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# A HOME FOR ALL

## In Search of Solutions to Affordability

*This is The Tyee's award-winning series focusing on solutions to the steep cost of housing in the Vancouver region and elsewhere in British Columbia.*

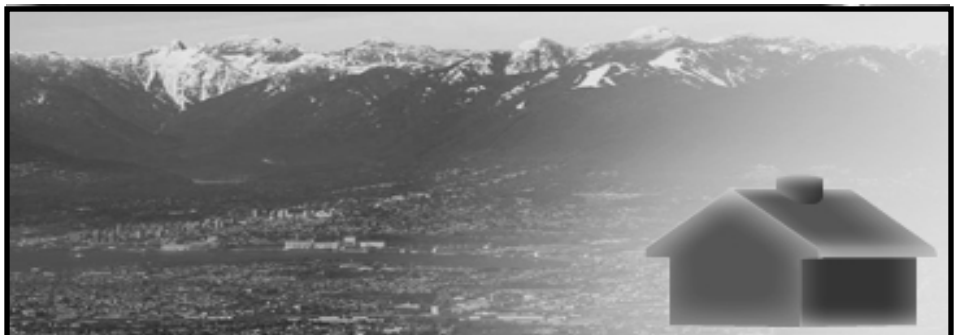
*Thirteen articles present proven approaches and fresh ideas from developers, planners, financiers, politicians and everyday citizens, giving hope to the vision of a home for all.*



## A TYEE SERIES ON AFFORDABLE HOUSING

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## A Home for All is Possible

For too many British Columbians, having a job or even a two-income family is no longer enough to guarantee a basic, comfortable place to live -- in fact, the average Metro Vancouver earner can afford only half a home.

In a market that isn't delivering a variety of cost-effective housing, Tye investigative editor Monte Paulsen reports on how different approaches to finance, government policy and design could whittle the costs down to manageable proportions. And we invite experts to weigh in with their own opinion pieces.

The challenge to the ongoing economic and cultural vibrancy of B.C. is critical. The conversation about overcoming that challenge starts here.



## Author Biography: Monte Paulsen

**Monte Paulsen**, investigative editor of *The Tyee*, reports on politics and policy with a special focus on affordable housing and homelessness.

He is also a regular contributor to *The Walrus*, and has written for *Vancouver Magazine*, *BC Business*, and *The Globe and Mail*, as well international magazines as diverse as *Paris Match*, *Mother Jones* and *U.S. News & World Report*.

Paulsen has served as an investigative reporter at several newspapers, shared in a Pulitzer Prize for Public Service, and was a senior fellow at The Center for Public Integrity, a Washington D.C. research group focusing on government transparency.

Monte Paulsen's work on *A Home For All* was a finalist for a 2009 **Jack Webster Award** in the area of community reporting. The Jack Webster Awards acknowledge "Excellence in British Columbia Journalism." It was also a finalist for a 2009 Canadian Online Publishing Award in the Best Series category.





## Ordinary people in BC can no longer afford ordinary homes. First in a series searching for solutions.

Monte Paulsen

### CRUNCHED BY THE NUMBERS

Financial advisors suggest no household should spend more than 30 per cent of its income on housing. Yet...

42.7 per cent of British Columbian renters spend more than the 30 per cent shelter-to-income threshold.

Kelowna is the least affordable rental market in Canada, with 47.9 per cent of renters paying more than the threshold. In Vancouver, it's 43.8 per cent; in Abbotsford, 43.2 per cent.

B.C.'s median family income would have to almost double, reaching \$118,930, in order for an ordinary family to afford an ordinary home in Metro Vancouver.

Ordinary families can no longer afford to buy or rent ordinary homes in British Columbia.

Vancouver is the fourth most expensive place in the world in which to buy a house, according to a recent study by the Winnipeg-based Frontier Centre for Public Policy. Victoria, Kelowna and Abbotsford also rank among the world's 25 least-affordable housing markets, according to the [survey](#) of 265 markets in Australia, Canada, the U.K. and the U.S.

As a result, a two-paycheque family earning a median income can no longer hope to qualify for a mortgage large enough to buy even an entry-level home in Metro Vancouver. And a single-parent family cannot affordably rent a two-bedroom apartment.

This article measures the gap between what ordinary British Columbians can afford, and what ordinary homes cost in this province. And over the next few weeks, this series will explore ways to close that gap.

### Half a home: What first-time buyers can afford

Ordinary families earn \$64,332 a year. That's the median income among all "census families" in the Vancouver metropolitan area, according [2005 census data](#) provided by Statistics Canada. Province-wide family income is a wee bit lower at \$62,346.

An ordinary bank will loan that household enough money to buy a \$258,142 home, with monthly payments of \$1,466. This mortgage calculation assumes a typical down payment of \$12,907, a 5 per cent interest rate, annual taxes of \$1,200, utilities and strata fees of \$200 a month, and payments toward other credit of \$200 a month.

Fiddle with those assumptions, and the amount of money available to a median family with ordinary credit could rise or fall. (With a down payment of \$27,449, for example, a median family could afford a \$274,487 home.)

An ordinary home costs \$484,211 in Metro Vancouver. That's the residential benchmark price of all homes sold in December 2008, as calculated by the [MLSLink Housing Price Index](#). That figure averages condos, attached homes and detached homes throughout the region; apartment properties averaged \$333,275 in December, while detached homes averaged \$648,418. (Obviously, home prices vary across B.C., with places such as Whistler costing more, and many northern communities costing less.)

So, the gap between what an ordinary family can afford and what an ordinary home costs in Metro Vancouver is about \$226,069.

Half a home is all that most Vancouver-area families can afford.

## Single parents: Sleeping on the sofa

Single-parent families have it worse.

About 15 per cent of Vancouver-area families are headed by single parents. Four out of five of those are women. The median after-tax income for a single parent family headed by a woman was \$34,350 a year. That translates to take-home pay of \$2,862 a month.

Buying a home is out of the question for these families. Most aspire simply to an apartment in which children have their own bedrooms. Financial advisors suggest that no household should spend more than 30 per cent of its income on housing. (It's called shelter-to-income ratio, or "STIR.")

For a female single parent in the Vancouver region, that 30 per cent works out to \$859 a month.

One-bedroom apartments rent for an average of \$880 a month in Metro Vancouver, according to October 2008 data from the Canadian Mortgage and Housing Corporation (CMHC).

Two-bedroom apartments fetch \$1,124 a month. As a result, 42.7 per cent of British Columbian renters spend more than the 30 per cent shelter-to-income threshold, according to CMHC figures.

Kelowna is the least affordable rental market in Canada, with 47.9 per cent of renters paying more than the threshold. In Vancouver, 43.8 per cent spend over the limit; in Abbotsford, 43.2 per cent do so.

As a result, many single parents are sleeping on the sofa.

## The best solution: Boost family income by 85 per cent

There are two ways to narrow B.C.'s housing gap: Either raise incomes, or lower the cost of housing.

Social policy experts claim raising incomes is the better option. They note that B.C. households bring home lower median incomes than Canadians as a whole. They warn that as the income-to-housing-cost gap expands, hundreds of thousands of British Columbians fall within a few missed paycheques of becoming homeless.

Economists also believe that raising incomes is the better option. They note that renters who spend 42 per cent of their income on housing are a drag on the economy because they have that much less to spend on cars, clothes, furniture and other goods that stimulate the economy.

"We argue that the ultimate solution to the affordable housing problem is to raise market incomes and develop a more effective and equitable income transfer regime to help lower-income households," wrote TD Economics chief economist Don Drummond in a 2003 paper on affordable housing.

How much would family incomes have to rise in order for an ordinary family to purchase an ordinary home?

About 85 per cent.

Median family income would have to almost double in order for an ordinary family to afford an ordinary home in Metro Vancouver.

A family would need an income of \$118,930 a year in order to purchase a residence costing \$484,211, assuming 5 per cent down and all the same mortgage terms described above (except for higher taxes on the more expensive property).

Unfortunately, as the TD Economics team observed, ordinary incomes are not rising in this country.

"Over the past decade, income disparities have widened, due to both the changing structure of the Canadian economy -- which has favored highly-skilled professional occupations -- and reductions in federal and provincial support under social assistance programs," the TD paper noted.

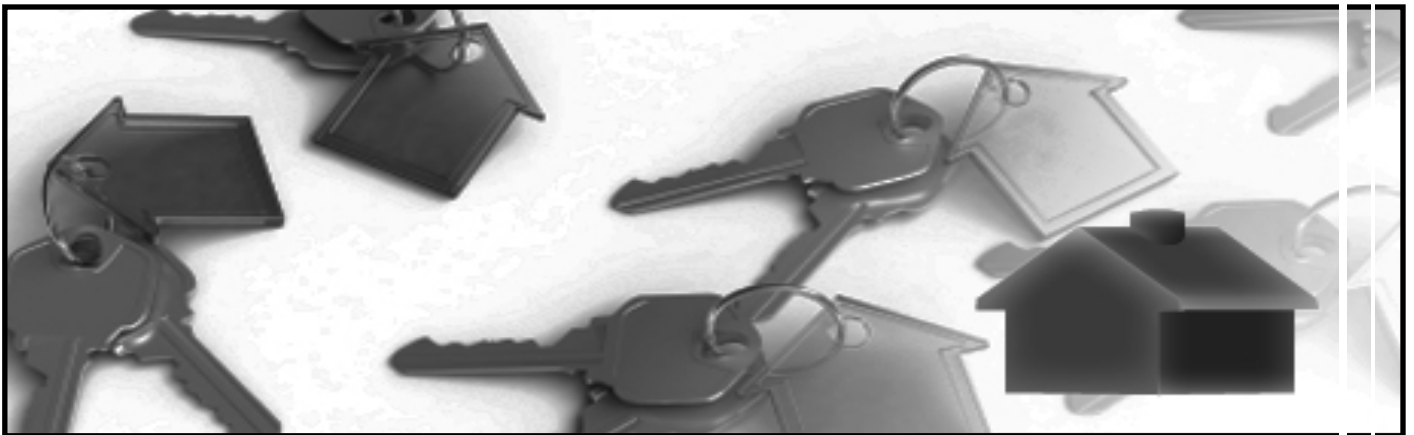
### Other ways to whittle down the gap

The other way to close the gap would be to lower the cost of housing.

While there is no one solution that will close the \$200,000 canyon between what British Columbians earn and the homes they seek, there are more than a dozen strategies that could each help close the gap by tens of thousands of dollars. All are already working elsewhere.

The Tyee will explore these in the weeks to come.





## Betting on 'market correction'? Home prices would have to plunge 55 per cent to fit average family income.

Monte Paulsen

### GOVERNMENT CAN'T BUILD THE SOLUTION

Housing remains out of reach for millions of middle-class Canadians earning median incomes. There is simply no way any government could afford to build homes for the majority of its residents.

For example, there are 493,995 rental households in B.C.

Assuming that only half of those earn something close to median incomes, and that the gap between what these families earn and the price of an entry-level home is only \$200,000, then the cost of providing housing to just this province would exceed \$50 billion.

Think the falling real estate market is going to solve B.C.'s housing affordability problems? Think again: Home prices would have to plunge 55 per cent before ordinary families will be able to buy homes in this market. And if real estate sinks that low, so will family incomes.

Think falling home prices will lead to lower rents? Think again: Kelowna, Victoria and Vancouver boast rental vacancy rates of roughly 0.3 per cent.

Think empty condos, more housing, or government programs are going to close the gap between what ordinary homes cost and what ordinary families can afford? Well, read on.

### **Myth #1: The market correction will restore affordability**

Like any good urban legend, there is a kernel of truth at the heart of this popular myth.

The truth is that there really are tens of thousands of potential homebuyers sitting on the sidelines, hoping for home prices to fall within their grasp. The myth is that home prices can fall far enough to close the gap for ordinary families.

Metro Vancouver home prices declined 10.9 per cent in 2009, according to the Real Estate Board of Greater Vancouver.

And British Columbia home prices are forecast to drop another 13 per cent this year, according to the B.C. Real Estate Association.



That would lower the average price of a B.C. home to about \$396,600. But that's still roughly \$138,500 more than an ordinary family can afford.

As The Tyee reported in part one of this series, a median family living in the Vancouver region can afford to borrow enough money to buy a \$258,000 home.

Metro Vancouver home prices would have to plunge 55 per cent from the May 2008 benchmark peak of \$568,411 in order for a typical family to buy one.

Not even the hardest hit regions of the United States have suffered an across-the-board drop in housing prices of 55 per cent. In California, for example, home prices appear to be bottoming out at about 40 per cent below the peak.

And in a province where one out of every 10 workers earns a living in the construction industry, a 55 per cent drop in housing prices would likely drive family incomes down even further, thereby widening the gap.

## Myth #2: As home prices fall, so will rents

Kelowna and Victoria boast the lowest rental vacancy rates in Canada. Vacancies averaged 0.3 per cent in both markets, according to a survey by the Canada Mortgage and Housing Corporation.

Vancouver finished close on their heels in the October 2008 survey. Of roughly 54,000 market-rental apartments in Vancouver, a mere 160 units were available.

As long as demand for rental apartments continues to outstrip supply by such a large margin, B.C. rents will continue to rise without any relationship to unit costs.

In the short term, the loss of home equity reduces the likelihood that homeowners will build laneway housing or convert basements until rental suites. Many simply no longer have access to the funds to initiate such improvements.

Compounding matters, the rapid rise of rental rates -- coupled with a sea of anecdotal reports -- suggest that B.C. landlords have found numerous ways to evade the rent controls inserted into B.C.'s Residential Tenancy Act.

## Myth #3: Empty condos will loosen up the rental market

One out of every four condominiums in Vancouver is rented, according to CMHC figures.

And it's a good thing, too. Because those roughly 17,000 rental condos -- most of which are owned and rented out by mom-and-pop investors -- have accounted for nearly all the new rental stock added to Vancouver during the past decade.

But rental condos are unlikely to solve Vancouver's rental affordability problems. In fact, most fetch higher than average rents. In Vancouver, the average rents for condo units are 32 to 48 per cent higher than for comparably sized market-rental units, according to October 2008 CMHC figures.

Rented condo units tend to be newer than the purpose-built rental stock, with higher-end finishes and fixtures, and more building amenities.

Even at those rates, many small investors have been renting their investment condos for less than the total of their mortgage, strata fees, taxes, maintenance and management costs. As the real estate market rose, annual appreciation more than offset operating losses. But as the market falls, many may seek to raise rents in order to break even.

### Myth #4: Build more homes and prices will drop

This is the supply-and-demand argument so often cited by those on the right. It holds that as new homes are added to the market, older and less desirable homes become more affordable.

But if simply building more homes were the solution, then B.C. in general -- and Vancouver in particular -- would rank among the more affordable places in Canada. There have been about 35,000 new homes started per year for each of the past three years in British Columbia, with about 20,000 of those in Vancouver.

Much of the B.C. housing market simply remains so out of balance that market forces of supply and demand simply do not function.

In Vancouver, for example, old houses tend to fetch higher prices than new ones. This is in large part because Vancouver valuations are based primarily on land area, and only secondarily on the structure. Throughout much of B.C., however, there is a greater demand for older houses with heritage features such as stained glass or detailed cabinetry. Likewise, apartments from the 1960s and 1970s often fetch as much or more than newer units, because many are larger and closer to the ground floor.

### Myth #5: The government needs to subsidize more housing

This argument may be as popular among left-leaning Canadians as the supply-side argument is among conservatives. It holds that if only the federal government would get back into building co-ops and other forms of subsidized housing, then the relative affordability of the 1960s and 1970s would return.

Here again, part of this argument is true: Numerous studies have found that traditional government-run housing remains the most cost effective way to deliver shelter to the poorest and most vulnerable among us. There is no financial incentive for a P3 to serve the homeless, the mentally ill, or the other roughly 20 per cent of British Columbians living close to or below the poverty line. So for these people, social housing is a necessity.

But as part one of this series made clear, housing remains out of reach for millions of middle-class Canadians earning median incomes. There is simply no way any government could afford to build homes for the majority of its residents.

For example, there are 493,995 rental households in B.C. Assuming that only half of those earn something close to median incomes, and that the gap between what these families earn and the price of an entry-level home is only \$200,000, then the cost of providing housing to just this province would exceed \$50 billion.

More realistically, governments must focus on housing the poorest among us, while at the same time providing incentives for the financial and development communities to provide more cost-effective housing for ordinary Canadians.



## How a Toronto developer creates 'cost-effective' condos sold to families making as low as \$32,000.

Monte Paulsen

### HOW 'OPTIONS FOR HOMES' CUTS COSTS

1. Lower land costs by picking 'difficult' sites near transit.
2. Favour wood construction (cheaper than concrete).
3. Presell, and build 200 units at a time for economy of scale.
4. Just the bare basics. Appliances and parking not included.
5. Slim margins on profit, management fees, etc.
6. No slick marketing. Instead, church basement meetings.
7. Turn profit into loans for buyers within reach.

"We don't call what we do 'affordable housing' anymore," said Toronto developer Michael Labbé. "We call it cost-effective housing. Because what we do is build ownership housing that's less expensive than rental."

Labbé is the founder of [Options for Homes](#), a not-for-profit company that produces condominiums for tens of thousands of dollars below market rates, helps its customers scrape together large down payments, and has accumulated a multi-million dollar endowment that could fund its work in perpetuity.

Since 1993, Options has started 10 developments in the Toronto area, and completed more than 1,500 homes.

"If we could get government behind this model -- not with hand-outs, but strictly through policy support -- then Canada's housing problem would be over within a generation," Labbé said.

Options for Homes' success is less the result of any solitary solution than it is the cumulative impact of a quiver of cost-shaving tactics, each of which slices tens of thousands of dollars off the cost of a home.

Though the tactics themselves may require adaptation in the Lower Mainland's overheated land and construction environment, the Options-style aggregation of tactics offers hope for developers seeking to close the \$200,000 gap between what ordinary families can afford and what ordinary homes cost in urban British Columbia.

## Difficult sites near transit

"It starts entirely with the availability of land," Labbé said. "Without land, there's no sense talking about anything else."

Options buys the cheapest property it can find within walking distance of transit. The group prefers sites where it can build with wood (which costs less than concrete construction) and where expensive underground parking can be avoided.

"We will be further out," Labbé said. "We tend to end up in fringe conditions, or on difficult sites."

The group typically pays for an option to purchase the property at market value after the building is presold.

"We can work with any site where the owner of the land, whether government or private, is willing to tie up the land for a year and a half while we get ready to buy it," Labbé said.

Labbé said Options' land costs have averaged "in the ballpark of \$10,000 per unit" in Toronto, a market in which developers "generally pay \$30,000 to \$50,000 per condo."

He acknowledged that Vancouver land costs would run higher, but claimed that workable properties can still be found away from the downtown core.

"Even in Vancouver, land is such a small percentage of the cost of the end product," Labbé said. "It's what you do from there forward will produce some version of affordability."

## Starter homes with no frills

Options' design philosophy is similarly cost conscious.

"We're building starter homes," Labbé said. "We create apartments at the lowest possible price, so that everyone has the best chance to buy one."

Size matters. "We like to build more than 200 units at a time, so we're getting the economies of scale," Labbé said. "We like to have a lot of repetition in the styles of our units."

Finishes are basic; suites include broadloom carpet and economical ceramic tile. Appliances are not included, though they are available at cost through a bulk purchase. Where available, underground parking is not included either; buyers pay \$25,000 to \$30,000 per space.

Options negotiates with the city to reduce the required amount of amenity space to one square metre per unit. This is typically a simple meeting room. There are no pools, saunas or exercise facilities.

Options has hired the same contractor (Deltera) to build each of its buildings. Labbé said he pays slim margins: two per cent management fee, five per cent profit, two per cent contingency on a guaranteed price contract.

By hewing closely to this starter-home approach, Options has built its condos for a per-unit average of \$60,000 less than other Toronto developers.

"We've come in at \$60,000 less than everybody else," Labbé said. "You know, in Vancouver, it might be \$100,000 less."

### Marketing in church basements

"Our marketing strategy is backward to traditional marketing for condos," Labbé said. "With traditional marketing, you pay the advertising costs to reach everybody in the market place, and then you find the people who will pay the most money for your product. Our strategy is to approach as few people as possible to achieve our sales targets."

Options mails flyers to everyone already living within about a kilometre of the site. These one-page brochures invite prospective buyers to attend a meeting.

The meetings are held every other Saturday, usually in a church basement near the site. The meeting consists of a [video](#) about Options and a presentation about the building, followed by a question and answer session.

"We explain that Options is acting on behalf of the end purchasers, looking for neighbours who want to move in together," Labbé said.

There is no model unit. There's not even a tabletop model of the building. The only handouts are cheap photocopies of the floor plans.

And no sales are made. Interested buyers can put down a \$100 deposit and sign up for a one-on-one meeting at a later date.

"That deposit allows you to reserve the suite that you're considering. You get all the legal documents to study. You get the DVD to look at. Then you come back for a private consultation before you decide if you want to buy," Labbé said.

About 100 people attend each meeting. About a third put down \$100. And about a third of those buy a suite. The rest wind up atop waiting lists for future buildings.

In a real estate market where cost of sales typically runs \$20,000 per unit, Options spends less than \$2,000 per unit.

And the meetings spur cash flow. "We're often collecting \$3,000 to \$4,000 at a meeting," Labbé said. "We now have \$500,000 that's been raised \$100 at a time."

Though some attendees arrive suspicious, Labbé said most go away impressed.

"One woman asked an aunt to come with her. She was afraid she'd be pressured into doing something she didn't want to do. So she invited her aunt, a lifelong renter who vowed would never own," Labbé said. "The aunt ended up buying a unit."

### Every buyer starts with 13 per cent down

Options customers must qualify for a bank mortgage, just like buyers of any other condo. But Options works hard to help its customers qualify.

"We help people with their down payment, no different than if you got help from your relatives," Labbé said.

Options does this by providing an interest-free second mortgage to each of its purchasers.

For example, consider the case of an apartment that cost Options \$200,000 to build, and that could fetch \$260,000 or more on the market.

"We could have easily sold that unit for \$230,000. And we'd have \$30,000 in our pocket that we could then use to start more projects," Labbé explained. "But that would mean that people who can not afford the \$30,000 would be excluded."

Instead, Options sells the unit for \$230,000 and gives the buyer \$30,000 loan for which no monthly payments are required.

"All our banks have counted that \$30,000 as part of the buyers' down payment," Labbé said. "So everybody who buys from us starts with 13 per cent down."

And in the event the already-discounted condo were to lose value, the second mortgage is written off

"The second mortgage takes the loss," Labbé said, adding that it has yet to happen. This protection has proven particularly attractive to women, who comprise half of Options' customers.

"Single women tend to be very conservative investors," Labbé said. "They don't care how much they make, as long as they don't lose anything."

### **For some, homes that cost less than rent**

Options lends even more to low-income homebuyers.

Where municipalities are willing to defer collection of development fees, Options ploughs that cash savings directly into the creation of ultra-affordable units.

"We don't ask for hand-outs. We ask for deferrals," Labbé said, adding that for one building, Toronto agreed to defer \$3 million.

"But instead of using that pool of money to increase the value of every buyer's second mortgage by \$10,000," he explained, "we decided that for about 25 per cent of the units, we'd give low-income homebuyers an extra \$80,000 in help toward their down payment -- over and above the regular alternative mortgage."

The practice enables Options to sell family homes to people who might otherwise find it difficult to rent apartments of the same size.

"I can take a two-bedroom unit that would sell for \$220,000, and put somebody in it who only has to carry a mortgage of \$100,000," Labbé said.

"This enables a single parent with an income of \$35,000 the own her own home," he said.

"Now, in every building we do, if we can get those minor concessions, we can do 25 per cent income-related ownership and 75 per cent low end of market ownership. And there's no limit to the size of community we can build at that ratio. We could do a 5,000-unit neighbourhood."

## Co-ops pay it forward

Each group of buyers is organized into a building co-operative. Options provides staff and guidance to the co-op for a small fee. When about 80 per cent of the units are sold, the co-op buys the land and contracts the builder. When the building is complete, the co-op morphs into a strata council.

"I believe that if you get people involved early on -- and the co-op legislation requires it -- you end up with a much stronger community once your building is finished," Labbé said.

The co-op rules dictate that all the money returned to the co-op must be reinvested in housing. So no matter whether the second mortgage is \$15,000 or \$115,000; whether it repaid at closing, or carried for decades; every penny goes back to the development of cost-effective housing.

"That's the money we use to start other co-ops," Labbé said. "That money doesn't belong to us. It belongs to people who don't yet have housing."

Labbé acknowledged that as Options units are resold, most will cease to be affordable for entry-level homebuyers.

"This is the policy shift that people have to get their heads around. As suites turn over, the income-related ownership will eventually disappear on that site," he said.

But those losses are replaced as the equity tied up in second mortgages is gradually reinvested into new developments.

"In Toronto, for every unit that's turned over we've built four more units," Labbé said.

"That's why this is potentially a permanent solution to Canada's housing problems," he added. "We have created our own internal resources. We have dedicated those resources to housing in perpetuity. We are unstoppable."

## In Vancouver, a \$500 million legacy?

"I'm a little disappointed that there isn't an Options development underway right now in Vancouver," Labbé said. "When I was there, I met with the city and they pointed out more than 4,000 units of land that were available."

Options has licensed its systems to a little-known Vancouver non-profit called the Columbia Housing Advisory Association. The Tye attempted to contact project co-ordinator Jamie Richie, but was informed he would be out of the country for months.



"If Vancouver decided it was going to get behind this model, they could generate about 2,000 units a year at the absorption rate in Vancouver -- which at this point would help your economy out -- and also would probably produce \$50 million a year in second mortgages," Labbé said. "Ten years down the road you'd have half a billion dollars of assets targeted to solve the housing problem."

That's right: Half a billion dollars.

Labbé urged other groups to borrow and adapt the Options model. "Really, most things are an assembly of many peoples' ideas," he said. "This more so than most."

And he believes an expansion of the Options model is inevitable.

"Housing is the one area of social need that creates wealth," he explained. "All the housing solutions we have created to date have tended to bury that wealth. This system makes that wealth available to many, because every purchaser helps expand a permanent solution to housing," he said.

"I'm absolutely convinced that, either quickly or slowly, we are going to eliminate housing as a problem in Canada."



# NO MONEY DOWN MORTGAGES STILL A GOOD IDEA? THIS ONE WORKS



## Helping renters buy homes, leave social housing, makes space for others.

Monte Paulsen

### HOW 'SPRINGBOARD' FINANCING WORKS

VanCity's Springboard Homeownership Program is a package of two loans, which are only available to residents of subsidized housing:

A down payment loan equal to 20 per cent of the purchase price. This loan is interest-free, but borrowers must make monthly payments to payoff the principal in 10 years.

A mortgage for 80 per cent of the purchase price. This loan accrues interest at the same rate as other mortgages, but borrowers need only make interest payments for the first 10 years.

Springboard customers are subject to a different credit approval process. For example applicants must not have missed or been late with a rent payment in the last two years.

Social housing tends to fall victim to its own success. After waiting for years to get in, residents tend not to move out -- even after their incomes rise or their families shrink -- because they know they won't find a better deal anywhere else. And the longer they stay, the longer the next generation of non-profit tenants must wait on a list.

A Vancouver credit union has tackled this "problem" with a mortgage package designed to help tenants in non-profit housing buy their first homes.

"We loan them 100 per cent of the purchase price," explained Elisabeth Geller, who manages community programs for VanCity Savings Credit Union. "Sometimes, after all the closing costs are figured in, it winds up being 101 or 102 per cent," she added.

"We're enabling people with very moderate incomes to buy their first homes," Geller said. "Which is great. At the same time, we're helping to free up the units they leave behind. Those apartments become homes for single parents, new immigrants and people with health problems."

### Stuck in social housing

There are 918 non-profit housing developments in British Columbia, totalling about 30,000 units. The average time a new applicant must wait before getting into one of those subsidized units is estimated at five years.

Instead of paying a fixed monthly rent, residents of most non-profit housing make rent payments equal to one-third of their income.

# NO MONEY DOWN MORTGAGES STILL A GOOD IDEA? THIS ONE WORKS

CONTINUED

This enables many working poor people to slowly improve their lot in life, rather than remain trapped in a cycle of perpetual poverty.

As incomes rise, so do rent payments. In time, some social housing residents wind up making income-based payments equal to or higher than market rents.

"Their circumstances improve. They have good jobs. And that 30 per cent has jumped to \$1,200 or \$1,500 a month," Geller said.

"But there's nowhere attractive for them to go. There's no place to rent, because this market is experiencing a severe rental shortage; two- and three-bedroom family homes are particularly hard to find," Geller explained.

"So they're stuck. And through no fault of their own, they're denying housing to others who desperately need it," she said.

"About 10 per cent of social housing tenants are paying a monthly rental that, when converted to a mortgage, would enable them to buy a home," Geller estimated. "What we're saying is, why not loan them the money to do it?"

## Two loans at once, with conditions

VanCity's [Springboard Homeownership Program](#) is a package of two loans, which are only available to residents of subsidized housing:

- A down payment loan equal to 20 per cent of the purchase price. This loan is interest-free, but borrowers must make monthly payments sufficient to payoff the principal in 10 years.

- A mortgage for 80 per cent of the purchase price. This loan accrues interest at the same rate as other mortgages, but borrowers need only make interest payments for the first 10 years.

More significantly, VanCity allows its Springboard customers to borrow more than others in the same income bracket.

Most bankers cap the amount that a borrower can spend on housing -- which typically includes principal, interest, taxes and strata fees -- at 30 per cent of income. This cap is [the limiting factor that prevents](#) median-income families from purchasing median homes in Metro Vancouver.

Springboard borrowers can stretch their payments up to roughly 37.5 per cent of their incomes.

"For Springboard customers, we're offering to take the money they've been paying in rent, add 25 per cent to it, and call that a mortgage payment," Geller explained.

Likewise, Springboard borrowers are subject to a different credit approval process. The program requires, for example, that applicants have not missed or been late with a single rent payment in the preceding two-year period.

"We didn't want to discriminate against someone who had always paid their bills on time, but didn't happen to have a credit history," Geller said. "People who have been paying their rent on time for two years are pretty stable folks."

# NO MONEY DOWN MORTGAGES STILL A GOOD IDEA? THIS ONE WORKS

CONTINUED

## Not like 'toxic' mortgages that melted down

Geller stressed that Springboard mortgages never balloon, the way high-risk U.S. mortgages often did, squeezing owners out of their homes in the process.

"This is different," Geller said. "The interest rates are fixed, and so are the payments."

Nonetheless, VanCity makes an effort to monitor its Springboard borrowers more closely than most. Springboard borrowers are required to complete a one-day home ownership readiness course. And their payments are scrutinized much more aggressively than are those of conventional borrowers. If a Springboard homeowner misses even a single payment, VanCity will begin foreclosure proceedings.

"We're talking about people who are stretching their incomes," Geller said. "If they were to fall behind, the chances of them catching up are not good. So we do watch them more closely. Absolutely."

VanCity has made 20 mortgages since the Springboard program was launched in 2006, for a total of \$2.7 million.

Geller said she's been impressed with the financial readiness of the Springboard borrowers.

"We were a bit surprised," she said. "Most of the people living in non-profit housing have substantial savings. They had down payments. A surprisingly large number of people came to us with \$8,000 or \$10,000 saved."

## Waiting for condo prices to fall

But Geller said the high price of housing -- even entry level condos -- has restricted the program.

"I'd like to loan a lot more," Geller said. "We pre-approved all kinds of people who couldn't find housing in their price range."

Indeed, VanCity pre-approved 57 Springboard borrowers -- almost three times as many as were able to buy a home. The average approval amount was \$187,000.

"Most of those people are still looking," Geller said. "There has been very little housing available to purchase at that price."

Condo prices appear to be dropping even more steeply than the Metro Vancouver real estate market as a whole, however, and Geller hopes that many of those preapproved borrowers will be able to buy homes sometime this year.

"We have seen a resurgence of applications," she said. "I expect that when the spring mortgage season hits, we will see some more sales."

## 'Any bank could do this'

VanCity loses money on the interest-free down payment loan, but makes some of it back on the interest-only mortgage.

# NO MONEY DOWN MORTGAGES STILL A GOOD IDEA? THIS ONE WORKS

CONTINUED

The credit union, which was founded to make mortgage loans in parts of town where the Eastern banks wouldn't lend, hopes that the long-term business gained will offset the short-term subsidy,

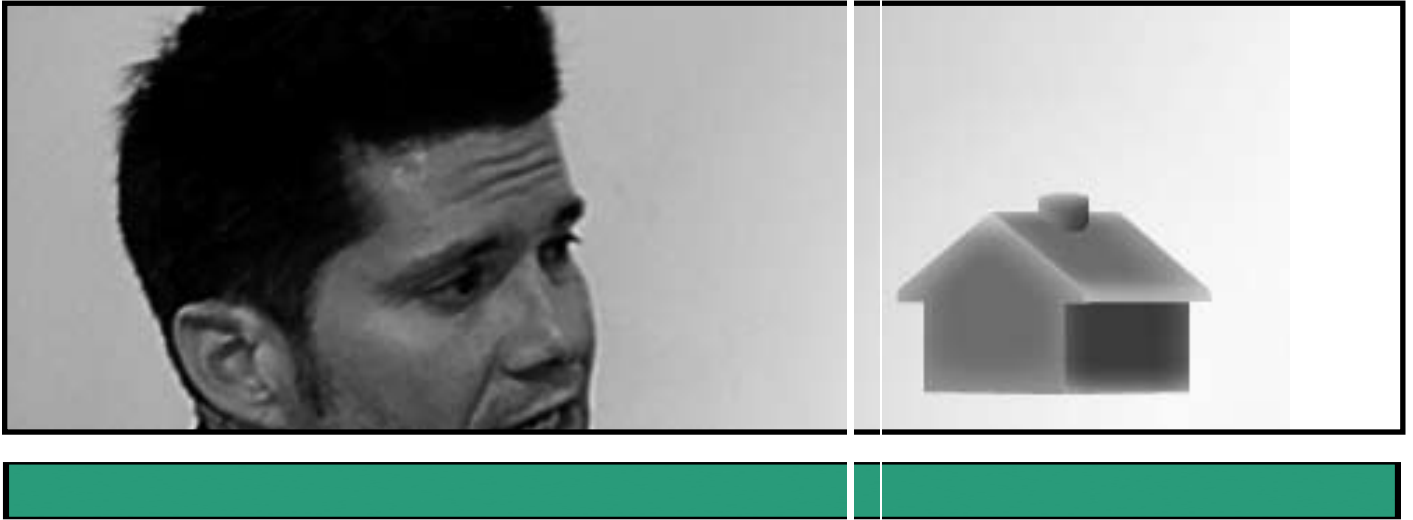
"The down payment loan is a loss for us, a loss that must be subsidized by our other members," Geller said. "But at the end of the day, we make a little bit more off the mortgage -- because people aren't paying anything on the principal -- and that offsets some of the down payment loan."

Geller hopes other financial institutions will copy the VanCity program, or invent alternative programs to help first-time homebuyers.

"Any bank could do this," she said. "Imitation is truly the sincerest form of flattery. If somebody called me up tomorrow from TD and asked how to do this, we'd have a nice long conversation."

"At the end of the day, our goal -- everybody's goal -- is to move people into better and more affordable housing."





## Vancouver's planning boss on the downturn, fixing the rental unit shortage, and a key charter change.

Monte Paulsen

### VANCOUVER PLANNING DIRECTOR BRENT TODERIAN:

"Being a city on the global stage has been seen as a positive thing. It still is. But I also think there's been an increased recognition that there have been some downsides for local people who have basic housing needs. When you are looking for your first home, and you are competing with someone buying their sixth investment property... you have a problem."

Both heads of Vancouver's political hydra will officially awaken to the city's need for affordable housing today.

"Building Affordable and Rental Housing" is the title of a motion being brought before Vancouver City Council this morning. The motion recognizes that "buying a home in the city of Vancouver requires an annual family income that is at least double [what most families earn](#) in this city," and instructs staff to explore "short-term measures by which the City can increase the stock of rental and affordable housing," as well as "new initiatives... to create new rental and affordable housing stock."

"Ready for Rental?" is the title of a forum being sponsored this morning by the Urban Development Institute, a trade association that has become virtually synonymous with condominium development. "With the changing economic climate, developers are looking at other options including converting market buildings or building new rental units," the institute advises, "and what governments can do to assist the development industry."

Caught between these two smiling but teething beasts of Vancouver political power is Brent Toderian, the city's director of planning. This installment of the [Homes for All](#) series presents his views.

"This council has made affordable housing one of its top priorities," Toderian said of his bosses. "They have asked us to look into ways to capitalize on the downturn to see if we can get some affordable or rental housing built."

And of his colleagues at the UDI:

"We need rental. Today," Toderian said. "We won't look a gift horse in the mouth."

## Waiting for the 'new demand' to be revealed

"You have to start every discussion with a consideration of supply and demand," Toderian told The Tyee.

"It will be interesting, with this downturn, to see how demand has really been affected," he continued. "Right now we are in an artificial demand freeze. Potential buyers are waiting to see if prices fall further. Once that is done, we'll see what the new demand really is."

The "old demand" shut out new buyers.

"The old demand included the needs of local residents, plus demand that was hyper-inflated by speculation, plus international demand," Toderian said.

"Being a city on the global stage has been seen as a positive thing. It still is. But I also think there's been an increased recognition that there have been some downsides for local people who have basic housing needs," he added.

"When you are looking for your first home, and you are competing with someone buying their sixth investment property... you have a problem," he said.

"If the downturn has scared away the investor and the speculator, what will the new demand -- the local demand, the one driven by residents -- what will that demand turn out to be?"

Once that's visible, he said, the next questions will be: "Do we have the right supply? And is it the right kind of supply?"

Toderian said his job is "more about trying to get developers to think about their product differently... They can make profit on a product that better meets the needs of this city, a product that meets the local demand, rather than the international demand."

## Rented condos, a temporary solution

"You then have to consider whether the goal is to produce affordable housing or affordable ownership," continued Toderian, who contributes many of his thoughts to a well-read [blog](#).

"If it's an issue of affordable housing, there are many cities in the world where those earning median incomes can not afford to own their homes. But those cities have an ample rental stock."

Toderian pointed to Manhattan and San Francisco as examples.

"In the last number of years, because of the hyper-inflated market, it was very hard to get any developer to look at rental seriously," he said.

It's easy to see why. It costs roughly the same amount of money to build a rental apartment as it does to build a condo. The rental investor must wait decades to recoup land and construction expense. The condo builder has made money within a few years -- and may have even lowered financing costs by pre-selling some units before construction.

"Developers are now willing to take a look at rental," Toderian said. "Construction costs are down somewhat. Land value is a bit different. And rental vacancy rates are very low."



But developers contemplating rental are at the same time asking governments to provide incentives to help close the gap between a rental investment that takes 50 years to provide a return and a strata that pays out in five.

Toderian applauded the initiative being taken by the UDI, but warned against expecting large developers to solve Vancouver's rental problems. He noted that while a few companies are exploring the development of purpose-built rental housing, others are merely looking for ways to rent unsold condos until the market improves.

"Every bit helps," he said. "But no one should confuse temporary rental for a sustainable solution to Vancouver's rental shortage."

## Secondary suites and small lots

Given the simultaneous real estate correction and credit crunch, large developers are unlikely to solve to Vancouver's affordable housing crisis. That leaves the city with little choice but to ask those Vancouverites who own property to help provide housing for those who do not.

Toderian hopes to motivate homeowners and small builders to provide a larger share of new housing in the next few years.

"All those ideas that are about the homeowner and the small builder-developer can have great power," he said.

Such new housing would likely take the form of secondary suites and smaller lots.

"Right now we legally allow one secondary suite. We are contemplating the possibility of allowing more than one in a single-family house," said Toderian, who called unutilized basements the city's "invisible density."

"We've already built that idea into the zoning for the East Fraser Lands project. It's our intent to take that idea citywide," Toderian said. "When applied over a whole city, that kind of pattern can have significant power."

More often, such third units would take the form of [laneway housing](#).

"On laneway, we want to do it in a way that doesn't require a lot of design review," Toderian said. "The team that used to be working on EcoDensity is now working specifically on laneway housing and secondary suites."

Smaller lots could be the next frontier those teams explore.

"In our city, land accounts for a larger share of the final cost than does the construction of housing," Toderian said.

The city is considering new zoning that would allow a more integrated mix of row houses, duplexes and apartments.

The city is specifically investigating the potential of fee-simple row houses, such as those for which London is renowned.

"Row houses are more affordable than single-detached, and fee simple is going to be much more possible with the market. Who wants to take on the strata requirements on a row house?" he asked.

Toderian said there is a "hole" in the legislation related to third-party disputes.

"The fact that right now we can't address the party wall situation is a real hindrance," he said. "We requested the province make an amendment to the Vancouver Charter to allow us to do fee-simple townhouses."

## Trimming amenities not the solution

"This council has an appetite to look further" into any idea that would create more affordable housing, he said. "There are a lot of ideas out there."

But there's one idea Toderian does not believe in, and that's the drumbeat most likely to emerge from today's UDI meeting. For several years now, Vancouver developers have argued that they could provide more affordable housing if only they were released from city requirements for social housing, parking and other expensive amenities.

"If you require social housing, if you expect green design, if you negotiate public amenities that make the density livable, do these drive up housing prices?" Toderian asked, rhetorically.

"I don't believe that," he answered.

"What drove prices up was the incredible demand. We were able to leverage that demand so that the public benefitted," Toderian said.

"If you make your expectations clear and predictable, they are factored into the price a smart developer pays for land," he added. "It's simply a false statement to say that the city's expectations have driven up housing prices."



# THE PATH TO NEW RENTAL HOMES: ONE BROKER'S VIEW



## Veteran real estate seller David Goodman gives politicians hell, and 10 ideas.

Monte Paulsen

### REALTOR DAVID GOODMAN

"During my 26 years in apartment sales, I've heard on at least 50 separate occasions developers commenting that 'even if the land is thrown in for free, we cannot make the numbers work on a new rental building.' As a result, the Vancouver vacancy rates stands at 0.5 per cent, the age of the average purpose-build rental is 50 years plus, and local developers attempting to produce new rental housing are likely to lose money."

**[EDITOR'S NOTE: David Goodman has sold more than 350 apartment buildings during his 26-year career as a broker, and co-publishes (with his son Mark) a newsletter for apartment owners called *The Goodman Report*.**

***At an Urban Development Institute breakfast on Tuesday, Goodman shared his thoughts about why the Vancouver apartment rental industry has all but collapsed over the past decade, and what governments could do to nurture the construction of new purpose-build rental apartments. The following is excerpted from Goodman's lively speech.]***

We have in our midst some of the most successful, resourceful and financially sound condo developers in North America, supported by a wide array of outstanding architects, interior designers, engineers, construction companies, trades and consultants to the industry.

With all the talent here, one would assume that building something as simple as a non-subsidized 60-suite rental building in Greater Vancouver would be a cake walk.

Right!

During my 26 years in apartment sales, I've heard on at least 50 separate occasions developers commenting that "even if the land is thrown in for free, we cannot make the numbers work on a new rental building."

As a result, the Vancouver vacancy rates stands at 0.5 per cent, the age of the average purpose-build rental is 50 years plus, and local developers attempting to produce new rental housing are likely to lose money.

## Crisis driven by condos, land values

Some historical background, if you'll indulge me. Things changed considerably in the early 1970s when the strata condominium was introduced to the market. This new concept provided buyers, including tenants, the opportunity to purchase and own their own suite rather than pay rent. Prices paid for condominiums were soon much higher than rental apartments. As a result, land quickly increased in value to reflect the fact that building condominiums was significantly more profitable than building rental apartments. Accordingly, except for very few special situations, the construction of purpose-built rental properties ceased. This situation has not changed much since the 1970s.

Over many years, the developers of condominiums would assemble single-family lots in apartment-zoned areas or seek to rezone former industrial sites. Unfortunately, we have almost exhausted the conventional source of residential development land throughout the Lower Mainland. As a result, the cost of multi-family zoned land and the resulting new condominiums have increased much further in Vancouver compared to other parts of Canada. This is one reason why we have all heard of some prime Vancouver sites selling at over \$200 per square foot gross buildable at the recent peak of the market. Meanwhile, a comparable prime development site in Toronto, where there is no shortage of zoned land, might sell for under \$40 per square foot. As you might expect, higher land costs will ultimately translate into higher housing costs over the long term -- simple economics.

I have learned to appreciate the important real estate concept known as "highest and best use" in considering the value of real estate. Each time I prepare a market assessment of a property for a client, my first step is to determine whether their apartment property has a higher value as a rental income property or as a future development site. I have been involved in a number of instances throughout the Lower Mainland where we have determined the apartment property would achieve the highest selling price if sold as a development site for condominiums.

## 'The heavy hand of government'

The heavy hand of government has left its indelible mark on our rental apartment industry. Municipal, provincial and federal bodies of all stripes, either by design or accident, have created a hodge-podge of regressive tax policies, bureaucratic hurdles and band-aid solutions for an extremely complex issue -- rental housing viability in Canada. Here are just a few examples:

- A recent phenomenon is that some city councils and planning staff, including those from the City of Vancouver, believe they have the right to claim any land value increase created through rezoning via Community Amenity Contributions or other forms of creative extraction. Effectively, they are pick-pocketing property owners while reducing the highest and best use of the land.
- The federal government charges the developer or buyer 3.2 per cent GST on the full market value of any new rental building when completed. That's approximately 25 per cent of a typical developer profit.
- The B.C. Assessment Authority currently assesses the land portion of a rental apartment property based on the condominium value of the land -- even if the property is used as a rental. This forces apartment owners to pay grossly inflated property taxes, and actually encourages apartment owners to sell to developers.
- In the spring of 2007, the City of Vancouver, no doubt with the best of intentions, introduced a moratorium to restrict the demolition of rental housing through most zones in the city, without appropriate notice to property owners. The objective is to have developers replace 100 per cent of any demolished rental suites as part of any redevelopment proposal. It is clear they simply did not understand or care to understand the economics of development. It appears that the city with its demolition moratorium, would prefer to maintain outdated 50- to 60-year-old buildings in the misguided belief that this is best for tenants in the long run.

# THE PATH TO NEW RENTAL HOMES: ONE BROKER'S VIEW

CONTINUED

- It now takes at least two years in the City of Vancouver to secure a building permit with considerable approval risk and cost -- even if the site is zoned. Developers tell me that dealing with the process is now simply a bad joke. And our new mayor wonders why development activity has slowed in Vancouver.

## Ten ideas to foster new rental

As a result of these and other policies, the highest and best use of multi-family zoned land is condominiums -- not rental.

Here's the good news. This can be modified with creative zoning solutions and incentives provided by government.

I am pleased to provide the following ideas on how we might proceed to encourage some new rental housing in Vancouver:

1. Politicians (civic, provincial and federal) need to use carrots -- not sticks -- to get rental housing developed. Let us be clear -- property owners, developers and apartment investors are in the business to make money!

2. The public and politicians need to appreciate that any new non-subsidized housing constructed will be expensive and simply not available to all income groups. This means we must accept that the "trickle down effect" plays a key role in increasing the supply of new apartments. The basic idea is that we build for those tenants that can afford to pay top market rents. As these higher income tenants relocate to the newer suites, they will free up the less expensive suites for the less wealthy tenants.

3. Height and density in the RM-3, C3-A, and other residential zoned areas should be substantially increased to allow new rental economics to work. The zoning needs to be clear and outright -- free from the council or director of planning's discretion. Only this will ensure the potential increase in land value properly accrues to the property owner, rather than to the city. This in turn will encourage the owner to sell.

4. One idea now being considered by the City to their credit, is to provide a 25 per cent bonus density for rental use in a new condominium project. For example, if the new zoning FSR is 2.0 the developer can build up to 2.5 FSR if the 0.5 FSR is used for rentals, say for a 10 year period.

5. Property taxes make up to 30 per cent of apartment owner's expenses. In a similar vein, for new rental construction, taxes should be phased in over 10 years to reduce the operating expenses and thereby increase the market value of the completed project, which will allow the developer to pay more for the land.

6. The federal government needs to eliminate the GST on new rental apartments, allow rental housing to qualify for small business tax treatment, increase the rate of capital cost allowance, reduce the inclusion rate for capital gains, and allow rollover.

7. Parking regulations should be market driven -- let the developer decide how many parking stalls to build. They will figure out the appropriate number of required stalls. It will also encourage smaller, more affordable suites as smaller suites may not need a stall.

8. Month-to-month tenancy agreements should be susceptible to termination for the purposes of redevelopment with four months written notice and one-month free rent or cash for every two years of tenancy. For example, a 10-year tenant paying \$1,000 per month would get \$5,000 cash when he/she vacates the suite.

# THE PATH TO NEW RENTAL HOMES: ONE BROKER'S VIEW

CONTINUED

9. Many older strata complexes have reached the end of their economic lives, resulting in situations where the land under the project is worth more than the combined value of the strata units. Strata owners need a new mechanism to allow for a fair vote to sell to a developer and a new method of distributing the sale proceeds that reflects the market value differences of each strata unit. Strata condominium councils are legally able to vote to restrict rentals in new condominium projects with a simple vote. The province should step in to restrict the ability of these councils to choke off the supply of rentals.

10. Lastly, and most importantly, councils and planning staff need to appreciate and understand that planning delays, special demands, or costs passed on to the developer are simply deducted from the property owner's land to maintain developer profit margins. As a result, the highest and best use of the land can be reduced to the point where a property owner simply has no economic benefit selling to a developer. Ultimately, this reduces the supply of land for development, slowing development activity and leading to the shortages we are here to discuss.

It really is time for city councils, planning staff, the province, and the federal government to step up to the plate. They have done little to nothing for almost 40 years to constructively resolve the situation. This crisis will not improve and likely worsen unless our political powers that be are truly challenged to recognize the economics of the development industry.





## Lock-off suites could help young families own condos and create rental housing for singles.

Monte Paulsen

### CREATING HOMES WITHIN HOMES

The City of Burnaby amended its bylaws to approve lock-off suites within up to half of the apartments and townhomes at UniverCity. The suites must be at least 240 square feet. They can have their own entry from the corridor, as well as their own bathroom and cooking facilities.

"When we initially thought of this concept, we expected these suites would be the third bedroom in a three-bedroom unit," developer Michael Geller said. "However, the first units to be built were in fact two bedroom units, where the second bedroom could either be the master bedroom, or a separate suite."

High atop Burnaby Mountain stands a housing solution that could unlock one of the thorniest problems facing Vancouver and other expensive B.C. cities: Where to house the students, artists and other working singles who are critical to creating an information-based economy.

The City of Burnaby may be the first municipality in the world to legalize secondary suites within apartments -- also called lock-off suites -- that enable owners of condominiums to do what owners of houses have done for decades: rent out extra space.

### Towers of basement suites

"Basement suites provide the most affordable housing in the Lower Mainland," said architect and planner Michael Geller. "Some of these basement suites are legal; most are not. Some remain as rental housing in perpetuity; others are taken over by the homeowner as family size increases, or family finances improve."

A longtime advocate of [Flex Housing](#), Geller was president of the SFU Community Trust during the development of [UniverCity](#), a planned community of up to 4,500 homes on 200 acres adjacent to Simon Fraser University.

"Both the university and the City of Burnaby wanted to provide some affordable housing for students within the community. However, the university did not want to use high value land for student housing, especially since it might "de-value" the adjacent condominium sites," Geller explained.



"So the question we asked ourselves was: Why not create the equivalent of a basement suite in a fifth-floor apartment?" he said.

"The answer came from resort architecture. We've all been in a hotel room or suite where, through a series of interlocking doors, two individual rooms can be joined as one suite," Geller said.

After considerable negotiation, the City of Burnaby amended its bylaws to approve lock-off suites within up to half of the apartments and townhomes at UniverCity. The suites must be at least 240 square feet. They are permitted to have their own entry from the corridor, as well as their own bathroom and cooking facilities.

"When we initially thought of this concept, we expected these suites would be the third bedroom in a three-bedroom unit," Geller said. "However, the first units to be built were in fact two bedroom units, where the second bedroom could either be the master bedroom, or a separate suite."

Twenty-four such suites were built as part of the first development at UniverCity. (See sample floor plan, above.)

"I am quite certain that nowhere else in North America -- or for that matter, in the world -- has another municipality developed a specific zoning bylaw to govern suites within apartments," Geller said. "Burnaby did it in 2002. And Vancouver is looking into it now."

## Flexibility does not come cheap

The Burnaby Mountain lock-off suites are not "affordable" in the strictest sense.

In fact, Geller figures they cost between \$20,000 and \$30,000 more than the same-sized unit with ensuite bathrooms but without lock-off capability. Included in this amount is the extra door to the corridor, more fire-proofing between living quarters, an additional electrical panel and wiring, and parking.

"In order to increase affordability, the city agreed that it would relax its normal parking requirements," Geller said. "Only one space was provided for every four secondary suites."

But the existence of the lock-off suites -- and, specifically, the prospect of their rental income -- has made these relatively expensive apartments more purchase-able, because lenders have regarded a portion of the anticipated rent as income.

"This allows a young family to get into the suite they might not otherwise afford. And later, when kids need their own room, they can take over the whole suite," Geller said.

"Some people would argue that costs inherent in making a home flexible are too great," Geller said. "Particularly recognizing that, at least in North America, we have a propensity to move quite frequently. Others might argue that our propensity to move is a result of the fact that our homes can't change as our needs change."

## Filling a gap in the rental market

The lock-off suites have not proven cheap to rent, either. These tiny bachelor suites -- ranging in size from 240 to 285 square feet -- fetch from \$525 to \$750 per month.

"They rented for much more than I expected," Geller said. "Still, they rent for considerably less than for a conventional one-bedroom suite."

But while the rents are quite high on a per-foot basis, these tiny suites are cheaper than almost anything other than a substandard basement suite or an aging residential hotel.

This may prove to be the lock-off suite's greatest advantage: It serves the most extremely under-served gap in British Columbia's expensive urban rental markets.

In Vancouver, newly built or recently renovated one-bedroom apartments in walkable neighbourhoods rent for about \$1,200 a month. Basement suites fetch \$750. And a bug-infested room in an aging residential hotel runs to almost \$600 a month -- if one can be found.

This leaves students, artists, and other young singles priced out of the market. It also serves as a profound disincentive for the province's tens of thousands of mentally ill and frequently addicted citizens to better their lives: After all, why undertake all the hard work of getting clean if, years later, one is going to wind up shelling out \$600 a month to live in the same sort of residential hotel that one lived in on welfare?

A clean, modern suite -- even a miniscule one -- for between \$525 and \$750 a month is precisely the grail sought after by thousands of single Vancouverites, including many in what Richard Florida calls the Creative Class.

"It's not necessarily affordability in the sense that most people use the word," Geller said of the UniverCity lock-off suites. "But it created a housing choice that would not otherwise have been provided."





## Condo king says cut unit costs by adding floors, capping developer profits.

Monte Paulsen

### GETTING TO THE RIGHT PRICE POINT

"There is sensational demand for anything under \$300,000," said condo marketer Bob Rennie.

"Everything in that price range sells within 60 days." How to bring costs down to that level? Rennie's remedy includes:

- \* Second mortgages to protect the city's grant of "free" density.
- \* A hard cap on developer profit.
- \* Construction of "Ikea-level" starter homes.

"Using a model like this, there's no reason we couldn't bring a two-bedroom home to market for less than \$300,000."

Two years ago, Bob Rennie suggested that Vancouver developers should build affordable housing in order to save the city's teachers, police officers and other vital service workers. Today, the city's real estate guru is warning that his industry needs to build affordable housing in order to save itself.

"It's no longer just about, 'How can we find a place for people earning local incomes to live?' Rennie told The Tyee. "It's because affordability is the market now."

He said the tipping point was about \$300,000. By no coincidence, that also happens to be about as much as a median Metro Vancouver [family can afford](#).

"There is sensational demand for anything under \$300,000," Rennie said. "Everything in that price range sells within 60 days. And if it's at the right address, it's gone in the first week."

Rennie's remedy: Second mortgages to protect the city's grant of "free" density, a hard cap on developer profit, and the construction of "Ikea-level" starter homes. If that sounds like a complex and even mysterious formula, hopefully you'll have a much clearer understanding of Rennie's proposal by the end of this article.

But here's Rennie's bottom line: "Using a model like this, there's no reason we couldn't bring a two-bedroom home to market for less than \$300,000," he said.

## Free land, with a long-term mortgage

Like everyone else interviewed for this series, Rennie said the problem begins with Vancouver's high land costs. His solution begins with the city permitting the construction of a few extra floors of affordable housing in each new condo tower.

"I found the land for free, because I am just lumping it on top of every other building," he said. "If a building was 22 storeys, for example, I'd change it to 30 storeys."

Those additional storeys would be dedicated to entry-level ownership housing, and would most likely be located toward the building's ground floor -- e.g., storeys three through 10.

And rather than allow a windfall profit on that "free" density, the city would hold the additional value through some sort of a lien or second mortgage.

"Everybody goes 'Oh my God,' if the developer got a windfall profit. Solve that, and it's, 'Oh my God,' the buyer got a windfall profit," Rennie said. "So you put a charge on the title of each unit on those additional floors, and the city has never given away the density."

"It's like a second mortgage in the favour of the city," he continued. "If the homeowner ever wants to sell that suite, the charge stays on and he sells it at a discount to the next buyer. Or, he can pay it off and turn the unit into market housing."

Rennie suggested the "second mortgage" should accumulate interest at a low rate -- something at or below a cost-of-living index -- but should not require monthly payments. Unlike the [Options for Homes](#) model, which also involves shared equity, Rennie would fix the second mortgage at a dollar value, rather than as a percentage of the unit.

Such a second mortgage could lower the net price of a 900-square-foot, two-bedroom family suite with a market value of \$450,000 to something costing the buyer in the range of \$360,000.

## Profits: Keep 'em, but cap 'em

The second component of Rennie's proposal is to cap the amount of profit a developer can make on those units.

"Let's say the developer can only make a 5 per cent profit, instead of the usual 15 per cent," Rennie said. "So let's just pick a number out of thin air and call that an additional \$45,000 in savings."

That would bring down the price of the hypothetical two-bedroom unit described above to perhaps \$315,000.

"You'd have to have some sort of open book so that the developer can be monitored," Rennie said. "I think these are easy things to solve."

Rennie is adamant, however, that unlike the Options condos, Vancouver's affordable housing should be built by for-profit developers.

"A not-for-profit project would get 30 units built. I want to see 3,000 of these done within the next few years," he said. "Thirty units is not going to fix Vancouver's affordability gap."

Rennie is similarly unenthusiastic about site-specific affordability solutions.

"We need a replicable model," he said. "I want something that will work on Richards Street as well as it will work at the corner of Nanaimo and Kingsway. I wanted this to work in West Vancouver, where land is \$200 a foot and I want this to work in Surrey, where land is \$60 a foot buildable."

## Ikea finishings, screened purchasers

By stripping the unit of granite countertops and expensive appliances, Rennie figures a developer could save another \$20,000 per unit.

"Let's use Ikea-quality finishings," he said. "Pare in down to cork floors and maybe a tile counter... The idea is, no stainless steel refrigerators, no this, no that. Just get me on the title."

Rennie also suggested that if the city were to defer development fees, that could save another \$10,000 per unit. And he offered to cut his own fees on these sorts of units.

Altogether, the savings Rennie suggests hold the potential to lower the financeable cost of a \$450,000 apartment to perhaps \$275,000 -- a figure that begins to fall within the reach of the region's median two-paycheque family.

In return, Rennie would want to ensure that these units were being sold to median-income families that planned to live in them. He suggested that screening criteria might include factors such as job description, income levels, previous address.

"I think if you don't live in it for six months, maybe you have to pay that second mortgage back," he added. "I don't know the answer but I know its all about intent."

## Developer ran quicker than consumer

"What Vancouver has, that everybody has, is no confidence right now," Rennie said. "But what Vancouver has that nobody else has is low inventory. The developer ran quicker from this economy than the consumer."

Some critics -- and you will hear from them in future stories in this series -- worry that Rennie's remedy will actually harm the patient by clearing the way for a forest of tall towers, blotting out scenery and changing the very different shape, and feel, of existing communities.

Rennie suggested that it may be less important that Vancouver find the perfect model for affordability, than that it act on some workable model to put builders back to work -- this time on the housing stock the region really needs.

"The thing is, you write this and everyone can poke holes in parts of it, but philosophically it's bang-on because it can turn air into market housing, starting right away," Rennie said. "And it can work in every neighbourhood."

# DO IT YOURSELF HOME LAUDED BY HOUSING MINISTER COLEMAN



He also sees 'shared equity' as a way to make houses more affordable.

Monte Paulsen

## BC HOUSING MINISTER RICH COLEMAN

B.C.'s housing minister agrees that shared equity as the most viable way to lower the cost of housing in B.C.'s expensive urban areas. City or provincial governments would agree to contribute land for less than full market value, in exchange for a developer agreeing to bring homes to market at an affordable purchase price.

There would be restrictions on resale. Part of the resulting profit would go to the homeowner, and part would come back to the municipality. That money might go into a fund to ultimately pay back the price of the land, Coleman suggests.

Rich Coleman built his first house from a kit.

"It's still standing," the Housing and Social Development Minister added, wryly.

"When I was putting the house up, there was a huge wind storm," he explained. "The walls were flapping -- we didn't have the trusses tied in -- and at one point the whole north side wall picked up and flew on down into the ditch by the road."

Coleman concluded "we can't fight mother nature," and left for the night. He and his friends returned the following day, retrieved the departed wall, and continued assembling the house. "Everything worked out fine but, you know...the story was that my whole house had been blown down."

Now the minister says he is looking at shared equity, starter homes and simpler permitting, among other means, to help upcoming generations of British Columbians become homebuyers.

### Cheaper than linoleum

I was 20 or 21 years old," Coleman recalled. He'd recently begun a career in the RCMP, and was posted in rural Alberta. "I was able to buy a lot. And I was able to get a packaged home where the walls came pre-built...my sweat equity was taken as my down payment because I acted as my own contractor."

# DO IT YOURSELF HOME LAUDED BY HOUSING MINISTER COLEMAN

CONTINUED

It was a simple three-bedroom house with two-by-four walls, said Coleman, who initially finished two levels totalling about 1,060 square feet; later, he finished a third level, adding another 400 to 500 square feet of finished space.

Coleman said the initial quality of finish was so cheap that he later upgraded to linoleum. "They used to have a thing called 'kitchen carpet,'" he said. "It was a rubber-backed carpet. It melted when anything hot got on it. So later we changed it to linoleum."

But the simple home enabled the young RCMP officer to begin building equity. "I sold it and the equity actually helped me to do two things: It helped me to build another home in Penticton when I left the force, and it helped me buy my business," he said.

"I would like us to get back to where we can do that again today," Coleman said, "...a guy being able to get his own lot and hiring building contractors and such and still be able to build something himself."

Coleman said that while this opportunity still exists across much of British Columbia, high land prices have pushed such a dream out of reach in the Lower Mainland.

## Shared equity an urban solution

By stripping the unit of granite countertops and expensive appliances, Rennie figures a developer could save another \$20,000 per unit.

B.C.'s housing minister joined a [cutting-edge non-profit housing developer](#) and Vancouver's [renowned condo marketer](#) in pointing to shared equity as the most viable means by which to lower the cost of housing in B.C.'s expensive urban areas.

Coleman's vision for shared equity begins with "somebody who's got land" such as a municipality or the provincial government. That entity would agree to contribute the land for less than full market value, in exchange for a developer agreeing to bring homes to market at an affordable purchase price.

There would be restrictions on resale. "You can't just go into that home for a year, then turn around and sell it and walk away with the profit," Coleman said. "The shared equity idea says that when you sell, a portion of your profit on the sale comes back to the entity that put up the land in the first place."

In the case where that home was built on municipal land, part of the profit resulting from a subsequent sale would go to the homeowner, and part would come back to the municipality. That money might go into a fund that would ultimately pay back the price of the land.

"Over a couple of cycles it might do more than pay back the price of the land. It might start to make a profit for the city, a profit the city could then invest in other housing projects," Coleman said.

Alternately, Coleman said the entity could be a not-for-profit organization created for such a purpose. He even speculated that long-term investors might see merit in retaining a small portion of the equity of such entry-level homes.

"If you had somebody who was looking at their money long term, even they could do it. I mean they could just say, 'Okay, we're going to take less on our profit, we're going to leave it in, but we're going to get paid over time because on each sale we get some back and we could actually defer certain things as a result,'" Coleman said.



# DO IT YOURSELF HOME LAUDED BY HOUSING MINISTER COLEMAN

CONTINUED

The minister said BC Housing was interested in exploring the idea further, but there is nothing currently in the works. "We have not found an opportunity to do a pilot."

## Consumer expectations part of problem?

Coleman acknowledged that high land prices likewise compel commercial developers to load up new homes with every imaginable feature in order to justify the highest possible sales price. At the same time, he blamed consumer tastes for pushing the price of ordinary homes out of reach of **ordinary families**.

"I think there has to be a bit of a shift in our expectations on the home that initially gets built in a subdivision," he said.

"Back when I built my first house, you did not finish with the high end finishings that are in a house today. You put in some reasonable flooring. And usually you did not finish the basement. That was equity you would put in later," he said.

"So part of the problem is the younger generation itself, saying, 'I want it all finished.' I don't think there is any doubt that the market has adjusted to what the consumer wants," Coleman said.

"But when you say we want to build affordability by building small-lot subdivisions, for instance, and then you fill those smaller lots with two-storey houses with full basements and expensive countertops...well, those houses don't wind up being so affordable, do they? They wind up being big, expensive houses that are just a lot closer to the lot line."

## Regulation, tradition also an issue

Coleman also blamed government and industry practices as part of the affordability problem.

He said it is very hard for an individual home builder to even buy a lot. "In the Lower Mainland, we have a controlled subdivision which is part of the planning process in most municipalities," he said. "What happens is the developers sell the lots, usually in bulk, to builders."

Even if a would-be-self-builder could acquire a lot, Coleman said that in many communities, it would take more than a year to get a permit.

"Permitting is a very lengthy process in some cities," he said, adding that the costs of paying for the unused land during that time could wipe out any savings a homeowner might gain by building himself. "There is huge cost that is driven simply by the bureaucracy and the permitting and the development cost charges for getting the house into the ground."

Coleman suggested that municipalities rethink some zoning restrictions, and explore the idea of pre-approving a list of house plans for some zones. He also suggested that modular construction might represent the kit homes of the future, because they may make it easier for individuals to build structures that meet the quality standards mandated by municipalities and the province.

"There are a lot of ideas out there," Coleman said. "We do know we want to start looking at these ideas. We think it's time."



## As funds dry up and buildings run down, residents don't want to give up on their affordable way of living.

Colleen Kimmitt

### DOLLARS, SWEAT AND TIME

"We moved here because it was affordable," says co-op resident Bruce Inglis. "But in the five years we've lived here we've had no choice but to get closer to the real costs. Maybe not so much in real dollar costs, but on a monthly basis some of us contribute a lot of our sweat and time... easily several hundred dollars of my own labour. It's a value that people often forget about."

Hemmed in by duplexes on either side, the courtyard at Penta Housing Co-operative features a communal garden, playground and massive willow trees.

It's the kind of place you'd want to raise kids: safe, secure and within walking distance to parks and the beach. And, in a neighborhood where houses sell for upwards of a million dollars, it's affordable for a one-income family.

That's why Bruce Inglis, his partner and their two children moved here five years ago (after waiting eight years to get in). The kids have since left home, but for Inglis, "It's hard for us to imagine living anywhere else."

Still, that's a reality he knows they might face one day. The buildings here are 30 years old, near the end of their shelf life, and that means maintenance costs are increasing.

"There's a finite point at which people can continue to repaint or patch up to keep things going," says Inglis.

Like many of the co-ops across British Columbia and Canada, Penta was built in the '70s with a wave of funding from federal government programs that both reduced the cost of the mortgage, and provided subsidies for low-income units.

These programs, which were delivered through operating agreements with individual co-ops and government, continued through the '80s and early '90s.

The result was an affordable, diverse and community-based housing stock; there are now approximately 2,000 non-profit housing co-ops currently across the country. In British Columbia, 260 co-ops provide approximately 14,500 homes for mid- and low-income families.

But in the next 10 years, nearly half of the government operating agreements will expire, leaving many co-ops to effectively fend for themselves.

## A new co-op generation?

Thom Armstrong, executive director of the B.C. Co-op Housing Federation, says there are a couple of implications to consider.

“On one hand are a whole bunch of wood-frame buildings nearing the end of their 30- or 40-year life. Co-op members are asking themselves, how long will my housing last?” he said.

“At the same time, when you don’t any longer have a relationship with government, you don’t have an obligation to do anything, other than what the laws of the land say, but neither do you have the security that came with the government financing.”

“Is it just a stock of disposable housing, does it just run out and fall down? Or do we rebuild it, refinance it for another generation of co-op members?”

## Can co-ops afford to stay affordable?

The question of how (or whether) to refinance and rebuild in the absence of government subsidies is up to individual co-ops. The Co-op Housing Federation of Canada offers a certification program, called [2020 Vision](#), that requires them to establish a mission statement and financial plan.

Working through the process, says Armstrong, will not only force co-ops to think about their future but also makes them more desirable to private financiers.

“They’re going to have to go to a commercial lender and say, based on the value of our property and based on our income stream... will you lend us the money to rebuild for another 40 or 50 years,” said Armstrong.

“Co-ops have spent years building really viable supportive communities, and now they’re going to have to turn their attention to what it takes to be a real viable business as well.”

## Never too soon to plan

Scott Hughes, director of community business banking at VanCity has a word of advice: make sure to plan well in advance of when an operating agreement might end.

“Typically, the decision-making process is slower. They will need enough time to get the appraisals and inputs that they need.”



Although property values and the amount of financing have shrunk, “low interest rates allow you to borrow more against the same stream of rental payments,” he says.

**Roofs and Roots Housing Co-operative** has had the experience going it alone. Incorporated in 2001, they were the first new co-op in the Victoria area in 15 years.

“The major challenge for a new cooperative like ours was that we don’t have an overarching authority, like the federal government, to provide us with a down payment or the benefits of subsidies,” says board chair Pascale Knoglinger.

They had to raise equity from five different government and non-governmental funders (“with five different deadlines and requirements,” Pascale notes) and find a seller patient enough to wait as they gathered a down payment.

## ‘That’s the Catch-22’

“For a co-op these days, you really have to find the right seller and have to have a really good relationship with all these different funders,” she said.

Making sure that even low income people can afford co-op housing charges is more difficult, she says.

For example, in order to access certain funding from the Canada Mortgage and Housing Corporation, unit prices have to fall under the median income threshold.

If it was to obtain that funding, the co-op would have to lower some of the units’ monthly fees, thereby decreasing revenue, said Knoglinger.

“You have to incur a deficit in order to meet the criteria,” she says. “That’s the whole thing, that’s the catch-22.”

## ‘Sweat and time’

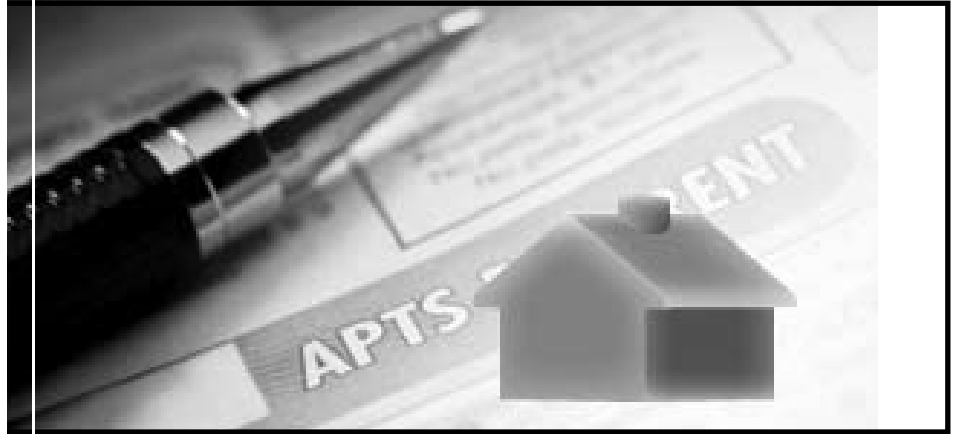
“It’s hard for people who live in co-ops to think about developing new co-ops,” says Sol Kinnis, Roofs and Roots co-founder. “It’s a heck of a lot harder than I thought it would be.”

She thinks existing co-ops could play a role in invigorating a new stock of housing by contributing to a development fund.

“If we contributed a certain amount of money every year towards a development fund, it could be used as leverage for government funding,” she says. But, as Inglis points out, the success of co-op housing depends on the people involved, not just the funding available.

“We moved here because it was affordable... but in the five years we’ve lived here we’ve had no choice but to get closer to the real costs,” he says.

“Maybe not so much in real dollar costs, but on a monthly basis some of us contribute a lot of our sweat and time... easily several hundred dollars of my own labour. It’s a value that people often forget about.”



Just here from Montreal, I figured finding a decent, no-frills place would be easy. Crazy me.

Katie Addleman

## VANCOUVER'S COLD SHOULDER

"I thought of leaving town," writes young newcomer Katie Addleman, "With a vacancy rate of 0.5 per cent and the second-highest average monthly rent in the country, this city is in the midst of a housing crisis I would have laughed at in Montreal, reading about it in the paper while enjoying a bagel in my sunny kitchen or on my back balcony, or even in my bedroom, perhaps in front of the brick fireplace (hardwood floors and original details throughout)."

"This could be your office," Scott said. We stood in an old house in Vancouver's Downtown Eastside, where I had come to inquire about a room for rent. He indicated an indent in the crumbling wall next to the kitchen.

"I'll build a wall here, and, you know, cover all this junk up." He waved a paint-covered hand over the jumble of wires and cables erupting from a chink in the ceiling. Like a firework, I thought. I had been thinking of explosions since I entered his home. Bald, in his mid-forties and of solid build, he had the sun-ripened look of a raisin. His home was a construction site.

"Yeah, it'd be perfect!" he went on, growing excited. His coveralls hung loosely from his body, bobbing around it like a scavenger bird as he moved. "It'd be right here. Can you see it?"

I squinted; I couldn't see it. I cocked my head and squinted fiercely. Scott gesticulated helpfully, his hands drawing corners and walls in the air, but I was having trouble visualizing any kind of domestic set-up. The house was more or less in ruins. Woodchips littered the grey, uncut carpet. The shower was a rusty hose poised over a hole and housed in a closet. Staples and patches of primer decorated the walls.

And it could all be mine -- well, one-third mine -- for \$600 a month. Is this what renting was like in Vancouver?

"Where's the other roommate?" I asked. "He's upstairs in his room. He pretty much never comes down. He's a longshoreman." I turned the word over in my head, looking for an image to stick it to, but couldn't come up with anything. I had only just moved here from Montreal, and my marine vocabulary was still markedly fetal.

## You're not in Montreal anymore

With a vacancy rate of 0.5 per cent and the second-highest average monthly rent in the country, this city is in the midst of a housing crisis I would have laughed at in Montreal, reading about it in the paper while enjoying a bagel in my sunny kitchen or on my back balcony, or even in my bedroom, perhaps in front of the brick fireplace (hardwood floors and original details throughout). And while the rents have lately risen in Montreal, I don't know anyone renting a living room couch. In Vancouver, I know three.

I met them when I went to tour their apartments as a prospective roommate. Their Craigslist postings had not mentioned the peculiar arrangement in which they expected their new roommate to live. Could they not find the appropriate classifieds category? (Housing/Accommodation > Shared > Couch) or did they not see the arrangement as peculiar? They'd have reason not to. There are very few budget bedrooms available here.

In December of 2008, the CMHC, Canada's national housing agency, confirmed in their annual report that rental vacancies were down all over the country. Of the 34 cities surveyed, the top three -- those with the lowest vacancy rates -- were all in B.C. The CMHC placed the blame for the shortage primarily on the now-embedded "Go West" mentality of Canadian migrants; though construction of rental units continues, it hasn't been sufficient to satisfy the need.

I blame the scarcity of reasonably priced accommodations for the otherworldly human landscape of the downtown core, its streets strewn with people wandering bleary-eyed under the high rises, their skyward faces seeking addresses and that Holy Grail, the "Suite Available" sign. Line-ups for open houses snake around city blocks at 50-people long, and while they wait the hopefuls size each other up for weak spots, like animals.

## Tour of the city

In lieu of taking a room in Scott's unfinished former hospital, I opted to keep looking. My primary source for leads was Craigslist, that OED of treasures and trash. I composed an introductory e-mail with just the right balance of statistics (25, female, employed) and charm (short digressions about favourite cereals, for example -- everyone likes cereal!). I agonized over self-descriptive adjectives ("exceptionally tidy" or "responsible, but fun"?). I sent out dozens of these e-mails. More often than not, they yielded no reply. I imagined them papering the walls of some mythic den in renter's hell. I started only looking at postings with phone numbers.

Sometimes I went to condo viewings, joining in the awkward flirtations between lessees and landlords in the sterile lobbies of West End buildings. I checked out basement rooms in condemned houses shared by 10 people who wouldn't tell me what they did for work (only that they were 'very busy'); and everywhere I went I clutched the notebook I used for recording what I'd seen, its pages filled with the details of hopes raised and dashed: 110 Jervis, \$1200 all-in (AMAZING PLEASE CALL ME); 404 E. 12th, \$1000+util (small but doable. Roommate weird).

Eventually I found myself outside a house near Main Street with a porch and a front garden. I stood on the sidewalk, checking my notebook: the address was right; the price was reasonable. A narrow path through tomato plants led invitingly onwards. I rang the doorbell. John, the tenant who had advertised for a roommate, had a beard and wore a Rossignol tee. He welcomed me warmly and ushered me inside. We passed through the living room and into the kitchen. It was expansive, lined with wooden cupboards and surrounded by windows, with a gas stove in one corner and a stainless steel fridge in the other. A wrought-iron spice rack adorned the counter top. The backsplash was Mexican ceramic. I started to sweat.

## 'See you soon!'

I sat at the table while John ate nachos and salsa, and we spoke of journalism and my impressions of Vancouver.

He had a friend who published a biking magazine in Montreal, he said. I had never heard of it. I pretended I had. "You like to bike?" John asked me. "Sure, recreationally," I said, "but I'm no athlete." I demonstrated by weakly flexing my bicep and making a sad face. Ha, ha.

"Best sport in the world," John said, rising from the table. "I'll show you the upstairs." He put his plate in the sink and gave it a quick rinse. My heart raced -- he was exceptionally tidy, too! Upstairs, the bathroom was clean and well supplied of toilet paper. I noticed that John and I used the same soap. I pointed this out to him excitedly. Another commonality! All my life, I had been destined to live as John's platonic roommate.

Then, the room: it was painted a shade of green not quite reminiscent of hospital hallways. There was furniture. There was a window, from which I watched a bus pass by. It spewed exhaust on the tomato plants in the front yard. John asked me what I thought. I loved it, I told him. Loved it! I could take it right away. I could give him a deposit. I could provide him with references and statements from my bank. "Cool," he said. "It's nice living here."

He was showing the place to more people that evening and would make a decision by the following day. "I'll be in touch," he said, walking me out. "See you soon!" I called behind me as I bounded down the stairs. John called as promised. "Hi, John!" I said brightly. I'd recognized his number on the call display.

"Oh -- uh, hi," he replied. He sounded flustered. He must be busy. "Listen," he continued, "I'm sorry, but I've offered the place to someone else. I thought I'd let you know."

"What?"

"The place. On East 10th? You were here yesterday. I'm giving it someone else."

"What?"

"Yeah. Anyway. Good luck with the hunt." He hung up the phone.

What?

## One of the Craigslist hordes

I crumbled like so much drywall. I felt like John had broken up with me. He'd broken up with me and hadn't even let me explain. For days I thought on our meeting, wondering where I had failed. Had it been wrong to admit that I wasn't that into biking? I hadn't noticed his bike pendant necklace until after! I cursed my honesty and turned back to Craigslist, bitterly.

I could barely stand it anymore. I thought of leaving town. On days that I felt strong enough, I kept going, wandering hopefully into derelict buildings, looking at condos I couldn't afford with dozens of others, being passed over for candidates with bigger pay stubs or better banter. And then, one day, a moment: it was a phone call, it was a voice, it was the word yours. The place is yours. It was God. It was God's voice. I fell on my knees.

"So you take it?" said God, in a squeaky voice. "God, yes!" I cried.

I had scored a temporary sublet -- three months of shelter in downtown Vancouver. It was better than nothing.

# LET'S CREATE HOUSING POLICIES YOUNG PEOPLE CAN AFFORD



## A developer offers proven paths to cheaper rentals.

Howard Rotberg

### HOUSING DEVELOPER HOWARD ROTBERG:

“There is no shortage of model programs working well elsewhere. But there is a shortage of political will to help young people with their real housing needs, which may for the short term, or even the long term, include renting, or buying in a Community Housing Trust.”

In less than a year, we in British Columbia have participated in federal, municipal and provincial elections. Why haven't housing policy and housing affordability been major themes in any of those contests?

Housing prices in Greater Vancouver are down a bit, but there still remains a crisis in affordability for both owned and rental housing. Young people, those aged 35 and under, are the ones most disadvantaged in our present housing system. Yet few understand how the system is stacked against them, and why politicians from all levels of government are mostly silent about an issue that is so important for their quality of life.

Allow me then to explain the perverted priorities of our housing system at every level of government. And then to offer a few proven policies that could make renting in the Vancouver region far more affordable -- if the political will is there to do it.

### City hall: Benefiting owners over renters

Let's start with the fact that various levels of government give far more financial benefits to higher income owners of housing, rather than to lower income renters. There is no good reason for this and such housing analysts as Professor David Halchinski (formerly of UBC and now of University of Toronto) have argued the case for tenure neutrality in government benefits -- between owners and renters.

Accordingly, to the extent that young people are over-represented in the rental market, and middle aged and older people are over-represented in the owned housing sector, then our young people are losing out, and should be told precisely how such programs operate to their detriment and to the benefit of older, wealthier landowners.



# LET'S CREATE HOUSING POLICIES YOUNG PEOPLE CAN AFFORD

CONTINUED

In my recent book, *Exploring Vancouverism: The Political Culture of Canada's Lotus Land* (CanadianValuesPress), I outlined a number of the ways that our municipality acts to keep up property values for the benefit of the baby boomers owning houses and keep low the taxes on those houses. For the little known fact is that for a \$1 million house in Vancouver the property taxes are 40 per cent less than the same value house in Toronto.

Local politicians have dutifully served their masters in Kitsilano, Dunbar, and Shaughnessy by obligating new developments to assume a whole array of costs -- for planning studies, infrastructure, amenities such as libraries, parks, and day care centres, and now "green" features -- where the costs of these are added to the purchase price. The existing residents are happy that this imposition of costs on the buyers of one bedroom condos not only helps keep their property taxes low, but increases the value of their homes to keep pace with the elevated price per square foot of the new condo units.

## Province: Windfalls for wealthy seniors

The next time provincial politicians ask for the votes of young people, they should be asked why they give financial benefits to wealthy older people *without a means test*, rather than help younger people. I refer, firstly, to the provincial Seniors' Property Tax Deferral Program, where anyone over 55, with no income limitation, can defer their property taxes until death or sale of the house, with a nominal interest charge, and the province compensates the municipality in the interim. Surely, we can see the advisability of not forcing indigent seniors out of their homes, but, without a means test, we have benefits flowing to seniors with million dollar incomes and \$5 million oceanfront homes.

In addition, the province has a Homeowners' Tax Assistance Program, where homeowners, of any income level, who have homes worth up to \$1,050,000, are getting provincial benefits to offset cost of property taxes. Why aren't these programs being discussed?

The provincial government collects a lot of money from property transfer taxes each time a home is purchased; but there is a provincial First Time Home Buyers' Program that exempts the tax from homes costing under \$425,000. Is this done to benefit young people getting into an inflated market, or rather to benefit large developers to assist them in their sales?

## Feds: Discriminating against renters

And what about the Federal Government? Again, there is a history of benefitting homeowners more than renters. Firstly, there is the whole CMHC mortgage insurance program, which makes it possible for homebuyers to get a bank mortgage with less than 25 per cent down. Until recently, the Government was so keen to induce young people into an inflated housing market, that CMHC was giving 40 year amortizations to people putting as little as 5 per cent down on their properties. It was not only in the United States where people who should have been renting were induced into buying at the top of the real estate bubble, but here in Canada as well.

A lesson we should be learning from the American sub-prime fiasco is that there are some people who should be renting and should not be induced to get in over their heads in pricey owned housing, where interest rate increases combined with volatility in prices can result in financial tragedy.

Then there are a variety of federal programs, some lapsed, such as the Assisted Homeownership Program or the Home Ownership Stimulation Plan, and some current such as the Home Buyers' Plan, administered by the Canada Revenue Agency.

# LET'S CREATE HOUSING POLICIES YOUNG PEOPLE CAN AFFORD

CONTINUED

This allows each spouse to withdraw, tax free, up to \$20,000 out of their Registered Retirement Savings Plans, to be used towards the purchase of a home and repaid to the RRSP within 15 years. Of course, the last mentioned amounts to a tax subsidy to homebuyers by the general tax base, which of course includes renters.

In addition, the last federal budget gave homeowners a tax credit up to \$1350 towards their cost of home renovations.

Moreover, the largest single federal government benefit bestowed on home owners as opposed to renters is the exemption from income tax of the billions of dollars of capital gains tax that would be collected had not the government made the decision to exempt principal residences from capital gains tax. In the United States the tax system helps out with affordable housing -- there is a system of affordable housing tax credits issues to developers of affordable housing, which can be sold to high income individuals and thus generate funds to the developers for early stage soft costs and construction costs.

## Supply and demand out of whack

So what does this all have to do with affordability? The answer is that government funds are not unlimited, and benefits given to home owners mean there is insufficient money to subsidize the rental market.

Of course in B.C. there is a Rental Assistance Program providing assistance up to \$9,200 a year for families making less than \$35,000 per year, and a program called SAFER -- Shelter Aid For Elderly Renters. These programs help towards the cost of rent, but do nothing for the acknowledged major problem in the rental market -- the lack of construction of new purpose-built rental units since the income tax changes in the early '70s. With the benefit of inducements on the cost side, developers can be induced to build what young people including young families need -- decent yet inexpensive rental housing.

To have affordable rental units, we need to have a healthy balance between supply and demand. The cost of owned housing is prohibitive. Recent studies peg the family income needed for an average house in Vancouver at \$120,000 while the average mean income is only \$60,000. So, there is a problem for Vancouverites with an income under \$100,000, and not just a problem building social housing for the disabled and the homeless.

## How to fix the problem

I live in Vancouver but spend seven to ten days in Ontario each month where my private sector company has developed six affordable rental properties in the last six years, utilizing a variety of Ontario programs. Generally, we obtain a forgivable loan per unit constructed, forgivable over 15 years, provided we adhere to the terms of an operating agreement, specifying the maximum rents per unit, and the maximum income of the tenants.

In my recent book, *Exploring Vancouverism*, I canvas the variety of policies that can be implemented to create both affordable rental housing and affordable owned workforce housing (with resale price restrictions).

There are numerous ways for a municipality to set up and finance Affordable Housing Funds. There should be a demolition tax of \$20,000 per unit demolished which can go into the Fund. Like Victoria, the city should pay all of its GST refund into the Fund. The City can institute preferential development charges and property tax rates on rental properties. There are numerous models for programs called Brownfield Remediation Tax Assistance Programs, wherein the costs of environmental remediation of a contaminated lot can be offset against the future property taxes.

# LET'S CREATE HOUSING POLICIES YOUNG PEOPLE CAN AFFORD

CONTINUED

I have written extensively about the Community Housing Trust model, where buyers buy townhomes that have been subsidized by government at a lower than market price with a resale price restriction registered on the deed that they have to sell at the same percentage reduction from market value as they did when they purchased.

There is no shortage of model programs working well elsewhere. But there is a shortage of political will to help young people with their real housing needs, which may for the short term, or even the long term, include renting, or buying in a Community Housing Trust.

The fact that in our three recent election campaigns there has been very little talk about the issues raised here is a slap in the face to younger voters. Perhaps, once they understand how the system has been operating to their detriment, they will stand up and make their voices heard, and demand that politicians address these issues.



## Acknowledgements

This report was made possible through generous support from Tides Canada Foundation, the Catherine Donnelly Foundation, and the Van Tel/Safeway Credit Union Legacy Fund, held and managed by Vancity Community Foundation.

