

Vacancy Control in SRA Designated Properties

Council Presentation

November 17, 2021





Art by Jordan Gallie,
from Tsleil-Waututh Nation

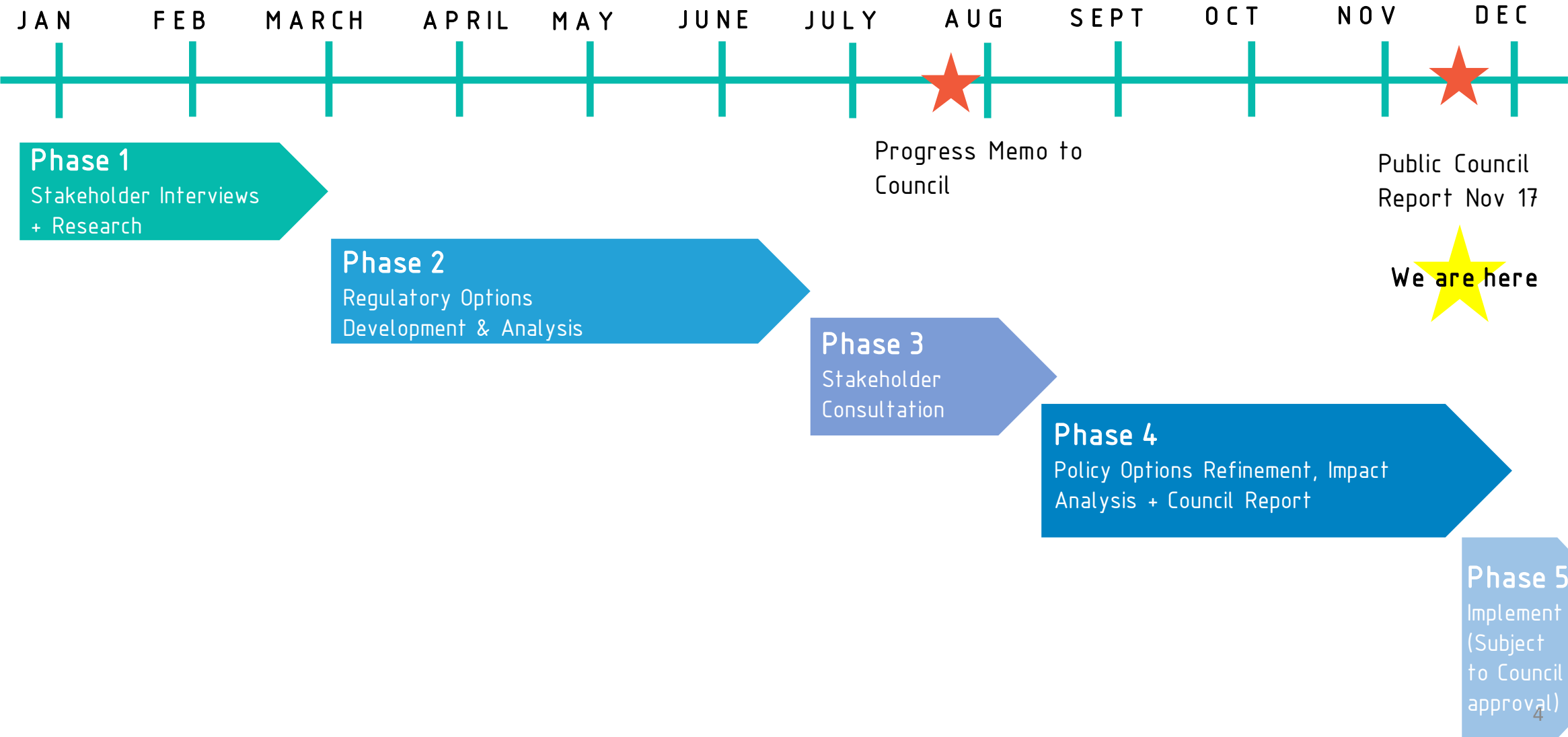
We acknowledge we are on the unceded territories
of the [x^wməθk^wəyəm](#) (Musqueam), [Skwxwú7mesh](#)
(Squamish), and [Sel̓íl̓wítulh](#) (Tsleil-Waututh)
Nations.

Council Direction

In October 2020, as part of the SRO Update, Council directed staff to:

- **Develop City regulatory options** for monitoring, regulating, enforcing restrictions on rent increases at renter turnover in SRA buildings (known as “Vacancy Control”) – Completed January to November 2021
- Undertake **public engagement** with private owners, tenants, community groups and Provincial partners on these options – Completed August 2021

Project Timeline



Recommendations to Council

- Implement the proposed vacancy control policy for Single Room Accommodation (SRA) designated properties (subject to 2022 budget approval).
- Approve amendments to the License By-law and the Ticket Offences By-law to implement the policy if operating budget approved.
- Accelerate current engagement with senior levels of government on the development of a Tri-Partite SRO Strategy to fund the renewal and/or replacement of existing SRAs.
- Direct staff to undertake a review of the policy in 2025 (Year 4) and report back to Council in 2026 (Year 5) on the impacts of on-going implementation of the policy.

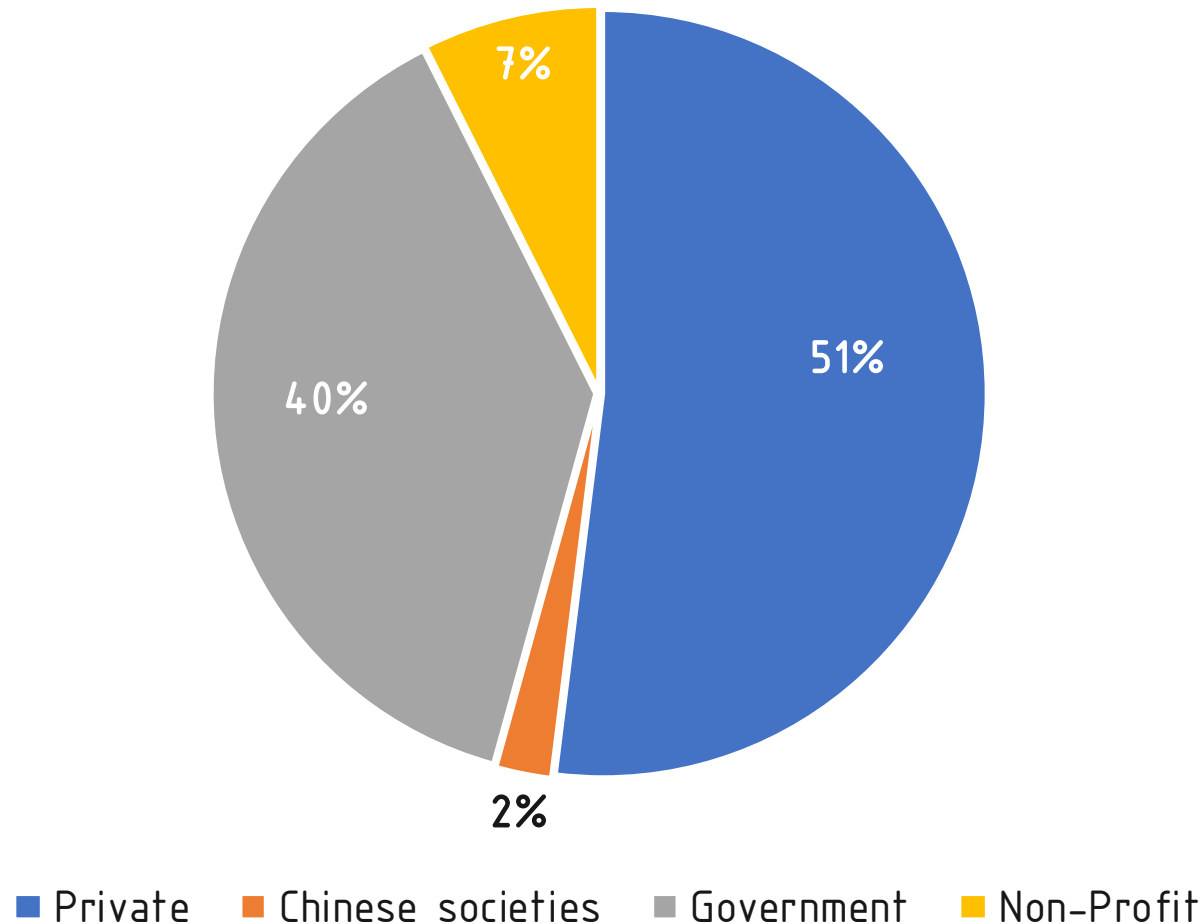


SROs & Affordability

Photo Credit: Lani Brunn

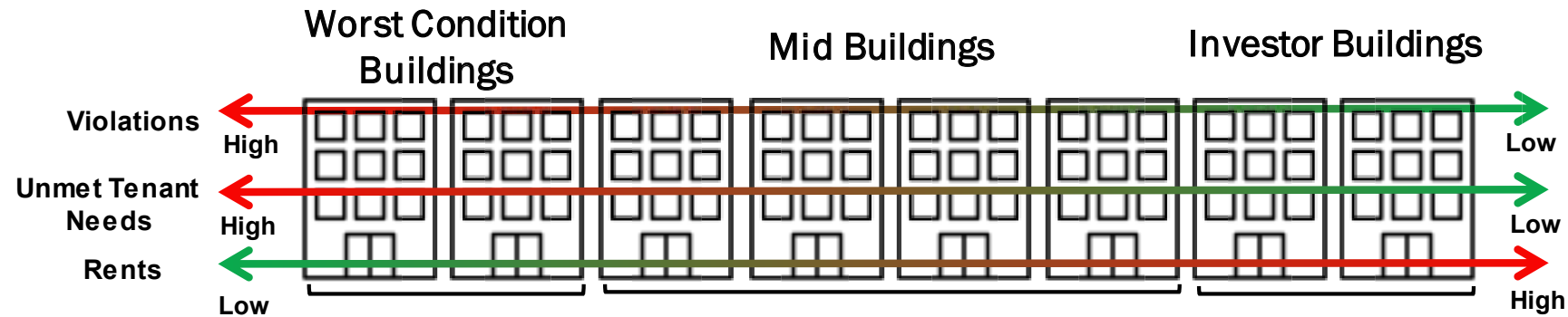
SROs in Vancouver

SRA-Designated Open Rooms by Ownership
(2021)



- Approx. ~6,700 residents live across ~157 SRA-designated buildings, mostly in DTES
- Province and City of Vancouver have purchased several SRO buildings to protect the stock and its tenants
- Closed rooms (not included):
 - 382 privately-owned
 - 349 government-owned
 - 15 Chinese societies-owned

Privately-Owned SROs: Two Building Trajectories



High capital and maintenance costs combined with new speculative interest in SROs has resulted in two building trajectories.

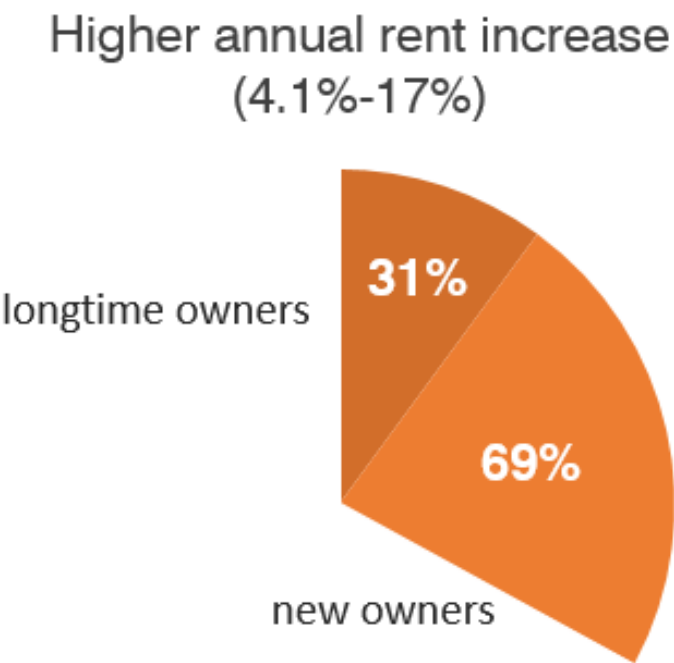
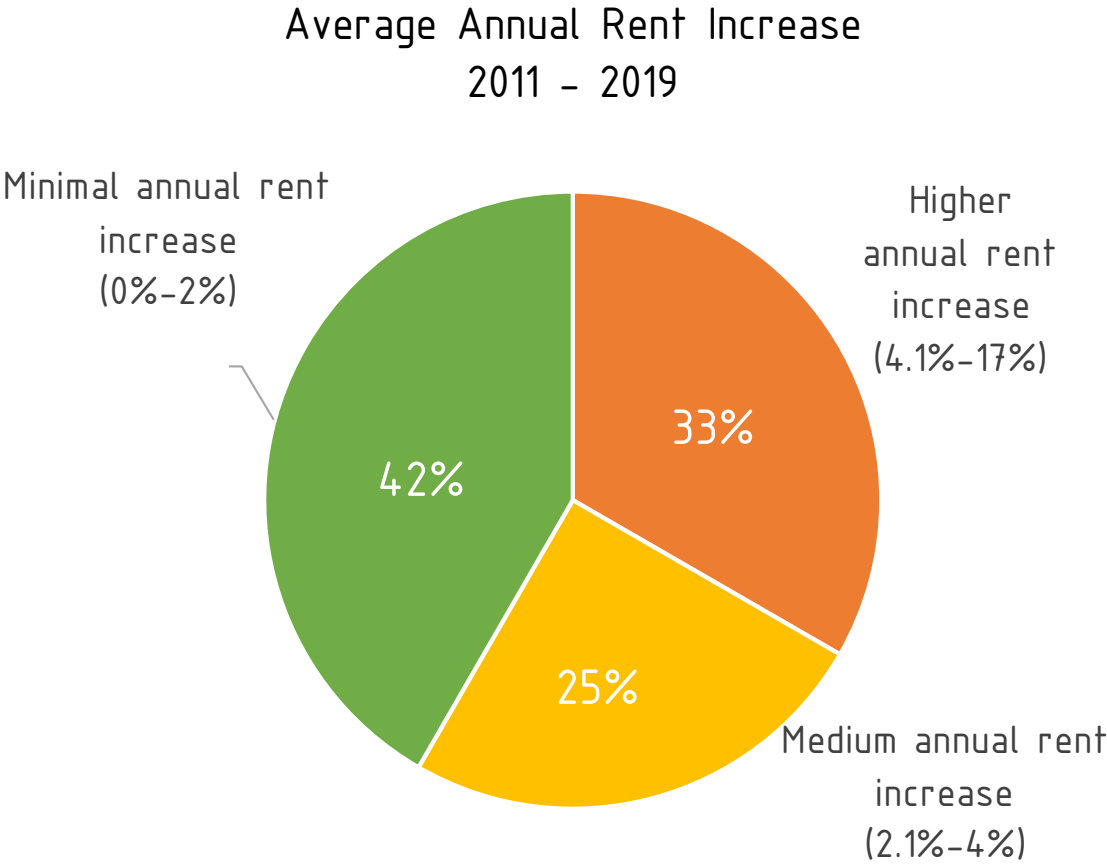




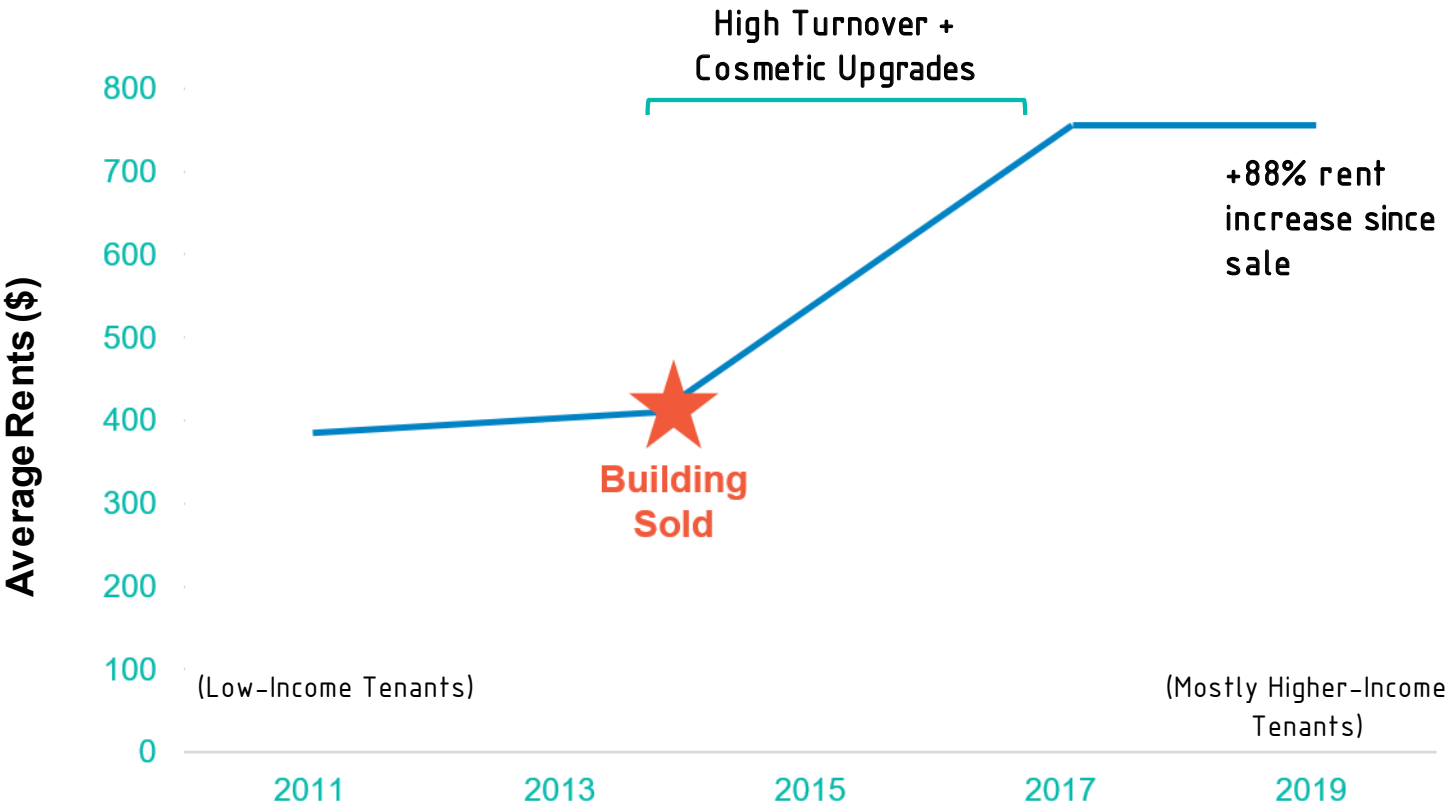
Loss of Affordability in Private SROs

- In 2019, average rents in private SROs were at \$561; for those on income assistance, that's 79% of monthly income.
- In 2019, only 77 private SRO rooms still rented at shelter rates and over 700 rooms rented at \$700+.
- High turnover rate in SROs enables frequent rent increases between tenancies, making stock more vulnerable to speculation and loss of affordability.

Privately-owned SROs: Annual Rent Increases



Case Study: Rapid Rent Escalation



Since purchase, rents increased by 88%, or 13.5% per year

Speculative Investment in SROs

- Following sale to new owner, rents increase at avg. annual rate of 6x faster than buildings that were not sold (12% vs 2%)
- Between 2011–2019 over 1/3 of privately-owned SROs (39 buildings / 32% of rooms) sold on the private market.
 - 7 buildings sold more than once.
- If the current trend continues, in the next decade the average rent of a privately-owned SRO room could be \$769 in 2029 (\$561 in 2019).

Policy Context



Photo Credit: Lani Brunn

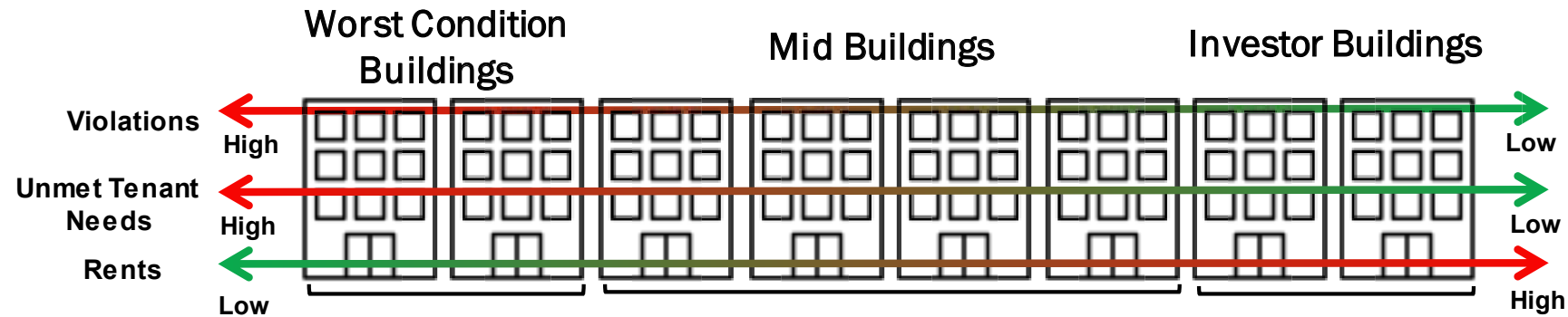
SROs and Vacancy Control

- The most significant obstacle to maintaining affordability and livability in SROs are:
 - 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.
- Vacancy control can deter speculative investment and discourage tenant displacement.
- Vacancy control that ties the rent to the unit in the broader renter stock would discourage investment in purpose built rental.

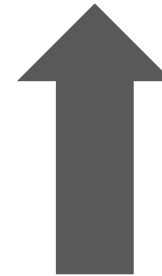
SROs, Social Housing and Poverty Reduction

- City and senior governments actively working on an inter-governmental investment strategy for the longer term replacement of SROs with self-contained social housing.
- Strategy to include options to support private-owners to renew and retain their assets, while maintaining affordability.
- Continued advocacy to raise shelter income assistance shelter rates
- The City continues to offer and partner in:
 - SRA Upgrading Grants (\$10,000/door) for privately owned/ non-profit operated
 - Government lease or acquisition of buildings
 - Rent subsidies

Vacancy Control Policy Intent



Further Loss of Affordability



Vacancy Control between tenancies can protect very low-income and marginalized SRO renters from the impacts of speculative investment and rapid erosion of affordability



Vacancy Control in Other Jurisdictions

Jurisdictional research indicated a range of regulatory components options in implementing vacancy control:

- Varied rent restriction levels
- Additional allowable increases
- Building exemptions
- Policy duration

Stakeholder Engagement: What Have we Heard?

- SRO Tenants, Advocates & Non-Profit Operators
 - 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.
- Private Owners
 - Opposed to vacancy control – impacts described ranged from “devastating” to “no impact”.
 - 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
 - Supportive of policy but concern that vacancy control may negatively impact operations due to their already low rents.
- Provincial government (RTB)
 - General support for the policy for the SRO stock and recognition of potential positive impact on tenants and protection of the stock.



Photo Credit: Lani Brunn

Authority to Implement Vacancy Control

- Authorized under the Vancouver Charter to regulate businesses (through License By-law) and impose conditions on business licence holders.
- Regulated through the creation of a new SRA-designated housing operator license category.
- This would be the first use of the License By-law to regulate rents.
- Implementing vacancy control in Vancouver's SRO stock would not conflict with the RTA regulations.



Strategic Analysis

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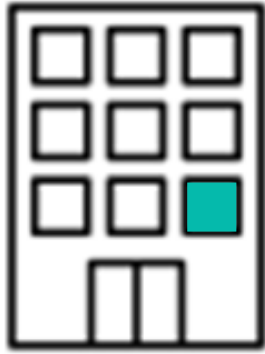


Photo Credit: Lani Brunn

Vacancy Control Policy: Guiding Principles

1. Prioritize the affordability of low-income and marginalized residents by preventing rapid rent escalations between tenancies and discouraging speculative investment.
2. Mitigate risk of further disinvestment and incentivize priority investment.
3. Achieve effective regulatory compliance.
4. Ensure fiscal responsibility in implementation and enforcement.

Vacancy Control in SROs: How would it work?

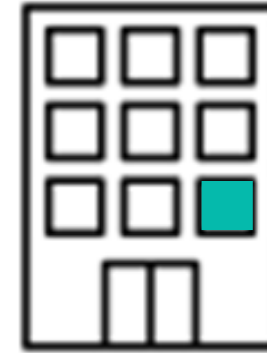


Suresh moves out of Room 208 on February 1, 2021.

Suresh lives in Room 208 of an SRA designated building. He is paying \$450/month as specified in his RTA agreement.

Suresh's annual rent changes during tenancy regulated by Provincial RTA.

Fumiko moves in to Room 208 on February 1, 2021.



Vacancy Control regulates the rent the Landlord can charge to Fumiko. She will pay \$450/month + any allowable increase under Vacancy Control, at initial tenancy

Fumiko's annual rent changes during tenancy regulated by Provincial RTA.

Vacancy Control Options Explored

In light of jurisdictional review, stock analysis and stakeholder feedback, staff developed five different models to setting vacancy control.

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 less than \$500/month:	10%	unregulated	Inflation rate + 5% (total ~ 7%)
		Rent higher than \$500/month:	5%	0%	Inflation rate (~2%)

Financial Impact Analysis of Vacancy Control

- Financial model recognized diverse owners, building conditions, and business objectives and models.
- Analysis relied heavily on data collected from SRA building owners (e.g. room rents and length of tenancies).
- Other inputs were based on general assumptions informed, where possible, by the City's own portfolio of SRO buildings and/or publicly available records.
- Financial model projected the revenue and expenses for the most prevalent 8 SRO building profiles in the data collected over 20 years.
- Conservative assumptions were used to avoid understating the potential financial impact on the stock.

Financial Impact Analysis Findings

- Approximately 85% of the scenarios evaluated show a cumulative positive cash flow (i.e. the SRO operation continues to be viable).
 - Most of the cumulative negative cash flow scenarios result from the strictest forms of vacancy control (1A & 2b).
- Several profiles show interim cash flow deficits both with and without application of vacancy control, likely attributable to the overly conservative assumptions.
- The potential cash flow impact of vacancy control may limit some owners' ability or willingness to continue to operate, resulting in potential divestment in the absence of broader mitigating strategies.
- Staff are confident that the analysis provides insight into how different vacancy control options could impact different segments of the SRO stock.

Policy Assessment:

Alignment with Guiding Principles

1. Protect affordability for low-income and marginalized residents in SROs:

- Significant deterrent to buyers purchasing SRO buildings with the intent to evict/remove current tenants and rapidly escalate rents.
- Level of affordability protection depends on vacancy control option.
- Oversight would provide additional recourse for tenants alongside provisions in the RTA.
- Some SRO owners may not rent to “harder to house” tenants.
- Difficult to address existing or new ‘off-the book’ payment arrangements.

Policy Assessment:

Alignment with Guiding Principles

2. Mitigate risk of further disinvestments and incentivize priority investment:

- Allowing a limited rent increase at turnover (e.g. inflation) provides balance between recouping cost increases and maintaining affordability.
- Potential risk of increased disinvestment/increased non-compliance with building safety and livability.
- Opportunity to incentivize landlords to engage with City and Province on investment tools and supports while protecting affordability.

Policy Assessment:

Alignment with Guiding Principles

3. Maximize effectiveness and compliance:

- No significant impact of policy options on projected policy compliance.
- Staff anticipate some early resistance towards by-law compliance.
- Staff will monitor the implementation and amend as needed to promote and ensure compliance.

4. Ensure fiscal responsibility in implementation and enforcement:

- Implementing any of the policy options will require dedicated staffing resources and costs, as it represents a new business area for the City.
- The added costs should be balanced against the higher societal costs from homelessness should the current unaffordability in the SRO stock continue.

Recommendation



Photo Credit: Lani Brunn

Recommendation to Council

- Implement Vacancy Control Policy on SRA Designated Properties, to be enacted pending approval of budget allocation to support associated operating costs.
- Approve in principle the following by-law amendments to:
 - The **License By-law** to enable proposed monitoring and compliance framework
 - The **Ticket Offences By-law** that would make contraventions of the License By-law a ticketable offence.

Proposed Vacancy Control Model

The proposed tiered approach would regulate rent between tenancies based on the room’s affordability as follows:

Tiered Approach	
Rent less than \$500/month:	Inflation rate + 5% (total ~ 7%)
Rent higher than \$500/month:	Inflation rate (~2%)

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.

Proposed Vacancy Control Model

- Exclusions from vacancy control regulations
 - This proposed policy will not apply to government owned SROs.
- New SRA Accommodation Operator Licence Category
 - Deemed to any person/business providing rental housing in SRA-designated rooms at no extra cost or application process.
 - This licence is in addition to any other business licence they may need.
- Rent relaxations to support critical investment and extraordinary operating expenses (as outlined by RTB)
 - Process to allow landlords to apply to the City for a rent relaxation between tenancies after securing approval from the RTB on the tenanted rooms in the building.

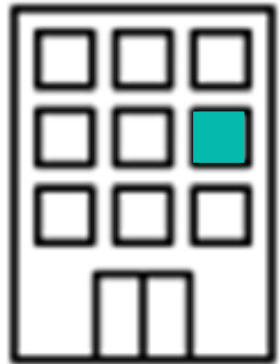
Implementation



Photo Credit: Lani Brunn

SRA Vacancy Control

How would it work for landlords and tenants?



SRO Landlord securely submits their rent roll with rents and room #s each year by Jan 31st



PROACTIVE:

Submitted rent rolls are reviewed for compliance. Staff undertake investigations and follow-up as required



ENFORCEMENT:

If staff identify a room rent that is not By-law compliant, enforcement process begins



New tenant Fumiko is concerned* that the rent she is being charged is not compliant with the SRA VC By-law



COMPLAINT BASED:

Fumiko can engage the City with proof of her occupancy of the SRO room to check her rent vs. rent information collected



Proposed Implementation Plan

- Staffing & Cost
 - 3 additional staff required
 - Annual Budget: \$500K
- Monitoring
 - Annual rent roll collection from landlords (Jan 31st)
- Compliance Framework
 - Proactively through a regular review of rent rolls; and
 - Reactively through complaints from tenants and/or advocates
- Education
 - Education and proactive communication with owners, tenants, and tenant advocacy groups
- Enforcement pathways
 - Education escalating to prosecution in Provincial Court if compliance not forthcoming
 - Enforcement may include a ticket fine of \$1,000 per day per violation or prosecution in Provincial Court (penalty of up to \$10,000 per offence upon conviction)

Proposed Implementation Plan

- When will by-laws come into effect?
 - Staff requesting \$500,000 in 2022 Operating Budget to implement vacancy control
 - Approval of by-law amendments is subject to approval of the 2022 Budget (December 1 Special Council)
 - By-laws would come effect immediately after 2022 Budget approval due to risk of evictions if implementation is delayed.

Summary

- Report responds to Council direction to explore vacancy control options to deter speculation and loss of affordability in private SROs.
- Proposed model:
 - restricts allowable rent increases between tenancies to inflation levels, with an accommodation for more affordable rooms.
 - provides an additional allowance to increase rents to recover some critical capital investments and extraordinary operating costs.
- Vacancy Control on its own is not a solution to all the issues associated with the SRO stock.
- The City continues to work with senior levels of government towards replacing all SROs with self-contained social housing and providing supports to owners.



Questions?