

The Land Economist

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Professional Journal of the



ASSOCIATION of
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The scenic natural wonder of Niagara Falls is key to the city's tourist industry, and the strength of its economy. See pages 4-5.

PHOTO BY KEN ELLENS

Toronto vacancies to top 7%

By Will Dunning MA Econ, PLE

In the mid-1970s, the Toronto area residential rental market entered a seemingly-permanent state of crisis, with vacancy rates that were at or below two per cent most of the time, and often below one per cent. However, the rental market has gone through a dramatic change during the past three years.

Beginning in early 2002, the vacancy rate began to climb, reaching 2.5 per cent in Oct. 2002, 3.8 per cent in Oct. 2003, and 4.3 per cent in Oct. 2004. The Oct. 2004 vacancy rate was just fractionally lower than the 4.4 per cent record set in 1963.

I forecast that the vacancy rate will climb further, peaking at 7.3 per cent in 2007.

Current Market Performance

Key factors that affect the apartment vacancy rate in the Toronto area are:

• Slower growth of employment

Job creation stimulates the formation of new households and thereby tends to reduce the number of vacant units. In the six years leading up to Oct. 2000, employment growth in the Toronto CMA averaged 3.6 per cent per year. Since then, the growth rate has slowed. Most recently, it is just barely above zero, at 0.3 per cent as of April 2005.

• Competition from home ownership

An increase in home buying increases movement out of rentals and thereby tends to increase the number of vacant units. The chart below shows annual housing completions for 12-month periods ending in September of each year, to correspond with the October rental market survey. It shows that completions began to rise in 1999 and became quite elevated in 2002 and 2003, which coincides with the most

rapid increases in the vacancy rate.

The number of completions fell in 2004 (although it was still very high in historic terms). The reduced completions in 2004 was entirely due to condominium apartments – this housing form competes most directly with the rental market, and therefore this slowdown in housing completions contributed to the slower rate of increase in the vacancy rate during 2004.

The forecast

The factors that have generated increased vacancies during the past three years will continue to influence the Toronto CMA apartment rental market for at least the next two to three years.

• Continued slow job growth

The very rapid rate of job creation during the late 1990s was due to a combination of a weak Canadian dollar (which made it easier for Canadian businesses to compete in the US) and the bubble in the stock market. With the stronger dollar, job creation in the Toronto area will be weak for at least the next two years.

• Housing completions staying high

Meanwhile, the volume of housing completions will remain quite high for at least the next two years – this is based on housing sales that have already occurred. In particular, sales of new condominium apartments remain very strong, with the result that about 12,000 new apartments will be completed each year for the next three years.

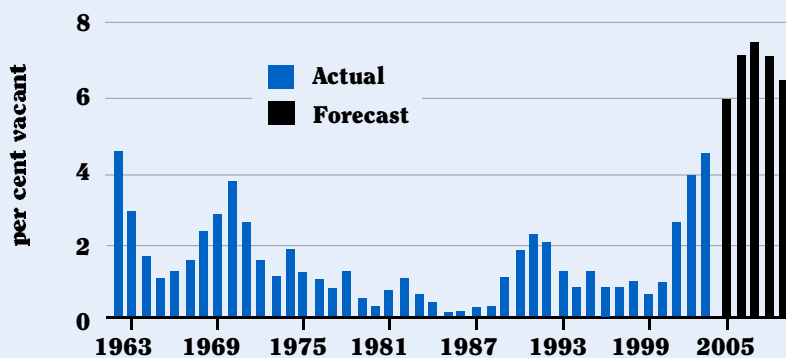
Considering these factors, I forecast the vacancy rate for Toronto CMA as follows:

- **October 2004 – 4.3% (actual)**
- **October 2005 – 5.8%**
- **October 2006 – 7.0%**
- **October 2007 – 7.3%**
- **October 2008 – 6.9%**
- **October 2009 – 6.3%**

Condo conversion opportunities?

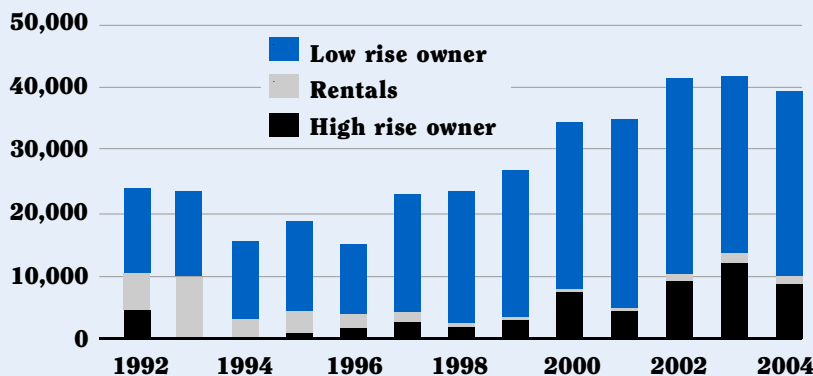
With the weakening of the rental market, and with the expectation that high vacancy rates will persist for a long time, some landlords are considering converting buildings to condominium. Some want to sell the apartments. Most, however, are motivated by the possibility of reduced realty taxes.

Toronto CMA apartment vacancy rate



SOURCE: WILL DUNNING/CMHC

Toronto Housing Completions CMA



SOURCE: CMHC

in 2006-7

In simulations for proposed conversions, I have estimated that typical taxes reductions would be in the range of 40 per cent. This tax reduction is equivalent to 8-10 per cent of actual rent.

The tax reductions must be passed on to tenants, and the landlords would therefore not benefit directly. But, the rent reductions would increase their competitiveness and should result in reduced turnover and vacancies.

The City of Toronto has a condominium conversion policy, which is expressed in Policy 3.2.1.8 of the 2002 Official Plan.

Strictly speaking, this policy is not in force, as it has not been signed-off by the provincial government. (The in-force policies are the pre-amalgamation policies of the six former municipalities that were combined to form the new City of Toronto.)

However, the City relies on the 2002 Plan in its decisions about proposed conversions.

To paraphrase the policy, conversion to condominium is not permitted unless one or both of the following conditions are satisfied:

- The vacancy rate for Toronto, as reported by CMHC, has been at or above 2.5 per cent for the preceding two-year reporting period; or
- All of the units in the building have rents that are 1.5 times (or more) the average rent for the same unit type (e.g., since the average rent for one bedroom apartments is \$888, all one bedroom units must have rents of \$1,332 or more to satisfy this condition).

With regard to the first condition, the vacancy rate has been above 2.5 per cent in the last two CMHC surveys, which suggests that condominium conversions should be permitted.

However, the City's position appears to be that to satisfy the requirement for a "two-year reporting period", three CMHC surveys are required. This interpretation has not been tested at the Ontario Municipal Board.

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With regard to the second condition, the City has approved several proposed conversions where most units have rents above the high-end thresholds. For buildings that don't satisfy the high end policy, the City continues to oppose conversion, and the ultimate decisions might be made at the Ontario Municipal Board.

One proposed conversion ("The Maples") has been approved at OMB, but given the unique features of that property and the fact that it was heard two years ago, it does not indicate what would be decided today.

At least one other proposed conversion (Brentwood Towers, at 17-25 Lascelles Blvd in Toronto) is heading to an OMB hearing, although it will be late this year or in 2006 before a decision is reached.

Thus, notwithstanding that vacancy rates appear to satisfy the requirements of the conversion policy, there is uncertainty about whether proposed conversions can be approved.

Will Dunning is an economic consultant who specializes in housing market analysis, with a focus on apartments, both rental and condominium. His website is www.wdunning.com.

2005-06 dues

Notices for membership dues were mailed recently. If you haven't received yours yet, leave details at 416-934-5166. Prompt payment is appreciated and helps your organization.

Welcome New Members

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Niagara turns water in



PHOTOS BY KEN ELLENS

by **Ronald Ellens AACI, PLE**

The beginnings of Niagara's industry and tourism are reported to have been during the early 1900s. Harnessing hydroelectricity created numerous employment opportunities, along with supporting residential and commercial development. The current Fallsview District has long been advertised as the Honeymoon Capital of the World.

Local economy

Most, if not all, of the former major industrial influences within the City have been discontinued, or significantly downsized, over the past 20 years.

The previous industrial base accounted for much of the employment, yet succumbed to global competition, technological changes, high property taxes and utility charges. Some of the more predominant industrial employers who ceased operations were Cyanamid Canada, Canadian Ohio Brass, Unit Rig, Lionite, and the Ford Glass Plant.

The job market for most of the Niagara Region has remained flat over the past four years; however, Niagara Falls has witnessed some resurgence within the local employment market. This is particularly attributable to the two casinos, the Falls and supporting attractions, plus the accommodations industry.

Notably, all of the top five private sector employers participate within the tourism sector of the city. See chart to the right.

Housing and construction

The recession of the early 1990's witnessed a significant drop in tourist activity due to rising unemployment and dwindling discretionary income. Locally, this caused a wide and varied drop in overall property values, which did not recover until the late 1990's. The average residential sale price in 1990 was \$125,281. It hit an extreme low of \$114,072 in 1996; however, as of April 2005 it had increased by 52.2 per cent to \$173,583.

Building permits issued for new residential units rose from 235 in 2000, to 328 in 2004. In the first quarter of 2005, new house construction decreased by almost 10 per cent from the first quarter of 2004. However, poor weather conditions for January and February are viewed as being at fault for the lower figures. Fundamental economic and demographic factors are quite healthy.

Resale market conditions remain quite tight, putting upward pressure on housing prices. The impact of higher house prices for first time home buyers is somewhat offset with the availability of low mortgage rates.

Total building permit values in Niagara Falls in 1996 were approximately \$75 million. In 2002 the City issued 1,929 permits with a record-breaking construction value

Commercial Land Sales

Year Date	Sale Price(\$)	Land Area		Price per sq ft (\$)
		acres	sq ft	
2004 03/06	430,000	0.138	6,000	71.67
08/04	393,000	0.17	7,395	53.14
30/03 (a)	600,000	0.23	10,000	60.00**
30/03 (b)	600,000	0.23	10,000	60.00**
2003 15/12	380,000	0.17	7,395	51.39
06/10	385,000	0.17	7,395	52.06
28/04	260,000	0.1149	5,005	51.95
07/01	700,000	0.30	13,068	53.57
2002 27/09	2,460,000	0.3955	17,228	142.79*
02/02	3,104,907	0.6887	30,004	103.48*
2001 15/01	310,000	0.1329	5,791	53.53
08/08	2,188,160	1.128	49,136	44.53
27/06	227,000	0.1137	4,951	45.85
15/05	6,375,000	4.22	183,832	34.68
09/01	525,000	0.417	18,176	28.88
09/01	340,000	0.27	11,761	28.91
07/01	1,500,000	1.221	53,187	28.20
07/01	500,000	0.219	9,540	52.41
2000 12/12	3,200,000	3.16	137,650	23.25
28/06	1,600,000	0.0322	1,403	1,140.40*
06/03	250,000	0.412	17,947	13.93
18/02	5,000,000	0.8569	37,328	133.95***
1999 15/09	625,000	0.157	6,854	91.19***
19/09	475,000	0.1338	5,830	81.48*
15/01	500,000	0.344	14,985	33.37
1998 30/04	4,100,000	2.480	108,029	37.95
21/01	1,100,000	0.961	41,850	26.28
1997 11/12	3,300,000	2.210	96,267	34.28
28/04	708,000	0.811	35,327	20.04
1996 19/07	1,250,000	1.680	73,181	17.08

* Motivational Sales **Purchased together *** Includes Shell Value

SOURCE: RONALD C. ELLENS APPRAISALS INC.

Top Private
Niagara
Casino
Niagara
Canadian
Hospital

Public
Niagara
District
Greater
Niagara
City of

SOUR

to gold again



Top Five Employers

Employer	Units
Fallsview Casino	4,279
Niagara	1,820
21st Group Inc.	1,600
Niagara Hotels	950
Quality Motels Inc.	630

Public sector

Parks Commission	850
School Board of Niagara	634
Niagara General Hospital	618
Catholic School Board	534
Niagara Falls	500

SOURCE: NIAGARA ECONOMIC DEVELOPMENT CORP.
2004 BUSINESS PROFILE SURVEY

High-Rise Hotels

Status	No. of units
Built	7,952
Under Construction	689
Unbuilt*	3,939
Proposed**	1,503

* Approved under specific bylaw
** Not yet approved under specific bylaw

SOURCE: NIAGARA FALLS BUSINESS
DEVELOPMENT DEPT./ELLENS

of more than \$409 million and a total investment value of more than \$1 billion. In the last two years, the total permit values were back to a more normal trend line, reaching almost \$172 million in 2004.

Tourist commercial

Opening as a temporary site in 1996, the now permanent Casino Niagara injected speculative commercial investment within the Fallsview District and assisted the local sub-economy in terms of general business, the local housing market and employment.

Tourist commercial land prices have increased within this district prior to the announcements of both casino sites.

The commercial land sales in the chart on page 4 were selected as offering a good cross-sectional view to prices paid for vacant tourist commercial land, as well as structurally improved sites with value inherently imputed to land only. Note that the sales recorded here as motivational sales are not considered to reflect a reasonable indicator to market value.

Since the opening of the new Niagara Fallsview Casino on June 8, 2004, there have been very limited tourist commercial land transfers. The frequency of vacant land acquisition for assembly or development appears to have diminished. Aside from a few isolated anomalies where motivation was a key factor in excessive prices paid, commercial land has continued to slowly increase.

Rampant high-rise hotel development within the Fallsview area has put pressure on the availability of vehicular parking. A number of off-site parking lands have accommodated the expanding development of Hotel units per site.

The chart to the left shows hotel units built, under construction, approved but unbuilt, and still in the proposal stage. Note that the total unbuilt and proposed units (5,442) represent 63 per cent of the number units already built and under construction (8,641).

Actual potential supply, including units under construction, equals 44 per cent of the total sampling universe of 14,083 units.

Most of the existing and potential high-rise hotel development is located in the Fallsview District. There are minimal single use, non-accommodation, commercial enterprises within this district compared to Hotel / Motel / Inn and on-site ancillary service or retail commercial uses.

Conclusion

Niagara Falls has suffered sporadic economic losses to its tourist commercial sector over the past few years, due to the affects of 9/11, SARS, and the Canada / U.S. exchange rate. Although the area has rebounded, the City will continue to be sensitive to any adverse economic influences that affect the Tourism sector and the discretionary income of its visitors.

Ron Ellens is principal of Ronald C. Ellens Appraisals Inc., a St. Catharines firm specializing in ICI and agricultural.

2005 bursary

In April, OLE Council member Mike Real (back row centre in the photo at right) presented the Association's student bursary to (left to right, back row) Daniele D'Agostino, Raymond Nepomuceno, (front row) Melissa Wilson, Antonella Rucchetta, and Tanya Melo.

The five Seneca College students shared AOLE's \$750 award for their best-in-class project examining a decision of the Ontario Municipal

Board parking requirements for a crisis intervention home in Cambridge.

The bursary recognizes excellence in Seneca's Real Property Administration (Assessment and Appraisal) program. The course of study typically takes two years to complete, although an accelerated one-year program is available for those with qualifying existing credits.



The problem is 'Dumb Growth'

by **Richard Lyall**

The recent budget is a step in the right direction for the province's crumbling infrastructure – it has recognized that the development industry is not the problem, but a key part of the solution! However, the devil is in the implementation.

The last thing Ontario needs is another triumph of form over substance. A continued inability to make things happen will be correctly recognized as part of a relative decline in Ontario's competitiveness and continued real income stagnation.

The progressively more alarming problems with public infrastructure have been presented as a byproduct of both urban sprawl and intensification, perpetrated by a voracious development industry. Now, we are told, governments are somehow going to fix the situation.

However, the many problems are actually caused by piecemeal government planning and gradual long-term neglect.

We've heard a lot about "Smart Growth" over the past few years. The term has precipitated a number of rounds of development consultations, and some new legislation. But we are seeing mostly a continuation of what I call "Dumb Growth".

Dumb Growth can be defined as a condition where multiple layers of government are unable to coordinate long-term planning and programs in the public interest. It is reflected in a

frequently demonstrated propensity of politicians to blame other levels of government for their inability to effectively deal with issues.

It is often marked by knee-jerk and arbitrary decision-making without regard to long term planning or policies. Plus, there is an apparently endless cycle of consultations which superficially address issues, without actually developing practical solutions with measurable deadlines and budgets.

Dumb Growth is also marked by frequent premature announcements for multi-year projects and yet-to-be-precisely-determined programs which don't quite materialize.

In the building industry, the problems associated with Dumb Growth are now painfully evident. The process has become less transparent, less predictable and less timely. Decision makers proudly pander

to core NIMBY constituencies rather than making hard decisions. Whether the field is green or brown, the building industry is frequently being shown the proverbial door. Sensible projects are being turned down for reasons based entirely on unsubstantiated fears.

It is worth noting that other world class regions, many of which have relatively limited natural resources, seem to be coping much better with growth and infrastructure (especially the Melbourne, Vancouver and Chicago waterfronts, Holland and China). In contrast, it took more time for Toronto not to build a bridge, than it did for China to build a new city!

Hopefully, the ReNew Ontario plan will help get us back on track.

Richard Lyall is president of RESCON, the Residential Construction Council of Central Ontario.



Mike Pender 1951-2005

Mike Pender, AACI, PLE, head of Pender Appraisals Ltd., died tragically on April 14, when his kayak capsized in the spring-runoff-engorged waters below the Bracebridge dam. Born in Cornwall, Mike practiced appraisal in Calgary, Toronto, Cornwall and Ottawa, before settling in Bracebridge 14 years ago. He worked on ICI properties, often in association with Kitchen & Company Appraisal Services. Mike attended most of AOLE's meetings, and authored the local market report on Muskoka in this Journal's Winter 2001-2 edition.

Province to play long game

by **Bonnie Bowerman BA, BAS, PLE**

Ontario is committed to “playing the long game” for infrastructure planning, Hon David Caplan told AOLE’s March dinner meeting.

The Minister of Public Infrastructure Renewal (PIR) said that a 30-year horizon for planning, will help ensure the billions of dollars of required capital expenditures achieve best value for money spent and a rational, balanced pattern of growth, in a manner that is accountable to the public.

The challenges are large: Ontario’s population is expected to increase by four million over the next 30 years, there have been years of underinvestment in infrastructure, and public sentiment on how spending should be allocated has been shifting.

Last October, the Places to Grow Act (Bill 136) was introduced. It allows the province to designate a geographic area for development of a growth plan. These will:

- articulate where and how each area should grow over the next 30 years and beyond
- determine the infrastructure needed to support that growth, including the public transit and road networks
- identify what green, natural or agricultural resources should be protected

The Greater Golden Horseshoe Plan is the

first growth plan under the auspices of the Places to Grow legislation to be tabled for discussion.

Formed in Oct. 2003, the PIR ministry plays a coordinating role with other provincial government ministries and federal and municipal partners in addressing infrastructure financial requirements and priorities for repair, replacement and expansion. Its other key function is to plan and manage growth in the province. See www.pir.gov.on.ca for information and reports.



Hon. David Caplan
Members and guests got a chance to talk directly to the high profile Minister at this low key dinner meeting.

Still much better off

In 1990, the ratio of debt service costs to income for homes in Canada was 47 per cent, while now it is 29 per cent, according to Canada Mortgage and Housing Corp’s economics department.

One spokesperson recently estimated that five-year mortgage rates would have to jump to 13% to match that 1990 debt service level.

Deadlines extended

Implementation timeframes have been extended to Jan. 1, 2006 (from July 1, this year) for the following elements of Ontario’s new building regulatory system:

- qualification requirements for building officials and designers
- registration requirements for designers (i.e. qualified staff and insurance)
- timeframes for municipal review of building permit applications
- start of the municipalities’ first annual building permit fee report period.

The Legislative Beat

continued from page 8

Greenbelt Plan

On Feb. 24, the Greenbelt Act, 2005 was passed, despite continued pressure by certain groups who contend that insufficient science was used in the formulation of the greenbelt boundary. Premier McGuinty announced an additional 8,500 acres of protected land on top of the 1.7 million acres already contained in the plan.

The Greenbelt Plan builds upon the existing framework established in the Provincial Policy Statement and must be read in conjunction with all other applicable land use planning policy, regulations and standards. Development

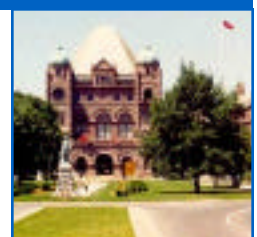
applications made on or after Dec. 16, 2004 must conform to all provisions of the Greenbelt Plan. A Greenbelt Council will be established to assess implementation of the plan and assist with coordination, particularly where there are cross-boundary issues such as watershed plans.

Places to Grow Act, Bill 136

At the end of April, an all-party committee of MPPs held hearings on Bill 136. A wide range of views were expressed in an effort to improve this draft legislation.

The Province hopes to achieve a 40 per cent intensification target for the Greater

Golden Horseshoe area, to be implemented on a sub-area basis.



Environmental Enforcement Statute Law Amendment Act

Amendments to Bill 133, the “spills bill”, were proposed by a government committee and introduced by Environment Minister Leona Dombrowsky in mid-May.

Andy Manahan is Development Promotion Representative, Universal Workers Union, Local 183, and 2005-6 President of the Association of Ontario Land Economists.

Budget

Finance Minister Greg Sorbara tabled his second budget on May 11. Since the Liberals came into office in October 2003, the deficit has been reduced from \$5.5 billion (2003-04) to \$3 billion this fiscal year. Sorbara aims to balance the budget by 2008-09 at the latest. This will be done by “hold[ing] the line on spending in most ministries.” The exceptions are Health and Education. For example, an additional \$6.2 billion will be invested in universities, colleges, and apprentice training by 2009-10.

Over the next five years, revenues are expected to increase from \$77 billion (2004-05) to \$92 billion (2008-09). Over the same period, expenditures are forecast to rise from \$80 billion to almost \$91 billion. There is a wild card in all this: a better fiscal deal with the federal government would enable the Province to accelerate the plan for a balanced budget.

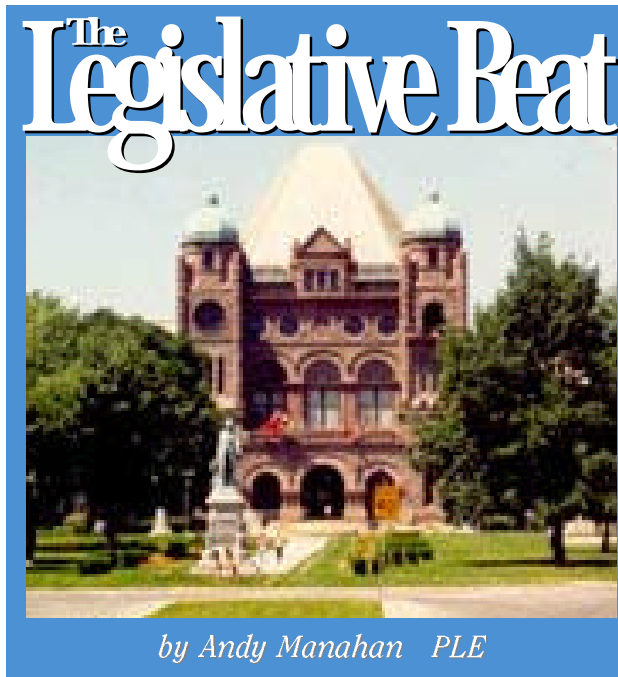
\$23 Billion Funding Gap

For a number of months, Premier Dalton McGuinty has promoted a “Fair Share” campaign to get more funds from the federal government. The gap is described as the difference “between what Ontarians send to the federal government and what they get back in the form of programs and services” (\$85 billion vs. \$62 billion). Although Prime Minister Paul Martin has refused to acknowledge the veracity of this argument, he did meet with McGuinty prior to the provincial budget.

More funding is expected in a range of areas such as labour market training, immigration settlement, post-secondary education and infrastructure. Agreement was reached to create a single administration of corporate income tax in Ontario, at the federal level.

Infrastructure Funding

May 9: The Minister of Public Infrastructure Renewal (PIR), made an announcement on Alternative Financing and Procurement Strategies. The Hon. David Caplan said that “we need to find



new partners to leverage the necessary investments in infrastructure and expertise in delivery.” Key new partners would be “the two major public sector pension funds [which] have at least \$120 billion in assets.”

The Minister noted that the teachers pension fund recently paid \$651 million to buy a 25 per cent stake in a company that provides water and sewer services in the U.K. “These are investments that could have been made here in Ontario, to benefit Ontarians,” Caplan said.

A new agency, the Ontario Infrastructure Projects Corporation (OIPC), will help to attract new pools of capital to supplement government investments in infrastructure. OIPC will directly oversee new, large, alternatively-financed infrastructure projects. It will report to the Minister of PIR and work at the direction of the Ontario government.

May 11: The Finance Minister’s Budget speech stated that a \$30 billion infrastructure spending program will be rolled out over the next five years. Ontario residents will be able to purchase infrastructure renewal bonds in an effort to raise funds for various building projects. Minister Sorbara pointed out that 166 Ontario communities are proceeding with 1,000 local infrastructure projects already through

the Ontario Strategic Infrastructure Financing Authority (OSIFA). That authority’s mandate will be broadened to provide loans for culture, tourism and recreation projects in municipalities. Later this year, OSIFA financing will be made available to Ontario universities.

May 25: PIR Minister Caplan provided details on the five-year, \$30 billion infrastructure investment plan, billed as ReNew Ontario. Over the next 24 months, construction will be under way or completed on 72 hospital projects, and 22 highway expansion projects (Southern Ontario).

There will be significant investment in public transit, border crossings and other transportation systems. New ways to plan, build, finance and manage public infrastructure will be implemented.

Affordable Housing

On April 29, a new \$602 million per-year Affordable Housing Agreement was signed between Queen’s Park and the federal government.

Municipal Affairs and Housing Minister John Gerretsen indicated that the program will “focus on the working poor, persons with mental illness, and victims of domestic violence.”

This agreement includes a commitment of \$301 million from each level of government. More than 15,000 units of affordable housing will be built.

A new \$80 million housing allowance program will provide immediate housing allowances/rent supplements to support 5,000 affordable housing units for lower income people across Ontario.

A new Home Ownership Market Entry Fund (HOME Fund) will provide capital subsidies to developers of housing for families with low to moderate incomes.

As well, the province is creating the Ontario Mortgage and Housing Partnership to assist developers of affordable housing with low-cost, long-term financing for new rental and supportive housing units.

See Legislative Beat page 7