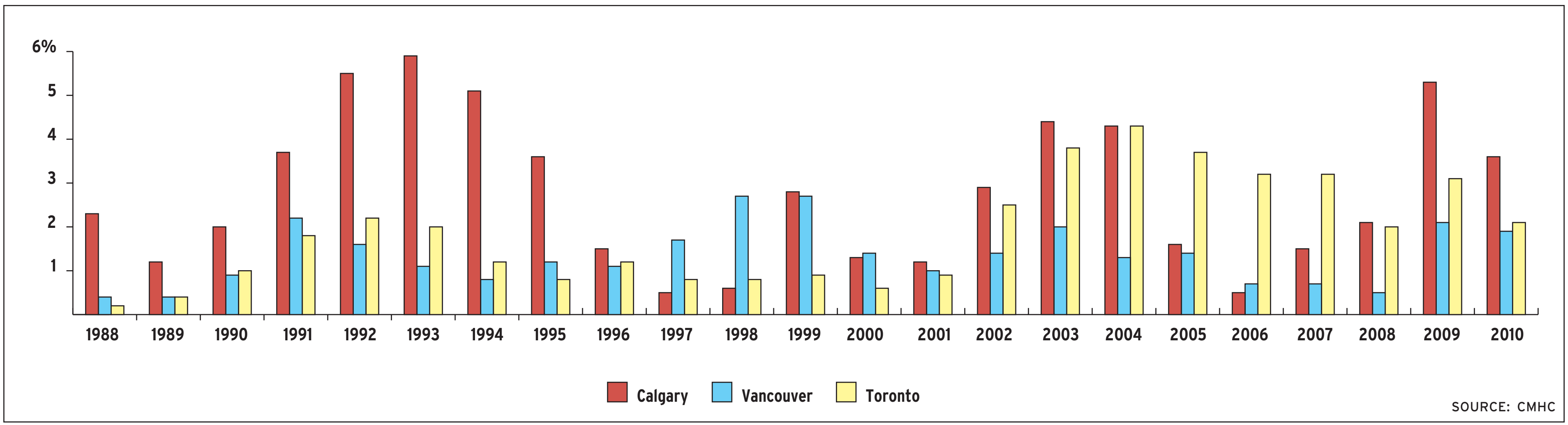
BIV FULL DISCLOSURE

Apartment blocked



Vacancy rate percentage of all types of privately built apartments with three units or more

>Replacing Vancouver's aging rental stock to maintain affordable housing options is going to be financially painful and politically distasteful

>Unless neighbourhoods accept higher building densities, there will be no new development and homeowner taxes will continue to climb

By Peter Mitham

January 2007: Vancouver's condo market was approaching fresh peaks, and aging apartment blocks in the Vancouver-Fairview riding of rookie MLA **Gregor Robertson** were slated for redevelopment as condos commanded between $525 and $575 a square foot. In the previous 12 months, **Polygon Homes Ltd.** and **Delta Land Development Ltd.** had begun building or marketing new projects, and Robertson's office began fielding calls from local residents about the perceived threat to the local rental stock.

"When those [the original] apartment buildings were demolished, that's when we started to get more calls and more people stopping by," he told the *Georgia Straight* at the time.

Conventional wisdom held that investors would fill the gap in rental stock created by the demolition of rental apartments. But the loss of rental units was considered serious enough that the city later that year imposed a demolition moratorium on apartment units in RM-3 zones like South Granville, home to most of the city's walk-up apartments.

Any rental units demolished had to be replaced one-for-one in new developments.

Meanwhile, the question of affordable and adequate housing became one of the key horses in Robertson's stable. He rode it into the 2008 mayoral campaign, declaring war on homelessness and wooing voters with promises of policies that would support and encourage rental housing.

But the most successful initiatives have been in the area of homelessness, also a concern of policy-makers in Victoria.

Building rental units has been harder to achieve, because it requires higher neighbourhood density. Yet without density, it's impossible to increase the number of units Vancouver can offer potential residents. And with supply lagging behind demand, up go rents and prices. Vancouver now boasts the highest multi-family rents in Canada, with the **Canada Mortgage and Housing Corp.** pegging one-bedroom rents at $934 a month and two-bedroom units at $1,181 a month.

Rental renewal demands higher density

"There has unfortunately been no new move afoot to rationalize this need to densify in RM-3 areas. Virtually none," said **David Goodman**, principal of **HQ Real Estate Services Inc.** and a veteran apartment broker critical of the city's handling of RM-3 zoning.

"The present council is committed to maintaining the status quo."

It's not for want of opposition, with Goodman among the proponents of change.

NPA mayoral candidate **Suzanne Anton** told the annual convention of the **BC Apartment Owners and Managers Association** last month that she would end the moratorium on apartment demolitions in RM-3 zones and permit densification that allows rentals and condos.

But allowing condo construction raises the spectre that rentals will eventually be squeezed out.

Logic dictates that condos are so lucrative relative to rental apartments that developers wouldn't be able to help themselves – even though condos are a classic ingredient of mixed-use developments across the city, from **Woodward's** to **PCI Group**'s Crossroads project at Broadway and Cambie, and into suburbia. Yet without condos, or some other means of being repaid for their investment, a developer can't afford to build rental units because rents, while among the highest in Canada, are out of line with Vancouver land costs. **The average age of the city's rental stock is about 58 years old, but rents don't reflect current land economics.**

"A developer's going to lose millions of dollars if he builds strictly rentals, because you've got to pay so much for the land," Goodman said. "We've got the best developers in Canada right here. They could do anything. But they still haven't found the magic bullet: How do you build rentals and not lose your shirt?"

Cost is a familiar question to **Michael Geller**, president of the Vancouver-based **Geller Group**, which consults on real estate projects and is a small-scale developer. Geller was previously CEO of **SFU Community Foundation**'s UniverCity project on Burnaby Mountain, where incorporating rental units was an important goal.

"It's hard to cover off the cost of building new rental accommodation through market rents, especially if you have to pay something for land," he said. "Some people can do it if they have a longer-term horizon."

To get around the question of land costs, Geller sees opportunities in projects that effectively retrofit existing buildings with rental units through renovations or additions, or new kinds of construction that maximize densities. One of the Geller Group's ventures is **Laneway Cottages Inc.**, which aims to develop laneway homes.

Boosting densities doesn't necessarily mean adding Godzilla-like towers that make neighbourhoods feel as if they're under attack. The legalization of secondary suites and laneway housing have both contributed to higher city densities than existed five or 10 years ago.

> **"A developer's going to lose millions of dollars if he builds strictly rentals, because you've got to pay so much for the land"**
>
> – David Goodman, principal, HQ Real Estate Services Inc.

"We are generally increasing densities as time goes by," Geller said. "What was considered the maximum density in the past may well be considered a more modest density today."

The densities proposed along the Cambie Street corridor, where the city hopes to ensure 20% of new units are rentals, "would have been unheard of 10 or 20 years ago."

"One way or another higher density housing is coming," he said. "How can you ensure some of it is rental?"

Advocating rental incentive initiatives

This is where incentives play a role. The linchpin of the city strategy to address the aging stock of rentals in Vancouver is the STIR (short-term incentives for rental) housing program, a two and a half year initiative launched in 2009. Potential incentives included increased density, reduced parking requirements and the waiving of development cost levies on rental units.

"Without the density bonuses, the STIR program is just not possible, because it's a money-losing proposition for any developer to build rental units in Vancouver," said **Will Lin**, president of **Rize Alliance Properties Ltd.**

But after considering STIR for On Que, a 48-unit project on Broadway at Quebec Street, Lin opted against participating because it was difficult to justify increased density on a site that was already ready for development (it was previously owned by **Holborn Properties Ltd.**), and STIR would have placed a restrictive covenant on participating units by designating them as rental. It made more sense to develop the project as a condo, hold back 13 units and rent them until market conditions allowed – not unlike what the city has done with Olympic Village units.

"The rental part of the whole equation is just a temporary measure to be able to hang on to these units financially," Lin said, noting that the return on rental units relative to their market value is a "ridiculously low" 3% to 4%.

But rental units are part of the equation at the controversial tower Rize Alliance plans for Kingsway and East 10th Avenue, where 15 are designated as part of the project's community amenity contribution (CAC).

A similar arrangement is how

BIV FULL DISCLOSURE

the city's plans to provide purpose-built rentals along Cambie Street.

The project has yet to receive final approval, however, and community opposition to its height means it could include fewer units. Opposition to the original plans for a 32-storey tower has reduced its height to 19 storeys, in turn cutting rental units to 15 from 40.

Greater density would have allowed a larger contribution of units to the city's designated rental stock, but community opposition to other aspects of the project nixed it.

However, as Lin pointed out, the rental component wasn't a priority for residents. Compared with other aspects of the project, it attracted little attention – positive or negative. He attributed that to respondents being property owners in the neighbourhood rather than tenants.

Rental housing simply isn't their concern.

Status quo not sustainable

Gary Pooni, president of **Brook Pooni Associates**, believes rental housing should be everyone's concern because of its close connection to affordable housing.

The high cost of home ownership in Vancouver, the country's least affordable city for home buyers according to regular reports from **RBC Economics**, means people remain renters longer in Vancouver than they would elsewhere.

"There's a number of young professionals who are probably renting into their mid-30s when they've been in their respective careers for maybe 10-plus years," Pooni said. "That puts an additional strain on the rental housing supply."

Building more affordable units comes back to the question of density. Per-unit costs drop when developers can do more with a site, and developing more units helps keep supply in tune with demand so prices remain moderate.

And government has to lead the charge.

"Where neighbourhoods are reluctant to accept change, it's going to take strong leadership from our municipalities – not just Vancouver – to approve some of these projects and ensure there's a good level of density that's attained on some of these projects," Pooni said.

It's a hard message, one less palatable to voters than promises of housing that's affordable. But ultimately, someone has to pay for affordability – whether it's through CACs, denser neighbourhoods or lower margins on developments.

Construction rental starts in Vancouver stagnated during the condo boom

SOURCE: CANADA MORTGAGE AND HOUSING CORP.

The alternative may be far worse, not just for tenants but for property owners.

Bing Thom, principal of **Bing Thom Architects**, believes densification of existing rental properties in the RM-3 zones and even single-family neighbourhoods is essential if housing – and property taxes – are to remain affordable.

"People on the West Side, the single-family area, [must be] told, 'If we don't create more density in your neighbourhood, your taxes are going to go up three to four times.' Because that's what's going to happen – the tax base is gone in the city," he said.

"But nobody has said that; nobody has come out and said, 'It's either that or status quo – and [status quo] is not sustainable." ■

pmitham@telus.net

It's buyer beware along Cambie corridor

Real estate agents and planners fear uninformed investors are overpaying for property because buyers don't realize how much they'll have to pay the city for future development on rezoned land

By Glen Korstrom

Vancouver realtor **Sydney Deng** sold 10 adjacent homes last month in the 5100 block of Cambie Street, near 34th Avenue, for about $3.4 million each – triple their assessed value.

Deng told *Business in Vancouver* on November 1 that she had closed the sales but she would not reveal who bought the homes nor whether they were aware of how the city extracts community amenity contributions (CACs) during rezoning and development cost levies (DCLs) on development approvals.

That could mean that no future redevelopment is viable, **Rennie Marketing Systems** president **Bob Rennie** told *BIV*.

"Properties on Cambie are selling at multiples that are pioneering and a bit unprecedented," said Rennie, who is marketing the **PCI Developments Corp.**'s Marine Gateway mixed-use mega-project near Cambie Street and Marine Drive.

"Everybody should be doing their homework and the city should be declaring the rules as much as possible so the developer knows what density can be achieved," he said. "Then it's buyer-beware."

City council approved a plan in May to raise height limits to between six and eight storeys along the corridor with taller, denser complexes up to 12-storeys tall near station areas. No properties have been rezoned on the corridor, except for the stretch near PCI's development. But homeowners have started to sell their properties as though their land has already been rezoned.

"We're still seeing a great number of proper real estate deals, too," said **City of Vancouver** planning director **Brent Toderian**.

Thus far, developers have made six development or rezoning applications along the corridor and 14 inquiries into potential applications. All of the potential projects conform to the broad strokes of the city's plan and are based on what Toderian calls "proper assumptions" of how the city will exact CACs and DCLs.

"There is a consistency to how [CACs and DCLs] are calculated," Toderian said, "so it's not just by negotiation and not just by what a developer is willing to offer."

Vancouver has charged developers CACs and DCLs for decades. Critics, such as former councillor **Peter Ladner** (*see At Large, page 28*) call the system "mysterious, time-consuming and unpredictable," but Toderian bristles at that description.

Toderian admits that there's no set percentage of a project's value that the city will expect to be voluntarily provided in the form of social housing, day care or heritage restoration.

see Zoning, 6