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Affordable Home Ownership

Exploring a Program for Vancouver

Housing Policy & Projects, CMO
Council Report RTS 11038
April 20, 2016



Outline



- Council Policy & Direction
- Background
 - What is Affordable Home Ownership?
 - Vancouver's Ownership Gap
 - Exploring AHO Program Models
- Recommendations
 - A. Approval in principle of AHO Pilot Program Goals
 - B. Seek Vancouver Charter Amendments
 - C. Progressing an optimal AHO pilot program
 - D. Clarifications to the IRP Bulletin
- Next Steps/Council Timeline

Council Policy

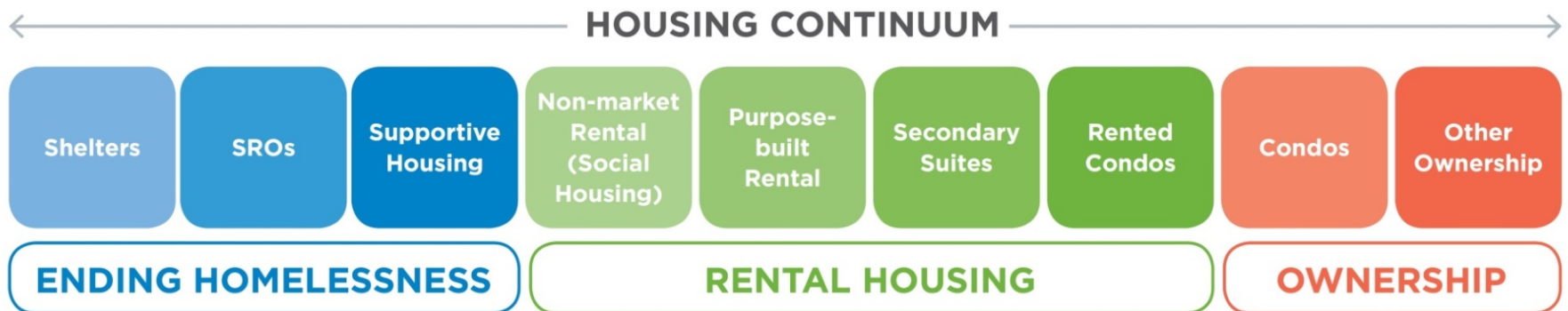


2011 *Mayor's Task Force on Housing Affordability*

- Recommendations to create affordable home ownership

2012 *Interim Rezoning Policy for Increasing Affordable Housing Choices (IRP)*

- Opportunities for rezoning applications in prescribed residential or mixed used areas where *"units are sold for at least 20% below market value and include a secure mechanism for maintaining affordability"*
- NOTE: Staff are not recommending changes to the IRP in this report.



Recent Council Direction



June 23, 2015

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.

Report back on any actions necessary, including any changes required to the Vancouver Charter, to implement an Affordable Home Ownership program and related policies.

What is Affordable Home Ownership ("AHO")?



1 Unit priced below fair market value



2 Sold to an eligible household



3 Restrictions on ownership + resale

4 Unit resold to next eligible buyer



Community Benefits of AHO



Attracts and retains working households that make Vancouver diverse, sustainable and economically vibrant

- Provides local workers with local housing options
- Reduces pressure on social housing and market rental housing
- Reduces pressure on suburban sprawl
- Maintains and improves social diversity



Household Benefits of AHO



Creates an affordable housing option that enables Vancouverites to achieve life goals, remain in their communities and thrive

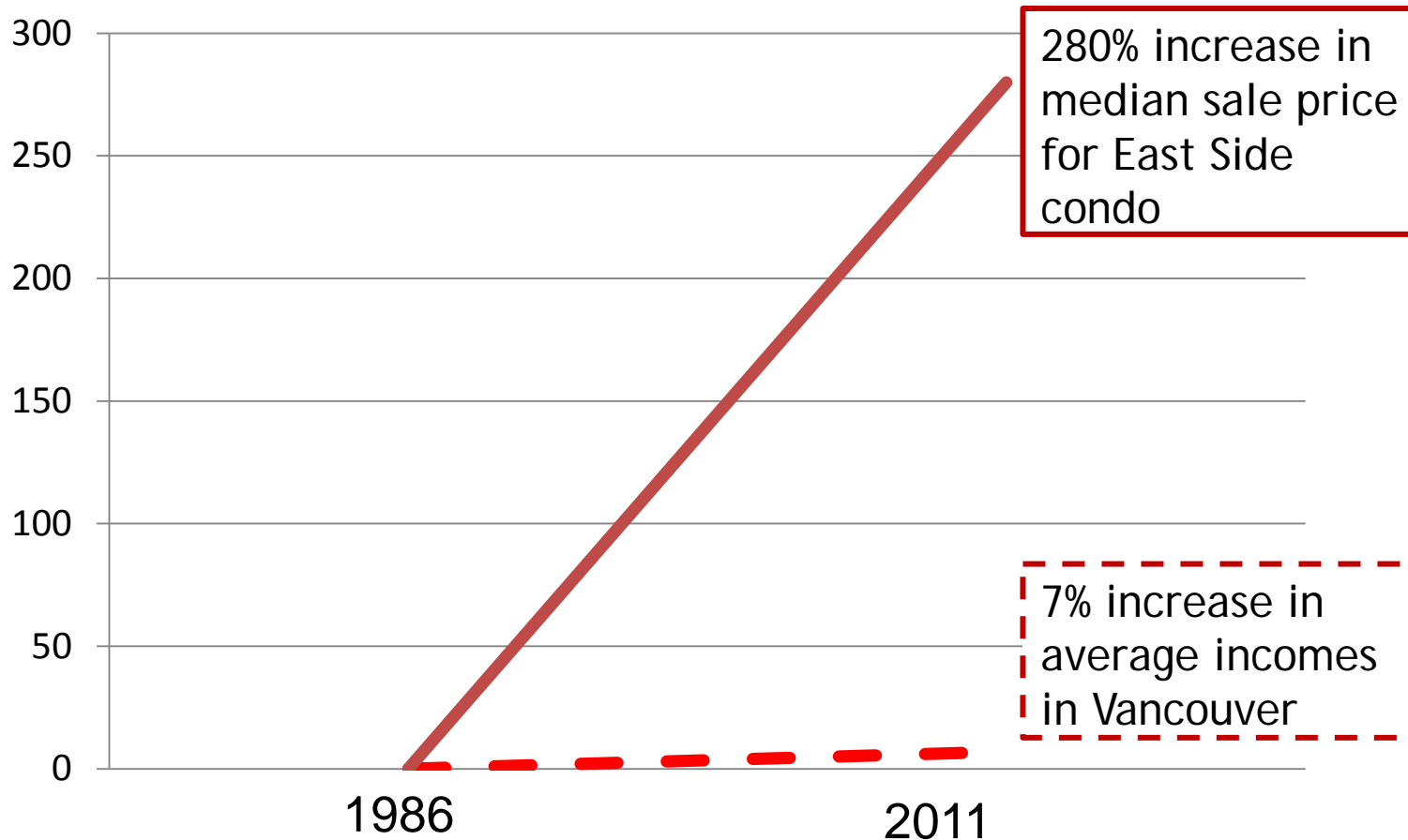
- Increases security of tenure
- Creates opportunities to build equity
- Creates an alternative to the “drive to qualify” for ownership housing
- Children: improves educational outcomes



Vancouver's Ownership Gap



Uncoupling of local incomes to local home prices.



Source: City of Vancouver analysis of Statistics Canada and Real Estate Board Greater Vancouver.

Ownership Gap: Life Goals & Priorities



69% of all Canadians own their home

82% of Canadians with children own their home



Homeownership is **Unattainable** to many Vancouverites



77% of Vancouver families feel it's important to own their home

70% of Vancouver families say it's unlikely they will ever afford to own in Vancouver

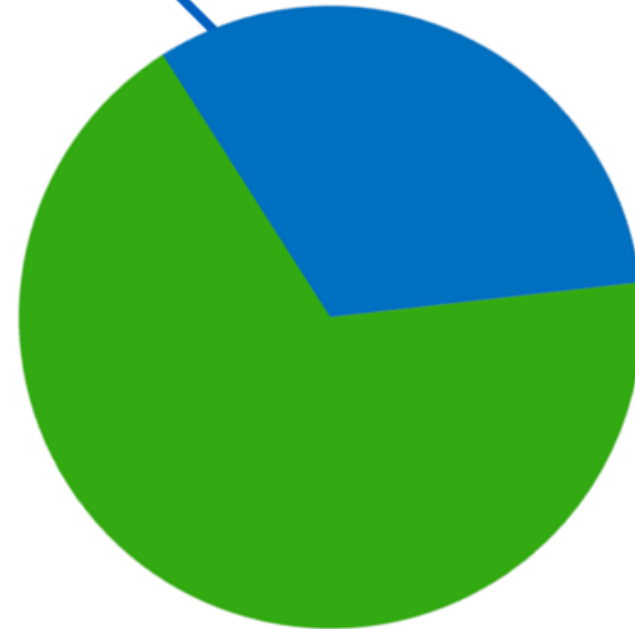
58% of families expect to move out of Vancouver

Ownership Gap: First Time Home Buyers



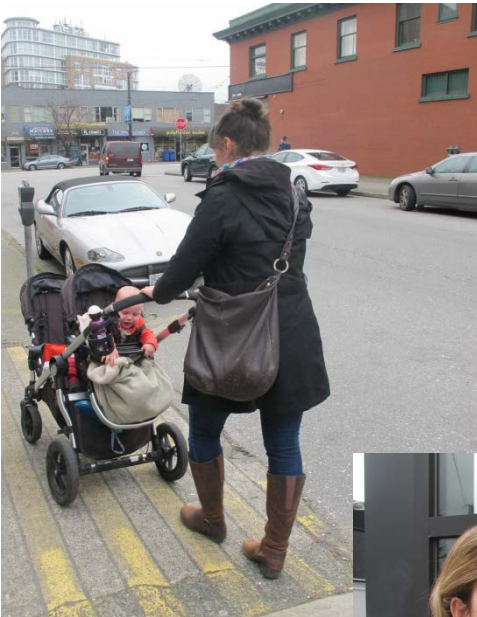
Moderate & Middle Income Buyers

30,000 households earn between
\$50,000 & \$99,000



90,000 renting households spend less
than 30% of income on housing

Ownership Gap: Move-up Family Buyers



In 2011, over 8,000 Vancouver families (at least one parent and one child) were living in a studio or one bedroom apartment.



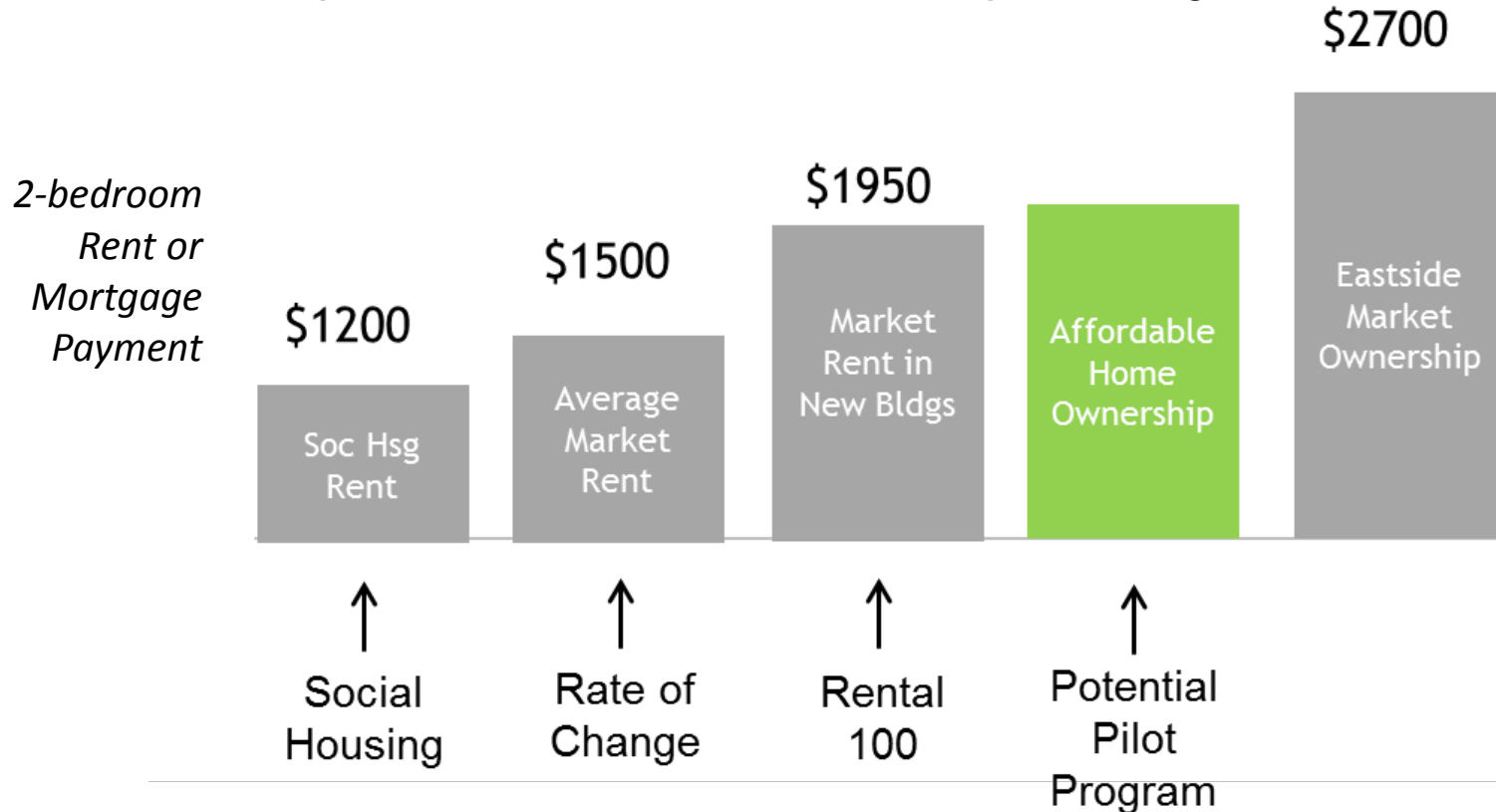
“The jump between owning a two bedroom and three bedroom in East Vancouver is so huge, it’s almost insurmountable.”

- Lisa, Teacher

AHO Creates Affordable Options



Affordable Home Ownership (AHO) can create an affordable option for moderate to middle income households priced out of local ownership housing.





- Program Reviews:
- Whistler
 - Calgary
 - Toronto
 - San Francisco
 - Boston
 - New York
 - United Kingdom

AHO programs are in places around the world, especially in large cities with high housing prices.

Categories of AHO Programs



Limited Appreciation Model

Pro: AHO units remain affordable in perpetuity, typically through covenants that set resale restrictions to limit the buyer's share of appreciation

Con: Buyer's ability to move into market more difficult with limited appreciation

Examples:

- *Whistler Resident Restricted Housing Program*
- *San Francisco BMR Program*
- *New York Inclusionary Housing Program*
- *Boston Inclusionary Development Program*

Shared Appreciation Model

Pro: Enables households to build equity in step with market and eventually transition into full market ownership

Con: AHO units can be sold out of the program at subsequent sale and/or affordability is eroded for subsequent purchasers

Examples:

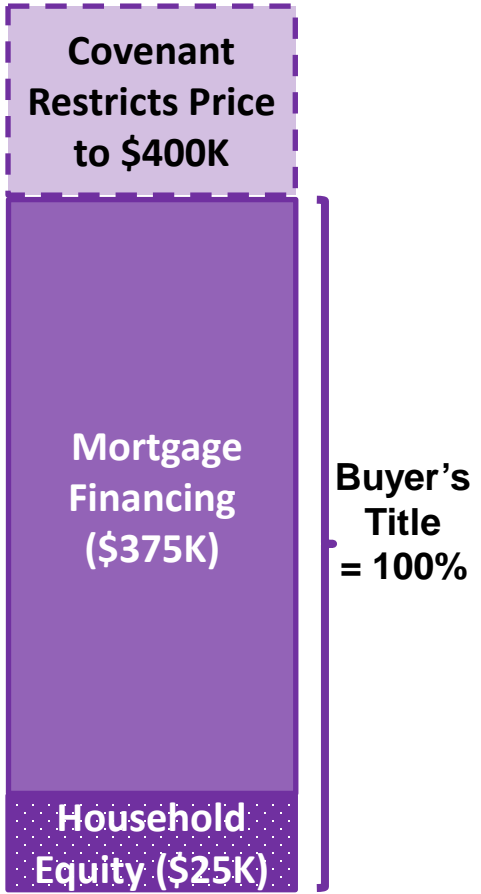
- *Attainable Homes Calgary Corporation*
- *Options for Homes - Toronto*
- *Help to Buy - UK*

Legal Mechanisms to Secure Affordable Home Ownership

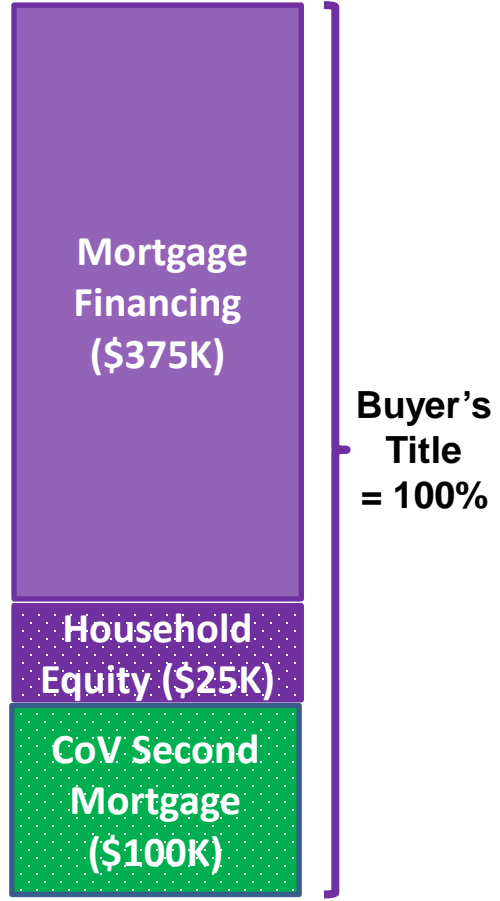


Example: Fair Market Value Unit at \$500K

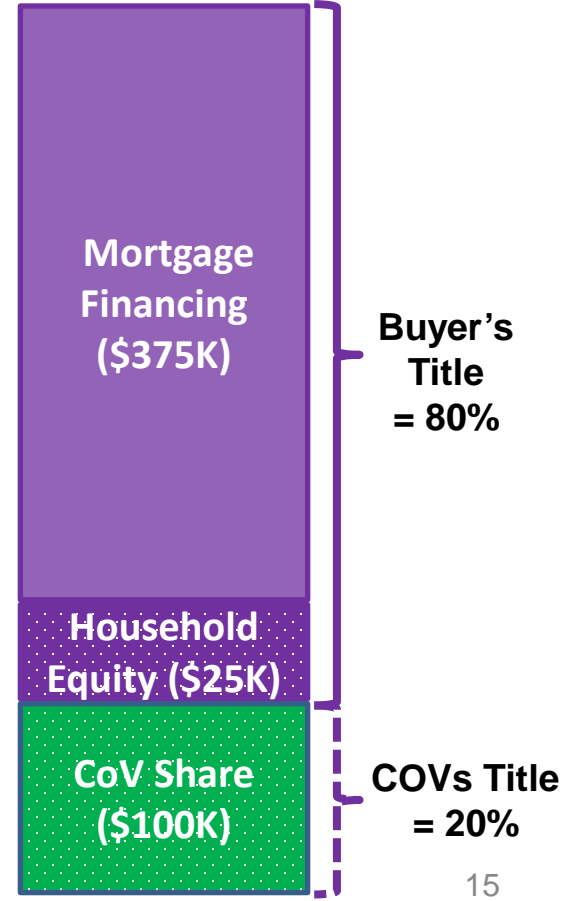
Price Restricted Covenant



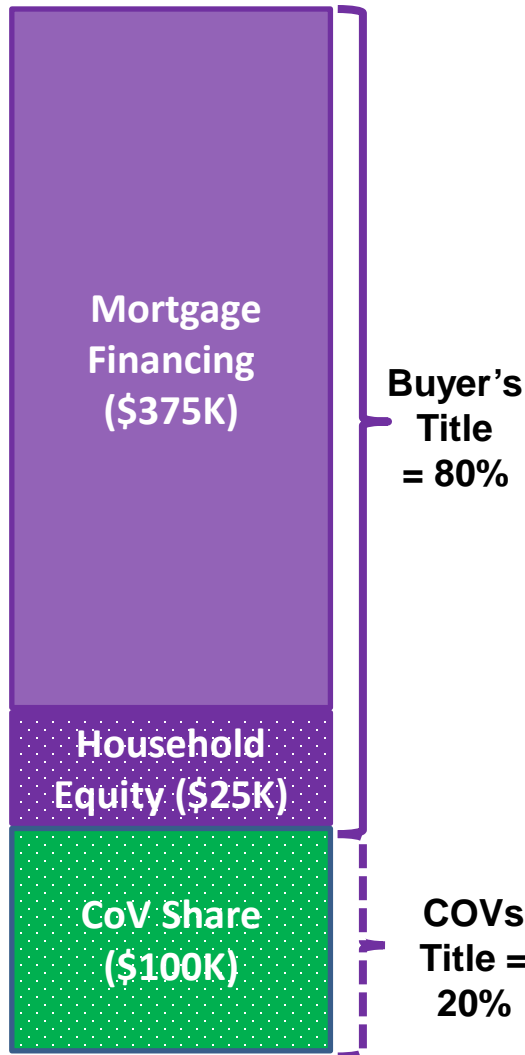
Second Mortgage



Shared Ownership



Contemplated Model for Vancouver AHO Pilot Program



- *Shared Appreciation* based on buyer and city's ownership shares of fair market value
- *Shared Ownership* with units remaining in program at subsequent sale

Pros:

- Enables long-term affordability of AHO units
- Enables households to build equity in step with market and eventually transition into full market ownership

Cons:

- Unknown and untested model in the region
- Ongoing adjustments to income/down payment requirements/discount to maintain long-term affordability & sustainability

Example: Fair Market Value Unit at \$500K

Recommendation A: Goals of an AHO Pilot Program



Approve in principle the goals of an Affordable Home Ownership (“AHO”) pilot program, as describe in the report.

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.

Recommendation B. Charter Amendments



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

- Vancouver Charter amendments needed to enable an AHO pilot program
- Staff recommend broad-based amendments to enable a breadth of freehold and leaseholds models:
 - restricted market
 - second mortgage
 - shared ownership
 - below-market leasehold
- If Council adopts Recommendation B, staff will immediately submit a Vancouver Charter amendment request to the Province
 - amendment will take at least 8 months



Contemplated AHO Pilot Program for Consultation

Developing an AHO Pilot Program



Research & Policy Work Completed:

- Review of various AHO Program Models
- Preliminary financial modeling and feasibility analysis
- Exploratory discussions with CMHC, mortgage lenders and key partners

Evaluation Criteria:

- Fit for addressing the affordability challenges in Vancouver
- Mortgage-ability (by commercial lenders) and insurability (by CMHC or other interested 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
- Administrative ease and efficiency



Contemplated AHO Pilot Program



Developer-initiated projects under the *Affordable Housing Choices Interim Rezoning Policy* (IRP)

- Limited 300 unit pilot program with annual reviews

AHO Model

- Shared Ownership: maintain below market affordability over time
- Shared Appreciation: buyer and city to share equity appreciation in step with market
- Affordability target: approx. mortgage cost of 35% of household income

Target Households (preliminary eligibility considerations)

- Moderate and middle income Vancouverites
- Families - Require 35% of units for families; target 50% for families

Third Party Administrator

Contemplated AHO Model: How could it work?



1 Value of additional density “buys down” the AHO units to targeted income bands



2 Developer transfers to city an ownership share = value between fair market value (FMV) and buyer price



3 Eligible household finances & owns its share of the AHO unit

5 Household sells their share at assessed FMV to the next eligible household



4 Household pays all hsg costs & builds equity and appreciation on their share

Preliminary Eligibility Considerations



- Local Residency
- Local Employment
- Permanent Resident/ Citizen of Canada
- Maximum Household Income
 - \$67,540/year (singles and couples)
 - \$96,170/year (single/dual parent families)
- First-time Home Buyers
- Move-Up Family Buyers
- Mortgage Pre-approval and 5% Down Payment
- Primary Occupant
- Home Buyer/ Owner Education

Key Consideration: Sustainability of a Pilot Program



Long-term viability and sustainability depends on multiple factors, including but are not limited to:

- target households & income bands for initial purchase & future resale
- size of down payments,
- affordability target & depth of discount,
- future growth in housing prices and household income
- mortgage rate increases & general economic conditions

Program parameters and eligibility criteria for any future pilot program will need to be reviewed and adjusted on an ongoing basis to reflect changing market conditions.

Recommendation C. Progressing a Pilot Program



Staff seek direction from Council to:

- Refine program parameters and develop an optimal AHO pilot program via consultation and engagement with:
 - Regional and local employers, workers and the broader public on key parameters of the program;
 - Development industry on the administrative and legal processes for creating affordable home ownership units;
 - Canada Mortgage and Housing Corporation, other interested private mortgage insurers, and mortgage lenders to ensure any program is insurable and mortgage-able; and
- Develop a framework to manage the AHO pilot program and a process for contracting a third party administrator for future management of AHO units.

Developer Initiated Pilot Program under Council Approved IRP



Projects & Applicants Under Council Approved IRP Since 2012

- Four Approved Projects: 2 100% Rental, 1 Co-housing, 1 Life Lease
- Ten AHO enquiries; none advanced
- AHO requires a program to provide clarity on admin and legal process

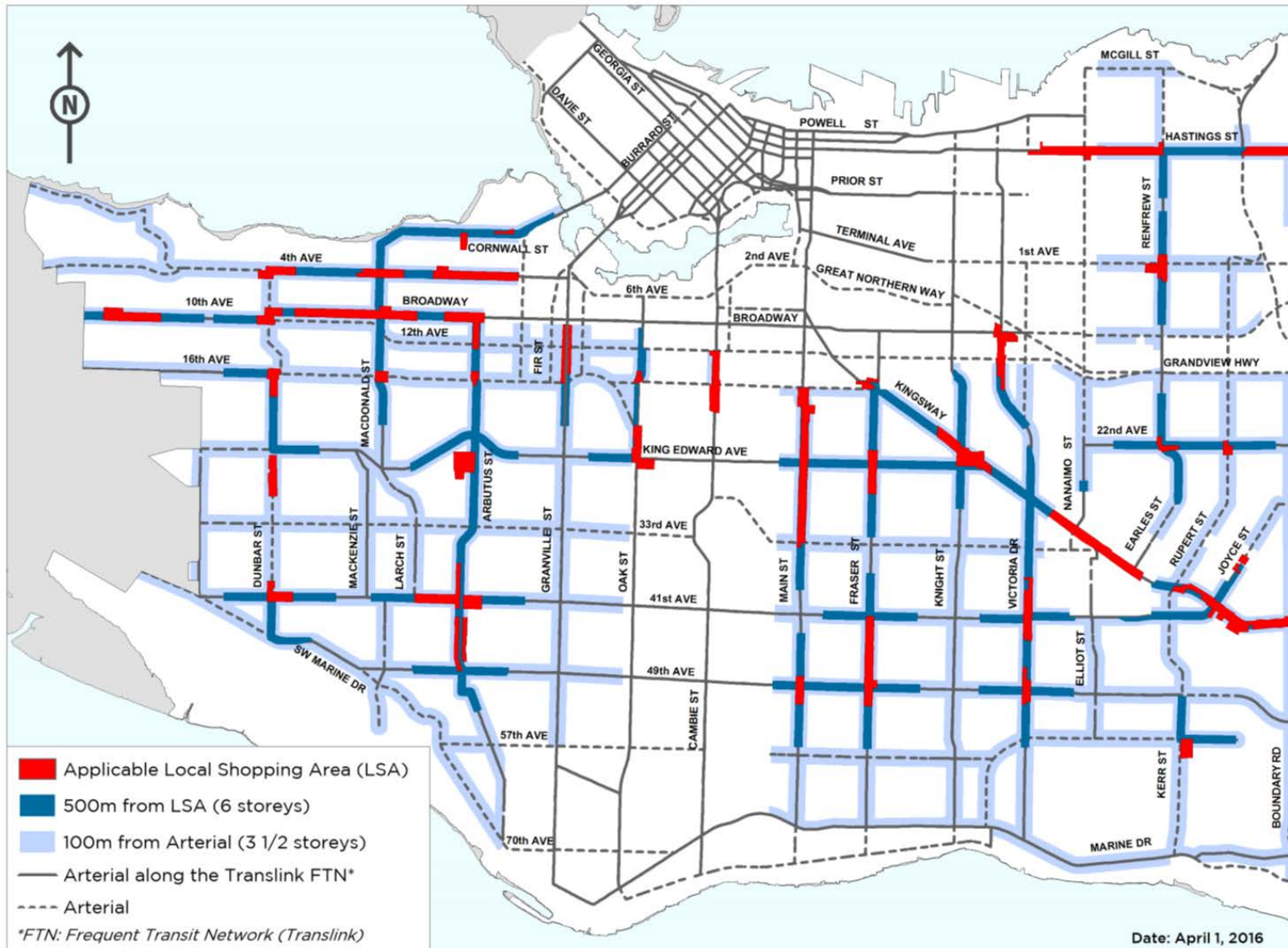
IRP proposals excluded from:

- Downtown
- Areas with recent or in process community plans
- Locations with existing rezoning policies for over 6 stories

Maximum of 20 projects before review

No more than 2 projects within 10 blocks on arterial streets

Interim Rezoning Policy opportunities map



Recommendation D. IRP Bulletin Clarifications



Council approve the updated administrative bulletin to provide greater clarity on the requirements for applicants under the Interim Rezoning Policy for Affordable Housing Options.

- No change to IRP policy or practice; adjusted administrative bulletin to improve clarity
- New IRP applications proposing an AHO program must include an alternative affordable housing proposal (e.g. rental, co-housing, life lease) in the event that the requisite Charter authority is not obtained in time

Next Steps/Council Timeline



If Council approves today's report recommendations:

- Immediate Request for Charter Amendment to Provincial Government
- Consultation with AHO stakeholders:
 - regional and local employers
 - public
 - developers
 - mortgage insurers and lenders
- Refinement of pilot program based on results of consultation and affordability, viability, and sustainability objectives