



CITY OF VANCOUVER

ADMINISTRATIVE REPORT

Report Date: October 14, 2008
Contact: Jill Davidson
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Meeting Date: October 30, 2008

TO: Standing Committee on Planning and Environment

FROM: Managing Director, Social Development in consultation with the Director of Planning

SUBJECT: Rental Housing Strategy: Process and Consultancies

RECOMMENDATION

- A. THAT the development of the Rental Housing Strategy proceed using the process described in this report and that a total of \$300,000 funding be approved for consultant studies and public involvement, source of funds the 2006-08 Affordable Housing Capital - Unallocated Account.
- B. THAT the Managing Director, Social Development be authorized to enter into contracts pursuant to Recommendation A, including contracts which may exceed \$30,000.
- C. THAT McClanaghan & Associates Ltd. be retained as lead consultant, cost of contract to be \$60,000.

GENERAL MANAGER'S COMMENTS

The General Manager of Community Services recommends approval of the foregoing.

COUNCIL POLICY

The City's social housing priorities are low and modest income families with children; seniors on fixed incomes or in need of support; SRO residents; and the mentally ill, physically disabled, and others at risk of homelessness.

Council adopted "CityPlan: Directions for Vancouver" on June 6, 1995, and the section "Addressing Housing Costs" includes a policy to "maintain a stock of rental housing".

Council adopted the Homeless Action Plan in June 2005 and Action 23 states "The City of Vancouver to develop a cohesive rental housing strategy that includes recommendations to:

- Encourage the private sector to create more rental housing (e.g. through zoning for higher density and density bonusing), and
- Preserve the existing stock of rental housing.

Council adopted the Ecodensity Charter in June 2008 which identifies environmental sustainability, affordability and livability primary goals of all city-building decisions. EcoDensity includes a focus on more housing affordability, types and choices, including the facilitation of purpose-built rental housing construction, and the strategic retention and enhancement of existing purpose-built rental options.

The City may sole source contracts if a notice to intent to contract is advertised and no objections are received.

Council approval is required for all consulting contracts that exceed \$30,000.

PURPOSE AND SUMMARY

The need for a comprehensive rental housing strategy in Vancouver has been identified for a number of years. The purpose of the strategy is to develop policies and tools to encourage the preservation and expansion of the rental housing stock. This report proposes a process to develop the strategy which includes three phases. In the first phase specialized studies will be undertaken which will provide information and analysis about various aspects of the rental housing market. In the second phase, the specialized studies will be synthesized, tools will be evaluated and possible policy options will be identified. In phase 3, the tools and policy directions will be analyzed in more detail and recommendations for actions by the City and others will be developed. A stakeholders Reference Group will be established with those involved in the development or operation of rental housing and broader public involvement will occur at the end of Phase 2.

It is recommended that \$300,000 be allocated to develop the strategy and the Managing Director, Social Development be authorized to enter into contracts which may exceed \$30,000. It is further recommended that McClanaghan & Associates Ltd be retained as lead consultant, with a contract cost of \$60,000, this amount being included within the \$300,000.

BACKGROUND

Rental housing is an important part of Vancouver's housing stock. There are 131,500 renter households in the City, accounting for 52% of all Vancouver households. Vancouver provides almost half (46%) of the rental housing in the region and more than a quarter (27%) of the rental housing in the province. Within the City almost half (46%) of the population live in households that rent.

The rental housing stock consists primarily of purpose built apartment buildings, investor owned condominium rentals and secondary suites. In recent years there has been increasing interest in the City's rental housing stock as affordability and redevelopment pressures

increase, especially in the older purpose built stock. Since the mid 1980's, most new multiple unit market projects have been for the ownership rather than the rental market, reflecting the much higher returns generated by condominium projects.

Low vacancy rates and relatively high rents have consistently been characteristics of this city's rental market. In June 2007 City Council, in response to especially low vacancy rates and the demolition of increasing numbers of market rental buildings, introduced stronger rate of change regulations to protect the rental stock. The conditions for this were similar to the rental crisis in the 1980's when rate of change regulations were initially introduced.

Also in June 2007 Council directed staff to "undertake a comprehensive rental housing study and review of rate of change concepts and mechanisms, and report to Council by December 31, 2009." The purpose of this study is to develop a comprehensive set of policies for the preservation, replacement, monitoring, of rental housing based on a thorough analysis and understanding of how the rental market works and its future.

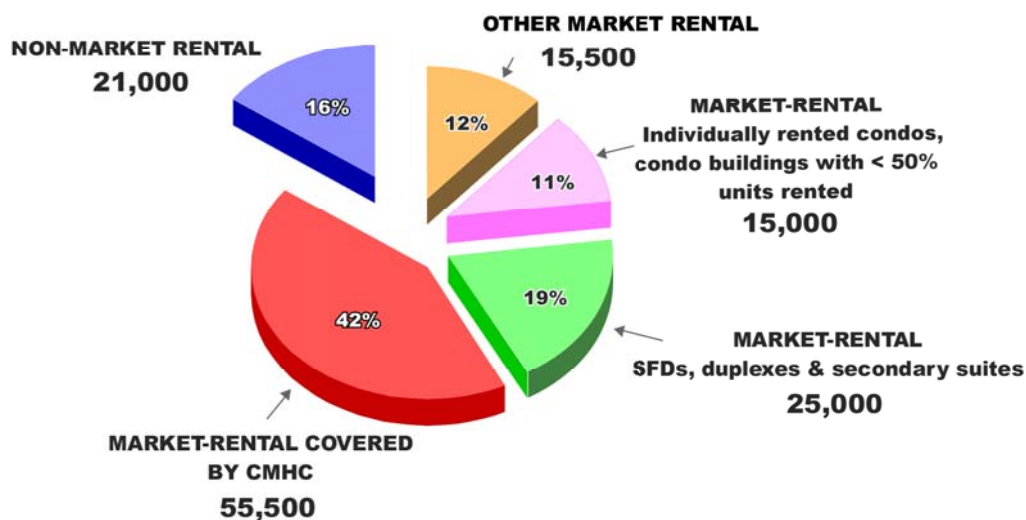
It is important to emphasize that the City plays a secondary role in influencing rental housing. Many of the regulatory responsibilities are controlled by other levels of government. At a national level, decisions on taxation, migration, taxes and interest rates have direct impacts on Vancouver's rental market. Provincial involvement in consumer protection, land tenure regulation, incomes policy and social welfare also has major consequences.

Rental housing warrants attention because it is the foundation for a diverse community. Rental housing:

- Enables low and modest income households to live in the city, as rental is more affordable than ownership. The household income of renters is half that of owners.
- Provides housing affordable to key workers essential to Vancouver's economy.
- Provides housing for people at different stages in the lifecycle. For example, rental housing provides opportunities for independence for young people and students. In addition, rental housing is important for families with young children as they are just as likely to rent as to own.
- Provides accommodation for new Canadians as they adjust to new lives and for workers who move from other parts of Canada thus enabling job mobility.
- Provides homes to people who work in Vancouver, who otherwise would live in outlying communities, thereby increasing demands on transportation infrastructure to commute to work.
- Encourages community cohesion by deepening understanding and tolerance among people of different ages, family structures, lifestyles, incomes, etc.

As indicated in Figure 1, there are different forms of rental housing. About 16% of the total rental stock consists of non-market housing, targeted to low- and modest-income households, with rents usually geared to income. The rest of the stock is market rental housing, and this in turn can be split out into different segments. The largest portion (42%) of the rental stock is the conventional market-rental stock covered by CMHC's annual rental survey - consisting of purpose-built rental apartments, converted dwellings with more 3 or more rental units and strata-titled (condo) buildings where all or most of the units are rented. The rest of the stock can be divided into three groups - rented houses and secondary suites (19%), individually owned and rented condo units (11%); and the "other", which includes units in rooming houses and SROs (12%).

Fig 1: Types of Rental Housing in the City - 2006 Estimates



Estimates derived using Statistics Canada (2006 Census), CMHC, & City data

RENTAL HOUSING POLICY ISSUES

Little development of purpose built stock

Relatively few new market-rental units have been added to the rental stock since the early 1980s, apart from an anomaly in completions six years ago when 2,000 units were built in one year, as illustrated below. Condominiums are much more profitable than rental housing for apartment developments. This is partly because there are insufficient incentives to build new rental housing. The return varies by point in the real estate cycle, however rental returns have consistently lagged market condo returns. A 2007 study indicated that developers can obtain a 40% rate of return on an investment in condominiums, but only a 2% return for purpose-built rental housing. The federal tax system discourages investment in rental properties through policies such as not allowing capital gains reinvested in rental housing to be exempt from capital gains tax.

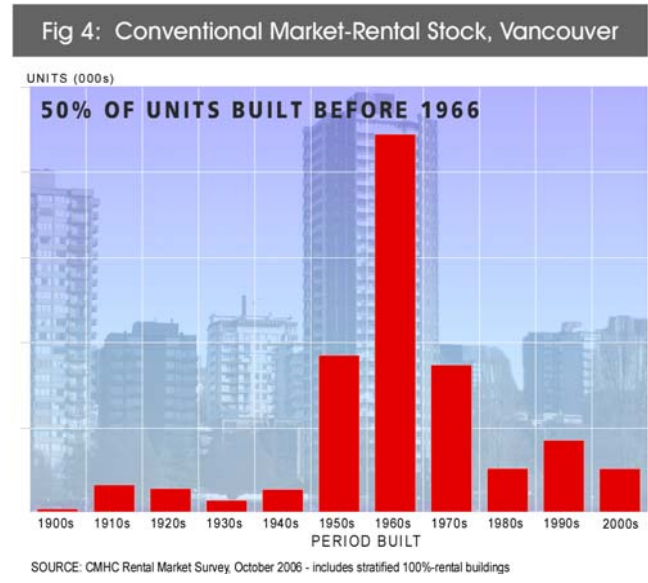
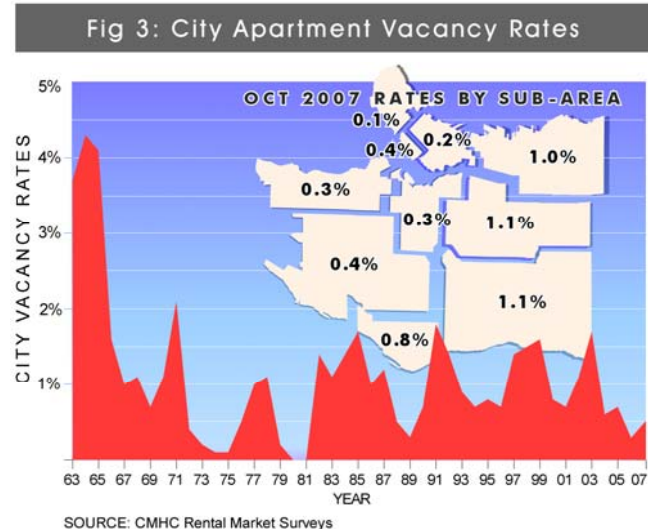
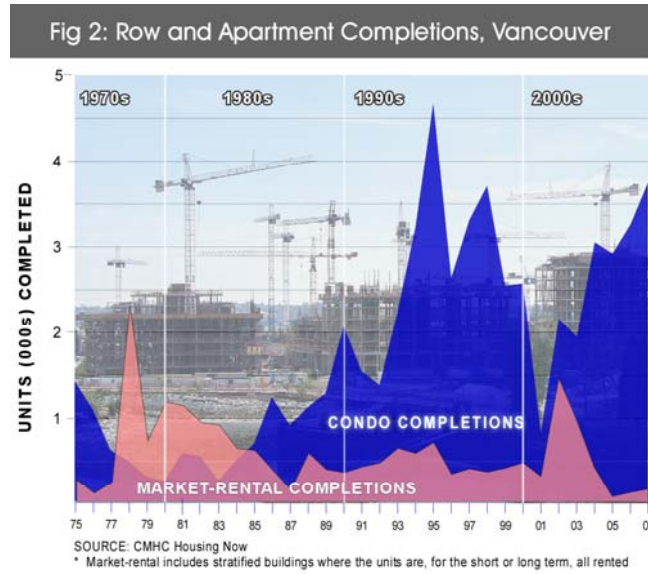
Rent levels continue to increase above the rate of inflation. As of October 2007, the average rent for a Vancouver studio apartment was \$760, representing an annual increase of 5%. The average rent for a one-bedroom unit was \$900 representing an annual increase of 4%. Less than 700 units in the city rented for under \$500.

Low vacancy rates make it difficult for households to find housing. The city usually has the lowest vacancy rate in the region and it has been less than 1% for 4 years and is projected to remain below 1%. A balanced market would have a vacancy rate no lower than 2% and preferably around 3%. The figure below shows the vacancy rates in different areas of the city and the historical rates.

Development pressures

Much of the conventional rental stock was built in the 1960s to accommodate the baby boom who were moving out on their own. Many buildings are aging and some are in poor condition. The rental stock is increasingly under pressure for conversion and redevelopment. By 2007, the city had received several proposals to demolish rental buildings which would be replaced with condominium buildings that would have fewer units. Rate of change regulations have been introduced which have reduced that pressure and the full implications of such regulations need to be explored.

Condo rentals are of increasing importance to the rental stock but not enough is known about the number of units, the length of time units remain rental, the potential loss of stock through legislation or strata regulations, etc. CMHC estimates that 28% of the total City's condominium stock is rented out. Two-thirds of the condo rental units are on the Downtown peninsula, where CMHC estimates that over one-third of condo units are rented out at an average monthly rent of almost \$1,600. Condominiums were introduced in the late 1960's and significant development began in

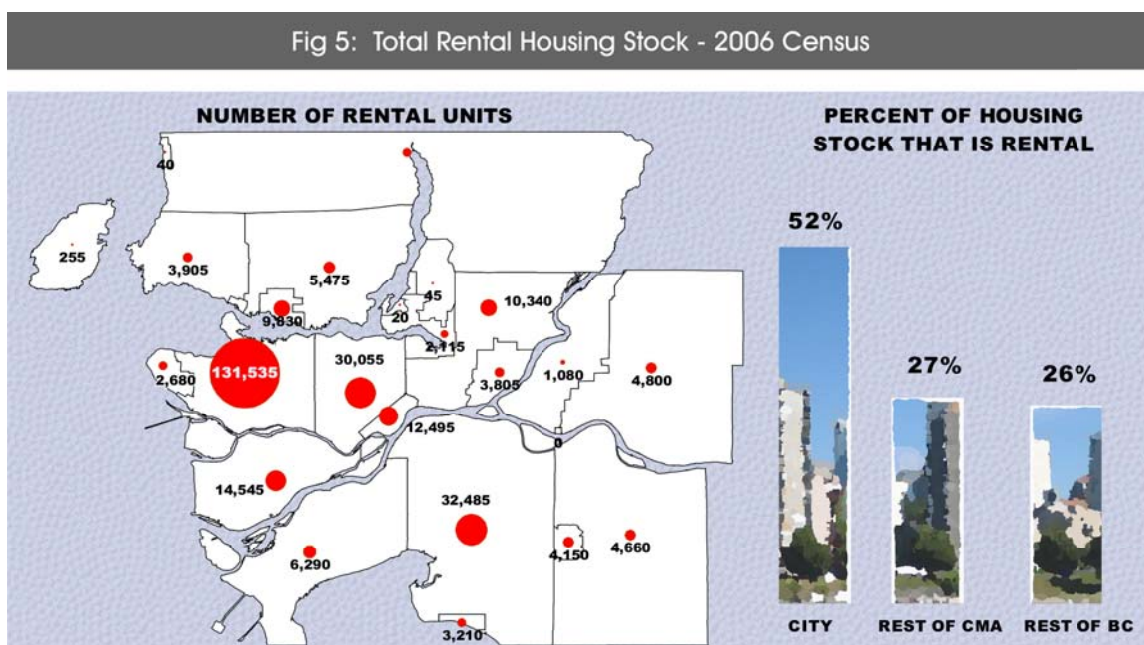


the 1970s. Condos have allowed renters with higher incomes to buy, which is part of the reasons why renters incomes are half of homeowners. However it is not clear whether the new condo stock will evolve to replace the older purpose built conventional rental stock or not.

Regional housing market

A consideration in developing a rental housing strategy is that the city's rental stock functions within a regional housing market, and if the City is to explore new initiatives, these should be done within the broader context. As shown below, in Vancouver more than half of the housing stock is rental, compared to about a third of the stock in the rest of Metro Vancouver.

Nonetheless, other municipalities such as New Westminister and the City of North Vancouver have a high percentage of rental stock as well.



OBJECTIVES OF THE STRATEGY

The main objective of this strategy is to first assess the rental market by evaluating the current and future viability and importance of the purpose built rental market. From this tools and policies will be developed to encourage the preservation and expansion of the rental housing stock. Consideration will also be given to extent to which rental condos and secondary suites may provide an alternative to the traditional rental stock.

Consideration will be given to how affordable rental stock (both purpose built and rental condo) can be preserved and expanded. The strategy will identify the critical interaction between specific economic, social and financial factors and the relationship to existing and possible policies. The focus of the strategy is on market housing and while the role of social housing will be identified, the strategy is not expected to address social housing policies.

Current policy approaches by all levels of government can be categorized as regulatory, enforcement, financial and direct service and the City's policies fall under all these. The existing rental housing policies are identified in various locations in this Report and summarized in Appendix A.

RENTAL HOUSING STRATEGY SCOPE AND PROCESS

A rental housing strategy needs to address a wide range of factors and interests, given the broad scope of the topic, the interlinking segments of the market, the number of stakeholders and the challenges of identifying potential effective interventions by the City and others. It is proposed that the strategy be developed in three phases and consultants be retained to provide technical advice in the early phases.

Phase 1 will involve in-depth data collection and analysis of the rental market to provide an understanding of the underlying market forces, financial structures, investment behaviours, the range of rental housing choices and rental management practices. The aspects of rental housing which will be investigated include:

- current and future demand;
- purpose built stock;
- rented condos;
- secondary suites.

The intent is to understand the operation of the rental market as a whole and specialized studies will be undertaken to appreciate the intricacies. The studies will draw on the existing research and will focus on the gaps in information. Each of the studies will examine a different aspect of the rental market and will be undertaken by consultants expert in the specialized area. The studies will include a review of best practices from elsewhere as well as preliminary evaluations of regulatory interventions and tools. Possible examples include federal government and other tax changes, rental-only zones, density bonusing, parking relaxations, different rate of change regulations, etc. The consultants for the specialized studies will be selected through requests for proposals and one firm may do more than one specialized study. A lead consultant will be retained during Phase 1 and 2 to ensure coordination among the studies and to co-chair, with staff, the consultants' technical team.

The specialized studies are described in detail in Appendix B and summarized below:

Rental Housing Demand and Existing Supply

Study #1: Rental Housing Demand and Existing Supply

This study will identify rental housing demand as a whole and by population segment. It will link this demand to the existing forms of rental housing - purpose built, condo rentals, secondary suites, non-market housing. Consideration will be given to the regional context.

Purpose Built Rental Housing

Study #2A :Purpose Built Rental Housing - Inventory and Risk Analysis

This study will develop a comprehensive database of the purpose built stock using existing data from BC Assessment, CMCH, and Census data. It will also determine the amount and degree of redevelopment risk both in terms of building types and neighbourhoods. The inventory will be used as a basis for the Studies 2B and 2C.

Study #2B: Purpose Built Rental Housing - Building Condition and Major Repair Requirements

A large portion of the existing stock is over 40 years of age. This study will identify building condition and determine the investment that would be needed to improve or maintain the stock. The study is linked to Study 2A which evaluates the financial risk through redevelopment but will focus on the physical risk to the stock because of age and condition.

Study #2C: Purpose Built Rental Housing - Investment Climate for Existing Stock

This study will examine the financial viability of the existing stock, taking into account the need to upgrade aging buildings as identified in Study 2B on building conditions. This study will consider the stock from the perspective of an owner or investor and will help inform projections on the future of the stock.

Study #2D: Purpose Built Rental Housing - Economics of New Supply

Little new purpose built stock is being constructed because condo development provides a better investment. This study will examine the financial gap between the cost of creating new rental and the financial viability under prevailing taxation, investment terms, rental rates and interest rate conditions. It will be linked to the risk analysis in Study 1 and to rented condos in Study 3.

Rented Condos

Study # 3 The Role of Rented Condo Stock

This is an increasingly important part of the rental market, yet there is not extensive information available. This study will estimate number of units, including an estimate of vacant condo units. The study will gather information on the quality, price and time in the rental pool and obtain a profile of investors. Another part of the study will be the extent of rental restrictions through strata by-laws, and evaluation of the management of rented condo stock. This will assist in our understanding of the relative importance of this stock and provide information to evaluate potential tools.

Secondary Suites

Study #4 The Role of Secondary Suites

This study will provide information on secondary suites, similar to the rented condo stock.

In the first part of **Phase 2** the lead consultant will produce a report which synthesizes the specialized studies. This will provide us with an understanding of the future of the existing rental stock, given the pressures from redevelopment, aging physical condition and investment climate, etc. The report will also evaluate the future role of condo rentals and secondary suites in relation to the purpose built stock. The report will consider the various tools identified in the specialized studies and explore how the tools could work together, conflict or result in undesirable outcomes.

In the second part of **Phase 2** staff will evaluate potential tools and consider possible policy options. A Council Report will be prepared providing information about the specialized studies and the synthesis report. This Report will provide the evaluation of tools, identify possible policy options with recommendations on which policy directions should be developed further during Phase 3. As part of Phase 1 and 2 we will be reviewing the current rate of change regulations and will be able to identify the impact of the regulations and provide an indication of what changes, if any, could be considered. Depending on the results of this

work, some changes to the by-law could be proposed, although it is likely that major revisions will occur in Phase 3, in the context of the full range of options available to the City.

In Phase 3 the tools and policy directions will be analyzed in more detail by staff who will then develop recommendations with specific actions for the City and others.

The consultants for specialized studies in Phase 1 will be selected through Requests for Proposals. The value of each contract ranges from \$23,000 - \$45,000. It is recommended that the Managing Director, Social Development be authorized to enter into these contracts so that the studies, which will be initiated at different times, can proceed expeditiously. Further, the lead consultant role for Phase 1 and 2 is unique and involves close working with staff. The role requires experience with rental housing policy, residential development, financial analysis, knowledge of City of Vancouver planning and development processes. McClanaghan & Associates Ltd has the required expertise to perform this role and it is recommended that this firm be retained as lead consultant. The usual process for the Notice of Intent to Contract has been followed and no objections have been received to contracting with this firm.

It is proposed that stakeholders involved in the development or operation of rental housing participate in a Reference Group which would act as a sounding board for the various aspects of the work as it progresses. The selection of members will be finalized at the initiation of the studies, but could include:

- Urban Development Institute (UDI)
- BC Apartment Owners and Managers Association (BCAOMA)
- Greater Vancouver Homebuilders Association
- TRAC
- Metro Vancouver
- Ministry of Housing and Social Development
- BC Housing
- CMHC

Both UDI and BCAOMA have already indicated an interest in participating.

It is expected that the Reference Group would meet several times during each of the three phases.

In addition, it is expected that there will be a number of individuals and organizations who will have also an interest in the work. They will be kept informed through information bulletins and meetings as appropriate.

Broader public involvement will occur at the end of Phase 2 with the distribution and discussion of the Council Report that will summarize the results of Phase 2 and present options for action for governments and others. The details of the broader public involvement will be determined as the work develops in Phase 2.

Regarding timing, the specialized studies will be sequenced as some will need information from the initial studies before they can be completed. The studies will get underway as soon as the consultants can be selected and start the work, likely in January 2009. It is expected the studies will take 6-8 months to complete, depending on each study, with final completion in October 2009.

As illustrated in the timeline below, the strategy will be developed as follows:

Phase 1: January - October 2009

Phase 2: November 2009 - April 2010

Broader public discussion: May - July 2010

Phase 3: August - December 2010



FINANCIAL IMPLICATIONS

The strategy will be developed with existing staff resources. Funds are required for the consultancies for both the lead consultant and the specialized study consultants. The total cost for the strategy is \$300,000 and funding will be provided from the 2006-08 Affordable Housing Capital - Unallocated Account. The cost of the contract for the lead consultant is \$60,000 and is included within the \$300,000.

It is recommended that McClanaghan and Associates, Ltd be retained directly as lead consultant without a proposal call, as this firm has specialized expertise in this field. This firm has significant experience in the areas of housing finance, housing market analysis and real estate development as well as in housing policy and program development. It has completed directly related studies such as Analysis of Housing Demand and Affordability for UBC Real Estate, Affordable Housing Strategy for City of Richmond, Affordable Housing Demand for Metro Vancouver and Business Case for Mortgage Type Products for Coast Capital and the principal has been a developer in private industry and with Vancity. Consistent with City policy, a Notice of Intent to Contract has been issued on the City’s website indicating our intent to retain this firm and allowing objections to the process. No objections have been received.

CONCLUSION

Rental housing is a critical part of the city’s housing stock and this strategy will assist the city in reviewing our current policies and considered new directions. To address this complicated issue, it is recommended that a three phase approach be used as described in this report and that \$300,000 be approved for specialized consultant studies and public involvement. It is further recommended that McClanaghan & Associates Ltd. be retained as lead consultant at a contract cost of \$60,000. The cost of this contract is included within the \$300,000.

CITY OF VANCOUVER MARKET RENTAL HOUSING POLICIES

The City's policies and initiatives include:

- Specific policy to “maintain a stock of rental housing” in the section titled “Addressing Housing Costs” of the Council-adopted “CityPlan: Directions for Vancouver”, a city-wide plan adopted June 1995 that provides a framework for decisions on City funding, programs, and actions over the next twenty years;
- Permitting secondary suites in all single family homes in the City and the relaxation of various building code standards to facilitate the secondary suite process;
- As part of EcoDensity's Initial Actions,
 - identifying options to further enable the creation of rental secondary suites in a variety of housing types such as requiring new homes to be ‘suite ready’ in terms of building code requirements and permitting suites in duplex, townhouse and apartment zones;
 - Exploring issues and options for Backyard/Laneway Housing which may be rental rather than strata;
 - Considering housing affordability, including tenure options, in developments that involve rezoning;
- Obtaining rental housing through “housing agreements” by providing density bonuses in private sector development;
- Regulating the conversion of rental housing to condominiums;
- Monitoring and limiting the rate of demolitions of rental units in all neighbourhoods with a high proportion of rental housing to ensure there is no net loss of rental housing units in the zoning district;
- Levying a fee for demolition of housing units;
- Providing relocation assistance for tenants who are displaced by building closure or demolition;
- Leasing land for assured moderate rental housing;
- Purchasing or facilitating the purchase of single room occupancy hotels (SROs) by non-profit sponsors;
- Replacing single-room occupancy hotels and rooming houses in the downtown on a 1-for-1 basis;
- Managing the rate of change of low-income housing in the downtown core under the Single Room Accommodation (SRA) By-law and requiring approval from Council to demolish or convert SRA designated rooms;
- Encouraging good management of private sector SROs by developing and overseeing with government partners a SRO Management Course through the Vancouver Agreement;
- Improving livability of SROs by developing and overseeing with government partners a SRO pilot project which provides incentives to owners.

MARKET RENTAL HOUSING STRATEGY DESCRIPTION OF SPECIALIZED STUDIES

Study #1: Rental Housing Demand and Supply

The proposed scope of work under this specialized study will identify rental housing demand as a whole and by segment, and identify linkages with the existing sources of rental housing supply (rented condo stock, purpose-built rental housing, non-market housing, as well as secondary sources of rental including rented single detached homes, garden suites, secondary suites, coach houses and other potential forms of rental housing). The analysis should also include consideration of regional trends regarding demand and supply and should identify the combination of regulatory tools and capital investments needed to respond to future rental housing demand and to expand the supply of rental housing in locations where it is needed. Given the regional nature of the housing market, there may be an opportunity to partner with Metro Vancouver, other member municipalities or the Province of BC on this study.

Key Elements:

- (a) Analyze demographic changes and sources of pressure on the existing rental housing stock
- (b) Identify the impact of migration and immigration on rental housing demand as well as the impact of an aging population and other demographic trends which could affect future rental housing demand
- (c) Estimate overall rental demand by geographic, economic and social segment and provide regional context
- (d) Identify components of new rental housing demand linked to sources of new rental by segment housing supply
- (e) Identify the range of choices available to households with low to moderate incomes within the existing rental housing stock. The study will use the conventional measures of affordability, (core housing need, INALH) or alternate benchmarks if appropriate
- (f) The analysis should include an estimate of the shortfall of “affordable” rental units, as well as a discussion of the potential mismatch in the supply of units available relative to existing and future housing demand (e.g. affordable 3 bedroom units for families)

Study Overview:

- **Scope:** Uses existing data sources and conventional analysis for base research. Matching the demographic to major market segments and geographic areas of Vancouver would be an advantage, and enable compatibility with Study #2A, #2C & #3.
- **Timeframe:** 6-7 months
- **Data Sets:** 2006 census, CMHC core need data, housing starts data and rental market data
- **Methodology:** socio-demographic analysis with emphasis on cross-tabulating into meaningful renter household segments that reflect an explicit weighting between key factors which are likely to include incomes, age, geographic area, ethnicity & language, immigration status, housing mobility within the region and City, special needs & age status.
- **Deliverables:** Detailed report interpreting and illustrating the findings in tabular and chart formats. Creative illustration through mapping, graphing or other images is encouraged to make the findings more accessible to the general reader.

- **Linkage to Other Studies and Policy Issues:** Primarily a background document to provide a social profile of rental households and quantify the gaps within the rental continuum. The demand/supply segmentation will answer the question of the importance of each segment and whether the current trend to a larger proportion of rented condo stock rentals will fill the emerging rental demand profile. The study should also look at the specific needs which are being met through the existing purpose built rental housing stock, particularly the need of households with low and moderate incomes.

Study #2A: Purpose-Built Rental Housing - Inventory and Risk Analysis

The primary purpose of this specialized study is to determine the amount and degree of risk for redevelopment or conversion to condo of the existing purpose-built rental housing stock. The study will also assess alternative measures best suited to mitigate this risk. To support the analysis a comprehensive database will be developed which will include the critical measures and indicators which can influence the risk of redevelopment/conversion. This study will use existing data sources including BC Assessment data, CMHC rental market data, 2006 Census data, zoning information, and comparative data on the development economics of strata condo development and conversion versus rental housing investment. The primary focus of this study is to identify building types and/or neighbourhoods which are at greatest risk of redevelopment or conversion. The study will also help to clearly identify the associated risk factors and policy responses which can be adopted to mitigate these risks as well as evaluate the potential impact on landlords, tenants and neighbourhoods.

Key Elements:

- (a) Map where the existing purpose built rental housing is located by zone
- (b) Identify characteristics of the existing rental housing stock and age of stock
- (c) Identify characteristics of the current household mix (income, age, household mix). Note linkage to findings in Study #1.
- (d) Valuation of the existing use (BC Assessment data)
- (e) Determine the segmentation of the building stock into discrete market areas and character. (e.g. by neighbourhoods/building type/age etc.)
- (f) Evaluate the income and profit potential of the existing rental versus condo redevelopment as well as critical zoning factors
- (g) Determine under-utilization of the existing zoning and likely outcomes
- (h) Evaluate risk of disinvestment/deterioration of stock

Study Overview:

- **Scope:** This study will require original research to integrate existing data sets on building location, size and market segmentation with zoning, development potential and assessment or market value information. The scope is City-wide and will be detailed at the building type and/or neighbourhood level. The combined data set will be comprehensive while remaining directed at the research question. The analysis and financial modeling of the rental segments will provide a detailed assessment of redevelopment risk by the rental market/locational segments identified in the study.
- **Timeframe:** 6 months
- **Data Sets:** BC Assessment Data, City zoning data, 2006 census, CMHC data,

- **Deliverables:** Both the creation of the data base, through integration of BC Assessment data, City data or other sources, and the reliability testing of the new data set will be a challenge. The second stage of the study will be to model the comparative financial economics of current usage as a rental building and the potential "upside" of redevelopment or conversion. Identifying the appropriate segmentation by a mix of building size, type & age relative to the neighbourhood location will be required. Testing alternative segmentation criteria may be necessary. Validation of the financial model and a review of findings regarding the degree or immediacy of risk will require focus groups for peer review and should include consumer groups, owners, managers and members of the development industry.
- **Presentation:** Detailed report interpreting and illustrating the findings in tabular and chart formats. Creative illustration through mapping, graphing or other images is encouraged to make the findings more accessible to the general reader.
- **Linkage to Other Studies:** This study links to the socio-economic profiles developed in Study #1, "Rental Housing Demand and Supply". It evaluates the degree of "redevelopment risk" of the existing purpose-built rental stock. Redevelopment risk is a financial risk whereby the financial benefits of redevelopment, typically to strata-title residential, outweighs the financial returns of the ongoing rental housing concern. It is different in focus from Study #2B which evaluates the degree of physical risk stemming from the physical condition of the existing stock

Study #2B: Existing Purpose-Built Rental - Building Condition, and Major Repair Requirements

This specialized study recognizes that a very large proportion of the existing purpose-built housing stock is over 40 years of age. This aging rental stock may require significant re-investment and upgrade and it will be the purpose of this study to evaluate the condition of this segment of rental stock and determine the re-investment needs to improve or maintain this stock. This study will provide an important insight into whether the current financial returns for rental buildings is a reliable estimate of medium-term financial yields or if a significant deferred maintenance or poor state-of-repair suggests major re-investment needs and/or declining returns and a vulnerable housing stock. This evaluation will serve as the basis for Study #2C which will assess the adequacy of available financial resources, either refinancing with additional debt, sale to private or REIT investors or forms of alternative equity to effect the necessary re-investment requirements. Whereas this study will focus on the physical condition and ongoing maintenance issues (physical risk to the stock), Study #2A evaluates the financial risk to the rental stock through redevelopment opportunities.

Key Elements:

- (a) General condition of the stock
- (b) General building life cycle
- (c) Major repair requirements and impact on rents/returns
- (d) Engineering studies (electrical, plumbing, health and safety, fire suppression, earthquake, and major building envelope failure)
- (e) Potential implications (tenants and landlords)
- (f) Potential tenant displacement issues or health and safety concerns
- (g) Standards of maintenance and enforcement issues
- (h) Replacement reserves and access to capital

Study Overview:

- **Scope:** This original research study will do a scan of the purpose-built housing in Vancouver and evaluate the condition of older buildings. Ideally the researcher can identify a limited number of neighbourhoods and zoning areas where this cohort of buildings are located. Using the Data Set developed in Study #2A and accessing various other City records will provide a financial/statistical model to indicate the number of poorly maintained buildings. This model will be tested through visual inspection and owner/manager interviews. A further validation may be analysis of City records regarding standard of maintenance complaints and similar data available from consumer groups or rental regulation authorities.
- **Timeframe:** 6 months
- **Data Sets:** BC Assessment Data, City zoning data, 2006 census, CMHC data,
- **Deliverables:** Using the Integrated Data Set Access developed in Study # 2A sort the buildings by age, location and assessed value. Determine the assessed value relative to key metrics, like value per unit or value per site size; cross tabulate with rental prices to determine the high, medium and low-value buildings. Utilizing city records on building permits (electrical, plumbing and repair permits) determine the proportion of buildings which appear to have deferred maintenance. Validation of the financial/statistical model will be by a scientific sample size and a visual and possibly a telephone interview of the building owner or manager. Validation of the model and a review of findings regarding building maintenance will require focus groups for peer review including consumer groups, owners, managers and members of the development industry.
- **Presentation: Detailed report interpreting and illustrating the findings in tabular chart, map or photo formats.**
- **Linkage to Other Studies:** Linkage to the Data Set developed in Study #2A “Purpose-Built Rental Housing Inventory and Redevelopment Risk Analysis” and will be applied to the analysis in Study #2C : “Purpose Built Rental - Investment Climate for Existing Purpose-Built Stock”.

Study #2C: Purpose Built Rental - Investment Climate for Existing Stock

Utilizing the findings of Study #2A and #3, this specialized study will focus on the existing purpose-built rental housing stock and will examine the financial viability of the existing stock. The purpose of this study is to understand the future and potential investment/financing vulnerability of the existing purpose-built rental stock.

For a well-maintained housing stock, investors and building owners need to attract reinvestment in major building components. This study will evaluate the rate of return on rental investment and the question of profitability and access to capital. The sources of re-investment may take the form of accumulating replacement reserves, refinancing with additional mortgage debt, sale to private or REIT investors or other forms of equity. It is possible that the current housing finance mechanisms are functioning well and interviews with key players in the system (CMHC, lenders, brokers and owners) will be an important component of the analysis. The study will model anticipated financial impacts of rates of change by-laws or alternative measures targeted to the protection of existing rental stock. Whereas this study will measure the financial health of the existing purpose-built rental housing stock, it does not address the viability of creating new purpose-built rental buildings. The combination of factors for new rental housing is addressed in

Study #2D and that study will examine, among other things, the cost of new construction, rent levels, financing costs and residential land values for condo or alternatively rental development.

Key Elements:

- (a) Analysis of sales & purchase data including “cap rates”
- (b) Anticipated rent levels & vacancy rates
- (c) Management issues
- (d) Sources of capital & Financial structure
- (e) Concentration of ownership
- (f) Categorization of investor types
- (g) Liquidity in the market
- (h) Term of holding
- (i) Capital gains and Taxation Issues (GST, income tax, excluded from small business tax rate, depreciation rates)
- (j) Discussion of rate of change mechanism
- (k) Identification of alternative policy responses to protect existing stock

Study Overview:

- **Scope:** This directed research will concentrate on purpose-built housing in Vancouver and evaluate the financial strength of the rental stock by age, area and form. This will focus on market and investment indicators including apartment building sales, operating expense trends, debt market conditions and equity sources. The study will model the financial impacts of a rate of change mechanism and provide information to consider alternative policy responses to protect existing stock.
- **Timeframe:** 6 months
- **Data Sets:** BC Assessment Data, sales data, operating expense analysis, CMHC data (lending criteria), Mortgage and Banking data,
- **Deliverables:** Using an appraisal approach a broad sample of various rental building will be evaluated from a valuation and financial strength perspective. Starting with current underwriting criteria for apartment lending (both CMHC insured and noninsured loans) and three years of sales/listing data; the researcher will evaluate the financial situation of rental investment. The segmentation will match the parameters developed in Study 2. After determining the key metrics, e.g. value per unit or value per site size; rate of return, capital gains potential etc. a summary of the financial health of the rental stock will be presented. This perspective will be from that of long-term owners, institutional owners, individuals and small corporate holdings. The relevant taxation factors relevant to reinvestment decision or purchase/hold/sell decisions will be outlined. Directed interviews with financial institutions and owners will be important to this study. Validation of the findings regarding the financial health of the purpose-built rental sector will require focus groups for peer review including consumer groups, owners, managers and members of the housing finance industry.
- **Presentation:** Detailed report interpreting findings and illustrating the findings in tabular and chart formats.
- **Linkage to Other Studies:** Linkage to the key findings of Study #2B, “Investment Climate for Existing Stock”.

Study #2D: Purpose-Built Rental Housing – Economics of New Supply

The economics of new rental supply are under stress due to a number of factors, not the least of which is competition with strata condo development for scarce land resources. The close-to-zero rate of creating new purpose-built rental pre-dates the current trend of construction cost inflation and has manifested itself throughout a number of economic cycles and various interest rate regimes. This long standing issue has skewed the rental market and generated concerns for the expansion of purpose-built rental which has been the traditional source of long-term, dedicated supply. This specialized study will examine the financial gap between the cost of creating new rental and the financial viability under prevailing taxation, investment terms, rental rates and interest rate conditions. The study will examine potential mechanisms and incentives to bridge this gap and thereby stimulate new market rental housing supply.

Key Elements:

- (a) Pro forma based analysis and economic modeling of returns on investment for investors and developers of purpose-built rental housing. Modeling will be required for a range of apartment types including bachelor units to three bedroom family units, and will be required across a number of neighbourhoods.
- (b) Pro forma examples of wood-frame and reinforced concrete construction will also be required.
- (c) Identification of alternatives for reducing the gap between the present project economics and financial viability.
- (d) Assessment of the current taxation provisions affecting new rental housing investment, including capital gains roll-over provisions, depreciation rates, taxation rate (no small business rates available) and GST provisions.
- (e) Evaluate current sources of development and long-term mortgage financing.
- (f) Evaluate the availability of equity capital for various investor classes including private capital, REIT's, pension funds and large capital pools.
- (g) Illustrate the gap between rental rates within the market-place and the economic rents determined under the aforementioned pro forma analysis.
- (h) Model and describe the primary forms of government financial supports used within the North American context to generate new rental supply. These forms included dedicated rent supplements, discounted interest rates on mortgage finance, government guarantees of mortgage debt, tax credit incentives to rental investors, direct granting programs such as traditional housing supply programs and municipal incentives through capital cost reductions (DCC and permit expense relief) and operating cost supports like property tax exemption.
- (i) Examine specific municipal levers such as zoning (density bonus, establishing rental only zones and the use of inclusionary housing policies).
- (j) Identify which level of government is best suited for the identified support funding and subsidy mechanism.
- (k) Beyond the need for a sufficient supply of rental housing, it remains the case that many tenants have incomes which are too low to afford prevailing rents. Therefore, a central element within this specialized study will be an examination of the range of potential strategies and approaches which can be adopted for increasing the supply of housing that is affordable to households falling at the low end of the housing and income continuum.

Study Overview:

- **Scope:** This study will identify the economic gap between the development of purpose-built market rental and strata condominium buildings. Once the base economic model is completed a modeling of key identified taxation, policy and investment elements will be modeled to determine the most effective policy option to close this economic gap for the stimulation of new purpose-built rental housing. Consideration of general reforms to the current regulatory landscape (broad measures like taxation rates, GST provisions, depreciation rates & investment (dis)incentives will be considered, as well as, targeted programs directed to specific new supply programs.
- **Timeframe:** 6 months
- **Data Sets:** BC Assessment Data, City zoning data, 2006 census, CMHC data,
- **Deliverables:** Using a pro forma approach this study will model different building types (e.g. concrete and wood-frame and of various building sizes) in a number of multi-family zones within the City. Neighbourhood and site selection should consider the amount of zoned capacity, the existing rental market, various parts of the city and a range of price points of new strata condos. Preference will be given to a proposal which carefully selects the scenarios modeled. The possible sample of building sites and the findings from this comparison between tenure forms, may approximate the following format:

Neighbourhood	Building Type	Zone	# of Units	Capital cost - cost/unit	Strata - Rate of Return	Rental Building - Rate of Return	Effectiveness of Potential Interventions
WestEnd	tower - concrete						
	4 storey woodframe	RM4					
Kerrisdale	tower - concrete						
	4 storey woodframe						
Oakridge	4 storey woodframe	RM4					
	4 storey woodframe	CD2					
Mt. Pleasant	tower - concrete						
	4 storey woodframe	RM4					
Fraser Lands	tower - concrete						
	4 storey woodframe						
Kennington	tower - concrete						
	4 storey woodframe						

Linkage to Other Studies: Linkage to the Data Set developed in Study #2A to the analysis in Study #2C: "Investment Climate for Existing Stock".

Study #3 The Role of the Rented Condo Stock

This study examines the rented condominium stock. The CMHC Rental Market Report (October 2007) reported that most of the new rental housing supply in Metro Vancouver is coming from the secondary rental market. The CMHC report also estimated that approximately one fifth of all apartment condominiums in the Vancouver CMA are rented and that this number is significantly higher for the City of Vancouver. As of October 2007, it was estimated that there were approximately 17,000 rented condo units across the City of Vancouver. While it is clear that this housing stock represents an important source of rental housing supply, one of the concerns is that this stock is more elastic and that there can be significant fluctuations in this supply depending on broader economic factors and market conditions. This proposed study will compile, synthesize and analyze research and data related to this segment of the rental stock.

Key Elements:

- (a) Estimate of the number of condo units by area and assessed value
- (b) Estimate of the number of condo units which are serving as rental and the number of units which are vacant
- (c) Determine the extent (current and potential future) and impact of rental restriction strata by-laws
- (d) Evaluate the management of the rented condo units (questions of market efficiency such as marketing and upkeep)
- (e) Incidence of landlord/tenant issues/displacement of tenants
- (f) Tenant profile and length of tenure
- (g) Profile of investors and return on investment
- (h) Rent levels and vacancy rates
- (i) Proportion of stock by year of construction
- (j) Length of time that a rented condo or secondary suite is likely to remain in the rental pool

The policy issues of interest include: the degree to which this source of rental housing is well utilized, the stability of these segments as a long-run source of rental supply, the role of these segments on housing choice, and the direct or indirect effects on affordability.

Study Overview:

- **Scope:** This study will evaluate the rental condo stock and provide a profile of the duration these condos remain in the rental pool, the vacancy rates and the special management issues raised by the diffuse location and ownership of the condos. The study will provide a global estimate of condos within the rental pool and then focus on critical regulatory issues and opportunities. The creative use of existing data sets, particularly City of Vancouver, BC Assessment data and CHMC material may be the most fruitful areas to explore. The study will determine the size, vacancy rate and rental dynamics of this segment, and then closely analyze the regulatory features which improve or impair the successful operations of this housing segment. The study will identify investor intentions, for example whether the unit is held as a future home, for income generation or capital gains, etc. The study contains both a detailed quantitative analytical portion and a review of regulatory mechanisms as they apply to the operations and tenant issues that arise in this diffuse but important segment of rental

accommodation. A review of tenancy rules, strata legislation, and management issues will require a combination of literature review, analysis of tenant complaints data (if available from the rental authorities) and meetings with various stakeholders (managers, owner groups and tenant advocates).

- **Timeframe:** 6 months
- **Data Sets:** BC Assessment Data, City zoning data, 2006 census, CMHC data,
- **Deliverables:** Using the various data sets, and perhaps some direct field survey work for targeted data collection or validation, this study will quantify and describe the rental markets segments of the secondary rental market (condo). Creativity in estimating the size and characteristics of these markets and key parameters will be necessary, as the collection of the base data has not been direct. The operational metrics of this segment will be analyzed (e.g. vacancy rates, permanence of the stock, rental rates, condition & frequency of tenant issues, etc.). A review of tenancy rules, strata legislation, and management issues will require a combination of literature review, analysis of tenant complaints data (if available from the rental authorities) and meetings with various stakeholders (managers, owner groups and tenant advocates).

Linkage to Other Studies: Linked to Study #1 Rental Housing Demand and Supply”.

Study #4 **The Role of Secondary Suites**

This study examines secondary suites which are typically found in single family and other low-density neighbourhoods. This study of secondary suites will examine the issues of quality of housing, rental rates, vacancy and special tenancy issues. The length of time in the rental pool and management issues will be an important element of this study. A review of the number of secondary suites that have been approved under current licensing and building code provisions should be provided, together with an estimated of the number and neighbourhood locations of unlicensed secondary suites.

Key Elements:

- (a) Estimate of secondary suites within the City
- (b) Estimate of the number of secondary suites which are serving as rental
- (c) Evaluate the management of the secondary suites (questions of market efficiency such as marketing and upkeep)
- (d) Incidence of landlord/tenant issues/displacement of tenants
- (e) Tenant profile and length of tenure
- (f) Profile of investors / owners, return on investment
- (g) Rent levels and vacancy rates
- (h) Proportion of stock by year of construction
- (i) Length of time that a secondary suite is likely to remain in the rental pool

The policy issues of interest include: the degree to which this source of rental housing is well utilized, the stability of these segments as a long-run source of rental supply, the role of these segments on housing choice, and the direct or indirect effects on affordability.

Study Overview:

- **Scope:** This study will evaluate secondary suites which are an important source of rental accommodation, spread throughout various low-density neighbourhoods. The study will provide a global estimate of secondary suites and then focus on critical segments and

regulatory issues and opportunities. The creative use of existing data sets, particularly City of Vancouver, BC Assessment data and CHMC material may be the most fruitful areas to explore. The study will be successful if it can determine the size, vacancy rate and rental dynamics of this segment, and then closely analyze the regulatory features which improve or impair the successful operations of this housing segment.

- **Timeframe:** 6 months
- **Data Sets:** BC Assessment Data, City zoning data, 2006 census, CMHC data,
- **Deliverables:** Using the various data sets, and perhaps some direct field survey work for targeted data collection or validation, this study will quantify and describe the rental market segment of secondary suites. Creativity in estimating the size and characteristics of this markets and key parameters will be necessary, as the collection of the base data has not been direct, in the case of secondary suites because they are frequently unauthorized and there is no direct registry or designation regarding type of tenure as these units often move between owner-occupied and rental status. The operational metrics of this segment will be analyzed e.g. (vacancy rates, permanence of the stock, rental rates, condition & frequency of tenant issues etc.).

Linkage to Other Studies: Linked to Study #1 Rental Housing Demand and Existing Supply”.