Think City, Dream Vancouver:

Policy Brief

Middle Income Affordable Housing in the City of Vancouver

Jennifer Balcom

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**Executive Summary**

**Introduction**

Much well-deserved attention has recently been paid to the skyrocketing housing prices facing Vancouver’s wealthy, as well as the plight of the homeless inhabitants of the Downtown Eastside. Much less consideration has been given to the spot in which the middle class now find themselves. The City’s own figures show that households classified as “middle income” are unlikely to be able to afford to pay average market rents or to buy an average priced condominium. Vancouver is failing to meet its stated objective to ensure that affordable housing is available for all levels of income, and risks becoming segregated by income as the middle class moves out to the suburbs where they can afford to live.

**Policy Problem**

The policy problem analyzed is the shortage of affordable middle income housing in the City of Vancouver. If the City of Vancouver is serious in its commitment to ensure affordable housing for all income levels, politicians and staff must make middle income affordable housing a priority. The primary objective of Vancouver’s middle income housing policies must be to increase the supply and diversity of modest market housing. The City must increase the number of rental units affordable to households in the middle tertile of income and increase entry-level ownership opportunities.

**Policy Alternatives**

Based on a review of the most workable approaches the following four alternatives have been examined for the City of Vancouver: semi-market housing, which involves the creation of a
third housing sector between privately developed market housing and government-provided social housing; inclusionary zoning, a policy currently used by the City of Vancouver to require developers to include affordable units in new developments; lobbying senior levels of government for financial assistance to increase the effectiveness of affordable housing programs; and finally, creating a package of incentives to encourage developers to build affordable units voluntarily. Each alternative is evaluated by the number of units to be created, the ability to create mixed income neighbourhoods, equitable treatment of stakeholders, cost of implementing and operating the program, and the legal and jurisdictional ability of the City of Vancouver to carry out the policy.

**Recommendations**

It is the finding of this paper that inclusionary zoning and developer incentives do not provide enough affordable units to meet the needs of middle income households. The best way to increase the supply of modest market housing is to dramatically expand the use of semi-market housing. The City must engage in a dialogue between developers, planners, citizens, and government to find creative ways to make this happen. Lobbying, of the federal government in particular, will also be an important component of the success of the semi-market housing policy. The City will need the resources and backing of senior government to make an investment in housing significant enough to make a difference. This strategy will help Vancouver make a real commitment to middle income affordable housing.
Middle Income Affordable Housing in the City of Vancouver

Introduction
Vancouver is consistently one of Canada’s most expensive cities in which to live, and its growing population adds over 30,000 people to the region every year. (CMHC, 2007 4th quarter, p5&6). In a city where the average price of a single detached home is $820,000 and the demand for housing is forecast to remain strong through 2008 (CMHC, 2007 4th quarter, p6&1) it is a challenge to ensure that people can afford to live here. Since the mid-1980s there has been significant downloading of program responsibilities from the federal government to the provinces and then from the provinces to the municipalities. In 1993, the federal government withdrew funding from affordable housing altogether. Provincial and municipal governments chose to focus limited resources on those households in core need, usually low-income households. While the City of Vancouver aims “to ensure that housing is available in the city to accommodate the range of incomes in the region,” (Gray, 2007, August 27, p3) the issue of affordable housing for middle income households has not been given adequate attention.

The implications of this course of action can no longer be ignored. Vancouver could easily become a city polarized by income with the wealthy living in market housing, low-income households in government provided social housing, and the middle class pushed out to the suburbs where they can afford to live. Some would say this is already happening. Socially, a much more desirable model is one of mixed-income neighbourhoods where all of Vancouver’s diverse residents can live together and interact. Such a model better addresses environmental concerns as well. Vancouver remains the region’s centre of employment and sustainability
requires that more people live near their work. We must ensure that middle income households can afford to live in the city.

There is certainly room for greater government intervention in housing policy as “Canada’s housing system is now the most private-sector market-based of any Western nation, including the United States (where intervention on behalf of homeowners is extensive)…” (Hulchanski, 2002, p7). And while both the federal and the provincial governments must be involved, housing is essentially a local issue requiring locally generated solutions. The City of Vancouver must take the lead in improving the affordability of housing for its middle income citizens.

This paper will explain the problem of middle income affordable housing and explore some of the policy options available to the City of Vancouver. These options will be evaluated against specific criteria and measures and a policy recommendation will be made.

**Background**

For the purposes of housing, Vancouver defines “middle” or “modest income” households somewhat differently than what is found in much of the literature on the subject. It is common to refer to any household spending 30% or more of pre-tax income on shelter (rent, mortgage payments, repairs, etc.) as “low income.” Middle income housing programs are considered to be those aimed at helping households that spend less than 30% of their income on housing but still experience affordability problems with respect to housing. The City of Vancouver, as evidenced by the many planning documents relating to the development of the South East False Creek / Olympic Village area, chooses to divide its population by income into thirds, or tertiles. The
table below illustrates the income ranges and housing affordability for Vancouver’s middle income tertile.

**Housing Affordability for Middle Income Households in the City of Vancouver (Middle Tertile)**

<table>
<thead>
<tr>
<th></th>
<th>One Income Households</th>
<th>Two Income Households</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income Range</strong></td>
<td>$22,575 - $47,250 / year</td>
<td>$58,860 - $98,100 / year</td>
</tr>
<tr>
<td><strong>Affordable Rent Range</strong></td>
<td>$550 - $1180 / month</td>
<td>$1470 - $2250 / month</td>
</tr>
<tr>
<td><strong>Average Market Rent (Studio)</strong></td>
<td>$700 / month</td>
<td>$700 / month</td>
</tr>
<tr>
<td><strong>Average Market Rent (1 Bdr)</strong></td>
<td>$1100 / month</td>
<td>$1100 / month</td>
</tr>
<tr>
<td><strong>Average Market Rent (2 Bdr)</strong></td>
<td>$1190 / month</td>
<td>$1190 / month</td>
</tr>
<tr>
<td><strong>Average Market Rent (3 Bdr)</strong></td>
<td>$1450 / month</td>
<td>$1450 / month</td>
</tr>
<tr>
<td><strong>Affordable Home Price (10% Down)</strong></td>
<td>$51,000 - $152,000</td>
<td>$200,000 - $360,000</td>
</tr>
<tr>
<td><strong>Affordable Home Price (25% Down)</strong></td>
<td>$61,000 - $179,000</td>
<td>$235,000 - $425,000</td>
</tr>
<tr>
<td><strong>Market Value (Studio Condo)</strong></td>
<td>$240,000</td>
<td>$240,000</td>
</tr>
<tr>
<td><strong>Market Value (1 Bdr Condo)</strong></td>
<td>$360,000</td>
<td>$360,000</td>
</tr>
<tr>
<td><strong>Market Value (2 Bdr Condo)</strong></td>
<td>$480,000</td>
<td>$480,000</td>
</tr>
<tr>
<td><strong>Market Value (3 Bdr Condo)</strong></td>
<td>$570,000</td>
<td>$570,000</td>
</tr>
</tbody>
</table>


Housing for Vancouver’s middle tertile is often called middle income or modest market housing. “Modest Market Housing means dwelling units designed to be affordable to persons who make up a household, and whose combined gross annual incomes fall within the middle third of
income distribution for the Greater Vancouver region published by Statistics Canada in the then current Canada Census at the time of any applicable CD-1 rezoning.” (Gray, 2006, Sept 28, p3).

The legal context for government jurisdiction on housing policy is complex. The federal government has used its spending power to mount significant nation-wide programs in the past. Provinces have constitutional jurisdiction over matters of a local nature, and this is interpreted to include housing. Municipalities are created by provincial legislation and are not mentioned in the Canadian Constitution. Legally, their power to make bylaws and raise revenue comes only from their provincial government. British Columbia’s Local Government Act [RSBC 1996] sets out Vancouver’s areas of jurisdiction. The relevant sections relating to housing are section 903 (zoning), section 904 (zoning for amenities and affordable housing), and section 905 (housing agreements for affordable and special needs housing). (See Appendix I).

The economic justification for government intervention in affordable housing “is that the market fails to build affordable housing for low- to middle-income families and vulnerable populations, and thus public solutions are required.” (Klein & Lee, quoted in Pablo, 2007). The market is serving Vancouver’s wealthy households well and the supply of housing serving this population is not a concern. However, “there is a great deal of social need for housing, but the households in need lack the money to generate effective market demand.” (Hulchanski, 2002, p7, emphasis in original text.). The logical response of profit-seeking developers has left Vancouver with an inadequate supply of modest market housing, resulting in the affordability gap shown in the table above. Many middle income Vancouerites cannot afford the average market rent or the average home price. For example, a single income household (if they can manage to save up for a 10%
down payment) will find that even a studio condo with no bedrooms (average market value $240,000) will be well outside their affordable range of $51,000 – $152,000.

In recent reports to council, Cameron Gray has outlined the City of Vancouver’s housing objectives:

“which are to ensure that housing is available in the city to accommodate the range of incomes in the region, and to sustain the city of Vancouver’s role as the region’s ‘downtown’ and it’s primary employment destination. The only qualification would be that it is not just low-end of market rental that is in short supply but rental housing at all levels. Increasing the supply of higher cost rental housing, and in fact the supply of new market housing whether rental or ownership, should take some of the pressure off the low end of market rental housing.” (Gray, 2007, August 27, p3).

It is clear that current City policy recognizes a need to support rental and ownership opportunities for Vancouver’s middle income citizens and acknowledges that housing must be available for all levels of income. However, housing policy alternatives are currently limited somewhat because “the City wishes to avoid administratively expensive and complex legal restrictions e.g. controls governing resale prices and stipulating qualifying incomes on resale.” (City of Vancouver Housing Centre, 2005, p2).

Any housing policy must also take into account the relevant stakeholders: the City of Vancouver, middle income households, developers, households not targeted by the policy, the province of British Columbia, and the federal government.
Policy Objectives

The primary objective of Vancouver’s middle income housing policies must be to increase the supply and diversity of modest market housing. The City must increase the number of rental units affordable to households in the middle tertile of income and increase entry-level ownership opportunities. Policies must be within the jurisdiction of the City to pursue and should take advantage of existing regulatory powers. Policies should create environmentally and socially sustainable mixed income neighbourhoods and maintain an attractive environment for investment and development in the City.

Policy Alternatives

Governments in general “can deploy a mixture of strategies and instruments to meet policy objectives. These include exhortation, negotiation and moral suasion; direct expenditure; tax expenditures; taxation; public enterprise/ownership; public-private partnerships; and regulation.” (Hulchanski, 2002, p4). Vancouver must consider policies that employ all of these strategies in addressing the middle income housing problem. Based on a review of the most workable approaches the following alternatives have been examined for the City of Vancouver:

1. Semi-Market Housing

Larry Beasley, former Vancouver city planner, said in his keynote address to the Think City: Dream Vancouver conference in October of 2007, “I’m convinced that we have to create a third housing sector: not just the market housing sector and the non-market housing sector, but what I call the ‘semi-market’ housing sector…” He was referring to a type of housing between the for-profit, privately developed market housing that is the norm in Vancouver and the social housing
that is provided by the government to individuals and families unable to afford housing. This third housing sector involves public/private partnerships and could have two components: non-profit housing in which the units are not owned by tenants but by a non-profit organization, and semi-market housing. In semi-market housing, government or a non-profit developer builds the units and sells them at or near the cost of construction, but the new owners can only re-sell their homes at a pre-determined rate. In some cases, owners are restricted to selling only back to the government. This limits the profit that can be made by an owner and ensures that the unit remains affordable.

One example of semi-market housing is the Verdant development on the Simon Fraser University campus in Burnaby, BC. The 60 unit project was a partnership between the SFU Community Trust as landowner and Vancity as the developer. Michael A. Geller of SFU’s Centre for Sustainable Community Development outlined the key components:

1. **Reduced cost of land** – SFU contributed land for the project at $30 a foot as opposed to the $40 market rate for similar sites nearby.
2. **Deferred payment for land** – in order to reduce interest payments, the developer was not required to pay until the end of construction.
3. **Developer worked on fee basis** – rather than making a profit on the open market, Vancity agreed to a fixed fee of 10%.
4. **Reduced marketing costs** – developer was discouraged from hiring a marketing firm that would typically take 3-7% of revenues.
5. **Simplified design** – eliminated unneeded features such as fireplaces, granite counters, soaker tubs. Units are also smaller.
6. **Focus on function** – durable flooring, attention to kitchen and bathroom cabinetry to make units suitable for families with children.
7. **“Green loan”** - $500,000 cost of geothermal and in-floor radiant heating financed by a loan to the strata corporation to be paid off through strata fees rather than raising the initial price of each unit.

8. **Covenant on ownership** – sale price of units was calculated based on cost and was found to be 20% lower than market value. Any future sales must also be at 20% less than the appraised market value of the unit.

9. **Period of affordability** – the land is leased for 99 years.

Adapted from Geller, 2007.

The covenant is clearly the unique part of this arrangement. It ensures that the 60 units created in the project will remain affordable as they will always (or at least for the 99 year lease term) sell for 20% less than their unrestricted market value. Furthermore, the covenant prevents an owner from reaping a windfall profit at the expense of the public entity (in this case Simon Fraser University) that provided the land at reduced cost. The owner is still allowed a return on equity since the units will increase in value at the same rate as the market housing around them.

The Verdant development plan did not include an income or means test for potential buyers. Instead, the simplified design and smaller size of the units, along with the covenant on ownership, were intended to make the units desirable only to households that could not afford a more fully featured alternative available in the regular housing market.

2. **Inclusionary Zoning**

Inclusionary zoning gets its name from the fact that it counters exclusionary zoning policies that exclude affordable housing from a given area. Instead, inclusionary zoning encourages or requires the developer to provide a specified amount of affordable housing as part of a new
residential development. Often this is a condition of the approval of the development. Inclusionary zoning has been introduced in some North American cities (including Vancouver and Burnaby) as well as the states of Massachusetts and New Jersey and the province of Ontario. While the application of the policy varies by jurisdiction, certain features are found to be common:

1. **Applicability** – the municipality may apply the policy only to certain areas, or to major condo conversions as well as new construction.

2. **Set-aside** – the percentage of affordable housing units required. This typically ranges from 5-35%.

3. **Threshold** – the minimum total number of units that triggers the policy. The typical range is 10-200 units.

4. **Income targeting** – the municipality specifies the range of incomes for which the set-aside units must be affordable.

5. **Period of affordability** – the length of time for which the set-aside units must remain affordable.

6. **Monitoring and enforcement** – an administrative system involving rent controls for rental units and covenants on title in the case of owned units.

7. **Operating organization** – units are owned and/or managed by private, public, and non-profit groups.

Adapted from MVPPD, 2007, August 1, p1.

In some municipalities, a developer is permitted to make a payment-in-lieu of providing the required housing. In these cases, the money is put into a fund to create new affordable housing units. The practice of allowing payments-in-lieu is controversial because while it provides flexibility it can result in the affordable housing units being concentrated in areas with lower land costs, and in the extreme can create ghettos.
Inclusionary zoning is already used in the City of Vancouver. In new neighbourhoods or for large projects, the City’s policy has been to require that 20% of the units be set aside for social housing or other affordable housing options. (City of Vancouver Housing Centre, 2005, p3). The City uses a combination of provincial and City funding to purchase the set-aside units from the developer for 60% of the market value. Then the units are leased to a non-profit housing provider, or sponsor, sometimes at no cost. (CMHC, p1).

A current example of the policy in action is the development of South East False Creek and the Olympic Village. Early proposals called for the income mix of the development to match that of the City of Vancouver: out of the total 564 units, one third of the housing would be affordable to the lowest tertile of households, one third would be modest market housing for the middle tertile, and one third would be unrestricted market housing. (City of Vancouver Housing Centre, 2005). The plans are still changing, but the set-aside proportion of both affordable and modest market housing has been reduced. A City of Vancouver analysis indicated that a period of affordability of twenty years would allow the developer to achieve a reasonable rate of return, and concluded that a rental restriction covenant should be placed on units for a period of twenty years, after which they could be sold. The twenty year term is unusual. Most non-market sites are purchased by the City and leased to a non-profit sponsor to operate for a sixty year period. (City of Vancouver Housing Centre, 2007, p3).

Rent controls were considered and rejected for South East False Creek. Rents in Vancouver usually keep pace with inflation and the Residential Tenancy Act restricts rent increases to the
Consumer Price Index plus 2%. Thus, rent controls were not seen to be worth the cost of administering the program.

Inclusionary zoning is often used in conjunction with a system of Development Cost Levies (DCLs). The City of Vancouver charges $6 per buildable square foot on all new development (MVPPD, 2007, p5) and the money, along with a portion of the City budget, goes into the Affordable Housing Fund to provide money for various projects. DCLs are an important source of revenue for the City, and it would be difficult to fund the affordable housing units required by the inclusionary zoning policy without them. Currently, “there are seven areas in the city where these levies apply and a city-wide levy is under consideration.” (City of Vancouver Housing Centre, 2005, p3).

3. Lobby Senior Governments for Financial Assistance

Because they have no status independent of their province, “the only sources of authority and revenue available to municipalities are those that are specifically granted by provincial legislation.” (Dewing, Young, and Tolley, 2006, p2). However, There are a number of affordable housing policies that the City is unable to pursue on its own, for reasons of jurisdictional or financial means (for example, tax credits to developers). For this reason, “there is no escaping the need for significant direct federal expenditure.” (Hulchanski, 2002, p16).

The Federation of Canadian Municipalities (FCM) argues that the transfer of responsibilities from senior levels of government coupled with reduced transfers from those governments has created a growing gap between the services a municipality must provide and what it can afford.
The FCM has called on the federal government to recognize municipal interests, increase autonomy, and secure new revenue sources for municipalities. Because these initiatives would greatly increase the capacity of the City of Vancouver to address problems in middle income housing affordability, the City should work with the FCM to lobby the federal and provincial governments.

4. Incentives to Developers to Create New Modest Market Rental Units

As it is generally unprofitable for the private sector to build unsubsidized affordable housing (Hulchanski, 2002, p16), governments look for ways to reduce developers’ costs. Municipalities have a number of tools available to provide incentives to encourage developers to create modest market housing units voluntarily.

1. **Waive development fees**
2. **Density bonuses** – allow developer to build more units than would normally be permitted on a specific site.
3. **Relax bylaws** on parking requirements, setbacks, building height, etc
4. ** Expedite approval process**
5. **Use of publicly owned land** – often provided at or below market cost.
6. **Relax zoning bylaws** – for example to allow secondary suites, or coach houses on the same lot as a new home.

These incentives are offered to a developer in exchange for a commitment to include a proportion of modest market housing in a new development.

**Criteria and Measures for Evaluation**

The following are the criteria and measures by which the policy alternatives will be evaluated. The “affordable ranges” mentioned are drawn from the table on page 2 of this document.
1. **Increase number of rental units** – the number of rental units created within the affordable rent ranges of $550-$1180 per month for a single income household and $1470-$2250 per month for a two income household.

2. **Increase entry level ownership opportunities** – the number of new units for sale created within the affordable ranges of $61,000-$179,000 for a single income household and $235,000-$425,000 for a two income household.

3. **Mixed income neighbourhoods** – the degree to which the distribution of household incomes in a new neighbourhood matches the distribution of incomes in Vancouver as a whole.

4. **Equity** – the proposed policy must treat all stakeholders fairly.

5. **Cost** – the cost to the City of implementing and administering the proposed program.

6. **Legal / Jurisdictional** – the policy must not expose the City to legal risk and must be within the powers of the City to undertake.

### Evaluation of Policy Options

The matrix below evaluates each of the four proposed policy options against each of the criteria set out above. An explanation of each point follows.

<table>
<thead>
<tr>
<th></th>
<th>Semi-Market and Non-Profit Housing</th>
<th>Inclusionary Zoning</th>
<th>Lobby Senior Governments</th>
<th>Developer Incentives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rental units</td>
<td>✓</td>
<td>Some</td>
<td></td>
<td>Some</td>
</tr>
<tr>
<td>Ownership opportunities</td>
<td>✓</td>
<td>Some</td>
<td></td>
<td>Some</td>
</tr>
<tr>
<td>Mixed income neighbourhoods</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity</td>
<td>✓</td>
<td>□</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Cost</td>
<td>□</td>
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<td>✓</td>
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<tr>
<td>Legal / Jurisdictional</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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</tbody>
</table>
Semi-Market and Non-Profit Housing

As evidenced by the Verdant development at Simon Fraser University, a semi-market housing model is effective in creating significant numbers of both rental units and units to be sold. While all of the units in the development are targeted at middle income households, the placement of the development in an area of regular market housing aids in the creation of mixed-income neighbourhoods. The policy deals well with equity concerns as no major additional burdens would be placed on any of the stakeholders. The provincial and federal governments do not need to be involved, and since private organizations act as developer and operator, the City need only provide the regulatory framework and, in some cases, land at a reduced cost. Middle income households will be better off due to the increased housing supply, and other households should not be negatively impacted. In fact, this policy would likely relieve some of the demand for low income affordable housing. A semi-market housing strategy would cost little to implement, but may require significant administration if the City opted to apply an income or means test to potential renters or buyers. This function might be downloaded to the sponsor organization operating the program, but would still require funding.

The most significant cost to the City will be in providing land at reduced cost. Exact dollar figures will depend on the number and nature of projects undertaken, and further study is needed to provide decision makers with more information. (Such a study was done by Nick Falvo in his paper “Addressing Canada’s Lack of Affordable Housing.” The study considered strategies available to the federal government and found that non-profit housing was more cost-effective than rent supplements or tax credits. [Falvo, 2007 June, p29-35]). In the Vancouver context, the author’s own rough calculations estimate that $182 million to $386 million a year would provide
the city with 950 units of modest market housing each year, roughly 20% of all housing completions. (See Appendix V for calculations.) This would represent a sizeable portion of the City’s yearly budget of approximately $1.07 billion, and the ambitious target of 20% of all units being semi-market housing might be adjusted. Finally, this strategy is also within the City’s legal jurisdiction to pursue.

Inclusionary Zoning

Inclusionary zoning is somewhat effective at creating new rental and ownership opportunities for middle income households. In the twenty years since Vancouver adopted the strategy, “the City’s 20% policy has created capacity for 2280 units, with 1250 being built, and 1130 being unfunded,” meaning that just under half of the possible units do not actually exist. (MVPPD, 2007 August, p5). That is approximately 63 units per year that actually made it on the market. The policy is an excellent way to build mixed income neighbourhoods as the City can specify a ratio of low-income, modest market, and market housing to be provided within a single development. (This assessment would change if the City were to allow payments-in-lieu and the middle income housing would be built on a separate site.) Inclusionary zoning is less effective in addressing equity concerns as it imposes costs on developers and on the senior levels of government that must contribute funding. There is no implementation cost involved with this program as it is already in use, and since the City relies on provincial funding and developer cost levies to purchase the set-aside units from the developer and does not have to provide land, the ongoing costs of inclusionary zoning are within the City’s ability to manage. Again, further study is needed to determine exact costs compared to the number of units that could be created. The policy uses existing land use regulatory powers and so is within the City’s jurisdiction.
Lobby Senior Governments for Financial Assistance

A policy of lobbying the federal and provincial governments will not be immediately or directly effective at increasing the housing available for middle income households, or at creating mixed income neighbourhoods. It is also not an equitable strategy (defined as treating all stakeholders fairly) because it aims to put the burden of funding affordable housing on the senior levels of government and not on developers. It may also negatively impact low-income households because if the lobbying is successful, funds currently allocated for social housing may be moved to programs for modest market housing. However, this policy would not be expensive to the City and is within the City’s jurisdiction to pursue.

It should also be noted that the criteria in the matrix above evaluate the policy alternatives on a relatively short time scale. Lobbying senior governments has potential future benefits that are not captured in this analysis. For example, if successful, this strategy could significantly increase funding, allowing the City to create more rental and ownership opportunities for middle income households.

Incentives to Developers

Offering developers various incentives to induce them to build some housing for the middle income market will be effective in creating some new units, but in Vancouver’s strong housing market it is difficult to persuade developers to give up the potential profit of building regular market housing. It is also very difficult to achieve the levels of affordability needed without some government funding. This policy will not be effective at creating mixed income neighbourhoods due to the lower number of affordable units created. The incentive strategy is
fair to developers in that they may choose whether or not to take advantage of the incentives offered and should not negatively impact middle income or low income households. The City must forego the revenue from various fees and development-related charges and would also incur administrative costs from evaluating proposals to determine which should receive incentives. This strategy employs existing regulatory powers of the City.

**Assessment and Reconciliation of Tradeoffs**

Each of the policy alternatives under examination has advantages and disadvantages. To begin with, semi-market housing is well-represented by the exciting Verdant development at Simon Fraser University. 60 units of high-quality modest market housing were created through the public/private partnership of the university and the developer. However, it is difficult to see how the City of Vancouver could adopt and expand this program without some participation and funding from the senior governments. Developments “would require financial assistance (likely from the federal government) for capital costs. This would result in units being built. Once built, the units would still require annual operating subsidies, likely from the provincial government.” (Falvo, 2007 June, p13). Furthermore, there is a difficulty in enticing developers to get involved in an enterprise where they work for a fee rather than a profit. Vancouver needs to create a more socially conscious development community and "it would take leadership by government to set off the process..." (Beasley, quoted in Pablo, 2007).

Inclusionary zoning has the advantage of allowing the City to control the income mix of new developments by imposing a set-aside requirement. Inclusionary zoning could be particularly effective in Vancouver’s high-growth market as the high number of new developments results in
a higher number of set-aside units. Unfortunately, Vancouver is not getting all of the affordable housing it could from this policy. To date, “the City’s 20% policy has created capacity for 2280 units, with 1250 being built, and 1130 being unfunded,” meaning that just under half of the possible units do not actually exist. (MVPPD, 2007 August, p5). Again, funding from the senior governments is needed for this policy to realize its full potential. An additional problem is that affordable units built due to inclusionary zoning are not likely to remain affordable unless a costly system of administering rent controls and covenants on ownership is created.

Lobbying the provincial and federal governments will not directly allow the City of Vancouver to achieve its goals on middle income affordable housing. However, if successful, this strategy would give the City of Vancouver more tools (jurisdiction and revenue) to address the problem. It is easy to be pessimistic about lobbying senior governments – the province will resist ceding control over some areas, and the federal government will not want to provide additional funding. But pursuing this policy will cost the City very little and the possible benefits make this policy worth the effort.

Developer incentives on their own do not result in enough modest market housing being supplied, especially in a housing market as strong as Vancouver’s where developers do not want to forego the profits of the regular market. Another difficulty is that “the cost of the indirect subsidies and concessions needed to induce developers to build low-priced units is unknown for the most part.” (CMHC, p1). The main advantage of various developer incentives is that they can be used in conjunction with a policy like inclusionary zoning to enhance the profitability of the development. However, even this pairing of policies was not enough to maintain the housing
ratio originally proposed at the South East False Creek / Olympic Village development. The City made extensive use of density bonuses and other incentives, but the developer still found it unprofitable to build one third low-income, one third middle income, and one third market housing. In the end, the set-aside percentages were reduced.

**Recommendations**

Referring to the Olympic Village development in South East False Creek,

“the City expects that the households in the lowest income tertile will largely be accommodated in affordable housing (often referred to as social or non-market housing) developed through senior government housing programs. Most of these households are in core-housing need (households that cannot afford to rent an appropriate market unit) which is a need addressed by senior government housing programs.”

(City of Vancouver Housing Centre, 2005, p1).

The above statement demonstrates that the City views low income housing largely as the responsibility of the provincial and federal governments. Middle income housing, however, is not addressed by senior government programs. If the City of Vancouver is serious in its commitment to ensure affordable housing for all income levels, politicians and staff must make modest market housing a priority. Inclusionary zoning and developer incentives are not providing enough units to meet the needs of middle income households. The best way to increase the supply of modest market housing is to dramatically expand the use of semi-market housing.
This could be done in two ways: with the City acting as the developer of semi-market projects or with the City providing incentives and regulation to encourage private developers to accept a fee rather than market profit for their work on these projects. The first option is less feasible as it represents a significant policy change. The public would assume the risk (and the potential profit) of any developments undertaken and extensive public consultation would be necessary to ensure the City government had a mandate from taxpayers to do this. The City currently has no administrative capacity to act as a developer, and it is likely that the loss of efficiency due to not using the expertise of existing private firms would negate the cost reductions seen in developments like Verdant at Simon Fraser University.

A much more effective strategy would be for the City to find ways to induce private developers to invest in semi-market housing. The major hurdle is to get developers to accept working for a set fee rather than a profit (although a guaranteed fee might start to look more attractive if an economic slowdown occurs). The City must engage in a dialogue between developers, planners, citizens, and government to find ways to make this happen. For example, perhaps the federal government could provide loan guarantees, lowering the developers’ borrowing costs so that they can either increase their income from the fee or lower the selling price of the homes. Or developers might find that the goodwill a company gains from socially responsible projects can be profitable as well. The involvement of Vancity as a developer of semi-market and non-profit housing is but one example.

Vancouver need not abandon its current use of inclusionary zoning and developer incentives, however. There is nothing in these strategies that contradicts the goals and mechanisms of semi-
market housing and indeed, these are valuable tools that the City can use to encourage developers. Lobbying, of the federal government in particular, will also be an important component of the success of the semi-market housing policy. The City will need the resources and backing of senior government to make an investment in housing significant enough to make a difference. Thus, all four of the policy options considered in this paper should be employed, with the other three being used to advance and support the semi-market housing strategy. This will enable Vancouver to make real commitment to middle income affordable housing and to realize the dream of a city in which everyone can afford to live.
Appendix 1

LOCAL GOVERNMENT ACT
[RSBC 1996] CHAPTER 323

Part 26 — Planning and Land Use Management (excerpts)

Division 7 — Zoning and Other Development Regulation

Zoning bylaws

903 (1) A local government may, by bylaw, do one or more of the following:

(a) divide the whole or part of the municipality or regional district into zones, name each zone and establish the boundaries of the zones;

(b) limit the vertical extent of a zone and provide other zones above or below it;

(c) regulate within a zone

(i) the use of land, buildings and other structures,

(ii) the density of the use of land, buildings and other structures,

(iii) the siting, size and dimensions of

(A) buildings and other structures, and

(B) uses that are permitted on the land, and

(iv) the location of uses on the land and within buildings and other structures;

(d) regulate the shape, dimensions and area, including the establishment of minimum and maximum sizes, of all parcels of land that may be created by subdivision, in which case

(i) the regulations may be different for different areas, and

(ii) the boundaries of those areas need not be the same as the boundaries of zones created under paragraph (a).

(2) The authority under subsection (1) may be exercised by incorporating in the bylaw maps, plans, tables or other graphic material.
(3) The regulations under subsection (1) may be different for one or more of the following, as specified in the bylaw:

(a) different zones;

(b) different uses within a zone;

(c) different locations within a zone;

(d) different standards of works and services provided;

(e) different siting circumstances;

(f) different protected heritage properties.

(4) The power to regulate under subsection (1) includes the power to prohibit any use or uses in a zone.

(5) Despite subsections (1) to (4) but subject to subsection (6), a local government must not exercise the powers under this section to prohibit or restrict the use of land for a farm business in a farming area unless the local government receives the approval of the minister responsible for the administration of the Farm Practices Protection (Right to Farm) Act.

(6) The minister responsible for the Farm Practices Protection (Right to Farm) Act may make regulations

(a) defining areas for which and describing circumstances in which approval under subsection (5) is not required, and

(b) providing that an exception under paragraph (a) is subject to the terms and conditions specified by that minister.

(7) Regulations under subsection (6) may be different for different regional districts, different municipalities, different areas and different circumstances.

Zoning for amenities and affordable housing

904 (1) A zoning bylaw may

(a) establish different density regulations for a zone, one generally applicable for the zone and the other or others to apply if the applicable conditions under paragraph (b) are met, and
(b) establish conditions in accordance with subsection (2) that will entitle an owner to a higher density under paragraph (a).

(2) The following are conditions that may be included under subsection (1) (b):

(a) conditions relating to the conservation or provision of amenities, including the number, kind and extent of amenities;

(b) conditions relating to the provision of affordable and special needs housing, as such housing is defined in the bylaw, including the number, kind and extent of the housing;

(c) a condition that the owner enter into a housing agreement under section 905 before a building permit is issued in relation to property to which the condition applies.

(3) A zoning bylaw may designate an area within a zone for affordable or special needs housing, as such housing is defined in the bylaw, if the owners of the property covered by the designation consent to the designation.

Housing agreements for affordable and special needs housing

905 (1) A local government may, by bylaw, enter into a housing agreement under this section.

(2) A housing agreement may include terms and conditions agreed to by the local government and the owner regarding the occupancy of the housing units identified in the agreement, including but not limited to terms and conditions respecting one or more of the following:

(a) the form of tenure of the housing units;

(b) the availability of the housing units to classes of persons identified in the agreement or the bylaw under subsection (1) for the agreement;

(c) the administration and management of the housing units, including the manner in which the housing units will be made available to persons within a class referred to in paragraph (b);

(d) rents and lease, sale or share prices that may be charged, and the rates at which these may be increased over time, as specified in the agreement or as determined in accordance with a formula specified in the agreement.
(3) A housing agreement may not vary the use or density from that permitted in the applicable zoning bylaw.

(4) A housing agreement may only be amended by bylaw adopted with the consent of the owner.

(5) If a housing agreement is entered into or amended, the local government must file in the land title office a notice that the land described in the notice is subject to the housing agreement.

(6) Once a notice is filed under subsection (5), the housing agreement and, if applicable, the amendment to it is binding on all persons who acquire an interest in the land affected by the agreement, as amended if applicable.

(7) On filing under subsection (5), the registrar must make a note of the filing against the title to the land affected but, in the event of any omission, mistake or misfeasance by the registrar or the staff of the registrar in relation to the making of a note of the filing,

    (a) neither the registrar, nor the Provincial government nor the Land Title and Survey Authority of British Columbia is liable vicariously,

    (a.1) neither the assurance fund nor the Land Title and Survey Authority of British Columbia, as a nominal defendant, is liable under Part 19.1 of the Land Title Act, and

    (b) neither the assurance fund nor the minister charged with the administration of the Land Title Act, as a nominal defendant, is liable under Part 20 of the Land Title Act.

(8) The Lieutenant Governor in Council may prescribe fees for the filing of notices under subsection (5), and section 386 of the Land Title Act applies in respect of those fees.
## Appendix 2

### Housing Market Outlook - Vancouver and Abbotsford CMAs

Date Released: Fourth Quarter 2007

<table>
<thead>
<tr>
<th>Forecast Summary</th>
<th>Vancouver CMA</th>
<th>Fall 2007</th>
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<tr>
<td></td>
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<td>Starts:</td>
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<td>Single-Detached</td>
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<td>Multiples</td>
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<td>Semi-Detached</td>
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<td>714</td>
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<td>Row/Townhouse</td>
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<td>3,281</td>
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<td>Apartments</td>
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<td>9,984</td>
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<td>Starts - Total</td>
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<td><strong>Average Price ($)</strong></td>
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<td>Single-Detached</td>
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<td><strong>Median Price ($)</strong></td>
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<td>Single-Detached</td>
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<td>512,000</td>
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<td><strong>New Housing Price Index (% chg)</strong></td>
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<td>4.4</td>
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<tr>
<td><strong>Rental Market</strong></td>
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<td>October Vacancy Rate (%)</td>
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<td>1.4</td>
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<tr>
<td>Two-bedroom Average Rent (October) ($)</td>
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<td>1,004</td>
</tr>
<tr>
<td>One-bedroom Average Rent (October) ($)</td>
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<td>788</td>
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<td><strong>Economic Overview</strong></td>
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<td>Mortgage Rate (1 year) (%)</td>
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<td>Mortgage Rate (5 year) (%)</td>
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<td>Annual Employment Level</td>
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<td>Employment Growth (%)</td>
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<tr>
<td>Unemployment rate (%)</td>
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<td>5.7</td>
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<tr>
<td>Net Migration</td>
<td>23,966</td>
<td>30,172</td>
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</table>

ML® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM).

NOTE: Rental universe = Privately rented rental apartment structures of three units and over.
Appendix 3

Modest Market Affordability and Home Ownership
For Middle Income Households in Vancouver (2006)

Table 4 - Modest Market Affordability for Middle Income Households with One Income:

<table>
<thead>
<tr>
<th>Income Range</th>
<th>33 Income Percentile</th>
<th>Average Market Rent in City</th>
<th>Sub-Area 2A Est. Modest Market Rent</th>
<th>66 Income Percentile</th>
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<tbody>
<tr>
<td>Rent Range</td>
<td>$22,575/year</td>
<td>$550/month</td>
<td>$700/month</td>
<td>$800/month</td>
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<td>Studio Mkt. Rent</td>
<td>$1,100/month</td>
<td>$1,180/month</td>
<td>$1,200/month</td>
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<tr>
<td>1-Bdr Mkt. Rent</td>
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<td></td>
<td></td>
<td></td>
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</table>

Table 5 - Modest Market Affordability for Middle Income Households with Two Incomes:

<table>
<thead>
<tr>
<th>Income Range</th>
<th>33 Income Percentile</th>
<th>Average Market Rent in City</th>
<th>Sub-Area 2A Est. Modest Market Rent</th>
<th>66 Income Percentile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent Range</td>
<td>$58,860/year</td>
<td>$1,470/month</td>
<td>$1,190/month</td>
<td>$1,500/month</td>
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<tr>
<td>2-Bdr. Mkt. Rent</td>
<td>$360,000</td>
<td>$1,450/month</td>
<td>$1,800/month</td>
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</tr>
<tr>
<td>3-Bdr Mkt. Rent</td>
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<td></td>
<td></td>
<td></td>
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Table 6 - Affordable Home Ownership for Middle Income Households with One Income

<table>
<thead>
<tr>
<th>Income Range</th>
<th>33 Income Percentile</th>
<th>Market Value</th>
<th>Modest Market Price</th>
<th>66 Income Percentile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price Range (10% down)</td>
<td>$22,575/year</td>
<td>$51,000</td>
<td>$47,250/year</td>
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<tr>
<td>Price Range (25% down)</td>
<td>$22,575/year</td>
<td>$61,000</td>
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<tr>
<td>Studio Condo</td>
<td>$240,000</td>
<td>$360,000</td>
<td>$170,000</td>
<td>$179,000</td>
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<tr>
<td>1-Bdr. Condo</td>
<td></td>
<td>$360,000</td>
<td>$250,000</td>
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</table>

Table 7 - Affordable Home Ownership for Middle Income Households with Two Incomes

<table>
<thead>
<tr>
<th>Income Range</th>
<th>33 Income Percentile</th>
<th>Market Value</th>
<th>Modest Market Price</th>
<th>66 Income Percentile</th>
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<tr>
<td>Price Range (10% down)</td>
<td>$58,860</td>
<td>$200,000</td>
<td>$360,000</td>
<td>$425,000</td>
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<tr>
<td>Price Range (25% down)</td>
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<td>$235,000</td>
<td>$340,000</td>
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<tr>
<td>2-Bdr. Condo</td>
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<td>$570,000</td>
<td>$400,000</td>
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<tr>
<td>3-Bdr. Condo</td>
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</tbody>
</table>

## Appendix 4

**CANADIAN HOUSING OBSERVER**

**MLS® Average Residential Price, Canada, Provinces and Metropolitan Areas, 1990–2006 (dollars)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>St. John’s</td>
<td>92.226</td>
<td>91.514</td>
<td>94.359</td>
<td>99.525</td>
<td>104.376</td>
<td>113.081</td>
<td>119.822</td>
<td>131.499</td>
<td>141.167</td>
<td>139.542</td>
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<td>114.025</td>
<td>118.522</td>
<td>128.003</td>
<td>134.106</td>
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<td>162.486</td>
<td>175.132</td>
<td>189.196</td>
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<td>88.731</td>
<td>93.697</td>
<td>97.348</td>
<td>103.544</td>
<td>106.473</td>
<td>116.836</td>
<td>119.718</td>
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<td>80.213</td>
<td>83.982</td>
<td>87.870</td>
<td>93.243</td>
<td>100.891</td>
<td>109.561</td>
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<td>117.586</td>
<td>129.149</td>
<td>141.485</td>
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<td>193.934</td>
<td>250.915</td>
</tr>
<tr>
<td>Abbotsford</td>
<td>NA</td>
<td>NA</td>
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<td>NA</td>
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<td>NA</td>
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<td>NA</td>
</tr>
</tbody>
</table>

**Source:** Adapted from CREA (MLS®)

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Appendix 5

Estimated Budget Calculations for Semi-Market Housing in the Vancouver Census Metropolitan Area

The following calculations are rough estimates only. The data for “average home price” is for the Vancouver Census Metropolitan Area rather than just the City of Vancouver. Also, the choice to set the goal number of units at 20% of all completions is arbitrary and ambitious. Furthermore, the selling price of semi-market homes has been calculated at 80% of the market value of similar homes to match the reduction in selling price seen at the Verdant development at SFU. It may not be reasonable to expect that future developments, especially near the lower end of the modest market, will be able to experience the same reduction in construction costs.

Scenario 1

\[ \text{\$ needed} = (\text{goal \# of units}) \times (\text{average price of semi-market home}) \]

\[ \text{\$ needed} = \left( \frac{1}{5} \times 4736 \right) \times \left( 0.2 \times 509,876 \right) \]
\[ = \left( 947.2 \right) \times \left( 407,900.8 \right) \]
\[ = \$386,363,638 \]

Scenario 2

\[ \text{\$ needed} = (\text{goal \# of units}) \times (\text{goal selling price}) \]

\[ \text{\$ needed} = \left( \frac{1}{5} \times 4736 \right) \times \left( 0.2 \times 360,000 \right) \]
\[ = \left( 947.2 \right) \times \left( 288,000 \right) \]
\[ = \$272,793,600 \]

Scenario 3

\[ \text{\$ needed} = (\text{goal \# of units}) \times (\text{goal selling price}) \]

\[ \text{\$ needed} = \left( \frac{1}{5} \times 4736 \right) \times \left( 0.2 \times 240,000 \right) \]
\[ = \left( 947.2 \right) \times \left( 192,000 \right) \]
\[ = \$181,862,400 \]

\[ ^1 \text{City of Vancouver, March 2007.} \]
\[ ^2 \text{CMHC, 2007. See Appendix IV.} \]
\[ ^3 \text{Gray, C., 2006. See Appendix III.} \]
\[ ^4 \text{Ibid.} \]
References


Jennifer Balcom

Jennifer Balcom is a Masters in Public Policy candidate at Simon Fraser University. Her research interests include municipal affairs, housing policy, regional government, and inter-governmental relations. She is a life-long Vancouverite with a deep connection to the city and its people.