

C002 January 13, 2003



Corporate

NO: C002

Report

COUNCIL DATE: January 13, 2003

COUNCIL-IN-COMMITTEE			
TO:	Mayor & Council	DATE:	January 9, 2003
FROM:	General Manager, Planning & Development	FILE:	4815-20 (Affordable Housing)
SUBJECT:	Home Ownership Assistance Program		

RECOMMENDATION

The Planning and Development Department recommends that Council:

1. Receive this report as information;
2. Approve the extension of the Home Ownership Assistance Policy (the "Policy") and related Home Ownership Assistance Program (the "Program") for a three year period beyond the expiry of the current policy which concludes in February, 2003;
3. Authorize staff to negotiate an agreement with the Greater Vancouver Housing Corporation ("GVHC") to administer the Program for the three year extension with similar provisions to the agreement between the City and GVHC for administration of Phase Two of the Program, with the new agreement to be forwarded to Council for approval; and
4. Direct that staff submit an annual report to Council, for each calendar year of the extended Program, by the end of February of the following calendar year.

PURPOSE

The purpose of this report is to:

- Advise Council of the results of Phase Two of the Program;
- Present Council with information about the current/projected residential market conditions as they relate to and influenced participation and placement of Program applicants into homes during 2002;
- Recommend that Council extend the Program for a period of three years; and
- Recommend that staff be authorized to negotiate an agreement with the GVHC to continue administration of the Program through its three year extension, with such agreement to be forwarded to Council for approval.

BACKGROUND

In January 2002, Council considered a Corporate Report and approved the extension of the Program to Phase Two (i.e., the second year of a two year pilot project). A copy of the Program is attached as Appendix I and a brochure providing a simplified description of the Program is attached as Appendix II). Council, subsequently, approved a budget of \$300,000 for Phase Two, which was equivalent to the interest earned in 2001 on the Affordable Home Ownership Reserve Fund (the "Fund"). The Fund has a balance of approximately \$7.5 million. The Council-adopted Policy (attached as Appendix III) stipulates that only the interest earned on the Fund is to be used annually in support of the Policy and related Program so that the Program is sustainable over time (i.e., the Fund is used as an endowment). Changes were made to Phase Two of the Program criteria and administration that were targeted at increasing the level of participation in the Program, above the level achieved by Phase One. Applications for funding under Phase Two of the Program had to be submitted by December 1, 2002 and Phase Two of the Program becomes "inactive", effective February 20, 2003, unless the Program is extended.

DISCUSSION

Comparison of Phase One and Phase Two Results

Six Surrey households have purchased a home as a result of Phase Two of the Program, which had an application deadline for funding of December 1, 2002. The number of home purchasers during Phase Two is double the number in Phase One, during which three homes were purchased under the Program. During Phase Two, there were a total of 54 Stage 1 applications (applications for approval to participate in the Program) submitted, of which 24 have been approved, 11 denied as they did not satisfy the Program criteria and 19 that required additional information to be submitted to confirm eligibility. Of the 24 approved Stage Two applications, six households have purchased a home and 18 households are eligible for funding, but have not entered into an agreement for the purchase of a home, at this time.

Phase Two Review

Over 2002, Planning and Development Department staff has worked closely with GVHC staff and have met with representatives of the real estate and development industry to promote the Program. The modifications to Phase Two of the Program included extending the application deadline to December 1, 2002. This administrative change has provided opportunities for promoting the Program over a longer period of time than was possible in Phase One of the Program, as the deadline for applications was much earlier in the year. Promotion of the Program during Phase Two has included the following initiatives:

- Public Information Open Houses were hosted throughout Surrey in April and June;
- A presentation was made to realtors at the Fraser Valley Real Estate Board Office;
- Advertisements promoting the Program were placed in local news papers;
- Mail outs were sent to developers, builders, realtors and financial institutions;
- Site visits of developments were conducted to promote the Program and obtain feedback from the realtors marketing the developments; and
- A workshop on creative financing was hosted for approved applicants and attended by representatives of residential development projects and loans staff from financial institutions.

Phase One of the Program had limited success, from which numerous lessons were learned and applied to improve the Program for Phase Two. Although changes were made to the Program criteria and administration process and Phase Two has had double the number of households purchase new homes in comparison to Phase One, the full potential of the Program has not yet been realized (i.e., there is sufficient funding to provide assistance to at least 17 households per year). There are several possible reasons for the lower than expected number of households purchasing a home under the Program, as outlined below.

- Lack of affordable/entry level newly-constructed housing stock;
- An active real estate market;
- Purchaser difficulty in raising the 5% down payment;
- Residual stigma/negative perception of the leaky condo experience; and
- Relative maturity of the Program.

The following paragraphs discuss each of these factors in more detail.

Affordable Housing Stock

The availability of newly constructed affordable housing stock is one of the key obstacles for potential participants in the Program. Building starts in the condominium housing market, which comprises the primary stock of entry-level housing, have been very limited. This is primarily due to the fact that prices of used apartment condominiums has been depressed by the "leaky condo" problem and developers are hesitant to enter this market under current pricing conditions, with its inherent risks. The primary housing units purchased under the Program are apartment condominiums because of their lower price range. The shortage of this particular type of housing product has limited Program participants from buying a home, even when they are qualified under the Program. Program participants are restricted to buying new homes under the Program. The most predominant type of multi-family residential housing unit being constructed in Surrey is the townhouse. Although townhouse construction in 2002 has been healthy, the entry price point for townhouses is beyond the affordability of most qualified applicants under the Program.

Active Real Estate Market

The residential real estate market in Surrey over past 12 to 18 months has been very active. There has been a high level of new residential construction and sales have been brisk. This active residential market in Surrey has had a negative influence on the Program, in that the high sales figures have focused the real estate agents' attention to dealing with those potential purchasers that will provide a quick sale, at the expense of potential purchasers under the Program. In an active market, potential home purchasers under the Program, as first time home buyers with financing encumbrances, place a high demand on a real estate agent's time and have a relatively lower probability of making a purchase because of the limited affordable housing stock that is available. As such, real estate agents have not demonstrated a particularly strong interest in working with clients approved under the Program.

Required Down Payment

For participants to purchase a home under the Program, they require a down payment of 5% of the purchase price of the home. For example, to purchase a home selling for \$150,000, which is the affordable price for most applicants in the Program, a purchaser requires a down payment of \$7,500. For many households that have applied for approval under the Program, accumulating this amount of savings and qualifying for a high ratio mortgage, given other debt obligations, has been the primary obstacle to purchasing, even when the applicant's income would otherwise qualify them for a mortgage. The possibility for a household to save the amount required for a down payment is made even more remote, due to a relatively short period of time available between the date of application for approval under the Program and the expiry date of the Program (i.e., less than one year). In most circumstances, unless a household can obtain financial assistance from friends or family for the down payment, they are prevented from taking advantage of the Program. Applicants tend to have unrealistic or inflated expectations as to the impact that the Program's assistance will have on their ability to purchase a home.

Leaky Condo Residual Impact

The impact of the leaky condo experience is still exerting its influence on the residential home market. Condominium development has been virtually non-existent in Surrey until the last 12 months, during which time a small number of projects have been built. The leaky condo influence is a two-sided issue with developers being reluctant to build for fear that the stigma associated with leaky condos will limit sales, while purchasers are hesitant to purchase condos due to the lack of confidence in the product. Further, the market price of used apartment condominiums that have been repaired is below replacement cost. However, qualified participants under the Program are restricted to buying only new homes.

Maturity of the Home Ownership Assistance Program

The Program was initiated with the expectation that its appeal would quickly spread and it would be attractive to a large number of households that are currently in rental accommodation. However, as with most new programs/initiatives, there needs to be a period of time for such programs to mature (i.e., recognized as being credible and for households to prepare themselves to become involved in the Program). Longevity of a program is important because it demonstrates the credibility of the program. Developing familiarity with the Program takes time, as those in the real estate industry and potential homeowners become aware of and accustomed to the program and gain experience with it. Participation in the Program has been limited by the timelines of the Program. Interested households do not have enough time to save for a down payment during the current term of the Program and, therefore, quickly abandon the Program realizing that they cannot save enough for the down payment by the expiry date of the Program.

In discussions with real estate agents, the common view of the Program is that it is a reasonable program since it addresses both affordability and supports increased financial independence for households, a by-product of owning a home. It is important to recognize that, in terms of its current lifespan, the Program is still a new program. Like other new programs it has not fallen perfectly into place in the short term.

The GVHC, which has been contracted by the City as the administrator for Phases One and Two of the Program, has offered the following comments on the Program:

- Professionals in the real estate field need time to learn about the Program and its potential benefits for their clients. Real estate agents, mortgage brokers, etc. are advisers to home purchasers. There are hundreds of these professionals and even though information about the Program has been directed to them this past year, only a

handful have a working knowledge of the Program. Those familiar with the Program endorse it as a very good initiative that needs to be more broadly publicized and promoted by the real estate industry.

- The development (building) process is not short term. The industry has experienced a significant level of disruption over the last several years due to the leaky condo situation. Although the industry is building apartment condominiums again, there remains a very limited supply of appropriate housing stock, especially in the entry-level market.
- Potential first time home purchasers need an active market that provides choice in product and location. In each of the first two Phases of the Program there have been potential purchasers who could have proceeded if they had been able to find affordable product and/or product in the right geographical area of the City.
- For many potential first-time purchasers, time is an issue. Time to accumulate savings to achieve a minimum down payment, time to pay down other debts to meet mortgage requirements, time to consider housing options and get to know the market place, etc. Purchasing a home represents a very significant decision in their lives. Even those who are able to purchase and who make the commitment to go forward, may still need more than a year to get everything ready.
- Many of the inquiries and even applicants for the Program, have not been familiar with the housing ownership market place. Often, their initial expectations for housing are unrealistic. The program for such individuals has been educational and may result in them making decisions to plan and work towards home ownership and the continued availability of the Program will reinforce that process and pursuit of an application in the future.

Home Ownership Assistance Program – Proposal for Extension

A review of Phases One and Two of the Program by City staff and the GVHC, in consultation with professionals in the real estate industry, has concluded that the Program has significant potential for increased participation and the full potential of the Program should be realized with additional time. Time is needed to increase the availability of affordable housing stock, for the professionals in the real estate industry to recognize the value of the Program and become advocates and time for potential purchasers to prepare financially for home ownership.

The primary objective of the Program is to position Surrey individuals/families who have not previously owned a home, to become homeowners. Achievement of this goal must be viewed in the context of the realities that have influenced the Program during the two-phase pilot project. As the end of Phase Two approaches and the pilot project's term concludes, the Program remains in its infancy. The Program needs time to mature so that its full potential can be realized. It is recommended that Council authorize the extension of the Program for a further three years and that funding for each year of the extension be based on the interest earned on the Fund in the previous year, in accordance with the Policy. This recommendation is made with the recognition that the overall success of the Program is dependent on influences such as the availability of appropriate housing stock and the real estate market, in general. If Council chooses to extend the Program for an additional three years, staff will review the Policy with a view to identifying possible amendments that will further increase the participation levels by Surrey residents. Proposed changes will be submitted to Council for consideration in conjunction with the administrative agreement that is discussed in the following section of this report.

Administration of the Extended Program

The GVHC has gained valuable experience in the administration of the Program during the first two phases of the Program and City staff is satisfied that the GVHC is in the best position to maximize the potential participation in the Program and to administer the Program at reasonable costs, through the period of the proposed extension. If Council decides to extend the Program, it is recommended that Council authorize staff to negotiate an agreement with the GVHC to administer the Program through the extension and that such agreement be based, generally, on the terms and conditions of the previous agreement with the GVHC in respect of Phase Two. A copy of the previous agreement is attached as Appendix IV. Once the negotiations have been concluded and a final agreement developed, it will be forwarded to Council for approval.

Possible Means of Increasing Housing Stock Available to Program Participants

During recent months, City staff and GVHC staff have discussed an initiative that, in the event the Program was extended, could be pursued to expand the availability of affordable housing stock in the City. The initiative involves the GVHC partnering with a private sector company to develop a purpose-built affordable home ownership project in Surrey. Such a project would support the Program by expanding the availability of affordable housing stock in the City and provide an opportunity for a greater number of Surrey residents to participate in the Program. Should Council approve the extension of the Program, GVHC staff will continue to explore opportunities with the private sector to facilitate such a housing development in Surrey. The housing development would be a partnership between the GVHC and a private-sector partner.

CONCLUSION

Phase Two of the Home Ownership Assistance Program will be concluded at the end of February, 2003. Participation in Phase Two of the Program doubled, in comparison to Phase One, due in part to program logistical and criteria changes. However, the total level of participation is below that which was originally expected (six households in Phase Two as opposed to a potential maximum of 17 households, based on available funding). Several factors have come to light as affecting the degree of participation in the Program, including:

- the limited availability of affordable housing stock;
- the ability of participants to raise the down payment;
- the residual stigma that remains from the leaky condo issue (both in terms of development of new condominium projects and the hesitancy of potential home owners to purchase a condominium); and
- the relatively short length of time the Program has had to take effect and enable the development and real estate industry to become familiar with it and to allow potential participants time to prepare financially to become involved in the Program.

The Program is still in its infancy in relation to the timelines of other similar government programs/initiatives. Allowing the Program to run for a longer period of time will diminish the affects that the above factors are currently having, in relation to the success of the Program. On this basis, it is recommended that the Program be extended for a further three years and that funding for the Program continue to be allocated on an annual basis, with the amount based on the interest earned on the Affordable Housing Reserve Fund, in the previous year. It is further recommended that staff be authorized to negotiate an agreement with the GVHC to administer the Program, on behalf of the City, for each year of the three years, with similar terms and conditions to the agreement that covered their administration of Phases One and Two of the Program and subject to the agreement containing a termination provision that allows the City to terminate the agreement with notice. The GVHC has advised that they are prepared to continue to administer the Program, on behalf of the City, subject to an appropriate agreement. Should Council choose to extend the Program, staff will submit a Corporate Report to Council, in the next few weeks, that will discuss and seek Council approval for any proposed changes to the Program criteria that are considered necessary to further enhance participation in the Program and will request Council approval of the agreement negotiated with the GVHC covering the on-going administration of the Program. Finally, it is recommended that Council direct staff to submit an annual report to Council, for each calendar year of the extended Program, by the end of February of the following calendar year.

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General Manager

Planning and Development Department

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Attachments:

Appendix I – Home Ownership Assistance Program

Appendix II – Home Ownership Assistance Program Brochure

Appendix III – Home Ownership Assistance Policy

Appendix IV – Home Ownership Assistance Program Administration Agreement Phase Two

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