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Urban Development Institute
Rental Builder Survey Backgrounder – November 2018

In advance of the release of the provincial Rental Housing Task Force recommendations, the Urban Development Institute (UDI) recently conducted a survey of 30 leading rental builders to better understand the volume of active and prospective rental units that could be impacted by changes in government policy. Upon completion, UDI learned that respondent's projects cumulatively represent **19,972** rental homes across B.C., with a majority situated in Metro Vancouver. Most rental projects are concentrated in the City of Vancouver, Coquitlam, Burnaby and the North Shore, and are slated for residential or mixed use.

Of these rental projects, **12,631** are at risk of delay or cancellation, if restrictive new rental policies are imposed. All respondents agreed that if vacancy control, or tying rent controls to the unit and not the tenant, is adopted by government, that it would be the single, most significant impediment to the construction of current and future projects. Rental projects would inevitably become less financially viable to build and maintain. Currently, rental owners have the flexibility to adjust rents between tenancies to account for building and unit upgrades and other increased costs like property taxes, insurance and utilities. Vacancy controls would remove this ability. If rent is tied to the unit, the ability and incentive for a rental owner to ensure necessary upgrades are completed to aging buildings is severely compromised. Respondents advised that more than two-thirds of the 19,972 rental units in the pipeline would be jeopardized if vacancy control is introduced by the provincial government.

Respondents indicated that other factors that are contributing to a builder's ability to invest and construct rental housing are largely government actions. Those include: the recent change of the maximum annual allowable rent increase formula to CPI only, Budget 2018 tax increases on building new rental housing, slow municipal processing times and government uncertainty. Additional external elements that were discussed include escalating construction costs and the increasing interest rate environment.

Despite the many measures that directly and indirectly constrain their ability to construct rental homes, rental builders are eager to provide this much needed housing type. Builders are keen to diversify their investment portfolios and see rental as a stable long-term asset, given the strong demand for rental options. Builders recognize the widespread community benefit that rental housing provides and are enthusiastic partners to assist the government in achieving their goal of building 114,000 homes by 2027.

However, rental projects have been increasingly frustrated with new restrictions. As a result, builders are forced to re-evaluate their rental projects, with many considering a switch to condominium developments, other asset classes, or cancelling projects altogether. Introducing additional taxes and regulations that only add to the uncertainty and increased costs already felt by rental builders could prevent them from prioritizing long-term rental investments.

As reflected in the *Cressey Development* case study included below, the majority of respondents said they are considering, or have already taken, steps to mitigate this uncertain rental construction environment. Builders said they will likely move capital to other jurisdictions in Canada like Calgary or Toronto or to the United States in areas like Seattle, California and Texas. They also noted that they have considered, and in some cases begun the process, to move capital slated for rental to other asset classes within their companies, such as industrial and commercial.

While local governments and the public eagerly anticipate the release of the remaining Rental Housing Task Force recommendations, the industry warns against the implementation of vacancy control or further rent controls, to current and future rental projects. Vacancy control, if adopted, could single-handedly halt all current rental projects and significantly deter the construction of any future units.

The following case studies highlight major rental companies that outline the far-reaching, unintended consequences of increased government regulation on rental construction:

Concert Properties Ltd., Brian McCauley, President & CEO
Concert Properties is a Vancouver-based company whose award-winning communities can be found across the country. Concert has consistently championed diverse forms of housing across its national portfolio, including purpose-built rental homes. Concert Properties has more than 2,700 rental homes in their pipeline, but are currently not considering adding more. The recent layering on of increased costs, fees, and taxes has made building rental homes a serious challenge. Many of the homes currently in their portfolio are in jeopardy as they await the remaining recommendations of the Rental Housing Task Force. If vacancy controls are introduced, in-stream projects would come to a halt, and Concert would be forced to consider cancelling all rental projects currently underway. These are livable homes for British Columbians that would quickly disappear. These homes are designed to meet the needs of a growing, diverse population, like the 1,000 rental units in three buildings, located at the Burquitlam Skytrain Station in Coquitlam. Despite development processes already underway and support from the municipality, their status remains tenuous at best. New homes like these are at risk across the Province with the introduction vacancy controls; British Columbians will face even less choice as they look for homes.

Cressey Development Group, Scott Cressey, CEO
Cressey Development Group has been building homes in Western Canada for almost five decades. They have continuously taken a collaborative approach to building and have many ongoing rental projects in Metro Vancouver, totaling nearly 850 units. These rental homes, and many more in the future, could be at risk with the introduction of vacancy control. For family-run businesses like Cressey, they have already started to look across the border to build homes. In Seattle, WA, the situation looks much brighter. Cressey recently completed 260 rental homes, taking just three years from purchasing the property to tenant move-in. In Vancouver, a similar project would take closer to five years before gaining approval. Supported by flexible policies, fewer taxes and no rent controls, Cressey has already begun construction on another 950 rental

homes in Seattle. The buildings themselves are simpler, but they feature superior quality and ample amenities and can be built quicker to meet the growing demand of the Seattle market. Rental home builders like Cressey have the experience and the ability to meet the housing need in British Columbia, but they need the incentives and support to make projects like those in Seattle, financially viable on this side of the border.

Hollyburn Properties, David Sander, Director
British Columbians are looking for more home choices, including seeking out rental as a viable, long-term option. Hollyburn Properties is a family-run business that is dedicated to providing safe, well-maintained and sustainable rental homes in three provinces across Canada. Hollyburn wants to be a company that contributes to the community by meeting the growing demand for rental homes. Rental forms an important part of the housing spectrum, but many existing buildings are growing past their useful life and amenities do not meet the expectations of today's renters nor of government's green building requirements along with seismic and energy standards. New rental buildings could provide the solution to this problem, incorporating many added benefits that are lacking in older buildings. Projects like Hollyburn Gardens, located at 195 21st Street in West Vancouver, are custom-built for renters. Close to the West Vancouver Community Centre and Seniors Centre, it connects tenants to the people, culture and experiences that make an urban lifestyle so desirable. Yet projects like Hollyburn Gardens are rare; it is one of the first new rental projects approved in West Vancouver in over 40 years. This unique and much-needed rental project could be put at risk with the potential of further restrictions as part of the Rental Housing Task Force's recommendations. If vacancy control is introduced, Hollyburn will be forced to seriously reconsider projects such as Hollyburn Gardens and others planned for Greater Vancouver. With the regulatory uncertainty in the local rental market, Hollyburn will continue to focus on rental acquisition and construction in other provinces.

PCI Developments, Tim Grant, Vice President, Development
PCI Developments has been developing real estate in Metro Vancouver for 36 years. Projects range from modest to landmark, and include some of Metro Vancouver's most prominent buildings, such as Marine Gateway and Crossroads. PCI has a wealth of experience building mixed-use and transit-oriented projects, providing opportunities for residents to live close to work or services with transit at their doorstep – a preferred location for renters. A renewed focus for PCI is creating high-quality, secure, long-term rental homes for British Columbians in desirable locations. However, opportunities to do so have been limited, notably due to inflated land values and opportunity cost of rental development due to the region's strong condo market.

This situation has improved in recent years with favourable interest rates and government financial and development incentives that made the building of new rental housing feasible. PCI currently has over 2,000 rental homes in various stages of pre-development planning, including both market and affordable. However, the delicate financial balance of continued viability of these projects is being increasingly challenged by government restrictions and rising construction costs. Vacancy and further rent control measures would tip the scales, forcing PCI to revisit over 1,000 of these units for condo development, or maintain status quo with existing, outdated commercial improvements.

PCI and other developers have finally been able to build desperately needed new, high-quality rental homes – we cannot afford to jeopardize these opportunities.

Reliance Properties, Jon Stovell, CEO
Reliance Properties builds and manages many rental homes in some of Vancouver's most up-and-coming and desirable neighbourhoods, like the East Side Harbour Front, West End, downtown core and historic Gastown. They were planning to add 1,250 more new rental homes in Vancouver but recent changes to the Residential Tenancy Act and the threat of vacancy control has jeopardized the viability of their projects. Reliance has already shelved a 160-unit rental building in downtown Vancouver. Two other projects are currently on hold, one located at 920 Davie Street and another that consists of 158 market rental units.

It's undeniable there is a housing crisis in Vancouver. Government policies alone will not solve it. It's home builders like Reliance that have been and should continue to be a part of the solution. In Vancouver, there has been a dedicated effort by policy makers to create more below-market units and ensure that communities remain vibrant and inclusive. Reliance and other rental builders have the tools needed to create more affordable rental homes, but they need to be realistic about their bottom-line and the ability for such projects to be financed. Rental builders already struggle to find the right balance between adding more below-market rental homes while ensuring the projects' viability in the face of rising taxes, construction costs and arduous processing times. The recent changes to the Residential Tenancy Act have made building rental projects challenging; however, the implementation of vacancy control would make Reliance's future rental projects absolutely unworkable. Hundreds of homes designed to meet Vancouver's growing needs would never make it off the ground.

Survey Data by Municipality

Vacancy Control puts Homes at Risk			
Municipality	**Rental Units in Development**	**Rental Units at Risk**	**Projects Impacted***
Vancouver	7132	5195	21
Burnaby	630	200	3
Richmond	118	118	2
Tri-Cities	2251	2010	8
New Westminster	315	315	2
North Shore	1060	340	3
West Vancouver	41	41	1
Surrey	1136	1030	5
Fraser Valley	506	506	2
Victoria	420	360	3
Vancouver Island	1455	1155	5
Other: BC	535	348	4
Other: Not Specified	4373	1013	6
Total	**19972**	**12631**	**65**

*Projects may also contain non-rental units.