RURAL HOUSING PROGRAM PILOT FINANCIAL ANALYSIS

Presentation to the Hospital and Housing Committee, Capital Regional District

February 7, 2024

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Context

- Urban Matters CCC was commissioned by the Capital Regional District (CRD) to provide a financial analysis of secondary rental market options with grants or forgivable loans, in exchange for housing agreements to ensure affordability or non-market units.

- There are two driving factors behind this:
  - The development potential of the Electoral Areas is limited
  - The CRD's Southern Gulf Islands Housing Strategy recommended a focus on the secondary housing market because **existing zoning is already in place, but high building costs have limited the uptake.**

- While accessory dwelling units (ADU) are one housing option that could be scaled up, there are examples of multi-unit affordable housing projects being advanced by the non-profit sector on Salt Spring Island and the Southern Gulf Islands, and these groups struggle with high costs at the pre-development phase to ensure their projects are adequately serviced and meet the high environmental standards of Islands Trust.

Project Overview

The project goal is to support the development of a **Rural Housing Program Pilot** by understanding:

1. The financial feasibility of developing different housing type and how the financial feasibility is impacted by financial support;
2. How policies that offer grants or forgivable loans might be designed to result in additional homes being developed.

Rental Housing Analysis

Financial incentives for encouraging the development of accessory dwelling units

Pre-development funding to move multi-plex housing projects forward

Affordable Homeownership Analysis

Review of common entry level home ownership programs in Canada

Rental Housing Affordability Guidelines

- The Rental Housing Affordability Guidelines provide a benchmark for assessing the results of the financial analysis.

- Based on lower renter household incomes in the Southern Gulf Islands and on Salt Spring Island, the program should consider adjusting rent thresholds to slightly below Housing Income Limits (as set by BC Housing) for these areas.

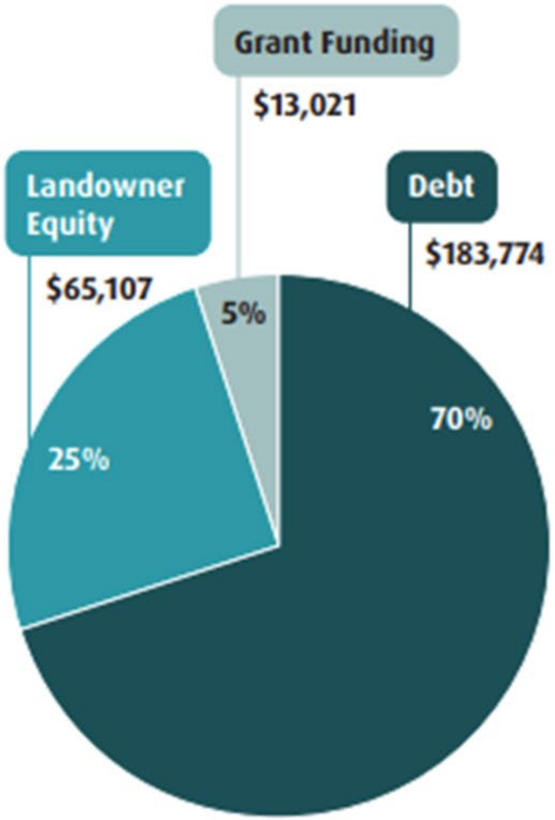
- Juan de Fuca renter incomes align more closely with those of the Capital Regional District as a whole.

Table 1. Rental Thresholds for the Southern Gulf Islands and Salt Spring Island

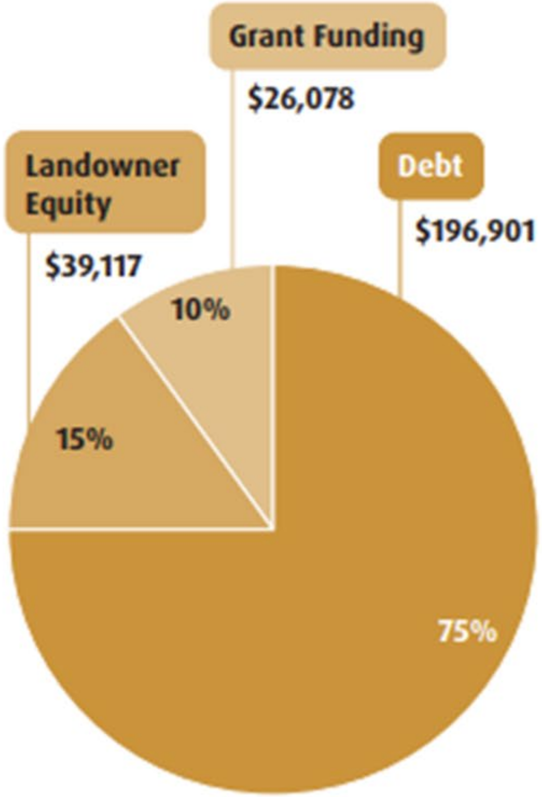
	1 Bdrm/less	2 Bdrm	3 Bdrm
Market Rent and Rent-to-Own Guidelines	$1,500	$1,950	$2,438
Below Market Rental Thresholds	$1,000	$1,250	$1,500
Deep Subsidy Thresholds	$500	$750	$1,000

Equity Approaches

Equity Approach 1:
Landowner-Led Equity Distribution
(e.g., exceeding the 25% equity)



Equity Approach 2:
Top Up Equity Distribution
(e.g., added towards the 25% equity)



KEY FINDINGS

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Secondary Suites: Renovation

One Bedroom Unit

- This scenario relies on individual landowner to invest in and operate the units.
- With no grant funding, the required monthly rents could be:
  - 7.0% Interest Rate: **$1,487**
  - 4.0% Interest Rate: **$1,132**

Two Bedroom Unit

- With grant funding of $30,000 per door, under the following scenarios, the required monthly rents could be:
  - 7.0% Interest Rate: **$2,078** (Baseline Rent: $2,326)
  - 4.0% Interest Rate: **$1,496** (Baseline Rent: $1,753)

Example: Equity Approach 2

Grant for a 1-Bedroom Secondary Suite Renovation, 7.0% Interest Rate

- A $34,000 grant would act as an incentive by lowering landowner's required equity contribution from $55,000 to $22,000
- The landowner would receive 6.4% annual return on their equity contribution.
- The required rent remains at the baseline of $1,487/month.

Secondary Suites: New Construction

One Bedroom Unit

- With grant funding of $30,000 per door, the required monthly rents could be:
  - 7.0% Interest Rate: **$1,583** (Baseline Rent: $1,837)
  - 4.0% Interest Rate: **$1,204** (Baseline Rent: $1,391)

Two Bedroom Unit

- With grant funding of $30,000 per door, the required monthly rents could be:
  - 7.0% Interest Rate: **$2,646** (Baseline Rent: $2,891)
  - 4.0% Interest Rate: **$1,985** (Baseline Rent: $2,172)

Example: Equity Approach 2

Grant for a 2-Bedroom Secondary Suite New Construction, 7.0% Interest Rate

- A $45,000 grant would act as an incentive by lowering landowner's required equity contribution from $114,000 to $68,000.
- The landowner would receive 4.2% annual return on their equity contribution.
- The supportable rent remains at the baseline of $2,891/month.

Cottages

One Bedroom Unit

- With grant funding of $60,000 per door, under the following scenarios, the required monthly rents could be:
  - 7.0% Interest Rate: **$2,118** (Baseline Rent: $2,616)
  - 4.0% Interest Rate: **$1,615** (Baseline Rent: $1,965)

Two Bedroom Unit

- With grant funding of $60,000 per door, under the following scenarios, the required monthly rents for a new build 2-bedroom cottage would be:
  - 7.0% Interest Rate: **$3,484** (Baseline Rent: $3,979)
  - 4.0% Interest Rate: **$2,626** (Baseline Rent: $2,993)

Example: Equity Approach 2

Grant for a 2-Bedroom Secondary Suite New Construction, 7.0% Interest Rate

- A $62,000 grant would act as an incentive by lowering landowner's required equity contribution from $156,000 to $93,000.
- The landowner would receive 4.2% annual return on their equity contribution.
- The supportable rent remains at the baseline of $3,979/month.

Multi-Plex

- Multi-plex rental development projects are challenging to develop from a financial standpoint due to several factors:
  - Lengthy pre-development stage
  - High construction costs associated with rural development
  - Lost building cost efficiencies
- A grant to offset a portion of the pre-development costs can encourage more multi-unit development through:
  - Opening opportunities to secure other funding
  - Lowering required rents
  - Lowering the financial barrier for organizations to pursue these development concepts

Example: Equity Approach 2

Grant for a 10-Unit Multiplex Rental Building, 7.0% Interest Rate

- A grant of $20,000 per door (i.e., $200,000) would increase financial viability and lower the required monthly rents by:
  - 7.0% Interest Rate: **$118, $167, and $197**
  - 4.0% Interest Rate*: **$63, $90, and $106**
- The stacking of funding from senior levels of government is needed to deepen affordability.

*50 year amortization, 80% Loan to Value

Affordable Homeownership

Option	Definition	Benefits	Limitations
Rent to Own	• Helps a program participant become a homeowner as their rent becomes the downpayment required to purchase the house.	• Bring rental units into a market that could become ownership units. • Free up rental units in the market for other tenants.	• Requires an investor willing to hold onto the mortgage during the "rent" period. • Requires a sizeable equity contribution in markets where housing sales prices are high – program reach is lower.
Down Payment Matching Options	• Lowers the down payment required for the eligible household by providing a supplementary down payment as a second mortgage.	• Allows individuals to purchase an asset they may not otherwise be able to afford. • If downpayment is 20%, it enables enable individuals to have lower mortgage payments.	• Secure affordability between users is not commonly implemented in the research examples. • Requires a sizeable equity contribution in markets where housing sales prices are high – program reach is lower.

Recommendations

1. Prioritize allocating funding to projects in CRD's rural areas where housing would have otherwise not been created (e.g., accessory dwelling units in Salt Spring Island and Southern Gulf Islands).

2. Secondary suites have the biggest potential to scale up in unit numbers when coupled with grant funding.

3. Cottages have potential to scale up in number of units and may be suitable for middle income households and residents in rural communities.

4. Multi-unit buildings should receive the third highest allocation after secondary suites and cottages, as the projects are approved infrequently.

5. Entry-level homeownership programs should have smaller funding allocations as the investment costs are high and affordability is not guaranteed to carry over to the next user.

6. Consider other program parameters and factors when developing the Rural Housing Program Pilot.

Recommendations

In summary, the **potential reach of the Rural Housing Program is substantial,** and the program reach depends on the allocation and distribution of funding.

- The allocation strategy for a hypothetical reserve of $5M to $15M for the Rural Housing Program pilot should maximize the number of units built.

- The suggested distribution prioritizes rental housing (75%) and affordable homeownership (25%), aiming to create a total of **165 units** under a $5M program outreach and up to **308 units** under the $15M program outreach.

THANK YOU

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QUESTIONS

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