CITY OF VANCOUVER

REPORT

Report Date:	November 4, 2021
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Meeting Date:	November 17, 2021

Submit comments to Council

TO: Standing Committee on Policy and Strategic Priorities

FROM: General Manager, Arts, Culture and Community Services
General Manager, Development, Buildings and Licensing

SUBJECT: Vacancy Control Regulations in Single Room Accommodation (SRA) Designated Properties

RECOMMENDATION

A. THAT, subject to operating funding approval in the 2022 budget, Council direct staff to implement a vacancy control policy for Single Room Accommodation (SRA) designated properties to protect SRA rooms from rapid rent escalation between tenancies, discourage further displacement of low-income residents, and encourage tenancy stability.

B. THAT Council receive for information a funding request of $500,000 to implement vacancy control in Single Room Accommodations (SRAs) which has been identified as a potential investment for consideration as part of the 2022 Operating Budget process.

C. THAT, subject to approval of Recommendation A and approval of operating funding in the 2022 Operating Budget as per Recommendation B, Council:

i. Approve the “Vacancy Control in Single Room Accommodation (SRA) Designated Properties Policy” as generally set out in Appendix A to permit a rent increase following a change in tenancy as follows:

a. Single Room Accommodation (SRA)-designated rooms renting at or above $500/month are generally permitted a rent increase following a change in tenancy by an amount equal to the inflation rate; and

b. Single Room Accommodation (SRA)-designated rooms renting below $500/month are generally permitted a rent increase following a change in tenancy by an amount equal to 5% plus the inflation rate, but once the increased rent for the designated room reaches $500 per month, rent may only increase by the inflation rate;

ii. Approve, in principle, amendments to the License By-law and the Ticket Offences By-law, to implement vacancy control as generally set out in Appendices B and C respectively; and

iii. Instruct the Director of Legal Services to bring forward for enactment, upon approval of the funding request for this policy in the 2022 Operating Budget, the proposed amendments to the License By-law and Ticket Offences By-law as generally set out in Appendices B and C respectively.

D. THAT, subject to approval of Recommendations A and C, in consideration of the impact of vacancy control on private owners, Council instruct staff to:

i. Proactively engage private owners of Single Room Accommodation (SRA)-designated properties, who are interested in providing housing to low-income residents, to explore opportunities via the SRA By-law and SRA Grants programs to support critical building upgrades while securing affordability;

ii. Increase the frequency of the Low-Income Housing Survey from biennial to annual, and include reporting on the impact and effectiveness of the Vacancy Control in Single Room Accommodation (SRA) Properties Policy within this report;

iii. Accelerate current engagement with senior levels of government on the development of a Tri-Partite Single Room Occupancy Strategy to fund the renewal and/or replacement of existing Single Room Accommodation buildings with dignified, self-contained housing, at shelter rates for very low-income residents, and report to Council on additional funding requirements; and

iv. Undertake a review of the vacancy control Single Room Accommodation (SRA) policy in 2025 (Year 4), including impact on private owners, tenants, and changes in the availability and affordability of the existing stock, and report back to Council in 2026 (Year 5) on the impacts of on-going implementation of the policy.

REPORT SUMMARY

On October 7, 2020, City Council directed staff to develop City regulatory options for regulating, monitoring and enforcing restrictions on annual rent increases in accommodations designated under the Single Room Accommodation By-law (“SRA By-law”), and to undertake public engagement with private owners, tenants, community groups and Provincial partners on these options, and report back to Council on the legal and financial implications to create, monitor and implement this policy.

An internal cross-departmental team co-led by Arts, Culture and Community Services and Development, Buildings and Licensing, including Legal Services, Long-Term Financial Strategy, Business Planning and Project Support, and Planning, Urban Design and Sustainability was established to develop vacancy control options for SRA-designated properties. Over the past year, the staff team undertook an accelerated work program that included:

- Jurisdictional research and initial key stakeholder interviews
- Developing policy regulatory options
- Stakeholder engagement
- Impact analysis and policy options refinement
- Regulatory framework, implementation planning and budget

This report and accompanying appendices provide an overview of staff's analysis that inform the recommendations to implement a *Vacancy Control Policy for SRA-designated Properties,* proposed amendments to the License By-law and the implementation plan.

PREVIOUS COUNCIL DECISIONS

- **SRA By-law (2003):** The City's SRA By-law, enacted in 2003, regulates the conversion and demolition of all rooms less than 320 square feet in rooming houses and residential hotels within the downtown core boundary.

- **DTES Local Area Plan (2014)** includes direction to replace 5,000 SRO rooms with self-contained social housing over 30 years, providing new housing options for low-income singles both inside and outside the DTES. In the interim and while replacement housing is being built, the Plan calls for improving the condition and affordability of the existing SRO stock, while also providing residents with adequate supports.

- **SRO Revitalization Action Plan (2017)** was developed by an interdisciplinary SRO Task Force made up of key stakeholders from the City of Vancouver, BC Housing, community partners, as well as SRO owners, building managers, and tenants. From this six-month process, a set of strategies was developed to accelerate SRO replacement, while in the interim securing and improving the existing stock to meet the housing, healing and community needs of very low-income and marginalized residents.

- **Housing Vancouver Strategy (2017)** embedded the SRO revitalization actions into a citywide framework to address housing affordability. The current Council approved goal is to replace SROs with self-contained, shelter-rate social housing for singles, with an accelerated replacement target of 2,000 new units over 10 years. Recognizing the important role of existing SRO housing in combatting homelessness, the Strategy also calls for improving and protecting the remaining stock for low-income residents through regulatory tools and investment, capacity building efforts, and enhanced partnerships with senior levels of government.

CITY MANAGER MANAGER'S COMMENTS

SRAs are often the most affordable housing available for people with low incomes and are the last resort before homelessness for many. A lack of affordable housing, coupled with low vacancy rates has resulted in increased competition for scarce affordable housing and those with the least income or who may find it more difficult to find appropriate housing, fall out of the bottom of the housing continuum into homelessness. The housing affordability crisis and low vacancy rate in the City, creates an opportunity for investors to purchase SRA-designated buildings with the goal of maximizing their unmet revenue potential. This report responds to Council direction to explore options to prevent or slow further speculation by limiting rent increases between tenancies in this stock. While the recommendation to implement vacancy control in SRA-designated properties, outlined in this report, can deter speculative investment and slow rent increases, the most significant obstacle to maintaining affordability and livability in SROs continue to be:

- insufficient income assistance levels to pay rent and meet basic needs,
- unmet health and services needs of SRO residents,
- reliance on this outdated congregate style of housing, and
- the significant operating and capital investment costs facing many owners.

Staff continue to advocate to senior government for increased income assistance rates, and are working to develop an investment strategy to ultimately improve and replace SROs with self-contained social housing.

Finally, staff and government partners continue to be clear that vacancy or rent control that ties rent to the unit in the broader rental stock would cause landlords to remove their properties from the rental stock and discourage investment in new purpose built rental. Given that the SRA-designated stock is a very small, outdated sub-component of the rental stock, and that new SRO rooms are not permissible under current policy and regulation, vacancy control restricted to the SRO stock does not carry the same risks for broader housing objectives.

The City Manager recommends approval of the foregoing.

REPORT

Background/Context

1. History of the SRA Stock

SRAs play an important role in the City’s low-income housing stock and act as housing of last resort before homelessness for many of our most marginalized residents. The majority of buildings are over 100 years old and consist of small 10 by 10 foot rooms with shared bathrooms and kitchens. In response to concerns about the loss of the stock through conversions to backpacker hostels and commercial hotels for transient guests, in the 1990s, Council requested the Province amend the *Vancouver Charter* to provide authority to regulate “Single Room Accommodation.” On October 21, 2003, Council enacted the SRA By-law to manage the rate of change in the stock through the regulation of the conversion and demolition of SRA-designated rooms.[1]

Role of SRA Stock in Providing Affordable Housing

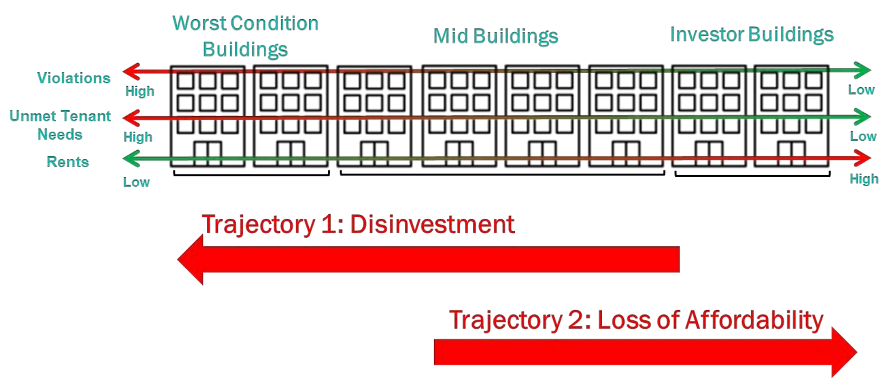
In 2003, staff did not foresee a deepening of the affordability crisis such that owner/investors could invest in cosmetic upgrades to rooms and rent them to moderate to low-income workers and students. At the time of the SRA By-law creation in 2003, 27% of the privately-owned SRA stock (1,705 rooms) was renting at or below the shelter component of income assistance ($325 in 2003). By 2019, only 77 rooms (or less than 1%) in the private stock were renting at $375 per month (the shelter component of income assistance) and the average rent is $561. While the escalation of rents across the private SRO stock (33% rent increase over 10-year period 2009-2019) is lower than the rent increase in the wider rental stock (50% increase in rent over 10-year period 2008-2018). The reduction in affordability in the SRA stock has had significant impacts on those with very low incomes and few other choices in the private rental market and presents a significant challenge for government needing to respond to homelessness and its associated impacts.

It is also important to note that while average rents in the private SRA stock have increased 73% percent since 2003, the shelter component of income assistance has only increased by 15%, making it very difficult for renters on social assistance to find housing at $375/month and for owners to maintain and operate these aging building without increasing rents. However, over recent years, some owners have purchased these buildings, made minor upgrades that do not trigger the need for an SRA permit and now rent these rooms at $600 - $1,000 for a room with shared kitchen and bathroom.

Privately-owned SRAs and Loss of Affordability

The privately owned SRO stock is very diverse in terms of building condition, management approach, and business model, including mission and vision. The report further describes this complexity in the Financial Analysis section. Monitoring of building conditions, by-law violations and changes in affordability over years has shown that the private stock heading in two very different trajectories, shown in Figure 1 below.

Figure 1: Trajectories in Privately Owned SRO Buildings



[1] The SRA By-law includes Single Room Occupancy (SRO) hotels so SRA and SRO are used interchangeably throughout this report.

At one end of the continuum, SRO buildings suffer from disinvestment or lack of investment and the unmet health and support needs of some residents, leading to deteriorating and unsafe conditions. At the other end of the continuum, speculative investment in the SRO stock through upgrades that do not trigger the SRA By-law have led to the displacement of low-income renters and rapid escalation in rental costs.

Speculative Investment & Tenant Displacement

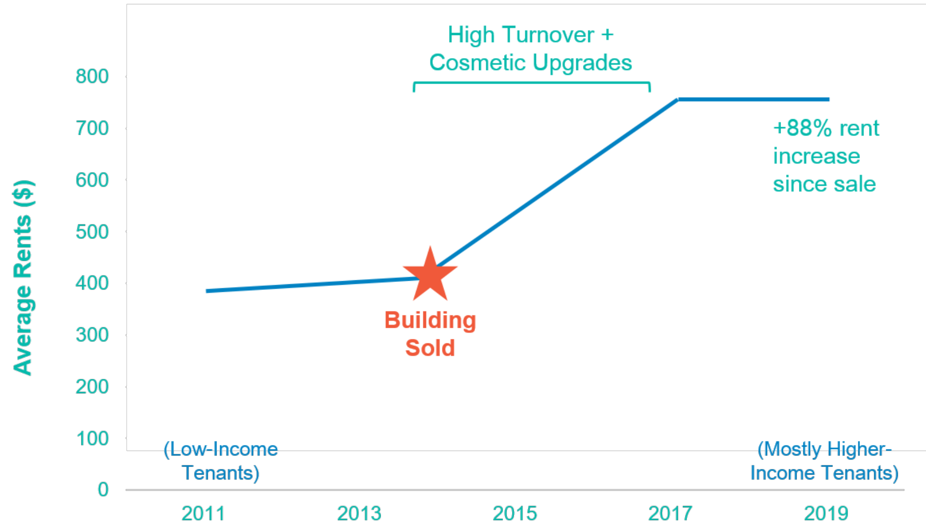
While speculative investment in SRO buildings is a persistent challenge, the high demand for rental housing and low-vacancy rate in general has brought new pressure to the stock. The investment interest in SROs can be linked to the following factors:

- **Demand for Singles Rental in Downtown Core:** Due to housing pressures in the City and region, there is increased demand for affordable rental accommodation near the downtown. As the cost of a studio unit or informal shared accommodation in the City has risen, higher-income renters, including students and service workers, have become willing to live in an SRO with shared bathrooms and cooking facilities due to lack of alternative options.
- **Commercial/Long-term Investment:** Many SROs are located in prime real estate locations, with profitable liquor licence and retail opportunities at grade. Some investors are willing to purchase and hold, waiting for more favourable future development opportunities or purchase a building primarily for the commercial space.
- **Divestment by Long-time Owners:** As businesses, SROs owners may face different challenges than a traditional purpose built rental building. This can mean that the purchase price for buildings can be relatively lower than other types of rental buildings.
- **Tenant Marginalization and Turnover:** Tenancies in many SROs, especially buildings in poor condition or housing predominantly tenants with mental health and substance use issues, turn over more frequently than the purpose-built rental stock. Since many low-income SRO residents experience health and economic challenges to housing stability, they can be more at risk of harassment and pressure to accept cash buy-outs in exchange for mutual agreements to end tenancies, and face greater barriers to accessing legal support.
- **Light Upgrades:** Upgrades to SRO rooms – including new paint, new floors, security systems, etc. – have resulted in significant rent increases in the current housing market. Unlike major capital upgrades that require an SRA Permit, these cosmetic upgrades do not trigger a permit under the SRA By-Law and can attract tenants willing to pay higher rents.

The sale of private SROs to new investors correlates strongly with rapid rent increases in the stock. Between 2010 and 2019, over a third of private SROs (39 buildings) sold on the private market. Over this time-period, following the sale to new owner, rents increased at an average annual rate of 6 times faster than buildings that were not sold (12% vs 2%), with average rents in some buildings increasing by up to 28% annually.

Figure 2 demonstrates a case study in which a traditionally low-income SRO building experienced rapid rent increases in the years following its sale to a new owner. This case study is typical of many buildings within the SRO stock.

Figure 2: Case Study: Loss of Affordability in SRO Following Sale



Based on the current trajectory, staff estimate that the average rent of a privately-owned SRO could be $769 in 2029 – a 37% increase over a 10-year period (compared to $561 in 2019).

2. Addressing this Ageing and Outdated Stock

City of Vancouver Tools for Improving and Protecting SROs

The scale of the challenge to renew and replace this outdated housing form with dignified, self-contained homes, while not displacing existing low-income residents and community is significant and cannot be solved with a single regulatory action. SRO buildings - due to their age, heritage status, maintenance, capital and operating costs, needs of current residents, and the diversity of owners' business approaches and aspirations - require diverse policy, regulation, and investment tools to meet the goal of complete replacement of this outdated housing form in the coming decades.

Alongside this regulatory exploration, staff are concurrently expediting discussions with senior governments on an inter-governmental investment strategy that can support the replacement of this aging and outdated SRO stock with government owned, self-contained social housing, and also that can provide opportunities to support private-owners to renew and retain their assets while maintaining affordability. There is strong alignment between all three levels of government to take bolder action on SROs to improve the lives of low-income residents and address the challenges of this aging, outdated stock, recognizing that the condition and affordability of this stock remain one of the significant drivers for the ongoing homelessness crisis in Vancouver

Staff also continue to monitor and inspect the stock to maintain safety and livability; provide capital grants to support capital upgrades to rooms and support community-based non-profits to engage and support SRO tenants.

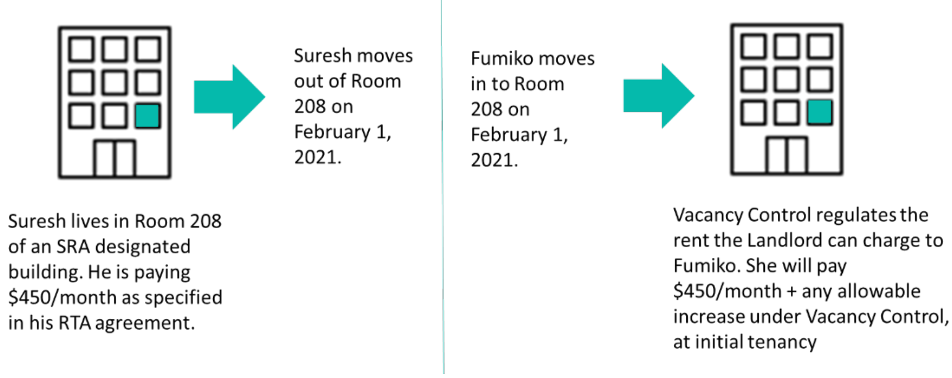
Vacancy Control: A New Tool in Vancouver's SRA Regulation Toolbox?

At Council's direction, staff have explored *Vacancy Control for SRA-designated Properties Policy* as a potential regulatory measure to discourage speculative investment and tenant displacement and to address the on-going erosion of affordability in the stock. While vacancy control regulations will not fix all the problems in the stock, it could deter speculative investment and the rapid loss of affordability.

How Vacancy Control Works

Currently, rent can increase following the end of a tenancy to as high as the market allows, which has attracted speculative investment in this stock as shown in Figure 2. Vacancy control would limit the allowable rent increase between tenancies. Looking at the hypothetical example below in Figure 3, when Suresh, who is living in room 208 and paying $450/month in rent moves out, the landlord will only be able to charge the following tenant Fumiko a starting rent of $450/month in addition to any allowable rent increase (if any) under vacancy control. The annual allowable rent increase within Suresh's and Fumiko's tenancies continue to be regulated by the Provincial Residential Tenancy Act (RTA) when their tenancies exceed 12 months.

Figure 3: The Impact of Vacancy Control on Rents



A limitation of rent increases between tenancies would prevent the average rents in rooms, buildings and the broader SRO stock from rising quickly in a short period of time, as documented in the Low Income Housing Survey and related research. Vacancy control would decrease the attractiveness of SRA-designated properties to speculative investment, as its model is based on significantly increasing rents between tenancies over a short period of time. It could also increase tenant stability as there is less incentive from the landlord's perspective to end a tenancy as the next tenant's starting rent is regulated.

Vacancy Control in Other Jurisdictions

Vacancy control regulations have been implemented to address rapid loss of affordability or low-income tenant displacement in rental housing in cities across North America. British Columbia had a system of vacancy control in the rental stock between 1974 and 1983. When implemented, it eliminates rapid rental escalations and speculative investment and encourages rental tenancy stability.

There are forms of vacancy control in place currently in Manitoba, Prince Edward Island and some American cities. Staff conducted a detailed research scan of seven jurisdictions with vacancy control, including Prince Edward Island, Manitoba, New York (state), Washington, D.C., San Francisco, Berkeley and Berlin. Appendix D includes greater detail on the findings from the jurisdictional review. The scan highlighted the following key components of existing vacancy control policies:

- **Varied Rent Restriction Levels:** The level of permitted rent increase between tenants ranged from a strict zero to a moderate inflation via Consumer Price Index (CPI), to more relaxed increases (up to 30%). The allowable rent increase was either applied equally across the stock or through a tiered system depending on building factors.
- **Additional Allowable Increases:** Most programs included a process for landlords to apply for rent increases above the allowable limit to address significant rising capital and/or operating costs, subject to criteria and review.
- **Building Exemptions**: Some jurisdictions offered no exemptions while others offered exemptions for subsidized housing, student housing, etc.
- **Duration:** Depending on the local context, the vacancy control policy has been enacted as an indefinite policy or for a certain period of time. Also, the policy most often went into effect immediately after approval, while others provided a “grace period”.

Research from other jurisdictions shows that vacancy control regulations increased housing stability by reducing tenant turnover. When paired with allowances for additional vacancy rent increases to recoup capital investments, vacancy control regulations also had no discernible or very marginal impacts on the physical quality of the rental stock. It should however be noted that these jurisdictions had vacancy control regulations for the entire rental stock. The impact of selectively implementing vacancy control on rental buildings that cater to low-income, marginalized tenants, such as SROs and other forms of tenement housing, is not known at this time as there are no comparable case studies.

British Columbia: Provincial Jurisdiction

Over the years, the City has requested that the Province amend the RTA to provide for vacancy control in the SRO stock. The RTA regulates the relationship between tenants and landlords and currently regulates rents during tenancies, but not between tenancies. In 2018, the Provincial Rental Housing Task Force considered the question of whether to recommend vacancy control tied to the unit and not just the tenant, and in its final report decided not to do so. This recommendation – maintaining rent tied to the renter, not to the unit – was based on concerns that introducing vacancy control tied to the unit would cause landlords to remove their properties from the rental stock and limit new rental construction.

The Province has indicated an appreciation of the unique challenges of the SRO stock and its tenants. And while it has taken no steps to establish vacancy control for this stock, to date they have raised no objections to the City of Vancouver moving forward with this policy given that no new SROs will be developed and the shared long-term goal of replacing these inadequate rooms with self-contained housing.

Vacancy Control in Vancouver and Stakeholder Engagement

In the development of the policy, staff engaged a number of stakeholders. Between June and August 2021 staff engaged with five non-government stakeholder groups including SRO tenants and tenant advocacy groups, private SRO building owners, landlord advocacy groups, non-profit

SRO owners and operators and Chinese Benevolent Society building owners. Additionally, staff engaged with the Province through the Residential Tenancy Branch and the BC Ministry of Housing. The purpose of the stakeholder engagement sessions was to inform the different groups of work staff has been directed to undertake by Council on vacancy control and to obtain feedback on regulatory and implementation options. Appendix E of this report contains a detailed stakeholder engagement summary.

Summary of Stakeholder Engagement:

- In general, non-profit SRO operators, SRO tenants and tenant advocacy groups are supportive of vacancy control in the SRO stock and see it as a crucial step to protect the stock and prevent homelessness of some of the most marginalized tenants in the city.
- Landlords are unanimously opposed to vacancy control; however; perceived impacts ranged from “devastating” to “no impact”.
- Landlords raised concerns that vacancy control could lead to disinvestment/building closures, push out “good owners” who maintain properties, and lead to landlords no longer renting to tenants who are “harder to house”.
- Non-profit owners and Chinese Benevolent Societies expressed concern that vacancy control may negatively impact operations due to their already low rents.

Additionally, stakeholder groups recognized the need for longer-term solutions and financial supports to address the fundamental problems in the SRO housing stock, to enable sustainable affordable rents, and at the same time provide opportunity for renewal and replacement.

<u>City of Vancouver’s’ Jurisdictional Authority to Implement Vacancy Control</u>

Staff explored a number of options to establish vacancy control. Council is authorized to regulate businesses pursuant to sections 203, 272 and 273 of the *Vancouver Charter.* The powers set out in these sections are broad, and include the authority to require a business licence, regulate business licence holders and impose terms and conditions on business licence holders. The License By-law currently regulates businesses, but does not include any form of rent regulation. This would be the first use of the business regulation powers to regulate rents in this manner. Staff have drafted amendments to the License By-law establishing vacancy control of SRA-designated housing operators – see Appendix B for the proposed License By-law amendments.

Strategic Analysis

Based on research, engagement, financial analysis, and analysis of the current context, including risks, staff are recommending the implementation of vacancy control in Vancouver’s SRA-designated buildings to supplement the RTA and address challenges that are unique to Vancouver and deter further speculative investment in the stock (noting the proposed regulations would not conflict with the RTA regulations).

Accordingly, staff have developed a proposed *Vacancy Control for SRA-designated Properties Policy* (as outlined in Appendix A) for this proposed regulatory measure. The approach to develop the proposed policy is outlined below.

Process

Staff explored a number of options to implement vacancy control. Drawing on findings from the jurisdictional scan and early stakeholder consultation, staff developed a preliminary vacancy control model for SRAs with no, low, or moderate rent increases between tenancies. This model was discussed in the stakeholder engagement sessions conducted in July and August 2021 (please see Appendix E for detailed stakeholder engagement summary).

1. Policy Development: Guiding Principles

Staff developed four key principles to guide the development of regulatory options for implementing vacancy control in SRAs. The principles are based on the unique context and challenges facing SRAs in Vancouver, and are listed below in priority order.

- **Protect affordability for low-income and marginalized residents in SROs:** prevent rapid rent escalation between tenancies, discourage speculative investment in the SRO stock, and encourage long-term tenancies for residents.

- **Mitigate risk of further disinvestments and incentivize priority investment:** include mechanisms that enable property owners to undertake priority and necessary investments in the SRO stock to ensure safe and liveable living conditions for tenants.

- **Maximize effectiveness and compliance:** ensure regulatory compliance and effectiveness by crafting regulations that are not overly complex for property owners to comply with and for the City to enforce.

- **Ensure fiscal responsibility in implementation and enforcement:** proposed regulations should not be fiscally prohibitive for the City to implement and enforce**.**

2. Policy Options

Staff developed a policy approach for vacancy control regulations in SRA Properties and analysed a variety of options. The proposed vacancy control policy consists of two main regulatory components:

1) restricting permitted rent increase allowed between tenancies, and
2) allowing exemptions and a rent relaxation process to support critical capital investments.

(See Appendix A for details.)

Regulating Rent between Tenancies

Staff explored and ultimately identified two options for regulating rent increases:

Option 1: Single Rate Rent Increases
Two models were considered, including a strict model with no allowable rent increase between tenancies and a moderate model that allows 5% rent increase between tenancies (see Option 1A and 1B in Table one below). The permitted rent increase in Option 1B would be in addition to any RTA approved annual rent increases (customarily limited to inflation rate) applied to the room in the same year.

Option 2: Tiered Approach to Rent Increases
As an alternative to the above single rate approach, a tiered approach was considered to provide differential rates to rooms based on their current level of affordability. The three models (2A, 2B, and 2C in Table 1 below) allow for moderate rent increase allowance for SRO rooms rented below $500/month, while being more strict (in varying degrees) on rooms rented above that rent threshold.

The $500/month threshold was selected to curb the average SRO room rent ($561/month as of 2019) from rapidly increasing year-to-year. Similar to the single rate approach, the permitted rent increase would include to the RTA approved annual rent increase (customarily limited to inflation rate) applied to the room in the same year.

Table 1: Vacancy Control Policy Permitted Rent Increases between Tenancy Options Explored

Single Rate		**Tiered Approach**			
1A: Strict	**1B: Moderate**		**2A: Relaxed on affordable rooms & Moderate on higher rent rooms**	**2B: Relaxed on affordable rooms & strict on higher rent rooms**	**2C: Moderate on affordable rooms & strict on higher rent rooms**
0% allowed increase between tenancies	5% allowed increase between tenancies	**Rent < $500/month:**	10%	unregulated	inflation rate + 5% (total ~7%)
		Rent > $500/month:	5%	0%	inflation rate (~2%)

The options outlined above vary somewhat in their ability to preserve current rental affordability, discourage speculative investment and tenant displacement, and allow current owners to invest in their buildings to ensure they do not fall into further disrepair. Staff conducted a high level financial impact analysis of the options presented in Table 1 on the SRO stock – this is discussed later in the report.

<u>Rent relaxation process to support critical capital investments and extraordinary operating expenses</u>

Many SRO buildings are older buildings (and some with heritage status) that often need expensive capital investments for repairs and renovations, and can experience extraordinary and unexpected increase in operating expenses. Staff explored whether the SRO vacancy control policy should include a rent relaxation allowance beyond vacancy control to support recovering some of these cost incurred by landlords. This was also discussed as part of the stakeholder engagement process (see Appendix E for feedback of different groups).

It is important to note that currently the City has process under the SRA By-law to engage with private owners needing to make significant capital investments in the building. Also, recently, the RTA was amended to include regulations that allow landlords to apply for additional rent increases for existing tenancies to recover some of the costs related to qualifying types of critical capital investment and extraordinary operating expenses (further explained in Appendix A). The jurisdictional review (Appendix D) also showed that jurisdictions that had vacancy control with allowances for rent increases for capital investment experienced no discernible or very little impact on the physical quality of rental stock.

The rent relaxation process explored as part of this policy would require a landlord of an SRA-designated property to first secure the approval of the Residential Tenancy Branch to implement any additional rent increase on existing tenants associated with significant capital investments and extraordinary operating expenses, before they can submit a request to the City to allow for a matched rent increase on vacant SRO rooms in the same building (see Appendix A).

3. Financial Impact Analysis of Vacancy Control Options

The potential financial impact of vacancy control measures on the SRO stock varies from building to building, depending on a number of factors, including, but not limited to, the business and operating model, building condition, and rental rates. To maintain a viable SRO operation, building owners need to collect sufficient rent and other income (e.g. commercial, government subsidies) to cover day-to-day operating costs, capital maintenance, mortgage payments, and a rate of return on their investment. The size and significance of the building costs would be different for different buildings. For example, building condition varies across the stock and some buildings have mortgages and some do not.

As already noted, generally speaking, vacancy control measures help preserve affordability by slowing the rate of rent increases between tenancies. To maintain financial viability and a rate of return, building owners would likely reduce and/or defer capital maintenance work to address any financial impact arising from vacancy control measures.

<u>Modeling the Financial Impacts of Vacancy Control</u>

To understand the potential impact of the different vacancy control approaches on the SRO stock, staff developed a number of SRO building profiles based on available data, set up a financial model to project the revenue and expenses for an SRO building within each profile over 20 years, and quantified the potential financial impact of the vacancy control options. Key findings included:

- The strictest vacancy control options (1A, 2B) result in a cumulative negative cash flow over 20 years for a handful of building profiles. Approximately 85% of the scenarios evaluated show a cumulative positive cash flow (i.e. the SRO operation continues to be viable with the application of vacancy control).

- Several profiles show interim cash flow deficits both with and without application of vacancy control; this is likely attributable to the overly conservative assumption for operating expenses (~$1-$3 per sq. ft. per month) and mortgage payment. In each case, the projected interim deficits were within 10% of projected annual revenue.

The potential cash flow impact may limit some owners' ability or willingness to continue to operate, resulting in potential divestment in the absence of broader mitigating strategies.

Please refer to Appendix F for a more detailed description of the financial impact analysis and results.

Limitations of Findings

The financial impact analysis relied heavily on the limited data collected from SRA building owners. This data primarily covered room rents and length of tenancies, both of which were used extensively in the financial model. Other inputs such as operating cost, capital maintenance (based on assumed building condition), and existing mortgage across the SRO stock were based on general assumptions informed, where possible, by the City's own portfolio of SRO buildings and/or publicly available records.

To ensure staff do not inadvertently understate the potential financial impact of vacancy control on the SRO stock, conservative assumptions were used for the analysis. Despite staff's best effort, it should be noted that there is always a degree of uncertainty inherent in the financial model assumptions, which may give rise to potential impacts not readily identified through the model. With these limitations and considerations stated, staff are confident that the financial analysis provides insight into how different vacancy control options potentially impact different segments of the SRO stock, and, serves as a reference point, among others, informing the vacancy control policy recommendations in this report.

4. Recommendations: Implement a Vacancy Control Policy for SRA-designated Properties

As note above, staff explored and tested the impacts of vacancy control on SRA-designated stock – including the differences of a single rate or a tiered approach, and a mix of strict/zero rent increase allowances to more moderate rent increase allowances. Based on the jurisdictional research, feedback from stakeholder engagement, and findings from the financial impact analysis, staff are recommending the implementation of a vacancy control policy in SRA Properties based on the following assessment against the guiding principles set out earlier in this report as the proposed key principles to inform a decision:

Protect affordability for low-income and marginalized residents in SROs: Staff's assessment is that if Council implements any of the vacancy control models and rates, there would be a significant deterrent to the observed challenges from buyers purchasing SRO buildings with the intent to evict current tenants and rapidly escalate rents. The different rate setting approaches modelled could result in different rent adjustment trends based on the current affordability of rooms and buildings.

A more difficult aspect to assess is the potential that the introduction of vacancy control could create new risks for current low-income SRO residents. During the consultations, some SRO owners indicated that they may not rent to "harder to house" tenants if vacancy control was in place. Advocates and operators raised the concern that more owners may pursue 'off-the book' payment arrangement with existing or future tenants to circumvent vacancy control. While these potential risks are not to be underestimated, these pressures and approaches are already present in the SRO housing stock. The oversight provided by vacancy control would provide additional recourse for tenants alongside provisions in the RTA.

Mitigate risk of further disinvestments and incentivize priority investment: The jurisdictional research shows that vacancy control without any regular or extraordinary allowances for rent increases to recoup increased operating and capital expenses led to disinvestment and deterioration of the rental stock. Allowing for some regular increases, notably for inflation, was shown through the financial analysis to be a good balance between recouping a landlord's regular cost increases and maintaining rental affordability for tenants. However, the presence of annual cash flow deficits (that ranges between $1K-$200K depending on the building profile) for SRO owners, even in the 85% of the stock that are projected to generate cumulative positive cash flow across the 20-year projection period under vacancy control, points to the potential risk of increased disinvestment. This may result in increased non-compliance with other City by-laws pertaining to building safety and liveability, including the Standards of Maintenance By-law.

It should, however, be noted that even without vacancy control, deterioration and unsafe conditions are already the present in some SROs. Vacancy control can be an opportunity to incentivize landlords to carry out critical and necessary capital upgrades that do not impact affordability, and to recoup those capital costs through rent increases negotiated with City staff as part of an SRA By-law Conversion/Demolition Permit and/or application process for additional vacancy rent increases in alignment with the provisions under the RTA. Vacancy control is meant as a stopgap measure to stem speculative investment and worsening unaffordability, until the stock is replaced and other policy interventions from senior government including increases to the shelter component of income assistance.

Maximize effectiveness and compliance: There was no significant difference in how the vacancy control options or applications impact projected policy compliance. In implementing any form of vacancy control, staff anticipate that there will be some resistance towards by-law compliance during the early days of implementation.

Staff will monitor the implementation of the policy and amend as needed to promote and ensure compliance with the proposed regulations.

Ensure fiscal responsibility in implementation and enforcement: There is no significant implementation cost difference between any of vacancy control options considered by staff. In light of the small number of SRA-designated buildings that will be subject to this policy (107 non-government owned buildings as of 2021), the implementation costs are significantly more modest than in many of the jurisdictions reviewed. However, implementing any of the vacancy control options examined in this report will require dedicated staffing resources, as it represents a new business area for the City.

This will require the City to incur new costs, which may necessitate additional increases to property tax and other revenue sources. The added costs for the City should nonetheless be balanced against the higher societal costs from homelessness should the current unaffordability in the SRO stock continue unabated.

<u>Recommended Model: A Tiered Approach to Vacancy Control</u>

Staff recommending the tiered approach (2C in Table 1) to vacancy control based on the options analysis and stakeholder feedback, particularly concern about introducing vacancy control measures that would inadvertently penalize landlords that have been renting SRO rooms at very affordable rates or significantly below the current average SRO room rent. Applying the same rate across all rooms would limit landlords from adjusting rents after the turnover of their long-term tenants. One stakeholder group who raised this specific concern during consultation, were the Chinese Benevolent Societies who own and operate 11 buildings (housing approximately 172 residents) that are home to many low-income Chinese seniors.

The proposed approach would regulate rent between tenancies as follows:

i. **SRO rooms renting at or above $500/month** are permitted a rent increase following a change in tenancy by an amount equal to the inflation rate[2].

ii. **SRO rooms renting below $500/month** are permitted a rent increase following a change in tenancy by an amount equal to 5% plus the inflation rate, but once the increased rent for the designated room reaches $500 per month, rent may only increase by the inflation rate.

With the following limitations:

- The above rent increase is limited to once per year regardless of the number of tenancy changes during that period.
- The allowable rent increase outlined above includes any RTA approved rent increases applied to the room in the same year.
- If an SRO room was untenanted for any period of time and the landlord cannot produce a rent roll from the previous tenant, then the landlord can charge a maximum rent of the average SRO rents for that year (published annually by the City).

As mentioned earlier, $500/month was selected as the threshold for the two tiers to curb the average SRO room rent ($561/month as of 2019) from rapidly increasing year-to-year. Rooms renting at or higher than $500/month will be allowed an increase of an amount equal to the inflation rate after a tenancy change, if there has not been an RTA annual rent increase added to the room's rent on a previous tenant in the past 12 months. This measure curbs an incentive of flipping tenancies to implement both rent increases (RTA and vacancy control) back-to-back, while allowing landlords whose tenants happen to move out before reaching the 12-month threshold (to qualify for the RTA increase) an avenue to address inflation. Looking again at the example in Figure 3 above, if Suresh's rent was $550 and the landlord applied the RTA annual rent increase on him in January and he moved out in February, the landlord would not be able to add an additional rent increase through vacancy control on Fumiko's February starting rent.

For rooms renting lower than $500/month that have not undergone an RTA annual rent increase in the past 12 months, the allowable rent increase between tenancies would be an amount equal to 5% plus inflation rate, but once the increased rent for the designated room reaches $500 per month, rent may only increase by the inflation rate. The allowable increase would be an amount equal to 5% only, if there was an RTA annual rent increase applied in the past 12 months. Looking at Suresh's room ($450/month rent) once more, Fumiko's rent would be an increase of 5% plus inflation rate if Suresh's room did not undergo the annual RTA increase in the last 12 months.

[2] Note that the inflation rate is to be defined in the Licence By-law as: "the 12 month average percent change in the all-items Consumer Price Index for British Columbia ending in the month that is most recently available for the calendar year for which a rent increase takes effect." The annual inflation rate is published by the Province.

While there is no perfect solution that eliminates all risk to all stakeholders, the proposed approach aims to strike a balance between deterring further speculative investment, and allowing some rent increases between tenancies to maintain affordability and livability while longer term replacement strategies are developed in partnership with senior government.

Anticipated Impact of not Proceeding with Vacancy Control

In contrast, as the SRA By-law does not regulate rents, not implementing vacancy control will likely result in continued speculative investment in the SRA stock, with a projected rent increase of 37% over 10 years if the current rent growth trajectory is sustained.This will deepen the affordability crisis in the SRA stock by continuing to allow owners to invest in cosmetic upgrades to rooms and rent them at higher rates to a different tenant base (moderate to low-income workers and students). This will potentially contribute to an increase in homelessness as SRAs are already the housing of last resort for many of Vancouver's most marginalized residents.

5. Implementation and Next Steps

To introduce vacancy control regulations, staff recommend amendments to the License By-law and Ticket Offences By-law as shown in Appendices B and C respectively. The creation of the new licence category and regulations along with amending the Ticket Offences By-law will support the implementation, monitoring and enforcement of the regulations should council proceed.

New SRA Accommodation Operator Licence Category

Non-government owned SRO properties in the City are currently licensed under various categories, including hotel, rooming houses and non-profit housing licences. In order to bring these properties under a vacancy control regulatory framework, staff are recommending amendments to the License By-law that will deem any person providing rental housing in SRA-designated rooms to holding a "SRA Accommodation Operator" business licence. This licence is in addition to any other business licence they may need and will carry no extra fee or application process.

Exclusions from Vacancy Control Regulations

The SRO stock is diverse in type of ownership (private, non-profit, and government ownership), heritage status, size of building, building management style, support services offered to tenants, as well as the rents. Staff closely examined whether any building or ownership type should be categorically exempt from the proposed SRO vacancy control policy. While Government-owned SROs are automatically exempted from vacancy control regulations as government cannot be regulated by the City through the License By-Law, staff do not recommend any other owners be exempted from the regulations. The exemption of government–owned SROs is not expected to have a negative impact on this policy's efforts to address loss of affordability in the stock as government-owned SRO rooms are consistently rented at or close to $375/month.

Rent Relaxations to Support Critical Investment and Extraordinary Operating Expenses

The inclusion of a vacancy control relaxation process can support the second guiding principle, to "incentivise priority investment in existing SRO buildings". Staff arrived at this recommendation after reviewing the impact of vacancy control on existing City tools that support upgrades to SROs (SRO Grant Program, Chinatown Housing Partnership Program, etc.) and engaging stakeholders (RTB, owners, tenants, etc.). Staff recommend that the Policy include a process to allow landlords undertaking critical building repairs and improvements or experiencing financial loss as a result of extraordinary operating expenses a mechanism to seek a relaxation from the City on their rent increases between tenancies after securing approval from the RTB on the tenanted rooms in the building. Owners of SRO buildings who are undertaking major repairs or renovations will continue to be required to first seek and obtain from Council an SRA Permit, and, if required, enter into a housing agreement to secure affordability of rooms, prior to undertaking renovations. This process is further explained in Appendix A.

Should Council approve the recommendations in this report, the housing agreements entered into following the adoption of vacancy control can include a negotiation of a one-time adjustment of rents outside of vacancy control regulations, after which vacancy control rent increase regulations will continue to apply moving forward. Staff will work with the owners to minimize impact on tenants, while supporting important major building upgrades. This one-time adjustment will support landlords to invest in the building and allow them to recover some of the costs, while protecting a measure of affordability in the stock. Existing Housing Agreements will be subject to the proposed vacancy control allowable increases.

Implementation Plan

Staff have developed a plan to implement, monitor and enforce the recommended vacancy control regulations should they be approved by Council. The full implementation plan is attached in Appendix A, with highlights listed below:

- **Enactment subject to approval of 2022 budget**: Staff recommend that Council enact by-law amendments that lay out staff's proposed vacancy control regulatory framework upon the approval of the 2022 budget. There is a sense of urgency to enact the amendments due to the risk that delayed implementation could result in evictions or buyouts to secure higher rents from new tenants.

- **Monitoring:** To proactively determine landlord compliance, SRO landlords will be required to submit rent rolls on an annual basis by January 31 of every year as a condition of their business licence. Staff may also request specified additional documents at any time. Staff will also monitor the stock an annual (previously biennial) Low-Income Housing Survey.

- **Disclosure of rent rolls and complaints:** To help SRO tenants to determine if they are paying the rent that complies with vacancy control regulations, staff are considering different approaches in compliance with Freedom of Information and Privacy legislation to disclose the rent roll information for a specific room to tenants directly or to tenant advocacy groups. If the rent a tenant is paying is higher than permitted, tenants and advocates may submit a complaint to the City, which staff will investigate.

- **Proactive review:** In addition to complaints, staff will also proactively determine compliance by reviewing the rent roll information submitted by SRO owners.

- **Submission of documents:** Regardless of whether a suspected by-law offence is identified through a complaint or audit, the City will undertake an investigation and request both the owner and tenant to submit corroborating evidence and documentation.

SRO owners will be required to submit documents as a condition of their business licence.

- **Enforcement pathways:** If a suspected by-law offence is confirmed, staff will undertake enforcement, beginning with education and escalating to prosecution in Provincial Court if compliance is not forthcoming.

- **Education**: Acknowledging the impact of immediate enactment, staff will be devoting substantial effort and resources to educate and form open lines of communication with owners, tenants, tenant advocacy groups and the RTB.

Senior Government and a broader approach to SROs

Staff continue working with senior governments on the creation of an inter-governmental investment strategy to support the longer term replacement of SROs with self-contained social housing, as well as exploring options to support private-owners to renew and retain their assets, while maintaining affordability

Evaluation

Should Council approve the recommendations in this report, staff will undertake a full-review of the Vacancy Control SRA-designated policy in 2025 (Year 4), including impact on private owners, tenants, and changes in the availability and affordability of the existing stock, and report back to Council in 2026 (Year 5) on the impacts of on-going implementation of the policy.

Implications

Financial

The estimated annual cost of implementation of the Vacancy Control for SRA-designated Properties Policy is $500,000. Funding for this priority has been identified as a potential investment for consideration as part of the 2022 Operating Budget process. It is important to note that the Policy cannot be implemented within existing resources and requires this additional funding.

As previously described, the new SRA Accommodation Operator licence category will not entail a fee. Staff do not recommend using the licence fee to recover the cost of implementation as it would further financially burden SRO landlords. An approximate breakdown of cost by resource area is explained in Table 4 below.

Table 4: Estimated implementation and enforcement cost for 2022

Resource	2022 FTE	2022 Cost
Planner 2 – SRO Protection	1.0	$125K
Compliance Officer, SRA Vacancy Control	2.0	$200K
Legal support	N/A	$12K
Public/community engagement & education	N/A	$160K
IT implementation support	N/A	$3K
TOTAL	3.0 FTEs	$500,000

Upon budget approval by Council, staff will begin recruitment process to ensure staff are in position for 2022. Any funding recommended as part of the work undertaken as part of Recommendation D will be brought forward to Council in future Grant reports as required.

Human Resources

Staff anticipate that a minimum of three new Regular Full-time (RFTs) staff will be required to implement Vacancy Control in SRA Designate Properties. The team will be based in ACCS's existing SROs and Supportive Housing Team to ensure a seamless connection between vacancy control and SRO-related work, including application of the SRA By-law, negotiating and reviewing applications for SRA Permits, SRA Housing Agreements, and advocacy and partnership with senior government for revitalization of the SRO Stock. Despite the arrangement, ACCS will work closely with staff in DBL, Legal Services, Finance and Technology Services. The team will consist of three FTEs, subject to a HR classification review.

Legal

Council is granted broad authority to regulate business pursuant to sections 203, 272 and 273 of the *Vancouver Charter*.

The proposed by-law amendments will not conflict with the *Residential Tenancy Act*, but adds an additional layer of rent regulation.

CONCLUSION

The implementation of a vacancy control in SRA properties as a regulatory measure can work as a stop gap measure to remove the incentive for speculative investment and curb the rising rents fueled by tenancy turnover. However, for lasting long-term change, collaboration and investment is required at all levels of government to develop and implement an investment strategy to replace SROs with self-contained social housing. In the immediate term, City priorities are to prevent or slow further speculation by limiting rent increases between tenancies to avoid further loss of affordability in this unique stock that acts as housing of last resort before homelessness for many of our most marginalized residents.

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APPENDIX A
VACANCY CONTROL POLICY FOR SRA-DESIGNATED PROPERTIES

1. INTRODUCTION

1.1 Policies in this Document

This document outlines the *Vacancy Control Policy for Single Room Accommodation (SRA) Designated Properties.* The policies in this document are intended to discourage speculative investment in SRA-designated properties and the resultant tenant displacement, as well as to address the on-going erosion of affordability in the stock.

The scale of the challenge governments and owners face to renew and replace this outdated housing form with dignified, quality homes; while not displacing existing low-income residents and community, cannot be solved with a single regulatory action and requires a multi-pronged approach from all levels of government. While the proposed model outlined in this report will not fix all the problems in the stock, it can deter speculative investment and rapid loss of affordability.

The Vacancy control Policy works in conjunction with existing Provincial *Residential Tenancy Act* (RTA) and City regulations.

1.1 Single Room Accommodation (SRA) Designated Properties

Single Room Accommodation (SRA) includes SRO hotels, rooming houses, and non-market housing with rooms less than 320 square feet. Built in the early 1900s, Single Room Occupancy (SRO) Hotels were originally all privately or society owned, and served as accommodation for seasonal workers, new immigrants and labourers. The majority of SRO buildings are older, heritage buildings that contain 10 by 10 ft. single rooms, typically with shared bathrooms and cooking facilities. As of 2019, there were approximately 6,680 open SRO rooms across 157 SRA buildings in the downtown core.

Over the last 120 years, the context of the housing and inclusion challenges faced by Vancouver's very low-income, transient and marginalized residents has changed. However, in 2021, these rooms, buildings and communities continue to play a critical role in providing a last resort to many before homelessness. The Housing Vancouver Strategy calls on all levels of government to partner with the City to replace reliance on outdated SRO hotels[3] by creating new self-contained social housing units that rent at the shelter component of income assistance (currently at $375). In the interim, and recognizing the important role of existing SRO housing in combatting homelessness, City policy is to secure and improve the remaining stock for low-income residents through government acquisition, regulatory tools (such as the SRA By-law) and grants.

1.2 Speculative Investment & Tenant Displacement

When the SRA By-law was enacted in 2003, 27% of the privately-owned SRA stock was renting at or below the shelter component of income assistance ($325 in 2003). As of 2019, only 77

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[3] The Zoning and Development By-law prohibits the construction of new SRO units.

rooms (or less than 1%) in the private stock were renting at the shelter component of income assistance ($375) and the average rent was $561. While the escalation of rents across the private SRO stock is similar to the loss of affordability in the wider rental stock, the social impacts of the loss of affordability in this unique, outdated housing form present a significant human welfare challenge for government.

While speculative investment in SROs is a persistent challenge, the high demand for rental housing and low-vacancy rate has brought new pressure to the stock. The sale of private SROs to new investors correlates strongly with rapid rent increases in the stock. Between 2010 and 2019, over a third of private SROs (39 buildings) sold on the private market. Over this time-period, following the sale to new investor rents increased at an average annual rate 6 times faster than buildings that were not sold (12% compared to 2%), with average rents in some buildings increasing by up to 28% annually. With no regulatory changes implemented in the SRO stock, it is estimated that the average rent of a privately-owned SRO could be $769 in 2029 – a 37% increase over a 10-year period (compared to $561 in 2019).

1.3 SRO Vacancy Control: Protecting SRO Affordability

Vacancy control sets limits on rent increases within and between tenancies. When implemented, it eliminates rapid rental escalations and speculative investment and encourages rental tenancy stability. This policy is being introduced as a measure to address these issues in the SRA-designated stock, and to protect some of the City's most vulnerable tenants, many who have limited alternative housing options before falling into homelessness.

Note that this vacancy control policy is focused on restricting rent increases *between* tenancies in SRA-designated properties. Rent control on the other hand, sets limits on rent increases *within* existing tenancies. Currently in British Columbia, the Province administers a system of rent control through the *Residential Tenancy Act*.

1.4 Role of British Columbia Residential Tenancy Act

British Columbia's *Residential Tenancy Act* (RTA) regulates all tenancy agreements in residential rental units across the province. It is essential for both landlords and tenants to understand their rights and responsibilities under the RTA. As described earlier, there is significant pressure on the SRO rental stock, resulting in significant challenges for both landlords and renters.

The RTA does not currently regulate rents between tenancies - only during them. While the Province at both the staff and political level recognize the value of vacancy control in SROs due to the stock's unique challenges, the Province has taken no steps to establish vacancy control. It is important to note that the RTA does not prohibit vacancy control; it simply does not currently impose it. The policies in this document are intended to supplement the RTA and support addressing challenges that are unique to Vancouver.

The Province introduced two new regulatory changes on July 1st, 2021 that add protection for tenants and provide support to landlords. These regulations impact landlords and tenants across the rental stock, including those operating and residing in SROs. These regulations are explained in relation to this policy in section 3.4.

2. POLICY COVERAGE

2.1 Policy Authority and Governing By-laws

Council is authorized to regulate businesses pursuant to sections 203, 272 and 273 of the *Vancouver Charter.* The policy is implemented through the License By-law and Ticket Offences By-law sections available in Appendices B and C.

2.2 Applicable Housing Types

This policy applies to existing rental housing as follows:

- SRA-designated properties, as listed in the SRA By-law and any operated rooms therein that are undergoing a change of tenancy following a period of vacancy as described in the License By-law section 25.1A.

Exclusions:

This policy does not apply to SRA-designated properties owned by the government, its agencies or government owned corporations, as they are not subject to the License By-Law.

2.3 Eligible Households

Any person(s) under a tenancy that is covered by the RTA who is residing in an applicable housing type, as defined in section 2.1 will have their base rent (as defined in the License By-law) regulated by this policy.

3. VACANCY CONTROL POLICY FOR SRA-DESIGNATED PROPERTIES

3.1 Guiding Principles

The development of regulatory options for implementing vacancy control in SRAs was guided by four key principles. The principles are based on the unique context and challenges facing SRAs in Vancouver, and are listed below in priority order.

1. **Protect affordability for low-income and marginalized residents in SROs:** prevent rapid rent escalation between tenancies, discourage speculative investment in the SRO stock, and encourage long-term tenancies for residents.

2. **Mitigate risk of further disinvestments and incentivize priority investment:** include mechanisms that enable property owners to undertake priority and necessary investments in the SRO stock to ensure safe and liveable living conditions for tenants.

3. **Maximize effectiveness and compliance:** ensure regulatory compliance and effectiveness by crafting regulations that are not overly complex for property owners to comply with and for the City to enforce.

4. **Ensure fiscal responsibility in implementation and enforcement:** proposed regulations should not be fiscally prohibitive for the City to implement and enforce**.**

3.3 Permitted Rent Increase Allowed between Tenancies

Landlords of applicable housing types (as outlined in section 4.2) seeking to raise the rent of an SRO room following a change in tenancy are required to abide by the permitted rent increase allowance outlined in this section with the following guidelines:

i. The permitted rent increase is limited to once per year regardless of the number of tenancy changes during that period.
ii. The permitted rent increase includes any RTA approved annual rent increases applied to the room in the same year.
iii. If an SRO room was untenanted for any period of time and the landlord cannot produce a rent roll from the previous tenant, then the landlord can charge a maximum rent of the average SRO rents for that year (published by the City regularly).

The permitted rent increase is as follows:

iii. **SRO rooms renting at or above $500/month** are permitted a rent increase following a change in tenancy by an amount equal to the inflation rate.

iv. **SRO rooms renting below $500/month** are permitted a rent increase following a change in tenancy by an amount equal to 5% plus the inflation rate, but once the increased rent for the designated room reaches $500 per month, rent may only increase by the inflation rate.

Noting that the “inflation rate” is defined in the License By-law as: “the 12 month average percent change in the all-items Consumer Price Index for British Columbia ending in the month that is most recently available for the calendar year for which a rent increase takes effect.” The annual inflation rate is published by the Province and can be found here.

3.4 Rent Relaxation Process to Support Critical Capital Investments and Financial Loss from Extraordinary Operating Costs

This policy recognizes that many of the aging SRO buildings are in significant need of repair that require capital investments, and similar to any other building can face financial loss due to extraordinary and unexpected increase in operating expenses. As such, it allows a rent relaxation process to recoup a portion of that cost. This aligns with provincial regulations enacted by the RTA on July 1, 2021 that allows landlords to apply for additional rent increases when they have critical repairs to the rental unit or building or experienced an unusual or exceptional increase in operating expenses (as detailed below). This allowance encourages landlords to invest in their rental property by allowing them to recover some of those costs without ending tenancies through modest rent increases approved by the RTB Director.

The Provincial regulation clearly defines the type of expenditures eligible for the additional rent increase, restricts how often a landlord can apply for this increase, and how it is administered to the tenant when approved.

The RTB regulation allows for an additional rent increase on existing tenants if the capital expenditure is to:

1. install, repair or replace a major system or major component property (e.g. electrical, mechanical, structural system or integral component) in order to maintain the residential property in a state of repair that complies with section 32(1)(a) of the RTA;
2. install, repair or replace a major system or major component that has failed or is malfunctioning or inoperative or that is close to the end of its useful life; or
3. install, repair or replace a major system or major component in order to reduce energy use or greenhouse gas emissions or improve the security of the residential property

Additionally, this capital expenditure is not to be expected to recur for at least five years and was incurred in the 18-month period preceding the month the landlord made their application.

To qualify for this increase, landlords are required to either have the tenant's written approval for the rent increase or apply to the RTB and tenants are able to give evidence at a hearing before the rent increase is approved. The rent increase is based on an explicit formula, capped at an additional 3% for one year, with the option to extend the rent increase up to two additional years depending on the cost of the repairs. It is important to note that this RTA regulation applies only to *tenanted* units.

The RTB also allows a process for landlords to apply for a rent increase on existing tenants to recover financial loss from extraordinary increase in operating costs. The RTB regulation outlines extraordinary operating expenses that may be eligible under this regulation (e.g. utility charges, municipal taxes, insurance premiums) that sharply and suddenly increase without warning. Operating expenses do not include capital expenditures or financing costs (both of which have separate additional rent increase provisions), fines or penalties levied for failure to meet an obligation, capital cost allowance or depreciation, and income taxes.

To prove a financial loss to the RTB, a landlord must ordinarily submit into evidence an audited or certified financial statement that:

- summarizes the financial condition of the landlord,
- includes a statement of profit and loss, and
- is signed by someone authorized to sign audited financial statements in the Province of British Columbia, or is certified by a professional accountant, or is accompanied by a sworn affidavit of the landlord that the financial statements are true

Once a landlord of an SRA-designated property outlined in 4.2 secures the approval of the RTB to implement this rent increase on existing tenants, they can submit the following for review by the City to allow for a matched rent increase on vacant SRO rooms in the same building:

- all documents submitted to the RTB seeking its approval of the rent increase and details of the RTB's decision;
- documents demonstrating how the designated rooms came to be untenanted and how the applicant complied with the City's Tenant Relocation Policies; and
- copies of all necessary City permits required for the eligible capital improvement approved by the RTB.

Note the above information is for reference only, and interested parties should refer to the RTB's policy guideline for the most current eligibility requirements and procedures relating to the RTB regulation.

3.5 SRA By-law and Permits

According to the SRA By-law, owners interested in major work as outlined in the By-law are required to secure an SRA Permit and provide City staff with a Tenant Relocation Plan. This is in addition to complying with the RTB regulations outlined in section 1.4.1 regarding issuing eviction notices to tenants (if applicable).

Under the SRA By-law the City and owners may enter into housing agreements to secure the affordability of some units while allowing the recovery of investment costs. New Housing Agreements entered after the adoption of the policy can include a negotiation of a one-time adjustment of rents outside of vacancy control, after which vacancy control rent increase regulations will continue to apply moving forward. This one-time adjustment will support landlords investing in the building and allow them to recover some of the costs, while protecting a measure of affordability in the stock.

4. Policy Implementation

Implementation of this Policy is undertaken by three City Departments in coordination: Arts, Culture, and Community Services, Development, Building and Licenses, and Legal Services.

4.1 Monitoring Framework

SRO property owners are currently required under the Sections 5.2 and 5.3 of the SRA By-law to maintain records pertaining to rent information and to submit them to the City when requested. Periodic collection of rent rolls is a necessary element for monitoring compliance, and to serve as an evidentiary base for enforcement proceedings.

Based on these considerations and the precedence for rent roll collection in the SRA By-law, new regulations in the License By-law require SRA landlords to maintain and submit the following pieces of information on an annual basis:

1. Name and contact details of property owner
2. Address (including unit number for each room in the designated SRO building);
3. Occupancy status for each room (e.g. occupied, empty, or permanently close);
4. Monthly rent for each room
5. Reason for any rent increase from previous reporting period (e.g. allowable RTA increase, additional allowable rent increase for capital expenditures, etc.).

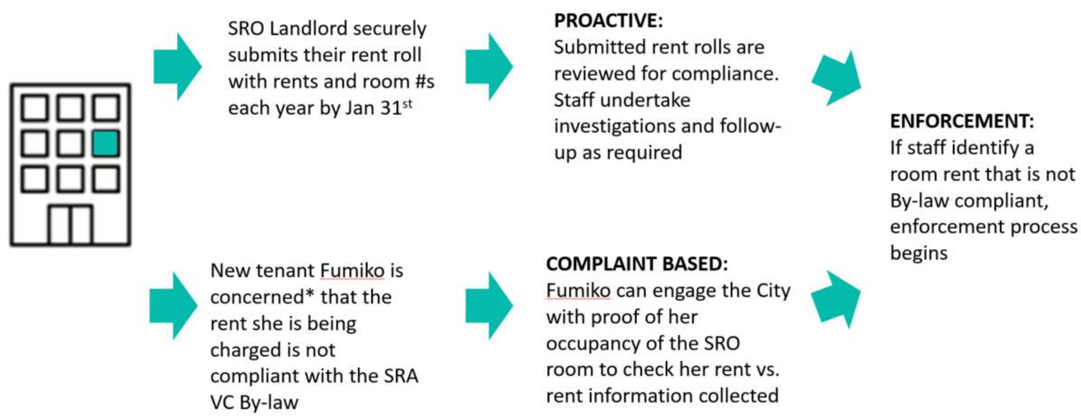
All business licences, including those for designated SROs, expire on December 31 of every year and need to be renewed for operations in the following year. Staff send licence renewal notices in November to remind licence holders of the renewal requirement. For ease of compliance, the deadline for annual rent roll submission by SRO licence holders will be January 31 of every year. SRO landlords will receive mail-outs, in addition to their licence renewal notices, with information on how to submit rent rolls through a secured City website. Remote technical assistance will be provided to SRO landlords who are require assistance accessing the website or submitting their rent roll online, or need non-English language interpretation. Failure to submit rent rolls will be treated as a by-law offence subject to enforcement, which is the detailed in section 4.2.

4.2 Compliance Framework

The policy's compliance framework for vacancy control in SRO designated properties is illustrated in Figure A1 below. There are two ways the City will uncover potential by-law infractions:

i. proactively through a regular review of rent rolls; and
ii. reactively through complaints from tenants and/or advocates.

Figure A1: Compliance framework for vacancy control



4.2.1 Regular Reviews
Staff undertake regular reviews of the rent roll information submitted by landlords to proactively determine compliance. Detailed reviews can be initiated randomly or upon uncovering any discrepancies in the rent rolls, for example if the declared rent for an SRO room is higher than the declared rent of the previous year by an amount greater than the percentage increase allowed.

4.2.2 Complaints from Tenants and/or Advocates
In addition to proactive reviews of rent rolls, the City will also rely on complaints from SRO tenants and/or advocates. To do so effectively, tenants and/or advocates can make an in-person inquiry with City staff at a designated location in the DTES, and remote inquiry by phone or email.

If the tenant is paying rents in excess of the declared rent for the unit, this may be an indicator of non-compliance. Tenants and/or their advocates may then submit a complaint to the City through the regular City complaint intake channels (i.e. 3-1-1 and VanConnect) or the City's Renter Office (e.g. in-person, phone or email).

4.2.3 Investigation
Regardless of whether a potential by-law infraction is made known to the City proactively through a review or reactively from a complaint, the City will undertake an investigation and notify both the SRO landlord and tenant of the suspected by-law infraction. Both the SRO landlord and tenant may be requested to provide documentation to determine if rent increases

are in compliance with the City's vacancy control regulations outlined in this policy and the Residential Tenancy Act (RTA).

Landlords will be required by the License By-law to submit documents or records deemed necessary by the City to demonstrate compliance with the vacancy control regulations, specifically the tenancy agreement and/or rent receipts. Refusal to submit documents is a by-law offence that can be subject to enforcement.

Participation by the tenant in the investigative process is voluntary but strongly encouraged to ensure the sufficiency of evidence. Recognizing that not all SRO tenants may have a tenancy agreement or rent receipts, the City may rely on sworn statements or declaration from tenants as evidence. Staff will also work closely with tenant advocates or representatives over the course of the investigation.

4.2.4 Enforcement Pathways
If there is enough evidence to confirm a suspected by-law offence, the Chief Licence Inspector may issue an order requiring the business licence holder to take the necessary corrective actions. This is an educational opportunity without punitive actions where the goal is compliance.

Failure to comply with an order may result in escalated enforcement, including to prosecution, which can be commenced by a Municipal Ticket Information (MTI) that carries a maximum fine of $1,000 per day per violation, or long-form prosecution in Provincial Court for more egregious cases where the Court may impose a penalty of up to $10,000 per offence upon conviction. In some cases where landlords are convicted in Court of charging rents in excess of the allowable limit, the City Prosecutor may ask the Judge to order the SRO owner to compensate the tenant.

Note that each SRO room and each day that the rent was charged inappropriately can be treated as a separate offence. Each casefile is also likely to be unique and the resultant enforcement actions will be contingent on the facts and severity of the infraction.

The following are by-law offences as defined in the City's License By-law and Ticket Offences By-law that can be subject to the aforementioned enforcement actions:

- Failure to submit annual rent rolls;
- Failure to provide documentation when requested by the City;
- Charging vacancy rents in excess of the allowable limits; and
- Providing false information with respect to rent rolls or documentation requested by the City.

4.3 Education and Community Engagement

Recognizing the significant impact that immediate enactment will have on owner/operators, tenants and advocates, the City will be devoting substantial resources to developing and implementing an education plan that is catered to each impacted stakeholder group. Staff will also be exploring opportunities to engage other third parties such as landlord groups, SRO-Collaborative and the Tenant Resource and Advisory Centre (TRAC) in community education on SRO vacancy control.

APPENDIX B
DRAFT LICENSE BY-LAW AMENDMENT

A By-law to amend License By-law No. 4450
Regarding Vacancy Control

THE COUNCIL OF THE CITY OF VANCOUVER, in public meeting, enacts as follows:

1. This By-law amends the indicated provisions of the License By-law.

2. Council adds the following definitions to section 2, in correct alphabetical order:

"“Annual Rent Increase” means an annual rent increase authorized pursuant to section 22 of the Residential Rental Regulation and the Residential Tenancy Act.”

"“Base Rent” means the rent used to calculate rent increases permitted by section 25.1A of this By-law, and is the last monthly rent lawfully required to be paid by a tenant, including all increases allowed by the Residential Tenancy Act and this By-law, before the designated room was subject to a period of vacancy.”;

"“Designated Room” means a residential room in any building designated as single room accommodation pursuant to the Single Room Accommodation By-law.”;

"”Director” means the director appointed under section 8 of the Residential Tenancy Act”.

"“Eligible Capital Expenditure” means an expenditure that qualifies for an additional rent increase pursuant to Part 4 of the Residential Rent Regulation”.

"“Housing Agreement” means a housing agreement authorized by section 565.2 of the *Vancouver Charter*.”;

"“Inflation Rate” means the 12 month average percent change in the all-items Consumer Price Index for British Columbia, as published by the Province, ending in the month that is most recently available for the calendar year for which a rent increase takes effect.”;

"“Period of Vacancy” means the juncture between the tenancies of two permanent residents in a designated room, or the time that elapses between occupancy by two permanent residents in a designated room.”;

"“Permanent Resident” means an individual who, in return for rent, occupies or usually occupies a room as their residence, and does so for at least 30 days.”; and

"“Single Room Accommodation operator” means a person that provides rental housing to tenants in designated rooms.”.

3. Council adds the following as a new section 25.1A:

“Single Room Accommodation Operators

25.1A (1) Every single room accommodation operator, other than the government, its agencies or government owned corporations, is deemed to hold a single room accommodation operator licence pursuant to this By-law for any designated room it rents to tenants.

(2) After a period of vacancy for a designated room, every single room accommodation operator may cause, permit or allow the rent charged for a designated room to be increased to no more than the base rent plus an increase equal to the inflation rate, unless a tenant who vacated the designated room during the previous 12 months was subject to an annual rent increase in the previous 12 months, in which case no further rent increase is permitted by this subsection.

(3) Despite subsection (2):

(a) if the base rent for a designated room is below $500 per month at the time of a period of vacancy, and no tenant of the designated room was subject to an annual rent increase during the previous 12 months, then a single room accommodation operator may only increase the rent by 5% plus the inflation rate, but once the increased rent for the designated room reaches $500 per month, rent may only increase by the inflation rate; or

(b) if the base rent for a designated room is below $500 per month at the time of a period of vacancy, and a tenant of the designated room was subject to an annual rent increase during the previous 12 months, then a single room accommodation operator may only increase the rent by 5%, but once the increased rent for the designated room reaches $500 per month, rent may only increase by the inflation rate.

(4) Subsections (2) and (3) only allow one rent increase following a period of vacancy in any 12-month period, regardless of how many times a period of vacancy may occur.

(5) If, after the date of enactment of this section, Council enacts a housing agreement that governs the rent payable for a designated room, then the new base rent for the designated room after the agreement is in force shall be the initial rent for the designated room that is set out in the housing agreement.

(6) If occupied designated rooms are eligible for a rent increase, other than an annual rent increase, authorized by the Director pursuant to Part 4 of the Residential Tenancy Regulation, then the single room accommodation operator may apply to the Chief Licence Inspector for an increase in rent for any vacant designated rooms equal to the amount that would be foregone. The Chief Licence Inspector may, after consulting with the GM Arts, Culture and Community Service, approve such an increase if the

increase was otherwise approved by the Director, and the applicant submits the following for review by the Chief Licence Inspector:

(a) all documents submitted to the Director seeking its approval of the rent increase for occupied rooms in the building, and details of the Director's decision;
(b) documents demonstrating how the designated rooms came to be untenanted and how the applicant complied with the Single Room Accommodation By-law Tenant Relocation Policy; and
(c) copies of all necessary City permits required for the eligible capital improvement approved by the Director.

(7) If no rent roll or record of rent paid is available for a designated room after a period of vacancy, then the initial rent paid by a tenant for that designated room is to be the most recent average rent of all designated rooms as published annually by the City.

(8) Except as otherwise restricted by this By-law, a single room accommodation operator may increase the rent payable by existing tenants during the term of their tenancy as authorized by the Residential Tenancy Act and its regulations.

(9) Every single room accommodation operator must submit to the Chief Licence Inspector by January 31 of each year, in writing:

(a) the name and address of the single room accommodation operator;
(b) the address of each designated room, including unit numbers ;
(c) whether each designated room is occupied, empty, or permanently closed;
(d) the monthly rent for each designated room; and
(e) the reason for any rent increase since the previous report in writing.

(10) If requested by the Chief Licence Inspector, every single room accommodation operator must, within 7 days of the written request, provide the Chief Licence Inspector with a copy of any lease, or rent receipt that relates to any designated room.

(11) No single room accommodation operator shall:

(a) fail to submit the information; or
(b) submit false or misleading information;

required by subsection (9) or (10).

(12) No single room accommodation operator shall charge a tenant in a designated room more than the maximum rent allowed under this By-law.".

4. Council inserts into Schedule A, after the line for "Short Term Rental Operator" the

following:

“Single Room Accommodation Operator   Per annum   deemed”

5. A decision by a court that any part of this By-law is illegal, void, or unenforceable severs that part from this By-law, and is not to affect the balance of this By-law.

6. This By-law is to come into force and take effect on the date of its enactment.

ENACTED by Council this   day of   , 2021

Mayor

City Clerk

APPENDIX C
DRAFT TICKET OFFENCES BY-LAW AMENDMENT

BY-LAW NO. ______

A By-law to amend the
Ticket Offences By-law No. 9360
regarding SRA vacancy control

THE COUNCIL OF THE CITY OF VANCOUVER, in public meeting, enacts as follows:

1. This By-law amends the indicated provisions and schedules of By-law No. 9360.

2. In Table 3, Council adds two new rows at the end as follows:

"

Chief Licence Inspector	Fail to provide information	Section 25.1A(11)(a)	$1,000.00
	Provide false information	Section 25.1A(11)(b)	$1,000.00
	Charge too much rent	Section 25.1A (12)	$1,000.00

".

3. A decision by a court that any part of this By-law is illegal, void, or unenforceable severs that part from this By-law, and is not to affect the balance of this by-law.

4. This by-law is to come into force and take effect on the date of its enactment.

ENACTED by Council this day of , 2021

____
Mayor

____
City Clerk

APPENDIX D
SUMMARY OF VACANCY CONTROL JURISDICTIONAL RESEARCH

There are forms of vacancy control in place currently in a limited number of cities in North America including Manitoba, Prince Edward Island and some American cities. Staff conducted a detailed review of jurisdictions with vacancy control, including Prince Edward Island, Manitoba, New York (state), Washington, D.C., San Francisco, Berkeley, and Berlin. The jurisdictional review highlighted the following key components of existing vacancy control policies which are further elaborated in this appendix:

- Vacancy control regulations are applied in both small and large jurisdictions, ranging in size from 6,000 units (PEI) to ~1 million units (New York State).
- Where vacancy control exists, it is generally limited in its application, usually to older apartment rental (e.g. NYC, Washington, DC). Most of these programs deliberately exclude new supply so as not to deter the development of new rental housing.
- There are limited examples of a vacancy control policy that is selectively applied on a type of rental housing (similar to what is proposed in this policy) found in the research.
- One level of government/ regulatory body typically governs both inter-tenancies and intra-tenancies.
- The majority of vacancy control regulations exempt certain housing types, including government-owned or subsidized housing, co-op housing, student housing, newer buildings, and/or low-density buildings.
- Permitted rent increases between tenancies range from 0% (New York state), Consumer Price Index- based (PEI, Manitoba), to a set percentage (i.e.: 30% - Washington D.C.).
- Most programs include a process for landlords to apply for rent increases above the allowable limit to recoup rising capital and/or operating costs.
- Most jurisdictions with vacancy control also have parallel rehabilitation schemes (through grants or property tax exemptions in exchange for capital upgrades) to encourage investment in buildings.
- Common administrative elements include the collection of rent rolls on an annual basis or whenever there is turnover in a tenancy, a system to handle petitions for rent increases beyond allowable limits, and punitive penalties for landlords that charge rents beyond the allowable limit.
- Enforcement is typically a combination of pro-active and complaint-based enforcement, funded by general taxes or fees.

Vacancy Control Models

There were four types of vacancy control restrictions implemented in these jurisdictions that vary in the amount of allowable rent increase between tenancies as follows:

1. Strict intra and inter-tenancy rent freeze with little avenue for rent increases to respond to changes in costs (a.k.a. first generation rent control).

2. Annual rent increase tied to the unit based on Consumer Price Index (CPI) or some other inflation indicator or economic adjustment factor with landlord's ability to apply for rent increase beyond the annual allowable limit.
3. The authority sets the rate of allowable rent increase between tenancies that is separate from and higher than the rent increase permitted within tenancies;
4. Surgical vacancy control for a limited number of units that had a non-qualifying vacancy, plus any allowable annual rent increases.

The jurisdictions implement(ed) the above models in the manner shown in Table D1 below.

Table D1: Vacancy Control Models in Reviewed Jurisdiction

Model of Vacancy Control	Jurisdictions	Allowable Rent Increase (%)
First-generation rent control (i.e. rent freeze)	New York City (pre-1977)	0%
	Boston (pre-1981)	
	Berlin (2020)[4]	
Annual rent increases tied to the unit based on CPI or other inflation or economic adjustment factor	Manitoba	1.6% in 2021 (0% in 2022 and 2023)
	Prince Edward Island	1.0% in 2021
	New York City	0% for one-year leases commencing from October 1, 2022 to September 30, 2022; 2.5% for two-year leases commencing from October 1, 2022 to September 30, 2022.
	Germany (Federal law)	Rent can be no more than 10% above the comparative rent for a similar unit in the region.
	Berkeley (pre-1995)	65% of local CPI
	Santa Monica (pre-1995)	Information not publicly available
	East Palo Alto (pre-1995)	Information not publicly available
The authority sets rate of increase for vacancy rent between tenancies that is separate from and higher than the rent increase permitted within tenancies	Washington D.C.	10% more than what was charged for the rent unit before it was vacated or to the rent level of an identical unit in the same building, but not more than 30% than was charged for the vacated unit
	West Hollywood (pre-1995)	Up to 15%
Surgical vacancy control	San Francisco, Berkeley	Some residential properties have restrictions on re-renting, for example an owner move-in or Ellis

[4] The Berlin state government instituted a policy to freeze rents at mid-2019 levels, which has since been quashed by Germany's Federal Constitutional Court.

		Act eviction. If the owner re-rents before the 5-year period is up, the property must be offered at the same rent that the former tenant was paying plus annual allowable increases.

Scope of Vacancy Control

Jurisdictions that currently have vacancy control tend to exempt:

1. New buildings that are occupied after a designated year (2001 in Manitoba, 1977 in Californian cities, 1977 in New York City, Washington DC, 1975);
2. Residential buildings that are owned or subsidized by a government agency;
3. Private housing units with rents that are regulated by another government because the tenants are in receipt of housing benefits (e.g. Section 8 vouchers in the US);
4. Residential units in a medical, educational or religious institute; and/or
5. Low-density housing units (e.g. single family homes, duplexes, triplexes).

Rent Relaxation Processes

All the jurisdictions considered have allowances for landlords to raise rents beyond the allowable vacancy control limit for both capital and operating expenses, as well as for historically low-rent that is below average rent for similar units in the area. Common operating expenses considered include:

- Property taxes;
- Utility expenses;
- Changes in the value of services, facilities and other amenities (e.g. laundry); and
- Mortgage expenses.

The intent of this additional rent relaxation is to maintain some level of return on investment (ROI) for the landlord. Note the difference in BC under the Residential Tenancy Act (RTA) in that increase in operating costs are only considered for additional rent increase on existing tenancies in the event they result in a financial loss. For capital costs, note the distinction between routine capital upgrades and upgrades that can only be undertaken by vacating a unit:

- For routine maintenance, landlords are allowed to pass along a portion or all of the capital expenses to the tenants based on the cost of repair amortized over a certain amount of years. The governing authority specifies the types of routine maintenance that qualify (can be based on type of repairs or total dollar value of repair).
- Again, note distinction in BC in that only unanticipated capital expenditures are eligible for additional rent increase on existing tenancies.
- For major capital upgrades that requires a unit to be vacant. Some jurisdictions, for example Berkeley and Santa Monica, only allow a set percentage increase in rents when the unit is rented post upgrade (based on the cost of repair amortized over a number years). In Manitoba, the unit is taken off vacancy control entirely as part of a Rehabilitation Scheme. In Washington DC for substantial building rehabilitation projects – that is projects where the improvement costs more than 50% of the property tax assessment – a landlord may submit a petition to increase the rents up to 125%.

Impact of Vacancy Control on Quality of Rental Stock

There is a general consensus among economists that strict vacancy control with no allowances for rent increases for increased operating and capital expenses (i.e. first generation rent-control) leads to disinvestment and deterioration of the rental stock (See Arnott, 1995; Jenkins, 2008; Diamond, 2018). There is however a more nuanced and complex picture for second generation rent-control, including well-designed vacancy control schemes that allow rent increases beyond the prescribed limit to maintain healthy ROI for landlords. Research on the reviewed jurisdictions has shown the following impacts on the stock:

- No discernible impacts in Manitoba (Grant, 2018).
- No discernible impacts in Vancouver – under previous *Landlord and Tenant Act* (1974 to 1978) which had vacancy control provisions (Lazzarin, 1990).
- Vacancy decontrol led to marginal improvements in the rental stock and small increase in value of building permit in City of Berkeley (see Kelekian and Barton, 2013).
- In New York, a researcher found that maintenance and improvements occurred in rent-controlled buildings when other economic conditions were favorable to landlords to initiate upgrades. For example, landlords could be incentivized to maintain their buildings if they were able to offer a payout to existing tenants and/or were able to capitalize on higher rents when existing tenants moved out. (Moon and Stotsky, 1993).
- No known research on the difference of the impact of vacancy control and rent control in general on small scale landlords compared to large institutional landlords, but the former are likely to have less financial resources, and therefore more likely to abandon properties or allow their units to fall into disrepair (Pastor, 2018).
- In general, vacancy control needs to be paired with incentives for building maintenance in order to be successful (incentives can be grant or exemption for rent control for units that underwent significant refurbishment) (Arnott, 1995).

Impact of Vacancy Control on Tenant Turnover and Rent Levels

Research conducted in Berkeley, Santa Monica, East Palo Alto and West Hollywood shows vacancy control increased communal stability by reducing turnover (Heskin et al., 2000; Levine, 1990). The study areas also experienced a higher percentage of households with children, pensioners, and Hispanic households (i.e. racialized communities).

In Washington, D.C., it was found that tenants of rent-controlled units moved less frequently than tenants of other units, concluding that the city’s rent control program contributed to the very low rates of residential mobility observed in the city (Turner, 1990). Additionally, this research did not find evidence of reduced probabilities of homeownership associated with rent control in Washington D.C.

Impact of Vacancy Control on the Rental Stock Supply

While vacancy control increased communal stability, it did cause a greater decrease in the existing rental stock through owner-conversion or Ellis Act evictions (i.e. when the landlord elects to remove all the rental units in a building) in Santa Monica, Berkeley, East Palo Alto and West Hollywood relative to neighbouring jurisdictions (Heskin et al., 2000).

The objective of second generation rent control policies is to provide greater security of tenure and should not be viewed as a vehicle for more affordable rental accommodation in the general rental stock.

Administering Vacancy Control

The reviewed jurisdictions utilized the following administrative elements to implement vacancy control:

- The systematic collection of information regarding rent levels through an annual submission of rent rolls by landlords or when there is an eviction or turnover in a tenancy (Santa Monica, Berkeley, West Hollywood, East Palo Alto, Manitoba) which allows responsible staff to monitor rent increases in the stock.
- Awareness of the previous rent by a new tenant – in Berkeley, Manitoba and Washington DC, this is achieved by requiring the landlord to provide a notice to a new tenant showing the previous rent and past rent increases for the unit.
- A system of administrative hearings, mediation and/or dispute resolution to handle petition for rent increases beyond allowable limits and adjudicating conflicts between tenants and landlords.
- Punitive penalties for landlords who charge rents beyond the allowable limit, which can be requiring landlords to pay the tenants the difference between the actual rent and permitted rent (Manitoba and Berkeley), or if continued non-compliance, a liens on the property which is charged on to the landlord's property tax bill (Berkeley).

Compliance Approaches

Berkeley and Santa Monica implement a strong compliance and enforcement approach that includes:

- Active monitoring of submitted rent rolls to detect any rent increases beyond the allowable limit
- Administrative penalties on the landlords for failure to submit the required rent rolls (e.g. landlords cannot increase rent by the annual guidelines and must refund any portion of rent increases that the tenant has already paid – Berkeley)
- Proactive dissemination of tenancy information to new tenants – City of Berkeley aims to provide information to every single new tenant.

On the other hand, PEI, Manitoba, Berlin and New York City implement a petition-based compliance approach**.** It is left to the tenant's discretion to bring forward a petition or complaint to the governing authority regarding a suspected unlawful rent increase. For example, Berlin uses a rent table to set allowable rent rates between tenancies, this rent table is created and administered by the Federal authority. The rent table takes into account the buildings age, proximity to city centre, and building amenities, this allows newer buildings close to downtown Berlin to charge higher base rent than older buildings further away. While the authority requires the landlord to be forthcoming with information pertaining to the rent table, it leaves it up to the tenant to ensure their rent is in line with the rent table.

Program Resourcing

A strong enforcement approach can be a costly endeavour that requires a high level of staffing to undertake the necessary outreach, mediation and enforcement work. For instance, Santa Monica has 27 employees overseeing 26,500 rent controlled unit, and Berkeley has 21 employees with 21,000 rent controlled unit (or average of one employee for every 981 to 1,000 unit respectively).

In contrast, cities with more lenient compliance approaches have fewer staff capacity, such as Los Angeles with 77 employees overseeing 450,000 units (or average of one employee for every 5,844 units).

Program Funding

The reviewed vacancy control programs are self-funded or tax supported. Most Californian cities have self-funded Rent Boards - all landlords must pay an annual registration fee for each rental unit as part of their property tax bill (In San Francisco: $50 for regular apt. unit; $25 for SRO unit, Berkeley: $194 for each rental unit). In this case, Landlords can pass through all of the registration fee to the tenant – the justification is that Rent Board is protecting the interests of the tenant, so they bear all the costs.

On the other hand, tax supported programs are found in Manitoba, New York City, Washington D.C, British Columbia (1974-1983), and other cities. The governing authority may impose fees for processing applications for rent increases beyond the allowable limit ($150 for buildings with 19 or fewer unit; $500 for building with 20 to 49 units, $500 plus $4 for each additional unit for buildings with 50 or more units). This revenue stream is often insufficient to cover all expenses and is substantiated with funds from the general budget (i.e. taxes).

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APPENDIX E
STAKEHOLDER CONSULTATION SUMMARY REPORT

Purpose of Consultation

- Inform stakeholders on Council direction to explore a vacancy control policy in SRA-designated properties;
- Collect feedback on the regulatory options for vacancy control in SRA properties, specifically models on the permitted rent increase between tenancies, and the rent relaxation process for critical capital investment; and
- To obtain feedback on the monitoring and implementation of vacancy control in SRO properties.

Timeline of Consultation

- June to August 2021

STAKEHOLDERS CONSULTED

Stakeholder type	Number of stakeholders
Private SRO owners	22
SRO tenants and advocacy groups	SRO-Collaborative and six residents from different SRO buildings
Landlord advocacy groups	Two (Landlord BC and Urban Development Institute)
Non-profit SRO owner and operators	Three
Chinese society owners	13 including the Vancouver Chinatown Foundation

Summary of Stakeholder Findings

A. Private Owners

General feedback about vacancy control:

- Almost all private owners consulted were strongly opposed to vacancy control due to the significant cost pressures they already face to operate SROs, including property taxes, hydro, building maintenance, insurance and security.
- Some used stronger language to underscore their opposition, suggesting that vacancy control is an assault on property rights, as it may lead to decreased rental income and property values, which the City will not be compensating them for.
- Owners highlighted how vacancy control will lead to disinvestment and deterioration of the SRO stock, owners not maintaining current properties, and new investors not purchasing new properties with the intention of upgrading.
- Some also mentioned that vacancy control would induce owners who have not increased rents of existing tenants by the full Residential Tenancy Act (RTA) allowable amount, to do so.
- Some landlords emphasized that rent increase between tenancies is crucial to their business case, especially in terms of financing tenant improvements.

- For some newer owners, vacancy control is a concern because it may hinder their ability to refinance or pay existing mortgage payments.

Feedback about the vacancy control regulatory options presented:

- Many owners felt that the wide application of vacancy control to all privately owned SROs is a blanket approach that does not distinguish between SROs with different tenant profiles and cost pressures, which will lead to unintended consequences if no exemptions are provided. Exemptions suggested included smaller SRO buildings (less than 6 rooms), buildings that are heritage designated, buildings that solely cater to higher playing “clientele”, such as service workers and students, and buildings that only have self-contained suites.
- There was a strong perception that the privately owned stock was generally being treated unfairly compared to non-profit owned properties because the latter received financial backing from various levels of government.
- On the allowable rent increase between tenancies, many felt that rate close to the RTB standard (2% or inflation rate) was very inadequate given that many operating cost continue to increase above at rates higher than inflation.
- On the rent relaxation process for critical capital investment, some expressed that relying on the Residential Tenancy Branch (RTB)’s additional rent increase (ARI) process would be too cumbersome and only worthwhile for major capital improvements.

Feedback about the implementation process:

- Many owners urged the City to adopt the least administratively burdensome process for reporting rent rolls, and suggested at most an annual report or starting with audits of high-risk buildings before proceeding to a universal rollout.
- Many owners agreed that an integral part of any vacancy control regulation should be financial support for private owners, both operational (to offset revenue lost that were critical for basic operations) and capital (to finance capital improvements).

Feedback about the consultation process:

- Some owners raised a concern that the City may make recommendations to Council that don’t sufficiently reflect all the business-related pros and cons of implementing vacancy control in the SRO stock and therefore wanted an opportunity to further influence the analysis process and the recommendations to Council.

B. Non-Profit Operators

General Feedback about vacancy control:

- Non-profit operators were unanimous in their approval of vacancy control as a policy because of its intrinsic benefit for tenants, especially in the privately owned SRO stock.
- While approving of vacancy control, some were concerned about the regulatory burden on non-profit owned stock as they are already renting at the shelter rate – the concern was especially high for non-profit owned stock that are operating without funding from levels of government. One non-profit operator strongly recommended non-profits be exempted from the vacancy control regulations (if implemented) on the basis of their charitable status or strong housing ethos.

- The annual reporting of rent rolls to the City was singled out as a major regulatory burden because non-profit operators are already required to report to BC Assessment. They suggested that the City acquire the information from BC Housing or adopt less stringent reporting requirements, such as an audit approach or only reporting rents that have changed.
- To ensure the SRA stock remains viable, many felt that vacancy control should be coupled with other financial supports from higher levels of government.
- To counter any potential abuses or infraction of vacancy control, non-profit operators recommended having supports on the ground to monitor and assist tenants (i.e. advising them against accepting buyouts), or at the very least collaborating with advocates on the ground, such as the SRO-C.

C. SRO Collaborative (SRO-C) and SRO Tenants

General feedback about vacancy control:

- SRO-C and SRO tenants strongly supported the implementation of vacancy control and considered it as a cost-effective strategy to protect the affordability of the SRO stock and prevent the displacement of vulnerable tenants and potential increase in homelessness.
- Vacancy control is about dis-incentivizing tenant turnover – both the SRO-C and tenants felt that the allowable rent increase between tenants should reflect that principle and therefore strongly prefer no allowable rent increases at change of tenancy or even a total rent freeze.
- Some felt that vacancy control would help balance the current power disparity between tenants and landlords, therefore inducing the latter to collaborate more with tenants.
- SRO-C and tenants strongly expressed concern that landlords will try to evict tenants and raise rents once they are aware that the City is exploring the implementation of vacancy control – characterized as an “Armageddon” period. They expressed that the City needs to advocate to the RTB for interim mitigation measures including rent and eviction freeze until vacancy control is fully implemented.
- There was some concern that property owners will exploit the rent relaxation process meant for capital improvements, given tenants’ experience of rent escalation without corresponding building improvements. Improvements should be about the community as well, and not just from the landlord’s perspective – to counter potential abuses, the SRO-C and tenants strongly suggested heavily scrutinizing landlords’ rent relaxation request.
- The SRO-C and tenants groups were also interested in quantifying the impact of vacancy control on homelessness – they believe this will further support and substantiate the need for vacancy control in the SRO stock.

Feedback about implementation and enforcement:

- Strong penalties should be implemented if vacancy control regulations are to be effective. The SRO-C suggested an enforcement model with escalating enforcement on bad actors, while better landlords get a lighter monitoring and generous incentives.
- They supported a more administratively heavy approach to the monitoring and compliance process (if implemented), particularly in terms of rent roll submissions and monitoring actual rents.
- Implementation of vacancy control should include eyes on the ground to monitor compliance and assist tenants with education and advocacy.
- Some felt that vacancy control should not be the “be all end all” for the many issues in the SRO stock – needs to be followed up with investment supports for building upkeep.

Other Feedback (not vacancy control related):

- A number of SRO tenants felt the 30-year timeframe in the Vancouver Housing Strategy to replace all SRO units with self-contained units was too long and that action is needed now.

D. Landlord Advocacy Groups (Urban Development Institute (UDI) and Landlord BC)

General Feedback about vacancy control:

- Both the UDI and Landlord BC were very concerned that imposing vacancy control on SRAs could be a prelude to its introduction on the wider rental stock. Both groups were alarmed by recent Council interests on vacancy control and have urged staff to be very precise and thoughtful in how the regulations are worded to ring-fence vacancy control to only SRA-designated properties.
- There were further concerns that municipalities are "usurping" the role of the Province in regulating tenancies, especially in light of the City of New Westminster court victory.

Feedback about the vacancy control regulatory options presented:

- Concern from Landlord BC that the City is not properly factoring in operating cost increases in the calculation of allowable rent increases – a lot of cost factors have experienced an above-inflationary increase, so a 2% increase is woefully inadequate
- Imposing vacancy control discounts the very real benefit that recent changes to the RTA will have on tenants in general (i.e. addressing many of the issues that vacancy control is ostensibly trying to address).
- If the City is going to cap rents through vacancy control, then it also has to look at discounting/reducing the property taxes for these buildings
- Imposing vacancy control also necessitates the City to look at building requirements and other regulations for SRAs – the UDI made referenced the sustainability requirements.

E. Chinese Society Owners

Feedback about vacancy control and the options presented:

- Chinese society buildings require a different approach when it comes to implementing a vacancy control policy to protect the affordability of SRO rooms, as they are operate differently from other private SROs because of their mandate to provide affordable housing to Chinese seniors.
- The rents at these buildings are mostly between $200 to $300, which is even lower than the shelter rate for income assistance at other non-profit owned and operated buildings – a number of units have not had rent increases in years.
- Chinese societies have no interest in "flipping" SRO properties (i.e. speculative investment), especially since it defies the historical mandate of these organizations.
- Private SROs are the real source of the affordability problems in the SRO stock, therefore Chinese society buildings should not be subject to the same stringent vacancy control regulations.
- In addition, Chinese society buildings already face difficulty sourcing funding for urgently needed repairs due to the lower revenue potential and higher costs from their heritage designation. A number of societies have applied for and were denied grants from senior levels of government despite their high need for assistance.

Feedback about the consultation process:

- Many owners consulted expressed that this was the first time the City has meaningfully engaged with Chinese societies in housing related legislation.
- Others added that the process has been overly rushed, and that the City needs more time to properly comprehend the Chinatown context and their unique value- and community-driven SRO operational and housing model.

APPENDIX F
Financial Impact Analysis of Vacancy Control Options

The potential financial impact of vacancy control measures on the SRO stock varies from building to building, depending on a number of factors including, but not limited to, the business and operating model, building condition, and rental rates. To maintain a viable SRO operation, building owners need to collect sufficient rent and other income (e.g. commercial, government subsidies) to cover day-to-day operating costs, capital maintenance, mortgage payments, and a rate of return on their investment. The size and significance of the building costs would be different for different buildings. For example, building condition varies across the stock and some buildings have mortgages and some do not.

To understand the potential impact of the different vacancy control options on the SRO stock, staff developed a number of SRO building profiles based on available data, set up a financial model to project the revenue and expenses for an SRO building within each profile over 20 years, and quantified the potential financial impact of the vacancy control options.

1. Building Profiles

In June 2021, the City issued letters to all non-government SRA-designated-building owners requesting the following information in accordance with section 5.3 of the SRA By-law:

- a copy of the May 2021 rent roll;
- total number of rooms in the building, with a breakdown between occupied and unoccupied rooms; and
- by room number, the monthly rent rate, the occupancy status (occupied, unoccupied, closed), and, if occupied, the tenancy start date.

In response to the above information request, the City received detailed rent rolls on 36 SRO buildings up to early September, eight of which are operated by NPOs. This represents approximately 45% of the rooms in the privately-held SRO stock.

For the purpose of the analysis, staff sorted the responses into the eight most prevalent building profiles based on the following attributes:

- privately-owned and operated vs. privately-owned but operated by NPOs;
- length of building ownership;
- income profile (average rent, availability of commercial and other income);
- average rent increase over the last 10 years; and
- debt on title.

The eight building profiles are summarized in Table F1 below.

Table F1: SRO building profiles

	Privately Owned / Operated						Privately Owned / NPO Operated	
	Profile 1	**Profile 2**	**Profile 3**	**Profile 4**	**Profile 5**	**Profile 6**	**Profile 7**	**Profile 8**
Average rent (2021)	$492	$416	$589	$569	$621	$1,037	$391	$416
Annual rent increase	minimal	minimal	moderate	moderate	higher	higher	minimal	minimal
Commercial @ grade	yes	Yes	yes	no	yes	no	yes	no
Length of ownership	10yrs+	10yrs+	10yrs+	10yrs+	<10yrs	<10yrs	10yrs+	10yrs+
Debt on title	no	yes	no	yes	yes	yes	no	no

2. Input Assumptions

Baseline revenue assumptions, including starting rent and approximate length of tenancy, were based on actual data collected on the private SRO stock from the June 2021 information request and previous years' biennial Low-Income Housing Surveys.

Several inputs to the analyses were based on conservative assumptions, including:

Operating expenses – The City does not have access to SRO building owners' financial records. Operating expense was assumed to be $300 per unit per month ($1 per sq. ft. for a 300 sq. ft. unit or $3 per sq. ft. for the 100 sq. ft. unit), escalated annually at CPI of 2%.

Commercial income – Based on SRO stock data tracked by the City, ~70% of the 36 buildings have commercial at grade. Income from the commercial space was assumed to be $20,000/year, based on an average of 1,000 sq. ft. earning net rent of $20 per sq. ft. which is at the low-end for the DTES where most SRO buildings are located, and is likely understating potential business income generated from, for example, building owner-managed bars.

Existing debt – Inferring from publicly available records, ~55% of the 36 buildings (over 960 rooms) have some form of debt registered on title; however, it was not possible to establish the outstanding balance and annual debt service cost definitively. As such, an average loan of ~$80,000 per unit was assumed in the model, with five years of remaining debt payments for long-time owners (10 or more years of ownership) and 15 years of remaining debt payments for new owners (less than 10 years of ownership).

Capital refurbishment – The City does not have access to building condition assessment for the SRO buildings. As such, the model incorporates an annual capital investment amount that would be required using the framework from BC Housing's 'Facility Condition Asset Management Tool' publication and the construction cost (excluding land) portion of the conversion fee in the City's SRA By-law.

3. Financial projection

To understand the potential impact of the different vacancy control models on the SRO stock, staff developed a financial model to project the revenue and expenses for an SRO building within each profile over 20 years, and quantified the potential financial impacts of the vacancy control options in Table F3 below.

Table F3: Vacancy Control Options

Single Rate		**Tiered Approach**			
1A: Strict	**1B: Moderate**		**2A: Relaxed on affordable rooms & Moderate on higher rent rooms**	**2B: Relaxed on affordable rooms & strict on higher rent rooms**	**2C: Moderate on affordable rooms & strict on higher rent rooms**
0% allowed increase between tenancies	5% allowed increase between tenancies	**Rent < $500/month:**	10%	unregulated	inflation rate + 5% (total ~7%)
		Rent > $500/month:	5%	0%	inflation rate (~2%)

4. Findings

Table F4 below summarizes the projected 20-year cumulative cash flow impact arising from the vacancy control options for each building profile:

- Projected cumulative surplus / (deficit) at the end of the 20-year period is represented by the shaded boxes along with a $ range of surplus or deficit: green represents a projected overall cumulative surplus and red represents a projected overall cumulative deficit.

- Total number of years during which a cash flow deficit is projected is denoted as a range.

Table F4: Comparison of 20-year cumulative cash flow impact across vacancy control options

40 ROOMS ASSUMED FOR EACH PROFILE			PRIVATE OWNED / OPERATED						PRIVATE OWNED / NPO OPERATED	
			Profile #1	**Profile #2**	**Profile #3**	**Profile #4**	**Profile #5**	**Profile #6**	**Profile #7**	**Profile #8**
BASELINE / STATUS QUO			$1M - $3M	$1M - $3M	$3M - $5M	$1M - $3M	$1M - $3M	over $5M	$1M - $3M	$1M - $3M
			0 deficit yrs	11-15 deficit yrs	0 deficit yrs	11-15 deficit yrs	16-20 deficit yrs	0 deficit yrs	1-5 deficit yrs	1-5 deficit yrs
OPTION 1: APPLY VACANCY CONTROL AT THE SAME RATE ACROSS THE ENTIRE STOCK	1A	0% ALLOWED INCREASE AT TURNOVER	$500K - $1M	over ($500K)	$1M - $3M	under $500K	over ($500K)	$3M - $5M	under $500K	under ($500K)
			0 deficit yrs	16-20 deficit yrs	0 deficit yrs	16-20 deficit yrs	16-20 deficit yrs	0 deficit yrs	16-20 deficit yrs	16-20 deficit yrs
	1B	5% ALLOWED INCREASE AT TURNOVER	$1M - $3M	under $500K	$3M - $5M	$1M - $3M	$1M - $3M	over $5M	$500K - $1M	under $500K
			0 deficit yrs	16-20 deficit yrs	0 deficit yrs	11-15 deficit yrs	16-20 deficit yrs	0 deficit yrs	11-15 deficit yrs	16-20 deficit yrs
OPTION 2: APPLY VACANCY CONTROL IN A TIERED APPROACH BASED ON CURRENT RENT	2A	10% ALLOWED < $500/MTH and 5% ALLOWED => $500/MTH	$1M - $3M	$500K - $1M	$3M - $5M	$1M - $3M	$1M - $3M	over $5M	$500K - $1M	$500K - $1M
			0 deficit yrs	11-15 deficit yrs	0 deficit yrs	11-15 deficit yrs	16-20 deficit yrs	0 deficit yrs	6-10 deficit yrs	11-15 deficit yrs
	2B	UNREGULATED < $500/MTH and 0% ALLOWED => $500/MTH	$500K - $1M	under ($500K)	$1M - $3M	under $500K	over ($500K)	$3M - $5M	$1M - $3M	$500K - $1M
			0 deficit yrs	16-20 deficit yrs	0 deficit yrs	16-20 deficit yrs	16-20 deficit yrs	0 deficit yrs	1-5 deficit yrs	6-10 deficit yrs
	2C	7% ALLOWED < $500/MTH and 2% ALLOWED => $500/MTH	$1M - $3M	under $500K	$1M - $3M	$500K - $1M	under ($500K)	$3M - $5M	$500K - $1M	under $500K
			0 deficit yrs	16-20 deficit yrs	0 deficit yrs	11-15 deficit yrs	16-20 deficit yrs	0 deficit yrs	11-15 deficit yrs	16-20 deficit yrs

The following key observations can be made about the potential financial impact on the building profiles:

- The strictest vacancy control options (1A, 2B) most result in the cumulative negative cash flow over 20 years for a handful of building profiles. Approximately 85% of the scenarios evaluated show a cumulative positive cash flow (i.e. the SRO operation continues to be viable with the application of vacancy control).

- Several profiles show interim cash flow deficits both with and without application of vacancy control; this is likely attributable to the overly conservative assumption for operating expenses ($1 to $3 per sq ft per month) and debt payment. In each case, the projected interim deficits were within 10% of projected annual revenue.

Additional observations:

- SRO buildings with ‘minimal’ and ‘moderate’ rent growth, commercial operations at grade and no outstanding debt (Profiles #1 and #3) are anticipated to withstand the potential impact arising from all vacancy control options.

- SRO buildings with ‘minimal’ rent growth, commercial operations at grade and some outstanding debt payments for 5 years (Profile #2) are anticipated to achieve a cumulative break-even cash flow over 20 years under three of the five vacancy control options, and may experience varying periods of deficits under all options.

- SRO buildings with ‘moderate’ rent growth, no commercial at grade and some outstanding debt payments for 5 years (Profile #4) are anticipated to operate at, or close to, break-even, but may experience varying periods of deficits under all options.

- SRO buildings with ‘high’ rent growth, and where rents have already increased considerably over the past decade due largely to change in ownership, are anticipated to be variably impacted by the vacancy control options:
    - Even with outstanding debt payments for 15 years and no commercial at grade (Profile #6), buildings are anticipated to generate a significant cumulative surplus across all vacancy control options due mainly to the relatively high 2021 average rent.
    - With outstanding debt payments for 15 years and commercial at grade (Profile #5), buildings are anticipated to experience varying levels of financial pressure due mainly to the lower 2021 average rent.

Limitations

The financial impact analysis relied heavily on the limited data collected from the SRA building owners. This data primarily covered room rents and length of tenancies, both of which were used extensively in the financial model. Other inputs such as operating cost, capital maintenance (based on assumed building condition), and existing mortgage across the SRO stock were based on general assumptions informed, where possible, by the City’s own portfolio of SRO buildings and/or publicly available records.

To ensure staff do not inadvertently understate the potential financial impact of vacancy control on the SRO stock, conservative assumptions were used for the analysis. For example, a reduction of the assumed operating expense from $300 (in the model) to $225 per unit per month would significantly reduce the possibility of a cumulative cash flow deficit for most building profiles.

Despite staff’s best effort, it should be noted that there is always a degree of uncertainty inherent in the financial model assumptions, which may give rise to potential impacts not readily identified through the model. The viability of any particular SRO will depend on the particular circumstances of the building and the building owner. With these limitations and considerations stated, staff are confident that the financial analysis provides insight into how different vacancy control options potentially impact different segments of the SRO stock, and serves as a reference point, among others, informing the vacancy control policy recommendations in this report.

Conclusion

Vacancy control measures help preserve affordability by slowing the rate of rent increases between tenancies. Generally speaking, private SRO buildings with low debt, additional revenue sources (e.g. commercial) and low capital investment needs will be better able to withstand the financial impact arising from vacancy control measures. Otherwise, the potential cash flow impact may limit some owners’ ability or willingness to continue to operate, resulting in potential divestment in the absence of broader mitigating strategies in place.