

REPORT  
Regular Council Meeting  
1989 June 26

THE CORPORATION OF THE DISTRICT OF BURNABY

HOUSING COMMITTEE

HIS WORSHIP, THE MAYOR  
AND ALDERMEN

Madam/Gentlemen:

REPORT OF THE HOUSING COMMITTEE  
Re: Supply of Rental Housing and Rental Increases

RECOMMENDATION:

1. THAT Council pursue the actions contained in Section 6.0 of the attached report.

R E P O R T

At its meeting of 1989 February 14 the Housing Committee requested staff prepare a report on rent increases and the supply of rental accommodation. This request arose out of discussions concerning Metrotown. Further, on 1989 May 29 Council referred to the Housing Committee a letter from Mrs. Elsie Gwin regarding rent increases at Brentwood Tower.

On 1989 June 21 the Housing Committee received the attached report from the Director Planning and Building Inspection and adopted the recommendation contained therein.

The Housing Committee consider the actions outlined in Section 6.0 of the report worthy of Council's consideration and recommend that they be pursued.

Respectfully submitted:

Alderman F.G. Randall  
Chairman,

Alderman R.G. Begin  
Member

Alderman L.A. Rankin  
Member

INTERNAL DISTRIBUTION:

: AGENDA - 1989 JUNE 26  
: COPY - MUNICIPAL MANAGER  
- DIRECTOR PLANNING & BUILDING INSPECTION  
- DIRECTOR ADMINISTRATIVE & COMMUNITY SERVICES  
- MUNICIPAL SOLICITOR

TO: HOUSING COMMITTEE 1989 June 14

FROM: DIRECTOR PLANNING & BUILDING INSPECTION Our File: 12.300

SUBJECT: SUPPLY OF RENTAL HOUSING AND RENTAL INCREASES

PURPOSE: To discuss various alternatives to deal with the issue of the supply of rental housing and rent increases.

-----

RECOMMENDATION:

1. THAT the Housing Committee request that Council pursue the actions contained in Section 6.0 of this report.

1.0 BACKGROUND

At its meeting of February 14, 1989, the Housing Committee dealt with a report about rent increases in rental accommodation located in Metrotown area. Arising out of the discussion of this report the following motion was introduced and carried:

"THAT staff prepare a position paper providing alternatives to deal with rent increases and supply of rental accommodation".

This report responds to this request.

2.0 AN INTRODUCTION TO RENTAL HOUSING MARKETS

Before discussing the merits of various alternatives to deal with the rental housing market situation, it is useful to provide some background about the housing rental market in Canada in general, and Burnaby in particular.

In Canada, housing markets have been experiencing difficulties since the mid-1970's, characterised by low vacancy rates and limited increase in supply. This is particularly true of urban areas in Canada.

Since the early 1970's various rental housing stimulation programs have been initiated by the federal government. The programs included the Multiple Unit Residential Building (MURB) tax measure (1974-1975) (1980-1981), the Assisted Rental Program (ARP)(1975-1978), and the Canada Rental Supply Plan (CRSP)(1981-1983).

After the termination of these programs, the development of purpose built rental housing slowed to a trickle. Table 6 shows the number of multiple family starts in urban B.C. by intended market since 1980. Of note is the continual increase in condominium starts coupled with the decline of rental starts.

This period has been characterised as one of excess demand for rental accommodation, where supply of rental housing has not been able to keep up with the need for it. In essence, the inability for the housing market to respond to this increasing demand was due to the large gap between the rents that people were willing, or able, to pay (the market rent) and the rents that were necessary to make it feasible to invest in rental housing (the economic rent).

When rent levels approach the monthly mortgage payments of ownership housing, tenants with some savings will choose the ownership option. Renters with lower incomes have no choice, and cannot afford to pay the higher rents. The private rental market, therefore, is unable to respond to the need of renters who generally have lower median income levels than owners.

### 3.0 THE SOURCES OF RENTAL HOUSING MARKET PROBLEMS

There is no agreement over the cause of problems in the rental market, but the following have been identified as factors:

- high interest rates and inflation in the late 1970s and early 1980s.
- introduction of condominium ownership; condominium investors are able to pay more for the limited number of multiple family building sites than rental investors because condominium buyers are able and willing to pay more than renters; condominium investors are able to obtain more favourable financing than rental investors.
- changes to the treatment of rental housing in terms of income tax in 1972 whereby capital cost allowances were no longer permitted for depreciable rental properties.
- changing demographics; rental housing investors responded to a perception that the demand for rental housing would decline as the baby boomers entered the family formation stage and moved into ownership housing.
- introduction of rent controls which, in theory, discouraged investment in rental housing.
- reduced ability for people to pay higher rents; home ownership has been 'creaming off' higher income people.

### 4.0 RENTAL HOUSING TRENDS IN BURNABY

A statistical summary of rental housing trends in Burnaby is included in Appendix 1. According to the 1986 Census data, 48 percent of the 58,300 dwelling units in Burnaby are rented. This data may underestimate the number of actual renters, since the number of households in secondary suites considered in the Census is unknown.

The summary also indicates the low vacancy rates in rental accommodation experienced since 1986 as well as the virtual absence of the development of private rental housing since 1985. It should be noted that a portion of housing developed as condominium tenure is often rented out, generally estimated at 25 percent. However, this type of arrangement is considered as not secure for renters as the units may be sold or resold at any time.

### 5.0 RESPONSES TO RENTAL HOUSING PROBLEMS

#### 5.1 Rental Supply Programs

As noted previously, there have been many rental construction programs, most offered by the Federal Government. Many of these programs were designed with the additional objective of creating employment. There is no doubt that these programs stimulated rental construction, albeit at a high cost. Most of the units constructed under these programs were registered as condominiums at time of construction. Many units have been resold, often disrupting tenancies, and removing units from the long term supply of rental housing. In essence, the rental supply programs provide short term solutions to the longer term problem of rental supply.

In the recent Provincial budget speech, the Province announced a number of housing initiatives designed to stimulate the construction of rental housing. These programs included use of Crown Land for construction of rental housing, providing incentives to municipalities and interest rate writedowns for developers.

The details of the Interest Assistance Program for Rental Housing have recently been released. The program will offer a maximum write-down of 3 percent in the interest rate for construction of rental housing. Rental projects will be selected through a proposal call process (due to commence on 16 June) that is expected to be concluded near the end of July. Proposals will be evaluated on the basis of criteria relating to affordability of rents, how long the project will remain as rental tenure, location, quality of construction, and subsidy required. It will be possible for developers to submit projects that are strata-titled initially, with the units being rented for a specified period of time. It is anticipated that the first proposal call will request proposals for 2000 units, and a second proposal call will be held later in the year, probably in tandem with the Crown Land Rental Program.

The City of Vancouver is intending to use the Provincial Interest Assistance Program for their own Rental Housing program that will encourage the development of rental housing by the private sector on City owned lands. The City will offer 60 year leases to assist the development of about 2000 units, with about one quarter of the units to be constructed this year.

The details of the other programs mentioned in the Provincial Budget Speech have not been announced, so their suitability to Burnaby is unknown. Staff at B.C. Housing Management Commission anticipate that the Crown Land Program will be announced early autumn.

## 5.2 Other Factors Affecting Supply of Rental Housing

There are a number of other factors that can affect supply of rental housing. The following are factors that are influenced by local government:

### 5.2.1 Supply of land

Obviously, construction of rental housing requires a supply of appropriately designated land. In Burnaby, a significant amount of land is designated for multi-family development in apartment areas. Staff continually monitor the apartment area development plans to ensure that the of the supply of land appropriate for apartment development remains adequate.

Local governments however, are unable to ensure that rental housing is built in the apartment areas. Since 1985, all multi-family units have been condominium, or non-profit rental and cooperative. Approval of the Municipality is not required for registration of con-

dominium subdivision plans for new buildings or unoccupied buildings. This issue was a subject of numerous resolutions to the UBCM sponsored by Burnaby that requested that the Provincial Government amend the Condominium Act so that the municipal approval must be granted to register a condominium subdivision plan in the Land Title Office. It is our understanding that the Provincial Government is actively pursuing this issue.

Developers of housing are currently putting forth the position that rental housing could be developed by the private sector if they received density bonuses, or if they were permitted to develop on underutilized land such as industrial land. In response, the Planning & Building Inspection Department staff note that the existing 13 apartment areas were carefully planned to ensure coordination with other influences such as transportation, support services and public facilities. Developing multi-family housing in isolation of adequate support services and facilities would be contrary to the policies of the Official Community Plan and of the Apartment area plans. In addition densities in the designated apartment areas reflect the ability of services to accommodate the proposed housing as well as compatibility with other land uses.

As noted previously, the City of Vancouver is using city-owned land to encourage the development of rental housing through offering 60 year leases and holding 25 percent interest in a private-public company that would finance the construction of the developments. This approach is unlikely to be appropriate for Burnaby due to a very limited supply of sites owned by the Municipality that are suitable for multi-family housing. With few sites, the need for provision of affordable housing is probably better served in the short and long term through holding these sites for non-market housing.

#### 5.2.2 Preservation of the Existing Housing Stock

Probably the largest portion of the affordable housing stock for now and into the future is that housing that already exists. Therefore it is important that this stock be preserved from unnecessary loss. Loss can occur from demolition, conversion to other uses and conversion to condominium ownership.

Conversion of existing buildings from rental tenure to condominium ownership requires the approval of local government. Since 1974 Burnaby has not approved any conversions, so loss of rental stock through this method does not occur. The greatest threat to the existing rental housing stock appears to be in the Metrotown area, where older rental accommodation could in the future be at risk by its replacement by larger luxury condominiums. This issue will be explored in greater detail in the Social Housing in Metrotown report.

### 5.2.3 Non-Market Housing

Burnaby's supply of social housing, while not part of the private rental stock, provides a supply of affordable, secure housing that will be available in the long term to those who cannot afford to buy their own home. Municipal initiatives to encourage the development of social housing such as leasing municipal land to non-profit societies and co-operative housing groups (such as what is occurring in the Cariboo Heights area) will help increase this supply. The Planning Department is currently working towards the preparation of a policy proposal dealing with land acquisition/disposition for non-market housing.

Unfortunately, it is becoming increasingly difficult to meet the terms of the senior governments' social housing programs and develop non-market housing in Burnaby without assistance from the Municipality or other public jurisdictions. This is because the Maximum Unit Prices established for units constructed under the programs do not adequately reflect land values in the inner suburban municipalities.

In addition, funding for the social housing programs, particularly the Federal Co-operative Housing Program has not kept pace with the real costs of land and construction. Therefore fewer and fewer units are constructed each year.

Considering the inability of the private market to develop rental housing, there may be merit in requesting the senior governments to explore alternative non-market housing options that are targeted at those that are unable to buy their own homes but are not considered the 'core needy'. Such options may not require as large subsidies as current social housing programs; indeed government assistance may comprise of loan guarantees, funding pilot projects or otherwise legitimizing the new housing options. These housing options would add to the supply of moderately priced housing in the longer term.

An example of an alternative non-market housing option is the non-profit equity co-op. With this option, members buy shares in the housing co-operative that give them right of occupancy, but do not increase with value with the rising housing market. In essence, members trade off their ability to achieve capital gains on the increased value of their unit for obtaining secure, affordable housing.

### 5.2.4 Secondary Suites

Secondary suites also contribute to the supply of affordable rental housing. The number and quality of the suites included in this category is unknown. Since the large majority of these suites are not regulated or inspected, they very often do not meet minimal standards of safety.

### 5.3 Rent Regulation

Some Burnaby tenants are facing inordinate increases in their rents. This has led to a call to a return to some form of rent regulation.

Rent regulation generally falls into two categories, rent control and rent review. Rent control establishes absolute limits on rent levels and/or rent increases, while rent review involves a third party review of rents that rise above a given level. Rent controls usually involve a rigid maximum rental increase, while rent review involves an arbitration process related to excessive rent increases.

In theory, any control on rent increases upsets the equilibrium of the rental market. In the short term, the rent controls result in increases in demand for housing which landlords are unable to supply at the artificially low rents, resulting in a higher demand for housing when demand already exceeds supply. In the longer term, landlords and investors will regard rental housing as being an unattractive investment, discouraging both new construction and maintenance of existing buildings. Rent controls are also said to represent a 'blind subsidy' from landlords to tenants with the implicit assumption that landlords can afford to give, and tenants need, the subsidy.

In a rental housing market without rent controls, rents would rise to make the development of rental accommodation viable. It is interesting to note that while rent controls were abolished in B.C. in 1983, the rental market has not reached an equilibrium where rents have risen high enough so that new construction is feasible. Some argue that there has been rental market failure in that there are no normal market dynamics to distort or inhibit any longer.

Under conditions where the rental market is imperfect, there are three rationales for rent regulation:

1. Security of tenure; at times of low vacancy rates consumers are protected.
2. Maintenance of the affordability of the existing housing stock; decreases occurrence of sudden rent increases in times of low vacancy rates.
3. Mediation of conflicts relating to rental tenure; rent regulation establishes a balanced forum for mediation and negotiation for landlords and tenants.

### 6.0 POSSIBLE ACTIONS

Considering the above discussion, there are a number of actions the Housing Committee could recommend that Council pursue:

Recommend that the Provincial Government reinstate a rent review process with the power to review and roll back excessive rent increases.

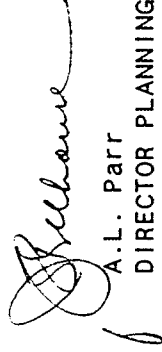
Housing Committee  
re: Supply of Rental Housing and Rental Increases  
1989 June 14 Page 7

Request that the senior governments review the terms of their social housing programs, such as the Maximum Unit Price, to ensure that the programs are applicable to larger urban areas to address the shortage of truly affordable housing in those areas.

Encourage senior governments to expand social housing programs, and to direct the units to those areas that are experiencing the greatest housing pressures.

Encourage senior governments to lease crown land designated for residential purposes to assist in the development of social housing or rental accommodation.

Encourage senior governments to explore methods to assist alternative non-market housing options that may assist those who are not the 'core needy' but cannot afford to buy their own house. Programs aimed at encouraging the development of private rental housing should be applicable to the development of non-market housing.



A.L. Parr  
DIRECTOR PLANNING &  
BUILDING INSPECTION

BG/mcb



# APPENDIX 1

## RENTAL HOUSING DATA SHEET

TABLE 1  
BURNABY MULTIPLE FAMILY STARTS BY YEAR

	1982	1983	1984	1985	1986	1987	1988
Private Rental	684	163	420	126	--	--	--
Non-Profit Rental	--	57	--	59	--	51	37
Co-operative	181	103	94	189	29	146	65
Condominium	18	600	202	170	305	727	324
<b>Total</b>	<b>883</b>	<b>923</b>	<b>716</b>	<b>544</b>	<b>334</b>	<b>924</b>	<b>426</b>

CMHC - Vancouver Branch

TABLE 2  
NUMBER OF DWELLINGS IN BURNABY - 1986

Owned	30,090	52%
Rental	28,210	48%
<b>Total</b>	<b>58,300</b>	<b>100%</b>

Statistics Canada

TABLE 3

## BURNABY VACANCY RATES 1986-1988

UNIT PRICE	Apr 86	Oct 86	Apr 87	Oct 87	Apr 88	Oct 88	Apr 89
Bachelor	0.5%	0.2	0.9	0.5	1.7	0.3	0.3
1 Bedroom	0.6	0.4	1.6	0.6	0.9	0.5	0.8
2 Bedroom	1.3	0.7	2.6	0.5	1.3	0.5	0.5
3 Bedroom	2.8	3.1	3.6	1.2	1.7	1.0	1.0
Overall	1.0	0.7	2.1	0.6	1.1	0.5	0.7

CMHC - Vancouver Branch

TABLE 4

## BURNABY RENTS 1987-1988

UNIT SIZE	Oct 87	Apr 88	Oct 88	Apr 89	% Increase Apr 88-89
Bachelor	\$348	\$364	\$373	\$420	15.0%
1 Bedroom	\$424	\$454	\$470	\$509	12.0%
2 Bedroom	\$548	\$602	\$627	\$656	9.0%
3 Bedroom	\$610	\$637	\$656	\$709	11.0%

CMHC - Vancouver Branch

TABLE 5

## RENTAL STARTS AS PERCENTAGE OF TOTAL STARTS

Year	Rental Starts	Total Starts	Percentage
1982	684	992	69%
1983	163	1425	38%
1984	420	1033	41%
1985	126	845	15%
1986	-	756	0%
1987	-	1336	0%
1988	-	1089	0%

CMHC - BC and Yukon Region

TABLE 6

## APARTMENT AND ROW STARTS BY INTENDED MARKET IN URBAN BRITISH COLUMBIA

PERIOD	RENTAL	CONDOMINIUM	CO-OP	UNKNOWN	TOTAL
1980	9,314	2,237	1,102	250	12,903
1981	12,664	3,797	802	443	17,706
1982	5,954	1,971	1,611	1,840	11,376
1983	3,750	1,352	886	645	6,633
1984	3,379	1,655	1,284	104	6,422
1985	1,953	3,009	1,064	69	6,095
1986	585	5,400	1,076	69	7,110
1987	2,677	7,625	1,083	89	11,474
1988	2,257	7,451	747	470	10,925

Notes: Rental includes non-profit units CMHC - BC and Yukon Region

