Rural Housing Pilot Project Analysis

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Executive Summary

This executive summary provides an overview of the findings from the rental housing analysis and affordable homeownership research conducted for the Capital Regional District's (CRD) rural areas. The report focuses on three areas where the CRD is the local government: Southern Gulf Islands Electoral Area (SGI), Salt Spring Island Electoral Area (SSI), and Juan de Fuca Electoral Area (JdF). The analysis explores various housing typologies, funding mechanisms, and economic conditions to provide incentives for expanded affordable housing options under a possible Rural Housing Program pilot. Key insights and recommendations from the financial analysis and research are highlighted below:

- **The Rural Housing Program (RHP) should prioritize allocating funding to projects in CRD rural areas where housing would have otherwise not been created.** While single-detached houses and accessory dwelling units are permitted across SGIs and SSI, the uptake to build accessory dwelling units has been slow. Previous studies have shown there is market demand for rental housing on the SGI and SSI, however, there has not been enough incentive or funding available to encourage developers and landowners to fill the market gap.
- **Secondary suites have the biggest potential to scale up in unit numbers when coupled with grant funding.** The financial analysis shows that grant funding has the biggest impact on making secondary suite rents affordable (for renovation of existing suites or new construction). The estimated grant needed to influence the development potential or affordability of secondary suites is $30,000 per unit. The uptake potential of secondary suites, however, can be impacted by cultural preferences and whether there is strong market interest to build these units.
- **Cottages have higher development costs and require more grant funding than secondary suites.** Cottage development has higher costs and requires an estimated grant of $60,000 per unit to influence the development potential or affordability of the unit, however, they may be preferred by residents in rural communities. Collaborating with different development approval authorities to create a pre-approved design for cottages, including septic system design, and developing under preferred interest rates can deepen affordability.

- **Multiplex rental development projects are challenging to develop from a financial standpoint under the current land use framework without stacking partnerships and grant funding.** Several factors contribute to the high cost of development, including a lengthy pre-development stage, cost of rural development, and permitted densities that do not maximize building cost efficiencies. To offset a portion of the pre-development costs, a grant of $10,000 to $20,000 per door can move development projects towards the building permit approval stage. This grant would lower the required rents in the project, and allow housing providers to contribute to the required equity for the project, which could unlock partnerships and further grant funding.
- **Entry-level homeownership programs such as rent-to-own and down payment matching programs should have smaller funding allocations as the investment costs are high and affordability is not guaranteed to carry over to the next user.** This program reach could be greater if coupled with partnerships or through existing funding programs.
- **The potential reach of the Rural Housing Program (RHP) pilot depends on the allocation of funding.** The allocation strategy for a hypothetical reserve of $5.0 million to $15 million for the RHP 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 affordable units under a $5.0 million program outreach and up to 308 units under the $15 million program outreach.

In summary, the potential reach of the Rural Housing Program is substantial. It can help support housing providers in bringing forth several needed housing options, such as accessory dwelling units for rent, multi-unit rental housing, and affordable homeownership. While the reach of the program can change depending on the economic conditions, the recommended strategies and funding allocations aim to maximize the impact of the Rural Housing Program by increasing the development potential or affordability of the housing options.

1.0 Introduction

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The Capital Regional District (CRD) is exploring a suitable pilot project to increase housing options across the CRD's rural areas. The CRD's rural areas include Electoral Areas and municipalities outside of the CRD Urban Containment Policy Area Boundary (Saanich Peninsula and rural West Shore). This report focussed its analysis on the CRD's Electoral Areas for which it is the local government:

- Southern Gulf Islands Electoral Area
- Salt Spring Island Electoral Area
- Juan de Fuca Electoral Area

The goal of the project is to understand the financial feasibility of developing different types of housing and how these housing types are impacted by financial support (grants or forgivable loans). Ultimately, the CRD is looking to see how policies that offer grants or forgivable loans might most efficiently be designed to result in additional homes being developed. The findings from this analysis are intended to support recommendations for the development of a Capital Regional District Rural Housing Program (RHP).

This report contains a section on defining housing affordability in order to understand what the target rents would be under the RHP. The report analyzes three main elements:

Rental Housing Analysis

1. Financial incentives for encouraging the development of accessory dwelling units as rental units.
2. Pre-development funding to move multi-plex rental housing projects forward.

Affordable Homeownership Analysis

3. A review of common entry level home ownership programs in Canada and the benefits and limitations of each.

Findings and recommendations for the funding allocation are outlined in sections 5 and 6 of this report, including a discussion on stacking CRD grants with other government funding programs in order to move housing development concepts off the ground.

2.0 Defining Affordable Housing

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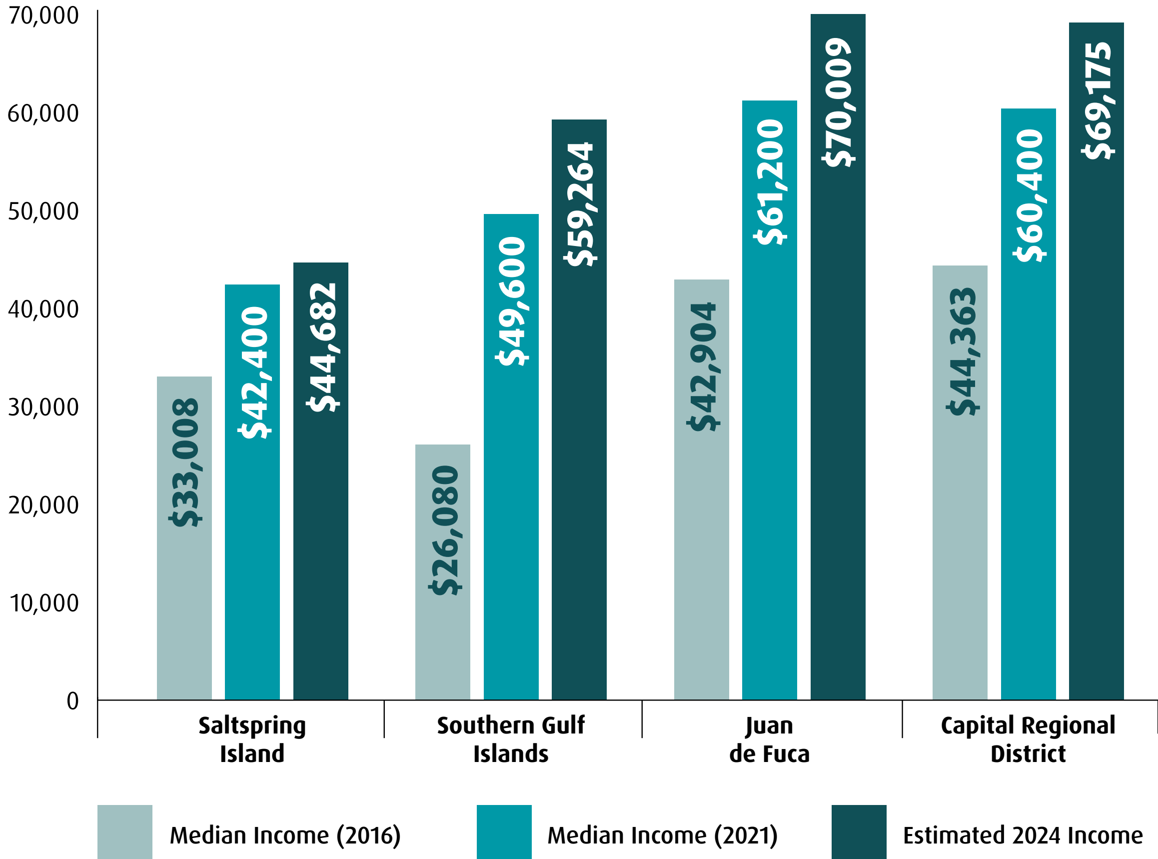
The CRD currently does not define affordable housing for the municipalities and electoral areas within its jurisdiction. To understand the housing affordability levels that could be achieved through CRD's Rural Area Housing Pilot Program, this section proposes rental affordability thresholds for the housing types examined in this report. The definition takes into consideration the remoteness of the CRD's rural communities and household incomes, which differ from the urban areas of the CRD.

2.1 Renter Household Income

The newest household income data available across the three rural areas that form part of this study, Salt Spring Island, Southern Gulf Islands, and Juan de Fuca Electoral Area (Part 1) is from the Census 2021. **Figure 1** shows median incomes for 2016 and 2021 across the rural areas of the CRD and the Regional District as a whole. Renter household incomes have increased substantially across these jurisdictions since 2016. This is attributable to a decline in renters at the lowest income levels (earning less than $20,000 annually) in each jurisdiction and the region as a whole. We have provided estimated renter incomes for 2024, based on historical income growth for renter households between 2006 and 2021.

The CERB benefit offered by the federal government in 2021 had a significant impact on incomes for the most vulnerable households in Canada, including low-income renters. As such, the decline in low-income renters is likely attributable to the short-term impact of CERB, creating more income stability for vulnerable households, and the lack of rental housing availability in these areas. Salt Spring in particular saw an overall decline in the number of renters (from 1,160 in 2016 to 950 in 2021), which is indicative of a challenging rental market.

Figure 1: A Comparison of Renter Income and Estimated Income Across Rural CRD Areas, 2006, 2021, 2024



A comparative analysis of renter income distribution in 2016 and 2021 shows a significant upward shift in the income level of renters across all areas. The SSI and the SGI had a much higher proportion of renters earning less than $60,000 per year than the region as a whole. The income profile for renter households in Juan de Fuca showed more similarity to the CRD as a whole than SSI and SGI. The findings of this analysis are shown in **Table 1** on the following page.

Table 1: Renter Household Income Distribution Analysis, 2016 and 2021

	2016	2021
Southern Gulf Islands (SGI)	78% of renter households earned less than $60,000, and 67% earned less than $40,000	54% of renter households earned less than $60,000, and 40% earned less than $40,000
Salt Spring Island (SSI)	78% of renter households earned less than $60,000, and 50% earned less than $40,000	67% of renter households earned less than $60,000 and 44% earned less than $40,000
Juan de Fuca (JdF)	57% of renter households earned less than $60,000, and 48% earned less than $40,000	27% of renter households earned less than $60,000, and 27% earned less than $40,000
Capital Regional District (CRD)	65% of renter households earned less than $60,000, and 45% earned less than $40,000	50% of renter households earned less than $60,000, and 35% earned less than $40,000

Source: Adapted from Statistics Canada, Census 2016 and 2021

Based on available income data, it is clear that the SGI and SSI have a different composition of renters than seen in JdF and the CRD as a whole, with a higher proportion of very low, and low income renters. While income levels have improved somewhat between 2016 and 2021, it has been suggested in some interviews (with SGI Liaisons) that a noticeable segment of the lowest income residents of these areas have moved after being priced out of the market. Nevertheless, the data shows that any affordability definition for these areas must consider the fact that renters on the islands are likely to be lower income than renters in other parts of the CRD (including Juan de Fuca).

Table 2 below shows BC Housing's Housing Income Limits (HILs) for Greater Victoria in 2023. These figures are derived from CMHC's Rental Market Survey, conducted annually in most Census Agglomerations. The Rental Market Survey focuses on the primary rental market (i.e. purpose-built rental housing). However, most, if not all, of the rental stock in the CRD's rural areas is in the secondary market (i.e. secondary suites, private homes rented out, etc.), and little data is available about the cost of these rentals.

Table 2: Housing Income Limits for the Greater Victoria Region (CRD), 2023

	1-Bdrm/less	2-Bdrm	3-Bdrm	4-Bdrm
Rent levels as defined by HILs	$1,250	$1,625	$2,050	$2,388
Income threshold	$50,000	$65,000	$82,000	$95,500

Source: BC Housing

2.2 Proposed Rental Housing Affordability Guidelines

Based on the household income data, this points to a strong need to provide affordable rental opportunities on the islands that will serve renters at the lower end of the income continuum. The program should therefore consider the following thresholds for rental housing:

- **Market Rental and Rent-to-Own threshold**: $1,500 and up (for households earning $60,000 and up)
- **Below Market threshold**: $1,000 to $2,050 (for households earning $40,000 to $60,000)
- **Deep Subsidy threshold**: $1,000 and below (for households earning less than $40,000)

This latter category is likely to be the most needed by current renters on the islands. However, it is also the least viable, as rents may be too low to pay off all operating costs. Units in this category may need some form of cross subsidy.

Rental income for financial analysis for the SGI and SSI should therefore be structured as outlined in **Table 3** below. Rent Geared to Income (RGI) or Deep Subsidy rental thresholds are low but align with income assistance shelter rates for the smallest unit. **It should be noted that for all categories outlined in Tables 2 and 3, thresholds are intended to be a starting point for that category. It should also be noted that these guidelines should be updated on an annual basis as HILs are updated.**

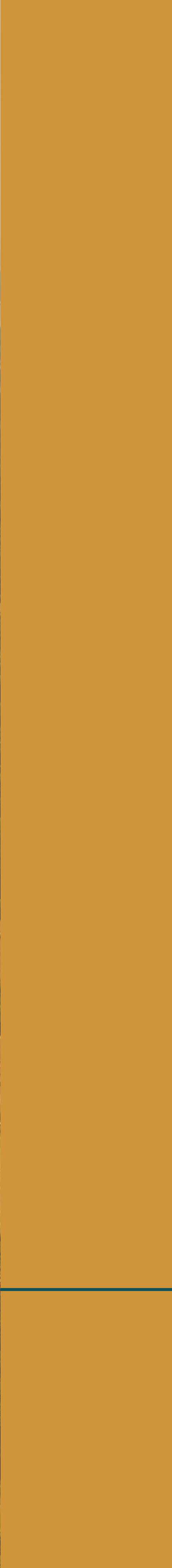
Table 3: Rental Thresholds for the Southern Gulf Islands and Salt Spring Island, 2023

	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

Rental thresholds for Juan de Fuca should conform more closely to the CRD HIL rates, as the income profile of renters more closely matches the regional profile. As such the rental thresholds outlined in **Table 4** can be used for financial analysis.

Table 4: Rental Thresholds for Juan de Fuca, 2023

	1 Bdrm/less	2 Bdrm	3 Bdrm
Market Rent Guidelines	$1,500	$1,950	$2,438
Below Market Rental Thresholds	$1,250	$1,625	$2,050
Deep Subsidy Thresholds	$500	$750	$1,000



3.0 Rental Housing Analysis

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This section reviews the financial impacts of developing **rental housing** in the context of the CRD's rural areas. The purpose of this financial analysis is to understand the market rents supposed if the rental units were built: 1) Under mortgage lending rates of 7.0%; 2) Under decreased mortgage lending rates of 4.0%; 3) The rents that could be supported if funding were available in both 1 and 2.

While the Bank of Canada has held its benchmark interest rate at 5% since July 2024, some economists are forecasting the Bank of Canada to initiate rate cuts slowly, starting in the second quarter of 2024 and potentially to 4.25% by the end of 2024[1,2]. While interest rates are out of the CRD's control, modelling two market conditions where the mortgage lending rate is 7.0% and at a lower lending rate of 4.0% illustrates that the timing of the economic market can impact the potential reach of the RHP.

This section reviews three types of rental housing:

- **Secondary suites,** which include the renovation and new construction of secondary suites
- **Accessory dwelling units,** such as cottages or garden suites
- **Multi-unit buildings,** which could be plexes or townhouses. While duplexes are permitted under some zones, multi-plexes and townhouses are not commonly permitted under current zoning across the CRD's rural areas.

Required Rent and Decrease in Supportable Rent

The "required rent" outlined in each test scenario refers to the monthly rent that a landlord would have to receive from a tenanted unit in order to pay for its expenses. Note that these rents refer to the starting rents for the unit during first tenancy only.

Throughout this analysis, the term "decrease in supportable rent" refers to how much the required rent would be lowered if a RHP grant were provided to the landlord during development. For example, if the rent was $1,000 without any grants and the rent dropped to $950 with a $10,000 grant, then the decrease in supportable rent is $50.

1 *"Interest rate increases bite, leading to deeper recession", Deloitte, 2023, https://www2.deloitte.com/content/dam/Deloitte/ca/Documents/finance/ca-economic-outlook-september-2023-report-aoda-en.pdf?icid=eo-report-september-2023-aoda-en*

2 *"Long-Term Forecast", TD Economics, 2023, https://economics.td.com/ca-long-term-forecast*

Policy Goal and Securing Affordability

Under the RHP, the policy goal is that any grant provided to landowners will secure the units as non-market units. This means that after the first tenancy, the required rents can only be increased according to the provincially mandated annual permitted rent increase and not with any increases in the housing market. In addition, during tenant turnover, it is intended that the housing agreement will limit the rent increase to the Consumer Price Index. In other words, even if units are initially rented at rents above the affordability guidelines, over time, the unit would be secured as non-market affordable housing (assuming an escalating rental market). Whether the unit starts off within the affordability guidelines or above it is dictated by the way the grant is distributed into the equity of the approach (see the Equity Approach section below).

One mechanism to secure the affordability is for the CRD to enter into a housing agreement with the landowner, which is then approved as a bylaw and registered on title as a condition of the grant, and dictates the terms for use of the unit. The term for the housing agreement should consider the relative size of the initial investment against the number of years the agreement is in place, and the equity approach that is applied.

One challenge to using housing agreements for secondary suites and cottages across the CRD's rural areas is that with program success, there will be an increase in the number of agreements to adopt, administer and enforce. However, it can be done with a streamlined internal process and appropriate levels of staffing to administer the program. The CRD could also explore a program to partner with a non-profit organization with a mandate to support affordable housing that to sign the land lease agreements with a group of individual landowners on behalf of tenants. Outside of housing agreements, further research is needed to understand whether additional tools are available to local governments, such as forgivable loans. The CRD is currently undertaking a Housing Agreement Program review which will help inform the implementation of the RHP.

Equity Approach

There are two equity approaches in which the secondary suites and cottages could be supported financially and each approach has its own merits[3]. The goal to provide an incentive to build a unit, rent it, and agree to have the rent controlled as a non-market unit. Scenario 2A requires a 25% equity requirement from the landowner, and any grant funding from the CRD is stacked on top of the 25%. Scenario 2B requires a 25% equity, however, any grant funding from the CRD goes towards the 25% and lowers the portion to be contributed by landowner.

3 *Note that Scenario 2B does not apply to the multi-unit building analysis as the initial equity required is high due to the construction costs.*

One scenario, "**Scenario 2A**" as shown in **Figure 2**, is to structure the equity so that the landowner contributes the minimum amount of equity required to make the project financially viable, and any additional grants from government (CRD or other entity) would be directed to reducing rental rates to make the rent more affordable. This is because any additional grants are added on top of the 25% equity, lowering the principal mortgage required.

The second scenario, "**Scenario 2B**" as shown below in **Figure 3**, models a situation where the landowner only contributes a portion of the equity and the remaining required equity is topped up with grant funding, targeting a total equity of 25%. The intent of this approach is to encourage the development of units rather than deepen the affordability of the rents. It also recognizes that not every landowner may have the upfront equity required (a full 25% equity) to construct an accessory dwelling unit as modelled in Scenario 2A. This scenario does not model an equity contribution of more than 25%.

Figure 2: Example of Landowner-Led Equity Distribution in an Auxiliary Dwelling (Scenario 2A)

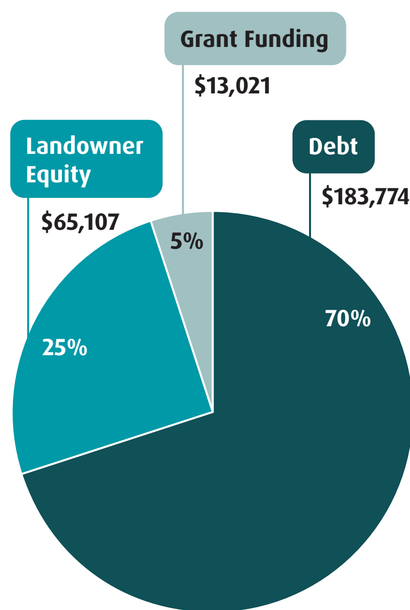
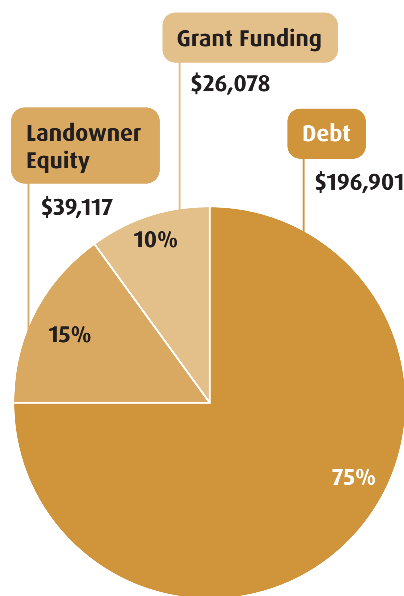


Figure 3: Example of Top Up Equity Distribution in Secondary Suite Renovation (Scenario 2B)



In summary, Scenario 2A allows the grant contributions to support lower mortgage payments, and therefore lowers the required rents in the units. Scenario 2B allows the grant contributions to lower the equity that landowners must put towards the unit and does change the required starting rents. Both scenarios will secure non-market units, but the uptake is dependent on individual landowner's preferences. To better understand which approach would receive more uptake, it is suggested that the CRD conduct community engagement to gather input on the two equity approaches.

Assumptions and Limitations

All scenarios in this section are run under the assumption that a debt service coverage ratio (DSCR) of 1.1 must be met, as that is one metric that lending institutions will use to determine whether a loan can be approved. Inherently this means that a minimal amount of annual revenue will be returned as profit to the landowner if there are no major vacancies[4] during the year. This annual return on equity is discussed in the scenarios below.

It is also assumed that the minimum equity contribution for the mortgage must be 25% of project costs and the assumed loan would be 75% on a 25-year amortization period at a fixed interest rate of 7.0% or 4.0%. Some institutions may approve different loan to ratio values which would increase or decrease the monthly mortgage payments modelled in this section. The rest of the assumptions are outlined in the **Table 5** below.

Construction costs for the secondary suites and cottages are based on a survey conducted by New Commons to local builders on the SGI in early 2022. To account for the increase in construction costs from 2022 to late 2023, the costs were adjusted by 5%. The multi-plex construction cost is based on a builder working on a similar SGI project in 2024. Builders on SSI and JdF were contacted as part of this study, but the response rate was limited. Note that these projects costs are for an average development model and construction costs may be higher or lower depending on the specific site or house (in the context of a renovation).

Table 5: Summary of Assumptions for Rental Housing Analysis

	Secondary Suite – Renovation	Secondary Suite – New	Cottage – New	Multi-Unit Building
Cost to Acquire Land	$0	$0	$0	$0
Unit Size (sq. ft.)	1-Bdrm: 600 sq.ft. 2-Bdrm: 969 sq.ft.	1-Bdrm: 600 sq.ft. 2-Bdrm: 969 sq.ft.	1-Bdrm: 600 sq.ft. 2-Bdrm: 969 sq.ft.	1-Bdrm: 600 sq.ft. 2-Bdrm: 850 sq.ft. 3-Bdrm: 1,100 sq.ft.
Construction Cost ($/sq. ft.)	$296	$368	$439	$600
Contingency	5% of hard costs	5% of hard costs	5% of hard costs	8% of hard costs
Soft Costs	15% of hard costs	17% of hard costs	17% of hard costs	22% of hard costs
Construction Timeline	12 months	12 months	12 months	18 months
Vacancy Allowance	Half of one month's rent	Half of one month's rent	Half of one month's rent	Half of one month's rent

4 *The analysis includes a small vacancy allowance equivalent to half a month's rent in each scenario to account for tenant turnover.*

A limitation to this analysis is that the annual operating costs for each unit will vary in practice. While we have provided estimates of what the operating costs are, they will be dependent on what the individual landowner has budgeted for the rental unit. This is an important metric as the monthly mortgage payments plus the operating expenses are used to calculate whether the development meets the DSCR and what the landowner's return on equity is.

Another limitation to this analysis is that construction costs and development approval timelines will vary depending on the geography and builder. Some owners may want higher-end design and finishing, which will impact the cost to construct a rental unit. As the CRD's rural areas cover three different markets (SGI, SSI, and JdF), the cost variations and regulatory processes require more fine-grained market data. This analysis, however, uses general cost data in order to account for higher labour costs on the SGI and SSI. As such, the actual construction costs for each housing typology may be less on JdF.

Annual Returns / Covering Expenses Related to Operating Rental Housing

As shown in the accessory dwelling unit scenarios, the financial analysis solves for an annual return for landowners. While a developer profit is not built into the analysis, as would occur in typical development scenarios, the annual return here is a result of the excess net operating income to service debt and expenses (mortgage payments and operational expenses) as required by lending institutions when receiving the loan approval.

There are risks in taking out a loan to build or renovate any unit, in addition to the responsibility of operating a rental housing unit, and an annual return helps to understand what the landowner could earn on their investment converting their property into a rental unit. The annual return is a metric that helps landowners decide if they are better off investing their money at the bank or other investment.

If enough of a financial incentive were to be provided, the possibility of scaling up accessory dwelling units could be possible in CRD's Electoral Areas, although it would come down to the individual landowner and how they weigh the financial options.

3.1 Secondary Suites – Renovation

Base Scenario

This scenario models a secondary suite renovation with a unit size of 600 square feet (1-bedroom) and a unit size of 969 square feet (2-bedroom unit). The monthly operating expenses for both the units are estimated to be $165 to $215 which includes vacancy allowance, property tax, home insurance, interior maintenance, and capital reserve fund.

Table 6 below shows the results of the analysis. The total project costs across the 7.0% and 4.0% interest rate scenarios do not vary much, however, it changes the required rents drastically between the scenarios. This is because the threshold to service the debt (e.g., monthly mortgage payments) operating expenses is lowered when the mortgage payments are less.

Under the 7.0% interest rate scenario, assuming a minimum injection of 25% equity into the project, the landowner would need to set the monthly rent at $1,487 for the 1-bedroom unit, which meets the market rental guideline for a 1-bedroom ($1,500). The 2-bedroom unit would support a monthly rent of $2,326 which is above the market rental guideline for a 2-bedroom unit ($1,950).The rents under the 4.0% interest rate scenario are lower.

As mentioned in Section 3.0, these projects costs are for an average secondary suite renovation. It is important to recognize that the costs could be lower or higher depending on the individual house's structural base and other conditions.

Table 6: Secondary Suite Renovation (Base Scenario)

	7.0% Interest Rate (Mortgage)		4.0% Interest Rate (Mortgage)	
	1-Bedroom	2-Bedroom	1-Bedroom	2-Bedroom
Total Project Costs	$223,773	$361,392	$221,337	$357,459
Equity Required	$55,943	$90,348	$55,334	$89,365
Loan-to-Value Ratio (LTV)	0.75	0.75	0.75	0.75
Principal Mortgage Amount	$169,656	$273,994	$167,221	$270,061
Mortgage Payment (Monthly)	$1,188	$1,919	$880	$1,421
Operating Expenses incl. Vacancy Allowance (Monthly)	$180	$215	$165	$190

	7.0% Interest Rate (Mortgage)		4.0% Interest Rate (Mortgage)	
Debt Service Coverage Ratio (DSCR)	1.1	1.1	1.1	1.1
Annual Return	$1,426 or 2.5% on equity	$2303 or 2.5% on equity	$1,056 or 1.9% on equity	$1,705 or 1.9% on equity
Rent Required to Cover Operations and Mortgage Payment (Monthly)	$1,487	$2,326	$1,132	$1,753

While we assume the developer profit will be 0% in the base scenario, the DSCR of 1.1 means the developer will receive $1,402 in profit for the first year of operation for a 1-bedroom unit, baring the absence of any major vacancies. This is equivalent to an annual return of 2.5% on the equity contributed by the landowner.

The 4.0% interest rate scenario shows an improved outlook on required monthly rents. Both the 1-bedroom rent ($1,122) and 2-bedroom unit rent ($1,737) are closer to the respective market rental guidelines.

Subsidized Scenario: 1-Bedroom

As mentioned earlier at the start of Section 3.0, there are two equity approaches in which secondary suite renovations could be subsidized.

Since the base scenario yields a rent that meets the market rent guideline, **Table 7** below shows how incremental additional grants could deepen the affordability to below market rents. If a grant with a contribution amount of between $40,000 and $50,000 were to be provided by the CRD or another entity, the SGI and SSI threshold for below market rent of $1,000 (1-bedroom) is met. For JdF, the below market rent of $1,250 could be met with a grant of approximately $30,000.

At the higher grant levels, however, the annual return on the landowner's equity decreases. As such, even though additional grants may increase the affordability of the rent, it may not necessarily be enough of a financial incentive for a landowner to build and operate a secondary suite. The alternative equity approach, Scenario 2B, presented later in this section creates a scenario where there is more financial incentive for a landowner to take on debt and renovate a unit.

Table 7: Landowner-Led Equity Distribution (Scenario 2A) in Secondary Suite Renovation, 1-Bedroom at 7.0% Interest Rate

Grant/ Fund ($)*	25% Equity from Landowner ($)	Rent ($ Monthly)	Decrease in Supportable Rent ($ monthly)	Annual Return ($)	Annual Return on Equity (%)
No Grant	$55,943	$1,487	$0	$1,426	2.5%
$10,000	$55,831	$1,404	$84	$1,338	2.4%
$20,000	$55,722	$1,322	$165	$1,253	2.2%
$30,000	$55,610	$1,238	$249	$1,165	2.1%
$40,000	$55,500	$1,156	$331	$1,080	1.9%
$50,000	$55,388	$1,073	$415	$992	1.8%
$60,000	$55,276	$989	$498	$905	1.6%

Rounded to the nearest $1,000 for illustrative purposes.

To illustrate the impact of grant funding under a 4.0% interest rate scenario, **Table 8** shows the rent for a renovated 1-bedroom secondary suite could be lowered to $1,010 with a $20,000 grant (compared to a $40,000 to $50,000 grant under the 7.0% interest rate).

Table 8: Landowner-Led Equity Distribution (Scenario 2A) in Secondary Suite Renovation, 1-Bedroom at 4.0% Interest Rate

Grant/Fund ($)*	25% Equity from Landowner ($)	Rent ($ Monthly)	Decrease in Supportable Rent ($ monthly)	Annual Return ($)	Annual Return on Equity (%)
No Grant	$55,334	$1,132	$0	$1,056	1.9%
$10,000	$55,260	$1,070	$62	$991	1.8%
$20,000	$55,187	$1,010	$123	$927	1.7%
$30,000	$55,112	$948	$184	$863	1.6%
$40,000	$55,039	$887	$245	$799	1.5%
$50,000	$54,964	$825	$307	$735	1.3%
$60,000	$54,889	$763	$369	$670	1.2%

Rounded to the nearest $1,000 for illustrative purposes.

To make the opportunity more attractive to landowners, **Table 9** below demonstrates the top up equity approach (Scenario 2B) for the 1-bedroom secondary suite renovation.

A 20% equity contribution ($44,755) from the landowner and 5% equity from grant funding ($11,189) would support the same monthly rent as Scenario 2A with no grant funding ($1,487). This scenario, however, offers a higher annual return on equity (3.2% at 5%) and offers a lower downpayment barrier which may be more attractive for landowners.

Table 9: Top Up Equity Distribution (Scenario 2B) in Secondary Suite Renovation, 1-Bedroom at 7.0% Interest Rate

Grant/Fund		Landowner Equity		Rent (monthly)	Annual Return ($)	Annual Return on Equity (%)
%	$	%	$			
5%	$11,189	20%	$44,755	$1,487	$1,426	3.2%
10%	$22,377	15%	$33,566	$1,487	$1,426	4.2%
15%	$33,566	10%	$22,377	$1,487	$1,426	6.4%
20%	$44,755	5%	$11,189	$1,487	$1,426	12.7%

The advantage in this approach is with more funding is provided, the higher the annual returns are provided to the landowner (as their equity contribution lessens). At 10% funding ($22,377), the annual return on the landowner's investment is 4.2% which may be comparable to common investment options offered by banks in today's market conditions.

Table 10 below shows the same top-up equity approach but under the 4.0% interest rate scenario.

Table 10: Top Up Equity Distribution (Scenario 2B) in Secondary Suite Renovation, 1-Bedroom at 7.0% Interest Rate

Grant/Fund		Landowner Equity		Rent (monthly)	Annual Return ($)	Annual Return on Equity (%)
%	$	%	$			
5%	$11,067	20%	$44,267	$1,132	$1,056	2.4%
10%	$22,134	15%	$33,201	$1,132	$1,056	3.2%
15%	$33,201	10%	$22,134	$1,132	$1,056	4.8%
20%	$44,267	5%	$11,067	$1,132	$1,056	9.5%

Subsidized Scenario: 2-Bedroom

For a 2-bedroom secondary suite renovation, **Table 11** below summarizes how incremental grant contributions can decrease the monthly rent. At a grant contribution of between $40,000 to $50,000, the market rental guideline for a 2-bedroom unit ($1,950) can be reached for the rural areas.

Table 11: Landowner-Led Equity Distribution (Scenario 2A) in Secondary Suite Renovation, 2-Bedroom at 7.0% Interest Rate

Grant/Fund ($)*	25% Equity from Landowner ($)	Rent ($ Monthly)	Decrease in Supportable Rent ($ monthly)	Annual Return ($)	Annual Return on Equity (%)
No Grant	$90,348	$2,326	$0	$2,303	2.5%
$10,000	$90,236	$2,242	$84	$2,215	2.5%
$20,000	$90,126	$2,160	$166	$2,129	2.4%
$30,000	$90,016	$2,078	$248	$2,043	2.3%
$40,000	$89,906	$1,996	$330	$1,957	2.2%
$50,000	$89,793	$1,912	$414	$1,870	2.1%
$60,000	$89,683	$1,830	$496	$1,784	2.0%

**Rounded to the nearest $1,000 for illustrative purposes.*

Table 12 below shows the incremental grant contribution deepen the affordability of the rents under the 4.0% interest rate scenario. For instance, a $10,000 grant could support a monthly rent of $1,691 for a 2-bedroom secondary suite renovation.

Table 12: Landowner-Led Equity Distribution (Scenario 2A) in Secondary Suite Renovation, 2-Bedroom at 4.0% Interest Rate

Grant/Fund ($)*	25% Equity from Landowner ($)	Rent ($ Monthly)	Decrease in Supportable Rent ($ monthly)	Annual Return ($)	Annual Return on Equity (%)
No Grant	$89,365	$1,753	$0	$1,705	1.9%
$10,000	$89,290	$1,691	$62	$1,640	1.8%
$20,000	$89,159	$1,582	$171	$1,526	1.7%
$30,000	$89,055	$1,496	$257	$1,436	1.6%
$40,000	$88,952	$1,411	$342	$1,347	1.5%
$50,000	$88,850	$1,326	$427	$1,258	1.4%
$60,000	$88,746	$1,240	$513	$1,168	1.3%

**Rounded to the nearest $1,000 for illustrative purposes.*

Table 13 and **Table 14** below demonstrates the impact of increasing the share of grant funding towards a fixed 25% equity (Scenario 2B) under different economic conditions. Under the 7.0% interest rate, a grant contribution of approximately 10% or $36,139, the annual return on the landowner's equity is 4.2% which is improved from Scenario 2A.

Table 13: Top Up Equity Distribution (Scenario 2B) in Secondary Suite Renovation, 2-Bedroom at 7.0% Interest Rate

Grant/Fund		Landowner Equity		Rent (monthly)	Annual Return ($)	Annual Return on Equity (%)
%	$	%	$			
5%	$18,070	20%	$72,278	$2,326	$2,303	3.2%
10%	$36,139	15%	$54,209	$2,326	$2,303	4.2%
15%	$54,209	10%	$36,139	$2,326	$2,303	6.4%
20%	$72,278	5%	$18,070	$2,326	$2,303	12.7%

As noted previously, the monthly rent is substantially lower under the 4.0% interest rate scenario as shown in **Table 14** below.

Table 14: Top Up Equity Distribution (Scenario 2B) in Secondary Suite Renovation, 2-Bedroom at 4.0% Interest Rate

Grant/Fund		Landowner Equity		Rent (monthly)	Annual Return ($)	Annual Return on Equity (%)
%	$	%	$			
5%	$17,873	20%	$71,492	$1,753	$1,705	2.4%
10%	$35,746	15%	$53,619	$1,753	$1,705	3.2%
15%	$53,619	10%	$35,746	$1,753	$1,705	4.8%
20%	$71,492	5%	$17,873	$1,753	$1,705	9.5%

Stacking Incentives for Accessory Dwelling Units

In October 2023, BC Housing announced the Secondary Suite Incentive Program (SSIP). The program rebate is available for eligible new legal self-contained units with a kitchen and full bathroom (i.e., excludes improvements to existing rental units) and laneway homes / garden suites. The SSIP is intended to help homeowners create new affordable rental housing in their communities through the provision of a rebate in the form of a forgivable loan for 50% of renovation costs, to a maximum of $40,000. A full summary of the eligibility requirements can be found in Appendix A and on BC Housing's website.

While the SSIP is only open for properties located within the 161 incorporated municipalities in BC, and therefore not applicable to properties located in CRD's Electoral Areas, a forgivable loan similar to this would stack well with potential contributions from the CRD to make the grant dollars go further, and to provide more affordable housing units in CRD's rural areas.

3.2 Secondary Suites – New Construction

Base Scenarios

The base scenarios model the construction of a new secondary suite with a unit size of 600 square feet (1-bedroom) and 1,000 square feet (2-bedroom). The monthly operating expenses for both unit types are estimated to be between $175 to $238 which includes vacancy allowance, property tax, home insurance, interior maintenance, and capital reserve fund.

The construction cost for new secondary suites is based on a survey with local builders. While we are modelling a higher construction cost for new suites than for the renovation of a suite, it is possible that a renovation of a suite could cost more. The actual project cost of each specific case will depend on the physical condition of the house.

Table 15 below shows the results of the analysis. Under the higher interest rate scenario (7.0%), the required rent to support the 1-bedroom unit, at $1,837, is close to the market rental guideline for a 1-bedroom ($1,500). The 2-bedroom unit, at a monthly rent of $2,891, may be considered affordable for an annual household income of $115,600 which is above the median renter household incomes across SGI, SSI and JdF. These rents are lower under the 4.0% interest rate scenario.

Table 15: Secondary Suite New Construction (Base Scenario)

	7.0% Interest Rate		4.0% Interest Rate	
	1-Bedroom	2-Bedroom	1-Bedroom	2-Bedroom
Total Project Costs	$281,295	$454,291	$278,234	$449,347
Equity Required	$70,324	$113,573	$69,559	$112,337
Loan-to-Ratio Value (LTV)	0.75	0.75	0.75	0.75
Principal Mortgage Amount	$213,267	$344,426	$210,206	$339,482
Mortgage Payment (Monthly)	$1,494	$2,412	$1,106	$1,785
Operating Expenses incl. vacancy allowance (Monthly)	$194	$238	$175	$208
Debt Service Coverage Ratio (DSCR)	1.1	1.1	1.1	1.1
Annual Return	$1,793 or 2.5% on equity	$2,895 or 2.5%	$1,327 or 1.9%	$2,143 or 1.9%
Rent Required to Cover Operations and Mortgage Payment (Monthly)	$1,837	$2,891	$1,391	$2,172

Subsidized Scenario: 1-Bedroom

Table 16 shows the landowner-led equity approach (Scenario 2A) coupled with incremental $10,000 grants for the construction of a new secondary suite. If a grant with a contribution amount of approximately $30,000 were to be provided by the CRD or by another entity, the required rent would be $1,583, which is closest to the market rent guideline for a 1-bedroom ($1,500).

Table 16: Landowner-Led Equity Distribution in New Secondary Suite (Scenario 2A), 1-Bedroom at 7.0% Interest Rate

Grant/Fund ($)*	25% Equity from Landowner ($)	Rent ($ Monthly)	Decrease in Supportable Rent ($ monthly)	Annual Return ($)	Annual Return on Equity (%)
No Grant	$70,324	$1,837	$0	$1,793	2.5%
$10,000	$70,211	$1,752	$85	$1,704	2.4%
$20,000	$70,099	$1,669	$168	$1,617	2.3%
$30,000	$69,984	$1,583	$254	$1,527	2.2%
$40,000	$69,872	$1,500	$337	$1,440	2.1%
$50,000	$69,761	$1,416	$421	$1,353	1.9%
$60,000	$69,649	$1,333	$504	$1,266	1.8%

**Rounded to the nearest $1,000 for illustrative purposes.*

Under a 4.0% interest rate scenario, the monthly rents for a new 1-bedroom secondary suite would be within the market rent guideline ($1,500) as shown in **Table 17** below.

Table 17: Landowner-Led Equity Distribution in New Secondary Suite (Scenario 2A), 1-Bedroom at 4.0% Interest Rate

Grant/Fund ($)*	25% Equity from Landowner ($)	Rent ($ Monthly)	Decrease in Supportable Rent ($ monthly)	Annual Return ($)	Annual Return on Equity (%)
No Grant	$69,559	$1,391	$0	$1,327	1.9%
$10,000	$69,483	$1,329	$63	$1,261	1.8%
$20,000	$69,409	$1,267	$124	$1,197	1.7%
$30,000	$69,332	$1,204	$188	$1,130	1.6%
$40,000	$69,257	$1,142	$250	$1,066	1.5%
$50,000	$69,183	$1,080	$311	$1,001	1.4%
$60,000	$69,108	$1,018	$373	$937	1.4%

Table 18 and **Table 19** show that the annual returns for the landowner's equity will increase incrementally if grant funding is used to top up the equity to 25% of total project costs (Scenario 2B).

Table 18: Top Up Equity Distribution in New Secondary Suite (Scenario 2B), 1-Bedroom at 7.0% Interest Rate

Grant/Fund		Landowner Equity		Rent (monthly)	Annual Return ($)	Annual Return on Equity (%)
%	$	%	$			
5%	**$14,065**	20%	$56,259	$1,837	$1,793	3.2%
10%	**$28,130**	15%	$42,194	$1,837	$1,793	4.2%
15%	**$42,194**	10%	$28,130	$1,837	$1,793	6.4%
20%	**$56,259**	5%	$14,065	$1,837	$1,793	12.7%

Table 19: Top Up Equity Distribution in New Secondary Suite (Scenario 2B), 1-Bedroom at 4.0% Interest Rate

Grant/Fund		Landowner Equity		Rent (monthly)	Annual Return ($)	Annual Return on Equity (%)
%	$	%	$			
5%	**$13,912**	20%	$55,647	$1,391	$1,327	2.4%
10%	**$27,823**	15%	$41,735	$1,391	$1,327	3.2%
15%	**$41,735**	10%	$27,823	$1,391	$1,327	4.8%
20%	**$55,647**	5%	$13,912	$1,391	$1,327	9.5%

Subsidized Scenario: 2-Bedroom

Under the 7.0% interest rate scenario, if a grant with a contribution amount of $60,000 were to be provided by the CRD or by another entity, the required rent would be $2,400. This rent level would be considered affordable for an annual household income of $96,00 (**Table 20**).

Table 20: Landowner-Led Equity Distribution in New Secondary Suite (Scenario 2A), 2-Bedroom at 7.0% Interest Rate

Grant/Fund ($)*	25% Equity from Landowner ($)	Rent ($ Monthly)	Decrease in Supportable Rent ($ monthly)	Annual Return ($)	Annual Return on Equity (%)
No Grant	$113,573	$2,891	$0	$2,895	2.5%
$10,000	$113,464	$2,810	$81	$2,810	2.5%
$20,000	$113,353	$2,727	$164	$2,723	2.4%
$30,000	$113,244	$2,646	$246	$2,638	2.3%
$40,000	$113,135	$2,565	$327	$2,553	2.3%
$50,000	$113,027	$2,483	$408	$2,468	2.2%
$60,000	$112,915	$2,400	$491	$2,382	2.1%

Under a 4.0% interest rate scenario, an approximate grant contribution of $30,000 would bring the monthly rent down to the market rental guidelines for a 2-bedroom unit for the rural areas (as shown in **Table 21**).

Table 21: Landowner-Led Equity Distribution in New Secondary Suite, 2-Bedroom at 4.0% Interest Rate (Scenario 2A)

Grant/Fund ($)*	25% Equity from Landowner ($)	Rent ($ Monthly)	Decrease in Supportable Rent ($ monthly)	Annual Return ($)	Annual Return on Equity (%)
No Grant	$112,337	$2,172	$0	$2,143	1.9%
$10,000	$112,261	$2,109	$63	$2,077	1.9%
$20,000	$112,187	$2,048	$124	$2,013	1.8%
$30,000	$112,111	$1,985	$187	$1,947	1.7%
$40,000	$112,037	$1,923	$249	$1,883	1.7%
$50,000	$111,961	$1,860	$312	$1,817	1.6%
$60,000	$111,887	$1,799	$373	$1,753	1.6%

Table 22 and **Table 23** below show the decreasing landowner equity needed as the share of grant funding increases.

Table 22: Top Up Equity Distribution in New Secondary Suite (Scenario 2B), 2-Bedroom at 7.0% Interest Rate

Grant/Fund		Landowner Equity		Rent (monthly)	Annual Return ($)	Annual Return on Equity (%)
%	$	%	$			
5%	**$22,715**	20%	$90,858	$2,891	$2,895	3.2%
10%	**$45,429**	15%	$68,144	$2,891	$2,895	4.2%
15%	**$68,144**	10%	$45,429	$2,891	$2,895	6.4%
20%	**$90,858**	5%	$22,715	$2,891	$2,895	12.7%

Table 23: Top Up Equity Distribution in New Secondary Suite (Scenario 2B), 2-Bedroom at 4.0% Interest Rate

Grant/Fund		Landowner Equity		Rent (monthly)	Annual Return ($)	Annual Return on Equity (%)
%	$	%	$			
5%	**$22,467**	20%	$89,869	$2,172	$2,143	2.4%
10%	**$44,935**	15%	$67,402	$2,172	$2,143	3.2%
15%	**$67,402**	10%	$44,935	$2,172	$2,143	4.8%
20%	**$89,869**	5%	$22,467	$2,172	$2,143	9.5%

3.3 Cottage – New Construction

Base Scenario

This scenario models the construction of a new 1-bedroom cottage with a unit size of 600 square feet and a new 2-bedroom cottage with a unit size of 1,000 square feet. The monthly operating expenses for both units are estimated to be $261 to $330 which includes vacancy allowance (half month of rent), property tax, home insurance, interior maintenance, and capital reserve fund.

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Table 24 below shows the results of the analysis. The required rent to support the 1-bedroom unit is $2,616 which is above the market rental guideline for a 1-bedroom ($1,500). At this rent level, the unit may be considered affordable for an annual household income of $104,600 which is above the median renter household incomes across the rural areas. However, it is important to keep in mind that the project costs could be lower depending on the specific project and landowner (e.g., sweat-equity type of maintenance, casual labour during construction, conversion of an accessory building, etc.). The rents are lower in the 4.0% interest rate scenario.

Table 24: New Construction Cottage (Base Scenario)

	7.0% Interest Rate		4.0% Interest Rate	
	1-Bedroom	2-Bedroom	1-Bedroom	2-Bedroom
Total Project Costs	$398,479	$622,057	$394,142	$615,287
Equity Required	$99,620	$155,514	$9,536	$152,694
Loan-to-Value Ratio (LTV)	0.75	0.75	0.75	0.75
Principal Mortgage Amount	$302,111	$471,620	$297,775	$464,850
Mortgage Payment (Monthly)	$2,116	$3,303	$1,566	$2,445
Operating Expenses incl. vacancy allowance (Monthly)	$289	$330	$261	$303
Debt Service Coverage Ratio (DSCR)	1.1	1.1	1.1	1.1
Annual Return	$2,539 or 2.5% on equity	$3,964 or 2.5% on equity	$1,880 or 1.9% on equity	$2,934 or 1.9% on equity
Rent Required to Cover Operations and Mortgage Payment (Monthly)	$2,616	$3,979	$1,965	$2,993

Subsidized Scenario: 1-Bedroom

Table 25 below shows the landowner-led equity approach (Scenario 2A) coupled with incremental $10,000 grants for the construction of a 1-bedroom cottage. If a grant with a contribution amount of $60,000 were to be provided by the CRD or by another entity, the required rent would be closer, but still not within the range of market rent guideline for a 1-bedroom ($1,500). This rent level would be considered affordable for an annual household income of $84,700.

Table 25: Landowner Led Equity Distribution (Scenario 2A) in New Cottage, 1-Bedroom at 7.0% Interest Rate

Grant/Fund ($)*	25% Equity from Landowner ($)	Rent ($ Monthly)	Decrease in Supportable Rent ($ monthly)	Annual Return ($)	Annual Return on Equity (%)
No Grant	$99,620	$2,616	$0	$2,539	2.5%
$10,000	$99,507	$2,532	$84	$2,451	2.5%
$20,000	$99,399	$2,451	$165	$2,367	2.4%
$30,000	$99,288	$2,369	$248	$2,280	2.3%
$40,000	$99,177	$2,286	$330	$2,194	2.2%
$50,000	$99,065	$2,202	$415	$2,106	2.1%
$60,000	$98,952	$2,118	$499	$2,018	2.0%

**Rounded to the nearest $1,000 for illustrative purposes.*

Under the 4.0% interest rate scenario, the monthly rents for the 1-bedroom cottage drop substantially. A grant contribution of $60,000 would be required to bring the rents closer to the market rental guideline for a 1-bedroom unit ($1,500), as shown in **Table 26**.

Table 26: Landowner Led Equity Distribution (Scenario 2A) in New Cottage, 1-Bedroom at 4.0% Interest Rate

Grant/Fund ($)*	25% Equity from Landowner ($)	Rent ($ Monthly)	Decrease in Supportable Rent ($ monthly)	Annual Return ($)	Annual Return on Equity (%)
No Grant	$98,536	$1,984	$0	$1,880	1.9%
$10,000	$98,460	$1,922	$62	$1,814	1.8%
$20,000	$98,388	$1,862	$122	$1,752	1.8%
$30,000	$98,314	$1,800	$183	$1,688	1.7%
$40,000	$98,241	$1,739	$245	$1,624	1.7%
$50,000	$98,165	$1,677	$307	$1,559	1.6%
$60,000	$98,090	$1,615	$369	$1,494	1.5%

**Rounded to the nearest $1,000 for illustrative purposes.*

Table 27 and **Table 28** shows that the annual returns for the landowner's equity will increase incrementally if grant funding is used to top up the equity to 25% of total project costs. In addition, the equity required by the landowner could be lowered with grant funding.

Table 27: Top Up Equity Distribution (Scenario 2B) in New Cottage, 1-Bedroom at 7.0% Interest Rate

Grant/Fund		Landowner Equity		Rent (monthly)	Annual Return ($)	Annual Return on Equity (%)
%	$	%	$			
5%	**$19,924**	20%	$79,696	$2,616	$2,539	3.2%
10%	**$39,848**	15%	$59,772	$2,616	$2,539	4.2%
15%	**$59,772**	10%	$39,848	$2,616	$2,539	6.4%
20%	**$79,696**	5%	$19,924	$2,616	$2,539	12.7%

Table 28: Top Up Equity Distribution (Scenario 2B) in New Cottage, 1-Bedroom at 4.0% Interest Rate

Grant/Fund		Landowner Equity		Rent (monthly)	Annual Return ($)	Annual Return on Equity (%)
%	$	%	$			
5%	**$19,707**	20%	$78,828	$1,984	$1,880	2.4%
10%	**$39,414**	15%	$59,121	$1,984	$1,880	3.2%
15%	**$59,121**	10%	$39,414	$1,984	$1,880	4.8%
20%	**$78,828**	5%	$19,707	$1,984	$1,880	9.5%

Subsidized Scenario: 2-Bedroom

The development costs for a 2-bedroom cottage are the highest, and the rents in **Table 29** reflect this.

Table 29: Landowner Led Equity Distribution (Scenario 2A) in New Cottage, 2-Bedroom at 7.0% Interest Rate

Grant/Fund ($)*	25% Equity from Landowner ($)	Rent ($ Monthly)	Decrease in Supportable Rent ($ monthly)	Annual Return ($)	Annual Return on Equity (%)
No Grant	$155,514	$3,979	$0	$3,964	2.5%
$10,000	$155,403	$3,896	$83	$3,877	2.5%
$20,000	$155,292	$3,813	$166	$3,790	2.4%
$30,000	$155,183	$3,731	$248	$3,705	2.4%
$40,000	$155,071	$3,648	$331	$3,618	2.3%
$50,000	$154,959	$3,565	$415	$3,531	2.3%
$60,000	$154,851	$3,484	$495	$3,446	2.2%

Rounded to the nearest $1,000 for illustrative purposes.

However, a decreased interest rate to 4.0% substantially drops the required rent by $950 before any grant contributions to $2,993 (**Table 30**). A grant contribution of $60,000 could decrease the rent to $2,626 (as shown in **Table 30**). While this rent is outside the market rental guideline for a 2-bedroom unit ($1,950), it could potentially provide the incentive for a landowner to offset the site preparation costs for building a cottage[5].

Table 30: Landowner Led Equity Distribution (Scenario 2A) in New Cottage, 2-Bedroom at 4.0% Interest Rate

Grant/Fund ($)*	25% Equity from Landowner ($)	Rent ($ Monthly)	Decrease in Supportable Rent ($ monthly)	Annual Return ($)	Annual Return on Equity (%)
No Grant	$153,822	$2,993	$0	$2,934	1.9%
$10,000	$153,747	$2,931	$62	$2,870	1.9%
$20,000	$153,673	$2,869	$123	$2,806	1.8%
$30,000	$153,601	$2,809	$183	$2,743	1.8%
$40,000	$153,526	$2,747	$245	$2,678	1.7%
$50,000	$153,452	$2,686	$307	$2,613	1.7%
$60,000	$153,380	$2,626	$367	$2,551	1.7%

Rounded to the nearest $1,000 for illustrative purposes.

5 *Cottages on the Gulf Islands typically carry higher site preparation costs, and are dependent on the specific site*

Table 31 and **Table 32** below show the impact of increasing the grant share of the 25% equity. Under the 7.0% interest rate scenario, a 10% equity contribution (or approximately $62,206), the annual return on the landowner's equity could be attractive at 4.2% under the respective economic and interest rate conditions.

Table 31: Top Up Equity Distribution (Scenario 2B) in New Cottage, 2-Bedroom at 7.0% Interest Rate

Grant/Fund		Landowner Equity		Rent (monthly)	Annual Return ($)	Annual Return on Equity (%)
%	$	%	$			
5%	**$31,103**	20%	$124,411	$3,979	$3,964	3.2%
10%	**$62,206**	15%	$93,309	$3,979	$3,964	4.2%
15%	**$93,309**	10%	$62,206	$3,979	$3,964	6.4%
20%	**$124,411**	5%	$31,103	$3,979	$3,964	12.7%

Table 32: Top Up Equity Distribution (Scenario 2B) in New Cottage, 2-Bedroom at 4.0% Interest Rate

Grant/Fund		Landowner Equity		Rent (monthly)	Annual Return ($)	Annual Return on Equity (%)
%	$	%	$			
5%	**$30,764**	20%	$123,057	$2,993	$2,934	2.4%
10%	**$61,529**	15%	$92,293	$2,993	$2,934	3.2%
15%	**$92,293**	10%	$61,529	$2,993	$2,934	4.8%
20%	**$123,057**	5%	$30,764	$2,993	$2,934	9.5%

3.4 Multiplex Rental Housing

Multi-unit rental housing development has historically been uncommon on SGI and limited on SSI because it is not a land use that is widely permitted. These housing developments are in a unique position as they could deliver much needed rental housing, however, at the same time, the development approval process is not configured to efficiently review this type of housing application optimally. As such, multi-unit development applications bear higher development costs during the application review process, which referred to as "pre-development costs" in this report.

A development application in the SGI and SSI must go through several government authorities for approval, including CRD, Islands Trust, Ministry of Transportation and Infrastructure, and Island Health, and extensive community consultation to meet various conditions at each approval stage (e.g., zoning, subdivision, etc.) prior to building permit approval. This review is more complex for more intense uses, such as multi-unit developments, to conduct proof of water, proof of septic, assess archaeological implications, assess vehicle traffic impact, and ensure environmental standards are met.

Three interviews were conducted with non-profit housing providers developing multi-units on the islands to understand the costs incurred during rezoning through to building permit[6]. Typically, a large portion of the **rezoning costs** in the rural areas are related to ensuring the development will be consistent with Islands Trust policies, and ensuring adequate servicing can be provided, often as on-site services for water and sewage disposal[7]. These costs vary from site to site. The following estimates of rezoning costs were provided in the interviews:

- Housing Provider #1: $93,400
- Housing Provider #2: $129,600
- Housing Provider #3: $150,000

6 One out of the three development projects could only speak to rezoning costs.

7 This includes proving water availability and no big impacts to neighbouring wells over multiple rounds of testing, preliminary wastewater design and perc testing, arborist's assessment, Phase 1 ESA, Ecological Assessment (to inform restrictive covenant), survey (for site plan preparation), geotechnical investigation, completion of a water management plan involving civil and mechanical consultants, schematic design services, and legal fees associated with the development and review of the Housing Agreement and restrictive covenants with the Local Trust Committee.

These costs do not include time related to managing the project to ensure the right documentation was being provided and coordinated during the rezoning stage, such as development consultant fees and in-kind volunteer contributions from non-profit housing providers. Depending on the length of the rezoning process and whether there is development consultant support, the additional in-kind volunteer costs could be an estimated $41,600[8] annually for one full-time equivalent staff at a non-profit housing organization. Two interviewers noted that the rezoning process was lengthy and took around three (3) years for approval.

In addition to rezoning costs, multi-unit development projects in the rural areas can incur higher infrastructure costs prior to building permit approval. One housing provider indicated they budgeted $400,000 to build an access road as part of the subdivision plan process, while another housing provider budgeted $200,000 for related infrastructure.

Based on the information provided in the three interviews, the pre-development costs (i.e., rezoning costs plus infrastructure-related costs) can range anywhere from the low $300,000 to $500,000. These costs could vary depending on the specific site and development conditions. Funding from other levels of government for pre-development costs is not typically available for the rural areas because program eligibility often requires higher density development, such as multi-family buildings and not multi-plex buildings.

Despite the challenges posed by the high costs in the predevelopment stage and limited funding for multi-unit rental housing development projects in the rural areas, the availability of grant funding serves as a valuable resource to mitigate the financial burdens associated with the development approvals process, offering a positive opportunity for project advancement. The analysis below shows how grants of $100,000 and $200,000 can offset a portion of the pre-development costs and increase housing affordability. Providing pre-development funding also allows the housing provider to direct their own funds towards the required equity under other funding programs.

Base Scenario

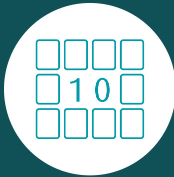
This scenario models the construction of a new 10-unit multiplex (duplexes, and triplexes) with a mix of 1-bedroom (3 units), 2-bedroom (3 units) and 3-bedroom units (4 units). This scenario requires the prefabrication of larger components to occur off-island using structural insulated panels and insulated concrete forms. The monthly operating expenses for the unit are estimated to be around $525 which includes vacancy allowance, property tax, home insurance, interior maintenance, and capital reserve fund.

8 *Assuming an hourly wage of $20 per hour as compensation.*

Table 33 below shows the baseline scenario analysis results. The required rents to support the units are higher than the market rent guideline for each of the respective unit types. However, this is not atypical as multi-unit developments often require capital funding and operating subsidy to achieve affordable rents in most markets across BC. The table also shows an improved scenario where a 4.0% interest rate and alternative financing terms (50 year amortization period, 80% loan to value) are obtained.

Table 33: Landowner-Led Equity Distribution in 10-Unit Multiplex (Base Scenario)

	7.0% Interest Rate (Mortgage)	4.0% Interest Rate with Alternative Financing Terms (Mortgage)
Total Project Costs	$7,315,929	$7,211,977
Equity Required	$1,828,982	$1,442,395
Loan-to-Value Ratio (LTV)	0.75	0.80
Principal Mortgage Amount	$5,568,841	$5,814,307
Mortgage Payment (Monthly)	$39,005 (total units)	$22,299 (total units)
Operating Expenses incl. Vacancy Allowance (Monthly)	$527	$525
Debt Service Coverage Ratio (DSCR)	1.1	1.1
Annual Return	$46,806 or 2.7% on equity	$26,759 or 1.9% on equity
Rent Required to Cover Operations and Mortgage Payment (Monthly)	Average of $5.77 per sq. ft. 1-Bdrm: $3,461 2-Bdrm: $4,904 3-Bdrm: $5,769	Average of $3.57 per sq. ft. 1-Bdrm: $2,140 2-Bdrm: $3,032 3-Bdrm: $3,567



Subsidized Scenario: 10 Units

To model the impact of using grant funding to offset the rezoning costs, **Table 33** shows grant contributions of $100,000 and $200,000 for the 10-unit multiplex development. At a grant contribution of up to $10,000 per door (i.e., a total of $100,000), decreases the monthly rent by $60, $84, and $99 for the 1-, 2- and 3-bedrooms, respectively. At a grant contribution of $20,000 (i.e., a total of $200,000), the monthly rent is decreased by $118, $167, and $196 for the 1-, 2- and 3-bedrooms, respectively. These rents can be brought into a deeper level of affordability once additional funding programs are secured by the housing provider, which can offer provide capital and operational funding.

While the annual returns on the landowner's equity are higher in this scenario than in the secondary suites or cottage development, it requires a much bigger upfront equity contribution or ongoing operating subsidy. As such, the multi-plex rental projects are likely only attractive and/or suitable to developers with alternate investment return goals, particularly the non-profit sector. This is evident in affordable housing projects being built across the SGI and SSI as they are being led by non-profit housing organizations.

Table 34: Landowner Led Equity Distribution (Scenario 2A) in 10-Unit Multiplex at 7.0% Interest Rate

Grant/Fund ($)*	25% Equity from Landowner ($)	1-Bdrm	Rent ($ Monthly) 2-Bdrm	3-Bdrm	Annual Return ($)	Annual Return on Equity (%)
No Grant	$1,828,982	$3,461	$4,904	$5,769	$46,806	2.6%
$100,000	$1,827,399	$3,402	$4,819	$5,670	$45,901	2.5%
$200,000	$1,825,854	$3,344	$4,737	$5,573	$45,018	2.5%

Some financing programs offer longer amortization terms, loan to value ratios up to 100%, and discounted interest rates[9]. To understand how a financing program similar to the Canada Mortgage Housing Corporation (CMHC) Rental Construction Financing Initiative (RCFi) would impact the multiplex in the scenario above, we model a 80% loan to value – as a starting equity requirement, which decreases with each incremental grant contributions – and an amortization period of 50 years in **Table 35**. The interest rate modelled in this scenario is 4.0%.

9 *Discounted interest rates are typically offered in financing programs that require a percentage of the units to meet median household income in the community. For the RCFi program, 20% of units need to be below 30% of median household income in a community. Other funding programs with different eligibility criteria are available which include BC Housing's Community Housing Fund.*

Table 35: Landowner Led Equity Distribution (Scenario 2A) in 10-Unit Multiplex with Alternate Financing Terms at 4.0% Interest Rate

Grant/ Fund ($)*	25% Equity from Landowner ($)	Rent ($ Monthly)			Annual Return ($)	Annual Return on Equity (%)
		1-Bdrm	2-Bdrm	3-Bdrm		
No Grant	$1,442,395	$2,140	$3,032	$3,567	$26,759	1.9%
$100,000	$1,441,585	$2,108	$2,986	$3,513	$26,274	1.8%
$200,000	$1,440,794	$2,077	$2,942	$3,461	$25,801	1.8%

Under this improved scenario, the required rents are closer to the market rent guidelines. At a grant contribution of up to $10,000 per door (i.e., a total of $100,000), decreases the monthly rent by $32, $46, and $54 for the 1-, 2- and 3-bedrooms, respectively. At a grant contribution of $20,000 (i.e., a total of $200,000), the monthly rent is decreased by $63, $90, and $106 for the 1-, 2- and 3-bedrooms, respectively. As with the previous scenario, additional funding could be acquired by the housing provider to further deepen the affordability of the units.

While the RHP pre-development funding of $100,000 or $200,000 would not able to offset the total estimated pre-development costs of a single development projects, it allows the housing provider to move past certain stages of the development process and to redirect their initial funds towards another development cost. The effect is that it decreases the overall development costs, which improves project success and leads to lower required rents as shown in **Table 34** and **Table 35**.

While the rents in **Table 34** and **Table 35** may not meet the rental housing affordability guidelines upon completion, the rents secured at first tenancy will be held to controlled rent increases outlined in the housing agreement. Over the term of the housing agreement, these units would have below-market rents and be considered non-market housing units. Furthermore, the affordability could be deepened if additional funding programs beyond the RHP grant and the CMHC RCFi could be stacked.

3.4.1 Possible Cost Efficiencies in Multi-Unit Development

In addition to offsetting development costs through grants, the financial viability of a project can be increased by finding cost efficiencies through design and construction. While a higher density multi-unit development project (e.g., 20 units) was not modelled in this analysis, increasing the number of units would be beneficial from a financial perspective because it can lower the capital cost per unit as well as the operating costs per unit. The capital cost savings can only be found by placing more units into one building and distributing the cost of shared components (e.g., roof, walls, mechanical systems, etc.). If these units are distributed across plex-type buildings, such as in 10-unit multiplex example discussed above, then these cost efficiencies may be lost. The density allowance of lots is controlled through zoning and is a factor that is within the authority of local governments to change.

Some items in operational costs for multi-unit buildings are fixed and can be distributed at a lower cost per unit when the number of units are increased within a building. However, if the number of units in a building is too small, then the building cannot sustain full-time equivalent staff. In smaller multi-unit projects, this will drive up staffing costs in order to hire someone. While this is not a labour market issue that is unique to the CRD's rural areas, it is a challenge that can be lessened if more multi-unit buildings existed (to share resources across the same owner) or if more density were permitted on the development site.

4.0 Affordable Homeownership

4.0 Affordable Homeownership

Affordable homeownership programs in Canada are generally focused on assisting households within a certain income range to enter homeownership, which provides an opportunity to free up rental housing.

Securing affordable homeownership units at the local government level is not common in Canada. This could be attributed to the greatest housing need being in markets where ownership prices are high; however, it can also be attributed to the fact that the cost to subsidize affordable homeownership units is high.

Nonetheless, some municipalities have established their own programs or have obtained these units on an ad-hoc basis. The program rules vary depending on the administrator and, in recent years, the calculation of the resale value for affordable unit has become an even more important consideration as housing prices dramatically increase in some markets.

4.1 Rent-to-Own Options

Rent-to-own programs are viewed as an affordable homeownership program because it bypasses the need for a down payment: the rent paid by the tenant becomes the equity or downpayment required to purchase the house. The idea is to hold the property for the would-be buyer until they can save up what is needed to qualify for a conventional mortgage with a lending institution. The terms of a rent-to-own program vary and are set by the administrator. In general, it is an agreement between renters and property owners or investors to buy a home at a set price at a future deadline. The agreement is made up of a lease and an option to purchase.

4.1.1 Agreement Types

As rent-to-own programs are relatively new, there are generally only two types of rent-to-own agreements available to tenants in Canada[10]. These two agreement types are summarized below:

- **Lease-Purchase Agreement:** This type of agreement virtually guarantees that the tenant will purchase the home once their rent-to-own agreement is complete. These are usually designed to safeguard landlords, so they have a designated buyer.
- **Lease-Option Agreement:** This type of agreement gives the tenant the option of purchasing once the rent-to-own agreement is up and the rent they paid goes towards the equity contribution for a downpayment. While there is no obligation to purchase the home, the money the tenant has put towards the house will not be reimbursed. In that sense, it becomes more like a regular rental agreement.

4.1.2 Organizations Providing Rent-to-Own Options

In addition to the agreement type, there are three types of organizations in Canada who administer rent-to-own programs:

1. **Lending Institutions and Investors**
2. **Developers (*with funding from government*)**
3. **Public Sector Organization**

In some cases, the different types of organizations work together to provide rent-to-own financing for occupants. The biggest difference between the organizations, however, is the distinction between for-profit and non-profit. Having an investment return requirement changes the way the rent-to-own program is structured. This is because the initial mortgage (i.e., during the lease agreement period with the tenant and landlord) is held by the owner. As this owner is taking on risk, they could add additional fees, potentially in the form of higher interest rates and rents, to recover the cost of this risk.

The degree of risk and equity required to build and hold the initial mortgage for would-be buyers is likely why there are very few public sector organizations who administer rent-to-own builds. The authors of this report are only aware of one public sector organization who is developing and administering their rent-to-own units. The organization is a First Nation with specific program goals to house their members, and as such, there is no expectation to receive a return on their equity contribution. A complete list of the organizations researched is available in **Appendix A.**

10 Research was conducted on rent-to-own models in the United States of America; these models either follow similar program requirements and methodology as those in Canada, or are down payment matching programs.

4.1.3 Funding Opportunity: CMHC Rent-to-Own

In Canada, the only existing funding opportunity for publicly-owned rent-to-own programs is the Canada Mortgage and Housing Corporation (CMHC) Rent-to-Own funding stream nestled within the Affordable Housing Innovation Fund. This funding is directed to housing providers interested in developing, testing, and scaling innovative rent-to-own models and projects.

This program seeks to provide housing providers the resources to identify better ways of meeting housing challenges, including financing projects and developing funding models enable rent-to-own housing across Canada. As such, there are program fulfilment requirements related to capturing and sharing lessons learned to transfer knowledge. Eligible projects must also demonstrate innovation, affordability, financial sustainability, and safeguards to protect prospective homebuyers. A key outcome of this program is for participants to identify methods to calculate the resale value of rent-to-own units, as this is an emerging area of administrating affordable homeownership programs.

The list of eligible recipients is broad and include municipalities, provinces, and territories; private sector developers and builders; non-profit housing providers and community housing organizations; and Indigenous governments and organizations.

4.1.4 Summary

Mechanisms for securing affordability

If there is not a measure in place to regulate property value increases between ownership change, the affordability of the unit can be lost after the first homeowner returns the house to the market. In the research examples, the resale value of the rent-to-own units were not restricted after the first homeowner. As such, the CMHC Innovation Fund program requires there to be a clear methodology for determining future sale price.

Benefits of rent-to-own

Rent-to-own programs require an initial investor who is willing to front-end the project with equity needed to build the project. A successful rent-to-own program brings new rental units into a market that could become ownership units, which free up rental units for other households in the community, and offers an opportunity for households to purchase a house when they otherwise may not be able to afford homeownership.

Limitations of rent-to-own

The limitation to the rent-to-own concept is that the program will vary depending on the policy or investment goal. For instance, some investors may require a return on equity for taking on this risk, which can be built into the rent required or interest rate, which effectively raises the costs for the tenant and eventual homebuyer. The benefit of owning a house is the opportunity for the homeowner to capitalize on any appreciation gains upon the sale of the house. The policy goal of such a program should be clear and transparent about whether it is to secure a non-market affordable unit or to enable the first homeowners to capitalize on the asset upon sale.

4.2 Down Payment Matching Options Programs

Down payment matching programs are offered by several organizations in Canada. The intent of these programs is to lower the down payment required for the eligible household by providing a supplementary down payment as a second mortgage. This in turn helps households to access a mortgage, lowers monthly mortgage payments (i.e., smaller principal mortgage amount), and lowers insurance premiums if the minimum downpayment is reached.

4.2.1 Options Ready Program

One of the more established down payment matching programs is offered by Options for Homes, a non-profit organization, and serves the Greater Toronto Area market. The **Options Ready Program** requires a minimum of 5% down payment from the applicant and will provide down payment support from 10% to 15% of the purchase price. As Options for Home is a non-profit organization, they forego the initial developer's profit on the construction of the house and use the equity towards matching the applicant's downpayment.

The Options Ready Program operates on a shared-equity approach. This means that upon sale of the unit, homeowners are required to pay back the second mortgage, any associated interest due on the second mortgage, and capital appreciation associated with the second mortgage. In addition, participants can keep any capital appreciation on their portion of the equity. Since this program relies on a market value increase of the house upon sale, it does not maintain affordability past the first owner.

An important distinction to note in the Options Ready Program is that any capital appreciation on the second mortgage amount is returned to Options for Homes, which is then re-invested into the community to build additional affordable homes. This program may work well in an area where the housing market is strong and there is a vested interest from a developer to provide this service.

4.2.2 Municipal Affordable Homeownership Programs

The City of Langford in British Columbia (BC) operates an Attainable Homeownership Program, with the most recent policy amendment in February 2023. It is intended to assist Langford residents earning less than $150,000 in household income. The City provides a grant towards a 5% down payment for the housing unit[11]. The grant amount varies based on the maximum purchase price set for the housing unit (e.g., 1-bedroom, 2-bedroom, and 3-bedroom units) and the household income. The grants are as follows:

- Household Income of less than $119,999: 75% of the 5% downpayment
- Household Income of between $120,000 and $134,999: 50% of the 5%downpayment
- Household Income of between $135,000 to $150,000: 25% of the 5% downpayment

The attainable units under this program are provided by developers and must abide to construction requirements outlined in the program policy. The program restricts the resale value of the units for the first five years of the program, after which there are no restrictions. The inability to secure affordability for future users is a limitation in the program.

Given that the maximum purchase price for the largest unit (e.g., 3-bedroom unit) is $499,000, the maximum grant available would be $18,713 for a household earning less than $119,999. This policy appears to work for apartment units in high cost of living markets (e.g., higher salaries).

The County of Simcoe in Ontario offers an **Affordable Homeownership Program.** It is intended to assist low-to-moderate income renter households located in Simcoe County. The County does not own or secure affordable homeownership units, instead it provides a 10% down payment assistance (to a maximum of $50,000) to the eligible participant's preferred house on the market. The program has rules governing the eligibility of households for the program and applicants need to be pre-approved for a mortgage. The 10% down payment is offered as a 20-year, interest free, forgivable loan with the condition that the mortgage cannot be refinanced for a higher amount than the original. The program does not restrict capital appreciation upon sale of the property, meaning the affordability of the unit is not carried over to the next purchaser.

11 *The program participant cannot put more than a 5% downpayment (including City of Langford grant) towards the purchase of their house.*

4.2.3 Funding Opportunity: BC Housing Affordable Home Ownership Program (AHOP)

The **Affordable Home Ownership Program** (AHOP) is administered by BC Housing with the goal of increasing affordable housing for middle-income households across BC. The program helps home purchasers to target a minimum down payment of 10% on the home's value.

Through this program, BC Housing provides home purchasers with an interest-free second mortgage, known as an AHOP Mortgage, toward the purchase of their home. The buyer is required to contribute a minimum of 5% on the first $500,000 of the home value (10% downpayment is required on the remaining value of a purchase over $500,000). The AHOP Mortgage is interest and payment-free for up to 25 years. AHOP units can be built using BC Housing's low interest interim construction financing and equity contributions.

The AHOP program requires a partnership between the project partners[12] – which typically consists of a developer and a local government – and BC Housing, which may not be suitable for every local government depending on their capacity to support the AHOP project. In addition, the intention of the AHOP is to reinvest the funds back into community, however it is not clear what this entails and how many addition units can be built. If no restrictions are placed on the AHOP units, then the affordability on the AHOP units could be lost once the unit is sold on the market.

Repaid AHOP Mortgage amounts are contributed to the local government where there is an agreement in place to help support more affordable homes within that local government. If there is no agreement in place between BC Housing and the local government, BC Housing will use the proceeds to help support more affordable homes in British Columbia.

12 The term of "project partner" is loosely used in the BC Housing AHOP Framework, indicating flexibility in the program for who the local government partner can be. To date, the program uptake has been for five projects which are all located in a municipal jurisdiction.

4.2.4 Summary

Mechanisms for securing affordability

Mechanisms to secure affordability are not commonly implemented in the research examples. One approach that is used to secure affordability on affordable homeownership units is to restrict the resale value for a certain number of years after date of purchase. The City of Langford does this through the use of Housing Agreements adopted as a bylaw and registered on title.

Benefits of down payment matching

Down payment matching programs enable people who may not have been able to access home ownership the opportunity to do so and frees up rental housing for other households. The ability to utilize capital allows individuals to purchase an asset they may not otherwise be able to afford. Down payment matching programs – if allowing for up to 20% of purchase price – can also enable individuals to have lower mortgage payments which can support manageable cash flow. Additionally, insurance premiums are often reduced due to the higher down payment amount, providing individuals with access to more of their monthly income.

Limitations of down payment matching

The agreement language within down payment matching programs is vague regarding the role definition of all parties, namely: developers, individual private owner, the local government and other parties (e.g., BC Housing). It is also unclear what the municipality must commit to in order promote these partnerships and the risks that they must be willing to take on in engaging in the relationship.

There is also an amount of administrative burden in monitoring and enforcing these agreements, especially if affordability is to be maintained throughout the duration of the housing agreement. There are many stipulations about subleasing or selling units to ensure the objective of the program maintains its integrity. The responsibility of ensuring these units is not rented or sublet falls on the program partner (e.g., local government or funder).

Findings

5.0 Findings

This section highlights the key findings from the rental housing analysis and affordable homeownership research. This analysis demonstrates that are a number of ways that funding can be used to increase the affordability of housing units or to provide an incentive to increase the number of housing units built.

It is important to note that these financial analysis scenarios represent one development cost for each housing typology. Variations in development costs will exist across properties in the CRD's rural areas, and the impact of grant funding may generate deeper affordability if the development costs are below what is modelled here. Considerations include lower operating costs, in-kind contributions by tenants and volunteers (e.g., sweat equity), or more casual labour crews.

To illustrate the potential reach of the program, and to compare opportunity across the housing types, this section allocates a theoretical affordable housing sum of $5M, $10M, and $15M for each stream.

5.1 Partnerships

The analysis in this report reflects current market conditions, and a potential improved scenario where the interest rates are lowered to 4.0%. Despite this, we anticipate the RPH would be able to maximize the grant contributions if multiple government funding programs were stacked together. Below is an example of list of potential programs mentioned that are important for the CRD, senior levels of government, and housing non-profit housing providers in the CRD's rural areas to take note of:

- BC Rural Economic Diversification and Infrastructure Program
- CMHC Rental Construction Financing Initiative Program (RCFi)
- BC Housing Community Housing Fund
- BC Housing Secondary Suite Program
- BC Housing Affordable Homeownership Program (AHOP)

Some of these programs have eligibility criteria that preclude affordable housing development projects in the CRD's rural areas unless they are multi-family projects (i.e., not multi-plexes).

5.2 Mechanisms for Securing Affordability

As noted previously, the required rents are the starting rents for the first tenancy and annual increases will be controlled in exchange for the grants. To secure the affordability of homeownership or rental units over an extended period of time, a mechanism needs to be set up in order to prevent sale prices or rents from going to full market value between occupants. A housing agreement is a the only legal tool available to local governments to secure the term, household income limits, housing prices or rents, and other restrictions to ensure affordability between users of affordable homeownership units.

Outside of housing agreements, further research is needed to understand whether additional tools are available to local governments, such as forgivable loans or partnerships with non-profit organizations who could sign a land lease agreement with individual landowners. The CRD is currently undertaking a Housing Agreement Program review which will help inform the implementation of the RHP.

5.3 Rental Housing Analysis

5.3.1 Secondary Suites – Renovation

1-Bedroom Unit

- The most financially viable rental housing to develop under current market conditions is the renovation of 1-bedroom secondary suites. This rental housing requires the least amount of equity, requires less approvals and construction, and can achieve and potentially exceed the bottom threshold of market rental rates for 1-bedroom units across the CRD's rural areas.
- A drawback to secondary suite renovations is that it is up to the individual landowner to invest in and operate. In Scenario 2A, under the 7.0% interest rate scenario, while the rent ($1,487) is within the market rent guideline ($1,500), the annual return of 2.5% on the landowner's initial equity of $56,000 may not be competitive enough. As such, a greater financial incentive may be required to encourage landowners, either through stacking government funding programs or through the top up equity approach (i.e., Scenario 2B).
- The Scenario 2B top-up equity distribution model with grant funding of 15% equity ($34,000) could lower the required landowner equity from $56,000 to $34,000 while maintaining the monthly rent at $1,487 under the 7.0% interest rate scenario and $1,132 under the 4.0% interest rate scenario.

2-Bedroom Unit

- With grant funding up to $30,000 per door, under the following scenarios, the required monthly rents could be:
  - » 7.0% Interest Rate: $2,078
  - » 4.0% Interest Rate: $1,496
- Alternatively, a top-up equity distribution model with grant funding of 10% equity ($36,000) could lower the required landowner equity from $89,000 to $54,000 while maintaining the monthly rent at $2,288 under the 7.0% interest rate scenario and $1,753 under the 4.0% interest rate scenario.

5.3.2 Secondary Suites – New Construction

1-Bedroom Unit

- A new secondary suite unit is the second most financially viable rental housing to develop under current market conditions.
- Under the 7.0% interest rate scenario, the construction of a new 1-bedroom secondary suite will require a monthly rent of $1,837 which is slightly above the market rental guideline of $1,500. However, the annual return of 2.5% may not be competitive enough for all landowners to invest the initial equity of $70,000.
- With grant funding up to $30,000 per door, under the following scenarios, the required monthly rents could be:
  - » 7.0% Interest Rate: $1,583
  - » 4.0% Interest Rate: $1,204
- Alternatively, a top-up equity distribution model with grant funding of 10% equity ($28,000) could lower the required landowner equity from $70,000 to $42,000 while maintaining the monthly rent at $1,837 under the 7.0% interest rate scenario and $1,391 under the 4.0% scenario.

2-Bedroom Unit

- With grant funding up to $30,000 per door, under the following scenarios, the required monthly rents could be:
  - » 7.0% Interest Rate: $2,646
  - » 4.0% Interest Rate: $1,985
- Alternatively, a with grant funding of 10% equity ($45,000) could lower the required landowner equity from $114,000 to $68,000 while maintaining the required rent at $2,891 under the 7.0% interest rate scenario and from $112,000 to $67,000 while maintaining the required rent at $2,172 under the 4.0% scenario.

5.3.3 Cottages – New Construction

1-Bedroom Unit

- After secondary suite renovations and new suite construction, cottage units are the third most financially viable rental housing to develop under current market conditions.
- With grant funding up to $60,000 per door, under the following scenarios, the required monthly rents could be:
  - » 7.0% Interest Rate: $2,118
  - » 4.0% Interest Rate: $1,615
- The biggest cost barrier to cottages is the site preparation required and the installation of septic systems which can cost $50,000 or more per site.
- Alternatively, a top-up equity distribution model with grant funding of 10% equity ($40,000) could lower the required landowner equity from $100,000 to $60,000 while maintaining the required rent at $2,616 under the 7.0% interest rate scenario and $99,000 to $59,000 while maintaining the required rent at $1,984 under the 4.0% scenario.

2-Bedroom Unit

- With grant funding up to $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
  - » 4.0% Interest Rate: $2,626

- The equity needed to build a 2-bedroom cottage is high (~$156,000 at 25% contribution), and may be less accessible to a broader range of landowners than a 1-bedroom cottage. A top-up equity distribution model with grant funding could lower the barrier to building 2-bedroom cottages by providing a financial incentive to landowners.
  - » Grant funding of 10% equity ($61,000) could lower the required landowner equity from $156,000 to $93,000 while maintaining the required rent at $3,979 under the 7.0% interest rate scenario and from $154,000 to $92,000 while maintaining the rent at $2,934 under the 4.0% scenario.

5.3.4 Multiplex Rental Housing – New Construction

- The 10-unit rental housing is made up of duplexes and triplexes and is intended to represent one type of multi-unit building. This analysis signals a strong need for government grants to increase the affordability of multi-unit rental housing projects in CRD's rural areas as construction costs are high across all housing types (e.g., ground-oriented and multi-unit).
- Our analysis models an initial required equity of $1.8 million under the current interest rate of 7.0%. The pre-development costs (i.e., rezoning costs related to prove servicing and environmental standards, plus infrastructure-related costs during the subdivision and building permit process) can range anywhere from the low $300,000 to $500,000. These costs could vary depending on the specific site and development conditions.
- With grant funding of $10,000 per door (i.e., $100,000), under the following scenarios without stacking additional funding programs, the required monthly rents could be lowered by:
  - » 7.0% Interest Rate:
    - 1-Bdrm: $60
    - 2-Bdrm: $85
    - 3-Bdrm: $100
  - » 4.0% Interest Rate, 50 year amortization period, 80% Loan to Value:
    - 1-Bdrm: $32
    - 2-Bdrm: $46
    - 3-Bdrm: $54

- With grant funding of $20,000 per door (i.e., $200,000), under the following scenarios without stacking additional funding programs, the required monthly rents could be lowered by:
  - » 7.0% Interest Rate:
    - 1-Bdrm: $118
    - 2-Bdrm: $167
    - 3-Bdrm: $197
  - » 4.0% Interest Rate, 50 year amortization period, 80% Loan to Value:
    - 1-Bdrm: $63
    - 2-Bdrm: $90
    - 3-Bdrm: 106

Benefits of Pre-Development Funding

- A CRD funding program to support pre-development costs such as professional reporting or infrastructure upgrades would increase the viability of multi-unit projects, especially those being advanced by the non-profit housing sector. Additional pre-development funding can support investment in key infrastructure such as well development, driveway construction, and/or professional reporting.
- The impact of the pre-development funding, along with the stacking of other potential grants offered (as outlined in Section 5.1) could encourage more housing providers to develop in CRD's rural areas by:
  - » Increasing the equity in the project by providing grant funding – which opens up opportunities to secure other funding and lowers required rents;
  - » Decreasing the high financial threshold that organizations need to fundraise for multi-unit developments, and therefore lowering the barrier for organizations to pursue these development concepts.

5.4 Affordable Homeownership Analysis

5.4.1 Rent-to-Own

- Rent-to-own program terms and conditions will vary depending on the individual project and in most cases, the affordability of the home is lost after the unit is returned to the market after the first owner, unless a mechanism is put in place to maintain affordability between users.
- As the average 2021 housing price across the SGIs is $767,500 and the cost to build a single unit in a multi-unit dwelling is around $700,000, the initial equity required to take out a mortgage for a rent-to-own unit could be a barrier. Without an initial investor who is willing to provide equity for the development of rent-to-own dwellings, the program reach for this stream would be low, as the CRD or another organization would be responsible for taking the unit off the market to maintain affordability.
- While rent-to-own programs can include lower density forms of housing, the program is most cost effective with multi-unit buildings because government grants can be used to lower the development price, resulting in a lower purchasing price of the units.

5.4.2 Down Payment Matching

- Down payment matching programs enable people who may not have been able to access home ownership the opportunity to do so. However, depending on the home purchase price, the equity required can be high and may be a less effective use of funds (if provided) when compared to other rental housing options in this study (e.g., cottages, secondary suites).
- Similar to rent-to-own programs, if the policy goal is non-market affordable housing past the initial owner, a mechanism needs to be put in place to ensure the unit does not revert to market value upon sale of the property.

5.5 Potential Reach of the Rural Housing Program

Given the findings above, if the RHP were to carry a hypothetical reserve of $5.0 million to $15 million, then the investment dollars should be allocated in a way that maximizes the reach of the program. **Table 36** below illustrates a funding allocation of 75% for rental housing and 25% for affordable homeownership, distributed as follows:

- **Secondary Suite, Renovations:** $30,000 per door (1- and 2-bedrooms)
- **Secondary Suite, New Construction:** $30,000 per door (1-bedroom) and $60,000 per door (2-bedrooms)[13]
- **Cottage, New Construction:** $60,000 per door (1- and 2-bedrooms)
- **Multi-Unit:** $10,000 per door (all unit types)
- **Rent-to-own:** 10% of downpayment or $76,750 in this instance[14]
- **Downpayment matching program:** 10% of downpayment or $76,750 in this instance[15]

Using this distribution under the $5.0 million program outreach, a total of 165 affordable units would be supported:

- **Secondary Suite, Renovations:** 33 units
- **Secondary Suite, New Construction:** 22 units
- **Cottage, New Construction:** 29 units
- **Multi-Unit:** 75 units
- **Rent-to-own:** 3 units
- **Downpayment matching program:** 3 units

13 A 50/50 split is assumed as the distributed share of 1-bedroom and 2-bedroom secondary suites in the new construction category.

14 Assumes 10% of the average housing sales price for an older home – approximately $767,500 across the SGI in 2021 – or 10% of the construction price for a new multi-unit dwelling (e.g., plex). This assumes there would be a program administrator and an investor willing to assume the risk of taking the unit off the market during the period where the program participant rents the house.

15 Same as Footnote 14, except the program participant would be responsible for purchasing the house under a housing agreement at the outset.

Table 36 below breaks this out further under a $5.0 million, $10 million, and $15 million funding reserve.

Table 36: Potential Funding Allocation Under the Rural Housing Program

	$5 Million			$10 Million			$15 Million		
	Funding Allocation (%)	Funding Amount ($)	Estimated Number of Units Supported	Funding Allocation (%)	Funding Amount ($)	Estimated Number of Units Supported	Funding Allocation (%)	Funding Amount ($)	Estimated Number of Units Supported
Secondary Suite – Renovation	20%	$1,000,000	33.0	20%	$2,000,000	66	20%	$3,000,000	100
Secondary Suite – New Construction	20%	$1,000,000	22.0	20%	$2,000,000	44	20%	$3,000,000	66
Cottage – New Construction	35%	$1,750,000	29.0	35%	$3,500,000	58	35%	$5,250,000	87
Multi-Unit	15%	$750,000	75	15%	$1,500,000	150	15%	$2,250,000	225
Rent-to-Own	5%	$250,000	3.0	5%	$500,000	6	5%	$750,000	9
Down Payment Matching Program	5%	$250,000	3.0	5%	$500,000	6	5%	$750,000	9
Total	**100%**	**$5,000,000**	**165**	**100%**	**$10,000,000**	**330**	**100%**	**$15,000,000**	**496**

Recommendations

6.0 Recommendations

Based on the analysis findings, we recommend six (6) strategies for the CRD when developing and implementing the RHP. Community engagement is recommended to inform the potential uptake of the program and to understand which incentives are most attractive to landowners.

Recommendation 1

- **The RHP should prioritize allocating funding to projects in CRD's rural areas where housing would have otherwise not been created.** While single-detached houses and accessory dwelling units are permitted across SGI and SSI, the uptake to build accessory dwelling units has been slow. Previous studies have shown there is market demand for rental housing on the SGI and SSI, however, there has not been enough incentive or funding available to encourage developers and landowners to fill the market gap.

Recommendation 2

- **Secondary suites have the biggest potential to scale up in unit numbers when coupled with grant funding.** It is recommended that secondary suites receive the highest allocation of funding as it shows that secondary suites have the biggest potential to scale up in unit numbers when coupled with grant funding, making it the most effective use of funding. However, consideration should be given to cultural preferences and whether there would be strong market demand to build these units.

Recommendation 3

- **Cottages have potential to scale up in number of units and may be suitable for middle income households and residents in rural communities.** It is recommended that cottages receive the second highest allocation of funding. Due to the high costs to develop cottages, the program reach may be lessened if development costs are too high or if rents are not affordable for a median-earning renter household. In addition, collaborating with different development approval authorities to create a pre-approved design for cottages, including septic system design, can deepen affordability.

Recommendation 4:

- **Multi-unit buildings should receive the third highest allocation after secondary suites and cottages, as the projects are approved infrequently. Where possible, the stacking of government funding programs will bring deeper affordability to multi-unit developments, including the allowance of more units (e.g., higher density) into one building to realize cost efficiencies.**

Recommendation 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.** This program reach could be greater if coupled with partnerships or through existing funding programs.

Recommendation 6:

- **When reviewing applications under the Rural Housing Pilot Project, the CRD should take into consideration the following list of factors that impact the effectiveness of the grant.**
  - Operating expenses will vary project by project, but is an important metric as it impacts how much revenue (e.g., rent) the landowner needs to cover all operational costs. A reasonable operating expense should be proposed.
  - Different interest rates and amortization periods can dramatically alter the project finances. While we have modelled an interest rate reflecting the current market (7.0% interest rate), and an improved interest rate of 4.0%, a slight increase or decrease and a variance in the amortization period (25 years) will change the impact of any grant funding on the project.
  - Variations in development costs will exist across properties in the CRD's rural areas, and the impact of grant funding may generate deeper affordability if the development costs are below what is modelled in this report.
  - The term of the housing agreement should consider the initial grant amount.
  - Tracking and monitoring rental costs for the secondary rental market in the CRD's rural areas to understand the benchmark market rents year over year in relation to the RHP rents.

Appendices

Appendix A
BC Housing Secondary Suite Incentive Program

The following summarizes eligibility requirements for BC Housing's Secondary Suite Incentive Program:

Homeowners

- Registered owner(s) must be Canadian citizens or permanent residents
- Live in the property as their primary home
- Combined gross annual income of homeowners on title of less than $209,240 (in the previous tax year)

Properties

- Located within one of the 161 incorporated municipalities in BC
- Have a BC Assessment value below the homeowner grant threshold ($2.125 million in 2023)

Secondary Suite

- New legal self-contained unit with a kitchen and full bathroom
    - » Improvements to *existing* rental units are ineligible
- Laneway homes / garden suites are eligible
- Received municipal building permits *on* or *after* April 1, 2023

Costs

All costs must be directly related to the creation of the new secondary suite and must be $20,000 or more. Eligible costs include the following:

- Architectural and design fees
  - Landscaping costs are ineligible
- Structural modification
- Electrical work
- Fixtures
- Appliances (50% of actual cost to a maximum of $2,500)
- Building and trade permit fees
- Costs to obtain certificates, drawings and specifications directly related to eligible scope of work
- Materials related to the approved construction
  - Extensions, conversions, repair, or replacement of items for the homeowner are ineligible
- Contractor labour (not including work done by Applicant or any member of the Household)
  - Labour costs for work completed by the homeowner are ineligible
- PST and GST

The terms for loan forgiveness are as follows:

- The rebate amount and BC Housing legal costs of $2,000 will be registered on title for 5 years as a forgivable loan;
- The new suite must be located on the same property where the homeowner lives and continues to be the principal residence;
- The new suite must be rented out at *below market rates*, as determined by BC Housing, for at least five years;
- The new suite was rented for at least 10 months in the preceding year and the tenancy is under an agreement compliant with the Residential Tenancy Act on a month-to-month or minimum 1-year fixed term tenancy; and
- The tenant is not an immediate family member (spouse, child, parent, or sibling) of the homeowner(s).

If the loan forgiveness requirements are met, the loan will be forgiven at 20% per year, inclusive of BC Housing's legal costs, over five years, when all SSIP requirements are met. Note that interest will accrue on the loan based on the current prime interest rate charged by the Royal Bank of Canada, plus 2.00%.

There are no payments required on either the principal or interest during the forgiveness period if the homeowner complies with the terms and conditions of the SSIP loan. In the event the homeowner does not comply with all the terms and conditions, the loan and any interest that has accrued will become payable on demand to BC Housing.

Appendix B
Rent-to-Own Research

Examples of select rent-to-own programs in Canada are broken down below.

- **Requity Homes:** Operates in Northern Ontario (Thunder Bay, Sault Ste. Marie, Sudbury and North Bay), Saskatchewan (Regina and Saskatoon), Alberta (Calgary and Edmonton), and Manitoba (Winnipeg). Requity purchases the home and allows the occupant to rent and save for the downpayment. Then, when the occupant is ready, they can buy back the home or cash out savings.
- **Clover Properties:** Operates throughout Ontario. The program offers 24, 36, or 48 month rent to own programs while tenants live in the home they will own at the end of the program term.
- **MB Rent-2-Own:** Operates in Alberta and Manitoba and targets people specifically who require improvements to their credit score in order to purchase a home. Much like Requity homes MB Rent-2-Own will purchase the home and work with the buyer through improving their credit. An initial deposit of 3% is required for this program
- **GVC Property Solutions:** Operates in the Lower Mainland and Fraser Valley British Colombia. Much like the previous examples, MB Rent-2-Own and Requity Homes, GVC property solutions purchases homes and offers them to the rent-to-own market. Within this program the purchaser puts a down payment of between $5,000 and $60,000. Typically, the rent-to- own agreement is 24 months long.
- **RTO Homes:** Operates in the Vancouver area through Apex Western Homes which is a contracting company located in the lower mainland. This program is also targeted to people who have a credit score that would prevent them from being eligible for a mortgage. A 5% down payment is typically required to partake in this program, and available listings are fed through Apex Westen Homes.
- **HOS Financial Inc:** perates in Ontario and Quebec. The minimum down payment within this program is the greater of 3% or $10,000. HOS Financial finds third party investors to purchase properties on the client’s behalf. Typically, these agreements span three to five years.

- **JAAG:** Operates in Ontario and targets clients who require time and hands on support to improve their credit scores. This rent to own program typically spans a period of one to three years.
- **Sprout Properties:** Operates across Canada using lending partners. This program is between two and four years in length and requires a downpayment which is the greater of 3% or $10,000. This program also requires a $1000 commitment fee. This fee is also counted towards the purchase price.