per cent of respondents expected the value of real estate to drop over the next six months[116]

Despite this relative consensus above, the projections are constantly changing as governments react to the reality on the ground and Canadians adjust their behaviour. CMHC, for example, has projected a drop of prices nationwide of 9 to 18 per cent between May 2020 and 2021 with as many as one-fifth of mortgages in arrears by September.[117] For context, an 18 per cent price drop would

be the steepest in Canadian history, surpassing the early 1980s and 1990s when prices fell roughly 5 per cent each time.[118] Regardless of the exact impact, there is consensus that the real estate market will not experience a full recovery until at least 2021, with some suggesting 2022.

In addition to price changes, other significant behavioural trends are at play. **First, many families have lost employment income during the pandemic, turning to a combination of savings, severance, and government support programs, like mortgage deferrals and the CERB.** The rapid change in household finances will force many Ontarians to vacate their rental unit or sell their homes, though the full impact will not be known until mortgage deferrals expire at the end of September 2020. In a June 25th report, RBC noted that they expect "...economic hardship causes potential buyers (especially first-time buyers) to delay their purchasing plans, and financially-strained owners (including investors) [to] sell their property once support programs run out."[119]

The mortgage deferral policy has the potential to do one of two things: buy families the time they need to regain steady employment to pay off the backlog, or delay the inevitable, adding thousands of dollars of additional debt to a property that needs to be listed for sale. With $180 billion worth of mortgages deferred in Canada, the latter impact could see a significant addition of mortgage backlogged supply hit the housing market.

Additionally, Airbnb property owners have now found fault with the short-term rental model for the first time. In late 2019, Airbnb had 170,000 active listings but in a letter to the federal government, Airbnb noted that a third of those property owners, representing over 55,000 properties, need the short-term rental income to avoid foreclosure or eviction.[120] According to Fairbnb Canada, an anti-Airbnb advocacy group, the COVID-19 pandemic could reasonably force 7,500 Airbnb homes back onto the market with countless more properties available for long-term rental.[121] By April 2nd, 125 suspected Airbnb apartments appeared for long-term rent in just two downtown Toronto condominium towers.[122]

Though supply is desperately needed, Veritas Investment Research has warned that if 2 per cent of the housing stock were to be put up for sale at the same time, it could trigger a supply side shock similar to the 1990s, causing systemic damage to the economy and home prices.[123] The timing of this potential supply influx is critical. If a flood of housing supply hits the market because the pandemic lasts longer than expected, it also means immigration will still be frozen as most see a re-opening of international travel as one of the last steps in Canada's recovery. The true impact of broad-based unemployment combined with a hollowing out of the short-term rental market, unpredictable immigration timelines, and a generous mortgage deferral policy is yet to be seen. Governments will need to carefully adapt their policies to match supply and demand wherever possible.

Second, for the families that retained their full income, which statistics show are many upper middle class and higher-income households, their need to upsize has potentially been accelerated. Interest rates have dropped to their lowest in recent memory, making the cost of a new mortgage more affordable. Meanwhile families adjusting to a new reality that includes working from home and looking after young children inside the home have surely made many realize the need to upsize. The new need to upsize may add families to the market who would not have been buyers previously and will put pressure on larger asset classes like detached and semi-detached homes. Additionally, low interest rates may see families less affected by the pandemic accelerate their purchase plans for a new property, like a cottage in rural or Northern Ontario.

Third, and perhaps the most discussed, is the pandemic's acceleration of trends toward e-commerce and remote work. Ontarians may no longer be tied to the physical office or the city where that office was located. Many larger technology-based employers like Facebook, Alphabet Inc (Google's parent company), and Shopify are already embracing work-from-home for at least the next year. The CEO of Shopify publicly stated that the "era of office centricity is over."[124]

If this trend holds, it could allow **thousands of families** to move to virtually any community with **broadband access** and still be **gainfully employed.**

If this trend holds, it could allow thousands of families to move to virtually any community with broadband access and still be gainfully employed. Expensive downtown rents and pricey GTA mortgages are no longer a must, increasing demand for already limited housing options in rural and Northern Ontario.[125] During consultations for this paper, one commercial expert noted the fear of returning to the office was analogous to the fear of flying that developed after 9/11. He posited that people returned to air travel in short order, albeit with new security expectations, after stating in the days following the attack that they would never fly again. It remains to be seen if people will return to the office.

Ultimately, the pandemic has created three new family dynamics: families that need to move due to financial difficulties; those that need to upsize sooner than expected due to more time at home or permanent remote work situations; and those that can take on a new mortgage – be it an investment property or a cottage. All three of these family units will increase demand for different types of units and put pressure on existing supply shortages. Those forced to sell their homes due to financial concerns may increase the number of listings, but those upsizing or taking on new properties will not necessarily list a home for sale when they enter the market, as they may be living in a rental property. This new market dynamic will likely accelerate existing supply pressures and increase the price of listings, leading to renewed affordability concerns.

Part 3:

How to Ensure a Stable Real Estate Market Recovery from COVID-19

As the provincial government turns its focus to enabling a proper economic recovery from COVID-19, they will need to think of their policy approaches in three buckets: getting people back to work, using the housing market to stimulate the economy, and fixing the long-term supply issues that have plagued the real estate landscape in Ontario for years. The government will need to evaluate the changing market dynamics and implement different policy solutions as persistent problems around affordability and supply, come to fruition. Below are a series of short- and long-term recommendations that the government should consider implementing as market developments occur. To be clear, these recommendations are put forward as options to be chosen from; they do not constitute a blueprint to be executed. The government should select the combination of ideas it believes will be most effective in addressing the real estate market issues that present themselves over time.

COVID-19 Recovery and Job Creation:

There will not be an economic recovery in Ontario if the fundamentals of the economy do not return in full. This means a continued emphasis on keeping people healthy and safe, a return to traditional educational and childcare institutions, a functioning market for businesses, and a rental real estate market devoid of large-scale government interference. The housing market will not stabilize and play a key role in Ontario's economy if these broader societal sectors are not adequately repaired or looked after. Therefore, government policy should first focus on these crucial job-creating and enabling sectors. The housing market will follow closely behind.

1. CONTINUE TO PUT PUBLIC HEALTH FIRST AND LISTEN TO THE EXPERTS

First and foremost, the real estate market cannot recover properly if the broader economic recovery is stalled by a resurgent pandemic. The government must continue to be transparent and follow expert advice in ensuring any economic recovery is well managed and puts public health first. When it comes to loosening restrictions on certain sectors of the economy, the Province should consult with experts in the space such as REALTORS® when it comes to decisions impacting the real estate sector.

Recommendation #1:
The Ontario government should prioritize public health as it reopens the economy and listen to experts in each sector, including REALTORS®, as it continues to loosen restrictions on the real estate market.

2. BACKSTOP CHILDCARE AND SCHOOL SO PARENTS CAN HEAD BACK TO WORK

As part of the reopening process, the Ontario government has put forward office guidelines and requirements for proper distancing and cleaning. These requirements are effective and needed, especially for traditional office buildings. However, the requirements for schools and the childcare sector are either non-existent or onerous. In the childcare sector, reopening requirements will drive costs higher due to tighter limitations on the number of children allowed in childcare at once being limited to 15 children per space.[126] If families cannot put their children into childcare, they will not be able to return to the office. Making matters worse, schools are also putting in different measures across the Province, with many families likely to

feel uncomfortable putting their children back into the school system.

Essentially, most parents, regardless of the age of their children, must either continue to care for their children from home themselves, or seek new and expensive childcare arrangements. Working mothers have been disproportionately affected by the pandemic, as female workers that make up roughly half of the workforce in Canada have accounted for two-thirds of the country's job losses.[127] Pre-pandemic, 85 per cent of core-age women without children participate in the labour force, but that number drops to 73 per cent for Ontario core-age women with children below the age of six.[128] Overall, the participation rate for all core-age women pre-pandemic was 81.5 per cent.[129] For every 5 per cent that number drops, it costs the Ontario economy nearly 160,000 workers. If even 2 of every 10 mothers must stay home to care for their children compared to pre-pandemic habits, it will rob the Ontario economy of well over a half a million workers.

This trend is especially distressing for middle- and lower-income families who may not be able to afford new childcare supports and who are more likely to have jobs that cannot be performed remotely. Therefore, to help alleviate these costs and new arrangements, the provincial government should increase the amount of money it makes eligible for the Childcare Access and Relief from Expenses (CARE) tax credit. Currently, this refundable tax credit allows families to receive up to $6,000 back for children under seven and up to $3,750 for a child between seven and 16.[130] The credit covers any form of care that allows the parent to work, including babysitting, day camps, and traditional childcare centres. Most importantly, the credit is means tested so that lower income families experience the highest rebates; those over $150,000 in household income will be receiving 28 per cent eligibility compared to 75 per cent eligibility for lower-income households.[131]

Putting more money aside for childcare and reopening schools will help Ontarians get back to work. If the government were to increase the eligible amounts in this credit, it would allow families to cover the higher costs of childcare while also preserving the ultimate amount of flexibility for families that need unique arrangements due to their child's school or daycare changing their standard operating practices. Additionally, the Province could temporarily allow remote childcare (such as online tutoring programs) to be covered by the credit as they are currently prohibited from eligibility. Even with a generous time-limited increase in the CARE credit, the Province may still need to provide direct supports to childcare facilities to help them cover rising costs associated with pandemic related operating restrictions.

Recommendation #2:
The Ontario government should safely reopen schools, increase the maximum amount eligible for families under the CARE tax credit on a time-limited basis to reflect the temporarily higher costs of childcare due to COVID-19 social distancing measures, and expand the eligible forms of childcare to include remote childcare activities such as online tutoring.

3. HELPING JOB CREATORS WHEN THEY NEED IT MOST

Ontarians need jobs to go back to, meaning their employers also need relief to be able to employ them. The various forms of tax deferrals previously announced by the provincial government have been helpful, but it has not resulted in a lower cost burden for businesses

over the longer-term. Now, more than ever, the Province's job creators need real and dependable relief. To this end, the Province should consider addressing its Business Education Tax (BET) rates as mentioned originally in the Drummond Report in 2013.

Previously, Ontario school boards used to administer their own taxes to fund their operations. However, that practice was ended in 1998 when that taxation function was uploaded to the Province.[132] At that time, residential education taxes were made uniform across the Province, but the business portion remained inconsistent depending on the municipality. Tax rates differ by both property class (industrial, commercial, etc.) and by municipality, meaning that certain regions are at a relative disadvantage in attracting new businesses.

> *"The variance in BET rates distorts efficient business location decisions and places many businesses in the Province at a disadvantage, therefore having a negative impact on jobs and the provincial economy overall. These distortions are particularly difficult to justify when there are large differences between neighbouring municipalities, such as Toronto and the 905 region."*
>
> ***– Dwight Drummond, p423 Drummond Report***

The Province currently collects about $4 billion annually in BETs, making them worth the equivalent of a 3-point increase in the corporate tax rate.[133] Interestingly, the BET has no direct correlation to education funding as the government uses a top-up formula to ensure school boards get the same amount of funds regardless of their BET amount collected.

The Province could lower the BET rate to a ceiling rate to create a fairer playing field for municipalities seeking to attract new job creators or help existing ones expand. For communities with rates already below the ceiling, businesses would be unaffected, while businesses in municipalities with higher BET rates will see a reduction. Many of these higher rates are in urban municipalities outside of the GTA.[134]

The Liberal government in 2007 previously announced a ceiling rate at 1.14 per cent that was set to cost them $540 million annually, but paused after implementing roughly $200 million worth of rate changes.[135] A more aggressive ceiling rate of 0.86 per cent would cost a total of roughly $966 million annually.[136] At this rate, the City of Barrie, for example, would see its roughly 5,000 commercial businesses save approximately $1,500 each.[137] The current government could either finish the 2007 rate reduction policy, choose a more or less aggressive ceiling rate, or target the reduction only to commercial properties and not industrial or pipeline properties. Regardless, this policy would save commercial business owners real money allowing them a greater chance of survival and revival while also making investments in non-urban centres more attractive.

Recommendation #3:
The Ontario government should address the Province's inconsistent Business Education Tax rates, specifically on commercial properties, by phasing-in a lower ceiling rate which would save businesses money and create a fairer system between non-urban and urban municipalities competing for business investment.

4. CUTTING APPROVAL TIMELINES AND REDUCING MUNICIPAL APPROVAL BACKLOGS

Although the above measures will help with immediate concerns in the real estate sector, it is still clear that a lack of new supply will be a key issue both for residential and certain classes of commercial real estate. The lack of supply will only amplify as the country's borders re-open and new immigration drives demand even higher. Municipalities are responsible for approving permits and development plans and have been notoriously slow at doing so. The Ontario government found that it takes over 2 years for the average site plan approval for new buildings and major developments; even worse, it takes 10 years on average to build an apartment in the Greater Toronto Area.[138]

In the Spring of 2019, the Province released a new growth plan for the Greater Golden Horseshoe and passed Bill 108 to increase housing supply. Despite those milestones being achieved, the implementation of both items is still too far off. First, Bill 108 has numerous regulations that need to be drafted in consultation with housing and municipal partners. As a result, many of the bill's provisions are yet to be in force, including expedited timelines for permit approvals and the creation of new Community Benefit Charges instead of section 37 charges. The Province should move to enact these policies and regulations as soon as possible to enable supply to be built as originally envisioned. Given this work is already underway, this may be the easiest policy for the government to enact and one of the single most impactful recommendations to solve future affordability and supply issues.

For municipalities, conforming with these new requirements will require extra resources. Given that their financial plans have been negatively altered by COVID-19, it may be difficult to convince municipalities to invest in planning staff at a time when other services are in dire need of scarce funding. On one hand, development charges help municipalities fund services, and accelerating growth will get them much needed cash faster. On the other, it is difficult to expect a municipality to take on the legwork prior to approvals without additional funding in a time of great financial need. Therefore, the Province should create a time-limited fund to help municipalities hire more permitting and planning staff to meet the new Bill 108 and growth plan deadlines and approve more home and commercial building permits faster.

Recommendation #4:
The Ontario government should expedite the implementation of Bill 108 building approval timelines by creating a time-limited municipal grant to help municipalities hire more planning and development staff to help municipalities meet these targets and get buildings under construction faster.

5. SUPPORTING LANDLORDS AND TENANTS

The residential real estate market is more than just detached and semi-detached homes; it is critically intertwined with the purpose-built rental market. If there is no stability in the rental market, it will further reduce available supply on the market and raise home prices to more unaffordable levels. Therefore, it is important that any economic recovery consider the impact on the residential market, starting with allowing landlords to collect funds from their tenants and evict problematic tenants accordingly.

When the pause on residential evictions began, the government was unclear about the

impacts and ramifications of the virus on the economy. However, as the Province re-opens, these protectionist policies become less essential. Many landlords, especially those who may only have a few tenants in a home or series of homes, also need to pay their mortgages. Without rental income from these properties for prolonged periods, they will not be able to keep the properties in the rental market and will be forced to sell. Accordingly, the government must be clear about its intent to allow residential evictions of problem tenants once again, which it has restarted after passing Bill 184.

For those who are not troublesome tenants but who cannot afford to pay their rent backlog due to COVID-19, the government should consider a temporary assistance fund for landlords. This fund should be targeted at smaller 'mom and pop' style landlords who own fewer properties and are more susceptible to default on mortgage payments if rental income dries up. The program could also include strict penalties for anyone attempting to abuse the program's requirements on either the landlord or tenant side.

That being said, it is understandable that siding with landlords is not a particularly politically appealing thing to do. Currently, the government has suggested evictions and Landlord and Tenant Board hearings would resume when the state of emergency is lifted in late July if tenants and landlords cannot agree on a repayment plan for missed rent payments. Though this step is encouraging for returning stability to the rental market, the Province needs to be clear about its plans, and could consider a staged approach to evictions akin to their approach to electricity cut-offs for customers in arrears.

In that situation, the electricity utility proceeds with all of the steps of disconnection, including warnings and offerings of payment plans and assistance, but cannot disconnect during the winter months. Once the winter month restriction is lifted, the customer can be disconnected from power if they have not reached an agreement on a payment plan. When it comes to rental disputes, the Province could stage the return of evictions by re-opening the Landlord and Tenant Board for eviction hearings but prohibit the actual eviction until a date of their choosing. Either way, the Province needs to return the Landlord and Tenant Board to its full function to allow for proper evictions of problem tenants to avoid a backlog of cases, and to ensure rental market stability once the Province reopens following COVID-19.

Recommendation #5:
The Ontario government should set a clear policy for re-opening the Landlord and Tenant Board including a return of residential evictions for problem tenants and create a temporary assistance programs for small landlords with tenants who cannot afford to pay rent for a prolonged period of time.

Housing: The Engine of Ontario's Economic Recovery

The policies below are aimed at stimulating investment in real estate and empowering families to enter the housing market by incentivizing listing and increasing purchasing power. Though some of the recommendations may come with larger price tags, most are intended to be time-limited

ventures to boost the economy without structurally harming the Province's ability to work towards a balanced budget. By investing in measures that increase demand and supply simultaneously, Queen's Park can ensure the economic benefits of housing sales – which includes spinoff activity in construction, renovation, furniture purchases and more – are felt across the province. Ultimately, a strong and stable housing market means more jobs and a stronger Ontario economy.

6. CREATING OPPORTUNITY (ZONES) FOR COMMUNITIES

Much of the focus of the residential real estate market in Ontario has been on the Greater Toronto Area and Ottawa due to the demand for housing in these areas. This demand generally stems from employer needs as 87 per cent of jobs created between 2008 and 2019 were in these locations.[139] However, the pandemic has the potential to change this one-sided trend with work-from-home options becoming more realistic and physical downtown office space exposed as a possibly non-essential requirement for a business to operate. The Province should embrace this trend to help rural and struggling economies grow for the first time in decades.

The Province should endorse the policy of Opportunity Zones. The Ontario government has already shown a desire to encourage growth in non-traditional municipalities through its creation of the Regional Opportunities Investment Tax Credit, which provides a 10 per cent refundable tax credit to businesses that make physical investments in non-GTA municipalities. Queen's Park should take this idea a step further by endorsing Opportunity Zones, which provide preferential tax treatment for investments in provincially identified communities and locales.

If the Province were to implement Opportunity Zones, it should consider the exact model carefully. The American version of the policy provides a tax break on capital gains in targeted areas so long as investments flow through Opportunity Funds set up by private fund operators in these targeted areas and are used to purchase qualifying assets like real estate and equity in local businesses.[140] Scholar Sean Speer has also suggested the Province could work in partnership with the federal government to provide a more fulsome tax break for qualifying investments, or provide breaks on its own provincial taxes and regulations.[141]

Regardless of which path the Province takes, Opportunity Zones would undoubtedly stimulate investment in rural and Norther Ontario. They could also be used for less developed or well-off areas within the Greater Toronto Area. In light of the pandemic, eligible investments could include more than just ones that create new industrial businesses or residential developments in these towns but rather help build a case for office re-location to these communities given the potential long-term endorsement of remote work. Furthermore, they can help reduce the number of grants and loans given to businesses to attract investment, a practice that has faced recurrent scrutiny as a form of 'corporate welfare' that picks winners and losers. Other than the geographic requirements, Opportunity Zones do not discriminate based on the company or project, therefore making them an equitable, sustainable policy solution.

Recommendation #6:
The Ontario government should implement Opportunity Zones to stimulate investment in struggling communities including those in rural and Northern Ontario.

7.a. SHORT-TERM TAX HOLIDAY TO BOOST MARKET ACTIVITY

When it comes to the residential real estate market, action must be taken to ensure affordability and encourage more supply to make its way to the market. As seen in 2017, any actions on the demand-side can have a temporary effect to ease the rise of prices; however, those actions must also be met with more aggressive and longer-term supply-side measures (see long-term recommendations). Addressing the Province's Land Transfer Tax (LTT) system can both increase demand and reduce prices while also encouraging families to list their home due to broader purchasing power they and their customers will have.

In the figure below, both the LTT rate charged and the first-time homebuyer rebate are shown. Essentially, the LTT is a tiered tax that is based on the value of the home and becomes more aggressive as the property gets more expensive. The first-time homebuyer rebate of the LTT caps out at a maximum of $4,000 or, in other words, is not applied on the first $368,333 of a home's value.[142]

Purchase price of home	Land title transfer fee	First-time homebuyer rebate
Up to and including $55,000	0.5%	Full tax rebate
$55,000.01 to $250,000.00	1.0%	Full tax rebate
$250,000.01 to $368,333	1.5%	Full tax rebate
$368,334 to $400,000.00	1.5%	$4,000 tax rebate
$400,000.00 to $2,000,000.00	2.0%	$4,000 tax rebate
Over $2,000,000.00	2.5%	$4,000 tax rebate

To ensure affordability and stimulate home sales, which carry a larger benefit of $60 million in economic activity and 390 jobs created per 1,000 sales,[143] the Province should consider a time-limited holiday on the LTT to stimulate purchases and kickstart the economic recovery. This policy could be in place for a six-month period and be capped to only cover the tax on a certain percentage of the home. For example, capping the property value eligible at the 2019 average Ontario home sale price of roughly $600,000[144] would save the average buyer nearly $8,500. The LTT was estimated in the March fiscal update to bring in just over $3 billion in government revenue in 2020-21, meaning a six-month holiday could be somewhat expensive.

However, a 2014 study analyzing the impact of the City of Toronto's Municipal LTT, which has the same rates as the provincial version, found that tax cost the City over 38,000 transactions between 2008 and 2013. Essentially, implementing this tax prevented roughly 6,380 transactions a year.[145] A removal of the LTT would have the same impact as the removal of the MLTT, given it is the same rate. Therefore, using that study as a baseline, the City of Toronto alone could see almost 3,200 additional transactions during the six-month period. Of course, this number could be even larger given the lack of market activity due to the pandemic and the increased interest in upsizing or relocating due to larger work-from-home trends. Simply put, this LTT holiday would drive new home purchases and encourage new listings rather than just giving a tax break to those already planning on entering the market.

It is critical to remember that every home purchase generates at least $73,250 in additional

spending[146] and for every 1,000 resales there is a $30 million increase in GDP.[147] Though the Province will certainly take a loss on its LTT revenue, it will stimulate employment, economic activity, and kickstart the provincial economy while also increasing supply by making listing a more attractive proposition. Better yet, since this holiday is tied only to transactions, every dollar is guaranteed to be spent investing in an activity that generates domestic economic growth whereas an income tax cut or other form of transfer to Ontarians is not guaranteed to be reinvested in Ontario.

Recommendation #7a:
The Ontario government should create a six-month Land Transfer Tax holiday for residential real estate transactions on the first $600,000 of a home purchase, which is roughly the average home sale price in Ontario in 2019.

7b. TAX BREAK FOR FIRST-TIME HOME BUYERS

Since a six-month holiday from the LTT would carry a high price tag and only be temporary, the Province may be looking for alternative ways to permanently alleviate the tax burden on home purchases for young families. Therefore, another option to help stimulate activity relates to a permanent increase in the first-time home buyers' rebate from the LTT to help families achieve the dream of home ownership for the first time.

Currently, the LTT rebate for first-time home buyers is worth $4,000, effectively covering all the entire LTT on the first $368,333 of a home purchase. First-time home buyers are uniquely positioned to enter the housing market due to historically low mortgage interest rates. To capitalize on this while generating economic activity, the Province could increase the LTT rebate for first-time home buyers from $4,000 to $6,000. At a $6,000 rebate, the maximum home value with no LTT applied would increase from $368,333 to roughly $476,250 – still below the average Ontario home purchase price. According to Altus Consulting Group, this simple change would increase sales by 1.6 per cent,[148] as each of these transactions would ordinarily free up rental units previously occupied by the first-time home buyers. If the Ontario government would like to stimulate the market even further, they could implement this policy in addition to the LTT holiday.

Recommendation #7b:
The Ontario government should permanently increase the existing first-time home buyers Land Transfer Tax rebate from $4,000 to $6,000.

8a. CREATING CONSTRUCTION JOBS AND CONSUMER SPENDING

After the 2008 recession, the federal government of the day unveiled a home renovation tax credit to stimulate economic activity and create jobs. That policy was a resounding success with nearly $3 billion spent helping some 3 million Canadians upgrade their homes and $4.3 billion worth of economic activity created.[149] The non-refundable credit was so popular that the credit became unsustainable in the long-term from a financial perspective, leading to its termination in 2010. Given that the provincial government is currently looking for a temporary boost to the economy, a time-limited tax credit with historically high take-up rates and high levels of spinoff employment is an extremely suitable policy tool to use. By making renovations

more affordable, it is also likely to stimulate sales and supply with existing homeowners more likely to make renovations and list their homes, and new purchasers more likely to buy a home as 'fixing it up' becomes more affordable.

Incentivizing renovations is especially warranted while the Province's long-term care sector is in disarray as the credit can help seniors age in place longer. Additionally, renovations can help with families who need to upsize due to work from home requirements or prolonged childcare burdens. Renovation credits can also help spur sales by making it more affordable for families to purchase a home below their desired size or quality requirements then renovate it to meet their expectations. As supply is anticipated to be limited and affordability concerns expected to be paramount, a renovation tax credit will help every dollar put towards a home purchase go further while also encouraging families to renovate and list to take advantage of increased demand. Lastly, this tax credit would help pull the 38 to 40 per cent of renovation work that is done in the underground economy into legal, tax-collecting transactions given the need to provide detailed receipts to qualify for the tax credit.[150]

However, such a policy could bring a large cost depending on the eligible renovations and the maximum size of the credit. When the federal Home Renovation Tax Credit was active, there were roughly 13.3 million private dwellings in Canada, of which 3 million – or 23 per cent – took advantage of the credit.[151] Today, there are anywhere from 5.6 to 6 million private dwellings in Ontario alone; a similar take-up rate would see roughly 1.3 to 1.4 million users.[152] At the average 2010 claim of $700 per household,[153] that would price a similar time-limited Ontario home renovation tax credit between $910 and $980 million. However, this estimate does not account for inflationary costs associated with renovations, such as labour, nor does it consider the unique economic situation created by the pandemic. As a result, the Province should anticipate a higher take-up rate, and build in an appropriate 'buffer' to this estimate.

The Province could also choose to introduce stipulations around the credit to lower the cost or pursue other policy objectives, such as only covering green or energy efficient renovations, work-from-home renovations, or aging in place renovations. Additionally, a home renovation tax credit may counteract the value of an immediate LTT holiday and, if both policies are pursued, their interaction should be considered with a view toward staggering these policies with the six-month LTT rebate taking effect immediately and the home renovation tax credit following its completion. Regardless, introducing this credit would constitute a significant stimulus measure with the direct benefit of creating jobs, pulling money out of the underground renovation economy into the legal tax-paying economy, encouraging residential sale transactions, and increasing the purchasing power of Ontario's families.

Recommendation #8a:
The Ontario government should introduce a Home Renovation Tax Credit similar to the one implemented by the federal government in 2009 to kickstart the economy and create jobs.

8b. HELPING SENIORS STAY IN THEIR HOMES LONGER

Although a full home renovation tax credit may be best for stimulating the economy, the Province may want to pursue a more targeted policy. With the Province's long-term care system in dire shape and subject to a serious inquiry into its conduct during COVID-19, allowing seniors to age in place has become a more attractive policy outcome. Second, many seniors

plan to use their home as their retirement income. Selling their home would be the source of funds they need to pay for their eldercare, be it a retirement home or a long-term care home, but given the temporary drop in prices and the potential delayed recovery of the housing market, giving them more flexibility on when to sell is a net positive. If prices are up, seniors can sell and move to another form of care that they can afford. If prices are down and they do not receive any financial assistance, they may need to sell before they are prepared to, losing equity in their home and thus retirement security.

Therefore, the provincial government could step in to help seniors age in place by introducing a targeted home renovation tax credit. The credit would only be eligible for renovations that allow aging in place, similar to the Province's past Healthy Homes Renovation Tax Credit, which offered up to $1,500 back for renovations that enhanced mobility and accessibility for those 65 years of age and older.[154] In addition to helping seniors stay in place longer, these renovations would increase the value of the home when resale does occur, generating more economic activity for the Province.

When created in 2011-2012, the program was estimated to cost $60 million.[155] Over time, the value of the program decreased as most seniors did not need to pursue multiple renovations in consecutive years. By the time the program was removed in 2017, the government estimated its annual value to be $15 million.[156] Even when accounting for inflation and increased demand driven by the state of long-term care, the government could likely provide a credit with similar rates and eligibility requirements for under $100 to $150 million annually, with diminishing costs over time.

Recommendation #8b:
If a sector wide Home Renovation Tax Credit is deemed too expensive, the Ontario government should create a Home Renovation Tax Credit targeted at renovations that allow Ontario's seniors to age-in-place. The tax credit should be refundable and only eligible for mobility or accessibility renovations for those 65 years of age and over.

9. INCREASING THE PURCHASING POWER OF ONTARIO FAMILIES

The LTT was first introduced in 1989. Since that time, the tax rates have only been adjusted once when the new tax rate on homes over $2 million was created in 2017.[157] All other tax rates have remained the same despite increases in the average home price. Since 1989, the average home price in Ontario has increased in value from roughly $273,000 to over $625,000 as of May 2020.[158] That means the LTT on the average home in 1989 was just over $2,500 but today, it is worth just under $9,000.

The government has quietly increased its revenue year-over-year from the LTT by failing to update the LTT in-step with the increases in home prices. Even worse, the tax's negative impact on housing transactions has multiplied over the years as the fixed rates have drawn more and more up-front dollars out of families' pockets when purchasing the average Ontario home. Therefore, the property value for each bracket except the over $2 million bracket should be increased to reflect the ever-increasing price of homes, thereby making the purchase of the average home more affordable for Ontarians.

Recommendation #9:
The Ontario government should increase the property value for each Land Transfer Tax bracket under $2 million in value to reflect the rising nature of home prices in the Province and help families save on LTT costs.

10. INCREASE CLARITY SURROUNDING MUNICIPAL ZONING ORDERS

By ensuring municipalities have the proper zoning in place, the Province will not have to foray into municipal jurisdiction to unlock land and allow for proper developments. However, there are many instances where this process is too slow, even with legislative deadlines. In addition, even when the above changes are fully implemented, there will be individual projects that fall outside of existing zoning requirements or rules that will need to wait for updated zoning, growth plans, or other land-use planning instruments. These delays can take years and cost millions, ultimately forcing large projects to fall off the table.

Currently, the main tool at the Province's disposal in these cases is to issue a Municipal Zoning Order (MZO) which allows the Province to force a municipalities hand in a development decision. The Province has preserved this tool, as municipalities are a creature of their government and the Province may have broader interests than a municipal council would. However, the use of this tool can be highly controversial and politically troublesome. The process for issuing an MZO is not transparent and does not allow for appeals. The current provincial government has issued eight MZOs since it took office. Given its July COVID-19 recovery legislation and the expansion of the conditions an MZO can place on municipalities, it appears the Province plans to use MZOs with increased frequency.[159]

Part of the political pressure facing the current administration stems from its willingness to use MZOs to encourage development compared to past governments that used a similar tool, called declarations of provincial interest, to prevent developments. To avoid future political issues while preserving the use of MZOs the Province should commit to a transparent framework for approval. This framework should include a formal municipal/county request for an MZO and a justification by the council of the cost and time wasted if an MZO is not used. For example, a recycling plant project in Simcoe County that had evaluated 500 different sites with the county was held up in appeals that would have cost $1.5 million and over two years in LPAT appeals if an MZO was not used.[160] If the Province wants to use an MZO for a non-requested project, they should be forced to publicly state the cost and time justifications. This process could also identify clear prohibitions where desired, such as a strict prohibition of MZO usage on greenbelt properties.

Recommendation #10:
The Ontario government should create a framework for the use of Municipal Zoning Orders that requires a municipality or county to request the order with a public justification of the cost and delay avoided. If the Ontario government wishes to use a Municipal Zoning Order without a municipal or county request, the framework should require the Ontario government to post a cost and delay justification itself.

Long-Term Supply Fixes:

The above recommendations provide options for government to generate immediate activity in the province's real estate market as part of a proper economic recovery. However, the policies listed above do little to address the chronic longer-term issues in Ontario's real estate market that existed prior to the pandemic and have surfaced since including a chronic lack of housing supply and struggling retail and commercial businesses. In this section, long-term provincial policy recommendations designed to address these problems are put forward. Again, these options could be implemented in any combination that the Province feels adequate to address its needs and keep costs in check.

11. STAY COMMITED TO TRANSIT-ORIENTED COMMUNITIES

When it comes to the growth plan, the major piece still being implemented is a forced density within an 800 metre radius around Major Transit Station Areas (MTSAs). Municipalities have until July 1, 2022 to ensure their MTSAs are planned properly. However, many municipalities have already indicated a desire to appeal various MTSA requirements, sometimes for legitimate reasons like geographic restrictions like the Don Valley River and others for less legitimate NIMBYism concerns.[161] The Province should set out a strict timeline for appeal rulings – perhaps 90 days – as well as immediately designate the 25(+) new stations under its Greater Toronto Area transit plan as MTSA requiring densification. This endorsement of transit-oriented development will help create office space and housing in frequently trafficked neighbourhoods and be consistent with the government's July legislation that aims to strengthen development powers and reduce building timelines around their 25(+) new transit stations.[162]

Additionally, it is important to remember that transit-oriented development is not purely density near rail stations. In fact, this form of density and development can also surround critical roadways like new highways. As part of the Progressive Conservative election platform, the now-government indicated a willingness to build Highway 413, a new highway corridor through Peel and Halton regions that would connect the existing Highway 400 in the North with Highways 401 and 407 in the East.[163] When developing this corridor, the Ontario government should seek to expedite the development of the land surrounding the highway into residential properties and needed new supply, much like it is planning to do around its new downtown transit stations.

Recommendation #11:
The Ontario government should remain steadfast in its commitment to transit-oriented development by expediting development around Major Transit Station Areas and the Highway 413 corridor.

12. BRING CERTAINTY TO THE SHORT-TERM RENTAL MARKET

The COVID-19 pandemic has also exposed a long-term uncertainty with the short-term rental market largely dominated by Airbnb. The company itself has suggested that a third of its 170,000 active listers in the country require consistent income to avoid foreclosure or eviction from their properties.[164] In one set of downtown Toronto condo buildings notorious for short-term rentals, over 125 units representing nearly 5 per cent of the entire building were listed for

long-term rent just a few weeks into the pandemic.[165] Some advocates suggest as many as 7,500 homes could be released back to the market as a result of the pandemic.[166] Despite the uncertainty, Airbnb also stated that the company has more hosts registered on its site in 2020 during the pandemic than it had in 2019.[167]

Regardless of the long-term impact of COVID-19 on short-term rental properties, short-term rental properties have the power to move the market. In Toronto and some other municipalities that experience high tourist volumes, Airbnb is already undergoing municipal regulation. In other municipalities, there are no rules surrounding the process. Though these short-term rental sites generally enforce standards of their own, they are not necessarily followed by renters or hosts.

Many Ontarians may be encouraged to leverage themselves to acquire multiple properties to take advantage of an attractive short-term rental market. During times of market uncertainty, this puts these Ontarians in a precarious situation. Further, since they are unregulated, these properties do not have to abide by zoning and land-use planning rules that legitimate landlords and purpose-built rental operators must abide by. A clear set of guidelines would allow for proper planning and usage of the properties, ensure housing supply reaches the market where possible, discourage individuals from owning multiple properties susceptible to extreme risk in poor rental markets, and ensure a quality and insurance standard for these rentals. In rural tourist communities less susceptible to housing supply swings from home sharing regulation, a provincial framework could help address neighbourhood concerns about noise and vandalism while ensuring there are not 444 different sets of rules in each Ontario municipality.

To be clear, the aim is not to discourage people from leveraging their assets to make supplemental income. Short-term rentals can help people pay down their mortgage faster and bring needed income to areas that do not have traditional hotels and tourism accommodations. Instead, the intent of regulation of home sharing services like Airbnb is to ensure a stable environment that does not negatively impact the housing market or expose hosts to too much risk. After all, just 2 per cent of the current housing stock being listed at once has the potential to cause a supply side shock like the 1990s.[168]

Recommendation #12:
The Ontario government should create a single provincial regulatory framework for home sharing services, like Airbnb, to ensure that the housing market is not susceptible to large swings of increased or decreased housing supply during cool and hot short-term rental markets respectively.

13. REZONING FOR GROWTH IN NON-URBAN AND NORTHERN ONTARIO

To further enable non-GTA growth, the Province should declare its interest to help expedite re-zoning and classification of outdated retail lands for residential and mixed-commercial use. This type of declaration could also apply to excess properties owned by the Ontario government such as abandoned psychiatric hospital sites in Orillia and Brockville. By declaring a clear desire to convert surplus properties and under-utilized retail lands like strip malls and shopping complexes, the Province can clearly signal to developers a willing partner. This declaration must come with a willingness to use the tools at its disposal in partnership with municipalities, such as the MZO process noted above, to expedite zoning changes and permitting.

Given many Ontario retail locations were already struggling for reliable tenants before the COVID-19 pandemic, they are commonly located in prime downtown locations, and many will have lost tenants during the crisis, now is the perfect time to repurpose these properties. Given their locations, many properties would lend themselves well to mixed use buildings that have some necessary retail on lower floors and residential on upper floors. In this space, the COVID-19 pandemic has accelerated e-commerce trends making this policy option incredibly timely and needed to ensure rural and Northern Ontario communities do not enter an anti-development negative growth pattern.

Recommendation #13:
The Ontario government should publicly signal a desire to use the tools at its disposal such as Municipal Zoning Orders to accelerate the conversion of surplus lands and outdated retail malls and shopping complexes into mixed-use and residential properties.

14. RESPECTING RURAL ONTARIO

If the provincial government is serious about growth in non-urban municipalities, it will need to realize the type of growth that is desired both by the current and future residents of these areas. Quite simply, enforcing growth targets on rural and suburban areas that forces their land-use planning to densify is not needed. Ontarians will not be moving away from their Greater Toronto Area semi-detached homes or condominiums looking for the same in rural Ontario. The pandemic's impact on work-from-home policies will encourage families to seek out more space, not less. Few Ontarians are looking to make the move to Innisfil or Orillia to live in a condominium, especially given the lower property values increase a family's purchasing power in these locales.

In the latest growth plan, the Province reversed the previous government's 2017 changes back to 2005 targets which means most rural areas like "...the city of Kawartha Lakes and the counties of Brant, Dufferin, Haldimand, Northumberland, Peterborough, Simcoe and Wellington would need 40 people and jobs per hectare under the planned changes."[169] Though targets like these may work for more urban and suburban communities, confining 40 residents to an area just under 2.5 acres is incompatible with the current or future expectations of many of these communities that are built out in almost purely detached or semi-detached housing.

Municipal and county councils in these areas can plan best for their futures, enabling density where needed or desired, and accounting for issues related to the development of farmland. By forcing density in rural communities, it is creating a housing fleet inconsistent with local demand. Therefore, to encourage proper creation of detached housing to meet the needs of Ontario's current and future rural families, the provincial government should review its land-use planning policies in these areas to remove densification requirements.

Recommendation #14:
The Ontario government should remove density targets for its most rural municipalities and counties under the growth plan to encourage the building of detached housing that meets the needs of current and future rural families.

15. REMEDIATING BROWNFIELD SITES

Previous recommendations have suggested re-purposing properties can be a creative way to create new housing supply in prime locations throughout Ontario. However, in many cities across the province, there are already thousands of brownfield properties that could be repurposed for residential or commercial use but contain potential environmental contamination from previous industrial uses. Developing these sites, though financially attractive, can be a confusing and complex process.

Municipalities are generally prohibited from issuing financial bonuses for development or to attract investment. However, under the *Planning Act*, many municipalities can designate certain areas as Community Improvement Project Areas.[170] If done, a municipality can offer incentives for redevelopment in these areas through grant or loan programs. Dozens of Ontario municipalities have since taken this step in hopes of seeing their brownfield sites repurposed for a better usage.[171]

Given the current provincial interest in unlocking land for new housing supply and stimulating growth in non-GTA municipalities, a provincial program to help fund brownfield remediation would be timely. By making financial resources available for brownfield remediation, it would also force the provincial government to review and streamline its development requirements for brownfield sites to help facilitate building on these sites that are often near transit and in high-density areas.

Recommendation #15:
The Ontario government should develop a program to remediate and develop brownfield sites including offering financial assistance and streamlining development timelines for these sites.

Part 4: **Conclusion**

The future of the real estate market in Ontario is uncertain. The full impact of a global pandemic remains to be seen. Might there be a second wave of COVID-19 cases and subsequent economic lockdowns and restrictions? Will the expiration of income assistance policies and mortgage deferrals in the Fall of 2020 reveal a deeper underlying economic recession? Will families be financially empowered by low interest rates or will recovery from COVID-19 be slow and arduous, limiting their purchasing power? Will work from home trends continue into the foreseeable future? When does immigration to Ontario return to pre-COVID-19 levels?

These questions cannot be answered today. However, it is possible to prepare for the multiple potential outcomes that these factors could reveal. The already developed trends in the real estate market prior to COVID-19—namely affordability concerns and limited housing supply—are likely to continue and could even accelerate. Going forward, the financial uncertainty caused by the pandemic could even delay families from making home purchases.

Instead of waiting to discover these problems, the Ontario government should begin preparing immediately to use the housing market to stimulate the economy, create jobs, and fix long-term supply issues to ensure prices are affordable moving forwards. In pursuing the above 15 recommendations, or a combination therein, the Province can ensure it has the tools to meet the challenges that emerge. By beginning this work immediately, the government will be ready and able to choose the right policy combination to stimulate the economy and balance its broader fiscal concerns. This will ensure it remains in a strong budgetary position moving forwards.

The real estate market, and specifically the residential market, have always been drivers of Ontario's economy. At a time when economic recovery is paramount and Ontarians need to return to work, investing in a stable and efficient real estate market is imperative. Investing time and resources into creating a strong and affordable real estate sector will in turn create a strong Ontario while allowing families the freedom and flexibility to pursue the dream of home ownership once again.

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