



Moratorium on conversions won't end rental crunch

All levels of government should deal with the tax and policy disincentives to constructing apartment blocks for rental use

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What to do about Vancouver's rental crunch? Should city councillors agree next week to a moratorium on the conversion or replacement of rental properties with condos, as city staff recommends? Or should all governments -- the feds, the province, and the city -- deal with the tax and policy disincentives that foster a housing market where nobody builds purpose-built apartment blocks any more, and then stand back and let the market do its thing?

Both the control freaks and the free-market buccaneers have valid points that can be, and probably will be, debated endlessly.

Meanwhile, there's a simple, direct solution. That is to deal with the problem (too few rental units) rather than the symptom (too few apartment blocks with "For Rent" signs on the lawn).

In other words, don't worry about who owns any new housing units being built, and instead focus on who will live there.

Fact is, Vancouver is getting a lot of new rental units -- although no one knows exactly how many -- and the apartment shortage may not be as severe as is implied by an official vacancy rate that has dipped as low as 0.7 per cent. Because this rate, calculated by CMHC, excludes both investor-owned condos that are rented out and unregistered basement suites -- two huge sources of accommodation.

How huge? Councillor Peter Ladner estimates these two sources account for half the city's rental stock, and David Baxter of the Urban Futures Institute says the number of new condos bought by investors is as high as 59 per cent downtown.

So what is it, Baxter asks, that stops the city from leveraging the goodies it has to offer to developers -- money-making concessions to increase the height and density of their buildings -- in exchange for covenants that ensure a healthy component of long-term rental units? The city has had great success in getting developers to provide other amenities, so why not rentals as well?

Indeed, versions of that kind of deal-making already go on.

For example, Polygon Homes demolished 300 rental units at 33rd and Arbutus, says

company president Neil Chrystal, but the new development has doubled the number of people living there now. The project includes 100 purpose-built rental units, and all the condos were sold with a covenant to ensure they can be rented if the owner wishes. So the net change in the number of rental units is likely to be at least a wash, and maybe a gain.

A moratorium on demolitions would have no better outcome in terms of the number of rental units, although it might matter in a couple of other ways.

The economics of the rental business in Vancouver are odd. It's not exactly a bad business to be in, but not exactly a good one either. Average rents increase so slowly (21 per cent in five years) compared to sky-rocketing land values that it is not worth investing in a new apartment block any more. And landlords certainly don't get rich on the rent-controlled payments from tenants. But they stand to make real money -- fully taxed, by the way -- in capital gains when they cash in.

A moratorium would deny landlords the chance to sell at anything approaching market value. For owners who've been content to live on modest returns while watching their nest egg grow, that's simply not fair.

On the other hand, you can bet new investor-owned condos will cost renters a good deal more than they pay now for space in an aging three-story walk-up.

But higher rents are a different issue. They're driven by the same factors -- soaring land and building costs -- that put home ownership out of reach for so many.

Anybody who thinks rents in aging buildings will stay cheap indefinitely is dreaming. There's only one long-term alternative to occasional expensive upgrades, which up the rents, and eventual demolition when renovation is no longer worth it: To let the property deteriorate into a slum.

A moratorium might keep the lid on a few rents for a while, but that's the best it could do. Council -- and senior governments -- would be better advised to face up to their own complicity in making all city housing, not just rentals, so worryingly high.

At no cost, they could untangle some of the red tape that hangs up some proposed projects so long that developers lose their options on land, or that hamstring landlords trying to renovate. Ottawa could exempt new homes from the GST, allow speedy depreciation of rental buildings, and stop taxing profits from the sale of property even when they're re-invested in new buildings. The city could pare its development fees, the highest in Canada, and it could ease such things as height and density restrictions, and overly stringent parking requirements.

These things won't make Vancouver housing cheap, but they would help at least as much as a moratorium. And their impact would last a lot longer.

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