CITY OF VANCOUVER RENTAL HOUSING STRATEGY

RESEARCH AND POLICY DEVELOPMENT

SYNTHESIS REPORT

FINAL

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City of Vancouver
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INTRODUCTION AND CONTEXT

Overview

Vancouver is a desirable place to live, in spite of having some of the highest housing costs in Canada. At the time of the 2006 Census, there were approximately 253,000 households in Vancouver, of which 131,500 rented and 121,850 owned. This report analyzes the purpose-built market rental segment (principally unstratified apartments and townhouses), the underlying market dynamics, the conditions needed to support a healthy rental housing supply system, and the role of the secondary rental market. This synthesis is largely based on the results of seven specialized studies sponsored by the City of Vancouver.[1] This report also brings in data from other sources and draws conclusions about the future of the existing rental stock given the pressures from rental redevelopment, aging physical condition, and the investment climate.

The rental housing sector contributes significantly to Vancouver's social and economic diversity and it is an important part of the housing continuum: more than half of all households in Vancouver rent. It is clear from the studies that Vancouver needs more rental housing. Low vacancy rates and high rents are symptoms of a current shortage of rental housing. In addition, the research shows that demand for rental units could grow by 15,000 to 23,000 between 2006 and 2021, compounding the current rental demand. This report highlights some of the specific policies or measures the City of Vancouver should consider in order to respond to this increasing demand.

In a growing city like Vancouver, the key to housing affordability over the long term is a robust source of new supply. This report provides a comprehensive analysis of the key factors influencing investment in rental housing in Vancouver including finance, taxation and the regulatory environment as well as related demand-side measures. This report also looks at the types of policies and actions needed by the City that, in partnership with other governments, can encourage new rental housing supply and address ongoing affordability pressures.

The discussion and subsequent policy directions set out in this report focus on the role that purpose-built rental housing stock plays in the economic and social development of the City. The analysis also focuses on the fundamental economics shaping the rental housing system and some of the underlying challenges that the City should consider going forward, including:

[1] The term "the City of Vancouver" or "the City" is used when referring to the Corporation of the City of Vancouver. The term "Vancouver" or “the city” is used when referring to the geographical location.

- **Strong Demand for Rental Housing:** The demand for rental housing is expected to increase over the next 10 to 15 years, with the projections indicating a demand for between 1,000 to 1,500 additional units annually.
- **Limited Development of New Purpose-Built Rental Housing:** Over the last five years, only 260 purpose-built rental units have been completed each year in the city, and this includes both market and non-market housing. This limited production, combined with the loss of rental stock through demolitions and conversions, tightens supply and reduces the housing choices for households with low and low-to-moderate incomes.
- **Challenging Project Economics for New Rental Construction:** The economics of new rental housing construction are challenging and the tax treatment of purpose-built rental housing places it at a disadvantage relative to strata condominium developments designed for sale to owner-occupiers. The financial feasibility gap for new rental housing construction is estimated to range from $31,750 to $111,530 per unit. These market rents would be affordable (assuming households are paying less than 30% of income on housing) to households with incomes between $48,000 to $92,500.
- **Constraints on the Supply of New Non-Market Housing:** There is an ongoing shortfall in the number of units affordable to families and individuals at the low end of the income continuum. In particular, families with children confront a dearth of 3- and 4-bedroom rental units. Consequently, there is a need for an expanded array of housing programs, and increased funding from senior levels of government. Currently, over 14,000 renter households in Vancouver spend more than 50% of their income on housing costs and over 3,000 qualifying households are on BC Housing’s applicant registry for Vancouver.
- **The Existing Purpose-Built Rental Housing Stock is at Risk of Redevelopment:** The research shows that, without intervention (e.g. removing the City’s current rate of change regulations), approximately 14,400 purpose-built rental units (21% of the market-rental stock) are at risk of redevelopment to market condominiums over the next ten years. Market rental sites that are underdeveloped are particularly at risk. Such redevelopment would have a serious adverse effect on affordability in Vancouver’s rental housing market, in addition to tenant displacement.

About this Report

This report analyzes the continuum of the rental housing choices in the City of Vancouver today, with a primary focus on the contribution of market rental housing, consisting of the purpose-built rental housing stock, secondary suites, and rented condominium apartment units. Although not part of its primary focus, this report also assesses the contribution of social housing stock and non-market housing developments created over the past five decades to meeting demand for affordable rental housing.

Each segment on the housing continuum has its own income and market dynamic relative to supply characteristics. This includes differences in the income and rent profile, unit mix, housing type, location, and the continuity or stability of units in the rental housing pool. This report discusses the role and contribution of these housing segments within the broader housing continuum.

This report synthesizes the findings from seven specialized studies that were initiated by the City, as well as bringing in data from other sources, to provide a better understanding of the characteristics of Vancouver's rental housing market and to identify opportunities to address some of the existing gaps and pressures. Section 1 of this report surveys the context and history of rental development in Vancouver. Section 2 provides a summary and an analysis of the major findings for each of the specialized studies. Section 3 discusses the potential policy implications and actions that the City should consider to enhance the vitality of the rental market and the viability of rental development.

Recurring themes underpinning the need for this study are:

(a) The challenges arising from a housing supply system that is unable to respond effectively to existing and emerging rental housing demand;
(b) High and rising rents that are unaffordable for many middle income earners and that have already resulted in a significant number of renter households falling into core housing need[2];
(c) A growing polarization in the incomes and assets of renters and owners;
(d) An increasing number of renter households unable to access the ownership market; and
(e) Municipal "toolboxes" that are not sufficient to stimulate significant new supply. Municipalities do not have jurisdiction over the key factors that enable new rental supply,

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[2] A household is considered to be in core housing need if its housing falls below at least one of the standards of adequacy (in good repair), suitability (appropriate in size) and affordable (does not cost more than 30% of a households before tax income) with affordability pressures being most prevalent.

particularly economic factors like taxation policy and incomes policy. The analysis of the economic viability gap for new rental housing also shows that without a significant increase in the amount of subsidy or other public incentives available through other levels of government, a meaningful increase in the number of new purpose-built rental housing units in Vancouver is unlikely.

Other key findings from the specialized studies show that:

- About 66% of the existing stock of rental units are in buildings that are 4 storeys or less and are primarily wood-frame buildings. About 80% of these buildings were constructed in 1970 or earlier. About 34% of market rental units are in buildings that are 5 storeys or more and are primarily concrete buildings.
- From a sample of 36 buildings, 23% were observed to be in good condition, 46% were in fair condition, 31% were in poor condition, and none were found to be in critical condition. Based on the sample and if we group ‘good’ and ‘fair’ condition to mean ‘sound,’ a large portion of rental housing in Vancouver appears to be in relatively sound physical condition, notwithstanding its age.
- Majority of buildings in ‘good’ condition were concrete with some wood-frame also in this category. Both wood-frame and concrete buildings were found in the ‘fair’ category. All buildings in ‘poor’ condition buildings were smaller wood-frame properties built between 1950 to 1970.
- Rent regulations have moderated rent increases, but increases in rents, on average, have not reached maximum permissible levels, indicating limits on the effective demand capacity of tenants to pay higher rents.[3]
- Investor demand for existing purpose-built rental assets is strong and reflects the robust financial health of the purpose-built rental-housing sector. This is supported both through the level of investor demand and the increases in average selling prices.
- Sources of non-traditional rental supply, including secondary suites and rented condominium apartment units, play an important role in addressing rental demand. However, this stock can be more expensive and less stable than the purpose-built rental stock.

The Research Base

Recognizing the need for action, the City of Vancouver commissioned seven specialized studies that were completed in 2009/2010. The analyses contained in the studies were based on data

[3] See Altus Study 2C, p.66.

provided by CMHC's annual rental market surveys, BC Assessment Authority, MLS, and City of Vancouver sources among others. These studies focused on different aspects of the rental housing market including:

1. **<u>Need and Demand</u>:** Through this study (Study 1), Will Dunning examined existing and emerging pressures in Vancouver's rental housing market, including the number of renter households in core housing need, on-going affordability pressures, and expected future housing demand. Through the development of a housing demand forecast model, Dunning projects the need for between 1,000 and 1,500 additional units of rental housing per year across Vancouver.[4]

2. **<u>Rental At Risk</u>:** Through this study (Study 2A), Coriolis Consulting developed a model to determine the extent to which the existing purpose-built rental housing stock was "at risk" of redevelopment. Coriolis created a comprehensive database that includes zoning information, housing market data, and costing data, and which allowed different development scenarios to be tested. Using conventional pro-forma analysis and mid-2009 market and cost data, this model provides insights into the potential risk of redevelopment and helps to provide the foundation for "testing" the implications for the existing purpose-built rental housing stock.

3. **<u>Building Condition and Repair</u>:** Through this study (Study 2B), the Altus Group examined the general physical condition of a representative sample of purpose-built rental housing developments and estimated the sustaining capital required to maintain (or restore) these units in good repair.

4. **<u>Financial Health</u>:** Through this study (Study 2C), the Altus Group investigated the financial health of the existing purpose-built rental housing portfolio and evaluated the investment climate for rental housing assets in Vancouver. The study includes an analysis of recent sales transactions and market data, and models different types of financial scenarios for typical purpose-built rental housing buildings. The study also includes feedback from representatives across the rental housing supply sector to provide a more complete picture of the factors driving decisions from development, financial, and investor perspectives.

[4] This housing demand estimate is consistent with estimates prepared by Metro Vancouver as part of the Regional Growth Strategy, and with those put forward by CMHC in November 2009. CMHC estimated that approximately 35% of all household growth region-wide is expected to be in the form of rental demand. This translates into an estimated demand of approximately 6,000 new rental housing units per year in the region.

5. **The Economics of New Supply:** Through this study (Study 2D), Coriolis Consulting examined the financial gap between the cost of creating new rental housing supply and prevailing market conditions. The analysis assessed existing land costs, current income and taxation measures, the cost of construction, and current market rents and interest rate conditions. The study also examined possible incentives to bridge the financial viability gap as a means of encouraging increased investment in new rental housing construction.

6. **The Secondary Rental Market:** Through two studies, CitySpaces Consulting (Study 3: Vancouver Condominium Rental Study) and the City of Vancouver (Study 4: The Role of Secondary Suites) examined the role and contribution of the secondary rental market, including rented secondary suites such as garden suites, basement suites or accessory units, and rented condominium apartment stock. The analysis shows that these different sectors respond to different needs within the continuum of rental housing choices, and account for over a quarter of the existing supply of rental housing.

In addition to these studies, this report also references data directly from Census, MLS, CMHC, and historical housing policy documents.

The Need for Action

The current inventory of purpose-built rental housing stock is largely a legacy of policies and decisions taken by the Federal government during previous eras: favourable Federal taxation measures for rental housing assets and a responsive housing finance system. The analysis shows that the removal or elimination of these incentives resulted in a significant drop in the level of new rental housing production.

While this report does not call for a reintroduction of these specific measures, it does call for all levels of government to respond to the challenges identified in this report. Without some targeted interventions at specific points along the rental housing continuum (both market and non-market) it is likely that Vancouver will continue to experience a shortage of rental housing and on-going affordability pressures. In addition to affordability challenges (rent levels relative to incomes) the shortage of rental may result in over-crowding (suitability) and has impacts on maintenance or building condition (adequacy).

In examining the range of policy options, it is important to recognize that the City alone does not have the resources or regulatory authority to address the magnitude of the pressures identified. An effective response requires significant financial investments and a concerted effort across all levels of government, as well as measures and incentives to re-engage the private sector.

SECTION 1: THE CONTEXT AND HISTORY OF RENTAL HOUSING IN VANCOUVER

The Rental Housing Sector in Vancouver

This section focuses on the choices that are available to renter households in Vancouver today. This includes a discussion of the different market and household characteristics related to the different segments on the housing continuum.

Vancouver's rental housing segment includes purpose-built market rental housing stock and non-market housing or social housing stock, as well as "non-conventional forms"[5] of rental housing supply. The latter includes: tenant-occupied single detached, semi-detached and row house units; rented condominium units; and accessory apartments such as self contained basement suites, secondary suites, garden suites, and other forms of rental housing (see Table 1 below for an illustration of the housing continuum).

Each source of supply on the rental housing continuum responds to different housing needs. The term "purpose-built rental" refers to multi-family buildings constructed for the purpose of long-term rental tenure and are generally not subdivided into co-op, strata condominium or fractional ownership arrangements. As detailed below, purpose-built housing starts have been very low for several decades, and the largest growth in new rental housing units over the past two decades has been through rented condominium stock. The most recent rental market data published by CMHC shows that approximately 30% of all condominium apartment units across the City were part of the rental housing pool.

Accessory units such as rented basement suites or garden suites improve affordability for owners through the rental revenue generated by the suite[6] while adding to the overall supply of ground-oriented units in existing neighbourhoods. This provides a supply of geographically dispersed rental housing, which helps to maintain the income and social diversity of existing neighbourhoods, and makes effective use of limited land. They are often more affordable, with average market rents for rented basement suites approximately 20% below the average market

[5] "Non-conventional" rental housing or the "secondary rental market are terms used to identify units that are not usually reported in CMHC's Annual Rental Market Survey (RMS) but which are an important form of rental supply (Starr Group, 2000). The RMS tracks buildings with over 50% of units under rental tenure.

[6] Recent changes by the Ministry of Finance and CMHC has limited the amount of revenue from secondary suites used in underwriting homeowner mortgages. These modified lending criteria (larger down payment requirements and higher debt service levels) are meant to restrict debt levels of consumers and dampen speculative pressures by stricter underwriting standards.

rent for a purpose-built rental housing unit and almost half the average market rent for a rented condominium apartment unit.

Most forms of secondary rental housing can easily be removed from the rental stock and their availability depends on overall economic and real estate conditions.[7] Therefore, most analysts conclude that while these units represent an important source of rental housing supply, they should not be viewed as an alternative to the long-term permanent source of rental supply represented by purpose-built rental housing. Any policies or measures that encourage this form of rental housing tenure should be accompanied by specific provisions related to "security of tenure."

Market rental housing stock is book-ended by two other important segments on the housing continuum:

- **Social or Non-Market Housing:** Approximately 23,200 Vancouver households are living in social housing. To qualify for this housing, most households have to be in core-housing need and meet other eligibility criteria. This housing stock was built under a mix of Federal, Federal/Provincial and Provincial housing programs.
- **Entry-level Ownership:** At the boundary between renting and owning is the "entry-level ownership segment". In Vancouver this market segment, is primarily of older condominiums and townhouses. In previous decades, this would more frequently have been older houses in Vancouver or elsewhere in the region. Region-wide affordability pressures have seen an increase in the proportion of first-time buyers in the condominium or townhouse market. Measures to enable entry-level ownership alleviate some of the pressures on the rental stock.

Using data from a number of sources, Table 1 below shows the continuum of housing choices (ownership and rental) within Vancouver. It includes information on the inventory of units at different points on the housing continuum. Table 2 presents the average reported rents across the different sectors and the general affordability based on the income and rent profile of households living in Vancouver.[8]

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[7] Starr Group. 2000. *Secondary Rental Market Study* prepared for The Ontario Ministry of Municipal Affairs and Housing.

[8] Both Table, 2 and 3 are indicative rather than precise as they use data is derived from a number of sources and collection method and timing vary.

Table 1. The Continuum of Housing Choices in Vancouver – Rental and Ownership

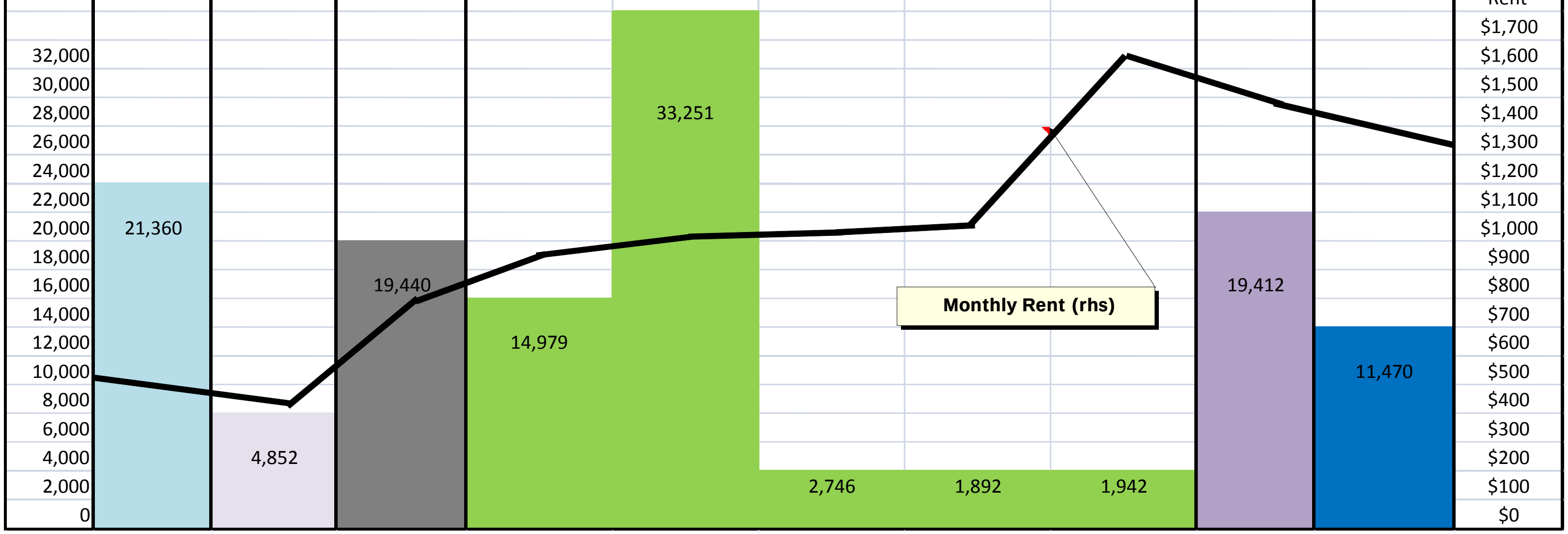
Vancouver Housing Continuum - Rental & Ownership

	Social Housing	SRO	Secondary Suites	Purpose-built Rental	Rented Condo	Row Semi & Single Detached	Ownership - Condo	Ownership (Non-Condo) with Mortgage	Ownership (Non-Condo) without Mortgage
# units	21,360	4,852	19,440	54,810	19,412	11400	45,602	35,045	41,175
	131,500 rental households						**121,850 ownership households**		
% Total	**8.4%**	**1.9%**	**7.7%**	**21.7%**	**7.7%**	**4.5%**	**18.0%**	**13.8%**	**16.3%**
% of Rental	**16.3%**	**3.7%**	**14.8%**	**41.8%**	**14.8%**				

Data Sources:
1. Social Housing Units (City of Vancouver)
2. Single Room Occupancy (SRO) units, estimate
3. Secondary Suite, Custom Data 2006 Census
4. Purpose Built Rental Housing Units, CMHC Market Rental Report (Dec. 2009)
5. Rented Strata Condominium Apartment Units, CMHC Market rental Housing Report (Dec. 2009)
6. Rented Single Detached, Semi-detached, and Row house units, 2006 Census
7. Ownership Units (condo), 2006 Census
8. Ownership Units (with a mortgage), 2006 Census
9. Ownership Units (without a mortgage), 2006 Census

Table 2. The Rental Housing Continuum and Average Housing Costs

	Social Housing	SRO	Secondary Suites	Purpose-built Rental					Rented Condo	Single Family Rental	
				Purpose-built Pre-1960	Purpose-built 1960-1974	Purpose - built 1975-1989	Purpose-built 1990-1999	Purpose-built 2000+			
# units	21,360	4,852	19,440	14,979	33,251	2,746	1,892	1,942	19,412	11,470	
	$500	$425	$851	$973	$1,002	$1,020	$1,084	$1,631	$1,495	$1,317	Monthly Rent



Data Sources:.

1. Social Housing Units (BC Housing), Average rent - estimate
2. Single Room Occupancy (SRO) units, estimate
3. Secondary Suite, Custom Data 2006 Census
4. Purpose Built Rental Housing Units, CMHC Market Rental Report (Dec. 2009)
5. Rented Strata Condominium Apartment Units, CMHC Market rental Housing Report (Dec. 2009)
6. “Single Family Rental” category includes Rented Single Detached, Semi-detached, and Row house units, 2006 Census
7. rhs – “right-hand scale of chart”.

Affordability

In Vancouver, housing affordability is a common topic of conversation – i.e. *What are places selling for? Where are our kids going to live when they move out of the family home? Will they be able to rent or own? What can be done about the homeless on our streets? etc.* … Affordability has also become a significant topic of policy debate as the City grapples with some of the more challenging aspects of the question.

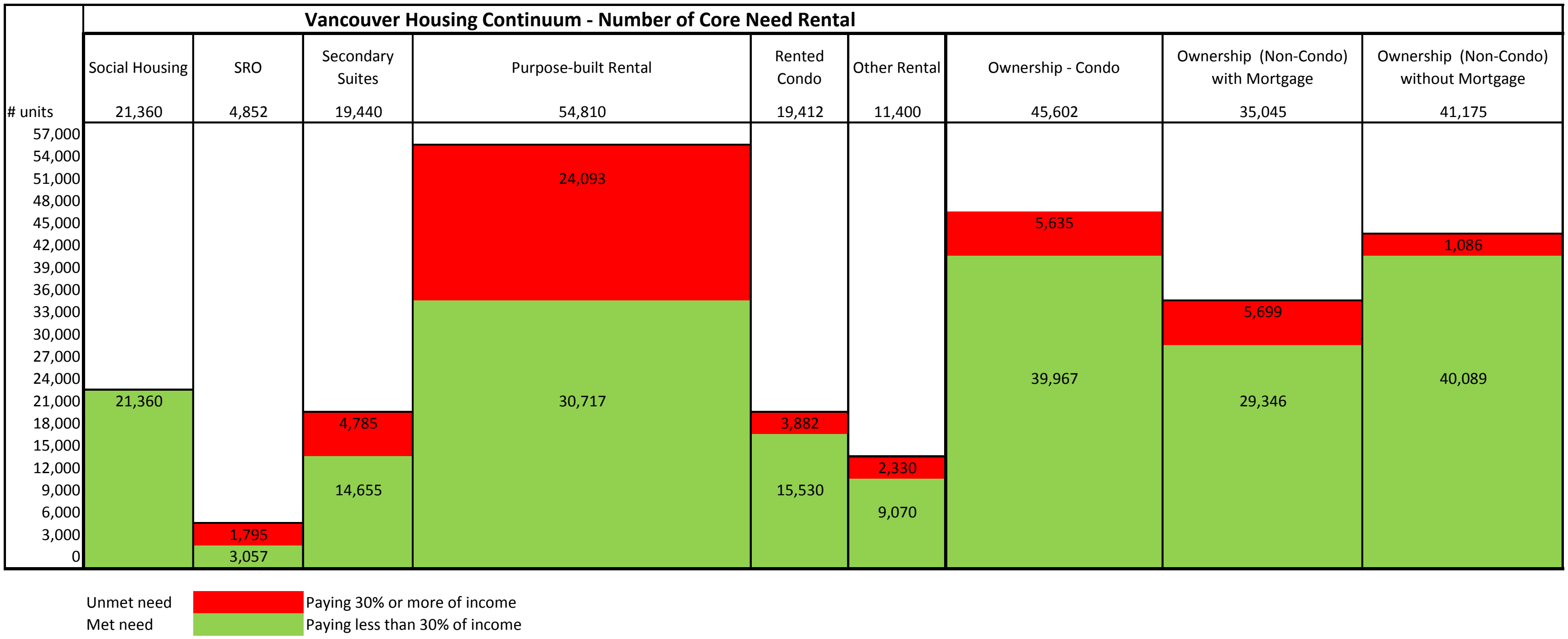
This section examines key trends and variables that can have an impact on housing affordability, such as income, interest rates, inflation, average rents, and housing cost. Taking into consideration the regional nature of housing markets, this section also looks at the characteristics of households in core housing need both within the larger region and within Vancouver.

The core housing need measure was established by CMHC in the mid-1980's to ensure that Federal housing subsidies were well targeted. Households in core housing need are those that fail to meet one of the established housing standards (adequacy, suitability, or affordability) and that could not find alternative housing in their local market area that was affordable at their income level.

Using information on the number of households in core housing need, Table 3 begins to provide a picture of the affordability challenges that many households living in Vancouver currently face. As shown, 47,580[9] households were in core housing need[10] in Vancouver in 2006. This includes 35,160 renter households and approximately 12,420 owner households.

[10] A household is considered to be in core housing need if its housing falls below at least one of the standards of adequacy (in good repair), suitability (appropriate in size) and affordable (does not cost more than 30% of a households before-tax income) ,and if it cannot afford to rent a unit that is adequate and suitable.

Table 3. Households in Core Housing Need – The Intersection of Housing Costs and Income



Source: Statistics Canada based on the definition developed by CMHC

The 2006 Census shows that there are 129,145 households in core housing need in Metro Vancouver. This includes 79,365 renter households and 49,780 owner households. Of these, approximately 37% live in the City of Vancouver.

Table 4. Households in Core Housing Need

	METRO VANCOUVER			CITY OF VANCOUVER		
	TOTAL	OWNERS	RENTERS	TOTAL	OWNERS	RENTERS
1996	122,350	33,895	88,455	122,350	N/A	42,680
2001	122,285	39,825	82,460	47,130	10,200	36,930
2006	129,145	49,780	79,365	47,580	12,420	35,160

Table 4 shows that for both the City of Vancouver and the Metro Vancouver region, almost 1 in 3 renter households[11] are in core housing need. Many of these households face significant challenges in finding affordable housing with the resources they have available. Furthermore, as housing costs increase, these households have fewer housing choices available.

Particularly vulnerable are the households at the lower end of the housing and income continuum. The high cost of housing leaves them with fewer resources available to meet other basic needs, including food, clothing, transportation, medical costs, and education.

Based on information provided by Will Dunning (Study 1) as part of the need and demand analysis, CMHC estimated that the average annual income for a household in core housing need in Metro Vancouver was approximately $20,772 in 2006.[12] For a household with this income level, an affordable rent is approximately $519 per month but the average rent paid was approximately $775 per month. Therefore, at this rent level a household would face an "affordability gap"[13] of approximately $256 per month. Table 5 shows the annual income required to afford the average market rent for the different housing types in the Vancouver rental market as well as the typical "affordability gap" at the different rent levels for a household in core housing need.

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[11] Approximately 27% of renter households in the City of Vancouver and approximately 28% of renter households region-wide.

[12] This represents 2005 income based on 2006 Census data.

[13] An affordability gap is defined as the difference between the amount of rent that a household can afford to pay based on their income and the cost of their housing in the private market.

Table 5. Monthly Affordability Gap Across the Different Rental Housing Choices[14]

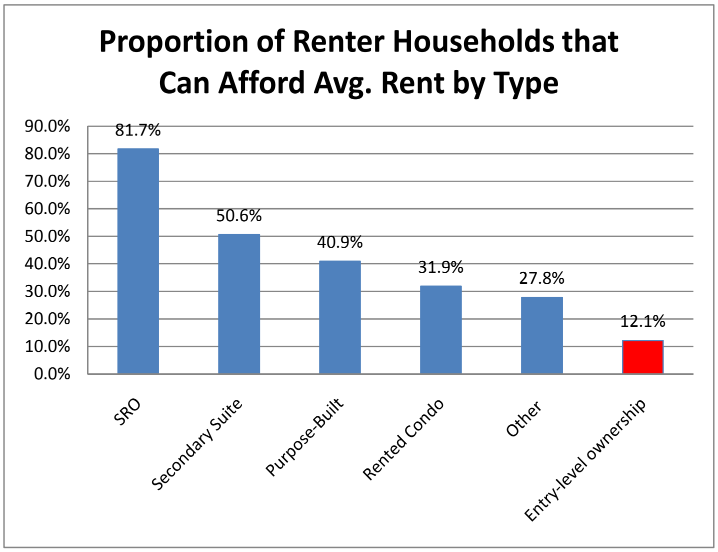
Private Market Choices	Average Rent	Monthly Income Required	Annual Income Required	Affordability Gap (Core Need Income)
SRO	$ 425	$ 1,417	$ 17,000	no gap
Secondary Suites	$ 851	$ 2,837	$ 34,040	$ 349
Purpose-Built Rental (Average)	$ 1,041	$ 3,470	$ 41,640	$ 539
Purpose-Built Rental (pre-1960)	$ 973	$ 3,243	$ 38,920	$ 471
Purpose-Built Rental (1960-1974)	$ 1,002	$ 3,340	$ 40,080	$ 500
Purpose-Built Rental (1975-1989)	$ 1,020	$ 3,400	$ 40,800	$ 518
Purpose-Built Rental (1990-1999)	$ 1,084	$ 3,613	$ 43,360	$ 582
Purpose-Built Rental (2000+)	$ 1,631	$ 5,437	$ 65,240	$ 1,129
Rented Condo Apartment	$ 1,495	$ 4,983	$ 59,800	$ 993
Single Detached, Semi, Row	$ 1,371	$ 4,570	$ 54,840	$ 869

Based on the analysis, the affordability gap for the average purpose-built market rental unit in Vancouver is approximately 25% of the gross annual income for a household in core housing need. This means that such a household requires an almost 25% higher income to avoid being in core housing need.

Furthermore, an analysis of the average housing costs compared to average market rent shows increasing signs of housing stress in Vancouver. Figure 1 shows the proportion of renter households that can afford the different housing choices (spending no more than 30% of their income on their housing costs). This affordability stress is increasing due to the decline in the number of renter households able to move into entry-level ownership, the re-targeting of the funding for social housing, limited levels of new rental housing production, and increased redevelopment pressure on older, more affordable rental housing.

[14] The segmentation of the rental housing stock by type emphasizes the relatively high cost of rented condominium apartment stock and new rental developments relative to the older purpose-built rental housing stock.

Figure 1. Affordability by Type



Looking purely at household incomes, Figure 1 shows that approximately 82% of all renter households can afford to pay the average market rent for a Single Room Occupancy (SRO) unit. Of course, most households would not consider an SRO unit to be adequate or suitable to their needs. At the same time, for almost 20% of all renter households in Vancouver this very modest form of housing is all they can afford.[15]

Moving along the continuum of housing choices, the findings suggest that only 41% of renter households have sufficient income to afford the average rent of a purpose-built market rental unit without spending more than 30% of their income on their housing costs. The data also shows that only 32% and 28% or renter households respectively have the income required to carry the cost of a rented condominium apartment unit or rented single detached, semi-detached or row house unit.

Using data from the MLS (February 2010), Table 6 shows the cost of entry-level ownership options in Vancouver. The median asking price for a 2-bedroom strata condominium apartment in Vancouver was $679,000 while price at the 20th percentile was $479,900 (e.g. 20% of the listings were less than $479,900).

[15] This highlights the importance of the existing inventory of social housing, which provides lower income families, seniors, and persons with disabilities with an expanded range of housing choices.

Assuming a down payment of 10%, an interest rate of 4%, and a 25-year amortization period, a household would require a down payment of between $48,000 and $68,000 and an annual income of between $100,877 and $138,580 to acquire a condominium within this price range.[16] Monthly housing costs would be between $2,320 to $3,280 - not including taxes, utilities, and strata fees.

Table 6. Homeownership Qualifying Income Threshold

Homeownership - Qualifying Income Threshold	# of Listings	Price		Mortgage	Down-payment	Annual Income
Condo Apartment	851	$ 479,900	20th percentile	$431,910	$47,990	$100,877
Condo Apartment		$ 679,000	50th percentile	$611,100	$67,900	$138,580
Row	162	$ 675,000	50th percentile	$607,500	$67,500	$137,823
Single Detached	744	$ 1,088,000	50th percentile	$979,200	$108,800	$194,991
Note: 4% interest rate, 25 yr. amortization, 10% down-payment, Properties listed Feb 2010.						

Source: MLS listing service as at February 27, 2010 and the CMHC Mortgage Affordability Calculator at www.cmhc-shlc.ca

These findings suggest that as the cost of ownership continues to increase, the private rental market will play an increasingly important role in the overall housing system, as renting becomes a permanent housing tenure for a significant number of households in Vancouver. Therefore, ensuring both affordability and an adequate supply are increasingly important.

Why Does the Purpose-Built Rental Housing Stock Matter?

This section of the report looks more closely at the inventory of rental housing stock in Vancouver and at the role and contribution of the purpose-built market rental housing stock to the continuum of choices that are available to renter households.

- Purpose-built market rental housing stock represents approximately 42% (54,810 units) of all of the rental housing stock in Vancouver. This is the largest and most stable source of rental housing and is an important source of housing for families and individuals with low to moderate incomes.

[16] According to 2006 Census data, only a small proportion [approximately 9,370 (7.4%)] of renter households in Vancouver have an annual income above $100,000.

- Non-market or social housing stock accounts for approximately 18% (23,156 units) of all rental housing stock in Vancouver and is an important source of housing for families, seniors, and individuals with special housing needs.

- Rented condominium apartment units provide an important source of rental accommodation. Using 2009 CMHC estimates, rented condominium apartments account for about 15% of the city's rental housing stock.

- The rented condominium apartment stock has helped ease on-going rental housing demand pressures. However, CMHC estimates the average rent for a condominium apartment unit in Vancouver is approximately $1,500 per month. To carry this cost without spending more than 30% of their income on their housing costs, a household would require an annual income of approximately $60,000 – approximately 1.8 times the average annual household income of a renter household in the city.

- The existing inventory of purpose-built market rental housing stock is among the most affordable housing stock in Vancouver today, especially the older stock built before 1975, which has an average reported rent of $973 per month. Units built before 1975 represent approximately 88% of the existing inventory of purpose-built rental housing stock and are home to approximately 48,230 renter households.

The Evolution of Vancouver's Rental Housing Market

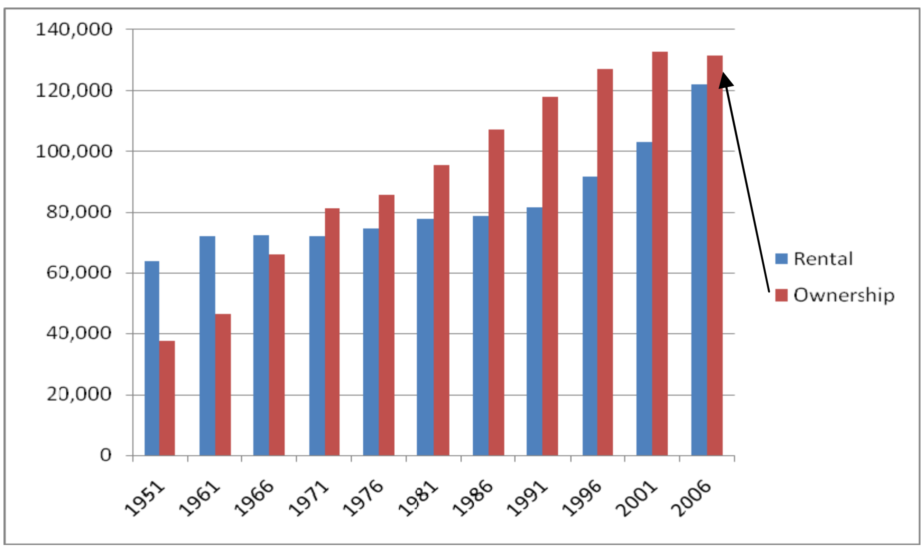
This section examines the evolution of Vancouver's housing market over the past 60 years, including the increase in the number of ownership and rental units. Strata-titled condominium developments have had an impact, in terms of increased choice in the ownership market, and competition with new rental supply for scarce multi-family zoned land. Different scenarios modeled by Coriolis Consulting (Study 2D) illustrate the magnitude of the financial feasibility gap between strata titled condominium developments and new purpose-built rental housing.

In Vancouver, the number of renter households doubled from 1951 to 1966 (see Table 7). The increase in rental housing demand has remained strong with renter households representing the dominant form of tenure since 1971.

Table 7. Vancouver Tenure Census Data 1951 – 2006

YEAR	*CITY* TOTAL	OWNED	RENTED	PERCENT	CHANGE OWNED	CHANGE RENTED
1951	101,330	63,885	37,445	37.0		
1961	118,405	72,029	46,375	39.2	8,144	8,930
1966	138,611	72,330	66,281	47.8	301	19,906
1971	153,240	71,845	81,395	53.1	485	15,114
1976	160,230	74,545	85,685	53.5	2,700	4,290
1981	173,035	77,715	95,325	55.1	3,170	9,640
1986	185,795	78,570	107,225	57.7	855	11,900
1991	199,540	81,480	118,055	59.2	2,910	10,830
1996	218,540	91,480	127,060	58.1	10,000	9,005
2001	236,100	103,340	132,755	56.2	11,860	5,695
2006	253,385	121,850	131,535	51.9	18,510	(1,220)

Figure 2. Vancouver Tenure Census Data 1951-2006



Data from the 2006 Census shows that the composition of the rental housing stock has continued to evolve. There has been a shift from predominately purpose-built rental housing stock to an increasingly diverse mix of units including secondary suites, non-market housing, and, perhaps most significantly, the rise in the number of rented condominium apartment units.

Table 8. Changes in the Tenure Mix - Census 1951 - 2006

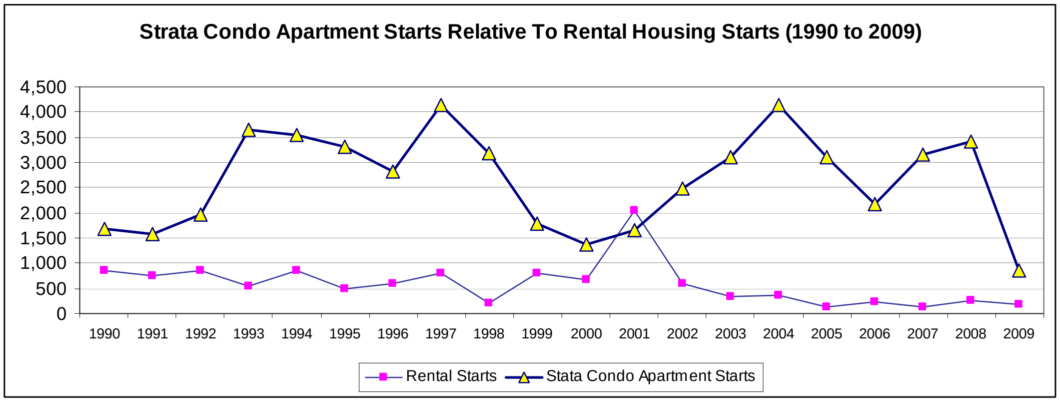
	CITY							
YEAR	**TOTAL**	**Ownership**	**Rental**	**Ownership**		**Rented**		
	Dwellings			Owned - Non-condo	Condo owner-occupied	Other Market Rental	Condo Rental	Non-market Housing
1951	101,330	63,885	37,445	63,885		37,445		0
1961	118,405	72,029	46,375	72,029		45,765		610
1966	138,611	72,330	66,281	72,330		64,681		1,600
1971	153,240	71,845	81,395	71,845		77,585		3,810
1976	160,230	74,545	85,685	74,545		78,985		6,700
1981	173,035	77,715	95,325	77,715		85,945		9,380
1986	185,795	78,570	107,225	78,570		93,775		13,450
1991	199,540	81,480	118,055	65,215	16,265	93,425	7,680	16,950
1996	218,540	91,480	127,060	66,550	24,930	95,263	11,542	18,462
2001	236,100	103,340	132,755	70,775	32,565	98,987	15,718	20,100
2006	253,385	121,850	131,535	76,245	45,605	95,993	19,412	21,360

Source: 2006 Census, Non-market figures from City of Vancouver, Condo rental estmate is derived from CMHC estimates of the propensity of condominium units to be rented.

Not only has there been a change in the mix and profile of the rental housing stock, but also the majority of housing starts for the Vancouver market over the past two decades have been in the ownership or investor sphere of the housing continuum, with a significant percentage of these starts being in strata-titled condominium apartment units. Furthermore, while some of these units are likely to make it into the rental pool, a larger percentage of the units will likely remain in the ownership segment of the market and/or over time migrate to ownership.

Figure 3 below shows the number of strata condominium apartment starts relative to the number of rental housing starts over the past twenty years (1990 to 2009). In this period, there were 64,855 apartment starts in Vancouver. Of these, more than 80% (53,112) were ownership starts and 20% (11,743) were rental starts. This translates to an average of approximately 2,655 ownership starts per year and an average of 587 rental housing starts per year – significantly below the estimated 1,000 to 1,500 new rental housing units that are needed (Dunning - Study 1).

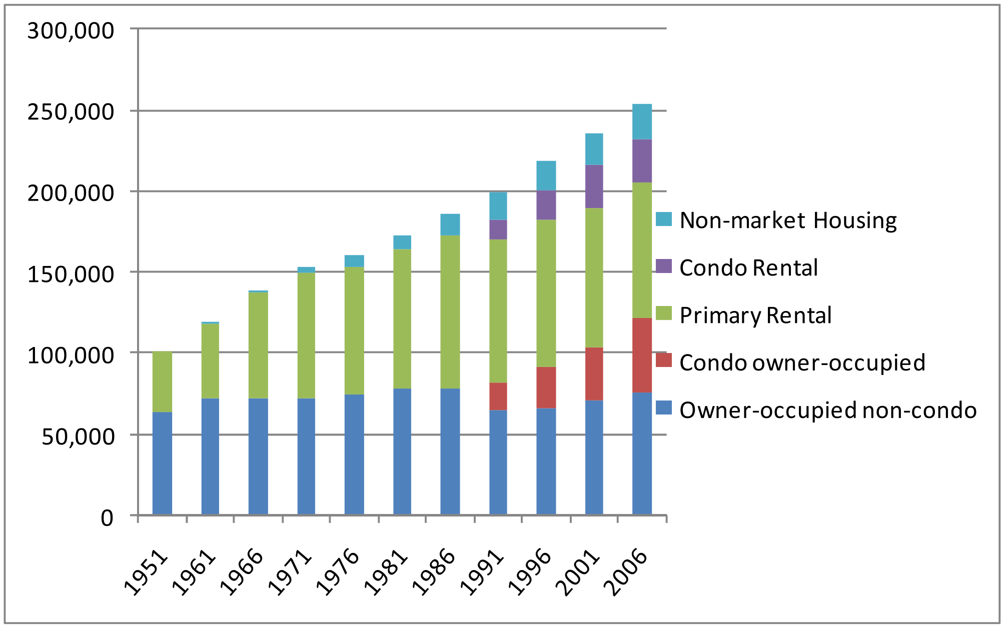
Figure 3. Housing Starts 1990-2009



Source: CMHC Housing Starts data. Note the rental start increase in 2001 was a response to a drop in condominium prices and sales volumes and some developers completed and rented projects as part of a holding strategy pending the improvement of condominium prices at which time many of these units were resold for individual ownership.

Figure 4 below shows the changes in the profile of rental and ownership over time. In particular, strata-titled tenure has clearly played an increasingly important role in Vancouver's housing market since introduction of strata tenure in 1967, and has enabled a larger number of households to move into ownership (supported by a financial and taxation environment that favours ownership). However, in the competition for multi-family residential land, it is clear that purpose-built rental housing has been at a competitive disadvantage compared to strata development.

Figure 4. Changes in the Profile of the Housing Stock in Vancouver

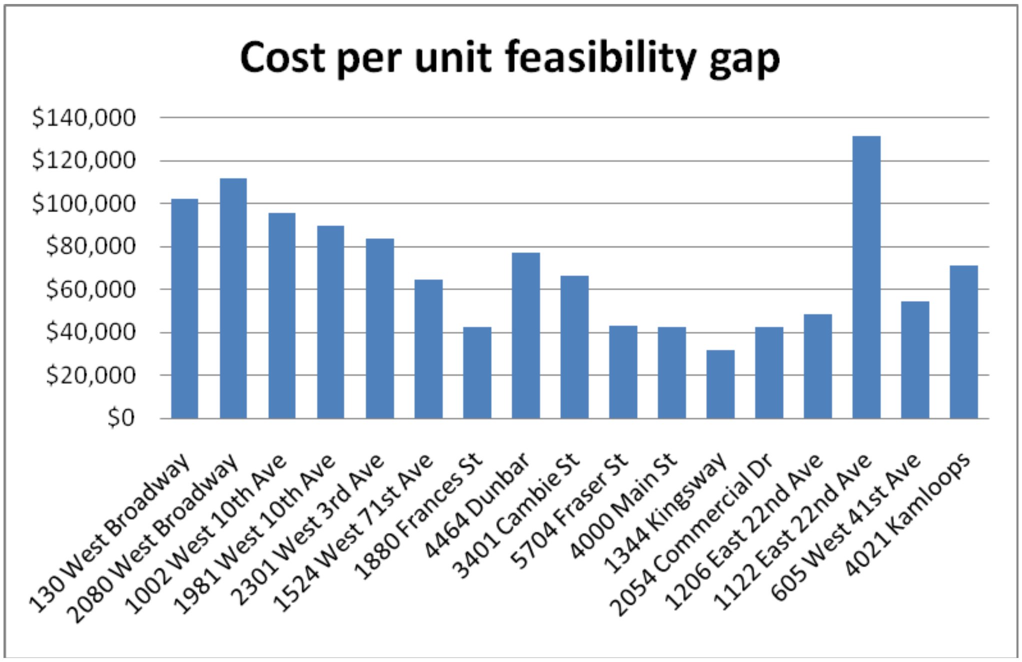


The Economics of New Supply

At current market rents, purpose-built rental projects are unable to cover the capital cost of creating new rental assets. The difference between the amount that market rents can support and the current capital cost is the “financial feasibility gap”. Using estimates prepared by Coriolis Consulting, this section highlights the estimated financial feasibility gap for new purpose-built rental housing (both wood-frame and concrete construction) and discusses the potential implications both in terms of stimulating new supply as well as in terms of some of the on-going affordability challenges.

Based on the scenario testing and modelling completed by Coriolis Consulting, a new purpose-built market rental unit requires a rent of $1.80 to $2.50 per square foot to break even. To carry the cost of this rent, a household would require an annual income of between $50,000 and $60,000. This income level is significantly above the median reported income of $34,352 for renter households in Vancouver and thus out of the reach of a large number of renter households. Figure 5 below provides additional details for the different scenarios modeled by Coriolis Consulting.

Figure 5. Financial Feasibility Gap For New Rental Supply (Various Sites & Scenarios)



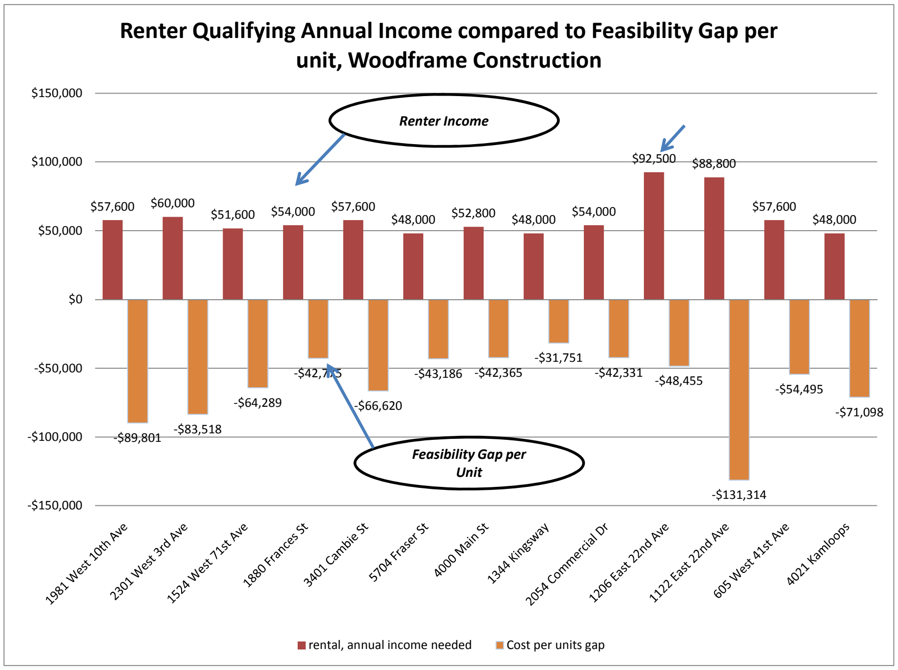
Using data for wood-frame construction, the table below shows the size of the feasibility gap at different rent and income levels. For example, the analysis shows that at an average market rent of $1,482 per month, the average size of the feasibility gap for a purpose-built rental unit (wood-frame construction) is approximately $55,509 per unit, with this unit being affordable to a household with an annual income of approximately $59,269. If the unit is targeted to a household with an annual income of $35,000 or less, the financial feasibility gap is approximately $166,191 per unit.

Table 9. Rent Levels and Associated Feasibility Gaps

Rent Levels and Associated Feasibility Gap		
Rent	Qualifying Income	Gap per Unit
$882	$35,269	$166,191
$932	$37,269	$156,967
$982	$39,269	$147,744
$1,032	$41,269	$138,520
$1,082	$43,269	$129,297
$1,132	$45,269	$120,073
$1,182	$47,269	$110,850
$1,232	$49,269	$101,626
$1,282	$51,269	$92,403
$1,332	$53,269	$83,179
$1,382	$55,269	$73,956
$1,432	$57,269	$64,732
$1,482	$59,269	$55,509

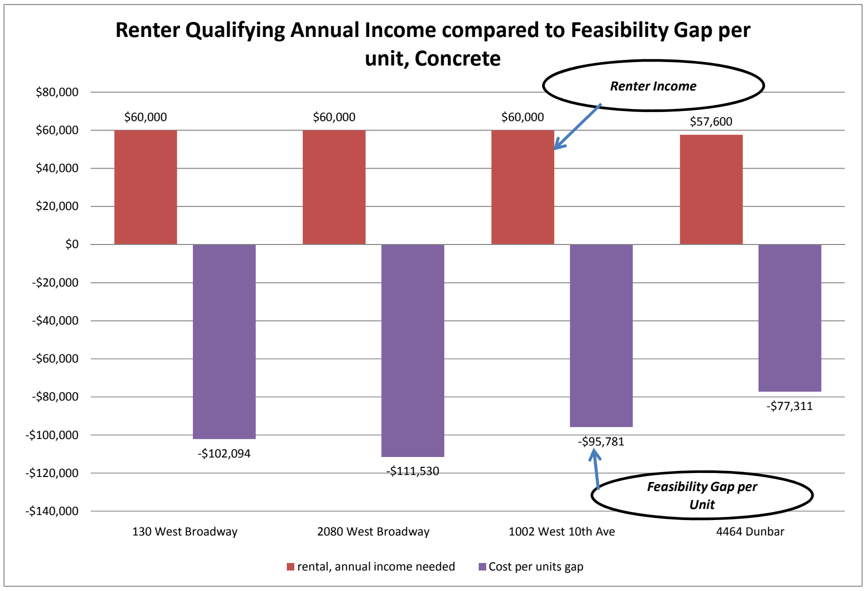
Figure 6 shows the financial feasibility gap at different income and rent levels for wood-frame construction while Figure 7 provides additional details about concrete construction.

Figure 6. Financial Feasibility Gap - Wood-Frame Construction



The economics for concrete buildings looks much worse, with a significantly higher financial feasibility gap:

Figure 7. Financial Feasibility Gap - Concrete Construction



The Historical Record: Economic and Policy Factors Affecting Rental Production over Three Eras

The purpose-built rental supply is the second largest segment on the housing continuum, after owner-occupied houses. The data suggests that there are three distinct eras in the evolution of this stock:

- **General Taxation Provisions Encouraging Purpose-Built Market Rental:** The first period (1951 to 1973) saw a rapid expansion in the purpose-built rental housing supply, characterized by high rental housing demand and a strong supply response. During this period, the number of renter households increased from 37,445 in 1951 to 78,985 in 1971. This increase of 41,540 households represents a 110% increase in the total rental stock. The creation of the new rental supply was the result of federal taxation measures and provisions that included incentives for new residential rental investment. The federal rules did not stipulate income mix or any rent restrictions; the provisions were simply designed to stimulate investment in rental supply, and the marketplace had a fulsome supply response.

- **Targeted Tax Incentive Programs for Purpose-Built Market Rental:** During the second period (1974 to 1986), 21,540 new rental housing units were added across Vancouver. During this period, the federal taxation provisions for rental investment in the previous era were restricted or eliminated. New targeted, taxation incentives were instituted to address supply constraints in the era following the introduction of condominium tenure. Examples of the incentives programs are the Multiple Unit Rental Building program (MURB), Assisted Rental Program (ARP), and the Canadian Rental Supply Program (CRSP). These tax incentive programs contributed to a significant expansion in the number of market rental units. During this period, numerous non-profit and co-op housing programs were introduced, which addressed the needs of households at the low to moderate end of the housing and income continuum.

- **Withdrawal of Programs and Tax Provisions for Purpose-Built Market Rental:** The third period (1986 to present) saw significant erosion in the number of new purpose-built rental housing units created. The elimination of the programs and incentives for new rental housing supply resulted in a dramatic decline in the number of new purpose-built rental housing units created. In 1993, the final step in the Federal government's long retreat from providing rental incentives came with the withdrawal of funding for new social housing development,[17] which led to a corresponding drop in the level of new social housing production. The compounding effect of these cuts was a massive reduction of total rental development.

The Federal Government has steadily reduced its involvement in housing over the last three decades and by 2006 the Federal Government and the Province of British Columbia had signed a devolution agreement transferring all responsibilities for social housing to the Province. Consequently, housing funding from the Federal Government has been delivered through the Province in a variety of short-term, jointly funded programs. From the perspective of the purpose-built rental housing, the Federal Government maintains control over the critical regulatory and taxation elements that shape rental-housing investment, notably taxation, banking and housing finance (CMHC).

This section provides additional detail about the different eras including the general conditions or incentives that contributed to the supply response.

The First Period (1951 to 1973) – This period saw a rapid expansion in the purpose-built rental housing supply when a number of factors were at play:

- At the end of World War II, Canada's market was under significant pressure, suffering from under-investment during the Depression and later from scarcity of capital and inputs during the war. The immediate post-war period was also marked by a rapid increase in family formation as well as increased immigration and migration to larger cities like Vancouver. These trends contributed to a significant increase in demand for housing in general and rental housing in particular.

- During this period, Canada embarked on an economic development strategy that concentrated on industrial-scale resource extraction, modernizing agriculture, expanding industrial production (e.g., automobile and consumer goods), and urbanization. Most critically for housing , the federal government pursued "market-enabling strategies" using taxation and finance sector innovation like the creation of Central Mortgage and Housing (now CMHC) to develop and support Canada's housing supply system (both ownership and rental).

[17] In BC, since 2001 the delivery of subsidized housing has been through the *Provincial Housing Program* and has been largely targeted to homelessness (*Provincial Homelessness Initiative)* or to seniors through the *Independent Living BC (ILBC)* program and the *Seniors' Rental Housing Initiative.*

- Critical to the rental housing boom from 1958 to 1973 was the financial infrastructure, investment, and taxation climate of the day. Explicitly designed to attract investors and to engage builders in creating rental assets, the tax system was analogous to the three-story walk-ups that proliferated in Vancouver's rental housing landscape: simple in concept, suitable for many sites and investors, and durable over the long-term. These measures included generous capital cost allowances (CCA), and deductibility of investment losses from earned income ("flow-through" provisions).

- Banking reforms were introduced that promoted the development of accessible mortgage products for homeowners and builders, which helped to facilitate access to ownership.

- British Columbia introduced strata title tenure in 1967, which opened up the multi-family market to owner-occupants. The strata condominium market did not start to develop until the early 1970's when consumer acceptance and readily-available financing to developers took effect.

- The City of Vancouver's land use policies were also well aligned at the time to support an increase in rental housing, through the zoning of a large amount of land for multi-family residential use. Post-war demographics provided a high level of effective demand for rental product.[18]

Between 1958 and 1973, 35,019 rental units were added citywide, which now comprise 68% of the rental housing stock. In contrast, in the 36 years subsequent to 1973, only 7,121 units have been added to the permanent rental housing pool, or 13.7% of the total rental pool.[19]

[18] The City invested in adequate infrastructure and provided extensive areas of apartment zoning - in particular the West End, Kitsilano and Kerrisdale RM zones.

[19] Included in the 7,121 units are those created with City assistance, often land contributions such as the VLC, now Concert Developments, major projects like C-Side at Coal Harbour (200 units) and various projects provided with density bonusing or other municipal relaxations.

- The Federal taxation measures that were in place during this period contributed to the strong supply response. Prior to 1968, the Federal taxation policy stimulated much-needed investment in rental housing. This was largely through favourable taxation provisions that allowed rental income to be taxed like most other business income (at the lower small business tax rate up to a stipulated threshold). The Federal taxation measures at the time also allowed for:

  - operating losses to be deducted against earned income,
  - generous write-offs for new housing investment (soft-cost deductibility), and
  - rapid depreciation/write-off of "bricks and mortar" components of rental assets.

  The Federal taxation measures also took into consideration the fact that new rental housing typically operates at a loss in the initial years. To offset this cash flow pressure, the pre-1973 tax regime included provisions allowing rental investments to "flow through" these losses to investors, usually higher-earning professionals, who could shelter earned income from other sources. This "tax shield effect" attracted a significant level of investment capital for new rental housing construction, which in turn lowered the cost of capital for rental buildings. These measures not only enhanced the attractiveness of rental housing as an investment but they also helped to improve the overall economic viability of new rental housing construction.

- The taxation system of the era pre-dated capital gains taxes and provided low marginal tax rates, and there were few competing tax shelter opportunities (no RRSPs, flow-through resource stocks, or RRIFs). Rental buildings afforded both sound investments and one of the few tax planning opportunities.

- Apartment investors tended to be individuals or small private syndicates, usually with high incomes. Corporate involvement tended to focus on commercial and industrial land development.

In addition to the favourable taxation measures that were in place, the period from the 1950's to the mid-1970's also saw the creation of CMHC and the following types of market inventions:[20]

- During the 1950's and 1960's, mortgage finance for homeownership was often unavailable or expensive and constrained on housings starts for single-family homes. In 1967-68, the Federal government radically shifted the housing finance system to enable homeownership to expand.

  - Firstly, the Bank Act revision of 1967 addressed structural problems in the mortgage finance system, where previous interest rate caps and low statutory loan-to-value limits made mortgage lending unattractive to banks and insurance companies.[21]

  - Secondly, CMHC, under expanded powers of the National Housing Act, significantly increased direct lending to homeowners on existing homes and ramped up mortgage insurance programs. This increased mortgage availability

[20] As reported by CMHC through their Annual Reports.

[21] Canada's Housing in 1967, "1967 was a year of remarkable recovery. Following the low levels of production in 1966 ... house building rebounded with a volume in excess of any previous year." This was due largely to the changes to the National Housing Act amendment 1966 & Bank Act 1967, "A Review by the President," CMHC Annual Report (1968), p.4

and utilized the banking system's branch network to make mortgages a genuine retail product.[22] (In today's world of universal debt marketing where the credit-worthy and not-so-worthy alike are bombarded with loan and credit card offers, it is hard imagine a time, such as the mid-1960's, when banks would simply withdraw mortgage availability across the market, often causing a sharp decline in sales activity and the level of new housing starts.[23])

- *A weak supply of ownership dwellings, particularly single- family homes*. Single family housing starts were persistently lower than apartment rental production because of credit access problems. Between 1963-1968, rental apartments accounted for almost half of all Canadian housing starts.[24] The CMHC annual report stated, "Apartment construction dominated the building scene. It accounted for virtually all of the increase in housing production and further intensified the change taking place in the structure of Canadian housing demand during the period."[25]

Table 10. Housing Starts from 1963 to 1968

	1963	1964	1965	1966	1967	1968	1963 to 1968
Single family, duplex, semi-detached	85,049	85,785	83,365	77,923	82,473	85,453	500,048
Apartment	63,575	79,516	83,200	56,551	81,650	111,425	475,917
Total starts	148,624	165,658	166,565	134,474	164,123	196,878	976,322
Apartment %	42.8%	48.0%	50.0%	42.1%	49.7%	56.6%	48.7%

22 Annual Report 1969, CMHC, page 5. In the 1971 annual report the rationale for reforming the private mortgage lending sector was to permit the government's "vigorous stance on providing housing for low-income groups." p.8.

23 In 1966 housing starts declined by 20% whereas some industries, particularly manufacturing, increased capital investment by 20%. This decline reflected a reduction in private mortgage lending by the nation's principal mortgage lenders due to high demand for capital exerted by other sectors. CMHC, through the National Housing Act, increased its direct lending activity and modified loan criteria to expand mortgage eligibility, but these improvements were more than offset by the shift in private sector lending. Subsequent banking reforms removed statutory limits that restricted mortgage qualifications and altered the capital adequacy provisions imposed by the Bank of Canada and the Ministry of Finance, thus enabling improved capital adequacy measures for mortgage assets and enhancing lenders' rate of return on invested capital. This type of mortgage finance regulatory relaxation (lower lending standards, low capital adequacy rules, and inventive financial derivatives) reached an absolute limit with the US banking crisis of 2008 when both Fannie Mae and Freddie Mac collapsed due to over-extension and over-leverage in housing credit.

24 Annual Reports, CMHC 1963 to 1972.

25 Canada's Housing in 1968, "A Review by the President", p.4

- *The requirement for periodic assistance to the ownership sector:* Throughout most of the 1960's, home ownership and the supply of new single family housing were at an economic disadvantage relative to rental housing production. In response to these pressures, the Federal government intervened with loan assistance for the home-ownership sector, for example, in 1966, "because of the exceptional concentration on multiple housing during the early part of the year".[26]

- *The facilitation of urban expansion and targeted initiatives to address under-investment in housing:* Public housing, urban renewal, loans for municipal infrastructure, and rehabilitation efforts were a constant focus through the 1960's. In 1971, CHMC noted the steadily improving housing standards reported in the 1971 Census, such as the dramatic drop in crowding, and the lower incidence of dwellings that did not have their own bath facilities or flush toilets. The number of "doubled-up" families dropped by 25% and there was a trend away from boarding houses and shared accommodation.[27]

The Second Period (1974 to 1986) – This period was characterized by targeted programs designed to encourage increased investment in new rental housing construction and the development of government supported programs (non-profit and co-op housing) to meet the needs of households falling at the lower end of the income and housing continuum.

- This era included the introduction of different rental incentive programs including the ARP, CRSP and MURB programs. These programs typically included the rapid write-off of soft costs, high CCA rates and transferability of losses to earned income and were largely a reintroduction of some of the provisions available in the previous era but this time limited to qualifying investments.

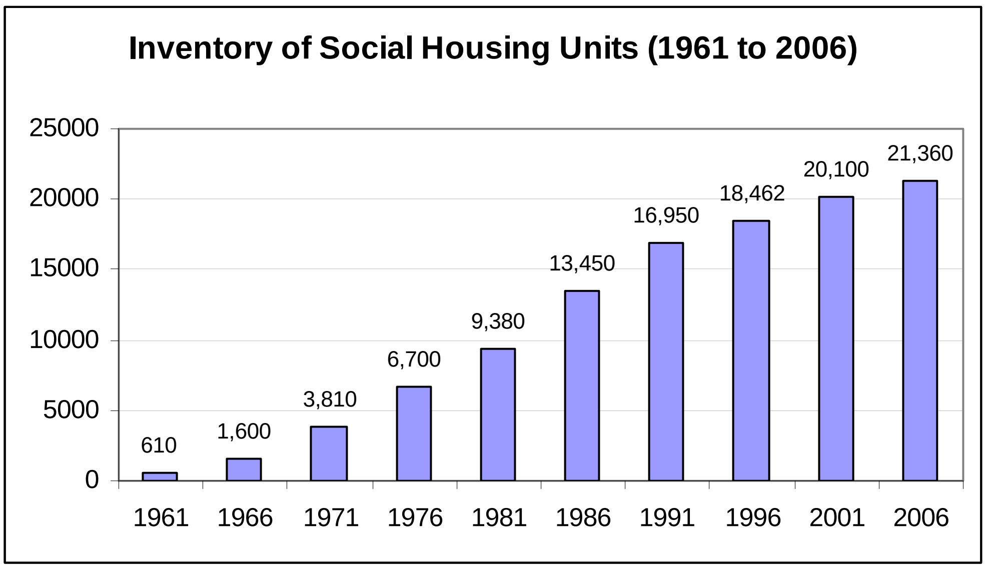
- This period also saw a shift from public housing to mixed-income non-profit and co-op housing models. These community-based programs were delivered under a variety of government-supported housing programs designed to respond to supply pressures and affordability. These programs typically involved funding on a cost-shared basis between the Federal and Provincial governments and included some combination of capital grants, favourable financing, or on-going operating subsidy. Most of the developments created

[26] CMHC Annual Report 1967, CMHC 1968, p. 5
[27] CMHC Annual Report 1972, p.9

under these programs were targeted to low income households unable to find housing in the private rental market and who were in need of housing assistance.[28]

- The shift from the public housing model to a non-profit and co-op housing delivery model was the results of findings documented through the Hellyer Commission (1973) which observed that community-based housing providers such as non-profit housing societies were more cost effective, in terms of both construction and operation, when compared with the larger institutional model of a public housing authority.[29] Figure 8 shows the increase in the inventory of social housing units in Vancouver from 1961 to 2006.

Figure 8. Inventory of Social Housing Units



The Third Period (1986 to present) – While the Federal government continued to add incremental supply through different social housing programs, by 1982, the Federal government had eliminated the incentives and tax provisions introduced in the mid-1970's to support new rental housing construction. This included a reclassification of rental operations to a status of "passive income," changes in the CCA provisions or amount of depreciation allowed for rental housing assets and other assets, and less favourable treatment in the deductibility of "soft costs".

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[28] A limited number of programs were introduced during this period which focused on income and social mix as a priority. These included a number of co-op housing developments with a mix of households (some receiving rent-geared-to-income assistance and some paying a low end of market rent).

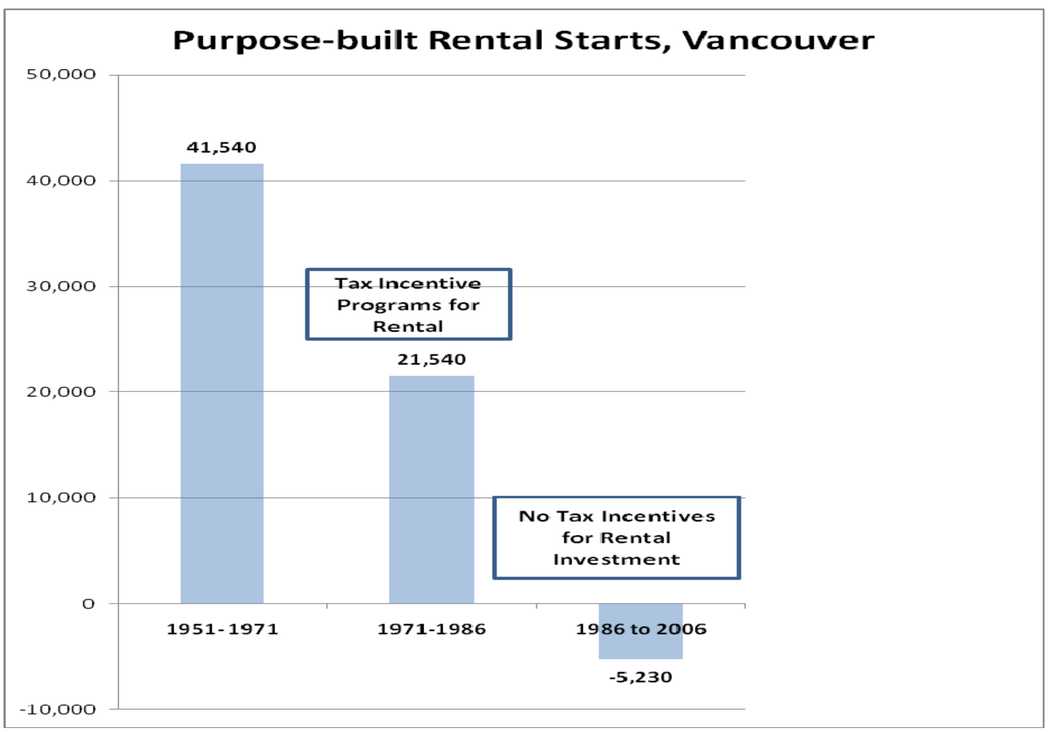
[29] Task force on Housing and Urban Development, Paul Hellyer Commissioner, 1968-1969, see Canadian Housing policies, Alan Rose, p. 43.

As well, the previous era had experienced the introduction of a capital gains tax on rental housing assets (1971) as part of the "Benson budget". All of these changes, combined with the general macro-economic climate at the time (rising deficits, increased taxes, and inflation) and a growth in competing savings and investment products, had a dampening effect on new rental housing investment.

The unique capital gains exemption for owner-occupied (principal) residences combined with the advent of strata-title condominium tenure created a structural tax disparity between multi-family rental and multi-family condominium creation. The tax-exempt use, owner-occupied condominium units, has an advantage over rental use and consistently out-bid rental in the marketplace for multi-family development sites. Consequently, this disparity in tax treatment has skewed the market to ownership to the detriment of the rental sector.

Figure 9 shows the different eras outlined in this section and the net impact in terms of the overall rental supply.

Figure 9. Purpose-Built Rental Starts, Net of Demolitions & Conversions



Many of these changes have lingered today. As shown in Table 11, over the last decade housing starts in Vancouver have been strong, adding 41,500 new dwelling units (an average of 4,150 units per year). However, the majority of these have been in the form of ownership supply. Approximately 32,000 (77%) housing starts were strata condominium apartment units and only 5,600 were new rental starts, some of which were condominiums operated as rentals and therefore at risk of conversion.

Table 11. Vancouver CMA Housing Starts

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
New Starts											
Construction											
Total Starts - CMA	8,677	8,203	10,862	13,197	15,626	19,430	18,914	18,705	20,736	19,591	153,941
Total Starts - Municipality	3,258	2,738	4,574	4,191	4,571	5,715	4,155	3,534	4,087	4,670	41,493
Housing Starts by Type											
Single Detached	508	514	661	791	711	853	554	812	512	638	6,554
Semi-Detached	66	98	82	120	136	126	134	108	104	141	1,115
Row House	93	87	133	199	264	239	250	210	170	204	1,849
Apartment and other	2,591	2,039	3,698	3,081	3,460	4,497	3,217	2,404	3,301	3,687	31,975
Rental Market Data											
Rental Housing Starts - CMA	988	1,145	2,721	1,302	944	746	586	509	615	748	10,304
Rental Housing Starts - Municipality	812	663	2,048	590	345	367	126	244	139	269	5,603

Source: CMHC Housing Now

At the same time, data published by CMHC as part of their annual Rental Market Report shows a decline in the number of new purpose-built rental housing units between 1999 and 2009. The total stock in the city fell from 56,200 units in 1999 to 54,810 units in 2009. This represents a net loss of 1,390 purpose-built rental housing units or about 2.5% of the stock. The net loss figure is important in that it masks the loss of the older, more affordable rental housing stock.

Table 12. Apartment Inventory

Number of Apartment Units	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Apartment Universe - CMA	107,216	106,879	106,716	106,474	107,491	106,257	106,665	104,952	104,315	103,300	
Apartment Universe - Vancouver	56,200	55,733	55,613	55,685	57,002	56,439	56,338	55,276	55,042	54,442	
Rental Housing Starts	812	663	2,048	590	345	367	126	244	139	269	5603
Rental Housing Losses	500	1130	2168	518	-972	930	227	1306	373	869	7049
Net Gain (Loss)	312	-467	-120	72	1317	-563	-101	-1062	-234	-600	-1446
Net Inv. Change %	-0.6%	-0.8%	-0.2%	0.1%	2.4%	-1.0%	-0.2%	-1.9%	-0.4%	-1.1%	-3.7%

Source: CMHC Data.

The net effect has been a slow erosion in the number of new purpose-built rental housing and on-going affordability pressures, including a high number of renter households in core housing need.

SECTION 2: OVERVIEW OF THE SPECIALIZED STUDIES

Study 1: RENTAL HOUSING DEMAND AND SUPPLY *(Will Dunning)*

Key Elements

This study examined existing and emerging pressures in Vancouver's rental housing market looking at the characteristics of renter households, changes in the rental market and the factors influencing core housing. The study assessed the demand for rental housing and the housing choices available to Vancouver households, particularly in terms of on-going affordability. Using demographic models, the study projected potential requirements for additional rental housing and possible changes in core need to 2021.

Summary of Key Findings:

- Vancouver faces significant and on-going affordability pressures including a shortage of housing that is affordable for households with low and low-to-moderate incomes. Lack of rental supply is a key pressure point in the city's rental market, reflected in high rent levels and vacancy rates that have averaged 0.9% over the last thirty years.
- There are 35,160 renter households in core housing need in Vancouver, including 14,220 that are in need and spending at least half of their income on their housing costs.
- Different households experience affordability pressures in different ways, making it important for the City to consider a range of strategies to promote a diversity of housing choices.
- Population growth will require new rental housing. Although rental demand is likely to increase at a slower rate than in the past, the projections indicate that there will be an average annual demand for 1,000 to 1,500 additional rental units between 2006 and 2021.
- The limited levels of new rental housing construction and on-going tight rental market conditions will continue to affect affordability over the longer term. All of the scenarios used to project core need indicate that the number of renters in core housing need will increase over the period.

Analysis of Findings

a. Vancouver faces significant and on-going affordability pressures

Over 35,000 (30%) renter households in the city are in core housing need, and 40% of those (representing over one in ten of all renter households) spend at least half of their income on their housing costs. The city accounts for 44% of the region's core need renter households, and one in four of all renter households in core need province-wide live in the city.

Table 13. Number of Households in Core Housing Need in 2006 by Housing Tenure

	Number (%) in Core Housing Need		
	Owned	Rented	Total
Vancouver City	12,420 (11%)	35,160 (30%)	47,580 (21%)
Rest of CMA	37,360 (10%)	44,205 (32%)	81,565 (16%)
Vancouver CMA	49,780 (10%)	79,365 (31%)	129,145 (17%)
British Columbia	88,335 (8%)	133,140 (30%)	221,475 (15%)
Canada	512,645 (6%)	981,755 (27%)	1,494,395 (13%)
Source: CMHC (Census-based housing indicators and data)			

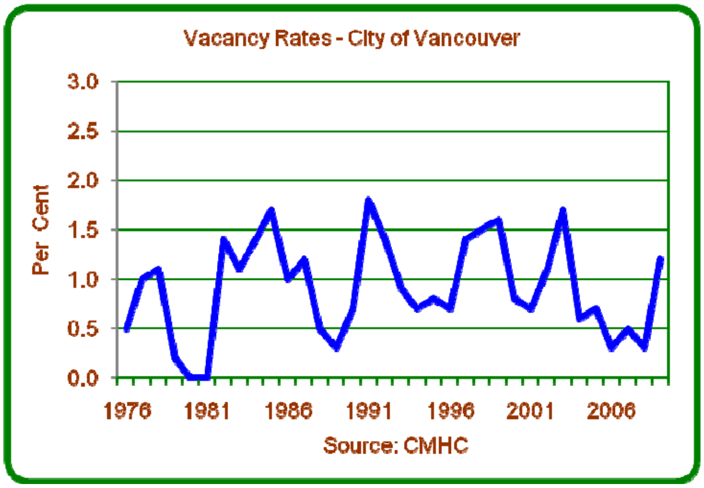
Among the renter households in core housing need, approximately 13,065 (37%) were family households while approximately 22,095 (63%) were single person households (both senior and non-senior households). The high prevalence of single person households in core housing need reflects some of the general pressures in the Vancouver housing market, including the challenges faced by households relying on a single income. Among the family households in core housing need, approximately 31% were single parent family households.

Table 14. Profile of Renter Households in Core Housing Need

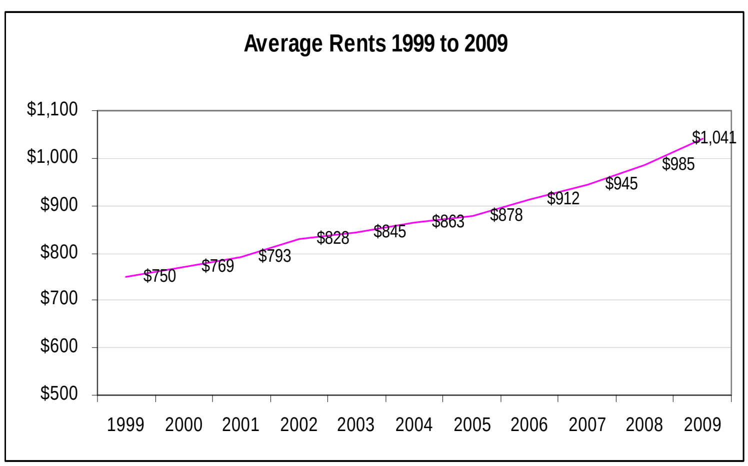
Household Type	No. of Households	%
2 Parent Families (no children)	3,675	10%
2 Parent Families (with children)	4,220	12%
Single Parent Families	4,145	12%
Other Family Households	1,025	3%
Singles	22,095	63%
Total Renters in Core Need	35,160	100%

b. Lack of supply is a key pressure in the Vancouver rental market

Vancouver has one of the tightest rental markets in Canada, with vacancy rates averaging less than 1% between 1976 and 2009, as reported by CMHC. The most recent rental market data (December 2009) shows a vacancy rate of 1.2%.



Average rent in Vancouver has continued to increase, from $750 in 1999 to $1,041 in 2009, an increase of almost 40%. This is almost double the rate of inflation reported over the same period and is significantly higher than the increase in incomes reported during the same period.



c. The income side of the equation

Table 15 shows the change in average incomes reported for both renters and owners from 2000 to 2005, taking into account inflation. As shown in Table 14, there is a growing gap between the incomes of renters and owners and greater affordability pressure for renter households.

Table 15. Average Household Income by Housing Tenure, in 2005 Constant Dollars, Vancouver CMA, 2000 and 2005

Housing Tenure	2000	2005	% Change
Renters	$46,232	$44,915	-2.8%
Owners	$86,296	$88,488	2.5%
All Households	$70,654	$73,277	3.7%
Source: Statistics Canada, 2006 Census of Population, Statistics Canada catalogue no. 97-563-XCB2006049; compiled by Will Dunning Inc.			

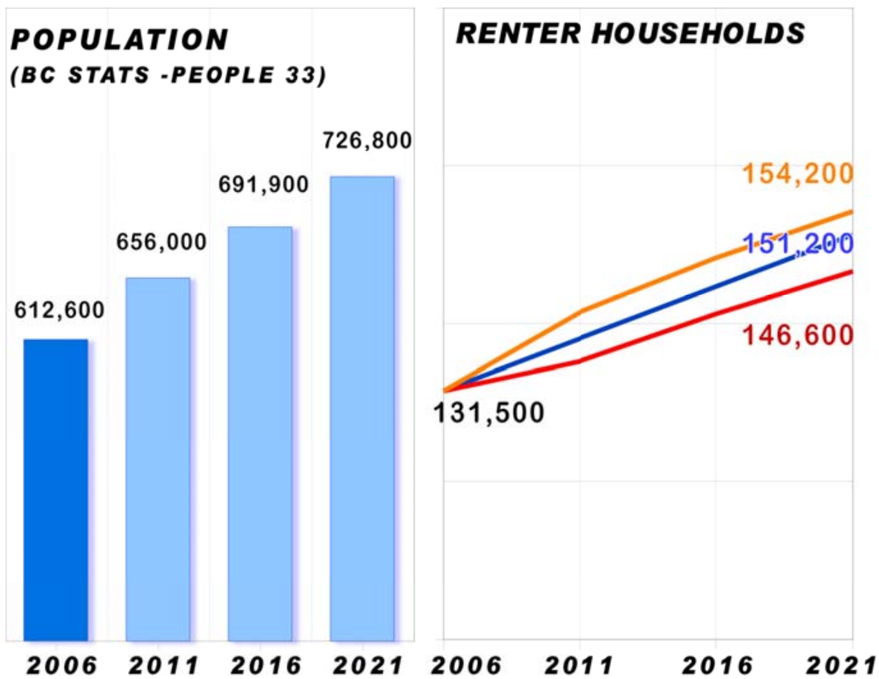
Table 16 shows the income distribution of renters and owners in 2006. More than 50% of households with annual incomes below $50,000, and more than 70% of households with incomes below $30,000 are renters.

Table 16. Income Distribution 2005 - City Renters and Owners

	Total Households	Total Owners	Total Renters	% of Renters
Total - Household income groups	252,060	121,830	130,230	52%
Under $10,000	21,590	5,045	16,545	77%
$10,000 to $19,999	30,950	7,745	23,205	75%
$20,000 to $29,999	26,675	9,945	16,730	63%
$30,000 to $39,999	27,990	10,860	17,130	61%
$40,000 to $49,999	24,410	10,815	13,595	56%
$50,000 to $59,999	21,470	10,915	10,555	49%
$60,000 to $69,999	17,935	9,265	8,670	48%
$70,000 to $79,999	14,860	8,465	6,395	43%
$80,000 to $89,999	11,820	7,395	4,425	37%
$90,000 to $99,999	9,155	5,895	3,260	36%
$100,000 and over	45,215	35,485	9,730	22%
Median household income $		$ 66,087	$ 34,872	53%
Statistics Canada -97-554-XCB2--6048				

d. The demand for rental housing will continue to increase

Using population projections from BC Stats as the base, the study projects the potential requirements for new housing to 2021. The projection model applies data on housing choices (structural types of dwellings and housing tenures) by age group, to the BC Stats population projections using three different scenarios.



In one scenario, future households are assumed to choose the tenure and types of dwellings in the same way as households did in 2006, producing the highest demand projection of 154,200 rental units in 2021. The second scenario assumes a continuing shift to ownership, and this produces the low projection of 146,600 rental units. In addition to this shift, the third scenario assumes a continuation of the shift away from low-rise housing forms towards apartments (reduced housing affordability is forcing consumers to make compromises).

All of the scenarios suggest that the rental sector will expand more slowly than in the past (and more slowly than the ownership sector), so that rentals may represent a falling share of the city's housing stock in the future. The slower growth in demand for rental housing is partly due to the aging population – older households are more likely to be homeowners. However, all three scenarios indicate demand for additional rental housing in the city – between 1, 000 to 1,500 units a year to 2021.

f. Future Core Need

The study uses a second demographic model to project changes in housing need for the city's renters. Four scenarios are developed, incorporating some of the major demographic and economic forces that are likely to influence future trends for core housing. Two of the scenarios indicate that the number of renter households in core need will increase because of a growing and aging population and increasing rent levels. The other two scenarios are based on the assumption that there are some positive social and demographic forces that will restrain the growth of need.

All the scenarios suggest that the number of renter households in core need will increase between 2006 and 2021. There is already a shortage of rental opportunities for those with modest incomes, and for families. The projections indicate that this situation is likely to worsen.

e. Ownership Options

Table 17 provides some additional information on the role of the ownership market in the city. Median household income for owners in Vancouver in 2006 was approximately $66,000, double the median income for renter households. The median household income for condominium owners was $58,000 - 20% less than that of other owners.

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Table 17. Median Household Income and Ownership, 2006 Census

	Total - Housing tenure	Part of a condominium	Not part of a condominium	Income Distribution of Owners	% of Owners in Condo Units
Total - Household income groups	121830	45605	76220		37%
Under $10,000	5045	2640	2405	4%	52%
$10,000 to $19,999	7745	3500	4240	6%	45%
$20,000 to $29,999	9945	3910	6035	8%	39%
$30,000 to $39,999	10860	4435	6425	9%	41%
$40,000 to $49,999	10815	4390	6425	9%	41%
$50,000 to $59,999	10915	4950	5965	9%	45%
$60,000 to $69,999	9265	3815	5455	8%	41%
$70,000 to $79,999	8465	3240	5235	7%	38%
$80,000 to $89,999	7395	2730	4660	6%	37%
$90,000 to $99,999	5895	2065	3825	5%	35%
$100,000 and over	35485	9935	25550	29%	28%
Median household income $	$ 66,087	$ 57,805	$ 72,198		

It is important to note that the analysis of current market conditions in Part 1 shows that as the cost of ownership continues to rise in Vancouver, a smaller percentage of renter households will be able to move into the ownership market.

Study 2A: PURPOSE-BUILT RENTAL HOUSING – INVENTORY AND RISK ANALYSIS *[Inventory Risk (Coriolis)]*

Key Elements

This study helped to develop a comprehensive database to examine the potential risk of redevelopment within the existing purpose-built market-rental housing stock. This study included the use of data from BC Assessment, CMHC, the 2006 Census, City of Vancouver zoning information as well as housing market and costing data. The study evaluated the development economics and cost profile for new strata condominium tenure relative to maintaining the existing stock as rental. The analysis estimated the potential risk of redevelopment over a ten-year period in the absence of policies, such as the City's current rate of change policy, to restrict the demolition and redevelopment of existing rental buildings.

Summary of Key Findings:

- Vancouver has almost 67,000 market-rental units across 4,900 rental properties/sites.
- In the absence of a policy to prevent the loss of the existing rental housing stock, approximately 7% of Vancouver's rental units are at moderate to high risk of redevelopment over the next ten years.
- The highest concentrations of existing rental housing units are in the West End, Fairview/Kitsilano and Mount Pleasant.
- Approximately 15,000 units are in 3,400 properties with fewer than 10 rental units per building.
- Approximately 52,000 (77%) rental units are concentrated in 1,500 (30%) properties/sites.
- Approximately 44,300 (66%) rental units are in buildings that are 4 storeys or less.
- A relatively small number of buildings (300 buildings, or 6% of all rental properties) are 5 storeys or more. However, these buildings account for about 34% of the total rental inventory.
- The City's RM zoning districts account for about 46,800 (70%) of the rental housing units.
- About 68% of the rental stock is in buildings constructed between 1951 and 1970 (excluding buildings with 10 or fewer units) and much of this is wood-frame.

The research by Coriolis estimates that in the absence of a policy to prevent the loss of the existing rental housing stock, approximately 4,600 units[30] (551 properties) are at moderate to

[30] It is possible that this slightly overstates the number of properties currently at risk as some of these properties will require assembly to be attractive redevelopment candidates in the short term and some may not have the opportunity for assembly due the high value of adjacent buildings.

high risk of redevelopment as of mid-2009. These properties are more valuable as redevelopment sites than under their current use as income producing rental properties. This represents approximately 7% of the existing rental housing stock in the City. Most of the properties at the greatest risk are in the West End or in west side neighbourhoods. Comparatively few are on the east side of Vancouver because market land values for redevelopment sites on the east side are significantly lower.

About 70% of the units at risk of redevelopment are in buildings in one of the City's RM zoning districts. However, this percentage declines dramatically under the existing rate of change policy. In particular, under the current policy only an estimated 1,480 (3%) units are in properties that are financially attractive for redevelopment (almost none of which are in RM zoning districts).

Coriolis noted that the properties at the greatest risk of redevelopment are those currently under-utilized in comparison to their permitted density under existing zoning. If redeveloped, these properties have the potential to increase the housing stock in the City by approximately 7,500 new units – the majority of which are likely to become strata title tenure. If 30% of these units became part of the pool of rental stock (as investor-owned condominium units) then the net loss in rental stock would be approximately 2,345 units, or 51% of the number of units demolished.

If land values for redevelopment sites were to increase at a faster pace than apartment building values, the number of properties at risk of redevelopment would be higher. Based on historical trends in the price of strata units, the cost of construction, and the rental income from apartment units, it is likely that by 2019, the number of purpose-built rental housing units at risk of redevelopment could rise from 4,600 (7% of existing stock) to about 14,200 (21.2%). This includes an increasing number of units in Mount Pleasant, Marpole, and Vancouver's east side.

Analysis of Findings

a. Profile and location of purpose-built housing

The following table summarizes the location and number of rental units currently in Vancouver.[31]

[31] Study 2A Coriolis, page 6

Table 18. Purpose-Built Rental Inventory by Neighbourhood

Neighbourhood	Number of Properties	Share of Total Properties	Total Units	Share of Total Units
Downtown	36	0.7%	2,061	3.1%
West End	435	8.9%	19,984	29.8%
Mount Pleasant/Northeast	1,541	31.4%	13,403	20.0%
Rest of East Side and Marpole	1,066	21.7%	9,582	14.3%
Fairview/Kitsilano	1,528	31.2%	16,438	24.5%
Rest of West Side	296	6.0%	5,498	8.2%
Total	4,902	100.0%	66,966	100.0%

The following map illustrates the distribution of rental units and buildings across Vancouver neighbourhoods.

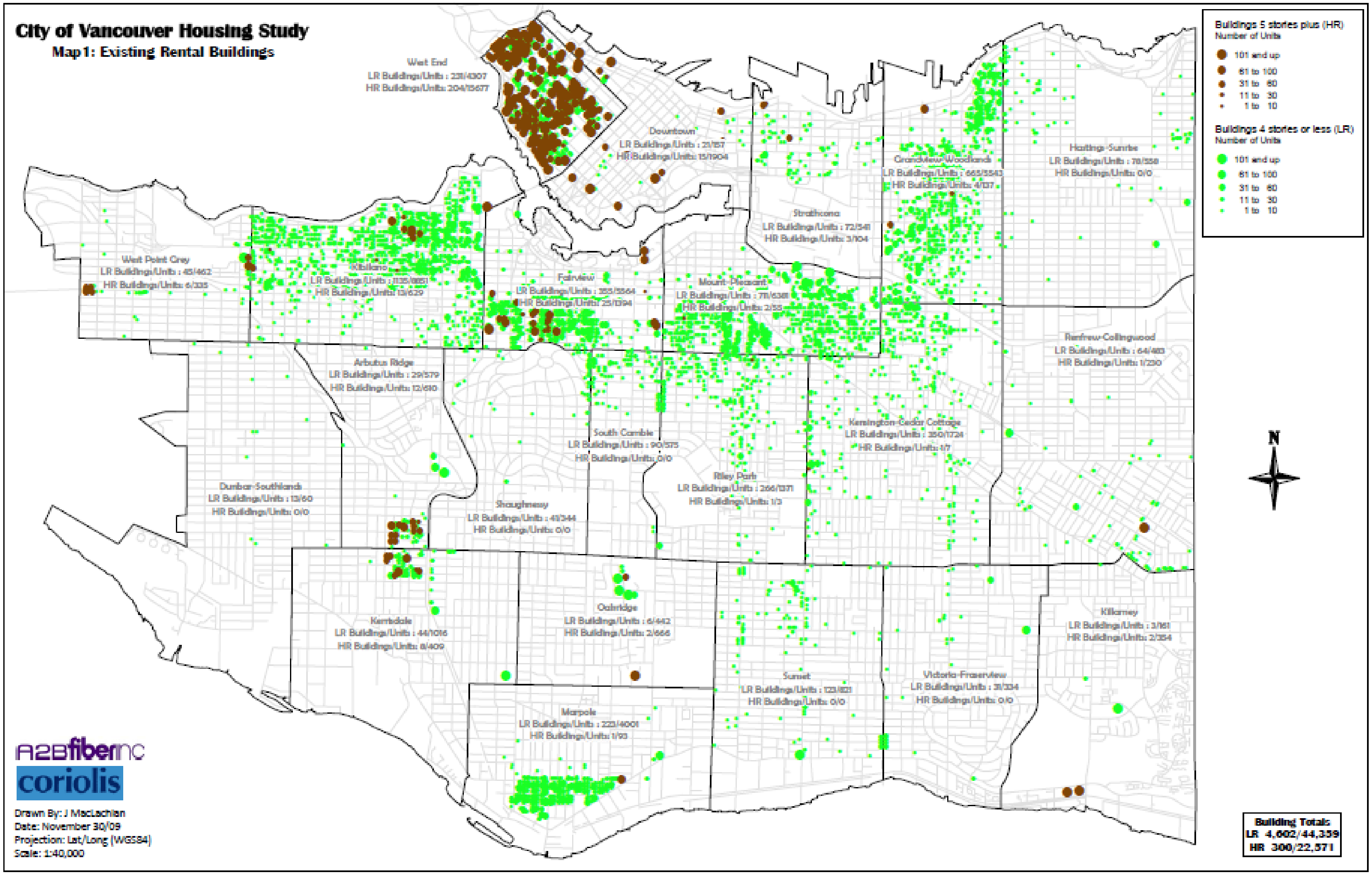


Figure 10. Map of Existing Rental Buildings

b. Modelling the Redevelopment Risk in Existing Purpose-Built Rental Buildings

The risk of redevelopment was determined by establishing the value of an existing rental building as an income-generating asset and comparing this value to the value of a new, usually strata-titled condominium building (assuming that there was no “rate of change” policy constraint). The model estimated the size and unit mix achievable under current interpretations of zoning and related by-laws based on the financial analysis of 23 existing rental buildings across a variety of zones, densities and ages. The research completed by Coriolis Consulting also examined 14 actual rental demolitions to establish reliable indicators of redevelopment risk.

The Coriolis study found that the level of “under-utilization” of a site occupied by a given rental building was the most reliable predictor of redevelopment risk. Based on proforma and demolition analysis, Coriolis computed the ratio of existing to permitted floorspace which indicates the likelihood of redevelopment. These ratios varied by location (because land values and rental building values vary by neighbourhood, zoning, and property size.

c. Estimate of number of rental properties at risk of redevelopment in the short term

As shown in Table 15, approximately 551 of 4,595 (12%) existing rental properties would be at moderate to high risk of redevelopment in the short term, if there were no rate of change provisions. This is approximately 7% of existing rental housing units.

Table 19. Number of Existing Rental Properties at Risk of Redevelopment

	Properties	Units	%
High Risk	249	1,457	2.2%
Moderate Risk	302	3,138	4.7%
Subtotal of Moderate and High Risk	551	4,595	6.9%
Low Risk	4,351	62,371	93.1%
Total Rental Investory	4,902	66,966	100.0%

Taking into consideration the risk indicator of both under-utilization and low improved value, the rate of change policy dramatically reduces the number of RM and FM zoned properties that are at risk of redevelopment. The table below summarizes the impact of the rate of change policy on the base case estimate of the RM and FM zoned properties at risk of redevelopment.

Table 20. RM and FM Properties at Risk of Redevelopment with/without Rate of Change

	Without Rate of Change		With Rate of Change		Decline Without Rate of Change	
	Properties	Units	Properties	Units	Properties	Units
Total	295	3,313	22	101	272	3,112

If the impact of the rate of change policy is taken into account, the base case estimate of the total inventory of existing units at risk of redevelopment decreases from 4,595 units in all zones to approximately 1,483 units (7% to 3% respectively). The number and distribution of rental buildings and units at risk of redevelopment as of mid-2009, assuming no rate of change policy, is illustrated on the following map.

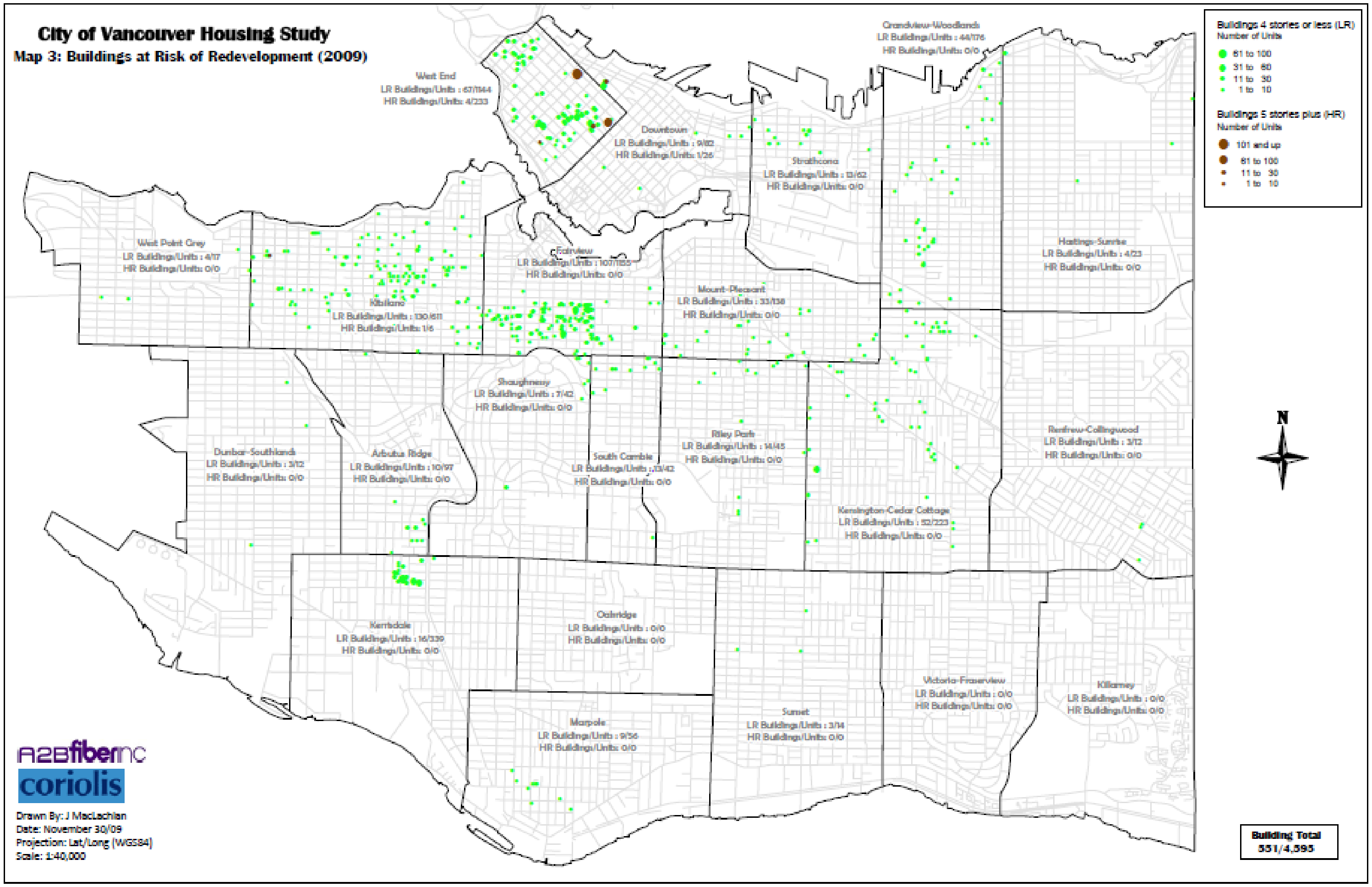


Figure 11. Buildings at Risk of Redevelopment (2009, with no rate of change policy)

Figure 11 details the neighbourhood distribution of the rental units currently at risk of redevelopment (without rate of change restrictions).

Table 21. Summary of the Number of Existing rental Units at Risk of Redevelopment

Exhibit 8b: Summary of the Number of Existing Rental Units at Risk of Redevelopment

	Downtown	West End	Kitsilano and Fairview	Rest of West Side	Mount Pleasant and Northeast	Rest of East Side and Marpole	Total Units
High Risk	61	352	568	122	161	193	1,457
Moderate Risk	47	1,058	1,204	427	242	160	3,138
Subtotal of Moderate and High Risk	*108*	*1,410*	*1,772*	*549*	*403*	*353*	*4,595*
Low Risk	1,953	18,574	14,666	4,949	13,000	9,229	62,371
Total Rental Inventory	2,061	19,984	16,438	5,498	13,403	9,582	66,966

The timing of redevelopment would not be triggered immediately as owners may prefer to retain their property as an income generating asset rather than pay the capital gains tax that would be triggered through the sale or redevelopment of a property. At the same time, it is important to recognize that the economic pressures greatly favour redevelopment once the economic viability of “build new” is established. Experience shows that in Vancouver the pace of development can be very quick, as illustrated by the rapid build-out of neighbourhoods like Kitsilano/Arbutus, Joyce, Collingwood, and the north shore of False Creek.

d. Rental at risk – 10 year projection

Over time, the number of rental properties that are attractive redevelopment candidates will also increase if land values for strata development sites increase at a faster pace than the value of rental apartment buildings. This has been the trend in Vancouver for some time, in part due to rent control restrictions and income constraints on market rental housing. Simultaneously, consistently low interest rates and easy access to mortgage finance has propelled the strata condominium apartment market to significantly escalating prices. The divergence in the values between strata title tenure and market rental is the factor that drives the future redevelopment risk of the purpose-built rental housing stock.

Table 22 shows the number of rental properties and units at risk of redevelopment in 10 years. The number of properties and units at risk is likely to increase from 4,595 in 2009 to approximately 14,224 in 2019. This represents an increase from 7% of the existing inventory of rental housing stock to approximately 21% of all units. Figure 5 shows the distribution of the rental units that are estimated to be at risk by 2019.

Table 22. Number of Existing Rental Properties at Risk of Redevelopment – 10 Year Projection

	Properties	Units
Moderate and High Risk	1,422	14,224
Low Risk	3,450	52,742
Total Rental Inventory	4,902	66,966

As shown in the table below, approximately 11,000 or 77% of units identified as being redevelopment candidates in 2019 are in RM and FM zoning districts. This pattern is similar to the general pattern or base case for the 2009 estimate and is indicative of the type of changes that could be expected in the absence of measures to prevent the loss of stock, such as the rate of change policy that the City currently has in place.

Table 23. Summary of Number of Existing Rental Units at Risk of Redevelopment – 10 Year Projection

	RM and FM Districts	RT, RS, FSD Districts	C Districts	DD and DEOD Districts	Other Districts	Total Units
Moderate and High Risk	11,000	1,068	1,709	390	57	14,224
Low Risk	35,819	7.645	3,146	1,081	5,051	52,742
Total Rental Inventory	46,819	8,713	4,855	1,471	5,108	66,966

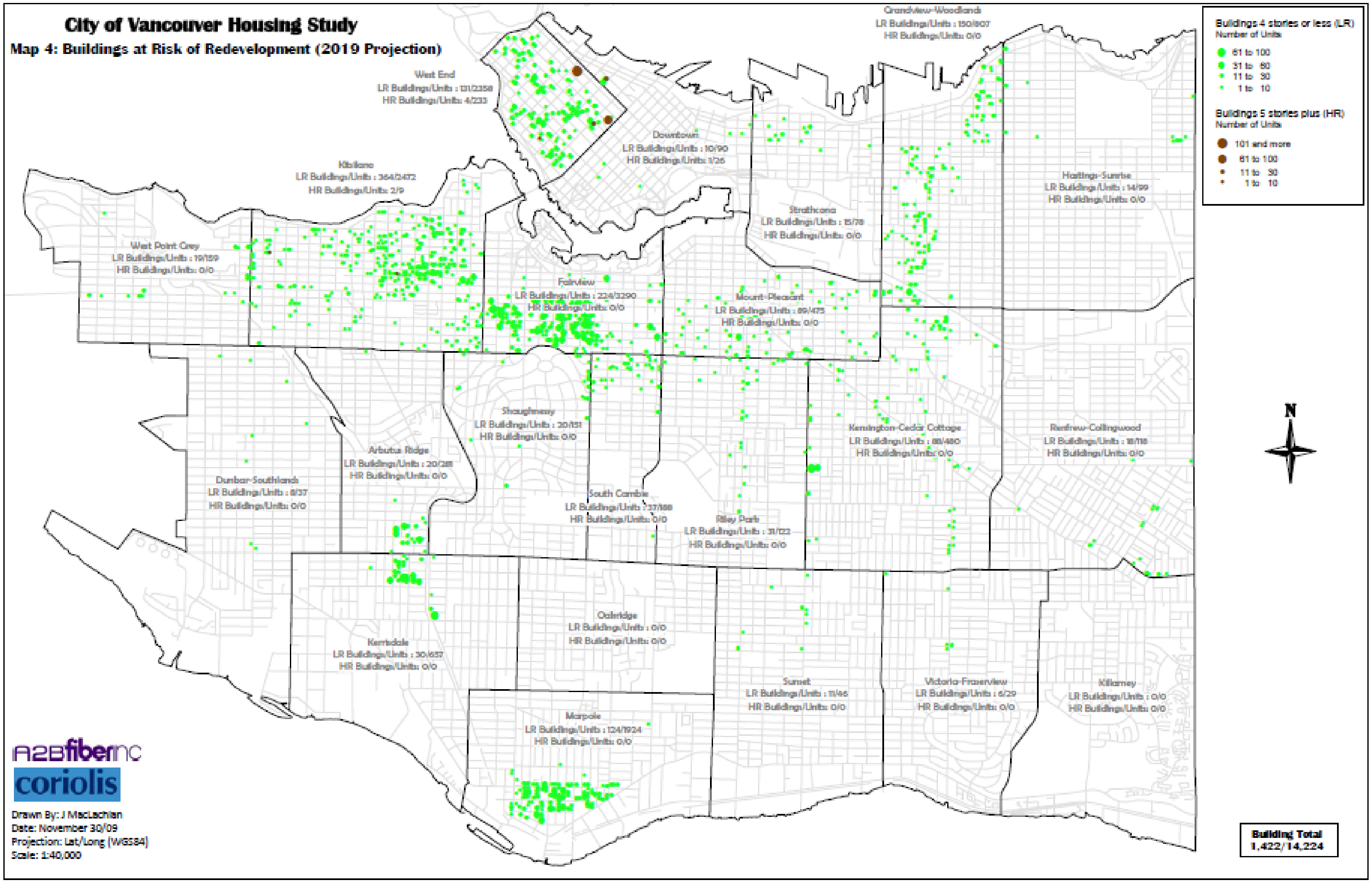


Figure 12. Building at Risk of Redevelopment (2019, with no rate of change policy)

Study 2B: EXISTING PURPOSE-BUILT RENTAL — BUILDING CONDITION AND MAJOR REPAIR REQUIREMENTS *[Building Condition (Altus)]*

Key Elements

This study by the Altus Group assessed the condition of a number of the existing purpose-built rental housing buildings and estimated the funding required to maintain them in fair to good condition. The primary focus of the study was to conduct a physical review of different property types in Vancouver. The study used a case study method to examine 36 rental buildings across different ages, structure types, and neighbourhood locations. Properties were assessed for their general condition and the repairs and maintenance required.

Methodology and Limitations

Using the master database of all the rental properties in Vancouver (4,902 buildings), refined in Study 2A, a list of potential properties was produced. This list was then cross referenced and distributed amongst the partner organisations involved in the Rental Study, such as the BC Apartment Owners and Managers Association in order to refine the list down to approximately 40 specific property addresses. The following sources were used:

- Properties owned by BCAOMA members.
- Properties recently sold or for sale for which information was publicly available.
- Properties known to Altus Group through previous assignments and through internal contacts.

The sample was designed to be representative of the stock of market rental units and attempted to reflect different building types and ages across six Vancouver sub areas. The sample was selected from the database of all purpose-built market rental buildings in order to provide examples of properties with characteristics typical of the categories identified.

If there is any bias in the sample it would be in favour of buildings that are in good condition due to a number of factors:

- Owners of better buildings are more likely to grant access
- Many of the buildings in the sample are members of BCAOMA which are professionally managed
- Properties recently sold are more likely to be in recently improved condition.
- Buildings owned by clients of Altus Group tend to be (though not exclusively) in the higher quality bracket.

No buildings in the sample were found to be in critical condition. However, City inspectors have indicated that apartments managed at the lower end of the spectrum do exist in Vancouver.

In terms of proportion of suites, the Mt Pleasant/North East and Kitsilano/Fairview areas are slightly underrepresented in the sample.

A secondary focus of the study was to determine the number of developments in poor repair or critical condition and estimate the investment required to restore these buildings to fair to good condition. To determine this, Altus Group conducted site inspections and examined major building components such as the roof, heating system(s), common areas, and windows.

Summary of Key Findings

- The study evaluated the physical condition of 36 rental buildings from a range of neighbourhoods, building size, age and type. Of the 36 case study buildings examined by Altus Group 23% were in good condition, 46% in fair condition and 31% in poor condition. No buildings in the sample were found to be in critical condition.[32]
- All of the buildings in the ‘poor’ category are wood-frame buildings (less than four storeys) with the majority built between 1950 to 1970. Concrete high-rise buildings tend to be in the ‘good’ or ‘fair’ category.
- Building condition appears to be linked more to maintenance and repair rather than age. There was a large percentage of older buildings in the ‘fair’ category, indicating that investment in older buildings is occurring, and are not ‘inevitably’ in decline.
- The average cost to maintain the buildings examined in fair to good condition over a ten-year planning horizon would be approximately $1,344 per unit per year (Table 24 below) a range of 0.5% to 1.7% of replacement value.[33]
- Wood frame building in poor condition would cost an average of $2,700 in repairs to bring them up to fair or good condition. Wood frame buildings in good condition would cost between $800 and $1,000 per unit per year.[34]
- The level of investment observed is not likely to lead to an improvement in the rental stock but will at best maintain it at its current standard. There is an accumulating backlog of necessary improvements, particularly in older buildings (e.g. 40 – 60 years old). It is important that appropriate levels of reinvestment in repairs and renewal of major components be undertaken by owners and incentives may be considered to encourage this.

[32] As noted above, if there is a bias in the sample, it will be towards buildings in better condition. A wider sample from different sources may include buildings in this category.
[33] Data extrapolated from Altus 2B replacement costs (Appendix D) and pro forma analysis (Appendix F).
[34] See footnote 35 above.

- Altus concluded that an improved capital planning culture with structured reserve funds aimed at improving the building in the long-term is desirable.

Study 2B suggests that in most of the buildings examined only some components were in need of repair - an outcome that one would expect from an aging rental-housing portfolio. The items found to be most typically deferred include window replacement, re-piping and insulation upgrades.

The study noted that given the age profile of the stock that several of the categories of upgrades (insulation, roofs, windows and boiler replacement) would likely improve the energy performance of the purpose-built rental stock. Specific retrofits or upgrades to improve energy efficiency could generate cost savings. The City may wish to work with building owners and operators to explore programs or incentives to help enhance energy performance as a way of improving the overall operating cost profile.[35]

Altus prepared a ten-year projection of building repair and maintenance costs for twelve principle building components (e.g. roofs, plumbing, widows, etc.) for each of the 36 study buildings. McClanaghan & Associates used these data and estimates to determine the investment requirements (sustaining capital) needed to maintain or restore these sample buildings to good condition. McClanaghan & Associates utilised the results of Study 2C (Investment Climate of Purpose-Built Rental) to assess whether these sustaining capital needs were supported by building cash flows or access to capital to finance major repairs or maintenance.

Synthesis Analysis of Building Condition (Study 2B) & Financial Capacity (Study 2C) by McClanaghan & Associates

The Altus building condition research and data (Study 2B) was used a the basis for an assessment by McClanaghan & Associates to estimate the sustaining capital investment required to maintain the existing rental stock in acceptable condition (fair to good). To provide the financial and investment context for the cost of maintaining the purpose-built rental stock McClanaghan & Associates relied on the findings and observations of the Altus Study 2C.

35 If compulsory upgrades are mandated then it may render owners ineligible for current BC Hydro, Terasen, and government energy conservation programs. Moreover, a significant shift in the code requirements could distort the economics of rental operations and should only be considered after a cost benefit analysis, identification of adequate financing mechanisms and amelioration of attendant cost pressures on rental rates.

a. General condition of the existing purpose-built rental housing stock
The sample of buildings surveyed included 12 concrete buildings and 24 wood-frame buildings. Altus Group used a "Facility Condition Index" to determine the general condition of each building. From the sample of 36 buildings, 23% were observed to be in good condition, 46% were in fair condition, 31% are in poor condition, and none were found to be in critical condition. Based on the sample and we if group 'good' and 'fair' condition to mean 'sound' a large proportion of rental housing in Vancouver appears to be in relatively sound condition, not withstanding its age.

Altus Group then calculated the estimated level of repairs and maintenance required over the next ten years, relative to the replacement cost of the building. Buildings were considered to be in good condition if the repairs/maintenance expenditures were less than 5% of the replacement cost. in fair condition if expenditures were between 6% and 14% of replacement costs; in poor condition if expenditures were between 15% and 30% of replacement cost; and in critical condition if expenditures were in excess of 30% of replacement cost. To determine the potential implications of these measures for the building owner/operator, it is necessary to determine the amount of capital required to return the building to fair to good condition.

Table 24 shows the estimated annual average cost of repairs across the sample of buildings average over the ten-year planning horizon used by Altus in the building condition survey.

Table 24. Property Sample by Condition and Structure Type[36]

	#	ave. age	Replacement cost / unit	Repair & Mantenance per year	R&M as % of Replacement cost
Wood - Good	2	67.0	$148,889	$693	0.5%
Concrete - Good	5	5.0	$289,123	$780	0.3%
Wood - Fair	10	43.0	$152,898	$1,559	1.0%
Concrete - Fair	7	44.0	$195,999	$1,537	0.8%
Wood - Poor	12	51.5	$130,902	$2,267	1.7%
Total sample	36	42.1	$213,822	$1,344	0.6%

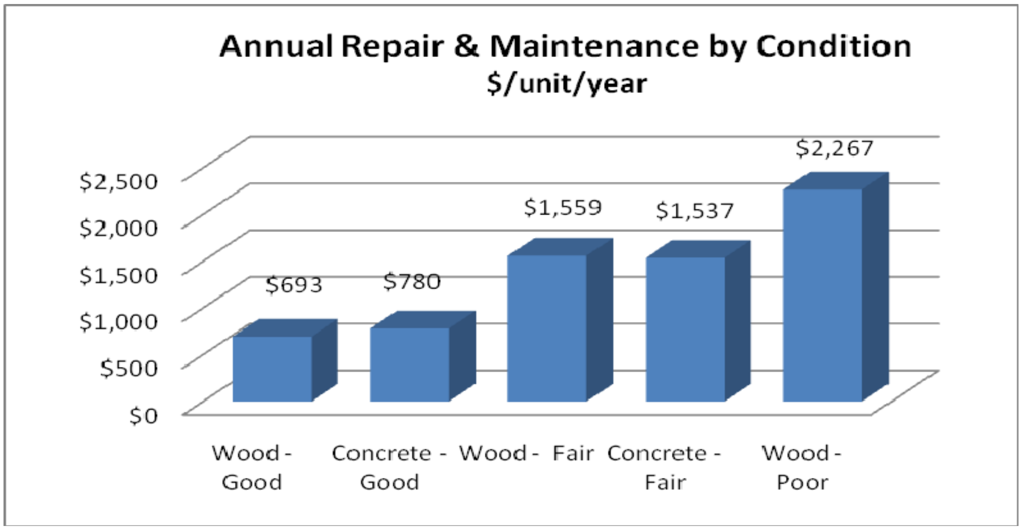
The average wood-frame structure requires an estimated annual investment of $690 per suite per year to maintain if it is currently in good condition. If the wood-frame building is in fair condition, then the average annual cost to restore the building to good condition and maintain the building is approximately $1,560 per unit. For concrete structures, the typical cost per suite of

[36] Data extrapolated from Altus 2B replacement costs (Appendix D) and pro forma analysis (Appendix F).

units currently in good condition requires average annual maintenance expenditure of $780. To improve concrete structures from fair to good condition and to provide ongoing maintenance requires an annual expenditure $1,540 per unit.

Figure 13 below illustrates the incremental increase in investment required[37]:

Figure 13. Annual Repair and Maintenance by Condition

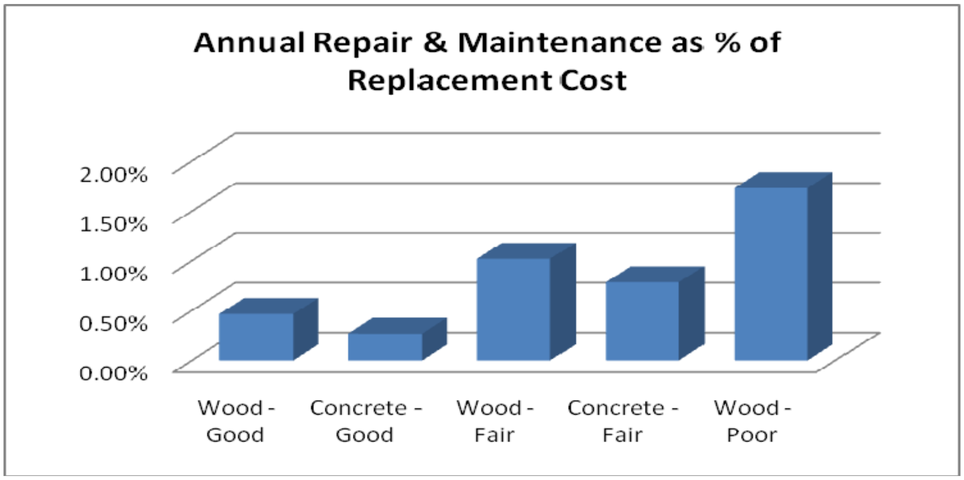


b. Sustaining capital requirements – financial capacity

To provide a financial context to the sustaining capital requirements, this study estimated the cost to bring an existing rental unit up to fair or good condition. As shown in Figure 14 the range of annual expenditure relative to the estimated replacement cost was 0.4% to 1.5%. Most of the building owners interviewed do not maintain a formal replacement reserve account for the repair or replacement of major capital items. Rather, they replace the various components on an as-needed basis either through the existing cash flow or through financing. In contrast, in the non-market housing portfolio, housing providers are typically required to set aside a reserve of approximately 1% of replacement cost per year - an amount that is reasonably aligned with the general cost estimate prepared by Altus.

[37] Expenditures are treated on a cash flow basis and not differentiated by the accounting distinction between capital cost (extending the life of the building) and repair (maintaining the quality of the building over the life span (and thus an expense item).

Figure 14. Annual Repair and Maintenance as % of Replacement Cost



Other measures that are relevant to the current operating/financial context for the existing purpose-built rental housing stock are:

- The estimated repair and maintenance costs relative to annual rent revenues -a measure of the cash flow capacity; and
- The estimated impact on the Internal Rate of Return (IRR) on investment of buildings in poor repair; and

The analysis of the sustaining capital requirements indicates that:

- On average, approximately 11.2% of rental revenues should be allocated to repairs and maintenance within the existing purpose-built rental housing stock; and
- For wood-frame developments in fair condition, this increases to approximately 13.3% of annual rental revenues, and for those in poor repair, to 20.8%.[38]

For the buildings examined, it appears they have the financial capacity to maintain and restore buildings using available cash flow. The Altus Study 2B surveyed owners regarding borrowing intentions and access to mortgage financing. The Altus Group interviewed a small sample of owners, lenders, and other stakeholders to determine the relative ease of access to mortgage financing. Only five respondents interviewed responded to the question of finance availability; with 80% of respondents indicated that it was "fairly easy" or "moderately easy" to obtain

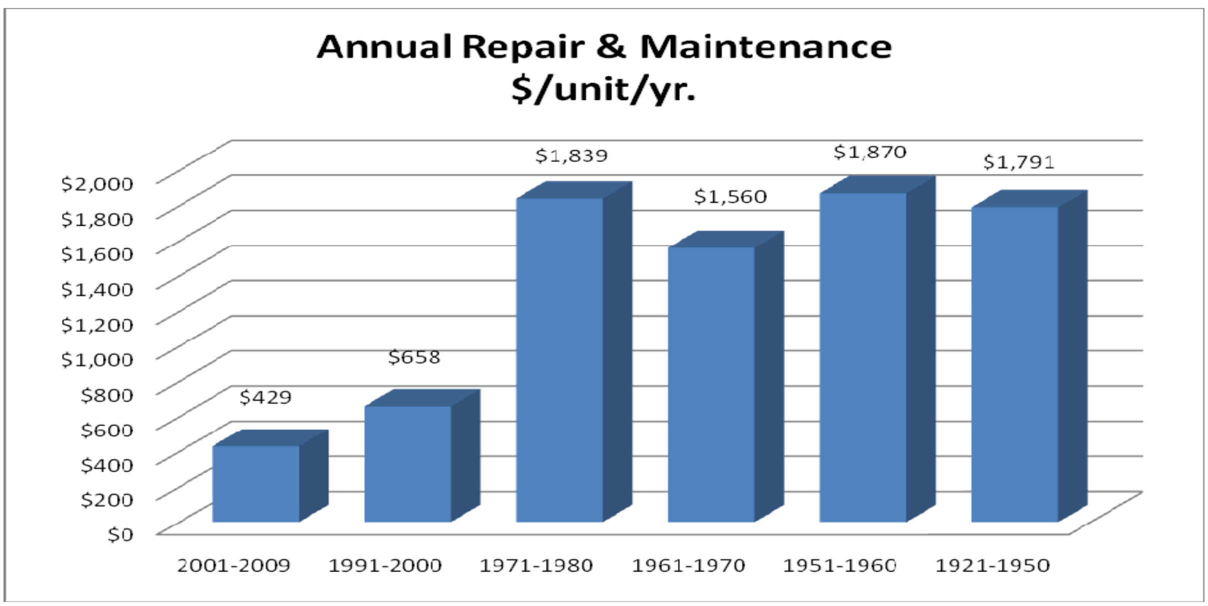
[38] Revenues are based on the CMHC Rental Survey, City of Vancouver by neighbourhood zone [as cited in *Rental Need and Demand (Dunning),* p.79].

financing for major repairs.[39] No respondents reported difficulty in obtaining financing for major repairs. Approximately 89% also reported that it was "easy" or "fairly easy" to access CMHC financing for building purchases, although some found the underwriting criteria stricter than they would like.

c. Building condition by age and structure type

The Altus Group also considered the general pattern of sustaining capital required by building age and structure type. Figure 15 shows the average repair cost per unit for buildings (both wood-frame and concrete) by period of construction. This takes into account the estimated average annual expenditure based on a ten-year planning horizon and includes a blended estimate for both wood-frame and concrete structures.

Figure 15. Annual Repair and Maintenance - Wood Frame and Concrete Construction

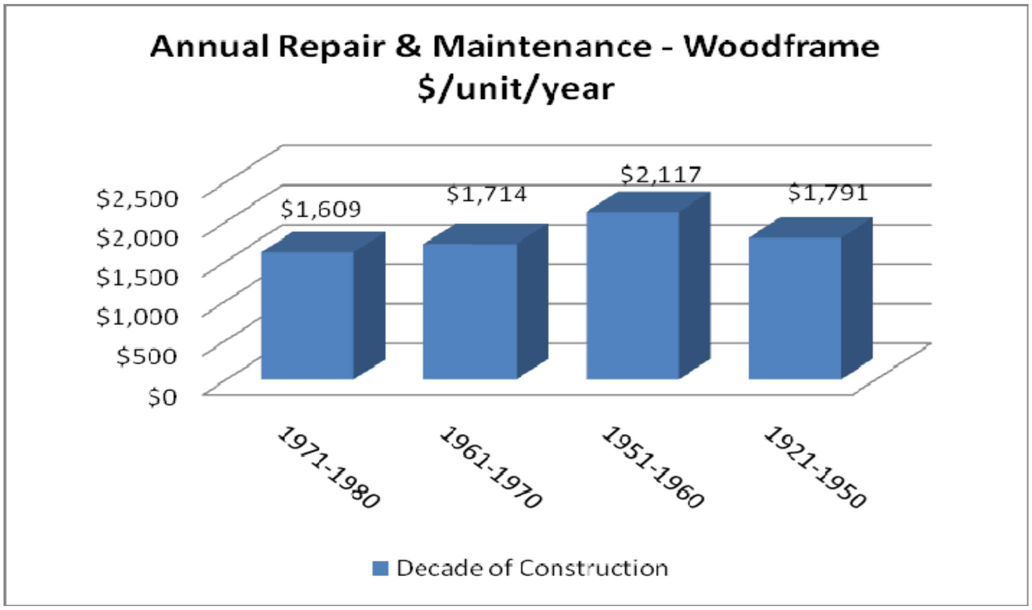


The estimated cost of repair and maintenance across the 24 wood-frame buildings sampled provides the following estimate of annual expenditure on a ten-year planning horizon. The lack

[39] reference

of variation between different categories of buildings shows that with regular maintenance Vancouver's rental stock can last a long time.

Figure 16. Annual Repair and Maintenance - Wood Frame Construction



Study 2C: PURPOSE BUILT RENTAL – INVESTMENT CLIMATE FOR EXISTING STOCK

[Investment Climate (Altus)]

Key Elements

This study examined the investment climate and the financial health of purpose-built rental housing in Vancouver. Altus analyzed recent sales transactions and market data and modelled different financial scenarios for typical rental buildings, including the expected rate of return and the capacity of the sector to meet ongoing repair and maintenance requirements. The study also included feedback from key stakeholders and stakeholder groups, including building owners and operators, CMHC, lenders, and brokers.

The financial analysis examined investment yields by reviewing the internal rate of return (IRR) over a 20-year planning horizon. It also examined the effect of current income tax provisions and requirements to gain a better understanding of the impact that changes to the current tax regime could have. Materials prepared by the Apartment Owners Association and other industry groups seeking federal tax reforms helped to identify the provisions modelled. The study also assessed the potential financial impact of the City's current rate of change policy.

Summary of Key Findings:

- The current level of investment in the existing stock of rental housing in Vancouver is strong, with a high volume of transactions (good liquidity) and strong demand (low cap rates).
- Investment returns have been significant through appreciation in the value of existing rental assets. The average selling price for a rental building in the City of Vancouver increased from approximately $100,000 per unit in 1999 to approximately $200,000 in 2008[40].
- From 1998 to 2008, the reported rents typically exceeded the consumer price index but were within the CPI plus 2% guideline allowed through the Province's Residential Tenancy Act
- The majority of purchasers are private domestic investors – most hold the property for between 10 to 20 years.
- An analysis of three typical investment properties showed an expected return to investors over a 20 year period. Although hypothetical, the results indicate an internal rate of return on equity of between 6% to 7% after financing and income tax.

Analysis of Findings

- Table 25 below summarizes some of the key indicators of financial health examined as part of this study.

[40] These averages may mask a cohort of distressed or neglected properties.

Table 25. Purpose-Built Rental Inventory – Investment Climate Indicators

Investment Climate - Indicators (1999 to 2008) source: *Investment Climate (Altus)*

	Study Finding	Comment		Page
Transaction Volumes	- 873 properties valued at $2 billion over 10 years (e.g. annual turnover of 2% of stock)	- demonstrates good liquidity in market. Sales volumes declined in 2008 and 2009 from the peak in 2007.	**Good Liquidity**	p. 4
Trend on Value per Unit	- Increase from $100,000 per unit to almost $200,000 between 1999 and 2008	- demonstrates strong investment demand	**Strong Demand**	p. 5
Access to Purchase Finance	- Survey respondents indicate financing rarely a barrier to sale	- finance sector routinely underwrites purchase loans, although some borrowers report restrictive terms	**Good access to Credit**	p.6
Holding Period	- Sales data indicate average holding period over 12 years and buyer survey indicates 69% plan to hold over 10 years	- market reveals that rental assets viewed as long-term stable investments	**Sound, long-term investments**	p. 19
Vacancy rates	- Vacancy rates ranged from 0.3% to 1.7% and generally 0.3% to 0.7% lower than the Vancouver CMA	- reflects limited supply and strong rental demand conditions	**High Demand**	p. 31
Rental rates	- Rental increases of 2.82% p.a. (1999 to 2008) exceeds CPI by 1% - Rental increases average 1% below rent control ceiling	- indicates a degree of pricing power although operating cost profile may exceed CPI index of costs - many factors affect rents	**Strong Demand by Investors**	p.5 p. 5
Yield on Investment (Capitalization rate)	- Average cap rate has improved from 6.5% in 2000 to 4.5% in 2009	- Estimated Internal Rate of Return model is consistent with Cap Rate findings	**Sound cash flow, Strong demand**	p. 25 p. 7, p. 40
Comparative Cap Rates	- Rental investments command a lower cap rate (5.3 % in Q4 2009) vs. office at an 8.0% cap and retail at 8.5%	- shows the comparative strength of this investment sector.	**Strong Investment Demand**	p. 64
City's Rate of Change Impact on Values	- Majority of industry respondents (73%) felt the values not adversely affected	- indicates rental assets primarily viewed as long-term cash flow assets not redevelopment holdings	**Tend to Diminish Capital Gains**	p. 6
HST Impacts	- Rent revenues are at a structural disadvantage by not being zero-rated for GST. HST as proposed will also adversely affect the sector	- unless rental is zero rated or equivalent the sector will be at a significant disadvantage	**Risk of Adverse Tax Impact**	see p. _ of Synthesis Report

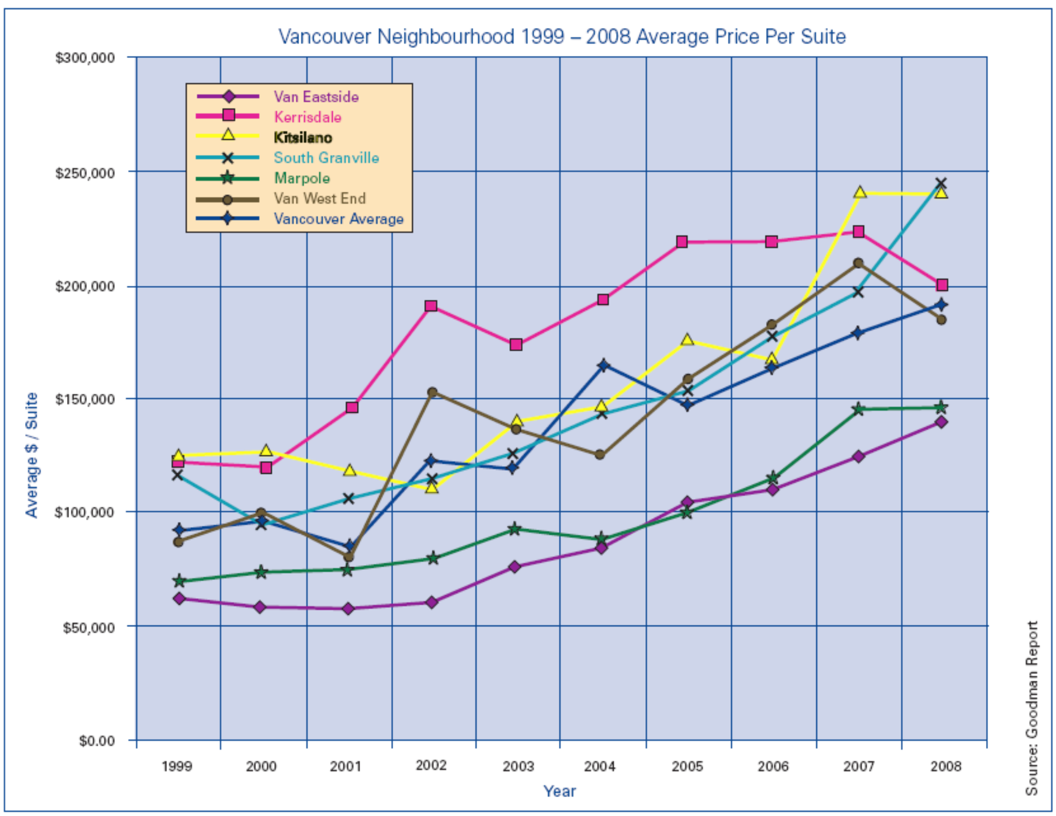
a. Level of investment in rental housing

Between 2001 and 2009, more than 870 rental properties were sold in Vancouver, worth approximately $2 billion. Annual sales volumes peaked in 2006 at almost $350 million. In 2008, transaction volumes were approximately 30% lower than 2007, a pattern observed across the entire real estate sector. By 2009, the pattern had started to reverse but the rental sector has generally lagged behind the single detached and condominium markets. This is likely a cyclical effect of uncertain capital markets, overall investor confidence, and debt market and underwriting conditions.

b. Changes in Average Selling Prices (Per Unit)

From 2000 to 2008, market values have generally been increasing. Over the past 10 years, the average price per unit for rental housing stock has more than doubled –from under $100,000 per unit in 1999 to almost $200,000 in 2008.

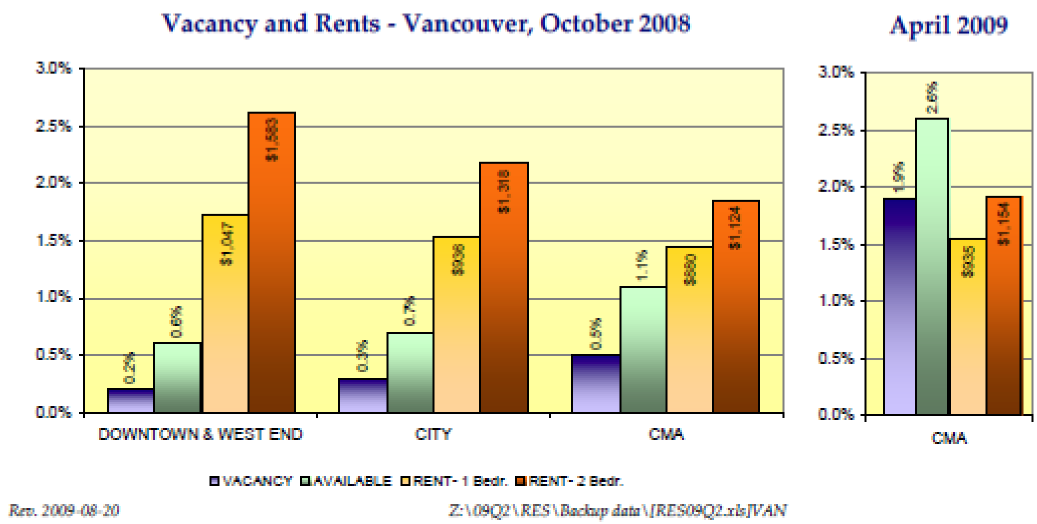
Figure 17. Average Price Per Unit



c. Rent levels and vacancy rates

The Altus Group also examined changes in average rent levels and average vacancy rates. For the period from 1998 to 2008, average rents across key Vancouver neighbourhoods increased by between1% to 3.3% per annum with an overall average increase of 2.8%.[41] The reported increases in rents typically exceeded the consumer price index by approximately 1%[42] but were within the "CPI plus 2%" guideline increases allowed through the Province's *Residential Tenancy Act.* Vacancy rates in Vancouver remain low relative to the rest of the Metro Vancouver region and the rest of Canada.

Figure 18. Vacancy and Rents



Source: CMHC Rental Market Report - CMA, Housing Information Monthly and Housing Market Outlook

d. Investor feedback and management issues

The Altus Group completed a survey of owners, investors and property managers to determine some of their underlying motivations and factors governing their investment decisions. As well, Altus Group conducted 22 structured interviews with representatives from housing finance sector (lenders, mortgage brokers, insurers) as well as owners and property managers.

[41] This is slightly higher than the average rate of 2.6% for the Vancouver region as a whole.

[42] Although respondents to the questionnaire indicated that the general practice of property owners was to increase rents by the maximum allowed under the legislation (2% points above the CPI) the data does not indicate this to be a universal practice.

General Holding Period

The majority of those surveyed suggested that a typical holding period for a rental housing investment is between 10 to 20 years. A small percentage (just over 25%) identified a shorter holding period (i.e., less than 10 years).

Availability of Financing

Those interviewed indicated that availability of financing is 'rarely' a barrier to sale. In 2008 and 2009, credit market conditions shifted the share of lending/underwriting to CMHC from banks and other lenders. CMHC loans were most prevalent in this market with 86% of respondents indicating that they rely on this form of financing. Always a major player in rental housing finance, CMHC sets a "benchmark" of underwriting standards for its insurance and lending products. Consequently, these policies can influence building owners and operators even if they are accessing the mortgage market without using CMHC.

The sector made several suggestions for relaxing specific conditions related to accessing CMHC financing. In particular, they identified the loan to value ratios required by lenders compared to the more stringent approach to appraised values held by CMHC. Similarly, some noted that banks and trust companies reduced overall lending in 2008 due to global liquidity challenges and unprecedented difficulties with traditional funding sources like commercial paper, mortgage backed securities and investment grade bonds. As the world debt markets recover in 2009 and 2010, it is likely that banks, life insurance companies, credit unions and trust companies have begun to reassert themselves in the rental mortgage market.

Sustaining capital requirements

All of the respondents interviewed were concerned about funding for maintenance of the existing rental housing stock. They believe the quality of the existing rental housing assets will decline without changes to existing regulatory and taxation policies governing rental housing. In particular, approximately 92% of all respondents felt that current policies provide no incentives to undertake capital expenditure.

With regard to access to mortgage capital, Altus Study 2C surveyed owners regarding borrowing intentions and access to mortgage financing but received a low response rate on these questions. Approximately 89% reported that it was "easy" or "fairly easy" to access CMHC financing for building purchases, although some found the underwriting criteria stricter than they would like.

McClanaghan & Associates conducted informal discussions with mortgage lenders, brokers and CMHC staff and none reported a problem for apartment owners in accessing to mortgage finance. The respondents surveyed were larger corporations and did not include smaller owners. The situation for these smaller 'mom and pop' type owners could be different.

f. The Impact of the City's Rate of Change Policy

Altus Group asked respondents about the impact of the City's current rate of change policy. The majority (73%) felt that the introduction of the City's rate of change policy did not have an adverse impact on values. At the same time, approximately 27% indicated that they felt that there were some adverse impacts.

g. Investor characteristics

The Altus Group's review of sales transactions showed that private investors make up the majority of purchasers. Of the 4,097 units sold in 2006-2009, 91.6% were to domestic private investors. The analysis also showed that most investors are incorporated.

h. Term of holding

The feedback to the survey revealed that for the investors surveyed, the typical holding period is between 10-20 years. Approximately 69% of investors indicated that their typical holding period is more than 10 years. The analysis of sales data showed that approximately half of all of the properties sold during the period from 2006 to 2008 (51%) were held for 11 years or more while approximately 36% of the properties had been held for less than 5 years.

i. Expected return on investment

Altus examined the expected returns to investors across typical property types and neighbourhoods. These included purpose-built multi-residential buildings in the Kitsilano neighbourhood (low rise), the Mount Pleasant neighbourhood (low rise) and the West End neighbourhood (high rise). The research assessed rates of return using a multi-year, discounted cash flow approach (expressed as % IRR [Internal Rate of Return]). This approach is more in-depth than a "cap rate" assessment, which is a single-year snapshot. The discounted cash flow approach is valuable for comparing alternative taxation provisions and the impact on profitability.

The analysis identified typical financial parameters such as rents, operating costs, vacancy rates, and capitalization rates based on the analysis of the market transaction data. This baseline was used to determine a hypothetical net operating income and the estimated investment value, representing the assumed initial purchase price. The estimate used a cap rate of 4.5% to 5.0%, depending on the product.

The financial model created a cash flow scenario for each property, including estimates of revenues, expenses, inflation rates, income tax rates (reflecting CCA provisions) and financing. The capital expenditures estimated for the properties in Study 2B were included to reflect the required levels of capital expenditure and maintenance. Although hypothetical, the results of the analysis suggest that there is an internal rate of return (IRR) on equity of between 5.9% and 7.1% after financing and income tax. The unleveraged or pre-tax internal rate of return is in the range of 6.4% to 6.9%. Because the typical parameters for maintenance and repairs are generally below the costs projected in Study 2C, the returns increased slightly, but not more than 0.5%, with the range going from 6.6% to 7.2%. The comparative IRR are as follows:

Table 26. IRR on Prototypical Apartment Buildings

PROTOTYPICAL APARTMENT BUILDINGS - INVESTMENT RETURNS
RENTAL POLICY OPTIONS - SENSITIVTY ANALYSIS

	Sensitivity			
	Base Case	1. 6% CCA	2. No Half Year Rule	3. Remove Capital Gains Tax
1. Low Rise Kitsilano				
Equity Return (After Tax)	5.88%	5.97%	5.98%	6.51%
2. Low Rise Mount Pleasant				
Equity Return (After Tax)	6.20%	6.31%	6.34%	6.83%
3. High Rise West End				
Equity Return (After Tax)	6.66%	6.89%	6.94%	7.45%

j. Capital gains, depreciation and income tax issues

The study evaluated the potential impact of the different capital gains or taxation measures identified by apartment owners. This included provisions related to GST/HST and changes in depreciation rates or CCA provisions (changing CCA rates from 4 to 6% and the elimination of the half-year rule). The study calculated the incremental effects of the changes, including the extent to which they would help to close the financial viability gap for new rental housing construction (modelled by Coriolis Consulting, Study 2D; discussed in the next section).

Study 2D: PURPOSE-BUILT RENTAL HOUSING – ECONOMICS OF NEW SUPPLY
[Economics of New Supply (Coriolis)]

Key Elements

This study examined the financial viability gap between new rental housing supply and strata apartment development, as of mid-2009. Coriolis Consulting used detailed pro-forma based analysis to determine the economic viability of new rental housing construction. This included consideration of the implications of land prices, income tax policy, construction costs, investment terms, rental rates, and interest rate conditions. The analysis also looked at some of the potential measures or incentives that could help to close the financial viability gap and encourage new rental housing production.

The study explicitly focused on the question of whether the observed disadvantage of rental supply versus new strata condominium development is cyclical or temporary in nature and whether there is evidence to suggest that the limited levels of new rental housing production are systemic or structural. The study also looked at the types of policies or actions needed to reverse this trend.

The evaluation approach was comparative, with scenario testing between a rental building and typically a strata-condominium building, on a site-by-site basis. Insofar as many cost factors are the same for both tenure forms, the model reliably measures the relative difference between the two tenures. For instance, there is reasonable alignment between construction costs or land costs for rental or strata title tenure. Similarly, an improvement in interest rates would help to lower the cost profile for both types of tenure (rental or strata titled).

The study found that in most cases, rental housing development could not compete with strata-title tenure and that without specific interventions or incentives new rental housing development is likely to remain at an economic disadvantage when compared with new strata condominium development.[43]

[43] A limited number of rental starts are recorded during periods of falling prices for condo units, primarily by developers who purchased land at the top of the cycle and, in order to minimize losses, build rental units to be subsequently been sold as strata condominiums when market conditions improve. Rental supply as a loss minimization strategy (e.g., sometimes it is the least bad choice compared to all other bad choices) reinforces the conclusion that the financial gap is systemic and not a cyclical phenomenon.

Summary of Key Findings

- In almost every case study completed by Coriolis Consulting, the analysis suggested that the supportable land value from rental housing is greater than zero. Therefore, new rental housing development would be be viable if land acquisition costs were lower.

- The financial feasibility gap between new rental housing construction and strata condominium development ranges from 15% and 25%, depending on the location and form of development.

- The gap is smallest (on a per square foot buildable basis) for wood-frame developments (townhouse and apartment) and larger for concrete developments.

- Competition from strata condominium developments for land means that there are only limited (or no) opportunities for those wishing to build rental housing to acquire residentially zoned sites at prices that make market rental housing viable. The pressures are even greater if one wishes to target rent levels to households with incomes at the mid to lower end of the income range.

Strata titled residential developments support higher land values compared with rental housing developments (based on prevailing market conditions). Therefore, the value supported by the strata title tenure will determine the price for the land (highest and best use).

Analysis of Findings

a. Industry perspectives on rental supply

Coriolis conducted interviews with industry representatives for their views regarding:

- The availability of investment capital for new rental supply;
- The level of interest in new rental housing assets; and
- Constraints on new rental housing investment.

Feedback from the development sector confirmed that in the absence of incentives, it is unlikely that new rental housing development will be financially viable given the achievable rents. Based on the current development economics, the rate of return on investment for new rental housing does not justify the cost and risk involved.

Condominium apartment development has (notwithstanding cyclical downturns) been relatively profitable for the development sector. It provides the ability to move capital from one project to another, resulting in a higher rate of return in the short term when compared with the longer term nature and holding periods for rental housing investment.

Most developers also want to build, sell, and move on to the next project and so they are less interested in holding investment property. Therefore, it is less attractive for developers to build rental housing than to build units for sale on the market.

Pension fund investors who have traditionally been involved in the development of new rental housing assets also indicated that the annual returns on rental housing investment in Vancouver are lower than in other parts of Canada.[44] Nevertheless, the general analysis of the investment climate suggests that Vancouver's rental apartment investors are typically willing to accept lower annual yields in the short-term and that the overall investment return on rental housing assets will likely remain high over the longer term. It is likely that rent revenues and occupancy levels in Vancouver will continue to remain high as strong demand for rental housing is a key driver. The historic data also suggests that the rental housing assets in Vancouver have seen a significant increase in value.

The analysis by Coriolis suggests that the risk of government intervention in the performance of the investment (controls on rent increases, limitations on demolition and redevelopment, policies regarding the displacement of tenants, and limitations on conversion to strata title tenure) can also be a limiting factor in terms of investment in new rental housing assets. In particular, Coriolis notes that constraints on apartment building investor interest leads to constraints on developer interest.

b. Financial viability

Coriolis modeled 19 case study sites for both wood-frame and concrete construction and used this baseline data to evaluate different scenarios. The analysis was used to determine the financial viability gap for new rental housing with the results of the analysis being informed by the results from each of the case study sites evaluated.

[44] As noted in *Investment Climate (Altus)*, Vancouver rental investors are predominately individuals or other non-institutional owners. This comment indicates that strong historic capital appreciation for owners has favoured non-institutional owners since pension funds require a higher rate of cash flow than the current high unit value (low cap rate valuations) evident in the market. This is a sign of a healthy market.

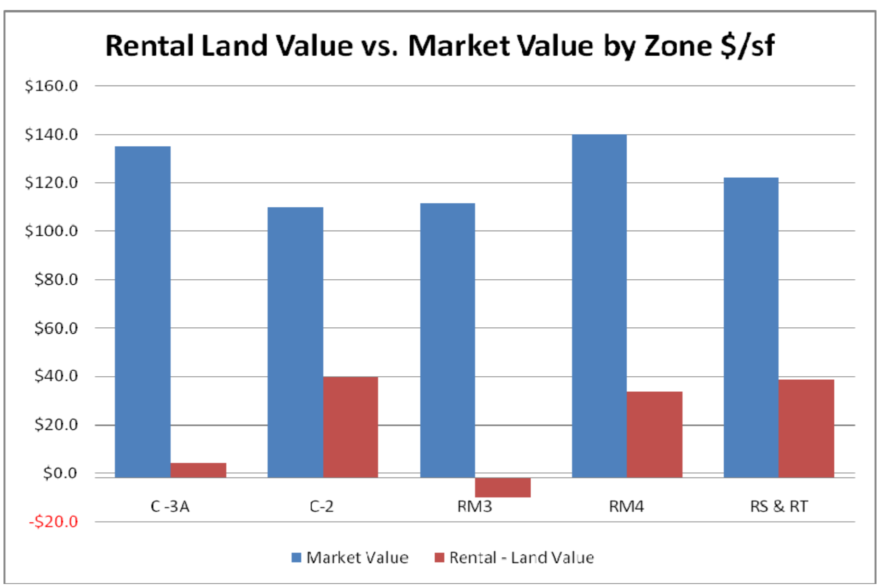
Coriolis expresses the financial viability gap as a deficit per square foot of buildable space (expressed as $/sf) and as a percentage of total project creation costs. The results of the analysis are shown in Table 27. Coriolis estimates that the financial feasibility gap for new rental housing construction is approximately $121.6 per sf on RM3 (apartment) zoned sites and $70 per sf on C-2 (commercial) zoned sites.

Table 27. Summary of Viability Gaps – by Zoning Category and Density

	Zone	Type	Land Value $/sf	Land Value Rental $/sf	Rental Deficit $/sf
Commercial Zones	C -3A	Concrete	$135.11	$4.32	-$130.79
	C-2	Woodframe	$109.90	$39.90	-$70.00
Apartment	RM3	Concrete	$126.00	-$12.00	-$138.00
	RM4	Woodframe	$140.27	$33.62	-$106.65
Residential	RS & RT	Woodframe	$122.08	$38.74	-$83.34

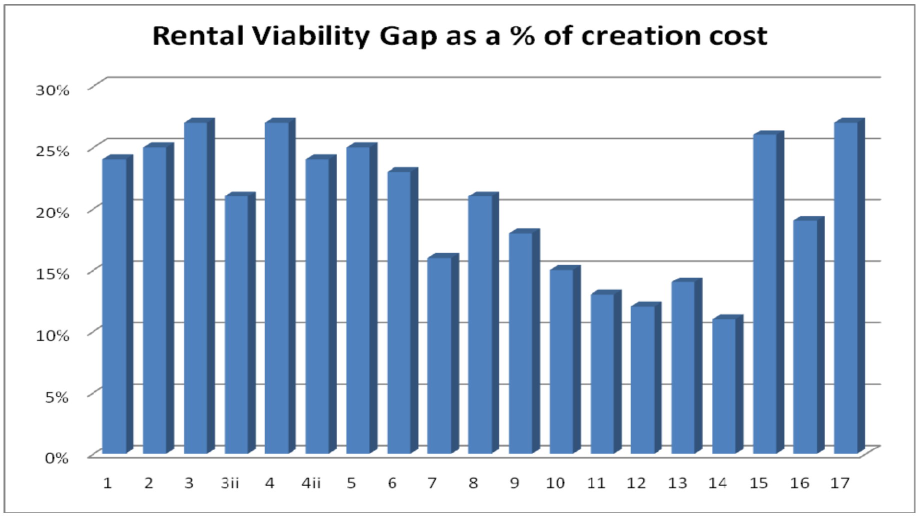
As a percentage of the total estimated capital costs, the overall financial feasibility gap for new rental housing construction is between 12% and 27% of the estimated cost for each of the different case study sites modeled. The following chart compares the market value to the rental value of land for each of the zoning areas examined.

Figure 19. Rental Land Value vs. Market Value



The rental viability gap expressed as a percentage of creation cost is set out below:

Figure 20. Rental Viability Gap as a Percentage of Creation Cost



The data in the chart above shows the general level of variation in the financial feasibility gap across the different sites. The results of the analysis by Coriolis support the following observations:

- The financial feasibility gap for new high rise developments (West Side) was between 21% and 27% of total project creation costs. Rental development supports a land value of between $7 and $30 per sq.ft. buildable on these sites. Market land values are between $120 and $150 per sq.ft. buildable.

- The financial feasibility gap for mixed-use rental and retail development on C-2 sites (sites 8 to 13) was between 12% and 21% of total project creation costs. Rental development supports a land value of between $57 and $64 per sq.ft. buildable for the West Side sites and $17 and $46 per sq.ft. buildable for the East Side sites. Market land values for these sites are between $65 and $140 per sq.ft. buildable.

- The financial feasibility gap for West Side wood-frame low rise rental development (sites 4 and 5) was between 24% and 27% of total project creation costs. Rental development supports a land value of between $52 and $58 per sq.ft. buildable on these sites. Market land values are between $140 to $160 per sq.ft. buildable.

- The financial feasibility gap for East Side and Marpole wood-frame low rise rental development (sites 6 and 7) was between 16% and 23% of total project creation costs. Rental development supports a land value of between $24 and $28 per sq.ft. buildable on these sites. Market land values are between $90 and $100 per sq.ft. buildable.

- The financial feasibility gap for East Side rental townhouse development (site 14) was between 10% and 15% of total project creation costs. Rental development supports a land value in the range of $70 to $75 per sq.ft. buildable. Market land values are between $100 and $110 per sq.ft. buildable.

- The financial feasibility gap for low rise rental apartment development on sites currently zoned for single family use (sites 16 and 17) was between 19% and 27% of total project creation costs. Rental development supports a lower land value than the value of the existing single family lots.

- The financial feasibility gap for rental developments currently zoned for industrial use (sites 18 and 19) was between 6% and 10% of total project creation costs. Rental development supports a lower land value than the value of industrial land.

The results of the analysis suggest that under current market conditions rental housing development is not financially viable. Therefore, without the introduction of potential measures or incentives, it is unlikely that the City will see a significant increase in the number of new rental housing units created.

c. Potential measures or incentives to produce new rental supply

The case studies modeled by Coriolis Consulting show that there is a significant financial feasibility gap for new rental housing development. Therefore, in order to encourage new rental housing construction, it is necessary for the City (working in partnership with others) to identify potential measures or incentives to help reduce this gap. Coriolis Consulting tested a number of different possible measures or incentives to determine their effect on reducing the overall financial feasibility gap.

The analysis by Coriolis shows that no single policy option can close the financial feasibility gap for new rental housing construction. Rather, the City must look at a combination of measures. At the municipal level, these incentives might include reducing parking requirements for new rental developments, eliminating City permit fees, waiving the City's development cost levy, and allowing increased density for new rental-only projects. However, the analysis by Coriolis shows that while these measures can help, alone they are not sufficient to eliminate the gap. Furthermore, Coriolis notes that the level of density bonus or increase in density that would be required to close the gap is so large that it would not be physically achievable (for wood-frame developments), or it would not be acceptable to the community.

Coriolis also examined a property tax exemption for rental housing and the elimination of GST and PST on new rental housing construction. As well, Coriolis examined the potential benefits of changes in the Federal tax treatment of rental housing and the size of contribution (rent supplement) required to make rental housing viable at current market rents. Figure 14 shows the estimated financial viability gap for a wood-frame development while Figure 15 shows the estimated gap for a concrete development. The analysis also shows the potential contribution of each of the different measures or incentives in terms of reducing the overall financial feasibility gap.

Figure 21. Wood-Frame: Policy Improvement

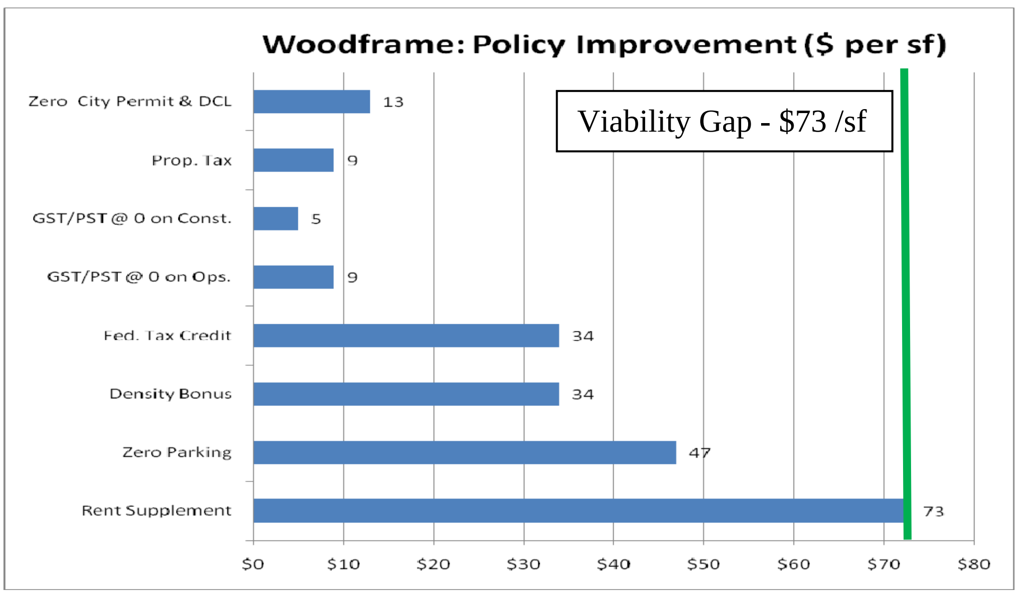
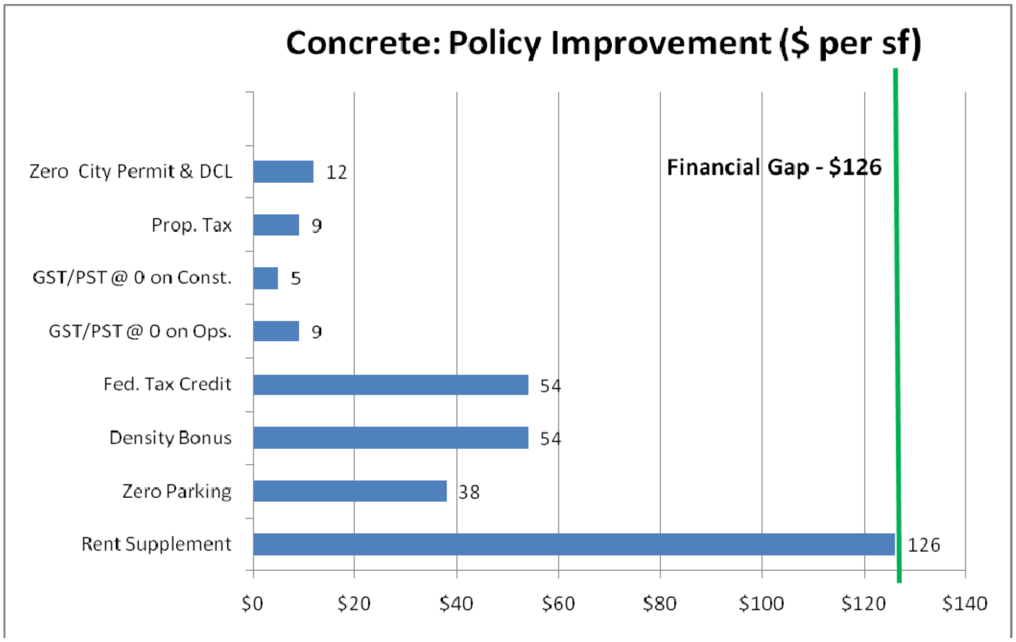


Figure 22. Concrete: Policy Improvement



Study 3/Study 4: THE ROLE OF THE SECONDARY RENTAL MARKET

Key Elements

Two studies provided research and analysis on the secondary rental market. One study by CitySpaces looked at various aspects of the rental and investor-owned condominium apartment stock. The second study by the City of Vancouver examined the role of secondary suites. Both studies relied on a combination of data sources, including BC Assessment Data, CMHC Rental Market Data, and custom-cross tabulations from the 2006 Census.

Summary of Key Findings

- Rented condominium apartment units and rented secondary suites or accessory units play an important role in responding to rental housing demand, accounting for over one quarter of the total rental housing stock.[45]
- Rented condominium apartment units represent one of the largest source of new rental housing supply. By October 2009, CMHC estimates that there were approximately 19,400 rented condominium apartment units in the city;
- Using data from BC Assessment, CitySpaces showed that the total number of investor-owned condominium units increased from around 15,400 units in 2001 to 22,800 units in January 2009. Almost two-thirds of the investor-owned units are on the Downtown peninsula, and only 54% of apartment condominiums in that area were owner occupied at the beginning of 2009. Not all of the investor-owned units form part of the rental stock.
- The rented condominium apartment stock is generally less affordable than the purpose-built rental housing stock. Data from the 2006 Census indicates that the average rent for a 1-bedroom rented condominium apartment unit was $1,050 while the average rent for a 1-bedroom purpose-built rental unit was $871. The study also found a similar cost profile for the 2-bedroom stock ($1,510 compared to $1,240).
- Compared to the rest of the condominium stock, investor-owned apartment units tend to be smaller than the owner-occupied condominium units and are in newer, larger buildings. These characteristics reflect the concentration of rental condominium units in the downtown peninsula.
- Since 2001, the mix of investor-owned units has shifted toward smaller units. In 2001, 48% were studio and one-bedroom units, shifting to 53% by 2009.

[45] This does not include the 11,470 rented single detached, semi-detached, town house and row house units.

- Rented secondary suites or accessory units form a significant portion of the city's market-rental stock. There are at least 25,000 secondary suites in the city's single-family zoned areas. In many areas of the city, single-family houses, secondary suites and duplex units form the major component of the areas' rental stock. They also provide most of the city's larger (3 or more bedroom) rental units.
- The proportion of properties with suites is substantially lower on the west side of the city. Six of the local areas on the east side of the city account for three quarters of the city's single-family zoned properties that have suites.
- Approximately 60% of all single detached homes built since 2000 include a suite.
- Analysis of 2006 Census data shows the secondary suites not only play an important role in adding rental supply, but also in contributing to the social diversity of Vancouver's neighbourhoods.

Analysis of Findings

a. Role of the secondary rental market is difficult to establish with any precision

Over the last three decades, the secondary rental sector has played an increasing role in meeting the demand for rental housing. However, the nature of the stock (individual units rented by individual owners) makes it difficult to establish the role that the stock plays with any precision. Since 2006, the CMHC secondary rental market survey has been producing valuable data on individually rented apartment condominiums, but only on an aggregate basis. For the rest of the secondary stock, the main source of information is the Canada Census, but this too has limitations.

A major part of the CitySpaces' rented condominium study and the City's secondary suite study was to establish information sets to allow for more detailed examination of the role of these two components of the secondary rental market.

b. Rented apartment condominium units play an important role in meeting rental demand

In their October 2009 survey, CMHC estimates that approximately 30% of the city's condominium apartment stock across the city is rental -19,400 units out of a stock of 65,600. Two-thirds of the rented condominium stock is on the Downtown peninsula, where 35% of the condominium apartment stock is estimated to be rental - compared to 20% in the rest of the city.

Using BC Assessment property data for 2001 and 2009 for apartment condominium buildings, the CitySpaces study looks at the “investor-owned” stock. Individual strata units were flagged as “investor-owned” if the property owner’s address differed from that of the unit. Some of the investor owned units are not part of the rental stock (they may be second homes or be being held vacant).

At the beginning of 2009, there were 22,800 investor-owned units in the city - 35% of the apartment condominium stock of 66,100. As with the CMHC rental data, two-thirds of the investor-owned units were on the Downtown peninsula, where 42% of the units were investor-owned compared to 24% in the rest of the city.

c. Rented condominium apartments may be the largest source of new rental supply

Two-thirds of all the housing units built in the city over the last decade were condominium units. Between the beginning of 2001 and 2009, the city’s apartment condominium stock increased from 44,400 to 66,100 units (48%). The number of investor-owned condominium apartment units has grown at the same rate, with an average increase of 900 units per year. CMHC’s rental condominium data shows a similar level of increase, with the rented condominium stock increasing by 800 units a year over the last three years.

d. Rented condominium apartment units may not remain in the rental pool

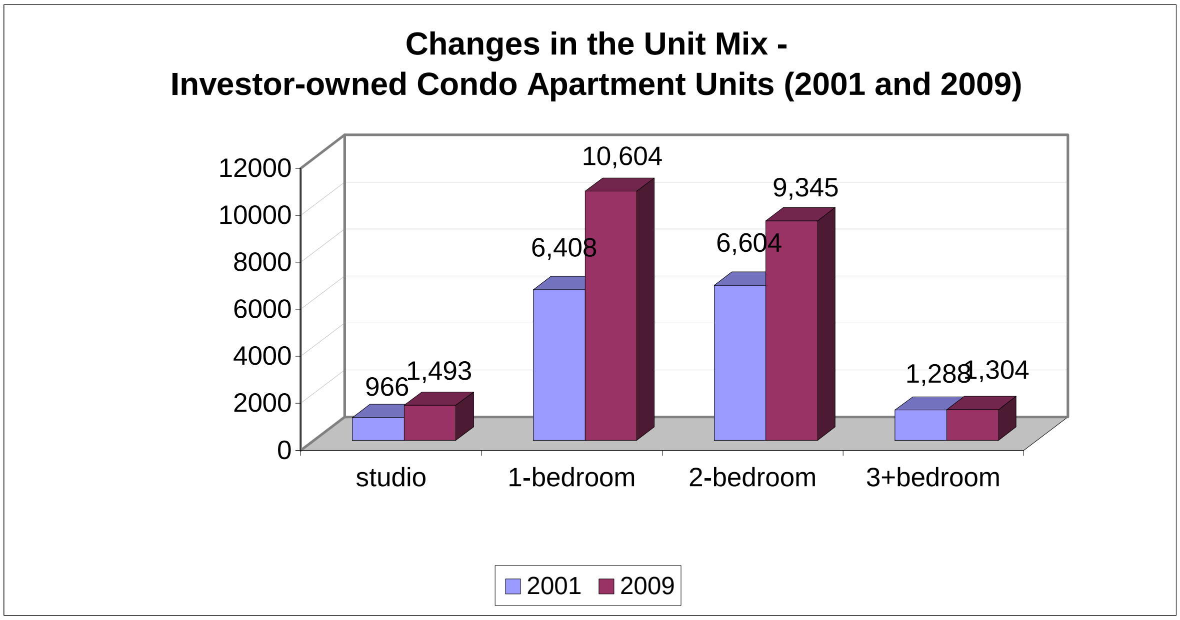
Although the overall proportion of investor-owned units remained the same between 2001 and 2009, the data does indicate that there may be a shift towards owner-occupancy over time. Over the period, the number of investor-owned units in the pre-2001 stock fell by 2,000 or 13%. This shift was more than offset by a higher rate of investor-ownership in the new buildings completed over the period.

Interviews with representatives of strata corporations, MLS sales analysis, and reviews of a sample of strata bylaws suggest that rented condominium apartment units tend to “age” into ownership, and that older buildings are much more likely to have restrictions, or prohibitions, on the rental of individual condo units. This means that without targeted strategies this housing is less likely to remain a permanent addition to the rental pool.

e. The units created through this form of supply tend to be smaller and less affordable

The overall unit mix of the investor-owned condominium apartment[46] stock has also shifted. As set out below, studio and 1-bedroom units account for a larger proportion of the total mix of units in 2009 compared to 2001. This represents an important shift in terms of the overall supply, with 1-bedroom units becoming the more prevalent form of housing within the investor-owned pool.

Figure 23. Changes in the Unit Mix



In terms of rent levels, CMHC's 2009 survey found that found that average rents for condominium apartment units are around 25% higher than the average rents in the purpose-built rental stock (at $1,262 for a 1-bedroom unit and $1,754 for a 2-bedroom unit). This is at least partly a reflection of the nature of the condominium stock. Condominium rental units are generally in newer buildings than the purpose-built stock – two thirds of the apartment condominium units in the city were built in the last 20 years. Condominium rentals also tend to have higher-end finishes and more building amenities than typically found in the purpose-built stock.

[46] As noted above not all investor owned condominium units are necessarily rented. Figure 23 data is sourced from the BC Assessment Authority and pertains to investor-owned units, a large proportion of which are estimated to be within the rental housing pool.

f. The secondary suite stock provides more rental units than the condominium stock

Using 2009 data from BC Assessment, the City's study indicates that a minimum of 24,000 properties in the city's single-family zoned areas have secondary suites. The total number of secondary suites is probably at least 25,000, as some properties have more than one suite. This figure is significantly higher than the number that can be derived from the 2006 Census, but Census data on dwelling units is reported only for units occupied by their "usual residents". Unpublished data from the 2006 Census indicates that one in ten "duplex" units in the city were either vacant or occupied by foreign and temporary residents, and so are excluded from published Census data.

The proportion of properties with suites varies from 6% in the Oakridge local area to 59% in Grandview-Woodlands. With the exception of Kitsilano and South Cambie, the local areas west of Main Street have significantly lower proportions of suites than areas to the east. Most of the secondary suite stock is concentrated in east-side neighbourhoods - six local areas on the east side of the city account for three quarters of the city's single-family zoned properties with suites.

The likelihood of a single-family zoned property having a suite varies not only with the location of the property, but also with its age, size and value. Sixty percent of newer houses (dwellings built since 2000) generally include at least one secondary suite. Houses built in the 1940s and 1950s have the lowest proportion of suites, partly because they tend to be smaller than houses built during other periods. There is also a relationship between the value of a house and the likelihood of it having a suite – generally, the higher the value of a house, the less likely it is to have a suite.

g. Secondary suites renters[47]

In terms of shelter costs (rent and utilities), secondary suites on the east side of the city are significantly less expensive than the city's rental stock as a whole, while suites on the west side are slightly more expensive. Seventy-two percent of east-side suites rented for less than $800 a month in 2006, compared to 40% of west-side suites. Compared to the city rental stock as a whole, secondary suites on the east side of the city are more than twice as likely to be home to families with children under 18. On the west side, 14% of households in rented secondary suites have children under 18, compared to 16% of renters city-wide.

[47] The Census is the only comprehensive source that provides information on who lives in what kind of housing. To differentiate rental secondary suites, the City study used a special tabulation of data from the 2006 Census, using data on rental dwellings with fewer than three bedrooms for areas of the city that were single-family zoned.

PART THREE: SUMMARY OF POTENTIAL POLICY DIRECTIONS

Rental Housing Synthesis Report Key Findings

The picture that emerges from the seven specialized studies and this synthesis report is as follows:

Rental housing in Vancouver is an important and growing demand:

- renters comprise 52% of the households in the city and 35% across the region
- 1,000 to 1,500 additional rental units/year would be needed in the city to meet on-going demand over the next ten to fifteen years.

Purpose-built rental housing stock is at risk of redevelopment:

- about 8,000 purpose-built rental units were lost over the past 11 years through the redevelopment of older purpose-built rental buildings.[48]
- 4,600 purpose-built rental units (7%) are at risk of redevelopment now and 14,400 (21%) will be at risk over the next 10 years.

The economics of new market-rental supply is challenging

- the tax treatment of purpose-built rental housing places it at a disadvantage relative to strata condominium developments designed for sale to owner occupiers. The financial feasibility gap for new rental housing construction is estimated to be between $31,750 and $111,530 per unit (15 to 27%). The gap would be higher if deeper levels of affordability were considered (e.g. lower-end of market, etc.)

The market for existing purpose-built rental buildings is strong:

- selling prices of existing purpose-built rental buildings have increased from an average price per unit of $100,000 in 1998 to approximately $200,000 in 2009. Cap rates (the price of a rental building divided by the Net Operating Income) currently range from 3.0% to 5.5%, and this low yield is indicative of an investment in high demand.

Affordability of rental housing is an ongoing challenge:

- 30% of renter households in the city and 31% of renter households in the region are in core housing need and cannot afford market rents for a suitable unit with the resources they have available.
- non-market housing (23,156 units), which comprises one sixth of the rental housing in the city, is especially important for families because there are few 3 and 4 bedroom units in the private rental market.

[48] A portion of this loss is rented condominium buildings, which have been converted to owner-occupied status.

- increasing sale prices for owner-occupied housing juxtaposed with renter incomes and down-payment requirements mean a large proportion of renters cannot afford homeownership.

Secondary sources of rental housing play an important and expanding role but are not a substitute for purpose-built rental supply:

- there are more than 25,000 secondary suites provide an important alternative supply of market rental housing and help to respond to ongoing affordability pressures.
- there are an estimated 19,400 rented condominium apartment units (15% of the rental stock).
- as investor-owned condominiums age, they tend to become owner-occupied. Rented condominiums tend to be smaller, have higher rents and are inherently less likely to remain in the rental pool than purpose-built rental units.
- the regulatory regime for condominiums was crafted to provide for owner-occupants and the rental aspects of the regulatory framework has evolved as the Province addresses the issues of tenant management, rental restriction by-laws and issues arising from a diffuse stock and absentee ownership.

In summary, the existing purpose-built market rental stock is healthy, if aging, but we need more and little is being built. Over the longer term, the existing purpose-built market rental stock will be at increasing risk due to competition from condominium development and increasing maintenance costs. The alternative sources of market rental housing need to be supported as they are themselves fragile and at risk of conversion to owner occupancy.

Policy Challenges:

This section provides an overview of potential policy directions for the City to consider. These policy directions respond to gaps and pressures identified through the specialized studies that were undertaken as part of this research. Within the current continuum of rental housing choices, particularly the purpose-built rental housing segment, several key challenges emerge:

- **Strong Demand for Rental Housing:** Rental housing accounts for half the households in the city, most of whom cannot afford to buy a home. Demand is forecast to increase by a further 1,000 to 1,500 new rental units a year. The current market dynamic of the cost of new housing production, relative to incomes and competition from strata condominium development, means that the rental supply deficit will not be solved without government intervention. The absence of a meaningful amount of new rental supply will exacerbate prevailing affordability pressures.

- **Potential Loss of the Existing Purpose-Built Rental Housing Stock:** The existing purpose-built rental housing stock is at risk of redevelopment to market condominium developments, particularly on sites where the development rights are under-utilized. Such redevelopment would have a serious adverse effect on Vancouver's rental housing market.

- **Aging Stock of Rental Housing:** CMHC reports that approximately 88% of the purpose-built rental stock was built before 1974. The Altus Studies examined the condition and financial status of these 35+ year-old buildings and found that, although in generally sound condition, this portion of the stock will require ongoing maintenance to extend its service life. Therefore, in addition to policies to retain this stock, the City should support measures to maintain the financial capacity of the sector to enable good maintenance and improvements.

- **Little Investment in New Purpose-Built Rental Housing:** A major challenge for the rental market is the current shortfall of new rental supply. New purpose-built rental housing construction is needed to provide for an expanded range of housing choices for households with low and low to moderate incomes, for people at different stages in their lifecycle, and for new residents to the City.

- **Challenges in the Provision of Non-Market Housing:** Private market rental housing cannot accommodate lower income households without subsidy. Consequently, more funding and programs are needed to address the shortfall in housing that is affordable. This is especially the case for families with children as there is a shortage of larger units available.

- **Alternative Sources of Supply Contribute to Improving Affordability over the Long Term:** In recent years rental demand has been met largely through increased supply in the non-purpose-built rental segments, particularly rented condominiums and secondary suites. This supply increases the types of dwellings available in the rental market, expanding consumer choice and moderating upward pressures on rent levels. The challenges are to enable the production of alternative sources of supply, and to explore strategies to increase the length of time they remain in the rental pool.

Policy Directions:

There are four policy directions identified in this section of the report. Many of the actions discussed are outside of the direct authority of the City. Therefore, to address the full scope of issues identified, all levels of government have a role to play. The policy directions are:

1. Prevent the loss of the existing purpose-built rental housing stock, and maintain and improve this stock.
2. Implement incentives or measures to enable new rental housing supply in consultation with the private sector and other levels of government.
3. Address affordability for low income households by working with other levels of government to:
   a) Expand the supply of government subsidized housing; and
   b) Assist families and individuals in the private rental market.
4. Promote measures to create stability and new supply in the secondary rental sector including ongoing policies to:
   a) Promote secondary suites and infill units; and
   b) Enhance the stability of the existing rented condominium apartment stock by extending the length of time that this stock remains part of the rental pool.

Policy Direction #1

Prevent the loss of the existing purpose-built market rental housing stock and work to maintain or improve the existing rental housing stock.

The Challenge:

Prevent the loss of existing purpose-built rental housing.

A significant proportion of Vancouver's purpose-built rental housing stock is at risk of redevelopment. The research completed by Coriolis (Study 2B) found that, in the absence of restrictions (e.g. removing the City's current rate of change regulations), approximately 4,600 units in 551 buildings are at risk of demolition or redevelopment. This represents 7% of the existing purpose-built rental housing stock. In the absence of any restrictions on redevelopment, by 2019, the number of rental housing units at risk would increase to approximately 14,200 units (21% of the stock). Data available through City of Vancouver shows that since 2000, around 1,011 units have been lost due to demolition and 1,400 apartment units have been converted from rental to ownership.

Given the low replacement rate and the tendency to lose the older and more affordable stock, the on-going loss of purpose-built rental housing stock will not only lead to the displacement of tenants but also to further erosion in the city's affordability profile.

Maintain the physical condition of existing purpose-built rental housing.

The majority of the purpose-built stock is aging. Although generally in sound condition, buildings require ongoing maintenance and investment to extend their life. The physical condition of the existing stock will need to be maintained and improved over time, and this requires a financially healthy market-rental sector.

Effectiveness and Contribution:

To respond to these pressures, the City should consider preservation interventions combined with advocacy measures to strengthen the financial health of the existing stock - most of which falls within the jurisdiction of the Federal government. Green initiatives and energy retrofit programs would also contribute to the improvement of housing quality and service life. These measures are outlined in the table below.

Table 28. Measures to Prevent the Loss of Existing Rental Housing Stock

Measure	Comment	Contribution to Preventing Loss and Maintaining Current Inventory
Measures to Prevent the Loss of the Existing Rental Housing Stock		
Maintain the current rate of change policy City of Vancouver	In 2007, the City of Vancouver approved a "zero rate of change" policy for redevelopment projects with 6 or more units. This policy was intended to prevent the further loss of the existing rental housing stock in the zones covered by the policy, by requiring the replacement of rental units on a one-for-one basis.	In 2008 and 2009, 80 units a year were lost as the result of demolition of rental buildings, compared to 170 units per year during the previous two years. Research by Coriolis Consulting also shows in the absence of measures to protect the stock, there are approximately 14,200 purpose-built rental housing units at risk of redevelopment by 2019. This represents approximately 21% of the existing purpose-built rental housing stock.
Measures to Maintain and Improve the Existing Rental Housing Stock		
Provide "Green Incentives" to support the retrofit of existing rental housing buildings Federal/Provincial	Many of the existing rental buildings have high utility costs and would benefit from energy retrofit initiatives which improve the energy and operational efficiency and which could contribute to a higher payback and reduced operating cost profile over time.	While the specific payback for the different incentives would have to be modeled, research by Altus Group (Study 2B) suggest that there are potential operating cost savings which could be realized through the introduction of these measures. BC Hydro and the Province are both active in exploring this area and the City should evaluate the various alternatives/programs available to determine if additional action is warranted.
Examine current rent regulations (Residential Tenancy Act) Province	British Columbia has a relatively modest form of rent regulation - one intended to provide basic protection to tenants living in rental housing while at the same time ensure that building owners and operators are able to realize a reasonable return on investment.	For the most part, it appears that BC's system is working reasonably well. Study 2C shows that investment in rental housing assets is strong, and that while many landlords have the potential to "re-price" the unit upon turnover, landlords may have not fully capitalized on this option. There are many opinions on the subject. Some apartment owners have stated that rent controls limit their ability to undertake necessary renovations. On the other hand, tenants have expressed concerns over affordability and have suggested that cosmetic upgrades lead to evictions and are used to circumvent the intent of rent controls. The Province should examine this issue more closely. No comprehensive data currently exists in this area – it would be helpful for the Residential Tenancy Branch to monitor and track the number of evictions in order to accurately assess the situation.

Measure	Comment	Contribution to Preventing Loss and Maintaining Current Inventory
GST/HST exemption for rental housing operation Federal/Provincial	The introduction of the Harmonized Sale Tax (HST) has increased operating expenses and eroded the rate of return on existing rental buildings. Under the legislation apartment owners will be required to pay HST on all goods and services related to residential housing, but will be unable to recoup these costs. The industry estimates an increase in operating costs of 1.5% to 3.%	The apartment industry and province are discussing options to alleviate this adverse financial implication of the HST and a provision to address the original GST impacts could further improve the sector's operating results. Some suggested solutions include: zero-rating the industry or providing a tax rebate. Both these options would not pass on any cost to tenants.
Increase in depreciation rates for existing rental housing assets (CCA provisions) Federal	The Capital Cost Allowance (CCA) is the depreciation rate that is allowed for fixed assets. While depreciation rates have varied over time, the current depreciation rate is set at 4%. A higher rate enables a deferral of tax payable, and for older buildings, this would be more significant where major upgrades are completed.	Changes in CCA provisions would not result in increased investment in new rental housing assets but would be beneficial to building owners/operators which have a net positive cash flow. Under these circumstances a higher CCA rate would reduce the amount tax payable and would improve the return for rental housing assets as well as provide for increased financial room for building improvements and up-grades.
Small business taxation rates Federal/Provincial	Under current taxation rules, to qualify for a lower taxation rate, a business must employ five or more full-time employees. This means that many smaller landlords and building operators are taxed at a higher rate.	A reduction in the taxation rate for rental housing investments would make the after-tax return for rental housing more attractive and would help to reduce some of the potential risk of redevelopment. Strong rate-of-change measures would protect the rental stock in the areas they cover.
Capital gains rollover provisions Federal	Currently the sale of a rental building triggers a capital gains tax. A rollover provision allows for a deferral of the payment of the capital gains tax in cases where the funds are re-invested in rental housing assets within a specified time frame.	This measure would improve "liquidity" of existing rental housing assets by allowing owners to access their capital without the penalty of paying a capital gains tax (provided the money is re-invested). One concern may be the potential for increased redevelopment pressure.
Residential Rehabilitation Assistance Program (RRAP) Federal	This CMHC program provides capital forgivable loans, up to $24,000 per unit, to assist in required upgrading of rental buildings accommodating low income tenants. Eligibility criteria favour older, affordable buildings but the high valuations on most Vancouver rental assets disqualify many buildings from this program.	Modification of eligibility criteria could provide a source of financial support to upgrade and extend the service life of some buildings. The program terms require an extension of building life by 15 years and ongoing affordability by limiting rent increases.

Risks and Trade-offs:

Measures to protect the existing rental stock:

Although the Rate of Change Policy protects the existing stock without any apparent risk to building condition or financial viability of these buildings, there is a time limit on the effectiveness of this type of measure. The City should continue to monitor the impact of the Rate of Change Policy and commit to evaluate the outcomes on a regular basis. It is likely the City will need to consider some redevelopment activity within the next ten years and so should consider modifications to the regulations (e.g., to establish criteria for how redevelopment can occur). Granting exemptions for redevelopment could be based on factors such as net increase in the number of units and the number of new rental units proposed. The need for a rate of change mechanism is strongly influenced by the supply and the extent to which the needs of existing renter households are being met. If the Federal and Provincial governments entered into a partnership with the City, and adequate supply levels were established, then it may be possible to consider changes to the Rate of Change measures at an earlier date.

Measures to maintain and improve the existing rental stock:

Limiting the redevelopment of existing purpose-built rental housing through rate of change measures has the potential to encourage disinvestment by existing building owners/operators and contribute to the deterioration in the physical condition of the existing rental housing assets. However, based on the sample of 36 buildings assessed by Altus, the majority of purpose-built rental housing stock is in sound condition (46% are in fair condition and 26% are in good condition) and 31% are in poor condition. Extrapolating from the Altus study, it is estimated that restoring wood-frame buildings in poor repair to good condition would require an increase in annual maintenance and repairs expenditures to 21% of rental revenues (1.7% of building replacement cost) compared to an average repair and maintenance budget of 11% of revenues for the buildings sampled. The Altus 2C study did not identify an inability to finance repairs through cash flow or mortgage financing. There is a possibility that research for this study overlooked a cohort of critical condition buildings in weak financial health, and if additional research were to identify a significant incidence of severely neglected buildings, a targeted policy response may be needed. It is also important to note that in the long-term, the level of investment currently observed would not lead to an improvement in the rental stock, and will at best maintain buildings at their current standard. Therefore, rate of change regulations should be reviewed and monitored closely.

The current investment climate for rental housing assets and the financial health of the rental housing sector is strong. The findings suggest that there is no economic rationale or evidence to suggest that maintaining the current rate of change policy would lead to deterioration in the quality or condition of the existing rental housing stock. However, the financial ability to invest in maintenance may not translate into actual investments.

Over the long run the existing purpose-built rental housing stock will need to obtain sustaining capital for replacement of aging systems and to meet enhanced building standards. Although the financial condition of the stock is currently healthy, it is recommended that the Federal government anticipate the coming needs of the sector and adjust the taxation regime to promote re-investment and retention. These measures, as set out in Table 30, can be of a general nature and strengthen the overall sector. Alternatively these measures can be more targeted and linked to particular investments with attendant benefits. Examples of the type of enhancements and the associated risks that the Federal government should consider are:

- CCA rollover provisions that can enhance liquidity in the rental asset market and permit owners to "rebalance" their portfolio by location or age profile. The rollover provisions have the potential for increased redevelopment pressure and, if rate of change measures are not also in place, the risk of stock loss and tenant displacement increases.
- Measures to increase the 'financial health' that could lead to tenant displacement as new owners may want to "spruce up" and charge more. These measures need to work in conjunction with the Residential Tenancy Act.

The Role of the City and Others

City Policy Directions: Maintain a rate of change policy while at the same time pursue ancillary policies that support reinvestment in the sector, particularly in areas that enhance environmental performance or energy utilization. Monitor performance of the rate of change provisions and conduct a formal review within five years.

Federal Government Direction: Adjust the taxation regime for existing rental assets to encourage ongoing reinvestment, particularly for "green" saving investments, and to support the financial viability of the sector. Adjust the eligibility criteria for the RRAP program to provide targeted support to market rental buildings currently in need of repair.

Provincial Government Directions: Monitor evictions and examine the impacts of rent controls to both landlords and tenants. Adjust the Residential Tenancy Act if the review finds any significant loopholes or problems with enforcement. The Province can also provide ‘green incentives’ to support the retrofit of existing rental housing buildings.

Policy Direction #2

Work with the private sector as well as other levels of government to identify potential incentives to enable new rental housing supply.

The Challenge:
The net inventory of purpose-built rental housing stock shows continuous erosion in spite of the efforts to stimulate new supply and prevent the loss of existing stock. The housing demand estimates prepared in Study 1 (Dunning) show an increased demand of between 1,000 and 1,500 units per year, with most of this increased demand coming from households with low to moderate incomes. Research by Coriolis Consulting (Study 2D) shows that without the introduction of targeted incentives, it is unlikely that there will be a significant increase in new rental housing supply.

All of the scenarios modeled by Coriolis suggest that there is a "financial viability gap" averaging between $51,500 to $108,000 per unit depending on the type of structure (wood-frame or concrete), unit mix and location of the development. A summary of these pro forma models are as follows:

Table 29. Financial Feasibility Gap for Rental Supply per Unit

Financial Feasibility Gap For Rental Supply per Unit				
Costs per unit	**Woodframe Eastside (n=8)**	**Woodframe Westside (n=5)**	**Concrete Eastside (n=1)**	**Concrete Westside (n=4)**
Land	$86,000	$118,000	$101,000	$105,000
Construction	$125,500	$130,500	$163,000	$150,500
Soft Costs	$48,500	$47,500	$45,500	$56,500
Profit Margin	$36,000	$45,000	$36,000	$44,000
Total Cost	$296,000	$341,000	$346,000	$356,000
Gap	-$51,500	-$77,000	-$108,000	-$73,000
Rounded to the nearest $500, Based on Coriolis Study 2D. Unit size 600sf.				
Weighted average feasibility gap across projects in this sample $85,926.				

Note: Soft costs refer to expenditures incurred during the development process and include fees and permits, technical studies, design costs, financing fees, property taxes, marketing and legal expenses.

Presented in another way, the economics of new rental units (built under current interest rates and construction costs and renting at current market rents) will not support the purchase of land at current multi-family land prices. As shown in Table 30, under market conditions as of mid-2009 a rental project can only afford to pay approximately 14% of the market value for a site, so would need a discount of 86% of the land value of the site. Under the scenario modeling completed by Coriolis, the estimated financial feasibility gap averages $85,926 per unit relative to market condominium over the 17 scenarios sampled. These scenarios included wood-frame and concrete buildings in various neighbourhoods throughout the city.

As illustrated in the following table (Case Study #14) the land value is $1,459,995 million for an Eastside wood-frame site in an RM-1 zone. To develop a new rental building with 12 units, the residual land value (meaning the amount that could be paid for a rental property) is $878,535. This is 40% lower than the land value as market condominium and therefore, for the project to be viable, a subsidy of $581,460 or $48,455 per unit would be needed.

Table 30. Comparison of Land Valuations

Case Study #	Site	Type	Zone	units	Land value as Condo (case 16 & 17 as SF)	Residual Land Value as Rental	% (discount) to Value as a Condo Project	Discount or Subsidy per unit
1	Westside	concrete	C-3A	191	$16,666,542	-$2,833,347	-117%	$102,094
2	Westside	concrete	C-3A	135	$20,833,610	$1,538,904	-93%	$142,924
3	Westside	concrete	RM-3	46	$4,018,414	-$28,494	-101%	$87,976
4	Westside	woodframe	RM-4	26	$2,962,220	$1,627,400	-45%	$51,339
5	Westside	woodframe	RM-4	10	$1,372,341	$370,115	-73%	$100,223
6	Westside	woodframe	RM-4	20	$1,834,668	$291,732	-84%	$77,147
7	Eastside	woodframe	RM-4	19	$1,560,546	$533,946	-66%	$54,032
8	Westside	concrete	C-2	47	$5,381,414	$1,747,779	-68%	$77,311
9	Westside	woodframe	C-2	55	$6,084,127	$2,420,004	-60%	$66,620
10	Eastside	woodframe	C-2	44	$2,409,795	$509,594	-79%	$43,186
11	Eastside	woodframe	C-2	54	$4,057,086	$1,769,359	-56%	$42,365
12	Eastside	woodframe	C-2	37	$1,465,373	$290,603	-80%	$31,751
13	Eastside	woodframe	C-2C1	32	$2,237,061	$882,464	-61%	$42,331
14	Eastside	woodframe	RM-1	12	$1,459,995	$878,535	-40%	$48,455
15	Eastside	woodframe	RT-10	10	$2,093,520	$780,382	-63%	$131,314
16	Westside	woodframe	RS-1	29	$2,284,800	$704,432	-69%	$54,495
17	Eastside	woodframe	RS-1	24	$1,492,920	-$213,426	-114%	$71,098
		weighted average		46.5	$9,502,901	$168,296	-86%	-$85,926

Source: Coriolis Study 2D Note: negative residual land value means the loss of building purpose-built rental exceeds the vaue of the land as condo, e.g. even with free land the project would not be feasible.

Effectiveness and Contribution - Federal and Provincial Measures & Incentives

To reduce the "financial feasibility gap" senior levels of government have traditionally used a mix of regulatory and financial measures to stimulate rental investment. Table 31 describes a number of the potential measures or incentives that can be provided by the federal and provincial governments. These measures improve rental supply economics by lowering the cost of financing, reducing capital costs, providing building subsidies or reducing operating costs (especially in the earlier years of operation). Some of these provisions would entail changes in the Federal tax treatment of rental housing, both through changes in the way in which existing rental housing is taxed, and through the introduction of incentives to encourage new supply.

As standalone measures, most of the policies or actions identified are not sufficient to prompt new supply. Similarly, the cost and impacts of the municipally controlled measures, as discussed in the next section, are often too much for municipalities to take on by themselves. Therefore, the best strategic direction for new rental supply would employ a partnership approach as described below.

Table 31. Federal and Provincial Incentive Based Approaches

Costs are rounded to the nearest $500 and are based on Coriolis Study 2D

Comment	Contribution to Closing Feasibility Gap (Coriolis / Altus Studies)	BASIS	WOOD-FRAME		CONCRETE	
			% OF GAP CLOSED	VALUE PER UNIT	% OF GAP CLOSED	VALUE PER UNIT
Reduce capital costs with one- time capital grants Federal/Provincial	Standard approach under existing Federal/Provincial Affordable Agreements (AHI & Economic Action Plan, 2001 - 2009). Could provide stable and predictable funding. Has been used elsewhere (Ontario 2001 to 2009) and can be stacked with municipal or other incentives.	ONE-TIME	100%	$53,500	100%	$73,000
Provide rent subsidies to new buildings Federal/Provincial	Offset operating expense with a monthly rent subsidy whereby buildings add to the stock of primary rental stock. This would be an on-going subsidy.	$ PER UNIT PER YEAR	100%	$2,500	100%	$3,500
GST/HST exemption for rental housing construction Federal/Provincial	This provision would reduce the capital cost of new rental construction.	ONE-TIME	7%	$3,500	4%	$3,000
Adjustments in income tax treatment Federal	Increased Capital Cost Allowances and capital gains rollover provisions would benefit existing buildings and have a minor contribution to new supply. Rollover provisions could enhance liquidity of existing stock but may increase the redevelopment rate (loss) of existing buildings.	ONE-TIME	varied		Varied	
Tax credit for new supply Federal/Provincial	To attract investment in creating new rental supply introduce a rental investment tax credit, using a flow-through program that includes the deductibility of soft costs and accelerated CCA, and the transferability of operating losses to the investor for investment in qualify new rental assets.	ONE-TIME	50%	$26,000	50%	$33,500
Assist with financing new construction Federal/Provincial/CMHC	Lower the cost of interim financing through concessionary interest or mortgage insurance rates. The value estimates are based on the assumption of a 3.5% reduction during the construction period.	ONE-TIME	6%	$3,150	7%	$5,000

Effectiveness and Contribution of Federal and Provincial measures.

Many of the key economic factors influencing new supply starts are under the jurisdiction of the federal and provincial governments. Although changes in the 1970's and 1980's to income tax policy for rental assets dramatically reduced the financial feasibility of new rental housing supply, it is unlikely that in today's environment these broad tax changes would simply be reversed in order to stimulate new rental supply. The reasons are twofold: firstly, the very large feasibility gap in Vancouver would require a very large relaxation, thus reducing federal revenues substantially; secondly, such a relaxation could also generate a supply response in housing markets in cities with sufficient rental supply or in cities where new rental housing is more viable. In other words, a general relaxation of items such as CCA policy, capital gains taxes, qualification for small business tax rates and transferability of losses to earning income could cost the federal treasury a large amount of revenue for a small amount of public benefit (e.g., limited new rental supply in markets where it is most needed).

A targeted program of supports from senior levels of government is a more advantageous approach for the City to advocate. Targeted programs are preferred because: 1) they link contributions to specific housing outcomes rather than a general broad-based supply program; and 2) the cost can be established as a fixed amount over a stipulated number of years. Targeted programs lend themselves to a partnership approach with "stacking" of incentives from various government partners. The federal and provincial measures can easily be structured so that the private investors and developers generate the proposed projects and provide risk capital and development and management expertise. Purpose-built rental is largely a private investment endeavour and governments typically provide incentives to qualifying projects, rather than directly building and managing as was once popular with social housing.

The appeal of a partnership rental supply model is in the various ways all governments can provide resources and share in program design. Discussions with these government partners could jointly identify housing priorities (e.g. location and type) and provide a program design that best fits the amount and type of resources allocated. With the exception of a tax credit program, the incentive measures identified in Table 33 above are well established mechanisms within the Canadian context.

Comment on a Rental Housing Tax Credit

A tax credit approach is used extensively in the US to stimulate new rental supply and Canadian governments use tax credits to stimulate investment in a variety of industries (e.g. film and mineral exploration). Essentially, qualifying investments, in this case purpose-built rental targeted to a defined rental rate / income profile, permit the investor to "flow-through" expenditures, which the investor deducts from earned income. The investor then receives an increased tax rebate from the federal and participating provincial governments. This process substantially improves the after-tax rate of return on investment and attracts capital to situations where returns are too low or the risk too high.

Within the US context, tax credit programs are used in a wide array of publicly funded initiatives and are the central delivery vehicle for housing supply programs. The Low Income Housing tax Credit (LIHTC) uses the same financial intermediaries, attorneys and consultants active in the tax-exempt municipal bond sector (a type of vehicle not used in Canada). The LIHTC is a long-term bond-like investment, which provides a significant tax rebate in the initial year(s) of the investment and thereby enhances a relatively low coupon rate over the term of the investment, (typically 25 years). If adapted to the Canadian housing finance system it is recommended that a flow-through share model similar to the mineral exploration or film production programs be utilized possibly in combination with a real estate investment trust vehicle.

The appeal of a tax credit is that it involves the finance sector and can attract long-term capital and development industry innovation to the rental sector. Important program design considerations include targeting the credit to cities and income groups where market dynamics are not meeting housing affordability needs. A tax credit would work best as one component of a housing partnership approach to stimulating new rental supply because it would benefit from jointly defined eligibility criteria as well as local and/or community involvement in program design and implementation.

Tax credit vehicles are popular with the investment community and a rental housing tax credit dedicated to stimulating new supply would re-engage the development and investment sector in creating purpose-built rental assets. In the US, the Low Income Housing Tax Credit is the foundation for most housing partnership programs and usually combines local, state, and federal funding. The tax credit also draws in the financial sector, which can advocate for the rental sector, as has been the case with the US Bankers Association. From a government resource perspective, tax expenditure (tax credit program) is equivalent to a direct expenditure; however, the tax credit is explicitly designed for partnership with private industry and works well in inter-governmental programs.

Comment on Potential Provincial Measures

The Province of British Columbia could participate in a rental supply program by way of direct grant, rent subsidies or the provision of low-cost mortgage insurance or discounted interest rates to qualifying projects.

Effectiveness and Contribution – Municipal Measures

The City of Vancouver has been effective in using municipal processes and land use decisions as a means of supporting some new affordable housing development, typically at the social housing end of the housing continuum. The City already has an extensive array of policies and practices developed to respond to on-going housing needs and pressures within the Vancouver market.[49]

Table 32 identifies potential measures that the City may wish to utilize, in partnership with others, to enable new rental supply. These initiatives include the contribution of City-owned land (often on a long-term lease basis), the waiver of development cost charges for new rental housing developments and provisions for increased density or a reduction in parking requirements. In the past, much of the housing stimulus provided by the City has utilized a partnership approach, with the Federal and Provincial governments contributing the majority of the capital and operating funding through traditional housing programs. Similarly, for purpose-built rental, the City should recognize its resource limitations and, whenever possible, use a partnership approach for new supply program.

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[49] Examples are: The on-going development of social housing initiatives in partnership with the Province, including establishing an MOU agreement for the 12 City-owned sites; the creation of Vancouver Land Corporation (VLC); the direct management of a portfolio of social housing units; participation in region-wide housing committees and initiatives; the development of a homeless action plan; and a commitment to policies that promote mixed income neighbourhoods and social diversity.

Table 32. Rental Market Enablement Strategies – Municipal

	Comment	Contribution to Closing Feasibility Gap (Coriolis / Altus Studies)	BASIS	WOOD-FRAME % OF GAP CLOSED VALUE PER UNIT	CONCRETE % OF GAP CLOSED VALUE PER UNIT
Waive or reduce parking requirements for new rental housing developments	This can help to reduce the overall cost of construction and therefore contribute to a reduction in the overall financial feasibility gap for new rental housing. This measure has been used by the City for affordable housing projects and as part of the STIR program.	A 50% reduction in parking requirements would close the gap by 15% to 32%.	ONE-TIME	32% $16,500	15% $11,000
Allow for increased density in new rental housing developments	Depending on local or neighbourhood circumstance and tolerances, increased density can help to improve the overall cost profile for new rental housing construction. Therefore, increased density when combined with other measures can help to reduce the financial feasibility gap.	The value and percentage contribution figures are estimated on a 58% increase in FSR for concrete (from 3.0 FSR to 5.0) and a 38% increase for wood-frame (from 1.45 to 1.95 FSR. If 50% of the units were rental & 50% strata, these density increases should be close to breakeven.	ONE-TIME	44% $24,000	47% $35,300
Require new multi-family projects to include a minimum amount of primary rental units	This approach which is typically considered to be a form of "inclusionary housing" has some appeal. However, new developments already have extensive public benefit responsibilities through DCLs, amenity contributions and public realm improvements. The amount of additional value available is limited without significant impacts on land values or trade-offs against other municipal requirements.	In the absence of a density bonus or other municipal incentives/offsets, this is unlikely to be effective on a City-wide basis (rather than case by case situation). In the short term, it could result in a significant reduction in new development.	ONE-TIME	Not calculated	Not calculated
Waive the development cost levy (DCL) & permit fees for new rental housing developments	DCLs are used to provide community benefits, including daycare and parks. The City has limited alternatives to fund these other public assets and as such, must balance the public benefit of rental housing supply with competing public uses. The waiver is an effective measure to assist in closing the financial feasibility gap.	Research by Coriolis estimated that City DCLs and fees add an average of $7,000 to $9,000 to the cost of a new rental housing unit. By waiving or reducing this cost, it is possible for the City to help reduce the financial feasibility gap.	ONE-TIME	18% $9,000	10% $7,000

	Comment	Contribution to Closing Feasibility Gap (Coriolis / Altus Studies)	BASIS	WOOD-FRAME % OF GAP CLOSED VALUE PER UNIT	CONCRETE % OF GAP CLOSED VALUE PER UNIT
Contribute City-owned land to support new rental housing construction	In the past, the City of Vancouver has contributed land leases and other resources to support new rental housing development (both market and non-market). This has been an effective strategy for adding incremental supply. The magnitude of land discount needed to fill the financial feasibility gap is detailed in Table 30.	While the contribution of City-owned land can facilitate new supply, the City owns relatively few sites and the cost to the City would be substantial. Therefore, while this strategy will always be effective in terms of adding incremental supply, the need far outstrips the City's capacity.	ONE-TIME	Proportionate to grant amount.	Proportionate to grant amount.
Property tax waiver	The City's property tax base is primarily used for municipal services and not long-term housing subsidies. The use of a waiver is workable but not necessarily affordable to the City.	While the property tax waiver can facilitate new supply, the cost to the City would be substantial as the need far outstrips the City's capacity	$ PER UNIT PA	12% $6,500	1.4% $1,000
Consider extending (STIR)	The STIR program is a "stand-alone" approach by the City to enable incremental additions to rental supply. As of June 2010, the program has about 1,000 units in the inquiry/ application process. A program evaluation may find that particular types of project are more viable and that there are limitations to density and other relaxations.	Provides incremental primary rental supply through a number of municipal measures, most of which are identified in this table (parking, density bonus, DCL waivers, etc.)	ONE-TIME	See individual measures this table	See individual measures this table
Mixed tenure Zoning	Predicated on the observation that rental uses cannot compete with strata condominium apartment developments for zoned multi-unit residential land; this policy direction involves the creation of a new zoning designation whereby additional density is granted for purpose-built rental housing.	This involves zoning that provides economic advantages to rental tenure. Ownership forms of development would be allowed, but predominantly rental development would be allowed at higher densities. Pre-zoning of the areas is key (to minimize administration costs and enhance certainty). Enablement may be by way of a conditional use in the Zoning Schedule, and require a Housing Agreement.	ONE-TIME	Dependant on zoning design and site economics	Dependant on zoning design and site economics

Comment on Rental Housing on City-owned Land

Often the public suggests that the City simply contribute land in order to enable rental or social housing. The City does not have a large inventory of suitable land and would need to acquire sites in the marketplace. Furthermore, the City would need to discount heavily the land in order to make projects viable. In the past, the City has provided development sites for previous housing projects through the Property Endowment Fund (PEF). Typically, these sites were for social housing projects, and senior levels of government funded a pre-paid lease payment equal to the market value of the leasehold tenure site (e.g. 75% of freehold value). This funding approach, together with earnings within the PEF, enabled the PEF to continue to acquire and lease housing sites. In recent years, the City has increased the contribution level per social housing project by donating the leased land (the City provided 100% of leasehold value) and this more generous approach has diminished the amount of land available for new projects. As noted above, the City does not have a large inventory of suitable housing sites and acquiring additional sites would require substantial City funding.

The City of Vancouver's *Short Term Incentives for Rental (*STIR) program represents a different type of model, one that uses municipal incentives to bridge the overall financial viability gap. While this model provides an excellent example of the types of city incentives available to improve the overall economics of new rental housing construction, the applications currently under review underscore that, in the absence of contributions from other levels of government, it is difficult for the City alone to generate sufficient incentives to support a sustained supply response. STIR on some sites can achieve sufficient relaxations and support to overcome the particular financial feasibility gap on that site at that time. In other circumstances, the amount of incentives, particularly density and parking relaxation, may not fit with urban design standards or community considerations and thus not enable a 100% rental project.

Comment on Density Bonusing

Municipalities commonly use density bonusing or “upzoning” of sites to enhance community, create value and provide benefits and amenities. Often, large rezoning proposals receive additional development rights (some combination of height, use, density and other relaxations) and in turn provide higher levels of financial or in kind contributions (e.g., park, art, heritage or cultural amenity). The efficacy of this approach can be high; however, in the absence of alternative financial streams, cities have increasing relied on “zoning tools” to fund public benefits. Accordingly, there is competition among various public "goods" for the potential benefits stemming from bonusing.

Another critical trade-off is the community acceptance of increased densities and concern for neighbourhood character and adequacy of civic amenity. Spot re-zonings to allow density bonuses tend to have high administrative costs and erode the affordability profile of the potential new housing.

In terms of implementation, the financial results of density bonusing vary significantly from site to site. Coriolis modeled a number of density bonusing scenarios, as illustrated in the following table. The table shows, for example, that for a project at 3 FSR on West Broadway, a density bonus of 2 FSR represents a value of $43,637 per unit, or 43% of the gap to be filled to make the project viable. To fill the full gap, a bonus of over 30 FSR would have to be provided, which is not practical.

Table 33. Density Bonus Examples – 100% Rental Buildings

Bonus Examples

Site	Zone	Type	FSR New Project	Improvement per unit	Additional FSR	Improve-ment	Additional FSR to needed to close gap	Effectiveness
West Broadway	C-3A	concrete	3.00	-43,637	2 fsr	43%	30+ fsr	Not practical
West Broadway	C-3A	concrete	3.00	-59,465	2 fsr	42%	30+ fsr	Not practical
West 71st Ave	RM-4	concrete	1.45	-36,932	1.0 fsr	48%	6.0 fsr	Possible
West 10th Ave	RM-3	wood	1.80	-29,308	0.5 fsr inc.	43%	n/a	Need to go to concrete
West 3rd Ave	RM-4	wood	1.45	-46,770	0.5 fsr inc.	47%	n/a	Need to go to concrete
Cambie St	C-2	wood	2.50	-34,591	1.0 fsr	52%	6.0 fsr	Need to go to concrete

Coriolis Study 2D

The Coriolis findings did not identify circumstances where density bonusing was sufficient and practical on a sole-use basis to fill the financial feasibility gap. As is the case with "spot rezoning" like the City's heritage bonus strategy, these approaches incur significant administrative and applicant overheads and are very time consuming. Density bonusing is a useful tool in combination with other measures; however, one is mindful of the economic and practical limits of zoning relaxations and the costly process of individual rezoning processes. One example of practical limitation of zoning relaxations is where there is significant erosion of neighbourhood liveability through exceeding infrastructure or community acceptance. In some circumstances, a mix of ownership and rental units may be provided within a building and the amount of relaxation may be reduced accordingly. Whenever possible, rental incentives should be provided within the zoning schedule or programmatically on an area-wide basis, thus reducing costs and time through better clarity, certainty and faster processing times.

Comment on Inclusionary Zoning

The term "inclusionary zoning" refers to the land use practice of requiring a mix of housing tenure and/or income profile in exchange for increased development rights. In most US jurisdictions, inclusionary zoning provides a base level of incentive for mixed tenure/income neighbourhoods and this base is supplemented by local, state and federal housing subsidies. There is variation between states and cities, and the incentives are used to promote entry-level ownership in many instances. The arrangements are typically complemented with federal funding from the Low Income Housing Tax Credit, HUD programs and enterprise-zone incentives. States usually contribute tax credit programs, direct grants, and, in special development zones, tax-increment financing.

Inclusionary zoning in Canada is less established, usually predicated on a municipal “go-it-alone” basis, and it generally yields a low percentage of rental units due to the challenges of the underlying project economics of rental housing. As an example, the City of Richmond has a 5% rental requirement on major rezonings and has had limited success to date?!!. Inclusionary zoning operates much the same as a density bonus and in the absence of direct grants or other incentives the amount of incremental rental supply tends to be proportionately small, and is relatively costly to regulate and operate.
Dale, can you make a comment about the Richmond’s experience? Otherwise, you should delete the sentence.

Comment on Mixed Tenure Zoning

One of the ideas to emerge from this study is the potential for the creation of a *mixed tenure zone.* Under this approach, mixed tenure zoning could be used to create multi-unit residential developments that are predominately rental. The most effective implementation would be to “up-zone” suitable neighbourhoods or areas to allow for increased density or a change of use in cases where the new housing being developed is predominately rental. While ownership tenure would still be permitted, it would most likely be allowed only at the lower densities. One potential variation might be to allow a mix of ownership and rental tenures in higher density developments. It is assumed that one of the uses under this approach would be residential for ownership, but at a low density, and the bulk of the development rights would be for purpose-built rental. Further research is required on an area-specific basis to determine the exact mechanism to enable the tenure sensitive zoning approach as well as the details and constraints on the rental units created.

The economic premise of the mixed tenure zoning is to avoid the current problem where all multi-family land is eligible for strata condominium development and, therefore, trades at the highest and best use, which is market condominium tenure. The proposed mixed tenure arrangement would restrict the amount of condominium density, which would help to reduce some of the structural economic disadvantages associated with new rental buildings.

The new mixed tenure zones would be priced lower, as established by market rental project economics (and residual land valuation), rather than for condominium use. In the short-term, it is anticipated that the mixed tenure zoning pricing may not exceed the original zoning value but, over time, if the economics for new rental housing improve, it is likely that the value of mixed tenure zones for rental purposes would also appreciate. Even if the mixed tenure zones were not providing viable rental opportunities on a sole-program basis, it would provide a strong platform of land base for a multi-program approach.

An example of this mixed tenure approach was modeled by Coriolis in Study 2D (case #18) where they took a hypothetical commercial/industrial site valued at current industrial land values and assumed that rental housing could be built on the site in either wood-frame or concrete at densities of 1.45 and 3.0 FSR, respectively[50]. The summary pro forma analysis below compares the estimated land value per foot under this zoning to the land values of the condo sites modeled in the Coriolis Study 2D. The mixed tenure zoning improves the project economics by an estimated 68% to 73% of the amount need to make the project financially feasible, thus providing an attractive "platform" for rental projects availing themselves of other incentives and stimulus programs.

Although this example uses a low density commercial industrial scenario, if single-family areas with low densities were significantly up-zoned, the same mechanism would provide for greatly improved rental project economics. Residential areas that are already well served by retail, transit and parks and other established amenities may be suitable for rezoning.

[50] Industrial land values are generally lower than land zoned for residential or commercial uses. Although this makes it attractive for a change of use to rental use, the City has an industrial land policy that protects city-serving industrial and commercial activities. Previous rezonings significantly expanded residential opportunities (Kitsilano, Fraser Lands, Collinwood and False Creek), and further rezonings of industrial land are unlikely. The example was selected because it best illustrates the economics of "up-zoning" in a mixed tenure scenario.

Figure 24. Mixed Tenure Zoning Example - Land value Comparison

Mixed Tenure - Land Value Comparison		$ per ft. buildable	
		Woodframe @ 1.45 fsr	Concrete @ 3.0 fsr
Site Cost - current Zoned Value	$3,267,000		
Cost per ft. if zoned "rental only"		$51.72	$25.00
Value if Condo site	$4.7 to $5.6 mm	$107.93	$129.23
Improvement in Land Cost $/sf		$56.21	$104.23
Improvement in Land Cost %		52.1%	80.7%
Feasibility Gap with "Mixed Tenure Zoning"		**-$21.00**	**-$39.00**
Financial Feasibility Gap at Condo Land Price		-$77.67	-$123.20
Improvement in Feasibility Gap $/sf		-$56.67	-$84.20
Improvement in Feasibility Gap %		73.0%	68.3%

As discussed in the previous section, the mixed tenure zone provides a strong platform for a multi-partner approach. However, municipalities by themselves may not have the resources to make rental housing viable in a mixed tenure zone. The City could identify appropriate areas for this type of zone and provide a density bonus and some relaxations to partially close the gap.

As with all the municipal incentives discussed in this section, a partnership approach with senior government would best utilize these potential tools. The Federal government could provide a grant or a tax credit to help close the rest of the financial feasibility gap. The Province could provide an on-going subsidy or other assistance to ensure a percentage of the rentals are at below-market rents. The next section of this policy direction #2 sketches a partnership approach to creating new rental housing supply.

A Partnership Approach to New Market Rental Supply: The Role of the City and Others

It is clear that the City has a role to play in helping to create the conditions needed to enable new supply. However, many of the financial and regulatory levers needed to encourage an effective supply response and/or address issues related to affordability fall within the policy domains of other levels of government. Most experts agree that the Federal tax treatment of rental housing represents a structural impediment to new rental supply and that while there are incremental changes that the City of Vancouver may be able to make on the margins, it is unlikely that the City will be effective in meeting the overall demand for rental housing on its own.

Therefore, the best approach to stimulate investment in rental housing is to work in partnership with other levels of government. The forgoing description of potential policy directions outlines many measures, large and small, available to each potential partner. A partnership approach has been the norm in most Canadian housing programs and a structure for a pilot project approach on a rental supply program is outlined below.

The following table summarises the potential subsidies and incentives that could be used in a partnership model for the creation of new rental housing. The subsequent schematic details a potential partnership model that would best utilize the resources allocated to a purpose-built rental housing supply program. The structure provides for the identification of key program parameters (e.g. location, scale and building type), and the joint coordination of the contributions from each government participant. Clearly, the size of the financial feasibility gap necessitates the allocation of substantial resources by each partner.

The municipal contributions may tend to be in-kind (relaxations, density bonuses and alleviation of permit fees) whereas senior governments may contribute by way of direct grants, tax credits, operating subsidies or concessionary financing terms or rates. It is also recommended that the program incorporate a "proposal call" approach, which provides the private and non-profit sector with the chance to compete for these government resources, subject to meeting the minimum program criteria like affordability profile and tenant mix. It is envisioned that the role of the rental investor, developer and private sector and non-profit operator will remain central to the process of creating new market rental supply.

Table 34. Potential Subsidies and Incentives by Government

Subsidies and Incentives - Effectiveness and Cost per Unit							
Type	**Measure**	**Government**	**Basis**	**Woodframe**	**Woodframe**	**Concrete**	**Concrete**
				% close gap	Cost per unit	% close gap	Cost per unit
Capital Cost & Finance	Capital Grant	Fed. or Prov.	One-time	100%	-$53,500	100%	-$73,000
	Waive City Permit Fees & DCL	City	One-time	18%	-$9,000	10%	-$7,000
	Reduce Parking by 50%	City	One-time	32%	-$16,500	15%	-$11,000
	GST/HST waiver Construction	Fed. or Prov.	One-time	6.8%	-$3,500	4.0%	-$3,000
	Tax Credit, subject to program design	Fed. or Prov.	One-time	50.0%	-$26,000	50.0%	-$33,500
	Density Bonus (1)	City	One-time	44.0%	-$24,000	47.0%	-$34,400
Increase Revenue	Rent Supplement	Fed. or Prov.	$ per unit/ annum	100%	-$2,500	100%	-$3,500
Lower Operating Costs	Property Tax Waiver		$ per unit/ annum	12.3%	-$6,500	1.4%	-$1,000
	GST/HST waiver Operations	Fed. or Prov.	$ per unit/ annum	12.3%	-$6,500	7.1%	-$5,000
Cost per Unit Rounded to the nearest $500 per unit, Based on Coriolis Study 2D.							

(1) The range of value achievable for density bonus practicable on a given site will vary significantly according to physical and project economics. The scenarios modelled here had a 58% increase in fsr for concrete and a 36% increase for woodframe.

Table 35. Schematic of a Potential Partnership Model

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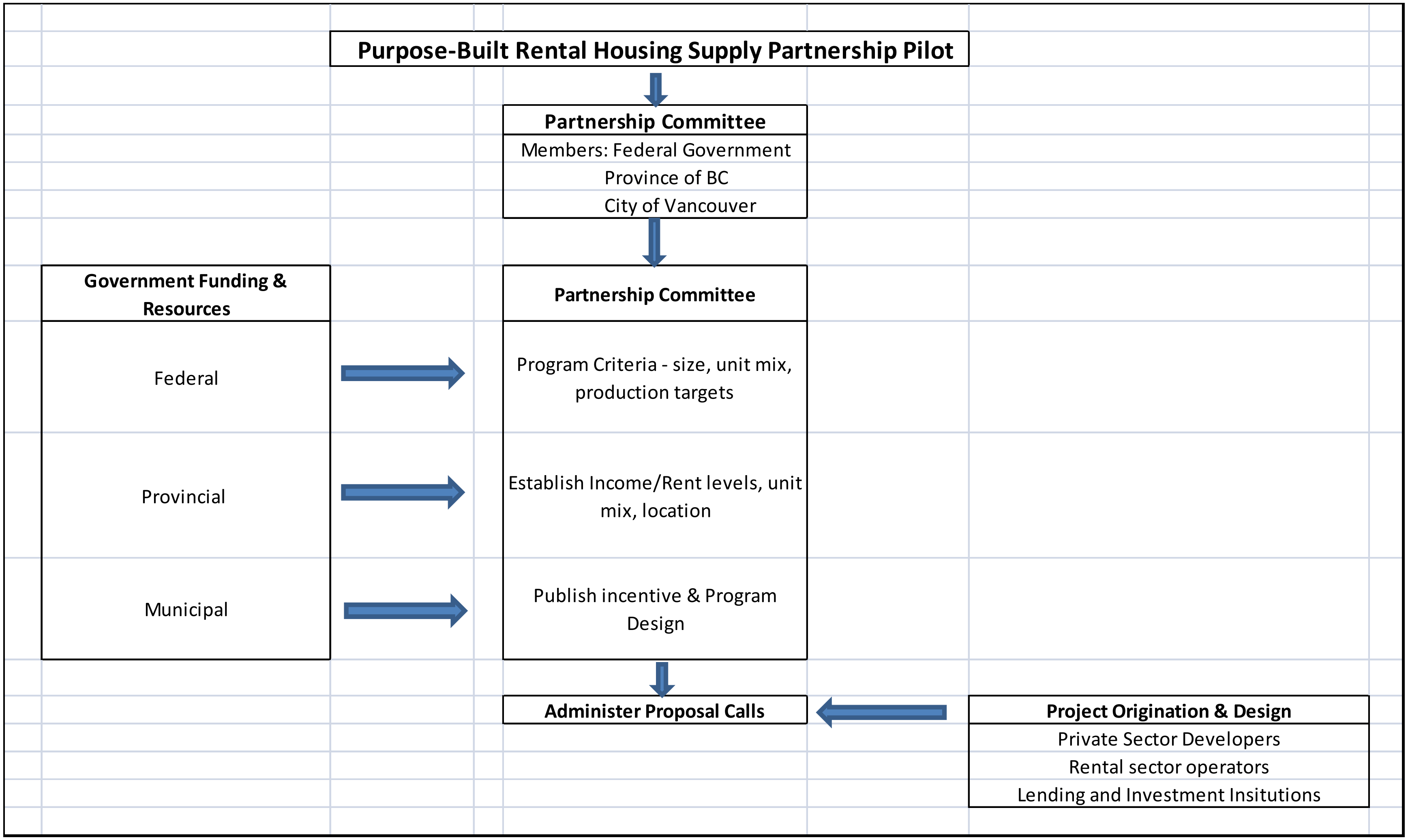

Policy Direction #3

Address affordability for low-income households by working with other levels of government to:

- **Expand the supply of government subsidized housing; and**
- **Assist families and individuals in the private rental market.**

The Challenge:
The City of Vancouver has successfully created an inventory of social housing assets, responding to the on-going need for affordable housing. Based on current data, there are approximately 23,200 non-market housing units across the City. This housing represents an important asset for responding to existing and emerging housing needs and it has been an important element in the City's overall policy directions.

Although 16% of the city's rental housing is social housing, in 2006 there are approximately 35,200 renter households across the City in core housing need, with 14,200 of those households spending at least one half of their income on their housing costs. The waiting list for Vancouver social housing units was almost 8,000 eligible households as at March 2010.

The previous two policy directions - the protection of existing rental stock and new supply - are important and necessary, but affordability will remain a challenge. We note:

- Protecting the existing rental stock will help maintain some level of affordability, but will not meet new demand.
- Enabling new supply will create rental units at the upper end of the market, but they will not be affordable to those with low incomes. New supply is a necessary condition for affordability, but will not guarantee it.
- Therefore, affordability will remain a challenge, particularly for the low-income households traditionally served by social housing.

To address the on-going affordability pressures and the unmet housing need in Vancouver's rental market, it is important for the City of Vancouver to continue to work with other levels of government (Federal, Provincial and regional) and the private and non-profit sectors to:

- Expand the supply of government subsidized housing; and
- Assist families and individuals in the private rental market.

Cost Constraints:

New social housing developments face many of the same challenges and cost pressure as new rental housing construction, in terms of both competition for available land and the cost of construction. The financial feasibility gap for new rental supply is $55,500 per unit to achieve a rent level of $1,482 per month (see table 9). At 30% of income, this rent level would be affordable for households with incomes over $59,000. To improve upon this affordability level additional incentives/resources are required. For example, at a household income of $35,000 (slightly above the median renter income in 2005), the rent would need to be $880 per month and the financial feasibility gap per unit increases to $166,000.The viability gap would be even greater for households in “core housing need”.

Potential Risks and Trade-offs:

Under traditional housing support programs, the capital and operating funding was provided through a mix of housing programs financed under different government supply programs (Federal, Federal/Provincial and Provincial). In 1993, Federal funding for new social housing ended. Although there has been a recent re-engagement of the Federal government, Federal funding has been provided through one-time contributions and is significantly below the pre-1993 level of commitment.

Recent Provincial housing supply initiatives have taken advantage of Federal funding contributions and have met the requisite 'matched' funding requirement introduced by the Federal government. However, at the same time, the Provincial government has increasingly required financial contributions from municipal governments in the form of land and other resources to support new housing development. The limitation of this approach has been one of resource constraints and not efficiency, efficacy, or public acceptance.

Rent supplement measures are another approach to reducing the affordability problems of low income households. Rather than invest in new non-market housing, rent supplement measures provide additional money to subsidize the cost of renting in the private market. A limitation of this approach is that where there are chronic rental shortages or significant competition for available rental units, rent supplements disadvantage other low income households that do not receive assistance. The situation may arise where renters cannot find units at the maximum rents set for vouchers. Vouchers can also put upward pressure on rents. A further concern is that certain groups, such as low income single person households under the age of 60, do not have access to any form of housing assistance, yet account for a significant percentage of all households in core housing need.

The Role of the City and Others

The tax base available to municipalities limits the actions that they can take in assisting new market-rental housing, and the municipal role is even more limited in assisting the provision of affordable housing. In the past, the City of Vancouver has contributed land assets and other considerations, including waiving DCLs for social or non-market housing. However, the City's capacity to continue funding at this level is limited, and substantial Federal and Provincial funding will be required.

Vancouver has a strong record of collaborating with senior levels of government on social and non-market housing. Recently the City partnered with the Province, philanthropic organizations and the non-profit sector to build over 1,500 non-market units on 14 City-owned sites. The City should continue to promote and participate in these critical housing and social development initiatives.

Policy Direction #4

Promote measures to create stability and new supply in the secondary rental sector, including: ongoing policies to promote secondary suites and infill units, and policies to enhance the stability of the existing rented condominium apartment stock by extending the length of time that this stock remains part of the rental pool.

The Challenge:
Even if most of existing rental stock is protected and senior levels of government begin to provide more financial assistance for the purpose-built-market rental and non-market rental sectors, the City will still need to rely on secondary sector for substantial portion of existing rental and additional supply.

For the secondary suite sector, the City has already made substantial changes in its zoning and building by-laws to facilitate adding suites and laneway houses to existing homes and allowing suites in new single family and some apartment construction. There appears to have been limited success in terms of legalizing suites, although monitoring and inspecting new construction does appear to be having an effect. The City may wish to examine the factors behind this trend. In the event rental supply from other sources declines substantially, the City could consider promoting secondary suites through a grant program, although Calgary's pilot grant program has had limited take-up. Currently, no intervention is suggested because a large proportion of homeowners and builders are using opportunities to add secondary suites, particularly in Vancouver's east side neighbourhoods.

The inventory of rented condominium apartment stock represents an important source of rental housing supply, accounting for perhaps 15% of the city's rental stock. The lack of stability of this stock both in terms of security of tenure as well as the length of time in the rental pool are issues that need to be addressed.

Effectiveness and Contribution:

The legal and regulatory framework for rented strata buildings is largely established and administered by the Provincial Government. Strata condominium tenure has been successful, with excellent consumer acceptance and large production numbers. The regulation of the rental aspect of strata condominium tenure has continued to evolve and most recently (October 6,

2009) the Province changed the *Strata Property Act* to limit the ability of strata councils to impose rental restriction by-laws. From a housing policy perspective, this should enhance rental opportunities in strata condominium developments and provide more housing choices in a tight rental market. Other changes included improvements in the dispute resolution process and greater clarity around the rules governing rental restrictions. Nevertheless, the rental dynamics in strata condominiums are not well understood, and additional work to identify any underlying problems in managing this "diffuse" stock of often individually owned units should be undertaken.

The City should use the changes on rental restriction by-laws[51] introduced to the Strata Property Act in early 2009 to explore potential mechanisms to encourage new rented condominium stock to remain available for rental over the long term. Previously, strata councils could elect to impose rental restrictions by-laws and limit the rights of subsequent owners of strata units to rent their units. These rental restriction strata bylaws contributed to the erosion in the size of the rental condominium pool. Under the new provisions the initial disclosure statement for the strata property, typically filed by the developer, can specify that the rental option be available to all subsequent purchasers for a specified period.

Although it may be preferable for the Province to introduce broader rental restriction constraints, the City may wish to explore a requirement that all new, multi-family residential buildings, as a condition of a development, maintain the rental option for all residential condominium units for a specified minimum number of years. This would not necessarily increase the propensity to rent condominium units, but it would eliminate the strata council's authority to remove potential condominium rentals from the stock of housing.

The CitySpaces study findings also draw attention to some of the data and research gaps concerning the rented condominium stock. Basic questions about the number, location, and rent levels of the rented condo stock, and the factors influencing the proportion of the condo stock that is rented are difficult to answer with certainty. Given the increasing importance of this stock (especially in the absence of new rental supply), it is clear that better information and monitoring is needed. This monitoring should include investor-owned units that do not appear to be part of the rental pool.

[51] The 2009 changes reversed the amendments to the Act in the previous revision in 2000.

Potential Risks and Trade-offs:

The secondary suite sector has emerged as a significant source of rental housing throughout the City. The licensing and inspection of existing suites remains low, notwithstanding efforts to encourage compliance with “user friendly” building codes. The City continues to promote compliance, particularly on life safety and basic building code requirements.

The rented condominium has been a significant source of new rental in recent years. A shift in the development climate, high interest rates and or a protracted recession could erode the rate of new production and possibly affect the propensity of investors to acquire and rent these units. Although the rented condominium stock is not an ideal substitute for purpose-built rental housing, it does broaden the range of choice for some renter households and alleviate some of the supply shortages attendant with the long-standing low rate of rental production.

The Role of the City and Others

The Province’s policy direction of enabling rental tenure in strata condominiums should be endorsed by the City. Ongoing monitoring and data collection, perhaps in conjunction with CMHC, would strengthen the knowledge base and identify potential improvements in the operation of this segment of the rental market.