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DATE:	February 10, 2004
TO:	Chairman and Members of the Planning and Development Committee
FROM:	Edward R. Sajecki, Commissioner of Planning and Building
SUBJECT:	**Rental Housing Repair Needs Assessment** **MEETING DATE: March 1, 2004**

ORIGIN: Planning and Building Department

BACKGROUND: One of the Housing Objectives of the current, and previous Official Plans, is to ensure that the existing housing stock is maintained both qualitatively and quantitatively. Since the construction of new rental housing has been virtually non-existent, the maintenance and retention of the Mississauga's rental housing supply is of particular importance. To do so, there is a need to understand not only the present quality of the physical assets and repair needs, but also the repair needs and costs over the long term. Consequently, The City of Mississauga Planning and Building Department, who initiated this study, and Canada Mortgage and Housing Corporation, who co-sponsored the research, sought comprehensive information on the current and future need of repair and associated costs for the privately initiated rental stock in the City of Mississauga.

Gerald R. Genge Building Consultants Inc. (GRG), a consultant with extensive expertise in this type of research, was hired to undertake the study with the following objectives:

- to examine the state of repair of rental buildings in Mississauga;
- to identify economic implications associated with the state of repair and current projections of repair cost and timing;
- to examine the interface between repair and the size and age of rental structures, rent levels, financial planning, social, ownership and regulatory issues.

Exhibit 1 is a copy of the Executive Summary; a full copy of the study is under separate cover.

COMMENTS:

1.0 Introduction

The condition and costs to maintain private, multi-unit rental housing have been of concern since the early 1980's. Until the late 1990's, most information was anecdotal and the available reports were often focussed on complex descriptions of system repairs or dramatic building failures. Since then, rigorous assessment of actual repair costs has been emphasized by building science research. A study undertaken on 63 high-rise rental properties in the former Cities of Toronto and York determined repair needs and costs over a ten-year period. Another study on 209 condominiums in the Greater Toronto Area devised an analytic procedure for condition and funding assessment.

This study, which involved 39 buildings and 6,364 units, further refines the methods and protocol for condition and building repair and replacement cost analysis using data specific to private rental properties in the City of Mississauga. *Based on building typology and age, detailed costing plans can be developed allowing owners the opportunity to focus efforts on the most strategic repairs so that occupant safety, comfort, and integrity of the building structure and subsystems can be maintained. In* *the interest of maintaining properties in good condition, building owners need to be able to forecast repair needs and associated expenses both in the short and long term.* Such forecasts can be based on professional opinion, historical records of funding, available funding, and actual repair needs for individual properties. Condominiums, for instance, are required by current legislation to have reserve fund studies prepared by independent qualified persons. Public housing providers commission capital repair and replacement planning studies. These types of studies assess both current and long-term expenses for specific properties and can be used to generate accurate predictions of future capital repair or replacement needs. The results of this study illustrate realistic cost ranges for a wide variety building systems. This study also uses the concept of Condition Index as a logical and uniformly applicable rating of building condition. This research will also help property owners, managers, and developers, allocate resources to building and property repair, replacement, and development to ensure longer-lived lower cost buildings.

2.0 Sampling

At the time of initiating this study, the existing apartment housing stock consisted of approximately 56,505 units. In total, 56% (31,638 units) are rental, 41.4% (23,408 units) are condominium or have a condominium application in process, and 2.6% (1,459 units) are under co-operative ownership.

There are about 28,170 townhouse units with the vast majority, 72.2% (20,341 units), being condominium or undergoing the condominium application process. The remaining townhouse units are distributed as follows: 12.8% (3,607 units) freehold, 11.5% (3,238 units) rental, and 3.5% (985 units) under co-operative ownership.

After developing a profile of the entire City of Mississauga rental property portfolio, more than 100 contacts were made of private landlords requesting participation in the study. After review, the sample set was selected at 34 high-rise (5,917 units) and 5 townhouse developments (447 units). These buildings represent about 18% of the known multi-unit residential rental stock in Mississauga.

3.0 Methodology

The parameters assessed were those commonly used in previous studies and included: Site Work, Structure, Building Envelope, Mechanical, Electrical, Life Safety, and Elevators. These seven building systems are the same as those employed in a similar study for the City of Toronto. Finishes were excluded from the costs as those costs are most commonly incurred on a tenant turnover basis and as an operating expense.

All Site Work, Structure, Building Envelope and Elevator assessments were conducted by GRG. Mechanical, Electrical, and Life Safety assessments were performed by a specialist sub-consultant. Costing of repair employed known unit costs, and measured or calculated quantity estimates, to arrive at accurate cost predictions. Technical specialists performed all costing.

The time-to-repair assessment considered the existing condition, age of the building element or component, and normal life spans for the element or component. Where available, actual costs provided by the owners for specific building element or component costs were used. As such, the costs for the seven building systems were computed over the next 60 years and reflected the impact of actual condition of individual building components, their age, and normal life. Costs for 30 years are shown in the reported results.

Each of these seven categories was sub-divided to provide detailed cost profiles that ranged from as few as 30 to as many as 154 items for different properties. To estimate the future costs, each item was assigned life-cycle data appropriate to the materials, condition, and repair or replacement information available.

4.0 Application of the *Tenant Protection Act*

In the following section, the consultants make recommendations regarding the rent regulation system, as it relates to the cost of the identified capital expenditures.

Chapter 24 of the *Tenant Protection Act, 1997* (Act), and the associated Ontario Regulations O.Reg. 194/98 as amended by O.Reg. 268/02, October 7, 2002 include the relevant legislation governing the rental income of buildings included in this study.

The "guideline amount" is the maximum amount a landlord can increase rent without applying to the Ontario Rental Housing Tribunal. The guideline amount is determined by adding 2% plus a percentage of operating costs. Guideline increases since the enactment of the *Tenant Protection Act* in 1997 have been between 2.6% to3.9%. The 2% addition is commonly recognized as a minor capital repair allowance, although the consultants consider the figure to be somewhat arbitrary and a point of debate.

Increases beyond the guideline amount can be applied for based on increased expenses (capital expenditure, taxes, utilities and other operating costs) according to Section 138 of the Act. The maximum allowable rent increase under the law is 4% in any given year. If an application qualifies for a larger than allowable rent increase, the excess amount is carried forward as acceptable future increases.

5.0 Report Conclusions and Recommendations

The consultants' study of a sample of rental properties in Mississauga illustrates several key issues regarding the property conditions and repair costs relative to rental income:

- The condition of properties over the next 10 years is declining based on planned capital expenditures over the next 30 years. Overall, capital expenditures are expected to increase at an average rate of 1% per year for the next 30 years ranging from an average of $672/unit/year in 2002 to $866/unit/year in 2032.

- The majority of the repair needs over the next 30 years are for Mechanical systems at roughly 30% of the expenditures followed by Building Envelope systems at 27% and repairs to the Structure and Electrical systems at roughly 13% each. Elevators, Site Work, and Life Safety systems, in total, amount to less than 20% of the repair and replacement expenditures. In view of these findings and the potential for landlords to make repairs using technology that is not current or, perhaps, making repairs that are insufficient, it would seem appropriate that technology transfer focus on Mechanical, Building Envelope, Structural, and Electrical system repairs and replacements.

- Townhouse properties make up only 7% of the rental units and 9.3% of the buildings. Thus, it is appropriate to focus technology transfer on high-rise properties.

- The projected average annual expenditure for Mississauga rental properties over the next 30 years is roughly $26.8 million averaging $769 per unit per year. This represents 6.6 % of the average rental income at roughly $11,600 per unit per year.

- Based on this aggregate assessment, the maximum regulated rental increase of 4% per year does not cover capital expenses. The greatest disparity between regulated rent guidelines and capital expense-to-income (CE/I) ratios occurs in the period beyond 2005. Since not all properties have the same CE/I ratio at any time or over time, it would seem reasonable to incorporate the benefits and controls of capital expenditure allowances based on planned CE/I ratios into the rent regulation system.

- Market forces will moderate regulated rents. As such, uniform rent increase caps for even the highest rents are, in fact, subordinate to market forces. Thus, there is likely little risk to"affordability" from the tenant's perspective to an alternative capital expenditure formula in rent regulations.

- There is currently no obligation for landlords to generate capital repair income plans as there is for condominiums to generate reserve fund plans. This is an area of significant opportunity to improve the current regulatory system.

- Extreme cases require special consideration. Maximum annual CE/I ratios greater than 8% should be critiqued in more detail than those between 4% and 8%. The current legislation that allows 4% per year until all the capital expenditure is recovered may never be sufficient for such properties. These properties would benefit most from rent adjustments based on CE/I planning.

- The present system of allowing an absolute maximum 4% rent increase based on an cost recovery basis only goes part of the way to recognizing that ongoing repairs will occur even before recovery of the previous expense has been made. While tenants argue there is a 2% capital expense allowance in the current system that landlords have received without application for rent increase and without performing capital repairs, landlords argue that the repair allowance is insufficient for the work needed and the "guideline" increases are necessary to meet annual operating expenses. A more balanced and effective approach would encompass all capital expenditures and more clearly define the formulae permitting larger rent increases where necessary. The source of the 2% figure is ambiguous at best. While some authorities on the subject argue that the 2% value accounts for capital expenditures, others argue that it does not reflect anything but an arbitrary value. Since there is detailed accounting available for operating expenses, a similarly detailed accounting should be generated for capital repair expenses. This would allow the 2% value to be replaced with a more accurate and well-defined amount based on each property's CE/I ratio.

- The capital expenditure funding, through income plans approach, does not consider the potential to fund repairs through property equity. Equity is also not considered in detail by the present regulations.

- The findings of this study should be validated by a follow-up conducted in the form of a questionnaire and selected site visits.

CONCLUSION:

The quality and quantity of rental housing stock in Mississauga affects the quality of life of the residents. While building new housing stock through land development is an available option, proper conservation of the existing supply of rental housing is also a key element in meeting the housing needs of Mississauga residents.

In addition to determining the present quality of the physical assets and the repair needs, there is a need to understand the repair needs over the longer term, since the repair costs in both the near and long term directly affect affordability of the housing. Based on an appropriate sampling of the housing stock, this study provides input toward the development of strategies for the maintenance of affordable rental units. The study assesses the nature and cost for repairs over the next 30 years for private rental properties on both high-rise and townhouse buildings in Mississauga. It sets out the type and timing of work required to provide an ongoing reasonable quality of occupancy in terms of building repairs, and it provides recommendations for improving building technology, reducing costs, and for sustaining affordable housing in the future.

RECOMMENDATIONS:

1. That a copy of the report titled "Rental Housing Repair Needs Assessment" dated February 10, 2004 from the Commissioner of Planning and Building and the report "Rental Housing Repair Needs Assessment" prepared by Gerald R. Genge Building Consultants Inc. be received and forwarded for comments and consultation to the Minister of Municipal Affairs, the Ontario Rental Housing Tribunal, the Region of Peel, Association of Municipalities of Ontario, Urban Development Institute, Fair Rental Policy Organization, and the Greater Toronto Apartment Association.

2. That the Planning and Building Department prepare a further report to Planning and Development Committee once the comments have been received.

Original Signed By:
Edward R. Sajecki,
Commissioner of Planning and Building

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