



Corporate *NO: R014*

Report *COUNCIL DATE: January 21, 2002*

REGULAR COUNCIL			
TO:	Mayor & Council	DATE:	January 15, 2002
FROM:	General Manager, Planning & Development	FILE:	4815-20 (Affordable Housing)
SUBJECT:	Home Ownership Assistance Program - Proposed Revisions for Phase 2 and Use of the Affordable Housing Reserve Fund		

RECOMMENDATION

It is recommended that Council:

1. Receive this report as information;
2. Approve the proposed revisions to the Home Ownership Assistance Program as described in this report and which are incorporated in the revised Affordable Home Ownership Policy (the "Policy") and Home Ownership Assistance Program (the "Program") information attached in Appendix "I" and "II" respectively;
3. Approve the implementation of Phase 2 of the Program with funding up to a maximum of \$300,000, including administration costs which amount has already been approved in the City's annual operating budget;
4. Authorize staff to negotiate an Administration Agreement with the Greater Vancouver Housing Corporation ("GVHC") to administer Phase Two of the Program in accordance with the revised Program and Policy, subject to such agreement being forwarded for Council approval prior to execution; and
5. If Council wishes to pursue the development of a policy directed at providing funding to "non-ownership" affordable housing projects, that staff be directed to develop policy options and provide a further report to Council that identifies and evaluates the policy options and provides appropriate recommendations for Council's consideration.

PURPOSE

The purpose of this Corporate Report is to:

1. Provide Council with an update on the Program;
2. Recommend amendments to the Program;
3. Present information about the current and projected residential market conditions and how they may affect participation in the Program; and
4. Discuss possible alternatives for using the funds available in the Affordable Housing Reserve Fund to provide affordable housing to Surrey residents.

BACKGROUND

On May 22, 2001, Council considered Corporate Report R118, regarding the City's Program that was initiated in June 2000. A copy of the report is attached as Appendix "III". The report provided a summary of the implementation of the Program to that date. The report also identified some of the challenges and factors that contributed to a more extended time of implementation of the first phase of the Program than was originally anticipated and the relatively limited number of households that were assisted, to date, under the Program.

Council adopted the recommendations of the report as follows:

- That the first phase of the Program be extended until December 2001, to enable qualified Program participants to access housing units currently under development; and
- That staff be directed to review the Program and bring forward recommendations on modifications to the Program policies to better achieve the objectives of the Program.

At a Council-in-Committee meeting on November 26, 2001, Council received a presentation from the Progressive Intercultural Services Society (the "Society"), regarding a residential affordable housing project that the Society is constructing at the northeast corner of Scott Road and 75A Avenue. The Society requested that Council provide a grant to the Society in support of the project and suggested that the grant be from the City's Affordable Housing Reserve Fund. A copy of the letter from the Society to Council, dated November 26, 2001, is attached as Appendix "IV". Council referred the request to staff for a report.

At the Regular Council meeting on November 26, 2001, Council passed a resolution that the Planning and Development Department provide a report to Council on the Affordable Home Ownership Program, the success of the Program and any recommendations staff may consider appropriate.

The agenda for the Regular Meeting of Council on January 7, 2002, included a letter, dated December 6, 2001 from the Atira Women's Resource Society that contained a request for a \$300,000 grant from the City toward the construction of a second stage housing project in the City. Council referred the letter (attached as Appendix "V") to staff, with direction that it be addressed as part of the report that staff is preparing on the City's Affordable Home Ownership Program and use of the Affordable Housing Reserve Fund.

This report will address all of the above documented Council requests.

DISCUSSION

A. Update on Phase 1 of the Program

To date, three Surrey households have purchased a home under the Program. The latest purchase was a condominium, in a development by Intracorp Developments ("Intracorp"), at Gateway in City Centre. This sale was made possible due to an initiative whereby the GVHC arranged for Intracorp to host an evening presentation in June and showcase the project, exclusively to eligible participants under the Program. Intracorp provided a unique opportunity for Program participants to purchase a newly constructed condominium unit at prices within the range of affordability of some of the Program participants.

B. Program Review Process

Over the past several months, staff have worked closely with staff of the GVHC and representatives of the development and building industry with the purpose of determining how best to adjust the Program to attain the objective of helping more households achieve home ownership with financial assistance from the Program. One of the key challenges for the Program has been the lack of dwelling unit construction in the lower price ranges of the condominium (apartment) housing market. Due to the income levels of households who qualify under the Program for assistance and the fact that the lowest cost new dwellings available for purchase are typically available in the condominium market, the Program relies upon the construction of condominium (apartment) housing projects to be viable.

In the Spring of 2001, the GVHC requested expressions of interest from approximately 40 Surrey residential developers, related to constructing housing units that would be in a price range affordable to households that qualify under the Program. Proposals were received from Polygon and Intracorp. Polygon submitted their "Ballantyne" development located at 160th Street and 88th Avenue, however, the lowest priced units within this development were beyond the price range that is affordable to households qualifying under the Program. Intracorp's Gateway project in City Centre offered condominiums with prices that were more in line with the Program participants' financial capability. Intracorp is proposing to construct approximately 290 one and two bedroom condominiums in three phases at their Gateway project.

Townhouses are the most predominant form of multiple family housing units being constructed in Surrey. Although townhouse construction in 2002 is anticipated to be healthy, the entry price for this type of dwelling is expected to be beyond the affordability of most qualified households under the Program's current criteria.

While the condominium market is not strong, there are limited opportunities for first time homebuyers to access affordable, newly constructed homes under the Program.

The GVHC, who has administered the first phase of the Program under contract to the City, has identified the following issues:

- Unrealistic or inflated expectations by households as to the impact that the Program's assistance would have on their financial home purchasing power;
- Absence or insufficient savings of participants available for the minimum 5% down payment required to qualify for a mortgage;

- Diverse needs and specific preferences by Program participants, in a housing market with limited supply, did not allow for the purchase of a home where such potential otherwise existed;
- Limited supply of newly constructed condominium housing units, but in particular, in the lower price ranges that would be within the financial means of qualified households; and
- Inefficient selection process of using a random draw of qualified applicants did not motivate selected households to act in a timely manner, nor was it effective in selecting households with sufficient income and equity to purchase a home given the variance in household sizes selected through the draw process.

C. Program Issues and Recommended Changes for Phase 2

The following discusses the specific issues and impediments experienced in the administration of the Program to date and proposes revisions focussed on increasing Program participation in and streamlining the administration of, Phase 2 of the Program.

Issue 1: The current income ceiling for households, being "10% below the median income in the City", appears to be too low to enable households to purchase a home.

Currently, the Program criteria is targeted at those households with incomes 10% below the median household income in the City of Surrey, based on the 1996 census. This provides for a maximum income of \$42,500 to qualify for assistance under the Program. Given the current price of housing and mortgage rates, only those households with annual incomes very near the maximum have any real hope of participating in the Program and even under this circumstance, the household would require a relatively large down payment. Staff of the GVHC have also noted that the average price of new condominium housing units has increased since the start of the Program and that the price of such homes is likely to remain at the higher price level, in the long run putting them out of reach for most applicants. To increase accessibility to the Program for a larger number of Surrey households, in consideration of the price of homes at the lower end of the housing market, it would be reasonable to increase the maximum household income that households may earn and still qualify under the Program.

Recommended change: Increase the maximum household income under the Program from "10% below the median income level in the City" to "10% below the average income level in the City" and base the income criteria on the 2001 census data.

The median income is the income level where the same number of Surrey households have incomes above the median level as the number of households that have incomes below the median level. The above recommended approach focuses on the average income in the City. This approach effectively raises the income ceiling since the average household income is higher than the median income. Based on the 1996 census, the median household income for Surrey was \$47,250 while the average household income was \$52,115. It is expected that the average income for Surrey has increased between the 1996 census and the 2001 census. The 2001 census information is not yet available, but the following table provides an estimate of the 2001 figures based on changes in the Consumer Price Index over the last five years.

Household and Program Income Information:

	Dollar Value (\$)
1996 Average Household Annual Income in Surrey	\$52,115
1996 Median Household Income in Surrey	\$48,750
Phase 1 Program Maximum Qualifying Income (10% below the 1996 median income level)	\$42,500
Estimated 2001 Average Household Income in Surrey	\$54,280
Proposed Phase 2 Program Maximum Qualifying Income (90% of the 2001 Average Household Income)	\$49,000

If Council chooses to adopt the above recommendation, households with an income of up to \$49,000 per year would qualify under the Program, which will enhance the potential participation in the Program.

Issue 2: Limited supply of homes eligible under the current Program criteria.

Smaller and more affordable one bedroom and bachelor units, currently under development, are not eligible for purchase under the current Program since one of the criteria of the Program requires that homes purchased have a minimum of two bedrooms.

Recommended Change: Remove the minimum two bedroom requirement for homes to be eligible for purchase under the Program.

The current eligibility criterion, that homes under the Program include a minimum of two bedrooms, is too restrictive as it precludes a home purchase where a one bedroom dwelling unit would be adequate and, therefore, should be eliminated. The other requirements for eligible homes remain unchanged, including that homes purchased under the Program are:

- (a) Newly constructed;
- (a) Covered by a New Home Warranty as set out by the Provincial *Homeowner Protection Act*; and
- (b) Located in Surrey.

Issue 3: Program is limited to households with dependants.

The Program is currently limited to assisting households with dependants, but other types of households also experience home access challenges and such households are more suited to purchasing the smaller housing units that may come onto the market. Therefore, with the revision recommended in response to Issue 2, to allow smaller homes to be purchased under the Program, it is appropriate to allow smaller households, typically households without dependants, to be eligible to participate in the Program.

Recommended change: Remove the requirement that eligible households be limited to those with dependants.

This revision will enable low to moderate income households consisting of single persons, two or more person households, with or without dependants, to participate in the Program. All eligible households must continue to meet the income and asset criteria of the Program and be residents of Surrey, entering into home ownership for the first time.

Issue 4: The process of selecting households by random draw from a pool of eligible applicants proved to be ineffective in selecting qualified applicants

With a relative shortage of new housing starts in all price levels, but in particular in lower price levels, GVHC staff found that most participants could not find a home that they could afford and that also suited their needs or preferences. To accommodate a selection process, based on a random draw from a pool of applicants, required that interested households apply to the Program during a six week promotional window of the Program. Thereafter, only those households who had submitted an application prior to application deadline in August 2000 could be considered for assistance under the Program. In situations where applicants, who were selected through the draw, could not take advantage of the Program, either due to financial constraints or due to the limited number of homes on the market, replacement applicants were limited to those selected through the draw. There were households who expressed interest in the Program after the application deadline, who had sufficient means to participate and had even found a suitable home, but were precluded from receiving assistance under the Program due to the random draw deadline.

Recommended change: Establish a two stage selection process for the Program as follows:

1. Pre-Qualification stage: In this stage households interested in purchasing a home under the Program are invited to submit applications to establish their eligibility for the Program; and

2. Application for Funding stage: In this stage households that have completed the pre-qualification stage and have entered into a "contract of purchase and sale" for a qualified home are then eligible to apply for funding under the Program.

Administration of the Program will be based on a "first come, first serve" basis. Applications will be processed in a timely manner and the queue for Approval for Funding will be based upon the date the application for funding is received by the GVHC and not based on the original application date for pre-qualification. Applications will be accepted until the end of the Program Phase, or until all funds for the Program Phase have been fully allocated to home purchases.

Assisting households based on a proactive application process instead of on the basis of a random draw will streamline the administration of the Program and encourage more active participation by interested households in finding and securing homes in the market. The GVHC has indicated that this approach is viable given the relatively limited supply of homes on the market and the relatively prescriptive eligibility requirements. The GVHC will establish the necessary protocols and procedures to ensure the accurate chronological tracking of applications.

Issue 5: Selected qualified households for the Program were typically unprepared for homeownership.

While the GVHC received 85 applications from households, who satisfied the Program's basic application criteria, further evaluation of the applicants concluded that only about 10 applicants had sufficient income and savings to afford a home purchase. Also, all three households who purchased homes under the Program were able to do so because of the direct assistance and efforts of the GVHC. The main shortfall of applicants included:

- Insufficient down payment, income and savings to enter the housing market;
- Unrealistic expectations about the market and the households' purchasing capacity based on their household income; and
- Inadequate knowledge about the housing market (housing costs) and the full cost of home ownership (down payment, mortgage payments, on-going operations costs of a home).

Recommended change: That finding and selecting a home for purchase, establishing affordability and financial options, will be the responsibility of the applicant and their chosen real estate professional and mortgage lender. Qualified households will be eligible for funding under the Program upon entering into a "contract of purchase and sale" of a qualified home.

During the first phase of the Program, the GVHC found itself in a position of having to provide an inordinate amount of coaching/support to applicants under the Program who, with some exceptions, appeared reluctant and unmotivated to complete the steps toward home ownership beyond the initial application. The above recommendation, that would require eligible households to submit an application for funding only after having found a home they wish to purchase, shifts the onus for pursuing assistance from the GVHC to the applicant/potential home buyer and their selected home purchasing specialists, such as real estate agents, developers and lending institutions. That is not to say that Program applicants will not have the benefit of the expertise and input from GVHC staff, but the primary efforts necessary to achieve home ownership under the Program will rest with the applicants.

The proposed changes discussed above are reflected in the following updated documents:

- Affordable Home Ownership Policy (Appendix "I"); and
- Home Ownership Assistance Program (Appendix "II").

D. Proposed Implementation Strategy for Phase 2

GVHC Administration of Phase 2

If Council approves the necessary modifications to the Program and related Policy, Phase 2 of the Program will commence as soon as the administration agreement can be finalized with the GVHC. The GVHC has agreed to administer the Program, on behalf of the City, for another phase. Although the GVHC has not yet submitted a final proposal, with respect to administering Phase 2 of the Program, it is expected that such costs will not exceed the Phase 1 administration costs in which \$30,000 was allocated to GVHC administration. Subject to Council adopting the recommendations of this report, in relation to Phase 2 of the Program, staff will finalize a tentative contract with the GVHC for the administration of Phase 2 and proceed with Phase 2 thereafter.

Marketing/Promotion of Phase 2

A review of the initial launch of Phase 1 of the Program, in June 2000, suggests that the Program could have benefited from a slightly longer marketing/promotion period. As such, a longer period is considered important as the Program shifts from a lottery based approach to an application based process. To provide adequate time for the promotional period for Phase 2 it is anticipated that promotion will take up to three months, as compared to a six week period for Phase 1. This three month period is intended to provide, as much as possible, an equitable access opportunity for residents of Surrey, as well as for builders, developers and realtors, to become familiar with the Program. The proposed implementation strategy includes two distinct phases:

3. Promotion/Marketing Period will run from February 2002 to April 2002. During this time the GVHC will:

- Hold several public information meetings or open houses in the community, distribute information material through City facilities and community agencies;
- Hold workshop/information meetings with the Fraser Valley Real Estate Board representatives, the Greater Vancouver Home Builders Association and local developers, who will then be requested to provide the information to their membership through industry newsletters, etc.; and
- Publish a number of press releases and advertisements in the local newspapers.

4. Pre-Qualification of Applicants:

- Concurrently, starting on April 1, 2002, households may commence submitting applications to the GVHC to pre-qualify for the Program. The GVHC will complete an assessment of their eligibility based on the household's income, assets, residency in Surrey and first time homebuyer status. The outcome of the pre-qualification process will provide helpful information to the household and their financial lending institution and real estate agent.
- Households that are successfully pre-qualified (stage 1) for the Program are not guaranteed assistance (stage 2) under the Program.
- Households are eligible for assistance under the Program upon selecting a qualified home to purchase and entering into a "contract of purchase and sale" for that home. Applications for funding will be accepted from pre-qualified households who have made an offer on a home and are requesting funding assistance from the Program. Assistance will be considered and awarded to qualified applicants in the order that complete applications for funding, including all necessary supporting documentation, are received.
- Applications for funding will be accepted starting on April 15, 2002, and the GVHC will continue to accept applications until the earlier of December 1, 2002, or until all of the funds allocated to the Program for Phase 2 have been distributed.

To assist in the promotion of the Program, the Planning and Development Department has prepared a brochure summarizing the Program criteria and application process. The draft brochure is attached as Appendix "IV". Additional information, such as the application form and detailed information on the Program requirements and

eligibility criteria, will be included in a "Home Ownership Assistance Program Guide" to be prepared by the GVHC. It is anticipated that information on the Program and the application forms will be accessible through the internet, on a web page prepared by the GVHC and linked to the City of Surrey's website.

E. Program Funding

At the Regular Meeting of May 7, 2001, Council adopted an expenditure by-law authorizing \$300,000 towards the implementation of the Program in each of Year 2000 and Year 2001. It is recommended that funding for Phase 2 be limited to \$300,000, which should be sufficient to provide Program funding to approximately 17 households. It is anticipated that the GVHC administration fee for Phase 2 of the Program will be no more than the fee for Phase 1, which was set at \$30,000.

F. Program Outlook - Market Influences

The proposed Program criteria modifications are intended to increase the potential participation by Surrey residents in the Program, to a greater extent than experienced in Phase 1. One key obstacle remains, which is the limited supply of newly constructed housing units in the condominium sector. This is due to the residual effect of the "leaky condo" situation and the very limited availability of low priced condominiums, the type of housing typically associated with the Program. Even with the proposed increase to the household income ceiling criteria, the significant market factor of available housing stock may remain a barrier over the course of Phase 2. In addition, Program success is also somewhat dependant on the continuation of relatively low interest rates. An increase in the prevailing interest rates, without a corresponding decrease in housing costs, will further restrict the number of households that can afford to participate in the Program, even if the maximum qualifying income is increased, as recommended. On the other hand, the current reality of the low interest rates is increasing home prices, a situation that is fuelled by a very low rental vacancy rate in the region. Staff have attempted to address the impediments of the Program by focusing on those aspects that are within the control of the Program, namely the qualifying criteria and the administrative process.

As the market is never certain, the repositioning of the Program in the manner proposed in this report is intended to provide an opportunity for greater participation in the Program. In the absence of detailed market analysis and consumer information for Surrey, it is difficult to accurately anticipate the level of participation in the revised Program

G. Alternative Uses for the Affordable Housing Reserve Fund

Requests for Funding from Affordable Housing Project Proponents

At the November 26, 2001, Council-in-Committee meeting, Council received a delegation from the Progressive Intercultural Community Services Society (the "Society") who requested a grant from the City to be used toward the construction of a 54 unit affordable seniors' housing complex. A letter summarizing the request is attached as Appendix "IV". The Society advised Council that the funding made available for the project by senior levels of government was not sufficient to complete the project and they have raised \$400,000 from other sources toward the project, but still needed an additional \$400,000 to complete the project. The delegation suggested that the City could provide a grant from the City's Affordable Housing Reserve Fund toward the project, particularly since the Affordable Home Ownership Program was not utilizing the Fund to the full extent expected.

At its Regular Meeting on January 7, 2002, Council considered a letter, dated December 6, 2001 from the Atira Women's Resource Society that contained a request for a \$300,000 grant from the City toward the construction of a 20 unit second stage housing project in the City. The request suggests that such a grant could be funded from the City's Affordable Housing Reserve Fund. A copy of the letter is attached as Appendix "V". Council referred the letter to staff with direction that it be addressed as part of the report on the City's Affordable Home Ownership Program and on use of the Affordable Housing Reserve Fund.

The Affordable Housing Reserve Fund

The Affordable Housing Reserve Fund (the "Fund") was established through contributions on a per dwelling unit basis made by residential developers related to residential developments constructed in Surrey in the mid 1990s. The Fund currently has a balance of approximately \$8 million. The Program, to which the majority of this report to this point has been dedicated, is funded from the annual interest earned on this Fund. The interest currently amounts to approximately \$250,000 to \$300,000 annually. The intention was to use the Fund as an endowment fund where only the interest earned on the Fund was available for annual budgeting. In this way, the annual funding from this source would be sustainable.

Should the City Consider Developing an Alternative Affordable Housing Policy Focused on Providing Grants to "Non-ownership" Types of Affordable Housing/Accommodation Projects?

In considering this question on previous occasions, Council chose to proceed with using the Fund to expand home ownership in the City based on the fact that such a policy would accomplish two primary objectives:

1. Home ownership is recognized as empowering individuals to achieve a greater degree of financial independence in life, an attribute which ultimately is important to building a healthy and economically vibrant city; and
2. It would support the City's residential development sector by introducing new homebuyers, this being viewed as equitable since that sector was the source of the contributions that established the Fund in the first place.

Further, relatively strong arguments were made in support of the position that the issue of affordable "non-ownership" housing should be left to senior levels of government who have both the mandate (i.e. core service responsibility) and much more significant funding sources to support the delivery of this type of social program. To take on this responsibility at the local government level, even in a minor way, could lead to a more massive downloading of this responsibility by the senior governments to the local level without providing the necessary funding sources to properly support the delivery of the service.

Staff are concerned that there is already a move by senior governments to involve local governments in affordable housing by only providing funding for projects if the proponent is successful in obtaining some funding partnership with the local government within whose jurisdiction the project is proposed. This will have the effect of putting the local government between "a rock and a hard place". If funding is directed toward such projects it will typically have to be redirected away from other core services that are clearly within the mandate of the local government or if funding isn't provided to such projects, the project will not be funded by the senior governments to the detriment of some sector of the local community.

Despite the above, should Council choose to expand the use of the Fund to support and encourage the development of other types of affordable housing occupancies in the City, such as the ones for which funding requests have been received, it would be necessary to develop a policy framework to establish:

- the level of funding that would be made available each year in support of the Program;
- the types of projects that would be eligible for funding;
- the criteria that would be used to allocate the available funding; and
- other factors to ensure that the policy would be administered in a transparent, equitable, effective and efficient manner.

Therefore, if Council chooses to pursue options with respect to providing financial assistance to "non-ownership" types of affordable housing projects, staff should be directed to develop and evaluate policy options with a view to providing a further report to Council, which identifies and evaluates alternative approaches and provides Council with appropriate recommendations for consideration. Since the development of such policies would be somewhat complex, it is expected that such a report would take a number of months to prepare.

In the absence of having a properly developed policy framework to support and justify the provision of grants, staff would not recommend providing "ad hoc" grants to those entities that have made requests of Council for grants toward "affordable" housing projects.

CONCLUSION

The administration of Phase 1 of the Program brought to light a number of shortcomings of the current Policy. This report recommends adjustments to the Program and related Policy, to assist in ensuring that Phase 2 of the Program is more successful. The recommended Policy and Program, are attached to this report as appendices. Also attached is a draft brochure summarizing the Program (Appendix "VI"). Upon Council's approval of the recommended changes to the Policy and Program and Council's authorization to proceed with Phase 2, staff will work with the GVHC to finalize an Administration Agreement for consideration by Council in the next couple of weeks, with a view to launching Phase 2 of the Program in late February 2002.

Although there are compelling reasons against local governments moving into the area of funding "non-ownership" forms of affordable housing, if Council chooses to proceed in this direction, staff should be directed to develop and evaluate policy options with a view to providing a further report to Council. The report should identify and evaluate alternative approaches and provide Council with appropriate recommendations for

consideration. Such a report will take a number of months to prepare, in consideration of the potential complexity of such a policy.

Murray D. Dinwoodie
General Manager
Planning & Development Department

GS/BB/MDD/kms/saw

Attachments:

- Appendix "I" Revised Affordable Home Ownership Policy
- Appendix "II" Revised Home Ownership Assistance Program
- Appendix "III" Corporate Report R118
- Appendix "IV" Letter from PICSS
- Appendix "V" Letter from Atira Women's Resource Society
- Appendix "VI" Draft Brochure

v:\wp-docs\admin\01data\12041100.gs.doc

S 1/22/02 11:47