



# Corporate *NO: R118*

# Report *COUNCIL DATE: May 22, 2001\_*

<b>REGULAR COUNCIL</b>			
<b>TO:</b>	<b>Mayor &amp; Council</b>	<b>DATE:</b>	<b>May 16, 2001</b>
<b>FROM:</b>	<b>General Manager, Planning &amp; Development</b>	<b>FILE:</b>	<b>2104-015</b>
<b>SUBJECT:</b>	<b>Home Ownership Assistance Program Status Report</b>		

## RECOMMENDATION

It is recommended that Council:

1. Receive this report as information;
2. Extend the duration of the first “year” of the Surrey Home Ownership Assistance Program to December 2001; and
3. Authorize staff to bring forward for Council's consideration appropriate revisions to the Program and related policy for the second year of the Program, which will commence later this year once Council has approved any necessary revisions.

## PURPOSE

The purpose of this report is to:

1. Provide Council with an update on the progress made to date in implementing the Home Ownership Assistance Program;
2. Discuss the challenges affecting the implementation of the Program including the following:
  - Financial profile of applicant households; and

- Current housing market; and

3. Discuss some possible options for adjusting the Program and related policy for a recommended second “year” of the Program.

## **BACKGROUND**

On September 13, 1999, Council approved the Affordable Home Ownership Policy - Implementation Strategy Report (Corporate Report No. C433, attached hereto as Appendix I) and authorized staff to:

- Implement the Home Ownership Assistance Program, on a pilot basis for up to two years;
- Enter into an administration agreement with the Greater Vancouver Housing Corporation (GVHC) to administer the Program; and
- Complete the necessary supporting by-laws.

The above noted actions were completed by spring 2000, including the adoption of the Affordable Housing Special Reserve Fund By-law and Expenditure By-law and completion of an administration agreement with GVHC. By June 2000 the GVHC had established the necessary administrative supports and public information material required to initiate the Home Ownership Assistance Program for the first year of the pilot project. A copy of the information brochure is attached hereto as Appendix II.

## **Overview of the Home Ownership Assistance Program**

The Home Ownership Assistance Program is targeted at Surrey families with incomes at least 10% below the median household income and is intended to allow some of these families to enter the new housing market earlier than they may otherwise find possible. Under the Program qualified participants are eligible for an interest free loan in an amount not exceeding 15% of the purchase price, to a maximum \$15,000 upon purchase of a new dwelling unit. The loan is forgivable at the rate of 10% per year to a maximum of 50% of the original loan.

Program eligibility requires that applicants be:

- Surrey residents;
- First time home buyers;
- Family households; and
- Have a maximum annual income of \$42,500.

Eligible new homes that qualify under the Program are those that are:

- Newly constructed and located in Surrey;
- Minimum of two bedrooms in size; and
- In compliance with the provincial New Home Warranty provisions;

The conditions of the loan are that the loan be:

- Registered as a second mortgage in favour of the City of Surrey;

- Repayable upon sale of the home, and
- Due and payable in the event the home ceases to be the principal residence of the owner.

The funding source for the Program is the City's Affordable Housing Special Reserve Fund. The Fund acts as an endowment with the annual interest earned by the Fund in the prior year funding the Program in the current year. The Program is being administered by the GVHC on behalf of the City.

In November 1999, Council authorized \$300,000 in interest earnings from the Reserve Fund to launch the first year of the pilot Program. This amount is sufficient to assist 17 eligible households and cover the Program administration costs which for the first year of the program will amount to a maximum of \$31,000. It was anticipated that the Program would be repeated on a similar basis in a second year.

## DISCUSSION

### Program Launch and Promotion

The Home Ownership Assistance Program is a unique and innovative pilot Program that breaks new ground in assisting and encouraging home ownership. When the Program was released to the community in June 2000, it generated considerable interest from the media and residents. During the marketing phase of the first year of the Program, the GVHC received over 600 inquires and sent out 210 application packages to eligible Surrey households. Following the closing date for applications on August 18, 2000, the GVHC had received a total of 85 applications from Surrey households.

### Applicant Selection and Profile

The applications received for the Program covered a wide range of incomes, suggesting a need for a wide range of home prices to accommodate selected qualified applicants. However, a comparison of current housing costs to the income levels of selected applicants indicated that most applicants could not meet the income and asset requirements needed to enter the housing market despite the contribution from the Home Ownership Assistance Program.

The table below illustrates the relationship between the income ranges of the applicants and corresponding home prices that the applicants would be able to afford based on their income with \$15,000 of assistance from the Program.

<b>Income Range</b>	<b>Number of Applicants</b>	<b>Range of Affordable Homes Prices</b> (with \$15,000 second mortgage from City)
\$20,000 and less	16	<- \$72,000
\$20,001 to \$25,000	7	\$72,001 to \$90,000
\$25,001 to \$30,000	9	\$90,001 to \$107,000
\$30,001 to \$35,000	20	\$107,001 to \$123,00
\$35,001 to \$40,000	21	\$123,001 to \$138,000
\$40,001 to \$45,000	12	\$138,001 to \$148,000

One of the other key determinants of the applicants' ability to participate in the Program is the degree of savings and assets each household can contribute to the purchase. The GVHC's analysis of the applications demonstrated that down payments and related house purchasing costs remain a significant barrier to accessing home ownership. A total of 7 applicants appear to have sufficient income and savings to purchase a home under the Home Ownership Assistance Program. The GVHC estimates that 5 or 6 additional applicants could be successful in securing additional funds from family and friends to take advantage of the Program. The GVHC, therefore, anticipates that a total of 12 to 13 households can eventually be placed in new homes through the Program provided sufficient housing units become available in the City in the price ranges, sizes and locations acceptable to the applicant households.

### **Assistance to Date Provided Through the Program**

To date the Program has allowed one family to purchase a home. The family of four was able to purchase, with the assistance of a second mortgage through the City, a three-bedroom townhouse priced just below \$150,000. The townhouse was one of several units offered at a very competitive price, in the last phase of a development in Whalley. One of the challenges of the Program was to find available units with the New Home Warranty provisions in place. This particular development was started prior to the New Home Warranty provisions coming into effect, initially rendering the unit unable to be purchased under the Program. However, GVHC reviewed the warranty insurance provisions secured by the builder and found the warranty to be equivalent to the New Home Warranty requirements of the Homeowner Protection Office, providing the purchaser with an equal level of protection. A second family is currently finalizing the purchase of a home under the program in the same development and will also receive assistance in the amount of \$15,000.

While the application receipt and screening processes of the first year of the Program are now complete and summarized in the table below, the challenge remains in finding homes for the qualified participants in a housing market with relatively few starts in the multiple residential housing sector in the appropriate price range.

	Inquiries during Program promotion	Application packages mailed-out	Applications received by GVHC	Potential number of qualified participants	No. of participants assisted to date	Maximum No. of Participants in Program
	<b>600</b>	<b>210</b>	<b>85</b>	<b>13</b>	<b>1</b>	<b>17</b>

### **Current Housing Market Conditions**

#### **Limited supply of appropriate housing stock**

Aside from identifying qualified applicants for the Program, the other challenge facing the GVHC in implementing the Program has been the limited supply of eligible homes available to be purchased under the Program. One of the criteria of the Home Ownership Assistance Program was that homes purchased under the Program be new and be covered by the New Home Warranty provisions. This latter requirement was considered important for the protection of both the Program and the first time homebuyer who would be entering the housing market as a result of the Program. However, since the introduction of the Program, the

“leaky condo” crisis, as well as, demographic and economic factors have affected the housing market to the point where existing new housing stock in the lower price ranges has been almost completely absorbed and little if any new development has occurred to replace it. According to the GVHC in May 1999, the multiple family housing market included 172 newly constructed two –bedroom condominiums, but by December 2000 this supply had been reduced to 14 units in all price ranges. GVHC's research has also indicated that the supply of new townhouses has been more stable but generally limited to the higher price ranges. As a result, there are currently no available condominium apartments and only a few remaining affordable townhouses for applicants to purchase under the Program.

In response to the void of multiple residential units in all price ranges and in the lower price ranges in particular, the GVHC recently issued a “request for expression of interest” to 35 developers, who have previously completed developments in Surrey, to obtain information on any existing or planned housing units. Four developers contacted the GVHC of which two submitted information packages on new developments. Two of the four responding developers declined to submit information on their projects because their housing products were priced above the price range potentially accessible to applicants under the Program. The chart below documents existing new housing units and new housing units under development that will be available within the next six months.

Price Range of New Units	Number of Existing New Units	Affordable Units under development***.
\$110,000 to \$120,000	0	0
\$120,001 to \$130,000	0	2 = Two-bedroom condominiums*
\$130,001 to \$140,000	0	9 = Two-bedroom condominiums*
\$140,001 to \$150,000	3 = Two-bedroom townhouses* 2 = Three-bedroom townhouses**	11 = Two-bedroom condominiums*
Total	5 = Existing townhouses	26 = Proposed two-bedroom condominiums

\* Subject to the New Home Warranty provisions

\*\* Built prior to the New Home Warranty provisions but equivalent insurance provided

\*\*\* These units are all within one development

Based on this information it appears that the remaining qualified applicants under the first year of the Program can choose from a limited number of townhouses and condominiums, provided they are in a price range affordable to the applicants. According to the GVHC, the remaining new townhouses are priced between \$145,000 and \$176,000 and the developer, representing the first condominium development to be built in the City of Surrey in two years, is proposing to offer to the Program approximately 26 apartment units at significant pre-sale values. These new housing units are expected to be available in the fall of this year.

Both the GVHC and Planning and Development Department propose that the first year of the pilot Program be extended to the end of 2001 to afford the GVHC additional time to work with qualified applicants to take advantage of new housing units coming on the market later this year including the improved affordability of those units due to pre-sale prices.

## **Program Costs to Date**

Council in the 1999 Budget approved funding in the amount of \$300,000 for the first year of the Program. Due to the time required to finalize the Program policy, locate a suitable administrator (i.e., the GVHC) for the first year of the program, structure a contract between the City and the GVHC and develop appropriate materials for marketing the program, the first year of the program did not commence until June, 2000.

The GVHC was retained to administer the program on behalf of the City. The contract with the GVHC that was approved by Council allows for up to \$31,000 to be paid to the GVHC for the services that they are providing for the first year. To date, no monies have been paid to the GVHC for administration of the Program. The remaining \$269,000 is to be used to assist qualified program participants in purchasing a home (i.e., 17 households with assistance up to \$15,000 each). Assistance in the amount of \$15,000 has been provided by way of a second mortgage to one family that has purchased a new home under the program.

### **Second Year of Program**

Council has approved an additional \$300,000 toward the implementation of the Program in each of the Year 2000 and Year 2001 Budgets. The expenditure by-law that was recently adopted by Council in the amount of \$600,000 reflects these budget allowances. As such, approved Program funding amounts to \$900,000.

Given the experience gained through the implementation of the first year of the Program, it appears necessary to make some adjustments to the Program and related policy to make it more effective. The following is a discussion of some possible adjustments.

### **Proposed Options for Adjusting the Program Criteria for Year Two**

Council adopted the Home Ownership Assistance Program on a pilot project basis for two years following the adoption of the Implementation Strategy in September 1999. Initially it was envisioned that the Program could be administered two times within that period to give adequate experience to both City and the GVHC upon which to make a decision about the future of the Program. As is evident from the experience to date, the administration of the first “year” of the Program has taken longer than anticipated and generated a smaller than expected number of eligible participants. The Program has also encountered a more constrained housing market than initially anticipated. Consequently, the experience of the Program to date suggests that several of the Program components and criteria should be reviewed and adjusted to strengthen the Program and improve the accessibility of the Program to households considering the purchase of a first home.

- **Increase the income criteria under the Program**

Currently the Program is targeted to those households with incomes not exceeding \$42,500 (i.e., 10% below the average household income in the City of Surrey based on the 1996 census). However, to date the households most likely to be able to participate in the Program are those with annual incomes very near the maximum allowed under the Program eligibility criteria. The GVHC has indicated that the average price of new multiple residential units has increased since the Program was first developed and that the price of newly constructed homes is likely to remain at the higher price level in the long run. Therefore, to reflect the changes in the market cost of housing and to improve the accessibility of the Program to a larger number of potentially qualified households, one approach is to increase the maximum income limit of the Program to facilitate a better fit between applicants and market conditions.

- **Increase the level of subsidy or loan**

Another approach that would broaden the spectrum of eligible applicants for the Program would be to change the level of subsidy provided by the Program. GVHC has noted that this is particularly the case for those applicants who require three bedroom units, which are presently only found in

townhouse developments. Newly constructed 3-bedroom townhouses are generally \$30,000 to \$40,000 more expensive than 2-bedroom condominiums. The housing market has not built three-bedroom condominium units for quite some time. However, larger subsidies will mean fewer total households can be assisted under the Program. For example, if the subsidy is doubled, only 8 instead of 17 households could be assisted under the Program assuming that Program funding continues to be limited to the interest earned on the Reserve. The Reserve currently contains approximately \$7 million and generates interest income of approximately \$300,000 to \$350,000 annually.

- **Increase developer participation or partnerships**

Alternatively, or concurrently with the above noted review of the income criteria, the Program may also be in a position to work more closely with developers interested in providing housing units in a price range that would be affordable under the Program in exchange for the direct marketing opportunities available to them by the Program. Again based on the experience gained by the GVHC from discussion with developers, the Program could access the competitive and more affordable prices available at the pre-sale stage of a housing project and such commitments, in turn, could assist developers in the difficult and uncertain times during the project start -up phase.

- **Review the eligibility criteria for qualified households and homes**

Under the current Program, qualified households are families defined as households with dependants. The rationale for this requirement is that families with dependants have less disposable income and, as such, face greater barriers to accessing the housing market than, for example; a single employed individual would face with the same income. At the same time, to ensure that participating households are adequately housed by the dwelling that they purchase under the Program, the eligible homes are limited to those providing two or more bedrooms. While this rationale is worthy and justified the result is that smaller and more affordable one-bedroom and bachelor units currently in the development stage will not be eligible to be purchased under the Program.

One option is to reconsider the need to specify the housing requirements for participating households and to leave the decision to the qualified applicants as to how best to accommodate the needs of their families balanced against the size of home they can afford. Alternatively, another approach may be to expand the eligibility criteria to include households without dependants such as couples and individuals. The overall effect would be to increase the opportunity of home ownership to a wider range of households, accessing a wider range of housing types.

Staff intend to review these Program options with the GVHC, as well as representatives from the lending and development community, prior to forwarding recommendations regarding changes to the Program and the supporting Policy for Council's consideration in the summer of this year for implementation in the second "year" of the Program.

## CONCLUSION

The Home Ownership Assistance Program adopted by Council in September 1999, provides a unique opportunity to assist lower income households in purchasing a first home. To date, one qualified family has purchased a home under the Program, and a second family is finalizing the purchase of a home under the Program. The GVHC has identified 13 more eligible candidates. However, in response to the limited supply of new homes available on the market in a suitable price range, it is recommended that the first year of the Program be extended until the end of 2001. This will allow time for the completion of housing projects currently under development that may facilitate some of the currently eligible candidates to purchase a new home within their affordability range.

It is further recommended that Council authorize staff to review the Program eligibility criteria and bring forward recommended modifications to the Program for implementation in the second year, to achieve a better fit between households qualified to receive assistance under the Program and current market conditions with the view to implementing such modifications in the second year of the program. The second year will not commence until Council has considered and approved any necessary modifications to the Program and related Policy. Should Council adopt the recommendations of this report, a further report to Council regarding recommended changes to the Home Ownership Assistance Program will be completed by late summer 2001.

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Attachments

Affordable Home Ownership Policy - Implementation Strategy  
(Corporate Report No. 433)

Affordable Home Ownership – Information Brochure

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