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# FAST FACTS

**October 6, 2010**

## Rising housing prices and low rental vacancy - a perfect storm for condo conversion

**A** few weeks ago an acquaintance of mine received notice that the Osborne Village apartment building where she has lived with her partner and two children for the past 5 years, will be registered under Manitoba's Condominium Act. If and when they proceed with converting the rental units to condominiums, tenants will be given 5 months notice to find alternative accommodations. She tells me she may as well be given a day's notice because there are simply no 3 bedroom rental units available at a rate that her family can afford. While she likes the apartment, she has no desire to purchase it and even if she had, she couldn't afford to.

The rapid increase in condominium conversions is noticeable across Winnipeg, and particularly so in highly populated areas such as Osborne Village, Corydon Village and along Grant Ave. It is becoming a serious problem for renters.

Winnipeg's rental vacancy rate is 1 percent. This is far below the 3 percent rate, which is considered to be a healthy private rental market rate.

Condo conversions are contributing to the shrinking rental market. Between 1992 and 2009, 5,473 rental units were converted into condominiums. During that same period, we saw a decline in the private rental stock from a total of 57,279 units to 53,154, a net loss of 4,125 units.

In spite of claims that there is a significant demand for condominiums, the actual new construction of condominiums (as opposed to conversion of existing apartments buildings) has slowed in recent years. Canada Mortgage and Housing Corporation (CMHC) reported an average of 600 new units per year in 2007 and 2008. That number dropped to 27 in 2009. CMHC attributes the decrease to the recession, however the recession clearly hasn't affected conversions. 306 units were converted in 2009 compared with 83 in 2009, even though those units were in high demand as rental units.

While there are many factors contributing to housing market activities, the current rise in condo conversions raises some important questions. Is there really a demand for converted units? If so, who are the buyers? Are converted units owner occupied or are they rented out by new owners at much higher rates? And how are renters being protected? Where do they go?

CMHC predicts that "the rise in housing prices combined with limited supply in the resale market, persistently low rental vacancies and rising rents will result in an increase in demand for modestly priced apartments and row condominiums." This is in part driving the conversion of apartments to condominiums. It is faster and cheaper to convert rather than to build from scratch, making



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 MANITOBA OFFICE

309 - 323 Portage Avenue  
 Winnipeg, MB R3B 2C1  
 T 204.927.3200 F 204.927.3201  
 ccpamb@policyalternatives.ca  
 www.policyalternatives.ca

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## *FAST FACTS continued ...*

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conversion extremely profitable. Converting the rental stock when the vacancy rate is low is risk free for property owners because they are increasing the demand for the purchase of their units by removing them from an already depleted rental market.

### **The Role of City Government**

On April 6<sup>th</sup>, the City's Standing Policy Committee on Property and Development defeated a motion calling for a study of the impact of apartment- to-condominium conversion on affordable rental housing.

Councillor Russ Wyatt voted against the motion noting that condo-conversions create affordable home ownership options for families. Although the development of new condominium units or conversion of non-residential buildings can create an affordable option for some families, condo conversion in a tight rental market creates problems. Creating a supply of one type of tenure by reducing the supply of another limits options, and in some cases effectively forces families to purchase units that they may not want or cannot afford.

Condominiums have an important place in well-planned modern cities. But a healthy supply of rental housing must also be part of the mix.

### **Calming the Storm**

Other cities have concluded that condo conversions need to be regulated. For example, the City of Regina, with a market generally comparable to Winnipeg's, has regulated condo conversion since 1994. Apartments cannot be converted when rental vacancies are below 3%. More recently Regina has put a moratorium on all apartment to condo conversion while existing policy is under review.

Regulating condo conversions will not be popular with everyone and proponents will argue that anything standing in the way of the market

is bad policy. But market-based arguments only apply when people have options. Homeownership is not always an option. Some will claim that rent controls create the shortage of rent supply and rent restrictions are the ultimate reason property owners are converting. Not so. Other cities like Regina do not have rent regulations and yet they have found it necessary to regulate condo-conversions.

Market regulation of rent and condo conversion is increasingly being considered in the mix of tools necessary to address rising rents and shrinking supply. A recent study released by the School of Public Policy at the University of Calgary suggests "second-generation rent control" (similar to those that we have here in Manitoba) and other regulatory measures, in addition to a mix of incentives in its package of affordable rental housing tools.

Those who are benefitting from the condo-conversion market will come up other reasons not to regulate and they will lobby politicians to support their position. It is their right to do so. But the role of City Council and the province of Manitoba, who will ultimately have to amend legislation to enable the city to regulate, is to put policies in place that best serve the public. Regulating apartment to condo conversions is one such policy.

*Shauna MacKinnon is the Director of Canadian Centre for Policy Alternatives Manitoba*



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