Market Rental Housing in Vancouver

A Strategy to Increase the Supply of Market Rental Housing
in
Vancouver

October, 2008

Vancouver City Planning Commission
Market Rental Housing Committee

Commissioners
Setty Pendakur, Chair
Frank Ducote
David Godin
Michael Klassen
Bob Ransford
Mark Shieh

CITY OF VANCOUVER

Vancouver City Planning Commission

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VCPC Report to City Council: September 11, 2008

1. **<u>VCPC Housing Conference of October 2006:</u>**

A. VCPC hosted a conference, in partnership with SFU City Program and Smart Growth BC, on "Affordability by Design and Affordability for All" on October 19-20, 2006[1]. The conference was financially supported by the Real Estate Foundation of BC, Vancity and CMHC, in addition to the City of Vancouver (VCPC). Five key themes as emerging from the conference were outlined:

- Laneway oriented development
- Creative infill
- Transit Oriented Development (TOD)
- "Out of the box" housing options
- Alternative housing models/tenures

B. It also identified numerous barriers to increasing housing supply which are within the city's power to change as well as some tools which could be improved. VCPC presented a preliminary oral report on the conference to the Standing Committee on Planning and Environment on November 16, 2006. The report noted that the challenges to supplying housing to the low to middle-income households has become increasingly complex and that building rental housing was substantially less profitable and more complex than building apartments for ownership and/or investment.

2. **<u>VCPC: Market Rental Housing Initiative:</u>**

   A. In February 2007, as the City proceeded with the EcoDensity initiative, VCPC shifted its attention to a key component of sustainability: growth and housing supply. It established a task force to examine what the city can or should do now, with regard to affordability and rental housing.

   B. After preliminary reports from the task force, the Commission established a "Committee on Market Rental Housing" on April 23, 2008 with instructions to develop policies to increase the supply of market rental housing in Vancouver[2].

   C. The recommendations, detailed below, were approved by the VCPC on July 23, 2008, with instructions for presentation to Council.

[1] "Affordability by Design and Affordability for All", Proceedings of conference on Housing Affordability held on October 19-20, 2006, Vancouver City Planning Commission, Vancouver, BC, 2007.

[2] Dr. V. Setty Pendakur, as Committee Chair with Frank Ducote, David Godin, Michael Klassen, Bob Ransford and Mark Shieh as members.

3. Market Rental Housing Affordability: The Context

A. In 2006, there were 253,370 households in Vancouver, 52% of which (131,752 households) were renting households (including secondary suites, houses etc). Of these total rental units, 41.6% were market rental units (105,402 units) and 10.4% (26,432 units) were assisted housing units (social housing and assisted rental housing).[3]

B. About 50% of all the rental households are in apartments. In addition to the housing supply specifically built for rental, there is a secondary rental market, among housing which was not initially developed as rental housing. About 20% of all condos (not specifically built for rental) are rented out by the investor owners; in general these apartments are in the higher rent category[4].

C. Rents are high and rental apartment vacancy rates are the lowest since 1997, at 0.5% in October 2007. A recent survey by CMHC indicates that rental vacancy rates are at a historic low of 0.5% on the average.[5] The West End has the most acute rental housing vacancy rate of 0.2% and Mount Pleasant at 1.1%.

D. Vancouver has become quite "unaffordable" for many households. In 2006, there were 253,370 households in Vancouver. Incomes for the bottom 1/3 (80,510 households) ranged from zero to 30,000$/year; for the middle 1/3 (91,800 households) the income range was from 30,000$ to 70,000$/year. Average rents were 945$/month. Income required to support this rent was 37,800$/annum (based on 30% of income for rent). This situation makes "affordability" a very tough challenge for nearly 100,000 households in Vancouver[6].

4. Market Rental Housing Supply in Vancouver: The Context

A. Current market conditions favor for-sale housing rather than rental housing. We have built a fairly large number of housing units over the past 10 years for ownership and hardly any noticeable number for market rental.

B. Developers are unwilling to build market rental units because it is much more profitable to build units for ownership rather than rental. A 1-BR (650 SF) condo downtown sells for about 530,000$ as owned and the same unit could sell for 300,000 to 350,000$ if it is for permanently rental.[7]

C. The city urgently needs to devise and implement policies which do not exclusively depend on the policies and programs of provincial and federal

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[3] Housing Affordability in Metro Vancouver, Ibid.
[4] Ibid.
[5] Rental Market Report, Vancouver and Abbotsford CMAs, CMHC, March 2008.
[6] Housing Affordability in Metro Vancouver, McClanaghan & Associates, Report prepared for Metro Vancouver, May 2008.
[7] Information from downtown condo developers, May 2008.

governments. The city can initiate policies within its own structure to encourage the housing market to build more rental housing.

D. The city should continue to maximize its participation in federal and provincial programs, as it has done historically. However, the history of federal and provincial programs shows that they are severely underfunded, discontinuous and unreliable, for long term continuing solutions to the "housing affordability challenge in Vancouver".

E. Part of the affordability challenge is the supply of rental housing. If the city could encourage the supply of market rental housing, there will not only be relief to the very tight vacancy rates but also likely some relief to the high rents.

F. This report addresses only the issue of "Market Rental Housing in Vancouver". What tools are available to the city, except public subsidy, to provide a steady supply stream of market rental housing for the middle-third of the income groups, who are neither poor nor rich? How can we achieve such a supply of rental housing by taking initiatives within the framework of city' current legal powers and without depending too much upon senior governments?

5. Core Values and Assumptions:

A. Vancouver will continue to grow. We can expect about 100,000 more new people live in our city by 2025. We need more people to live and work in the city.

B. Because of our geography and topography, the only way to accommodate another 100,000 people is to increase density; however this must be done in a sustainable and sensitive manner, keeping Vancouver "clean, green and livable" with a high level of community amenities and services. None of this will come easily or cheaply, demanding from all of us (council, planners and citizens) creative thinking, long term focus, green designs and adaptable spaces and structures.

C. All development must be environmentally sustainable and encourage design innovations. Our neighborhoods should continue to flourish as "distinct villages", with a diverse mix of housing units and a diverse mix of age and income groups. We want an appropriate mix of jobs and housing in all of our villages.

D. Create a "city of villages" (balanced communities) with high level of amenities and facilities. Development should be consistent with the proposed EcoDensity Charter and community discussions.

E. All neighborhoods should share this growth neutrally, "without any dumping on any particular neighborhood". Implementation should be neutral to all neighborhoods, as an enabling tool of creating new market rental units all across the city.

F. We must reduce trips by cars and increase the trips by public transport, cycling and walking. This requires us to focus on "Transit Oriented Development (TOD)".

G. Laneway and in-fill housing is one of the better strategies for intensifying low density neighborhoods in a way that maintains their existing scale and character while adding to the housing stock in the form of ground oriented, compact housing with potential for affordability[8]. However, the city should not depend exclusively upon this option as this option alone cannot absorb the expected growth.[9] Laneway housing and coach houses are very good options and the city should proactively encourage their development where the community is enthusiastic and accepting.

H. Developing and implementing new policies and programs, regarding market rental housing, should not have to wait until all the dust settles regarding EcoDensity policy and planning.

I. The proposed policies should not be heavily dependent upon federal and provincial government programs or assistance.

J. Supplying market rental housing should be considered as a "public benefit". The basic thrust of our recommendations is that we need to pro-actively devise new approaches to creating the supply of market rental housing in the city. In this context, we consider "**rental housing as a public amenity".**

K. The implementation of the recommendations should be done without requiring additional bureaucracy.

L. Proposed policies, programs and the process should cut down on "processing time" and therefore the "processing costs.

M. Recommendations should enable the construction of rental apartments, with a diverse range of unit sizes and rents, equitably distributed in all neighborhoods to accommodate a range of age and income groups.

6. **Guiding Principles for VCPC Recommendations:**

A. Encourage "Transit Oriented Development (TOD)" and build higher densities within walking distance of public transport services. Enable TOD at Sky Train Stations (current and future) and major transit route intersections (timed focal point transfer points in the transit system). Even though the generally accepted planning principle is a radius about 400-500 m (walking distance) from these nodes, this could be 1-2 city blocks (long blocks) in Vancouver depending upon existing and projected neighborhood land use and population conditions.

[8] Joaquin Karakas, Livable Cities: A Study of Laneway In-fill Housing in Vancouver and Other Growing B.C. Communities, Holland Barr Planning Group (for CMHC), Vancouver, BC, April 2007
[9] Busby on EcoDensity, submission to City council by Busby Perkins+ Wills, City Council EcoDensity Hearings, 2008.

B. The end product should be CAC (Community Amenities Contribution) neutral. Market rental housing portion of the development should be considered a "public benefit" in itself. Developers should neither be penalized for additional density (FSR) nor rewarded with any discounts, with respect to the "market rental housing" portion of the development. However, the entire development, including the market rental portion should be subject to normal DPLs.

C. Create a new NC-1 Zone, as described below, to enable and encourage continuing supply of market rental housing in Vancouver.

7. New NC-1 Zone and how it would work

A. This zone will cover about 1-2 city blocks radius from all sky train stations (existing and proposed), 1-2 blocks radius at designated transit nodes (intersection of major transit routes) and all the neighborhood centers (already identified under the community visioning program). The extent of coverage from each node or along each corridor will depend upon current land use, neighborhood character and configuration of streets vis-à-vis the node itself.

B. The current C-2 zones allow for an FSR of 2.5 and maximum 4 storey height. Proposed NC-1 zone will allow for an FSR of 4.0, with varied heights. The lift created by the increase in FSR from 2.5 to 4.0 is available exclusively for market rental housing.

C. The basic density is 2.5 FSR, which is the same as prescribed for the C-2 zone. If the developer is not proposing to build "market rental housing", 2.5 FSR is the maximum density he/she will be allowed to build to. However, if the developers wish to avail themselves of the opportunity to build market rental housing, then a bonus density of 1.5 FSR is available exclusively towards market rental housing.

D. NC-1 will emphasize the building of diverse unit sizes and will not permit units larger than 1,200 Sq Ft, in order to keep the lid on rents. NC-1 will also allow the reduction in unit size, suite within a suite (a la SFU) and other design innovations, enabling starter units for middle and lower income households as well as young families.

E. **Reduce Parking Requirements:**

   I. Building parking stalls has become quite costly. In 2004, parking stalls cost about 30,000$ each to build. With the increases in land construction costs since 2004, cost of a parking space in downtown apartment buildings has increased to about 40,000$ (construction costs, soft costs and developer profits) in 2008.[10]

[10] Based on development costs for apartments in Vancouver, 2008.

II. Impact of reducing parking requirements from 1.75 to 0.70 is to reduce the unit cost of the apartment by about 60,000$, considering all costs (construction, soft costs and profits).[11]

III. Often the “maximum” parking requirement becomes the “minimum parking requirement”. Most developments are providing the maximum allowable parking and hence increasing the unit selling costs.

IV. Make the minimum parking required as the maximum parking permissible. Reduce the maximum permissible parking 1.7 to 0.70 stalls/unit. Planning and design guidelines will encourage parking provision is even less parking than this where possible. There are two important reasons:

   1. The proposed NC-1 zone is a TOD (Transit Oriented Development) commensurate with the city’s sustainable development goals, and
   2. Many of the renters in smaller units are not likely to be car dependent.

   Therefore, the maximum parking stalls permitted in the proposed NC-1 zone should be 0.7 stalls per unit, making “the minimum into the maximum”**.**

V. **This reduction of parking requirements applies only to the rental housing portion of the NC-1 zone.**

F. The developer is required to pay the DPLs (Development Permit Levies) applicable to the entire development, including market rental housing. However, the market rental housing portion is not subject to CACs (Community Amenity Contributions). The provision of market rental housing in itself is considered a community benefit.

G. The developers will be required to enter into “Rental Housing Agreement with the City”, placing a covenant on the title which requires the block of rental units to remain as rental housing for a period of 10 years.

H. While the current City practice for rental housing covenants is for 40 to 60 years, we recommend a 10-year horizon. 10 years is a common holding period for apartment investor's analysis. This conclusion is based on current market conditions and the assumption that construction costs are not going down. The 10 year period is long enough to discourage speculators and at the same time attract entrepreneurs who are interested in building value within the community for the longer term horizon.

I. The developer could sell the rental units to another party, but these units must be sold as a single block, rather than individual units. This approach is modeled after existing City practice which enables enforcement for continuing operation as rental housing.

[11] Affordability by Design and Affordability for All, Ibid.

J. A sample financial analysis (under current market conditions), is detailed in Annex 1. Detailed calculations are shown in Annex 2.

8. Implementation Requirements:

A. Expedite development by pre-zoning for the city as a whole and not by each node or neighborhood. This means that the public hearing process will be extensive but it will happen only once for the entire city. This will also mean reduced processing costs the development.

B. Shift the focus "away from the inner core of the neighborhoods" and establish an open list of priority locations to encourage development. Strategically assess the nodes for densification and be proactive in encouraging development. Figure 1 shows a number of nodes for potential early implementation.

9. VCPC Recommends:

A. That the Council adopt this report as the city's market rental housing policy and instruct the staff to bring back a report with the details on implementation as soon as possible, hopefully within the lifetime of this council;

B. Recognizing that VCPC is not equipped to do detailed impact studies at various nodes, that the staff report should include a list priority nodes for implementation;

C. Recognizing that parking demand varies depending upon where the rental units are and what the rents and incomes are, the staff report include an identification of nodes and corridors which would be early candidates for the relaxation of parking requirements;

D. Recognizing the city's policy regarding various covenants is 40-60 years and this report recommends 10 year covenant based on market conditions for the rental housing, that the staff report include an analysis of what is the appropriate range of alternatives in this regard while paying particular attention to the market conditions;

E. That this policy be reviewed for its effectiveness and continuity in five years hence, in 2013.

Annex 1: Market Rental Housing
NC-1 Zone: Implementation and Financial Aspects
V.10-September 11, 2008

1. **Rental Housing as a Public Amenity**
   The basic thrust of our recommendations is that we need to pro-actively devise new approaches to increase the supply of market rental housing in the city and develop zoning mechanisms that are medium to long range and reduce processing costs and without any new bureaucracy. In this context, we consider "**rental housing as a public amenity".** The recommended NC-1 zone is a transit oriented development (TOD), requiring little or no parking to be provided within the development.

2. **Implementation Example**
   The following is an **example based on a 10,000sf site** to illustrate how the bonus density system attached to the NC-1 zone will work:

A. The site's base density is 2.5FSR, which is the same as for C-2 zone. If the developer does not wish to build market rental housing, then 2.5FSR remains the maximum density permitted. However, if he/she does wish to build market rental housing, then a bonus density of up to 1.5FSR is available exclusively towards market rental housing.
B. Without market rental housing the buildable area is 25,000sf (2.5 fsr). With market rental housing, it will be 40,000sf (4.0 fsr), of which 15,000sf is dedicated to market rental housing.
C. The developer will be required to pay Development Cost Levies and Community Amenity Contribution for both the base density and bonus density.
D. The developer will enter into a "Rental Housing Agreement" with the City, placing a covenant on title which requires the 15,000sf block of rental units to operate as rental housing for 10 years.
E. While existing City practice for rental housing covenants has been 20 to 60 years, we recommend a 10-year horizon. 10 years is a common holding period for apartment investor's analysis. It is long enough to discourage speculators, and attract owners who are interested in building value and provide stability for the longer term.
F. While the covenant is in place, the developer could sell the rental units to another party, but it must be sold as one single block, rather than individual units. This approach is modeled after existing City practice which enables enforcement for continual operation as rental housing.
G. Current parking standards require a minimum of 0.75 stalls per unit and also allow a maximum of 1.75 stalls per unit to be built. **Emphasizing that the proposed NC-1 zone is a TOD (Transit Oriented Development), the maximum parking stalls permitted in the proposed NC-1 zone is 0.7 stalls per unit, making "the minimum into the maximum".**

3. **Financial Analysis:**
   A. For the purposes of financial analysis, it is assumed that the development will be bank financed and CMHC insured at a lower rate to reduce the financing costs, otherwise, with conventional loan, new rental-housing projects may not be able to generate a positive cash flow.
   B. After project is completed and the units rented, it is estimated that the gross rental income to be approximately $313,000 per year ($2 per sq ft per month x 12 mos. x 87% efficiency x 15,000sf). This rental income is adequate enough to create positive cash for the developer; but not a windfall.
   C. Detailed calculations are shown in the attached Pro-Forma in Annex 2.

4. **Policy Review:**
   It is recommended that this policy on market rental housing be reviewed in 5 years, in 2013, for its effectiveness and continuity.

PRO FORMA-Annex 2	VCPC Market Rental Housing									
2008.06.12	AT TRANSIT NODE, SKYTRAIN STATION, OR NEIGHBORHOOD CTR, VANCOUVER, BC									
LAND COSTS	**FSR**		**Site sf**		**Buildable sf**		**Total $**	**$/bsf Rental**		***Additional Notes***
Base Density	2.50		10,000		25,000		-	-		
Rental Housing Bonus Densit	1.50		10,000		**15,000**		-	-		*Rental housing as public amenity*
Plus: Closing Costs	2.0%						-	-		
Total Land Costs			20,000		40,000		**-**	-	0%	
HARD COSTS	21	*units*								
Rental Housing	700	*sf/unit*	$200	*psf*	15,000	*sf*	3,000,000	200.00		*Avg 700sf unit; wood frame construction*
Parking	-	*pk ratio*	$15,000	*/stall*	-		-	-		*No parking stalls for rental units; close to transit*
Escalation	0.5%	*per mo*			-		-	-		
Contingency Hard Costs	5.0%				-		150,000	10.00		
Total Hard Costs			$210		15,000	*sf*	**3,150,000**	210.00	78%	
SOFT COSTS										
Con - Architect			3.50%	*x hard costs*			110,250	-		
Con - Other Consultants			3.50%	*x hard costs*			110,250	-		
Dev - Permits & Licenses							75,000	-		
Dev - Development Cost Levie	$9.00	*x*	15,000	*sf*			135,000	-		*DCL on bonus density included*
Dev - Community Amenity Co	$3.00	*x*	15,000	*sf*			45,000	-		*Assume flat rate approach*
Dev - Property Taxes	2.0	*yrs*	$2	*/sf*	15,000		60,000	-		*Assume $2psf p.a. for prop tax*
Dev - Insurance	$0.25	*x*	$31,500	*hard costs/$100*			7,875	-		
Dev - Legal & Accounting							50,000	-		
Mkt - Marketing				*x gross sales*			30,000	-		
Mkt - New Home Warranty	21	*x*	$1,700	*per unit*			36,429	-		
Other							30,000			*Misc costs*
Contingency Soft Costs	10.0%						65,980	-		
Total Soft Costs							**755,784**	50.39	19%	
FINANCING COSTS	**Mos.**		**Rate/Yr**		**Loan Amt**					
Interest: Land Loan	12		6.00%		-		-	-		*Typ 50% of land costs*
Fee: Land Loan			1.00%	*x*	-		-	-		
Interest: Construction Loan	12		6.50%		3,100,000		100,750	-		*Interest = $8396 per mo.*
Fee: Land Loan			1.00%	*x*	3,100,000		31,000	-		
Contingency	10.0%						13,175	-		
Total Financing Costs							**144,925**	9.66	4%	
Total Project Costs							**4,050,709**	270.05	100%	
Equity Amount			23%		950,709					
Loan Amount			77%		3,100,000					
PROJECT VALUE			**Efficiency**		**NSA sf**					
VALUE AS RENTAL PROPERTY										
Res Saleable Area (NSA)	21	*units*	87%		13,050					
Plus: Encl. Balcony	-				-					
Plus: Storage	-			*sf*	-					
Gross Rental Revenue			$24.00	*psf p.a.*	13,050		313,200			*Assume $2psf per mo.*
Less: Operation Costs			30%	*x Gross Revenue*			(93,960)			
Net Operating Income							219,240			
Value w/ Cap Rate			5.00%	*Cap Rate*			**4,384,800**			
Profit							**334,091**			
Return on Equity							**35%**			
VALUE AS FOR SALE PROPERTY										
Res Saleable Area (NSA)	21	*units*	87%		13,050					*Assume avg 700sf per unit*
Plus: Encl. Balcony	-				-					
Plus: Storage	-			*sf*	-					
Gross Residential Sales			$550	*psf*	13,050		7,177,500			*Assume wood frame sells at $100 less than concrete*
Less: Sales Commission			3.50%	*x Gross Sales*			(251,213)			
Less: Conveyance Fee	21	*x*	$750	*per unit*			(16,071)			
Net Residential Sales							**6,910,216**			
Less: Land Costs			$120	*psf*	15,000	*sf*	(1,800,000)			
Profit							**1,059,507**			
Return on Equity							**111%**			

NOTES

1 *Interest is approximated by 1/2 x interest rate x length of construction phase*

2 *CMHC insured loan available to reduce interest cost during holding period for rental properties*

CMHC application fee is approx $150 per suite; insurance premium for 80% loan to value mortgage is approx 3.50% of loan amt

CMCH insured loan for 5-year term is approx 4.80% (Spring 2008) vs. conventional loan at prime rate + 1%

Figure 1. Potential Nodes For Early Implementation VCPC: Market Rental Housing