CITY OF VANCOUVER

POLICY REPORT
SOCIAL DEVELOPMENT

Report Date:	April 7, 2016
Contact:	Allison Dunnet
Contact No.:	604.873.7488
RTS No.:	11038
VanRIMS No.:	08-2000-20
Meeting Date:	April 20, 2016

TO: Standing Committee on City Finance and Services

FROM: Chief Housing Officer

SUBJECT: Affordable Home Ownership Pilot Program

RECOMMENDATION

A. THAT Council approve in principle the goals of an Affordable Home Ownership ("AHO") pilot program, as described in this report.

B. THAT Council request the Province to amend the *Vancouver Charter* so as to authorize Council to implement affordable home ownership programs generally, including but not limited to freehold and leasehold models, and including variants of these models, such as restricted market, second mortgage, shared ownership, below-market leasehold, and any other legal structures which from time to time are best suited, in Council's opinion, to the delivery of affordable home ownership programs for Vancouver residents.

C. THAT Council direct staff to undertake the following actions prior to a report back on an Affordable Home Ownership pilot program for adoption:

i. consultation with regional and local employers, workers and the broader public on key parameters of the program, including but not limited to target affordability, eligibility criteria and ownership terms and conditions for potential buyers;
ii. consultation with the development industry on the administrative and legal processes for creating affordable home ownership units;
iii. consultation with the Canada Mortgage and Housing Corporation, other interested private mortgage insurers, and mortgage lenders to develop an Affordable Home Ownership model that is insurable and mortgage-able; and
iv. develop a framework to manage the AHO pilot program and a process for contracting a third party administrator for future management of AHO units created under this policy.

D. THAT Council approve the updated Administrative Bulletin in Appendix A to provide greater clarity on the requirements for applicants under the *Interim Rezoning Policy for Affordable Housing Options*.

REPORT SUMMARY

This report responds to Council's direction to explore the establishment of a program for Affordable Home Ownership in the City of Vancouver and report back on any actions necessary to implement an Affordable Home Ownership pilot program. Staff recommends Council approval, in principle, of the goals of an Affordable Home Ownership pilot program, as described in the report, under the existing Council approved *Interim Rezoning Policy for Affordable Housing Choices ("IRP")*.

The report details the research and analysis taken to explore the establishment of an affordable home ownership pilot program for developer-initiated projects in Vancouver. This report includes background information on the ownership affordability challenges in Vancouver, the societal benefits from an AHO program, and a review of AHO programs in other cities. This report lays out the goals and an outline model for a developer-initiated affordable home ownership pilot program, including preliminary eligibility criteria under consideration. Subject to the stakeholder engagement work, staff will continue to refine the program parameters and develop an optimal AHO pilot program that achieves the affordability, viability and sustainability objectives while managing the City's risk exposure over the long-term.

As a foundational step in enabling any AHO pilot program for Council consideration, staff has identified the need for *Vancouver Charter* amendments to authorize AHO programs. Council is requested to publicly direct staff to seek *Vancouver Charter* amendments from the Province to authorize affordable home ownership programs, including but not limited to restricted market, second mortgage and shared ownership models. If Council adopts Recommendation B above, staff will proceed to immediately submit a *Vancouver Charter* amendment request to the Province since an amendment will take at least 8 months, any IRP applications proposing an AHO program will need to include an alternative market rental proposal in the event that the requisite Charter authority is not obtained in time.

Staff recommend further consultation with AHO stakeholders, including regional and local employers, workers and the broader public, as well as the development industry, Canada Mortgage and Housing Corporation, other private mortgage insurers, the mortgage lending sector, as well as experienced AHO program administrators. A third party administrator will be required for future management of AHO units created by the City.

If Council approves the recommendations in this report, staff will also work closely with the Director of Supply Chain Management to determine which components of the consultation process should be supplemented by market-sounding and/or a competitive open procurement process in advance of initiating an AHO pilot program so as to include the result of same in a report back on a recommended framework for the pilot.

Finally, this report includes a recommendation to approve an update of the administrative bulletin for the *Interim Rezoning Policy for Affordable Housing Options* (IRP) to provide greater clarity on the requirements for applicants under this policy. The IRP creates rezoning opportunities for affordable home ownership, as well as a variety of affordable housing types (e.g. rental, life lease, co-housing).

COUNCIL AUTHORITY/PREVIOUS DECISIONS

On December 15, 2010, Council passed the *Rezoning Policy for Sustainable Large Developments*, which includes an inclusionary zoning target that 20% of new units be provided as affordable housing, including consideration of affordable home ownership in the event that social housing is not financially viable.

On July 28, 2011 Council endorsed *the Housing & Homelessness Strategy 2012-2021*, which includes the strategic directions "to increase the supply of affordable housing", and "and to encourage a housing mix across all neighbourhoods that enhances quality of life".

In December, 2011, Council passed a resolution to establish a *Mayor's Task Force on Housing Affordability*, which was to provide recommendations to Mayor and Council for priority actions that may be taken by the City to create low-income housing, affordable rental housing, and affordable home ownership.

On October 3, 2012, Council approved an *Interim Rezoning Policy for Increasing Affordable Housing Choices* (IRP), which allows for consideration of rezoning applications in certain specific existing residential or mixed used areas on major streets related to transit. Affordable Home Ownership, where units are sold for at least 20% below market value and include a secure mechanism for maintaining affordability, was identified as one avenue by which projects would be considered for a rezoning under this policy.

On November 23, 2013, March 15, 2014, and April 2, 2014, Council endorsed the West End Community Plan, the Downtown Eastside Plan, and the Marpole Community Plan, respectively, which all include strategic directions to diversify and increase affordable housing options, including opportunities for affordable home ownership.

On June 23, 2015 Council directed staff to "explore the establishment of a program for Affordable Home Ownership in the City of Vancouver, with policies and incentives that can best achieve this new affordable housing objective" and "report back on any actions necessary to implement an Affordable Home Ownership program and related policies."

CITY MANAGER'S COMMENTS

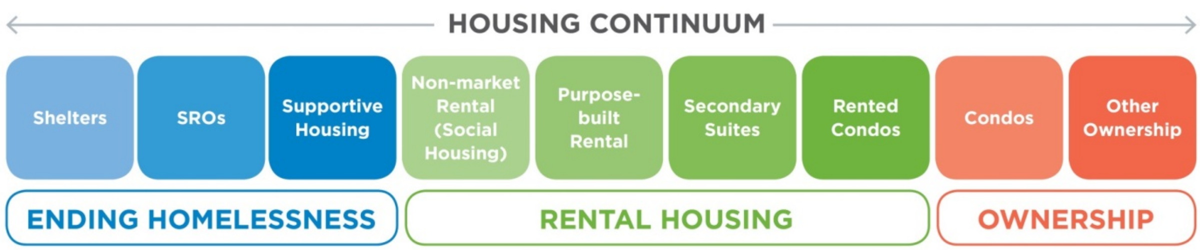
An Affordable Home Ownership pilot program will provide an affordable ownership housing option for moderate income, working households to stay in Vancouver. The work completed by staff to date is extensive and clearly supports the recommendations set out above to complete consultation with stakeholders while seeking the requisite amendments to the *Vancouver Charter*.

This will allow the City to move forward on developing a robust framework for a pilot program which can then be brought back to Council for review, hopefully concurrently with the enactment of the requested Charter amendments.

REPORT

The *Housing and Homelessness Strategy 2012-2021: A Home for Everyone* is creating affordable housing options to make Vancouver a place everyone can call home. Diverse affordable housing options are needed to support a vibrant local economy and ensure a greener future. In recent years, the growing gap between local incomes and housing costs, combined with the scarcity of affordable family sized units in both rental and ownership housing, has made it harder for many moderate and middle income households and younger Vancouverites to secure adequate and affordable housing in the City.

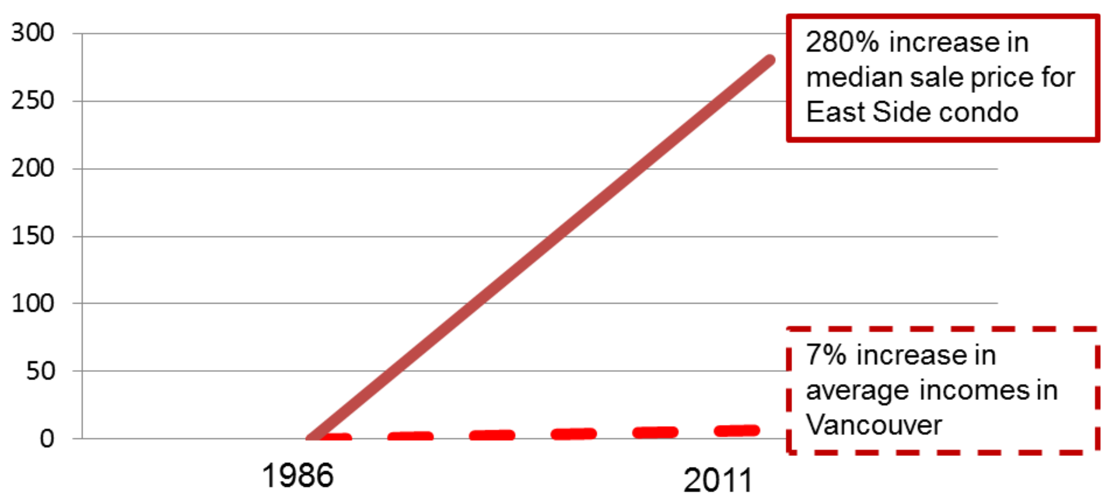
When local households in their key working years perceive that their only option is to "drive to qualify" for a mortgage, the lack of local housing options has the effect of encouraging less sustainable and active transportation choices, undermining local employment, eroding social diversity and potentially increasing the polarization of incomes in Vancouver. To support the continued attraction and retention of working households, especially families with children, staff recommend Council support, in principle, the development of a viable and sustainable affordable home ownership pilot program that can add a new affordable housing option to the City's housing continuum.



Vancouver's Ownership Affordability Challenge

Over the last 25 years, ownership housing prices in the City of Vancouver have vastly outpaced local income growth (Figure 1). For many first time home-buying households, this uncoupling of local incomes to local home prices has put local housing ownership out of reach and undermined their ability to remain in their communities.

Figure 1. Change in Median Eastside Condominium Sale Price Compared to Incomes



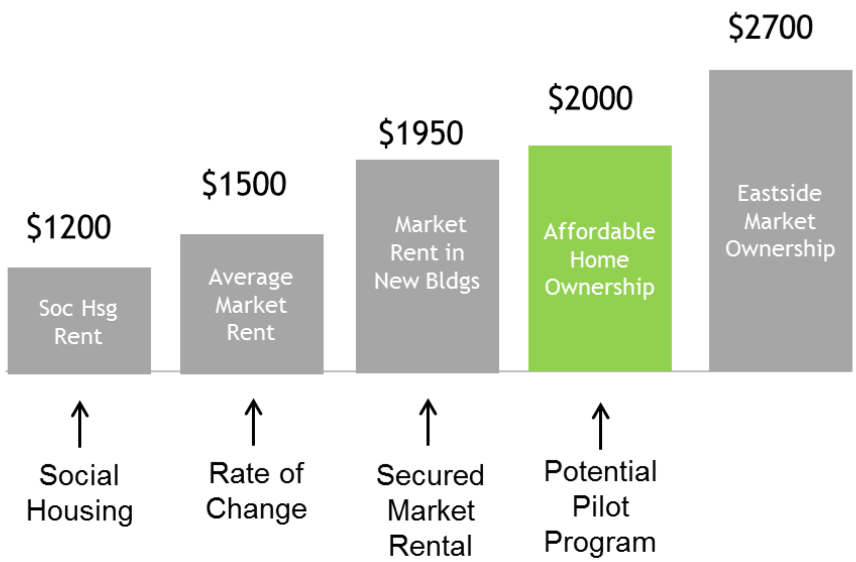
Owning a home continues to be an important financial and personal aspiration for most Vancouverites, especially families with children who are concerned with long term housing security while children are in school. However, owning a two or three bedroom unit has become out of the reach for many middle income households due to escalating prices and limited supply.

With the exception of single family homes, across the region, just 1.7% of the housing stock is 3-bedroom apartments, and just 9% is 3-bedroom townhouses. Analysis by Vancity on the ability of households to afford ownership housing suggests that by 2025, the household income required to maintain the average mortgage in the region could be $125,692, a price unaffordable to a significant portion of Vancouver's labour force and essential workers.

Benefits of Supporting Affordable Ownership

The City has a wide range of policies and programs to support the development of social housing and secured market rental (Rental 100 Program) that are fundamental for a healthy, sustainable, equitable and economically vibrant city. Affordable home ownership is not intended to replace those housing options, but to provide an additional housing option along the City's housing continuum. The proposed affordable home ownership pilot program outlined in this report can create an additional affordable housing option that enables households to put down roots in Vancouver[1] (see Figure 2).

Figure 2. Comparison of Housing Costs Along the Housing Continuum (2-bed example)



Affordable Home Ownership creates affordable housing options for the participant households and societal benefits for the community, the city and the region. Some of the key benefits of an affordable home ownership program include:

1. Supports economic growth through continued attraction and retention of business investments by providing local workers with local housing options that meet their needs and life goals.
2. Increases security of tenure and opportunities to build equity for participant households.
3. Reduces pressure on social housing and market rental housing by transitioning eligible households who are able and interested, from rental to homeownership.
4. Creates an alternative option to the "drive to qualify" for ownership housing and reduces pressure on suburban sprawl.
5. Maintains and improves social diversity by enabling moderate to middle income residents to purchase a home in their communities.

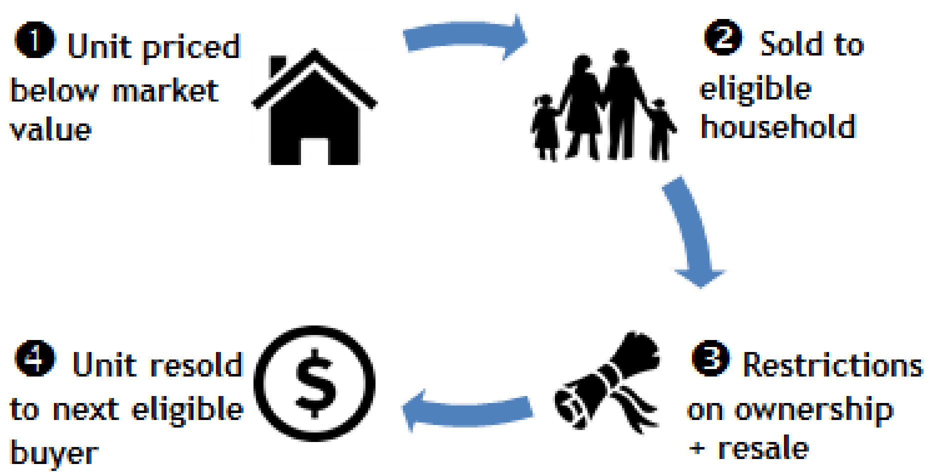
[1] Note: Eastside Market Affordability based on 10% down payment, 25 year amortization, 5% interest rate and median sale price of 2-bed in 2014

AHO Programs in Other Cities

Affordable Home Ownership programs in cities around the world aim to create opportunities for low, moderate and middle income households to transition from market rental to homeownership. The specific structure of the programs such as eligibility criteria, re-sale restrictions, etc. are diverse to address the different priorities and objectives in each city. Staff investigated various affordable home ownership programs in the United Kingdom, the United States and Canada, including Whistler, Calgary, San Francisco, Boston, New York and Toronto. Detailed profiles of each program and an analysis of program components can be found in Appendix B.

In a typical affordable home ownership program, housing units are created and sold at below market value by a social purpose organization, non-profit, government created housing authority, or by market developers as a community contribution required through inclusionary zoning. Different mechanisms are used to create affordability, including city or donated land, bulk building of modest housing forms, reinvestment of the value of additional density created, innovative financing and/or forgoing market-based profits. Eligible households are then able to purchase a unit at a below market price.

Figure 3. Affordable Home Ownership: How it Works



Programs' eligibility criteria typically reflect the specific nature of the affordability challenges faced by the cities. For example, programs may focus on providing ownership housing for: renters displaced or evicted through redevelopment, emergency services and first responders, first time buyers, families with children, historic/minority cultural communities at threat of displacement, local workers, etc. Programs display considerable diversity in target participants, ranging from being open to any interested buyer (Toronto's *Options for Homes*) to highly specified participants with multiple eligibility criteria (San Francisco's BMR Program). There are two general categories of programs:

- *Shared Appreciation Models:* create affordability and entry to the market for initial buyers and an opportunity to build equity via market appreciation over time
- *Limited Appreciation Models:* prioritize maintaining affordability for subsequent purchasers and limiting the appreciation gain for the buyer.

Buyers in most AHO programs are subject to restrictions on occupancy and re-sale. The legal and administrative structure of the pricing, occupancy restrictions, and sale and re-sale terms in the ownership agreements are structured to achieve these different outcomes. Typically the larger the public investment in the creation of the initial affordability, the more restrictive the terms for the ownership and future re-sale are to ensure preservation of the public investment.

Exploring the Demand for Affordable Home Ownership in Vancouver

An analysis of the City's renting households through Statistics Canada reveals approximately 30,000 households earning between $50,000 and $99,000 per year could potentially qualify for an AHO pilot program targeting moderate and middle income working households. Additionally, there are many families with children which are under-housed and looking for affordable family-oriented 2 and 3-bedroom units. According to Statistics Canada in 2011, there are 6,300 families living in studio and 1-bedroom units, and 26% of these families have more than one child. The *TalkHousing Vancouver* Survey in the fall of 2015 also included questions specifically on the housing needs and experiences of families with children. The survey revealed that 61% of Vancouver families felt it was important to own their home, suggesting that homeownership among Vancouverites remains a priority.

Strategic Analysis

Recommendation A. Approve in principle the goals of an Affordable Home Ownership pilot program, as described in the report.

In responding to Council direction to explore the establishment of an Affordable Home Ownership program in the City of Vancouver, staff has identified goals and key aspects to guide the development of any affordable home ownership pilot program for Council's consideration. Staff recommend Council approve, in principle, of the goals and key aspects described in this section. Approval in principle enables staff to consult with various stakeholders to further develop and refine a viable and sustainable model for future consideration by Council.

AHO Program & Pilot Goals:

1. Enable the creation of affordable home ownership options for local, moderate to middle income workers, including a variety of household types (singles, couples and families) to stay in Vancouver.
2. Create a simple and effective program that is supported by buyers, developers, lenders, CMHC and other government partners.
3. Develop a sustainable program that meets the needs of local residents and balances financial and legal risks to the City.
4. Develop an AHO pilot program (300 units), delivered by the market with annual reviews and adjustments as required.

In further developing and refining an AHO pilot program for Vancouver, staff will consider the following factors:

- Fit for addressing the affordability challenges in Vancouver;
- Fit with *Vancouver Charter* authority and legal implications;
- Mortgage-ability (by commercial lenders) and insurability (by CMHC or other interested private mortgage insurers);

- Preservation of City investments and risk of financial losses;
- Implications to broader policies;
- Ability to sustain and/or expand program in future years; and
- Administrative ease and efficiency.

Recommendation B. Council publicly direct staff to seek Vancouver Charter amendments from the Province to authorize affordable home ownership programs.

Staff have identified the need for *Vancouver Charter* amendments to enable an AHO pilot program, while staff continue to work towards identifying the most optimal AHO model that achieves the best outcome for the City and its residents. To ensure maximum flexibility in securing and administering the AHO units over time, such amendments should be as a broad-based as possible to accommodate a wide range of legal models as may from time to time be considered beneficial to Council, including Second Mortgage, Restricted Market, Shared Ownership Models, and including variations of the Leasehold Model. As with any Charter amendment request, it is difficult to determine when the Province will consider the City's request. Subject to Council approval, staff will proceed immediately with a written request in time to be considered in the Fall sitting of the legislative assembly.

Recommendation C. Council direct staff to undertake the following actions prior to a report back on an Affordable Home Ownership pilot program for adoption:

Action 1. Consultation on AHO Program Parameters

Determining target households for an Affordable Home Ownership pilot program is a critical first step in the development of an effective and sustainable program. Most affordable home ownership programs set specific eligibility criteria for potential buyers in order to ensure that limited affordable home ownership units are accessed only by qualified buyers. The preliminary program eligibility considerations in Table 1 were developed through review of other cities' affordable home ownership programs and adapted to meet Vancouver's particular challenges. Subject to Council approval, staff will consult with regional and local employers, key workers and the broader public on the eligibility considerations and target affordability, and ownership terms and conditions, and make further refinements as part of the report back.

Table 1. Preliminary AHO Program Eligibility Considerations

Requirement	**Definition**
Local Residency	Resident of Vancouver for a minimum of the last 5 years.
Local Employment	At least one buyer must be employed in Vancouver.
Permanent Resident/Citizen of Canada	One buyer must be a permanent resident or citizen of Canada.
Maximum Household Income[2]	• $67,540/year for studio and 1-bedroom units for singles and couples with no dependent children living at home. • $96,170/year for 2 and 3+ bedroom units for single/dual parent families with dependent children living at home.

[2] BC Community Partnership Initiative (CPI) Program, Affordable Home Ownership Income Maximums for 2016.

First-time Home Buyer	Program priority is for households who have never owned property. Studio and 1-bedroom units restricted to first time buyers.
Move-up Home Buyer	Program will allow, subject to some restrictions, move-up family buyers who currently own a unit insufficient for their family size.
Mortgage Pre-approval and proof of Down payment	Eligible buyers must have a minimum 5% down payment to contribute unit and proof of mortgage pre-approval.
Primary Occupant	Buyer household must be the permanent sole occupant(s) of the unit. Renting is restricted.
Homebuyer/Owner Education	Eligible buyers must complete a home buyer education course to be eligible to purchase a unit.

The preliminary target affordability of the pilot program under consideration assumes the homeowner's housing costs (mortgage payments, property taxes, utilities, strata fees, etc.) to be no greater than approximately 35% of gross monthly income, which is above the typical rental and social housing affordability target of approximately 30%. Staff supports the 35% target given the additional benefits of ownership (e.g. equity building) and typical lending practices on residential mortgages. The proposed pilot program assumes a *shared appreciation model*, with the buyer and the City sharing in the market appreciation on the property in proportion to their stake in the unit. This approach balances two overarching goals:

- Enabling AHO households to build their equity in step with market appreciation so as to enable them to stay in Vancouver and potentially transition into full market ownership in the future;
- Ensuring that the City's initial contribution to the affordability is secured in perpetuity to provide long-term below market ownership housing units.

In determining the target households and appropriate income maximums for the pilot program, staff reviewed the benchmarks set by the *Mayor's Task Force on Affordable Housing* in 2011 and the current BC Housing income band maximums for provincial government support for affordable home ownership programs (CPI Program). Given the significant affordability challenge facing families with school aged children, staff are recommending that singles and couples are restricted to units with less than two bedrooms and units with two or more bedrooms are restricted to offering to families with at least one school aged child. Under any future AHO program that Council would elect to approve, qualifying income bands for both initial purchase and re-sale would need to be reviewed and adjusted annually to reflect housing price, income and interest rate trends at the time. Consideration will also be given to time restrictions on the first resale to minimize flipping.

<u>Action 2. Consultation with the Development Industry</u>

As the draft pilot program is a developer initiated model, to ensure an effective program it is critical that the development community understands and can advance projects under any future pilot program. Subject to Council direction, staff propose to consult with the development community, on the proposed pilot program model with a particular focus on the rezoning, administrative and legal processes.The draft pilot program would deliver 300 committed units over the first three years, subsequent to the adoption of required Charter amendments by the Province and formal approval of a pilot program by Council. Staff estimate based on enquiries since 2012 that a goal of delivering 300 committed AHO units is achievable.

In the working model for an affordable home ownership pilot program, the City invests the value created from the density granted on the site to make units affordable. The affordability is then secured as an ownership stake for the City in all or some portion of the building's units and at various levels of discount (e.g. 20% of the fair market value). This City stake creates the opportunity for an eligible buyer to purchase an affordable unit. Due to the limited supply of affordable family-oriented units in the City's housing stock, the working model sets a target that at least 50% of all units in a project must be 2 and 3+ bedroom units developed for and sold to families with children, and requires a minimum of 35% of units that work for families.

Action 3. Consultation with CMHC and Mortgage Lenders

Staff undertook an initial market sounding with major commercial lenders to gauge their interest in the shared ownership model being contemplated for a pilot program. While there was some receptivity to a shared ownership model, participation of the lenders is hinged on CMHC's willingness to insure these mortgages. Staff have been working with CMHC to explore mortgage insurance options for potential buyers under a pilot program that utilizes different AHO models. Staff submitted a proposal for a shared ownership program to CMHC and CMHC have provided preliminary comments to the regional office for consideration. Staff will continue working with the mortgage insuring and lending sectors s to ensure that a future proposed pilot program is mortgage able and insurable for participants.

Action 4. Exploring Third Party Administration of AHO Units

After reviewing the approach to affordable home ownership in other cities and countries, staff propose the working model for an AHO pilot program includes consideration of engaging a reputable third party organization to administer the AHO pilot program on behalf of the City. Some of the general administrative and operational roles a third party administrator could undertake include but are not limited to:

- Designing and facilitating the required home buyer/owner education workshops, including the program requirements and education on owning housing;
- Screening applicant buyers to ensure they meet eligibility requirements prior to purchase;
- Developing a pre-qualified list of mortgage lenders who understand and support the AHO pilot program;
- Ensuring buyers have appropriate financing in place prior to offering AHO units;
- Ongoing compliance monitoring and enforcement to ensure the AHO terms and conditions are adhered to (e.g. owner occupancy, payment of taxes, insurance, home maintenance, mortgage arrears or defaults, unauthorized renting);
- Post-purchase review of applications to undertake improvements and providing consent and facilitating valuation and resale;
- Annual program review and report to Council;
- Recommending strategic adjustment to the program for Council's consideration to ensure the long-term viability, sustainability and affordability of the program are maintained and to improve administrative and operational efficiency of the program.

If Council approves the recommendations in this report, staff will also work closely with the Director of Supply Chain Management to determine which components of the consultation process should be supplemented by further market-sounding and/or a competitive open procurement process in advance of initiating an AHO pilot program. Such components might include requests for proposals or expressions of interest from the mortgage insurance sector, mortgage lending sector, and/or AHO administrator sector. The results of same could then be included in a report back on a recommended framework for the pilot.

Recommendation D. Update the Administrative Bulletin for the Interim Rezoning Policy for Increasing Affordable Housing Choices

Staff recommend, as a housekeeping action, that Council update the administrative bulletin in Appendix A to provide greater clarity on the requirements for applicants under the *Interim Rezoning Policy for Affordable Housing Options*. Staff note that the IRP enables a variety of forms of affordable housing and to date Council have approved two 100% rental projects, a life lease project, and a co-housing project. In the working proposal for a pilot program AHO units are generated under the existing *Interim Rezoning Policy for Affordable Housing Choices* (IRP). To ensure any future adopted AHO pilot program does not detract from the City's existing housing priorities and goals for rental or social housing, staff recommend that AHO units should be constrained to previously approved locations and to the criteria in the IRP.

Staff have adjusted the administrative bulletin and the corresponding map to clarify for applicants that the IRP applies to all areas of the city except those that have recently adopted community plans or are currently undergoing community planning, and it also does not apply to industrial areas or to zoning districts which already permit building heights greater than six storeys (except that projects already under consideration in these districts on April 19, 2016 will continue to be considered). Staff expect that if Council elects to undertake a pilot program under the IRP in the future, projects would likely be developed across the City, as directed by the City's Housing & Homelessness Strategy and in alignment with other city planning principles.

Implications/Related Issues/Risk

Financial

In determining the most optimal AHO model and program parameters, it is important to balance the need to deliver a viable and sustainable AHO program while managing the City's exposure over the long-term.

In general terms, the long-term viability and sustainability of an AHO pilot program depends on multiple factors, some of which are within the City's control while others are market driven. These include, but are not limited to, target households and maximum income bands for initial purchase and future resale, size of down payment, affordability target, depth of discount, future growth in housing prices and household income, mortgage rate increases, and general economic conditions in Vancouver. All these factors will need to be carefully assessed, and any program parameters and eligibility criteria will need to be reviewed and adjusted on an ongoing basis to reflect the market conditions at the time.

Staff will continue to refine key program parameters and eligibility criteria, incorporating feedback from key stakeholders, and report back to Council on a recommended AHO pilot program.

Legal

Upon adoption of Recommendation B by Council, the City's Director of Legal Services will prepare, in consultation with staff, and then submit the necessary *Vancouver Charter* amendment request to support the AHO pilot program and AHO programs generally.

CONCLUSION

Staff seeks Council approval, in principle, of the goals and key aspects of an Affordable Home Ownership pilot program, as described in the report, under the existing Council approved *Interim Rezoning Policy for Affordable Housing Choices*. Staff recommend that the City formally request a *Vancouver Charter* amendment so as to clearly authorize AHO programs generally. Staff seek direction from Council to advance the development of a pilot program by undertaking consultation with regional and local employers, key workers and the broader public, as well as the development industry, mortgage insurance and mortgage lending sectors, prior to a report back with a recommended affordable home ownership pilot program for adoption.

* * * * *

City of Vancouver *Planning - By-law Administration Bulletins*
Planning and Development Services, 453 W. 12th Ave Vancouver, BC V5Y 1V4 Φ 604.873.7000
planning@vancouver.ca

AFFORDABLE HOUSING CHOICES INTERIM REZONING POLICY

Authority - Director of Planning
Effective October 4, 2012
Amended December 2, 2013 and April 19, 2016

On October 3, 2012, City Council approved the Affordable Housing Choices Interim Rezoning Policy aimed at encouraging innovation and enabling real examples of affordable housing types to be tested for potential wider application that will provide ongoing housing opportunities. Please see report to City Council at the following link: http://former.vancouver.ca/ctyclerk/cclerk/20121002/documents/rr2.pdf.

The policy allows for consideration of rezoning proposals which will be evaluated on criteria in the following categories: Affordability, Location, and Form of Development, and Council has provided guidance on each of these criteria. Council has established a maximum of 20 rezoning applications to be considered under this interim policy. Once 20 rezoning applications are in process, other proposals will be put on a wait list pending any decision by Council to extend the policy beyond 20 projects. As of April 19, 2016, six projects under this policy have been approved or are in process.

How to find out if a site is eligible for the Affordable Housing Choices Interim Rezoning Policy

Locations where the Affordable Housing Choices Interim Rezoning Policy can be considered are provided in Section 2, below. To confirm the eligibility of a particular site, contact the Planning Info Line at 604-873-7038 or contact:

Michael Naylor, Senior Rezoning Planner
Email: michael.naylor@vancouver.ca
Tel.: 604.871.6269

Criteria Established For
Interim Rezoning Policy for Affordable Housing Choices

The intent of the Affordable Housing Choices Interim Rezoning Policy is to encourage innovation and enable real examples of ground-oriented and mid-rise affordable housing types to be tested for potential wider application that will provide ongoing housing opportunities. This policy will demonstrate the “transition zone” concept identified by the Task Force, where ground-oriented affordable housing types provide a transition between higher density arterial streets and single-family areas.

Rezoning applications will be considered when the following criteria regarding affordability and form of development are met:

1. Affordability

Projects must demonstrate an enhanced level of affordability beyond that provided through the delivery of a generally more affordable housing type alone. Applicants will be expected to demonstrate their ability to maximise the level of affordability in the project. Projects that would be considered must meet one of the following affordability criteria:

- where 100% of the residential floor space is rental housing;
- where units are sold for at least 20% below market value and include a secure mechanism for maintaining that level of affordability over time (e.g. resale covenant, 2nd mortgage, etc.);
- innovative housing models and forms of tenure such as co-housing, when they can demonstrate enhanced affordability as determined by the City;
- where a Community Land Trust model is employed to secure increasing affordability over time.

AND

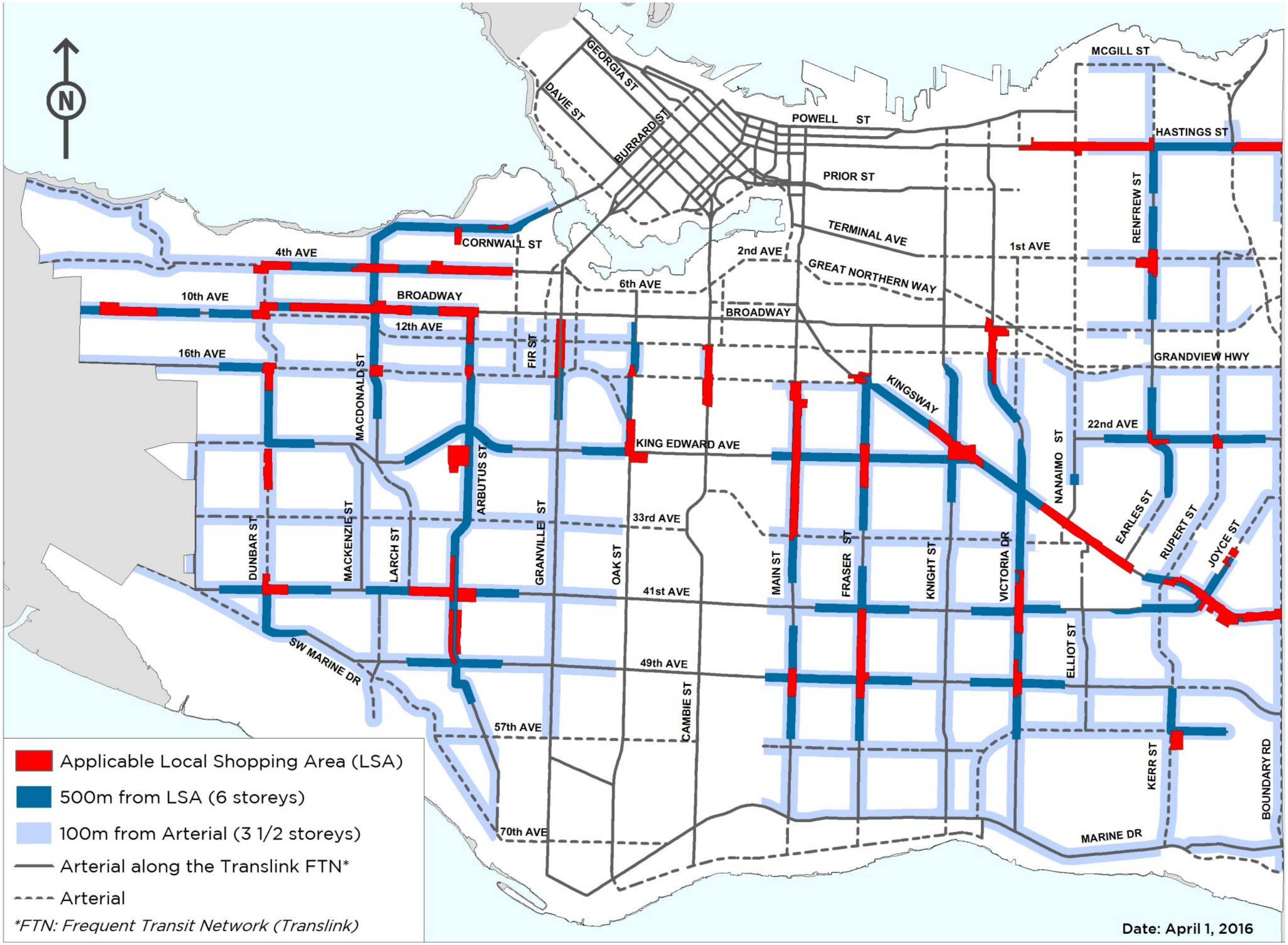
2. Location and Form of Development

Subject to urban design performance (including consideration of shadow analysis, view impacts, frontage length, building massing, setbacks, etc.) and demonstration of a degree of community support, sites that would be considered under this policy are:

	Location	**Form of Development**	**as shown**
A.	Sites fronting an arterial street that is on Translink’s Frequent Transit Network and within close proximity (i.e. a 5- minute walk or 500 metres) of a local shopping area (red areas on Map 1).	Mid-rise forms up to a maximum of 6 storeys	dark blue areas on Map 1
B.	Sites within approximately 100 metres (i.e. 1½ blocks) of an arterial street.	Ground-oriented forms up to a maximum of 3½ storeys, which is generally sufficient height to include small house/duplexes, traditional row houses, stacked townhouses and courtyard row houses	light blue areas on Map 1

This policy applies to all areas of the city except those that have recently adopted community plans or are currently undergoing community planning. It also does not apply to industrial areas or to zoning districts which already permit building heights greater than six storeys (except that projects already under consideration in these districts on April 19, 2016 will continue to be considered).

Map 1: Locations of sites that can be considered under the Affordable Housing Choices Interim Rezoning Policy



Comparator City AHO Program Profiles

Calgary—Attainable Homes

Attainable Homes Calgary Corporation (AHCC) was created in 2009 in response to the city's rapid increases in housing prices that outpaced average salaries and locked many working households out of homeownership. Developed as a social enterprise and wholly owned subsidiary of the City of Calgary, AHCC's mandate is to deliver quality, entry-level homes at attainable prices for middle income Calgarians caught in the City's growing affordability gap. The target household income band is $90,000 or less for families with dependent children and $80,000 or less for singles and couples without children. AHCC'S initial goal of 1,000 units aligned with Calgary's 10-Year Plan to End Homelessness, which called for the creation of 3,750 ownership units to meet the needs of those living in market rental or subsidized housing. To date, AHCC has delivered 604 ownership units, 35 of which have been successfully resold.

AHCC leverages partnerships with local builders and developers to deliver units at below market prices through one of two streams. In the first stream, units are initiated with gifted land for development from the City of Calgary, which is sold into the project at fair market value. In the second stream, AHCC funds are used to purchase the last remaining units in a developer-led project at below market rates in exchange for AHCC's assistance with finishing projects and meeting pre-sales targets. In both scenarios, unit prices are negotiated with developers on a per-project basis and delivered at discounted rates to the buyer. Since its inception, AHCC has experienced a high level of interest and response rate from developers, with some developers having committed as much as 10% of all new developments to the organization.

All AHCC units require a 5% down payment at purchase, but the buyer contributes just $2,000 and the remainder is gifted by AHCC in the form of a forgivable equity loan, which brings down the cost of the unit and the buyer's monthly mortgage payments. . At resale, the home is sold at market value and the owner must share between 25 and 75% of any appreciation equity on the home with AHCC, the percentage of which depends on length of ownership. The resale terms cause the particular unit to lose its affordability at subsequent purchase; however, any appreciation retained by AHCC is reinvested into the program for future projects. Given that initial margins on home sales cover overhead expenses and unit resales replenish and expand the program, AHCC is able to operate on a self-funding model that does not rely on leases, repayable loans or government subsidies.

Toronto—Options for Homes

Options for Homes is a private, non-profit corporation founded in Toronto in 1992 with the goal of providing cost-effective affordable homes to low and moderate income households without reliance on government subsidies. Founded on the principle that homeownership makes households financially stronger, which in turn builds better cities, Options has partnered with 11 organizations across Canada and abroad to deliver affordable homeownership opportunities. Working closely with Home Ownership Alternatives (HOA), a separate, non-profit financial corporation responsible for handling all financing, Options has delivered 6,000 homeownership units to date, 4,500 of which are located in the Greater Toronto Area (GTA).

Options initiate affordable homeownership developments by securing the land and approvals, selecting a builder, and preparing preliminary plans. Options keeps unit costs as low as possible through stacking a series of cost-effective measures that are then transferred to the buyer, including reduced costly amenities, building on periphery lands, constructing wood-frame over concrete buildings, conducting marketing in-house, incorporating sustainability features to reduce ongoing maintenance costs, and eliminating overall development profits. In the GTA, Options units are typically priced at least $50,000 below similar sized units in other new private-developer condominiums.

Options works with each buyer on an individual basis to work out a purchasing plan that meets their needs, attracting a diversity of housing types and income levels to enable projects to support different households at varying depths of support. Financial assistance is provided by HOA in the form of a second mortgage that is put towards the purchase price of the unit and reduces the owner's monthly mortgage costs. The second mortgage does not accrue interest and does not need to be paid back until the home is sold.

For some buyers, the second mortgage does not sufficiently cover the difference between their income and the financing required to be able to purchase a home. In these cases, buyers have the option of increasing the amount of their second mortgage by accessing both government loans and funds from the agency's June Callwood Home Ownership Fund. Buyers who access the additional funds must meet income requirements that are below the 60th percentile of the income in a given area, which in Toronto is equal to a household income of $85,800 or less. At resale, the unit is sold on the open market and the second mortgage appreciates by the same percentage as the resale value. Purchasers have the option and are encouraged to voluntarily repay the second mortgage incrementally or in full at any time while they live in the unit.

When the unit is sold and the second mortgage is paid off, Options has no further interest in the unit. The cost savings achieved on the first sale are not passed on to the second owner; however, repaid loans are placed into a self-sustaining, revolving fund in order to create new, cost-effective homes for other qualified buyers. Current funds total just under $100 million, with some of it held as cash and some as second mortgages. Options places heavy emphasis on an individually tailored approach and self-funding model in order to enable households with a wide range of incomes to become homeowners in an increasingly unaffordable market.

UK—Help to Buy Equity Loan Program

Assisting households into homeownership has been a constant feature of the Homes and Communities Agency (HCA), and its predecessor bodies, since the 1980s. The goal of the most recent program—the Help to Buy Home Equity Loan Program, is to assist households who are unable to afford to purchase a property in the open market. It was launched in 2013 largely in response to issues home buyers were facing in accessing mortgage financing due to high levels of deposits required.

Unlike most other HCA programs, which are linked to the non-profit sector, the Help to Buy Equity Loan scheme is a developer-driven, open market product. Through the program, a purchaser can access a loan equal to 10-20% of the cost of a new-build home, requiring the owner to contribute a reduced down payment of 5% and a mortgage of 75% of the purchase price. The loan sits as a second mortgage that ranks behind the first mortgage from the financial lending institution. The home purchased must be a new build property and cannot have a sale value that exceeds £600,000.

The HCA incentivizes loan holders to pay off the loan or any part of the loan within the first 5 years by charging an interest on the loan beginning in the fifth year. At resale or after 25 years, the loan and percentage of appreciation must be repaid in full. The Help to Buy program recognizes that the value of homes can also fall. In these instances, it is intended that the Government will accept the equity depreciation (subject to market valuations from independent valuers).

Developers who are interested in offering the Help to Buy product on their schemes must first register with the Homes & Communities Agency (on behalf of the UK government) who will undertake a vet on the applicant organization. Subject to successful vetting and agreement of terms, an indicative proportion of Help to Buy funds are allocated to the applicant organization (based on forecast sales) for them to use across their new build sites. A third party agent is also appointed to undertake the vet/ assessments on the individual purchasers to ensure they meet the criteria of the funding.

Whister—Resident-Restricted Housing

The small and fast-growing Resort Municipality of Whistler (RMOW) created its resident-restricted housing program in response to a shortage in affordable housing that led to difficulties in attracting and retaining employees, many of whom could not afford to live in Whistler itself. Municipal efforts to address the housing affordability challenge began in the 1980s, and in 1997 the RMOW established the Whistler Housing Authority with a mandate to provide a wide range of affordable rental and home ownership units for its residents, employees, and resident retirees. Since then, 1,072 affordable ownership units have been created, with 63% of Whistler's workforce currently housed in resident-restricted housing.

Funding for Whistler's affordable housing units is collected primarily through the Employee Housing Service Charge, a bylaw enacted in 1990 that requires developers of commercial, tourist and industrial lands to build resident-restricted housing or contribute cash-in-lieu. Under this model, the local business and development community essentially subsidize the resident-restricted housing, which in turn contributes to local economic development by enabling employees to remain in the community. Over time, the WHA has also benefited from a combination of debt financing, transferred crown land, and real estate assets to maintain and develop new affordable units.

WHA allocates units based on a waitlist, a method chosen due to its perceived fairness and ease of administration, though lottery and points schemes have been used in the past. To be eligible for the waitlist, applicants must be Canadian residents, be locally employed or retired, and cannot own property at the time of application. Income testing is not part of the qualification process, since market prices are so high that even households with high income levels can benefit from the opportunity to participate.

The WHA ensures that units remain affordable in perpetuity through covenants on title that set out occupancy and resale restrictions. The appreciation formula for the value of the resale housing has gone through three iterations, first tied to the Royal Bank prime lending rate, then the Vancouver Housing Price Index, and finally, to the Core Consumer Price Index, which is applied to all new properties and any resale units that were sold under the older formulas.

San Francisco—Inclusionary Housing Below Market Rate Ownership Program

The Inclusionary Housing Below Market Rate Ownership Program assists San Francisco's middle-income residents to purchase a home in a city with severe affordability challenges, including a median home value four times the national median and homeownership rates that are half that of the national rate. The program specifically targets minority households, as well as those displaced by gentrification. The program began as policy in 1992 and became law in 2002, experiencing various revisions along the way to address changing market conditions. Governed by the City's Planning Code and administered by the Mayor's Office of Housing and Community Development (MOHCD), the BMR program currently includes 1,000 ownership units in its portfolio.

The BMR program makes use of inclusionary zoning to deliver affordable units to first-time homebuyers earning at or below 90-120% AMI. As a condition of permit, the law requires 15-20% of housing units in all new residential developments of 5 or more units to be set aside as affordable housing, either on or off site or through payment of a fee in lieu. The developer constructs and manages the BMR units, while the MOHCD oversees the projects from approval and pricing to marketing, closing, and monitoring. Units are initially priced to be affordable to households spending no more than 33% of their income on housing expenses, which includes condominium association fees, property taxes, insurance, and a 10% down payment.

Buyers must finance their purchase through 15- to 40-year fixed-rate mortgages from approved lenders. For buyers who need additional assistance, the MOHCD offers prospective homeowners assistance with down payment and closing costs of up to 15% of the unit sale price, which are structured as shared appreciation loans that must be repaid at time of resale.

Long-term affordability of BMR units is a key focus of the program and is ensured through occupancy and resale restrictions recorded with the property deed. All restrictions apply for the life of the project and survive foreclosure. The resale formula has been subject to various amendments over time, previously being based on changes to the consumer price index and later, on a mortgage-based formula, both of which eventually proved problematic due first to rising interest rates and then to the recession. The current formula, calculated based on original purchase price and % change of AMI from year of purchase to year of resale, does not yield perfect affordability but ensures more predictability and stable equity building for individual homeowners.

Due to the high amount of resources required to reach and serve the City's high percentage of minority households, the program relies heavily on partnerships. MOHCD trains lenders and title companies in order to streamline the buying process and ensure buyers are not subjected to predatory lending practices. The mandatory home ownership education course is delivered through a network of designated counseling agencies.

Despite its overall success, San Francisco's ownership program has experienced its share of challenges, among them being limited access to credit for many income-qualified households. Furthermore, qualified buyers at the lower end of the income scale who do manage to secure financing face high homeowners' association fees in some neighborhoods, which increase over time beyond the pace of inflation and significantly decrease affordability.

Boston—Inclusionary Development Program

Boston's Inclusionary Development Program (IDP) was established in 2002 through an executive order of the Mayor. Prior to this, inclusionary zoning had been imposed only for developments on City-owned lands, but the City's rapidly rising housing costs and lack of conventional funds to provide affordable housing resulted in a major public campaign to make inclusionary housing compulsory for all new residential development rezonings. Since then, the program has been modified several times and had resulted in the construction of x units, including 1,002 affordable homeownership units. The IDP is one of several programs contributing to the City's "Housing a Changing City: Boston 2030" plan which, among other targets, has a goal of helping 5,000 middle class homebuyers purchase their first home.

The Inclusionary Housing program is targeted at households earning at or below 80-100% of AMI. Heavy emphasis is placed on outreach to racial minority communities, resulting in a much higher proportion of minority groups achieving affordable homeownership compared to market ownership.
The IDP requires developers of proposed residential developments of 10 or more units to sell or rent 13% of all units at a below-market price affordable to low and moderate income households. Inclusionary units can be delivered on or off site, or through payment of a fee in lieu. In return, developers can negotiate relief from all of the City's zoning provisions, including density, height, setback, and coverage. The program is implemented by the Boston Redevelopment Authority, a self-sustaining municipal planning and economic development agency for the City of Boston.

Homeownership units appreciate at a set rate of 3-5% of the purchase price, compounded annually. A rate of 5% was originally selected because it was the average of the increase in residential property values in the City between 1970 and 2000. However, it was reduced to 3% because appreciation was outgrowing incomes, rendering the units unaffordable to households in the same income bracket. Affordability is secured through 30-50 year covenants registered both on the title of the property and the mortgage, with the BRA having the first right of refusal for any units sold within the restricted period.

Since the IDP was implemented, much of the new development has occurred in wealthy neighborhoods, with inclusionary units being located in luxury developments at substantial below market discounts. The BRA is currently focusing efforts to expand the program outside of high end neighborhoods in order to ensure a mix of affordable and market units throughout the City.

New York City—Inclusionary Housing Program

New York has one of the largest affordable homeownership portfolios in North America, with a long history of substantial public investment in housing programs and wide breadth of both municipal and state-led programs. The Inclusionary Housing program, part of New York City's zoning since 1987 was created as part of a broader government intervention effort to increase affordable rental housing options for the city's low and middle income residents. In 2009, the program expanded to include an affordable homeownership option, following the Mayor's commitment to create and preserve 165,000 affordable housing units through the New Housing Market Place Plan. Since then, the creation of x home ownership units have enabled many middle income households into ownership, including a high proportion of racial at risk of displacement from their own neighborhoods.

The program, managed by the city's Department of Housing Preservation and Development, leverages private market development by offering developers an optional 33% floor area ratio bonus in exchange for designating 20% of housing units as affordable. The affordable units can be located on or off site and may be provided through new construction, rehabilitation, or preservation of existing affordable housing. IHP applies only to high-density commercial zoning districts and other designated areas experiencing substantial new housing development, with the aim of promoting economically integrated communities. The density bonus may be combined with other City, State, and federal housing subsidies as well as tax incentives in order to reach lower income levels. During the 2013 Electoral Mayoral Campaign, housing advocates called for the inclusionary housing program to be changed from an optional to a mandatory program, where the provision of affordable housing would be a requirement of all new housing developments.

Inclusionary homeownership units are initially priced to be affordable to households earning 80% of area median income (AMI) or less. At resale, the unit price increases with a fixed appreciation rate tied to CPI, but is capped in order to remain affordable to households earning 125% of AMI or less. Through this limited appreciation model, owners are able to realize a modest return on investment, without compromising the unit's affordability, which is secured for the life of the project.

Analysis of Key Program Components

1. Target Households & Eligibility Requirements

The critical question that all AHO programs must grapple with and clearly define is who the program is trying to assist into ownership housing and why. Understanding the root cause of the affordability challenge in that area and the social and cultural lens through which each jurisdiction sees the problem is important. For example, San Francisco and Calgary's affordability challenge is exacerbated by a rapid escalation in jobs in a section of the economy – technology in San Francisco and the oil and gas industry in Calgary. The boom created a section of higher income households which in a market with scarcity of supply drove up average prices. Staff in both cities talk of the need to assist those "left behind" in the boom – the middle income teachers, artists, mechanics, etc. who were seen as integral to the functioning of the city.

Both cities set income as the primary eligibility requirement. In contrast, the Resort Municipality of Whistler's AHO program does not test for income. The affordability problem in Whistler is focused on the inability of local workers to buy adequate housing as the resort grew into an international resort and prices escalated and housing options diminished. The goals of Whistler's AHO programme are twinned – a social objective of ensuring workers who support the functioning of the Resort can find local ownership housing and the economic objective of ensuring an adequate, stable workforce to work the jobs required to run the resort and to bring vitality to the resort year round.

Finally, Options for Homes in the GTA does not have an income requirement for eligibility and is open to any market buyer as long as they will be a resident occupant of the unit. This entrepreneurial model embraces attracting a diversity of housing types and income levels to enable projects to support different households at different depths of support (e.g. Households only able to afford 25% of the market value of the unit up to buyers who don't require any second mortgage assistance). Their goal is to get lower income households who would be in social housing into ownership housing without dependence on government support and allowing a breadth of incomes in each project enables this.

Table 1: Affordable Home Ownership Programs: Eligibility Criteria

	Whistler *Resident-Restricted Housing*	**Calgary** *Attainable Homes*	**Toronto** *Options for Homes*	**San Francisco** *Inclusionary Housing Below Market Rate (BMR) Ownership Program*	**Boston** *Inclusionary Development Program*	**New York** *Inclusionary Housing Program*	**UK -** Help to Buy
Target Buyer Group	All local resident employees	Entry, level middle income households	Low to middle income households.	Displaced middle income minority households	Displaced middle income minority households	Displaced middle income minority households	Entry level, middle income households.
Income Range	All incomes	Up to $90,000	All incomes	Up to $125,000	Up to $115,000	Up to $110,000	All incomes.
Asset Limits	No asset testing	$100,000 or less	No asset testing	10% of all household assets above $60,000 counted towards household income	$75-100,000	$250,000	No asset testing.
First Time Homebuyer	No Cannot own property at time of purchase	No Cannot own property at time of purchase.	Yes, to access additional assistance	No Cannot own property within 3 years of purchase	Yes. Exceptions for extreme hardship		No. Focus on First-time buyers but allows move up buyers.
Mortgage Pre-approval and Down Payment	Yes- 5%	Yes- 5% Buyer contributes $2,000 and remaining is gifted as forgivable loan.	Yes- 5% Some exceptions granted.	Yes – 5% 3% must be from buyer's own funds and 2% can be gift funds.	Yes – 3% Buyer contributes 1.5% and remaining 1.5% can be given through the Down Payment Assistance Program for first time home buyers.	Yes – 10% Buyers can access Down Payment Assistance Program.	Yes – 5% downpayment.
Citizen/ Permanent Resident	Must be permanent resident or citizen	Must be permanent resident or citizen	Must be permanent resident or citizen	Must be permanent resident or citizen	Must be permanent resident or citizen	Must be permanent resident or citizen	Must be EU citizen.
Homebuyer Education Course	No	Yes	No	Yes	Yes	?	?

2. Creating & Securing Below Market Affordability

All affordable home ownership programs among the jurisdictions reviewed fall into one of two types of AHO models; the shared appreciation and equity reinvestment model, and the limited appreciation and locked in equity model.

Shared Appreciation and Equity Reinvestment Model

Programs that use the shared appreciation and equity reinvestment model generally focus on assisting moderate income, first time buyer households into homeownership with the intent that that over time they will be able to utilize equity gains from the resale of this first home to move on to market-rate ownership. Affordable Home Ownership programs that fall under this model exist in Calgary, Toronto, and the UK.

Shared appreciation loans under this model are usually structured as interest-free second mortgages provided to homebuyers by a public or non-profit agency, which lowers the purchase price of the home and makes it affordable to a target income buyer group. At resale, the homeowner is required to repay the initial loan/second mortgage plus a portion of the home's market value appreciation, the percentage of which is proportionate to the initial equity share. At this point, the unit itself reverts to the market but the recaptured portion of the home's appreciation is reinvested in the development of new AHO units, creating a revolving equity pool to serve future buyers. Alternatively, the shared appreciation loan may be passed on to a subsequent purchaser who assumes the mortgage.

Limited Appreciation and Locked-in Equity Model

Programs in Whistler, Boston, San Francisco and New York all utilize a limited appreciation and locked-in equity model, which creates below market units through an equity investment that either comes through direct financial assistance or, more typically, through the form of developer incentives for inclusionary housing. The equity investment reduces the purchase price of a home to a level affordable to buyers within a specified target income band.

In this model, the long-term affordability of the below-market units is ensured through resale and occupancy restrictions that are recorded with the property deed or covenant on title. These restrictions require units to be sold to subsequent eligible buyers within the designated income band at an affordable price, as defined according to a specified resale formula (CPI). The agreements need to be actively monitored by a third party entity with an interest in maintaining the unit's ongoing affordability for defined income bands.

In the limited appreciation scheme, the initial investment is retained in the home itself, which creates a stock of permanently affordable housing and minimizes the need for additional investment to assist subsequent buyers with similar income bands. Typically, there is less movement through the program than in the shared appreciation model, as buyers do not realize sufficient market gain to transition to market housing and in a rising property market they can be quickly priced out of the area. However, homeowners purchasing and selling under this model are better protected against downturns in the market than conventional homeowners.

This form of Affordable Home Ownership has been particularly successful in areas where home prices are rising faster than incomes, as well as in gentrifying neighborhoods, where low to

middle income households are being driven out. In these cases, a growing pool of owner-occupied, resale restricted housing provides these households with more local housing options, while also enabling communities to retain essential employees.
From the best practice review of other programs, staff find that one of the core trade-offs in the design and implementation of an AHO scheme is how the program balances the goals of securing the affordability created over time (perpetual affordability) vs. enabling households to receive the opportunity to enter ownership housing (initial affordability). Vancouver, like San Francisco and unlike Calgary, has a very limited and constricted land base and so a structure that secures the affordability of any below market value land in perpetuity, especially City owned lands, is important to long-term security of the public asset and the creation of AHO units.

Approaches focused on creating initial affordability, where AHO units revert back to market with subsequent resales and the City's equity gain gets reinvested into building new housing (Calgary and UK) could prove challenging if the cost of land further escalates. The affordability challenge in Vancouver is challenging and the focus of the City of Vancouver's program are entry-level households caught in the current affordability gap, but may aspire and have the potential to participate in full market housing later in life. Creating AHO opportunities that will support households into ownership housing should their situation change is important to Vancouver.

Table 2: Affordable Home Ownership Programs: Creating Below Market Value

	Whistler, Resident-Restricted Housing	**Calgary,** Attainable Homes	**Toronto,** Options for Homes	**San Francisco,** Inclusionary Housing Program	**Boston,** Inclusionary Dev. Program	**New York,** Inclusionary Housing Program	**UK,** Help to Buy Equity Loan Program
Inclusionary Zoning (Cash or In-kind)	✓			✓	✓	✓	
Gov't Equity Investment (land, start-up funding, etc.)	✓	✓	✓				✓
Reduced Construction/ Marketing Costs	✓	✓	✓	✓	✓	✓	✓
Down Payment Assistance/ Loan		✓	✓	✓		✓	
AHO Mortgage Rates	✓	✓	✓	✓	✓	✓	✓

3. Administering Affordable Home Ownership Units

There are many different approaches to administering the offer and initial sale of affordable home ownership units in existing AHO schemes. The sequencing of the buyer and program eligibility steps has the ability to increase or decrease the cost and effectiveness of the initiative, and will shape the public view of the fairness of the process.

In designing the front-end buyer selection process staff reviewed the process of established AHO programs, keeping in mind the overarching goals of the COV program, development approach and different parties involved in the City of Vancouver initiative. The following issues and opportunities were identified as relevant to the City of Vancouver.

- Pre-application processes: Most programs have a buyer education and pre-qualification process interested households to become eligible and prepared to participate in AHO home ownership. This front end process ensures applicants are serious and well-informed and cuts down on administrative processing at the point of purchase. AHO buyers can require some time to get organized and ready for ownership and the pre-application phase is valuable to prepare the buyer.

- Waiting Lists: Ranked, permanent waiting lists were more common in smaller, closed market programs (e.g. Whistler) than in large city level programs (Calgary, San Francisco, Toronto). Waiting lists are both time consuming and cumbersome (multiple wait lists for different projects to capture buyer interest, buyers move on/move away and list gets stale), costly (staff and applicant time to renew eligibility or make offers down the list) and politically risky (optics of wait times).

- Streamlined/Simplified Processes: Successful and functional programs aim to reduce the number of steps, unnecessary deterrents to applicants and costs and burden for the City, a 3rd party Administrative Body, Developer and the Buyer.

- Perceptions of Fairness and Impartiality: Successful programs concern themselves with the perceived fairness of the program by the general public and potential buyers. For this reason the 3rd party body, not the developer or the City Government, is most often used to manage the sales and administration of the program.

4. Evolution of Resale Pricing in Affordable Home Ownership Programs

Whistler—Resident-Restricted Housing

Since 1997, Whistler has used three different formulas to help calculate the maximum resale price of a resident-restricted unit: the prime rate appreciation formula, the housing price index (HPI) appreciation formula, and the Canadian Core Consumer Price (CCPI) formula.

Prime Rate Appreciation Formula

The first appreciation formula was introduced in 1997 and was tied to the Royal Bank of Canada (RBC) Prime Lending Rate. The original rationale for using this formula was to equate or possibly exceed the likely return that a homeowner would receive if their equity was invested in a conservative term deposit or GIC. This formula was used for the first four developments and was found to be both cumbersome and counterintuitive, as it did not keep up with inflation.

Housing Price Index Appreciation Formula

The second appreciation formula, adopted in 2000, was tied to the Greater Vancouver Housing Price Index (HPI). The rationale for indexing restricted housing resale prices to a broad regional market of housing was to have it appreciate with real housing prices that represented value directly associated with housing. Theoretically, this would allow households from the Lower Mainland moving to Whistler to purchase into Whistler's restricted housing, and vice versa, at a price that was comparable to what they could have afforded in the Lower Mainland. In the decade prior to its adoption, the HPI in Vancouver had remained fairly steady. After its adoption, Vancouver real estate skyrocketed –prices escalated and the resale price of these units appreciated at an unpredicted accelerated rate, causing concern that they were becoming quickly unaffordable and out of reach of some local employees.

Canadian Core Consumer Price

The third and current appreciation index being applied to the price restricted inventory is the Core Consumer Price Index (CCPI). This index was chosen through extensive community engagement, including the Whistler 2020 Sustainability Task Force Process. The rationale for the initiation of yet another appreciation formula was the real concern that the units tied to the HPI formula had reached unaffordable levels for many local employees, and it was chosen to remedy this. It was acknowledged by the community that the provision of a home and the retention of future affordability of the resident restricted inventory were paramount to the success of Whistler's resident housing program. Through the community consultation phase, it was requested that the new formula be simple to comprehend and that the formula result in a modest but consistent appreciation year to year, reflecting annual inflation. In order to create consistency amongst the resident restricted inventory, it was decided in 2006 that the new formula would apply to all new developments and all subsequent property resales would be turned over to the CCPI appreciation formula, regardless of their initial formula. Currently, 76% of the price restricted inventory is now tied to the Core Consumer Price Index appreciation formula.

San Francisco—Inclusionary Housing Program

Shared Appreciation Model

The San Francisco Redevelopment Agency was formed in 1948 for the purpose of improving the environment of the City and creating better urban living conditions through the removal of blight. Its initial homeownership programs focused on wealth building among lower income households in blighted communities. Under this model, the agency subsidized construction financing to build below market rate units, then converted the subsidy into a second mortgage that would be held until paid off at resale.

The program worked well until the late 1990s, when homeowners began taking advantage of the huge appreciation in the San Francisco real estate market and the historically low interest rates that enabled potential buyers to make high offers. Sellers used their windfall profits to buy homes outside of their communities, while the agency struggled to keep up with high prices that required increased subsidies to subsequent homeowners in order to reach target affordability levels.

Limited Equity Model

In 2002, the San Francisco Redevelopment Agency initiated the Limited Equity homeownership program in an attempt to ensure the long term affordability of below marker rate (BMR) units without requiring the agency to provide additional subsidies for each generation of homeowner. All units under previous programs were converted to the Limited Equity Model. When the agency dissolved in 2012 due to budget cuts, the Mayor's Office of Housing became charged with the oversight of all housing assets. Any new BMR units became part of the "Inclusionary BMR Housing Program".

The Limited Equity Homeownership Program was initially designed to place a maximum emphasis on ensuring that units remain affordable over the long term. As it evolved, the program changed its resale formula to better balance this goal with that of offering meaningful asset-building opportunities for homeowners.

Prior to 2007, the resale price for below market units was based on one of two formulas: changes to the consumer price index or a mortgage-based formula. Whether a buyer's resale formula followed the first or the second formula depended on what method was initially specified by the City's planning commission in the approvals for each building, and was not in the control of the inclusionary zoning program.

Consumer Price Index Formula

The first resale formula used for the BMR Program was tied to changes in Consumer Price Index (CPI) between time of initial purchase and resale.

Mortgage-Based Formula

The second resale formula, the mortgage-based formula, calculated the initial and resale price of units by arriving at a mortgage payment that was affordable (defined as no more than

33 % of gross income) to a household earning 100% AMI. The formula took into account a 10% down payment, 30-year fixed rate mortgage, and an interest rate of 2.5% higher than the District Cost of Funds Index (COFI), taxes, homeowners' association fees, and insurance costs at time of resale. This formula yielded "perfect affordability" by incorporating all elements that factor into the actual cost of owning a home, ensuring that no matter what happened to incomes, mortgage rates, or other costs, homes would always sell at affordable prices. However, in 2006, the formula was challenged when interest rates prices began to rise after a period of historically low rates. When interest rates were low, the formula allowed for relatively high sales prices that still qualified as "affordable". Rising interest rates, however, decreased families' buying power, and many homeowners who had purchased their deed-restricted units when rates were low were forced to sell their units for less than their original purchase price.

<u>Area Median Income Formula</u>

In 2007, the city revised its resale formula in response to changing market conditions, attempting to strike a better balance between preserving affordability and homeowner's equity over the long-term. New BMR units were still set according to the mortgage based formula, but the interest rate factor was based on a 10-year rolling average rate. The resale formula was revised so that it was tied solely to changes in area median income (AMI). The AMI formula is based strictly on incomes, which almost always rise on average from year to year, and does not factor in interest rates and other housing-related costs that could deflate resale prices below original purchase prices. Homeowners subject to the old resale formula were given the option to switch to the new formula.

The AMI formula produced the maximum resale price, "the ceiling", but a new policy also implemented a "floor" to protect against AMI decreases. The new policy stated that if AMI were to fall, BMR homeowners would still be entitled to receive at least what they initially paid for their units. Under these circumstances, the City would either lose some affordability on these units (through allowing sellers to sell to higher income bands) or have to add some additional subsidy to preserve the affordability. The policy protects homeowners from becoming trapped in units that have declined in value due to the specifics of the city's resale formula. It also protects the city from the public relations challenge of forcing lower income homeowners to sell at a loss. The City also added a BMR Down Payment Assistance Loan Program, which could be accessed by homeowners who required additional assistance to afford even a BMR sale price. The DALP is structured as a shared appreciation, deferred payment silent second mortgage that must be repaid, along with a proportion of appreciation, at resale.