Municipalities push developers to build rental housing stock

Land and material costs deter builders from apartment development

Andrew Petrozzi

A dearth of rental property developments is forcing Lower Mainland municipalities to include their construction as part of rezoning decisions and property agreements with developers.

Skyrocketing construction and land costs are deterring developers from building new rental stock.

But with Vancouver's vacancy rate hovering around 1.4 per cent at the end of 2005, according to **Canada Mortgage and Housing Corp.**, and continued in-migration to B.C., the pressure on existing rental properties is growing.

In June, the City of North Vancouver finalized a land exchange agreement with **Hollyburn Properties** that swapped city-owned lots at the southeast corner of Chesterfield and West 14th Street for the lawn area in front of the Marlborough Towers parkade on West 14th Street.

Under the agreement's terms, the company agreed to build a 110-unit rental tower on the land formerly owned by the city.

"Developers are not finding it easy to do rental," said City of North Vancouver mayor **Darrell Mussatto**. "The quick money, the quick profit is in strata. We want to encourage as much as possible companies taking a longer term view and providing rental accommodation.

"We as a council look more kindly on those types of proposals."

The Hollyburn agreement, he said, was one way to achieve the city's goal of diversifying its housing stock to include more rental units.

North Vancouver District and Vancouver City have also made replenishing rental stock demolished for new condos and town homes a condition of rezoning applications and issuing building permits.

Vancouver made the construction of 100 new rental units a condition for development of **Polygon**'s Arbutus Gardens project.

The compromise helps developers win project approval, but it's also one way to ensure that some new rental stock is built.

Macdonald Commercial realtor David Goodman: "the developer builds rental at cost and probably ends up almost losing money because it doesn't work"

It's the best of a very difficult situation, said **David Goodman,** a realtor with **Macdonald Commercial** specializing in apartment buildings.

"The developer builds rental at cost and probably ends up almost losing money because it doesn't work.

"On the other side of the coin, if he gets sufficient density, what he gives on one side hopefully he can at least break even on the other."

New condominium units returning to the market as rentals have helped Vancouver avoid a worse rental market crunch, said Goodman, who estimates that roughly 30 to 40 per cent of condos are used as rental properties.

As part of a crackdown on tax shelters in the early 1970s, the federal government eliminated tax advantages that encouraged development of rental properties.

"When you look at the 3,000 apartment buildings in the Lower Mainland, 95 per cent of them were built before 1974," Goodman said. "There are no incentives for anyone to build rentals."

> **"The quick money, the quick profit is in strata"**
>
> *– Darrell Mussatto, mayor, City of North Vancouver*

In an interview with *BIV* earlier this year, **Concert Properties**' CEO and president **David Podmore** said the economics of building rental properties in the region "don't work here at the moment because of our high land and construction costs."

But he added that Concert's Collingwood Village development had included rental and that his company will "if we reach a point in the marketplace where construction costs level, where maybe land costs level out or come down … resume and be very active in building rental."

The market for buying rental buildings remains strong as demand and rents increase, but that comes primarily from the resale and overhaul of older buildings.

Goodman said that, if the federal government won't revisit the issue, incentives to build new rental units need to come from municipalities. ◆

apetrozzi@biv.com

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Compiled by Bob Mackin