



Corporate Report

NO: R151

COUNCIL DATE: July 7, 2003

REGULAR COUNCIL

TO: **Mayor and Council** DATE: **July 3, 2003**

FROM: **General Manager, Planning & Development** FILE: **4815-20**

SUBJECT: **Home Ownership Assistance Program – Proposed Amendments**

RECOMMENDATION

It is recommended that Council:

1. Receive this report as information; and
2. Approve amendments to the Home Ownership Assistance Policy and related Program, as documented in this report and which are incorporated in the revised Affordable Home Ownership Policy and Home Ownership Assistance Program attached to this report as Appendix "I" and "II", respectively.

PURPOSE

The purpose of this report is to seek Council's approval of proposed changes to the Affordable Home Ownership Policy (the "Policy") and the Home Ownership Assistance Program (the "Program") to:

- Update the maximum household income for the Program, based on the 2001 Census information for the average household income in Surrey;
- Increase the opportunities for households to participate in the Program by expanding the eligibility criteria for households and by expanding the choice of homes that may be purchased under the Program; and
- Align the Program with Council's Whalley Enhancement Strategy.

BACKGROUND

At the Regular Council meeting of January 13, 2003, Council considered Corporate Report No. C002 and approved the recommendation to extend the Policy and related Program for a three year period beyond its February, 2003 expiry date.

On March 24, 2003, Council considered Corporate Report No. R056 and authorized staff to enter into an administration agreement with the Greater Vancouver Housing Corporation ("GVHC") for the 2003 Program year, similar to the administration agreement in previous years. In addition, Council approved a staff recommendation that the income ceiling for the Program be increased from \$49,000 to \$51,500, on an interim basis, until such time the 2001 Census information on household incomes in Surrey became

available. Corporate Report No. R056 also advised Council that staff would be reviewing the Program and related Policy with a view to determining if further amendments were necessary to enhance the attractiveness of the Program.

DISCUSSION

Update on the Launch of the Three Year Extension of the Program

Over the past few months staff have been working closely with the GVHC to ensure continuity in Program delivery and administration and to increase the profile of the Program in the community. GVHC and City staff hosted a booth at the Greater Vancouver Home Builders Association's First Time Home Buyers Seminar, held at the Sheraton Hotel in Surrey on April 1, 2003. As in previous years, over 800 potential homebuyers from across the region attended the seminar.

Over the course of the Program delivery, the GVHC will continue with its planned expanded communication/marketing strategy, which includes advising local real estate offices, lending institutions and local developers of the Program.

Program Review and Recommendations

Aside from a greater focus on marketing the Program, City staff and GVHC staff have also reviewed the Program with a view to increasing the opportunities for households to participate. Program changes, as summarized below and discussed in detail in the following sections, are intended to recognize the City's objectives for the Program while addressing the needs of first time homebuyers. The following changes are recommended:

- (a) Increase the income ceiling for the Program from \$51,500 to \$59,000 in response to the newly released 2001 Census information related to the average household income in Surrey;
- (b) Permit households with at least one adult member working full-time at a Surrey business to purchase a home under the Program;
- (c) Reduce the residency requirement for interested households from one year to six months, before being eligible to make an application under the Program and set a similar six month stipulation for households to qualify under the "working" criterion identified in (b);
- (d) Permit both newly constructed homes and resale homes, with building permits issued after January 1, 2000, to be purchased under the Program provided the homes are covered by a New Home Warranty in accordance with the *Homeowner Protection Act* of British Columbia; and
- (e) Increase the level of assistance for newly constructed homes purchased in the City Centre area from \$15,000 to \$20,000, to encourage new residential construction in the City Centre in accordance with the City's Whalley Enhancement Strategy.

A. Program Income Criteria to reflect new Census data

- **Increase the maximum eligible household income under the Program from \$51,500 to \$59,000 to reflect the new 2001 Census information.**

In May 2003, Statistics Canada released information on average household incomes across Canada. This information related to Surrey is important to the Program because it becomes the benchmark for establishing the maximum income for households to be eligible to participate in Program. The Program is designed to assist households with incomes at least 10% below the average household income in Surrey. The income calculation for the Program is based on the most recent Canada Census data updated to the current year using the Consumer Price Index.

The new Census information revealed that the "average household income" in Surrey increased by \$11,077 between 1995 and 2000, from \$52,115 in 1995 to \$63,192 in 2000. Using the Consumer Price Index the

"average annual household income" in Surrey for 2002 is estimated to be \$65,750. Based on this average, the maximum income for a household to be eligible for the Program in 2003 should be set at \$59,000 (i.e., 90% of \$65,750).

Income Criteria - Update	2000	2001	2002
Average Household Income for Surrey	\$63,197	\$64,335	\$65,750
Consumer Price Index	Census year	1.8%	2.2%
Maximum Household Income: at least 10% below the Average Household Income for Surrey	n/a	n/a	\$59,000

This update in the income criteria is good news for the Program as it creates a larger pool of potential participants that are now eligible to purchase a home under the Program. In addition, the higher income ceiling will better align the Program with the increasing prices for all housing types, including condominiums and townhouses; the housing forms generally most affordable to first time homebuyers.

B. Eligible Households - Living and Working in Surrey

- **Permit households working in Surrey to be eligible to purchase a home under the Program. Eligible households working in Surrey will be those with at least one adult member working a minimum of 30 hours a week at their main or only job located at a business in Surrey.**

One of the principles of the Program has been that the Program benefit Surrey residents and that only those households presently residing in Surrey be eligible to purchase a home with assistance from the Program. Both the GVHC and the Planning and Development Department have received a number of inquiries from low to moderate income individuals and households where at least one member of the household works in Surrey, but the household does not presently reside in Surrey. It is recognized that the City is directly responsible and accountable to the residents of Surrey, but is also responsible to individuals working in Surrey who contribute to the economic vitality of the community.

Enabling households who work in Surrey to participate in the Program not only acknowledges their contribution to the City, but also supports the larger sustainability issue of bringing people and jobs closer together and reducing the amount of commuter traffic and pollution in the region. It is proposed that the Program be expanded to permit households with at least one adult member working full time in Surrey to be eligible to purchase a home under the Program. Statistics Canada considers a person to be in full-time employment if that person works 30 hours or more per week at their main or only job. It is proposed that this definition of full time be applicable to the Program as well. To demonstrate a reasonable level of commitment to the community, it is further recommended that individuals or households be required to have worked as minimum of six consecutive months in Surrey before being eligible to participate in the Program.

C. Minimum Residency Requirement

- **Reduce the Surrey residency requirement for households from a minimum of one year to a minimum of six months prior to being eligible for consideration under the Program**

Currently the Program is limited to Surrey residents who have resided in Surrey for a minimum of one year. At the time of the Program development, a one year minimum residency requirement was considered reasonable to ensure the benefits accrue to Surrey residents making the transition from renting in Surrey to purchasing a home in Surrey. The one year requirement may be too restrictive, given that the community as a whole benefits as households move from non ownership forms of housing to a position of owning a home.

A six months residency requirement is considered appropriate as it demonstrates commitment to the community and continues to place priority on assisting residents in Surrey.

D. Eligible Homes

- **Improve the affordability and choice of homes purchased under the Program by permitting households to purchase both newly constructed homes and resale homes with building permits issued on or after January 1, 2000, provided the resale homes are covered by the New Home Warranty provisions.**

Presently, the Program requires that homes purchased under the Program be newly constructed homes and be covered by a Provincially-approved New Home Warranty. The intent of this requirement was to ensure that first time home buyers purchasing their first home under the Program be protected from unexpected costs, especially during the early years of homeownership when financial resources are generally the most limited. However, the downside to this provision is that newly constructed homes are subject to federal tax, in the form of GST, equivalent to 4% of the purchase price of the home. The GST tax is not collected on resale homes. The GST tax on new construction can be a significant impediment for first time home buyers facing the dual challenge of achieving a minimum 5% down payment as well as incurring the need to pay the 4% GST tax requirement. For example a \$150,000 newly constructed condominium would require a minimum down payment of 5% or \$7,500, and the payment of the 4% GST amount which is equivalent to \$6,000, bringing the combined cost to \$13,500. The purchase of a similar resale condominium dwelling unit would require only the minimum down payment of \$7,500.

In addition, one of the ongoing challenges of the Program has been the relatively limited supply of newly constructed housing suitable and affordable to first time homebuyers under the Program. While the supply of condominiums and entry level townhouses is increasing, the present very active real estate market is putting upward pressure on home prices in all price ranges, including entry-level homes. With the New Home Warranty program well established and a good supply of multiple family homes constructed under this warranty program, expanding the range of housing available to purchase under the Program to both newly constructed and resale units is considered reasonable.

Under the *Home Owner Protection Act* implemented by the Province on July 1, 1999, all homes constructed with building permits issued on or after July 1, 1999 are required to be enrolled in a mandatory, third-party home warranty insurance plan that meets the requirements of the *Homeowner Protection Act*. The *Homeowner Protection Act* stipulates that all homes must be built by licensed builders and be enrolled in mandatory warranty coverage that includes a minimum two years on labour and materials, five years on the building envelope and water penetration and 10 years on the structure. It is recommended that both newly constructed and resale homes covered by the current Provincial New Home Warranty provisions be permitted to be purchased under the Program. To ensure that resale homes purchased under the Program are duly covered by the New Home Warranty provisions, it is further recommended that only those resale homes built with a building permit issued on or after January 1, 2000 be eligible for purchase under the Program. As an added safeguard, an inspection by a qualified professional, of the dwelling proposed for purchase, is required as part of the approval process for funding under the Program.

E. Additional Program assistance to complement the Whalley Enhancement Strategy

- **Increase the amount of Program assistance for homes purchased in City Centre by \$5,000, from \$15,000 to \$20,000, to complement the Whalley Enhancement Strategy by promoting residential development and home ownership in the City Centre area.**

In accordance with Council's strategy to encourage growth and development in the City Centre area, it is proposed that the Program provide an incentive to first time home buyers to consider purchasing a home in the City Centre area. Home ownership has a stabilizing and revitalizing influence on communities. Under the Program, households are eligible for an interest free loan of up to \$15,000 with up to 50% of this amount forgiven over the first five years of home ownership. It is proposed that an additional \$5,000 in assistance be made available for any household interested in purchasing a newly constructed dwelling unit in the City Centre. As such, households purchasing a newly constructed home in the City Centre would be eligible for \$20,000 in assistance

with up to 50% of this amount, or \$10,000, forgiven over the first five years of home ownership. The following table illustrates the additional enhancement for households purchasing in the City Centre.

Surrey Home Ownership Assistance Program - Citywide and City Centre

	<ul style="list-style-type: none"> • City Wide - Home Ownership Assistance Program 	<ul style="list-style-type: none"> • City Centre - Enhanced Home Ownership Assistance Program
Amount of Assistance	<ul style="list-style-type: none"> • \$15,000 	<ul style="list-style-type: none"> • \$20,000
Eligible Homes	<ul style="list-style-type: none"> • Homes covered under the New Home Warranty Program including newly constructed units and resale units with building permit issued January 1, 2000 or later. 	<ul style="list-style-type: none"> • Homes covered under the New Home Warranty Program, but limited to newly constructed (not previously occupied) units.
Eligible Households	<ul style="list-style-type: none"> • Households residing or working in Surrey for a minimum of six months • Maximum household income of \$59,000 for 2003 	<ul style="list-style-type: none"> • Same
Annual discount for years one to five of home ownership	<ul style="list-style-type: none"> • 10% per year, = \$1,500 annual reduction in the repayable loan amount for years 1 to 5. 	<ul style="list-style-type: none"> • 10% per year, = \$2,000 annual reduction in the repayable loan amount for years one to five.
Grant - after a minimum of five years of ownership	<ul style="list-style-type: none"> • \$7,500 	<ul style="list-style-type: none"> • \$10,000
Repayable Amount upon sale of Home – after minimum of five years of ownership	<ul style="list-style-type: none"> • \$7,500 	<ul style="list-style-type: none"> • \$10,000

The City Centre area, to which the enhanced Program will apply, will be as it is defined in Surrey Zoning By-law, 1993, No. 12000 and as depicted in the revised Program attached as Appendix II.

Implementation of the proposed Program changes

The GVHC has indicated that it concurs with the proposed changes documented above and is prepared to administer the slightly expanded Program criteria under the same conditions and fee schedule as set out in the recently executed administration agreement.

Legal Services has reviewed the proposed changes to the Policy and Program, as set out Appendix I and Appendix II and found them to be satisfactory.

CONCLUSION

Earlier this year Council approved a three-year extension for the Program to provide extra time for the Program to mature and become better known in the community and ultimately achieve its full capacity and benefit to the community. To further facilitate the success of the Program over the next three years, Planning and Development staff and staff of the GVHC have reviewed the eligibility criteria of the Program, with a view to increasing the opportunities for first-time homebuyers to participate in the Program. To this end, it is recommended that Council approve a series of amendments to the Program, as documented in this report, that are intended to improve the range of homes eligible to be purchased under the Program and to expand the number of eligible households qualified to participate in the Program.

Original signed by

Murray Dinwoodie
General Manager,
Planning and Development

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Attachments:

Appendix I - Revised Affordable Home Ownership Policy

Appendix II – Revised Home Ownership Assistance Program

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APPENDIX I

CITY OF SURREY

AFFORDABLE HOME OWNERSHIP POLICY

June 2003

(Revisions are underlined)

Primary and Other Objectives:

The primary objective of the Affordable Home Ownership Policy is to financially assist households who reside or work in Surrey and who would not typically be able to enter the housing market due to income constraints to own a home.

Other objectives of the proposed policy include:

- The Affordable Housing Reserve Fund must be a "revolving fund" (i.e., the Fund continues to exist and provide benefit to the City's citizens over time);
- Households who are assisted should not recognize a "windfall" as a result of the application of the policy;
- The use of the Fund should be directed such that Surrey residents and workers are assisted;
- Administration costs associated with the policy's implementation and on-going maintenance should be minimized.

Term:

This policy will remain "active" until March 31, 2006 after which time the policy will be deemed "inactive". Prior to the policy becoming inactive, the City Manager will submit a report to Council which reviews the merits of the policy based on the experience to date and makes recommendations regarding its continuation.

Funding:

Funding to support the implementation of the policy will be provided from the Affordable Housing Special Reserve Fund ("the Fund") and will be approved by Council on an annual basis in conjunction with the adoption of the City's annual operating budget.

Funding in support of this policy in any year will be limited to a maximum of the annual interest earned during the previous year on the principal contained in the Fund.

Target Group:

The policy will be focused on assisting households who are first time homebuyers with incomes below the average household income in the City. The average household income for the City will be based on the most recent Census data and adjusted by the annual changes in the Consumer Price Index to reflect the estimated average household income for the previous year. The average household income in Surrey for the Year 2003 is estimated to be \$65,750 and the target group for this Policy will have a household income equal or below \$59,000 representing an income at least 10% below the average household income in Surrey.

Amount of Assistance to be provided:

The target reduction in the price of affordable housing units provided as a result of the application of this policy is the lesser of 15% of the market price or \$15,000 for the qualifying dwelling unit. To complement the Whalley Enhancement Strategy adopted by Council in May 2003, an additional \$5,000 of assistance will be provided to participants purchasing newly constructed **Homes** in the City Centre, as defined in the Surrey Zoning By-law No. 12000.

The maximum mortgage of the affordable housing unit purchased by a household through the application of this policy is to be related to the income of the household. The mortgage available from financial lending institutions is typically no more than three (3) times the annual income of the household purchasing the unit.

Where the financial assistance is provided directly to a qualifying household, the assistance may not be used as any part of the "5% minimum down payment" on the affordable home but rather as a reduction in the amount of the first mortgage.

Means by Which Assistance Will be Provided:

The City will enter into an agreement with a non-profit housing society (the "society") to deliver "affordable homes" under this policy. The agreement will ensure that the conditions of this policy are fully respected. The City will provide funding to the society which will then be used to provide affordable homes in the City under one or both of the following options, to be specified by the City in its agreement with the selected non-profit society:

- 1. Home Ownership Development Program** - Affordable housing units will be constructed in Surrey with support from the private sector and/or non-profit housing groups. These housing units will be sold to qualifying Surrey households at a discount below market value. Each of the sponsors will be responsible for absorbing part of the targeted price discount of the housing units. Further study of this option will be necessary before detailed program requirements can be specified and implemented.
- 2. Home Ownership Assistance Program** - Qualifying households will be eligible for an interest free loan to assist in the purchase of a newly constructed housing unit in Surrey. The program requirements and eligibility criteria are as described in the Home Ownership Assistance Program, as amended from time and as adopted by Council.

Recovery of Funds:

Any subsidy on each affordable housing unit provided under the application of this policy will be registered as an interest free "silent" second mortgage on the housing unit and be recoverable by the Fund on any resale of the unit or if the owner(s) of the unit cease(s) to occupy the unit as his/her/their primary residence. The recoverable amount will decrease annually by 10% of the original value of the subsidy to a maximum of 50% of the original value (i.e., if a unit is held for 5 years before sale, the repayment to the Fund would amount to 50% of the original value of the "silent" second mortgage).

Annual Report:

The City Manager will provide, during the first quarter of each year, an annual report to Council on the results of the application of the policy during the previous calendar year.

Legislation:

This policy is subject to any specific provisions of the Local Government Act or other relevant legislation.

APPENDIX II

CITY OF SURREY

HOME OWNERSHIP ASSISTANCE PROGRAM

June 2003

(Revisions are underlined)

A. PROGRAM OVERVIEW

The home ownership assistance program is aimed at improving the access to *Home* ownership for *Households* who find it difficult due to income constraints to enter the housing market. The *Program* is meant to assist *Households* with incomes at least 10% below the *Average Household Income* in the *City*.

The *Program* will improve access to *Home* ownership in the following two ways:

- By providing an interest free loan to qualifying *Households* towards the purchase of a *Home*, subject to the availability of allocated funds for the Program. The loan will be registered as a Second Mortgage and will be partially forgivable over time.

- By improving home affordability through encouraging developers to offer competitively priced homes to *Participants* in recognition of the marketing opportunity presented by the *Program*.

The administration of the *Program*, including the receiving of *Applications* from interested *Households*, registration of second mortgages and reporting requirements will be undertaken by a *Non Profit Housing Society* with which the *City* will enter into an *Agreement*.

B. PROGRAM CRITERIA

1. Eligible Households:

Households interested in having the opportunity to participate in the *Program* will need to meet the following eligibility requirements:

(a) First Time Home Buyer

An eligible *Household* must include an individual 19 years of age or older, who will be one of the owners of the *Home*, and who:

- Is a Canadian citizen or is lawfully admitted to Canada as a landed immigrant,
- Has not previously held a registered interest in land, whether in British Columbia or elsewhere that constituted the individual's principal residence, and
- Has continuously maintained their principal residence in Surrey, B.C. throughout;

(b) Full-time employment

Refers to an individual 19 years or older who works 30 or more hours per week at their main or only job located in the City of Surrey.

(c) Households

An eligible *Household* means one or more individuals, 19 years of age or older, who will be the registered owner (s) in fee simple of the eligible *Home* to be registered in the New Westminster Land Title Office, and who have continuously maintained a principal residence in the City of Surrey or continuously maintained *full-time employment* in the City of Surrey for a period of not less than ~~one year~~ six months immediately before an *Application* is submitted to the GVHC.

(d) Household Income and Assets

Eligible *Households* will have a gross annual income 10% below the *Average Household Income* for the City of Surrey. On this basis, the total annual income for eligible *Households* is not to exceed \$59,000 for the 2003 Program year.

The total annual income includes income from all sources, including earned income, all income from public and private pension and disability plans, government income supplements, child support, alimony, unemployment insurance and an imputed income from assets.

Income from assets is determined by exempting the first \$15,000 from total assets and computing the balance at a per annum rate based on the average return for a one year Guaranteed Investment Certificate (GIC). Assets include accounts in banks, trust companies, etc.; stocks and bonds; real estate; equity in a business; Registered Retirement Savings Plans; and cash and other items of potential income earning nature.

The total asset amount held by eligible *Households* is not to exceed the maximum total annual income

permitted under the *Program*.

(e) Income Statements

To assist in verification of income and assets, eligible *Households* must submit copies of filed income tax returns for the current year and two previous years, a summary of other financial or investment statements, and such other information as may be necessary to verify the current total annual income of the *Household*;

(f) Surrey Resident

Is an individual who meets the requirements of a *Household*, and resides in the City of Surrey.

(g) Surrey Worker

Is an individual who meets the requirements of a *Household*, does not reside in the City of Surrey.

2. **Eligible Homes:**

The following conditions describe a *Home* that is eligible to be purchased under the *Program*:

- (a) *Homes* may be new (i.e. never occupied) or resale (provided the building permit was issued on or after January 1, 2000) and the *Home* is covered by a new home warranty in accordance with the requirements of the Homeowner Protection Act, and
- (b) *Homes* must be located in the City of Surrey.

C. DEVELOPER PARTICIPATION

To increase the level of *Home* affordability provided under the *Program*, the *Non Profit Housing Society* will contact residential developers and builders who are planning or constructing new homes to advise them of the *Program* and to encourage and identify competitively priced, eligible *Homes* for the *Program*.

D. HOME OWNERSHIP ASSISTANCE PROVISIONS

Participants will be eligible for a loan equal to the lesser of 15% of the market price of a qualifying *Home* or \$15,000, except *Participants* purchasing a newly constructed *Home* located in the City Centre are eligible for a loan equal to the lesser of 20% of the market price of a qualifying *Home* or \$20,000. The City Centre is as defined in Surrey Zoning By-law, 1993, No. 12000. The terms and conditions of the loan will include, but not be limited to the following:

- (a) The loan will be interest free and be registered on title as a second mortgage, to be recovered upon resale of the *Home*;
- (b) The repayment amount of the loan will decrease annually by 10% of the original loan amount to a maximum of 50%. The annual discount will occur on the anniversary of the registration date of the second mortgage;
- (c) The *Home* is to be occupied by the owner during the term of the second mortgage; and
- (d) The loan may become due and payable if the terms and conditions of the second mortgage are not fully met at all times.

E. PROGRAM DEFINITIONS

The following definitions apply throughout the Home Ownership Assistance Program:

"*Agreement*" means the agreement entered into between the City of Surrey and a Non Profit Housing Society;

" <i>Applicant</i> "	means a <i>Household</i> which has submitted an <i>Application</i> for the opportunity to participate in the <i>Program</i> ;
" <i>Application</i> "	means an application form completed by an Applicant, including supporting documentation submitted to the contracted <i>Non Profit Housing Society</i> ;
" <i>Home</i> "	means the lands and premises, purchased under the Program registered in fee simple in the New Westminster Land Title Office in the <i>Participant's</i> name which will be the principal residence of the Participant;
" <i>Average Household Income</i> "	means the gross annual household income that is the mathematical average of all household incomes in the City of Surrey based on the most recent Canadian census;
" <i>Non Profit Housing Society</i> "	means the Non Profit Housing Society selected by the City to implement, administer and monitor the Program and with which the City of Surrey has an agreement;
" <i>Participant</i> "	means an applicant who: <ol style="list-style-type: none">i. has been verified as eligible under the <i>Program</i>;ii. will be the registered owner in fee simple of the eligible <i>Home</i> to be registered in the New Westminster Land Title Office; andiii. has entered into a second mortgage to purchase a home under the <i>Program</i>;
" <i>Program</i> "	means the Home Ownership Assistance Program as outlined in this document and referenced in the City's Affordable Home Ownership Policy.