

# DOCKSIDE **GREEN**

## **HOUSING AFFORDABILITY STRATEGY**

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**Vancity**

**Windmill**

# Dockside Green Affordability Strategy

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# **I. Executive Summary**

## **Background**

In September of 2005, the City of Victoria and Dockside Green Ltd. signed the Master Development Agreement (MDA) that sets forth the expectations and deliverables by both parties regarding the portion of the Dockside Green development referred to as the "City Lands". Section 9 of this MDA concerns itself with the matter of Affordable Housing.

During the early part of 2006, a Dockside Housing Advisory Committee was formed, as set out in the MDA, to advise the Dockside Green developer on housing affordability. The first meeting of this Committee was held in early March 2006. During this relatively short time frame, the committee met monthly and considered various options and mechanisms to achieve housing affordability at Dockside. This document is a result of the research and collaboration of many individuals, organizations and the Committee members.

## **Principles**

The Dockside Housing Advisory Committee provided the following principals that guided this strategy:

1. Every effort should be made to apply the Affordable Housing Contribution to the development of affordable housing units on the Dockside Lands, as opposed to applying it elsewhere.
2. The suite mix of the affordable housing units on the Dockside Lands should favour provision of as many large suites as possible (i.e. two bedroom units).
3. The Affordable Housing Contribution of \$3 million by the developer should be applied to making units affordable to those households at the lower end of the Affordable Housing range (i.e. \$35,000 to \$47,000).
4. The team should initiate the selection process for partner(s) to manage the covenant on the Market Affordable Units and to purchase the Non-Market Units. Special consideration will be given to partners that bring equity to the table. Further research will be undertaken on ownership and tenure options that may allow additional investment funds to come to the fore.

This strategy addresses the MDA commitments of both parties to achieve housing affordability at Dockside Green and also lays out the challenges inherent in today's construction climate. It focuses on those households in the lower ranges of our income targets as well as larger families.

## Challenges

With construction costs rising at an average of 1 percent to 2 percent per month, the challenge of providing and maintaining housing affordability in today's market place is indeed difficult. Especially challenging for Dockside Green is its desire to build accommodations for families within the income target ranges of \$30,000 to \$60,000 as set out in the MDA. This target population of low to medium income earners fall between the cracks in the continuum of housing affordability. Governments and non-profit housing providers generally concentrate their efforts and resources on those families in "core housing need". For Victoria, as the Regional Housing Affordability Strategy for the Capital Regional District states, "Some 28% of renter households (13,080) are defined by CMHC as being in "core housing need" - meaning they do not live in, and are unable to access, housing which is affordable, in adequate condition and of suitable size". The partners to the MDA never envisioned Dockside Green addressing "core housing needs".

There is no single or simple solution to the issues of housing affordability. What the partners have come to recognise and understand is that it takes collaboration and innovative partnerships to achieve housing affordability at Dockside Green.

## Recommendations

### Non-Market (Rental)

The Developer has laid the foundation to make a significant contribution to Non-Market housing at Dockside Green. This includes identification of a specific building site in the heart of the future Dockside Green community, and allocation of approximately \$2.2 million (adjusted over time) to subsidize the sale price of non-market units. Clearly, in order to focus on family units and lower incomes, more resources and partners need to be brought into the program in order to make Non-Market housing that is serving the target income group a reality at Dockside Green.

**Recommendation NM1: Engage an NPO to purchase the Non-Market units.**

**Recommendation NM2: Use the City of Victoria's Affordability Contribution, beyond Phase 1 and 2, and the building of the Non-Market housing as a contribution to the Affordable Housing Contribution Fund.**

**Recommendation NM3: Work with a Non-profit housing provider to engage BC Housing and other potential funders.**

**Recommendation NM4: Work with a Non-profit housing provider to monitor and identify opportunities arising from Provincial government housing policy changes in October 2006.**

**Recommendation NM5: Apply Alternative Transportation Strategies as agreed to in the Master Development Agreement to either Non-Market or Market Affordable units, to a maximum of 75 units.**

## Market Affordable (Ownership)

The Developer intends to allocate approximately \$800,000 from its Affordable Housing Contribution to create 26 units of Market Affordable housing in Phases 1 and 2 of Dockside Green. Beyond Phase 2, however, no additional Market Affordable housing is envisioned unless construction costs drop dramatically or additional subsidy is provided from a third party.

**Recommendation MA1: Link administration of the Market Affordable restrictive covenant with the purchase of Non-Market units by a non-profit housing provider.**

**Recommendation MA2: Continue parallel research on co-ownership.**

## Conclusion

As this strategy is implemented, 75 units of affordable housing will be provided at Dockside Green (approximately 10% of units). The strategy's primary goal is to meet the community's need for family sized units and units that are affordable to households in the \$35,000 to \$47,000 income range (in 2006 dollars) for non-market units and in the \$30,000 to \$60,000 income range (2006 Dollars) for market affordable units. 70% of the non-market units (rental) will be family units.

Furthermore, approximately 35% of the units will be integrated into market unit buildings and 65% delivered in stand alone buildings.

In addition, the developer will continue to build in accordance with the City's Adoptable Housing Guidelines.

## **Introduction**

The Dockside Green Affordability Strategy was developed in the summer of 2006 by the Developer and with the guidance of the Dockside Green Housing Advisory Committee. It is anticipated that this will be a living document, and will evolve as conversations, partnerships, and market dynamics develop and change.

The Developer is in agreement with the housing committee's guidance and recommendations, and will seek to implement this strategy immediately, starting with the nine Market Affordable units proposed for Phase 1 and the 17 Market Affordable units proposed for Phase 2.

This, in turn, requires prompt selection of an appropriate group to administer the covenants associated with these units so as not to impact presale and construction commencement of Phase 2. As such, selection of a partner to purchase the Non-Market housing and administer the covenant governing the Market Affordable housing is an immediate priority.

## **III. Terms of Reference**

### **1. Definition of "Affordable Housing"**

"**Affordable Housing**" is defined in the Master Development Agreement as

housing which costs (rent or mortgage plus taxes and including 10% down payment) 30% or less of a household's gross annual income, targeting households with an income of \$30,000 to \$60,000, as increased from time to time by the increase in the Consumer Price Index (All Items) for Greater Victoria from the date of this Agreement to the date when any relevant determination under the Affordable Housing provisions of this Agreement must be made. (MDA 1.1)

Dockside Green expects to provide affordable housing in two formats:

- a) **Non-Market (Rental)**, sold by the Developer "to one or more non-profit housing organisations (NPOs) to be held by them for rental to low-income persons (MDA 9.2(a)); and
- b) **Market Affordable (Ownership)**, in which the Developer agrees to market and sell the units at "the actual cost of the Unit (including land acquisition costs and hard and soft costs, as verified by a quantity surveyor) plus 13% profit" (MDA 9.3(b)).

These are elaborated below in Part III, Sections 1 and 2 respectively.

The developer has agreed to make a further commitment - not expressed in the MDA - that a certain number of the Market Affordable units<sup>1</sup> will be made available to participants in Vancity's Springboard Home Ownership Program. Springboard is a mortgage product that allows families currently renting in subsidized housing to make the switch to home ownership.

## 2. Contributions to Affordable Housing at Dockside Green

The Master Development Agreement states that the "Developer and the City acknowledge their *intention* to work together so that *up to 31%* of the residential units on the City Lands are developed as Affordable Housing" (MDA 9.1(b)). This is to be achieved by:

- a) the Developer providing a \$3 million Affordable Housing Contribution to subsidize the purchase price of certain units (MDA 9.2(b));<sup>2</sup>
- b) the Developer limiting its profit on 20% of the total residential units to 13% of total project costs (MDA 9.3(a)) and selling these units to individuals to whom the "Affordable Housing" definition would apply (MDA 9.3(c));
- c) the City of Victoria contributing 20% of the Building Permit fee from the entire site (approximately \$500,000 for the entire development); and
- d) either party pursuing government assistance (provincial or federal).

The Developer will consider the advice of the Dockside Housing Advisory Committee in allocating its \$3 million Affordable Housing Contribution pursuant to Clause 9.2 (f) of the MDA. This includes respecting the Committee's recommendation to allocate a portion of the Contribution to help to meet the needs of families with various levels of income and space requirements.

Indeed, in 2006, within the first year of the MDA being signed, approximately \$330,000 was allocated from the Affordable Housing Contribution (AHC) to subsidize the purchase price of nine Market Affordable units in Phase 1 and an additional \$470,000 allocation from the AHC will provide 17 Market Affordable units in Phase 2. These will result in a draw of \$800,000 from the AHC, leaving a total of \$2.2 million before adjustment.

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<sup>1</sup> Including four of the nine Market Affordable units being provided in Phase 1.

<sup>2</sup> This will be adjusted with inflation and changes in construction costs to a maximum of 7% per year throughout the development.

## **Additional Developer Contribution to Affordable Housing**

MDA 9.2(h) commits the Developer to providing a free initial car-share membership (maximum value of \$500), a bicycle (maximum value of \$200), and a bus pass subsidy of \$15/month for three years for up to 75 Non-Market units. This cost to the developer is *in addition to* the \$3 million fund.

The Developer is willing to make this subsidy available to all residents of units which are recipients of the AHC, whether Non-Market or Market Affordable, up to a maximum of 75 units.

### **3. Integration**

The Master Development Agreement states that “Non-market and market affordable housing units will be integrated in the Development in a manner that best supports a strong, inclusive community” (MDA 9.1a). No specific guidance is given as to whether market, Market Affordable, and Non-Market are best integrated at the *individual building level* (i.e. two or three tenure types represented within a building) or at the *site-wide level* (i.e. with whole buildings for each tenure type and no mixing of tenure types within buildings).

The Developer is interested in a mixture of these approaches. Specifically, Market Affordable units will be integrated with market units at the individual building level and Non-Market units will be integrated at the site-wide level in purpose-built facilities.

This approach is understood to be consistent with the views of the Dockside Housing Advisory Committee (DHAC). At its March 9, 2006 meeting, the committee observed that a stand alone project could meet the integration requirements provided that the Developer develops a clear communication plan for all stakeholders in the event that such a project is pursued.

### **4. Guidance of Dockside Housing Advisory Committee**

At its June 28, 2006 meeting, the Dockside Housing Advisory Committee recommended that the Dockside Affordability Strategy should be guided by the following priorities:

1. Every effort should be made to apply the Affordable Housing Contribution to the development of affordable housing units on the Dockside Lands, as opposed to applying it elsewhere.
2. The suite mix of the affordable housing units on the Dockside Lands should favour provision of as many large suites as possible (i.e. two bedroom units).

3. The AHC should be applied to making units affordable to those households at the lower end of the Affordable Housing range (i.e. \$35,000 to \$47,000).
4. The team should initiate the selection process for partner(s) to manage the covenant on the Market Affordable Units and to purchase the Non-Market Units. Special consideration will be given to partners that bring equity to the table. Further research will be undertaken on ownership and tenure options that may allow additional investment funds to come to the fore.

**The Developer and the DHAC recognise that there is a tension between striving to maximise the total number of units of affordable housing and the desire to meet the community's needs for both larger, family-oriented suites and for suites affordable to households at the lower end of the income range.**

**The above guidance indicates focusing the AHC investment in providing fewer Affordable Housing units that better meet the needs of the community. This guidance is reflected in this strategy.**

## **IV. Affordability Strategy**

### **1. Non-Market (Rental) Housing**

#### **1.1 Context**

Purpose-built non-market housing will be developed at sites 1H and 6D. As indicated in Appendix 1: Dockside Lands Location Plan, these adjacent sites are located in the heart of the Dockside Lands.

After completion, these buildings will be sold to a non-profit housing organisation (NPO) that will operate the site as a non-market housing facility.<sup>3</sup>

Timelines for development will be set out in collaboration with the NPO purchaser. Preliminary discussions with NPO candidates suggest an interest in initiating the development as soon as possible to protect against continued increases in construction costs. The Developer agrees in principal to move forward as quickly as possible with consideration to construction timing and sequencing of development.

The Developer will employ the following strategies to make the units affordable to NPOs: **cost reduction** (i.e. reducing development costs), and **capital subsidies** through the Affordable Housing Contribution. Ability of non-profit housing organisations to bring their own capital or **operating subsidies** to the project will be a key factor in their ability to acquire the project, as discussed below.

#### **1.2 Target market and suite mix**

The MDA does not present a definition of “family”<sup>4</sup> or bind the Developer to compliance with any affordable housing industry occupancy standards.<sup>5</sup> That being said, however, the Developer intends to work with non-market housing organisations to provide a unit mix that is complementary to their program

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<sup>3</sup> The Developer will entertain offers to purchase the sites undeveloped, but the current vision is to sell a fully built facility to the third party Non-Market housing provider.

<sup>4</sup> The definition of “family” used by BC Housing is “a minimum of two people, one of whom is dependent upon the other” (BC Housing, no date. Retrieved June 22, 2006 from [http://www.bchousing.org/resources/Applicant/how\\_to\\_apply\\_English.pdf](http://www.bchousing.org/resources/Applicant/how_to_apply_English.pdf)).

<sup>5</sup> BC Housing requires that all households receiving subsidy must have “suitable housing”, meaning that each adult or cohabiting adult couple has a bedroom (with the exception of individuals in a bachelor suite) and each child have a bedroom unless they are of the same sex, or of different sexes and under the age of five.

needs and thus attractive for them to purchase, while still adhering to the commitments in the MDA and guidance of the Dockside Housing Advisory Committee.

The combined size of sites 1H and 6D will be approximately 35,700 saleable square feet.<sup>6</sup> The Developer has created a preliminary site rendering<sup>7</sup> which provides 49 units at this location: 14 (29%) one bedroom and 35 (71%) two bedroom units, ranging in size from 500 to 880 square feet.

The Developer has been advised by the DHAC to maximise opportunities for lower income families, described as households of up to four persons with a gross annual income of \$35,000 to \$47,000. The needs of the NPO purchasers of the site - whose subsidy programs may be tied to a lower income range - may create downward pressure on these income targets.<sup>8</sup> That being said, discussions with some NPOs are supportive of these targets.

Ultimately, the target income level will be determined by the availability of additional equity contributions and subsidy and by the program needs of the NPO that purchases the facility. This is the subject of further discussion below.

### 1.3 Development costs

Pro forma analysis has been undertaken using wood-frame construction. This will allow development cost savings relative to the concrete construction employed elsewhere on the Dockside Lands.

Based upon the current design drawings, the estimated total cost in 2006 dollars - including hard construction costs, soft development costs, and land purchase costs - of these buildings is approximately \$309 per saleable square foot; with a mark-up of 13% for Developer's profit, this becomes approximately **\$350 per saleable square foot, or \$12.5 million**. This includes estimated hard construction costs (per buildable square foot<sup>9</sup>) of \$170/SF.<sup>10</sup>

The Developer will work closely with the NPO purchaser to take full advantage of additional development cost savings that may arise throughout the

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<sup>6</sup> A "saleable square foot" measure considers the cost or value of all of the area within the units constructed. It is thus *net* of hallways, stairwells, common areas, etc.

<sup>7</sup> Prepared by Busby, Perkins + Will, May 24, 2006.

<sup>8</sup> For example, the current Core Need Income Thresholds for Victoria are \$25,000 for a one bedroom and \$35,000 for a two bedroom unit.

<sup>9</sup> A "buildable square foot" measure considers the cost or value of the *gross* building area, including units plus hallways, stairwells, common areas, etc.

<sup>10</sup> In this context, \$170 per buildable square foot translates into approximately \$190 per saleable square foot.

development process (preferred financing rates, for example). Any such savings will be appropriately reflected in the final sale price.

#### **1.4 Capital Subsidy (Developer and City)**

The developer is proposing to contribute approximately \$2.2 million from its Affordable Housing Contribution toward the sale price of this development. As such, the target sale price of the developed sites is **approximately \$10.3 million, or \$288 per saleable square foot**. This is indicated in Appendix 2: Purchase Price of Purpose Built Non-Market Housing (Sites 1H and 6D).

As indicated above, the City of Victoria will contribute 20% of its Building Permit Fees on the entire City Lands portion of Dockside Green to an affordable housing fund. Because these funds will only arrive at the end of each phase, however, it is realistic to assume that any City contribution arising from the permit fees specifically for 1H and 6D - a contribution of approximately \$4,000 - will not be available as a capital subsidy for 1H and 6D. As contemplated in the recommendations section of this document, these funds may be contributed to the Non-Market housing at a later date.

#### **1.5 Additional Equity and/or Subsidy Required**

Additional subsidy will be required in accordance with the income levels of the purchasing NPO's target households. As indicated above, the Developer's preference is that the NPO project purchaser will target households within the \$35,000 to \$47,000 income range specified by the Dockside Housing Advisory Committee.

With this income target, and with the current design vision and estimated construction costs, additional funds - in the form of an equity buy-down, capital subsidy, or operating subsidy - will be required to augment rental payments from residents. It is important to note that alterations in building layout (for example greater emphasis on one bedroom units) and/or decisions to target different income levels would have direct consequences for the level of additional subsidy required.

#### **1.6 Leveraging Strategy**

Clearly, additional funds are a requirement for any purpose-built non-market units to be developed at Dockside Green. Rising construction costs have created a situation in which the Developer's Affordable Housing Contribution alone leaves a significant gap between the cost of the development and the revenues

generated by the low-income households that will live there because the focus is on two bedroom units and lower income levels.

The Developer will therefore make “commercially reasonable” (as described in MDA 9.4) efforts to leverage additional external funds to augment the AHC.

Each of the following options requires a partnership with a non-profit housing organisation in advance of application. This means that if this option is selected, initiation of this NPO selection process would be a first step.

Options for leveraging external funds include the following:

### **1.6.1 NPO equity**

The ability of non-profit housing organizations to bring their own equity to the table is an important consideration for engaging them as possible purchasers.

### **1.6.2 Property Tax Exemption**

Section 9.5(b)(i) of the Master Development Agreement committed the City of Victoria to exploring an exemption of the municipal portion of property taxes for this site. By allowing more of residents’ monthly rent contribution to be applied directly to servicing the mortgage, this would have a profound affect on the total carrying cost of the building.

Based upon discussions with City staff and their research, it was determined that a request be submitted to City Council requesting such an exemption for the Non-market units.

### **1.6.3 Community Partnership Initiatives**

Agencies such as BC Housing would be approached to contribute direct funding and a financing guarantee to allow the project to reduce financing costs.

Community Partnership Initiatives (CPI) is a program of BC Housing that provides capital grants, mortgage financing, or rent support for innovative affordable housing projects.<sup>11</sup> While the program guidelines suggest that eligible projects are designed to address an “unmet need for affordable housing for the most vulnerable in the local community”, program officers indicate that this fund is not limited to projects focusing on the Core Need Income Threshold. As such, it is a likely option for the Developer and/or the NPO purchaser to pursue.

### **1.6.4 Private sponsorship opportunities**

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<sup>11</sup> <http://www.bchousing.org/programs/partnership>.

A number of non-profit housing organizations have recently been successful in attaining private sponsorship for their facilities. This includes simple donations but also more formal partnerships that include the awarding of naming rights to the sponsor.

### **1.6.5 Victoria Housing Trust Fund**

This reserve fund to subsidize the development of affordable housing was established in 2004. It receives a contribution of \$250,000 per year from the City's GST rebate, and in the past received contributions from density bonusing and the City's tax land sales. Its focus to date has been upon families and youth with household income of less than \$60,000. Council is currently reviewing this program and its administration will likely be transferred to a not-for-profit entity. There are indications that this fund will maintain its primary emphasis on providing housing for families.

### **1.6.6 Regional Housing Trust Fund<sup>12</sup>**

The Capital Regional District established the Regional Housing Trust Fund in 2005. This fund has a specific focus on providing capital funding in the following areas:

- a. To assist in the acquisition, development and retention of housing that is affordable for those households in the region with low or moderate household incomes;
- b. To facilitate social and economic investment in affordable housing;
- c. To assist people in core housing need, primarily those in the lowest two quintiles of regional household income as established in the most recent Canada Census; and,
- d. To facilitate achieving the strategic directions outlined in the CRD's Regional Growth Strategy.

Allocation decisions are made at the political level, requiring approval from representatives of at least three CRD municipalities. In 2005, the fund made \$75,000 contributions to the Pacifica Housing Advisory Association and the Fernwood Community Centre Society, and one \$300,000 contribution to the Victoria Women's Transition House Society (\$450,000 total).

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<sup>12</sup> For more information see <http://www.crd.bc.ca/housingtrustfund.htm>

## 2. Market Affordable (Ownership) Housing

### 2.1 Context

According to a recent article by Pomeroy (2004), transitional mentored and assisted ownership is a necessary but drastically under-resourced stage in the housing continuum between absolute homelessness and independent, mortgage-free home ownership. The market caters to those that can afford unassisted rent or ownership options, while government and non-profit agencies primarily focus their efforts upon the absolute homelessness to social housing realm. In today's rapidly rising housing markets, this leaves a large and growing gap between assisted and unassisted housing. Dockside Green is working to address this gap with the provision of Market Affordable (ownership) units in at least the first two phases of its development.

The Developer has committed to deliver Market Affordable housing units at Dockside Green through application of the Affordable Housing Contribution (AHC) and through limitations on developer's profit in 20% of the units. This includes 26 units provided in Phases 1 and 2, provided through an allocation of approximately \$800,000 from the AHC. As indicated below, the latter mechanism - i.e. limitations on developer's profit - is by itself ineffective at providing housing affordable to households within the targeted income range. In the absence of a dramatic reduction in construction costs and/or contribution of additional subsidy from a third party, no Market Affordable units are being contemplated beyond Phases 1 and 2.

The eligibility and selection criteria for initial purchasers of the Market Affordable units are presented in Appendix 3.

The Developer will relinquish all ownership rights to individual purchasers, and all covenant administration responsibilities to a third party (as yet unidentified). Furthermore, it is assumed that the Market Affordable units will be integrated with regular market units at the building level as opposed to being clustered in designated building sites.

Identification and design of the Market Affordable housing strategy at Dockside Green will take place in partnership with a third party entity that administers the restrictive covenant. As such, the following is a set of recommendations for the tools and mechanisms that the Developer views as feasible for the task at hand. The third party that holds the covenant may bring its own vision and mandate to bear.

## 2.2 Target market and suite mix

Through allocation of \$800,000 from the AHC, the Developer will provide 26 one-bedroom Market Affordable units in Phases 1 and 2.

Current projections for the target market for the initial sale of the units (i.e. from the Developer to the first occupant) are as follows:<sup>13</sup>

Phase 1		
<u>No of units</u>	<u>Selling price range(net GST)</u>	<u>Household income required to purchase</u>
2	\$191,700 to 192,000	\$44,000 to \$45,000
5	\$203,700 to 205,000	\$48,000 to \$49,000
2	\$212,700 to 213,000	\$50,000 to \$51,000
Phase 2		
4	\$148,100 to 171,100	\$35,000 to \$40,000
6	\$191,500 to 202,000	\$40,000 to \$48,000
7	\$202,100 to 213,000	\$49,000 to \$50,000

More detail about the Market Affordable units in Phases 1 and 2 is presented in Appendix 4: Affordable Housing Contribution and Pricing Tables.

## 2.3 Capital Subsidy (Developer and City of Victoria)

Capital subsidy has been offered by the Developer in two formats.

First, the Developer has committed to limiting its profit to 13%, on up to 20% of the units on the City Lands portion of Dockside Green. It should be noted, however, that the Developer's profit for all of Phase 1 was less than 13%, yet the development costs are such that only the smallest units are accessible to households with the income thresholds set out in the definition of "Affordable Housing" (i.e. \$30,000 to \$60,000). As such, given current construction costs, this mechanism alone is ineffective at providing Market Affordable housing.

Secondly, the Developer has committed approximately \$800,000 from its Affordable Housing Contribution to provide nine (9) units of Market Affordable

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<sup>13</sup> All percentiles expressed in this document are estimates based upon the 2001 census and demographic trends before and since.

housing in Phase 1 and 17 units in Phase 2. Because the remainder of the AHC will be allocated to the development of Non-Market units as described above, this mechanism will not be available to subsequent development phases.

The City's contribution of 20% of its Building Permit Fee - which arrives at the end of each phase of development - will also be used as a capital subsidy for the Market Affordable units. In Phase 1, for example, this contribution is estimated at \$50,400, or \$5,600 for each of the nine (9) Market Affordable units. In Phase 2, this contribution is estimated at \$93,432, or \$5,496 for each of the 17 units.

## 2.4 Covenants, Conditions & Restrictions

The Developer will ensure that there are occupancy and price restrictions on future sales of each of the Market Affordable units created. The primary mechanism to govern future transactions will be a permanent restrictive covenant registered on the title of each Market Affordable unit. This will likely include a Right of First Refusal for the covenant holder to purchase the property before any sale is made (as contemplated in MDA 9.3(d)(v)). This mechanism will rarely be exercised, as its primary purpose is to ensure that all transactions are registered and comply with the occupancy and price restrictions.

While a restrictive covenant will play a crucial role in maintaining affordability at Dockside Green, there is a remaining challenge. **A covenant can control resale values of the units, but it does nothing to address the fact that the initial value of the units exceeds the target income group's ability to pay without additional subsidy.** For this reason, either additional subsidy or innovative ownership and/or financing options are required in order to provide additional Market Affordable units after Phases 1 and 2.

### 2.4.1 Resale Price Determination

The pricing mechanism contemplated by the MDA is as follows:

#### 9.3 Market Affordable Housing Units

(d) The Developer will ensure that all Market Affordable Housing Units fulfill the affordable housing requirements of this Agreement in perpetuity by registering a restrictive covenant against the title to each such Unit in favour of the body referred to in subsection 9.3(c), prior to its sale to the first purchaser, such covenant to be to the satisfaction of the City, and to provide that ... (iii) in respect of any such Unit in any Development Area, *future selling prices will be maintained at a percent of market prices equal to the product of (A) the sale price payable by the original purchaser of such Unit divided by the appraised value of such Unit at the time of such original sale and (B) 100.* [emph. added]

In short, the covenant will control resale prices so that all future sales will be pegged at a price relative to market. This peg will be fixed at the same percent of the market price as the original sale. For example, the Market Affordable units in Phase 1 will be sold at an average of 75% of their market value; all subsequent sales will be also pegged to same percentage (i.e. approximately 75%) of the market value of that particular unit at that time.

This approach has proven effective in application by **SFU Community Trust**, which has used resale controls to make original and future sales attractive to staff and faculty of Simon Fraser University. In this case, all future re-sales of the units will be pegged to the same percentage below market value enjoyed by the initial buyers.

A challenge with pegging only to market value, however, is that - in times of rapid market appreciation (as we are experiencing today) - the price of "affordable" housing pegged to market value may increase much more rapidly than households' ability to pay for such housing. For example, between 1986 and 2006, the condominium market in the City of Victoria grew at an average of 6.9% (nominal) per annum, while inflation (measured by Consumer Price Index and a proxy for income growth) was just 2.4%. This represents a real market increase of 4.5% per year. Needless to say, if this trend continues, then housing pegged to market value will become increasingly unaffordable over time.

For this reason, the Developer conducted significant internal research on different approaches to determining resale prices, as presented in Figure 1.

An example of a covenant-driven mechanism linked more closely to household income is **Whistler Housing Authority's** Price and Occupancy Restricted Housing. As of January 2005, the WHA manages a portfolio of some 1,334 units, including 384 units of Price and Occupancy Restricted Housing. Under this system, resale values are pegged at the greater of the previous sale price or the increase in the Core Consumer Price Index over the relevant time periods. On average, this amounts to an average price increase of 1%-3% per annum, and is capped at 5% per annum. Upgrades made to the property will only translate into an allowance for higher resale value if there is a building permit and at the sole discretion of the WHA. These restrictions and conditions are registered on the title of the units at the New Westminster/Vancouver Land Title Office (LTO).

If this model had been applied in the Victoria condominium market twenty years ago, then these condos would have actually lost value relative to household incomes and ability to pay. Internal research (presented in Appendix 5) indicates that such a condo would have been affordable to households in the 40<sup>th</sup> percentile in 1986 but with demographic changes and - in particular - dramatic reductions in interest rates, this unit would be affordable to households in the 25<sup>th</sup> income percentile in 2006. As such, this is a very unattractive option to

prospective buyers, who would more likely choose to rent and invest their savings elsewhere.

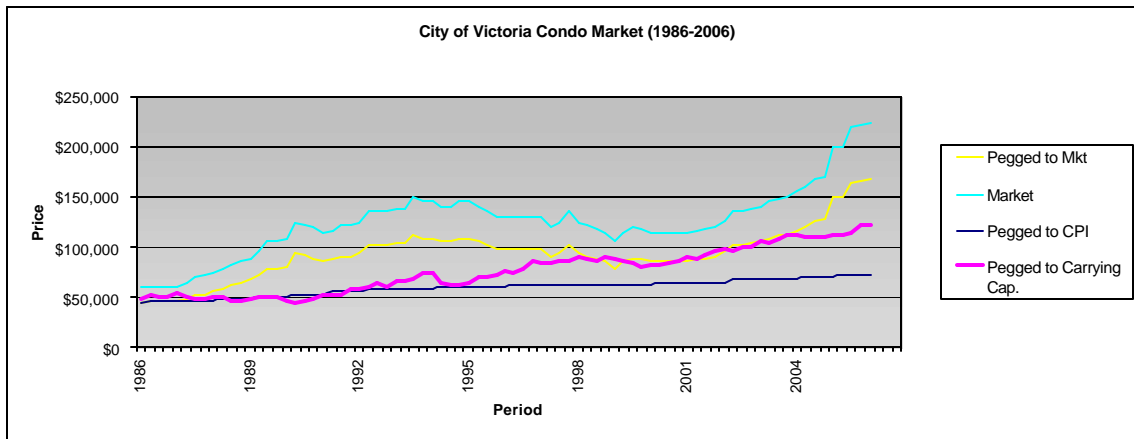


Figure 1 - Value of a Victoria condo under different resale control mechanisms (1986-2006)

A third approach to determining future resale values is pegging specifically to the ability of households of a certain income percentile to service the purchase price of unit. This approach is more sensitive to changes in demographics as well as changes in interest rates. As discussed in Appendix 5, this system shows potential to be effective in balancing affordability (relative to demographic changes) and equity appreciation (over the past twenty years, a unit pegged to affordability for the 40<sup>th</sup> percentile would have experienced real appreciation of 2.2%). That said, this system would present significant complexity for the holder of the covenant every time a unit came on the market for resale: instead of merely setting the price at a percentage of appraised value, or setting the price relative to the CPI data that comes out monthly, this system would require interest rate data, CPI data, market data, and demographic data. The latter, which is only collected during census years, presents the most difficulty.

Based upon a need to ensure that administration of the covenant is simple and efficient and based upon an assumption that the market is reasonably self-correcting (relative to incomes) over the long term, the Developer and Dockside Housing Advisory Committee recommend that the resale price determination mechanism in the covenant be consistent with that envisioned in the MDA, i.e. as a peg relative to market.

## 2.5 Financing options

Vancity Credit Union has developed a number of financing products to make housing more affordable to lower income households. It must be stressed that there is a difference between these mechanisms, which are focused upon getting more households into the real estate market, and the mechanisms described above, which are focused upon keeping certain housing units affordable in

perpetuity. As such, the financing options in this section should be viewed as **complementary** to the mechanisms described above, but will not - in themselves - lead to a perpetual stock of affordable housing at Dockside Green.

### **2.5.1 Springboard Mortgage**

As indicated above, the Developer will make a certain number of Market Affordable units available to households that are making the jump from subsidized rental housing. These households must acquire a Vancity Springboard mortgage to be eligible. To acquire a Springboard mortgage, households must:

- Be living in subsidized housing;
- Have current verifiable income;
- Have paid rent on time for a least two years; and
- Complete a one-day home ownership readiness course.

The Springboard program allows households to acquire a mortgage of under \$300,000 with zero down payment. It consists of two parts, which are serviced concurrently over a ten year period: the first is an interest-free 20% down payment loan; the second is an interest-only 80% fixed mortgage. At the end of the ten years, the household will receive a regular mortgage for the remaining balance.

### **2.5.2 Mixer Mortgage**

In the event that non-related persons wish to jointly purchase units at Dockside Green, the Vancity Mixer Mortgage - launched August 7<sup>th</sup>, 2006 - is tailored to this situation. This product may be particularly useful in the two bedroom units, where friends decide that they would like to split the cost of purchasing a unit. While this product does not make financing more affordable per se, it does make joint ownership of units more attractive.

## **V. Recommendations**

### **1. Non-Market (Rental)**

The Developer has laid the foundation to make a significant contribution to Non-Market housing at Dockside Green. This includes identification of a specific building site in the heart of the future Dockside Green community, and allocation of approximately \$2.2 million (adjusted over time) to subsidize the sale price of non-market units. Clearly, more resources and partners need to be brought to bear to make Non-Market housing serving the target income group a reality at Dockside Green.

### **Recommendation NM1: Engage an NPO to purchase the Non-Market units**

Ultimately, the Non-Market housing at Dockside Green will be owned and operated by a third party housing organization. For this reason, the Developer will engage prospective buyers as soon as possible to ensure that the design, build, and financing of the facility are well suited to the needs of these bodies.

It is recommended that several NPOs in the region be approached to determine if they have the resources and willingness to purchase the Non-Market units in the suite mix and income levels being targeted.

In addition, the NPO that can make this commitment and has the ability to immediately take on the marketing and covenant administration for the 26 Market Affordable units to be provided in Phases 1 and 2, will be selected as the NPO to enter into discussions with the developer regarding site wide housing affordable units.

### **Recommendation NM2: Use of the City of Victoria's Affordability Contribution**

As indicated above, the City of Victoria will allocate 20% of its Building Permit Fees from the entire site to affordable housing at Dockside Green. These funds will be donated when fees are collected at the end of each phase of development, meaning that most will be received well after the affordable housing projects at Dockside Green have been completed.

The Developer recommends that funds received after future phases be added to the Affordable Housing Contribution fund.

### **Recommendation NM3: Engage BC Housing and other potential funders.**

As indicated above, BC Housing is a central player that has been engaged to provide research support, direct financial contribution, and guarantees to allow better financing terms. These discussions - in which the Developer, BC Housing, and the NPO purchaser will be participants - will continue to shape the vision for Non-Market housing at Dockside Green. Other potential partners such as CMHC or AHMA will also be engaged.

### **Recommendation NM4: Explore opportunities in Provincial Government housing policy changes, October, 2006**

In October of 2006, the Provincial government announced a long-awaited overhaul of its affordable housing programs. This announcement may have a material impact upon the future development of Non-Market housing at Dockside Green. As such, these changes should be tracked closely and rigorously, and

additional funding opportunities pursued with the NPO purchaser of Buildings 1H and 6D.

**Recommendation NM5: Apply Alternative Transportation Strategies as agreed to in the Master Development Agreement.**

Allow the additional subsidy from the developer for car share, free bike and bus subsidy to be utilized for either Non-Market or Market Affordable, up to a maximum of 75 units.

## **2. Market Affordable (Ownership)**

As indicated above, the Developer intends to allocate approximately \$800,000 from its Affordable Housing Contribution to create 26 units of Market Affordable housing in Phases 1 and 2 of Dockside Green. Beyond Phase 2, however, no additional Market Affordable housing is envisioned unless construction costs drop dramatically or additional subsidy is provided from a third party.

**Recommendation MA1: Link administration of the Market Affordable restrictive covenant with purchase of Non-Market units by a non profit housing provider.**

As discussed above and elaborated in Appendix 5, the Developer has conducted internal research on the implications of different resale control targets for Dockside Green. After careful consideration, the Developer has decided to maintain the initial vision of pegging resale prices to the marketplace.

The Developer will move forward with the development and promotion of a restrictive covenant maintaining this resale control mechanism in perpetuity. Every effort will be made to find a single NPO partner to both purchase the Non-Market units and administer the covenant on the Market Affordable units.

**Recommendation MA2: Continue parallel research on co-ownership**

Vancity Enterprises is engaged in a parallel research project on the use of co-ownership models in different jurisdictions. Shared ownership systems are a central affordability mechanism used in many European locations, and representatives of housing organizations in Europe are being engaged to provide guidance. In the event that any of this learning is transferable to this jurisdiction, Vancity Enterprises will provide this information Dockside Green.

## **VI. Conclusion**

If the above strategy is implemented then 75 units of affordable housing will be provided at Dockside Green (approximately 10% of units). As discussed, the primary goal is to meet the community's need for family sized units and units that are affordable to households in the \$35,000 to \$48,000 income range (in 2006 dollars) for non-market units and in the \$30,000 to \$60,000 income range (2006 Dollars) for market affordable units. 70% of the non-market units (rental) will be family units.

Furthermore, approximately 35% of the units will be integrated into market unit buildings and 65% delivered in stand alone buildings. In addition, the developer will continue to build in accordance with the City's Adoptable Housing Guidelines.

This report reflects the developer's views of an effective housing affordability strategy and is consistent with the recommendations of the Dockside Housing Advisory Committee. These will ensure available resources are being effectively and efficiently allocated to generate an integrated, mixed and accessible community at Dockside Green.

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# Appendix 1: Dockside Green Site Plan



## Appendix 2: Purchase Price of Purpose Built Non-Market Housing Facility (1H and 6D)

### Assumptions

Projected Building Cost (PSF saleable)	\$309.00	
Developer's Profit Margin	13%	
Projected Market Value PSF	\$349.17	
Projected Market Value	\$12,465,369	
Affordable Housing Contribution (AHC)	\$2,200,000	
City's Building Permit Rebate	\$4,000	
Additional Capital Grants	-	Per Sq. Ft.
Sale Price to NPO	<b>\$10,261,369</b>	<b>287.43</b>

Unit Descriptions						Purchase Prices		
Building Area	No. of Suites	% of units	% total SF	Average Suite Size (SF)	Total Saleable (SF)	Price PSF (with AHC)	Price per unit	Total
1 Bed	7	14%	10%	500	3,500	\$287.43	<b>\$143,717</b>	\$1,006,017
1 Bed	7	14%	10%	520	3,640	\$287.43	<b>\$149,465</b>	\$1,046,257
2 Bed	14	29%	31%	800	11,200	\$287.43	<b>\$229,947</b>	\$3,219,253
2 Bed	14	29%	31%	800	11,200	\$287.43	<b>\$229,947</b>	\$3,219,253
2 Bed	7	14%	17%	880	6,160	\$287.43	<b>\$252,941</b>	\$1,770,589
	49	100%	100%	729	35,700			<b>\$10,261,369</b>

### **Appendix 3: Eligibility/Selection Criteria for Market Affordable (Initial Sale)**

To be eligible to purchase a Market Affordable unit at Dockside Green in the initial sale (i.e. from the Developer to the first occupant), a household must

1. Be a first time home buyer, defined as those who have not owned a principal residence for at least five years immediately before the date of purchase;
2. Be a Greater Victoria resident;
3. Have a yearly gross household income of between \$30,000 and \$60,000 indexed over time; and
4. Fully intend to use the unit as their principal residence (the units cannot be rented).

As part of the screening system, preferential consideration will be given to households who:

- Are employees or employers of a business located or willing to locate at Dockside Green and work on site;
- Are residents of the City of Victoria;
- Do not own a vehicle; and
- Other criteria that may be applied from time to time.

In subsequent sales, only the requirement that these units be principal residences will still apply.

## Appendix 4: Affordable Housing Contribution and Pricing Tables for Market Affordable (Phases 1 and 2)

### PROJECTED REVENUE - PHASE 1 (in 2006 dollars)

Strata Lot	Unit Address	Bldg	Fir	Unit Type	Strata Lot Area (SM)	Strata Lot Area (SF)	Sales Price (PSF)	UNSOLD UNITS Current Sales Price** (net GST)	Parking Stall: add/ (delete)	Afford. Housing Contribut'n by Developer	Afford. Housing Contribut'n by City	Total Sales Price (net GST)
13	203	3B	T2	1 bd	52	560	456.96	\$255,900	(\$25,000)	(\$33,597)	(\$5,600)	\$191,703
20	303	3B	T3	1 bd	52	560	465.89	\$260,900	(\$25,000)	(\$38,597)	(\$5,600)	\$191,703
27	403	3B	T4	1 bd	52	560	474.89	\$265,900	(\$25,000)	(\$31,597)	(\$5,600)	\$203,703
34	503	3B	T5	1 bd	52	560	483.75	\$270,900	(\$25,000)	(\$36,597)	(\$5,600)	\$203,703
41	603	3B	T6	1 bd	52	560	492.68	\$275,900	(\$25,000)	(\$41,597)	(\$5,600)	\$203,703
65	205	3A	T2	1 bd	52	560	474.82	\$265,900	(\$25,000)	(\$31,097)	(\$5,600)	\$204,203
72	305	3A	T3	1 bd	52	560	483.75	\$270,900	(\$25,000)	(\$35,597)	(\$5,600)	\$204,703
79	405	3A	T4	1 bd	52	560	492.68	\$275,900	(\$25,000)	(\$32,597)	(\$5,600)	\$212,703
86	505	3A	T5	1 bd	52	560	519.46	\$290,900	(\$25,000)	(\$48,097)	(\$5,600)	\$212,203
<b>Total Gross Revenue</b>					<b>468</b>	<b>5,040</b>		<b>\$2,433,100</b>	<b>(\$225,000)</b>	<b>(\$329,373)</b>	<b>(\$50,400)</b>	<b>\$1,828,327</b>
<b>Total Net Revenues</b>												<b>1,828,327</b>

Note: Strata Lot area in square metres from Preliminary Strata Plan dated October 3, 2005.

### PROJECTED REVENUE - PHASE 2 (in 2006 dollars)

Strata Lot	Label	Fir	Unit Type	Strata Lot Area (SF)	Sales Price (PSF)	UNSOLD UNITS Current Sales Price** (net GST)	Parking Stall: add/ (delete)	Afford. Housing Contribut'n by Developer	Afford. Housing Contribut'n by City	Total Sales Price (net GST)	Sales Price (PSF)	Income Cap
110	A201	2	Studio Townhouse	517	503.03	\$259,900	(\$25,000)	(\$27,856)	(\$5,496)	\$201,548	\$390	\$ 47,138
111	A202	2	Studio Townhouse	517	503.03	\$259,900	(\$25,000)	(\$25,356)	(\$5,496)	\$204,048	\$395	\$ 47,741
119	A302	3	1BR	474	512.87	\$242,900	(\$25,000)	(\$41,356)	(\$5,496)	\$171,048	\$361	\$ 39,765
128	A402	4	1BR	474	531.87	\$251,900	(\$25,000)	(\$29,856)	(\$5,496)	\$191,548	\$404	\$ 44,719
137	A502	5	1BR	474	542.43	\$256,900	(\$25,000)	(\$24,356)	(\$5,496)	\$202,048	\$426	\$ 47,259
146	A602	6	1BR	474	552.98	\$261,900	(\$25,000)	(\$21,856)	(\$5,496)	\$209,548	\$442	\$ 49,071
155	A702	7	1BR	474	563.54	\$266,900	(\$25,000)	(\$24,356)	(\$5,496)	\$212,048	\$447	\$ 49,674
12	B106	1	1BR	474	451.64	\$213,900	(\$25,000)	(\$35,356)	(\$5,496)	\$148,048	\$312	\$ 34,207
16	B110	1	Studio	431	487.51	\$209,900	(\$25,000)	(\$28,856)	(\$5,496)	\$150,548	\$349	\$ 34,814
23	B207	2	Studio Townhouse	517	493.35	\$254,900	(\$25,000)	(\$24,356)	(\$5,496)	\$200,048	\$387	\$ 46,773
24	B208	2	Studio Townhouse	517	493.35	\$254,900	(\$25,000)	(\$24,356)	(\$5,496)	\$200,048	\$387	\$ 46,773
32	B302	3	1BR	474	502.31	\$237,900	(\$25,000)	(\$36,356)	(\$5,496)	\$171,048	\$361	\$ 39,765
41	B402	4	1BR	474	531.87	\$251,900	(\$25,000)	(\$29,856)	(\$5,496)	\$191,548	\$404	\$ 44,719
50	B502	5	1BR	474	542.43	\$256,900	(\$25,000)	(\$24,356)	(\$5,496)	\$202,048	\$426	\$ 47,259
59	B602	6	1BR	474	542.43	\$256,900	(\$25,000)	(\$22,356)	(\$5,496)	\$204,048	\$430	\$ 47,741
68	B702	7	1BR	474	552.98	\$261,900	(\$25,000)	(\$19,856)	(\$5,496)	\$211,548	\$446	\$ 49,553
77	B802	8	1BR	474	563.54	\$266,900	(\$25,000)	(\$24,364)	(\$5,496)	\$212,040	\$447	\$ 49,672
<b>Total Gross Revenue</b>				<b>8,187</b>		<b>\$4,266,300</b>	<b>(\$425,000)</b>	<b>(\$465,060)</b>	<b>(\$93,432)</b>	<b>\$3,282,808</b>		
<b>Total Net Revenues</b>										<b>\$3,282,808</b>		

Note: Strata Lot area in square metres from Preliminary Strata Plan dated October 3, 2005.

## **Appendix 5: Analysis of Victoria Condo Market Under Different Resale Controls**

The Developer is obligated to ensure that the Market Affordable housing at Dockside Green stays in the affordable housing pool in perpetuity. This will be achieved - in part - by fixing a restrictive covenant on the title of each unit. This covenant will indicate that the unit is governed by a resale control agreement, and will specify the methodology by which future sale prices are to be determined.

The Developer conducted an analysis of a number of resale control mechanisms to determine which should be applied at Dockside Green. Using actual market, inflation, and interest rate data from 1986 to 2006, this analysis sought to determine the impact of different resale control strategies if Dockside Green had been initiated 20 years ago instead of today.

This report starts with a discussion of the market performance of a “Standard Condominium Apartment” in Victoria since 1986,<sup>14</sup> then initially considers the implications of two resale control strategies: resale prices pegged to a percentage of the day’s market value, and prices pegged to initial price plus inflation.

Both of these mechanisms have shortcomings. As a result, a third mechanism - pegging to carrying capacity of a given household income percentile - is discussed below. This latter mechanism has merit in terms of meeting the objectives of the Market Affordable strategy, but logistical difficulties with data collection make it unattractive for application at Dockside Green. For this reason, the Developer has ultimately elected to go with the pegged to market value resale control mechanism.

### **City of Victoria Condo Market (1986 to 2006)**

In 1986, a “Standard Condominium Apartment” in Victoria cost approximately \$59,000. In 2006, an equivalent condo would have a market value of approximately \$223,000. This is indicated in the turquoise line on Figure 1. This represents an average annual (nominal) growth rate of 6.9%.

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<sup>14</sup> Victoria condo market data comes from the Royal LePage Survey of Canadian House Prices.

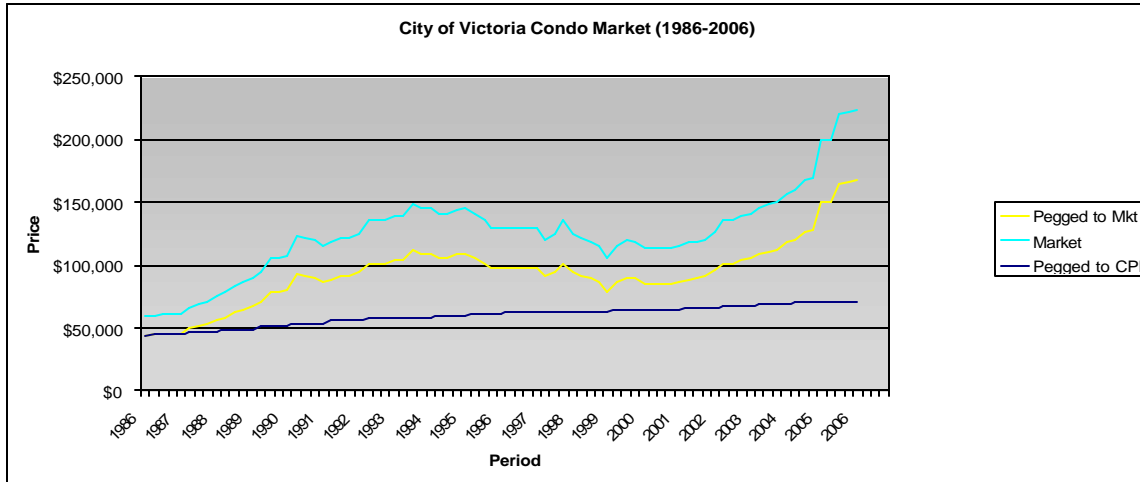


Figure 1 - City of Victoria Condo Market

### 1. Pegged to Market

The current assumption - expressed in the Master Development Agreement - is that subsequent sales of the Market Affordable units will be pegged to the same percentage of market as the initial sale. For the Market Affordable units provided in Phases 1 and 2, this is an average of 75% of market value (with individual units ranging from 71% of market to 82% under the current subsidy projections). The yellow line in Figure 1 therefore shows the price of a condo under resale control geared to 75% of market value at all times. This starts at \$44,250 and grows to \$167,000 in 2006 (again at an average annual growth rate of 6.9%).

### 2. Pegged to CPI

Another resale control mechanism employed in some locales is pegging resale values to increases in the cost of living. This approach could potentially be taken in order to maintain affordability for a given income threshold (e.g. \$30,000 to \$60,000 in today's dollars) over time. The blue line in Figure 1 represents the resale price of the condo if this price was geared to the rate of inflation - i.e. the Consumer Price Index (All Items) - for Victoria (using annual averages).<sup>15</sup>

Victoria experienced an average inflation rate of 2.4% between 1986 and 2006, and thus *nominal* annual appreciation on the unit under this scenario would average 2.4%.

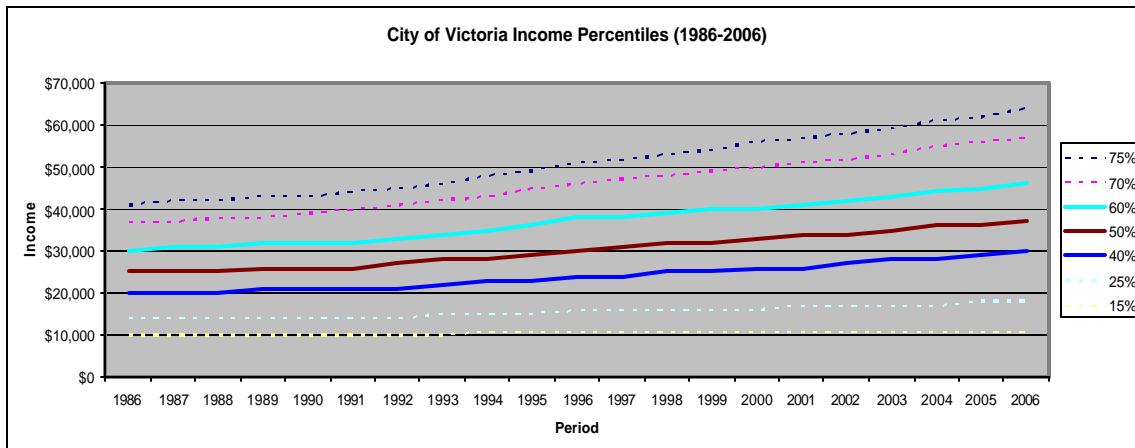
The *real* market growth rate (nominal minus inflation) for a condo in Victoria between 1986 and 2006 was thus 4.5%.

<sup>15</sup> Source: BC Stats, Retrieved August 9, 2006 from <http://www.bcstats.gov.bc.ca/DATA/dd/handout/CPIFIS.pdf>.

## Implications of Market value, Pegged to Market value, and Pegged to CPI for Income Thresholds

Using data on the number of City of Victoria households by income bracket from the 1991, 1996, and 2001 censuses,<sup>16</sup> household income percentiles were determined for each of those years. The average annual change in household numbers within each income bracket from one census to the next was then identified and used to estimate the number of households in each bracket in each year *between* 1991 and 2001. For the periods with only one census reference point (i.e. 1986 to 1991 and 2001 to present) an estimate of annual change was derived based upon the trends in the corresponding periods.<sup>17</sup>

Then, in order to get an approximate household income (to the nearest \$1,000) for a given percentile over time, households within each income bracket were assumed to be evenly distributed.<sup>18</sup> This was then used to determine an approximate income for each percentile. A graph of estimated income levels for various income percentiles is presented in Figure 2.



**Figure 2 - Estimated household income percentiles for Victoria (1986-2006)**

It is clear from the graph, that the City of Victoria has actually seen an increasing income gap between the lowest income households - still hovering around \$10,000 - and the middle and upper income households, whose incomes have increased dramatically. As such, other dynamics besides inflation alone

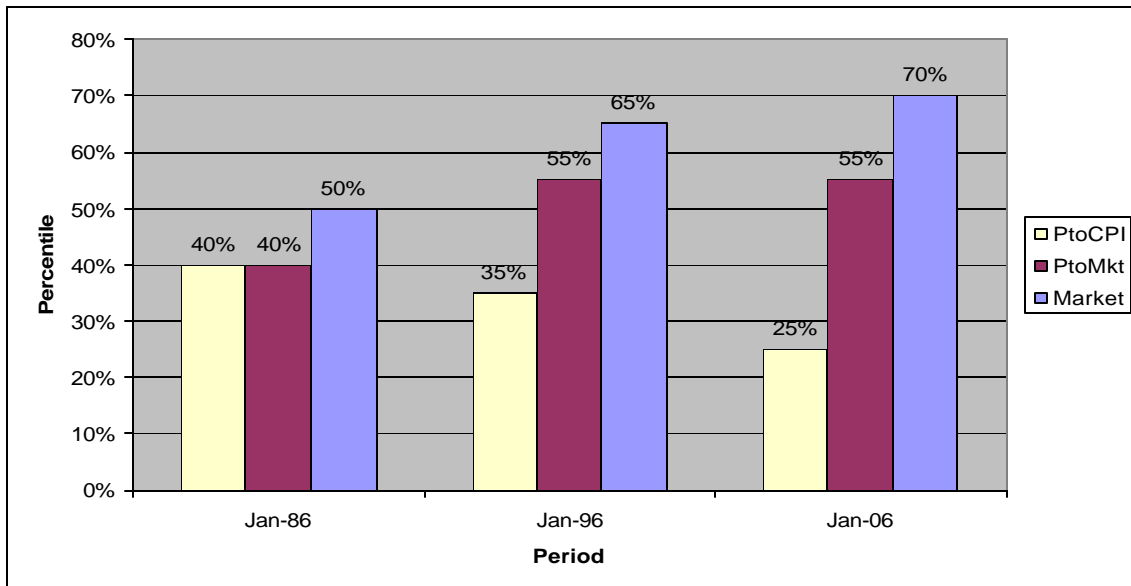
<sup>16</sup> Source: 2001 City of Victoria Profile. Retrieved August 9, 2006 from [http://www.city.victoria.bc.ca/common/pdfs/profiles\\_neigh\\_vctra\\_01.pdf](http://www.city.victoria.bc.ca/common/pdfs/profiles_neigh_vctra_01.pdf).

<sup>17</sup> This is one area where more data would be required to do the job properly, but this will work for illustration purposes.

<sup>18</sup> This is likely an incorrect assumption, as the populations are generally normally distributed through the low to middle income bands. There is a dramatic over-representation of households over \$70,000. For the purposes of this analysis, however, even distribution within income bands is sufficient.

have influenced the income percentiles, with a demographic shift toward a more wealthy population over the past twenty years.

These percentile estimates were then used to consider which portion of the Victoria population could afford to buy a condo today as opposed to 10 or 20 years ago.<sup>19</sup> Figure 3 presents the scenarios by income percentile, with the bars representing the segment of the population that **cannot** afford the condo (i.e. a larger bar indicates higher cost and less affordability). For example, households in the 50<sup>th</sup> percentile and above could afford a market-priced condo in 1986, while those in the 40<sup>th</sup> percentile and above could afford a condo under either of the resale control arrangements.



**Figure 3 - Income Percentile for Ability to Purchase a Victoria Condo (1986, 1996, 2006)**

As one would predict in the context of 4.5% real market appreciation, fewer and fewer Victoria households are able to access the city's condominium market. A market condo was affordable to households in the 50<sup>th</sup> income percentile and above in 1986. By 1996, this had increased to the 65<sup>th</sup> percentile and above; by 2006, only households in the 70<sup>th</sup> percentile and above can afford to buy in Victoria. This corresponds to a household income of approximately \$57,000 in 2006.

The "pegged to market" scenario grows in an identical fashion, starting at affordability for the 40<sup>th</sup> percentile in 1986 and increasing to affordability for

<sup>19</sup> "Affordability" is defined as housing which costs 30% or less of a household's gross annual income. This includes property taxes and mortgage payments (a 10% down payment is assumed).

the 55<sup>th</sup> percentile by 2006. This corresponds to a household income of approximately \$41,000.

The “pegged to CPI” scenario is the most surprising. One would expect that resale prices pegged to CPI would result in a constant level of affordability across time. Indeed, this would be the case if not for the fact that interest rates have dropped dramatically (11.7% to 5.3% since 1986). For example, a condo on the CPI peg would have increased in price from \$61,000 in 1996 to \$71,000 today. The reduction in interest rate from 8.2% then to approximately 5.3% today, however, means that the carrying cost of the unit is actually *lower* today than it was 10 years ago. This, combined with inflation in household incomes, creates a situation in which a unit pegged to CPI would actually become more affordable, both in terms of absolute carrying cost and relative to incomes. This mechanism would thus present the seller with all of the risk of home ownership (maintenance, liability, etc.) with none of the benefit (real equity appreciation). This removes any incentive to purchase rather than rent, or to maintain the unit in good working order.

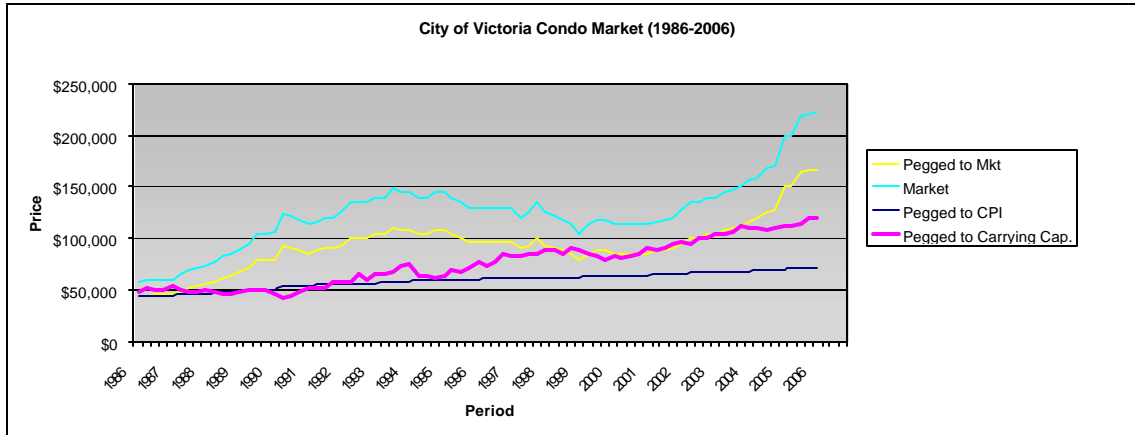
Clearly, then, if the goal of the Market Affordable strategy is to define affordable housing as being accessible to a defined segment of the population over time, then none of these options achieve this. The pegged to market value scenario rises much more quickly than incomes and ability to pay; the pegged to CPI scenario falls out of synch with ability to pay because it does not factor in changes in interest rates which affect the carrying cost of a property, nor does it factor in demographic changes that would shift the median household income in the jurisdiction.

#### **4. Pegged to Carrying Capacity (Income Percentile)**

For this reason, a third resale price determination mechanism was considered, namely the ability to pay by a household of a certain income percentile. Figure 4 introduces a new price trend that represents the price at which a unit would be affordable to the 40<sup>th</sup> percentile at every point between 1986 and 2006. The 40<sup>th</sup> percentile was selected because this was the percentile at which a unit selling at 75% of market was affordable in 1986. This model employs average interest rates by quarter, CPI by quarter, and assumes that property taxes eat up 10% of a monthly shelter allowance (that’s the trend from Phases 1 and 2).<sup>20</sup>

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<sup>20</sup> This will change, though, as the gap between market and pegged to carrying capacity increases or decreases.



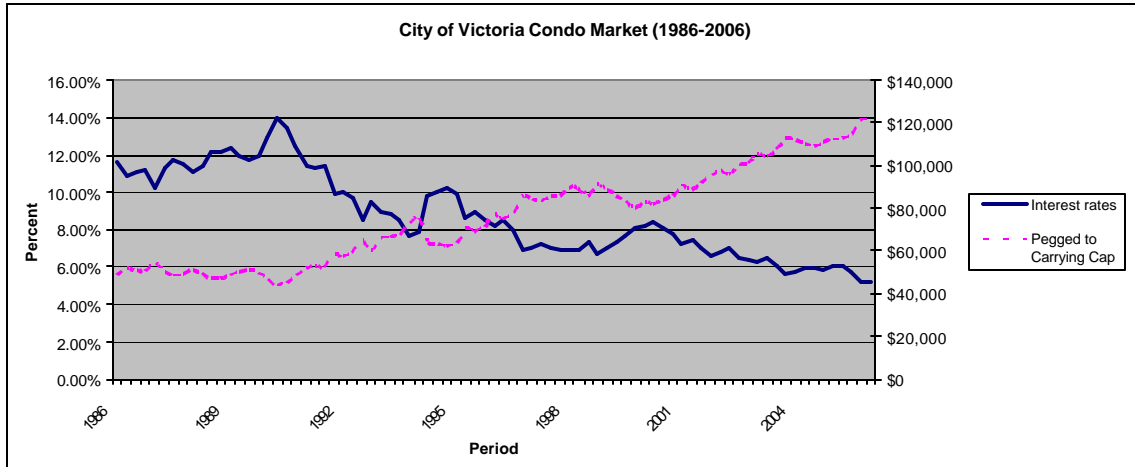
**Figure 4 - Condo market with 3<sup>d</sup> Option (Pegged to Carrying Capacity for 40<sup>th</sup> Percentile)**

As one can see, depending upon market appreciation and interest rates at any given time, this peg fluctuates from 35% of market (second quarter of 1990) to 89% of market (in the first quarter of 1987). It is at 54% of market at present, at \$121,000.

It is worth noting that the current marketplace and 1990 are exceptions: in 1990, the market and interest rates both spiked, resulting in the least affordable housing in the last 20 years. Since then, however, demographics and market conditions grew more aligned until the recent market spike began in 2003. In the 1998 to 2003 period, this peg was trending reasonably close to the Pegged to Market scenario. This suggests that this model may be reasonably self-correcting. Indeed, applying this methodology to the Vancouver market also shows that the market and ability to pay by a given segment of the population trends toward each other over the medium term. In effect, this pricing approach appears to be consistent with medium term market trends but removes the volatility of rapid spikes or falls in the real estate market.<sup>21</sup>

Unlike a peg to either of market or CPI, this targets a specific segment of the population (e.g. middle income earners in Victoria) and pegs price specifically to this segment's ability to pay. In factoring in both inflation and interest rates, as well as demographic shifts over time, this strategy is much more adaptive to market dynamics than the "pegged to CPI" approach while still maintaining a sharp focus in terms of target market. For example, while CPI simply ambles along at a gradual slope, the Pegged to Carrying Capacity ebbs and flows with market dynamics. In particular, ability to pay is very closely tied to interest rates, as indicated in Figure 5.

<sup>21</sup> This would imply that the current spike in the Victoria condo market is unsustainable, and over the next few years will fall in line with incomes.



**Figure 5 - Maximum Purchase Price for 40<sup>th</sup> Percentile and Income Rates (1986-2006)**

Finally, this approach walks a middle ground between allowing full market appreciation on the unit and maintaining affordability over time. A resale control pegged to carrying capacity between 1986 and 2006 would have enjoyed an average annual appreciation of 4.7% (2.2% adjusted for inflation). While less than the 6.9% enjoyed in the market and pegged to market scenarios, those appreciation rates come at cost to future affordability.

At Dockside Green, most of the Market Affordable units are affordable to households earning approximately \$45,000 per year (60<sup>th</sup> percentile). As such, one option would be to set the resale control agreement to determine sale prices at the 60<sup>th</sup> percentile in any year in which the unit is being sold.

### Recommendation

The peg to income percentile is the most dynamic of the options considered, and most effectively walks the line between maintaining affordability while still reflecting market values. At times (like the present for example) the gap between the market and ability to pay is high, resulting in a wide gap between a percentile’s affordability range and the market value of the unit. But because the peg is relative to total incomes in the city, if increases in the cost of living (including cost of housing) create demographic shifts that drive up the average household income in the city (or more accurately, drive lower income households out of the city), then the 60<sup>th</sup> percentile will rise as well. If the city becomes more affordable, then the 60<sup>th</sup> percentile will moderate. As such, this peg allows the Developer to target a middle income threshold, and will rarely be dramatically out of step with market rates over the medium term.

On the flipside, percentile estimates are just that: assumptions. They become less accurate (and less legally defensible) the further one gets from a census.

At present, for example, it has been five years since the last census data (although the 2006 census data should be released shortly). It is thus challenging to speculate on how household incomes have changed in the City of Victoria without closely tracking local economic changes and market dynamics. As such, there could be considerable disagreement at times of sale: seller will want to suggest that the (for example) 60<sup>th</sup> percentile has shifted to a dramatically higher income point while the buyer/covenant administrator will argue the opposite.

Furthermore, and driven in part by the above, this resale price determination mechanism is much more complex to administer than one based upon either market or inflation. A market peg simply requires an appraisal at the time of sale; an inflation peg will simply require consideration of the CPI data published for Victoria each month.

Because simplicity of administration is a central factor in enticing a housing body to hold the Market Affordable covenant at Dockside Green, these challenges are decisive.

**After considering all of these options, the Developer has elected to adopt the system of pegging to market originally envisioned in the Master Development Agreement.** Although there will be times, like the present, in which market values are very volatile relative to inflation and household incomes, the Developer believes that over the medium term this will correct itself. While not perfect, this is viewed as the best available option.